

Born Global - Japanese Ventures on the Map Symposium 2014

Monday 24th February, 2014

13:00 - 17:00, Sokairo Hall, GRIPS

Key note speech 13:10-13:40

“Born Global: Recent Trends in the Startup Ecosystems of the US and Japan”

Allen Miner - Group Chairman and CEO Sunbridge Group

How has the startup investment climate in Japan and the US changed in recent times?

Allen Miner opened the symposium with recent events, such as Japan’s efforts in the Sochi 2014 Olympics; and in the venture capital scene, the historic \$19 billion purchase of WhatsApp by social network giant Facebook. Looking to Japan, Miner referred to one of the symposium panelists, Ryo Kubota - founder of Acucela Inc., whose biotechnology business held a recent IPO of 19 billion yen. These milestone events signify a new trend in the US and Japan. There is optimism that the Japanese government and industries will place more emphasis on supporting venture capitals.

Miner explained the differences and similarities between Japanese and US venture scenes and highlighted that contrary to expectation, there may not be so many differences between the entrepreneurs in Tokyo and Silicon Valley. For example, in terms of startup funding, the first round of funding for prototypes are generally the same, and in some respects, it may be easier to procure tens of billions of yen in Japan since the scale of venture capital is larger. The US tends to depend largely on individual ‘angel’ investors. The differences lie in that US investors favor placing a long-term view over these startups and invest larger capital throughout.

Ironically, US firms that are now globally recognized, such as WhatsApp, start on a very local scale. Miner pointed out that another symposium panelist, Tatsuya Kato - co-founder of Midokura - in fact launched the company on a global scale.

A significant difference between Japanese and American investment climate is the emphasis on cash flow versus profit. Whereas Japanese investors welcome an early IPO and fast profitability, US investors are not as concerned with profitability until two or three years later. Miner suggested that rather than investing widely and thinly, a narrower focus on specific ventures would lift Japan’s venture scene onto a global standard.

Miner set the tone for the symposium by introducing the crux of the day’s theme: the public disclosure of Japan’s venture source database for the first time, signifying the momentum of Japanese startups that are competing in the global market.

Panel 1 - 13:40 - 15:05

“Realities and Challenges of Global and Japanese Venture Investment”

- Hiro Higashide - Professor, Graduate School of Commerce, Waseda University
- Ryuji Ichikawa - President, Venture Enterprise Center, Japan
- Akira Kitamura - Chairman, Japan Venture Research Co., Ltd
- Allen Miner - Group Chairman and CEO, Sunbridge Group
- Guido Schenk - Sales Director, Private Markets EMEA & Asia Pacific, Dow Jones Publishing Company (Asia), Inc.

- Moderator: Hal Morimoto - Managing Director, Astoria Consulting Group, LLC

What are the challenges that face Japanese ventures aspiring for overseas investment?

As panelists agreed, the fiscal year 2013 demonstrated growth in the area of venture capital (VC) investment on the back of Abenomics - Prime Minister Shinzo Abe's mix of economic policies. Panelists discussed the current state of Japanese VC investment through examples such as the Venture Enterprise Center (VEC)'s 2013 annual white paper published in early February. VEC also made it public in late February that the year 2013's VC investment totaled 160 billion yen, marking a recovery to levels prior to the Lehman Shock and reflecting the impact of Abenomics. However, there is still not enough disclosure in English, and investment data on Japan is not disseminated overseas sufficiently.

The annual white paper from VEC, Japan Venture Research (JVR)'s venture source, and Dow Jones' database will help VC investors make critical decisions about investments into Japanese companies.

While 2013 has been a good year overall for fundraising both in the US and Japan - a record high for Japan with 200 billion yen worth of funds (from JVR's data) - the size of funds in Japan are still too small. There was also a record high number of funds established - eight funds for bio, medical and healthcare and five funds for clean technology.

As for data of Japan's VC investment, we can refer to the statistics from the long-running Survey on Trends in Venture Capital Investment conducted by VEC, as well as JVR's statistics on financing of venture firms that was revealed in recent years.

Looking at Japan's VC investment situation, the amount invested in the calendar year 2013 totaled 160.4 billion yen, according to VEC's data on Japanese VC investment. Of this, 94.4 billion yen (up 149.7% year-on-year) came from investing in overseas companies, focused mainly on the APAC region. On the other hand, domestic VC investment totaled 66 billion yen. This is a growth of 5.1% compared to 2012, showing a steady increase.

According to JVR, the amount raised by companies during 2013 totaled 57.2 billion yen for 307 companies, an increase from 52 billion yen in 2012.

The median amount of financing last year stood at 50 million yen. This is a major increase from the 2009-2012 levels which remained at 20 million yen. Additionally, procurements of one hundred million yen units have progressed from mid-2013 onwards, giving the impression that venture capital firms are making choices and focusing on their investments.

The problems surrounding the financing data on Japanese venture companies include the fact that it is difficult to gather data, and data is often undisclosed. According to JVR's survey, the total number of companies that answered they were financing was 457. Among them, only 307 companies have responded the amount of financing.

Another factor contributing to this increase is the interest in ventures backed by seed accelerators. Yet ranked against other VC hotspots in 2013, Japan already sits amongst the top 10 (ranked 6 after US, UK, China, France, Germany).

Fundraising will also differ according to how exits are played out. How much funding comes from institutional investors and how much from strategic players? Notable differences between Japan and the US is that 90% of exit routes for VC's are M&A's whereas Japan favors IPO's. Also specific to Japan are share buybacks: a panelist pointed out that Silicon Valley investors never mention share buybacks. The appeal of investment in venture capitals is the high risk and lure of high returns.

Finally, a crucial factor in the support of Japan's startup ecosystem is the need for businesses to recruit successful talented engineers at a competitive salary. VC's should be recognized as essential high capital if Japan is to take a stake in the global market. Silicon Valley is now renowned for its lucrative salaries for talented engineers, which, if translated in Japan, would encourage Japanese engineers to quit major corporations and move to venture startups.

Panel 2 - 15:25 - 16:50

“Global Growth and Investment: Startups Challenging Global Market”

- Tatsuya Kato - Co-founder & Chairman of the Board, Midokura Japan KK
- Ryo Kubota - Chairman, President & CEO, Acucela Inc.
- Naoaki Mashita - Founder and CEO, V-Cube, Inc.
- Tomoaki Minamiyama - Partner, Cross-border Listing Team, Ernst & Young Shinnihon LLC

- Moderator: Ken Yasunaga - Managing Director, Value Creation Investment, Innovation Network Corporation of Japan

Whereas the first panel session discussed the significance of venture source data on Japan finally becoming available worldwide, the second panel session focused on three different Japanese startups that are competing in the global market, illustrating the practical implications of these recent trends in the Japanese VC scene.

Tatsuya Kato, co-founder of Midokura, shared his vision of founding Japan’s first global tech start-up. Having come from a background involved in management of VC investments, Kato co-founded the Midokura concept with Romanian citizen Dan, with the aim of establishing a cloud computing system that could surpass the scale of Amazon. After initial experiments with developing prototypes such as the MidoNet (software defined networking) and MidoStore (object storage) the pair decided to focus all their efforts on MidoNet - the cloud-focused SDN. The company, founded January 4th, 2010, in Tokyo, now has 50 employees with 12 nationalities, and physical headquarters in Tokyo, Switzerland, and San Francisco, California. Unlike Silicon Valley startups which start at the local level, Kato wanted to launch a company that was global from the outset and he made efforts to put in place a multi-national executive management team from day one.

Ryo Kubota’s company Acucela Inc. was founded in 2002, with headquarters in the US and a Tokyo office. Acucela is a clinical-stage biotechnology company, specializing in novel therapeutics to combat sight-threatening ophthalmic diseases. Acucela Inc. is now listed on the Tokyo Stock Exchange on February 13, earning the trust of investors. Yet Kubota maintains that the US is most attractive and indispensable for the nurturing and recruitment of talented scientists.

Naoaki Mashita, CEO and founder of V-cube, established the company while he was in his junior year at Keio University, in 1998. V-cube is a web conference service that uses cloud computing to enable corporate customers worldwide to hold meetings on PC’s and tablets. V-cube has achieved the number one market share in Japan’s web conference market since 2008 and has remained in this position for the past six years. Mashita has since established an overseas presence, with offices in the US, Singapore, China, Malaysia, Indonesia, Thailand and France, and himself relocating to Singapore to stimulate further growth in ASEAN countries. Since December 2013, the company has been listed on Tokyo Stock Exchange Mothers.

From a Japanese perspective, the attitude used to be that it was “better to go global.” All panelists agreed that now it should be “must go global,” and that it is of Japan’s utmost imperative to go global. Each of the three startup founders related their experiences with “going global,” underlining the challenges in how to approach business. Others advocated a face-to-face approach - going overseas and talking to customers in Asia and learning through hands-on experience; others chose to shun the “command and control” leadership style and instead adopt the “ask and inspire” model of questioning and encouraging employees.

At the same time, issues of fundraising in Japan due to accounting infrastructure and regulations are seen as holding back Japan. Japan needs to compete with the global standard so that overseas investors see compelling reasons to increase investment in Japan.