Vertical Report

2023

STARTUP ALLIANCE

CVC in Korea

: Current Status and Strategies for Investment Promotion

2023 Startup Alliance Vertical Report

Corporate Venture Capital (CVC) in Korea: Current Status and Strategies for Investment Promotion

STARTUP ALLIANCE

This report is based on the results of the "Study on Current Status and Strategies for Invigorating Corporate Venture Capital (CVC)" jointly planned and conducted by Startup Alliance and the Venture Financial Research Institute at Korea Venture Investment Corporation in 2023. (The research was led by Professor Kang Shinhyung of the Department of Business Administration at Chungnam National University.)

Contents

Introduction

1. Background & Significance of the Study

Corporate Venture Capital (CVC) is the financial capital provided by industrial firms for startups, playing a crucial role in the startup ecosystem. The global scale of CVC investments is on the rise, and the Korean government is actively promoting the participation of CVC in the domestic VC investment market with supportive policies.

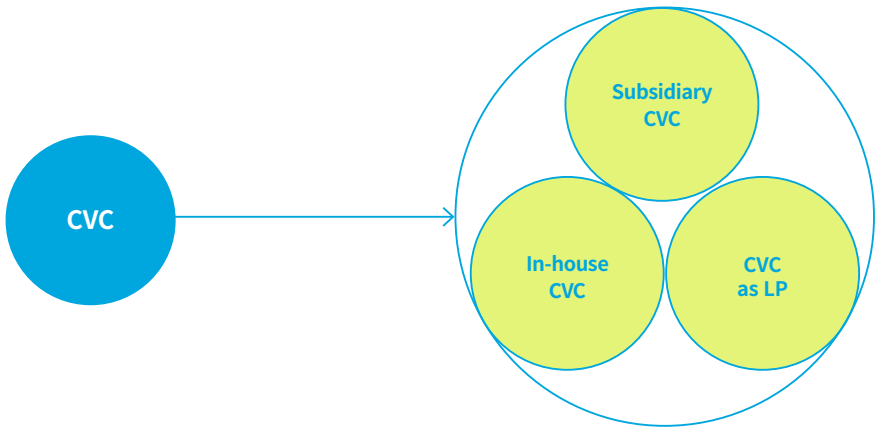
As of 2022, the average value of deals with CVC participation is about twice the overall VC average in the United States, and CVC investments also contribute to invigorating the startup M&A exit market. In 2021, the Korean government passed a bill allowing the establishment of CVC firms by general holding companies, and in 2022, policy support, such as tax benefits for private fund of funds, aims to encourage corporate participation in the venture and startup investment market.

How does CVC typically manage its capital? In general, it can be classified into three categories based on the governance structure:

→ **Subsidiary CVC** (Wholly-owned subsidiary)
Establishing an investment-specialized subsidiary to manage the venture capital funds provided by the parent or affiliated companies.

→ **In-house CVC** (Integrated CVC unit)
Establishing an in-house department or allocating dedicated personnel for the investment.

→ **CVC as LP** (Dedicated VC Fund)
Investing in the funds of independent VC firms as a Limited Partner (LP).



However, research on the extent and type of investments made by CVCs in Korea is limited. This report aims to analyze the overall status of CVCs in Korea, and propose policy support measures for promoting CVC investments by analyzing the impact of CVC investments on the startup M&A market and examining successful CVC operational cases. In particular, despite statistical limitations, it is significant that the report quantitatively analyzes various types of CVC investment activities, including the prominent in-house CVC activities that constitute a significant proportion of overall CVC investments. [01]

The report is structured as follows:

→ **Introduction**

Background, Significance, and Methodology of the Study

→ **Chapter 1. Status of CVCs in Korea**

Examining the overall volume of CVC investments, detailed types of CVCs, and investment behavior characteristics.
Defining and distinguishing CVC types (In-house CVC vs. Subsidiary CVC), analyzing the investment trend based on the CVC typology.

→ **Chapter 2. The Impact of CVC Investments on Corporate M&A Activities:**

Exploring the relationship between CVC investments and corporate M&A activities to derive insights for invigorating the exit market.
Analyzing the contribution of CVC investments to promoting corporate M&A activities and invigorating the exit market, focusing on real options, market sensing, and investment capability enhancement functions.

→ **Chapter 3. Successful CVC Cases:**

Analyzing successful CVC cases in creating strategic synergy between startups and the parent companies of CVCs.
Investigating how to coordinate the strategic demands of the parent companies with nurturing the ventures invested by CVCs.

→ **Conclusion:**

Policy support measures to promote CVC investments

01 This report is based on the results of the "Study on Current Status and Strategies for Invigorating Corporate Venture Capital (CVC)" jointly planned and conducted by Startup Alliance and the Venture Financial Research Institute at Korea Venture Investment Corporation in 2023. (The research was led by Professor Kang Shinhyung of the Department of Business Administration at Chungnam National University.)

2. Research Methodology

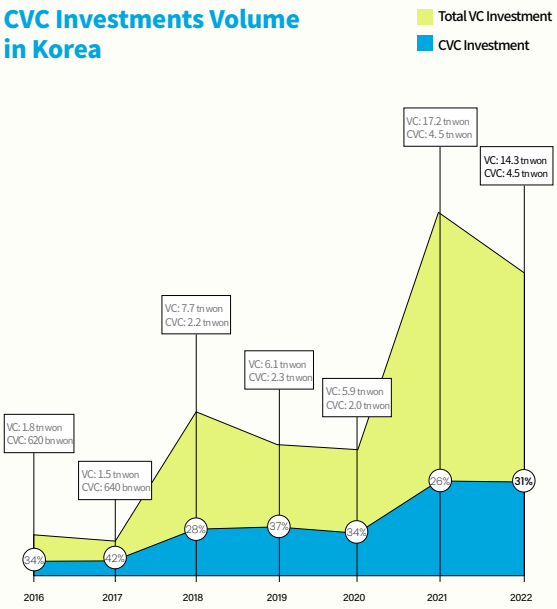
The CVC investment data used in this study is based on the list of CVCs in Korea constructed by the researchers through direct data collection and the Korean startup investment database provided by The VC. In this context, startups refer to innovative entrepreneurial companies, and startup investments are defined as investments from the seed stage to the pre-IPO stage.

First, a list of 201 subsidiary CVCs was identified with the help of Korea Venture Investment Corporation (KVIC). A subsidiary CVC refers to a VC firm in which the largest shareholder is a non-financial industrial company. Then, the name of the group to which a subsidiary CVC is affiliated was identified using the KIS-Value database. Second, the data on CVC investments by in-house CVCs was collected. This study assumes that a corporation has an in-house CVC if the company has a record of balance sheet investments in startups. However, the investment data of CVCs as LP type could not be collected due to the limitation of the database. The data on startup M&A deals was obtained from the TheVC database and the relationship between CVC investments and M&A deals was analyzed.

In summary, the following analyses were performed:

KEY RESULTS

CVC Investments Volume in Korea

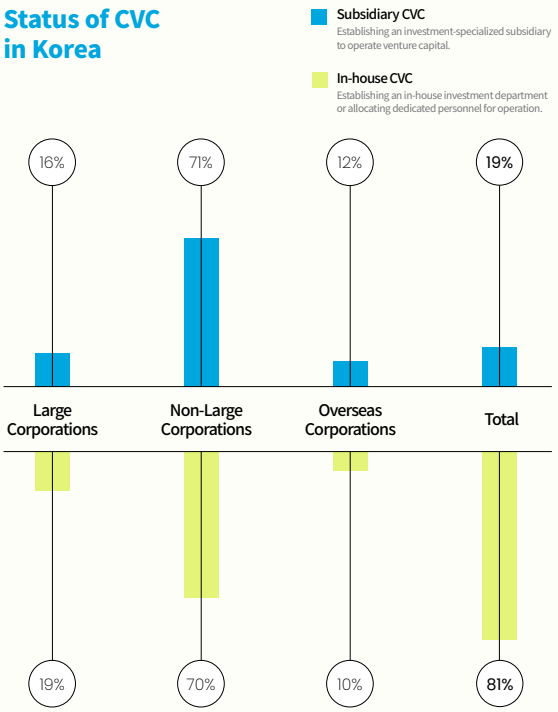


Total CVC Investment in 2022

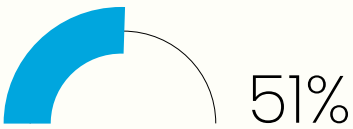
4.5 trillion won

When adjusted based on cross-agency standards and data from The VC, it is estimated to be over 5 trillion won

Status of CVC in Korea

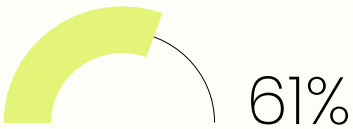


Subsidiary CVC
(2016~2022)



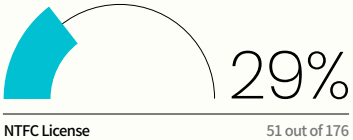
51%

With strategic purposes — 89 out of 176



61%

SIC License — 107 out of 176



29%

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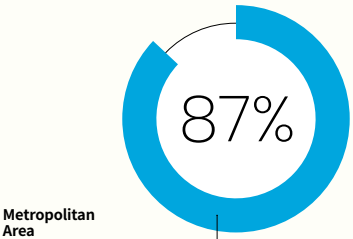
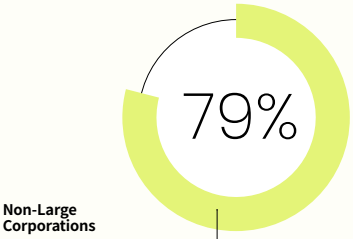
In-house CVC
(2016~2022)



87%

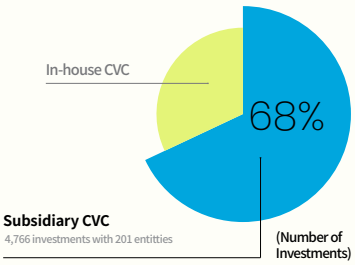
Metropolitan Area
676 out of 773



79%

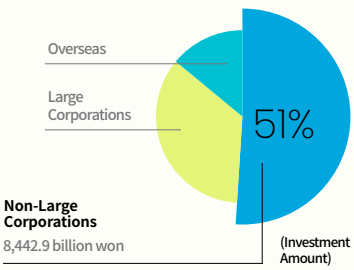
Non-Large Corporations
607 out of 773

Total Number of Invesments & Total Invesmnet Amount by CVCs (2016~2022)



Subsidiary CVC
4,766 investments with 201 entities

(Number of Investments)



Non-Large Corporations
8,442.9 billion won

(Investment Amount)

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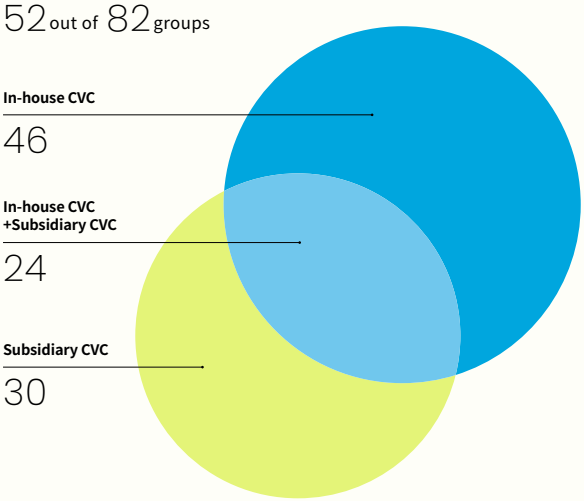
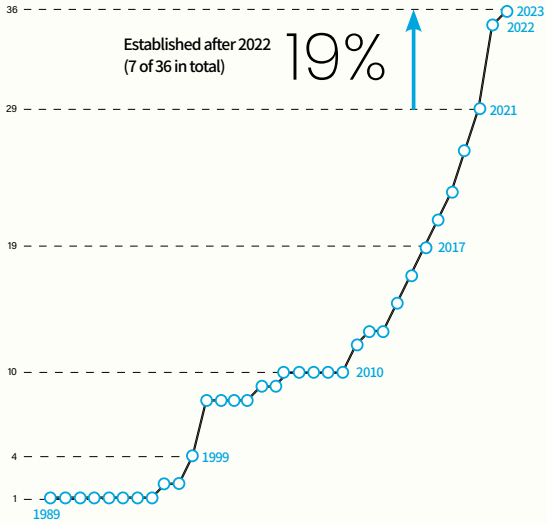
Status of Establishment of CVC in Large Corporations

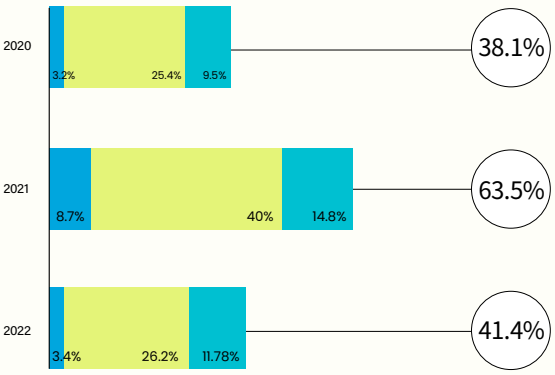
Large corporations engaging in CVC investment activities

52 out of 82 groups





CVC Pre-Investment and M&A Deals



- Direct pre-investment in the target company before a M&A deal (CVC's real option function)
- Pre-investment in other startups in the same industry as the target before a M&A deal (CVC's market-sensing function)
- Pre-investment in startups in a completely different industry before a M&A deal (CVC's investment capability enhancement function)

Top 10 Industries Mainly Invested by CVC

Based on the number of investments
(Cumulative number of investments from 2016 to 2022)

1st 23%	2nd 7%	3rd 7%	4th 5%	5th 4%
Bio/Medical	Content	Food & Dining	Enterprise	Automobile

Based on investment amount
(Cumulative number of investments from 2016 to 2022)

1st 23%	2nd 10%	3rd 7%	4th 6%	5th 6%
Bio/Medical	Game	Finance	Content	Automobile

CHAPTER 1

Status of CVCs in Korea

1. Overview of CVC

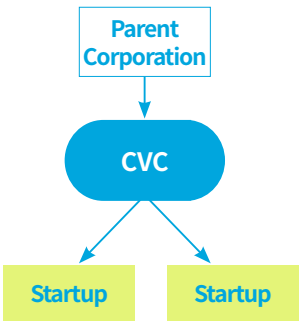
① Definition and Types of CVC

Corporate Venture Capital (CVC) refers to the financial capital provided by industrial firms for startups. CVC investments can be utilized as a complementary method of a parent corporation's products and services, or as a means to build an innovation ecosystem with suppliers. CVC investments are known to include the intention to achieve the parent corporation's strategic goals, such as promoting innovation necessary for creating demand for the parent corporation's products and services.

As mentioned earlier, CVC can be classified into three types based on the governance structure:

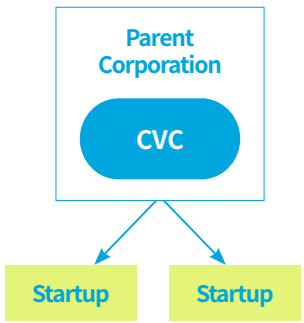
Subsidiary CVC
(Wholly-owned Subsidiary)

Operates through a separate investment subsidiary to manage venture capital, with high independence and autonomy in target selection and investment execution. However, a disadvantage is that strategic alignment with the parent corporation may be weak.



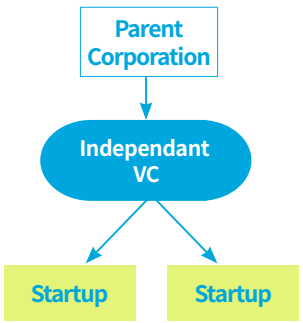
In-house CVC
(Integrated CVC Unit)

Operates with an in-house investment department or allocated personnel, involving business units in the investment process in a direct or indirect manner. Although decision-making in the investment process is not straightforward, it allows for close strategic alignment with existing business operations.



CVC as LP
(Dedicated VC Fund)

Participates as a Limited Partner (LP) by investing in external VC funds. While involvement in fund management and investment decision-making is limited, there is less risk of investment loss, and it provides an opportunity to gather information on the startup ecosystem through various channels.

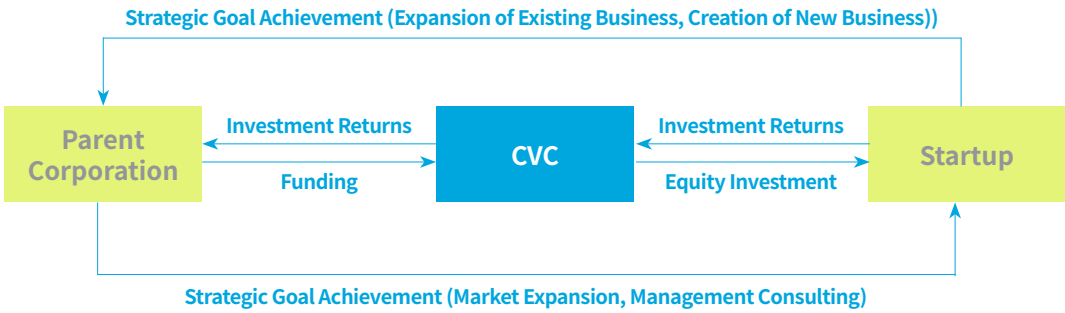


Source: Dushnitsky (2012), Kim Sun-Young (2023), re-cited [02]

02 Dushnitsky, G. (2012). Corporate venture capital in the twenty-first century: an integral part of firms' innovation toolkit. in Douglas Cumming (eds.) Oxford Handbook of Venture Capital, Oxford University Press: Oxford, UK. Kim (2023). An Analysis on the Status Corporate Venture Capital, KVIC.

② Characteristics of CVC

CVC plays a role in connecting the parent corporation and startups through investment, facilitating coordination and mediation to ensure the achievement of their respective strategic purposes. However, in this process, three types of conflicts exist



Source: Joosung Kim & Dahye Hong (2014)[03]

Exploration vs. Exploitation

Conflict between the perspective that CVC strategically assists the parent corporation within its core business and the perspective that it hinders efficient operations, incurring costs and deteriorating the parent corporation's profits.

Parent Corporation vs. Startup

Conflict between the perspective that emphasizes prioritizing the achievement of the parent corporation's strategic purposes in operating CVC and the perspective that prioritizes enhancing startup value through nurturing and support for startups.

Threat vs. Opportunity

Conflict between the perspective from the standpoint of startups or VC that CVC assists in startup growth and the perspective that CVC, through opportunistic actions of the parent corporation, may hinder startup growth.

Such conflicts arise from the fact that CVC must fulfill the strategic demands of the parent corporation to secure investment resources and support from the parent corporation while simultaneously gaining legitimacy from VC and startups as an integral part of the startup ecosystem. Therefore, mediation and coordination by CVC are crucial to align the strategic goals pursued by both parent companies and startups, fostering harmony. In other words, CVC needs to exert effort in building a trust-based collaborative relationship between parent companies and startups, ensuring they do not compete with each other.

03 Kim&Hong(2014), An Analysis on the Curren Status and Management Process of Corporate Venture Capital, Electronics and Telecommunications Trends, 29(2) 16-25.

2. CVC-related Laws & Regulations in Korea

① Limited Ownership Allowance of CVC for General Holding Companies

In December 2021, with the enforcement of the Fair Trade Act (revised in December 2020) Article 20, ownership of CVC by general holding companies was permitted. Prior to this amendment, according to the principle of separation of industrial and financial capital, general holding companies were prohibited from holding CVC, which are financial companies, and CVC establishment was only allowed outside the holding structure. However, in 2020, amid the economic slowdown in venture and startup investments due to the impact of COVID-19, the purpose of the legal amendment was to attract the liquidity funds of private companies into the venture and startup investment market.

Nevertheless, following the legal amendment, concerns have been raised about the difficulty of invigorating CVC investments due to certain regulations of conduct stipulated in the law[04]. As a result, recent discussions have been ongoing to ease some regulations of the law to expand CVC investments by general holding companies.

② Ministry of SMEs and Startups - Open Innovation Promotion Policy

The Ministry of SMEs and Startups is currently executing a restructuring of existing government-led support programs to promote private-led open innovation. Specifically, the approach shifted from a "problem-solving" method in 2020, where large companies defined demand technologies and recruited startups, to a model in 2022 that involves discovering and jointly supporting startups through private open innovation programs.

③ Ministry of Trade, Industry, and Energy – Establishment of Private Investment Promotion Funds

The Ministry of Trade, Industry, and Energy is fostering private investment through the creation of funds such as the “CVC-linked Scale-up Fund.” In particular, the ministry approached it from a medium to long-term perspective, such as setting the fund's existence period to a maximum of 10 years, and several large and medium-sized companies' CVCs have participated in fund manager recruitment. In addition, in July 2023, the ministry launched the “CVC Alliance” with the participation of 42 domestic large and medium-sized companies. To enhance industrial dynamism, the ministry introduced strategies to invigorate including the creation of a policy fund of 1 trillion won by 2025, promotion of CVC-participatory research and development (R&D) open innovation, and support for the growth of CVC-invested companies.

04 1. Restriction on External Capital Investment: Limiting the external funding ratio of the investment partnerships created by CVC to 40%.
2. Restrictions on Overseas Investment: Allowing overseas investment only within the range of 20% of the total assets of CVC, including the investment partnerships' contribution.용

④ Introduction of Private Venture Capital Fund System

On April 11, 2023, an amendment to the "Act on the Promotion of Venture Investment" was approved at the State Council meeting, which is known as private venture capital funds and serves as the basis for the formation of Private Direct and Indirect Venture Investment Association. The private venture capital fund operates by pooling capital from the private sector such as companies, investing it in venture investment associations. It is operated by private venture capitals, enhancing profitability as opposed to government-led operations. The government is in the process of easing tax incentives and some regulations or amending laws to encourage companies' participation in private venture capital funds.

⑤ M&A Promotion Policy

In efforts to overcome the recent investment downturn and foster the development of the startup ecosystem, the government is promoting policies to invigorate the exit market through secondary funds and M&A. These M&A promotion policies are expected to indirectly influence the promotion of CVC investments.

→ Target of creating 1 trillion won in private equity funds investing in secondary venture funds by 2027 to promote mid-term exits.

→ For invigorating startup M&A, the establishment of M&A SPCs by M&A venture funds is now possible, allowing SPCs to borrow up to four times their equity.

→ Additionally, planning and reviewing support platforms are underway to further promote M&A transactions.

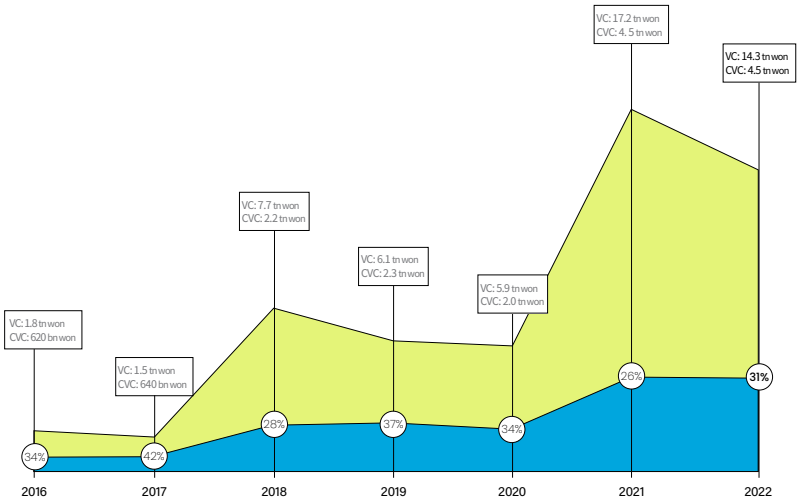
3. Status of CVCs in Korea

① Overall Volume of CVC Investments

As of 2022, the total volume of CVC investments amounts to approximately 4.5 trillion won[05], constituting 31% of the total VC investments, maintaining solid growth despite the economic downturn. Even with an overall 17% decrease in VC investments compared to the previous year due to the economic downturn, CVC investments have remained at a level similar to the previous year. Moreover, in recent times, in contrast to subsidiary CVCs, in-house CVCs have shown rapid growth, with in-house CVCs accounting for 59% of the total CVC investment as of 2022, demonstrating an increase in investment despite the economic challenges.

Total VC & CVC Investment by Year

(Unit: 100 million won, %)



Total CVC Investment in 2022

4.5 trillion won

When adjusted based on cross-agency standards and data from The VC, it is estimated to be over 5 trillion won

Categories	Total	2016	2017	2018	2019	2020	2021	2022	CAGR
VC Investments Total	545,922 (100%)	18,386 (100%)	15,345 (100%)	77,039 (100%)	61,133 (100%)	58,974 (100%)	172,288 (100%)	142,758 (100%)	41%
CVC Investments Total	**166,771 (31%)**	**6,233 (34%)**	**6,447 (42%)**	**21,740 (28%)**	**22,877 (37%)**	**19,809 (34%)**	**45,090 (26%)**	**44,575 (31%)**	**39%**
Subsidiary CVC	80,934 (15%)	3,914 (21%)	3,886 (25%)	9,309 (12%)	13,026 (21%)	11,534 (20%)	21,169 (12%)	**18,095 (13%)**	29%
In-house CVC	85,838 (16%)	2,319 (13%)	2,561 (17%)	12,431 (16%)	9,851 (16%)	8,275 (14%)	23,920 (14%)	**26,480 (19%)**	50%

05 The total VC investment amount presented in the table is the sum from commercial databases and may differ somewhat from the various government department announcements. When adjusted in comparison to the various government department announcements, it can be estimated that the overall volume of CVC investment in 2022 is likely to exceed 5 trillion won.

② CVC Operational Status by Type

With the help of Korea Venture Investment Corporation (KVIC), a list of 201 subsidiary CVCs were identified. A subsidiary CVC refers to a VC firm in which the largest shareholder is a non-financial industrial company.

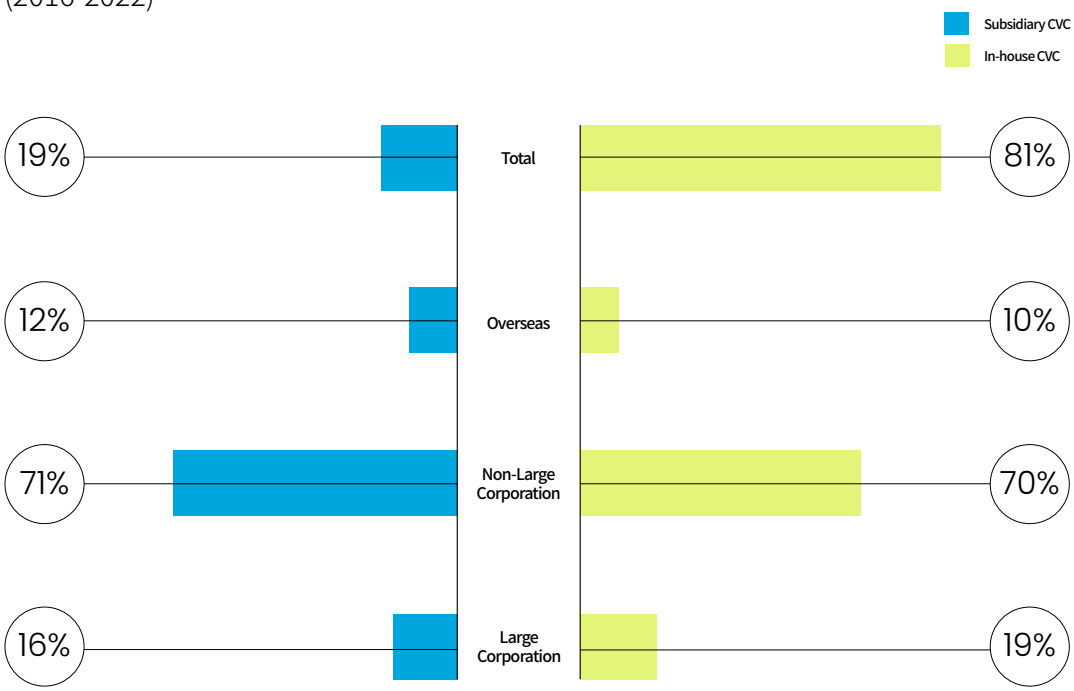
An in-house CVC refers to the internal department or personnel in charge of investments in startups. This study assumes that a corporation has an in-house CVC if the company has a record of balance sheet investments in startups.

As a result, it was found that a total of 1,064 CVCs are in operation, including 201 subsidiary CVCs (19%) and 863 in-house CVCs (81%)[06]. Excluding overseas company CVCs, there are 949 CVCs in operation within the domestic context, consisting of 176 subsidiary CVCs (19%) and 773 in-house CVCs (81%).

Furthermore, among all CVCs, those owned by domestic large companies total 199, accounting for 19% of the total CVCs. Among these, subsidiary CVCs number 33, constituting 16% of all subsidiary CVCs, while in-house CVCs number 166, representing 19% of all in-house CVCs.

Operational Status of CVCs by Type

(2016-2022)[07]



06 However, as mentioned earlier, this study broadly considers CVC as financial capital investing in startups, encompassing not only non-financial general companies but also including general companies that conducting balance sheet investments in startups. If we restrict CVC to domestic companies and narrowly define it as an independent investment company, the number of confirmed CVC investments between 2016 and 2022 can be seen as 176.

07 It refers to the number of CVCs with confirmed investment records or investment performance in media or reported in The VC databases between 2016 and 2022.

Categories			Number	Ratio
Total CVC	Toal		1,064	100%
	Operating Entity	Subsidiary CVC	201	19%
		In-house CVC	863	81%
	Business Type	Large Corporations[08]	199	19%
		Non-Large Corporations	750	70%
		Overseas	115	11%
Subsidiary CVC	Total		201	100%
	Large Corporations[09]		33	16%
	Non-Large Corporations[10]		143	71%
	Overseas[11]		25	12%
In-house CVC[12]	Total		863	100%
	Large Corporations[13]		166	19%
	Non-Large Corporations[14]		607	70%
	Overseas [15]		90	10%

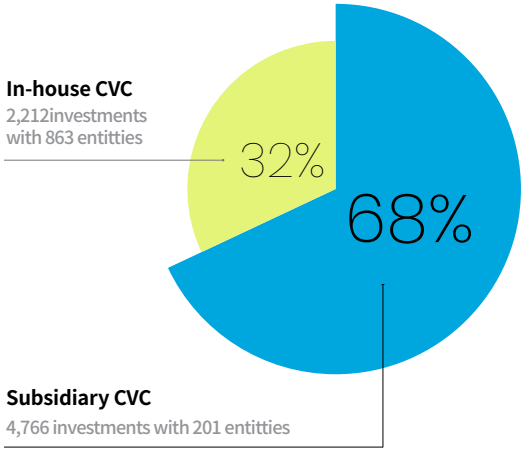
Results of analyzing the total number of investments and total investment amounts by CVC types from 2016 to 2022 show that among approximately 7,000 total investment cases, by operating entity, investments from subsidiary CVCs accounted for 68%, and by corporate classification, investments from non-large corporations accounted for 64%. In particular, in terms of corporate classification, the interpretation of the results suggests that the number of non-large corporation CVCs is significantly higher. However, in terms of operating entities, despite the number of subsidiary CVCs being about one-fourth of the number of in-house CVCs, the total number of investments is more than double, indicating that subsidiary CVCs are more active.

While there were no significant differences in total investment amounts by operating entity, the total investment amount from non-large corporation CVCs accounted for more than half (51%).

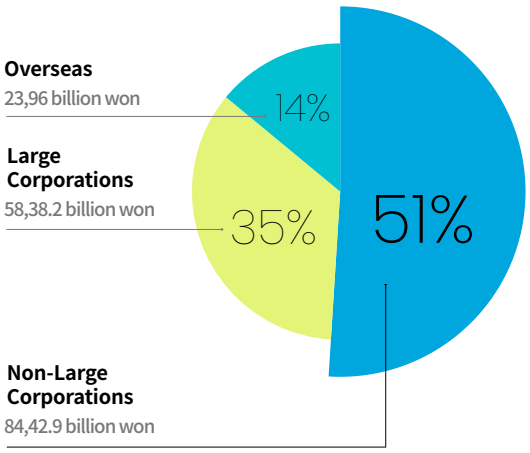
08 This is based on the criteria set by the "2023 Designation Results of Companies Subject to Public Disclosure," announced on May 1, 2023.
09 Example: GS Ventures, Lotte Ventures, Signite Partners
10 Example: BTC Investment, F&F Partners
11 Example: Colopl Next, Unilever Ventures
12 The in-house organization of a non-financial general company that conducting balance sheet investments in unlisted startups.
13 Example: Naver D2SF, Hyundai Motor ZER01NE Ventures, GS Retail
14 Example: Infobank iAccel, Kyowon, Green Cross, Woowa Brothers
15 Example: Tencent, PayPal, L'Oréal, Google

Total Number of Investments and Total Investment Amount by CVC Type (2016-2022)

Total Number of Investments



Total Investment Amount



	Categories		Number	Total Number of Investments		Total Investment Amount	
				Count	Ratio	Amount (100 Million KRW)	Ratio
Total CVC	Total		1,064	6,978	100%	166,771	100%
	Operating Entity	Subsidiary CVC	201	4,766	68%	80,934	49%
		In-house CVC	863	2,212	32%	85,838	51%
	Business Type	Large Corporations	199	2,262	32%	58,382	35%
		Non-Large Corporations	750	4,448	64%	84,429	51%
		Overseas	115	268	4%	23,960	14%
Subsidiary CVC	Total		201	4,766	100%	80,934	100%
	Large Corporations		33	1,414	30%	19,211	24%
	Non-Large Corporations		143	3,192	67%	55,785	69%
	Overseas		25	160	3%	5,938	7%
In-house CVC	Total		863	2,212	100%	85,838	100%
	Large Corporations		166	848	38%	39,171	46%
	Non-Large Corporations		607	1,256	57%	28,644	33%
	Overseas		90	108	5%	18,022	21%

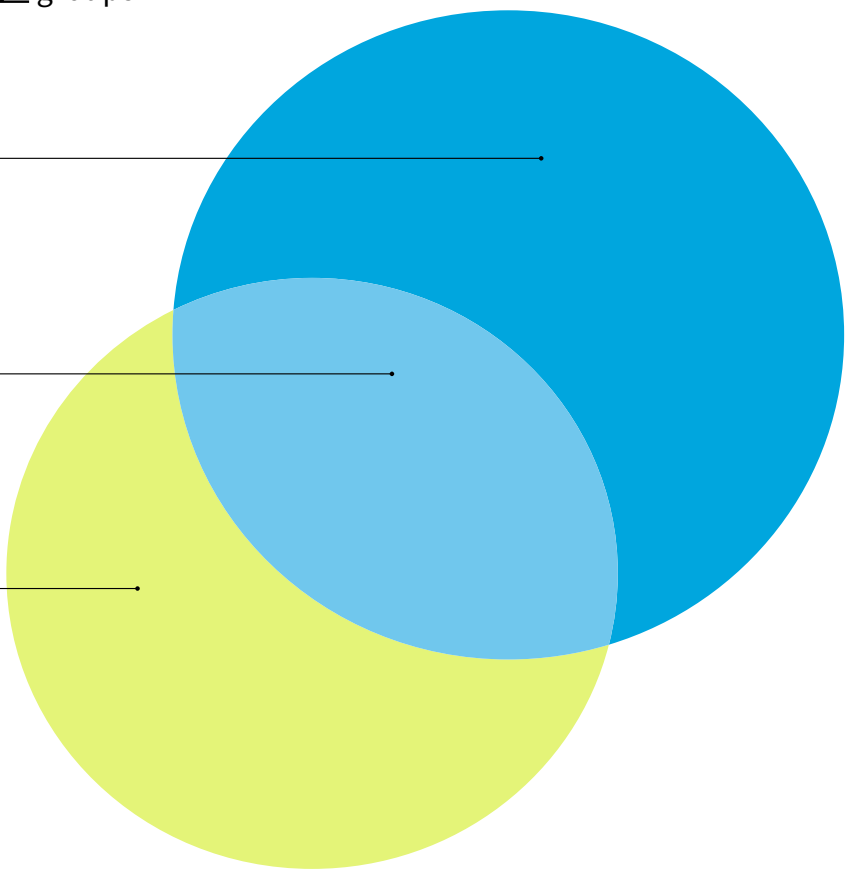
③ Status of Establishment of CVC in Large Corporations

In 2023, among 82 large corporate groups[16], 52 groups (63%) have a confirmed history of CVC investment activity. This indicates that 6 out of 10 large corporate groups are involved in CVC investment activities. Among them, 30 groups (37% of the total) have confirmed records of operating subsidiary CVCs, while 46 groups (56% of the total) have records of operating in-house CVCs. Among these, 24 groups (29% of the total) have both types of operating records.

In particular, it has been observed that the establishment of subsidiary CVCs by large corporations has increased since the amendment of the Fair Trade Act (enforced in December 2021), which allowed limited ownership of CVCs by general holding companies. Out of the 36 subsidiary CVCs of large corporations, seven have been established after 2022, accounting for 19% of the total.

Large corporations engaging in CVC investment activities

52 out ot 82 groups



In-house CVC

46

In-house CVC
+ Subsidiary CVC

24

Subsidiary CVC

30

16 This is based on the criteria set by the "2023 Designation Results of Companies Subject to Public Disclosure," announced on May 1, 2023.

Presence of CVCs under Large Corporate Groups in 2023[17] [18]

Rank	Group Name	Subsidiary CVC	In-house CVC
1	Samsung	O	O
2	SK		O
3	Hyundai Motor Company		O
4	LG	O	O
5	POSCO	O	O
6	Lotte	O	O
7	Hanwha	O	O
8	GS	O	O
9	HD Hyundai		
10	Nonghyup	O	
11	Shinsegae	O	O
12	KT	O	O
13	CJ	O	O
14	Hanjin		O
15	Kakao	O	O
16	LS		O
17	Doosan	O	O
18	DL		O
19	HMM		
20	Jungheung Construction		O
21	Hyundai Department Store		O
22	Booyoung		
23	Naver	O[19]	O
24	Mirae Asset		
25	S-Oil		O
26	Kumho Asiana		O
27	Harim		
28	Young Poong		
29	HDC		
30	SM	O	
31	Hyosung	O	O
32	Celltrion		
33	Hoban Construction	O	O
34	KT&G		O
35	KCC		
36	Sinokor Merchant Marine		
37	Daewoo Shipbuilding & Marine Engineerin		
38	OCI	O	O

39	Kolon	O	O
40	Tae Young		
41	Netmarble		O
42	SeAH	O[20]	O
43	Nexon	O	O
44	LX		O
45	Coupang		
46	E-Land	O	O
47	Hankook Tire	O	O
48	DB		
49	Samchully	O	
50	Kumho Petrochemical		
51	Daou Kiwoom	O	O
52	Taekwang		
53	Kyobo Life Insurance		
54	Dongwon	O	
55	KG		O
56	HL (formerly Halla)		O
57	Amorepacific		O
58	Korea Aerospace Industries		O
59	Daebang Construction		
60	JoongAng		
61	Dunamu	O	O
62	Ecopro	O	
63	Aekyung		
64	GM Korea		
65	Dongkuk Steel		
66	MDM		
67	Samyang		O
68	KRAFTON		O
69	KORYO HC		
70	Bosung		
71	Global SAE-A		
72	Sin-Yeong		
73	DN		
74	OK Financial Group		
75	IS Holdings		O
76	HiteJinro		O
77	Hansol		O
78	Eugene	O	
79	Nongshim	O	O
80	Sampyo		
81	Bando Holdings		O
82	BGF	O[21]	O

Large Corporate Groups with Subsidiary CVC (As of May 2023)[22]

Rank	Group Name	Subsidiary CVC	Type	Est. Year	Parent Corporation (Major Shareholder)	Note
1	Samsung	Samsung Venture Investment	NTFC	1999	Samsung Electronics	
		Samsung Next	Other	2013	Samsung Electronics	Located in California, USA
4	LG	LG Technology Ventures	Other	2018	LG Electronics	Located in California, USA
5	POSCO	POSCO Venture Capital	NTFC	1997	POSCO Holdings	2022 General Holding Company CVC Transformation
6	Lotte	Lotte Ventures	NTFC	2016	Lotte Hotels & Resorts	
7	Hanwha	Hanwha Investment	SIC	2000	Hanwha Investment & Securities	
8	GS	Xplor Investment	NTFC	2022	GS Engineering & Construction	
		GS Ventures	NTFC	2022	GS	Establishment of a New General Holding Company CVC
		GS Futures	Other	2020	GS	Located in California, USA
10	Nonghyup	Venture Investment	NTFC	2019	Nonghyup Financial Group	
11	Shinsegae	Signite Partners	SIC	2020	Shinsegae International	
12	KT	KT Investment	NTFC	2015	KT	
13	CJ	CJ Investment[23]	SIC	2000	CJ	Conversion of General Holding CVC after Incorporation
15	Kakao	Kakao Ventures[24]	SIC	2012	Kakao	
		Kakao Investment	Other	2017	Kakao	
16	Doosan	Neoplux	SIC	2000	Doosan	Sold to Shinhan Financial in August 2020
23	Naver	Spring Camp[25]	SIC	2015	Snow	
30	SM	SM Culture Partners	NTFC	2022	SM Entertainment	
31	Hyosung	Hyosung Ventures	NTFC	2022	Hyosung	Establishment of a New General Holding Company CVC
33	Hoban Construction	PlanH Ventures	SIC	2019	Hoban Construction	
		Cornerstone Investment	NTFC	2016	Hoban Construction	
38	OCI	SGC Partners	SIC	2021	SGC Energy	
39	Kolon	Innobase[26]	Other	2004	KOLON	
		Kolon Investment	SIC	2000	KOLON	
42	SeAH	SeAH Capital	NTFC	2023	SeAH Holdings	Establishment of a New General Holding Company CVC
43	Nexon	NX Venture Partners[27]	NTFC	2017	Nexon Games	Withdrawn in 2018
46	E-Land	E-Land Ventures	SIC	2021	E-Land World	
47	Hankook Tire	MW & Company	NTFC	2021	Hankook Tire & Technology	
49	Samchully	Blue Corner[28]	SIC	2012	ST International	
51	Daou Kiwoom	Kiwoom Investment	SIC	1999	Daou Technology	
54	Dongwon	Dongwon Technology Investment	NTFC	2022	Dongwon Industries	Establishment of a New General Holding Company CVC

61	**Dunamu**	Dunamu & Partners	Other	2018	Dunamu
62	**Ecopro**	Ecopro Partners	SIC	2020	Ecopro
78	**Eugene**	Spring Ventures	SIC	2022	Nanum Lotto
79	**Nongshim**	Nongshim Capital	NTFC	2007	Nongshim
82	**BGF**	Bokwang Investment	SIC	1989	BGF[29]

17 This refers to cases where the operation of subsidiary CVCs was confirmed or where balance sheet investments of affiliates (i.e., in-house CVC) were verified between 2016 and 2022.

18 Investments in startups by financial companies such as Nonghyup and Kyobo Life Insurance were not classified as CVC and were excluded from the analysis. However, for convenience, only investment companies of some financial companies are labeled as "subsidiary CVC."

19 It is an investment company 100% owned by Snow, a subsidiary of Naver, and is not directly controlled by Naver.

20 Established in March 2023

21 Bogwang Investment is an investment company owned by a special relationship with the head of BGF.

22 Subsidiary CVCs under financial companies, NH Venture Investment, Kiwoom Investment, and SeAH Capital, which was established in 2023, are not included in the subsequent analysis. However, although Hanwha Investment is a major shareholder of a financial company, 80 of the 91 subsidiaries of Hanwha Group are non-financial companies, and the financial industry is not the group's main business, so it is included in the CVC analysis.

23 Founded in 2000 as "Dream Discovery." In 2003, the company was renamed CJ Venture Investment, and in 2014, it was renamed Timewise Investment. In 2011, following the Fair Trade Act, it was sold to C&I Leisure Industry. After a legal amendment in 2021, CJ Corporation acquired 100% of Timewise Investment from C&I Leisure Industry in 2022, relaunching it as an official affiliate of the CJ Group.

24 Its predecessor was K Cube Ventures, founded in 2012 by Chairman Kim Beom-su. In 2015, Chairman Kim Beom-su sold his stake to Kakao.

25 Founded in 2015 by mobile game developer Party Games. In 2017, Snow acquired Spring Camp and became a subsidiary of Naver.

26 Started in 2015 as an in-house venture organization. It became a 100% subsidiary of Kolon in 2016. After an investment in 2018, investments resumed in 2021 for the first time in 3 years.

27 Launched as an Impact Investment Company. Founded in November 2018, it withdrew after 8 months.

28 In May 2022, ST International (formerly Samtan) acquired "Seoul Technology Investment," leading to a name change.

29 Bogwang Investment is an investment company owned by a special relationship with the head of BGF.

④ Changes in the Number of Investments by CVC Type

Firstly, an examination of the distribution of total investment counts by CVC type reveals an overall trend of increasing significance for subsidiary CVC investments, although the proportion of in-house CVC investments has been growing each year. Subsidiary CVC investments accounted for 71% of total CVC investments in 2016 out of 500 total investments, decreasing to 62% in 2022, a decrease of 9 percentage points. In contrast, during the same period, in-house CVC investments increased from 29% to 38%.

In all types, the proportion of non-large enterprises is the largest, but subsidiary CVC investments are led by non-large enterprises, while in-house CVC investments show the largest growth rate in large companies. Subsidiary CVC investments by non-large enterprises accounted for 58% of total subsidiary CVC investments out of 353 in 2016, increasing to 68% out of 955 in 2022.

Furthermore, in-house CVC investments in large companies accounted for 29% of total in-house CVC investments out of 147 in 2016, increasing to 42% out of 590 in 2022.

Trend in Total Number of Investments by CVC Type

Categories		Total	2017	2017	2018	2019	2020	2021	2022	CAGR[30]
CVC Total	Total	6,978	500	463	720	974	1,124	1,652	1,545	21%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Subsidiary CVC	4,766	353	315	521	733	777	1,112	955	18%
		(68%)	(71%)	(68%)	(72%)	(75%)	(69%)	(67%)	(62%)	
	In-house CVC	2,212	147	148	199	241	347	540	590	26%
		(32%)	(29%)	(32%)	(28%)	(25%)	(31%)	(33%)	(38%)	
Subsidiary CVC	Total	4,766	353	315	521	733	777	1,112	955	18%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Large Corporations	1,414	130	111	173	205	226	297	272	13%
		(30%)	(37%)	(35%)	(33%)	(28%)	(29%)	(27%)	(28%)	
	Non-Large Corporations	3,192	206	189	327	513	536	775	646	21%
		(67%)	(58%)	(60%)	(63%)	(70%)	(69%)	(70%)	(68%)	
	Overseas	160	17	15	21	15	15	40	37	14%
		(3%)	(5%)	(5%)	(4%)	(2%)	(2%)	(4%)	(4%)	
In-house CVC	Total	2,212	147	148	199	241	347	540	590	26%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Large Corporations	848	42	69	79	77	114	222	245	34%
		(38%)	(29%)	(47%)	(40%)	(32%)	(33%)	(41%)	(42%)	
	Non-Large Corporations	1,256	94	71	102	148	221	301	319	23%
		(57%)	(64%)	(48%)	(51%)	(61%)	(64%)	(56%)	(54%)	
	Overseas	108	11	8	18	16	12	17	26	15%
		(5%)	(7%)	(5%)	(9%)	(7%)	(3%)	(3%)	(4%)	

30 Compound Annual Growth Rate

⑤ Changes in CVC Investment Amounts by Type

Next, when examining the distribution of the total CVC investment amounts by type, the growth trend of in-house CVCs appears more pronounced. In particular, the growth trend of in-house CVCs within large corporations stands out.

The annual average growth rate of total investment amounts for in-house CVCs is 50%, significantly higher compared to the annual average growth rate of total investment amounts for subsidiary CVCs (29%). When examining this by corporate classification, the annual average growth rate of total investment amounts for in-house CVCs, particularly within large corporations, is 56%. Even in the market downturn of 2022, it was shown that they accounted for 51% of the total in-house CVC investment and conducted the largest investment since 2016, reaching 1,355 billion won.

Similar to the trend in the total number of investments discussed earlier, it can be observed that large corporations' in-house CVCs are actively pursuing an aggressive investment strategy.

Trends in Total Investment Amounts by CVC Type

(Unit: 100 million won,%)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
CVC Total	Total	166,771	6,233	6,447	21,740	22,877	19,809	45,090	44,575	39%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Subsidiary CVC	80,934	3,914	3,886	9,309	13,026	11,534	21,169	18,095	29%
		(49%)	(63%)	(60%)	(43%)	(57%)	(58%)	(47%)	(41%)	
	In-house CVC	85,838	2,319	2,561	12,431	9,851	8,275	23,920	26,480	50%
		(51%)	(37%)	(40%)	(57%)	(43%)	(42%)	(53%)	(59%)	
Subsidiary CVC	Total	80,934	3,914	3,886	9,309	13,026	11,534	21,169	18,095	29%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Large Corporations	19,211	1,129	1,041	2,284	2,711	2,941	5,015	4,090	24%
		(24%)	(29%)	(27%)	(25%)	(21%)	(26%)	(24%)	(23%)	
	Non-Large Corporations	55,785	2,432	2,507	6,186	9,154	8,158	14,746	12,601	32%
		(69%)	(62%)	(65%)	(66%)	(70%)	(71%)	(70%)	(70%)	
	Overseas	5,938	353	338	839	1,161	435	1,408	1,404	26%
		(7%)	(9%)	(9%)	(9%)	(9%)	(4%)	(7%)	(8%)	
In-house CVC	Total	85,838	2,319	2,561	12,431	9,851	8,275	23,920	26,480	50%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Large Corporations	39,171	926	1,691	2,460	5,612	4,943	9,984	13,555	56%
		(46%)	(40%)	(66%)	(20%)	(57%)	(60%)	(42%)	(51%)	
	Non-Large Corporations	28,644	1,310	543	2,032	2,882	3,211	11,849	6,816	32%
		(33%)	(56%)	(21%)	(16%)	(29%)	(39%)	(50%)	(26%)	
	Overseas	18,022	83	327	7,939	1,357	121	2,087	6,109	105%
		(21%)	(4%)	(13%)	(64%)	(14%)	(1%)	(9%)	(23%)	

4. Investment Status of CVC by Operating Entity

① Subsidiary CVC

Among the 176 domestic subsidiary CVCs confirmed to be established and operational from 2016 to 2022, more than half (51%) were found to have strategic purposes[31]. The Set-up Investment Company (SIC)[32] primarily acts as financial investors, while the New Technology Financing Company (NTFC)[33] and other types show a greater proportion of strategic investors.

First of all, among the 176 domestic subsidiary CVCs, 107 (61%) are SICs, 51 (29%) are NTFCs, and the remaining 18 (10%) either invested without a special license in the parent corporation's account[34]or were investment firms established by domestic companies overseas. Of these, 89 (51%) were identified as having a strategic purpose.

Furthermore, among subsidiary CVCs with SIC licenses, 64% were identified as financial investors, while among those with NTFC licenses, 69% were classified as strategic investors. The majority of other types of investors (83%) were also identified as strategic investors.

Detailed Types of Subsidiary CVCs

(Unit: Count, %)

Categories	Strategic	Financial	Total
SIC	39	68	107
	(36%)	(64%)	(100%)
NTFC	35	16	51
	(69%)	(31%)	(100%)
Other	15	3	18
	(83%)	(17%)	(100%)
Total	89	87	176
	(51%)	(49%)	(100%)

31 Each subsidiary CVC's 1) identity (whether they explicitly identify themselves as CVC), 2) operational purpose (whether they emphasize strategic purposes), and 3) collaborative system (whether they have established a collaboration system with parent companies) can be confirmed by searching for articles or related content on the internet. If any relevant information is found in at least one of these three aspects, they are classified as strategic investors. If no relevant information is found, they are classified as financial investors.

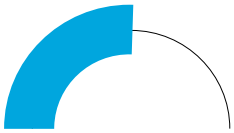
32 It refers to a Small and Medium-sized Enterprise Startup Investment Company under the Small and Medium-sized Enterprise Startup Support Act. Verified by cross-referencing with the list of SICs provided in the Korea Venture Capital Association's Yearbook.

33 It refers to a New Technology Financing Company under the Specialized Credit Financial Business Act. Verified by cross-referencing with the list of NTFCs provided by the Credit Finance Association.

34 Typically, these entities register as corporations, often in fields such as consulting, and engage in investment activities.

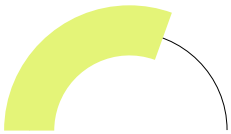
Next, when analyzing subsidiary CVCs based on whether it is a large corporation or not, in cases where the parent corporation is a large corporation, the proportion of obtaining the NTFC license is higher at 39%, compared to non-large corporations at 27%. Additionally, in non-large corporations, the proportion of financial investors is higher at 53%, compared to large corporations at 33%. In other words, it can be interpreted that when a parent corporation is a large corporation, there is a tendency to be a strategic investor who has secured the NTFC license.

Detailed Types of Subsidiary CVCs
(Large Corporations or Non-large Corporations)



51%

With strategic purposes 89 out of 176



61%

SIC License 107 out of 176

29%

NTFC License 51 out of 176

(Unit: Count, %)

		Large Corporations[35]	Non-Large Corporations	Sum
Total		33	143	176
		(100%)	(100%)	(100%)
License	SIC	14	93	107
		(42%)	(65%)	(61%)
	NTFC	13	38	51
		(39%)	(27%)	(29%)
	Other	6	12	18
		(18%)	(8%)	(10%)
Operational Purpose	Financial	11	76	87
		(33%)	(53%)	(49%)
	Strategic	22	67	89
		(67%)	(47%)	(51%)

35 Although 36 subsidiary CVCs of large corporations were identified, the analysis only includes 33, excluding NH Venture Investment and Kiwoom Investment, which are subsidiary CVCs under financial companies, and SeAH Capital established in 2023.

Meanwhile, examining the distribution of establishment years for subsidiary CVCs reveals that in 2021, a significant number (30) of subsidiary CVCs were established, especially during the peak of startup investments. Recently, there has been an increase in the establishment of the NTFCs, CVCs with strategic investment purposes. Before 2015, the establishment ratio was 74% for SICs and 19% for NTFCs. However, after the amendment and enforcement of the Fair Trade Act in 2022, the establishment ratio changed to 22% for SICs and 78% for NTFCs, indicating a recent trend towards a higher proportion of establishment of NTFCs. In terms of operational purposes, there has been a shift from predominantly financial purposes before 2015 to an increasing trend of strategic purposes over time.

Moreover, with the amendment of the Fair Trade Act at the end of 2021 allowing general holding companies to partially own CVCs, there has been a significant increase in the number of subsidiary CVCs with investments from conglomerates starting from 2022. In particular, in 2022, it was observed that 67% of the newly established subsidiary CVCs had a parent corporation as a large company.

Distribution of Subsidiary CVC Types by Establishment Year

(Unit: Count, %)

Categories		Pre-2015	2016	2017	2018	2019	2020	2021	2022
Total		74	8	11	20	12	12	30	9
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
License	SIC	55	4	4	11	9	6	16	2
		(74%)	(50%)	(36%)	(55%)	(75%)	(50%)	(53%)	(22%)
	NTFC	14	4	6	4	3	4	9	7
		(19%)	(50%)	(55%)	(20%)	(25%)	(33%)	(30%)	(78%)
	Other	5	0	1	5	0	2	5	0
		(7%)	(0%)	(9%)	(25%)	(0%)	(17%)	(17%)	(0%)
Operational Purpose	Financial	48	2	6	7	5	3	14	2
		(65%)	(25%)	(55%)	(35%)	(42%)	(25%)	(47%)	(22%)
	Strategic	26	6	5	13	7	9	16	7
		(35%)	(75%)	(45%)	(65%)	(58%)	(75%)	(53%)	(78%)
Parent corporation	Large Corporations	13	2	2	2	1	2	4	6
		(18%)	(25%)	(18%)	(10%)	(8%)	(17%)	(13%)	(67%)
	Non-Large Corporations	61	6	9	18	11	10	26	3
		(82%)	(75%)	(82%)	(90%)	(92%)	(83%)	(87%)	(33%)

When examining the average number of investments and average investment amounts executed by subsidiary CVCs with a history of startup investment for each year, it is observed that conglomerate subsidiary CVCs are the most active, and those with financial purposes invest on average similar to strategic CVCs in terms of the average number of investments, but they execute larger average investment amounts. From 2016 to 2022, each conglomerate subsidiary CVC invested an average of 11.8 cases and 16.4 billion won per year. In addition, subsidiary CVCs with financial purposes invested an average of 13.1 billion won each per year, while those with strategic purposes invested an average of 11.6 billion won annually.

Average Number of Investments per Subsidiary CVC Participating in Startup Investments by Year

(Unit: Count/CVC)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		7.4	6.1	5.0	6.2	7.9	8.2	9.2	7.2	3%
License	SIC	7.6	5.2	4.8	6.2	8.1	7.9	10.2	8.1	8%
	NTFC	8.1	10.7	6.3	6.6	8.5	9.9	9.5	6.5	-8%
	Other	3.8	5.3	3.8	4.7	4.4	3.8	3.2	2.9	-10%
Operational Purpose	Financial	7.2	5.1	4.1	6.0	7.5	8.1	10.3	7.5	7%
	Strategic	7.6	8.4	6.9	6.3	8.4	8.4	8.2	7.0	-3%
Company Scale	Large Corporations	11.8	10.0	7.9	10.2	12.8	14.1	15.6	10.9	1%
	Non-Large Corporations	6.3	4.9	4.1	5.1	6.8	7.0	8.0	6.3	A

Average Investment Amount per Subsidiary CVC Participating in Startup Investments by Year

(Unit: 100 million won/CVC)

항목		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		125	67	61	113	130	122	180	136	12%
License	SIC	128	67	62	117	135	118	187	158	15%
	NTFC	132	78	72	92	147	129	206	110	6%
	Other	68	37	12	136	43	163	64	43	2%
Operational Purpose	Financial	131	67	58	118	147	131	199	151	14%
	Strategic	116	67	68	106	110	109	160	118	10%
Company Scale	Large Corporations	164	87	74	134	169	196	279	170	12%
	Non-Large Corporations	115	61	57	107	122	107	160	127	13%

The analysis of the total investment amount by type of subsidiary CVC reveals that subsidiary CVCs for financial purposes, and of SICs and non-large companies play a significant role, accounting for a large proportion of the total CVC investments and driving the growth of total investment amounts. From 2016 to 2022, among the total investment amount by subsidiary CVCs, those with SIC licenses accounted for 75%, and the proportion of CVC investments with financial purposes accounted for 61%. In addition, during the same period, the proportion of investment by non-large corporations was 74%.

Detailed Distribution of Total Investment Amount by Subsidiary CVC Types[36]

(Unit: 100 million won, %)

Categories		Total	2016	2017	2018	2019	20201	2021	2022	CAGR
Total		74,996	3,561	3,548	8,470	11,865	11,099	19,761	16,691	29%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
License	SIC	53,533	2,830	2,791	6,184	8,614	7,911	12,871	12,332	28%
		(71%)	(79%)	(79%)	(73%)	(73%)	(71%)	(65%)	(74%)	
	NTFC	18,617	622	721	1,467	2,949	2,699	6,183	3,976	36%
		(25%)	(17%)	(20%)	(17%)	(25%)	(24%)	(31%)	(24%)	
	Other	2,846	110	36	819	302	489	706	383	23%
		(4%)	(3%)	(1%)	(10%)	(3%)	(4%)	(4%)	(2%)	
Operational Purpose	Financial	45,343	2,493	2,318	5,295	7,480	6,951	10,959	9,847	26%
		(60%)	(70%)	(65%)	(63%)	(63%)	(63%)	(55%)	(59%)	
	Strategic	29,654	1,068	1,230	3,175	4,385	4,149	8,802	6,845	36%
		(40%)	(30%)	(35%)	(37%)	(37%)	(37%)	(45%)	(41%)	
Parent Company	Large Corporations	19,211	1,129	1,041	2,284	2,711	2,941	5,015	4,090	24%
		(26%)	(32%)	(29%)	(27%)	(23%)	(27%)	(25%)	(25%)	
	Non-Large Corporations	55,785	2,432	2,507	6,186	9,154	8,158	14,746	12,601	32%
		(74%)	(68%)	(71%)	(73%)	(77%)	(73%)	(75%)	(75%)	

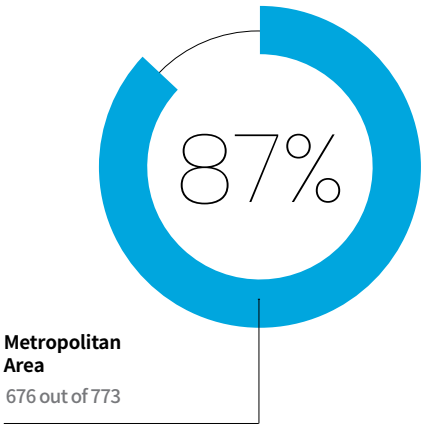
36 In Table 7, the investment amount of subsidiary CVCs between 2016 and 2022 was reported as 8,093.4 billion won. However, this figure includes subsidiary CVCs of foreign companies. In this section, we have limited our analysis to domestic companies. Therefore, the analysis is based only on the amount of 7499.6 billion won, excluding 593.7 billion won from subsidiary CVCs of foreign companies.

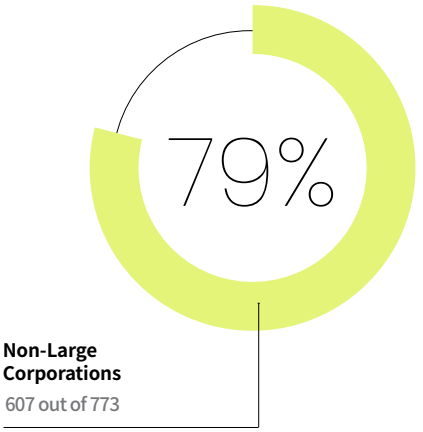
② In-house CVC[37]

From 2016 to 2022, a total of 773 domestic corporate in-house CVC activities were identified, with most of them belonging to companies in the metropolitan area (87%), non-large companies (79%), and companies without subsidiary CVCs (79%). In particular, 54% of large companies have a separate subsidiary CVC within their affiliated groups, while only 12% of non-large companies directly or through subsidiaries possess subsidiary CVCs.

Distribution of In-House CVC Types
(2016-2022)

(Unit: Count, %)





		Total	Large Corporations	Non-Large Corporations
Total		773	166	607
		(100%)	(100%)	(100%)
Region	Metropolitan area	676	150	526
		(87%)	(90%)	(87%)
	Non-metropolitan area	97	16	81
		(13%)	(10%)	(13%)
Subsidiary CVC	Hold	159	89	70
		(21%)	(54%)	(12%)
	Non-hold	614	77	537
		(79%)	(46%)	(88%)

37 Overseas corporate CVC investments were not included in the analysis, and in this context, in-house CVC refers to the investment execution department of domestic non-financial general companies that conduct balance sheet investments in venture and startup companies. Investments by in-house CVCs of foreign companies were not included in the analysis.

However, at the level of in-house CVCs, the type that exhibits the most active investment activity is confirmed to be companies with large enterprises and subsidiary CVCs. In 2022, each in-house CVC of large companies invested an average of 2.5 cases (CAGR 6%) and 15.4 billion won (CAGR 20%), while companies with subsidiary CVCs invested 1.8 cases (CAGR 5%) and 12.6 billion won (CAGR 44%).

As a result, the proportion of total investment by large companies in in-house CVCs increased from 41% in 2016 to 67% in 2022, and the number of companies holding CVCs increased from 17% in 2016 to 45% in 2022.

Average Number of Investments per In-house CVC Participating in Startup Investment by Year

(Unit: Count/CVC)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		1.7	1.4	1.6	1.7	1.6	1.7	1.7	1.8	4%
Region	Metropolitan area	1.7	1.4	1.7	1.7	1.6	1.7	1.8	1.8	5%
	Non-metropolitan area	1.4	1.3	1.2	1.4	1.5	1.3	1.5	1.6	3%
Company Scale	Large Corporations	2.4	1.8	2.2	2.5	2.3	2.4	2.6	2.5	6%
	Non-Large Corporations	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.5	3%
Subsidiary CVC	Hold	1.5	1.3	1.7	1.6	1.3	1.2	1.6	1.8	5%
	Non-hold	1.7	1.4	1.6	1.7	1.7	1.8	1.8	1.8	4%

Average Investment Amount per In-house CVC Participating in Startup Investment by Year

(Unit: 100 million won/CVC)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		66	28	33	48	67	50	88	80	19%
Region	Metropolitan area	69	29	35	50	73	54	91	86	20%
	Non-metropolitan area	35	18	22	29	36	13	58	37	13%
Company Scale	Large Corporations	124	51	56	91	175	121	126	154	20%
	Non-Large Corporations	40	21	14	30	31	26	70	41	12%
Subsidiary CVC	Hold	91	14	27	59	146	87	87	126	44%
	Non-hold	56	34	35	44	37	38	88	62	10%

Distribution of Total Investment Amount of In-house CVC by Type[38]

(Unit: 100 million won)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		67,815	2,237	2,234	4,493	8,494	8,154	21,833	20,371	45%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Region	Metropolitan area	63,760	2,129	2,010	4,203	7,840	7,916	20,443	19,220	44%
		(94%)	(95%)	(90%)	(94%)	(92%)	(97%)	(94%)	(94%)	
	Non-metropolitan area	4,055	108	225	289	654	237	1,391	1,151	48%
		(6%)	(5%)	(10%)	(6%)	(8%)	(3%)	(6%)	(6%)	
Company Scale	Large Corporations	39,171	926	1,691	2,460	5,612	4,943	9,984	13,555	56%
		(58%)	(41%)	(76%)	(55%)	(66%)	(61%)	(46%)	(67%)	
	Non-Large Corporations	28,644	1,310	543	2,032	2,882	3,211	11,849	6,816	32%
		(42%)	(59%)	(24%)	(45%)	(34%)	(39%)	(54%)	(33%)	
Subsidiary CVC	Hold	25,335	374	536	1,426	5,095	3,324	5,479	9,101	70%
		(37%)	(17%)	(24%)	(32%)	(60%)	(41%)	(25%)	(45%)	
	Non-hold	42,480	1,863	1,699	3,066	3,399	4,829	16,355	11,269	35%
		(63%)	(83%)	(76%)	(68%)	(40%)	(59%)	(75%)	(55%)	

38 Out of 2,104 investments, only 1,622 investments were used for analysis, excluding 482 (23%) for which there was no data on the investment amount. However, among the 482 cases where investment amount information is not available, it is estimated that 242 cases are seed investments, and 86 cases are Pre-Series A investments. It is judged that this estimation will not have a significant impact on the total sum.

5. Characteristics of CVC Investments in Korea

① Overall Characteristics of CVC Investment in Korea

The main characteristics of CVC investments in Korea can be explained in terms of ① investment stages, ② joint/solo investments, and ③ investment sectors.

Investment Stages

Firstly, looking at the total number of investments by investment stage, Series A and Series B investments dominate, with a growing emphasis on pre-Series A over the very early seed stage. In particular, investments in later stages, such as Series D and beyond, have been gradually increasing, indicating a preference for startups that have progressed in their commercialization in recent years..

Distribution of Total CVC Investment Numbers by Investment Stage[39] [40]

(Unit: Count, %)

Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Total	500	463	720	974	1,124	1,652	1,545	21%
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Seed	146	129	169	208	213	241	207	6%
	(29%)	(28%)	(23%)	(21%)	(19%)	(15%)	(13%)	
Pre-Series A	53	44	74	121	131	221	261	30%
	(11%)	(10%)	(10%)	(12%)	(12%)	(13%)	(17%)	
Series A	156	151	212	349	427	579	551	23%
	(31%)	(33%)	(29%)	(36%)	(38%)	(35%)	(36%)	
Series B	99	105	196	213	259	390	370	25%
	(20%)	(23%)	(27%)	(22%)	(23%)	(24%)	(24%)	
Series C	32	24	49	61	56	142	102	21%
	(6%)	(5%)	(7%)	(6%)	(5%)	(9%)	(7%)	
Series D And beyond	4	4	15	22	38	79	52	53%
	(1%)	(1%)	(2%)	(2%)	(3%)	(5%)	(3%)	

39 23 cases have an unconfirmed investment stage and are included in the total count, but they are not separately distinguished or displayed in the table.

40 The database used in this study collected information through direct reports from investors or startups and crawling from sources such as newspaper articles. Therefore, there may be limitations in collecting information on seed-stage investments, especially those with limited external announcements, resulting in a potential underestimation of seed-stage investments compared to the actual figures.

Next, examining the total investment amounts by investment stage, the overall trend shows that Series A and Series B stages have the largest share. Each year, the proportion of seed stage investments slightly decreases, while the proportion of Series D and beyond increases. In particular, the investment amount in Series D and beyond has seen an average annual growth of 45% from 2016 to 2022, indicating a trend of increasing investment in later stages in terms of investment amounts.

Distribution of Total CVC Investment Amounts by Investment Stage[41]

(Unit: 100 million won, %)

Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Total	6,233	6,447	21,740	22,877	19,809	45,090	44,575	39%
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Seed	301	276	570	788	419	749	1,186	26%
	(5%)	(4%)	(3%)	(3%)	(2%)	(2%)	(3%)	
Pre-Series A	278	216	475	871	725	1,191	1,759	36%
	(4%)	(3%)	(2%)	(4%)	(4%)	(3%)	(4%)	
Series A	1,733	2,140	5,460	5,197	6,356	10,767	12,481	39%
	(28%)	(33%)	(25%)	(23%)	(32%)	(24%)	(28%)	
Series B	2,019	2,183	5,392	5,909	5,995	12,384	13,599	37%
	(32%)	(34%)	(25%)	(26%)	(30%)	(27%)	(31%)	
Series C	856	983	2,615	3,625	2,747	6,531	5,968	38%
	(14%)	(15%)	(12%)	(16%)	(14%)	(14%)	(13%)	
Series D and beyond	1,047	650	7,228	6,486	3,566	13,467	9,582	45%
	(17%)	(10%)	(33%)	(28%)	(18%)	(30%)	(21%)	

41 Among the total 6,978 cases, only 5,751 cases (82%) have investment amount information. Based on this, the total sum and average investment amount per case for all subsequent investments were calculated.

Joint/Sole Investment

First, comparing the total number of investments based on the distinction between joint and sole investments, it was observed that the proportion of joint investments is increasing, leading to a growing gap between joint and sole investments. The joint investment proportion, which was 64% in 2016, increased by 18 percentage points to 82% in 2022, with an average annual growth rate of around 26% from 2016 to 2022. In contrast, the average annual growth rate of sole investments over the same period was only 7%.

Distribution of Total CVC Investment Numbers by Joint/Sole Investment

(Unit: Count, %)

Categories		2016	2017	2018	2019	2020	2021	2022	CAGR
Sum	Total	500	463	720	974	1,124	1,652	1,545	21%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	318	275	483	734	885	1,322	1,268	26%
		(64%)	(59%)	(67%)	(75%)	(79%)	(80%)	(82%)	
	Sole	182	188	237	240	239	330	277	7%
		(36%)	(41%)	(33%)	(25%)	(21%)	(20%)	(18%)	

Next, comparing the total investment amounts, the gap has somewhat eased compared to the number of investments, but it was observed that the proportion of joint investments is increasing in terms of investment amounts each year. The joint investment proportion, which was 56% in 2016, increased by 14 percentage points to 70% in 2022, with an average annual growth rate of around 44% from 2016 to 2022. On the other hand, over the same period, the proportion of sole investments increased by 30%.

Distribution of Total CVC Investment Amounts by Joint/Sole Investment

(Unit: 100 million won)

Categories		2016	2017	2018	2019	2020	2021	2022	CAGR
Sum	Total	6,233	6,447	21,740	22,877	19,809	45,090	44,575	39%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	3,499	3,714	9,100	15,818	14,363	31,226	31,211	44%
		(56%)	(58%)	(42%)	(69%)	(73%)	(69%)	(70%)	
	Sole	2,734	2,733	12,640	7,058	5,446	13,864	13,364	30%
		(44%)	(42%)	(58%)	(31%)	(27%)	(31%)	(30%)	

Finally, analyzing the average investment amount per deal based on joint and sole investments by year, it was found that the average investment amount for sole investments is rising more steeply each year compared to joint investments, and the gap between the two is widening. From 2016 to 2022, the average per-deal investment amount for joint investments increased by an annual average of 15%, while sole investments increased by an annual average of 26%. Moreover, in 2016, the per-deal average investment amount for sole investments was double that of joint investments, but by 2022, this difference had increased to 3.6 times.

Average Investment Amounts by Joint/Sole Investment by Year

(Unit: 100 million won)

Categories		2016	2017	2018	2019	2020	2021	2022	CAGR
Sum	Total	15.5	17.3	36.2	27.9	22.0	32.6	35.1	15%
	Joint	12.1	14.8	20.2	23.3	18.7	25.8	27.5	15%
	Sole	24.4	22.6	84.3	50.1	40.3	78.8	99.7	26%

This indicates that CVCs are establishing themselves as significant participants in the startup ecosystem, investing in various fields through joint investments and selectively making bold sole investments.

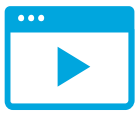
Investment Sectors

First, examining the total number of investments by investment sectors, it was found that the investment in the bio/medical field is the most active, with recent increases in investments in the content sector. The bio/medical field has consistently shown an increase in the number of investments from 2016 to 2022. Following this, there were numerous investments in daily life-related and highly accessible information fields such as content, food & dining, and enterprise.

Top 10 Industries by Total Number of CVC Investments

(Unit: Count, %)

1st 23%
Bio/Medical



2nd 7%
Content

3rd 7%
Food & Dining

4th 5%
Enterprise

5th 4%
Automobile

Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Total	500	463	720	974	1,124	1,652	1,545	21%
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Bio/Medical	105	84	171	276	296	413	291	19%
	(21%)	(18%)	(24%)	(28%)	(26%)	(25%)	(19%)	
Content	39	28	35	44	59	134	138	23%
	(8%)	(6%)	(5%)	(5%)	(5%)	(8%)	(9%)	
Food & Dining	32	28	38	65	70	117	108	22%
	(6%)	(6%)	(5%)	(7%)	(6%)	(7%)	(7%)	
Enterprise	14	40	41	41	55	90	81	34%
	(3%)	(9%)	(6%)	(4%)	(5%)	(5%)	(5%)	
Car	19	17	27	54	48	72	67	23%
	(4%)	(4%)	(4%)	(6%)	(4%)	(4%)	(4%)	
Game	33	34	51	35	39	43	68	13%
	(7%)	(7%)	(7%)	(4%)	(3%)	(3%)	(4%)	
Fashion	18	20	32	28	40	77	56	21%
	(4%)	(4%)	(4%)	(3%)	(4%)	(5%)	(4%)	
Education	20	19	26	28	42	51	62	21%
	(4%)	(4%)	(4%)	(3%)	(4%)	(3%)	(4%)	
Finance	26	21	20	33	35	48	47	10%
	(5%)	(5%)	(3%)	(3%)	(3%)	(3%)	(3%)	
Healthcare	11	11	19	31	36	52	59	32%
	(2%)	(2%)	(3%)	(3%)	(3%)	(3%)	(4%)	

Next, looking at the total investment amounts by investment sectors, similar to the number of investments, the bio/medical field had the highest proportion of investment amounts. However, while investments in lifestyle-related sectors were predominant in terms of the number of investments, advanced technology fields such as gaming and finance surpassed them.

In particular, industries such as gaming, finance, and automotive continue to show sustained growth, even in the economic downturn of 2022. Sectors related to K-culture, content, enterprise, and technology-focused areas like automotive and blockchain exhibited very high average annual growth rates.

Top 10 Industries Total Investment Amounts in CVC

(Unit: 100 million won, %)

1st 23% Bio/Medical

2nd 10% Game

3rd 7% Finance

4th 6% Content

5th 6% Automobile

Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Total	6,233	6,447	21,740	22,877	19,809	45,090	44,575	39%
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Bio/Medical	1,387	1,146	5,892	6,323	5,195	10,076	5,987	28%
	(22%)	(18%)	(27%)	(28%)	(26%)	(22%)	(13%)	
Game	471	672	7,165	515	2,854	1,229	3,404	39%
	(8%)	(10%)	(33%)	(2%)	(14%)	(3%)	(8%)	
Finance	559	367	404	4,019	835	2,453	2,503	28%
	(9%)	(6%)	(2%)	(18%)	(4%)	(5%)	(6%)	
Content	336	230	1,101	655	1,358	3,873	2,725	42%
	(5%)	(4%)	(5%)	(3%)	(7%)	(9%)	(6%)	
Car	94	220	748	1,872	958	1,329	4,957	94%
	(2%)	(3%)	(3%)	(8%)	(5%)	(3%)	(11%)	
Food & Dining	453	955	1,260	978	729	2,984	2,486	33%
	(7%)	(15%)	(6%)	(4%)	(4%)	(7%)	(6%)	
Blockchain	15	169	76	153	71	6,823	991	101%
	(0%)	(3%)	(0%)	(1%)	(0%)	(15%)	(2%)	
Enterprise	292	366	704	518	1,169	1,696	2,886	46%
	(5%)	(6%)	(3%)	(2%)	(6%)	(4%)	(6%)	
Shopping	531	175	695	409	628	1,047	2,387	28%
	(9%)	(3%)	(3%)	(2%)	(3%)	(2%)	(5%)	
Travel	175	413	264	2,369	207	853	396	15%
	(3%)	(6%)	(1%)	(10%)	(1%)	(2%)	(1%)	

Lastly, analyzing the investment amounts by industry and investment stage, it was found that investments are actively taking place in the bio/medical, gaming, and finance sectors, in that order. Overall, the investment amounts in the bio/medical field were prominent. In the seed stage, gaming and shopping, in the Pre-Series A stage, automotive and food & dining, in the Series A stage, content and automotive, in the Series B stage, content and gaming, and in the Series C stage, automotive and content appeared next in rank.

Furthermore, in the Series D and later stages, it was found that larger-scale investments are taking place in the gaming, finance, and blockchain sectors compared to the bio/medical field. Overall, it can be interpreted that, while having a strong preference for the bio/medical field, specialized areas such as gaming, finance, and blockchain dominate in late-stage investments.

Top 7 Industries by CVC Investment Amount (2016-2022)

(Unit: 100 million won, %)

Categories	Total	Seed	Pre-Series A	Series A	Series B	Series C	Series D And beyond
Bio/Medical	36,005	924	889	12,386	12,674	5,392	3,741
	(22%)	(22%)	(16%)	(28%)	(27%)	(23%)	(9%)
Game	16,311	744	160	2,183	2,946	1,006	9,273
	(10%)	(17%)	(3%)	(5%)	(6%)	(4%)	(22%)
Finance	11,140	121	170	1,106	2,407	548	6,788
	(7%)	(3%)	(3%)	(3%)	(5%)	(2%)	(16%)
Content	10,278	206	569	3,801	3,179	1,910	611
	(6%)	(5%)	(10%)	(9%)	(7%)	(8%)	(1%)
Car	10,179	219	754	2,695	877	2,585	3,049
	(6%)	(5%)	(14%)	(6%)	(2%)	(11%)	(7%)
Food & Dining	9,847	121	301	2,302	2,667	2,136	2,320
	(6%)	(3%)	(5%)	(5%)	(6%)	(9%)	(6%)
Blockchain	8,298	231	20	624	2,220	203	5,000
	(5%)	(5%)	(0%)	(1%)	(5%)	(1%)	(12%)

② Comparison of Investment Characteristics by CVC Type

First, analyzing the characteristics of the number of investments according to CVC types, both subsidiary CVCs and in-house CVCs showed a high growth rate in the number of investments in the Series D and later stages. The average annual growth rate of the investment proportion in the Series D and later stages was the highest among all investment stages, with 60% for subsidiary CVCs and 46% for in-house CVCs.

Furthermore, in the case of in-house CVCs, the proportion of Series A and Series B investments has been increasing significantly each year, resembling the investment behavior of subsidiary CVCs. In 2016, the proportions of Series A and Series B investments, which were 20% and 10% of the total, respectively, increased to 36% and 19% in 2022. The respective average annual growth rates were also high at 39% and 42%.

Distribution of Total CVC Investment Counts by Investment Stage (Difference by CVC Type)

(Unit: Count, %)

	Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Subsidiary CVC	Total	353	315	521	733	777	1,112	955	18%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Seed	74	62	99	129	104	125	108	7%
		(21%)	(20%)	(19%)	(18%)	(13%)	(11%)	(11%)	
	Pre-Series A	35	25	53	86	81	144	156	28%
		(10%)	(8%)	(10%)	(12%)	(10%)	(13%)	(16%)	
	Series A	127	123	168	271	332	401	338	18%
		(36%)	(39%)	(32%)	(37%)	(43%)	(36%)	(35%)	
	Series B	85	85	164	183	192	292	257	20%
		(24%)	(27%)	(31%)	(25%)	(25%)	(26%)	(27%)	
	Series C	26	18	31	47	42	104	62	16%
		(7%)	(6%)	(6%)	(6%)	(5%)	(9%)	(6%)	
	Series D and beyond	2	2	5	17	26	46	33	60%
		(1%)	(1%)	(1%)	(2%)	(3%)	(4%)	(3%)	
In-house CVC	Total	147	148	199	241	347	540	590	26%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Seed	72	67	70	79	109	116	99	5%
		(49%)	(45%)	(35%)	(33%)	(31%)	(21%)	(17%)	
	Pre-Series A	18	19	21	35	50	77	105	34%
		(12%)	(13%)	(11%)	(15%)	(14%)	(14%)	(18%)	
	Series A	29	28	44	78	95	178	213	**39%**
		(20%)	(19%)	(22%)	(32%)	(27%)	(33%)	(36%)	
	Series B	14	20	32	30	67	98	113	**42%**
		(10%)	(14%)	(16%)	(12%)	(19%)	(18%)	(19%)	
	Series C	6	6	18	14	14	38	40	37%
		(4%)	(4%)	(9%)	(6%)	(4%)	(7%)	(7%)	
	Series D and beyond	2	2	10	5	12	33	19	46%
		(1%)	(1%)	(5%)	(2%)	(3%)	(6%)	(3%)	

Next, the analysis of the characteristics of total investment amounts according to CVC types showed a similar trend, with the proportion of Series A and Series B investments for in-house CVCs increasing and becoming more similar to subsidiary CVCs. In 2016, the proportions of Series A and Series B investments, which were 18% and 14% of the total, respectively, increased to 25% and 26% in 2022. The respective average annual growth rates were also high at 69% and 66%.

Distribution of Total CVC Investment Amounts by Investment Stage (Difference by CVC Type)

(Unit: 100 million won, %)

	Categories	2016	2017	2018	2019	2020	2021	2022	CAGR
Subsidiary CVC	Total	3,914	3,886	9,309	13,026	11,534	21,169	18,095	29%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Seed	68	87	207	403	215	430	283	27%
		(2%)	(2%)	(2%)	(3%)	(2%)	(2%)	(2%)	
	Pre-Series A	168	118	373	384	380	832	1,098	37%
		(4%)	(3%)	(4%)	(3%)	(3%)	(4%)	(6%)	
	Series A	1,317	1,467	2,574	3,750	4,446	6,041	5,739	28%
		(34%)	(38%)	(28%)	(29%)	(39%)	(29%)	(32%)	
	Series B	1,700	1,559	4,133	5,179	3,930	6,951	6,830	26%
		(43%)	(40%)	(44%)	(40%)	(34%)	(33%)	(38%)	
	Series C	588	595	1,257	1,743	1,402	3,887	2,292	25%
		(15%)	(15%)	(14%)	(13%)	(12%)	(18%)	(13%)	
	Series D and beyond	72	60	763	1,566	1,161	3,029	1,853	72%
		(2%)	(2%)	(8%)	(12%)	(10%)	(14%)	(10%)	
In-house CVC	Total	2,319	2,561	12,431	9,851	8,275	23,920	26,480	50%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Seed	233	189	363	385	204	320	904	25%
		(10%)	(7%)	(3%)	(4%)	(2%)	(1%)	(3%)	
	Pre-Series A	109	98	102	487	345	359	661	35%
		(5%)	(4%)	(1%)	(5%)	(4%)	(2%)	(2%)	
	Series A	416	672	2,886	1,447	1,911	4,726	6,742	**59%**
		(18%)	(26%)	(23%)	(15%)	(23%)	(20%)	(25%)	
	Series B	319	624	1,259	730	2,065	5,433	6,769	**66%**
		(14%)	(24%)	(10%)	(7%)	(25%)	(23%)	(26%)	
	Series C	268	388	1,357	1,882	1,345	2,644	3,676	55%
		(12%)	(15%)	(11%)	(19%)	(16%)	(11%)	(14%)	
	Series D and beyond	975	590	6,465	4,920	2,405	10,439	7,729	41%
		(42%)	(23%)	(52%)	(50%)	(29%)	(44%)	(29%)	

Analyzing the distribution of joint/sole investments according to CVC types, based on the total number of investments, it can be observed that in-house CVCs tend to have a higher proportion of sole investments compared to subsidiary CVCs. However, the share of joint investments has significantly increased recently. The proportion of joint investments for in-house CVCs increased from 42% in 2016 to 69% in 2022, with a high average annual growth rate of 37%.

Analyzing the results based on the total investment amount, a similar trend is observed, with the proportion of joint investments for in-house CVCs increasing. In particular, in 2022, the proportion of joint investments reached 53%, surpassing sole investments. These results indicate that in-house CVCs are increasingly engaging in joint investments with external VCs, fostering collaboration.

Distribution of Joint/Sole Investments in Total Number of CVC Investments
(Difference by CVC Type)

((Unit: Count, %)

Categories		2016	2017	2018	2019	2020	2021	2022	CAGR
Subsidiary CVC	Total	353	315	521	733	777	1,112	955	18%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	256	219	395	589	662	974	859	22%
		(73%)	(70%)	(76%)	(80%)	(85%)	(88%)	(90%)	
	Sole	97	96	126	144	115	138	96	0%
		(27%)	(30%)	(24%)	(20%)	(15%)	(12%)	(10%)	
In-house CVC	Total	147	148	199	241	347	540	590	26%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	62	56	88	145	223	348	409	**37%**
		(42%)	(38%)	(44%)	(60%)	(64%)	(64%)	(69%)	
	Sole	85	92	111	96	124	192	181	13%
		(58%)	(62%)	(56%)	(40%)	(36%)	(36%)	(31%)	

Distribution of Joint/Sole Investments in Total CVC Investment Amount
(Difference by CVC Type)

(Unit: 100 million won, %)

Categories		2016	2017	2018	2019	2020	2021	2022	CAGR
Subsidiary CVC	Total	3,914	3,886	9,309	13,026	11,534	21,169	18,095	29%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	2,937	2,799	6,802	11,234	10,458	19,811	17,191	34%
		(75%)	(72%)	(73%)	(86%)	(91%)	(94%)	(95%)	
	Sole	977	1,087	2,507	1,792	1,076	1,358	904	-1%
		(25%)	(28%)	(27%)	(14%)	(9%)	(6%)	(5%)	
In-house CVC	Total	2,319	2,561	12,431	9,851	8,275	23,920	26,480	50%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
	Joint	562	915	2,298	4,584	3,904	11,415	14,020	**71%**
		(24%)	(36%)	(18%)	(47%)	(47%)	(48%)	(53%)	
	Sole	1,757	1,646	10,133	5,266	4,371	12,505	12,460	39%
		(76%)	(64%)	(82%)	(53%)	(53%)	(52%)	(47%)	

③ Characteristics of Subsidiary CVC Investments

Subsidiary CVCs tend to invest in the seed or Series D and above stages when considering strategic synergies with parent companies and invest in the Series A and Series B stages when prioritizing financial returns.

Analyzing the total number of investments by investment stage according to the detailed types of subsidiary CVCs, it is evident that subsidiary CVCs generally focus on Series A and Series B stages. However, subsidiary CVCs of large companies with many NTFCs, strategic investors, and strategic purpose investors, who prioritize the creation of strategic synergies with their parent companies, show a relatively higher proportion of seed investments.

Distribution of Total Subsidiary CVC Investments by Investment Stage (Difference by Detailed Type)[42]

(Unit: Count, %)

Categories		Total	Seed	Pre-Series A	Series A	Series B	Series C	Series D and beyond
Total		4,606	693	564	1,702	1,208	311	122
		(100%)	(15%)	(12%)	(37%)	(26%)	(7%)	(3%)
License	SIC	3,240	391	382	1,273	885	220	87
		(100%)	(12%)	(12%)	(39%)	(27%)	(7%)	(3%)
	NTFC	1,186	235	150	389	295	84	30
		(100%)	(20%)	(13%)	(33%)	(25%)	(7%)	(3%)
	Other	180	67	32	40	28	7	5
		(100%)	(37%)	(18%)	(22%)	(16%)	(4%)	(3%)
Operational Purpose	Financial	2,526	253	271	1,002	725	193	79
		(100%)	(10%)	(11%)	(40%)	(29%)	(8%)	(3%)
	Strategic	2,080	440	293	700	483	118	43
		(100%)	(21%)	(14%)	(34%)	(23%)	(6%)	(2%)
Parent corporation	Large orporations	1,414	423	213	412	260	72	32
		(100%)	(30%)	(15%)	(29%)	(18%)	(5%)	(2%)
	Non-Large Corporations	3,192	270	351	1,290	948	239	90
		(100%)	(8%)	(11%)	(40%)	(30%)	(7%)	(3%)

42 Out of 4,606 investments, information about the investment stage is missing for 6 cases, but this is not indicated in the table.

From the perspective of total investment amounts, it is apparent that subsidiary CVCs of large companies with many NTFCs, strategic investors, and strategic purpose investors have an increased proportion of investments in Series D and above stages. While, similar to the number of investments, the overall proportion of total investment amounts in Series A and Series B stages is high, in the case of NTFCs, strategic investors, and large companies, the proportion in Series D and above stages is relatively higher.

Distribution of Total Subsidiary CVC Investment Amounts by Investment Stage (Difference by Detailed Type)

(Unit: 100 million won, %)

Categories		Total	Seed	Pre-Series A	Series A	Series B	Series C	Series D and beyond
Total		74,996	1,629	3,095	23,671	28,483	10,950	7,168
		(100%)	(2%)	(4%)	(32%)	(38%)	(15%)	(10%)
License	SIC	53,533	1,247	2,210	17,374	20,843	7,944	3,915
		(100%)	(2%)	(4%)	(32%)	(39%)	(15%)	(7%)
	NTFC	18,617	298	649	5,399	6,861	2,790	2,621
		(100%)	(2%)	(3%)	(29%)	(37%)	(15%)	(14%)
	Other	2,846	84	236	898	779	216	633
		(100%)	(3%)	(8%)	(32%)	(27%)	(8%)	(22%)
Operational Purpose	Financial	45,343	806	1,622	14,525	17,932	7,208	3,250
		(100%)	(2%)	(4%)	(32%)	(40%)	(16%)	(7%)
	Strategic	29,654	824	1,473	9,146	10,551	3,742	3,918
		(100%)	(3%)	(5%)	(31%)	(36%)	(13%)	(13%)
Parent corporation	Large Corporations	19,211	709	972	5,693	6,570	2,480	2,787
		(100%)	(4%)	(5%)	(30%)	(34%)	(13%)	(15%)
	Non-Large Corporations	55,785	920	2,123	17,978	21,913	8,470	4,381
		(100%)	(2%)	(4%)	(32%)	(39%)	(15%)	(8%)

④ Characteristics of In-house CVC Investments

For in-house CVC, the investment characteristics were analyzed based on the alignment of the industry between the investing company and the venture/startup target.

Firstly, analyzing the distribution of industry alignment, it was observed that in-house CVC generally invests a significant proportion in ventures/startups in industries that do not align with its own. The proportion of investments in ventures/startups in non-aligning industries averaged 68% based on the total number of investments from 2016 to 2022.

Similarly, when analyzed based on the total investment amount, the investment proportion for the venture and startup sectors is also the largest, accounting for an average of 67%, showing the same trend of inconsistency in the industrial distribution. However, it was noted that the proportion of investments in ventures/startups where the industry is fully aligned has been increasing each year.

A more detailed analysis based on the average investment amount per investment revealed that when investing in ventures/startups with fully aligned industries, the average investment amount per investment was 5.14 billion KRW, which is 22 percentage points higher than the average investment amount per investment of 4.21 billion KRW when investing in ventures/startups with non-aligning industries. Especially in 2022, this difference widened further, with the average investment amount per investment being 9.19 billion KRW for ventures/startups in fully aligning industries and 4.58 billion KRW for ventures/startups in non-aligning industries, showing an approximately two-fold difference.

These results indicate that, in the case of in-house CVC, significant amounts are invested in startups with high business relevance.

Distribution of Total Number of In-house CVC Investments by Industry Alignment

(Unit: Count, %)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		2,104	136	140	181	225	335	523	564	27%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Industry Alignment[43]	Fully aligned	155	11	14	13	16	25	35	41	25%
		(7%)	(8%)	(10%)	(7%)	(7%)	(7%)	(7%)	(7%)	
	Partially aligned	516	32	29	60	61	90	113	131	26%
		(25%)	(24%)	(21%)	(33%)	(27%)	(27%)	(22%)	(23%)	
	Non-aligned	1,433	93	97	108	148	220	375	392	27%
		(68%)	(68%)	(69%)	(60%)	(66%)	(66%)	(72%)	(70%)	

43 Based on the information provided by DB The VC, if the major categories match for both in-house CVCs and startup industries, it is classified as "Partially aligned." If both the major and minor categories match, it is classified as "Fully aligned." If there is no match for either, it is classified as "Non-aligned."

Distribution of Total In-house CVC Investment Amounts[43] by Industry Alignment[44]

(Unit: 100 million won)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		67,815	2,237	2,234	4,493	8,494	8,154	21,833	20,371	45%
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
Industry Alignment	Fully aligned	6,375	30	253	367	256	341	2,306	2,822	113%
		(9%)	(1%)	(11%)	(8%)	(3%)	(4%)	(11%)	(14%)	
	Partially aligned	15,969	998	481	2,109	1,262	4,032	3,335	3,752	25%
		(24%)	(45%)	(22%)	(47%)	(15%)	(49%)	(15%)	(18%)	
	Non-aligned	45,472	1,209	1,501	2,016	6,977	3,781	16,192	13,796	50%
		(67%)	(54%)	(67%)	(45%)	(82%)	(46%)	(74%)	(68%)	

Average Investment Amount per Investment for In-house CVC by Industry Alignment

(Unit: 100 million won)

Categories		Total	2016	2017	2018	2019	2020	2021	2022	CAGR
Total		41.8	21.9	22.8	30.2	43.6	33.8	53.8	47.3	14%
Industry Alignment	Fully aligned	51.4	6.0	21.0	28.2	21.3	17.0	74.4	91.0	57%
	Partially aligned	38.3	36.9	25.3	39.8	25.8	50.4	37.1	37.9	0%
	Non-aligned	42.1	17.3	22.4	24.3	52.1	26.8	56.8	45.8	18%

44 Out of 2,104 investments, only 1,622 investments were used for analysis, excluding 482 (23%) for which there was no data on the investment amount. However, among the 482 cases where investment amount information is not available, it is estimated that 242 cases are seed investments, and 86 cases are Pre-Series A investments. It is judged that this estimation will not have a significant impact on the total sum.

Next, we examined the investment characteristics of in-house CVC based on detailed types.

First, for large companies, it was observed that the proportion of investments in non-aligning industries is relatively higher than that of non-large companies. Large companies also tend to make more investments in later stages (Series C and above) with higher average investment amounts per investment. In other words, large companies execute large-scale investments for entering different industries, while non-large companies prefer investments in early-stage startups with high business relevance.

For companies with subsidiary CVCs, the proportion of investments in non-aligning industries is smaller compared to companies without them. However, they tend to make more investments in later stages (Series D and above) with higher average investment amounts per investment. In other words, this suggests that as subsidiary CVCs play a role in scouting startups in various fields for market sensing, the in-house CVCs of companies with subsidiary CVCs tend to invest in validated startups in later stages that are closely related to the existing business.s.

Distribution of Total Amounts of In-house CVC Investments by Industry Alignment (Difference by Detailed Types)

(Unit: 100 million won, %)

Categories		Total	Fully aligned	Partially aligned	Non-aligned
Total		67,815	6,375	15,969	45,472
		(100%)	(9%)	(24%)	(67%)
Region	Metropolitan area	63,760	6,250	14,948	42,562
		(100%)	(10%)	(23%)	(67%)
	Non-metropolitan area	4,055	124	1,021	2,910
		(100%)	(3%)	(25%)	(72%)
Company Scale	Large Corporations	39,171	3,416	7,974	27,781
		(100%)	(9%)	(20%)	(71%)
	Non-Large Corporations	28,644	2,959	7,994	17,691
		(100%)	(10%)	(28%)	(62%)
Subsidiary CVC[45]	Hold	25,335	3,198	6,829	15,308
		(100%)	(13%)	(27%)	(60%)
	Non-hold	42,480	3,176	9,140	30,164
		(100%)	(7%)	(22%)	(71%)

45 It is distinguished based on whether the acquirer directly invested or another affiliate of the same group invested in an subsidiary CVC.

Distribution of Investment Stages in Total Amount of In-house CVC Investments

(Unit: 100 million won, %)

(Difference by Detailed Types)

Categories		Total	Seed	Pre-Series A	Series A	Series B	Series C	Series D and beyond
Total		67,815	2,448	2,093	14,925	16,487	10,108	21,755
		(100%)	(4%)	(3%)	(22%)	(24%)	(15%)	(32%)
Region	Metropolitan area	63,760	2,325	1,938	13,552	15,561	8,803	21,582
		(100%)	(4%)	(3%)	(21%)	(24%)	(14%)	(34%)
	Non-metropolitan area	4,055	123	154	1,373	926	1,305	173
		(100%)	(3%)	(4%)	(34%)	(23%)	(32%)	(4%)
Company Scale	Large Corporations	39,171	928	910	6,927	9,532	6,457	14,417
		(100%)	(2%)	(2%)	(18%)	(24%)	(16%)	(37%)
	Non-Large Corporations	28,644	1,520	1,183	7,998	6,955	3,651	7,338
		(100%)	(5%)	(4%)	(28%)	(24%)	(13%)	(26%)
Subsidiary CVC	Hold	25,335	621	524	4,252	5,136	3,119	11,683
		(100%)	(2%)	(2%)	(17%)	(20%)	(12%)	(46%)
	Non-hold	42,480	1,827	1,569	10,673	11,351	6,989	10,072
		(100%)	(4%)	(4%)	(25%)	(27%)	(16%)	(24%)

Average Investment Amount per Investment for In-house CVC by Investment Stages

(Unit: 100 million won)

Categories		Total	Seed	Pre-Series A	Series A	Series B	Series C	Series D and beyond
Total		41.8	6.9	9.3	27.3	53.5	82.9	319.9
Region	Metropolitan area	43.6	7.2	9.4	28.0	57.2	80.8	332.0
	Non-metropolitan area	25.3	4.4	8.6	22.2	25.7	100.4	57.8
Company Scale	Large Corporations	60.6	8.7	12.1	30.5	69.6	105.9	351.6
	Non-Large Corporations	29.4	6.2	7.9	25.1	40.7	59.9	271.8
Subsidiary CVC	Hold	63.3	9.7	11.9	29.3	66.7	72.5	432.7
	Non-hold	34.8	6.3	8.7	26.6	49.1	88.5	245.6

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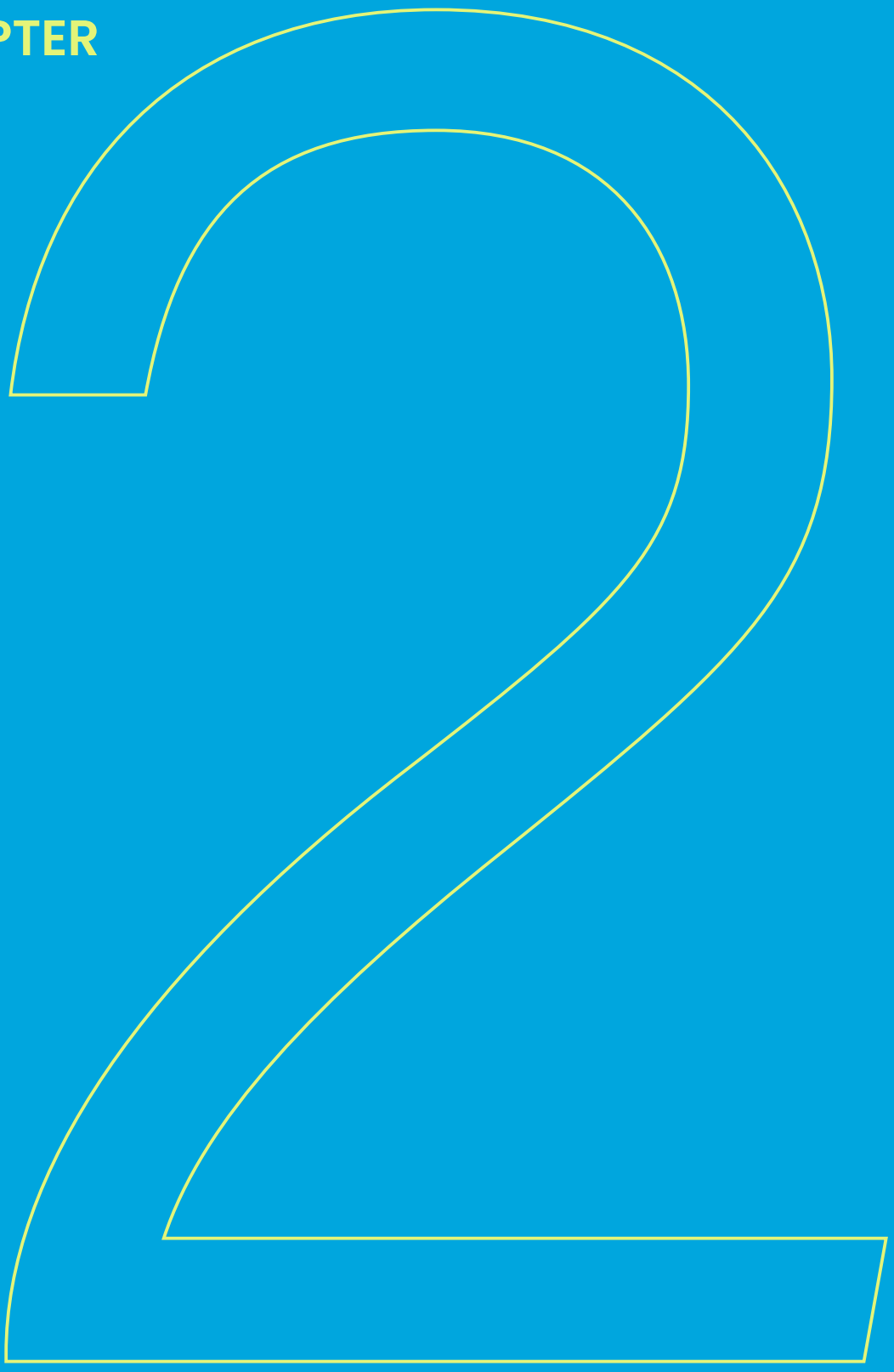


Impact of CVC Investments on M&A

1. Significance of M&A

IPO (Initial Public Offering) and M&A are among the exit strategies adopted by ventures and startups. However, with the recent downturn in global securities markets leading to frequent withdrawals of promising ventures and startups from IPOs[46], M&A is increasingly recognized as the sole exit route.

Nevertheless, M&A is facing reduced activity and concerns about stagnation due to market caution amid a trend of declining corporate valuations. According to the Ministry of SMEs and Startups, the number of KOSDAQ technology special listings decreased from 31 in 2021 to 28 in 2022, and the size of the M&A market in Korea also decreased by 41.4% from 134.1 trillion won in 2021 to 78.7 trillion won in 2022.

In this study, we examined the relationship between CVC investment and corporate M&A activities as well as the domestic M&A landscape to derive insights for promoting M&A activity. In particular, we analyzed the contribution of CVC investments to promoting corporate M&A activities and invigorating the exit market, focusing on functions such as real options, market sensing, and investment capability enhancement..

46 Despite being the only profitable company among fresh food delivery businesses, Oasis withdrew its listing plans when the expected IPO price was set at 30% lower than the desired value..

2. Analysis of M&A Status and Characteristics

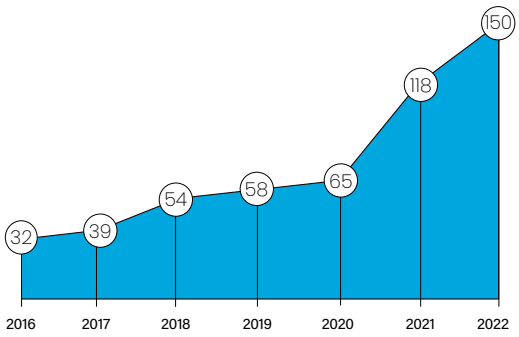
① M&A Status

First, an analysis of venture and startup M&A trends from 2016 to 2022 revealed a total of 516 M&A transactions during this period. Notably, despite the investment downturn, 150 M&A transactions occurred in 2022, showing an approximate 27% increase compared to the previous year (118 transactions). However, based on transaction amounts, the average transaction amount in 2022 was 45.7 billion won, representing a significant decrease of about 58% compared to the previous year (109.8 billion won).

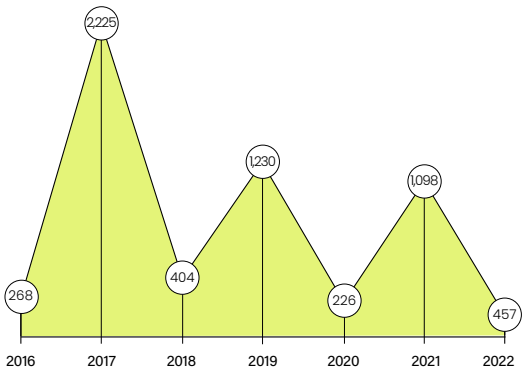
Number of Annual M&A Transactions and Average Transaction Amounts, Distribution of In-house CVC Total Investment Amounts, by Investment Stage
(Differences by Detailed Types)

(Unit: Transaction, %, 100 million won)

Annual M&A Transaction Counts



Average Transaction Amount per M&A Transaction by year



Categories	Total	2016	2017	2018	2019	2020	2021	2022
Annual M&A Transaction Counts	516	32	39	54	58	65	118	150
	(100%)	(6%)	(8%)	(10%)	(11%)	(13%)	(23%)	(29%)
Average Transaction Amount per M&A Transaction by Year	799	268	2,225	404	1,230	226	1,098	457

In particular, in 2021, the average transaction amount per M&A reached 109.8 billion won, showing a high figure. Among the top 20 M&A transactions in terms of transaction amount that occurred between 2016 and 2022, 11 transactions were confirmed to have occurred in 2021.

List of Top 20 M&A Transactions by Transaction Amount

Rank	Acquisition Amount	Acquisition Year	Acquirer	Target Company	Industry Sector
1	KRW 3 trillion	2017	Unilever(US)	Carver Korea	Beauty & Cosmetics
2	KRW 2 trillion	2021	Tinder (US)	Hyperconnect	Life/Messenger
3	KRW 1.3 trillion	2019	Estee Lauder (US)	HAVE & BE	Beauty & Cosmetics
4	KRW 750 billion	2022	Kakao Games	Lionheart Studio	Games/RPGs
5	KRW 600 billion	2021	Kakao Entertainment	Tapas Media	Contents/Webtoons
6	KRW 410 billion	2021	Naver	BenX (Subsidiary of Big Hit Music)	Entertainment /Show Business
7	KRW 400 billion	2018	L'Oréal (France)	Stylenanda	Fashion/Apparel
8	KRW 300 billion	2021	Musinsa	StyleShare	Fashion/Social Media
9	KRW 290 billion	2021	SK	Signet EV	Cars /Charging Stations
10	KRW 270 billion	2022	Hyundai Motor Company	42dot	Automotive /Technical Support
11	KRW 270 billion	2021	SSG.com	W Concept Korea	Fashion/Apparel
12	KRW 230 billion	2019	Cognex (US)	SUALAB	Manufacturing /Monitoring
13	KRW 210 billion	2020	Green Cross Corporation	UBCare	Bio/Medical
14	KRW 200 billion	2022	Terapin Studios	Toomics	Contents/Webtoons
15	KRW 180 billion	2021	Amorepacific	COSRX	Beauty & Cosmetics
16	KRW 180 billion	2021	Kakao	Grip Company	Shopping /Home Shopping
17	KRW 170 billion	2021	Humax Mobility	HI PARKING	Car/Parking
18	KRW 130 billion	2019	Contentree JoongAng	Playtime Group	Children/Theme Park
19	KRW 110 billion	2021	Hanwha Aerospace	Satrec Initiative	Aerospace/Aviation
20	KRW 110 billion	2021	Naver Webtoon	Munpia	Content/Books

② Characteristics of M&A

Next, we analyzed the characteristics of venture and startup M&A based on the attributes of acquiring companies.

First, when examining the number of startup M&A transactions by year, there were no significant changes based on the attributes of acquiring companies. However, recently, there has been a slight increase in the proportion of M&A involving non-large companies, subsidiary CVC-non-owned companies, and high industry alignment.

Number of M&A Transactions by Year Based on Acquiring Company Characteristics

(Unit: Count,%)

Categories		Total	2016	2017	2018	2019	2020	2021	2022
Total		516	32	39	54	58	65	118	150
		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
Region of Acquiring Company	Domestic	499	31	37	52	56	63	115	145
		(96.7%)	(96.9%)	(94.9%)	(96.3%)	(96.6%)	(96.9%)	(97.5%)	(96.7%)
	Overseas	17	1	2	2	2	2	3	5
		(3.3%)	(3.1%)	(5.1%)	(3.7%)	(3.4%)	(3.1%)	(2.5%)	(3.3%)
Scale of Acquiring Company	Large Corporations	127	5	14	15	8	15	41	29
		(24.6%)	(15.6%)	(35.9%)	(27.8%)	(13.8%)	(23.1%)	(34.7%)	(19.3%)
	Non-Large Corporations	389	27	25	39	50	50	77	121
		(75.4%)	(84.4%)	(64.1%)	(72.2%)	(86.2%)	(76.9%)	(65.3%)	(80.7%)
Subsidiary CVC	Hold	112	4	7	13	11	14	37	26
		(21.7%)	(12.5%)	(17.9%)	(24.1%)	(19.0%)	(21.5%)	(31.4%)	(17.3%)
	Non-hold	404	28	32	41	47	51	81	124
		(78.3%)	(87.5%)	(82.1%)	(75.9%)	(81.0%)	(78.5%)	(68.6%)	(82.7%)
Industry Alignment	Fully Alignment	125	8	8	14	21	14	22	38
		(24.2%)	(25.0%)	(20.5%)	(25.9%)	(36.2%)	(21.5%)	(18.6%)	(25.3%)
	Partially Alignment	160	10	7	15	21	20	39	48
		(31.0%)	(31.3%)	(17.9%)	(27.8%)	(36.2%)	(30.8%)	(33.1%)	(32.0%)
	Non-aligned	231	14	24	25	16	31	57	64
		(44.8%)	(43.8%)	(61.5%)	(46.3%)	(27.6%)	(47.7%)	(48.3%)	(42.7%)

Analyzing the average transaction amount per M&A based on the characteristics of acquiring companies by year, it was found that the M&A transaction amounts for domestic companies sharply increased from 2021. When the acquiring company was a large enterprise and when it acquired a company in the same industry, the transaction amounts tended to increase.

In particular, when the acquiring company was a large enterprise, the average transaction amount per M&A was significantly higher, approximately six times higher than that of non-large companies. If we limit this observation to domestic companies only, large companies showed an average of 104.7 billion won in 2021 and 85.5 billion won in 2022, compared to non-large enterprises' 40.4 billion won (2021) and 21.7 billion won (2022). This indicates a respective 2.6 times and 3.9 times higher amount for large companies.

Furthermore, for domestic companies that possessed subsidiary CVC, the average transaction amount per M&A was 93.9 billion won in 2021 and 82.3 billion won in 2022. In comparison, domestic companies without subsidiary CVC showed 58.4 billion won (2021) and 31.1 billion won (2022). This suggests an approximately 1.6 times and 2.6 times higher average transaction amount for companies with subsidiary CVC.

It is evident that large enterprises and companies with subsidiary CVC have larger average transaction amounts per M&A, and they seem to be relatively less affected by the economic downturn in 2022.

Average Transaction Amount per M&A by Characteristics of Acquiring Companies[47] [48]

(Unit: 100 million won)

Categories		Total	2016	2017	2018	2019	2020	2021	2022
Total		799	268	2,225	404	1,230	226	1,098	457
Acquiring Company	Large Corporations	1,640	140	5,323	1,122	5,180	72	1,751	855
	Non-Large Corporations	285	333	159	182	243	344	391	269
Subsidiary CVC	Hold	585	106	282	130	73	85	939	823
	Non-hold	894	399	3,196	488	1,520	287	1,213	349
Industry Alignment	Fully	2,452	820	30,546	393	3,965	359	1,555	653
	Partially	770	124	389	210	384	51	1,457	640
	Non-aligned	377	245	171	439	58	265	716	262

Average Transaction Amount per M&A by Characteristics of Acquiring Companies(Domestic)[49]

(Unit: 100 million won)

Categories		Total	2016	2017	2018	2019	2020	2021	2022
Total (Domestic)		430	268	202	187	240	232	739	434
Acquiring Company	Large Corporations	696	140	279	163	200	71	1,047	855
	Non-Large Corporations	274	333	159	193	243	344	404	217
Subsidiary CVC	Hold	585	106	282	130	73	85	939	823
	Non-hold	354	399	157	207	290	301	584	311
Industry Alignment	Fully	720	820	N/A	393	260	359	1,555	425
	Partially	445	124	389	210	384	51	464	640
	Non-aligned	351	245	171	120	58	280	742	264

47 The M&A transaction amount refers to the amount paid by the acquirer for the acquisition of managerial control and does not necessarily represent the total enterprise value of the target company. In other words, if an acquirer purchases a 30% stake to secure a majority shareholder position, the amount paid for that stake is considered the M&A transaction amount. It does not include financial investor investments for securing friendly stakes.

48 Among the 516 transactions, only 182 transactions (35.2%) have transaction amount data, and based on this, the average M&A transaction amount was calculated.

49 Among the 182 transactions with M&A transaction amount information, 11 transactions involved foreign acquirers, but the average transaction amount was exceptionally high at around 650 billion won. Excluding these cases, a separate calculation was made for the average transaction amount when the acquirer is a domestic company.

③ Impact of CVC Investment on M&A

First, we examined the similarity between industries with frequent CVC investments and those with active M&A transactions. The analysis showed a statistically significant correlation (correlation coefficient=0.64, p<0.001) between the number of CVC investment transactions and M&A transactions in each industry from 2016 to 2022.

Based on the number of M&A transactions, the content sector experienced the highest number of M&A transactions (58 transactions, 11.2%), followed by bio/medical (36 transactions, 7.0%), gaming (35 transactions, 6.8%), food/dining (30 transactions, 5.8%), and automotive (29 transactions, 5.6%).

Top 5 Industries in M&A and Their Characteristics

Categories	Cases (case)	Ratio (%)	Average Transaction Amount (100 Million Won)	Average Transaction Amount (100 Million Won, Domestic)	Average Work History (year)	M&A Investment Rankings	CVC Investment Rankings[50]
Content	58	11.2%	572	529	7.0	1	2
Bio/Medical	36	7.0%	328	328	10.6	2	1
Game	35	6.8%	809	809	5.2	3	6
Food & Dining	30	5.8%	475	475	4.7	4	3
Car	29	5.6%	652	652	7.9	5	5

Next, we examined the impact of CVC investments on M&A[51], and the results showed that half of all M&A transactions were directly or indirectly preceded by CVC investments. The analysis focused on 323 domestic startup M&A transactions that occurred from 2020 to 2022[52]. We investigated whether there was prior corporate account investment activity by acquiring companies or other affiliates within the same group (i.e., in-house CVC) or the investment activities of investment companies where the acquiring company directly invested or another affiliate within the same group invested (i.e., subsidiary CVC) before these M&A transactions.

50 It refers to the ranking of the most active CVC investments among industry sectors.

51 Analysis was restricted to cases where the acquirer is a domestic company.

52 Earlier, it was reported that there were a total of 333 M&A transactions between 2020 and 2022. However, this included M&A transactions involving overseas companies. In this analysis, only M&A transactions involving domestic companies were considered, excluding the 10 M&A transactions involving overseas companies.

The analysis emphasized the following three functions of CVC:

(1) Real Options Function

CVC investments can alleviate uncertainties related to the technological/product development of the target companies.

(2) Market Sensing Function

CVC investments enable the rapid detection of technological/market changes across the acquired company's industry to identify suitable acquisition targets.

(3) Investment Capability Enhancement Function

Strengthening overall organizational capabilities necessary for assessing and evaluating the value of startups and creating strategic synergies with them.

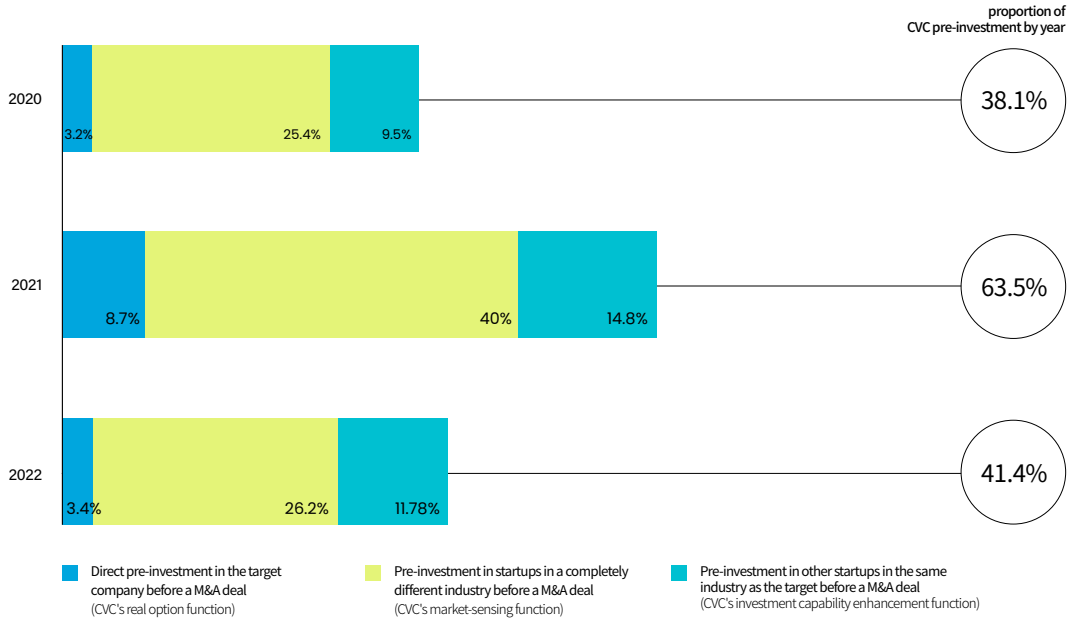
The results of the analysis showed that among the 323 M&A transactions that occurred from 2020 to 2022, 157 transactions (48.6%) were preceded by CVC investments, all related to the three mentioned functions.

(1) Real Options Function of CVC: 17 transactions (5.3% of 323) involved acquiring companies making equity investments in target companies through in-house CVC or subsidiary CVC before M&A. This was identified as related to the real options function for target companies considering M&A transactions.

(2) Market Sensing Function of CVC: 100 transactions (31.0% of 323) involved acquiring companies making CVC investments in other startups in the industry where the target company belonged before M&A. This was identified as related to the market sensing function for detecting disruptive technological changes and searching for suitable target companies.

(3) Investment Capability Enhancement Function of CVC: 40 transactions (12.4% of 323) involved acquiring companies making CVC investments in startups in completely different industry sectors before M&A. This was identified as related to the overall investment capability enhancement function for discovering, evaluating the value of startups, and creating synergies.

CVC Pre-Investment and M&A Deals



(Unit: Count, %)

Categories			Total	2020	2021	2022
Total (Domestic)			323	63	115	145
			(100%)	(100%)	(100%)	(100%)
CVC Investment Activities Prior to M&A Transactions	(None)		166	39	42	85
			(51.4%)	(61.9%)	(36.5%)	(58.6%)
	Exist		157	24	73	60
			(48.6%)	(38.1%)	(63.5%)	(41.4%)
		Direct pre-investment in the target company before a M&A deal (CVC's real option function)	17	2	10	5
			(5.3%)	(3.2%)	(8.7%)	(3.4%)
		Pre-investment in other startups in the same industry as the target before a M&A deal (CVC's market sensing function)	100	16	46	38
			(31.0%)	(25.4%)	(40.0%)	(26.2%)
		Pre-investment in startups in a completely different industry before a M&A deal (CVC's investment capability enhancement function)	40	6	17	17
			(12.4%)	(9.5%)	(14.8%)	(11.7%)

Examining the changes in the average transaction amount in M&A with respect to CVC pre-investments revealed that as the relevance to CVC investments increased, the M&A transaction amount also increased.

The average transaction amount for M&A transactions unrelated to CVC investments was 19.9 billion won. However, in cases where CVC investments were executed directly or indirectly before M&A, the average transaction amount increased to 68.5 billion won, a 3.4-fold increase. When examining this based on each function of CVC, the results are as follows:

(1) Real Options Function of CVC: When acquiring companies made direct CVC investments in the target companies before M&A, the average transaction amount for M&A was the highest at 195.9 billion won. This is 9.8 times higher than the average transaction amount for M&A unrelated to CVC investments (19.9 billion won).

(2) Market Sensing Function of CVC: When acquiring companies made CVC investments in other startups in the industry where the target company belonged before M&A, the average transaction amount for M&A was 57.5 billion won. This is 2.9 times higher than the average transaction amount for M&A unrelated to CVC investments.

(3) Investment Capability Enhancement Function of CVC: When acquiring companies made CVC investments in startups in completely different industry sectors from that of the acquired company before M&A, the average transaction amount for M&A was 28.7 billion won. This is 1.4 times higher than the average transaction amount for M&A unrelated to CVC investments.

Pre-Investments and Average Transaction Amounts in M&A

(Unit: 100 million won)

Categories			Total	2020	2021	2022
Total (Domestic)			519	232	739	434
CVC Investment Activities Prior to M&A Transactions	(None)		199	135	228	209
	Exist		685	288	874	625
		Direct pre-investment in the target company (CVC's real option function)	1,959	24	1,445	3,462
		Pre-investment in other startups in the same industry as the target (CVC's market sensing function)	575	342	888	295
		Pre-invested in startups in a completely different industry (CVC's investment capability enhancement function)	287	121	412	150

Next, we examined whether there are differences in CVC pre-investments before M&A based on the alignment of industries between acquiring and target companies.

The analysis showed that when the industries of the acquiring and target companies were completely aligned, CVC pre-investments were not as active. However, when there was partial aligned or not aligned, the proportion of M&A transactions preceded by CVC investments increased. In cases where the industries completely aligned, 29.6% of M&A transactions were directly or indirectly related to CVC investments. In contrast, when the industries did not align, 53.7% of M&A transactions were directly or indirectly related to CVC investments.

This suggests that when the industries of the acquiring and target companies completely align, the acquiring company already possesses expertise in that industry. In other words, for startups in the same industry, the acquiring company already has sufficient information, eliminating the need to alleviate uncertainty related to M&A through CVC investment. On the other hand, in industries where the acquiring company lacks expertise, CVC pre-investments have a positive impact.

Distribution of the Number of M&A Transactions Based on Industry Alignment and CVC Pre-Investments

(Unit: Count, %)

Categories		Total	Industry Alignment		
			Fully aligned	Partially aligned	Non-aligned
Total (Domestic)		323	71	105	147
		(100%)	(100%)	(100%)	(100%)
CVC Investment Activities Prior to M&A Transactions	(None)	166	50	48	68
		(51.4%)	(70.4%)	(45.7%)	(46.3%)
	Exist	157	21	57	79
		(48.6%)	(29.6%)	(54.3%)	(53.7%)
	Direct pre-investment in the target company (CVC's real option function)	17	2	8	7
		(5.3%)	(2.8%)	(7.6%)	(4.8%)
	Pre-investment in other startups in the same industry as the target (CVC's market sensing function)	100	17	42	41
		(31.0%)	(23.9%)	(40.0%)	(27.9%)
	Pre-invested in startups in a completely different industry (CVC's investment capability enhancement function)	40	2	7	31
		(12.4%)	(2.8%)	(6.7%)	(21.1%)

Next, we analyzed whether there are differences in CVC pre-investments before M&A based on the characteristics of acquiring companies.

The analysis revealed that in the case of large enterprises and companies with subsidiary CVC, CVC investments predominantly precede most M&A activities, indicating active utilization of CVC investments in M&A. When the acquirer is a large enterprise, 93.8% of M&A transactions are related to CVC investments, and companies with subsidiary CVC also show that 94.8% of M&A transactions are associated with CVC investments.

Distribution of the Number of M&A Transactions Based on CVC Pre-Investments and the Size of Acquiring Companies

(Unit: Count, %)

Categories			Total	Scale of Acquiring Companies	
				Large Corporations	Non-Large Corporations
Total (Domestic)			323	80	243
			(100%)	(100%)	(100%)
CVC Investment Activities Prior to M&A Transactions	(None)		166	5	161
			(51.4%)	(6.3%)	(66.3%)
	Exist		157	75	82
			(48.6%)	(93.8%)	(33.7%)
		Direct pre-investment in the target company (CVC's real option function)	17	11	6
			(5.3%)	(13.8%)	(2.5%)
		Pre-investment in other startups in the same industry as the target (CVC's market sensing function)	100	55	45
			(31.0%)	(68.8%)	(18.5%)
		Pre-invested in startups in a completely different industry (CVC's investment capability enhancement function)	40	9	31
			(12.4%)	(11.3%)	(12.8%)

Distribution of the Number of M&A Transactions Based on CVC Pre-Investments and the Presence of Subsidiary CVC

(Unit: Count, %)

Categories		Total	Subsidiary CVC	
			Hold	Non-hold
Total (Domestic)		323	77	246
		(100%)	(100%)	(100%)
CVC Investment Activities Prior to M&A Transactions	(None)	166	4	162
		(51.4%)	(5.2%)	(65.9%)
	Exist	157	73	84
		(48.6%)	(94.8%)	(34.1%)
	Direct pre-investment in the target company (CVC's real option function)	17	9	8
		(5.3%)	(11.7%)	(3.3%)
	Pre-investment in other startups in the same industry as the target (CVC's market sensing function)	100	56	44
		(31.0%)	(72.7%)	(17.9%)
	Pre-invested in startups in a completely different industry (CVC's investment capability enhancement function)	40	8	32
		(12.4%)	(10.4%)	(13.0%)

Lastly, we analyzed whether there are differences in the impact of CVC pre-investments on M&A based on industry sectors.

The analysis results showed that CVC investments are promoting M&A in industries with high uncertainty but significant value addition, such as content, gaming, bio/medical, automotive, and finance. Industries with the M&A with CVC pre-investments include technology-based industries such as gaming, bio/medical, automotive, and finance.다.

Top Industry Sectors in M&A Transaction Frequency Based on CVC Pre-Investments

(Unit: Count, %)

Rank	Total (Domestic)		CVC Pre-investment			
			Exist		(None)	
1	Content	43 (12.9%)	Content	20 (12.6%)	Content	23 (13.2%)
2	Bio/Medical	25 (7.5%)	Game	14 (8.8%)	Enterprise	16 (9.2%)
3	Food & Dining	21 (6.3%)	Bio/Medical	13 (8.2%)	Food & Dining	13 (7.5%)
4	Enterprise	19 (5.7%)	Car	11 (6.9%)	Bio/Medical	12 (6.9%)
5	Car	18 (5.4%)	Food & Dining	8 (5.0%)	Shopping	12 (6.9%)
6	Game	18 (5.4%)	Finance	8 (5.0%)	lifestyle	9 (5.2%)

In conclusion, CVC investments play a positive role in promoting M&A transactions and enhancing the exit market. In particular, CVC investments contribute to exploratory M&A in different industries where acquiring companies lack information and promote M&A in high-tech startups with significant uncertainties in technology and market aspects.

CHAPTER

3

Successful Cases of CVC Operations

1. Overview of Analyzing CVC Operations

Through literature reviews and interviews, we have examined detailed information on the operational aspects of CVC and the strategic synergies with startups. The content included in this report is largely based on case studies from the database of DBR[53], and some information has been supplemented through interviews.

Companies Included in CVC Case Studies

CVC Name	CVC Type	Source
GS Home Shopping (currently GS Retail)	In-house CVC	DBR Case Articles
GS Ventures	Subsidiary CVC (General Holdings CVC, NTFC)	DBR Case ArticlesInterviews
Signite Partners	Subsidiary CVC (Non-holding CVC, SIC)	Interviews
Naver D2SF	In-house CVC	DBR Case ArticlesInterviews
PlanH Ventures	Subsidiary CVC (General Holdings CVC, SIC)	DBR Case Articles
Blue Point Partners	(Operation of OI program for large companies)	Interviews

53 Excluding GS Home Shopping, all the cases mentioned are from the 2022 DBR "Let's go CVC" series article.

2. Case Studies of CVC Operations

① GS Home Shopping (currently GS Retail)[54]

Background and Organizational Status

→ Around 2011, the rapid rise of mobile distribution channels led to a slowdown in GS Home Shopping's revenue growth. GS Home Shopping began intermittently investing in startups that were synergistic with its business, such as the BUZZNI stake investment in 2011 and the acquisition of A+B.

→ To actively utilize the startup ecosystem and find growth drivers externally, GS Home Shopping benchmarked international CVC cases in 2014. The company established the "Future Business Division" directly under the CEO, and as of 2018, it has departments for venture investment, M&A, Center of Excellence (CoE), business development, and more.

Source: Dong-a Business Review, Issue 262, 2018

Step-by-Step Investment Strategy

→ Securing accessibility to specific fields and regions through private investment vs. fund investment

- Domestic: Altos Ventures, Stonebridge Partners, etc.
- China: Sinovation Ventures, BRV
- Southeast Asia: Gobi Partners
- United States: Andreessen Horowitz, 500startups

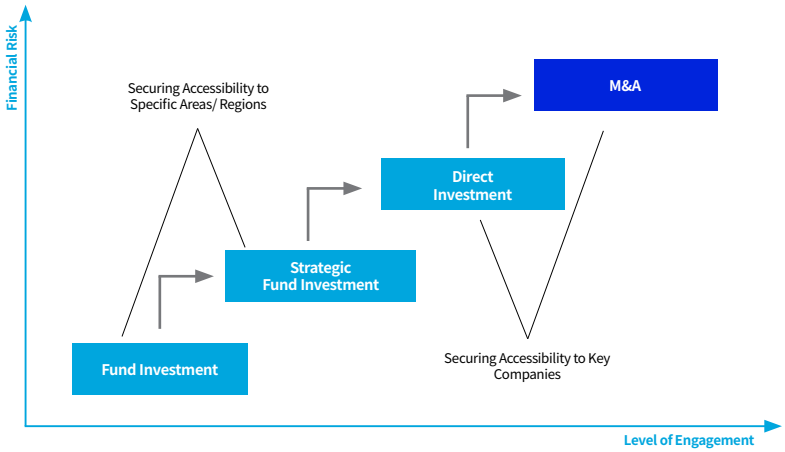
→ When synergy with GS Home Shopping is perceived, balance sheet investments are made at Series A, B levels.

- Securing 10-20% ownership and participation in the board of directors.
- The CoE team under the Future Business Division supports the nurturing and incubation of startups.

→ In some cases, the percentage of ownership is increased to take over the management rights and incorporate it as a subsidiary.

54 Referred to Dong-a Business Review Vol. 262 (2018) when writing.

→ GS Home Shopping's CVC operational strategy involves using external VCs for identifying strategic investment targets, overcoming limitations of CVC, such as difficulty in recruiting experienced external VC assessors due to issues like performance compensation[55].



Source: Dong-a Business Review, Issue 262, 2018

Close Integration with Company-wide Strategy

→ Aligning closely with mid-to-long-term strategies to establish portfolio strategies (e.g., strengthening the pet business through investments in companies like Pet Friends). Investments in startups contribute not only to enhancing competitiveness in the company's products but also to securing new technologies.

→ Utilizing technology and business trend information collected through startup investments to explore new business opportunities and validate internal new business ideas.

Operation of Expert Organization Supporting the Growth of Startups

→ The CoE (Center of Excellence) team, benchmarked after Google Ventures, is a support organization for nurturing startups. It comprises experts in IT design, database management, UX/UI, growth hacking, and e-commerce, etc.

→ Operating without prioritizing GS Home Shopping's strategic purposes, the CoE team directly connects experts from existing business departments to startups. It plays a role in introducing startups to operational staff, fostering an innovative culture, and freely crossing corporate boundaries.

55 Generally, in the VC industry, performance-based compensation for assessors involves paying 20% of the excess investment returns. However, for in-house CVC, designing an equivalent compensation system is not easily achievable due to limitations such as personnel systems.

Simplification of Internal Investment Review Process

→ To maintain independence and increasing decision-making speed, investments under $1 million are executed directly by the head of the Future Business Division. Before investment reviews, the Future Business Division reports key matters to the management of each area for coordination.

② GS Ventures (GS Group CVC)[56]

Background and Organizational Status

→ Chairman Huh Tae-soo, during his tenure as the CEO of GS Home Shopping, led open innovation activities utilizing startup investments.

→ To establish a group-level intersection for the startup investments and open innovation activities independently performed by each affiliate within GS Group and expand the venture-friendly experience of GS Home Shopping, as limited holding of CVC by the holding company became possible since December 30, 2021, the holding company established its CVC on January 7, 2022.

→ As of 2023, it consists of CEO Heo Jun-nyeong, four investment assessors, and two management personnel, totaling six members.

Establishment of Subsidiary CVC to Supplement the Limitations of In-house CVC

→ As seen in the case of GS Home Shopping, the investment strategy of each affiliate within the GS Group has been a step-by-step approach. First, it involves early-stage startup investment through participation as an LP in external VC. Subsequently, if there is potential for strategic synergy, the affiliate conducts balance sheet investments or engages in M&A to establish a connection.

→ Relying solely on external VC for early-stage investments for market sensing has limitations in internalizing diverse information about technology and market trends, thereby hindering the discovery of new business opportunities. Additionally, there is a drawback in subsequent investments as the prices may become expensive.

→ Establishing an subsidiary CVC enables agile decision-making, allowing quick investment decisions, which is crucial for approaching early-stage startups.

56 Based on the interview with Dong-a Business Review 341st edition (2022) and May 9, 2023.

Focus on Early-Stage Investments to Fulfill GS Group's Market Sensing Role

→ GS Ventures plays a role in securing preemptively technologies and markets with potential future synergies by investing in early-stage startups in various fields with future growth possibilities at the group level. The Future Business Team of GS Holdings focuses on later-stage startup investments or uncovering M&A opportunities.

→ In fact, GS Ventures concentrates its investments from seed to series B stages, handing over larger-scale investments to the holding company or other affiliates for collaboration.

Expanding Investment Scope into New Growth Areas Without Being Confined to Short-term Synergy Creation

→ As an subsidiary CVC, GS Ventures can build a performance reward system and culture similar to the traditional VC industry, allowing them to secure expertise as an investment organization.

→ Rather than being solely focused on short-term synergy creation within existing businesses, GS Ventures, as an subsidiary CVC, can broaden its investment scope to various fields, basing decisions on a broad perspective and investing in companies with growth potential in technology and business models even if the connection with GS Group and the possibility of future collaboration are unclear.

Maximizing Flexibility through Organic Integration with Holding Company and Affiliates:

→ To maximize flexibility, GS Ventures, the Future Business Team of the holding company, and the new business teams of GS Energy and GS Retail have all relocated their offices to the 24th floor of GS Tower in Yeoksam-dong, Seoul, easing physical boundaries between dedicated venture investment organizations.

→ Employees from the holding company's Future Business Team, GS Ventures, GS Futures, and venture investment organizations of GS affiliates actively engage in weekly activities, sharing information and opinions on investment opportunities or connecting partners in shared spaces for 30 minutes to an hour, which promotes mutual integration and coordination.

③ Signite Partners (Shinsegae CVC)[57]

Background and Organizational Status

→ In the past, each affiliate within the Shinsegae Group conducted open innovation activities such as M&A or equity investments independently. However, to enhance the efficiency of investment decision-making processes and respond rapidly to the evolving startup ecosystem, a subsidiary CVC was established.

→ Led by Moon Sung-wook, CEO of Shinsegae Tomboy concurrently, the team consists of eight members in the investment division (headed by Executive Director Lim Jeong-min) and four members in the operations (management) division, totaling 13 members.

Investment in Industries Complementary to Affiliate's Existing Businesses:

→ Signite Partners focuses on investing in areas that complement the affiliate's existing business, even if it's not a technology the affiliate is actively developing (e.g., payment systems, membership management). It also invests in startups that can scale up using Shinsegae's distribution channels.

Strategic Investments Based on Financial Returns

→ Subsidiary CVC, like traditional VC, must generate financial returns to remain operational. Therefore, every deal prioritizes financial returns and considers strategic alignment with affiliates from a qualitative perspective.

→ General blind funds actively attract affiliates and external investors (policy funds, financial institutions such as banks, etc.)

- It does not typically grant rights beyond a standard LP to cooperative-funded affiliates. Instead, the management company seeks expert opinions from affiliates (e.g., validation of startup technology and business models, support plans from Shinsegae).

→ If the strategic purpose of the affiliate is clear, the fund is structured with the affiliate as the sole LP.

57 Based on the interview conducted on May 3, 2023..

Collaboration Between Startups and Affiliates Through Active Internal Communication, Including the Operation of Consultative Bodies

→ Introducing startups that have been invested in or considered for investment at the monthly executive-level consultative body for the entire company, akin to an internal IR activity. In addition, visiting each affiliate to understand operational demands, share investment information, and discuss value addition, growth support, collaboration strategies, etc.

- Care is taken by all assessors to ensure there are no issues such as technology theft during information sharing with affiliates. Detailed discussions are encouraged between startups and on-site departments.

Performance Reward System Similar to Stock Option Scheme:

→ The performance incentive criteria are the same as those for typical VC.

→ In an effort to dispel the perception that "CVC compensation is weak," a new reward system has been implemented, determining performance rewards based on contributions made throughout the discovery, evaluation, nurturing, and exit processes.

④ Naver D2SF[58]

Background and Organizational Status

→ Launched in May 2015 in the form of an in-house as part of the open innovation strategy to grasp the rapid changes in the IT field and explore new growth drivers.

- Since 2015, it has engaged in discussions with 1,492 startups and identified 166 specific collaboration agendas.
- Cumulative investment of 65 billion KRW in 103 startups.
- Overall valuation of invested startups: 3.4 trillion KRW (97% survival rate).
- Investment attraction by invested startups: 720 billion KRW (62% success rate in attracting follow-up investments).

→ As of 2023, it consists of 6 employees responsible for startup discovery and investment, branding, internal communication, community, value-up, and research.

58 Based on the interview conducted in Dong-a Business Review Issue 353 (2022) and on May 12, 2023.

Strategic Investments Focused on Early-Stage Startups

→ Focused on strategic investments in early-stage[59] startups possessing or developing innovative technologies.

- Coordination with Naver is more manageable for early-stage startups, aligning business directions and goals between the two parties.

→ Current investment portfolio has a balanced proportion of "Inliers" and "Outliers," with a gradual increase in the proportion of "Outliers."

- Inlier: Startups with high business relevance for immediate collaboration.
- Outlier: Startups with currently low business relevance but possessing technologies that can create synergies in the medium to long term.

Decision-making and Processes Based on Swift, Flexible, and Trust-Based Approaches

→ Given the importance of speed in startup investment and collaboration, all rights regarding investment are given to D2SF.

- For investments up to 1 billion won, the D2SF team has full authority, and even for amounts exceeding 1 billion won, the decision-making process is not complex.

→ The D2SF team conducts meetings three times a week to exchange investment-related information, and decisions on investments are usually made within a week, with a maximum of two weeks after discussions with relevant departments.

→ Investment contracts are streamlined by eliminating unnecessary clauses to minimize time spent on contract review and negotiations.

→ Rather than relying on organizational approaches such as company-wide consultative bodies or advisory bodies, the D2SF team members communicate flexibly with relevant departments throughout the investment evaluation stage, forming sufficient consensus from investment review to collaboration seamlessly.

→ The D2SF team adheres to principles of transparency, discontinuing all procedures, disposing of relevant information, and notifying the startup of the exact situation if potential conflicts of interest with Naver are detected during discussions with startups. This ensures a transparent process and prevents any potential technological theft during the investment evaluation stage.

59 Among the invested startups, Naver is the initial institutional investor in 62% of the cases.

Acting as a Platform between Business Units and Startups

→ Monthly sharing of key achievements and market trends of invested startups via email to executives and key leaders.

→ Regular monthly meetings with executives or working-level leaders from approximately 10 organizations within Naver. Occasional meetings with over 20 organizations to convey news about startups encountered externally, understand the needs of the business units, and explore new collaboration opportunities.

→ D2SF occasionally plays a connecting role between Naver business units and startups by proposing and persuading collaboration or M&A.

Inducing Chemical Bonds by Providing Physical Spaces

→ Operating startup-dedicated office spaces in Gangnam and Bundang Second Headquarters. Offering growth programs such as Naver Cloud, support for promotion/marketing, follow-up investment attraction, and entrepreneurship community.

→ Naver D2SF @Bundang, in particular, is planned and operated with the concept of a "collaboratory" to enhance face-to-face meetings between Naver working-level employees and startups, fostering a natural collaborative atmosphere.

Featured Success Case: CrowdWorks

→ CrowdWorks is an AI learning data platform company founded in April 2017. It received seed investment from Naver just three months after establishment, followed by Series A in 2018, Series B in 2019, and pre-IPO investment in 2021. It is on the verge of listing on the KOSDAQ this year.

⑤ Plan H Ventures (Hoban Construction CVC)[60]

Background and Organizational Status

→ Hoban Construction, which began with apartment construction, diversified its business through M&A activities with companies like Daea Fruits and Vegetables, Samsung Gold Exchange, Taihan Cable & Solution, and Electronic Times.

→ In 2016, Hoban Construction established Cornerstone Investment Partners, a New Technology Financing Company, to support the group's M&A activities with a focus on financial investments. However, there was a lack of technological competitiveness in securing new technologies for Hoban Construction, the major affiliate.

→ In response, to proactively secure innovative technologies emerging in the startup ecosystem, Plan H Ventures was established in 2019, led by Kim Dae-heon, the oldest son of Chairman Kim Sung-yeol. The venture was selected for the TIPS operator in the same year and invested over 7 billion won in more than 20 startups by 2021.

- CEO Kim Dae-heon emphasizes open innovation activities by attending the all-hands meeting of Plan H Ventures every week.

→ Following the acquisition of Taihan Cable & Solution in 2021, as Hoban Construction's asset size exceeded 10 trillion won, Plan H Ventures was registered as a Small and Medium-sized Enterprise Startup Investment Company in 2022 as Hoban Construction was classified as a mutual investment-restricted corporate group.

→ As of early 2022, the team consists of five investment assessors, including the CEO, four management personnel in business areas, such as group communication, association management, and TIPS business management, totaling nine members.

→ The investment portfolio is structured around technologies related to leading the future residential space, particularly in the smart city business.

60 Written based on Dong-a Business Review No. 345 (2022).

Discovery of Competent Startups through Competitions: Hoban Innovation Technology Contest

→ The inaugural contest was jointly hosted by the Korea International Trade Association (KITA) and the Korea Commission for Corporate Partnership in 2020, with a total prize pool of approximately 400 million won (100 million won for the grand prize). Winners received technology development support funds and benefits such as business collaboration and testbed provision from Hoban Construction.

→ Subsequent contest prize pools decreased to 200 million won in 2021 (50 million won for the grand prize) and 170 million won in 2022 (40 million won for the grand prize). Despite the reduction, Hoban Construction continues the competition annually to discover innovative companies.

→ In 2023, collaboration with Korea Institute of Startup & Entrepreneurship Development's public-private cooperation open innovation bottom-up support project and with Seoul Business Agency is planned.

Providing Space to Enhance Physical Interaction between the Business Units and Startups

→ Established the "Innovation Hub," a shared office space of approximately 1,000 square meters on the 4th floor of the Hoban Group headquarters in Umyeon-dong, utilized as a communication hub in collaboration with 15 startups.

Strengthening Collaboration between Startups and Business Departments through Headquarters Open Innovation Team

→ Emphasizes supporting startups not only by allocating physical spaces for testing innovative technologies but also by understanding the demands of business units and providing support to meet necessary testing and certification procedures in open innovation activities.

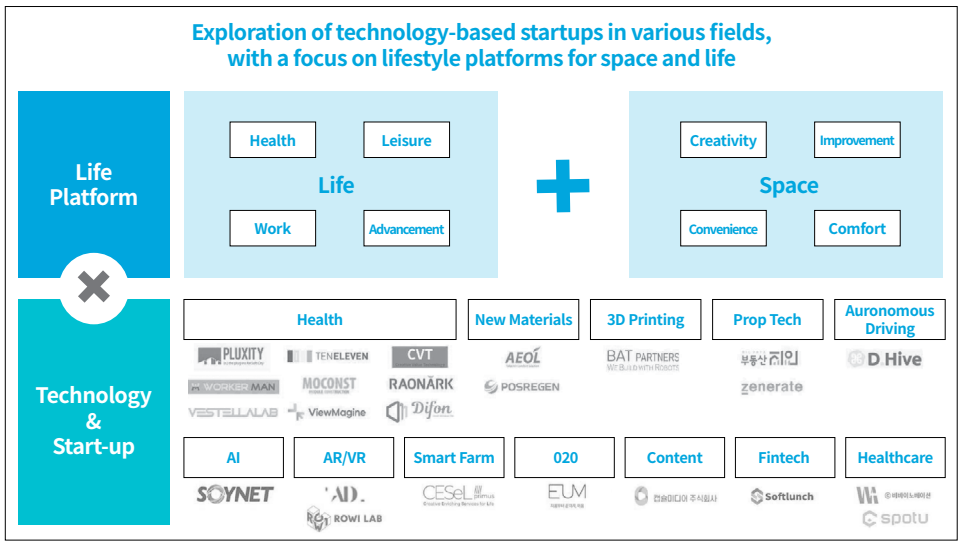
→ Hoban Construction has organized the Open Innovation Team under the Value Innovation (VI) Division, tasked with matching each business unit with the required technology and startups that possess those technologies.

- The President of Plan H Ventures serves as the head of the Open Innovation Team, promoting integration and coordination between the two organizations.

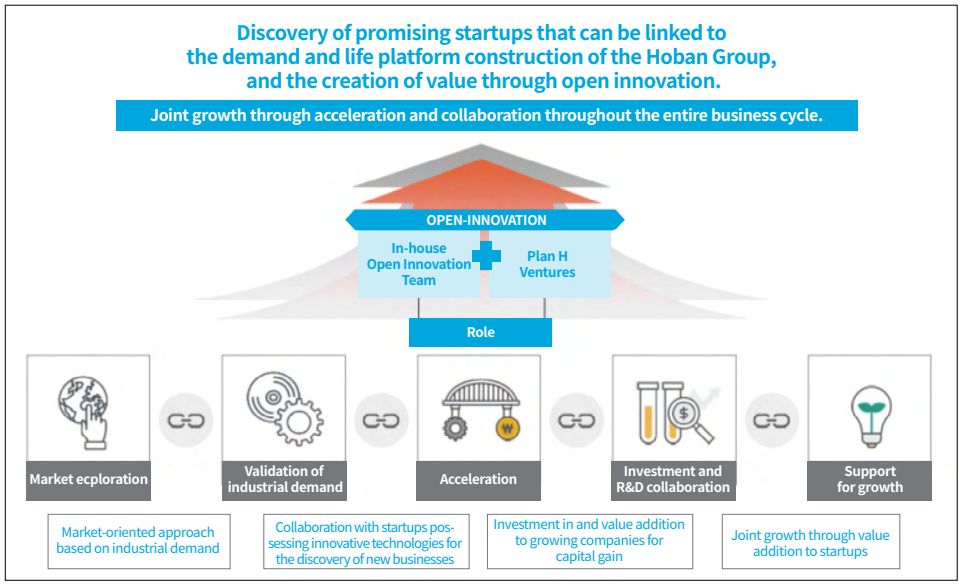
- Full-time employees: Veterans with extensive experience in the construction industry, working together with Plan H Ventures throughout the entire process of discovering, investing, technology verification, investment execution, and growth support for promising startups.

- Non-full-time employees: Technical experts from various departments of Hoban Construction who, during meetings or IR sessions, explain the desired "demand technology" from the field and provide ideas to startups for developing new applications based on their technologies.

→ Given the nature of the construction industry, passing appropriate testing and certification is crucial. Therefore, the Open Innovation Team collaborates with startups to ensure quick completion of testing and certification, addressing the lack of understanding and experience of startups in the field. Additionally, they have entered into a business agreement with the Korea Conformity Laboratories (KCL), the largest comprehensive testing and certification institution in Korea.



Source: Re-cited from Plan H Ventures, Dong-a Business Review No. 345 (2022)



Source: Re-cited from Plan H Ventures, Dong-a Business Review No. 345 (2022)

⑥ Blue Point Partners (Open Innovation Program of Private VC)[61]

Introduction Background

→ In 2018, it organized an open innovation contest and an internal venture program under the supervision of the CTO organization of LG Display, gaining initial experience in open innovation programs between large enterprises and startups.

→ Subsequently, there were inquiries from some large enterprises about open innovation programs, but they all demanded simple program operations without allowing investment in collaborating startups, preventing progress.

→ Hansol Group was the first to allow investment in discovered companies. Therefore, starting from 2020, the "Hansol V Frontier" program began, ongoing annually. From 2021, GS Group also initiated the "The GS Challenge" program, which is currently in progress.

Raising Interest of Top Management

→ To increase the interest of top management, lectures were conducted for the initial group chairman and executives on the necessity, importance, and success stories of open innovation.

From Startup Discovery and Selection to Reflecting Business Unit Needs

→ Even if it takes time, thorough understanding of business unit needs precedes planning recruitment areas, recruitment, selection, and program operation, involving business units at every stage.

→ For instance, it is necessary to understand the challenges faced by business units, identify areas that require innovation, and recruit and select companies capable of solving the problems. Moreover, it is crucial to Involve business unit departments in the selection and review process, gather their opinions, and even match working-level employees from business units with startups post-selection for regular meetings, ensuring substantial interaction between business units and startups.

61 Based on the interview conducted on May 16, 2023.

Acting as a Mediator Between Large Corporations and Startups

→ Assessors at Blue Point acts as mediators when conflicts arise between large corporations and startups. Blue Point's assessors judge matters from a third-party perspective, finding compromises to maintain collaborative relationships.

→ The role includes delivering each party's opinions in a way that prevents misunderstanding, ensuring the continuation of the cooperative relationship, and it also involves changes of the cooperation partner in some cases

→ At times, it advises both founders and business unit personnel to prevent technological theft by large corporations based on unilateral demands of large companies.

Successful Collaboration Case: Scalar Data

→ Scalar Data operates “Charging for Everyone,” an integrated platform for electric vehicle charging infrastructure. Blue Point Partners, one of the six startups selected as part of the “The GS Challenge” 2nd cohort in November 2021, along with GS Energy.

→ 2The business model was materialized through Blue Point Partners' acceleration program, including visits to GS Caltex Technology Research Institute and PoC (Proof of Concept) with experts from GS Energy and its affiliates. Scalar Data successfully attracted investment from GS Energy in December 2022.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Collaboration with 한솔
한솔그룹 전문가 PoC 검증
블루포인트 Alumni 혜택
네트워크, TIPS 지원 검토 등
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3. Conclusion of CVC Operational Case Analysis

Successful operation of CVC requires strong commitment from top management and active participation from business units. Understanding the characteristics of each type of CVC and selecting or combining the appropriate types based on the situation is crucial for success.

To operate CVC successfully, strong determination and interest from top management are crucial.

Sustained investment of considerable resources is necessary for CVC operations. Otherwise, building a network and reputation within the startup ecosystem becomes challenging, making it impossible to discover competitive startups. Furthermore, to achieve strategic outcomes, the commitment of personnel and assets from existing operations to collaborate with startups may result in significant opportunity costs, requiring decisive actions from the top management.

Collaborating with startups also demands risk-taking by the parent corporation and comprehensive operational adjustments. Business units are generally reluctant to adopt technologies and products from unverified startups due to the associated risks. Unless there are significant issues, they are hesitant to change established transaction channels or business processes. Therefore, without direct interest and attention from top management in the CVC program, meaningful collaboration and participation from business units for strategic outcomes may not occur, reducing CVC initiatives to mere financial investments.

Companies that have successfully operated CVC programs typically show significant interest and provide active support from their top management.

- **GS Group**: Chairman Huh Tae-soo has been involved in startup investments since his time at GS Home Shopping, actively participating in events like “The GS Challenge” Demo Day.
- **Shinsegae**:The owner family is directly involved as the representative of subsidiary CVC.
- **Hoban Construction**: CVC was established under the leadership of Kim Dae-heon, the oldest son of the founder Kim Sung-yeol.

Establishing an organizational and internal communication system is necessary for the active participation of the parent corporation or affiliates.

Simply connecting the startup and the business units of the parent corporation is not sufficient for collaboration. Collaboration occurs when there is mutual understanding between business units and startups; it is the role of the CVC organization to reconcile and coordinate opinions, finding points of intersection. Startups may not know what technologies and products are needed in business units, and business units may not be well-versed in how the technology and products of startups can improve existing operations. Increasing the understanding of startups by the parent corporation and making startups comprehend the complex organizational structure and decision-making system of the parent corporation are both essential.

In response, some CVC organizations regularly send emails or newsletters to share information about startups they have invested in or are reviewing with the parent corporation. They meet with business units regularly or irregularly to understand their needs, discuss specific collaboration details or methods with startups, and may create formal executive-level discussion bodies or advisory committees to discuss startup trends or collaboration possibilities, inviting startup representatives for an internal IR session. On the other hand, there are cases where cooperation discussions with startups are held on a regular basis in an official form, but some companies prefer an agile and flexible approach, where CVC managers directly approach relevant business unit personnel or executives of the parent corporation or affiliates when discussing cooperation with startups (see the Naver case).

To facilitate information sharing and discussions between the CVC organization and the parent corporation or affiliates, some companies arrange relevant departments on the same floor or building (refer to the GS Ventures case). They also create startup occupancy spaces within the parent corporation's headquarters to foster physical conditions where business unit personnel and startups can frequently meet (refer to the cases of Hoban Construction and Naver).

In addition, to expedite collaboration with business units, some companies organize an “Open Innovation Team” within the parent corporation or affiliates. For instance, in the case of Hoban Construction, the representative of the subsidiary CVC concurrently serves as the head of the Open Innovation Team.

Utilizing private VC for an open innovation program can be effective in reconciling understanding between startups and business units (refer to the case of Blue Point Partners).

Startups prioritize their growth over the strategic direction of large corporations, and large corporations must consider the strategic outcomes of existing businesses over the growth of startups, making conflicting opinions inevitable. However, startups, positioned in the "recipient" role for investments, may feel a significant burden in rejecting or negotiating the demands of CVC parent companies. Therefore, external private VCs in a neutral position may perform the role of a mediator in reconciling opinions objectively.

Focus should be on the growth and support of startups rather than on exclusivity and ownership. .

The case companies are fundamentally considering CVC as a means to discover promising startups and establish collaborative relationships with them, rather than investing in startups with M&A in mind. To establish itself as a key participant in the startup ecosystem and survive in the long term, CVC must be recognized for legitimacy by stakeholders. Therefore, actions that damage the value of startups and hinder their growth, such as extracting technology or including exclusivity clauses in equity investments, are not helpful for CVC from a long-term perspective.

In actual cases, none of the companies included exclusivity clauses in contracts, and they were careful to prevent technology theft issues. Efforts were made to avoid conflicts of interest between startups and parent companies by discontinuing discussions if direct competition with the parent corporation's existing or planned business was anticipated, discarding all related materials.

Some companies also have dedicated organizations within the parent corporation for nurturing startups.

GS Home Shopping: The Center of Excellence (CoE) team focuses on helping startups grow from their perspective, acting as a bridge to allow startups to leverage the assets and know-how of the parent corporation rather than creating synergy with the business units.

Hoban Construction: The Open Innovation Team supports various certification processes needed for startups' technologies and products to be applied in business units and proposes product ideas to startups that meet the needs of business units.

Strategic investments based on financial returns are crucial.

The relationship between financial returns and strategic outcomes is inseparable, much like how startups with excellent technology or business models can contribute to the strategic achievements of parent companies. All of the case companies indicated that they prioritize financial evaluations and consider strategic outcomes. In particular, subsidiary CVC, rather than in-house CVC, and funds where external investors have a higher proportion than parent companies or subsidiaries, showed a greater consideration for financial returns.

Companies like Naver and GS Ventures invested heavily in startups with high collaboration and growth potential from a medium to long-term perspective, even if they had low relevance to their existing businesses. This is because, in cases with high relevance to existing businesses, immediate strategic outcomes are possible, but there are limitations in responding to medium to long-term changes.

In general, subsidiary CVCs are advantageous in terms of identifying investment targets and decision-making speed compared to in-house CVCs.

Subsidiary CVCs can offer performance-based compensation for excess returns at levels similar to traditional VCs, while in-house CVCs may face limitations in providing performance bonuses that deviate from the company's existing wage structure, making it challenging to attract capable external assessors.

On the other hand, in the case of in-house CVC that exists as an affiliated organization of a company, the CEO and executives from various fields and levels participate in the investment review process. In contrast, an subsidiary CVC makes investment decisions through discussion or voting among a small number of partners, enabling agile and flexible responses.

Some in-house CVCs, like GS Home Shopping and Naver, have taken steps to increase decision-making speed. They have delegated full authority or established decision-making powers within their responsible organizations for investments. Additionally, they have engaged in LP investments in external VCs or established their own open innovation programs to attract startups.

In-house CVC has an advantage over subsidiary CVC in terms of creating synergy between invested startups and the parent corporation.

Assessors primarily recruited externally by subsidiary CVCs are experts in investment activities but may lack understanding of the parent corporation or subsidiary's organization and internal interpersonal networks. In contrast, in-house CVCs are typically composed of internal staff with a high understanding of the organization, providing an advantageous aspect for grasping the needs of the business units and connecting startups.

To overcome these limitations, some subsidiary CVCs create subordinate units that serve as bridges within the parent corporation or affiliates, establish regular exchanges with relevant departments, and form executive-level advisory bodies. These initiatives aim to enhance synergy creation by developing various organizational and communication systems within the subsidiary or parent corporation to compensate for these shortcomings.

Conclusion

1. Conclusion of the Study

① Why is Invigorating CVC Investment Important?

In 2022, the total volume of CVC investments reached 4.5 trillion won, accounting for 31% of the overall VC investments. In particular, despite the overall contraction in startup investments due to the economic downturn in 2022, CVC investments have demonstrated a stable presence.

Research results further indicate that CVC investments have a positive impact on promoting M&A in the venture and startup landscape. Half of the M&A transactions are preceded directly or indirectly by CVC investments. Acquiring companies utilize CVC investments to identify potential startup targets (market sensing), progress with M&A possibilities based on the startup's technological/product development status (real options), and evaluate the startup's value while acquiring the necessary organizational capabilities and systems for synergy creation (investment capability enhancement).

Notably, when acquiring companies or other affiliates within the group possess subsidiary CVCs, M&A transactions preceded by CVC investments in the target company constitute 12%. For M&A transactions in other startups within the industry to which the target company belongs, preceded by CVC investments, the percentage rises to 73%, indicating a tendency for larger-scale M&A activities. This suggests that CVC investments help alleviate uncertainty in M&A processes.

② Composition of CVC Funding Sources

In 2022, 60% of the total CVC investment amount was attributed to in-house CVCs, with half of the total in-house CVC investment amount corresponding to investments by large corporations. Large corporations accounted for 40% of the total CVC investment amount in 2022, with subsidiary CVCs contributing to 23%, and in-house CVCs accounting for 51% by large companies. Furthermore, the total investment amount by in-house CVCs of large corporations recorded an average annual growth rate of 56% between 2016 and 2022, experiencing a 36% increase in 2022 compared to the previous year despite the economic downturn.

Out of 82 conglomerate groups (as of 2023), 52 (63%) have confirmed CVC investment records, with 24 (29%) possessing subsidiary CVCs. Among these, 46 (58%) conglomerate groups have confirmed investments in startups by subsidiaries (i.e., in-house CVCs), indicating significant invigoration of CVC investments by large corporations.

On the other hand, non-large corporations tend to focus more on subsidiary CVC investments compared to in-house CVC investments, and investments by in-house CVCs are relatively low. In 2022, non-large corporations accounted for 44% of the total CVC investment amount. When examined based on the operating entity, non-large corporations held 69% of the total subsidiary CVC investment amount and 33% of the total in-house CVC investment amount.

Thus, large corporations adopt the in-house format, while non-large corporations prefer the subsidiary format, each pursuing different strategies. Therefore, to invigorate CVC, continuous expansion of large corporations' startup investments, along with the participation of financially strong mid-sized companies, is necessary. In particular, there is a need to promote the strategic balance sheet investments of mid-sized companies that have not been neglected.

③ The Significance of Subsidiary CVC for Strategic Purposes

Subsidiary CVCs with strategic purposes can have a positive impact on promoting in-house CVC investments and M&A by the parent corporation (or affiliates). Subsidiary CVCs with strategic purposes have a higher ratio of investments in seed and pre-Series A compared to subsidiary CVCs with financial purposes. This is because subsidiary CVCs with strategic purposes perform the role of "market sensing," actively seeking startups necessary for the parent corporation's strategic investments. Included in this report, case studies reveal that strategic investors, particularly those targeting subsidiaries, actively conduct in-house IR to integrate portfolio startups with existing business operations. Through this process, they facilitate M&A or subsequent investments by the parent corporation or affiliates.

The total investment amount by in-house CVCs of companies with subsidiary CVCs[62] has shown the highest growth rate among specific types of in-house CVCs, with a compound annual growth rate of 70% between 2016 and 2022. In addition, based on the investment amounts, it was found that, in the case of subsidiary CVCs, 46% of the total investment amount was invested in Series D and above. The average investment amount per investment also showed the highest figure among the detailed types of in-house CVCs, at 43.3 billion won.

In-house CVCs of companies with subsidiary CVCs invested more in startups related to existing businesses compared to companies without subsidiary CVCs. Based on investment amounts, companies with subsidiary CVCs invested 13% in startups in completely

62 The concept of in-house CVC investment in a company extends beyond direct investments by the company's subsidiary CVC to include investments by other affiliates within the same corporate group. Given the prevalent corporate structure in South Korea, where conglomerates are widespread, it is deemed appropriate to view the concept of "ownership" not just in terms of direct investments but also at the group level.

aligned industries, higher than the 7% for companies without subsidiary CVCs. In partially aligned industries, the investment ratio for companies with subsidiary CVCs was 27%, while for companies without subsidiary CVCs, it was 25%.

For companies with subsidiary CVCs, 12% of M&A involved direct CVC investments in the acquired companies, and 73% indicated that CVC investments preceded M&A in other startups within the acquired companies' industries. The average transaction amount for M&A by companies with subsidiary CVCs was also higher than that of companies without subsidiary CVCs.

On the other hand, independently operated subsidiary CVCs with financial purposes exhibit a characteristic of weak strategic alignment with the parent corporation or other affiliates. Subsidiary CVCs with financial purposes exhibit investment behaviors similar to those of conventional VCs, particularly showing a higher concentration of Series A and Series B investments compared to seed or pre-Series A, especially when compared to strategically oriented subsidiary CVCs for strategic purposes. This suggests a weaker "market sensing" function in subsidiary CVCs with financial purposes.

In practice, "Lotte Ventures," known as a strategic purpose investor, has the proportion of 50% in seed and 22% in pre-Series A based on total investment transactions. In contrast, "Kakao Ventures" has a higher proportion of Series D or higher at 14%, indicating a larger share, which is more than that of investors for financial purposes.

In this study, 53% of non-large enterprise subsidiary CVCs were classified as financial investors, showing a significant difference from only 33% of large enterprise subsidiary CVCs classified as financial investors.

Therefore, to invigorate CVCs:(1) Encouraging the establishment of subsidiary CVCs with strategic purposes in financially capable mid-sized companies.(2) Supporting existing subsidiary CVCs with financial purposes to pursue strategic purposes.

④ Promoting Investments by Large Enterprise Subsidiary CVCs

Research findings indicate that subsidiary CVCs of large enterprises exhibit the following characteristics:

→ Approximately 67% of subsidiary CVCs of large enterprises are classified as having strategic purposes.

→ In 2022, subsidiary CVCs of large enterprises executed an average of 10.9 transactions, totaling 17.0 billion KRW, the highest among various subtypes.

→ Large enterprise subsidiary CVCs show a significant focus on seed and Pre-Series A investments in terms of transaction count, and in terms of investment amounts, their emphasis on Series D or higher is greater than that of non-large enterprises.

Therefore, to expand the volume of investments by subsidiary CVCs of large enterprises, it is necessary to (1) encourage the establishment of subsidiary CVCs in large enterprise groups that currently do not possess them and (2) promote large-scale investments, particularly those exceeding Series D. Especially noteworthy is that large enterprise subsidiary CVCs, given their substantial participation in co-investments with affiliate companies within the group, can boldly execute investments if strategic synergies are evident. For instance, Signite Partners executed a Series D investment in the secondhand trading app "Bunjang" in January 2022.

⑤ Promoting Open Innovation through Private VC

The reason why strategically-oriented CVC focuses on early-stage startup investments such as seed and Pre-Series A is because it facilitates the creation of strategic synergies with the parent corporation. In the early stages, there is flexibility to align technology/product development with the existing business of the parent corporation. However, once development is complete and the business direction is established, pivoting becomes challenging, limiting the creation of strategic synergies. Moreover, early-stage startups, without technological protection measures like patents or trade secrets, are vulnerable to technology theft, posing a potential risk with CVC investments.

Therefore, from the startup perspective, receiving CVC investment in the later stages, when issues such as technology theft are relatively less problematic, might be more advantageous than dealing with potential conflicts in the early stages. (Jeon Wol-jin & Kang Shinhyung, 2022)[63].

63 Jeon&Kang(2022), The Impact of Timing of CVC Investment on Startup Performance : Moderating Effect of Size of CVC Parent Firm and Mutual Dependence, Korean Journal of Human Resource Development, 25(4)

In such situations, private VCs can play a crucial role in mediating and reconciling conflicts between CVCs and startups. This not only helps resolve issues like technological theft but also contributes to building a collaborative relationship (Kang, 2019; Jeon Wol-jin & Kang Shinhyung, 2022). In the case studies presented in this report, Blue Point Partners acted as a mediator to align the understanding between a large corporation and a startup, facilitating the establishment of a collaborative relationship.

Therefore, for open innovation programs involving early-stage startups and mid-sized to large enterprises, leveraging private VCs might be more appropriate than direct leadership by large and mid-sized companies.

2. Policy Measures to Promote CVC Investments

① Strengthening Open Innovation Activities in Large and Mid-sized Enterprises

The core of invigorating CVC lies in strengthening open innovation programs in large and mid-sized enterprises. For CVC investments to be deemed necessary, the parent corporation must be able to generate strategic outcomes through collaboration with startups. Conversely, startups should find scaling-up feasible through collaboration with the parent corporation to show interest in attracting CVC investments. In addition, the crucial element that distinguishes between the financial investors and strategic investors of subsidiary CVCs is systematic open innovation activities.

Therefore, to encourage the policy-driven transition of subsidiary CVCs for financial purposes into ones with strategic purposes, it is necessary to consider incentives such as investments in fund of funds in conjunction with operating open innovation programs with parent companies. Alternatively, it may be a viable option to participate in open innovation support projects by the Ministry of SMEs and Startups, or to evaluate the performance of the activities and give incentives such as investment in the fund of funds to the CVCs of the companies.

To encourage active participation from mid-sized companies, it is anticipated that promoting open innovation programs for mid-sized enterprises and providing policy support for strengthening the strategic purposes of mid-sized corporate subsidiary CVC activities will support the promotion of late-stage startup investments by mid-sized companies and the enhancement of in-house CVC investments.

In particular, there is a need to promote private VC-led open innovation programs targeting early-stage startups. Early-stage startups find it challenging to assess whether the requirements of large and mid-sized enterprises are genuinely beneficial for their growth. Moreover, they may feel pressured to unquestionably accommodate these requirements due to their weaker bargaining power compared to large and mid-sized enterprises. Therefore, if private VCs representing the interests of startups take the lead in open innovation activities, it can help align the perspectives of startups and large/mid-sized enterprises. In addition, this approach can prevent issues related to technological theft or imitation for early-stage startups.

② Expansion of Late-stage Investment for Strategic Purposes

In the domestic CVC landscape, there is a relatively small proportion of late-stage investments beyond Series C. CVCs in Korea exhibit a preference for seed and Pre-Series A investments, allowing them to build relationships with various early-stage startups with limited investment resources. The actual CVC share in the overall VC investments is observed to be smaller in Series C and beyond compared to other investment stages. However, in the United States, CVCs execute a significant number of large-scale late-stage investments, with the average investment amount per CVC investment being twice the overall VC average.

Therefore, there is a need to expand corporate late-stage investments for strategic purposes. Research indicates that subsidiary CVCs play a crucial role in identifying suitable investment targets. When startups demonstrate strategic synergy through practical applications with the field, companies tend to conduct balance sheet investments in these startups. Such strategic investments often lead to future scenarios, including direct acquisitions of the startup or acquisitions of other startups in the industry to which the startup belongs.

In particular, it is necessary to review support policies that encourage joint investments involving subsidiary CVCs or private VCs, bringing companies that can generate synergy to the startup as strategic investors. This has the positive effect of enhancing the market-sensing capabilities of subsidiary CVCs, fostering increased collaboration between private VCs and CVCs, and it could potentially be integrated into open innovation programs. In particular, expanding balance sheet investments (i.e., in-house CVC investments) into late-stage startups with higher average investment amounts may contribute to the overall invigoration of the VC investment market.

(3) Improvement of Regulations on Limited Allowance of CVCs for General Holding Companies

Current policies related to CVCs in South Korea aim to promote the establishment of subsidiary CVCs by distinguishing regulations between mid-sized and large holding companies. The existing Fair Trade Act Article 20 imposes various constraints on general holding company CVCs, and discussions are ongoing to enhance these regulations, particularly focusing on the issue of separation of industrial and financial capital, mainly targeted at large enterprises.

However, as of 2022, there are 158 general holding companies covered by this law, of which only 47 are large companies, and the remaining 111 are general holding companies of medium-sized companies. In reality, the regulatory framework, which allows only limited activities for general holding company CVCs, has unintentionally restricted CVC investments by mid-sized enterprises. Paradoxically, some financially capable large enterprises are circumventing the regulations by establishing CVCs overseas or outside the holding company structure.

Therefore, an alternative approach could involve maintaining the regulatory level for large enterprises while differentiating the regulatory stance for mid-sized enterprises to promote the establishment of general holding company CVCs for mid-sized companies. With an increase in the establishment of general holding company CVCs by mid-sized enterprises, it is anticipated that in-house CVC investments by mid-sized enterprises will naturally grow.

Furthermore, there is an urgent need to relax the 40% limit on external funds. There are some voices advocating for the relaxation of this regulation due to the departure from the conventional practice of contribution of 50% by operating entities in venture capital joint operations. Besides such practical reasons, easing the limit on external funds can help strike a balance between strategic synergy and financial performance.

Subsidiary CVC structures are inherently bound to comply with the investment requirements of the operating consortium, where a significant internal investor share prioritizes the strategic demands of the parent corporation over the growth of startups. Therefore, increasing the proportion of external funding in subsidiary CVCs can direct more attention to the financial benefits of startup growth, akin to, if not surpassing, the strategic achievements of the parent corporation. This shift in balance can be beneficial for maintaining equilibrium and partially alleviating issues such as large enterprises' technology theft concerns of startups.

If there are debates about immediate regulatory relaxations, one alternative could be to change the current regulations at the consortium level of managing assets. In fact, according to interviews with large enterprise CVC officials, when an affiliate executes startup investments for strategic purposes, they form a separate LP consortium and operate with a different structure of required returns compared to the existing consortium. Therefore, simply changing regulations from the consortium level to the level of managing assets could provide CVCs with the flexibility they need.

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