



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

Country/Region	VC Score
Thailand	40.5 (4)
Taiwan	22.1 (1)
Korea	34.3 (3)
Japan	25.9 (2)
(United States)	(5.9)

Venture Capital Score Developing Country:

Country/Region	VC Score
(Taiwan)	(22.1)
Thailand	40.5
Philippines	42.1
Vietnam	47.4

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

NEXT?

- 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