

THE WALL STREET JOURNAL.

Q&A With Ustream Investor DCM On Softbank Deal & Japan

February 2, 2010

By Tomio Geron

Softbank Corp. announced this morning a Series B investment of up to \$75 million in live-broadcasting start-up Ustream Inc. to expand across Asia. The round, which includes a \$20 million upfront investment and the option to invest up to \$55 million by July 2011, is still open and further investors are in discussions to join the round. We caught up with **Gen Isayama, partner at venture firm DCM, one of Ustream's earlier investors to discuss the funding, the company and the Japan market.** Here's an edited excerpt of that interview.



Q. Ustream is the third DCM-backed start-up in which Softbank has done a major investment - the other two are Rockyou Inc. and China-based Oak Pacific Interactive. Are there other large investors like Softbank that you work with? Why the success with this partner?

We do admit to having very good relations with Mr. (Masayoshi) Son, the chairman and CEO of the company. The reality is we had another choice in Japan for this financing, a big round like this. But to make a long story short, Mr. Son really liked the company and vice versa. We don't expect DCM to always have Softbank investing in our companies. We'd like to show our strength in Japan by connecting our start-ups in Japan to other companies. So far Softbank's been a very strong partner.

Q. Is DCM participating in this round?

As we close other strategies we are considering participating. But now with the lead Softbank we want to make sure and respect their position.

Q. Why do you think Ustream has so much potential?

There's much better 3G coverage and penetration of the entire country in Japan. And even more opportunity as mobile broadband infrastructure such as WiMax, and LTE becomes available. People in Japan are concerned what apps should be used on these devices. Today everyone sees YouTube. But everyone knows YouTube is not the end of app content on the mobile handset. Ustream can be on all kinds of live venues from piano bars to big stadium concerts to little league baseball. Doing live at a massive scale also is very different solution from archived video. Ustream from day one has thought about how to build a scalable solution.

Q. Japan is so advanced in mobile but there's nothing else like this in Japan?

No. There are U.S. based start-ups such as Justin.tv, Mogulus, Qik. But the reason why consumers select Ustream is we focus on premium content and how to really make the (professionally-produced) mid-tail and short tail work. Most sites focus on the (user-generated)

long-tail videos or have to deal with copyright infringement issues. We make sure to act like a major media company. We stick to principles. We want to work with CBS, NBC, ABC, and help bring back viewing rates for those television media. We don't try to compete with traditional TV media but augment them. From that point of view for Softbank, one of the big three telecommunications carriers in Japan, it appeals (to them).

Q. You have invested in a number of companies that either started in Asia and then moved to the U.S. market, or vice versa, including Tonchidot, which went from Japan to the U.S., Rockyou, which went from the U.S. to Asia, U.S.-based Outspark, with close ties to South Korea, and now Ustream. Why is this strategy becoming such a focus for DCM?

There's many ways to answer that, but for mobile there's truly a globalization of mobile standards. In the past in Japan, the mobile business was 10 years advanced, compared to the U.S. The problem was a lot of applications and handset had specs with domestic proprietary standards. Even those with Java were a Japanese version that would not work in the U.S. or China. Now with the iPhone and Android these specs are not country specific. What we'd see starting a few years ago after the iPhone launched you'd see some Japanese engineers with full-time jobs work on the weekend creating apps and making a mega-hit on the iPhone. When we saw that were convinced as a firm that finally there is an opportunity in Asia for apps and games to truly come to the U.S., Europe, and China without much change.

For that reason we're acting more as a globally positioned firm. We're in Beijing, Tokyo and Menlo Park, and those trends go across this "Golden Triangle." We're acting as catalysts, taking engineers living in Asia, or the U.S. and connecting them to other parts of the world.

Then with Tonchidot, the team from Japan was really great. With the Series A we brought in a team that was very strong, very international from Stanford and the like. By adding management, the company became very global. What they are doing is nothing specific to Japan. We knew what they were doing could be applied to the U.S. market Europe and other parts of Asia.

Q. What other opportunities are there in Japan for your firm and your portfolio companies?

On the liquidity front, we also had China-based 51job which went public in Nasdaq in 2004 (raising \$80 million). DCM held over 20% of the company after the IPO. We found Japan-based Recruit Company Ltd., which wanted to enter this market in China and we sold our entire position to them in 2006. (Recruit Company is also a DCM limited partner.) In Japan there are a lot of corporations with very strong financials. All of them are looking forward to entering into different countries and one method we try to facilitate is in the form of acquisitions and secondary buyouts. We would expect to have more opportunities to do (these deals) as we build our presence in Tokyo.