

Entrepreneurship and Entrepreneurial Finance in Japan

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Contents

1. Importance of fast growth innovative ventures
 - Promotion of job generation and economic growth
2. Entrepreneurial activities in Japan and abroad
 - Global Entrepreneurship Monitor (“GEM”)
3. Venture capital investment in Japan and abroad
 - Investment in biotech and clean-tech industries
 - Investment in seed and early stage ventures
4. The role of venture capital investment
 - Growth finance for Mixi and Facebook
5. Discussion

The World's Top 25 Innovative Companies, 2004 and 2010

Ranking	Company Name, 2004	Year Founded	Company Name, 2010
1	Apple	1976	Apple
2	Google	1998	Google
3	Toyota	1937	Microsoft
4	General Electric	1878	IBM
5	Microsoft	1975	Toyota Motor (Japan)
6	Procter & Gamble	1837	Amazon.com
7	3M	1902	LG Electronics (South Korea)
8	Walt Disney	1923	BYD (China)
9	IBM	1889	General Electric
10	Sony	1946	Sony (Japan)
11	Wal-Mart	1962	Samsung Electronics (South Korea)
12	Honda	1948	Intel
13	Nokia (Finland)	1865	Ford Motor
14	Starbucks	1971	Research In Motion (Canada)
15	Target	1881	Volkswagen (Germany)
16	BMW (Germany)	1916	Hewlett-Packard
17	Samsung (Korea)	1938	Tata Group (India)
18	Virgin (UK)	1970	BMW (Germany)
19	Intel	1968	Coca-Cola
20	Amazon	1994	Nintendo (Japan)
21	Boeing	1916	Wal-Mart Stores
22	Dell	1984	Hyundai Motor (South Korea)
23	Genentech	1976	Nokia (Finland)
24	eBay	1995	Virgin Group (UK)
25	Cisco Systems	1984	Procter & Gamble

The World's Top 25 Innovative Companies, 2010 and 2011

Ranking	Company Name, 2010	2009 Ranking	Company Name, 2011	2010 Ranking
1	Facebook	15	Apple	3
2	Amazon	9	Twitter	50
3	Apple	4	Facebook	1
4	Google	2	Nissan	New
5	Huawei	New	Groupon	New
6	First Solar	18	Google	4
7	PG&E	New	Dawning Information Industry	New
8	Novartis	New	Netflix	12
9	Walmart	33	Zynga	New
10	HP	12	Epocrates	New
11	Hulu	3	Trader Joe's	New
12	Netflix	New	ARM	New
13	Nike	27	Burberry	New
14	Intel	6	Kosaka Smelting and Refining	New
15	Spotify	New	Foursquare	New
16	BYD	45	ESPN	New
17	Cisco Systems	5	Turner Sports	New
18	IBM	19	Huawei	5
19	GE	11	Intel	14
20	Disney	12	Syncardia	New
21	Gilt Groupe	New	Donorschoose.Org	New
22	Indian Premier League	New	Ebay	New
23	PatientsLikeMe	New	Nike	13
24	Grey New York	New	Linkedin	New
25	BMW DesignworksUSA	New	Wieden + Kennedy	New

The World's Top 50 Innovative Companies

- Published by FastCompany.com in February 2010 and February 2011
- Top five companies
 - 2010: Facebook, Amazon, Apple, Google, and Huawei
 - 2011: Apple, Twitter, Facebook, Nissan, and Groupon
- In both years, American companies dominated
 - 2010: 76% (38 out of 50 companies)
- Growing number of Chinese companies
 - 2010, four Chinese companies
 - 2011, three Chinese companies
- Small number of Japanese companies
 - 2010, only one: Fast Retailing ranked at 41st
 - 2011: Nissan (4th) and Kosaka Smelting and Refining (14th)

American Fast Growth Companies listed in NASDAQ

Company Name	Year Founded	IPO Year	Years to IPO	Number of Employees					
				1996	1991	1986	1981	1976	1971
Intel Corp.	1968	1971	3	48,500	24,600	18,200	16,800	7,300	500
Genentech, Inc.	1976	1980	4	3,071	2,202	1,163	318		
Apple Computer, Inc.	1977	1980	3	13,398	14,402	5,600	2,456		
Oracle Systems Corp.	1977	1986	9	29,431	8,160	1,072			
Amgen, Inc.	1980	1984	4	4,646	1,723	265			
Microsoft Corp.	1981	1986	5	22,332	11,542	1,816			
Sun Microsystems, Inc.	1982	1986	4	21,500	12,812	4,182			
Novell, Inc.	1983	1985	2	5,870	2,843	507			
Cisco Systems, Inc.	1984	1990	6	11,000	882				
Dell Computer	1984	1986	2	10,350	2,970				

Source: Kutsuna, Yamada, and Akashi eds. *New Ventures in Japan*. Chapter 4, 1999.

Top 20 Japanese Job Generating Companies founded since 1995

Ranking	Company Name	Month/Year Founded	Number of Employees (2010)	IPO Month/Year
1	NEC Electronics	11/2002	22,071	7/2003
2	Jupiter Telecommunications	1/1995	10,988	3/2005
3	Outsourcing	1/1997	6,675	12/2004
4	Elpida Memory	12/1999	6,099	11/2004
5	Rakuten	2/1997	5,810	4/2000
6	Yahoo Japan	1/1996	4,882	11/1997
7	Pacific Golf Group International Holdings	12/2004	4,715	12/2005
8	Message	5/1997	3,207	4/2004
9	SBI Holdings	7/1999	3,048	12/2000
10	VSN	2/2004	2,929	12/2006
11	Medical Care Service	11/1999	2,665	8/2006
12	Works Applications	7/1996	2,216	12/2001
13	CyberAgent	3/1998	2,036	3/2000
14	Starbucks Coffee Japan	10/1995	1,879	10/2001
15	ITC Networks	8/1997	1,860	3/2006
16	Create Restaurants	4/1997	1,407	9/2005
17	99 Plus	10/2000	1,305	9/2004
18	Index Holdings	9/1995	1,260	3/2001
19	Take and Give Needs	10/1998	1,259	12/2001
20	Skymark Airlines	11/1996	1,090	5/2000

Job Generation by Fast Growth / Innovative Companies

- American fast growth companies
 - Young companies go public (IPO); average year is the fifth firm year
 - Firm growth accelerates after IPO
 - Large number of jobs are generated in the decade after startup
 - New industries
- Japanese fast growth companies
 - Subsidiary of a large company or the Japanese arm of an American company
 - Small-scale job generation
 - Mature industries

Global Entrepreneurship Monitor

- Global Entrepreneurship Monitor (“GEM”) created by Babson College and London Business School
- Completed 12 annual surveys
- Started with 10 developed countries in 1999
- Over 175,000 people were surveyed in 59 economies in 2010

- Measures Total (Early-Stage) Entrepreneurial Activity (“TEA”)
- Classification of economy as “Factor-Driven,” “Efficiency-Driven,” or “Innovation-Driven”

GEM Methodology

- GEM defines Total (Early-Stage) Entrepreneurship Activity as the prevalence rate of individuals in the working-age population who are actively involved in business start-ups, either in the phase preceding the birth of the firm (nascent entrepreneurs), or the period spanning 3½ years after the birth of the firm (owner managers of new firms)
- The cut-off point of 3½ years is made on a combination of theoretical and operational grounds
- Following a typology used by the World Economic Forum, GEM classifies the 59 GEM participants as “factor-driven,” “efficiency-driven” or “innovation-driven” economies

Source: GEM Report 2010.

Entrepreneurial activities worldwide

Figure 4: Total Early-Stage Entrepreneurial Activity (TEA) for 59 Economies in 2010, by Phase of Economic Development, Showing 95 Percent Confidence Intervals

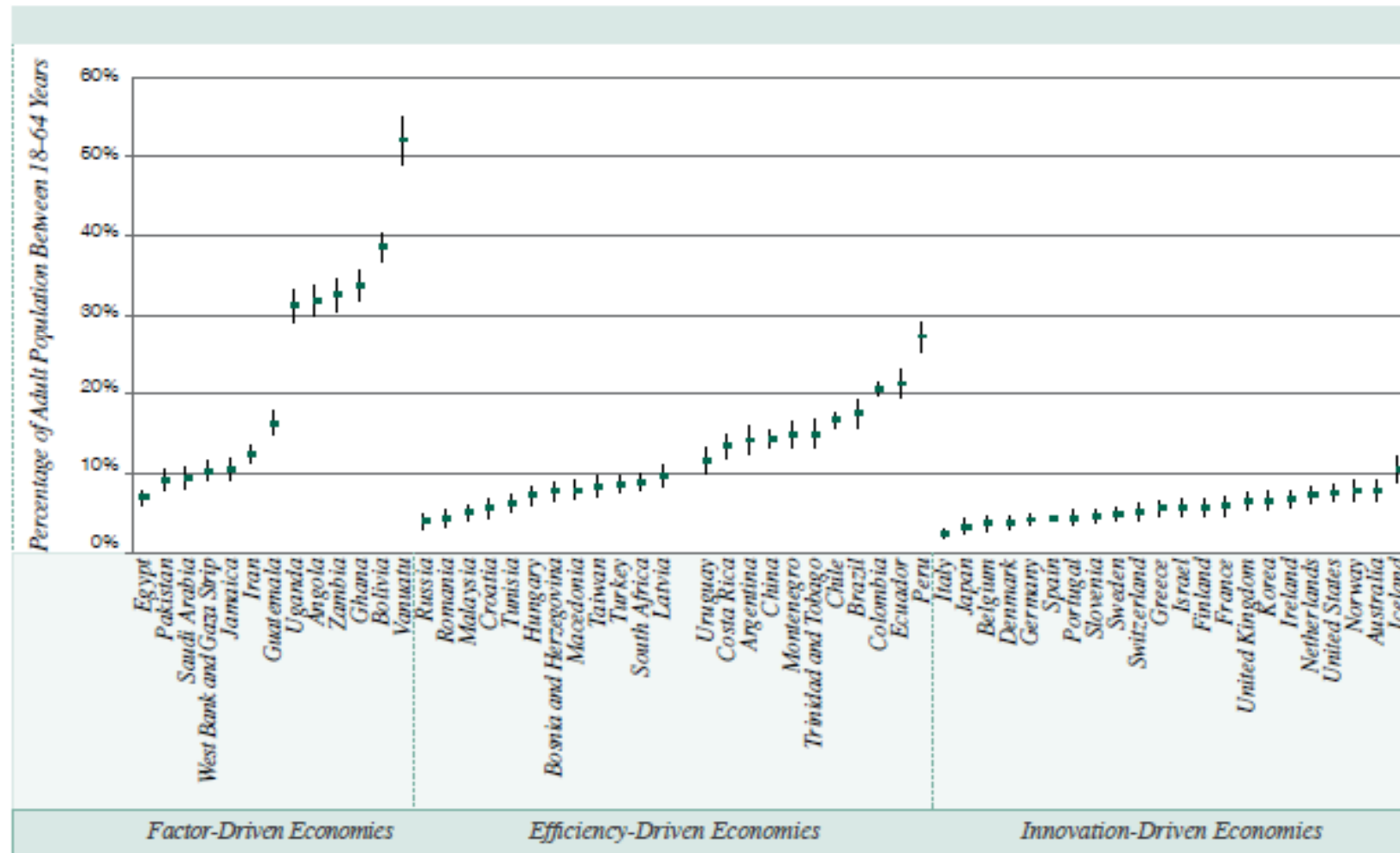
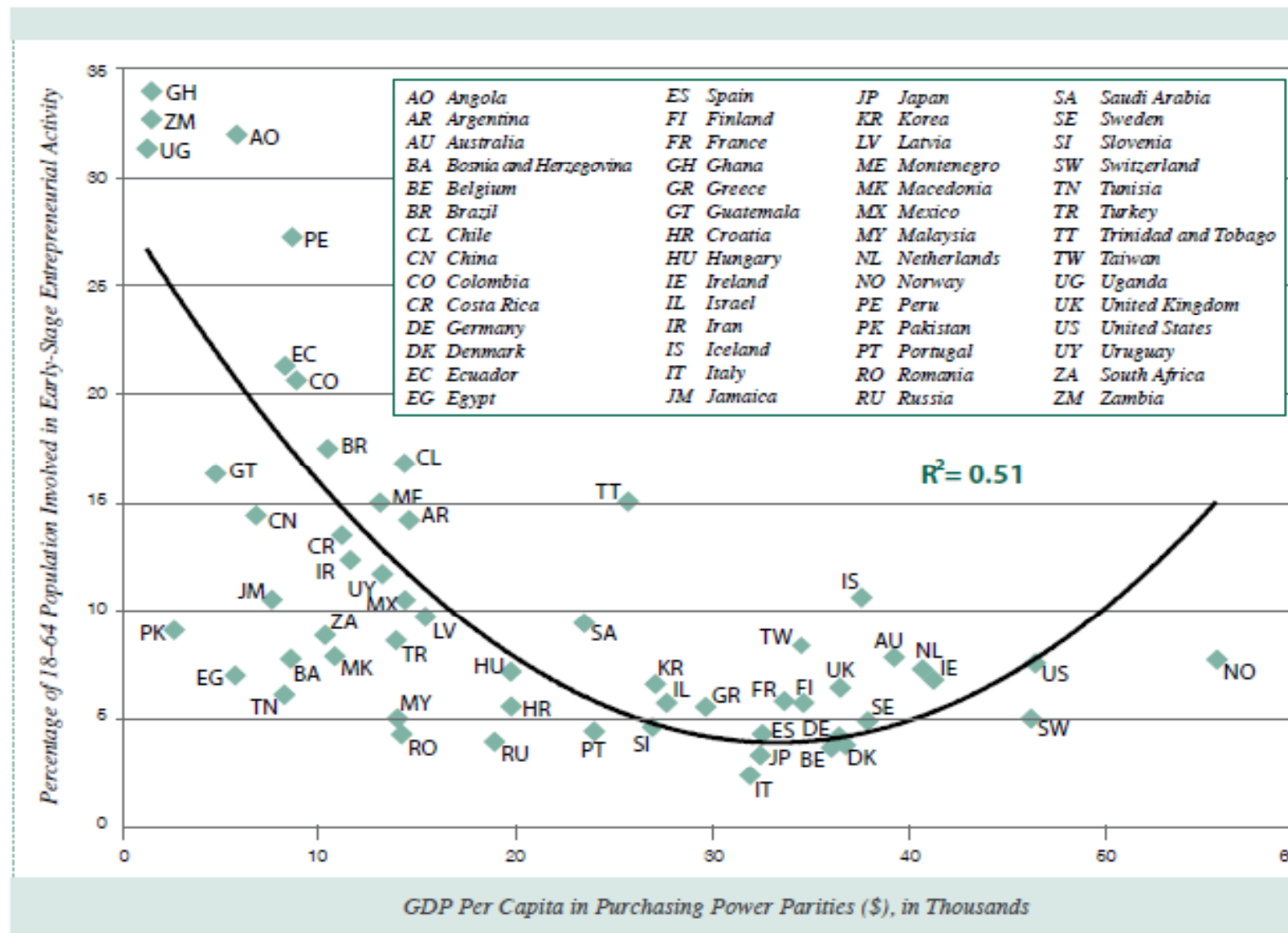


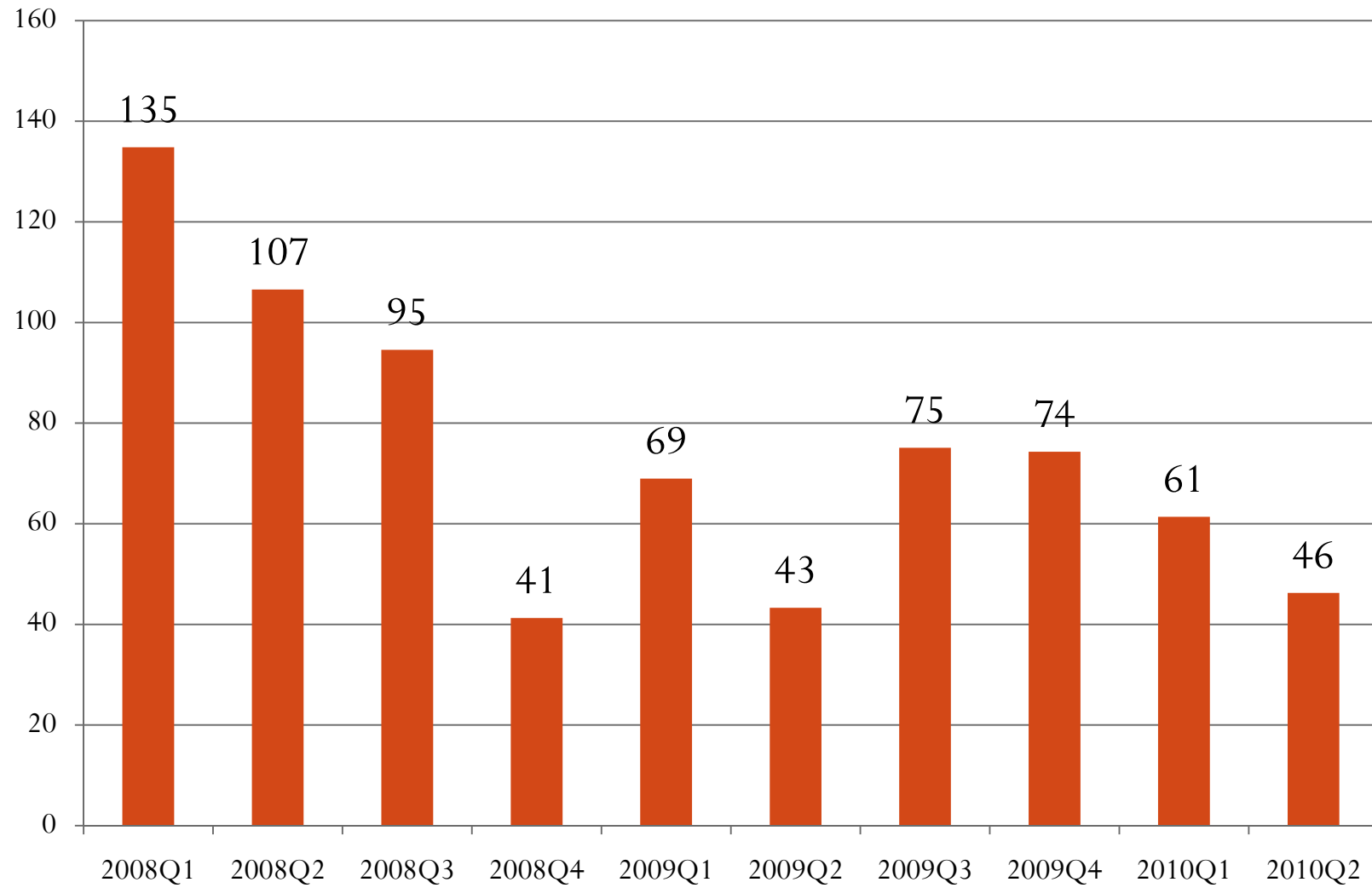
Figure 5 : Total Early-Stage Entrepreneurial Activity Rates and Per Capita GDP 2010¹



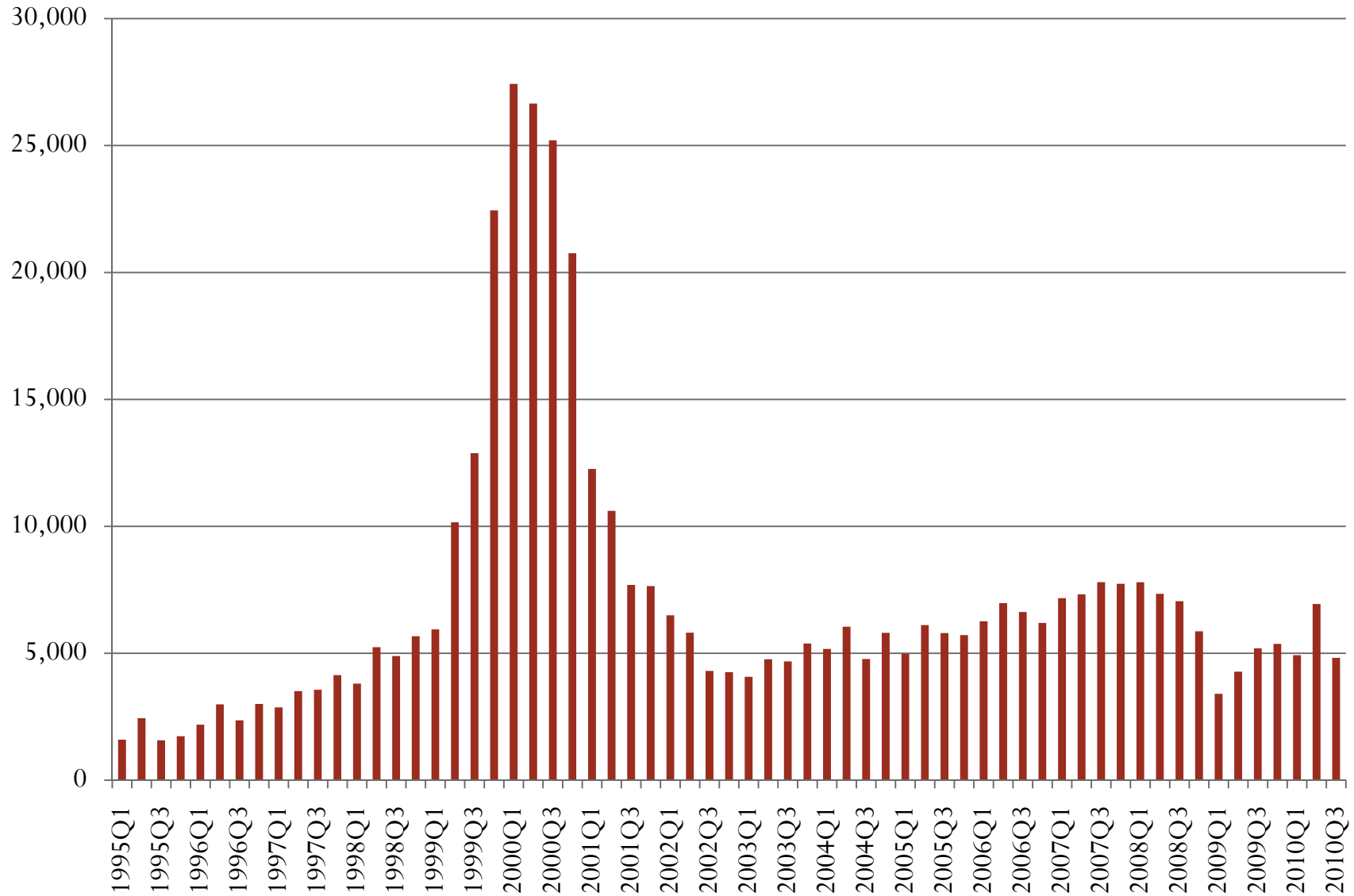
¹ Bolivia and Vanuatu are not shown in this figure, because their TEA rates are outsiders

Source: GEM Adult Population Survey (APS) and IMF World Economic Outlook Database

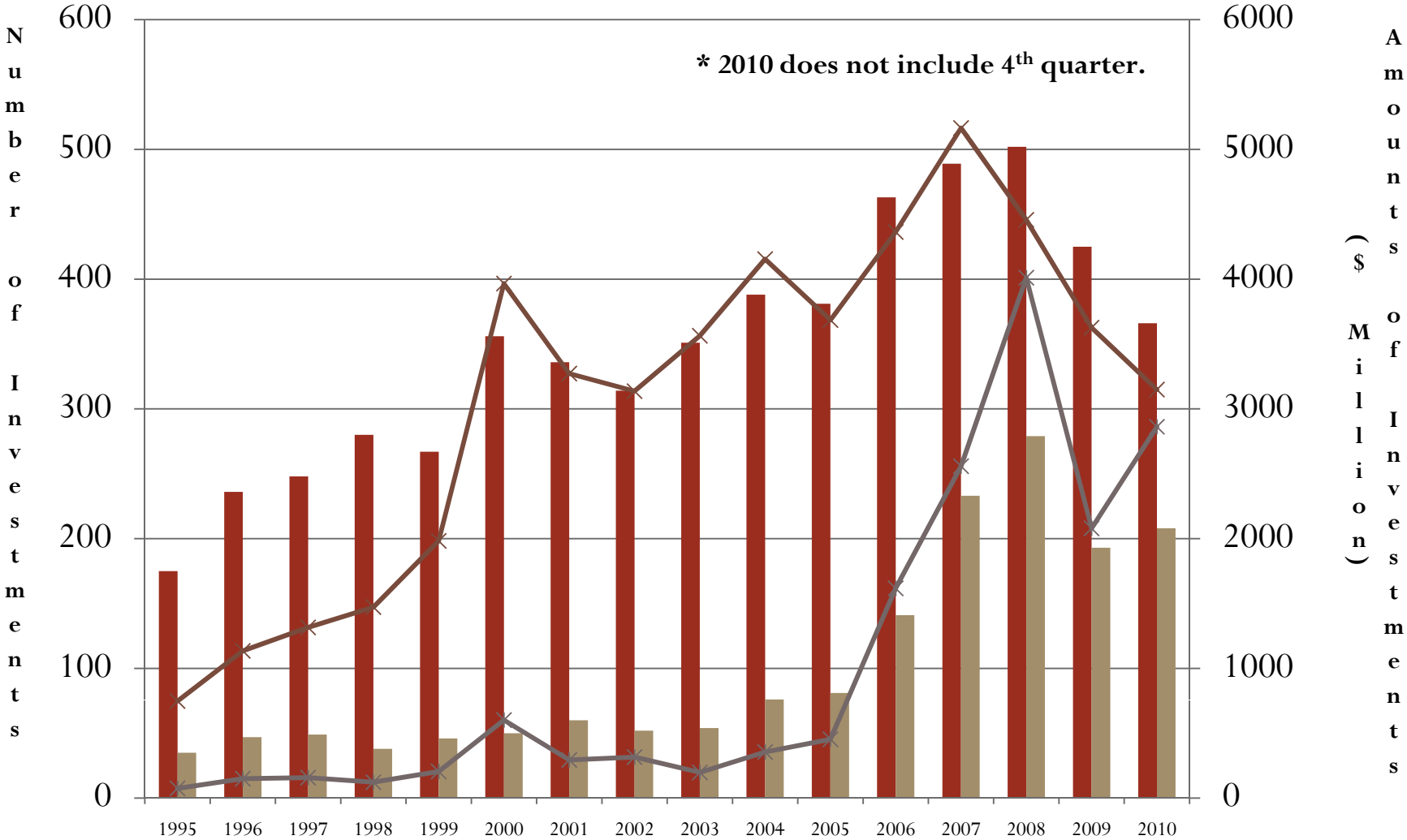
Venture Capital Investment in Japan (¥100 million)*



Venture Capital Investment in the U.S. (\$ million)



Investment in Biotechnology and Clean Technology by American VC

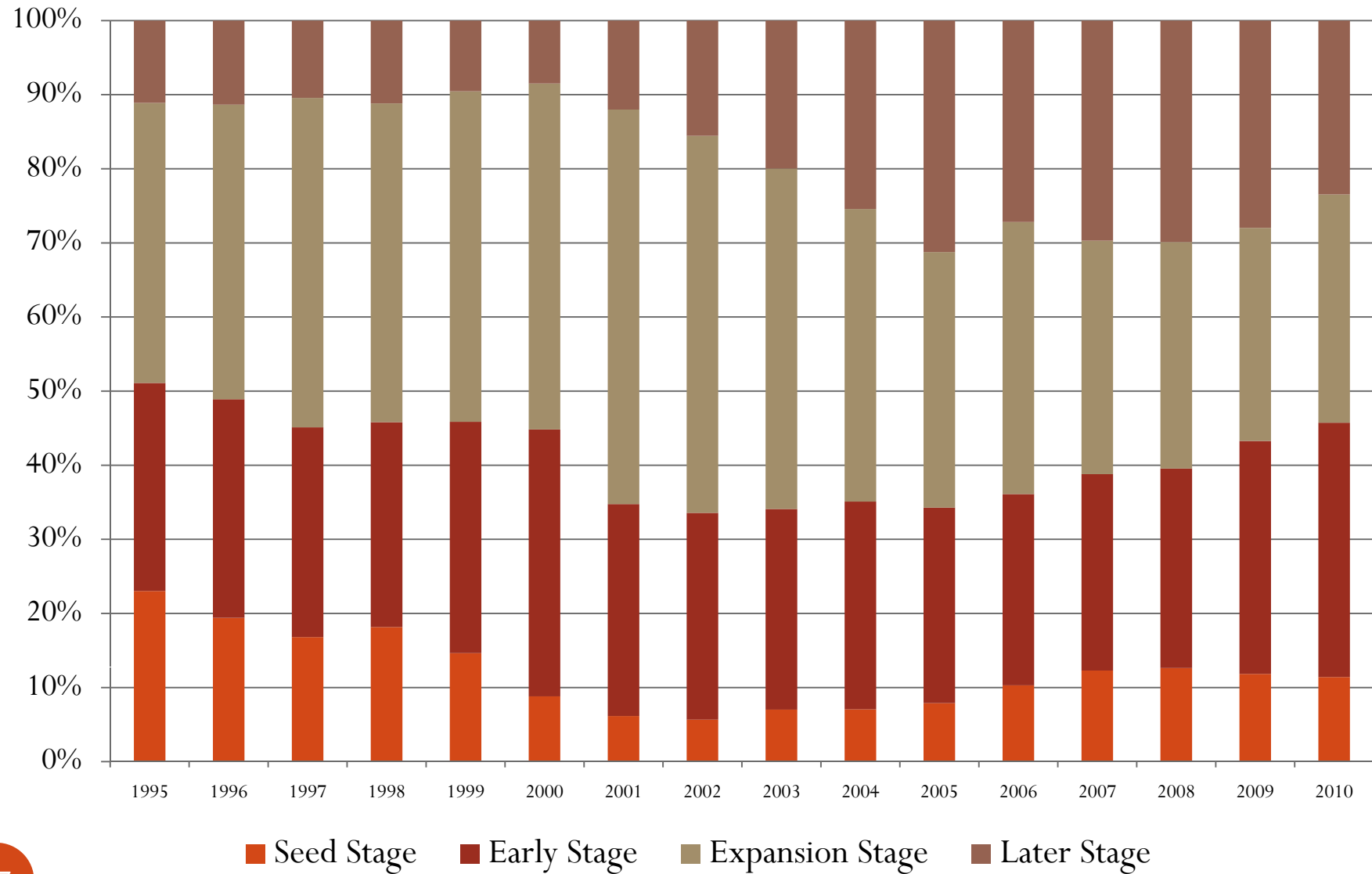


■ Bio-tech (left)
 ■ Clean-tech (left)
 —x— Bio-tech (right)
 —x— Clean-tech (left)

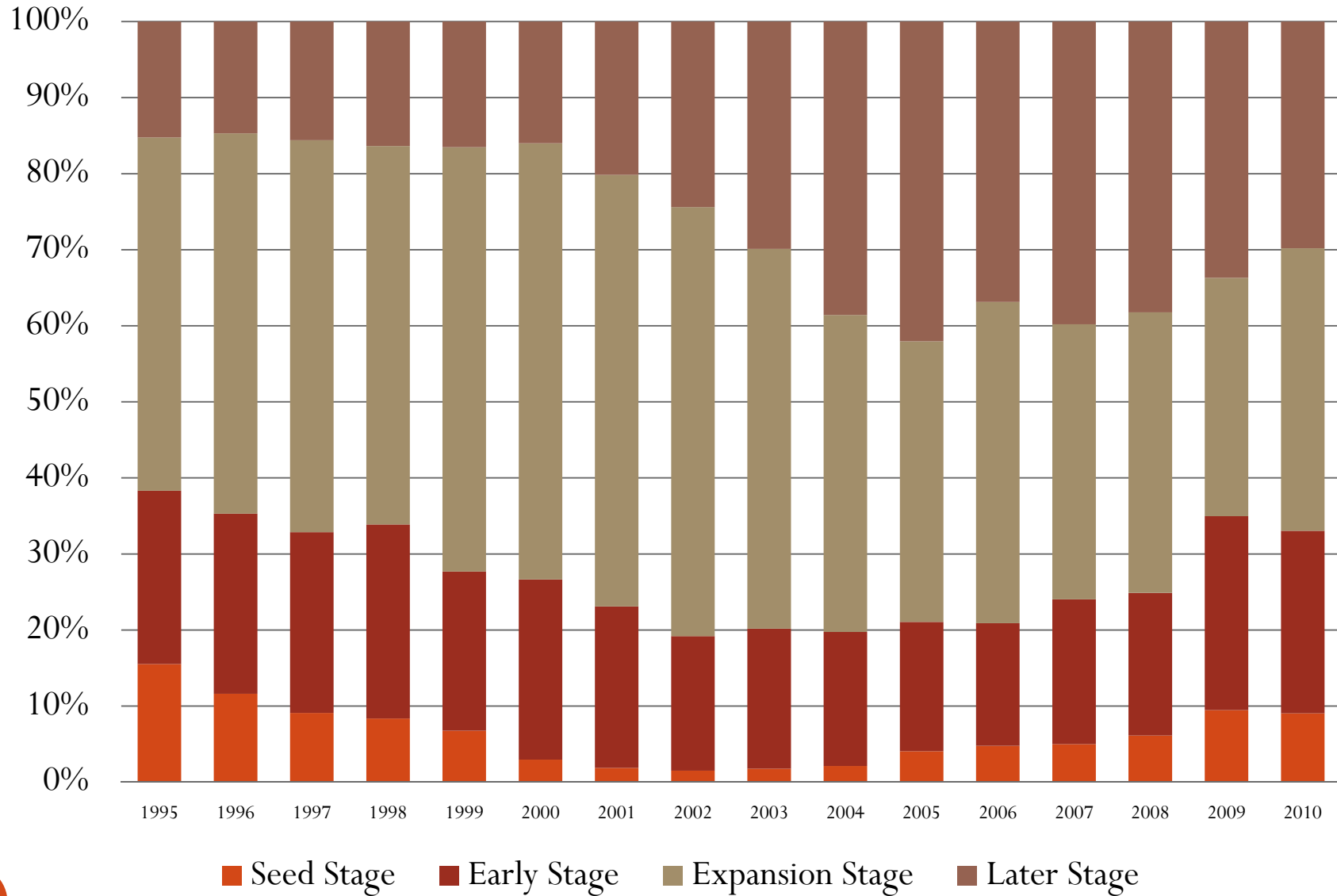
Investment in Biotech and Clean-tech by Japanese VCs

- Total amount of investment in 2009 was ¥26.2 billion (US\$262 million)
 - Clean-tech: ¥2 billion (US\$ 20 million), 8% of the total
 - Biotech: ¥4.7 billion (US\$ 47 million), 18% of the total
- In all, only ¥7 billion (US\$ 70 million) was invested in growth industries such as clean-tech and biotech

Venture Capital Investment in the U.S. by Growth Stage (Number of Investment)



Venture Capital Investment in the U.S. by Growth Stage (Amounts of Investment)



VC Investment by Growth Stage in Japan and the US

- Japanese VCs in Q2 2010
 - Seed stage investment: 0%
 - Expansion and later stage investment: 71%
- American VCs in 2010
 - By number: Seed stage 11.4%, early stage 34.3%
 - By amount: Seed stage 9.1%, early stage 24.0%

Table 4. UK Investment by financing stage

Financing stage	Number of companies			% of companies			Amount Invested (£m)			% of amount Invested		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Seed	37	67	69	4	5	5	5	12	16	-	-	-
Start-up	55	103	138	6	8	10	10	160	174	-	2	1
Early stage	204	285	295	23	21	20	137	187	244	5	2	2
Later stage venture	92	n/a	n/a	10	n/a	n/a	144	n/a	n/a	5	n/a	n/a
Total Venture Capital	388	455	502	43	34	35	296	359	434	10	4	3
Expansion capital	314	482	452	34	36	30	1,064	2,050	947	36	24	8
Bridge loan	21	27	22	2	2	2	10	17	190	-	-	2
Total expansion	335	509	474	36	38	32	1,074	2,067	1,137	36	24	10
Replacement capital	6	27	77	1	2	5	5	141	2,549	-	2	21
Secondary buy-out	6	42		1	3		25	767		1	9	
PIPE	3	2	27	-	-	2	8	4	91	-	-	1
Refinancing bank debt	15	21	7	2	2	0	216	199	29	7	2	-
Total replacement capital	30	92	111	4	7	7	254	1,111	2,669	8	13	22
Management buy-out	63	158	227	7	12	16	1,051	3,048	7,173	36	36	60
Management buy-in	8	17	37	1	1	3	16	86	347	1	1	3
Total MBO / MBI	71	175	264	8	13	19	1,067	3,133	7,520	37	37	63
Public to private	3			-			21			1		
Rescue/turnaround	22	111	95	2	8	7	14	1,886	212	-	22	2
Other	51			6			231			8		
Total other stage	76	111	95	8	8	7	266	1,886	212	9	22	2
Grand total	834	1,278	1,330	99	100	100	2,957	8,556	11,972	100	100	100

1. Change in methodology: from 2005, the number of companies in some financing stage categories, and their subtotals, will add up to more than the total number of companies invested in. This is due to some companies receiving more than one investment wit

2. - Indicates a value of greater than 0 but less than 0.5.

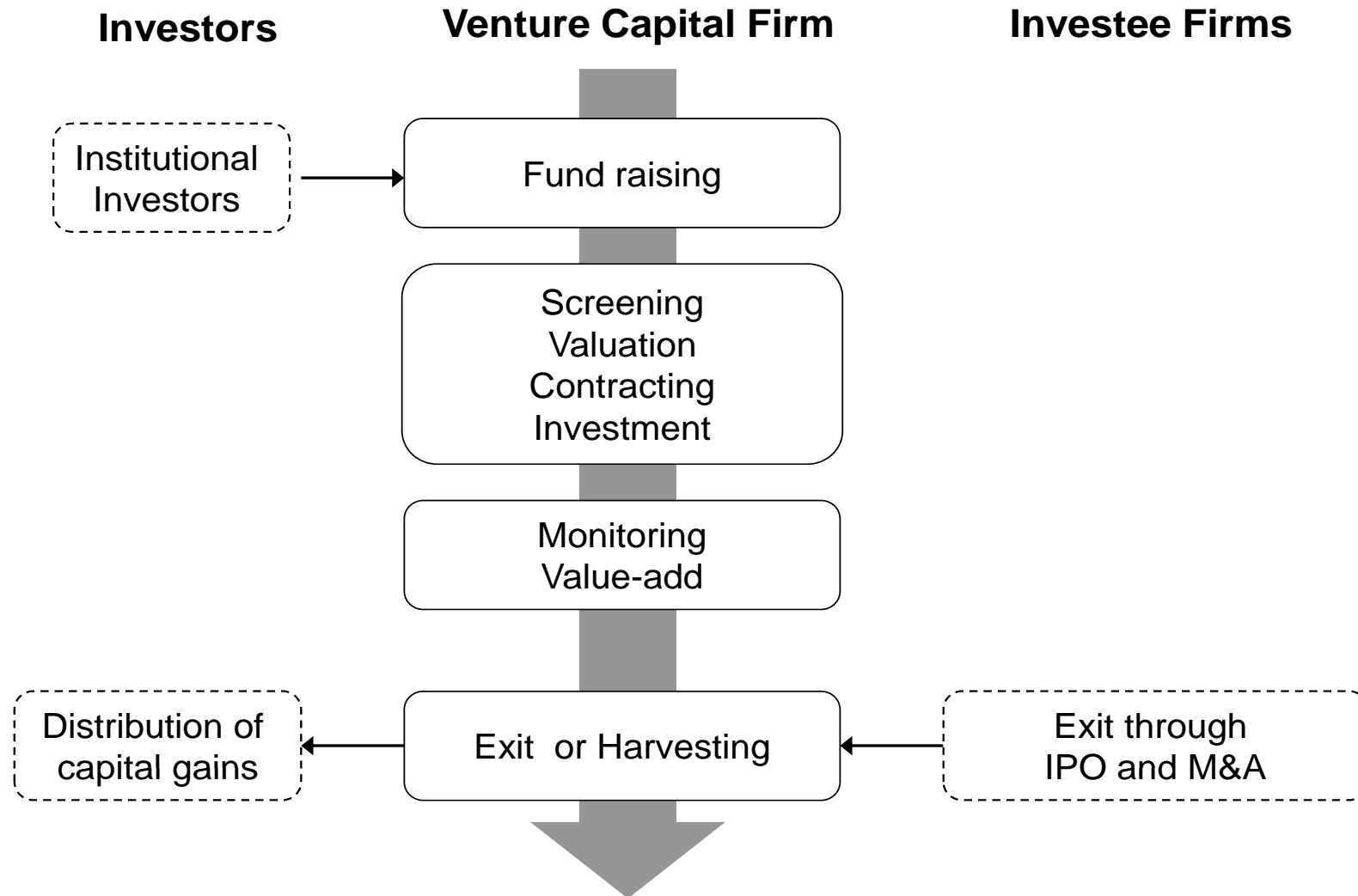
3. 'Other late stage' includes to Public to Private deals, rescue/turnaround deals, etc. 'Public to private' is synonymous to 'Venture purchase of quoted shares' which was used in the 07 and 06 survey.

4. 'PIPE' in 2008 is synonymous to 'Other purchase of quoted shares' which was used in the 07 and 06 surveys.

VC Investment by Growth Stage in the UK in 2009

- Investment share by number of companies: seed, startup, and early stage investment constitute 4%, 6%, and 23%, respectively
- Investment share by amount: seed, startup, and early stage investment constitute 0%, 0%, and 5%, respectively
- On the other hand, management buy-out and management buy-in (investment in mature companies for restructuring) constitutes 37%

Venture Capital Cycle



Role of Venture Capital Investment

- There is an important role for venture capital firms and venture capitalists for early stage ventures
- Examples:
 - Intel and Apple: Arthur Rock & Company (Arthur Rock)
 - Compaq, Sun, Netscape, and Amazon: Kleiner Perkins Caufield & Byers (John Doerr)
 - eBay: Benchmark Capital (Robert Kagle)
- See, for example, Gupta, U. (2000), *Done Deals: Venture capitalists tell their stories*. Harvard Business School Press

Growth Finance in Mixi and Facebook

- Both businesses are Social Networking Services (“SNS”)
- Both founders are students:
 - Kenji Kasahara (Tokyo University)
 - Mark Zuckerberg (Harvard University)
- Different financing approach and speed of firm growth
 - Mixi is largest in Japan with 20 million IDs
 - Facebook is largest in the world with more than 500 million IDs

Mixi

- November 1997: Started business as an Internet classified advertisement service
- June 1999: Founded with paid-in capital of ¥3 million (US\$30k)
- October 2000: Paid-in capital increased to ¥10 million (US\$100k)
- November 2001: Paid-in capital increased to ¥20 million (US\$200k)
- April 2003: Paid-in capital increased to ¥30 million (US\$300k)
- February 2004: Started SNS business “Mixi,” and paid-in capital increased to ¥64.2 million (US\$640k)
- September 2006: IPO in MOTHERS
 - Public offering ¥4.972 billion (US\$49.7 million)
 - Offer for sale ¥2.992 billion (US\$29.9 million)
- Firm growth based on internal financing until IPO

Facebook

- 2004: founded in the residence halls of Harvard University
- 2005: US\$12.7 million financing from VC (Accel Partners)
- 2006: US\$27.5 million financing from VCs (Premia Ventures and Greylock Partners)
- 2007: US\$240 million financing from Microsoft
- 2010: US\$450 million financing from Goldman Sachs
- 2011/2012: IPO in NASDAQ?
- Firm growth based on external risk capital financing until IPO

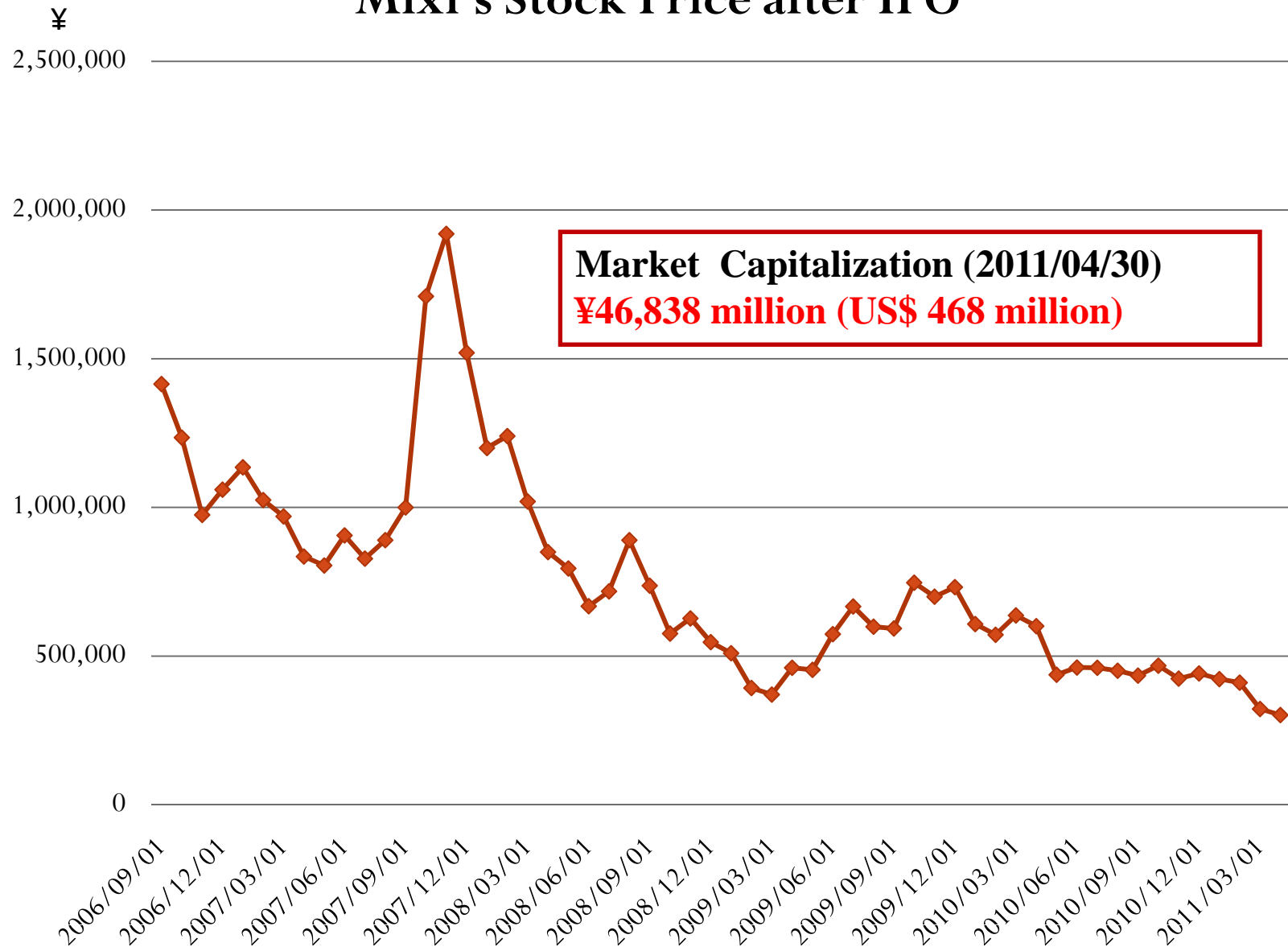
The CFOs of Facebook

- At startup in 2004: Eduardo Saverin. As co-founder, Saverin held the dual role of CFO and business manager
- After September 2006: Mike Sheridan. From May 2004 to June 2006, Sheridan served as the CFO of IGN Entertainment, Inc., an Internet media company
- After July 2007: Gideon Yu. The former CFO of YouTube, Gideon has played an important role in helping Facebook achieve its financial success and building a strong finance team
- After June 2009: David Ebersman. The former CFO of Genentech, the pioneering biotechnology firm recently acquired by Roche; he has experience in IPO and M&A activity

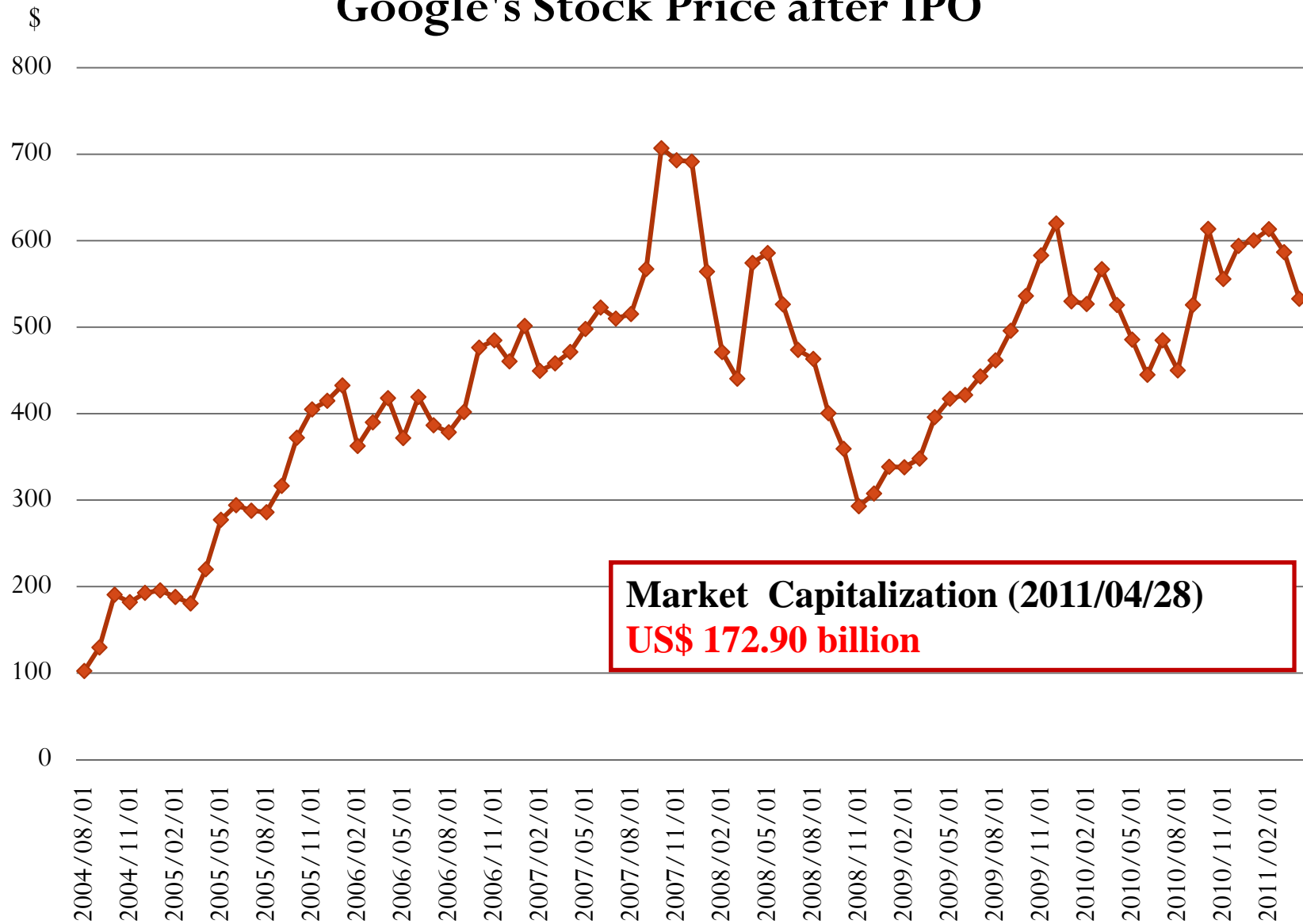
Comparative Reference: Google

- August 1998: Founded with US\$1 million capital (financed by families, friends, and business angels such as Andy Bechtolsheim of the co-founder of Sun Microsystems)
- June 1999: US\$25 million in financing from two VCs (Kleiner Perkins Caufield & Byers and Sequoia Capital)
 - John Doerr (KPCB) and Michael Moritz (Sequoia Capital) are famous in the VC community
 - They are members of the board of directors of Google and provide hands-on services
- August 2004: IPO in NASDAQ
 - Public offering US\$1.2 billion
 - Offer for sale US\$0.46 billion
- Firm growth based on external risk capital financing until IPO

Mixi's Stock Price after IPO



Google's Stock Price after IPO



Market Capitalization (2011/04/28)
US\$ 172.90 billion

Discussion and Concluding Remarks

- Present condition of the entrepreneurial activities and entrepreneurial finance in Japan
- What do you think of this?
- How could we change this?

- First ask two Japanese MBA students
- Then ask two British MBA students

Additional comments

- Japan has just been overtaken by China as the world's second-largest economy. By 2050 Goldman Sachs expects it to have been overtaken by India, Brazil, Indonesia, Mexico and Turkey too. (Source: Economist, Nov 18th 2010)
- Argentina of the east?
- http://www.economist.com/node/17492790?story_id=17492790