

Summary of Interviews with Growth Market Users

Tokyo Stock Exchange, Inc. Listing Department
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Interviews with Market Users (Overseas Venture Capital)

(Main comments)

IPO Issues

- When our portfolio companies (overseas startups) ask us about going public, we confirm the amount of capital they intend to raise by doing so. **Japanese startups** lack awareness of this issue and **do not have a perspective on whether they can raise the funds commensurate with the cost of going public. There is no discussion about what the purpose of listing is and how much money is needed, so after listing anything can happen.**
- **The lockup period should be longer.** Investors who have been in before the IPO should have an unconditional lockup period of, for example, 12 or 18 months, except when shares are released in a public offering or secondary distribution at the time of the IPO. It would be nice to finally be able to sell at a share price when the actual situation is evaluated, rather than immediately after the IPO.

Challenges in unlisted areas

- In Japan, **there are no guidelines or best practices for valuation (stock price calculation).** In the U.S., there are IPEV guidelines and stock prices are not unjustifiably inflated. If prices do not seem to be based on logic, investors from other countries will not understand them and therefore avoid them.
- **The tendency of existing investors to not make additional investments is also problematic.** If a company raises money from one new investor after another, it will not be able to concentrate on its core business, and new investors will see it as a company that has been abandoned by existing investors.
- Some say that there should be a **secondary market for unlisted shares**, but personally, I think that existing shareholders, etc. should be given preferential purchase rights and that this should be handled through shareholder-to-shareholder transactions. If a company is attractive, existing shareholders will take it on, and it is not in the company's best interest to add new shareholders in an unregulated manner. In Japan, there is a movement to put private funds into unlisted areas, but **unlisted areas should be for professionals only, and overseas funds should be allowed in.**

Interviews With Market Users (Domestic Venture Capital)

(Main comments)

IPO issues

- Regarding companies in the red, we are aware that, especially in the past, the **probability of a return to profitability and the timing of such a return were strictly monitored**, and in some cases, IPOs were not possible. It may be that **being in the red is treated as grounds for disqualification**.
- Some companies meet institutional investors for the first time during the roadshow prior to listing. **Investor meetings** (information meetings, pre-hearings, etc.) **prior to listing should be mandatory**.
- Regarding the process for determining the offer price, **demand should be gathered and determined in the form of purchase orders from institutional investors who actually intend to buy**. In addition, the current allocation is only to individual investors, **but should be expanded to include institutional investors, including specified investors**.
- Regarding the reports prepared by sell-side analysts for investors (**pre-deal research reports**), the presence or absence of such reports changes the way information is conveyed, so we should **ensure that they are prepared for each company**. If they continue to do so after listing, all Growth Market listed companies will be covered.
- Japan is the only country **where lockup is lifted if the share price rises above 1.5 times the IPO price**. This **practice should be stopped** so that existing shareholders can hold the shares longer.

Issues after listing

- For Growth Market listed companies, especially deep tech companies and biotech ventures, **it is difficult to accurately forecast future profits**. There is nothing wrong with analysts making predictions, but the issuer's forcing of such disclosures also leads to inflated investor expectations. Currently, **disclosure is focused on the financial and PL aspects**, but it is **important to have the company show how it will invest and grow from a medium- to long-term perspective**.
- **Continued discussion is important, since tightening continued listing criteria may have the effect of stimulating M&As and other activities, thereby promoting the metabolism of the industry**. **Timely disclosure of the status of discussions will also create a sense of urgency among listed companies** (even before the actual raising of the criteria).

Interviews with Market Users (Institutional Investors/Analysts)

(Main comments)

Size of companies eligible for investment, etc.

- Under the investment criteria, purchasing more than 10% of the total shares is not allowed. This makes it difficult to incorporate companies that are smaller in size. **The general impression is that the hurdle is a market capitalization of around JPY 5 to 10 billion.** Even with a market cap of JPY 3 billion, it is possible to invest in a company with strong growth potential, but the market impact of buying and selling would be too large.
- In our company (selling side), **analyst coverage is basically limited to companies with a market capitalization of JPY 50 billion or more.** Exceptions may be made if a company is expected to grow in the future, in which case the company may be covered even if it has a market capitalization of JPY 10 billion or less, but only temporarily.

Role and awareness of management

- As an investor, the **main premise of investment is to see a growth story in the medium to long term. First and foremost, management must expand business performance,** which will increase market capitalization and bring in a large number of institutional investors.
- **Some listed companies refuse to accept requests for interviews from investors,** and in some cases it is unclear if they even know what it means to be listed in the first place.
- Some companies **disclosed important KPIs at the time of IPO, then took down the disclosed information after listing.** In the growth market, **there are many cases in which companies think that listing is the goal,** and this does not encourage institutional investors to enter the market.
- TSE's efforts have led to a change in the companies' awareness regarding capital cost, etc. **We hope that TSE will continue further the awareness of listed company managers in the Growth Market as well.**

Interviews with Market Users (Institutional Investors/Analysts)

Disclosure methods and investor relations

- **We would like to see an explanatory meeting held, even if it is only every six months.** At that time, if possible, **the president should give the explanation.** In addition, there are an increasing number of cases where videos of these meetings are made available to the public. If this becomes the standard, they can be viewed after the fact and be useful for interviews.
- In learning about effective IR, **companies that have received awards** for excellent disclosure from the Securities Analysts Association of Japan **may be considered as references.** On the other hand, **for companies that do not have a large market capitalization, it may be difficult to refer to the efforts of larger companies,** so those companies should also be kept in mind.
- **IR events are useful** in that they **can trigger interest in smaller companies.** It is desirable for TSE, which is in a neutral position, to hold such events, whether in person or online.

Specific details to be communicated to investors, etc.

- In disclosing matters related to business plans and growth potential, **it is important to clarify KPIs and regularly update their status** to attract investors with medium- to long-term holdings.
- **There are examples of business targeting markets that are too far removed from the realities of the market.** If they do not target a realistic market, the lack of clarity will make it difficult for investors to make investment decisions. I would like to see a higher level of understanding, even after companies are listed.
- For example, even in the case of a bio-venture that **continues to lose money, it is important to explain its growth story well.** In doing so, please do not simply raise expectations, but rather firmly explain where milestones can be achieved and the uniqueness and strengths of the company.
- Regarding the **disclosure of quarterly financial results at the time of IPO,** only the most recent financial results are often disclosed, but this is insufficient to see business performance trends. **It would be easier to get an idea of a company's performance if the status from the previous period was also available.**