Mizuho Custody Newsletter

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I. Market News

1. Listed companies rush to hire IR talents

In the wake of the request from the Tokyo Stock Exchange (TSE) for "capital-cost-and-stock–prices conscious management", more and more Japanese listed companies are getting aware of the importance on investor relations (IR) than ever. If a company could demonstrate their path to enhance corporate value through IR to investors, that may help the company reduce its capital costs.

In Japan, there are about 3,900 listed companies, most of which have been struggling to catch investors' attention. An IR executive of a trading company for semiconductor products, now listed on the Prime Market, says, "We thought we had been doing fairly well in the first section (the old Prime Market) at TSE, but it was our illusion and we found that very few people had been interested in our company." The executive went on, "We had imagined that our stock price would go up as long as we make a profit and pay dividends, until we came to realize how important IR activities were." In August 2023, the company established a department specialized in IR. Until then, IR was a part of responsibilities of the general affairs department, but now, they hired experts and set up a department for this purpose.

For trading companies, like the above-mentioned one, it is an uphill struggle for them to heighten their awareness among individual investors, since they have been mainly dealing with corporations. On the other hand, to attract institutional investors, it's necessary to increase daily trading volume of their shares to a certain level where institutional investors could trade with little stress. The company set its initial goal to attract more individual investors. In the fiscal year 2023, the company held IR events for individual investors as twice as many as it did the previous year (2 to 4) and at the some new locations.

Listed companies are putting effort into hiring talents for IR, and the number of job openings for IR in 2023 increased by 3.7 times to that of six years ago. This growth surpasses that of other professions, such as accounting (which increased by 2.4 times), finance (2.8 times), and managerial accounting (about 2.8 times).

The requests for reforms from the TSE acted as a game changer. In April 2022, the market segments were reorganized, and in March 2023, companies were requested to shift their management to be more conscious of capital costs and stock prices. A consultant at a major recruitment agency analyzed, "Companies have been getting more opportunities to interact with investors, for which they need more experts in IR activities." The recent robust Japanese stock markets, such as the Nikkei Stock Average reaching record highs, also explain why the issuers need more people for their IR activities.

A major data center operation company is almost doubling its IR staff to 10. In 2023, the company was selected as a provider of the "government cloud," which will serve as the system infrastructure for the government and local authorities. Since then, its stock price temporarily jumped up to nearly five times its value earlier in the year, driven by the expectation for growth toward services for artificial intelligence (AI). An executive of the company expressed an urgent need for recruitment, saying, "We do need someone who can present our company's scenarios for growth to investors in convincing ways."

Another company that provides business support software, fell below the TSE Prime listing criteria in 2021 and embarked on strengthening its IR. By expanding its business performance and enhancing returns to shareholders, the company increased its market capitalization, and met the criteria. It also welcomed a US investment fund as a new shareholder. The company's management planning department head said, "We need English-speaking employees who can explain the differences in business practices from the beginning to foreign investors."

Investors tend to appreciate companies with IR teams that are active and responsive. This is because many of these companies not only focus on disseminating their own business information but also having active interactions with shareholders, such as listening to advices from them.

Foreign investors are currently leading the surge in the Japanese stock markets, making dialogue with them even more crucial. At a major printing company, meetings with investors in some months in 2023 increased by 50 percent more than average level. "Most of the new requests for meeting are from foreign investors," says the company's IR representative, indicating that the recruitment of IR-capable personnel, including those with language skills, has become an essential condition for the management of listed companies to enhance the company's reputation in the market.

It's been getting common for IR professionals to move from big corporations to small and medium-sized enterprises. A person in charge of IR at a startup company that develops payroll software joined the company in 2022 from a leading electronic component manufacturer. In his previous job, he had been responsible for IR for over ten years and dealt with a Hong Kong-based investment fund, which raised an objection against the management integration through M&A in 2018.

The startup company he is currently with has a small market capitalization, making it difficult for institutional investors to trade its shares. Taking advantage of the connections with securities companies forged in his previous job, he organized information sessions for individual investors. He states, "We successfully acquired individual shareholders who understand our business and with the long term investment policy." The consultant from the aforementioned employment agency revealed, "There is also an increasing trend of career changes among those do not have any IR backgrounds, including seniors over the age of 60, as well as those with experience in finance and management planning."

Japan has about 3,900 listed companies. Even if some of these companies establish ambitious growth strategies and capital policies, many of those announcements failed to draw sufficient investors' attention and has not made significant differences on their stock prices, possibly because their approaches to investors and the market were not sufficient or not to the point. A representative of company supporting its clients' IR activities emphasize, "The role of IR is to lead how well the intrinsic value of the companies are recognized and reflected on share prices in the market."

When the Japan Investor Relations Association compared the average market capitalization of 26 companies that won the IR Excellence Award between 2019 and 2023 with those listed on the TSE Prime market, it turned out that the former group recovered faster when the market declined and their shares have been going up more than those of the latter group, over the medium to long term.

How to recruit more people is one of the challenges they are facing in the tight labor market. In January, the TSE itself launched a department specialized in supporting IR activities of listed companies, aiming to lessen the workloads of companies in this regard. The representative of the aforementioned IR support company stresses, "It's also important to nurture IR experts in-house. Companies should not see IR department as mere day-to-day operators at back office. Instead, companies should allocate some of their "best and the brightest" employees to IR department as well."

Compiled from Nikkei Shimbun and Mizuho research

2. Prime Market being more selective, the more attractive

The Prime Market of the Tokyo Stock Exchange (TSE) has been getting more selective. The number of the companies listed on the Prime as the end of March reduced by 20% to 1,650 companies from two years ago when the TSE had reorganized it into the current structure, marking the lowest level in the recent 12 years. As the reforms of the TSE seemed to have started working, which led some companies with stagnant stock prices to exit or undergo business reforms. As companies with small market capitalization decreased in number, value per company has increased. This is one of the reasons for more cash inflow to the market from overseas.

The number of companies listed on the former First Section of the TSE had amounted up to 2,175 in March 2022, due to its low listing criteria at that time, when TSE was more keen on quantity (number of the listed companies), than quality. Because of these backgrounds, many investors criticized the market for not worth being called as the premier market at TSE in terms of quality.

In April 2022, the TSE implemented the new market segments, and positioned its top-tier “Prime Market” as a market for global investors. It set stricter listing criteria than those of the former TSE First Section, and requested listed companies to enhance their governance and to be more conscious of their cost of capital and share prices. The new criteria are focused on indicators of stocks in circulation (floating shares) with the aim of attracting foreign investors and promoting dialogue between companies and investors. The criteria also include a minimum market capitalization of floating shares of JPY 10 billion (circa USD 66 million) or more, floating share ratio of 35% or more against total number of shares issued.

As a transitional measure, TSE allowed approximately 300 companies that had failed to meet the new Prime Market listing criteria to stay listed for a certain period, although TSE had not announced how long it would be. It also created a special provision for these companies to move to the second-tier Standard Market without any reviews for moving to the new market. As a result, 177 companies moved to the Standard market in October, 2023 through the special provision.

These efforts seemed to have made the Prime Market more selective than before. As of the end of March, 2024, the number of listed companies (excluding foreign companies) was 1,650, marking the lowest level since the end of March 2012 (1,619 companies), when the market was called “First Section”.

Not a few companies selected going private in order to focus on medium to long-term management reforms. A company involved in lighting business partnered with an American investment firm, and went private through Management Buyout (MBO).

Some companies have been getting more competitive through their management reforms. A company that manufactures road construction machinery allocates about 3-4% of its sales to research and development (R&D) expenses to enhance qualities and capabilities of its products. If the Return on Equity (ROE) exceeds 6%, it would distribute half of its net profit as dividends. Its market capitalization skyrocketed to about JPY 30 billion (circa USD 200 million) compared to two years ago. One of the company’s executive officers said, “The market properly appreciated our capital policy and growth strategy.”

The market capitalization per company listed on the Prime Market is now about JPY 600 billion (circa USD 4 billion), 80% increase from two years ago. According to the TSE’s trading trends analysis by investment sector, the net purchase amount of Japanese stocks by foreign investors turned around to JPY 7.7 trillion in fiscal year 2023, from a net sell of JPY 1.8 trillion in fiscal year 2022.

A representative from a Spanish investment firm says, “Japanese companies are returning cash they saved during the past by share buybacks and dividends. We are bullish on Japanese stocks in the medium to long term.”

However, the Prime Market still has many small companies, and the market capitalization per company is less than a quarter of that of the New York Stock Exchange (about JPY 2.65 trillion) or the NASDAQ Global Select Market (about JPY 2.89 trillion). An investment specialist at a Japanese asset management company says, “The more selective the market becomes, the more they would be appreciated by investors.”

Most of the companies that managed to meet the Prime Market listing criteria tried to improve their floating shares ratio so that many more investors can trade, enhanced shareholders’ return, and/or presented measures to improve capital efficiency.

A subsidiary of a major retail company increased its floating share ratio from 30.6% at the end of February 2023 to 35.8% as of the end of January 2024, by having had its parent company sell some of its holdings. Similarly, a consulting firm raised its floating share ratio from 20.7% at the end of June 2021 to 35.6% as of the end of March 2023, partly because its six major shareholders (including its president) sold off the holdings.

A major leading building material manufacturer plans to raise its dividend rate by JPY 5 per share until its FY end in December 2025. A system security company will allocate all of its net profits to dividends until its average Return on Equity (ROE) over three years exceeds 8%.

Among the companies that still do not meet the Prime market criteria at present, those with a market capitalization of floating shares less than JPY 10 billion account for 80% of them, and companies whose shares are held by a small number of shareholders. TSE states it does not consider any additional special measures, such as transition to the Standard Market without any examination.

In order to fulfill the listing criteria, a marine development company is requesting its major shareholders, such as financial institutions, to release the shares. A leading pharmaceutical company's market capitalization of its floating shares are currently below the level required in the criteria. For the fiscal year ending December 2024, the company aims to end its bottom line in black for the first time in four years, owing to the recovery in its pharmaceutical business. "Once we have a clear outlook for business recovery, we would like to consider resuming dividend payments," says the head of the company's accounting department, eager to raise its reputation among investors.

According to a major securities firm's think tank, "It is expected that various corporate actions, including shareholder returns, stock offerings, and mergers and acquisitions (M&A), could take place mainly among companies that have yet to meet the listing criteria of the Prime Market."

Compiled from Nikkei Shimbun and Mizuho research.

3. A new embarkment with J-Ships

The country's largest, long-established securities firm began selling unlisted stocks to professional individual investors and their high-net-worth clients. The dealer sold shares of a startup that provides microfinance (small loans for low-income individuals) in emerging countries, worth about JPY 5 billion (circa USD 33 million), and shares of a high end tech company that develops electronic circuits, worth about JPY 3 billion (circa USD 20 million). Recently, unlisted stocks in some categories have been allowed to be included in publicly offered investment trusts, and more funding options are available for startups.

The Tokyo Stock Exchange (TSE) has the Growth Market, which serves as a listing venue for startups. However, currently, quite a few companies go public while their corporate value is still small, which many market participants dubbed as "small IPO" problem. Many of them that went public in small size have been suffering from getting very little interest and fund from institutional investors, preventing their business from growing. It is necessary to set up a framework in place to smoothly finances startups to develop further before going public.

The aforesaid dealer utilized a program called J-Ships (JSDA - Shares and Investment trusts for Professionals). J-Ships is established by JSDA (Japan Securities Dealers Association), a program which facilitate circulation of unlisted stocks among professional investors. An individual investor can be qualified as a professional investor if the investor meets certain conditions such as financial knowledge, investment experience, and its investment asset size. Unlisted stocks will become a new option for their investments.

In 2022, JSDA revised its self-regulatory rules and designated 5 firms as dealers eligible to operate along J-Ships, including the aforementioned securities firm and 4 other securities companies more specialized in fund raising for startups. So far, J-Ships has been piloted by these specialized dealers. In September 2023, they sold bonds with stock acquisition rights worth JPY 82 million (circa USD 547 thousand) of an unlisted company, and in February 2024, they sold over JPY 300 million (circa USD 2 million) worth of shares of a company that develops a new eco-friendly material, replacing plastics.

In order to raise funds through J-Ships, issuers have to undergo strict examination by one of the designated securities companies regarding financial status, legal compliance structures, and information disclosure policies.　While J-Ships may give more financial options for issuers, they are also required massive volume of information disclosure.　The aforesaid microfinance startup prepared over 130 pages of “Specific Securities Information Report,” and the tech company prepared a similar report over 60 pages. This level of disclosure corresponds to “Annual Financial Statement” of listed companies, with which investors could scrutinize the financial conditions and business risks.

Along with Japanese Prime Minister Fumio Kishida’s mantra to develop Japan’s financial markets by supporting promising startups, giving tax incentives to households that invest in equities and bonds, etc., emerging companies now have much more financial sources and options.　In November, a major bank have launched a venture debt fund in the amount of JPY 10 billion (circa USD 67 million).　Additionally, in February, the Investment Trusts Association implemented a self-regulatory rule change to facilitate inclusion of unlisted stocks into publicly offered investment trust funds.

As emerging companies have more financial sources and options, they can afford the time to institute strategies to grow their corporate value without rushing into an IPO.　While there are over 1200 unicorn companies (unlisted companies valued over USD 1 billion) globally, Japan has less than 10.　It means a lot to development of Japan’s financial markets that the largest brokerage house in the industry now pays serious attention to deal with unlisted stocks.

Taking all the above facts into consideration, there are still a lot of challenges to tackle and research for Japanese custodian banks to actually provide services to process and hold unlisted shares to foreign investors, such as settlement infrastructures, how CA information can be obtained, how taxation will be processed for unlisted companies shares, etc. Mizuho keeps readers updated on this subject.

Compiled from Nikkei Shimbun, and Mizuho research.

4. European investors support the current robust market in Japan. Why and what’s next?

According to Tokyo Stock Exchange’s (TSE) statistics released on April 4, net purchase amount of Japanese stocks by foreign investors during FY 2023 was JPY 7.7 trillion(c.a. USD51 bio), showing an improvement from a net selling of JPY 1.8 trillion(c.a. USD 14.7 bio) in FY 2022.　Foreigners bought Japanese shares on net basis for the first time in three years, and the amount reached the level close to the one since the start of Abenomics (the policies to stimulate economy by monetary easing and growth strategies taken by the Prime Minister at the time, Shinzo Abe) in FY 2013 (JPY 9.5 trillion).

Based on the analysis of the Ministry of Finance’s (MOF) statistics, European investors have been the main driving force.　From April 2023 to January 2024, they purchased Japanese stocks (including stocks held by funds) on net basis in the amount of JPY 8.7 trillion yen, accounting for 90% of the foreign net-buyers. New buyers have been coming from Europe; for instance, German investors, which were net sellers at the beginning of FY 2014, when the Abenomics were implemented, are now net buyers in FY2023.

In terms of net purchase volume, UK investors now stand out.　During the period (Apr 2023 to Jan 2024), their monthly net purchase amount on average was JPY 823.1 billion.　Judging from the fact that the figure for the period from April 2018 to March 2023was only JPY 7.4 billion, UK investors made drastic changes in their investment strategy.

These funds from UK is fueled by “oil money.”　Since the 1970s, the City of London has played a role as an investment hub for Middle Eastern countries, diversifying their investments globally.　Many of Middle Eastern sovereign wealth funds (SWFs) and Public Investment Funds (PIFs) maintain offices in the City of London.

These investors are shifting part of their investments in Asia from China to Japan, amid growing concerns about China’s economy as a whole.　An executive of a Japanese financial institution who attended the “Saudi Arabia Capital Market Forum” in February, stated that he had seen that the nation had been strongly committed to the economic reform plan “Vision 2030,” which aimed to develop ties with other major financial markets worldwide. He expressed enthusiasm for developing his business in the Middle East.

Owing to the recent weak JPY against GBP, Japanese stocks appear cheaper to UK investors, which UK investors find Japanese stocks attractive. The FTSE 100, the index serving as a benchmark of UK stocks, only increased 7% from the end of 2022 to present, while Nikkei Average, index of Japanese stocks (up 52%) and COC40, index of French stocks (up 26%), went up higher than their local market. This is another reason why UK investors are selecting Japan market as a new destination for their investment.

A portfolio manager who covers Japanese equity at a UK asset management company says, “European investors are starting to ‘re-assess’ Japanese stocks for investment opportunities. Many new clients have been contacting us about my fund.”

Hong Kong comes next to UK in terms of net purchase volume, with net purchase amount of JPY 99.8 billion in Japanese stocks per month. Many Hong Kong-based funds have “sponsors” in China. Since China has been restricting conversion from RMB to foreign currencies, High-Net-Worth invest overseas through securities firms in Hong Kong”

South Korea has also been buying more Japanese stocks. According to the Korea Securities Depository, Koreans have been net buyers of Japanese stocks for 12 months in a row since April 2023. The net purchase amount reached JPY 150 billion (circa USD 1 billion). A young individual investor in Seoul investing in a Japanese semiconductor-related stock says, “I feel more secured in holding Japanese stocks than Korean stocks, as I do not need to worry about ‘Korea Discount’”.

However, investors from the United States, the world’s largest market, seems not so much interested in Japanese stocks compared to investors from UK, Hong Kong and Korea. The average monthly net purchase amount from April 2023 to January 2024 is just JPY 65 billion. While UK investors tend to prefer value investing, focusing on stocks that are undervalued compared to the issuer’s actual financial performance, US investors has been putting more weight on growth investing, which focuses on the issuer’s potential. Since value stocks and large-cap stocks are stronger in presence in Japan, US investors do not show much interest to it.

Since the implementation of the new market segments in 2022, TSE have been trying to convince listed companies in the Prime and Standard Market the importance of capital-costs-and-stock prices conscious management, and dialogue with shareholders, including foreign investors. The fact that UK investors, who prefer value investing, found Japanese shares attractive, can be seen as a sign that the TSE’s reforms have been working. On the other hand, TSE intends to review the Growth Market next. Prime Minister Kishida has also announced measures to revitalize the economy through supporting startup companies more. Whether these efforts actually worked or not might be reflected in how American investors, who in general prefer growth investing to value investing. For the sustainable growth of Japanese stocks, it is essential for the government, market participants and issuers to keep working to make the markets efficient and attractive to attract investments from not only the United States but also many other countries.

Compiled from Nikkei Shimbun and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Apr-11	AGENTEC Co.,Ltd.	JP3160510008	P
May-28	Manabi-aid Co., Ltd.	JP3869870000	G

**Information compiled based on postings from the Prime (PR), Standard (ST), Growth (G), Tokyo Pro Market (P), NSE (N)、FSE (F) & SSE (S).*

***Board lot size is unified to 100*

III. Foreign Ownership Limit Ratio

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