

Action on Cost of Capital-Conscious Management

Tokyo Stock Exchange, Inc.

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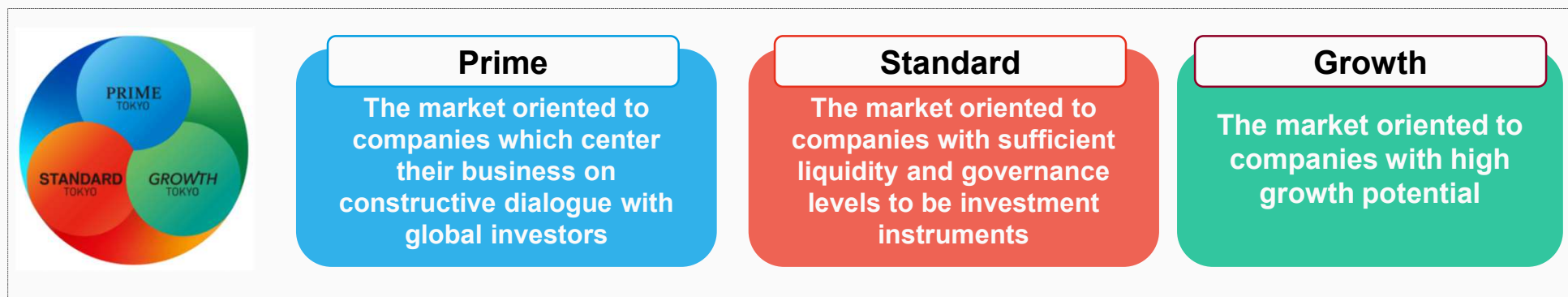


Follow-up on Market Restructuring

Summary of Discussions at the Follow-up Council (To be published in January 2023)

- In order to ensure the effectiveness of the **market restructuring** which was implemented for the purpose of contributing to the improvement of listed companies' corporate value and **to make this an opportunity for real change, it is essential that TSE continue to work on these reforms with a sense of urgency.**
- In order to revitalize the capital markets, and ultimately the Japanese economy, **TSE should create a framework to motivate listed companies that are not concerned about violating the continued listing criteria to take action independently to enhance their medium- to long-term corporate value, such as promoting cost of capital-conscious management,** by taking advantage of the characteristics of the three market segments.

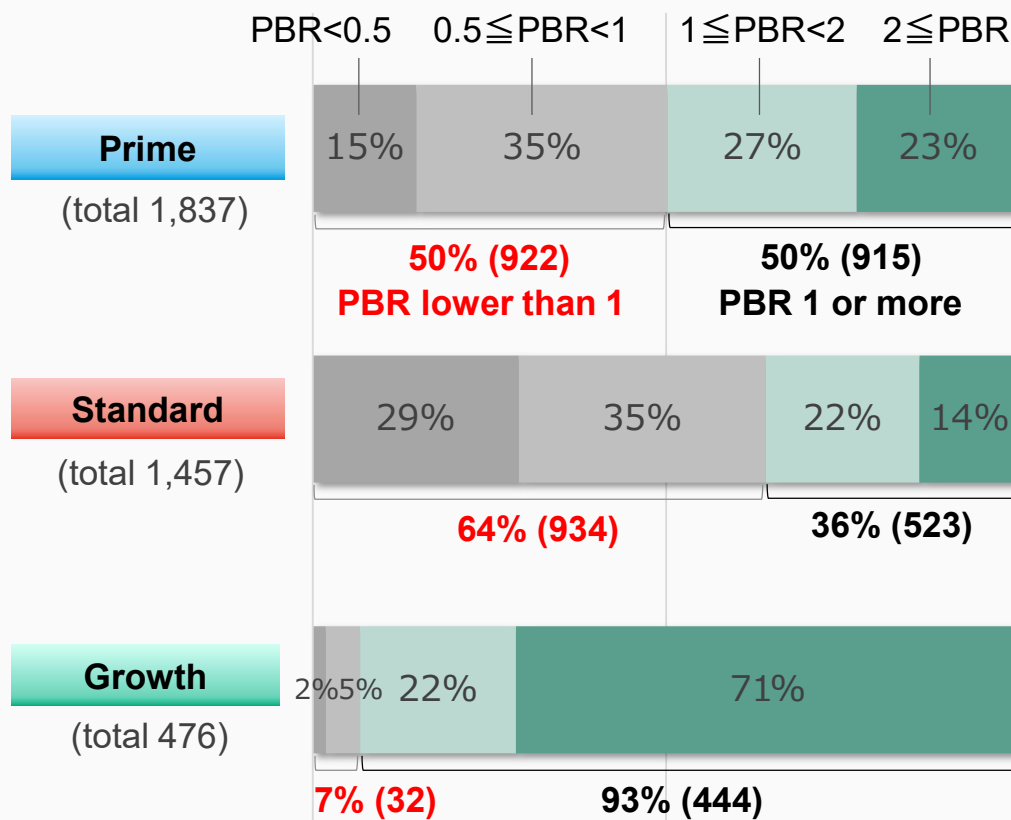
Concepts of New Market Segments



PBR (Price to Book Ratio)

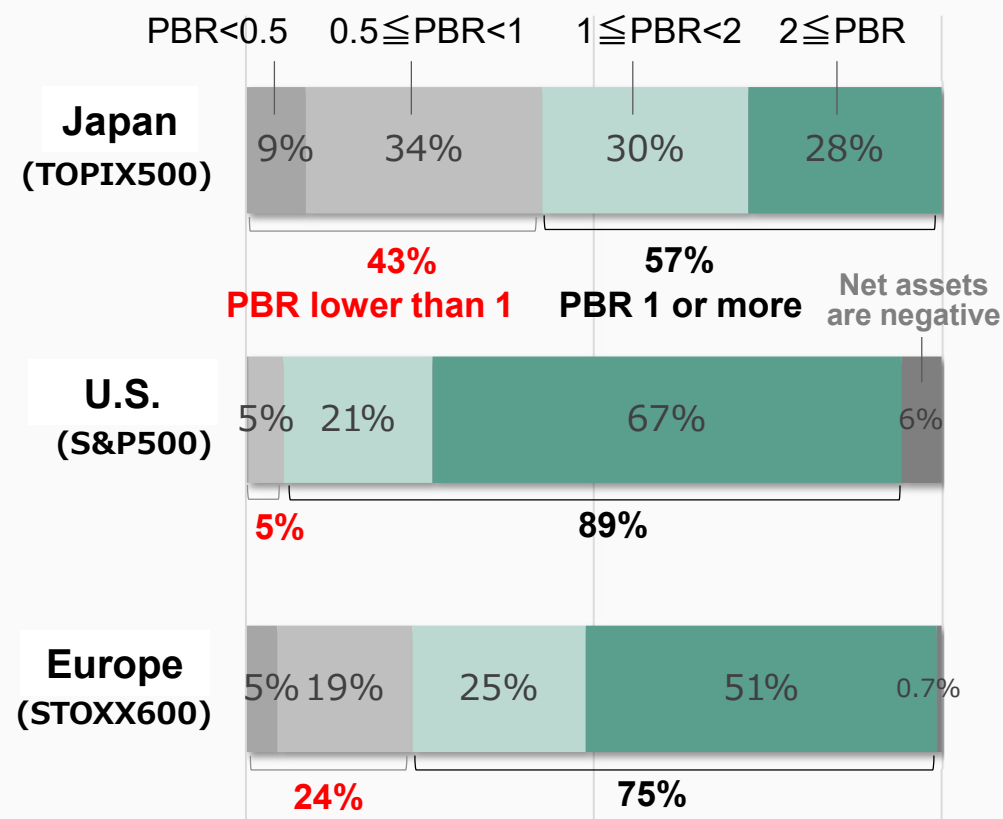
- 922 companies (50%) on the Prime Market and 934 companies (64%) on the Standard Market have a PBR lower than 1.
- The ratio of companies whose PBR is lower than 1 within major stock indices is 43% in Japan (TOPIX 500) compared to 5% in the U.S. (S&P 500) and 24% in Europe (STOXX 600).

PBR Distribution by Market Segment



Note: Compiled by TSE based on QUICK data as of July 1, 2022 (excluding foreign companies).

Global Comparison of PBR
(major companies)




Note: Compiled by TSE based on Bloomberg data as of July 1, 2022.

Action on Cost of Capital-Conscious Management and Other Requests

- In March 2023, TSE made requests to listed companies, publishing “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”, with expectation that institutional investors, who will lead the conversation with listed companies, to engage in constructive dialogue using the requests.

PRESS RELEASE

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Action on Cost of Capital-Conscious Management and Other Requests

In January 2023, Tokyo Stock Exchange, Inc. (TSE) identified and published actions that it would be encouraging listed companies to take in response to the discussions of the “Council of Experts Concerning the Follow-up of Market Restructuring.” TSE has now compiled specific details on the following three of those actions, and notified them to listed companies on March 31:

- **Implementing management that is conscious of cost of capital and stock price** (Prime and Standard listed companies)
- **Improvements in dialogue with shareholders and disclosure regarding this** (Prime listed companies)
- **Appropriate use of the “explain” of “comply or explain” to contribute to constructive dialogue** (TSE has provided key points and examples of this)

These documents summarize matters considered important for achieving sustainable growth and enhancing corporate value over the medium to long term, and while they are not mandatory under TSE rules, we request that listed companies proactively implement them in consideration of the expectations of investors.

In addition, we hope that institutional investors, who carry out the dialogue with listed companies, will engage in constructive dialogue based on the disclosures and actions of listed companies in response to the above requests, with the aim of encouraging their sustainable growth and enhancement of corporate value over the medium to long term.

Key Points of Action to Implement Management that is Conscious of Cost of Capital and Stock Price

- From the viewpoint of implementing management that is conscious of cost of capital and stock price, TSE requests that listed companies conduct a series of actions on an ongoing basis. This starts with gaining a proper understanding of their cost of capital and profitability based on the balance sheet, and continues with analyzing and assessing the current situation around these and the market valuation at board meetings, preparing and disclosing plans for improvement, and then using dialogue with investors to update them on the progress of these efforts.

Note: This request targets all listed companies on the Prime and Standard Markets.

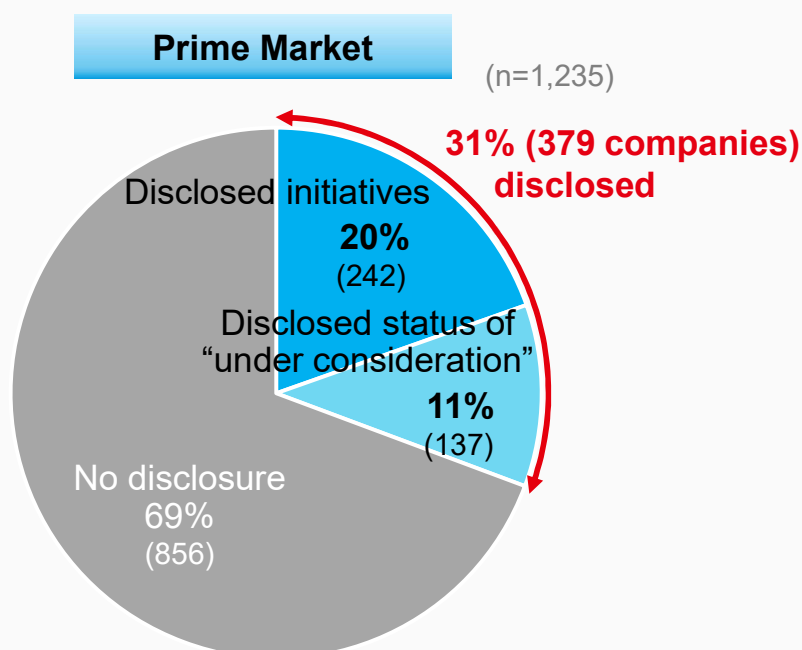
- Through conducting these actions, it is expected that, based on the basic management policy established by the Board of Directors, the management team will take the lead in appropriately allocating resources with sufficient consideration of cost of capital and profitability. This could be by pushing 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.
- While share buybacks and dividend increases are considered effective means of improving profitability, if shown as such by the company's analysis of whether the balance sheet effectively contributes to value creation, TSE is not necessarily expecting companies to use only these or solve issues with a one-off response. Efforts are expected on a fundamental level to attain profitability in excess of cost of capital on a sustained basis and achieve sustainable growth.

Note: Since analysis and discussion of the current situation must be carried out sufficiently before planning and disclosure can begin, TSE is not specifying a timeframe for the start date of disclosure, but requests as prompt a response as possible.

Status of Disclosure in Response with the Request

- Since analysis and discussion of the current situation must be carried out sufficiently before planning and disclosure can begin, TSE is not specifying a timeframe for the start date of disclosure, but **31% (379 companies) of the Prime Market have already made disclosure.**
- Disclosure progress is further along among companies with low PBRs and large market cap.

Status of Disclosure in Response with the Request



Disclosure by PBR & Market Cap. (Prime Market)

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

[Note on this document].

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