Lernout & Hauspie Surges
In Korea, Raising Questions

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With its historic wariness of foreigners and powerful chaebol conglomerates, South Korea can be a tough market for outsiders to crack.

But not if you listen to Belgian-based Lernout & Hauspie Speech Products NV.

A year ago, the computerized voice-recognition software concern had negligible Korean business. Then, in 1999's fourth quarter, Korean sales jumped to 42% of revenue. In the next quarter, this year's first, Korean sales surged again to more than half of revenue, and at $58.9 million were 607 times the $97,000 recorded a year earlier. Meanwhile, Lernout & Hauspie sales in the rest of the world fell.

Gaston Bastiaens, L&H's chief executive, says Korean business took off because of last September's acquisition of Bumil Information & Communication Co., a Korean high-technology company. Although Bumil then had quarterly revenue of only about $3 million, Lernout says the company provided entree to many Korean firms that became substantial customers, and L&H benefited from its early market presence and lack of competition.

But some companies that L&H has identified as Korean customers say they do no business at all with L&H. Others say their purchases have been smaller than L&H says. L&H officials now acknowledge they made some mistaken initial representations about customers. But the company disputes other accounts given by some of the Korean companies, and it insists its Korean revenue figures are accurate.

The discrepancies raise questions of credibility at a company that is both one of Europe's high-tech stars -- and a perennial target of skeptics. As the company grew rapidly during the past several years, detractors have raised concerns about the company's aggressive acquisition strategy, which makes it hard to compare financial results over time, and its sales to affiliated entities, which last year accounted for 9.7% of sales and include companies in which L&H invests.
So fast have the Korean sales grown that a stock analyst at Lehman Brothers has effectively suspended coverage of the company, having halted writing on the company as his firm inquires about the Korean sales. "It remains very difficult to find customers in Korea and around the area doing large, successful implementations of their voice-recognition software," says Brian Skiba, the London-based Lehman analyst and a bear on the stock.

Still, despite some ebbing of its stock price, the Nasdaq Stock Market-traded company -- with joint headquarters in Ieper, Belgium, and suburban Boston -- has a stock-market value of $5.25 billion, a rich price of more than 60 times the 2000 consensus earnings estimate. Since year-end, L&H shares are up 60%; at 4 p.m. Monday, they were up $1.63 to $37.

In Korea, Mr. Bastiaens says L&H sells a range of products, including software licenses and automated phone switchboards that recognize voice commands. In May, while being questioned about the Asian sales by a reporter, he volunteered the names of about a dozen Korean customers. Later, the CEO provided ranges of the dollar amount of business done with those and some other customers. Subsequently, the company disclosed more names. In all, 18 of about 30 companies claimed by L&H as customers were contacted by this newspaper.

Three of the companies say they aren't, in fact, L&H customers. L&H says one of those was a former Bumil customer, and was mistakenly put on its list. Three more companies say their purchases from L&H over the past three quarters were smaller than figures provided by Mr. Bastiaens or Sam Cho, vice president of L&H Korea. One additional company says it is in a joint business with L&H that produces considerably less revenue than L&H claims. Officials from an eighth company initially said it had formed a joint venture with L&H and that the joint venture, not the company itself, had purchased products from L&H. Later, the company retracted this initial version.

Of the other 10 companies, three confirm they are customers but wouldn't give the size or timing of their purchases. Officials at another six confirm total purchases totaling $450,000 to $5.5 million in the period since L&H took over Bumil. One company, Artlab Co., says it signed a $10 million contract with L&H and paid in May, a figure that was within the revenue range provided by Mr. Bastiaens. Meanwhile, Hanwha Securities Co. ordered nearly $2 million of gear, says an official, adding that L&H "is highly recognized" for its technology.
All told, of the 13 companies that responded to inquiries about their purchases from L&H in the period since it acquired Bumil, the revenue tallies roughly $32 million. From all of its customers in Korea, in 1999 and the first quarter of 2000, L&H posted $121.8 million of Korea sales, and it has said that it expects second-quarter revenue from that country to exceed the first quarter's $58.9 million. The company is expected to report second-quarter results Monday.

Among the companies that L&H boasts as customers: Korea Securities Computer Corp., or Koscom, a government-regulated clearing house for stock trades. Mr. Bastiaens initially says L&H received revenue in the range of $5 million to $10 million (he wouldn't be more specific) from Koscom in the three quarters ended June 30. According to two Koscom officials, whose names were provided by L&H, Koscom and L&H are partners in an automated phone stock-quote service. Korea Telecom collects the per-call payment, keeps 10% and splits the rest between Koscom and L&H.

One of the Koscom officials estimates L&H and Bumil's share of the revenue at roughly $1.5 million in 1999. Told of the discrepancy, L&H contradicts Mr. Bastiaens and puts the Koscom revenue in the range of $1 million to $5 million.

In a Dec. 28, 1999, press release, L&H said Samsung Securities, a big Korean brokerage, together with more than 14 other securities firms, had "selected L&H to develop client server solutions for online trading and automated dialogue systems." But two Samsung officials, including spokesman Shin Dong Woo, say their firm never made any purchases from L&H, although they discussed some.

Asked about the discrepancy, Mr. Bastiaens says Samsung isn't a "direct customer" but an "indirect customer." Pressed on what "indirect" means, L&H Korea's Mr. Cho says some Samsung customers also conduct trades over the Koscom-L&H phone-quotation system, and Samsung remits a portion of the trading fee to Koscom, which shares it with L&H.

L&H also claims LG Electronics as a customer. But Yu Won Uk, a senior research engineer at LG Electronics -- a contact provided by L&H -- says his company never bought products or licenses from L&H. Instead, he says the two firms briefly worked on a joint project for applying voice recognition to television, but stopped because there "was no progress." LG Electronics paid L&H only "engineer charges," he says, akin to labor costs for L&H's share of the work on the failed project.

L&H officials deny Mr. Yu's account. Mr. Cho says that LG Electronics has paid L&H for the software license and that LG Electronics' project using its technology is ongoing.

Another Korean company with which L&H says it has a significant relationship is Hung Chang Co., a maker of communications equipment. Mr. Bastiaens put revenue from Hung Chang in the range of $5 million and $10 million over the past three quarters.

However, Kim Ho Kyun, a Hung Chang official whom L&H identified as its contact, says Hung Chang wasn't using L&H products internally and that L&H's $5 million bill was paid by a joint venture called Spia, "not Hung Chang." Another Hung Chang official, Choi Sang Hyun, who was reached independently of L&H, says Spia Co. was founded May 2, with Hung Chang as the largest shareholder, but June 28 L&H Korea became the largest, with Hung Chang holding 27.49%. Mr. Choi says Spia makes products based on L&H's voice-recognition technology, and says Hung Chang is only a passive shareholder.

L&H's Mr. Bastiaens initially said a joint venture with Hung Chang didn't exist. Now L&H acknowledges
Spia’s existence. "I believe Gaston wasn't fully aware that it had been set up," says L&H's senior vice president of finance Allan Forsey. L&H maintains that Hung Chang paid L&H for products, and that L&H is among 20 investors in Spia, with Hung Chang having the largest holding.

In a follow-up interview after both companies were asked about the discrepancies in their initial accounts, Mr. Kim denies his first version of events. Assume, he says, "I lied about everything." A third Hung Chang official agrees with L&H's ultimate version.

Mr. Bastiaens also identified Hyundai Securities and Hanvit Bank as providing revenue totaling between $5 million and $10 million. But at Hyundai Securities, two officials, including a contact provided by L&H, say their purchases amounted to just over $1 million. At Hanvit Bank, Lee Jae Bong, manager of network management, says the only contract signed by his institution tallied $150,000. L&H officials now say that Mr. Bastiaens may have been furnished mistaken information.

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