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## **BRIEF SUMMARY OF THE SECOND INVESTORS FORUMS OPEN SESSION**

Time: January 21, 2016 (Thu.) 6:30 p.m. -8:30 p.m.  
Venue: QUICK Corp. QUICK Square ( <http://www.quick.co.jp/> )  
Nihonbashi Mitsui Tower 14<sup>th</sup> Floor, 2-1-1, Nihonbashi Muromachi, Chuo-ku,  
Tokyo  
Theme: Forward Looking Guidance on Earning Results  
-What makes a “Good Corporate Disclosure”?  
Participants: 8 of The Third / Fourth Investors Forums participants  
51 from companies listed on the TSE and other organizations  
Handouts: “Report on the Third / Fourth Investors Forums”

Bellow, we have summarized the discussions in The Second Investors Forums Open Session. In the outset of the Session, after participant investors introduced themselves, the discussions on corporate disclosure in the Third / Fourth Investors Forums and the summary of the report of the Forums were presented by the organizer.

### **The Summary of Report:**

- ✓ In the Third / Fourth Investors Forums, we had more contentious opinions among participants than in the previous Forums. In this Report, details of the opinions, competing opinions (if any) are presented together on an as-is basis.
- ✓ The investors who attended the Forums are long-term investors who actively engage in dialogues with investee companies and their opinions would be different from those of short-term investors.
- ✓ The topics discussed are overall disclosure documents, the overlaps in them, timing of disclosure, the meretricious and cookie-cutter descriptions of “Overview of Business Results” of annual securities report and disclosure of integrated report, etc.
- ✓ Regarding quarterly disclosure, some investors who are against it argue that it would encourage short-termism and make silent period longer, and on the other hand, other investors who are for it argue that it would be necessary to keep tabs on current status of companies especially the ones in trouble. The majority questions the necessity of quarterly financial results forecast.
- ✓ Regarding mid-term management plans, many investors are critical of them, for they are rarely achieved and thus lacking credibility. Many participants argue that mid-term plans should include roadmaps or big pictures with more information that helps more practical forecasting rather than annual sales or earnings target with little grounds.
- ✓ Some investors want forecast on financial results for facilitating the dialogue with companies, while others argue that forecasting is what investors and analysts themselves are supposed to do,

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and they should not easily count on companies' self-made forecasts.

- ✓ Many investors are skeptical about the necessity of Preview Interviews by investors and analysts just before the end of accounting period. Regarding the Preview Interviews by the media, some investors disfavor them as noise, but others think them legitimate news coverage.
- ✓ Some investors argue that the desirable disclosure schedule of annual securities report that covers wide variety of items should be before an annual shareholders' meeting. Other investors suggest the possibility of modular-type disclosure. Some investors point out the problem regarding indirect and unclear description of "Overview of Business Results" of annual securities report of Japanese companies.

Host: Some of corporate participants may disagree to the opinion presented, as we have just listed the gist of frank exchange among investors participated in the Third / Fourth Investors Forums. In this Open Session, we would like to have feedbacks from participants from listed companies to point out any gap between investors' understanding and companies' or to clarify the ground of investors' understanding. We would like to deepen our mutual understanding through discussions and answer questions about the Report on the Third / Fourth Investors Forums.

## **DISCUSSIONS**

**Question 1: Please share anything that surprised you in the Report.**

Company A: From the viewpoint of the person in charge of CSR, I did not find much disagreement in the report. I rather felt surprised how this sort of subject has not been discussed much so far.

Company B: I agreed to the opinion that the disclosure only once in a year or six months would be enough in some business categories. There would not be much change in figures in the quarterly disclosures of some companies like ours, as our R&D takes time.

**Question 2: Any opinion for the quarterly disclosure?**

Company A: The person in charge feels it burdensome to make quarterly reports; however, we have a subsidiary enlisted in overseas securities exchange and quarterly reports are absolutely important in regard to global financing. But there is a trend for the competitors in our industry to compete in frequency and the amount of the disclosure and it is endless. We prepare almost full scale financial statements for every quarter. I feel it problematic to make disclosures without any limit, as

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it may also be the source of information for competitors.

Investor A: From the analyst's perspective, it is better to have quarterly disclosures, as they are timely for us to regularly check key figures in consolidated financial statements. Still, however, weekly or monthly disclosures are unnecessary.

Investor B: The necessity to check quarterly disclosures depends on the companies' track records such as how persuasive the mid-term scenario is or how much of the past management goals have been achieved. There should be a proper balance. The more disclosure is not always the better. On the other hand, frequent disclosure is required for companies issuing high-yield bonds or companies whose stocks are highly volatile.

**Question 3: How investors use quarterly disclosure?**

Investor A: For some companies, it would be easier to disclose monthly or quarterly reports than to answer individual questions from investors. For long-term investors, a quarterly disclosure is like body temperature or medical checkup to check how well the company is heading toward long-term growth.

**Question 4: Some companies trying to draw investors' attention to long-term investment were introduced in Nikkei.**

Company A: Our company used to disclose short-term management data very frequently. Recently our disclosure has shifted its focus to long-term performance and thinned down the disclosure of short-term data. The questions from investors shifted from a short-term perspective to long-term one accordingly and discussions regarding the performance in 6 to 12 month period became more frequent. We actually exchange discussions from a long-term perspective with existing long-term investors. In the meeting with hedge-funds, short-term questions are decreasing as they do not have short-term data. This is very positive change.

Company B: We represent our ideal toward the future and corporate principals. Some investors still scrutinize our quarterly reports in details while they represent themselves as long-term investors. We do actually feel that disclosing midterm management plan always reduces short-term questions.

**Question 5: Any questions for Investors?**

Company A: Our management thinks disclosing mid-term management plan is rather irresponsible as figures in 10 years later are unable to be committed.

Investor A: It would be still possible to represent the management's vision about bottom

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lines of KPIs or cash ratio, and it is also possible to commit to. However, it is unnecessary to show specific figures on specific date in the future. Giving a hint is enough; companies should have an attitude to rebuff demanding analysts as forecasting is their own job.

Investor B: I would rather have a company's vision about environmental changes in 3, 5 or 10 years and how to adapt to such changes. The presentations of mid-term management plan provide us good opportunities to listen to and ask question directly to the CEOs.

Company B: As a worker in IR division, I have been positive about the disclosure of **AstraZeneca K.K.** that focuses on management orientation; however Japanese analysts in general do not seem to like such disclosure.

**Question 6: (From Company participant) Companies are afraid to use the term “target”, as it sounds like something should be achieved, and some companies use the term “goal” instead. What do investors think about such distinctions?**

Investor A: I do not pay much attention to such distinctions. I care about the company's attitude that can be told by the mid-term management plan whether they are aggressive or weak.

Investor B: Not many investors care about such difference in the narrative as “target” and “goal”. Just asking the management about the making of the mid-term management plan in the interview often reveals its true intention or meaning; whether their plan is just a “dream”, deliberate “target” or determined “commitment”. Knowing such attitude is to know the company's characteristic, and that is an analyst is supposed to do.

**Question 7: Some studies point out that the achievement rate of the mid-term management plan of Japanese companies is lower than that of companies abroad. How the Japanese companies can respond to such criticism?**

Investor A: In recent years, there are many cases where exporting companies end up in revising their management plan significantly either upward or downward depending on currency exchange rates. It might be a good idea to prepare several scenarios according to expected changes in environmental factors.

Investor B: The management of the companies abroad is more likely to persist in achieving management plans as it directly affects the managements' paychecks. On the other hand, many Japanese companies set a low bar for fear of criticism. They should present more sincere plans including how to allocate the capital to achieve their plans.

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Investor C: We view that the company which has achieved their management plan has the management of high quality. There may be the case where even a good manager cannot achieve the plan due to some macroeconomic conditions. In such cases, the plan should be revised based on a solid argument. Dialogue with investors can be helpful for that.

Host: To sum up the arguments so far, long-term investors make much of the way of making, philosophy or assumption of the mid-term management plan, rather than the financial figures. This is because the way of making, philosophy or assumption of those plans gives analysts and investors the grounds to analyze and evaluate the achievement rate or necessity to amend the plans according to changes of external environment. Also, the management plans are more likely to be achieved when the achievement directly affects the management's paychecks as in Europe and U.S. Many investors want Japanese companies move toward that direction. It is possible to imagine economic incentive may boost the achievement rate, but simple pursuit of the number may result in preposterous outcome.

**Question 8: Preview Interview; what is it?**

Investor A: Preview Interview is a practice that analysts or the media, etc. interview Japanese companies before the official announcement of financial outcome and obtain unreleased information to know the gap with already released financial forecast.

Investor B: It was kind of a race among brokers to scoop the report.

Investor C: The most important thing about the Preview Interview is the timing rather than how analysts and the media obtain information. Analysts interview the company right before the silent period. Stock brokers tend to wait to write an accurate report but they release it before the analysts are scooped by the newspaper coverage.

**Question 9: Investors think Preview Interviews unnecessary, but is there any opinion from corporate participants?**

Company A: It was surprising to me. As a worker in IR Division, I thought that we accepted interviews as part of IR business or service in response to investors' demands.

Company B: We had been responding to the strong needs from investors, but such needs just ebbed away according to the recent rigid attitude of the governing authorities. But brokerage firms and investors seem to impose too much self-regulation.

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From the viewpoint of a worker in ever-changing electronics industry, I believe continuous updates including Preview Interviews are necessary.

**Question 10: What do investors think about silent periods?**

Investor A: Some companies have extraordinarily long silent periods. It would be better if we could have discussion about long-term orientation or issues at hand as it is not forbidden to see investors in those periods. Taking the silent periods too seriously may reduce the opportunity to have dialogue with companies. By the way, announcements about the Preview Interview from brokerage firms have decreased dramatically since the last quarterly period.

**Question 11: A scandal in certain brokerage firm triggered the discussions on what the Preview Interview should be. But some companies had stopped answering Preview Interviews even before that scandal came out.**

Investor A: Unscheduled disclosure is not favorable for investors as is the case with the Preview Interview by the media. Preview Interview is problematic because it provides important but imperfect information to limited people little by little.

Investor B: More and more companies have abandoned answering Preview Interview since one and a half years ago. Some investors and companies think it problematic in that it promotes short-termism and detract the fairness of disclosure. The problems regarding fairness arise from its timing and the content of the interview.

Investor C: The short-term information should be limited to abstract information such as change of situation, and actual figures should not be disclosed. The problem regarding Preview Interview can be avoided by reasonable consideration of interviewer and interviewee.

Company A: Our company abandoned doing Preview Interview since December 2013. Before that we had internal discussions on such abandonment. Having seen big stock price movements just after the Preview Interview, IR Division decided to abandon to seek fairness of the disclosure.

**Question 12: Preview Interview started as voluntary service by IR Division of the companies and it has become escalated on and on. Is it that IR Division decided to abandon doing so by themselves?**

Company A: The background in which Preview Interview prevailed is that analysts of stock brokerage firm took the opportunity for attracting investors. Considering the trend of companies and the environment, I think that quarterly disclosure is

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necessary, but that Preview Interview is problematic because it is not a fair disclosure as our answer varies depending on the timing of the interview. I think that the media publishes the article no matter whether we accept their Preview Interview or not.

Company B: We do not accept interviews during the silent period; however, the media interviewed before that period and wait until they publish the article around the time of release of financial results as if they collected the information around that time, but actually those stories are based on the material they had stocked before the silent period. Analysts may lose their footing in the brokerage firm if they are scooped by the media, which might result in comeback of Preview Interview.

**Question 13: When is the best timing for disclosing mid-term management plans?**

Company A: As for the timing of disclosing the mid-term management plan, IR Division thinks that it would be along with the release of the annual financial results, but our PR Division thinks that it would be inappropriate because the media might focus on the annual financial results and the management plan would not attract the media's attention.

Investor A: Many companies consult with us about the timing of disclosing the mid-term management plan, but, as an investor, I have no particular view about the timing as I do not think that the timing would affect the numbers in the plan.

Investor B: From the companies' point of view, we feel that disclosure along with the annual financial results might be better to convey their message effectively.

Company B: In our company, we had the same discussion as this when we disclosed our latest mid-term management plan. Our PR Division argued that the date of disclosure of the plan should be different from that of financial results, but we disclosed the plan with the annual financial results as we thought the media would not pay much attention to the plan anyway, and the plan is for the investors rather than for the public. We explained our 10-year long-term management plan before release of the first quarterly financial results. Such a long-term management plan does not contain any specific figures and therefore there is no issue to release it before releasing the financial results, but mid-term management plans contain specific figures and so we think that we should disclose it jointly with the financial results. Such discussions are still on the table in our company and we have not yet come to a conclusion.

Investor C: Some companies disclose only the outline of their management plans and explain the plan in details next month.

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**Question 14:** **As for the timing of disclosure, some investors want the annual securities report before the general shareholders' meeting; do you have any opinion from companies' side?**

Company A: From the viewpoint of the issuing company publishing the annual securities report, it is unlikely to happen in our company because the board resolution is required before the disclosure of annual securities report.

**Question 15:** **(From a company participant) Do investors have time to consider the report, should it be disclosed before the general shareholders meeting?**

Investor A: One of the key information included only in the annual securities report is, for example, disclosure on cross-shareholding. At this moment we check the last year's annual securities report, but I would rather have the latest information if available. I would like to use such information to check whether the number of shares held is decreasing or not, whether the company invites any outside director from the company whose shares are held by that company or not, and whether the capital is efficiently managed or not. To answer the question posed, it is in fact difficult to review all the information one by one; however, it is possible to pick up and check specific data in an XBRL format.

Investor B: I vote against any proposals from the company with high cross-shareholding rate. I also prefer to have the latest figures if available.

Investor C: An annual securities report contains in a more detailed manner not only the information on cross-shareholding but also the explanatory note on impairment losses and information regarding collateralized assets that are not available in earnings summary. We could pinpoint such data if an annual securities report were available before the general shareholders meeting.

**Question 16:** **(From a company participant) Sell-side analysts and investors have different needs for disclosure, and we have difficulty in dealing with such different needs. I would appreciate your view as long-term investors.**

Investor A: I have heard some sell-side analysts try to distinguish themselves from their competitors by telling clients unconfirmed information. Also, some of them are evaluated simply by the range of price movement related to their report. As you said, they have different needs for disclosure from those of investors.

Investor B: The investors participating in the Investors Forum focus on fundamentals and put high value on dialogue with companies having relatively long-term perspective, but we are not the only investors in the market. For this reason,



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sell-side analysts have different types of clients. Some brokerage firms earn their money from the investors who are in the extreme opposite position from us, and we should understand the diversity in the market.

Investor C: We are the investors who want to have continuous dialogue with companies, and we want your positive reaction to our requests. We have been sending our messages based on the belief that promoting the investor-investee dialogue with long-term perspective would contribute the long-term growth of the stock market and Japanese companies. But we are aware that there are different needs from different types of investors. We do not intend to force our idea on those with different views.

Investor D: Some companies outsource the traffic control of interview requests to the brokerage firms. The investors such brokerage firms might bring to you are not likely to be the investors you might actually want to talk with. I recommend you to make a contact by yourself with investors you may want to have a dialogue.

**CLOSING REMARKS:**

- We would like to have more opportunities to hold dialogue like this session. We are going to continue being a source of information for companies and your feedback is most welcome.
- Any proposals for the agenda of future forums are also welcome here: [admin@investorforum.jp](mailto:admin@investorforum.jp)

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