

PROSPECTS FOR VENTURE COMPANIES IN THE FOURTH QUARTER: HRI-VENTURE COMPANY INDEXES¹⁾

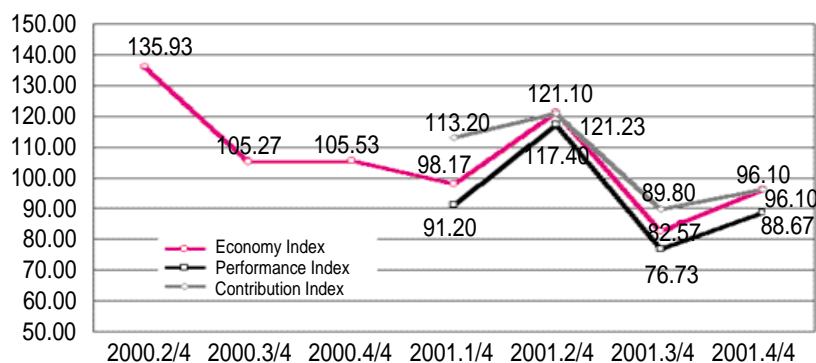
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Third Quarter Results

Venture companies went through further stagnation in the third quarter as reflected by venture indexes for the business cycle, performance, and contribution to the national economy remaining between 70 to 90. Going into 2001, the economic slowdown and worsened financing conditions caused the venture market and performance indexes to continue their decline, although they recovered slightly in the second quarter. Going into the third quarter however, increased uncertainty about the future economic situation led to a fall-off in investment and continued stagnation in the IT market including semiconductors. In addition intensified competition in the industry led to deteriorated profitability and the economy index for the third quarter fell to 82.57 while the

Venture companies went through further stagnation in the third quarter.

Figure 1. Key Venture Company Index



Note) Indexes were the weighted average of several factors as follows:

- Economy Index: Economic Conditions/Sales/Hiring
- Performance Index: Sales/Operating Profits/Financing
- Contribution Index: Hiring/Facility Investment

1) The HRI Venture Company Index is the result of a Quarterly survey of venture companies listed on markets such as the Kosdaq or the thid market. Survey questions included the industry economy, performance, and bottlenecks. The survey was held during September 17 to 22, with a sample of 103 companies. An index value exceeding 100 indicates expectations that the present quarter will outperform the previous quarter.

performance and contribution indexes fell to 76.73 and 89.80 respectively.

Fourth Quarter Prospects

With the continued slump in demand from advanced countries, it is unlikely that the venture market will improve in the fourth quarter. Despite introduction of new products and expansion efforts into foreign markets, the venture economy index was a modest 96.1 while performance and contribution indexes were 88.67 and 96.10 respectively. Asked about the factors affecting the market in the fourth quarter, only 10% of respondents cited positive factors such as the release of new products or expansion into foreign markets, while the rest pointed to negative factors such as delayed domestic recovery, higher prices for raw materials, and contraction in consumer sentiment.

By company size

Smaller venture companies with less than 2 billion won in capital showed weaker performance.

Smaller venture companies with less than 2 billion won in capital showed weaker performance. The business cycle index for the third quarter was 71.67 for companies with less than 2 billion in capital, while those with more than 2 billion recorded around 85, mostly due to worsened sales performance. Companies with more than 5 billion won in capital showed better sales and operating profits, but because financing was difficult, the performance index for these companies was low. These companies had more hiring and investment than smaller firms, and their contribution indexes were also higher. For the fourth quarter, the expected economy or contribution indexes did not vary greatly with company size. Companies with less than 2 billion won had a low performance index due to poor financing conditions

Table 1. Indexes by Capital Scale

	Venture Economy				Venture Performance				Venture Contribution to National Economy			
	01.1/4	01.2/4	01.3/4	01.4/4	01.1/4	01.2/4	01.3/4	01.4/4	01.1/4	01.2/4	01.3/4	01.4/4
Total	98.17	121.23	82.57	96.10	1.20	117.40	76.73	88.67	113.20	121.10	89.80	96.10
Below 2 billion won	90.73	121.40	71.67	95.00	94.47	114.23	73.33	80.00	100.00	119.65	85.00	97.50
2 to 5 billion won	102.93	122.57	85.97	94.73	91.10	125.27	83.33	90.37	117.75	120.20	86.85	98.65
Above 5 billion won	96.43	119.33	84.47	97.80	90.07	109.33	72.60	91.10	113.80	123.00	94.45	93.35

By age

Companies less than five years old had very low indexes in all categories.

Companies less than five years old had very low indexes in all categories including economy, performance, and contribution. Overall, these companies suffered sharp sales declines resulting in an economy index of 78.17 for the third quarter. The performance index for these companies was only 67.80 due to worsened financing conditions.

Table 2. Indexes by Age

	Venture Economy				Venture Performance				Venture Contribution to National Economy			
	01.1/4	01.2/4	01.3/4	01.4/4	01.1/4	01.2/4	01.3/4	01.4/4	01.1/4	01.2/4	01.3/4	01.4/4
Total	98.17	121.23	82.57	96.10	91.20	117.40	76.73	88.67	113.20	121.10	89.80	96.10
Under 5 years	111.10	127.60	78.17	106.90	112.67	118.43	67.80	89.67	116.70	120.70	81.05	103.45
Under 10 years	96.77	118.87	82.33	97.90	78.87	115.27	84.40	92.7	111.00	122.75	89.10	92.20
Over 11 years	93.77	120.03	85.73	87.27	92.40	118.43	77.00	84.90	113.55	119.95	96.40	94.05

Companies established more than 11 years ago showed strong third quarter performance, but their expectations in economy, performance, and contribution indexes for the fourth quarter were pessimistic, being lower than those of their newer counterparts.

By main industry

Biotech, environmental, and precision optical industries showed the highest indexes in the third quarter, and the stagnation in internet services, semiconductors, and PC manufacture and components is expected to continue in the fourth quarter. The semiconductor and PC industries, which had the weakest economy and performance indexes in the second quarter, showed a further decline in the third quarter (44.43 economy index), and are not expected to improve much in the fourth quarter. The internet service industry, which showed lower indexes than average in the third quarter, is expected to sag further in the fourth quarter, due to falling sales

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The software and solutions industry showed relatively solid performance.

Table 3. Index by Industry

	Venture Economy			Venture Performance			Venture Contribution to National Economy		
	01.2/4	01.3/4	01.4/4	01.2/4	01.3/4	01.4/4	01.2/4	01.3/4	01.4/4
Total	121.23	82.57	96.10	128.13	94.53	113.93	121.10	89.80	96.10
Internet Services	127.77	80.93	71.43	111.07	76.20	76.20	120.85	78.55	92.85
Software, Solutions	124.83	85.00	98.33	126.70	108.33	128.33	127.15	85.00	100.00
IT Equipment, Components	121.83	86.93	108.70	132.03	86.97	126.10	107.75	93.50	100.00
Semiconductors, PC components/manufacture	79.67	44.43	86.67	90.83	60.00	104.43	99.95	66.65	80.00
Biotech, Environmental, Precision Optical	148.53	103.03	118.17	163.60	115.17	139.40	141.00	104.55	118.20
Other Manufacturing	127.20	90.13	86.43	139.53	106.17	97.53	128.85	100.00	90.75

and investment and especially worsened financing conditions. The software and solutions industry showed relatively solid performance in the third quarter, and fourth quarter performance is expected to rise further due to improving sales and operating profits. The third quarter's top performers, the biotech, environmental, and precision optical industries, are expected to see continued improvement.

Bottlenecks and solutions

Bottlenecks for venture companies included heightened competition, difficulty in acquiring sales channels, and worsened domestic financing conditions.

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Table 4. Bottlenecks, (%)

	Domestic Financing	Hiring Skilled Talent	Patent Regulations	Foreign Markets Financing	Sales Channels	Tougher Competition	Policy Confusion
Third Quarter	35.0	30.0	4.0	16.0	41.0	59.0	9.0
Second Quarter	23.8	52.3	2.3	16.9	26.9	5.4	16.2
First Quarter	22.9	54.3	4.8	28.6	21.9	33.3	11.4

The surveyed companies stated that they are attempting to target foreign markets.

percentage of responses citing difficulties in acquiring venture capital as a bottleneck also increased. To alleviate these bottlenecks, the surveyed companies stated that they are attempting to target foreign markets, increase marketing efforts, and revise their business models.

Discussion

The survey reflected the further deterioration of the venture market in the third quarter.

The survey reflected the further deterioration of the venture market in the third quarter which is expected to continue in the fourth quarter. With the continuation of the domestic and international economic uncertainties, demand contraction from advanced countries for semiconductors, IT equipment, and PCS is expected to result in reduced sales and falling prices for Korean venture companies. Another concern is the bearish domestic stock market, which is worsening the financing prospects of venture companies. The slowdown of the venture economy decreases facility investment and hiring, which lowers the contribution of venture companies to the national economy.

Asked about desired government policy, about 30% of venture companies proposed increased support related to financing, while reform of regulations and evaluation systems was also suggested. To relieve the financial crunch in the venture sector, the government should consider measures such as relieving loan restrictions so than investment of public funds can be expanded. In addition, policy measures are also needed to improve public and private evaluation systems. **VIP**