

Entrepreneurship, Innovation, and Finance:

New growth avenues in developed economies

新たな成長に向けたアントレプレナーシップ・
イノベーション・ファイナンスの融合

Special Session/特別セッション

松尾 順介

MATSUO Junsuke

桃山学院大学経営学部教授

Professor, Faculty of Business Administration,
Department of Business Administration,
Momoyama Gakuin University

RIETI Policy Seminar
Entrepreneurship, Innovation, and Finance: New growth avenues in developed
economies

Does equity crowdfunding have potential for SMEs and ventures?

Momoyama Gakuin (St.Andrew's)University
Junsuke MATSUO

Table of Contents

Introduction :Crowdfunding boom? !

I Overview of crowdfunding in Japan

Types of crowdfunding

Japanese crowdfunding market

[Reference] UK crowdfunding

Current status of the Japanese equity investment crowdfunding market

II Three issues

Regulation

Revenue of operator (platformer)

Liquidity of unlisted shares

III Three possibilities

Business marketing

Venture development with "collective intelligence"

Improvement of corporate governance

Conclusion

Crowdfunding boom? !

Searching the keyword “crowdfunding” for newspaper articles ...

2010: only one case in a small article introducing a case in the United States

More than 20 items posted every day since 2018

年	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (8月末)
件数	1	2	70	567	1,414	2,699	4,459	6,394	7,778	5,532

⇒ Crowdfunding boom!

"If you need money, use crowdfunding"!

Introducing the first crowdfunding

Covered by "crowd" investment. Creating new articles from the US

2010/10/18 Asahi Shimbun, page 7

An interesting article appeared in the New York Times on November 9, 2009.

“A huge trash hangout in the Pacific Ocean”. A lot of trash such as plastic, light bulbs, bottle lids, etc. are gathered on the sea 1600 km northwest of Hawaii. The site was reported by a freelance journalist.

A part of the cost of the interview was funded by “Crowdfunding”.

Crowdfunding means that the crowd funded.

Many media in the United States were reducing the coverage network due to deterioration in management. ▪

Thanks to the difficulties of traditional media, it can be said that a new method called crowdfunding has started smoothly.

Various experiments are indispensable for journalism to survive. Crowdfunding is one of them.

Recent newspaper articles on crowdfunding

Crowdfunding: Raised trial fees over the internet

2018/12/26 Mainichi Shinbun 8 pages

Increasing cases of collecting trial costs by using crowdfunding to seek support on the Internet.

A special site “Legal Funding” specializing in lawsuits has also appeared. In lawsuits that appeal to social issues, lawyers often work as volunteers.

The first project on the site is a lawsuit over suicide of a female idol (16 years old) based in Ehime Prefecture.

The bereaved family asked for damages from their company because of overwork and power harassment. Solicited 3 million yen for lawyer fees and collected 2 million yen from 378 people.

Professor Junsuke Matsuo of Momoyama Gakuin University, who is familiar with crowdfunding, said, “Crowdfunding is effective not only in terms of cost, but also in the sense of expanding sympathy for trials. It is important to ensure the transparency of the use of funds.”

Types of crowdfunding (1)

Donation type

- ▪ Donate collection, no regulation, fee required

Main sites

Readyfor Charity

JAPAN GIVINNG

Good Morning by CAMPFIRE

Furusato Choice

Coincheck

Academist

LEGAL FUNDINGNG

→ Differentiate by site

→ Social issues, environmental measures, etc. · useful for ESG and SDG

Types of crowdfunding (2)

Purchase type (reward type)

Main sites

Makuake

Readyfor

CAMPFIRE

Etc.

→ Did you change the way of consumption?

... Consumption behavior of "buying non-existing goods and services"

... New marketing methods

Types of crowdfunding (3)

Loan type

Overseas: Lender → Platform → Borrower (P2P lending)

Main site (overseas)

Lending Club (USA), CreditEase (China), FundingCircle (UK), etc.

→ Entry of institutional investors

- Did you change the way of crowdfunding?

Domestic : Investor → Investment Fund → Borrower (loan by investment fund)

Main site

Maneo, Crowd Bank, SBI Social Lending, etc.

→ Regulations under the Money Lending Business Law

→ Real estate investment type also appeared

→ Does it compete with existing retail finance in Japan?

Types of crowdfunding (4)

Investment type

① Fund investment type

Main site

Securite

② Equity-based investment type

Main site

Go Angel

FUNDINNO

Emerada

→ Withdraw of Emerada

→ New entry soon?

Equity-based crowdfunding (1)

FUNDINNO

Operating company: Japan Cloud Capital, Inc.

Established November 26, 2015

Head Office 5-25-18 Higashi Gotanda, Shinagawa-ku, Tokyo

Capital: approx. 600 million yen

Yuki Shibahara, Representative Director and CEO

Manabu Oura, Representative Director and COO

Cumulative closing price: 2,323.23 million yen

Number of users: 18,088

Cumulative contract number 65 cases

* Fundinno-type stock acquisition rights

(As of September 19, 2019)

<https://fundinno.com/>

Equity-based crowdfunding (2)

GoAngel

Management company: DAN Venture Capital Co., Ltd.

Established May 15, 2015

Head office, 1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo, Imperial Hotel Tower 15th floor

Representative Yoshito Denawa

Cumulative closing price: 112.3 million yen

Cumulative contract number 8 cases

(As of September 19, 2019)

<https://go-angel.com/>

Equity-based crowdfunding (3)

EMERADA EQUITY

Operating company Emerada Co., Ltd.

Established June 2, 2016

Capital: 70 million yen

Location: LIFORK MINAMI AOYAMA South Building S108, 1-12-3 Minami Aoyama, Minato-ku, Tokyo

Representative Director: Taiga Sawamura

Cumulative closing price: 315.33 million yen

Cumulative number of contracts: 9 (as of September 19, 2019)

* Emerada-type stock acquisition rights

* Business transfer to Universal Bank, Inc. (September 13, 2019)

<https://emeradaco.com/>

Equity-based Crowdfunding in Japan

	Number of cases	Number of successful deals	Total amount
2017	17	17	472,740,000
2018	51	35	1.275,445.000
2019	28	18	630,560,000

(Source) Japan Securities Dealers Association

Crowdfunding in UK(bil.£)

	2014	2015	2016	2017
Total Amount	1.74	3.2	4.58	6.19

(Source) The Cambridge Centre for Alternative Finance (CCAF) [2018] .The 5th UK Alternative Finance Industry Report (researched by Bryan Zhang,TaniaZiegler,LeylaMammadova, Daniel Johanson, Mia Gray and Nikos Yerolemou), Nov. 2018. 11p

https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-5th-uk-alternative-finance-industry-report.pdf (accessed 2019-03-22)

Crowdfunding in UK (mil. £)

	2014	2015	2016	2017
P2P Business Lending	749	881	1,232	2,039
P2P Consumer Lending	547	909	1,169	1,403
P2P Real Estate Lending	-	609	1,147	1,218
Equity-based	84	245	272	333
Bond type	4.4	6.2	79	72
Real estate Type	-	87	71	211
Purchase Type	26	42	48	44
Donation Type	2	12	40	41

(出所) The Cambridge Centre for Alternative Finance (CCAF) [2018] .The 5th UK Alternative Finance Industry Report (researched by Bryan Zhang,Tania Ziegler,Leyla Mammadova, Daniel Johanson, Mia Gray and Nikos Yerole mou), Nov. 2018. 12p

https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-5th-uk-alternative-finance-industry-report.pdf (accessed 2019-03-22)

Characteristics of UK crowdfunding

- 68% of UK alternative finance, 4.8 billion £

- Funding for startups and SMEs

- Number of users: 29,500

However, 11% decrease from 33,000 companies in the previous year

- Bond-type CF: £ 3.8 billion, 26,000 companies

- Equity-based CF: 349 billion £, 494 companies

- Percentage of seed and venture investment: 12.9%

- Non-investment type: 16 million £, Less than 1%

- Institutionalization of crowdfunding

(Source)CCBF(2018)

Current situation of the equity-based crowdfunding in Japan

① The market itself is at the start-up stage

→ Will it grow in the future?

② Three platforms

→ 1 platform withdraws

→ What about new entry in the future?

→ Sustainable income?

③ Investors

→ Relatives, officials, management friends, etc.

→ Individual investors expecting IPO

Three problems

Regulation:

Strict rule-based regulations

→ Should we consider autonomy-based regulations?

Profitability of Platformers :

Can they maintain sustainability as a business operator?

→ Necessity of market scale expansion

Liquidity of unlisted shares:

"Shareholder community system" as an unlisted stock market

→ Necessity of activation of unlisted stock market

Investment-type crowdfunding regulations in Japan

(1) Equity-based crowdfunding regulations:

Japan Securities Dealers Association

“Rules on Equity-based Crowdfunding (May 19, 2015)”

(2) Fund-type crowdfunding regulations:

Type II Financial Instruments Firms Association

“Rules on Electronic Offering of Electronic Application-Type ” (May 26, 2015)

Equity-based crowdfunding regulations in Japan(1)

Examination

- ① Existence of issuer and business,
- ② Financial status of the issuer,
- ③ Validity of issuer's business plan,
- ④ Sociality, including the issuer's legal compliance status,

...

- ⑧ Use of funds,
- ⑨ The amount is appropriate for each issuer's business plan,
 - To be determined by company rules
 - The rules of the Type II Financial Instruments Firms Association require the institution of an examination department and the appointment of a person in charge

Equity-based crowdfunding regulations in Japan(2)

Information provision

→ Providing 21 items of information to investors

Due to the investment type crowdfunding, the each individual payment is limited to 500,000 yen or less.

Investment in equity-based crowdfunding should be primarily aimed at empathy or support rather than pursuing financial gains such as dividends and capital gains.

Disclosure based on the Financial Instruments and Exchange Act or timely disclosure of information based on the rules of the Stock Exchange is not required.

Dividends may not be paid even for stocks.

No repayment of interest and principal are made like corporate bonds.

There is a risk that its value will be greatly lost.

There are no signs or quotes that can be used as a reference for transactions, and the cashability is extremely poor.

Inability to respond to inquiries from investors by telephone or visiting.

→ These must be stated in the pre-contract document

Equity-based crowdfunding regulations in Japan(3)

Characteristic:

- Strict (negative) regulation over details
- "Regulation from the top" named self-regulation
- Disregarding regulatory costs

Problems:

- Does it match the needs of investors?
 - Can it be improved flexibly?
 - What is the sustainability of operators?
- Is it hindering market growth?

What are more flexible regulations?

"Moai" (Mueh) in Okinawa

- Local community mutual assistance system
 - Popular microfinance overseas
 - In Japan, a kind of “Tanomoshi” and “Muzin”
 - Using for social purposes and financial purposes
 - Using by individuals and corporations
 - Fund management and financing scheme through mutual contributions
 - monthly installment: from about 10,000 yen to 1 million yen
 - Meeting once a month: collecting money, bidding, financing, eating and drinking
- Examination, monitoring, information exchanging
- Flexible management by participants
- Autonomous operation
- No Official regulations

Autonomous operation

In investment type crowdfunding:

Use of the autonomous operation is more appropriate than laws and official regulations?

① Flexibility

- ▪ The addition or reduction of the items is modifiable by a participant flexibly

② Interactivity

- ▪ Communication of a fund raiser and the provider

③ Psychogenic

- ▪ Pleasure of participating in structure of the investment, affinity with sense of fulfilment → Original figure of “crowdfunding”

Profitability of Platformers(1)

<Fee revenue>

Fee rate About 10-20% of the financing amount

2018 Total amount of about 1.3 billion yen x 20%

- ▪ ▪ 260 million yen

.... About 7 million yen per case

About 86 million yen per platformer

<Expenses>

Employee costs for several members + administration costs

Profitability of Platformers (2)

<Revenue other than fees>

- Examination fee

Example: 100,000 yen per case + actual cost

- Shareholder management fee

Example: Fixed annual fee setting

- Others

Example: video-making

→ Is it sustainable as a business?

→ One of three platformers has already withdrawn.

Liquidity of unlisted shares (1)

Shareholder community system

- (1) Established in May 2015 for the purpose of responding to trading and cashing needs of unlisted stocks.
- (2) A securities company will establish a shareholder community for each unlisted stock.
- (3) Investment solicitation is permitted only for investors who participate in the shareholder community.
- (4) Participants in the shareholder community are assumed to be investors of the company, such as officers and employees of the company, their relatives, shareholders and ongoing business partners, as well as investors in new growth companies.
- (5) The Japan Securities Dealers Association designates and announces securities companies that form and operate a shareholder community.

Liquidity of unlisted shares (2)

(6) Securities companies are allowed to solicit investment only for shareholders community participants. Soliciting investments from investors who are not participating in the shareholder community is prohibited.

(7) A securities company may solicit participation in the shareholder community only from executives, employees and shareholders of operating companies. Inviting others to join the shareholder community is prohibited.

⇒ Strict solicitation regulations

⇒ Is it hindering market expansion?

⇒ Securities companies: 5 companies, number of issues: 20, annual trading value: about 500 million yen

Liquidity of unlisted shares (3)

Almost no liquidity

- ▪ Poor ground for the birth of “Unicorn”

→ Major issues in the Japanese securities market

→ Overseas: unlisted stock market = startup “cradle”

In Japan: unlisted stock market = “hotbed for fraud”?

..Necessity of deregulation

..Cooperation with equity-based crowd funding

Example: Buying and selling on the same platform

→ Integration of primary and secondary markets

Three Potentials

(1) Aspects of business marketing:

Market research of business itself

(2) Venture development through “collective intelligence”:

Collection of individual shareholder knowledge, not expert knowledge

(3) Improvement of corporate governance:

Management monitoring by shareholders

business marketing

Crowdfunding

= Finance +Marketing+ α

→ New financial possibilities?

Equity-based crowdfunding = business market research

→ Selection by investors

→ Is it more accurate than screening by experts?

However, there is a problem in the way information is provided.

Example: Lack of risk information, Excessive providing of optimistic information and so on

Crowdfunding and "collective intelligence"

Collective intelligence:

...Thinking methods that aim to achieve better conclusions through the online community

...Project review, information exchange, follow-up, etc.

→ Collective intelligence can be utilized?

→ Is it suitable for the needs of investors?

→ Can we correct a small number of biased views and opinions?

→ Importance of dialogue and collaboration

Improvement of corporate governance

Financing company of equity-based crowdfunding

- ..Improvement of management awareness toward shareholders

- ..Change in employee awareness

- ..Transparent management

Comments from an executives of company using equity-based crowdfunding:

The acquisition of new shareholders has strengthened the awareness of a “public company”. Until now, my relative was a shareholder, so I had a strong consciousness of “my company”. This changed not only the management team but also the entire company.

Conclusion

- (1) In Japan, Equity-based crowdfunding is just born and is expected to grow in the future, but there are many challenges.
- (2) In order to expand the market, it is necessary to review not only the primary market but also the secondary market regulations to enhance the market function.
- (3) In addition to finance, the role to foster SMEs and startups is expected. For that purpose, a close relationship between companies and shareholders needs to be formed..