

Considering The Investor's Point of View in Regard to Management Conscious of Cost of Capital and Stock Price

Key Points and Examples

Tokyo Stock Exchange, Inc. Listing Department

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This document is intended to be a reference for listed companies that are considering Action to Implement Management That is Conscious of Cost of Capital and Stock Price, and also to help listed companies that have already disclosed information related to these efforts update their information in the future. **This report is based on interviews with many investors in Japan and overseas, and includes a summary of the key points of initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations, and also examples of companies that are not aligned with investors' perspectives.**

Note: The examples in this material are provided solely for informational purposes as a reference for listed companies that are considering management that is conscious of cost of capital and stock price, and are not intended as a solicitation to invest in specific stocks or for any other purpose.

Index

Introduction Page 4

I. Analysis and Evaluation of the Current Situation . . Page 7

II. Consideration and Disclosure of Initiatives Page 14

III. Dialogue with Shareholders and Investors Page 20

Appendix: Case Studies

Introduction

I. Analysis and Evaluation of the Current Situation

II. Consideration and Disclosure of Initiatives

III. Dialogue with Shareholders and Investors

Appendix: Case Studies

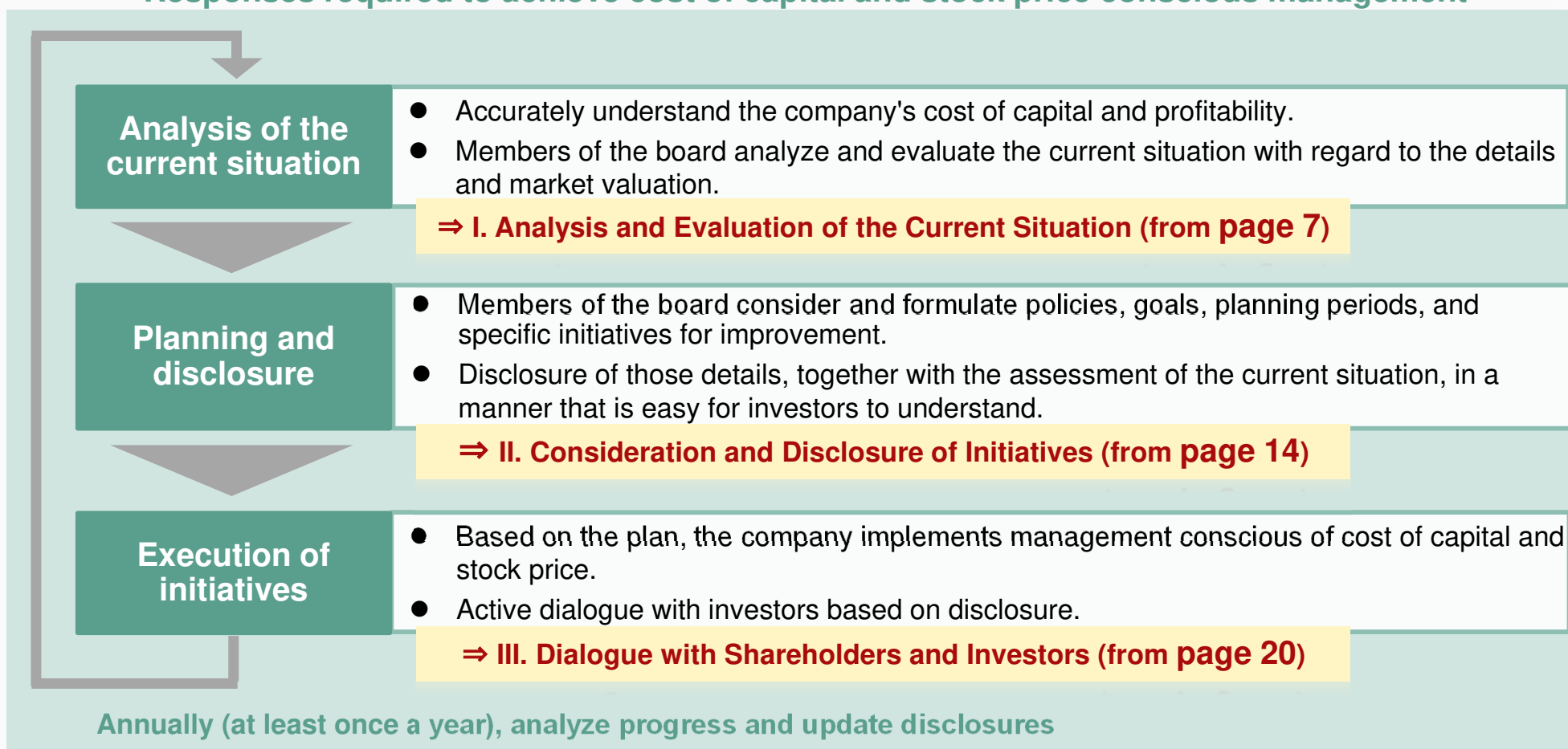
- ◆ In March 2023, Tokyo Stock Exchange requested all listed companies on the Prime and Standard Markets to take **action to implement management conscious of cost of capital and stock price**. Since then, many listed companies have been implementing initiatives, and **many shareholders and investors in Japan and overseas have expressed their expectations for further progress in these efforts by their respective companies**.
 - ◆ This document is intended to be a reference for listed companies that are considering taking action, and also for listed companies that have already disclosed their information, to help them update their information in the future. **This report is based on interviews with many investors in Japan and overseas**, and includes a **summary of the key points of initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations, and also examples of companies that are not aligned with investors' perspectives**.
- * Since April 2023, TSE has conducted interviews with a total of over 90 investors (approximately 30% domestic and 70% overseas), mainly investors (active funds, etc.) that focus on medium- to long-term corporate value enhancement.
- ◆ Naturally, the initiatives required to enhance corporate value over the medium to long term will differ depending on the situation of each company. **It is expected that management and members of the board will take the lead in promoting such efforts after thoroughly analyzing and evaluating the current situation of a company**, while referring to the points to be addressed and examples of such efforts discussed in this document.
 - ◆ **We would like to ask all listed companies to take the current situation**, in which the expectations of shareholders and investors in Japan and abroad are rising, **as a good opportunity to respond proactively and promote corporate reform**, rather than simply responding to requests.

Note: In addition to the case studies in this document, we will continue to expand reference materials for listed companies through initiatives such as holding various seminars and publishing interviews with listed companies that are proactively taking action.

Structure of this Document

- ◆ This document describes, for each step in the series of initiatives we are requesting companies to utilize to implement management that is conscious of cost of capital and stock price, the key points of the initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations, and, conversely, examples of companies that are not aligned with the investors' perspective.
- Please refer to the attached document for details of the case studies.

Responses required to achieve cost of capital and stock price conscious management



Introduction

I. Analysis and Evaluation of the Current Situation

II. Consideration and Disclosure of Initiatives

III. Dialogue with Shareholders and Investors

Appendix: Case Studies

The main purpose of **management that is conscious of cost of capital and stock price** is to **achieve medium- to long-term enhancement of corporate value and sustainable growth** by promoting fundamental initiatives such as investment for growth and review of business portfolio with full awareness of cost of capital and return on capital, and the first step toward realization is to **analyze and evaluate the current situation**.

- ◆ In analyzing and evaluating the cost of capital, it is first expected that companies **properly ascertain the cost of capital** which is needed to evaluate profitability, and in doing so, it is important to **consider the cost of capital from the investors' perspective (Point 1 on page 8)**.
- ◆ Then, the **board of directors is expected to analyze and evaluate the company's** profitability and market valuation, not merely whether the current P/B ratio exceeds 1 or whether the ROE exceeds 8%, but to analyze and evaluate **the company from multiple perspectives with regard to profitability and market valuation (Point 2 on page 10)**.
- ◆ The key to management that is conscious of cost of capital and stock price is **appropriate allocation of management resources** to improve corporate value over the medium to long term, and in conjunction with the above analysis and evaluation, companies are also expected to **check whether their balance sheet is in an efficient state** for value creation **(Point 3 on page 12)**.

Point 1

Considering the cost of capital/equity in regard to the investor's perspective

Explanation

- ◆ Many companies use the CAPM (Capital Asset Pricing Model) as a method for estimating the cost of equity, but its calculated value is **only one estimate**.
- ◆ **Considering that the cost of capital is the investors' expected rate of return**, it is not necessarily enough to calculate it by a model such as CAPM, but it is **of importance to align perceptions with shareholders and investors about the level of the cost of capital**.
- ◆ **Effective efforts to foster such a common understanding with shareholders and investors may include,**
 - **Disclosure of the model parameters used in the calculation, along with the level of the cost of capital recognized by the company.**
 - **Analysis with multiple models and parameters**
 - **Asking shareholders and investors about the company's level of the cost of capital through information meetings and interviews.**

Initiative Examples

Concordia Financial Group (7186)

The cost of equity **was calculated based on the stock yield as well as** the CAPM. In addition, **historical trends of other indicators were presented along with their fluctuation factors.** ([Appendix, page 33](#))

Idemitsu Kosan (5019)

The company presented their recognition that there is a gap between the CAPM-based cost of capital and the market's return expectations, and **revised its ROE target upwards.** ([Appendix, page 19](#))

Techno Smart (6246)

The company disclosed the details of its calculation model and parameter settings, along with its cost of equity level. ([Appendix, page 29](#))

Trend Micro (4704)

The company conducts a questionnaire survey of securities analysts and institutional investors at each quarterly earnings conference to ascertain cost of capital. ([Appendix, page 16](#))

Examples of misalignment with investors' perspective

- ✗ Believing there is **only one correct answer to the cost of capital and is obsessed with a uniform calculation formula**
- ✗ **Refraining from disclosing** the results of their cost of capital calculations to the public for **fear that shareholders and investors will point out that they are misaligned.**
- The objective is not to calculate a precise value for the level of the cost of capital, but to **align perceptions with shareholders and investors**, and **efforts to eliminate gaps in perceptions are expected as a starting point for implementing management that is conscious of the cost of capital and stock prices.**

Reference: Corporate Value Enhancement Management Seminar, Corporate Value Enhancement Management e-Learning



- ◆ TSE provides materials and transcripts of past **Corporate Value Enhancement Management Seminars** and **Corporate Value Enhancement Management e-Learning** (both are available in **Japanese only**) for listed companies to deepen understanding of knowledge and information fundamental to corporate value enhancement management from the investor's perspective, such as cost of capital.

Corporate Value Enhancement Management Seminar

<https://www.jpx.co.jp/equities/listed-co/award/03.html> (No English page available)

◆ FY 2018 Corporate Value Improvement Award

Lecture Contents	Speaker
What is cost of capital? - The Strategic Significance of Recognizing the Cost of Capital.	Ryohei Yanagi (Visiting Professor, Graduate School of Accounting, Waseda University / Managing Executive Officer and CFO, Eisai Co.)
Revised Code 5-2 and purpose of Dialogue Guideline 2-2.	Mr. Hiroki Sampei, Head of Engagement, Fidelity Investment Trust Co.

◆ FY 2019 Cost of Capital - from the Basics

Lecture Contents	Speaker
Corporate value enhancement and the cost of capital - The fundamentals and practices for management application	Tetsuyuki Kagaya, Associate Professor, Graduate School of Business Administration, Hitotsubashi University
Investors' desire to increase corporate value and awareness of cost of capital - Expectations from real dialogue.	Mr. Yasunori Nakagami (Representative director / board member / member of the board], Misaki Investment Co.
Progress in deepening and proliferation within the company of "management by ratio" (management with awareness of cost of capital)	Mr. Koichi Takahashi, [director / executive officer / statutory auditor / officer], General Manager, Accounting & Finance Division, Daikin Industries, Ltd.

Corporate Value Enhancement Management e-Learning

<https://www.jpx.co.jp/equities/listed-co/seminar/e-learning/index.html> (No English page available)

◆ Basic Course Series

The Significance of Corporate Value Enhancement Management and its Practice	<ol style="list-style-type: none"> 1. Significance and necessity of corporate value enhancement management 2. What is the required capital and cost of capital? 3. Current situation and initiatives of corporate value enhancement management of TSE-listed companies
Capital Markets and Corporate Management	<ol style="list-style-type: none"> 1. What is listing? 2. What is a shareholder? 3. Minority shareholders (institutional investors) in brief 4. Changes in the presence of minority shareholders 5. Challenges facing Japanese Companies 6. Aiming for sustainable growth and enhancement of corporate value over the medium to long term - Corporate Governance Code and ESG Information
Tasks for Independent Directors	<p>Case 1: What would you think about a proposal to enter a new business?</p> <p>Case 2: What are your thoughts on the handling of surplus?</p> <p>Case 3: What would you think if you were the target of a TOB?</p>

◆ Best Practices in Corporate Value Enhancement Management Series

Series 1	Initiatives of OMRON Corporation
Series 2	Initiatives of Marubeni Corporation
Series 3	Initiatives of UNITED ARROWS LTD.
Series 4	Initiatives of PIGEON CORPORATION

Point 2

Multifaceted analysis and evaluation based on the investor's perspective

Explanation

- ◆ **It is not enough to merely check whether the current P/B ratio is above 1 or ROE is above 8%** for a convincing analysis and evaluation from an investor's perspective.
- ◆ For example, companies are expected to conduct an analysis of the **factors that may be contributing to profitability and market valuation** after confirming the company's position with a **matrix analysis of profitability and market valuation** (see next page.)
- ◆ In doing so, companies are also expected to **conduct comparisons with other companies and time-series analysis** of indicators such as P/B ratio and ROE since the average levels of such indicators vary by sector and business category, and there may be significant temporary fluctuations due to accounting factors, etc.
- ◆ It would also be useful to **analyze cost of capital and profitability by segment** if the company has businesses with very different expected risk/return ratios.

Initiative Examples

Toyo Seikan Group Holdings (5901)

In addition to a **time-series analysis of the various indicators**, a **comparative analysis with sector averages** was conducted to identify issues. (Appendix, page 26)

EBARA CORPORATION (6361)

ROIC-WACC spread is analyzed and evaluated by segment, and measures to increase ROIC spread by segment were announced. (Appendix, page 31)

Sumitomo Forestry (1911)

Even though the profitability achieved exceeds the cost of equity, the status of indicators related to market valuation, such as PER and PBR, were also analyzed, and efforts to improve them were considered. (Appendix, page 9).

ASKA Pharmaceutical Holdings (4886)

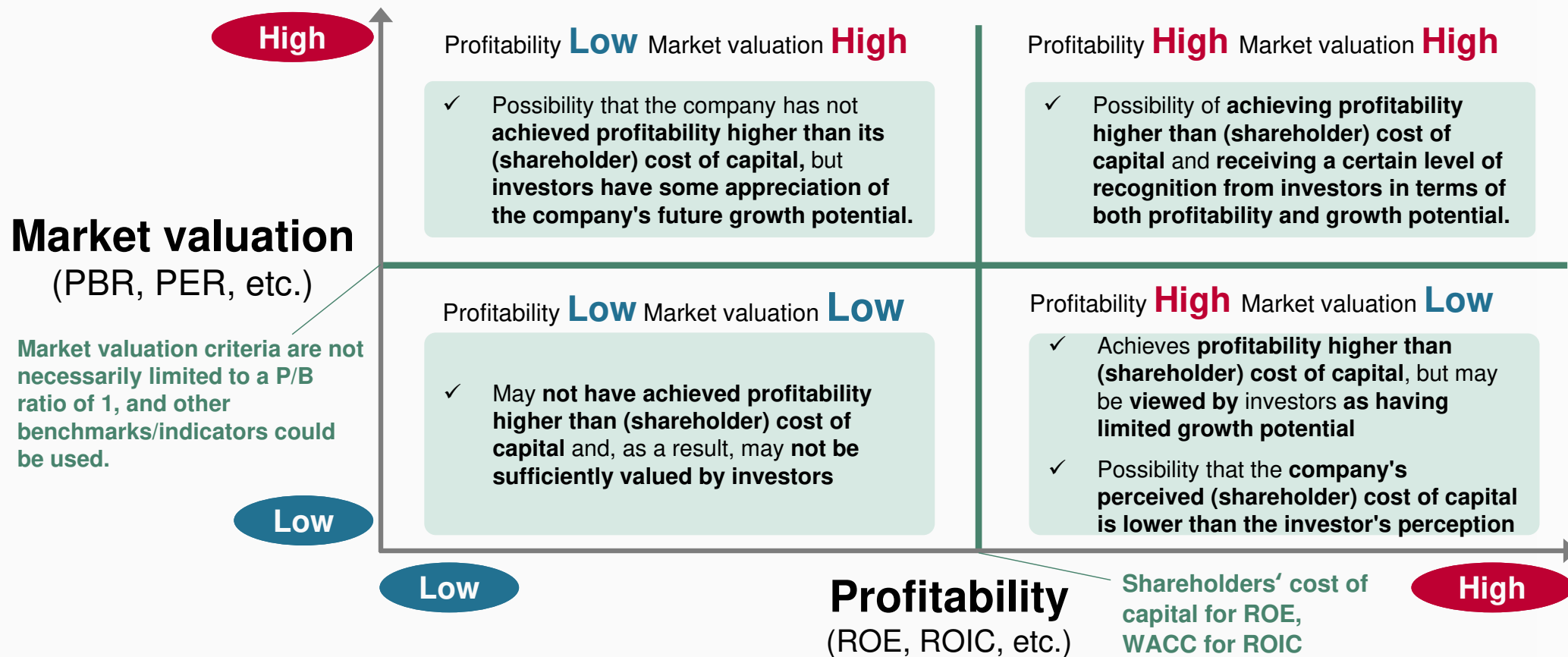
Based on the situation where ROE has exceeded the target of 8%, but P/B ratio is below 1, the company analyzed the contributing factors and considered initiatives for improvement. (Appendix, page 17)

Examples of misalignment with investors' perspective

- ✗ **Since the P/B ratio is already over 1, we do not consider it necessary to take any particular action** and will not give it any further consideration.
- ✗ **We believe that market valuation is determined by the market**, and if ROE exceeds the target, it is good.
- "P/B ratio of 1" is only a guideline, and it **is not enough if the P/B ratio exceeds 1**. Even if a company believes that its profitability is at a sufficient level, it is expected to **analyze and evaluate whether the market valuation is proportionate with that level**.

Reference: Matrix analysis on profitability and market valuation

- ◆ In analyzing a company's current situation and considering priority actions, it may be useful to **check the company's position in the following matrix of profitability and market valuation** (and if necessary, **compare your company with other companies and analyze time series**).



Results of the above analysis,

- If profitability and growth are **not at a sufficient level or have not been evaluated**, it is expected that an **analysis of the contributing factors will be conducted and remedial measures will be considered**.
- However, even if a **certain level and evaluation of profitability and growth potential has been obtained**, it is expected that **efforts to further improve them will be considered based on investors' expectations**.

Point 3

Inspection of balance sheets to ensure their efficacy

Explanation

- ◆ In order to achieve sustainable growth and increase corporate value over the medium to long term, companies are expected to practice management that is not merely conscious of sales and profit levels on income statements, but also **of cost of capital and profitability based on balance sheets**.
- ◆ From this perspective, one of the responsibilities of the management and board members of a listed company with a large number of shareholders is to **regularly inspect its balance sheet to ensure that it is effectively contributing to value-based management and value creation**. For example, **in order to promote business operations and investment for growth**, the company should check to ensure that it **does not have excessive cash and deposits** and whether **assets other than cash and deposits** are also necessary for earning profits.
- ◆ In addition, **presenting the inspection results to shareholders and investors in a clear manner, together with a plan for improvement (if considered necessary)**, is also considered an **effective** means of **bridging the perception gap with shareholders and investors** in order to realize medium- to long-term corporate value improvement.

Initiative Examples

NIPPON GAS (8174)

The company disclosed **mid- to long-term balance sheet plans and cash flow allocation policies**, with a **policy of not holding unnecessary shareholders' equity**. (Appendix, page 50)

SHIKOKU KASEI HOLDINGS (4099)

The company disclosed a **balance sheet-based** analysis and policy for improvement to **achieve higher ROE levels**. (Appendix, page 11)

Techno Smart (6246)

After **considering the level of cash and cash equivalents required for business operations**, the company developed a **future capital allocation policy** based on that level, the status of excess cash and cash equivalents, and the outlook for future operating cash flows. (Appendix, page 30)

MARUI GROUP (8252)

The company described its **"target balance sheet"** figures in line with its **business structure innovation**, along with a **breakdown by segment**. (Appendix, page 52)

Examples of misalignment with investors' perspective

- ✗ In explanations of mid-term plans and earnings reports, **explanations are limited to conventional indicators on the income statement, such as sales and profit levels**, and there is no analysis or setting of targets from the perspective of profitability based on the balance sheet.
- **By incorporating analysis and target setting using indicators such as profitability and growth potential, which are important to shareholders and investors from a medium- to long-term perspective**, it is expected that the company will promote initiatives that take into account the perspectives of shareholders and investors.

Introduction

I. Analysis and Evaluation of the Current Situation

II. Consideration and Disclosure of Initiatives

III. Dialogue with Shareholders and Investors

Appendix: Case Studies

After analyzing and evaluating the current situation and clarifying the company's priority issues and medium- to long-term goals, **board members are expected to discuss specific measures to resolve these issues and realize the goals, and disclose the details of these measures, along with an evaluation of the current situation, in a manner that is easy for investors to understand.**

- ◆ Firstly, in considering specific initiatives, it is expected that companies will not take technical measures to improve capital profitability and stock price in the short term, but will **implement fundamental initiatives** from a medium- to long-term perspective, such as **promoting investments to achieve growth** and **reviewing the business portfolio, with an awareness of the appropriate allocation of management resources** (point 1 on page 15).
- ◆ In addition, to realize medium- to long-term corporate value, companies are expected not only to work on improving profitability, but also to be **aware of the need to reduce cost of capital** (point 2 on page 16). To do so, it is important to **reduce information asymmetry through effective information disclosure**, and to increase **investor confidence in corporate profitability and growth potential**.
- ◆ Along with the efforts above, companies are also expected to **design a management compensation system that provides incentives for medium- to long-term improvement of corporate value** (point 3 on page 17) from the perspective of **strengthening the commitment of management and the board to improving corporate value over the medium to long term and gaining the confidence of shareholders and investors**.
- ◆ When disclosing initiatives, rather than simply listing them, it is important to **explain what the company intends to do**, how it will solve problems, and how it is **tied to the company's medium- to long-term goals** (point 4 on page 18). This will deepen the understanding of shareholders and investors and lead to deeper dialogue.

Point 1

Implementing fundamental initiatives with an awareness of the appropriate allocation of management resources

Explanation

- ◆ What shareholders and investors with a medium- to long-term perspective expect from a company is not technical efforts to improve profitability or stock price in the short term, but rather to **promote fundamental initiatives and realize appropriate allocation of management resources**. Specifically, companies are expected, **with sufficient consideration of cost of capital and profitability**, to push forward initiatives such as **investment in R&D and human capital that leads to the creation of intellectual property and intangible assets that contribute to sustainable growth, investment in equipment and facilities, and business portfolio restructuring**.
- ◆ In addition, as an **effort to ensure the appropriate allocation of management resources**, the future form of balance sheets should be considered (see point 3 in I. Analysis and Evaluation of Current Situation), and a **plan should be formulated to achieve that vision**, as well as a **cash allocation policy to determine how capital**, including future cash flows, **will be allocated for investment in growth and shareholder returns**.
- ◆ **Strengthening of shareholder returns, such as share buybacks and dividend increases**, should be implemented according to the situation, based on an analysis of whether the balance sheet is effectively contributing to value creation; it is not expected to be done as a one-time or transitory response only to share buybacks (through recap CBs, etc.) and dividend increases.

Initiative Examples

AISIN CORPORATION (7259)

The company generated cash by **reducing asset holdings through balance sheet reforms**, and **injected funds for investment in growth, shareholder returns to achieve the improvement of its corporate value**. (Appendix, page 36)

SWCC Corporation (5805)

To promote **ROIC management throughout the company, easy-to-understand indicators and numerical targets for each site were set**, and the company is working to create a system and environment in which each employee can take ownership of their own activities. (Appendix, page 25)

Chiba Kogyo Bank (8337)

The company analyzed **each division in terms of RORA** (return on risk-weighted assets) and **ROE**, and **specified which businesses to focus on and which to downsize**. (Appendix, page 57)

NIPPON GAS (8174)

The company disclosed **mid- to long-term balance sheet plans and cash flow allocation policies**, with a **policy of not holding unnecessary shareholders' equity** (Appendix, page 50)

Examples of misalignment with investors' perspective

- ✗ Low current profitability and market valuation, but only a **temporary response of share buybacks** (through recap CBs, etc.) or **gradual improvement of existing businesses**
- Shareholders and investors expect **fundamental initiatives, such as investment in growth and review of business portfolios**, in order to achieve sustained growth and a continuous profitability that is higher than cost of capital.

Point 2

Being aware of the need to reduce cost of capital

Explanation

- ◆ In order to realize medium- to long-term improvement in corporate value, it is necessary to **achieve capital returns that exceed the cost of capital and then to increase the difference* between the two**. From this perspective, companies are expected not only to improve profitability but also to **reduce the cost of capital**.
* The difference between ROE and the cost of shareholders' equity is called the "**equity spread**" and the difference between ROIC and WACC is called the "**economic value added (EVA) spread**."
- ◆ Although there are various factors that determine the cost of capital and it is difficult to make a general statement, for example, if the **disclosure of information** necessary for investment decisions is **inadequate, the uncertainty of management** becomes a source of **anxiety for investors**, which **increases the cost of capital**. In such cases, it is considered effective to reduce the cost of shareholders' capital by **eliminating information asymmetry** through **enhanced disclosure information** and **effective dialogue with investors**.
- ◆ In addition, to **increase investor confidence in management and in the stability and sustainability of earnings, strengthening corporate governance** and other measures are also considered effective means of reducing the cost of shareholder capital.

Initiative Examples

MARUBUN CORPORATION (7537)

To reduce the cost of equity, the company implements initiatives in non-financial areas, **such as sustainability management, strengthening governance, and improving stakeholder engagement**. (Appendix, page 37)

FinTech Global (8789)

In addition to reducing performance volatility, the company **works to reduce the cost of equity through proactive investor relations activities and information disclosure**. (Appendix, page 63)

Concordia Financial Group (7186)

To reduce the cost of equity, the company is working to **build a resilient business portfolio and enhance sustainability management**. (Appendix, page 34)

Idemitsu Kosan (5019)

The company is working to **reduce cost of capital through transition to decarbonized/growing business and change in the earning structure**. (Appendix, page 21)

Examples of misalignment with investors' perspective

- ✗ Mistaken belief that the cost of capital is a given (to be determined by the investor) and that the company has no control over it.
- For example, it would be **possible to reduce the cost of capital to a certain extent by addressing the cause of the increase**. It is expected that **the company will be aware of and work to reduce the cost of capital as a means to realize an increase in corporate value**.

Point 3

Designing a management compensation system that provides an incentive to increase corporate value over the medium to long term

Explanation

- ◆ In order to realize medium- to long-term growth in corporate value, it is **important for management itself to view the improvement of corporate value as its own business**, and companies are expected to **utilize a plan for compensation so that management compensation functions as a sound incentive for sustainable growth**.
- ◆ **From the perspective of shareholders and investors, it is also important how management incentives are designed.** In particular, **overseas investors**, who take it for granted that executives receive a certain amount of share-based compensation, consider it **a major factor in their investment decisions whether management compensation is designed to provide incentives for medium- to long-term performance and corporate value enhancement**.
- ◆ In addition, providing incentives to increase corporate value, such as the granting of company stock or stock options, not only to directors but also to other levels of **management and general employees**, will lead to a better understanding and penetration of the **shareholder perspective among a wide range of employees** and is considered an **effective means of promoting management aimed at increasing corporate value**.

Initiative Examples

RAKSUL (4384)

After the retirement of the founding CEO, to encourage the new CEO's commitment to increasing corporate value over the medium to long term, a maximum percentage of stock compensation was set, as well as the introduction of RSUs (Restricted Stock Units) linked to profit growth. At the same time, restricted shares and stock options are granted to other board members, and stock options are granted to employees. ([Appendix, page 14 and 15](#))

Sumitomo Forestry (1911)

The company introduced a management compensation system with restriction on transfer of shares based on the degree of stock price growth and the rate of achievement of sustainability indicators to make the compensation system highly linked to mid- to long-term business performance and improvement of corporate value. ([Appendix, page 10](#))

Examples of misalignment with investors' perspective

- ✗ The design of management compensation systems does not incentivize management to increase corporate value over the medium to long term, and the management's perspective is misaligned with that of shareholders and investors.
- It is expected, for example, that making a management compensation system an incentive for medium- to long-term growth in corporate value will raise management's awareness of future corporate value and promote management with a focus on long-term growth from the perspective of shareholders and investors.

Point 4

Explanation of efforts in relation to medium- to long-term goals

Explanation

- ◆ Rather than disclosures that simply list initiatives, **easy-to-understand disclosures that explain how each initiative is intended to achieve the medium- to long-term vision and how each initiative will lead to the resolution of issues will deepen the understanding of shareholders and investors** and lead to **deeper dialogue**.
- ◆ Companies are expected to **clearly show how each effort will lead to the realization of goals**, for example by **breaking down target management indicators into several elements and presenting efforts to improve each element**, or by **using a logic tree**, etc.
- ◆ To increase the confidence of shareholders and investors in the company's future growth potential, it is effective to **present a policy and route toward achieving growth over a long-term time span (equity story) and explain each initiative as part of that story**.

Initiative Examples

PLANT (7646)

PBR was analyzed with ROE and PER, and ROE was further analyzed with net profit margin, total assets turnover, and financial leverage (DuPont analysis), and efforts to improve each factor were described. ([Appendix, page 39](#))

SEINO HOLDINGS (9076)

The ROE to be achieved by 2028 was shown, and working backward from there, the efforts to improve each of the components of ROE were described. ([Appendix, page 64](#))

EBARA CORPORATION (6361)

The company provided a clear explanation of how each initiative contributes to the improvement of corporate value using a ROIC tree. ([Appendix, page 32](#))

Concordia Financial Group (7186)

The company describes initiatives to enhance corporate value using a logic tree to clarify the relationship between initiatives and enhancement of corporate value. ([Appendix, page 34](#))

Examples of misalignment with investors' perspective

- ✗ Reports that only list initiatives, but do not clearly state how these initiatives will improve corporate value and lead to the achievement of goals, making it difficult to understand.
- If the relationship between the stated goals and initiatives is unclear, it will be difficult for shareholders and investors to have confidence in the effectiveness of the initiatives. In order to increase shareholder and investor confidence, companies are expected to **show, as clearly as possible, how each initiative will help the company achieve its goals**.

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Appendix: Case Studies

After disclosing “Action to Implement Management That is Conscious of Cost of Capital and Stock Price,” companies are expected to proceed with initiatives based on the plan, **engage in constructive dialogue with shareholders and investors based on the content of the disclosure with the spirit of fair disclosure, and continue revising the initiatives while receiving evaluation and feedback from shareholders and investors.**

- ◆ In order to achieve effective dialogue to enhance corporate value over the medium to long term, it is of importance to build a relationship **of trust with shareholders and investors on an ongoing basis. The management team and board are expected to be proactively involved (Point 1 on page 21,)** for example, by establishing a system to share feedback obtained from the dialogue with the management team and board of directors.
- ◆ In addition, effective dialogue can be achieved by fully understanding the **profile of the counterparties** and what is important to them, and by **taking an approach based on that (Point 2 on page 22.)**
- ◆ Furthermore, in order to further increase the effectiveness of dialogue, linking **disclosure of the dialogue with further dialogue and engagement (Point 3 on page 23)** is also considered to be an effective means.

Point 1

Proactive involvement of management and board

Explanation

- ◆ A challenge for companies is many investors feeling that the **content of the dialogue is not reaching management**. In order to build an ongoing trusting relationship with shareholders and investors and to make the dialogue effective, **management and the board are expected to be proactively involved, as well as fully understanding the importance of the dialogue**.
- ◆ Specifically, **IR and SR should be viewed as a driver of growth and internal resources should be appropriately allocated to this area**. In addition, to build a relationship of trust with investors, it is also effective to have **active participation in dialogue and direct communication with shareholders and investors by the management itself**.
- ◆ In addition, it can be an effective means for shareholders and investors to understand and evaluate the corporate governance system and its effectiveness by **having independent directors, as monitors of management, participate in dialogue at the request of shareholders and investors, and by discussing the current status of governance and recognition of issues**.
- ◆ Also, it is expected that **efforts will be made to link the dialogue to decision-making aimed at enhancing corporate value**, such as by **sharing feedback obtained through the dialogue with management and the board**.

Initiative Examples

TOA CORPORATION (1885)

The company established a dedicated department to strengthen IR activities and works to enhance information disclosure, including English disclosure, based on investors' opinions. Opinions obtained through dialogue are reported to the board on a regular basis and reflected in the review of measures. (Appendix, page 6 and 7)

SANYO SHOKAI (8011)

As a measure to improve PBR, along with measures to improve profitability, the company will further strengthen and improve the foundation of IR and SR activities, and will work to promote dialogue with the market. (Appendix, page 40)

Mitsubishi Corporation (8058)

The company appointed a new CSEO (Chief Stakeholder Engagement Officer) to strengthen dialogue with shareholders and investors, and established a cross-functional internal structure. (Appendix, page 44)

Mitsui Chemicals (4183)

The company conducted roundtable meetings between outside directors and investors for the purpose of deepening dialogue and disclosing the content of such meetings in the integrated report. (Appendix, page 13)

Examples of misalignment with investors' perspective

- ✗ Management is reluctant to engage in dialogue with investors for no specific reason, other than the prevailing image of investors as intimidating or bothersome.
- Although differences of opinion and conflicts of interest may sometimes arise between a company and its investors, they inherently share the goal of improving corporate value. The management of a listed company is expected not to "confront" investors, but to build a medium- to long-term trusting relationship with investors and actively seek their cooperation in order to realize the improvement of corporate value.

Point 2

Taking a tailored approach to shareholders and investors

Explanation

- ◆ **The investment behavior of investors and their stance on dialogue and engagement with companies differ** depending on whether they are domestic or foreign investors, active or passive investors, growth/value/dividend oriented investors, and on the areas they are in charge of (fund manager, analyst, ESG manager, voting member, etc.)
- ◆ To improve the effectiveness of dialogue with shareholders and investors, companies are expected to **fully understand the profile of the counterparties, what is important to them, and to take a tailored approach.**
- ◆ In addition, dialogue and engagement are generally initiated by investors, but if it is believed that investors do not have sufficient recognition of the company, the **company may target investors who understand the company's business well and are willing to accompany the company's growth, and actively approach them.**

Initiative Examples

Investor targeting approach by SHIFT (3697)

Initial Public Offering (Initial listing to end of 2015)	Market capitalization: Low Domestic recognition: Low	Approach funds that invest in peer companies <ul style="list-style-type: none"> • Approaching fund managers, not analysts, while market capitalization is small • Easy to narrow down the target fund and selling points are clear • No need to explain the industry to which the company belongs • Emphasis on differentiation and superiority over competitors
Path to No. 1 in the Testing Industry (End of 2016 - 2018)	Market capitalization: - JPY 50 billion Increase in domestic recognition	Selection based on investment style and investment size <ul style="list-style-type: none"> • Increased visibility allowing a wider target setting • Proactively holding small meetings to connect with many investors • Promoting growth potential and its support • Focused approach to fund managers
Aiming to be No. 1 in the Domestic Sector (2018-2020)	Market capitalization: JPY 50 billion and up Overseas recognition: Low	Started dialogue with overseas investors and approaching analysts <ul style="list-style-type: none"> • Contacts from overseas investors increase as market capitalization exceeds JPY 50 billion • Mainly targeting long-term blue-chip investors • Approaching analysts
Increasing Recognition for Japanese Stocks (from 2020)	Market capitalization: Over JPY 300 billion Overseas recognition: Medium	Focus on turning long-term overseas investors into shareholders <ul style="list-style-type: none"> • Created investor DB, categorized by investor • Progress visualization for each • Continuing to approach analysts • Simultaneous disclosure in English and Japanese, and enhanced disclosures • Approach to ESG Funds

Source: IR Improvement Committee, December 2022, "SHIFT's Endless Dreams - IR's Kiseki to Support Growth.

Point 3

Disclosure of dialogue and further dialogue and engagement

Explanation

- ◆ In order to create a virtuous cycle of accelerating and refining initiatives while receiving evaluation and feedback from shareholders and investors through dialogue, it would be effective to further deepen dialogue and engagement by providing information to shareholders and investors on the dialogue, real examples, and how the input obtained from the dialogue is incorporated into management decision-making.
- ◆ For this purpose, in March 2023, TSE issued a request to all listed companies in the Prime Market to promote and disclose dialogue with shareholders (details on the next page), and it is expected that they will disclose the items indicated therein, etc., depending on their own situation.

Initiative Examples

Examples of specific, easy-to-understand disclosures regarding input obtained from dialogue and subsequent initiatives, as well as the feedback provided to management and the board.

- ✓ Kobe Steel (5406) (Appendix, page 22 and 23)
- ✓ SANYO SHOKAI (8011) (Appendix, page 41)
- ✓ YAMAZEN CORPORATION(8051) (Appendix, page 43)
- ✓ Inabata & Co.,Ltd. (8098) (Appendix, page 48)

Companies Subject to Request

- All companies listed on the Prime Market

Outline of Disclosure

- Please disclose information about dialogue with shareholders during the most recent business year.

Suggested disclosure items:

- ✓ Main personnel carrying out dialogue with shareholders
- ✓ Overview of shareholders with whom dialogue was held (e.g. domestic/foreign, active/passive, investment style such as growth/value/dividend oriented, areas of responsibility of counterparties (fund manager, analyst, ESG, voting, etc.))
- ✓ Main topics of dialogue and items of interest to shareholders
 - Especially, cases of dialogue that was insightful for the company or dialogue where shareholder understanding was gained through explanation from the company management
- ✓ Whether feedback was given to management or the board on shareholders' views and concerns learned through dialogue
- ✓ Actions taken based on the dialogue and later feedback, if any etc.

Note 1: The items listed above are examples of items that could be appropriate for disclosure as part of measures to improve the effectiveness of dialogue with shareholders, based on the contents of Japan's Corporate Governance Code. Regardless of the above, companies are not necessarily required to disclose all of the above items, and should disclose other information where this is considered necessary.

Note 2: Companies that have not carried out dialogue with shareholders during the most recent business year may disclose on the progress of measures and organizational structures aimed at promoting constructive dialogue with shareholders.

Note 3: If a company engages in dialogue with investors regarding its efforts to improve profitability based on the balance sheet and stock price, based on the request for "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," it is expected to also disclose about this dialogue.

⇒ For details, please refer to "Promotion and Disclosure of Dialogue with Shareholders" published by TSE in March 31.

<https://www.jpx.co.jp/english/equities/follow-up/uorii50000004s73-att/uorii50000004sri.pdf>



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