

February 3rd 2010

**Venture Capital and Angels in Japan
Comparison with experiences in France**

**SEIJO UNIVERSITY
Faculty of Social Innovation
Mahito UCHIDA**

Agenda

- 1. Venture Finance in Japan**
- 2. Venture Finance in France**
- 3. Comparison with Experiences in France**

1-1: Present state of start-up creation in Japan(1)

- **Development of institutional and social framework**

- Construction of incubator

- Abolishment of minimum capital requirements for joint-stock companies

- Opening of emerging equity exchanges

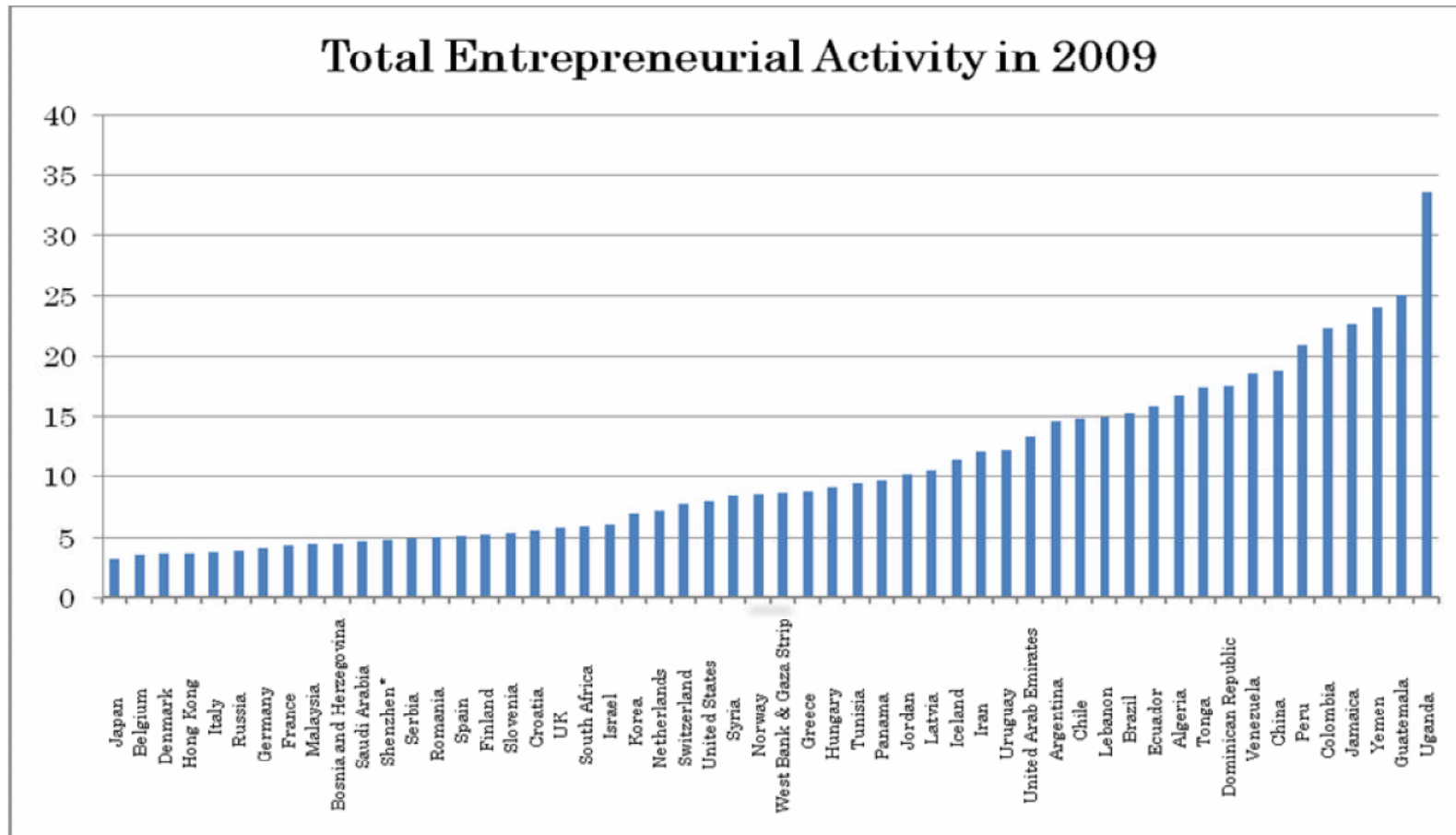
- Introduction of angel taxation

- **Opening rate remains at a lower level**

- 5.1% from 2004 to 2006

1-2: Present state of start-up creation in Japan(2)

International comparison



TEA means the ratio of people involved in setting-ups a new business among those between the ages of 18 and 64. It composes of those who are preparing a new business and those who started one within the past 42 months

1-3: Venture financing: Overview

- Financing methods:

1. Receiving investment from venture capitals
2. Listing stocks on emerging equity exchange
3. Raising funds from angel investors

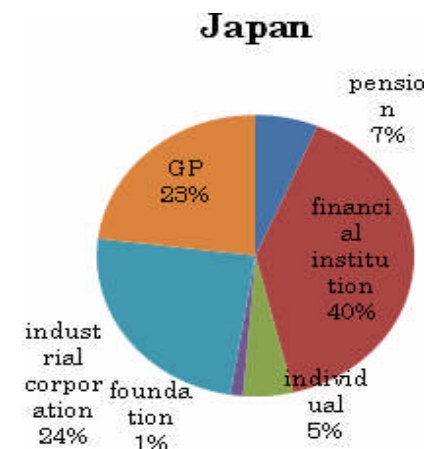
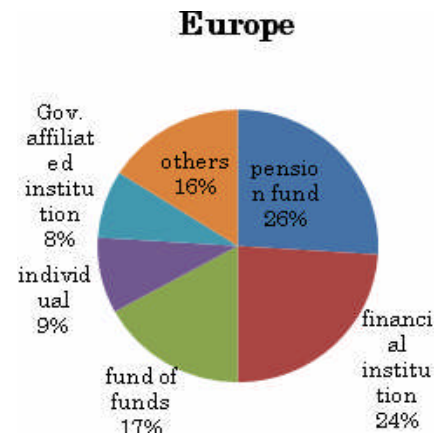
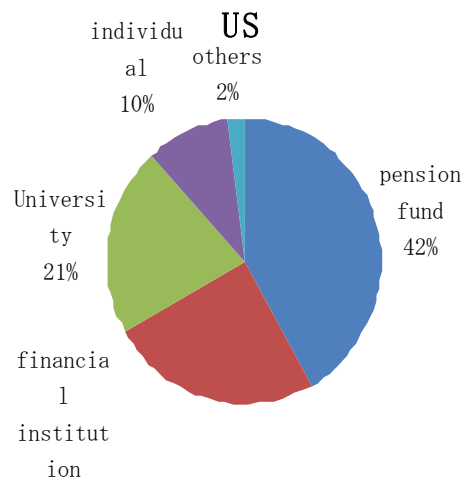
1-4: Venture financing: through venture capital

--150 venture capital companies

--Outstanding only 1 trillion yen (low level)

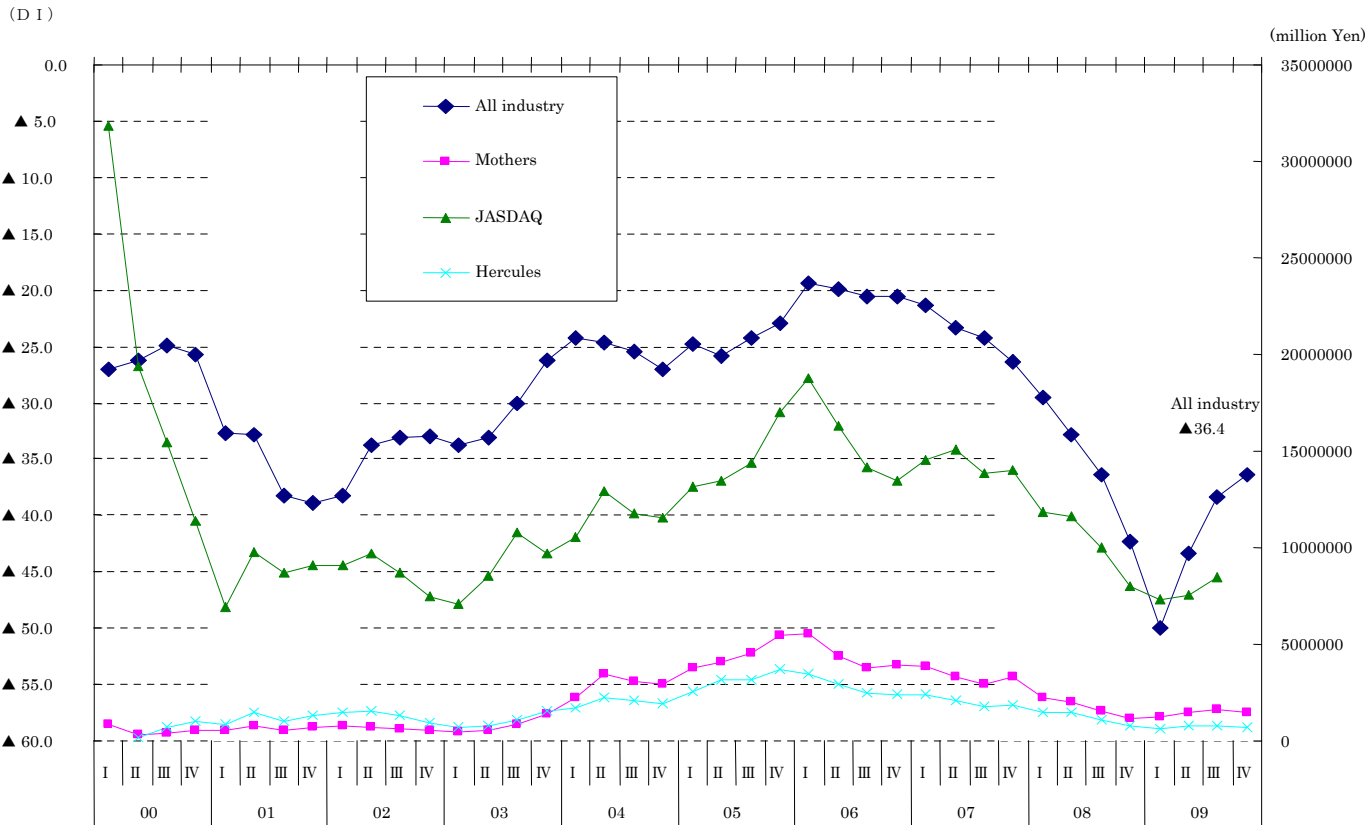
① limited suppliers, ② lack of information

Structural proportion of venture capitals



1-5: Venture financing :through equity market

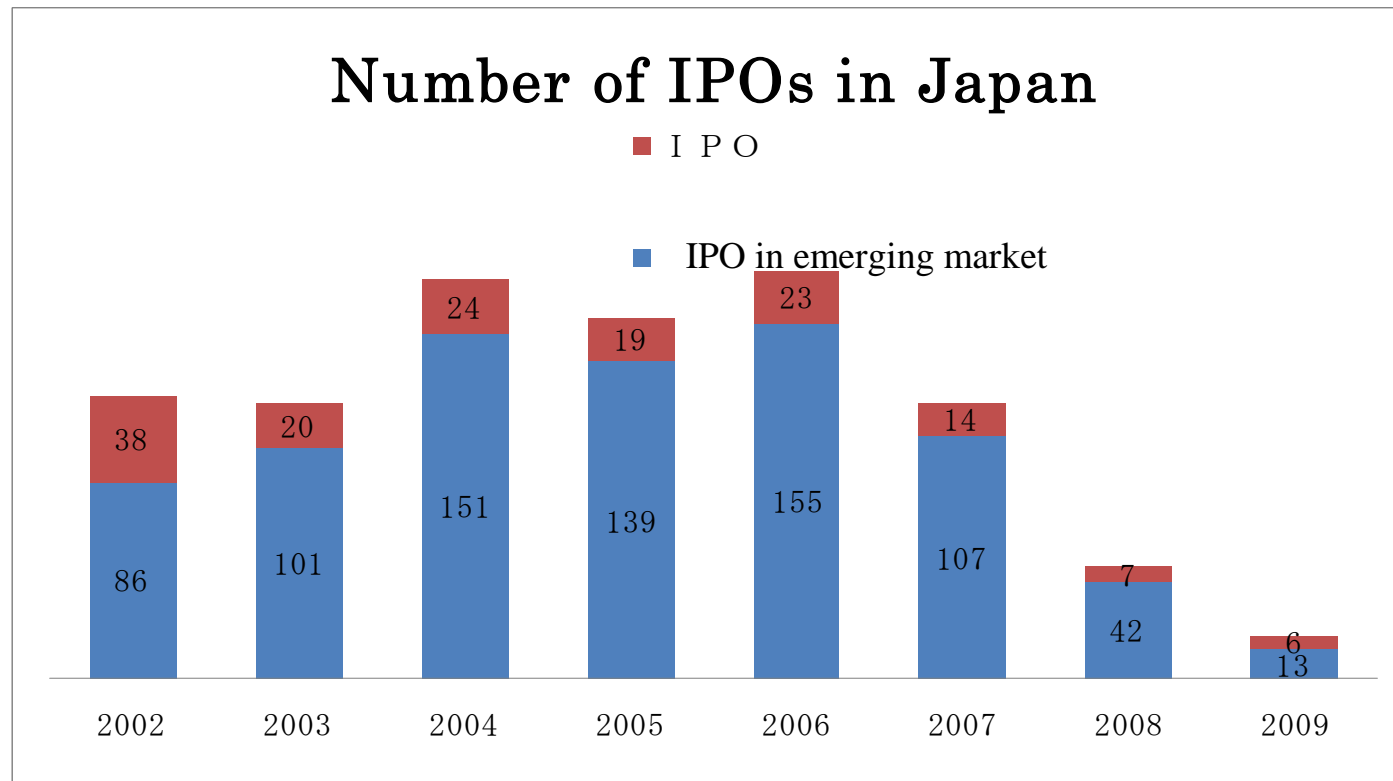
SME Business conditions DI has been worsening since the beginning of 2007



Sources: Fukushima (2010)

1-6: Venture financing :through equity market

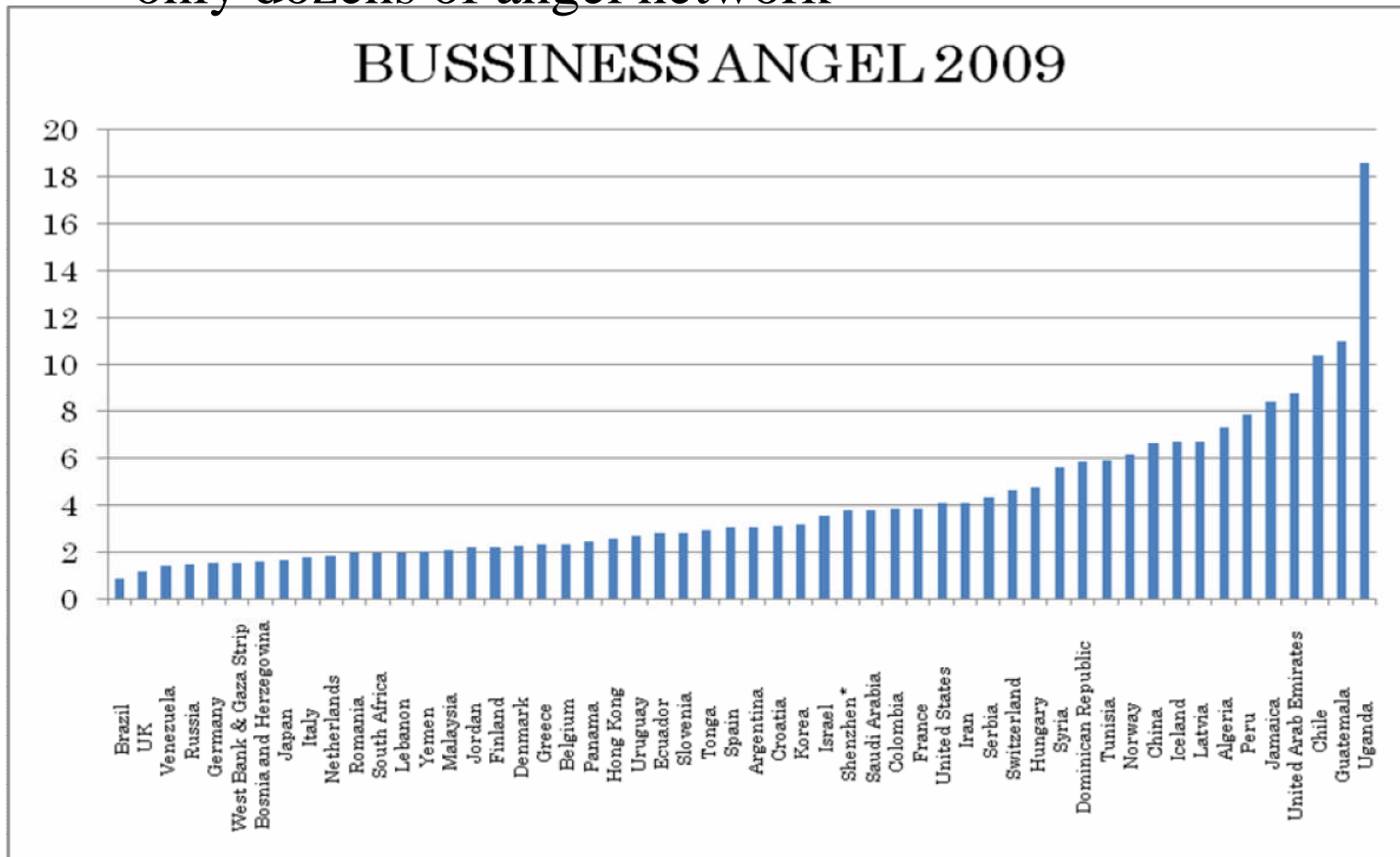
Equity financing through IPOs have continued to be sluggish since 2007



1-7: Venture financing: through business angel

-- not yet popular

-- only dozens of angel network



1-8: Measures taken by Government(1)

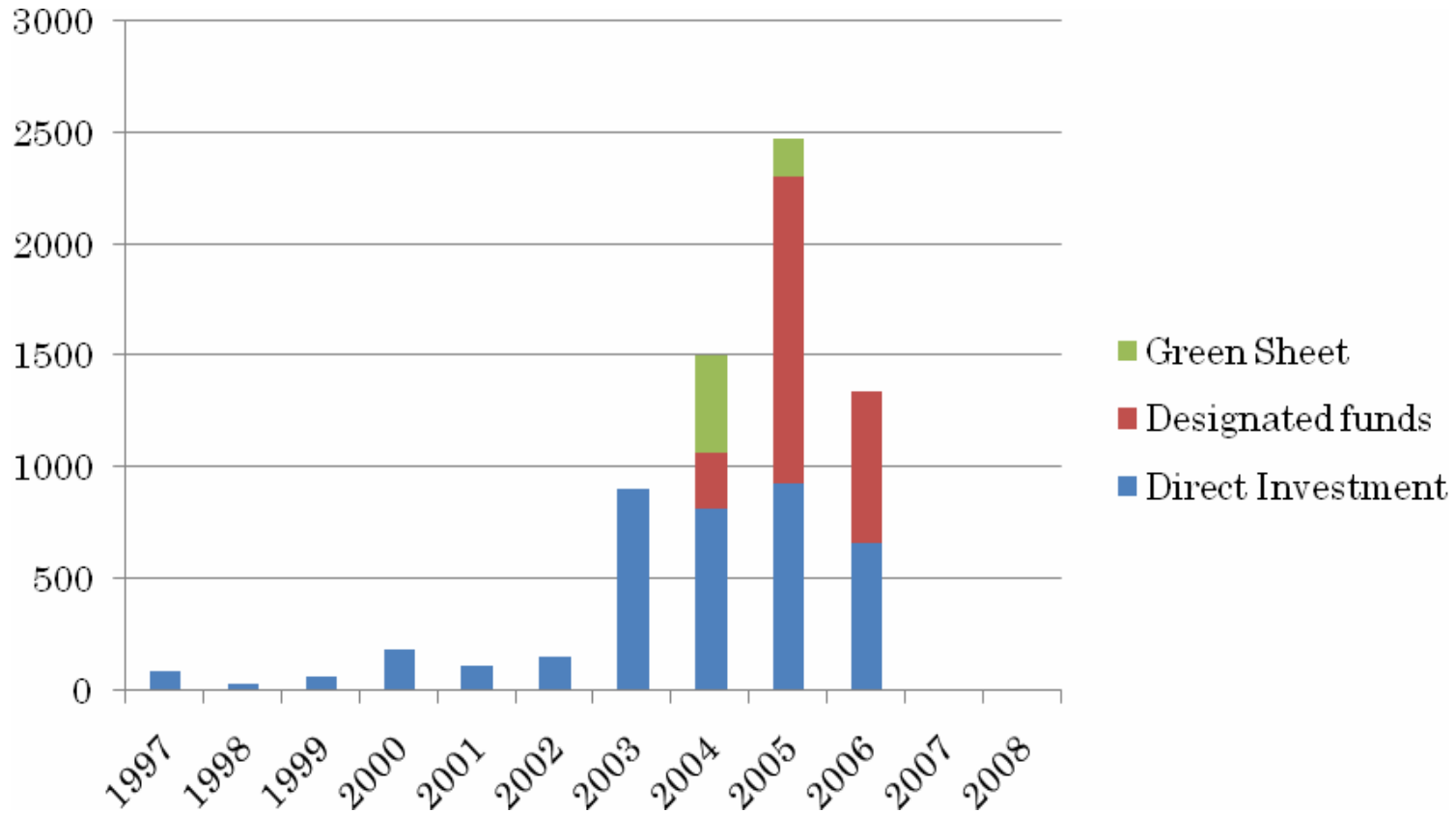
- **Angel taxation**

- introduction of angel taxation in 1997
 - supplement amendments in 2003
 - introduction of income deduction in 2008
- =less favorable than foreign countries?

1-9: Measures taken by Government(2)

-- limited use of angel tax

Million yen investment in which the angel tax is applied to



1-10: Measures taken by Government(3)

Public aides for venture companies

- the Organization for small & medium Enterprises and Regional Innovation, the Japan (SMRJ)
 - invest mainly in start-ups
 - invested in 2,000 companies, 96 IPOs.(1999-2008)
- the Development Bank of Japan (DBJ)
 - focus of new technology and industry
 - utilizing stock acquisition right loan and other methods

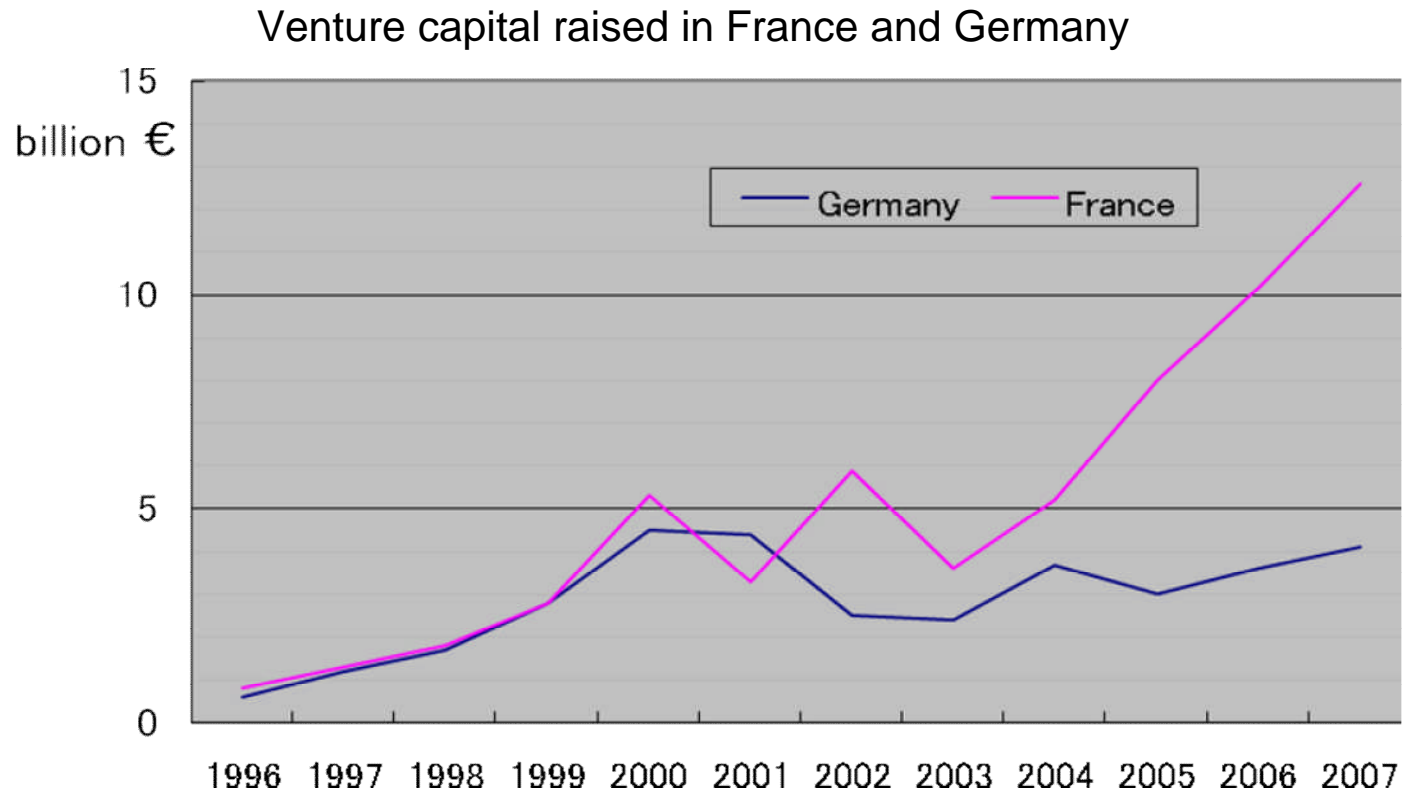
2-1: the Venture Finance in France

Overview

- Opening rate of establishment is high (12.1%)
- TEA is low
 - 3.26(J), 3.51(B), 4.35(F), 5.74(UK), 7.19 (NL) ,7.96(US),
- Ratio of business angel stands relatively high
 - 1.13(UK), 1.65(J), 1.85(NL), 2.34(B), 3.82(F), 4.05(US)
- Proactive intervention of public authority
- Mutual investment funds for innovation with tax advantage

2-2: Venture capital raised in France

French market has grown since 2004, although it consists mainly of Buy Out operation.



Source: EVCA

2-3: Intervention of public authority

- Until mid 1990s: only a part of a wider program to support program and reduce comparative handicaps
- Since mid 1990s: proactive policy to improve international competitiveness
 - tax incentive: Finance Act of 1998
 - public institutions: CDC, ANVAR, FCPR
 - Nouveau Marché
 - Innovation and research Act in 1999
 - Credit mediation scheme

2-4: Mutual Funds for innovation (1)

FCPI (Fonds Communes de Placement pour l'innovation)

- Created by the 1997 Finance Act, extended until the end of 2010
- Invest at least 60 % of its assets in innovative companies
- Injection of 2.2 billion Euros into more than 800 innovative businesses

FIP (Proximity Investment Fund)

- Created by the Dutreuil law for the Economic Initiative in 2003
- Finance regional SME

2-5: Mutual Funds for innovation (2)

Tax advantage for investors

- Reduction of income tax equal to 25% of the subscriptions
- Tax benefit of FCPI and FIP can be applied at the same time

Conditions

- Ceiling of 12 thousands euro for single person, 24 thousands euro for married couple
- Holding at least 5 years

2-6: Mutual Funds for innovation (3)

Performance of FCPI at the end of 2008

Funds set up	Average	Average per year
1997	-56.55	-5.65
1998	-36.54	-3.65
1999	-67.08	-7.45
2000	-38.72	-4.84
2001	-21.02	-3.00
2002	-20.63	-3.44
2003	-6.68	-1.34
2004	-11.95	-2.99
2005	-10.32	-3.44
2006	-11.83	-5.91

Source: homepage of fip-fcpi.fr

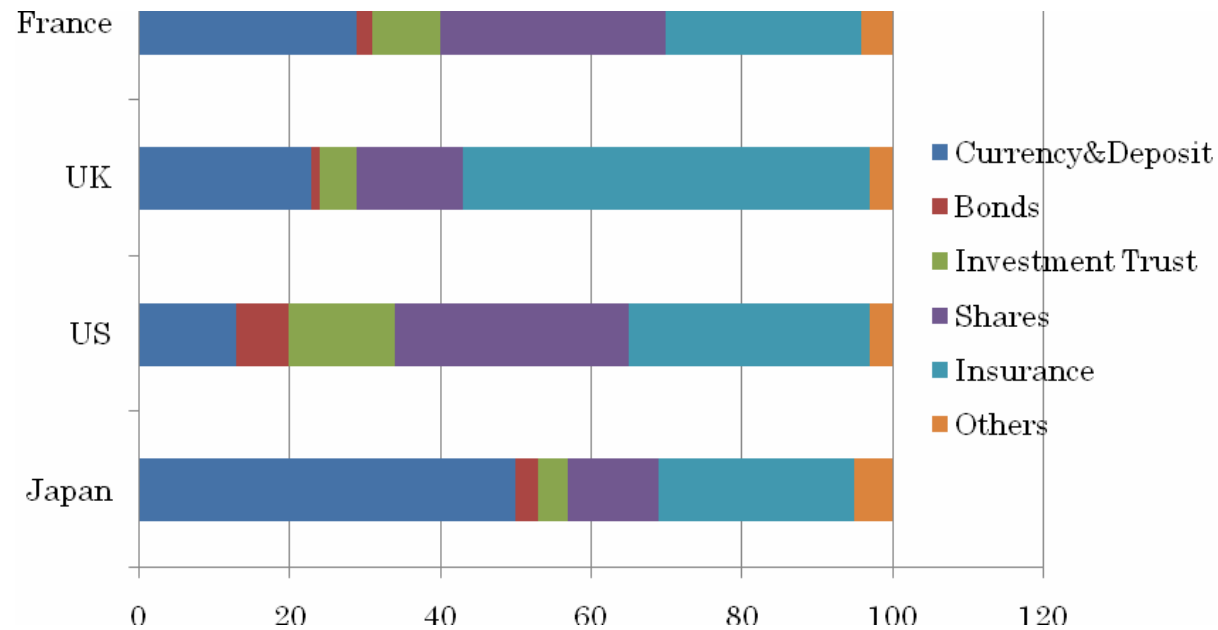
3-1: Effectiveness of past Japanese Policy (1)

- Measures to catch up with US model do not work
 - ⇒ Activities of venture capital in Japan remains low(only 0.07% of the total assets of households in Japan)
- Reasons for low activity
 - ① Lack of capital: in US, demand from innovative firm leads the development of venture capital. Many venture founders invest their money in other new companies.
 - ② Difference of culture: Japanese do not favor risk money.
 - ③ Bank-based financial system in Japan: preference to invest in low risk projects

3-2: Effectiveness of past Japanese Policy (2)

In Japan, safe assts such as deposit account for 76% of households' sector investment

Composition of Households Financial Assets in advanced countries



3-3: Assessment of French model

Different from US model

- Intervention of public authority
 - Disadvantage of capital, credible projects and entrepreneurs provides rational for the public authorities
- Supply side of financing:
 - Mutual funds for innovation

Results

- The number of venture companies remains not so much. It will be some time before the effects of measures make themselves felt.

3-4:Pro and Con of mutual funds for innovation

Merits

- Stable way of funding
- Social contribution (Support venture companies)

Demerits

- No practical support for SME
- Shortage of liquidity (hold at least 5 years)

3-5:Recommendations (1)

Angel tax in Japan is less favorable than foreign countries?

Comparison of angel tax system in advanced countries

	US	UK	France	Japan
Deduction at time of equity investment made	○ (carried forward)	○(20%) (carried forward)	◎(25%) (deducted from the income tax)	○
[Upper limit]	[no limit]			
Tax exemption for gains from stock sold	△(half) (held for 5 years)	◎ (held for 3 years)	○ (held for 8 years)	×
Losses from stock sold	◎ (indefinitely)	◎ (indefinitely)	○ (5 years)	○ (3 years)

3-6:Recommendations

- Strategies: Do not merely follow US model
- Angel tax: More attractive measures than US model, examination of mutual funds
- Venture capital funds: Expansion of angel network, expansion of SMRJ's program of investment fund
- Collection and provision of information concerning venture capitals