

OPINION

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Characteristics and Implications of Funding for Unicorn Companies

“Unicorn” is a term that describes an unlisted company with a valuation of over \$1 billion, and global economies are striving to create an environment suitable for nurturing unicorn companies. Compared to their overseas counterparts, Korean unicorn companies feature a relatively smaller size of cumulative and growth stage-specific investments and a longer period for being qualified as a unicorn. This suggests that the Korean venture capital market has room for improvement in terms of swift and systematic funding for unicorn companies. In global markets, a range of capital market investors, such as venture capital (VC), corporate venture capital (CVC), corporate investors, private equity (PE) funds, hedge funds, mutual funds, and sovereign wealth funds, are involved in the funding for unicorn companies, and crossover investors play a crucial role in the funding landscape. This is also true for Korea as the participation of various capital market investors is required for smooth funding for Korean unicorns. To this end, the AUM of private funds investing in unlisted innovative firms should increase further and relevant policy support is required. In addition, asset management regulations should be eased from a mid-term perspective to allow equity-type public placement funds to invest in unlisted stocks. Moreover, PE funds need to expand their investments in technology companies while CVC firms should be encouraged to make a strategic investment.

Investment ecosystem for unicorn companies

The term “unicorn” refers to an unlisted company valued at over \$1 billion, and the number of unicorn companies is widely used as a measure of a country’s startup ecosystem and the performance of its venture capital market. Unicorns play a leading role in innovation

* All opinions expressed in this paper represent the author’s personal views and thus should not be interpreted as Korea Capital Market Institute’s official position.

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and growth in various fields of the Fourth Industrial Revolution, drawing on convergence technologies and platform business models. Major countries are making policy efforts to create an environment for nurturing unicorn companies. Korea is no exception, recognizing fostering unicorns as an important policy task.

To promote the proliferation of unicorn companies, it is essential to satisfy the demand for substantial funding arising from their rapid growth, which requires the establishment of a vibrant venture capital ecosystem. As unicorns have significantly higher growth potential and corporate value compared to ordinary startups, their entire funding needs are hardly met by traditional startup investors, primarily venture capital (VC). In addition to VC, a wide range of capital market investors, including corporate venture capital (CVC), corporate investors, private equity (PE) funds, hedge funds, mutual funds, and sovereign wealth funds, are crucial to the fundraising efforts of unicorn companies. Against this backdrop, this article examines the funding status of 1,150 Korean and overseas unicorns as of the end of 2022, and presents implications for the Korean venture capital market.¹⁾²⁾

Funding size of domestic and overseas unicorn companies

In an analysis of the distribution of 1,150 unicorn companies across countries as of the end of 2022, 614 companies are located in the US (53.4%), 155 in China (13.5%) and 68 in India (5.9%), with the top three countries collectively representing 72.8% of the sample. Korea ranks 8th with 21 unicorns. By business type, 21.1% of unicorns are involved in fintech, 20.2% in Internet, 9.0% in e-commerce, 7.9% in bio-healthcare, 7.7% in artificial intelligence, 5.5% in logistics, and 4.8% in cybersecurity.

By investment size, Series C, D, and E amount to \$109.7 billion, \$116.1 billion, and \$80.7 billion out of the total investment worth \$689 billion, representing 15.9%, 16.8%, and 11.7%, respectively.³⁾ The final investment stage where a company is qualified as a unicorn is

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- 1) The funding status of domestic and global unicorn companies discussed in this article is a summary of the author's issue report (Park, Y.R., 2024, Characteristics of unicorn company funding and implications for the Korean venture capital market, KCMI Issue Paper 24-01).
 - 2) This article covers a total of 1,150 unicorn companies, including 1,143 companies registered in the global unicorn list released by CB Insights as of the end of 2022 and an additional 7 Korean unicorn companies not included in the said list. Their funding activities are analyzed using detailed investment data sourced from Crunchbase.
 - 3) Generally, startups secure funding in stages in the order of seed, Series A, B and C. Seed funding involves raising funds for product development or market research, Series A for funding needed after revenues are generated or users are acquired, Series B

funded by Series C (24.8%), D (23.8%), B (15.2%), and E (12.7%). The cumulative investment before being qualified as a unicorn amounts to an average of \$290 million. In terms of the average investment of each series by funding stage, it starts at \$5.1 million for seed funding and continuously increases from Series A to Series F, with an average investment of Series F reaching \$230 million. This indicates a surge in funding requirements as unicorn companies grow. Apart from series funding, the average investment made by corporate investors and private equity (PE) funds stands at \$296.6 million and \$260.8 million, respectively, and venture loans also contribute to the funding for unicorns with an average of \$144.9 million.

Major investors in Korean and overseas unicorn companies

Major investors in Korean and overseas unicorns include not only VC, a key player in startup investment, but also PE funds primarily investing in the expansion stage, hedge funds with no constraints on investment targets, mutual funds primarily investing in the stock market, and CVC-corporate investors with strategic investment motives. In addition, other investors including sovereign wealth funds, commercial and investment banks, and family offices are all participating in the funding for unicorns.

Among these investors, there are those employing an investment strategy known as crossover investment. Crossover investors tend to strategically invest in a potential unicorn company in its pre-IPO stage and hold onto their investments even after the listing of the unicorn, aiming for improving investment returns. Their investment period spans from as short as six months to as long as three years following the time of expected listing. They tend to engage in the later growth stage following Series C, focusing on the final investment round before the IPO. Crossover investors are involved in only 1.1% of the investment round during the early seed funding stage, while their participation climbs to 19.1% at the time of Series D investment, having passed through Series A, B, and C stages.

The fundamental reason behind the proliferation of crossover investments in foreign countries lies in the rapid growth of the private market. This growth has allowed unicorn companies to raise sufficient funds in their pre-IPO stage, prompting them to either avoid public offering or go public at high public offering prices resulting in a decline in post-IPO stock

for funding necessary after the product-market fit is validated, and Series C for business expansion funding, such as entering new markets, acquiring other firms, or developing new products.

returns. With investments in potential unicorns in their pre-IPO stage, these investors aim to generate returns through both risk and listing premiums. Considering that unicorn companies continue to grow after going public, crossover investors employ a strategy to hold onto their investments even during post-IPO periods.

According to Crunchbase, crossover investors are involved in 403 (9.3%) out of the analyzed 4,195 investment rounds for unicorn companies. By investor type, hedge funds take up the highest share of the total investment rounds by crossover investors at 46.9%, followed by PE (20.1%), VC (12.4%), asset management firms (11.2%), and sovereign wealth funds (8.4%). The total number of crossover investors is 49, constituting only 3.4% of the sample of 1,423 investors, suggesting that some crossover investors are actively and repeatedly investing in unicorn companies. In particular, hedge funds, sovereign wealth funds, and asset management firms exhibit a substantial share of crossover investments relative to a total number of investments for each category, accounting for 81.5%, 72.3%, and 50.0%, respectively.

Different funding sources for Korean and overseas unicorn companies

At a time when Korean startups began to qualify as unicorns, most of the funding was sourced from foreign capital, which sparked concerns among policymakers. However, amid the continuous trend of Korean companies being qualified as unicorns, the share of foreign investors in funding for unicorn companies has gradually dropped, well demonstrated by an increase in the share of Korean investors participating in investment rounds. Since mid-2019, six out of 14 unicorn companies have been funded primarily by leading Korean investors during the funding process from Series C up to the unicorn round. If the scope is narrowed down to unicorns with detailed funding data (including Exicon), only one out of the total six unicorns was funded primarily by Korean investors before mid-2019.

Despite such growth, the average total investment in unicorn companies made until unicorn rounds amounts to \$290 million overseas, while it stands at only \$200 million in Korea.⁴⁾ By investment stage, the average investment size of Korean unicorn companies is less than half of that of overseas unicorn companies at all levels including seed funding, Series A to E

4) As of the end of 2022, the average corporate value of unicorns amounts to \$3.23 billion for overseas companies and \$2.73 billion for Korean companies, with the difference not being statistically significant. In addition, the correlation coefficient between the average cumulative investment size of unicorn companies in 21 major economies and GDP merely stands at 0.017 ($p=0.9$), suggesting that the average funding scale for unicorn companies bears no relation with the size of the economy.

investments and PE investment. Furthermore, the time required for qualifying as a unicorn is 9.6 years on average in Korea, which is about 2.4 years longer than the average 7.2 years for overseas companies.

Implications for the Korean venture capital market

Compared to overseas markets, the Korean venture capital market features a relatively smaller size of cumulative and series investments and a longer period required for qualifying as a unicorn. This suggests that the Korean market has room for improvement in terms of the expansion of investment funds and the swift funding system. Above all, efforts are needed to increase investment sizes through active co-investment among Korean investors and ultimately through larger funds under management. On top of that, the participation of various types of investors in the venture capital market is crucial for the proliferation of unicorn companies. With such participation, crossover investors not only improve the corporate value of potential unicorn companies but also play a role as anchor investors in increasing the likelihood of a successful IPO and contributing to post-IPO stock price stability.

Currently, Korean unicorn companies in their late growth stages are predominantly funded by some VC and PE firms, a handful of ordinary private placement funds, and some policy financial institutions. However, the Korean venture capital market lacks diverse types of investors, akin to those observed in overseas markets. In particular, Korea's ordinary private placement funds, which are most similar to overseas hedge funds, may face challenges in handling late-stage investments in high-growth companies due to their relatively small sizes, which necessitates policy support for the expansion of investments. In the short term, it is necessary to include ordinary private placement funds as a legitimate investment manager for the secondary policy funds aimed at activating the exit market. It is also worth considering providing incentives for joint management between VC asset managers and general partners (GPs) of private placement funds. Additionally, the proposed Business Development Company (BDC) could play a pivotal role in expanding late-stage investments by supplementing existing VC investment sources in Korea and enabling Korean financial investment firms to accumulate VC investment capabilities.

As for equity-type public placement funds, it is recommended to consider easing asset management regulations to a limited extent in the medium term, allowing them to invest in

unlisted stocks to boost investment returns. However, allowing the investment of equity-type public placement funds in unlisted stocks requires certain preconditions related to market infrastructure, such as the activation of the over-the-counter (OTC) market for unlisted stocks and the establishment of valuation standards for unlisted stocks. Meantime, the Korean PE sector, which has achieved remarkable growth over the past 20 years, should consider increasing investments in technology companies to diversify investment strategies and secure more investment opportunities. This also keeps pace with overseas PE markets marked by active investments in technology companies. Lastly, there is a need to implement policy programs that encourage the strategic investments of CVC, given the significant role of CVC and corporate investors in the scale-up and value enhancement of startup companies.