

# KOTEC Newsletter

No. 36  
July 2016

[www.kibo.or.kr](http://www.kibo.or.kr)

**Korea Technology Finance Corporation**  
33 Munhyeon Geumyeung-Ro, Nam-Gu, Busan, Korea 608-040



## **KRW 9.2 Billion Profit from Investment in Cultural Content Industry**

ESV Inc., an imaging device manufacturer founded in early 2011, faced difficulties in funding during its early stages of business. In late 2014, however, it secured an investment of KRW 1 billion from KOTEC (Korea Technology Finance Corporation), based on its technological capabilities and growth potential. One year later, the company recorded a staggering 80 percent increase in revenue compared to the previous year and was listed on the KOSDAQ last year. Meanwhile, KOTEC recorded a profit of 370 percent when it sold its stake in the company late last month.

KOTEC is a policy financing organization that helps secure funds for small companies with excellent technologies by offering them guarantees. In addition to guarantees, it has recently begun to use a wider variety of financing techniques, including direct investment. Its guarantee-linked investment system is one of the organization's technology-based financing systems where direct investment is made to match the previous guarantees. Since 2005, the agency has provided 150 companies with KRW 174.1 billion in investments. Of these companies, 18 have been successfully listed on the KOSDAQ.

NEW, a Korean movie production company that recently hit the jackpot with its television drama 'Descendants of the Sun,' also attracted KRW 2 billion from KOTEC in late 2012. KOTEC sold its stake in the company when it went public in late 2014, recording a profit of 9.2 billion, meaning five times the amount of the original investment. A KOTEC official said, "Returns from our investments are used to support other small companies, creating a virtuous cycle."

Having previously focused on the manufacturing industry, KOTEC is now expanding its technology-based financing to the cultural content industry,

establishing a cultural content financing center this year in order to promote its efforts in this area.

KOTEC plans to offer KRW 300 billion worth of new guarantees for the cultural content industry, and it aims to increase its annual total investment to KRW 500 billion by 2020.

Support for cultural content through financial and investment institutions has been rather insignificant to this point, as it is not easy to evaluate quality and box-office value. In an effort to overcome these difficulties, KOTEC developed unique evaluation models for each sector in 2004. KOTEC explained, "As our evaluation systems are stable, we can identify excellent content, regardless of credibility and financial health."

KOTEC's KTRS (KOTEC Technology Rating System) is arousing keen interest from both Korean and overseas markets. In 2011, it was selected as a good practice at the EU's IPF (Innovation Partnering Forum), and advanced nations, including the Netherlands, France, and Japan, have sent delegations to KOTEC to learn from its expertise. Director Kim, Ki-beom, of KOTEC's International Business Office said, "Interest in technology-based financing is growing not only in Korea but also around the world. We will lead the efforts to spread Korea's financial support system around the globe, especially by helping developing countries learn about it."

*Dong-a Ilbo, April 7, 2016*

*By Kim, Chul-joong / tnf@donga.com*

## **Technology-based Financing Expanded to Cultural Content**

**- KOTEC to Provide KRW 300 Billion this Year -**

KOTEC (Korea Technology Finance Corporation) is currently expanding its technology-based financing measures into the cultural content industry, such as for films and games. It now incorporates its support system, which is based on future value rather than past performance, in the evaluation of future value for cultural content.

After completing evaluations based on the models created for nine areas of cultural content, support was provided for Dexter Studios, a VFX start-up run by Director Kim, Yong-ha, whose work includes the television dramas 'Six Flying Dragons' and 'Cheese in the Trap,' as well as the musical 'Hedwig', and several movies, including 'Take Off' and 'With God.'

Mr. Kim, Sang-hwe, and Mr. Chun, Tae-hwan, at the Cultural Content Financing Center, which KOTEC is proud to promote, share the view that the success of cultural content depends on how well it is planned out.

Mr. Kim said, "Content with a well-structured scenario and detailed plan has great potential for success. When every possible detail and scenario relating to casting is considered, success becomes more likely."

Mr. Chun said that the occasion to meet Director Kim, Yong-ha, which occurred before his joining the center, was most memorable.

He said, "Director Kim said that he would not only direct movies but also open a production company, and he assured me that he aimed to increase the number of employees from 60 to 180 in a year." Mr. Chun reviewed the plan and found that it was detailed and well-structured. He added, "We offered KRW 1 billion in guarantees for filming techniques and the rental of imaging equipment, and he kept his word by hiring 183 employees in a year."

After receiving an 'eligible' mark in its technology evaluation, Dexter Studios became the first movie VFX company listed on the KOSDAQ, and it attracted a great deal of investment and interest."

Indeed, Dexter Studios even successfully attracted the interest of China's Wanda Group, which decided to invest USD 10 million in the company's future.

In 2015, KOTEC provided a total of KRW 293.5 billion for the cultural content industry, and it plans to incrementally increase this amount to KRW 300 billion in 2016, KRW 370 billion in 2017, KRW 400 billion in 2018, and KRW 500 billion in 2020.

*Herald Business, May 23, 2016*

*By Kim, Jae-hyun / madpen@heraldcorp.com*

## **KOTEC's Guarantee-linked Investments to Support Start-ups**

KOTEC's guarantee-linked investments for high-performing technology companies are serving as a stepping stone towards growth in the early stages.

KOTEC's guarantee-linked investment system is considered a brand-new support system where direct investments and guarantees are offered for small technology-based companies.

Since first adopting the system in 2005, KOTEC has offered KRW 174.1 billion in investments for 150 companies, among which 18 have been listed on the KOSDAQ, including NEW (Next Entertainment World), KOYJ, UBIVELOX, and S-Energy. In particular, the agency recorded a profit of KRW 9.2 billion last year, representing five times the amount of the original direct investment it made in NEW. Annual investment figures significantly expanded during this time, going from KRW 10 billion between 2005 and 2012 to KRW 40 - 50 billion in 2013. Net profits from investments made in the 18 companies listed on the KOSDAQ reached KRW 14.6 billion, recording cumulative returns of 8.4 percent from the total investments.

Since the system was first put in place, the ratio of investment in start-up companies five years old or younger was recorded at 62.2 percent, meaning 16.1 percent higher than the ratio for private venture capitals. This means that the system serves as a public investment financing solution designed to complement possible market failures in the early stages of business.

It fosters win-win collaborations: using this system, small companies can raise the necessary funds for R&D and investment in equipment without experiencing financial burdens. Meanwhile, KOTEC can develop new sources of profit.

KOTEC uses its profits as funds for re-investment. The guarantee-linked

investment system is a more advanced form of technology-based financing compared to previous forms that offer assistance to small technology-oriented companies simply by providing loans.

Chairman Kim, Han-chul, said, "Small businesses have few means of access to direct financing, which is based on capital markets such as stocks and corporate bonds. Our system has recently been improved in ways that allow us to make investments of up to twice as much as the guarantee amounts. KOTEC will expand the market for this new type of technology-based financing by utilizing its evaluation capabilities and experience to allow small companies to secure funds through investment."

This year, KOTEC plans to offer KRW 40 billion in guarantee-linked investments, 50 percent of which will go to start-up companies five years old or younger. Until now, an investment could not surpass the guarantee amount. With the passing of relevant laws in the National Assembly, investments can now be made for up to twice as much as guarantee amounts.

Investments from KOTEC are seen as proof of technological capabilities and growth potential, paving the way for investments from other organizations. More than 40 percent of companies that have benefited from KOTEC investments have gone on to successfully attract additional investments, with 62 out of 150 companies (or 41.3 percent) securing KRW 344.9 billion in investments from the private sector.

Chairman Kim said, "KOTEC is differentiating itself from other agencies by looking at a company's growth potential using through technology evaluations, rather than only looking at financial stability in selecting the companies to invest in." He emphasized, "KOTEC will continue to play an active role in public investment financing by complementing market failures and encouraging follow-up investments from the private sector."

*Seoul Daily, June 20, 2016*

*By Seo, Jeong-myeong / vicsjm@sedaily.com*

## **Factors for Successful Growth into Mid-sized Companies with Technology Evaluation Statistics**

### ***- Market Competitiveness Built on Technological Capabilities and Business Feasibility Considered to be a Key Factor -***

On June 30, KOTEC, led by Chairman Kim, Han-chul, announced that market competitiveness built on technological capabilities and business feasibility was one of the most important factors for start-up companies hoping to grow into mid-sized companies. The agency made the announcement after analyzing the statistics of its technology evaluations.

KOTEC commissioned a Dong-eui University research team, headed by Professor Kim, Sung-tae, to analyze 7,354 companies that had received KOTEC technology evaluations during the period from 2008 to 2013. KOTEC commissioned this research in an effort to analyze factors directly affecting the growth of innovative start-ups into mid-sized companies, to then incorporate the results into future policies.

The team has studied 34 criteria of KOTEC's KTRS(KOTEC Technology Rating System), categorizing them into factors that have led to the growth of start-ups and those that have affected the growth of mid-sized companies, and then uncovered statistical significance.

The factors found to have helped start-ups grow into mid-sized companies were listed as follows ▲Owners' rich experience in related industries ▲Great pool of technical staff and the impact of their technologies ▲Large target market size and market shares ▲Excellent financing capabilities, reasonable sales plans, and a wide range of customers.

The growth of mid-sized companies was also ▲Affected by the ratio of R&D investment ▲Competitive advantages of products and ▲Financing capabilities.

### <Pre-requisites for Growth into Mid-sized Companies and their Growth>

	Factors to grow into mid-sized companies	Factors for growth of mid-sized companies
Owners	Experience in industry	-
Technology	Technical staff, Impact of technology	Ratio of R&D investment
Market Ability	Potential demand, Market share	Competitive advantage
Business Feasibility	Funding capability, Marketing capability	Funding capability

The research team made policy recommendations for developing mid-sized companies, including different support systems for companies in different stages of growth, special support for companies with great potential for growth, and quantitative expansion.

A KOTEC official said, "Keeping these recommendations in mind, KOTEC will continue to improve and develop its support system to help the companies we have provided support for as they grow into mid-sized companies."