

# **TSE to Publish a List of Companies That Have Disclosed Information Regarding “Action to Implement Management That Is Conscious of Cost of Capital and Stock Price”**

**Tokyo Stock Exchange, Inc.**

October 26, 2023



# Future Initiatives Related to “Action to Implement Management That Is Conscious of Cost of Capital and Stock Price”

- ◆ On March 31, 2023, Tokyo Stock Exchange, Inc. (TSE) requested that **all listed companies on the Prime and Standard Markets** take "action to implement management that is conscious of cost of capital and stock price."
- ◆ From now on, **TSE will promote the following initiatives** to further encourage listed companies to implement measures to achieve cost of capital and stock price-conscious management, and to publicly disclose the details of those measures.

## Main point of this document

Publication of a list of companies that have disclosed  
+  
Reiterating the purpose of the request

- ◆ Publish a list of companies that have disclosed information in accordance with the request to inform investors of who is taking action, thereby encouraging companies to make a proactive effort **(to be started on January 15, 2024 and updated monthly)**.
- ◆ Before publication, listed companies will be reminded of the purpose of the request and points to keep in mind, as well as the fact that the list is to be published **(notified to listed companies on October 26, 2023)**.

Publication of key points from responses/  
examples of initiatives

- ◆ Compile and publish several key points based on responses from investors and examples of initiatives that have been praised by investors for companies of several different sizes and situations. **(By January 2024)**

Compilation and distribution of companies' response statuses

- ◆ Compile corporate disclosures and feedback from investors, etc., approximately once every six months. **(The next one is scheduled for January 2024)**

# Publication of a List of Companies That Have Disclosed

- ◆ To inform investors of who has taken action and encourage companies to make a proactive effort, **TSE will publish a list of companies that have disclosed information in compliance with the request as follows.**

|  |  |
|--|--|
| <b>Items to be listed</b>                    | Securities code, company name, Market segment, sector, <b>disclosure status in compliance with the request (Disclosed/Under consideration)</b> , and English disclosure status<br><b>Note: Please refer to page 5 for specific details about the items to be listed.</b>   |
| <b>How “Disclosure status” is determined</b> | <b>Disclosure status will be determined as follows based on keywords</b> in the "Disclosure Based on Principles of Japan's Corporate Governance Code" column or the "Reasons for Non-compliance with Principles of Japan's Corporate Governance Code" column of the company's most recently submitted Corporate Governance Report.<br><ul style="list-style-type: none"><li>➤ If the keyword “【資本コストや株価を意識した経営の実現に向けた対応】” (<i>Action to Implement Management That Is Conscious of Cost of Capital and Stock Price</i>) is found, the status will be listed as “Disclosed.”</li><li>➤ If the keyword , “【資本コストや株価を意識した経営の実現に向けた対応（検討中）】” (<i>Action to Implement Management That Is Conscious of Cost of Capital and Stock Price (Under Consideration)</i>) is found, the status will be listed as “Under consideration.”</li></ul> <p>Note: If none of the keywords are found, the company will not be listed.</p> <p>Note: If the information disclosed in compliance with the request is also disclosed in English, please include the keyword “【英文開示有り】” (<i>Disclosed in English</i>) following the keywords above (in such cases, the "English Disclosure" column of the list shall be set to “Available”).</p> |
| <b>How to view the list</b>                  | <b>The list (Excel file) is uploaded on Japan Exchange Group's website below.</b><br><a href="https://www.jpx.co.jp/english/equities/follow-up/02.html">https://www.jpx.co.jp/english/equities/follow-up/02.html</a>   |
| <b>Start date and future updates</b>         | <ul style="list-style-type: none"><li>◆ <b>The list will initially be compiled based on the status of CG reports as of the end of December 2023, and will be published on or around <b>January 15, 2024 (Monday)</b>.</b></li><li>◆ <b>Thereafter, the list will be updated based on the status as of the end of each month by around the 15th of the following month (<b>updated monthly</b>).</b></li></ul>  |

## Purpose of the request

- ◆ The request for “Action to Implement Management That Is Conscious of Cost of Capital and Stock Price” is a policy to promote constructive dialogue with shareholders and investors as well as efforts to enhance corporate value over the medium to long term. **All companies listed on the Prime and Standard Markets are requested to respond to this request regardless of their level of P/B ratios.**
- ◆ A recent report on the state of disclosure shows that while disclosure has progressed mainly among companies with low P/B ratios, disclosure has been relatively slow among companies with high P/B ratios, and domestic and foreign investors have pointed out that **there is the misunderstanding that if P/B ratios are above 1x, it is not necessary to respond to the request.**
- ◆ Even if **the P/B ratio is already above 1x, proactive consideration and action should be taken to further improve it**, taking into account shareholder and investor expectations, comparisons with domestic and overseas peer companies, and the status of indicators other than P/B ratio related to return on capital and market valuation.

## Description in the Corporate Governance (CG) Report

- ◆ Although the request does not specify a uniform format or document for disclosure, no matter how the information is disclosed, it is required that the company states in its CG report that it is disclosing the information, and how to access it to make it easier for investors to find. Despite this, there are some cases where disclosure is made only in financial results presentation materials, etc., and there is no statement in the CG Report.
- ◆ **For the sake of clarity for shareholders and investors**, and because TSE will start publishing the list, if disclosure is made in either format, **please state in your CG report that the company is disclosing the information and how to access it, along with the keyword** “【資本コストや株価を意識した経営の実現に向けた対応】” (*Action to Implement Management That Is Conscious of Cost of Capital and Stock Price*).
- ◆ In addition, **when referring to documents other than the CG report, please provide a link to the document and a description as clearly as possible.**

## Notes on "under consideration" disclosure status

- ◆ If it takes some time to analyze and discuss the company's current situation, disclosure could be divided into stages. For example, a company could first indicate the level of progress made on plan development and preparation for disclosure and the expected timing of disclosure. Then, they could disclose specific details once the plan is developed.
- ◆ **If your company discloses a status of "under consideration," please provide as specific an explanation as possible regarding the status of consideration and the expected timing of disclosure for shareholder/investor understandability.**
- ◆ In addition, in accordance with the start of the publication of the list, when disclosing your status as "under consideration," please include the keyword , “【資本コストや株価を意識した経営の実現に向けた対応（検討中）】” (*Action to Implement Management That Is Conscious of Cost of Capital and Stock Price (Under Consideration)*) in the CG report.

**Note:** Even if a disclosure status of "under consideration" has already been made in your CG report, please add the above keywords to the CG report by the end of December 2023 so that it appears in the list of companies that have disclosed.

**Note:** In the case where only a small part of the initiatives is still under consideration, use of the "under consideration" status is not necessarily required. Please determine whether to declare your status as "disclosed" (using the keyword "*Action to Implement Management that is Conscious of Cost of Capital and Stock Price*") or "under consideration" (using the keyword "*Under Consideration*") based on the degree that the content is still "under consideration."

## English Disclosure

- ◆ If English disclosure is made in accordance with this request, please include the keyword “【英文開示有り】” (*English disclosure*) following the other keyword in the CG Report.
- ◆ If the keyword “【英文開示有り】” (*English disclosure*) is included in the CG report, the "English Disclosure" column of the list shall be filled with "Available".

## ◆ Image of the Items on the List

|   | A   | B                   | C                     | D             | E   | F | G                         | H |
|---|---|---------------------|-----------------------|---------------|---|---|---------------------------|---|
| 1 | <b>List of Companies that Have Disclosed Information in Accordance with “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”</b> |                     |                       |               |   |   |                           |   |
| 2 |   |                     |                       |               |   |   |                           |   |
| 3 |   |                     |                       |               |   |   |                           |   |
| 4 | As of Jan. 15, 2024   |                     |                       |               |   |   |                           |   |
| 5 |   |                     |                       |               |   |   |                           |   |
| 6 | <b>Securities code</b>  | <b>Company name</b> | <b>Market segment</b> | <b>Sector</b> | <b>Disclosure status in compliance with the request (Disclosed/Under consideration)</b> |   | <b>English disclosure</b> |   |
| 7 | ****  | *****               | Prime                 | *****         | Disclosed   |   | Available                 |   |
| 8 | ****  | *****               | Prime                 | *****         | Under consideration   |   |                           |   |

Please note that the layout and other details of the list may be changed.

# Appendix: Disclosure Status of Listed Companies and Feedback from Investors and Others

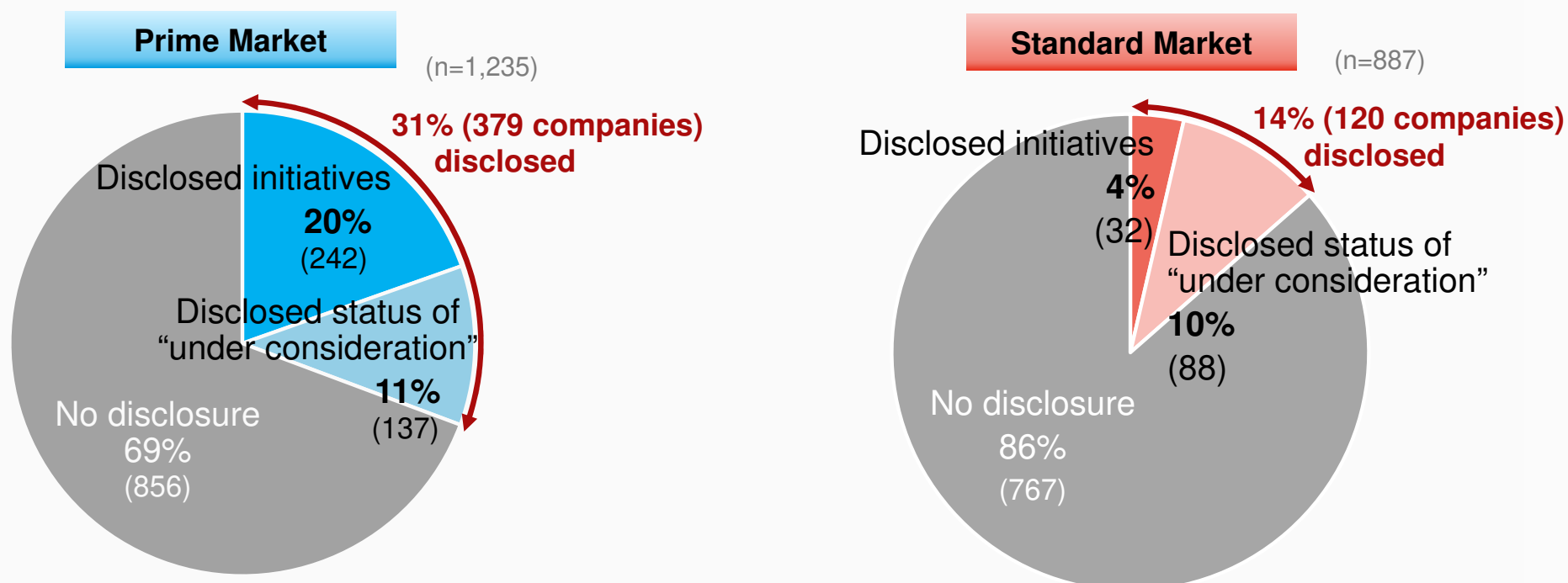
# Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

- ◆ As of mid-July, **31% (379 companies) of Prime Market listed companies** and **14% (120 companies) of Standard Market listed companies** have already disclosed information (based on data for companies whose fiscal year ends in March).

Note: Among companies with fiscal years that do not end in March, 20 companies in the Prime Market and 28 companies in the Standard Market disclosed information.

- Of these, a certain number of companies disclosed a status of "under consideration (TBA)" (about one-third in the Prime Market and two-thirds in the Standard Market of those that disclosed).

## Status of disclosure in response to the request for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”



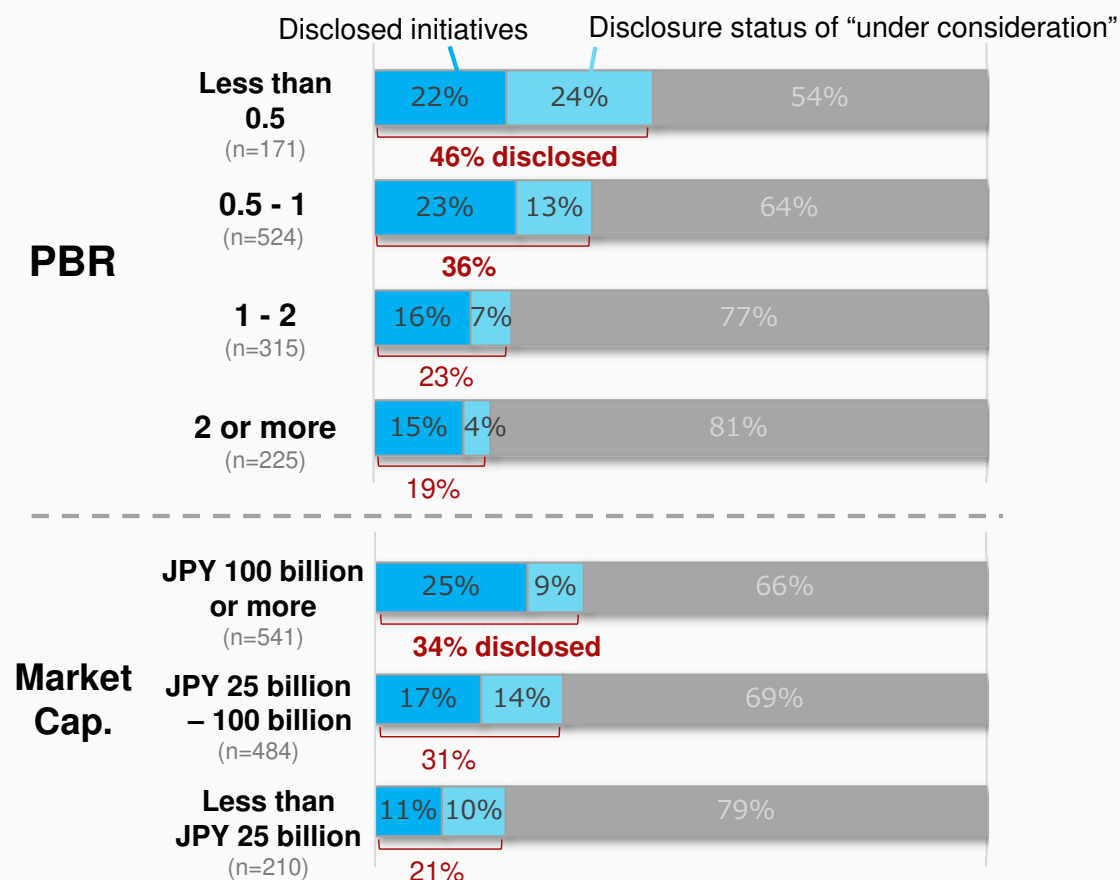
Note: Based on corporate governance reports and other information as of July 14, 2023 for Prime Market listed companies with fiscal years ending in March.



# Disclosure Status by PBR and Market Cap. Levels (Prime Market)

- ◆ Disclosure progress is further along among companies with low PBRs and large market capitalizations, with 45% of Prime Market listed companies with PBRs below 1x and market capitalizations of JPY 100 billion or more disclosing information.
- On the other hand, companies with high PBRs and small market capitalizations have made relatively little progress with disclosure.

## Disclosure Status by PBR and Market Cap. Levels (Prime Market)



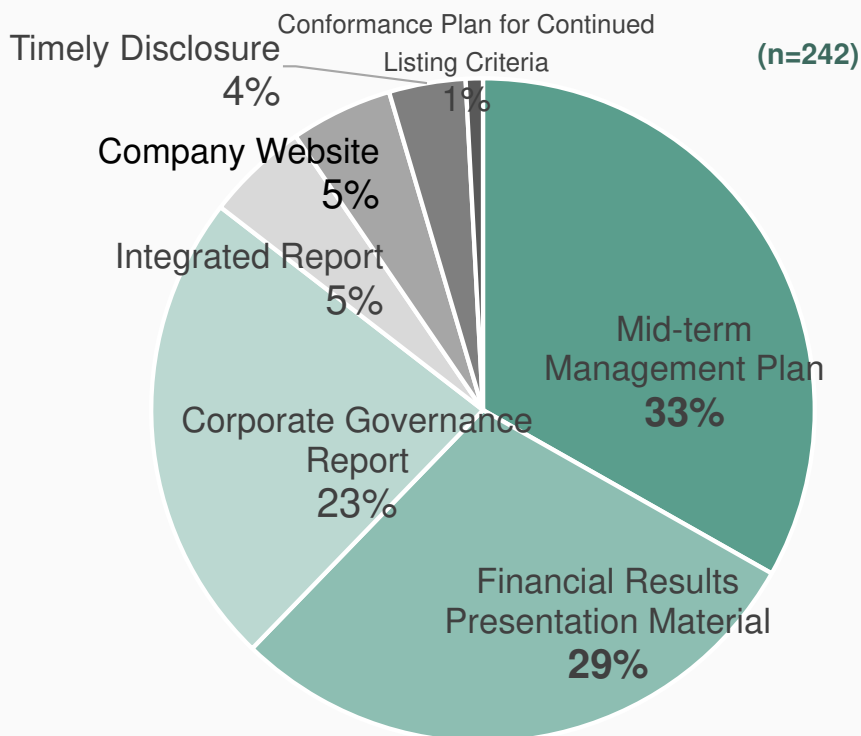
|  | PBR  |   |
|--|--|---|
|  | Less than 1  | 1 or more   |
| <b>Market Cap. JPY 100 billion or more</b> | <b>45% disclosed</b><br>Disclosed initiatives: 31%<br>Disclosure status as "under consideration": 14%<br>(n=240) | <b>26%</b><br>Disclosed initiatives: 21%<br>Disclosure status as "under consideration": 5%<br>(n=301) |
| <b>JPY 25 billion - 100 billion</b>        | <b>39%</b><br>Disclosed initiatives: 22%<br>Disclosure status as "under consideration": 17%<br>(n=319)           | <b>15%</b><br>Disclosed initiatives: 9%<br>Disclosure status as "under consideration": 6%<br>(n=165)  |
| <b>Less than JPY 25 billion</b>            | <b>25%</b><br>Disclosed initiatives: 12.5%<br>Disclosure status as "under consideration": 12.5%<br>(n=136)       | <b>15%</b><br>Disclosed initiatives: 8%<br>Disclosure status as "under consideration": 7%<br>(n=74)   |

Note: Based on corporate governance reports and other information as of July 14, 2023 for Prime Market listed companies with fiscal years ending in March.

# Documents Used For Disclosure / Initiative Details (Prime Market)

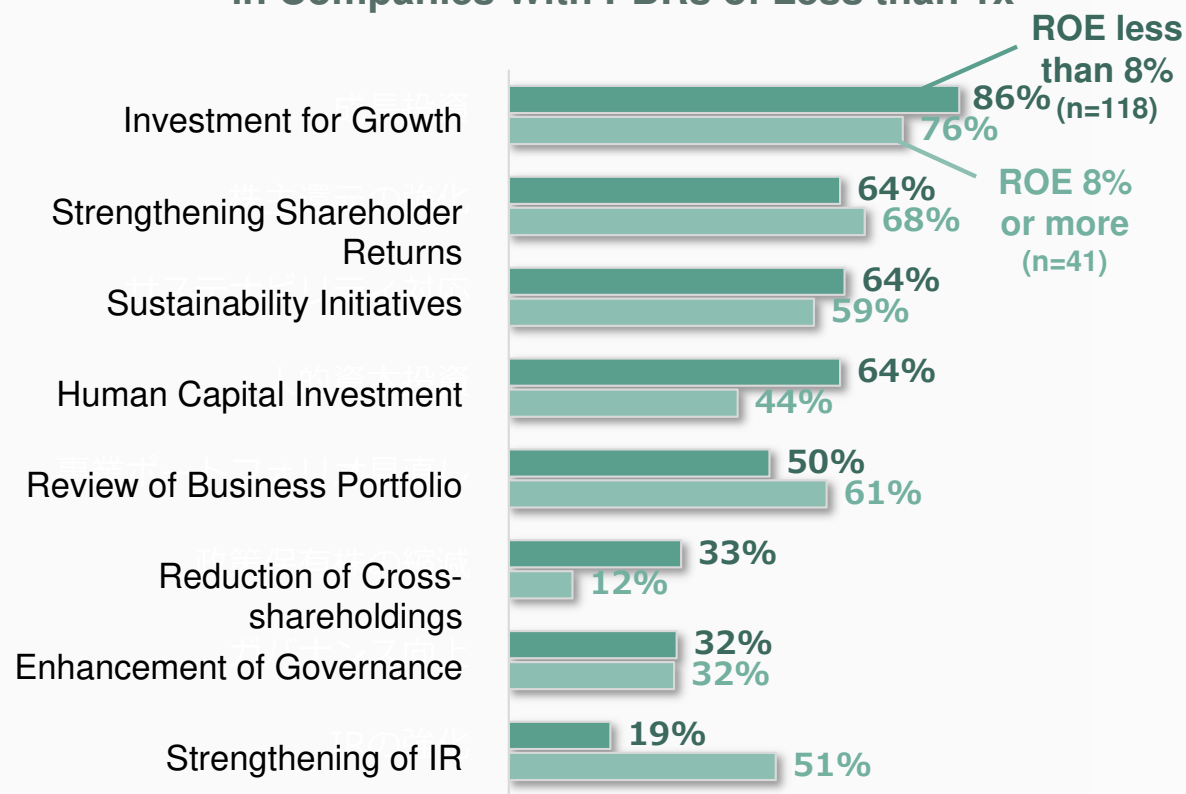
- ◆ Regarding which documents are used for disclosure, many companies disclose their initiatives in their mid-term management plans and financial result presentation material, at around 30% each.
- ◆ In terms of measures to improve profitability and market valuation, many companies mention investment for growth, strengthening shareholder returns, sustainability initiatives, human capital investment, review of business portfolio, etc. Many companies with relatively high ROE but less than 1x P/B ratio also mention strengthening IR. Almost no companies mention only shareholder returns.
  - However, even in cases where companies disclosed their initiatives, etc., there were a certain number of cases where the descriptions placed insufficient emphasis on the promotion of constructive dialogue with investors. For example, companies only referred to existing disclosures and made no mention of analysis and evaluation of the current situation considering the cost of capital.

## Documents in Which the Main Description is Disclosed



Note: Calculated for Prime Market listed companies whose fiscal year ends in March and have disclosed their initiatives, etc. as of July 14, 2023.  
 Note: If disclosure is made in more than one document, TSE counted the document in which the main statement is made.

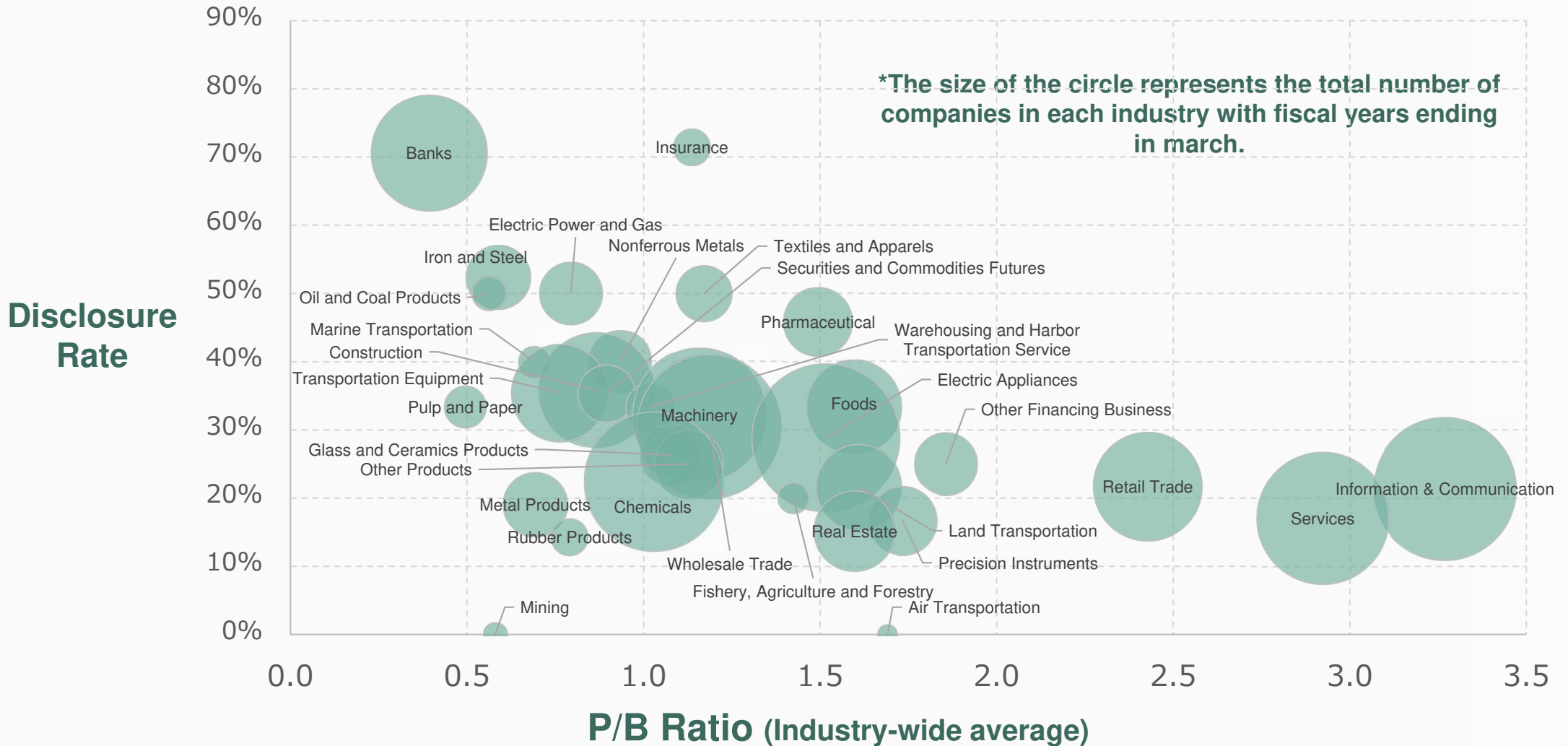
## Improvement Initiatives in Companies With PBRs of Less than 1x



Note: Calculated for Prime Market listed companies whose fiscal year ends in March and have disclosed their initiatives, etc. as of July 14, 2023.

# Reference: Disclosure Status by Industry (Prime Market)

- ◆ Disclosure progress is further along in industries with lower average PBRs; in the banking industry, about 70% of companies have disclosed. Note: Including companies with a disclosure status of “under consideration”.
- On the other hand, industries with higher average PBRs, such as Information & Communication, Services, and Retail Trade, have made relatively little progress in disclosure.



Note: Based on corporate governance reports and other information as of July 14 for Prime Market listed companies with fiscal years ending in March.  
 Note: Disclosure rate includes companies disclosing status as under consideration.

- ◆ After the announcement, many investors, including foreign investors, have expressed high expectations for companies to make changes in response to the request, as the request will lead to an alignment of perspectives for investors and management.
- ◆ In fact, many domestic and foreign investors have commented that they see positive changes in companies after the request, such as companies becoming more proactive in dialogue, increased discussion of capital profitability and business portfolios in dialogue, and increased requests for advice from companies.

## Responses to the Request

- “This recent request aligns with what we have been conveying to Japanese companies as investors, and it represents a very positive initiative in the right direction. We are also eager to collaborate to ensure the progress of corporate efforts.” (Foreign investor)
- “TSE's initiatives have garnered significant attention internationally, and this request is one of the factors behind our intent to increase allocation to Japanese stocks. However, with the expectations and attention come the importance of the ongoing progress of these initiatives. It's crucial to continuously communicate and appeal to institutional investors about positive changes.” (Foreign investor)

## Positive Reactions to Corporate Responses

- “Recently, there are more mature discussions on topics like business profitability, handling of surplus capital, shareholder returns, and segment-specific ROIC. While there had been some progress through the introduction of the Corporate Governance Code, it had not reached this level. In addition, companies that were previously difficult to meet with, even through brokerage firms, suddenly had their CEOs come out of the woodwork during this visit, a clear change in the attitude of Japanese companies.” (Foreign investor)
- “Larger Japanese companies that had remained unresponsive despite repeated attempts have taken up the recent request and devised plans for achieving growth beyond a PBR of 1x. Such cases are prevalent and while challenges persist, the progress is dramatic. Even in the case of major manufacturers, typical examples of low-profit Japanese companies, initiatives are underway. This indicates a true sign of change for Japan.” (Foreign investor)

- ◆ On the other hand, it has been pointed out that there are still cases where management does not fully understand the significance and necessity of the initiatives, and cases where there is a sense of urgency but insufficient knowledge and resources to promote the measures.
- ◆ Many are calling for support to promote companies' efforts, such as reiteration of the content/purpose of the request, creation of more detailed guidelines, sharing examples of good practices, and provision of educational content.
  - Companies also commented that it is easier to take action if there are examples of good practices.

## Challenges and Importance of Follow-Up

- “Companies with low PBR or ROE are earnestly working on their issues. **However, it is common for executives to misunderstand the purpose of the request** by merely looking at news content and thinking that it is irrelevant as long as their companies' PBR exceeds 1x. Moreover, in companies located in regions with limited interaction with market participants, there are cases where executives are not aware of the request. We would like to ask **TSE to disseminate the details of the request.**” (Domestic institutional investor)
- “Even for companies listed on the Prime Market, there are cases where **management is not fully convinced of the request**, or where it is **questionable whether they are aware of it.** Introducing good examples from TSE may raise management's awareness.” (Consultant)
- “TSE's request has garnered significant response, and there are companies that have promptly taken action, which is viewed as a commendable initiative. However, among smaller market cap companies, there is an **impression that there is insufficient financial literacy and resources to consider such initiatives.**” (Domestic institutional investor)
- “In response to TSE's request, there has been an increase in advisory requests from our investment targets' management. Conversely, **some companies express the sentiment, ‘We've never explained such matters before, so we're unsure how to proceed’**.” (Domestic institutional investor)
- “Within companies, there are cases where they are **unsure where to start or what they don't understand**, and some cases where they believe they understand but are mistaken. To encourage corporate response, **providing educational programs and offering more detailed guidelines are conceivable.**” (Foreign investor)
- “In order to promote initiatives, it is necessary for management to understand capital costs and profitability. However, since there are insufficient examples, **education is needed.** Additionally, the role of independent directors is crucial, and determining how to proceed with board governance is also vital.” (Foreign investor)
- “**Investors' subsequent question is the effectiveness of these measures.** Investors are advocating for the **periodic release of the overall outcomes concerning the status of disclosure**, having the potential to exert pressure on companies not yet responding to the requests, subsequently generating a positive cycle.” (Securities firm)

## **Regarding Efforts Towards Improvement**

- “As a result of TSE’s initiatives, there has been an increasing awareness within companies about enhancing capital profitability, but the consciousness about reducing cost of capital remains weak. To lower the cost of capital, efforts to manage volatility are also crucial.” (Foreign investor)
- “While there are cases where companies should consider downsizing for future growth, some companies might engage in share buybacks to boost their stock prices in the short term, irrespective of their asset and liability situations. In fact, this year’s share buybacks have reached an all-time high pace, which I believe has an overall positive impact. However, there are clearly negative cases within this trend. How TSE guides listed companies is important.” (Foreign investor)
- “In the pursuit of improving market valuation, it’s essential to have capable IR professionals. IR representatives who understand the content should proactively communicate in English.” (Foreign investor)
- “Compared to other markets in developed countries, Japan’s senior executives’ financial incentives are remarkably misaligned with shareholders. It is crucial for senior management to have incentives aligned with shareholder perspectives for enhancing corporate value. The introduction of executive compensation linked to such KPIs should be promoted.” (Foreign investor)

## **Disclosure**

- “Even if the company discloses that details of initiatives will be announced in the future, it would be better if the status of current considerations and the timeframe for disclosure of initiatives are described as specifically as possible.” (Domestic institutional investor)
- “When including links to disclosure documents in the Corporate Governance Report, specifying page numbers or sections to be referred to in the linked documents is important. This would make it easier to locate the disclosed information.” (Domestic institutional investors)

## **Indicators for Analysis, Evaluation, and Goal Setting**

- “When talking with Japanese corporate executives, many focus on ROE, but since ROE can be manipulated by increasing leverage, greater emphasis should be placed on ROIC.” (Foreign investor)
- “Some companies include treasury stock in the denominator of market capitalization when calculating PBR. This is not appropriate. When calculating market capitalization. It is common practice to use the “shares outstanding excluding treasury stock” basis, which should be taken into account.” (Foreign investor)