

INVESTMENT
OPPORTUNITIES
IN KOREA

Financial Service



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* Figures on the report show the likely adjustment of average yearly currency rates from Korean Won (KRW) to the US dollar (USD). A rate adjustment is adopted particularly reflecting the recent average market variations to eliminate the valuation effects arising from movements in exchange rates in case when the data expressed shows an annual growth rate on the paper.

* Rate adjusted figures are rounded off, but the sum is correct down or up to the decimal when the rounded values are not equal to the adjustment.



1 Industry Trends

Definition and Classification

[Private equity fund]

- (Definition) The term “private equity” refers to a method of raising funds by placing a small number of investors and investing privately in stocks, etc.,” and the term “private equity fund (hereinafter “PEF”)” refers to a collection of such funds.
 - Various regulations in place to protect investors are exempted because PEF is funded from a small number of investors (up to 49 persons) by private placement rather than public offerings.
 - In Korea, PEF, in legal terms, refers to a private equity collective investment scheme defined in the Financial Investment Services and Capital Markets Act (hereinafter the “Capital Markets Act”).
- (Classification) At present, in Korea, PEFs are divided into two categories: “management participatory PEF” and “specialized investment PEF (hedge funds).”
 - Management participatory PEF: It aims to make a profit by enhancing corporate value through management participation and the restructuring of investment target companies. It is divided into general PEF¹⁾, corporate financial stability PEF²⁾.
 - Specialized investment PEF (Hedge fund): It makes a profit by increasing market value by managing assets with various investment targets and investment strategies (aggressive stock and bond investment, arbitrage, etc.).
- (Industry in Korea) In Korea, PEF stands for “management participating PEF³⁾”
 - The GP is the manager of the PEF and performs the functions of procuring investment funds and executing investment while bearing unlimited liability for creditors.
 - The LP is the investor who has entrusted investment funds and is responsible only for the amount of his/her investment. In general, large private investors and institutional investors such as pension funds and financial institutions are involved.

[Venture capital]

- (Definition) The term “venture capital (hereinafter “VC”)” refers to the “capital or company that invests in the form of stock acquisition, etc., for venture businesses that have technology and are promising but have a weak management base and difficulty in financing through general financial institutions.”
 - In most cases, it is common to make profits in the form of capital gains by disclosing the shares acquired after the investment companies have grown.
- (Industry in Korea) In Korea, VC providers can be categorized into investment associations and investment companies.
 - The provisions of association under the Civil Act shall apply mutatis mutandis to a financing vehicle–type investment association* which is a private equity agreement among investors.



- * The Small and Medium Enterprise Establishment Investment Association (hereinafter the “Establishment Investment Association”) under the Support for Small and Medium Enterprise Establishment Act (hereinafter the “Establishment Support Act”), Venture Investment Association (hereinafter the “Venture Association”) under the Act on Special Measures for the Promotion of Venture Business (hereinafter the “Venture Special Act”), New Technology Investment Association (hereinafter the “New Technology Association”) under the Specialized Credit Finance Business Act (hereinafter the “Credit Act”)
- An investment company, that is, a venture capital company, performs the role of GP that directly invests through unique accounts and raises and manages funds through investment associations.
 - * Establishment investment company (hereinafter the “Establishment Investment Company”) under the Establishment Support Act, limited liability company under the Venture Special Act, New Technology Venture Finance Company (hereinafter the “New Technology Company”) under the Credit Act

1.1 Market Trends in Korea

Recent trends in PEF

- As of the end of 2018, there were a total of 583 management participatory PEFs, which increased by 31.3% as compared to that in the previous year, the highest growth rate since 2011, and 5.3 times higher than that in 2009 when the Capital Markets Act was enforced.
 - * Growth rate of the number of PEFs: 21.2% in 2016 → 15.9% in 2017 → 31.3% in 2018
 - * The number of PEFs: 110 in 2009 → 583 in 2018
- As of the end of 2018, the PEF commitment amount and the implementation amount reached USD 67.7 billion and USD 50.6 billion, respectively, a 19.0% and 22.4% increase, as compared to those in the previous year, respectively.
 - The PEF commitment amount in 2018 increased by USD 10.8 billion from USD 56.9 billion at the end of 2017, and the PEF implementation amount increased by USD 930 million from USD 41.3 billion at the end of 2017.
- In 2018, PEF newly raised USD 14.9 billion, a 65.7% increase as compared to that (USD 8.9 billion) in the previous year, and the number of new PEFs was 198, growing by 46.7% as compared to that (135) in the previous year.

1) PEF that invests and manages financial structure improvement companies
 2) PEF that invests and manages start-ups, business ventures and innovative technology and management SMEs
 3) Therefore, this report also describes the management participatory PEF, and the supervisory authorities publish their official statistics focusing on PEF.

- Of the new PEFs, project PEFs accounted for 147 (74.2%); and blind PEFs, for 51 (25.8%).

- * Project PEF is a PEF established with a predetermined investment target, and the opposite is blind PEF, which is established without a predetermined investment target.

- The fulfillment amount of PEF investment recorded a total of USD 12.6 billion in 2018, the largest ever, and increased by 12.1% compared to that in the previous year (USD 11.2 billion).

- Recorded the largest amount of investment ever, since many large deals were transacted in 2018

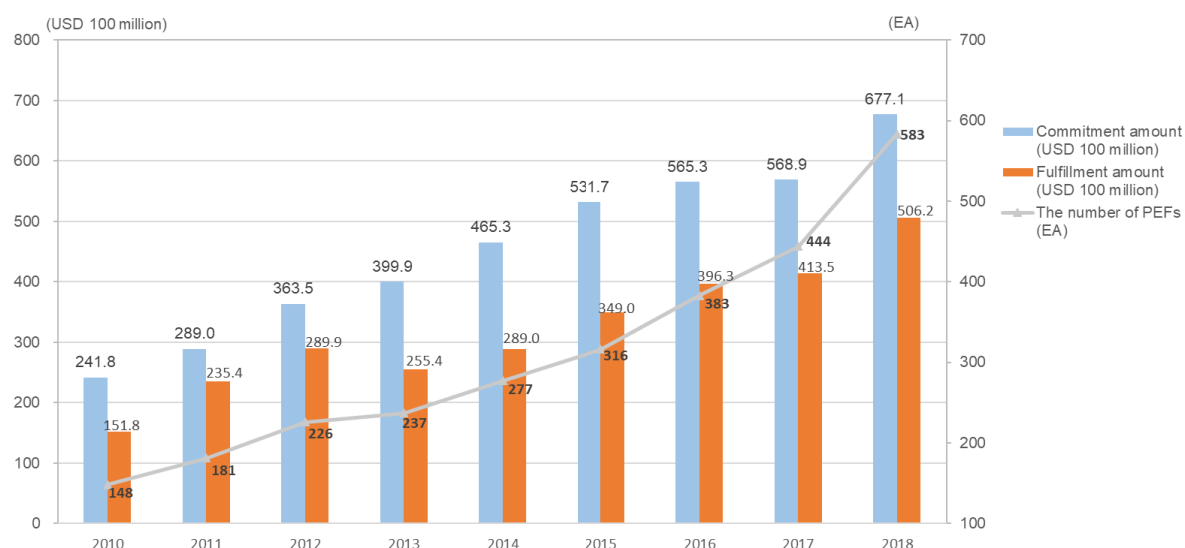
- SK Shipping (USD 1.3 billion, including Hahn&Co), ADT Caps (USD 500 million, including Macquarie Korea), etc.

- Meanwhile, the recovered investment of PEF in 2018 was USD 8.1 billion, increasing by 21.6% as compared to that (USD 6.7 billion) in the previous year, and the number of dissolved PEFs was 55, decreasing from 64 in the previous year.

- Recorded the largest amount of recovered investment, since some major recoveries were made in 2018

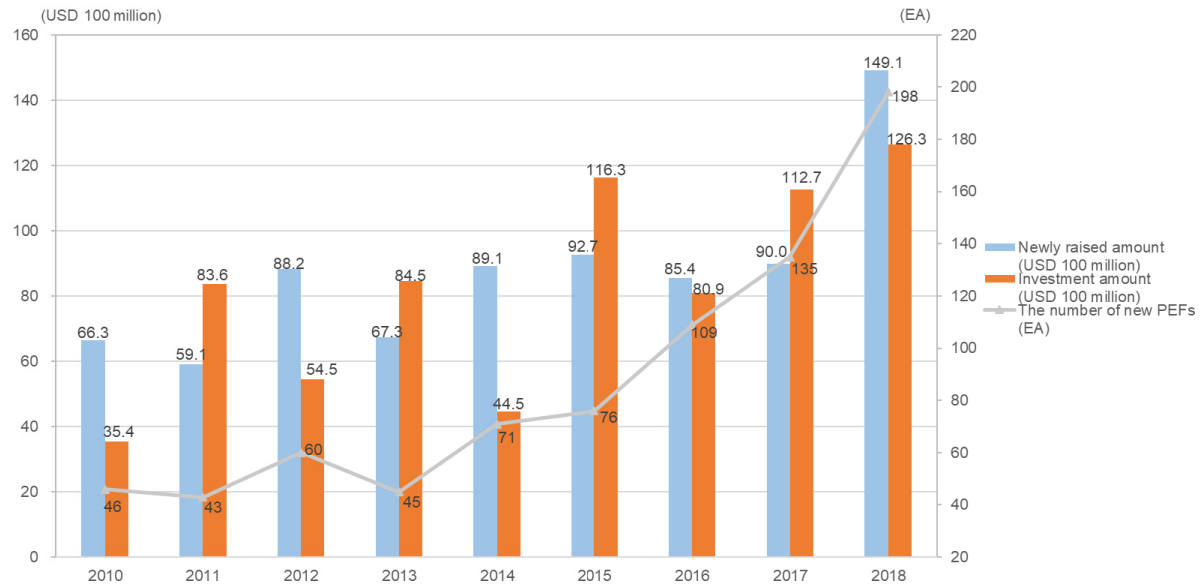
- * Major recoveries in 2018: Orange Life Insurance (MBK Partners: USD 1.18 billion), Doosan Machine Tools (MBK Partners: USD 1.09 billion)

Trends in PEF Commitment Amount, Fulfillment Amount and the Number of PEFs



Source: Financial Supervisory Service

Trends in Newly Raised Funds, Investment Amount and the Number of New PEFs by PEF Year

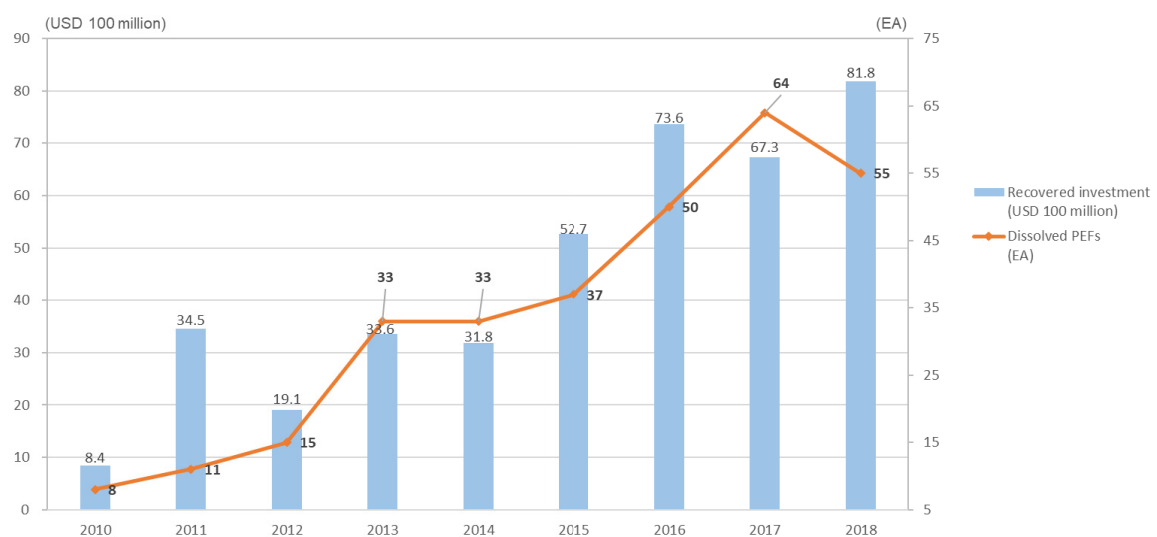


Source: Financial Supervisory Service

- Because many PEFs are about to expire, the recovered investment amount and the number of dissolved PEFs are expected to further increase.

* However, most PEFs have terms that can be extended (generally about two years) with the consent of all staff.

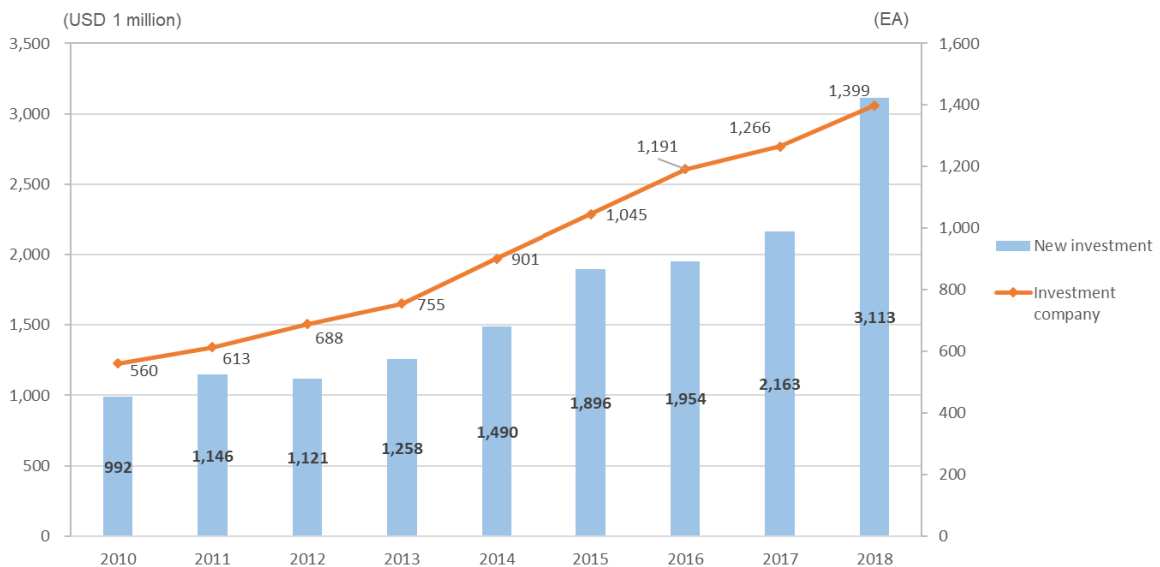
Trends in the Recovered Investment Amount and the Number of Dissolved PEF by PEF Year



Source: Financial Supervisory Service

Recent trends in VC

New VC Investment by Year



Source: Korea Venture Capital Association, Ministry of SMEs and Startups

- In 2018, new investments in VC reached USD 3.11 billion, increased by USD 950 million, as compared to that in the previous year, achieving high records, and the number of investment companies reached 1,399.
 - In 2018, the new venture investment growth rate was 43.9%, and the investment company growth rate was 10.5%. Moreover, the average investment amount per company also increased to USD 2.23 million from USD 1.71 million in the previous year.
- In 2018, regarding new investments by industry, the biomedical sector accounted for the largest share, amounting to USD 7.64 million (24.6%), followed by USD 6.78 million (21.8%) for ICT services, and USD 5.2 million (16.7%) for distribution and service.
 - Compared to the data, the biomedical sector, which was in third place in 2017, ranked first in 2018, ahead of the ICT service, which ranked first in 2017.
 - In terms of growth rate, the biomedical sector increased by 122% yearly, ICT services increased by 44.8%, and only ICT manufacturing declined (by -4.9%).
- In terms of investments at the corporate stage, new investments in 2018 amounted to USD 7.18 million (36.8%) in the initial stage, USD 5.59 million (28.6%) in the mid stage, and USD 6.76 million (34.6%) in the latter stage.

- The share of the latter stage, which had been the highest since 2009, dropped to less than 40% for the first time in eight years. The investment in the initial stage became accounted for the largest share.
- Compared to 2015, investments in the initial and mid stage increased by 5.8% and 0.7%, respectively, while investments in the latter stage decreased by 6.4%.

New Investment Trends by Sector

(Unit: USD million, %)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| ICT manufacturing | 177 (11.9) | 133 (7.0) | 87 (4.5) | 142 (6.6) | 135 (4.3) |
| ICT service | 174 (11.7) | 365 (19.3) | 369 (18.9) | 469 (21.6) | 679 (21.8) |
| Electric, machinery, equipment | 142 (9.5) | 147 (7.8) | 193 (9.9) | 219 (10.2) | 272 (8.7) |
| Chemical/material | 75 (5.0) | 135 (7.1) | 136 (7.0) | 115 (5.3) | 123 (3.9) |
| Bio/medical | 266 (17.9) | 288 (15.2) | 426 (21.8) | 344 (16.0) | 765 (24.6) |
| Media, performance, music | 254 (17.0) | 246 (13.0) | 243 (12.5) | 261 (12.0) | 302 (9.7) |
| Game | 160 (10.7) | 153 (8.1) | 130 (6.6) | 115 (5.4) | 128 (4.1) |
| Distribution and service | 186 (12.5) | 276 (14.6) | 227 (11.6) | 381 (17.6) | 520 (16.7) |
| Others | 56 (3.8) | 152 (8.0) | 143 (7.3) | 117 (5.3) | 188 (6.1) |
| Total | 1,490 (100) | 1,895 (100) | 1,954 (100) | 2,163 (100) | 3,112 (100) |

Source: Korea Venture Capital Association, Ministry of SMEs and Startups

Note: Ratio in parentheses

Status of Investment by Corporate Stage

(Unit: USD million,%)

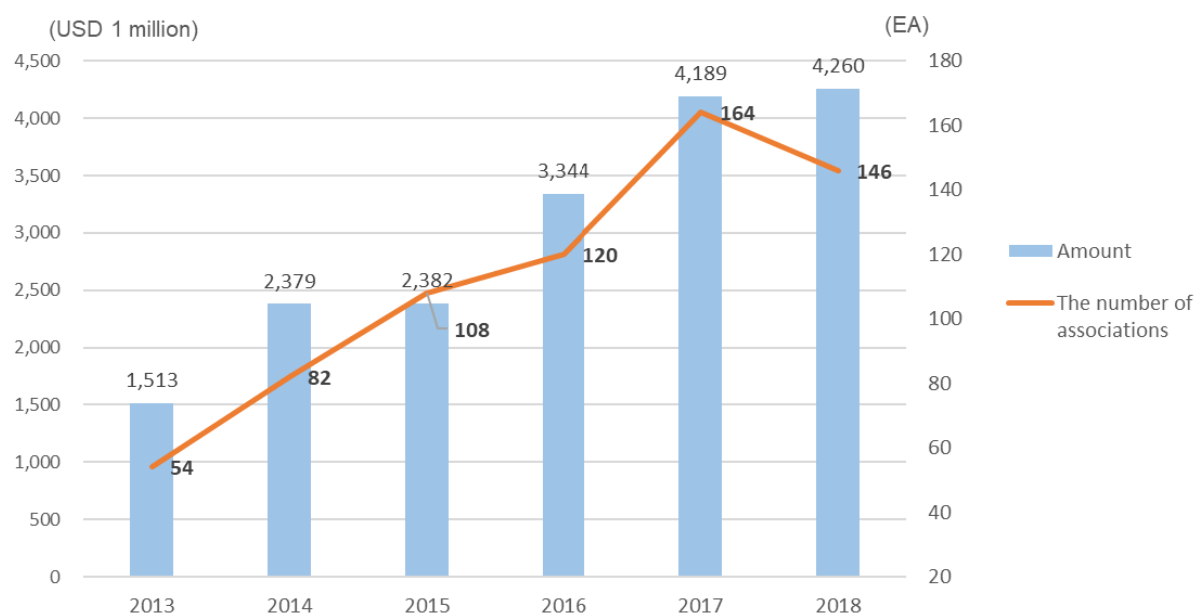
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Initial stage (3 years or less) | 290 (29.3) | 338 (29.5) | 336 (30.3) | 336 (26.7) | 459 (30.8) | 588 (31.0) | 719 (36.8) | 708 (32.7) | 892 (28.6) |
| Expansion period (3-7 years) | 264 (26.6) | 330 (26.1) | 285 (25.4) | 296 (23.5) | 370 (24.8) | 530 (27.9) | 559 (28.6) | 604 (28.0) | 1,085 (34.8) |
| Later stage (More than 7 years) | 438 (44.1) | 508 (44.3) | 500 (44.6) | 626 (49.7) | 661 (44.4) | 778 (41.0) | 676 (34.6) | 851 (39.3) | 1,136 (36.5) |
| Total | 992 (100) | 1,146 (100) | 1,121 (100) | 1,258 (100) | 1,490 (100) | 1,896 (100) | 1,954 (100) | 2,163 (100) | 3,113 (100) |

Source: Korea Venture Capital Association, Ministry of SMEs and Startups

Note: Ratio in parentheses

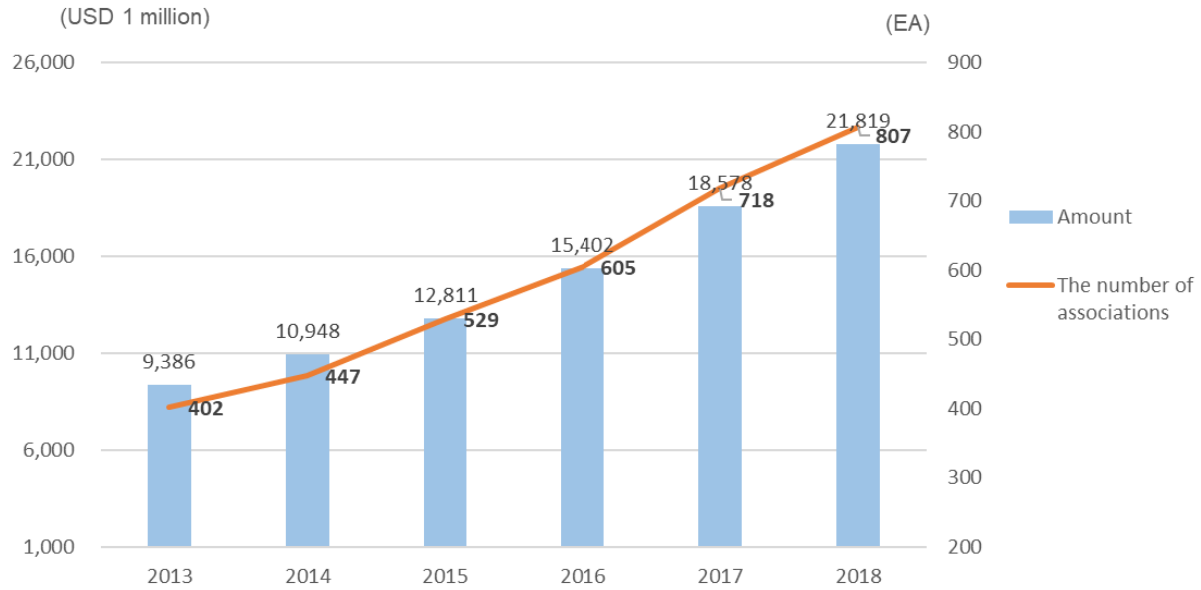
- In terms of fundraising, 146 venture funds (start-up investment associations and venture investment associations) were formed in 2018, and USD 4.26 billion was accumulated, which was slightly higher than USD 4.18 billion raised in the previous year and broke the highest record ever.
 - With the number of new associations decreasing, the amount of formation per association increased to USD 29.1 million, a USD 3.6 million increase from USD 25.5 million in the previous year. As more than or equal to 10 associations with USD 90.8 million or more were formed for the first time, the venture funds became increasingly larger.
 - * Large funds with USD 90.8 million or more: 4 in 2017 → 12 in 2018
- As of 2018, the number of associations in operation is 807, the operating amount is USD 21.8 billion, and the average operating amount per association is about USD 27 million.
 - The number of associations, the operating amount, and the average operating amount per association increased by 89 units, USD 30.7 million and USD 1.1 million, respectively, as compared to those in the previous year.

Amount and Number of New Associations by Year



Source: Korea Venture Capital Association, Ministry of SMEs and Startups

Amount and the Number of Associations in Operation by Year



Source: Korea Venture Capital Association, Ministry of SMEs and Startups

- In 2018, the return on investment was USD 2.433 billion from a total of 1,328 companies, which is the highest record ever.

 - Compared to 1,199 companies and USD 1.632 billion in 2017, the number of companies increased by 10.8%, and total recovery increased by 49.1%.
 - * Total recovery: Investment principal + revenue (including settlement and interim recovery)

Recovery Performance Compared to Investment Principal of Venture Investment

(Unit: USD million, times)

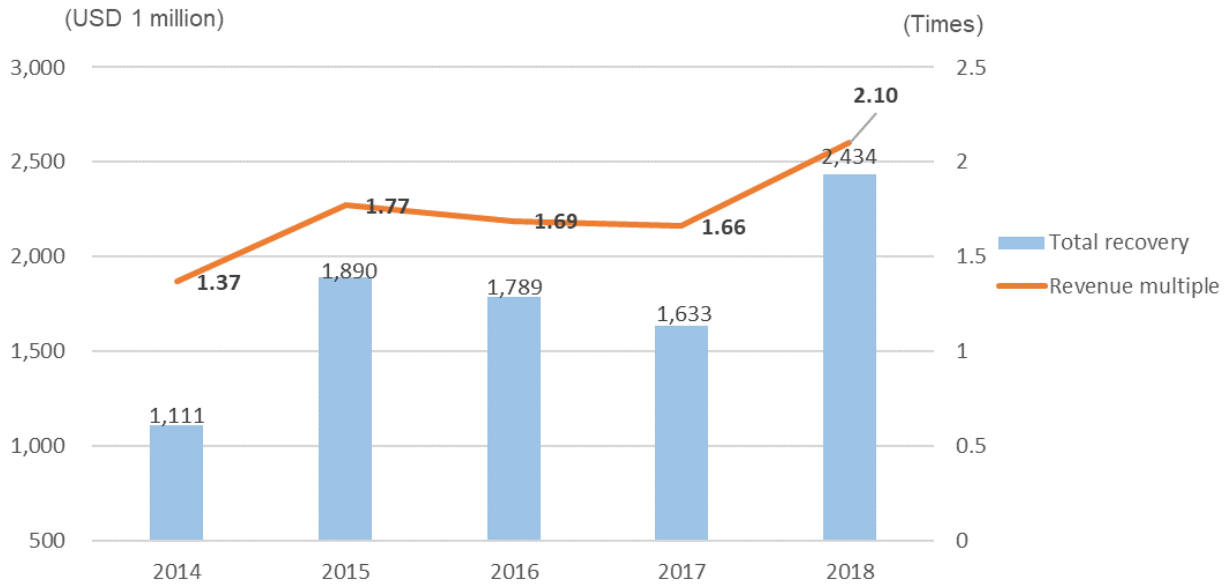
| Classification | Total recovery (A=B+C) | Recovered principal (B) | Recovered revenue (C) | Revenue multiple (multiple, A/B) |
|----------------|------------------------|-------------------------|-----------------------|----------------------------------|
| 2017년 | 1,632 | 983 | 649 | 1.66 (66%) |
| 2018년 | 2,433 | 1,160 | 1,273 | 2.10 (110%) |

Source: Ministry of SMEs and Startups

- In terms of the profitability of venture investment, a revenue multiple amounted to about 2.1 times (110%) of venture investment principal in 2018, a 44% increase as compared to the revenue multiple (1.66 times [66%]) in the previous year.

 - The fact that, in addition to the total recovery, the revenue multiple and the number of recovered companies increased demonstrates the revitalization of the recovery market.

Total Recovery and Revenue Multiple by Year



Source: Ministry of SMEs and Startups

- By industry, recovery was actively conducted in new industries, such as biomedical, ICT, etc. In particular, the recovery performance of the biomedical industry increased nearly 2.7 times as compared to that in the previous year.
 - On the other hand, the recovery portfolio is being reorganized from traditional industries, such as chemicals, materials, electronics, machinery, etc. to new industries, such as bio, ICT, etc.

* Recovery ratio of traditional industries: Electric/machinery (15.9% in 2017 → 7.5% in 2018)
Chemicals/materials (4.3% in 2017 → 3.5% in 2018)

Recovered Amount of Venture Investment by Industry

(Unit: USD million, %)

| Year | | Bio/medical | Electric/machinery | ICT Manufacturing industry service | Game | Video performance | Distribution service | Chemistry material | Others | Total |
|------|--------|-------------|--------------------|------------------------------------|------|-------------------|----------------------|--------------------|--------|-------|
| 2017 | Amount | 215 | 259 | 377 | 243 | 168 | 209 | 70 | 92 | 1,633 |
| | Ratio | 13.2 | 15.9 | 23.1 | 14.9 | 10.3 | 12.8 | 4.3 | 5.6 | 100 |
| 2018 | Amount | 576 | 183 | 546 | 389 | 327 | 177 | 86 | 151 | 2,433 |
| | Ratio | 23.7 | 7.5 | 22.4 | 16.0 | 13.4 | 7.3 | 3.5 | 6.2 | 100 |

Source: Ministry of SMEs and Startups



- In terms of recovery type, over-the-counter sales accounted for 53.7%, taking up the highest share, followed by 32.5% for IPO and 8.2% for projects. Recovery from over-the-counter sales and IPOs increased significantly as compared to those in the previous year.
 - In 2018, over-the-counter sales increased by 61.36%, and IPOs increased by 36.54% as compared to those in the previous year.
- The recovery amount through IPO was USD 791 million in 2018, a 36.5% increase from the previous year's USD 579 million.
 - In 2018, the revenue multiple from IPO recorded 3.1 times, and the number of companies increased by 14 companies to 144 companies compared to those in the previous year. The average recovery amount per company also increased by USD 1.04 million to USD 5.5 million.
- In 2018, the recovery amount through over-the-counter sales amounted to USD 1.307 billion, an increase of 61.4% from USD 809 million as compared to that in the previous year.
 - In the case of over-the-counter stocks, USD 1.159 billion was recovered, a 65.8% increase compared to USD 699 million in the previous year.
 - * The number of companies increased by 99 to 503, and the average amount of recovery per company was USD 2.3 million, an increase by USD 580 thousand as compared to the previous year.
 - In the case of over-the-counter bonds, USD 147 million were recovered, which is an increase of 33.1% as compared to USD 110 million in the previous year. Moreover, the recovered principal was USD 123 million, with a revenue multiple of 1.2 times.
 - * The number of companies decreased by 2 to 255 compared to the previous year, but the average recovery amount per company was USD 580 thousand, an increase by USD 150 thousand as compared to the previous year.
- The recovery of project investments was USD 200 million, an increase of 39.9% as compared to USD 142 million in the previous year.
 - The recovered principle was USD 199 million, and the revenue multiple was 1 time. In particular, movie and intellectual property rights increased by USD 52 million (54.8% as compared to that in the previous year) and USD 5.9 million (433% as compared to that in the previous year).

Venture Investment Recovery by Type

(Unit: USD million, %)

| Year | | IPO | M&A | Projects | OTC sale | | Others | Total |
|------|--------|------|-----|----------|----------|------|--------|-------|
| | | | | | Stocks | Bond | | |
| 2017 | Amount | 580 | 52 | 143 | 699 | 111 | 48 | 1,633 |
| | Ratio | 35.5 | 3.2 | 8.8 | 42.8 | 6.8 | 2.9 | 100 |
| 2018 | Amount | 792 | 61 | 200 | 1,159 | 147 | 74 | 2,433 |
| | Ratio | 32.5 | 2.5 | 8.2 | 47.6 | 6.1 | 3.1 | 100 |

Source: Ministry of SMEs and Startups

Note: Others include association equity investment, overseas investment, etc.

1.2. Industry Prospects

PEF prospects

- The PEF industry in Korea is growing rapidly, recording all-time highs in terms of fundraising, investment, and recovery in 2018. In the future, the PEF industry in Korea would continue to grow.
 - With the growth in quality, PEF plays a leading role in the M&A market, including large buy-out deals.
- Despite the rapid growth of the PEF market, the funds continue to become smaller and smaller as the number and proportion of new small- and medium-sized PEF have recently increased.
 - This is mainly due to the operation of small-scale PEF, which has less burden on investor recruitment because of the lack of competent GP supply, which cannot keep up with the rapid growth of the market.

* The number and proportion of small funds with less than USD 90.8 million of investment commitment: (2015) 46 (60.5%) → (2016) 80 (73.4%) → (2017) 108 (80.0%) → (2018) 152 (76.8%)

Status of New PEFs by Size

(Unit: No. of PEF)

| Classification | Investment commitment | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------|----------------------------|------------|------------|------------|-------------|-------------|
| Large | USD 272 million or above | 6 (8.5%) | 8 (10.5%) | 7 (6.4%) | 5 (3.7%) | 13 (6.6%) |
| Medium | USD 90.8–272 million | 26 (36.6%) | 22 (29.0%) | 22 (20.2%) | 22 (16.3%) | 33 (16.7%) |
| Small | Less than USD 90.8 million | 39 (54.9%) | 46 (60.5%) | 80 (73.4%) | 108 (80.0%) | 152 (76.8%) |
| Total | | 71 (100%) | 76 (100%) | 109 (100%) | 135 (100%) | 198 (100%) |

Source: Financial Supervisory Service

- Despite the limitations of the PEF industry in Korea, such as domestically oriented investment, etc., the PEF industry in Korea is expected to continue to grow in the future and, in particular, play a significant role in restructuring during the economic recession.
 - If the preemptive restructuring of companies is accelerated during the restructuring of the domestic industrial structure, the superior articles for sale are expected to increase for investment opportunities of PEF.
 - PEFs in Korea are expected to play an active role in corporate restructuring by utilizing the accumulated investment capacity and sufficient investment capital liquidity. In light of past cases, it is obvious that foreign PEFs would participate in some large articles for sale, and thus, international competition would ensue.
- In particular, the growth of the PEF market itself and the government's willingness to revitalize the corporate restructuring market will accelerate PEF market growth.
 - To revitalize the corporate restructuring market, the government established a corporate restructuring fund of USD 480 million in August 2018 and plans to invest this fund in sub-funds over the next two years.
- In addition, alternative investments of pension funds, such as the National Pension, etc. are gradually expanding. However, it is lower than those of overseas pension funds. Therefore, alternative investments are expected to grow continuously in the future, which is a positive factor for PEF financing.
 - As of the end of 2018, the ratio of the National Pension's alternative investment was 12%, and the Korea Investment Corporation (KIC)'s alternative investment ratio was 16.4%, which is very low compared to those of pension funds of major foreign countries.
 - As of 2014, the ratio of foreign pension funds' alternative investment was 36.5% for CPPIB (Canada), 20.9% for CalPERS (US), and as for overseas sovereign wealth funds, 37.7% for CIC (China).
 - The alternative investment ratio of the national pension has been rising continuously, and the target for the alternative investment ratio is to be approximately 15% in 2023.
 - * Alternative investment ratio trend of national pension: (2010) 5.8% → (2015) 10.7% → (2018) 12% → (2023) 15% (target)
- The return of alternative assets of the National Pension and KIC is much higher than that of traditional assets. The pension fund's PEF investment ratio is already more than 50% of the PEF investment (LP). Thus, it is expected that the ratio of PEF investment of pension funds would increase with the increase of alternative investment.

- In 2018, when the global stock market was sluggish, the rate of return of the national pension's alternative investment was 11.80%, while those of traditional assets were -16.77% for stocks in Korea, 4.85% for bonds in Korea, -6.19% for foreign stocks, and 4.21% for foreign bonds.
- Even in the three-year rate of return for 2016-2018, alternative investments recorded 8.75%, 3.07% for stocks in Korea, 2.45% for bonds in Korea, 3.79% for foreign stocks, and 2.77% for foreign bonds.
- When calculated into the converted annual rate of return after KIC's initial investment in 2018, stocks were 2.83%, bonds were 3.68%, and alternative investments were 7.40%.

VC prospects

- Recently, new investment in VC has reached a series of new high records for many years, making it so active that the period is referred to as the second VC boom.
 - In the current market situation where low-interest rates are prolonged, and there is a lack of appropriate investment targets, venture investment will be an alternative, and this upward trend will continue for the time being.
- The investment resources are sufficient to create new venture funds that have recently reached its highest level in succession, and in terms of volume, VC growth is noteworthy, and future growth prospect is also positive.
 - In addition, private investments have increased significantly in the composition of venture funds, forming the VC market.
 - * As of 2018, the composition of venture fund investors: 33.5% for policy financing, 66.5% for private investment
 - * Compared to 2017, the amount of policy financing decreased by USD 210 million, and the number of private investments increased by USD 281 million.
 - * Compared to 2013, which was five years ago, the ratio of private investment increased by 15.6%.

Amount and Ratio of Venture Fund by Investor

(Unit: USD million,%)

| Investor classification | 2013 | 2015 | 2017 | 2018 |
|-------------------------|---------------|-----------------|-----------------|-----------------|
| Policy finance | 747 (49.1) | 1,110 (45.0) | 1,638 (39.1) | 1,428 (33.5) |
| Private investment | 774 (50.9) | 1,357 (55.0) | 2,550 (60.9) | 2,813 (66.5) |

Source: Ministry of SMEs and Startups

- In the meantime, as the Fourth Industrial Revolution has arrived and new industries emerge, changes that transform the existing industrial structure will provide new opportunities for VC.
 - The decline and convergence of existing industries offer a good opportunity for many venture businesses to grow and for new VC to generate new profits.
- The inflow of VC into Fourth Industrial Revolution-related industries in 2018 will accelerate the growth of the industry in the future and create profitable synergies for VC.
 - The investment amount for Fourth Industrial Revolution-related sectors is estimated to be USD 1.223 billion in 2018, which is a 71.1% increase from that in the previous year (USD 715 million).
 - The investment ratio by sector is as follows: smart health care (USD 389 million, 12.5%); O2O (USD 187 million, 6.0%), and artificial intelligence (USD 124 million, 4.0%)
 - In terms of the growth rate as compared to that in the previous year, 5G investment increased by 383% (USD 5 million → USD 23 million), which is the largest, followed by big data with a 309.4% increase (USD 23 million → USD 95 million), and artificial intelligence with a 235.5% increase (USD 37 million → USD 124 million).
 - In terms of the number of investing companies, 621 companies increased by 47.2% compared to the previous year's 422 companies. The number of investment companies was 621, which increased by 47.2% as compared to that (422 companies) in the previous year. The ratio of investment companies is as follows: smart health care, big data, and artificial intelligence.

Fourth Industry Revolution-related Investments

(Unit: USD million, %)

| Field related to the Fourth Industrial Revolution | 2017 | | | | 2018 | | | | Rate of Change | |
|---|---------------------|-------|-------------------|-------|---------------------|-------|-------------------|-------|---------------------|-------------------|
| | Number of companies | Ratio | Investment amount | Ratio | Number of companies | Ratio | Investment amount | Ratio | Number of companies | Investment amount |
| 1. Drone | 6 | 0.4 | 5 | 0.2 | 4 | 0.2 | 6 | 0.2 | -33.3 | 31.5 |
| 2. Autonomous vehicle | 9 | 0.6 | 19 | 0.9 | 19 | 1.2 | 43 | 1.4 | 111.1 | 127.9 |
| 3. Smart farm | 3 | 0.2 | 9 | 0.4 | 9 | 0.5 | 8 | 0.3 | 200.0 | -4.2 |
| 4. Renewable energy | 17 | 1.2 | 31 | 1.4 | 20 | 1.2 | 38 | 1.2 | 17.6 | 24.7 |
| 5. Smart city | 6 | 0.4 | 6 | 0.3 | 17 | 1.0 | 22 | 0.7 | 183.3 | 235.2 |
| 6. Smart factory | 15 | 1.1 | 24 | 1.1 | 17 | 1.0 | 73 | 2.4 | 13.3 | 203.8 |
| 7. Artificial intelligence | 39 | 2.8 | 37 | 1.7 | 66 | 4.0 | 125 | 4.0 | 69.2 | 235.5 |
| 8. Internet of Things | 14 | 1.0 | 13 | 0.6 | 19 | 1.2 | 19 | 0.6 | 35.7 | 38.5 |

| Field related to the Fourth Industrial Revolution | 2017 | | | | 2018 | | | | Rate of Change | |
|---|---------------------|-------|-------------------|-------|---------------------|-------|-------------------|-------|---------------------|-------------------|
| | Number of companies | Ratio | Investment amount | Ratio | Number of companies | Ratio | Investment amount | Ratio | Number of companies | Investment amount |
| 9. Cloud | 9 | 0.6 | 42 | 2.0 | 11 | 0.7 | 10 | 0.3 | 22.2 | -76.4 |
| 10. Big data | 19 | 1.3 | 23 | 1.1 | 45 | 2.7 | 95 | 3.1 | 136.8 | 309.4 |
| 11. 5G | 4 | 0.3 | 5 | 0.2 | 8 | 0.5 | 23 | 0.7 | 100.0 | 383.0 |
| 12. Fintech | 37 | 2.6 | 72 | 3.3 | 40 | 2.4 | 74 | 2.4 | 8.1 | 3.3 |
| 13. Intelligent robot | 9 | 0.6 | 19 | 0.9 | 10 | 0.6 | 18 | 0.6 | 11.1 | -8.5 |
| 14. 3D printing | 4 | 0.3 | 6 | 0.3 | 6 | 0.4 | 5 | 0.2 | 50.0 | -14.8 |
| 15. Blockchain | 7 | 0.5 | 15 | 0.7 | 15 | 0.9 | 15 | 0.5 | 114.3 | 5.7 |
| 16. O2O (Including sharing economy) | 56 | 4.0 | 101 | 4.7 | 76 | 4.6 | 188 | 6.0 | 35.7 | 85.3 |
| 17. Smart health care | 119 | 8.4 | 221 | 10.2 | 181 | 11.0 | 389 | 12.5 | 52.1 | 76.6 |
| 18. Intelligent semiconductor | 10 | 0.7 | 13 | 0.6 | 9 | 0.5 | 17 | 0.5 | -10.0 | 31.5 |
| 19. AR/VR | 17 | 1.2 | 32 | 1.5 | 30 | 1.8 | 37 | 1.2 | 76.5 | 14.3 |
| 20. New material | 22 | 1.6 | 22 | 1.0 | 19 | 1.2 | 18 | 0.6 | -13.6 | -20.4 |
| Total | 422 | 29.8 | 715 | 33.1 | 621 | 37.6 | 1,223 | 39.3 | 47.2 | 71.1 |

Source: Ministry of SMEs and Startups

2 Foreign Investment Trends

◇ Currently, statistics on foreign investment in PEF (including VC) are not counted officially, and this document is based on cases reported through the press.

PEF

- The performance of PEF in Korea over the past decade has been shown to be far ahead of the KOSPI rate of return, making it an attractive investment destination for foreign investors.
 - According to the 2018 McKinsey analysis, for 12 years since 2005, PEF investments had yielded an average of more than 25% annually, which is 2.5 times the KOSPI average rate of return (10%) over the same period.
- Recently, foreign investors are also actively participating as an LP in PEFs in Korea, especially in funds formed by large PEFs in Korea with a track record.



- In the first half of 2017, STIC Investment's PEF assets reached a total of USD 2.53 billion (including VC of USD 190 million), reportedly USD 880 million were attracted from foreign investors.
- Global institutional investors, including Singapore Investment Agency (GIC) and Canada Pension Fund (CPPIB), participated as LPs when MBK Partners, the largest PEF in Korea, established the fourth fund of USD 4.1 billion in December 2016.
 - * A fundraising target was originally set to USD 3.5 billion, but the amount was raised to USD 4.5 billion because of the excess demand of overseas investors.
- In 2016, IMM Private Equity (PE) that was the PEF manager in Korea created USD 1.12 billion in the third blind fund in which 21 partners in Korea and 6 overseas partners participated as LPs, and overseas LP investment amounted to a total of USD 170 million.
- o Major foreign PEFs are already active key players in the M&A market in Korea and are important participants in many major transactions.
 - In April 2019, Blackstone invested USD 1 billion to acquire Geo-Young, which is the largest pharmaceutical distributor in Korea.
 - In June 2019, Affinity acquired SERVEONE, the No. 1 in the building management industry for USD 550 million.
 - Foreign PEFs actively participate in bids to sell other major conglomerates and play a positive role in shaping the ecosystem of the M&A market in Korea.
 - * The number of companies registered with the Financial Supervisory Service as foreign PEF recorded about 1,250 as of the end of 2018.

o VC

- o In the case of VC, foreign investors are less active in participating in VC in Korea as an LP compared to PEF.
 - This is due to the lack of investment in the M&A market for venture businesses in Korea, making it difficult for an overseas LP to recover its investment funds.
- o Instead, foreign VC's direct investments have been recently active in venture businesses in Korea, and have contributed significantly to the recent growth of major venture businesses.
 - Many growing companies that have recently joined or are more likely to join unicorn companies are growing due to investment from overseas investors.
 - For example, the Woowahan Brothers, which recently grew into a unicorn company (service app: Baemin), and Viva Republica (service app: Toss) are rapidly growing through the investment attraction of VC consortiums led by Goldman Sachs, PayPal, and etc.

- In particular, Altos Ventures in Silicon Valley has established an exclusive investment fund for Korean venture businesses and is actively investing, emerging as a representative investor in the venture ecosystem in Korea.
 - Altos Ventures has raised USD 58 million for Korea's corporate investment fund in 2013 and USD 106 million in 2015, respectively, and has invested in eight to ten domestic start-ups on average every year thereafter.

Major Foreign Investors in Fast-Growing Venture Businesses

| Company | Service | Major overseas investors |
|-------------------|-----------------------------------|---|
| Woowahan Brothers | Delivery app (Baedal Minjok) | Hillhouse Capital (China) Consortium (USD 50 million, 2016) Goldman Sachs (US) Consortium (USD 36 million, 2014) Government of Singapore Investment Corporation Consortium (USD 320 million, December 2018) |
| Viva Republica | Money transfer app (Toss) | PayPal (US) Consortium (USD 50 million) Goodwater Capital (US) Consortium (USD 24 million) Kleiner Perkins (US) Consortium (USD 80 million, December 2018) |
| Bespinn Global | Cloud operating software | Legend Capital (China) Consortium (USD 15 million, July 2017) Singapore STT (USD 27 million, February 2018) Singapore STT (USD 79 million, October 2018) |
| ZIGBANG | Real estate brokerage app | Goldman Sachs (US) Consortium (USD 33 million) Goldman Sachs (US) Consortium (USD 145 million, June 2019) |
| SendBird | Corporate messenger | Shasta Ventures (US) (USD 16 million) ICONIC (USD 52 million, February 2019) Tiger Global Management (USD 50 million, May 2019) |
| Hyperconnect | Video messenger | Softbank Ventures (Japan) (USD 11 million) |
| Kurly Co., Ltd. | Early delivery app (Market Kurly) | Sequoia Capital China (USD 91 million, April 2019) Hillhouse Capital (China) Consortium (USD 32 million, May 2019) |

Source: Reprocessed data from Chosun Biz (March 2018), IT Chosun (September 2019)

- Meanwhile, the first fund was established in 2013 to further globalize the VC ecosystem by activating the investment in venture businesses in Korea by overseas VC companies, growing to form the second fund worth about USD 900 million at present.
 - Overseas VC accumulated funds under the condition that more than a certain percentage of the global fund should be invested in start-ups in Korea and that Korea's fund-of-funds invests in the global fund
 - Global Fund No. 1 formed in October 2013 amounted to USD 783 million (10 years of operation term), and Global Fund No. 2 formed in July 2016 amounted to USD 860 million (19 years of operation term).

Overview of International Global Funds

| | International Global Fund No. 1 | International Global Fund No. 2 |
|----------------------------|---|-------------------------------------|
| Date of formation | October 4, 2013 | July 15, 2016 |
| Scale | USD 124 million | USD 147 million |
| Number of investment funds | 11 | 9 |
| Investment fund size | USD 783 million | USD 860 million |
| Operation term | 10 years (October 2013 – October 2023) | 19 years (July 2016 – July 2035) |
| Management company | Korea Venture Investment Corp. | Korea Venture Investment Corp. |

Source: Korea Venture Investment Corp.

Note: As of June 2018

3 Government Policy and Related Laws

PEF

- Currently, Korea’s PEF regulation system is divided into “management participatory type PEF” and “specialized investment type PEF (hedge fund)” under the Capital Market Act.
 - The management participatory type PEF is obliged to hold shares, so it is essential to acquire more than 10% of the voting stocks of an investment company and hold the stocks for more than six months, and at least 50% of the investment must be invested in stocks within two years
 - The specialized investment type PEF (hedge fund) has no obligation to hold shares, but the exercise of voting rights is restricted for shares in excess of 10% of invested company shares.
- As this is a rigid regulation system considering the overseas trends and the essence of PEF, the government has proposed an improvement plan to “unify” the dualized regulation of PEF (September 2018).
 - The National Assembly has not revised the law yet, but there is little political disagreement on this improvement plan among parties. Thus, it is expected that the law would be revised based on the proposal.
- The main contents of the plan to unify the regulation system of PEFs are as follows:
 - The regulation of 10% equity holding (whether management participatory or not) that distinguishes the “specialized investment type” and the “management participatory type” will be abolished;

- The global level autonomy of PEF will be granted by applying more relaxed regulation among the regulations applied to the current “specialized investment type” and “management participatory type.”
- The number of PEF investors will be increased from less than or equal to 49 to less than or equal to 100.

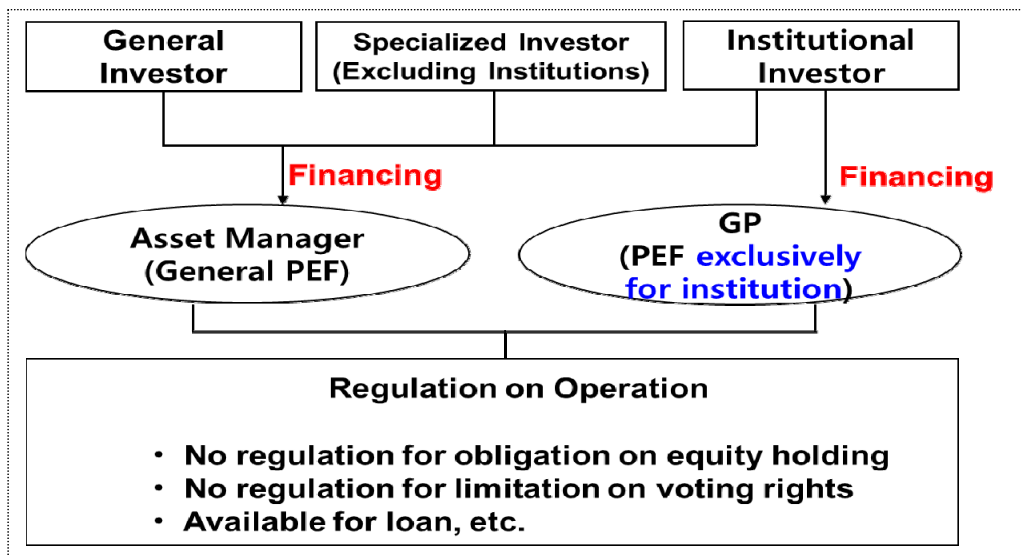
Comparison of Present and Improved PEF Operating Regulations

| Classification | | Present | | Improvement (draft) |
|------------------------|--------------------------|---|--|---|
| | | Specialized investment type (Hedge Fund) | Management participatory type (PEF) | Unifying the Regulation System of PEF |
| Operational regulation | Shareholding duty | Not applicable | <ul style="list-style-type: none"> - Investment of 50% or more in stocks within two years - Acquisition of voting stocks of 10% or more - Holding of acquired stocks for six months or more | Deregulation |
| | Voting rights limitation | - Limitation on the exercise of voting right for stocks held in excess of 10% | Not applicable | Deregulation |
| | Borrowing | - Within 400% of net property | - Within 10% of PEF property (Up to 300% when using SPC) | - Within 400% of net property |
| | Loan | - Available for loan (Except personal loan) | - Unavailable for loan | - Available for loan (Except personal loan) |

Source: Financial Services Commission/Financial Supervisory Service

- o In addition, it introduced the “PEF exclusively for the institution” and suggested minimizing the involvement of supervisory authorities.
 - The current “management participating type PEF” is being converted to “PEF exclusively for the institution.”
 - In reality, most “management participating type” are being funded and managed by institutional investors, such as pension funds, financial companies, etc. and not by individuals.
 - The current management participatory type can allow individuals to participate (in the investment) like a specialized investment type, but it lacks the protection of individuals.
 - Therefore, funds may be raised from only the “Institutional Investors” which has the ability to inspect and supervise the GP as an investor (LP), but financing from individual investors is prohibited.

PEF System after Reform of Regulation System (Draft)



Source: Financial Services Commission/Financial Supervisory Service

VC

- In Korea, most investments in a venture business are made through investment associations, and venture capital firms perform the role of GPs.
 - This investment system is implemented through the Support for Small and Medium Enterprise Establishment Act, the Act on Special Measures for the Promotion of Venture Businesses, and the Specialized Credit Financial Business Act.
- According to the purpose of establishment and relevant laws, the association and the venture capital firms that can operate the association are separately specified.
 - (The Support for Small and Medium Enterprise Establishment Act) An establishment Investment association is an association established to promote SME start-ups. It invests mainly in the initial companies.
 - (The Act on Special Measures for the Promotion of Venture Businesses) A venture association is established to invest in venture businesses and small- and medium-sized enterprises to promote the establishment of venture businesses and the transformation into venture businesses.
 - * However, to form a venture association, the investment from the parent association is a prerequisite.
 - One of the GPs of the establishment investment association and the venture association must be an established investment company, a new technology company, or a limited liability company (LLC) with venture specialists.
 - * LLC: A limited company that can perform the role of GP in venture association by satisfying the requirements for ① staff specialized in venture investment and ② investment of 1% or more of association establishment amount

- (The Specialized Credit Financial Business Act) A new technology project investment association is established to invest in a new technology project operator, while new technology finance companies operate the association.

Regulatory System of Venture and SME Investment Associations

| Classification | Small and Medium Enterprise Establishment Investment Association | Korea Venture Investment Association | New Technology Venture Investment Association |
|--|---|---|--|
| Basis of establishment | - Support for Small and Medium Enterprise Establishment Act | - Act on Special Measures for the Promotion of Venture Businesses | - Specialized Credit Financial Business Act |
| Requirements for the establishment of an association | - Total investment amount: More than USD 3 million - Minimum contribution ratio for GP: 1% or more of the total contribution - Duration: Five years or more | - Parent association contribution (required) - Total investment amount: More than USD 3 million - Minimum contribution ratio for GP: 1% or more of the total contribution - Duration: Five years or more | - Association established by new technology venture finance company jointly with a party other than a new technology venture finance company - The association funds that are managed by the new technology venture finance company |
| GP | - Establishment investment company | - Establishment investment company, New technology company, LLC, etc. | - New technology company |
| Investment target | - SMEs within seven years of establishment - Venture business | - Small- and medium-sized enterprises - Venture business | - SME which is a new technology business operator |

Source: Ministry of SMEs and Startups

Requirements for Venture and SME Investment Organization Management Company (VC)

| Classification | Establishment investment company | LLC | New technology venture finance company |
|---|--|---|---|
| Basis of establishment | - Support for Small and Medium Enterprise Establishment Act | - Act on Special Measures for the Promotion of Venture Businesses | - Specialized Credit Financial Business Act |
| Requirements for registration and establishment | - Stock company under the Commercial Act - Capital: USD 5 million - Professional personnel such as lawyers and accountants and material requirements - Social credit requirements | - LLC under the Commercial Act - No capital requirement (holding 1% or more of shares of the association) - Requirement of professional personnel such as lawyers and accountants | - Stock company under the Commercial Act - Capital: USD 18 million - Social credit requirements |
| Institution that can be operated | - Establishment investment association - Venture association | - Venture association | - Venture association - New technology venture investment association |

Source: Ministry of SMEs and Startups

- The fostering of VC and vitalization of the venture ecosystem has always been a policy concern of the government, and the current government further emphasizes this policy by promoting “innovative growth” as a key national agenda.
- In March 2019, the government established the following policy objectives by presenting a comprehensive strategy called the “Second Venture Boom Spread Strategy” to take a leap forward as a global venture powerhouse.
 - USD 4.5 billion to be achieved in new venture investment annually
 - * New venture investment: USD 3 billion in 2018 → USD 4.5 billion in 2022
 - 20 unicorn companies to be created (6 unicorn companies in Korea as of January 2019)
 - A dynamic recovery market to be created with active M&A.
 - * Ratio of M&A recovery: 2.5% (2018) → 10.0% (2022)
- The detailed strategy of the “Second Venture Boom Spread Strategy” is as follows, and the corresponding policy tasks will be pursued.
 - (Strategy 1) Discovery of new industry and high technology start-ups: ① New industry start-up ② Technology start-up by technical talent
 - (Strategy 2) Revitalization of private capital in the venture investment market: ① Introduction and improvement of innovative venture investment system ② Expansion of venture investment in angel and early stage
 - (Strategy 3) Support for scale-up and globalization: ① Support for start-up and scale-up ② Support for the globalization of innovation venture
 - (Strategy 4) Promotion of the recovery and reinvestment of venture investment: ① Increase of participation of investors and companies in the recovery market ② Promotion of the recovery of the angel and initial investment
 - (Strategy 5) Construction of a start-up-friendly infrastructure: ① Redesign of flexible regulations ② Increase of the inflow of key talent ③ Vitalization of an innovative start-up base

4 Related Partners

4.1 Major PEFs and VC

Top 10 PEFs (as of the end of December 2018)

(Unit: USD million)

| Ranking | Fund name | Month and year of establishment | GP | Commitment amount |
|---------|---|---------------------------------|--------------------------------------|-------------------|
| 1 | KDB Value No. 6 | Jul. 2009 | Korea Development Bank | 2,499 |
| 2 | MBK Partners No. 3 | Feb. 2013 | MBK Partners | 2,309 |
| 3 | Hahn&Co No. 3-1 | Oct. 2018 | Hahn&Co | 1,546 |
| 4 | MBK Partners No. 2 | Nov. 2008 | MBK Partners | 1,363 |
| 5 | MBK Partners Company No. 4 | Jan. 2017 | MBK Partners | 1,363 |
| 6 | United PF First Company Finance Stability | Jun. 2011 | Association Asset Management Company | 1,272 |
| 7 | Hahn&Co No. 2-1 | Dec. 2014 | Hahn&Co | 1,253 |
| 8 | KDB Kansas Value | Feb. 2010 | Korea Development Bank | 1,136 |
| 9 | MBK Partners 2015 #4 | Oct. 2015 | MBK Partners | 1,129 |
| 10 | IMM Rose Gold 3 | Mar. 2015 | IMM Private Equity | 951 |

Source: Financial Supervisory Service

Top 10 Fund Forming Performance by Venture Capital Firms in 2018

(Unit: USD million, EA)

| Ranking | Venture capital firm name | Investment amount | Number of investors |
|-----------|---------------------------------|-------------------|---------------------|
| 1 | Korea Investment Partners | 193 | 99 |
| 2 | Softbank Ventures | 149 | 32 |
| 3 | SBI Investment Co., Ltd. | 131 | 38 |
| 4 | Atinum Investment | 127 | 30 |
| 5 | Smile Gate Investment Co., Ltd. | 103 | 51 |
| 6 | KB Investment | 99 | 71 |
| 7 | Intervest Co., Ltd. | 85 | 32 |
| 8 | KTB Network | 79 | 41 |
| 9 | HB Investment | 71 | 39 |
| 10 | IMM Investment Corp | 69 | 27 |
| Sub Total | | 1,106 | 386 |

Source: Ministry of SMEs and Startups



Top 10 Fund Forming Performance by Venture Capital Firms in 2018

(Unit: USD million, EA)

| Ranking | Venture capital firm name | Number of funds | Commitment amount |
|-----------|---------------------------------|-----------------|-------------------|
| 1 | Korea Investment Partners | 3 | 464 |
| 2 | TS Investment | 3 | 205 |
| 3 | KB Investment | 4 | 169 |
| 4 | IMM Investment Corp | 2 | 163 |
| 5 | KTB Network | 3 | 155 |
| 6 | Intervest Co., Ltd. | 1 | 136 |
| 7 | LB Investment | 1 | 132 |
| 8 | Smile Gate Investment Co., Ltd. | 3 | 128 |
| 9 | DSC Investment | 2 | 113 |
| 10 | Company K Partners | 2 | 108 |
| Sub Total | | 24 | 1,773 |

Source: Ministry of SMEs and Startups

4.2 Related Associations

- Korea Financial Investment Association (<http://www.kofia.or.kr>)
- Korea Venture Capital Association (<http://www.kvca.or.kr>)
- Korea Venture Business Association (<http://www.venture.or.kr>)



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