

Management That Is Conscious of Cost of Capital and Stock Price: Situation in the Fourth Year and Future Approaches

Listing Department
Tokyo Stock Exchange, Inc.

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Summary

In the fourth year since the request, company initiatives have entered a new phase, moving from "disclosure" to "implementation and enhancement."

While corporate initiatives are steadily progressing, there is widening variation between companies.

Going forward, we will strengthen engagement tailored to each company's current situation, supporting initiatives to enhance corporate value and fostering effective dialogue.

1. Progress to date

Wider adoption of initiatives
and progress in improvements

The disclosure rate for Prime-listed companies has reached **94%**, covering **97%** of the combined Prime and Standard markets on a market cap. basis.

Companies that have already made disclosures **tend to show better share price performance than those that have not disclosed or are still under consideration.**

PBR and ROE are, **overall, showing an improving trend.**

Improvements are progressing particularly among **companies that are continuously working on updates.**

2. Current status and challenges

The next focus is on
the *implementation and continuation* of initiatives

While many companies continue to refine and enhance their disclosures after the initial release, **there is also a certain number of companies that have not updated their disclosures for over a year.**

In the Standard Market and among smaller companies, **initiatives tend to lag, and resource-related challenges are apparent.**

Japanese companies are clustered in the area slightly above "PBR of 1x and ROE of 8%," and **the gap compared with European and U.S. markets remains significant.**

Investors **expect concrete actions such as growth investments and portfolio reforms, as well as the sustained advancement of these initiatives.**

3. Future direction

Supporting initiatives in line with each company's current position



Companies that have disclosed

Encourage Continued Progress and
Refinement of Initiatives

We will support the enhancement and continuation of initiatives by presenting examples that investors positively evaluate and through seminars and dialogue sessions with investors.



Companies that have yet to disclose

Strengthen Engagement to Support the First Step

While understanding each company's circumstances and level of awareness, we will provide guidance and examples of good practice, and support companies in taking their first steps toward initiatives and disclosure through seminars and company visits.



Investors

Continue Communicating Progress of
Initiatives and Providing Feedback on
Companies' Views

We will promote effective dialogue by actively communicating progress in company activities and conveying companies' views to investors.

Situation in the Fourth Year Since the Request

Company Activities in the Past Year (September 2025 to August 2026)

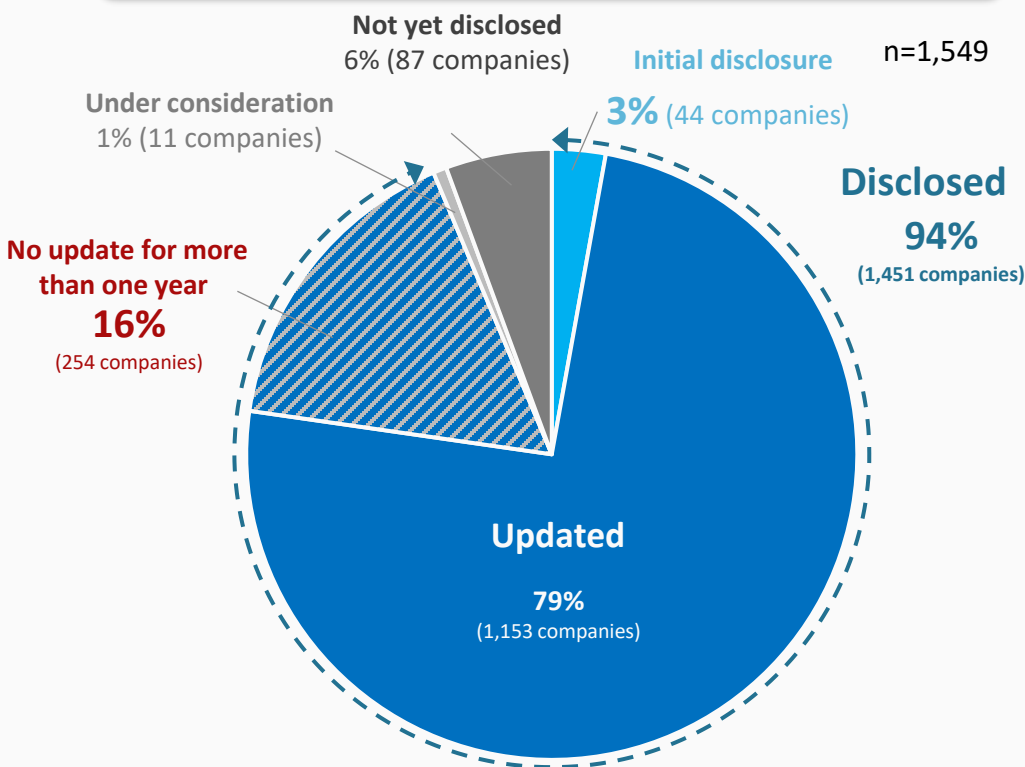
◆ In the **Prime Market**, the disclosure rate has reached **94%**.

➤ Of the companies that have disclosed, 1,153 have updated their disclosures, while 254 have not provided an update for more than one year.

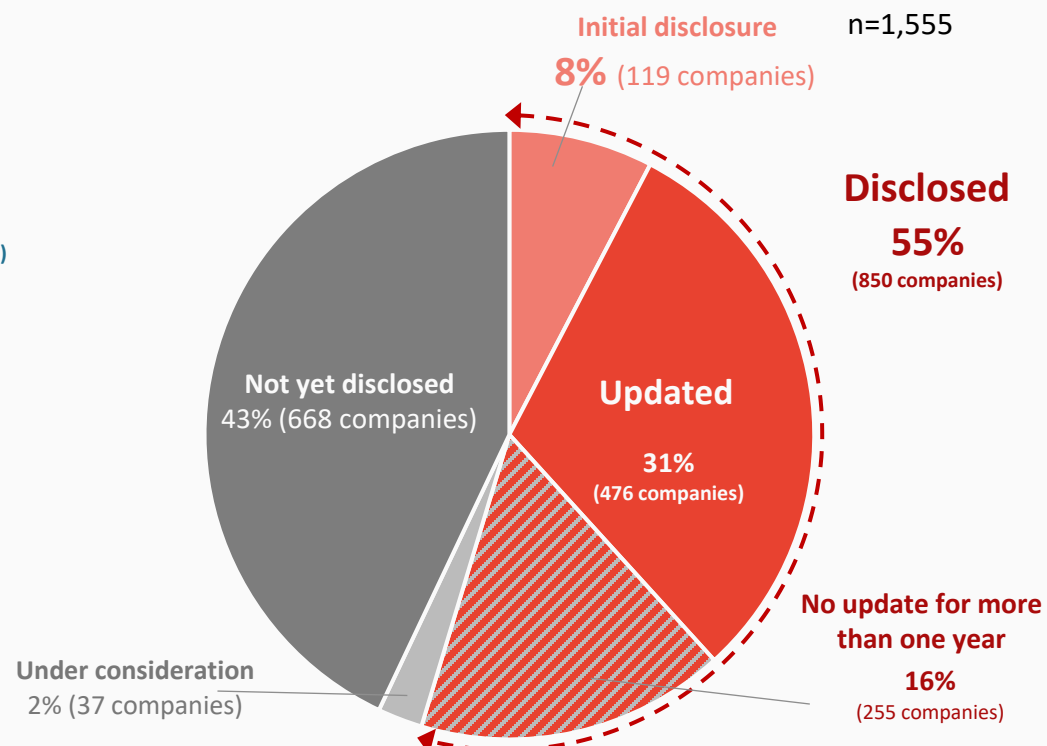
◆ In the **Standard Market**, although 119 companies made initial disclosures, the disclosure rate remains at **55%**.

➤ Of the companies that have disclosed, 476 have updated their disclosures, while 255 have not provided an update for more than one year.

Prime



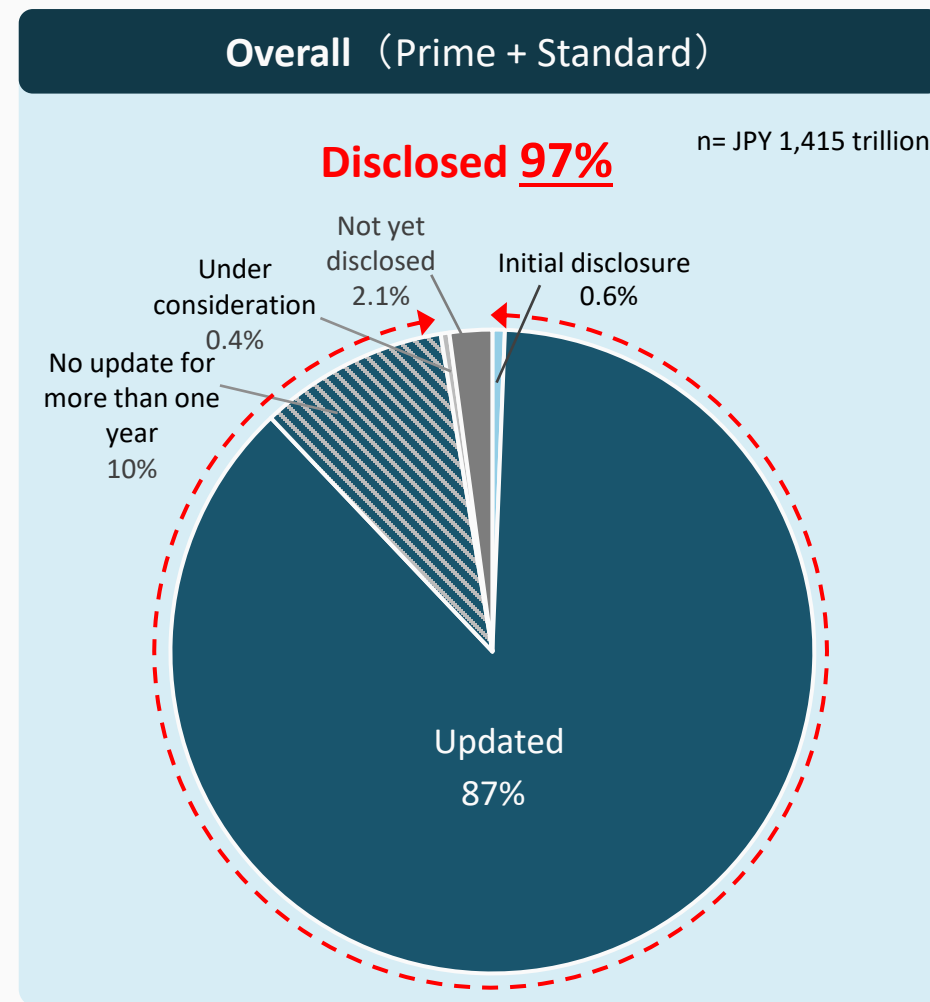
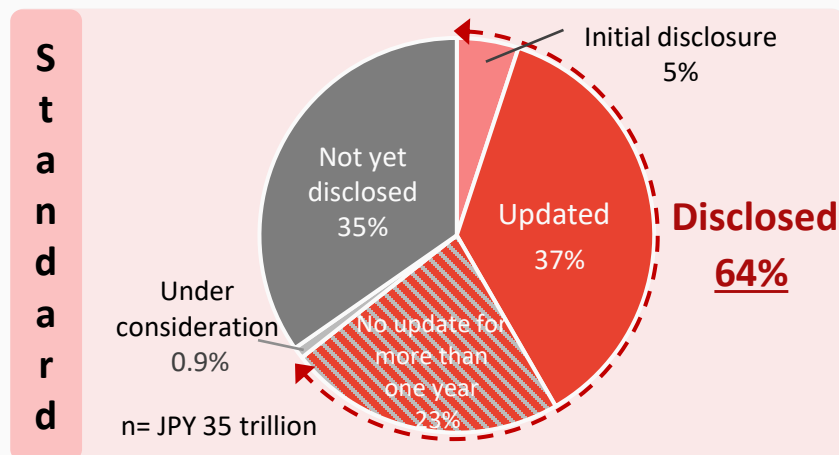
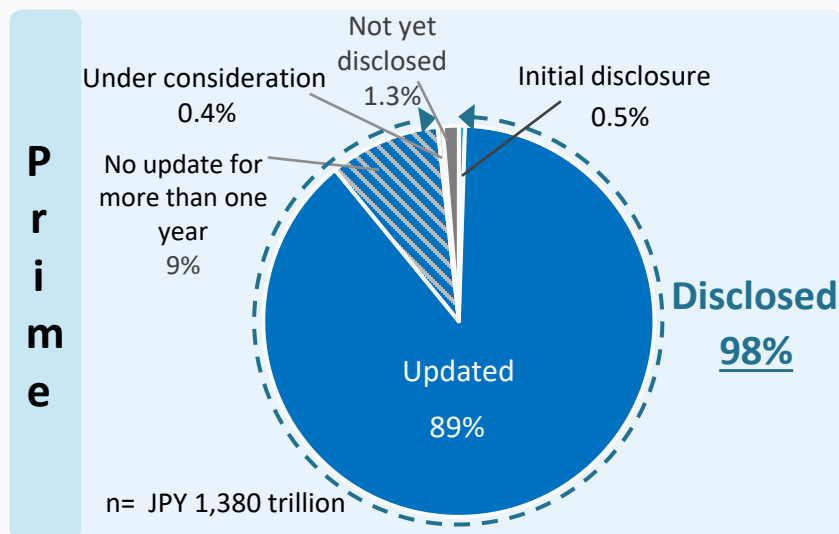
Standard



Reference: Disclosure Status on a Market Capitalization Basis

- ◆ On a market capitalization basis, the disclosure rate is 98% for the **Prime Market** and 64% for the **Standard Market**.

⇒ The overall disclosure rate (Prime + Standard) is 97%.

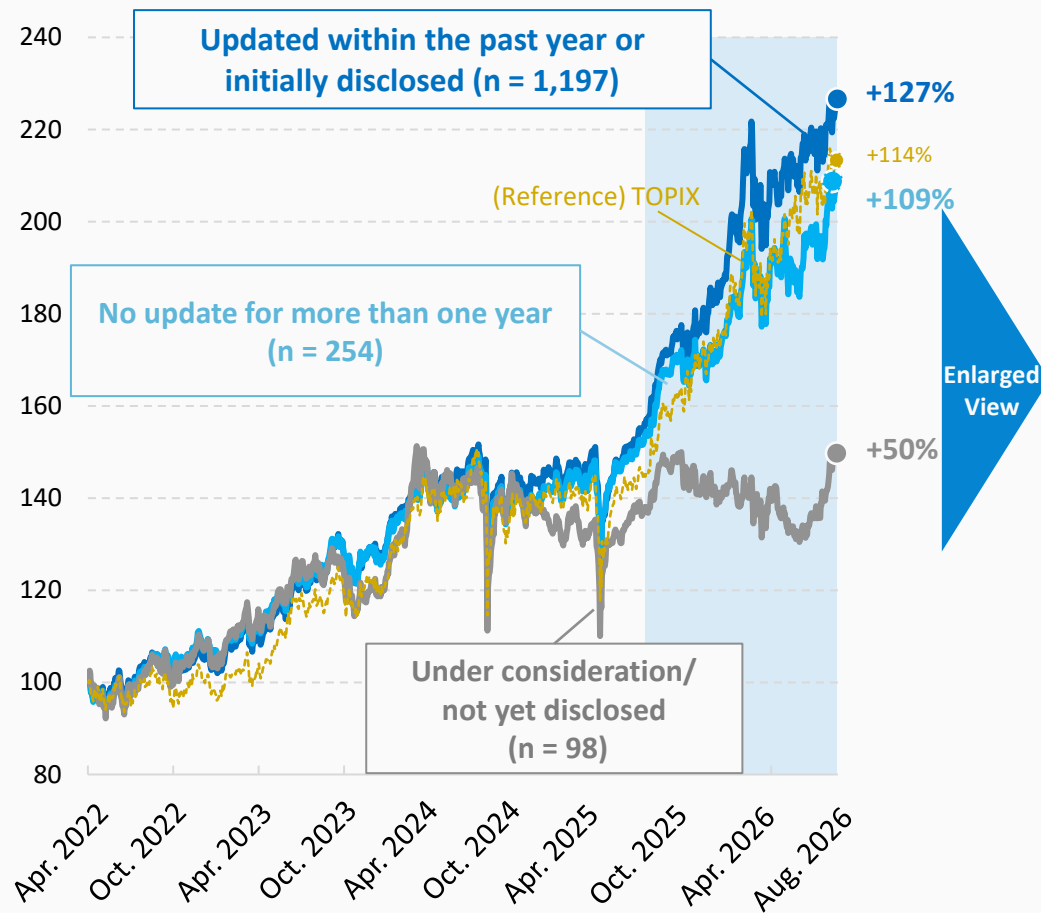


Stock Price Trends Since Market Restructuring: Prime Market

- ◆ The stock price performance of companies that have disclosed exceeds that of companies that have yet to disclose or have a disclosure status of under consideration.
- ◆ In particular, over the past year, companies that have made initial disclosures or updated their disclosures within the past year outperform companies that have not updated their disclosures for more than one year.

Trends Since April 2022

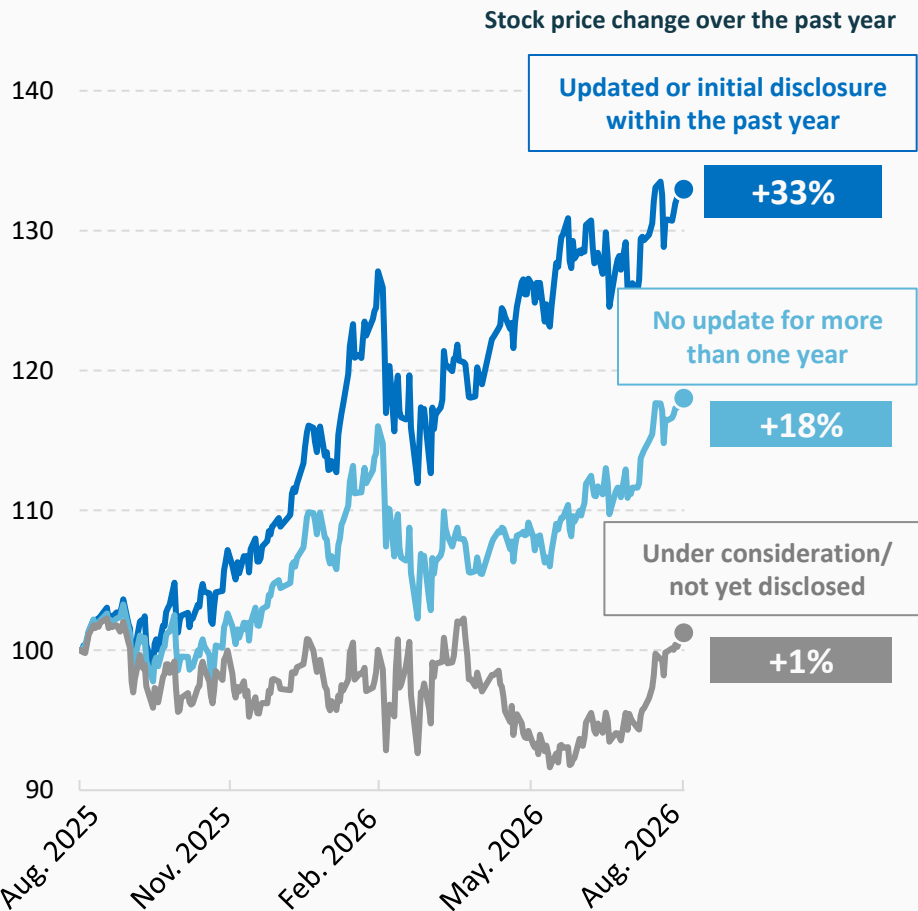
(April 1, 2022 = 100)



Trends Over the Past Year

(End of August 2025 to End of August 2026)

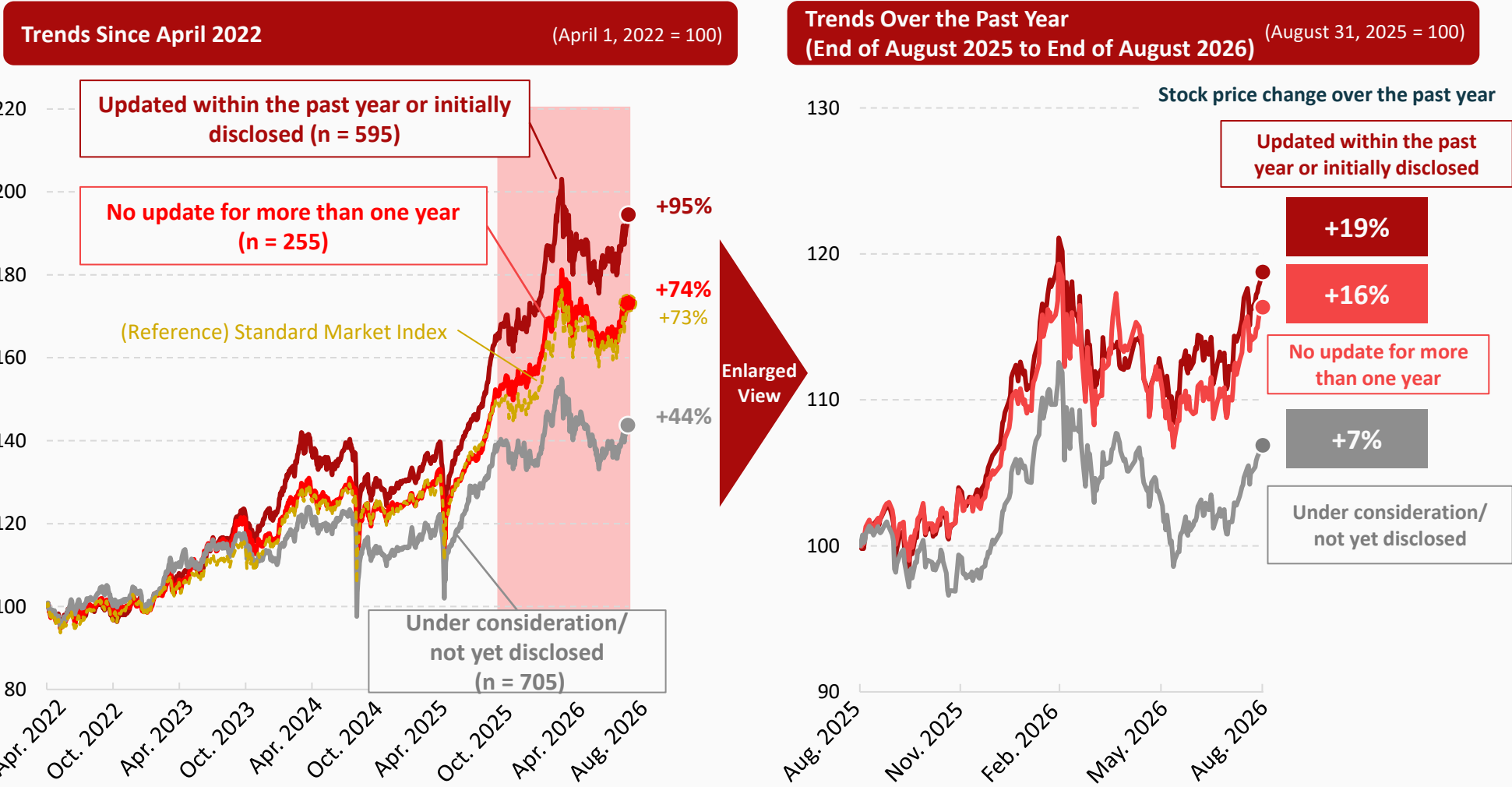
(August 31, 2025 = 100)



Note: Compiled by TSE based on QUICK data. Stock price trends were calculated for each category on an equal-weighted basis. Companies listed as of August 31, 2026 were included.

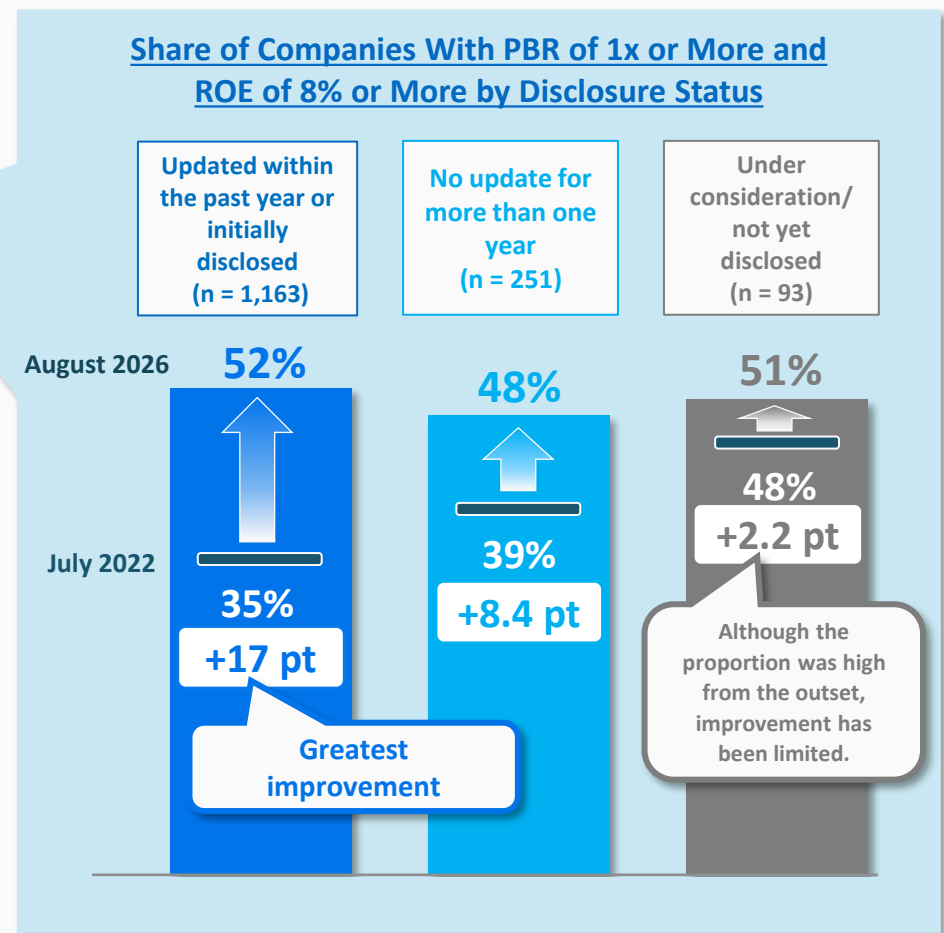
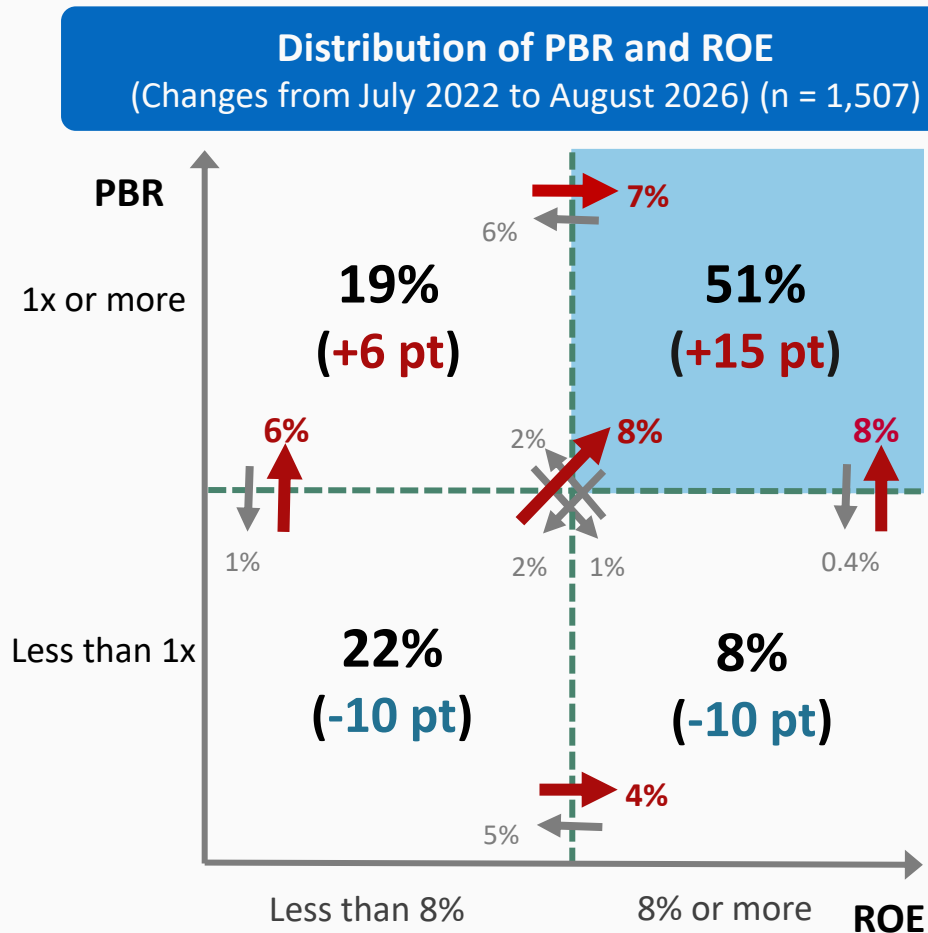
Stock Price Trends Since Market Restructuring: **Standard Market**

- ◆ As with the Prime Market, the stock price performance of companies that have disclosed exceeds that of companies that have yet to disclose or have a disclosure status of under consideration.
- ◆ Over the past year, although the gap is smaller than in the Prime Market, companies that have made an initial disclosure or updated their disclosures within the past year have shown the strongest stock price performance.



Four-Quadrant Changes in PBR and ROE: Prime Market

- ◆ **PBR and ROE have both shown improvement** across the Prime Market overall.
- ◆ By disclosure status, **the greatest improvement in the share of companies with a PBR of 1x or more and ROE of 8% or more was seen among companies that updated within the past year or made an initial disclosure.**



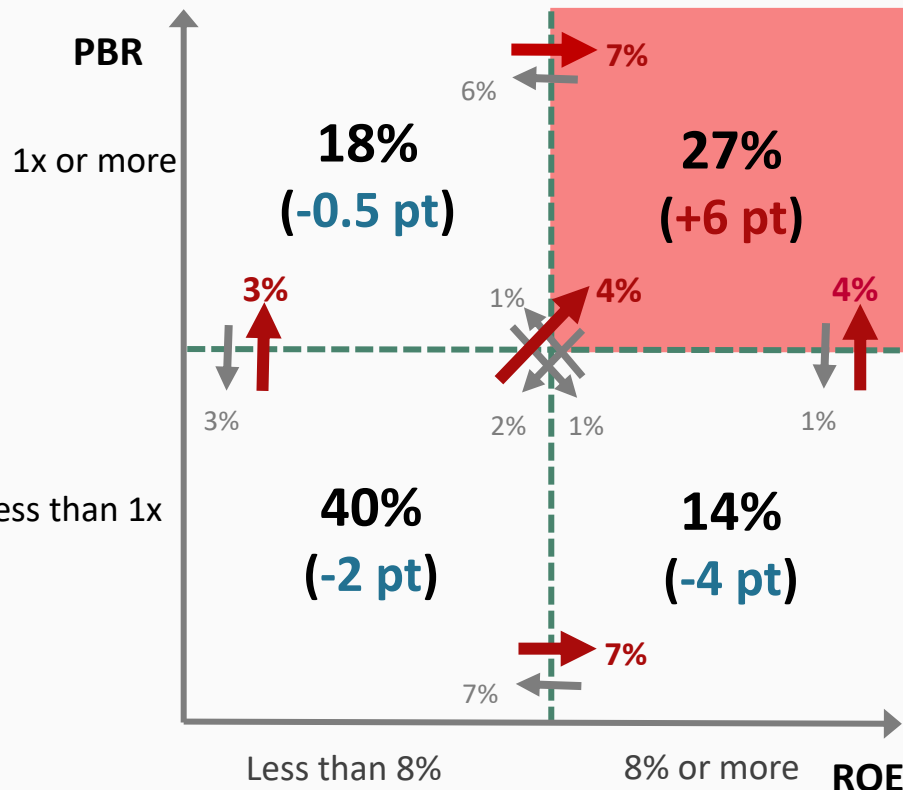
Note: Compiled by TSE based on QUICK data. The percentages in the four quadrants show the distribution as of August 2026, while the percentage-point figures and arrows indicate changes from July 2022 to August 2026. Companies continuously listed from July 29, 2022 to August 31, 2026 were included.

Four-Quadrant Changes in PBR and ROE: **Standard Market**

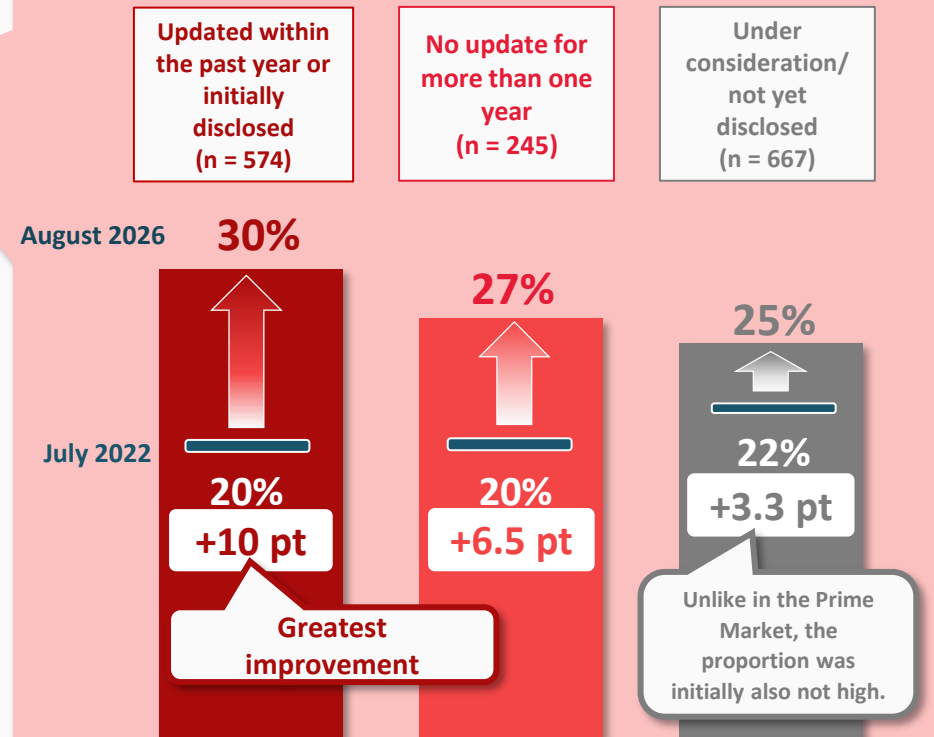
- ◆ Although the Standard Market has also shown improvement, the pace has been slower than in the Prime Market.
- ◆ By disclosure status, the greatest improvement in the share of companies with a PBR of 1x or more and ROE of 8% or more was seen among companies that updated within the past year or made an initial disclosure.

Distribution of PBR and ROE

(Changes from July 2022 to August 2026) (n = 1,486)



Share of Companies With PBR of 1x or More and ROE of 8% or More by Disclosure Status



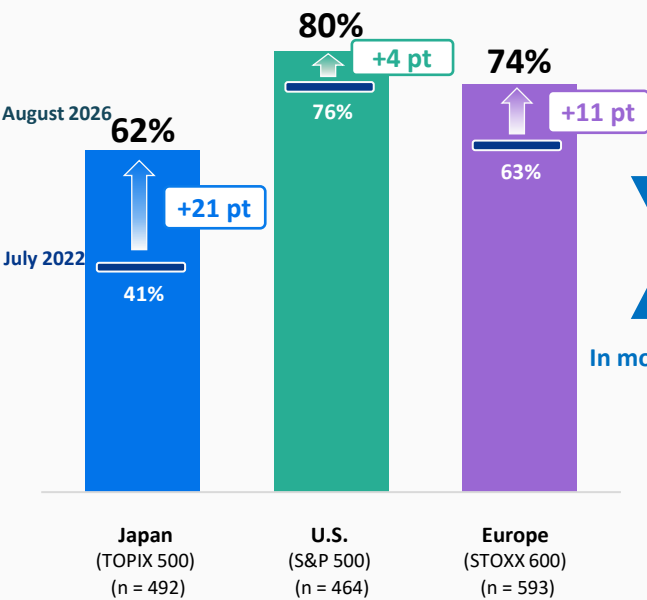
Note: Compiled by TSE based on QUICK data. The percentages in the four quadrants show the distribution as of August 2026, while the percentage-point figures and arrows indicate changes from July 2022 to August 2026. Companies continuously listed from July 29, 2022 to August 31, 2026 were included.

International Comparison by PBR and ROE Level

- ◆ In the four-quadrant framework, **62% of Japanese companies have a PBR of 1x or more and ROE of 8% or more, narrowing the gap with the U.S. and Europe.**
- ◆ In the nine-cell framework, however, Japanese companies are concentrated in the PBR 1x–2x and ROE 8%–15% category, while the largest category in the U.S. and Europe is PBR 2x or more and ROE 15% or more, indicating that substantial gaps remain in levels of capital profitability and market valuation. (PBR 2x or more and ROE 15% or more: Japan 17%, U.S. 52%, Europe 39%)

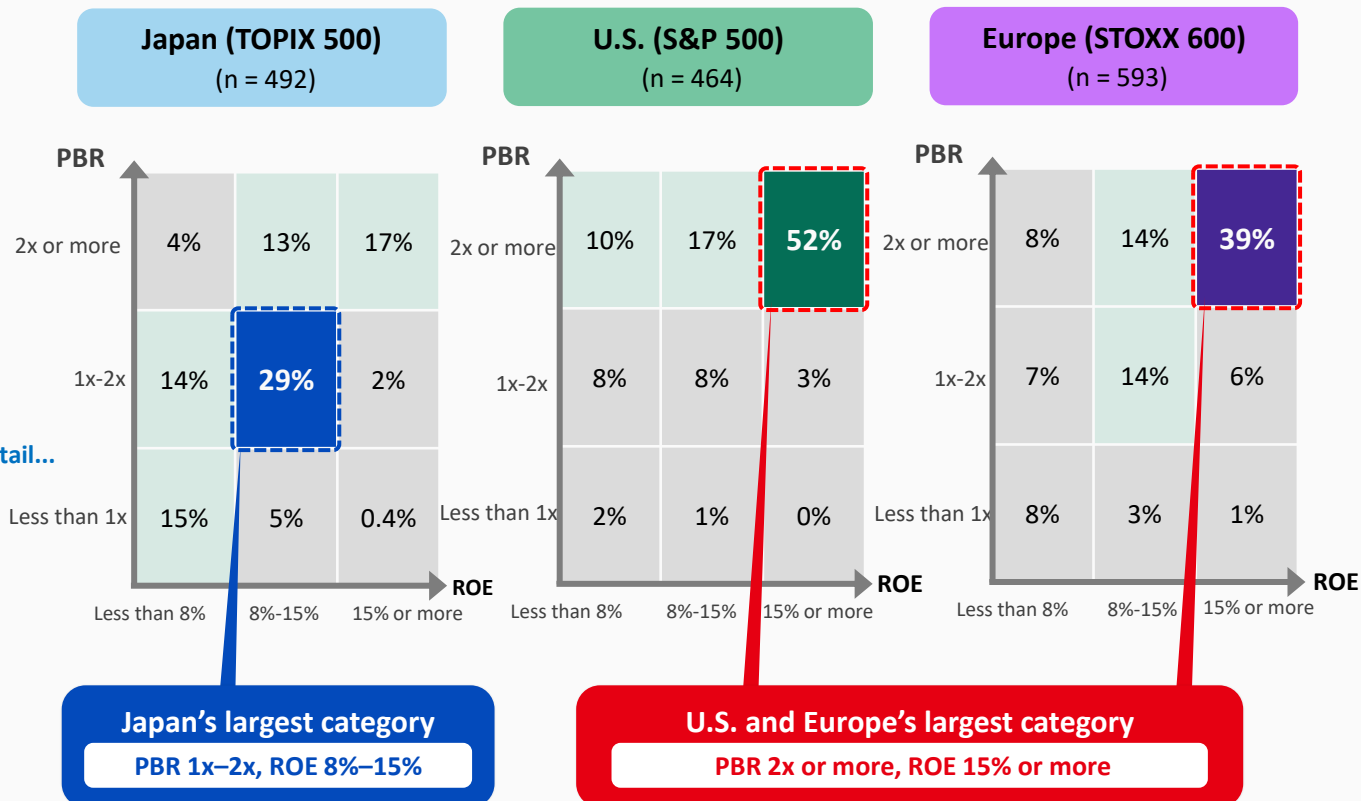
Four Quadrants (Share of Companies in the Upper-Right Quadrant)

Share of companies with PBR of 1x or more and ROE of 8% or more



In the four-quadrant comparison, Japan **showed the greatest improvement, narrowing the gap with the U.S. and Europe.**

Nine Cells (Largest Categories and Their Shares)



Note: Compiled by TSE based on Bloomberg data. Companies for which ROE and PBR data were available as of August 1, 2026 were included.

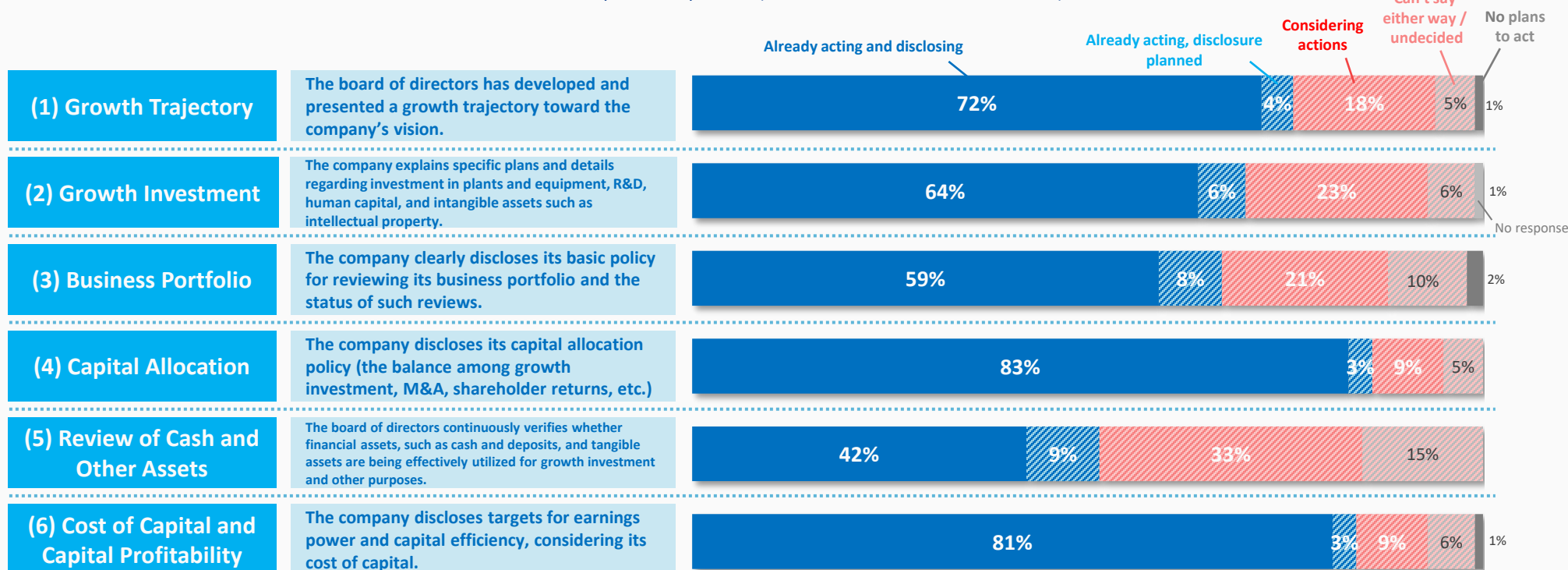
Company Activities on Appropriate Allocation of Management Resources (External Survey)

- ◆ Many companies have already advanced initiatives and disclosures related to the “appropriate allocation of management resources,” a focus of the revisions to the Corporate Governance Code and the update to the request. However, many remain at the consideration stage.
- By market capitalization (next page), smaller companies tend to lag in advancing initiatives and disclosures, with a greater number of companies still considering such initiatives.

Japan Investor Relations Association (JIRA) Survey on “Revisions to the Corporate Governance Code” (Published September 30, 2026)

Q: Please indicate your company’s current status regarding each of the aspects (1) through (6) below. (Select one response for each item.)

Note: 156 companies responded (Prime: 143; Standard: 9; Growth: 4).



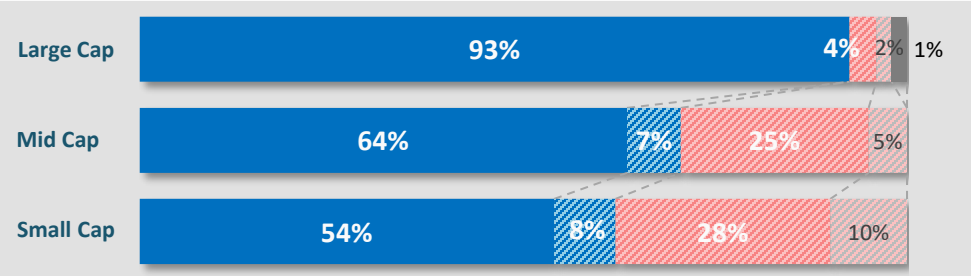
Source: Compiled by TSE based on the Japan Investor Relations Association’s (JIRA) Materials to the Survey on “Revisions to the Corporate Governance Code.” (Published September 30, 2026)

Reference: Status of Activities by Market Capitalization (External Survey)

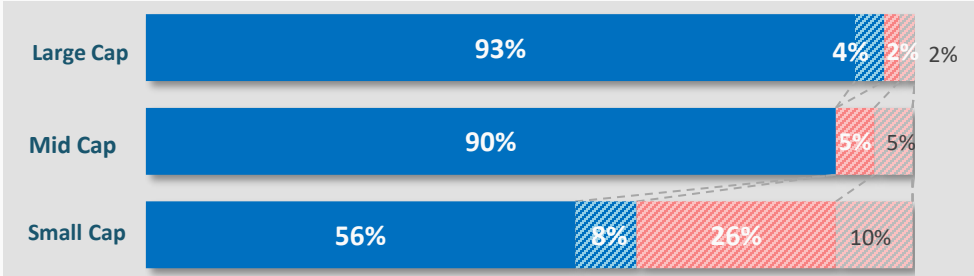


Large Cap (JPY 1 tril. or more): 56 companies
Mid Cap (JPY 100 bil. to less than JPY 1 tril.): 61 companies
Small Cap (less than JPY 100 bil.): 39 companies

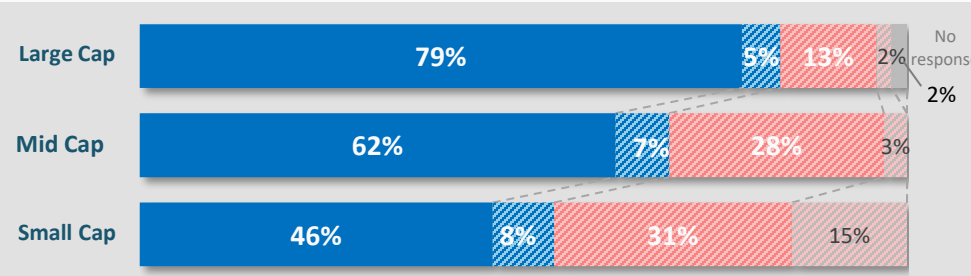
(1) Growth Trajectory



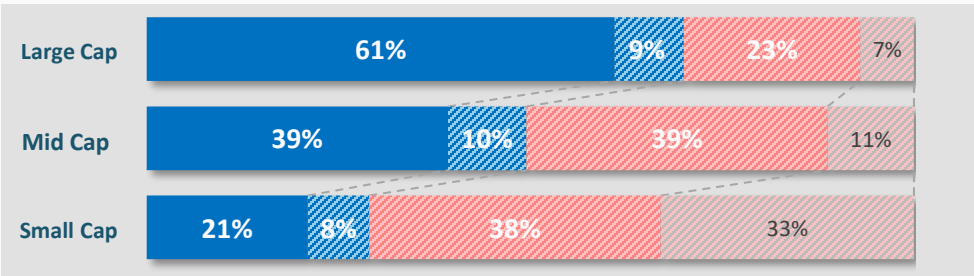
(4) Capital Allocation



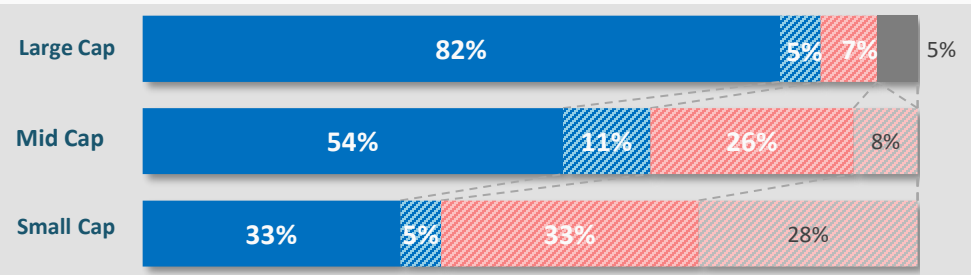
(2) Growth Investment



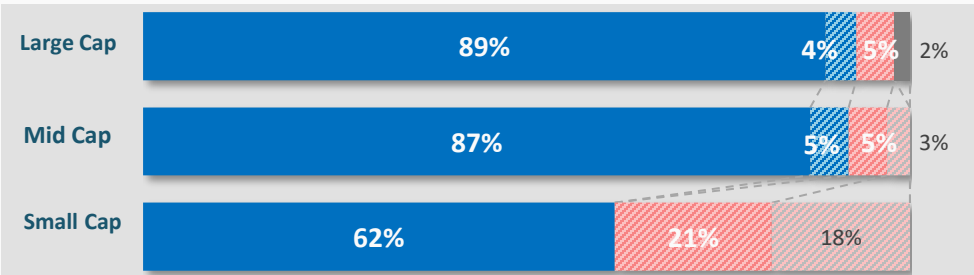
(5) Review of Cash and Other Assets



(3) Business Portfolio



(6) Cost of Capital and Capital Profitability



Source: Compiled by TSE based on the Japan Investor Relations Association's (JIRA) Materials to the Survey on "Revisions to the Corporate Governance Code." (Published September 30, 2026)

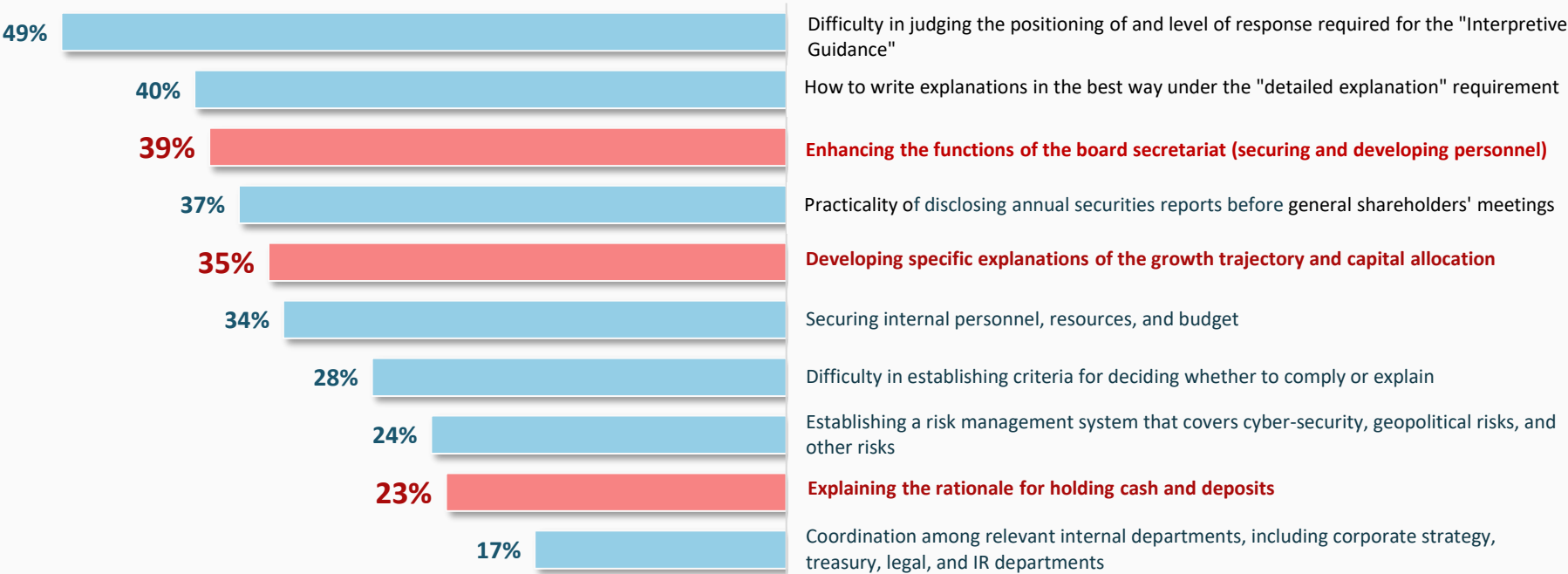
Challenges in Responding to Revised Corporate Governance Code (External Survey)

- ◆ Many of the issues companies face in responding to the revised Corporate Governance Code overlap with the key points presented in the April 2026 update to the request. These include **enhancing the functions of the board secretariat**, **explaining the growth trajectory and capital allocation**, and **explaining the rationale for holding cash and deposits**.

JIRA’s Survey on “Revisions to the Corporate Governance Code” (Published September 30, 2026)

Q: What does your company consider particularly challenging in responding to the revisions? (Select all that apply)

Note: 156 companies responded (Prime: 143; Standard: 9; Growth: 4).



Source: Compiled by TSE based on the Japan Investor Relations Association’s (JIRA) Materials to the Survey on “Revisions to the Corporate Governance Code.” (Published September 30, 2026)
(Selected items with high response rates)

Institutional Investors' Views on Progress and Future Direction

- ◆ Institutional investors in Japan and overseas have expressed **positive views on changes in corporate mindsets and progress in initiatives to date**. Looking ahead, many expect companies to **move into the implementation phase of initiatives centered on the appropriate allocation of management resources, communicate clear growth stories, and raise their ambitions**. They also expect **support for companies whose initiatives have yet to progress**.

Note: Based on discussions with approximately 120 domestic and overseas institutional investors since April 2026.

Key Comments From Institutional Investors (Progress of Initiatives/Future Direction)

- As corporate governance reform advances, Japanese stocks are being re-evaluated and PBR has improved overall. However, **improving ROE over the medium to long term requires concrete action from companies**. The key going forward is **to bridge the gap between disclosure and execution**. We want to see companies **make more advanced management decisions, including business portfolio reform, the disposal of non-core assets, and the reduction of cross-shareholdings**.
- What is important going forward is **transforming business structures to sustainably generate returns in excess of the cost of capital and making disciplined growth investments** to support this transformation. **We would like companies to raise their targets in order to expand their equity spreads**.
- Changes in corporate mindsets and initiatives are **drawing the attention not only of value investors but also of overseas growth investors to the Japanese market**. Companies are expected to **communicate clear visions and growth stories for medium- to long-term growth**, including how they will invest in growth areas and enhance their earnings power. This will help them overcome short-term disruptions and build new shareholder bases.
- Even globally competitive Japanese companies have room to improve capital efficiency. The message **that achieving a PBR of 1x or ROE of 8% is not the end goal** should be reinforced. **We expect Japan's leading companies to raise their ambitions and drive the market as a whole**.
- **Japanese companies are visibly improving**. However, if current trends continue, **the market will increasingly divide over the long term between companies that actually pursue reform and those that merely tell a story**. Investors can distinguish between the two. We take long positions in companies led by strong management teams that are driving transformation and short positions in companies that fail to transform. This strategy is working extremely well in the current Japanese market.
- Good companies understand that initiatives benefit their own businesses and pursue transformation voluntarily. To raise the overall level of the market, we are watching closely **how companies that have not yet begun such initiatives or found incentives to do so can be encouraged**.

Future Approaches and Specific Initiatives (Draft)

Future Approaches (Draft)

- ◆ While **initiatives are advancing overall**, **there is widening variation between companies**. Some are refining their targets and initiatives through dialogue and improving their valuations, while others have made disclosures but have not updated them or shown progress, and still others have not yet taken the first step toward disclosure.
- ◆ Going forward, **in line with companies' efforts to respond to the revised Corporate Governance Code**, TSE will support initiatives to enhance corporate value and meaningful dialogue by **providing reference materials tailored to each company's current situation**, **strengthening its engagement with companies**, and **continuing to provide feedback to both companies and investors**.

1 Approaching Companies That Have Disclosed

(Prime: 1,451; Standard: 850)



Encourage Continued Progress and Refinement of Initiatives

Encourage companies to continue advancing initiatives for medium- to long-term corporate value enhancement, without losing momentum, and to refine them while taking into account investor expectations

Key Initiatives

- Compile and publish **investor expectations and examples well received by investors**, focusing on the key points presented in the update to the request (using survey results) => [Page 17](#)
- Encourage ongoing **updates to initiatives and disclosures**
- Continue **support for initiatives** through seminars for executives and staff, dialogue events with investors, company visits, etc.
- Continue **the investor survey** in the next fiscal year => [Page 19](#)

2 Approaching Companies That Have Yet to Disclose

(Prime: 98; Standard: 705)



Strengthen Engagement to Support the First Step

Promote understanding of the need for initiatives and support companies in taking the first step through guidance, examples, and other materials

Key Initiatives

- For companies that have not yet taken the first step toward disclosure, compile and provide **guidance on initiatives expected by investors and examples of step-by-step improvements**, while continuing support
- For companies that have deliberately chosen not to disclose, **communicate the expectations for and significance of disclosure** and encourage them to explain their reasons for non-disclosure after gaining an understanding of companies' circumstance
=> [Page 18](#)

3 Approaching Investors



Continue Communicating Progress of Initiatives and Providing Feedback on Companies' Views

Continue communicating the progress of Japanese companies' initiatives to domestic and overseas investors, while providing feedback on companies' views to promote effective dialogue

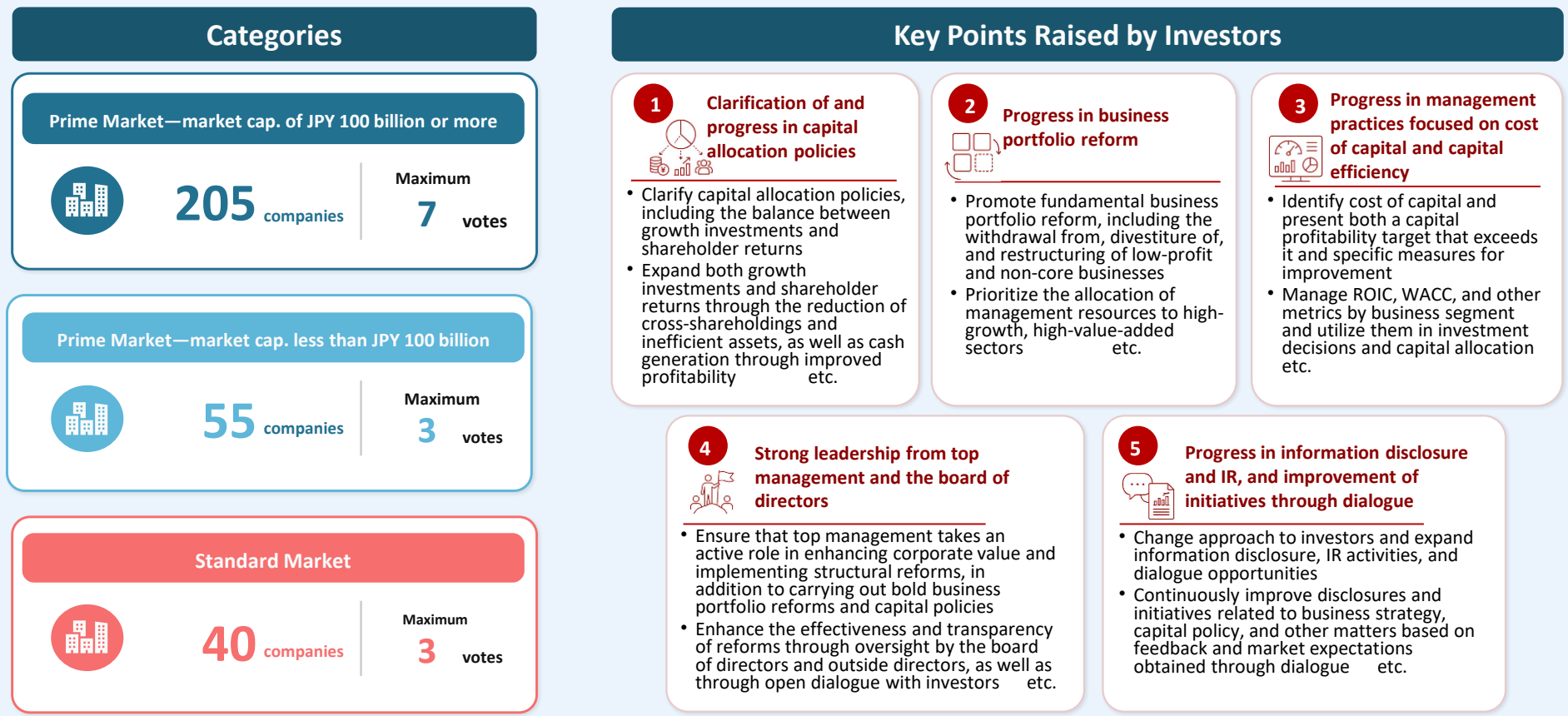
Key Initiatives

- **Actively communicate** the progress being made by many companies (as identified through the investor survey) and future reform initiatives.
- Continue **communication using the results of the corporate survey**, in cooperation with relevant organizations, to promote effective dialogue.
- Continue **the corporate survey** in the next fiscal year after refining the survey questions. => [Page 19](#)

Specific TSE Initiatives: Examples to Support Continued Progress and Refinement of Initiatives (Draft)

- ◆ To encourage companies to continue advancing initiatives centered on the appropriate allocation of management resources, without losing momentum, and to refine them while taking into account investor expectations, **TSE will compile examples of initiatives well received by investors and publish them around late 2026 or early 2027.**
- From among the 300 companies identified in the investor survey as companies demonstrating meaningful changes, TSE will select and introduce examples that are useful for understanding the initiatives investors expect, covering a broad range of sectors and market capitalization levels, together with investor comments.

Summary of Investor Survey Results on Companies Demonstrating Meaningful Progress (Reprinted)



Specific TSE Initiatives: Approaching Companies That Have Yet to Disclose (Draft)

- ◆ While more companies are demonstrating meaningful progress, **the circumstances and issues faced by companies that have yet to disclose vary.**
- ◆ After gaining a renewed understanding of companies' circumstances and level of awareness, **through support and engagement tailored to each company's circumstances, TSE will encourage companies to take the first step toward disclosure and engage in dialogue with investors.**



Companies That Have Not Yet Started Disclosure

"We understand the need for disclosure but have been unable to take the first step."

Key Comments

- We understand the need for disclosure but lack the necessary expertise and personnel.
- We have not gained sufficient understanding from senior management and business divisions.
- We are not confident that our disclosures will be aligned with investor expectations.
- We are concerned about whether we properly understand our cost of capital.



Companies That Have Deliberately Chosen Not to Disclose

"We have decided not to disclose at this time."

Key Comments

- We operate a single business and maintain high profitability, and therefore do not see a need for disclosure.
- We are in a growth investment phase and find it difficult to present profitability indicators.
- Future prospects are uncertain, making disclosure difficult at this time.
- We are currently prioritizing business restructuring and structural reform.



Provide Guidance on Taking the First Step

TSE will compile guidance and examples as reference for companies taking the first step toward disclosure and publish them around late 2026 or early 2027.

Content to Be Provided

1 Actions Expected as a First Step

Organize key points identified through the investor survey, including management's understanding of current issues, policies for improvement, and commitment from top executives.

2 Examples of Step-by-Step Improvements

Interview companies that have progressed from initial-stage disclosures and achieved step-by-step improvements, including success in attracting institutional investors. Introduce the processes that led to their disclosures and initiatives, challenges they faced, and measures they took, together with investor feedback.



Communicate the Significance of Disclosure and Investor Expectations

Clearly communicate the significance of disclosure and investor expectations to promote understanding and, where appropriate, encourage companies to explain their reasons and future policies.

Initiatives

1 Communicate the Significance of Disclosure and Investor Expectations

Communicate that initiatives and disclosures are meaningful and expected even where companies have achieved a certain level of profitability and market valuation, or where they continue to report losses due to upfront investment.

2 Encourage Explanations of Reasons for Non-Disclosure and Future Policies

Where companies do not proceed with disclosure, encourage them to describe their reasons for non-disclosure and their future policy on disclosure as reference information for investors.

TSE will gain a renewed understanding of companies' circumstances and level of awareness

=> In addition to the above initiatives, **TSE will strengthen its support through seminars for executives and staff, company visits, and other initiatives.**

Specific TSE Initiatives: Continuation of Corporate and Investor Surveys

- ◆ Regarding both the corporate survey and investor survey published in August 2026, we have received **positive feedback and expectations for future surveys from companies, investors, and other stakeholders.**
- => Based on this feedback, TSE will refine the survey questions and **continue both surveys in and after the next fiscal year. (The next surveys are scheduled for summer 2027.)**

Key Comments on the Corporate Survey on Expectations of and Requests to Investors

Feedback on the Results

- The survey helps investors understand companies' perspectives and serves as a useful reference for future dialogue. (Investor)
- The finding that 75% of companies consider their dialogue with investors meaningful is encouraging for investors and helps dispel concerns (misconceptions) that the pace of corporate governance reform is slowing. (Investor)
- Making companies' expectations of and evaluations of investors visible creates an appropriate sense of accountability among investors and is a useful initiative. (Investor)
- Companies' willingness to request candid feedback and negative observations from investors demonstrates their growing awareness of the importance of dialogue. (Investor)
- We would like to further strengthen our engagement activities so that we may be identified as an institutional investor that engages in meaningful dialogue. (Investor)
- The survey is also useful for companies in deepening their understanding of investors. (Company)

Expectations for Future Surveys

- Many respondents supported continuing the survey as a meaningful initiative that makes visible companies' expectations of investors and the actual situation around engagement. (Companies and investors)
- Making investor attributes more specific and then examining the issues associated with each attribute could provide a clearer picture of the situation. (Investor)
- Trends may differ depending on the frequency of meetings. The survey could ask about how much dialogue has been carried out at the outset. (Investor)
- Care should be taken over publishing the names of institutional investors identified as engaging in meaningful dialogue to ensure that being named does not become an end in itself. (Investor)

Key Comments on the Institutional Investor Survey on Companies Demonstrating Meaningful Progress

Feedback on the Results

- Comments evaluating our initiatives motivate us to make further progress. We would also like to use them in future initiatives and IR activities. (Company)
- The Excel file of comments is highly useful for considering initiatives, as it shows how companies in the same industry and those of a similar size are evaluated. Such information is not readily available elsewhere. (Company)
- Highlighting a broad range of companies making progress is an excellent initiative. We will be actively sharing these results as we would like for a wide range of companies to see them, regardless of whether they are included. (Investor)

Expectations for Future Surveys

- Most companies and investors supported continuing the survey next fiscal year and beyond on a regular basis. (Companies and investors)

Reference: Key Comments From the Previous Follow-up Meeting (Further Analysis and Use of Survey Results)

Corporate Survey on Expectations of and Requests to Investors

- ✓ It would be useful to categorize **cases where companies and investors have been on the same page and those where they haven't (cases where the company or the investor has misguided expectations)** taking into account investor attributes and investment styles.
- ✓ It would be good to further analyze why companies with low ROE, low PBR, or low market capitalization are less likely to view their dialogue with investors as meaningful, as well as the challenges they face. It is important to **help such companies understand the benefits that companies in the upper-right quadrant experience through dialogue with investors—benefits they have yet to experience themselves.**
- ✓ Increasing the share of companies with smaller market capitalizations that view their dialogue with investors as meaningful, and raising the overall level of the market, remain key challenges. It is important to **increase and share examples of such companies that have successfully attracted investors and encouraged investment through meaningful dialogue.**
- ✓ To build a foundation for two-way dialogue, measures should be considered to **help companies deepen their understanding of investors.** Companies should also be encouraged not to take a one-dimensional view of short-term investors who provide market liquidity.
- ✓ **Coordination with Japan's Stewardship Code** should be pursued. In coordination with the Financial Services Agency, consideration could be given to reflecting companies' expectations of investors in updates to the Code and updating interpretive guidance and guidelines in response to calls for investors to clarify their policies on disclosure and dialogue.
- ✓ **While passive investors may face difficulties in securing resources, they account for an overwhelming share of Japanese investors. Raising the overall level of passive investor engagement remains a challenge.**

Survey of Institutional Investors on Companies Demonstrating Meaningful Progress

- ✓ **Feedback to companies and practical support for taking the first step should be provided in an integrated manner based on the four-quadrant framework.**
- ✓ **"Disclosure Items Expected as a First Step" should be communicated more simply and clearly.**
- ✓ Consider linking changes in the four quadrants (from the lower-left to the upper-right quadrant) with investor evaluations, and **broadly collecting examples with room for improvement, as in the current survey.** Further developing "Cases Where Companies Are Not Aligned With Investors' Perspectives" could be highly effective in providing companies with concrete insights.
- ✓ **Companies should be reminded that taking action is valued by the market even before results emerge.**
- ✓ **Institutional investors are also interested in the quality of boards of directors. Consider support measures to improve the quality of outside directors, such as providing video programs.**

Other General Comments

- ✓ **The four-quadrant framework may be overly simplified and may not always reflect actual conditions clearly. A more detailed breakdown could be useful.**
- ✓ **The perspectives of minority shareholders** should also be carefully considered, including through additional surveys.

Reference: Support for Enhancing the Functions of the Board Secretariat

- ◆ The revised Corporate Governance Code, issued in July 2026, **emphasizes the importance of enhancing the functions of the board secretariat to promote more active deliberations.**
- ◆ Companies considering responses to the revision have raised the following concerns:



- We are **unsure how to enhance the functions** of the board secretariat or **where to begin.**
- It is difficult to imagine potential revisions as **we cannot see how other companies are working on the issue.**
- We are concerned about how far functions can be enhanced with limited personnel and resources.

TSE's Future Initiatives

- ✓ TSE plans to hold a **Seminar for Board Secretariats** by the end of 2026 to provide reference material for companies' considerations.
 - Experts and companies that have already acted in this area will be invited to discuss **the ideal role of the board secretariat, key points for consideration, and examples of initiatives already carried out.**
- ✓ TSE also plans to provide **opportunities for information exchange and networking among participants of the seminar, helping staff of board secretariats to build stronger peer connections.**