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Korea Startup Funding Ecosystem and Role of KVIC

Korea Venture Investment Corp.

Venture Financing Research Institute

Head of Institute

Jinsuk Lee

Presenter Introduction

- **Computer Science Engineering, MBA**
- **LG Electronics – Mobile Research Lab, SW Developer**
- **POSCO – CVC Team**
- **VC – Early Stage, Young Entrepreneur, Secondary**
- **KVIC – Fund Investment Team,**

Venture Financing Research Institute

Currently leading the Research Institute

Agenda

- ① Korea VC History
- ② Role of KVIC & KFoF
- ③ Future of KVIC & KFoF
- ④ Recommendation

① Korea VC History

Korea VCs were established in the 1970s under Government Leadership.

Introduction Phase(1970s~)

- ✓ **The Government established Government-led VCs.**
 - There were no privately established VCs yet.
- ✓ **The Relevant Regulations were lacking.**
 - The primary sources of revenue were not investments, but loans and leasing.
- ✓ **Some Venture Capitalists invested in Korea's First PC Manufacturer.**

개인용 컴퓨터
Personal Computer
TriGem
드라이젬
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대어 전국 실업률 20%에 2,000여명 개인 연세
일천원로 하일르에 국내 250여 중소기업에, 프
공-고-대만 118개교, 1,000여명의 개인 일
6,000여대가 대량판매에서 그 이상의 주수장을
인정받아 활용중에 있습니다. 또한 컴퓨터의
분기적인 이익을 비롯 커나나, 호운 글에도 수
공하고 있는 가장 완벽한 국산 컴퓨터입니다.

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주식 엘릭스 주식회사 대표이사 김기현

① Korea VC History

In the mid-1980s, Regulations were prepared, and Private Association was established.

Legalization Phase(1986~)

- ✓ **The Relevant Regulations were prepared.**
 - However, two similar regulations were prepared:
one with a focus on SME, the other with on Finance.
 - The responsible ministries were different.
- ✓ **Several Private VC Firms were established.**
- ✓ **Twelve VC Firms came together to form the First VC Association.**



KVCA
한국벤처캐피탈협회
Korea Venture Capital
Association

① Korea VC History

The IMF Crisis triggered Venture Investment, but adjusted.

Growth & Adjustment Phase(1996~)

- ✓ **The IMF Crisis erupted in 1997.**
 - Mass layoffs led to the emergence of a pool of talented professionals in the job market.
 - Startups gained attention as an alternative.
- ✓ **Support measures related to KOSDAQ and startups were implemented.**
 - Many VC firms(91s in 2 years) were established.
 - Huge investment(1.7B USD in a year) was carried out.
- ✓ **The Bubble Burst.**



① Korea VC History

The establishment of KFoF and KVIC contributed to Stable Growth Trajectory.

Renewal Phase(2005~)

✓ **KFoF & KVIC was launched in 2005.**

- To nurture startups one again, inconsistent government policies were implemented.
- KFoF(Korea Fund of Funds) was launched to pursue centralized policy.
- KVIC was designated as the GP of KFoF.

Growth Phase(2010s~)

✓ **The Mobile Era has begun in 2010s.**

- The launch of smartphones marked the beginning of the mobile era.
- ICT service & early-stage investments expanded.

✓ **TIPS was lunched 2013**

- The public-private joint venture nurturing program TIPS was implemented and successfully nurtured numerous startups.



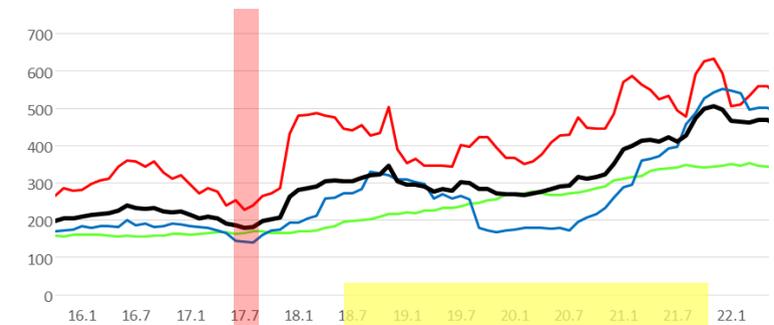
KVIC
Korea Venture Investment Corp.



Budget and Liquidity rule the World.

Boom Phase(2017~)

- ✓ **The Budget for KFoF has been increasing since 2017.**
 - The budget doubled, and venture investments increased.
 - Strategic investments, foreign players, and PE entered the market.
- ✓ **The COVID-19 pandemic led to increased liquidity.**
 - Investments lagged for a while, but they soon rebounded and expanded further.
- ✓ **However, a Challenging Phase lies ahead.**



Index graph for

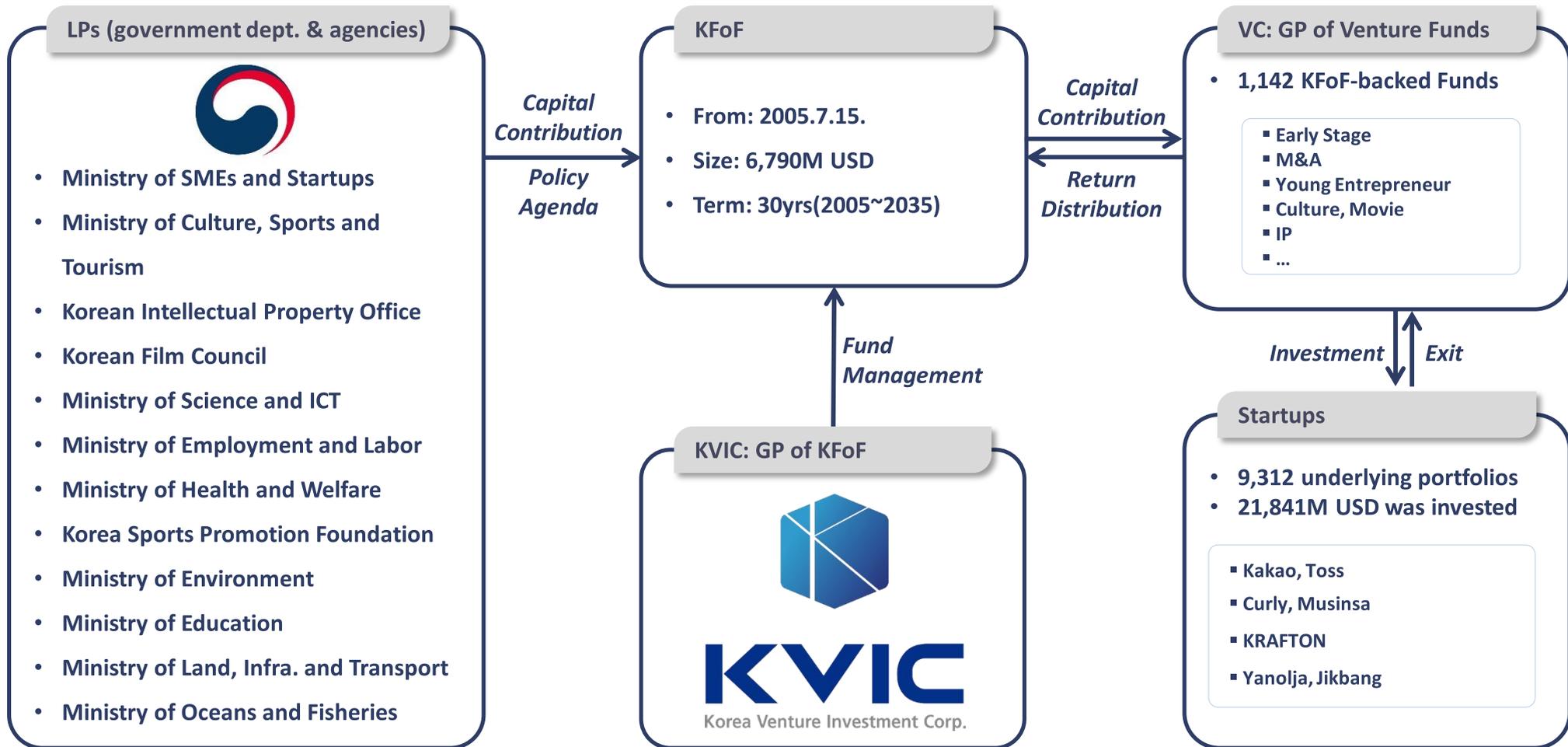
- Fundraising
- Investments
- Exit
- Total

Agenda

- ① Korea VC History
- ② **Role of KVIC & KFoF**
- ③ Future of KVIC & KFoF
- ④ Recommendation

② Role of KVIC & KFoF

The main Role is serving as the GP of the KFoF

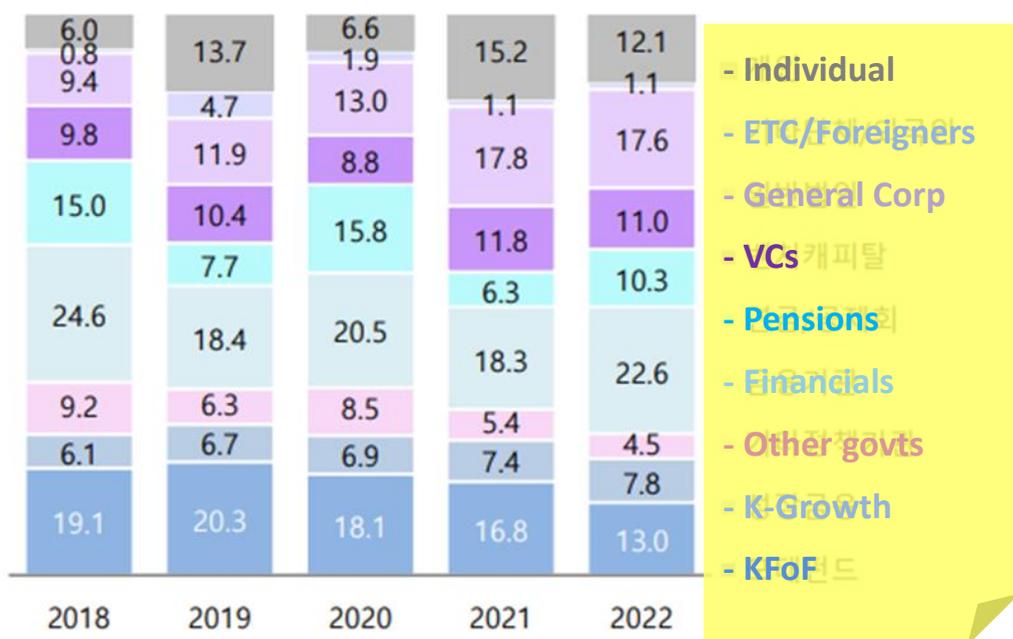


Source: KVIC, March 2023

② Role of KVIC & KFoF

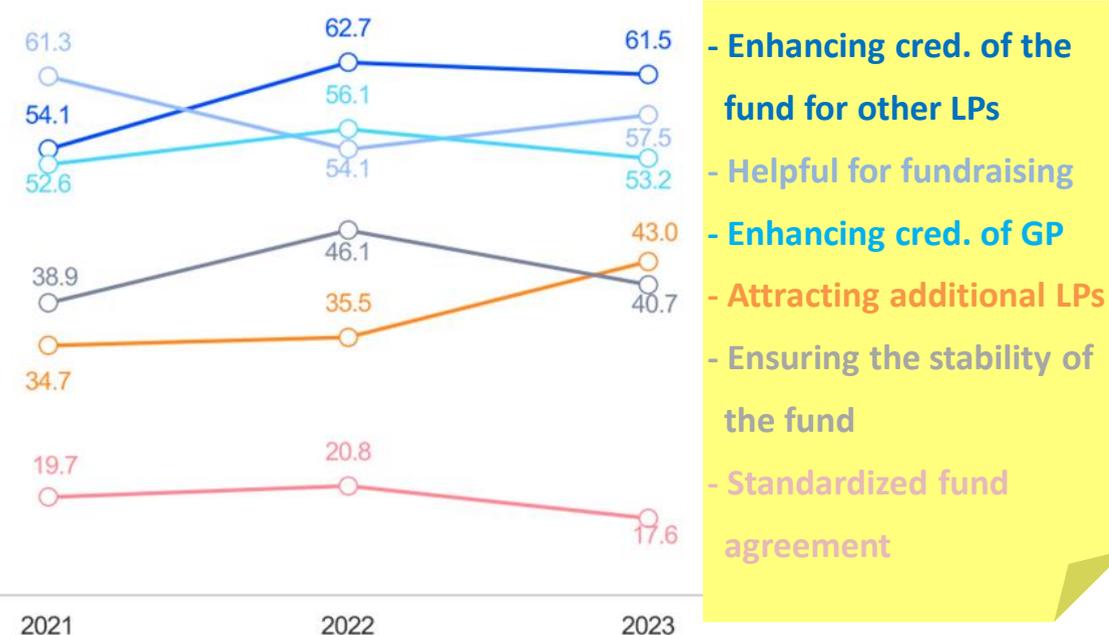
KFoF is the largest single LP and drives capital inflow

New VC Funds LP Proportion(%)



Source: KVCA, March 2023

Positive Impact of KFoF(%)

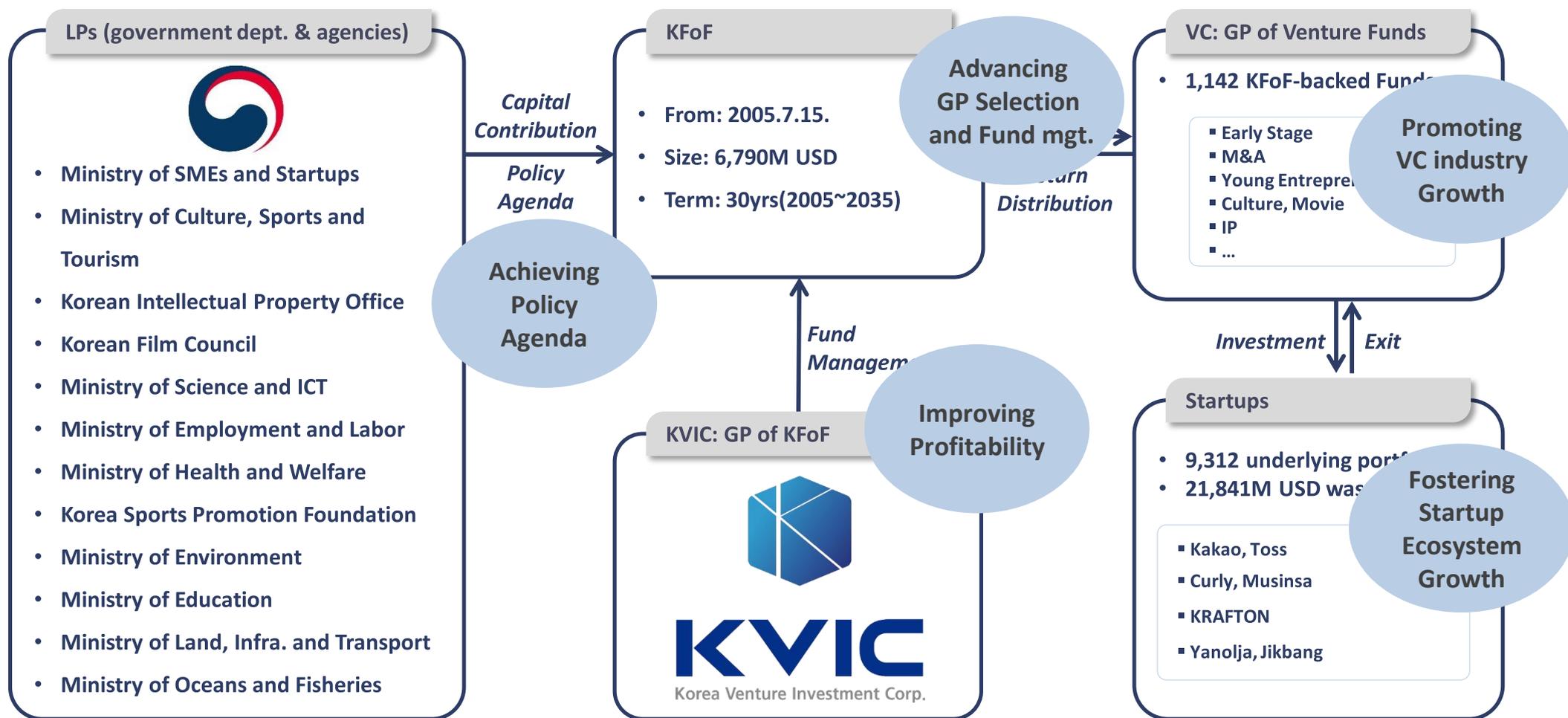


Source: KVIC, VC Trend Report 2023

Anonymous VC: "Thanks to KFoF, many startups were able to emerge, and Korea Startup Funding Ecosystem has advanced. KFoF plays a significant role in providing credibility to other LPs."

② Role of KVIC & KFoF

We can list five Main Objectives



Source: KVIC, March 2023

② Role of KVIC & KFoF

Here are the KPIs that KVIC has achieved

88.1% (37/42)

Domestic Unicorn Creation Rate

62.5% (247/395)

KOSDAQ Listed Company Creation Rate
(recent 5 years)

316,749 (FY22)

Job Creation of
Underlying Portfolio Companies

3.32X (FY22 to FY17)

Sales Growth Rate of
Underlying Portfolio Companies

65.4% (FY22)

7 year survival rate of
Underlying Portfolio Companies

22.98% (Top 25% funds)

IRR(ROR) of liquidated funds

16 / \$11B ('23.2Q)

Numbers / Size of KVIC FoFs

1,268 / \$40.3B ('23.2Q)

Numbers / Size of
KVIC Underlying Funds

10,499 / \$28.2B ('23.2Q)

Underlying Portfolio Companies
/ Total Investments

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There are different views on who should take the lead in fostering startups

Should be left to private initiative

- ✓ It should be left to private initiative
- ✓ The more the government supports, the more the market loses its self-sufficiency
- ✓ Look at the United States

VS

Should led by the government

- ✓ Capitalism is a winner-takes-all market, so we should also consider social outcomes
- ✓ It should be allowed to foster innovation
- ✓ While we may not know the future, government-led initiatives are appropriate at present

③ Future of KVIC & KFoF

Considering Sustainable Development, institutions like KVIC are necessary



The Social Value generated by KFoF is understood to cover all 17 SDGs. In particular, SDGs 8, 9 and 11.

(8. Decent Work and Economic Growth / 9. Industry, Innovation and Infrastructure / 11. Sustainable Cities and Communities)

③ Future of KVIC & KFoF

Various publicly-oriented funds are being operated not only in Korea but also in foreign countries

EIF (European Investment Fund)

- ✓ **A publicly-oriented FoFs established in 1994 to support SME within Europe**
 - To facilitate funding for SME and attract private capital into the VC market
 - Also make efforts to support ESG principles and UN Sustainable Development Goals.

VCAP, VCC (Canada)

- ✓ **For Sustainability in the Canadian VC industry and facilitate funding for innovative startups**
 - Established the fund through VCAP and invested in private FoFs
 - Also invested in outstanding private VC funds with a track record of success

Other Europe FoFs

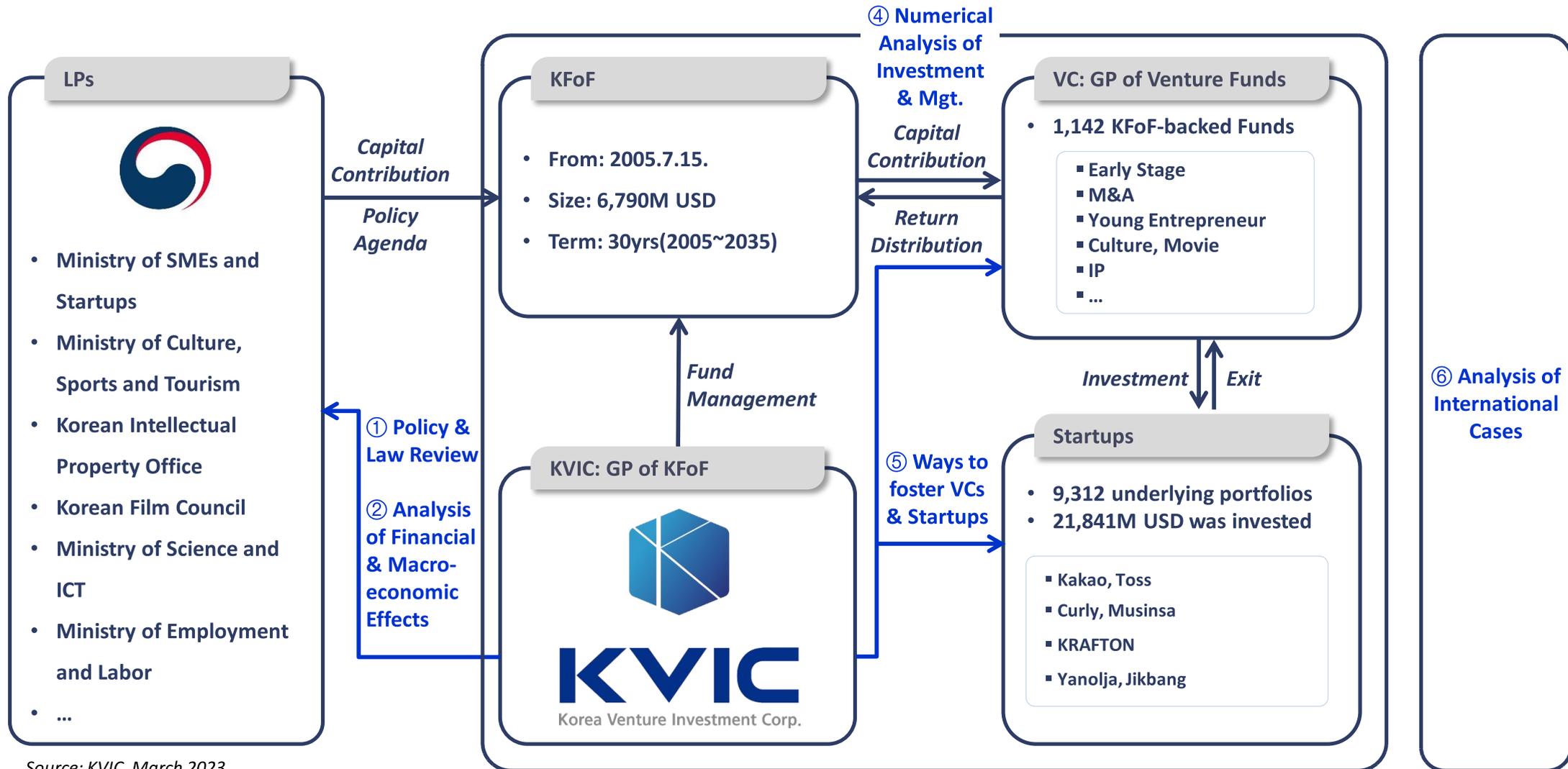
- ✓ **Danish Growth Capital**
 - FoFs operated by the Demark government
- ✓ **Empresa Nacional de Innovacion SA(ENISA)**
 - FoFs operated by ENISA, a government agency in Spain
- ✓ **Moreover, the majority of European countries operate similar funds**

Alberta Enterprise Corporation (Canada Alberta)

- ✓ **To foster the VC industry, the Alberta provincial government made it**
- ✓ **Other provincial governments are operating their respective funds**

③ Future of KVIC & KFoF

To improve the Startup Financing Ecosystem, we are focusing on six research areas



Source: KVIC, March 2023

③ Future of KVIC & KFoF

KVIC accumulated huge data about Venture Investment, and this will shape our future



We plan to establish the infrastructure for KVIC data and services to become globally competitive. Through this, we will achieve the advancement of KFoF.

Agenda

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④ Recommendation

Consolidate the relevant regulations and statistics

Legalization Phase(1986~)

- ✓ **The Relevant Regulations were prepared.**
 - However, **two similar regulations were prepared: one with a focus on SME, the other with on Finance.**
 - **The responsible ministries were different.**



- ✓ **So far, the relevant regulations and statistics have been fragmented, leading to various duplication issues.**

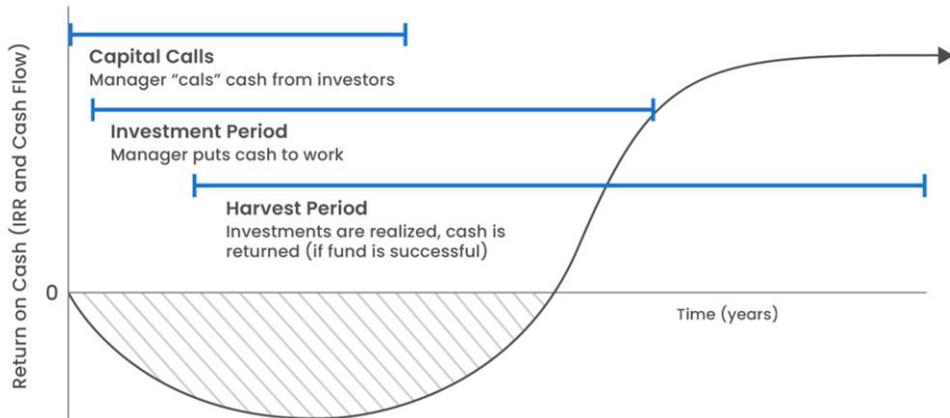
Create centralized Legislation and Statistical Standards under a single government department for more effective management.

④ Recommendation

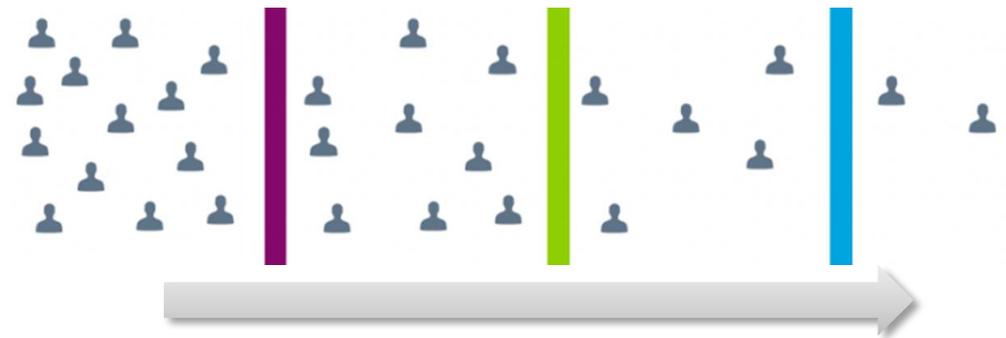
Collect Data, conduct Research, and incorporate it into Policies

However, research cannot commence for at least 15 years.

Typical VC funds are operated for 7 to 10 years



The amount of data that meets specific conditions significantly decreases.

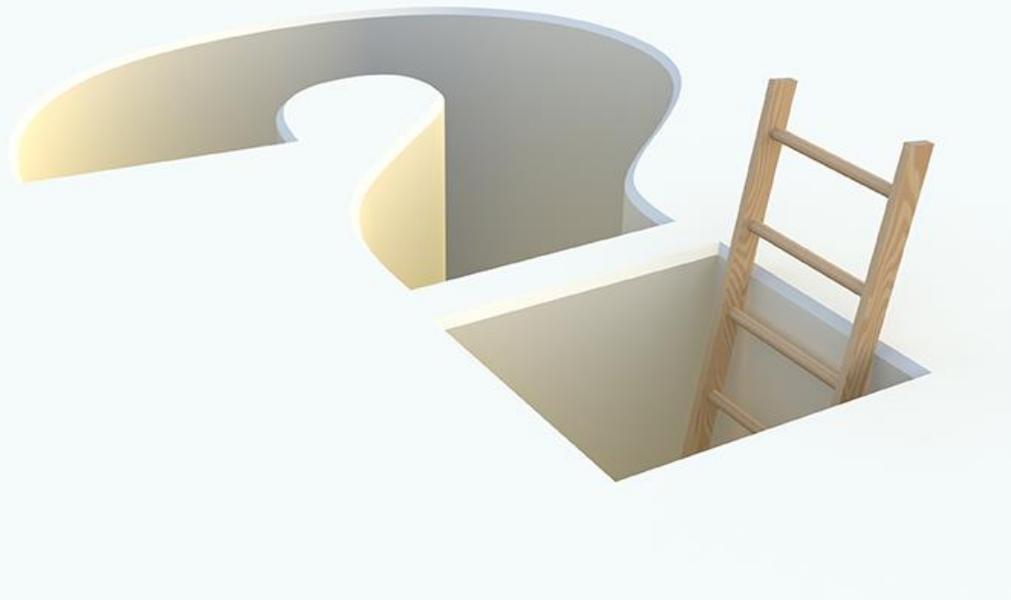


KVIC was established in 2005, but was able to conduct meaningful research around 2020

④ Recommendation

cf) We set and conduct research projects related to the Startup Financing Ecosystem

- ✓ **Is there a correlation between KFoF contribution and overall venture investments in Korea?**
- ✓ **If there is a correlation, how much KFoF budget is needed to induce a certain amount of annual venture investment?**
- ✓ **When startups expand internationally, what kind of effect does ‘flip’ have?**
- ✓ **Is there a minimum required amount for a FoFs to utilize the portfolio diversification effect?**
- ✓ **Do VC investments vary in terms of co-investing based on the industry of the startup?**
- ✓ **Are there differences in investment methods between KFoF and other LPs?**



Q&A