

## Venture Business Review in Japan 2008~2009

### Venture business

IPO activity has fallen sharply since 2007 after the second highest 188 companies have gone public in 2006. A number of corporate and accounting scandals eroded public confidence in the securities market and consequently tightening the listing requirements reduced IPOs. In 2009 Japan saw 19 IPOs, a 60% fall in deal numbers from previous year, which also saw big decrease. This level was the smallest number since 1978.

Due to great decrease in IPO activity, decline in VC investment and downturn in economy, Japanese venture businesses faced a tough time for raising money.

Under such difficult conditions, some venture businesses attempted to collaborate with foreign capital, shift both production and funding overseas and to seek options other than IPO as an exit strategy.

### Venture capital

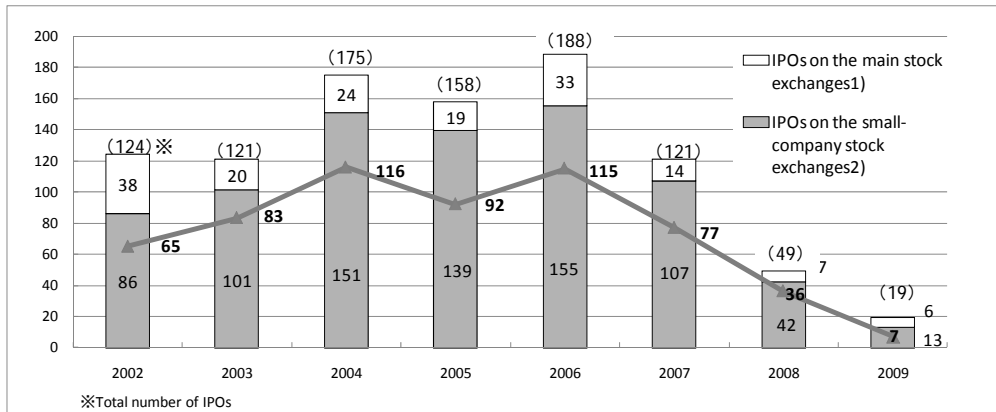
In 2008<sup>\*1</sup> venture capitals invested ¥137 billion<sup>\*2</sup>, about 30% decrease from the previous year. 23 new funds were organized, which raised ¥84.8 billion and the average number of partnership members dropped down from 14.2 in 2007 to 4.5 in 2008<sup>\*1</sup>. As a result, investment share of general partners was pushed up to 60.2% (36.6% in previous year). Decline of the VC investment has followed the fall of IPO activity. In 2009, only 7 VC-backed companies have gone public, which made it difficult for VCs to secure adequate resources for new investment.

The Japanese VC business model which depends only on IPO as an exit strategy are encouraged to undertake a strategic change; improving expertise and abilities of venture capitalists, taking an active role in management of the firm in which they invest, focusing on seed or early stage investment and diversifying from “IPO only strategy”.

※1 Fiscal year (2008/4~2009/3) and reporting period of the survey

※2 Venture capital or venture fund investment

Fig1-1. Number of IPOs 2002 to 2009



1) TSE1,2(Tokyo), OSE1,2(Osaka), NSE1,2(Nagoya), FSE(Fukuoka), SSE(Sapporo)

2) Jadaq, Mothers(TSE), Hercules(OSE), Centrex(NSE), Q-Board(FSE), Ambitious(SSE), NEO(Jadaq)

Fig1-2. Venture Capital Investment 2003 to 2008

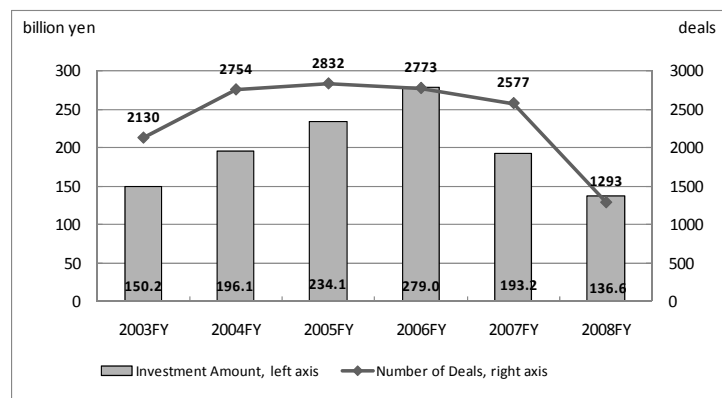
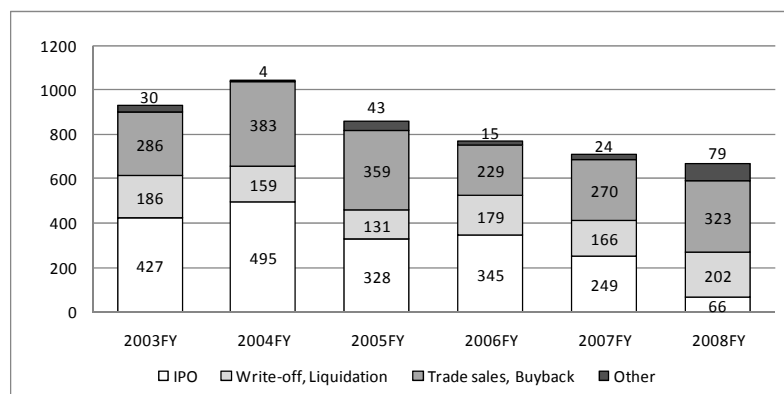


Fig1-3. Exit situation of investment recipients



Source: VEC survey report of each year

Summary Reports of Japanese Venture Capital Investments  
And Fund Benchmark  
2008/4~2009/3

**Fig2-1. Venture Capital Investments<sup>1)</sup> (billion yen)**

Period	Total Investment					Valid Respons (No. of VCs)
	Fund Investment	Capital Investment	New Investment	Follow-on Investment		
2003FY <sup>2)</sup>	150.3	119.7	30.5	101.2	28.1	82
2004FY	196.8	154.2	41.9	138.8	35.0	84
2005FY	234.5	190.5	43.6	187.7	44.9	71
2006FY	279.0	210.1	68.8	129.2	37.9	69
2007FY	193.3	166.5	26.7	107.5	31.7	72
2008FY	136.6	107.3	29.2	66.7	32.3	75

1) simply the sum of the response of the survey

2) FY runs from April of the prior year to March of the next year

**Fig2-2. Y/Y growth rate of Venture Capital Investments (%)**

Period	Total investment			Valid Respons <sup>2)</sup> (No. of VCs)
	Fund Investment	Capital Investment		
2003FY <sup>1)</sup>	11.2%	17.3%	-8.8%	74
2004FY	31.1%	24.6%	65.1%	78
2005FY	46.1%	49.2%	31.7%	70
2006FY	14.5%	5.2%	55.0%	68
2007FY	-33.2%	-24.4%	-60.9%	69
2008FY	-29.7%	-36.0%	12.7%	62

1) FY runs from April of the prior year to March of the next year

2) the number of VCs replying the total amount for two years in a row

**Fig2-3. Venture Capital Investments<sup>1)</sup> (Number of deals)**

Period	Total Investment					Valid Respons (No. of VCs)
	Fund Investment	Capital Investment	New Investment	Follow-on Investment		
2003FY <sup>2)</sup>	2,130	1,451	679	1,426	567	80
2004FY	2,754	1,847	907	2,051	664	83
2005FY	2,832	2,047	785	2,130	651	73
2006FY	2,773	2,111	662	1,847	599	70
2007FY	2,577	1,968	609	1,626	657	73
2008FY	1,293	979	314	792	437	77

1) simply the sum of the response of the survey

2) FY runs from April of the prior year to March of the next year

**Fig2-4. Y/Y growth rate of the deals (%)**

Period	Total Investment			Valid Respons <sup>2)</sup> (No. of VCs)
		Fund Investment	Capital Investment	
2003FY <sup>1)</sup>	-5.7%	0.7%	-16.3%	72
2004FY	31.2%	23.1%	27.9%	77
2005FY	13.5%	15.0%	7.8%	72
2006FY	-0.9%	4.0%	-16.1%	69
2007FY	-7.9%	-8.1%	-5.6%	70
2008FY	-50.4%	-50.5%	-48.2%	63

1)FY runs from April of the prior year to March of the next year

2)the number of VCs replying the total amount for two years in a row

**Fig2-5. General Situation of Venture Capital Funds<sup>1)</sup>**

	Established			Terminated			Total Commitment to the VC Funds as of End of Mar. 2009				
	Number of Funds	Total Amount of Funds <sup>2)</sup>	Average No. of Partnership Members	Number of Funds	Total Amount of Funds <sup>2)</sup>	Average No. of Partnership Members	Number of Funds	Total Amount of Funds <sup>2)</sup>	Average Fund Size <sup>2)</sup>	Cumulative Fund Members	Average No. of Partnership Members
2003FY <sup>3)</sup>	50	151	14.7	25	92	9.1	420	1,257	3.0	2353	9.4
2004FY	87	245	5.5	13	38	14.0	489	1,568	3.2	3287	10.2
2005FY	70	282	9.5	30	61	8.4	457	1,697	3.7	2832	10.3
2006FY	44	198	8.0	29	61	6.4	469	1,890	4.0	2795	10.5
2007FY	39	274	14.2	27	209	13.9	591	1,929	3.3	3490	8.9
2008FY	23	85	4.5	39	97	10.6	451	1,845	4.1	2714	10.2

1)simply the sum of the response of the survey

2)billion yen of the total commitment to the funds

3)FY runs from April of the prior year to March of the next year

**Fig2-6. Year-end growth rate of Average Size<sup>1)</sup> (%)**

	Average Fund Size	Average No. of Partnership Members
2003FY <sup>2)</sup>	-0.9%	10.5%
2004FY	-0.4%	-1.4%
2005FY	8.0%	-0.6%
2006FY	8.1%	1.8%
2007FY	2.4%	0.2%
2008FY	2.9%	-2.9%

1)based on the VCs replying both the number of funds and total amount of funds(or about members)

2)FY runs from April of the prior year to March of the next year

**Fig2-7. Exit Situation of Investment recipients<sup>1)</sup>**

	2003FY	2004FY	2005FY	2006FY	2007FY	2008FY
IPO	427	495	328	345	249	66
Write-off, Liquidation	186	159	131	179	166	202
Trade sales, Buyback	286	383	359	229	270	323
Other	30	4	43	15	24	79
Total	929	1,041	861	768	709	670

1)simply the sum of the response of the survey

**Fig2-8. Number of Funds by Inception Year**

Inception Year	No of funds		
	Total	Liquidated	Existing
'82	2	2	0
'83	8	8	0
'84	5	5	0
'85	7	7	0
'86	0	0	0
'87	3	3	0
'88	2	2	0
'89	6	6	0
'90	9	9	0
'91	10	10	0
'92	6	6	0
'93	0	0	0
'94	3	3	0
'95	10	10	0
'96	20	18	2
'97	17	14	3
'98	5	2	3
'99	24	10	14
'00	41	1	40
'01	27	6	21
'02	31	5	26
'03	27	1	26
'04	51	3	48
'05	67	0	67
'06	38	0	38
'07	26	1	25
'08	32	0	32
'09	3	0	3
Total	480	132	348

**Fig2-9. Distribution of Fund IRR**

IRR	Number of Funds
60%~	7
50%~60%	1
40%~50%	0
30%~40%	3
20%~30%	8
15%~20%	6
10%~15%	13
5%~10%	26
0%~5%	63
-5%~0%	70
-10%~-5%	82
-15%~-10%	54
-20%~-15%	41
-30%~-20%	21
-40%~-30%	6
-50%~-40%	5
-60%~-50%	2
~-60%	6
Total	414