

The Japan Update

August 2014

Japan IPO Market Booming Once Again

– Number of IPOs rises fourth year in a row –

The Japanese market for IPOs is booming once again. Following the collapse of Lehman Brothers and the global financial crisis, the number of IPOs in Japan went into decline. However, after new listings hit bottom in 2009, they have gradually recovered, with increases in the number of IPOs in each of the last four years. In 2013, amid a backdrop of an Abenomics-fuelled weak yen and strong stock prices, in addition to the awarding of the 2020 Olympic Games to Tokyo, the number of companies that publicly listed their shares hit a seven-year high of 53. This momentum is expected to continue in 2014, with 28 Japanese firms having already gone public as of the end of July.

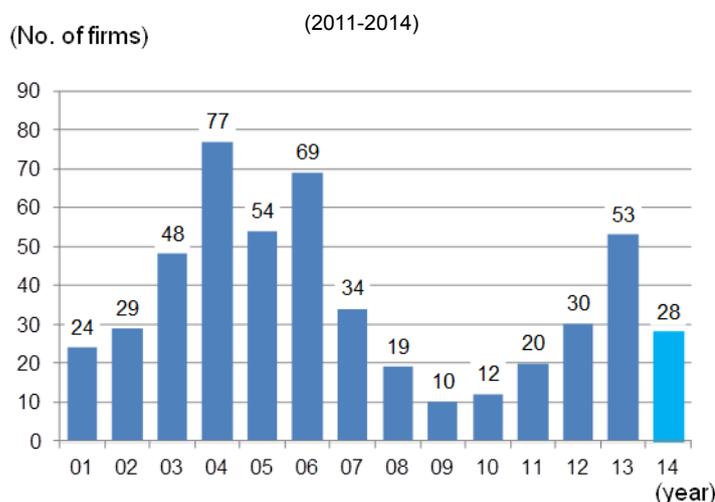
Generally speaking, a company can use an IPO to raise a large amount of capital from the market, which it can then use to expand its business operations. At the same time, being publicly listed helps a firm boost its name recognition. As such, companies that publicly list are viewed as those with growth potential, and can become very popular, including among individual investors. It is therefore not uncommon to see sharp rises in the prices of stocks just after they go public. However, while such names benefit from expectations of growth, their free float is generally much less than that of more established firms. Newly listed stocks will therefore sometimes overheat due to strong popularity among investors. In such cases, share prices will sharply rise after listing, only to plummet thereafter.

This year, the stock prices of six IPO firms rose by more than 30% from their initial offering prices to the end of July. At the same time, four companies experienced price declines of more than 30% from their IPO prices, highlighting the divergent paths stock price movements can take after an IPO. As stock prices may strongly fluctuate shortly following an IPO, market participants need to be selective when investing in newly listed issues, considering the profit growth potential and profit growth sustainability of each name.

Recently, firms in several industries, including social network operators and personnel staffing firms, have drawn the attention of the market by indicating that they are considering a public listing of their shares. Overall, market expectations are that the number of IPOs this year will exceed that of last year. It is therefore likely that the focus on Japanese IPOs will only increase going forward.



IPOs in Japan



Graph above shows the number of new publicly listed companies on the Tokyo Stock Exchange (includes first and second sections, Mothers and (since 2013) JASDAQ).

*No. of IPO firms in 2014 as of end of July.

Source: Nikko AM; Tokyo Stock Exchange, Inc.

Top 5 IPOs in 2014 by Price Change (Gain)

Ticker	Stock	% Change	Initial price	Stock price at July end	IPO date
3687	Fixstars	266.2%	1,808	6,620	Apr 23
7779	Cyberdyne	123.9%	1,702	3,810	Mar 26
3191	Joyful Honda	49.6%	2,650	3,965	Apr 18
9024	Seibu Holdings	42.3%	1,600	2,276	Apr 23
3686	DLE	33.1%	804	1,070	Mar 26

Bottom 5 IPOs in 2014 by Price Change (Decline)

Ticker	Stock	% Change	Initial price	Stock price at July end	IPO date
3192	Shirohato	-39.2%	760	462	Apr 23
3685	Minnano Wedding	-38.4%	3,560	2,193	Mar 25
3683	Cyberlinks	-37.6%	6,550	4,090	Mar 6
3190	Hotman	-34.4%	871	571	Mar 20
6093	Escrow Agent Japan	-29.2%	8,090	5,730	Mar 28

Source: Nikko AM; Tokyo Stock Exchange, Inc.

Any mention of individual stocks does not constitute a recommendation to buy or sell. The mention of individual stocks also does not suggest that these names are currently incorporated into Nikko AM funds or that they will be in the future.

The charts above are based on past data and do not guarantee future outcomes.



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