Contract Intelligence

Japanese firm puts legal fineprint under the AI microscope

Yuri Group
nearer by not keeping still

While AI hype intensifies globally thanks to a public fascination with flashy text and images, the use cases attracting businesses spending are a lot more prosaic. Vehicle detection, anti-collision systems, and cybersecurity are among the top money-making AI tools today. Legal services may soon join that list.

From Tokyo's booming AI hub, LegalOn offers investors a clear proposition: applying AI-driven tools to eliminate costly procedures in legal contract verification. The firm has scaled this mundane yet vital task into a market-ready solution that's already rolled out in three key markets.

Japan's legal sector, a $5.4 billion market projected to exceed $7 billion by 2032 (CAGR 3.23%), remains significantly underserved by technology. Around 92% of Japanese legal firms have yet to adopt AI-driven solutions, leaving contract verification largely manual, tedious, and error-prone. Junior lawyers traditionally bear this burden, spending many hours scrutinizing contracts, often risking costly mistakes.

This approach leans into the core principles of what we have come to call AI. The current iterations of AI are mostly large language models (LLMs) that synthesize data into human speech and visuals. They seek to marshall literally trillions of dollars of global investment, but often their practical and profitable use cases are less clear – a risk reminiscent of the early 2000s Dotcom bubble.

LegalOn directly addresses this problem by leveraging LLMs to utilize "legal playbooks" – comprehensive documents that outline legal procedures and strategies – to provide context-specific recommendations to streamline contract reviews. The tech automates cumbersome verification tasks, significantly reducing time, stress, and human error, freeing legal professionals to focus on higher-value activities.

Early adoption signals are promising. Already generating significant domestic media attention in 2024, LegalOn has quickly expanded its internation al presence, demonstrating both product adaptability and scalability without eye-popping costs. As a result, the startup has received considerable investment from a host of big international and domestic names including Goldman Sachs Asset Management, Sequoia Capital, and SoftBank Investment Advisers.

Our analysis suggests that LegalOn's approach – integrating proven AI with customized legal expertise – could see sustained competitive advantage and adoption not only by law firms but also investment funds and large corporations. The startup more than doubled sales to ¥4.5 billion ($30.5 mln) during FY2023-24 while aggressively investing in growth. Capturing even 5% of legal services fees in Japan, while building market share in the U.S. and Europe suggests a route to substantial revenue opportunities.

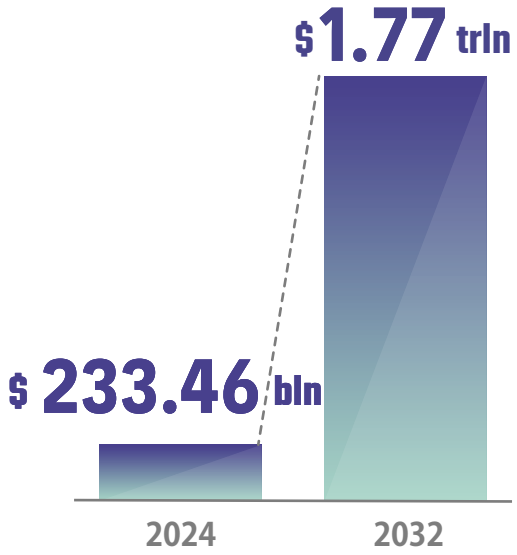
A comparative U.S. startup is valued at x5 despite similar revenue to LegalOn and a shallower track record. What's more, the Japanese firm has a proprietary LLM platform that offers better control of its technological development. This suggests a valuation gap that will surely be re-examined soon.

In A(I) Bubble?

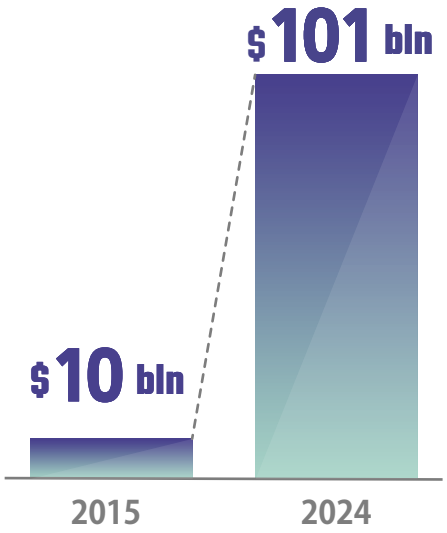
Accelerated by the arrival in late 2022 of OpenAI's ChatGPT chatbot, the AI market has embarked on a meteoric rise. Destination for a third of the $314 billion raised in total startup funding throughout 2024, the global market for AI tech is expected to rise by a CAGR of 35.7% by the end of the decade. While those numbers are impressive, there are other numbers to consider, such as the relatively low amount of workable – and profitable – AI products available today. OpenAI may be the most valuable AI firm on the planet, but it is expected to post losses of around $5 billion on revenues shy of $4 billion in 2024. That discrepancy is fueling criticism of the AI sector as an investment bubble.

AI by Numbers

Global AI Market Size



Annual Global Funding for AI



in Japan
333

AI adoption at companies beyond proof of concept stage

22 %

Companies creating substantial value through AI (ie. 50% higher revenue growth, 3-year average)

4 %

Source: Boston Consulting Group; Fortune Business Insights; Crunchbase; Ascendix Tech; Stanford University

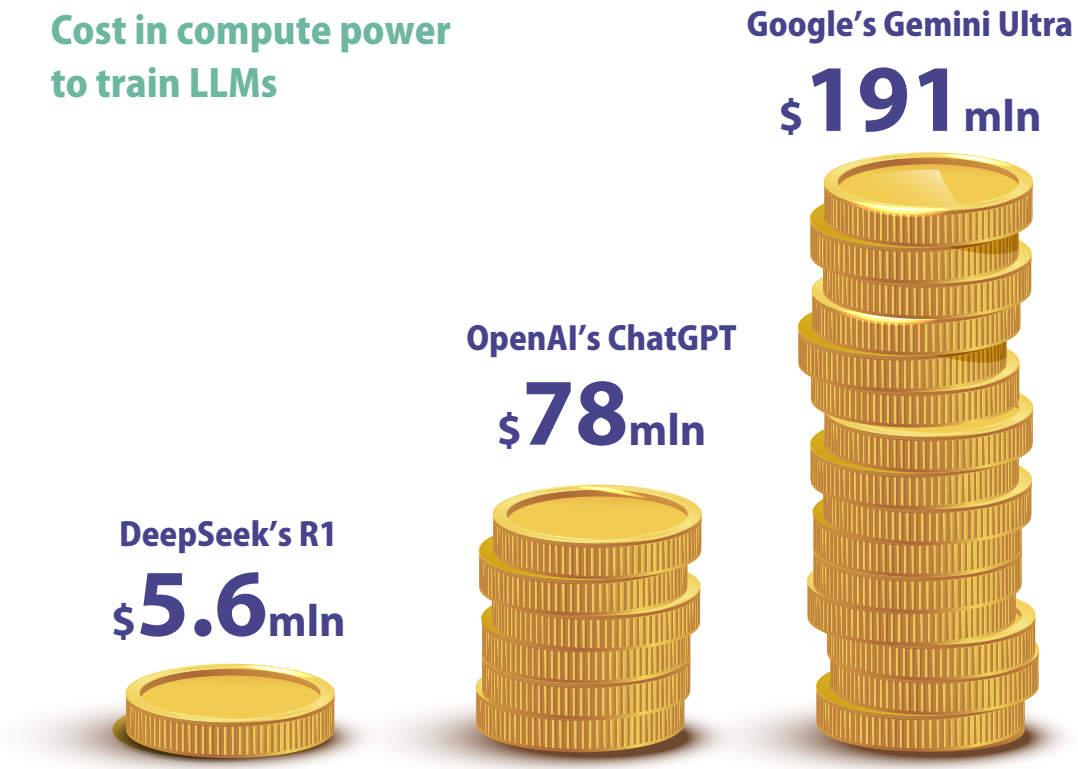
Budget China Case

Much of the AI growth story is driven by Silicon Valley. So far, America's Big Tech firms have argued that vast data-processing capacities will be required to propel the AI industry forward, and for this billions if not trillions of dollars will be required. The money race is partly driven by a desire to out-compete China, an emerging tech superpower that has succeeded despite trade barriers and tariffs limiting its access to cutting-edge hardware.

However, China rose to be the world's No.2 economy thanks to its ability to manufacture at a fraction of the costs elsewhere. This proved to be the case once again when a little-known Chinese AI startup published an open-source model called DeepSeek. For a fraction of the cost of US peers, the Chinese engineers developed a model that competes with and, in some ways, exceeds the capabilities of the generative AI rolled out by American IT giants.

Arguments around the cost numbers publicized by DeepSeek continue, as does speculation over whether the Chinese model relied on American rivals for its training. Either way, the lightning-fast emergence of DeepSeek and the potential to create quality genAI products without cutting-edge semiconductors and other resources is making investors rethink the technology's value proposition.

Cost in compute power to train LLMs



U.S. Government-backed Stargate AI Infrastructure Project

$500 bln

investment over 4 years of concept stage

Anticipated Reduction in AI Development Costs by 2030

75%

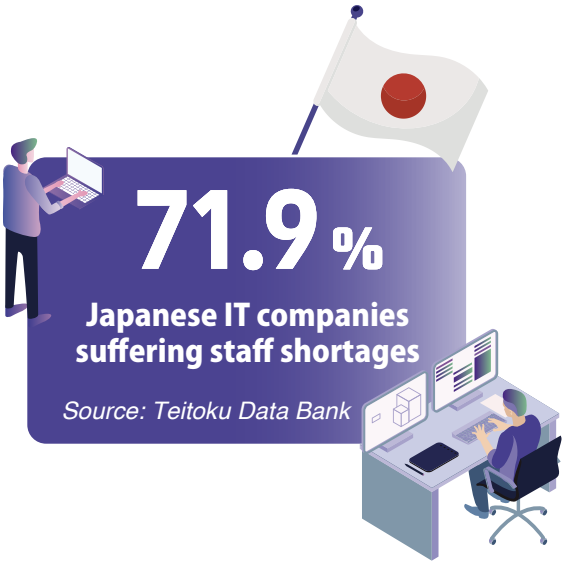
Source: Ark Invest

Good Fit

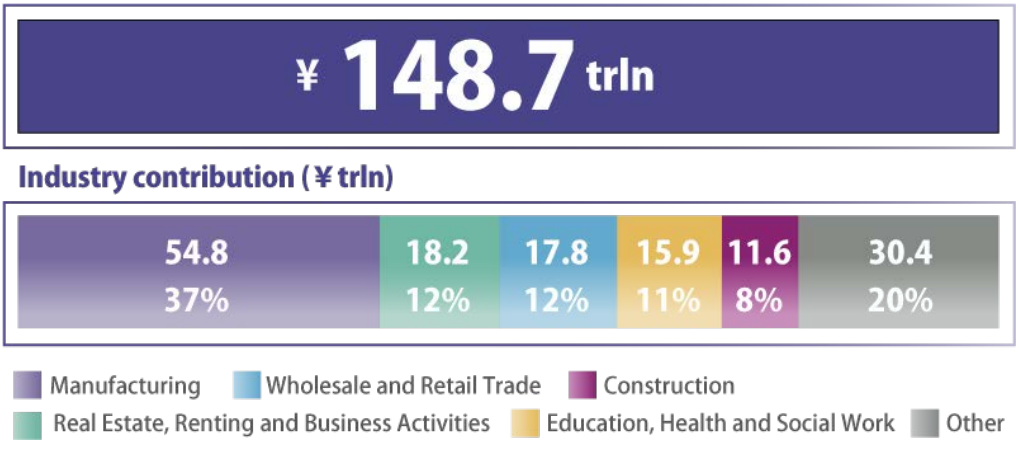
As is often the case across a variety of sociocultural and economic vectors, Japan occupies a unique position when it comes to AI and its potential use cases. Rapid population decline, a graying society and urban flight means that certain regions and industries are crying out for the levels of automation promised by widespread AI adoption. Relaxed immigration restrictions cannot fully plug the emerging human resource gaps in key industries required for Japan to retain its economic competitiveness on the global stage.

THE CONDITIONS ARE THEREFORE RIPE FOR JAPAN'S AI MARKET TO EXPLODE IN COMING YEARS (PARTICULARLY IN AREAS SUCH AS HEALTHCARE AND ROBOTICS) WITH SOME FORECASTS PROJECTING A 10X MARKET INCREASE TO OVER $27 BLN IN 2032.

Source: Spherical Insights



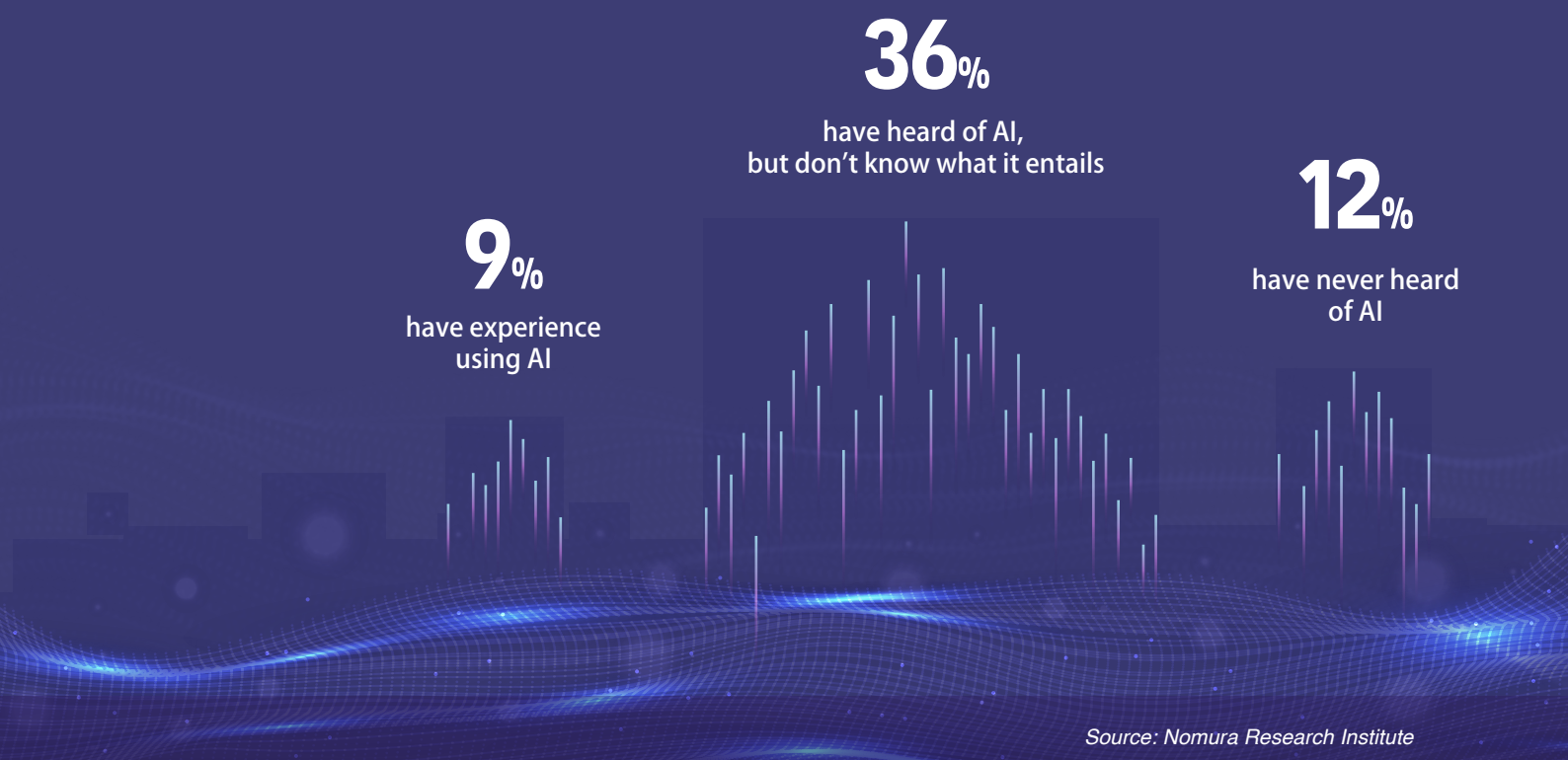
Production in Japan potentially unlocked by generative AI



Source: Glocom

That picture is, however, complicated by Japan's shortage of digital talent. Despite its late twentieth century reputation as a worldleading tech hub, digital literacy among the public is also extremely low. This breeds a certain amount of distrust vis-a-vis AI, particularly with regard to the potential for data leaks by predominantly foreign (generally American, but also Chinese) AI firms operating in the country. Therefore, while the government has adopted a soft touch to regulation amid efforts to promote Japan as the "world's most AI-friendly country," the vast majority of the population has yet to trial the tech.

AI Use Among the General Japanese Population

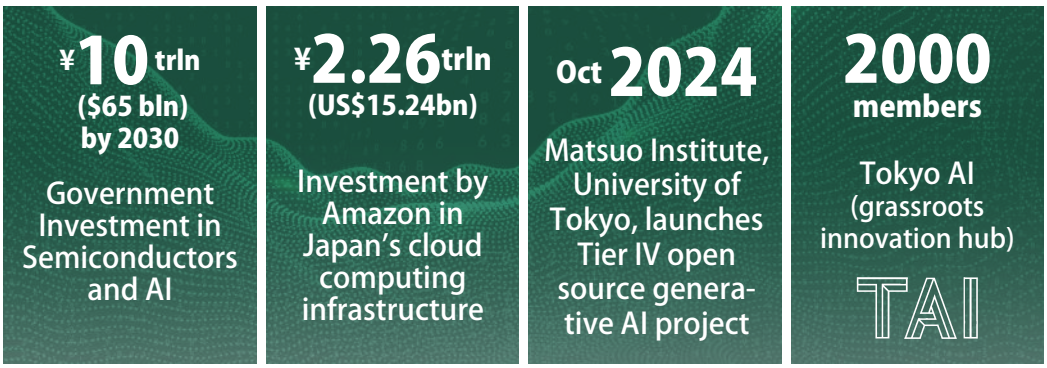


Source: Nomura Research Institute

> JAPAN SHOULD AIM TO BECOME THE "WORLD'S MOST AI-FRIENDLY COUNTRY." WHILE A LOT OF MOVEMENTS ARE OBSERVED IN VARIOUS PARTS OF THE WORLD REGARDING AI DEVELOPMENT AND REGULATION DUE TO POLITICAL AND ECONOMIC CONSIDERATIONS, JAPAN SHOULD AIM TO BE THE COUNTRY WITH THE BEST UNDERSTANDING OF AI AND THE EASIEST IMPLEMENTATION OF AI IN THE WORLD. AND IT WILL MAXIMIZE PROFITS WHILE MINIMIZING RISKS FOR CITIZENS.
>
> Liberal Democratic Party, AI White Paper 2024

Ecosystem Buildout

Japan is the world's second-largest market for cloud computing services, essential for processing power and data storage used in AI. Major U.S. providers, including Amazon, Google, and Microsoft, have invested billions to expand Japan's cloud infrastructure, anticipating an AI boom. Additionally, Japan's government is committing significant resources to AI and semiconductor development, boosting the country's computational power and efficiency. Private enterprises and grassroots collectives of local and international engineers are seeking to organically expand Japan's AI capabilities.



Japan's two most publicized home-grown AI players are Preferred Networks and Sakana AI. Both rapidly attained unicorn status (a valuation over $1 bln). Preferred Networks, Japan's highest valued startup until March 2025, is involved in a range of state-affiliated initiatives, including the moonshot semiconductor foundry project Rapidus. Sakana AI, founded by ex-Google engineers and heavily backed by U.S. semiconductor giant Nvidia, reached unicorn status faster than any other Japanese company, leveraging cutting-edge chip technologies.

Japan's Leading AI Startups

Preferred Networks

Est: **2014**
Valuation: **$1.08 bln**

sakana.ai

Est: **2023**
Valuation: **$1.5 bln**

Despite their impressive valuations, both startups face substantial challenges. They exhibit a typical weakness among Japanese startups—relying on insular growth strategies with limited concrete plans for international expansion. Additionally, both companies focus primarily on foundational AI technologies without clear paths to profitable commercial products. Preferred Networks, the older of the two companies, has dabbled in multiple business lines, from chemicals R&D to education, with few returning a profit. After much media buzz, the firm saw its valuation cut in half in its latest fundraising round in March 2025, partly on investor concern about practical application of AI technology.

Similarly, Sakana AI's first commercial product was scheduled for early 2025, but has yet to arrive. Instead, the company hit the headlines when claims that its LLM produced 100x efficiency gains compared to those of competitors were later found to be exaggerated, raising questions about its market readiness.

Targeted Approach

LegalOn presents a very different investment opportunity. Unlike the speculative premise of helping to advance human knowledge and productivity in general, and hope of returns at some point along the way, LegalOn has a very specific product for a well-established (and affluent) sector.

Providing a comprehensive AI-backed support service for legal professionals, the company was founded in 2017 by lawyers with hands-on experience in contract verification processes. These are labour-intensive, text-based tasks that lend themselves perfectly to the current iterations of AI, which are built on natural language processing technologies. Its tools are designed to enable instant contract analysis, AI assistance for drafting and summarization, and collaboration features.

To support the business expansion, LegalOn has raised over $130 million in funding from some of the biggest names in domestic and international finance, while new customers range from small legal teams to Fortune 500 firms in the U.S., Europe, and Asia. The firm has over 550 staff in Japan and more worldwide, with an office in San Francisco, bringing together AI engineers, attorneys, software developers, and project managers.

Growing Client Base

7,000+

customers globally
Mar 2025

1000
customer increase
Five months
May to Sep 2024

Big Name Investors (including)

- **SoftBank Investment Advisors**
- **SMBC Venture Capital Co., Ltd.**
- **Goldman Sachs Asset Management**
- **HongShan (formerly Sequoia China)**

LegalOn provides out-of-the-box playbooks for use in contract verification. As a legal contract is developed collaboratively, the document is shared between relevant parties, who "redline" areas they would like to remove or edit, adding commentary where applicable. LegalOn's AI platform reviews and redlines contracts using customizable playbooks designed by an in-house team of attorneys. These identify key clauses, flagging potential risks, and suggest alternative language. An AI assistant provides instant recommendations tailored to a business's risk preference.

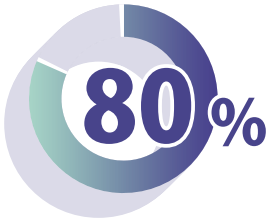
Market Gap

LegalOn claims that its service vastly improves the workload and time inefficiencies involved in contract verification. Aspects of its service can be localized to different jurisdictions, providing ample overseas growth opportunities. That potential was witnessed first in September 2022 when it opened a U.S. subsidiary, and again in September 2024 when it launched a service tailored to U.K. contracts. Tie-ups with increasingly ubiquitous digital services like electronic signature app Docusign point to the potential for further collaboration. Compared to the thousands of other tech startups that incorporate LLMs into legal practice, LegalOn's customizable approach claims to offer a greater degree of precision and reliability.

Time and Effort

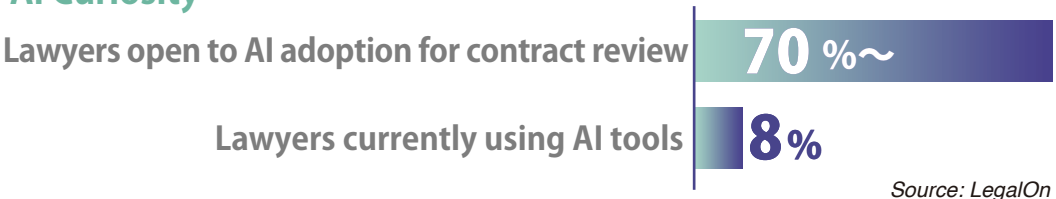
Average time to verify a legal contract

For a team handling 200 contracts per year



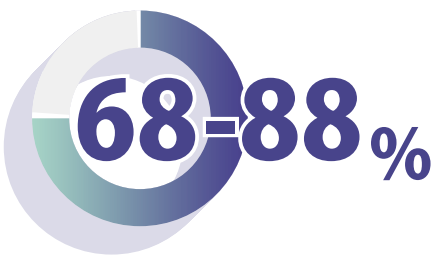
Reduction in verification time using LegalOn's services

AI Curiosity



Source: LegalOn

AI Skepticism



Rate of hallucinations (mistakes) by LLMs for legal tasks

The level of hallucinations by LLMs like Chat-GPT is staggeringly high when performing legal tasks. Based on vast troves of online data, LLMs perform poorly when dealing with localized legal subjects and precedents with low-level citations and other online mentions. An LLM's knowledge base could lag several years behind the latest legal cases, or fail to incorporate sufficient historical depth.

Source: Stanford University

The Case for LegalOn?

LegalOn's use of customizable playbooks developed by legal professionals based on up-to-date standards represents a careful, supervised integration of AI into legal practice. The company's own research found that some 60% of legal firms currently operate without playbooks – an area of the market that LegalOn hopes to corner using AI. Combine that with an openness among lawyers to the benefits of AI (and a contrasting wariness toward other commercially available LLMs) and there emerges a distinct niche LegalOn can fill.

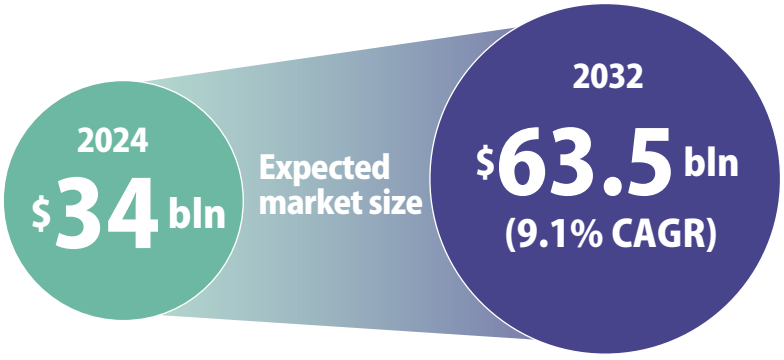
The downside? U.S. legal tech firms are increasingly exerting their presence in the space, with Counsel AI Corporation's Harvey model doubling its valuation in 2024 with a customer base a fraction of the size of LegalOn's.

In its end of year ranking for 2024, Japan's biggest business daily the Nikkei ranked LegalOn as the country's 11th most successful startup, giving the company a 61% chance of achieving unicorn status in coming years.

Bigger Picture

$5 bln raised globally by legal tech startups 2024 (**47 %** increase on 2023)

75 % AI adoption rate in legal services Jan 2025 (YoY)



In legal work, the future is that legal professionals move from being executers of basic tasks, the "doers," to those who evaluate and make decisions on direction and strategy. We believe that AI agents are going to transform a lot of what is happening inside corporates. We're proud to be one of the players from Japan that is going to be relevant globally in that space. We are proud to be from Japan, but we don't consider ourselves to be a Japanese startup. We are a global AI company that is very proudly founded in Japan.

LegalOn Technologies Chief Strategy Officer, JP Biard

Competition

Harvey	LegalOn Technologies
FOUNDED:	
2022	**2017**
VALUATION:	
$3 bln ($300 mln raise, Feb 2025) = 60x forward revenue multiple, double its July 2024 valuation	**$600 mln** ($91 mln raise, Jun 2022)
GLOBAL CUSTOMER BASE:	
235	**7,000**
SALES :	
AAR **2023 = $10 mln,** **2024 = $50 mln**	**FY** **22-23 = ¥3 bln ($20.5 mln)** **23-24 = ¥4.5 billion ($30.5 mln)**
OPPORTUNITY:	
CEO Winston Weinberg wants to achieve AAR of $100 million by end of 2025.	A lot has changed in the three years since the company's last fund raising, not least the explosion in the AI industry. While LegalOn's reported numbers are not as big as its U.S. peer, the Japanese firm is demonstrating stable growth and, it says, in fact surpassed Harvey's revenue for 2024. It also has an in-house LLM that is not reliant on third-party providers like OpenAI and is therefore more flexible to client needs.
RISK:	
Harvey is built on Open AI's ChatGPT-4 and is therefore highly dependent on that service (infrastructure and pricing). Changes to OpenAI's business model (terms, pricing etc.) could materially impact Harvey's own market position and competitiveness.	
OUTLOOK:	
The firm has the advantage of proximity to big US law firms and funders. But it is setting extremely aggressive growth targets that are forcing it to scale excessively before the market fit for the product is fully established. LegalOn, on the other hand, has an inhouse LLM built on information provided by lawyers, making it far more independent and, again, somewhat removed from the AI price bubble.	LegalOn has revenues that it says now surpass its U.S. counterpart, has already diversified into international markets, and has control over its AI development. This represents an opportunity for the firm to bring its valuation closer to that of overseas peers when it next comes to market.

LegalOn boasts a scalable AI product with a simple, practical use case. Its localizable suite of applications and targeted approach cuts through the AI hype and shows tangible, growing revenue. It is also currently priced at a much lower valuation to a U.S. peer, suggesting room for repricing.

Implications

There are over 50,000 AI startups globally, but investor interest is shifting from 'fun' general AI application software to 'boring' industry-specific tools that corporates are willing to pay for and which show tangible efficiency gains.

Access to high computational and capital resources are no longer as primal to AI startup growth. The emergence of discount Chinese AI model DeepSeek shows that disruption can be rapid and that high performance is possible on smaller budgets. Today, a strong market connection with a client base is more valuable.

Emergence of 'discount' AIs is a positive for Japan, which lacks the IT firepower of the U.S. but has many industrial and commercial corporates with large supply chains that could benefit from software-driven efficiency gains.

Legal tech is a considerable growth market both domestically and abroad. However, Japanese startups in the field will need to move quickly if they are to keep up with U.S. competitors like Harvey, whose value has ballooned over the past year as legal professionals wake up to the promise of AI.

LegalOn has an advantage over other Japanese startups in that its offering can be tailored to other jurisdictions. Its presence in the U.S and the U.K. indicates that the firm has interest in strong international growth.

LegalOn has secured investments from JAFCO, Japan's oldest and largest venture capital firm, as well as Goldman Sachs Asset Management, the venture arms of Japan's biggest banks, and HongShan and SoftBank, among others.

The startup has posted 50% or higher revenue growth each year since founding (latest data available for FY2024). That's less meteoric than some of the big-profile startups but also reflects the steady, targeted, product-first development of LegalOn. The approach should be considered by other Japanese AI firms as an alternative to that of market darlings Sakana AI and Preferred Networks, which despite the promise of their innovations are yet to develop profitable products.

The GxxD reports series covers the megatrends, business models, and innovations at the crossover between digital and clean energy. With stories on areas as diverse as AI, the CO_2 economy, robotics, and fusion, we share intelligence that anyone with an eye on Japan will want to explore further.

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