Draft

1. Ideal Growth Market-Listed Company

Ideal Growth Market-Listed Company

- We plan to **present a summary of investors' expectations to companies**.
  * This is because it is difficult for TSE to set quantitative definitions and indices/KPIs across the board as the benchmark for "high growth potential" varies depending on industry and business environment.

Investors' Expectations (Draft)

*Prepared based on feedback from institutional investors with a medium- to long-term perspective who mainly invest in growth and small- and mid- cap stocks

	Executives' mindset that is not aligned with investors' expectations	Investors' expectations for Growth Market-listed companies	
#1	Sales and profits are steadily growing, but this is not reflected in the stock price and investors are not being rewarded	**We want companies to present a vision and strategy that inspires confidence in the sustainability and acceleration of growth**	…Page 6
#2	Investors perceive capital increases as dilution, so fund raising causes the stock price to fall	**We want companies to present a concrete and compelling equity story**	…Page 7
#3	Investors demand shareholder returns, so if dividends are not increased, they will not invest	**At this stage of growth, what we expect from companies is growth investment rather than dividends**	…Page 8
#4	Since losses are not well-received by investors, companies hesitate to invest make growth investments	**We want companies to make growth investments without being overly concerned about short-term losses**	…Page 9
#5	Growth has stalled, so we will aim for a path toward expansion in the same manner as usual	**We want companies to rebuild their growth strategies, including inorganic growth strategies such as M&A**	…Page 10
#6	Since there are few institutional investors in the Growth Market, putting effort into disclosures is pointless	**We want companies to target investors suited to their growth stage and conduct effective information disclosure and IR activities**	…Page 11
#7	Investors dislike downward revisions, so it is better to avoid disclosing earnings forecasts if possible	**Continuous disclosure of growth targets, KPIs, and their progress will build investors' trust**	…Page 12

Investors’ Expectations #1

Executives’ mindset that is not aligned with investors’ expectations

Sales and profits are steadily growing, but this is not reflected in the stock price and investors are not being rewarded

Investors’ expectations for Growth Market-listed companies #1

We want companies to present a vision and strategy that inspires confidence in the sustainability and acceleration of growth

- In the case of growth companies, especially small- and mid-cap stocks, investors seek **higher growth rates (in terms of sales, profits, etc.) than for large-cap stocks**, and are not interested in growth rates that are comparable to those of large-cap stocks. For example, **if a company can maintain an annual growth rate of 20–30%, it will double in size in 3–5 years. Institutional investors will inevitably take notice of companies with such a track record of growth**.
- However, even if a company has a track record of growth, investors assess whether that growth is **temporary or if it will continue/accelerate in the future** (based on **characteristics such as the uniqueness of its products/services and strategies, its strengths in niche markets, and its ability to develop new markets**). It is important for **executives to take the initiative in communicating this information to investors to raise their confidence in the company’s ability to achieve high growth**.
- **Market capitalization of JPY 10 billion is merely a milestone, and we expect companies to compete using a business model and market scale that enable high growth**, with their sights set on further growth beyond that point.

Investors’ Expectations #2

Executives’ mindset that is not aligned with investors’ expectations

Investors perceive capital increases as dilution, so fund raising causes the stock price to fall

Investors’ expectations for Growth Market-listed companies #2

We want companies to present a concrete and compelling equity story

- When raising funds through new share issuances, investors focus on whether the funds raised can be used to achieve growth and enhance shareholder value, i.e., whether the capital increase is “accretive” or “dilutive.” **If investors consider the capital increase to be accretive, the stock price will not decline.**
- While it is true that some investors tend to simply view capital increases as “dilution,” **the fundamental issue is that companies are unable to clearly outline their path to growth or communicate it to investors**. When engaging in fund raising, **we expect companies to present a concrete and compelling equity story** that explains how the funds will be invested, the timeframe for achieving results, and the expected results.
- The true **purpose of a company’s listing** is not to enhance brand recognition or attract talent, but to **accelerate growth by securing risk capital** that is difficult to raise as a non-listed company. Of course, companies should consider appropriate capital policies based on their growth stage and growth strategy. However, especially for **growth-stage companies listed on the Growth Market, we want them to actively secure risk capital with the understanding and support of investors and pursue bold growth investments to achieve high growth.**

Investors' Expectations #3

Executives' mindset that is not aligned with investors' expectations

Investors demand shareholder returns, so if dividends are not increased, they will not invest

Investors' expectations for Growth Market-listed companies #3

At this stage of growth, what we expect from companies is growth investment rather than dividends

- What investors want from listed companies differs depending on the company's growth stage and business environment. They expect shareholder returns, such as dividends, from companies that have established stable businesses, but expect **companies in the growth stage that have not sufficiently established a business model to fully leverage the risk capital they have secured to advance bold growth strategies and growth investments rather than expecting short-term dividends**.
- To gain the understanding and support of investors regarding growth investments, **companies should clearly present specific policies and the approach behind their medium- to long-term capital policy** along with their future growth targets.
- **Investors** also need to **take a medium- to long-term perspective and support growth companies' efforts toward growth.**

Investors’ Expectations #4

Executives’ mindset that is not aligned with investors’ expectations

Since losses are not well-received by investors, companies hesitate to invest in growth

Investors’ expectations for Growth Market-listed companies #4

We want companies to make growth investments without being overly concerned about short-term losses

- Even in the case of losses or minimal profits, if the reason is planting seeds for future growth, **investors will still invest if they believe that there will eventually be significant returns due to future sales growth**. An example of this is Amazon, whose stock price continued to rise despite continual losses after listing.
- Some believe that once a company lists, it can no longer afford to operate at a loss and is unable to make growth investments. However, this simply shows that **executives are not communicating effectively with investors and have failed to gain their trust and support**.
- For growth companies, **executives should take the initiative in communicating the reasons for their losses or minimal profits along with a clear vision and path toward future growth** in order to **gain the trust and support of investors and proceed with growth investments without excessive concern about short-term losses or declines in profits**.

Investors' Expectations #5

Executives' mindset that is not aligned with investors' expectations

Growth has stalled, so we will aim for a path toward expansion in the same manner as usual

Investors' expectations for Growth Market-listed companies #5

We want companies to rebuild their growth strategies, including inorganic growth strategies such as M&A

- There are many cases in which companies did not achieve the growth they envisioned previously, such as during their IPO, but **did not sufficiently analyze the reasons why and consider measures for the future**. If a company has not achieved growth, **it should analyze its current situation, including the possibility that the current business model is not effective, and rebuild its growth strategy**.
- There are cases where, in smaller markets, many startups are competing for a piece of the pie, but there is a limit to growth through independent efforts alone. Companies should not only aim for growth independently but **should also consider inorganic growth strategies, such as collaboration with other companies and M&A**.
- However, **it is necessary to properly communicate that you are not haphazardly recommending an M&A**. In the U.S., if there are no prospects for growth, executives exit through M&A and establish new companies, but this practice is not common in Japan. Executives should recognize that **being bought out by another company is not a bad thing but a positive option for them**.

Investors’ Expectations #6

Executives’ mindset that is not aligned with investors’ expectations

Since there are few institutional investors in the Growth Market, putting effort into disclosures is pointless

Investors’ expectations for Growth Market-listed companies #6

We want companies to target investors suited to their growth stage and conduct effective information disclosure and IR activities

- **Companies at a relatively smaller stage**, such as those with a market capitalization of less than JPY 10 billion, should first make efforts **with retail investors as their main targets** and **create a foundation (liquidity) where it is easy for institutional investors to invest**.
- Many executives **claim that retail investors focus on the short term**, but **this is not the case at all**. **Many retail investors diligently analyze and research companies, so companies should communicate information in ways that are easy for retail investors to understand.**
- To attract retail investors, it is first **important for companies to increase their brand recognition**. It is advisable for companies to increase exposure through efforts such as **briefings and IR events for retail investors** and to provide **easy-to-understand IR materials (graphs, videos, Q&A-style documents, etc.)** in order to enhance retail investors’ level of understanding.
- In addition, **disclosures and IR that take into consideration the gradual incorporation of institutional investors are also important**. In the case of small- and mid- cap stocks where there is not much coverage by analysts, and particularly those with new products, services, or strategies, companies **should convey their medium- to long-term growth vision, path toward growth, unique strengths, and other matters as clearly as possible** as even professional institutional investors find it difficult to understand. **It is not the appearance of the materials that is important but rather the content and quality**.
- Furthermore, since institutional investors’ capacity to attend briefings in person is limited, **it is also necessary for companies to make efforts to ensure that institutional investors can easily find information when they are interested, such as by uploading briefing videos and FAQs to their websites**.

Investors’ Expectations #7

Executives’ mindset that is not aligned with investors’ expectations

Investors dislike downward revisions, so it is better to avoid issuing earnings forecasts if possible

Investors’ expectations for Growth Market-listed companies #7

Continuous disclosure of growth targets, KPIs, and their progress will build investors’ trust

- The issue is not downward revisions themselves but the fact that no analysis of the factors that caused results to fall under the forecast and no improvement measures have been presented. **When things are not going well, it is necessary to provide sincere and detailed explanations**, and executives and companies that are able to do so will **build investors’ trust, leading to medium- to long-term investment**.
- We have heard of companies that do not wish to disclose earnings forecasts and medium-to long-term targets because they are afraid of not being able to meet them. However, as it is necessary to evaluate future medium- to long-term results after investing in a growth company, even if it is not in the format of earnings forecasts, **we want to see a medium- to long-term growth vision and targets as well as KPIs for achieving them with as much specificity as possible**.
- It is natural that there will be uncertainties in the external environment, so if the situation changes from the time the plan was formulated, the plan should be revised. **It is important to set goals, continuously implement the PDCA cycle, and promptly disclose the situation to investors.**
- It is disingenuous to leave KPIs that were set in the past unaddressed and not show what progress has been made, which makes it impossible to gain the trust of investors. **Progress on KPIs that have been disclosed should be subject to ongoing disclosure, and if KPIs have been changed, the reasons should be clearly stated.**

2. Thoughts Regarding Selection of Growth Market

Thoughts Regarding Selection of Growth Market

◆ TSE's thoughts regarding the selection of the Growth Market are as follows.

- Each of TSE's three market segments have their own concepts and have established listing criteria, such as liquidity and governance, in line with them, so listed companies should **independently select the most appropriate market segment** based on their circumstances and growth strategies.

- From this perspective, if a listed company (or executive) **achieves growth in the Growth Market and aims even higher as a growth company**, then **it should remain in the Growth Market and fully take on that challenge**.

  * In the old market segments, one benefit of transferring from Mothers to the First Section was being incorporated into TOPIX, but **from October 2026, companies listed on the Growth Market with a certain level of liquidity will be incorporated into TOPIX**.

  * On the other hand, **companies that are listed on the Prime or Standard Markets are also welcome to transfer to the Growth Market** based on their circumstances and growth strategies.

- **As the Growth Market is a market for securing risk capital**, we hope that listed companies will **utilize it to actively procure growth capital to accelerate growth. TSE will work to establish an environment that enables listed companies to achieve this.**

- To make the Growth Market a market selected by companies aiming for high growth, TSE will advance measures that pursue the characteristic of "growth," **support companies aiming for high growth, and provide benefits for listing on the Growth Market**.