

Pensions & Investments

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Mothers venue makes unicorns elusive species

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The ease of listing on Japan's Mothers market boosted early stage venture capital activity but left later-stage capabilities underdeveloped.

Venture capital players in Japan have ambivalent feelings about Mothers, the Tokyo Stock Exchange market launched in 1999 to list and trade startup company stocks.

Market players say the low bar Japanese startups need to clear in order to list on Mothers — as low as a ¥500 million (\$4.1 million) market capitalization — has contributed to the growth of Japan's venture capital market, giving entrepreneurs and their venture capital backers alike confidence in their ability to realize the value of their investments.

But critics say that convenience has come at a price.

Mothers' status as probably the easiest market in the world in which to go public has served to magnify the seed and early stage segments of Japan's venture capital market, while leaving later-stage investment capabilities considerably underdeveloped, said Sho Ito, Tokyo-based deputy director of the Japanese government's Cabinet Office's Bureau of Science, Technology and Innovation.

That warped industry structure shows up in the relatively small number of Japanese "unicorns," defined as unlisted startups with valuations of ¥100 billion or more, relative to the size of Japan's economy as well as the modest size of domestic venture capital funds, said Mr. Ito in an interview in late March.

Japan's tally of a mere 10 unicorns reflects the fact that so many of the country's startups are opting for early listings on Mothers, Mr. Ito said. According to a number of tallies, the U.S. boasts more than 400 unicorns at present.

Ironically, Japan's poor showing in the global competition to spawn unicorns might be a factor behind the country's political and business leaders moving now to take what looks to be relatively decisive steps to bolster Japan's startup ecosystem.

The sense of urgency that politicians, bureaucrats and business leaders are exhibiting this year can probably be traced to Japan's failure to produce unicorns at anywhere near the pace being seen in other leading economies, said Motoya Kitamura, a private equity and venture capital veteran who founded Tokyo-based private equity secondaries manager Northvillage Investment last year.

Meanwhile, with less need or opportunity to participate in later, bigger funding rounds, the average domestic venture capital fund can weigh in at around \$400 million, well below the \$1 billion funds that can be found overseas, Mr. Ito said.

Policymakers say they're working to give entrepreneurs other options to consider in lieu of an early listing.

Takuya Hirai, a Liberal Democratic Party member of the lower house of Japan's parliament and head of an LDP working group on startups and digitalization, said in an interview that IPOs on the Mothers market have been the only exit available to startup founders until now, but the LDP will urge the government to set up a secondary market where unlisted shares can be traded.

Prime Minister Fumio Kishida is scheduled to announce a package of measures aimed at bolstering Japan's startup ecosystem in June.

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