STANFORD SV-NJ CASE STUDY SERIES:
JAPANESE FIRMS IN SILICON VALLEY (STARTUPS)

Techpoint

Company Name: Techpoint Inc.
Arrival to Silicon Valley: 2012
Business Location: Sunnyvale, California
Interviewee: Hiro Kozato
Interview Date: July 7, 2016
Website: www.techpointinc.net
US Entity Type: California Corporation
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Company Overview:[1] What is the company's business purpose?

Techpoint is a fabless semiconductor company that develops high definition video connectivity technology targeting high definition video surveillance systems and automotive infotainment systems. Techpoint aims to address the growing needs of the next generation high definition video markets.

In 2014, Techpoint released the new technology HD-TVI (High Definition Transport Interface) for the video surveillance market. HD-TVI takes uncompressed HD video and transmits it over 500 meters of distance on standard low cost 3C-2V coaxial cables using analog transmission techniques. This technology is also heavily applicable for the automotive infotainment market as manufacturers can now use low cost unshielded twisted pair cables and low cost connectors and still achieve reliable and robust HD video inside the automobile.

Company Story: What are the company's origins and connections to Silicon Valley?

Kozato initially founded his company with the intention of working with video content and creating a video-on-demand service. He saw that popular video-on-demand sites such as Netflix, only featured dated films, and later learnt that this was a result of protecting movie theaters, and copyright issues. Kozato wanted to develop a security IC that would prevent infringement, and encourage Hollywood to allow the streaming of new movies by third parties. However, his

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efforts were in vain, as he eventually realized that Hollywood simply was not interested. Kozato was forced to shift his focus in a new direction.

Kozato's previous company, Techwell, had developed technology for in-car displays and security surveillance. Kozato revisited these familiar markets and found that they were beginning to shift towards HD. At the time, the main technology that was being used was IP cameras that compressed digital and Ethernet transmissions in order to send them. Because the receiver must be able to expand in order to receive transmissions, there is a slight delay. For in-car cameras, this delay is problematic. Furthermore, IP cameras were expensive and couldn't transmit across long distances, and could easily become cut off. Kozato believed that analog was a much more reliable technology for cameras used for safety purposes, and had the idea to make analog HT.

Kozato officially founded the company in 2012. At this time, a southern Californian company had also developed HT SDI – technology that enabled uncompressed digital transmission, and in September of 2013, Techpoint bought its asset for $2 million.

While Techpoint's first product was a surveillance camera that utilized this technology, the company continued to develop its own analog HT, and later on found that its own analog technology was much more reliable, and eventually stopped using HT SDI altogether.

Human Capital: Who are the key leaders and employees of the company, and what plans exist for personnel expansion?

Kozato is the CEO and founder of the company. Prior to Techpoint, Kozato steered the reorganization of Sigmax Technologies Inc. and remained president of the company till its acquisition in 1996, after which he founded Techwell Inc. in 1997 (see SVNJ cases Sigmax Technologies and Techwell).

When Kozato first founded the company in 2012, Techpoint was a one-man operation. Kozato's friend and former business partner at Sigmax and Techwell, Feng Kuo, who had initially just invested in the company and had been advising Kozato, officially joined the company as CTO later on. Kenny Liu, an angel investor, has been a board member at the company since its establishment. Liu had been connected to Kozato from a few years back as an angel investor at Techwell. Liu is an established entrepreneur himself, and has set up two other companies that have both gone public on NASDAQ.

Techpoint currently has 57 employees globally, with around 27 at its Silicon Valley office. They have established offices in Seoul, Tokyo, Shenzhen, Shanghai, and Taipei. Although Techpoint has emerged completely independently of Techwell, there has been some overlap in personnel. Most of Techpoint's management (apart from the CFO) is the same as Techwell. Kozato has also collected his former employees who had been let go during the M&A, and a couple who quit and came to Techpoint of their own accord. He has hired his other employees through recruiters (but this number is very small) and through connections via personal networks. Out of his team, only 2 employees are American, and the rest are Japanese, Korean, Taiwanese and Chinese, as the company's focus is on the Asian market.

Funding: What are the sources of funding for the company?

Contributions by Kozato, Kuo, and Kenny Liu, made up the initial funding for the company. Techpoint was able to raise additional funds from angel investors, Denso International America, and Mobile Internet Capital.

Business Challenges: What challenges does the company face?

According to Kozato, Techpoint has not run into any major issues thus far. The company has been profitable since 2014 and continues to surpass its quarterly earning goals each year.

It is, however, becoming increasingly difficult to develop and manufacture hardware here in Silicon Valley. Electronic engineers are now moving away from Silicon Valley and the ever-dwindling pool of talent makes the recruitment of engineers challenging, and quite expensive.

Sometime in the future, Kozato hopes to take the company public, and to expand R&D operations in Japan. Kozato also hopes to support Japan's semiconductor industry by helping Japanese companies carve out a part of their businesses. After a failed attempt at a carve-out fund in 2010, Kozato is determined to redouble his efforts and try again. Kozato's plan is to take a department that is lacking, and fix it.

Up to this point, there has not been a lot of mobility of human capital between Japanese companies – Japanese people rarely switch jobs, and will usually stay at the same companies until retirement. Large Japanese companies struggle with the development of innovative new technologies, in part due to lack of fresh perspective caused by the immobility of the workforce. Kozato hopes to address this problem by encouraging increased mobility between Japanese companies, and bringing in new people from Silicon Valley and from Asia to contribute new ideas.

On a macro level, Kozato comments that it is important to keep high tech and the semiconductor industry alive in Japan. Although the U.S. at large has shifted its focus away from hardware, it still has many billion dollar giants such as Intel, Broadcom, Qualcomm, NVIDIA etc. In Japan, Renesas Electronics Corporation is the only giant. The U.S. has strength in all industries and chooses to focus on IT. If Japan were to imitate the U.S. and focus solely on IT, this would mean the abandonment of the hardware industry. Kozato's hope is to create more hardware (specifically semiconductor) giants in Japan through a carve-out strategy. Instead of starting from zero, starting from 95% and revitalizing is a better tactic in his eyes. Kozato warns that the lifetime for new technology is short, and unless we use the technology and resources we have now, the Japanese High Tech industry will die.

Advice for Japanese Entrepreneurs?

Kozato's advice for Japanese entrepreneurs is: Think of your goals before you start; there are good goals and there are bad goals – bad goals include entrepreneurism as a trend, being a bandwagon entrepreneur, or not wanting to work. The process of business establishment takes a lot of preparation and planning; an aspiring entrepreneur should strive for a good product, good

supporters, to be successful at the work they are currently doing, meticulous studying and planning ahead, and of course some risk taking. However, while preparation and planning is of course very important, inevitably reality will never go according to plan. Raising funds is hard, money can be spent quickly, and friends who supported you initially will begin to dwindle, and on top of this, there will be a lot of competition. However, perseverance is key, and an entrepreneur with a good product will prevail. Finally, having a future plan is important in keeping the company oriented and motivated. For every extra amount of effort exerted, there will be twice the return.

About the SV-NJ Case Studies Series: Japanese Silicon Valley Firms (Startups)

The Stanford Silicon Valley – New Japan Project case study series investigates Japanese firms in Silicon Valley. The purpose is to understand each firm's business purpose, its journey from Japan to Silicon Valley, human capital issues, business challenges and best practices, funding, and resources utilized. Information was compiled by interviewing leaders of startups based in Silicon Valley with one or more Japanese nationals as founders. The subject companies range from bootstrapped to fully funded companies with or without a presence in Japan, but all of which contain a technology element such that they are scalable enterprises. For more information or to refer a case study interviewee, please email us at: stanford.svnj@gmail.com