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Looking back: Start-ups hungry for funds

Large corporates raise the game



QUEST VENTURES: MD James Tan expects more attention will be put on fintech and on attracting foreign teams to set up in Singapore. PHOTO: QUEST VENTURES

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Sector has grown immensely, but it still needs to develop in deep-tech areas like robotics

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Venture capitalists (VCs) say Singapore will grow in importance as a funding and talent hub for South-east Asia in the coming year, and large corporates will play an increasingly vital role in the ecosystem.

They also note that Singapore's start-up sector has grown in both breadth and depth amid a maturing venture capital landscape and a rising number of companies displaying regional or global aspirations. The Straits Times asks VCs to round up key developments this year and look ahead to 2017's biggest trends.

MATURING FUNDING ENVIRONMENT

This year's most notable trend was the significant rise in the breadth and depth of the venture capital market and the variety of players, says Mr Vishal Harnal, a Singapore-based partner at Silicon Valley venture capital firm 500 Startups.

Early-stage money has been quite abundant on the back of a significant government presence. But VCs that used to focus on just early-stage companies are moving up the rung beyond seed funding.

\$290b

Size of market for e-commerce, online travel and online media in the region by 2025, according to research released by Google and Temasek Holdings in May.

\$72b

To capture the opportunities, \$58 billion to \$72 billion of investment must be injected over the next 10 years, according to the research.

"This is a tremendously beneficial development because it gives more entrepreneurs access to capital across the lifespan of their companies and not just at the start," says Mr Harnal.

A number of local VC firms have raised funds this year - most recently, Jungle Ventures raised a second fund valued at US\$100 million (S\$145 million), 10 times larger than its first one raised in 2012.

Other firms that have raised funds include Jubilee Capital Management's US\$100 million fund; Golden Gate Ventures second early-stage fund at US\$60 million, and the S\$50 million fund from Venturecraft Group which focuses on medical technology.

Singapore-based B Capital Group, co-founded by Facebook co-founder Eduardo Saverin, raised US\$143 million and said it aims to plug gaps in growth-stage funding, which helps start-ups scale up.

"The VC landscape in South-east Asia has matured significantly over the past years and we see an increasing number of funds also focusing on later-stage investments at Series A and B," says Mr Moritz Heininger, chief operating officer of e-commerce solutions start-up Anchanto.

This year also saw a surge in the number of large corporates entering the venture capital scene. Notable among them are CapitaLand's C31 Ventures, which will invest up to \$100 million in areas such as construction, maintenance and customer engagement; and gaming hardware firm Razer's US\$30 million zVentures fund, which will target companies working on areas such as robotics, Internet of Things, gaming software technology and e-sports.

DOMINANT TRENDS

The spotlight was on a few key sectors, including fintech, e-commerce and e-marketplaces.

"Fintech has been significantly hyped up by the ecosystem. More attention will be put on fintech and on attracting foreign teams to set up in Singapore," says Mr James Tan, managing director of Quest Ventures.

The Monetary Authority of Singapore stepped up its push to develop the sector, organising the inaugural Singapore FinTech Festival last month, which saw 11,000 participants from over 50 countries gather for a week-long event believed to be the world's largest for fintech.

The banking regulator's aim is to develop Singapore into a smart-financial centre and fintech hub.

E-commerce also garnered significant attention. Research released by Google and Singapore investment company Temasek Holdings in May showed that South-east Asia's Internet economy is on the brink of a meteoric take-off.

The market for e-commerce, online travel and online media in the region is set to grow to nearly US\$200 billion (S\$290 billion) by 2025, from US\$31 billion last year, the study found. To capture these opportunities, US\$40 billion to US\$50 billion (S\$58 billion to S\$72 billion) of investment must be injected over the next 10 years.

The sector also saw some high-profile fund-raising rounds. Singapore-based peer-to-peer marketplace Carousell raised US\$35 million in August in a funding round led by Rakuten Ventures, which included Sequoia India, Golden Gate Ventures and 500 Startups.

The firm has raised about US\$41.8 million to date, and its application is available in 13 Asian cities including Singapore, Kuala Lumpur, Jakarta, Taipei and Hong Kong.

The sector also offers opportunities in related industries, notes Mr David Gowdey, managing partner of Jungle Ventures. "We are excited about the growth of e-commerce, which will require several key building blocks, like listings and payment options... as well as access to consumer credit," he says.

Still, other trends - specifically, in deep-tech sectors like robotics and artificial intelligence - which have gained traction elsewhere in the world have yet to take a firm hold in Singapore and the region.

"There is a push for 'deeper' tech but I am not seeing interesting start-ups in areas such as robotics. We need to focus on the areas that are tackling real-life problems in this region, and not just Singapore," Quest Ventures' Mr Tan says.

INVESTORS MORE CAUTIOUS

But it was not all sunshine and rainbows in the start-up world.

One of the most dramatic failures was Ensogo, a network of e-commerce sites operating across South-east Asia and Hong Kong.

Ensogo Singapore, formerly known as deal.com.sg, came under fire in May when **sellers on the platform complained of late payments**.

In the following weeks, its stock on the Australian Securities Exchange plummeted, directors resigned, staff were laid off, its South-east Asia marketplaces closed and share trading suspended.

Separately, German start-up factory Rocket Internet - which was behind start-ups such as Foodpanda, Zalora and Daraz - posted a colossal **US\$682 million loss** in the **first nine months of this year**. It has since sold food delivery service Foodpanda to rival firm Delivery Hero.

The Frankfurt-listed Rocket Internet attributed most of the loss to a slump in the value of its fashion e-commerce start-ups, which were collectively downgraded by more than US\$2 billion.

In an environment where interest rates are low, **returns on most asset classes are lacklustre** and investors are eagerly hunting for yield, the worry is that all the money being poured into the ecosystem in search of the next big thing might be creating a bubble, bumping up **start-up valuations** and funding **unsustainable business models**.

But investors say that is not so. "The best indicator of whether there is too much money chasing after too few deals is **whether prices are out of whack with the rest of the world**. We are not seeing that at the moment," says Dr Finian Tan, chairman of Vickers Venture Partners.

"Most founders in South-east Asia have realistic valuation expectations. We have seen examples of companies achieving what we believe are high values, but that does not indicate that we're in a bubble. There are still more companies than there is capital to fund them," says Jungle Ventures' Mr Gowdey.

Still, investors in Singapore and the region have become more cautious. "I would not say we are in a funding bubble but investors have become more careful, focusing **more on profitability metrics** compared with pure top-line focus, which we have seen in the past," says Anchanto's Mr Heininger.

"Start-ups today need to realistically show the path towards **profitability**. The business model and unit economics are increasingly the focus of investors... There are many great VCs in South-east Asia focused on **different maturity stages of start-ups and funds** are available to those who build great companies," he adds.

Mr Paul Santos, managing partner at Wavemaker Partners, says 2016 "was a bit of a reality check".

"Last year, it seemed like it was all about **growth**. This year, it seemed like investors needed to get comfortable with a start-up's path to **building a real, sustainable business** before they would invest," he notes.

Mr Nicko Widjaja, the chief executive of MDI Ventures, which operates in Singapore, Jakarta and Silicon Valley, says: "We've seen that unsustainable 'Rocket Internet style' growth does not work.

"These models are built on a fallacy that it is easy to scale in the large South-east Asian markets by copying business models that are successful elsewhere... Speed to scale in South-east Asia is dependent on the pace of infrastructure development (like logistics)."

There have been many high-profile failures globally this year and while inflated valuations might have played a small part, most failures could be attributed to business models, says Mr Michael Blakey, managing partner at Cocoon Capital Partners. "I do believe that the failures have dampened down valuations a bit in Singapore and I do know that many of the angel investors have definitely become a lot more cautious," he notes.

THE YEAR AHEAD

Vcs say the coming year will see even more growth in South-east Asia's tech talent pool and Singapore's role as the region's hub.

Companies with strategic value for large corporates will have a competitive edge in attracting large funding rounds, MDI Ventures' Mr Widjaja says.

"Unlike the US and China, South-east Asia does not have many large independent VCs at the Series B level and above, but we have plenty of corporate investors," he adds.

Jungle Ventures' Mr Gowdey says the trend of founders spinning out from larger companies will continue. "These founders tend to be older and have more operating experience, which potentially helps in creating fast growing companies."

Entrepreneurs worldwide will continue flocking to South-east Asia to build companies to address tremendous regional opportunities, says Wavemaker Partners' Mr Santos. "Unlike China or India, where you probably need to be local in order to succeed, South-east Asia is open for business. This influx of global talent can only increase the vibrancy of the regional start-up ecosystem and accelerate its development," he adds.

Digital companies that choose Singapore as a base do so because of the ecosystem's features, such as the presence of "deep sectors of the digital economy", says Mr Dmitry Levit, founder and partner at Digital Media Partners. "Consequently, Singapore will continue to power the entire region in areas such as advertising, private wealth management, real estate and others."

The size and quality of the tech talent pool in this region will increase significantly with giants like Amazon, Alibaba, Google and Facebook ramping up their presence, says 500 Startups' Mr Harnal.

Chinese online shopping giant Alibaba boosted its presence here in April when it bought a US\$1 billion controlling stake in Singapore-based e-commerce platform Lazada.

Meanwhile, Amazon has plans to expand to South-east Asia, and there are signs it is entering the region through Singapore, with tech news website TechCrunch reporting that the retail giant is acquiring assets and hiring new staff here.

With both Amazon and Alibaba looking to deepen their foothold in the region, competition in the online retail market is heating up.

"They're going to bring with them top talent from the Valley and China and that's going to enrich the ecosystem as local hires interact with them," says Mr Harnal.

"Much like the large pool of Rocket Internet alumni that have become founders, we'll likely see that happen with Google, Facebook, Amazon and Alibaba as well."

All in all, Cocoon Capital's Mr Blakey is "very optimistic about 2017 and the investment environment", saying: "I've seen a massive improvement over the years in the quality of both founders and companies in Singapore and I don't see this changing. I always believe that a good start-up will be able to find the funds it requires."

Correction note: An earlier version of the story referred to Anchanto as a logistics start-up. This is incorrect. The company is an e-commerce solutions start-up.
