

New Growth Ventures Will Soar with Government Assistance

By Tsuchimoto Tatsuya

The Ministry of International Trade and Industry (MITI) is now providing assistance to new growth ventures that have developed promising new technologies and know-how. The assistance is provided under the new business law (the Law on Temporary Measures to Facilitate Specific New Businesses). New growth ventures recognized by the Minister of International Trade and Industry under this law as eligible to receive government assistance can obtain various forms of help. (As regards the details of the law and the assistance provided under it, please refer to the attached chart.)

Many entrepreneurs who want to set up new growth ventures or expand existing ones experience problems such as the following:

- (1) They have excellent technologies, but their technologies are not familiar—and therefore not trusted by the public.
- (2) They cannot raise funds with which to use their technologies for industrial purposes, because they lack assets to offer as collateral.
- (3) They cannot attract investors when they want to establish companies or increase their capital.
- (4) They cannot secure able people when they want to develop enterprises.

The above law contains measures to help them overcome these problems.

More than 110 new growth ventures so far have been accredited as eligible to receive assistance under the law.

The Industrial Structure Improvement Fund, a special public corporation, stands surety for a loan of 80% of the necessary funds, with a maximum limit of ¥1.5 billion when a new growth venture wants to obtain a loan to start a new project. By means of the New Business Investment Co. Ltd., the Industrial Structure Improvement Fund finances and guarantees loans of up to ¥200 million (the limit being 30% of the paid-in capital). New growth ventures that are scheduled to go public in the future can use the stock option sys-

tem (director and employee rights to buy shares of their company) as a means to secure able people. At present, more than 40 new growth ventures are accredited to use the stock option system. The stock option system generalized under the Commercial Law allows the directors and employees of ordinary business corporations to buy, as a group, up to 10% of the total shares issued, but the directors and employees of new growth ventures accredited to receive assistance under the new business law can buy, as a group, up to 30% of the total shares, three times as many as ordinary business corporations. Moreover, directors and employees who exercise stock options can enjoy a tax privilege. A tax of 26% (a 20% income tax and 6% resident tax) is imposed on the capital gain, under the separate taxation system based on an income tax return, when the shares purchased under the stock option system are sold and a capital gain arises, not when the stock option

is exercised. As a result, they can avoid the unreasonable tax which would otherwise be imposed when the stock option is exercised but no income has yet been generated.

Moreover, accredited new growth ventures can enjoy another tax privilege: they can carry over deficits for seven years.

Here, I want to introduce some of the unique new growth ventures and those that are doing very well among the accredited companies.

First, I will introduce SNOVA Co. Ltd., recognized as eligible for assistance under the said law on September 29, 1994. SNOVA was established in April 1992 with paid-in capital of ¥153.7 million. Its sales in fiscal 1996 (the year ended March 31, 1997) totaled ¥580 million. SNOVA's business is in the applied field of man-made snow by using ice core grains. Using man-made snow based on a special water-absorbing polymer, the company designs and constructs



Popular spot for the young and families: Indoor artificial skiing ground where SNOVA artificial snow is used

Details of the Law on Temporary Measures to Facilitate Specific New Businesses

Specific new businesses

- (1) Production of a new product, furnishing of a new service, production or selling of a product by using a new technology, and improvement of a method to furnish a service
- (2) Administered by the Ministry of International Trade and Industry
- (3) Aimed at stimulating business activities and raising living standards

Assistance steps are marked by (**).

A specific enterprise

Formulation of an implementation plan

Guideline for implementation

Accrediting of the implementation plan by the Minister of International Trade and Industry

Government office concerned

Assistance steps are marked by (*) and (**).

The accredited enterprise

[About funds]

[Loan guarantee]

- (*) Loan guarantee by the Industrial Structure Improvement Fund

[Investment]

- (*) Investment by New Business Investment Co. Ltd.

[Loans]

- (*) Very low-interest loans from the Japan Development Bank, Hokkaido-Tohoku Development Finance Corporation, and Okinawa Development Finance Corporation
- Regarding the details and the availability of loans, please consult the financial institutions mentioned above.

[Tax privileges]

- (*) A longer period of loss carry-over
- The accredited enterprise can carry over a loss in a given year for seven years for tax purposes.
- A small or medium-size enterprise that wants to implement an accredited specific new business can carry over a loss in each of the fiscal years from the fiscal year that includes the day of accrediting until the fiscal year that includes the day when the same enterprise is five years old since its founding.

[Guidance for management and furnishing of information]

- (**) Assistance for disclosure of information about the enterprise
- (**) Furnishing of information about funds, etc., from the Industrial Structure Improvement Fund

[About human resources]

[Exceptions in new share issue]

- (*) Stock option system

[Taxation]

- (*) Tax privileges to facilitate the adoption of the stock option system

[Furnishing of information]

- (**) Furnishing of information about human resources from the Industrial Structure Improvement Fund

[Technological aspect]

[Furnishing of information]

- (**) Furnishing of information about technologies from the Industrial Structure Improvement Fund

indoor skiing grounds. (Please see the photo.) Man-made snow is produced by applying a special process to water-absorbing polymer usually used in such sanitary goods as paper diapers, making it absorb water and freezing it. The man-made snow produced by this process is so natural that it is difficult to distinguish it from real snow. Therefore, by using it, you can create a ski surface which is almost the same as a natural ski surface covered with real powder snow.

This process solves the problems associated with the conventional snow-making process, and is unique in the following respects:

- (1) The heat load on the freezer during the initial stages of creating snow is small.
- (2) Movement in man-made snow is minor.
- (3) There is no need to crush lumps of ice mechanically.
- (4) Man-made snow created by this process avoids the problem of ice plates forming over time. (The quality of the snow is fairly stable.)

There is no need to turn an indoor skiing ground into a frozen storage warehouse. The SNOVA system can create snow even at room temperature, so indoor air conditioning is unnecessary and running costs are only half that of a conventional snow-making system.

President Otsuka Masahisa, 50, himself a skier, said he thought how good it would be if there were a ski surface available throughout the year. He said it had taken him 10 years to bring this dream to fruition and the product to market. After quitting a major household electrical appliance company in 1990, he established SNOVA Co. Ltd. two years later in 1992 and materialized the dream, he said.

In 1995, SNOVA opened Japan's first indoor skiing ground exclusively for snow-boarding in Kyoto. In July 1997, the company opened a second indoor skiing ground in Kobe and is scheduled to open more such grounds in Hiroshima, Nagano and Aichi hereafter. It is receiving a rush of inquiries from all over Japan. The company is

scheduled to open 50 such facilities in the coming five years and 10 overseas.

Using government assistance, such as loan guarantees for launching business, SNOVA has placed its operations on the growth track.

Next, I want to introduce an accredited new growth venture whose sales are growing by leaps and bounds.

MegaChips Corporation, which was recognized as eligible for the said privileges on August 6, 1996, was founded in April 1990 with paid-in capital of ¥179 million. Its annual sales, which were ¥4,618 million in fiscal 1994 (the year ending March 31, 1995), rose to ¥10,774 million in fiscal 1995 in a 133% increase and to ¥16,846 million in fiscal 1996, the year when the company obtained the privileges under the new business law, showing a staggering gain of 264% over the fiscal 1994 figure.

Shindo Masahiro, founder and president of MegaChips Corporation, said he couldn't help being irritated about the dearth of information about casualties and property damage in the wake of the Great Hanshin Earthquake in January 1995, because although the conditions of the quake-stricken areas and roads were shown on television, he could not obtain information about the condition of the locations where the employees of his company were staying and other information that he really needed. He thought that this problem could be overcome by means of a high-speed image transmission device. This idea materialized in the enterprising form of a product which is now the company's profit mainstay.

The focus of the accredited enterprise is production and selling of image accumulation and transmission devices using low-cost, real-time image contraction and expansion LSI circuits.

This enterprise is novel in the following respects:

- (1) By using a unique image data compression method, the built-in table for compression has been downsized by about 50% compared with the table for the standard JPEG system.
- (2) The size of the compressed image data in the case of 1/100 compression

is about 14% smaller than by the standard JPEG system.

(3) The wireless image transmission system ensures a moving-picture performance about 10 times higher than by the conventional system, and moreover, simultaneous sound transmission has been made possible.

This enterprise belongs to an information-related area which has immense growth potential. MegaChips cuts a prominent figure in relation to other accredited new growth ventures.

Lastly, I want to introduce an accredited new growth venture that has offered its shares to the public.

YAHOO Co. Ltd., which was recognized as eligible for government assistance on May 22, 1997, was established by Inoue Masahiro, president, in January 1995. Its paid-in capital is ¥200 million, and its sales in fiscal 1996 (the year ending March 31, 1997) were ¥413 million. YAHOO went public on November 4, 1997. The opening price of its stock was ¥2 million per share. This was 40 times the par value and 2.86 times the price of ¥700,000 at which the shares were offered to the public. Under the new business law, YAHOO can use the stock option system as an incentive in order to secure able people with government assistance.

The focus of YAHOO's accredited enterprise is information processing service and information supplying service on the Internet. This is an enterprise expected to grow along with the expansion of the Internet.

I have introduced three new growth ventures that are receiving government assistance under the new business law. Both their business and the companies themselves are expanding by fully utilizing the assistance available. The 110-odd accredited new growth ventures show great promise. ■

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