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The Current Condition and Framework of IPOs on Junior Markets in Japan

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Abstract

The IPOs in Japan are built on the depth of retail investment, public confidence and trust in the IPO framework, the efforts of the parties involved in IPOs and the step up from junior markets into the Main Market and function as a market allowing even small-scale companies to conduct IPOs. Although the number of IPOs in Japan has been on the rise in recent years, it is necessary for each and every company conducting IPO to continue efforts geared towards raising corporate value following listing without undermining confidence in order to sustain this trend.

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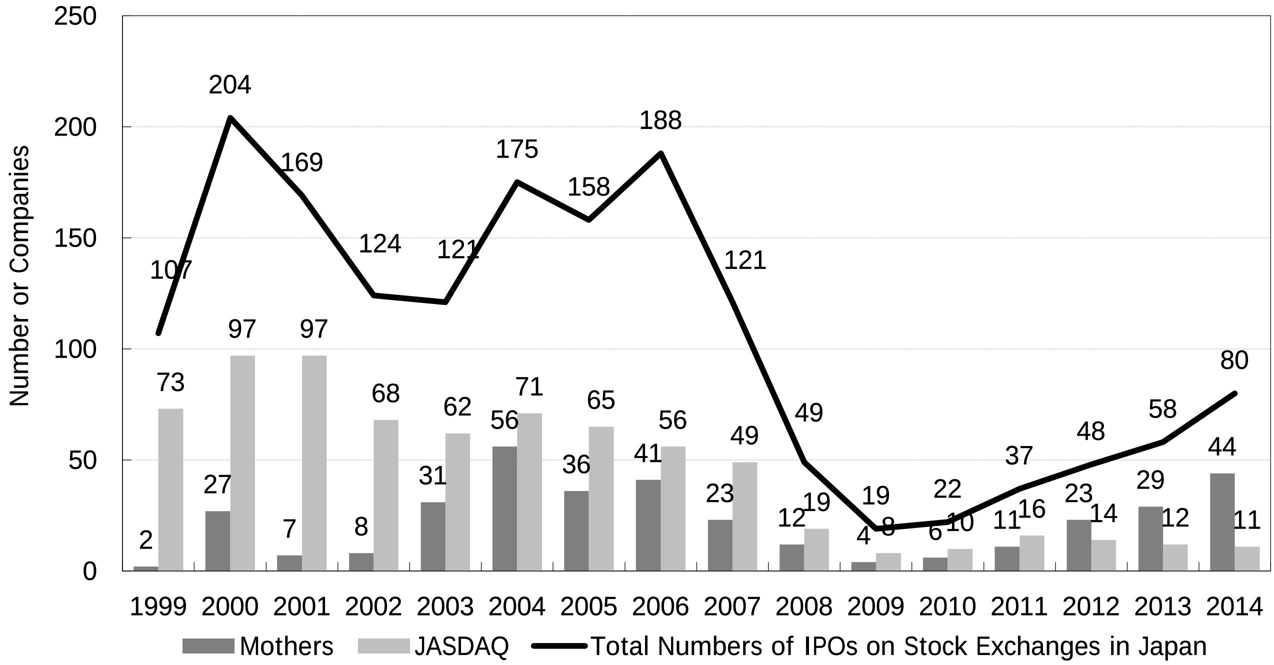
1. Current Condition of IPOs

Last year, 80 companies[1] went public for the first time (hereinafter referred to as "IPO"[2]) on stock exchanges in Japan (Chart 1). Since the number of IPOs has maintained a gradual upward trend for five consecutive years since 2009 and increased by 11 companies year-over-year to 23 companies this year to March with the recovery of market conditions, such upward trend is expected to continue this year as well.

Chart 1: Historical Trend of Numbers of IPOs on Stock Exchanges in Japan



Source: Tokyo Stock Exchange

Turning our focus to the breakdown by market, the Main Market (First and Second Sections) of the Tokyo Stock Exchange ("TSE") accounted for 20 companies, the Mothers for 44, the JASDAQ (Standard and Growth) for 11, the TOKYO PRO Market for professional investors accounted for three, and Second Section and Centrex of the Nagoya Stock Exchange accounted for one company each, demonstrating that over half of companies are, in fact, choosing the Mothers as their market for IPO.

Focusing on the transition in the number of companies conducting IPOs on stock exchanges in Japan since junior markets were established on each of the stock exchanges including TSE beginning in 1999, the JASDAQ

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[1] Includes TOKYO PRO Market, with the exception of technical listings. The same shall apply for the remainder of this paper.

[2] Although there are a variety of names that refer to the initial listing of stock by a company, including new listing, going public, and IPO (initial public offering), the general terminology of this report will use "IPO" to refer to having stock listed on a stock exchange for the first time, while "new listing" shall be used to refer to initial listing on the TSE, including listing as the result of "switching" from another exchange.

(which were registered over-the-counter markets prior to reorganizing as a securities exchange in December, 2004) accounted for the largest number of IPOs for the 13 years through 2011. While the Mothers became the leading choice for IPOs from 2012 onward as a result of the effects of the Mothers rule reform carried out in 2011 (described below). From 2012 on, the number of companies conducting IPOs in Japan has been on the recovery along with the uptick in the number of IPOs on the Mothers, and for the current period from January to March 2015, 17 out of 23 companies — upwards of 70 percent — have chosen the Mothers to conduct their IPOs.

The number of companies moving between markets following IPO on the Mothers or JASDAQ junior markets has been on the rise along with this boom in the IPO market. Last year, there were 64 companies designated First Section Companies (+27 on the previous year) promoted from the Second to the First Section of the Main Market, 17 companies (+3 on the previous year) changed markets from the Mothers to the First or Second Section of the Main Market, and similarly, 30 companies (+1 on the previous year) changed markets from JASDAQ to the First or Second Section of the Main Market. Of particular note is the number of companies changing markets from the Mothers to the First Section Market, setting a record-high since the opening of the Mothers for the third consecutive period since 2013. A recent trend is that it is becoming commonplace to pursue an early shift to the Main Market and seek First Section designation following IPO because of streamlining secondary offering after IPO, as well as improvements in the visibility and liquidity of stocks.

2. Distinguishing Characteristics of IPO Market in Japan

Prior to explaining the distinguishing characteristics of IPO Market in Japan, it would be prudent to clarify the basic framework of IPOs. TSE currently operate six stock markets, and the differences between the concepts of each of the respective markets can be largely explained by differences in the listing requirements for listing examinations. The requirements for listing examinations are made up of "formal requirements" and "eligibility requirements". Examinations for companies applying to list stock for the first time on an exchange are first conducted to verify whether the company satisfies the formal requirements, followed by an examination of the company's compliance with the eligibility requirements based on subsequent hearings and documentation from the company.

From the viewpoint of securing a fair stock price and a certain level of liquidity in the stock market, the formal requirements stipulate the number of shareholders, requirements regarding tradable shares, and market capitalization, while from the perspective of retaining the qualification to be listed on the market in terms of business sustainability, financial conditions, earnings potential, etc., the formal requirements have stipulations on the number of consecutive years of business conduct, amount of net assets, and amount of profits. There are, furthermore, from the standpoint of securing appropriate disclosure of corporate information, stipulations on the status of audited opinions with respect to financial statements from previous years, as well as stipulations on audits conducted by listed company auditing firms. These are joined by other stipulations from the viewpoint of ensuring smooth circulation of shares and preventing any accidents pertaining to the circulation of shares that regulate the establishment of share services agents, the number of share units, and Handling by the designated book-entry transfer institution (Chart 2).

Chart 2: Outline of Formal Requirement Requirements for Initial Listing Examinations by Market (As of year-end, 2014)

Markets (The Number of Listed Companies as of year-end, 2014)	TSE Main Market		Mothers (208 cos)	JASDAQ		TOKYO PRO Market (9 cos)
	First Section (1,866 cos)	Second Section (541 cos)		Standard (799 cos)	Growth (45 cos)	
Number of Shareholders	2,200 or more	800 or more	200 or more	200 or more		—
Number of Tradable Shares	20,000 units or more	4,000 units or more	2,000 units or more	—	—	—
Market Capitalization of Tradable Shares	—	JPY 1 billion or more	JPY 500 million or more	JPY 500 million or more		—
Ratio of Tradable Shares to Listed Shares	35% or more	30% or more	25% or more	—	—	—
Public Offering	—	—	Public offering at least 500 units through IPO	Public offering at least 1,000 units or 10% of listed shares through IPO		—
Market Capitalization of Listed Shares	JPY 25 billion or more	JPY 2 billion or more	JPY 1 billion or more	—	—	—
Number of Consecutive Years of Conducting Business	3 years or more		1 year or more	—	—	—
Amount of Net Assets	JPY 1 billion or more		—	JPY 200 million or more	Not negative	—
Amount of Profits or Market Capitalization	Total amount of ordinary profits of JPY 500 million or more in last 2 years or Market capitalization of JPY 50 billion or more and sales of JPY 10 billion or more last year		—	Ordinary profits of JPY 100 million or more last year or Market capitalization of JPY 5 billion or more	—	—
False Statement or Adverse Opinion, etc.	"Unqualified Opinion" or "Qualified Opinion" in last 2 years and "Unqualified Opinion" last year					"Unqualified Opinion" last year
Others	"Audit by a Listed Company Audit Firm", "Establishment of a Shareholder Services Agent", "Share Unit", "Handling by the Designated Book-entry Transfer Institution"and etc.					(Ellipsis)

Source: Tokyo Stock Exchange

Eligibility requirements for the Main Market consist of five requirements on corporate continuity and profitability, soundness of corporate management, effectiveness of corporate governance and internal management system, appropriateness of disclosure of corporate information, and other matters from the viewpoint of the public interest and protection of investors (Chart 3). While the wording differs slightly depending on market concepts, the other markets feature similar requirements.

Chart 3: Outline of Eligibility Requirement Requirements for Initial Listing Examinations by Market (As of year-end, 2014)

TSE Main Market	Mothers	JASDAQ	
		Standard	Growth
Corporate continuity and profitability	Reasonability of business plan	Business continuity	Corporate growth potential
Soundness of corporate management	Soundness of corporate management	Reliability of corporate actions	Reliability of corporate actions
Effectiveness of corporate governance and internal management system	Effectiveness of corporate governance and internal management system	Establishment of sound corporate control and an effective internal management system	Establishment of sound corporate governance and internal management systems in accordance with the stage of growth
Appropriateness of disclosure of corporate information, etc.	Appropriateness of disclosure of corporate information, risk information, etc.	Appropriateness of disclosure of corporate information, etc.	Appropriateness of disclosure of corporate information, etc.
Other matters from the viewpoint of the public interest or the protection of investors	Other matters from the viewpoint of the public interest or the protection of investors	Other matters from the viewpoint of the public interest or the protection of investors	Other matters from the viewpoint of the public interest or the protection of investors

Source: Tokyo Stock Exchange

Since companies conducting IPOs are required to attach audited reports for the past two fiscal years on the Securities Registration Statement submitted when listing stock and submit a letter of recommendation on the listing application to the stock exchange from the lead managing underwriter participating in the exchange, preparation for listing generally begins two fiscal years prior to the listing, with the auditing firm and lead managing underwriter being decided in the fiscal year which is two fiscal years immediately prior to the period of listing. Aside from this, the listing rules require the establishment of a shares services agent, and in addition, preparation for listing generally proceeds with the cooperation of a host of parties, including disclosure support by financial printers as well as financial contributions and backing by venture capitalists.

It has traditionally been pointed out that, in comparison to IPO markets in other countries, the Japan’s IPO market is distinct in its small-scale offerings at the time of IPO — that is to say, a distinguishing feature of the Japan’s market is that there are relatively many companies that list their stocks with small market capitalizations. In fact, in categorizing the scale of offerings at the time of IPO for IPO companies in Japan in 2014, offering amount of US$ 30 million or less[3] accounted for 69% of total IPOs. Comparing this to the U.S., where 8% of IPOs were offered at US$ 30 million or less (on the NYSE and NASDAQ), and Hong Kong, where the number was 33%, it becomes evident that many companies make IPOs with small-scale offerings at the time of IPO[4] (Chart 4).

Chart 4: International Comparison by Total IPO Amount 2014
(Japan, U.S., Hong Kong, Singapore)

		Japan	U.S.	Hong Kong	Singapore
Total IPO amount	US$1B or more	3% (2)	4% (11)	7% (8)	0% (0)
	US$500M - US$1B	3% (2)	7% (21)	3% (3)	0% (0)
	US$200M - US$500M	5% (4)	15% (45)	12% (13)	4% (1)
	US$100M - US$200M	5% (4)	24% (71)	23% (25)	4% (1)
	US$50M - US$100M	4% (3)	32% (96)	12% (13)	4% (1)
	US$30M - US$50M	12% (9)	11% (33)	10% (11)	17% (4)
	US$10M - US$30M	30% (23)	6% (17)	18% (20)	35% (8)
	Less than US$10M	39% (30)	2% (6)	15% (16)	35% (8)
	Total	100% (77 Companies)	100% (300 Companies)	100% (109 Companies)	100% (23 Companies)

Source: Company Disclosure Reports, Tokyo Stock Exchange, NASDAQ OMX Web Page, Hong Kong Stock Exchange Web Page, Singapore Stock Exchange Web Page, Bloomberg.

*1: Bloomberg exchange rate (closing value) on the date of listing has been converted to U.S. dollar.

*2: Data on Japan includes two companies that listed on an exchange other than TSE. Three companies which list on TOKYO PRO Market and did not conduct offerings at the time of new listing, are excluded from the data.

*3: Data on U.S. includes NYSE and NASDAQ. OTCBB and AMX not included.

*4: Data on Hong Kong is from the main board and GEM. Includes initial listing of H-shares. Excludes companies that did not conduct offerings at the time of listing and companies changing markets from GEM to the main board.

*5: Data on Singapore includes the main board and Catalist. Excludes REITs and business trusts.

The backdrop of inadequate access to funding by start-up companies before IPOs is generally given as a factor in explaining the small size of Japan's IPO companies. Indeed, despite the steadily improving environment in funding to private companies in Japan as evidenced by frequent reports of companies raising in excess of JPY 1

[3] Bloomberg exchange rate (closing value) on the date of listing has been converted to U.S. dollar.
[4] In 2014, there were also listings accompanied by large-scale offerings including Recruit (market capitalization of JPY 1.8197 trillion, IPO offering totaling JPY 213.8 billion) and Japan Display (market capitalization of JPY 462.5 billion, IPO offering totaling JPY 334.7 billion).

billion in funding, in comparison with overseas markets − particularly the U.S. — there is a major gap in the state of funding for unlisted companies from venture capitalists[5].

Are Japan's start-up companies conducting IPOs on stock exchanges in Japan out of sheer necessity? As mentioned above, there is a need to proceed with preparations for listing stock while enlisting the cooperation of a host of different parties, and since it becomes costly for companies to raise money if offerings are small, coupled with the fact that it is difficult to enlist the cooperation of other parties such as securities companies that expect underwriting fees to begin with, IPOs are not chosen. In this regard, while although a simple comparison cannot be done as the result of differences in accounting standards, comparing the IPO costs[6] on Asian junior markets with those on the Mothers, it becomes clear that costs pertaining to IPOs on Japan's junior markets are relatively low (Chart 5).

Chart 5: International Comparison of IPO Costs on Junior Markets, 2014 (Japan, Hong Kong, Singapore)

	TSE Mothers	Hong Kong GEM	Singapore Catalist
IPO Cost Median (US$ million)	US$ 0.46 million	US$ 2.12 million	US$ 1.57 million
IPO Cost Median (%)	8.00%	28.02%	23.01%
Number of IPOs Companies	44	19	18

Source: Company Disclosure Reports, Bloomberg.

*1: IPO Cost is defined as the difference between the amount paid in by investors and the net amount taken by the company.

*2: Exchange rate (Bloomberg closing value) on the date of listing has been converted to U.S. dollar.

*3: TSE Mothers does not include listings to it via other markets.

The existence of Japanese individual investors is significant. Taking a look at TSE's Stock Trading Value by Investor Category, we see that stock trading value by individual investors on the Mothers accounts for 70% of the total and that, in comparison with other junior markets in Asia, the share trading value is high on the Mothers, along with the turnover velocity, making it clear that the junior markets are being supported by the depth of individual investors (Chart 6). In particular, IPOs are highly popular because of the expectations for an initial rise in price

[5] According to the National Venture Capital Association of America (NVCA), the amount of investments by American venture capital in 2014 was USD 43.8 billion, while according to the Venture Enterprise Center, a general incorporated foundation, the amount of investments by Japan's venture capital in 2014 was JPY 142.6 billion.

[6] IPO costs were defined as the difference between the amount paid in by investors and the net proceeds taken by the company. For IPO costs in Hong Kong and Singapore, in addition to underwriting processing fees, listing preparation costs also include capitalized professional fees and the like.

from offering price[7], and according to the Japan Securities Dealers Association's "Equity Purchase by Individual Investors" approximately 80% of offering stocks are distributed to individual investors at the time of IPO by lead managing underwriters. Although institutional investors in general tend to shy away from investing in companies with small market capitalizations, small companies with small-scale offerings are enabled to go public through the support of individual investors in Japan.

Chart 6: Liquidity Comparison in Junior Markets 2014 (Japan, Hong Kong, Singapore)

	TSE Mothers	Hong Kong GEM	Singapore Catalist
Number of Listed Companies (Number of IPOs in 2014)	205 (44)	204 (19)	155 (18)
Market Capitalization of Listed Companies	US$ 27.4 billion	US$ 23.1 billion	US$ 8.1 billion
Annual Share Trading Value	US$ 291.7 billion	US$ 21.3 billion	US$ 10.0 billion
Turnover Velocity	1065%	92%	123%

Source: Company Disclosure Reports, Bloomberg

*1: Exchange rate for the end of the year, 2014 (Bloomberg last price) has been converted to U.S. dollar

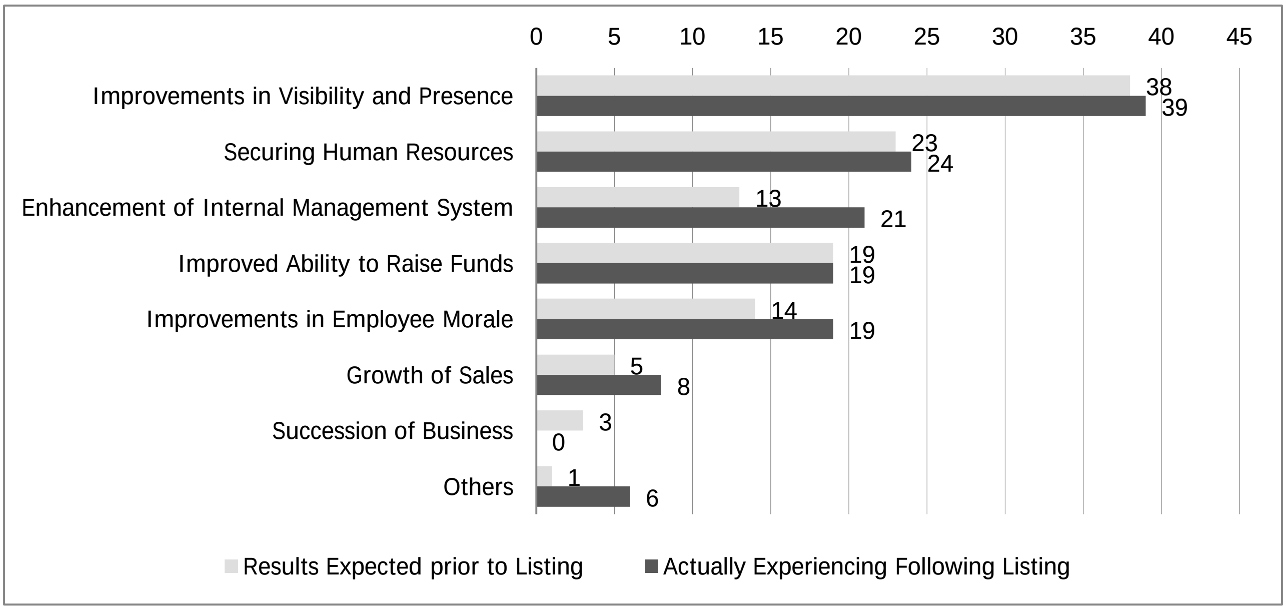
*2: Figures for Number of Listed Companies and Market Capitalization of Listed Companies as of year-end 2014

*3: Turnover Velocity = Annual Share Trading Value/Market Capitalization of Listed Companies as of year-end 2014

There are also advantages of IPOs for companies aside from funding. IPOs generally present listed companies with a host of advantages other than diversifying a company's means to raise funds through capital markets, including improvements in visibility and presence as a listed company, as well as securing superior personnel and human resources. There are a variety of reasons for companies to pursue IPOs, but according to a study by TSE, there are a great deal of companies that enumerate advantages such as securing human resources and improvements in visibility and presence as being greater than the advantages of funding (Chart 7). In other words, it appears that companies are opting for IPOs in light of advantages aside from funding. In addition, as mentioned at the outset, there has been a growing trend for companies to expand after being listed on junior markets — with the Mothers at the forefront — and for changes in markets to the Main Market, and ultimately the First Section. It is also a significant aspect that the Mothers functions as a step-up market to the Main Market. We would like to reflect on this point later in discussing transitions in the positioning of the market.

[7] Of the 78 IPO offerings made in 2014, in 63 cases the opening listing price reached the upper limit of the provisional quoted range, and in 72 of the cases the initial value exceeded the opening listing price.

Chart 7: Result of Interviews with Corporate Managers



Source: Tokyo Stock Exchange

*1: Of the 57 IPO companies on TSE markets in 2013, responses were received from 48

*2: As a rule, the interviews were conducted with the President of the IPO company a half year to a year following the listing

*3: Multiple responses

In this manner, amid a backdrop of praise (or popularity) for IPOs from individual investors and societal confidence in and trust of the IPO framework in Japan, the framework is in place to make IPOs at relatively low costs through the efforts of the parties involved in IPOs, such as securities companies and auditing firms, making the Japan's market distinct, even from a global perspective, as junior markets function as a venue for small-scale companies to raise funds.

3. Transitions in the Positioning and Rule Revisions of the Mothers (Market of the High-Growth and Emerging Stocks)

The TSE Mothers was established in November, 1999 as a market to provide a venue for raising funds on capital markets in early stages for companies "having high growth-potential." The deepening of the depository institutions' bad-debt issue brought on by the collapse of the economic bubble led to heightened expectations for the supply of risk-bearing capital through capital markets, and just before and after the establishment of the Mothers, events such as revisions in the positioning of registered over-the-counter markets in 1998 and the creation of NASDAQ Japan on the Osaka Securities Exchange in 2000 paved the way for IPOs by start-up companies, spurring rapid development of markets for start-up companies geared in Japan. In 2000, 204 companies conducted IPOs. Markets for start-up companies geared and would continue to boost up other markets afterwards as well. 100

companies or more had conducted IPOs every year. Among these, 365 companies[8] have had initial listings on the Mothers in the roughly 15 years up to December, 2014, of which 99 companies[9] have changed markets to the Main Market (Market First and Second Sections) [10].

The Mothers was originally established as a market to operate parallel to the Main Market with a differing concept, and it was possible to not only change markets from the Mothers to the Main Market, but also from the Main Market to the Mothers. Later, in 2007, the system allowing for the change of markets from the Main Market to the Mothers was abolished, positioning the Mothers's clearly as a step-up market. Then, as the result of system reform in 2011, a “Choice of Market System” was introduced in which companies listed on the Mothers select whether to stay on the Mothers or change markets to the Second Section once 10 years has passed from listing, accelerating movements in market changes from the Mothers to the First Section, particularly since 2011.

Japan's junior markets have experienced two troughs in recent times. One was the decline in the number of IPO companies between 2000 and 2003 that went hand-in-hand with the slump in stock prices on junior markets as the result of the Internet bubble collapse; the other was the decline in the number of IPOs from 2006 to 2009 due to the financial crisis that started with the sub-prime mortgage crisis in the U.S., which came to a head at the beginning of 2007, and the collapse of Lehman Brothers in September, 2008.

The latter, in particular, coincided with scandals that broke out on junior markets of companies that had just listed, having significant ramifications on the IPO market in Japan. Since start-up companies listing on junior markets such as the Mothers have fragile business bases to begin with, they are vulnerable to the effects of downturns in market conditions, and as mentioned previously, since Japan's junior markets are supported by the prevalence of individual investors and societal confidence in and trust of the IPO framework, any drop in confidence towards junior markets brings about further deterioration in the IPO environment. Amid such a backdrop, there was a sharp decline starting in 2007 in the number of IPOs — primarily in junior markets — and in 2009, the number of companies offering IPOs sank to 19, a tenth of the peak figure (2000).

In the wake of such a junior market slump, TSE enumerated the “Expansion of IPOs” as a priority strategy in its mid-term management plan (for 2011-2013) beginning in April, 2011, and implemented two significant rule amendments and institutional reforms targeted towards jump-starting IPOs.

The first specific rule amendment was a system reform enforced in March, 2011 on the Mothers, and the second was a system reform implemented on the Main Market in March, 2012. From the perspective of fulfilling the original function of junior markets to provide funding opportunities to high-growth companies, the former amendment was to put in place a system of listing geared towards jump-starting the Mothers, such as pursuing improvements from the viewpoint of listing examinations on the Mothers suitable to start-up companies , the

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8 Of which, five companies initially listed from other markets.

9 13 of the companies changed markets from Mothers to the Second Section Market. Following change of market to the Main Market (First Section, Second Section), 10 companies delisted their stock (excluding Monex Securities, which delisted stock due to its technical listing).

10 61 companies delisted stock for a variety of different reasons (excluding the 10 companies that delisted stock following change of market to the Main Market (First Section, Second Section)).

suitability of the examination period, as well as pursuing improvements in the predictability of the examinations. The latter amendment was revision to listing rules to jump-start IPOs by mid-rank, small, and mid-sized companies, by revising the listing requirement about corporate continuity and profitability of the Main Market which was enacted under the assumption that companies would be gradually grow in high economic growth period (Chart 8).

Chart 8: Overview of Specific Revisions on the Operation of and Rules for Jump-Starting IPOs (partial excerpt)

Revisions to Listing Rules towards Jump-Starting and Improving Confidence in Mothers (March, 2011)

Policy measures geared towards improving confidence in Mothers

- Mandatory audits by listed company auditing firms
- Choice of Market System for companies 10 years after listing on Mothers, etc.

Policy measures geared towards jump-starting IPOs on the Mothers

- Implementation of examination methods evaluating the viability of business plans with a long-term perspective
- Setting of a standard examination period (2 months)
- Advanced presentation of listing examination schedule
- Revision and straightening of examination regulations and the extent to which any involvement of anti-social parties, etc., should be checked
- Improvements in the transparency of preliminary consultations in the preparation stages of listing, etc.

Revisions to Listing Rules towards Jump-Starting IPOs for Small- and Medium-sized Companies (March, 2012)

Revision of Main Market listing examinations in light of economic environment, etc.

- Amended “Amount of Profits” requirements in Main Market from “JPY 100 million or more in the first year and JPY 400 million or more in the second year of the last two years immediately preceding listing” to “JPY 500 million or more in total in last two years"
- Setting of a standard examination period (3 months)
- Relaxing of market capitalization requirements when listing directly to the First Section Market (from JPY 50 billion to JPY 25 billion)
- Relaxing of requirements for documents to be submitted concerning organizational restructuring prior to listing

Enhancing distribution of information on IPOs

- Public announcements of lead managing underwriters

Source: Tokyo Stock Exchange

Additionally, the “Listing Promotion Department” was newly established in April, 2011 as a department engaging in the promotion and support of IPOs, and has been offering support and engaging in promotional activities to companies hoping to conduct IPOs through the “IPO Center,” a one-stop consultation center for companies pursuing IPOs, instituted by the department in November of the same year.

Though it would be premature to talk of an increase in the number of IPO companies solely as the result of such efforts, in the market breakdown of IPOs, the share accounted for by the Mothers has been on the rise since 2011 and exceeded 50% in 2014, while in the period from January to March, 2015, 17 of 23 IPO companies made their IPOs on the Mothers. It is also thought that it has not led only IPOs on the Main Market but also the step-up strategy to the First Section for companies listing on junior markets because examinations for changing from the junior markets to the Main Market are conducted with same requirements as mentioned above.

4. Future Challenges

The government is making efforts towards the improvement of the funding environment for start-up companies as well, evidenced by the “Implementation Plan for Regulatory Reform” and the “Japan Revitalization Strategy” Cabinet Decisions from June, 2013, in which policies are enumerated for tackling the promotion of the risk capital supply in order to stimulate the creation of entrepreneurs and businesses, as well as the Financial System Council’s “Working Group Regarding the State of the Supply of Risk Capital to New and Growing Business,” which brought together reports on specific policy measures in December, 2013. Amendments to the Financial Instruments and Exchange Act based on these reports were promulgated in May, 2014. In addition to amending the requirement to enter financial statements from the past five business years on the Securities Registration Statement submitted at the time of IPO so that entries of audited financial statements from only the past two business years would suffice, other amendments to the Financial Instruments and Exchange Act pertaining to IPOs include plans to exempt relevant auditing work[11] for the three years following IPO with regard to internal control reports which are required to be submitted after listing.

As stated earlier, it is thought to require a two-year preparation period at the very minimum from the time a company begins preparations to list stock publicly until it actually goes public, generally speaking. Accordingly, it is assumed that these efforts on the part of the government will manifest as an increase in the number of IPO companies in the future, creating a backdrop for expectations of a growing number of IPO companies moving forward. There is also a population of companies every year preparing for IPOs in the background that is at least twice the number of IPO companies, as it is thought that — of the companies preparing for IPOs under the assumption of IPO within a year from concluding an agreement for listing preparations with a lead managing underwriter — around half of the companies actually proceed smoothly with their preparations and are able to go public according to schedule[12]. Since the number of companies getting ready to conduct IPO in the following year

[11] Excludes companies that are thought to have a significant socioeconomic or market influence.

[12] There are a variety of reasons for postponing or abandoning listing, such as sluggish business performance of a

and the year following that will grow exponentially, there are an extremely large amount of companies preparing for IPOs behind the scenes of the gradual increase in the number of IPO companies in recent years.

As mentioned earlier, IPOs on Japan’s junior markets are made possible by the efforts to put in place the environment by parties involved in IPOs, the expectations from individual investors, and societal confidence towards the IPO system. As the decline in the number of IPO companies that began in 2008 shows, it is clear what the consequences would be should this positive cycle begin to reverse itself even once, and it will therefore be imperative that each and every company going public continue their efforts towards improving corporate value after being listed without damaging confidence in order to maintain the current positive cycle.

In March 2015, the Corporate Governance Code will be enacted, and companies listing on junior markets including the Mothers will be required, starting in June, to clearly state their attitudes under the principle of “Comply or Explain” with regard to the general principles. Working in unison with the Stewardship Code that was put in place last year, there will be higher expectations than ever that the expectations of investors be met through constructive dialogue between investors and companies.

At TSE, policy measures are being put in place to foster companies that work on sustainable improvements in corporate value, such as the calculation of the JPX Nikkei Index 400, which is a stock index that selects companies with management that takes into account investors and efficient leveraging of capital, as well as an awards system (Corporate Value Improvement Award, Corporate Behavior Award) for listed companies that have chalked up significant achievements in improving corporate value. The success or failure of an IPO after listing can be measured by improvements in corporate value, and since the time spent in preparation for an IPO is an important run-up in order to continue management that enhances corporate value as a listed company and in a lasting manner moving forward, it is our intent to make efforts towards distributing information pertaining to IPOs to companies preparing for listing, enabling them to carry out their preparations with an awareness of what to expect after listing.

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company preparing for listing, delay of tasks for preparation, and revision of capital policies.