

Trends of Venture Investment and Venture Funds Raised in Q1, 2023

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- KRW 0.9 trillion in venture investments and KRW 0.6 trillion in venture funds formed in Q1, 2023.
 - Total investments in Q1 2023 decreased by 60% compared to the previous year, but increased by approximately 14% compared to the same period in both 2019 and 2020.
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The Ministry of SMEs and Startups (Minister LEE Young, hereinafter referred to as “MSS”) released a report on the trends of venture investments and venture funds raised in Q1, 2023 on April 17 (Mon).

<Status of Venture Investment>

The total venture investments during Q1 of 2023 were KRW 0.9 trillion, a year-on-year decline of 60.3%. Factors affecting the decline include a slowdown in the real economy that has lasted since last year, increased funding costs due to high interest rates, growing uncertainty in the financial market, and the sluggish market with low return on investments.

However, compared to periods before the years 2021-2022 that saw the unprecedented annual rise of around 70% in venture investments, the total investments in Q1 2023 saw a 13.2% increase over the same period in 2019 and a 14.0% increase over the same period in 2020.

< **Venture Investments in Q1 for the Last 5 years** (2019-2023)

(Unit: KRW 100 million, %, Number of investments, Investee venture) >

Classification		'19.Q1	'20.Q1	'21.Q1	'22.Q1	'23.Q1
Investments		7,789	7,732	13,187	22,214	8,815
Year-on-year	Increase or decrease	+1,412	△56	+5,454	+9,027	△13,399
	Increase or decrease difference	+22.1	△0.7	+70.5	+68.5	△60.3
Number of investments made		774	719	1,054	1,520	885
Number of investee ventures		418	405	604	757	532

Regarding global venture investments during the same period, the US and Israel saw an year-on-year decrease of 55.1% and 73.6%, respectively. If the two largest investments*, including OpenAI's mega-deal worth KRW 13 trillion for developing the ChatGPT service, are excluded, total investments in the US saw a decline of 75.1%.

* ▲OpenAI raised USD 10 billion and ▲Stripe (fintech startup) raised USD 6.5 billion in investments.

The decrease in global venture investments is assumed to have been caused by a combination of reduced liquidity and expected sluggishness in the real economy resulting from rapid interest rate hikes*, announced by the monetary authority of each country.

* US benchmark interest rate (%): 0.00~0.25 (~'22. Mar) → 4.75~5.00 ('23. Mar)
 Israel benchmark interest rate (%): 0.1 ('22. Feb) → 4.5 ('23. Apr)

The venture investments in Q1 of the last 5 years by industry is as follows.

< Venture Investments in Q1 Over the Last 5 Years by Industry (2019-2023)

(Unit: KRW 100 million, %, Number of investments, Investee ventures) >

Classification		'19.Q1	'20.Q1	'21.Q1	'22.Q1	'23.Q1	Year-on-year	
							Increase or decrease	Increase or decrease difference
ICT service	Amount	1,686	2,193	3,648	7,688	1,986	△5,701	△74.2
	Percentage	21.6	28.4	27.7	34.6	22.5	△12.1	-
Bio/medicine	Amount	1,700	2,464	3,648	4,137	1,520	△2,617	△63.3
	Percentage	21.8	31.9	27.7	18.6	17.2	△1.4	-
Video/performance/record	Amount	880	372	567	1,016	1,102	+86	+8.5
	Percentage	11.3	4.8	4.3	4.6	12.5	+7.9	-
Distribution/service	Amount	1,634	1,004	2,585	4,570	1,028	△3,542	△77.5
	Percentage	21.0	13.0	19.6	20.6	11.7	△8.9	-
Electrical/machinery/devices	Amount	447	311	793	1,260	832	△428	△34.0
	Percentage	5.7	4.0	6.0	5.7	9.4	+3.7	-
Other	Amount	721	532	749	1,141	808	△333	△29.2
	Percentage	9.3	6.9	5.7	5.1	9.2	+4.1	-
ICT manufacturing	Amount	290	303	416	934	707	△227	△24.3
	Percentage	3.7	3.9	3.2	4.2	8.0	+3.8	-
Chemical/material	Amount	226	344	413	722	634	△88	△12.1
	Percentage	2.9	4.4	3.1	3.3	7.2	+3.9	-
Computer games	Amount	204	209	368	746	196	△549	△73.7
	Percentage	2.6	2.7	2.8	3.4	2.2	△1.2	-
Total	Amount	7,789	7,732	13,187	22,214	8,815	△13,399	△60.3

The video/performance/record industry is the only industry that raised more investments in Q1 of this year than in the same period of the previous year. The Korean entertainment industry seems to be maintaining a bullish investor sentiment due to the growing demand for K-content.

There was a considerable decrease in investments in such industries as ICT service, distribution/service, computer games and bio/medicine industries. Analysis suggests that the growth of these industries has slowed due to reduced demand following the easing of COVID-19 preventive measures, or because companies with weak short-term financial performance struggled to attract investments.

The venture investments in Q1 of the last 5 years according to the venture's years of life are as follows.

< Venture Investments in Q1 Over the Last 5 Years

Categorized by the Age of the Venture (2019~2023) (Unit : KRW 100 million, %, %p) >

Classification		'19.Q1	'20.Q1	'21.Q1	'22.Q1	'23.Q1	Year-on-year	
							Increase or decrease	Increase or decrease difference
Early-stage (3 years or less)	Amount	2,548	2,943	3,721	6,104	2,525	△3,579	△58.6
	Percentage	32.7	38.1	28.2	27.5	28.6	+1.1	-
Mid-stage (More than 3~7 years)	Amount	3,097	2,700	6,281	10,205	2,948	△7,257	△71.1
	Percentage	39.8	34.9	47.6	45.9	33.4	△12.5	-
Lats-stage (More than 7 year)	Amount	2,144	2,089	3,184	5,905	3,342	△2,563	△43.4
	Percentage	27.5	27.0	24.1	26.6	37.9	+11.3	-
Total		7,789	7,732	13,187	22,214	8,815	△13,399	△60.3

Mid-stage ventures (more than 3~7 years) experienced the largest decrease in investments. As it was difficult for ventures to keep attracting investments and the market saw low returns on investments, the investor preference for mid-stage ventures is assumed to have been lower than the preference for early-stage ventures (3 years or less) that are undervalued, and late-stage ventures (more than 7 years) that offer a higher potential for earning returns on investments in a short period of time.

<Status of Venture Funds Formed>

The total venture funds formed in the first quarter of 2023 were KRW 0.6 trillion, which is a 78.6% decrease compared to the same period of the previous year; a 13.8% decrease compared to the same period of 2019; and a 12.2% increase compared to the same period of 2020.

< Status of Venture Funds Formed in Q1 Over the Last 5 Years ('19~'23)

(Unit : KRW 100 million, %, Number of funds) >

Classification		'19.Q1	'20.Q1	'21.Q1	'22.Q1	'23.Q1
Funds formed		6,606	5,078	15,865	26,668	5,696
Year-on-year	Increase or decrease	△3,883	△1,528	+10,787	+10,803	△20,972
	Increase or decrease difference	△37.0	△23.1	+212.5	+68.1	△78.6
Number of funds formed		34	20	53	93	43

* During the same period, venture funds formed in the US decreased by 84.1% year on year.

The percentage of the funds of funds invested in ventures and the amount of funds formed by fund type in Q1 over the last 5 years are as follows.

< Details of Funds of Funds and Non-funds of Funds Formed in Q1

Over the Last 5 Years (Unit : KRW 100 million, %) >

Classification		'19.Q1	'20.Q1	'21.Q1	'22.Q1	'23.Q1	Year-on-year	
							Increase or decrease	Increase or decrease difference
Funds of funds	Amount	3,015	2,327	8,894	4,676	2,097	△2,579	△55.2
	Percentage	45.6	45.8	56.1	17.5	36.8	+19.3	-
Non-funds of funds	Amount	3,591	2,751	6,971	21,992	3,599	△18,393	△83.6
	Percentage	54.4	54.2	43.9	82.5	63.2	△19.3	-
Total		6,606	5,078	15,865	26,668	5,696	△20,972	△78.6

< Types of Funds Formed in Q1 Over the Last 5 Years and their Percentages

(Unit : KRW 100 million, %)>

Classification	‘19.Q1	‘20.Q1	‘21.Q1	‘22.Q1	‘23.Q1
Total funds formed (A)	6,606	5,078	15,865	26,668	5,696
Funds of funds formed (C)	3,015	2,327	8,894	4,676	2,097
Percentage of the funds of funds (=C/A×100)	45.6	45.8	56.1	17.5	36.8
Non-funds of funds formed (B)	3,591	2,751	6,971	21,992	3,599
Percentage of the non-funds of funds (=B/A×100)	54.4	54.2	43.9	82.5	63.2
Funds from the private sector only (C)	3,251	1,699	3,880	14,265	2,443
Percentage of the funds from the private sector (=C/Ax100)	49.2	33.5	24.5	53.5	42.9

There is a year-on-year decrease in the amount of the non-funds of funds and funds from the private sector only that were formed in Q1 this year because the high interest rates made it more difficult to obtain financing and gain returns on investments in a short time and therefore, private investors had a conservative attitude towards investing in venture funds.

Regarding the composition of investors of venture funds, there was a decrease in the amount of investments from both policy financing and the private sector, with the private sector showing a larger decrease.

The status of the investors of venture funds formed in Q1 over the last five years is as follows.

< Status of Investors of Venture Funds Formed in Q1 Over the Last 5 Years (2019-2023)

(Unit: KRW 100 million, %)>

Classification			'19.1Q	'20.1Q	'21.1Q	'22.1Q	'23.1Q	Year-on-year	
								Increase or decrease	Increase or decrease difference
Funds of funds	Amount	1,730	900	2,639	1,280	786	△494	△38.6	
	Percentage	26.2	17.7	16.6	4.8	13.8	+9.0	-	
Growth financing	Amount	175	315	1,450	2,551	639	△1,912	△75.0	
	Percentage	2.7	6.2	9.1	9.6	11.2	+1.6	-	
Other policy institutes	Amount	85	190	1,011	1,310	652	△658	△50.2	
	Percentage	1.3	3.7	6.4	4.9	11.4	+6.5	-	
Policy financing	Amount	1,990	1,405	5,100	5,141	2,077	△3,064	△59.6	
	Percentage	30.1	27.7	32.1	19.3	36.5	+17.2	-	
Individuals	Amount	1,611	450	1,406	5,536	454	△5,082	△91.8	
	Percentage	24.4	8.9	8.9	20.8	8.0	△12.8	-	
General corporations	Amount	1,705	810	2,322	3,687	1,357	△2,330	△63.2	
	Percentage	25.8	16.0	14.6	13.8	23.8	+10.0	-	
Financial institutions (excluding KDB Bank)	Amount	628	410	2,242	7,894	911	△6,983	△88.5	
	Percentage	9.5	8.1	14.1	29.6	16.0	△13.6	-	
Pension and mutual aid associations	Amount	50	1,150	2,715	1,275	50	△1,225	△96.1	
	Percentage	0.8	22.7	17.1	4.8	0.9	△3.9	-	
VC	Amount	587	637	1,849	2,752	590	△2,162	△78.6	
	Percentage	8.9	12.5	11.7	10.3	10.4	+0.1	-	
Other organisations, foreigners	Amount	35	216	231	383	258	△125	△32.6	
	Percentage	0.5	4.3	1.5	1.4	4.5	+3.1	-	
Private sector	Amount	4,616	3,673	10,765	21,527	3,619	△17,908	△83.2	
	Percentage	69.9	72.3	67.9	80.7	63.5	△17.2	-	
Total	Amount	6,606	5,078	15,865	26,668	5,696	△20,972	-	

“As venture investments are shrinking worldwide due to combined crises such as high interest rates, high prices and the global risk of financial institutions, it will be necessary to keep an eye on the market,” stated Minister LEE Young. “The government deems it necessary to take various policy measures in order to overcome this situation.”

The Minister further stated, “Although there was a significant decrease in venture investments in the first quarter, the government expects more funds to flow from the private sector to the venture investment market through strategic corporate venture capital (CVC) investments, etc.,” adding that “the MSS is planning to announce measures to support and enhance the overall related ecosystems, such as plans to provide financial support for ventures and startups and strengthen their competitiveness.”