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A Brief Overview of the Current Startup Ecosystem in Japan

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Introduction

In recent years, "innovation" has become increasingly important for Japan. Developing innovative businesses that are separate from the traditional Japanese business sphere is becoming increasingly crucial for sustained economic growth. In this report, I focus on some emerging companies that have the potential to drive innovation, and provide some reflections on the Japanese entrepreneurial environment. The major takeaways of this paper are as follows:

- In Japan, although there is an established venture capital environment, there are few startups, making it a potentially attractive environment for entrepreneurs.
- Active encouragement of entrepreneurship and an increase in acquisition deals are required in order to increase the absolute number of startups, and create more innovation from Japan.
- Soaring valuations of Japanese startups, in other words the recent "startup bubble" can be attributed to the increase in demand for startups by large firms.
- It is relatively easy for startups to IPO in Japan – in fact, the average market capitalization of Japanese startups is comparable to middle stage startups in the US. Although Japanese entrepreneurs expect their companies to continue to grow after IPO, there are several systematic challenges that make it difficult for companies to continue growth after IPO. This issue highlights the necessity for investors in the post-IPO stage in Japan to provide equivalent functionality of middle-stage VCs in the US.

1. "Startup" and "Venture Business"

The importance of innovation for Japan is a not a new discussion. In 1970, Professor Tadao Kiyonari, employed at the National Life Finance Corporation at the time, argued that new types of small companies managed by young people in their 20s and 30s were on the rise. These companies were entrepreneurial, and research and development intensive. Prof. Kiyonari argued that "Japan entered the new era of growth with the emergence of these new types of enterprises" – an argument that countered the more popular theory of the time claiming that the increase in small and medium enterprises was a retrograde phenomenon to modernization.

The term that was created to describe these new small and medium enterprises was "Venture Business." In order to spread his theories and publicize this new term, Prof. Kiyonari and some partners founded the Japan Venture Business Association in 1971. The association defined "Venture Business" as "an innovative company trying to undertake certain kinds of dangers and difficulties" and as a "knowledge-intensive, innovative enterprise." The association also stated that "Innovation is a concept including not only technological innovation in a narrow sense, but also some creations in all phases of management and activities of developing business by taking advantage of such creations ahead of others." Since then, the term "Venture Business" has been widely used in Japan to refer to startup companies.

Meanwhile, around 2010, the term "startup" emerged, referring mainly to IT-based startup companies in Japan. Steve Blank, a professor of entrepreneurship at Stanford University, and eight time serial entrepreneur, defines a startup as an "organization formed to search for a repeatable and scalable business model." He explains that startups explore innovative business models that disrupt existing industries for large enterprises that permanently operate already established business models, and discover product/market fit through repeated failure.

Paul Graham, legendary hacker and creator of Y Combinator, a well known seed accelerator supporting early-stage high-tech enterprises, said, "a startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of "exit". The only essential thing is growth. Everything else we associate with startups follows from growth."

Although these descriptions don't completely align with the definition of "Venture Business", all three definitions describe a similar organization from different angles. Shared by all definitions is the idea of innovation; "startup" differs from "small business" or "self-employed business" because a startup aims to establish an innovative business model, thereby aiming for rapid growth.

Hereafter, I will refer to early-stage private companies that aim for fast growth as "startup." I will develop this discussion under the premise that startups are clearly differentiated from SMEs.

2. The Silicon Valley startup ecosystem

Compared to the somewhat sparsely populated startup community in Japan, entrepreneurs and startups are in great abundance in the San Francisco Bay Area. This area, encompassing what is known as "Silicon Valley," is a global center for innovation, attracting entrepreneurs from around the world, thus creating many opportunities for entrepreneurs to meet and interact. In Silicon Valley cafés, the conversations you overhear are about new product ideas, or raising funds from venture capital. In a cafe in Roppongi or Shibuya where entrepreneurs assemble in Japan, you rarely overhear these kinds of startup-related conversations. In the Bay Area, entrepreneurs are not treated as a temporary epidemic but are rooted within the very culture.

The question of whether Silicon Valley's innovation fostering environment can be reproduced in other regions seems to at the same time be an old and new proposition. It has been considered not only in Japan, but also in many other areas. Why are so many startups created in Silicon Valley? The tautological answer to this question is, because there *are* so many startups. Take StartX for example. StartX is a startup incubator for Stanford students, faculty members, graduates, and other University affiliates, offering programs with a duration of about three months, that are aimed to develop startups. This program is hugely popular, and very competitive as the application magnification is about 20 times. This program has been in existence for several years now, producing many active personnel and business ideas in the Silicon Valley startup community. However, if a similar program were to be organized at a Japanese university, it is unlikely that the program would have the same amount of traction, due to the simple fact that there are much fewer entrepreneurs in Japan. The numerous entrepreneurs and entrepreneurial candidates in Silicon Valley is to a certain extent, predicated on the fact that there are already so many entrepreneurs. Successful predecessors act as role models for aspiring entrepreneurs, all of which contributes to a kind of "synchronized phenomenon" within the region. If people have witnessed their neighbors develop and launch new businesses, starting a business themselves does not feel like a particularly special project, or such an impossible undertaking. Given this logic, it is not surprising that people are more inclined to entrepreneurism when they are surrounded by it.

Entrepreneurs are not the only ones who form Silicon Valley's unique ecosystem. There are various players in the Silicon Valley startup ecosystem who support the entrepreneurial population; investors, advisors, education/research institutions that supply technologies and human resources, large companies actively testing and adopting new technologies and services, and law firms that specialize in startup contracts, all of whom form peripheral industries built to support entrepreneurship.

The absolute number of startups is also significant in the creation of such an ecosystem. Some of the startups are highly successful, and others are not; regardless of the success or failure of a startup, in the process, key people such as serial entrepreneurs, VCs, and angel investors appear, and a talent pool of experienced managers is generated. Moreover, attracted to this environment, entrepreneurs gather to Silicon Valley from all over the world. As a result of all these different factors, the Silicon Valley ecosystem exists, and is perpetuated.

The amount of funds invested in startups across the United States is about 50 times that of Japan. While based on this information alone, it seems like there is a huge amount of VC funding available in the US compared to Japan, the total number of US startups seeking VC funds is over 50 times that in Japan. Although the entrepreneurial environment of Silicon Valley is well organized and supportive of startup establishment, it is also extremely hard for startups to make it in Silicon Valley, due to fierce competition.

For example, AngelList is an indispensable tool for American entrepreneurs and investors. AngelList is a service that connects startups and investors. In environments where there are too many startups and investors, it is important to be able to browse through the many options, and gain trust using these tools.

On the contrary, the demand for services like AngelList may not be so high in Japan. In Japan the startup community is small, and it is possible to reach out to most of the entrepreneurs even without such comprehensive tools. The difference between the US and Japan is significant when it comes to the scale of the startup community.

From an entrepreneur's point of view, Japan is a very attractive environment to start new businesses. While the venture capital environment is established to some extent in Japan, there are only a few competitors, making it relatively easy for startups to survive. For startups in places like Silicon Valley and China, the chances of survival, let alone success, are slim. For good or for bad, in Japan, there have not been many cases in which multiple startups have competed in the same business domain. As winning without fighting forms the basis of strategy, Japan might be a good place to start a business. Though it is often said that one must start a business in Silicon Valley to establish world-class IT services, entrepreneurs need to consider the difficulty of survival and success in Silicon Valley.

3. Issues of building a Japanese-style startup ecosystem

It is a common belief that reproducing a Silicon Valley like ecosystem in Japan will create more innovation. However, we need to reflect on whether this is in fact possible, and whether this is the right choice for Japanese society.

In order to function, the Silicon Valley ecosystem requires risk money provided to startups and educational institutions that supply talent and business ideas. There are also intangible necessary conditions such as collaboration between large enterprises and startups, and an atmosphere that encourages people to challenge new business and accept failures. As far as the latter is concerned, the Japanese culture of envying successful people may discourage people from entrepreneurship.

There is a major undercurrent of Japanese culture that dictates that doing something different and becoming successful can make someone the object of social envy that makes it easier for them to be attacked. This contrasts with the simpler and more straightforward celebration of successful individuals in the US and especially Silicon Valley.

One notable difference between Japan and Silicon Valley is the mobility of human resources. Employees move freely between traditional large enterprises, startup companies, and research institutions, and as a result of diverse human capital, startups obtain cutting edge knowledge and development capabilities. The mobility of human resources is the driving force for growth. The establishment of Silicon Valley as we know it today, can be attributed to the enormous amount of talent leaked from big businesses inside and outside the Silicon Valley, businesses that included giants such as Hewlett-Packard, IBM, NASA and so on. These were the pioneers of the Silicon Valley startup ecosystem, and to this day, society continues to metabolize its talent. If talented personnel leave traditional large enterprises, the entrepreneurial environment in Japan will undoubtedly experience astonishing development.

One of the advantages of long-term employment is that companies and employees build trust and concentrate on developing existing business. Companies expect employees to work for a long time, and in return, employees can expect a company to guarantee their employment. When there is high turnover of personnel, with no guarantee that employees will stay, companies are hesitant to leave employees with long-term responsibilities.

For those working in Silicon Valley companies on the other hand, it might be difficult to imagine staying at the same company for over 40 years. It might also be difficult to conceptualize that layoffs are not an option in Japanese companies. In Silicon Valley, employees opt to work for unstable startups on the premise that employment is mobile. Each startup is like "one department" in the massive "Silicon Valley Co., Ltd."

Silicon Valley’s unique characteristics are rooted in its work culture, and the huge gap between Silicon Valley and Japanese employment practices and public sentiments highlight the necessity of asking whether it is possible or even desirable to reproduce the Silicon Valley model in Japan.

Increasing the absolute number of startups is perhaps the most critical factor in creating more innovation in Japan, and the key to this is to increase acquisition deals.

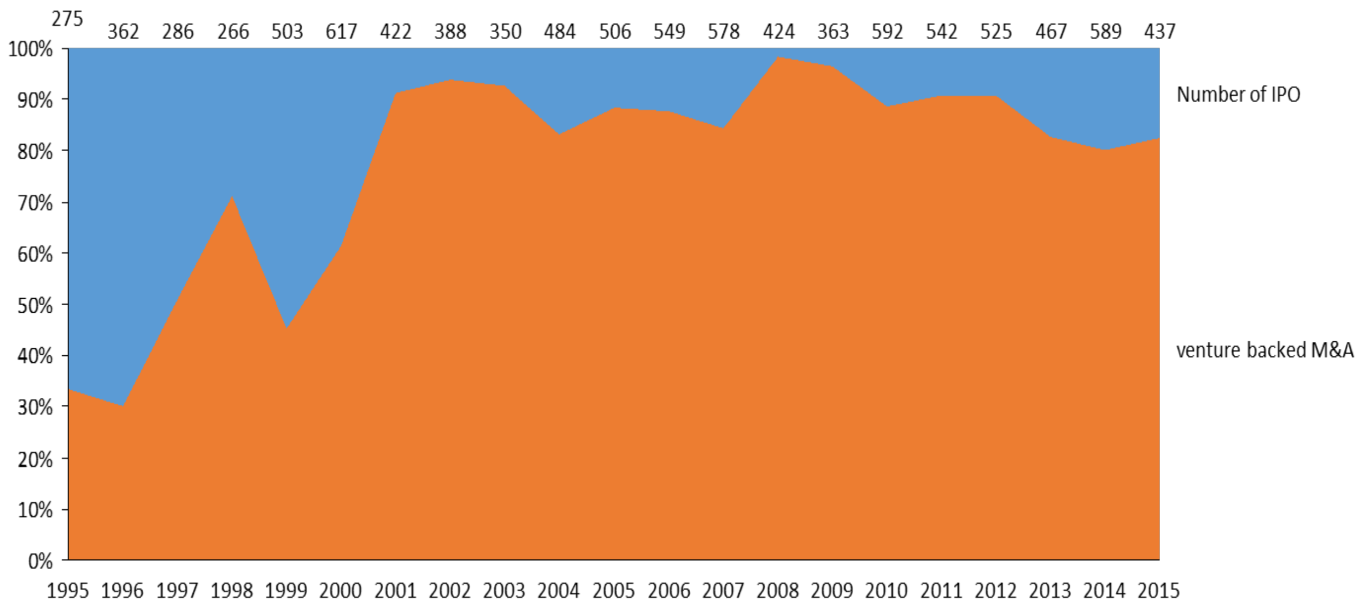
Although a startup is an entity that provides new products and services to a society, from the perspective of investors, a startup itself can be a product to be sold. Investors and company founders get a return on investment by selling the stock of a startup. The event in which investors gain profit is called an "exit" and there are two typical patterns: to list on a public market to sell shares, or to be acquired by another company.

Typically, venture capitalists will invest funds raised from a limited partner (LP) such as a large corporation or institutional investor in startups. Venture capital enhances corporate value by supporting startup growth, and gaining return when the startup exits. The venture capitalist's mission is to earn margins by selling startup shares at high prices at an exit, and return as much of the funds to its LP as possible. Likewise, an exit is considered a success for an entrepreneur, and they will gain a monetary return from an exit.

Another undercurrent of Japanese culture is the negative connotation of people who are focused on making money. This focus is often construed as an inclination to deceive customers or shareholders. I, however, believe that the desire to make money has been a major driver of economic and technological development through the years, and is also the foundation of capitalism.

Japanese entrepreneurs and Silicon Valley entrepreneurs seem to understand the idea of exit differently. Entrepreneurs who seriously aim to IPO at the seed and early stage appear not to be in the majority in Silicon Valley. In fact, with more than 80% of startups in the US exiting through acquisition, acquisition seems to be the preferred method of exit in the US. Many founders seem to be willing to sell their company without hesitation if there is an attractive opportunity. Many entrepreneurs build their businesses for the purpose of selling them.

Figure 1. Ratio of startup exit in the US



Source: 2016 National Venture Capital Association Yearbook

Startup employees also expect their companies to eventually be acquired. They can exercise stock options before the company is sold or sell their stock to other parties even before exit. After all, permanence of an entity is not essential in the Silicon Valley startup community. Founders don't recklessly aim at an IPO, but they do intend to sell their company from the very beginning. Compared to Japan, it is difficult for US companies to go public, but there are many opportunities for acquisitions.

Many Japanese entrepreneurs aspire to build large companies like Sony or Honda. People have an incredibly negative image toward acquisition. Even major newspapers and economic magazines describe acquisitions as "Mi-Uri." It is quite difficult to convey the nuance of this expression, but it is a negative expression with some implications similar to human trafficking. Negative attitudes toward acquisitions are partially to blame for the limited opportunity for acquisition in Japan. Another reason for the limited number of acquisitions in Japan is that large Japanese corporations stick to their own business and technology. These companies are not used to incorporating external ideas and technology, and cannot do so flexibly.

Looking at the limited scope of startup acquisitions in Japan, in the examples that do exist, in many of the cases the acquiring companies are managed by the company founders. Though acquisitions of startups are gradually increasing mainly in the IT industry, the main exit opportunity for startups in Japan is still IPO. Besides exit through IPO and acquisition, entrepreneurs and investors can gain financial returns through dividends. However, investors usually expect the startup to exit as a startup aiming for rapid growth and venture investment is at high risk by nature.

To increase the number of entrepreneurs in Japan, there needs to be more variation in exit options. If startups are only able to go public or go bankrupt, the risk of failure is too high – cautious individuals will not attempt business establishment in such an environment. To increase the number of entrepreneurs in Japan, entrepreneurship must be encouraged – not just for the geniuses and madmen of this world, but for the everyman as well.

There is no need for all entrepreneurs to aim for a mega-venture with a market cap of 1 trillion yen. Not all entrepreneurs will become the next Steve Jobs, and that is just the reality. Japanese entrepreneurs should be able to sell their companies with a little more confidence and pride. Though some founders are very averse to selling their businesses, when a company raises capital from external investors, whether it be through an IPO or receiving venture financing, by selling shares, entrepreneurs are actually already partially selling their companies.

Table 1. Some Acquisitions of Japanese Startups, 2013-2015

Date Announced	Acquirer	Target	Target Company's Business	Estimated Amount (billion yen)
04/2015	Cookpad	Minnano Wedding	Wedding-related buzz marketing site	2.865
03/2015	start today	Aratana	E-commerce solution provider	2.9
03/2015	mixi	Hunza	Online ticket flea market service	11.5
02/2015	mixi	Muse & Co.	Women's fashion online shopping	1.76
12/2014	GREE	sekaie	Online fixed-price renovation service	1.3
10/2014	DeNA	MERY	Peroli: Ladies fashion curation service.	5
		iemo	Home-design curation service.	
09/2014	KDDI	nanapi	Japan's largest lifehack media site	?
09/2104	KDDI	FxCamera	Smartphone camera apps	?
10/2013	Rakuten	spotlight	sumapo: Rewarding app for customers who visit participating stores	?
09/2013	Cookpad	Coach United	cyta: C2C market place for coaches and people who seeks lessons	1
07/2013	start today	Bracket	STORES: Service allows anyone to quickly get into the online selling business	0.6

4. Japanese startup financing environment

With the economic trend of the world, changes in policies, technological progress, etc., startup financing has dramatically changed. In the past, it is said that there were three "venture booms" in Japan. The first venture boom was in the 1970s. It was around the time that machine and assembling industries such as the automobile and electrical machinery industries became the economic drivers in Japan. Many R&D intensive startups were established in the manufacturing technology industry. Although the first venture boom had subsided by the oil shock, companies such as Nidec, Keyence and Konami were created at this time. In 1972, Japan's first VC, Kyoto Enterprise Development, was founded.

The second venture boom was in the 1980s. Companies such as H.I.S, SOFTBANK, Culture Convenience Club were established when the primary industry shifted from the manufacturing sector to the distribution/service industry. In 1982, JAFCO, a pioneer of domestic VC, formed the first investment limited partnership in Japan.

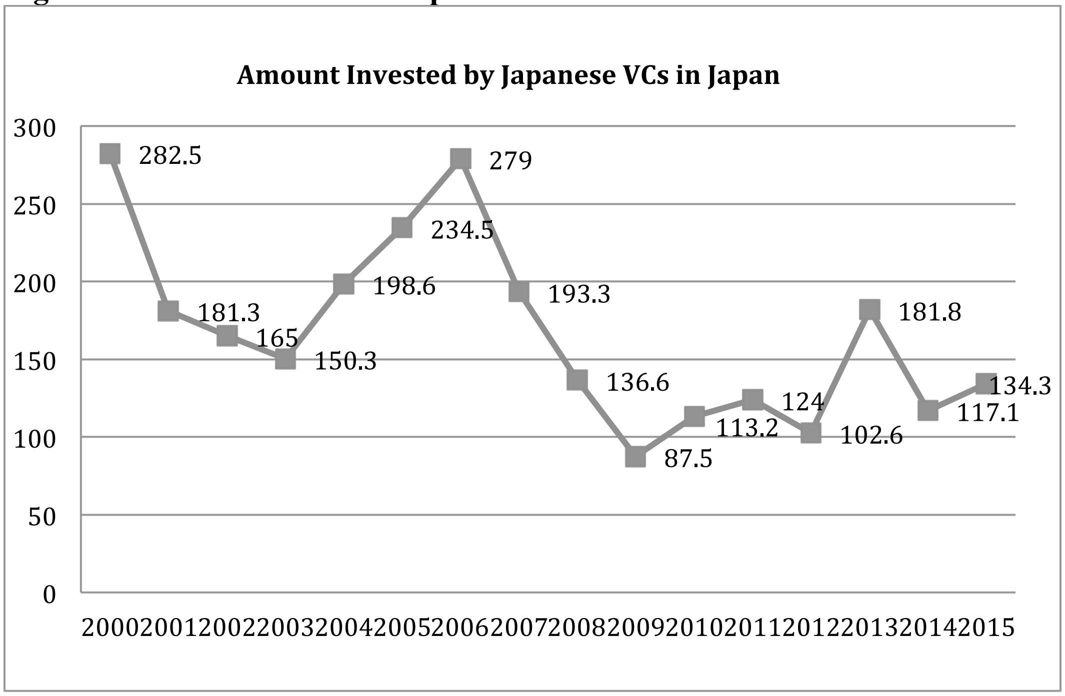
The third venture boom continued from the 1990s into the early 2000s. During this period, large corporations became stagnant due to the collapse of the bubble economy, while information technology including the Internet, advanced. In this venture boom, many IT companies such as Rakuten and DeNA were established. The TSE Mothers market and the Nasdaq Japan market, which later integrated into the JASDAQ market, were also set up at this time.

As of 2016, the momentum of entrepreneurship is increasing in Japan. After the years following the Lehman shock when venture investment was stagnant, in 2012, as economic recession subsided, it became easier for Japanese startups to raise funds, leading to an increase in numbers. This has brought us into the "fourth venture boom."

In the second Abe administration starting from 2012, the Prime Minister established an economic policy based on "three arrows," aimed at exiting from deflation, and expanding wealth. "Growth strategy" is listed as the third arrow, following "Bold monetary policy" and "Flexible fiscal policy." The core policy of this third arrow is the metabolism of industry and acceleration of startups. To realize this policy, public institutions such as The Innovation Network Corporation of Japan and Organization for Small & Medium Enterprises and Regional Innovation, JAPAN have begun to actively invest in startups and VCs. VCs also began to fund startup development based on research out of national universities including the University of Tokyo, Osaka University, Kyoto University, and Tohoku University.

Even in the private sector, big businesses in various industries including financial institutions, Internet companies, and manufacturers, have begun to invest in startups and VCs. These companies are also establishing corporate venture capital. Furthermore, experienced investors unaffiliated with financial institutions or major companies have created several independent VCs recently.

Figure 2. VC Investments in Japan 2000-2015



Source: Venture Enterprise Center

In 2010 when I was running my startup, there were only a few startups that raised more than 100 million yen in the IT industry. In 2016, news of companies raising 100+ million yen, appears on Tech media almost every week. It is not unusual for late stage startups to raise billions of yen in funds.

The funds raised by unlisted Japanese startups in 2015 increased by 17% from the previous year, exceeding 150 billion yen. Compared to venture investment in the United States, which was about 6 trillion yen in 2015, the total volume of venture finance in Japan is still limited. However, the amount of invested money is steadily increasing. The venture funding environment in Japan has dramatically improved in the last five years. Moreover, big companies recently became viable sources of funding for startups in Japan – a phenomenon that indicates the willingness of large companies to accept and work with startups.

Table 2. Major Venture Capital Fundraising by Japanese Startups, 2015

Company	Amount Raised (billion yen)	Description	Founder	Education
Spiber	10.54	New-generation biomaterial development	Kazuhide Sekiyama	Keio University
Metaps	4.89	Marketing tools and consulting service in mobile business	Katsuaki Sato	Waseda University
Freee	4.49	Cloud-based accounting software	Daisuke Sasaki	Hitotshbashi University
Raksul	3.99	Commercial printing service	Yasukane Matsumoto	Keio University
Megakaryon	2.54	Producing platelet products from iPS cells	Genjiro Miwa	University of Tokyo, Harvard University
Quantum Biosystems	2.4	Commercial DNA sequencer	Toshihiko Honkura	University of Tokyo, Columbia University
Plus One Marketing	2.13	Mobility hardware products made by Japan	Kaoru Masuda	Waseda University
Preferred Networks	1.9	Industrial IoT applications with AI	Toru Nishikawa, Daisuke Okanohara	University of Tokyo, University of Tokyo
AXELSPACE	1.89	Commercial microsatellite imaging and data service	Yuya Nakamura	University of Tokyo
Treasure Data, Inc.	1.77	Cloud data management platform	Hiro Yoshikawa	Waseda University
GLM	1.69	EV Development / providing EV platform	Hiroyasu Koma	Kyoto University
Origami	1.59	Mobile payment service	Yoshiki Yasui	Waseda University, University of Sydney
iPS PORTAL	1.53	Instruments to analyze and measure iPS cells	Syosaku Murayama	Doshisya University
seven dreamers	1.52	R&D of carbon tool and medical equipment	Shin Sakane	University of Delaware
Money Design	1.5	Financial portfolio design with AI	Mamoru Taniya, Tomoyoshi Hirose	University of Tokyo, Yokohama National University
CYFUSE	1.41	3D tissue-engineering technology	Koji Kuchiishi	Keio University
from scratch	1.29	Next-generation marketing platform	Yasuhiro Abe	Nihon University
SmartNews	1.19	News discovery app	Ken Suzuki	Keio University,

				University of Tokyo
Ptmind	1.1	Data analysis and monitoring	Zheng Yuan, Takashi Ando	Nihon University, Rikkyo University
Money Forward	1.03	Online application for personal accounting	Yosuke Tsuji	Kyoto University, University of Pennsylvania
AnyPerk	1.02	Integrated perks and rewards platform	Taro Fukuyama	Keio University
FOODiSON	1.01	Fresh fish distribution platform	Tohru Yamamoto	Hokkaido University
JOMDD	1.01	Medical device incubator	Takahiro Uchida	Fukushima Medical University, Harvard University
Retty	1.0	Social gourmet site	Kazuya Takeda	Aoyama Gakuin Univeristy
LOCONDO	1.0	Shoes and fashion e-commerce service, buy first and then choose	Yusuke Tanaka	Hitotsubashi University, UC Berkeley

Sources: Japan Venture Research Co., LTD

However, the fact that big businesses are actively investing in startups also means that there are fewer funds available for investment in existing businesses. Because large companies are unable to explore risky new business areas themselves, they are increasingly focused on developing and working with startups for innovative new technologies and products. As a result, the money of large corporations is heading outside the traditional business realm.

The valuation of startups is established by the interaction between startups and their investors. Because more big firms are interested in startups – in other words, because there is a high demand from the investment side, the value of startups has increased.

The valuation of startups has soared in the recent decade, and many believe that we are currently in a bubble. Although many have blamed entrepreneurs' bullish attitudes in demanding higher valuations, it is in fact the forces of supply and demand that determine the prices. However, reckless venture investment can only exacerbate the bubble, and I believe that if large companies cannot identify a promising investment area by themselves, they should consider returning cash to shareholders.

5. Key factors for the permanent growth of Japanese startups

Many Japanese entrepreneurs as well as investors, often aspire to create mega-companies such as Apple or Google. Although these entrepreneurs might eagerly develop ambitious businesses, only a few companies grow to the scale of Google or Facebook once they are listed on the emerging market.

Typically, once startups complete the research and development phase, they move on to the commercialization phase. However, many companies face difficulties in raising the necessary funds to be able to actually produce products and acquire customers at this stage. This barrier is called the "Death Valley" and is a challenge that many startups face. Even companies that have overcome the Death Valley and succeed in commercialization face what is called the "Second Death Valley" when they go public.

Mothers, which stands for the market of the high-growth and emerging stocks, is the section of the Tokyo Stock Exchange for companies that are expected to grow in the future. It is relatively easy to list on Mothers – startups that have only earned a small profit and even startups in the red, are all eligible. The average market capitalization of startups at the time of IPO on Mothers is less than 10 billion yen – a value that is comparable to middle stage or early stage Silicon Valley companies. For these Japanese startups, emerging markets such as Mothers and the investors there, play a similar role to middle stage VCs in the US. In other words, ordinary Japanese individual investors are making risky investments into companies that if in the US, would be financed by professional venture capitalists. Though it is often pointed out that Japanese individual investors are risk-averse, Japanese individual investors are in fact eagerly investing in pre-mature companies.

Table 3. Amounts Raised in IPO, Small-cap Markets in Japan, US, 2014-2015

	Average (million $)		Median (million $)	
	Japan (Mothers/JQ)	US NASDAQ	Japan (Mothers/JQ)	US NASDAQ
2015	7.6	116.0	3.5	75.0
2014	8.7	121.6	5.7	65.0

Source: Tokyo Stock Exchange, NASDAQ

When a startup is listed, VCs usually sell company stocks on the market, and do not maintain any official relationship with the startups in which they have invested. Since VCs manage a LP's money, venture capitalists are responsible for selling shares within the investment period, and distribute the returns to their LPs. However, it is difficult for early stage and middle stage startups to grow to the size of companies like Google and Facebook without external supporters. From the standpoint of the VC as well, if a startup seeks to continue growing, selling stocks right after an IPO is not an economically rational act – holding on to stocks that were bought at a low price before IPO will eventually be more profitable for a VC. Because VC funds have maturity dates, VCs sell their shares earlier than would be economically rational if they expect startups to grow past IPO. The existence of the maturity of funds hinders the long-term shareholding by VCs.

At the same time, the character of investors at emerging markets is another reason why companies right after IPO cannot have external supporters. Institutional investors invest in companies with large market capitalization. Because of its low liquidity, small cap stocks are not eligible for these institutional investors. Therefore, even analysts at stock brokerage firms that mainly serve institutional investors do not cover small stocks. According to the Tokyo Stock Exchange, while the coverage by analysts in June 2016 is 61.7% on the Tokyo Stock Exchange, it is only 33.5% on Mothers. On JASDAQ, it is only 11.3%. As institutional investors avoid these companies right after IPO, it is mainly the individual investors, inclined to trade stocks in the short-term, who invest in these companies, making share prices unstable.

Once startups go public and have raised funds from the market, fundraising becomes dependent on broader market dynamics. If a company tries to raise funds when stock price is past peak and declining, existing shareholders may oppose issuing new stock as they will dilute their ownership. As a result, companies that go public face a paradoxical situation, in which they have listed on the market in order to procure funds, but realize that fundraising as a public company is even more difficult.

In order to develop a sustainable startup ecosystem in Japan, it is important to develop an environment that not only supports private companies in nascence, but continues to support them after they IPO. It is critical to showcase role models that will continue to grow even after IPO, otherwise, investors will be wary of startups and hesitant to invest in them after IPO. In order to achieve this goal, there is a need for long-term investments into listed companies, otherwise known as patient capital. As the many companies that list on the emerging market are considered middle stage startups by US standards, Japan may need public equity investors with the same skill set and mindset of middle stage VCs in the US, for the public market. These investors should be different from ordinary investors, who think that the company is subject to short-term trading. For non-public venture finance in Japan, funds are already increasing at a pace that is greater than the increase in startups. To build a startup ecosystem in Japan, investing risk money on the emerging stock market is currently perhaps the most effective step forward.