

Third IPO Liaison Meeting

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

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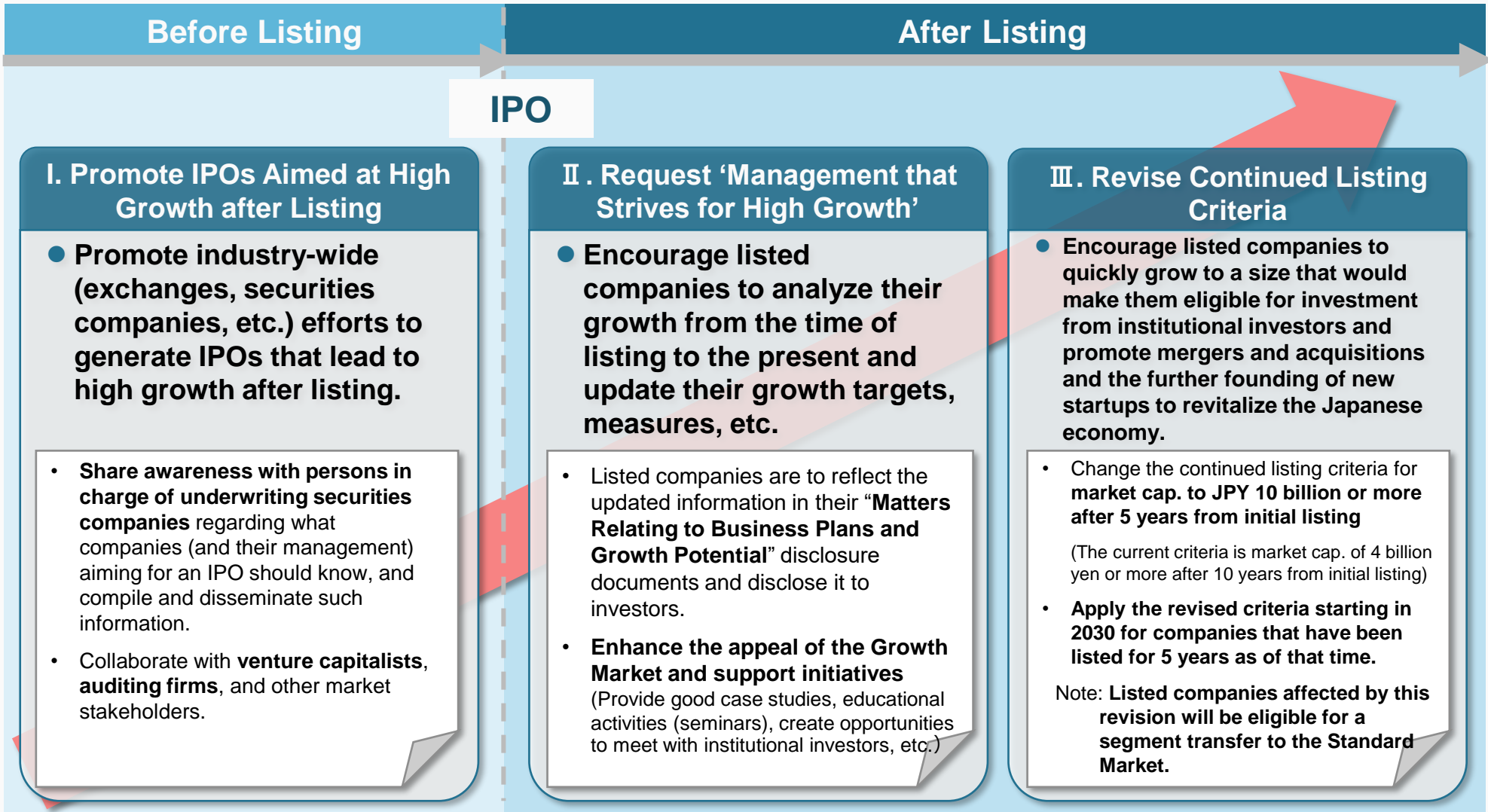
Promotion of IPOs Leading to High Growth After Listing

- Tokyo Stock Exchange (TSE) is considering various measures (see page 2) to promote the Growth Market as a market for companies aiming for high growth, including outreach and support for listed companies and revisions to continued listing criteria.
 - Regarding the pre-IPO stage, we wish to promote initiatives to foster IPOs that will lead to high growth after listing, with the cooperation of securities companies and other parties involved in supporting startups.
- ⇒ Today, **we would like to discuss and share views with relevant parties on perspectives and points to consider when evaluating “high growth potential”** in guidance toward IPOs, underwriting examinations, and listing examinations.
- * Even after the revision of the criteria (five years, JPY 10 billion), the framework for listing examinations regarding “high growth potential” (where the lead underwriter determines whether the company has “high growth potential” and the exchange conducts the listing examination based on that determination) is not expected to change.

(Ref.) Future Measures in the Growth Market (Overview)

Document released
in Apr. 2025

- ◆ 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.



Today's Discussion Points

1. Perspectives and points to consider when evaluating “high growth potential”

- I. From the perspective of fostering IPOs that will lead to high growth after listing, are there any areas for improvement in terms of educating companies that are preparing for listing and evaluating “high growth potential”?
- II. The current guidebook lists the following cases as examples to consider when evaluating “high growth potential” (see page 5). While this content may be updated in the future, are there any other cases that come to mind?
 - ✓ When the market for the growth area is very small and growth is expected to reach its limit within a few years
 - ✓ When the factors contributing to profit growth are solely due to improvements in management efficiency through restructuring or investment restraint
 - ✓ When the growth of an area with high growth potential is not expected to drive the growth of the applicant company as a whole
- III. We are considering updating the disclosure of “Matters Relating to Business Plans and Growth Potential” around September (see pages 6 and 7) and would appreciate any comments you may have.

2. Key points for valuation and disclosure when market capitalization is less than JPY 10 billion at the time of listing

- I. TSE welcomes companies that list with a market capitalization of less than JPY 10 billion and aim for high growth after listing (see page 8). Regarding the review process and disclosure requirements in such cases, the exchange does not anticipate requiring quantitative explanations regarding the achievement of a market capitalization of JPY 10 billion (as this would be difficult). However, it does expect requiring companies to have a growth strategy that considers future compliance with continued listing criteria and further growth, as well as for that strategy to be reasonable for there to be disclosure to investors. How do you view these points?
- II. If the possibility exists that the value may be less than JPY 10 billion at the time of listing, our policy is to request disclosure of the potential risk of future non-compliance with continued listing criteria as part of risk information, as necessary. We would appreciate any feedback you might have.

Today's Discussion Points

3. IPOs on the Standard Market

- I. With the revision of the continued listing criteria for the Growth Market, is there an increasing number of companies aiming for an IPO on the Standard Market? Please provide an overview of IPO trends. (Additionally, please provide any updates on trends regarding listings on the Pro Market.)
- II. What are the key considerations and points to note for companies preparing for an IPO that are considering the Standard Market as an option?

Excerpt from the Growth Market New Listing Guidebook

II.2 Frequently Asked Questions and Answers Relation to Determination of High Growth Potential

Q4: What considerations should be made when selecting a growth business?

A4:

When determining high growth potential, a plan demonstrating that the applicant as a whole will grow (in addition to their growth business) must be developed and adopted.

Thus, in cases where the size of the market in which the applicant operates is very small and the growth is expected to be marginal in a few years, or where the increase in earnings is apparently attributed to management factors such as enhanced management efficiency or restraints on investments (where the sales of the growth business remain nearly flat), cautious and prudential assessment is required.

Also, any cases where a business with high growth potential is immaterial and does not contribute to growth of the applicant as a whole must fully be considered. In such cases, conditions and environments differ from one company to another, so the lead underwriter is encouraged to consult with JPXR beforehand.

Analyzing and Evaluating Growth, and Updating Growth Strategy

- Although some companies have not achieved the growth they envisioned at IPO or other stages in the past, their analysis of the causes and consideration of countermeasures is insufficient
 - ⇒ If they have not achieved growth, **they should analyze their current situation, which includes considering whether or not their current business model is effective, and restructure growth strategies**
- Many startups are competing with each other for a portion of a small market, but that may limit their individual growth
 - ⇒ Rather than just aiming for their own company's growth, **they should also consider inorganic growth strategies, such as partnering with other companies, and mergers and acquisitions**
- Some companies are targeting really unrealistic markets for their business, and it feels like that is just raising false hope
 - ⇒ Companies **should examine whether their target setting and assumptions for becoming profitable have reasonable grounds** based on their competitive advantage

Disclosing Information to Investors

- For companies to be rated highly, they need to provide specifics on actual expected growth, not just well-presented qualitative and abstract explanations
 - ⇒ **Growth targets and initiatives to achieve those targets should be formulated and disclosed as quantitatively and specifically as possible, using KPIs, etc.**
 - ⇒ There are different stages of growth, for example upfront investment, **so companies should set the indicators used for KPIs according to their own situation and investor needs**
 - ⇒ If companies use their own indicators, **it is especially necessary to explain why those indicators are important** to improve investor confidence
- It is dishonest for companies to leave KPIs as they were and not issue updates on their progress, and that will not earn investors' trust
 - ⇒ **Progress to published KPIs should be disclosed on an ongoing basis.** In addition, **the reasons for any changes to KPIs should also be disclosed**

Communicating With Investors

- Investors who invest in startups rate the animal spirits and leadership of top management, and so governance systems that are just a formality and disclosure information that is superficial will not necessarily lead to higher ratings.
 - ⇒ In order to improve investor confidence about achieving high growth, **top management should strive to involve themselves in communication with investors and the market**

(Ref.) Request for “Action to Achieve Management That Strives for High Growth”

- ◆ When reviewing and disclosing “Matters Relating to Business Plans and Growth Potential,” please take the following actions.

Analyzing and Evaluating Growth

- **Use quantitative indicators to analyze and evaluate growth after listing**
 - ✓ Indicators for analysis and evaluation should be set based on the individual company’s situation and investor needs, and can include market capitalization, share price, sales, income, PSR, and PER, as well as other more detailed indicators (like customer numbers and spending per head)
- **Analyze and evaluate factors that contribute or do not contribute to growth**
 - ✓ Examine, for example, how big of a market and competitive advantage your company can get, and analyze and evaluate whether your planned business model is functioning as expected

Updating Growth Strategy

- **Examine and update growth targets and measures based on the above analysis and evaluation**
 - ✓ Examine and update medium- to long-term growth goals, quantitative KPIs and target figures for measuring progress, and measures for achieving these goals.

Disclosing Information to Investors

- **Disclose specific information regarding analysis and evaluation of the company’s current status, and updated growth targets and measures**
 - ✓ When disclosing “Matters Relating to Business Plans and Growth Potential,” disclose details of the above analysis and evaluation, and updated growth targets and measures, along with quantitative KPIs.

Analysis and evaluation of growth and updates to growth strategy should be carried out and disclosed to investors on an ongoing basis (at least once a year)

- ◆ TSE plans to **actively inform startups aiming for IPOs and market stakeholders** about **its stance on IPOs in the Growth Market** (while also communicating that IPOs in the Standard Market are an option).

TSE's stance on IPOs in the Growth Market

- Since there will be **no revision of the initial listing criteria** this time, companies can continue to **go public with a market capitalization of less than JPY 10 billion and aim for high growth after listing**. TSE will continue to **maintain an environment where startups aiming for such high growth can challenge themselves**, and **TSE welcomes such companies**.
- Even if, **as a result**, the “JPY 10 billion after 5 years” criterion is not met, companies can **transfer to the Standard Market (and can rebuild their growth strategy after the transfer and relist on the Growth Market)**. TSE is designing a **system that allows companies to actively take on challenges**.
- While TSE understands that **underwriter securities companies** each have their own underwriting policies, it plans to **communicate with them to ensure it can collaboratively support companies with high growth potential**.
- TSE also intends to **provide benefits to remain in the Growth Market and enhance support for companies aiming for high growth**.