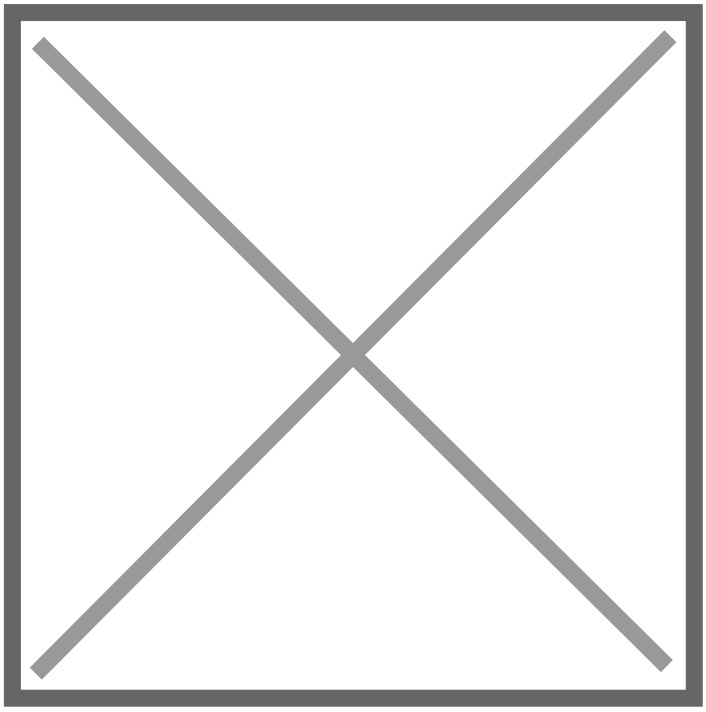
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Japan facilitates VC inflow in life sciences

07 July 2007 | News



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The Japan government's strategic decision to promote- innovative companies in the knowledge sector, including biotechnology, in a special three-year program has succeeded handsomely. Over 1,500 companies were spun out of academic institutions between 2003 and 2006, according to Japan's leading VC investor, JAFCO.

"The government set a spinout target of 1,000 companies in two years when the program started in 2003. We achieved the target in the first two years itself, and by 2006 we had over 1,500 spinouts. Nearly 38 percent of these are in biotechnology and related areas," said Nobuo Fukudo, Director of JAFCO's Life Science Investment unit.

The number of biotech companies is growing in Japan, and a lot of entrepreneurs have come into this field. Moreover, the pharma industry has also got into the act and the key players are making strategic investments and buying up failed-startups that have good technology development platforms and promising product lines, which could be revived, Fukudo said.

"There are some 1.5 million companies in all sectors in Japan and VCs have channelized seven percent of their funds into the life sciences sector," said the industry's leading VC investor. Of course, JAFCO is looking at the Asian market itself and is keen to identify promising small and medium enterprises in this field in the region. He estimates that VCs have invested $50-100 million in drug discovery companies so far.

Fukudo said like his counterparts everywhere, JAFCO looks at promising companies for investments at a very early stage and looks for an exit route within three-four years. JAFCO exits when the company goes public and six of the 11 companies in which it invested have gone public in the last three years. They look for a return of around 40 percent in three-four years of investment time. Most of the companies that were floated recently have an average market cap of $270 million, he pointed out.

In the last 10 years, nearly 42 percent of the startup companies across various sectors in Japan have gone public. The share of life sciences was only three percent, Fukudo said.

Japan's stock exchange for knowledge industry, JASDAQ is planning to set up a separate market for life science companies, on the lines of the Mother's Stocks on the Tokyo Stock Exchange. Keeping in mind the high level of initial investment, the new JASDAQ market will allow life science companies with minimal revenues to list on it. "The only criteria will be that the company should be making some revenues. Any revenue will be acceptable," Fukudo said.

He advised the new wave of Japanese investors in the life sciences sector to shed their conservative approach towards intellectual property rights (IPR). The companies are really closed and do not disclose the potential of their IPR for fear of

being misused. This was leading to very low market cap for the companies. "The companies should be more open, have more linkages with the rest of the world and look at the regional and global markets more aggressively," Fukudo advised. Too much emphasis on NDAs (non disclosure agreements) is slowing down the sector, he said.