



Japan Capitalism at Work

September 13th and 15th, 2023, Asia Society, New York and San Francisco

Event Report

On September 13th and 15th, 2023, Oki Matsumoto, Chairman of Japan Catalyst, and Jesper Koll from Monex Group collaborated with the Tokyo Stock Exchange (TSE) to present the insightful event, ‘*Japan Capitalism at Work*’. Held at the Asia Society in New York and San Francisco, this event provided an American audience with in-depth insights into Japan’s evolving economy and corporate dynamics.

This report captures the critical insights and key takeaways from these informative and thought-provoking sessions. Jesper and Oki led the discussions on the dynamic shifts within Japan’s financial and corporate sectors, revealing the driving forces behind these developments. Their insights were further enriched by Mr. Katsumi Ao, Senior Director of the Tokyo Stock Exchange, who, as a central figure in the current TSE reforms, provided an insider perspective on these transformative changes.

Event Highlights:

- Japan Macro Overview & Opportunities By Jesper Koll
- Keynote Speech by Oki Matsumoto
- Keynote Speech by Katsumi Ao, Tokyo Stock Exchange
- Q&A Session Highlights with Oki Matsumoto and Katsumi Ao

Japan Macro Overview & Opportunities

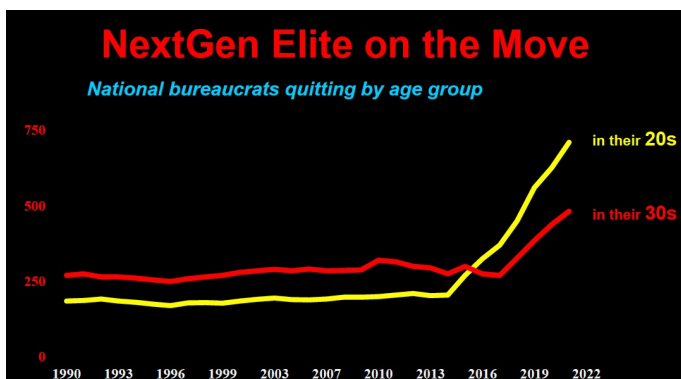
The event kicked off with a presentation by Japan strategist and economist Jesper Koll, who provided a macro overview of how Japan's economy and society have transformed over the last 30 years.

Watch the full presentation [here](#).
(external link to Asia Society's YouTube Channel)

Key highlights of Jesper Koll's observations include:



- **Increased Labor Mobility & Start-up Shift:** A striking increase in young bureaucrats leaving top ministries for new opportunities, with about three-quarters of them moving to start-ups, showcasing the ambition and dynamism of Japan's younger generation.
- **Creation of a New Middle Class:** Steady full-time job creation is fostering a new middle class in Japan, leading to positive wealth effects, notably in the real estate market.
- **Transformations in Corporate Japan:** Corporate Japan is undergoing significant changes: more foreign ownership, improved profitability, and higher returns on equity. However, despite improved ROE, the hyper-competitive market environment prevents the rise of "superstar" companies; top firms control a smaller market share compared to U.S. peers, which affects overall profitability.
- **Improved Operational Efficiency Versus 'Lazy' Balance Sheets:** Despite stagnant sales growth (1.1x) over the last 30 years, Japanese firms have significantly increased profits (11.1x), indicating incredibly high operational efficiency. Yet, they have enormously 'lazy' balance sheets characterized by significant cash reserves, retained earnings, and under-investment in productive capital for future growth.
- **Generational Change & Meritocratic Society:** A pivotal generational shift is underway, with the younger generation eager to establish its own legacy amid global uncertainties, backed by Japan's inherent meritocratic system that offers equal opportunity regardless of background.



Source: Prof. Ulrike Schaefer based on Cabinet Office & National Personnel Agency, with added years compiled by Jesper Koll

"You're dealing with a new Japan, not because of macroeconomic changes, but because of the generational change. Labor mobility is increasing, capital formation is increasing, and the younger generation wants to create a legacy on its own term— that's why I think it's the right time to engage with Japan"

- Jesper Koll, Monex Group

Keynote Speech by Oki Matsumoto

In his keynote address, Oki Matsumoto, founder of Monex Group and a member of the TSE's follow-up council, shared his insights into the profound transformations reshaping Japan's corporate landscape. Drawing from over two decades of experience as a CEO of a listed company and his active role on various TSE committees, he offered a unique perspective on why he believes Japan is "finally" changing, focusing on the significant generational shift taking place across the nation.

Born in 1963, Oki mirrors the average age of today's Japanese CEOs and embodies the collective journey and mindset of his peers. Unlike his predecessors, who thrived in Japan's post-war economic boom, his generation has navigated post-bubble economic challenges, fostering openness to global standards and best practices. He emphasized that his peers, now ascending to leadership roles in both the corporate and the public sectors, including the TSE, are actively driving changes in Japan's corporate governance and strategy. This generational shift, combined with ongoing economic changes and the cumulative impact of governance reforms led by the TSE, is fundamentally altering Japan's corporate governance and business practices.

Watch the full presentation [here](#). (external link to Asia Society's YouTube Channel)

Key takeaways from Oki Matsumoto's speech:

- **Generational Shift in Leadership:** Oki emphasized the difference in perspectives between his generation and the previous ones. The current generation of leaders, who navigated through the post-bubble economic downturn, are more open to global best practices and recognize the need for change, contrasting with the prior generations who tend to adhere to traditional Japanese management styles.
- **Evolving Corporate Governance:** With the diminishing role of traditional governance bodies such as "zaibatsu," METI, and mega banks, Corporate Japan has been faced with a void in governance, prompting a search for new models. This has given rise to equity governance and shareholder activism, with shareholders - including domestic institutional and retail investors – playing a more active role in shaping corporate strategy.
- **Impact of the Pandemic on Corporate Culture:** He shared how the COVID-19 pandemic has accelerated generational change within companies. Work-from-home policies have weakened the long-standing influence of older generations, providing an opportunity for new leaders to break free from historical constraints.
- **Commitment of TSE:** Oki highlighted the pivotal role of the TSE in driving corporate reforms. Leaders like Mr. Katsumi Ao, who is part of his generation and a main driver of the current TSE reform, underscore the younger generation's commitment to revitalizing Japan's financial sector.

"This time, Japan is different. It's changing, not because of macroeconomic shifts, but due to a generational change. We're more open-minded, embracing global best practices and standards, unlike the previous generations bound by Japan's traditional success model."

- Oki Matsumoto, Japan Catalyst



Keynote Speech by Katsumi Ao, Tokyo Stock Exchange

In his presentation, Mr. Katsumi Ao, Senior Executive Officer in charge of listing rules at the Tokyo Stock Exchange, shared valuable insights into the recent developments and strategic initiatives at the TSE. He shed light on the positive trends in the Japanese market and outlined TSE's reform agenda aimed at revitalizing the market and enhancing its global competitiveness.

Watch the full presentation [here](#). (external link to Asia Society's YouTube Channel)

Key takeaways from Katsumi Ao's speech:

- **Positive Market Trends:** He discussed the positive investor outlooks with TOPIX and Nikkei 225 indices reaching 32-year highs, driven by macroeconomic factors such as inflation, Bank of Japan's monetary policy, and geopolitical shifts that are attracting investment portfolios toward Japan.
- **TSE's Strategic Initiatives:** In April 2022, the TSE restructured its cash equity market, introducing new market segments - prime, standard, and growth, to promote a more investable environment. He mentioned the formation of a council of market experts, including Oki Matsumoto, to monitor and support listed companies in aligning with TSE's new initiatives.
- **Addressing Misalignment and Enhancing Capital Efficiency:** Ao pointed out that about half of the prime companies are trading below book value, suggesting the need for a substantial change in management mindset and corporate culture. In response, the TSE called on listed companies in March 2023 to analyze their cost of capital, develop improvement plans, and engage constructively with investors. He emphasized the importance of long-term sustainable growth over immediate measures, advocating for thoughtful capital allocation and considering measures such as share buybacks only when they align with broader investment opportunities.
- **Investor Engagement and Constructive Dialogue:** He highlighted the role of peer pressure and the nudge effect within Japan's culture as effective methods for encouraging compliance and discipline. Although TSE's March request is not mandatory, 31% of prime listed companies have already responded, and 45% of companies with a market cap of over JPY 100 billion and trading below book value have disclosed their compliance, marking early but significant progress in the TSE's efforts. He reaffirmed TSE's commitment to guiding companies toward better corporate governance practices and emphasized the role of investor engagement and constructive dialogue in shaping the future of Corporate Japan.

"We identified a problem of misalignment between the perspective of investors and listed companies. To address this, we have requested companies to analyze their cost of capital, formulate plans for improvement, and engage constructively with investors."

- Katsumi Ao, Tokyo Stock Exchange



Q&A Session Highlights with Oki Matsumoto and Katsumi Ao

In a Q&A session, Oki Matsumoto and Katsumi Ao engaged with audiences in New York and San Francisco, addressing key questions about Japan's corporate evolution. The discussion explored various aspects of Japan's changing corporate landscape and TSE's strategic initiatives.

Key highlights from the Q&A session included:

Q. Feedback on TSE's PBR Initiatives:

Oki Matsumoto: Regarding the TSE's PBR-related initiatives that have led to increased share buybacks and stock prices, can you share **what kind of feedback or response you've received from issuers, investors, or others?**

Katsumi Ao: We've received many inquiries from listed companies. In just four to five months, 31% of prime market companies have responded to our request, which we see very positively. Both domestic and foreign investors are keen to understand our initiative and have high expectations for its impact on company reforms. The challenge now is to bring about actual change in these companies. There is a misunderstanding that those trading the above book value do not need to respond or that management has not been convinced of the need, so we'll continue to monitor and follow up on the status.

Q. TSE's Different Approach:

Matsumoto: I've been involved with TSE for almost two decades, including 5 years as a board member, and I've noticed that this time is very different. Besides PBR initiatives, TSE has implemented a strict rule for companies that fail to meet their improvement plans, potentially moving them to "Kanri Post," a monitoring post for delisting. This is a strong measure. **Why is TSE taking a different approach this time compared to the past?**

Ao: As a market operator and a listed company, we need to change according to economic and societal changes. So, in that sense, we are happy to change. But our role as a market operator has not changed. We are a platform provider that facilitates the dialogue between the listed companies and investors. Companies need to understand the thinking of investors and shareholders. They need to speak the same language as investors to understand and know how to improve. For effective dialogues, we expect investors to take the lead and approach the companies. As a market operator, we are committed to helping companies by providing tools and skills to be prepared to engage seriously with investors.

Matsumoto: Thank you, Ao-san. I see that the change at TSE is driven by our generation's perspective. Ao-san and I are of the same age group, so the people at TSE who are addressing these issues are from our generation and younger. We recognize the need for change, and that's what's driving this different approach at TSE.



Q. Search for a New Model and Role of Technology:

Audience: In the presentation, you've described a search for a new model in Corporate Japan, not arriving at a model. Firstly, **will there be a lot of experimentation among managers, or is there a search for a consensus on new models?** Second, **what role do you think advanced technology, like cloud computing or artificial intelligence, will play in these changes?**

Ao: To address your first point, we haven't asked for a specific model because we want managers to start a dialogue with investors and develop a model that's appropriate for their company's unique situation. It's more about finding what works case by case, sector by sector, based on investor expectations. We're not pushing for a universal model, but rather encouraging companies to find what's suitable for them. Regarding your second point, we see great value in using technology and new ideas. We encourage companies and investors to lead these discussions, using technology to find innovative solutions.

Matsumoto: Adding to that, TSE plans to share best practices with companies, especially startups, to foster learning and adaptation. Regarding your second point about technology, Japan is indeed facing demographic challenges, and advanced technologies like AI are becoming increasingly important. Many governmental bodies in Japan are adopting these technologies to handle their extensive documentation. The use of AI, even AGI, is expected to increase not only in companies but also in government bodies.

Q. Maturity Rules for Companies Going Public:

Audience: **Is the Tokyo Stock Exchange considering tightening its rules for the maturity of companies going public, rather than allowing companies without revenues to go public?** Too much regulation is a problem, but too little regulation is also a problem.

Ao: Finding the right balance is crucial. The issue you've raised is significant. We are discussing how to make the growth market segment more effective for startups, especially in the follow-up council. We recently tightened the listing criteria for the growth market when transitioning from the old to the new segment. We're cautious about changing listing rules frequently as it could disrupt the market. But if market participants find it necessary, we may consider it in the future. The key is discussing what's best for the market's effectiveness.

Matsumoto: This is a topic that we're actively discussing in the Follow-up Council. Entrepreneurial finance, particularly from the U.S. perspective, offers valuable insights. Helping start-ups too much could hinder their growth. We're looking into these aspects in our discussions.



Q. Domestic Institutional Investors' Response to TSE's Efforts:

Audience: Could you share your thoughts regarding domestic institutional investors' reaction to TSE's efforts? There seems to be a bit of a disconnect between your strong efforts and the response on the part of domestic institutional investors' willingness or propensity to invest in equities.

Ao: We do see the positive changes in domestic institutional investors, along with growing interest from global foreign institutional investors. The potential of Japanese companies and the capital market is being recognized more widely. Prime Minister Kishida's government is encouraging domestic institutional investors to adopt more sophisticated investment management styles and governance structures. This governmental push, alongside our initiatives, is promoting a more forward-looking and sophisticated approach towards investments in the Japanese capital market. We hope that there will be more positive changes in this area.

Matsumoto: To add, I think that Japanese institutional investors themselves are changing as well. For example, ISS Japan introduced a new voting rule new rule regarding cross-held shares, and Nomura Asset Management and other major managers followed and implemented a similar rule. This move has put significant pressure on companies to realign their shareholding structures. TSE's PBR initiative this year further pressured companies to sell cross-held shares and buy back their own shares. So, it's clear that Japanese institutional investors are changing as well.

Q. Initiatives for a better PBR evaluation:

Audience: With regards to the PBR effort, I think there are two ways to have a better PBR evaluation for the whole market: expanding their own multiple or delisting low-valued companies. **Is JPX taking any initiatives to encourage or ease the burden of delisting transactions, such as through MBOs, takeovers, or M&A?**

Ao: While we are not specifically focusing on making delisting easier, we have observed more activity in MBOs and takeovers. In fact, compared to a few years ago, corporate action-related delistings have increased, rising from around 30-40 companies annually to about 80 last year. METI has also developed guidelines to provide clarity and direction for companies considering mergers and acquisitions. These initiatives collectively encourage companies to voluntarily undertake these actions. We anticipate more activity in this area, and more companies may consider delisting as part of their strategy for capital allocation and response to our requests.

Matsumoto: This is an important topic in the council, of which I am a member. We'll continue to follow up and discuss these matters.

Watch the full sessions here:

➤ [New York](#)

➤ [San Francisco](#)

(external link to Asia Society's YouTube Channel)



The footage of the event can be viewed on YouTube through the following links

- Japan Capitalism at Work: A Macro Overview by Jesper Koll
- Japan Capitalism at Work: Keynote and Q&A with Katsumi Ao and Oki Matsumoto

**You will be redirected to Asia Society YouTube channel by clicking the links*

About Japan Catalyst

Japan Catalyst, Inc. was established as a part of Monex Group, Inc. with the goal of transforming the Japanese capital market and corporate sector. As the business environment rapidly evolves, there is a growing need for changes in corporate management, and companies are seeking to transform. By offering support through long-term investment and engagement, we aim to act as a catalyst for positive change in Japanese companies.

Company Website (English) <https://www.japancatalyst.com/index-en.html>

CONTACT

Ayaka Matsui

Japan Catalyst, Inc.

ir@japancatalyst.com

+81-3-5657-9970

Disclaimer

Though the information provided on this material is obtained or compiled from sources Japan Catalyst, Inc. (“JCI”) believes to be reliable, JCI does not guarantee the accuracy or completeness of such information. JCI and any of its affiliates shall not be liable for any loss or damage arising from the use of the information contained within this material.

This material has been prepared solely for the purpose of providing information. Information on this material is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities or other investment products.

The contents on this material are the copyright of JCI. The use (including, without limitation, copying, modifying, reproducing in whole or in part, uploading, transmitting, distributing, licensing, selling and publishing) of any part of the contents without prior permission of JCI for commercial purposes is prohibited.