



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



Company Name: Gengo, Inc.
Arrival to Silicon Valley: 2011
Business Location: 307 2nd Avenue, San Mateo, CA 94401, USA
Interviewee: Matthew Romaine
Interview Date: July 24, 2015
Website: www.gengo.com
US Entity Type: Delaware Corporation
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Company Overview:¹ What is the company's business purpose?

Gengo provides an API and platform for fast, high-quality human translation for 37 languages across all time zones, provided by a pool of over 15,000 tested and rated translators for global large and small-and-medium-sized companies as well as individuals. Roughly 5% of translator candidates - sourced from Facebook, translator communities, and web based recruiting efforts - pass Gengo's rigorous language screening process. The company especially seeks clients who want translations of user-generated content. Currently, Gengo's clients include leading ecommerce, online travel, and media portals. Gengo, a Delaware corporation with a wholly owned Japanese subsidiary, prides itself in its cultural diversity and the caliber of service for which Japan is famous.

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

Co-Founder and Chief Executive Officer, Matthew Romaine, created Gengo in 2009 from a passion to connect his American and Japanese roots. While core strategies and technologies are developed in Japan, the company's growth in Silicon Valley occurred because early stage investors were based in the region, starting with 500 Startups founding partner Dave McClure, and subsequently, his network of other investors. Interestingly, seed stage Japanese investors

¹ Company overview information is collected from the company's website and marketing materials. Any merits of the company's abilities and technologies expressed herein do not reflect the opinions of Stanford nor SV-NJ.

were living outside Japan, and investors in Japan were foreign to Japan; however, all had a connection to the Bay Area.

In addition to gaining access to funding in the region, the Silicon Valley office is focused on business relationships and growth. Silicon Valley boasts a host of potential clients like Facebook, Twitter, etc., who have large volumes of user-generated content. To this end, approximately 60% of the content Gengo translates is under 500 words. This company does not actively pursue technical translations like opportunities in law, technology, etc. The appeal in user-generated content is that with mass volumes of comments, reviews, and the like, the translation opportunity is very scalable. Not only is Silicon Valley home to many of these tech companies with such content, but those companies also clearly understand the technology Gengo is marketing.

The future of the Silicon Valley office will remain focused on sales and marketing. For at least the next 12-18 months Gengo will remain focused on its written translation business. However, Gengo has its eye looking toward the 2020 Olympic Games in Tokyo as a huge global sales opportunity. Due to this and other potential growth areas, Gengo actively seeks expansion through partnerships with hopes of expanding to include greater variety in language service beyond written translation. With a clear purpose to facilitate the breakdown of global language barriers, Gengo leads the way as an innovator in translation services. Naturally, potential exits include an initial public offering in Japan or the US, or merger and acquisition.

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

Matthew Romaine, Gengo's Chief Executive Officer, is a half-Japanese half-Anglo American who spent his formative years and professional career in Tokyo, Japan, where he attended the American School in Japan prior to his departure to boarding school after 9th grade. He completed his undergraduate degree at Brown University where he studied computer science and music theory. Later, he attended graduate school at Stanford University where he received a masters degree in music, science, and technology, graduating in 2002. Subsequently, he worked in various departments in Sony Corporation in Tokyo for four years, initially doing research and development and concluding in the Corporate Technology Division. He then left to incubate his own projects. From his connections earlier in life to the Bay Area, and as the startup climate picked up in Silicon Valley, he was drawn to it and wanted to bring a piece back to Japan. As a result he was part of Gengo's founding team, which launched in 2009 in Japan. Overall, entrepreneurship culture, access to funding, and development of the USA client base drove Gengo to open its parent entity and second global office in San Mateo, but leaving most operations based in Tokyo.

Currently, there are 30 employees in Gengo's Tokyo office and 10 employees in the Silicon Valley office. Approximately one-third of the American office employees started in the Japan office and were sent to seed the culture of the company. About 60% of the Gengo employee workforce is non-Japanese. Gengo's network of over 15,000 translators are treated as contract employees, operating as third parties to Gengo's core business.

Gengo is able to attract unique foreign (non-Japanese) technical talent in Japan, such as computer engineers. This is partly because unlike American based challenges to utilize foreign talent, immigration is fairly straightforward in Japan. Yet, similarly to Silicon Valley, retention of these professionals is somewhat challenging. In Silicon Valley this challenge is due to competition, but in Japan it is because it is not the talent's home country and typically they return home after a few years. Converse to most Japanese founded startups in Silicon Valley, Gengo is able to fairly easily retain talent in Silicon Valley because those employees are focused on sales, marketing, and business development in the specialized and rather unique field of translation, different from the high demand technology talent of the region.

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

Gengo's initial funding endeavors began in 2006 with an introduction through a mutual friend to 500 Startup's Dave McClure, who has a Japanese wife. McClure offered introductions to a vast network of seed stage funders. All of Gengo's seed stage funders had some connection to the Bay Area, although most of them were foreign to the region. Interestingly, later stage funders found in Japan were also not from Japan. Nonetheless, Romaine found himself traveling to Silicon Valley once a quarter to develop investor relations.

Gengo's funding rounds are detailed below:

\$5.4M / Series C

Apr 21, 2015

Investors:

Recruit Holdings (Lead)

CrowdWorks

Infocomm Investments

Intel Capital

Iris Capital

Mitsubishi UFJ Capital

SBI Investment

STC Ventures

Atomico (Lead)

500 Startups

\$800k / Seed

Jan 1, 2011

Investors:

500 Startups

Kapor Capital

Point Nine Capital

Wences Casares

\$750k / Seed

Aug 1, 2010

Investors:

500 Startups

Alex Zubillaga

Brian Nelson

Felix Miller

Joshua Schachter

Mark Goines

\$12M / Series B

Apr 22, 2013

Investors:

Intel Capital (Lead)

Atomico

Infocomm Investments

Iris Capital

NTT DOCOMO Ventures

Saudi Telecom Ventures

undisclosed amount / Angel

Jan 1, 2010

Investors:

Dave McClure

\$5.3M / Series A

Sep 27, 2011

Investors:



Business Challenges: What challenges does the company face?

Due to Gengo leadership's bilingual, bicultural, and binational abilities, and their approach of having technology talent in Japan only, they do not face the same immigration, language, culture, integration, and talent retention challenges as other Japanese founded startups in Silicon Valley. However, they do share some typical concerns with these Japanese founded startups like identifying key market differences between Japan and North America or the rest of the world. For instance, Gengo finds that American corporations tend to need larger volumes of translations than individuals, but in Japan individuals initiate more translation tickets than corporations.

Like other Japanese founded startups in Silicon Valley, Gengo also faces challenges with financing and funding. Romaine notes, that after seed stage funding, it is hard to get financing in the Bay Area because there is a large volume of high caliber deal flow where venture capital firms aim to reduce risk, so if a startup team is not based locally firms avoid investment. He claims this is because American venture capital firms cannot control and communicate and influence foreign-based startups as easily, nor do they typically have as many foreign resources to share. Romaine expresses difficulties in fundraising in Japan too, because terms and valuations are not favorable, mentorship and guidance is less involved, incentives are misaligned, and term sheet delivery is a slow and cumbersome process.

Gengo realizes that maintaining a cohesive multinational team requires special care. Every day Gengo's Japan and USA offices communicate via various tradition and new age channels, including a "wormhole," a perpetual video conference between US and Japan offices. Once a week Gengo has a company "all hands" meeting where all employees are online on a video screen to talk shop.

Dealing with third party translators also requires the Gengo team's unique attention. At Gengo, there is a crowd operations team who is responsible for moderating the experience of the translators, and creating a unique and rewarding community to encourage and promote translators' achievements. In the future, Gengo will focus on identifying and tracking opportunities to harness translator's individual interests like hobbies, as these interests typically require specialty knowledge and vocabulary.

Tools, Reference, & Resources: What technology and professional resources are used by the company?

Technology Resources:

- Basecamp – project management

- Pivotal – project management
- Zoom – video conferencing
- Skype – communications
- Wormhole – perpetual video between US and Japan offices
- Slack – intercompany communications
- AWS – Amazon Web Services for hosting
- Paypal – receiving and sending payments (Paypal has some trouble in Japan)
- Stripe – payment system
- TriNet – human resources tool including payroll, billing, and employee benefits

Professional Resources:

- Recruiting - Wahl & Case
- Corporate Attorney –Wilson Sonsini Goodrich & Rosati
- Japan counsel – Kamiyacho law
- Finance operations – all in Japan but internal finance controller uses an unnamed outside party
- Public Relations – used a firm in USA for three months, but now all internal

Mr. Romaine’s advice to future Japanese entrepreneurs is: Get out of the Japanese circle in Silicon Valley. Network. Don’t hesitate to using your English. Be sure to give back to Japanese in Japan.



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

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 start-ups 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 Stanford.svnj@gmail.com.