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A Case Study on DH's M&A of Woowa Brothers: Exit of Korean Startup by Global Funds

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This case study examines the corporate merger between Germany-based Delivery Hero(DH) and the South Korean startup Woowa Brothers, the largest-ever corporate merger in the history of South Korean startups. Although there exist multiple South Korean startups that attained unicorn status through investment by a foreign company, the strong national identity associated with "Minjok" (the Korean name for Nationality) generated significant criticism on the merger and acquisition(M&A) deal. Moreover, the approval of the M&A by the Korea Fair Trade Commission(KFTC) had also attracted considerable attention, taking up to two years for approval due to concerns about potential competition restrictions and deterioration in consumer welfare. Taking into account the competitive landscape of the domestic and international food delivery app market, the global investment environment, and the regulatory environment for South Korean startups, this case study seeks to derive managerial insights for the exit strategy of future South Korean startups. Woowa Brothers had steadily grown through raising more than 500 billion KRW in investments from 2011 to 2018. However, by 2019, the influx of new competitors and intensified marketing competition in the domestic market had created significant financial burdens, and there was a growing trend of seeking returns on investments in IT startups and platforms at the global level. In 2019, the local IPO market was relatively limited, startups had lower valuations, and there were substantial restrictions on domestic corporate investments in South Korean startups by major domestic companies. As a result, South Korean startups had to rely on foreign capital. In Woowa Brothers' case, with the need for venture capital(VC) to recover 88% of its stake, the M&A approach with DH was considered a viable exit strategy compared to an initial public offering(IPO) strategy with a stake structure comprising numerous foreign investors. Given DH's strong interest and understanding of the Asian market, this merger was deemed the best choice for all three parties: VC, Woowa Brothers, and DH.

Key Words: Startup, Venture Capital, Financial Investor, Strategic Investor, M&A

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Ⅰ. Introduction

Over the course of six years from 2015 to 2020, an average of approximately 72 companies in South Korea exited through IPO(Initial Public Offering). However, considering that an average of about 10,000 startups were established each year during this period, the proportion of startups that can achieve exit through an IPO is notably limited, standing at around 0.7%(Ryou, 2021). Against this backdrop, in 2019, the Germany-based food delivery service operator Delivery Hero(DH) evaluated Woowa Brothers at approximately $4 billion, leading to the largest-ever corporate merger in the history of South Korean startups. As a result, Woowa Brothers became the sixth unicorn in the startup ecosystem of South Korea, alongside companies like *Coupang, Krafton, and Viva Republica.* Up to 2021, 380 South Korean startups had received investments from foreign global funds, accumulating a total investment amount of 801.6 billion KRW. For instance, *Daangn Market* backed by a foreign venture capital(VC) from its fund of funds(i.e., *Motae funds*), became a unicorn by attracting a Series D investment of 178.9 billion KRW. Similarly, Woowa Brothers, *Viva Republica, Zigbang* secured substantial investments from global funds during the later stages of their investment, propelling them into unicorn status(KVIC, 2021).

In the examination of the growth trajectories of domestic startups, a common trend observed during subsequent investment stages is the pronounced reliance on foreign capital. Nevertheless, this does not necessarily mean that domestic large corporations were devoid of the necessary capital or lacked the foresight for investing in startups. In South Korea, if domestic large corporations(e.g., *chaebol*) attempt to acquire domestic startups, they often encounter regulatory constraints that were originally designed for existing domestic large corporations. and public sentiment against the expansion of large corporations(e.g., killer acquisitions, forcing out mom-and-pop stores). Consequently, investments by domestic large corporations in the form of mergers and acquisitions(M&A) within the domestic startup landscape have been notably limited. Due to the constraints within the domestic investment environment, a growing influx of foreign capital had been observed in the South Korean startup ecosystem. Notably, global funds have displayed an early and consistent interest in South Korean startups, actively participating in their initial and subsequent investment rounds, significantly contributing to the growth of these startups into unicorn companies. Especially in 2019, the South Korean startup landscape appeared to be more favorable for raising investment capital through M&A rather than IPO. This shift was influenced by several factors, including the relatively small scale of the domestic IPO market, which proved challenging for startups to go public, as well as the generally lower valuations attributed to startups in the domestic context. These circumstances led to a heightened dependence on foreign capital within the South Korean startup ecosystem.

However, Woowa Brothers faced notably negative sentiment domestically in the aftermath of the M&A deal. From the standpoint of domestic consumers, the word *'Minjok'* held symbolic significance, and *Baedal 'Minjok'* was strongly perceived as a Korean-owned enterprise created by Koreans. Consequently, the news of its acquisition by a foreign company was met with criticism, including expressions of disdain and mockery, such as betrayal of the nation. The greater concern about the M&A deal was that, upon acquiring both *Baedal Minjok* and *Yogiyo,* DH and Woowa Brothers would become a dominant player in Korean's food delivery market. The two major concerns of the Korea Fair Trade Commission(KFTC) was restrictions on competition and consumer welfare. First, the KFTC concerned about potential anticompetitive behavior. In 2019, the KFTC did not categorize Woowa Brothers and DH as competitors in the same market as *Coupang Eats* or *Naver.* Instead, the KFTC explicitly limited DH and Woowa Brothers on the food delivery app market. In this context, the market share of Woowa Brothers' *Baemin* and DH's *Yogiyo,* and *BaedalTong* was expected to amount to 98% of the market. Thus, the M&A of Woowa Brothers and DH could lead to a data monopoly, given the acquisition of over 140,000 restaurant information and related franchise data. The KFTC feared that control of large amounts of data might give DH and Woowa Brothers an unfair advantage over competitors, allowing them to use their market power to harm existing competitors and hinder new competitors' entry. If DH utilized user behavior analysis for efficient marketing, it could possibly exclude existing competitors from the market. Additionally, considering the nature of the delivery industry, which requires significant efforts to secure consumers and restaurants during the initial stages, the merger of DH and Woowa Brothers might impede the entry of new companies(Jeon, 2020). Another concern was raised on the consumer welfare. According to the KFTC, *Baemin's* primary source of revenue comes from a fixed commission charged monthly from restaurants, while *Yogiyo* charges fees proportionate to the order amount. The fixed-rate system had been disadvantageous fee structure for *Baemin.* The existence of *Yogiyo* had acted as a constraint, preventing *Baemin* from altering its profit model. However, if the M&A between Woowa Brothers' *Baemin* and DH's *Yogiyo* is granted, *Baemin* could relieve the competitive pressure from *Yogiyo* and revise its fee structure from fixed-rate to percentage-based. Considering the fundamental reason is to enhance profitability, the consolidation of *Baemin* and *Yogiyo* under the same umbrella may lead to an increase in the overall effective commission rate borne by the entire restaurant group(Yu, 2021).

Thus, it raises the question of whether such criticism could have been avoided had a domestic large corporation merged with Woowa

Brothers, or if a different South Korean startup had been the target of acquisition by foreign capital. In this light, this case study looks into the 2019 merger between DH and Woowa Brothers, taking into account the competitive dynamics in the domestic and international food delivery app market, the global investment environment, and the regulatory landscape for South Korean startups. Using Woowa Brothers as a case study of a unicorn company, we aim to derive managerial insights that can inform the strategic decision-making for future exits of South Korean startups, In this way, we contribute to the broader understanding of the growth dynamics of South Korean startups and the impact of their exit strategies on the domestic startup ecosystem.

This case study is structured as follows: In Section 2, we review the theoretical background regarding startup growth and exit strategies, while examining the two main types of startup investment. Section 3 introduces the growth trajectory of Woowa Brothers, exploring their capital acquisition from domestic and international investors, shareholder relations, and the M&A processes undertaken for domestic business expansion. Section 4 analyzes the circumstances leading up to Woowa Brothers' corporate merger in 2019. Specifically, we investigate the competitive landscape within the domestic food delivery app market, the environment for attracting both domestic and international investments, the reshaping of the international food delivery app market, and DH's strategic decision-making. Finally, we discuss business insights and policy recommendations in Section 5.

Ⅱ. Theoretical Background

2.1 Startup growth and Exit Strategies

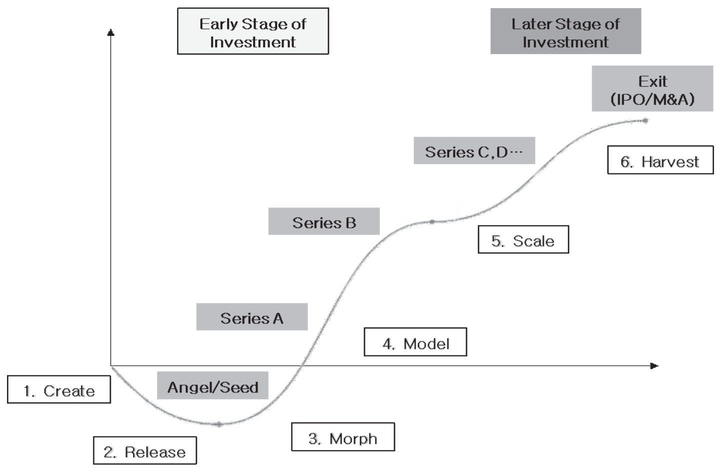
In the startup ecosystem, the death of valley phenomenon is typical, where only a few companies overcome the initial challenges to survive. However, successful startups navigate these difficulties, mature, and ultimately exit through M&A or IPO. According to the startup growth model proposed by Love(2016), startups progress through six stages following a J-curve: Create, *Release, Morph, Model, Scale,* and *Harvest*.

The first stage is the *Create* phase, where a business is initiated based on an innovative idea, a team, and the essential capital. This stage primarily focuses on establishing the initial business concept and securing capital. Particularly in the early stage of investment (Seed), even if a business model has yet to develop fully, angel investors, accelerators, crowdfunding, and governmental support consider investment based on the founders' capabilities and their ideas' growth potential. The second stage, *Release,* involves launching a product to the target market, usually through prototyping or beta testing. During this phase, the startup team secures Series A investments following the Seed stage, receives feedback from the market, and incorporates these insights to improve the product and service. The *Release* stage is critical for avoiding the pitfalls common in the early stage of entrepreneurship, such as overconfidence in the initial idea, technological preoccupation, and a product-centric mindset. The third stage is *Morph,* where the startup changes its product and business model based on customer and market feedback. This often includes pivoting, a strategic adjustment where the startup shifts its product, service, or business model in response to market feedback. Through this process, startups aim to establish the most optimal business model and enhance their objective business viability. In addition, startups typically secure investments from Pre-Series A to Series A funding rounds. Based on the optimized business model, the fourth stage, *Model*, is where startups prepare to enter the market and establish distribution channels. Investment rounds from Series A to Series B are conducted during this stage, and VCs usually become actively involved as investors.The fifth stage is the *Scale*. Startups that have overcome the chasm establish their business model and embark on the accelerated growth of their business(Scale-up). Investors enter the subsequent investment stages, with Series C through Series D investments, and large-scale fund managers, hedge funds, and investment banks join in. The sixth stage, *Harvest*, represents the actual revenue generation of the startup. The startup progresses through scaling, organizational development, and business model stabilization. For startups aiming for even more significant growth, they may continue to attract investments up to Series D, E, and F. Subsequently, based on their enterprise value, startups evolve into different categories like Scale-Up, Scaler, Unicorn, and Decacorn. Depending on their business strategy, startups can exit through various means such as M&A, IPO, dividends, and stock options(Kim et al., 2019).

Startups have two primary methods of exiting, which are IPO and M&A. An IPO is when startup founders publicly make their private company shares available to external investors. This method offers opportunities for startup founders to diversify the company's assets for existing investors and raise new funds to support the startup's growth. On the other hand, M&A functions as a crucial means for startups to achieve growth strategies such as market expansion and acquiring new technologies. However, it is challenging for investors to evaluate a startup's value accurately, and the combination process between the bidder and target startups may be complex due to differing systems and cultural differences between countries(Ragozzino, 2009).

2.2 Financial Investors vs. Strategic Investors

Capital raising is how startups secure funding, and acquiring the necessary capital at the right time is crucial for a startup's growth. Startups have various capital-raising options, but one of the most well-known methods of



Source: Modified from Love (2016)

〈Figure 1〉 Model of Startup Growth Stages and Investment Flow

raising funds is through VC. VC provides not only financial capital but also industry-specific knowledge, business insight, management expertise, and access to potential customers and partner contacts, playing a vital role in the development and performance of startups (Huang and Knight, 2017). VC investment is an influential factor explaining differences in startup growth, particularly in the early stages of startup development(Hellmann and Puri, 2000). VC also enhances a startup's valuation to recover investment funds successfully using its diverse portfolio. However, VC investment has its downsides, as it could lead to significant management interference or even founder removal when founders have lower ownership stakes than the VC. Founders often encounter the dilemma of balancing wealth and control, and those who prioritize preserving control over their company tend to be more cautious and passive in attracting external investments(Wasserman, 2008).

Specifically, there are two types of investors: Strategic Investors(SI) and Financial Investors (FI). SI and FI differ in their purpose and approach when investing in startups(Kim et al., 2015). SI is driven by interests beyond financial returns. Their goals include collaboration and synergy with the invested startup, tracking market trends, acquiring cutting-edge technologies, and identifying new business opportunities. If there exits notable synergy between the startup and SI, it may open the possibility of M&A in the long run, which can be a crucial factor to consider when strategizing a startup's future(Lee and Park, 2018). On the other hand, FI seeks to maximize the value of their investment, recover their investment funds, and seek profits. Accordingly, FI maintains a relatively neutral stance compared to SI regarding startup monitoring(Ryou, 2022).

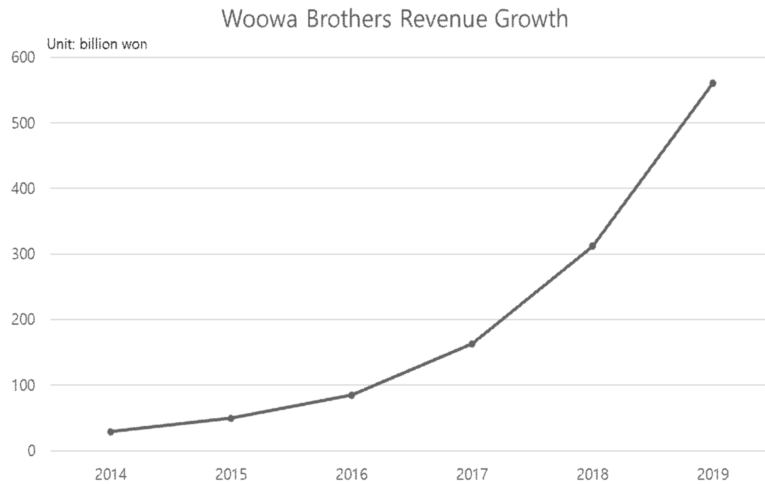
Cooperating with investors is critical, and choosing between SI and FI involves numerous considerations for startups. In most cases, startups seek FI to maintain neutrality and independence, especially in their early stages. FI primarily provides capital and minimizes interference with the startup's management by the founders. However, some startups actively consider SI, even in the early stages, because SI adds value through their business acumen, experience, capital, and market expertise. Startups can harness these synergistic effects early, allowing them to grow faster and gain a competitive advantage(Startup Alliance et al., 2021).

However, engaging with SI may expose startup founders to threats such as exclusive contracts and priority claims that can compromise their managerial control. Countries such as the United States, China, United Kingdom, and India, allow multiple voting shares for startup founders to pursue their vision and long-term plans. Multiple voting shares are crucial for adjusting corporate governance while protecting founders' authority. However, as multiple voting shares have yet to be introduced domestically, Korean startup founders face the risk of relinquishing managerial control(Park, 2020).

III. Growth Trajectory of Woowa Brothers

The domestic food delivery app market underwent significant growth, overcoming initial challenges and space constraints since the launch of *Baedaltong* in April 2010, followed by *Baedal Minjok* in June 2010 and *Yogiyo* in August 2012. The market's rapid growth was due to the widespread adoption of personal smartphones, which led to the emergence of several similar platforms(Song, 2021). *Baedal Minjok*, developed by the startup Woowa Brothers, is a mobile food delivery platform that offers delivery services for nearby restaurants. The founder, Bong-jin Kim, a former designer and CEO of Woowa Brothers, is dedicated to delivering a unique user experience and convenience for consumers. The unique marketing strategies of Woowa Brothers helped build a strong brand. In 2012, Woowa Brothers introduced a new payment method, marking a significant growth of 2 million monthly orders (Choi, 2015). Subsequently, in 2014, they achieved 10 million cumulative app downloads, and by 2018, this number exceeded 36 million, solidifying their position in the delivery service market(Lee, 2018). Their revenue also experienced rapid growth, increasing from approximately 30 billion KRW in 2014 to about 320 billion KRW in 2018, establishing their dominant position as the market leader in the domestic food delivery industry(Park, 2020).

Woowa Brothers secured investments from



Unit: billion KRW	2014	2015	2016	2017	2018	2019
Revenue	29.1	49.5	84.9	163	312	561
Operating Income	-15	-24.9	2.5	21.7	56.8	-8.6
Net Income	-15.9	-24.9	2.7	21.2	-16.1	-45.3

Source: DART (http://dart.fss.or.kr/)

〈Figure 2〉 Woowa Brothers Revenue Growth 2014-2019

various domestic and international sources to support such significant growth and expansion. Below, Table 1 summarizes the investment status of Woowa Brothers. Since founding *Baedal Minjok* in 2010, Woowa Brothers had received substantial investments. In 2014, they obtained 40 billion KRW from a Goldman Sachs PIA. In 2016, they secured 57 billion KRW from Hillhouse Capital Group. In 2017, they received 35 billion KRW from Naver. Furthermore, in 2018, they attracted significant investments totaling 360 billion KRW from Sequoia Capital, Hillhouse Capital Group, and the Government of Singapore Investment Corporation(GIC)(Park and Kwak, 2020).

In 2018, with a substantial investment, Woowa Brothers accumulated a total investment of 506.3 billion KRW, and their company's valuation exceeded 3 trillion KRW(Kang, 2018). As shown in Table 2, in December 2018, Woowa Brothers became the sixth South Korean unicorn company alongside *Coupang*(e-commerce), *Yello Mobile*(startup alliance), *L&P Cosmetics* (cosmetics), *Krafton*(gaming), and *Viva Republica*(fintech)(Park, 2019).

Over one year, starting in 2015, Woowa Brothers conducted six M&As to improve their shortcomings and foster the expansion of their domestic operations. In Table 3, Woowa Brothers achieved vertical integration by combining manufacturing, distribution, and logistics. Firstly, in May 2015, they acquired

〈Table 1〉 Investment Status of Woowa Brothers

Investment Date	Investment Round	Investment Amount(KRW)	Investors
July 2011	Angel	300 million	Bon Angels (South Korea, VC)
February 2012	Series A	2 billion	Alte Ventures, Stonebridge Capital, IMM Investment (USA, South Korea, VC)
March 2014	Series B	12 billion	Alte Ventures, Stonebridge Capital, IMM Investment (USA, South Korea, VC)
November 2014	Series C	40 billion	Goldman Sachs Principal Investment Area (US, Private Equity Firm)
April 2016	Series D	57 billion	Hillhouse Capital Group(China, VC)
October 2017	Series E	35 billion	Naver(South Korea, Large Corporation)
December 2018	Series F	360 billion	Sequoia Capital, Hillhouse Capital Group, Singapore Investment Corporation (GIC) (US, China, Singapore)
December 2019	Exit		M&A with Delivery Hero

Source: Modified from Park and Kwak (2020)

〈Table 2〉 Major South Korean Unicorn Companies

Year of Establishment	Ranking Order	Ranked Date	Company Name (Valuation)
2013	1	May 2014	Coupang (9 billion dollars)
2012	2	November 2014	Yello Mobile (4 billion dollars)
2009	3	April 2017	L&P Cosmetics (1.78 billion dollars)
2007	4	August 2018	Krafton (5 billion dollars)
2013	5	December 2018	Viva Republica (2.2 billion dollars)
2011	6	December 2018	Woowa Brothers (2.6 billion dollars)
2007	7	February 2019	Yanolja (1 billion dollars)
2010	8	April 2019	WEMAKEPRICE (2.65 billion dollars)
2003	9	June 2019	GP Club (1.32 billion dollars)
2012	10	November 2019	MUSINSA (1.89 billion dollars)
2000	11	December 2019	Aprogen (1.04 billion dollars)

Source: Modified from Park (2019)

〈Table 3〉 Woowa Brothers' Acquisition Status

Date of Acquisition	Acquired Company	Categories
May 2015	DUM & DUMMERCE (Baemin Fresh)	Fresh Food Regular Delivery
June 2015	HeyBread (Baemin Fresh)	Bakery
July 2015	Dubaki Call,(Baemin Riders)	Delivery Specialist Company
November 2015	The FOOD (Baemin Fresh)	Side Dishes Regular Delivery
January 2016	Onggasomssi (Baemin Fresh)	Fusion Korean Lunchbox
March 2016	Churing (Baemin Fresh)	Detox Juices, Salads, Plush Water

Source: Modified from Lee (2016)

DUM & DUMMERCE, a fresh food subscription delivery service, and in June 2015, *HeyBread*, a bakery delivery service. The two delivery service M&A led to the launch of Baemin Fresh, an early morning fresh food delivery service. In July 2015, they acquired *Dubaki Call*, a specialized delivery service provider, which expanded Woowa Brother's Baemin Riders business with a base of more than 70 delivery agent offices in Seoul and Gyeonggi. Subsequently, in November 2015, they acquired *The FOOD*, a domestic side dish subscription delivery service, and in January 2016, *Onggasomssi*, a fusion Korean lunchbox delivery service. In March 2016, they acquired *Churing*, a detox juice company. The six M&As show Woowa Brothers's commitment to leading the domestic delivery business and laying the foundation for the food tech business (Lee, 2016).

Ⅳ. Woowa Brothers Corporate Merger Process: Competitive Landscape and Investment Environment

4.1 Competition Situation in the South Korean Food Delivery App Market

Now, we examine Woowa Brothers' domestic competition situation. The food delivery market was highly competitive and overheated, resembling a chicken game. Incumbent companies such as *Baedal Minjok, Yogiyo, and Baedaltong* engaged in fierce competition, involving attempts to steal each other's clients and spending massive marketing expenditures of around 100 billion KRW. Furthermore, new entrants such as *Coupang Eats*, Uber Eats, *WeMakePrice*, *Naver*, and *Kakao* joined the market, making it a complex environment where even survival was challenging(Jo, 2020). The food delivery app market from 2015 to August 2020 shows that *Baedal Minjok's* market share was overwhelmingly the highest.

However, the market share of *Coupang Eats*, a latecomer, was steadily increasing, primarily in Seoul (KFTC, 2020).

With such an intense competitive environment, the losses of delivery companies persisted. However, as the company's scale expanded and the volume of deliveries increased, Woowa Brothers experienced a significant surge in promotional expenses to maintain service reliability. As shown in Table 4, marketing costs surged from 15.1 billion KRW in 2016 to 133.7 billion KRW in 2019. In 2019, Woowa Brothers allocated a substantial portion of their revenue, a remarkable 23.6%, to promotional and advertising expenses. Especially the entry of *Coupang Eats* into the Korean market with aggressive promotions and marketing campaigns significantly worsened the overall profitability of the food delivery industry. In fact, Uber Eats withdrew from the Korean market in September 2019 due to the intense competition(Lee, 2019). Facing such financial constraints, Woowa Brothers shifted their focus internationally, reckoning that there were limits to raising capital through domestic listings or sales.

4.2 Comparison of Domestic and International Investment Environments

Due to the immaturity of the domestic capital market, the startup investment atmosphere in South Korea had primarily relied on foreign investment firms. As shown in Table 5, 10 out of 11 unicorn companies attracted foreign investment(Choi, 2020). Furthermore, an analysis of the nationalities of investors in 22 unicorn companies revealed a considerable proportion of foreign investment(MSS, 2022).

In 2019, there was a growing global trend of recovering investment funds from IT startups and digital platforms. During this period, startups such as Uber, Lyft, and Slack went public to raise capital, which was attributed to global investors seeking to recover their investments through IPOs or M&A, possibly due to concerns about an economic downturn (Kang, 2019). In South Korea, the startup environment was conducive to raising investment funds through M&A transactions over IPOs. It was due to the relatively small scale of the domestic IPO market, which makes it challenging for unicorns to go public domes-

〈Table 4〉 Marketing Expenditure Status of Woowa Brothers

Unit: Billion KRW, %	2016	2017	2018	2019
① Sales promotion fee	7.6	11.2	9.1	96.6
② Advertising expenses	7.5	17.9	15.6	37.1
① + ②	15.1	29.1	24.7	133.7
Revenue	84.9	162.6	314.5	565.4
Proportion of '① + ②' compared to Revenue (%)	17.8%	17.9%	7.9%	23.6%

Source: DART (http://dart.fss.or.kr/)

〈Table 5〉 Investors' Nationalities in Domestic Companies

Company Name	Sector	Nationalities of investors
Woowa Brothers	O2O Service	Singapore, US
Coupang	E-commerce	US, Japan
Krafton	Gaming	China
Yello Mobile	Mobile	US, Japan, Australia
WeMakePrice	E-commerce	Japan
Viva Republica	Fintech	US, Hong Kong
Musinsa	E-commerce	US
L&P Cosmetics	Cosmetics	Switzerland
GP Club	Cosmetics	US
Aprogen	Pharmaceuticals	South Korea
Yanolja	O2O Service	Singapore, US

Source: Modified from Choi (2020)

tically, and the low valuations of domestic startups(Yang, 2019). Additionally, the level of M&A investments in domestic startups by South Korean conglomerates was relatively low, leading South Korean startups to rely heavily on foreign capital(Im, 2015; Gong, 2019).

South Korean conglomerates were reluctant to invest in domestic startups for the following reasons. Corporate Venture Capital(CVC) investments and startup acquisitions are actively utilized in foreign markets, whereas South Korean conglomerates face various limitations. CVCs in foreign markets raise and invest significantly larger amounts of capital than regular VC firms. They also engage in co-investments with foreign investments and regular VC, which tend to yield high returns. Moreover, CVCs offer substantial benefits by efficiently transferring the parent company's specialized knowledge and business capabilities to startups (KCMI, 2022). The United States and China, nations with robust private investments, maintain a substantial share of CVC investments in the venture capital sector. In the United States, CVC investments consistently represent over 40% of total venture capital investments, while in China, CVC investments exceed 70%(KCMI, 2021).

Meanwhile, when domestic conglomerates acquire startups in South Korea, they often become subject to regulations tailored to standard domestic conglomerates, hindering their growth. It includes prohibiting unfair supporting behavior and imposing disclosure duty(Kim and Oh, 2022). When startups become affiliates of large conglomerates, intercorporate transactions for startup growth may be considered unfair financial support, and compliance with disclosure duty can be challenging for startups' capabilities. Furthermore, domestic startups under the grace period should forgo various support and tax benefits available through the Venture Enterprise Certification System(Kim, 2018). Additionally, regulations that restrict external contributions to CVC funds to a maximum of 40% when setting up a CVC fund limit CVC activities (FKI, 2023). Consequently, large domestic conglomerates tend to hesitate regarding startup investments due to the strengthened regulations.

Moreover, domestic conglomerates have expressed concerns regarding the reservations from the startup M&A process. They fear critical views asserting that M&A procedures may infringe upon local businesses' or startups of their technology and ideas. Significant regulatory aspects are also associated with startup acquisitions and investments, including taxes and embezzlement. In response, some conglomerates have shifted their focus to foreign startups rather than domestic ones. While there have been criticisms about not paying attention to domestic startups with innovative technologies, companies argue that it is one way to avoid these reservations(Cha, 2017).

Due to the constraints of the domestic investment environment, there had been an increase in the inflow of foreign capital into the domestic startup ecosystem. Global funds play crucial roles in investing in domestic startups and nurturing domestic unicorn companies. Until 2021, South Korean startups have attracted substantial investments from global funds, and notable cases of companies like *Coupang*, Woowa Brothers, *Viva Republica,* and *Zigbang* became unicorn companies. One noteworthy aspect of global investors' participation in South Korean startup investments is that there are no restrictions on the size of the companies they invest(Choi and Kwon, 2015). Previously, there was a tendency to invest primarily in mid-stage startups with particular growth or valuations exceeding 100 billion KRW. However, successful IPO and M&A deals by South Korean startups like *Coupang*, Woowa Brothers, and *Hyperconnect* (Azar) have had a significant influence, leading to more efforts to discover and support early-stage startups(KVIC, 2021).

The rapid growth of the domestic startup ecosystem and the increasing investment in early-stage startups have led to a rise in foreign venture capital firms establishing corporations and offices in South Korea. For investors, identifying promising startups and establishing good relationships are usually accomplished through directly engaging with founders and corporate executives on-site. For example, Plug and Play, an accelerator and VC based in Silicon Valley, established its South Korean branch in May 2020. Antler, a VC firm based in Singapore, also established an office in South Korea and actively participated in startup discovery. Furthermore, other VC firms such as Goodwater Capital, Storm Ventures, and Collaborative Fund considered establishing a branch in South Korea (Go, 2021).

It is worth noting that in Korea, there had been a negative perception towards the inflow and outflow of foreign capital, primarily stemming from the IMF crisis from Korea, 〈Table 6〉 Overseas VCs Establishing Korean Branches

VC Name	Nationality	Major Investment Portfolio
Plug and play	US	PayPal, Uber, Skype, Dropbox
Antler	Singapore	Homebase, Reebelo, Volopay
Goodwater Capital	US	Spotify, Facebook, Twitter
Storm Ventures	US	Marketo, airespace, GuideSpark
Collaborative Fund	US	Inbox Health, Lyft, Kickstarter

Source: Modified from Go (2021)

where the sudden exodus of foreign capital exacerbated the challenges faced by Korea (Yoon et al., 2005). However, the stock ownership proportion of foreign investors in a company is positively correlated with its market value, reflecting a favorable attitude toward foreign investment(Byun and Im, 2021). For instance, in 2019, Samsung Electronics, a major domestic company, reached its peak foreign ownership ratio of 58%. What is more important is that, despite domestic companies' transferring their primary ownership to foreign corporations, domestic managerial control remained intact, and new employment opportunities continued to be generated domestically, contributing to the Korean economy (Lee, 2023). Likewise, a high foreign ownership ratio in startups indicates a highly favorable evaluation of future growth potential.

4.3 Reorganization of overseas food delivery app markets and DH situation

The food delivery app market in the United States is dominated by the top three players: GrubHub, Uber Eats, and DoorDash, which continue to compete for market share. In China, a duopoly exists with Ele.me, owned by Alibaba, and Meituan-Dianping, which Tencent had invested in, playing significant roles in the market. In India, the local companies Zomato and Swiggy are the key players, forming a duopoly and leading the market. In Europe, the market is characterized by a mix of large companies such as Just Eat, Takeaway.com, and DH, which hold the majority of the market share. However, the European market also shows unique diversity, with various smaller companies demonstrating distinct natures (Oh et al., 2020).

In 2019, there had been a growing trend of unification among global food industry companies for survival. In December 2018, DH sold its business to the Netherlands-based Takeaway due to its perceived lack of competitiveness in Germany, securing financial resources(Jeong, 2019). In 2019, in the United States, DoorDash acquired the premium food delivery service, Cavier, for $410 million(Lee, 2019). Feeling the competitive pressure, Uber Eats proposed an acquisition of GrubHub in the United States. However, concerns about

〈Table 7〉 Key Delivery Platforms by Country

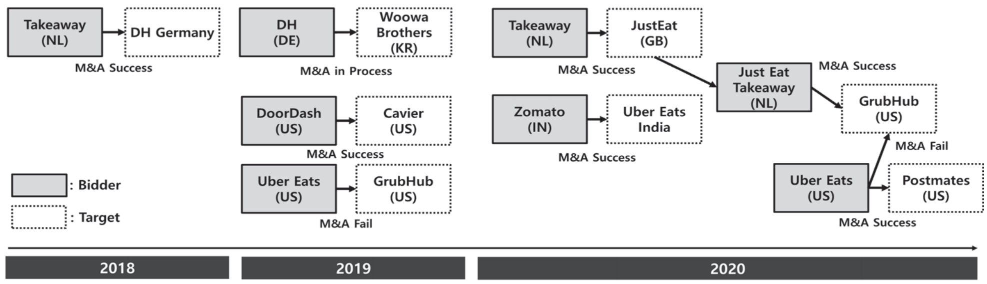
Country	Key Delivery Platforms
US	GrubHub, Uber Eats, Doordash, Postmates
China	Meituan Dianping, Ele.me
India	Swiggy, Zomato
Europe	Delivery Hero, Just Eat, Takeaway.com
South Korea	Baemin, Baedaltong, Yogiyo, Coupang Eats, wemakeprice, Kakao Order

Source: Oh et al. (2020)

potential antitrust issues arose, and the deal was eventually abandoned(Kim, 2020). In January 2020, Uber Eats sold its Indian branch to the local competitor, Zomato(CNN, 2020). Additionally, during the same period, the merger of the Netherlands' Takeaway and the UK's JustEat formed JustEatTakeaway (Oh, 2020), which later merged with the US-based GrubHub in June 2020(Hwang, 2020). Furthermore, in December 2020, Uber Eats began pursuing an acquisition of the fourth-largest player, Postmates, and simultaneously initiated efforts to acquire GrubHub. However, Uber Eats's initiation of M&A with Grubhub failed. Instead, JustEatTakeaway successfully merged with GrubHub(Kim, 2020).

DH's active pursuit of growth and competitiveness in international markets is seen in DH's decision to sell its Germany-based business to a Netherlands-based Takeaway in 2018. Specifically, DH planned to expand the business to Asia to become the global food delivery industry leader. There are several reasons for DH's decision to expand into the Asian market. First, the Asian region enjoys a significant advantage in terms of population size, with approximately 4.6 billion people residing, accounting for around 58% of the world's population. This demographic advantage presents substantial growth potential for the food delivery industry. Moreover, Asia was experiencing rapid economic growth. The food delivery market transactions in the top six Southeast Asian countries amount to $15.5 billion, indicating the economic prosperity that offers significant opportunities for food delivery services. Additionally, Asian cultures have a strong tradition of dining out, and the prevalence of motorcycle-based logistics services has contributed to the rapid growth of the delivery market. Given these aspects, DH had placed significant value on the growth potential in the Asian market(Lee, 2023).

The food delivery industry is highly influenced by local culture and customs. DH considered it could effectively enter the Asian market in cooperation with Woowa Brothers, which had already achieved a leading position in the Korean market. Moreover, in 2019, DH saw the potential to achieve effective expansion by leveraging the capabilities of Woowa Brothers, which had rapidly become



Source: Modified from Oh et al. (2020)

〈Figure 3〉 M&A flow of major overseas delivery platforms

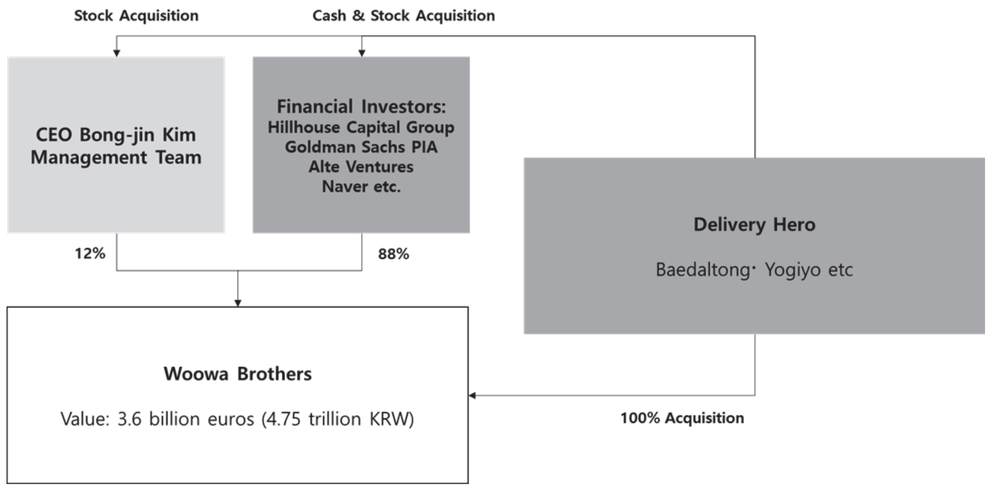
the second-largest player in Vietnam at that time(Jo, 2021). In the case of M&A, the method employed for assessing value was based on synergy effects, such as the additional value that could be generated through the acquisition, leveraging the competencies held by the SI(Ryou, 2012). DH and Woowa Brothers anticipated solidifying their leading positions through business combinations, and these two companies expected to create synergy.

4.4 Woowa Brothers' decision to merge

On December 13, 2019, DH announced the M&A with Woowa Brothers, valuing the company at 4.75 trillion KRW. Woowa Brothers had raised over 500 billion KRW in investments from 2011 to 2018. The ownership structure of Woowa Brothers consisted of FI holding 88% of the shares and CEO Kim, and the management team holding the remaining 12%. Through the merger, the FI was able to recover approximately 1.7 billion EUR(Wi, 2019). In contrast, the Woowa Brothers management team exchanged their shares for DH's stock instead of immediate cash, representing a transition from FI to SI as the dominant shareholder.

Typically, SI are leaders in their respective industries, and thereby they possess a higher level of understanding of the business compared to the acquired companies. Therefore, unless there are exceptional circumstances, the management is usually replaced. On the contrary, M&A contracts may include conditions requiring the retention of the existing management for a specific period, either due to their outstanding managerial skills or the necessity to navigate through a certain timeframe characterized by excellent organizational culture or heterogeneity. In particular, conditions that involve international operations are interpreted as recognition of the outstanding managerial capabilities of the existing management. Such conditions were applied in cases of Woowa Brothers. The fact that the management teams of these companies stayed with the companies after the M&A is seen as an acknowledgment of their capabilities.

Woowa Brothers strived to thrive in South



Source: Modified from Wi (2019)

〈Figure 4〉 Return on Investment (ROI) percentage

Korea's competitive food delivery industry and sustained their position as the domestic market leader despite the entry of new delivery platforms. However, Woowa Brothers had ambitions for international market expansion from the early stages of its growth. What Woowa Brothers had learned from its past failure in entering the Japanese market was that success in the global market would be challenging without collaboration with global players(Jo, 2020). Therefore, Woowa Brothers viewed the M&A with DH, a company with a deep understanding of the South Korean market, abundant resources, and the status of a global market leader, as an opportunity to boost their business. DH, willing to strengthen its position as a worldwide leader and secure dominance in the Asian market, reasoned the M&A as a rational decision. Woowa Brothers, with their knowledge of DH's existing market in Asia, believed the M&A would allow them to expand into the Asian market jointly. Considering these aspects, Woowa Brothers determined that an M&A rather than an IPO was the inevitable choice for joining forces with a leading global player. Additionally, given Woowa Brothers' ownership structure, primarily composed of FI, an IPO was essentially unfeasible, making the M&A method the optimal choice for all three parties involved, creating a "win-win" scenario.

4.5 Post-merger

Foreign corporations often bear significantly lower tax burdens compared to the substantial profits they generate domestically. As an example of multinational corporations' tax avoidance, Google, despite overwhelming market dominance in Korea, was blamed for attributing its generated income to Google's Asia-Pacific revenue in Singapore instead of Korea. Google Korea, as a domestic entity, engages in online advertising business in Korea and complies with domestic tax laws by paying taxes on the income generated only from the online advertising business. Google's revenue in the Korean market is substantial, reaching approximately 4.5 trillion KRW annually. However, the scale of employment at Google Korea is known to be relatively low compared to its revenue(Lee, 2017).

Despite changes in ownership in Woowa Brothers, Korean continues to lead the head of the division post-merger. Therefore, it is worth noting Woowa Brothers' contribution to the Korean economy by maintaining employment and paying taxes regardless of the ownership structure. As shown in Table 8, the number of employees in Woowa Brothers increased by approximately 300 employees each year, post-merger. Additionally, in 2020, Woowa Brothers' revenue surpassed 1 trillion KRW and paid approximately 12 billion KRW in corporate taxes despite facing a consolidated deficit(Seo, 2021).

Ⅴ. Conclusion

The 2019 merger between Woowa Brothers and DH garnered significant attention and raised controversy in South Korea. Given that *Baedal Minjok* was seen as a company founded by Koreans, the news of its acquisition by a foreign company was met with feelings of betrayal by many. Furthermore, the KFTC expressed concerns, withholding its approval for the merger, primarily due to the apprehension that DH would dominate the Korean food delivery app market by owning *Baedal Minjok, Yogiyo,* and *Baedaltong*. In 2018, the domestic delivery app market in 2018 was valued at approximately 3 trillion KRW, with *Baedal Minjok* dominating with 55.7% market share, *Yogiyo* at 33.5%, and *Baedaltong* with 10.8% (Song, 2020). In December 2020, the KFTC conditionally approved DH's acquisition of Woowa Brothers, requiring DH to sell *Yogiyo,* which was operated through Delivery Hero Korea (DHK). In October 2021, DH completed all necessary procedures to meet the KFTC's divestiture requirements, ending a process that took approximately two years from the merger announcement to its finalization(Seo, 2021).

〈Table 8〉 Number of Registration of Employees (Woowa Brothers)

	2018	2019	2020	2021	2022	2023
Number of Employees	630	844	1,070	1,377	1,817	2,161

Source: National Pension Service(http://nps.or.kr/)

In this case study, we evaluate whether the reliance of South Korean startups on foreign capital for their growth and exit strategies should be viewed negatively. In 2019, Woowa Brothers' decision to merge with DH was optimal, considering the dynamic changes in domestic and international business environments. Externally, the global food delivery market was consolidating. Internally, the relentless competition by new market entrants, such as *Naver, Kakao,* and *Coupang*, made the bleeding-edge competition inevitable.

Woowa Brothers had to prepare for the entry of large foreign companies into the Korean market. DH's merger proposal in 2019 was not merely from an FI perspective; it came from an SI. For Woowa Brothers, a company that had raised more than 500 billion KRW in investment from 2011 to 2018, the demand to recover investment from various domestic and international investors had become indispensable. Moreover, given that the VC ownership amounted to around 88%(82% foreign, 6% domestic) and the pre-existing ownership structure was composed mainly of foreign investors, an IPO exit, in reality, was a challenging endeavor. Given that the M&A generates synergy effect, leveraging the competencies held by the SI, the M&A form of dealing with a global leader was a viable exit plan.

The M&A between the bidder and the target company can be challenging due to differences in regulatory systems and cultural distances(Ragozzino and Reuer, 2011). However, DH was a suitable partner for Woowa Brothers, as DH had a strong understanding of the Korean market as well as Woowa Brothers' business practices. Being a world-leading company with abundant resources, DH provided an ideal environment for Woowa Brothers' survival and growth in the Korean market. DH recognized Asia as a market with substantial growth potential for the food delivery industry and was determined to explore it proactively. Thus, the DH and Woowa Brothers merger would significantly strengthen their market positions. Consequently, the merger in 2019 was a choice that could satisfy Woowa Brothers, DH, and the VC firms that had invested in Woowa Brothers.

Lastly, considering the perspective of the national economy, it is worth examining how the market competition, consumer welfare, business locations, tax revenues, and employment have changed before and after the merger in 2019. After the merger, CEO Kim chose to receive DH shares rather than a complete exit, and the corporate name, management team, and business locations of Woowa Brothers remained the same. From the consumers' standpoint, even after the merger, they could observe diverse competition between various service providers in the delivery app market, including *Ttaenggyeo,* a delivery app created by Shinhan Bank in December 2021. Moreover, the app provides smaller businesses with opportunities for new revenue generation since exposure to a wide range of consumers through the delivery app can benefit businesses with limited advertising and marketing capabilities(Lee, 2019).

Furthermore, considering the various employment opportunities, including the recruitment of domestic workforces, such as delivery riders and partnering businesses, as well as the contribution to tax revenues all taking place within South Korea, the M&A of Woowa Brothers by DH deserves to be evaluated in terms of its positive impact on the national economy. It is necessary to move beyond criticism of the dependence on foreign capital for the growth and exit of domestic startups.

For successful exits for startups, there should be well-planned exit strategies even at the early stages. Consequently, there is a demand for an ecosystem that actively supports startup M&A. However, the challenges faced by large corporations in engaging with M&A stem from regulatory constraints. These regulations were introduced by the KFTC to address concerns about dominant conglomerates preemptively eliminating potential startups through killer acquisition, potentially adversely affecting fair competition and consumer welfare(Park, 2020). Additionally, in Korea, there is a prevalent negative perception of large corporations' M&A activities, often viewed critically as "corporate hunting"(Kim and Hwang, 2022). The challenging landscape for domestic startup investments had led Korean conglomerates to redirect their investments toward foreign startups. A notable example is Samsung Electronics, which, since 1999, established Samsung Venture Investment and engaged in the acquisition of various startups globally, including the U.S.-based AI medical robot startup "Filio Health," U.S. display company "Nanophotonica," Israeli semiconductor startup "Willow," and Southeast Asian human resources (HR) startup "Swingvy" (Choi, 2021). In light of these challenges, fostering a more favorable environment for domestic corporate engagement in startup M&A requires government motivation and institutional improvements. Specifically, therefore, this study provides several policy implications for domestic ecosystem as follows.

Firstly, it is imperative to bolster the investment environment and invigorate the capital market for South Korean startups. The domestic capital market struggles to adequately support early-stage startups with limited capital, hindering their ability to scale and generate profits. In this immature domestic capital market, it is difficult to find domestic investors willing to align their investment amounts with the valuation of successful startups. Moreover, the limited size of the public offering market in Korea complicates the process of securing proper valuation for rapidly growing startups, pushing them to rely on foreign capital. Hence, government policy should focus on improving the overall perception of the startup ecosystem and provide support for its activation, including the implementation of tax incentives for M&A investments.

Secondly, it is crucial to foster an understanding that exit strategies are as integral as entrepreneurship itself. This recognition is aimed at dispelling negative perceptions associated with startup exits. Within the life cycle of a company, exits should be acknowledged as vital components, especially during the mature stage. M&A exits are as effective as domestic and international IPOs. Nevertheless, the negative views surrounding such strategies are seen as a hindrance. Overcoming these negative views requires a concerted effort to educate stakeholders on the strategic value of various exit avenues, fostering a more inclusive and supportive environment for startups. Encouraging a positive narrative around successful exits, whether through M&A or IPOs, can contribute to the overall vibrancy and sustainability of the startup ecosystem.

Thirdly, the absence of startup policies that provide guidance throughout startups' entire lifecycle, encompassing initiation, attracting investments, and exits, is a notable gap that needs attention. Despite attracting investments and growth, numerous startups encounter difficulties in achieving successful exits. The risk of a startup's low growth rises when the timing for an exit is overlooked. Consequently, it is imperative for the government to institute policies facilitating exits through foreign capital, with a diplomatic perspective, to address these challenges and bolster the overall startup ecosystem.

Lastly, despite the KFTC strengthening M&A evaluation criteria to curb the all-around expansion of domestic large corporation, these stringent measures may inadvertently hamper startup M&A activities. Startups often rely on M&A for funding when facing challenges with investments and IPOs. However, the tightened evaluation criteria in Korea can create obstacles for both domestic and international investment attraction. To foster a more dynamic startup ecosystem, it is important for the government to consider easing regulations, particularly in facilitating the operation of CVC systems, encouraging a privately driven startup landscape.

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해외 자본에 의한 토종 스타트업의 Exit: DH의 우아한형제들 M&A 사례

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요 약

본 연구에서는 국내 스타트업 사상 최대 규모의 기업결합으로 알려진 2019년 해외 사업자 딜리버리 히어로(DH)와 국내 스타트업 우아한형제들 간 기업결합에 대해 살펴보고자 한다. 후기 투자단계에서 해외 글로벌 펀드로부터 대규모 투자를 유치하며 유니콘 기업으로 등극한 국내 스타트업은 우아한형제들 외에도 복수로 존재하였지만, '민족'이라는 단어가 주는 한국계 기업이라는 인식이 강했던 배달의 민족이 외국 기업에 매각된다는 비난의 목소리는 특히 높았다. 경쟁 제한 가능성과 소비자 후생 저하 등의 이유로 공정거래위원회의 기업결합 승인에 2년이 소요되면서 우아한형제들은 따가운 시선을 받았다. 이에 본 연구에서는 국내외 배달앱 시장 경쟁 상황 및 글로벌 투자 환경, 국내 스타트업 규제 환경 등을 고려하여 DH와 우아한형제들 간 기업결합을 재조명하고자 한다. 이를 통해 국내 스타트업 성장, 유니콘 사례로서 우아한 형제의 엑시트가 향후 국내 스타트업의 엑시트 전략 설정에 줄 수 있는 경영학적 시사점을 도출하고자 한다. 연구 대상인 우아한형제들와 DH 간 기업결합 당시 국내외 산업 환경 변화를 고려해보면, 우아한형제들의 엑시트 결정은 최적의 선택이라고 보인다. 2011년부터 2018년까지 5천억 원 이상의 투자금 유치를 통해 꾸준히 성장해온 우아한형제들의 경우, 2019년 당시 국내시장에서의 신규 경쟁자 유입 및 마케팅 경쟁 심화로 인한 자금 부담이 고조되었고 글로벌 수준에서도 IT 스타트업 및 플랫폼에 대한 투자금 회수 분위기가 고조되는 상황이었다. 2019년 당시 국내 공모 시장은 조 단위 유니콘이 상장하기엔 규모가 작았고, 스타트업에 대한 밸류에이션이 낮았으며, 국내 대기업의 국내 스타트업 투자 제약이 높았기에 국내 스타트업들의 해외 자본 의존도는 높은 상황이었다. 특히 우아한형제들의 경우, 지분의 88%를 가지고 있는 벤처캐피탈(VC)에 의한 투자금 회수가 필요한 상황에서 다수의 외국계 투자사로 구성된 지분구조 상 IPO(기업공개) 형태의 엑시트 전략보다, 글로벌 선도 사업자인 DH와의 M&A(인수합병) 형태의 기업결합이 실효성 있는 엑시트 선택으로 평가되었다. 아시아 시장에 대한 이해와 관심이 높은 DH의 이해관계를 고려봤을 때, VC, 우아한형제들, DH 모두에게 최선의 선택으로 판단된다. 특히 우아한형제들의 경우 기업결합 이후 법인명, 사업장 소재지, 최고경영진을 동일하게 유지하면서 국내 고용 창출, 납세를 하는 상황임을 고려했을 때, 해외 매각 사례로 부정적으로 평가하기보다는 국내 스타트업의 엑시트을 위한 국내 투자 환경과 제도 개선에 대한 논의 필요성을 주는 사례로 볼 필요가 있다.

주제어: 스타트업, 벤처캐피탈, 재무적 투자, 전략적 투자, M&A

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