



Southeast Asia tech investment

H1 2017

ABOUT CENTO VENTURES



Cento Ventures is a venture capital firm focused on technology startups building products and services emerging from the digital transformation of Southeast Asia.

We are based in Singapore and backed by a team well experienced in internet business. We operate three funds that invest across industries through a disciplined, well researched approach to locate talent and teams concentrating on new opportunities sweeping through the ASEAN region.

Our investments are guided by these three principles:

Sectors ready for digital transformation

We believe that there is a great opportunity for technology to solve some of the inefficiencies present in emerging markets. However, technology alone does not digitise industries. Most of our investments apply innovative business models to industries that are set in their ways, using technology as an enabler.

Early stage, but with proof points

Cento Ventures aims to be the first institutional investor in most of our deals. We believe this helps us establish a solid relationship with the founder, and influence the strategic direction of the company. Our investments are most frequently at Series A and we usually lead the round. We maintain a realistic approach to investment and exit valuations, one that is driven by data we gather on venture capital deals in Southeast Asia.

Expansion to multiple countries

Cento Ventures seeks to help our founders build large digital companies that are leaders in their industry or category. In a fragmented region like Southeast Asia, operating across multiple countries is almost inevitable. We look for founding teams that share this ambition and focus our support on making their expansion easier. We have a suspicion that great companies born in one emerging market have an opportunity to replicate their success across many others.

Cento Ventures is convinced that the opportunity exists for Southeast Asian entrepreneurs to build transformational digital companies. Learn more about us at digitalmedia.vc or our Facebook or LinkedIn pages.



Introduction

INTRODUCTION



Cento Ventures has been tracking data on digital investment activity in Southeast Asia for a number of years. In our inaugural Southeast Asia tech investment report, covering the first half of 2017, we have decided to share some of the highlights of our data.

We hope this helps establish a clearer picture of how Southeast Asia's tech ecosystem is maturing, where investment is going, and where gaps still remain. We plan to update the report on a regular basis to show how the landscape is changing over time. In future, it would be interesting to extend the research to cover a variety of more qualitative matters, such as the availability of talent, and we look forward to working with partners who can help us achieve this.

The headline story of Southeast Asia is the continued growth in technology investment. A record amount of \$2.3B was invested during the first half 2017 over more than 140 deals, compared to \$2B in H2 2016 and \$1.4B in H1 2017. This suggests a healthy, and growing, interest in the potential for Southeast Asia's tech startups. We estimate that this amount may more than double for the second half, based on a number of large deals that were announced in July.

A closer look at the data reveals key features, some of which have been present for a while, that underlie the headline numbers:

- Concentration of capital in a few companies

2017 sees a continuation of 'mega-deals' as later stage companies capture ever larger investments. Fully 81% of funding in H1 2017 was captured by just 3 investments (Go-Jek, Garena and iFlix). This trend is expected to continue for the second half of 2017.

Interestingly, the earlier stages of capital raising look more stable. The number of deals in earlier stage deals seems consistent with 2016. The amount invested at each stage is also relative stable compared to the last couple of years.

Pre-Series A deals average out at US\$0.5M per deal, Series A at slightly more than US\$2M per deal, and Series B at US\$9M per deal.

- Diversification of capital by country

Excluding the mega-deals (since they skew the data), Indonesia and Singapore-based startups account for about half of the capital invested in Southeast Asia. This is a decline from earlier years when startups in these countries accounted for up to three quarters of investment.

The same split is reflected in the number of deals done: 50% to Indonesia and Singapore companies, 50% to the rest of the region. Of the rest, Vietnam and Malaysia appear to be experiencing stable or growing interest, while investment has cooled off in Thailand and the Philippines. However, a single half year period does not make a trend, so we will look again once the rest of 2017 has played out.

- Diversification of capital by sector

A few familiar sectors continue attract the most capital – of course these are the sectors in which the mega-deals are occurring. These are online retail (e-commerce and C2C) and local services (various on-demand services and urban transportation), along with 'multi-vertical' companies (often a mix of the other two).

Other sectors in which multiple deals are happening and significant amounts of capital flowing into include financial services, entertainment and travel. We see growing investor interest in a range of industries such as real estate, healthcare, and enterprise software, as startups emerge to address issues in many traditional, and still largely offline, parts of Southeast Asia's economy. We expect more attention to go toward B2B models as entrepreneurs explore opportunities to apply technology throughout various industry value chains.

INTRODUCTION



- Funding gaps and fund specialisation

The existence of gaps in the funding available for early stage startups has been observed by others. It does seem to be the case that Southeast Asian startups raise Series B funding at a lower rate than those based in the US or Europe. However, we are talking about a less mature funding environment, and time will tell whether this 'corrects' itself over time. Certainly we are seeing VC funds being raised that target this stage, and the availability of capital for Series B rounds will likely improve.

We also see the emergence of sector specific funds, including our own new fund, called STV, which invests exclusively in startups within the online fashion/apparel sector. The fund will seek out ambitious founders who are using disruptive technology to build winners in this exciting segment. To help realise this, we have partnered with Start Today, the US\$10B company behind Japan's leading online branded fashion retailer Zozotown.

- Exits are by M&A

The majority of liquidity events for startups and early stage investors continue to come from sale of shares either to later stage investors and/or to strategic acquirers, while liquidity through IPOs remains a rarity. Despite a relatively small sample set (we don't always know the details of exit price or percentages liquidated), it seems that a 'very good' exit in the region is priced somewhere in the region of US\$200M.

Based on 2017 so far, that may well increase by the time we have a full year's worth of data to look at.

Acquirers generally fall into one of two buckets – either they are corporates (e.g. REA, Seek, Telenor) or larger tech companies (e.g. Alibaba, Grab, Go-jek). In both cases their motivation for buying Southeast Asia's startups appear to include geographic extension (e.g. Alibaba) or acquisition of complementary technology or teams (e.g. Go-jek).

Buyers are typically from within the wider APAC region, although there are isolated cases from all parts of the world. The largest number of deals are made by Singapore-based acquirers, while Chinese buyers have spent the most.

Overall it's been an encouraging first half to 2017, and the outlook for the full year is very healthy. Various challenges still remain: ensuring sufficient capital is available to high-quality startups based in the less invested parts of Southeast Asia, and possibly also to startups based beyond the region's capital cities (we don't have a breakdown of the data yet); bridging funding gaps that still remain; building more successful exit stories that help inspire more founders to start companies and attract more investors to the ASEAN region. And that's only on the financial side of things: better connectedness within the region and to other tech hubs; more availability of talent; and more equality of opportunity are all topics that merit attention, perhaps in future editions.

The aim of this report is to show how far Southeast Asia tech has developed during the time that Cento Ventures has been investing, and perhaps to highlight some of the continuing challenges. We hope it helps anyone, whether they are startup founders, investors, or policymakers, achieve a better understanding of the landscape that we all operate within.

Thanks



Mark Suckling



Laphat Thantiphop

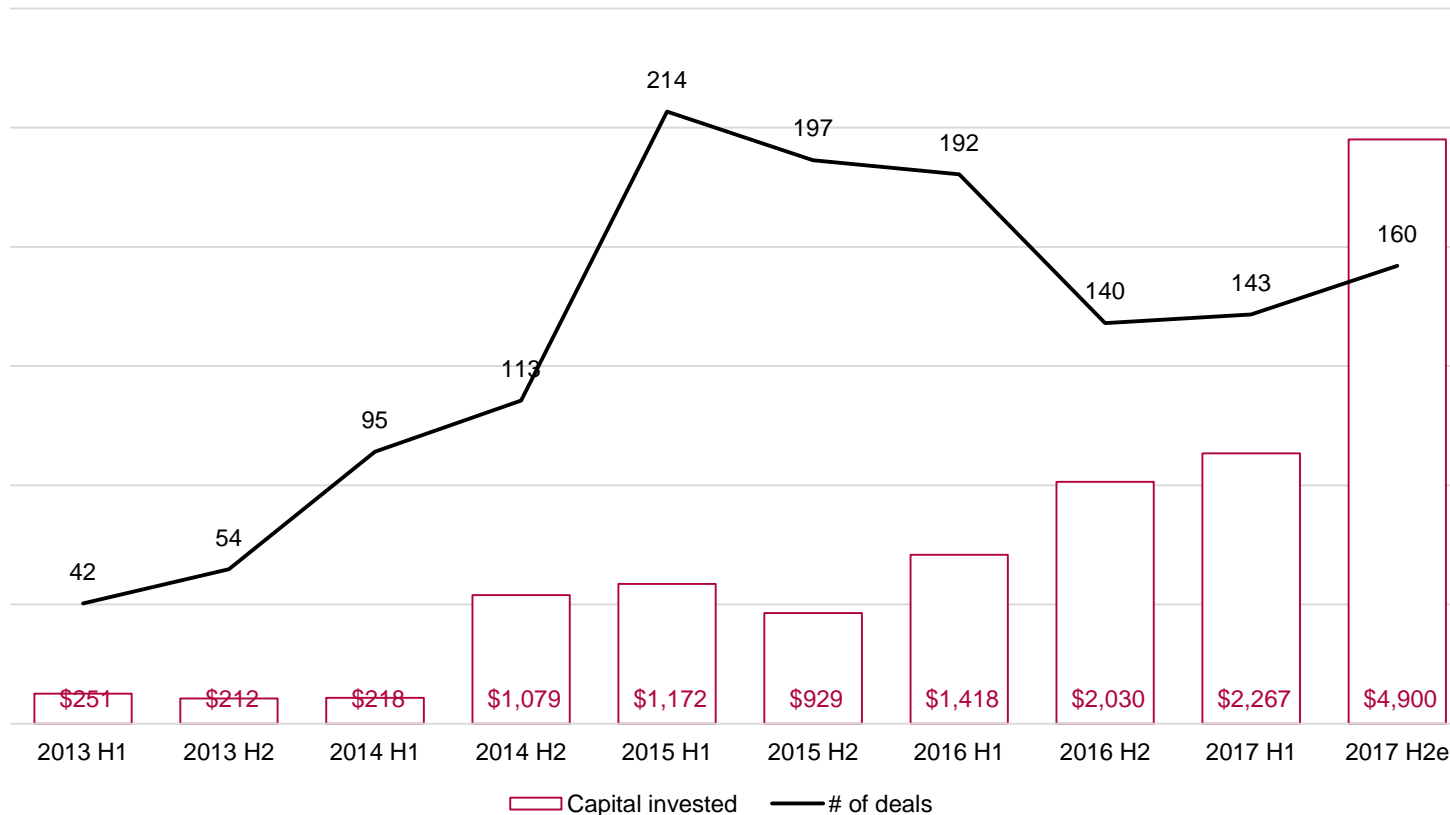


Investment landscape

RECORD INVESTMENT IN H1 2017. \$7B FORECAST FOR FY 2017



Capital invested, US\$M and deals done, #



2017 has seen record amounts of internet technology related investment in Southeast Asia. Investment activity measured by the number of deals has declined since its peak in 2015.

We assume the amounts deployed in the second half of the year will be significantly higher due to already known large funding rounds disclosed during July 2017. e.g Grab's US\$2B, Tokopedia's US\$1.1B, and Traveloka \$500M round.

Notes:

The numbers include various events that while count as investment in technology company, are considered non-VC, e.g TenX ICO, Grab-Honda project financing, Lippo Group funding of Matahari Mall.

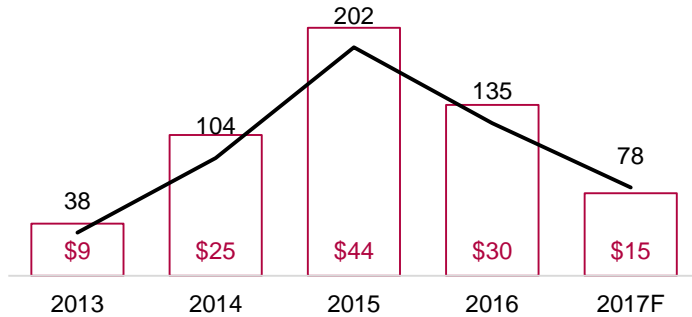
Some early stage incubator funded companies are not yet included in 2017 H1 data

Source: Cento research

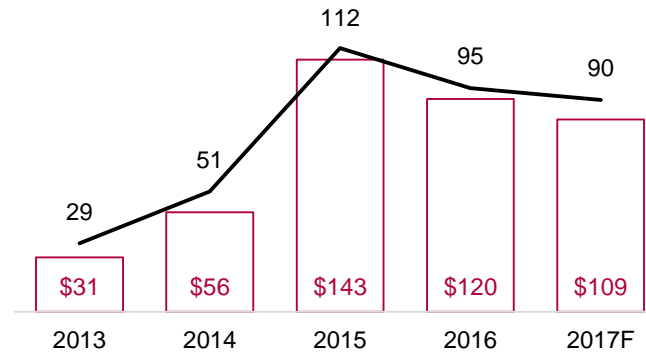
LARGEST DEALS GROW, SMALLEST DEALS COOLING OFF



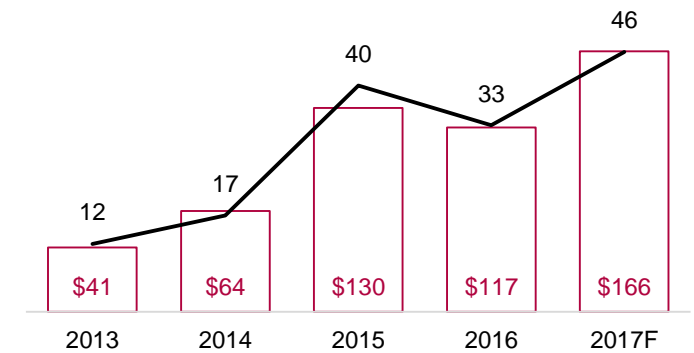
US\$0.5M or smaller deals**



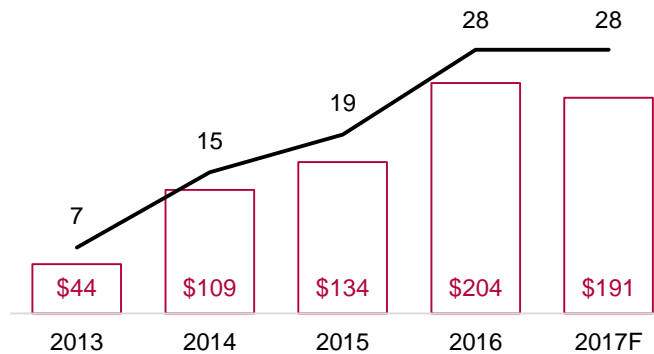
US\$0.5M+ to \$2M deals



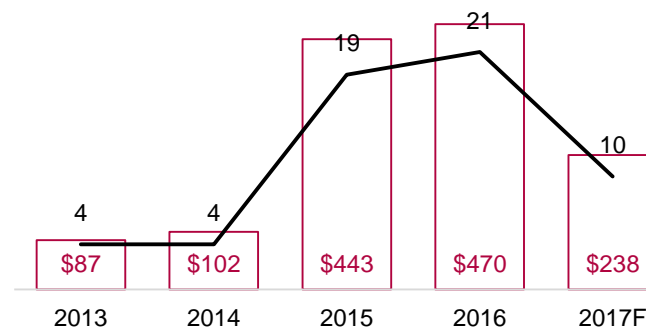
US\$2M+ to \$5M deals



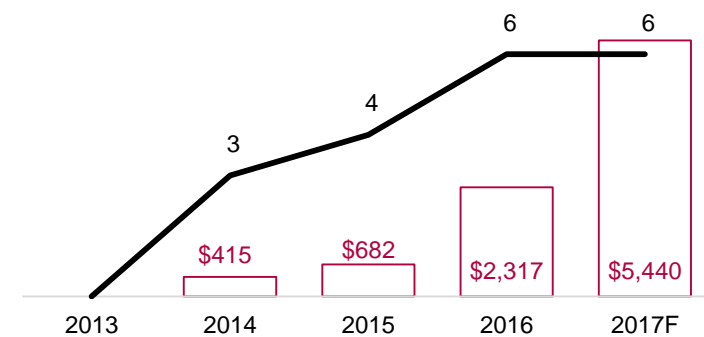
US\$5M+ to \$10M deals



US\$10M+ to \$50M deals



US\$50M+ deals



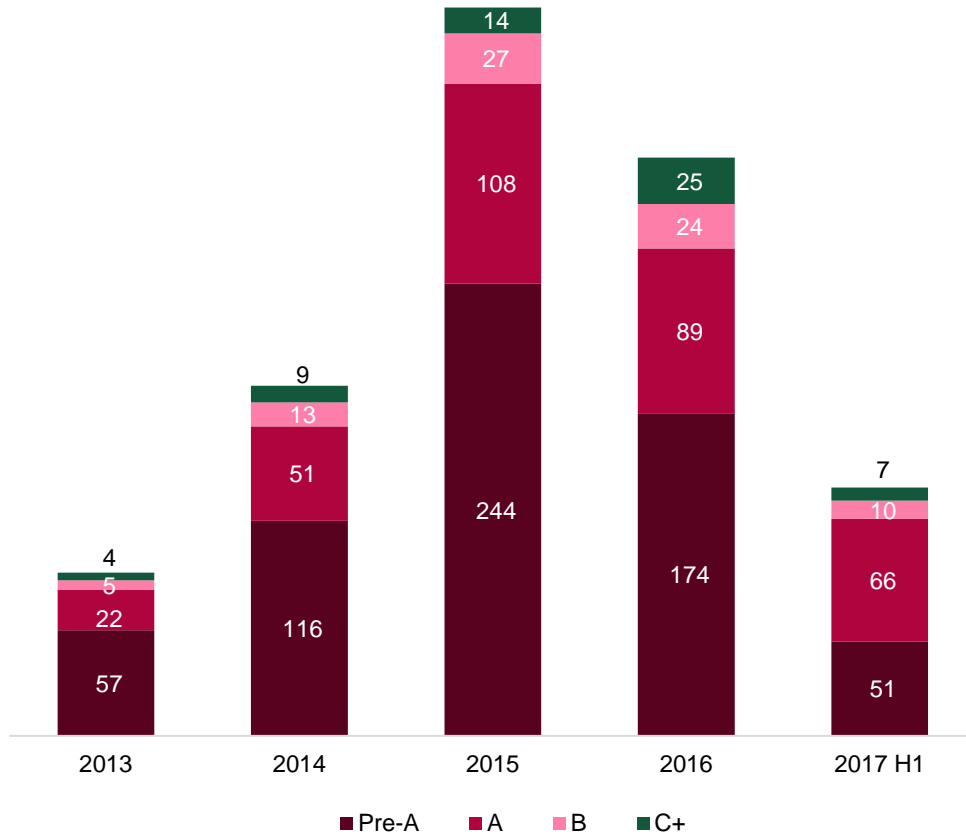
Capital invested, US\$M
 Deal #

Source: Cento research
 *Data only includes deals which are considered a VC investment
 **Various incubator funded early stage companies are yet to be included in 2017 H1 data

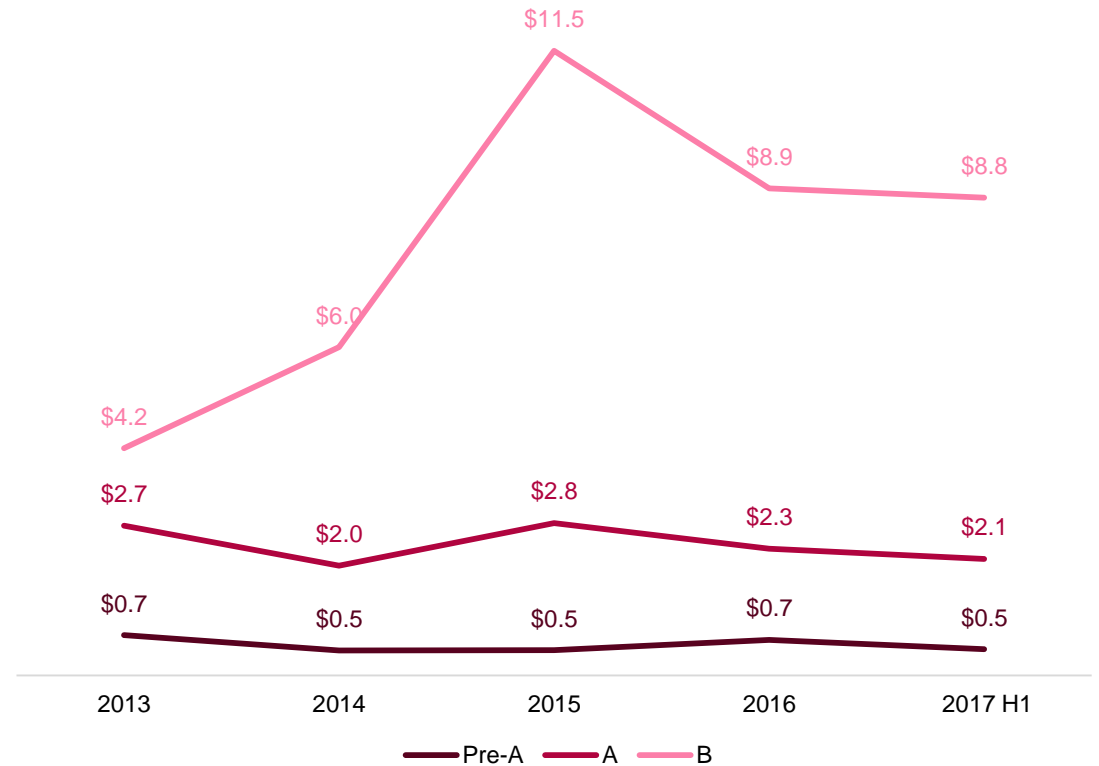
AVERAGE INVESTMENT AT PRE-A IS \$0.5M, A IS \$2M, B IS \$9M



Deals done by series, #



Average deal size by series, \$M

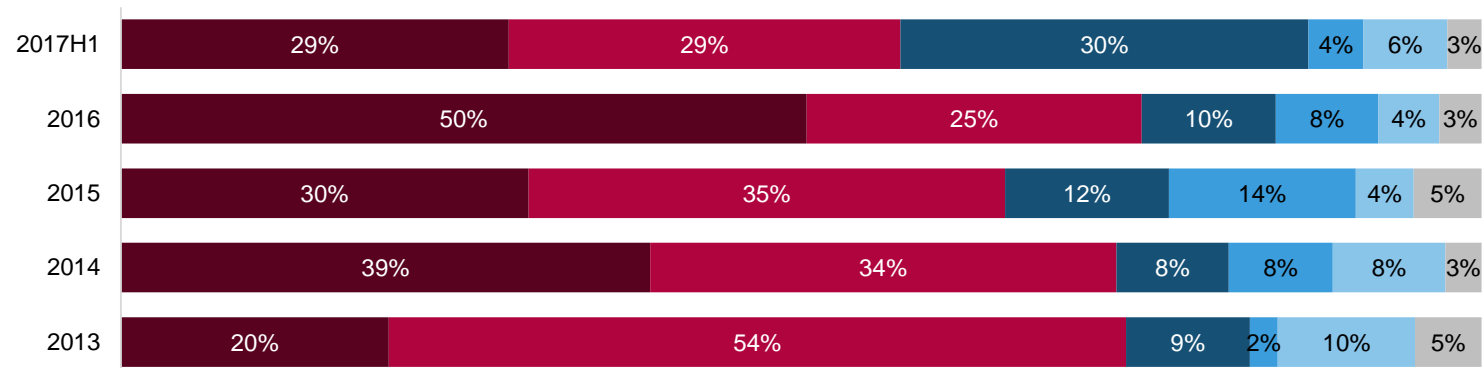


Source: Cento research

DEALS ARE SPREAD ACROSS THE REGION. 50% TO ID AND SG



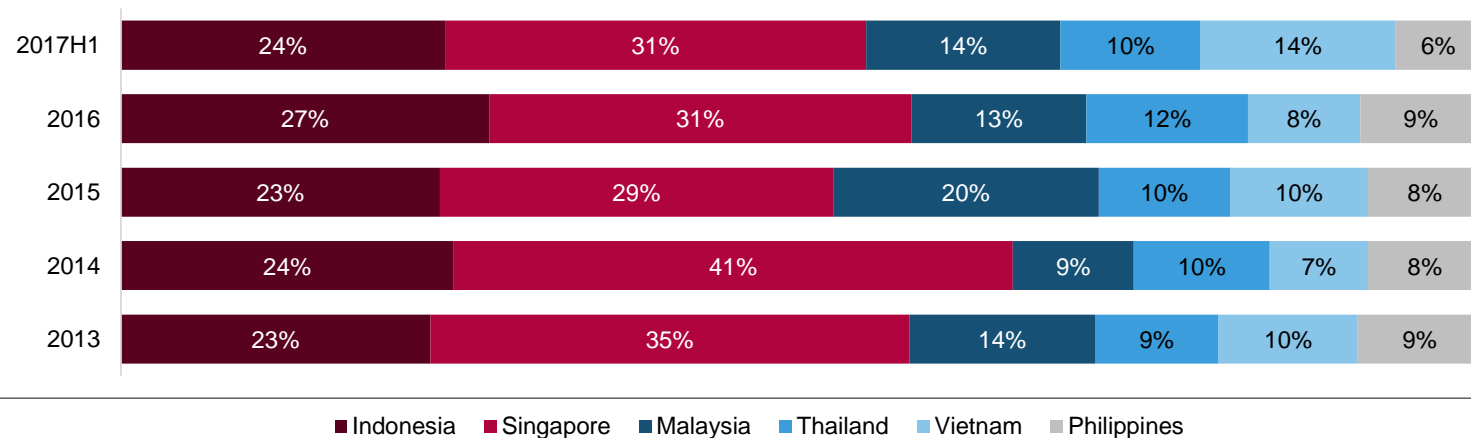
Share of capital invested by country



In 2017, companies based in Indonesia and Singapore captured about half of investment activity in Southeast Asia, both in terms of proceeds and number of deals. The remainder is split relatively evenly across the rest of the region, with a slight skew towards Malaysia.

On deals done, this is fairly consistent with the last few years data. On capital invested, the distribution is becoming less skewed to Indonesia and Singapore-based companies.

Share of deals done by country



The data excludes Garena (Sea), Go-jek, Grab and Lazada investments since it heavily skews the proceeds distribution. In the cases of Garena, Grab and Lazada it is also rather misleading to allocate their funding to a particular country, since they are truly regional.

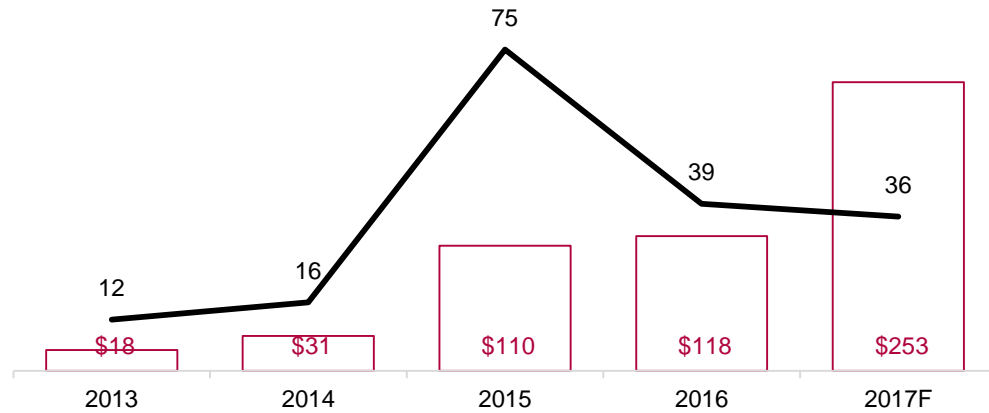
■ Indonesia ■ Singapore ■ Malaysia ■ Thailand ■ Vietnam ■ Philippines

Source: Cento research
Country of origin is defined as where the company was founded and where it is believed to generate its core revenues

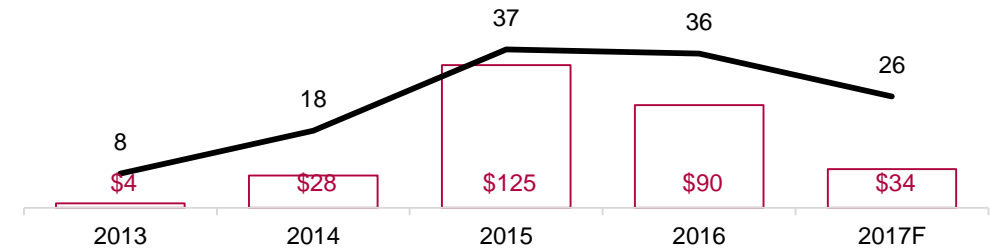
DEALS IN MY & VN ARE SOLID. TH & PH COOLED OFF



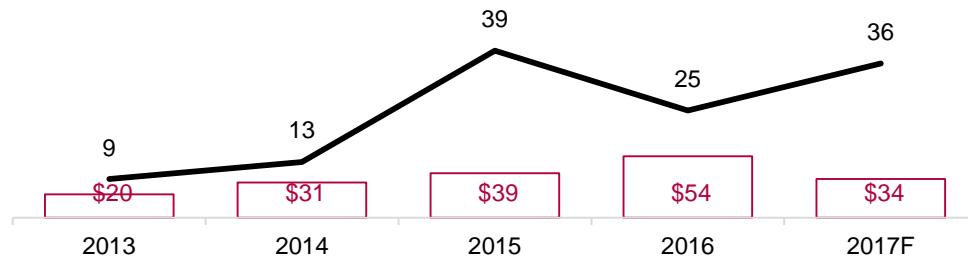
Capital invested and deals done in Malaysia



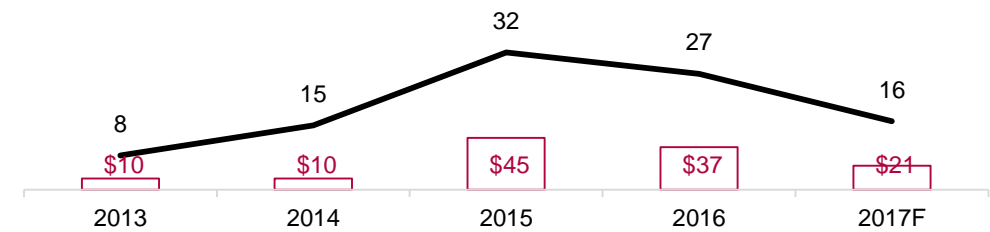
Capital invested and deals done in Thailand



Capital invested and deals done in Vietnam



Capital invested and deals done in Philippines



Source: Cento research

THERE IS DIVERSIFICATION ACROSS INDUSTRY SECTORS



Deals done by sector, US\$M

	2013	2014	2015	2016	2017H1
Multi-vertical		\$53	\$270	\$770	\$1,750
Local services	\$1	\$328	\$372	\$776	\$9
Retail	\$71	\$175	\$219	\$814	\$75
Travel	\$34	\$12	\$78	\$238	\$13
Financial Services	\$37	\$7	\$127	\$67	\$37
Payments and Remittances	\$19	\$26	\$86	\$114	\$18
Entertainment / Non-Gaming	\$1	\$4	\$52	\$83	\$95
Food	\$8	\$32	\$69	\$48	\$6
Retail backend & infrastructure	\$0	\$6	\$27	\$38	\$67
Comms & communities	\$4	\$23	\$16	\$80	\$0
Healthcare	\$0	\$12	\$24	\$43	\$36
Demand management	\$2	\$6	\$85	\$12	\$3
Logistics	\$1	\$13	\$33	\$53	\$6
Enterprise software & services	\$6	\$13	\$28	\$29	\$19
Advertising	\$6	\$15	\$26	\$17	\$3
Real estate	\$4	\$2	\$9	\$15	\$26
Education	\$0	\$7	\$12	\$7	\$10
Employment	\$3	\$4	\$11	\$10	\$4
Entertainment / Gaming	\$4	\$8	\$11	\$7	\$0
Others		\$0	\$1	\$0	\$0

While online retail (e-commerce and C2C) and local services (on-demand services and urban transportation), along with ‘multi-vertical’ companies (often a mix of the two), remain most heavily funded categories, other categories are attracting more attention.

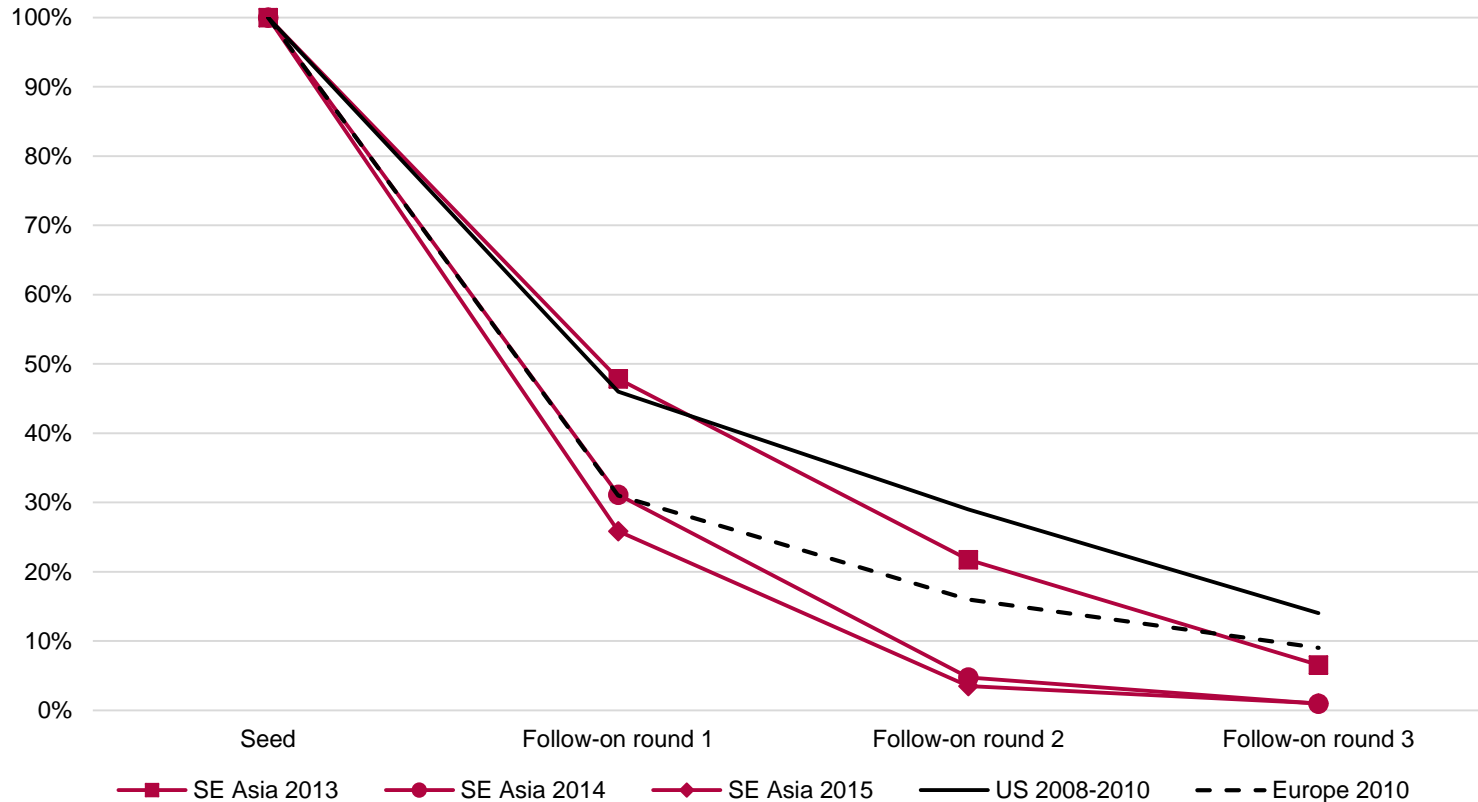
Financial services, entertainment and travel sectors have for some time, and are continuing to attract investment. There is also emerging interest in other categories like real estate, healthcare, and enterprise software.

Source: Cento research

IS THERE A SERIES B GAP?



% of companies raising seed round that raised follow-on rounds



We tracked Southeast Asian startups that announced seed funding between 2013-2015 and compare the rate of follow-on fundraising with data from the US and Europe. It appears that startups in Southeast Asia have been able to attract Series A funding at a broadly similar rate to more mature ecosystems.

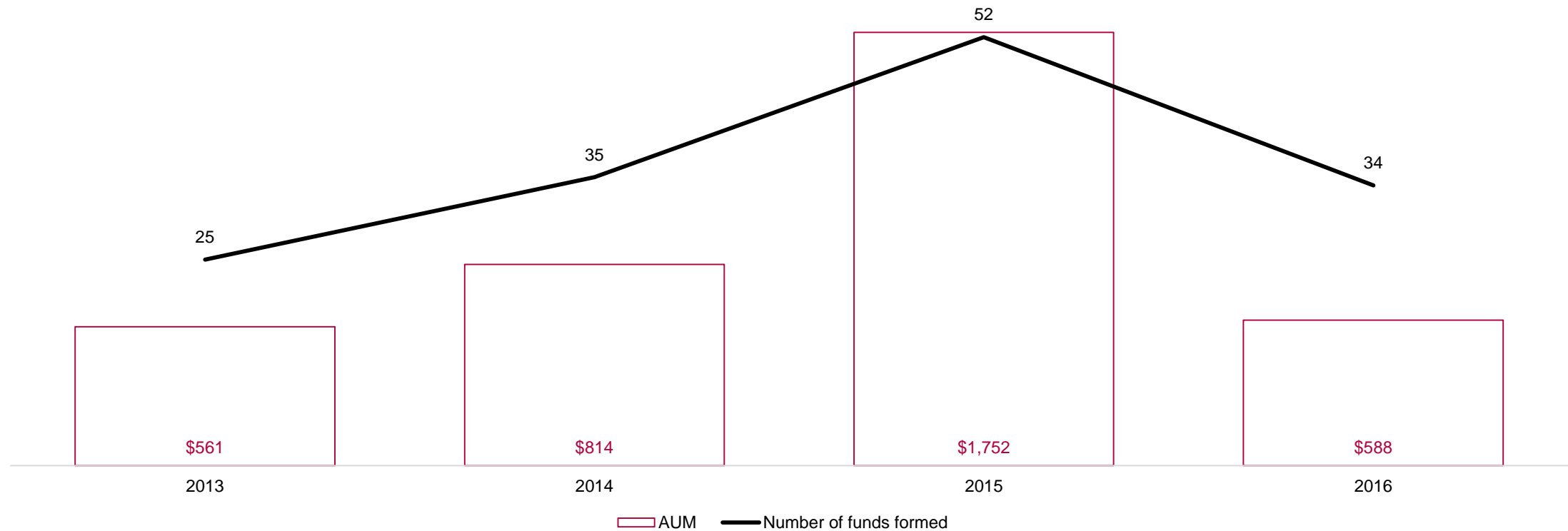
A funding 'gap' seems to remain at Series B however, where follow-on rates are lower. However our cohort data on Southeast Asia is more recent, and therefore there is potential for rates of follow-on funding to increase.

Source: Cento research
<https://www.cbinsights.com/research/venture-capital-funnel-2/>
<http://www.atomico.com/news/the-state-of-european-tech-2016>

FUND FORMATION APPEARS TO SLOW IN 2016



Southeast Asia focused funds formed and AUM*, US\$M

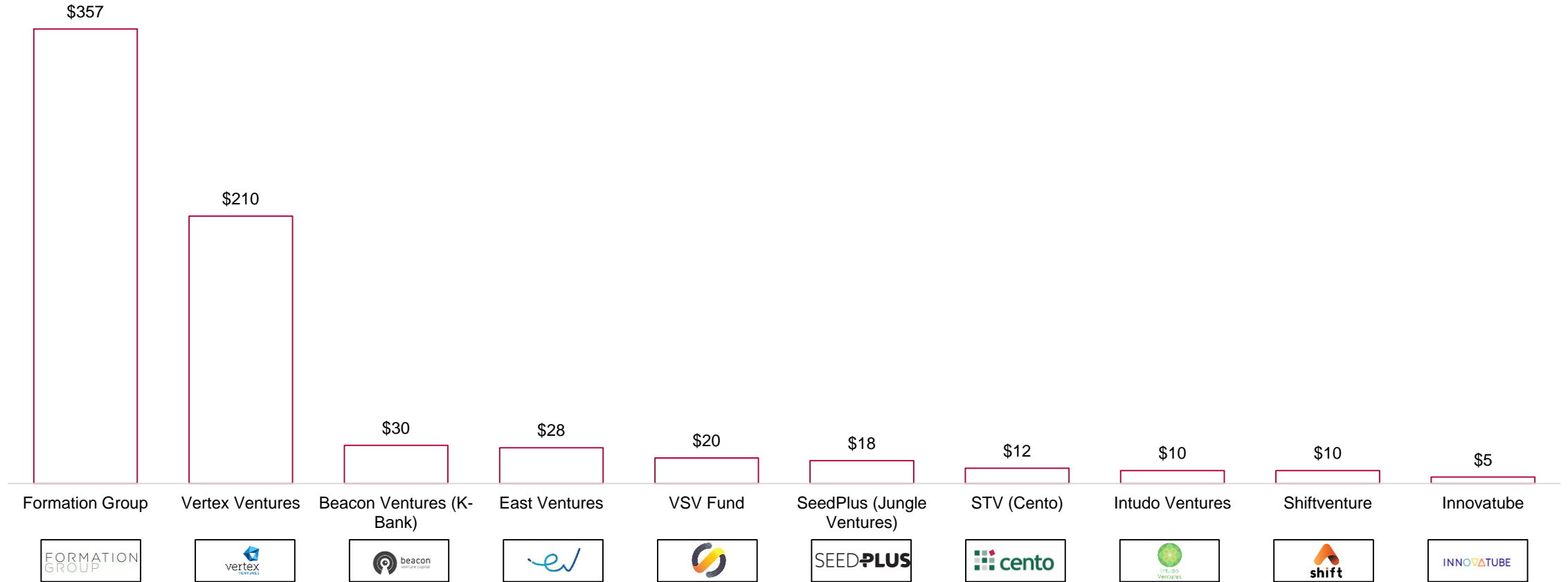


Source: Cento research
*in cases using best estimates

SOME NEW (AND FAMILIAR) NAMES WITH NEW FUNDS IN 2017



Southeast Asia focused funds launched during 2017 by AUM, US\$M



Source: Cento research

THERE IS A GROWING CROP OF \$100M+ COMPANIES



Companies that surpassed US\$100M valuation

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Other
Unicorns	 						

Southeast Asia has produced a small number of unicorns valued above US\$1B.

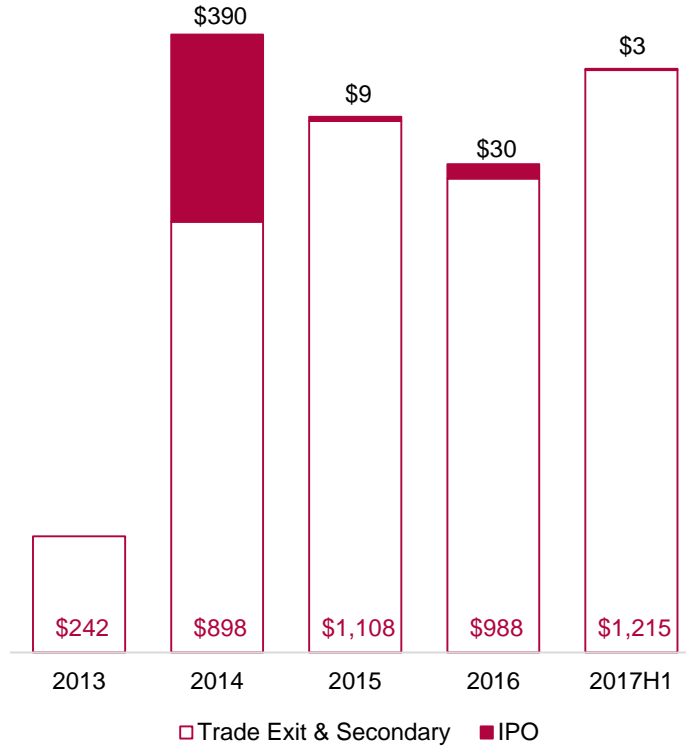
Perhaps a more comprehensive view of the region's most successful tech startup stories is provided by looking at the larger group of companies we believe have been valued in excess of \$100M at the time of a fundraising or exit event. Many of which we expect to continue growing in value.

Source: Cento research

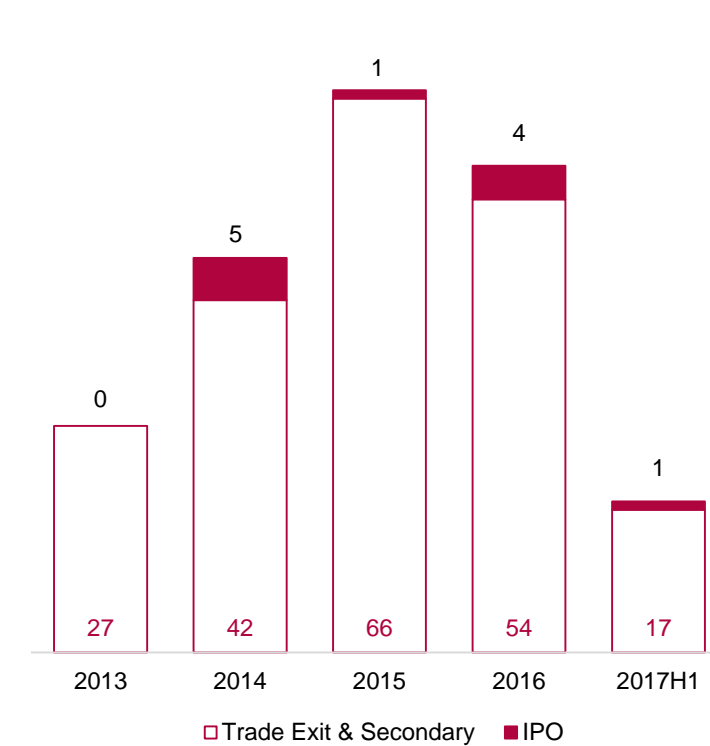
M&A PROVIDES MOST LIQUIDITY



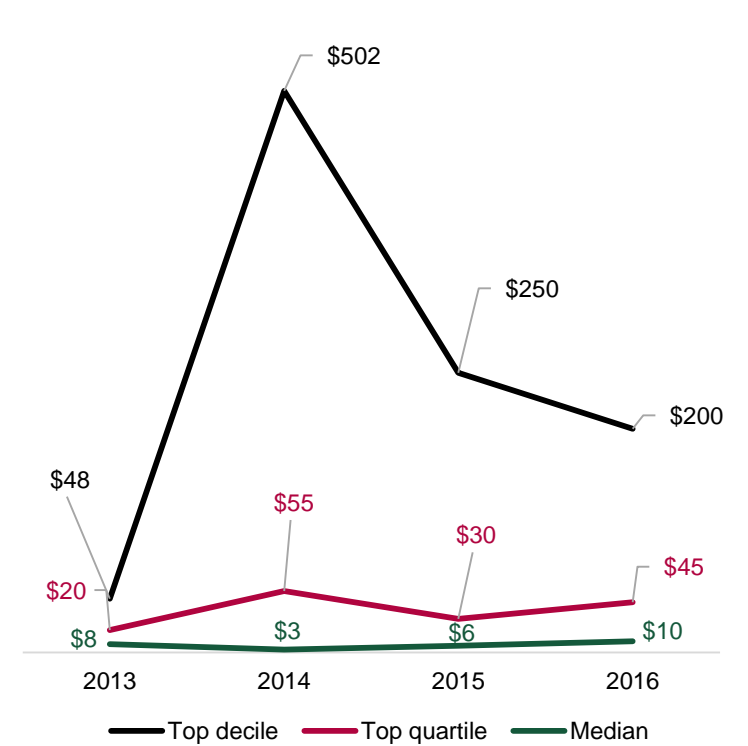
Proceeds realized at exit, US\$M



Liquidity events, #



Exit valuations, US\$M



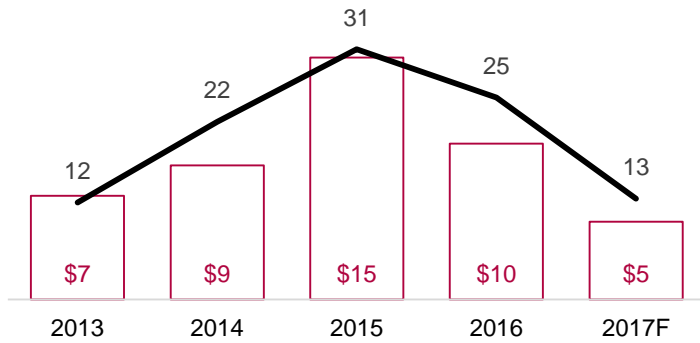
The majority of liquidity events for startups and early stage investors come from sale of shares to later stage investors and/or to strategic acquirers. Liquidity through IPOs remains a rarity.

Source: Cento research

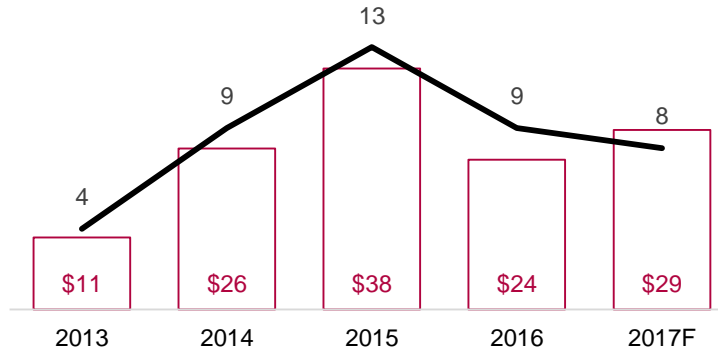
EXITS ARE HAPPENING, BUT STILL RELATIVELY FEW IN NUMBER



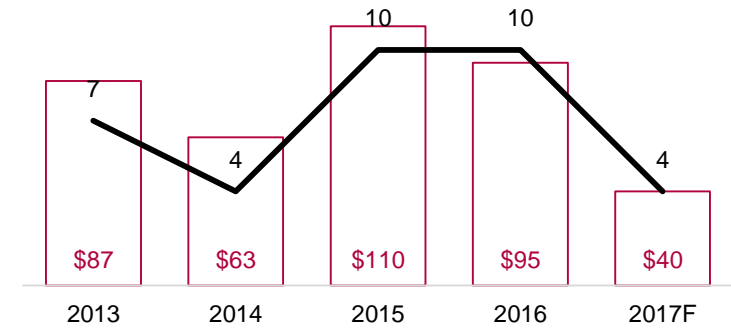
Liquidity events and proceeds, <US\$1M



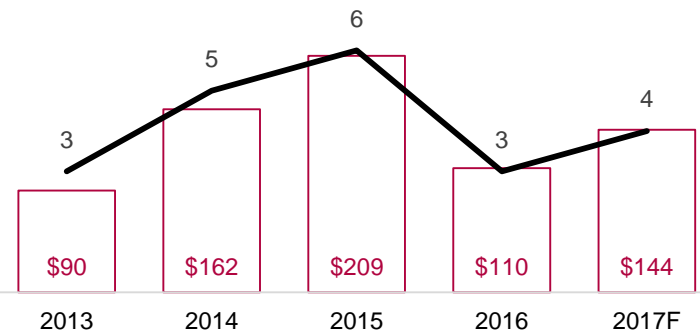
Liquidity events and proceeds, US\$1M+ to \$5M



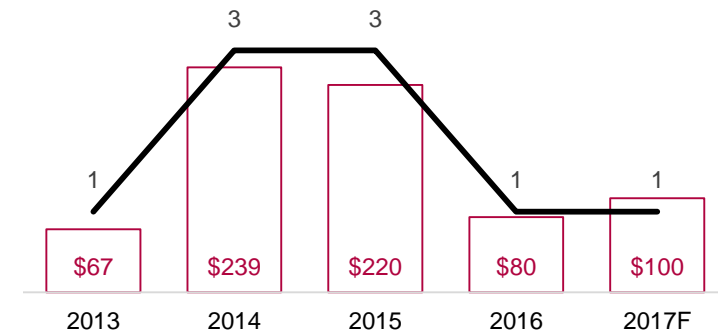
Liquidity events and proceeds, US\$5M+ to \$20M



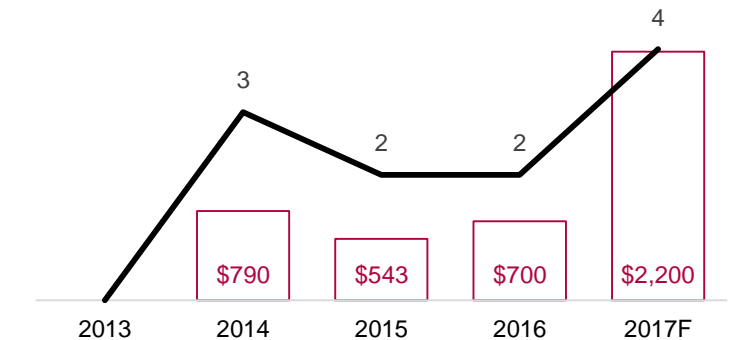
Liquidity events and proceeds, US\$20M+ to \$50M



Liquidity events and proceeds, US\$50M+ to \$100M



Liquidity events and proceeds, >US\$100M



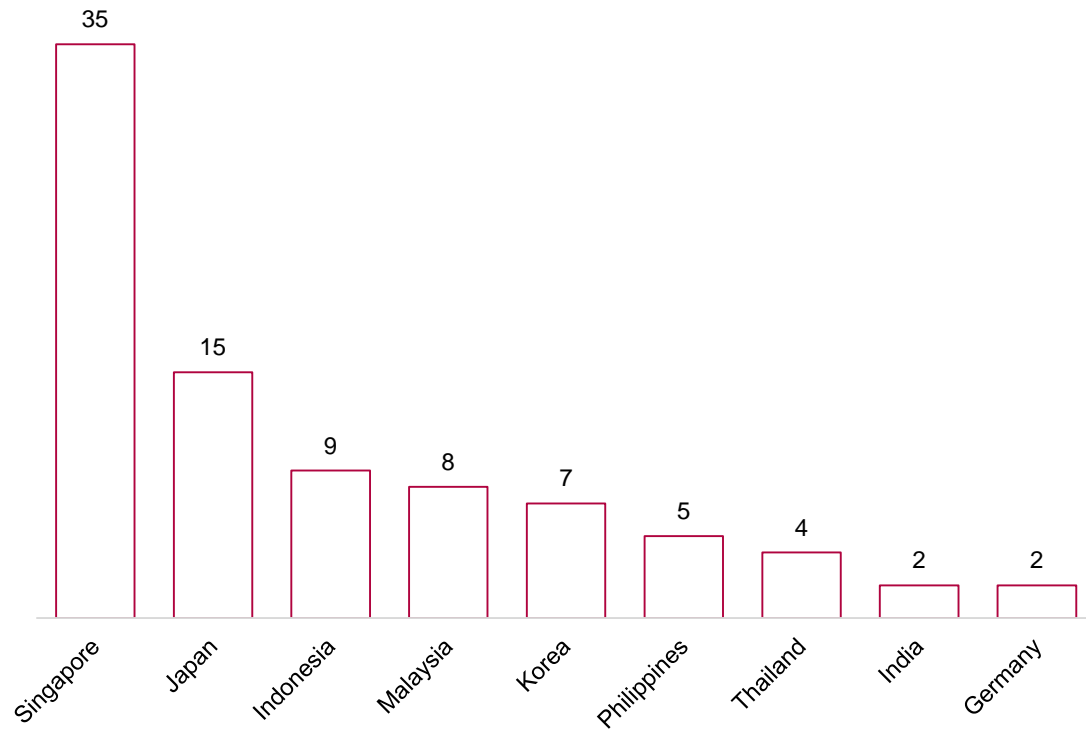
□ Amount, US\$M
 ■ Events, #

Source: Cento research

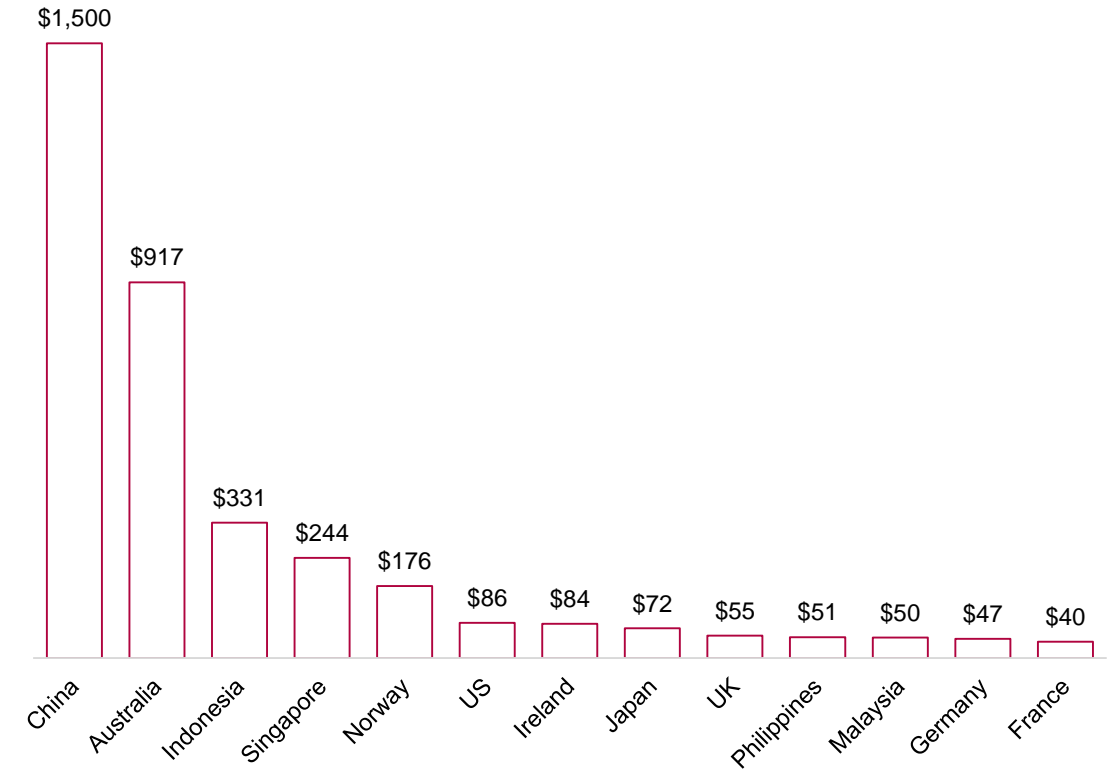
ACQUIRERS ARE FROM WITHIN SE ASIA & APAC REGION



Country of origin of acquirer, by deals done, 2013-2017



Country of origin of acquirer, by capital invested, 2013-2017, US\$M



Source: Cento research



Methodology

METHODOLOGY



Data sources:

Our data is compiled from a number of sources, although we primarily rely on public press announcements from companies and investors. Our team researches the validity of claims and supplements incomplete information with our insights. Our data passes through a number of quality control checks. Inevitably data is incomplete and in some cases we use best estimates to assess a particular deal.

Deal definitions

Stage:

Each series definition is determined as follows:

- Pre-Series A: amounts from \$10K-1M. Purpose of investment tends to be building the idea/team, in some cases the company generates revenue.
- Series A: amounts from \$500K-2M. Product has been built and proven initial/repeatable revenue. Investment tends to be establishes domestic position, and sometimes scaling regionally.
- Series B: amounts from \$2M-10M. Investment tends to be increases scale, either domestically or regionally.
- Series C+: any amount invested later than Series B. Series C, Series D, later series investments, pre-IPO, mezzanine.

Deal type:

We focus mainly on venture capital deals – investments made by fund entities into early stage startups, whether they are from independent funds of corporate venture capital entities. This is subset of the total number of early stage tech deals in the region.

We separate the following from most of our data, apart from the 'total capital invested and total deals done' chart:

- Corporate transfers: events where a corporate entity funds an entity in the region in which it owns a majority or significant minority stake (e.g. Rocket Internet, Lippo Group)
- Project financing: A deal which was a partnership for an identified purpose – e.g. Grab-Honda.
- Non-Southeast Asia deals: e.g. India and China focused companies that happen to use Singapore for their corporate domicile.

Country of origin:

Determined by the country in which the company was founded, and has its primary base of operation (defined in terms of revenue, if known). At the (subjective) point where the company has both operations in multiple countries in Southeast Asia and substantial revenues generated in multiple countries, then is may be classified as Southeast Asia in country of origin.

Sector classification:

Cento's definition of the industry segment in which the company's primary business focus sits. A full taxonomy of sector allocation is available. In cases where a company has multiple sector focus with different units generating thought to generate substantial revenue, then multi-vertical category is used.

Fund definitions

Mapping fund allocations is an inexact science. We count the number of funds that have been observed doing early stage tech investment in Southeast Asia. We also try to assess the allocation of those funds to the region. In some cases (e.g. Cento Ventures) that is equivalent to 100% of their AUM. In many others with a broader, or no particular, geographic focus, allocation is an estimate based on information received from the fund manager, or the relative number of deals that they have done within the region compared to elsewhere.



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