

What's really going on?

**Abenomics is pretty good...
but long way to go for sustainable re-growth!**



Nov 13, 2017

Kazuhiko Toyama

Managing Partner, Industrial Growth Platform, Inc. (IGPI)

Who is Kaz Toyama? (1/2)

Founding CEO of
IGPI (2007~)

- 200 professionals covering PE, VC, consultation and dispatch of management talent
- 4,000 employees (consolidated)
- \$200M capitalization, \$1billion fund asset

JAL Turnaround
Task Force (2009)

- Co-leader

Board Member

- Panasonic (2016~)
- Tokyo Electric Power Co. (2017~)
- Omron (2007~2017)

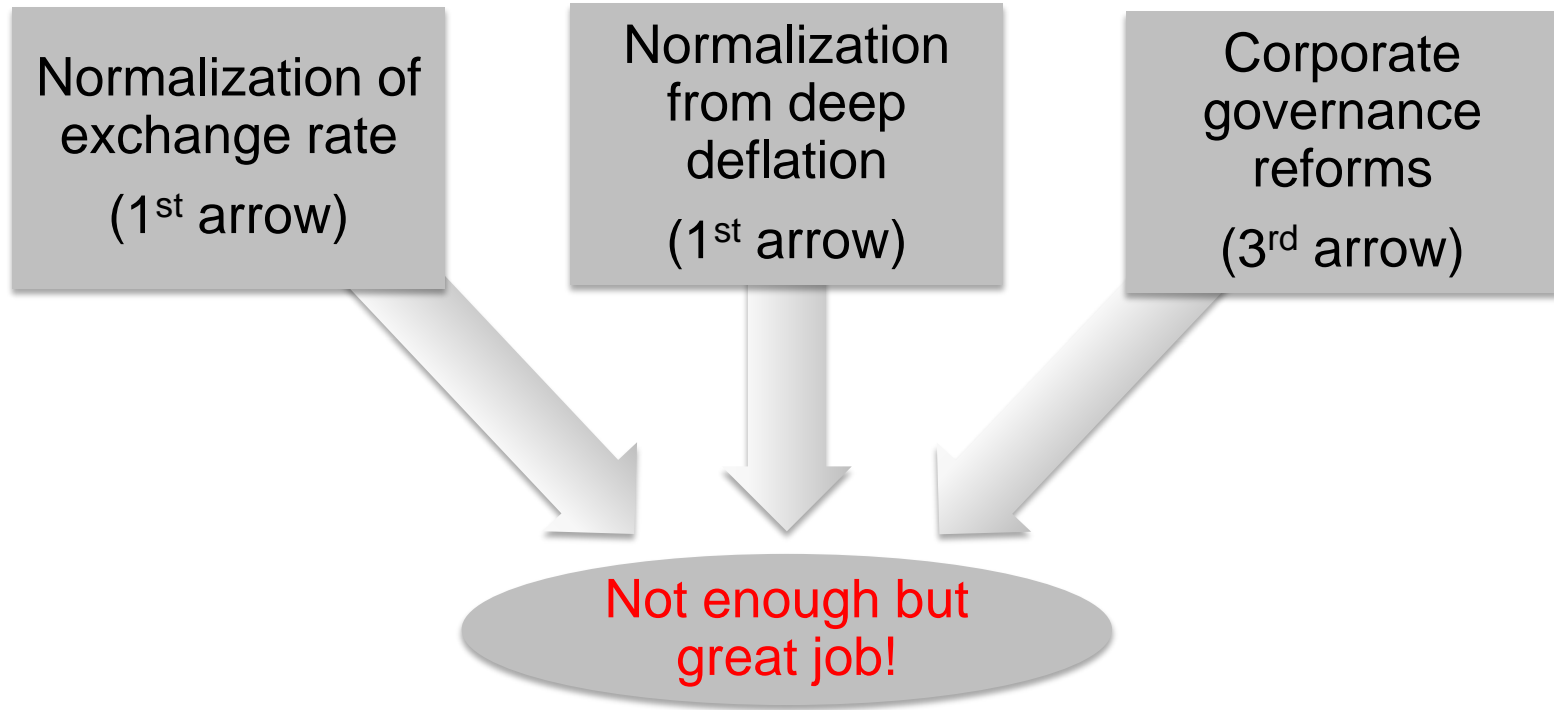
COO of Industrial
Revitalization
Corporation of
Japan (2003~2007)

- \$100 billion budget investment company
- A state owned company formed to resolve NPLs – a key highlight in PM Koizumi's administration
- Successfully revitalized 41 large corporations; completed the mission before time in just 4 years, profitably!

Other positions held

- Vice Chairperson of Keizai Doyukai (Japan Association of Corporate Executives (2012~))
- Members of the Government Committee
 - Ministry of Economy, Trade and Industry (METI)
 - Ministry of Finance (MOF)
 - Financial Services Agency (FSA)
 - Cabinet Secretariat (CAS)
 - Cabinet office, Government of Japan (CAO)
 - Ministry of Land, Infrastructure, Transportation and Tourism(MLIT)
 - Ministry of Health, Labour and Welfare (MHLW)
 - Ministry of Education, Culture, Sports, Science and Technology (MEXT)
 - Japan Science Technologies Association (JST)
 - RIKEN

Positive impact of Abenomics



Yes, we've been working hard on the governance reform

2013

- Formulation of Japan Revitalization Strategy

2014

- Formulation of Stewardship Code
- Launch of JPX Nikkei Index 400
- Formulation of Japan Revitalization Strategy
- Amendment of Corporate Law on External Board Member
- Release of Ito Report

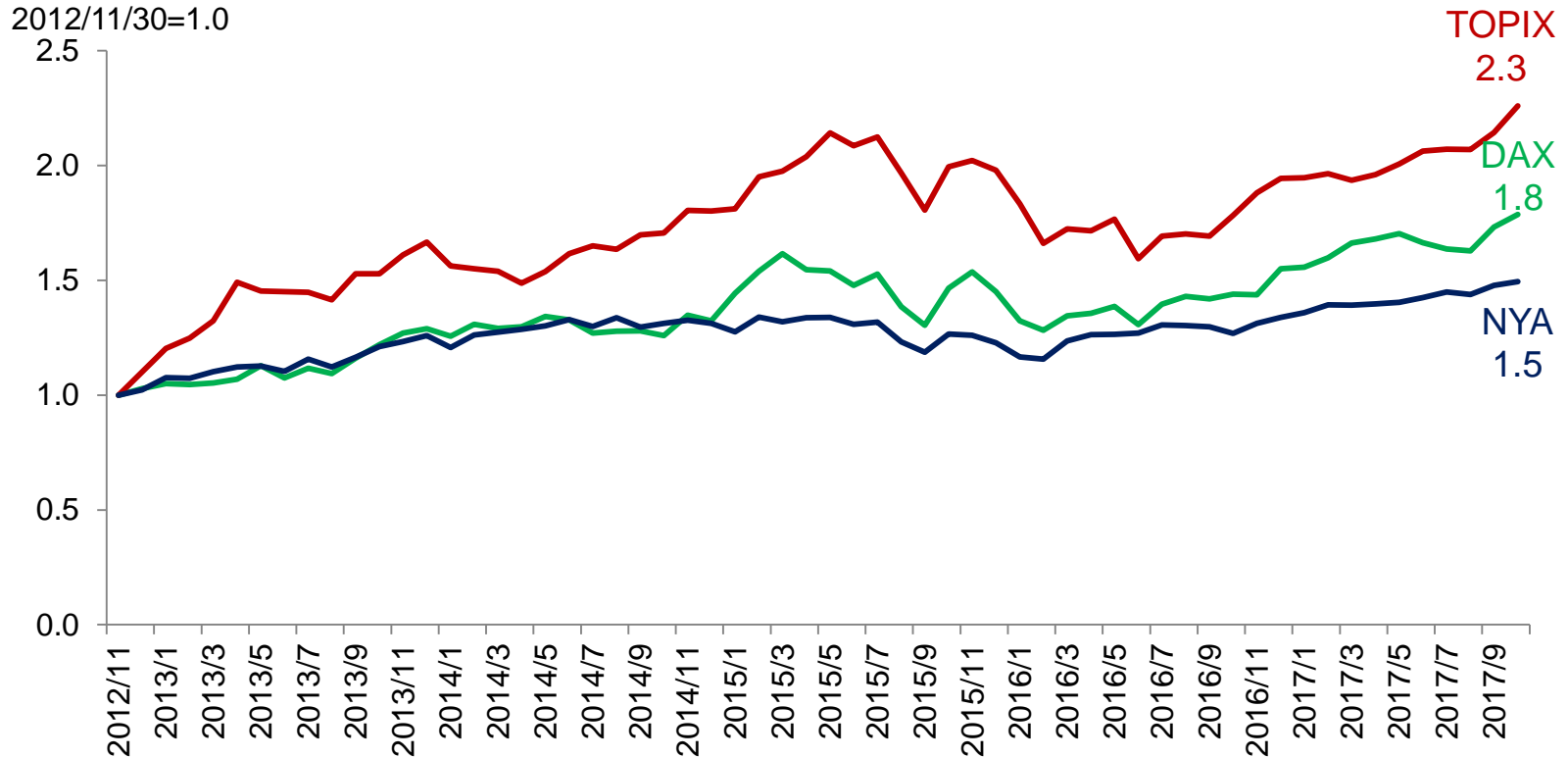
2015

- Formulation and Enforcement of Corporate Governance Code

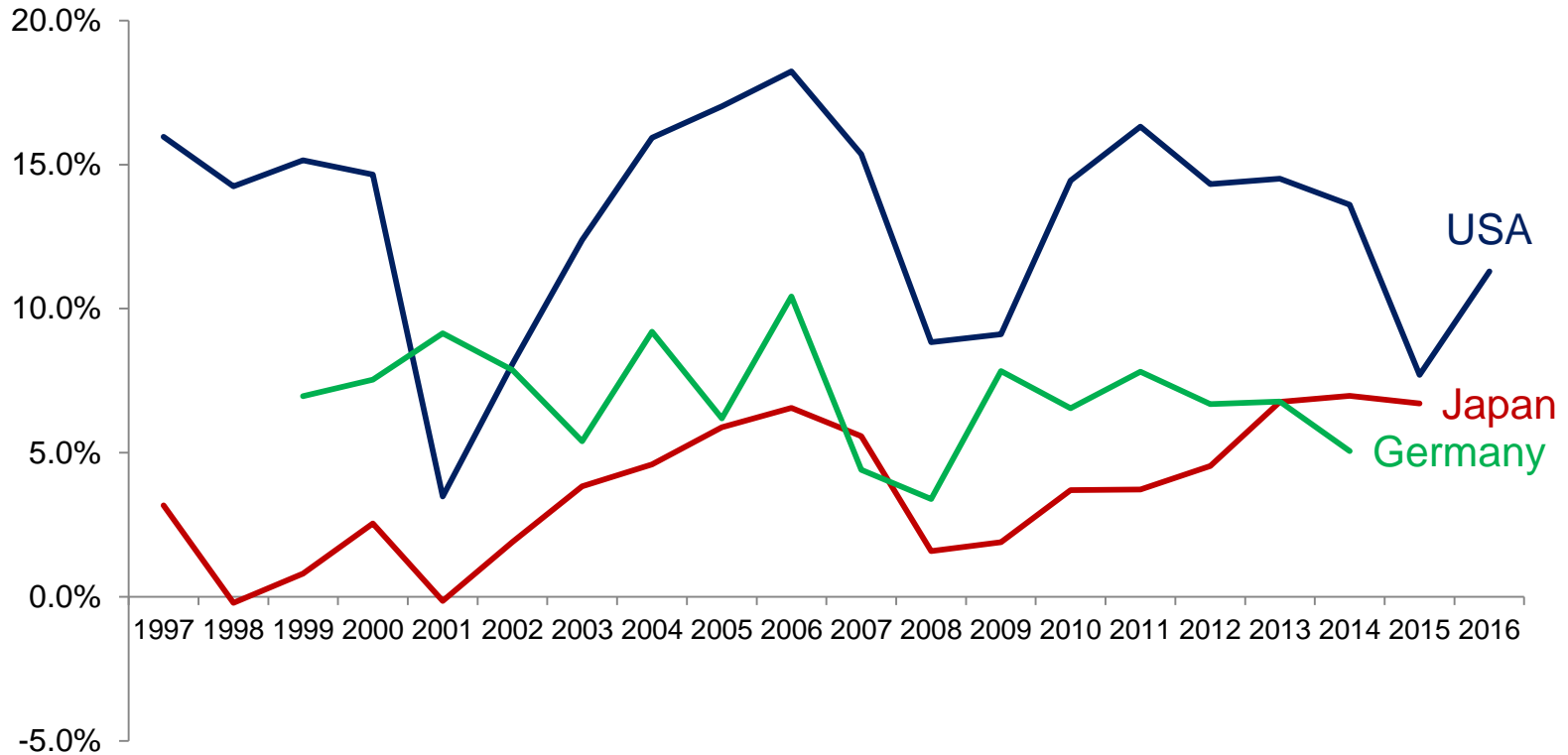
2017

- Formulation of Stewardship Code for accounting firms
- Formulation of CGS Guideline

Stock market indices (2012-2017)



ROE (1997-2017)



Brutal reality of “Corporate Japan”

Old champions

- “Corporate Japan” (i.e. large global manufacturers, mega-financial institutions etc.) sector still depends upon the old, established and large corporations

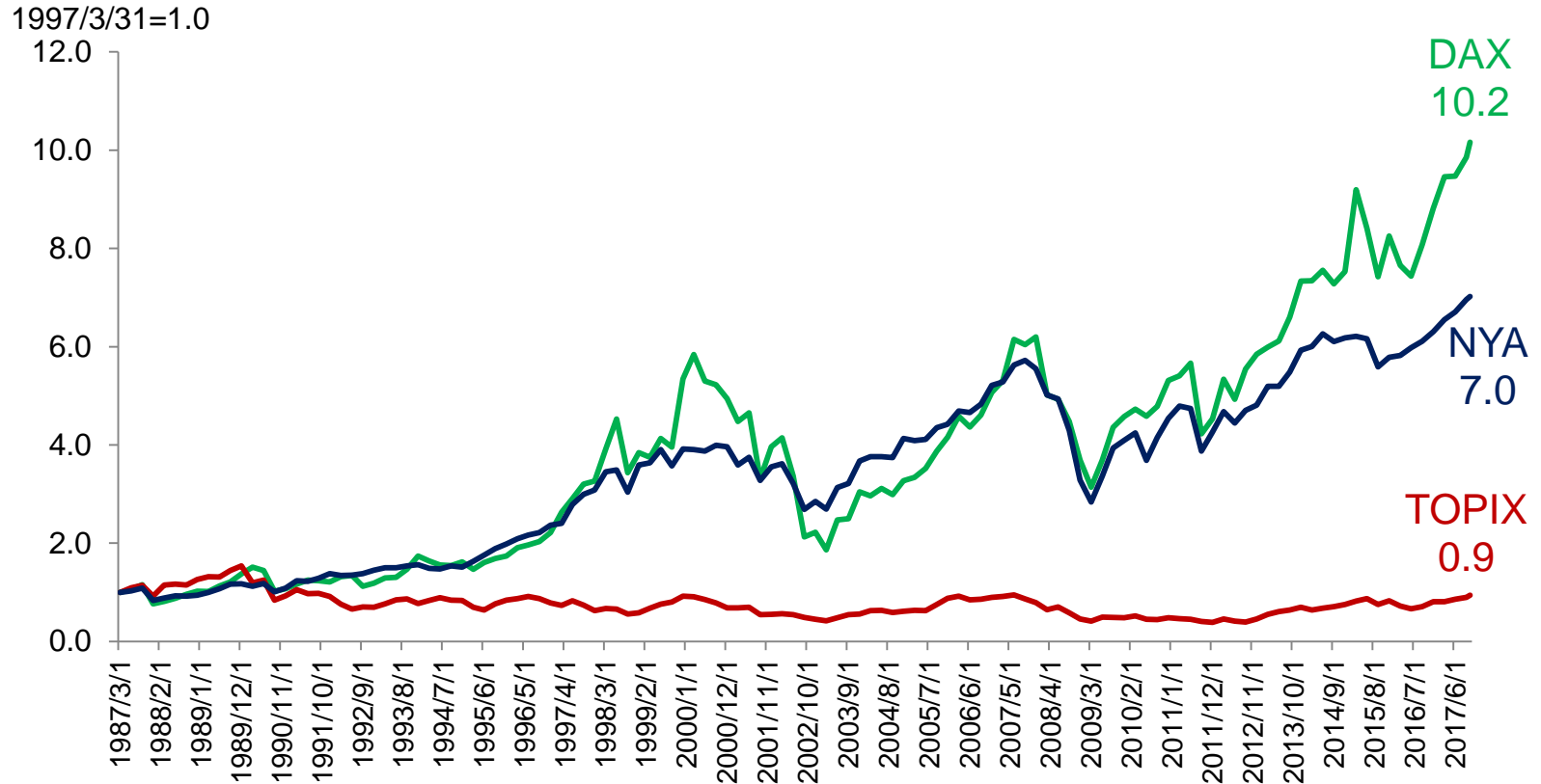
Legacy woes

- Severely trapped by the old practices of the “Japanese management system” which has too many vested interests and is dominated by very conservative people

Risk averse

- Lack of equity culture - extremely biased investment chains & human capital allocations

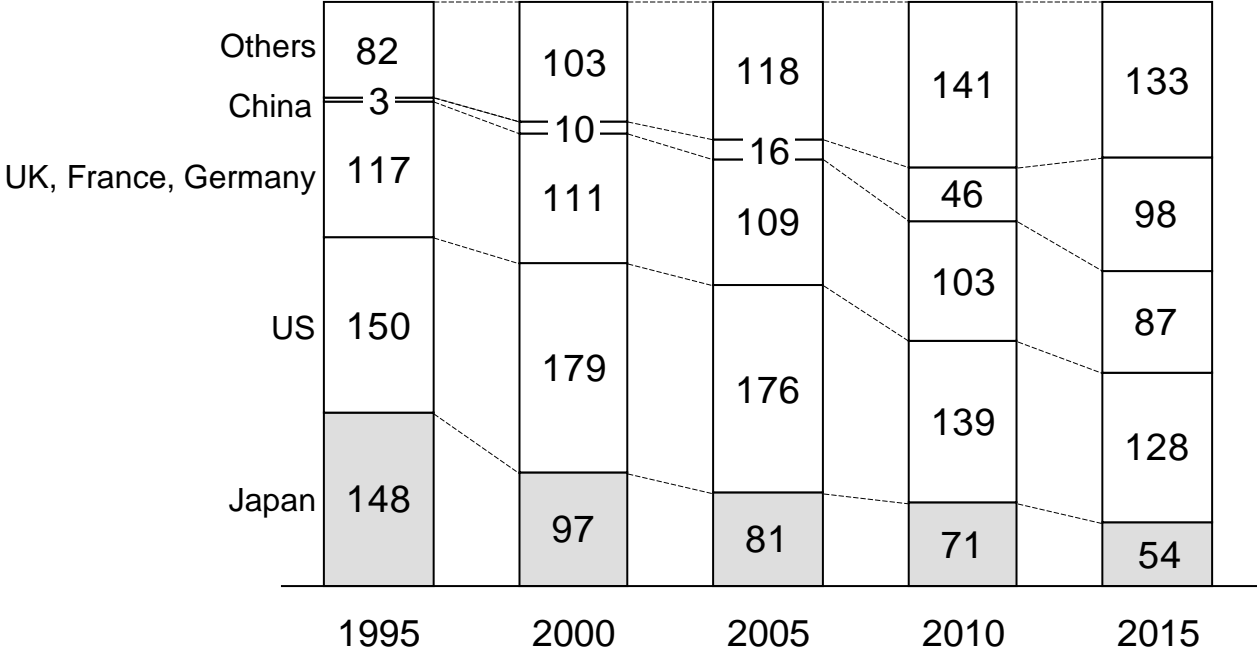
Stock market indices (1987-2017)



The revenue position of “Corporate Japan” has been dropping



Fortune Global 500 by Countries

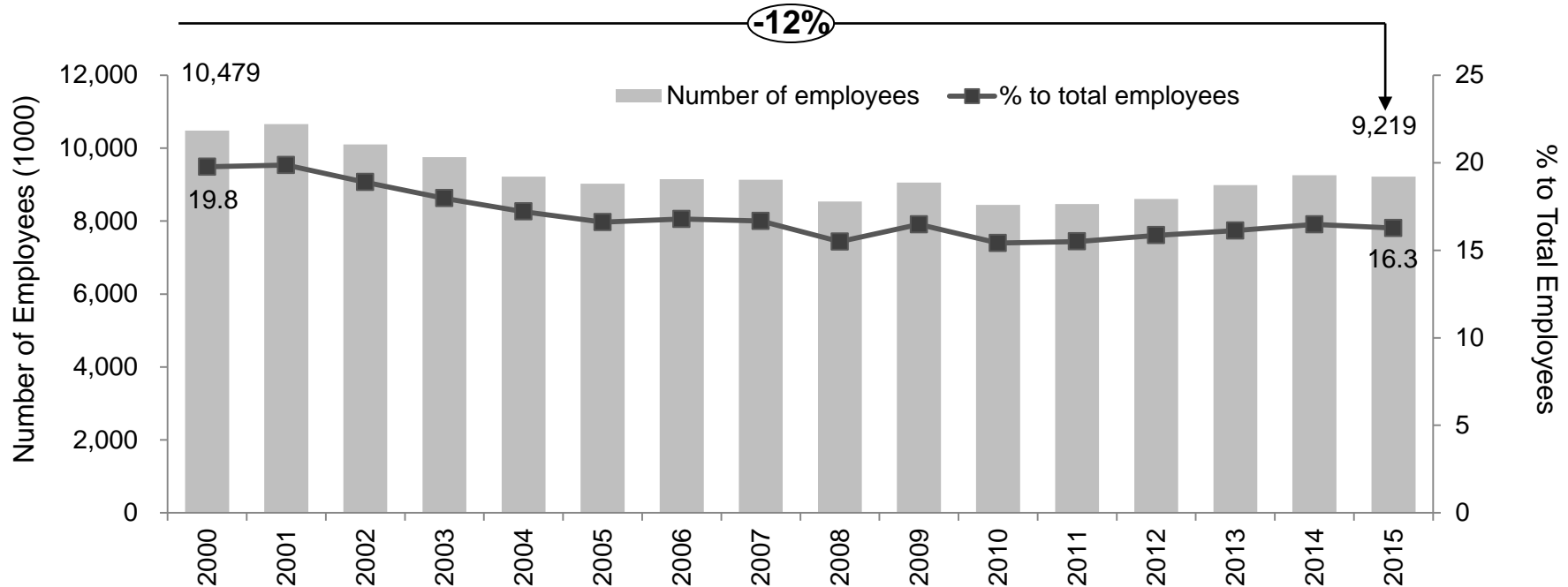


Source: Fortune

“Corporate Japan“ has been losing the employment in Japan



Employment of Major Companies with capital of JPY 1 billion or more

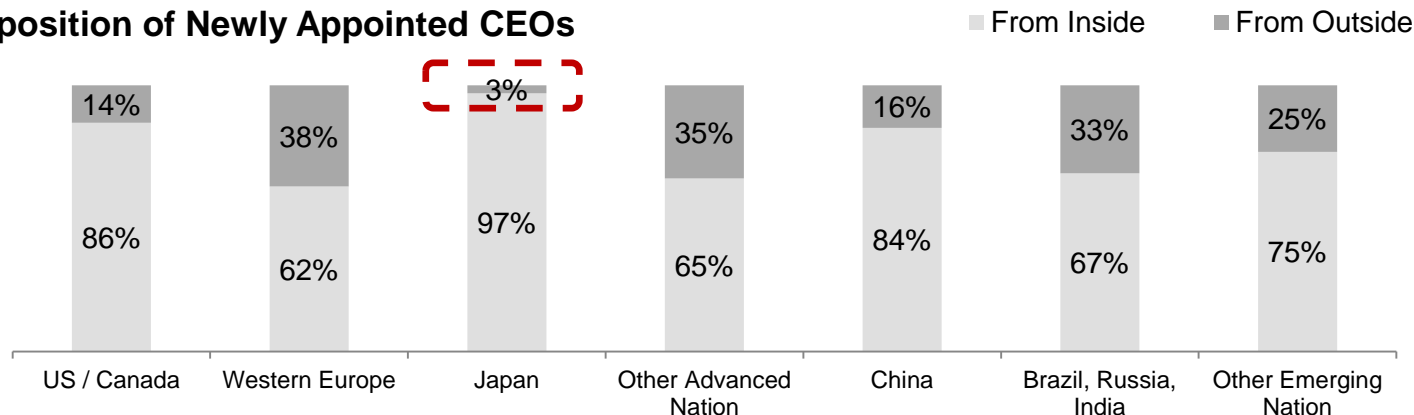


Source: National Tax Agency

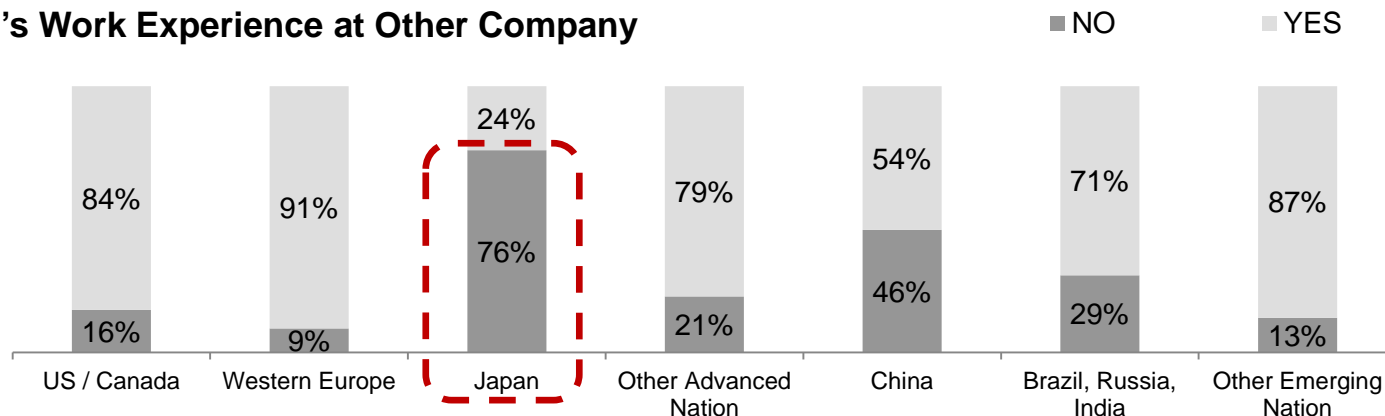
Must stay with one company for a “lifetime” to become a CEO in “Corporate Japan”



Composition of Newly Appointed CEOs

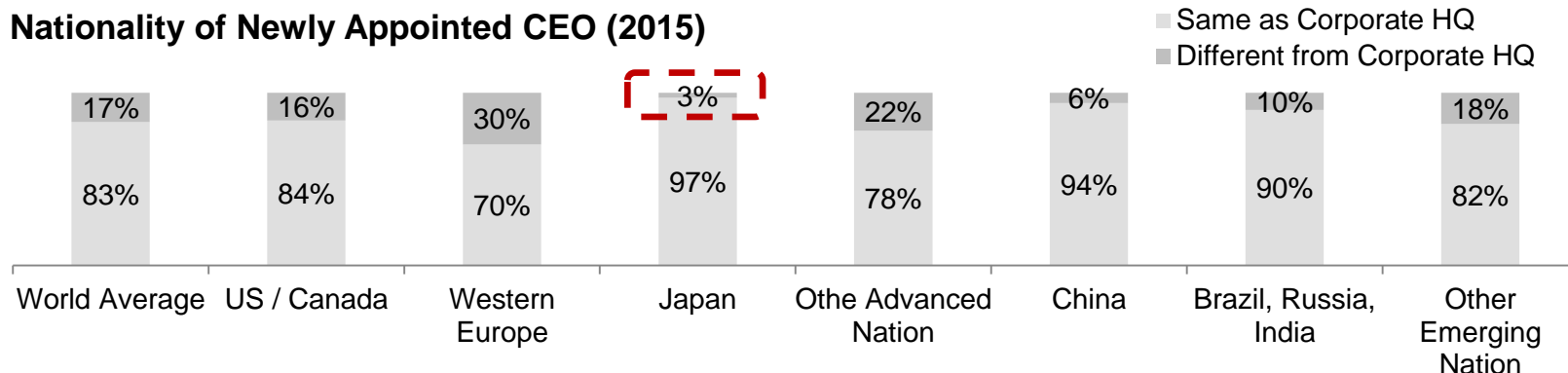


CEO's Work Experience at Other Company

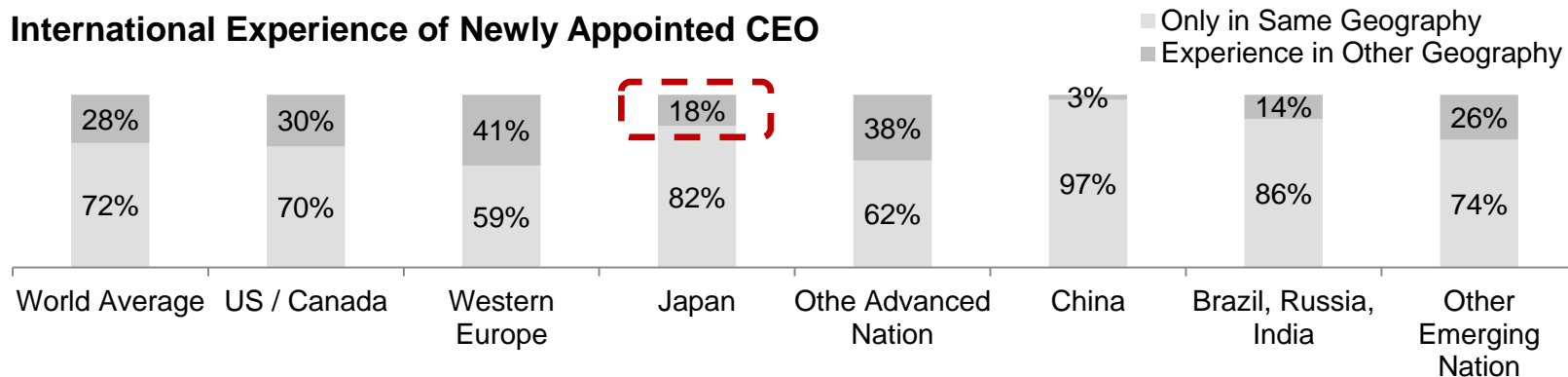


Only domestic Japanese can become CEO of “Corporate Japan”

Nationality of Newly Appointed CEO (2015)

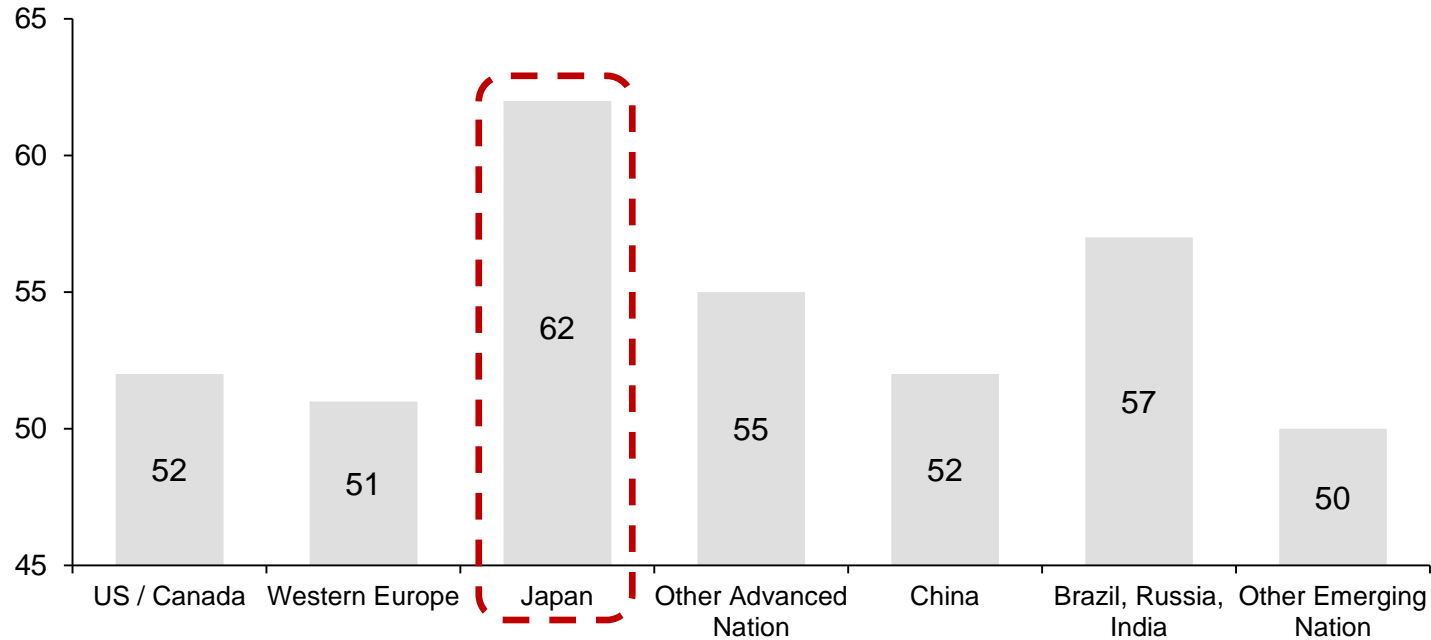


International Experience of Newly Appointed CEO



Need to be older >60 years to become CEO in “Corporate Japan”

Average age at the time of the appointment of CEO



Women and foreigners cannot become corporate executives in “Corporate Japan”

- Women and foreigners are strongly underrepresented among Japanese corporate executives of leading firms

	TOSHIBA	KAO	Ajinomoto	GE	P&G	Unilever	Nestlé
	Japan	Japan	Japan	US	US	Dutch-UK	Switzerland
Executives	25	26	40	25	33	13	14
of which Women	0	2	2	5	9	3	1
% of Women Executives	0%	8%	5%	20%	27%	23%	7%
of which Foreigners	0	0	4	NA	19	NA	8
% of Foreigner Executives	0%	0%	10%		58%		57%

Still big margin to improve for “Corporate Japan”, but ...

Tough but many solvable problems if the leaders are determined



More governance reforms
and
Higher capital productivity

- “Corporate Japan” shares only 30% of Japanese economy
- Constitutes 20% of the employment; “Japanese employment system” (lifetime, seniority, enterprise union)

Both % declining since a long time

Top 10 Market Cap Companies - No innovation, No sustainable growth!

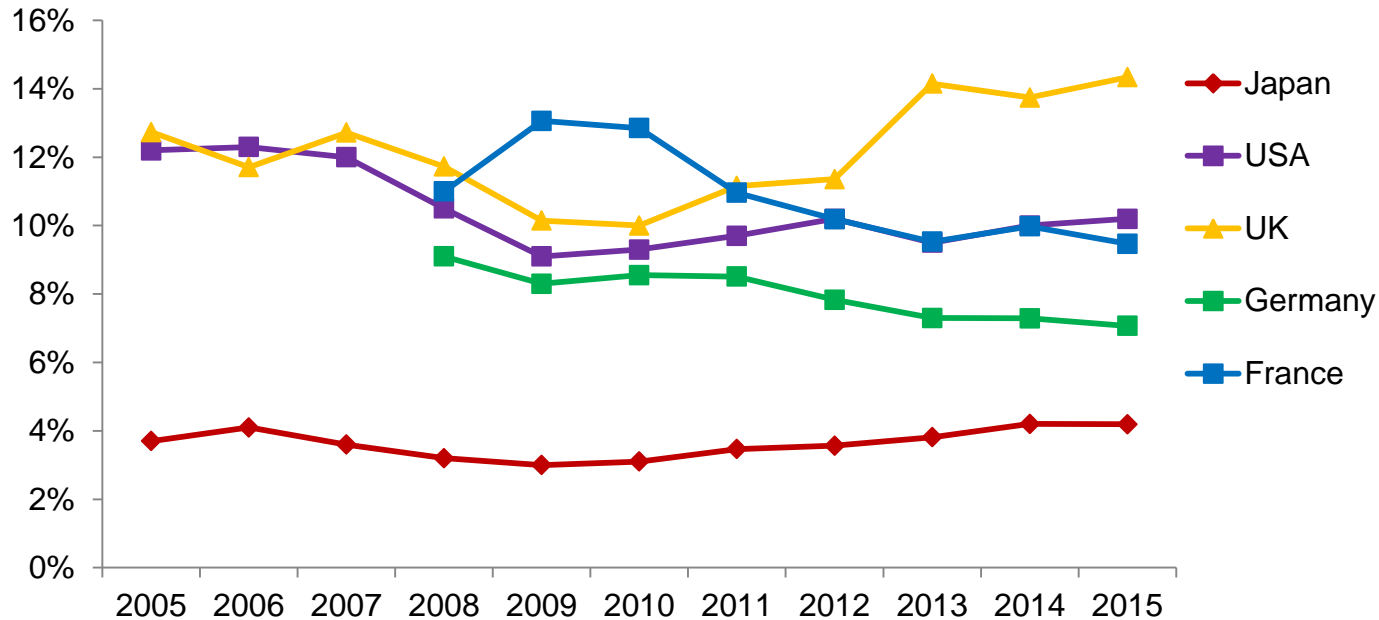


#	United States		Japan	
	1986	2016	1986	2016
1	IBM	Apple	TEPCO	Toyota
2	Exxon Mobil	Alphabet (Google)	Toyota	NTT
3	GE	Microsoft	Sumitomo Bank	NTT DoCoMo
4	Merck	Vanguard	Nomura Securities	MUFG
5	Chevron	Berkshire Hathaway	Industrial Bank of Japan	Softbank
6	Coca-Cola	Exxon Mobil	Dai-Ichi Bank	KDDI
7	Ford	Amazon	Fuji Bank	Japan Tobacco
8	Verizon	Facebook	Mitsubishi Bank	Honda
9	3M	Johnson & Johnson	Matsushita	SMFG
10	Wal-Mart	JPMorgan Chase	KEPCO	Japan Post

*Companies in red font are 30 years old or less

Source: S&P Capital IQ, Diamond Company Ranking 1987

Percentage of new business establishments



Source: Japan: National Tax Agency, Ministry of Justice

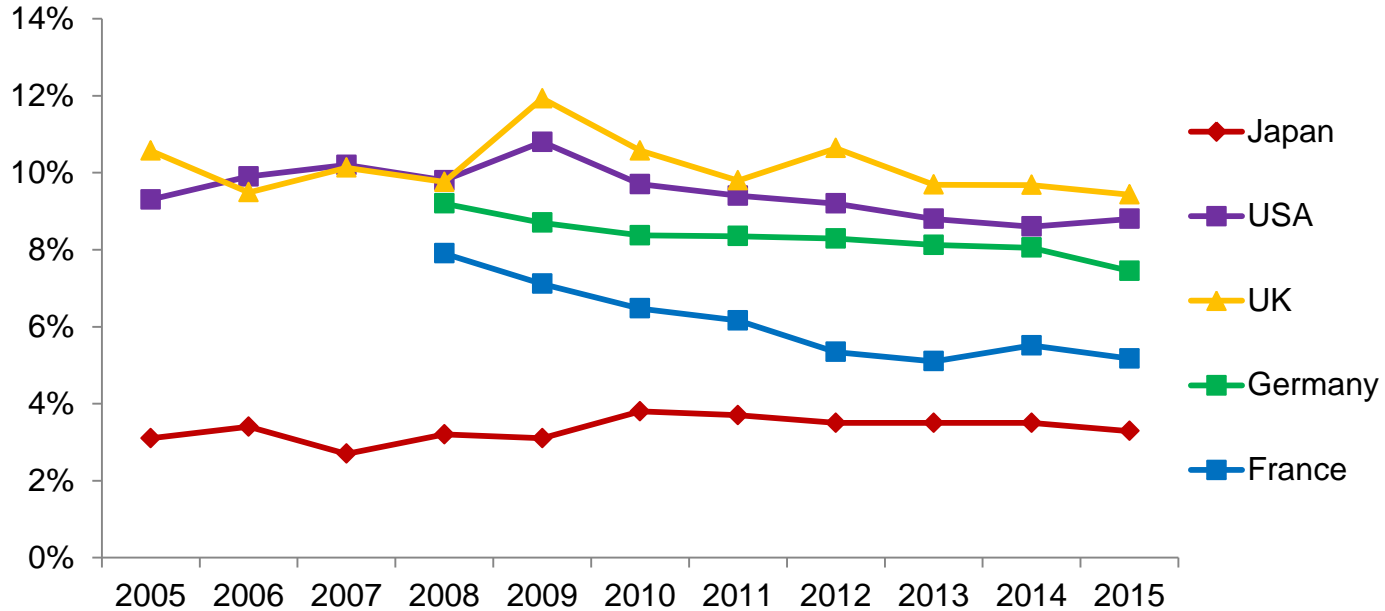
USA: U.S. Business Dynamics Statistics

UK: Office for National Statistics Business Demography

Germany: Eurostat

France: Eurostat

Percentage of business discontinuation: Metabolic Syndrome!



Source: Japan: National Tax Agency, Ministry of Justice

USA: U.S. Business Dynamics Statistics

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Rise of “equity (risk taking) culture” in new generation!

UTE C
Co-Founders for Innovation

- Founded in 2004 as the first VC supporting startups from University of Tokyo
- Raised first fund of \$93M* in 2004, second fund of \$80M in 2010 and third fund of \$130M in 2013



UTokyo IPC
Innovation Platform
for The University of Tokyo

- Founded in 2016 to invest in venture funds that invest in startups initiated in Univ. of Tokyo
- Raised first fund of \$214M* from the Government of Japan in 2016

University of Tokyo startups: Total Market Cap more than \$10 billion !

Success stories from UoT: PeptiDream

- Niche biopharmaceutical business for peptide therapeutics
 - Founded by a professional manager - Kubota and a professor - Suga with support from UTEC - VC in 2006
 - Strategic alliances with big pharma firms such as Genentech, Shionogi; discovery deals with Janssen
 - Listed on the Tokyo Stock Exchange in 2013
- Market Cap. \$3.8B
 - Revenue \$82M in 2017



Kiichi Kubota
Founder, Chairman



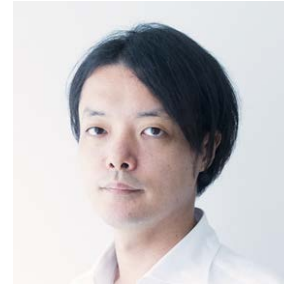
Hiroaki Suga PhD
Founder, Professor in Univ
.of Tokyo

Success stories from UoT: PKSHA Tech.

- Develops algorithm solutions using machine learning technology, natural language processing technology and deep learning technology
 - Founded by researchers from Univ. of Tokyo in 2013
 - Raised \$9M from Toyota. Also funded by Noritsu Koki, NTT DoCoMo
 - Listed on the Tokyo Stock Exchange in Sep 2017
- Market Cap. \$1.4B
 - Revenue \$89M in 2017E

PKSHA

TECHNOLOGY

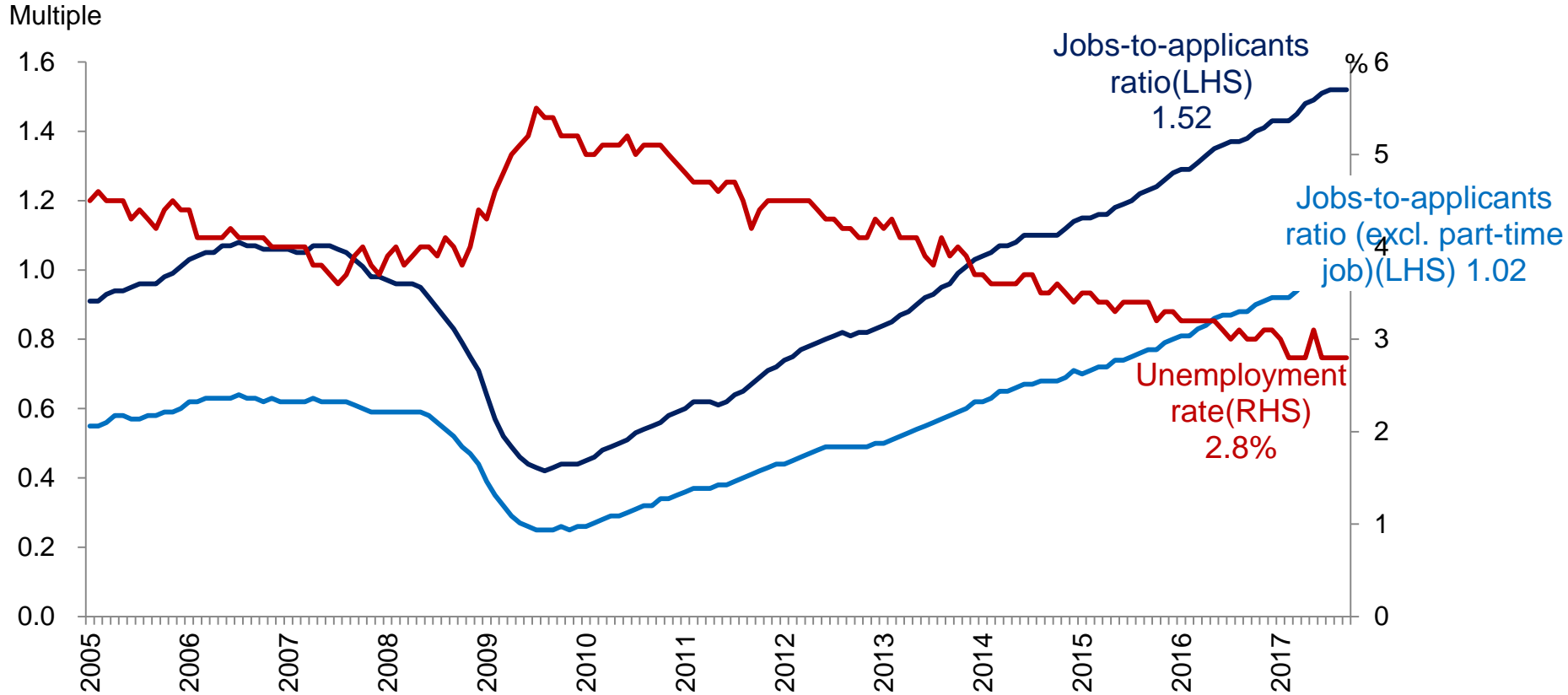


Katsuya Uenoyama PhD
Founder, CEO

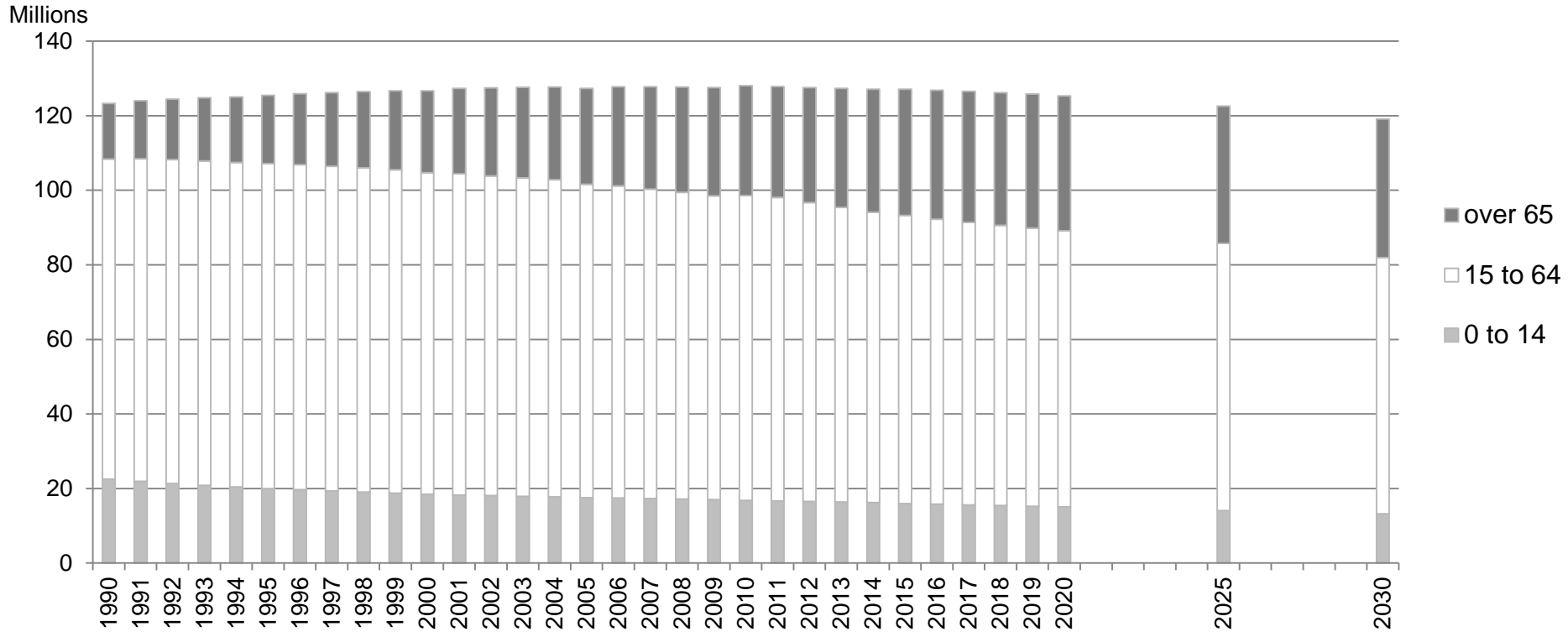


Naofumi Yamada
Founder,
General Manager

Unemployment rate and Jobs-to-applicants ratio (2005-2017)



Population by age group (1990-2030)



Great opportunities in “Local economy”

- “Local economy” industries include retail, wholesale, restaurants, hotels, transportation, construction, hospital / clinics, nursing, agriculture, fishery, forestry etc.
 - Mainly SMEs
 - 70% of GDP
 - 80% of employment

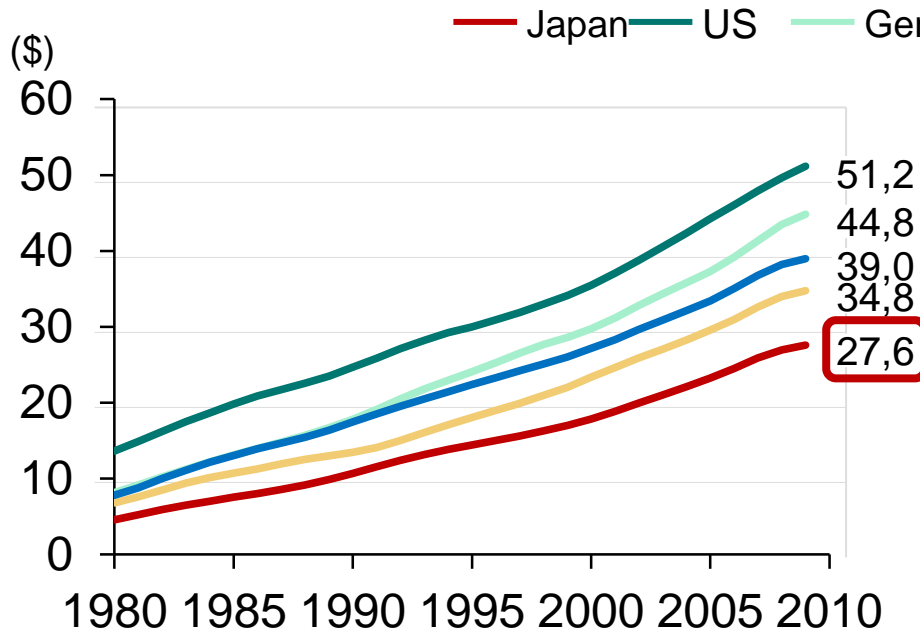


Productivity revolution utilizing business innovation and new technology such as AI, IoT, Robotics without worrying about unemployment problem!

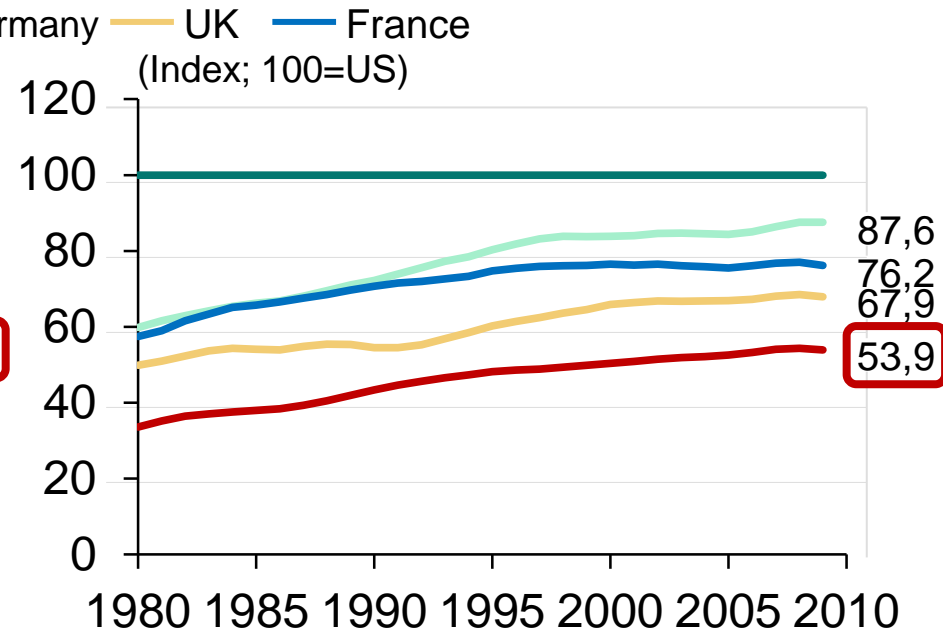
Why is productivity so low?

Japan's labor productivity in the service sector is still around half that of the US

Labour productivity level in non-manufacturing industries



Labour productivity level vs US



Many low hanging fruits in today's Japan

Underperforming “Corporate Japan”

- Governance reforms

Low labor productivity in the “Local economy” realm

- Labor shortage reduces the political cost for the “productivity revolution”

Conservative behavior of top university graduates

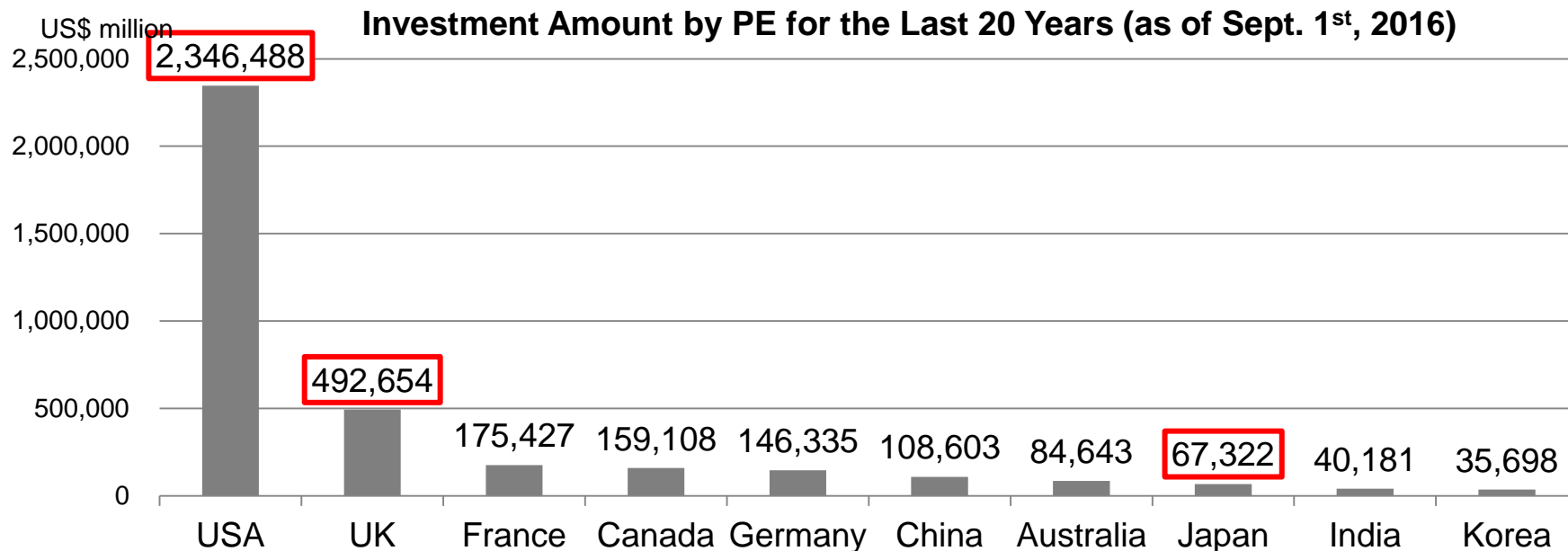
- Start up boom - thanks to the decline of “Corporate Japan”

**Paradigm shifts are starting in these low hanging fruits.
But consistent and efforts for “equity orientation” needed!**

Be Patient!

Investments by PE

- Total amount invested by Japanese PE is much less than USA and UK, at the same level as PE emerging nations, China and India.



Note: The data is total amount of disclosed of buy-out deals (not including VC) invested for the last 20 years according to the Thomson Reuter database.

“Shall”, “can” and “will” change!

“Debt Culture”

- Down side risk averse
- Homogeneity and consistency
- Establishment
- Closed system
- Continuity
- Improvement

Japan’s advantage in hardware technology



“Equity Culture”

- Upside opportunity driven
- Diversity and change
- Entrepreneurship
- Open system
- Active metabolism
- Innovation

US’s advantage in software technology

Not today, maybe not tomorrow, but surely start changing!

US-Japan Collaboration becoming more and more important at the fourth industrial revolution where the technological integration of hardware and software is critical!