Mizuho Custody Newsletter

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I. Market News

1. TSE publish a collection of good examples of disclosure

In March 2023, the Tokyo Stock Exchange (TSE) requested about 3300 companies listed on its two markets, Prime and Standard, which were created at the market reorganization, to disclose and implement specific measures to raise their stock price levels. Ordinarily, for a stock exchange, the companies listed on the exchange are its customers who pay fees to it. From that viewpoint, TSE's initiative, taking on a leading role and pressuring its own customers, to promote reform appears highly unusual worldwide.

From January 2024, TSE began to publish a list of companies that had disclosed specific plans for capital conscious management. The list is updated monthly. TSE intends to urge companies that are not on the list to disclose their specific measures voluntarily.

For many companies still struggling to find appropriate ways to disclose specific plans, the TSE published a collection of sample cases that had gained support from investors regarding management conscious of capital costs and stock prices on February 1. TSE anticipates other companies that work on setting up plans to learn from successful cases. For those who have already disclosed their specific measures, TSE intends to encourage them to use the lists when they further enhance the plans by referencing to the points that investors are interested.

Regarding the disclosure of specific measures by companies, TSE has outlined steps such as "analysis and assessment of the current status" "consideration and disclosure of activities," and "dialogue with shareholders and investors". At each step, TSE explains points investors expect from companies, along with introducing some successful cases.

In the step of "analysis and evaluation of the current status", TSE firstly emphasizes the importance of understanding capital costs from investors' perspective, which is necessary for evaluating capital profitability. If the current status is not appropriately analyzed, in other words, if the capital cost is underestimated, it would compel the company to take unnecessary measures in the next step of "consideration and disclosure of activities". TSE demands companies to take the first step at a board meeting, not just talking about whether the current PBR exceeds x1, the ROE exceeds 8%, but to conduct multifaceted evaluation based on the investor's perspective".

In the step of "consideration/disclosure of activities", TSE states the importance of drastic actions to allocate management resources appropriately from a medium-to-long term perspective, such as promotion of investment towards realization of corporate growth and review of the business portfolio, rather than technical actions to improve capital profitability or to push up share prices in a short term. In addition, after putting shareholders and investors on the same page about the understanding of the level of capital costs set in the "analysis and evaluation of the current status" step, TSE emphasized the importance of efforts to reduce the capital costs by keeping public informed of the progress of those efforts. At the end, TSE opined that companies should explain their intention of the activities they plan, instead of just listing up what actions they are taking , and that companies should demonstrate how those actions would lead to solutions of their issues, viewing their long-term goal, to obtain shareholders and investors understanding.

In the step of "dialogue with shareholders and investors", TSE suggests companies to have constructive dialogue with shareholders and investors, based on the disclosed measures, and to polish their action plans by reflecting useful evaluations and feedback obtained at the dialogues. The importance of active involvement of the management to dialogues with shareholders and investors in IR activities was also emphasized. The collection of successful sample cases introduced companies that reflected feedback from shareholders and investors to management decisions, which created a virtuous cycle. It also introduced companies that take flexible approach based on feature of shareholders and investors (domestic/international, active/passive, growth/value/dividend-focused investment style).

TSE selected activities of 29 companies in the collection of successful cases. After the market reorganization in April 2023, TSE conducted meetings with over 90 investors, mainly those prioritizing long-term corporate value improvement such as active funds (about 30% domestic, about 70% foreign), and incorporated the points of activities expected by investors from these meetings into the collection of cases published this time. Going forward, they plan to support companies further by distributing interview articles with companies that are actively tackling various activities in this regard.

Compiled from TSE and Mizuho research.
Please visit the following website of TSE to retrieve the "Key Points and Examples Considering the Investor's Point of View". You can also find the "Case Studies" in the Appendix.

https://www.jpx.co.jp/english/equities/follow-up/02.html

The list of companies that have disclosed information regarding "Action to Implement Management That Is Conscious of Cost of Capital and Stock Price" is also updated in the above website.

2. Major Insurers pledge to accelerate unwinding Cross-shareholdings

The issue regarding cross-shareholding by listed companies has been put on the table at each discussion on market reform and slowly but surely made some progresses. The corporate governance code, enacted by the Tokyo Stock Exchange (TSE) in 2015, has also played a significant role in advancing the reduction of this practice. Generally speaking, it can be said that cross-shareholdings without sufficient rationality and review of effectiveness, it could harm the company's capital efficiency, and hinder investments for mid-to-long term improvement, such as R&D and human capital. It may also hamper appropriate shareholder returns to be made.

On February 15, one of the three major non-life insurance groups announced that it would sell all of their cross-shareholdings, approx. JPY 1.3 trillion in volume. The Financial Services Agency (FSA) urged the insurer to do so, insisting that overdependence between companies through cross-shareholding had become a hotbed of rigged deals on insurance premiums. The three groups have clearly presented their position on unwinding cross-holding shares in reply to the guidance of the FAS, which has been well received by overseas investors.

The cross-held shares held by the three groups are worth approx. JPY 6.5 trillion in the current market value, covering 5,900 companies. At the top of the list of their holdings, major domestic automobile manufacturers, trading companies, and chemical and pharmaceutical companies are found. The insurance company that declared to empty their cross-held stocks had explained the purpose of holding such stocks to "maintain and strengthen the existing businesses" and "obtain support in enhancing sales channels". The practice of cross shareholding- has been a kind of business support for companies as their insurance policyholders who want stable shareholders, and it had in a sense symbolized closeness of both companies. On the other hand, what the FAS recognized as an issue was that this practice has been obstructing sound competition. This is because, allocation of insurance contracts had been often determined on the proportion of cross shareholding relationship, regardless of the quality of insurance products proposed.

The announcement of the three groups' acceleration of cross-shareholding sales pushed up their stock prices significantly. While their announcements were based on FSA's initiative, stocks were bought due to expectations of their corporate governance to improve. An analyst at a major securities firm says "As foreign investors are looking closely at how Japanese companies would govern themselves better, such straightforward changes in the companies are likely to give them positive impression." The insurer that announced to empty its cross shareholdings presented at its IR meeting that they would beef up 'proposal-based client sales' in their insurance business. They will alter the conventional approach in which they cared about the status of cross-shareholding most, and begin to propose the most optimal compensation content for their clients, even if it might decrease its business volume. They also aim to expand profits by offering more appropriate level of insurance premiums. Investors highly commended the company's determination, presenting its new business policies by taking the opportunity of announcing to scrap its cross shareholding practice.

On February 15, TSE released an updated list of listed companies that have publicly announced their initiatives aimed at "management conscious of capital cost and stock price", a campaign that started in January. In the list issued in January, the number of companies that publicized initiatives as of the end of December was 660 companies (about 39.8% of all Prime-listed companies). In the updated one, as of the end of January, 726 companies (43.8% of the same) did so. Among the items announced in the list, declarations of unwinding cross-shareholdings are often found. TSE's continued efforts for market reform have been welcomed by overseas investors, drawing a high degree of attention to its monthly list.

The current rise in the Nikkei Average is being driven by foreign investors, and from their perspective, success of Japanese corporate governance reform is crucial. Cross-shareholdings have been still common among Japanese companies. Some experts suggest that they should sell their cross-held stocks and allocate the proceeds for their capital investments and for share buybacks. The reduction of cross-shareholding is not a goal in itself but rather a means to improve the quality of corporate governance and capital efficiency. The ultimate goal is to enhance corporate value in the medium to long term.

Compiled from Nikkei Shimbun and Mizuho research.

3. Share buybacks were record high in 2023

Japanese listed companies are doing more stock buybacks of their shares than they did in the past. The amount acquired in 2023 was about JPY 9.6 trillion (approx. USD 64billion), making record high for two years in a row. They are actively returning excess cash to shareholders. The Tokyo Stock Exchange's (TSE) request to companies to improve capital efficiency is one of the factors supporting the recent robust stock market.

Share buybacks lead to improvements in financial indicators such as return on equity (ROE) and price-to-book ratio (PBR), as that reduces the total number of shares issued. Share buybacks can be implemented more flexibly than dividends as a way of returning excess cash to shareholders. While the practice often used to slow down during periods of high stock prices, it remains active at present. When a listed company announces share buyback, the stock price rises in many cases recently. Simply put, a share buyback prompts many investors to buy the issue, which makes market participants expect a positive impact on the stock prices and rush them to brokerage houses top buy the issue before the price goes up. In addition, share buyback also contributes to the improvement of ROE, one of the indicators investors watch closely, which also helps to push up stock prices. Furthermore, share buyback decreases equity capital on the balance sheet, which changes the ratio of liabilities to equity and that may reduce capital costs.

According to the UK-based LSEG, corporate stock buybacks in 2023 worldwide amounted to USD 680 billion (about JPY 100 trillion), down 30% from the previous year, 60% of which U.S. companies account for. Many companies in the U.S. give more importance on stock buybacks than dividends. While the regulations differ from Japan, some companies buy back their own shares even while they have liabilities in excess of assets.

According to the survey by the Nikkei Shimbun, Japanese leading financial daily, the buyback amount approved at listed companies in Japan, based on the date of the board of directors' resolution, it reached JPY 9.602 trillion in 2023, an increase of JPY 135 billion from the previous year. This uptrend lasts three years in a row. The number of companies that set up approved amount for buyback exceeded 1,000 for two consecutive years, totaling 1,033 companies.

Companies with relatively low PBRs stand out in this trend. One major trading company acquired JPY 400 billion of its own shares. They have a policy to return over JPY 1.5 trillion, including in the form of cash dividends to shareholders over the three years up to March 2025. The PBR rose from x0.78 at the end of 2022 to x1.1. Another major trading company also bought back their shares in JPY 125 billion.

A major automaker carried out a stock buyback in the amount of JPY 270 billion, 2.7 times that of the previous year. Cash on hand at the automaker has been surging due to the recovery of automobile production. CEO of the automaker says about JPY 200 billion scale of share buyback, “We may carry out such share buyback from a short to medium-term perspective.” The PBR rose from x0.4 range at the end of 2022 to x0.6 range

There are many cases of companies’ buying back with the aim of absorbing shares released by their major shareholders from cross-held shares. A leading staffing company carried out a buyback of its own shares worth approximately JPY 110 billion in conjunction with the sale of shares held by two major shareholder printing companies as cross-held shares. There was also a case that a major telecommunications company purchased its own shares for about JPY 250 billion from an automaker who was its shareholder.

Companies are now aggressively buying back their own shares, because their fund on hand has been piling up. As of the end of September 2023, the total balance of fund on hand at listed companies (excluding financial sector, as of March fiscal year-end) reached a record high of JPY 101 trillion, and the equity ratio also reached a record high of 43%. As a result, companies are returning more to shareholders. The total amount of share buybacks and dividends conducted in 2023 reached approximately JPY 28 trillion, accounting for over 50% of net profit.

The TSE’s campaign for higher-PBR also supports companies raise their awareness toward financial efficiency. Since January, it has begun to disclose a list of companies that had made efforts to do business being conscious of capital costs and stock prices, encouraging companies to further improve capital efficiency. A researcher at a major domestic think tank points says “Companies are being pressed to take actions for this, and more companies are anticipated to conduct share buybacks in the future.”

In order to alleviate concerns about the re-release of their own shares to the market, some companies began to cancel the shares they had acquired via buy back scheme. A record high of 324 companies cancelled shares in 2023. Among the above companies, 101 companies, or 30%, cancelled more than 5% of their issued shares. A major automaker cancelled 211 million shares (5% of total issued shares) that it bought back in December 2023. A leading financial group cancelled 3.5 million shares, or 2.75% of its total shares issued, in November 2023.

More companies return earnings to shareholders, partly because they have very limited options for redirecting investment for growth. The overall business outlook is getting unclear due to some factors such as the slowdown of Chinese economy and military conflicts, which makes some companies feel cautious about making investment at this point. In its monthly economic report in January, the government maintained its assessment of domestic capital investment, noting that a rebound appeared to be pausing. It also poses a challenge to find promising investment opportunities where a good return can be expected.

Compiled from Nikkei Shimbun, and Mizuho research.

4. TSE establish a department to support companies’ disclosure

Tokyo Stock Exchange (TSE) has established a new department specialized in supporting the investor relations (IR) activities of listed companies. The new department provides the companies with guidance to how to present information investors/shareholders need clearly and concisely, and supports to issue resolution for their IR-related activities. On one hand, TSE demands listed companies to do more for investors, such as enhancements of low Price-Book Ratio (PBR), and on the other hand, it provides support programs with companies to enhance the overall quality of the market.

On January 15th, TSE established a new “Listing

Company Support Group" within the Listing Division, which is responsible for listing rules and disclosures of listed companies. It is quite unusual to establish a new division midway through the fiscal year.

The primary role of the new department is to solve issues of listed companies' Investor Relations (IR) activities. Initially, through seminars and individual visits, the department will elaborate on what information TSE anticipates companies to release to investors and its aims, in order to support each company's IR activities.

The department also plans to create educational materials for companies about IR activities and to organize joint events to provide opportunities with listed companies and investors to communicate with each other, in cooperation with some securities firms. TSE is going to provide these services with listed companies for free in principle.

Establishment of the department started when TSE requested in March 2023 for listed companies to manage their businesses by being more aware of their capital costs and stock prices. This was a call for business leaders to change their mindset to revamp the market, where around half of the listed companies had a Price-Book Ratio (PBR) of less than x1, which is considered as break-up value. From January 2024, TSE started to publicize a list of companies which have disclosed their activities, and more than 40% of the Prime Market (the top tier market in TSE) listed companies have now made such disclosures.

On the other hand, there have been voices from the companies saying "We want to enhance our IR, but we don't have enough people for it" or "We need some advices how to communicate with investors better." By setting up the department that serves as a consultation desk for companies, TSE clearly expresses its commitment to support them.

TSE has been accelerating reforms since the market restructuring in April 2022. By March 2025, it will make obligate companies listed on the Prime Market to release financial statements and timely disclosure information in English. TSE also incubates a proposal to raise the standard for maintaining listed status on the Growth Market for emerging companies.

While all these aim to enhance attractiveness of the market, some companies complain about the burden associated with listing is getting heavier. Within the TSE, some officers express concerns "While we are fully aware of the importance of reforms companies may leave us if we would go too far". In 2023, several companies selected to delist their shares, such as through Management Buy Outs (MBOs), as they found less advantages in staying listed under the circumstances.

About 3,900 companies are listed on the TSE at present, which is more than twice as many as of the end of 1989, when the Nikkei Average hit its "old peak". For TSE, these companies are also customers who pay listing fees. Its "carrot and stick" approach, which demands companies to do more for investors, while giving supports for them to facilitate their IR activities – reflects the responsibility of the market operator to balance the opinions of various stakeholders.

Compiled from Nikkei Shimbun and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Feb-20	UPraise,Inc.	JP3122660008	P
Feb-26	Sankosyoji Co.,Ltd.	JP3331100002	P
Feb-27	Higashinihon Jisho Co.,Ltd.	JP3783510005	P
Mar-21	STG CO.,LTD.	JP3163050002	G
Mar-22	JINJIB Co.,Ltd.	JP3394950004	G
Mar-25	Ishin Co.,Ltd.	JP3136970005	G
Mar-26	JSH Co.,Ltd.	JP3386920007	G
Mar-26	HATCH WORK CO.,LTD.	JP3769350004	G
Mar-26	SORACOM,INC.	JP3436240000	G
Mar-26	L is B Corp.	JP3167730005	G
Mar-21 ～26	Trial Holdings Inc.	JP3635490000	G
Mar-27	Dive Inc.	JP3497600001	G
Mar-27	Thinca Co.,Ltd.	JP3371670005	G

Mar-27	Columbia Works Inc.	JP3305940003	S
Mar-28	Information Strategy and Technology Co.,Ltd.	JP3393700004	G
Mar-28	Caulis Inc.	JP3205750007	G
Mar-29	Green Monster Inc.	JP3274170004	G
Mar-29	Material Group Inc.	JP3869850002	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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