Preqin Territory Guide:
ASEAN 2022

Contents

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Investing in ASEAN private equity: What's behind the growth?

Macro tailwinds like strong demographics and unprecedented digital adoption have supported growth in ASEAN, but global headwinds and challenges unique to the region have prompted investors to be more discerning in their investments

The Association of Southeast Asian Nations (ASEAN) has captured the attention of global investors that are actively seeking new growth markets. ASEAN has proven one of the more promising markets for private equity and venture capital, particularly when considering its tech-enabled businesses.

Macro tailwinds supporting long-term growth over the past decade remain intact. ASEAN is the third-most populous economy in the world, with a rapidly emerging middle class, a growing working population (which is estimated to increase by 40 million by 2030[1]), and increasing urban areas. This fast growth has impacted consumer behavior throughout the region, and a more prosperous consumer profile has led to a transformation of the region's digital landscape.

Over the past few years, higher internet penetration, along with increasing digital adoption and consumption, has spurred a tech revolution in the region. Among its population of 589 million, 440 million (75%) are now online, with 40 million just starting to use the internet for the first time in 2021. Improvements in internet connectivity and affordability across Southeast Asia have paved the way for rapid innovation and a booming ecosystem for emerging tech-enabled businesses. Successful businesses have quickly realized the importance of leveraging this rapid digital growth and have offered online solutions to capture this expanding, tech-savvy consumer base.

The pandemic accelerated the adoption of technology across the globe, and its impact in Southeast Asia has been particularly striking. Since the pandemic began in 2020, 60 million digital consumers have been added – referring to Southeast Asians who have used at least one service online, whether it be for food delivery, finance, or online entertainment. The region's internet economy has hit a record $170bn gross merchandise value (GMV) as a result, with projections for ASEAN to be a $360bn regional digital economy in 2025, and to hit $1tn in 2030.[2]

Against this backdrop, it is no surprise that the PEVC industry has grown over the past decade. Its assets under management (AUM) were at $57bn as of September 2021, up from just $17bn a decade ago (Fig. 1). The digitalization of existing businesses in recent years has led to robust investor interest.

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[1] *https://theaseanpost.com/article/future-consumption-asean*
[2] *https://services.google.com/fh/files/misc/e_conomy_sea_2021_report.pdf*

The region's initial wave of tech titans such as Grab[3], Bukalapak[4] , GoTo[5], and Sea[6] have been instrumental in changing the landscape for Southeast Asia by delivering customer value and widespread employment across the region. They have also recently made their debut exits, reassuring investors that there are avenues for liquidity in the region. However, these firms have by no means been immune to the public market turmoil, and have experienced falls in their stock prices.

There are challenges to investing in the region. One of which is the heterogeneous nature of each of the countries – with unique regulations, legal systems, languages, cultures, and consumer behavior. This means having intimate, on-the-ground knowledge in the local markets plays a disproportionate role in business success in Southeast Asia. Successful start-ups in the region have been able to adapt to local laws and regulation, infrastructure, and consumption habits. One way Grab was able to gain footing over Uber in Southeast Asia and gain market share was through its hyper-localized approach to each market, such as accepting cash payments and introducing nimble motorbike taxis for cities rife with traffic jams. The company also emphasized safety and reliability in cities where people were wary of private-hire forms of transport.

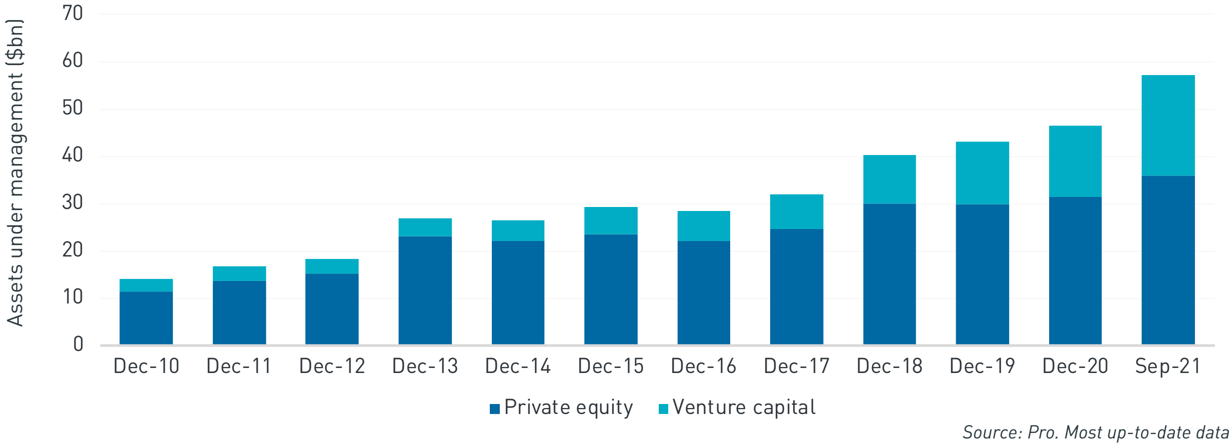
For investors, it requires evaluating each market differently, which can be challenging if they do not have on-the-ground expertise. The lack of knowledge given the fragmented landscape in the region means that investors may prefer to inject capital into the same high-profile, sought-after names. This leads to increased competition behind the same deal opportunities and a perceived lack of deals.

Excess liquidity globally has led to inflated valuations. This has left investors and businesses particularly vulnerable given considerations including geopolitical tensions, rising oil prices, inflation, and interest rates. With the volatility in public markets causing a reset of valuations in private markets, private equity and venture capital investors will not be able to rely on multiple expansion as a value driver.

Investors, then, look to shift their focus from growth to profitability as they aim for long-term return generation and sustainability. They may now be more selective in identifying companies that have strong balance sheets and low burn rates.

[3] *https://pro.preqin.com/asset/137964*
[4] *https://pro.preqin.com/asset/133544*
[5] *https://pro.preqin.com/asset/429307*
[6] *https://pro.preqin.com/asset/117725*

Fig. 1: ASEAN-based private equity and venture capital assets under management by asset class ($bn), 2010 - Q3 2021



Source: Pro. Most up-to-date data

Companies, too, are realizing that pursuing growth at all costs is unsustainable. For example, firms such as Sea and Grab have racked up losses from aggressive incentives and promotions to gain market share.

Such companies are now refocusing on topline growth and operational improvements to manage margins, bring costs down, and establish their competitive advantage. More established tech companies, for instance, are now looking to tap into their vast user base to build offerings outside of their core operations, improving their profitability in order to be sustainable in the long run. Grab has done this by launching new initiatives including GrabAds (offering advertising and marketing services to merchants) and GrabDefence (offering anti-fraud technologies to third parties).

In spite of the headwinds, the growth story for ASEAN continues to be compelling. According to a Preqin survey done in November 2021, 42% of private equity managers and 52% of venture capital managers surveyed believed that the best opportunities in 2022 are in ASEAN, the highest among all emerging markets.

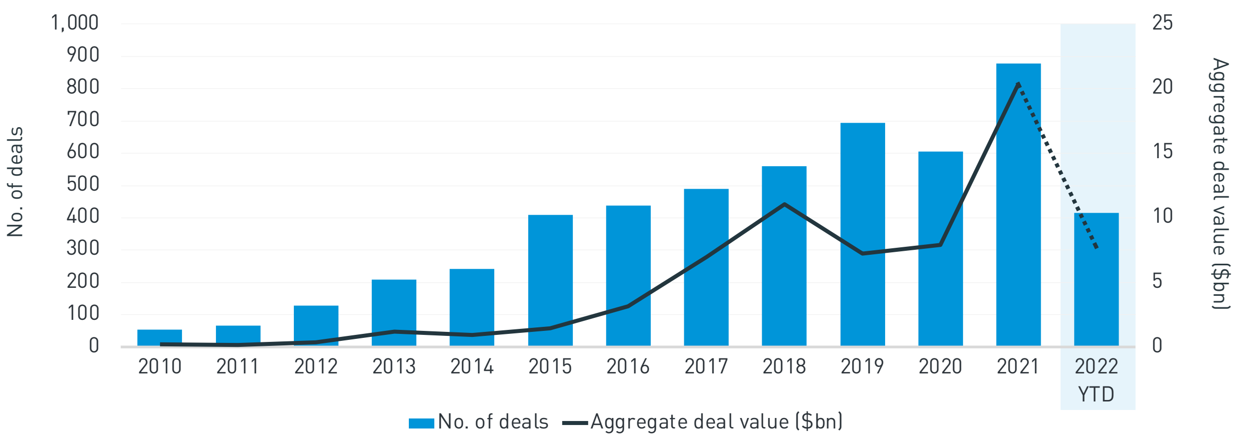
Private equity and venture capital in ASEAN

The ASEAN private equity and venture capital industry grew in 2021, and industry players are attempting to sustain the momentum despite headwinds

Venture capital deal activity in ASEAN soared in 2021, reaching a record $20bn (Fig. 2). This represents a 1.6x increase on 2020. That's twice as much as the rest of Asia, which witnessed a 0.8x growth in aggregate deal value over the same period. The aggregate deal value for ASEAN in 2021 was also 35% higher than the 2019 and 2020 levels combined, and 85% higher than the last peak of $11bn in 2018. This surge of funding is a testament to the enduring confidence of global investors in Southeast Asia and the opportunities it presents. The ecosystem is showing signs of maturing with a more diverse distribution of capital across a range of deal types, stages, markets, and sectors.

There's been a strong push in early-stage investments by investors in the region. Aggregate value of seed-stage funding, for instance, grew by 1.1x from $203mn in 2020 to $436mn in 2021, while series A and series B grew by 3.0x and 1.8x respectively. This growth can largely be attributed to a rapidly growing average deal value. For instance, the number of seed-stage deals remained fairly constant over the past five years, while their average deal value in 2021 was $1.8mn – compared to the past five-year average of $0.78mn. This trend continued into the first half of 2022, where as of May 2022 the number of deals was about 0.5x that of 2021, but the aggregate deal value at $455mn had already surpassed 2021's $436mn.

Fig. 2: Venture capital deals* in ASEAN, 2010 - 2022 YTD



Source: Preqin Pro. Data as of May 2022

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

While late-stage investments continue to drive the overall value, aggregate deal value has grown very little in the past few years for this stage. Series D and later-stage aggregate deal value in 2021 was $3.5bn, which was just a 5% increase from 2020 and 3% from 2019. These values are muted in comparison to the peak in 2018, where funding for series D and later stages hit a record $6bn. This, however, was primarily driven by two deals – a series H funding in Grab worth $2bn, and a series E funding in Gojek worth $1.5bn. Setting these deals aside, the growth in aggregate deal value for the late-stage funding in the past five years has been relatively flat.

The downward pressure on valuations for listed companies has translated to lower valuation for later-stage deals, and investors are increasingly shifting to early-stage deals where they can identify and participate in the growth of emerging start-ups in sectors that are experiencing fast growth in the region.

The majority of the deals in 2021 were in Singapore and Indonesia, which accounted for 46% and 37% of the aggregate deal value in ASEAN respectively (Fig. 3). However, countries such as the Philippines and Vietnam have displayed the fastest growth, both growing at 6.9x in 2021 in comparison to their past five-year averages. Singapore continues to be the start-up hub for the region owing to its robust infrastructure and strong government support, but other regional markets are following suit. Programs like the e-Government Masterplan 2022 in the Philippines[7] and the National Digital Transformation Programme by 2025 in Vietnam[8] aim to accelerate digital transformation and innovation.

Information technology, as a sector, continues to dominate the venture capital deals made in ASEAN. There were 379 deals made with an aggregate deal value of $6.7bn in this sector in 2021 (Fig. 4). This represents a steady growth over the years, rising 1.1x since 2020 and 1.4x since 2019.

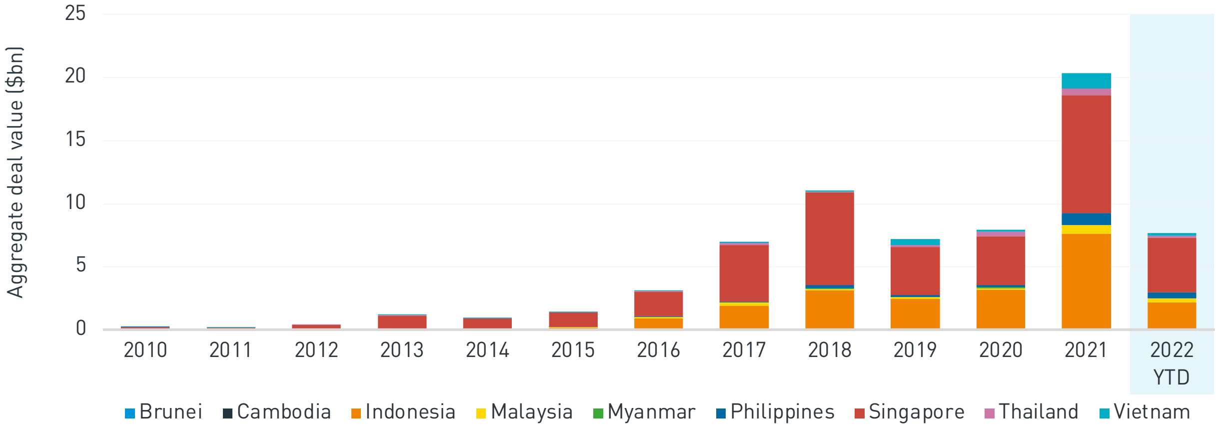
The 2021 figure also surpassed the previous peak of $6.3bn in 2018, which was mainly driven by massive late-stage funding rounds in marquee companies such as Lazada, Gojek, and Tokopedia.

Financial and insurance services, with 194 deals worth $5.3bn, came second, followed by the consumer discretionary sector with 151 deals worth $4.2bn. Several deals within these sectors were also in tech-enabled businesses and were therefore driven by the same tailwinds as the information technology sector.

One sector that has grown significantly in Southeast Asia over the past few years is fintech. In spite of the increasingly digitally savvy population, over six in 10

[7] *https://dict.gov.ph/ictstatistics/wp-content/uploads/2020/03/EGMP-2022.pdf https://dict.gov.ph/ictstatistics/wp-content/uploads/2020/03/EGMP-2022.pdf*
[8] *https://www.vietnam-briefing.com/news/vietnams-digital-transformation-plan-through-2025.html/*

Fig. 3: Venture capital deals* in ASEAN by country, 2010 - 2022 YTD



Source: Preqin Pro. Data as of May 2022

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

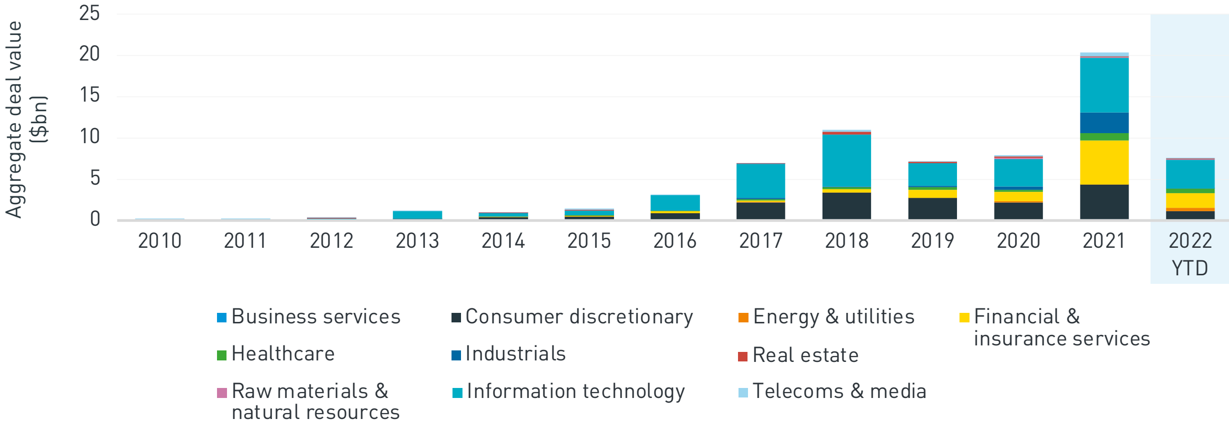
Southeast Asians remain underbanked or unbanked.[9] Digital financial services have an opportunity to bridge this gap.

The pandemic also helped accelerate online financial services adoption, and prompted retail participation in investments as retail investors increasingly became interested in financial planning. There is now a growing cadre of companies that are targeting these retail investors that have captured venture capital investor interest.

Robo-advisors like Bibit[10] and Pluang[11] in Indonesia and Endow.US[12] in Singapore raised smaller early-stage rounds in the past few years, only to quickly pick up larger follow-on funding in a few months – demonstrating their rapid growth. Bibit, for example, is a mutual fund robo-advisory investment app targeting millennials and first-time investors. It was able to take advantage of the growth in mutual fund investors in Indonesia: according to Indonesia Stock Exchange and Central Custodian data, the number of mutual fund investors grew by 80% year-on-year in 2021. It raised $30mn in January 2021 from investors such as Sequoia Capital, East Ventures, EV Growth,

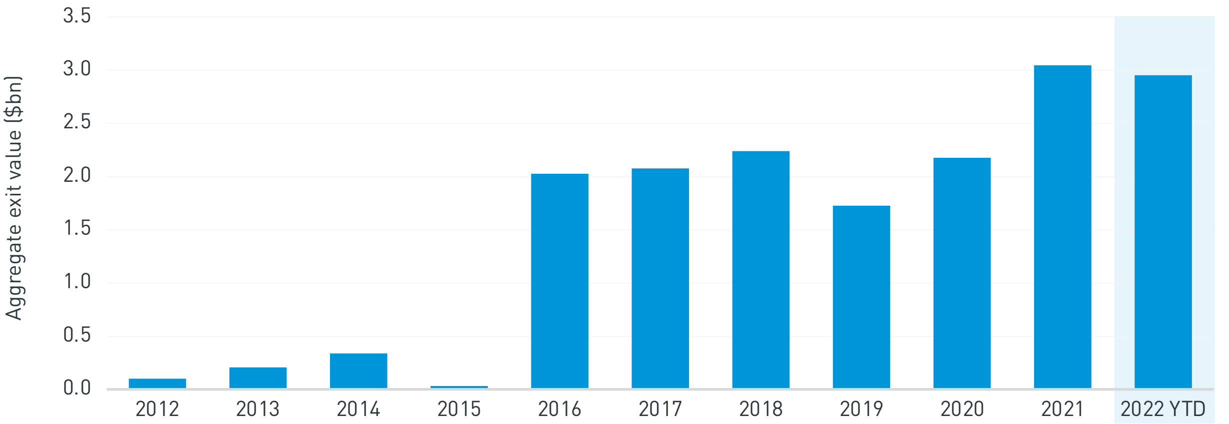
[9] *https://www.weforum.org/agenda/2022/02/closing-southeast-asia-s-financial-inclusion-gap/#:~:text=While%20Southeast%20Asia's%20economy%20has,remain%20underbanked%20or%20unbanked%20today.*
[10] *https://pro.preqin.com/asset/314798*
[11] *https://pro.preqin.com/asset/342231*
[12] *https://pro.preqin.com/asset/423176*

Fig. 4: Venture capital deals* in ASEAN by industry, 2010 - 2022 YTD



Source: Preqin Pro. Data as of May 2022

Fig. 5: Venture capital-backed exits in ASEAN, 2012 - 2022 YTD



Source: Preqin Pro. Data as of May 2022

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

500 Global, and AC Ventures. This was followed up shortly after with $65mn in May 2021 from many of the returning investors along with new investors, Harvard Management Company, Prosus Ventures, and Tencent.

The continued trend of financial democratization and growth within this sector has aided companies such as Indonesia-based Ajaib[13] in raising $240mn over series A and B, reaching unicorn status just three years after its launch.

At the heart of the digital economy's rapid growth in the region is the rise of e-commerce. E-commerce also remains a primary growth driver in the internet economy. The gross merchandise value (GMV) for e-commerce in Southeast Asia has passed $120bn as of 2021 and is projected to hit $235bn by 2025.[14] In fact, the Philippines tops the list globally when it comes to e-commerce retail sales growth in 2022, increasing by 26% per year, while Indonesia (23%) and Malaysia (18%) feature in the top 10.[15]

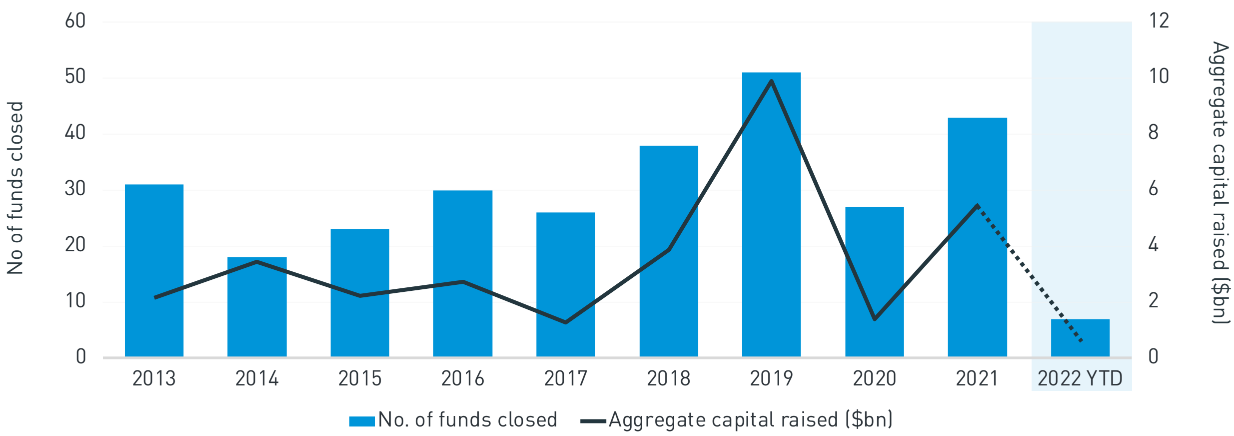
One such company that has taken advantage of the growth in e-commerce in Vietnam is Tiki.[16] At 31%, the country had the second-highest growth rate by GMV in Southeast Asia from 2020 to 2021, just after Indonesia, which stood at 49%. Its rising middle class turned to e-commerce during the pandemic and Tiki's fresh food delivery services expanded rapidly. They expect revenue growth of 40-50% in the next few years.[17] As part of its series E funding, it raised $258mn from investors including AIA, STIC Investments, UBS AG, and Taiwan Mobile, among others.

The e-commerce sector's growth has also spurred demand for parcel delivery and logistics. Some of the largest deals in 2021 were Indonesia's J&T Express and Singapore's Ninja Van. Ninja Van[18], a Singapore-based logistics start-up, raised a series E funding of $578mn in September 2021 from the likes of Alibaba, Monk's Hill Venture, and Brunei's Zamrud sovereign wealth fund, which gave it a post-money valuation of $1.9bn. Ninja Van is one of the region's fastest-growing tech-enabled last-mile express logistics companies that has connected over 1.5 million active shippers to 110 million recipients across the region.[19]

While e-commerce and fintech have been steadily growing over the past few years, edtech emerged as a new focus for investors looking at the region. Edtech is growing in Southeast Asia, in part due to

[13] *https://pro.preqin.com/asset/309083*
[14] *https://services.google.com/fh/files/misc/e_conomy_sea_2021_report.pdf*
[15] *https://www.emarketer.com/chart/253485/top-10-countries-ranked-by-retail-ecommerce-sales-growth-2022-change*
[16] *https://pro.preqin.com/asset/150224/deals*
[17] *https://www.businesstimes.com.sg/garage/vietnam-e-commerce-startup-tiki-raises-us258m-as-it-plans-us-ipo*
[18] *https://pro.preqin.com/asset/163813*
[19] *https://www.ninjavan.co/en-sg*

Fig. 6: ASEAN-focused private equity & venture capital fundraising, 2013 - 2022 YTD



Source: Preqin Pro. Data as of May 2022 investors looking for alternatives since the Chinese government cracked down on the sector. With digital adoption accelerating significantly and physical locations shuttered during the pandemic, the digital delivery of education became more important.

Some of the more significant deals in 2021 include Singapore-based Mandarin-language learning platform LingoAce[20] which raised a series B funding of $55mn in August 2021 and a series C of $105mn in December from investors such as Sequoia Capital and Owl Ventures. There's also Indonesia-based Ruangguru[21], which raised a series C funding of $55mn from Tiger Global Management and GGV Capital. The growing interest in language education and the rapid adoption of online learning has driven nearly 4000% growth in bookings for LingoAce since the end of 2019.

Venture capital exits

Exits are a critical part of the flywheel and as the venture capital ecosystem in ASEAN gets bigger, lucrative exit opportunities for investors will help fuel more capital and sustain the market. While the exit value for 2021 was higher than in the past five years, the region has some way to go to provide the investors with the liquidity they seek (Fig. 5).

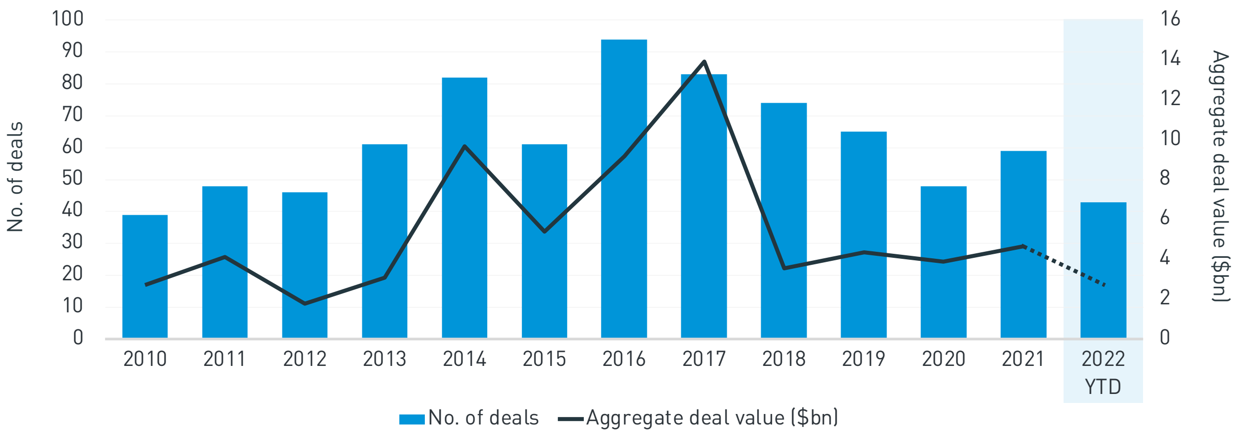
In a sign that the start-up ecosystem is maturing in Southeast Asia, 2021 witnessed the exits of some of the first generation of unicorns in the region. These companies had transformed the investment landscape and their exits marked a new era for the region's start-up ecosystem. Grab listed on the NASDAQ at a record $40bn valuation, post a SPAC merger with Altimeter Growth Corp, while Bukalapak became Indonesia's first listed tech unicorn. Although these listings were symbolic milestones for Southeast Asia's venture capital industry, both companies have seen their share prices fall amid a global selloff in tech stocks and as investors reassess their growth potential amid widening losses.

Some of this listing momentum has continued into 2022. This includes PropertyGuru's NYSE debut following its SPAC merger with Bridgetown 2 Holdings in 2021[22], as well as GoTo's listing on the Indonesia Stock Exchange in March. However, due to market volatility and amid a global economy mired by supply shortages, soaring inflation, and high-interest rates, there is uncertainty over exit paths for late-stage companies eyeing IPOs. They may need to consider alternatives to generate liquidity for their investors.

The SPAC channel, which was regarded as a quicker alternative to going public and was a very popular choice for companies just last year, particularly in Southeast Asia, has frozen up. The SPAC market in

[20] https://pro.preqin.com/asset/356139
[21] https://pro.preqin.com/asset/150182
[22] https://pro.preqin.com/asset/169555

Fig. 7: Buyout deals* in ASEAN, 2010 - 2022 YTD



Source: Preqin Pro. Data as of May 2022

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt* the US has lost momentum, while in Singapore, it has been slow going with only three listings since the Singapore Exchange (SGX) announced the SPAC listing framework.

Volatility in the public markets and increased scrutiny on companies going public through SPACs have made things more difficult.

Grab, for instance, was a successful SPAC merger, but has succumbed to a challenging market environment since its listing. Recently, companies have pulled out of SPAC mergers.

For instance, Singapore-based FinAccel, the parent company of Kredivo, terminated its $2.5bn SPAC merger with US-based Victoria Park Capital.

It's clear that deals done amid the frenzy 12 months ago will no longer work for future SPACs as they work toward enhanced disclosures and improved due diligence on the portfolio companies. They will need to demonstrate their ability to create real value in order to sustain investor interest.

Exits remain an area of focus for investors looking at this region, particularly in the current environment as investors exercise caution and calibrate their valuation expectations.

Private equity and venture capital funds

Despite a maturing ecosystem and growing number of deals, fundraising by ASEAN-focused private equity and venture capital funds has been relatively flat over the years (Fig. 6). It hit a peak in 2019 with a total of 51 funds closed, raising an aggregate $9.9bn. This figure was, however, skewed by a large growth fund, Warburg Pincus China-Southeast Asia II. Once this is removed from the dataset, the aggregate capital raised falls to $5.4bn.

The pandemic put a damper on fundraising activity in 2020. Only 27 funds closed, with a mere $1.4bn raised between them. The capital raising environment picked up in 2021, with 43 funds closing a total of $5.5bn. The bulk of the fundraising was by early-stage venture capital funds, with $2.2bn raised.

These early-stage venture capital firms have taken a leading role in the private equity industry in the region, with many of them raising their second or third fund in the region, highlighting investor interest in ASEAN's up-and-coming emerging start-up ecosystem.

Trends in public markets are leaving private equity investors cautious, driving a flight to quality. Indeed, fundraising for the first five months of 2022 has been slow, with seven funds closing an aggregate of $650mn. Given the heavy competition, funds need to stand out and provide a clear investment thesis to attract investors.

In an encouraging sign, there are increasing sources of capital in the region besides private equity managers. China's leading companies such as Tencent and Alibaba were early supporters of Southeast Asia's growth, investing in tech giants including Sea and Lazada. Since then, they have expanded their footprint to other growing firms like Philippines-based Voyager Innovations[23], Indonesia-based e-commerce platform Ula[24], and Singapore-based Ninja Van.

Likewise, US tech giants including Google, Facebook, and Microsoft have made inroads in the Southeast Asian markets over the past few years. Visa, for instance, has invested in Singapore-based fintech firm NIUM[25] as part of their series C and D fundraising rounds, along with other investors.

More importantly, the region now has a generation of local players that are large and established enough to reinvest in the local ecosystem.

For instance, Grab and Gojek invested in Indonesia-based e-wallet LinkAja[26] to include it as an additional payment method on their apps in the country. Such behavior can help accelerate investments and acquisitions in the region.

Buyout deals

With tech growing in dominance, the old archetype of the buyout-centric ASEAN market is fading. Indeed, buyout deals have not gained as much traction as

[23] *https://pro.preqin.com/asset/298324*
[24] *https://pro.preqin.com/asset/378958*
[25] *https://pro.preqin.com/asset/188550*
[26] *https://pro.preqin.com/asset/358676*

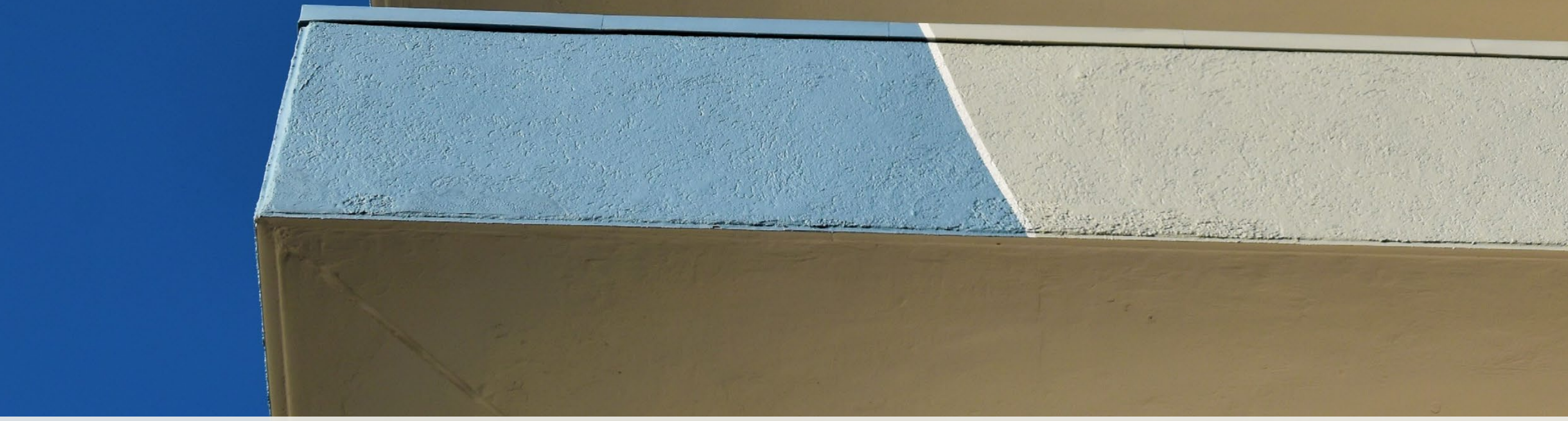
venture capital deals in recent years. Singapore-based logistics property giant Global Logistic Properties was taken private by a consortium of investors including Vanke Property Development and Hopu Investment Management in a mega-deal of $11.6bn. This drove outperformance for 2017, the biggest year for buyouts in ASEAN. But once the deal driving the outperformance is removed, the average aggregate deal value for the past five years drops to $3.8bn, compared to $5.8bn for the five years prior (Fig. 7).

The relative lack of buyout activity stems from regional founders being unwilling to cede control of their companies and therefore unwilling to sell majority shares. In order to combat this resistance, private equity investors are attempting to offer more versatile and flexible deal structures.

On the bright side, deals are still getting done, particularly in the business services and consumer services industries. The largest deal last year was in August when Baring Private Equity Asia acquired Straive[27], a tech-driven content and data services provider, from Partners Group for about $1bn.

Southeast Asia and its burgeoning tech industry offer a lot of potential for investors who have the expertise and local knowledge to identify young hidden gems. As the region continues to grow and offer more sustainable exit opportunities, investing in the region will truly take off.

[27] *https://pro.preqin.com/asset/105251*



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