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SE Asia Private Equity Report 2020

Shedding light on shadow capital in Southeast Asia

December 2020



Summary

2019 in review



2019 was yet another strong year for PE/VC in SE Asia; “shadow capital” took an increasingly prominent role

2020 outlook

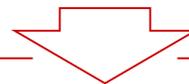


COVID-19’s impact was severe, but presents ample opportunity ahead for those with dry powder

In focus



Expanding influence of “shadow capital” and shifting investing talent models are top of mind for investors



Looking ahead: Fund managers will need to be agile and adjust to new paradigms

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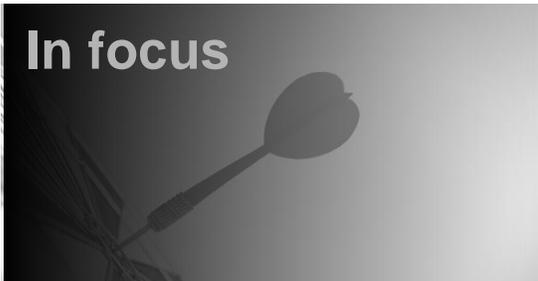
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Expanding influence of “shadow capital” and shifting investing talent models are top of mind for investors

- **\$12B deal value** and new peak for number of deals (>100); **Tech** continued to be the hot sector
- Newly funded startups had a record year and **4 new/near unicorns** were ‘born’, bringing the SEA tally to 16
- **Deal activity multiplied by shadow capital** from principal investors (e.g. SWFs); ‘Shadow capital’ participated in 60% of all SEA deals in 2019

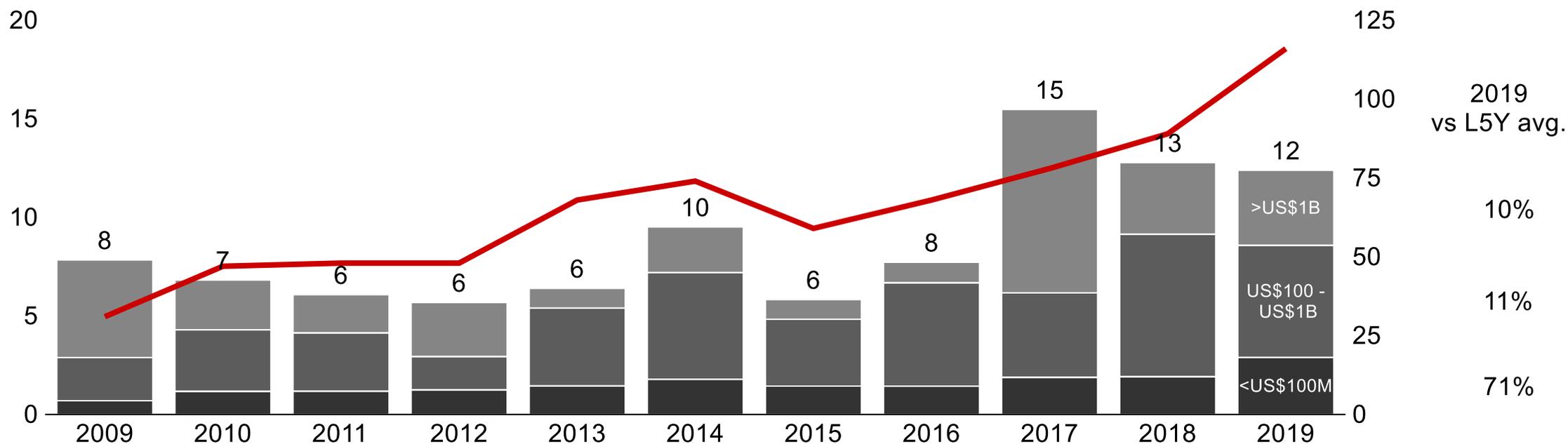


Looking ahead: Fund managers will need to be agile and adjust to new paradigms

2019 marked the third year in a row where deal value in Southeast Asia has spiked above the \$10B mark

SEA PE deal value* (\$B)

SEA PE deal count* (N)



% value of \$1B+ deals

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
63%	37%	32%	48%	16%	24%	17%	13%	60%	28%	31%

Average deal size(\$M)

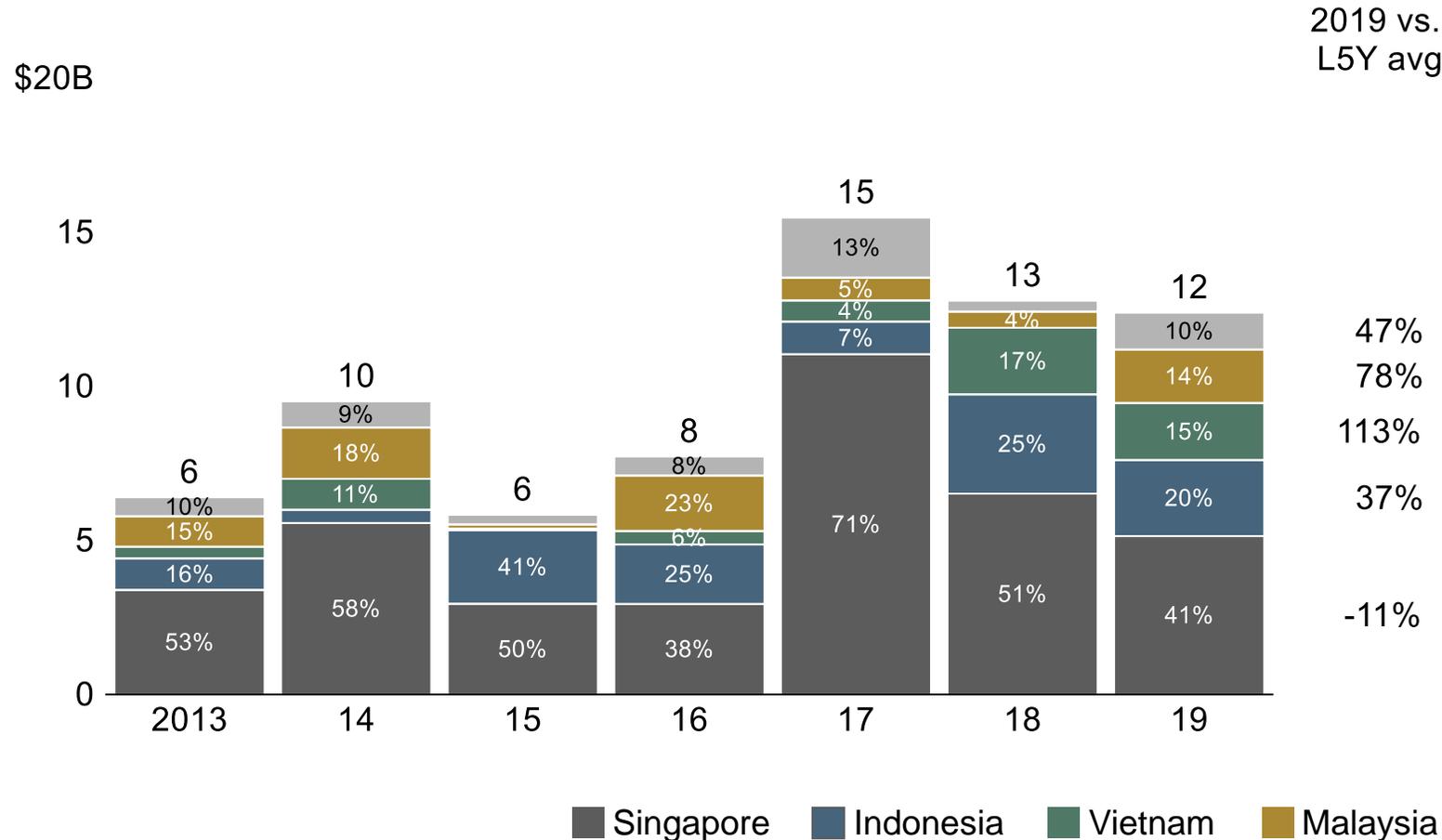
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
253	145	127	118	94	129	99	114	198	144	107

Note: 'L5Y avg.' = Last 5 year average
Source: AVCJ, * excluding real estate and infrastructure

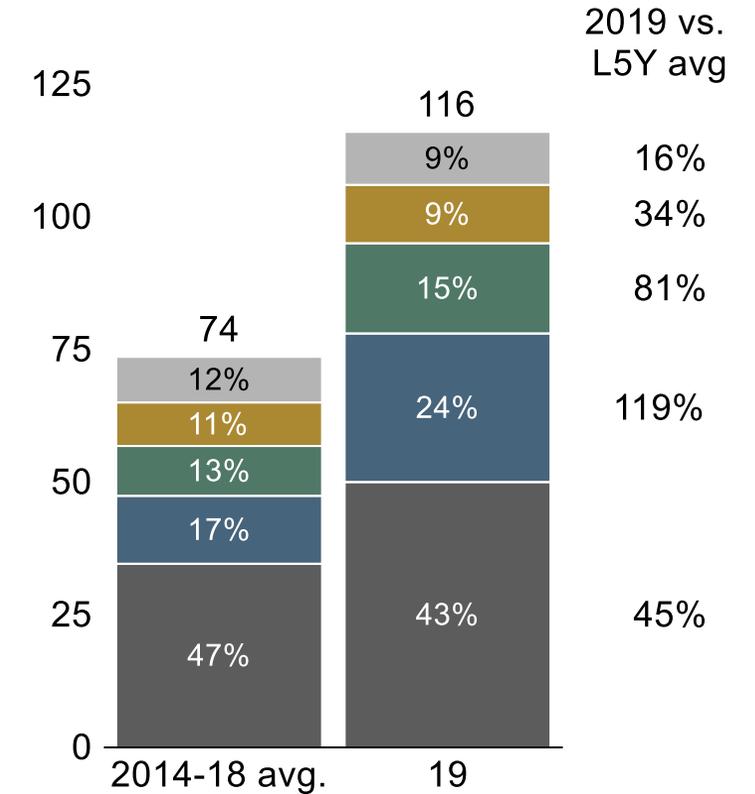
Average deal sizes declining 2017-19 with growth in smaller deals

Each key SEA market well represented with ~60% of deal value now coming from outside Singapore (vs. ~50% in 2018 and 30% in 2017)

SEA PE investment deal value



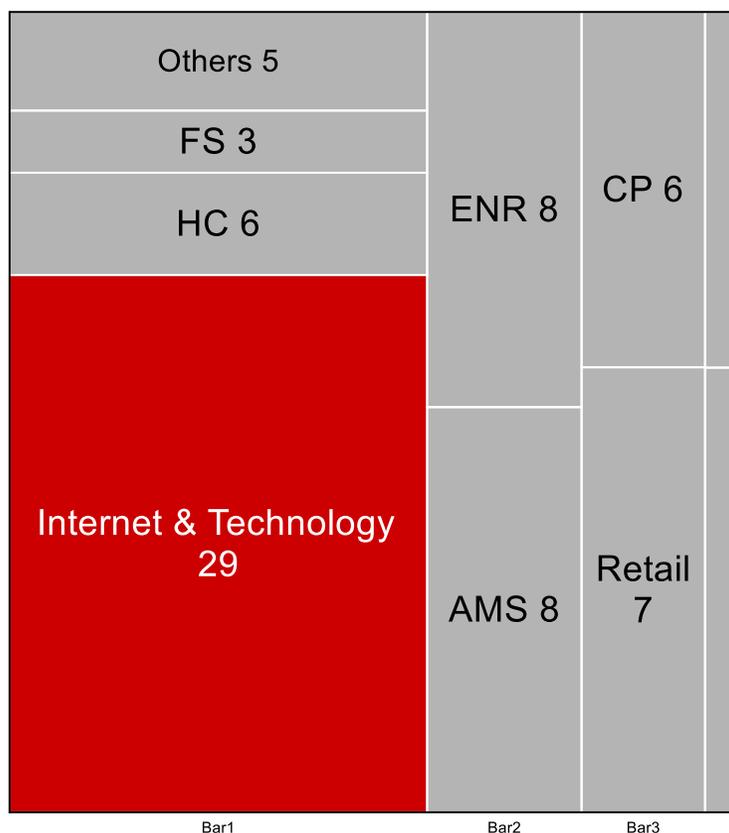
SEA PE investment deal count



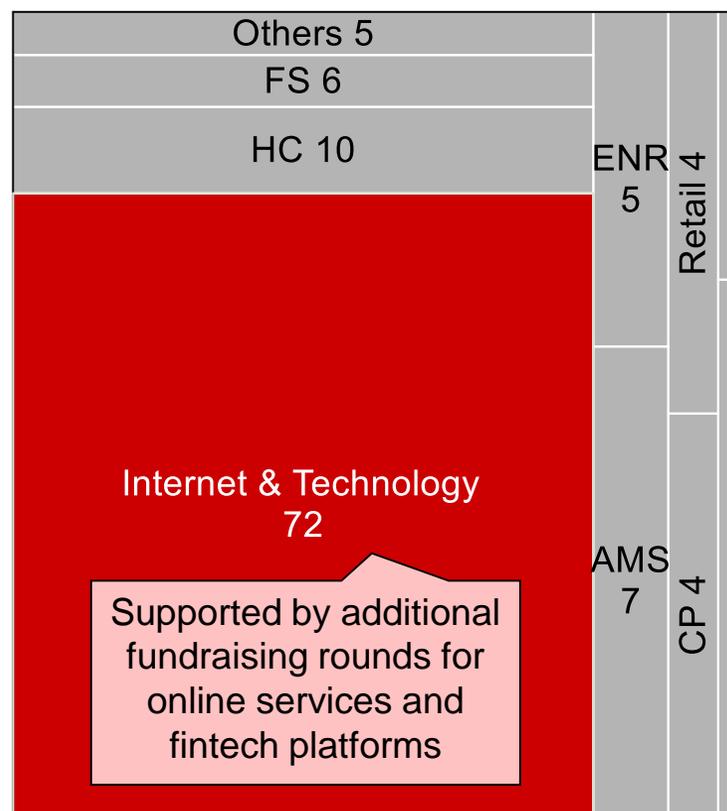
Note: Note: 'L5Y avg.' = Last 5 year average
Source: AVCJ, excluding real estate and infrastructure

Internet & technology deals made up almost two thirds of SEA's total deal count for a second year

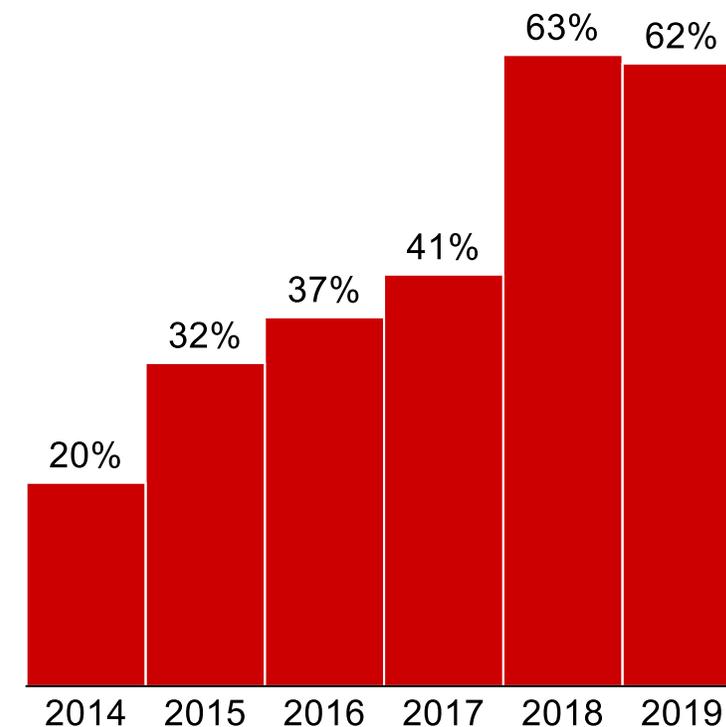
2014-18 average deal count



2019 deal count



Internet and tech' share of deal count

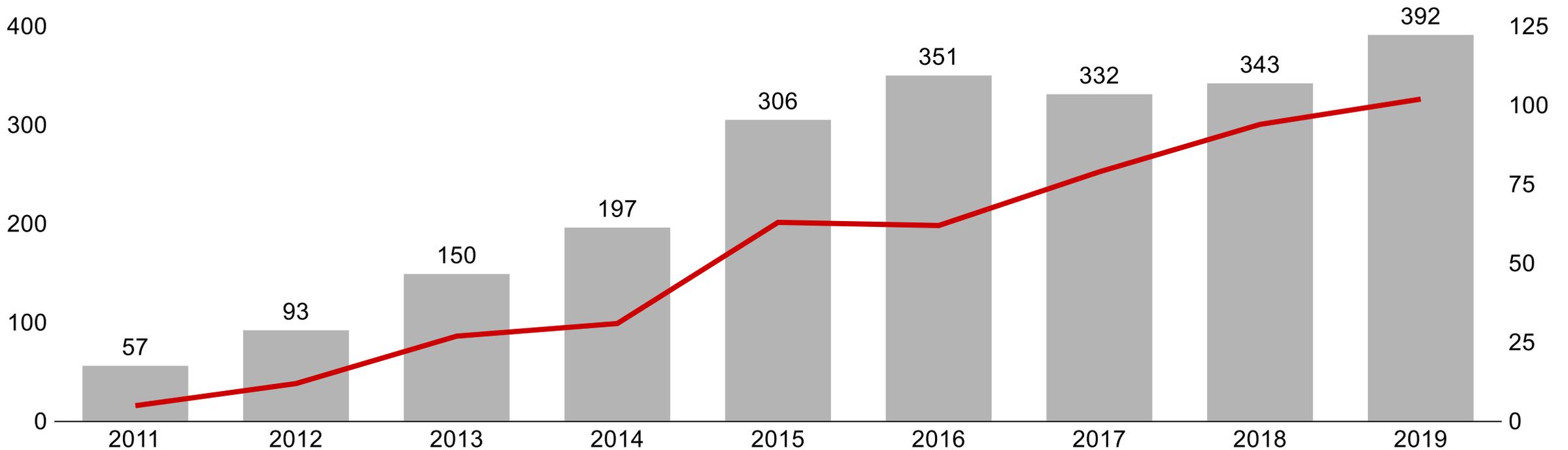


Note: FS = Financial Services, HC = Healthcare, ENR = Energy & Natural Resources, CP = Consumer Products, AMS = Advanced Manufacturing & Services
 Source: AVCJ excluding real estate and infrastructure

Southeast Asia continues to birth more than 300 startups a year, and +100 a year with 2nd round funding

of SEA startups receiving first round of funding
[bar]

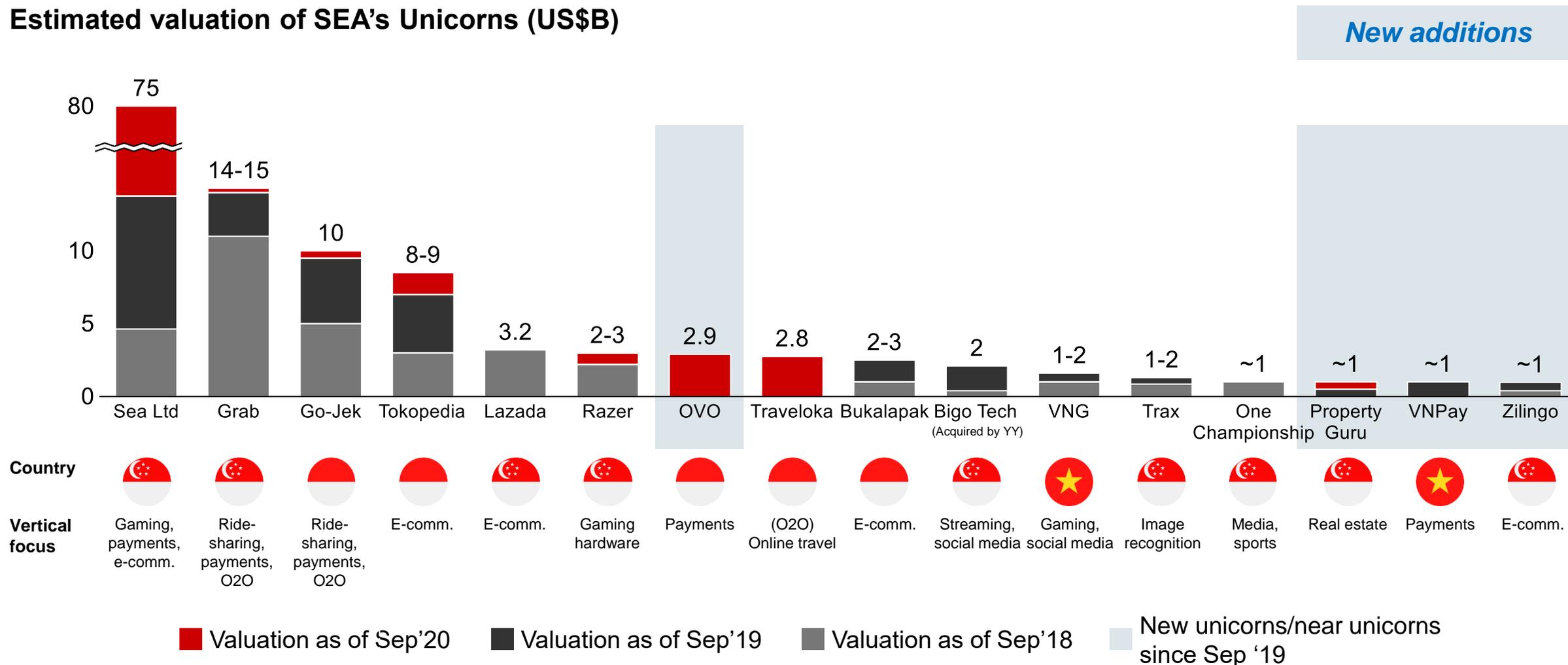
of startups receiving a second round of funding
[line]



Note: *First round of funding includes Series A funding for companies that did not raise seed funding
Source: Crunchbase as of 22 Oct 2020, Tech in Asia, Lit Search

Combined market value of 16 SEA unicorns/near-unicorns at ~\$130 billion; spanning a broad set of sectors incl. gaming, payments, travel, ecommerce etc.

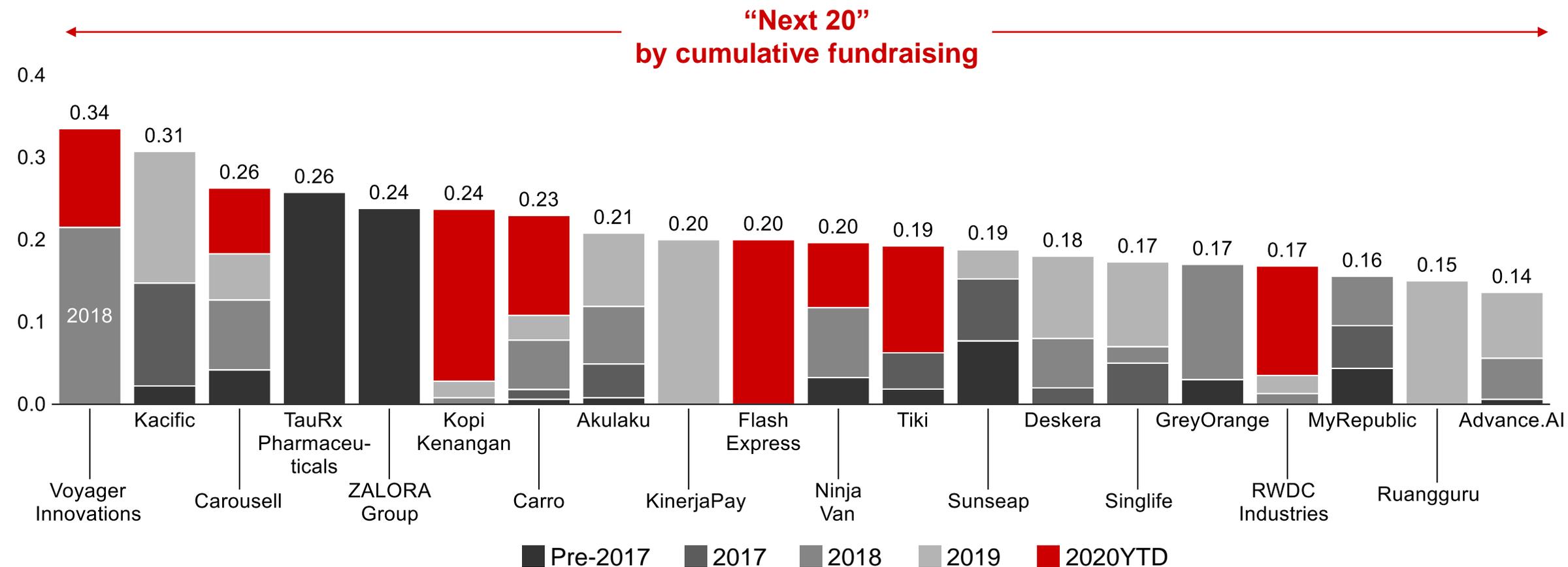
Estimated valuation of SEA's Unicorns (US\$B)



Note: Valuation based on latest financing round or latest estimates that are publicly announced; market cap for publicly-listed firms are as of September 2020
 Source: TechCrunch; CB Insights; Yahoo Finance; Lit search; Bain analysis; Preqin

Beyond the ‘unicorns’, the 20 largest start-ups by cumulative fundraising raised over \$1B in 2020 YTD

Cumulative funding (US\$B)*



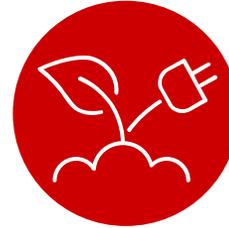
(*) Cumulative data from 2009 to 2020YTD, based on disclosed amounts
Source: Crunchbase as of 30 Oct 2020, Tech in Asia, Lit Search

“Shadow capital” investment has become an important feature of the investment landscape in SEA



What is “shadow capital”?

- **Principal funds** allocated by government investors, pension funds, other institutional investors (e.g. family offices) and corporates
- Invested in the form of **direct or co-investment** with GPs
- **Typically without 3rd party capital / fund structures** and so not tightly bound to a capital cycle and IRR hurdle
- **Often perceived as more patient capital** with a longer time horizon (if required)

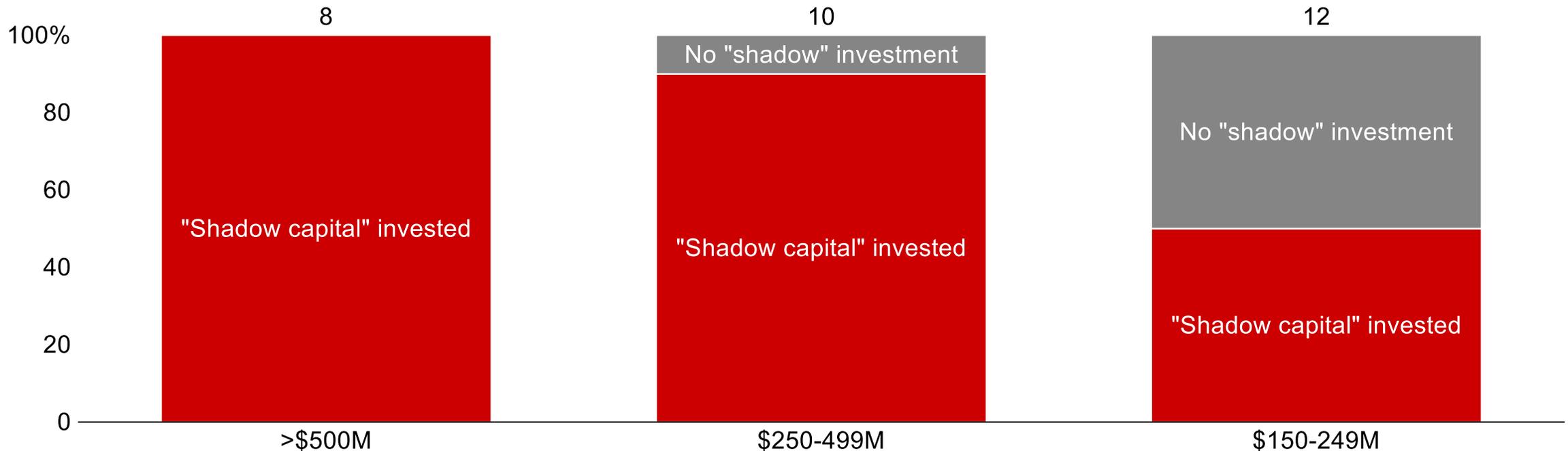


What is driving it?

- **Accumulating sovereign wealth** across the region with mandate for direct investment, in addition to PE fund placements
- **Building of direct investment capabilities** by “shadow investors” as they seek to drive higher return across the AUM base
- **Growth in corporate venture arms of tech companies**, hedging disruption in the core business

>75% of the 30 highest-funded SEA startups have received “shadow capital” investment

% of top 30 SEA startups (by published capital raised) with “shadow capital” funding



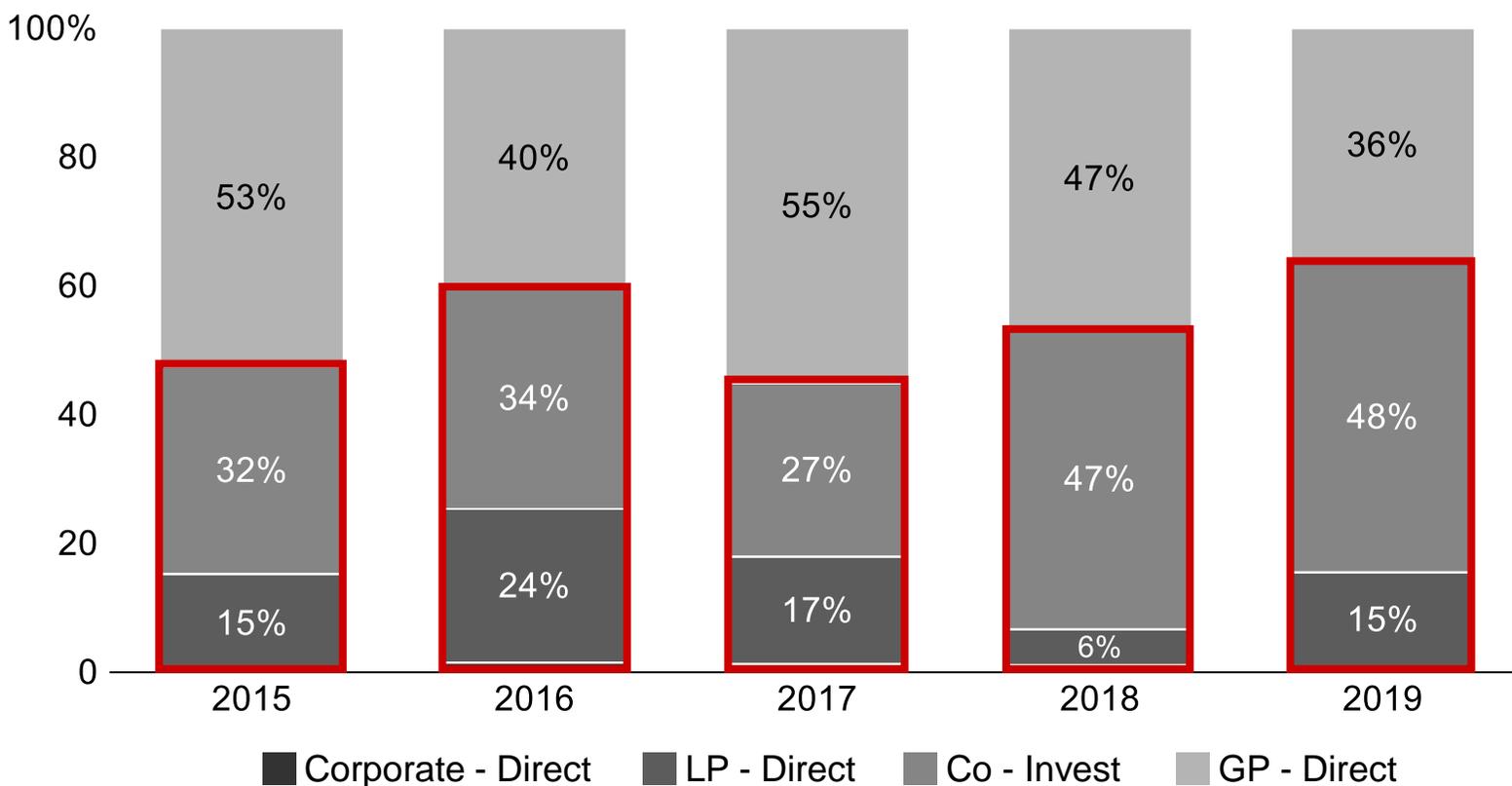
Funds raised by Southeast Asia startup since inception

Note: Start-up is considered to have been invested by shadow capital as long as there is one such investment in one of its rounds; Only disclosed amounts have been taken into consideration
Source: Crunchbase as of 22 Oct 2020

'Shadow capital' participated in over 60% of all SEA deals by value in 2019

SEA deal count by investor

Split of deal count*



Commentary

- ▶ **"Effective" PE investment capacity in SEA is a scale factor larger** than the dry powder calculated given the "shadow multiplier" from shadow direct and co-investment
- ▶ **GPs increasingly facing-off vs. direct investing LPs** and corporates in deal processes, creating additional challenges

Source: AVCJ (*) excludes real estate and infrastructure

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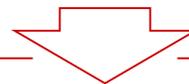
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- **PE deal value in SEA plummeted >50%** for first 3 quarters of 2020 vs. 2019; Clear absence of deals >\$1B, and exits grounded to a halt in 1H 2020
- **Early indications of a solid rebound** starting in Q3 2020 with heightened deal process activity, successful exits and strong fund raising

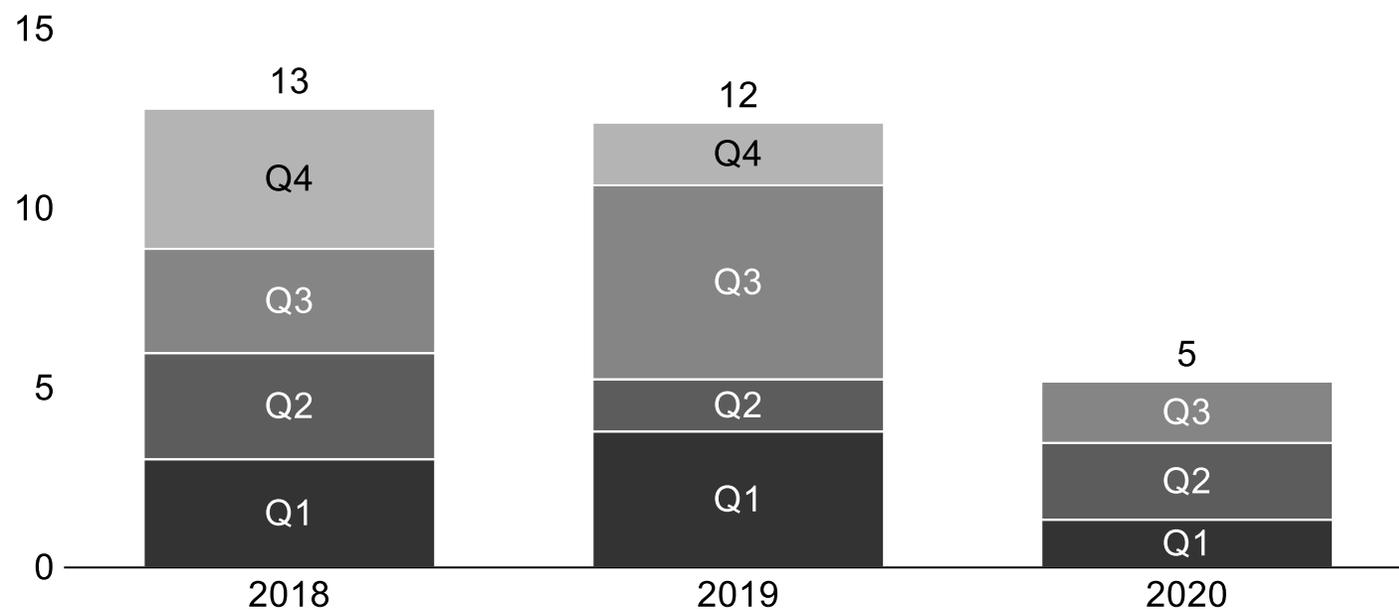


Looking ahead: Fund managers will need to be agile and adjust to new paradigms

SEA PE deal activity fell substantially for 2020YTD

Deal value

SEA PE deal value* (\$B)



Deal count
(Q1-Q3)

60

88

79

Average deal size
(Q1-Q3, \$M)

148

121

73

Source: AVCJ, (*) excluding real estate and infrastructure

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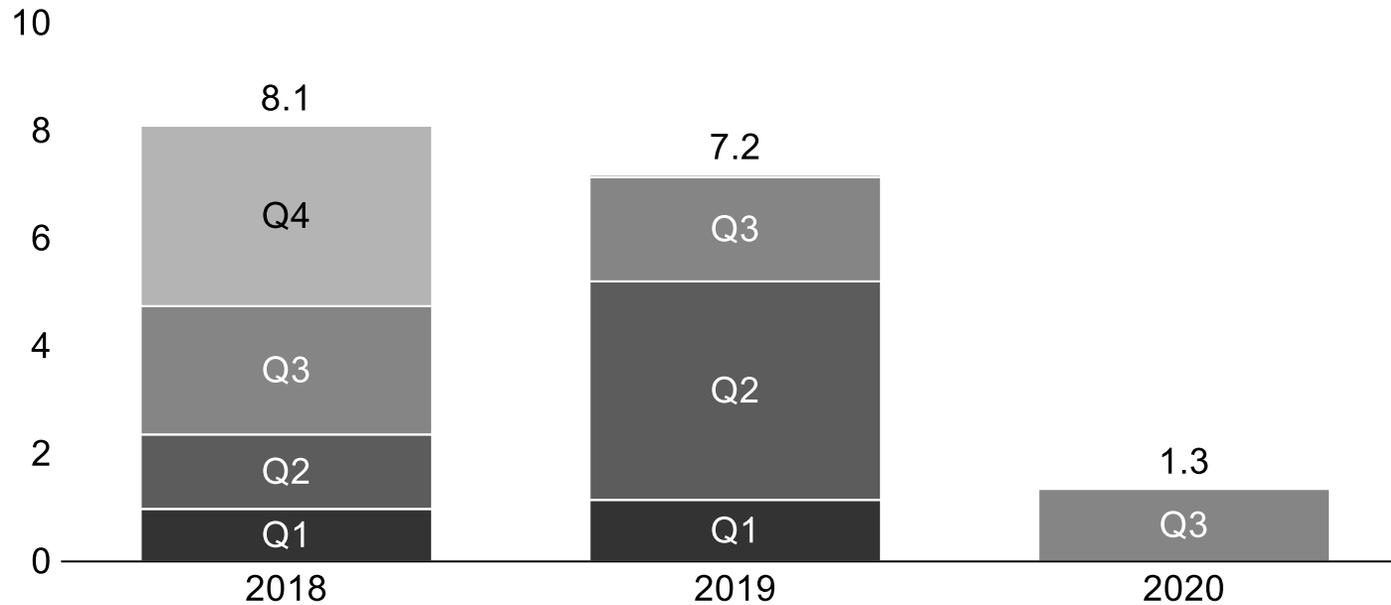
Commentary

- ▶ **2020 deal value fell >50% vs. first 3 quarters of 2019** ; many investors have exercised caution in face of COVID uncertainty
- ▶ **Absence of mega deals (>\$1B) has been a clear driver**, average deal size was 40% smaller vs. previous year
- ▶ **However, a healthy pipeline of smaller deals remains**; deal count fell only ~10% vs. previous year; buoyed by 'hot sectors' (e.g. tech, logistics) with macro tailwinds

Only 4 exits as of 3Q2020 vs. 14 at same time in previous year

Exit value

SEA PE exit value* (\$B)



Exit count (Q1-Q3)	13	14	4
Average size (Q1-Q3, \$M)	365	510	337

Source: AVCJ, (*) excluding real estate and infrastructure

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Commentary

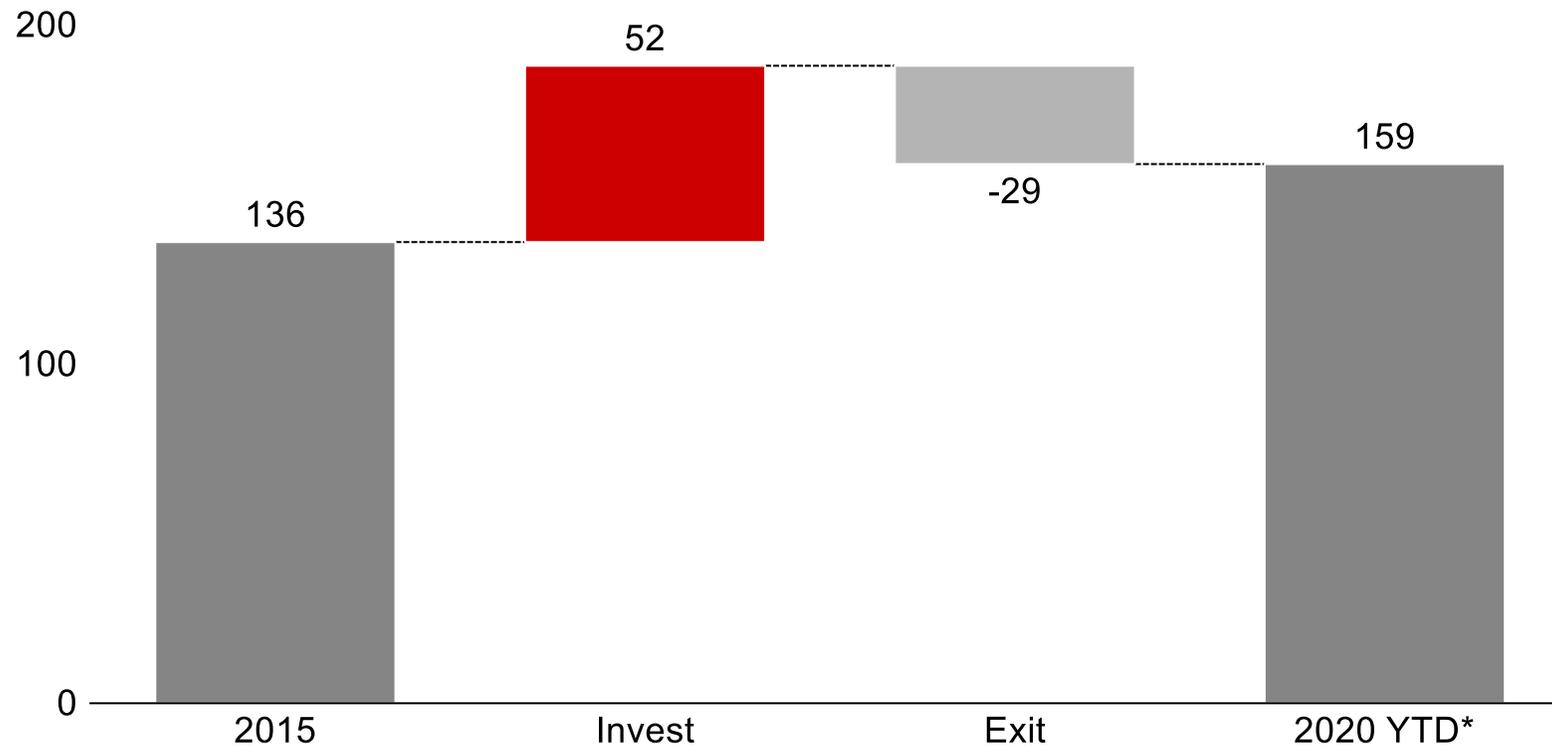
- ▶ **Exit activity has been muted in 2020 across APAC**, and SEA has been among the most affected
- ▶ **No recorded exits for PE investors over Q1 and Q2 2020 in SEA**; host of planned sales processes were delayed due to the macro uncertainty
- ▶ **Exits picked up in Q3 2020** with primary path being trade sales
- ▶ **Majority of 2020 exit value** came from the ~\$1.2B CVC exit of Softex to Kimberly-Clark in Indonesia

Fund managers are facing expanding and aging portfolios, pressuring IRRs across the board

SEA portfolios

/ BUYOUTS ONLY

of assets sitting in SEA PE portfolios



Commentary

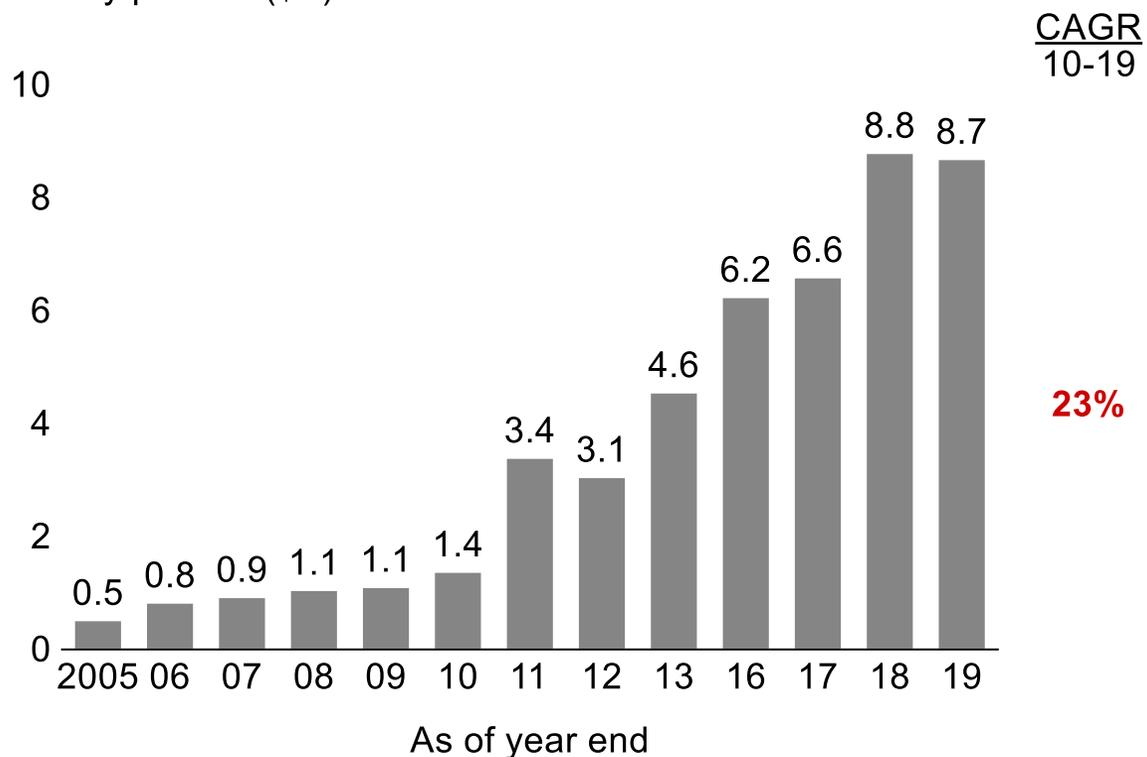
- ▶ **~20% increase in regional portfolio of PE-owned buyout assets** since 2015 due to steady investment with fewer exits
- ▶ Several PE funds in the region find themselves **unable to raise** additional capital without demonstrating strong realized returns in the existing fund

Source: AVCJ, (*) excludes real estate and infrastructure, excludes deals less than \$10M; Includes buyout assets only; Data for 2020 is as of 20 October 2020

SEA remains stacked with record levels of dry powder, that needs to be 'put to work'; a further \$6B raised in 2020 with some SEA mandate

SEA focused funds PE unspent capital

SEA focused funds
PE dry powder (\$B)



Closed 2020 vintage funds, with SEA allocation

Fund	Fund Manager	Region focus	Fund Type	Close Year	Final Size (\$M)
CVC CVC Capital Partners Asia Pacific V	CVC Capital Partners	Asia (SEA, Japan)	Buyout	2020 Q2	4,500
SEQUOIA Sequoia Capital India VII Growth Fund	Sequoia Capital	SEA, India	Growth	2020 Q3	825
SEQUOIA Sequoia Capital India VII Early Stage Fund	Sequoia Capital	SEA, India	Early Stage	2020 Q3	525
MassMutual Ventures MassMutual Ventures Southeast Asia II	MassMutual Ventures	Asia (SEA)	Early Stage	2020 Q1	100
KIP Fintech Innovation Fund		SEA, EU, South Korea	Early Stage	2020 Q1	18
SEAF SEAF Women's Opportunity Fund	SEAF	Asia (SEA, i.e. Indonesia, Philippines, Vietnam)	Venture (General)	2020 Q2	5

Notes: Excludes real estate and infrastructure funds; graph includes funds closed in 2020 with primary focus on SEA
Source: Preqin

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- **Shadow capital investors seemed unaffected by the market turmoil of 2020**; deploying throughout the cycle
- **Role of shadow capital in SEA has become increasingly prominent**; bringing stable, patient capital (that can invest through cycles) to the regions startups and private companies
- PE fund managers **need to adjust to a new paradigm** of parallel “shadow” investment, and respond with more versatile talent model



Looking ahead: Fund managers will need to be agile and adjust to new paradigms

Shadow capital investment brings tremendous value to Southeast Asia's startups and private companies

Benefits



Evergreen/long term investment

Take a long term view on return within sectors and geographies, allocating to GPs throughout cycles and proactively building platforms



Stability

Provide anchor investments and support fundraising for promising startups on the path to monetization, with a long term vision for their role in the region



Activism

Stepping up with portfolio teams to drive value creation and, as shared in last report, leading the push for sustainability and ESG.

Challenges



Competition for direct deals

Increasingly GPs are finding themselves bidding against shadow capital investors for deals, potentially raising entry multiples

30%

*Of surveyed GPs are 'kept up at night' by challenges of increased competition from shadow capital**



War for talent

SEA remains a supply-constrained market for investing and portfolio team talent, as local investing experience struggles to keep up with accelerating deal activity

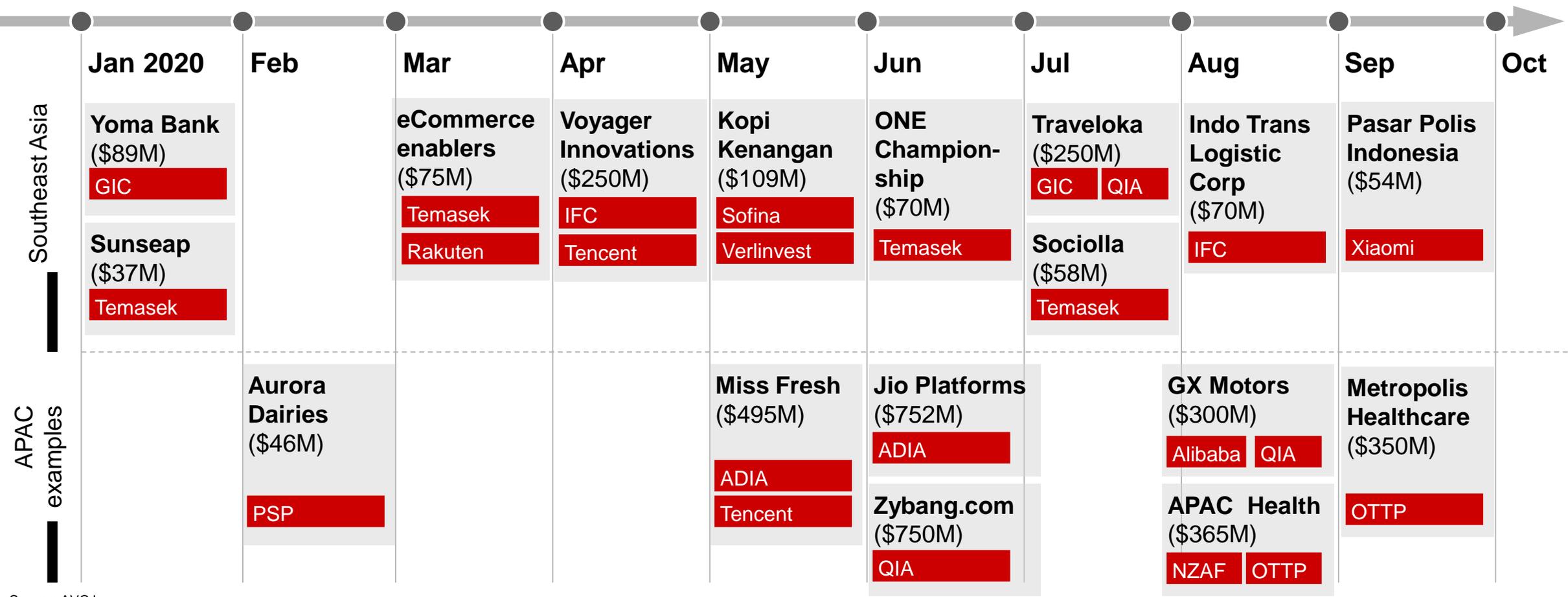
Sovereign/government linked funds add to the pressure in SEA, with huge SG/MY based teams drawing in top talent

*Government investors, pensions, other institutional investors or corporates
Source: 2020 SEA Investor Survey | N = 25

Shadow capital investors deployed throughout 2020, and were less affected by the challenges facing their fixed life fund-peers

2020 PE deals (>\$35M) with “shadow capital” participation

Target
(Total deal value, USD)
“Shadow capital” investor



Source: AVCJ

Talent remains a key challenge in SEA, as investors race to diversify and expand their capabilities

SEA GPs surveyed are 'kept up at night' by the difficulty in recruiting/retaining talented people

14% of total
For talent at the PE/investor level

24% of total
For talent at the portfolio company level

*We have hired an **advanced analytics lead for APAC** who is responsible for deploying the latest data analytics tools across our portfolio companies.*

Global buyout fund

*We **web scrape and analyze consumer sentiment analysis** on every deal – there is a treasure trove of data online that we can and should mine before an investment.*

Global buyout fund

*As we do more thematic investing, we have **deepened our hiring from industry pools.***

Global SWF

*We have institutionalized and rapidly grown our **global network of advisors** who can be rapidly activated in deal situations.*

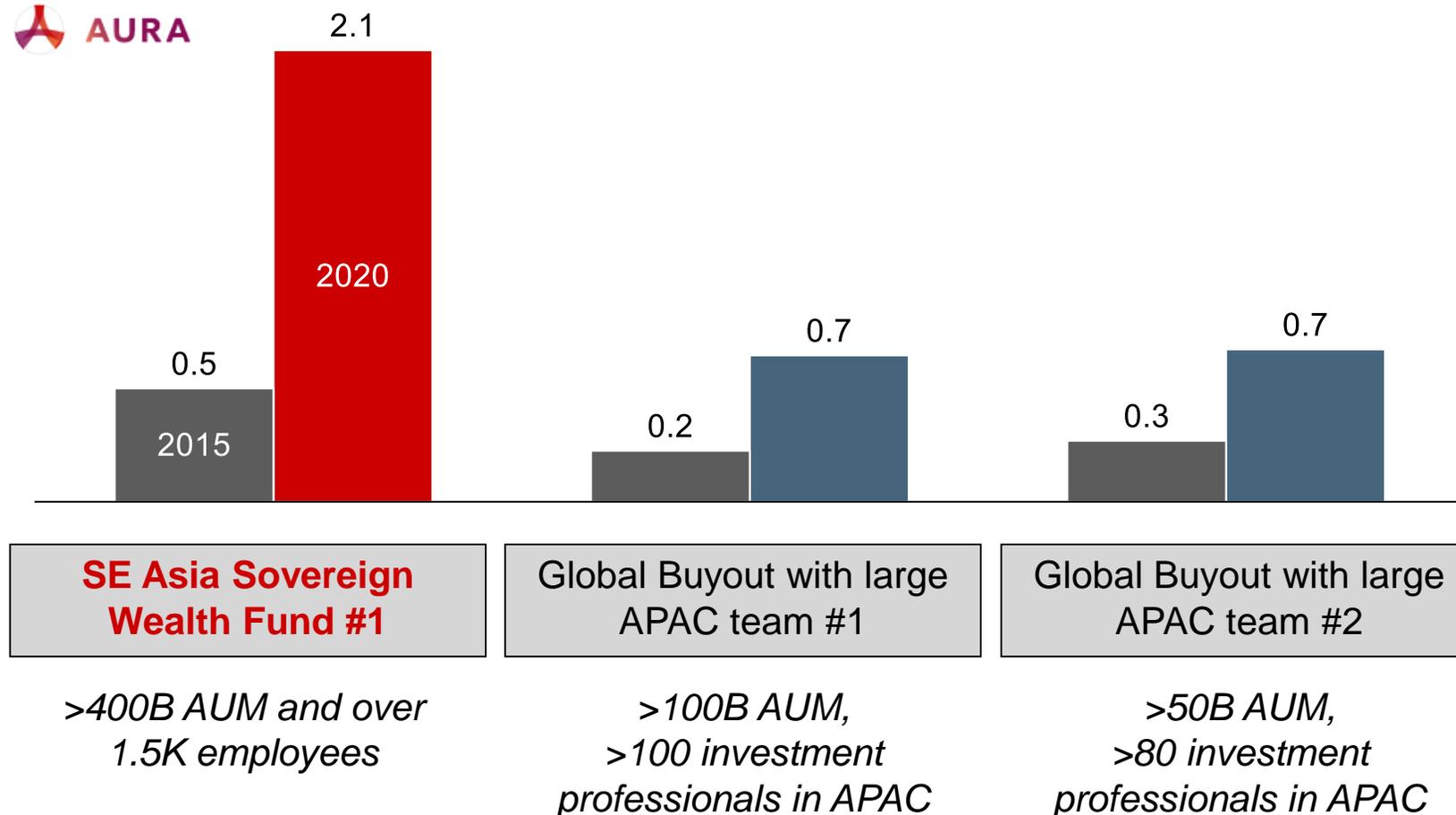
Global SWF

*ESG is now a core part of investment philosophy and we now have a **senior person to oversee all of our ESG efforts at the fund.***

Asian buyout fund

Shadow capital investors are raising the bar for new and diverse talent models; aggressively hiring data / tech personnel

Data analytics/ software engineering/ cybersecurity employees
per \$10B AUM*



*Fee paying AUM only
Source: Bain Aura workforce analytics platform

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Commentary

- ▶ Scale of shadow capital investors allows them to bring a **diverse set of talent to bear**; historically beefing up portfolio management teams and now adding diverse analytics capabilities
- ▶ **Fund managers need to rethink operating and talent models** to keep pace with shadow peers

Shadow capital is a stabilizing force in Southeast Asia



Invest through cycles into GPs and assets with a deep source of patient capital



A blue chip partner for anchor placements and co-investment / consortium deals



Drive thematic investing for regions/sectors, and long term alpha through platform plays



Raise the bar for investing talent models and investing standards (e.g. ESG)

Fund managers will need to be agile and adjust to new paradigms

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- Global network of experience in PE firm strategy, sourcing, due diligence and post-acquisition value creation, and in institutional investor strategy
- Advised on more than 50% of \$500M+ buyout transactions globally since 2000
- Bain partners have co-invested \$1B+ in PE deals and funds over the last 30 years, earning superior returns