

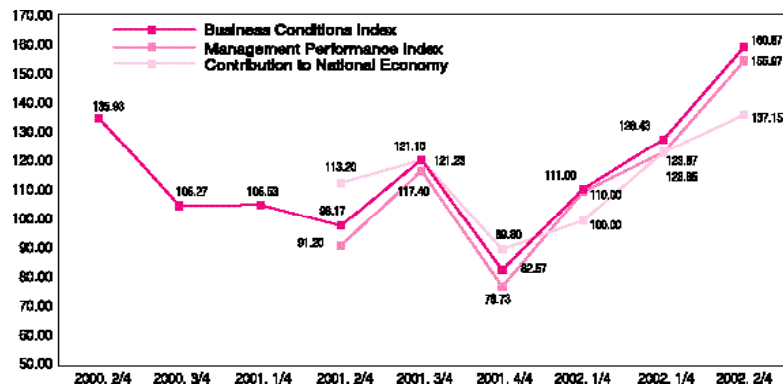
RESULTS OF HRI VENTURE COMPANY INDEX

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The indexes for the business conditions and management performance of venture companies fulfilled earlier forecasts, rising to the 120 level, and they hinted an economic recovery. In the third quarter of 2001, the business conditions and management performance indexes fell to the 80s due to the economic slump, intensified competition, worsened financing conditions, and stagnation of the IT market. After late 2001, with a recovery in the semiconductor market, an upturn in domestic demand and a relative improvement in exports, the business conditions and management performance indexes for the first quarter rose to 128.43 and 123.87 respectively.

Figure 1. Key Venture Company Indexes



- note: 1) Indexes are a weighted average of indicators
2) Indexes until the first quarter of 2002 are actual figures, second quarter figures are forecasts

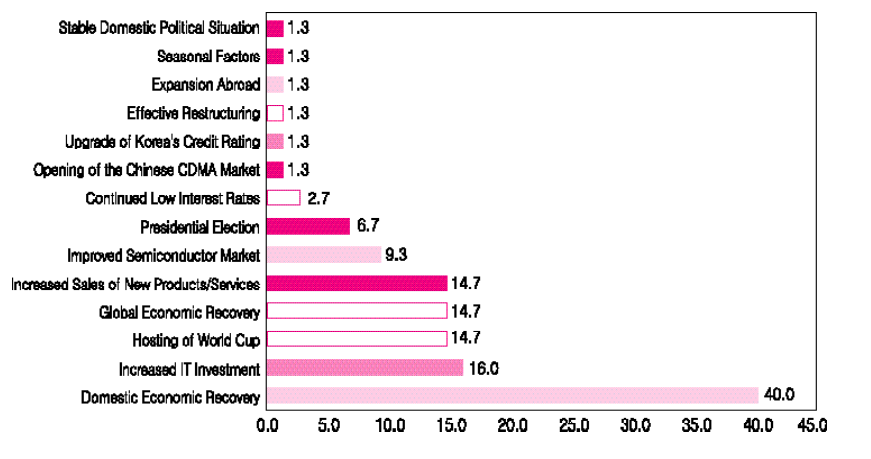
Prospects for the second quarter

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The second quarter is expected to see the business conditions index rise from 128.48 in the first quarter to 160.87, and the management performance index and contribution to national economy index rise to 160.23 and 137.15 from 115.60 and 123.85. This is because of factors such as the improvement in demand for IT

equipment and software and solutions, recovery of IT investment, as well as a positive outlook for export markets such as the US, and the approaching World Cup football tournament.

Figure 2. Factors in the Second Quarter Upturn
(multiple responses, %)



note: don't know/no response = 18.7%

Indexes by Industry, Company Size, Establishment Date

The semiconductor materials and equipment industries, the PC components and manufacturing industries, and the software and solutions industries showed record high performance in the first quarter and as well as forecasts for the second quarter.

The Internet services industry, which suffered from uncertainty regarding business model profitability and increased competition, saw its business conditions and management performance indexes remain at around 80 and 60. This slump is expected to continue in the second quarter.

The software and solutions industry, which had relatively strong performance, saw a decline in sales and operating profits in the first quarter, while investment, financing, and hiring increased significantly. In the second quarter, sales and profits are also expected to increase.

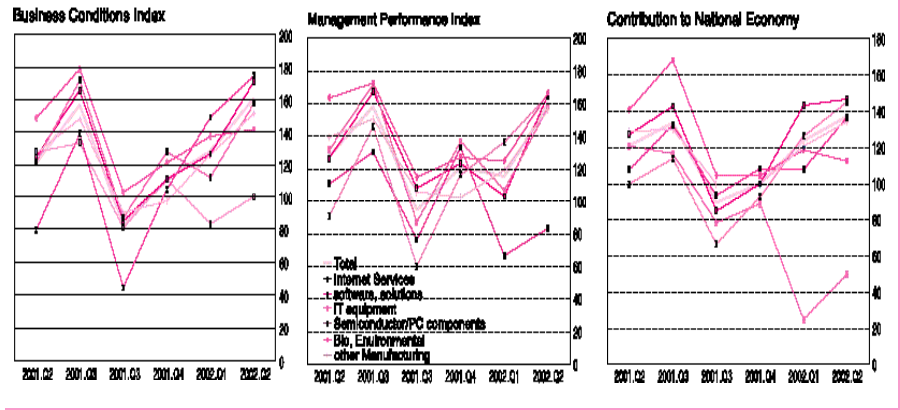
The semiconductor and PC industries, which were in a slump during the third quarter of 2001, saw improvements in sales, profits, and financing due to the semiconductor market recovery in late 2001. As a result, the industries saw their highest business conditions and management performance indexes yet in the first quarter of 2002, and this trend is expected to continue in the second quarter.

The IT equipment and component industries, which maintained steady performance levels, and the bio, environmental, and precision optical industries, which showed outstanding performance last year, recorded similar performance in the first quarter. In the second quarter, the indexes for these industries are expected to rise to the average level for all industries.

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The IT equipment and component industries, maintained steady performance levels.

Figure 3. Indexes by Industry



note: Fourth quarter 2001 indexes are actual, first quarter 2002 indexes are forecasts

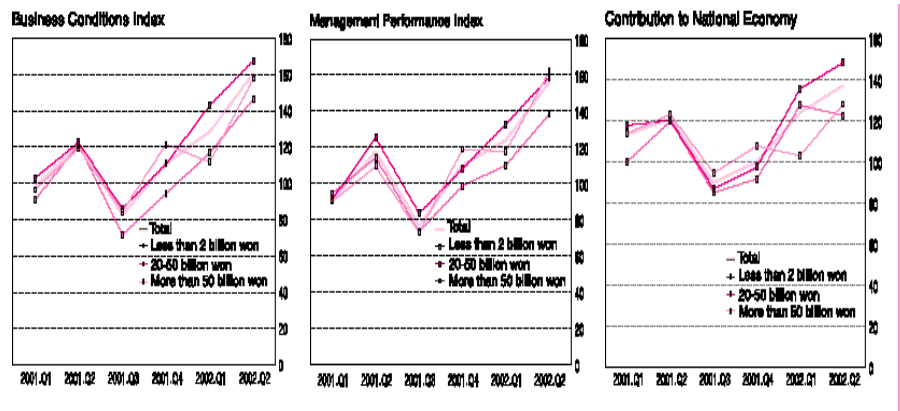
By company size

Companies with 2 to 5 billion won in capital showed the strongest performance in all categories, including operating profits, investment, and hiring.

For companies of all sizes, first quarter indexes and second quarter forecasts exceeded 100. In particular, companies with capital of 2 to 5 billion won saw relatively higher indexes. Companies with less than 2 billion won, which saw the worst performance in the fourth quarter of 2001 saw a business conditions index of 116.67 in the first quarter, which was lower than the average index for all sizes, while financing performance fell and the growth of sales was relatively weak.

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Figure 4. Indexes by Capital Scale



By company age

In the first quarter, companies that were established over 11 years ago showed a marked improvement in management performance, and in the second quarter, an overall recovery is expected regardless of the company's age.

In the first quarter, companies established less than 5 years ago saw a slowdown in their financing and operating profit growth, but an increase in sales and investment resulted in indexes that were around the industry average. Companies from 6 to 10 years old saw a slowdown in sales and operating profits, but financing, investment, and hiring improved significantly, resulting in indexes near the overall average.

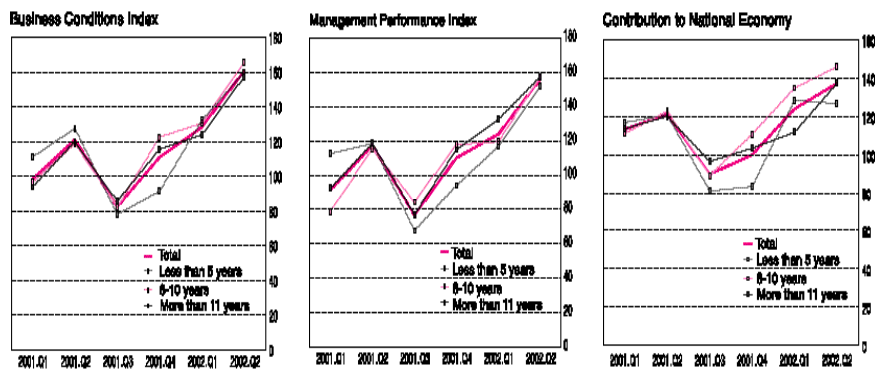
Companies that were founded over 11 years ago enjoyed the best management performance due to improved operating profits, sales, and financing. However, with a limited increase in hiring and investment, the business conditions and contribution to national economy indexes were below average.

In the second quarter, conditions are expected to improve for all companies regardless of age. Companies established 6 to 10 years ago are expected to steeply increase facility investment, while those less than 5 years old are expected to face continued difficulties in financing.

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Figure 5. Indexes by Company Age



Bottlenecks and solutions

Commonly cited bottlenecks include increased competition and the acquisition of specialized talent. The HRI survey found that while financing conditions improved somewhat, policy confusion also increased. 54.6% of responding companies cited "intensified competition" as the main bottlenecks, and this response was especially cited by IT equipment and component companies, manufacturing companies, and those that were established less than 5 years ago. Acquisition of specialized talent also remained a major bottleneck, being cited by 42.6% of respondents, and this problem was especially serious in industries such as software and solutions, semiconductors, and PC equipment and components.

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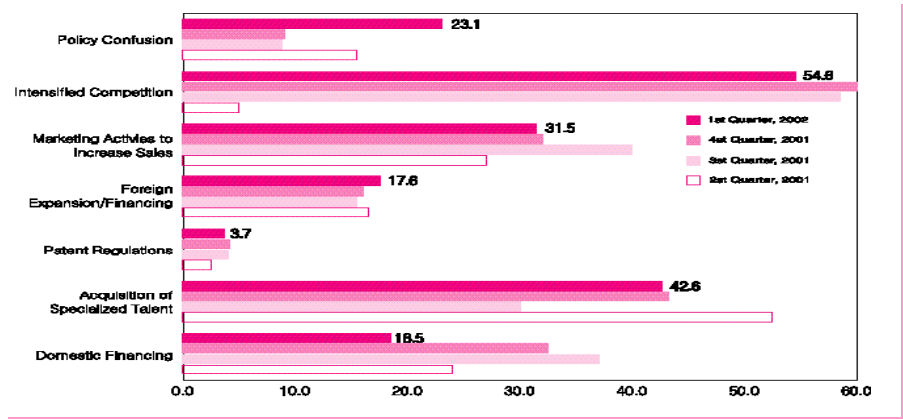
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31.5% of respondents cited “ marketing activities to increase sales ” as a bottleneck, especially in the bio, environmental, precision optical, and electrical machinery industries.

With the expansion of government-led funds and investment recovery in the venture capital sector, domestic financing conditions showed some improvement, being cited by only 18.5% of surveyed companies as a bottleneck. Meanwhile, policy confusion was cited by 23.1%, a steep increase from 9.3% in the previous quarter. This seems to be a result of the announcement of plans for “ stabilization of venture companies ” announced in late February.

Expansion abroad was cited by companies in the IT machinery, and components, semiconductor and PC, and machinery and electrical machinery manufacturing industries, as well as companies with more than 5 billion won of capital or that were established more than 11 years ago. The main cause of this is due to the fact that these companies have acquired a degree of competitiveness and are trying to expand into foreign markets.

Figure 6. Bottlenecks to Business (multiple responses, %)



To overcome these bottlenecks, companies are taking measures such as developing new products, establishing foreign subsidiaries, and improving in-house education.

To overcome these bottlenecks, companies are taking measures such as developing new products, establishing foreign subsidiaries, and improving in-house education. Companies are developing new products and technology (45.8%), cutting costs (13.6%), and diversifying businesses (6.8%) to deal with tougher competition. They are also considering expansion into new markets (14.7%) and acquiring foreign branches (14.7%) to create new sales channels.

To deal with the difficulty in acquiring specialized talent, companies are improving their education programs (17.4%), bolstering their compensation packages (13.0%), and planning to use professional search services (10.9%).

In an effort to gain more domestic financing sources, companies are planning to use policy funds and change their business models, while they are considering the establishment of local subsidiaries and strategic alliances to improve chances for foreign expansion and foreign financing. **VIP**