Strategic Stewardship for Unlisted Companies

Bridging Capital Markets and Social Impact

Structural Challenges in Japan's Capital Markets and the Purpose of Launching XIF

We established the Startup Investment Department in 2024, recognizing that startups need to prepare from the pre-listing stage to achieve sustainable post-listing growth and secure fair market valuation. In addition, in December 2024 we launched the Cross-Over Impact Fund ("XIF") in collaboration with UntroD Capital Japan. Our core belief is that an initial public offering is not the ultimate objective of a company. Rather, we feel it is necessary for companies to articulate growth strategies, maintain appropriate disclosure, engage in dialogue with investors, and establish governance structures in a planned and deliberate manner from the pre-listing stage.

In 2025, the Tokyo Stock Exchange advanced initiatives to support high-growth startups through its Growth Market, with the goal of enhancing the market's attractiveness to investors. This underscored concerns that Japan has not sufficiently fostered startups capable of driving economic growth, given that companies whose market capitalization has increased more than tenfold since listing account for only 5% of the total number of listed companies.* The Growth Market's requirements for continued listing were revised from four billion yen after 10 years of being listed to 10 billion yen after five years of being listed, with the aim of fostering early-stage growth to a scale attractive to institutional investors, and supporting M&A among companies as well as entrepreneurs' subsequent ventures. Although the listing approval criteria remain unchanged, we believe that companies are now subject to more rigorous evaluation at the time of listing regarding their ability to sustain high growth after listing and achieve appropriate valuation in the capital markets.

In light of these changes in the environment, we have reaffirmed that the approach we have advocated—namely, treating the pre- and post-listing phases as a continuum and establishing the necessary growth trajectory and governance framework from the pre-listing stage—has become even more important. The importance of both preparation from the pre-listing stage and continued support after listing has further increased from the standpoint of both avoiding a vicious cycle in which support for growth becomes harder to secure after listing and to establish a market structure where risk capital circulates.

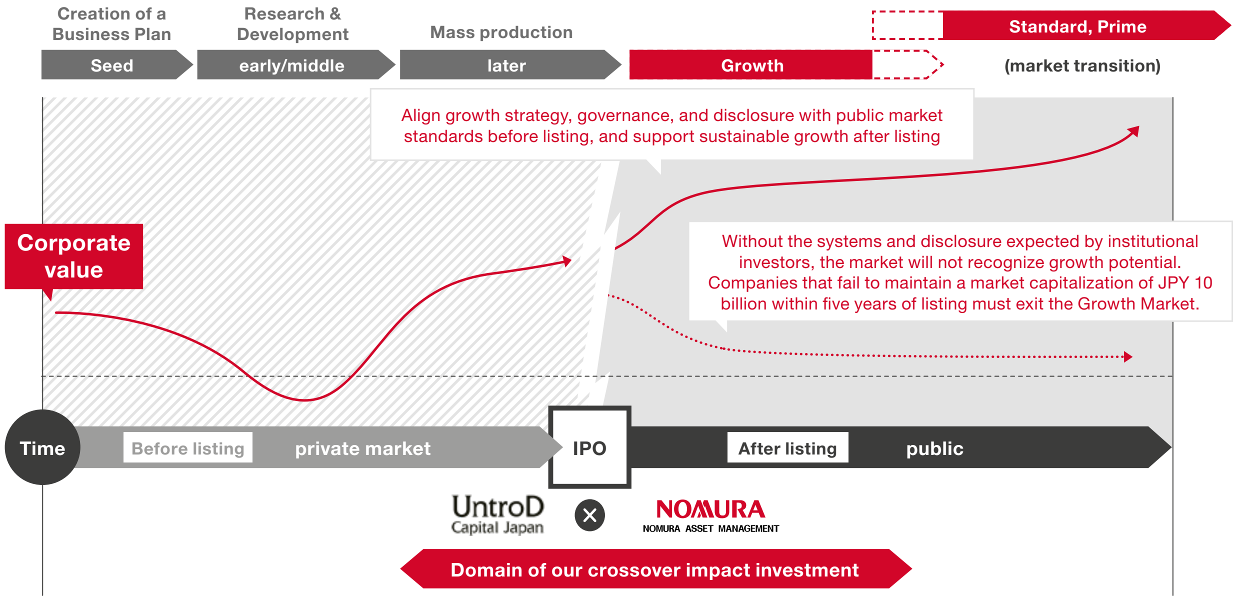
Progress and Impact in the First Year:

From Storytelling to Tangible Corporate Value Creation

Over the first year since launching XIF, our primary focus has been not merely on telling a compelling story about social impact, but on embedding it within companies as a practical framework that can contribute to future growth and corporate value. The pathways to value creation that we have identified are as follows: 1 addressing social issues leads to market expansion and business growth; 2 institutional investors provide long-term support from the pre-IPO stage through the post-IPO stage, supporting corporate governance, disclosure, and strategy execution to drive value enhancement; and 3 visualizing the scale of impact strengthens the investment case (equity story) and improves the likelihood of future cash flows, thereby helping to enhance valuation.

Specifically, we placed impact visualization and the development of a logic model at the core of our approach in consideration of investment and post-investment engagement. A logic model systematically maps the relationships among social issues, beneficiaries, the value delivered, drivers of adoption, business KPIs, and financial KPIs. Conventional logic models typically identify social issues that a company can take the initiative to

Image of crossover investment



* Tokyo Stock Exchange: 20th Follow-up on the Review of Market Segments, Document 4, "Future Measures for the Growth Market"
https://www.jpx.co.jp/equities/follow-up/nlsgeu000006gevo-att/um3qrc000000t58p.pdf

address and illustrate how social value (externalities) is created through the company's business activities and management activities, as well as how much those efforts translate into financial value for society (see Figure A on right). However, in many cases, they do not adequately capture how the creation of social impact is linked to a company's future financial value, or how non-financial capital enhanced through such efforts—such as human capital, the brand, technology, and trust—increases medium- to long-term financial value (see Figure B on right). We believe that quantitatively visualizing the impact and integrating it into a logic model enables social value (externalities) to be linked with a company's medium- to long-term financial value (internalities). This enables a broader understanding of future risks and emerging business opportunities, thereby improving the precision of management decisions. It also helps investors assess whether a company's initiatives contribute to solving social issues and better understand its future corporate value.

For example, in the case of one company, although its technological advantages were clearly articulated, a key challenge was that investors found it difficult to envision the potential scale of the market for the social issue that the technology could help address. Accordingly, we recommended restructuring the investment case in the following order: ① who the primary beneficiaries are; ② what improves and how; ③ what drives and accelerates adoption, such as regulation, cost structure, and barriers to substitution; and ④ how market size and the customer base expand over time as a result. In addition, we asked the company's management to distinguish the short- to medium-term horizon (e.g., 2030) from the long-term horizon (e.g., 2040), and to prioritize options including overseas expansion, partnerships, and M&A. Furthermore, because a business model with multiple possible directions can create uncertainty in terms of market valuation, we worked backwards from the question of what market capitalization scale should be targeted at listing, and clarified which model the company should ultimately converge on and, if a transition is necessary, what would need to change, such as the sales structure, pricing, product mix, and capital policy. We are also working to strengthen management's ability to engage with institutional investors after its listing. We asked senior management to clearly communicate the company's purpose and vision, the social issues it addresses, its trajectory since founding, and the long-term form of the business (which market it will target, what revenue model it will build, and what scale it aims to grow to). In addition, in discussions with CFOs, we discuss how to summarize and explain the significance of the stock listing, the use of proceeds from the listing, business KPIs and milestones, the cost of capital and target ROE, and investment and fundraising (including follow-on capital raises after listing), in order to demonstrate the likelihood of future growth from a financial perspective. Moreover, we work on preparations to meet post-listing evaluation standards, including defining the role of the board of directors, identifying the required skills, bolstering the presence of outside directors, designing corporate governance structures including nomination and compensation, and addressing human capital considerations (such as hiring plans, retention, and skill portfolios).

Our progress over the past year has been promising. By positioning impact not as an "idea" but as a core element of management strategy and disclosure, and by systematizing KPI data collection and disclosure preparation, investors can more clearly assess the likelihood of future cash flow generation, while companies can accelerate decision-making. The greatest value of crossover investment lies in encouraging a company's leaderships team to adopt a long-term perspective that looks beyond the IPO itself and toward post-listing valuation, investor dialogue, and growth in the capital markets. Going forward, in order to help strengthen Japan's capital markets, we will continue to refine our methodologies for seamlessly connecting corporate valuation approaches that often differ between the pre-listing and post-listing stages, as well as IR practices that enable the market to appropriately evaluate impact.

Framework for bridging capital markets and social impact