

# Current Initiatives at Tokyo Stock Exchange

Tokyo Stock Exchange, Inc. Listing Department

March 10, 2025



## Action to Implement Management that is Conscious of Cost of Capital and Stock Price / Promoting dialogue with investors

- **Promote further initiatives** for companies that have **already disclosed information**
    - **Confirm evaluation and effects of recent measures**, such as filling the gap between companies and investors and promoting communication between them. **[around February 2025]**
  - **Encourage** companies that have **not yet disclosed to ensure proper IR functionality**
    - Discuss measures such as revising the Corporate Code of Conduct **[around February 2025]**
- ⇒ **Continuously review the situation** and consider additional measures **[every Summer]**
- **Educational programs for managers and staff of listed companies**
    - Explanation of measures including background, IR seminars, etc. **[Continuously implemented]**

Issues amid the promotion of Management that is Conscious of Cost of Capital and Stock Price

### Parent-Subsidiary Listings

- **Encourage consideration and disclosure on group management and protection of minority shareholders**
  - Publication of "TSE's Views and Policy on Parent-Subsidiary Listings" and "Investors' perspectives and points of view". **[around the beginning of 2025]**
- \* Also, continue to consider **the development of listing rules necessary from the perspective of protecting minority shareholders** (e.g., ensuring the independence of outside directors of listed subsidiaries).

Issues amid the increasing number of MBOs and Subsidiary Conversions by Controlling Shareholders

### Going Private

- From the perspective of protecting minority shareholders, encourage **further demonstration of the functions of special committees and enhancement of information disclosure necessary for minority shareholders to make investment decisions**
  - **Present the proposed revisions of the Corporate Code of Conduct based on practical coordination with market participants** **[around February 2025]**

## Promoting the Growth of Startup Companies

- **Consider and promote approaches for encouraging companies to boldly take on the challenge to grow after their IPOs** in order to **produce startups that will drive the growth of the Japanese economy in the future**
  - **Discussion on specific measures** **[around February 2025]**
- \* Continue to promote the understanding of the preparation for listing and the viewpoints of institutional investors after listing (e.g. holding IPO Practitioner Liaison Meetings)

## Actions in Response to the Termination of Transitional Measures

- **Encourage companies** subject to transitional measures **to consider and take actions to prepare for the termination of transitional measures** (March 2025) **and delisting** (September 2026 or later).
  - **Strengthen communication with companies** **[around January to March 2025]**
  - **Follow-up with companies that have entered the improvement period** **[from April 2025]**
- **Inform investors of the status of companies**
  - Publication of **a list of companies that have entered the improvement period**, with monthly updates **[from April 2025]**

- \* Additionally, **continuously support companies' efforts towards mandatory English disclosures** (starting from April 2025).

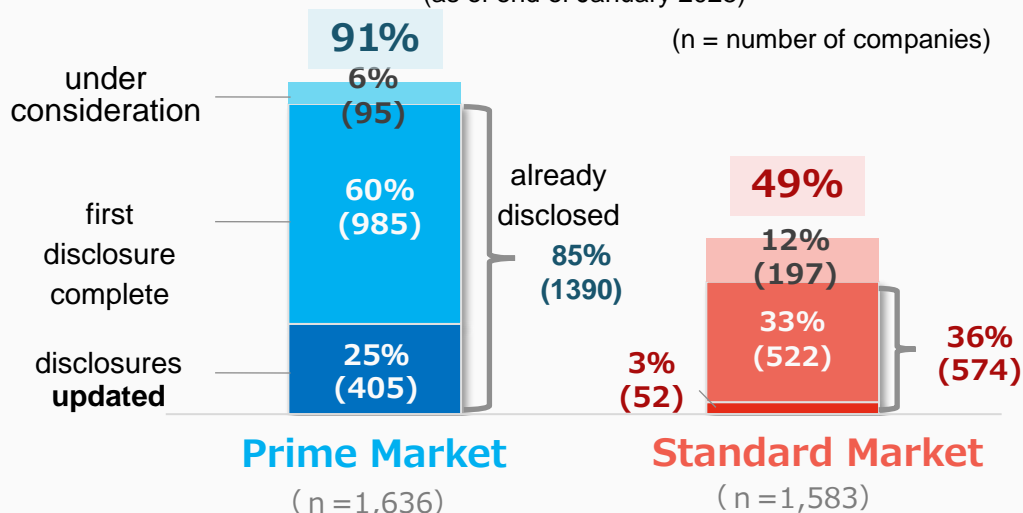
# 1. Management that is Conscious of Cost of Capital and Stock Price

# Disclosure Status and Measures to Encourage Disclosure

## Disclosure status

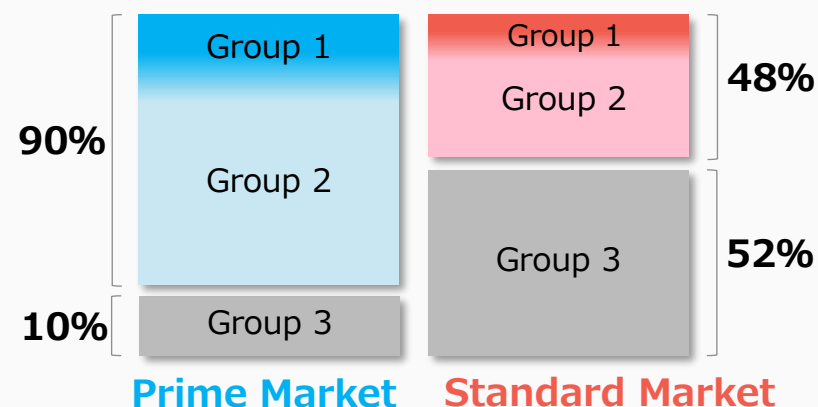
(as of end of January 2025)

(n = number of companies)



## Presumed Distribution of Companies' Disclosure Status

(based on feedback from investors)



## TSE Measures for Group 1 – 3 Companies

### Group 1 : companies taking initiatives for disclosures

- Continuing support for companies' initiatives.

### Group 2 : companies that need further improvement


- Providing information and materials for consideration, to resolve misalignment with investors' perspectives → **See Measure I: Key Points and Examples**
- Promoting smooth communication with investors → **See Measure II: Revisions to the List of Disclosing Companies**

### Group 3 : companies that are not ready for making disclosures

- Promoting understanding of the content of the disclosure request, as well as supporting first disclosures → **See Measure III: Ensuring Establishment of Investor Relations Systems**

# Measure I : Publication of the Key Points and Examples

- ◆ In February 2024, TSE compiled and published a report, based on interviews with **many investors in Japan and overseas**, including a summary of **the key points of initiatives that investors expect from companies**, and also **examples of initiatives that investors deemed as fulfilling these expectations**.

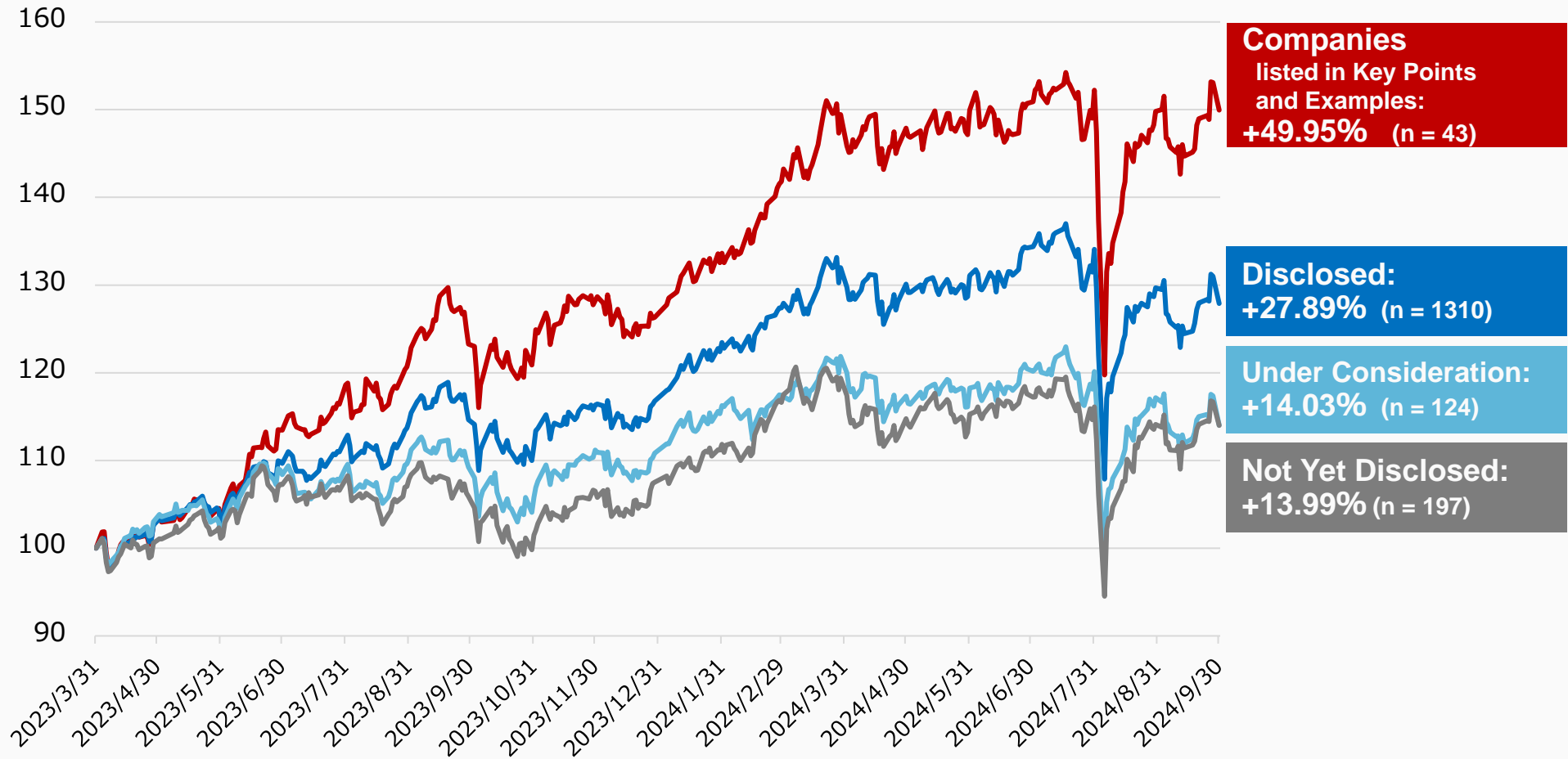
- 
- ◆ In November 2024, TSE compiled and published a new document **“Cases Where Companies Are Not Aligned With Investors’ Perspectives”** for listed companies to use as a reference when reviewing and improving their own initiatives.
  - ◆ In addition, TSE has **expanded** the key points and examples in **“Key Points and Examples Considering the Investor’s Point of View”** which was released in February 2024, based on recent feedback from investors. (29 companies + 26 companies).

\* The above content was compiled based on interviews with a gross total of over 300 investors in Japan and overseas.

\* Documents available at website <https://www.jpx.co.jp/english/news/1020/20241121-01.html>

# Reference: Stock Price Trends after Disclosure Request

## (Prime Market)



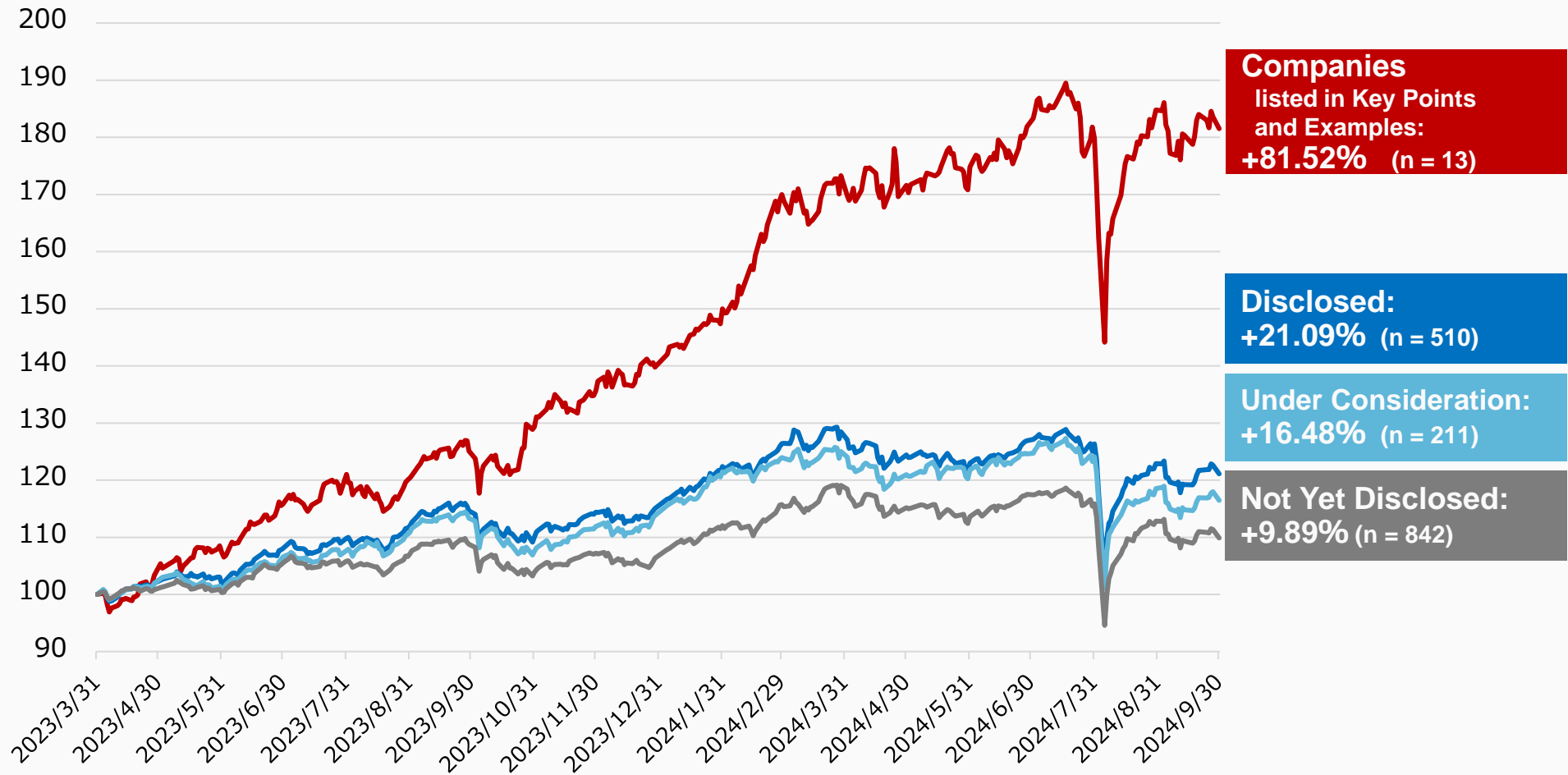
### Notes:

- Treating the stock price as 100 as of March 31, 2023, we estimated the stock price trends by category (equal weighting).
- The reference date for determining the status of information disclosure is September 30, 2024.

# Reference: Stock Price Trends after Disclosure Request



## (Standard Market)



### Notes:

- Treating the stock price as 100 as of March 31, 2023, we estimated the stock price trends by category (equal weighting).
- The reference date for determining the status of information disclosure is September 30, 2024.

# Measure II: Revision to the List of Disclosing Companies

- ◆ On January 15, 2025, TSE revised and began publishing a new list specifying **companies that have disclosed information but have not received sufficient contact from institutional investors and thus are seeking more active engagement.**



## (Reference) Example of Listing

List of Companies That Have Disclosed Information Regarding “Action to Implement Management That Is Conscious of Cost of Capital and Stock Price”  
as of December 31, 2024

Sector code	Sector	Market segment	Securities code	Company name	Disclosure status		Date of disclosure update	Wish to have more active contact from institutional investors		English disclosure
					Disclosure status in compliance with the request	Change in disclosure status from last month		Applic ation status	Where to contact	
**	*****	Prime	1111	aaaaa	Disclosed		2024/6/19			
**	*****	Prime	2222	bbbbb	Under consideration					Available
**	*****	Prime	3333	ccccc	Disclosed			✓	Corporate Planning Department, Public Relations and IR Section	
**	*****	Standard	4444	ddddd	Disclosed		2024/11/27	✓	IR Public Relations Department (consisting of four staff members)	Available
**	*****	Standard	5555	eeeeee	Disclosed	From "under consideration" to "disclosed"				
**	*****	Prime	6666	ffffff	Disclosed		2024/10/18	✓	Public Relations and Investor Relations Department	
**	*****	Prime	7777	ggggg	Under consideration	From unlisted to "under consideration"				
****	*****	Standard	8888	hhhhh	Disclosed		2024/11/14	✓	Corporate Planning Division	Available
****	*****	Standard	9999	iiii	Disclosed		2024/5/21	✓	Public Relations and Investor Relations Department	Available

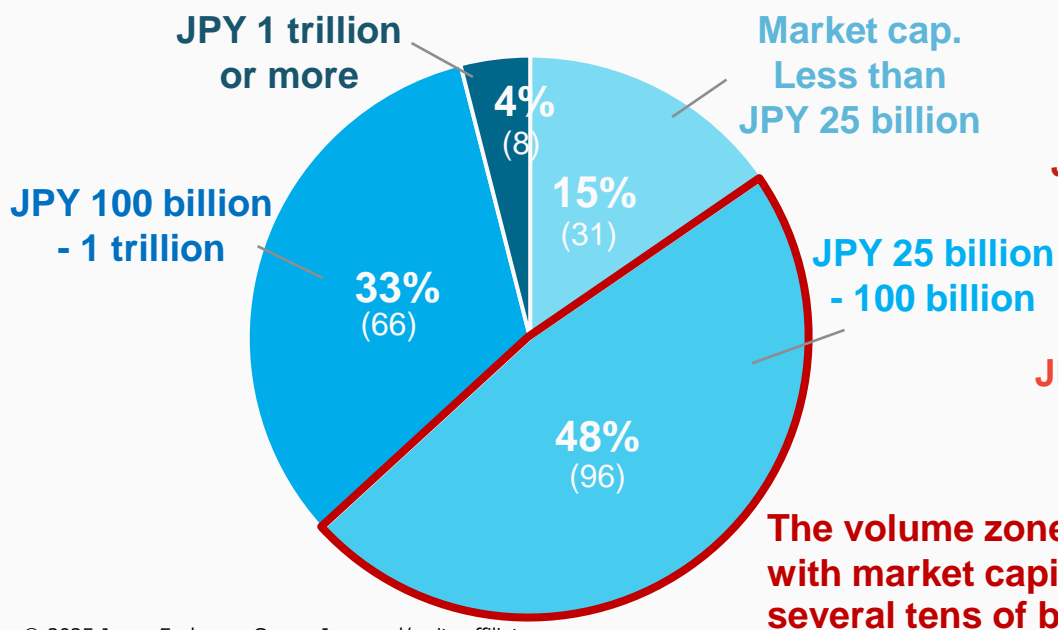


- ◆ From the List of Companies That Have Disclosed Information as of January 2025, **companies that have applied that they “wish to have more active contact from institutional investors”** are indicated on the list.
- As of the end of January 2025, a total of **235 companies** had submitted applications (an increase of **42 companies** from the end of the previous month)
- The volume zone is companies with market capitalization of several tens of billions of yen

## Distribution of Market Capitalization of Companies That Have Applied

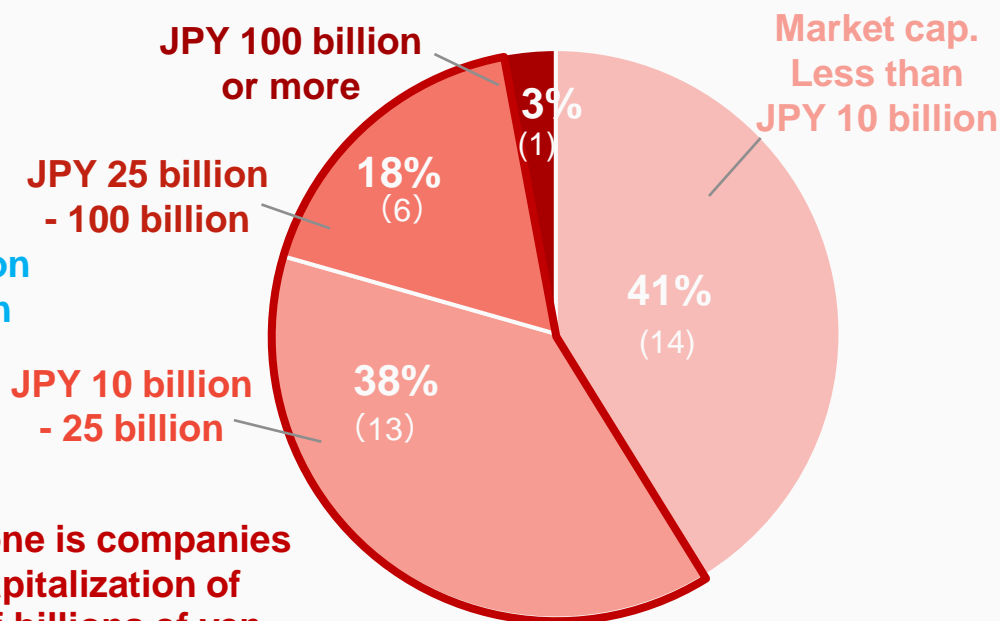
### Prime Market

**201 companies in total**  
(12% of companies on the Prime Market)




### Standard Market

**34 companies in total**  
(2% of companies on the Standard Market)



# Measure III: Ensuring Establishment of Investor Relations Systems

- While there is an increasing number of listed companies that are working to enhance corporate value by engaging with shareholders and investors, based on the request for action to implement management that is conscious of cost of capital and stock price, **there are also listed companies that make no attempt to engage with shareholders and investors.**
- 
- We are planning to stipulate in the Corporate Code of Conduct (matters to be observed) that **listed companies must develop a system for providing information to build relationships with shareholders and investors (IR system)**, and planning to later revise this in the relevant rules.

Note: While the exchange will not set uniform rules on what kind of IR systems listed companies must have, **it will continue to require companies to disclose information on their own IR systems in Corporate Governance Reports.**

## Reference: Items required to be stated in the Corporate Governance Report (current)

### Status of IR-related activities

- **IR-related systems**
  - The officer in charge of IR (such as a director responsible for IR activities), the department in charge of IR, the staff members in charge of IR, and other matters
- Regular investor briefings (held for individual investors, analysts and institutional investors, and/or overseas investors)
  - Dates of the briefings, contents, presenter (including whether or not a representative provided an explanation personally) and other matters
- IR information posted on the website
  - Posted information (such as corporate presentation materials), the URL, and others

# Reference: Status of IR-related Activities

Question 91. Please select the options that apply to the dialogue with shareholders and investors that your company has conducted in the past year (multiple answers possible).



**There are also a certain number of companies that do not carry out IR activities.**

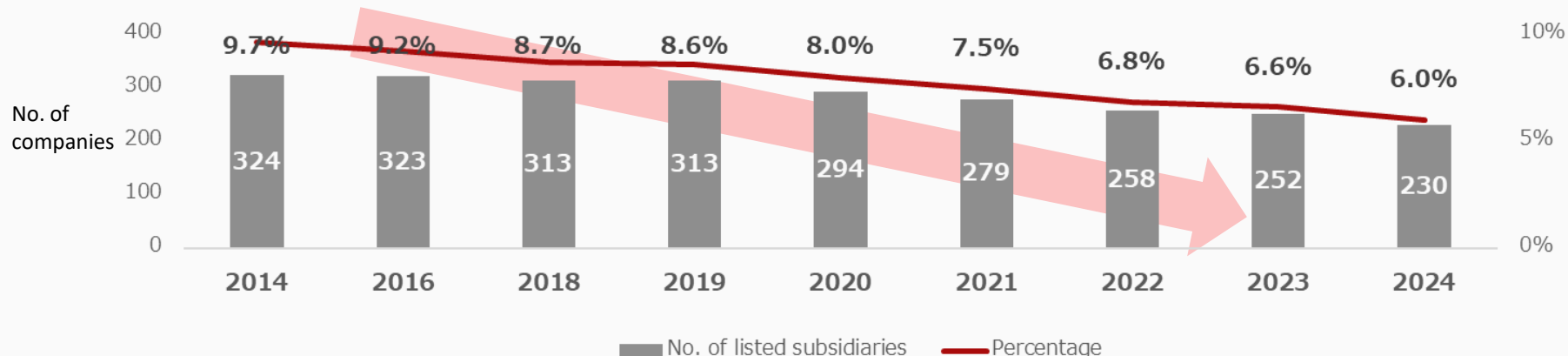
Source: Sumitomo Mitsui Trust Bank "Corporate Governance Reforms towards "Maximizing" Corporate Value - Corporate Governance Survey 2024" (translated by TSE)

## 2. Matters such as Parent-Subsidiary Listings

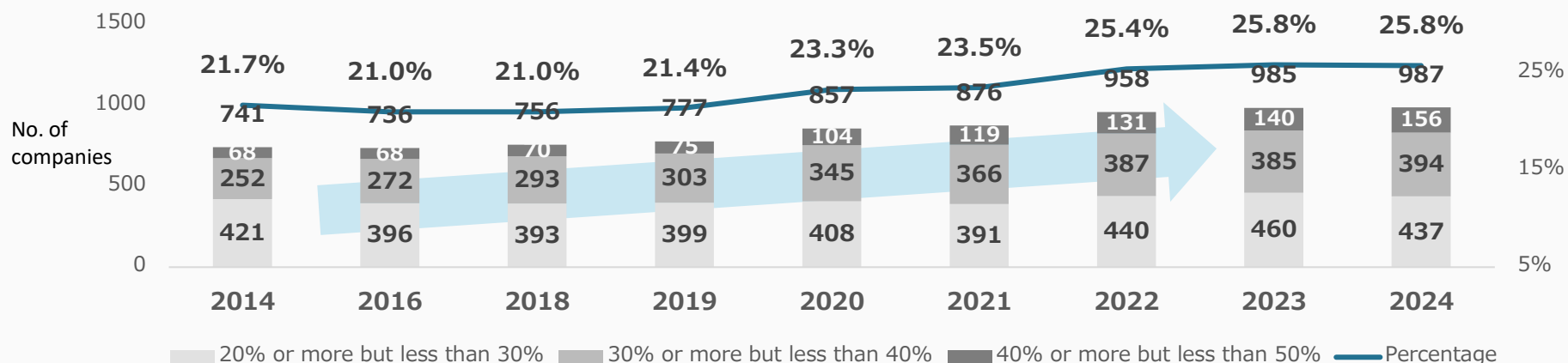
# Number and Percentage of Listed Subsidiaries

- The number and percentage of listed subsidiaries is declining gradually mainly due to the parent company making the subsidiaries wholly-owned or selling off their stake in the subsidiaries.
- The number and percentage of listed companies with major shareholders (excluding parent companies and non-corporate shareholders) holding 20% or more but less than 50% of their shares is gradually increasing mainly due to the formation of controlling and dependent relationships after listing.

## Number and Percentage of Listed Subsidiaries



## Number and Percentage of Listed Companies with Major Shareholders Holding 20% or More but Less than 50% of Their Shares



Note: The figures were calculated from companies whose largest shareholders hold 20% to 50% of their shares after excluding companies with a parent company and companies whose largest shareholder is an individual.

# Enhancement of Information Disclosure on Protection of Minority Shareholders and Group Management

- In December 2023, TSE again assembled and published “Specific Points for Disclosure” in order to ensure sufficient predictability for minority shareholders when making investment decisions (thereby allowing a reasonable premium/discount to be factored in) and to encourage listed companies to voluntarily enhance their information disclosure on minority shareholder protection and group management.

	Listed companies in a parent-subsidary relationship (Listed parent company/listed subsidiary)	Listed companies in a relationship under the equity method
Disclosure Rules	<ul style="list-style-type: none"> <li>■ <b>Disclosure</b> of minority shareholder protection and group management is <u><b>required</b></u> in the CG report.</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Disclosure</b> of minority shareholder protection and group management is <u><b>not required</b></u> in the CG report.</li> </ul>
Current Disclosure Situation	<ul style="list-style-type: none"> <li>■ <b>Actual disclosures vary from company to company, and many companies do not disclose enough.</b></li> <li>■ <b>Insufficient disclosure</b> of the following points in particular is said to <b>hinder long-term investment in listed subsidiaries</b>, for example. <ul style="list-style-type: none"> <li>➤ Influence of the parent company and other shareholders on the listed company's decision-making</li> <li>➤ <b>Basic approach to group management and review of business portfolios</b></li> <li>➤ Conflicts of interest and their monitoring and control</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Lack of disclosure makes <b>the actual state of group management and shareholder influence unclear.</b></li> </ul>

Action	<ul style="list-style-type: none"> <li>■ <b>Set out and clarify the specific points for disclosure related to the required disclosure items.</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Regarding matters related to the protection of minority shareholders and group management, set out the items that are recommended for disclosure and specific points to disclose, and newly recommend disclosure.</b></li> </ul>
--------	---	--


- Regarding group management in general, **the disclosure rate for a listed company’s basic approach to business portfolio strategy was 49%** and **that for its rationale for holding each subsidiary and for keeping them listed was 82%**.
  - Regarding disclosure of the rationale for holding the company as a subsidiary and for keeping it listed, many of the **examples referred to such advantages as expanding business partners, securing human resources, and fundraising from the capital market**, while few of them mentioned **disadvantages** or gave a rationale **compared to other forms of group company ownership**, such as wholly owned subsidiaries.

50%~	30% ~50%	10% ~30%	0% ~10%
------	-------------	-------------	------------

Disclosure Item	Outline of Specific Points for Disclosure	Disclosure Rate
Approach to and policy on group management	● <b>Basic approach to business portfolio strategy</b> (disclosure of any of the following points; the same applies for the other disclosure items)	<b>49%</b>
	➤ Approach to/policy on ownership of listed subsidiaries	16%
	➤ Approach to/policy on the use of the listed subsidiary framework and other forms of group company ownership	5%
	➤ Approach to/policy on coordination and allocation of business opportunities and business areas within the group	14%
	➤ Approach to/policy on reviewing and revising the business portfolio and actual implementation status	29%
Reasons for having subsidiary remain listed  Note: If the company has multiple listed subsidiaries, disclosure for each listed subsidiary.	● <b>The rationale for holding the company as a subsidiary and for keeping it listed</b>	<b>82%</b>
	➤ Background to holding the company as a listed subsidiary	28%
	➤ Advantages and disadvantages of it being a listed subsidiary	77%
	➤ <b>Rationale compared to other forms of group company ownership, such as wholly owned subsidiaries</b>	<b>3%</b>

# **Reference: The Investor's Perspective on Such Matters as Parent-Subsidiary Listings (extracts only)**



- ◆ TSE has been asking listed companies in parent-subsubsidiary relationships and those in relationships under the equity method to **develop initiatives and make disclosures on group management and the protection of minority shareholders.**
  - ◆ Meanwhile, TSE has heard from investors who have pointed out that, **"in most cases, companies still do not consider the significance of parent-subsubsidiary listings from the investor's perspective"** and that **"the contents of the disclosures are not aligned with investors' expectations."**
- 
- ◆ In February 2025, TSE compiled and published **“The Investor's Perspective on Such Matters as Parent-Subsubsidiary Listings”** and **“Cases of Misalignment with the Investor’s Perspective”** based on feedback received from interviews with many investors in Japan and overseas.

\* The above content was compiled based on interviews with a gross total of over 100 investors in Japan and overseas.

\* Documents available at website <https://www.jpx.co.jp/english/news/1020/20250204-01.html>

# Reference: Structure of Document

Check



## The Investor's Perspective

Learn how investors generally view your company's form of listing and what they expect

Document released in  
Feb. 2025



## Group Management

## Minority Shareholder Protection

Parents

### ■ The Investor's Perspective on Parents

#### ■ Cases of Misalignment with the Investor's Perspective

1. The parent only cites the advantages of listing its subsidiary
2. The parent is reluctant to take action because they see it as the "subsidiary's problem"

#### ■ Cases of Misalignment with the Investor's Perspective

3. The parent is not involved in ensuring the effectiveness of the subsidiary's governance system because the subsidiary is independent
4. The parent shows a disregard for minority shareholders in the election and dismissal of the subsidiary's directors

Companies that are  
Quasi-controlling  
Shareholders

### ■ The Investor's Perspective on Companies that are Quasi-controlling Shareholders

#### ■ Cases of Misalignment with the Investor's Perspective

- ✓ The company believes that investors do not expect any particular response from companies that are not in a parent-subsidiary relationship

Subsidiaries

### ■ The Investor's Perspective on Subsidiaries

#### ■ Cases of Misalignment with the Investor's Perspective

1. The listed subsidiary defers to its parent company and does not consider whether the current form of listing is optimal for itself
2. The explanation of reasons for using the parent's cash management system is limited to a comparison with bank interest rates

#### ■ Cases of Misalignment with the Investor's Perspective

3. Investors are unable to confirm the effectiveness of the subsidiary's governance system
4. It is unclear whether the process for electing and dismissing the subsidiary's independent directors is independent from the parent
5. The reasons for such things as the dispatching of executives are unclear

Companies with a  
Quasi-controlling  
Shareholder

### ■ The Investor's Perspective on Companies with a Quasi-controlling Shareholder

#### ■ Cases of Misalignment with the Investor's Perspective

- ✓ The company believes that investors do not expect any particular response from companies that are not in a parent-subsidiary relationship

Check



#### Cases of Misalignment with the Investor's Perspective

- ✓ Compare your company's initiatives with the cases of misalignment with the investor's perspective and re-examine your company's initiatives

# Investors' Comments: about Parent-Subsidiary Listings (on Parent Company Side)

Parent

Group  
Management

Minority Shareholder  
Protection



## Group Management



Investors

- ✓ A parent-subsubsidiary listing is useful transitionally in a business restructuring, such as the listing of an in-house venture.
- ✓ I have no problem with a parent-subsubsidiary listing as long as the parent company properly considers it and explains to investors that it is the best option in terms of medium- to long-term improvements in the group's corporate value.
- ✓ A parent company needs to explain its reasons for its parent-subsubsidiary listings because some investors believe the following. If the parent company respects the independence of the subsidiary's management, it should either sell or form a business alliance with the subsidiary. However, if the parent company wants to enhance synergies within the group, it should convert the subsidiary into a wholly owned subsidiary.
- ✓ It is an irregular form of listing because the subsidiary is listed with minority shareholders. Therefore, companies have a responsibility to give a reasonable explanation for it. However, currently few companies can give their rationale for maintaining their parent-subsubsidiary listings.
- ✓ Because many parent companies do not give their rationale for their parent-subsubsidiary listings, they have a higher cost of capital and discounted valuations.

## Minority Shareholder Protection



Investors

- ✓ If a parent company uses its influence to enjoy profits in excess of its shareholding ratio, there is a risk that the interests of the minority shareholders of its subsidiaries will be undermined. The parent company needs to take appropriate measures to protect the minority shareholders of its subsidiaries in light of this conflict-of-interest risk, but investors are concerned that parent companies are not sufficiently aware of their role in the matter.
- ✓ When speaking with parent companies, their explanations often focus on the advantages of parent-subsubsidiary listings in terms of group management, such as the realization of synergies, but they should recognize the need to consider the pros and cons of parent-subsubsidiary listings in terms of both group management and the protection of minority shareholders.

## 1. The parent only cites the advantages of listing its subsidiary

Example (based on an actual disclosure)

We have decided to keep the subsidiary listed because we believe that its credibility as a listed company will help expand our client base, secure human resources, and maintain and improve employee morale, and this will contribute to increasing our group's corporate value.

Example (based on an actual disclosure)

We believe that we have sufficient grounds for keeping the subsidiary listed because doing so helps it acquire talented human resources, maintain and improve employee morale, and receive flexible financing from the capital market.

### Investors' Comments



- ✓ There are many cases where the parent company merely cites the advantages of listing its subsidiaries and does not consider or explain **whether this is optimal in terms of capital efficiency and improving the group's corporate value**.
- ⇒ In TSE's request to take "Action to Implement Management that Is Conscious of Cost of Capital and Stock Price," companies are expected to **appropriately allocate management resources by being conscious of the cost of and returns on capital** and doing such things as reviewing their business portfolios.
- ⇒ As the parent company **considers the balance sheet and cash allocation policy that it is hoping to achieve**, it should also discuss and explain **how it will position and utilize its listed subsidiaries**.
- ⇒ In addition to qualitative analysis, the parent company needs to perform **quantitative analysis** from the perspective of **capital returns** (e.g., ROE and ROIC) and **market valuation** (e.g., PER and PBR) to determine such things as **whether the subsidiary is achieving a return on capital that exceeds the cost of capital**.
- ⇒ It is also important for the parent company to consider **the best owner principle (whether it is the holding entity that maximizes its subsidiary's corporate value)**. As a result, it may choose to sell its subsidiary to a third party. Investors applauded companies like Hitachi and Fujitsu for **considering their business portfolio strategy and selling some of their subsidiaries**.

# Investors' Comments: About Companies that are Quasi-controlling Shareholders and Companies with a Quasi-controlling Shareholder

## Group Management



Investor

- ✓ Like parent-subsidary listings, investors also find quasi-controlling/quasi-controlled relationships difficult to grasp because some of them believe the following. If the quasi-controlling shareholder respects the independence of the management of the quasi-controlled company, it should either sell or form a business alliance with that company. However, if the quasi-controlling shareholder wants to enhance synergies within the group, the quasi-controlled company should be converted into a wholly-owned subsidiary.
- ✓ Because the upstream company has the responsibility to protect the downstream company's general shareholders despite lacking the right of control, it could be interpreted as a half measure in terms of improving the group's corporate value, and thus requires careful explanation.

## Minority Shareholder Protection

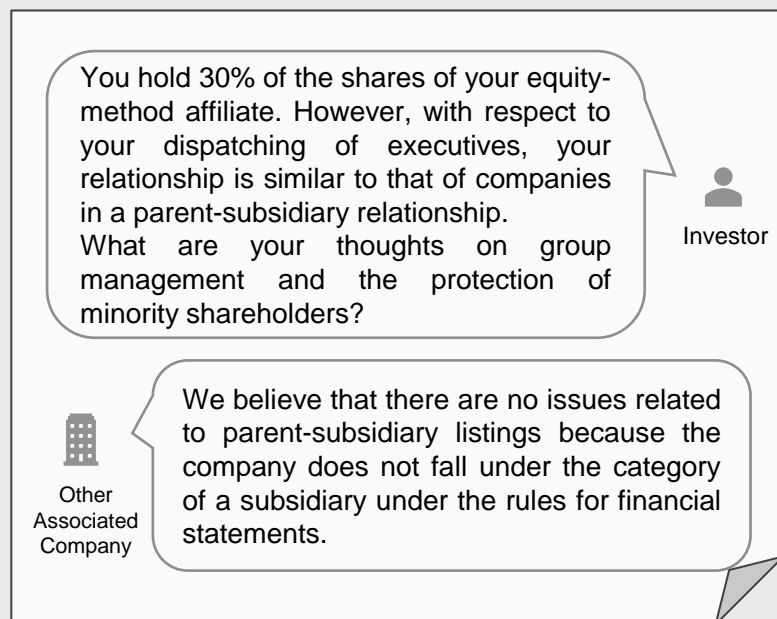


Investor

- ✓ In companies with a quasi-controlling shareholder, conflict-of-interest issues similar to those of listed subsidiaries arise between the quasi-controlling shareholder and general shareholders. Just because it is not a parent-subsidary listing does not mean that there will be no issues related to the protection of minority shareholders.
- ✓ It is fine to disclose that no special measures have been taken because the conflict-of-interest risks are minimal. What hinders long-term investment is the lack of transparency.
- ✓ In order to understand the company's relationship with the quasi-controlling shareholder and its influence on the company, it is important to have information not only on its shareholding ratio but also on its dispatching of executives. As in the case of companies in parent-subsidary relationships, companies will be required to adequately disclose the contents of any material contracts regarding the dispatching of executives.

## The company believes that investors do not expect any particular response from companies that are not in a parent-subsidary relationship

Example (based on an actual conversation)



### Investors' Comments



- ✓ While we feel that listed companies in parent-subsidary relationships have started to make progress in considering the nature of group management, listed companies in quasi-controlling/quasi-controlled relationships **have yet to make progress in this area.**
- ✓ Companies mistakenly believe that there are no problems if they are not in a parent-subsidary relationship. As a result, we have seen some parent companies move to **dissolve their parent-subsidary relationships simply by reducing their holdings in their subsidiaries to 20% or 30%.**
- ⇒ When a company has less than a majority of the voting rights in another company but exerts a quasi-controlling influence over it by such means as the dispatching of executives, investors **generally regard the relationship as "similar to a parent-subsidary listing" and engage the company on such matters as group management and the protection of minority shareholders.**
- ⇒ For example, there are conflict-of-interest risks between specific parties not only at companies in parent-subsidary relationships but also **at companies in relationships under the equity method and at companies in relationships where one company holds a certain number of shares in another company through such means as a capital and business alliance.**
- ⇒ Issues of group management and the protection of general shareholders exist to varying degrees at companies in quasi-controlling/quasi-controlled relationships. **Depending on such things as the relationship and degree of influence between the individual companies, companies in such relationships are expected to consider such issues and fulfill their responsibility to explain them adequately to investors.**

## 3. Going Private

Review the Scope of Actions Covered by the Code

- TSE will broaden the scope of actions already mandated when executing a cash-out that could lead to a conflict of interest, which are **"obtaining an opinion stating that the transaction will not undermine the interests of minority shareholders"** and **"necessary and sufficient disclosure of information."**

	Subsidiary Conversion by Controlling Shareholder	MBO	Subsidiary Conversion By Other Related Company*
(1) Opinion stating that the transaction will not undermine the interests of minority shareholders <ul style="list-style-type: none"><li>● Requirement to obtain said opinion from an entity that has no interest in the controlling shareholder</li></ul>	Already applicable	Newly applicable	
(2) Necessary and sufficient timely disclosure <ul style="list-style-type: none"><li>● Requirement for necessary and sufficient timely disclosure (including an overview of the share value calculation)</li></ul>	Already applicable		Newly applicable

\* Other Related Companies as set forth in Article 8, Paragraph 17, Item 4 of the Financial Statements Regulation (cases where a company holds 20% or more of the voting rights, or cases where a company holds between 15% and 20% of the voting rights and can exercise significant influence)

Revision of Content of Code

- (1) Revision of the **"opinion stating that the transaction will not undermine the interests of minority shareholders" (including providers and contents)** to improve the effectiveness of the deliberations of Special Committees (see pages 40 to 41)
- (2) Revision of the contents of **"necessary and sufficient disclosure of information"** (enhancing disclosure of important assumptions for the share value calculation) to ensure that general shareholders judge the fairness of a transaction on the basis of sufficient information (see page 42)



# (1) Revision of "Opinion Stating That the Transaction Will Not Undermine the Interests of Minority Shareholders"

- In order to improve the effectiveness of the deliberations of Special Committees, the "opinion stating that the transaction will not undermine the interests of minority shareholders" will be reviewed as below.

## Current Code

## Planned Revisions

### Opinion Provider

Entities with no interest in the controlling shareholder

- In addition to the Special Committee, it is also possible to obtain opinions from outside directors and auditors as well as experts with no vested interest. (In practice, in all cases they are obtained from the Special Committee.)

- ✓ **The opinion must be obtained from the Special Committee**
- The purpose of this revision is to clarify the entity conducting the consideration.

### Contents of Opinion

Opinion stating that the transaction will not undermine the interests of minority shareholders

- There have been cases where the opinion of not undermining was given just because there would be an opportunity to sell at a price with a certain premium, despite concerns about the fairness of the price.
- There are no specific rules regarding the points that should be considered when forming an opinion, and investors have pointed out that it is unclear whether effective discussions are taking place.

- ✓ Requirement to obtain "**opinion stating that the transaction is fair to general shareholders**"
- In accordance with the Fair M&A Guidelines, this is to require opinions from the perspective of ensuring "transactions that fairly distribute the increase in corporate value to general shareholders."
- ✓ **Clarify points of view** that should be considered (page 4) for the opinion and stipulate that the **specific details of the consideration and the basis for the final judgment** for each point of view must be **sufficiently explained and disclosed in the opinion**.
- While we do not require the disclosure of the minutes themselves in consideration of the practical impact, we do require that companies will properly fulfill their accountability by indicating the perspectives that should be considered and disclosed.

- TSE will also continue to require **the Board of Directors to provide a sufficient explanation of the basis for the final decision** based on the opinions from the Special Committee
- In addition, TSE is considering providing information on the responses and knowledge required in the phase of going private for independent directors and others who are members of Special Committees (for example, provision of explanatory videos seminars by outside experts).

# Matters For Consideration in Opinions

Appropriateness of the M&A	<ul style="list-style-type: none"> <li>● Whether it will contribute to the improvement of the target company's corporate value</li> </ul>
Fairness of the terms of the transaction	<ul style="list-style-type: none"> <li>● Based on all of the following perspectives, <b>whether the terms of the transaction (including purchase price, method of acquisition, form of payment) are fair</b> <ul style="list-style-type: none"> <li>✓ <b>The process of consultation and negotiation with the acquirer</b> <ul style="list-style-type: none"> <li>- The progress of the discussions (including the details of the Special Committee's involvement), the policy for the discussions and negotiations, the details of any major points of contention, and the reasons for any changes from the original policy (such as the details of any consideration of the risk of the talks breaking down)</li> </ul> </li> <li>✓ <b>Share value calculation details and the rationale behind the financial forecasts and assumptions used as the basis for the calculation</b> <ul style="list-style-type: none"> <li>- If the assumptions for financial forecasts have changed significantly or there are special preconditions, the rationale behind these</li> </ul> </li> <li>✓ <b>Reasonableness of the premium compared with past market prices and similar cases</b> <ul style="list-style-type: none"> <li>- If negative information has been disclosed just before an MBO/conversion, consideration of reasonableness should take that into account.</li> </ul> </li> <li>✓ Other (e.g., the price at which the shares were acquired in the past by the acquirer)</li> </ul> </li> </ul>
Fairness of the procedure	<ul style="list-style-type: none"> <li>● Based on the specific circumstances of the M&amp;A, <b>from the perspective of procedurally securing the fairness of the transaction terms as a whole, whether sufficient "Fairness Ensuring Measures" are being taken</b> <ul style="list-style-type: none"> <li>✓ <b>Implementation status of "Fairness Ensuring Measures" 1 to 6 listed in the Fair M&amp;A Guidelines, and if any of the measures are not implemented, the reasons for this and how this is considered from the perspective of ensuring fairness</b> <ul style="list-style-type: none"> <li>- In line with the spirit of the Fair M&amp;A Guidelines, TSE will not require the implementation of all measures, but rather asks that an appropriate combination of measures be implemented according to each case and the situation be explained to investors.</li> </ul> </li> </ul> </li> <li>1. <b>Establishment of a Special Committee</b> (timing of establishment, composition, authority (such as involvement in negotiations, appointment of advisors), remuneration for committee members)</li> <li>2. <b>Expert advice from external advisors</b> (such as legal advisors, third-party valuation advisors, etc.) <ul style="list-style-type: none"> <li>- Details of the examination of the independence of external experts and the basis for the judgment</li> </ul> </li> <li>3. <b>Market checks</b> (active market checks, indirect market checks) <ul style="list-style-type: none"> <li>- Where there is a competing proposal (limited to a specific, feasible and serious takeover bid) and the company will agree to the MBO or subsidiary conversion, the content of the deliberations by the Special Committee and the basis for that decision</li> </ul> </li> <li>4. <b>Majority of Minority Conditions</b> (procedures for confirming the will of shareholders)</li> <li>5. <b>Elimination of coerciveness</b></li> <li>6. <b>Disclosure of information</b> (disclosure of information to the extent that it is possible to judge the fairness of the terms of the transaction and the fairness of the procedures)</li> </ul>

## (2) Revisions to Necessary and Sufficient Disclosure (Enhancing Disclosure of Calculation Assumptions)

- So that general shareholders can judge the fairness of a transaction on the basis of sufficient information, we will **enhance disclosure of the important assumptions for the share value calculation (the thinking behind the financial forecasts on which the calculation is based)**

(Note) We do not require disclosure of specific figures in the calculation process of free cash flow (FCF), due to practical concerns such as it leading to publication of confidential information regarding business strategy, and opinions received that the figures can be estimated to a certain extent through enhanced disclosure of the assumptions and thinking.

		Timely Disclosure Guidebook (enhanced parts are <u>underlined</u> )	
Overview of share valuation calculation	Financial forecasts	Specific figures (including growth rates) of financial forecasts (including sales, operating income, EBITDA, free cash flow)	
		Sources of the financial forecasts	
		<u>Thinking behind setting of financial forecast period</u>	
		<u>Assumptions used in financial forecasts (what assumptions are there on the business environment, etc.)</u>	
		<ul style="list-style-type: none"><li>– If a significant increase or decrease in profit/FCF is forecast, the reasons for this</li><li>– <u>If using financial forecasts that differ substantially from those announced before the M&amp;A, the reasons for this</u></li></ul>	
		Whether the forecasts assume that the M&A will be carried out	
	Discount rate	Specific figures (range acceptable) for <u>and type of</u> discount rate <ul style="list-style-type: none"><li>– <u>If there are special preconditions such as consideration of a small risk premium, the details of and basis for these</u></li></ul>	
	Terminal value	<u>Specific figures (range acceptable) and calculation methodology for the terminal value</u>	
		Specific figures (range acceptable) of parameters used in calculation of the terminal value <u>and thinking behind the setting of said parameters</u> <ul style="list-style-type: none"><li>– <u>If there are special preconditions such as adjustments to disregard one-off expenses in the final business year, the details</u></li></ul>	
	Non-business assets	<u>Treatment of individual assets (real estate such as leases, strategic shareholdings, surplus funds, etc.) in the calculation (thinking behind the categorization of business and non-business assets, etc.) (only applies if material to the calculation)</u>	
Other	Details of other special preconditions, if any		
Relationship with calculation agent	If there is a material interest relationship with the calculation agent, the details and why the company requested the calculation from an agent with which it has a material interest relationship  (E.g., a) when the agent falls under the definition of a related party, b) when the request was given to an agent recommended or introduced by the offeror, c) when the agent receives requests from both the listed company and the offeror, d) when the company was receiving financing from the agent or any of its related companies)		
	<u>Fee structure of third-party valuation advisor (whether the fee is a contingency fee paid on factors such as the completion of the M&amp;A or a fixed fee paid regardless of the M&amp;A's success, etc.)</u>		

Revised to request disclosure regardless of the form of payment: **In cases where payment is made in listed shares**, currently disclosure is not requested given the existence of a market price, but based on investor concerns, **we will now request disclosure of the target company's financial forecasts.**

## 4. Startup / Growth Market

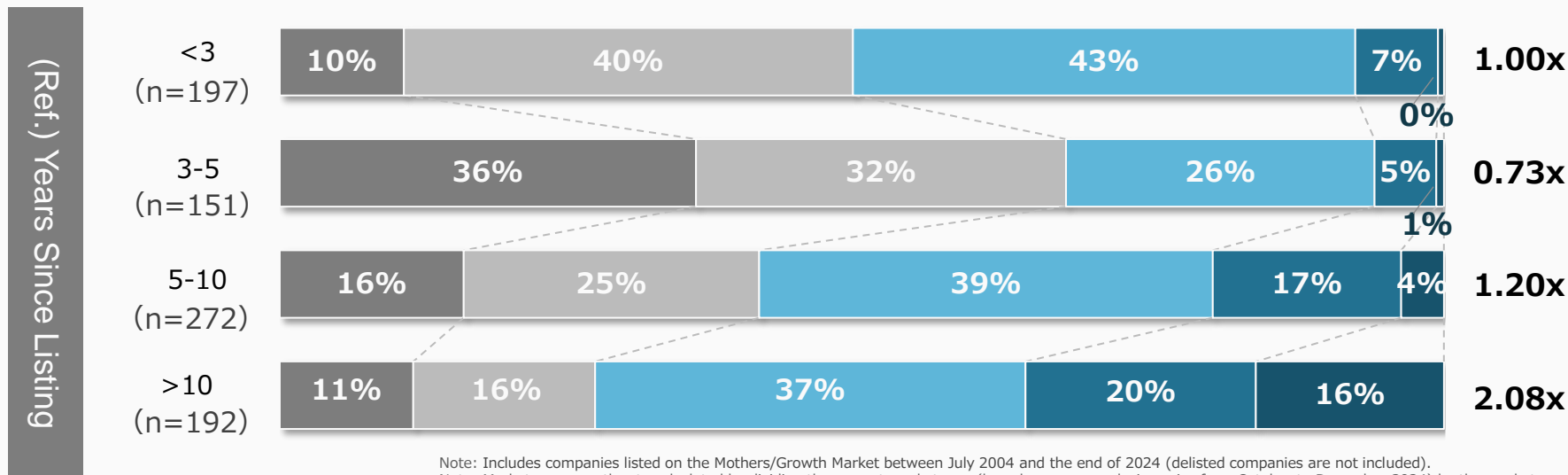
# 1. Current Situation (Market Capitalization Growth Rate)

- ◆ 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.)

## 2.1 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)
- ⇒ In making these efforts, **how should we approach the content and methods of effective communication?**  
(Reference: Request for “Management that is Conscious of Cost of Capital and Stock Price.”)

### 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 using 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, please also disclose that fact.**

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

## Specificity and Rationality of Provided Content

- **With the systematization of “Matters Relating to Business Plans and Growth Potential” disclosure in the Growth Market,** it has become easier to understand business models, etc. than in the Mothers era. However, there are also cases where **qualitative and abstract explanations and appearances are in order, but there is a lack of concreteness in terms of how much growth can be expected in the end.** It is important to **specifically formulate and disclose growth targets and initiatives to achieve them, using KPIs, etc.**
- **The current disclosure content lacks specificity in many places, so it should be described as quantitatively as possible.** In doing so, because there is ambiguity in the company’s own KPIs alone and it is difficult to compare them horizontally, it is best to first present a medium-term plan for the items on the BS, PL, and CF. After that, it is good to **explain the KPIs that form the basis for those figures and why the KPIs are important.**
- **There are also cases where the target market is too far removed from reality.** If you don't target a realistic market, it will be difficult for investors to make a decision, as it will be unclear. **Rather than inflating expectations, it is important to explain clearly** the company's competitive advantage and when it will be profitable, based on rational grounds.

## Importance of Situational Analysis and Updates

- To attract investors who will hold their shares for the medium to long term, it is important to **clarify the KPIs for achieving growth** when disclosing “Matters Related to Business Plans and Growth Potential,” and to **regularly analyze and update the situation.**
- **Recently, there has been an increase in the number of companies that indicate KPIs when disclosing “Matters Related to Business Plans and Growth Potential” at the time of IPO, but then stop providing these KPIs after listing.** Showing KPIs only when pricing at the time of IPO and then withdrawing them afterwards is **unclear and dishonest.**
- There are cases where small companies that have not grown well are asking **institutional investors to invest in them, but first they should thoroughly analyze the reasons for their consistently low market cap. and take steps to improve it.**

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

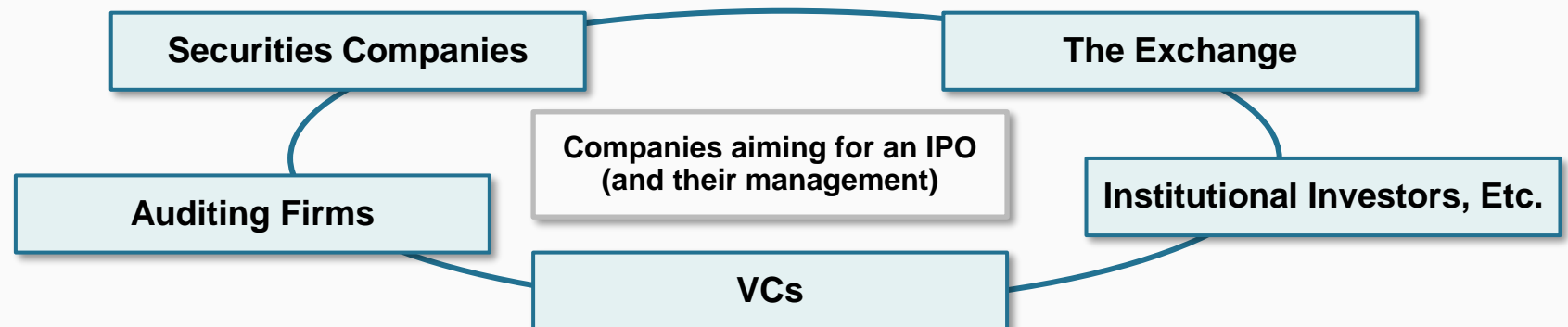
### ◆ For companies (and their management) aiming for an IPO:

- 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 the results of the December hearing etc. will be taken into account, and that companies (and their management) will be approached **in collaboration with those involved in supporting IPOs from an early stage (such as securities companies).** How should we approach the content and methods of effective communication?

- 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, 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.





### 3. Measures to Incorporate the Perspective of Institutional Investors

- ◆ In addition to encouraging companies (and their management) to pursue management that aims for high growth, **the following measures are also being considered to incorporate the perspective of institutional investors.** Are there any points that should be noted for discussion in future meetings?
- **Promoting communication measures such as understanding the perspective of institutional investors and creating points of contact.**
- **Securing a scale that can be an investment target for institutional investors based on numerical criteria.**

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

## Minimum Investment Size

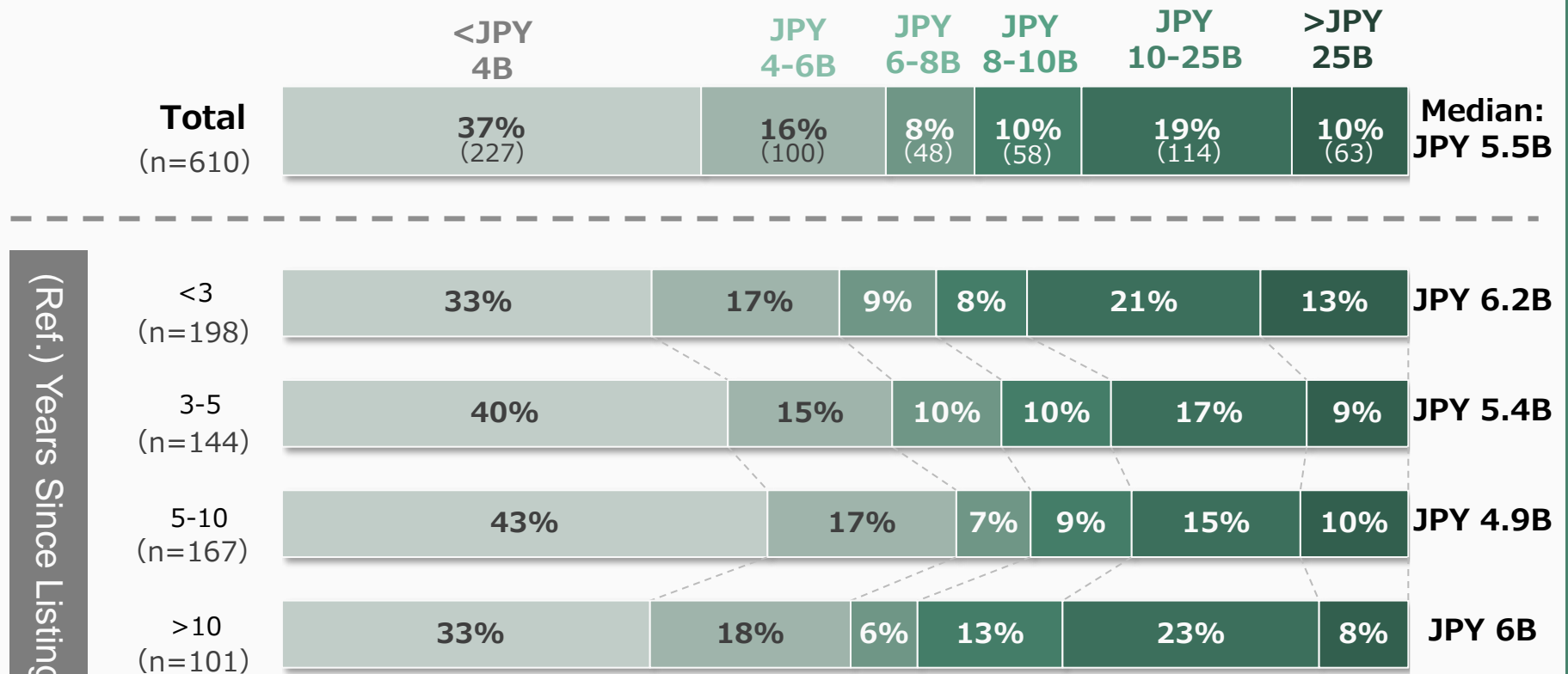
- According to the investment criteria, it is not possible to buy more than 10% of all shares, so it is difficult to invest in small companies. It seems that the **hurdle is around JPY 5 to 10 billion in market cap.** Even if it were JPY 3 billion, it would not be impossible to invest in cases where 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.

# (Ref.) 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.

## 5. Transitional Measures

# Most Recent Situation of Companies Subject to Transitional Measures



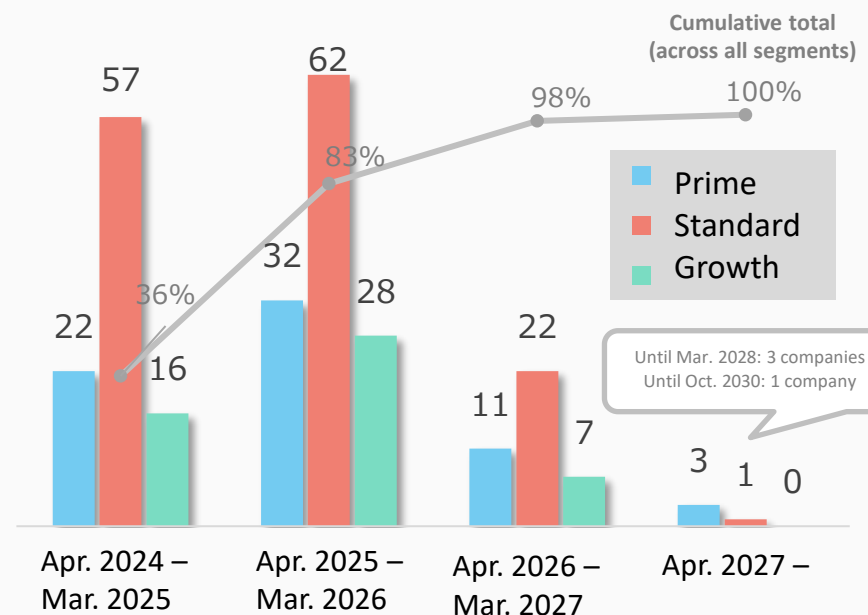
## ◆ A total of 267 companies are currently subject to transitional measures.

\*The status of compliance with criteria is reflected up to the end of October 2024.

### Number of Companies That Do Not Meet Criteria

Prime	Tradable Share Market Cap. (JPY 10 bil. or more)	: 53
	Tradable Share Ratio (35% or more)	: 15
	Trading Value (daily avg. JPY 20 mil. or more)	: 3
	Total (excluding duplicates)	: <b>69</b>
Standard	Tradable Share Market Cap. (JPY 1 bil. or more)	: 93
	Tradable Share Ratio (25% or more)	: 54
	Number of Shareholders (400 or more)	: 2
	Total (excluding duplicates)	: <b>147</b>
Growth	Tradable Share Market Cap. (JPY 0.5 bil. or more)	: 7
	Tradable Share Ratio (25% or more)	: 19
	Market Cap. (JPY 4 bil. from 10th yr. of IPO)	: 26
	Total (excluding duplicates)	: <b>51</b>

### Distribution of End Dates for Planning Period



Note:

- Reflects judgment up to the end of October 2024
- Excludes companies scheduled to go private
- The longest planning period is adopted for companies that do not conform to multiple criteria

(Reference) List of companies subject to transitional measures: <https://www.jpx.co.jp/english/listing/market-alerts/improvement-period/index.html>

- ◆ For shareholders and investors, TSE will strengthen its efforts to inform and caution that the transitional measures are about to end, and there is just over a year remaining until delisting in the earliest case.
- ◆ For companies subject to transitional measures (especially those entering the improvement period from this March), as below, TSE will encourage them to consider and implement necessary actions by informing them that other companies are making various corporate actions to comply with the criteria, such as segment transfers, multiple listing on other exchanges, and going private.

## Recent Developments for Companies Subject to Transitional Measures

(345 Companies Subject to Transitional Measures as of the End of 2023)

### Conformity to criteria

- **119 companies** have met the criteria (Prime: 49 companies; Standard: 59 companies; Growth: 11 companies)  
\*54 companies have not met the criteria (Prime: 15 companies; Standard: 26 companies; Growth: 13 companies)

### Market segment transfer

- There were **31 companies** that consulted with us in advance about changing their market segment to the Standard Market (Prime: 23 companies; Growth: 8 companies), and **one of these companies** actually carried out a segment transfer.  
\*There were also other companies meeting the criteria that consulted with us in advance (about 50 companies).

### Multiple listing on other exchanges

- **16 companies** have carried out multiple listing on other exchanges in Japan (Prime: 1 company; Standard: 15 companies)  
\*There are also signs of other companies that meet the criteria carrying out multiple listing (approximately 10 companies)

### Going private

- **14 companies** have been delisted through an M&A, MBO, etc., with other companies (Prime: 2 companies; Standard: 10 companies; Growth: 2 companies)  
\*This includes companies currently in the Security to Be Delisted period.

\*Aggregation of developments since January 2024 (the status of compliance with criteria is reflected up to the end of October 2024).

# Schedule After the End of Transitional Measures

- ◆ In the earliest case, if no improvement is made by March 2026, delisting will occur according to the schedule below.
  - The regular continued listing criteria will be applied from record dates that fall on or after March 1, 2025.
  - If a company does not meet the continued listing criteria, it shall enter an improvement period of one year (six months if the criterion not met is for trading volume).
  - If a company does not meet the criteria during the improvement period, its securities will be delisted following designation as Securities Under Supervision and Securities to Be Delisted (a total period of six months).

## Example schedule for a company with a fiscal year ending March 31

