

Minutes of the 2nd Council of Study Group on Developing the Growth Market

Date: Wednesday, September 16, 2026 12:00 PM - 14:15 PM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We will now begin the second 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 the moderator today. Thank you very much for your cooperation.

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

Joining us online today are Ms. Fukuta of Lazard Japan Asset Management and Mr. Murakami of Signifiant.

Ikeda will 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 to gather here today despite your busy schedules.

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

Immediately following today's meeting, we will post a notice confirming that the meeting was held, along with a list of attendees and materials from the Tokyo Stock Exchange, on our website.

I believe the materials you have provided as reference documents will be easier to understand if published together with the meeting minutes, so we would like to post them on our website at the same time the minutes are released. Also, with the exception of Mr. Terada's materials, we would like to project the materials provided by everyone else onto the screen as reference materials solely during today's meeting.

The minutes will be published after the meeting, once all participants have reviewed and made any necessary corrections.

Next, since we already explained the purpose and objectives of this study group in advance, I will now touch on them only briefly. Please turn to page one of the document you have, titled "2nd Meeting Materials."

We at the Tokyo Stock Exchange are 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 listed companies would eventually move to the First Section. On the other hand, I hope that the Growth Market will be a market segment where companies and management can continue to pursue high growth, if that is their goal, and where investors can support those efforts.

In an effort to embody this market classification in various ways, we have, to date, taken steps such as revising the continued listing criteria and encouraging management that strives for high growth. To further advance those initiatives, 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. Last time, we had discussions from the perspective of publicly traded companies. In this meeting, we would like to discuss what startups aiming for an IPO should look like. Specifically, we would like to hear from startup representatives about how startups should position and leverage an IPO within their growth strategies, and from investors about the mindset and initiatives they expect from companies aiming for an IPO on the Growth Market.

We would also appreciate your input on where the challenges lie in the IPO process and its preliminary stages, as well as what kind of environmental improvements are needed.

For your reference, we have attached a summary of the main comments received at the first meeting. We hope you will find it useful.

We have included two appendices. Appendix one presents the results of the survey conducted among companies listed on the Growth Market and startups aiming for an IPO, while appendix two 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 5 to 10 minutes. This is just a rough indication. Please do not worry too much.

Regarding the speaking order, we would like to ask that, as listed in the member list, the corporate representatives speak first, in alphabetical order, followed by the investors in alphabetical order, starting with Mr. Ogino and ending with Mr. Terada, and then we would like Ms. Fukuta and Mr. Murakami, who are participating online, to speak. 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. Ogino:

My name is Ogino from ANDPAD. Thank you.

We received two topics for discussion. The first point is how we should position and utilize going public, and the second point is what infrastructures need to be developed.

First, before discussing the first topic, positioning of going public, I'd like to talk about the role of startups.

First of all, I think it's extremely important that they are the ones solving social issues. When we talk about social issues, I believe it's not simply a matter of individual, subjective grievances or things that would be convenient or "nice to have." Rather, it's about whether you are truly addressing the structural challenges that society as a whole must resolve. Without this, I believe that a company's growth as a business entity will inevitably be limited even before it goes public, or its TAM will be too small, causing its growth to stall.

Next, what are the structural challenges that startups should address? I think there are various ways to look at this.

First of all, I think it's important that those be structural and universal. In other words, since a company is a going concern, the question is whether it is facing challenges that are not merely temporary but structural and pervasive, challenges that, if left unaddressed, would affect numerous stakeholders and future generations.

Second, those are challenges that are difficult to resolve if you focus solely on short-term profits and efficiency, as the initial risks are simply too high.

Third, those are challenges that, if left unaddressed, will impose an extremely heavy burden on society and on future generations. That said, if you focus solely on those three points, as they may include areas that should be handled by NPOs and similar organizations, it could be difficult for businesses, which are expected to generate revenue and profits, to take on such tasks.

Therefore, as the fourth point, I believe it's also important to consider whether those challenges are ones where the compound-interest effect comes into play, that is, the more sales and profits of the business expand, the more those challenges are resolved exponentially, which in turn feeds back into sales and profits.

In addition to whether the company is a key player in solving these social issues, other key factors include whether it is able to sustain high growth and continue to produce talented professionals.

Since this is a study group on the Growth Market, I think high growth is a major theme. What matters is how quickly you can move and drive innovation, and an IPO is one way to achieve that. I also think that while some growth may be accelerated through M&A, there are also cases where you carve out businesses that have been overlooked within large corporations and revitalize them quickly.

Next, from the perspective of developing talent, we at ANDPAD are also very focused on cultivating the next generation of leaders and management talent. As noted in "Results of the Growth Market Survey," I believe that recruiting top talent was cited as a challenge for growth by both listed and unlisted companies. I believe it is extremely important for startups to position themselves as the driving force behind the transition away from the traditional employment system, which is based on lifetime employment and seniority-based promotion, and toward one that encourages the mobility of top talent. I also believe that one of the defining characteristics of startups is that they give young people opportunities. The next generation of leaders and business executives, who have gained experience and hands-on practice in such environments and have gone through the process of launching businesses, facing failures, and making new attempts, will drive the Japanese economy and lead the Growth Market as well. I believe that fostering such talent will also become a major focus. Furthermore, I believe there is also the effect that, after an IPO or an M&A exit, founders, as serial entrepreneurs, and employees, with their accumulated know-how, will be reintegrated into the ecosystem, creating a compounding effect that leads to self-sustaining growth.

Next, let's consider the positioning of going public in light of such a role of startups. We at ANDPAD are constantly thinking about this as well. It is, after all, just one of many approaches. We are currently in the

process of raising funds through Series D, and I think an IPO would be considered, so to speak, Series E. Series E follows on from Series A, B, C, and D, and the question is whether it will be offered privately or publicly. Since this is the first offering to the public, it is called an initial public offering, or IPO. Naturally, Series E should be followed by Series F, G, and H, and the IPO is part of a continuous series of subsequent public offerings.

Why should a company go public? To be honest, I don't actually have the answer myself. We now have an environment in place that allows us to raise substantial funds privately. I've been a CFO for about 20 years, but back in the day, it was quite difficult to secure large sums of funding. It wasn't until we went public that we were able to gain access to investors with deep pockets.

On the other hand, ANDPAD has, thankfully, raised over JPY20 billion in funding to date, and it is possible to raise additional funds through private placements in the future. In those circumstances, we don't have a clear answer to the question of whether we should conduct the upcoming Series E round privately or publicly via an IPO.

There is a hypothesis suggesting that this might be the case, and that hypothesis ties in with the three points I mentioned earlier. The hypothesis is that by conducting an IPO, the company's role as an entity dedicated to solving social issues will become even more pronounced. Its rapid growth will accelerate further, and a talent ecosystem, including talent mobility, the cultivation of next-generation leaders and executive talent, and the reinvestment of talent from startups, as I mentioned earlier, will become more firmly established. These three points can only be achieved to a limited extent in the case of private placements. However, by transitioning from a private to a public entity, becoming a public institution, raising capital, and increasing corporate value, growth accelerates, making it easier to solve social issues and further fueling high growth. If the Growth Market is positioned from this perspective, I believe we can confidently aim for the next stage.

To make sure we don't lose sight of the height of the mountain we're climbing, we project an image of the Matterhorn in the office to motivate ourselves. Climbing a mountain that's a few hundred meters high is different from climbing one that's a few thousand meters high. Not only do you need different gear, but you also need different companions. We view the extent of our commitment to that as a measure of the magnitude of the social challenge.

If we don't scale that mountain at breakneck speed, similar services will spring up like bamboo shoots after a rain, and we'll end up in a battle for market share, a mere scramble for a small pie rather than a drive for major innovation. What this means is that we need to achieve rapid growth, to climb to the top in one go.

Finally, I believe it is crucial to consider how we can use going public to address the mobility of our workforce and to cultivate the next generation of leaders, which are precisely our climbing partners and equipment.

We are currently in the midst of climbing this mountain. After first launching our business in 2014, we released the ANDPAD service in 2016. From around 2019 to 2022, our company's market capitalization soared to JPY8 billion, JPY30 billion, and JPY80 billion. I think companies that list on the Growth Market do so with the hope of rapidly scaling up from the range of JPY10 billion to JPY100 billion within the first year or two after going public. Until the Series B funding round in 2019, our company was run by its three founding members, but starting with the Series C round in 2020, the ranks of executive officers and senior management expanded rapidly. As the next generation of leadership began to emerge and organizational management became more structured, the company's value rose sharply.

I think the key point here is that if a company goes public too early, before it has reached a certain stage of development, its growth will come to a sudden halt.

On the product side as well, at first glance, it may seem like the standard approach that you go public at the very moment when you've confirmed PMF, validated the sales cycle, and organized your sales and marketing

teams, just as you're about to go to market. For us, you are still in the early stages, and you do not yet have the organizational structure or talent in place to support high growth.

In Series A and B, we raised funds from domestic venture capital firms, but after that, we made a sharp shift in Series C and Series D toward securing investment from global investors. As I mentioned earlier, in Series C, we raised JPY6 billion with a market capitalization of JPY36 billion, and in Series D, we raised JPY12 billion with a market capitalization of JPY85 billion. Our company has been on a rapid upward trajectory and continues to experience significant growth.

Since we're currently able to achieve this growth through private placements, the line between achieving it privately and doing it publicly in the Growth Market has become very blurred. In any case, I think it will be crucial to determine how to drive this growth in the Growth Market.

I believe that even the world-renowned investors who joined us in Series C and Series D paid very close attention during their due diligence to factors such as our ability to solve social issues, the pace of our growth, the quality of our management, and the caliber of our talent. Therefore, if discussions regarding going public on the Growth Market proceed from this perspective, I believe companies will be able to move smoothly toward a market capitalization of JPY100 billion and even beyond that.

I would like to share some points that come to mind at this time regarding the necessary preparations for the pre-listing, listing, and post-listing phases.

The first point of discussion regarding challenges in the pre-IPO phase is the request to relax pre-IPO working hour regulations. I think high growth, to put it bluntly, is equivalent to the situation Prime Minister Takaichi described as "work, work, work." If that's the case, I think one key issue is whether the Growth Market is the kind of market that supports such situations, or whether it's even possible to achieve high growth despite the overtime regulations limiting work to 8 hours a day and 40 hours a week.

The second point concerns the trading and transfer of tax-qualified stock options prior to an IPO. I believe that the 10-year expiration period for tax-qualified stock options effectively serves as the deadline for an IPO. I think the key issue will be how to prepare for the next phase of even greater growth.

The third point concerns funding for late-stage companies and the expansion of the secondary market. We were fortunate enough to gain access to global investors, which allowed us to raise capital from around the world. However, it remains to be seen whether the infrastructure for supplying risk capital to late-stage companies is sufficiently in place. In addition, the typical fund maturity period for venture capital firms is 10 years. We've been in business for over 10 years now, and we receive various inquiries from a number of venture capital firms. Venture capitalists often come to me for advice, saying that while they honestly don't want to sell, since they know the company is growing rapidly and its stock price is rising, they're unsure what to do because of the redemption deadline. I've been thinking about what kinds of environmental improvements and tax incentives might be possible in this area.

The fourth point concerns pre-IPO audits. Given that we've seen many companies caught engaging in misconduct recently, I think, though this is just an idea, a registration system specifically for auditors of companies preparing for an IPO might be feasible. With regard to IPOs, especially given that we are now in the age of AI, various new issues are emerging, and I believe it would be worth considering allowing audit firms that have acquired the latest expertise in these areas to conduct IPO audits. I also think there might be some who question whether major audit firms, which primarily audit large corporations, are truly capable of auditing startups. Also, as I believe is true for everyone else here today, I myself have experience working at

a publicly traded company, and I think that leveraging that experience to establish the right systems at a startup is a crucial factor in preventing fraud.

Fifth, as an issue at the time of going public, the lack of liquidity inevitably makes it difficult for investors to buy and sell shares. In that case, just as you set a threshold of JPY10 billion in market capitalization, for example, I have an idea: why not establish certain thresholds for offering size and offering ratio as criteria for going public? In other words, this serves as a sort of brake, a mechanism that suggests companies unable to meet that threshold, or, in short, those unable to provide investors with attractive explanations, should hold off on going public for the time being. As I mentioned earlier, since there are opportunities to raise funds through private placements, I think it might be a good idea to establish a process where companies remain in the private market while liquidity is low and then go public once a certain level of liquidity has been secured.

The final point is disciplined renewal. In the United States, M&A deals account for 90% of the total, while IPOs account for 10%. In Japan, IPOs account for 80% of the total. In light of this, I would like to discuss the standardization of M&A exits.

The first point is what are often said, establishing the rule against amortizing goodwill and further expanding the acquisition requirements under the tax system for promoting open innovation. The second point is facilitating the delisting of companies listed on the Growth Market. Upon reanalyzing companies listed on the Tokyo Stock Exchange's Growth Market, I noticed that, since 2018, companies that went public with a market capitalization of JPY10 billion or more have generally shown very strong stock price performance. When comparing market capitalization at the time of the IPO pricing to market capitalization one year after listing, it has grown by an average of more than 160%. Of course, some companies' stock prices rise, while others' fall. Roughly 60% of companies see their stock prices rise, while about 40% see them fall. In that sense, I think the JPY10 billion threshold for maintaining a public listing works very well even as a back test.

On the other hand, if companies that remain below that threshold are potentially damaging the overall image and brand of the Growth Market, I think we should consider some sort of exit strategy, or a process of renewal, for companies that were once listed on the Growth Market but have hit a ceiling or seen their growth stall. In the United States, there is a rule that if a company's stock price falls below a certain level within 30 business days after going public, a corrective notice will be issued. These are the so-called USD1 rule and USD0.1 rule of NASDAQ. When it comes to low-priced stocks and stocks that have stopped growing, it might be worth asking whether they still have a place in the market.

In addition, VC investment agreement templates in Japan, such as those involving M&A, which include deemed liquidation clauses, or those of 1x fully participating liquidation preference, are structured so that the proceeds are almost entirely distributed to the VC. I think that unless we steadily work to improve things like this, it will be hard to make any progress.

Mr. Katayama:

My name is Katayama from Preferred Networks.

First, I'd like to briefly introduce our company. Our company is an AI firm now in its 13th year of operation, and we handle a wide range of products and services, from semiconductors to solutions. Our company was founded in 2014 and initially grew with funding from an operating company. In 2024, we welcomed financial investors, including SBI Investment, as participants, and that was the first time we raised funds through a preferred stock offering, the kind typically associated with startups.

The AI value chain is extremely long, ranging from semiconductor manufacturing equipment and materials to GPUs like NVIDIA's, large language models (LLMs) such as ChatGPT, and the applications that utilize them. Within this context, our company is developing a wide range of products, from AI semiconductors to applications, in collaboration with various Japanese players. Furthermore, we are working to sell the products created in this environment on a global scale.

For example, our company offers a service called Matlantis. This is a SaaS platform used for research and development in materials chemistry. From the service itself to the hardware that powers it and AI semiconductors, we develop everything vertically in-house, contributing to the localization of Japan's AI technology.

In light of this, I would like to discuss how we view the role of an IPO within our company. To put it simply, there are two points. One is securing a continuous and flexible means of raising funds. In the AI sector, and, in fact, in the semiconductor industry as well, the importance and speed of fundraising have clearly increased, and I believe that going public is a key method for raising capital. In the United States, there are cases where publicly traded companies raise substantial funds and implement bold capital strategies. Therefore, I think there are various points to consider regarding whether remaining unlisted is necessarily an advantage in an industry like this.

Another is ensuring public interest and governance. Fortunately, our company is increasingly being selected for public and mission-critical projects. For example, our development of AI semiconductors has been selected as a national project, and our employee Okanohara is participating as the Head of Joint Research and Development in the recently announced LLM development project at Noetra. In this context, as Mr. Ogino mentioned earlier regarding the process of becoming a public institution, we place great importance on precisely that aspect, explaining our activities to society with transparency.

On the other hand, when investing in LLMs, hardware, semiconductors, and deep tech, there are times when you have to make decisions on major investments. In addition, in recent years, the semiconductor industry has been facing very tight supply and demand conditions, which may lead to changes in investment schedules. Given these issues regarding predictability, I believe it is a key point to strengthen our confidence in our ability to meet investors' expectations on a quarterly basis following our IPO.

There aren't many startups in the world that are involved in both semiconductors and LLMs, so we are a company with a unique portfolio. In this context, we've had the opportunity to meet with a variety of people from both Japan and abroad, regardless of whether they're a good fit for our company. I am truly grateful for this. I'd like to share a few thoughts I've had from that perspective.

First, the US ecosystem is large, and its size is what makes it valuable. Because both capitalists and entrepreneurs have a global background and access to investment opportunities, there are people who have a wide variety of investment ideas. For example, while some people argue that using Frontier AI models is the right approach, others say that investment in sovereign AI will likely increase in the future. Some people say they'll only invest in software from now on and are betting on its growth, while others say the future lies in hardware. There are people with a wide variety of viewpoints.

There are also many examples of success where long-tail investments in controversial ideas have paid off handsomely. To touch briefly on the topic of AI semiconductors, there is a company called Cerebras. This company went public with an IPO valued at approximately USD60 billion, but for many years, experts in semiconductor technology had been saying that the choice of technology would likely prove too difficult. However, thanks to investment at just the right time, the company was able to see it through and succeed. We see that there is a worldview in which investments are made in a diverse range of companies.

I believe it is precisely because of these success stories that a diverse range of funds has emerged, leading to a broader spectrum of investment opportunities. The investors supporting the growth stage may vary by sector, particularly in the case of deep tech. However, because the ecosystem is so large, there are investors who are knowledgeable about every field, and I think that's amazing.

On the other hand, it seems that such an ecosystem probably doesn't exist anywhere outside the United States, and even in places like China and Europe, it appears they're still struggling to make it work. I think we need to consider how Japan will build its ecosystem from the perspective of the startup ecosystem as a whole.

In terms of success stories, space startups in Japan have also gone public as a cohort, and I hope that will have a positive impact going forward.

When it comes to AI, coding is the killer use case, and in that field, companies needed to raise at least JPY10 billion by 2024 and about 10 times that amount by 2025 just to survive. In Silicon Valley, there's a mindset, akin to "blitzscaling," where, if there's a potential for profit, you invest as much capital as possible until the marginal profit reaches zero, with the goal of dominating the market. China, on the other hand, has a completely different approach. It's a model in which the government makes various investments.

Given this situation, I believe it is a very important issue to consider what we should be thinking about regarding Japan's ecosystem. I believe the market plays a very significant role in this regard.

In addition, we are engaged in various initiatives with operating companies, and I would like to share some insights we can offer from that perspective. In recent years, I believe there has been an increase in the number of cases where operating companies are investing significant amounts in domestic startups as sources of risk capital.

In the deep tech sector in particular, I believe it's essential to have someone who can vouch for the technology and the business, and having a knowledgeable operating company among the shareholders is of great significance. For example, there was a recent case where Mujin raised funds with NTT and QIA (Qatar Investment Authority) as joint lead investors. There are numerous examples, both in Japan and abroad, where positive evaluations of operating companies have a positive impact on financial investors' decisions, and I believe this is particularly important in the deep tech sector. I don't think it will be easy to significantly increase the supply of domestic risk capital in the short term, so I believe it is important to increase the inflow of global capital in this way.

On the other hand, I don't think that the trend of selling policy-held shares and investments by operating companies in startups necessarily reflect the same worldview. I believe it is important to create an environment that makes it easier for operating companies to invest in startups and to accelerate open innovation.

Another point is that it's quite difficult to gain access to top international venture capital firms. Domestic operating companies and venture capital firms, among others, invest in overseas venture capital firms as limited partners (LPs) through funds of funds and other vehicles, and we are grateful that they have introduced a certain number of investors to us. However, I suspect that there is still a significant imbalance among unlisted companies in terms of their ability to connect with the global ecosystem. It seems there is a need for a service that matches unlisted companies with overseas investors and others.

Next, I would like to share our thoughts on the challenges we face in preparing for our initial public offering.

For issuers, an IPO is a one-time event, and there are many aspects they cannot clearly determine how to handle on their own. For that reason, I think it's common in practice to seek input from various people, and I believe that a CFO's practical experience and professional network are where they really get to show what

they're made of. However, I think there's also the question of whether that's really okay. I feel there is an information asymmetry, as comments may vary depending on the advisor you consult, and you may be asked to take a conservative approach. I think the Tokyo Stock Exchange is already communicating its stance quite proactively, but I would appreciate it if you could be even more proactive in your communications. It would also be helpful if we could access past examples of the various documents that need to be submitted.

Furthermore, I believe it is common for various issues to arise during the process of preparing for an IPO, and for companies to attempt to resolve them. Especially in the AI sector, where business conditions change very rapidly, we'd like to take various actions, but I think there are a number of things that are difficult to implement while preparing for an IPO. I think M&A is often cited as a challenge, but another one is streamlining the capital structure. Earlier, we discussed tax-qualified stock options and secondary offerings. I believe that, even while preparing for an IPO, it is sometimes difficult to reorganize the capital structure, something that should be completed before the listing. I would appreciate it if a circumstance where those tasks can be completed quickly could be established.

In addition, our company operates in a wide range of business areas, and the risks associated with our operations are diverse, with each risk differing significantly from the others. On the other hand, the level of importance varies depending on factors such as the size of the business. I would appreciate it if we were allowed, to a greater extent, to prioritize responses on a business-by-business or project-by-project basis according to the actual risks involved.

Mr. Takemoto:

Thank you for inviting me to this study group on the development of the Growth Market.

KAKEHASHI is a health tech startup dedicated to restructuring Japan's healthcare system, guided by our mission to "make the Japanese healthcare experience more flexible." In 2025, as part of our Series D funding round, we raised a significant amount of capital from investors such as Goldman Sachs and completed two M&A transactions, marking a period of substantial growth for our company.

I began my career as an equity analyst, and in my previous role as CFO of a startup, I was involved in an IPO in 2021. Subsequently, amid changes in market conditions and business strategy, as well as the introduction of a new threshold of JPY10 billion in market capitalization, the company was delisted via a tender offer in 2025.

I am currently working at an unlisted startup, where I am once again in a position to lead the company toward an IPO.

First, I'd like to talk about the significance of the IPO for us. For us, an IPO means securing flexibility in fundraising, and ensuring diversity in our growth strategies is important. At the same time, we believe it will also lead to greater public trust in us as a healthcare provider. For that reason, I believe that, fundamentally, it's not a matter of size, but rather that its positioning within the business strategy is extremely important.

At the moment a company goes public, market attention is extremely high, and there is what is known as a honeymoon period in the public market. You need to ride this wave, but if you fail to do so and get left behind, you'll have to work to regain attention, and I think that in itself becomes a new hurdle. In that sense, I feel it's also very important for a company to be at a size that allows it to ride the wave right from the time of its IPO.

For this reason, conducting an IPO at a time when the company still shows some potential for future growth, rather than when its growth has already peaked, is precisely why the company continues to attract attention

afterward. If a company goes public right when the hype is at its peak, the excitement will inevitably fade during the honeymoon period. In a sense, I believe it's important to view an IPO as a form of fundraising, and to recognize that it is through this fundraising round that the company will be able to implement its next growth strategy.

However, even though I say it's not a matter of size, in terms of market capitalization, though there may be exceptions, it is essentially a market dominated by individual investors, with a market capitalization of JPY30 billion or less. In addition, there are markets where hedge funds are gradually emerging, and once the market capitalization exceeds JPY150 billion, there is a solid, multi-layered presence of long-only investors. As such, even within the market, there are distinct segments and supply-and-demand dynamics based on market capitalization. IR activities for individual investors differ from those for long-only investors, and the IR activities that should be undertaken afterward naturally vary depending on which channel serves as the entry point to the public market. If we consider the pre-IPO phase as a form of investor relations in its own right, I believe that in the case of a small-scale IPO, companies must repeatedly adjust their IR approach, which initially is primarily geared toward individual investors, and adapt their communication with investors on a case-by-case basis to align with business growth and market capitalization growth as they occur. I imagine this presents its own set of challenges.

Therefore, the entry point, that is, where to enter the public market, and the timing of the growth strategy, which must leave room for sustained growth, are extremely important. To achieve sustained growth by leveraging the benefits of being a publicly traded company, it is crucial to understand the public market and the nature of the conversations and dialogue with investors there. So, we keep these two points in mind.

Based on the significance of an IPO as outlined above, as we prepare while considering factors such as the timing and size of the offering, I have identified three key issues: an overemphasis on building organizational structures, a lack of dialogue and experience, and the loss of growth opportunities through M&A.

First, as Mr. Katayama mentioned earlier, I believe there is a tendency to rely on institutional frameworks due to information asymmetry.

For startups navigating the IPO process, the biggest challenge is that the review criteria and legal interpretations remain a black box. Rather than focusing on growth with an eye toward life after going public, I think we may be devoting too many resources to figuring out how to pass this uncertain review process, much like studying a wide range of topics thoroughly just because the exam questions aren't yet clear.

For example, even if a company tries to engage in dialogue with institutional investors while it is still unlisted, if it speaks with more than 50 firms, I think securities firms might end up discouraging such dialogue altogether out of concern that it could constitute solicitation or a public offering, or that investors might run the risk of violating insider trading regulations and become barred from buying or selling shares.

As a result, startups tend to view meeting the requirements for going public as a top priority, and I believe this is precisely why there are so many cases where certified public accountants with backgrounds at audit firms lead IPO projects as CFOs. While I think this is very reassuring when viewed as a resource for building the organization, I don't believe it's a desirable trait in terms of engaging with investors. This isn't to say that a certified public accountant being CFO is inherently a bad thing, or that a CFO must come from the financial industry. Rather, it reflects the dynamic whereby, when seeking to complete an IPO, issuers tend to prioritize the ability to build organizational structures over maximizing market capitalization.

The same applies to internal controls: when it's unclear whether they will pass the review, organizations tend to lean toward the side of caution to an extreme degree.

Taking advantage of this ambiguity, it seems that some time-and-attendance software companies are emerging that claim, for example, that a company cannot go public unless it implements a time-and-attendance management system with PC log monitoring capabilities. At the same time, IPO advisory firms are also increasingly expanding their own workload by pulling a company toward the side of caution as much as possible.

Actually, if you've been through an IPO, you'll know what's not really necessary, but that's something you only know because you've been through it. I think that, without knowing any better, a startup would probably just go along with whatever an advisory firm tells it must be done.

When it comes to systems like internal controls, I certainly believe that the more robust they are, the better, but if they're nothing more than chains, I think they'll only serve as a drag on growth.

I understand that the eligibility criteria for the Growth Market are set lower than those for the Prime Market. That said, if the cutoff point is unclear, some people may end up crossing it by mistake, while others may set the bar too high.

On the other hand, when will discussions regarding corporate value and market capitalization, such as those concerning the offering price, take place? In a case I experienced previously, even when I asked for an indication of their price expectations, I did not receive a response until the date of the listing application with the Tokyo Stock Exchange was fast approaching.

If this had been a large startup, it might have engaged in thorough discussions with institutional investors rather than leaving everything up to the securities firm. However, since our IPO at that time was what is known as a small-scale listing, it was difficult to plan the information meeting without the support of a securities firm, and we ended up focusing almost exclusively on building the necessary organizational structure.

If you simply follow the brokerage firm's lead, I think it's quite possible that you'll end up applying for a listing on the Tokyo Stock Exchange, only to have price discussions take place behind the scenes while the application is still under review. Then, after the roadshow is over, you'll be pressured into going public, with the firm arguing, "If we'd known the price would be this low, we would have postponed the listing, but since we've come this far, there's no other choice," and you'll be forced to proceed with the listing.

In this way, I believe that if you exhaust all your energy on building the organizational structure, the proportion of your mental focus directed toward corporate value and market capitalization will decrease, and this will result in those aspects being given lower priority in the actual process as well. Therefore, I believe that during the IPO process, the Tokyo Stock Exchange should ask questions that go beyond those regarding internal controls and earnings forecasts, questions that can only be answered as a result of prior dialogue with investors.

Second, I believe there is a lack of opportunities to engage with investors, as well as a lack of dialogue and experience. It seems that unlisted startups have very few opportunities to engage in meaningful dialogue with investors in publicly traded stocks and learn from those interactions.

I believe that if management communicates with many investors in publicly traded stocks even before the company goes public, they will undoubtedly learn a great deal. Even when stock prices fluctuate wildly immediately after an IPO, if investors in publicly traded stocks have already become fans of the company, they may provide solid support. However, to achieve this, it is essential to engage in thorough dialogue even before the company goes public.

I think that, precisely because they are startups, their business models are often difficult to understand. However, if the first meeting ends up being the roadshow for the IPO, it means that investors will set a

preliminary price without fully understanding the business. Even if the stock price falls after the company goes public, investors will wait to see the company's earnings for a few more quarters before deciding whether to invest. In the meantime, they'll end up wasting the honeymoon period I mentioned earlier, which is characterized by high trading volume. I think this kind of thing is actually happening.

Setting aside the question of whether investors in publicly traded stocks will actively engage in dialogue with unlisted startups, especially those whose prospects for going public are uncertain, I believe it is extremely important to create an environment where startups become accustomed to engaging with such professionals and market participants from the unlisted stage onward.

While there are certainly startup founders who are used to dealing with institutional investors like venture capital firms, I believe that investors in unlisted stocks and those in listed stocks are two entirely different breeds. I think there are often cases where companies go public without having had enough experience engaging with investors in publicly traded stocks. However, when I speak with founders and CEOs who have actually taken their companies public, I often hear that they want to replace their CFO after the IPO because communication with investors has been insufficient.

Conversely, I also hear from investors in publicly traded stocks that companies lack a basic understanding of how the public market works, for example, that in order to raise a stock's price, they must first increase trading volume. Most investors will simply walk away quietly if a company's stock price isn't actually attractive. They won't go out of their way to educate you. Therefore, even if a company realizes, long after going public, that it has failed to engage sufficiently with investors, the honeymoon period may already be over, and the company may be facing low trading volume. As a result, despite having gone public, its options for raising capital may be limited.

I believe that the roadshow itself, the first real dialogue with institutional investors, is still shrouded in complete mystery. Even when engaging in dialogue with institutional investors, the issuer is not informed of who expressed what opinions, what valuations were made, or at what stock price the securities firm responded. I believe that, in principle, everything should be made public, and I think it might even be appropriate to make that mandatory. If issuers fail to fully understand how they are perceived by institutional investors, whether during roadshows, which provide an initial opportunity to gauge that perception, or during the book-building process, they risk being thrown into the public market completely unprepared.

If we are to compete as an issuer, I believe that, under the current circumstances, we have no choice but to take the initiative in setting the price ourselves—for example, by securing a letter of intent (LOI) from major investors or obtaining cornerstone investments. However, if you were to ask whether all of the wide range of startups aiming for an IPO can actually do so, the answer is that only a handful can.

Therefore, I believe the most important point is to go public only after fully understanding the initial offering price and how investors in publicly traded stocks will view the company.

In that regard, I believe crossover investors make good dialogue partners for unlisted companies. I think they are an excellent partner for dialogue, as they are able to invest in both unlisted stocks and publicly traded stocks.

However, since startups generally don't proceed while openly telling everyone that an IPO is imminent, I think it would be difficult for crossover investors to find them, and conversely, it might also be difficult for the startups themselves to identify such investors. So, I think creating opportunities for that kind of dialogue is one way to go about it.

In a survey of startups, many companies cited a shortage of IR personnel. As the number of publicly traded companies increases, it's only natural that there will be a shortage of IR professionals and experienced

personnel. I don't think there will ever be enough of them. I believe the solution to this lies not so much in changing jobs or workforce mobility, but rather in creating an environment that fosters and develops new talent.

I believe that if the Tokyo Stock Exchange were to provide such opportunities for dialogue and professional development, issuers might be better prepared to continue growing even after their IPO.

I would also like to raise one issue regarding the labor shortage. For startups that have reached the JPY10 billion milestone while still in preparation, and are currently in the growth or late-stage phase, aiming to extend their pre-IPO period and go public after surpassing the JPY10 billion mark, the tax-qualified stock options previously issued to their team members remain subject to a 10-year exercise deadline. I believe that, due to a change in the regulations, the exercise period can now be set at 15 years for companies that have been in business for less than five years. However, I would like to request an extension of the exercise period for stock options previously issued by startups that are approaching their 10th anniversary to colleagues who have contributed to the company for a long time.

I'd like to talk a little bit about the third point: loss of growth. I believe that M&A is currently an extremely important strategy for startups to achieve discontinuous growth. I think the fact that the Tokyo Stock Exchange issued an FAQ stating that it does not prohibit M&A during the preparation period for listing attracted a fair amount of attention.

However, looking at the examples in the FAQ, for most cases, there is a gap of more than one year between the acquisition and the listing date. For example, if you looked at those cases and told a securities firm, "The Tokyo Stock Exchange says it doesn't prohibit M&A," I think the securities firm would likely respond, "No, unless it's a very small-scale transaction, you can't conduct M&A during the year immediately preceding an IPO—there are hardly any cases of that happening."

I believe that M&A has recently become a common growth strategy for many startups. However, I feel that there is a conflict between trying to force the timing of an M&A deal, with the intention of setting aside the first year after the acquisition for the IPO process, and the idea of going public to sustain growth.

Therefore, what I'd like to ask of you is not simply a notice stating that "it is not prohibited," but rather a clear definition of what constitutes an acceptable scale and degree of impact, or, in other words, what actions would have an impact and which would not.

It would be easier to understand if there were clear guidelines regarding the ratios of revenue, profit, and net assets relative to existing operations. One example would be that, even while preparing for an IPO, if a company submits an appropriate plan for establishing internal controls, it can still carry out M&A transactions, even large-scale ones, within the year leading up to the IPO. If there is a system in place that ensures growth strategies and the IPO process do not conflict, I believe companies can move forward without halting their growth or interrupting the IPO process. Although this overlaps somewhat with the first point, the lack of clarity regarding the boundaries and the uncertainty surrounding listing requirements lead companies to focus on building their organizational structures. Conversely, because they are so completely absorbed in that work, they lack sufficient discussion and dialogue with listed investors. I think this is why we're seeing situations where growth strategies and IPO preparations end up conflicting with one another.

If the Tokyo Stock Exchange were to actively provide guidance, such as establishing clear guidelines, companies could take action based on that information. In addition, I believe creating opportunities for dialogue with investors, that is, networking, while this phrase may sound cliché, will also be extremely important.

An IPO stands for initial public offering, and I think of it as a rite of passage. It is not a rigid bar that is overly concerned with rules, but rather a stepping stone for ambitious companies to enter the market under open standards. I believe it is extremely important not to view the IPO preparation period as a hindrance to growth, but rather to use it as a runway and a training ground for engaging in meaningful dialogue with investors so that the company can be properly evaluated.

Mr. Tamaru:

Nice to meet you. My name is Tamaru, Corporate Operation Manager of Sakana AI. Thank you.

I originally worked as an attorney at law, and after being involved in the process leading up to MEDLEY's IPO starting in 2016, I have been in my current position. So, please keep in mind that I am speaking from the perspective of someone who has worked at a company that has gone public and at a company with a market capitalization that is valued to a certain extent.

First of all, I think the survey for the Growth Market contains a lot of very helpful feedback. I believe the points I see as challenges from the issuer's perspective are covered quite comprehensively here, so I'd like to discuss from a different angle.

The first topic is the position of going public. I believe an IPO should be viewed as an opportunity to raise funds for growth. Although the gap with the private market is narrowing, I don't think there's much disagreement that the public market offers opportunities to raise growth capital that aren't available in the private market.

With this in mind, I would like to discuss five points regarding how we should approach the development of the Growth Market from the perspectives of issuers and market design.

First, I'd like to talk about IPOs, which are supposed to be just a stepping stone but have come to be seen as the ultimate goal. The second point is the sharing of IPO talent, in other words, as many of you have mentioned, how to ensure that experienced professionals can move freely and be available to support companies. Third, I believe that even when compared to markets like NASDAQ and the NYSE, the Growth Market has increasingly become a market designed with the assumption that companies will eventually move on from it. Therefore, I think it is necessary to develop policies based on the premise that this is a market from which companies will eventually graduate. I think the perception that the Growth Market is small is heavily influenced by the fact that companies eventually outgrow this market. The fourth point is how to support startups with big ambitions. Finally, the fifth point is that, as many of you have mentioned, renewal is likely necessary. I'd like to briefly discuss these points.

First, as many of you mentioned earlier, the purpose of an IPO is to secure funding opportunities, nothing more, nothing less, and that in itself should be the core objective.

That said, from a capital strategy perspective, the involvement of venture capital firms can sometimes inevitably create pressure to go public. I also recognize that there are many cases where, due to a lack of sufficient knowledge during the seed stage, such as regarding how to grant stock options, companies make irreversible capital policy decisions that are difficult to revise later on, resulting in an IPO becoming something of a mandatory goal, or even a form of karma.

So, it really comes down to making sure you don't make any mistakes when raising funds during the seed stage, and I believe we can provide various forms of support. You should clearly determine whether the company is the type that aims for an IPO from the outset, whether it is targeting M&A, or whether it is a

company that plans to operate by effectively managing its cash flow without relying heavily on external funding. However, if you try to discuss this with a VC, raising funds will be viewed as a prerequisite, so support and communication regarding capital strategy at the startup stage are extremely important.

The second point concerns the shift toward a shared model for IPO talent. There is a limited pool of IPO professionals. As many of you mentioned earlier, anyone with experience in IPOs understands why the Tokyo Stock Exchange and securities firms require these internal controls and why internal management systems are so important. Based on that intent, it should be fairly easy to imagine what kind of system needs to be put in place and what needs to be included in the various explanatory materials. On the other hand, there are a great many companies that are unsure about this and are struggling, which the survey results also show.

I think there used to be a lot of companies that wanted a good CFO on a full-time basis. For individuals who are unable to commit as frequently as an outside director but for whom serving as an advisor would involve too long of a gap between engagements, it may be worth considering engaging them through a contract arrangement to participate in IPO preparation meetings early on, perhaps once or twice a week, or once every two weeks, to seek their advice on how to approach specific issues.

I think there are a great many startups that don't understand the characteristics of foreign long-only investors and individual investors. Even if such information is shared at a seminar, ultimately, the company needs to stay on the lookout. I think things will become a little easier for everyone once we establish a system for sharing employees who proactively take various initiatives and actions within the company and offer advice.

As for how this translates into policy recommendations, there is now a system for granting stock options to highly skilled external talent, something that didn't exist in the past, and I believe this is a step forward. However, this is a rigid system that involves a lot of red tape for certification. Therefore, I think it's still a bit difficult to grant stock options to highly skilled external professionals under a flexible outsourcing framework where stock options are granted based on performance and contracts are terminated if performance targets aren't met. On the other hand, there are some people who receive stock options without providing sufficient advice or making a meaningful contribution. I believe it would be desirable for the system to be designed in a more flexible manner and enhanced in a way that ensures its effectiveness, particularly in order to enforce discipline among such individuals.

Third, this market is one that is based on the premise that participants will eventually graduate from it. As the name Growth Market suggests, I think there are various options available, such as moving to the Prime Market once a company has grown and entered a phase of stable growth.

Personally, I haven't seen many companies that failed because they went public too soon. When a company is growing steadily and its business is expanding, I don't think there are many cases where it would have been better to wait a little longer to go public. Of course, it's only natural for the market to experience situations where, as market valuations have been adjusted, market capitalization has fallen significantly, and both market capitalization and liquidity are under pressure.

In this context, with regard to internal controls and internal management systems, as outlined in the Corporate Governance Code, we could adopt the "comply or explain" approach, choosing to explain rather than comply with certain requirements. In other words, we employ a method of enhancing risk disclosures, similar to the disclosure materials required by NASDAQ. This would allow for institutional flexibility, such that companies could disclose the specific risks they are consciously taking to prioritize growth, and investors could then make their own judgments at their own risk. In this way, I believe the best approach is to ease the requirements for becoming a public company, provided that disclosure standards are strengthened, while

encouraging companies to work diligently behind the scenes to ensure their growth and organizational development so they do not fall by the wayside.

Furthermore, it is very common after an IPO for tax-qualified stock options, which serve as an effective incentive for startups that find it difficult to pay cash bonuses, to be converted into restricted stock units or restricted shares, thereby becoming ordinary salary income subject to so-called comprehensive taxation.

Even after going public on the Growth Market, companies must continue to grow. In other words, they are in a phase where they still need to attract plenty of passionate talent. The fact that this compensation affects the P&L represents a certain burden for the company. Therefore, even setting aside the P&L aspect, I believe there is significant room for consideration regarding tax incentives on the individual income tax side, such as those for restricted stock, for companies listed on the Growth Market that meet certain requirements.

The fourth is the ambition size. The Growth Market thrives precisely because there are companies that see their stock prices rise 10-fold or even 100-fold after their IPOs. Even if some companies ultimately fail to achieve that, that's a matter of market conditions, so I think it's fine to relax the entry requirements.

Startups from about 15 to 20 years ago were, so to speak, "outliers," businesses run by people with very grand ambitions and aspirations, whose goals differed from those of a typical corporate career. However, just as startups are increasingly becoming a viable option for graduates of prestigious universities, the number of people choosing to work at a startup as a career path is also growing significantly.

In this context, raising the bar through the perspective of external investors is also crucial for supporting outlier entrepreneurs. If the goal is to establish a system where individuals with ambitious goals can grow with support, one option would be to secure global talent in order to secure opportunities for meetings with overseas institutional investors at an early stage.

I, too, have many opportunities to speak with institutional investors both in Japan and abroad in my previous and current positions, and I find that overseas institutional investors have very high standards. I think it's important to hear early on from investors who practice capitalism in a very sound way, those who say that a company's growth is meaningless unless it grows 10 or 20 times, in order to raise the bar for their ambitions.

As another policy recommendation, I would like to point out that I believe tax-qualified stock options and similar instruments are subject to residency requirements within Japan. However, I believe there are foreign nationals and Japanese nationals living abroad who are willing to support Japanese startups.

In that regard, I believe that by solving this through the requirement for high-level external talent and designing the system so that advisors can receive such incentives even if they are not residents of Japan, we can provide Japanese startups with an international perspective, which would serve as a source of inspiration.

Finally, regarding metabolism: without it, neither living organisms nor evolution can function. On the NASDAQ, the overwhelming majority of companies undergo an M&A exit, bankruptcy, or liquidation within about five years of their IPO.

Although the term "delisting" has very negative connotations, it is crucial to change the prevailing societal mindset, that is, the idea that once a company goes public, it must remain listed indefinitely, and to develop the M&A market and other related infrastructure based on the premise that being acquired through M&A is a perfectly viable option after an IPO.

I also think it would be beneficial to have flexibility in the system design for companies that are delisted due to violations of continued listing criteria, as well as an increase in M&A opportunities. I think it would be good if not only issuers and market participants but also the entire Japanese financial market came to recognize

that simply remaining listed long after an IPO is not an achievement in itself, and if we could foster a broader social understanding that the Growth Market is not the final destination for growing companies but rather a stepping stone, and that it is important for this market to maintain its momentum.

Mr. Nakashima:

My name is Nakashima of TBM. I used to work in the listing department at a securities firm. Based on that experience, I would like to focus today on what I should share with the Tokyo Stock Exchange.

Our company was founded in 2011 and was originally known for producing alternatives to plastic and paper from limestone. While our company originally had a competitive edge in pricing for certain products, naphtha prices have risen, causing plastic prices to increase relatively. As a result, our price competitiveness has further improved, and our core business, products derived from limestone, is also experiencing organic growth.

Recently, we have launched a business that provides building materials and other products using technologies for carbon recycling, or carbon dioxide recovery, specifically, by utilizing carbon dioxide in the process of artificially producing calcium carbonate, the main component of limestone, rather than relying solely on limestone-derived products. We have developed a technology that allows us to keep the cost of those building materials lower than that of existing wood-based or PVC-based materials. Currently, with this carbon recycling business as one of our core operations, our company is poised to achieve renewed growth.

In addition to this, as the use of recycled materials, known as material recycling, is now mandatory both domestically and globally, and there is a strong demand for high-quality recycled materials, we are driving innovation in this field as well. Please understand that, through the aforementioned carbon recycling business and the high-performance recycled materials business, our company is currently working to expand its operations once again.

In light of these circumstances, I'd like to discuss the position of going public. We're running this business because we want to tackle broader social issues. I hope you can imagine this: our company is a materials manufacturer, and we needed to build a large factory. It takes one or two years to build a plant.

Even if a plant is completed through such a process, that doesn't mean the products will sell right away once the factory is up and running. Even so, in order to bring this business to fruition at all costs, we have raised about JPY35 billion in private funding and are working hard to live up to the high expectations.

It is precisely because of this situation that TBM views an IPO not as an end in itself, but as a stepping stone or tool to help the company soar even higher.

Ever since I worked at a securities firm, I have consistently told companies aiming for a public listing, "An IPO is merely a tool. Don't treat it as the ultimate goal." I believe I am putting that into practice at this company as well.

Given the current situation, in which the overwhelming majority of companies have gone public but have not raised additional capital, I honestly believe that the Tokyo Stock Exchange's continued listing criteria of a market capitalization of JPY10 billion will have some effect in ensuring the possibility of raising capital after an IPO.

On the other hand, there are occasional instances where certain investors force companies to adopt a different capital structure and business model in order to meet the JPY10 billion threshold, with the aim of driving up the stock price and then cashing out. Given the current situation, in which overseas funds are poised

to enter the market, one might well wonder why these criteria were established in the first place. Therefore, I would appreciate it if you could design the system to establish more effective criteria that prevent abuse.

That said, we see two main challenges. First, I think that if we put in the effort, we might be able to achieve a certain level of success in areas such as knowledge sharing, process improvement, and engagement with investors. On the other hand, I think the situation in the secondary market is beyond our control.

In the 16 years since our company was founded, secondary needs have arisen, and some of them have been addressed. In the broader business world as well, there is growing discussion about secondary funds and the development of markets, and various comparisons are being made with that of the United States. However, when it comes down to it, the US secondary market is also dominated by a very small number of large companies, and there are almost no examples of secondary trading involving ordinary companies. With that in mind, I don't think it's simply a matter of creating a market. We must ensure that it is effective. On this point, I have heard proposals to utilize PRO Market, but considering factors such as disclosure requirements, I personally have some doubts about how realistic that would be.

I've also heard that there are companies, such as SmartRound Securities, that are working hard to establish a secondary market. I certainly hope the Tokyo Stock Exchange will cooperate with these efforts. After all, I think it would be counterproductive if using the secondary market made it harder to go public. Therefore, I believe that if you can thoroughly discuss the framework and other aspects needed to make it user-friendly, it will lead to the creation of a more viable secondary market.

Another point is a comparison with NASDAQ from the perspective of startups. While this isn't necessarily true for all NASDAQ listings, there are some startups that are as good as being tricked into listing on NASDAQ. Personally, I don't think that's the case, but I've heard that there are people who, citing the difficulty and time required to list on the Tokyo Stock Exchange, are encouraging companies to list on NASDAQ instead. While I believe this is ultimately a business decision for the startup to make, there are instances where a company chooses to list on NASDAQ and, as a result, ends up paying out large sums of money to stakeholders, a situation in which neither the issuer nor the investors benefit.

I've heard that some of these cases have even gone to court. Therefore, regarding the comparison between NASDAQ and the Tokyo Stock Exchange, I hope the Tokyo Stock Exchange will provide accurate information so that similar incidents do not occur frequently.

Mr. Iwaya:

Thank you for giving me the opportunity to speak today. I believe that all of the points that have been discussed here so far are important. I'd like to offer a few additional comments from an investor's perspective.

As an investor, what I look for in a company aiming for going public is whether it has a unique selling point and whether the benefits are clear. In addition to this, whether that level of achievement is truly great, we will discuss these three points with companies aiming for going public.

I believe this is also related to the so-called stages of development of the Growth Market in Japan. The Growth Market didn't exist in the 1980s. The Mothers Market was established in the 1990s. In the early days, the challenge was to increase the number of listed companies, and in such a situation, I think the market's very existence was what held value. The very act of seeking to increase the number of companies going public had its own benefits, its own uniqueness, and its own greatness. On the other hand, this context has been changing in the 2020s. Now that a cumulative total of approximately 900 companies have gone public, unlisted

companies aiming for an IPO in the future will likely face greater scrutiny regarding their uniqueness. What additional benefits could we offer this market? I think it's helpful to consider this perspective.

In that sense, as noted on page 20 of appendix two, the index performance of the Growth Market can be said to be one of the challenges left by our predecessors. If unlisted companies aiming for an IPO in the future can, for example, turn this flat graph into an upward-trending one, they can be said to have contributed to the development of the market. It is increasingly desired that unlisted companies aiming for an IPO increase the value per share after going public and, as a result, contribute to improved performance in the Growth Market.

There are many cases where unlisted companies aiming for an IPO find it difficult to understand the history of the Growth Market and its various stages of development. It seems that many people feel the theme has shifted without them realizing it. So, I think it might be a good idea to have an additional discussion about the contributions that are currently needed.

For example, and this ties in with Mr. Hirofumi Uzawa's discussion of social common capital, financial markets are a form of social infrastructure on par with the natural environment and physical infrastructure, and companies need to participate in them to ensure they function properly. To do so, we need to align our company's life cycle with the context of the market. As a result, it's surprisingly stress-free to get in. If that isn't the case, we acknowledge the difference and, even though it might be a little painful, work through it by making adjustments as we go. We often discuss this adjustment process with companies aiming for an IPO.

Next, I'd like to comment from the perspective of expectations for the Growth Market. One of the concerns for companies aiming for an IPO is that their stock price will fall (well below fair value) after going public. In response to this, I'm wondering if it might be possible to conduct a structural inspection.

For example, from 2021 to 2022, the Japan Securities Dealers Association convened a Working Group on the Appropriate Process for Setting Offering Prices and Related Matters. I believe that several structural issues were raised in this context, and that some revisions have actually been made. This led to several measures, including disseminating guidelines for pre-hearings and encouraging their implementation, shortening and making the listing schedule more flexible, flexible adjustments to the number of shares offered based on supply and demand, and setting the offering price outside the preliminary price range.

I think it might be a good idea to conduct a follow-up assessment of the effectiveness of this series of revisions. From the perspective of improving post-IPO performance, are there any points we can examine in light of the context discussed earlier? Are there any unresolved issues left over from the discussions at that time? For example, when it comes to the design of lock-up agreements, secondary trading of unlisted shares, and the nature of crossover investments, isn't there room to reexamine the validity of the discussions that took place at the time? Perhaps we should consider this area as a topic for future discussion.

I am sometimes asked questions about the use of class shares with voting rights. This is stated in the Secretariat's materials for this meeting (page 18 of appendix two). Although discussions often stall because there are very few case studies and it is difficult to determine the pros and cons, this point has been raised as an issue. Given that this could expand the scope of the Growth Market and enhance the appeal of the listing system for companies aiming for an IPO, I believe it might be worthwhile to further explore this issue.

In addition, we often receive questions from companies planning an IPO who are unsure whether to choose the Standard Market or the Growth Market. In short, companies that fall right on the border between the two markets struggle to choose which one to target. We covered this point in our previous discussion. To clearly define the actual differences between the Standard Market and the Growth Market, I think it might be helpful to specifically visualize and illustrate factors such as the expected growth rates and the external conditions on which those figures are based.

Finally, I would like to provide some additional information regarding the NASDAQ IR matching issue I mentioned last time. Apparently, using position data as a reference to some extent, they are researching information suggesting that if you link this analyst's ID, who works for this institutional investor, with this listed company's ID, it could lead to a productive meeting. They have staff located around the world, update data frequently, and are connected across national borders. Providing such a system could help foster dialogue and may be effective in promoting market development.

Mr. Terada:

Thank you for this valuable time. My name is Terada, and I run a venture capital firm named Dual Bridge Capital. I'd like to speak based on the materials.

First, I've summarized on slide two the perspective from which I'm offering my opinion, which also serves as a brief introduction. For the past 18 years, I have been consistently involved in investing in and managing pre-IPO and post-IPO companies listed on the Growth Market.

The company on the far left is ZIGExN, which was listed on the Mothers Market at the time and moved to the First Section of the Tokyo Stock Exchange while I was serving as its CFO. I operated an operating company here, and subsequently, within a group of companies, named Midas Capital, that manages a growth fund using its own capital, I have been involved with companies such as BuySell Technologies and GENDA. These two companies are currently listed on the Growth Market. In addition, about three years ago, we launched a venture capital firm called Dual Bridge Capital within our group, and in March of this year, a company called Seiwa Holdings successfully completed its IPO on the Growth Market. Since Midas Capital invested in BuySell Technologies nine years ago, its operating profit and market capitalization have grown approximately 50-fold, and furthermore, GENDA is the fastest Japanese startup in history to surpass JPY100 billion in revenue. All of them are companies with a significant presence in the Growth Market. Based on my experience in investing in and managing companies like these, I have summarized my points starting on page three.

First, regarding the discussion on what IPOs should look like, which is also on today's agenda. Personally, I find the way this question is phrased to be somewhat strange. In other words, I believe an IPO is, as the name suggests, a financing event, nothing more, nothing less.

As long as there are issuers who want to raise capital, that is, who want to issue or sell shares, and investors who are willing to buy those shares, within a set of established rules, an IPO will take place. I have some reservations about attributing policy-related or normative significance to it that goes beyond its original function.

On the other hand, when it comes to an IPO, there is the specific process of the listing review. As Mr. Katayama and Mr. Takemoto noted, the listing review process requires a significant amount of time and valuable management resources. In particular, when it comes to governance and internal controls, the scrutiny is significantly more rigorous during the IPO process than after the company goes public.

For these reasons, in reality, there are inevitably certain restrictions on corporate actions aimed at accelerating growth during the period leading up to an IPO. In light of this, I think holding this event sooner rather than later is one approach to consider.

Some people say it's better to go public once the company has grown to a certain size. However, from my perspective as someone actually involved in the practical aspects of going public, I believe that postponing an IPO carries significant drawbacks. In other words, as the company delays its IPO, its business scale grows, its business scope expands, the number of subsidiaries increases, and both its various transactions and capital

strategies become more complex. Consequently, the number of issues that need to be verified or explained during the listing review process increases. As a result, in reality, the longer a company delays its listing, the lower its chances of going public in the future.

Therefore, for companies that meet the listing requirements, I believe the best approach for enhancing corporate value in the future would be to list early, if necessary for financing purposes, and then take corporate actions flexibly after going public.

When I bring up this topic, I sometimes hear comments like, “No, going public stifles growth. It prevents you from making investments,” from executives who took their companies public with a small market capitalization, as well as from advisors and members of the ecosystem who have never gone through an IPO. In fact, as Mr. Tamaru mentioned earlier, I don’t think there are really any companies whose growth has stalled simply because they went public. I think that in many cases, companies that claim their growth has stalled because they went public would likely have seen their growth stall even if they had remained private. In fact, there are plenty of examples to the contrary. I believe there are clearly significant advantages to going public early, including for our portfolio companies, as it provides them with the tool of liquid securities, which they can actively leverage for M&A, as well as allows them to use their status as a publicly traded company to recruit top talent.

There have also been suggestions in the past that a company should improve the quality of its management before going public. Of course, if a company is like ANDPAD, one that address a fantastic market, is led by an outstanding management team, and has a clear competitive advantage, I don’t think there’s any cause for concern. On the other hand, in reality, it is sometimes possible to secure financing for unlisted companies, even those that may find it difficult to achieve sustained growth from a market or competitive advantage perspective. Not all investors in Japan’s unlisted companies are solely motivated by financial returns. Many invest for policy or strategic reasons, even if the business’s profitability or competitive advantage is not yet established or if its valuation is high. In this context, a prolonged period of remaining unlisted does not necessarily lead to an improvement in a company’s quality. In fact, I believe that the intense scrutiny you face from financial investors as a publicly traded company can serve as an opportunity to continuously enhance your corporate value.

Please take a look at the bottom of the slide. While I do believe a company should go public if it’s financially necessary, I also think there are cases, albeit few, where, from a purely financial perspective, it’s better not to go public.

A typical example is a company whose free cash flow remains negative even after going public, meaning it would be difficult to continue business operations without relying on capital increases, yet has a small market capitalization. For companies like these, it is generally difficult to raise additional capital after going public. Therefore, for companies like this, going public actually ends up limiting their options in terms of financing and business activities.

I think the only companies that fit this pattern should postpone their IPOs for a little while. However, in all other cases, I believe that, from the issuer’s perspective, it would be a good idea to proceed with an IPO as long as the conditions are met.

Please take a look at the next slide. From an investor’s perspective, is that okay? I think it is. As far as I know, there aren’t many investors who view the Growth Market as a whole as an investment target, or rather, at least I haven’t met any. I have rarely seen investors who invest directly in the growth index itself.

Rather, I believe investors apply a certain set of quantitative and qualitative screening criteria, and if they're interested, they conduct interviews with individual companies to analyze them and decide whether or not to invest.

This is a very important point, but I believe that setting a goal to enhance the overall appeal of the Growth Market tends to lead to a broad but superficial discussion. In other words, there are approximately 600 listed companies on the Growth Market, with an average market capitalization of JPY15 billion. Do you want to raise this figure to JPY20 billion, or do you want to increase the number of companies with a market capitalization exceeding USD1 billion, of which there are currently only 11 out of approximately 600, to 50 or 100? I think the solution will vary greatly depending on how the question is framed.

Personally, I believe the latter is essentially the only option, and the focus should be on how to build companies with a market capitalization exceeding USD1 billion. To begin with, the Growth Market has always been a mixture of good and bad, and I think it's important for investors, issuers, and other stakeholders to share this understanding as a basic premise.

Given a market where the good and the bad are mixed together, the market faces two options: either accept that there are bad companies, those that aren't growing, in the mix, or eliminate bad companies to increase the proportion of good companies. However, it's often difficult to tell whether a company is good or bad at the time of its IPO, or even after it goes public. Therefore, I think we have no choice but to make the entry wider.

In fact, regarding BuySell Technologies and GENDA, which I just showed you as examples of Midas Capital's track record, to be frank, even the management shareholders, who possess the most first-hand information about these two companies, were not necessarily convinced that they would reach their current scale within this time frame. Since the people on the inside are like that, it's basically impossible to judge this from the outside. So, I think it's important to keep the entry as broad as possible.

In any case, I believe the fundamental design of the system is to allow for significant performance disparities among companies after their IPOs. Furthermore, even if the Growth Market as a whole is underperforming, companies that demonstrate sustained EPS growth, possess competitive advantages, and have strong corporate governance are generally priced appropriately without any particular issues. Therefore, I believe that the overall quality of the Growth Market and the price discovery function of investors and capital markets with respect to individual stocks in the Growth Market are separate matters.

Now, regarding how to grow the bad companies or how to find the good companies, please refer to the last bullet point on this slide. I believe that, fundamentally, only the management team and shareholders, who are investing their careers and capital as a risk, are capable of nurturing a company.

Of course, I appreciate the efforts made by the Tokyo Stock Exchange and others, but I don't think that will actually lead to the company's growth. I believe it's ultimately up to the management and shareholders to make it happen.

To understand exactly what it means for management and shareholders to do their best, please turn to page five. This is the last slide.

In any case, it is important to continuously foster companies that can dramatically increase corporate value, even if they are few in number. To this end, as Mr. Ogino mentioned earlier, I believe that promoting renewal is a key factor.

People often talk about the differences in the maturity of the startup ecosystems in the US and Japan, but I think the biggest difference lies in the entrepreneurs. In particular, I believe there is still a significant shortage

of entrepreneurs, often referred to as serial entrepreneurs, who have founded and grown their own companies.

From this perspective, I believe the continued listing criteria for the Tokyo Stock Exchange Growth Market are a key factor. Although the continued listing criteria have been raised, to be frank, I don't think they're actually very effective in practice.

After the Nikkei first reported that companies listed on the Tokyo Stock Exchange Growth Market with a market capitalization of less than JPY10 billion would be delisted, and following the TSE's subsequent announcement that it was considering such a move, the expressions of the Growth Market executives around me clearly changed. In other words, since companies with a market capitalization of around JPY10 billion or less might actually be delisted, we, as a fund, engaged in very in-depth discussions regarding M&A and capital strategies.

To be honest, up until now, many executives had become complacent, lacking a sense of urgency, because their companies were publicly traded and profitable. However, there were clear signs that outstanding executives were beginning to take action, realizing that delisting would be disastrous, and were seriously considering options such as merging with other companies or boldly pursuing equity financing.

However, as it has become clear that companies can subsequently switch to the Standard Market or, in some cases, even move to exchanges other than the Tokyo Stock Exchange, the general sentiment is that the interests of listed companies will likely be protected without issue, and those involved have regained their composure. While it seems like a shakeout might occur, it doesn't really happen. In other words, they don't think companies will actually exit the market.

However, personally, I think it's probably best to stimulate metabolism. The reason for this is that, in the case of companies with a market capitalization of less than JPY10 billion, it's often not that the management lacks ability, but rather that the business sector they operate in is inherently challenging, making it difficult for any company to achieve significant growth. Even so, the fact that the company has grown to a size where it can go public on the Growth Market is, in my view, a remarkable achievement on the part of its management. However, considering the company's growth since then, it's clear that the business environment was not favorable.

Therefore, in such cases, I believe that when a company exits the market through a delisting or a merger and acquisition with another company, thereby freeing its management from the responsibilities of running a publicly traded firm, and those executives leverage their track record and experience in driving business growth to take on new challenges in emerging growth areas and industries, this can lead to a very positive cycle not only for Japan's startup ecosystem but also for the economy as a whole.

Finally, I believe that it is not only human resources but also capital that should be circulated well. A large portion of Japan's current startup ecosystem is supported by the government. Dual Bridge Capital also receives just under 30% of its fund size in investments from government-affiliated funds.

I believe that by focusing such funding more selectively on business leaders and investors with a proven track record of fostering robust corporate growth, we will ultimately be able to nurture and generate more of the good companies that I mentioned earlier.

Ms. Fukuta:

Hello, everyone. My name is Fukuta, and I work as a Portfolio Manager/Analyst for all-cap Japanese equities at Lazard Japan Asset Management. I am participating online today because I am currently on a business trip.

Thank you again for giving me this valuable opportunity. I am also deeply grateful for the Tokyo Stock Exchange's recent initiatives, which have been supporting the Japanese economy and Japanese stocks. I am currently on a business trip to London, and even here, I have been receiving many questions about Japan's Corporate Governance Code and related matters.

Since there has already been a great deal of discussion on this topic, I would like to share my perspective as a long-only active global investor and portfolio manager.

First, I'd like to briefly introduce Lazard. Lazard was founded in 1848 and currently manages approximately JPY45 trillion¹ in AUM worldwide.

While many people may associate Lazard with large-cap investing, the investment strategies we manage cover all market capitalizations. Therefore, 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.

Our strategy is to prioritize dialogue with companies and invest in those that will contribute to enhancing corporate value over the medium to long term.

Earlier, someone raised a question as to whether institutional investors invest in the Growth Market. Our investment scope covers all market capitalizations, and we naturally invest in all markets: the Growth Market, the Standard Market, and the Prime Market. We also actively consider investing in IPOs.

First, at Lazard, we conduct investment and analysis of Japanese stocks not only in Japan but also at multiple locations around the world. Since we each have our own accounts, we make decisions independently, but we all use the same research platform.

With regard to IPOs in Japan, we are actively participating in, evaluating, and analyzing them, both globally and regionally. Of course, there are various rules, and some accounts aren't eligible to participate in IPOs, but we've participated in several IPOs so far.

First, I'd like to explain how we view IPOs from an investor's perspective. Earlier, I said we are investors who take a long-term perspective when making investments. For this reason, we have been evaluating and analyzing a company as a long-term investment opportunity since its IPO. We rarely adopt a strategy of selling a stock at the peak at the time of IPO. Instead, we analyze and invest with a long-term perspective, taking into account the company's growth even after the IPO.

In addition, we always meet with the management of the issuer or company. While the factors we prioritize may vary by account or portfolio manager, we place particular emphasis on the business model, TAM, long-term equity story, growth story, and corporate governance.

We're also often asked about market capitalization, but liquidity is ultimately more important than market capitalization. Because we have a fiduciary duty, it would be problematic if we bought something we couldn't sell. We are considering these matters, taking into account the ownership structure of the founders and venture capital firms, as well as the situation after the lock-up period.

¹ USD285B June 30, 2026

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

We also place a high priority on valuation. Since this is the most difficult, I think there are many portfolio managers who prefer to buy on the secondary market. For this reason, we will conduct our research with a strong focus on valuation, including comparisons with similar companies. If there are no comparable companies in Japan, we will expand our research to include global companies as well. We have research analysts located around the world.

Next, I'd like to share my message to companies going public, which was the topic assigned to us. A solid long-term equity story is essential to ensure the stock price does not peak at the time of the IPO. In addition, since investors can gauge the valuation by buying on the secondary market, they are considering whether there is any point in participating in the IPO.

Since long-term investors hold for the long term, I'd like to discuss the appropriateness of the equity story after a company goes public. We must also consider liquidity issues and, as mentioned in the earlier discussion and comments, issues related to securities firms.

I'll briefly discuss Lazard's past involvement in IPOs. While I won't name specific stocks, we do participate in IPOs of small- and mid-cap companies. In the past, there have been many companies whose stock prices have risen several times over following their IPOs. In addition, we may participate in the same IPO across multiple regions and accounts.

I would now like to discuss the next agenda item: improving market conditions, expectations for companies going public, and what we expect from the Tokyo Stock Exchange.

First and foremost, we place a high priority on the quality of investor relations and management. In this regard, the fact that the company is an IPO candidate or that it has just gone public is no excuse. We expect companies that choose to go public to meet the same standards as publicly traded companies, and we want them to be able to communicate effectively with institutional investors. There is the issue of the importance of accountability and dialogue.

Also, Mr. Takemoto just pointed out that there are many cases that accountants become CFO. We are seeking a board structure that goes beyond directors who merely handle the review to one that prioritizes corporate value. Since a board of directors has a responsibility for management that is conscious of cost of capital and stock price, I believe the board needs individuals who can thoroughly consider and enhance corporate value and shareholder value.

Since we invest with a long-term perspective, we look for three qualities in companies. We place a high priority on the quality of a company's business portfolio, the quality of its management, and the quality of its governance.

As has been discussed previously, what we are asking of the Tokyo Stock Exchange is to provide lecture opportunities for companies preparing for an IPO. This includes, among other things, sharing examples of disclosure and governance practices, as well as sharing information about options. This includes the option to remain in the Growth Market, as well as exit options such as MBOs and divestitures.

We also request that opportunities for dialogue with investors be provided. Given various constraints, companies may not always be able to easily reach investors. Each company has its own regulations, and there are also compliance regulations specific to each office and region where investors, including Lazard, operate. However, I really hope companies will make an effort to engage in dialogue with investors. It costs nothing to engage with investors, and I believe you'll receive a lot of advice on management. Since we, as investors, engage in dialogue with many companies, I believe we can share a variety of perspectives. I really hope companies will talk to investors. Investors often use the expression "same boat." We conduct in-depth

analyses from various perspectives on companies we are truly interested in investing in. I believe it is an opportunity to share such insights, and we offer lectures in various formats and from a variety of perspectives.

I had intended to share some thoughts on investment behavior from the perspective of an institutional investor that has signed the PRI, but since we're running out of time, I'd like to wrap up my remarks here. Thank you very much.

Mr. Murakami:

This is Murakami of Signifiant. Thank you.

After spending 15 years at Goldman Sachs, I am now in my 10th year since founding Signifiant. What struck me once again today was the strong presence of professional market participants, such as Goldman Sachs, and how significantly market perceptions have evolved over the past decade. I am deeply impressed that issues I have consistently emphasized for the past 10 years, such as the importance of management foundations and governance from the pre-IPO stage through the post-IPO period and the disconnect between finance and business operations, are now being discussed voluntarily by corporate executives based on their own real-world experiences.

I will avoid repeating the points I raised at the first meeting. In addition, since many people have already pointed out specific on-site challenges faced by companies, I will give this topic lower priority in my remarks. Today, I would like to focus my comments on proposals based on that background, as well as reforms to systems and mechanisms.

While an IPO is merely one option among others in the late stages, it is also an important one. This proposal does not deny the *raison d'être* of the Growth Market. Rather, it is intended to help determine the direction for maintaining options for late-stage companies and enhancing the Growth brand as a market. At the heart of it all is the question of how to improve the quality of decision-making by management, led by the board of directors, in order to achieve sustainable growth in corporate value.

I believe the biggest challenge facing the Growth Market is that the process of determining whether an IPO meets the criteria for institutional investors to include the company as part of their public market investment portfolio is not functioning effectively. One aspect of small IPOs, in particular, is that they can be carried out as long as a certain volume of shares is sold to individual investors. As a result, I believe there are cases where the criteria for investment by institutional investors are not fully met in terms of liquidity, growth potential, and corporate governance.

We must squarely address the criticism that small IPOs merely shift the risks taken by professional investors, such as venture capital firms, during the pre-IPO phase onto retail investors. As post-IPO startups, there are companies that achieve significant growth after going public, and I believe that will continue to be one path to growth. Although the scale varies, some of the giant US tech companies have achieved tremendous growth since going public.

It is important to recognize that sustained growth is invariably accompanied by significant capital inflows from institutional investors. I believe that this passing of the capital baton, which involves restructuring the shareholder base, is essential, and that we need to ensure, from a procedural standpoint, that there is a reasonable likelihood of this occurring at the time of the IPO.

While this is merely one proposal, is there any way to ensure a process for discussing and verifying, under the supervision of the lead underwriter, the expected level of demand from institutional investors in the short to

medium term? In this context, could a process be designed to establish offering size criteria for institutional investors and to effectively verify institutional investor demand in advance? I think this line of thinking is worth considering.

In reality, there is also the underlying issue that even when a company makes a request, securities firms are reluctant to present or discuss demand forecasts and the like. As a result, I feel that one of the challenges is that they have not been able to sufficiently incorporate the realities of life after going public into their management decision-making.

In addition, I believe it is important to identify the assets necessary for growth, as I will propose later in this section.

There are frequent instances where the boards of directors of publicly listed companies are not functioning effectively, and where an IPO is treated as a foregone conclusion, either due to contractual obligations or the founder-CEO's wishes, without a thorough comparison and evaluation of key strategic options such as an IPO or an M&A. I often feel that in many cases, the board of directors is not receiving sufficient feedback regarding the serious challenges, such as the company's capabilities, valuation, and organizational structure, raised by securities firms, the Tokyo Stock Exchange, institutional investors, auditing firms, and others in connection with IPO considerations.

Furthermore, there is a structural conflict of interest between venture capital firms, which are obligated to deliver returns to limited partners upon the fund's maturity, and founding CEOs, who are strongly committed to an IPO, and the board of directors, which aims to maximize the company's enterprise value. This situation has led to a formal duty to pursue an IPO that is prompting unrealistic, premature, and small-scale IPOs.

I believe we need to create a foundation that allows companies to weigh other options, such as M&A or continuing to grow as a private company, structurally preventing the decision to proceed with an IPO by process of elimination while the company remains small and illiquid, making it inaccessible to institutional investors.

Drawing on practices in the United States and elsewhere, I believe there is room to consider how Japan can incorporate the practical procedures followed by independent directors and special committees, who have no interest in the decision-making process regarding exits. I believe one possible approach would be to codify the practice of clearly documenting the process, including sharing rigorous feedback from key stakeholders with the board of directors and objectively comparing and evaluating "why an IPO rather than other options," in the board meeting minutes, making it subject to review, and adding it to the list of items subject to review at the time of listing. While this technically falls within the scope of a director's duty of care, shouldn't we ensure that it is effectively enforced?

To prevent IPOs from becoming an extension of entrepreneurs' personal interests, or to ensure that management structures and other systems are updated in a non-linear manner, I believe it is worth considering measures such as reverse vesting, which is already in use in the United States. I also believe that improving the tax system will be important. I believe it is important to establish the necessary institutional frameworks to ensure that bottlenecks in restructuring capital policies and corporate governance can be resolved smoothly.

From the perspective of LP governance, I believe it is necessary to establish practices that properly evaluate GPs based on exits that do not rely on IPOs, that is, metrics such as IRR and other measures of investment recovery, as well as the decision-making discipline that supports them. From the perspective of fund governance as well, it is risky to rely solely on the trend toward longer fund maturities, and isn't this of great importance in terms of promoting healthy renewal? At the same time, it is important to establish systems that ensure companies have options. I believe it will be necessary for the industry as a whole to establish legal

and tax frameworks for secondary transactions, M&A, recapitalizations, and continuation funds; to develop effective drag-along clause templates that do not hinder M&A; and to standardize practices regarding veto rights held by specific shareholders.

There is also criticism that the current listing review process is limited to barely meeting the formal requirements at the time of application and focusing solely on defensive internal control checks. However, a company's growth is not a straight line. It will inevitably hit a wall. The real question is whether there are accumulated assets that will lead to future growth, that is, future returns. I also believe it is important to have a forward-looking framework that allows the company to proactively update its management structure when faced with problems or changes in the business environment after going public. However, I believe that, as things stand, the review process is the only mechanism for external verification from that perspective, and this is not sufficient.

During the review process, rather than simply examining a single year's profit-and-loss statement, we should also evaluate the extent to which assets that underpin future growth, both financial (such as order backlog and contracted assets) and non-financial (such as organizational strength and management structure built through proactive investment, as well as a board of directors structure that supports risk-taking), have been accumulated. This may seem difficult, but I believe that securities firms and other institutions, acting as gatekeepers, need to take greater responsibility for determining whether the company is suitable for an investment by institutional investors.

The review process should shift from examining past performance to evaluating the management structure, centered on the founder and CEO, assessing the foundation and mechanisms in place to continuously update that structure and develop a succession plan, and, most importantly, evaluating whether the company possesses the commitment and roadmap to do so. I believe there is great significance in including these elements in the evaluation criteria, both to raise awareness of their importance and to support concrete initiatives from a higher management perspective.

Compared to the US SEC's disclosure-based approach, there is criticism that Japan's securities underwriting review process is overly formalistic and places too much emphasis on meeting short-term budget targets. Given the involvement of the Financial Services Agency and the Japan Securities Dealers Association, and with the aim of aligning the review criteria of securities firms and the Tokyo Stock Exchange, in order to ensure quality assurance beyond mere formal standards, shouldn't we consider a paradigm shift in the review system?

Ultimately, what matters is not merely superficial metrics such as market capitalization at the time of the offering or the number of IPOs.

Only when the Growth Market establishes and maintains its brand as a market where high-quality growth is fairly valued will the significance of listing become clear, attracting high-quality institutional investors from both Japan and abroad, and setting in motion a healthy cycle that raises the standards and strengthens the management foundations of unlisted companies aiming to go public in the future.

I believe the key lies in establishing and enhancing three key areas at the very entrance to the market: the evaluation of assets necessary for growth, the advancement of board functions to enable an unbiased comparison of options, including alternatives to an IPO, and a paradigm shift in the listing review process. All these are to ensure that unlisted companies can weather the turbulent waters of the public market and continue to increase their corporate value sustainably by taking appropriate risks even after going public. I believe that this is the path to improving the quality of management decision-making, which directly impacts corporate growth, and I propose it accordingly.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Since we have gone over time, we will now bring today's meeting to a close.

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.

Although the schedule for future sessions has not yet been determined, we would like to consider how to conduct discussions and proceed moving forward, starting with the third session, based on the feedback received today and from the previous session. We will be in touch with you all again, so thank you for your continued support.

Watanabe, Director, Listing Department, TSE:

With that, we would like to conclude this meeting.

Thank you very much for today.

[END]