

Interviews with Investors, etc.

Tokyo Stock Exchange Listing Department

August 30, 2024



Interviews with Investors, etc. (Outline)

- ◆ In June and July of this year, when disclosure of new initiatives and updates by companies with fiscal years ending in March had progressed, TSE sought input to consider future measures, by interviewing a wide range of stakeholders (over 60 companies in total), domestic and overseas institutional investors, those supporting listed companies (securities companies, trust banks, consulting firms), think tanks, and more.
 - In the interviews, participants were asked for their opinions on the overall progress of the initiatives, challenges that companies are facing and measures to improve effectiveness of their initiatives, dividing companies' situations into three major groups.
 - In addition, TSE has conducted a number of seminars and individual interviews with listed companies.

Company Status Overview

Group 1: Companies autonomously promoting initiatives

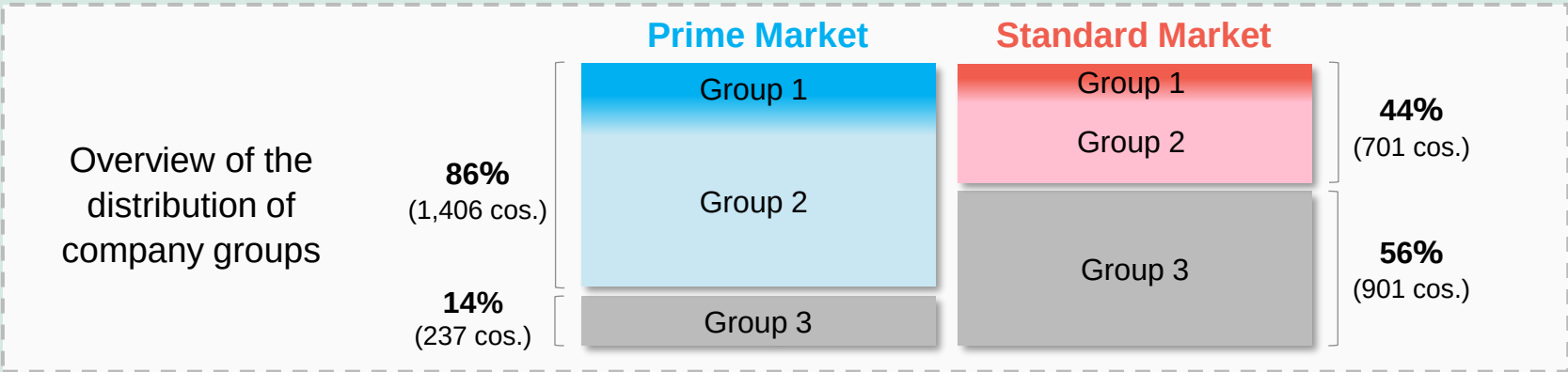
- Develop and disclose effective initiatives and actively engage in dialogue with investors to improve these initiatives.

Group 2: Companies with room for future improvement

- Take initiatives that are not in line with investors' perspectives, and/or fail to communicate adequately with investors, etc.

Group 3: Companies that have not yet disclosed

- Not disclosed due to lack of attitude/resources to face the market, etc.



Results of Interviews: Overview

Overall View of Companies' Situations

- No objections to the classification of company groups. (Majority)
- Many companies seem to be making sincere efforts. Especially in recent disclosures of financial results in April and May, companies are steadily enhancing their disclosures. For example, mentioning not only ROE but also ROIC, and for dividends, showing the minimum dividend payout ratio and DOE, as well as other information such as the cost of capital and assumptions for its parameters. (Analyst in securities company)
- Corporate attitudes are changing, and requests for dialogue from companies are increasing, such as requests for feedback on their disclosures. On the other hand, there is a polarization between companies that are sincerely committed and those that are superficially committed. (Overseas investor)
- There is a big discrepancy in the level of initiatives between companies that disclose information and work to improve their initiatives through dialogue with investors over the past year and companies that only disclose information once and do not make improvements or provide updates. This is the difference between companies in Groups 1 and 2. (Domestic institutional investor)
- While there are many companies that make sincere efforts but do not attract attention from investors, there are also companies that only make superficial efforts, and such companies are no different from those that do not disclose (company group 3.) (Overseas investors)

Company Groups to Target for Investment

- For companies in Group 1 that have been autonomously promoting their initiatives, it is appropriate to continue to encourage them to do so. Instead of focusing on companies in Group 3 that have not disclosed even after more than a year has passed since the request, Group 2 should be the priority target. (Domestic institutional investors, consultants, etc.)
- In order to raise the level of the market as a whole, efforts should be focused on promoting the initiatives of Group 2, which is the volume zone in the Prime Market. As investors also have limited resources, we would like to support companies that are making earnest efforts in Group 2. (Overseas investors).
- While it is good to change measures for each market segment and each group of companies, there is no need to compromise for companies in Group 3, as it is necessary to improve the efforts of the market as a whole. (Overseas investors)

Results of Interviews: Issues in Group 2 Companies (1/2)

Misalignment With Investors' Perspectives

- There are some cases where the level of target setting seems inappropriate, for example, where ROE targets are set too low. Perhaps such companies consider those low targets to be sufficient because they exceed their internally estimated low cost of capital, but investors cannot assess them because they do not disclose their cost of capital. (Overseas investors)
- Timeframes for target setting for some companies are problematic. For example, a company set a target of 8% ROE for a fiscal year that is considerably ahead of schedule; it is thought that the company may not believe that it can achieve this goal. (Overseas investors)
- While there have been positive developments, such as the increased use of ROIC and the analysis of earnings by business segment, companies are only adopting strategies to improve the profitability of unprofitable businesses. We hope that companies will take the next step by fundamentally reviewing their business portfolios, including withdrawing from unprofitable businesses. (Overseas investors)
- Many companies are unable to terminate existing businesses. When profitability is below the cost of capital, the decision not to exit is not a good sign. Some companies do not review their business portfolios to generate future earnings and end up only offering short-term shareholder returns. (Consulting firm)
- A growing number of companies have announced that they will increase shareholder returns, but some companies appear to be doing this as a short-term measure to boost their share price without first properly considering how to optimize their balance sheet and capital allocation policy. (Domestic institutional investors, overseas investors, etc.)
- Although many companies have stated that they are reducing their cross-shareholdings, many companies do not disclose their plans for allocating the cash obtained from sales, such as investing in growth and increasing shareholder returns. Therefore, this has not been a positive factor. It is desirable that there is a growing trend to disclose medium- and long-term capital allocation policies, including funds obtained by unwinding cross-shareholdings. (Domestic institutional investors)
- This is a problem for companies that only cite past medium-term management plans and make superficial disclosures that they will “continue to improve PBR by implementing the measures outlined in the medium-term management plan.” (Overseas investor)

Results of Interviews: Issues in Group 2 Companies (2/2)

Insufficient Communication With Investors

- In some cases, disclosure is delayed or insufficient for fear of being criticized by investors, which results in ineffective dialogue with investors. (Trust bank)
- Many companies do not try to communicate with investors, despite the fact that they are not implementing effective initiatives, and their initiatives remain unchanged without improvement. (Overseas investor)
- Independent directors represent the position of shareholders and should actively engage in dialogue with shareholders and investors and provide feedback to the board of directors, but requests for dialogue with independent directors are still sometimes refused. (Overseas investor)
- The investor side must also be careful in dialogue to ensure that companies do not regress as a result of investors' harsh criticism of initiatives and disclosures. Investors should first listen carefully to what companies say and understand their reasoning before conveying our own point of view. (Overseas investor)
- Some companies have no contact with investors, although they take the time to make sincere efforts. With limited resources, the investor side wants to support companies that are making positive efforts, but it is difficult to distinguish between companies that are making sincere efforts and those that are not. Especially when most listed companies on the Prime Market have already disclosed their initiatives. (Domestic institutional investors, overseas investors, etc. (Mainly active investors))

Results of Interviews: Measures for Group 2 Companies (1/3)

Key Points and Case Study Updates

- Only showing good examples is insufficient, as some companies ignore them, saying “our company is not on that level.” It is effective to show examples of unfavorable initiatives and disclosures that do not meet investors' expectations. (Overseas investors)
- It would be helpful to make visible the gap between the company's and investors' perspectives, for example by anonymously publishing typologies of points and examples of undesirable disclosures, such as superficial disclosures that merely cite past medium-term management plans. (Overseas investors)
- It would be helpful to publish good examples of companies that are not just focused on transitory shareholder returns, but are carrying out a fundamental review of their business portfolios. In addition, consideration and disclosure of optimal balance sheet and capital allocation policy are also very important. For companies that focus only on short-term shareholder returns, these considerations and disclosures may provide an opportunity to think about how to grow in the future, and lead to effective initiatives. (Overseas investor)
- More than a year has passed since the request was made, and companies that disclosed the information in the early stages are looking for examples of 'progress update' disclosures. It would therefore be helpful if TSE provides such good examples. It would also be good to send out a message that, as a result of reviewing the content of initiatives, they are not bound by past disclosures and are not prevented from updating the content significantly. (Trust bank)
- Although companies of a wide range of sizes were introduced in the previous case studies, there are still some who say that companies in the Standard Market, for example, are still not familiar to them and are difficult to refer to. Therefore, it would be preferable to cover a wider range of cases, for example by expanding the number of Standard Market companies. (Trust bank)

Results of Interviews: Measures for Group 2 Companies (2/3)

Promotion of Communication With Investors

- Investors and other market participants should support companies that have already disclosed in improving their initiatives. Companies could also actively seek investors' opinions on the content of their disclosures, for example by asking investors whether the level of cost of capital they perceive is correct. It is desirable to promote a two-way dialogue with investors. (Overseas investors)
- Some companies are too concerned with perfecting the content of their disclosures, resulting in delays in disclosure and insufficient disclosure content. To avoid this, the first step could be to encourage disclosure to the extent that they are able to consider at the moment so as to lower the hurdles for disclosure. (Domestic institutional investors)
- Some companies cannot get access to institutional investors despite requesting dialogue with them. It is better to promote such companies that are sincerely committed but do not get access to investors to have dialogue with investors. (Trust bank)
- As resources on the investor side are also limited, communication between sincerely committed companies and investors, rather than companies unwilling to take action, should be promoted to help the companies brush up their efforts. (Domestic institutional investors (Mainly active investors))
- Investors would like to support companies that are highly motivated but do not know what to do or how to communicate well with investors (Overseas investors (Mainly active investors)).
- It is important that independent directors are also conscious of investor relations, so it should be encouraged to set a lead independent director to take the lead in dealing with shareholders and investors. Clarification of responsibilities will make it easier for investors to approach the company. (Overseas investors)

Results of Interviews: Measures for Group 2 Companies (3/3)

Usage of the Disclosure List

- More than a year has passed since the request was made, and companies who disclosed a status of "under consideration" have had sufficient time to consider, at least to a certain extent. Therefore, the status of "under consideration" no longer has any meaning, and it would be good to abolish the keyword "under consideration" to encourage disclosure, even if incomplete. (Overseas investor)
- Since more than a year has already passed since the request was made, new disclosure of "under consideration" should not be permitted. (Domestic institutional investor)
- More than 80% of the companies in the Prime Market have already disclosed their initiatives, so the list is less useful than before. As it will be increasingly important for companies to improve upon their efforts in the future, how about updating the list to make it possible to identify companies that have updated their efforts and disclosures? (Domestic institutional investors, overseas investors, securities company analysts, etc.)
- We would like to support companies that are making sincere efforts, but it is difficult to find such companies using the disclosure list, as some companies are marked as 'already disclosed' but in fact only make superficial disclosures. It would be very helpful to be able to identify companies that are sincere in their efforts and seek more active communication with investors using the disclosure list, etc., as this will lead to more efficient engagement. (Overseas investors, domestic institutional investors, etc. (Mainly active investors))

Other

- As a motivator for companies that are not making proactive efforts, it may be possible to show how companies have been rewarded for their efforts by showing the results (e.g. changes in share price). (Domestic institutional investors)
- There are also issues on the investor side, such as investors only asking short-term questions at small meetings, etc., and some investors not being interested in medium- to long-term improvements in corporate value. It is important to monitor and send messages for the investor side. (Overseas investors)

Results of Interviews: Issues in Group 3 Companies

Lack of Attitude/Resources to Face the Market

- There is a general lack of information disclosure, not only in relation to the request regarding cost of capital, and many companies are reluctant to listen to investors' voices. Some companies, mainly in the Standard Market, refuse to meet with investors at all. (Overseas investors)
- Many companies, mainly in the Standard Market, have issues with IR, such as not having a dedicated IR staff and/or refusing to conduct meetings with investors. As a listed company, they should communicate with the market in some way, and it seems inappropriate not to build an adequate IR system citing lack of resources as an excuse. (Domestic institutional investor)
- Many companies are not able to think of an equity story or are motivated but do not know how to conduct IR properly. In addition, companies do not know what criteria investors use to screen and evaluate investment targets, so they probably do not understand what kind of IR is necessary and have not developed an IR system. (Consulting firm)

Presence of Controlling Shareholders, etc.

- Many companies that are controlled by a controlling shareholder or, even if there is no controlling shareholder, by a top executive from the founding family, do not engage in IR due to a poor awareness of general shareholders, making it difficult to encourage them to implement initiatives. (Overseas investor)
- The reason for the lack of progress is thought to be that many companies do not feel pressure from the market due to the presence of controlling shareholders and do not understand the importance of initiatives and disclosure. (Consulting firm)
- Subsidiaries which are listed with their parent companies are particularly slow to respond. They are not willing to take action, which is the biggest challenge. (Overseas investor)

Results of Interviews: Measures for Group 3 Companies

Encouraging Companies to Ensure Proper IR Functionality

- In part because of the request, some companies (particularly some of the small cap companies) have raised the internal status of their IR staff and management's awareness of IR is changing. However, companies that do not have regular contact with investors need to change their management's mindset to recognize the need to allocate resources to IR. (Overseas investor).
- In order to improve the effectiveness of companies' initiatives, it would be better to require the establishment of a system, such as ensuring the necessary resources to develop an IR structure, rather than to utilize formal criteria such as the market capitalization of tradable shares. (Overseas investor)
- Any listed company should have some form of system to communicate with the market. While requiring them to ensure proper functionality of IR, it should be required that they also disclose their IR structure, number of staff, and what initiatives they are undertaking. (Domestic institutional investor)
- Some companies are reluctant to conduct IR for fear of disclosure costs, but explaining management policies which are usually discussed internally to the outside should not be that costly in itself. It may be possible to require companies to conduct IR on a mandatory basis. (Overseas investor)

Other

- Mandatory disclosure is necessary to move companies that have not disclosed more than a year after the request. (Overseas investors)
- It is undesirable to force every company, especially Standard-listed companies, to take initiatives and make disclosures. If the importance of initiatives is not understood, more companies may respond superficially by implementing only unnecessary shareholder returns. It should start with more basic things, such as educating companies about corporate value and investor relations. (Domestic institutional investor)

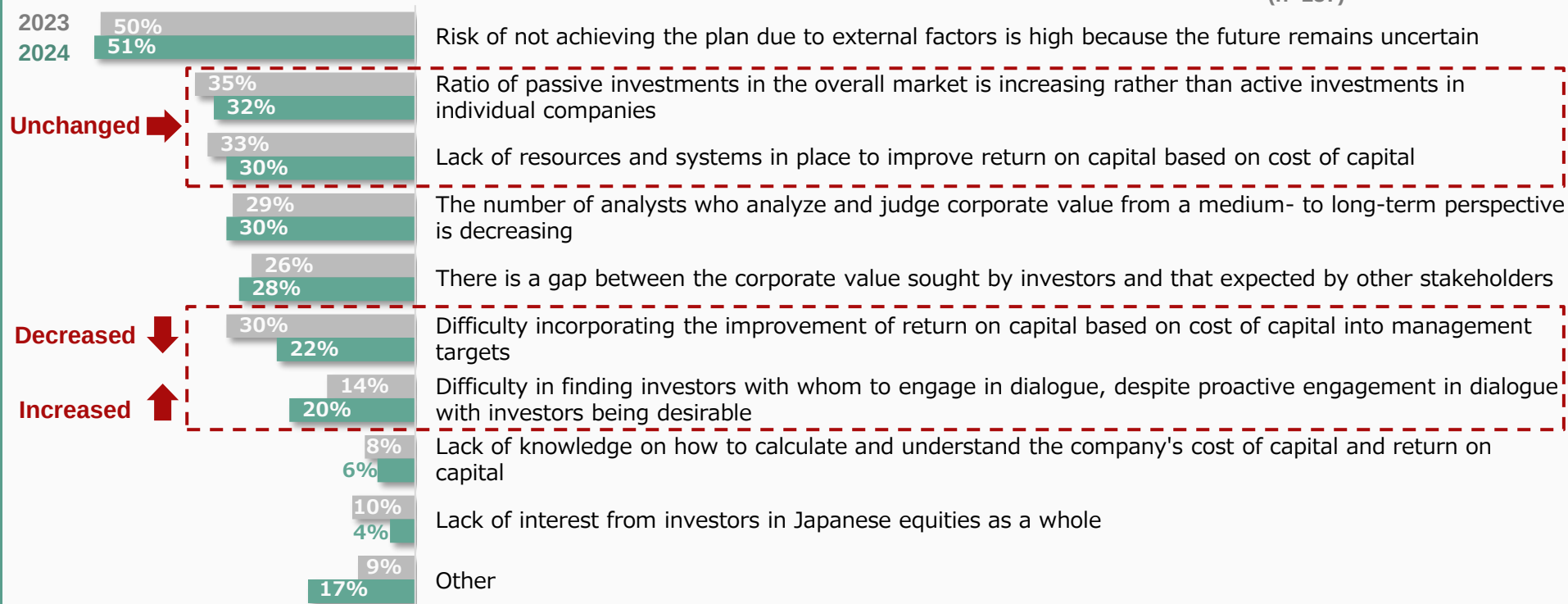
(Ref.) Challenges for Listed Companies in Making Progress With Initiatives

(Japan Investor Relations Association's Survey for Member Companies)

- ◆ In promoting initiatives on “management that is conscious of cost of capital and stock price”,
 - The number of companies that cite “an increase in the ratio of passive investments” and “lack of resources and systems in place” as challenges remains high.
 - The number of companies that cite “difficulty incorporating the improvement of return on capital into management targets” as a challenge has decreased since last year.
 - The number of companies that cite “difficulty in finding investors with whom to engage in dialogue” as a challenge has increased since last year.

Q. What do you see are challenges in making progress with initiatives?

(n=187)



Source: Excerpts from the Japan Investor Relations Association's survey of its member companies conducted from May to June 2024 (graph processed by TSE)