

Cooperative Meeting on IPO Practicalities  
Summary of Proceedings of the First Meeting

- 1 .Date and Time: January 22, 2025, from 3:00 p.m. to 4:30 p.m.
- 2 .Venue: TSE, 3rd Floor, Room 301
- 3 .Attendees: see list of members
- 4 .Summary of Proceedings

**Factors that prevent IPOs from being realized**

- There are mainly four factors that prevent IPOs from being realized. The first is that the business plan is not well crafted. In some cases, the key performance indicators (KPIs) and other metrics are not meticulously planned, and in other cases, the plans are made based on target sales and profits, making post-analysis difficult. The second is the departure of key personnel. It seems that companies whose CFO or head of accounting resign during preparation for an IPO tend not to grow. The third is its organizational management in terms of administration or control. Companies whose management focuses on the formal aspect of securing personnel for administrative tasks without considering quality tend to struggle. The fourth factor is that, as the organization expands, compliance and the company's mission and vision may not be adequately communicated, making it essential to ensure they are thoroughly instilled.
- Performance is the biggest factor preventing IPOs from being realized. Approximately 70-80% of the companies that apply for a listing on the stock exchange successfully complete an IPO. However, prior to such application, as a preparation process for an IPO, a candidate must undergo a short review (brief audit) by its auditing firm and enter into a listing agreement with a securities company. And of the companies that start said preparation process, a much smaller number eventually achieve an IPO.
- It is common for a company to postpone its IPO due to business performance, but the decision by the company to establish a growth structure before going public is not necessarily a bad thing.

**Awareness of issues during the IPO preparation stage, about IPOs becoming an end in themselves**

- Many members agree that the purpose of going public may have become an end in itself.
- While improving credibility and securing talent are often cited as purposes for an IPO, many

companies preparing for an IPO do not have a clear plan on how to leverage these benefits.

- Over the past year or two, there seems to be a growing awareness among startups about not rushing into an IPO and instead focusing on properly nurturing their business and establishing a solid foundation. However, due to factors like the investment horizon of existing shareholders, there is still pressure to expedite the IPO process.
- Companies preparing for an IPO generally aim for growth post-IPO, and this remains true even if the goal is to no longer rely on venture capital funding. It is questionable whether the message to clarify the purpose of an IPO before starting preparations will truly be effective.
- It is indeed not good that the goal of an IPO can become the IPO itself. However, from the perspective of those supplying risk capital, the ability to exit through an IPO justifies the provision of funds. Therefore, our message should be prepared and disseminated on the basis that the various positions should be relevant to this issue, so that our message will not become overly one-sided.

#### **Measures to disclose the purpose of IPOs on the Growth Market (from June 2024)**

- I believe that it is a very good opportunity to review the purpose of the IPO just before going public and disclose it to investors, but I feel that there are still many formalities in practice.
- Since the purpose of going public may change during the IPO preparation process, I believe that in practice there may be a gap when the purpose of going public is reaffirmed just before the IPO.
- Some of the current disclosures regarding the purpose of listing appear to be excuses. Additionally, it is institutional investors during roadshows who are particularly concerned about the purpose of listing, and I believe there is room for improvement in the current system where this information is not disclosed until the listing date.

#### **Existence of uncertain or inaccurate information about IPO preparation**

- Many members agree that there is a problem with inaccurate information flying around during the IPO preparation process.
- How to deal with IPO preparation issues differs depending on the conditions of each company, and therefore it is difficult to standardize a solution. However, it seems that the content of the guidance given to individual companies by the underwriting department of a securities company is being shared among the management of different companies. And there are more and more cases where we are asked, "Another company was told this, what about us?"
- There have been cases in which inaccurate information was disseminated when outside directors or members of teams who prepared for an IPO spoke on their own IPO-related

experience. In such cases, we resolve the issue by carefully explaining the differences in business models between companies.

- I think information could be misleading and inaccurate if the assumptions and preconditions are not effectively communicated and correctly understood. Where there are various parties involved in an IPO, including IPO consultants and venture capitalists, there are cases where success stories from these parties about how to pass the listing examination have spread on their own, and that IPO experiences told by a president or CFO are exaggerated and spread on their own.
- There is also the possibility that those who have been involved in IPO preparation or guidance in the past are providing advice based on outdated experience.
- Among those involved in IPOs, less experienced individuals tend to give more rigid responses. Additionally, some people may use the TSE as a shield to push their own opinions, claiming that otherwise, the company will not pass the listing examination.
- I would like to give a specific example. TSE has duly issued guidelines on related party transactions, which require the necessity and appropriateness of said transactions be explained first, otherwise they should be ceased. However, many IPO-related parties instruct companies to stop all such transactions in principle (regardless of the necessity or appropriateness). So, I think the parties should understand the original intention and purpose and then take action.
- With regard to budget management, there is a tendency for actual results during the application period and the period immediately preceding it to absolutely have to match the budget. However, given the original intent and purpose, it is more important to analyze and properly explain the causes of deviations between actual and planned figures. But I see many companies that are more concerned with matching the budget.
- Some people say that it is hard to approach TSE for advice and that they do not know what to ask. If we can provide information on what to ask and how, it may help dispel "urban legends" (rumors whose basis is vague or unknown).
- Not all information whose authenticity has not yet been established is completely false. Therefore, it is not appropriate to label all rumors as "urban legends. It is necessary to explain such rumors carefully, and we should be more cautious in labeling them.

#### **"Listing Examination FAQ" released in May 2024**

- The simple message is quite easy to understand, but for the parties involved in the IPO, the assumptions or exceptions for the matters set out in the FAQs are more important. I want you to understand that there are not only the views of the exchange, but also the different thoughts and perspectives of each party involved in the IPO.

- In order to avoid any misunderstanding when communicating with the company preparing for an IPO, I think we should explain the points that the TSE looks at during listing examinations after first explaining the differences in the positions of each IPO-related party as well as their perspectives as gatekeepers.
- FAQs can be interpreted in a way that is convenient for the reader. It would be better to write clearly what issues are involved.
- The FAQ explains what to do when there is a discrepancy between budget and actual results, but it overemphasizes the importance of disclosing the assumptions and making timely revisions to the disclosure. I would also like you to mention how the downward revision of the earnings forecast will be received by investors.
- There are companies, for example, that mistakenly believe that the parent company's shareholding should fall below a majority when listing a subsidiary, or that they cannot apply for capital measures such as the issuance of stock options or the allotment of new shares to third parties during the application period, so it would be useful to disseminate information on such matters in the future.
- If the FAQ is to be expanded in the future, consistency among the Listing Examination FAQ and the New Listing Guidebook should be considered and the differences in their positioning clarified.

#### **Information that should be communicated to the management of companies preparing to list**

- In many cases, the advantages and disadvantages of an IPO are not fully considered when preparing for an IPO. It is important to consider whether to proceed with an IPO at the earliest possible stage, after careful consideration of what is required of a listed company and whether the IPO has benefits to match those requirements.
- In reality, there are many companies that aim for an IPO because they feel it will give them status, and they proceed without examining the costs and disadvantages. While each company has its own management decisions to make, it is important to remember that an IPO is not the only option available to a company's management.
- It is advisable to broaden the management's perspective by adapting outside directors at an early stage of IPO preparation and by receiving objective advice on the perception gaps between the company and the public, as well as what is required of a listed company.
- There are many management executives who do not have a clear idea of what it means to go public. From the perspective of investor relations and shareholder relations, it is also important to consider what kind of investors you want to have on board and what kind of preparations you need to make in order to manage your company stably and expand your business after your IPO.

- There should be some kind of educational campaign before the IPO to raise awareness of what is going to happen after the IPO. Some companies are proactively approaching hundreds of institutional investors, not just venture capitalists, with an eye on the post-IPO period, and this is a good example. It is important to encourage people to act with an eye on the future, rather than just focusing on the IPO as the end goal.
- The guidance provided by securities companies tends to focus solely on passing the listing examination by the stock exchange, causing the aspects of how the company should be and what it should do to grow after the IPO to become blurred during the preparation process. As a securities company, we also want to work on establishing a system that considers post-listing growth, and we hope that TSE will also engage with companies and their management on this matter.
- With the rising expectations for startups these days, it is easy to focus on the valuation at the time of the IPO, and I think it is easy for management to think that all they have to do is improve business performance and raise the stock price. On the other hand, in order to gain social trust, it is also important to have more basic systems in place, such as governance and internal management systems, and from the role of a gatekeeper, I would like to ask that you also consider such aspects as well. In future messages, it would be a clever idea to include suggestions that would raise the awareness of the management on this point.
- I think it is better for the management of the company to be aware of the issues beforehand, because there are cases where some corporate governance issues are found after the listing. For example, information should be disseminated to help people understand the essential aspects of becoming a listed company, such as the importance of independent directors and the principles of preventing misconduct.
- Whether listed or unlisted, there are cases where companies receive investment, especially from overseas institutional investors, but are criticized for having very weak corporate governance. It would be good if we could encourage the company's management to realize that the development of corporate governance is directly linked to the improvement of the company's value.
- Sometimes companies preparing for an IPO ask for a conclusion, as if there is a single, correct answer to IPO preparation. Of course, we will be there to brainstorm with the company, but ultimately, we hope that the company will be able to think for itself and come to its own conclusions, based on the characteristics of its own business. Conversely, I think it would be good if the company could recognize that there is a certain amount of discretion on the part of the company during the IPO preparation process.

#### **Other issues and problems related to IPO practice**

- I think there are many things that can be analyzed about the disclosure system for "matters related to business plans and high growth potential" that was introduced in the Growth Market, such as whether what was disclosed was achieved and whether the stock price rose accordingly, so I would like you to consider this.
- At the Follow-up Council, there was also discussion about how to make the most of the Growth Market, and based on the discussion there, I would like to have one at this meeting from the perspective of those in charge of IPO practice.
- It would be good if the discussions on post-IPO growth at the Follow-up Council and the discussions on IPO preparation at this meeting could take place in parallel and in cooperation.
- For many companies, the first step in IPO preparations is a short review by an auditing firm. As this is the first piece of advice given to the company about the IPO, before the lead underwriter securities company is appointed, the quality of the advice is particularly important. It would be good if, through regular exchange of opinions and information, the people in charge of auditing firms could have many opportunities to improve their awareness while listening to the opinions of the exchange and securities companies.