

FINANCIAL INSIGHT: VENTURE CAPITAL



DEAL #1: A NOTABLE DEAL IN THE EARLY PART OF THE YEAR WAS LOGISTICS STARTUP NINJA VAN RAISING US\$85M IN ITS SERIES C FUNDING ROUND



DEAL #2: FUNDING SOCIETIES' US\$25M FUNDING ROUND LED BY SOFTBANK IS ALSO AMONGST THE HIGHLIGHTS OF SINGAPORE'S FINTECH FUNDING LANDSCAPE IN 2018

ICO boom threatens Singapore's VC scene

Questions are raised as to the future role of venture capital firms, especially if ICOs become an effective and sustainable avenue for startups to raise funds versus traditional venture capital funding.

When Uber bowed out of its Southeast Asian operations this year, it sent a clear signal to venture capitalists: transport and logistics startups have had their day. Whilst deals in technology, transport, and logistics, have dominated the scene and should continue to do so as seen in Grab's \$2.5b Series G funding, funds will now start to pour into promising areas such as blockchain, medical technology, and artificial intelligence.

Venture capital activity in Singapore is widely expected by analysts to maintain solid momentum not only for the rest of 2018 but also for the next few years due to an influx in growth-stage funds, a stronger corporate

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expansion drive into Southeast Asia, and an expected boom in attractive exit deals. But funds will likely have to fight tooth-and-nail for talent and deals amidst strong competition and a growing interest in initial coin offerings as an alternative fundraising path.

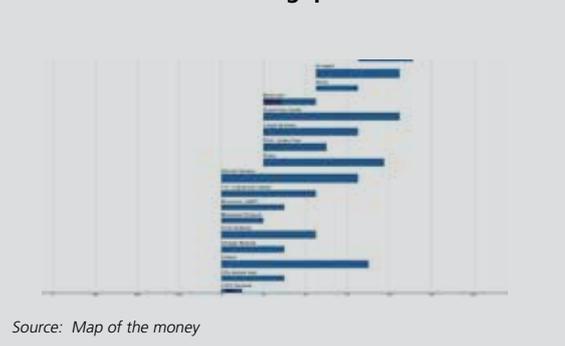
Notable deals

There have been a record 23 deals that raised US\$2.68b of venture capital funding in the first quarter of 2018, surpassing previous records, said **Kenn Lim**, senior associate at CNP Law. "Whilst we are still in the early half of 2018, we have witnessed a vibrant venture capital scene in Singapore thus far."

Aside from the Grab-Uber deal, which saw the largest amount raised globally from venture capital funding in the first quarter of 2018, analysts said another notable deal in the early part of the year was logistics startup Ninja Van raising US\$85m in its Series C funding round, which was one of the largest ever raised in the region at that stage.

These deals, together with venture capital firm B Capital Group closing out its first fund and raising US\$360m, suggests that "venture capital investors continue to invest large pools of money into late-stage companies, in part because of the number of unicorns that have remained private," said **Ken Cheung**, partner at Bird & Bird ATMD. He added that so far in 2018 have been predominantly in the transport, logistics, and technology sectors.

VC funds available in Singapore



One technology deal that was “notoriously underreported” was GO-JEK’s acquisition of Mapan, according to **Justin Hall**, principal at Golden Gate Ventures. He said the founders and assets of that sale will underpin GO-PAY, which he considers the region’s first “genuinely viable” mobile wallet that has “extraordinary” distribution, integration with many services, and the potential to spin off from GO-JEK.

Hall also flagged the US\$25m round by Singapore-based peer-to-peer lending firm Funding Societies that was led by Softbank as one of the deals that highlights the financial technology sector’s strong showing so far in early 2018. From alternative financing platforms, microinsurance to payments, “this vertical will continue to see strong growth over the next two to three years, especially as players consolidate and/or get acquired,” he said.

Blockchain’s potential

Whilst Lim acknowledged that the ride-hailing and financial technology sectors have been particularly active, he said the blockchain sector will join technology as likely the largest recipients of venture capital funding moving forward. “We observed a surge in venture capital interest in crypto-related investments,” he said. “An increasing number of venture capital funds are being created with specific objectives of investing in startups focused on the blockchain technology.”

“Based on our interactions with people in the venture capital sphere, it appears that many venture capital firms are setting up specific focus groups to look into potential crypto-related investments, for fear of missing out on the crypto bandwagon,” Lim said, adding that other areas that are increasingly gaining interest amongst venture capital firms are the medical technology and artificial intelligence sectors. In 2017, several big ticket ICOs snagged millions out of Singapore’s ICO boom, with the likes of TenX (\$80m), Golem (\$8.6m) and Qtum (\$15.6m) amongst those to have held ICOs from the country.

Maturing ecosystem

The deepening of venture capital interest in the logistics and financial technology sectors, as well as a broader range of emerging areas, is underpinned by Singapore’s maturing ecosystem. Singapore saw venture capital investment rise to a record level in the first quarter of 2018 despite a relatively muted level of activity. “It is testament to the maturing of



Kenn Lim



Ken Cheung



Justine Hall



Chia Tek Yew

Singapore’s ecosystem that a business such as Grab could be built here to tackle the regional market,” said **Chia Tek Yew**, head of financial services advisory KPMG in Singapore.

Singapore’s maturing ecosystem will also present venture capital funds an opportunity to expand more aggressively into the growing Southeast Asian market, said Cheung. “The funds sought will be larger and geared towards market access and client acquisition,” he said, noting that venture capital companies in Singapore will continue to lure funds from a wide range of investors, including family offices as well as multinationals and conglomerates seeking to diversify their traditional businesses.

“Companies raised venture capital funding for regional and global expansion as these companies raised seed money in recent years to build their businesses mainly in the Singapore market,” added Cheung. “With still low interest rates and globally synchronised economic growth, there is a strong need for venture capital to deploy funds and make investments.”

Lim foresees “significant” venture capital funding to continue flowing into Singapore in the remaining months of 2018. “Many startups in Singapore have reached a stage where they are now ready for larger rounds of funding to embark on regional and global expansion,” he said.

Singapore, which is seen as the gateway to Southeast Asia, is also benefiting from the region’s rising prominence in the venture capital scene. Hall noted the rise of Chinese investments into Chinese entrepreneurs across the region, especially in Indonesia, as seen in RupiahPlus and Akulaku.

In its statement after backing the latest round of Funding Societies, SoftBank Ventures Korea said it has been actively investing across Southeast Asia. “Small and medium-sized enterprise digital lending across Southeast Asia is where we saw a huge growth potential,” it said.

Engines roaring

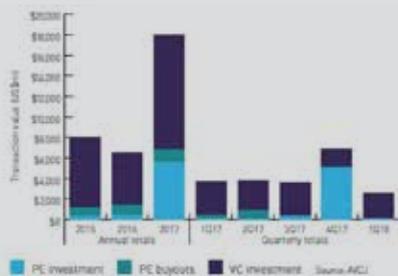
After a strong start, venture capital activity in Singapore will remain robust for the rest of 2018 due to the launch of more early-stage (seed and Series A) corporate venture capital funds and the regrouping of venture capital funds to focus on later-stage (Series B to D) deals, said Cheung, adding that activity will coalesce around artificial intelligence, auto technology, and health technology.

The venture capital market will likely grow further this year with more local startups canvassing for funds, said **Marcus Chow**, partner at Bird & Bird ATMD, citing a KPMG report that activity should maintain its strong pace in 2018. “Many of these start-ups which had in earlier years gotten seed funding, particularly from government schemes, may be seeking their Series A or B funding,” said Chow.

Hall is “extremely bullish” on his near-term outlook on Singapore’s venture capital activity. “We see at least a dozen growth stage funds coming online within the next 12 months.”

The viability of strong exits in the region will be a key theme in 2018 and the medium-term horizon, Hall

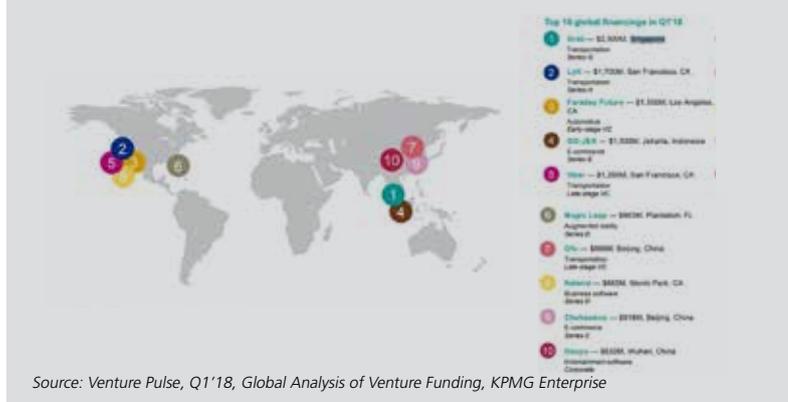
PE and VC tech activity in Southeast Asia by investment type



Source: xxx

FINANCIAL INSIGHT: VENTURE CAPITAL

Q1'18 top deals dominated by transportation



added. “The formation of growth-stage funds and the viability of positive returns from local and regional exits will define the region over the next two to three years,” he said. **James Tan**, managing partner at Quest Ventures also expects large rounds to continue to dominate headlines, and for angel syndicates driven by experienced angel investment networks such as BANSEA to gain prevalence. In addition, he anticipates a “rejuvenation” of seed stage deals which slowed down in 2017.



Marcus Chow



James Tan

Talent and deal rivalry

With venture capital activity poised to boom, competition for both talent and deals is heating up. Tan said that the most notable venture capital activity in 2018 so far would be the entrance of corporations into venture investments, particularly from Series B onwards. But Cheung noted that corporate venture funds across the city-state are finding it harder to attract and retain the right talent, and risk losing the best deals to traditional venture capital firms, all whilst having to answer to more stakeholders.

For Hall, the primary challenges faced by Singapore’s venture capital scene lie not in the lack of growth finance, but in the relative lack of exits. “That’s really the only thing the region is lacking now, but I strongly believe we’re going to see a significant uptick within the next two years,” he said.

Tan, meanwhile, identified the threat of initial coin offerings, or ICOs, which could have a “global negative reputation flowover and impact” on Singapore’s brand. “There are questions raised as to the future role of venture capital firms, especially if ICOs become an effective and sustainable avenue for startups to raise funds as a cheaper and faster alternative to venture capital funding,” said Lim.

He added that whilst venture capital firms are seen as a channel for investors to obtain stakes in private companies, the recent ICO surge by startup companies could put the essential role of venture capital in doubt. In 2017, Singaporean FinTech start-up TenX in 2017 raised approximately US\$80m through an ICO.

The Singapore government has been trying to ramp up support for venture capital funds, Cheung said, mainly through attractive incentives, including reduced regulatory red tape, increased intellectual property protection and allocated funds for early investments.

HONG KONG VIEW

Hong Kong’s VC hits record US\$1.14b

When venture capital investment in Hong Kong more than doubled year-over-year in 2017, analysts took note that the island is starting to follow in the footsteps of Singapore and is poised to have its own funding boom, helped along by strong government support for local startups and robust dealmaking in the technology and logistics sectors.

Venture capital investment in Hong Kong reached a record US\$1.14 billion in 2017, continuing a rapid growth trend over the past three years, data from the Hong Kong Venture Capital and Private Equity Association, or HKVCA, showed. This amount was more than double from US\$547.4 million in 2016 and up sevenfold from US\$159.1 million in 2014. Average deal size in 2017 climbed to US\$42.4 million, also more than doubling from US\$19.6 million and up more than tenfold from US\$3.9 million in 2014.

The recent growth in venture capital investment has been underpinned by Hong Kong’s favourable startup environment, said Dennis Plomp, principal at Nest Ventures, citing the rise in new coworking spaces and venture builders setting up shop in the island to help incubate startups. Plomp reckoned another key driver to the venture capital investment momentum is the steady improvement in funding availability over the past two years. “The funding does not only come from local investors, but also from Chinese and Southeast Asian capital providers. Active local investors include Alibaba Entrepreneurs Fund and the Hong Kong X Technology Fund,” he said. “Furthermore, the pool of angel investor capital has grown considerably.”

Technology-driven momentum

Hong Kong’s venture capital scene is “flourishing” with a focus on new technologies such as AI, blockchain, fintech, and healthtech, said Lap Man, co-founder and managing partner at Beyond Ventures, a Hong Kong-focused venture capital fund. In April 2018, one of the most notable deals was SenseTime raising US\$600 million in its Series C round of funding, with Chinese technology behemoth Alibaba Group taking the lead role and Temasek and Suning, among others participating. Man, whose company Beyond Ventures is one of the shareholders before this round, reckoned this was regarded as the biggest round of funding in an AI company and the largest technology startup funding so far. Plomp said SenseTime’s Series C round placed the firm’s valuation at US\$4.5b.

Venture capital investment in Hong Kong

VC Investment since 2009	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total (US\$mln)	52.8	91.5	98.6	80	23.8	159.1	447	547.4	1,144.5
Average (US\$mln)	7.5	8.1	8.8	5.3	1.4	3.9	10.6	19.6	42.4

Sources: Hong Kong Venture Capital Association