

IPO Liaison Meeting

Tokyo Stock Exchange, Inc. Listing/New Listings Department
Japan Exchange Regulation Listing Examination Department

April 8, 2025



Matters to Give Your Opinions On

- ◆ **We would like to hear a wide range of opinions** on matters such as those listed below, **from the perspective of achieving IPOs that lead to high growth after listing.**
 - Your understanding of and issues related to IPOs at present
 - Attitudes and approaches that could be taken by those involved in IPOs (at exchanges or securities companies, etc.)

Examples

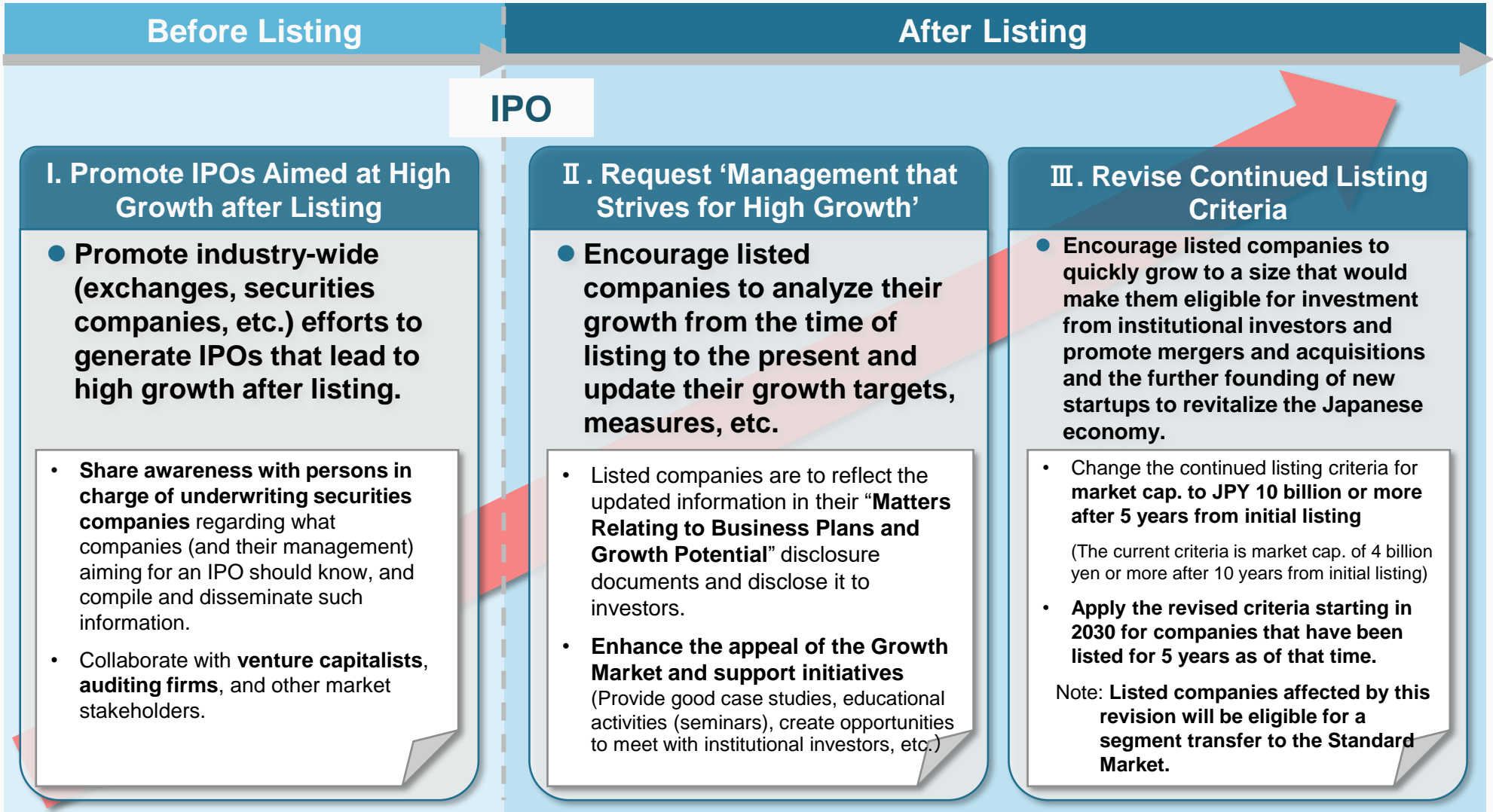
- Points you want companies/management aiming at IPOs to be aware of, and how to communicate those points effectively
 - Details of stock exchange listing examinations, securities company guidance on going public and underwriting examinations, etc. (matters such as dealing with reviews of continued listing criteria)
 - Initiatives to encourage more active institutional investor involvement
 - Creating a good environment for IPO preparation
 - Other opinions on rules and practices related to IPOs
- etc.

(Reference 1) Draft Materials For The Next Follow-up Meeting (excerpts)

※Scheduled to be held on April 22

Future Measures in the Growth Market (Overview)

- ◆ In order for the Growth Market to be utilized by startups aiming for high growth and attractive to investors, TSE will promote a set of measures that encourage companies to continuously aim for high growth both before and after listing.



I . Raising Awareness of High Post-IPO Growth Expectations (For Companies Preparing to Go Public)

◆ For companies (and their management) aiming for an IPO:

- After listing, there will be a responsibility to meet the growth expectations of a **wider range of shareholders and investors**.
- In order to fulfill this responsibility, it is necessary to **fully consider how to utilize the IPO for post-listing growth, and whether the timing and scale of the IPO are appropriate**.

Awareness of these responsibilities is extremely important.

◆ It is expected that companies (and their management) will be approached **in collaboration with those involved in supporting IPOs from an early stage (such as securities companies)**.

- For example, it is possible to **share awareness with those involved (at a high level) about the content that companies (and their management) aiming for an IPO should know**, and to have them communicate this from their respective positions (utilizing the Cooperative Meeting on IPO Practicalities).
- In addition to the recent initiatives (described on next page), we will **continue to promote the disclosure of listing objectives** that we have been requesting since June last year, as well as the **disclosure of the status of their implementation** after listing.



II. Request for Management that Strives for High Growth (For Listed Companies)

- ◆ TSE expects to **reiterate to management at Growth Market listed companies, using the current system, that it would like to see them promote 'Management that Strives for High Growth' appropriate for the Growth Market.** Specifically:
 - **Evaluate and analyze their growth from the time of their IPO to the present**
 - **Based on that analysis, review and consider future growth targets and measures**
 - **Disclose the above information under “Matters Relating to Business Plans and Growth Potential” and consistently implement those measures** (and provide regular updates)
- * For companies that actively take measures, **TSE will also provide support** (such as publishing a list of these companies)

Examples of “Matters Relating to Business Plans and Growth Potential” Disclosure Content

Category	Content
Business Model	Business details
	Earnings Structure
Market Environment	Market size
	Competitive environment
Source of Competitiveness	Competitive advantage
Business Plan	Growth strategy
	Management indicators
	Profit planning and assumptions
	Progress
Risk Information	Perceived risks and countermeasures

Requested Content (Draft)

Evaluation and Analysis of Growth Since IPO/Review and Consideration of Growth Targets and Measures

- From the perspective of aiming for high growth, analyze and evaluate whether the current business model has been functioning well **indicators based on the situation of individual companies and investor needs**, such as market cap., share price, sales, profit, PSR, PER, etc.
- In doing so, **also check to ensure that there are no discrepancies in the assumptions regarding the target market size and the company’s competitive advantage.**
- Using the above indicators and other data, **formulate specific growth targets and measures to achieve them.**

Disclosure to Investors and Implementation of Measures

- Disclose “Matters Relating to Business Plans and Growth Potential” at the time of the next disclosure update (early disclosure or disclosure following relevant review and consideration are also both possible).
- No particular format is specified (this document does not specify a format, etc., and presents examples of disclosure content).
- If a company is taking action in line with the requests, disclose relevant related information.

III. Revision of Continued Listing Criteria (Draft)

- ◆ Among TSE's market segments (Prime, Standard, and Growth), **the Growth Market is for startups that are boldly taking on challenges with the aim of achieving high growth.**
- ◆ **In order to create as many startups as possible that will drive the future growth of the Japanese economy, it is necessary for Growth Market listed companies to quickly grow to a size (JPY 10 billion) that would make them eligible for investment by institutional investors.**
- ◆ In addition, many have expressed that they strongly feel **mergers and acquisitions of stagnant companies and further founding from entrepreneurs should be promoted to revitalize the Japanese economy.**

Proposed Revision

- ❑ Change **the continued listing criteria for market capitalization to JPY 10 billion or more 5 years after initial listing**
(current criteria: market capitalization of JPY 4 billion or more 10 years after initial listing)
- ❑ To ensure sufficient preparation time, **the new criteria will apply from 2030 for companies that have been listed for 5 years as of that time.**

Note: Listed companies affected by this revision (market capitalization of JPY 4 billion or more but less than JPY 10 billion) will be eligible for a segment transfer to the Standard Market.

(Reference 2-1) The Status of The Growth Market

Changes in Stock Price Indices

- After the market restructuring in April 2022, the share prices of the Prime Market and the Standard Market have been going up, while **the share prices of the Growth Market have been floundering**.

Changes in Stock Price Indices

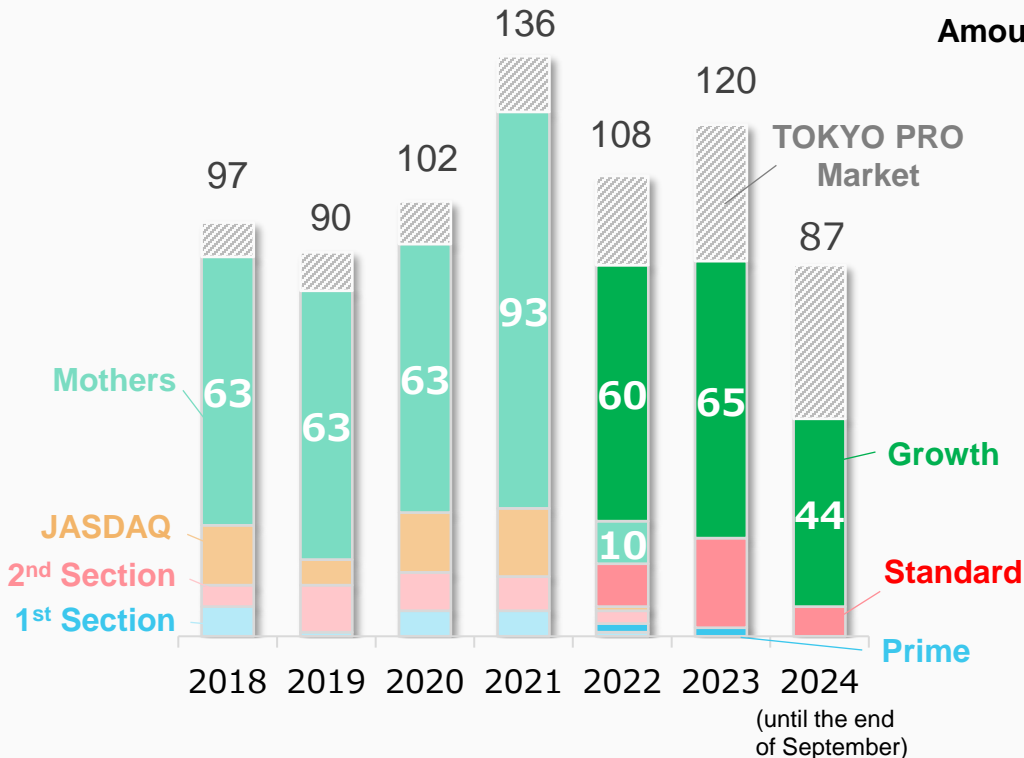
* The values of each index have been converted using 100 as the value on the date of the market restructuring (April 4, 2022)



Number of IPOs, Amount of Capital Raised, and Market Cap. at Initial Listing

- ◆ The number of IPOs has remained around 100 per year after the market restructuring (about 80% are listed on the Growth Market).
- The size of market cap. and amount of funds raised at the time of initial listing continue to be small. (Of the newly listed companies on the Growth Market, 57% have a market capitalization of less than JPY 10 billion and have raised less than JPY 1 billion.)

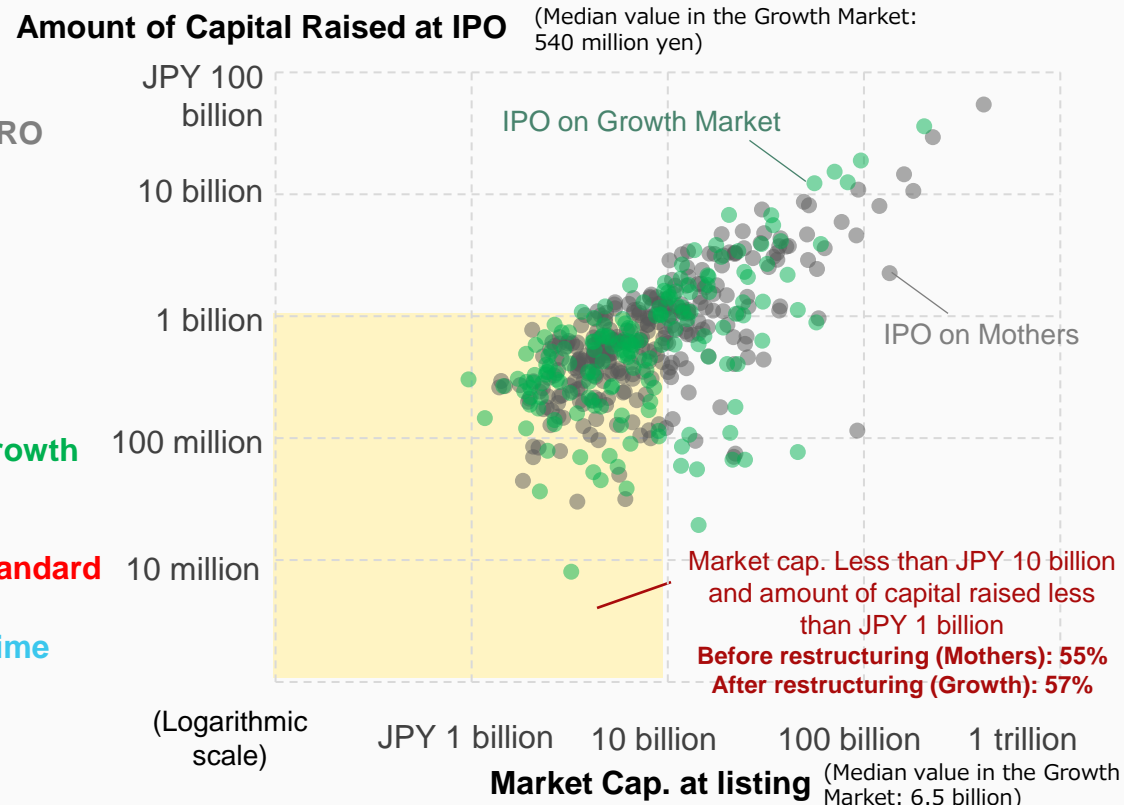
Number of New Listings



Note: Excludes technical listings and listings via TOKYO PRO Market

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Market Cap. and Amount of Capital Raised at newly listing

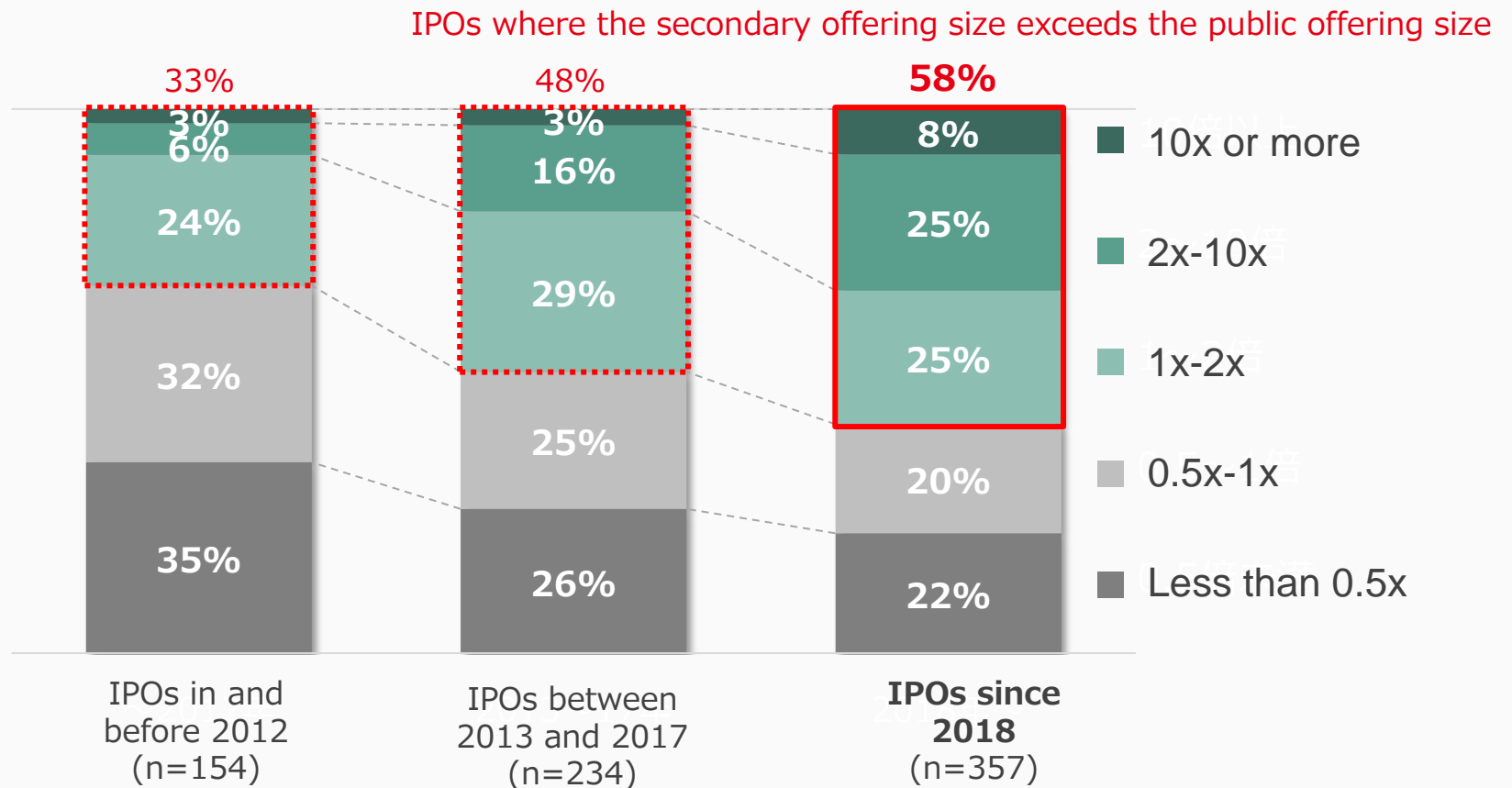


Note: Plots 463 companies newly listed from 2018 to Sep. 2024

Public Offering Size vs. Secondary Offering Size at Timing of New Listing

In addition, **about 60% of new listings (since 2018) have a larger amount of secondary offering than that of public offering.** (Increasing in recent years)

Ratio of Secondary Offering Size to Public Offering Size at Timing of Listing
(Secondary Offering Size / Public Offering Size)



Note: Compiled for companies listed on Mothers/the Growth Market between 2005 and 2022.

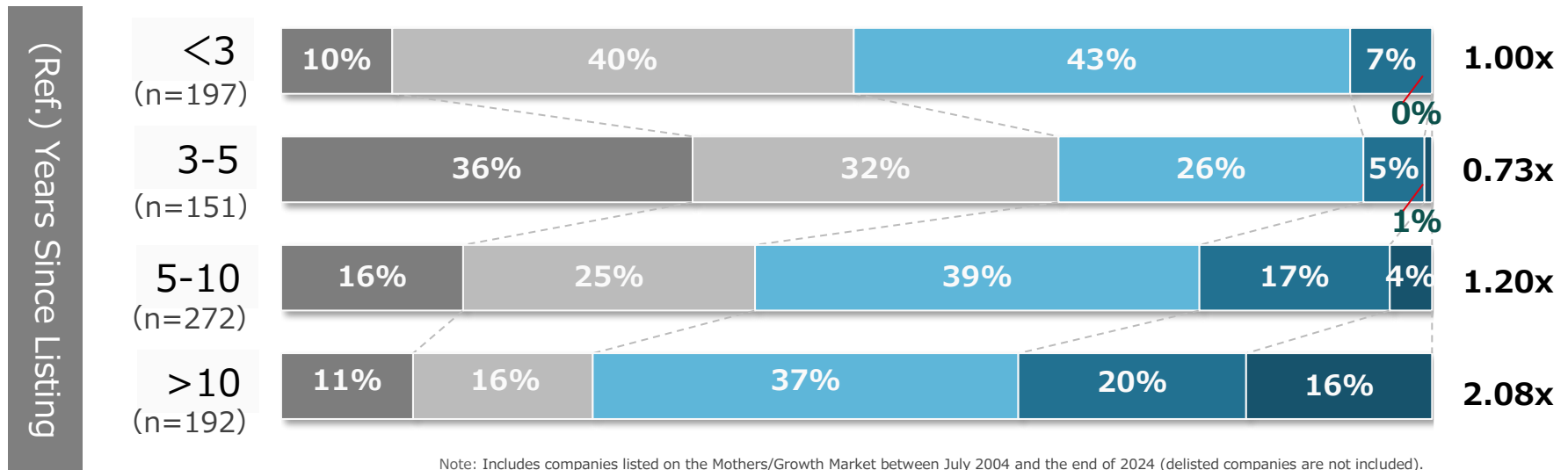
Growth Status of Companies Listed on the Growth Market (1)

- Although the Growth Market is **expected to produce startups that will drive the future growth of the Japanese economy**, only a limited number of companies actually achieve high growth.

Market Cap. Growth Rate for Growth Market Listed Companies



Companies whose market cap. has grown by more than 10x since their IPO: 5%



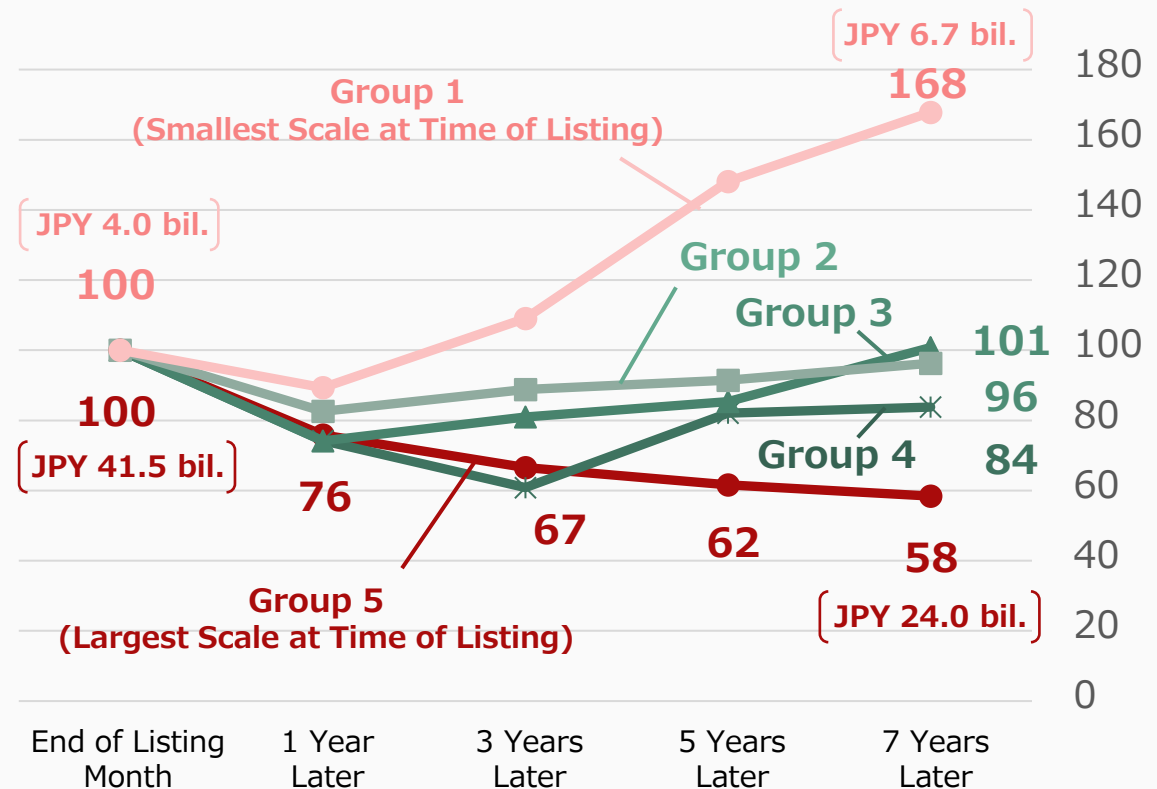
Note: Includes companies listed on the Mothers/Growth Market between July 2004 and the end of 2024 (delisted companies are not included).

Note: Market cap. growth rate calculated by dividing the current market cap. (based on average closing price from October to December 2024) by the market cap. at the time of IPO (based on the public offering price, or if there is not a public offering price, the closing price at the end of the month of listing.)

Growth Status of Companies Listed on the Growth Market (2)

- Although **companies of a certain scale when they went public** tend to have low growth rates afterward, **their median market capitalization is of a certain level** even if they are not achieving growth.
 - It looks as though **companies could still meet the continued listing criteria for market capitalization** (currently: JPY 4 billion 10 years after listing) **even if it were raised slightly.**
- * On the contrary, **while companies that were small when they went public** tend to have high growth rates, **their median market capitalization is low.**

	Category	Median Market Capitalization at the End of the Listing Month (Low - High)
<div>Small Scale</div> <div>Large Scale</div>	Group 1 (130 Companies)	JPY 4.0 bil. (JPY 1.0 bil. - 5.7 bil.)
	Group 2 (131 Companies)	JPY 7.2 bil. (JPY 5.7 bil. - 8.8 bil.)
	Group 3 (131 Companies)	JPY 11.0 bil. (JPY 8.8 bil. - 13.7 bil.)
	Group 4 (131 Companies)	JPY 17.8 bil. (JPY 13.8 bil. - 24.9 bil.)
	Group 5 (131 Companies)	JPY 41.5 bil. (JPY 25.1 bil. - 613.7 bil.)



Note:

- Companies listed on the Mothers/Growth Market between January 1, 2010 and June 30, 2023 were classified into five groups in the order of their market capitalization at the end of the month they were listed.
- Using 100 as the market capitalization of each company at the end of the month it was listed, the market capitalization of each company at the end of the month X years after it was listed is scored, and the median for each group is graphed (The 35 companies that have been delisted to date are excluded from the calculation after the point of delisting).

Growth Status of Companies Listed on the Growth Market (3)

- Some of the companies that have grown significantly since going public were small when they were first listed.

Companies That Have Grown Their Market Capitalization to over 10 Times Its Initial Value and over JPY 100 Billion After Listing on the Growth Market (Mothers)

#	Company Name	Industry	Listing Year	Current Market Segment	Market Capitalization		
					At Time of Listing	Most Recent	Growth Rate
1	SHIFT Inc.	Information & Communication	2014	Prime	JPY 3.6 bil.	JPY 295.7 bil.	82.5x
2	MonotaRO Co.,Ltd.	Retail Trade	2006	Prime	JPY 16.1 bil.	JPY 889.4 bil.	55.2x
3	ZOZO,Inc.	Retail Trade	2007	Prime	JPY 20.0 bil.	JPY 1,089.5 bil.	54.6x
4	SMS CO.,LTD.	Services	2008	Prime	JPY 3.7 bil.	JPY 185.5 bil.	49.9x
5	JAPAN ELEVATOR SERVICE HOLDINGS CO.,LTD.	Services	2017	Prime	JPY 5.3 bil.	JPY 228.7 bil.	43.4x
6	TORIDOLL Holdings Corporation	Retail Trade	2006	Prime	JPY 7.7 bil.	JPY 330.9 bil.	43.2x
7	NEXTAGE Co.,Ltd.	Retail Trade	2013	Prime	JPY 5.3 bil.	JPY 214.0 bil.	40.1x
8	GMO Payment Gateway,Inc.	Information & Communication	2005	Prime	JPY 15.2 bil.	JPY 602.1 bil.	39.7x
9	Kasumigaseki Capital Co.,Ltd.	Real Estate	2018	Prime	JPY 4.4 bil.	JPY 157.3 bil.	36.1x
10	SAKURA internet Inc.	Information & Communication	2005	Prime	JPY 5.5 bil.	JPY 198.5 bil.	35.8x
11	M3,Inc.	Services	2004	Prime	JPY 36.4 bil.	JPY 1159.4 bil.	31.9x
12	COSMOS Pharmaceutical Corporation	Retail Trade	2004	Prime	JPY 17.5 bil.	JPY 543.3 bil.	31.0x
13	RAKUS Co.,Ltd.	Information & Communication	2015	Prime	JPY 12.2 bil.	JPY 326.4 bil.	26.8x
14	GNI Group Ltd.	Services	2007	Growth	JPY 6.4 bil.	JPY 120.9 bil.	18.9x
15	KeePer Technical Laboratory Co.,Ltd.	Services	2015	Prime	JPY 6.7 bil.	JPY 116.9 bil.	17.5x
16	U-NEXT HOLDINGS Co.,Ltd.	Information & Communication	2014	Prime	JPY 15.8 bil.	JPY 275.9 bil.	17.4x
17	Nihon M&A Center Holdings Inc.	Services	2006	Prime	JPY 16.2 bil.	JPY 274.0 bil.	16.9x
18	BayCurrent,Inc.	Services	2016	Prime	JPY 32.5 bil.	JPY 501.7 bil.	15.4x
19	M&A Research Institute Holdings Inc.	Services	2022	Prime	JPY 24.6 bil.	JPY 269.3 bil.	10.9x
20	Money Forward,Inc.	Information & Communication	2017	Prime	JPY 28.3 bil.	JPY 304.1 bil.	10.7x

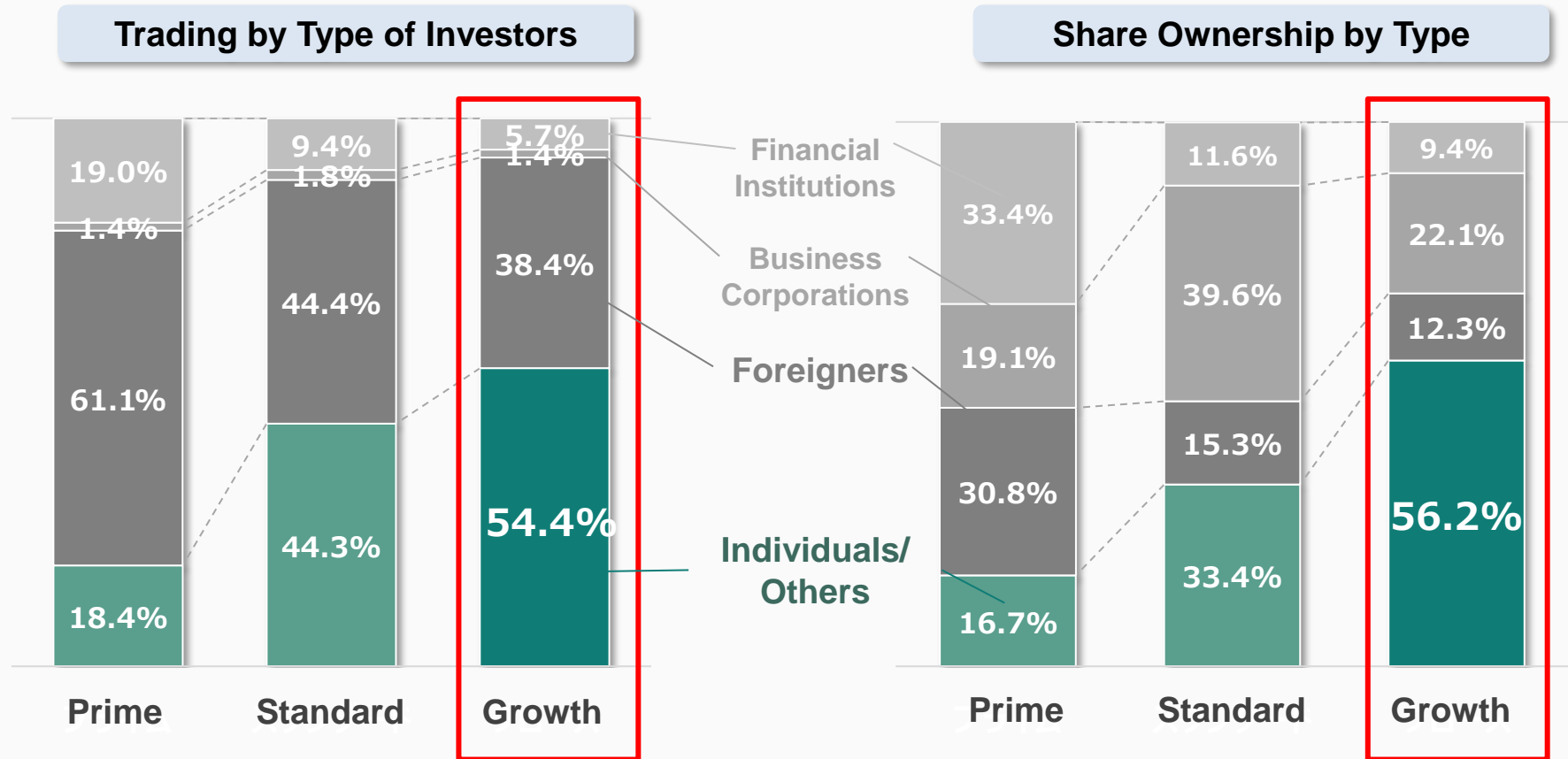
Some of the companies had a market capitalization of less than JPY 10.0 billion when they first went public

Note: Companies listed on the Mothers/Growth Market between July 1, 2004 and June 30, 2024 (excluding delisted companies)

Note: The company's growth rate since listing was calculated by dividing the company's most recent market capitalization (based on the average closing price from April to June 2024) by the company's market capitalization at the time of the company's listing (based on the public offering price).

Trading and Share Ownership by Type

- In the Growth Market (formerly Mothers), **individuals account for the majority of trading and share ownership of listed companies.**



Note: Survey results in 2022 (data after transition to the new market segments)

Note: Financial institutions include ordinary banks, trust banks, life and non-life insurance companies, securities companies, etc.

Note: Survey results in FY2022

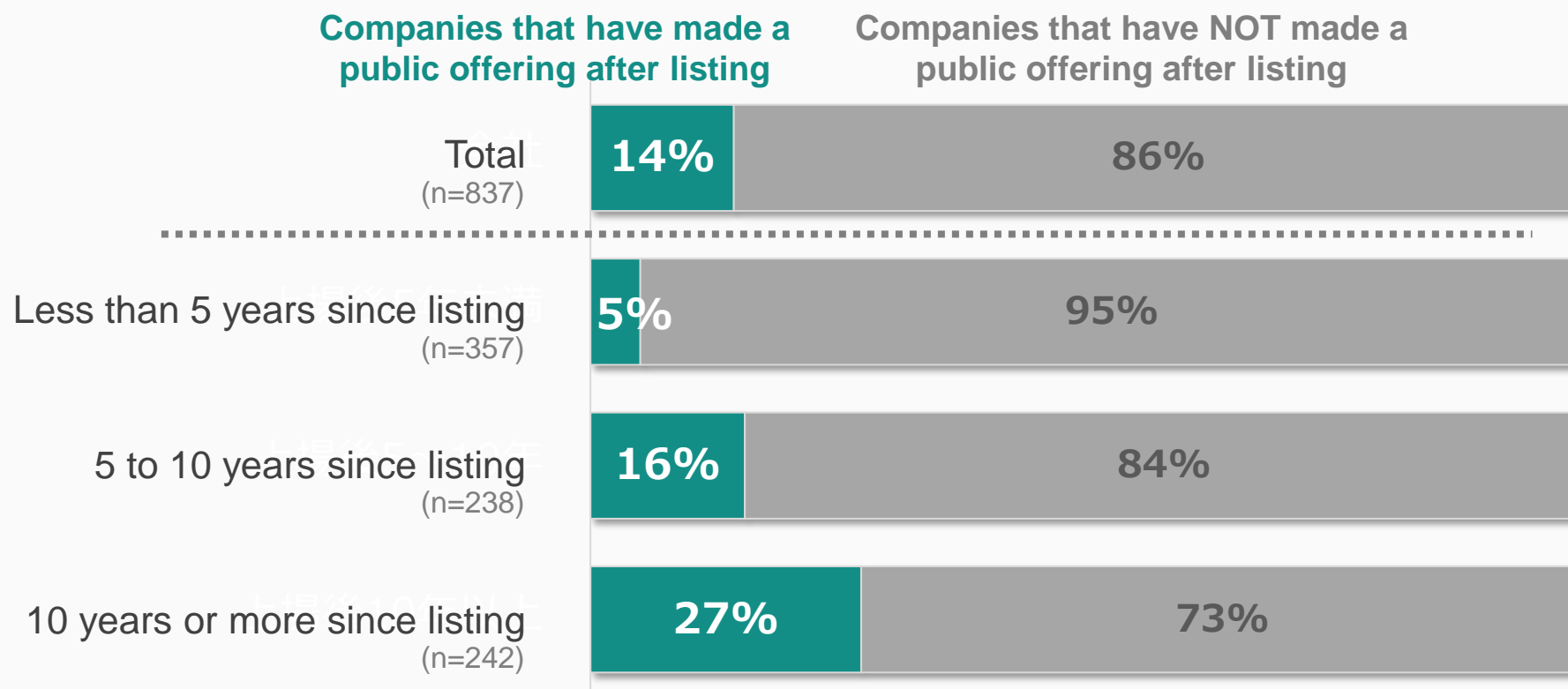
Note: Financial institutions include ordinary banks, trust banks, life and non-life insurance companies, securities companies, etc.

Ratio of Companies that Made a Public Offering After Listing

- Only about 14% of companies listed on Mothers/the Growth Market have raised capital through a public offering after their listing.

Note: Even among companies that have been listed for more than 10 years (listed before 2012), only about 27% have made a public offering.

Ratio of Companies That Made a Public Offering After Listing



Note: Compiled for 837 companies listed on the Mothers/the Growth Market since 2003.

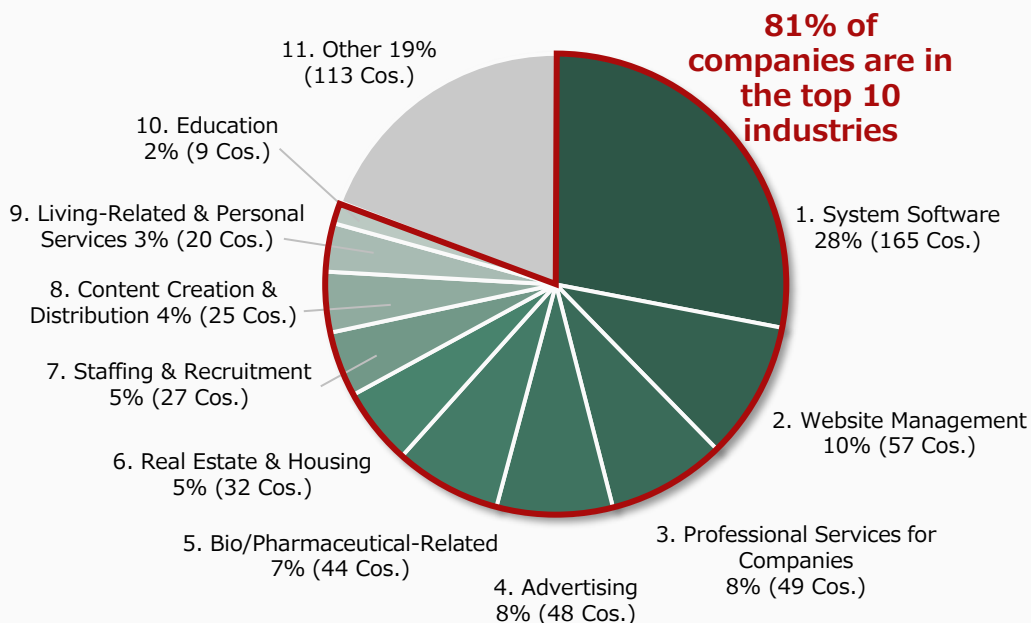
Business Domains of Companies Listed on the Growth Market

- The business domains of Growth-listed companies are concentrated (i.e., there are many companies running similar businesses).
 - The top 10 industries account for 81% of the companies in the Growth Market and 57% of the companies in the NASDAQ CM.

Industry Classification of Listed Companies (Compared Internationally)

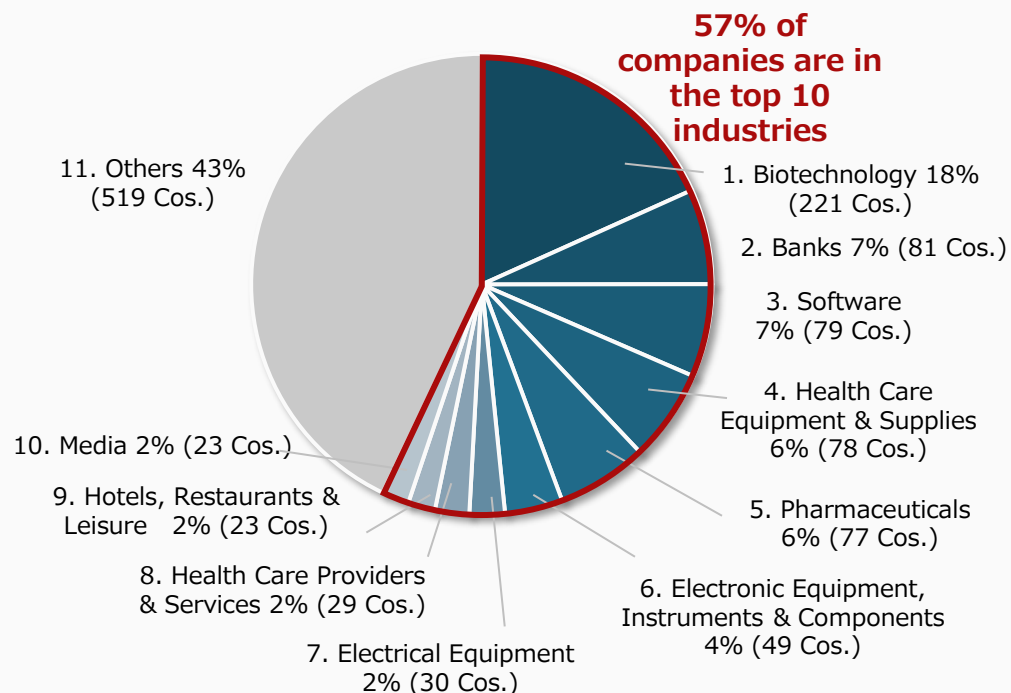
Growth Market

(Nikkei NEEDS Industry Classification
Sub-classification: 67 industries)



NASDAQ Capital Market

(GICS Industry Classification: 74 industries)

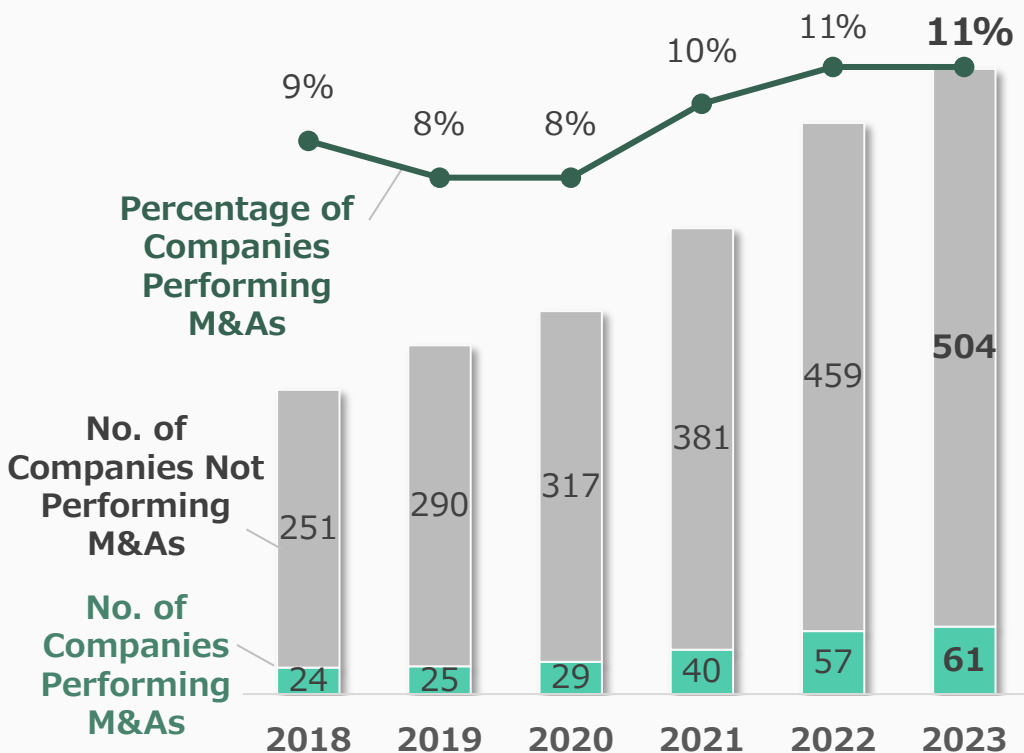


Note: The listed companies are those as of June 2024 (for NASDAQ, only companies for which data could be obtained are included).

M&A Trends in the Growth Market

- The percentage of Growth-listed companies that have performed M&As each year has remained at around 10%.
- There are around 10 cases each year of Growth-listed companies being the subject of an M&A by another company.

Performance of M&As by Listed Companies



Note: "Companies Performing an M&A" refers to companies listed on the Mothers/Growth Market that have merged with another company or made another company into a subsidiary (excluding companies worth less than JPY 100 million and M&As carried out within the listed company's group) in said year (counted based on the date of announcement).

Note: Created by TSE from data provided by Nikkei Telecom's "RECOF M&A Information"

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Listed Companies That Were the Subject of an M&A (Announced in 2023)

#	Growth-Listed Company That Was the Subject of an M&A	Company Performing the M&A
1	MELDIA Development & Construction CO.,LTD.	PRESSANCE CORPORATION (Standard Market)
2	SERIO HOLDINGS CO.,LTD.	SENKO Group Holdings Co.,Ltd. (Prime Market)
3	SKIYAKI Inc.	SPACE SHOWER NETWORKS INC. (Standard Market)
4	amana inc.	Infinity brand capital Co.,Ltd (Unlisted)
5	AmidA Holdings Co.,Ltd.	RAKSUL INC. (Prime Market)
6	UUUM Co.,Ltd.	FreakOut Holdings,inc. (Growth Market)
7	TABIKOBO Co.Ltd.	Adventure,Inc. (Growth Market)
8	Success Holders,inc.	The capital Co., Ltd. (Unlisted)

Note: Excludes M&As that were performed within the company's group.

Note: Created by TSE from data provided by Nikkei Telecom's "RECOF M&A Information"

Policy Proposal Report No. 2 “The Low Growth Problem of IPO Companies on TSE’s Growth Market” (published on October 11, 2024)

2. Purpose of the Proposal

- In the past, discussions on supporting startups in Japan have often **assumed organic growth (growth through one's own efforts)**, and **there has been insufficient discussion of non-organic growth strategies and the creation of an environment for such strategies**, which promote a company’s growth and improvements in its corporate value based on the resources of other companies through M&As.

3. Contents of the Proposal

- ... **in order for a company to achieve non-continuous growth after the IPO, it is essential for the company to restructure its business model through the proactive use of M&As and to expand its business overseas. Many companies that make their IPOs in the Growth Market are listed because they are “niche No. 1” companies, but their growth often stops after their IPOs because the size of these niche markets themselves is small.**
- ... **startup entrepreneurs** who have been aiming for IPOs under the assumption of organic growth **often lack knowledge and awareness of M&As. It is essential to proactively plan seminars and other events for startup entrepreneurs to widen their perspective of corporate growth through the strategic use of M&As.**
- In addition, **the high percentage of shares held by the founder makes it difficult for outside shareholders to exercise governance and also makes it difficult to hold discussions on necessary efforts by management and on policies on stock price and shareholder returns.** If it becomes common practice to reduce the percentage of company shares held by the founder, it will be easier for the company to raise funds after listing and to implement growth strategies using those funds or perform M&As through stock swaps because the company’s shares have been diluted. It is also expected to boost the incentive to increase the company’s market capitalization, which is in the denominator, so that even if the company’s shares are diluted, the value of one's own assets will increase.

* Excerpt (emphasis is TSE’s)

Initial Listing Criteria (Compared Internationally)

- **There are no significant differences** between the initial and continued listing criteria of the Growth Market and those of NASDAQ.

➤ Designed **not as an incentive for growth, but to ensure minimum standards for listing**

	Growth Market	NASDAQ Capital Market		
		Criterion (1)	Criterion (2)	Criterion (3)
Market Capitalization	N/A	N/A	USD 50 million (approximately JPY 7.5 billion) or more	N/A
Tradable Share Market Capitalization	JPY 500 million or more	USD 15 million (approximately JPY 2.3 billion) or more	USD 15 million (approximately JPY 2.3 billion) or more	USD 5 Million (approximately JPY 750 million) or more
Number of Tradable Shares	1,000 units or more	More than 1 million shares		
Tradable Share Ratio	25% or more	N/A		
Number of Shareholders	More than 150 people	More than 300 people		
Performance	N/A	N/A	N/A	Net income (for the current fiscal year) USD 750,000 (approximately JPY 100 million) or more
Financial Condition	N/A	Shareholders' equity USD 5 million (approximately JPY 750 million) or more	Stockholders' equity USD 4 million (approximately JPY 600 million) or more	Stockholders' equity USD 4 million (approximately JPY 600 million) or more
Years in Business	More than 1 year	More than 2 years	N/A	N/A
Public Offering	500 units or more	N/A		
Stock Prices	N/A	More than USD 4		

*Converted at JPY 150 JPY to the dollar.

Note: NASDAQ Capital Market has several initial listing criteria , and a company can be listed if it meets any one of them.

Continued Listing Criteria (Compared Internationally)

	Growth Market	NASDAQ Capital Market		
		Criterion (1)	Criterion (2)	Criterion (3)
Market Capitalization	JPY 4 billion or more (after 10 years of listing)	N/A	More than \$35 million (approximately JPY 5.3 billion) or more	N/A
Tradable Share Market Capitalization	JPY 500 million or more	USD 1 Million (approximately JPY 150 million) or more		
Number of Tradable Shares	1,000 units or more	500,000 shares or more		
Tradable Share Ratio	25% or more	N/A		
Number of Shareholders	More than 150	More than 300		
Performance	N/A	N/A	N/A	Net income for the current fiscal year USD 0.5 million (approximately JPY 75 million) or more
Financial Condition	positive net assets (from 3 years after listing)	Shareholders' equity USD 2.5 million (approx. JPY 400 million) or more	N/A	N/A
Stock Prices	N/A	More than USD 1		
Trade	Monthly average of 10 units or more	N/A		

*Converted at JPY 150 JPY to the dollar.

Note: NASDAQ Capital Market has several continued listing criteria, and a company can continue its listing if it meets any one of them

"Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version" (June 21, 2024)

IV. Industrial Innovation through Facilitation of Entry and Exit of Firms

1. Implementing the Startup Development Five-year Plan

(1) Enhancing funding provision and diversifying exit strategies

5) Review of listing markets on the Tokyo Stock Exchange

With regard to the "**Growth Market**" of the Tokyo Stock Exchange (a market for emerging companies with high growth potential), in light of the situation where many companies stagnate in growth after small-scale listings, we will **consider the medium- to long term approach to continued listing criteria, etc., from the perspective of promoting the growth and turnover of listed companies, while paying attention to the impact of the 2022 market restructuring and ensuring support mechanisms after delisting.**

* Excerpt (emphasis is TSE's)

Reference: Relevant Comments from Institutional Investors (Minimum Investment Size)

- ◆ TSE conducted interviews with **institutional investors who invest in small and medium-sized growth stocks.**

Minimum Investment Size

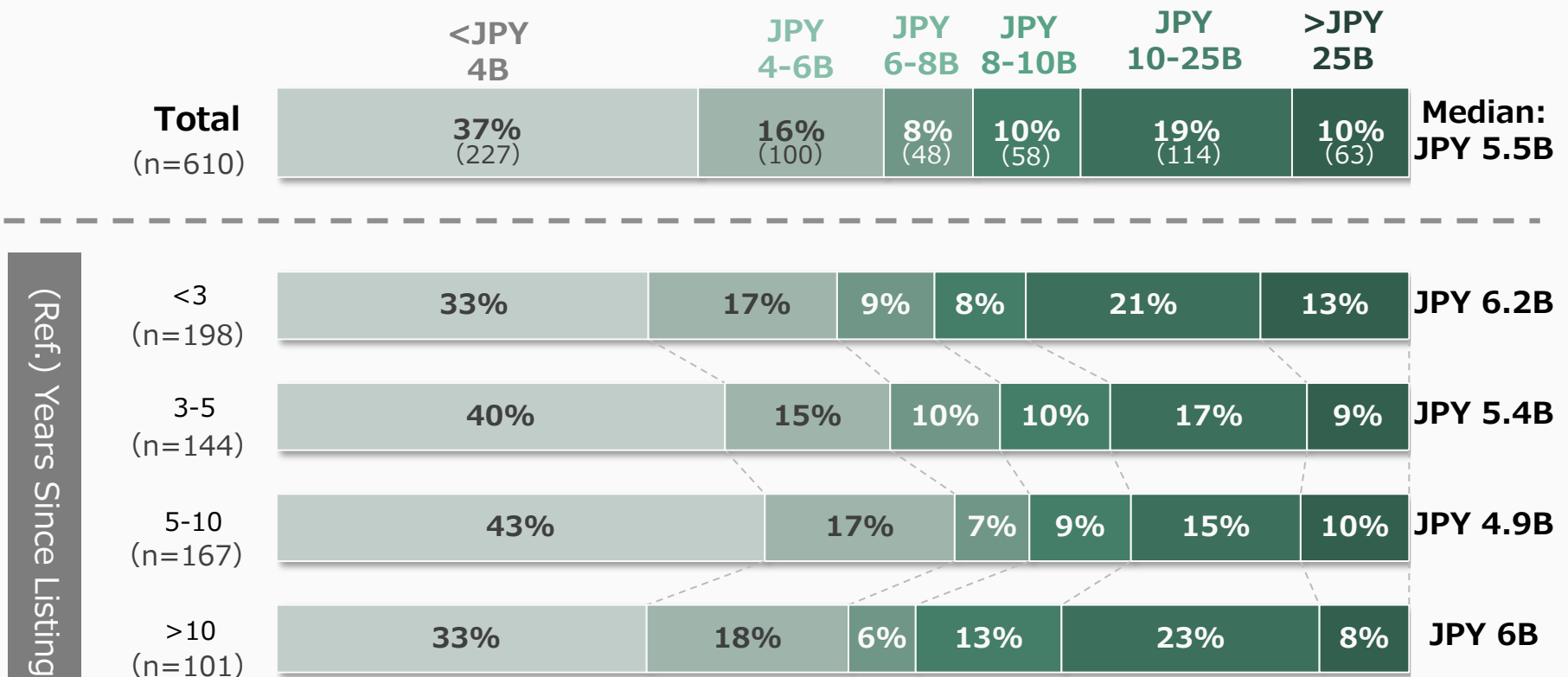
- According to the investment criteria, it is not possible to buy more than 10% of all shares, so it is difficult to invest in small companies. It seems that the **hurdle is around JPY 5 to 10 billion in market cap.** Even if it were JPY 3 billion, it would not be impossible to invest in cases where there is strong growth potential, but the market impact of buying and selling would be so large that it is difficult to do.
- As part of our investment policy for small- and mid-cap stock funds, we publicly state that **our general investment target is listed companies with a market capitalization of at least JPY 10 billion.** We have also invested in companies with a market capitalization of around JPY 2 billion, but this is an exceptional case where we could reasonably expect future growth.
- In the case of a hedge fund, it may be possible to invest even if the market capitalization is less than 5 billion yen, but as an institutional investor with a policy of making medium- to long-term investments based on **evaluating future growth potential, it is desirable to have a market capitalization of at least JPY 10 billion, and if it falls below JPY 5 billion, it is not possible to invest.**
- Our company has set a **minimum investment target of JPY 10 billion.** Any less than that and it will be difficult to invest, no matter how hard you try to convey the company's message with enthusiasm.
- For our small- and mid-cap listed stock funds, **JPY 30 to 50 billion is the norm, and even if we make concessions, JPY 20 billion is the minimum. If it's a company that's going to grow a lot, it might be possible to invest even JPY 10 billion,** but we've almost never seen that. In the first place, stocks with high growth potential don't come to be listed with JPY 10 billion.
- I have been looking at small and mid-cap stocks for a long time, and **the minimum market capitalization for investment is around JPY 8 to 10 billion.** The current standard of JPY 4 billion is too low, so if you want to be aware of the perspective of institutional investors, you need to have around JPY 10 billion.
- Regarding the current criteria of "more than 4 billion yen after 10 years of listing," given the nature of the growth market, with many companies operating businesses that change quickly, **a 10-year span is indeed too long, and even if the JPY 4 billion level is achieved, it is still too small to consider investing in.** I understand that this is a harsh opinion given the current climate, but **couldn't the period be five years or so, and the standard be JPY 10 billion or more, which is generally considered to be the level at which small and medium-sized stocks come up for discussion as investment targets for institutional investors?**

Note: Includes opinions from previously published materials.

Reference: Current Situation (Market Cap. Distribution)

- ◆ The current median market capitalization among Growth Market listed companies is JPY 5.5 billion.

Market Cap. Distribution Among Growth Market Listed Companies



Note: Based on companies listed on the Growth Market as of the end of 2024.

Note: The market cap. used is based on the average closing price from October to December 2024.

(Reference 2-2) Opinions Regarding the Growth Market

Current Issues: Mindset of Business Owners Aiming to Go Public

Mindset of Unlisted Company Owners

- Rather than doing something for Japan, **business owners' mindset is that they can get higher price through IPO than through M&A, and they want to make a small fortune.** They are **all starting businesses in areas with no potential for market expansion** in the first place. (Listed company owner)
- Many managers **have the vague notion that they should go public, as that as what many business owners before them have done.** Their goal is just to go public, without a clear idea of what they should do afterwards. (Unlisted company owner)

Understanding of IPOs/M&As

- **Without a growth strategy that will allow your company to continue to grow by at least 20% per year for at least 10 years after listing, there is no point in going public** and doing so will only lead to struggle. It is strange to go public when your business and organization aren't growing. (Unlisted company owner)
- **When considering an exit strategy, you should first think about M&A and only go public if you are confident that your company can achieve significant growth.** In the U.S., if a company doesn't have growth potential, owners will exit through M&A and then start a new company with the aim of growing it to a certain level. These practices, however, are not widespread in Japan. (Unlisted company owner)
- The background to this is that M&A is difficult to coordinate between the parties involved, including the buyer. There is also a lack of public understanding (it looks like you are selling yourself), and valuations are lower for IPOs. However, unlike the U.S., **in Japan there is also the problem that nobody tells you about the option of M&As in the first place.** (Unlisted company owner)
- **A very successful business owner** told me not go to public until I have made JPY 10 billion in profit, **because going public without that kind of growth will not lead to further growth. It is also important to have people around you who can give you this kind of advice.** (Unlisted company owner)

Current Issues: Mindset of Business Owners After Going Public

Mindset of Listed Company Owners

- Many business owners who dreamed of going public and actually did so **found themselves unable to raise capital for investment, losing staff, and with no room for growth in the market. This left them in a difficult situation.** (Unlisted company owner)
- Even if a listed company is stagnant, business owners can still make a reasonable living at the individual level. **Their sole purpose in life is to stay in charge of the company, so they do not take proactive measures to raise the share price or consider selling the company to do something else.** Even if someone wants to do something about it, nobody listens to them. (Unlisted company owner)
- The managers of listed companies **are caught in the trap of having to manage the company for their entire lives.** There are many managers who started a business without thorough consideration of a growth vision, and although it saw some success and was listed with a market capitalization of several tens to several hundreds of billions of yen, **they have continued to manage the company without making any progress.** (Venture capitalist, institutional investor, etc.)
- Our company **often approaches the management of other companies in our industry about an M&A. The companies we approach are also keen on a capital tie-up, but for some reason most of the management want to maintain their listing, so we never end up making them a wholly owned subsidiary. It seems that the status of being “the owner of a listed company” holds a strong appeal for owners who want to be the masters of their own castle.** (Listed company owner)
- It used to be that the people who were respected as owners were those who steadily raised their share prices after going public, but this is not the case in today’s industry. **Even without growth, they are still pampered as “owners of listed companies.”** (Unlisted company owner)

Understanding of Listing

- Listing on the stock exchange should mean **exposing yourself to a competitive world where if you can’t manage your company well, you will be forced to step down.** After listing, however, **many owners do not act conscious of this possibility.** They lose the fire in their belly. They may talk about expanding their business, but **their actions and enthusiasm are inferior to how they were before listing.** (Venture capitalist, institutional investor, etc.)
- There are cases where small companies that are not growing well want institutional investors to invest in them, but they should understand that there is **no demand for institutional investors to do so.** They should first **analyze the reasons why their company’s market capitalization is consistently low and then take steps towards improvement.** (Venture capitalist, institutional investor, etc.)

Current Issues: Environment Surrounding Business Owners (1)

Influence of Ecosystem Stakeholders

- The influence of venture capitalists is also significant in the case of startups **going for IPOs rather than M&As**. As long as they are aiming to maximize returns, the structure is such that they seek IPOs, which can be sold at a higher price than M&As, and they hope for an early IPO because of the investment period. They are **optimized to quickly turn over the cycle of conducting small-scale IPOs and using the funds recovered to make the next investment**. (Unlisted company owner)
- Originally, **venture capitalists should have been making startups aware of the importance of growth potential from the time they were unlisted**. However, there is also the **problem of who provides the funds to the venture capitalists**. For example, companies are looking for business partnerships, so they are not necessarily looking for IRR as long as they do not lose their initial investment. (Unlisted company owner)
- Recently, **there have been cases of former listed company executives becoming venture capitalists**. I think that **if investors who understand how to manage a company after it has been listed join the industry, the companies they invest in will naturally improve**, and I think this will lead to changes in the venture capitalist industry as well. (Unlisted company owner)
- **As other surrounding market stakeholders make going public their primary goal**, when I advise someone against waiting on going public until they achieve further growth, they express great disappointment. (Unlisted company owner)

Fundraising Environment

- **Recently it is possible for companies to raise funds even if they are not listed**. However, because the unlisted secondary market is not functional, companies have no choice but to go public in order to raise funds for existing shareholders. (Unlisted company owner)
- From personal experience in the field, **there is enough funding available for solid startups**. I think the biggest issue is that there are not many managers who know what to do after a company goes public. (Venture capitalist, institutional investor, etc.)
- There is also “Startup Development Five-year Plan”, and funding is beginning to flow to unlisted startups. However, in addition to such support, is it **not important to think seriously about how to use that funding?** If funding is provided to companies that are not trying to grow, **it will only spoil them**. (Venture capitalist, institutional investor, etc.)
- **Especially recently, institutional investors’ money has stopped flowing into the Growth Market**. In addition to the fact that scrutiny of growth stocks is increasing worldwide, **large companies in the Prime Market are buried in working to improve their corporate value**, so it is not clear whether we will see any companies listed as unicorns. The tide has changed from a few years ago, and **it is becoming quite difficult to get out of the situation where venture capitalists leave after an IPO and institutional investors do not come in**. (Venture capitalist, institutional investor, etc.)

Current Issues: Environment Surrounding Business Owners (2)

Governance

- In Japan, **independent directors are brought in just before a company goes public, but ideally, independent directors who understand what happens after a company is listed should be brought in at a stage when IPO discussions begin, and the board should discuss whether the company should go public.** The current structure does not have effective governance, and the interests of management and venture capitalists take priority. No one is considering what is right for the company, and the environment is such that companies are often forced into going public. (Venture capitalist, institutional investor, etc.)
- Even after listing, **if governance is truly functioning, the company would not be able to leave their stock price in a slump. They would think about how to respond, including outside directors, and they would give serious consideration to whether or not to accept an M&A offer as a company. With no venture capitalist governance, no functioning institutional investor governance, and no effective independent directors, this does not happen.** (Venture capitalist, institutional investor, etc.)
- From the time we went public until we grew to a size that made us a target for institutional investors, **venture capitalists left but no institutional investors stepped in. This left us with no one around to motivate us.** We became the “king of the mountain” because we were more successful than we had imagined, and **it was difficult to maintain our high motivation.** (Listed company owner)

Future Measures: General Remarks

Necessity of Alliances and Coalitions

- The Japanese market **needs consolidation (integration between companies)**. In the Prime and Standard Markets, we are starting to see this trend through the promotion of “Management That is Conscious of Cost of Capital and Stock Price”. In the Growth Market, however, **companies with similar businesses and business models are unable to grow and get left behind. Human resources are scattered unnecessarily, and each company bears the cost of maintaining its own management structure, which is inefficient.** Companies that are small in scale and unable to generate sufficient profits are **unable to make proactive growth investments.** (Venture capitalist, institutional investor, etc.)
- The Growth Market is full of **small system companies and consulting firms, each of which has its own sales and management departments, which is inefficient.** Of course, each of these companies is running a business that is necessary for society, and **it is necessary to consolidate these to create a large company.** (Listed company owner)

Owners' Perspective

- It is definitely more impressive to **raise the share price after listing** than before, and **using M&As to create a company with growth potential that can compete on the world stage** is a good thing. It is **becoming the norm** for both the buyer and the company being bought. **It is important to establish this way of thinking as a culture.** To do this, it is **necessary to work together with those involved to improve the mindset of owners.** (Listed company owner)

Future Measures: Stricter Initial Listing Criteria

Initial Listing Criteria

- If initial listing criteria were to be significantly stricter, I think it will **elevate business owners' perspective and mindset. This would make them more willing to compete in markets and improve the quality of their services.** (Listed company owner)
- With it becoming harder to attract funding in the Growth Market, **it is becoming more difficult than before to go public with a small company and grow it into a large one. The risk of ruining the company is increasing, so we should consider stricter initial listing criteria.** (Venture capitalist, institutional investor, etc.)
- There are some who say that stricter initial listing criteria will narrow the options available to startups, **but even if it becomes possible to list with a smaller size, I don't think it will be a problem, as companies that can grow steadily will simply list when they are ready.** If you need to raise a few hundred million yen, you can simply borrow it from a bank. (Listed company owner)
- **Stricter continued listing criteria could be considered as another approach to elevating perspective, but owners are is not looking beyond the listing stage.** If we consider potential bad faith actors, they will try to sell off after listing, leaving individual investors to take the hit. **Therefore, continued listing criteria should be made stricter in conjunction with stricter initial listing criteria.** (Listed company owner)
- Whether it is a small IPO or not, **it is important to think about how big you can become after listing, and I do not think it is necessary to implement stricter criteria for new listings. There are companies that have listed with a market capitalization of a few billion yen and grown significantly.** (Listed company owner)
- One common criticism of small IPOs is that, **once listed, they will no longer be able to make losses or growth investments, so they should remain unlisted and grow (and so the criteria for new listings should be stricter).** However, the reason they are not allowed to make losses is simply that the management teams are not communicating with investors. **If they explain things properly, of course investment will be possible, and they will be able to grow from small IPOs.** (Venture capitalist, institutional investor, etc.)
- Stricter criteria for IPOs will reduce the number of companies that can be listed, and **will increase the number of unlisted company owners in a zombified state, who continue to pursue an IPO somewhere in the distant future. This could have a negative impact on the entire ecosystem.** Owners who have never experienced life after being listed do not know how to grow, and there is no point in producing a large population of people who do not know how to succeed. (Venture capitalist, institutional investor, etc.)

Future Measures: Stricter Continued Listing Criteria, Etc. (1)

Continued Listing Criteria

- **To encourage M&A of listed companies by obligating owners of listed companies to unload their burdens, it may be necessary to raise the minimum market capitalization.** (Venture capitalist, institutional investor, etc.)
- When promoting M&A, it is natural to consider things like appointing management from the other company to your own company, **but there is no way to persuade those who want to maintain their status as “owners of a listed company”.** Shouldn't we raise the minimum market capitalization and get them to give up their shares, and encourage M&As between companies? (Listed company owner)
- Stricter continued listing criteria would **mean owners of listed companies will be encouraged to start their next business, and this will have a positive ripple effect on the entire ecosystem (not just the listed market).** It is a waste to keep skilled owners with the ability to build a company from scratch in a **company that is not growing.** Rather, they should be encouraged to start a new business with the aim of achieving a market capitalization of JPY 100 billion by making use of their experience. (Venture capitalist, institutional investor, etc.)
- **As large companies on the Prime Market work to improve their corporate value and the overall level of listed companies rises, it may be possible to implement stricter continued listing criteria accordingly.** However, in principle, listing criteria are merely a minimum requirement, and **whether or not to go public or go private is a matter that each company should decide on its own, regardless of listing criteria.** Could we consider an approach that encourages these management decisions to be made appropriately? (Venture capitalist, institutional investor, etc.)
- In the Growth Market, **there are many companies where the management holds a large share of the company's stock.** If this works in a positive way it is a good thing, **but in some cases it has become a weapon to prevent corporate integration and to protect the company in the case of failure to achieve growth.** In order for external shareholders to be able to keep a check on the company, **why not raise the criteria for the ratio of tradable shares after a certain period of time has passed since listing, similar to the minimum requirement for market capitalization?** (Venture capitalist, institutional investor, etc.)

Future Measures: Stricter Continued Listing Criteria, Etc. (2)

Preparations for the End of Transitional Measures

- Recently, we have also seen **examples of companies that have not met the continued listing criteria on the Growth Market (due to the end of the transitional measures) merging with other companies.** I think it would be good if this kind of movement were to occur, rather than being delisted without being able to do anything about it. (Venture capitalist, institutional investor, etc.)
- Our company (a company subject to transitional measures) considered three options as we approach the end of transitional measures: whether to remain listed, to transfer to the Standard Market, or merge with another company. **We decided to merge with another company because we thought that if did so, we could grow together.** (Listed company owner)

Contact With Institutional Investors

- To be honest, our company is not concerned about the continued listing criteria. **However, we are not in contact with institutional investors, and we are wondering whether we should just quietly continue to improve our performance or whether we should be more proactive with IR.** It would be helpful if we could be provided a list of companies that wish to be contacted by institutional investors, as is the case with the Prime and Standard Markets. (Listed company owner)

(Reference 2-3) The initiatives taken by the Tokyo Stock Exchange

The initiatives taken by the Tokyo Stock Exchange

	Topic	Plans going forward
1	Promotion of disclosure of reasons for listing	<ul style="list-style-type: none"> ● The disclosure items for initial listings have been expanded to include the purpose of the IPO (how the company plans to use the IPO in light of its growth strategy after listing) <ul style="list-style-type: none"> ➤ Source https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf
2	Promoting a correct understanding of preparation for listing	<ul style="list-style-type: none"> ● Case studies (examples of issues that arise in IPOs and examples of issues that do not arise, such as IPOs of companies in deficit and M&As), and an FAQ collection based on these case studies have been released. <ul style="list-style-type: none"> ➤ Source https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf ● Companies preparing to list can make more use of the TSE's direct consultation service for IPO-related questions. ● The “Cooperative Meeting on IPO Practicalities” has been established as a forum for the exchange of opinions among a wide range of relevant parties, including lead underwriter securities companies and auditing firms, regarding issues surrounding IPOs (the first meeting is scheduled for late January 2025).
3	Promotion of active information dissemination to investors	<ul style="list-style-type: none"> ● After listing, we will encourage active communication, such as through investor briefings or individual interviews, and promote the disclosure of progress made in these activities. <ul style="list-style-type: none"> ➤ Source https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf
4	Support for disseminating information to institutional investors	<ul style="list-style-type: none"> ● Holding investor relations seminars for business leaders that introduce the perspective of institutional investors ● Disseminating good practice examples of proactive investor relations ● Creating opportunities for information dissemination from business leaders to institutional investors (creating contact points)

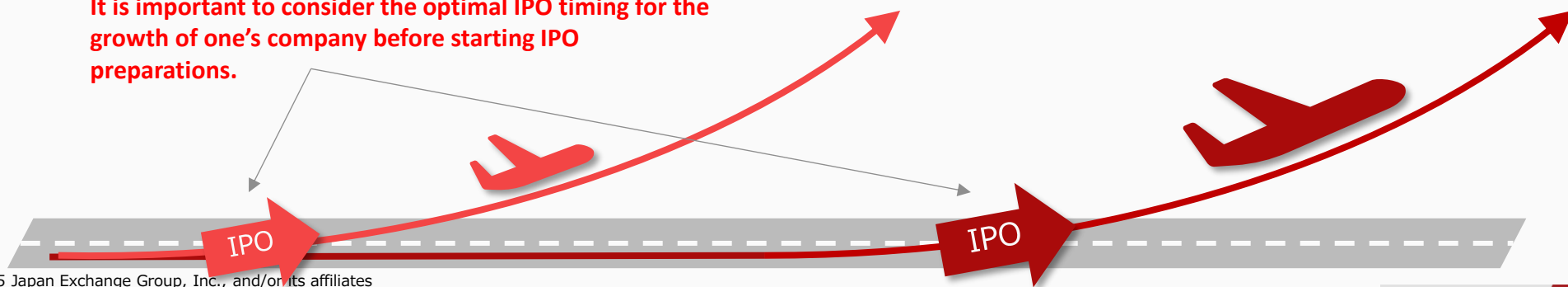
Disclosure of Listing Purposes

- In light of the fact that many investors have said that **“the management of Japanese startups lack consideration for IPO timing”**, we have asked companies listing on the Growth Market from June 2024 onwards to **disclose the purpose of their IPO** (in the “Business Plan and Matters Related to High Growth Potential” section).
- In this case, it is not enough to simply list the general benefits of listing (fund raising, improving name recognition and credibility, or securing human resources). Companies are expected to explain specifically how they think **“listing at this time was necessary for the growth of the company”**, in consideration of their growth strategy and business stage.
- Through this disclosure system, we also hope that the management of startups will **consider the optimal IPO timing for their company's growth before beginning IPO preparation.**

Disclosure of matters related to business plans and growth potential: Points to keep in mind (excerpts)

■ Business plan (1) Growth strategy	<ul style="list-style-type: none">• [In the case of disclosure on the initial listing date] Please describe the purpose of the IPO and how you intend to use it in light of the growth strategy after listing. *For example, you could state the purpose of the IPO in relation to your growth strategy and the specific measures you will take to achieve it (such as research and development plans, capital investment plans, marketing plans, personnel plans, or funding plans).
(4) Status of progress	<ul style="list-style-type: none">• Please describe the status of achievement of the items mentioned in the previous report (e.g., the status of implementation of specific measures to realize the growth strategy, the status of achievement of management indicators and profit plans, etc.) and any updates since the previous report. * It may be worth noting whether the objectives of the IPO disclosed on the initial listing date have been achieved.

It is important to consider the optimal IPO timing for the growth of one's company before starting IPO preparations.



Reference: Disclosure of “Business Plans and Matters Related to High Growth Potential”

Disclosed Items		Contents
Business Model	Business	➤ Details and characteristics of the products and services, contribution of each business, and the details and processes of permits and approvals that will be required in the future
	Earnings Structure	➤ Contracts with terms and conditions that have a significant impact on revenue and expense structures, cash flow acquisition streams, and earning structures
Market Environment	Market Size	➤ Details and size of the market (type of customer, region, etc.)
	Competitive Environment	➤ Details of competition, company's positioning, market share, etc.
Source of Competitiveness	Competitive Advantage	➤ Technology, intellectual property, business models, know-how, brands, human resources, etc. that will serve as growth drivers
Business Plan	Growth Strategy	➤ Management policies and growth strategies, and specific measures to realize them (R&D, capital investment, marketing, personnel, financial planning, etc.) *The period covered by the business plan is expected to vary depending on the business activities of each listed company.
	Management Index	➤ Indexes that are important for management (reasons for adopting them as indexes, actual values, specific target values, etc.)
	Profit Plans and Assumptions	➤ If a medium-term management plan has been announced, its contents and assumptions
	Progress	➤ Status of achievement of previously stated items, updates from previously stated items, and next scheduled disclosure date
Risk Information	Perceived Risks and Countermeasures	➤ Major risks that could have a significant impact on the realization of growth and the execution of the business plan, and measures to address them

Publication of FAQ on Listing Examinations

- The exchange published a “Listing Examination FAQ” in May 2024 (updated in November 2024).
- The FAQ is a collection of “urban legends” that are heard and seen in the IPO preparation process, and **they convey the approach taken in listing examinations regarding important matters for corporate growth**, such as upfront investment and M&As during IPO preparation.
- We also plan to disseminate the content compiled at this meeting (basic concepts and points to note when preparing for an IPO) in the same format as this FAQ.

FAQ #1 Listing While in Deficit



Is it true that an unprofitable company cannot get listed even on the Growth Market?

Listing while in deficit is possible.

The Growth Market does not require companies to be profitable before listing. There have been IPOs of companies in deficit. Their lead underwriters have assessed that they had high growth potential and would be widely accepted by investors despite being in deficit.



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Key Consideration to Prepare Listing While in Deficit



Although a company can be listed while in deficit, **the business plan must reasonably reflect anticipated effects and costs to achieve growth, taking into account its business model, business environment, risk factors, and other factors.**

“Being able to be listed” and “being valued by investors” are two different things.

If you are listing your company while in deficit, it is recommended that **you provide detailed explanation about your company's growth potential and the plan to achieve that growth**, to allow investors to make an appropriate evaluation.

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<https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007ebs.pdf>

Efforts to Support Listed Companies' IR Activities That Are Geared Toward Institutional Investors

- ◆ TSE (the Listed Company Support Group in the Listing Department) is promoting efforts to improve the IR skills of listed companies and help them create contacts with investors in order to support their activities to enhance their corporate value.

Introduction to IR Basics and the Perspectives of Institutional Investors

- Distributed **online IR seminars** for listed companies (the seminars introduce basic IR knowledge and points to keep in mind, IR activities that institutional investors expect from listed companies, the right mindset for overseas IR, etc.)
 - * The URL of the application form is printed in the notice material for listed companies (dated November 28, 2024).
- Held **study sessions for small-group, face-to-face consultations** with IR seminar speakers
- Planning to hold **workshops for newly listed companies** at a later date

機関投資家が考える
上場会社に期待されるIR
投資と成長の好循環の観点から
システム2(株) 石田英和 (京都大学博士 経営科学)

Introduction of IR Best Practices

- Distributed **interviews with companies that** have been actively engaged in IR activities since listing on the Mothers/Growth markets and **have been rated highly by institutional investors**
 - Introduced the efforts of SpiderPlus, GMO Financial Gate, and Macbee Planet, which received the 2023 Award for Excellence in Corporate Disclosure (Emerging Markets) from the Securities Analysts Association of Japan
 - * URL: <https://www.jpx.co.jp/equities/listed-co/ir-interview/> (Japanese only)



Creation of Contacts with Institutional Investors

- **Distributed the business presentation videos** of companies listed on the Growth Market (at the request of over 100 companies) **and introduced them to institutional investors**
 - * URL: <https://www.jpx.co.jp/listing/ir-clips/ir-movie/03.html> (Japanese only)
- Considering holding a **dialogue with institutional investors focusing on small- and mid-cap stocks**



[Contact] Listed Company Support Group, Listing Department jojosupport@jpx.co.jp

Compiling a List of Companies Listed on the Growth Market That Wish to Have More Active Contact from Institutional Investors

- TSE will compile a list of companies listed on the Growth Market that wish to have more active contact from institutional investors in order to support companies that are actively engaged in IR activities. (The initial list will be published on January 15, 2025, and will be updated on the 15th of each month thereafter.)

Follow-up of Market Restructuring

Council of Experts Concerning the Follow-up of Market Restructuring	Summary of Discussions of the Follow-up Council and TSE's Future Actions	Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Prime and Standard Markets)	Measures to Enhance the Functionality of the Growth Market
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Tokyo Stock Exchange (TSE) is taking measures to further enhance the functionality of the Growth Market based on the discussions at the "Council of Experts Concerning the Follow-up of Market Restructuring."

Measures to Enhance the Functionality of the Growth Market (As of May 2024)

Measures to Expand and Improve the Dissemination of Information to Investors

In May 2024, TSE published "Measures to Expand and Improve the Dissemination of Information to Investors in the Growth Market" with the purpose of requesting that at the time of initial listing on the Growth Market, companies disclose the purpose of their IPO in light of their post-listing growth strategy, and that after listing, companies disclose the progress of their business plan and related information with attention to whether they have realized this purpose, while actively disseminating information through such means as briefings and individual meetings with investors.

Measures to Expand and Improve the Dissemination of Information to Investors in the Growth Market

List of Companies Listed on the Growth Market That Wish to Have More Active Contact from Institutional Investors

Starting in January 2025, TSE will compile a list of companies listed on the Growth Market that wish to have more active contact from institutional investors in order to support companies that are actively engaged in IR activities. The list will be updated on the 15th of the following month based on the applications TSE has received by the end of the month in question.

Compiling a List of Companies Listed on the Growth Market That Wish to Have More Active Contact from Institutional Investors

List (as of the end of December 2024)

(Location: shown on the left)

- The list will be posted on the following webpage on the JPX website: "[Measures to Enhance the Functionality of the Growth Market](#)"

(Layout: shown below)

- The contact information and IR website URL that appear in your application will be listed in an Excel worksheet.
- * The location of the list and its layout is tentative and subject to change.

List of Companies Listed on the Growth Market That Wish to Have More Active Contact from Institutional Investors						
As of December 31, 2024						
* For information on each company, please refer to their respective IR websites.						
Sector code	Sector	Securities code	Company name	Point of contact for institutional investors	IR website	
****	*****	****	*****	XX department	https:...	
****	*****	****	*****	XX department	https:...	
****	*****	****	****	XX department	https:...	

* For more information on this matter, please refer to the document "[Compiling a List of Companies Listed on the Growth Market That Wish to Have More Active Contact from Institutional Investors](#)" released on November 28, 2024.