Unicorns deploy funding into corporate venture funds in race for superapp status

Drawn by the growth story in Southeast Asia, corporate venture capital funds by unicorns as well as by foreign challengers are setting their sights on opportunities in Singapore.

When ride-hailing giant Grab considered how best to achieve its superapp ambitions, it set up Grab Ventures, a Corporate Venture Capital fund, to nurture startups in Southeast Asia through its seed accelerator programme, Velocity. In November 2018, Grab unveiled the first batch of startups which includes Indian online ticketing platform BookMyShow; Indonesian beauty appointment booking portal Minutes; German on-demand home cleaning platform Helpling; Indonesian on-demand marketplace for home renovation services Sejasa; and Singaporean edtech startup Tueetor.

Grab’s major rival, Go-Jek, earlier established its own CVC fund, Go-Ventures, to gain early access to technologies and innovations that could add value to its existing operations. Analysts expect the CVC trend to become a key industry theme in Southeast Asia, as the entry of more players creates only more opportunities for collaboration amongst firms seeking to leverage a unicorn’s formidable capabilities and a unicorn to quickly assimilate startups that pose a threat to their operations.

Overseas CVC funds are also becoming more active in fast-growing regions as investment opportunities in their domestic markets dry up, setting up the stage for stiffer competition and higher VC funding in 2019.

Unicorns hoard funding

Overall, VC investment activity into Singapore-based companies has increased, from US$1.34b in 2014 to US$4.92b in 2018, according to the Singapore Venture Capital & Private Equity Association (SVCA).

A significant proportion of investment activity in Singapore last year was funnelled into unicorns in Singapore, such as Grab, which received US$2.6b in funding and attracted two rounds of massive capital injections from Softbank Capital, Didi Chuxing and Alibaba Group, according to SVCA. “The Singapore VC scene is dominated by technological companies with the vast bulk of funds flowing to large firms with a dominant presence in the region,” a spokesperson from the association told Singapore Business Review.

Megadeals involving Grab with a total value of $7b pushed the aggregate value of VC deals in Singapore to increase by 500% as of the first quarter of 2019 to $8.697b from 2018, according to data from PitchBook.

This influx of large investments in unicorns led by Grab has accelerated activity in their CVCs, which when taken together with other alternative sources, as well as traditional sources like local VC funds, helped push total VC funding in the region to more than US$11b in
2018, noted Tan Yinglan, Founding Managing Partner at Insignia Ventures Partners.

Tan expects a new batch of companies valued at US$100m to emerge soon, as growth funds ramp up their investments in the region whilst global VC funds partner with active local VCs in backing earlier-stage companies. “This is a positive direction for the ecosystem here,” he reckoned, citing how the influx of funding towards larger Series A and Series B funding is creating a fresh batch of market leaders in key verticals like Fintech and logistics and closing the funding gap between Series B and Series C.

Southeast Asia’s nine unicorns – which include Grab, Lazada, Razer and Sea Group and Go-Jek – raised US$16b out of the total US$24b funding from 2015 to the first half of 2018. “This trend will likely continue and extend towards companies in the US$100m club,” said Tan. “These companies raise on the back of potential growth in the region and entrench their leading positions through market or product segment expansion,” he added.

VC funding should continue to expand in 2019 with increased focus on Series B and Series C deals, with venture arms of unicorn companies like Grab, Go-Jek, as well as SEA and Lazada all becoming active in the early-stage ventures, according to Kiren Tanna, co-founder and MD of ZEN Rooms.

Superapp challengers?

There has also been increased activity of overseas CVCs targeting specialised startups that have gone beyond the Grab and Go-Jek route, and 2018 saw “meaningful increases” in attention and capital commitments to Southeast Asia, especially from Korea, China, and even the US. “That is a positive indication of long-term sentiment.” Korean funds and firms, in particular, are looking at Southeast Asia to deploy capital to “participate in the growth story” and the trend will likely continue until 2020, said Tanna, pointing to Korea Investment Partners’ $120m fund with Golden Equator and Yanojins first cross-border investment in acquisition of stake in ZEN Rooms.

One sector that has also seen increased deals is logistics, which is quickly becoming one of the fastest growing verticals by VC financing in Southeast Asia, noted Justin Hall, partner at Golden Gate Ventures, in a development signalling possible roadblocks to the unicorns’ global ambitions.

“The previous wave of startups came from horizontal platform players like Go-Jek and Grab whilst the next wave of unicorns will be specialised vertical players which will become leaders dominating their own specific verticals,” said Tan, citing the US$860m Series B round by Carro, a company that offers an array of automotive services ranging from a used-car marketplace to after-sales and financing.

“One of the interesting things that we’ll see over the next few years and possibly quite soon is that some countries may not feel that comfortable having a foreign almost-monopoly player or an oligopolistic situation with a couple of players dominating the cashless transactions in their country,” Hugh Mason, co-founder and CEO of seed accelerator JFDI.Asia said in an earlier interview.

“There comes a point when as a country, all the cash is going through a foreign system that knows more about its citizens than they do as a government.”

Regional powerhouse

Singapore stands at the forefront of increasing VC interest into Southeast Asia given its positive reputation as a location where companies can set up their regional headquarters. Analysts observed how foreign companies with sizeable war chests are increasingly making an intentional decision to expand into the region either directly or by teaming up with strategic partners, which was the case when Hong Kong-listed Ping An Good Doctor formed a joint venture with Grab to deliver healthcare services to the region.

“Singapore remains the headquarters of many VC funds in the region due to its friendly regulatory regime and international reputation, but regional operational presence is still key. A successful VC in Singapore is one which has ‘boots-on-the-ground’ in each local market,” said Tan. “It is essential for VC firms to build capabilities

**VC deal flow of companies based**

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Source: PitchBook

**VC Exit Activity (SM) of Company by Exit Type**

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Source: PitchBook
which allow it to mobilise local networks and resources to help regional startups tackle obstacles in their home market.” According to Chik Wai Chiew, Executive Director and CEO of Heritas Capital Management Pte Ltd, “the challenge is when seeking to scale, VCs in Singapore has to tap on the right regional partners to help the start-ups with localisation and market access.”

Outlook
For 2019, the SVCA said that regulatory changes, such as recent extensions for tax incentives and new investment flexibility for structuring of funds (for instance, the new Variable Capital Company (VCC) legal structure) may further encourage investment into Southeast Asia and for VC fund managers to operate out of Singapore.

However, Khor Qianyi, Senior Analyst and Head of ESG at Quest Ventures, warned that uncertainty around the new regulations, specifically the VCC, which was meant to increase VC activity in Singapore, poses a challenge for VC firms along with the lack of later-stage funding from Series B onwards.

Tan observed the widening disparity between startups with VC backing. “We are seeing smart money chasing top deals where mega rounds are getting larger. ‘A’ level startup with all-star founders are raising huge early stage funding from Series B onwards.

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Tan likewise warned that a “capital winter” could be in the cards if macroeconomic indicators worsen and capital markets stumble. “When that happens, companies which had been raising on vanity metrics could see funding dry up very quickly, as was the case with bike-sharing companies in China,” he said. “Companies will be judged by their fundamentals, and exceptional startups with solid metrics will continue to do well in their fundraising. Fundraising for the startup industry as a whole would get harder.”

HONG KONG VIEW
VC fundraising hits US$2.28b in 2018 thanks to boost from homegrown tech startups

The number of venture capital (VC), and technology deals in Hong Kong remained unchanged in 2018 at 42 deals in total, but their combined value jumped 81%, powered by what analysts noted as a “breakout” class of homegrown startups, primarily in the technology space. VC and technology investments in Hong Kong hit US$2.287b in 2018 from US$1.262b in 2017, according to data from the Hong Kong Venture Capital and Private Equity Association (HKVCA).

Of the VC and technology transactions in 2018, the biggest by far was the US$1.2b investment in facial-recognition technology company SenseTime by high-profile investors including Alibaba Investment, Temasek, Hopu Capital, Silver Lake and Tiger Global. The second-largest deal was the US$300m investment in Tink Labs by an undisclosed group of investment funds and strategic investors in a deal that values the developer of smartphones for hotel guests, is valued at about US$1.5b.

The remainder at 6%, 3% and 2%, respectively. The technology sector will continue to to draw in VC funds looking to compete for higher-quality targets in 2019. “You are starting to see a very interesting development in the emergence of breakout companies coming out of HK. I would say these are still isolated incidents; they haven’t created a cluster effect yet. But I think quite soon in other entrepreneurial clusters you will start to see some breakout examples,” said Denis Tse, chair, research committee of HKVCA.

“AI is going to be one of the key focus areas in the HK market going forward,” said Alyssa Aaron, director of investments at Nest Ventures. “In the wake of the Chinese government’s ambition to be a world leader in AI by 2030, investors are pouring billions into AI startups similar to SenseTime.”