

IPO Liaison Meeting
Minutes of Third Meeting

1. Date and Time: August 28, 2025 (Monday), from 2:00 p.m. to 3:30 p.m.
2. Venue: Room 301, 3rd Floor, TSE
3. Attendees: see list of members
4. Meeting Minutes

Ikeda, Senior Manager, Listing Department, TSE:

On the first page, I would like to provide additional information on the current status of Growth Market reforms, and then discuss strategies for promoting IPOs that lead to high growth after listing.

The initial proposal to revise the continued listing criteria so that a company's market capitalization must be at least "JPY 10 billion after five years" starting in 2030 was published in April and I apologize for mentioning this verbally, but we made some additional revisions in July. The next meeting of the council of experts concerning the follow-up of market restructuring is scheduled for next week, on September 2, where the main topic will be future response in the Growth Market, not just regarding continued listing criteria. Following that, we will proceed with the public comment process on the criteria revision from late September.

In the course of the revision, we have been discussing the overall picture of the reforms for listed companies as well as companies preparing for listing in the Growth Market through numerous seminars and other events, and we have received various opinions from about 100 to 150 companies. I always emphasize that the purpose of revising the continued listing criteria is not to create a market where companies with a market capitalization of JPY 10 billion gather. When we operated the Mothers market, it was designed with the assumption that companies would eventually move to the First Section, and I believe many of you provided support based on when companies would do so. However, the current three market segments—Prime, Standard, and Growth—are parallel and independent. In 2022, we carried out this restructuring of market segments as we wanted companies focused on growth, regardless of their size, to remain in the Growth Market and strive for growth. The current reforms aim to reinforce this direction, making the Growth Market a place for real growth, and creating a more attractive market. I have been discussing these efforts on all different occasions over the past two to three months.

In such discussions, the topic of how the continued listing criteria are designed rarely comes up anymore. However, moving forward, when companies review their growth strategies, we often receive questions about how "high" a level of growth is expected in the Growth Market. Simply put, these inquiries often focus on how much sales, profits, and market capitalization should grow.

Please refer to the attached document. While it is difficult to define what constitutes "high growth," as it varies depending on the business and business environment, we have listed the concerns and feedback we frequently receive from executives on the left. The right shows what investors particularly expect from Growth Market companies, based on discussions with 70 to 80 institutional investors. We aim to continue our efforts to communicate these insights to Growth Market companies. I will skip explaining the details, but we hope to guide companies with this kind of information.

Additionally, from page 9 of the attached document, we have included a section titled Part 2: Thoughts Regarding Selection of Growth Market. I believe many of you have been receiving inquiries from companies currently in the Growth Markets recently, and I also frequently hear from CEOs, who are often advised to move to the Prime Market, yet they personally feel that the Growth Market is more suitable for them. When they contact us, they often want more clarity, asking for clearer explanations from TSE of how the Growth Market is structured, as it would help them better understand how they can continue to grow and lead as executives of listed companies.

While the Mothers Market was positioned as a steppingstone to the First Section, the Growth Market is designed for companies that see themselves as "growth" companies, allowing them to choose the Growth Market and strive for growth within it. Even after achieving growth, if companies continue to aim for high growth, we encourage them to fully embrace the challenge of the Growth Market. Previously, there was a notion that companies couldn't be included in TOPIX unless they moved to the First Section or Prime. However, starting from October next year, if companies are within the top 96% of free-float market capitalization, they will be eligible for inclusion in TOPIX. Although the number may not be large, it is expected that this will result in some companies from the Growth Market also being included in TOPIX.

The Growth Market is fundamentally a place for companies to raise risk capital from investors and use it to achieve growth. Therefore, we aim to share our thoughts on market design, including efforts to create an environment conducive to these goals.

I often discuss such topics with companies in various places, but returning to the first page of the materials and regarding the pre-listing stage, with your support, we hope to proceed with initiatives to create good IPOs that are conscious of post-listing growth. We would appreciate your candid opinions on how to educate companies preparing for listing prior to their listing, how to evaluate and assess high growth, and whether there are any areas that need revision.

As indicated with an asterisk (*) on the first page of the materials, please note that even after the continued listing criteria of "JPY 10 billion after five years" becomes effective, the current framework concerning "high growth potential," in which securities companies assess this potential and TSE reviews the rationality of the business plan based on their assessment, is not expected to change. We would appreciate you basing your discussions on this premise.

The second page contains slightly outdated materials, so I will skip explaining the details.

On the third page, although it's fine to approach it in any way, we have organized today's discussion points into sections to facilitate easier discussion.

The first point is about the evaluation of "high growth potential." As mentioned in item I., from the perspective of fostering IPOs that aim for continuous growth after listing, we would appreciate your opinions on how we can further enhance our efforts to educate companies that are preparing for listing. Also, regarding the evaluation of "high growth potential," if there are any points you think should be done differently, we would appreciate your opinions.

Regarding item II., as stated on page 5, the New Listing Guidebook provides examples of cases where careful judgment is required for evaluating "high growth potential." For instance, if a business is competing in a small

market and there are concerns about the feasibility of achieving high growth, or if the way profits are generated is centered on restructuring and there are questions about whether high growth potential can be demonstrated in that area. We have provided several examples. For example, in the request for "action to implement management that is conscious of cost of capital and stock price," targeting the Prime and Standard Markets, we present examples where there is a gap between companies' and investors' perspectives, alongside successful examples. Likewise, for the Growth Market, I believe one approach could be to illustrate cases where aiming for growth after listing is particularly challenging. We would appreciate any comments you have.

Regarding item III., it may be a small detail, but we would appreciate any opinions you might have on the disclosure of "Matters Relating to Business Plans and Growth Potential."

The second point is about how we should act when "JPY 10 billion after five years" becomes effective. As mentioned in item I., we believe it is necessary to continue communicating that the new continued listing criterion is "JPY 10 billion after five years" and not a requirement for JPY 10 billion at the time of initial listing. Regarding the listing examination process and disclosure, for IPOs that do not initially reach JPY 10 billion, it is difficult to provide a quantitative explanation based on financial forecasts of how to achieve this target. Therefore, we do not plan to request such detailed projections. However, we do expect companies to disclose their strategies for how they plan to meet this criterion in the future. We would appreciate your thoughts and opinions on this matter.

Regarding item II., we believe that companies will disclose information related to this risk. If you have any opinions or feedback, we would appreciate hearing them.

The third point on page 4, item I., has been included to help us better understand the current situation. With the revision of the continued listing criteria for the Growth Market, companies may change their plans, such as postponing the listing timing or switching to pursuing M&A. There might also be discussions about whether to switch their listing to the Standard Market. If there are any overall trends of concern, we would appreciate it if you could let us know. Additionally, please provide any updates on trends regarding listings on the Pro Market.

Regarding item II., we are not aiming to forcefully steer companies towards the Standard Market. However, if you have any opinions, we would appreciate hearing them.

The latter part is reference material, so please take a look at it. We would appreciate your opinions on the above matters. Thank you very much.

Securities Company:

I can see that quantitatively evaluating high growth potential is realistically difficult, and can understand the message from TSE welcoming IPOs with a market capitalization of less than JPY 10 billion. However, as things stand, the desired characteristics of companies for listing are not clear. Currently, when a company seeks to list on the Growth Market, the lead underwriter securities company primarily evaluates its high growth potential. If this practice remains unchanged, it is unlikely that there will be a significant increase in the listing of companies desired by TSE.

Therefore, I would like to propose some actions that could be taken. Regarding the evaluation of growth potential, since achieving at least JPY 10 billion after five years will become a necessary criterion, for example, how about analyzing the pre-listing performance of companies that have successfully reached over JPY 10 billion in market capitalization five years after listing on the Growth Market? This analysis could reveal the extent of growth they experienced before listing, and show the type of companies that have a tendency to grow significantly beyond JPY 10 billion in the future. Furthermore, since the Growth Market demands higher growth potential than the Standard Market, although it is difficult to quantify, providing guidelines or some form of guidance could help ensure that not only the securities company's evaluation but also TSE can verify whether the plan's rationality aligns with certain guidelines during the review process, thereby enhancing effectiveness.

Additionally, regarding instruction and education for companies aiming for the Growth Market, I believe companies aiming for listing are likely choosing to target the Growth Market based on advice from securities companies and relevant parties, considering their own company's size. Through the discussions on the Growth Market, the concept of the market has become clearer. Based on this concept, companies, including external directors, should consider whether to pursue listing, their objectives, the appropriate market, and their growth potential if targeting the Growth Market. It would be helpful to note in the Guidebook that these considerations should be confirmed during the review process. This approach would make it unavoidable for companies to go through this process, encouraging those that might have casually chosen the Growth Market to more thoroughly consider its concept before proceeding.

Ikeda, Senior Manager, Listing Department, TSE:

It's difficult for TSE to specify exact growth rates, but what TSE expects of companies aligns with what investors expect. Therefore, we plan to share these insights and expectations. The attached document is intended for distribution to Growth Market-listed companies, and for example, on page 2, it includes feedback saying that sales and profits are steadily growing, but this is not reflected in the stock price and investors are not being rewarded. Growth Market stocks attract attention if they have sharp growth rates, but small-cap stocks may struggle to gain investor attention otherwise. We aim to convey various perspectives on similar points.

Additionally, when considering how to achieve a market capitalization of JPY 10 billion, it's important to recognize that reaching this figure does not automatically result in institutional investor interest. We aim to convey the message that while we encourage companies to continue pursuing high growth after listing, a market capitalization of JPY 10 billion is merely a milestone.

On a different note, as mentioned on page 3 of the attached document, it is necessary to convey not only the benefits of listing but also the "significance of listing." Particularly for those listing on the Growth Market, it involves raising risk capital and directing efforts towards growth. Therefore, this message should be communicated not only to listed companies but also to those aiming for an IPO.

Hayase, Senior Manager, Listing Examination Department, JPXR:

It has been discussed that, in the past, it did not work well for TSE to take a hands-on approach in evaluating companies' high growth potential. That's why, as I understand it, the current division of roles came about. I would like to consider our response with that in mind. Furthermore, as you pointed out, it is important to determine whether the company's management has thoroughly discussed the timing of their listing and the choice of market. From my experience, many companies determine the timing for the IPO and the market

they are aiming to be listed on internally, and thereafter proceed to establish a governance structure in preparation for the listing, often then bringing in external directors. Some directors join the management after the decision to list has been made, so it is important to thoroughly discuss the matter again within management, including external directors, when preparing for listing.

Securities Company:

The concept of the Growth Market is characterized by the term "high growth potential," but the responsibility for evaluating this potential in IPOs lies with securities companies. From our perspective as a security company, we believe that we are given flexibility in evaluating this potential when dealing with clients. However, on the other hand, we have some concerns about maintaining the brand of the Growth Market. When considering what TSE envisions as an ideal Growth Market, I believe there is a need to establish certain standards or thresholds. Allow me to present my proposal. As I recall, in the former Mothers Market, there were standards (Note 1) for the lead underwriter securities company to determine whether special and additional explanations were required to demonstrate high growth potential. If these standards were met, both the lead underwriter and TSE reached a consensus regarding the presence of growth potential. Conversely, if the standards were not met, the securities company was required to provide further explanations concerning growth potential. Of course, whether the standards at that time are still appropriate is another matter. However, I believe that establishing certain standards and achieving a consensus among market stakeholders that meeting these standards signifies high growth potential would contribute to maintaining and enhancing the brand value of the Growth Market.

In connection with item III. of Paragraph 1 and item I. of Paragraph 2 on page 3 of the materials, as the "JPY 10 billion after five years" criterion is being established, I anticipate that companies that do not meet this threshold will be required to make some kind of additional disclosure. However, regarding post-listing investor relations (IR) and communication with investors, it would be preferable for TSE not to impose excessive obligations. Companies that do not meet the criteria will naturally put more effort into their IR activities to clearly convey their appeal and KPI progress to investors. IR is not merely about disclosing predetermined information; communication with investors varies from company to company. Therefore, rather than imposing strict rules or obligations, it should be framed as a guiding principle. By providing examples of best practices, it would be more effective to encourage and support companies listed on the Growth Market.

(Note 1)

Must meet either of the following conditions:

- a. In the past two years (typically, the year immediately preceding the application and the year before that), if profit was recorded in the first year, then: (1) the profit amount in the latest (second) year must be at least JPY 100 million and have increased by more than 30% compared to the previous (first) year, and (2) the sales revenue in the latest year must also have increased compared to the previous year.
- b. In the past two years, if no profit was recorded in the first year, then: (1) the profit amount in the latest (second) year must be at least JPY 100 million, and (2) the sales revenue in the latest year must have increased compared to the sales revenue in the first year.

Ikeda, Senior Manager, Listing Department, TSE:

Regarding your first point about the standards, listed companies have said that if standards are provided, they can use them as a benchmark to develop their growth strategies. However, the reason for abolishing the quantitative standards you mentioned for high growth potential, was that those standards were too formal to be applied uniformly and were based on past performance only. In the Growth Market, where future growth is emphasized, past performance surely serves as a reference, but it may not necessarily be the most suitable thing for measuring high growth potential. On the other hand, it is indeed important to indicate expectations. Therefore, conveying investor perspectives and expectations would be beneficial not only for listed companies but also for those preparing to go public.

Regarding your second point about disclosure requirements for companies that do not achieve "JPY 10 billion after five years," we anticipate that companies will outline their future initiatives with an awareness of the continued listing criteria. However, we are not considering specifying particular items or forms for disclosure for that purpose. We agree that communication with investors should be left to the discretion of individual companies based on their own situations.

Hayase, Senior Manager, Listing Examination Department, JPXR:

Regarding companies with a market capitalization of less than JPY 10 billion at the time of listing, while we will request some enhancements in disclosure, as you mentioned, it is not an issue that can be addressed uniformly. Communication with investors varies from company to company, as you pointed out. In the future, we might request additional disclosure during the listing examination for companies with a market capitalization of less than JPY 10 billion, focusing on the level of detail they can provide about their future plans. Ideally, we would like all companies to disclose detailed business plans. However, if this is not practicable, those at risk of not meeting the continued listing criteria may need to provide more specific details about their future initiatives.

Ikeda, Senior Manager, Listing Department, TSE:

As a side note, in relation to item II. of Paragraph 1 on page 3 of the materials, we have received requests to enhance the descriptions in the New Listing Guidebook to include cases that should be noted in the evaluation of high growth potential. This is similar to how the TSE previously published "Cases Where Companies Are Not Aligned With Investors' Perspectives" regarding management that is conscious of cost of capital and stock price. We would like to consider this, and therefore, we would appreciate your input if you have any good cases or examples regarding this matter.

Securities Company:

I agree with many of the opinions of the previous two speakers, and I honestly believe that having quantitative perspectives and guidance makes it easier to proceed. When we discuss business plans and listing timing with companies preparing for IPOs, their plans may not always meet investors' growth expectations. However, because there are companies in the Growth Market with only single-digit sales growth, it becomes challenging

to convince these companies that listing on the Growth Market is difficult. Switching to another market, such as the Standard Market, is also challenging due to the burden of meeting the JPY 100 million profit criterion and complying with the Corporate Governance Code. In such a situation, we would like to continue discussions while delaying the listing timing and developing strategies that promise growth before listing on the Growth Market. Since it is difficult to determine whether 10% or 30% sales growth is necessary, having guidance like the one provided on page 2 of today's attached document, which states that investors expect 20-30% sales growth, would be helpful.

On the other hand, there are companies already listed on the Growth Market that have achieved only single-digit or 10% sales growth. These companies likely had solid plans at the time of their listing but may not have achieved the expected results. On page 7 of the materials, I agree with the idea of more detailed growth potential documentation. Companies that have not achieved their envisioned growth should conduct a cause analysis, consider countermeasures, and disclose these thoroughly. We also want to learn from such precedents and apply them in discussions with companies aiming for IPOs in the future. It is important for securities companies and investors to enhance their knowledge and experience to create a better market, so I believe this is a very good initiative.

On a different note, I often wonder how convincing the explanations provided by securities companies are when presented to the Listing Examination Department of TSE during the prior-confirmation session for evaluating high growth potential. Although we strive to explain logically and carefully, it's uncertain if these explanations are persuasive from a third-party perspective. If any explanations seem unclear or inadequate, presenting them as general examples in settings like this could help align the perspectives of TSE and securities companies on growth potential.

Hayase, Senior Manager, Listing Examination Department, JPXR:

During the listing examination, we review medium-term management plans that outline projections for about three years after listing. On average, these plans aim for a 20% annual increase in sales and expect profits to more than double within three years. However, I estimate that the likelihood of actually meeting these targets is only about 30%. This does not mean that the plans at the time of listing are overly optimistic; rather, it reflects the difficulty of sustaining such high growth. Therefore, I do not feel that there is a complete lack of high growth potential at the time of listing, and I do not intend to criticize the inability to achieve plans in hindsight. However, as you pointed out, it is important for companies to aim for high growth and, if things do not go as planned post-listing, to engage with investors and work on the next strategies.

Securities Company:

In the follow-up meeting materials of April this year, it was stated that lead underwriter securities companies and TSE will assess whether companies have the potential to meet the new continued listing criteria. In the current materials, it says, “where the lead underwriter determines whether the company has “high growth potential” and TSE conducts the listing examination based on that determination.” The expression remains unchanged from the existing framework. Was there any discussion at TSE regarding this? Additionally, in relation to evaluating growth potential, the phrase “the potential to meet the new continued listing criteria” was previously included as an introductory remark. However, this phrase is no longer used. Could you explain the reason for this change?

Ikeda, Senior Manager, Listing Department, TSE:

The follow-up meeting materials did not go into detailed role assignments, such as the securities company reviewing growth potential and the exchange assessing the rationality of the business plan. This is only a matter of wording, and the overall policy remains unchanged. For small-scale IPOs, we hope that both the securities company and TSE will work together to carefully review growth potential and business plans, particularly from the perspective of whether there is room for significant growth after listing. However, given that achieving a market capitalization of JPY 10 billion is not the ultimate goal, a purely technical approach that focuses on whether this threshold is exceeded may not be appropriate.

Securities Company:

Lead underwriters have been evaluating growth potential during their reviews thus far, so I don't believe there is anything fundamentally lacking in evaluation criteria. However, given that many companies fail to grow after listing, we should focus more on understanding why growth often stalls post-listing. I believe that listed companies should place greater emphasis on disclosure, for example by clearly explaining to investors when assumptions underlying their business plans change. Given historical practices, securities companies have evaluated growth potential at the IPO stage, but what matters more is how listed companies communicate their growth potential to investors over time. It is important to recognize that the perspective at the time of the IPO is not fixed and can change. That said, for companies that have not reached a market capitalization of JPY 10 billion several years after listing—based on the “JPY 10 billion after five years” premise—it is necessary to provide investors with a clear explanation of how they plan to achieve this target. For such companies, mechanisms should be introduced to encourage a stronger focus on post-listing growth, such as setting specific disclosure items and requesting detailed explanations.

Ikeda, Senior Manager, Listing Department, TSE:

We share the view that companies should provide more detailed explanations post-listing, and this is exactly what we are working on. We also plan to present this to companies as feedback from investors. However, some listed companies have historically believed that disclosing downward revisions or changes in KPIs creates a negative impression among investors, and therefore choose not to disclose their plans at all. Without disclosure though, investors have no basis for evaluation. If plans change, providing a clear explanation of the reasons can help build long-term trust with investors. While we do not plan to require direct disclosure of valuations exceeding JPY 10 billion or the underlying financial evidence, we intend to introduce rules requiring companies to disclose the strategies they will implement to achieve JPY 10 billion.

Hayase, Senior Manager, Listing Examination Department, JPXR:

When observing the pre-IPO stage, it appears that only a limited number of companies progress smoothly to listing. Most companies experience periods of stagnation, often revising their schedules along the way before finally going public. From an investor's perspective, the IPO is the starting point, so they may question why so many companies experience a slowdown in growth after listing. We believe it is important to view the challenges of sustainable growth as a continuous process that begins before the IPO stage. In this context, companies seeking to list on the Growth Market should recognize the high likelihood that they will need to revise their business plans post-listing. Therefore, it is essential that they go public with a solid business foundation and sufficient financial strength to prepare for such eventualities.

Securities Company:

In the listing examination, we check if a company has the basic structure needed to be publicly traded. However, determining a company's high growth potential is more about how the market evaluates it, and it's difficult to assess this within the listing examination process. Although companies provide us with explanations of their high growth potential, it's very difficult to determine how valid these explanations are. As a result, if companies present specific milestones, we have to rely on them. Moreover, a market capitalization of JPY 10 billion is also based on market evaluation. Therefore, having high growth potential doesn't always mean reaching a certain market capitalization. This raises the question of whether using market capitalization as a benchmark is appropriate.

Ikeda, Senior Manager, Listing Department, TSE:

After a company goes public, communication with investors increases, and capital policy often becomes a key focus. In contrast, the listing examination primarily concentrates on assessing the P&L and the disclosure framework. In this setting, there is also concern that the assessment of high growth potential appears somewhat disconnected from other evaluation criteria. However, considering the concept of the Growth Market, we aim to work collaboratively with IPO stakeholders, combining our insights to effectively assess this potential. Moreover, I believe that merely focusing on whether a company surpasses JPY 10 billion in numerical terms is not particularly meaningful. Instead, it is more crucial for IPO stakeholders to determine whether a company can maintain continuous growth after listing. In setting this continued listing criterion, the goal is not to simply gather companies that exceed JPY 10 billion, nor to view JPY 10 billion as a target level. We intend to carefully consider how we communicate this approach.

Hayase, Senior Manager, Listing Examination Department, JPXR:

With the introduction of this revised continued listing criterion, listed companies might create overly ambitious business plans to meet the requirements. It is crucial for securities companies to initially assess the growth potential and for TSE to verify the rationality of the underlying business plans. By collaborating in this way, we can ensure that investors are not misled.

Securities Company:

Rather than focusing solely on technical aspects, I believe management should actively engage in communication to be recognized for their high growth potential in the market. It's important for securities companies and TSE to emphasize the significance of the management team's ability. While expert opinions are valuable in areas like deep tech, assessing their effectiveness can be challenging. Therefore, when evaluating high growth potential, it's crucial to assess how knowledgeable and passionate the management team is about their business. There seems to be a contradiction in how the JPY 10 billion benchmark is being presented. While IPOs with a market capitalization below that level are officially welcomed, the message urging companies to disclose more detailed risk information effectively raises the bar for new listings. If a company lacks growth potential, it might be more appropriate not to approve them for the Growth Market. Additionally, the process of preparing for an IPO is often divided among various internal and external resources. Sometimes preparations for IPOs are made only at operational level, but it is important to engage

in discussions with the entire management team, including directors who may not be directly involved in the IPO process.

Hayase, Senior Manager, Listing Examination Department, JPXR:

When it comes to risk information, I believe we should adopt a more nuanced approach instead of setting a uniform threshold of JPY 10 billion. We should consider implementing a tiered system to assess and communicate varying levels of risk, ensuring that investors receive appropriate alerts. As mentioned earlier, it is important to evaluate whether the management team, including independent outside directors, can effectively communicate both the timing of the IPO and the company's growth potential to investors. In some cases, the selection of external directors appears to be overly simplistic, focusing on professionals specialized in IPO preparation or diversity. However, it is more beneficial to have a board composed of members that can actively engage in meaningful dialogue with the market.

Auditing firm:

The "five years" specified in the proposed revision of the continued listing criteria seems a bit short to me. For startup companies, stock prices often already factor in expectations of future growth. As a result, achieving significant price increases shortly after going public can be challenging, as it requires additional growth. Therefore, it may be more beneficial to analyze and disclose the factors or events that contribute to substantial short-term stock price increases, to clarify the drivers behind these changes.

Ikeda, Senior Manager, Listing Department, TSE:

Currently, the criterion is set at "JPY 4 billion after 10 years." However, there are not many investors willing to support business plans that aim to achieve this target over such a long period. As a result, we started considering setting a shorter timeframe. An analysis of companies that listed with a market capitalization of less than JPY 10 billion and later exceeded this amount shows that 93% achieved this within five years, so we believe five years seems reasonable.

Moreover, stock price increases are influenced by multiple factors, including not only business growth but also effective communication and dialogue with investors. We aim to present various cases to illustrate these dynamics.

Auditing firm:

It is essential to analyze the differences between companies that have increased their market capitalization after listing and those that have not. It's important to reflect on the growth potential presented at the time of the IPO and identify the factors that led to unmet expectations. For instance, a business might not be growing, or it could be growing while the stock price fails to respond due to insufficient investor relations efforts. In cases where a business is stagnating, it is necessary to determine whether this is due to problems with the management's approach or structural issues within the business. Such distinctions can be made to better understand these dynamics. For example, this analysis might lead to raising concerns about whether the timing for an IPO is premature for companies seeking to go public, which could result in different strategic actions.

Ikeda, Senior Manager, Listing Department, TSE:

We are considering moving forward with this approach. Even in the context of management that is conscious of cost of capital and stock price, breaking down the analysis into PBR and ROE reveals various before-and-after changes. I would like to apply a similar analytical approach to companies in the Growth Market.

Auditing firm:

After a company goes public, institutional investors become key players. However, if the company's market capitalization does not meet their minimum investment threshold, it becomes difficult to attract funding or pursue M&A opportunities. This raises the question of to what extent securities firms and TSE are communicating this reality to companies before listing. Many companies go public without meeting this threshold and later struggle to raise funds or execute M&A, resulting in stagnation. Just as a lack of growth can lead to a stagnant market cap, a stagnant market cap can also hinder growth. That's why it's important to communicate, from the pre-listing stage, how difficult it is to reach the required threshold. Ideally, discussions about a company's growth potential before listing should be closely linked to strategies for attracting institutional investors after listing.

Ikeda, Senior Manager, Listing Department, TSE:

This is a very important point. Some executives are aware of these issues at the time of listing. However, companies that view going public as the ultimate goal and focus solely on listing preparations often encounter the challenges you mentioned after going public. While we do communicate various aspects post-listing, we have not been as effective in doing so before the listing. This is partly because it falls outside the typical scope of guidance provided by securities companies, resulting in a gap in communication. Educating companies on the importance of being mindful of the post-listing phase from the pre-listing stage is a crucial challenge that we recognize.

Auditing firm:

With the introduction of the "JPY 10 billion after five years" policy, I believe future disclosures regarding business plans and growth potential should incorporate a coherent storyline that illustrates how the company intends to achieve this goal. Currently, as I understand it, companies do not typically disclose financial figures, such as sales or operating profit, for the five years following their listing. When they do provide figures, they are usually limited to performance forecasts for the next fiscal year or medium- to long-term KPIs like personnel plans, rather than detailed financial projections. While it might be common knowledge among securities companies that these figures are not disclosed, many auditors likely expect business plans to include sales and incremental profit projections. I was surprised to learn that such medium- to long-term financial plans are not disclosed, which raises the question of whether this disclosure should be required. Although financial figures alone do not directly dictate market stock prices, some companies conduct valuations and fund raising based on projected figures for several years into the future during the pre-listing stage. Requiring companies to disclose medium- to long-term plans, including sales and incremental profits, at the time of listing could encourage management teams to develop plans that withstand investor scrutiny. Given this context, I thought it might be worth considering disclosure. What are your thoughts on this?

Hayase, Senior Manager, Listing Examination Department, JPXR:

In the context of financing, I understand that securities companies have certain legal responsibilities for the content of their prospectuses, which typically leads them to adopt a conservative approach and not disclose future financial figures. However, from TSE's perspective, setting aside these legal concerns, it would be acceptable for companies to disclose such figures.

Securities Company:

Under current regulations, securities companies bear responsibility for the content of their prospectuses. As a result, discrepancies between projected and actual performance may pose certain risks. This also raises the question of whether auditors are expected to review or validate the forward-looking statements included in prospectuses, when providing comfort letters.

Auditing firm:

Is it correct to assume that a company can disclose its medium-term management plan at its own discretion without any legal issues?

Securities Company:

While some companies do choose to disclose such plans, they typically do so only after consulting legal counsel and carefully assessing the associated risks.

Hayase, Senior Manager, Listing Examination Department, JPXR:

While it is understandable that disclosing future financial plans can be difficult due to litigation risks, and while investors generally do not expect such forward-looking information to be guaranteed, it is still a valuable perspective that these projections should be disclosed if they could be useful for investment decisions.

Auditing firm:

Recently, non-linear growth through M&A has become a buzzword and a popular focus in the growth strategies of startups. While we recognize that some listed companies have achieved significant growth through repeated M&A, if a company that has not experienced organic growth in its core business and lacks prior M&A experience plans to pursue growth through M&A in the future, what is your perspective on whether this can still be deemed as high growth potential? As more companies are likely to aim for growth through M&A, it would be beneficial to identify any key considerations or viewpoints to keep in mind for this approach.

Ikeda, Senior Manager, Listing Department, TSE:

Considering inorganic non-linear growth through M&A as a strategy is beneficial, and it is advantageous for the market to see such dynamic initiatives progress. However, many executives of listed companies often focus solely on the idea of being the buyer in M&A transactions. It is important for them to also consider the possibility of being the seller. Communicating this perspective is crucial.

Hayase, Senior Manager, Listing Examination Department, JPXR:

While it is not necessarily desirable to place too much emphasis on past performance, in the context of listing examinations, if a company positions M&A as a key growth strategy, it is reasonable to assess the credibility of its business plan to some extent—by considering whether there is a track record of successful M&A and whether a proper framework exists for evaluating potential deals. Companies that have successfully grown through M&A after going public are generally recognized as having established systems to leverage M&A as part of their business strategy. Conversely, a growth plan based on M&A without any proven track record or internal structure may not be well received by investors. This is a point that could be clearly communicated.

Hayase, Senior Manager, Listing Examination Department, JPXR:

With time running short, if you have any opinions on IPOs on the Standard Market mentioned on page 4 of the materials, could you please share them?

Securities Company:

It is true that more companies are considering IPOs on the Standard Market. However, this trend appears to be driven less by the recent review of the Growth Market including revision of continued listing criteria, and more by the strict continued listing criteria of the Prime Market and the burden of English-language disclosure. As a result, an increasing number of companies are opting for the Standard Market instead.

Securities Company:

The Standard Market is increasingly being perceived as a catch-all option. Originally, it was seen as a market for companies that are stable but lack strong growth potential—similar to the former Second Section or JASDAQ. However, following the recent review of the Growth Market including revision of continued listing criteria, companies that were unable to grow within the Growth Market have begun shifting to the Standard Market, which seems to be reinforcing the perception that it lacks growth-oriented companies. Although it may be a bold idea, unless companies that fail to grow within the Growth Market are guided toward a different market rather than simply transitioning to the Standard Market, the intended concept behind each market will not match the reality of how they function.

Ikeda, Senior Manager, Listing Department, TSE:

How to improve the Standard Market is on our agenda and we have already begun discussions. While the Prime Market has a clearly defined global concept and the Growth Market focuses on growth potential, a market that serves as a base for a diverse range of companies is also essential—and that is the role of the Standard Market. However, because the companies listed on it are so varied, it is important to examine the market from multiple perspectives. Furthermore, polarization is becoming more pronounced in the Standard Market than in the Prime Market, with the gap between companies continuing to widen. Companies that actively pursue management that is conscious of cost of capital and stock price have seen notable increases in their share prices—a positive trend worth highlighting. Conversely, for some companies, it has been pointed out that it is doubtful whether they are fulfilling their responsibilities as listed entities, such as protecting minority shareholders. In this context, understanding what types of companies are aiming for IPOs on the Standard Market and the background behind their decision would provide valuable input for shaping future policies. That is the reason for asking for your views today.

Securities Company:

To be honest, the Standard Market seems to be the last option in a process of elimination for companies that cannot meet the requirements of the Prime Market but are also not suited for the Growth Market. The recent rule change—allowing companies that fail to meet the criteria five years after listing on the Growth Market to move to the Standard Market—has further underscored this issue. Given that the Tokyo Stock Exchange Growth Market Index has not shown strong performance, I am concerned that similar stagnation may occur in the Standard Market as well. Clearly articulating the vision and concept for the Standard Market would help reinforce the idea that TSE's strength lies in its three distinct markets. Rather than being seen as a default destination for companies lacking direction, the Standard Market should be clearly positioned as a desirable listing venue for firms with specific strengths and aspirations. We hope you will consider presenting such a message clearly and proactively.

Auditing firm:

Following the recent review of the Growth Market including revision of continued listing criteria, I believe that quite a few companies have shifted to the Standard Market. Some companies, considering their potential market capitalization and growth prospects, could qualify for the Growth Market but are opting to list on the Standard Market first. One such company, without much deliberation, consulted its securities company about switching to the Standard Market due to the stricter criteria in the Growth Market. The securities company explained to the company that the Standard Market also has strict requirements, including initial requirements for listing, expectations for stable profitability, and compliance with the Corporate Governance Code. This led the company to realize that the Standard Market is indeed a well-regulated and robust market. Recently, delays in contracting with lead underwriter securities companies have led more companies to consult with auditing firms as a first step. Since April, there has been a noticeable increase in inquiries about whether the Standard Market is becoming a destination for companies that cannot qualify for either the Prime or Growth Markets. To prevent this perception from forming a negative reputation, it is important to proactively communicate that the Standard Market is a legitimate and well-structured market.

Auditing firm:

Additionally, some companies appear to be considering regional exchanges, such as the Nagoya Stock Exchange, as alternatives to the Growth Market, choosing them over the Standard Market.

[END]