

「Activities on Business, Academia and Government collaboration Fund in Tohoku Region, (Tohoku Incubation Fund) 」

— For revitalization of Tohoku economy —

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URL <http://www.tohoku-innocapital.co.jp/>

I . Needs and Significance of Creating the Fund

1. *Environment for venturing firms in Tohoku district*
2. *Supporting and nurturing measures for venturing firms*
3. *Needs on community-based (business, academia and government collaboration) fund*

1. Environment for venturing firms in Tohoku district

Current economic situation in Tohoku district

Shrinking 'Branch economy'

Shifting invited factories to overseas

Decreasing public works

Existence of technological and intellectual seeds

Increasing momentum and significance of business, academia and government collaboration

Absence of risk capital suppliers

2. Supporting and nurturing measures for venturing firms

Fund raising on start-up and early stage

Considerable difficulties in fund raising on start-up (foundation) and early stage (early growth stage) for venturing firms that aim to commercialization of technological seeds at the university and other research institutes

Supports on management issues other than fund raising

Lack of resources including human resources and know-how at venturing firms

Supports until exit of venturing firms

Necessity of an appropriate support scheme for a high potential venturing firms so that they accelerate growth and target IPO

3. Needs on community-based (business, Academia and government collaboration) fund

Supply of risk capital – Investment by Venture Capital

Necessity of effective financing schemes for venturing firms with limited collateral, which assess properly novelty of technology and potential of commercialization

Hands-on and generous support

Necessity of generous and thorough management support (Hands-on support) on high potential venturing firms; such as, fund raising as well as dispatching an executive, in order that the firms are steadily nurtured and facilitated to grow, and that the investor can gain return. Necessity of support for IPO

Impact on regional economy

Establishment of circulation system of regional fund: The regional fund is raised to regional venturing firms, and then their profits are returned to the region

⇒ Creation of new jobs and demands

II Fundamental policies of fund management

1. *Overall procedure*
2. *Finding*
3. *Due diligence*
4. *Judgment on funding*
5. *Hands-on support*

1. Investment process ~ Overall procedure

■ Growth stages of investee firms and Investment procedure of TICC

Growth process of investee venturing firms



Start commitment

Dispatch an executive

Hands-on support

Concentrate diverse supports consisting of coordination of regional resources

Finding

Research, Analysis, & Assessment

Decision on investment

BP brush-up
Formation of Management team
Intellectual property

Marketing Alliance

Capital structure

Strategic IR

Support on IPO

To investment process III

To investment process IV

To investment process II

To investment process I

Initial investment

Additional investment
(Milestone investment)

Conclusion of Non disclosure agreement

Conclusion of Investment agreement

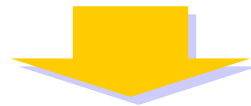
Stepwise investment depending on the firm's growth stage

Seamlessly supports from finding, product launch to IPO etc.

2. Investment process I ~ *Finding*

■ Information sources

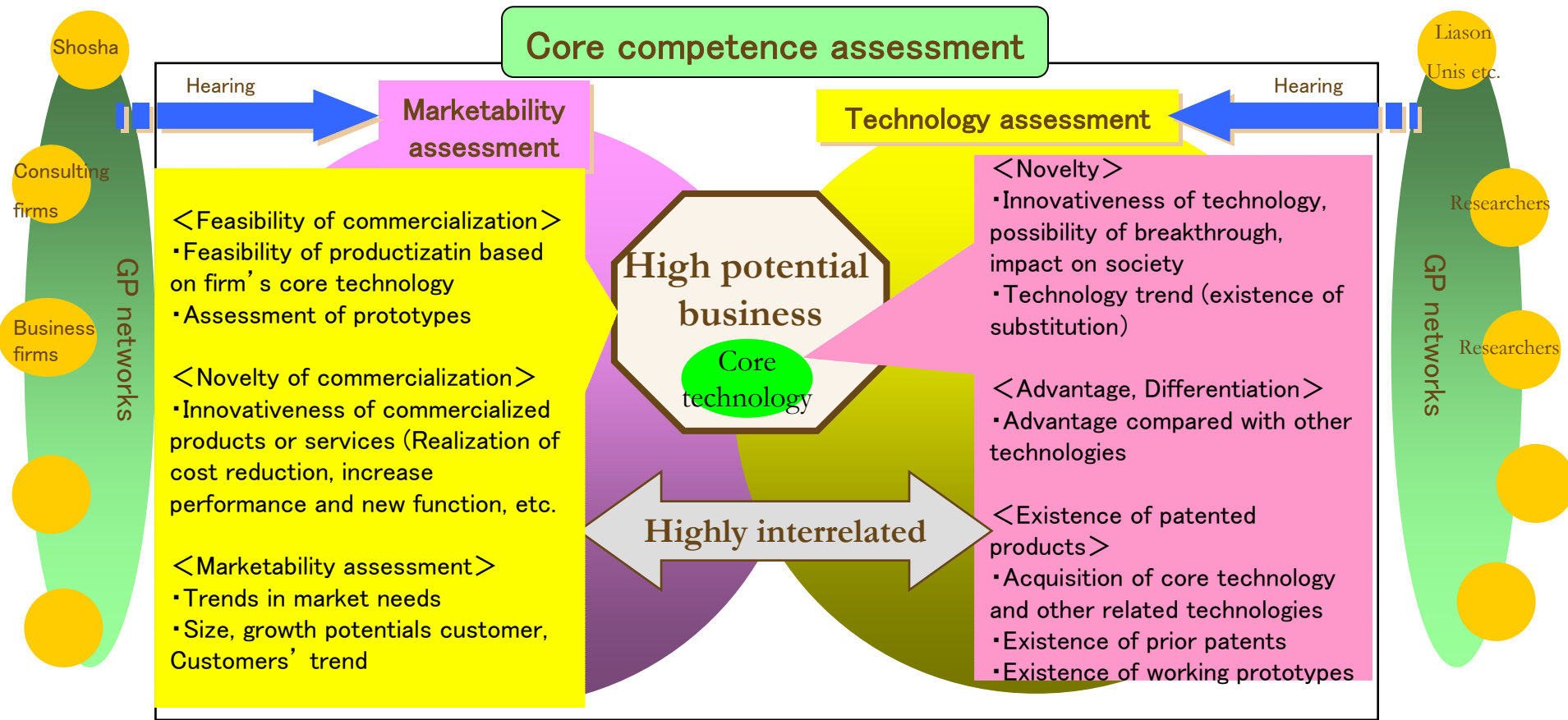
- Introduction from investors (limited partners)
- Use of regional networks (Cooperative research center at universities, collaboration with regional platform programs by prefectures, etc.)
- Participation in business plan contests organized by prefectures and other organizations
- Exposure in various media (Newspaper, magazine, TV etc.) and so forth



*** Emphasis on information from LG and the regions besides General Partners' (GP) self efforts**

- Expanding population of providers is important

3. Investment process II ~Due diligence



* Assessment of core competence and potential of the business from viewpoints of technology and marketability

→ Having 'outshining (= only one)' technology, product or BM is important

4. Investment process III ~ Judgment on investment

➤ Three important criteria for investment

- ① Contribution to society
- ② Business plan
- ③ Quality of CEO (Management team)

Details are:

Criteria	Key words
Contribution to society	Creation of economical and social value, increasing quality of life, improvement of environment, job creation, etc.
Business plan	R&D/commercialization strategy, marketing, fund-raising, profit plan, etc.
Technology	Comparative advantage, innovativeness (e.g. patent, technology and business model)
Marketability	Trend on market needs, market size, growth opportunities, competition
Management	Background of management team, credibility , performance, activeness, dispatch of an executive
Valuation	Appropriateness of acquisition value, profitability of investment, pay-back period, etc.
IPO	Draw clear roadmap towards IPO (* Other options)

5. Investment process IV ~ Hands-on support



- Support on improvement of business plan
- Formulation of capital policy, support on fund-raising
- Commitment on management through dispatch of an executive, etc.
- Support on obtaining intellectual property (Secure ‘only one’ position)
- Support on development of R&D strategy (Clarify roles between researchers and management team)
- Coordination of regional resources (various personal supports, physical supports, e.g. incubator)
- Introduction and placement of CEO, CFO, prospect sales persons and other staff
- Introduction of alliance partner (for product development, market development, etc.)
- Instruction on increasing firm’ s value, and direction towards IPO based on IR etc.

III Current investments and Future prospects

1. *Areas of investees*
2. *Cases of investment and key technology of investees*
3. *Cases of exit of investees*
4. *Success factors of university spin-off firms*

1. Areas of investees

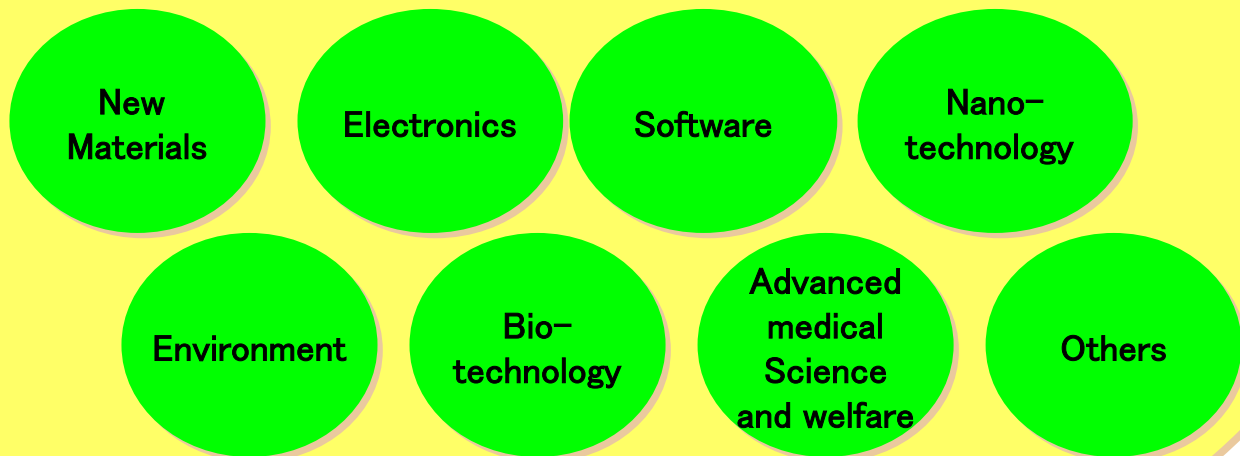
■ **Regional areas:** 7 pref. in Tohoku district

■ **Areas of investees:** Mainly high-tech oriented and high potential start-ups or firms on the early stage

Universities (Public & private)
College of technology
National administrative institutions
Public research institutions

Technology seeds, results of research, etc.

<Examples>



✧ Commitment on universities and other organizations is not limited to university spin-off firms, but covers variety of activities that include collaborative research and technical guidance with regional small and medium enterprises

2. Cases of investment and key technology of investees

(As of 31 January, 2006、Selected from 19 investees)

- Direct Communications Inc.** Hirosaki, Aomori Founded in September 2000
System to get high-definition images; such as histopathology form microscope based on image processing and analyzing technology and network technology (Collaborate with Hirosaki University)
- MEMS CORE Co. Ltd.** Taihaku-ku, Sendai Founded in December 2001
MEMS (Micro Electro Mechanical Systems) : High value-added devices that are used for significant parts of the system on the various fields. Those devices are made by micro processing technology that combine various technologies; such as, electronics, machinery, optics, material, etc.
(Collaborate with Tohoku University)
- Photoc Lattice Co. Ltd.** Aoba-ku, Sendai Founded in July 2002
「Photonic crystal」 : Multi-dimensional periodic structures at a submicron scale, which are artificial materials enabling unique optical functions and efficient integration for the next generation of the opto-electronics technology (Collaborate with Tohoku University)
- Institute of Acceleratory Analysis Inc.** Shirakawa, Fukushima Founded in March 1999
「Accelerator Mass Spectrometry」 : Technology to measure the three isotopes of carbon (^{14}C , ^{13}C and ^{12}C) in archaeological dating and drug concentration on biomedical samples
(Collaborate with Gakushuin University, etc.)
- DianaSun Diamond Co. Ltd.** Izumi-ku, Sendai Founded in October 2000
86 facets and 114 facets diamond based on their unique theory, which has twice as bright as existing ones, Currently application of laser-scopy light to medical use is researched
(Collaborate with Niigata University)

2. Cases of investment and key technology of investees (Cont.) (As of 31 January, 2006, Selected from 19 investees)

Produce Co. Ltd. (Listed on JASDAQ, December 2005) Nagaoka, Niigata Founded in June 1992
Develop external electrode application equipment for electrical components, compared with the existing products, their equipment has significant superiority with regard to response to down-sizing microchips and accuracy of painting (Collaborate with Nagaoka University of Technology)

Digital Powder System Inc. Aoba-ku, Sendai Founded in March 1999
Manufacturing and sales of digital powder, which is micron-sized and uniform ball
(Collaborate with Tohoku University)

Itrix Co. Ltd. Yonezawa, Yamagata Founded in December 2000
Research, development, manufacturing and sales of nano-inprint devices and ultra precision matching devices (Collaborate with Yamagata University)

GMC Hillstone Co. Ltd. Mogami, Yamagata Founded in March 1991
Development, manufacturing and sales of shaft shaped linear motor, “Shaftmotor”
(Collaborate with Yamagata University)

FineArch Inc. Aoba-ku, Sendai Founded in February 2000
Development and commercialization of low-power-consumption LSI compatible with next generation audio compression format (Collaborate with Tohoku University)

3. Cases of Exit of the investees

A. Produce Co. Ltd. (Nagaoka, Niigata)

Development of external electrode application equipment and test device

Investment on December 2004

⇒ Listed on JASDAQ 14 December 2005

B. IR Medical Laboratory Co. Ltd. (Koriyama, Fukushima)

Planning, research and development of medical devices for minimally invasive therapies

Investment on December 2004

⇒ Sold to GOODMAN Co. Ltd. (Listed on JASDAQ) on December 2005

4. Success factors for venturing firms

1. Do business in growth field
2. Obtain seeds to develop products for next and next-next generation
3. Own intellectual properties (e.g. patents)
4. Have management abilities of president and management team
5. Aim to IPO

☆ Tohoku Innovation Capital Corporation (T I C C)

■ Foundation: October 2003 ■ Paid-up capital: JPY50 million

■ Management team: President & Investment Partner, Ko Kumagai

Vice President & Investment Partner, Kazuyuki Igarashi

Director & Investment Partner, Shiro Takahashi

Non-Executive director, Shoichi Noguchi, Ph.D., Mitsuaki Tanno

Auditor, Akio Nishizawa, Prof.

Advisor, Yasutaka Iguchi, Prof.

☆ Tohoku Incubation Finance Limited Partnership (T I F)

■ Foundation : 25 March 2004

■ Total amount of fund: JPY3180 million

■ Partners:

(Limited partners) : Tohoku Intelligent Cosmos Research Institute Co. Ltd. (80)、
The 77 Bank Ltd. (10)、The Shonai Bank Ltd. (10)、
Sendai City Industrial Promotion Organization (20)、The Toho Bank (10)
Tohoku Economic Federation (5)、Tohoku Electric Power Co., Inc. (50)
Development Bank of Japan (100)、Miyagi Organization for industry promotion (20)、
The Yamagata Bank Ltd. (5)、
Yamagata public corporation for the development of industry (5)

(General Partner) : Tohoku Innovation Capital Corporation (3)

※ Number in () means an amount of investment : Unit JPY 10 Million