



LBInvestment

Recent Development and Trends: **Korean and Chinese VC • PE Market**



DISCLAIMER

This newsletter is for information purposes only. The contents in this newsletter has been mainly prepared by the information publicly available only and reflects prevailing conditions and LBI's views as of this date, all of which are accordingly subject to change. This material is confidential and may not be divulged, reproduced or redistributed without the express written consent of LBI.

LB INVESTMENT, 13FL., SHINAN BLDG., DAECHI-DONG, GANGNAM-GU, SEOUL 135-280, KOREA
DIRECT +82 2 3467 0547 FAX +82 2 3467 0530 LB_CHINA_FUND@LBINVESTMENT.COM

KOREAN ECONOMY & VC - PE INDUSTRY

IPO & ECONOMY

IPO Company Name	Date	Company Business
DYLNJ	14-Sep	Insulated Wires and Cables Maker
Kainos Medicine	10-Sep	Natural Sciences and Engineering
WAPS	24-Aug	Synthetic Rubber and Plastics
AJ Networks	21-Aug	Renting of Industrial Equipment Maker
Finetek	17-Aug	Manufacture of Electronic Components
FutureChem	13-Aug	Manufacture of Medicaments
Hyungkuk F&B	7-Aug	Manufacture of Beverages
Chips&Media	5-Aug	Software Development and Supply
Genolution	3-Aug	Natural Sciences and Engineering
Jungdawn	31-Jul	Meat Products
NSCompany	31-Jul	Heavy Construction
The Asia Business Daily	31-Jul	Internet Information Media Service
i3system	30-Jul	Manufacture of Electronic Components
Logisys	29-Jul	Computer programming and Mgmt.
Plumblin Life Sciences	28-Jul	Natural Sciences and Engineering

▪ **Korea Economy to grow 2.2% in Q2** The Korean economy kept losing momentum in Q2 2015 with GDP growth at 2.2% year-on year. The result, which marked the lowest pace in two consecutive years, was mainly driven by spillover effects from the MERS outbreak as well as ongoing export losses. The Bank of Korea foresees its economy growing 2.8% in 2015 and 3.3% in 2016.

▪ **Korea's CPI up 0.7% in August** The consumer price index remained at 0.7% year-on-year in August, which was in line with market expectation but was well below the Bank of Korea's target range of 2.5% to 3.5%. The publication reflected that the relatively higher price of food and alcoholic beverages than a decline in prices for transport and health services.

▪ **Korea FDI inflows up 49.9% in Q2** Though the FDI in the first half year declined by 10% year-on-year, the amount inward in Q2 surged 49.9% at USD 5.3 bn. compared to Q1, which was the highest amount over previous quarters

in three consecutive years as well as a sign of a momentum for investment recovery. Korean governor sees that the background of the increase was mainly due to the rise of strategic M&A after the FTA with China, rushing investment from middle-east countries, and constant capital input to the industry in components and materials.

DEAL ALERT

- **LB Investment and DSC Investment to have at least 10 times return on investment in Hizeaero Co., Ltd.**, the manufacturer of aircrafts parts for Boeing and Airbus. These two Korean VCs finished preparing for divestment as converting the preferred stocks they had held to the common stocks, with the ownership of 19.1% and 4.8% respectively. The fund investment for the company was KRW 5bn from the LB Investment and KRW 1.8bn from the DSC Investment.
- **Hizeaero to go public at a valuation of KRW 400bn.** The manufacturer of aircrafts parts, especially Center Wing Box, FTE, and other wing structures for Boeing and Airbus, is preparing for listing on KOSDAQ in November this year. IB industry sees that offering price will be set high for the reason of the market expectation towards aviation industry as well as the competence of the business structure of the Hizeaero, generating constant profit.
- **ToolGen to pass technology evaluations, being close to transferring the listing to KOSDAQ.** The KONEX listed bio-technology company has passed technology assessments from two credit-rating agencies, Korean Enterprise Data and NICE Information Service, which rated its technology of Genome Editing as 'A' and 'BBB' respectively, raising a possibility to be listed on KOSDAQ within this year. One of the firm's investors, LB Investment, expects to realize around 6 times investment return positing that the current price on KONEX would be the offering price for IPO on KOSDAQ. A plenty of professionals in the related industry see a robust growth of the company for its original technology of the Genome Editing.



KOREAN ECONOMY & VC · PE INDUSTRY

DEAL ALERT (cont'd)

- Korean VCs to invest in China for seeking jackpot.** According to Korean Venture Capital Association, the amount of total investment flowing to overseas companies by Korean venture capitals in the first half of this year was KRW 94bn, which is 9.8% of the total investment in the same period, and 72% of the foreign investment was injected to Chinese market. It was a drastic increase compared to the total offshore investment for last whole year, which was KRW103.6 bn. LB Investment made an investment in two Chinese companies, Bolome and Yinyuetai, USD 3mio and USD 5mio respectively. Stic Investment invested KRW 13bn to Shiante and Lindman Asia Investment put KRW 13.6bn to Tuna Asia Pacific. Most of Korean venture capitals seek to foreign companies for catch up the investment trend in broader markets in China and the US, creating synergy with it in their portfolios.
- 4:33 Creative Lab to hit its sales KRW 64bn, operating profit KRW 2.2bn in the first half year.** The sales surged by 28.4%, the change over the same period of last year, attributes to the success of existent games collaborated with masters such as 'Blade for Kakao' and of new released games, for instance, 'Alien Attack for Kakao'. The company will provide its games to China through Tencent, a China based internet serviced portal and to Taiwan and South-eastern countries via a partnership with Garena, a Singapore based internet platform provider to Asia.
- Dexter to expand a production base of visual effect to China.** As the Korea-based VFX firm opened its office in Beijing, the Dexter China, it inched up to reach their goal not only to make manufacturing base in China, a fast-growing market in VFX but to be the Asia hub for the industry. The company lured Chinese venture capital funds total USD 20 mio, USD 10 mio each from Wanda Group and Legend Capital.
- Tesco to sell Homeplus to Korea equity firm for USD 6bn.** The British grocery store chains said that it agreed to sell its South Korean operations, the Homplus, to a consortium of investors led by the Korea private equity firm MBK Partners for more than USD 6 billion after the competition with global buyout fund KKR. The consortium of investors includes Canada Pension Plan Investment Board, Public Sector Pension Investment Board of Canada and Temasek Holdings, a Singaporean investment company.
- Erae CS to acquire Delphi Korea.** The privately held Korean automotive parts maker won in the competition with the S&T Group to take over the Delphi Korea. Through the M&A deal, the company will also get the management right and it will make the company accelerate their strategic plan to expand its business globally.
- Korea's USD 50bn PEF market to boost vitality of its economy.** As the market size of private equity funds in Korea last year marked at USD 51.2 bn. by contracted amount of investment, it has become a main player of merger and acquisition in Korea. It took just 10 years, after legislating on the regulation for local private equity funds, to expand 50 times. Since the legal support, the number of private equity funds have increased to 277.
- Special law for private equity fund to be prepared** in order to reform the extant regulation, which relatively highly restricts the domestic buyout funds in comparison with foreign countries. The association for research on private equity fund consisting of professionals from academic circles, legal circles, and financial industry initiated the project in July 2015 with the support of Korean financial authorities.
- Hyundai Department Store to participate exclusively in a bid for Dongbu Express.** The consortium of Hyundai Department Store and Hyundai Home Shopping only partook in the main-bid for an acquisition of Dongbu Express, the third largest logistics company in Korea. After due diligences, the competition to acquire the company abated as several candidates renounced the opportunity. For one of the largest conglomerates in Korea, the Hyundai Department Store, has not have logistics subsidiary, the firm sees that it could have a synergy with the Dongbu Express to diversify its business.

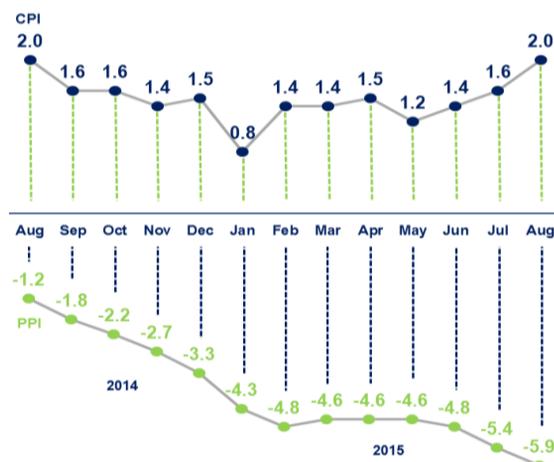
CHINESE ECONOMY & VC - PE INDUSTRY

ECONOMY & MARKET TREND

GDP Growth (y-o-y growth %)



CPI and PPI Index (y-o-y growth %)



- **China's 2Q'15 GDP grows 7.0%** amid concerns over data accuracy. For the second quarter, China government reported gross domestic product grew 7.0 percent year-on-year, beating several medias, for instance, Reuter forecast at 6.9 percent. A spokesperson for the China's National Bureau of Statistics said the figures weren't inflated and the improvement was "hard won". The tertiary industry led the GDP growth to 8.4 percent including the surge in finance sector at 17.4 percent.

- **China's CPI up 2.0% in August.** The consumer price index went up by 2.0 percent year-on-year in August. The index grew by 2.0 percent in cities and 1.8 percent in rural areas. The food prices increased by 3.7 percent, and the non-food prices slightly revealed a 1.1 percent rise. The prices of consumer goods went up by 1.8 percent and the prices of services grew by 2.2 percent.

- **China's PPI down 5.9% in August.** The Producer Price Index for manufactured goods decreased 0.8 percent month-on-month, and decreased 5.9 percent year-on-year in August. The purchasing price index for manufactured goods decreased 0.7 percent month-on-month, and decreased 6.6 percent year-on-year.

- **China FDI inflows surge 22% YoY in October to \$8.71bn.**

The growth accelerated from a 5.2-percent rise in July, as investments to the country's high-tech service industry saw a significant increase, a jump of 59.1 percent at USD 5.51 bn. Investments from Hong Kong, France and Macao saw fast growth, and those from European Union went up 14.4 percent to USD 5.12 bn.

DEAL ALERT

- **Alibaba to establish sports unit.** The Chinese e-commerce giant forms a sports department in September marking the official entry into the sector to transform the Chinese sports industry. Alibaba Sports Group, which is under the control of Alibaba Group, is co-invested with Sina Corp, an online media company, and Yunfeng Capital, a private equity firm co-founded by Alibaba Chairman Jack Ma.
- **Didi Kuaidi to fundraise USD 3bn for two months.** The Chinese ride-hailing company said in 9 September it closed a \$3 billion funding round with additional \$1 billion raising from China Investment Corp., Capital International Private Equity, and Ping An Ventures, which follows its initial \$2 billion in July, earmarking the largest ever for a venture-backed startup. The company plans to input the money into new business development, technology improvement, big-data research.
- **Uber to expand ride-hailing service in more Chinese cities.** Travis Kalanick, CEO of the US taxi-hailing service company announced that it plans to extend its service in China to 100 cities by 2016 from 20 cities in current. His remarks in Beijing, with an emphasis on the strategic partnership with Baidu, came one day after Uber China confirmed having raised \$1.2 billion.



CHINESE ECONOMY & VC - PE INDUSTRY

DEAL ALERT (cont'd)

- **Tujia to raise USD 300mio fund.** The China's Airbnb has raised \$300 million at a valuation of more than \$1 billion as Chinese vacation rentals site for expanding its service into Asian destinations popular with Chinese travelers such as Thailand, Indonesia, as well as Hong Kong. All-Stars Investment Ltd led the latest round of financing where also backs Xiaomi Corp, a Chinese smartphone maker.
- **Alibaba and Tencent to invest in Internet TV startup.** The two China's Internet giants announced in 12 August that they plan to invest in Whaley Technology, an Internet-TV startup, through China Media Capital (CMC), a China's leading media and entertainment fund. Whaley Technology, which was founded by CMC chairman Li Ruigang in April, now has four partners, CMC, Alibaba, Tencent, and China National Radio. The China National Radio is the holder of an Internet-TV license.
- **Dr.drinks to be Chinese Nespresso.** The shanghai-based company, iTaste, manufactures the Dr.drinks, an instant drink dispenser, like Nespresso but also with capsules for Chinese herb tea, ginger tea, and other traditional teas. It lets its users schedule a brew at their preferred temperature and strength even when they are away. The company finished registering a patent for its technology of machine making and fundraised RMB 10mio from an angel investors in China.
- **Food-tech startup Haochushi to raise RMB 100mio Series B.** The O2O platform to book private chefs in China announced the RMB 100 mio series B funding round from Cowin Capital, which follows Lightspeed China Partners. Xu Zhiyan, CEO of the company, made a remark in regards with a plan of the fund as expanding their service to bigger market scale throughout additional 10 second-tier cities, standardizing, and diversifying. The Shanghai-based firm currently provides its service to Beijing, Shanghai, Hangzhou, and Shenzhen with the options to select chefs specialized in different food categories.
- **Carlyle to invest in Beijing Ubox.** The investment RMB 530 mio, which is equivalent to USD 87 mio, would be input to the Chinese vending machine operator. Eric Zhang, managing director of the Carlyle Asia buyout team said "China's vending machine market is still at an early stage of development, with great potential for growth."
- **Anbang Insurance to conclude Delta Lloyd Bank buyout for USD 266mio.** The deal, which was first announced in December 2014, had been awaiting approbation from regulators. Following the completion of the acquisition, the company expects to realize synergy with the Belgian financial institution owing to its unique position as the domicile for EU headquarters to expand its business to the local and Chinese clients in Europe.
- **42 Chinese technology, media and telecommunication IPOs in the first half of 2015,** an increase of 75 % year-on-year according to a report from PricewaterhouseCoopers in September. Amanda Zhang, northern China technology industry leader in PwC said that the main reason for the positive figures was due to a more streamlined and transparent procedure for IPOs, making the Chinese exchange market more attractive. However, the momentum is expected to slow down in the second half given the recent capital market fluctuations. "The IPO slowdown creates opportunities for private equity companies, hedge funds and sovereign wealth funds because the financing demand of enterprises has always been strong.", said Amanda.
- **Silver Lake to invest USD 500mio in Qunar, a Chinese travel website, in June,** which is controlled by Baidu, a Chinese search engine. The US Private Equity announced that they would invest in \$330mio in the form of convertible bonds and the rest amount, \$170mio, would be injected from undisclosed investors. It was their second largest investment in Chinese companies following Alibaba Group in 2011



LB NEWS UPDATE

LB NEWS

1) The First Half of 2015 Strategy Meeting



LB Investment held its first half-year strategy meeting in Coex Convention and Exhibition Centre on 26 June, 2015. In the morning section, each division discussed investment strategies and shared it for achieving the company's mid - long term goal. William, Vice President of LB Investment Shanghai Office, made his opinions in regards with the fast-changing funding environment in China and analysis of several exit strategies, i.e. M&A and IPO. Furthermore, Roy, who is also a staff of the Shanghai Office, suggested future scheme for Xin San Ban, the China's third over-the-counter equity exchange board regulated by China Securities Regulatory Commission, with giving a pith of the current market situation. As the last speaker, Bryan Boncheon Koo, Chief Executive Officer of the LB investment, gave

a discourse on the issue of investment strategies stage by stage, indicating the company's vision. Through the strategy meeting, all staffs finally finished the first half-year officially, having a sense of passion for the company's growth over the next half-year.

2) Inauguration Ceremony of Creative Economy Bio Fund



There was an inauguration ceremony of the Creative Economy Bio Fund on 8 June. LB Investment had held a general meeting for formation of the fund on 27 May, through which LG Electronics and Korea Venture Investment Corporation co-invest, and finally completed all the procedure for organizing it on 2 June.

The fund, which is led by LG Electronics, a leading company in the sectors of bio, health, renewable energy, and information technology, was organized in cooperation with Chung-buk Creative Economy Innovation Center in the aim of supporting start-up companies to grow with passion, creativity, and spirit of challenge. Start-up firms targeted towards will be the bio-technology companies (Bio-medical, Green-bio, White-bio,

Convergence-bio) which is also located in Chung-buk region. The fund is expected to make a high performance given the synergy from the competence of LG Electronics and its several subsidiaries, i.e. LG Life Science, and the know-how of LB Investment to help grow venture firms systemically.

Jun-won Yoon, president of Chung-buk Creative Economy Innovation Center, said in the Inauguration Ceremony, "The formation of the fund will help O-song leap as a major center of bio industry in Korea. The innovation center has a plan to foster a comfortable environment for venture firms to do their business as using the competence of the LG Electronics." Jongchan Park, head of Chung-buk Small and Medium Business Administration, also said, "I sincerely welcome that LG Electronics, a Korean leading company, supports start-ups and makes investments as social contribution activities for realizing the Creative Economy.", and continued to opine, "I really hope a lot of small and medium companies found by Chung-buk Creative Economy Innovation Center make their own success stories through the Creative Economy Bio Fund."

LB NEWS UPDATE

LB NEWS

3) LB made new investments in the following portfolio companies in 2Q 2015:

1) **Icure**

- **Founded In:** 2000
- **Investment Stage/Type:** Later-Stage (Series-B)
- **Industry:** Bio/ Pharmaceutical/Cosmetic (Patch Plaster)
- **Website:** www.icure.co.kr
- Icure runs two main divisions, the one is a sector for development of new pharmaceuticals which holds the leading technology of TDDS (Transdermal Drug Delivery System) possessing Patch Plaster Pipeline as the unequaled tech-prowess in the industry, and the other sector is cosmetic businesses as their cash-cow with the products of hydrogel masks applied by the technology of patch plaster development and premium cosmetic lines based on polymer chemistry process.



2) **Engain**

- **Founded In:** 2011
- **Investment Stage/Type:** Early-Stage (Series-B)
- **Industry:** Bio/ Pharmaceutical (Non-Invasive C.G.M.S)
- **Website:** www.engain.co.kr
- Engain is a healthcare company focusing on the items of Non-Invasive C.G.M.S (Continuous Glucose Monitoring System), which enables the analysis of glucose directly inside the body of patient without blood collection and, therefore, without pain. The other main item of the company is the Intravascular Embolic Agent distinguished by high quality of properties with price competitiveness.



3) **Factorial Games**

- **Founded In:** 2014
- **Investment Stage/Type:** Early-Stage (Series-B)
- **Industry:** Game (Mobile Game)
- **Website:** www.factorialgames.com
- Factorial Games, established in March 2014, is a mobile game company currently developing mobile RPG in a grand scale. The competent founders have experiences in doing businesses successfully with several large-sized game companies in Korea. Chief Executive Officer, Lee Dong Gyu, who was the core developer of Dekaron in online MMORPGs, and Chief Technology Officer, Jo Jong Guk, are key figures.



4) **Path Finder 8**

- **Founded In:** 2015
- **Investment Stage/Type:** Early-Stage (Series-B)
- **Industry:** Game (Mobile MMORPG)
- **Website:** n/a
- Path Finder 8 is a game company which focuses on developing field MMORPG. The core founding members were game developers in big Korean game companies such as NCSOFT, NHN, Neowiz, and Netmarble for partaking in the production of large-size RPG games and mobile games.



LB NEWS UPDATE

LB NEWS

3) LB made new investments in the following portfolio companies in 2Q 2015 (cont'd):

5) Yinyuetai

- Founded In: 2009
- Investment Stage/Type: Mid- Stage (Series-B)
- Industry: Online Video Streaming (Music Video)
- Website: <http://www.yinyuetai.com>
- Yinyuetai is the largest independent online/mobile platform in China for streaming music videos. The company also provides online communities to their users, mostly the music fans, through online and mobile interfaces. The contents of music videos, which are obtained with official licenses, range from Chinese singers to the singers in other Asian countries such as Hong Kong, Japan, and Korea.



6) Bolome

- Founded In: 2014
- Investment Stage/Type: Early Stage (Series-B)
- Industry: ICT Service (Mobile E-commerce App)
- Website: <http://bolo.me>
- Bolome is a platform of e-commerce for purchasing overseas. The difference among other competitors is that the company provides the video service of live-broadcast in sellers' stores as local reporters in each country interview with buyers about the products, which effects on ameliorating the concerns over the authenticity of the products. The company also has the strength in its price competitiveness.

