

## Watervein Partners

Venture capital firm building up a network of leading scientists as competitive advantage

[www.watervein.jp](http://www.watervein.jp)

Watervein Partners  
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JAPAN

Founded in: 2003  
No. of employees: 4  
State of Ownership: private  
Primary stock exchange: N/A

**September 2009:** Watervein Partners is one of the few venture capital (VC) firms specialized in investing in early stage biotech ventures in Japan. The firm works with a close-knit network of preeminent scientists from both academic institutions and industries.

Venture Valuation (VV) interviewed Mr. Tetsuya Mishima, Partner.



### VV: Would you please introduce your firm and describe its business model?

Mishima: Watervein Partners was established in September 2003 with a fund, Watervein Technology Investment Fund I of 2.3 billion JPY (approx. 23 million USD). The Fund was formed with the Development Bank of Japan along with several other LPs (Limited Partners). We invest the Fund mainly in university spin-off biotech ventures through 2013.

We are an independent VC firm. This means that we are not associated with financial institutions or large corporations. In Japan, around 80% of VC firms are subsidiaries of securities companies, banks, insurance companies, and other big companies. The independent VC firms represent around 13% of the total VC industry. Even lower is the number of independent VC firms specializing in life sciences.

Our firm has developed a broad network of brilliant scholars and outside-the-box thinkers in universities, research institutes, and industries. It is one of our competitive advantages. The close relationship with these scholars helps us identify and evaluate innovative technologies that have the potential to generate high commercial returns. We coach entrepreneurs and support creation of companies, nurture them at an early stage, and so add skills as well as capital.



Our investment selection method, therefore, differs from the conventional screening and evaluation process that focuses on specific criteria such as business plan, interviews with management, etc. For the purpose of increasing the probability of investment success, we thoroughly value scientific and technological advantages along with market opportunities which potentially realize higher rates of return.

Companies in our current portfolio are Anaeropharma Science, CellGenTech in the biologics and cell therapies fields, Interprotein and KinoPharma in the small molecule drug discovery field, PerioDock in the healthcare technology field, and NalaPro Technologies in the bioinformatics field.

**VV: What are your objectives in the future?**

**Mishima:** In order to expand our portfolio, we plan to create a few more funds in the future. Foreign investors are welcome. We have only one LP from the U.S. in our first fund. In Japan, investment from abroad amounts to only 3% of the total VC industry. This year's tax reform effective on April 1<sup>st</sup> offers significant tax relief to foreign investors. It may encourage them to make more investments in Japanese companies through VC funds. (Additional information is available at [http://www.jetro.go.jp/en/invest/newsroom/detail/pdf/tax\\_reform\\_e.pdf](http://www.jetro.go.jp/en/invest/newsroom/detail/pdf/tax_reform_e.pdf))

**VV: What do you observe in the medical science research field in Japan?**

**Mishima:** According to a study analyzing data between 1995 and 2000 in Medline (the world largest database that provides the summaries of articles from over 3,900 journals covering all areas of biomedicine), Japan ranks second after the U.S. in terms of the total number of articles.

With regard to the number of basic science articles (see Table 1), Japan is ranked fourth in 2000 after the U.S., U.K., and Germany. However, the number of clinical study articles is much smaller. Japan is ranked 11<sup>th</sup>.

Basic research has traditionally been considered more important than clinical research in Japan. This environment has encouraged excellent basic research. On the other hand, some factors retarding the progress of clinical studies are, for instance, relatively small grants to conduct clinical research, lack of skilled workers, insufficient education system for training clinical study specialists, legislative restrictions, and so on.

Country	Basic science Articles		Clinical Articles	
	1991 n=1786	2000 n=3080	1991 n=2857	2000 n=2668
United States	69.7 (1)*	58.3 (1)	60.0 (1)	52.1 (1)
United Kingdom	8.0 (2)	9.9 (2)	16.2 (2)	17.1 (2)
Germany	4.4 (3)	4.9 (3)	0.8 (8)	1.3 (6)
Japan	2.6 (5)	3.7 (4)	0.5 (14)	0.8 (11)
France	3.5 (4)	3.3 (5)	1.1 (5)	1.3 (6)
Canada	2.6 (5)	3.2 (6)	2.1 (3)	3.3 (3)
Netherland	0.6 (11)	1.5 (8)	1.2 (4)	1.6 (4)

Table 1: Share of Top Ranking Countries for Basic Science Articles and Clinical Articles (Source: Report 2B15 published by The Japan Society for Science Policy and Research Management, October 21, 2006)

\*indicate the ranking among the countries.

Given these conditions, Japan's biotech ventures and pharmaceutical companies tend to conduct clinical trials abroad frequently in the U.S.

Legislative restrictions are a challenge. It is a question of mutual communication and understanding between the Ministry of Health, Labour, and Welfare (MHLW) and industries, and academic institutions as well. We expect MHLW to stay consistently informed and consulted about new technologies and current research trends. The regulations will be modified and updated accordingly.

**VV: What kind of trend do you observe in biotech ventures in Japan?**

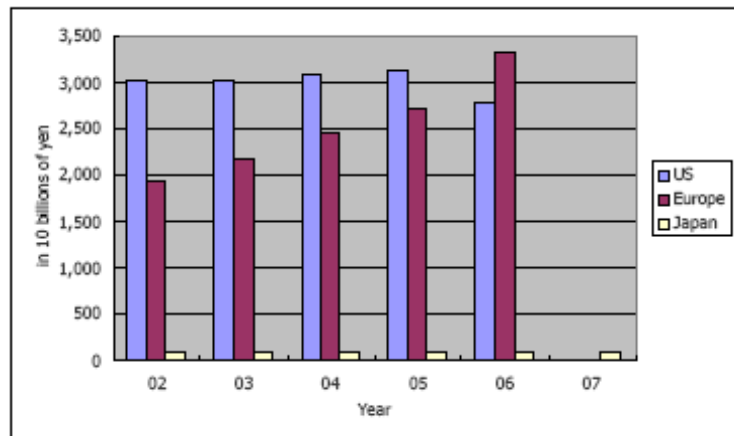
**Mishima:** Major pharmaceutical companies are beginning to open the door to biotech ventures in Japan. It is likely that they will eventually play an important nurturing role for biotech ventures and help them grow. In the past, pharmaceutical companies rather explored collaboration opportunities outside Japan. Because most biotech ventures in Japan were started by university professors, they lacked business know-how and professionalism. The pharmaceutical companies were, therefore, reluctant to work with them.

**VV Comments after the Interview:**

Watervein Partners is a leading biotech venture capitalist in Japan. The firm has developed an appropriately structured investment model which fits in a limited scale VC funding environment. It targets on the crème de la crème of early stage technologies; the investment amount is therefore proportionally small yet potentially generates high returns.

According to the Venture Enterprise Center in Japan, the annual VC investment is around one trillion JPY, approximately 10 billion USD. Compared to the U.S. and Europe, VC funding is extremely undersized (see Graph<sup>1</sup>). The Center reported as of March 2005 that 23.5% of the VC funds, which is 235 billion JPY (roughly 2.3 billion USD), were invested in the biotechnology, medical devices and equipment, and healthcare services and technology.

As stated by the Center's January 2009 report, VC funding per biotech venture was on average 352 million JPY (approx. 3.5 million USD). An average of 19 VC firms invests in a biotech venture.



(source: Venture Enterprise Centre, released 15 Jan 2008. The data cited NVCA 2007 Yearbook, 2007 EVCA Yearbook etc)

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Venture Valuation specializes in independent assessment and valuation of technology-driven companies in growth industries, such as the Life Sciences (Biotech, Pharma, Medtech), ICT, high-tech, Nanotech, Cleantech and Renewable energy. In addition to valuation products, Venture Valuation offers high-quality, focused information services like the Global Life Sciences Database, Biotechgate.com and this "Let's Interview Series" with leading Life Sciences companies. We select and interview thriving companies and organizations all over the world.

<sup>1</sup> Graph "The Balance of VC Investment" shown in the report of the British Embassy of Tokyo dated April 2009