

Mizuho Custody Newsletter

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I. Market News

1. Gains from the sales of cross-held shares to increase 50%

Profit from the sales of cross-held shares by listed companies has been growing, reports Nikkei Shimbun, Japan's leading financial daily. From April 2020 to 16 March 2021, total profit from the sales was approximately JPY 1.05 trillion, 50% up from the fiscal year ended March 2020. The recent bullish stock market made it easier for the companies to take profits. This fiscal year's capital gain is likely to become the biggest in amount since the global financial crisis. More companies seem to reserve the sales proceeds of their cross-held shares for cash at hand, which dropped during the COVID-19 pandemic.

Nikkei Shimbun has tallied gains and losses from the sales of shares cross-held by about 1,580 listed companies (excluding market for start-ups, subsidiaries of parent-subsidary listing, financial institutions, etc.) from their quarterly reports and timely disclosures at the Tokyo Stock Exchange ("TSE"). More sales are expected to come up towards the end of March, the end of the fiscal year, which will make the largest total

profit since the global financial crisis in 2008. It also pushes up the financial performance, as the total profit from the sales of cross-held shares will be slightly below 10% of the expected net profit of the listed companies for the fiscal year ending March 2021.

Companies that have financially suffered during the COVID-19 pandemic reserve the sales proceeds of their cross-held shares for cash at hand. But there are also moves to unwind cross-shareholdings, looking ahead of the realignment of market segments by the TSE in April 2022. Under the new listing requirements of the "prime market", which will be virtually the premier market, market capitalization of tradable shares is required to be JPY 10 billion or more, with a ratio of tradable shares to be 35% or more. Many companies currently listed on the 1st Section of the TSE seems to aim at the "prime market", and in order to enhance liquidity in the market, they may have to ask their business partners to sell the shares held by the business partners.

The corporate governance code encourages to unwind more cross-shareholdings and enhance information disclosure. An analyst at a research institute says, "It has been getting more difficult than in the past to justify to continue cross-shareholdings". Institutional investors are also becoming increasingly cautious about cross-shareholdings. A major local asset management company has specified in its investment guidelines applicable from April 2021 onwards for AGMs that cross-shareholdings are undesirable in principle. If no improvement would be seen, it may vote against some proposals such as election of CEO.

Information compiled from Nikkei Shimbun & Mizuho research

2. Listing on the TOKYO PRO Market marks the record high

The number of new listings on the Tokyo Stock Exchange's "TOKYO PRO Market ("TPM")", a market for professional investors, is growing rapidly, reports Nikkei Shimbun, Japan's leading financial daily. In 2020, TPM had 10 new listings, which was the record

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high. There is a growing trend to utilize the market for regional revitalization.

In 2021, 5 companies newly list (including companies that are going to be listed), which is much faster-pace than the previous year. Companies in local regions show keen interest, and more than 70% of the 43 companies listed on the TPM market as of the end of February 2021, were companies located outside of Tokyo. Only professional investors, such as institutional investors, are allowed to buy shares at the TPM. There are no formal listing requirements such as the number of shareholders, and there is no need for public offering. The TPM market has been attracting companies situated in a local city, many of which are managed by owner-managers, due to their expectation of improving company's brand image and credibility, while maintaining management rights.

On the other hand, more than half of all listed companies are concentrated in Tokyo. "Extremely serious shortage of publicly listed companies with good brand image and growth potential explains why many young people still continue to move out of local towns," says a J Advisor who screens IPOs for the TPM market. The TPM market has been attracting attentions in many aspects in the market as a gateway to growth for local companies.

Information compiled from Nikkei Shimbun & Mizuho research

3. Companies will be encouraged to make themselves accountable for parent-subsidiary listing

Under the new Corporate Governance Code ("Code"), which the Financial Services Agency and the Tokyo Stock Exchange are planning to revise as early as in March, it is not expected that the number of parent-subsidiary listing will be brought up as an issue, according to Nikkei Shimbun, Japan's leading financial daily. The new Code is supposed to require listed subsidiaries to make at least from one third to a half of the board members outside directors in order to prevent conflicts of interests with the parent company. It will encourage the companies to protect investors and to make themselves accountable.

In Japan, there are far many cases of Parent-Child listings in comparison with other major markets.

10.73% of listed companies in Japan hold 30% or more of the shares of a listed company, while it is 0.89% in the U.S. and 0.20% in the U.K. Listed subsidiaries have an advantage in recruitment and in raising funds on their own because of their high-profile status. On the other hand, if a listed subsidiary prioritizes interests of its parent company most, it could harm the interest of other minority shareholders of theirs.

An analyst of a research institute says, "When a subsidiary is in the growth phase, parent-subsidiary listing may make sense as the status could help them to raise fund in the market," but also says, "The subsidiary should also hire people with management experience and those with financial expertise."

Six years have passed since corporate governance code was established in Japan. The code does not define one specific way that companies should follow, like the legislation do. Companies are required to fulfil their accountability in order that the new Code takes root.

Information compiled from Nikkei Shimbun & Mizuho research

4. Start-up companies record increase in profit for the first time in four quarters

Companies listed on the Mothers and JASDAQ market marked increase in their total net profit by 35% in the period from October to December 2020 on a year-over-year basis, reports Nikkei Shimbun, Japan's leading financial daily. The increase was the first time in four quarters and it was higher than the earnings level before the outbreak of the COVID-19. The strong performance of automobile-related products was remarkable, and the global recovery of new car sales even came to benefit start-up companies. Distribution industry has also been making more profits by grasping changes in consumer needs, such as opening new types of stores.

The above statistics is based on the performance of 724 companies that announced their financial results for the period from October to December 2020 by 19th February, among the companies listed on Mothers and JASDAQ market with fiscal year end in March, June, September, and December. The aggregation of their net income amounted to JPY 109.7 billion. It was the first time that the result exceeded on a year-over-year

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basis since the period from October to December 2019, before the outbreak of COVID-19. 369 companies, or 51% of the total, has marked profit growth. It is the first time in four years (16 quarters) that the number of companies with profit growth became the majority. By industry type, 48% of manufacturers and 53% of non-manufacturers increased their earnings.

57% of the companies listed on the 1st and 2nd Section of the Tokyo Stock Exchange (“TSE”) marked increase in profit. The percentage is higher than that of start-up companies, but the improvement in business performance was due in large part to a recovery in demand from overseas such as in China. As many start-up companies rely on domestic market, they seem to have had less benefit from overseas than the companies listed in the 1st and 2nd Section of TSE did.

Recovery in the manufacturing sector has been driven by automobile-related businesses. Net profit for the automobiles and parts industry was 14 times larger than a year ago. Net profit for electrical equipment industry was 2.3 times larger. In non-manufacturing sector, distribution and restaurant industry are doing well, by coping well with new demands generated due to the pandemic. The retail industry marked 23% up backed by consumers’ new life style of “staying home” under the pandemic. Meanwhile, travel and leisure business have been struggling.

The number of companies with net loss or reduced profit has been decreasing by every quarter. In April-June period of 2020, the percentage was 67%, and it was 63% in July-September period, but it decreased to 49% in October-December period.

Information compiled from Nikkei Shimibun & Mizuho research

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Mar-29	J.E.T.	JP3386770006	P
Mar-30	RYUKYU ASTEEDA Sports Club	JP3974950002	P
Mar-30	SpiderPlus	JP3399950009	M
Mar-30	Appier Group	JP3160960005	M
Apr-01	REXT	JP3979520008	J
Apr-01	LITALICO Media & Solutions (the name will be changed to LITALICO on Apr-01)	JP3974470001	T
Apr-01	CHIC Holdings	JP3352600005	M
Apr-01	Sawai Group Holdings	JP3323040000	T
Apr-01	ASKA Pharmaceutical Holdings	JP3119660003	T
Apr-01	Oriental Shiraishi	JP3197950003	T
Apr-05	OXIDE	JP3193930009	M
Apr-06	CELM	JP3423590003	J
Apr-07	HYOJITO	JP3795060007	T
Apr-07	Fabrica Communications	JP3802470009	N / J
Apr-08	Iceco	JP3102330002	J
Apr-13	Kibun Foods	JP3241500002	T
Apr-15	Cybertrust Japan	JP3311490001	M
Apr-22	STELLA PHARMA	JP3399680002	M
Apr-22	NEO MARKETING	JP3758260008	J
Apr-22	Visional	JP3800270005	M
Apr-23	Dimage Share	JP3548820004	M
Apr-27	TESS Holdings	JP3545270005	T

**Information compiled based on postings from the TSE (T), Mothers (M), NSE (N), FSE (F), SSE (S) & JASDAQ (J), Tokyo Pro Market (P)*

***Board lot size is unified to 100*

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III. Foreign Ownership Limit Ratio

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