DEAL #1: Chinese online giant Alibaba acquired Lazada, an e-commerce platform in Southeast Asia, for $1 billion

DEAL #2: Grab raised $750m in its investment round of funding led by Japanese conglomerate Softbank

Why over half 2017's deals were in tech

The technology sector accounted for 53% of deal volumes and 34% of deal values in the region amidst an environment marred by uncertainty in the global markets.

Venture capital in Singapore has been robust in 2016 despite global uncertainties surrounding the sector, with fears that it would prompt investors, series funders, and even startups themselves to be more cautious, on top of other reasons. **Valmiki Nair**, senior associate at Dentons Rodyk & Davidson LLP, notes that the initial momentum for Singapore VCs last year slightly slowed down due to uncertainty over global markets and the lack of potential "next big disruptive idea" from startups, with only one or two startups doing the heavy lifting both in Singapore and the rest of the Southeast Asian region.

"Many of the startups that had potential to become great had already managed to close relatively large rounds of fundraising and did not require further funding for expansion in the year," he adds. "Startups based in Singapore have also been cautious about overspending to fund expansion efforts given the uncertainty over interest rates, market volatility, and changing politico-legal landscapes in nearby nations." But **Lisa Theng**, managing partner at Colin NG & Partners LLP, says that numbers remain positive with VC investments in Singapore achieving historic figures with 100 deals with an aggregate value of $3.5b recorded in 2016, compared to the 81 deals valued at $2.2b for 2015.

Experts are in agreement that technology remains the driver of venture capital growth in Singapore and, in large part, the region. According to a report by global valuation firm Duff and Phelps, the technology sector accounted for the majority of deal volume at 53% and deal value at 34%.

Numbers remain positive with VC investments in Singapore achieving historic figures with 100 deals with an aggregate value of $3.5b recorded in 2016.

Sandra Seah, joint managing partner at Bird & Bird ATMD, however, notes that this strong performance in VC in Singapore was mainly due to the two "mega" deals last year that saw Chinese online giant Alibaba acquire Lazada, an e-commerce platform in Southeast Asia, for $1b as well as the $750m raised in ride-sharing/ride-hailing application Grab's investment round of funding led by Japanese conglomerate Softbank.

"The [Alibaba-Lazada] deal affirms the potential of Southeast Asia as an emerging market and may signal a tendency to fund mature businesses to secure larger returns," says Seah, adding that "the deal also serves as a reminder to startups of the value of striking partnerships and scaling up beyond their home markets to attract VC interest" which is timely given the momentum towards the achievement of the ASEAN Economic Community.

Seah, meanwhile, says that the Grab deal revealed that VC investors "still retain a healthy appetite for late-stage technology startups with a proven track record in multiple jurisdictions and good potential for growth." Apart from the blockbuster Alibaba-Lazada deal and Grab's investment raising, other notable VC activities in Singapore include peer-to-peer marketplace Carousell's raising of S$49.5m in a funding round led by Rakuten

Ventures and Khazanah Nasional's $170m investment in internet company Garena.

Asia's VC landscape and Singapore's leading role

With uncertainties on interest rates coupled with market volatility surrounding the venture capital landscape last year, Asia-focused venture capital fundraising slightly declined to $13.3b — after peaking midway at $14.5b — from the $14.1b raised in 2015. Cumulatively, over 300 funds have been raised in the region since the start of 2014, according to data from Preqin.

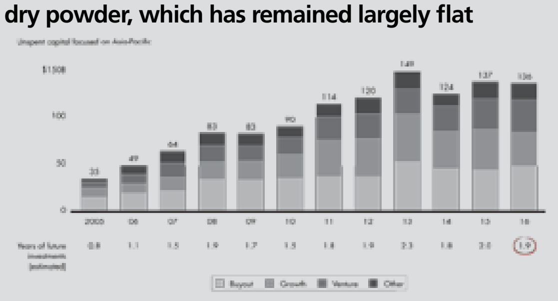
And whilst numbers are still rising in majority of the markets in Asia Pacific, these uncertainties, experts say, may likely only be a small bump when it comes to the promising prospect of the region's Venture Capital (VC) landscapes in 2017 — for instance that of Singapore.

VC funds focusing on China accounted for the majority of this cumulative capital from 2014 with 138 China-focused funds raising a combined $27.6b. India-focused funds, meanwhile, accounted for 49 raising $4.9b over the same period. Singapore, meanwhile, remains a major competitive hub for venture capital and startup firms looking for funds. This trend provides an optimistic outlook for Asia's VC landscape for 2017.

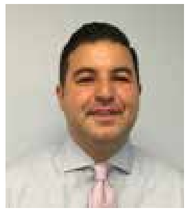
"The development of the venture capital industry in Asia has undoubtedly been one of the major success stories of recent years," says **Felice Egidio**, head of venture capital products at Preqin. "Robust fundraising and healthy deal flow have established the region as a key player in the global industry, and with domestic and international investors increasingly targeting Asia-based startups, it is of little surprise that fundraising looks set to accelerate in 2017."

Singapore has largely been part of this success story in the region, rated as the world's second-easiest place to do business, being a magnet for capital-awash multinational corporations and businesses, as well as an incubator and testing ground for startups in the Asia-Pacific region. This is true both on paper and in real-life circumstance. In a 2015 report, automated reporting and benchmarking software provider Compass ranked Singapore as the 10th best place in the world for a startup to thrive, moving up seven places from the report's 2012 edition. The report listed Singapore's startup experience, funding, and market reach as above average, with performance and talent slightly getting lower marks.

Asia Pacific funds are sitting on an ample supply of dry powder, which has remained largely flat



Source: Preqin



Felice Egidio

Joongshik Wang

Lisa Theng

Patrick Yeo

Sandra Seah

Valmiki Nair

"This [result] is evidenced by global VCs coming to Singapore and more startup trade missions to Singapore," says **Patrick Yeo,** venture hub leader at PwC Singapore. "VCs have raised more funds in 2016 targeting larger deal flows and are more varied in their sector focus. Coupled with that, Corporate Venture Capital is a growing trend where big corporates have gotten into the game by setting up their own funds."

Other experts admit that whilst Singapore has become a hub for startups looking for venture capital and funding, the landscape in the city-state remains young compared to the maturity of ecosystems like that of Silicon Valley in the United States. And this will only be a good sign as the trajectory remains upward as the landscape continues to mature.

"2016 saw a record level of investments into Singapore startups. We saw the ecosystem maturing with increase in capital influx and abundance of innovative startups," says **Joongshik Wang**, partner for corporate finance at Ernst & Young Corporate Finance. "Many venture capital firms raised new funds and started shifting focus from seed to Series A or Series A to Series B rounds, which will certainly help startups scale up."

A helping hand

Singapore's VC landscape is also getting a helping hand from the government. In February this year, the Government of Singapore has announced its plans to ease regulations for venture capital managers that experts believe would provide early-stage startups with more funding options and capital avenues. "On the supply side, we note that [the Monetary Authority of Singapore] is keen to lower its requirements by proposing a simplified authorisation process and regulatory framework for managers of venture capital funds," Nair says. "The move is part of MAS' broader efforts to promote financing for enterprise development. The simplified regime also takes into account the extent of contractual safeguards that are already present in typical fund management contracts negotiated by VC managers' sophisticated investor base."

"Under the proposed simplified authorisation process, MAS will focus primarily on fitness and propriety assessment of the venture capital managers. Unlike the case for fund managers, MAS will not require VC managers to have directors and representatives with at least five years of relevant experience in fund management. New VC managers can expect a much shortened application process."

Nair adds this "bodes well for new VC funds to be set up with relative ease and at lower transaction costs. We may see the advent of family offices teaming up with local VC managers to launch VC funds and try their hand at startup fundraising given the amount of private family wealth circulating in the region and the younger and fresher generations taking control of such wealth."

For PwC Singapore's Yeo, this move by MAS will also solidify Singapore's reputation as a competitive hub for startups and other enterprises on VCs globally. "This will attract more global VCs to Singapore and at the same time raise the profile of the industry. Going forward, we should also see more VCs focusing on later stage growth companies, filling the gaps beyond series B round funding as the Singapore ecosystem matures," he says.

Looking ahead

In terms of outlook in 2017, experts are cautiously optimistic, explaining that whilst VC funding and other financing options would remain available and may actually increase in quantity, expectations on valuation figures should remain modest. Whilst Dentons Rodyk & Davidson's Nair shares that Singapore's VC landscape is "very promising as the ecosystem is abuzz and there are several private and government initiatives to nurture the VC industry in Singapore," entrepreneurs and startup founders "would probably have to be realistic in valuations and expectations." This is echoed by Wang, saying that "venture capital firms increasingly expect startups to have [a] realistic path towards profitability."

This cautiousness is on top of the likely negative effects that will continue to be felt, albeit minutely according to Nair, "given the socio-political uncertainty worldwide caused by, inter alia, Brexit, the US presidential elections and the market uncertainties. We anticipate early stage financings continuing with debt financing being preferred in order to have the option of an early exit."

In terms of the sector of interest and growth for VC in Singapore in 2017, the experts are in general agreement that technology would comprise the lion's share. Bird & Bird's Seah also predicts that the market will demand platforms that help big data custodians organise or analyse data more effectively. "Innovators that offer such enterprise IT systems are likely to interest investors," she says. "Startups pedalling psychometric technology may well continue to find favour with angels."

Wang also says that the next few years will see a healthier development of the venture capital sector in the region, with Singapore becoming the growth hub of Southeast Asia. This is supported by Theng who shares that in terms of e-commerce, online travel, and online media, the Southeast Asian region is expected to grow to nearly $290b by 2025 — something that would inevitably affect VC activity not just in Singapore but in all of ASEAN.

"We can expect to see an acceleration of venture capital formation and investment activity in Singapore, spilling over into neighbouring markets in the next 12 months," Wang adds. "Early-stage growth funding is still at a nascent stage in Singapore — government-linked companies, private equity firms, and multinational corporations have all been setting up venture capital funds to fill the gap and will look to make aggressive investments this year to establish their positions."

Other positive signs of a more stellar VC landscape for Singapore in the coming years include further efforts from the government like the SPRING Start-up Enterprise Development Scheme and the Early-Stage Venture Funding Scheme (EVFS), apart from the easing of rules for VC funds by MAS. "We also see a trend of more European VC funds looking to Asia to invest in promising early stage tech startups," Seah concluded whilst stressing the decline of US VC funds's interest over the past two years.

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HONG KONG VIEW

Investor appetite for tech rises

Despite the rather inconsistent regional and global economic performance and outlook, Hong Kong remains a vital financial and commercial hub for Asia and the Pacific. This is true in the venture capital scene in the special administrative region — which can be considered as a microcosm of the rest of the region. "The Hong Kong venture capital scene continues to be strong when compared with the rest of Asia," notes Padraig Walsh, Partner at Bird & Bird Asia Pacific. "Many venture capitalists in Hong Kong also look to invest in other jurisdictions in Asia and do not limit themselves to the Hong Kong market, meaning that Hong Kong is still very much a hub for pan-Asian VC investment."

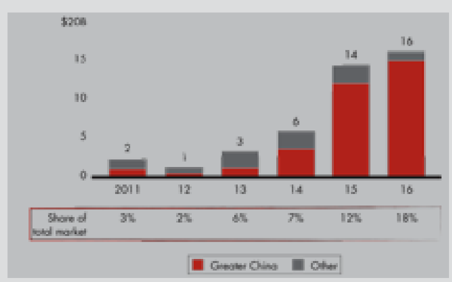
Alex Norman, an associate for Bird & Bird Asia Pacific, adds that in terms of hot sectors, technology verticals remain very popular with investors, particularly in fintech. For instance, reports estimate that Hong Kong investments in fintech amounted to $165m last year, from the $125m in 2015. "Hong Kong's proximity to manufacturing bases in mainland China has also made it a popular destination for companies in the [Internet of Things] space," he adds.

2016 VC deals

Some of the more successful venture capital deals last year are in fintech. The Hong Kong Venture Capital and Private Equity Association notes that WeLab, a fintech company founded in 2013, raised $165m in investments in its 2016 Series B round. Another deal is Hong Kong travel technology startup Tink Labs raising $125m in a new round of funding from FIH Mobile Limited to scale its idea of a designated mobile device provided with the hotel room for guests to use for free, eliminating the need to buy local SIM cards to makes calls, send messages, and use data.

Other deals include AM730 Startup Fund's investment of over HK$10m in the P2P diamond exchange; Horizons Ventures', a private investment arm of business magnate and currently Hong Kong's richest man Li Ka-Shing, of $15m to German insurance technology startup Friendsurance; and Credit China Fintech Holdings, a Hong Kong-based firm, entering into a $30m agreement and investment in BitFury, a leading bitcoin and private blockchain infrastructure provider and transaction processing company. Walsh said that these deals show how "investors continue to have a strong appetite for technology-based companies.

Asia Pacific start-up and early-stage PE investments



Source: AVCJ