

Future Initiatives Regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

Tokyo Stock Exchange Listing Department

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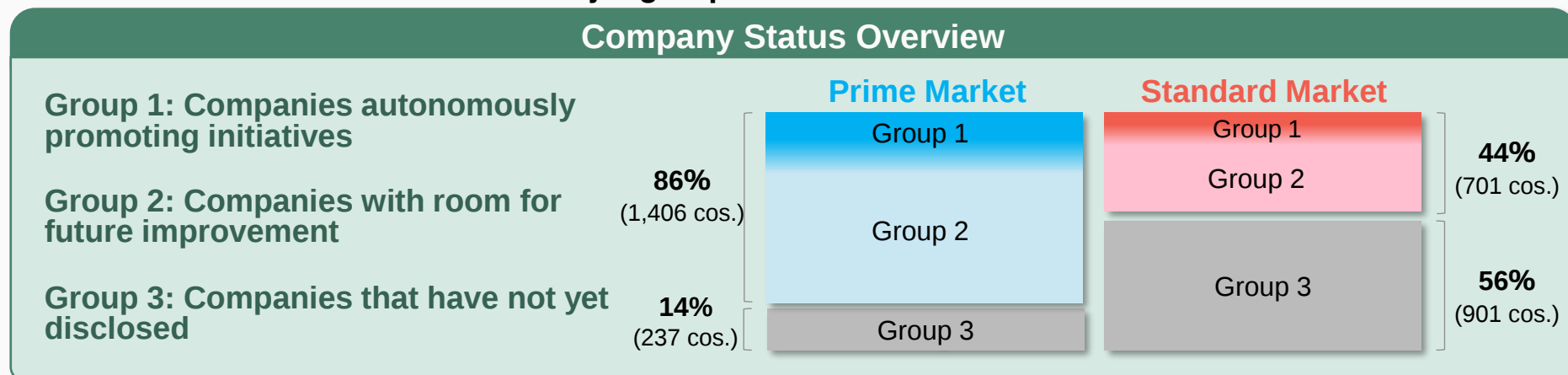


First Year Review and Future Policy

- ◆ While many listed companies have begun disclosing and implementing initiatives, there are still issues, such as gaps between the perspectives of companies and that of their investors, even among those companies that are making progress. Also, some companies have not yet begun to disclose information, and **reforms have only just begun**.
- ◆ TSE aims to create a market where **listed companies naturally strive to improve corporate value while being conscious of their cost of capital and stock price**.
- ◆ **As a market operator**, TSE will implement future initiatives with a further emphasis on **developing an environment conducive to corporate value enhancement through constructive dialogue between listed companies and investors**.
- ◆ This may result in more companies **choosing to go private as the cost of maintaining a public listing increases**. TSE, however, will respect these decisions. In order to improve the attractiveness of the Japanese market, TSE is **focusing on quality (realizing corporate value enhancement that meets investors' expectations) rather than the number of listed companies**.
- ◆ In addition to encouraging listed companies, TSE will also spur **institutional investors to engage in dialogue with listed companies, with the goal of supporting medium- to long-term improvements in corporate value**, rather than focusing solely on short-term, superficial perspectives.
- ◆ Going forward, TSE will review overall progress in terms of both quantitative metrics (including international comparisons) such as PBR, ROE, market capitalization, and growth potential, as well as qualitative aspects such as listed companies' efforts and disclosures and how those are received by both domestic and overseas investors.

Future Initiatives: Measures According to the Companies' Situations

- ◆ Based on “Appendix 1: Listed Company Action Status” and “Appendix2: Interviews with Investors, etc.,” **companies' situations can be divided into three major groups.**



- **The challenges for Group 2** are that there is a **misalignment in the listed companies' perspective with investors**, for example, their targets and initiatives do not meet investors' expectations, and that **they are not communicating sufficiently with investors.**
- **The challenges for Group 3** are that **some companies do not have an appropriate attitude or structure to deal with investors, which listed companies should have**; for example, they do not respond to dialogue with investors for reasons such as not having an IR resource in place. This is partly due to **the presence of controlling shareholders, etc., which makes it difficult for companies to feel pressure from the markets.**

- ◆ To increase the value of Japanese companies as a whole, it is important to **focus on Group 2 and take measures to promote and support their initiatives**, while continuing to encourage the initiatives of Group 1.
- ◆ For **Group 3**, it is necessary to **encourage listed companies to have the right attitude and structure to deal with the market** and to promote initiatives with minority shareholder protection in mind.

Measures for Group 2 (Companies With Room For Future Improvement)

Provide material for consideration to help companies align with investors

◆ Update key points and case studies [To be announced in early November]

- Provide more examples of companies that meet investors' expectations, as well as **points and categorized examples of where investors' and listed companies' perspectives are not in alignment**. (TSE will continue to gather feedback from a wide range of investors, both domestic and overseas.)

✓ Disclosure of progress

- ✓ Review of business portfolio (✗ Little to no progress regarding selling and carve-outs of businesses.)

- ✓ Dialogue between independent directors and investors (✗ Independent directors do not respond to requests for dialogue)

- ✓ Target setting (✗ Target levels are low and do not meet investors' expectations)

- ✓ Consideration of optimal balance sheet and capital allocation policy (✗ Strengthening shareholder returns as a one-off response without such consideration)

- ✓ Other (✗ Only quoting past medium-term management plans, etc.)

◆ Introduce changes in market valuation (share price) depending on the state of disclosure, etc.

◆ Continue to conduct educational programs (seminars and individual visits) for managers and staff of listed companies. (TSE established a dedicated group for this purpose at the beginning of this year).

Promote communication with investors

◆ Communicate to companies that have made little progress in disclosure the importance of first disclosing their current efforts and considerations, and then making necessary revisions based on dialogue with investors.

◆ Improve the list of companies who have disclosed (a support tool for listed companies that are proactively working on disclosure) [Details to be announced by the end of September, to be implemented at the beginning of 2025]

- Set a deadline for companies “Under consideration”: Encourage companies “Under consideration” to move to “Disclosed” by setting a certain period of time. (details of operation to be discussed)
- Specify companies who have made updates: Establish a new column to reflect the fact that updating initiatives will become more important.
- Specify companies that wish to establish more communication with institutional investors: Promote dialogue between institutional investors and companies that are actively working on concrete initiatives and targets, disclosure, and the establishment of IR structures, but are currently unable to connect with investors and seek more active dialogue with them.

◆ Encourage investors to engage in dialogue with listed companies from a perspective that supports medium- to long-term improvements in corporate value, rather than a short-term, superficial viewpoints.

Measures for Group 3 (Companies That Have Not Yet Disclosed)

Encourage Companies to Ensure Proper IR Functionality

- ◆ **Encourage listed companies to ensure proper IR functionality** for dealing with investors as a listed company, **in addition to requiring management that is conscious of cost of capital and stock price** [Specific timing and methods will be discussed in the future]

Follow-up on Measures to Ensure the Protection of Minority Shareholders

(Initiatives up to last year)

In December 2023, the "Study Group to Review Minority Shareholder Protection and Other Frameworks of Quasi-Controlled Listed Companies" summarized the discussions up to that point and published two points: **"Enhancement of Information Disclosure on Protection of Minority Shareholders and Group Management"** and "Roles Expected of Independent Directors in Listed Companies with Controlling/Quasi-controlling Shareholders".

- ◆ As a **follow-up to the above, review the status of enhancement of information disclosure on protection of minority shareholders and group management** after the announcement. [Scheduled to be implemented in October or later]