Creating Global Ventures

The next challenge for Japan’s evolving venture habitat

Allen Miner
Chairman & CEO
SunBridge Corp.
Agenda

- Introducing SunBridge
- Japan’s Evolving Venture Habitat
  - Concentration of Creativity
  - Entrepreneurism
  - Venture Ecosystem Improvements
  - Venture Finance
- Competing Globally
Introducing SunBridge
SunBridge Founding Goals (2000)

- Create a Dynamic Venture Habitat that combines the best features of Silicon Valley and Japan
- to influence and improve Japan’s Venture Ecosystem, helping to create
  - World-class Global Ventures, and
  - World-class (top-quartile) investment returns
SunBridge Venture Habitat

Established Enterprise

Information exchange and collaboration

Technology Services

Venture Capital and Strategic Support

Information exchange and collaboration

Unrelated Venture

Affiliated Venture

150 Professionals
$100M invested

Consultants
PR Firms
Designers
Agencies

VCs, Banks
Accountants
Lawyers
Incubators

Recruiters
Universities
NPOs
Etc.

IT Vendors
Integrators
ISPs
End Users

Human Resource Services

Sales & Marketing Solutions

Established Enterprise

Information exchange and collaboration

Affiliated Venture

Affiliated Venture

Unrelated Venture
Helping passionate entrepreneurs build successful global businesses
Helping passionate Entrepreneurs build Successful global businesses

Japan’s Venture Habitat

Concentrated Creativity

With strong creativity and power to innovate, Japanese inventions have changed the world, the way we work and the way we live while creating new industry sectors and employment.
Tokyo and Osaka: leaders of the “Spiky World”

- #1 and #9: World's largest metropolitan areas
- Fortune 500 Headquarters
  - #1 Tokyo: 51
  - #8 Osaka: 7
- Global patent leaders
- Leading per capita GDP
Japan is an Innovation Superpower

Leads the world in Patents Issued

FINANCIAL TIMES

FT SPECIAL REPORT JAPAN WEDNESDAY OCTOBER 12 2005

World leader in patents concentrates on incremental innovations

Japan’s secret weapon lies not in its ability to innovate, writes David Filling. With labour costs 20 times as high as in China, unless companies can produce advanced, difficult-to-copy technology, where the labour content is low and the value-added component high, the country will inevitably lose out. Japan’s success, however, and its ability to protect new innovations, makes it the world’s most prolific patentee. If its inventors, it boasts the U.S. on patents filed by about 2:1.

But Japan, like Europe and Russia, is a land of incremental innovation where incremental improvements to existing technologies are easier to come by. In life sciences, as staple industry of the future, Japan does not score nearly so well. Some experts will argue that Japan’s strong record in patents stems from constant improvement of existing technology, rather than truly new or revolutionary invention.

In Pharmaceuticals, Japan is a major player, with many drugs company reaching the market. However, in other fields, Japan remains the world leader in patents issued, often from stocks of technology that have been developed for other purposes. Japan’s success in the world of patents, however, is perhaps best illustrated by the fact that it leads the world in patents issued.

Japan: 342,726
US: 167,183
South Korea: 71,483
Germany: 55,478
China: 40,426
Russia: 19,164

Japanese Patents filed by sector

Innovation indicator: Japan compared

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Patents in VC-favored Technologies

US Patents

Biotechnology

Nano-technology

Renewable Energy

STANFORD PROGRAM ON REGIONS OF INNOVATION AND ENTREPRENEURSHIP
THE WALTER H. SHORENSTEIN ASIA-PACIFIC RESEARCH CENTER
Japan leads the world in R&D investment

R&D share of GDP significantly leads US and Europe & growing faster

Japan R&D Investment:
3.3% and accelerating

R&D Intensity (R&D expenditure as a % of GDP) in 2004 and average annual growth rate (AAGR) of R&D Intensity (‘99-’04)

(Source: Eurostat, OECD)
“Lifestyle IT” leaders

Japanese introduced the world to most of its “Lifestyle IT” products

• **Lifestyle IT (non-computer computers)**
  – Game consoles, digital cameras, car navigation, entertainment robots, mobile internet, IPTV, Mobile DTV, etc.

• **Key enabling technologies**
  – LCD, Flash Memory, CCDs, magnetic and optical storage density and miniaturization, micromotors, IPv6 technologies, battery & fuel cell advances, mobile browsers, laser-scale hard disk servos, etc.

• **The result is an ever richer technology ecosystem underpinning the success of numerous Japanese startups**
  – Access, Index, Faith, Cybird, Shicoh, g-mode, Advanced Media, byD:sign, etc.

These are the kinds of products (not enterprise-productivity tools) that are driving global IT innovation and growth today
Contrary to popular myths, in Japan, as everywhere else, innovation is driven by individual ‘heroes’ – not by industry associations or government. Increasingly, these ‘heroes’ are innovating in entrepreneurial settings rather than corporate or government laboratories.
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World laggard in new business formation

Consistently ranks near bottom of annual GEM Entrepreneurial Activity study

Figure 1: Total Entrepreneurial Activity (TEA) by Country

(出典：Global Entrepreneurship Monitor, 2002: www.gemconsortium.org)
(TEA=that percent of the labor force that is either actively involved in starting a new venture or the owner/manager of a business that is less than 42 months old)
Highly entrepreneurial at times

In times of great change many new companies are formed

1/3 (599) were formed in the 1948-53 GHQ era of dramatic social change and economic recovery
World-class Japanese Entrepreneurs

Winners of Nikkei’s annual Entrepreneur Awards

Tempstaff
Japan’s second largest temporary staff agency
2006 Employees: 2,016
2006 Turnover: 2,129
2007 Mkt. Cap: 1,028

Yoshiko Shinohara - 2007 Winner

Nidec
World leader in brushless micro-sized DC motors
2007 Employees: 80,026
2007 Turnover: 6,296
2007 Mkt. Cap: 10,264

Shigenobu Nagamori - 2006 Winner

Fast Retailing
Inexpensive casual-wear manufacturing and retail
Founded: 1963
2006 Employees: 3,990
2006 Turnover: 4,488
2007 Mkt. Cap: 9,048

Tadashi Yanai - 2004 Winner

Plus
Office Furniture and Supplies Manufacturer
Founded: 1948.
2006 Employees: 4,264
2006 Turnover: private
2007 Mkt. Cap: private

Yoshihisa Imaizumi – 2001 Winner

Culture Convenience Club
Tsutaya Media Rental Chain, Online media
2006 Employees: 3,078
2006 Turnover: 2,283
2007 Mkt. Cap: 1,219

Muneaki Masuda - 2003 Winner

Park 24
Automated Parking Lot Mgt. 20,000+ stalls
Founded: 1971. Age 33
2006 Employees: 638
2006 Turnover: 653
2007 Mkt. Cap: 2,323

Kiyoshi Nishikawa – 2000 Winner

SoftBank
Software Distribution to Internet Zaibatsu
Founded: 1980. Age 23
2006 Employees: 17,075
2006 Turnover: 11,086
2007 Mkt. Cap: 27,188

Masayoshi Son – 2005 Winner

Pia
Ticket retailing and event information publishing
Founded: 1972. Age 22
2006 Employees: 308
2006 Turnover: 961
2007 Mkt. Cap: 182

Hiroshi Yanai - 2002 Winner

H.I.S. Group
Discount travel & tourism
70 international branches
Founded: 1980. Age 29
2006 Employees: 4,328
2006 Turnover: 3,289
2007 Mkt. Cap: 1,267

Hideo Sawada - 1999 Winner
How to create more world-class entrepreneurs?

From the mid-1990s MITI officials began to have serious concerns about the lack of high-potential technology startup activity in Japan and launched a 10-year initiative to study Silicon Valley and replicate its features as much as possible.
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Dramatic changes in a short time

From the perspective of entrepreneurs starting companies and the Venture firms backing them, Japan’s regulatory environment, capital markets, labor mobility and social attitudes have changed so dramatically in the past 6 or 7 years as to be nearly unrecognizable to someone who’s knowledge of Japan is rooted in the common sense of the 1980s bubble era or 1990s lost decade.

2000-04 Dramatic structural change
• Commercial code and IPO rule changes
• Shift in domestic VC focus from very late stage to very early stage
• University TLOs, spinouts encouraged
• Restructurings, Layoffs - end of lifetime employment

2004-6 Recovery
• Economy, Stock Mkt.
• Emergence of “Serial Entrepreneurs”

2008-09 Collapse of IPO markets
• J-Sox, Global Financial Crisis

Quicker exits on new markets. Better IRRs for VCs & LPs
New access to World-class R&D

Over 20,000 1-yen companies registered in first two years after regulation changes allowed them.

Dramatic regulatory changes
Because of the world-famous examples of such companies as Oracle, Cisco, Google, and Salesforce.com, it is widely believed that Silicon Valley creates more high-growth companies than any other region in the world.

<table>
<thead>
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<th>Number of public companies formed after 1997 which had sales greater than $50M in 2007 and three consecutive years of growth above 50% from 2005-2007.</th>
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<td>US: 22</td>
</tr>
<tr>
<td>Japan: 12</td>
</tr>
<tr>
<td>India: 10</td>
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| By Metro:                                      |
| Tokyo: 10                                      |
| Silicon Valley: 6                             |
| Shanghai: 4                                    |

(source: SunBridge analysis of Bloomberg data)
Venture Finance in Japan

A shortage of private capital and low barrier to public offering led to exceptional VC returns while limiting the long-term growth potential of Japanese startups.
IPO lead-time truncated after 2000

Median Years from Company formation to IPO by Exchange (2002 - 6/2005)

- Mothers, Hercules
- Jasdaq
- Tokyo 1st Exchange

(Source: Asia Shoken Publishing, IPO no Sekai)

Quicker exits on new markets. Better IRRs for VCs & LPs
Helping passionate entrepreneurs build successful global businesses

Japanese VC Investments by Company Age

Shift from pre-IPO to earlier stage investing.
Over 50% of investments now in companies under 5 years old

Figures are total amount invested (in ¥100M units) 1996-2001 are percentages

Age (in years) of company at time of investment

Source: VEC Annual Surveys
Comparing VC Investments Globally

Japan’s VC industry may be significantly underfunded
Japanese VC industry spreads risk

Many small investments across large portfolios

Domestic Venture Capital Investment as a Percent of GDP

Number of Companies Receiving Venture Capital in 2000

Source: Global Entrepreneurship Monitor, 2001: www.gemconsortium.org
Macro financial factors supporting potentially high VC returns in Japan

- Shortage of Capital vs Size of Opportunity
  - VC/GDP ratio < ¼ that of US.
  - No Overhang in Japan
    - “US VC is still about 3 times overfunded”
      (Ray Lane, at Stanford Summit, 4/6/05)
  - Very Few megafunds exist in Japan
    - Venture Economics fund benchmark data shows a precipitous drop-off in IRR performance as funds grow larger than $250M
  - Buyers Market = Attractive deal valuations
  - Fewer me-too startups = Higher probability of success
  - Better capital efficiency = Less dilution

- Attractive IPO exit market (UNTIL J-SOX!!!)
  - Stable = No need to force companies thru a window
  - Reasonable = Less (wasteful) regulatory overhead
  - Continued acceptance of young emerging cos.
  - Median Revenues of about US$20M, profits of $1-2M at IPO on Mothers and Hercules
  - Side-effect: Underdeveloped M&A exit market

- Result: Better environment for high VC returns!
Helping passionate entrepreneurs build successful global businesses

Former executives of Oracle, Sybase, SAS, Adobe, Fuji Xerox, Recruit, Accenture and IBM Japan providing strategic guidance and a full range of business development services to Japanese, American, Asian and European entrepreneurs striving to grow successful technology businesses in Japan.

- $100M invested.
- 45 Japanese and 12 US companies
- Information Technologies and Internet.
- Seed & startup in Japan. Early expansion in US.
- Actively add significant strategic value beyond capital
- World-ranking IPO (7) and M&A exits
- Global top-quartile IRR

Top 20 2004 IPOs (US and Japan, by Initial Market Cap., $Ms)

Google
SMIC
DreamWorks Animation
Cabela's
Salesforce.com
EyeTech Pharmaceuticals
Bill Barrett Corp
Shanda Interactive Entertainment
NetPrice (#1 in Japan)
Shicoch Engineering (#2 in Japan)
ItoPhonics
Lipman Electronic Engineering
Archipelago Holdings
MCJ (3 in Japan)
Kanbay International
Athens Communications
Recruit (No. 1 in Japan)
Fujipream (No. 4 in Japan)
Shicoh Engineering (#2 in Japan)
Fujitsu

Top 20 Venture-Backed Acquisitions 2001 to 2005 ($Ms)

Skype, 3Q05
Antero Resources, 2005
Flarion, 3Q05
Seesint, 3Q04
Hotwire.com, 3Q04
ViTel, 1Q01
Angiogen, 2Q05
Shopzilla, 2005
Lynk Systems, 3Q04
Interactive Search, 2004
ESP Pharma, 1Q05
Catena Networks, 2004
Amber Networks, 3Q01
Viva Inc, 1Q06
LigaLogic, 1Q01
TradeWeb, 2Q04
Brightmail, 2Q04
Fulcrum Networks, 1Q02

Top Quartile Vintage 2000 VC Funds (IRR)

SunBridge
Average Top Quartile
3.9x net to date
49.50%

Top Quartile Vintage 2001 VC Funds (IRR)

Equitek
Average Top Quartile
6.5x net to date
10.4%

Top Quartile Vintage 2002 VC Funds (IRR)

SunBridge 2002
Average Top Quartile
1.3x net to date
24.3%

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Lynk Systems, 3Q04
Interactive Search, 2004
ESP Pharma, 1Q05
Catena Networks, 2004
Amber Networks, 3Q01
Viva Inc, 1Q06
LigaLogic, 1Q01
TradeWeb, 2Q04
Brightmail, 2Q04
Fulcrum Networks, 1Q02
How are we doing? (2010)

✔ A Dynamic Venture Habitat that borrows best practices from both Silicon Valley and Japan
to influence and improve Japan’s Venture Ecosystem, helping to create

✗ World-class Global Ventures, and
✔ World-class (top-quartile) investment returns
Competing Globally

Japan continues to create many world-class entrepreneurs and multi-hundred-million dollar high-growth companies.

Why don’t they expand internationally like they used to?
“The Middle is Missing”

- 2004 get-acquainted meeting with METI’s newest “shinki sangyou tanto kachou”
- “Don’t Japanese startups have a hard time raising seed capital?”

- Japan does not lack seed capital or exit opportunities. But private $10M+ “C round” (and D round?) to enable aggressive sales and product expansion is missing…
- Instead the entire Venture Ecosystem pushes Japanese entrepreneurs to go public as quickly as possible
- They raise cash that they can’t use for aggressive organic growth and often underperform expectations after their IPO.
- Japan needs a “chotto matte IPO” fund or two.
The domestic opportunity is big enough?

My most disappointing globalization war-story

Globalization of Some Leading Japanese Internet Cos.

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<th>International</th>
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<td>Rakuten</td>
<td>#73</td>
<td>$2.98B</td>
<td>fr 2010 w/ Baidu</td>
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<tr>
<td>CyberAgent</td>
<td>#77</td>
<td>$938M</td>
<td>fr 2008. neglig.</td>
</tr>
<tr>
<td>Index Holdings</td>
<td>mob.</td>
<td>$724M</td>
<td>13%</td>
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<td>DeNA</td>
<td>mob.</td>
<td>$376M</td>
<td>fr 2008. neglig.</td>
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<td>Mixi</td>
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<td>$120M</td>
<td>3%</td>
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<td>China/Shanghai</td>
<td>vs.</td>
<td>US/Silicon Valley</td>
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<td>Emerging Economic power = rapidly growing market opportunity</td>
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<td>Biggest internet and mobile markets</td>
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<td>Current WW Focus of attention &amp; capital</td>
<td></td>
<td>Gathering place of global Tech talent &amp; capital</td>
<td></td>
</tr>
<tr>
<td>Cultural cousins</td>
<td></td>
<td>Cultural opposites?</td>
<td></td>
</tr>
<tr>
<td>Not a stepping stone for global expansion</td>
<td></td>
<td>Highly connected worldwide (incl. China)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Repeatedly creates “the next big thing”</td>
<td></td>
</tr>
</tbody>
</table>
What Can I do about it?

Since 2009: Shifted my emphasis from Bringing “Silicon Valley” to Japan to Bringing Japanese to Silicon Valley
Launching soon at Plug & Play

- The most active, dynamic hub for startup activity and related industry interaction in Silicon Valley.
- Continuous flow of local VCs and international visitors that provides high-value networking opportunities
- Launch with 5 high-potential Japanese startups and a network of supporters
- Attract US VC expansion capital and world-caliber executive talent