

# Japan Startup Ecosystem Report

2023 H1



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## 2023 H1 Update

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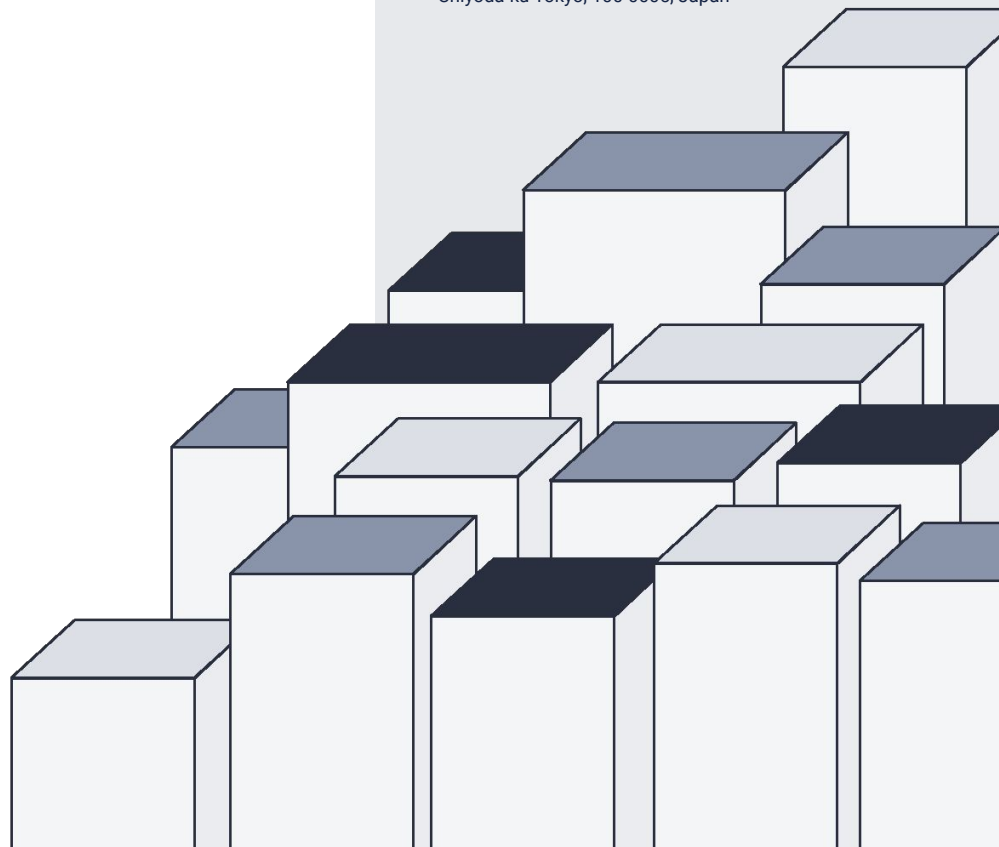
GLOBIS Capital Partners (GCP) is a leading venture capital fund based in Tokyo, Japan, with aggregated assets under management of over JPY 180 billion (USD 1.3 billion). Since 1996, GCP has invested into over 200 companies, most of them as a lead investor, and accelerated their growth through hands-on support.

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## INITIAL

INITIAL is a one-stop platform for information on Japanese startups, allowing users to search, browse, and download business descriptions, funding details, data on shareholders and partners, related news, and analytical reports on such companies. It can be used in a wide variety of business scenarios that require startup information, including investment, M&As, business partnerships, sales, and various support activities.

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# Japan Startup Ecosystem Overview

# Introduction

## About This Report

The Japanese startup ecosystem is on a 10-year bull run that shows no signs of slowing down. Startup investors who previously overlooked Japan should take this into consideration because the ecosystem is robust, offering plentiful opportunities for investment and healthy returns.

However, it is also true that little information on Japanese startups is available in English. This report is intended to shed light on macro stats, exciting trends, unique insights and promising startups coming out from Japan. This is a joint report published by INITIAL, a leading startup database in Japan, and Globis Capital Partners (GCP), a leading venture capital fund in Japan.

## Five Reasons To Be Excited about Japan

Below, we share five reasons why the Japanese startup ecosystem is exciting and worth actively looking at.

### 1. The Market Grew 10x in the Last 10 Years but There is Plenty More Room for Growth

Investments in startups in Japan has grown 10x in the last 10 years, representing 30% CAGR since 2013. In 2022, Japanese startups raised JPY 945 billion (approx. USD 6.9 billion) in aggregate, which is more than South Korea (approx. USD 5 billion) and approaching Germany (approx. USD 10 billion). Many local Japanese VCs are raising larger funds, which will translate to more deployment in the coming years.

Japanese corporations have never been more open and aggressive to work with startups. Most major corporations now have CVCs, direct investment programs, and dedicated teams for “open innovation” to work with startups. As a result, partnerships and M&A are becoming more common.

To further accelerate this organic growth, the government has announced a “Five-Year Plan” to accelerate startup activities. The plan aims to accelerate startup investment 10x and create 100 unicorns by 2028. To achieve this ambitious goal, the plan sets out to provide risk capital, renew SBIR (Small Business Innovation Research), connect with global startup ecosystems, provide tax incentives for M&A, and upgrade Stock Option regulations, among other strategies.

All signs, in other words, point towards further growth in startup investment in the coming years.

### 2. Exceptional Founders and Talents Flowing into Startups

In addition to an increasingly robust investment environment, the next generation of exceptional founders and talented team members are emerging in Japan. In the past, the Japanese were thought to be risk averse, and the country’s top talents typically entered government ministries and prominent, large corporations.

This has completely shifted in the last decade or so. It has become a new norm for top university students to work for a startup as an intern. Many of GCP portfolio companies have student interns and some of them decided to join full time upon graduation. Indeed, GCP offers an entrepreneurship class, which is often oversubscribed, at the University of Tokyo.

Furthermore, many young professionals working for investment banks, strategic consulting firms and private equity funds chose to transition to a new career, after gaining a few years of experience, by founding their own startup or joining one.

# Introduction

## 3. The Rise of Japanese Unicorns

As capital and talents flow into startups, Japan is witnessing the rise of Japanese unicorns—private companies with valuation over JPY 100 billion (approx. USD 720 million). The pivotal moment was when Mercari, a consumer-to-consumer marketplace app, went public with initial valuation of JPY 686 billion (approx. USD 5 billion) in 2018, a mere five years after it was founded. Mercari is often referred to as Japan's first VC-backed unicorn; it paved the way for more to come.

As of 2023, Japan had 8 unicorns and many more in the pipeline, but this was not always the case. It used to be that Japanese startups went public early, with a typical valuation in the range of JPY 10-30 billion (approx. USD 72 - 220 million). However, after seeing the success of Mercari and others, more founders and investors are becoming ambitious and going for bigger markets and outcomes. Some of these unicorns are founded by serial entrepreneurs, and the trend seems to be primed to accelerate.

## 4. Wide Range of Investment Themes in a less Crowded Market

The Japanese startup ecosystem has a wide range of themes, from B2B SaaS to consumer app to deeptech. Some themes may be familiar to global investors, as they can be described as the “Japanese version of x,” and with familiar business models, but in a different market. But Japan also offers unique technology and business models, especially in fields where it has competitive advantages, such as robotics, healthcare and entertainment.

One thing to note is that the competition among startups is less fierce in Japan than in other markets, such as the US and China. Only a handful of companies compete in the same verticals in Japan, thereby creating the opportunity for breakout startups to capture entire markets in what is the world's third-largest economy.

## 5. Emerging and Open Opportunities in the Growth Stage

As the ecosystem develops and more ambitious startups emerge, startups are staying private longer and taking on bigger markets. As a result, growth stage investment has recently emerged, where startups raise north of JPY 5 billion (approx. USD 36 million)—or, in some cases, over JPY 10 billion (approx. USD 72 million). In 2022 alone, 17 startups raised over JPY 5 billion, of which six raised over JPY 10 billion.

The growth stage is especially suited for global investors for two reasons. One, because, at this stage, product-market-fit is achieved, go-to-market strategy is proven, and financial metrics are clear—enabling global investors to compare and contrast against opportunities in other markets. Two, because, at this stage, many startups are raising large capital to expand globally, and they welcome investors who can support their global expansion.

## Many Global Investors Are Taking Notice

Many global investors are taking notice, as can be seen in the recent investments into three GCP portfolio startups: CADDi, ANDPAD and Kakehashi. There will be more to come as awareness of the Japanese startup ecosystem grows around the world.

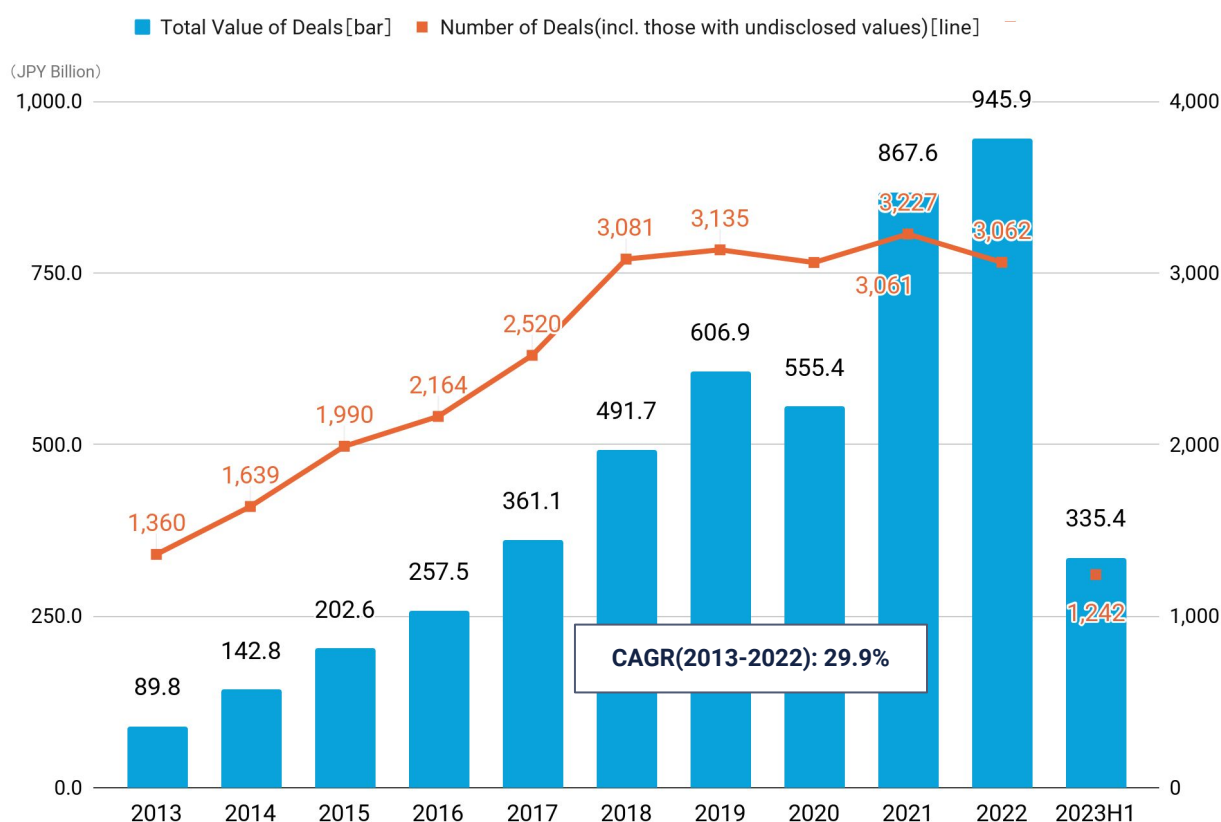
The report will highlight some of the most exciting trends and startups in the ecosystem, giving a glimpse of what's happening on the ground.

# Investment Trends

## 10x in 10 years

The startup investment amount in Japan has been growing at over 30% CAGR in the last 10 years. The number of deals doubled since 2013, but the investment amount grew ten-fold, indicating the average amount per deal has grown approx. 5x, providing startups with ample capital to tackle larger opportunities and build bigger businesses than before.

## Startup Investment Amount



Source: INITIAL (as of July 14, 2023)

Note 1: Figures for each year correspond to data observed as of the stated date of calculation by INITIAL. Figures for 2023 are for the H1 only.

Note 2: Given the nature of the data, figures (including past figures) are subject to change following further surveys. The smaller the value of the deal, the more likely it is to be affected, and the figure for the number of startups which received funding is particularly likely to change.

## Japanese Funds are Getting Bigger

Japanese funds are getting bigger in size to capture ever increasing opportunities in the market. Globis Capital Partners raised its 7th fund in 2022, a fund size of JPY 72.7 billion (approx. USD 526 million), almost doubling the size from the previous fund. It is also worth noting that most major funds in Japan are domestic players, partly due to the language barrier and differences in business customs.

### List of Major Funds since 2020

 :Globis Capital Partners

Vintage	Fund Name	General Partner	Total Value (JPY Billion)
2023 H1	Mitsubishi UFJ Capital IX	Mitsubishi UFJ Capital	30.0
2022	JIC Venture Growth Fund No.2	JIC Venture Growth Investments	200.0
2022	Globis Fund VII	GLOBIS CAPITAL PARTNERS	72.7
2022	JAFECO SV7 Series	JAFECO Group	37.5
2021	Mirai Creation Fund 3	SPARX Asset Management	68.5
2021	GB-VIII Growth Fund Investment Limited Partnership	Global Brain Corporation	40.0
2021	UTECH 5 Limited Partnership	The University of Tokyo Edge Capital Partners	30.4
2021	ZVC1 Investment Partnership	Z Venture Capital	30.0
2020	JIC Venture Growth Fund No.1	JIC Venture Growth Investments	120.0
2020	SBI 4+5 Fund	SBI Investments	100.0

Source: INITIAL (as of July 17, 2023)

Note 1: "Total Value" corresponds to the total amount of funds raised as observed on the stated date of calculation by INITIAL and may include estimated values.

Note 2: Figures shown are for funds focused on financing Japanese startups or those with plans to do so. Funds with no verifiable investments in Japanese startups or plans to do so have been excluded.

Note 3: Given the nature of the data, figures (including past figures) are subject to change following further surveys.

# Major Growth Stage Deals

## Growth Stage on the Rise

The growth stage is a new and fastly emerging opportunity in Japan. These startups raise over JPY 5 billion (approx. USD 36 million), in some cases over JPY 10 billion (approx. USD 72 million), to dominate their market in Japan or start expanding overseas. Often, growth stage is funded by large domestic VCs, institutional investors and corporates. However, international growth equity funds have started to be a major player in this stage, and the trend is expected to continue.

## Major Growth Stage Deals since 2020 (1)

■ :GCP's portfolio

Company	Sector	Business Description	Most Recent Funding (JPY Billion)	Funding Year
Kyoto Fusioneering	Deeptech	Advanced technologies for commercial fusion reactors	10.5	2023H1
Astroscale Holdings	Space	Orbital debris removal service	10.1	2023H1
GO	Consumer	Taxi hailing app "Go"	10.0	2023H1
CADDi	Manufacturing, SaaS	B2B manufacturing parts procurement platform; Drawing data management SaaS	8.9	2023H1
LayerX	FinTech, SaaS	Business spend management service "Bakuraku"	8.2	2023H1
cluster	Game/Entertainment, VR	Metaverse platform "cluster"	5.3	2023H1
Shizen Energy	CleanTech	Renewable power generation and distribution	24.4	2022
LegalOn Technologies	LegalTech, SaaS	AI-powered contract review SaaS "LegalForce"	13.7	2022
Dynamic Map Platform	AutomotiveTech	3D map data for self-driving and automated driver assistance systems	13.4	2022
Tier IV	AutomotiveTech	Open-source autonomous driving software "Autoware"	12.2	2022
ANDPAD	ConTech, SaaS	Construction site management SaaS	10.7	2022
Spiber	Materials	Structural protein material "Brewed Protein"	10.5	2022
SkyDrive	Mobility	Flying cars and cargo drones	9.2	2022
AI Medical Service	MedTech	AI-enabled software to help detect gastric cancer	8.0	2022
Kakehashi	Healthcare, SaaS	Vertical SaaS for pharmacies (patient record, SCM, marketing)	7.8	2022
Animoca Brands	NFT	Services for constructing Web3 platforms	7.4	2022
Gojo & Company	Microfinance	Microfinance for developing countries (India and southeast Asia)]	7.1	2022
Rapyuta Robotics	Robot	Cloud-based robotics platform "rapyuta.io"	6.4	2022
Ubie	Healthcare, SaaS	AI-powered patient intake form for streamlining healthcare operations	6.3	2022
SPREAD	AgriTech	Artificial light plant factories for vertical farming	5.7	2022
Synspective	Space	Satellite data and analytic solution for small SAR satellite	5.5	2022
DAIZ	FoodTech	Plant-based meat alternatives	5.4	2022
Kyash	FinTech, SaaS	E-wallet app with budget management functionality	5.3	2022

Source: INITIAL (as of July 14, 2023)

Note 1: Figures for each year correspond to data observed as of the stated date of calculation by INITIAL. Figures for 2023 are for the H1 only.

Note 2: "Most Recent Funding" is the total funding of each startups observed in each period. Figures are subject to change following further surveys and include estimations by INITIAL on certain funding deals.

Note 3: Preference is given to amounts indicated on official company registers and may not necessarily match the amounts announced by the companies themselves.



## Major Growth Stage Deals since 2020 (2)

■ :GCP's portfolio

Company	Sector	Business Description	Most Recent Funding (JPY Billion)	Funding Year
SmartNews	Curation	News app "SmartNews"	25.1	2021
GO	Sharing Economy	Taxi hailing app "Go"	17.6	2021
SmartHR	HRTech, SaaS	HR SaaS "SmartHR"	15.6	2021
Spiber	Materials	Structural protein material "Brewed Protein"	14.4	2021
Astroscale Holdings	Space	Orbital debris removal service	11.7	2021
SODA	Commerce	Specialised C2C marketplace for sneakers	9.1	2021
Net Protections Holdings	FinTech	Buy-now-pay-later and other fintech services	8.4	2021
NETSTARS	FinTech	QR code payment gateway "StarPay"	8.3	2021
Linc'well	HealthTech, SaaS	IT solutions for the healthcare industry	8.2	2021
STORES	Commerce	EC platform	8.1	2021
CADDi	Manufacture, SaaS	B2B manufacturing parts procurement platform; Drawing data management SaaS	8.0	2021
bitbank	FinTech	Virtual currency exchange	7.5	2021
Aculys Pharma	Pharmaceutical/Drug Discovery	Drug R&D for neurological and psychiatric disorders	6.8	2021
Bitkey	IoT	Digital platform for authentication and entry management.	6.7	2021
HIKKY	Game/Entertainment, VR	VR content development engine "Vket Cloud"	6.5	2021
atama plus	EdTech, SaaS	SaaS for AI-based personalized learning	6.2	2021
Orizuru Therapeutics	Pharmaceutical/Drug Discovery	iPS-based regenerative medicine products	6.2	2021
ATONARP	Semiconductor/Hardware	Molecular sensing and diagnostics product	6.0	2021
ispace	Space	Lunar landing robot and lunar payload delivery	5.6	2021
GOOD EAT COMPANY	Commerce	EC for Japanese foods	5.1	2021
CBcloud	Logistics	Shipment delivery platform	5.0	2021
menu	FoodTech	Food delivery and take-out application	5.0	2021
GO	Sharing Economy	Taxi hailing app "Go"	16.6	2020
Paidy	FinTech	Buy-now-pay-later service "Paidy"	13.1	2020
Playco Japan	Game/Entertainment, VR	Instant play games	10.0	2020
TBM	Materials	Paper and plastic alternative material "LIMEX"	9.7	2020
PayPay Securities	FinTech	Securities trading application	8.5	2020
APB	CleanTech	R&D for a next generation lithium-ion batteries	8.1	2020
Spiber	Materials	Structural protein material "Brewed Protein"	6.6	2020
Astroscale Holdings	Space	Orbital debris removal service	5.5	2020
Paidy	FinTech	Buy-now-pay-later service "Paidy"	5.3	2020
ANDPAD	ConTech, SaaS	Construction site management SaaS	5.0	2020

Source: INITIAL (as of July 14, 2023)

Note 1: Figures for each year correspond to data observed as of the stated date of calculation by INITIAL. Figures for 2023 are for the H1 only.

Note 2: "Most Recent Funding" is the total funding of each startups observed in each period. Figures are subject to change following further surveys and include estimations by INITIAL on certain funding deals.

Note 3: Preference is given to amounts indicated on official company registers and may not necessarily match the amounts announced by the companies themselves.

# Japanese Unicorns and Next Unicorns

## Unicorn Landscape of Japan

Unicorns are regularly emerging from the Japanese startup ecosystem, and eight such startups have realized valuations in excess of JPY 100 billion (approx. USD 724 million). Notably, these successes are emerging in a variety of industries. SmartNews, for instance, is a news app developer. SmartHR is a SaaS provider for HR management. Spiber and TBM, meanwhile, are material science startups. Astroscale is a startup in the space industry, while Mujin is a maker of industrial robot controllers.

As for “next unicorns” with valuation in excess of JPY 35 billion (approx. USD 253 million), notable mentions include ANDPAD, a leading SaaS provider in the construction industry, and Gojo & Company, a prominent entity in the microfinance sector. Both startups are part of GCP’s portfolio.

Also part of the GCP portfolio—and potential next unicorns—are CADDi, a manufacturing platform; Mirativ, a game live-streaming platform; Kakehashi, a startup in the pharmacy tech space; AI Medical Service, which creates AI-enabled apps to help detect cancer; Telexistence, a maker of remote-controlled robots; and, Josys, a global B2B IT device and SaaS management platform. All of them have the potential to become the next generation of unicorns.

## Japanese Unicorns

 :GCP’s portfolio

Company	Sector	Business Description	Post Money (JPY Billion)	Total Funding (JPY Billion)
OPN Holdings	FinTech	Multiple FinTech solutions across Asia	221.2	15.2
SmartNews	Curation	News app “SmartNews”	203.9	44.4
SmartHR	HRTech, SaaS	HR SaaS “SmartHR”	173.2	23.9
Spiber	Materials	Structural protein material “Brewed Protein”	145.7	60.3
GO	Sharing Economy	Taxi hailing app “Go”	136.5	57.1
TBM	Materials	Paper and plastic alternative material “LIMEX”	134.2	23.7
Astroscale Holdings	Space	Orbital debris removal service	126.2	43.7
Mujin	Robot	Automated solutions “MujinRobot” for intelligent industrial robots	100.6	13.5

Source: INITIAL (as of July 14, 2023)

Note 1: Figures are subject to change following further surveys and include estimations by INITIAL on certain funding details.

Note 2: “Post-Money Valuation” is an estimate calculated by INITIAL and includes potentially dilutive securities. Since the latest values as of the stated date of calculation are used here, they do not necessarily match the post-money valuations of funding rounds within the target period.

Note 3: Excluding startups with less than 3% dilution in the last round.

# Japanese Listed Unicorns

## Hidden Potential of Japanese Startup Ecosystem

Historically, Japanese startups have had a tendency to go public at relatively early stages, often around Series B or C funding rounds. This is partly because the Tokyo Stock Exchange Growth Section, previously known as the Mothers Section, is more accommodating for earlier-stage IPOs compared to other stock exchanges globally. This unique aspect of the Japanese market has provided a distinctive opportunity for early liquidity, which is a notable benefit. However, it has also contributed to a scarcity of unicorns and substantial private growth-stage funding rounds in Japan.

Once a company goes public, it inevitably faces increased pressure to monetize and improve profits. This pressure has often led to a stunting of growth for many businesses, as they shift focus to meet the immediate financial demands of the public market. In the midst of this, there are still several companies that continue to grow robustly even after going public. Those that have been listed within the last 10 years and have a market capitalization of over 100 billion JPY can be called "Listed Unicorns."

Looking to the future, there appears to be a significant potential shift on the horizon. With the growing ability of startups to raise large funds while remaining private, we can expect to see an increase in startups that are able to fully mature and take on greater business growth risks before making the leap to a major public offering. This trend could lead to a new wave of startups that are better equipped for long-term success and are capable of making more significant impacts when they decide to go public.

## Japanese Listed Unicorns

 :GCP's portfolio

Company	Founding Year	IPO Year	Market Cap (JPY Billion)
Mercari	2013	2018	521
SHIFT	2005	2014	495
RAKUS	2000	2015	360
JMDC	2002	2019	304
Visional	2007	2021	294
ANYCOLOR	2017	2022	225
Money Forward	2012	2017	212
freee	2012	2019	161
Sansan	2007	2019	160
PeptiDream	2006	2013	154
COVER	2016	2023	149
MEDLEY	2009	2019	148
Appier Group	2012	2021	135
JTOWER	2012	2019	126

Source: Yahoo Finance (as of Nov 2, 2023)

Note 1: Companies that have IPO'd since 2013 and have a current market cap exceeding JPY 100 billion, as selected by GCP

# Iconic IPO and M&A

## Japan's Evolving Exit Ecosystem

The exit market in Japan is evolving, both on IPO and M&A fronts. IPOs over JPY 100 billion (approx. USD 720 million) and M&As in excess of JPY 10 billion (approx. USD 72 million) are becoming more common. Consumer-to-consumer marketplace platform Mercari went public in 2018 at JPY 676 billion (approx. USD 5 billion), marking an important turning point in the ecosystem. Since then, there have been 12 companies with IPOs of over JPY 100 billion (approx USD 720 million), including Anycolor and Cover, during the so-called tech downturn in 2022-23. The latter are both V-Tuber agencies that are leveraging Japan's strength in anime and entertainment.

On the M&A front, deals in the tens of billions of yen (tens of millions of USD) are occurring with some regularity. That includes homerun deals such as FinTech startup Paidy, which was acquired for JPY 300 billion (then approx. USD 2.7 billion) by PayPal in 2021. Large Japanese internet companies, such as DeNA, KDDI, LY Corporation (LINE - Yahoo), and GMO are known acquirers, and increasingly non-Japanese companies such as Moderna, Alphabet, and the aforementioned PayPal have started to make acquisitions. Traditional, well established companies, such as MUFJ Bank, are also becoming more active in the startup M&A space. To accelerate this trend, in 2023 the Japanese government enacted a tax incentive for corporations to acquire startups.

The growing size of IPOs at the Tokyo Stock Exchange as well as the growing number and size of M&A are both exciting trends which will create depth in the startup ecosystem and encourage more talented people to become founders.

## Major IPOs since 2018

:GCP's portfolio

Company	Business Description	IPO Year	Initial Market Cap (JPY Billion)
HEROZ	AI services based on machine learning and deep learning	2018	163.4
Mercari	Consumer-to-consumer market place app "Mercari"	2018	676.7
Sansan	Business card-based contact management software	2019	142.5
freee	Cloud-based accounting software	2019	116.6
Plaid	Customer experience SaaS "KARTE"	2020	117.8
Appier Group	AI-powered platforms and products	2021	202.7
Visional	Recruitment platform "BizReach"	2021	254.5
Safie	Cloud-based security platform "Safie"	2021	164.6
Net Protections Holdings	Buy-now-pay-later and other fintech services	2021	132.9
ANYCOLOR	VTuber production agency "Nijisanji"	2022	144.3
COVER	VTuber production agency "Hololive Production"	2023	107.0

Source: INITIAL (as of July 14, 2023)

Note1: Does not include technical listings and stock exchange section switches.

Note2: Initial Market Cap is the market capitalization at the initial price of a stock.

Note3: IPO Startups with an initial market capitalization of at least JPY 100 billion, since 2018.

## Major M&As since 2018

Company	Business Description	Acquirer	M&A Year	Enterprise Value at M&A (JPY Billion)
Paidy	Buy-now-pay-later service "Paidy"	PayPal Holdings	2021	300.0
Allm	Mobile ICT solutions for medical and welfare professionals	DeNA	2022	47.3
dely	Recipe video service "Kurashiru"	LY Corporation	2018	31.7
Kanmu	App-based prepaid Visa card "Vandle Card"	MUFG Bank	2023	25.0
Ierae Security	Cybersecurity, AI, and encryption	GMO Internet	2022	18.4
IRIAM	Virtual live streaming app "IRIAM"	DeNA	2021	12.0
OriCiro Genomics	Services using cell-free DNA synthesis and amplification technologies	Moderna	2023	11.1
pring	Free money transfer and remittance app "pring"	Google International	2021	10.9

Source: INITIAL (as of July 14, 2023)

Note1: "M&As" is often based on disclosures by listed companies and are therefore subject to change following further surveys. Figures for H1 2023 are particularly likely to change.

Note2: Startups with an enterprise value of at least JPY 10 Billion, based on details of M&As and known acquisition prices since 2018.

Note3: Enterprise value at M&A is calculated by converting the announced share acquisition ratio to 100%.

# Column - The Rise of Otaku Industries: Japan's USD 100 Billion Phenomenon

The Japanese term *otaku* captures the fervor and passion of fans dedicated to anime, manga, video games, and other facets of Japanese pop culture. But beyond the world of fandom, the *otaku* subculture is forging a multi-billion-USD industry with global implications. The global appetite for the culture has swelled, catapulting its market potential to a staggering JPY 165 trillion (approx. USD 1.2 trillion).

## Global Market Dynamics & Investment Opportunities

The global impact of Japanese multimedia franchises offers a lens into the profound influence of *otaku* culture. For instance, since its inception in 1996, Pokemon has generated a staggering JPY 13 trillion (approx. USD 92 billion) in revenue. Not far behind, Hello Kitty, which made its debut in 1974, has raked in JPY 11 trillion (approx. USD 80 billion). Such astounding figures hint at a broader Japanese trend: a majority of the nation, including 80% of its Gen-Z, ardently engages with anime and manga.

This market traction offers lucrative opportunities for investors and founders. Startups such as Anycolor and Cover, hailing from Japan and rooted in *otaku* industries, have been standout successes between 2022 and 2023. Pioneering the VTuber (Virtual YouTuber) space, these entities are redefining video content creation and consumption. Their market capitalizations, which hover around JPY 225 billion (approx. USD 1.5 billion) and JPY 149 billion (approx. USD 1.1 billion), respectively, are a testament to their expansive influence.

Similarly, startups outside Japan are also riding the *otaku* wave. Take miHoYo, a Chinese gaming behemoth with an anime focus. In 2022 alone, miHoYo generated an impressive revenue of JPY 523 billion (approx. USD 3.8 billion), often outpacing its Japanese counterparts.

## Emerging Business Models & Highlighted Startups

The *otaku* culture is not just about consumer numbers; it is a dynamo of innovation. One standout phenomenon is the rise of VTubers, an ingenious blend of anime, video streaming and cutting-edge technology. In this ecosystem, agencies like Anycolor and Cover hold IP rights, allowing them to maximize profits and minimize platform fees, especially through digital merchandise like bespoke voice messages. VTuber models are scalable and offer reduced risk, given the ease of avatar creation and anonymous voice actors. As a result, Anycolor, Japan's top VTuber agency, anticipates revenue of JPY 30 billion (approx. USD 217 million) in 2023, a 79% YoY growth.

## The Evolution of Live Gaming

Diving deeper into the *otaku* industry reveals the transformative rise of live gaming, a domain that's increasingly blurring the lines between reality and the virtual world. Platforms like Mirrativ are not just leading this revolution but are actively defining its trajectory. These platforms transcend the typical definitions of live-streaming, morphing into rich digital playgrounds. Here, the fervor of *otaku* culture intertwines seamlessly with cutting-edge technology, presenting viewers with unparalleled interactive experiences, often reminiscent of their favorite anime or game scenarios.

Mirrativ, a GCP portfolio company, is more than just a platform; it represents the future of gaming, where community involvement and real-time interaction take center stage. Its success is underpinned by its emphasis on democratizing content creation. The fact that a significant 20 percent of its gaming community is now transitioning to live streaming speaks volumes about its appeal and the potential for growth. The accessibility and inclusivity these platforms offer ensure that every gamer, whether amateur or pro, has a voice and a space to showcase their skills and passion.

## AI: The Game-Changer in Otaku Industries

The advancements in AI are not just touching the fringes of the *otaku* world; they're diving deep, restructuring its core. VTubers backed by AI capabilities are a testament to this, reimagining the boundaries of content creation, pushing the limits of what's possible, and serving content that is more personalized, interactive and engaging. However, the wonders of AI in the *otaku* realm aren't limited to just content generation. They're opening up avenues that address age-old challenges and unlock new potentials.

Take the startup, Orange, another GCP portfolio, for example. They've brilliantly identified a bottleneck in the manga world—the high cost and lack of resources for Japanese-to-English publishing. By harnessing the capabilities of AI, Orange aims to revolutionize this space, ensuring that manga enthusiasts worldwide get timely access to their favorite content in a language they understand. By launching an official and efficient manga platform in 2024, their goal is to significantly reduce the allure of pirated content, thereby striking a blow against the rampant piracy issues that have long plagued the industry. GCP sees the promise in Orange's innovative vision and commitment to elevating the blend of technology and culture, and is keen on supporting its mission to fruition in today's globalized world.

Source: Market data from Yahoo Finance (as of Nov 2, 2023), Market Size data from METI, IP sales data from TitleMax, company data from official IR materials

# 2023 H1 Update

# Overview

## A Testament to Japanese Ecosystem's Robustness

The uptick in investment activity in Japan in 2023 is testament to the robustness of the country's startup finance and innovation ecosystem. That includes the quality and diversity of IPOs, M&As, funds and more.

Although faced with global uncertainty, the current state of the ecosystem is strong, showing signs of recovery akin to that of the pre-pandemic period—investments in 2023 compared to 2019-2020 show an encouraging uptick of around 10-20 percent.

Seed and Series A funding, for instance, are performing robustly in 2023. And while the dark clouds surrounding later-stage funding in Japan reflects global trends, a silver lining can be found at Series B and adjacent financing stages.

In 2023, there have been 13 deals where the funding exceeded JPY 3 billion (approx. USD 21 million), and three deals where it surpassed JPY 10 billion (approx. USD 72 million), hinting at a real trend towards recovery.

In the same period, Japan's IPO market is experiencing a rapid rebound: in 2023 H1 alone, 20 startups have gone public, and some of them have made strong debuts in the public market. The aforementioned Cover, for example, a next-generation media and metaverse company, realized an initial market capitalization in excess of JPY 100 billion (approx. USD 724 million)—something of an outlier, yet also arguably an indication of things to come.

Japan's IPO market this year is on track to approach its record-setting, pre-pandemic high from 2019-20, despite a decline in 2021-22: investments in 2023 compared to 2021-22 declined around 20-30 percent.

The main takeaway is that, despite recent challenges, investment and innovation trends in Japan are returning gradually to an upward trajectory, and domestic and international investors are taking notice.

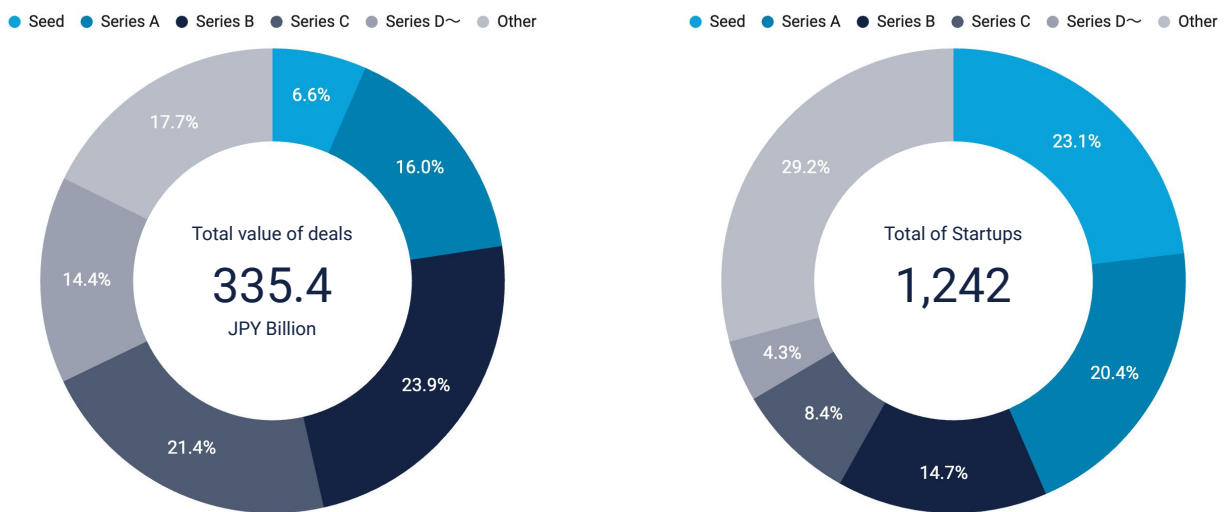
# Investments

## Winter Harvest: Resilient Investment Trends and Robust Seeding

As noted earlier, the Japanese startup ecosystem is experiencing a rebound in investments that is comparable to levels seen in the period before and during the early days of the Covid-19 pandemic—or around 2019-20. Actually, investment amounts in 2023 H1, when compared to the same period in 2019-20, showed growth of around 10-20 percent.

The primary driving force behind this resurgence is the increase in Seed and Series A investments. When compared to the same period in 2022, there has been a 17 percent increase in the number of overall investment deals. This trend signifies not only a solid foundation in both the amount and number of investments but also indicates that, despite the economic downturn, founders willing to take risks and venture into new businesses are emerging. It highlights a dynamic where, even under challenging economic conditions, there is a continuous birth of startups focused on future opportunities and innovations.

### Investment by Overall Volume, Stage (Left: Investment Value; Right: Number of Investment)

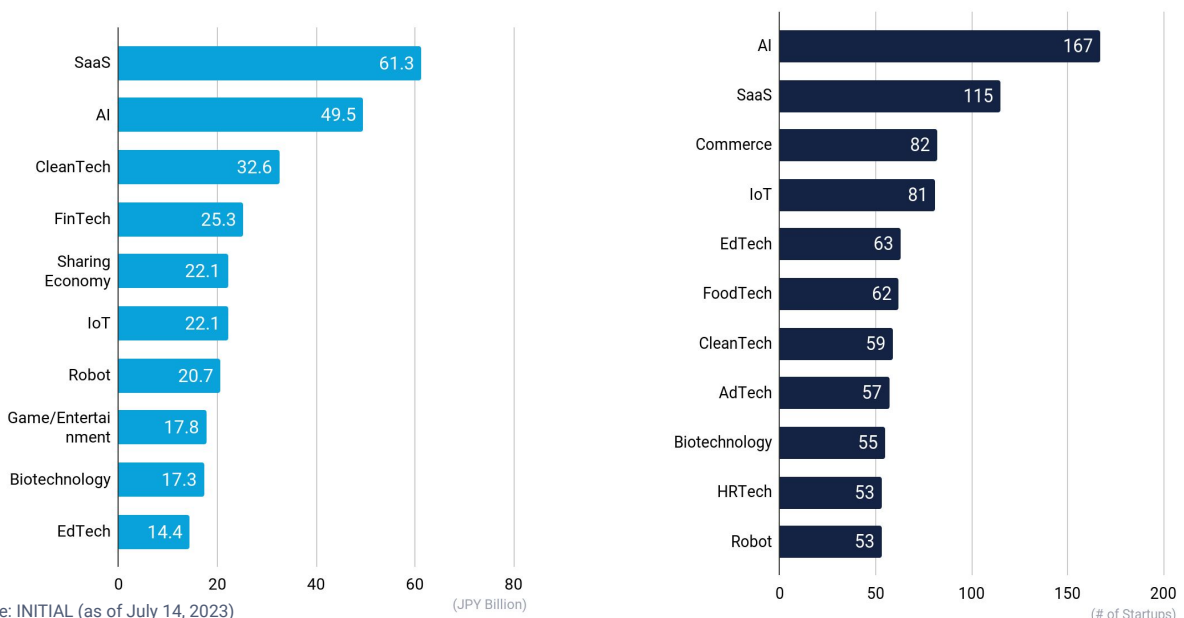


Source: INITIAL (as of July 14, 2023)

Note1: Figures for each year correspond to data observed as of the stated date of calculation by INITIAL.

Note2: The definitions for each funding round are as per INITIAL Series definitions.

### Investment by Segment (Left: Investment Value; Right: Number of Investment)



Source: INITIAL (as of July 14, 2023)

Note1: Given the nature of the data, figures are subject to change following further surveys, including past figures.

Note2: There is some duplication of rounds between sectors due to certain companies being included in multiple sectors.



# Deals

## Four Themes in Japan

After the global pandemic and tech downturn in 2019-21, the Japanese startup ecosystem experienced a modest recovery in 2023 H1. In this period, 13 startups raised funds exceeding JPY 3 billion (approx. USD 21 million)—while three others raised over JPY 10 billion (approx. USD 72 million).

Notably, startups in Japan that are raising large amounts have several themes in common: A number of them are venturing in areas where Japan has strong competitive advantages in both soft and hard assets. These areas include manufacturing, healthcare and robotics. The entertainment industry, among others areas, is also part of the mix of industries where Japan is globally competitive. CADDi, for example, an online procurement platform for manufacturing parts, is leading where IT technology meets manufacturing. Mujin is a trailblazer in industrial robots, while TEG is a leading player in entertainment and e-sports. In healthcare, CureApp and Frontier Field are leading the way.

But there's more. Located in the world's third-largest economy, startups in Japan are able to scale their services in industries where SaaS intersects with FinTech and the sharing economy. Taxi hailing app GO and FinTech and SaaS provider LayerX, which develops business spend management systems and other automated back-office services, are examples of leading startups in these fields.

Deep tech, including CleanTech and space technology, is yet another area where Japanese startups are emerging as global players. CleanTech company Kyoto Fusioneering, a fusion reactor builder, and Astroscale, a developer of space debris removal services, are examples of ambitious startups with advanced technologies.

Lastly, there are startups in Japan with a born-global mindset that seek to tackle challenges in markets outside Japan. One example is Gojo & Company, a startup that provides micro financing and other financial services for SMEs in emerging economies.

## Major Deals

■ :GCP's portfolio

Company	Sector	Business Description	Recent Round Amount (JPY Billion)
Kyoto Fusioneering	CleanTech	Advanced technologies for commercial fusion reactors	10.5
Astroscale Holdings	Space	Orbital debris removal service	10.1
GO	Sharing Economy	Taxi hailing app "Go"	10.0
CADDi	Manufacturing, SaaS	B2B manufacturing parts procurement platform; Drawing data management SaaS	8.9
LayerX	FinTech, SaaS	Business spend management (BSM) service "Bakuraku"	8.2
cluster	Game/Entertainment, VR	Metaverse platform "cluster"	5.3
Enito Group	Fashion/Lifestyle	Dating apps "Omiai" and "with"	4.7
Terra Motors	AutomotiveTech	EV charging infrastructure "Terra Charge"	4.0
Mujin	Robot	Automated solutions "MujinRobot" for intelligent industrial robots	4.0
TEG	Game/Entertainment	Esports and other entertainment content	3.7
CureApp	HealthTech	App-based solution for prescription digital therapeutics	3.5
Frontier Field	HealthTech	Smartphone service for medical institutions, "Nichibyo Mobile,"	3.5
Gojo and Company	Microfinance	Microfinance for developing countries (India and southeast Asia)	3.4

Source: INITIAL (as of July 14, 2023)

Note 1: "Recent Round Amount" refers to startups funding observed between 1 January and end of June 2023 is aggregated.

Note 2: Figures are subject to change following further surveys and include estimations by INITIAL on certain funding deals.

Note 3: Preference is given to amounts indicated on official company registers and may not necessarily match the amounts announced by the companies themselves.

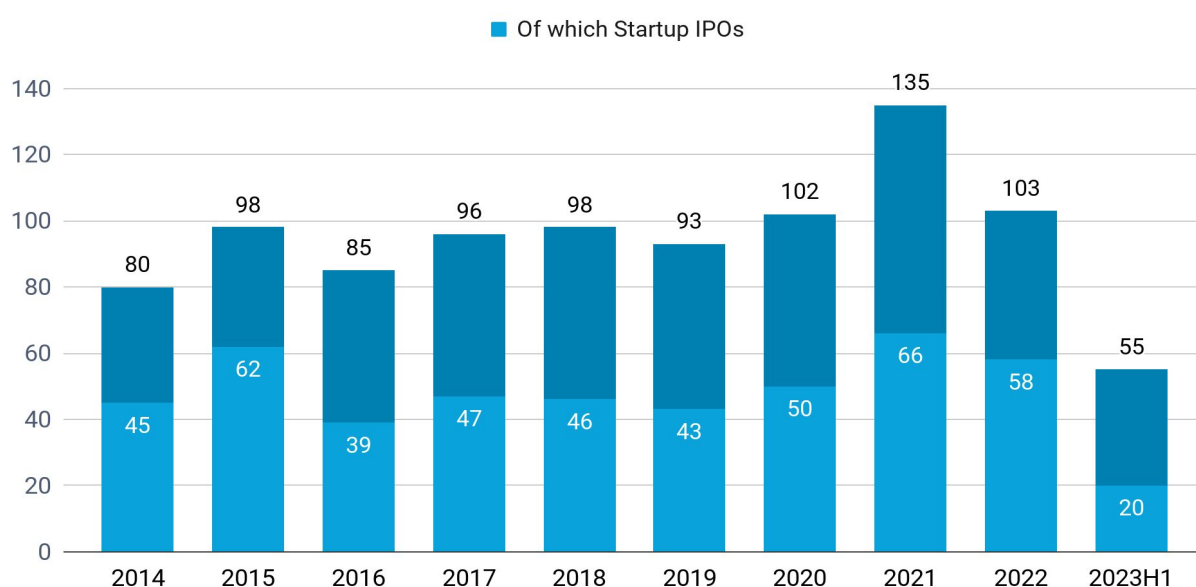
# IPOs

## Resilience of Japan's IPO Market

Compared to global markets, one of the most remarkable characteristic of Japan's IPO market has been its ability to bounce back from a post-pandemic downturn. Thus, in 2023 H1, we find that 20 startups have already listed on the Tokyo Stock Exchange.

While the number of IPOs this year have been down 30-40 percent compared to 2021-2022, the upward trend, as of this writing, is on a par with a comparable period between 2019-2020. Indeed, companies such as Cover have realized an initial market capitalization of over JPY 100 billion (approx.USD 665 million). This, among other indicators, is testament to the robustness of the IPO market in Japan.

## # of IPOs in Japan



Source: INITIAL (as of July 14, 2023)

Note: Does not include technical listings and stock exchange section switches.

## Major IPOs

Company	Sector	Business Description	Initial Market Cap (JPY Billion)
COVER	Game/Entertainment, VR	VTuber production agency "Hololive Production"	107.0
ispace	Space	Lunar landing robot and lunar payload delivery	35.2
AnyMind Group	Commerce	Digital ad agency; a one-stop solution for production, e-commerce, marketing and logistics	57.0
ABEJA	AdTech	AI platform "ABEJA Platform"	80.4
Monstarlab Holdings	System Development	Digital consulting and product development solutions	41.9
Noile-Immune Biotech	Biotechnology	Cancer immunotherapies, mainly CAR-T cell therapy	30.0

Source: INITIAL (as of July 14, 2023)

Note1: Does not include technical listings and stock exchange section switches.

Note2: Initial Market Cap is the market capitalisation of the initial price of a stock.

Note3: IPO Startups with an initial market capitalization of at least JPY 100 billion in H12023

# M&As

## Continued Momentum in the M&A Market

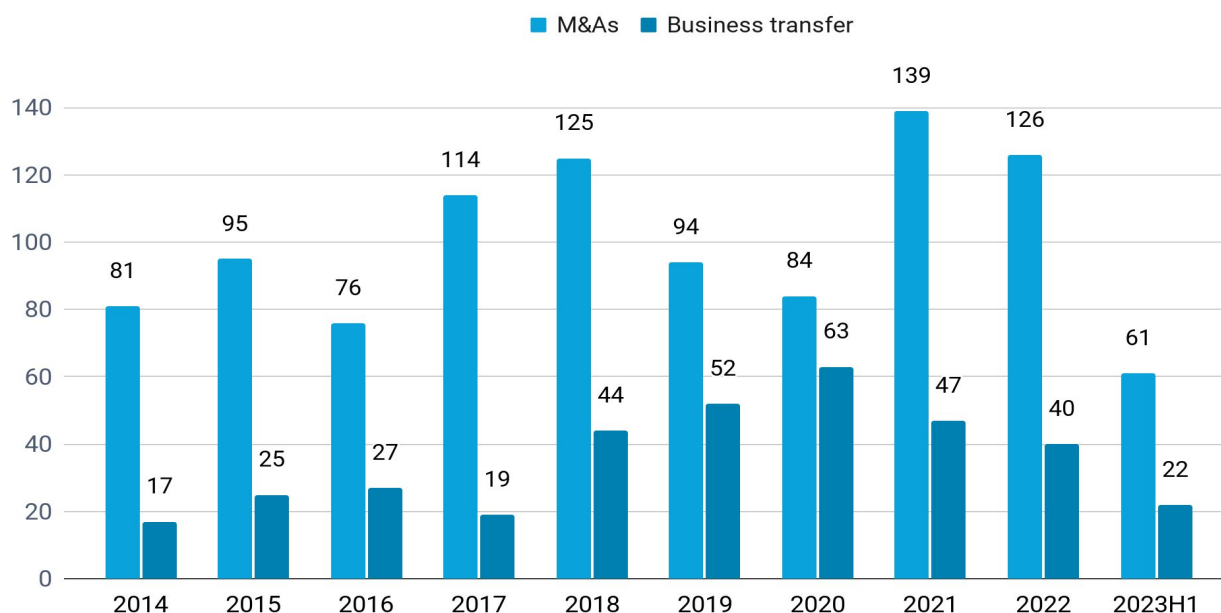
Japan's M&A count in 2023 H1 stood at 61 deals, mirroring the pace of such deals during the same period in 2021-2022—and representing a 30 percent increase compared to a similar period in 2019-2020.

While the M&A market in Japan has historically been considered to be small in scale, especially when compared to US markets, Japan saw two deals—Kanmu and OriCiro Genomics—that each had more than a JPY 10 billion (approx. USD 72 million) valuation.

Kanmu, a startup providing consumer payments, was acquired by Mitsubishi UFJ Financial Group, Japan's largest financial institution. Meanwhile, OriCiro Genomics, which makes synthetic biology products, was acquired by US pharmaceutical giant Moderna.

With valuations in excess of JPY 10 billion (approx. USD 72 million) for each of these startups, their success, among other indicators, is emblematic of the evolution—and advancement—of Japan's M&A market.

## # of M&As in Japan



Source: INITIAL (as of July 14, 2023)

Note1: "M&As" and "Business transfer" are often based on disclosures by listed companies and are therefore subject to change following further surveys. Figures for H1 2023 are particularly likely to change.

Note2: "M&A" refers to acquiring a company, while "Business transfers" refers to transferring part of a company.

## Major M&A deals in 2023 H1

Company	Sector	Business Description	Acquirer	Enterprise Value at M&A (JPY Billion)
Kanmu	FinTech	Vandle Card," an app-based prepaid Visa card	MUFG Bank	25.0
OriCiro Genomics	Biotechnology	Services using cell-free DNA synthesis and amplification technologies	Moderna	11.1

Source: INITIAL (as of July 14, 2023)

Note 1: Figures for "Value" include estimates.

Note 2: JPY value for Moderna's acquisition of OriCiro Genomics is calculated at JPY 129.47 = 1 USD.

Note 3: Enterprise value at M&A is calculated by converting the announced share acquisition ratio to 100%.

Note 4: Startups with an enterprise value of at least JPY 10 Billion, based on details of M&As and known acquisition prices in H12023

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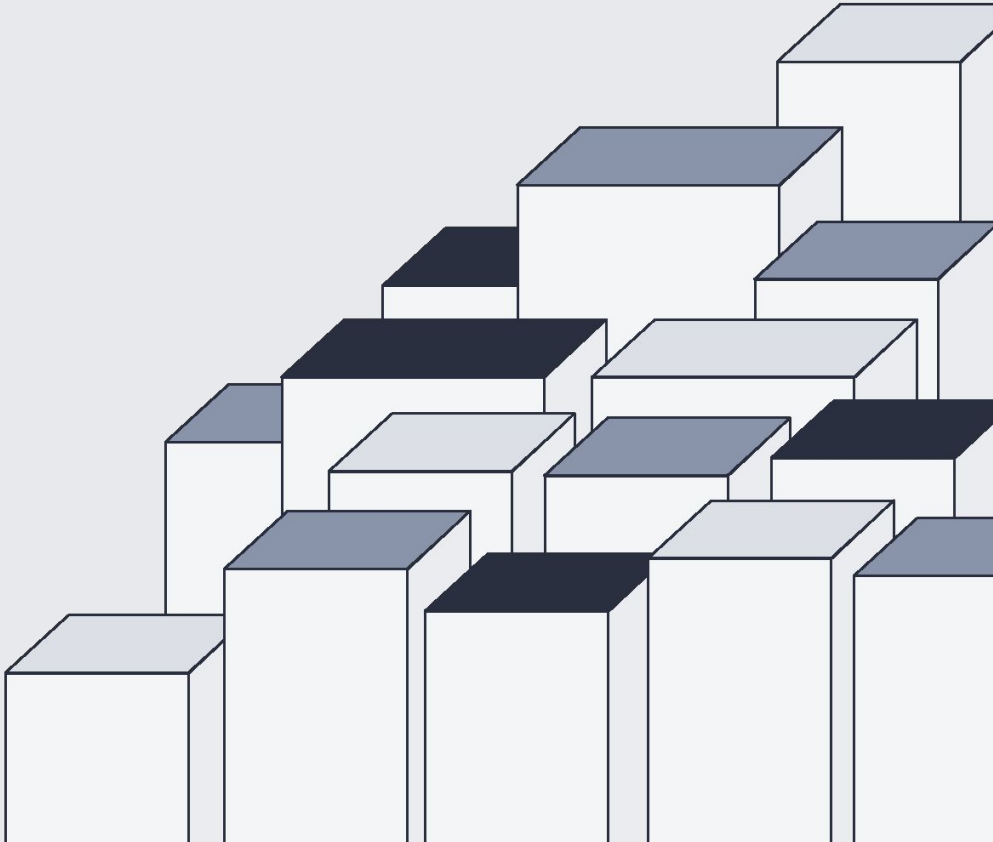
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# Japan Startup Ecosystem Report 2023 H1

Published on November 14, 2023

