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PREQIN MARKETS IN FOCUS: PRIVATE EQUITY & VENTURE CAPITAL IN SOUTHEAST ASIA

preqin

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Data Pack

The data behind all of the charts featured in this report is available to download for free. Ready-made charts are also included that can be used for presentations, marketing materials and company reports.

To download the data pack, please visit: www.preqin.com/PEVCSEA19

CEO's Foreword

I am delighted to present Preqin's inaugural report on Southeast Asia's private equity & venture capital (PEVC) industry. At a time of heightened macroeconomic challenges, Southeast Asia's PEVC sector continues to advance. This is a dynamic, fast-growing part of the world, and since September 2010, when we opened our first regional base in Singapore, we have seen rapid development in the region's PEVC industry.

Mark O'Hare
CEO, Preqin

True, Southeast Asia's contribution to global PEVC assets under management (AUM) is modest. As of December 2018, the region made up less than 1% of the $3.6tn in total global AUM. But the industry is growing fast. Between 2017 and 2018, ASEAN's combined PEVC AUM rose by 8.6%, from $26bn to $28bn, **Preqin Pro** data shows.

Furthermore, Southeast Asia has nurtured several prominent unicorns that have transformed the sectors in which they operate. These include Singapore-based transport technology and mobile application company Grab, as well as Indonesia-based Traveloka (a travel technology company) and Tokopedia (an online marketplace). And there are more unicorns to come.

To help our global subscribers keep on top of the region, Preqin Pro tracks over 430 ASEAN-based PEVC fund managers (this figure excludes investors investing primarily off their own balance sheets). Singapore is home to the majority (60%) of these managers, managing $19bn in AUM, while Malaysia comes second with $6.0bn and Vietnam is third with $1.5bn.

In addition to monitoring fund managers, Preqin Pro tracks over 280 institutional investors that either have exposure to or consider ASEAN part of their investment preferences. Nearly three-quarters (72%) of these investors are based in Asia, with a 65:35 split between those based in greater Asia and Southeast Asia. Another 15% of investors are based in North America, 6% in Australasia, a further 6% in Europe and 1% in the Middle East.

We are grateful to the industry experts that have contributed their insights to this report. These are AddVentures, CPPIB, DEG, East Ventures, EDBI, GP Group, Investcorp, KIC, Mekong Capital, Navis Capital, Novo Tellus and Sojitz Asia. Their comments underscore the massive pool of entrepreneurial talent in the region, and the role that PEVC can play in fostering the growth of unicorns and building regional champions.

With global alternatives AUM forecast to rise by well over half to $14tn by 2023 (please see our **Future of Alternatives**[1] report), we expect Southeast Asia's PEVC markets to continue to thrive. We look forward to supporting the industry's development as we continue to invest in Preqin's data and capabilities in the region.

[1] *http://www.preqin.com/future*

Overview of Southeast Asia

How is Southeast Asia segmented?

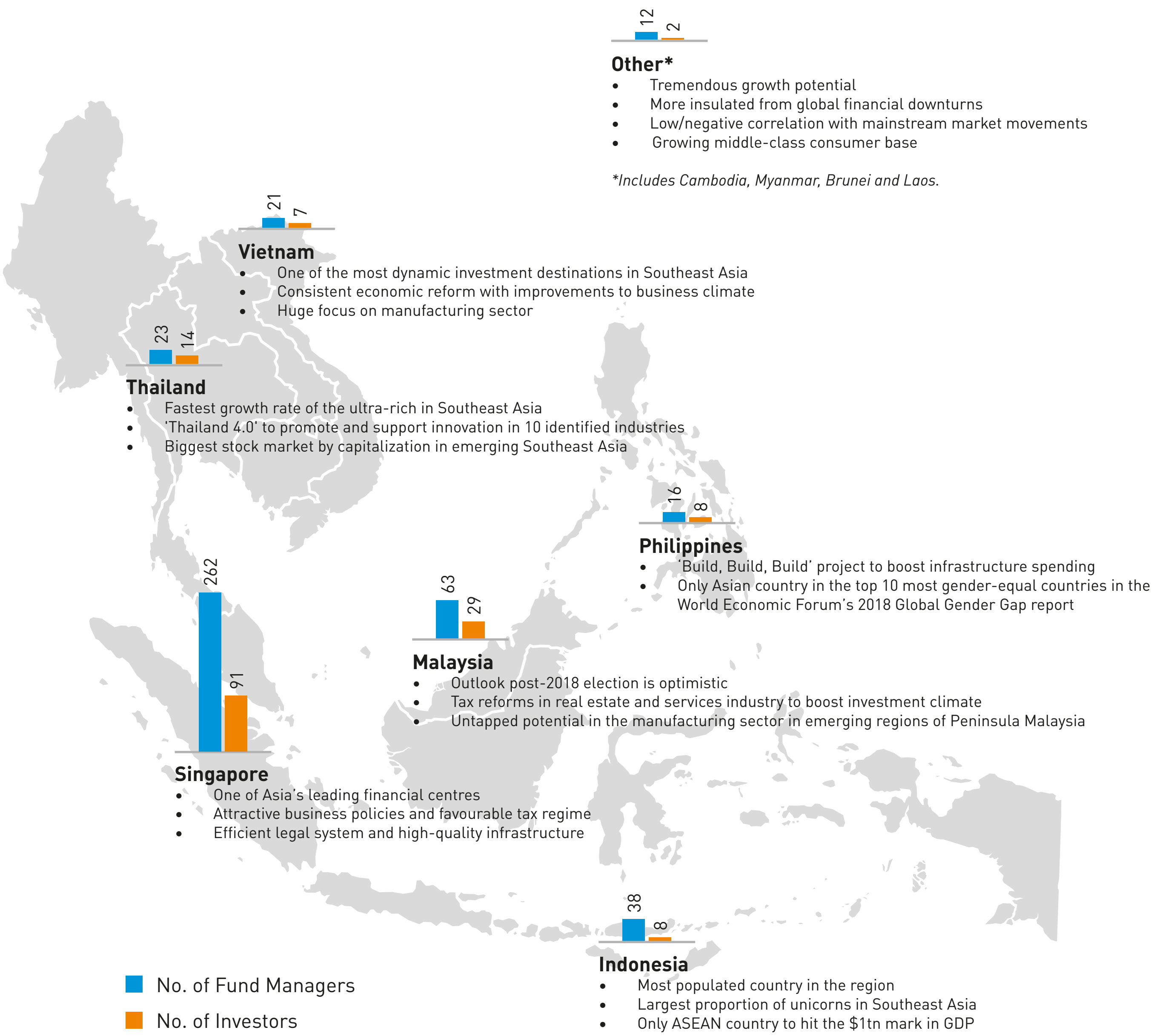
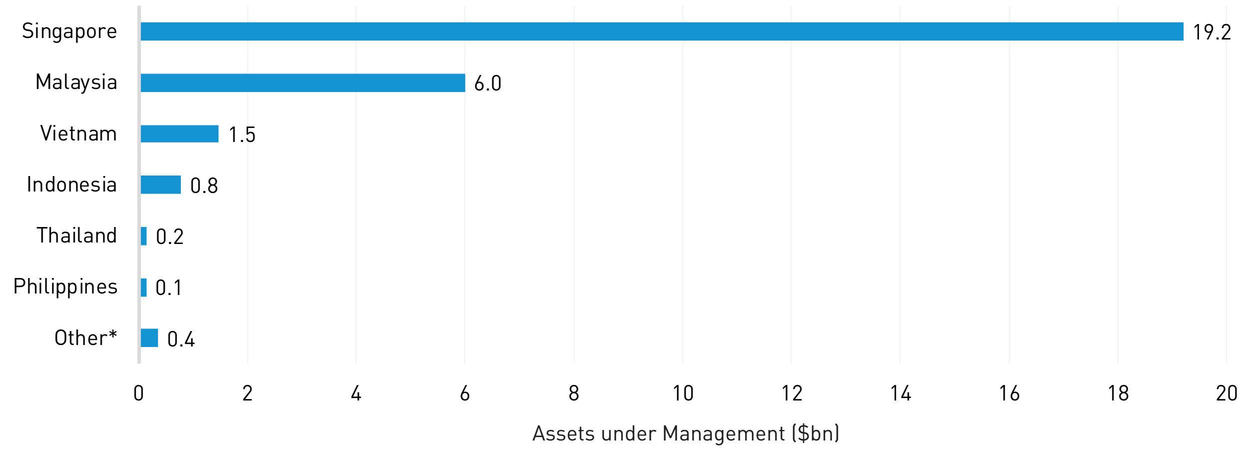
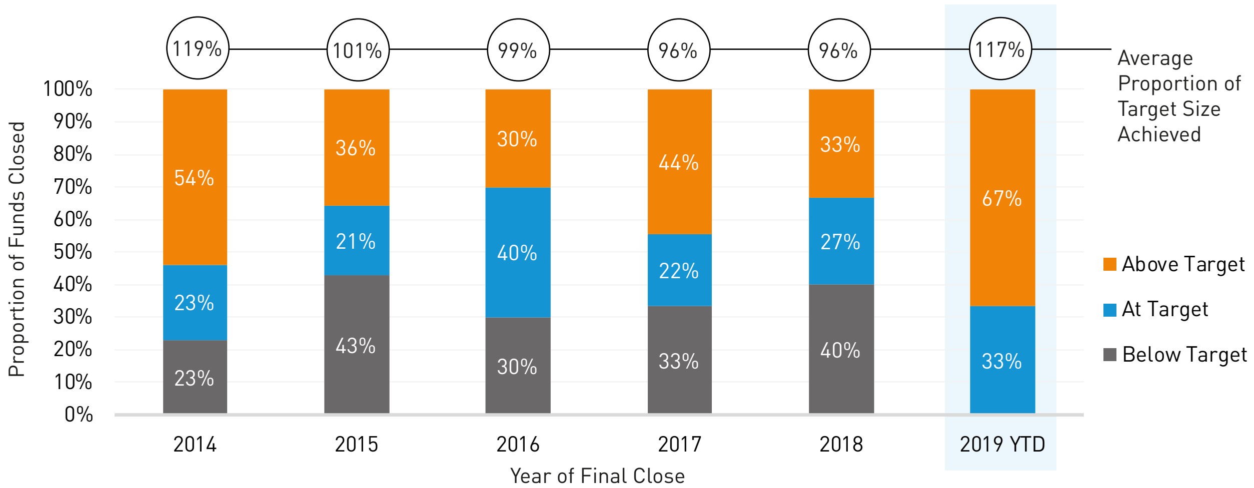


Fig. 1: ASEAN-Based Private Equity & Venture Capital Assets under Management by Location



Source: Preqin Pro. Data as of December 2018

Fig. 2: Fundraising Success of ASEAN-Focused Private Equity & Venture Capital Funds Closed, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

**Includes Cambodia, Myanmar, Brunei and Laos.*

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Venture Capital

The financing gap begins to narrow, and Singapore asserts its dominance

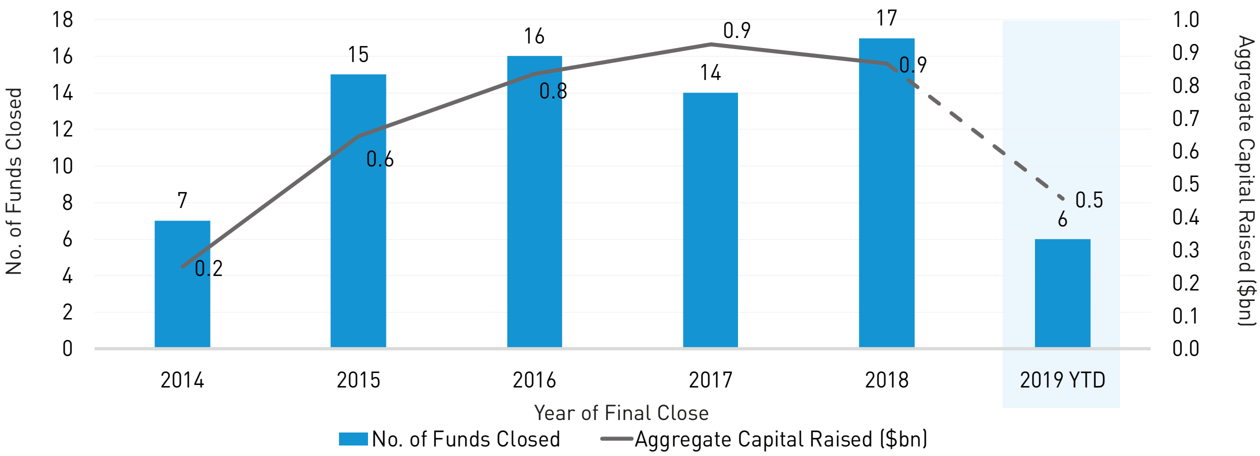
Venture capital is one of the key strategies in ASEAN. Despite the global economic volatility, investors remain upbeat and fundraising has been faring well. As seen in Fig. 3, six funds have closed since the beginning of 2019, raising a total of $0.5bn, on a similar level to H1 2018 fundraising.

In 2018, a record 17 ASEAN-focused venture capital funds achieved a final close, securing an aggregate $0.9bn. Investors showed strong appetite for early-stage start-up funds* in particular, whose share of the total number of funds raised increased from 21% in 2017 to 29% in 2018. Over the same period, the aggregate value of Series B and C financings increased from $0.6bn to $1.0bn. This suggests that the existing financing gap is narrowing, and we should continue to see more capital going into such rounds in the future.

Turning to deal activity in ASEAN markets, there have been 222 deals worth $3.4bn since the beginning of 2019 (Fig. 4), which compares with 220 deals valued at $3.1bn in H1 2018. Singapore remains the regional hub for deals. The island nation has generated $2.4bn in venture capital deals so far in 2019 (Fig. 5), compared with $1.3bn in H1 last year.

Recent large deals in the venture capital space include the $1.5bn acquisition of Singapore-based Bigo Technology Pte. Ltd in March 2019. Founded in 2014, Bigo Technology operates a portfolio of video broadcast services, including a live-streaming app, and boasts over 400 million monthly active users across the globe. China-based YY Inc., a Nasdaq-listed live-streaming social media platform, acquired Bigo.

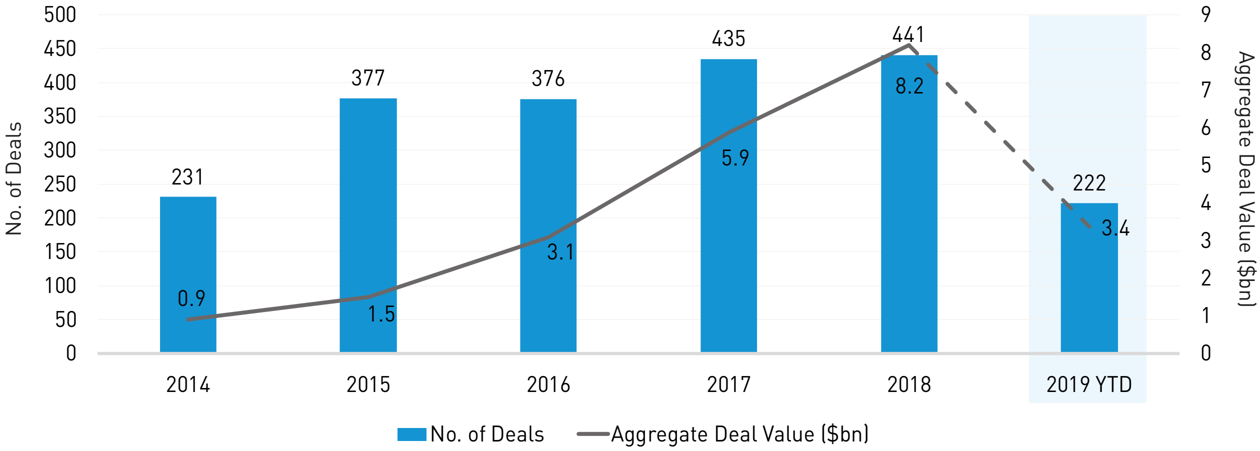
Fig. 3: Annual ASEAN-Focused Venture Capital Fundraising, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

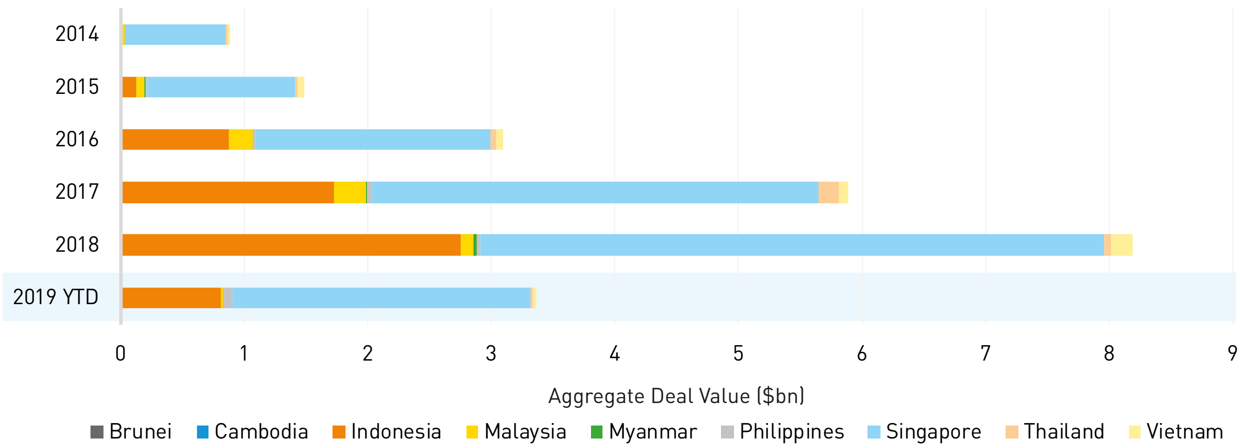
**Preqin defines early-stage start-up funds as funds investing in Series B and C rounds. These funds support the product development and marketing operations of a non-commercial company.*

Fig. 4: Venture Capital Deals* in ASEAN, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

Fig. 5: Aggregate Value of Venture Capital Deals* in ASEAN by Location, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

How We Spotted the Talents behind Two Indonesian Tech Unicorns

Founders who thrive have what Indonesia-based venture capital firm East Ventures calls "paradoxical personality traits"

Willson Cuaca
Co-Founder and Managing Partner, East Ventures

Indonesia is one of the hottest markets for venture capital (VC) today. But a decade ago, when East Ventures was founded, the archipelago was still new territory for VCs. As a pioneering investor in early-stage tech start-ups, we believed there was great potential here, but few could see it or understand what we were trying to do. We had to prove to the world that Indonesia had an untapped technology sector waiting to be unleashed.

Over the years, our investment hypothesis has evolved to take advantage of changes in Indonesia's fast-growing economy. But our firm's focus on taking a founder-centric approach to every single deal remains unchanged. With every check I write, I need to see more than a roadmap to scalability and profitability. I need to see that the founder pitching us has what I call "paradoxical personality traits."

By this I mean somebody with vision, with ideas you might think of as pie in the sky, yet they are also down to earth and grounded in reality. They are strong-minded, yet they are willing to accept criticism; they must be the kind of person we can mentor. They are firm and decisive, yet they are also flexible and can pivot if circumstances change. And they must be generalists as well as specialists. They have to know a bit about everything that's critical to their business – accounting, finance, marketing, fundraising – but they also have a specialist's in-depth understanding of their product, their sector.

This kind of person is difficult to find. You must be able to spot them. Together with the right investment hypothesis, a founder-centric approach is the key to success. That's been our experience ever since we first began investing in Indonesia's tech sector.

Undiscovered Potential in Indonesian Tech

With a population of over 261 million, Indonesia has one of the largest homogenized tech markets in the world after China, India and the US. Back in 2009, Indonesia's internet penetration clocked in at just 13% of the population. But its use of digital products and services was relatively high.

Since the Indonesian language, like English, uses the Latin alphabet, it was easy for Indonesians to adopt Western tech products and join its social networking sites. Locals were avid users of Facebook and Twitter, and many were accessing the web for the first time via Blackberry devices and mobile phones. At East Ventures, we saw a market replete with greenfield opportunities for internet entrepreneurs. My partners and I set off hunting for start-ups in the Indonesian capital, Jakarta, not knowing what we would find.

Vision and Pragmatism

In early 2010 we met William Tanuwijaya, founder of Tokopedia, then a newly created consumer-to-consumer e-marketplace ('toko' means 'shop' in Indonesian). William had a bold vision. He wanted to build a tech platform that would facilitate commerce across Indonesia's 17,000 islands.

At the same time, he was realistic about the challenges. He understood that Indonesia had – and still has – one of the largest unbanked populations in the world. He recognized that there were colossal obstacles to overcome, from logistics and payments to infrastructure. William has that rare mix of paradoxical personality traits I see as the foundation of success. And his vision fit well with our investment hypothesis at the time. We believed that to accelerate the growth of Indonesia's tech start-up industry, we needed to start with e-commerce. So within 48 hours of meeting William, we wrote him a check. It was East Ventures' first investment.

Self-Assurance and Humility

I'll share another example. In 2012 we met Ferry Unardi, now known as the founder of online travel agency Traveloka. Back then he was an MBA candidate at Harvard Business School. Ferry told us of his plan to drop out of HBS, come back to Indonesia, and build the business that would become Traveloka.

In Ferry, I saw the paradoxical personality traits I was looking for. He was confident, he knew what he wanted. At the same time, he showed a lot of self-awareness and humility. He was the kind of person who understood what his strengths and weaknesses were, and he knew that he could learn from others. East Ventures went in fast on Traveloka's seed round.

Fast-forward to today: Tokopedia and Traveloka are two of Indonesia's four unicorns, valued at several billion US dollars each and serving tens of millions of users every month. The success of these two companies has helped to put Indonesia's tech start-up sector on the international map.

Empowering the Tech Entrepreneurs of Tomorrow

Having started out in e-commerce with investments in Tokopedia and Traveloka, in 2013 we shifted our attention to Software-as-a-Service to help power SMEs across the nation. In 2014, we moved into online-to-offline (O2O) commerce. From there, we have gone on to incorporate key verticals such as education, agriculture, healthcare, direct-to-consumer business models and more.

We're excited about up-and-coming potential unicorns like Ruangguru, an edutech business with over 10 million students using its platform; IDN Media, a digital media company focused on millennials and Generation Z with over 50 million unique readers per month; and Sociolla, a platform for beauty products that includes a digital media portal and leverages online and offline integration.

We have also completed several exits that reflect the global appetite for emerging market ventures. Our portfolio company Disdus, a daily deals site, was acquired by Groupon in 2011 as part of the US business's expansion into Southeast Asia. Disdus was our first exit, and a great example of the potential in Indonesia's tech start-up sector.

For us, venture capital investing is not just a financial activity. We see it is a tool for empowering tech entrepreneurs. We want to carry on backing founders who have the potential to transform the lives of millions of people, both in Indonesia and abroad.

East Ventures

East Ventures is one of the most prolific early-stage technology start-up investors in the world and one of Southeast Asia's pioneering venture capital firms. Since its inception, the firm has backed hundreds of businesses in Indonesia, Singapore, Japan, Malaysia, Thailand and more.

East Ventures has raised a total of four early-stage funds for start-ups in Southeast Asia, and recently closed a $200mn fund for growth-stage companies (EV Growth). On average, 70% of its seed-stage start-ups go on to raise subsequent funding rounds. The firm has seen more than 20 exits and attracted $3.5bn in follow-on funding. Its most prominent O2O portfolio company, Kudo, was acquired by Southeast Asia's ride-hailing giant Grab in a deal reportedly worth more than $100mn.

Largest Unicorns

Fig. 6: Largest Unicorns* in ASEAN

Portfolio Company	Location	Post-Money Valuation ($bn)	Total No. of Funding Rounds	Primary Industry	Sub-Industries	Verticals
Grab	Singapore	14.0	23	Transportation Services	Courier & Delivery Services, Car Hire Services, Food & Beverage Distribution	Mobile Apps
Gojek	Indonesia	9.5	7	Transportation Services	Courier & Delivery Services, Car Hire Services, Food & Beverage Distribution	Mobile Apps
Tokopedia	Indonesia	7.0	9	Internet	Consumer Products	E-Commerce
Traveloka	Indonesia	4.1	5	Travel & Leisure	Travel & Tourism, Search Engines, Hotels & Accommodation	E-Commerce
Lazada	Singapore	3.2	10	Internet	Consumer Products, Retail	E-Commerce
VNG	Vietnam	1.6	3	Software	Gaming, Accounting/ Finance Software	E-Commerce, Processing & Payment Infrastructure, Cloud Computing
Bukalapak	Indonesia	1.0	6	Internet	Consumer Products, Retail	E-Commerce, Mobile Apps
Revolution Precrafted	Philippines	1.0	2	Commercial Property	Construction, Commercial Property	N/A

Source: Preqin Pro. Data as of June 2019

Preqin defines unicorns as companies valued at $1bn and above.

Buyout and Growth

Fundraising picks up, but deal values decline amid a challenging macroeconomic environment

ASEAN-focused buyout and growth funds have together collected $0.8bn in 2019 so far (as of June), matching the total amount raised in all of 2018 (Fig. 7). Given that we are at the mid-point of 2019, the full-year fundraising figure is likely to exceed 2018's total. That said, fundraising is down from its peak of $6.1bn in 2015.

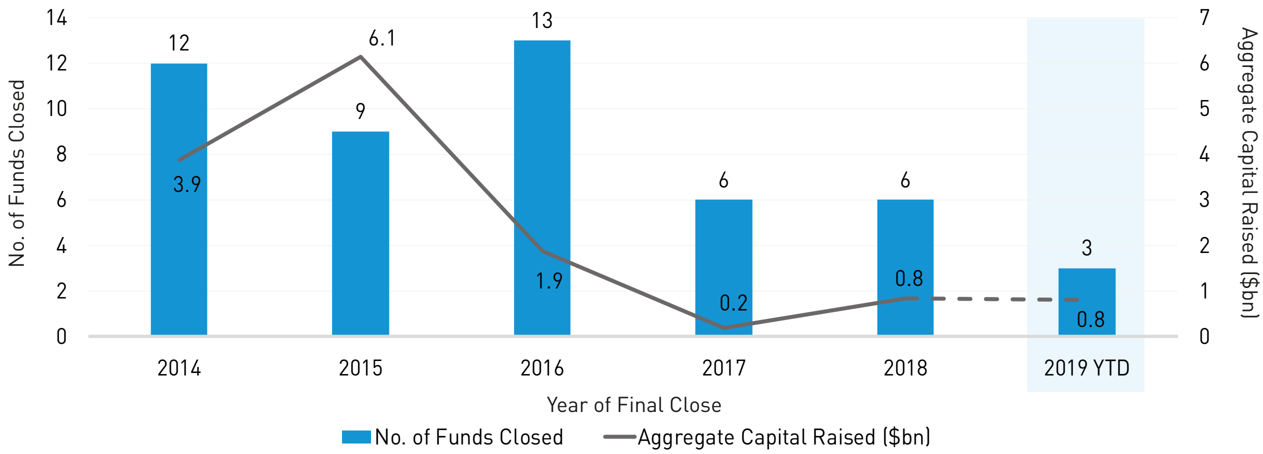
As of June 2019, there are 19 ASEAN-focused buyout and growth funds in market, collectively seeking $3.6bn in investor commitments.

Turning to deal activity in ASEAN markets, there have been 20 private equity-backed buyout deals worth an aggregate $0.4bn since the beginning of 2019 (Fig. 8). Year-end figures are shaping up to be considerably lower than last year's $3.6bn in total deal value.

Comparing full-year data shows that the number of deals completed in ASEAN in 2018 (67) was just below the total in 2017 (68). Total deal value was 3.8x higher in 2017 ($14bn) than in 2018 ($3.6bn), but this was largely due to a single deal. Hopu Investment Management and Hillhouse Capital Management bid to acquire Singapore-based GLP, a global investment manager specializing in logistics and related technology investments with $64bn in AUM. The public-to-private transaction was worth a total cash value of SGD 16bn.

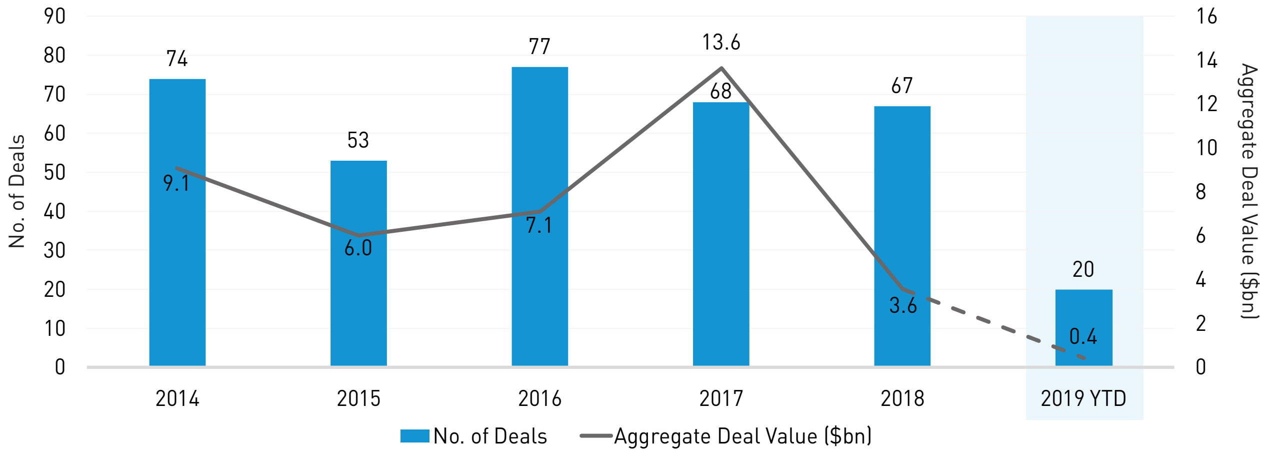
As Fig. 9 shows, total deal value in Indonesia is edging just ahead of Singapore's total so far in 2019, with $0.2bn in private equity-backed buyout deals vs. $0.16bn respectively.

Fig. 7: Annual ASEAN-Focused Buyout & Growth Fundraising, 2014 - 2019 YTD



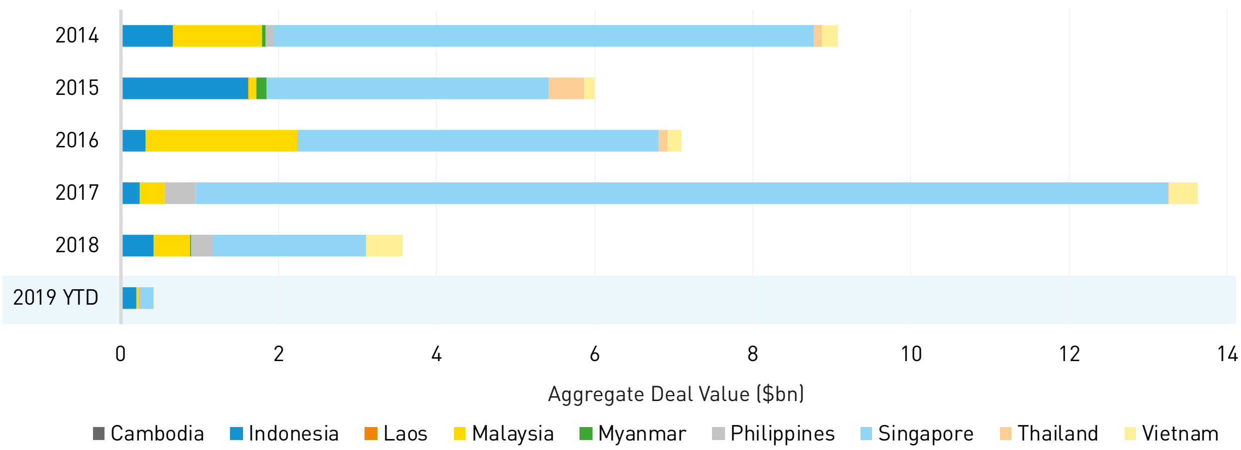
Source: Preqin Pro. Data as of June 2019

Fig. 8: Private Equity-Backed Buyout Deals in ASEAN, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

Fig. 9: Aggregate Value of Private Equity-Backed Buyout Deals in ASEAN by Location, 2014 - 2019 YTD



Source: Preqin Pro. Data as of June 2019

Preqin Market Benchmarks

Use our industry-leading fund-level benchmarks across private capital to understand the competitive landscape and learn how your own portfolio stacks up. Explore nearly 30 years of historical fund performance data across a range of strategic, geographic and time-serialized benchmarks.

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Transforming Vietnam's Consumer-Driven Businesses with Agile

An iterative, incremental strategy yielded big benefits for a private equity-backed jeweller

Agile, a project management approach that began in the software industry, is helping to digitally transform Vietnam's consumer-driven businesses. Implementing new technologies is key for sectors such as retail, which are poised for rapid growth.

To capitalize on this growth, consumer businesses need to digitize quickly and efficiently. However, many companies struggle to do this. Unsure how to deliver large-scale IT projects, they rely on familiar but outmoded methods to install new technologies. This can result in long lag times and additional costs.

That's why Agile methodology has such a crucial role to play in facilitating digital transformation. As Director of Business Engineering at Mekong Capital, I have seen the benefits of Agile firsthand. Here's an example of the impact that Agile can have, drawn from our experience working with Precita, an investee company and jeweller operating 13 stores in Ho Chi Minh City.

Chris Shayan
Director of Business Engineering, Mekong Capital

At Mekong Capital, a Vietnam-focused private equity firm specializing in consumer-driven businesses, I support companies in selecting and implementing vital IT solutions. My role is to help management teams meet key business goals, improve their digital marketing, use Business Intelligence systems to make insightful decisions and improve performance on strategic KPIs, and apply customer journey mapping to ensure that they are continuously improving the customer experience.

Using Agile to Launch a New E-Commerce Platform in a Month

Back in 2016, Precita's management team wanted to install a new point-of-sale system and launch an e-commerce platform that was fully integrated with its brick-and-mortar stores and warehouses. But there were stumbling blocks.

A major issue was that the Precita team was accustomed to a linear 'waterfall' approach. This required six months of meetings and planning before a new system could go live, all on a single date, with a further 6-12 months to fix errors.

As part of our work to address this issue, Precita's CEO and I formed a cross-functional team responsible for project delivery. Using an Agile approach, this team met regularly and worked in 'sprints' – recurring blocks of time set aside to complete specific tasks. The team rolled out the new IT system in stages instead of all at once.

As a result, Precita was able to move 10 stores into the new point-of-sale system within three weeks. The company launched a fully integrated e-commerce platform in just one month and completed delivery of the whole IT system in six months.

As this example shows, Agile is a powerful and flexible system. Using Agile, our investee companies are better able to optimize the most strategically important KPIs, all while improving the customer experience.

Preqin Market Benchmarks

Fig. 10: Private Equity & Venture Capital Benchmarks: Asia-Pacific vs. Southeast Asia

NET IRR (%)

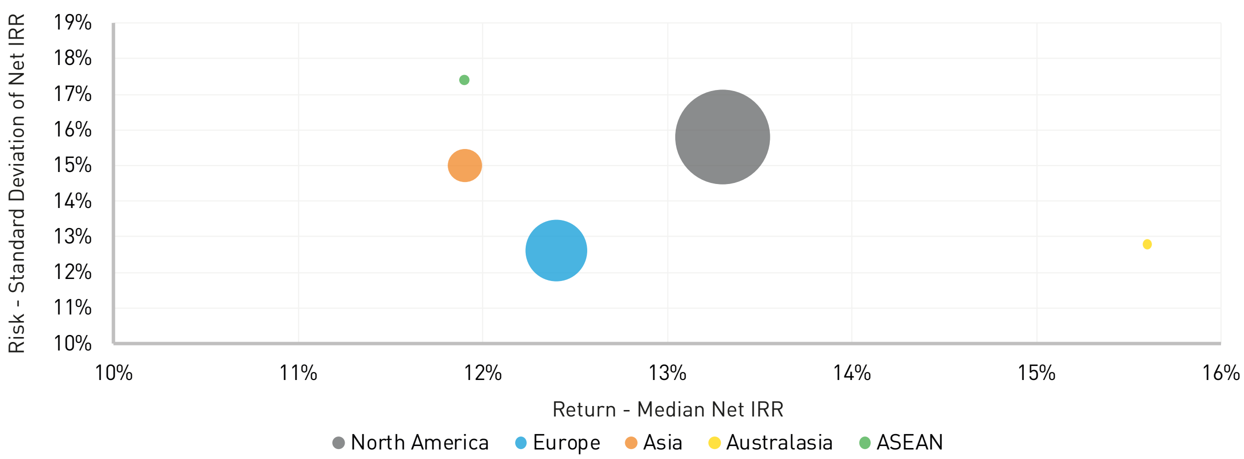
	Preqin Asia-Pacific Market Benchmarks				Preqin Southeast Asia Market Benchmarks			
Vintage	No. of Funds	Min	Median	Max	No. of Funds	Min	Median	Max
2010	26	-53.0	11.6	70.0	3	2.5	6.5	70.0
2011	43	-16.6	14.4	65.4	3	8.7	10.7	28.9
2012	36	-0.8	15.7	283.0	4	6.9	19.6	43.2
2013	45	-2.4	16.0	65.0	9	-2.4	10.8	65.0
2014	35	-10.6	15.8	62.6	4	15.8	31.6	50.0
2015	38	-5.4	15.6	89.5	6	2.2	13.4	23.0

NET MULTIPLE (X)

	Preqin Asia-Pacific Market Benchmarks				Preqin Southeast Asia Market Benchmarks			
Vintage	No. of Funds	Min	Median	Max	No. of Funds	Min	Median	Max
2010	26	0.80	1.59	51.70	3	1.10	1.12	51.70
2011	43	0.39	1.64	4.20	4	0.97	2.02	3.99
2012	36	0.53	1.60	5.05	4	1.31	2.33	4.43
2013	45	0.62	1.47	6.40	9	0.93	1.59	6.40
2014	35	0.79	1.34	4.18	5	1.14	1.42	3.03
2015	38	0.89	1.32	3.68	7	1.03	1.34	1.54

Source: Preqin Pro. Most Up-to-Date Data

Fig. 11: Private Equity & Venture Capital: Risk/Return by Primary Geographic Focus (Vintages 2006-2016)*



Source: Preqin Pro. Most Up-to-Date Data

**The size of each circle represents the capitalization of funds used in this analysis.*

Five Ways Private Equity Can Capitalize on Industry 4.0 in Southeast Asia

The region's Technology & Industrials sector is underserved by private equity despite its size and attractiveness

Loke Wai San

Founder and Managing Partner, Novo Tellus

Keith Toh

Partner, Novo Tellus

The massive disruption that Industry 4.0 brings has already begun in Southeast Asia. There are high stakes, with up to $1tn of GDP opportunity available to ASEAN as it embraces digitalization, automation and industrial integration, according to Bain[1].

But how can private equity best take advantage of the massive industrial shift that will take place in the region over the next decade? What sectors stand to benefit from Industry 4.0, and what private equity (PE) capabilities are necessary to invest in this great transformation?

Technology & Industrials: The Epicentre of Industry 4.0

We believe that Southeast Asia's Technology & Industrials (T&I) sector is especially well positioned to benefit from Industry 4.0.

For a start, the T&I sector provides the software, chips, engineering and services that power digitalization across the globe, and not just in Southeast Asia. Furthermore, the T&I sector itself stands to benefit from digital transformation. As the region's industrial and manufacturing core embraces increasing automation, integration and digital innovation, there will be a growing need for T&I.

Deep Competitive Roots and a Powerful SME Core

Southeast Asian T&I has enjoyed almost 40 years of active participation in the global economy. Starting in the 1970s and continuing today, the sector has attracted over $500bn of cumulative foreign direct investment, bringing with it the long-term diffusion of engineering talent, industrial scale, supply-chain infrastructure and world-class production capabilities into the region.

[1] *https://www.bain.com/contentassets/37a730c1f0494b7b8dac3002fde0a900/report_advancing_towards_asean_digital_integration.pdf*

Today, the T&I sector sits at the forefront of global technology and industrial production. T&I accounts for the biggest share of ASEAN's exports.

It attracts sponsorship from leading global innovators, such as Apple, Facebook, Google, Dyson and Tesla, to name a few.

More importantly for PE investors, Southeast Asia's long history of economic development has created a vast ecosystem of over 20,000 small and medium-sized enterprises (SMEs). These SMEs have been battle-tested by decades of global competition from major economies in the sector, including Japan, Taiwan, Korea and China.

A Compelling Opportunity for Private Equity Investors

For skilled PE investors looking to back Industry 4.0 in Southeast Asia, this large and vibrant SME ecosystem presents a compelling opportunity. Here are five reasons why:

1. The sector is **deeply underserved** by PE. Over 75% of companies have never had a sponsor, and over 70% cite PE as a preferred financing source, our research shows. As a result, many companies are available for investment at valuations well below typical regional PE prices. This is helped by the size of the market: the 20,000+ companies in this segment represent an opportunity far larger than the entire large-cap PE market (companies with $1bn+ revenue) in Southeast Asia.

2. Southeast Asian T&I benefits from **key global megatrends** that drive the Industry 4.0 economy, such as the rise of smart factories and the spread of 5G, the industrial Internet of Things, autonomous driving and artificial intelligence. In addition to producing massive volumes of digital products and services for global markets, the sector is increasingly benefiting from rising domestic consumption – Southeast Asia's 500+ million consumers and 170,000+ enterprises are a growing segment of buyers of T&I output.

3. There are big **Industry 4.0 opportunities**[2] available to regional SMEs, which will deliver increased productivity, higher-valued capabilities and lower costs. Surveys show that companies in the sector are already receptive to digital transformation: upgrading technology and production equipment tops the list of desirable investments for companies in the segment.

4. The T&I sector's longstanding relationships with global multinationals and its long-established trade neutrality gives it **geopolitical advantage**. Southeast Asia has emerged as a clear beneficiary of the manufacturing diversion resulting from US-China trade tensions.

5. The T&I sector has compelling **deal catalysts for PE** investments. We estimate that over 60% of companies in the sector are over 20 years old and face succession dilemmas, as many are still founder led and have no clear liquidity or long-term stewardship plans.

In short, what we see is an exciting opportunity for PE to invest in the digital transformation of Southeast Asia. But what will it take to succeed?

How PE Investors Can Capitalize on Southeast Asia's T&I Opportunity

We believe that PE players need five key capabilities to realize the full potential of the region's large, fast-moving T&I sector:

1. **Sector expertise** – the T&I SME sector is large, fragmented and fast evolving. Strong sector knowledge and relationships are needed to access and develop opportunities in a space that is not well covered by advisors, investment banks and research analysts.

2. **Local mid-market capabilities** – the 'sweet spot' of Southeast Asia's T&I sector is the mid-market, where companies from $10mn to $1bn in revenue form the backbone of the region's production economy. Local mid-market transaction and portfolio management skills are essential for executing investments in this dynamic space.

3. **Industrialist vision** – mid-market companies in the T&I sector have often built good track records of stability and profitability. But they face challenges in visualizing growth that capitalizes on Industry 4.0 and related megatrends. It takes experience and industry knowledge to help management teams build and realize an 'industrialist' vision to grow companies in this market.

[2] *https://www.bain.com/contentassets/37a730c1f0494b7b8dac3002fde0a900/report_advancing_towards_asean_digital_integration.pdf*

Technical expertise – Industry 4.0, cloud computing and 5G are powerful growth-drivers in this segment, but they demand deep technical expertise and experience to properly operationalize. To make the most of growth opportunities, PE investors must have strong technical skills and work effectively with management to create realistic product roadmaps and effective commercialization approaches that they need to succeed.

4. **Operational capabilities** – to transform companies in this segment, PE investors must be able to solve management succession challenges, upscale production and drive R&D investment. Operational skills and experience are vital to achieve this.

Successful PE investing in this compelling – but complex and fragmented – sector demands highly specialized expertise and strong local relationships. This, above other factors, may explain why the sector remains so deeply underserved by PE today, despite its size and attractiveness.

At Novo Tellus, a PE fund focused exclusively on Southeast Asia's T&I sector, highly specialized expertise and strong local relationships are part of our founding principles. Our investment platform is built on the pillars of sector focus, industrialist vision, deep technical expertise and operational capabilities. We believe this to be the right approach for investing in one of the largest and most exciting segments in Southeast Asian PE. This is a sector that is set for rapid growth in the decade to come, as the region undergoes its massive, disruptive Industry 4.0 transformation.

About Loke Wai San

Wai San is a Founder and Managing Partner of Novo Tellus since 2011. His 26-year career reflects Novo Tellus' specialized capabilities, combining private equity investment experience from Baring Private Equity Asia, technology operating experience as a former R&D engineering with Motorola, and strategy consulting experience at A.T. Kearney. Wai San has an MBA from the University of Chicago and a BSEE from Lehigh University.

About Keith Toh

Keith Toh is a Partner at Novo Tellus. His 20-year career combines global technology private equity experience at Francisco Partners with technology operating experience at Trilogy Software, and engineering research roles at Stanford University and the Singapore Ministry of Defense. Keith has a B.Sc. (with Deans' Award) from Stanford University.

Building Regional Champions Is Private Equity's Big Opportunity

Cross-border growth is yet to be fully exploited in Southeast Asia

Nicholas Bloy
Co-Founder and Managing Partner, Navis Capital

What is the appeal of investing in Southeast Asia (SEA) vs. Europe and the US?
With GDP growing at 5-6% per annum, the SEA economy is dynamic. Europe, by contrast, seems sclerotic, and the US is nearing the end of a long cycle of recovery and expansion, which has been underpinned by record-low interest rates and tax cuts.

Currently, average GDP per capita is just $4,000 across the 650 million people in this region of 10 economies. But millions of households are starting to earn higher incomes and moving into the middle class, which means increasing demand for consumer products and services. The population is young, productive and growing (unlike in China).

Also, the SEA market is immature and there's room to boost efficiency. Both conditions are helpful to value creation. For example, intermediation in SEA, particularly in the mid-market space, remains underdeveloped. This enables bilateral deal-making at valuations that are lower than those in the US and Europe and allows for novel structures that offer greater downside protection.

A post-investment focus on strategy, human capital, technology and ESG factors can lead to outsized gains in market share, profitability and asset efficiency. Well-run and well-capitalized companies have a long runway for compounding growth in SEA, making them incredibly valuable and attractive over the long term.

What do institutional investors look for when they invest in SEA?
All investors are looking for a good internal rate of return (IRR) and Multiple on Invested Capital (MOIC) in USD. LPs expect a slight premium in returns from SEA vs. those from Europe and the US, but it has been hard for SEA to deliver a premium vs. US performance over the past 5-10 years or so. This period represents the best of times for the US and a difficult spell for SEA, which has seen strong local currency returns undercut by a weakening in FX rates against the USD.

Both sides of this equation will eventually normalize, and when that happens, the underlying fundamentals of SEA should enable a 300- to 600-basis-point premium to be achieved vs. the US, and probably more vs. Europe.

How is the US-China trade war affecting private equity (PE) in SEA?
There is already a trade diversion which is boosting demand for exports from SEA at the expense of China. This is triggered by supply-chain managers wanting to diversify their sources of supply. But this diversion has occurred for other reasons as well. One is high and rising unit wage rates in China versus SEA. On the other hand, China retains material scale and IP

advantages, which is why absent the trade war, the impact of trade diversion would be more subtle.

The other thing to bear in mind is that China is SEA's largest trading partner. A material slowdown in China's economy will affect demand for goods that are exported to and consumed in China. So, the risk to PE in SEA is really a net reduction in growth if the trade war were to continue long term. For companies that are not globally competitive exporters, that implies a diminution in revenue and EBITDA growth. I think we are still somewhat removed from that scenario, however.

Which industries in SEA are most attractive to you, and why?
It's difficult to generalize about the attractiveness of industries on a regional basis. On the consumer side, what is attractive at a granular level is very much a country-by-country matter. There is an extraordinary range of GDP per capita across SEA's economies – from c.$1,500 across Myanmar, Cambodia and Laos and c.$3,000-4,000 across Vietnam, the Philippines and Indonesia to $6,500 in Thailand, $10,000 in Malaysia and $50,000 in Singapore. Household income is spread out across an equally broad continuum. Combined with each country's distribution of households around its average, this determines periods of accelerated demand for specific goods and services.

For example, in Vietnam there is currently tremendous pent-up demand for inexpensive private education and general healthcare, as millions of households are just now reaching the threshold where these services are affordable. By contrast, most households in Malaysia are well beyond this threshold, so there is not much more growth anticipated and plenty of capacity to cater to existing demand. On the flip side, Malaysia has reached a level of affluence where specific healthcare needs are increasing rapidly in areas such as diabetes and cardiovascular disease, and there is a growing need for specialized, as opposed to general, hospitals.

But in addition to the above, Navis also appreciates the FX risk mitigation that comes from constructing a fund portfolio that also includes export-oriented industrial businesses. This is because local consumer businesses are vulnerable to weakening local currencies, whereas exporters benefit from the same effect. This is important when measuring returns in USD, so in addition to the consumer side, we also invest in SEA's globally competitive manufacturing and industrial ecosystem in equal measure.

What opportunities are there for PE to make a big impact in the region?
Cross-border growth and M&A opportunities are yet to be fully exploited in SEA. There are remarkably few regional champions that are strong across multiple SEA geographies. This has much to do with the risk aversion of local entrepreneurs. Many feel that the capital requirements and the process of integrating an acquisition, or entering an adjacent geography, is too complicated to be worth it.

But with the development of the ASEAN Economic Community, we now have a tariff-free bloc where goods, services and people can move freely. So there is plenty of scope to build regional champions and entrepreneurs are starting to see the upside of moving, and realize that they cannot be complacent and do nothing.

At Navis, we see helping companies and entrepreneurs navigate the cross-border complexity of SEA, and providing the capital to fulfil their full regional potential, as the single largest opportunity for the next 10-20 years. That is provided, of course, that one has the requisite skills and multi-local teams to execute.

Navis Capital

Since its founding in 1998, Navis has made over 80 controlling investments, most of which have been completed with little reliance on acquisition finance. Over 50 companies have been exited, mostly to trade buyers.

All Navis' companies are leaders or near leaders in their fields. Industries/segments in which Navis has invested include food-related sectors, healthcare, education, industrial products and retail/FMCG. Navis manages private equity funds totalling $5bn.

What Do Investors Think?

Southeast Asian LPs talk to us about diversity, the importance of local expertise, impact investing and consumer-driven opportunities

The rise of the affluent middle class has done much to boost the landscape of private equity & venture capital in Asia over the past decade. Driven by consumer needs, more and more start-ups are reaching unicorn status (as seen on page 12). Riding the consumer-driven technology wave, venture capital investments are picking up pace as a result. Zooming in, Southeast Asia is one of the fastest-growing consumer markets in the region – if not the world – and an increasingly natural addition to the global investor's portfolio.

The appeal of Southeast Asia extends far beyond its home ground. Among known investors in Southeast Asia-focused private equity & venture capital funds, 84% are located overseas. In Southeast Asia, 53% (159) of the investors in alternatives tracked by **Preqin Pro** are active in private equity & venture capital. In this section, we explore the appeal of the Southeast Asian private equity & venture capital landscape from the perspective of LPs both home and away.

Diversity in Southeast Asia: Boon or Bane?

Home to a multitude of ethnicities, languages, norms and structures, Southeast Asia benefits from huge diversity in terms of social and cultural variation. Along with other sociodemographic factors such as the young population and emerging middle class, this diversity has helped foster exponential growth in investments over recent years. Investing in this special environment comes with equally unique challenges, though. As more and more attractive opportunities arise, these issues are coming to the fore.

"We have always taken a long-term view when it comes to portfolio construction. We evaluate the risk-reward of each private equity investment individually as the types of deals and sources of return vary by different markets. Southeast Asia is a market with long-term growth potential for investors due to its attractive demographic trend, continued rise of the consuming middle class and sustained levels of economic development. However, it is important to remember that there are varying stages of development and risk across different countries in the region. Each country has its own idiosyncrasies. While this makes it more challenging than some of the more developed markets in Asia such as Greater China, Japan and South Korea, it also presents opportunities to get into deals that could deliver very compelling risk-adjusted returns."

Frank Su
Head of Private Equity Asia, CPPIB

DEG's mandate differs from most other commercial entities in that we only invest in emerging markets, which by definition extends beyond Asia to Latin America, Eastern Europe and Africa. Southeast Asia is not a homogenous block, and a foreign LP that is not familiar with the nuances of various Southeast Asian markets may find it a challenge to build a reasonably diversified portfolio that will survive economic and political cyclicality. When viewed in that context, we perceive our private equity investments in the region to be much more commercial in nature vis-à-vis other emerging markets. The private equity/venture capital managers we partner with are savvier, as are the promoters of target investee companies. Correspondingly, there is also a tendency to expect a higher risk-adjusted return from Southeast Asia compared to other emerging markets.

Linda Mok
Chief Representative, DEG Representative Office registered in Singapore

The tapestry of tech companies in Asia has become richer over the past decade with the emergence of unicorns like Grab, Gojek, Traveloka and Sea. These companies have captured the hearts and minds of young entrepreneurs, inspiring them to form new ventures to address the complex and diverse needs of an increasingly digitally enabled Asian population. EDBI has taken notice and has diversified its investments into China and broader Asia, especially in Southeast Asia, which is one of the fastest-growing markets globally with over 640 million consumers with rising household incomes and an expanding middle class.

Swee Yeok Chu
Chief Executive Officer & President, EDBI

Navigating Challenges

When Preqin surveyed investors globally for the **2019 Preqin Global Private Equity & Venture Capital Report**, asset valuations, competition for assets and the exit environment emerged as the top three challenges for return generation. For investors looking to invest in Southeast Asia, there are other layers of complexities: the varying levels of development between countries, differing legal systems and multiple languages and cultures. Hence, a deeper level of due diligence is required to navigate the intricacies of the region, on top of tackling these challenges.

To address some of these nuances, many investors are fostering strategic partnerships with players that are familiar with the local investment environment.

The main challenge for investors looking to invest in Southeast Asia is the inconsistency of transparency and corporate governance – some are better than others. While we are starting to see change in some countries such as Malaysia passing the Anti-Corruption Commission (Amendment) Bill in 2018, and other countries are enhancing efforts to curb private sector bribery, it is still very early days in the region. In addition, deals in Southeast Asia are almost always minority investments, making it different to markets such as Japan and Korea. Hence, knowing how to navigate these markets and having strong local partners are critical drivers for investment returns. Partnerships are a very important part of our strategy. When we invest in a new market, we don't just hire hundreds of people on the ground. Instead, we work with partners who have in-depth local market knowledge, on-the-ground resources and aligned interests.

Frank Su
Head of Private Equity Asia, CPPIB

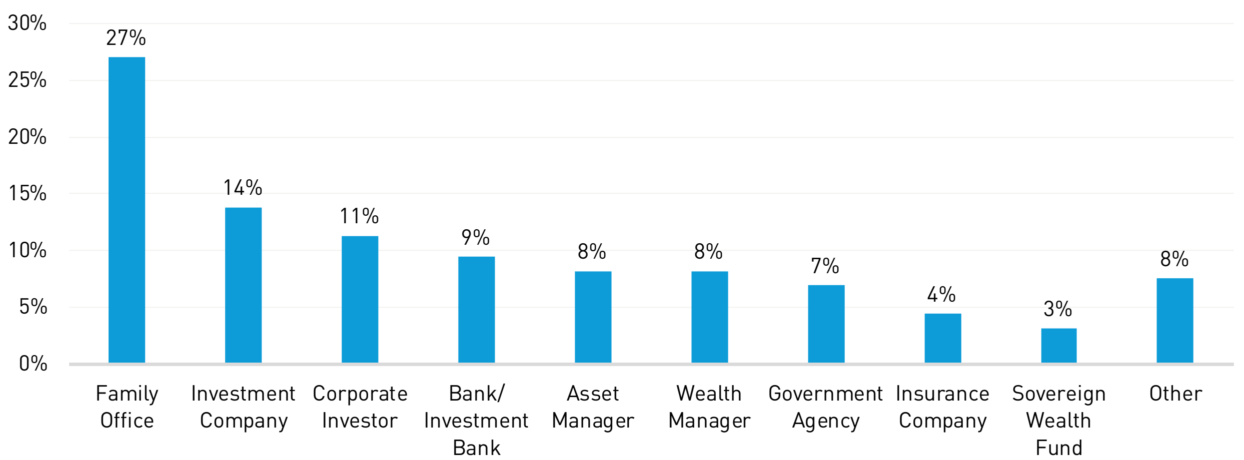
Investcorp has recently made private equity investments in China and India so we see Southeast Asia as a natural extension to our business. We are aware that each market in Southeast Asia has its own nuances and it is crucial to have the right resources given the sheer diversity within the region. Following a successful partnership with China Everbright investing in pre-IPO technology firms in China, we are eager to replicate the partnership model in Southeast Asia. Our interests in LP commitments in Southeast Asia is a function of our reasonably conservative approach and a desire to partner with some of the best local champions. Like all foreign firms, we face several challenges investing in Southeast Asia, but none are insurmountable for global investors. Firstly, it is crucial to build networks with the right counterparties, advisors and entrepreneurs as many deals are still privately sourced. Secondly, investors need the right resources to navigate the diversity within ASEAN. The investment themes in Indonesia or Vietnam are very different from Singapore so a successful team needs diverse backgrounds and language skills. Lastly, it's about getting comfort with different legal systems, ownership restrictions, regulatory schemes and the macro drivers within each country and across the region.

Matthew Coleman
Vice President, Private Equity Asia, Investcorp

Southeast Asia is not a homogenous market in terms of people, culture and the legal and tax system. As there is no one-size-fits-all strategy, it is difficult to select one strong GP to cope with all the complexities and diversities. Besides, the Southeast Asian environment is characterized by local founders and families who are typically cautious of third-party equity capital, which results in fewer assets available for external control. Therefore, it is important that KIC establishes long-term partnerships with a limited number of managers to form a trusted relationship. We also work with like-minded LPs to share ideas on supporting growth.

Jae-Won Shin
Senior Director, Private Equity, KIC

Fig. 12: ASEAN-Based Private Equity & Venture Capital Investors by Type



Source: Preqin Pro

The Rise of ESG/Impact Investing

While financial returns used to be the key factor influencing investment decisions, the landscape is slowly changing. Environmental, social and governance (ESG) policies are now more widely adopted in the development of investment portfolios, and are an increasingly important focus for investors in the due diligence process.

In comparison to other regions, ESG investing in Southeast Asia is still in its nascent stages, with only a handful of active investors implementing an ESG policy. However, the outlook is hopeful. In April 2019, Employees Provident Fund, Malaysia's national provident fund, signed the UN-supported Principles for Responsible Investment to underline its commitment to ESG and responsible investing practices.

Similar to ESG, impact investing is gaining significant traction as social and environmental concerns become increasingly critical to an investor's portfolio. According to the Global Impact Investing Network (GIIN), impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

The rapidly growing markets of Southeast Asia offer potential for investors to achieve substantial impact. Less developed areas continue to grapple with poverty, the availability of basic facilities such as affordable housing and healthcare, and unemployment. There remains room for impact investing in areas such as microfinance, sustainable food & agriculture and smart and liveable cities. Temasek Holdings, with $225bn in AUM, advocates sustainable philanthropy and impact investing through its philanthropic arm, Temasek Trust. Expanding on its activities in Southeast Asia, Temasek Trust established a private equity fund – ABC World Asia – which aims to tap into the compelling opportunities for impact investing brought about by complex social and environment challenges within the region.

In addition to institutional investors, family offices are also major proponents of impact investing. Forming the largest proportion (27%) of ASEAN-based private equity investors tracked by Preqin Pro, these private investors are 'patient capital' with their longer investment horizons. Impact investing offers these private investors the chance to leave a long-lasting positive legacy while seeking financial returns.

> KIC is committed to responsible investing that encourages environmental sustainability, social responsibility and effective corporate governance. We have established our own ESG policy and also adhere to the Sustainability Bond Guidelines developed by the Republic of Korea. KIC considers ESG issues when evaluating investment opportunities, conducting due diligence and selecting managers. We believe that ESG is the precondition to achieving long-term growth and generating sustainable and solid future returns. Therefore, we only build partnerships with managers who take responsibility for the sectors where they operate.

Jae-Won Shin
Senior Director, Private Equity, KIC

> We have always been mindful of impact investing and it is an important aspect that is ingrained in our investment philosophy. We identify ourselves as strategic investors and not just financial investors as we invest with patient money and look at long-term returns. Hence, unlocking value from correctly operating the business is a key consideration for us. We focus on ensuring that our investments do not have a negative impact on the environment and society, and they comply with the laid-down norms.

Shiraz Poonevala
Director, Investments, GP Group

What Lies Ahead?

The outlook for private equity & venture capital in Southeast Asia is promising: there are 70 ASEAN-focused funds in market as of June 2019, targeting an aggregate $8.5bn in capital. Among investors with an eye on the region, there is much anticipation as to which sectors will receive this capital. One of the largest funds on the road is Navis Asia Fund VIII which explores buyout opportunities in Southeast Asia and has a target size of $1.75bn. Navis Capital is known to have invested in sectors including consumer discretionary, manufacturing and industrials.

Alongside consumer-related industries, the latest data shows that investors are also drawn to the emerging segments of technology such as mobile payments, smart cities and e-commerce in the region.

Southeast Asian venture capital has enjoyed a revival in recent years, and there have been some unicorns along the way. However, there are many more awaiting exits, and as funds mature, it will be exciting to see how the managers navigate their markets. At the same time, the rising adoption of online consumption and mobile payments are unifying consumption behaviour across Southeast Asia. This creates opportunities for innovative companies and private equity & venture capital investors.

Linda Mok
Chief Representative, DEG Representative Office registered in Singapore

In addition to supporting the growth of our existing businesses, we seek out new areas of business through partnerships with start-ups. We are able to contribute investment capital and also provide our global networks as a general trading company to these start-ups to expand their capabilities. With the diversity of Southeast Asia, start-ups have a unique ecosystem to support their growth in their domestic country and expand to neighbouring countries in the region. To capture the growing demand from the middle class in Southeast Asia, we look to focus on sectors related to healthcare, smart cities, mobility and Internet of Things (IoT) platforms.

Yuta Fujihara
Deputy General Manager, Corporate Planning Dept for Asia & Oceania, Sojitz Asia

We aim to invest in companies where we can help them scale through Siam Cement Group's (SCG) extensive network in Southeast Asia. Apart from venture capital investments, we also initiate and facilitate joint ventures between the start-ups, SCG and its subsidiaries. In Southeast Asia, we observed a substantial increase in venture capital deals, particularly in seed to Series A deals over the past two years. Within the region, we see huge opportunities in B2B and cross-border e-commerce, logistics, supply chain and e-commerce enablers. On top of that, we also monitor the agriculture and SME space as these are key drivers of the region's economy and are largely untapped by technology.

Dr. Joshua Pas
Managing Director, AddVentures by SCG

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