Japanese Trading Companies as a Funding Source

Prepared by: Peter Bastien
Toyota Tsusho America
Sogo Shosha: Japanese General Trading Company

- Large and highly diversified Japanese general trading companies
- Broad international reach
- Serve as intermediaries in import/export operations
- Provide risk mitigation
- Act as information gathers and consultants
- Make investments and provide financing

Toyota Tsusho is the trading company (Sogo Shosha) for the Toyota Group
Major Japanese Trading Companies (+ Honda!)
## Venture Capital Activities of Major Japanese Corporations

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<th>Parent</th>
<th>Name</th>
<th>Type</th>
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<td><strong>Toyota Tsusho</strong></td>
<td>Toyota Tsuchso (Japan + USA)</td>
<td>Strategic Investing</td>
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<tr>
<td><strong>Mitsui</strong></td>
<td>Mitsui &amp; Company Venture Partners</td>
<td>Traditional Venture Capital</td>
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<td>Mitsui Incubase</td>
<td>Strategic Venture Capital</td>
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<td>Mitsubishi Capital</td>
<td>Strategic Venture Capital</td>
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<td></td>
<td>Mitsubishi is LP (Venture Capital)</td>
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<td>Nanotech Partners</td>
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<td><strong>Itochu</strong></td>
<td>Horizon Ventures</td>
<td>Traditional Venture Capital</td>
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<td></td>
<td>Itochu Technology, Inc</td>
<td>Strategic Venture Capital</td>
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<td><strong>Nissho</strong></td>
<td>Entrepia Ventures</td>
<td>Traditional Venture Capital</td>
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<td><strong>Sumitomo</strong></td>
<td>Presidio STX</td>
<td>Traditional Venture Capital</td>
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<td><strong>Marubeni</strong></td>
<td>Marubeni America Corporation</td>
<td>Strategic Venture Capital</td>
</tr>
<tr>
<td><strong>Honda</strong></td>
<td>Honda Research Institute</td>
<td>Strategic Venture Capital</td>
</tr>
</tbody>
</table>
TOYOTA GROUP

- Toyota Tsusho
- Daihatsu
- Denso
- Toyota Industries
- Hino Motor
- Toyota Boshoku
- **Toyota Motor**
- Toyota Central R&D Labs
- Aichi Steel
- Kanto Auto Works
- JTEKT
- Toyoda Gosei
- Towa Real Estate
- Aisin Seiki
- Toyota Auto Body

- Highly Automotive-centric
- Toyota Tsusho, as a general trading company, is much more diversified than the other group companies
- Toyota Group companies are shareholders in Toyota Tsusho, but that does not preclude them from doing business with other trading companies… it is a competitive environment!
Company Data

- Name .............................................. Toyota Tsusho Corporation
- Established ................................. July 1st, 1948
- Corporate Delegate ......................... Junzo Shimizu/President
- Capital .............................................. 64.936 billion Yen (As of March 31, 2008)
- Major Share Holders ....................... Toyota Motor Corporation 21.57%
                                         Toyota Industries Corporation 11.12%
- Consolidated Net Sales ............... 7 Trillion Yen (USD 71 Billion)
                                         (As of March, 2008)
- Consolidated Recurring Profit ...... 142.9Billion Yen (USD 1.4 Billion)
                                         (As of March, 2008)
- Number of Employees ................. Parent Company: 2,986
- Business Activity ........................ Import and Export, Foreign Trade, Domestic
                                         Wholesale, Insurance Agency, etc.
1936 - Toyoda Kinyu Kaisha was established to provide consumer financing for TOYOTA automobiles.

1948 - The trading division of Toyoda Sangyo Kaisha is established as a separate company (now Toyota Tsusho Corp.) under the name Nisshin Tsusho Kaisha, Ltd.

1956 - Company name changed to Toyoda Tsusho Kaisha, Ltd.

1960 - Established its first overseas subsidiaries, Toyoda New York, Inc.

1961 - Stock listed on the second section of the Nagoya Stock Exchange.

1964 - Began exporting Toyota vehicles, starting with the Dominican Republic

1987 - Company name changed to Toyota Tsusho Corporation.

1999 - Business tie-up with Kasho Company, Ltd.

2000 - Capital investment and business tie-up with Tomen Corporation.

2006 - Merger with Tomen Corporation.
Six Main Product Areas

- Metals
- Machinery & Electronics
- Automotive
- Energy & Chemicals
- Produce & Foodstuffs
- Consumer Products, Services & Materials
Research And Business Development In Various High Technology Sectors

1) Source new technology companies to compliment and expand Toyota Tsusho’s existing business
   – Mainly for export business, but growing interest for domestic business
   – Distribution / Licensing / Joint ventures / Acquisitions / etc.

2) Support other Toyota Tsusho technology business development initiatives
   – North American market research (technology sectors)
   – Company contact / analysis / negotiation etc.

3) General Logistical Support for the Boston Area
   – Act as Boston liaison for Toyota Tsusho business interests
   – Partner company support
**Investment**

– Use investment as a business development tool
– Support operating divisions with their investment objectives
– Invest in VC firms to increase information flow
– Possible direct investment functions in the future

**Networking**

– Venture capital community / University labs / Entrepreneurs
– Trade shows / venture capital & entrepreneurial conferences

**Research**

– Journals / Online news / Consultants / Tradeshows / RSS Feeds
Current Venture Capital Fund Investments - (1) Globespan

Sponsored by Toyota Tsusho
Japan and Toyota Tsusho
Americas’ Machinery &
Electronics Group

Globespan targeted IT sectors

Communications

- Optical components
- Electrical components
- Systems
- Software
- Service providers

Internet infrastructure

- Content distribution
- Service providers
- Electronic commerce
- Optimizers

Software

- Enterprise
- Tools
- Productivity
- Consumer

Systems & peripherals

- Storage
- Semiconductors

Alternative Energy

- Solar
- Biofuels

Alternative Energy

- Solar
- Biofuels
Current Venture Capital Fund Investments - (2) Pangaea

Sponsored by Toyota Tsusho America’s Chemical Group
Toyota Tsusho Investment Details

- 5+ year business plans determine direction (target sectors etc.)
  - Diversification from the automotive industry is a primary objective
  - Diversification is through growth (we expect to grow in automotive too!)

- Worldwide network to identify appropriate partners
  - May be opportunistic, as most Toyota Tsusho staff have multiple responsibilities
  - Most activities in Japan and the USA

- Once identified, a business unit must sponsor any investment
  - Toyota Tsusho does not have a central fund, but relies on the budgets of our operating divisions
  - The complexity of the approval process depends on the investment amount but always requires sign-off from headquarters (Japan)

- Investment criteria is not standardized, but is generally from $100k to $5M, and is always strategic

- Investees usually have product or are within one year of commercialization
<table>
<thead>
<tr>
<th>Company:</th>
<th>Rapid Prototyping Start-up (3D printing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source:</td>
<td>Trade-show</td>
</tr>
<tr>
<td>Purpose of Investment:</td>
<td>Enter a new market required the forming of a close relationship to secure exclusive distribution in Japan</td>
</tr>
<tr>
<td>Sponsor:</td>
<td>Tokyo Machinery Division</td>
</tr>
<tr>
<td>Amount Invested:</td>
<td>$1M common shares (at most recent funding valuation)</td>
</tr>
<tr>
<td>Company / Tech Stage:</td>
<td>Beta product (immediately prior to mass production)</td>
</tr>
</tbody>
</table>

**Comment:** Relationship remains strong today even though the company has been sold (M&A exit for Toyota Tsusho). Having the investment helped align the interest of senior management to place priority on making a success of this new business. It also entitled Toyota Tsusho access to financial data to evaluate the progress of the company.
Company: Industrial bio-tech materials company (bio-based succinic acid)

Source: Boutique investment bank (co-investor)

Purpose of Investment: Part of a company-wide goal to go green and diversify our business

Sponsor: Business Development Group (Energy)

Amount Invested: ~$3M common shares as part of syndicate with investment partnership managed by boutique investment bank

Company / Tech Stage: Lab-proven, required plant for mass production

Comment: Plant funding and subsequent capital raises proved difficult, but a plant was constructed last year. The investment itself has not solidified the relationship due to the lower percentage of ownership and the lack of an established market in Japan that we can leverage. We are still optimistic about the product even though the timeframes have been shifted.
Toyota Tsusho’s Past and Current Investment Process Examples

Company: Electronic materials (solder for hard-to-bond-to (i.e. surfaces))
Source: Close company consultant is founder
Purpose of Investment: New business development
Sponsor: Chemical Division
Amount Invested: <$1M common shares (negotiated valuation)
Company / Tech Stage: Small-scale production quantities

Comment: This investment represents a larger % ownership than are usual due to the early stage of the company. Our Chemical Division holds a board seat and is lending it’s marketing acumen to identify customers for this innovative technology.
Toyota Tsusho’s Past and Current Investment Process Examples

Company: Wind turbine component maker (towers)

Source: Close company consultant is founder

Purpose of Investment: Synergy with our Steel Division (selling steel) and our partner company (Wind farm developer)

Sponsor: Steel Division

Amount Invested*: $5M preferred shares (lead investor / negotiated valuation)*

Company / Tech Stage: Patents on design / plans for factory / early marketing

Comment: This is a low-tech investment example where Toyota Tsusho can vertically integrate (Steel – Wind Towers – Wind Developer). We are also very interested in vertically integrating within the solar business, where we may start on the systems integration level.

*Term sheet out – not finalized
Toyota Tsusho’s Past and Current Investment Process Examples

<table>
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<tr>
<th>Company:</th>
<th>Lithium-ion battery maker</th>
</tr>
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<tbody>
<tr>
<td>Source:</td>
<td>VC partner recommendation</td>
</tr>
<tr>
<td>Purpose of Investment:</td>
<td>Expand our energy business (we have investment in Li-Ion company in Japan that is targeted for a separate application)</td>
</tr>
<tr>
<td>Sponsor:</td>
<td>Energy Materials Group</td>
</tr>
<tr>
<td>Amount Invested*:</td>
<td>~$1M preferred shares (syndicated w/ VC partner at their negotiated valuation)*</td>
</tr>
<tr>
<td>Company / Tech Stage:</td>
<td>B Round</td>
</tr>
</tbody>
</table>

Comment: We have relationships with major battery makers in Japan. We also have close ties to Toyota Motor’s battery group, and understand their requirements. So we are in a position to evaluate the US start-ups using these partners. We also plan to joint venture for manufacturing in Asia with our partners.

*Term sheet out – not finalized
List of Current Activities / Areas of Interest

- Advanced Materials
  - Power electronics (GaN, SiC etc.); LED; LCD; etc.

- Energy Storage
  - Battery materials (cathodes / electrolytes etc); Battery systems; Ultracapacitors; Hydrogen

- Solar
  - Raw materials (quartz → solar grade Si); Cells (multi-junction CIGS); Integrator

- Nano
  - Currently evaluating nano metallic oxides; various carbon nanostructures and other materials

- Water
  - Toyota Tsusho is aiming to expand its clean water business
Peter Bastien

Toyota Tsusho America
15 New England Executive Park Dr.
Burlington, MA 01803

phone: 781 685 4640
email: peter_bastien@taiamerica.com
THANK YOU

Peter Bastien
Toyota Tsusho America - Boston