Venture Capital in Thailand
(Report for OSMEP & Thai VC Association)

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Focus of the Study

- Two Projects: VC and Business Angels
- **Project One - Venture Capital:**
  - Study VC Firms in Thailand
  - Impact of the lack of fully-developed Institutions:
    - Financial Institutions
    - Legal Institutions
  - Comparative analysis: Thailand, Taiwan, Korea, Vietnam, Philippines, & Japan
Focus of Study

- **Project Two - Business Angels:**
- Invest personal funds in SMEs
  - Study Thai-Chinese informal investors
  - Impact of the lack of fully-developed institutions
  - Comparative analysis: Business Angels in the Thailand, Philippines & USA
Research Methodology

- 9 VC firms in the study
  - Most significant players
  - *The Guide to VC in Asia, 2006*
  - Thai VC Association

- Structured, face-to-face, interviews
  - July, November 2005
  - July 2006
Research Methodology

- 20 Business Angels
  - Thai-Chinese ("Overseas Chinese")
  - Thai-Chinese Business Association

- Structured, face-to-face, interviews
  - Tested in August 2006
  - December 2006-April 2007
Venture Capitalist Profile

- Highly educated
- Significant VC experience
  - 13.3 years
- Significant business experience
- Mainly financial backgrounds
- Active, hands-on investors
  - Monitoring = 50% of time
VC Firm Profile

- Median fund size: 720 million baht
- Average VCF age: 10.6 years
- 3.3 partners managing 1.6 funds
- 11.2 investee companies/VCF
  - 30% - early stage
  - 70% - growth & mature SMEs
- 4.9 board seats/Venture Capitalist
Different VC Investment Strategies

- Industry focus
- Investment Stage(s):
  - Growth & Mature SMEs
  - Recovering SMEs
    - 1997 financial crisis
- Convertible debt
- IPO & Trade Sales Exit Strategies
VC Industry Characteristics

- In transition to two levels:
  - Level 1: Foreign VCFs doing large deals
  - Level 2: Local VCFs doing small deals
- Foreign VCFs are leaving
- Regional Funds replacing Country Funds
- Lack of Thai competitive advantage
VC Industry Characteristics

- **Smaller Deals**
  - Focus on Thai Chinese family businesses
  - Smaller Gov’t. sponsored VC funds

- **Corruption is decreasing but still significant**
  - Improving transparency
  - Better legal institutions
  - In-depth VC due diligence
VC Industry Characteristics

- Inexperienced VCs
  - Do not analyze investment risk
  - Too much focus on finance; lack analysis on operations
- Highly-leveraged SMEs
- Inconsistent tax incentives for investors
VC Industry Challenges

- Finding good deals
  - Lack of quality SME managers
  - Family businesses lack professionalism & resist restructuring
  - Successful entrepreneurs unwilling to sell equity
VC Industry Challenges

- Closing a deal is difficult
  - Lack of legal protection for shareholders
  - VCs are demanding majority control
  - Entrepreneurs don’t understand VC
  - Lengthy due diligence & negotiation processes

- Exiting is very difficult
Value Added by VCs

- Monitoring financial performance
- Evaluate management
- Strategic planning
- Entrepreneur’s confidant
- Evaluate acquisitions
- Work with board
Problems with VC Investee Companies

- Ineffective senior management
  - 14 CEOs removed by VCs

- Ineffective functional management
  - 12 functional managers removed by VCs
VC Investment Performance

- **Investee company performance:**
  - 27% above expectations
  - 38% below expectations
  - 35% meeting expectations

- **Fund performance:**
  - 40% above expectations
  - 40% below expectations
  - 20% meeting expectations
Comparative Analysis
(Global Competitiveness Report)

- Venture Capital Score
  - Competitiveness ranking
    - 5 variables
  - Institutional ranking
    - 5 variables
  - Start-up competitiveness ranking
    - 5 variables
### Venture Capital Score: Developed Countries

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>VC Score</th>
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<tbody>
<tr>
<td>Thailand</td>
<td>40.5 (4)</td>
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<tr>
<td>Taiwan</td>
<td>22.1 (1)</td>
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<tr>
<td>Korea</td>
<td>34.3 (3)</td>
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<td>Japan</td>
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<td>(United States)</td>
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## Venture Capital Score

### Developing Country:

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<td>Vietnam</td>
<td>47.4</td>
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</table>
Taiwan VC Model

- Competitive advantage in IT
- Strong linkage to US Silicon Valley
- Strong entrepreneurial propensity
- Supportive tax incentives
- National emphasis on education
- Experienced domestic VCs with US connections
Recommendations (Research studies)

- Develop robust IPO market
  - Most important driver of VC investment
- Create an efficient entrepreneurial ecosystem
  - Reduce time to start a business
  - Increase availability of capital
  - Increase availability of qualified personnel
- Continue to develop cultural support for entrepreneurs
  - GEM study – Thailand is #2
Recommendations (cont)

- Improve legal protection for minority shareholders
- Enforce more transparent corporate governance
- Reduce country risk
  - Corruption, political uncertainty, capital controls
Recommendations (cont)

- Allow foreign VCFs to invest and partner with domestic VCFs
- Develop less punitive bankruptcy laws
- Use Taiwan’s VC industry as a role model
Business Angel Profile

- Highly educated
- Significant business experience
  - Investing for 16.1 years
- Mainly operation’s backgrounds
- Very active, hands-on investors
  - Monitoring = 70% of time
- 2.4 board seats/Business Angel
Business Angel Profile (cont)

- Median fund size: 90 million baht
- Deal range: 4M (initial) - 50M baht
- 3.6 partners/deal
- 3.0 investee companies/BA
  - 47% - early stage
  - 41% - growth & mature stage
  - 12% - other
Different BA Investment Strategies

- No exit strategies
- Focus on industries they understand
- Identify significant profit & growth potential opportunities
- Work with the family business for funds and deals
BA Industry Characteristics

- Weak legal protection
  - High business risk
- Government corruption
  - High levels of bureaucracy/red tape
- Thai businesses are inefficient
  - Lack QC standards
  - Family businesses are too flexible
  - High levels of nepotism
BA Industry Characteristics

- Networking is important
  - Difficult to find reliable partner
  - Rapidly changing markets
  - High need for capital
- Easy to start a business
  - Supportive financial/legal institutions
  - Low labor costs
  - Focus on customer
BA Industry Challenges

- Unstable political environment
- Competitive business environment
  - Low profitability
  - Difficult to get reliable data
  - High personnel turnover
  - Low barriers to entry
  - Limited distribution channels
  - Bad work habits
BA Industry Challenges

- High financial risks increase costs
  - High funding costs/strong baht
  - Foreigners don’t understand Thailand
  - Shortage of skilled labor
- Weak legal framework
- Inefficient government
Value Added by BAs

- Strategic planning
- Formulate marketing plans
- Monitoring financial performance
- Operational planning
- Introduction to customers
- Product developments
Problem with BA Investee Companies

- Competition
- Ineffective functional management
  - 58 functional managers removed by BAs
- Ineffective senior management
  - 11 CEOs removed by BAs
BA Investment Performance

- Investee company performance:
  - 29% above expectations
  - 36% below expectations
  - 34% meeting expectations (1.7% too early)

- Fund performance
  - 35% above expectations
  - 25% below expectations
  - 40% meeting expectations
BA Recommendations

- More govt. support for SMEs & VC
  - More IB focus for SMEs
  - Emphasize start-up successes
  - More professional entrepreneurs
  - Better education of entrepreneurs
  - Financial support for SMEs
  - Better access to SOEs for SMEs
BA Recommendations

- Improve the investment climate
  - Better support from financial institutions
  - More govt. investment in basic industries
  - More govt. support for tourism
  - More focus on traditional Thai practices
    - Traditional medicines
  - Investment in education & technology
  - More stable baht
BA Recommendations

- Better political stability
  - Eliminate corruption
- More equitable legal system
  - Better balance between SMEs & big business for govt. influence
- More reliable public information
  - Reduce SME bureaucracy
Business Angel vs. VCs

- Smaller deals than VCs
- BAs invest more in early-stage SMEs
- BAs more hands-on investors/close to home
- Better returns than VCs
  - 75% of BAs meeting/exceeding goals
  - 60% of VCs meeting/exceeding goals
SE Asian Business Angels: Thailand & Philippines

Similarities:

1. Invest in early-stage companies
2. Network and co-invest
3. Very active, hands-on investors
   - Strategic planning
   - Financial monitoring
4. Outperform VCs
SE Asian Business Angels: Thailand & Philippines

Differences:

1. Filipino BAs primarily non Chinese
2. Thai BAs make fewer investments
3. Thai BAs do bigger deals
4. Thai BAs work more with family
Business Angels: USA vs. SE Asian

- SE Asian invest for longer time periods
- SE Asian are more active investors
- USA more likely to have exit strategies
- BA clubs have formed in USA
- SE Asian BAs are not typical BAs
  - Operate more as Sequential Entrepreneurs
How to integrate VCs & BAs?

- Both invest in SMEs
- Both face similar challenges
- Work together as investors
- BAs: early-stage investors
- VCs: follow-on investors