

# First Cooperative Meeting on IPO Practicalities

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

January 22, 2025



# Position and Purpose of the Cooperative Meeting on IPO Practicalities

# Position and Purpose of This Meeting

- While an **IPO is one way for a company to grow**, in light of recent developments surrounding IPOs, market stakeholders have stated the opinion that **“the purpose of an IPO may have become an end in itself.”**
- In addition, we have also received feedback from the management of companies preparing for IPOs that **“there is a lot of information flying around during the IPO preparation process, and it is often confusing”**. There are also occasions where people actually see or hear inaccurate information (such as urban legends).
- An IPO takes time and money, and we believe that **IPO preparations based on vague objectives and uncertain information should be avoided, as they can actually hinder corporate growth.**
- In this regard, the lead underwriter securities company, auditing firm and other parties involved in the IPO process are also working to disseminate information and conduct educational activities related to IPO preparation. In order to disseminate information in a unified manner among the relevant parties, we would like to use this meeting to exchange opinions on factors that prevent IPOs from being realized, **summarize the basic concepts and points to note when preparing for an IPO, and disseminate information to the management of companies** preparing for an IPO.

\*Content to be discussed at this meeting

## Dissemination of basic information on IPO preparation

(Problem awareness at the premise)

- IPOs, which are a means of corporate growth, have become an end in themselves.
- Inaccurate information about IPO preparations is circulating.

## Sustainable growth post-IPO

- Discussion at follow-up meetings
- Status of discussions to be shared at future meetings

IPO

# Information to be Disseminated Based on Discussions at This Meeting

- The content of the discussions at this meeting on the basic approach and points to note when preparing for an IPO is expected to be compiled in the same way as the “Listing Examination FAQ” (see p. 11) and made public.
- Based on the awareness of issues described on the previous page, the following are examples of the types of questions expected.



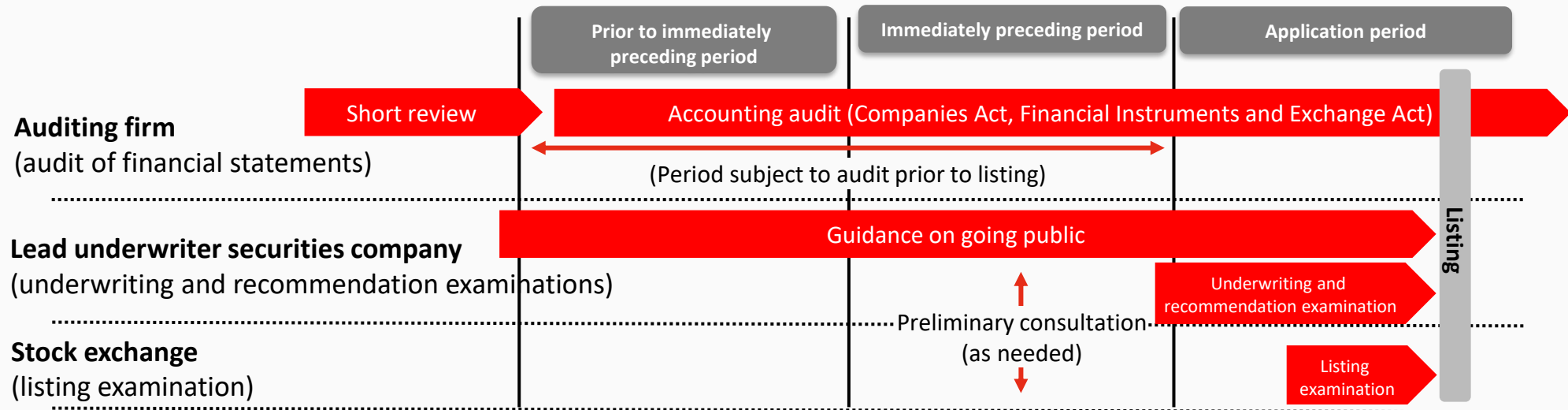
What should we keep in mind to ensure that IPO preparations go as planned?

What are factors that can cause IPO preparations to fail or not progress smoothly?

# (Ref.) IPO Process and Roles of Relevant Parties

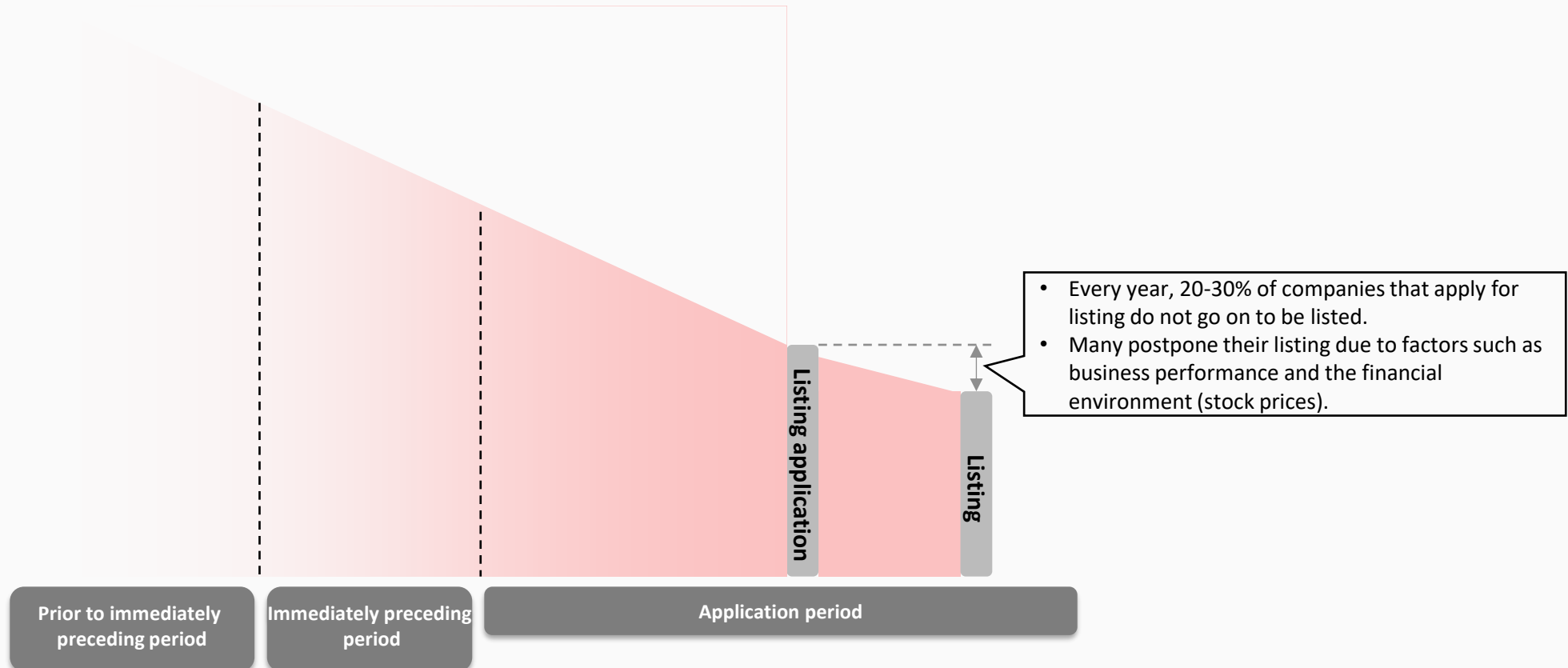
- In the IPO process, the lead underwriter securities company conducts underwriting examinations to underwrite shares for the IPO so that they can be sold to client investors, as well as recommendation examinations for listing applications to the exchange. The auditing firm conducts accounting audits to ensure the appropriateness of financial statements. The exchange conducts listing examinations from the perspective of ensuring the quality of listed products.
- In order to ensure the quality of IPOs, it is important that parties involved in the IPO process work together and fulfill their roles as gatekeepers from their respective positions and perspectives. In order to ensure a smooth IPO process, individual consultations (to clarify issues before listing applications) are received from lead underwriter securities companies as needed, and opinion exchange meetings with auditing firms are held about once every six months.

## Roles of the main related parties during the IPO preparation period



# (Ref.) Reasons why IPOs do not progress as expected

- **An IPO is a project that is difficult to carry out as planned.** It is said that less than 50% of companies aiming to list within a year actually manage to do so on schedule.
- The exchange publishes the number of examinations conducted each fiscal year, and in previous years, 20-30% of companies that apply for listing were not listed within the listing examination period (within one year of the listing application).
- Although there are cases where new problems are discovered during the listing examination and it takes time to respond, **many of the factors that prevent listing are postponements due to factors such as business performance and the financing environment (stock prices) during the examination period.**



# (Ref.) Background to the spread of inaccurate information in IPO preparation

- The following factors have been cited by parties involved in the IPO process as contributing to the creation of urban legends about IPOs.
- The **governance and internal management systems that are required to be put in place during the IPO preparation process** differ **depending on the environment of each company, such as the business model, the stage of business, or the situation of management and employees**. Therefore, it is difficult to standardize them (it is difficult to give correct advice unless you are an party involved in the IPO process who has a deep understanding of the company in question).
  - There are many related parties involved in IPO preparations, and **information may not be correctly conveyed in a game of telephone**. Even if the information is correct, it could **become inaccurate information if the preconditions are not correctly understood**.
  - When parties involved in the IPO process come into contact with inaccurate information, **it is difficult to correct that information by getting into specifics of an individual company due to confidentiality obligations**.
  - The listing process is **established by the stock exchange (listing examination), the lead underwriter securities company (underwriting examination), and the auditing firm (accounting audit)** acting as gatekeepers, **each with their own perspective and** responsibilities. Accordingly, it is difficult to understand from which party's perspective an issue is viewed as a problem.

# (Ref.) Examples of How Urban Legends are Born

There are problems with this company's compliance system. Some time should be taken to improve the system.

(Come to think of it, I'm a little worried about the progress of our business performance...)  
It might be better to show the figures for the next quarter so that investors will have a higher opinion of us. This is also a good opportunity to check the compliance aspects that the exchange pointed out.

(It sounds like the compliance issue can be easily solved, so I'll keep this brief for the president...)  
The progress of our business performance is a problem.

(I can't tell my executive friends that our performance isn't good...)

**These days, it seems that you can't get listed if there is even the slightest deviation between budget and actual performance.**

It's so frustrating.

Wow, I had no idea.



Exchange

Main coordinator

CFO



President





# The Exchange's Response Based on an Awareness of the Issues Involved in IPO Preparation

# (Ref.) Measures to be Taken in the Short Term for the Function of the Growth Market

	Topic	Plans going forward
1	Promotion of disclosure of reasons for listing	<ul style="list-style-type: none"> <li>The disclosure items for initial listings have been expanded to include <b>the purpose of the IPO (how the company plans to use the IPO in light of its growth strategy after listing)</b> <ul style="list-style-type: none"> <li>➤ Source <a href="https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf">https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf</a></li> </ul> </li> </ul>
2	Promoting a correct understanding of preparation for listing	<ul style="list-style-type: none"> <li><b>Case studies</b> (examples of issues that arise in IPOs and examples of issues that do not arise, such as <b>IPOs of companies in deficit and M&amp;As</b>), and an <b>FAQ collection based on these case studies</b> have been released.                     <ul style="list-style-type: none"> <li>➤ Source <a href="https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007ebs.pdf">https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007ebs.pdf</a></li> </ul> </li> <li>Companies preparing to list can make more use of the <b>TSE's direct consultation service for IPO-related questions.</b></li> <li>The “Cooperative Meeting on IPO Practicalities” has been established as a forum for <b>the exchange of opinions among a wide range of relevant parties, including lead underwriter securities companies and auditing firms, regarding issues surrounding IPOs</b> (the first meeting is scheduled for late January 2025).</li> </ul>
3	Promotion of active information dissemination to investors	<ul style="list-style-type: none"> <li>After listing, we will <b>encourage active communication, such as through investor briefings or individual interviews, and promote the disclosure of progress made in these activities.</b> <ul style="list-style-type: none"> <li>➤ Source <a href="https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf">https://www.jpx.co.jp/english/equities/follow-up/dh3otn0000007e82-att/dh3otn0000007eb5.pdf</a></li> </ul> </li> </ul>
4	Support for disseminating information to institutional investors	<ul style="list-style-type: none"> <li>Holding investor relations seminars for business leaders that <b>introduce the perspective of institutional investors</b></li> <li>Disseminating good practice examples of proactive investor relations</li> <li>Creating opportunities for <b>information dissemination from business leaders to institutional investors (creating contact points)</b></li> </ul>
5	Raising listing standards	
6	Promoting use of the market by professionals	<ul style="list-style-type: none"> <li><b>Consideration to be made based on facts</b> at TSE's “Follow-Up Meetings”</li> </ul>

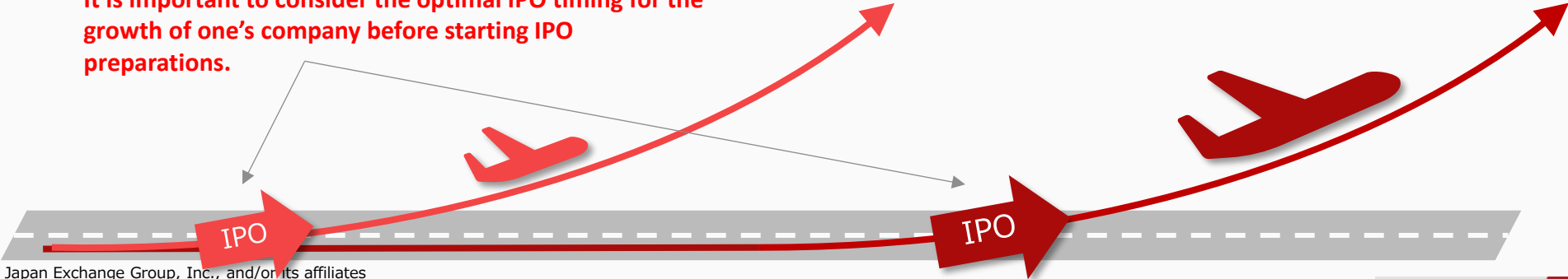
# Disclosure of Listing Purposes

- 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"><li>• [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).</li></ul>
(4) Status of progress	<ul style="list-style-type: none"><li>• 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.</li></ul>

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



# 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>

# (Ref.) Efforts by Parties Involved in the IPO Process to Disseminate Information

- There have been various efforts among parties involved in the IPO process as well to disseminate information on the basic concepts and points to note when preparing for an IPO, such as through publishing, video distribution, and seminars.

## Japan Institute of Certified Public Accountants

“Preliminary Preparation Guidebook for Initial Public Offerings (IPOs) - Points to Prepare for Before Undergoing an Accounting Audit -

<https://jicpa.or.jp/business/ipokansa/guidebook.html>



## II

## IPOを目指すに当たって

### Point

- ✓ 会計監査が始まる段階までの準備が重要です。
- ✓ 会計監査が始まる段階までに整備しておくべき事項を理解する必要があります。
- ✓ なるべく早めに監査法人やアドバイザーの指導を受けることが有効です。
- ✓ ビジネスモデルや規模を踏まえて監査法人を選任します。
- ✓ 監査対象期間（上場申請期の直前々期）に入ってからでの会計監査（遡及監査）の依頼は難しい場合があります。



## Content of Feedback We Are Looking For

# Content of Feedback We Are Looking For Today

## **Opinions and impressions about this document**

- Awareness of issues during the IPO preparation stage (IPOs becoming an end in themselves, existence of uncertain information) and response policies (dissemination of information through this conference)
- Trading conditions at the exchange based on awareness of issues (disclosure of listing objectives, publication of FAQ on Listing Examinations)
- Status of information dissemination and awareness-raising activities by parties involved in the IPO process

## **Main factors preventing the realization of IPOs, and things that companies preparing to list should be aware of in order to ensure a smooth IPO**

- Please share your opinions on the “factors that prevent IPOs from being realized” that are often seen in IPO preparation, and on the “matters that management should be aware of” in order to smoothly advance IPO preparation.

## **Other issues or problems related to IPO practicalities that should be discussed at this meeting**