Minutes of the 1st Council of Study Group on Developing the Growth Market

Date: Friday, August 21, 2026 16:00 PM - 18:10 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We will now begin the first meeting of the Study Group on Developing the Growth Market. Thank you very much for taking the time to join us today despite your busy schedules.

I am Watanabe from the Listing Department, and I will be serving as today's moderator. Thank you very much.

It is customary to begin by introducing everyone, but I would be most grateful if you could instead refer to the list of attendees.

Mr. Murakami from Signifiant is joining us online today, and Mr. Tanaka from SAKURA internet is scheduled to join us online about an hour later.

We would like to explain the meeting operation, objectives, and how today's session will proceed.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you very much for taking the time out of your busy schedules to join us today.

First, I would like to briefly explain how the meeting will be conducted.

Regarding the handling of materials, documents from the Tokyo Stock Exchange will be posted on our website promptly after the meeting concludes.

I believe that publishing the materials that were provided by you for reference along with the meeting minutes will make them easier for readers to understand, so we plan to release them at the same time the minutes are published. We would like to project the materials provided by some of you onto the screen only during today's meeting. The minutes will be published after the meeting, once all participants have reviewed and made any necessary corrections.

Next, I will briefly explain the purpose and objectives of this study group. Please turn to page one of the document you have in front of you, titled "First Meeting Materials."

The Tokyo Stock Exchange is promoting initiatives to ensure that the Growth Market lives up to its name and becomes a marketplace where companies aiming for high growth can gather, regardless of their size or the number of years since their initial public offering.

The Mothers Market, the predecessor to the Growth Market, was designed on the premise that companies would eventually move to the First Section. On the other hand, I hope the Growth Market will be a segment where companies and their management can continue to pursue high growth if that is their goal, and where investors support those efforts.

In an effort to embody such market segmentation in various ways, we have, to date, reviewed the continued listing criteria and encouraged management aimed at high growth. To further advance this effort, we would like to draw on your insights as we move forward with our communications and responses.

Page two lists the items on which we would like to hear your opinions today. Regarding what companies listed on the Growth Market should aspire to be, we would like to hear from company representatives about how they have pursued high growth and how they have communicated this to investors, and from investors about the attitudes and initiatives they expect from companies listed on the Growth Market.

Furthermore, we would appreciate your input on, as companies work toward realizing this ideal state, where the challenges lie for the Growth Market and the companies listed on it, as well as what kind of environmental improvements are needed.

We have included two appendices. Appendix 1 contains the results of a survey conducted among companies listed on the Growth Market and startups aiming for an IPO, while Appendix 2 summarizes the Tokyo Stock Exchange’s initiatives to date and relevant background data. Please refer to these as appropriate during today's discussion.

Finally, as requested, we would appreciate it if each of you could share your thoughts for about five to 10 minutes. Since this is our first meeting, we would like to ask that, as listed in the member list, the company representatives speak first, in alphabetical order from Mr. Katozumi to Mr. Hattori, followed by the investors, in alphabetical order starting with Ms. Fukuta to Mr. Murakami. We plan to give Mr. Tanaka, who will arrive late, the opportunity to speak last. After that, we would appreciate it if you could use the remaining time to offer comments, questions, or additional insights regarding each of the presentations.

Thank you.

Watanabe, Director, Listing Department, TSE:

We would now like to hear your opinions.

Mr. Katozumi:

My name is Katozumi from CanBas. Thank you for having me.

We are a biotech startup engaged in the development of anticancer drugs. My company's characteristics are outlined on the first page of the first document I handed out, where they are presented as sources of growth potential.

As a basic point to help you understand, as shown on page two, drug development generally requires a great deal of time and money; specifically, in terms of money, it is characterized by a long and deep J-curve in cash flow.

On page three, regarding this long and deep J-curve, the conventional model was based on the assumption that a single startup would likely be unable to secure the necessary funding on its own; therefore, pharmaceutical companies were asked to share the risk, and in return, they would share in the returns if the project succeeded. However, as noted on page four, due to various developments following our IPO, we have adopted a high-risk, high-return business model in which we take on risks independently, raise funds, and bear development risks to advance clinical trials through the late stages, with the aim of securing substantial profits should the product eventually be brought to market.

There are various types of biotech startups, but our business model is on the higher-risk side and requires a continuous supply of funding. Since our founding in 2000, we have raised a total of approximately JPY17 billion over the past 26 years, and we have allocated about JPY8 billion of that amount to the development of our lead pipeline product, CBP501. Furthermore, as indicated on page five, it will cost approximately JPY4.5 billion to JPY5 billion to conduct the Phase III clinical trial. We have secured funding for the first half of this final trial, but we do not have enough funding for the second half. Furthermore, since we incur costs for new drug applications once a product is ultimately successful, ours is a very capital-intensive company. On the other hand, since we currently have virtually no partner companies or similar entities, we are not generating any revenue.

Given these circumstances, we are pleased to report that, as of today, our market capitalization has reached approximately JPY15 billion. I'd like to briefly explain the strategies we've implemented to earn this recognition.

After going public in 2009 with a market capitalization of approximately JPY12 billion, our company's market capitalization fell to a low of JPY1.6 billion in 2022. The Mothers Index had been on a long-term downward trend, and the company's market capitalization, at JPY4 billion, was well below even the continued listing criteria in effect at the time. I discuss these developments in the second document I provided, titled "CanBas IR Review." Please take a look when you have a moment later.

Our IR initiatives, key priorities, challenges, and requests are listed on page six of the first material.

When good news comes out, biotech stocks surge suddenly, but that momentum quickly fades, and the stock price returns to its original level. Preventing that reversal is, in itself, a measure of our company's growth and an indication of growth in our corporate value.

Since our investors do not necessarily have a clear understanding of what we hope to achieve through this development, we must first thoroughly explain what a successful outcome would look like in order for them to properly evaluate the results of our development efforts. If stock prices are determined based on the perception that "I don't really understand it, but this company seems good somehow, it seems impressive," it can lead to serious problems later on. As I mentioned earlier, this results in a pattern where the price rises only to fall immediately afterward, so we made it a priority to provide thorough explanations from the start.

As a fundamental principle guiding our communication, our company was previously listed on the Mothers Market, and when that market transitioned to the Growth Market, we were told, particularly by representatives from the Tokyo Stock Exchange, that this market should focus on the growth potential of companies aiming for high growth. We believed this growth potential was the key point, so we first considered how to convey it.

Furthermore, given that our market capitalization was in the range of over JPY1 billion at that time, and stands at around JPY15 billion even now, we operate under the basic assumption that institutional investors have little interest in our company. There's no point in complaining that it's hard to get people interested. We believed that until we reached a scale of JPY50 billion or JPY100 billion, a level that would sufficiently attract the interest of institutional investors, we needed to rely on retail investors for support and growth, so we made a concerted effort to reach out to them. I think this is an area where there are significant differences among the companies represented here today.

While IR and outreach to individual investors are extremely challenging, I believe that the fact that there are not many emerging markets worldwide where individual investors invest directly as is the case here, and this is a rare and positive aspect. In a sense, I actually think this is a very favorable environment, provided we correctly understand the risk appetite of the large base of individual investors and how best to communicate with them, and then leverage that understanding.

Challenges for the future, desired support, and improving the environment. One challenge is that companies, including ours, that won't see an immediate increase in revenue absolutely need fuel to fuel their growth. In particular, large-scale fundraising and M&A strategies are absolutely essential for achieving discontinuous growth. However, I believe that the very limited options for raising funds are a major challenge. It tends to rely heavily on financing through stock options.

Of course, I believe that, first and foremost, we, as the issuer, must resolve this issue. However, there is absolutely no one around who has an incentive for the issuer's stock price, market capitalization level, or liquidity. So, I think the fact that we can't rely on anyone is a major challenge. It's extremely difficult when the burden falls entirely on the issuer to make the necessary efforts.

Therefore, as one way to position the Growth Market, as Mr. Ikeda mentioned earlier, as a market that retains an appeal that makes companies want to stay there, even as they grow, I would like to see a robust system established that facilitates fundraising and ensures that, even after funds are raised, the financial institutions involved, primarily the lead underwriter and other firms that supported the IPO, have an incentive to support us, issuers, in areas such as corporate value growth, fundraising, and investor relations.

Also, when it comes to fundraising, and this is a hurdle everyone faces after doing it a few times, there is inevitably the potential for a mismatch between the market capitalization at the time of issuance and the amount of funding needed for future growth. When our market capitalization fell below JPY2 billion, we had a very difficult time drawing up our business plan because the 25% rule limited our financing to JPY500 million.

As a possible solution, one option would be to conditionally relax the 25% rule, subject to certain conditions, such as linking it to growth potential data, the intended use of funds, and the reasonableness of the financial structure. Furthermore, if a company adopts a capital strategy of issuing CBs to raise funds for M&A or development, it runs the risk of being delisted based on net asset value criteria. In such cases only, it may be possible to waive the net asset requirement or grant a grace period.

Another factor is the incentives at the securities firm I mentioned earlier. In particular, with regard to public offerings and underwriting of public capital increases for small-cap and micro-cap companies, I hope that measures will be taken to create a system in which securities firms can see clear incentives, in terms of underwriting commission rates and the underlying structure, as well as to relax regulations and expand sources of profit.

Mr. Kirishima:

My name is Kirishima, Head of Group Corporate Finance, TRIAL Holdings. Thank you.

Our company currently operates 620 retail stores nationwide. These stores are primarily suburban-style, operating as discounters in slightly larger locations ranging from about 1,200 to 1,500 tsubo. A key feature of this company is that it differentiates itself by strengthening its fresh produce and food offerings.

It’s only been two years since we went public, but it’s already been 48 years since the company was founded. A lot has happened in the two years since we went public, and most recently, we acquired Seiyu. I believe this provided an opportunity for the public to learn more about our company than even at the time of our IPO.

When we went public two years ago, the lead underwriter also suggested that we list on the Prime Market rather than the Growth Market. As the name TRIAL suggests, our company’s guiding principle is to embrace challenges. One of the reasons our company had not gone public until then was that, rather than being required to report profits every fiscal period, we wanted to continue reinvesting in high sales growth and future expansion, even if that meant not immediately generating profits, so that we could keep giving back to our customers. For this reason, for more than 40 years, we have continued to pursue growth without focusing on going public.

Although the food retail industry in Japan remains highly fragmented, in Europe and the United States, it is increasingly becoming an oligopoly dominated by three or four companies. With Japan’s population continuing to age and birthrates declining, we anticipated that the business environment would become increasingly challenging in the future, particularly for companies like ours that, although we have expanded nationwide, operate stores primarily in suburban areas rather than in densely populated urban centers. We believe that unless we take on new challenges, our company will be among those that are weeded out, and we have therefore decided to pursue a public listing in order to accelerate our growth.

Going public allowed us to secure the funds needed for further growth. Furthermore, it changed our relationship with financial institutions, particularly in terms of creditworthiness, enabling us to take on major challenges, including securing debt financing from them, which ultimately led to last year’s acquisition of Seiyu, a retailer operating primarily in the Tokyo metropolitan area. People say all sorts of things to me, like, “That was quite an expensive purchase,” or “Judging by your company’s balance sheet, that was a major acquisition.” However, now that we’re back in a world with interest rates, I think it will be necessary to take risks and rise to the challenge going forward. Our company has grown amid deflation. However, going forward, rather than simply striving for the best local prices on all products, the key will be more nuanced product pricing. As such, the current inflationary environment presents an opportunity for the retail industry to undergo a major transformation of its business model. In order to make a bold move into the Tokyo metropolitan area all at once, our company took the plunge and merged with Seiyu. We thought this was the last chance to make it into the top three or four companies. So, after taking on this challenge last year, we are now working hard to develop a mid-term business plan and a plan for repaying our debt over the next 10 years as we move forward with our business.

To put it simply, our founding spirit and management philosophy are centered on prioritizing growth over profit margins. Therefore, we ultimately replied to the lead underwriter that we believed our company was better suited for the Growth Market than the Prime Market. Creating an environment where growing companies can remain in the Growth Market means fostering a market that prioritizes future growth over immediate profits and allows for bold initiatives; conversely, I hope the market will evolve into one where such companies can showcase such characteristics. We, too, are not currently considering moving to the Prime Market right away; rather, we intend to showcase such characteristics within the Growth Market. We believe that is how a Growth Market-listed company should be. Furthermore, as more growing companies remain in the Growth Market and become more willing to take on challenges, we believe that creating an environment that allows for flexible, diverse funding, rather than an overreliance on equity, and the number of analyst coverages may become key challenges.

Mr. Kudo:

Hello, everyone. I am Kudo from f-code. Thank you.

Since many of you may not be familiar with f-code, I'd like to introduce it to you.

Our company has been in business for 20 years and has been publicly traded for about four and a half years. Our main businesses include system development, digital marketing, and online courses on these digital skills. Since listing on the Growth Market four and a half years ago, we have completed a total of about 27 M&A transactions.

Unfortunately, the company's market capitalization is currently less than JPY20 billion, and its P/E ratio is less than 10. I'd like to talk under the theme of "the sorrows of small IPOs."

First, I'd like to take a moment to reflect on the purpose of the IPO. We made a notorious small IPO with a market capitalization of between JPY3 billion and JPY4 billion. The reason the market capitalization rose so much is simply that our goal was to expand our debt financing capacity and reach a level as quickly as possible that we couldn't achieve through organic growth alone. In fact, after going public, we received cooperation from financial institutions on numerous M&A financing deals, and once our business performance improved as a result, we conducted two public offerings. Naturally, the stock price plummeted immediately after the public offering. However, I am very grateful that, rather than continuing to grow organically as an unlisted company, we went public and gained access to numerous opportunities for equity and debt financing. Consequently, if this fiscal year's earnings forecasts are met, both revenue and profit will be 22 times higher than at the time of the initial public offering, and EPS will be more than ten times higher. So, I'm glad we went public. I would truly like to express my gratitude to the Tokyo Stock Exchange.

On the other hand, regarding challenges, while we had more opportunities to speak with analysts and institutional investors when our market capitalization peaked at around JPY35 billion, at current levels, as is to be expected, we continue to fall off their radar.

When it comes to IR, even though we suspect we might be ignored, we're actively reaching out to institutional investors who also deal in small- and mid-cap stocks. Furthermore, given that this scale is one that should truly be supported by individual investors, I attend nearly all of the fee-charging informational sessions for individual investors. We've already tried our hand at running our own YouTube channel and using social media, and our policy is to continue doing so, but we're still facing challenges in terms of trading volume, liquidity, and market capitalization.

How should we convey our growth story? Since we are listed on the Growth Market, we have focused our communications over the past four and a half years or so, regarding not only revenue but also operating income and EPS, on the fact that, even with a 20% dilution, our operating income would double every year or grow by 50%.

We have communicated this both in our quarterly reports and during roadshows and other events related to our two public offerings. We have fulfilled every promise we made, such as, "Even with a 20% dilution, profits will be this much, so EPS will be this much." However, various concerns regarding the goodwill and liabilities on the balance sheet have led to the company's current market capitalization. Therefore, we intend to continue strengthening our investor relations efforts. However, fundamentally, while short-term figures are certainly important, our company's position is that, as a publicly traded company, we should ultimately allocate funds to investment opportunities that lead to future growth in shareholder value, rather than, for example, dividends. Therefore, we intend to allocate as much of our funds as possible to growth investments going forward, and we plan to continue communicating this message.

Finally, I believe it is truly wonderful that the recent revision of the continued listing criteria, which established a threshold of JPY10 billion in market capitalization, has created a sense of urgency and a stronger motivation to adapt among companies with a market capitalization of less than JPY10 billion or around JPY10 billion.

On the other hand, judging from what I've heard from other owner-CEOs, I think the situation for companies with a market capitalization of tens of billions of yen is extremely difficult. I think it's that perfect middle ground, it's not likely to get you fired, but it doesn't exactly get a lot of people to notice it either. While setting IR goals for issuers may be challenging in some respects, we also believe we must not let that happen.

I believe the company will likely have to generate operating income of about JPY10 billion and reach a market capitalization of JPY100 billion before it can catch investors' attention. Do you aim to achieve this while remaining a publicly traded company, continuing to grow at an annual rate of about 50% to 80% through both organic and inorganic growth? Given that kind of market environment, would it make more sense to first go private and then aim for that goal? Or would it be more rational for two public companies to merge, so that they can quickly reach a scale of at least JPY100 billion that would attract investors, and then get the ball rolling? I believe this is something that many publicly traded companies are struggling with. This is just my personal observation.

I have no specific requests or comments for the Tokyo Stock Exchange. I believe these are all things we should strive to do as an issuer. From the issuer's perspective, the size of JPY100 billion or less is extremely challenging, and I believe this is an issue that each company should discuss in greater depth.

Mr. Matsushita:

Hello, everyone. I am Matsushita from MTG. Thank you for inviting me here today.

It has been 30 years since MTG was founded. I am the founder. The company went public in 2018, and its peak market capitalization at the time of IPO was JPY313.7 billion. However, as some of you may know, it subsequently plummeted to JPY18.3 billion, and those were truly hellish days.

Looking back now, I think that experience has made our company much stronger, and I'm really glad we didn't give up and kept working on it back then. Back then, the Tokyo Stock Exchange also provided us with training on numerous occasions. I would truly like to take this opportunity to express my gratitude. Thank you very much. We didn't even know that the Tokyo Stock Exchange offered training directly, but as soon as we found out, we signed up and attended the training sessions several times. I think opportunities like that were truly precious to us.

Since then, realizing that "never give up" wasn't enough, I created a poster myself that read "never, never, never give up," and all of us within the company have come together to face this challenge as one. We received support from so many people, and thanks to that, we all had the opportunity to take a moment and carefully reflect once again on why we founded this company and why we went public.

Furthermore, while I was certainly aware of the responsibilities that came with going public, I felt a deep sense of anguish at having betrayed the expectations of the many people who had purchased our stock. In fact, the stock price fell to one-seventeenth of its original value, and we went through a series of days that felt like something out of a drama, as a market capitalization of over JPY200 billion suddenly vanished overnight. I hope this will be of some help to publicly traded companies, especially startups, that are currently struggling due to falling stock prices. I know exactly how they feel, it really hits home. However, I hope to make a contribution by conveying the message that, as long as you don't give up, you can bounce back even from that point.

Although the company name MTG isn't widely recognized at the moment, we have brands such as ReFa, SIXPAD, and, more recently, ReD, and we position ourselves as a brand development company in the beauty and wellness sector. Before coming here today, I held two IR events and gave a presentation to the 15 people who visited our Ginza store.

Thanks to you, I was able to come here today with the stock price at an all-time high, my first visit to the Tokyo Stock Exchange in eight years. However, we've only just reached the starting line. I imagine there are some people who, for a long time since then, have honestly felt that even though they wanted to sell, they just couldn't. I am determined to repay the shareholders who held onto MTG's shares for so long without giving up, as well as everyone who believed we would make a comeback someday.

I am currently 55 years old, and I intend to remain active for another 20 years, specifically, until the fiscal year-end when I turn 76. At the end of the year, I compiled a list of people in Japan who are still actively making their mark at the age of 76, and there were two on the list. One is Mr. Yanai of Uniqlo, and the other is Eikichi Yazawa. Since I had never been to one of Mr. Yazawa's concerts before, I went to the Tokyo Dome and saw him, at the age of 76, filling every single seat in the auditorium. Up until then, we had set a sales target of JPY1 trillion within the company, but on the taxi ride home, I deeply reflected on how small that target really was, and I changed it to JPY10 trillion. When I returned to the company, I gathered the executives and told them, "Our goal was truly too modest. I regret that, and I urge all of us to aim for JPY10 trillion."

Half a year has passed since then, and strangely enough, ever since we started talking about JPY10 trillion, not a single executive has questioned the JPY1 trillion figure. Although they wonder how they'll manage to reach JPY10 trillion, they've started setting somewhat ambitious goals, believing they can probably achieve JPY1 trillion.

Thanks to your support, we achieved 44% growth this fiscal year, and our average growth rate over the past three years was approximately 33%. To reach JPY10 trillion by the age of 76, we need to maintain an average annual growth rate of 23.7%.

I don't think it's easy to keep the 40% growth, and while I expect there will naturally be ups and downs, I want to keep taking on new businesses and new categories so that we can definitely achieve double-digit growth.

Furthermore, when it comes to increasing profit margins, not just sales, there is a great deal to learn from overseas brands, particularly those in Europe. Overseas brands have profit margins of 15% or more; the LVMH Group has profit margins of 20% or more; and P&G, despite operating in the mass market, also achieves profit margins of 20% or more. Profit margins in Japan's beauty industry are lower than those of overseas brands. I'm currently studying this from various angles, trying to unravel what exactly this difference is. I would like to focus on how to increase profit margins while boosting sales, and how to achieve sustainable growth.

I've made up my mind that if I'm unable to grow the company as CEO, I'll gracefully pass the baton to someone else. As long as I am at the helm, growing the company is an absolute necessity, and I intend to continue in this role until the fiscal end for the year I turn 76, with growth as my guiding principle. Personally, I've set the fiscal end at age 76 as a goal, and I plan to spend the five years starting at age 71 preparing for the handover.

I want to turn my hellish experience into something positive. We, too, are a startup, and we aim to become an outstanding one.

Actually, I had two questions I'd like to ask the Tokyo Stock Exchange today. I was able to confirm one of them, since Mr. Ikeda mentioned it earlier. I was very pleased to hear that, regarding the future role of the Growth Market, it is not merely a steppingstone to the Prime Market, but that companies can continue to grow right within the Growth Market itself.

We won't know what will happen to us until the very end. However, the fact that companies from the Standard and Growth Markets will now be included as constituents of the TOPIX is a hopeful and positive sign for us. I feel this represents a major shift, the fact that we were given such an opportunity in the Growth Market as well.

Another point I wanted to ask about is what specific percentage the Tokyo Stock Exchange considers to be the growth rate for companies in the Growth Market. If there are any specific benchmarks, I'd appreciate it if you could share them with us for reference, it would be very encouraging.

Monden, Senior Manager, Listing Department, TSE:

It might be better to seek the opinions of institutional investors, but based on the feedback from investors that we have shared so far, I get the impression that if the growth rate is, say, 5% or 10%, many investors are rather willing to buy shares of companies listed on the Prime Market.

On the other hand, many investors say that if a company, for example, is achieving annual growth of 20% or 30%, they will take an interest in it, even if it is somewhat small. So, I think that level can serve as a rough guideline.

Mr. Matsushita:

Thank you very much. That's all.

Mr. Matsuyama:

My name is Matsuyama, and I am the CFO of Astroscale Holdings. Thank you.

Please take a look at the material. Skip page one; page two provides an overview of our company.

Our company provides in-orbit services in space. I hope you'll think of this as something like a roadside assistance service for space. Our goal is to achieve in space the reuse, refueling, and recycling that are commonplace on Earth, such as observations and inspections, life extension and refueling, and debris removal, for operational satellites. As the use of space continues to grow and expand, there will inevitably be a need for these types of maintenance and support services. Our company is expanding these businesses globally as part of the space infrastructure.

In practice, we build our own satellites, launch them, operate them, and provide these in-orbit services. As you can see, our business has manufacturing elements and is highly capital-intensive, requiring various types of capital expenditures. We hope you understand this nature of our business.

Furthermore, since space is a borderless domain, our company is expanding globally. Currently, our four main revenue sources are Japan, the United Kingdom, France, and the United States, and we have just under 700 employees worldwide. The membership is also diverse; of the 700 members, fewer than one-third are Japanese. English is the official language within the company, and with four of the seven board members serving as outside directors and four being foreign nationals, the company has an extremely global structure.

See next page. I'd like to briefly share some information about our history of fundraising and growth investments. We have raised capital in some form or another almost every year, and since our founding, we have raised a cumulative total of just over JPY130 billion through a combination of equity and debt. Since our initial public offering in June 2024, we have raised JPY60 billion through stock offerings alone.

Why do we need so much funding? Please look at the section titled “major growth investments” in orange in the middle. Whether it's establishing or expanding our facilities or increasing production capacity, we undertake some kind of initiative every year. In addition, technical validation is necessary, especially in the early stages. For example, in the ELSA-d mission, while we receive financial support from the government, we also invest some of our own funds to operate the mission. This is a business in which upfront investment is extremely important.

However, by conducting such technology demonstrations, we’ve been able to help our government clients fully understand our capabilities and secure more orders, which has led to solid growth in our top line. The chart at the bottom labeled “project revenue” represents our top line. As you can see, we’ve shown steady growth over the past four to five fiscal years.

Therefore, I believe the key for us is to keep this cycle going: raising capital, making investments, growing the business, promoting that growth, and then raising more capital, and so on.

Please turn to page four. In carrying out this procurement, there are five key points we keep in mind.

First of all, the market size (1), I think that’s the starting point. The point is to clearly convey why this market is attractive. On top of that, I think a key point is to clearly explain the competitive advantage (2), specifically, why we have a winning strategy in that market.

In pre-IPO financing, this kind of growth potential is crucial, and I believe investors are investing in the company’s vast potential. However, when it comes to going public, concrete evidence, or rather, a track record that proves what you’re saying is true, is ultimately what matters most. Therefore, I believe that presenting a specific contract (3) was extremely important in the context of the IPO. We started to be able to do this around the middle of 2023, and there were several instances around that time when our order volume began to increase; I think that this was one of the key factors that enabled us to go public.

On top of that, investors are naturally concerned about whether the company will be able to execute effectively going forward. So, from the perspective of execution strategy (4), I make a point of discussing how we plan to proceed going forward. To put it another way, this is a message saying, “Please continue to monitor this on a regular basis going forward,” and I believe that consistently demonstrating that we are following through on what we say will be the source of trust.

On the other hand, things often don't go as planned. In particular, our company still receives a large number of orders from the government, so there are times when order schedules are delayed or projects are canceled. Therefore, as noted in point (5), it is also important to provide a transparent explanation when things do not go as planned. It’s not that it was a failure just because we didn’t achieve our forecast; I’ve also been mindful of how I explain things when that happens.

Since going public, the company has conducted two overseas public offerings and raised funds through CB, including the funds raised at the time of the initial public offering. When raising funds, we make it a point to clearly explain how the funds will be used. We make sure to thoroughly explain how the company invests the funds entrusted to us and how it works to enhance corporate value. Looking at how the stock price has moved during the last two funding rounds, I think investors have viewed the intended use of the funds favorably. Going forward, we intend to continue clearly demonstrating this process, which, in a sense, resembles the PDCA cycle, with a high degree of transparency. Of course, it’s no use just continuing to raise funds indefinitely, so the bottom line is that we must become profitable and, ultimately, provide a solid return to our investors.

I think there are times when this kind of management is simply necessary for companies in the Growth Market that rely heavily on investment.

This isn't a specific request: with a view to improving the Growth Market, I've noted a few points on pages six and seven.

On page six, I wrote about several stakeholders individually. To put it simply, we have no specific requests for investors or the Tokyo Stock Exchange. Investors are, of course, free to choose whatever investment strategy they wish, and the diversity of investors is extremely important for the market's growth. I am fully aware that the Tokyo Stock Exchange has already implemented a wide variety of initiatives, so I have no specific requests. If I had to say, it's certainly possible that there are calls for greater efficiency, such as eliminating duplication in disclosure materials, but I don't think this is fundamentally a major issue.

As you mentioned earlier, I do believe that it is most important for issuers to do their best. However, the key question is how you can support publishers amid various resource shortages. In that sense, even though the focus is on the issuers rather than the Tokyo Stock Exchange, I think the question of what you can do to support them may become an important consideration.

Specifically, this is outlined on page seven. If we think about this in reverse, starting from the key selling points for investors mentioned earlier, I believe that points 1) through 4) ultimately boil down to the question of how to formulate the business strategy. I think there are various ways to provide support, but I believe a key point is whether management strategy is being properly discussed by the board of directors. Companies listed on the Prime Market have established advanced governance structures, and it seems that the appointment of outside or foreign directors has progressed to a certain extent. If companies listed on the Growth Market are determined to succeed within the Growth Market itself, rather than viewing it merely as a steppingstone to the Prime Market, then I think it's only natural for them to adopt a similar framework. Since recommending an increase in the proportion of outside directors from the time of listing, or even during the listing review process, would place a heavy burden on companies, it may not be necessary to go that far. However, I think it would be acceptable to establish certain benchmarks, such as a specific number of years after going public or reaching a certain size and implement measures to enhance the effectiveness of the board of directors.

On the other hand, however, there aren't that many people who are well-suited to serve as outside directors or who can truly support a company's growth. It might be helpful to get referrals from you as you have many connections, or perhaps facilitating dialogue among business leaders could also be a valuable form of support.

Also, while this ties in with what I mentioned earlier about market size, since the market in Japan alone is small, I think there should be more companies expanding into global markets. Therefore, in terms of supporting outside directors at such companies, I believe it is, of course, essential that all materials provided by the Tokyo Stock Exchange be available in English as well. I think it would be a good idea to create English versions of the support materials related to adding foreign directors, for example, the insider training program mentioned here.

Finally, CFOs and finance departments play a crucial role in providing consistent explanations and engaging with the market. Therefore, it might be a good idea to hold events for sharing know-how, as well as training sessions led by investors, securities analysts, or the Tokyo Stock Exchange. Alternatively, it might be a good idea to have such candidates referred to companies.

I believe that having such a framework would help support better corporate management.

Mr. Iwaya:

Thank you very much for inviting me to this event today. I really appreciate that you continue to provide opportunities like this. I believe it is extremely important to improve the functioning of the market, and I hope to contribute to that effort.

First, I would like to comment on the second item on the agenda: challenges in the Growth Market and the necessary infrastructure development. I have really noticed the effects of the market restructuring that took place on April 4, 2022, and I would like to list both the benefits and the challenges.

First, in terms of results, I think the concept became clearer as a result of the market restructuring. For market participants, the market has become easier to use. In particular, prior to the restructuring, the criteria for transferring to the First Section from other market segments were less stringent than the criteria for new listings on the First Section. I believe that correcting this issue is effective for the development of the Growth Market.

Furthermore, while the number of IPOs had previously been the main focus when it came to KPIs for the Growth Market, it seems, as shown, for example, on page 10 of Appendix 2, that index performance has come to be given significantly more weight. I don't recall the index performance being discussed so extensively on the former Mothers Market, and I think that in itself was an issue. I feel that the discussion has made progress in terms of determining whether the market is functioning properly. This graph shows the price performance per share. I think this graph illustrates that while the market capitalization of the Growth Market is increasing, there are challenges in raising the price per share. I think it's a good thing that messages like this are now appearing more frequently.

Regarding the two points I just mentioned, the market restructuring and the issue of performance, I think it was a very positive move that the Growth Market gained economic effectiveness through the TOPIX revision.

As a result, it seems that the performance of some Growth-Market stocks has improved. I think one reason for this is probably that the stock is likely to be included in the index. Some stocks that had been left at low valuations, perhaps partly because they were not included in the index, are now showing signs of improvement. While this effect is clearly evident in the Standard Market, I think it’s also having a slight impact in the Growth Market, so I believe it was an effective strategy. I also believe that the changes made to the IPO framework from around 2021 to 2023 likely had an impact on both the entry and exit points of the Growth Market.

Following the same framework, I will now address each of these issues. I believe you’ve established the characterization of the market segments, and as a result, the challenges facing the Growth Market have become clear. In short, in the Growth Market, companies have to increase the value per share. I think we really need to discuss here how this can be achieved.

Also, as Mr. Matsuyama pointed out, there are now tasks companies need to tackle within the Growth Market. I believe there has been a set of steps that companies were expected to take when transitioning to the Prime Market. They can’t rely on those events anymore; they have to operate within the context of a leveled playing field in the Growth Market, which means we need to develop a playbook for this extremely challenging situation. In particular, they must figure out how to handle the founder’s succession, or, to put it simply, how to manage the transition in governance, without relying on the transition to the Prime Market as a catalyst. I think this is a very big challenge. I believe this is an issue that must be addressed not only by publicly traded companies but by all participants as a whole.

I also believe there are still a few challenges regarding how to improve the market’s performance.

First, regarding market structure, the industry composition is skewed. Currently, the market is vulnerable to fluctuations in exchange rates and interest rates, and since it has few companies in sectors such as manufacturing, finance, energy, and materials, I believe its resilience to market factors remains fragile.

Furthermore, looking at the composition of market participants, half of the players are individual investors, and foreign investors occasionally enter and exit the market, which is another factor contributing to increased volatility. I think there is little regular participation by domestic institutional investors.

In addition, this market is characterized by a high degree of dilution. While other markets have become focused on share buybacks and shareholder returns, the Growth Market is centered on raising capital, making it prone to dilution. As a result, it is difficult for the index to deliver strong performance; the market structure is such that, for example, even if earnings increase by 20% but are diluted by 20%, earnings per share growth tends to remain flat. I think this is where the challenge lies.

Also, as was briefly mentioned earlier, there are actually very few companies with a market capitalization in the range of JPY40 billion to JPY80 billion. Companies are divided into two groups, those with a market capitalization of less than JPY30 billion and those with more than JPY90 billion, and there are very few companies in between; in particular, I believe there are virtually no companies with a market capitalization in the range of JPY70 billion to JPY80 billion. I think this is where some of the vulnerabilities in the market structure become apparent.

I have long maintained that a revision of the TOPIX would be highly effective in this regard, and I still believe that to be the case. However, I estimate that the number of companies selected will be smaller than expected, probably around 10 to 20 from the Growth Market and about 30 from the Standard Market. The criteria for new admissions require ranking within the top 96%, while the criteria for dismissal are set at the 97%; this 1% difference encompasses just under 200 companies. I think that how we handle this could affect the functioning of the Growth Market and its potential for development. I think it would be great if we could verify this.

I have a suggestion to share regarding IR matching. When I talk to issuers about their concerns, I often hear them say they don’t know how to reach institutional investors. When I participated in a dialogue event with companies organized by the Tokyo Stock Exchange, about half of the companies told me that, and I believe Mr. Kudo mentioned it just a moment ago as well.

In the case of NASDAQ, I understand there is a service called Nasdaq IR Insight, which is designed to facilitate communication between issuers and investors. I understand that this isn't just a list of company names and main phone numbers, it's actually quite high-resolution.

I also heard that you are designing technology-based services to ensure high-quality matchmaking. I think being able to do something like this would significantly reduce the number of worries.

Assuming that these efforts have been successful, when it comes to what a company listed on the Growth Market should look like, I believe it is necessary to approach the governance shift I mentioned earlier with a certain degree of resolve, even in the absence of a major event such as a listing on the Prime Market. In this regard, I believe that for institutional investors, providing support while exercising their voting rights is the easier approach. The TOPIX is an important benchmark for domestic institutional investors, and I believe that if a company is included in the TOPIX, even to a small extent, it will lead them to the exercise of voting rights, which should help drive a shift toward better corporate governance.

What we ask of companies listed on the Growth Market is that they organize the structure of their messaging. This changes depending on the company's life cycle. At first, the story and its scale are important, but after that, I think the key selling points shift depending on the life cycle, first to plausibility, then to profitability, followed by sustainability, and finally to distribution and returns, just as Mr. Matsuyama mentioned earlier. I think it would be a good idea to make sure companies can communicate that shift. Meanwhile, investors' metrics shift over time, for example, from EV/Sales to EBITDA , then to P/E ratio , then to P/B ratio, then to cash flow, and finally to dividend yield. I think it would be good if investors and companies could establish a common framework, or perhaps a common language, to discuss these changes.

To put it another way, I think it's also important to build relationships with government officials both domestically and internationally. I think companies in the biotechnology and aerospace industries are very eager to engage in dialogue with government officials. In particular, since the growth strategy has made the targets for public and private investment very clear, I think it would be beneficial to make good use of these opportunities and gain access to them.

That's pretty much all I have to say. One thing I didn't mention is that I think it's a little easier for companies that focus on solving problems to appeal. They can make the pitch: "We have TAMs like this and projects of this scale, and we'll resolve them and turn them into revenue." I think it's easy for such types of companies to explain. However, I think it would be very difficult for companies that create value to explain. From the explanation given by the representative from MTG, I got the sense that you must have struggled with these issues. It's very difficult to explain what it means to build an IP or create a brand, and I don't think there's a playbook for it yet. I, too, would like to think about that while discussing this point with, for example, HUMAN MADE. I think this might be one of the challenges in the Growth Market that hasn't been pointed out until now.

Finally, I think the question of what constitutes a good growth rate, in terms of a measure of growth, is a very important one. For example, I don't think there are many publicly traded companies in Japan that have achieved 30% profit growth for 10 consecutive years. If we're talking about 25% profit growth, or measuring it in terms of CAGR, it might become more realistic as the number of companies increases. I think it would be helpful to be able to provide such data, as sharing a common understanding of statistically plausible levels helps build mutual trust.

Mr. Hattori:

I am Hattori from Invesco Asset Management. Thank you.

Today, I was asked to speak on the topic of the attitudes and initiatives investors expect from growth companies. Using Appendices 1 and 2, I would like to first discuss three points related to the topic, followed by one point regarding the challenges facing the Growth Market and the necessary environmental improvements.

First, regarding the growth strategy on page five of Appendix 1. As highlighted, when speaking with CFOs and IR personnel, I often hear them mention that there is a gap in understanding with management or that their intentions differ. In this regard, what investors expect, and what we would like to propose, is for top management, such as the CEO, to take the lead in IR activities.

On page 11 of Appendix 2, it states that the median market capitalization of companies listed on the Tokyo Stock Exchange Growth Market is JPY6.4 billion. I believe this size is small enough to effectively reflect the intentions of the management team, led by the president, both within and outside the company. With regard to investor relations, I believe it is necessary for the president to take the lead and actively engage with investors in the stock market.

I believe there are several benefits to this, and I'd like to mention two of them.

First of all, I believe that when top executives, such as the CEO, take a leading role, it becomes easier to build a relationship of trust with investors. I think what Mr. Matsushita said earlier is a good example of the importance of communicating a growth vision to investors. The growth strategies and visions that investors envision differ somewhat from those that companies and their CEOs envision. I believe that the two parties speak different languages, and I think that by engaging in dialogue over and over again to align our languages, we can come to understand one another, expand the areas where our perspectives overlap, and ultimately build trust. After all, it's best for the president to be the one to explain the growth strategy. I believe this will give investors greater confidence in future growth and make it easier to build trust.

Another benefit, from the perspective of IR staff, is that it makes IR work easier. First, as a company continues this process of having the CEO take the lead in investor relations activities, the company's vision and strategy will become increasingly refined. When the CEO is repeatedly confronted with tough questions from investors and has to struggle to come up with answers time and again, it helps promote decision-making among the management team and ensures that those decisions are effectively implemented throughout the organization. If that happens, it will accelerate further growth, and if an IR representative is present, I think that person will find it easier to discuss the matter in the future. Since IR staff members cannot take the lead before the president does, it is important for the president to take the first step by looking ahead and setting the goals.

A moment ago, Mr. Matsushita said that once they set a target of JPY10 trillion, the employees and executives stopped doubting that they could reach JPY1 trillion. If the president says JPY1 trillion, they won't look at anything over JPY1 trillion. Therefore, I believe it is important for the president to take the lead and set the goals. In this way, I believe there is a second benefit: it makes it easier for IR staff members to speak.

Next, the second point concerns the resource shortage, as described on page six of Appendix 1. In my own experience participating in dialogue sessions and similar events, I often hear from corporate representatives that they are struggling because they have only one person in charge of investor relations. With that fully in mind, as part of our approach and efforts, I would like to propose, first and foremost, the use of videos.

Recently, more and more companies have been posting videos of their financial results briefings on their websites. However, very few companies are currently releasing detailed videos covering topics such as company profiles, segment-specific overviews, and product introductions. If we try to explain everything during the earnings briefing, it will take too long, so I think it might be a good idea to release a series of shorter videos. I think this might be one possible solution to the resource shortage.

In addition, more and more companies have recently begun publishing lists of anticipated questions and lists of frequently asked questions following meetings with investors. I believe it is a very positive development that some of the content of these discussions is disclosed, both for us as institutional investors and for individual investors who are unable to reach out to companies or their investor relations representatives. As a result, information can be obtained as early as possible, allowing any questions to be resolved; for companies, this means they can prevent questions from arising in the first place. Therefore, I believe this will help resolve the resource shortage.

Third, regarding the lack of opportunities to make contact with investors and IR activities, as described on page seven of Appendix 1. I would like to address each of the three issues listed here: reaching out to individual investors, lack of opportunities to contact institutional investors, and IR activities.

First, toward individual investors, I think the video I just mentioned is a good option. I think it's also important for the president to make an appearance and convey his passion. I hope that companies could use videos or other media that convey both quantitative and qualitative information.

Toward institutional investors, I believe it is important to adopt a targeted approach. Actually, the Tokyo Stock Exchange has published materials on this approach in the past. This is page 22 of the document titled

“Considering The Investor’s Point of View in Regard to Management Conscious of Cost of Capital and Stock Price: Key Points and Examples,”[1] published on February 1, 2024. SHIFT (Stock Code 3697) is featured here as a case study. This SHIFT case study divides the period from the early stages of listing through to the post-listing phase, when market capitalization is growing, into four segments and outlines which types of investors should be targeted and approached within each segment. I believe this approach is extremely useful. I hope that those in charge at companies facing challenges will take the time to recognize this once again.

Regarding IR activities. While I am fully aware that, depending on a company’s stage of development and business sector, some companies may find it difficult to disclose all information, I would like to share a case study of one company that I recently found particularly interesting. It's a company named PowerX, with the stock code 485A. This time, I also received numerical data from PowerX. I would like to express my gratitude to President Ito and all the staff members involved.

PowerX was listed on the Tokyo Stock Exchange Growth Market on December 19, 2025. The first earnings briefing since its IPO was held in February, and at that time, it posted videos on its website covering the business environment, an overview of its operations, and the earnings briefing. According to the company, the videos introducing its business environment and operations were viewed more than 5,000 times in less than a month after they were posted. In addition, the video of the earnings briefing has been viewed more than 8,000 times in just over a month. Considering these view counts, I think it's worth posting the video. However, while the number of views was very high for the first five days or so, it tended to drop sharply after that. Investors are looking for real-time information. Although scripts and videos sometimes come out about a week after earnings announcements, I believe that releasing information as soon as possible increases the chances that it will reach investors.

In addition, starting with PowerX's second financial results briefing, AI-compatible Markdown-format files have been posted on the company's website. This file has been prepared so that when it is loaded into an AI system, it will generate appropriate responses. It seems that simply reading the briefing materials often leads to errors, so the company has prepared versions in Markdown format to help prevent errors. I believe this is a pioneering example, and I expect it to become one of the new options for IR in the future.

In addition, PowerX’s IR page features a variety of resources beyond what I’ve just mentioned, including Excel spreadsheets, a FAQ section, and videos explaining new products, and it’s clear that the company is doing everything it possibly can at this time. I hope you'll find this helpful.

Finally, I would like to share my thoughts on the challenges facing the Growth Market and the necessary infrastructure. On page 10 of Appendix 1, it states that the most frequently cited type of support people expect is the sharing of case studies and knowledge.

The Tokyo Stock Exchange has already provided various case studies, a knowledge base, and responses. Therefore, while the materials are comprehensive, I feel that, precisely because they are so comprehensive, past materials may be going unnoticed. I imagine the staff members in charge are very busy every day, so I think there may be few opportunities for them to see these things, and perhaps the message isn't getting across to them clearly. I believe that when the Tokyo Stock Exchange releases materials in the future, republishing past materials, particularly those that sparked significant discussion, will help foster new growth companies.

Ms. Fukuta:

[1] https://www.jpx.co.jp/english/news/1020/u5j7e50000001bqd-att/240201en.pdf

Thank you for inviting me to this event today. Furthermore, the Tokyo Stock Exchange's various initiatives have attracted attention from overseas, and as a market participant, I am deeply grateful for this. I hope we can have a fruitful discussion today.

I work as a Portfolio Manager/Analyst for all-cap Japanese stocks at Lazard Japan Asset Management K.K. I'd like to briefly introduce Lazard. Lazard was founded in 1848 and currently manages approximately JPY45 trillion[2] in assets under management worldwide.

While many people may associate Lazard with large-cap investing, the investment strategies we manage cover all market capitalizations, so we can invest not only in the Prime Market but also in the Growth Market and the Standard Market. Our investment strategy is based on long-only active management, and we hold several stocks that we have held for many years from a long-term perspective. We pride ourselves on being investors who engage in ongoing dialogue with publicly traded companies and place a high priority on enhancing long-term corporate value.

Now, regarding the topic at hand, the attitudes and initiatives we expect from Growth Market-listed companies, I'd like to share our perspective.

First and foremost, we place a high priority on corporate growth and stock price growth. As you all know, the stock price is equal to EPS multiplied by the P/E ratio. However, in the Growth Market, stock prices tend to rise primarily due to momentum or sector-driven factors, and in such cases, the P/E ratio rises sharply. Volatility is high, and stock prices are sometimes driven by the P/E ratio. However, we base our investment decisions on EPS growth rather than the P/E ratio. We place a high priority on whether the company's EPS will grow over the medium to long term, and whether management can articulate their growth and business strategies in their own words. Mr. Hattori just mentioned that it is important for the president to take a leading role in investor relations activities, and I wholeheartedly agree with that point.

Second, when I previously served as an instructor for the Tokyo Stock Exchange's IR training course, I received many questions from participating companies regarding the market capitalization of investable companies.

We place greater emphasis on liquidity than on market capitalization. From the perspective of our fiduciary duty, it would be problematic if, after adding a stock to our portfolio, we were unable to sell it when we wanted to. For that reason, we are keeping a close eye on whether there is a certain level of liquidity.

We also communicate to every company we engage with the three qualities that we prioritize. These are the quality of management, the quality of the business portfolio, and the quality of governance. Earnings growth, EPS growth, and these quality metrics are key factors in selecting stocks for investment, particularly for us as long-term investors. In addition, Lazard is a global investor, and its overseas investment teams are also researching the Japanese market, including the Growth Market. However, I do think it is difficult to conduct corporate research without disclosures that meet global standards, including disclosures in English.

Next, let's discuss expectations for the Growth Market. Earlier, several of you mentioned the profit growth rate. However, we are mindful of stock prices. From that perspective, we construct our portfolio with the goal of outperforming the market over the medium to long term, and when it comes to stock price growth, we include stocks with the expectation that, while they may not double in value, they still have reasonable upside potential.

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[2] USD285 billion as of June 30, 2026

https://www.lazardassetmanagement.com/jp/ja_jp/home

Of course, among the stocks listed on the Growth Market, there are companies whose stock prices have risen sharply, doubling or tripling in value. However, rather than investing with the aim of capitalizing on sharp stock price increases, we place greater emphasis on whether there is potential for EPS growth and stock price appreciation, at least over the medium to long term. Therefore, we place great importance on stock price growth and EPS growth. In other words, we want companies to understand that reaching a high price at the time of the IPO is not the end goal, and we use dialogue to confirm the company's business strategy and growth story.

Also, it is sometimes difficult to discuss B/S and CF strategies during conversations with some people, while they are aware of P&L; so I would like to ask that you manage your business with an eye toward capital efficiency. We share this message with every company we engage with. As for how to use the cash that will be generated, since this is the Growth Market, it won't mean anything unless they grow, so I'd like them to invest it. We are also saying that if funds from shareholders are to be invested, we would like to be provided with a quantitative estimate of the expected return, even if it's just the IRR. In addition, I'll discuss the fact that while companies often have criteria for investment, they frequently lack criteria for divestment.

Regarding shareholder returns, there are various types of investors, and it seems that a return of 40% or more is often expected. However, since we believe this varies depending on the company, industry, and stage of growth, among other factors, we do not set a uniform dividend payout ratio. If there are good investment opportunities, I hope they will actively pursue them to foster the company's growth.

Next, regarding our expectations for the Tokyo Stock Exchange, I believe it is also important to enhance support services, such as lectures. I'll be participating in another consultation session soon, and it seems that many companies are expressing concerns such as not knowing how to reach investors, how to conduct investor relations, or how to handle disclosures.

I also believe that if we ensure thorough awareness of the new TOPIX inclusion criteria, promote their use, and provide support, the Growth Market will become even more vibrant.

Finally, I'd like to add a few words about what we, as global investors, are focusing on. Since overseas investors currently account for about 60% to 70% of trading volume in the Japanese market, I would like to discuss the trends among global investors who have signed the PRI.

The discussion so far has also touched on the topic of governance. As I mentioned earlier, our company also places a high priority on the quality of corporate governance, and we disclose information regarding our stewardship activities and ESG engagement on our website.

When broken down into E, S, and G, we find that dialogues regarding G, Governance, are the most common at our company. In that regard, rather than simply looking at how many outside directors there are, what the compensation system is like, or what kind of skills matrix has been established, we focus on whether the board includes individuals, whether internal or outside directors, who manages the company with a focus on its corporate value, cost of capital, and stock price. In addition, we are engaging in dialogue regarding concepts such as capital efficiency within the context of governance classifications.

Next, I'll discuss the institutional investors that have signed the PRI and how they engage with companies. We have also signed it, and the total assets under management of the organizations that have signed it amount to approximately USD120 trillion, as of March 31, 2023, which is equivalent to approximately JPY20 quadrillion. What do you need to do to get them to invest this money? In the past, negative screening was the predominant approach in ESG investing, according to a 2016 survey, 36% used negative screening and 20% used engagement, so screening was based on whether a company was using this method and whether it disclosed its practices. Engagement and integration approaches are currently on the rise, according to a 2022 survey, negative screening dropped to 19%, while engagement rose to 39% and integration rose to 27%.

In other words, simply disclosing information isn't enough; engagement assessments verify whether those disclosures are effective, and if they aren't, the organization won't receive a positive evaluation.

Mr. Murakami:

It has been 10 years since we founded Signifiant. We have identified the lack of experience and systems spanning strategy, finance, and organization as a key challenge during the growth phase, from the unlisted mid-late stage through to the post-IPO period and have consistently emphasized that providing risk capital and strengthening management foundations and corporate governance are of paramount importance. I would like to share my insights based on that practical experience.

Compared to 10 years ago, I feel that the group of companies in the Growth Market with a market capitalization exceeding JPY100 billion has gained a certain level of depth. On the other hand, the operating environments and challenges faced by companies at the top and bottom of the market capitalization rankings are completely different, and we have reached a stage where we should discuss them not as a single group but by dividing them into distinct phases. On the boards of many companies, there has been an increase in discussions involving deep concerns regarding the very meaning of being publicly listed, such as "How can we continue to grow while remaining publicly listed?", "Should we grow while remaining private?", "When should we go public?", and "Should we even maintain our public listing in the first place?"

In addition, market expectations regarding growth have changed significantly. As market conditions have changed, the bar for evaluating growth potential has risen significantly; investors are now seeking high-quality growth, not just top-line growth, as exemplified by standards such as the Rule of X. This shift is causing difficulties for publicly traded companies in the Growth Market. Rather than proving profitability through high growth as in the past, companies are now expected to achieve profitability first and then pursue higher growth; I get the impression that the way to climb the mountain has changed significantly, depending on whether you go clockwise or counterclockwise. At this point, I feel it is becoming increasingly important, as we consider the raison d'être of the Growth Market, to take a fresh look at the question of where the true investment demand for the Growth Market actually lies and to honestly assess whether, as the private investment market expands and options multiply, there are indeed enough investors in the current Growth Market who adhere to the growth stock investment policies we envision.

Furthermore, whether they are publicly traded or privately held, companies face the challenge of sustaining high growth in a single sector within a limited TAM. As the market anticipates high growth accompanied by profitability, discussions regarding M&A as a growth strategy have intensified; however, it is not easy to execute and successfully complete M&A while maintaining a public listing. Companies must design financing strategies that minimize the risk of impairment while constantly monitoring the negative impact of goodwill amortization on EPS and implement those strategies while maintaining accountability to investors, to the point that some even argue, "In that case, it might be more advantageous to remain unlisted." While promoting M&A is sometimes cited as one of the benefits of going public, for publicly traded companies with fragile business foundations, balancing M&A execution with stakeholder management is by no means easy.

The hurdles in terms of human resources and finances remain high. Recruiting top talent at the CxO and CFO levels is extremely challenging, but strengthening the management foundation is essential to achieving sustainable growth. That is precisely why I believe there should be more companies that can boldly utilize stock-based compensation through a structure suited for the post-IPO environment. However, understanding the complex structure of the system and aligning it with accountability to investors and the timelines of financial and business strategies would be difficult without a properly functioning board of directors and CFO function. From a financial perspective, banks are applying stricter screening criteria than ever before, assessing a company's scale and creditworthiness to determine its eligibility for large-scale loans; not all companies can fully leverage the benefits of going public for fundraising purposes. Even within the same Growth Market, funding options and terms change significantly once a certain threshold is reached, so from this perspective as well, it is becoming increasingly difficult to treat all companies within that market uniformly.

In addition to these factors, differences between Japan and the United States regarding founders' equity stakes at the time of going public or during the growth phase have long been noted. This issue regarding shareholdings is an extremely important matter that directly impacts not only the structure of private financing but also management incentives, the secondary market, post-IPO liquidity, which significantly influences investors' investment decisions, and corporate governance. Some publicly traded growth companies are now considering share buybacks or MBOs. In the Growth Market, where high growth is normally expected through growth investments, we must ask ourselves, "What kind of market should the Growth Market be?" given that companies are opting for shareholder returns or MBOs simply because they are not receiving adequate valuation.

With regard to corporate governance as well, rather than limiting the review to an assessment of the current structure at the time of the listing review, shouldn't there be a process, through the listing review, to explain the roadmap for how corporate governance will be strengthened after listing, thereby helping stakeholders understand its importance? Regaining trust once it has been lost is no easy task, and for companies with a small market capitalization, it can be even more devastating. Rather than limiting reviews to short-term and superficial assessments, striking a balance between evaluating companies' commitment to continuously reviewing and strengthening their corporate governance, and the roadmap they have established for doing so, from a medium- to long-term perspective becomes increasingly important the more we adopt a policy of allowing small IPOs. Even if VC governance allowed for both pressure and dialogue during the pre-IPO phase, in the Growth Market, if a company is not a target for institutional investors, both pressure from shareholders and opportunities for dialogue are limited. Under these circumstances, the reality is that it is extremely difficult to voluntarily maintain and improve corporate governance for listed companies. I also feel that they lack knowledge and expertise.

I also believe that, along with best practices for disclosure, the channels used to deliver information are important as well. During the era of VC governance, there are ample opportunities for dialogue with trusted shareholders, and it is commonplace for external and shareholder perspectives to be conveyed directly to the board of directors and the CEO. On the other hand, going public suddenly creates a greater distance between the company and its shareholders and the outside world. That is precisely why it becomes increasingly important for the CEO to personally conduct investor relations on the front lines and provide the board of directors with detailed feedback on the raw reactions and market assessments. The reason CFOs and outside directors are so important to corporate governance is simply that, through these roles, they bring an external perspective, serve as a check on management, and enable the execution of management strategies with a clear understanding of investor expectations. I believe that only when this cycle is in place can it serve as a solid catalyst for corporate transformation in growth-stage companies that are often led by their founding CEOs.

I believe many listed companies are facing challenges regarding the selection of outside directors and the effectiveness of their boards of directors. By sharing candid feedback from investors, gathered through IR activities, with the board of directors and identifying key insights and challenges, outside directors will find it easier to initiate concrete discussions, thereby significantly increasing the potential for transformation through corporate governance. Conversely, in companies where there is no feedback, even if they establish formal governance structures and appoint a certain number of outside directors, meaningful agenda items may rarely come up for discussion. And even if they do, it can be difficult to ensure that governance functions effectively in the presence of a founder-CEO with overwhelming charisma. IR and corporate governance go hand in hand, but while they are even more critical in the Growth Market, where many companies are led by their founders, I believe it is often difficult in practice to proactively strengthen these functions.

While going public broadens access to individual investors, which is a positive development, it is crucial to attract institutional investors, who support medium- to long-term growth, as well as deep-pocketed and international investors, who are difficult to reach when a company is unlisted, to invest in the Growth Market. Companies need to establish clear benchmarks for how to attract inquiries from overseas and incorporate them into their system design. When a negative surprise occurs at a small company, it is difficult to regain the market's trust. Precisely because you are allowing small IPOs and broadening the entry criteria, it is necessary to strengthen your regulatory functions, including the listing review process, and I believe that one approach would be to tighten the standards for long-term evaluation, growth and profitability, as a minimum requirement. One proposal is to establish a system that ensures thorough discussion at the time of the IPO not only about whether the company has temporarily met the criteria, but also about the roadmap it will follow to achieve growth going forward. While taking into account the need to balance these factors with continued listing criteria, I believe that it is precisely because these are growth companies, whose performance is difficult to predict, that it is important to conduct reviews and develop roadmaps with a long-term perspective.

The decline in valuations in the Growth Market is directly dampening the outlook for potential candidates in the private market, who are likely to enter the market in the future, and is triggering a negative spiral throughout the entire ecosystem. In order to strengthen the ecosystem by treating the unlisted and listed markets as a single entity and to foster the growth of unlisted companies, it is extremely important to continuously improve the quality of the Growth Market; I believe that without this, there can be no sustainable development of the startup ecosystem. Listing and continued listing criteria also need to be reviewed as appropriate.

Ultimately, what matters is not simply the size requirement based on market capitalization. How can the Growth Market establish and maintain its brand as a market where growth is valued? I believe that this is the most critical challenge in the cycle of clarifying the significance of going public, increasing access to investors, and raising the standards of unlisted companies seeking to go public in the future, as well as improving the quality of their business foundations. How will the Growth Market, which aims to establish itself as a market where growth is valued, select and nurture companies that meet that standard? For that reason, I believe it is important to establish listing standards and guidelines that place greater emphasis on medium- to long-term evaluations and roadmaps following the initial public offering, in addition to the continued listing criteria.

Mr. Tanaka:

My name is Tanaka. Thank you very much.

Our company was listed on the Tokyo Stock Exchange Mothers Market, now the Growth Market, in 2005, moved to the Tokyo Stock Exchange First Section in 2015, and is currently listed on the Prime Market.

Actually, I'm also an angel investor, and I've invested in about 80 companies. As Mr. Murakami mentioned earlier, I've really come to realize firsthand that when the size of the so-called public market shrinks, the market capitalization of unlisted companies also declines. I've come to realize that we really need to consider the company's financials on a consolidated basis, from the pre-IPO stage through the IPO and beyond.

Today, I'd like to briefly explain how I, as someone directly involved, viewed the company's struggles and successes during our 21 years as a publicly traded company.

At our company, there is a clear distinction between periods of growth and periods of stagnation. A keyword is trend. After all, knowing how to identify trends and respond to them is extremely important. We founded the company in 1996. As you all know, the Web has grown significantly, so we've launched a homepage service.

Around 2005, with the emergence of what is known as Web 2.0 and the rise of social networks, SNS, we saw our sales mainly from internet companies such as Mixi, GREE, and CyberAgent grow and went public.

We worked very hard on M&A, which led to further sales growth, but in 2007 we became insolvent, so Sojitz took a stake in the company. In 2008, the Lehman Shock occurred, and there was a period when stock prices remained depressed for a long time. Although our stock price had been flat for quite some time, we launched our cloud business around 2011 or 2012, and since then, it has begun to grow significantly.

In 2015, we began investing in GPU servers and cloud services for AI. Currently, we are seeing significant revenue growth driven by what is commonly referred to as government cloud.

In Tokyo Stock Exchange materials, examples such as SHIFT are often cited, as examples of companies that started small upon listing and grew significantly. Our company has also gone public as a small company. I'm sorry to say that this has caused some inconvenience to certain individuals; due to an internal data breach on our part, our market capitalization dropped significantly yesterday. Until then, our market capitalization had been around JPY180 billion, but it has now fallen to about JPY150 billion, and I am deeply sorry for that.

There are cases where companies that go public with a low market capitalization go on to grow significantly. However, what I would like to say here, and I'm truly sorry to have to say this, is that our company has been struggling for quite some time. The initial public offering price was JPY5.5 billion; the stock opened at JPY14 billion and has been fluctuating since then. However, after issuing a downward revision once, the company fell into negative equity in 2007, which caused its stock price to plummet.

After that, Sojitz became the largest shareholder and the stock price rebounded, but it fell again due to the Lehman Shock. For some time, the company's market capitalization had remained in the JPY1 billion range, but when it announced investments in cloud computing and data centers in 2011, its stock price quadrupled. Until then, we had always focused our management efforts on how to generate profits to increase our market capitalization and how to distribute those profits as dividends. As a result, its dividend payout ratio is lower than that of most other companies, and since investors don't buy growth stocks based on dividend payout ratios, its market capitalization has remained in the JPY1 billion range. At that point, we made a firm decision and announced a major investment, even though it would significantly increase our fixed costs and reduce our profits. As a result, although profits fell significantly, the stock price rose about fourfold. It was only then that we realized that actively investing, rather than focusing solely on short-term profits, is what drives stock prices higher.

Although the stock price remained sluggish for quite some time after that, the company saw a significant increase in sales starting in 2015 and was finally able to regain a market capitalization of JPY10 billion. In other words, since our market capitalization had actually remained below JPY10 billion for the entire 10 years, if the continued listing criteria had been revised back then, our company would have been delisted around the fifth year of our listing. However, while it took us 10 years to finally reach JPY10 billion, I want to convey to companies going forward that there must be a way to achieve this more quickly.

Another point I'd like to mention is the history of capital increases. We originally incorporated as a corporation with JPY10 million, but we raised JPY200 million in Series A and JPY100 million in Series B. We raised JPY200 million at the time of our IPO, and when Sojitz came to our aid, they invested JPY1 billion. After that, in 2017, as the stock price rose, the company raised JPY2.1 billion in capital. Then, because the stock price rose significantly in 2024, we raised approximately JPY19 billion through a capital increase.

The final point I'd like to make today is that, in my view, the growth rate is indeed the most important factor for stock prices. For growing companies, the key is how they grow. Also, regarding profitability, I think it's very important to ensure that we're steadily increasing our EBITDA. Since our company makes significant investments, our depreciation expense is high, but another key characteristic is our extremely high sales growth rate.

In addition, our company actually has a very large number of shareholders, 48,000, to be exact. One of the tangible results we've seen as we've grown is that we've increased our number of shareholders. At the time, there were certain requirements regarding the number of shareholders that had to be met in order to be listed on the First Section of the stock exchange, so we took various measures, such as issuing stock splits and making the stock more affordable, which resulted in an increase in the number of shareholders.

Another point I'd like to mention is that our company has a high current ratio. This is also a failure of capital management, though. I don't own very many shares. As a result, even though I haven't sold many shares, my ownership percentage is now about 12%. To be honest, I think the founders of many companies listed on the Growth Market hold too many shares, and I believe that's why trading volume is so low.

As the number of shareholders increases and the current ratio rises, the volume of trading activity will grow, which will ultimately lead to an increase in market capitalization. However, if you absolutely don't want to sell your shares, especially when the stock price has been stagnant since peaking at the time of the IPO, you may feel reluctant to sell at a low price. If that happens, the company's stock price will remain depressed simply because of an excessive focus on ownership.

Furthermore, out of fear that making large investments will reduce profits, companies may focus solely on the short term by paying dividends or buying back their own stock, which can lead to a shortage of funds for growth. Given these examples, I explained how we were able to change course in order to achieve significant growth.

Watanabe, Director, Listing Department, TSE:

Thank you very much. With that, we have received feedback from all members. At this point, we'd like to hear any questions or comments you may have for others, as well as any additional opinions you might have.

Mr. Matsushita:

I'd like to ask Ms. Fukuta one question. You mentioned stock price growth a moment ago, what time frame are you assuming?

Ms. Fukuta:

Our investment horizon is based on a medium- to long-term perspective, approximately three to five years, and our analysts set target stock prices based on that timeframe.

Mr. Matsushita:

I have one question for the Tokyo Stock Exchange. I believe that the NASDAQ has surpassed the NYSE in terms of both the number of listed companies and market capitalization. On the Tokyo Stock Exchange, the Prime Market accounts for about 97% of the total market capitalization. What is your target ratio for the market capitalization of the Prime Market, the Standard Market, and the Growth Market, respectively, going forward? I would very much like to hear the Tokyo Stock Exchange's views on this.

Ikeda, Senior Manager, Listing Department, TSE:

We don't have a specific target ratio in mind; rather, we aim to increase the absolute market capitalization of the Growth Market. We aim to create the Growth Market where companies that want to continue growing can do so and expand.

Watanabe, Director, Listing Department, TSE:

Data shows that among companies listed on the Growth Market, only 6% have grown more than tenfold since their initial public offering, while half have seen their stock prices fall below their IPO levels. It's inevitable that half of the companies in the Growth Market won't succeed, but I believe it would be better if more companies achieved significant growth, which would in turn increase the total market capitalization of the Growth Market as a whole. If we can foster more companies that experience significant growth, I believe we'll see a trend emerge similar to that the NASDAQ in the US rivals the NYSE. That is what we hope to achieve.

Mr. Kudo:

I'd like to ask Ms. Fukuta a question. I think management and growth rates are fairly straightforward, but in order to assess the quality of governance, regardless of whether the person you're speaking with is the CEO or CFO, could you tell us what specific questions you ask and what aspects you focus on?

Ms. Fukuta:

It depends on the stage the company is at. When speaking with representatives from companies that are still in the growth stage, I think it's difficult to expect them to comply with global disclosure standards, and it's also difficult to discuss monitoring models with them. It's actually very common for companies to lack this kind of knowledge.

However, if a company asks us to, we'll visit it to brief such matters. We'll explain what we're looking for from what perspective, where the company currently stands, and what we'd like the company to aim to achieve by which deadline. We will share our investment criteria and governance standards for each stage.

However, in the end, it is the same. Since our targets for investment are all market caps, the governance standards we seek are the same. Therefore, I hope companies will strive toward that goal. We present this for each stage.

Mr. Kudo:

As some background to this question, I feel that discussions on corporate governance tend to take on a context along the lines of, "Since we've made it to the Growth Market, let's move on to the Prime Market," or "To get into the Prime Market, we need to improve our corporate governance." I don't think corporate governance is something you do just to get listed on the Prime Market, but I get the sense that many companies believe it's essential for achieving that goal.

Ms. Fukuta:

Governance is important in any market. And when it comes to addressing ESG, companies that don't have their G in order won't be able to properly address E or S, right? We believe that E and S can be achieved under a robust governance framework. When it comes to governance, while everyone mentions various checklists, what matters most, more than anything else, is whether management and the board of directors are consciously applying governance principles in their management practices, rather than simply following checklists. So, when the CEO speaks at an investor relations event, it really gives us a clear picture of the governance principles the management intends to follow.

Also, I imagine all of companies are appointing outside directors, but we carefully review the skills matrix. For example, there are some companies where, even if there is an outside director with expertise in finance and I ask to speak with that person, they are reluctant to agree. The Tokyo Stock Exchange's guidelines on dialogue with shareholders mention engaging in dialogue with individuals other than IR representatives, but such requests are not always accepted. However, since investors engage in dialogue with a variety of companies and possess valuable insights, I believe that dialogue with investors can also be put to good use in management.

And since such a hollow, formality-driven skills matrix is meaningless, I tend to think there's no need to present it. Using the skills matrix, we identify what the white space in management is, discern the perspectives of directors marked as having expertise in the company's growing businesses, and assess the effectiveness of our dialogue. I believe that is what leads to effective governance. Disclosures aren't something you just issue and then forget about, nor are they something you issue just for the sake of it. I believe that, for a publicly traded company, it is crucial for management and corporate governance to demonstrate how effectively they are running the business, how well they engage with the market, and whether they are focused on driving the stock price higher.

Mr. Iwaya:

I'd like to ask Mr. Tanaka, the president of SAKURA internet. Could you share some ideas on how the company increased its number of shareholders? I would appreciate it if you could tell me when the number of shareholders increased and how that number changed over time.

Mr. Tanaka:

One reason is that we had been increasing the number of shares in circulation, and major shareholders had been steadily selling their shares. The bottom line is that even if you want to increase the number of shareholders, you can't buy shares unless there are enough of them available on the market.

We also carried out the stock split. We split the stock 10-for-1 to make it more affordable to buy. We also included a JPY500 QUO card with each share. Opinions are divided on shareholder benefits themselves, and personally, I don't think it's a good idea to offer them solely for the purpose of raising the stock price. However, we implemented this as a way for the company to express its desire for shareholders to hold at least one unit over the long term, and as a result, the number of shareholders jumped from about 1,500 to about 7,000. It increased to that extent over a period of about six months to a year.

Mr. Iwaya:

Is that something that's consistently done regardless of whether stock prices are low or high?

Mr. Tanaka:

Yes, that's right. We've been doing that all along. We're actually still distributing JPY500, and I learned during the Q&A session at the shareholders' meeting that there are many shareholders who have been holding only a single share for the sake of this JPY500.

Mr. Katozumi:

After listening to what you all have said so far, I've come to realize over the past two hours that the Growth Market, for a company like ours, with a market capitalization of less than JPY20 billion, and the Growth Market for a JPY100 billion company differ in terms of their definition, substance, and what's expected of them. I feel a strong sense of empathy for President Tanaka, who has experienced both.

If that's the case, I got the feeling that we might have to split the discussion into two parts. In particular, when it comes to the smaller segment, I hope that the Growth Market will serve as a catalyst for the cycle of raising capital, investing it, and achieving growth, especially for publicly traded companies like ours, which still have a small market capitalization, as well as for companies that will go public through small IPOs in the future.

So, Mr. Iwaya just mentioned that the Growth Market is becoming diluted, and while that is certainly true on the surface, I hope that instead of diluting it with water, we'll add concentrated CALPICO to make it even stronger.

When it comes to investing, I hope the Growth Market will become a place where investors can participate not just by betting on winning horses, but by creating them, much like a horse owner.

Thank you for giving me an opportunity to speak.

Mr. Murakami:

Since the discussion on governance is really heating up, I'd like to add a few words of my own.

I believe that, particularly in the Growth Market, not every company will succeed, and the market is, to some extent, based on a risk-return structure and the underlying philosophy that it is sufficient if a few successful companies emerge from among them to achieve high growth. I believe that the more such a market is, the more corporate governance actually becomes critically important.

The founder and CEO of a pre-IPO startup finds himself in a very lonely position. Even as the IPO approaches, he/she has no one to turn to for advice. Since VCs are also in a position to encourage companies to go public, they cannot necessarily serve as trusted advisors on management matters given their conflict of interest; as a result, there are many cases where the board of directors does not function effectively, even beyond the scope of VC governance. Under these circumstances, the startup manages to make a decision and proceed with its IPO, but even after going public, it remains in a vulnerable state, lacking appropriate advisors and checks and balances.

However, when it comes to corporate growth, it is impossible to maintain rapid growth in a straight line without encountering problems or periods of stagnation. When faced with various challenges, such as a plateau in business growth, a shortage of funds, or deteriorating performance, if a company lacks appropriate corporate governance mechanisms or partners with whom to discuss these issues, it will suddenly find itself facing the drawbacks of a governance vacuum. Business owners end up fighting a lonely battle, only to find themselves backed into a corner, and before they know it, they fall into a vicious cycle where they've lost all options for growth. That is precisely why it is extremely important to proactively consider and prepare a governance framework, while taking into account the balance with the scale of the business, with an eye toward expansion of the business and organization not only from before listing through to after listing, but also beyond.

Governance is often viewed simply as a management cost, but it is, in fact, the very foundation for growth that enables rapidly evolving startups to continually refine their operations and drive ongoing transformation by appropriately shifting between the steering wheel, brakes, and accelerator. There are inherent limits to a management style that continues to rely on the discernment and judgment of a single charismatic leader. Especially after venture capital firms, which played a strong role in providing oversight and support, particularly during the pre-IPO phase, exit following an IPO, it becomes essential to have a presence on the board that can firmly voice critical opinions and offer diverse perspectives until the company attracts sufficient interest and engagement from institutional investors after going public.

As one potential practical solution, I would like to strongly recommend dialogue between outside directors and investors. While this is a practice recommended even by large corporations, it holds even greater significance for growth-stage companies led by their founding CEOs.

First, this serves as proof that outside directors themselves possess the necessary skills and insight to engage directly with the capital markets. Furthermore, this allows outside directors to directly hear candid feedback from shareholders and market assessments, making it easier for them to bring these issues onto the board's agenda. It also enables them to engage in objective and constructive discussions, with an appropriate level of pressure, even with the founding CEO, who wields overwhelming influence over decision-making.

I don't think adding any more formal governance standards or checklists for growth companies with limited resources would serve any practical purpose, it would only increase the burden on management. Rather, I believe that precisely because they are small startups and emerging companies, promoting guidelines and practices for governance that enhance effectiveness without being bound by formalities is a highly valuable initiative for improving the quality of the Growth Market. I believe that effectiveness, rather than formality, is the key to corporate governance.

Watanabe, Director, Listing Department, TSE:

Thank you very much. With that, we would like to conclude this meeting.

Finally, we would like to explain our future event schedule.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you very much for the lively discussion today.

The next meeting is scheduled for Wednesday, September 16, starting at 12:00 PM, and we plan to invite primarily representatives from unlisted startups.

Currently, we have set up those two meetings. Based on the feedback we received today and what we hear next time, we would like to consider how we should proceed with our discussions and take action starting with the third session and beyond. We hope to be in touch with you all again soon, so thank you for your continued support.

Watanabe, Director, Listing Department, TSE:

That concludes today's session.

Thank you very much for today.

[END]