



Future Policies to Improve The Functionality of The Growth Market

Exchange & beyond
Tokyo Stock Exchange, Inc.

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(Background)

- In February of this year, the Follow-up Council began discussing **measures to further enhance the functionality of the Growth Market**, which is part of the ecosystem that supports the growth of startups.
- In order to understand what issues need to be addressed, we **solicited opinions from corporate managers** at Growth-listed companies from May to July of this year about **what they consider to be issues in achieving high growth after listing**.
- TSE also **conducted interviews with TOKYO PRO Market (TPM)** users in order to understand the potential use of TPM for supporting the growth of startups.



(Today's Agenda)

- Based on past discussions at the Follow-up Council meetings and opinions from Growth-listed companies and TPM users, we would like to **discuss potential future policies to improve the functionality of the Growth Market when it comes to supporting the growth of startups**.

I. Discussions at Previous Follow-Up Council Meetings

II. Results of the Call for Comments from Managers of Companies Listed on the Growth Market

III. Results of Interviews with TOKYO PRO Market Users

IV. Matters to Be Discussed



General

- **The biggest challenge to nurturing startups is how to scale up**, and we need to think about how to solve the problem that there are few large companies or small companies are not growing
- In particular, the Growth Market is expected to play a role in nurturing companies that will become the future pillars of Japanese industry, but in reality, **only a few companies grow significantly after listing, and this is something that needs to be improved**

Fund Raising and Growth Investment

- In the U.S., even companies with market capitalization of 100 billion yen or more are aggressively investing to grow even larger, but **in Japan, there is not enough investment for full-scale growth**
- Companies only raise funds equivalent to about 10% of their market cap at IPO, **and It is possible that companies have been listed not for growth but just** so that existing shareholders can exit their positions
 - Setting limits on the amount or the ratio of secondary distribution is a possible solution. However, since it may cause problems such as a loss of exit opportunities for venture capitalists, it is necessary to consider this issue along with the establishment of a secondary market for unlisted shares
- Only about 14% of companies conduct public offerings after listing, and **both investors and companies have a negative perception of capital increases, including those for growth investing. This perception needs to be corrected**
 - Foreign institutional investors are determining whether a capital increase is dilutive or accretive, and if the growth rate is higher than the capital increase rate, they view it positively as accretive
- From the perspective of scaling up, it is absolutely essential to proactively disclose English documents not only in the Prime Market but also in the Growth Market to raise funds from foreign investors
 - TSE should provide support to enable efficient and pertinent disclosure in English

Participation by Institutional Investors

- In addition to a smooth supply of funds, **constructive dialogue with institutional investors based on disclosure of information** such as “business plans and growth potential,” **is the key to nurturing a company to grow significantly. However, in reality, institutional investors** currently find it difficult to participate in both IPOs and post-listing due to the size and liquidity involved
 - Institutional investors that actively manage on a small scale from a long-term perspective can participate in the Growth Market. However, even when actively managing, it is important to drive up the overall stock price of the Growth Market as a benchmark
 - In the current market environment of the Growth Market, the size when trying to establish a new fund, is limited to 30-40 billion yen, and it is important to grow the overall size of the market
 - In the U.S., growing large enough when unlisted has facilitated the participation of institutional investors after listing
- After the size of a company has grown to a certain extent, **it is necessary to ensure that the transition from institutional investors in small- and mid-cap stocks to institutional investors in large-cap stocks, is smooth**

Information Disclosure and Investor Relations (IR), etc.

- TSE should encourage companies listed on the Growth Market to be inspired by the market and grow by sharing best practices in information disclosure and IR, and by **raising managers’ awareness in a school-like environment.**
- There is no point in TSE encouraging companies to strengthen information disclosure and IR if investors do not see that information. Companies on the Growth Market seem to lack opportunities to promote their value and growth potential. TSE should consider providing them with more opportunities.

Motivation for Growth

- Providing incentives to executives and employees is essential **for growth, and TSE should promote the introduction of equity compensation.** Although such compensation is becoming more common among newly listed companies in Japan, GAFAs’ shares are diluted by 1 to 3% per year by equity compensation alone in the U.S. People who create innovation are important, and issuers need to be educated
- The **proposal for the criterion for continued listing (market capitalization of at least JPY 4 billion after 10 years of listing) to be stricter** to promote growth is possible. However, for the time being, it is important to analyze the impact of the end of transitional measures, and it is possible that it will not be practical to hastily tighten the criteria for continued listing.

Unlisted areas and State of New Listings

- Rather than rushing to the goal of listing, opportunities to grow before listing should be provided by ensuring the market for unlisted **shares is allowed to function as in Europe and the U.S. from the perspective of creating major innovations from a long-term perspective**
- In this regard, using the **TOKYO PRO Market (TPM)** may be one option
 - It could be utilized as a **gateway before stepping up to the Growth Market and** other public markets or as a place for secondary trading of unlisted shares
 - However, the fact that almost no trading is currently taking place (lack of liquidity) is a problem
- It is currently too early to tighten the initial listing criteria for the Growth Market. **However** the Council should consider the future of listing criteria especially in regard to the stimulation of the TOKYO PRO Market and the establishment of a secondary market for unlisted stocks
 - Stricter criteria could encourage the participation of institutional investors that will support growth after listing. However, tightening listing criteria would not be supportive to the regeneration of industry.
- **In terms of the** merits and demerits of overly positioning stock listing as a life event, **focusing on preparing for listing may result in putting off things that needs to be done, which may hinder growth after listing**

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Details of the Solicitation of Opinions

- **In order to understand the issues that need to be addressed for the Growth Markets to function effectively**, opinions were solicited from the **corporate managers at Growth-listed companies on issues that they consider to be challenges to achieving high growth after listing**
 - **34 companies** submitted comments (interviews, etc., were conducted with some companies to deepen awareness of the issues, etc.)

Details of the Solicitation of Opinions [Note: Answers were in an open-ended format]

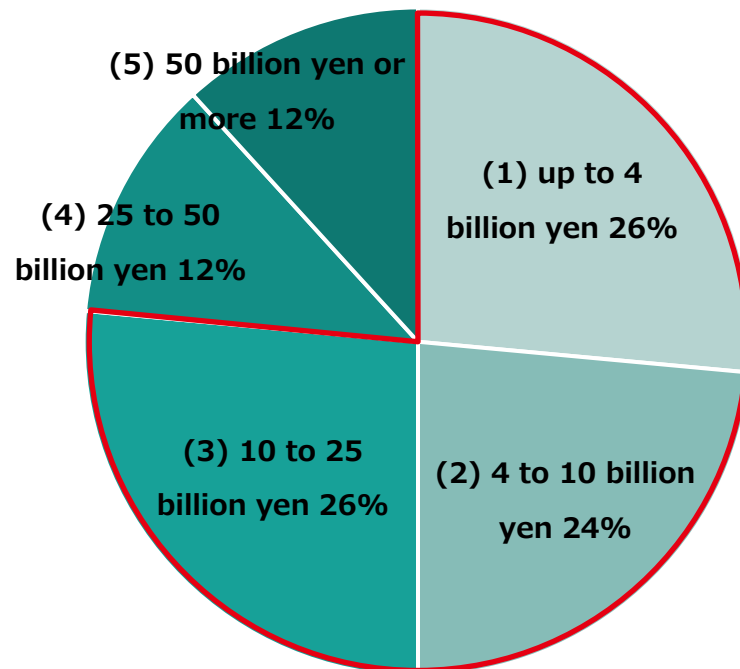
1. Do you think your company is taking advantage of listing on the Growth Market **to achieve high growth?** Please answer this question along with the purpose of listing that you had in mind before listing and the effects that you have seen after listing.
2. Please provide details of any issues that your company is facing in achieving high growth at the time of **listing/post-listing (challenges to achieving growth)** and **details** of what, if any, actions you expect TSE to take in response to those issues.
3. Please provide any other issues that you consider to be challenges to achieving high growth

	Perspective (example)
At the time of listing	<ul style="list-style-type: none"> • Timing of listing (relationship with the fundraising environment for private companies, comparison with overseas markets for start-ups, etc.) • Process for listing (support from market participants, speed and complexity, etc.) • Fundraising at the time of listing (amount raised, allocation (to institutional investors), etc.)
Post Listing	<ul style="list-style-type: none"> • Fundraising to achieve high growth (demand for funds for growth investments, concerns about dilution, etc.) • Governance and internal control systems (obstacles to establishing a system, etc.) • Information disclosure and IR (disclosure of business plans, growth potential, etc., IR opportunities, dialogue with institutional investors, etc.)

(Reference) Attributes of Companies that Submitted Comments

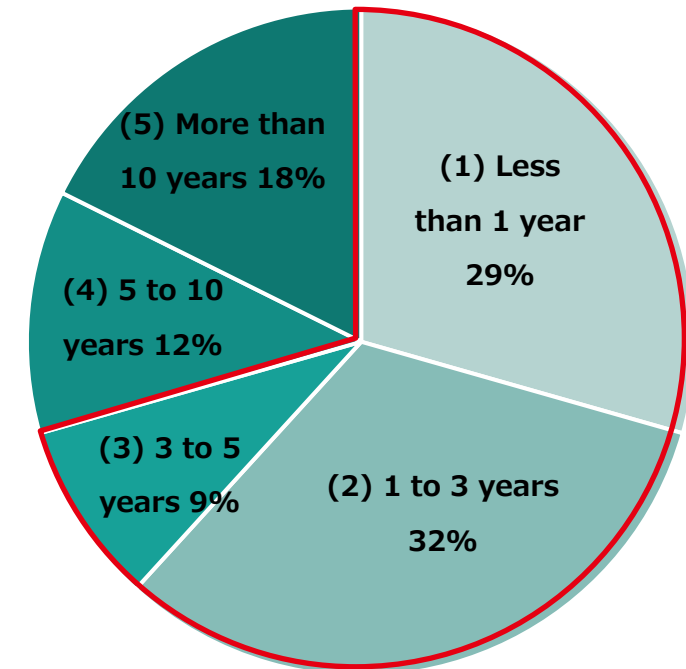
- Companies that submitted comments were **mostly relatively small and have only been listed for a short period of time** (majority of companies have a market capitalization of less than 25 billion yen and have been listed for less than 5 years)

Market Capitalization Distribution



About 80% have a market capitalization of 25 billion yen or less

Number of Years Since Listing



About 70% have been listed for less than 5 years

- Respondents commented that they are **utilizing listing on the Growth Market** not only to raise capital, but also for its social recognition, credibility, and recruiting

(Main comments)

- The objectives of the listing, **which we considered before listing included the ability to raise funds, social recognition and credibility, ability to recruit, and employee motivation. After listing, these improved and we achieved the benefits we were seeking** *Received many similar comments
- We were able to use funds received from investors **when listing** to create several advanced businesses. We could not have successfully expanded our business without raising funds through listing, which was the very purpose of the listing that we contemplated prior to listing
- Our **market capitalization has increased more than 20 times** since the IPO, and we have acquired significant growth capital through a post-listing public offering. In addition, our credibility and name recognition as a listed company have had a positive impact on relationships with business partners and financial institutions
- The main reasons for listing were to increase our global social credibility and name recognition, **strengthen our fund-raising capabilities**, and secure talented human resources. We engage in many overseas transactions through direct sales, and being a listed company has contributed to winning the trust of overseas customers in particular. In addition to equity finance, we have also been able to build good relationships with financial institutions, which has enabled us to raise funds flexibly in various ways
- **We have made use of listing on the Growth Market to fundraise and recruit.** In addition, listing **has made it easier to discuss collaboration with other companies and M&As, etc., since disclosing information and establishing internal control systems are prerequisites for listing**
- **We raised approximately 10 billion yen at the time of listing**, and each of Japan's major institutional investors invested in us. **Through dialogue with many investors, we have learned about the growth policy we should adopt and expectations in us.**
- Our main objectives for listing were to further raise our name recognition, increase our social credibility, and secure talented human resources. **We have already seen an increase in name recognition and social credibility**
- **The purpose of listing was to increase our name recognition, creditworthiness, and corporate value**, etc. After listing, we were able to negotiate with many major customers and government agencies, etc., due to the increase in our name recognition, and we feel that our corporate value has improved

Main Comments on Challenges to Achieving Growth (1)

(Fund Raising and Growth Investment)

- While taking on challenges and risks in difficult businesses is necessary to realize growth, companies are finding it **difficult to raise funds and invest in growth even if they believe it will contribute to growth** because they **view dilution and short-term profit decline as a problem**
- While some companies pointed out the **need to raise awareness** so that fundraising/growth investment is **not** uniformly viewed negatively, other companies pointed out the importance of fully explaining medium- to long-term growth stories as something that can be addressed by listed companies

(Main comments)

Need for Take Risks to Grow

- **In order to revitalize Japanese industry, there is a need for companies willing to take on challenges (global expansion, deep tech, etc.) in businesses with a high degree of difficulty.** Due to the strong pressure to produce profits **in particular, many companies are** focusing on solidity rather than growth, and growth is slowing down. However, the market could be activated further by shifting to focus on growth

Challenges to Fund Raising and Growth Investment

- When considering fundraising to achieve growth **after listing, we have** concerns about dilution from a public offering and its impact on our share price
- **During phases of high growth, it is easy to fall into the red, and we find it hard to gain investors' understanding**
- Investors **strongly demand increased revenue and profit from a short-sighted perspective** which makes it **difficult for us to develop large-scale new businesses that take a long time to get off the ground**
- **Awareness-raising activities are necessary so that fund raising for growth investment is not uniformly perceived as something negative.** Moreover, to achieve high growth, it is **important to communicate the issuer's equity story to investors through in-depth communication, since prior investment may result in operating losses further down the line**
- We are currently undertaking R&D, capital investment, and other activities aimed at improving future earnings, and we recognize that we are going through a period that requires patience until we get on track. We would **appreciate tips on how to communicate with investors in such situations**
- After listing we made a downward revision to our forecast [of business performance] in order to strengthen recruitment. This decision was made for growth in order to meet strong demand, but it annoyed our shareholders. After that, **although we would like to continue to actively use the funds raised** from listing in our investment activities, we found that balancing the decline in share price with the decline in short-term profits a challenge. **If there is a way to flexibly respond to the tendency to believe that downward revisions are not good whatever the reason, etc., we will be able** to more aggressively take on the challenge of achieving higher growth. **We would appreciate** good examples of companies that have achieved growth by actively raising funds and investing in growth with the understanding of their investors, as well as advice on what should be disclosed in order to gain investors' understanding

Main Comments on Challenges to Achieving Growth (1) (Fund Raising and Growth Investment)

- Some companies also cited the fact that it **makes no business sense for intermediaries to get involved has resulted in a lack of intermediaries** when trying to raise funds after listing

Lack of Financial Intermediaries

- When starting a new business, **if the amount raised through a public offering is no more than a few hundred million yen, it is not viable for a securities company to underwrite the offering.** Procurement through indirect financing is also difficult as banks, etc. take the stance that they cannot lend funds if there is a high degree of uncertainty involved. **As a result, funds must come from retained earnings,** but there is a limit to the efforts that individual companies can go to

Other Comments on Fund Raising and Growth Investment

- Growth companies sometimes raise funds through ABB (accelerated book building) that only targets foreign institutional investors, and we hope to see more flexibility in Japan, such as ABB for professional investors, that is commensurate with investors' risk tolerance
- TSE's checks of how funds raised are used have become stricter, making it difficult to raise funds in order to ensure financial flexibility so as to conduct M&A, etc. flexibly. While a certain degree of business risk needs to be taken in order to achieve high growth, excessive requests for explanations of the use of funds may result in the formulation of conservative growth strategies and management reluctance in taking on challenges for growth

Main Comments on Challenges to Achieving Growth (2) (Participation by Institutional Investors, etc.)

- Many companies, especially small companies, **commented that they would like to see the participation of institutional investors and analysts to support their medium- to long-term growth**
- While some companies commented that increasing market capitalization and liquidity is essential for the participation of institutional investors, **others mentioned concerns about the lack of opportunities to interact or that they are fumbling around to find effective IR methods**
- Some companies, particularly those with large market capitalization, **expressed a desire to get support for information dissemination and IR with respect to overseas institutional investors**

(Main comments)

Lack of Participation by Institutional Investors, etc.

- For companies **such as ours**, with small market capitalization and liquidity, participation by institutional investors is limited. We have consulted with securities firms, but were told that **unless our market capitalization exceeds a certain level, institutional investors will not consider us as a target for investment**. We have not yet reached the stage of explaining and promoting ourselves to institutional investors. **We believe it is** important to first focus on growing our business, and significantly growing our market capitalization by expanding our business scale and profit. We plan on contacting institutional investors after that
- At companies with a market capitalization of 10 billion yen or less, the percentage of institutional and foreign investors is extremely low, and this seriously impacting share prices. Naturally, corporate performance and IR activities also have an impact, but **we expect TSE to implement initiatives so that institutional investors and foreign investors increase their investment activities, including investing in companies with a market capitalization of less than 10 billion yen**
- **The difference in the investment perspectives and opinions of individual investors, who sometimes seek speculative and short-term profits, and institutional investors, who are willing to accept downward revisions as long as they are for medium- to long-term growth, has caused confusion, particularly at companies that have just listed. Companies with low market capitalization are not targets of investment by institutional investors. Having a mechanism that allows institutional investors to participate in such companies could help solve one of these issues**
- **The Growth Market needs to develop conditions to become a market that is covered by more analysts due to the assumption of high growth potential and the risk assessment thereof.** For emerging companies, diversification of investors is necessary together with growth, and efforts will be required to increase the volume of information provided to institutional investors. There have been cases in which stock prices have fluctuated greatly due to something written on the internet. **Improvements need to be made to the market information environment to ensure sound stock price formation**
- The amount we can raise is small and the methods we can use are limited compared to our peers in Europe and the U.S., and so we have no choice but to pursue a very conservative growth strategy at the planning stage. We would like to see TSE **encourage participation by (1) pension funds, institutional investors, analysts, and (2) crossover investors (those who invest in companies from pre-IPO to the post-IPO stage)**

Main Comments on Challenges to Achieving Growth (2)

(Participation by Institutional Investors, etc. Contd.)

Lack of Contact with Institutional Investors

- In terms of perspectives other than market capitalization, the **lack of contact with institutional investors** is an issue. **While IR support firms do exist, they are not very good at assisting companies with small market capitalization, including in terms of cost.** Institutional investors vary in terms of characteristics. **We would appreciate the opportunity to learn more about institutional investors** (whether they invest in companies with low market capitalization, what business areas they are actively investing in, etc.) **so that we can find ways to contact institutional investors that are suited to us**
- We currently have very little contact with institutional investors, but we would like them to consider investing in us, and **we would like to be given opportunities to explain our business to institutional investors other than at the time of our initial listing.** First, we would like to have opportunities to communicate with a large number of institutional investors, and then we would like to have in-depth communication with individual term investors
- **Given that there are few opportunities to connect with institutional investors before and after listing, we would like TSE to hold regular IR fairs for institutional investors that bring together newly listed companies (companies that have listed within the preceding 2 or 3 years) so that we can approach a wide range of investors**

Effective IR Methods

- Although we have the support of a securities firm with respect to IR activities after listing, **we are finding it quite difficult to communicate our value and growth potential to investors and shareholders, and we are groping around in the dark.** We would be extremely grateful if TSE could hold some kind of event at which examples of IR initiatives and activities by companies of a similar size (in terms of sales and number of employees) **in the Growth Market** are introduced, and we believe that will spur us into action. We believe that we can use such an opportunity as a spring board to meet investors which will help promote our business
- At companies such as ours, which have no financial experts, we have **no choice but to use securities companies and consultants for effective IR methods**, financing methods that take advantage of the merits of listing, and M&A strategies, etc. However, we are unable to judge their proposals and so **it would be very helpful if TSE could hold seminars, etc. from a third party's impartial standpoint.**
- **It would be helpful to know some key points to be aware of when dealing with institutional investors so that we can use this to plan our IR policy**

Dissemination of Information and IR Activities Targeting Overseas Institutional Investors

- In order to achieve continuous growth, we believe it is **important to expand our business not only domestically but also globally.** We want a medium or platform that would enable the dissemination of **TSE-listed companies' information on a more global basis and to overseas investors**
- In order to create more investment opportunities from more investors, both domestic and foreign, we would like TSE to consider **providing overseas IR support, such as providing a place to disseminate information to overseas institutional investors**

Other Comments on Information Disclosure and IR Activities

- We are aware of the need to disseminate information through voluntary disclosures and press releases, in addition to mandatory disclosures, as well as the need to work on enhancing our website
- The development and implementation of an organized and effective IR strategy is one of our most important challenges. Our Group is a conglomerate made up of multiple business areas, which means that it is not easy to explain the Group to investors as a single entity. We believe it is important to communicate the Group's vision and strategy in a way that is easier to understand
- We are aware that gaining investors' understanding in terms of capital efficiency is something we need to tackle in the future
- In order to develop a multinational business such as conducting M&As in Japan and abroad and listing overseas subsidiaries, it is essential to establish and maintain a system that simultaneously satisfies both Japanese and overseas listing requirements. However, various adjustments are necessary from a disclosure perspective (timing, content, procedures, etc.) in order to comply with the differences in rules and regulations that exist between stock markets and administrative authorities in each country. Disclosure and other TSE rules, etc. should ideally be standardized to some extent globally

Main Comments on Challenges to Achieving Growth (3) (Contact with Other Listed Companies)

- Some companies commented on their wish to have contact with other listed companies **in order to create opportunities for business partnerships and opportunities to exchange management information**

(Main comments)

- **We would like TSE to provide opportunities for networking with other listed companies.** There is currently a shortage of companies with which to partner or takeover. **We would like to exchange information on business matters** as a potential partner *Received many similar comments
- We are a real estate business. **If we were able to establish contacts with companies in other industries,** such as the IT and transportation industries, for example, we might be able to expand our business and resolve problems. Currently, the only contacts we have are through personal networks and through financial institutions. We are reluctant to contact other companies out of the blue, so we would appreciate it if TSE could make such introductions
- We would be extremely grateful if TSE could hold an event **at which they introduce examples of IR initiatives and activities** by companies of a similar size (in terms of sales and number of employees) in the **Growth Market,** and that will spur us into action. We believe that we can use such an opportunity as a spring board to **meet investors which will help promote our business** (repeat of earlier comment)
- **We would very much like TSE to provide opportunities to establish contact between listed companies.** In particular, we believe that having **contact with companies listed on the Prime Market is extremely meaningful both in terms of growing our business and as a reference for strengthening our structure for future listing on the Prime Market**
- We are preparing to disclose non-financial information, including information on human capital. Increasing the ratio of female managers is a particularly pressing issue. There are few role models for female employees within the company. **If TSE were to organize casual gatherings for mid-career female employees working at listed companies, it would provide an opportunity for personnel that companies have high hopes for to gain lots of encouragement**

Main Comments on Challenges to Achieving Growth (4) (Cost of Continued Listing, etc.)

- Amidst limited management resources, including a shortage of human resources, **we received calls to reduce the cost of continued listing**

(Main comments)

Comments requesting a reduction in the cost of continued listing

- After listing, **the administrative burden such as timely disclosure, meeting with audit firms, preparing for shareholders' meetings, and strengthening internal controls increases greatly**, and meetings have become focused on measures to deal with administrative tasks. **We would like** documents that contain the same information to be simplified, such as consolidating earnings reports and quarterly security reports into a single document *Received many similar comments
- **We are finding** quarterly audits a burden in terms of both cost and personnel. *Replacing quarterly security reports with semi-annual securities reports* and limiting quarterly reports to earnings reports will reduce the internal workload in terms of personnel, audit costs, etc., and will make us more profitable and we will be able to reinvest those profits in the company
- **The review of quarterly disclosure system is very helpful in terms of audit fees and man-hours**, but on the other hand, we hope that after the review things will not essentially remain the same (for example, requiring quarterly earnings reports to be reviewed by an audit firm, etc.)
- Under the Timely Disclosure Rules, **when sales are low and a company falls into a deficit, even very minor expenses and decisions** that are unlikely to affect corporate value and would not be an issue under insider trading regulations will be regarded as a violation of the Timely Disclosure Standards and make disclosure work cumbersome. For example, we would like to see the criteria revised so as to be more appropriate for forward-looking investment companies, such as adding a certain percentage of total costs or losses to the minor criteria

Comments Citing Lack of Human Resources as an Issue

- Although listing has had a positive effect on recruitment, **we still lack the human resources we need to meet the speed of growth we are planning**
- The **challenge for the time being is to continue to recruit talented young personnel**. We would be **grateful for any support TSE can provide for listed companies' recruitment activities**
- We believe that recruiting and training excellent human resources are important to achieve growth. We would like to have ongoing PR opportunities **from TSE's perspective to appeal to people who want to work for a listed company**

Main Comments on Challenges to Achieving Growth (5) (Continued Listing Criteria, etc.)

- Some companies **called for stricter continued listing criteria** due to a lack of motivation to pursue higher growth
- On the other hand, there were also **calls for the relaxation of standards and procedures** for transitional measures related to continued listing criteria and the handling of segment transfer

(Main comments)

Comments that Criteria Should be Tightened, etc.

- **When owners hold a high percentage of shares, there is less pressure from shareholders, and shareholders are less likely to push the company to grow faster. This could be resolved by making continued listing criteria stricter**
- **We feel that there** needs to be rules for growth, not size, in order to be considered a Growth Market. **It is frustrating that** many companies give the impression that their goal is to be listed, and because of this there are many companies for which the name “growth” is not appropriate. While the same could be said of the Prime Market, the Growth Market should also move companies with poor growth performance to a different market
- The Japanese stock market has a large number of companies with a market capitalization of less than 10 billion yen, and this is pulling down the average market capitalization. TSE needs **to closely examine the companies currently listed and raise the listing criteria**

Comments that Criteria Should be Relaxed

- **There may still be room to reconsider the level and timing, as many companies do not meet the continued listing criteria (more than 4 billion yen) for market capitalization from 10 years after listing.** It would be good to discuss certain mitigating measures for companies that have had in excess of 4 billion yen for a reasonable period of time
- Although the recent market restructuring **eliminated the special exception for switching from Mothers to the First Section, we believe that this special exception played a major role as a booster to accelerate this growth.** If there is a transitional measure to remain in the Prime Market by submitting an improvement plan, there should be a similar system to allow market reclassification to the Prime Market by submitting a growth plan
- Following the market restructuring, **there is no longer a system by which companies can choose whether to continue to be listed on Mothers or move to the Second Section after 10 years of listing on Mothers.** As a result, **when we approached the lead managing securities company to seek assistance in changing our market classification to the Standard Market, we were told that such change would involve an enormous amount of money.** Continuing to make the same demands on a company like ours that has been listed for a reasonable number of years as the demands made immediately after listing is a problem and so **we would like TSE to establish an alternative to the existing selection system**

Main Comments on Challenges to Achieving Growth (6) (Unlisted Areas and State of New Listings)

- Some companies cited the **use of the TOKYO PRO Market** as a place where growth can be realized before listing on the Growth Market, while others commented that it is difficult to use the TOKYO PRO Market given the current situation in which it is difficult to raise funds
- Some companies commented that while the relatively relaxed criteria for listing **on the Growth Market** is contributing to the diversification of startup options, others proposed raising the standards in the future
- With regard to the initial listing process, some companies also commented that **restrictions on corporate actions immediately prior to listing diminish the growth mindset**

(Main comments)

Utilization of Unlisted Areas and the TOKYO PRO Market

- Although more than 10,000 companies participate in the OTC market in the U.S. and use it to as a stepping stone to the standard market, Japan does not have such a flexible market. **If the TOKYO PRO Market** functions as a stepping stone for listing on other markets for general investors and for the re-listing of delisted stock, it will be possible to expand market capitalization, etc. before listing on such markets for general investors
- We feel that the difference between the Growth Market and the TOKYO PRO Market is too great. The TOKYO PRO market is meaningless if it is not possible to raise funds from the market, **as at present**

Listing Frontage

- Venture capitalists need to exit and the **Growth Market, with its relatively low hurdles, makes it easier for startups to obtain equity financing.** The Growth Market is contributing to growth from this perspective
- **Should perhaps** raise the initial listing criteria in the future **given that it is** difficult for smaller companies to achieve smooth growth due to the relatively high cost of maintaining their listing and the difficulty of becoming a target for investment by institutional investors.

Listing Process

- **Given that the** market capitalization (IPO price) at the time of listing is determined by the PER, etc. at the time of the application for listing, **in reality,** companies are required to be profitable **from around the time immediately prior to listing, and the** growth mindset recedes. We found the actual price to be unsatisfactory and the balance between controlling the offering size and dilution meant we were unable to procure significant funding at the time of listing
- **The screening process by securities firms means that it** difficult to conduct large-scale M&As or launch a new business just before listing

Main Other Comments

Bio-ventures

- In the TSE's publication, "Approaches and Examination Points for Listing of Upfront Investment Type Biotech Startups", drug discovery bioventures, excluding bioventures that develop regenerative medical products, are required to form partnerships with at least two pharmaceutical companies at the time of listing, and companies that develop their own products up to the late clinical stage are not euphemistically accepted. As a result, many investors perceive that the best option is to abandon future earnings and derive a pipeline early on, reducing the options available to companies
- Since drug development requires large sums of money to be invested over a long period of time and involves uncertainty and risk, the shareholder composition should be centered on institutional investors with long-term holdings. We would like TSE to create opportunities for institutional investors to invest in drug discovery ventures with low market capitalization through the realization of the bio-index, which was discussed by the Ministry of Economy, Trade and Industry's Study Group for Encouraging Dialogue between Biotech Venture Businesses and Investors

Other Comments

- We would like TSE to increase investment opportunities by attracting a wide range of participants to the stock market by trading on a one-share basis as in the U.S., expanding trading hours, and expanding after-hours trading

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- Interviews were conducted on TPM utilization needs, etc. with (1) J-Advisers and (2) companies transitioning from the TPM to other markets for general investors (multiple companies, respectively) to understand the possibility of TPM utilization **from the perspective of supporting the growth of startups**

((1) Main Comments from J-Advisers)

Listing Needs at Companies

- Securities firms have started to support larger companies in their IPOs on stock markets for general investors. As an increasing number of IPOs are being pushed back, the **TPM can be used by companies looking to move to another market for general investors in the future, and in fact, such a trend has already started to emerge.**
- **We see a need for listing on the TPM as it is an exit option for existing shareholders**
- The main purpose of listing is to improve name recognition and creditworthiness, and given the **current funding environment and liquidity, the TPM is not suitable for companies with large funding needs, such as so-called deep tech companies**

Investment Needs Among Professional Investors

- Currently, the appeal of the TPM has not yet been communicated to investors. **If the number of companies transferring from the TPM to another market for general investors increases in the future, this will create an opportunity for investors to invest in the reserve army of companies to be listed on such public markets, and more investors will want to invest in the TPM**
- ※ In order to increase the number of professional investors, it is necessary to make improvements regarding the fact that even though the scope of professional investors has expanded, the criteria are still high and the procedures for becoming professional investors are complicated.

Challenges for Utilization, etc.

- **There is a mixture of companies looking to step up and companies that assume they will remain on the TPM, making it difficult for investors to understand the market. (Of the former) There is a mixture of companies that want to add liquidity while they are listed on the TPM and companies that want to add liquidity after they move to another market for general investors**
- **In terms of listing examinations for stock markets for general investors, TPM-listed companies have a better track record when it comes to timely disclosure and information management than unlisted companies, and so TSE should encourage companies aiming to step up to the next level by undertaking smooth examinations that take this into account**

((2) Main Comments from Companies Moving to Another Market for general investors

Listing Needs at Companies

- We were not yet ready to list on the Growth Market in terms of our size and growth potential, so we decided to list on the TPM first. Subsequently, our **business performance actually improved while listed on the TPM and we were able to list on the Growth Market. In terms of systems, we set up systems at the time of listing on the TPM, and so we were able to list on the Growth Market smoothly without any particular difficulties.** In that sense, we experienced more trouble when listing on the TPM than when listing on the Growth Market.
- There may be some companies for which the hurdle of suddenly listing on the Growth Market is too high, but which **may be able to list on the TPM.** The TPM may hold the key to expanding the number of startups that will lead Japan in the future

Challenges for Utilization, etc.

- **More needs to be done to promote the fact that the TPM can also be a market that enhances growth for startups.** Currently, there is confusion as to whether companies are using the TPM to step up or whether companies have listed for business succession or M&A purposes, and so the TPM's appeal as a market is somewhat vague
 - Some TPM-listed companies are not keen on increasing liquidity. We considered buying shares in another TPM-listed company, but that company was afraid to sell their shares and turned us away
- It may be possible to **encourage** companies seeking to step up to disclose their "Business Plan and Growth Potential", which is required in the Growth Market, on a voluntary basis. We prepared the relevant disclosure materials at the time of the listing on the Growth Market, and **we found that this was a good opportunity to reconsider how we are perceived and what makes us attractive.** It's hard to ask for a "must", but companies that are aiming to step up should definitely prepare such disclosure materials
 - In addition, **if TSE can then indicate to investors that a company is implementing ambitious initiatives for growth, such as information disclosure and IR activities, we believe that the number of investors who want to become professional investors will increase**

I. Discussions at Previous Follow-Up Council Meetings

II. Results of the Call for Comments from Managers of Companies Listed on the Growth Market

III. Results of Interviews with TOKYO PRO Market Users

IV. Matters to Be Discussed



- For companies to **achieve growth after listing on the Growth Market**, it is necessary to create an environment in which **listed companies can smoothly make proactive growth investments**.
 - In the current ecosystem, **many companies go public on a small scale**, and **as a result, it is difficult for institutional investors to invest in them even after listing** (i.e., there is **no one to accompany them** to achieve high growth after listing on the Growth Market).

- **What are your thoughts on the following discussions for the functioning of the Growth Market?**

- (1) First, it is **important for Growth-listed companies to actively present their growth story to investors**. Efforts such as disclosing information and holding investor briefings are **essential for convincing institutional investors to invest in these companies**.
 - Could TSE **provide Growth-listed companies with support such as aid in establishing contacts with institutional investors and IR** (including better English disclosure and IR support with overseas institutional investors in mind), in addition to **promoting disclosure of information, holding investor briefings, etc.?**
- (2) In order for Growth-listed companies to attract investment from institutional investors, it is **important to create an environment that allows these companies to grow a scale large enough to be easily accessible by institutional investors before they are listed**.
 - **We could conduct interviews and exchange opinions with market participants** regarding what initiatives TSE can **implement** to support startups while **the government and related parties** are implementing **measures such as the "Startup Development Five-year Plan"** in order to **increase investment in startups tenfold (JPY 10 trillion) in the next five years**.
 - As one model, **could TSE consider building and promoting a growth model that leverages the market for professional investors?**
 - Present growth stories to support listed companies in their efforts to move up to the Standard or Prime Market and visualize their initiatives.
 - Attempt to attract specific investors with the increase in the number of such listed companies
- (3) It has been suggested that the criteria for initial listing and continued listing on the Growth Market should be less stringent.
 - **It might be a good idea to make this an issue for future consideration, as the functionality of the entire ecosystem is in the process of being improved through the Startup Development Five-year Plan and other measures. We must also take into account the progress of efforts by companies subject to transitional measures.** What are your thoughts on this?
 - We must also continue to identify issues with market users regarding the initial listing process and post-listing rules.