
Changing the Mindset of PE/VC investors

May 2009

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JAIC at Present

(At September 30, 2008)

Total Assets:

- Total Assets \ 89 billion
- Net Assets \ 38 billion

Proportionate Consolidation
(Previous Accounting Standard)

Total No. of Investment Funds:

- 69 funds \ 150 billion (About 30% is JAIC's stake)

Total Balance of Investment:

-Total Balance of Investment \ 88 billion

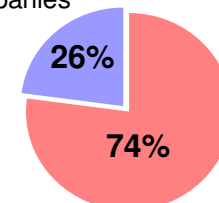
74%: VC Investments \ 65 billion

51%: for Japan \ 33 billion

49%: for Overseas \ 32 billion

26%: Other PE investments \ 22 billion

Other PE investments
\ 22 billion
64 companies



VC investments
\ 65 billion
810 companies

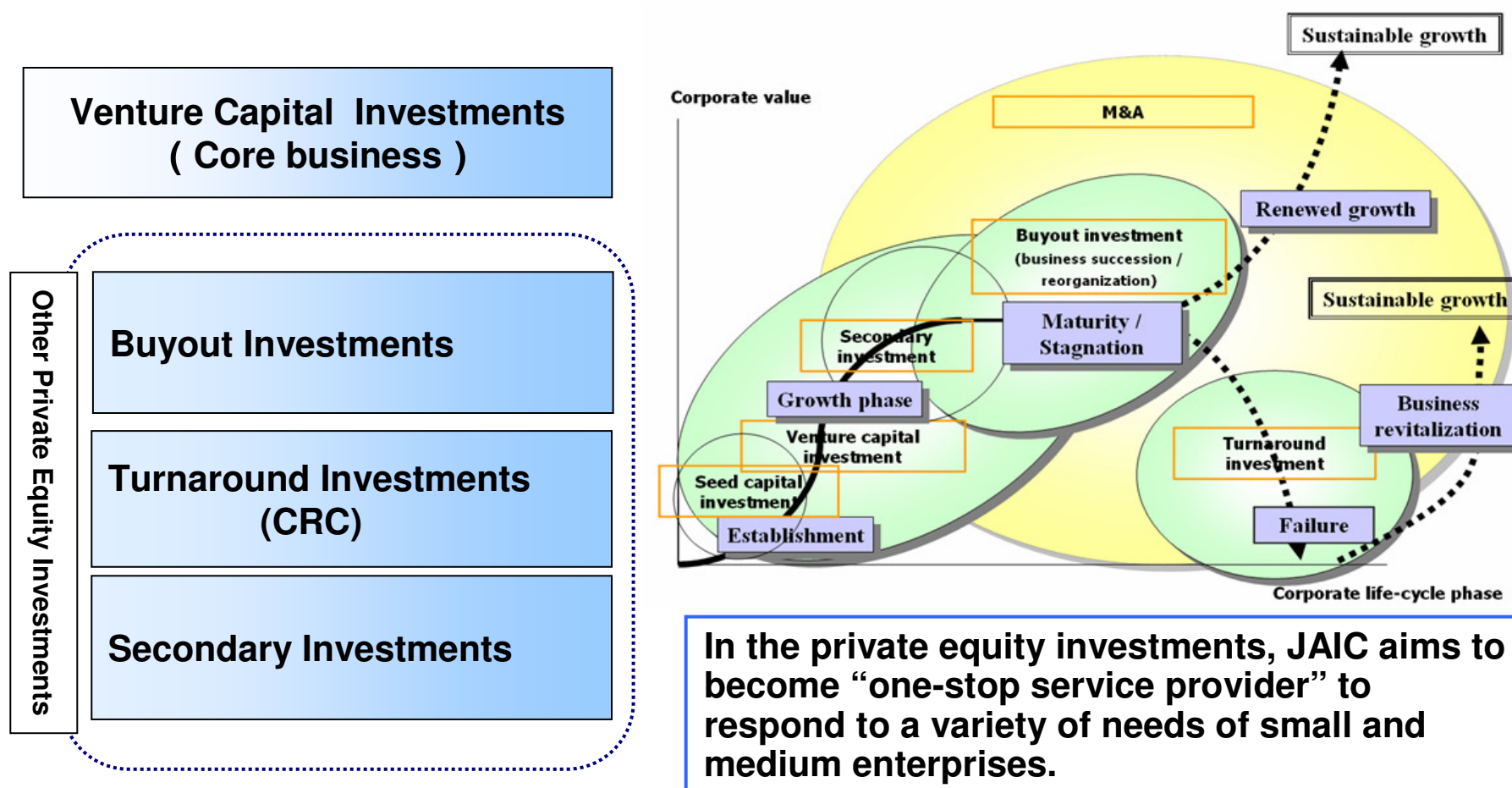
History

- 1981- Established by *Keizai Doyukai*
(Japan Association of Corporate Executives)
- 1985- Became a semi-governmental corporation,
government organization (OECF) as a major
shareholder (privatized in 1989)
- 1988- Started VC investment
- 1996- Listed on JASDAQ (Code : 8518)
- 2008- Listed on TSE Sec.1 (Code : 8518)

Currently conducting VC investments in various industries, and also expanding to other PE investment, such as buyouts and turnaround investments.

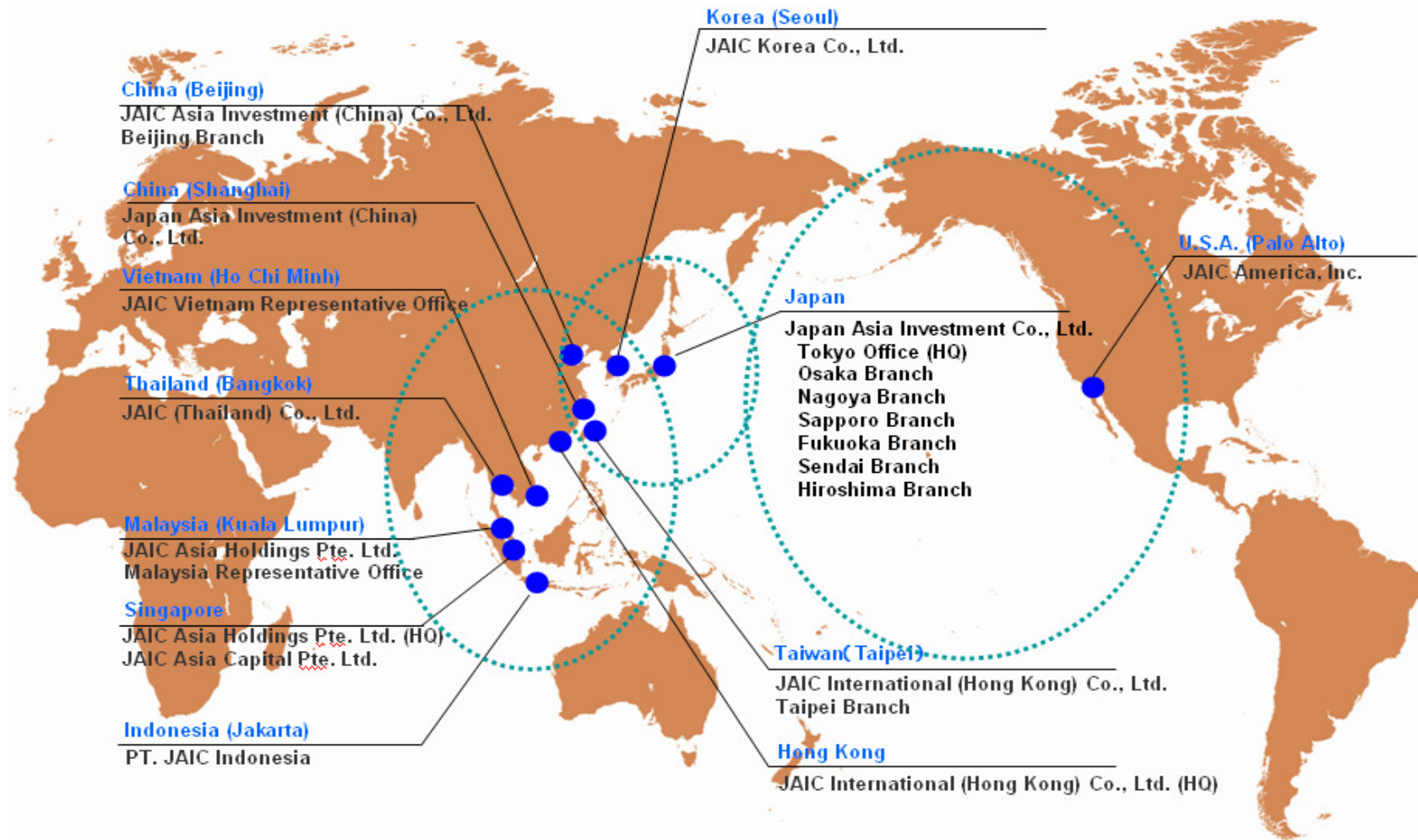
Business Portfolio

- To capture many business opportunities deriving from core VC business.
- To construct diversified business portfolio besides VC.



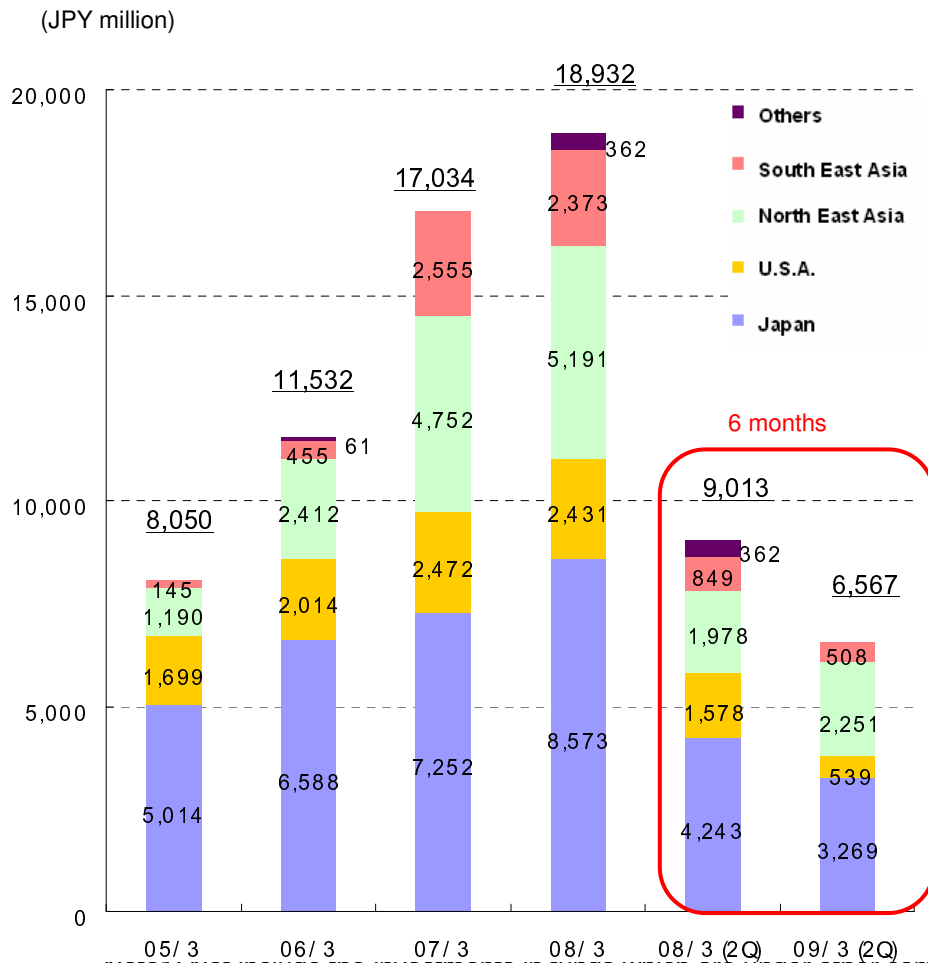
Global Linkage Network

JAIC has the largest number of domestic and overseas entities among the Japanese VCs.



Total Investment

New investment



Amount of investment

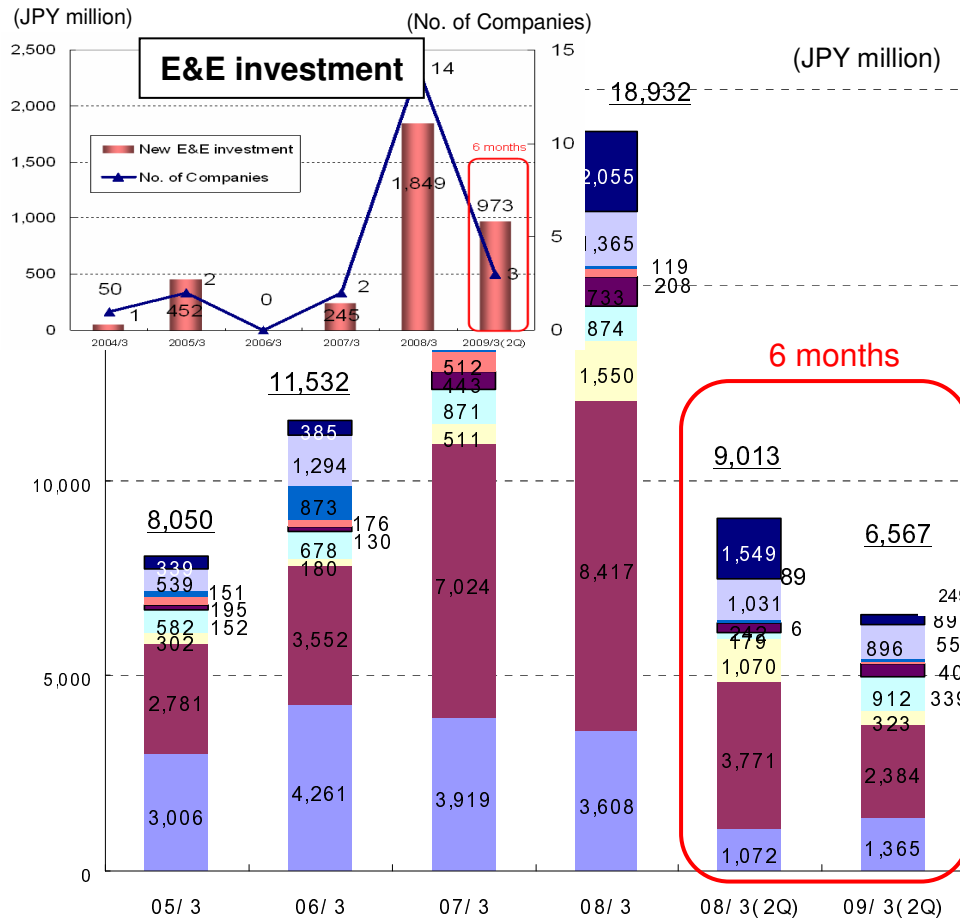


note1: Not include the investments in funds which are under other companies' operation.
 Note2: Other PE = Buyout investments, Turnaround investments, Secondary investments

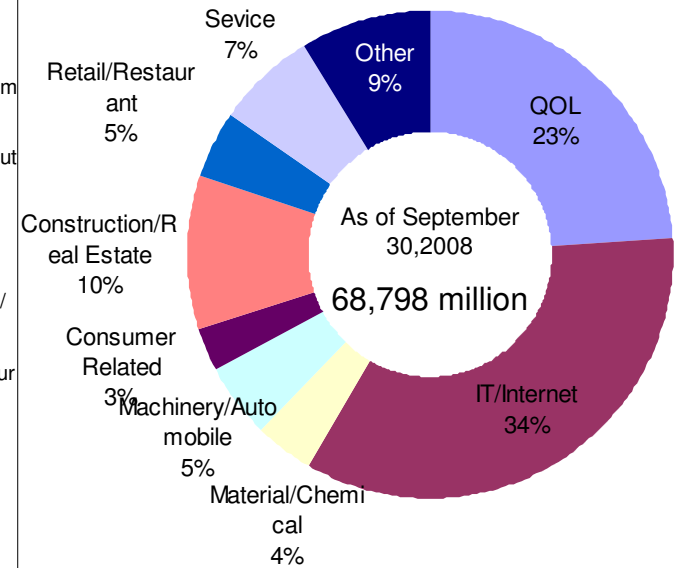
VC Investment

investment by Industry

New investment



Amount of investment

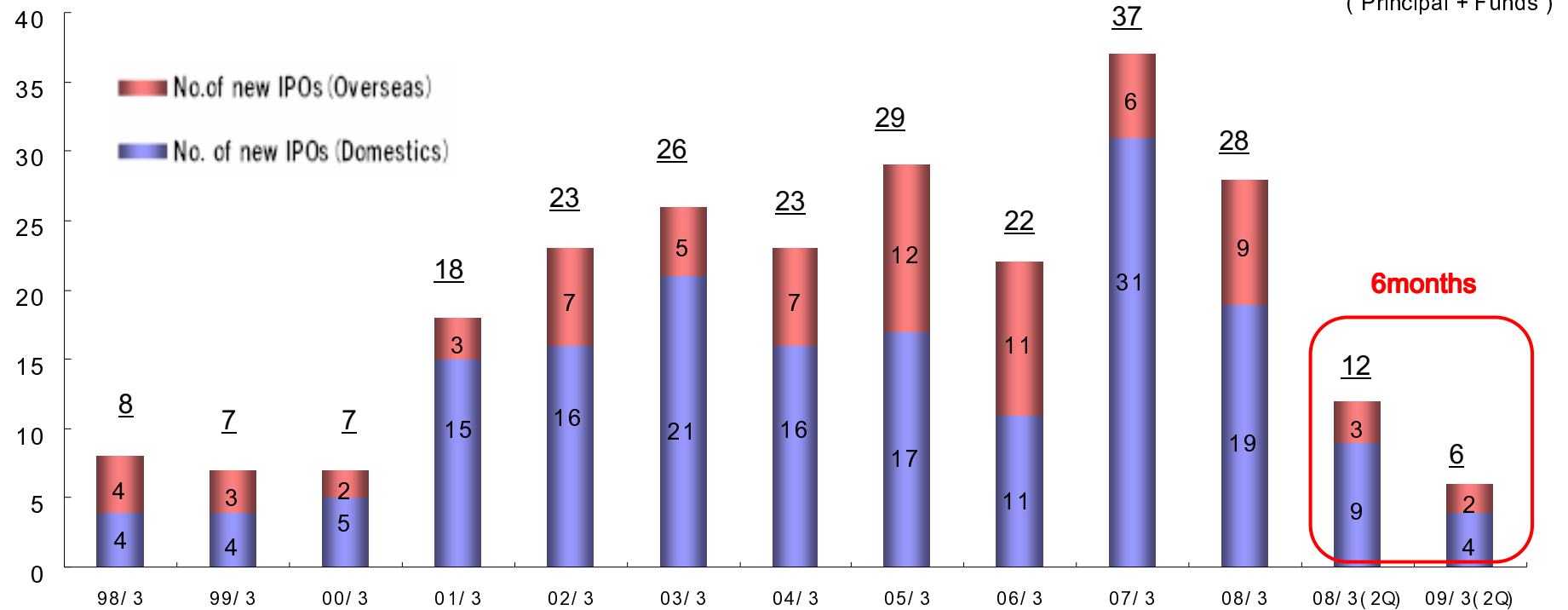


Note: QOL (Quality of Life) ; Biotechnology, Medical Service, Welfare Service, Medical Device, Drug Medicine, etc.

Note: IT· Internet ; IT service, Software, Computer Hardware, etc.

JAIC-Backed IPOs

(No. of IPOs)



Investment multiple by Initial price

(Investment multiple)

	98/3	99/3	00/3	01/3	02/3	03/3	04/3	05/3	06/3	07/3	08/3	08/3(2Q)	09/3(2Q)
Domestic	4.6	2.0	12.7	3.0	3.8	3.0	5.3	7.5	8.8	8.1	2.6	2.9	2.8
Overseas	2.3	1.0	8.2	1.9	2.5	1.8	1.0	1.7	2.2	3.2	6.2	10.9	1.1
Average	2.9	1.6	12.3	2.7	3.8	3.1	3.7	4.5	4.3	5.5	3.8	5.1	2.0

Note: IPOs include backdoor listings (1 in 2001/3, 5 in 2002/3, 1 in 2003/3, 1 in 2004/3, 2 in 2005/3, 6 in 2006/3, 3 in 2007/3, 2 in 2008/3, 1 in 2009/3(2Q)).
Investment multiple is calculated on initial price basis. (consolidated basis)

Is the worst over?

Stress test for US banks



IMF GFSR on April 2009

➤ The global financial system remains under severe stress as the crisis broadens to include households, corporations, and the banking sectors in both advanced and emerging market countries.

➤ Potential Loss from U.S. originated loan and securitized assets is estimated at USD4.5 trillion from 2007-2010.

➤ It is too early to judge the worst is over.

Household Restructuring in US

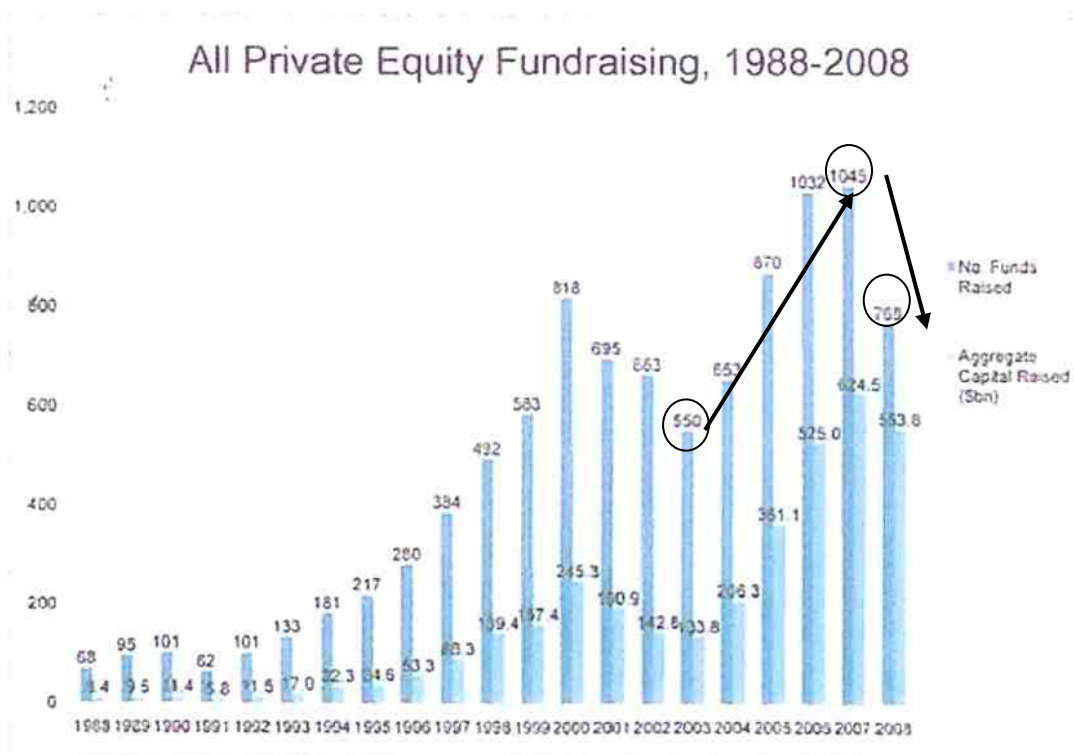
- 70% of GDP is household spending in US.
- In US, disposable incomes are rising faster than spending and personal savings in January 2009 rose to 5%, the highest since March 1995.
- Years of debt redemption has dropped to 30-35 years from its peak in 2007(> 40 years). (Japan 10 years)
- Consumer sentiments have been severely damaged and consumption pattern is expected to change. In general, people stop borrowing to consume.
- It is natural to think that stagnant growth will continue.

PE Fund Bubble

➤ The huge increase in the number of funds from 2003 when technology bubble crash, to 2007. Almost doubled the amount. This increase is also accelerated by LBO.

➤ Fund raising failed to improve the amount raised in 2007. Deterioration of fundraising levels in Q3 and Q4 2008.

➤ De-leveraging is continuing. Not optimistic in FY2009.



“Equity Capitalism” and the next

- There will be an end to the current “equity capitalism” which put too much priority on shareholders.
- Discussion has already started among a few vocal groups in some countries.
- Traditional PE/VC business model to rely largely on IPO may not be viable.
- We (PE/VC) need to consider our position i.e where we are able to right fit to “next” society. Are PE/VC simply profit-maximizing machines?

Two Sustainability

Environmental Sustainability

and

Corporate Sustainability

- Conversion to economic development supported by investment in environmental maintenance, energy-savings, clean-technology, recycling technologies and CDM (Clean Development Mechanism) related business to avoid economic destruction and over-use of natural resources
- Every company need to understand that it no longer exists without proper considerations for natural environment.
- As PE/VC Investors, we need to support environment technology development and to support companies which deliver considerations for nature.

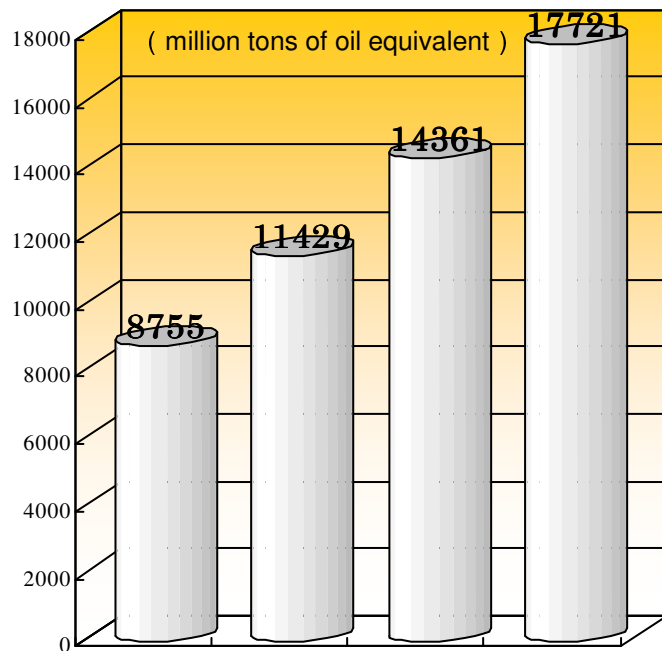
Environmental Market Overview

Growing “E&E” Industry due to global environment & energy issues

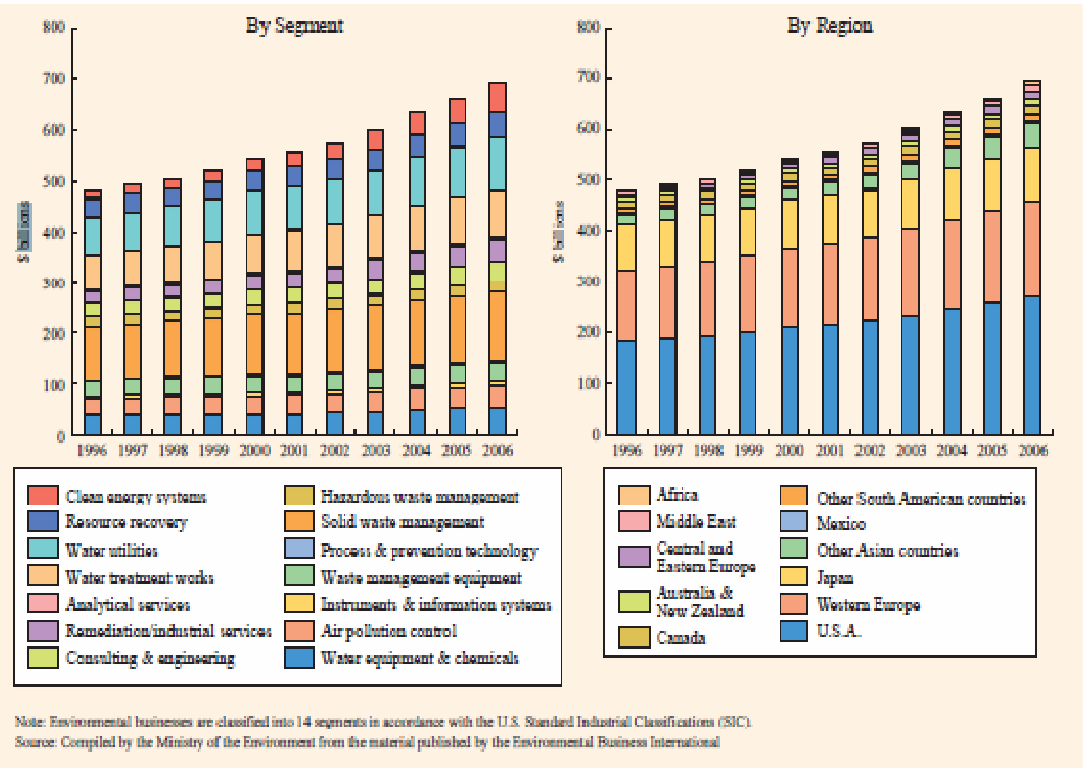
- Due to the population growth worldwide, the world will be exposed to the big risk of exhaustion of food, fossil fuel such as crude oil, and water in the next few years. The rapid growth of emerging countries also causes a serious environmental issues.
- Each sector is growing, especially, efficiency, biomass, water resources, and fuel cells.

Figure 2-1-3 Trends in Global Environmental Business Market

Consumption Trends of World Primary Energy



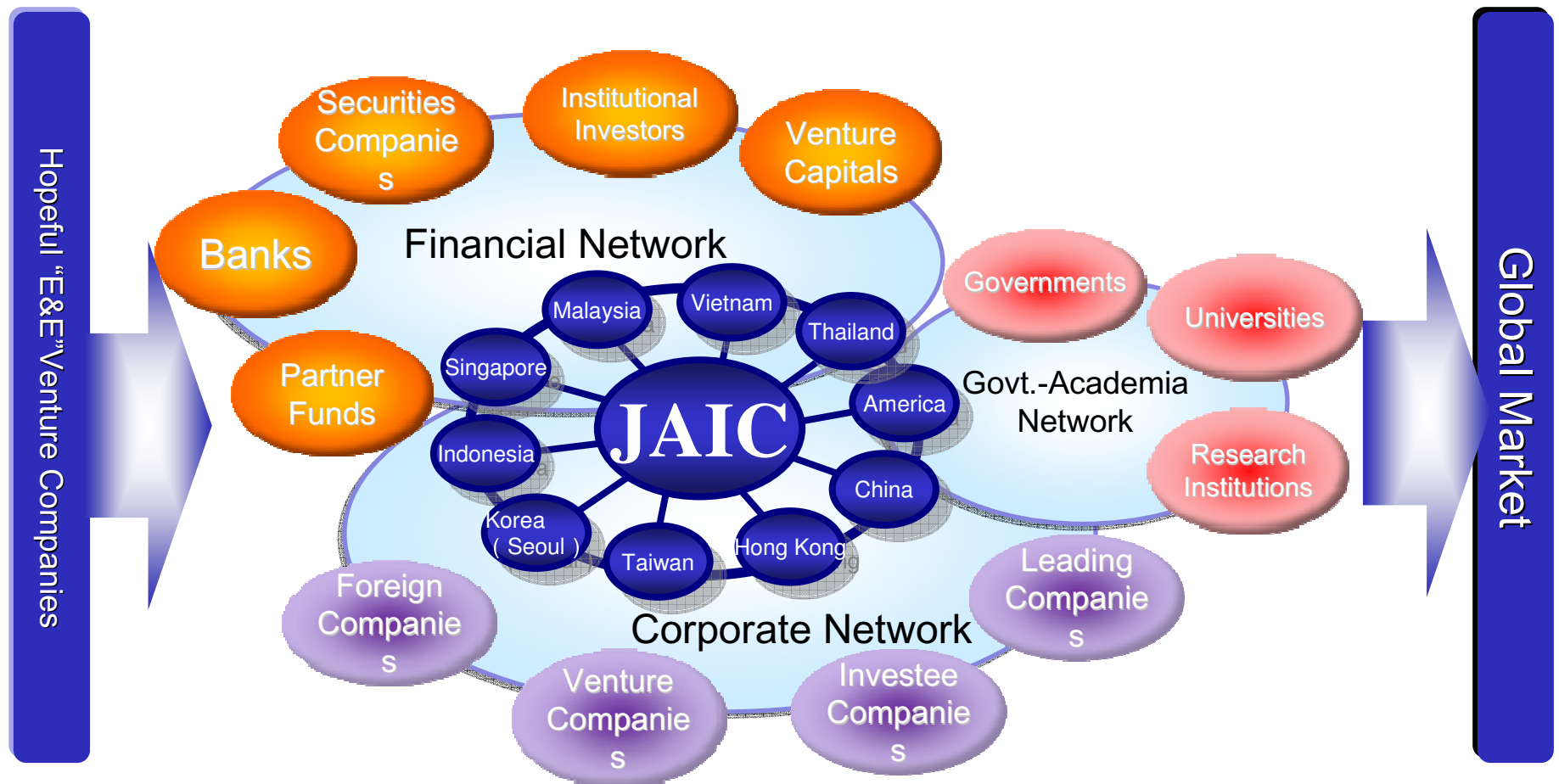
Source : International Energy Agency IEA



Source: Compiled by the Ministry of the Environment from the material published by the Environmental Business International

Introduction of JAIC “E&E Project”

Platform to support the growth of unlisted companies in Asia/America/Japan which drive for the global business in the area of ecology and energy. We aim to achieve the goal by financing as well as becoming a catalyst for cooperation among leading companies, research institutions, and unlisted companies. As a result, we aim to create “**T r i p l e - W i n**” relationship, not only by increasing our profits, but also offering the opportunity of growth to unlisted companies and that of “open innovation” and M&A to leading companies.



Introduction of JAIC “E&E Project”

Technology	Pollution Treatment	Water	Facility/ System Development	Nagaoka International Corp.	Oasys Solution, Inc.	
			Operation	MTI Water Holdings Pte Ltd.		
		Waste	Facility/ System Development	Issei	e-reverse.com, Inc.	Refinverse Inc.
		Operation	Takeei Co., Ltd.	Midac Holdings	Recycle Tech Japan	
	Air	Devices/Machinery	Earth Clean Tohoku			
	Eco Products	Eco-friendly	Intematix			
	Energy	New Energy	Solar	Clean Venture 21 Corp.	G&R (Daerim Solar)	Solar Silicon Technology Corp
			Wind	Zephyr Co., Ltd.		
			Marine	Hyper Drive Corp.		
			Biomass	Sun Care Fuels Corp.		
Others			GreatPoint Energy, Inc.	System-KK		
Energy Saving	ESCO/Fuel Cells	First Energy Service Co., Ltd.	Aquafairy Corp.	EpiPhotonics Corp.		
Conservation/ Regeneration	Green Project					
Service	Value-added Service	Consultation	Earth-Appraisal Co., Ltd.	EMSI		
		CSR Report				
	Finance	Emissions Trading Eco Funds				

Corporate Sustainability

- Conversion of our mindset from “Growth” to “Sustainability/Circulation”
- Value of company is not only profit growth. Too much focus on growth by media which reports quarterly/ yearly company performance. Companies are also under severe pressure by shareholders to show strong growth trend.
- However, the need to constantly show strong growth can be disruptive - companies may adopt severe measures e.g down-sizing, retrenchment which will affect society. Hence, a compromise needs to be made.
- Sustainable operation of company will benefit all stakeholders - employees, customers, suppliers, financiers, society, and shareholders.

From “Equity Capitalism” to “Public Capitalism”

-An old idea made new again-

➤ Johnson & Johnson-Our Credo

“We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services.

We are responsible to our employees, the men and women who work with us throughout the world.

We are responsible to the communities in which we live and work and to the world community as well.

Our final responsibility is to our stockholders. When we operate according to these principles, the stockholders should realize a fair return.”

➤ In Buddhism, there is a doctrine “Taru Wo Shiru”

To be satisfied with what you have and control own greedy mind set.

How we can apply the concept into practice?

- Importance of “Environment Sustainability” and “Corporate Sustainability” are concepts that can be easily understood by everybody.
- However, how we are able to apply these concepts into practice is another challenge.
- At this juncture, we are not able to conclude anything, but some changes in these directions can be seen.

Challenge for PE investors (1)

(a) Modification of concept of growth

If investors insist on rapid growth without paying attention to industry cycles and growth stages of companies, “Going Concern” is at risk. Sustainable growth and risk management should be keywords.

Different growth targets must be considered in different industries - matured industry or growing industry; and different sizes of companies – large, medium or small companies.

(b) Concept of Gain

The IPO market may be no longer an ideal exit for PE/VC investors. We have to change our mindset of return concept to income gain and *other gains*.

Challenge for PE investors (2)

(1) Evaluation

Need for systematic and credible evaluation of the environment, economic, and social impacts of development projects/service/products to which financial support is given.

(2) Monitoring

Mitigate the risk for investee to commit to business against environment and corporate sustainability.

Lookout for the overlap between profit and the public goods where opportunities lie.

Business relationship between PE/VC and company is in black-box. Success model can be collected and introduced to others.