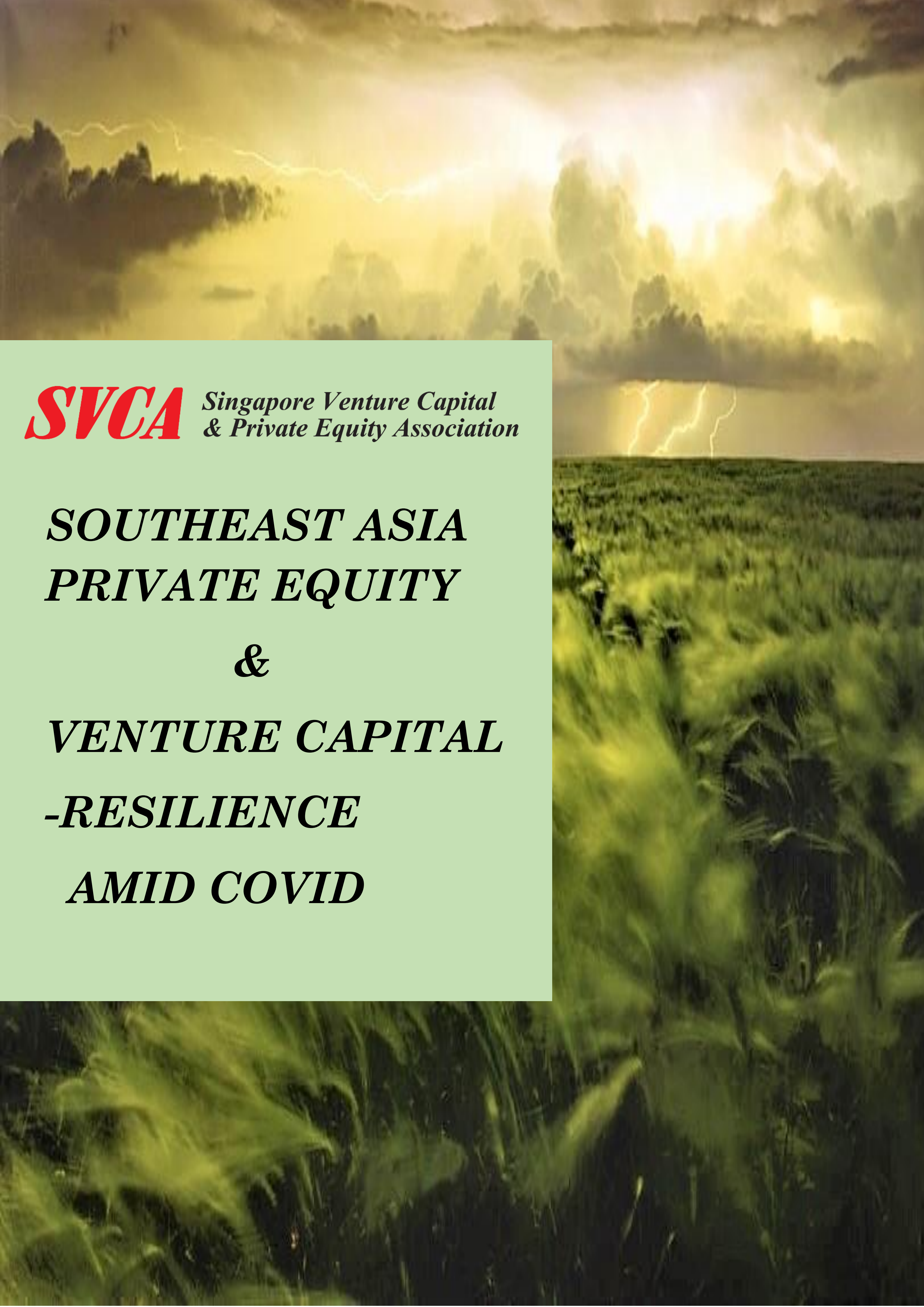


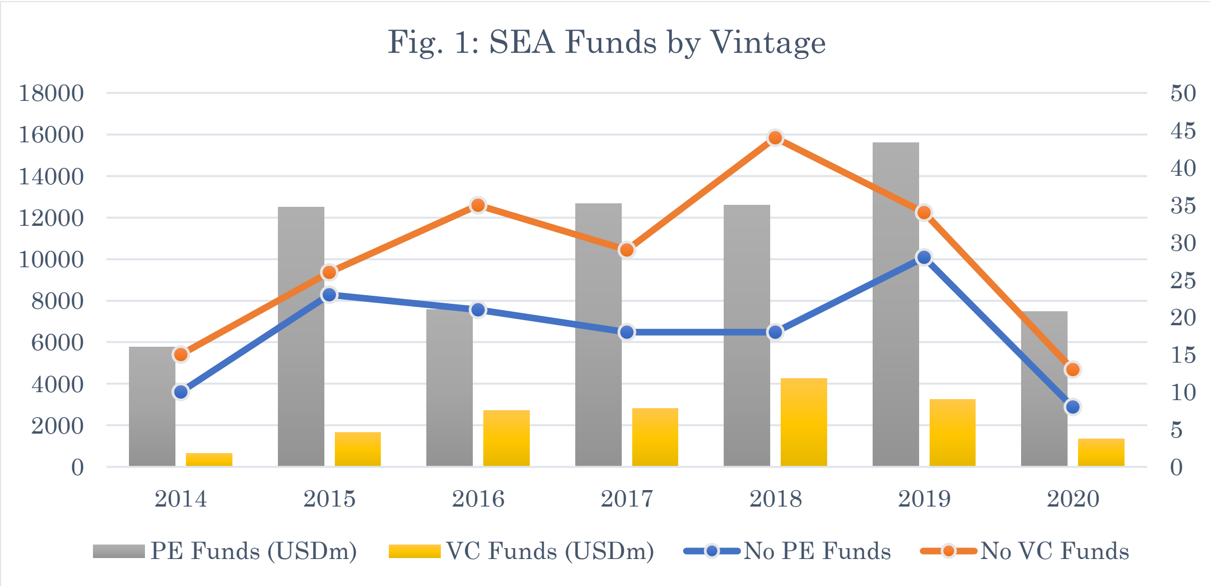
SVCA Singapore Venture Capital & Private Equity Association

SOUTHEAST ASIA PRIVATE EQUITY & VENTURE CAPITAL -RESILIENCE AMID COVID

CONTENTS

PRIVATE EQUITY/ VENTURE FUNDRAISING CHALLENGES

Fewer Funds, Larger Fund Sizes



Source: Preqin Data, SVCA Analysis

(Includes funds with primary focus on Asia, secondary focus on Southeast Asia)

2020 was undoubtedly a challenging year for PE/VC fundraising globally and Southeast Asia focused managers were not spared. Vintage year 2020 saw the close of 8 PE Funds (71% reduction from 28 in 2019) across all strategies and 13 VC Funds (62% drop from 34 in 2019). Aggregate funds raised however decreased by 52% and 58% respectively. Average fund sizes thus increased significantly showing a bias towards larger funds. For VC Funds, average fund size crossed the US$100m mark. This trend towards larger funds will in turn drive the growth of larger deal sizes and support for later stage investments in the years to come.

"PE/VC fundraising globally dropped last year – 12% in terms of aggregate capital raised – while APAC saw a steeper drop of 40%. But not every country had a lackluster year, in fact billion-dollar funds were making a big difference. South Korea, Japan, and Australia all bucked the global trend to report an increase in fund commitments. In every single case, the headline number was lifted by one or two billion-dollar funds."

Ee Fai Kam, Head of Asian Operations, Preqin

PRIVATE EQUITY BUYOUT/GROWTH INVESTMENTS

Fewer Deals, Larger Cheques

Fig. 2: Buyout/Growth Deals

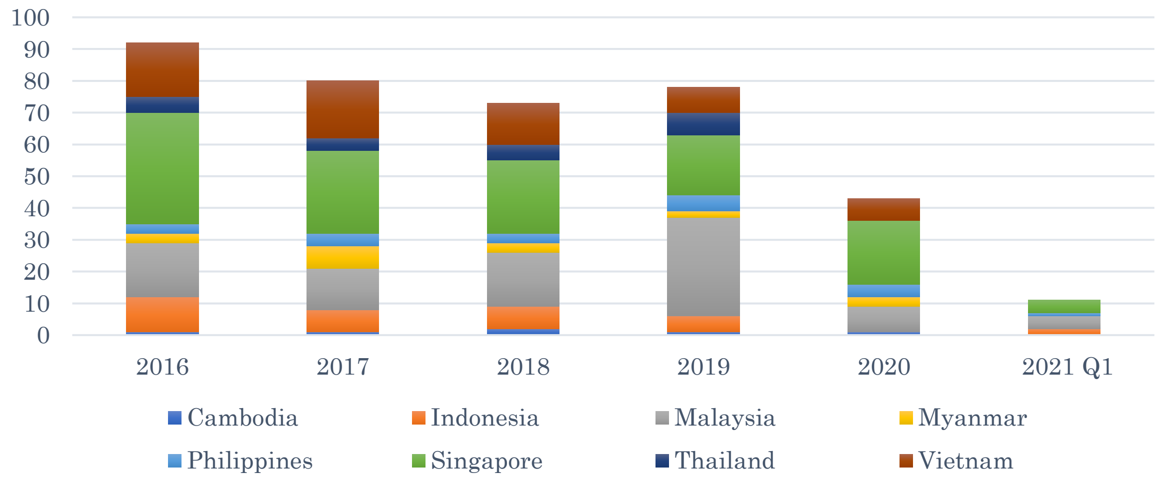
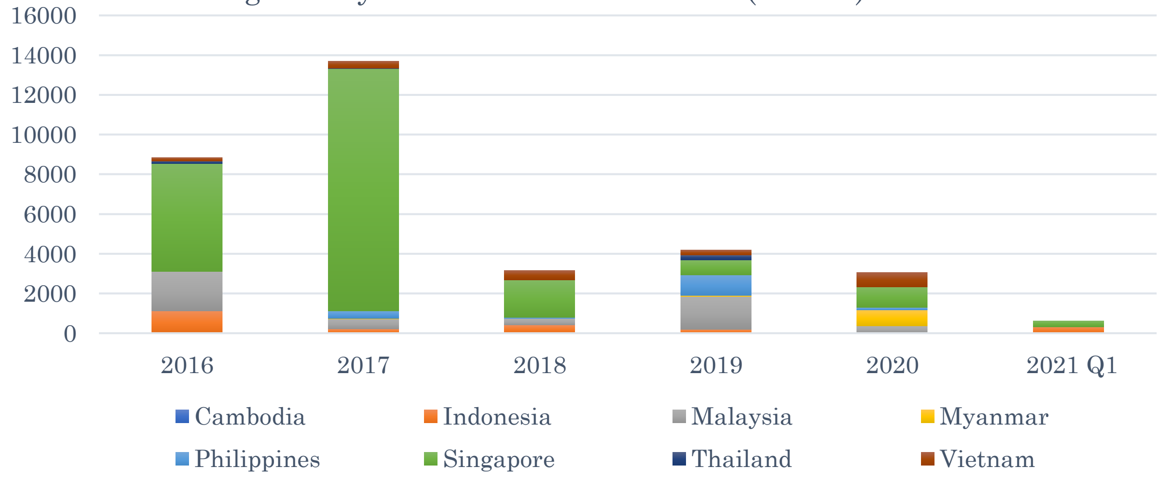


Fig. 3: Buyout/Growth Investments (USDm)



Source: Preqin Data, SVCA Analysis

Although the number of private equity deals closed fell by 45%, investments deployed fell by only 27% to US$3.05bn (from US$4.18bn in 2019) almost on par with investments in 2018. The huge spike in 2017 was contributed by the US$11.58bn privatisation of GLP.

With Singapore-based targets remaining readily accessible, investments into Singapore increased by 36% to exceed US$1bn. However, curbs on travel posed significant challenges to sourcing, due diligence and ultimately deal closings into regional countries Indonesia, Malaysia and Thailand. Investments into Indonesia and Thailand appeared to have come to a grinding halt in 2020. However, investments into Indonesia appear to be recovering with more than US$300m invested in 2021 Q1 alone.

Myanmar saw a huge uplift in 2020 despite Covid-19 with more than US$800m invested into telecommunications and financial services. However, ongoing political turmoil may have snuffed out investor enthusiasm in the immediate term.

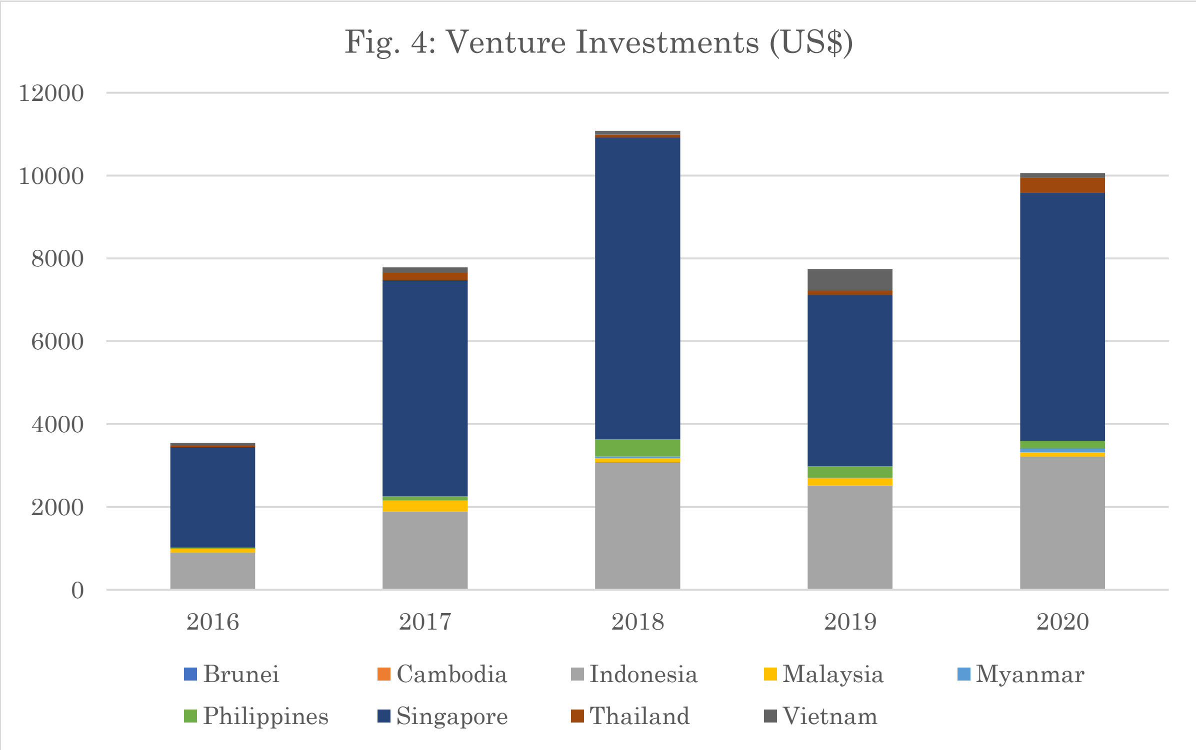
The bright spot in Southeast Asia private equity was Vietnam with US$717m invested in 2020, an increase of 187% over 2019.

"PE and VC activity in Vietnam has remained strong throughout 2020 and Q1 of 2021. Vietnam has been more successful than most nations worldwide in keeping a lid on COVID-19, which has been reflected in sustained positive investor sentiment. Vietnam's domestic economy grew strongly during 2020 notwithstanding the pandemic and this is expected to continue during 2021. Key sectors such as tech (including e-commerce, fintech, and online services), healthcare, education, real estate, pharmaceuticals, logistics, and manufacturing have all attracted strong PE and VC interest. Indeed, the complaint most frequently heard from PE and VC managers is that the key reason for not deploying even more capital in Vietnam is the high levels of competition among potential investors in relation to quality targets."

Justin Gisz, Partner, Fraser Law Company

VENTURE INESTMENTS

Continued Strong Growth Trajectory Amid Covid



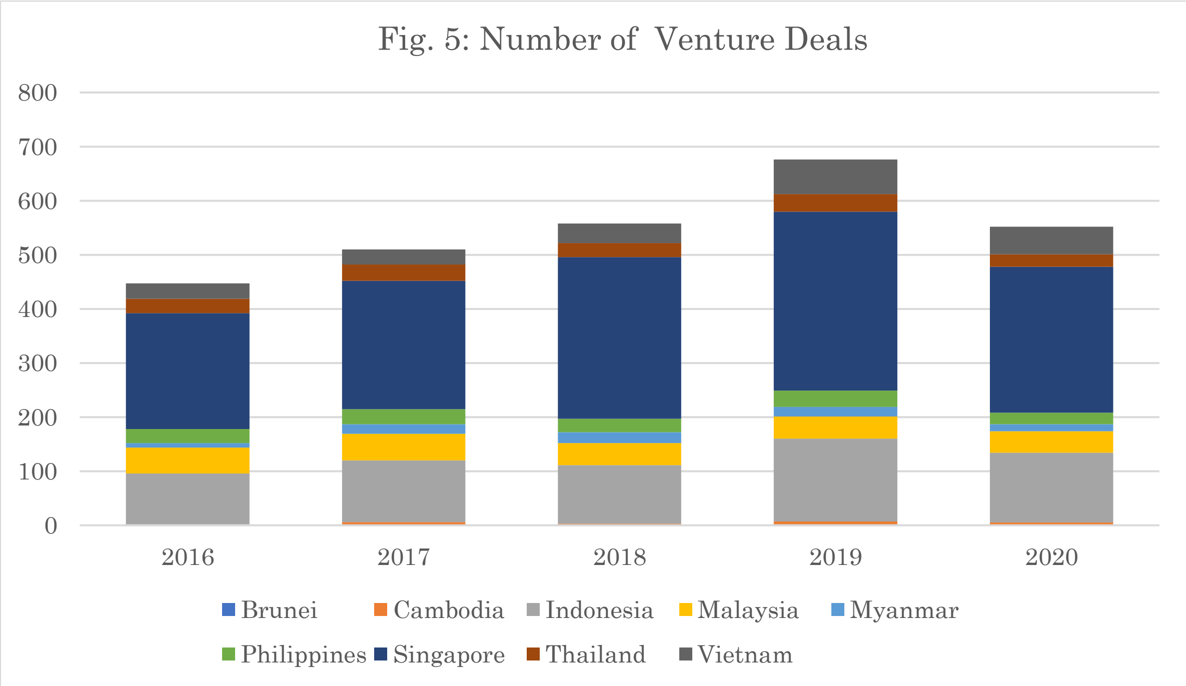
Source: Preqin Data, SVCA Analysis

Against a global backdrop of accelerated deployment of technology solutions to overcome some of the challenges brought about by the pandemic, interests in selected segments (fintech, digital health) have soared. Venture investments into Southeast Asia continued on a strong trajectory growing 29.9% led by investments into Singapore and Indonesia. The number of VC deals however dropped by 18.3% showing a bias towards larger deal investments. Figure 4 clearly shows the penchant towards later stage Series E and above deals particularly unicorns in the region.

"We are also observing resilience in the Venture Capital sector in other emerging markets such as Latin America. There is a common long term understanding among investors that technology is key to overcome current challenges brought upon by the pandemic and native digital businesses have thrived in this context."

Stefan Krautwald, Managing Director, Latin Leap VCC

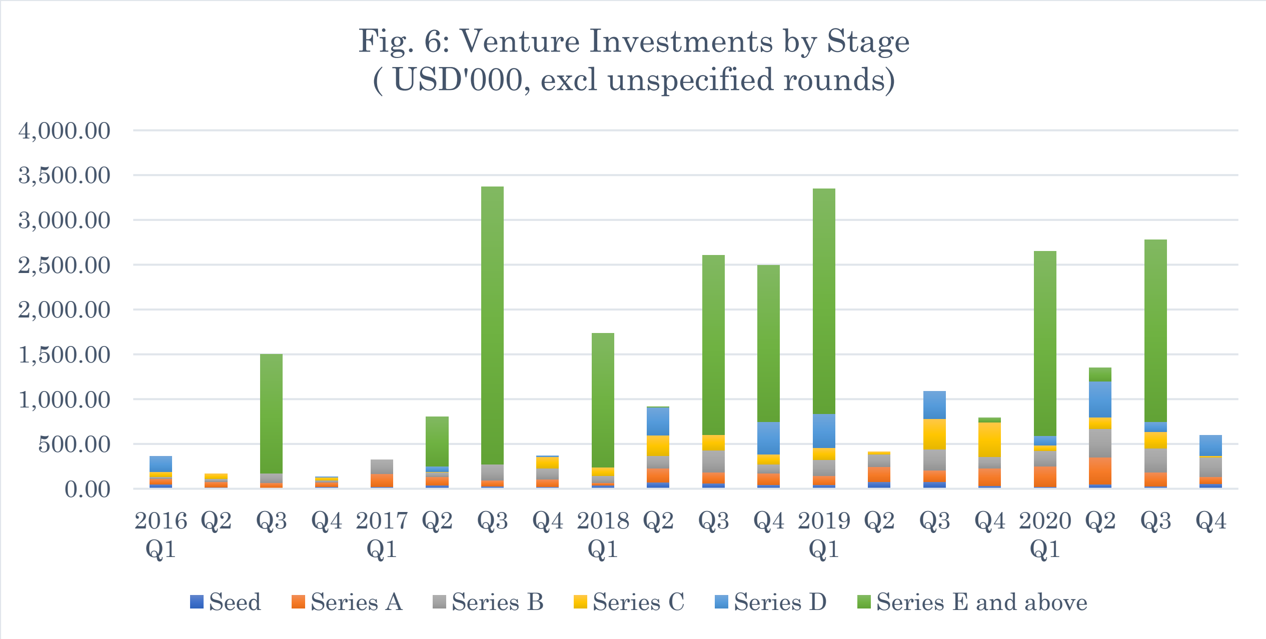
Unlike Buyouts and Growth, Venture investments are largely syndicated and enjoyed strong support across locally based VCs, corporates and existing investors. Although all VCs reported undertaking much of their sourcing and due diligence over digital platforms, there is increasing realisation on the need for more "boots on the ground" in regional countries to better interact with potential and existing portfolio and undertake more in-depth due diligence. This observation was validated in a straw poll undertaken by SVCA at the beginning of 2021.



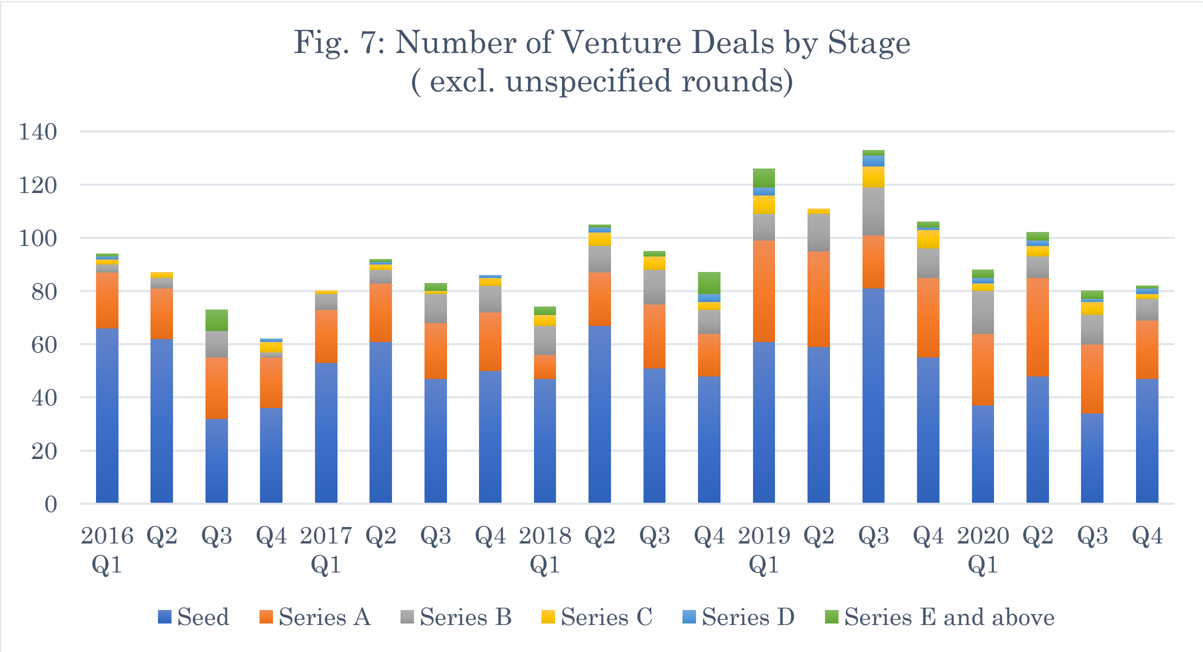
Source: Preqin Data, SVCA Analysis

"Investment teams have shown tremendous flexibility and creativity to continue to undertake due diligence remotely for cross border deals. When teams based in Singapore invest in say, Indonesia or Vietnam, it used to be critical to be able to meet founders and visit companies. That has been impossible with border closures around the globe, especially in APAC. Regional investment teams have found innovative ways to overcome this constraint, from using drones to visit factories virtually, to using third parties as their hands and legs on the ground. Discreet investigative background checks have become even more crucial in such an environment."

Reshmi Khurana, Business Intelligence and Investigations, Managing Director and Head, Southeast Asia Kroll

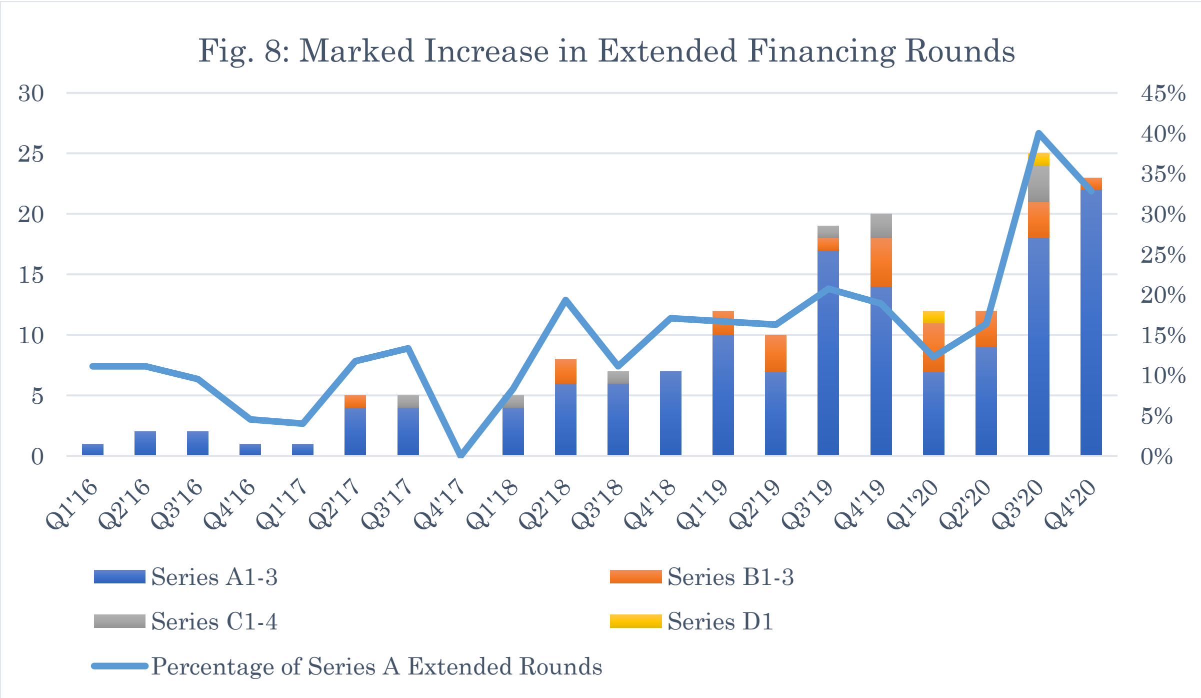


Source: Preqin Data, SVCA Analysis



Source: Preqin Data, SVCA Analysis

Extended Financing Rounds



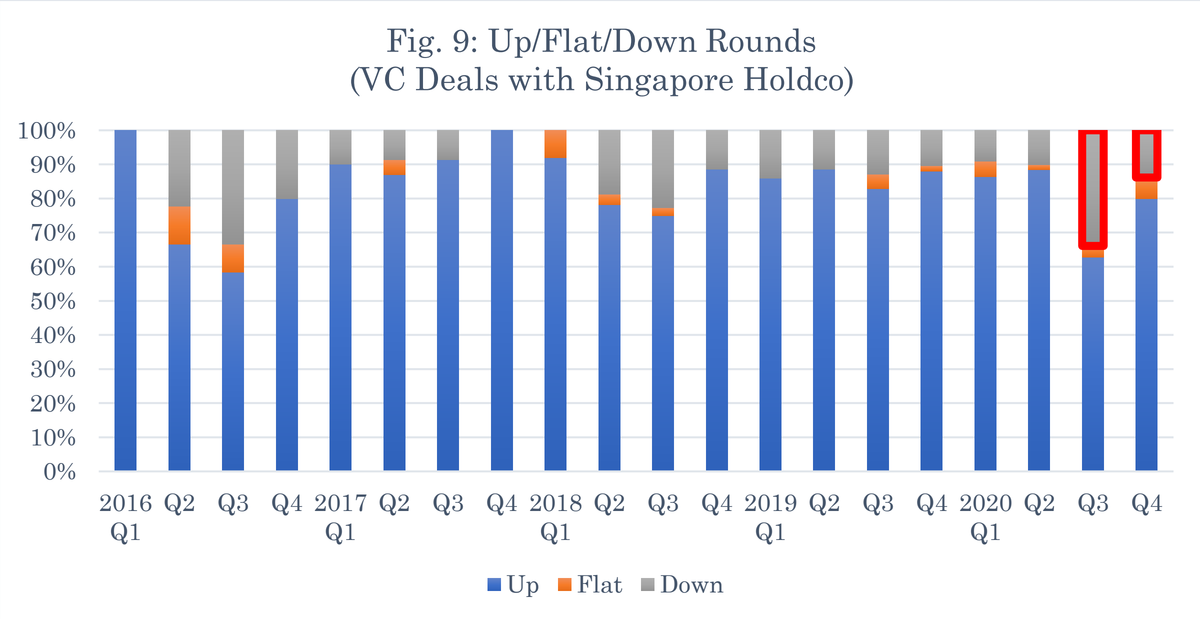
Source: ACRA Data (VentureCap Insights), SVCA Analysis

While the number of VC deals was still dominated by Seed and Series A deals, a deeper look into ACRA filings of VC-backed Singapore holdings revealed a marked increase in extended financing rounds. In particular, extended Series A1-3 rounds accounted for more than 30% of Series A deals in second half of 2020. More than 40% of these extended Series A rounds in 2020 closed at flat or near flat valuations (within plus and minus 20% of previous valuation).

"For early to mid-stage deals, we saw a prevalence of inside-led bridging rounds, with investors preferring debt-structured deals over equity. Against the uncertainty of market direction, investors took comfort in the downside (creditor) protection and fixed-income (interest) aspects of debt instruments. Together with debt-conversion discounts and/or warrants in future equity rounds, investors ensure that they do not lose out in the event of an upside trend. Based on the limited equity deals we handled, we saw a greater preference for open-ended rounds with rolling-closes, rather than having a single closing for fundraises. This is perhaps a reflection of the increasing duration taken to close deals, given covid-related challenges such as travel restrictions and social distancing measures."

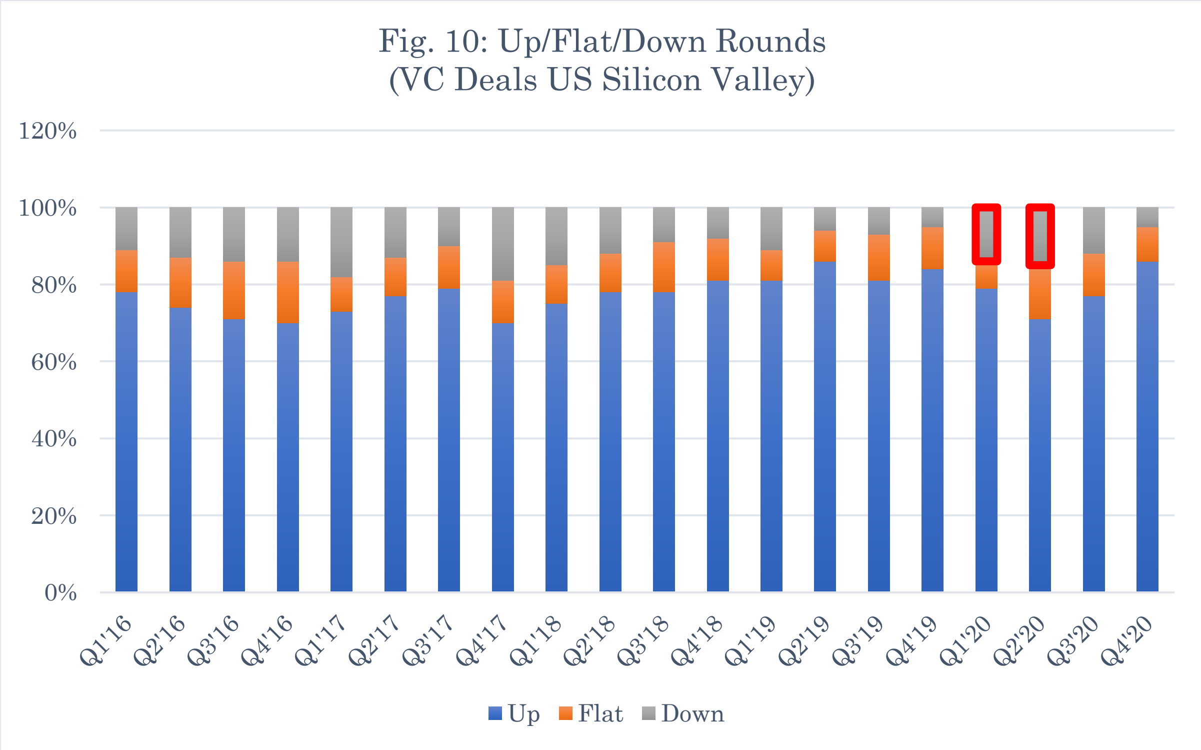
Brian Ng, Partner, Rajah & Tann Asia

Downward Pressure on Valuation in Q3 with Strong Recovery in Q4



Source: ACRA Data (VentureCap Insights), SVCA Analysis

Based on 1,990 ACRA filings of 1,219 VC-backed companies from 2016 to 2020, comparison was made between their valuation in each round with the previous financing round to determine if they were Up, Flat or Down rounds. From Figure 9, it can be seen that more than 80% of financing rounds are typically up rounds. In 2020 Q3, the percentage of up rounds fell to 62.7%, the lowest since 2016 Q3, while down rounds which typically comprise less than 15% of total deals, rose to 33.9% in Q3. Fortunately, this rebounded quickly in Q4 with up rounds at 80% and down rounds at 13.9%.



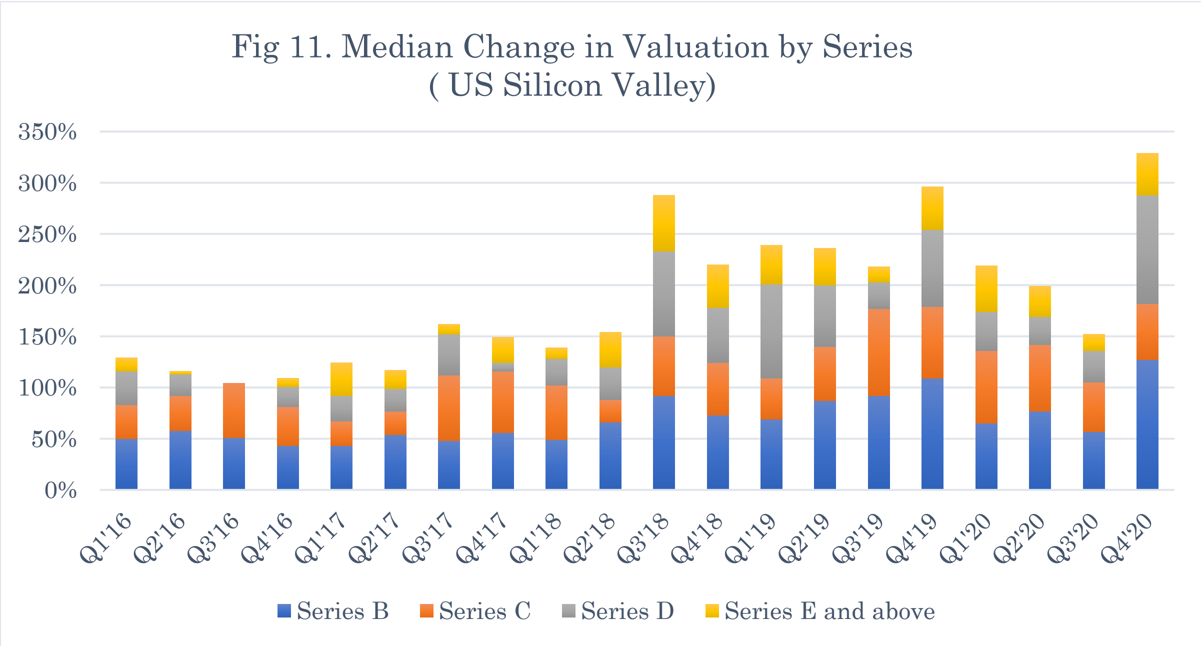
Source: Silicon Valley VC Survey Data (Fenwick & West), SVCA Analysis

Benchmarked across VC-backed deals in US Silicon Valley, it can also be seen that similarly, up rounds typically comprise more than 78% of deals closed while down rounds account for less than 12% of deals closed each quarter. In 2020 Q1, down rounds increased to 14% and peaked at 15% in Q2 while up rounds dropped to 71% in Q2 and 77% in Q3. Q4 has however seen a very strong recovery with 86% up rounds and only 5% down rounds.

Broadly, valuation in Southeast Asia has followed global markets trailing one to two quarters behind Silicon Valley. Silicon Valley VC industry response to the Covid pandemic was much quicker probably due to a more mature industry which has experienced the ups and downs of previous crises; the Internet Bubble, September 11 and GFC.

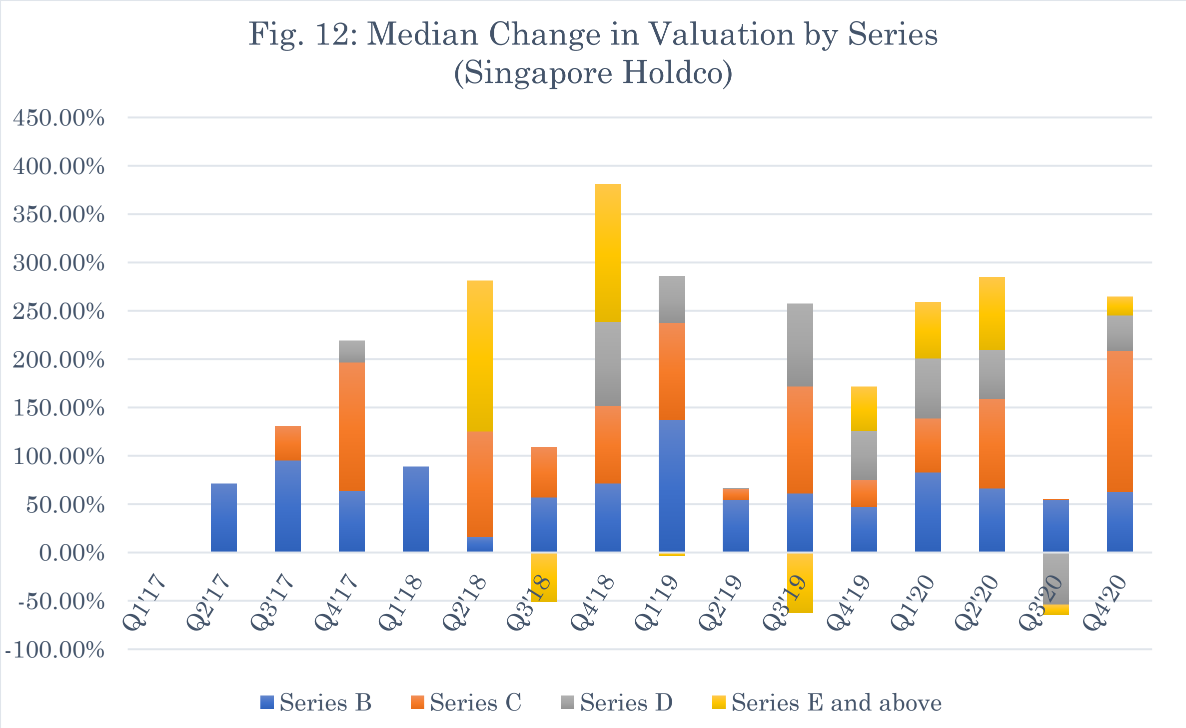
"The venture industry is quite mature in the US and in Israel. Once investors realized that certain industries would experience significant tail winds and benefit from the changes in industries such as ecommerce, healthcare and FinTech, venture investors started deploying capital immediately in companies that were experiencing rapid growth. "

Melissa C. Guzy, Co-Founder &Managing Partner, Arbor Ventures



Source: Silicon Valley VC Survey Data (Fenwick & West), SVCA Analysis

Based on the median percentage change in valuation from one round to the next for Silicon Valley VC-backed deals, it is observed that Series B experienced the highest percentage uplift in valuation, followed by Series C, D, E and above.

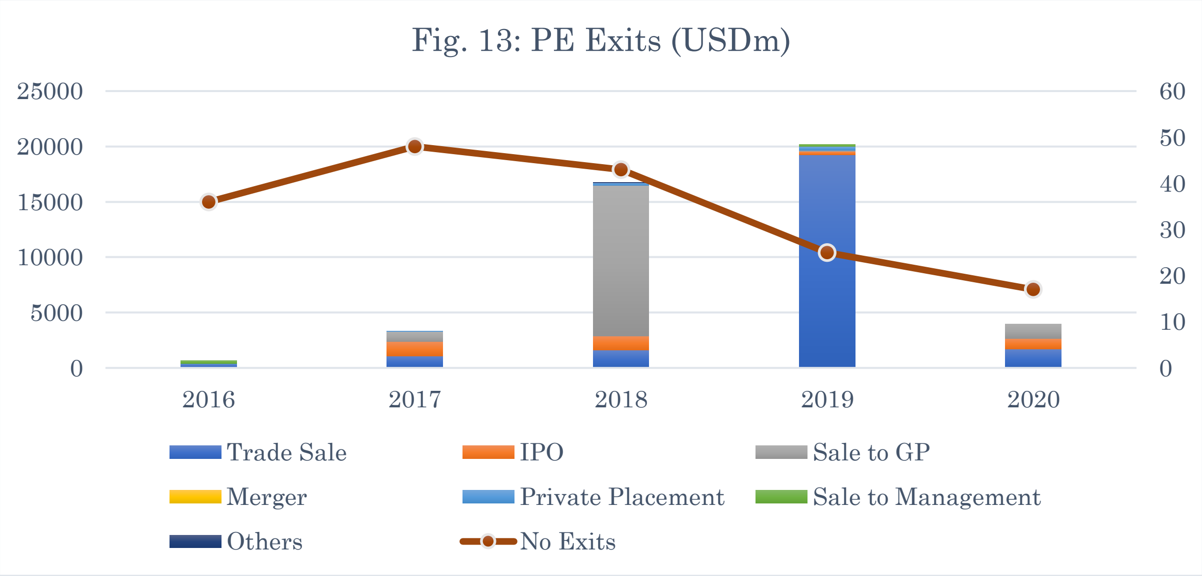


Source: ACRA Data (VentureCap Insights), SVCA Analysis

Regionally, median changes in valuation are less predictable. While uplift in Series B is generally higher, Series C deals also experience significant increase in valuation although with Series E and above, there may be increasing pressure for down rounds when exits are still not in sight and further cash injection is necessary.

EXITS

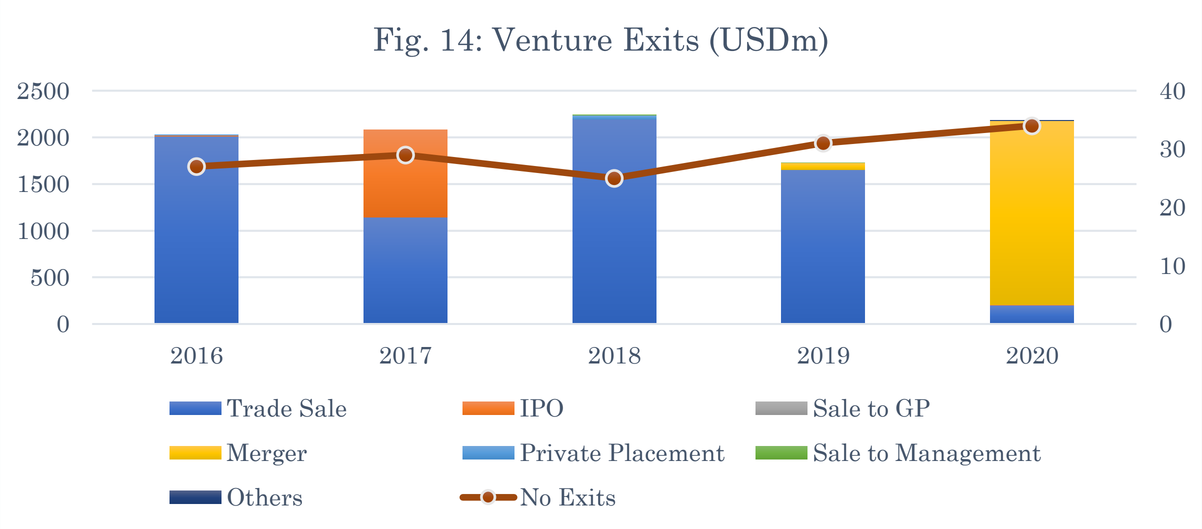
Challenging Year for SEA PE Exits



Source: Preqin Data, SVCA Analysis

Exits by Private Equity took a hit with a drop in both number of deals by 32% to 17 (from 25 in 2019) and value by 80% to US$3.98 bn. Although still dominated by Trade Sales, Sale to GPs represented a significant one third of total exit value in 2020.

Venture Exits Keeping Pace, Great Expectations



Source: Preqin Data, SVCA Analysis

Despite the challenges of Covid-19, the number of Venture exits regionally kept pace with figures over the past 5 years and outperformed 2019 with notable exits in the Fintech sector (Moka, Trade Gecko and Singapore Life). Total value rose by 26.5% to US$2.18bn accounted largely by the merger of Singapore Life with Aviva Singapore.

Looking ahead, the industry is awaiting with excitement on the reported merger talks between Gojek and Tokopedia and listing thereafter. Together with Grab's announced plans for listing in the near future though a SPAC, 2021 is poised to be an exciting year ahead.

"This is a defining decade for Southeast Asia's tech ecosystem. The gold rush into the region from global investors and tech companies combined with the new wave of digitalization brought by the pandemic has presented immediate growth opportunities that local players are taking advantage of -- launching digital banks, investing in sunrise sectors like healthcare, education, and SaaS, setting up venture funds, listing on the public markets through emerging market-focused SPACs, to name a few. It will be exciting to be part of the action sustaining this momentum amidst increasing competition in the region."

Yinglan Tan, Founder & Managing Partner, Insignia Ventures

CONCLUSION
Resilience Amid Covid

The Southeast Asian Private Equity and Venture Capital industry underwent unprecedented challenges over the past year but demonstrated remarkable resilience from fundraising to deployment and exit.

With curbs on travel restricting movement of both GPs and potential LPs to connect in-person slowing down the entire fundraising process, vintage 2020 saw a precipitous drop in the number of PE and VC Funds raised. The average size of both PE and VC funds closed in 2020 increased substantially reflecting continued confidence of LPs deploying funds into Southeast Asia. The trend towards larger fund sizes, particularly for VC Funds will give rise to greater support for larger and later stage financing as the industry continues to grow and mature.

With regional travel largely curtailed, the volume of deals closed dropped sharply. Conversely, Singapore-based targets benefited as most regional fund managers have a presence in Singapore. Although there was downward pressure on valuation, VCs have remained largely supportive of their portfolio with extended financing rounds and various bridge financing structures to support their portfolio as they reduce their cash burn, pivot and reorientate themselves to capture new opportunities. Valuation also rebounded quickly in Q4.

Although regional exits took a beating in the past year, some of the slack was taken up by sale to other PE managers. The pandemic also saw a phenomenal rise in the use of more innovative structures like SPACs (Special Purpose Acquisition Companies) which will add to the list of potential acquirers of portfolio companies in the years ahead.

Acknowledgments

The author Doris Yee, Executive Director would like to extend her sincere thanks to the various industry experts for sharing their comments and insights.