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PRESENTATION

Akira Kiyota - *Japan Exchange Group, Inc. - Group CEO, Representative Executive Officer & Director*

Good morning, ladies and gentlemen. I am Kiyota of Japan Exchange Group. I would like to give explanation regarding our third midterm management plan today. Please refer to Page 3 of the material entitled, Third Midterm Management Plan.

First of all, allow me to review the ongoing second midterm management plan. Under this midterm management plan, we try to diversify business portfolio, therefore, we have been trying to expand areas, which are not directly relating to market business, therefore, we aim to transform into an entity not heavily reliant on financial market conditions in Japan, that was a very big theme. In a sense, we were helped by a rally due to economics in the last year of the second midterm business plan. This year, we expect to achieve our net income target.

So against this backdrop, we have been expanding so-called peripheral business like our index, information service, co-location. These businesses have steadily expanded, and also our business target of transforming ourselves into an entity not heavily reliant on financial market conditions. We have made quite a good progress in this regard.

Let me talk about 4 priority areas. First of all, asset building. On this point, we introduced ETF market making incentive scheme. And also, we developed new indices, including global environment index, which was adopted by GPIF. We have been able to realize these targets.

Second area of priority was corporate value increase. We revised corporate governance code, and also we have been able to enhance corporate governance, both in formality and in substance. We made progress in this regard as well.

Third area is market structure enforcement. We shortened JGB settlement cycle to T+1. And at the same time, we enhanced the backup capabilities in Tokyo and Osaka. And we have been able to increase further reliability of and confidence in Japanese market. In order to enter into new fields of exchange businesses, we conducted a POC testing for utilization of block chain, with a broad participation of financial service industry and securities industry, and we have tried to implement new technologies.

In this way, we made progress in terms of implementation of key measures. One of the important priorities for is to realize a comprehensive exchange.

Yesterday, we reached a basic agreement with TOCOM for the realization of a business combination in this regard. And I would like to give you further details later on.

However, I think it is a great achievement to reach a basic agreement with TOCOM during the period of second midterm management plan. This is a review of the midterm -- second midterm business plan.

And now I would like to talk about the third medium-term management plan, management policy and 4 core strategy. Please turn to Page 5. So we have a basic policy here, that is, sail to the future, keep the market secure. This is a key phrase for the third midterm management plan.

JPX is offering platform for investors to manage their asset and for companies to raise funds. Therefore, we are so-called market structure -- market infrastructure supporting society. Therefore, our inherent mission is to provide stable and reliable market, and this will be maintained in the new medium-term management plan. And this is described in the phrase of, keep the market secure.

In order to make or keep the market secure, in order to continue to do so, we have to adapt ourselves to ever accelerating technology innovation and also market changes. Therefore, we face up to challenges squarely. And this is very important for us, and we call this effort, sail to the future.



With this idea in mind, JPX is going to promote further cooperation with the stakeholders and enter into new partnerships, not only in the equities and related products, in mid- to long-term, we would like to enter into commodities and other similar and peripheral areas, so that anybody can trade any product in a secure and easy way. This is what we are aiming for.

So the ideal picture we would like to achieve is a total smart exchange. So in the 3 years of the third medium-term management plan, we would like to make a progress with a group-wide effort to achieve a total smart exchange. This is our basic policy.

Please refer to the lower part of Page 5. In this third medium-term plan, based on the core policies, we have 4 Core Strategies. First, in order to fulfill our responsibilities, vis-à-vis the market, we pursue to shape the market toward the next generation.

And secondly, it is related to the basic agreement reached with TOCOM yesterday, to establish and launch comprehensive exchange centering around Osaka -- OSE.

And third is diversification of data services for the next generation into the next generation, which will be achieved through partnership and technological innovation.

And the fourth is laying a foundation, development of foundation, for the future of our business and the society so that market can be used with a sense of comfort.

I would now like to turn to the next page to discuss the important points of these 4 Core Strategies. Please refer to Pages 6 and 7. First is pursue the shape of the market towards the next generation, review of market structure, enhancement of governance and the shortening of stock settlement cycle to T+2 included. We will pursue the shape of the market for the next generation to enhance appeal of the Japanese market and to strengthen its global competitiveness.

Please now refer to Pages 8 and 9. The second Core Strategy is launch and establishment of -- or launch and development of a comprehensive exchange. I will come back to this point later, but we intend to achieve early integration with TOCOM to revitalize Japanese derivatives market and to develop it into a market that is globally viable.

Please now refer to the Pages 10 and 11. As the Core Strategy III, diversification and propelling of data services into the next generation, is shown here.

By the use of open and innovative framework, we aim to create highly user-friendly services. And in the pursuit of our exploration of the new model of the exchange for the next generation, we encourage use of information by startup companies and through open innovative framework development. And we also aim to create user-friendly services for investors.

And we will also plan to use API and cloud as diversified methods to disseminate the information, to increase number of customers. And we will also continue to develop indices to meet with the changes in the environment and changing needs.

Please now turn to Pages 12 and 13, as Core Strategy IV, we aim to develop a foundation to support the future of our business in the society. First, we aim to develop IT system and operate such IT system that will give a sense of security to anyone and to improve reliability of Japanese market. As important measure, we will continue to make efforts to develop Kansai backup center. We will also intend to make active use of advanced technologies, and we will develop human resources that are able to leverage such technologies.

As an effort to support society, we will continue to exert and fulfill responsibilities on self-regulatory organization that will meet the change in the environment, and we will also provide supporting activities to enhance financial literacy in the aging society, where it is said to be that the lifespan is 100 years.

And to fulfill the function as an exchange, we will contribute to society by disseminating ESG investment and we'll promote sustainability to contribute to SDGs actively.

Please now turn to Page 14. These are about primary targets related to achieving Core Strategies. First, with respect to the shape of the market, completion of new trading platform and satisfaction of enhanced performance requirement are included in the target. We also aim to shorten stock settlement cycle, which will have a significantly large impact on Japanese market. As regards to the number of IPOs, as before, we aim to achieve about 100 IPOs every year.

Regarding the launch and development of comprehensive exchange, we aim to achieve early integration and consolidation of clearing organizations, and we also aim to increase trading volume through a synergy effect.

Regarding the data services, the third Core Strategy, we will diversify channels and we also have a target of creating 10 new services and to acquire new customers, 150 new customers, are included as numerical targets.

With regards to the fourth Core Strategy, development of foundation. With respect to Kansai backup center, the start of the operation is now clarified as fiscal 2021. And as for the commercial use of blockchain technology, we would also like to establish infrastructure that can be shared in the industry in fiscal 2021. This is another target established under Core Strategy IV. And with respect to financial literacy, we will cooperate with stakeholders, and the target is to increase the users of Tsumitate NISA and iDeCo by about 10% every year.

So that is the gist of the 4 Core Strategies and primary targets.

On Page 15. Here, you can see these 4 Core Strategies sorted out from the perspective of global strategy. As a huge amount of capital is circulating globally, it is critical for JPX to continue to serve as a pivotal market in Asia time zone.

For the future as well, our true value as market infrastructure will continue to be tested. So in this regard, the total smart exchange that we tried to become in mid- to long-term is going to be a necessary key strategy for the Tokyo market to remain pivotal in the global markets.

Turning to Page 17. Lastly, I would like to talk about financial policies. Under the third MTMP, basic policy is to keep that market secure. In order to fulfill this responsibility, we are going to build core systems and a huge Kansai backup center, and we are going to implement forward-looking measures.

On the other hand, by steadily implementing 4 Core Strategies, we aim to increase base for revenue generation such as the trading volumes in the mid- to long-term, and we assume that average daily value for cash products be JPY 3.4 trillion, annual trading volume for derivatives products will be 400 million contracts. Based on this assumption, in 3 years to come, operating revenue of JPY 130 billion, net income of JPY 50 billion, ROE of 15%, are set as targets.

And also in terms of capital policy, we are going to support sustainable development in evolution of the market with constant investment, while keeping balance between return to shareholders and fiscal robustness for stable management of the market.

So this is going to be maintained as a major policy. With regard to dividend payout ratio, we continue to maintain 60% or so, but we are going to make a systems investment and also mid- to long-term-related investment as needed. Therefore, going forward, we are going to implement further return to shareholders flexibly in consideration of these future investments.

Now I would like to talk about one of the key midterm policies, that is of a basic agreement for the realization of a comprehensive exchange. JPX and TOCOM, on the 23rd of October last year, we issued a press release. As we did so in the release, we signed a nondisclosure agreement. Based on that, we conducted specific consultations between us for the realization of comprehensive exchange.

Based on that consultation, we came to understand that comprehensive exchange will lead to the invigoration of Japanese derivative market. And therefore, that you realize comprehensive exchange and business realization. Yesterday, between the 2 companies, we signed a basic agreement for this realization.

And the substance of the agreement and the significance of business integration and the future schedule will be explained now.

Now please refer to the material entitled, Basic Agreement Toward Realizing a Comprehensive Exchange, Page 2. You can see the overview of the basic agreement we signed.

And JPX and TOCOM will realize comprehensive exchange that enables one-stop trading in various products, ranging from financial securities to commodity derivatives. And that will develop Japan's derivative market.

In order to realize such exchange, we decided to continue good faith deliberation. For business combination, we are going to convert TOCOM into a wholly-owned subsidiary of JPX through TOB. That is our plan.

And also after the complete -- completion of wholly-owned subsidiary is achieved, we are going to transfer precious metals and rubber and agricultural products which are listed on TOCOM will be transferred to OSE. And also, we are going to consolidate the Japan Commodity Clearing House, TOCOM's subsidiary and Japan Securities Clearing Corporation, JPX's subsidiary.

With regard to electricity and energy, we aim for listing and handling as a TOCOM market. Although it is not listed yet, and currently listed oil products for the time being, they will be traded on TOCOM, listing of new oil-related products on OSE will be discussed between the companies. And we are going to explore the possibility of doing so.

Now, in realizing comprehensive exchange, we are going to give due regard to existing trading participants, and this is what we are going to continue to discuss.

Turning to Page 3. So that the reason why the 2 companies have come to a basic agreement for the realization of business combination is that both companies have a common understanding regarding the challenge for the commodity exchanges in Japan. Although the world's commodity derivatives market is expanding, Japan's commodity derivatives market is shrinking significantly. This is what we have seen so far, particularly business conditions for TOCOM continue to be difficult, because of such a condition.

And also securing the sustainability of Japan's commodity market has become a challenge. So these are commonly understood by the 2 companies.

When we look across the world, in financial markets around the world, the main trend internationally is to offer in a unified fashion, financial derivatives transactions and commodity derivatives trading. And in Japanese derivatives market, because of separate governing laws and exchanges, these are separate, undermining convenience for the investors.

Against this backdrop, there is a limited entry of new players, including the inflows from financial institutions. And in comparison to the international markets, the trading volume of Japanese commodity market have remained stagnant.

Please now refer to Page 4. Regarding these challenges that Japanese commodities market faces, we believe that realization of comprehensive exchange through business combination of our 2 companies can be a fundamental solution. If comprehensive exchange is realized, with the stronger enhanced creditworthiness of TSE, sustainability of Japanese commodities derivatives market will be insured.

And under the unified regulations and infrastructure, diverse range of products will become tradable. And including influence from financial institutions, wide range of investors will be encouraged to take part. And this is expected to lead to significant improvement in liquidity in the commodities market.

Such improvement in the liquidity in the commodities market will mean the establishment of domestic market that is reliable for commercial persons and business participants.

For financial players, it will mean that business opportunities will expand, and it will also lead to strengthening of international competitiveness of Japanese financial and capital markets.



Launch of comprehensive exchange will lead to revitalization of commodities markets, which will be to the benefit of extremely large number of people and will contribute to development of Japanese business sector in Japanese economy. That is our firm conviction.

Please now turn to Page 5. As mentioned at the outset, under the integration, as far as structural -- organization structure is concerned, JPX is to make TOCOM as its own wholly-owned subsidiary.

And TOCOM tender offer will take place, whereby, JPX aims to acquire all outstanding shares of TOCOM. However, if that is not completed, then squeeze-out procedures under the company law, including the demand for securities, will take place to acquire all outstanding shares of TOCOM.

After welcoming TOCOM into JPX group, as its wholly-owned subsidiary, the products under scope for transfer will be transferred to OSE. And we also expect to integrate clearing organizations.

As of now, regarding purchase price and other terms and conditions for the tender offer and for details of this transaction, it will be subject to the consultation by the 2 companies and will be based on the due diligence that is to take place going forward.

And as soon as these terms and conditions are determined, we will provide you with the information. Please refer to the last page, Page 6. As for the timetable, going forward, the expectation is the final agreement will be concluded at the end of June this year. And commencement of tender offer is expected at the same timing. And at that timing, due diligence will be conducted, and a working level consultation will be carried out between the 2 companies.

Tender offer is to be completed in September this year and tender offer is to take place -- the settlement of tender offer is to take place in October. And if there are non-tendering shareholders, a squeeze-out procedure will be expeditiously carried out. And at the earliest possible timing in fiscal 2020, we expect to complete transfer of products and consolidation of clearing organizations.

I have thus far discussed the summary of the third medium term plan, and a basic agreement to realize comprehensive exchange. The environment surrounding financial markets in JPX will continue to change dynamically. On the part of JPX, in the midst of such radical change in the environment, we would like to be able to continue to fulfill our responsibilities towards the market, which is our central mission. And we would like to not be afraid of failure, and we'd like to boldly address future challenges.

That concludes my presentation. Thank you.

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