

Financing Technology-based Firms in Korea

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Workshop on “Technology Innovation, Private Sector Development, and Economic Growth”

May 25-27, 2005

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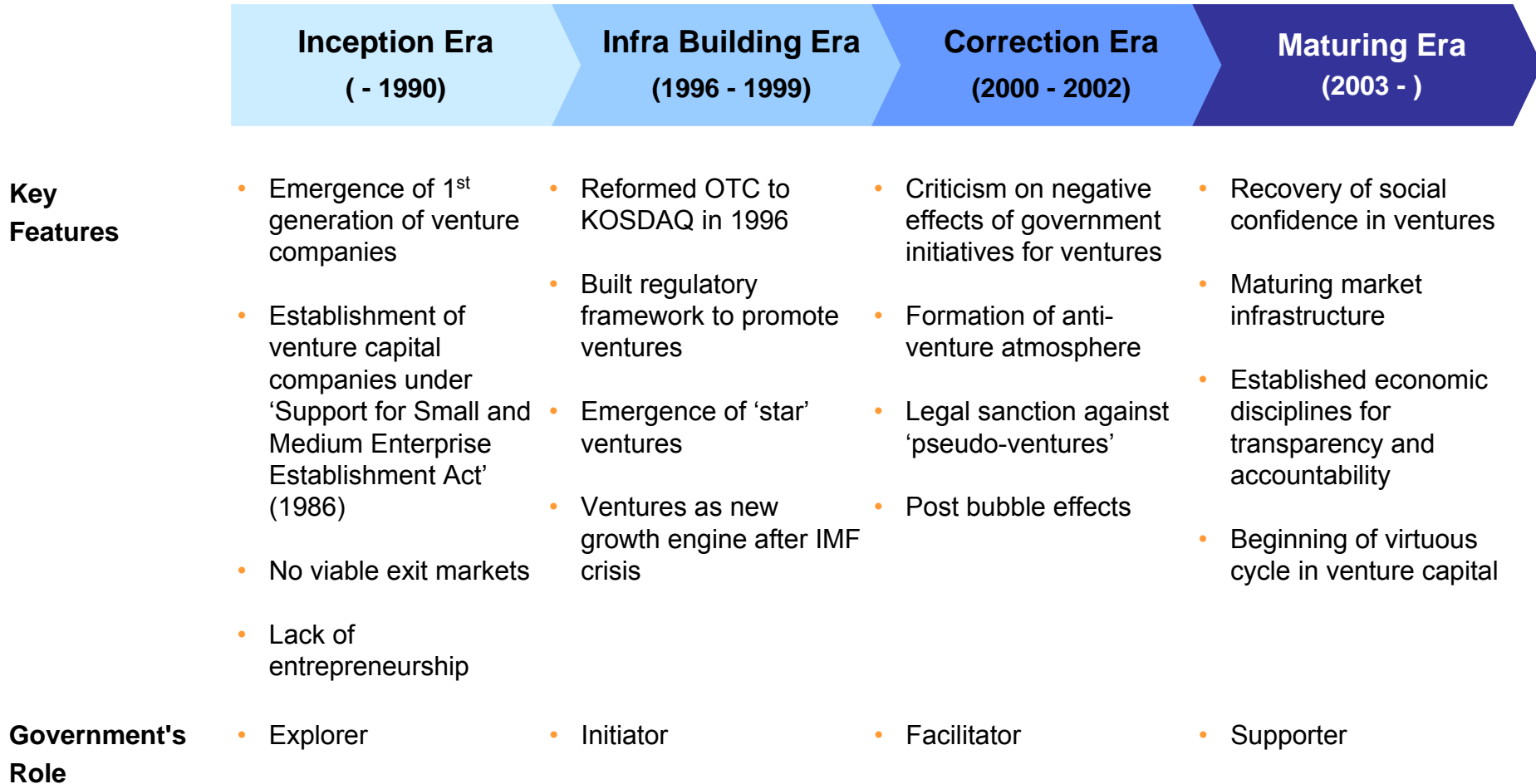
I. Development of Venture Companies

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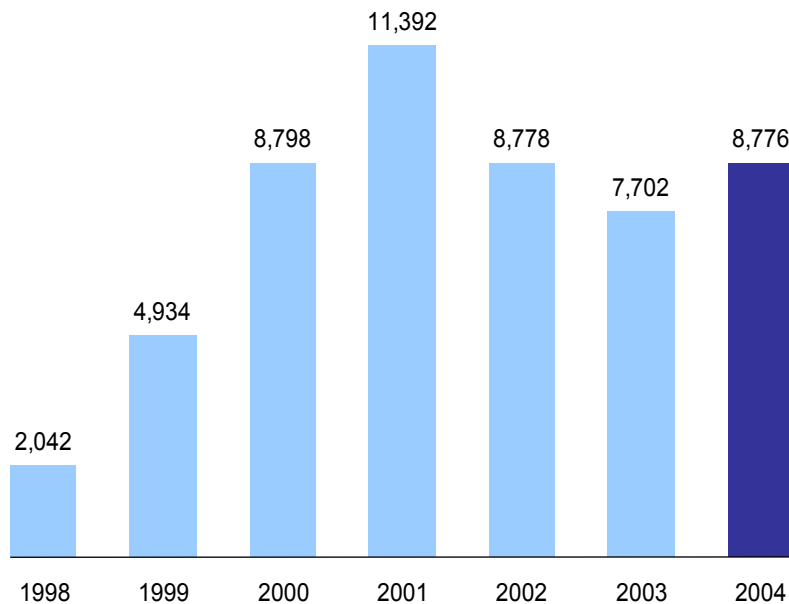
I. DEVELOPMENT OF VENTURE COMPANIES

DEVELOPMENT OF VENTURE ECOSYSTEM



I. DEVELOPMENT OF VENTURE COMPANIES (continued)

NUMBER OF VENTURE COMPANIES



Venture Certification Program

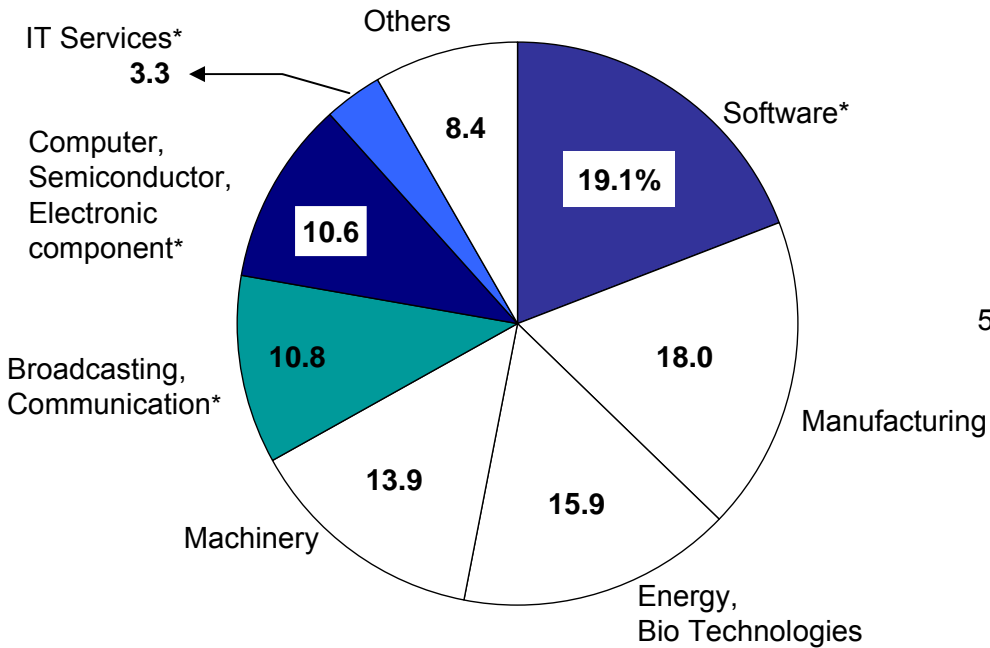
- Introduced through legislation of Act on Special Measures for the Promotion of Venture Businesses in 1997
- Small and Medium Business Administration (“SMBA”) designates qualified venture-type companies as “Venture” according to procedures classified into the following three categories:
 - VC investment
 - R&D focus
 - New technology

Source: Small and Medium Business Administration (SMBA)

I. DEVELOPMENT OF VENTURE COMPANIES (continued)

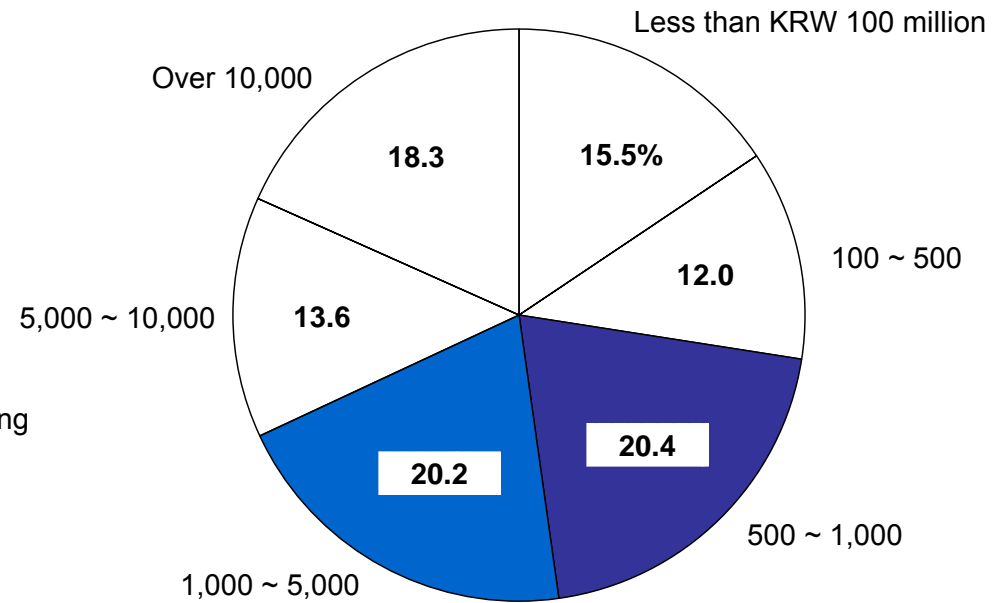
VENTURE COMPANIES BY INDUSTRY, 2004

100% = 7,609 companies



VENTURE COMPANIES BY SALES, 2004

100% = 7,609 companies



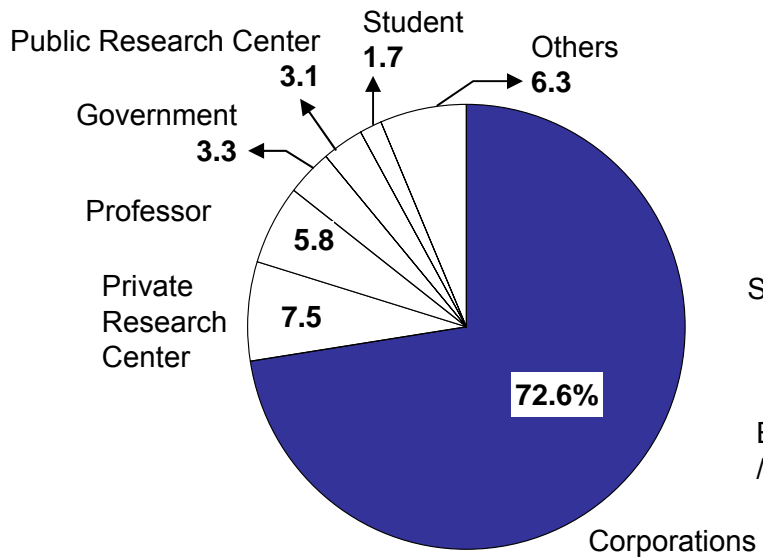
* IT venture companies account for 43.8%

I. DEVELOPMENT OF VENTURE COMPANIES (continued)

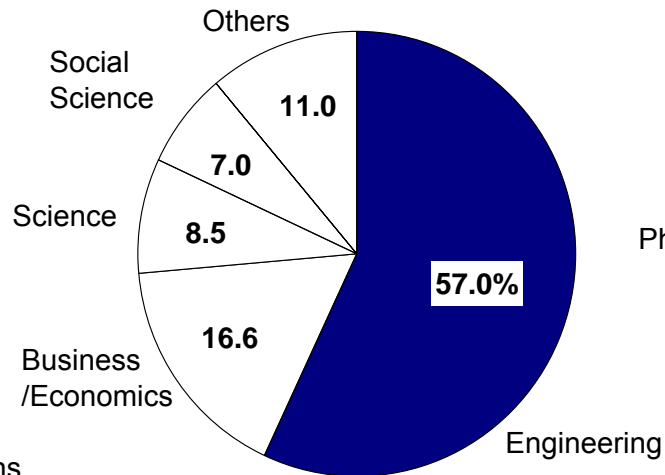
PROFILE OF ENTREPRENEURS

100% = 7,609 companies

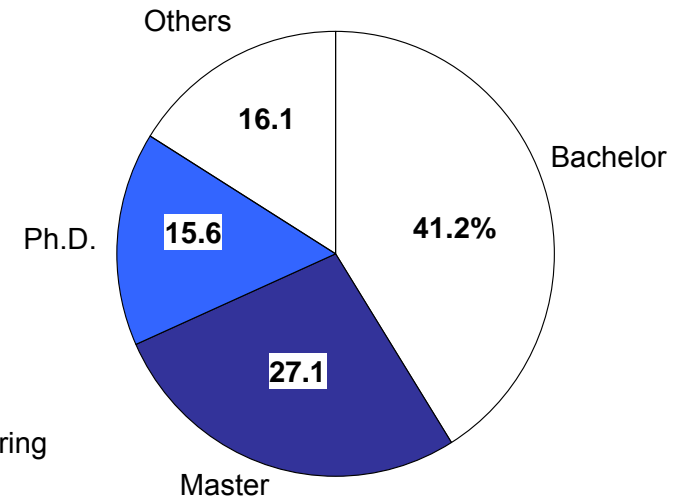
BY FORMER JOB



BY MAJOR



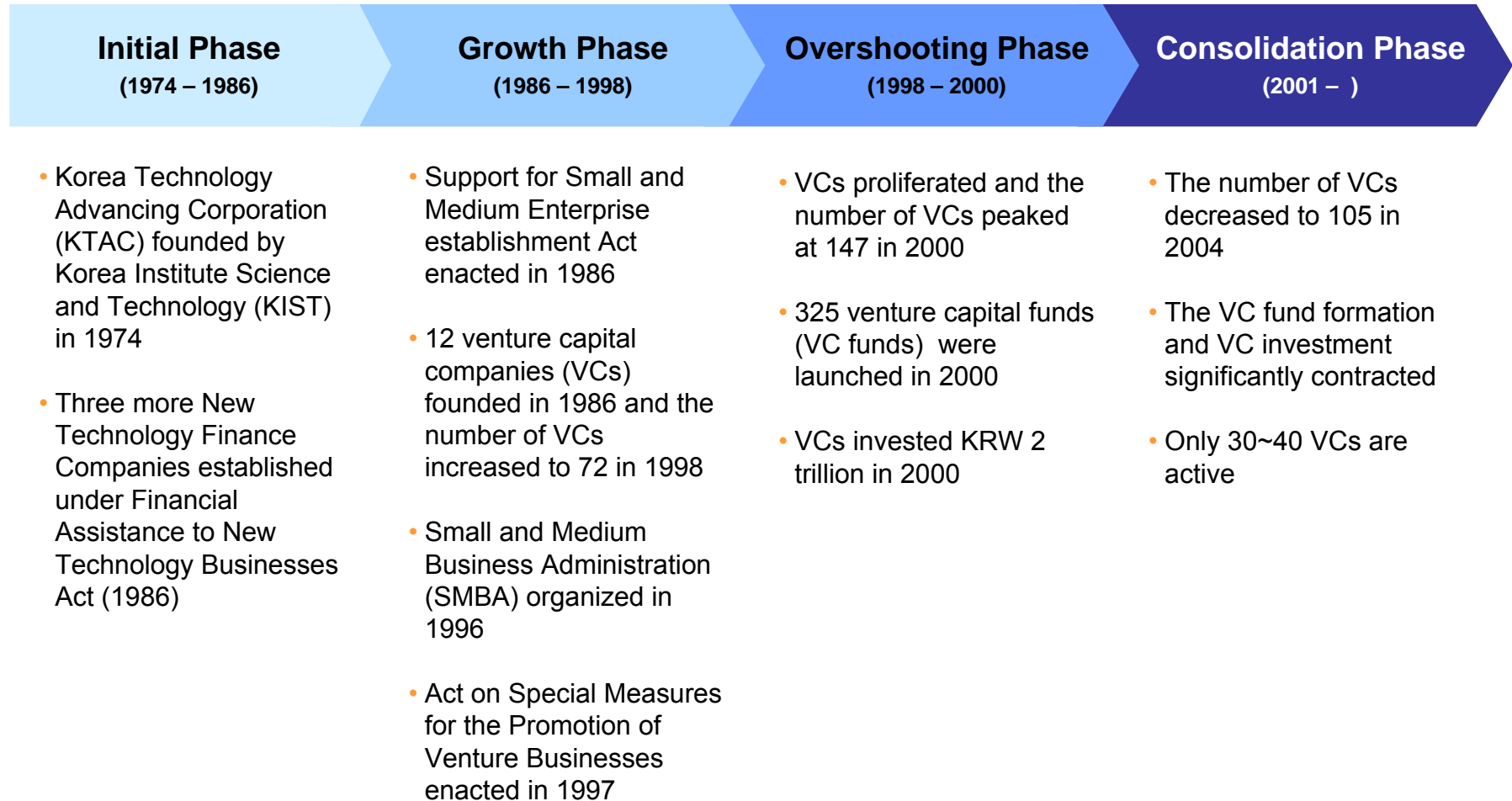
BY EDUCATION



Source: 2004 Venture Companies Survey, SMBA / KOVA

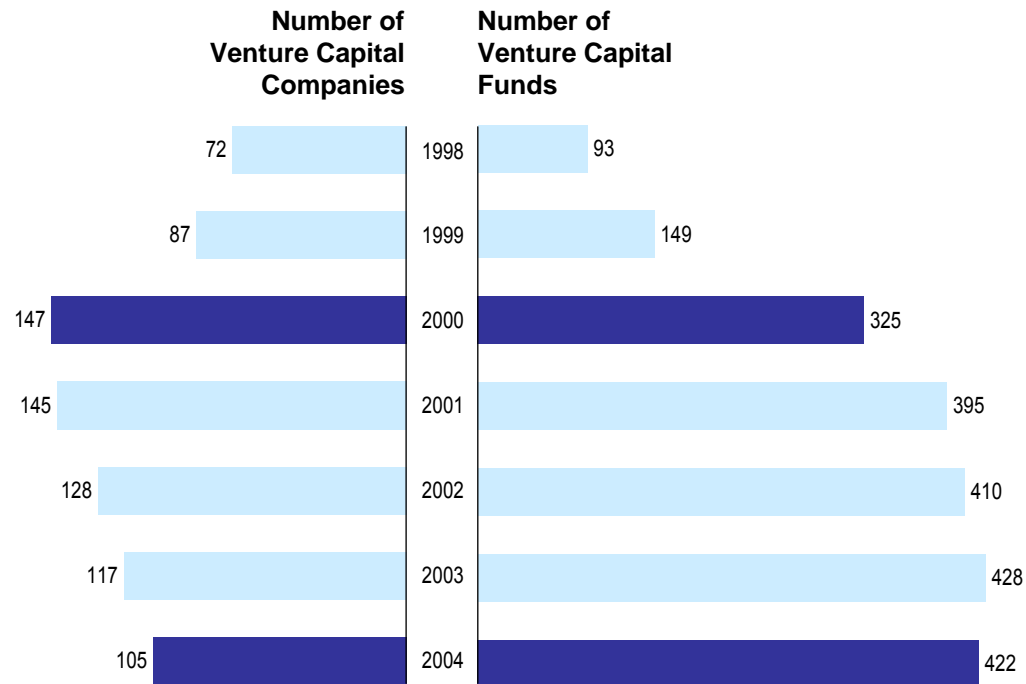
II. VENTURE CAPITAL MARKET

DEVELOPMENT OF VENTURE CAPITAL



II. VENTURE CAPITAL MARKET (continued)

ESTABLISHMENT OF VENTURE CAPITAL COMPANIES AND VENTURE CAPITAL FUNDS, 1998-2004



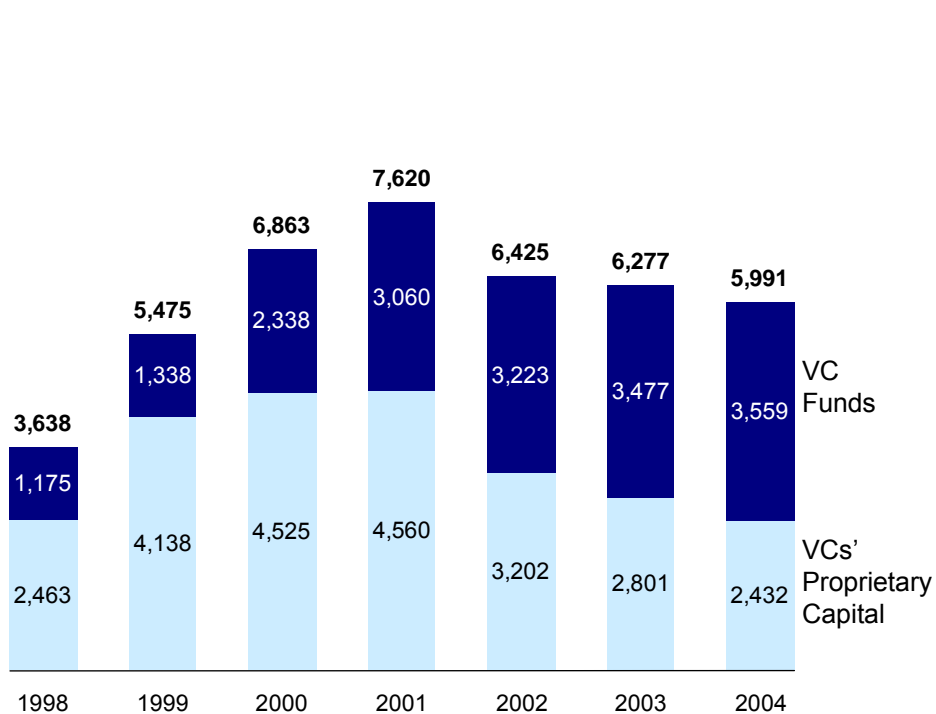
- A venture capital company (VC) acts as a **general partner** and takes a form of a **corporation with a minimum paid-in capital requirement**.
- A venture capital fund (VC fund) is organized in the form of a **limited partnership** and managed by a VC.

Source: SMBA

II. VENTURE CAPITAL MARKET (continued)

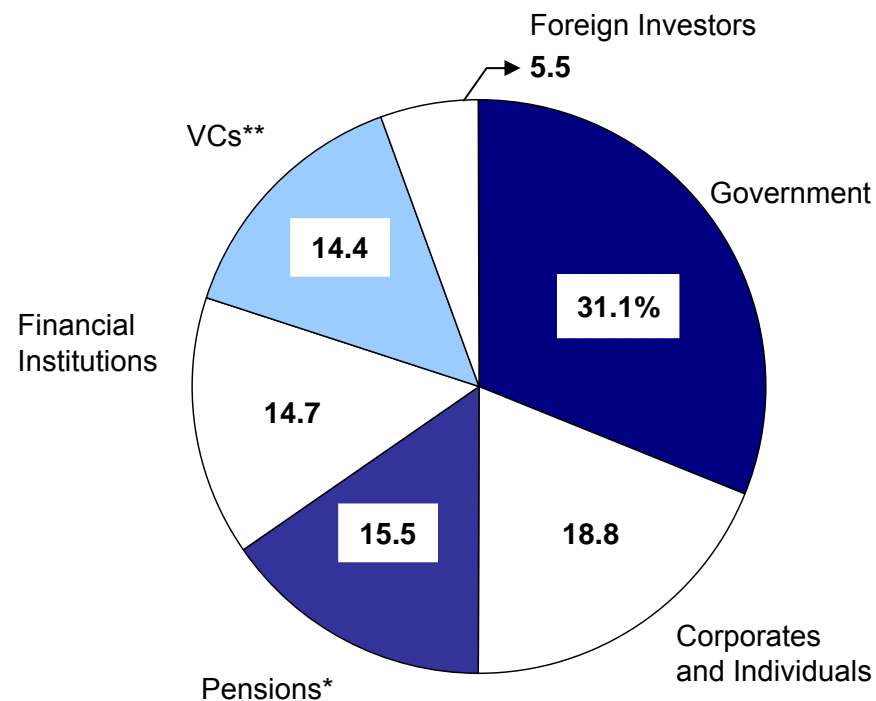
AGGREGATE FUND SIZE, 1998-2004

KRW billion



LIMITED PARTNERS OF VC FUNDS BY TYPE, 2004

Total = KRW 3,559 billion

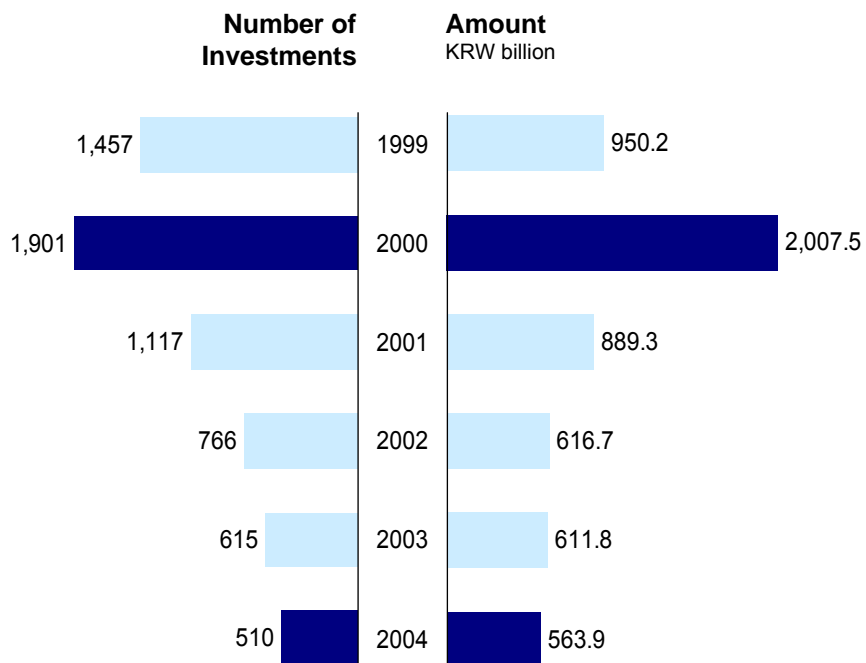


* The National Pension Act was revised in 2001 and the National Pension Corporation started to invest in VC funds in 2002

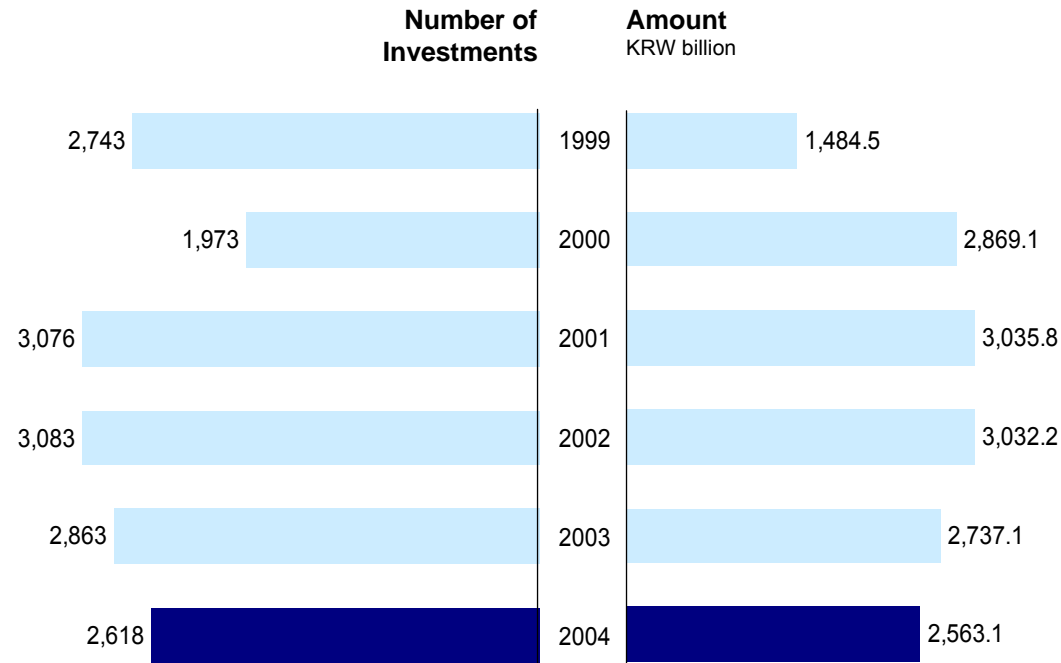
** Equivalent to general partner contribution to VC funds

II. VENTURE CAPITAL MARKET (continued)

INVESTMENT BY YEAR, 1998-2004



AGGREGATE INVESTMENT BY YEAR, 1998-2004

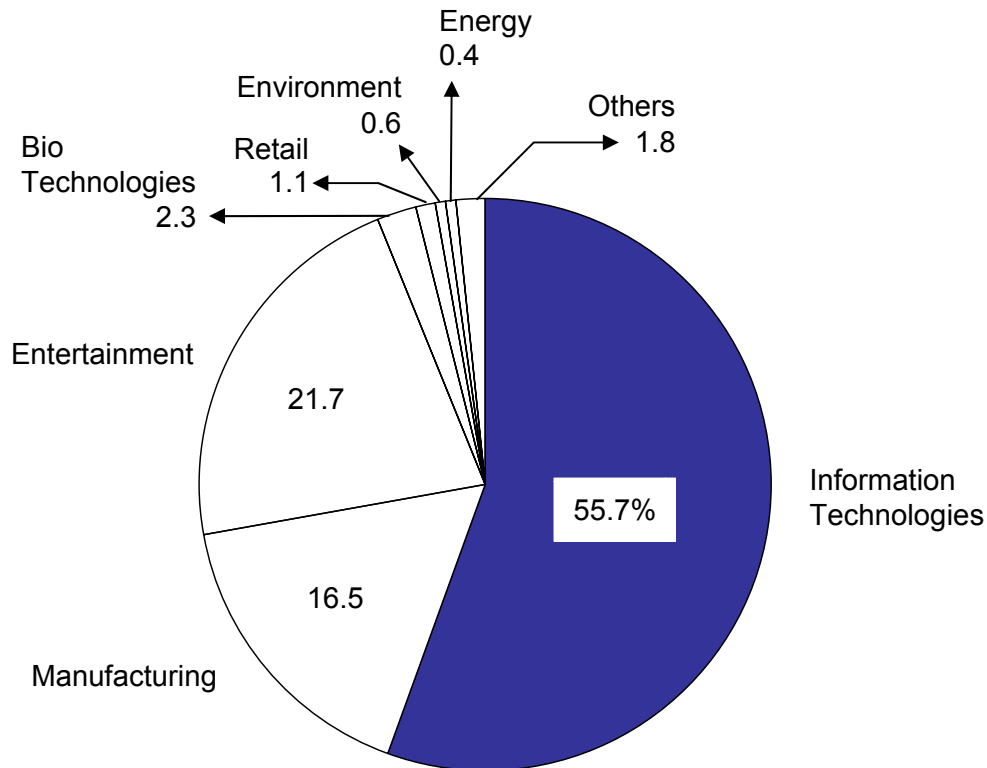


Source: SMBA

II. VENTURE CAPITAL MARKET (continued)

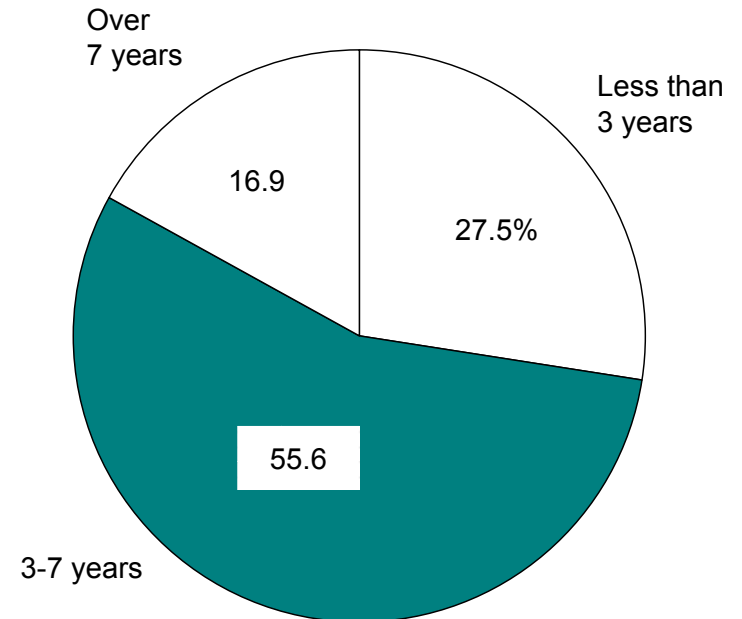
INVESTMENT BY INDUSTRY, 2004

100% = KRW 563.9 billion



INVESTMENT BY STAGE, 2004

100% = KRW 563.9 billion

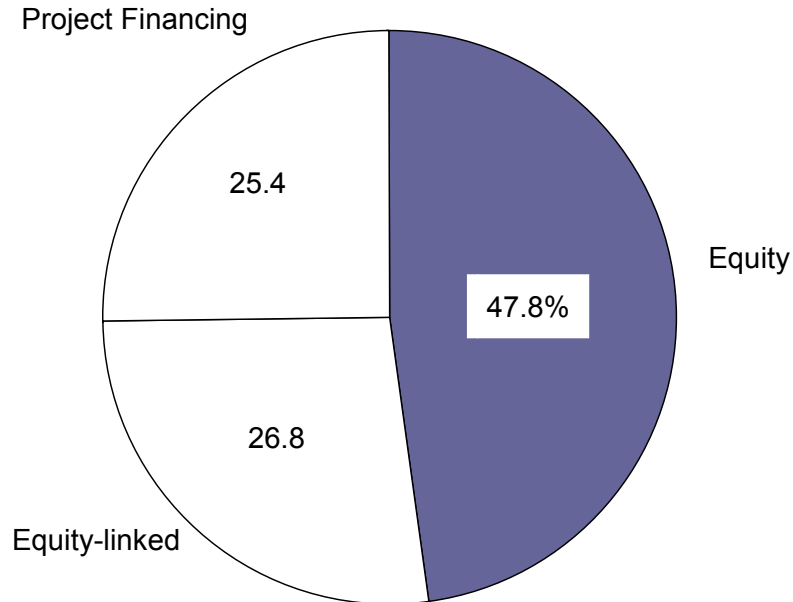


Source: SMBA

II. VENTURE CAPITAL MARKET (continued)

INVESTMENT BY INSTRUMENT, 2004

100% = KRW 563.9 billion



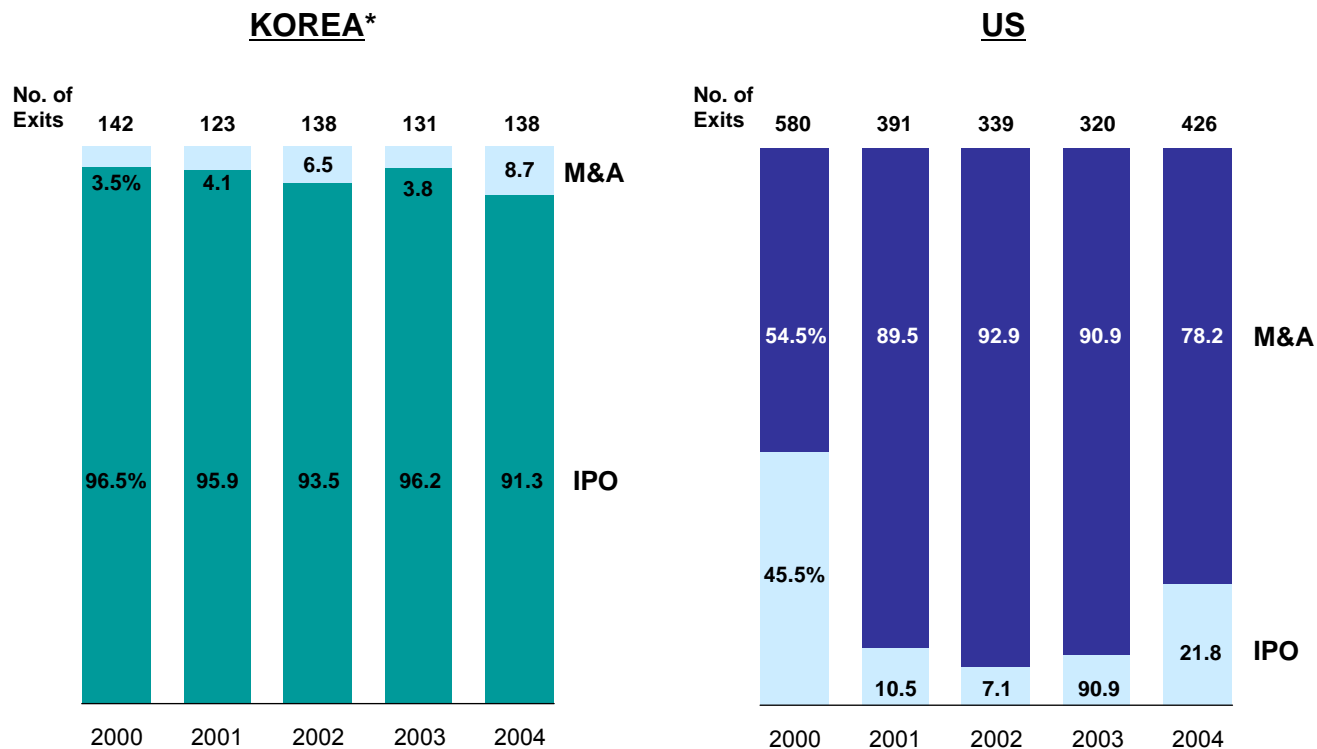
Comments

- The common form of an equity investment has been the common stock.
- Recently, VCs started to employ preferred stocks (redeemable and convertible).
- VCs are legally prohibited from using straight debt instruments.
- The project financing is usually used for financing the production of films, games, and music, etc.

Source: SMBA

EXIT BY TYPE, 2000-2004

Number of Exits



Reasons for Inactive M&A Market in Korea

- Still negative connotation attached to M&A
- Unfavorable tax implications of equity swap
- Ceiling on conglomerate's total shareholding deters large corporations from acquiring venture companies.

* Based on survey data from 43 VCs

II. VENTURE CAPITAL MARKET (continued)

KOSDAQ

	1997	1998	1999	2000	2001	2002	2003	2004	2005.4
Number of Listed Companies*	359	331	453	604	721	843	879	890	880
Total Market Capitalization* (KRW trillion)	7.1	7.9	98.7	29.0	51.8	37.4	37.4	31.1	37.1
Number of IPOs	83	8	164	231	177	157	71	52	16
Number of IPOs of Venture Companies	NA	NA	65	117	137	108	59	37	11
Number of IPOs of VC-backed companies	NA	NA	NA	NA	NA	59	36	26	11

* As of each year-end

Source: Korean Stock Dealers Association

III. GOVERNMENT INITIATIVES

GOVERNMENT POLICIES FOR VENTURE FINANCING

Infrastructure Building

- Nurture and strengthen venture capital
- Revitalize KOSDAQ
- Activate M&A market
- Restructure OTC market
- Enhance tax benefits

Direct Support

- Policy loans
- Credit guarantees

III. GOVERNMENT INITIATIVES (continued)

MAJOR GOVERNMENT VENTURE POLICIES BY STAGE*

Start-up

- **Secure resource of venture capital**
 - Fund-of-funds investing in VCs (KRW 1 trillion by 2008)
 - KDB-private joint fund investing in start-ups (KRW 200 billion)
- **Bail-out program**
 - Loans support for viable venture companies after feasibility test

Growth

- **Expand financial support & venture-related information infrastructure**
 - Increase guarantee for venture companies (KRW 10 trillion by 2007)
 - Encourage large companies' investment in SMEs
- **Place priority on SME products in public procurement**

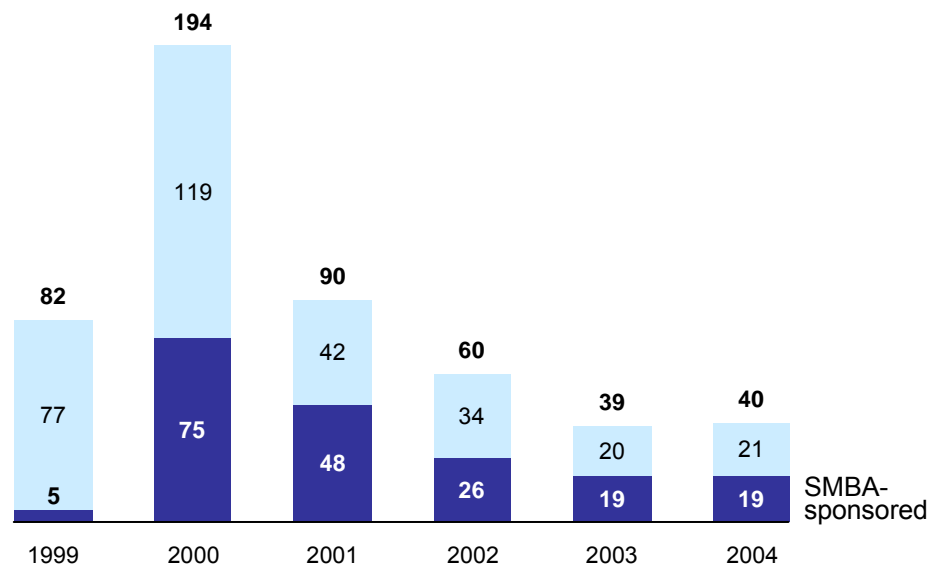
Maturity / Restructuring

- **Revitalization of KOSDAQ**
 - Easing price fluctuation limits
 - More tax benefits to listed companies
 - Promotion of M&A

* Announced on December 24, 2004

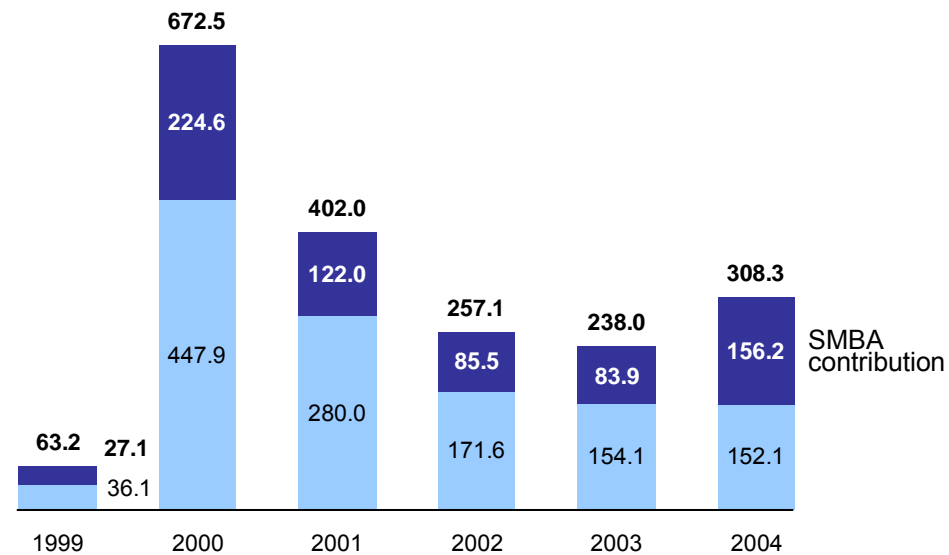
III. GOVERNMENT INITIATIVES (continued)

NUMBER OF SMBA-SPONSORED VENTURE CAPITAL FUNDS, 1999-2004



SMBA CONTRIBUTION TO SMBA-SPONSORED VENTURE CAPITAL FUNDS, 1999-2004

KRW billion



Source: SMBA

III. GOVERNMENT INITIATIVES (continued)

POLICY LOANS AND CREDIT GUARANTEES FOR SMEs, 2005

- Budgets for Policy Loans**

(Unit: KRW billion)

	Budgets	Amount per Company
Funds for Restructuring, Improvement and Stabilization	1,750.0	Up to 3.0 for restructuring; 1.0 for fostering knowledge-based industries; and 1.0 for stabilization
Funds for Small Businesses	510.0	Up to 0.5
Funds for Industrial Base	363.3	NA
Funds for Start-up SMEs and Ventures	350.0	Up to 1.0
Funds for Cooperation Support	240.0	Up to 4.0/2.0/0.5
Funds for R&D & Commercializing Patented Technologies	80.0	Up to 0.5
Funds for Export Financing	70.0	Up to 2.0
Funds for Asset-based Securitization	50.0	NA
Funds for Traditional Market Redevelopment	20.0	NA
Total	3,433.3	

- Credit Guarantees**

- Total amount of guarantees: KRW 43 trillion

III. GOVERNMENT INITIATIVES (continued)

COMPONENTS AND MATERIALS TECHNOLOGY DEVELOPMENT PROJECT

