

# About the Mothers

## 1 Benefits of Listing on Stock Market

By listing on Tokyo Stock Exchange (TSE)'s Mothers, your company can:

### (1) Raise capital efficiently and diversely

Once listed on Mothers, your company will have an access to direct finance; publicly offering new shares at market price, corporate bonds with subscription warrant, etc. Our highly liquid market can bring more efficient and diverse fund-raising capacity for your company to grow further.

### (2) Raise its corporate profile

Coverage by media will allow your company to raise its corporate and product profile in Japan. The company will be able to retain and attract talented people as well.

### (3) Strengthen its management system and raise the employees' motivation

Corporate disclosure will allow investors and other third parties to scrutinise your company's corporate management. Therefore, your company will try to improve and strengthen its management system as well as its internal control. Becoming a public company will also help boost the morale of the officers and employees of the company.

Any or all of the above can be achieved by listing on Mothers.

Please note that going public also involves taking on new social responsibilities and duties; your company will be required, among other things, announcement of financial statements, appropriate and timely disclosure for the investing public.

## 2 Characteristics of Mothers

Mothers has been established for the relatively young, growing companies. Those companies wishing to be listed on Mothers need to meet certain requirements set by TSE. The four circles below outline Mothers' characteristics.

### LIQUIDITY

Certain level of liquidity is required to guarantee smooth and efficient trading.

- A primary public offering of minimum 1,000 trading units of newly issued shares and previously issued shares, of which minimum 500 units must be of newly issued shares
- At least 300 new shareholders must be created by the primary offering

### GROWTH

The companies with strong growth potential are eligible for listing.

### SPEED

As no track record, such as profits, is required for listing, Mothers can offer fund-raising opportunities to newly-established, emerging companies at their early stages.

### TRANSPARENCY

Mothers emphasizes information disclosure. The listed companies are required quarterly disclosure and briefings to investors (held at least twice a year) besides legal requirements.

### 3 Eligible Companies

Emerging companies with strong growth potential are eligible for listing on Mothers. In order to offer funding opportunities to as many potential companies as possible, TSE does not designate specific conditions on companies' size or industry. Currently listed companies include entrepreneurial venture companies, spin-offs, start-ups in the areas of information and communication infrastructure etc. There is high degree of diversity in terms of the main areas of business of the listed companies; manufacturing, broadcasting, telecommunications, transportation, service business, etc.

The first step of listing application is for the lead-underwriter to submit a written, TSE-designated format statement to TSE, called 'Sponsor's Letter of Recommendation,' outlining why the applicant does indeed meet the eligibility criteria of high growth potential and in which of its main areas of business such high growth potential is observed.

The lead-underwriter explains the contents below at a preliminary meeting for the application.

the details (including, the model of the business, etc) of the business with strong growth potential (hereafter, growth business) and the reasons why the business is believed to have the strong potential.

the business results of the applicant and the growth business

- the results of the last three years (where available)
- the business plan for approximately next three years

the reasons for why the growth business is believed to have the strong potential

the basic conditions for the business plan

the reasons for why the LU decides the business plan has been developed rationally

(note 1) Please refer to the Q&A in the later section on the matters to be considered when the LU outlines the strong growth potential of the applicant to the .

(note 2) Although these points and the aforementioned Q&A cover the main issues to be considered when outlining the growth potential of the applicant at a preliminary meeting, they are not exhaustive. The lead-underwriter is encouraged to add to or build up on the above as well as the matters mentioned in the Q&A wherever

necessary.

Based on information provided by the LU at the preliminary meeting, TSE then examines whether the LU bases the applicant's growth potential on objective, reasonable facts, information, and so forth. This process involves interviews by TSE with the applicant and the lead-underwriter. There might be cases where listing application cannot be accepted, when questions arise over the submitted business plan, its supporting facts or data.

### **【Role of Securities Company(the lead underwriter)】**

There are a number of tasks that need to be completed by securities company(the lead underwriter) before IPO; they would advise on planning capital structure, implementing new corporate structure, as well as examine the company in order to underwrite its shares.

They would act as an underwriter at the public offering and sales, and implement administration process on schedule on behalf of the applicant.

After IPO, they would assist the applicant with secondary fund raising IR activities etc.

The securities company(-ies) that assists the applicant with various tasks for listing is called "underwriter(s)". (If the securities company is a TSE's member, it is also called "trading participant") The main underwriter is called "lead-underwriter (lead trading participant)".

<Q&A for the decisions regarding the high growth potential>

Q1:

What are possible criteria for determining a business with strong growth potential (hereafter, growth business)?

A1:

It should be made clear in its business plan that, not only a part of an applicant's business, that is, growth business, but the company as a whole is expected to grow, in order to prove that the applicant possesses high growth potential.

From this perspective, a business of the applicant might not necessarily qualify as a growth business, even if its growth potential is obvious as well as legitimate, if that

business has such little impact as to affect growth of the applicant itself.

Q2:

What factors should be considered, and included, when determining and explaining growth business?

A2:

For a business of an applicant's business to be determined as a growth business, an LU might refer to the expansion of the relevant market, the products or services with significant competitive edge and so on.

Specifically, an LU is advised to include the following matters:

[Industry/Market]

Credible and objective statistics, surveys, researches and so on from reliable third-party sources, should be provided when an LU tries to explain the industry growth. However, where such materials are not available, the LU could rely on its own statistics, surveys, and researches as long as they are deemed to be no less credible and legitimate and the methods employed in preparing such statistics are reasonable enough. Also, the statistics prepared by the LU must cover the industry the applicant is targeting.

[Competitive Edge]

An LU may consider as an applicant's competitive edge an ability to provide superior products to those of its competitions, or to provide services at a lower cost and so on, referring to specific examples of such products or services. Here, the term competitive advantage can be found in the applicant's technology, business model, know-how, brand recognition and so on which are considered to be superior or proprietary.

[Management Resource]

It needs to be explained by an LU that an applicant possesses necessary management resources for maximizing its competitive edge or adequate management resources, such as management team or organisation, to catch up with the growth trend of the industry, all of which are essential for growth of the applicant's business outlined in its business plan. The LU also needs to explain on what grounds it decided the applicant has such necessary management resources.

Q3:

Are there any additional considerations where the business plan does not show that the revenue from the growth business has increased or will increase significantly?

A3:

Where the revenue has fallen in the most recent fiscal year, or is expected to fall in the year in which the listing application is made, generally, there could be emerging possible obstacles for the growth in the future. In this case, the LU is required to explain specifically what they considered to be such obstacles, as well as how the applicant might try or has tried to reduce their effect.

Also, TSE will review with extra caution where there is only little growth in revenue from the growth business while the profit is expected to grow substantially due to increased efficiency in operation as a result of restructuring or reduction in investment etc., or, the targeted market of the growth business is too small to accommodate the long-term growth of the applicant's growth business and so on.

Q4: Are there any additional considerations where the business plan does not show that the profit from the growth business has increased or will increase significantly?

A3:

Growth potential should be proven by increase in not only revenue but also profit from the growth business, if not in an immediate future.

If the profit has fallen in the most recent fiscal year or the year in which the listing application is made, the LU needs to provide reasons for such fall as well as how the applicant might try or has tried to reduce its effects.

For example, the profit could be decreasing temporarily as a result of increase in prior investment, in which case the LU needs to clarify what such investment is for and how the applicant plans to realise the return from such investment. Moreover, the LU is responsible for explaining whether the investment is reasonably and appropriately planned based on the industry outlook, past return from the investment and so on.

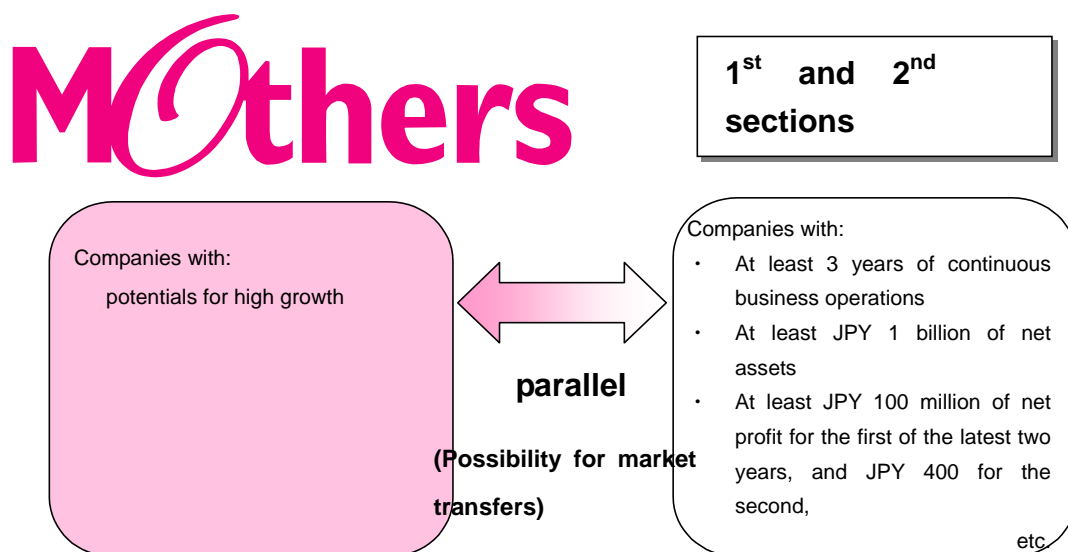
## 4 Where Mothers belongs

Mothers parallels TSE's 1<sup>st</sup> and 2<sup>nd</sup> sections.

The listing requirements for the 1st and 2nd sections involve positive past performances as those markets are originally set up for the companies with more established business. On the other hand, Mothers opens up its market for the highly potential companies by emphasising disclosure rather than past performances.

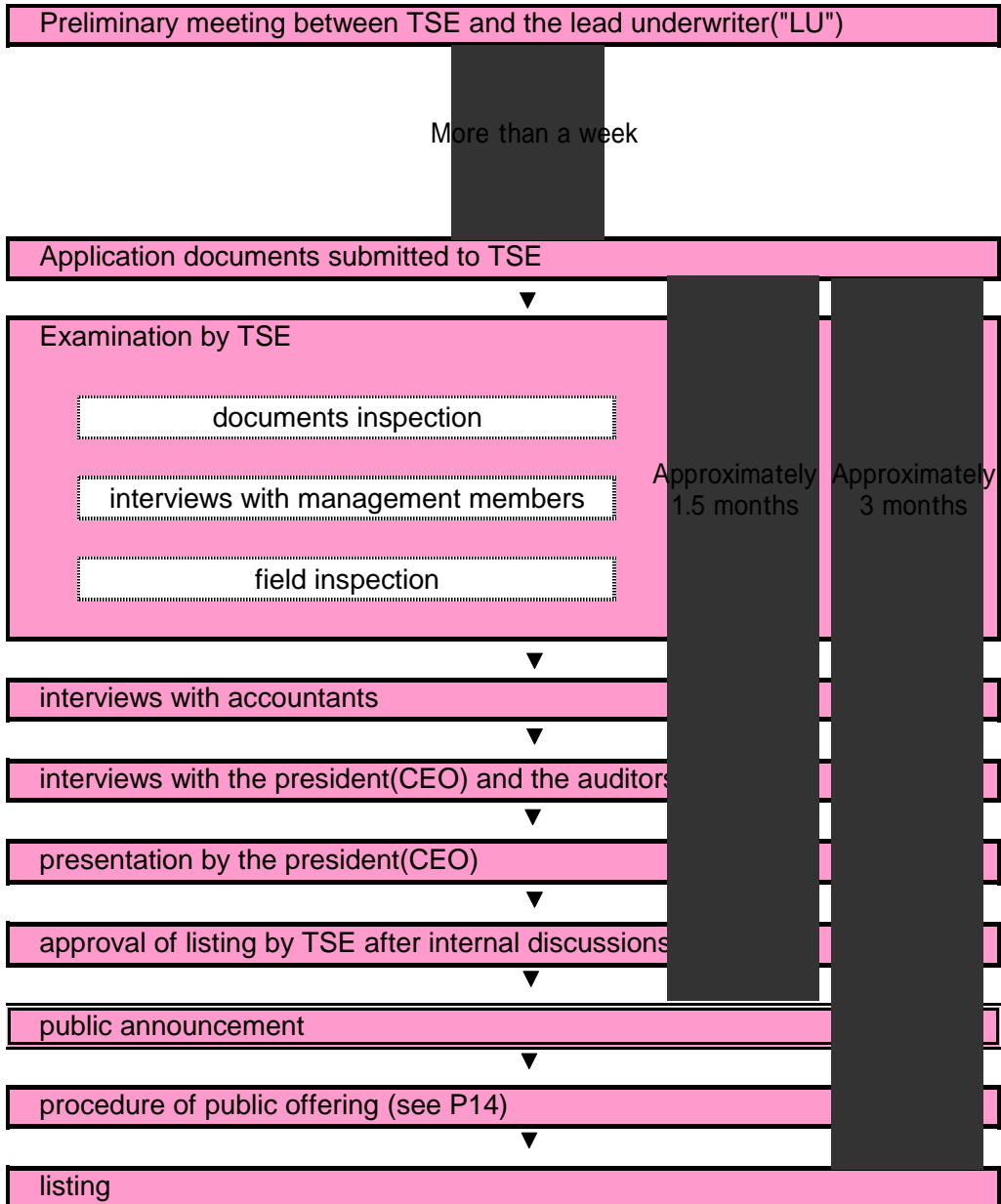
Mothers is, therefore, a market with different concepts from the 1<sup>st</sup> and 2<sup>nd</sup> sections and designed as such.

Mothers listed company can apply for transfer to the 1<sup>st</sup> and 2<sup>nd</sup> section if the requirements are met. (For more details, please refer to the chapter "XII Market Transfers").



## 5 Listing Timetable

Below is a typical timetable for Mothers listing process.



## ( 1 ) Before the listing application

Having its shares listed on stock market means that a company will be a choice of investment by a large number of investors.

It is therefore important for an applicant to prepare itself for the prospective IPO by strengthening its revenue base, improving management system, etc. During this preparation process, the applicant's lead underwriting securities company(the lead underwriter, hereinafter "LU") and the auditors would offer necessary assistance and advice.

As for the listing examination criteria, it is important to prepare and state required information correctly in "Securities Report for Listing Application – Part I" (hereinafter "Part I") as TSE's examination will focus on applicant's appropriate disclosure abilities.

Should you have any questions regarding listing criteria, eligibility, etc., please contact New Listing Support Division or Listing Examination Division of TSE either directly or via your LU before the application.

### **【Roles of Auditors/Certified public accountants】**

Auditors express their opinion as to the applicant's financial statements to be submitted to TSE, in compliance with the Security Listing Regulations. They will also advise the applicant on its accounting practices and internal control.

The applicant must, under Security Listing Regulations, attach the audit report to "Part I" documents prepared in accordance with Securities Exchange Law.

## **( 2 ) Preliminary Discussion**

TSE will accept application once it has, with the LU, discussed the applicant's main areas of business and confirmed that the applicant has no ties with antisocial parties.

This step is called Preliminary Discussion and takes place, on an oral basis, at least a week before the day on which a formal listing application is to be submitted to TSE, between the lead underwriter and TSE officials.

In order to make sure that the applicant has no ties with anti-social parties and thus has satisfactory sound corporate management, TSE will check the following items, using mainly the research results and findings and other materials provided

by the lead underwriter:

Records and backgrounds of officers, shareholders and business partners over the past three years

Soundness of the applicant's business and business operation as well as opinions of its business partners regarding the applicant

The circumstance which led to the contract with the current LU

Other matters to which the LU has paid particular attention in order to confirm the soundness of the applicant.

Once the applicant's LU has done the due diligence on above matters, TSE's listing examination officer and the LU's person in charge will discuss and confirm that the applicant is qualified and ready for actual application.

In addition, TSE examines the applicant's business activities, the reason for why the lead-underwriter decided the applicant has strong growth potential and so on.

### **(3) Listing application**

Application should be made after the shareholders meeting for the business year, in which the listing application is to be made, is held. Making the the listing application involves a meeting where concerned parties are present. From the applicant there will be a person in charge of the listing process, contact administrator. From the LU there will be a person in charge of the applicant. From TSE there will be a manager, an examination officer and other examination staffs.

During the meeting, TSE's officers receive the submitted documents and explain the listing examination process. Then, the applicant will be asked to briefly explain the corporate profile and business plans, about which the TSE officers would ask questions.

The actual application date is arranged by the LU and the TSE.

#### **【Frequently asked questions on application】**

Q: Can application be made before the account of the prior fiscal year has been settled and approved at the annual meeting of shareholders?

A: It is possible to apply for listing on Mothers before the account of the prior

fiscal year is approved at the annual meeting of shareholders, and it is called “preliminary application”. However, once the applicant’s listing is approved by TSE, the applicant needs to publicly announce its financial statements including the results for the latest fiscal year. Therefore it is only when the necessary financial results are fixed and approved with the audit reports by the CPA attached at the annual meeting of shareholders that TSE publicly approve (announce publicly) the listing of the applicant.

The examination of the Mothers’ applicant is mainly based on information provided in “Part I” documents. Even at the stage of preliminary application, it is required that “Part I” documents are fully prepared with definite facts and data, after having consulted with LU.

Once all required application documents (including “Part I” with financial statements approved at a shareholders meeting with the audit report by the CPA attached) are ready, applicant is able, and, needs to, officially apply for the listing. In preliminary application, Listing Examination Fee of JPY 1 million ( tax in JPY 1.05 million ) is charged and no Listing Examination Fee will be additionally required at the proper application.

Q: By which date do applicants have to lodge listing applications for Mothers?

A: TSE requests applicants to make applications in advance so that the listing would take place before the end of the fiscal year immediately following the most recent fiscal year stated in “part I”.

However, for some reasons, such as LU’s examination process on applicant’s revenue outlook taking longer period of time than expected, application may fall closer to the end of the year.

Therefore, in light of respecting Mothers’ concept, TSE has decided to accept applications even where a listing date might fall past the end of the fiscal year in which the application is made, and before the shareholders meeting concerning that fiscal year, provided that:

The application is made by the end of the fiscal year immediately following the latest financial year the results of which are included in “part I,”

The results for the year of application are appropriately added to Part I  
Monthly performances of the application year show that the applicant’s performance in the year immediately following the application year will not

fall into TSE's delisting criteria (less than JPY 100 million of turnover and negative profit).

If the listing could not be completed before the annual shareholders meeting concerning the fiscal year of application, the applicant must make a new application once again.

#### **(4) Listing Examination**

The examination will be conducted by a team of TSE's examiners for each applicant . The actual examination takes place as follows:

##### **Interviews**

The examiners will assess where the applicant meets the listing criteria by inspecting submitted documents.

After going through the documents, examiners will have interviews with the applicant, usually for three times. The questions by TSE during those interviews will mainly cover information provided in Part I and its business plan.

##### **Visit(s) to main business site(s)**

If the applicant owns factories or other facilities, the examiners will visit the sites for better understanding of the applicant's business.

##### **Interview with accountants**

Examiners will also have an interview(s) with the independent auditors of the applicant. During the interview, applicant's internal control, accounting, and disclosure systems will be discussed.

##### **Interviews with the president(CEO) and internal auditors**

The TSE's will have an interview with the president (CEO)of the applicant., where the president's (CEO's) visions on the company, the industry sector, future investor relations activities, disclosure infrastructure, compliance, information management and so on, are discussed.

During the interview with the auditors, results of the applicant's audit, issues the applicant will need to address and so on, are discussed.

Where the applicant has an audit counsellor(s), the TSE will have an interview with them to discuss the accounting infrastructure and the relationship between the applicant and the audit counsellor(s).

#### **Presentation by the president**

President (representative of the company) of the applicant will be invited to TSE to give a presentation on the applicant's corporate profile, management policies and business plans. The TSE's officers will ask questions to the president as well as give a briefing on requirements that the applicant is expected to comply with once listed on Mothers, such as the prompt disclosure of the fiscal statement or the reduction of the units to invest its equity.

#### **Internal discussions in TSE and final decision**

After the president's presentation, the final decision as to the listing of the applicant is reached in TSE, completing the listing examination process. The examiners inform them of TSE's approval and explain the subsequent procedures to be followed.

#### **【Frequently asked questions on examination schedule】**

Q : How long does it take for the listing examination by TSE to complete?

A : It takes approximately three months from the point of listing application, to the point of applicant's shares actually being listed and starting trade on TSE (interviews with the applicant, TSE's internal discussion, public offering procedure all inclusive).

In detail, three interviews normally take place between the applicant and the TSE, where the TSE checks the applicant's business planning, business overview, disclosure and so on based on information provided in "part I". Those interviews are then followed by the TSE's internal decision making process as to the listing approval of the applicant, which means actual listing examination, the period between the application and the listing approval, takes normally a month and a half.

The above time schedule is feasible on the condition that the applicant has prepared, especially its disclosure materials for the application, with its LU advance.

Therefore, TSE recommends that all applicants have had thorough discussions on disclosure materials with its LU before lodging the application.

#### **(5) After the listing approval**

##### **Announcements to the media, etc.**

TSE will announce the approval of the applicant's listing to the general public. This is followed by public offerings and sales, and the company will be formally listed approximately three to four weeks after the approval.

##### **Meetings with TSE's Listing Department and Market Surveillance and Compliance Department**

Between the approval and the actual listing, TSE's Listing Department will meet with the new listing company in order to familiarise the person in charge of information management of the company as well as filing of disclosure materials with TSE after the listing, with the timely disclosure rules and regulations, process of results announcements and other relevant procedures.

As part of preventive measures against insider trading, Market Surveillance and Compliance Department will also explain the regulations on insider trading.

##### **Public offering and sales**

TSE will make sure that the applicant has met the liquidity criteria (the number of shares to be offered and sold publicly, the number of shareholders, the market capitalisation) as a result of the public offering and sales of its shares. If the applicant has not been listed on any other stock exchange previously, TSE will also check if its public offering and sale is made in compliance with "Regulation Concerning the Control of Initial Public Offerings Prior to Listing" [*Joujou maeno koubo mataha uridashi touni kansuru kisoku*]

##### **Listing**

The Listing contract between TSE and the listed company is effective from the day of listing. The listed company is required to fully comply with "Rules on Timely Disclosure" and other listing regulations.

There will be a ceremony on the listing day, where TSE will present Listing Certificate and a gift to the company.

(note) Where a listed company conducts a "*jinteki* spin-off " (which translates as "personal spin-off " or "human spin-off" , and refers to a "spin-off where shareholders of the company spinning off a division are allocated all or some of the shares issued in conjunction with the spin-off ") , in the light of enabling such listed companies to restructure their business smoothly, TSE permits a thus established company or the succeeding company to list on the day the spin-off comes into effect (where a "*jinteki* spin-off leads to establishment of a new company, and such spin-off four is registered after four business days or later following the spin-off, two business days prior to the date on which the registration is completed. (If the division is being spun off to a new company, the application can only be made after a shareholders meeting of the original company has approved the spin-off resolution. However, an Interim Application may be made before this.

If a company is to delist as a result of wishing, through the *jinteki*-spin-off, to allow another company to take over its Listing Contract with TSE pursuant to the spin-off and merger contract or the spin-of contract involving establishment of a new company, a fast track listing procedure is available.

For your reference: model schedule after listing approval

