

Establishing JIC Private Equity

2020.9.9

1. Introduction

JIC aims to generate a virtuous cycle of risk capital to support next-generation industries in Japan. To achieve this vision, JIC promotes open innovation as a means of supporting growth and enhancing international competitiveness of businesses. JIC approaches these challenges by stimulating private sector investments in open innovation together with JIC's own investment while fostering investment professionals.

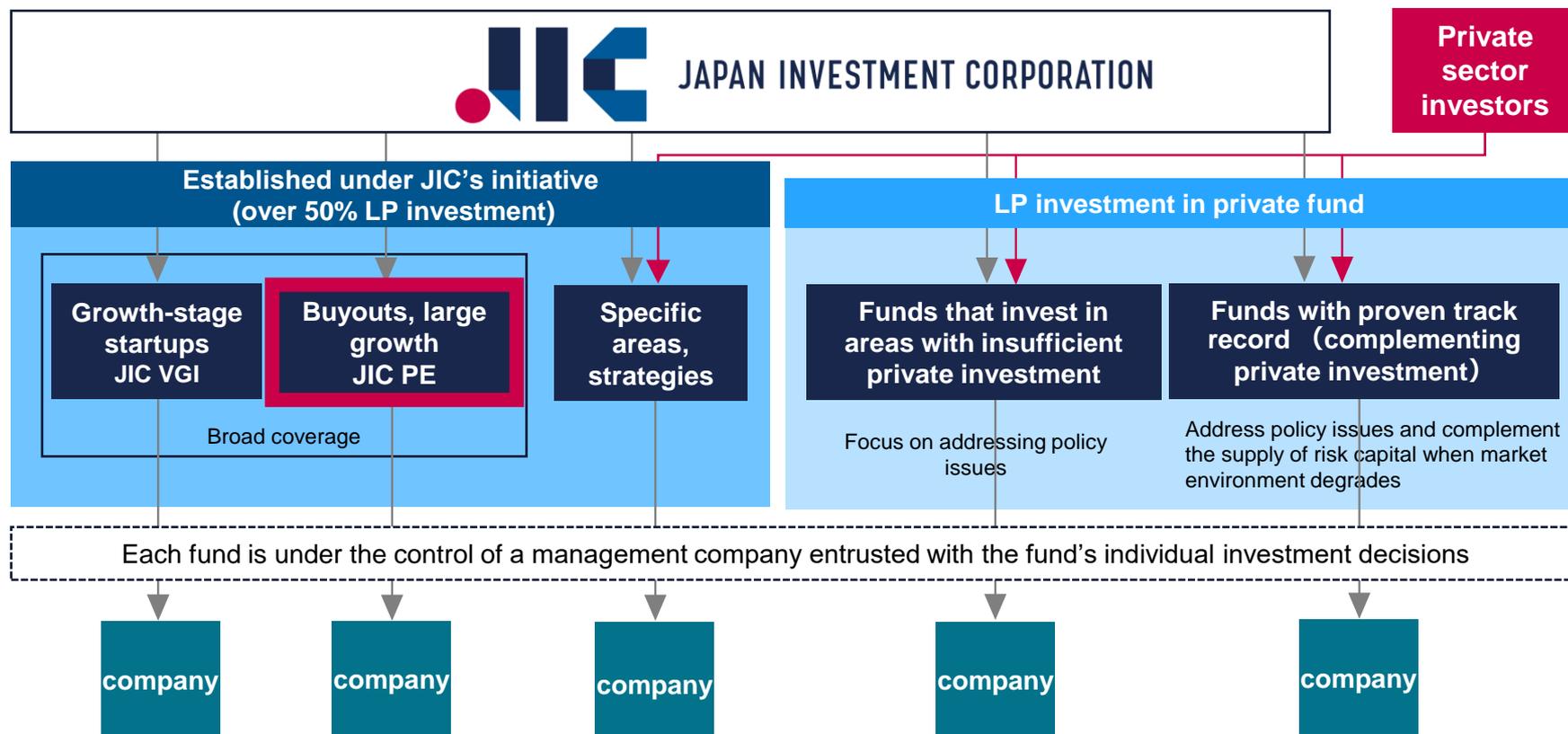
(1) Enhance the growth of next-generation companies and competitiveness



(2) Build a foundation for the establishment of a virtuous cycle of risk capital in Japan



- JIC invests in funds established under JIC's initiative and in private sector funds
- JIC PE is established under JIC's own initiative
- JIC will continue to consider investments based on its funds' strategy and its principle of complementing the private sector.



- JIC Private Equity (JIC PE) aims to **create new businesses and industries to realize Society 5.0, enhance the international competitiveness of Japanese industries by promoting structural reform of industries, and supply risk capital to establish next-generation social infrastructure for promoting digital transformation.**

Limited supply of risk capital from the medium-to long-term and industry policy perspective

Issues common to the industry, such as **DX, sustainable society, and capturing overseas markets**

JIC PE investment targets

Investment in “emerging sectors”, driving creation of new industries

Investment in “maturing sectors”, driving large-scale business consolidation

- Shogo Ikeuchi, CEO of JIC Capital, Ltd., the management company of JIC PE, is experienced in implementing **business model transformation through DX** and in **investing in new business areas at both domestic and international companies**. He and his team will be in charge of executing fund investments.



Shogo Ikeuchi
Representative Director,
President & CEO

Bio:

Graduated from Kyoto University Graduate School of Engineering

- 1988: Joined Recruit Co., Ltd. (currently Recruit Holdings Co., Ltd.)
- 2005: (as above) Executive Officer - Corporate planning and Corporate strategy
- 2012: (as above) Board Member and Executive Officer - Asia at Global Headquarters, Corporate Planning and HR Support
- 2012: (as above) Board Member and Executive Officer - Global Headquarters, Corporate Planning, R&D, HR
- 2013: (as above) Board Member and Executive Director - Medium- to Long-term Strategy, International Business, R&D, Corporate Planning and HR
- 2014: (as above) Board Member and Executive Director - International Business and R&D
- 2015: (as above) Board Member and Executive Director - R&D, Corporate Planning and HR
- 2016: (as above) Board Member and Senior Executive Director - Corporate Planning, HR and R&D
- 2017: (as above) Board Member and Senior Executive Director - Corporate Planning and HR
- 2017: (as above) Board Member and Senior Executive Director - Corporate Planning (CSO) and HR (CHRO)
- 2019: (as above) Board Member and Senior Executive Director - HR and General Affairs (CHRO)
- 2020: (as above) Advisor (current position)

Experience:

Experienced in new business development and overseas expansion at a global company. Has held senior positions in management planning and human resources. Possesses deep management insights.

Other positions and memberships:

- Outside Director, Sony Financial Holdings Inc. (current position)
- Outside Director, AnyMind Group (current position)
- Member, Cabinet Office Structural Reform Evaluation Report Task Force
- Member, METI HR Management Study Group for Strengthening Management Competitiveness

2. About JIC PE

- JIC PE aims to achieve both a financial return and policy objectives of creating new businesses and new industries to realize Society 5.0, enhancing the international competitiveness of Japanese industries, and structural reform of industries through the supply of large-scale, long-term, neutral capital.

■ Size of fund	JPY 200bn (in addition, a separate JPY 200bn co-investment fund with JIC is established)	Investment strategy	- Buyout (industry consolidation, carve out, acquisition) - Growth - Next-generation social infrastructure
■ Structure	Investment LPS	Investment method	Direct investment
■ Governing law	Limited Partnership Act for Investment	No. of investments	Approx. 10 investments
■ General Partner (GP)	JIC Capital, Ltd.	Average investment amount per deal	JPY 10bn to 40bn* Will also consider investments of JPY 100bn scale by drawing on the co-investment fund
■ Limited Partners (LP)	- Japan Investment Corporation (JIC) - PEF1 Officers and Employees Investment Limited Partnership (“PEF1 OEILP”)		
■ Management period	10 years (two one-year extensions possible subject to LP agreement)		
■ Investment period	5 years (shorter term possible subject to LP agreement)		

*Investment committed by the main fund (excludes investment by co-investment fund)

- JIC PE will pursue majority acquisitions with a view to industry restructuring and business portfolio transformation in post investment phase(primarily within Japan).
- JIC PE will also engage in joint overseas acquisitions to promote the global growth of Japanese companies.

<Japan> Promote industry transformation to a robust structure through selection and concentration

- Promote business portfolio transformation through business carve-outs from and/or supporting post acquisition roll-up in domestic industries with many incumbents,
- Aim for future structural reform of industries and integration
- Consider joint investment with domestic companies and private-sector funds on large-scale investments

<Overseas> Support the global growth of Japanese companies through joint investment in overseas business resources

- Support the development of global leaders by strengthening the global competitiveness of Japanese companies and promoting consolidation and restructuring both domestically and internationally.

<Target companies>

- Companies with a large potential of improving efficiency by consolidation in crowded/mature domestic markets
- Business units/subsidiaries of conglomerates with growth potential, but which are currently not positioned as core business and thus do not get sufficient resources allocated (HR, funding)
- Companies with potential to strengthen their international competitiveness through overseas M&A, but hesitant to engage in M&A alone due to lack of funding/M&A experience and concerns around risks.

- JIC PE will pursue minority investments in high-growth Japanese and overseas companies with the aim of creating global leading companies with Japanese origin, bringing overseas business resources to Japan, and supporting the global expansion of Japanese companies.

<Japan>

- **Create global leading companies of Japanese origin with superior technology and business models**
 - Support the organic growth of companies and businesses with large-scale capital need and the inorganic growth of portfolio companies through roll-up M&A of foreign and domestic companies

<Overseas>

- **Bring leading overseas business resources to Japan to strengthen its industrial base**
 - Main targets are B2B players with digital or decarbonization / energy saving technologies or business models that can contribute to the realization of Society 5.0
- **Promote business collaboration between Japanese companies and start-up companies overseas through joint investments**
 - Provide overseas expansion opportunities to Japanese companies, in particular SMEs with little or no experience in going overseas and to manufacturing companies with critical need for new technologies / business models
 - (1) Carve-outs: Non-core business units / subsidiaries of conglomerates with growth potential and capital needs, that receive limited resource allocation (HR and capital) from the group
 - (2) Medium-sized companies in need of growth capital / restructuring of its shareholder base
 - (3) Growth companies at the growth or pre-IPO stage

- JIC PE will pursue investment that aims to establish new social infrastructure in areas such as telecommunications and renewable energy where risk capital is currently limited.
- JIC PE also aims to support the overseas expansion of Japanese companies.

<Domestic> Development of robust, next-generation social infrastructure

- Support Japanese companies seeking risk capital for the development and operation of a new layer of social infrastructure
- Investment focus will be 1) telecommunications (data centers, etc.) where domestic demand is expected to grow due to digitalization including 5G, IoT, etc. and 2) important areas of government growth strategies such as renewable energy

<Overseas> Support the global growth of Japanese companies through joint investments in overseas business resources

- Support Japanese companies to capture new overseas markets, acquire know-how and expertise in advanced business models employed overseas
- Main target areas include 1) telecommunication (data centers, etc.), 2) areas where overseas players are leading the industry with superior technologies/resources e.g. renewable energy related businesses and 3) other areas targeted as a part of the global strategy of Japanese companies

- The supply of risk capital remains limited from the perspective of industrial policy and of medium- to long-term enhancement of industrial competitiveness in Japan. Some challenges are industry-specific, while others are common across industries.

1

Industry-specific challenges

Structural issues **due to limited large-scale, long-term risk capital supply**

(Ex.)

- **Changes needed in IT services industry**
 - Lagging behind overseas peers in advanced technologies and business models
- **Changes needed in mobility industry**
 - Industry transformation is needed to stay competitive in the CASE era
- **Structural changes needed in manufacturing and chemical materials industries**
 - The industry is overcrowded both in SME and large cap, making it inefficient. Structural changes would be needed to enable growth
- **Development of socio-economic infrastructure; harnessing innovation**

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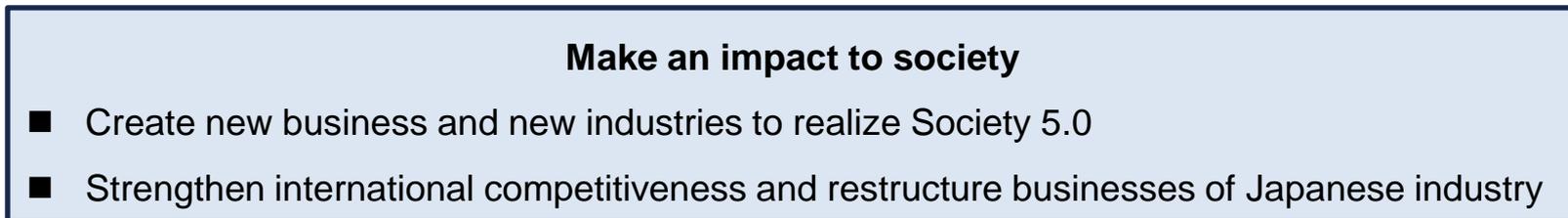
Cross-industry challenges

Common challenges among Japanese industries are **'Realization of Society 5.0' (as per the government's growth strategy)**, society level issues such as **ESGs**, and **overseas expansion of mid-sized companies**

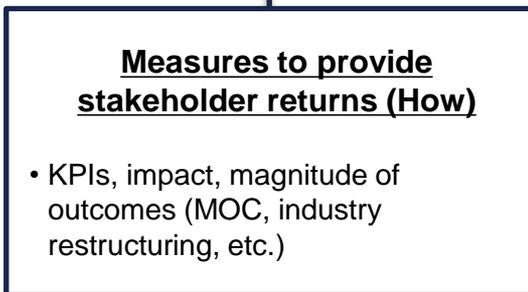
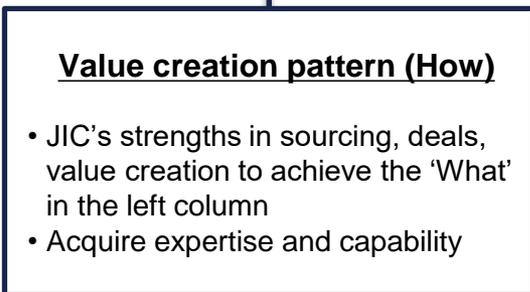
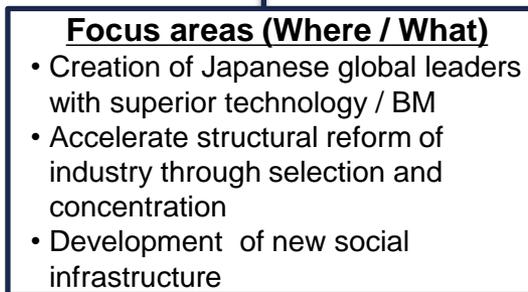
(Ex.)

- **Promotion of digital transformation**
 - Promote the shift from price competition to competing on added value by incorporating cutting edge digital technology and digital platform companies
- **Realization of a sustainable society**
 - Realize a positive cycle of environment and growth, including decarbonization, through business-led, discontinuous innovation
- **Capture overseas markets**
 - Capture overseas demand through overseas business development by SMEs

Purpose



Value Proposition



Operating Model



Reference

Global DX* trends

Resolution of domestic and global social issues

Enhance Japan's industrial competitiveness to ensure the sustainable development of the economy

Industrial and economic revitalization is needed
Creation of new growth companies and bold business restructuring

Domestic challenges

The supply of risk capital in Japan is highly insufficient compared to other countries

JIC's role

Secure the funds and investment talent and to generate a virtuous cycle of risk capital

* DX (Digital Transformation): Companies are responding to disruptive changes in the external ecosystem (customers, markets) and driving the transformation of the internal ecosystem (organization, culture, employees), while using the Third Platform (cloud, mobility, big data/ analytics, social technology) to create value and establish a competitive advantage by transforming the customer experience both online and offline through new products and services and new business models.

(Sources: METI Study Group for Digital Transformation, DX Report: Overcoming the IT System cliff in 2025 and Full-scale Deployment of DX, September 7, 2018; Japan IT Market Top 10 Predictions for 2018; Transforming into a Digital Native Company, Dramatically Expanding Innovation in the DX Economy, IDC Japan Press Release, December 14, 2017)

- Executives and employees of JIC and authorized funds strive for top-level performance, maintaining a high standard of ethics and adhering to the Code of Conduct below.
- General partners jointly investing with JIC are also expected to respect this Code of Conduct.

Integrity & Discipline

Excellence & Professionalism

Accountability & Responsibility

Respect & Teamwork

Types of Investments pursued by JIC



Manager	Strategy	Investment candidates	LP investment stake	Investment amount per fund	Complementation of private sector investment
Investment management company established under JIC's initiative	Broad coverage	One VC and one PE fund	First fund: JIC 100% Second fund onwards: JIC + External investors	VC: JPY120 bn, PE: JPY 200 bn (+joint investment fund JPY 200 bn)	<ul style="list-style-type: none"> Follow policy issues and invest in sectors, stages, and strategies where private investment is insufficient
	Specific areas, strategies	Considers multiple areas	Less than 100%	JPY10s of billions	
Private-sector investment management companies	Sectors and strategies where private investment is insufficient Ex: Life sciences, materials, manufacturing, regional areas, etc.	Funds that can expect to receive capital from institutional investors now and in the future	Evaluated on a case-by-case basis	JPY10s to JPY100s of billions	<ul style="list-style-type: none"> Invest in areas where private investment is insufficient Supply risk capital to proven funds to address the shrinking of LP capital Complement and serve as a catalyst for private sector investment
	All areas in which JIC invests	Funds with a proven track record (address reduction in new commitments by LPs)			