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VENTURE CAPITAL TREND WORLDWIDE AND POLICY IMPLICATIONS FOR VIETNAM

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Abstract
Venture capital plays an important role in promoting science and technology; as a result, improving the nation's economy and social. By capturing venture capital investment trend worldwide, developing countries like Vietnam can focus on the right way to invest capital in the right sector and stages to improve venture capital sector.

Keywords: Venture Capital, Vietnam

Venture Capital and trend over the world

Venture capital was formed in 1946 in US but it grew dramatically in late 1970s. In Europe, venture capital was started from 1980s. Venture capital is generally defined that the capital which invest in business with new ideas and risky but potential high-reward (Gompers & Lerner, 2001). This term is slight differently worldwide: in the US, venture capital is used to mention capital invests in high-tech and small firms while in Japan, it is legally recognized to firms which invest more than 3% of total sales in research and development (Sung, Gibson, & Kang, 2003). Venture capital is supplied from a number of sources such as institutional investors like commercial banks, investment banks, insurances firms, investment funds, pension funds; angel investors[1], who are less risk averse, directly invest in the firm and require prefer shares (Mason and Harrison, 1997).

There are six main stages that venture capital could be involved such as seed money stage, start-up stage, growth stage and pre-exit stage.

Table 1. Firm's development stages and source of finance

Development stages	Characteristics	Purpose	Financial status	Financial sources
Seed money stage	Company formation and initial research and development	Successful development of product	Little or no product; little or no revenues	Entrepreneur's own money, relatives, friends and

[1] Angel investors are also called informal investors, angel funders, private investors, seed investors, business investors

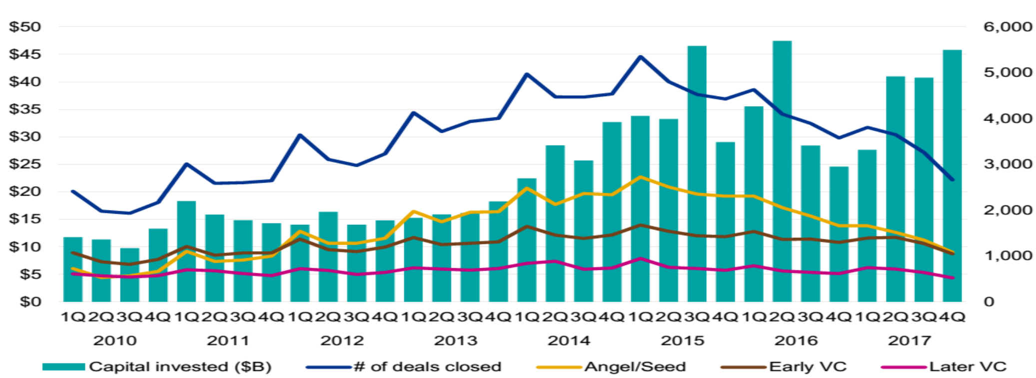
				angel investors
Start-up stage (Early stage)	Product's initial testing, licensing and marketing	Successful market entry	Capital requirement much more than revenues	Venture capitals, lenders but no no-recourse loans
Growth stage	Market entry and business expansion	Expanding revenues and market shares	Getting revenues or profits	Add-on investment by early stage investors or new venture capitals
Pre-exit stage	Expansion or acquisitions	Initial public offering (IPO)	General profitable but still requiring additional capital	Bridge of mezzanine financing

Source: Klonowski, 2007

Venture Capital Worldwide

As can be seen from Figure 1, the value of venture capital invested over the world increased dramatically from 2010 to 2015, reaching to nearly $45 billion, before experiencing down trend thereafter, dropping to over $20 billion at the end of 2017. It is clear from the bar chart, the number of closed deals climbed steadily from 2012 to beginning of 2016 (more than 5000 deals), after that, it went down slightly in Q3 and Q4 of 2016 to under 3000 deals, before reaching to over 5000 deals in Q4, 2017.

Figure 1. Global venture financing by stages



Sources: KPMG (2018)

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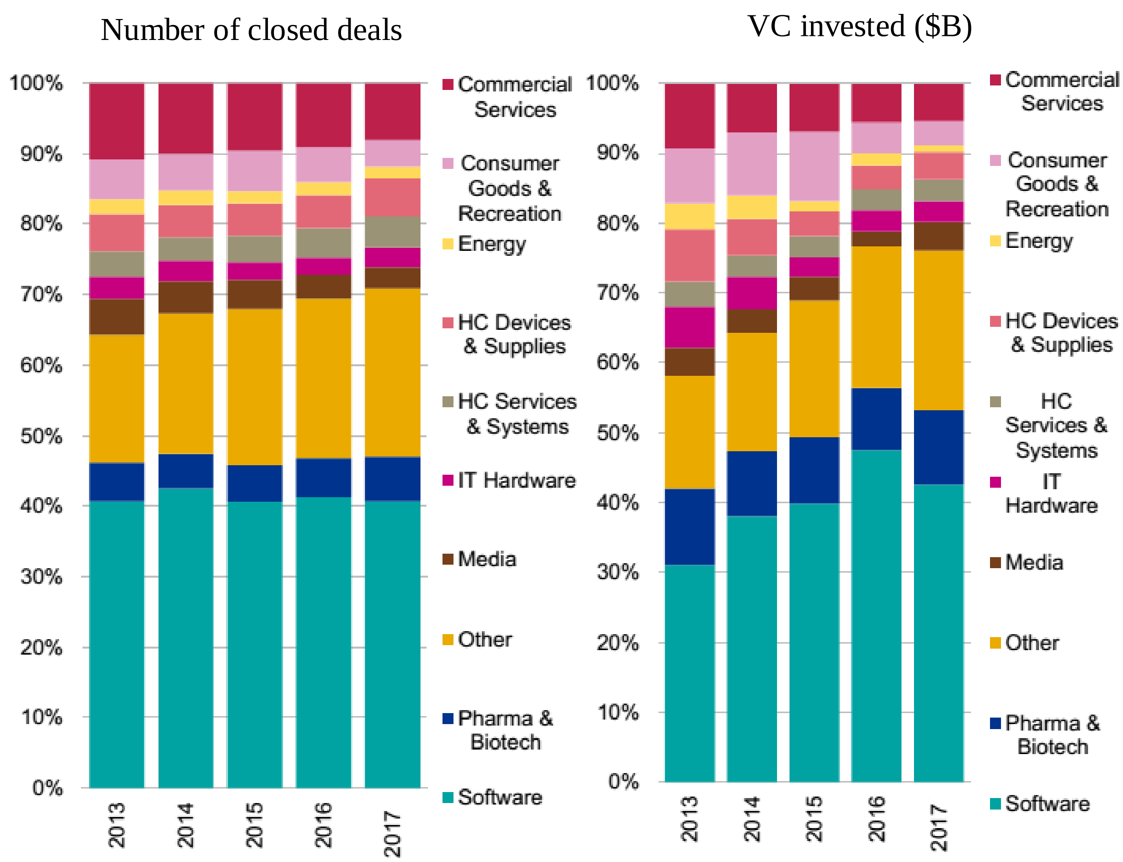
In addition, value of venture capital invested in seed stage was overwhelmed with early stage and later stage, with over $20 billion, over $10 billion and just over $5 billion, respectively (in Q1, 2015). At the end of 2017, venture capital invested in seed stage and early stage was both nearly $10 billion, compared with under $5 billion in later stage.

Regarding to investment sector of venture capital, software was the most popular sector of this kind of capital, both closed deald (nearly 40%) and the number of money invest in (ranging from over 30% to nearly 50%). Energy was the second largest sector of venture capital worldwide, account for more than 20% closed deals and invested, followed by commercial services sectors.

Figure 2. Global financing trends to VC-backed firms by sectors



Sources: KPMG (2018)

Furthermore, Figure 2 illustrates the financing of venture capital-backed firms by continent. Americas took the largest percentage of both closed deals and venture capital invested. In 2013, 64% closed deals in the world was in US while 74% venture capital was come from this country, in 2017, the numbers were 65% and 57%, respectively. It is interesting to note that, in period

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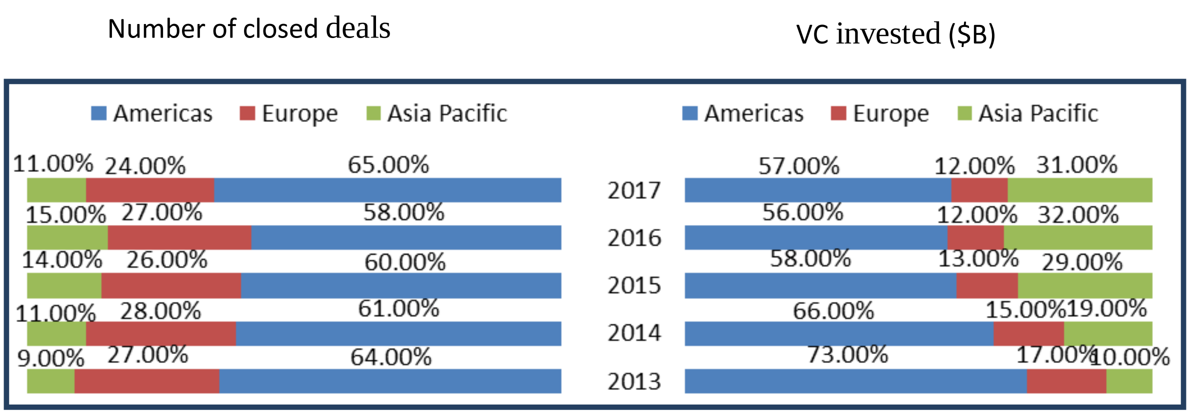
2013-2017, Europe was the second largest region of closed deals, followed by Europe, while Asia Pacific had received money from venture capital more than Europe.

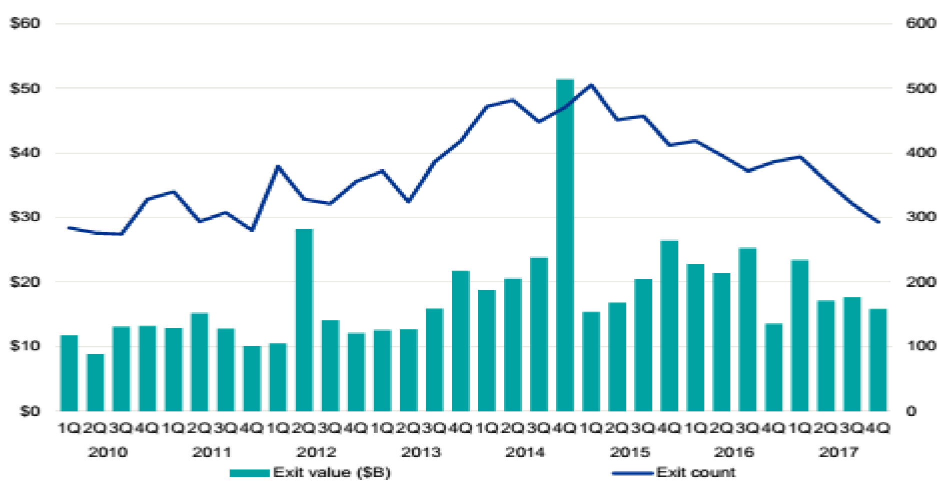
Figure 3. Financing of VC-backed companies by continent



Sources: Prequin Global Private Equity & Venture Capital Report, 2017

Figure 4 shows the number of exit deals and the value of them in 8-year period (2010-2017). The total exit projects increased steadily from 2010 to Q4, 2014 (from 290 to more than 500 deals) before experiencing the decreasing period thereafter. The amount of exit capital moved up and down but it turned around $12 -25 billion, except in Q4, 2016, with more than $50 billion. Furthermore, venture capital exit activity had climbed sharply from 290 deals in 2010 to more than 50 deals in 2016. In the following years, the number of venture capital exits decreased gradually, dropping to 300 deal in 2017 (approximately 40%).

Figure 4. Global venture-backed exit activity



Sources: KPMG (2018)

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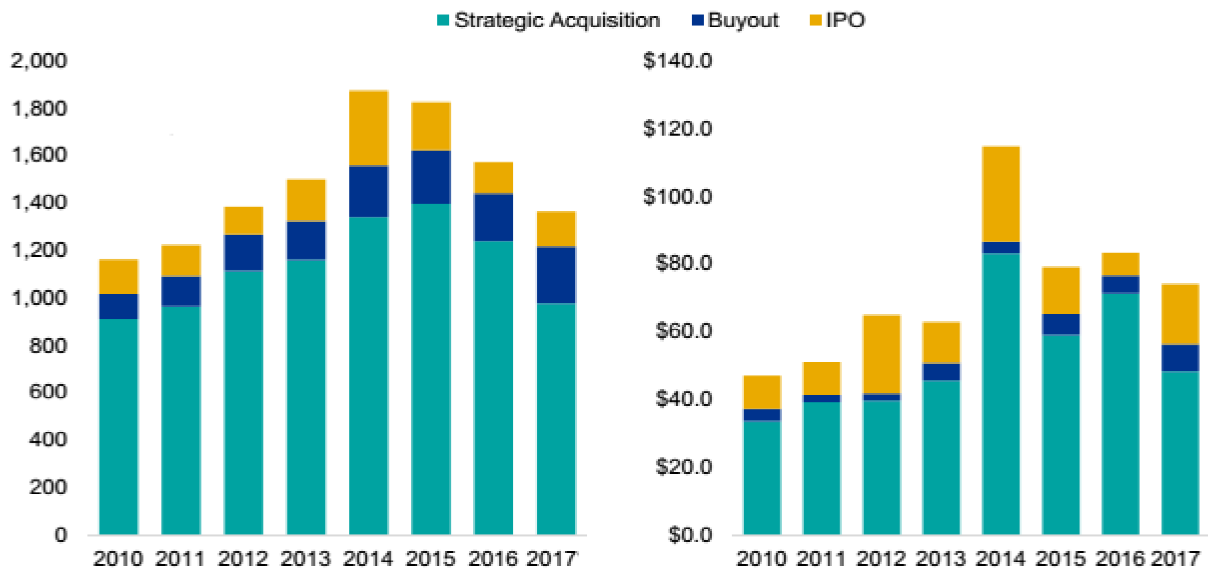
In the total of exit deals, strategic acquisition accounts for the largest deals as well as value of deals, with more than 70% of deal and 60% of total value.

Figure 5. Global venture-backed exit activity

By deals By value ($B)

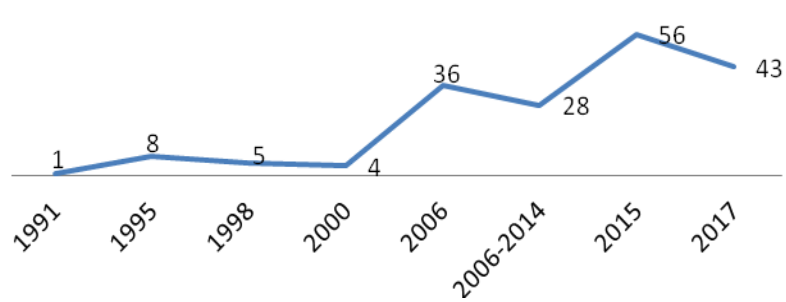


Sources: KPMG (2018)

Venture capital in Vietnam

Venture capital had started investing in Vietnam from 1991, with the value of $10 million. After that, the number of venture capital fund increased over the years, reaching to 36 funds in 2006 and 43 funds in 2017.

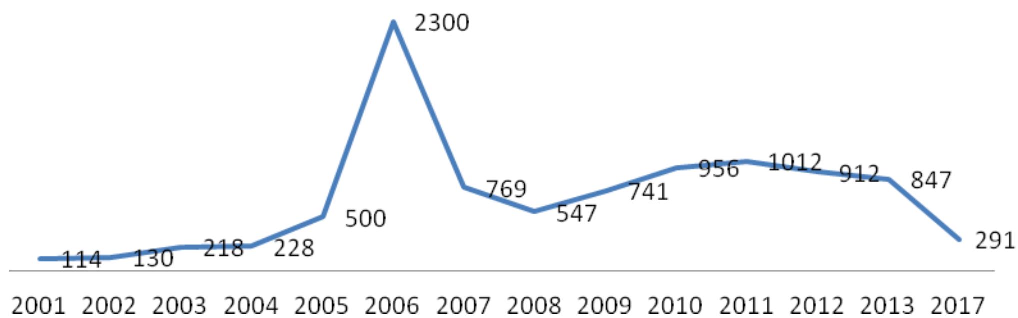
Figure 6. The number of venture capital fund in Vietnam



Source: Thomson One, Deal Street Asia, Ministry of Science and Technology (Vietnam), 2017

In addition, value of venture capital in Vietnam is also showed the upward trend, from $114 million in 2001 to $500 million in 2005. Particularly, top of venture capital was in 2006, with nearly $2.3 billion. Then, capital raising dropped in the following years but still steadily increase, with $769 million, $741 million and $847 million in 2007, 2009 and 2013, respectively. In 2017, the value of venture capital invested in start-up business was $291 million.

Figure 7. Value of venture capital in Vietnam ($ Million)[2]



Source: Thomson One, Deal Street Asia, Ministry of Science and Technology (Vietnam), 2017

It is interesting to note that, till now, there is no Vietnamese's official venture fund with full functions. All of venture capital fund above are foreigner. In Vietnam, there are only some venture capital funds for start-up business such as The Ho Chi Minh City Start-up Investment Fund (2016); Binh Phuoc Fund for Start-up (4/2018); FPT Venture Fund (2015); Vietnam Start-up Foundation (2015); Vietnam Innovative Start-up Accelerator (2016). Those venture capital funds were established by Vietnam government or combined with financial institutions both domestic and oversea. However, venture capital fund could invest in any stage of business as growth stage, pre-exit stage, not only start-up stage like this. Therefore, in the long-term, the demand for setting up venture capital fund with full function in Vietnamese investment community is necessarily.

Furthermore, in recent years, Vietnamese government has recognized the importance of venture capital for the development of national economy, and has created many favorable conditions to promote this kind of capital. In particular, Vietnamese government had released a number of Circulars, Decrees and Resolutions to support business, especially for small and medium-sized enterprises. For example, Resolution 19-2016/NQ-CP (28/4/2016) on major tasks and solutions to improve the business environment, enhance national competitiveness, orientation to 2020; Project 884/QĐ-TTg (18/5/2016) to support the national innovation system until 2025; Notice No.66/TB-VPCP (27/4/2016) to review the implementation of the Enterprise Law and the Investment Law, in order to remove obstacles and unreasonable points.

[2] In 2017, data is only collected from start-up business

It is clear to note that, start-up stage is only the second stage of the firm's development. Therefore, to pave the way to create venture capital fund to invest in all stages of business, it is necessary for Vietnamese to recognize the venture capital trend worldwide, get the lessons and prepare all the needed environment conditions. In this research, we are going to have some implications for Vietnam:

Firstly, the government should encourage investment in high-tech sector, especially in software industry. It can be done by giving favorable investment conditions such as tax, lending interest rate to support entrepreneur establishing new companies.

Secondly, in case of venture capital mobilizing, government also supports investors by decreasing individual income tax. By doing this, investors would consider invest in venture capital fund instead of investing in safer investment channels such as bond or saving accounts.

Thirdly, the government should define clearly the characteristics of venture capital firms and venture capitalists. Venture capital firms and venture capitalist are those who willing taking high risk, gaining high return in the future. Therefore, if government do not distinguish between them and regular investor, to help them having favorable investment conditions, this will not encourage them pour money into highly risk investment fields – venture capital sector.

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