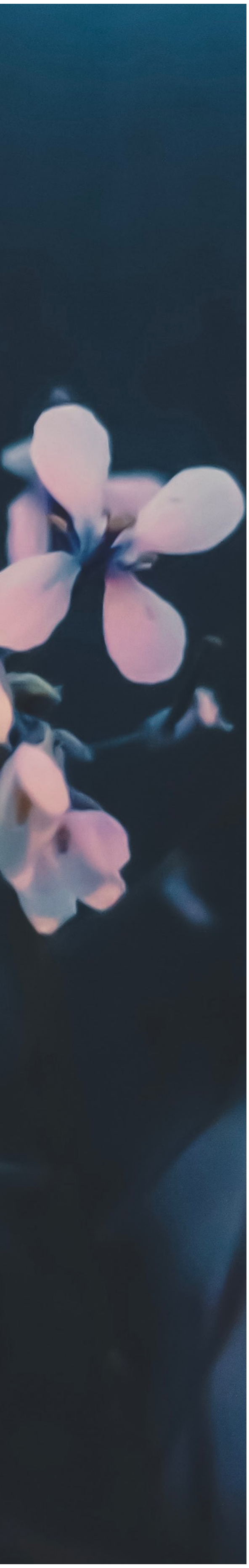
Global Corporate Venturing Leadership Society

CORPORATE VENTURING AND JAPAN

Q4/2019



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Editorial: Japan's venture sun rises with its potential

James Mawson
Editor-in-chief

It might seem a paradox that the world's third-largest economy struggles to attract the world's largest venture investor to its shores, especially when SoftBank is a Japan-based investor.

But while SoftBank's near-$100bn first Vision Fund has avoided backing homegrown entrepreneurs, hope is growing things will be different for the second, which is already targeting at least $108bn.

SoftBank plans to contribute $38bn of the capital, with support from insurer Dai-ichi Life, financial services firms Mizuho Bank, Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Financial Group, Sumitomo Mitsui Trust Bank and brokerage group Daiwa Securities.

Effectively, almost all of Japan's institutional investors are behind SoftBank and, adding in the $270m raised in the summer for the earlier stage SoftBank Ventures Asia fund, rebranded from SoftBank Ventures Korea in January to reflect an expanded mandate across Asia, Europe and the US, if a startup is promising enough it will find its way to the Vision Fund. Whether any will do so depends in part on the entrepreneurs.

Japan itself can point to its openness to capital and technology but the business culture remains a hierarchical one based on seniority and local connections and relatively few entrepreneurs willing or able to expand internationally. But perhaps only a few role models, such as Masayoshi Son, founder and CEO of SoftBank, or Kotaro Yamagishi, co-founder of games group Gree and more recently of business university Keio's Innovation Initiative, are needed. The younger students are increasingly attracted to entrepreneurialism as the fast-track to success through joining an established corporation and having a job for life is (or perhaps already has) broken down.

There are increasing numbers of corporate and venture capitalists willing to back these startups and Japan rose to second in the global ranking of deals in the first half of 2019, according to GCV Analytics.

Japan Inc's prior efforts into corporate venturing were often case studies in designed-to-fail

More importantly, given Japan Inc's prior efforts into corporate venturing were often case studies in designed-to-fail through rotation of staff, small funds, a focus on financial-only results and a lack of understanding in the C-suite, this time the lessons are being learned. Listening to the leaders of new programs that have been set up or managed for DeNA, Omron, MS&AD and others and the desire for global best practices remains strong.

GCV's annual survey with the Japan Venture Capital Association has already been analysed for local and international differences and formed the basis of a report for the Ministry of Economy, Trade and Investment. This year's GCV Asia Congress, therefore, has moved from China to Tokyo to build and deepen the links between Japan and the international corporate venturing community.

It is a great honour to partner with the JVCA, Sony, DLA Piper and the Japan Research Institute, among others, to bring you the four-day program of site visits, conference and GCV Academy. ◆

Delight Ventures marks its independence

Managing partner Dai Watanabe discusses the unit's strategy and how it will work with entrepreneurs and DeNA's employees

Dai Watanabe
Delight Ventures

By **Liwen-Edison Fu**
Reporter

Internet company DeNA does not consider venture capital fund Delight Ventures unit a pure corporate VC vehicle, Dai Watanabe, a managing partner for Delight, told GCV.

"Its structure combines the strategic benefits of a CVC arm for the parent organisation and the advantages of an independent VC fund," Watanabe said. "In other words, despite having DeNA itself as a single limited partner, investment decisions and so on will be made by a team independent of the corporate.

"Independent partners who do not belong to DeNA will participate by way of capital contribution and carried interest, sharing the losses and gains generated by entrepreneurs and co-investors."

Delight Ventures was formed in July, at a point where the startup scene in Japan has matured, and a time when the country's venture investments have increased over the past decade.

However, Watanabe was quick to point out that Japanese VC investments as a proportion of GDP remains half that of France, a third compared with Canada, a seventh compared with China and a ninth of that in the US.

He added Japan is among the most difficult places to launch a startup, according to information gathered by several research institutes.

"As a tradition, many Japanese companies employ large numbers of university graduates each year," he said.

"The country also runs a fullyfledged education system assuming citizens' lifelong employment by a single organisation. As many young people are designing their life based on that system, it is difficult for entrepreneurship to be a viable option." ➔

Nevertheless, DeNA prides itself in maintaining an agile and capable workforce who have graduated from top universities or worked at top corporations.

Watanabe said Delight Ventures aims to leverage DeNA's talent and corporate culture as asset and contribute to the development of the Japanese entrepreneurship culture.

In the fields of medical care, nursing care and insurance, I believe major innovations are expected to emerge from Japan

"We do not make investments that are conditional on strategic partnerships or that sacrifice the startups' strategic options," he said, adding: "On a deal basis, we do not emphasise DeNA' s strategic returns but pursue only financial returns."

DeNA remains a major deal source for Delight Ventures according to Watanabe.

"Most of the new business development activities conducted at DeNA will be transferred to the Venture Builder program under Delight Ventures, while those that benefit from DeNA's resources and knowhow will be directed towards spinouts and capital gains."

DeNA also provides capital and entrepreneurial talent to Delight Ventures, and it is possible that many of the portfolio companies' founders may spring from the corporate itself.

"Delight Ventures encourages, backs and supports DeNA employees," Watanabe said.

"By doing so, we hope we can employ talented people with high entrepreneurial thinking that we did not have access to until now, or bring people with entrepreneurial experience on board as executives.

"DeNA's business leaders and industry experts provide mentoring to startups. If portfolio companies would like, they also have the possibility of partnering DeNA's different business units and allies from multiple industries."

To facilitate entrepeneurial initiatives, Delight Ventures focuses on deals from the early stage to series A, including those in the ideation phase. Its investment areas are not restricted to a specific industry.

As an example, Watanabe mentioned one aspect of Japan's social issues where innovative technologies might come in handy, its ageing population, adding: "In the fields of medical care, nursing care and insurance, I believe major innovations are expected to emerge from Japan. Otherwise, hot topics in the US and Europe are areas where tech innovation happens in Japan as well."

DeNA can help portfolio companies reach an exit, but the venture does not propose an investment contract in which DeNA is prioritised as a buyer.

Watanabe said: "The fund's formation will be completed hopefully by the end of summer, but the selection of potential startups has already begun following the strategy I have explained. Before the actual formation of the fund, direct investments from DeNA itself will also be considered." ◆

TDK reads A-OK for ventures

Materials and hardtech will be focuses for the CVC unit, says MD Nicolas Sauvage

Nicolas Sauvage
TDK Ventures

By **Liwen-Edison Fu**
Reporter

TDK Ventures aims to invest in early stage startups globally that will propel digital and energy transformations especially in materials science and hardtech, its managing director Nicolas Sauvage has told GCV.

Electronics manufacturer TDK Corporation's corporate venture capital vehicle was formed in July.

"We are interested in verticals such as health and wellness, next-generation transportation, robotics and industrial manufacturing, mixed reality and the wider internet-of-things markets," explained Sauvage.

"We are laser-focused on startups that are the current 'king of the hill' in their technology area, with the intention of helping them to become 'king of the mountain' as these emerging market segments mature."

TDK will engage actively with TDK Ventures' portfolio companies, he said. "We have a startup liaison from our corporate parent whose role is to make sure we bring all the 'TDK goodness' to the startups we invest in."

I have huge respect for entrepreneurs who want to build a better future

This covers: identifying opportunities to leverage TDK's scale and reach to access potential customers, channels and global ecosystem; introducing appropriate industry connections; sharing market knowledge and operating expertise; and providing go-to-market and branding mentoring.

"Already in many of our early discussions, startups have told us they actually want to leverage a strategic relationship with TDK, so of course, we will assist entrepreneurs if this is what they feel is best for them," said Sauvage.

"Otherwise, I want to be very clear we will never gate an investment to a contractual engagement with TDK. ➔

If this happens organically before or after an investment, great, but this is not an investment criterion."

The idea of TDK Ventures came to Sauvage while he was attending the Stanford Executive Program last summer. "Jesper Sørensen, professor of organisational behaviour at Stanford University, opened my eyes to the 'exploitation versus exploration' approaches of organisations.

"Prof Sørensen emphasised why corporate venturing is a valuable tool for innovative companies to use, especially when done well. It was natural to see how corporate venturing fits with an innovative company like TDK, and so TDK Ventures was born.

"As managing director, my role is to serve as a steward to the TDK Ventures team and our threefold mission – first, to help the entrepreneurs we invest in to achieve the highest levels of success commensurate with the opportunities; second, to share with TDK Corporation all meaningful actionable learnings; and third, to contribute value as a co-investor in the VC and CVC community."

Before he joined TDK in August 2016 as a senior director of ecosystem, Sauvage worked at startups and small-sized enterprises, where he walked similar paths to many of the startups he and his team will be considering as portfolio companies.

"I have huge respect for entrepreneurs who want to build a better future. At TDK Ventures, I plan to apply this experience along with that of our team, to more accurately identify startups with the potential to become 'number one' companies in meaningful market segments, and to understand what it takes to help these startups increase their odds and accelerate their success."

The unit's strategy is "walking before running", meaning its initial plans are to follow rounds rather than leading.

"As such, and within our strategic and financial goals, we expect to consider observer board seats," elaborated Sauvage.

"More meaningfully, we are looking to develop professional intimacy and genuine trust with the startups we invest in, to gain a mutual understanding of what they would value the most from all the TDK goodness we could bring to them.

"Ultimately it will be up to the startups to choose what they want to leverage, and when they want to leverage it, as we anticipate this may change over time."

Concerning TDK Ventures' plans, Sauvage said: "We are very much looking forward to working with the wider hard-tech investment community to become a valued partner that adheres to industry best practices, while adding value, and increased valuation, to the startups we co-invest in." ◆

Innovation Growth Ventures is no Innovation Fund clone

GCV Powerlist member Gen Tsuchikawa on Sony and Daiwa Capital Holdings' new investment vehicle

Gen Tsuchikawa
Innovation Growth Ventures

By **Liwen-Edison Fu**
Reporter

Gen Tsuchikawa, who featured on the GCV Powerlist, has been named CEO and chief investment officer of Innovation Growth Ventures (IGV), a Japan-based joint venture by consumer electronics producer Sony and brokerage Daiwa Securities.

IGV's first fund was launched in July by Sony with Daiwa's investment banking subsidiary, Daiwa Capital Holdings, to target areas including artificial intelligence (AI), robotics, mobility, internet-of-things, entertainment, medical, financial and sports technology. It has targeted $185m for its final close.

Tsuchikawa has been head of the $100m Sony Innovation Fund since it began in 2016. He will continue in that position in tandem with his role at IGV.

He said: "My new role is an extension of my current role as head of Sony Innovation Fund, leading investments and supporting business development in innovative startups across Japan, Israel, Europe and North America.

"The difference is that Innovation Growth Ventures, in partnership with Daiwa and other outside limited partners (LPs), allows us to invest in more growth-stage companies with larger individual investments."

SIF primarily backs seed or early-stage startups, but IGV will invest mainly in mid to late-stage.

"With that said, our investment strategy is broad as our target verticals continue to evolve for both SIF and IGV," Tsuchikawa said. "We invest in the areas where the world, and Sony, are moving."

During his career at Sony, Tsuchikawa has served as head of investor relations, head of mergers and acquisitions and head of business development. ➔

"Since establishing Sony Innovation Fund in 2016, we have invested in 50 emerging companies, primarily in robotics, AI and other fields with high growth prospects," he said.

"I believe that this combined experience helps me to target opportunities and make appropriate judgements at the fast pace required for a startup."

The funds interact with portfolio companies in various ways but their common objective is to help them to grow and develop, Tsuchikawa said.

"Our involvement and collaboration are based on the startups' business goals and what they want out of the relationship. If they ask us for advice, we will provide it. If there is business alignment with any of Sony's business groups or wider network, we will help establish those relationships," he said.

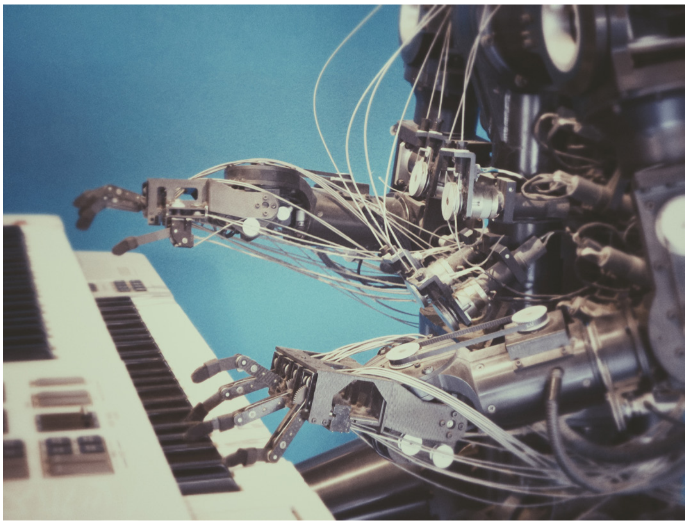
"We take observer seats and will take board seats if the company we are investing in strongly feels that we should participate in that way."

More broadly, Sony Innovation Fund provides value-add to portfolio companies by acting as the gateway to its parent company. Entrepreneurs recognise Sony as a well-respected household brand and seek out Tsuchikawa as a trusted partner with the technology knowhow to help them on their startup journey.

"Startups can largely benefit from our technical and business expertise, [intellectual property, research and development] and access to our global partner network to scale, reach new markets and create global businesses," he stated.

IGV has accumulated capital from several LPs including sales finance provider Mitsubishi UFJ Lease & Finance Company, financial services firms Sumitomo Mitsui Banking Corporation and Osaka Shoko Shinkin Bank, and an unnamed university,. The unit will also offer strategic assistance to its portfolio companies.

Tsuchikawa explained: "IGV has the unique value proposition of being able to offer startups all the benefits from the wealth of experience and resources from both institutions and our expansive network."



Innovation Growth Ventures, in partnership with Daiwa and other outside LPs, allows us to invest in more growth-stage companies with larger individual investments."

Regarding investment target, Tsuchikawa said: "We are continuing to look for innovative companies that are focused in our area of interest.

"Our primary goal in both funds is to support the growth of startup companies through our investments and promote open innovation through collaborations between portfolio companies, third parties and renowned research institutions to further the advancement of society as a whole.

"At SIF, we will continue to manage and invest in early-stage startups from our first fund. At IGV, we aim to invest $185m in mid to late stage startups across the globe. ◆

Omron Ventures harnesses innovation to change culture

Chief executive Tomoko Inoue describes her unit's core interests and how it interacts with entrepreneurs

Tomoko Inoue
Omron Ventures

By **Liwen-Edison Fu**
Reporter

Omron Ventures, the corporate VC arm of automation equipment manufacturer Omron, is looking to deepen its global mindset and harness innovation, CEO Tomoko Inoue said.

"Since I joined Omron Ventures, we have been focusing more on companies outside of Japan. This past year, we have invested in four companies and all of them are from abroad," she said. The companies include US-based connected car analytics provider Connected Signals and Israel-based facial recognition technology developer De-Identification.

Omron Ventures was founded in 2014, and Inoue came on board in April 2018. It currently targets early-stage developers in three areas: digital health, mobility and industrial robotics.

Inoue mentioned healthcare as an example of how Omron is looking to reinvent a well-established industry through innovative companies, adding: "The area has already been established in the global ecosystem, so it is really hard to take the risk to develop new ways to fulfil some of their needs.

Not only do we look at the deep medical field, but we also focus on consumer health

"The large medical device corporations' strategy is looking at startups that have cutting-edge technologies, and once they obtain official approval, the corporate either acquires the startup company or gets the tech distribution rights.

"Omron Ventures is doing both; not only do we look at the deep medical field, but we also focus on consumer health. The risk level is different from therapeutic devices but the competitive landscape ➔

changes very fast, so it is important to create a good collaboration or partnership with the startups."

The unit enters into what Inoue calls a soft engagement with entrepreneurs to avoid "narrowing the scope of the startup's future strategy", and it generally takes observer seats rather than full board seats.

Inoue said Omron Ventures places an emphasis on strategic return but does not neglect the financial side, supporting portfolio companies to eventually work towards an exit.

The unit has invested in 12 startups and exited industrial robotics technology developer LifeRobotics and high-speed gesture tracking technology developer Exvision.

Her experience plays a role in Inoue's remit. She helped set up MedVenture Partners, a venture capital subsidiary of public-private investment partnership Innovation Network Corporation of Japan, in 2013, at the start of a five-year stint as a senior manager.

"For me, the major milestone was starting this new fund and achieving investment success to develop the Japanese ecosystem," Inoue said. She conducted medtech deals on behalf of the firm not only in Japan but also in the US.

Inoue was also involved as a faculty fellow in the Biodesign Program at Stanford University, and said: "Several Japanese universities also started the Biodesign Program in partnership with Stanford University, and I supported this initiative."

Having been involved in the investment space in Japan for more than a decade, Inoue believes Omron Ventures acts as a successful role model in the parent company's open innovation process, bridging the gap between seasoned and more nascent business departments.

"Going forward, we would like to leverage this model to make a cultural change at Omron, making it more open and putting its words and thoughts into action," she concluded. ◆

MS&AD finds its route into Silicon Valley

Managing partner Tak Sato talks about insurer MS&AD's corporate venturing unit located in Silicon Valley

Takashi 'Tak' Sato
MS&AD Ventures

By **Liwen-Edison Fu**
Reporter

Managing partner Takashi 'Tak' Sato has told GCV how MS&AD Ventures, the corporate venture capital arm set up by Japan-based insurance firm MS&AD Holdings, was formed and how it has evolved.

"MS&AD has operations in 47 countries but did not have an office in Silicon Valley before," he said.

The corporate made a fund-of-fund investment in February 2017 when it backed NSV Wolf Capital, the US-based VC firm then known as NetService Ventures Group, to explore the Silicon Valley ecosystem, and sent delegates to the US three months later.

"My initial goal was to establish a stable partnership and relationship with startups on behalf of MS&AD Group," Sato said. "But the startups declined even to meet me because I did not have any investments nor did I have any decision-making role, so it was a waste of time for them.

"I was able to meet a couple of startups during my stay in Silicon Valley, and I spent some time telling them how good MS&AD was as we have 47 operations globally. If a business partners MS&AD group, it will scale easily."

The MS&AD Garage Program was launched by Sato in January 2018. It is a scheme where employees worldwide can sojourn in Silicon Valley over a period lasting for a few weeks to several months to address specific pain points they encounter in their respective countries.

Sato, however, wanted to improve the initiative and told the group executives: "I want to have skin in the game in Silicon Valley and show commitments to startups. If we want to be serious, we need a CVC unit."

The board members agreed, and MS&AD Ventures was launched in October 2018 to form business and capital alliances with agile startups ➔

developing novel products and services that could address the increasingly dynamic market demands the company faces.

"It took us six months to kick off this initiative because of a lack of autonomy," Sato explained. "We had a tough couple of months to hire a good managing partner who is experienced in Silicon Valley because of that – until I changed the strategy to have more autonomy.

"Prior to that, there was an investment committee of six members, five of whom were stationed in Japan, and we only had one investment vote here in Silicon Valley. We had to get approval from the headquarters to make any investment, which was quite challenging.

"Currently, we only have four investment committee members, two in Tokyo – MS&AD chief financial officer Shiro Fujii and innovation office head Satoru 'Ted' Shiono – plus two in Silicon Valley – Jon Soberg and I."

Soberg is another managing partner who came on board upon the unit's launch. It now has almost full autonomy, as the Tokyo head office only has the right of veto in the early stage of an investment discussion, which allows the unit to act quickly.

Sato said: "I was a one-man team at first, but now we have six members based in Silicon Valley."

MS&AD Ventures was initially equipped with ¥4.5bn ($40m) and the size was tripled to ¥13.5bn ($128m) in August this year. The unit invests primarily in developers of innovative risk, insurance and financial technologies and new business models. It participates at seed to series B-stage with a ticket size between $500,000 to $3m per deal, focusing on both financial and strategic returns.

Sato confirmed that the unit has already funded more than 20 startups in eight months, including Germany-based, pan-European licensed insurtech company Element, enhanced speech recognition technology developer i2x, US-headquartered weather analytics software provider Jupiter and Israel-based cybersecurity software developer VDoo.

"We want to show our speed and our global autonomy to the market," he said. The unit prefers to concentrate on risk-focused technology rather than direct insurtech, "supplying peace of mind and security – because natural disaster brings a serious disruption to society".

Moving forward, Sato aims to obtain a good strategic return for the corporate and reinforce the Garage Program to discern pain points in MS&AD's offices worldwide. By working extensively with innovative startups, "we just might create a next-generation insurance company," he affirmed. ◆

RSP looks inwards

Akihiko Okamoto, head of Recruit Strategic Partners, on helping startups enter Japan

Akihoko Okamoto
Recruit Strategic Partners

By **Robin Brinkworth**
Reporter

Recruit Strategic Partners (RSP), is the corporate venturing arm of Japanese human resources (HR) company Recruit Holdings, run through the parent company's research and development department.

The unit focuses on investing in technology-based businesses to build a new non-HR "business pillar" in the next 10 years. For Akihiko Okamoto, this means the team "never make[s] an investment if we cannot expect any strategic return. We believe financial return and strategic return can be compatible."

The fund is supported solely by Recruit Holdings and has annual investment capital of between $50 to $100m. Its total assets under management are now over $200m.

Okamoto and RSP report directly to Recruit's chief executive, while also having authority to make investment decisions, meaning RSP can move swiftly. According to Okamoto, the unit is looking at companies "that have the potential to become game-changers of existing industries".

He added: "We are currently focusing on artificial intelligence (AI), robotics, the internet of things and blockchain. We are also keen on fintech and business applications that can potentially support small to medium-sized businesses (SMBs), since we believe we can contribute a lot to the growth and efficiency of the Recruit Group's core SMB customers."

Many of the testimonials on RSP's website are about bringing western startups into the Japanese market, in part because, as Okamoto says, Recruit is not just about HR.

He said: "Recruit is a leading company that has built overwhelmingly strong customer bases – both business and consumer – not only through HR, but also internet media business in non-HR verticals such as housing, dining, beauty salons, travel and school education. These media businesses have the number-one market share in Japan in terms of revenue, profit and transaction volume. ➔

"I believe Recruit can become the best partner for American or European startups for entering the Japanese market, based on our knowledge and experience."

RSP's advantage is increased by the volume of online transaction data Recruit holds from its other business units, and its strong customer base. Like many other corporate VCs, RSP also has what they call a "business success team", designed to provide hands-on support and integration as startups enter Japan. That and RSP's agility relative to other Japanese CVCs mean RSP has a unique package, Okamoto believes.

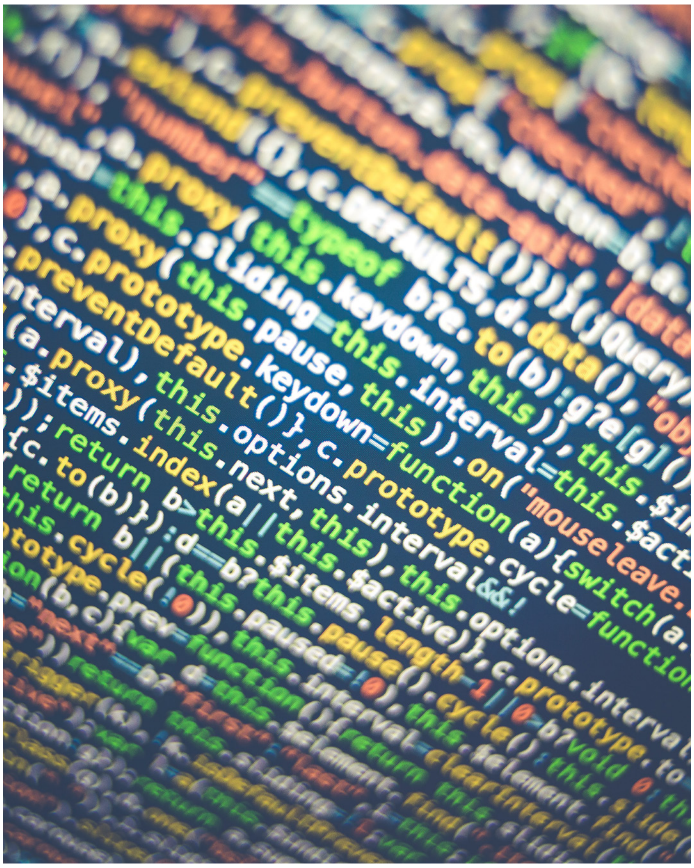
However, it is not open to every startup looking to enter Japan. Okamoto personally feels there are too many overvalued AI startups. For him, here is where Recruit's strengths really come to the fore:

"AI is a technology that needs to be trained with real data. In that sense, Recruit's transaction data and customer base play an important role in determining the quality of AI startups' technologies.

On the other hand, blockchain has great potential to become a breakthrough technology.

Lots of startups will transfigure blockchain into a practical technology infrastructure.

Publicly, RSP has been quiet over the past few months, with its last major deals including healthcare robotic relay company Savioke's $17m series B, and India-based online lending platform Rubique Technologies' latest round, reported as being between $15m and $20m. Both were announced in the middle of last year. While RSP already has a sizeable portfolio – nearly 60 companies, with 10 successful exits and eight IPOs – Okamoto is now seeking to add to that, with another pair of deals in the pre-announcement stage. ◆



[RSP] never make[s] an investment if we cannot expect any strategic return. We believe financial return and strategic return can be compatible.

Japan builds on tech foundation for VC growth

Its technology sector is the bedrock but the innovation boost the country needs is beginning to happen

By **James Mawson**
Editor-in-chief
Alice Tchernookova
Features editor
Kaloyan Andonov
Reporter

Bound by the Sea of Japan to the west and the Pacific Ocean to the east, Japan spans close to 378,000 sq km, 364,000 of which are land and the rest water. The country consists of 6,850 islands, the largest of which are Honshu, Hokkaido, Kyushu and Shikoku, which make up about 97% of the territory.

The country is also home to the world's 11th largest population, of more than 127 million people, and has often been singled out as an early demographic example of a population diminishing, rather than growing. Estimates project that by 2065, figures could plummet to 88 million – a drop of as much as 30% compared with 2015.

Not only is Japan's population shrinking, it is also ageing. With a median age of 46.7, it is the world's second oldest, behind Monaco, where the median age is around 53. Government studies also forecast that by 2065, people aged 65 and above will account for around 38% of the population.

A mitigating factor may, however, be that Japan has one of the world's highest life expectancies, ranking second at 85.52. It is also second, after Canada, for most educated population, with 50.5% of 25 to 64-year-olds having completed some form of tertiary education, according to the Organisation for Economic Cooperation and Development.

Over 70% of the land is mountains and volcanoes and the country has often been seen as one that offers few natural resources. It is perhaps no wonder, then, that the country is known mostly for its groundbreaking contributions to technology and innovation, particularly in the areas of electronics and automotive.

The archipelago is the world's third-largest economy, with a GDP of nearly $5 trillion, and is home to some of these sectors' most successful businesses, such as Canon, Casio, and Nikon for electronics, and Yamaha, Toyota and Nissan, for automotive, to name a few.

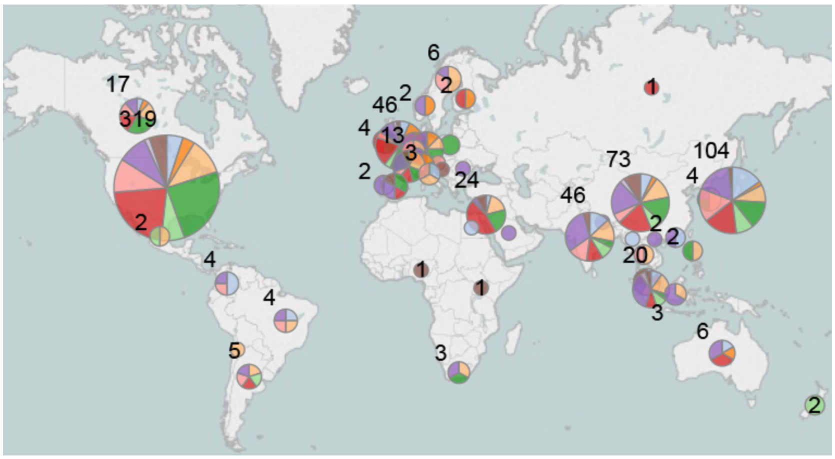
More recently, these traditionally strong areas have been supplemented by new technologies, which are reshaping the innovation landscape in Japan, and resurgent links between entrepreneurs and large corporations, international and local capital markets and dealmakers.

Last year's flotation of flea-market app operator Mercari and e-commerce company Rakuten's acquisition of US-based peer Curbside signal an important change for the Japanese innovation capital ecosystem. They also reflect the wider catch-up by M&A and public markets to the burgeoning prices paid in private capital markets, validating the later stage investors that paid to delay these exits.

Mercari's initial public offering (IPO) raised up to $1.2bn after being priced above the top of its range, at ¥3,000 ($28), in Japan's biggest such share sale of 2018. The offering will fuel its push into the US and other international markets.

Curbside, backed by pharmacy chain CVS Health, mobile chipmaker Qualcomm and media firm O'Reilly Media, was acquired by Rakuten for an undisclosed amount.

The size of Mercari's IPO and Rakuten's purchase of an international peer signals the cultural change needed to deliver on Japan's innovation and entrepreneurial potential have started to take effect.



Source: GCV Analytics

The median flotation in Japan in 2015 was $3.5m, according to Stanford's review of the ecosystem.

The dealmaking comes with an international dimension since Japan's prime minister, Shinzo Abe, visited Silicon Valley in 2015, and reflects a broader push into supporting entrepreneurs and innovation capital through his Abenomics strategy.

While Mercari and Rakuten represent a wave of internet-related entrepreneurs, the country's deep tech innovation is starting to draw attention and global links.

New opportunities

In April 2018's innovative region analysis for GCV, Ken Yasunaga, managing director at the public-private investment fund Innovation Network Corporation of Japan, said: "Initially, internet services were the strongest and biggest source of entrepreneurs on the Japanese market.

"We have now started seeing new kinds of opportunities, including in the life sciences space – mostly dedicated to drug discovery – and in IT and software. But most of all, it is the internet of things, artificial intelligence and robotics that always the top the list these days."

In a Financial Times (FT) supplement on Kansai – the region that is home to Kyoto, Osaka and Kobe cities – Yutaka Teranishi, who leads the Innovation Hub Kyoto at Kyoto University's Graduate School of Medicine, said: "Since the advance of medical science absolutely must be global, we are building this centre on the assumption that we must deepen international cooperation."

The facility, opened in September 2017, has sprung up between the structures of a teaching hospital and long-term care units, and hosts medical startups while they explore new avenues of research and find their feet as companies. The FT described it as having an atmosphere of urgency. ➔

Teranishi argued Japan's reluctance to treat its research ambitions as global projects had for too long held back academia from investing in facilities like this.

Kyoto has built the Innovation Hub around an area of research in which it has achieved global recognition, stem cells and regenerative medicine, according to the FT.

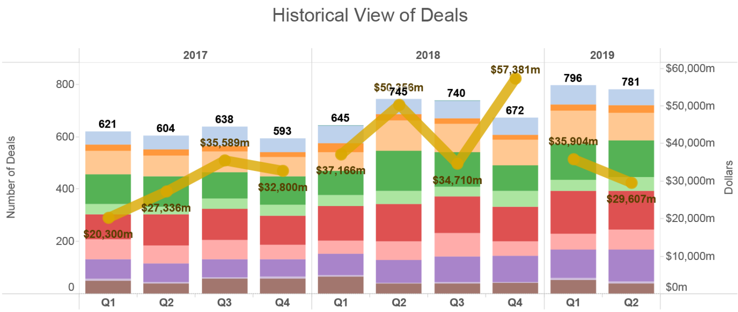
At the Kyoto-based Center for iPS Cell Research and Application Nobel laureate Shinya Yamanaka devotes himself to regenerative medicine research. He discovered induced pluripotent stem cells – mature cells that can be reprogrammed to an embryo-like state.

Japanese startups and listed companies in this field include Megakaryon, PeptiDream, Sosei Group and Healios. They have been aided by older corporations, such as Takeda, which has an invigorated corporate venturing approach – a move replicated in other fields from electronics and media (Sony) to chips (Tokyo Electron) to communications (KDDI and NTT) and, above all, SoftBank, in any area it chooses.

State of the market

More broadly, Japan-based startups raised ¥280bn ($2.6bn) in 2017 across just more than 1,100 companies, according to Japan Venture Research, published by the Financial Times.

The pulling together of the corporate, university and government support network to the venture, angel and startups ecosystem has created fresh hope the world's third-largest economy can play a more important leadership role in the industry



Source: GCV Analytics

In March last year, the Ministry of Economy, Trade and Industry said that the number of startups founded to commercialise university research had risen 13% in the 2017 financial year to a record 2,093, led by Tokyo University with 245 and Kyoto's 140, as reported by our sister publication Global University Venturing.

The pulling together of the corporate, university and government support network to the venture, angel and startups ecosystem has created fresh hope the world's third-largest economy can play a more important leadership role in the industry.

In the second quarter, GCV Analytics tracked 781 funding rounds involving corporate venturers, near the all-time record number (796) registered in the first quarter. And while the US hosted nearly half the funding rounds (319), Japan came second with 104 deals. One out of every four of corporates was disclosing their first minority stake deal in Q2, particularly led by Japan-based groups.

Japanese corporations have also increasingly stepped up as limited partners (LPs) for VC funds. In Q2, Japan-based venture capital firm Globis Capital Partners held a ¥36bn ($321m) first close for its sixth fund, with commitments from corporate LPs.

Investment manager Reliance Nippon Life Asset Management will manage a $187m fund of funds, backed by several Japan and India-based corporates. Japan-based investment firm Signifiant harnessed financial services firm Mizuho Financial Group to launch a ¥20bn ($186m) growth investment vehicle dubbed The Fund while financial services firm Mitsubishi UFJ Financial Group launched a ¥20bn ($180m) fund to focus on financial technology startups in Southeast Asia. ➔

But Japan Inc's biggest move has been to better support the world's largest venture fund. In July, telecommunications and internet group SoftBank launched its second Vision Fund, disclosing it has signed memoranda of understanding for funding that will take its size to $108bn.

SoftBank launched its first Vision Fund in 2017 with a $100bn target and has confirmed $98.6bn of debt and equity financing for the vehicle, with much of the capital coming from Middle Eastern sovereign wealth funds and corporate partners.

For the second fund, SoftBank plans to contribute $38bn of the capital, with local support from insurer Dai-ichi Life, financial services firms Mizuho Bank, Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Financial Group, Sumitomo Mitsui Trust Bank and brokerage group Daiwa Securities. They may be able to offer more than financial support as SoftBank's first Vision Fund has yet to strike a deal in Japan.

Mary Meeker, partner at VC firm Kleiner Perkins Caufield & Byers, in her review of the internet market last year, noted the $4bn-plus rise in market valuation of the top 20 internet companies over the past five years. At over $5bn now, these 20 companies alone are worth more than Japan's gross domestic product, at least for now. ◆

Top 20 world internet leaders

Rank			**Market value ($bn)**	
2018	**Company**	**Country**	**5/29/13**	**5/29/18**
1	Apple	USA	418	924
2	Amazon	USA	121	783
3	Microsoft	USA	291	753
4	Google/Alphabet	USA	288	739
5	Facebook	USA	56	538
6	Alibaba	China	-	509
7	Tencent	China	71	483
8	Netflix	USA	13	152
9	Ant Financial	China	-	150
10	eBay and PayPal	USA	71	133
11	Booking Holdings	USA	41	100
12	Salesforce.com	USA	25	94
13	Baidu	China	34	84
14	Xiaomi	China	-	75
15	Uber	USA	-	72
16	Didi Chuxing	China	-	56
17	JD.com	China	-	52
18	Airbnb	USA	-	31
19	Meituan-Dianping	China	-	30
20	Toutiao	China	-	30
		Total	**1,429**	**5,788**

Source: Kleiner Perkins Caufield & Byers

GCV Symposium 2019: Connecting the world

The data and key findings from the JVCA/GCV survey reveal an open, innovation-oriented community

By **Liwen-Edison Fu**
Reporter

Japan Venture Capital Association (JVCA) chairman Soichi Kariyazono explained the progress of the country's corporate venturing ecosystem, which has ramped up in the past four years, at the Global Corporate Symposium held in London in May.

Kariyazono presented insights from a regional survey JVCA conducted with GCV Analytics. The data from the survey formed the basis of a report released at the Japan Ministry for the Economy, Trade and Investment comparing local and international perspectives.

Kariyazono said JVCA's membership had doubled in the past four years because the Japanese ecosystem experienced a rapid increase in corporate venture capital (CVC) activities, adding: "Traditional industries such as railway and banking are aiming to change."

Japanese startup funding has registered a major increase in recent years. Venture capital investors currently account for about a third of the total investment in the country while 50% comes from corporate investors and their subsidiaries.

The country's innovation ecosystem has advanced from institutional VC-dominated arena to an open innovation-oriented community.

Japanese corporates began committing to venturing in the 1990s and early 2000s, and James Mawson, GCV's editor-in-chief, who was moderating the session, asked Kariyazono whether he considered the current effort to be sustainable.

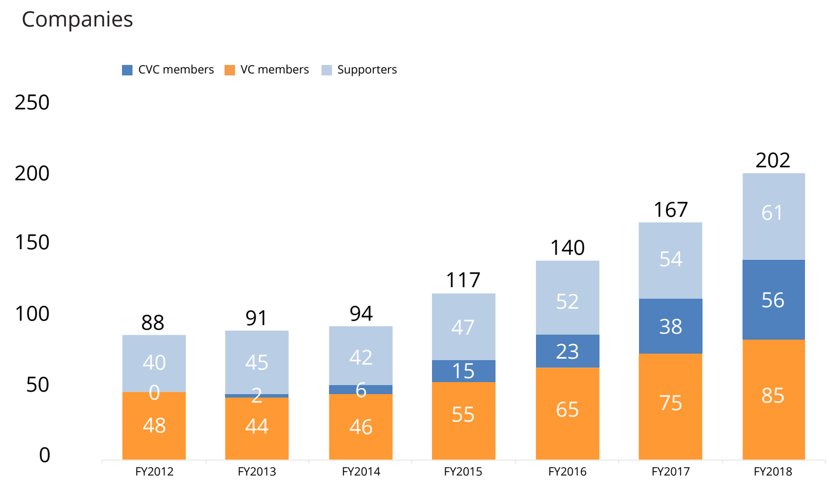
Kariyazono replied: "In the 1990s and 2000s they did not touch ➔

the core business but now it is different. Corporates want to change; they cannot continue in the status quo," adding that corporates not sought seek financial returns but also a core change in their business.

Mawson asked whether a corporate would be likely to discontinue CVC activities in three to four years' time if financial returns were not pronounced.

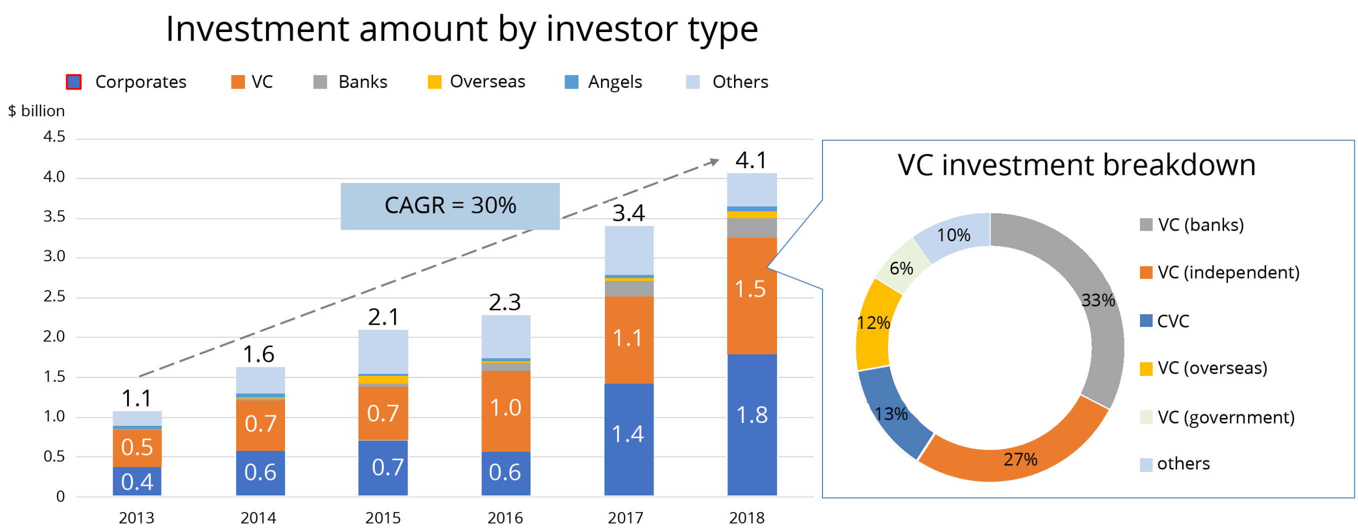
Kariyazono confirmed it was a concern for the Japan-based corporate venturers that their investments would not generate short-term returns. ➔

JVCA membership



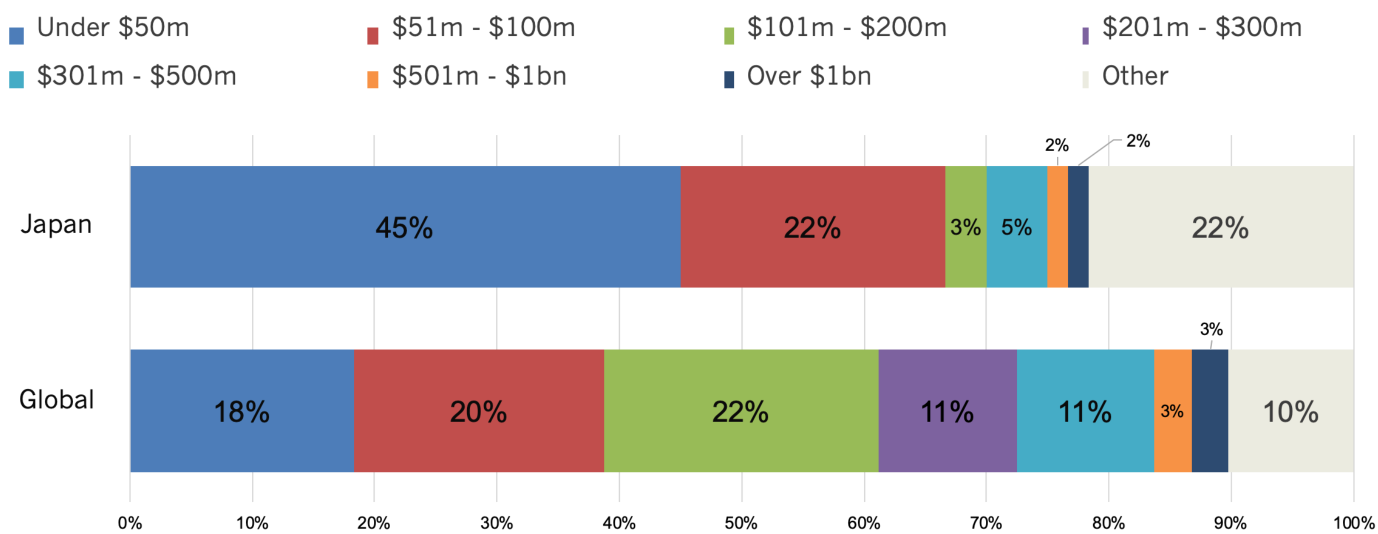
Source: GCV/JCVA

VC environment overview



Rate:1$=¥110 Sources: Japan Venture Research, "Japan Startup Finance 2018" (released February 19, 2019)

What is your overall CVC fund size?



Source: GCV/JCVA. Japan, n=60, Global, n=87

Kariyazono finished by expressing optimism about the development of the sector.

"Only three to four years ago, the Japanese CVC community was very closed, but now corporates are opening up with startups, other industry leaders and global leaders," he said. "As the CVC community in Japan is opening up, corporates also want to follow their example." ◆

Key findings: investment strategy

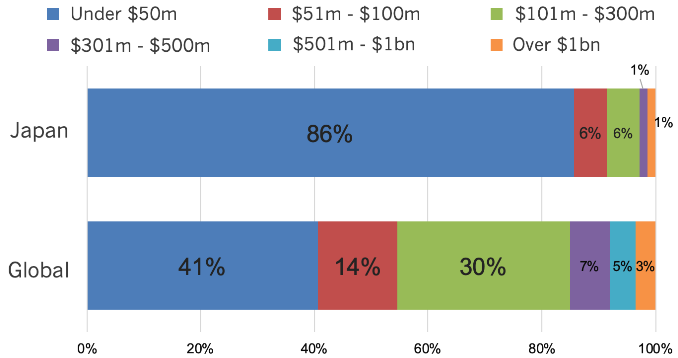
Investment strategy	Japan	Global
Venture investment policy	Enter new market	Enter new market, Improve business efficiency of own industry
Outcome expected from venture collaboration	Business model innovation	Technology innovation
Return goals	Prioritize strategic returns	Prioritize both financial & strategic returns

Key findings: synergy and value added

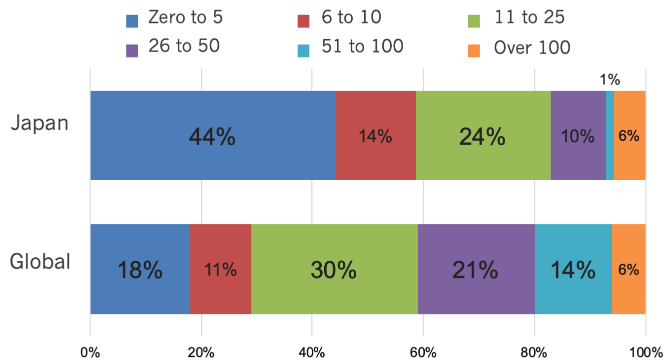
Synergy and value added	Japan	Global
Deals as lead investor	Mostly follower	18%: lead investor at majority of deals
Involvement in portfolio company management	Mostly negative support	36% : actively support
Provide support for portfolio companies	Access to partnerships and supplier/consumer networks	Access to partnerships and supplier/consumer networks; access to R&D or technical expertise; observer/board seats
Reporting line	CEO, head of strategy	CEO, CTO

Source: GCV/JCVA

How much has your unit invested in its history?

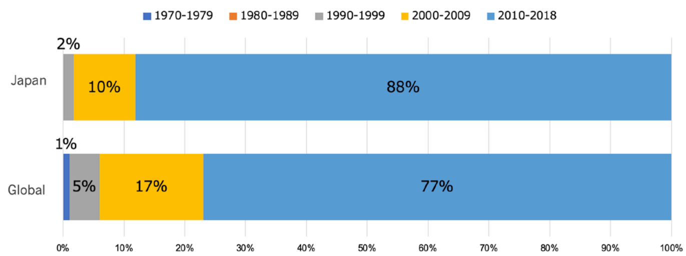


How many deals has your unit backed in its history?



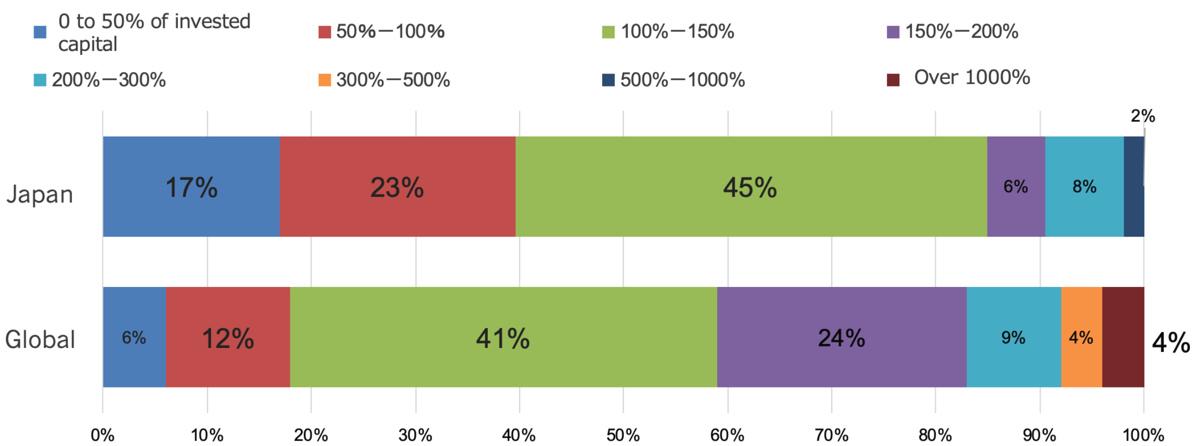
Source: GCV/JCVA (Japan, n=70, Global, n=86)

When was your unit set up?



Source: GCV/JCVA (Japan, n=59, Global, n=87)

What is your portfolio worth compared with original investment amount by multiple?



Source: GCV/JCVA. Japan, n=53, Global, n=82

Salesforce's Japan Trailblazer Fund gains traction

Shinji Asada on Salesforce's engagement with the Japanese SaaS ecosystem

Shinji Asada
Salesforce Ventures Japan

By **Liwen-Edison Fu**
Reporter

Salesforce Ventures, the corporate venturing group of US-listed enterprise software producer Salesforce, is looking to empower Japanese startups in the Salesforce ecosystem, according to Shinji Asada, head of Salesforce Ventures Japan.

Asada's role involves sourcing new deals, conducting due diligence and providing thought leadership in portfolio companies' board meetings.

Asada started his career at trading group Itochu where he spent more than a decade in different roles ranging from new business development and mergers and acquisitions to system integration and software-as-a-service (SaaS) sales, before joining venture capital unit Itochu Technology Ventures in 2012.

"Since I joined Salesforce Ventures [in 2015] I have been actively investing in emerging enterprise software startups and built a portfolio of more than 40 companies to date," Asada told Global Corporate Venturing.

Salesforce Ventures Japan's current portfolio includes business card management platform Sansan, accounting software producer Freee and human resources technology provider Bizreach.

"After much success in the region, Salesforce Ventures launched a $100m Japan Trailblazer Fund in late 2018 to continue its investment momentum," Asada said.

Japan is not the only country in which the unit has established a specialist fund. It has formed Trailblazer Funds in Australia, Canada and Europe having already fully deployed a $100m earlier vehicle directed at Europe and the Middle East.

"The unique thing about Salesforce Ventures is that we are the only strategic fund focused 100% on creating the world's largest ecosystem of enterprise cloud companies and extending that technology to our customers," Asada said. ➔

Japan Trailblazer Fund partners Japanese entrepreneurs who integrate or build their products and services on the Salesforce platform, or offer them on its AppExchange, as well as those who implement the corporate's technology.

Asada claimed: "With this fund, Salesforce Ventures strengthens its position as the most active foreign corporate venture capital arm in Japan and deepens its commitment to creating the world's largest ecosystem of enterprise cloud companies to fuel customer success.

"Our mandate is to be a strategic investor, providing capital and strategic support to our portfolio companies – access, advice and credibility. We want our companies to integrate with our products and list on the AppExchange to provide Salesforce customers with more solutions in our ecosystem."

Japan-based venture capital investors and corporates do not tend to focus on SaaS as it is still an emerging market in the country, said Asada. He added: "With a number of our investments, we will take board and observer seats. We are often relied upon by entrepreneurs to share knowledge based on our experience at Salesforce."

Apart from receiving capital, portfolio companies also gain credibility as they form strategic partnerships with Salesforce, according to Asada.

"Each portfolio company receives an executive sponsor that commits to working with the startup," he said. "This ensures the startup receives specialised attention from company leadership and maintains a tight alignment with Salesforce goals.

"We not only give portfolio companies funding but also provide them with the guidance of Salesforce's innovators and executives to accelerate their growth. We look for companies that fit our company values – like trust."

Asada concluded: "With this new capital, we will be more active than ever before to cultivate the SaaS market here in Japan. Our $100m commitment strengthens our mission to help startups grow and drive customer success." ◆

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