October 2023

SE ASIA DEAL REVIEW: Q3 2023

SINGAPORE | INDONESIA | PHILIPPINES | THAILAND | MALAYSIA | VIETNAM | MYANMAR

A Note From the Authors

This report focuses on fundraising by private companies in Southeast Asia in the third quarter of 2023. While we provide historical data for context, more details on fundraising performance in previous quarters can be found on DealStreetAsia's [Reports] page.

All data cited in this report is based on industry reports, company announcements, media reports, regulatory filings and DealStreetAsia's research.

Considering the opaque nature of the Southeast Asian market, we strive to constantly update our data to ensure accuracy. If you spot an error or inaccuracy, please let us know at andi@dealstreetasia.com and/or deepshikha@dealstreetasia.com.

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Have we hit rock bottom?

Venture capital funding activities in Southeast Asia are plunging to levels not seen in many years. This downturn, starkly manifested in the third quarter, is far from subtle, further casting a gloom over an already challenging environment. As the end of the year draws closer, there is scant indication of imminent respite as macroeconomic hurdles continue and geopolitical risks have become grimmer than three months ago.

Consistent with our analysis in the previous quarter, there is a sharp fall in early-stage funding and valuations, with seed funding deal volume hitting a three-year low this quarter. This downward trend signifies a tighter funding environment for fledgling startups, which in turn, threatens to snuff out innovation at its inception. For Series A startups and above, a silver lining emerges in the form of a significant uptick in debt financing, hinting at a nuanced shift in the funding dynamics as equity deals become scarcer.

Amidst the broader funding contraction, healthtech and green tech sectors emerge as beacons of resilience. Their defiance of the prevailing funding slowdown resonates with a growing awareness of the need to tackle existential challenges such as climate change and chronic diseases. This upward trajectory amidst a broader stringent fundraising milieu underscores the enduring potential of impact-driven investments, even in a cautious market.

Key findings

Capital chill endures. The third quarter of 2023 saw a 27% drop in equity funding bagged by venture-backed companies in Southeast Asia, marking the lowest deal volume in nearly three years. Although the total proceeds for the quarter were $2.09 billion [9], a slight 2% decline from the previous quarter, this figure is heavily skewed by Alibaba's $845 million investment in Lazada [16]. The company, which has remained private since Alibaba acquired a controlling stake in 2016, continues to be part of our analysis due to its venture-backed history. Excluding this outlier, the decline would have been much more significant. Zooming out, the total deal value for the first nine months of the year stood at $6.29 billion [13], a concerning 52% decrease from the previous year as well as lower than even 2020's pandemic-stricken figures. This trend indicates a potential shift in investor sentiment and confidence amid ongoing macroeconomic uncertainties and geopolitical tensions.

Debt deals surge. Q3 witnessed a significant rise in debt deals in the region, continuing an upward trend that started in the second quarter of this year. Deal count grew by approximately 23%, reaching 16 transactions in the third quarter – the highest since Q1 2019 [10]. The total value of Q3 debt deals stood at $533 million, or over 2.5 times the amount seen in the previous quarter. This is also the third-highest quarterly debt deal value recorded since 2016. Debt funding in Southeast Asia hit its peak in Q1 2021, when Grab had secured a $2 billion term loan. Coming back to Q3, the debt funding tally was bolstered by fintech firm Atome and wealthtech platform Vietcap, which secured a loan of $100 million each [16] and collectively accounted for over 38% of the quarter's total debt funding. It is worth noting that there remains limited visibility into debt financing in the region as many borrowers prefer to keep such deals under wraps. That said, available data does suggest a growing preference for debt financing among venture-backed companies in Southeast Asia.

Singapore's Q3 tally buoyed by Lazada deal. In Singapore, the region's premier hub for venture investments, the total deal count fell 21% in Q3, even as funding proceeds rose by 26%. Alibaba's massive investment in Lazada, however, accounted for over half of the quarterly proceeds. In the nine months ended September 2023, the city-state's venture funding landscape witnessed a bigger correction. Deal count declined by 26%, and there was a more alarming 52% drop in deal value compared to the same period of the previous year. Meanwhile, Indonesia, which has been undergoing a consistent drop in deal activities since Q2 2022, maintained stability with 32 deals in the third quarter[28], mirroring the preceding quarter's figures. The future of the region's dominant consumer market remains ambiguous. The performance of other emerging markets in the region was no different, as they all reported a decline in dealmaking in the third quarter.

Downturn fuels discipline. The third quarter saw the deal volume at the seed stage plummet to a three-year low of 45 transactions. This decline is part of a consistent downtrend since Q2 2022, barring a brief uptick in Q1 2023. During the first nine months of 2023, the number of seed deals dropped by 44% compared to the same period last year, and their median value decreased from $2.9 million to $2.2 million. That said, the current median value is still higher than those in 2020 and 2021 [14], indicating sustained investor interest in seed-stage ventures. We saw similar challenges in the broader venture landscape, with funding rounds from Series A to D experiencing significant reductions, particularly Series A, which suffered a 54% year-on-year decline in volume in the first nine months. While these trends suggest a possible valuation recalibration and/or heightened investor caution in the private market, they could also be seen as a catalyst for future growth. These challenges may instil greater discipline, prudence, and a focus on sustainability among investors and startups, eventually leading to a more resilient ecosystem.

Drop across deal sizes. Investment trends in Southeast Asia have shifted noticeably against the backdrop of global macroeconomic uncertainties and a lower risk appetite among investors. Deals valued between $2.5 million and $5 million saw a 57% decline in Q3, with their proportion of total deal volume dropping from 22% to 16% year-on-year. This was a significant reason behind the fall in the seed median value. The most pronounced drop was observed in the $50 million to $100 million range, with deal volume plugging by 78%, translating to a drop from 32 deals to a mere seven [15]. This was a substantial contributor to the 59% reduction in Series C median value. Investments exceeding $100 million also witnessed a decline, dwindling from 24 deals last year to 13 this year. As a result, the region has produced only one new unicorn this year, Indonesia's aquaculture behemoth eFishery. On a brighter note, several Southeast Asian firms, such as ShopBack, Thunes, and SCI Ecommerce, have achieved valuations surpassing $500 million, underscoring the enduring growth potential of the region.

Fintech deals hit new low. While fintech startups garnered the most funding in the third quarter, capital flows to the vertical have reached new lows. The 22 fintech deals inked in Q3 were the lowest in more than three years, while the $158 million equity funding tally was lower than the quarterly proceeds seen in 2019. This downturn, while indicative of a broader stringent fundraising environment, could also be interpreted as a sign of market maturation following rigorous evolution in the past five to ten years [19].

E-commerce faces a similar predicament. Only nine deals were recorded in the third quarter, the lowest in more than five years. Although the total deal value jumped 85% to $899 million, 94% of that came from the capital injection into Lazada. Looking at the Jan-Sept period, equity funding for fintech and e-commerce fell 68% and 45% year-on-year, respectively. Indonesia, which the past has served as the top e-commerce funding destination, has not been able to get its crown back from Singapore since last year.

Green horizons. Reflecting on the growing awareness to tackle existential challenges such as climate change and chronic diseases, venture investments in healthtech and green tech have defied the funding downtrend this year. Q3 recorded a 60% jump in healthtech deals to 16, while total value soared to $207 million - the highest in five quarters. Indonesia's Halodoc alone contributed $100 million to the total proceeds. In a separate vein, green tech startups logged 16 deals, marking the highest quarterly deal volume in at least five years, garnering $140 million in total proceeds – a four-quarter high fueled by escalating investments in renewable energy solutions and waste management. Singapore-headquartered InterContinental Energy, a purveyor of sustainably sourced hydrogen, bagged the largest funding with its $115 million Series B round. Examining the data from the first nine months, the deal volume in healthtech ebbed by 9%, yet the buoyancy displayed in the third quarter indicates the sector's resilience. Conversely, green tech deals burgeoned by 40% in the same span, hinting at a robust trajectory.

Cautious optimism prevails. The fundraising performance of homegrown tech startups in Southeast Asia suggests a cautious yet opportunistic scenario over the next few quarters. Our interviews with fund managers reveal that the funding chill will linger, with overall deal activities remaining subdued. This increased caution is being driven by a lack of momentum in the broader investment market, with some investors preferring to hold cash in a high interest rate environment. At the same time, there is optimism that 2023-2024 will be a strong vintage for early-stage VC funds in the region. As the challenging funding environment instills financial discipline, fund managers are noticing improvements in the quality of founders and businesses. This, coupled with lower deal competition due to many investors remaining on the sidelines, positions funds advantageously to seize emerging opportunities in the specified sectors. This narrative underscores a blend of caution, adaptability, and strategic opportunism as the prevailing themes shaping the venture investment outlook in the region.

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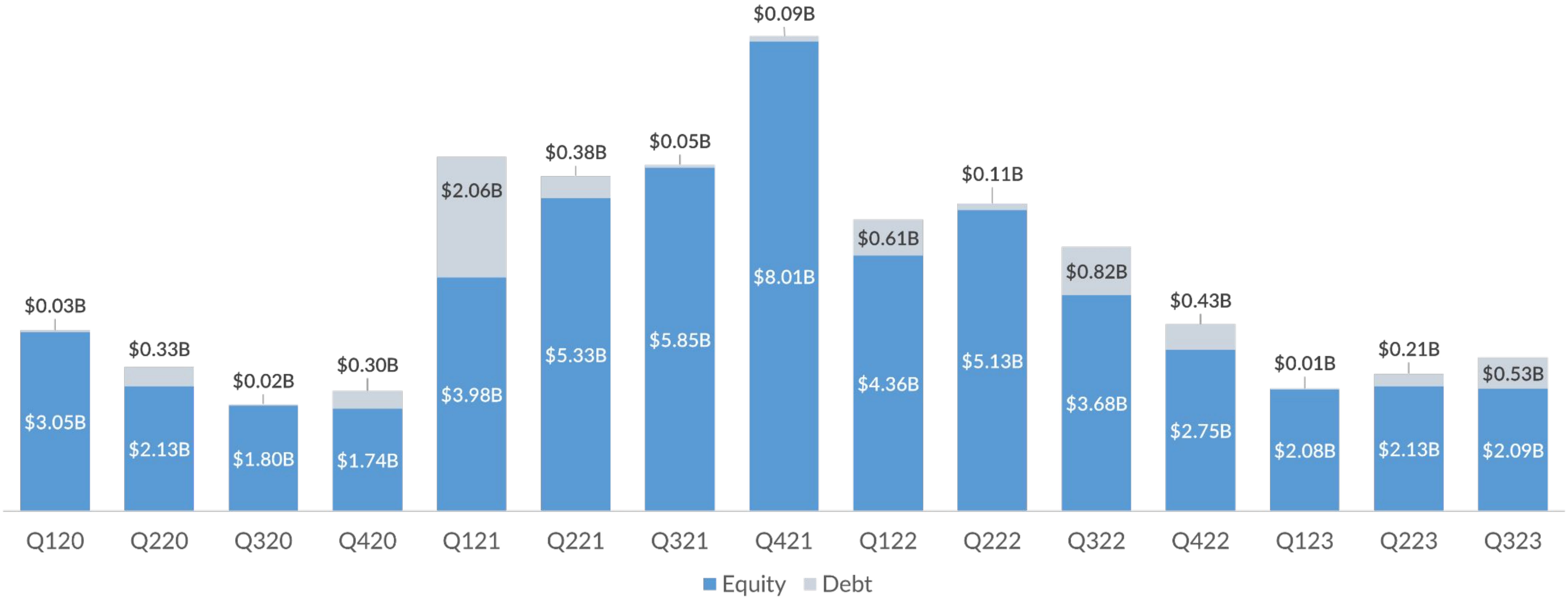
Regional Overview

Southeast Asia

More debt disbursements as equity funding stays flat

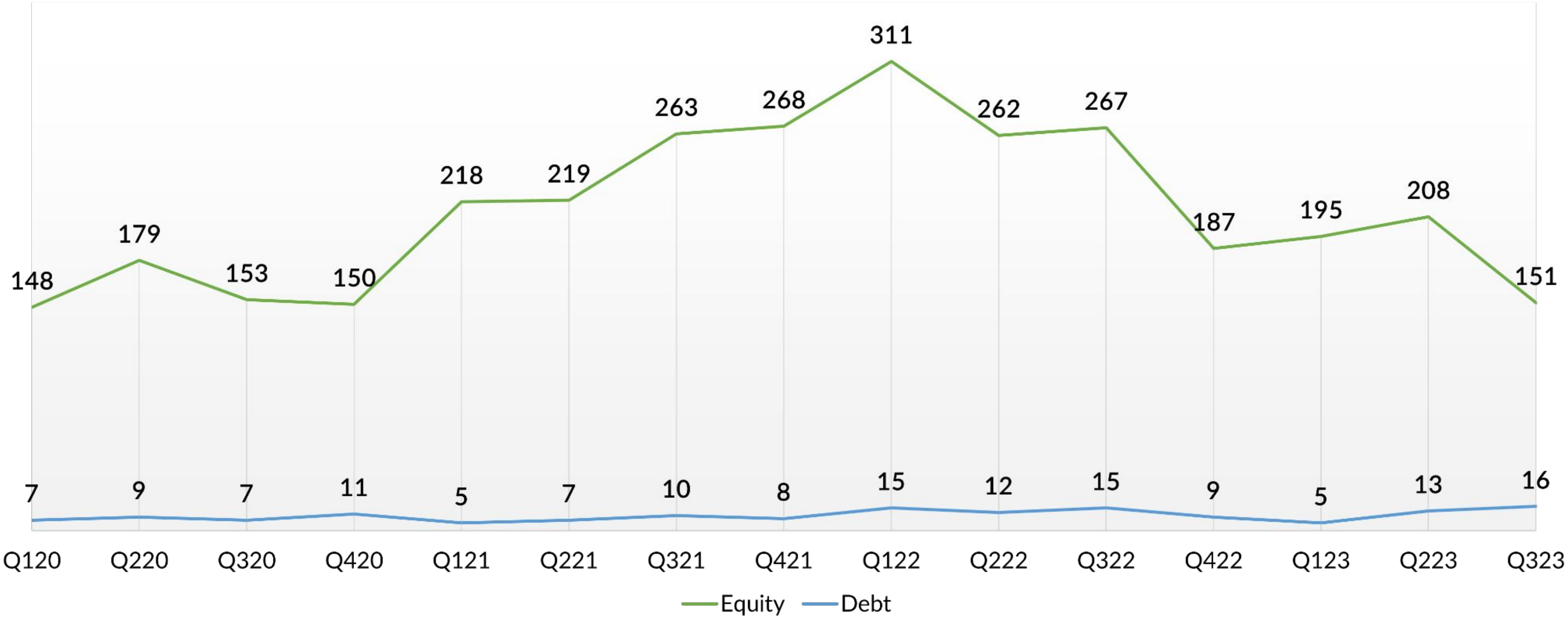
Equity vs debt funding value per quarter



Source: DealStreetAsia - DATA *VANTAGE*

Equity deal volume at lowest level in nearly three years

Equity vs debt funding volume per quarter

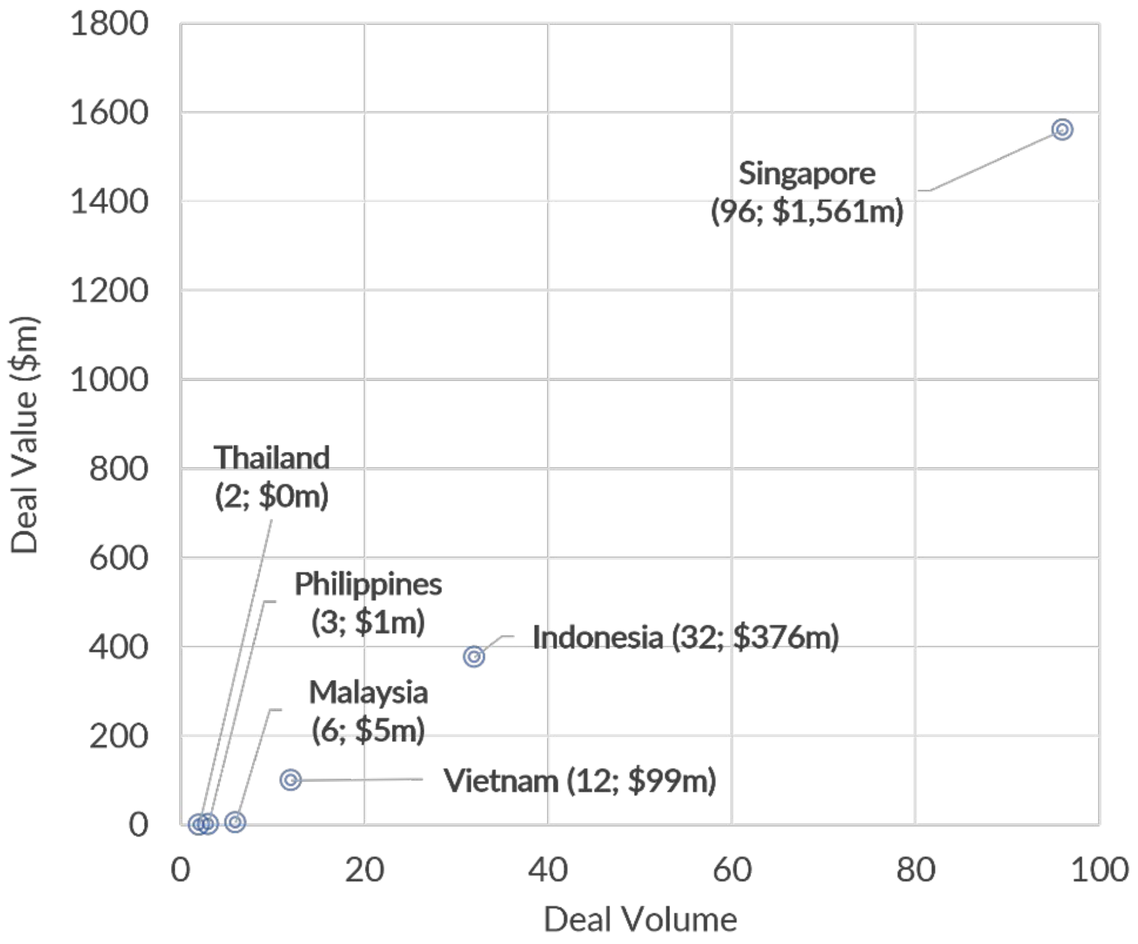


Source: DealStreetAsia - DATA *VANTAGE*

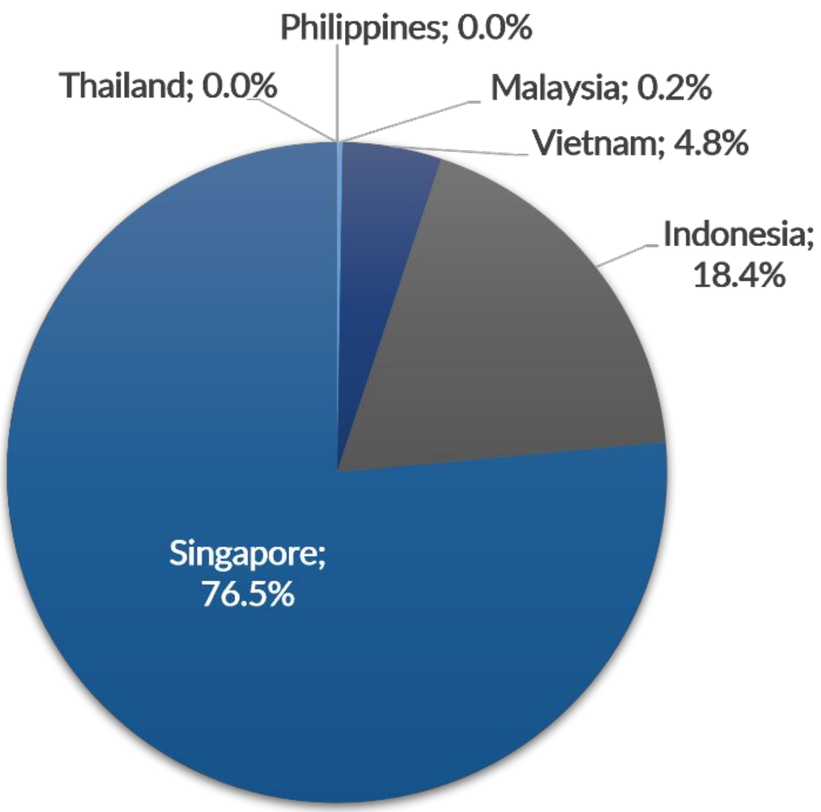
Southeast Asia

Singapore sustained by Lazada's $845m capital injection

Equity funding volume & value per HQ location in Q3 2023



Share of equity funding value by HQ location in Q3 2023

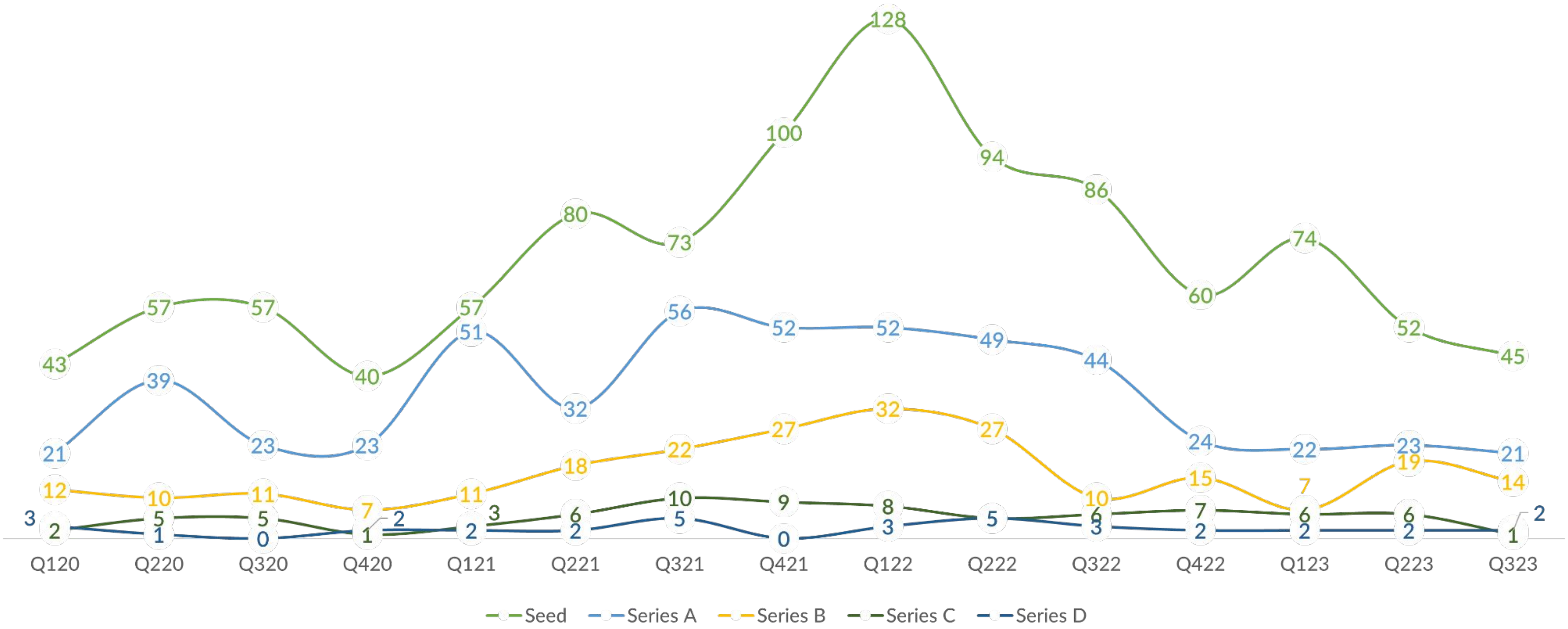


Note: Charts on this page exclude Cambodia and Myanmar

Source: DealStreetAsia - DATA *VANTAGE*

Seed deals drop to the lowest level in 11 quarters

Quarterly deal volume per funding round

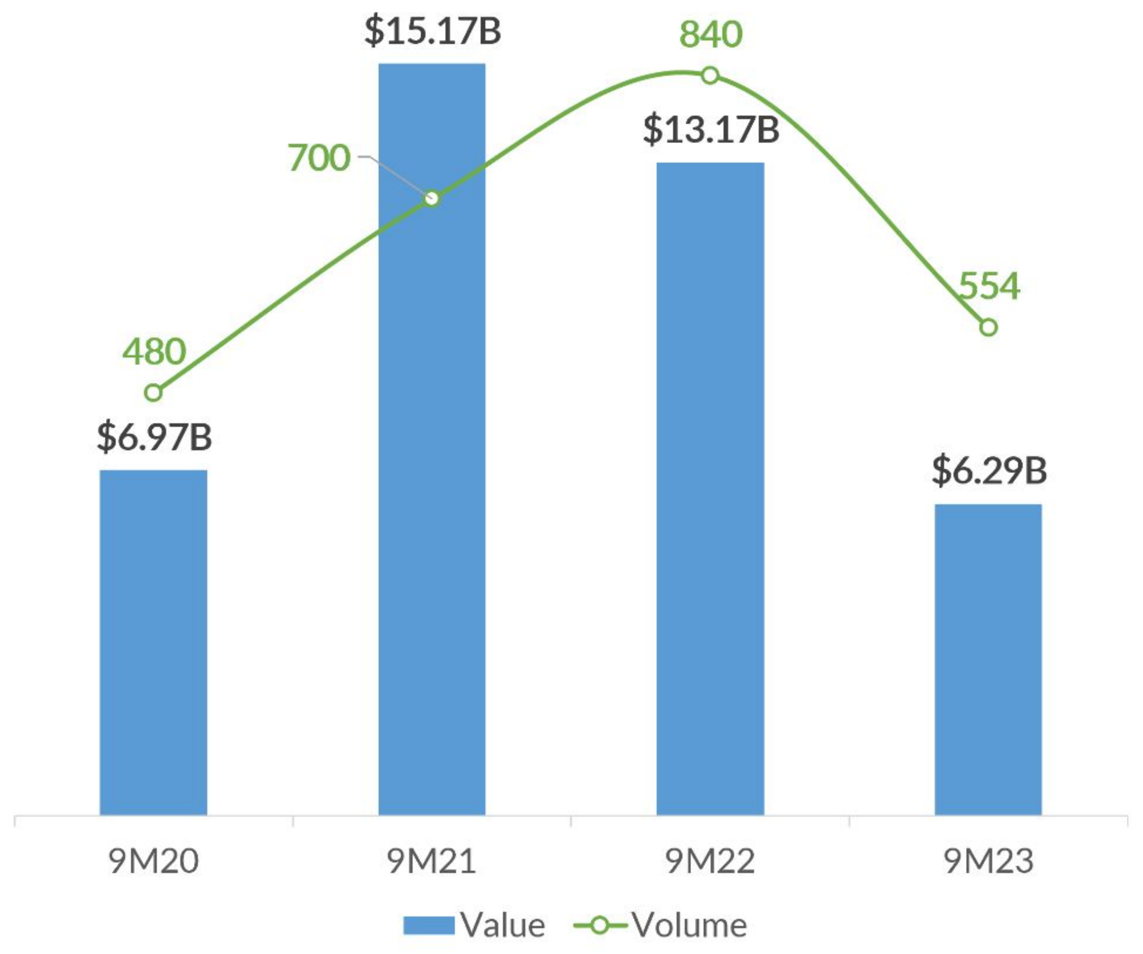


Source: DealStreetAsia - DATA *VANTAGE*

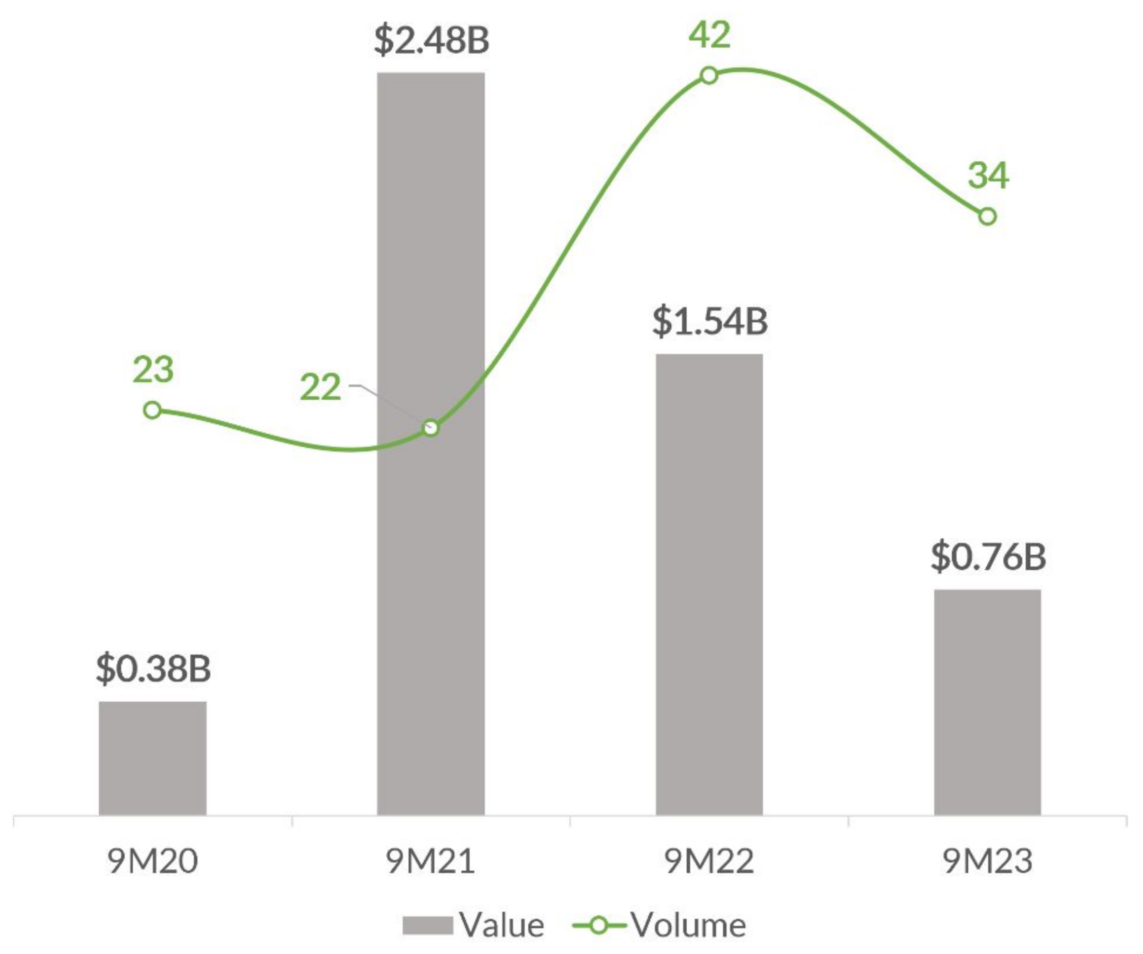
Southeast Asia

Equity deal value drops to pre-pandemic levels

Equity funding in the first nine months



Debt funding in the first nine months

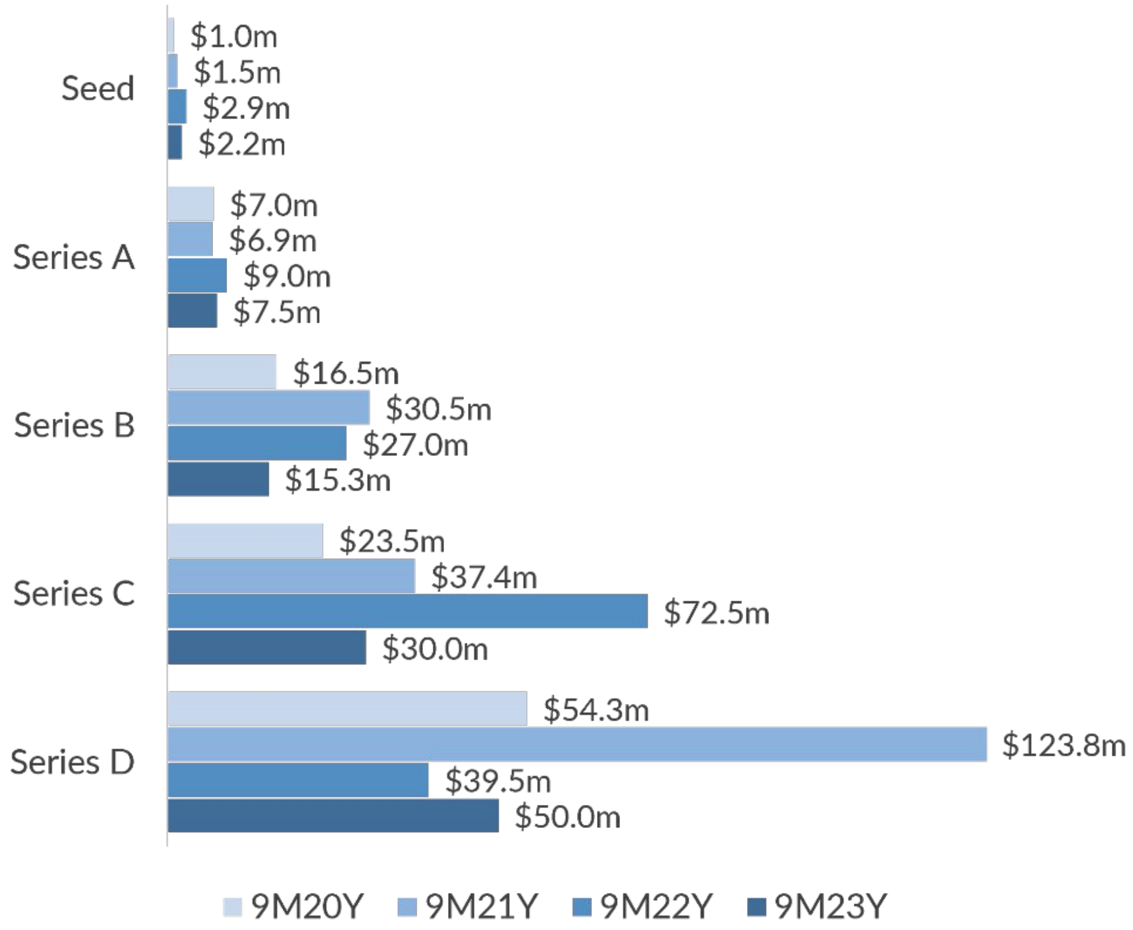


Source: DealStreetAsia - DATA *VANTAGE*

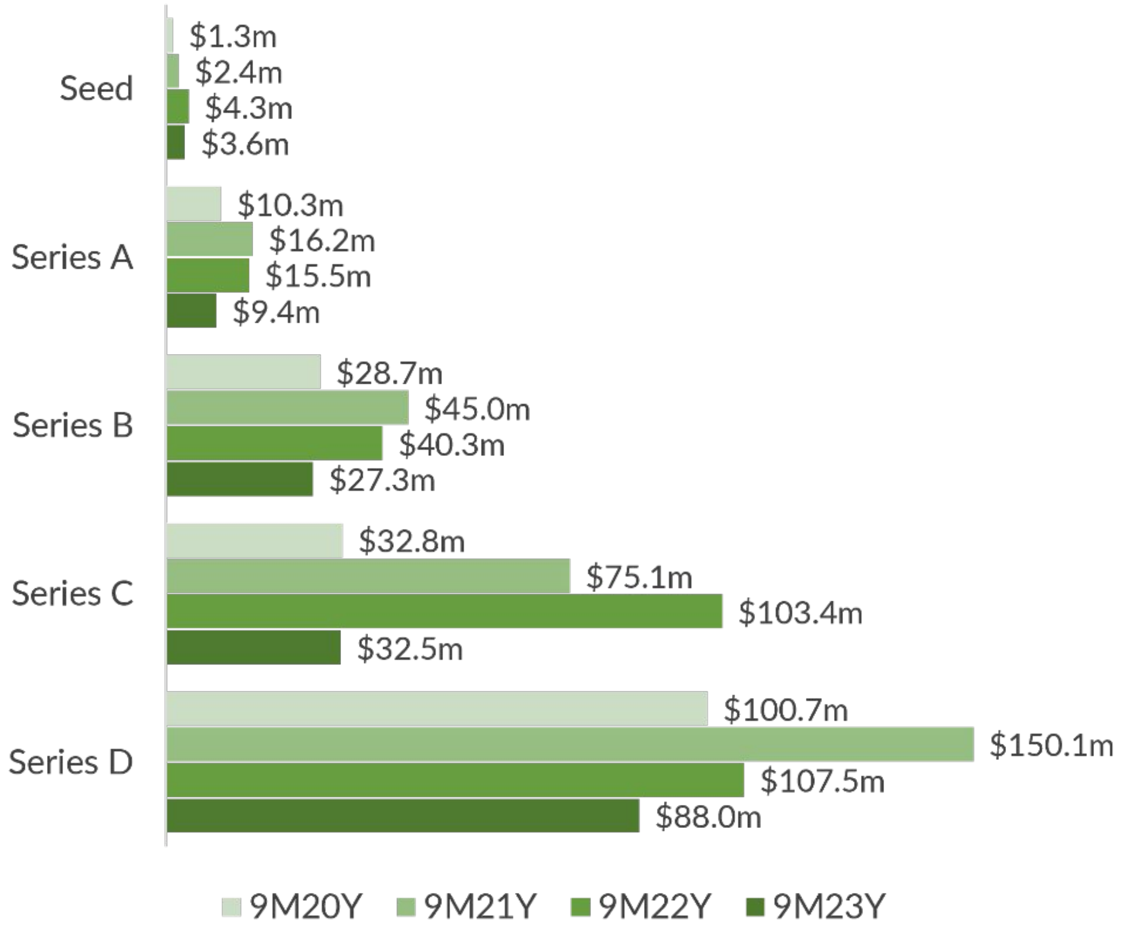
Southeast Asia

Median value points to value recalibration across early stage

Median value of equity funding deals by stage



Average value of equity funding deals by stage

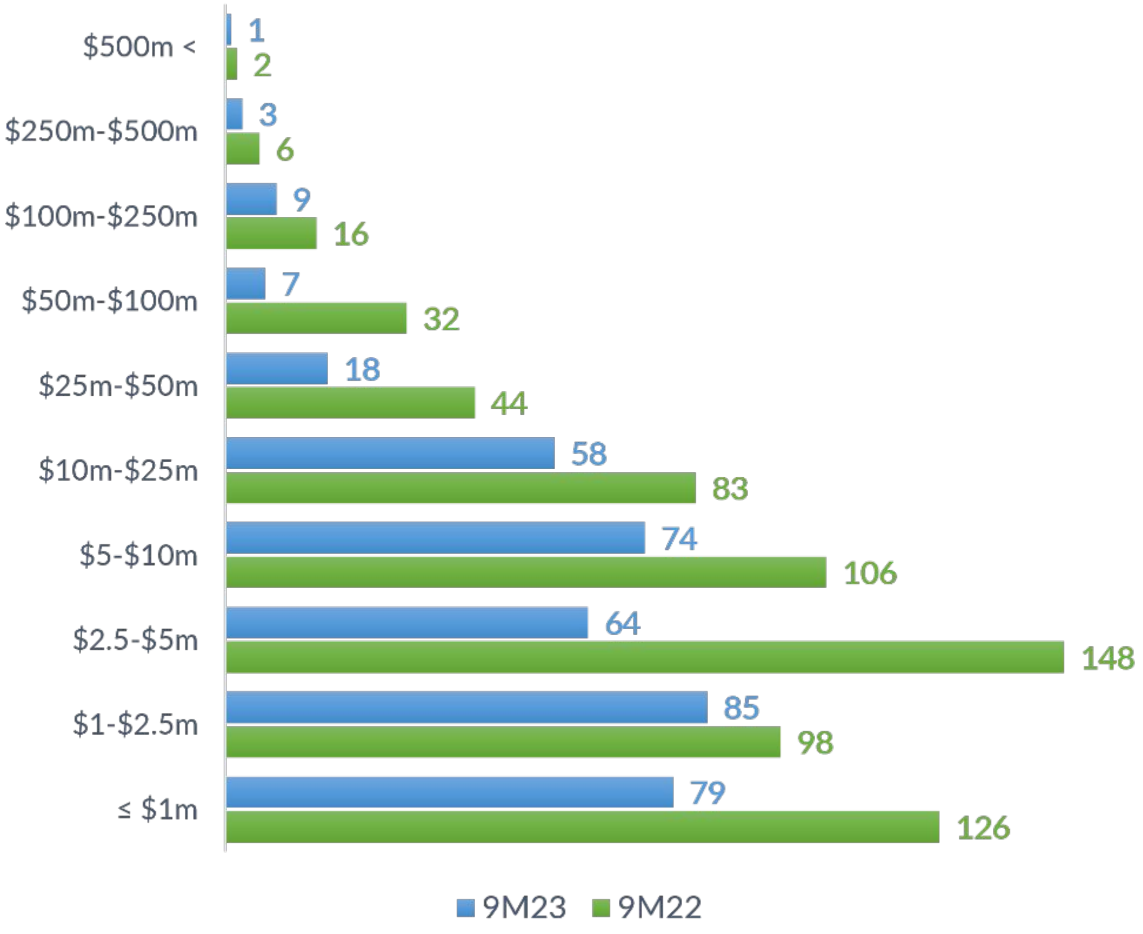


Source: DealStreetAsia - DATA *VANTAGE*

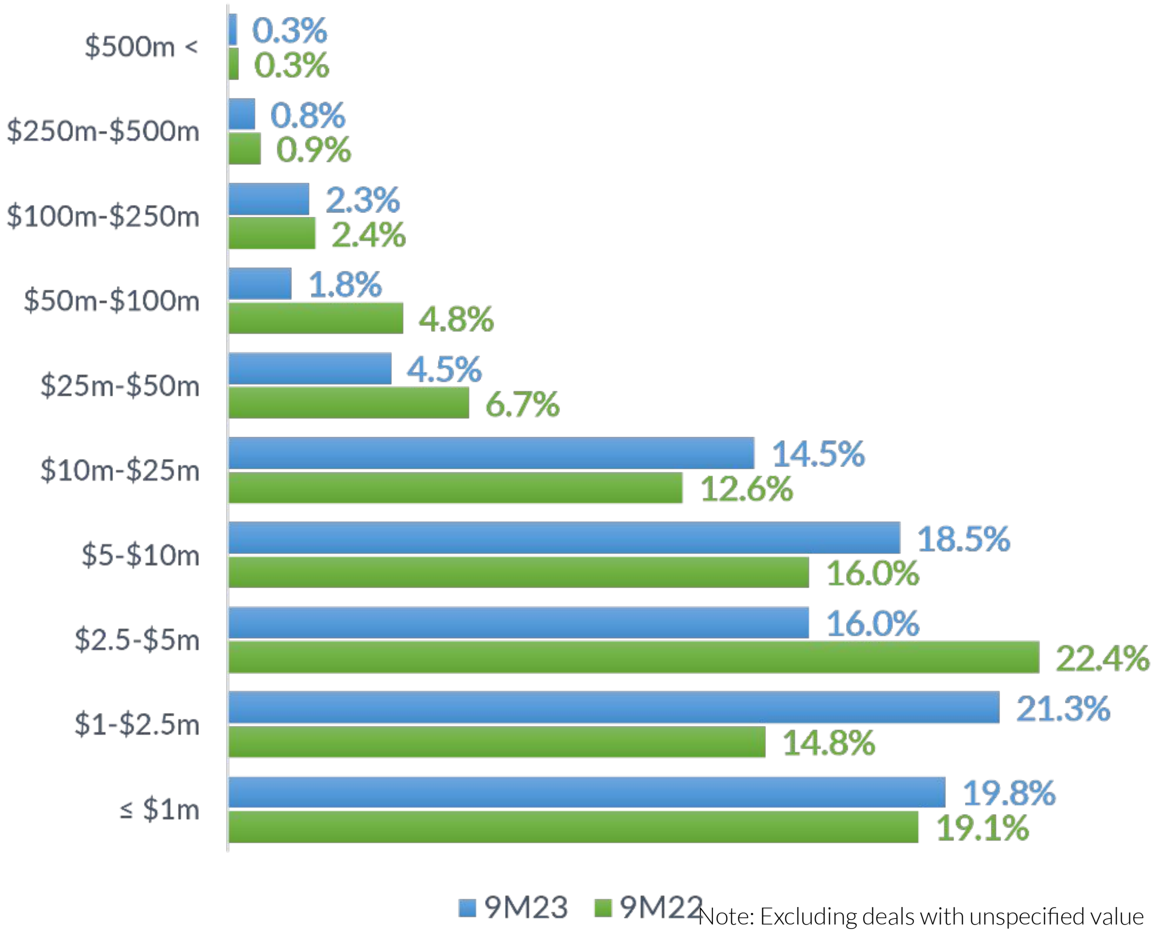
Southeast Asia

Steep fall in sub-$5m deals points to lower seed valuations

Equity funding volume per investment size



Share of equity funding volume per investment size



Note: Excluding deals with unspecified value

Source: DealStreetAsia - DATA *VANTAGE*

Southeast Asia: Debt financing accounts for a third of top 20 deals in Q3 2023

HQ	Company	Vertical	Stage	Value	Investors (not exhaustive)
SG	Lazada Group	E-commerce	Corp. round	$845m	Alibaba Group
SG	StorHub Group	Prop tech	Debt financing	$132m	CIMB, United Overseas Bank
SG	InterContinental Energy	Green tech	Series B	$115m	GIC, Hy24
SG	Atome	Fintech	Debt financing	$100m	HSBC Bank Singapore
VN	Vietcap	Fintech	Debt financing	$100m	Mega International Commercial Bank
ID	Halodoc	Healthtech	Series D	$100m	Astra Digital, Novo Holdings, Openspace
ID	eFishery	Agritech	Series D2	$91.6m	KWAP, Temasek, 500 Southeast Asia
ID	Kin dairy	Consumer Product	Private equity	$70m	Growtheum Capital Partners
SG	Airalo	Telecommunications	Series B	$60m	Antler, e& capital, GO Ventures
SG	Bolttech	Fintech	Series B	$50m	LeapFrog Investments, Tokio Marine
SG	Mirxes	Healthcare	Series D	$50m	China Fellow Partners, EDBI
ID	Alva	Mobility tech	Series B	$50m	Horizon Ventures, Indika Energy
ID	Charged Asia	Mobility tech	Convertible Loans	$40m	Geo Energy
ID	Maka Motors	Mobility tech	Seed	$37.6m	AV Venture, East Ventures
SG	Endowus	Fintech	Series C	$35m	Citi Ventures, EDBI
PH	Citicore Solar Energy Corp.	Green tech	Debt financing	$30m	Pentagreen Capital
SG	Funding Societies	Fintech	Debt financing	$27m	Orange Bloom, AlteriQ Global, Aument Capital Partners
ID	Amartha	Fintech	Debt financing	$25m	International Finance Corporation
ID	Segari	E-commerce	Series B	$23.5m	Alfamart, GO Ventures
SG	AP Technologies	Manufacturing	Private Equity	$23.2m	AGIC Capital

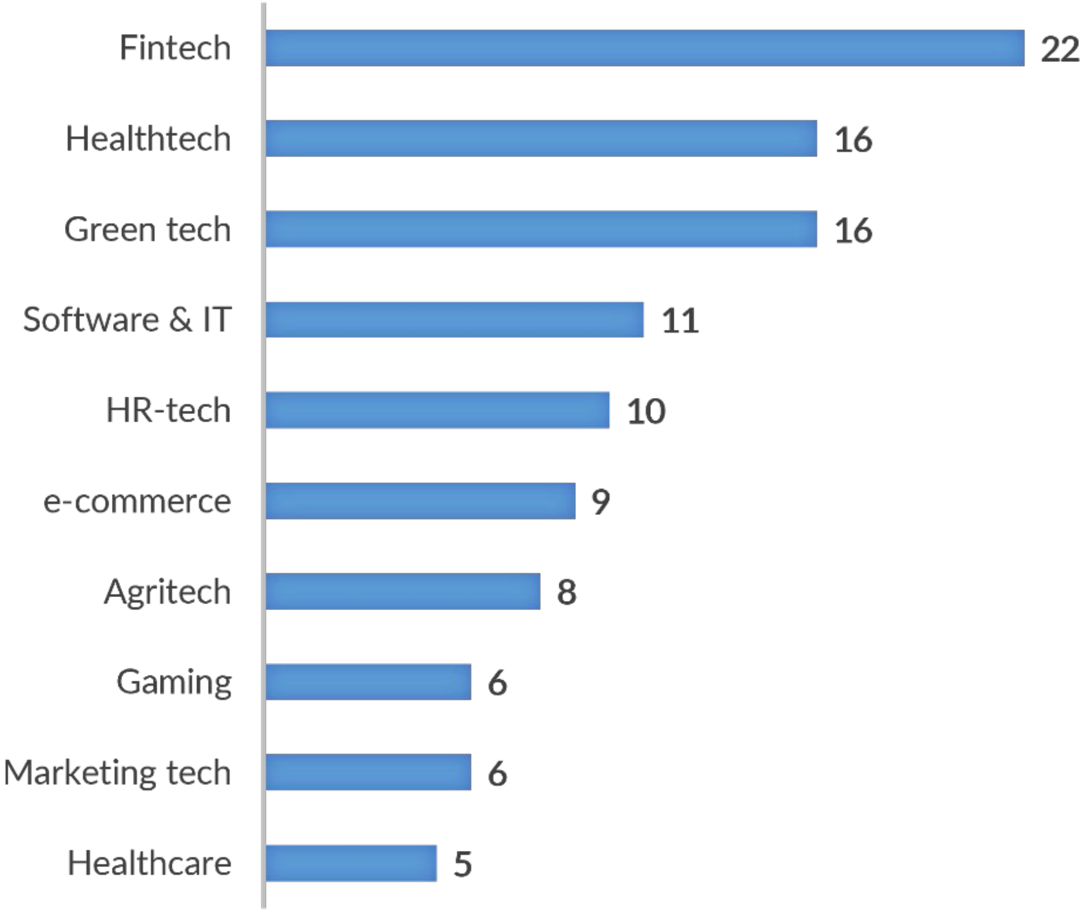
Source: DealStreetAsia - DATA *VANTAGE*

Deal Trendspotting

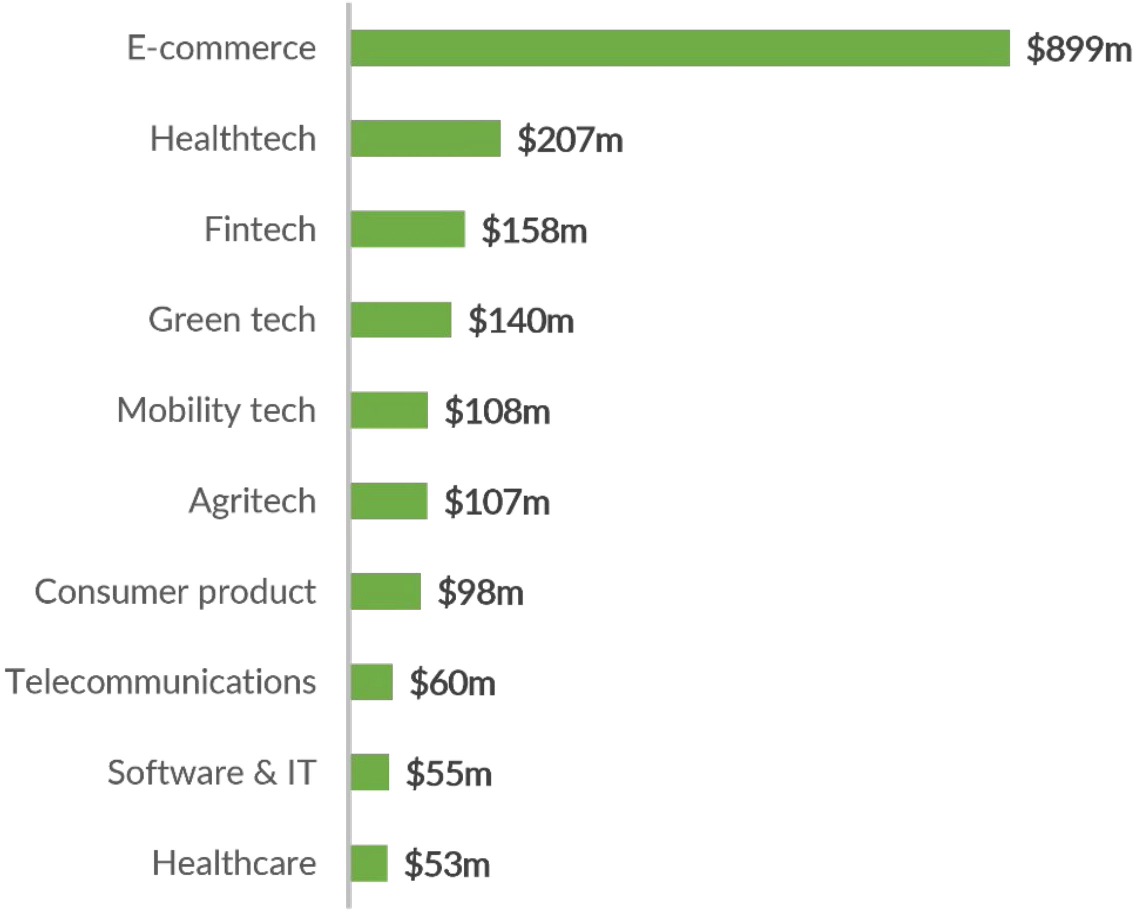
Trendspotting

E-commerce no longer a runner up as funding tanks

Top 10 verticals by equity deal volume in Q3 2023



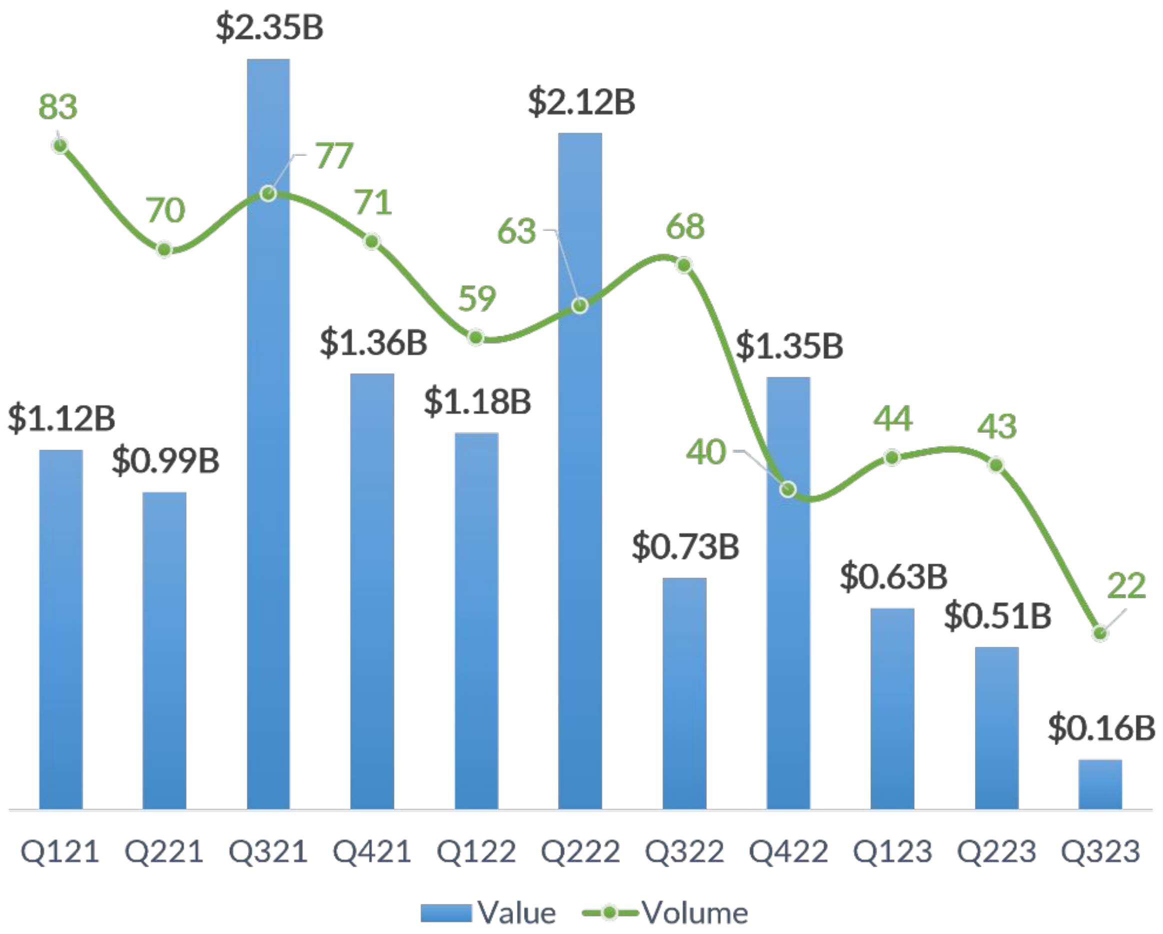
Top 10 verticals by equity deal value in Q3 2023



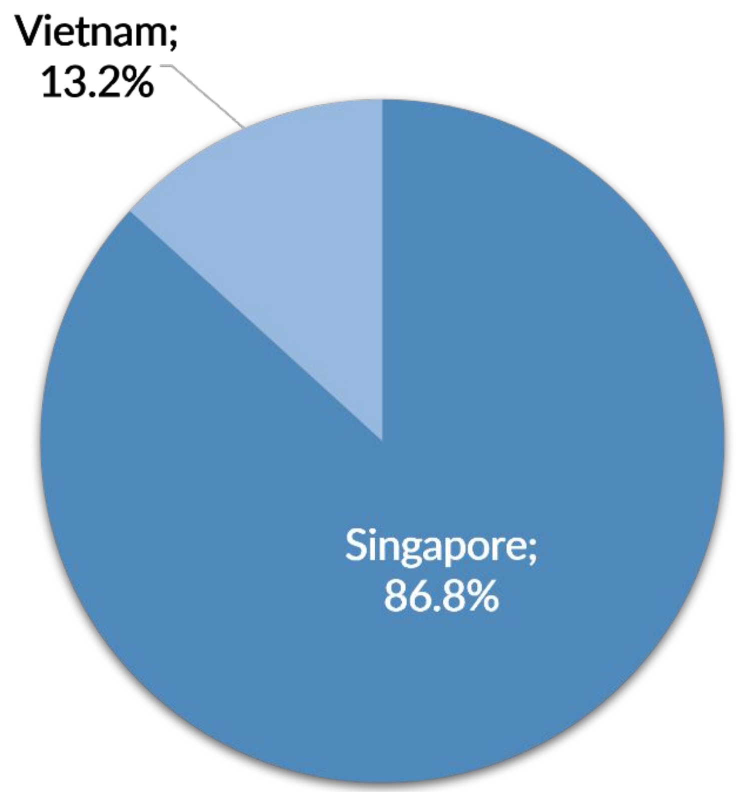
Source: DealStreetAsia - DATA *VANTAGE*

Fintech deals hit historic low in the third quarter of 2023

Equity funding for fintech firm per quarter



Share of equity deal value for fintech by HQ in Q3 2023

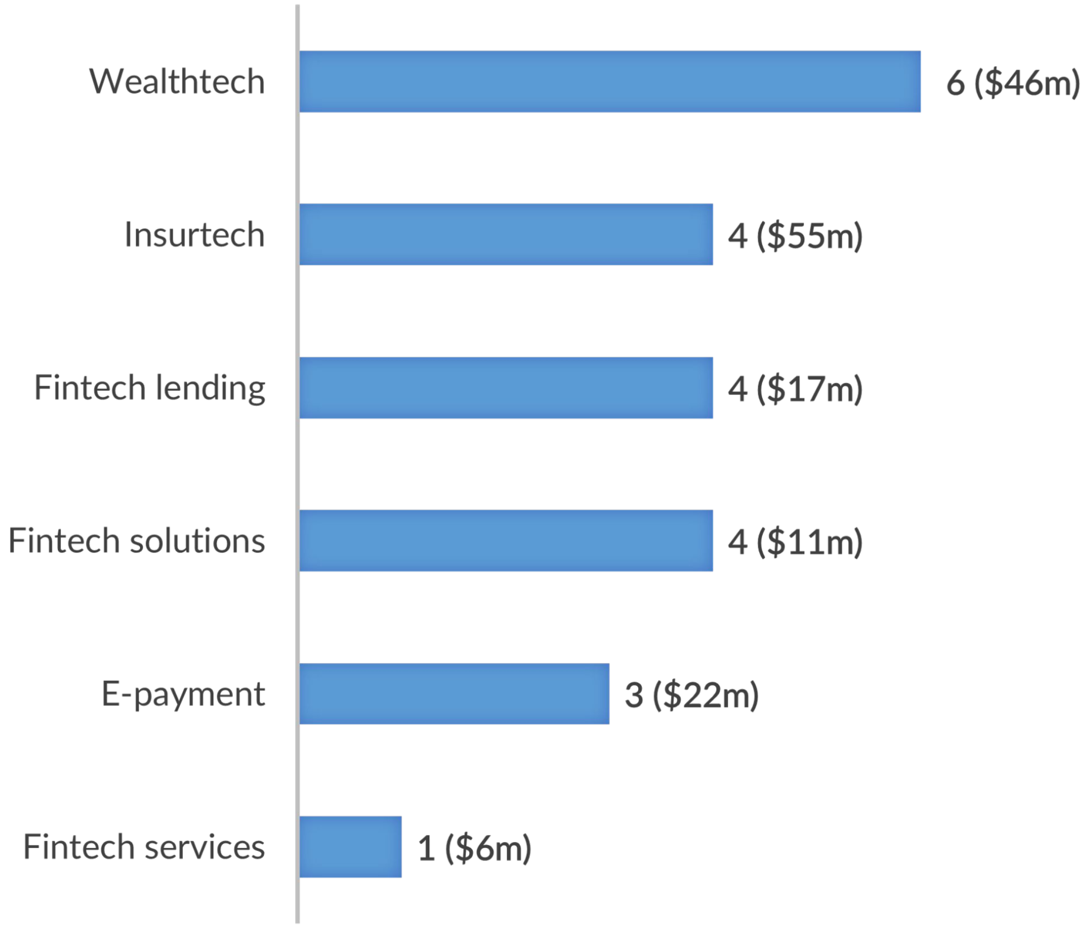


Source: DealStreetAsia - DATA *VANTAGE*

Fintech

Wealthtech remains the top fintech category

Equity deal volume per fintech category in Q3 2023



Top 10 largest fintech deals in Q3 2023

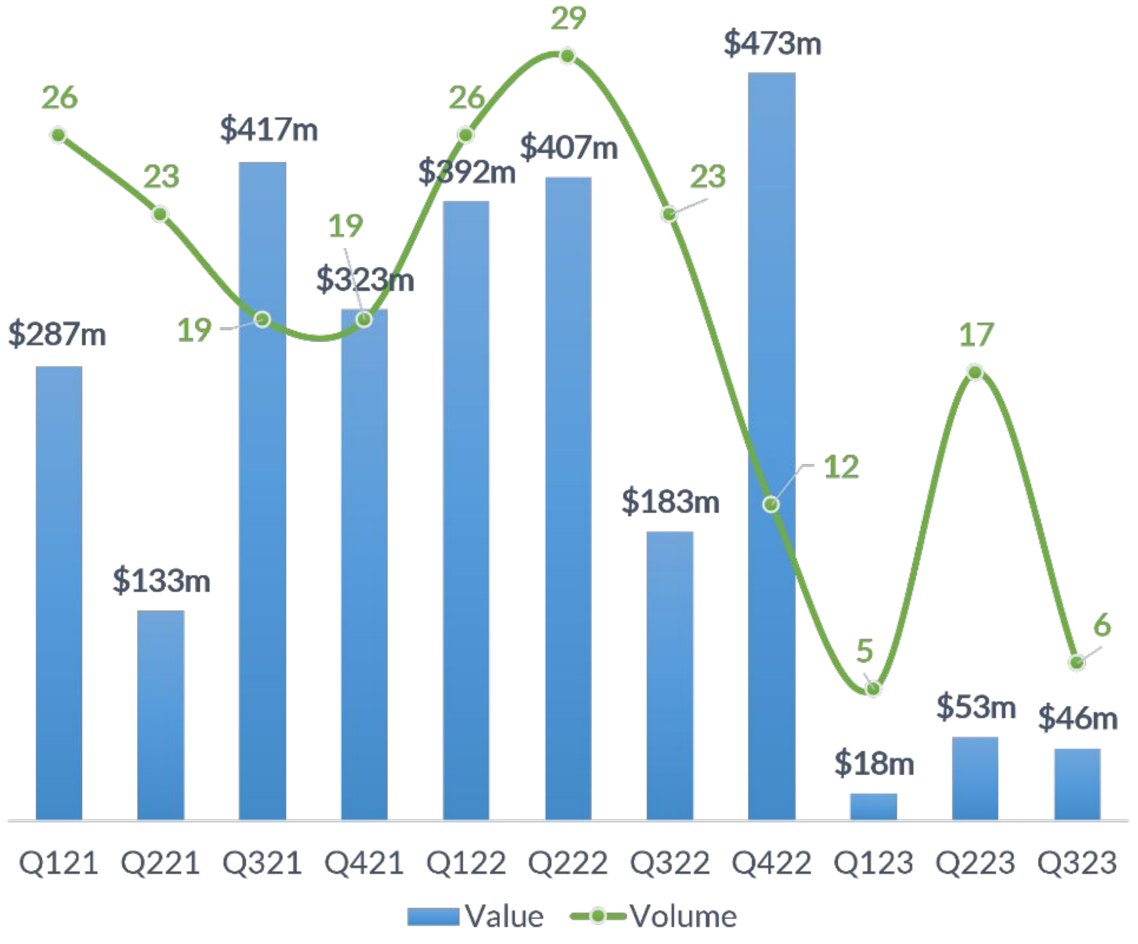
Firm	Funding Type	Value	Category
Bolttech	Series B	$50m	Insurtech
Endowus	Series C	$35m	Wealthtech
GIMO	Series A2	$12m	Fintech lending
Thunes	Series C+	$12m	E-payment
Qashier	Series A	$10m	E-payment
Mindigital	Series A	$7m	Fintech solutions
MFast	Series A	$6m	Fintech services
GRVT	Seed	$5m	Wealthtech
KTX Finance	Seed	$4m	Wealthtech
Range Protocol	Seed	$4m	Fintech solutions

Source: DealStreetAsia - DATA *VANTAGE*

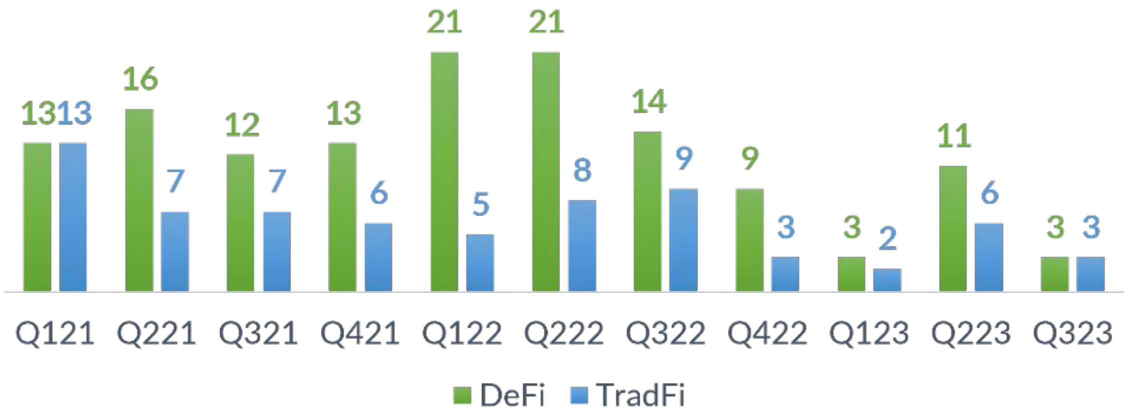
Fintech

Crypto crunch continues to overshadow wealthtech deals

Equity funding for wealthtech firms per quarter*



Wealthtech deal volume per technology category



All wealthtech equity deals in Q3 2023

Firm	Funding Type	Value	Category
Endowus	Series C	$35m	Wealth mgmt.
GRVT	Seed	$5m	Crypto exchange
KTX Finance	Seed	$4m	Crypto exchange
CrossFund	Venture - Unknown	$1.5m	Private capital
Wiziin Inc.	Pre-Seed	$0.5m	Private capital
OpenEx	Pre-Series A	Undisclosed	Crypto exchange

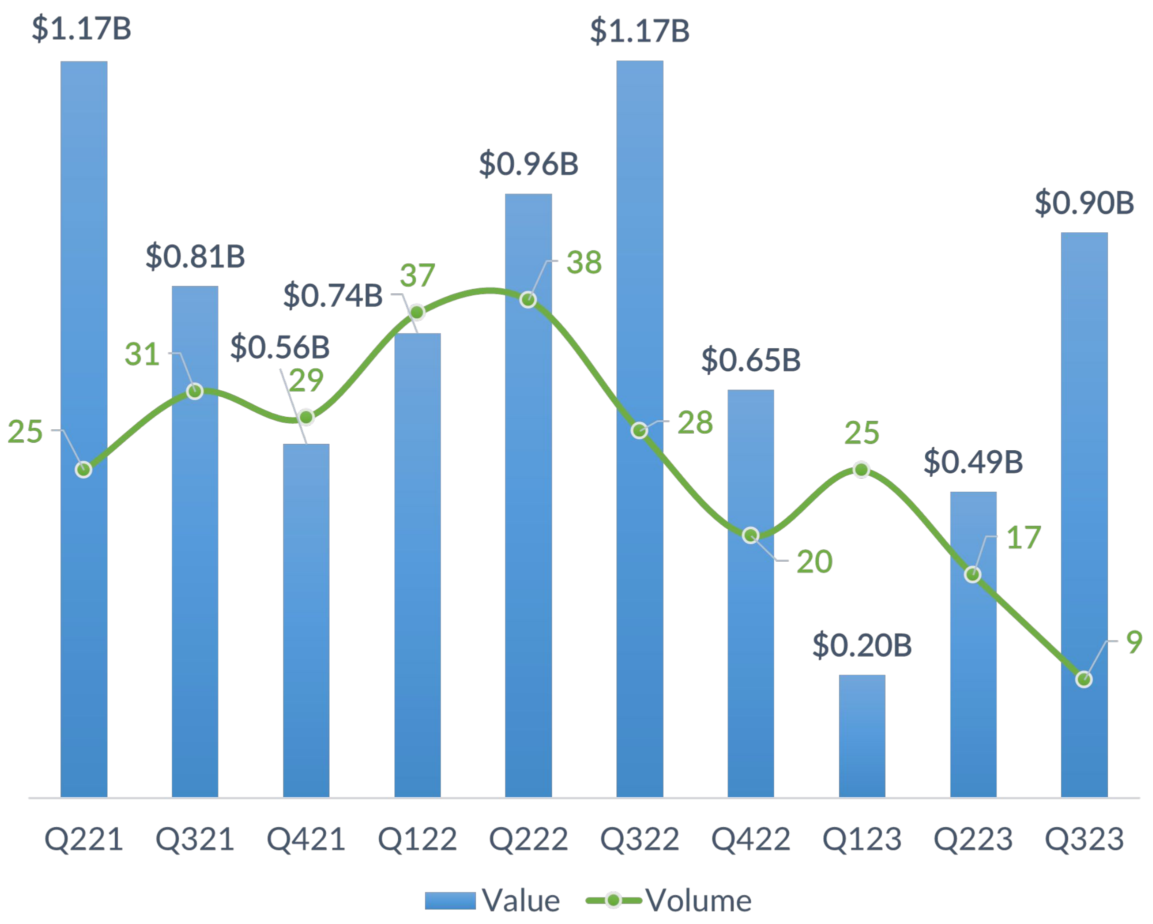
Source: DealStreetAsia - DATA VANTAGE

*P2P lending is not considered as wealthtech in this report

E-commerce

Lazada deal makes up 94% of total proceeds

Equity funding for e-commerce per quarter



Source: DealStreetAsia - DATA *VANTAGE*

All e-commerce equity funding deals in Q3 2023

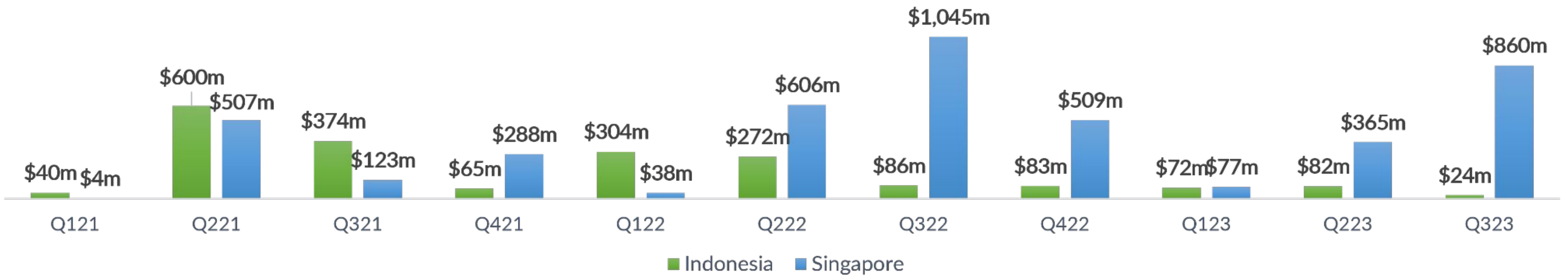
Firm	Funding type	Value	Category
Lazada Group	Corporate round	$845m	B2B2C commerce
Segari	Series B	$23.5m	B2C commerce
Telio	Series B	$15m	B2B commerce
Novelship	Series B	$9.5m	B2B2C commerce
Carousell	Venture - Unknown	$2.8m	C2C commerce
Evo Commerce	Seed	$2.8m	Direct-to-consumer
Jagofon	Seed	$0.2m	B2C commerce
Orderfaz	Pre-Seed	Undisclosed	E-commerce solutions
Collektr	Pre-Seed	Undisclosed	Online auction

E-commerce

Indonesia loses grip on e-commerce crown

Indonesia vs Singapore e-commerce equity deal volume

Indonesia vs Singapore e-commerce equity deal value

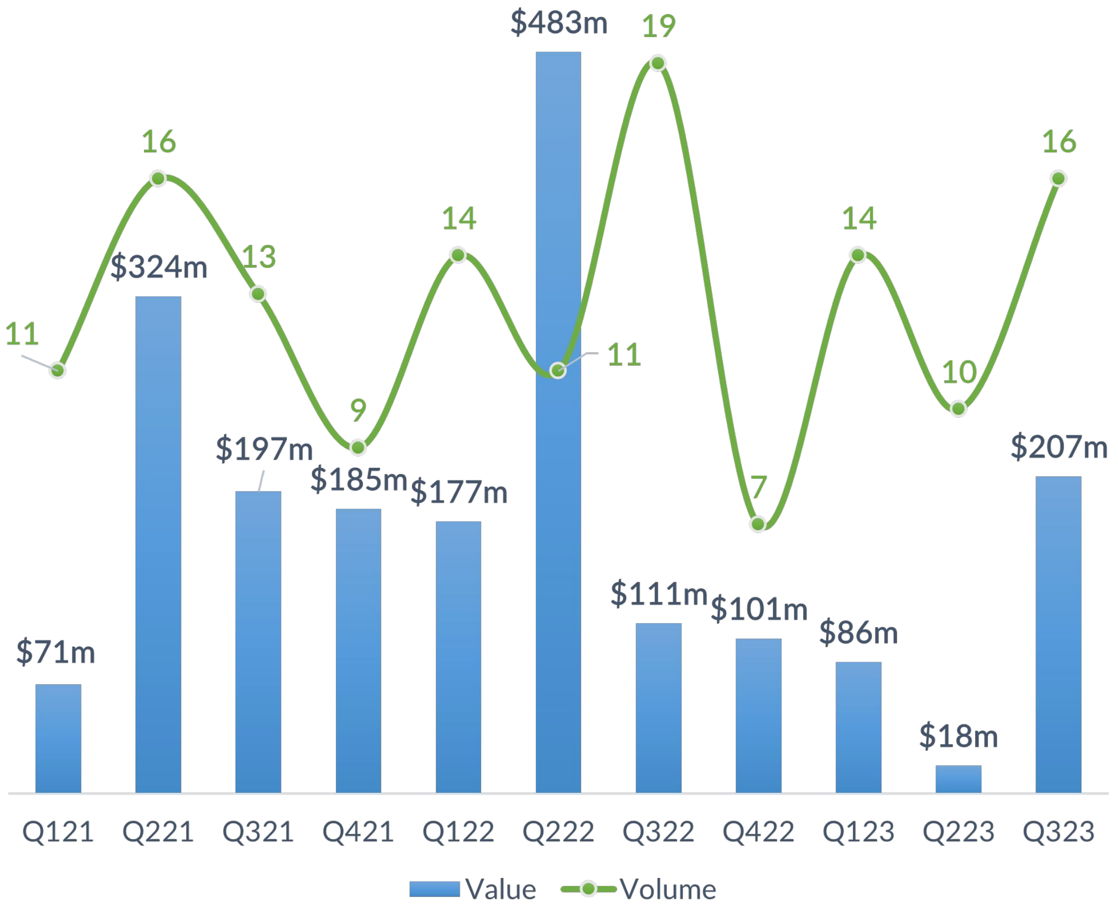


Source: DealStreetAsia - DATA *VANTAGE*

Healthtech

Strong appetite for healthtech in post-pandemic period

Equity funding for healthtech firms per quarter



Source: DealStreetAsia - DATA VANTAGE

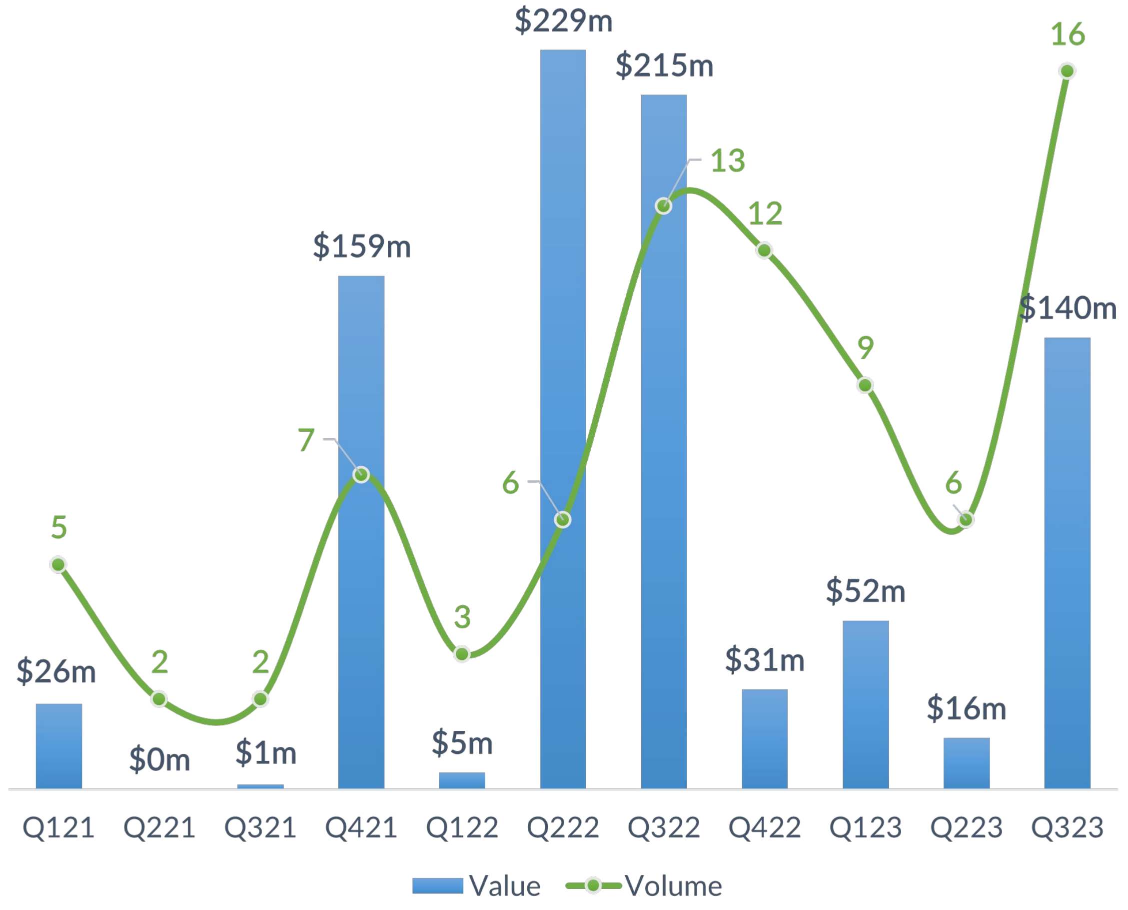
Top 10 healthtech equity deals in Q3 2023

Firm	Funding Type	Value	Category
Halodoc	Series D	$100m	Telemedicine
Gene Solutions	Series B	$21m	Curative technology
AWAK Technologies	Series B	$20m	Curative technology
WhiteCoat	Series B	$20m	Telemedicine
Engine Biosciences	Series A3	$18m	Curative technology
Automera	Series A	$16m	Curative technology
DotBio	Pre-Series A	$5.6m	Curative technology
Neurowyzr	Seed	$2.1m	Diagnostic technology
MiyaHealth	Pre-Series A	$1.8m	Healthcare IT
Zi.Care	Series A	$1.3m	Healthcare IT

Green tech

Green tech volume at highest level in at least five years

Equity funding for green tech firms per quarter



Source: DealStreetAsia - DATA VANTAGE

Top 10 green tech equity funding in Q3 2023

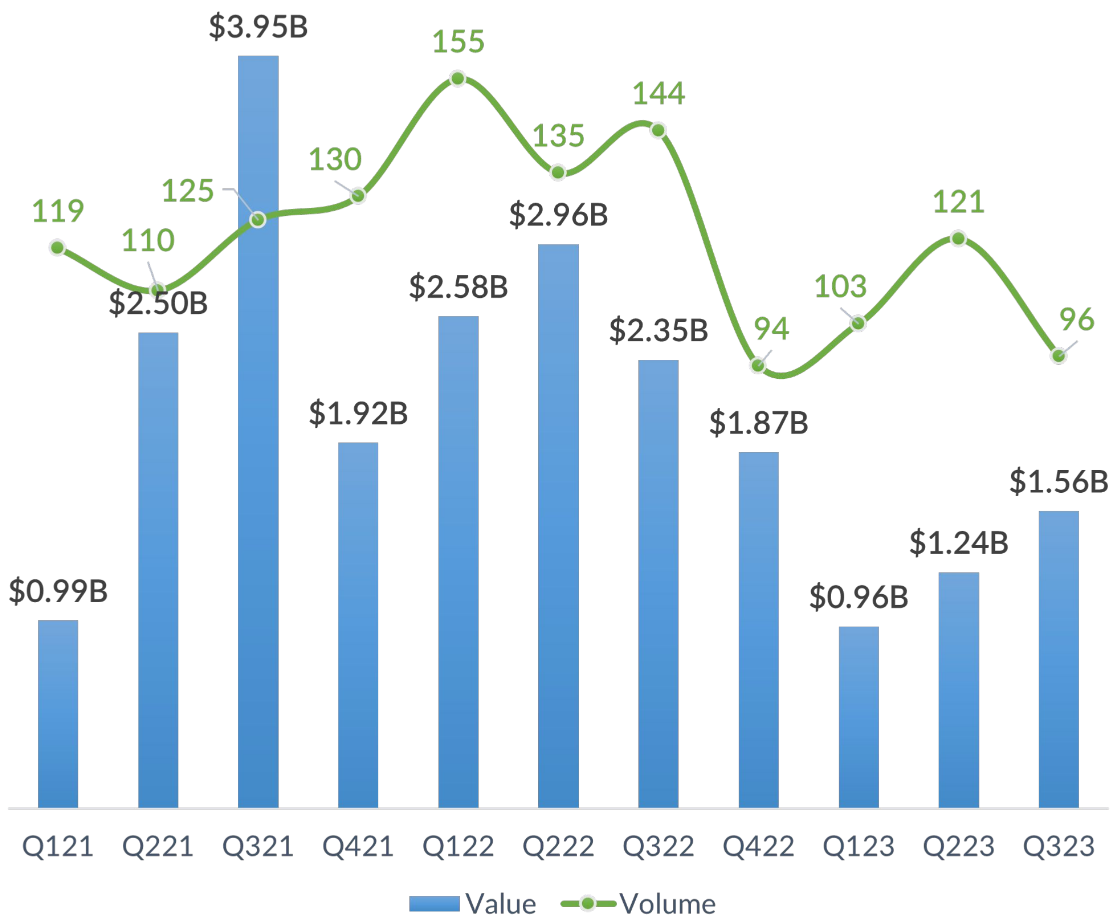
Firm	Funding Type	Value	Category
InterContinental Energy	Series B	$115m	Renewable energy
Blue Planet Environmental Solution	Corporate round	$5m	Waste mgmt.
Rekosistem	Venture - Unknown	$5m	Waste mgmt.
HydroLeap	Series A	$4.4m	Water treatment
NEU Battery Materials	Seed	$3.7m	Battery recycling
Zuno Carbon	Seed	$2.5m	Carbon mgmt.
Rimm Sustainability	Series A1	$2.1m	Sustainability mgmt.
Solar AI Technologies	Seed	$1.1m	Renewable energy
PVA Pro	Seed	$1m	Manufacturing
Waste4Change	Venture - Unknown	$0.1m	Waste mgmt.

Country Review

Singapore

Deal value falls 52% in SE Asia's top investment market

Equity funding for Singaporean firms



Source: DealStreetAsia - DATA *VANTAGE*

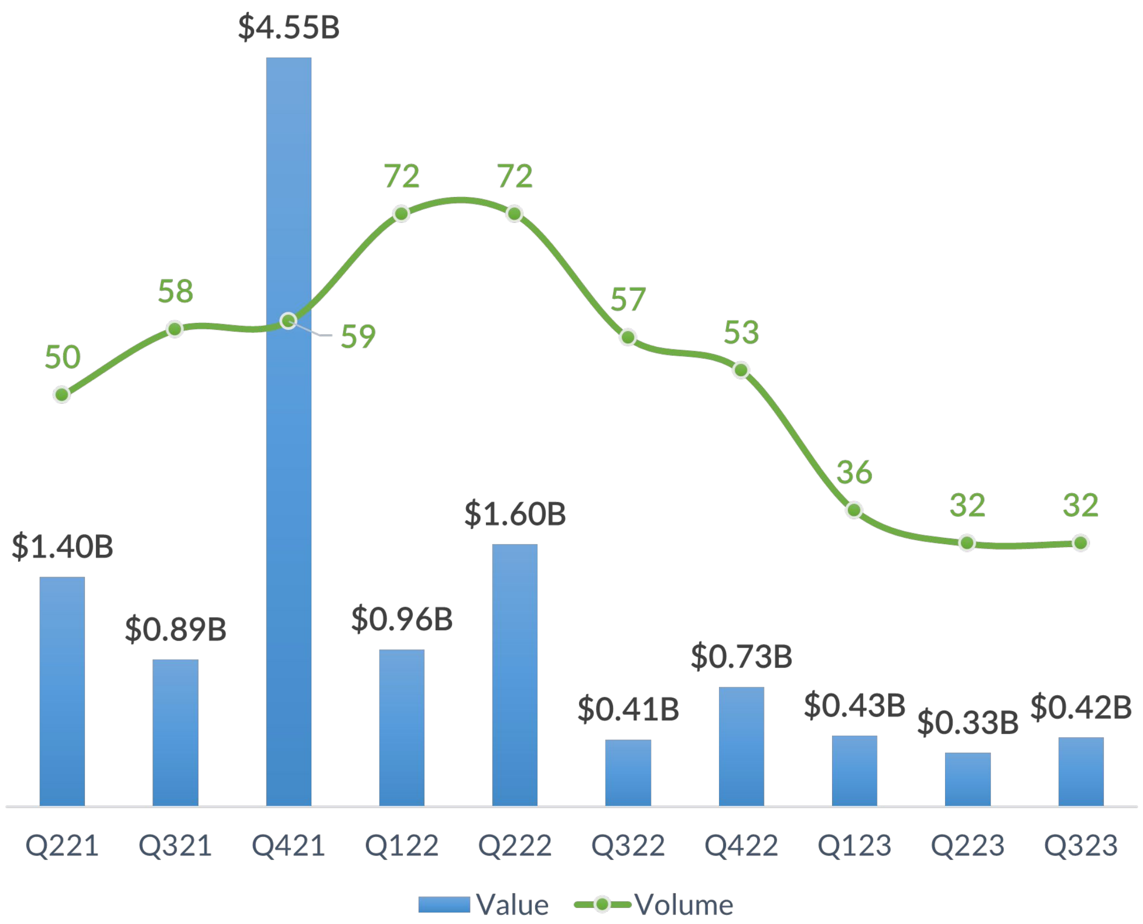
Top 10 deals in Q3 2023

Firm	Funding Type	Value	Vertical
Lazada Group	Corp. round	$845m	E-commerce
InterContinental Energy	Series B	$115m	Green tech
Airalo	Series B	$60m	Telecoms.
Bolttech	Series B	$50m	Fintech
Mirxes	Series D	$50m	Healthcare
Endowus	Series C	$35m	Fintech
AP Technologies	Private Equity	$23m	Manufacturing
Chitose Bio Evolution	Corporate round	$21m	Consumer product
AWAK Technologies	Series B	$20m	Healthtech
WhiteCoat	Series B	$20m	Healthtech

Indonesia

Correction momentum slows in SE Asia's largest market

Equity funding for Indonesian firms



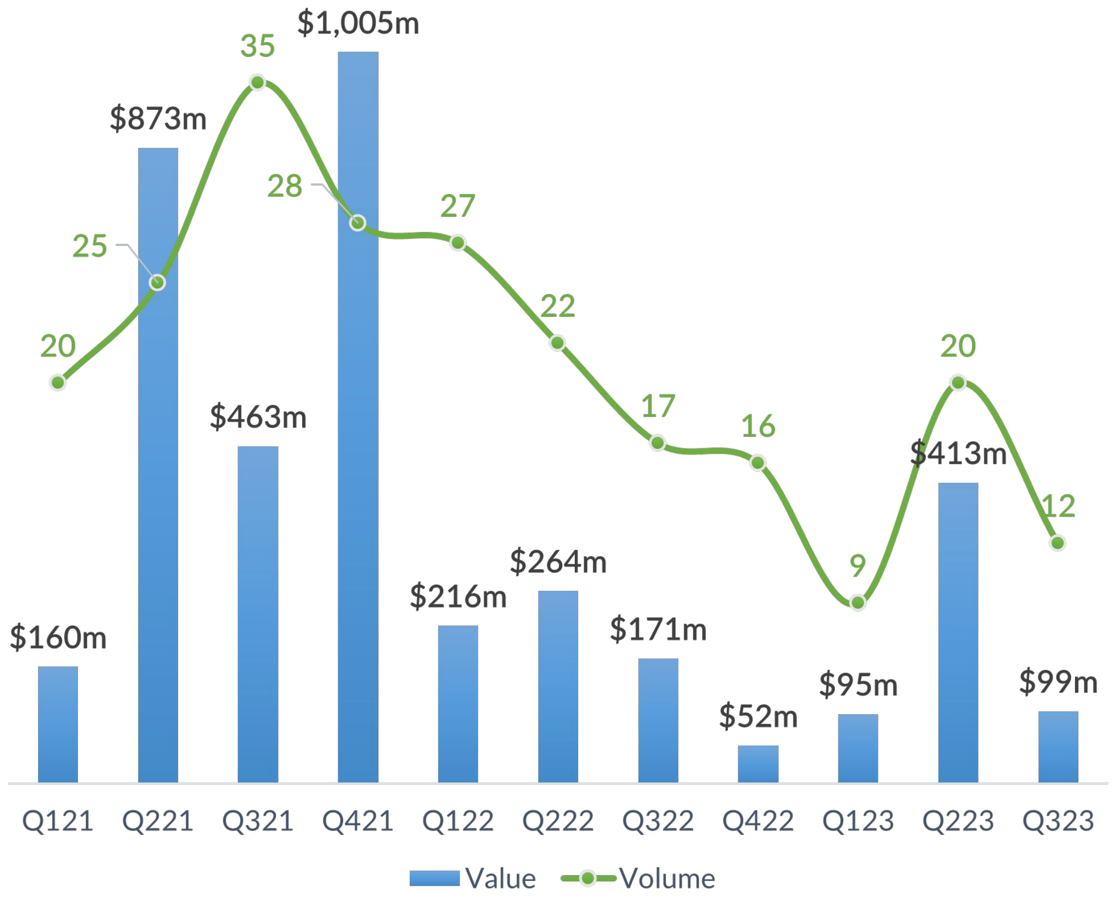
Top 10 deals in Q3 2023

Firm	Funding Type	Value	Vertical
Halodoc	Series D	$100m	Healthtech
eFishery	Series D2	$91.6m	Agritech
Kin dairy	Private Equity	$70m	Consumer product
Alva	Series B	$50m	Mobility tech
Maka Motors	Seed	$37.6m	Mobility tech
Segari	Series B	$23.5m	E-commerce
Manuva	Series B	$8m	Logistics & Supply chain
Beleaf Farms	Series A	$6.8m	Agritech
KUPU	Seed	$6m	HR-tech
DELOS	Series A	$5.7m	Agritech

Source: DealStreetAsia - DATA *VANTAGE*

Vietnam dips following second quarter surge

Equity funding for Vietnam firms



Source: DealStreetAsia - DATA *VANTAGE*

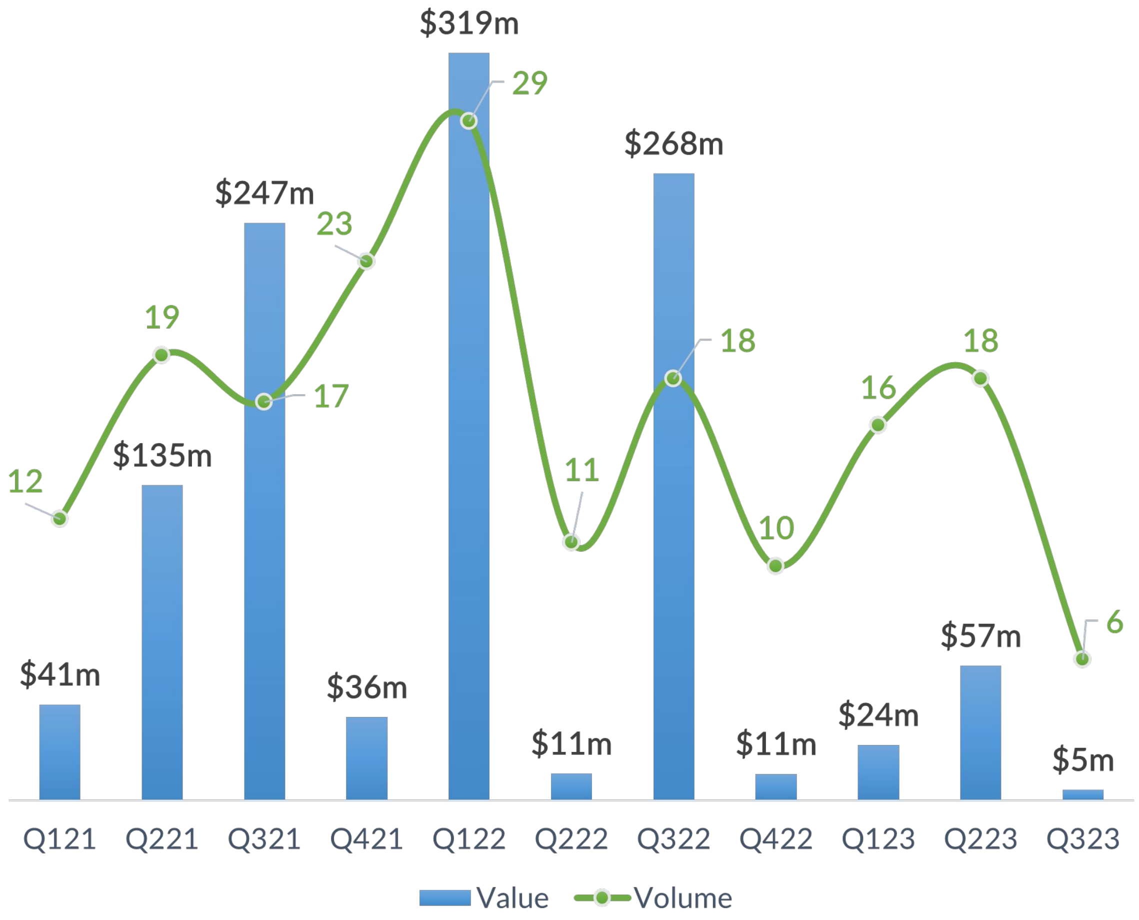
Top 10 deals in Q3 2023

Firm	Funding Type	Value	Vertical
Gene Solutions	Series B	$21m	Healthtech
Telio	Series B	$15m	E-commerce
GIMO	Series A2	$12m	Fintech
Sky Mavis	Series B+	$11.1m	Gaming
Timo	Venture-Unknown	$10m	Digital Bank
TopCV	Series B	$10m	HR-tech
Vuihoc.vn	Series A	$6m	Edtech
MFast	Fintech	$6m	Fintech
Clevai	Venture-Unknown	$4m	Edtech
Saladin	Pre-Series A	$2.4m	Fintech

Malaysia

Malaysia's deal volume hits 18-quarter low

Equity funding for Malaysian firms



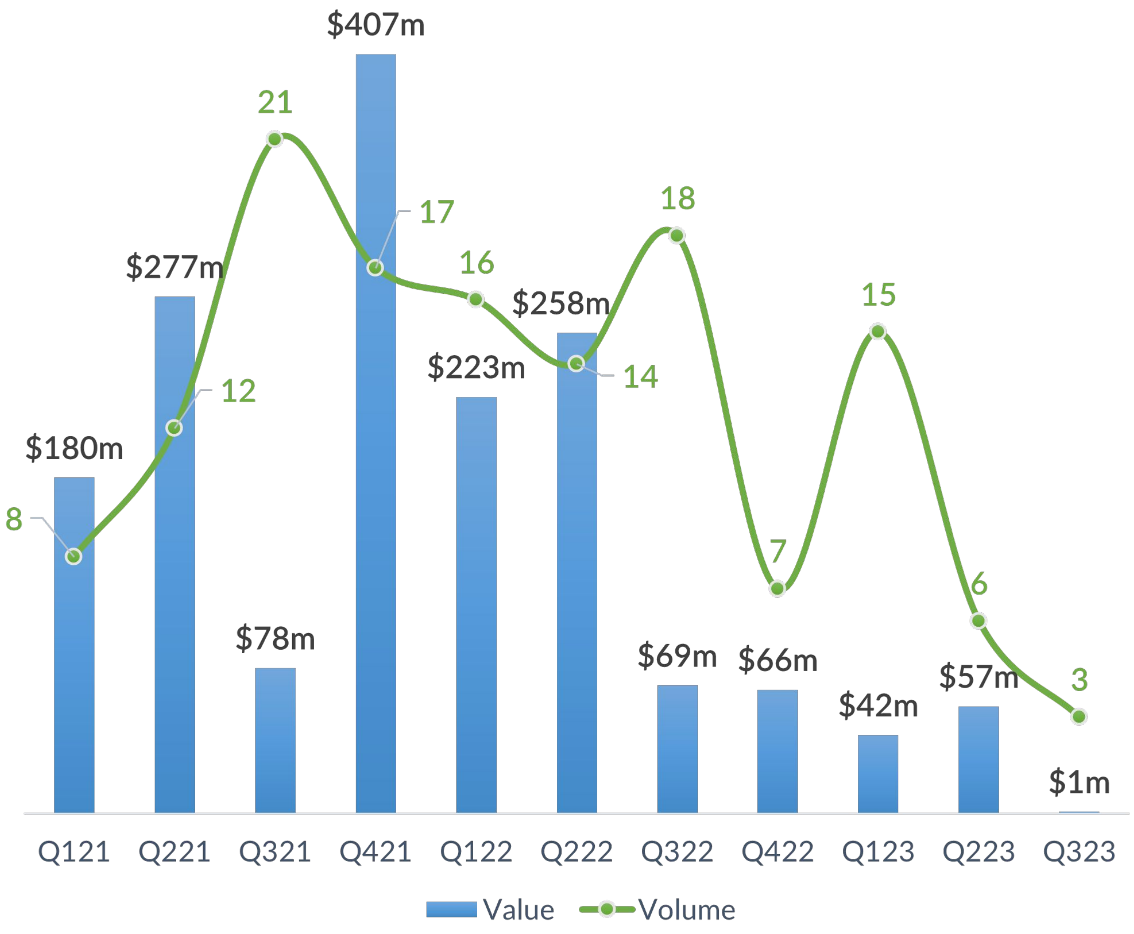
Source: DealStreetAsia - DATA VANTAGE

All equity deals in Q3 2023

Firm	Funding Type	Value	Vertical
GoodMorning Global	Equity Crowdfunding	$4.4m	Food & beverages
Mole	Pre-Seed	$110k	Social networking
NexMind	Seed	Undisclosed	Data analytics; AI/ML
Collektr	Pre-Seed	Undisclosed	E-commerce
Arus Oil	Corporate round	Undisclosed	Green tech
ERTH	Venture-Unknown	Undisclosed	Green tech

Deal volume plunges to over two-year low in Philippines

Equity funding for Philippine firms



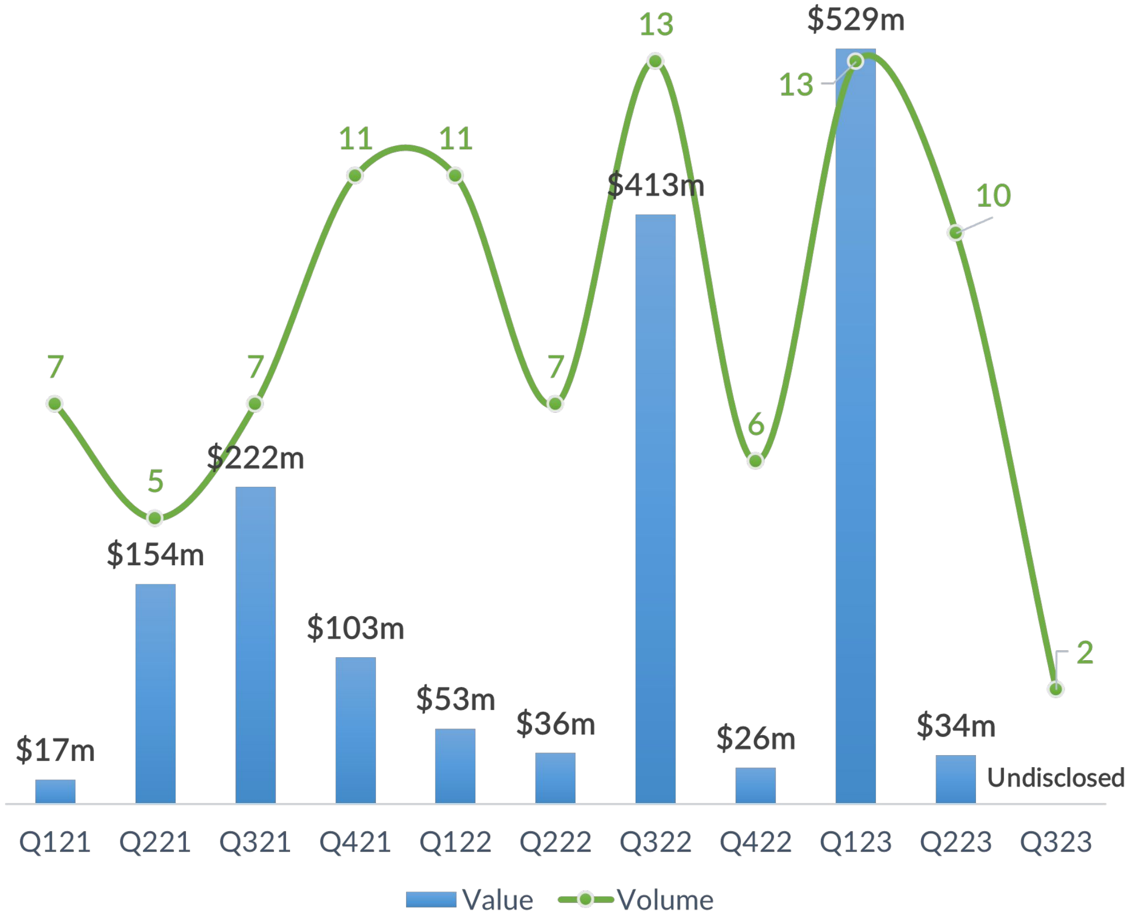
Source: DealStreetAsia - DATA *VANTAGE*

All equity deals in Q3 2023

Firm	Funding Type	Value	Vertical
Kindred	Seed	$1m	Healthcare
GoRocky	Pre-Seed	Undisclosed	Healthtech
Penbrothers	Seed	Undisclosed	HR-tech

Thailand sees funding nosedive to historic low

Equity funding for Thai firms



All equity deals in Q3 2023

Firm	Funding Type	Value	Vertical
HD	Seed	Undisclosed	Healthcare
APX	Pre-Series A	Undisclosed	Logistics & supply chain

Source: DealStreetAsia - DATA *VANTAGE*

Insider Insights

Insider Insights

Herston Elton Powers
Founding
Managing Partner
1982 Ventures

Q: **What stage are we at in the startup fundraising cycle currently? Is the period of reduced funding, often referred to as the funding winter, coming to an end?**

A: We expect deal volume to remain muted for the next few quarters. For our strongest portfolio companies, we have seen increased deal activity compared to the 1H-2023 with notable Series A rounds such as Triple-A which was led by Peak XV (former Sequoia India and Southeast Asia) with strategic backing from MENA-focused venture firm Shorooq Partners and 1982 Ventures. In our view, the best thing for early stage founders to do is make sure they are ready once the funding market heats up again. This includes extending your runway through reducing burn and raising smaller funding rounds at reasonable valuations, while focusing on validating product-market-fit while focusing on top-line and bottom-line growth.

What are the particular reasons or challenges that are holding investors back from investing more capital assertively?

There does not appear to be momentum for the broader investment market and investors may be more comfortable to sit on cash while taking advantage of higher interest rates. Also, many investors are experiencing their first “downturn” cycle despite the strong macroeconomic performance in Southeast Asia. With that said, professional allocators are already predicting 2023-2024 will be a strong vintage for early-stage VC funds in Southeast Asia. While 2023 and 2024 may continue to be challenging for fundraising across all sectors, especially at the later and growth stages, the ability to invest in high growth and sustainable fintech businesses at attractive valuations is better than we've seen in many years.

Are investors' valuation criteria evolving with the startups' shift towards sustainability? How is this affecting investment trends in the region?

The best founders in our portfolio have been working towards business sustainability for the past 12 months once we alerted them to the challenging fundraising environment. We are a bit contrarian in our approach as we continue to support our founders in achieving strong growth (e.g. 20-50% month-over-month), but this has to be done sustainably which requires ruthless efficiency and execution.

Over the past few months, we have seen multiple portfolio companies break-even or achieve profitability while continuing to demonstrate strong growth. Unfortunately, sometimes it takes a “crisis” for founders and VCs to realize that ultimately the goal is to build real business with positive unit economics and not rely on the next funding round for survival. The key is to continue to grow or get closer to PMF as no one is going to give you a “prize” for surviving the past 12-18 months without growth.

Looking ahead, are there particular areas or sectors you aim to target for funding in the coming year?

Our investment strategy is well-positioned for this market. While overall deal flow is down, the quality of founders and businesses that we are looking at has significantly improved. When the market is hot everyone wants to be the next unicorn founder or found a copy-cat start-up. In this market, only the strongest founders with the greatest conviction are willing to launch a start-up. We are taking advantage of this trend as most investors are still sitting on the side-lines and deal competition is relatively low for us. As a specialist fund focused on fintech and tech infrastructure for Southeast Asia, we continue to see opportunities in payments, specifically B2B, AI, enterprise SaaS and tech platforms focused on global markets.

Insider Insights

Eddy Chan
Founding Partner
Intudo Ventures

Q: **What stage are we at in the startup fundraising cycle currently? Is the period of reduced funding, often referred to as the funding winter, coming to an end?**

A: We anticipate that the winter will continue. 2021 and into 2022 was an anomaly period for Southeast Asia and global venture as a whole. Low interest rates made capital cheap for global investors. As a new and unfamiliar market for many firms without on-the-ground support, many outside investors did not know how to price or run due diligence on Southeast Asian companies (this is the reason Intudo runs a "Beachhead Strategy" to assist international investors in curating access to growth-stage investments in Indonesia, providing due diligence support to avoid these pitfalls and help them understand the respective opportunities and risks). As a result, global investors often paid too much for deals and paper markups were encouraged by local funds in a region where DPI is lean to support their own fundraising efforts.

This funding winter is a global phenomenon, a mini venture "ice age" of sorts. Many of these global investors are now focused on their home markets. To support local companies, it is now up to local funds to step up to provide the support, capital, and guidance these companies need to succeed in the long haul. For global investors, working with local funds with boots on the ground who understand the market will be the best way to gain access to Indonesia and Southeast Asia more broadly. This recent downturn has demonstrated that fly-in investment is fickle and fleeting.

What are the particular reasons or challenges that are holding investors back from investing more capital assertively?

Beyond just waiting for valuations to drop, another possible factor is the lack of dry powder and lack of conviction among funds. The venture winter extends to funds and startups alike. Some funds may have overexerted themselves at the market peak and no longer have the capital needed to make new investments, and now must prioritize supporting and financing existing portfolio companies. Secondly, a bear market does not show the same types of signals as a bull market. Many deals are chased after because someone else put money in, and without that kind of signal—it becomes a waiting game for others to be willing to come to the table first.

With the shift towards business sustainability, have consumer tech startups in the region shown robust financial improvement? What metrics would best illustrate this progress?

Building business sustainability has not been attractive for investors in previous cycles, but it's something we've always prioritized in "non-consensus" plays that are overlooked for not exhibiting the stereotypical signals that investors look for. Heavy capital expenditure to build businesses in markets like Indonesia has never been a sustainable business model where customer loyalty cannot be bought and will just go to the next shop offering discounts or freebees. Instead, consumer businesses have to build defensive moats outside of capital, such as unfair advantages in commercial distribution, regulatory, and specialized talent to escape the reliance on consumer subsidies and create lasting stickiness among users. It's something that's easier to implement at earlier stages within the company and hard for growth-stage companies to learn without significant pain. So, growth stage businesses have to find ways to cut costs without killing momentum, and it's always a painful process mired by layoffs, retreats from markets or verticals, and other tough decisions.

We see this evolution unfold unevenly in Indonesia and Southeast Asia, as the transition varies by business model, sector, and the strength of each company's management team—some companies are finding success in trimming and pivoting, while others will not. The signal for the market correction to have fully run its course will be higher profile write-offs and the region hasn't seen much of that yet. This is Southeast Asia's first real venture downturn, and there is a lack of accumulated knowledge and experience in dealing with such events across the ecosystem as a whole.

How would you compare your deal flow this year relative to last year and what is your expectation in the next 12 months?

The same. We invested in two new portfolio companies in 2023 and anticipate investing in one additional new portfolio company this year, and we invested in six new portfolio companies in 2022. We invest at a consistent cadence, averaging roughly two to six new portfolio companies each calendar year.

We anticipate next year will be the same. This investment pace allows us to conduct in-depth due diligence on companies, build conviction, and create significant shareholder alignment between our team, founders, and other shareholders. Writing a check is just the beginning of a long-term relationship, and from there the real work begins as we work with founders to help them build their businesses for the long haul. So, our pace remains the same.

What adjustments have you made on your investment thesis and funding strategy in light of the challenging market conditions?

We have made no changes to our investment strategy. With our concentrated portfolio strategy, Intudo Ventures has always taken a conservative approach to portfolio construction, investing in a select number of new portfolio companies each year, focusing on businesses that demonstrate clear fundamentals and oftentimes non-consensus business models that create defensive moats—instead of relying on heavy capital expenditures for growth.

Looking ahead, are there particular areas or sectors you aim to target for funding in the coming year?

Value creation is shifting towards early-stage deals and that's always a space where we're looking regardless of cycle. But from a contrarian perspective, there's an overlooked opportunity in growth. We anticipate continued correction in the market in terms of valuations. This process has largely played out in mature markets, but we believe that the correction will continue in Southeast Asia as a whole.

This process will play a consideration in our investment decisions as we will observe companies that are being properly corrected, or those that still need to adjust to market realities—but there will be companies with valuations that will be irrationally corrected which presents an opportunity for forward-thinking firms to invest with conviction. We will continue to look at our bread-&-butter of early-stage bets, but growth investments are being found on the discount rack that really shouldn't be there. It's an opportunity to invest when the typical hype signals are absent by rolling up our sleeves to run deeper due diligence, with the potential to create outsized value for our shareholders.

Insider Insights

Francisco Widjojo
Founding Partner
& CEO
Arkblu Capital

Q: Can you tell us about your current investment activities?

A: We are a private investment group and multi-asset. Venture capital is one of the asset classes we invest in, but we also invest across other asset classes. We invest in equities, debt, property, private equity, venture, crypto, and hedge funds as well. Additionally, we have a global mandate, with two concentrations in terms of markets: Australia and Southeast Asia, particularly Indonesia. That's where both of our teams are also based. We invest both directly as well as through fund managers. In terms of our own update for this year and the next, we're very much focused, within venture, on portfolio management. We back some really good founders. All of our founders are still in business, which is actually a big plus during this time. Some of the founders that we backed in our venture portfolio, where we were the very first investors into those companies, have gone on to do really good things.

In terms of what we're seeing in the next 12 months, it's actually a little bit different to venture. Within venture, we continue to monitor our portfolio. But we're also doing something different, which is actually bringing us to the tech mission, for which we've been approached a lot in the past, to be the preferred Australian partner for a lot of technology companies that are not from Indonesia. Originally, we said no to all those offers, but we're starting to take a closer look at a lot of these offers. That's actually why we are wanting to become supporters and advisors to this mission.

There are a lot of tech companies looking at Indonesia. They need a local partner when it comes to strategy, company formation, and doing sales. This is something we're looking at in the next 12 months. We have a very unique lens in the respect that we're multi-assets. We don't just invest in venture, we understand operating businesses as well. So, we're operators as well as investors.

How do you see the current fundraising cycle in Southeast Asia?

Much like the rest of the world, there is definitely a tech winter in Southeast Asia. Fundraising is down across all fundraising stages. Early, very early stages are actually still okay. But in the later stages, it has definitely contracted. We're still taking on the same number of meetings to interact with external founders, but in terms of actually writing checks, it's definitely slowed down.

Do you think that the funding winter is coming to an end or is it going to last for the next few years?

We've got a very unique view when it comes to this. Because we're both capital allocators as well as investors of capital, we see it from two different ends. From a capital allocation perspective, LPs, like us, were allocating much less to venture. And that's because yields are so high. When money was cheap, 2 to 5 years ago, people were chasing very large returns. And now that has shifted. So LPs, in terms of the allocation to venture, have definitely decreased.

Now, in terms of fund managers, as well as investors, investing into new deals has also slowed down. For example, if we look at consumer-facing technology or just consumer-facing companies in Southeast Asia, including the listed companies, revenue of these companies is down, consumer sentiment is down, and inflation is high. Because most of Southeast Asia's technology companies rely on very robust and aggressive consumer spending, which has been going down, we think it will take some time for this winter to subside.

There is also a general uncertainty in the market and a change in the way investors are investing in ventures. So, what I mean by that is, I think, over the last few years, we've reached the end of what I would call Southeast Asia's first tech boom. And now we're going into what I would call a VC 2.0. At the moment, the stock prices of a lot of companies have been falling significantly, including the likes of Goto, Grab, Bukalapak. The public market performance is not doing so well. And what we've seen is a correction. It's a correction from growth at all costs to profitability. And I think the market is still coming to terms with that. And this, in addition to the fact that interest rates are so high, which obviously means that there are better ways to allocate money. So I think all of these means that the Tech winter will still persist.

But I also think it's a good thing because it means that we're getting back to the fundamentals. And that's what we've always believed in. This is why our portfolio is very concentrated. A lot of people say that venture is a game where you invest in, say, 30 companies, and then you'll make three winners; we actually don't believe in that. The way we invest in ventures, every single company is a winner. So every single company that we invest in, we invest with high conviction. We think it's a good thing that people are starting to focus on profitability as opposed to revenue, as it means real businesses are being created.

Do you have any plans to expand outside Indonesia and Australia? For example, in Vietnam, we are seeing more opportunities from foreign investors.

So, what we always say is that we want to be an investor that really adds value to startups. Currently where we add the most value to, are the companies particularly in Indonesia but we do take a look at opportunistic deals outside Indonesia as well. And that could be, for example, a deal where a founder has established a business overseas and now they want to establish a subsidiary in Indonesia. Or business models that have worked in Indonesia, and could be exported overseas, such as Vietnam. But at the end of the day, we see merit in providing value to other companies. Where we think we can provide our expertise, we do open our networks and funding channels to them.

Talking about lower valuations, do you expect that to continue this year?

Lower valuations are definitely here to stay. What we're going through at the moment is not a seasonal change, it's a systemic change. Primarily, from a macro-economic point of view, it was because of cheap money. Like I said, money was cheap everywhere. That meant that people were able to fundraise a lot easier. Now, the environment has changed, money is much more expensive. People have realized that companies can't merely rely on the next fundraising round to survive. And we've seen that with a lot of shutdowns with technology companies.

A lot of public market companies at this stage are not performing as well as expected. But again, like I said, I believe it's actually beneficial for the market. And it's a good thing for investors like us who are very concentrated and have a very balanced approach. Because it means that there's less noise in the market. And it means that much more valuable companies are being created. I think at the end of the day, most investors, especially when it comes to building technology companies in countries like Indonesia, Vietnam, Southeast Asia, the companies that we're creating, and we're backing, are really uplifting people from poverty. They're allowing people to create their own businesses through microtransactions, through social commerce. So, it's fostering positive change. If we have a market where a lot of bad companies are being created and customers are getting onboarded, but if those companies go bust it reduces the level of trust between developing markets and their people and technology solutions. So, I actually do think it's a good thing that we do have this correction overall.

Are there any new opportunities that you are looking at? For example, we have seen sustainability and climate now. Are you looking for opportunities in this sector?

In terms of new opportunities, what we really see is what I was saying before, where a B2B technology company from outside of Indonesia has created a technology solution and it's a world-class solution. It's something that's not being created or has been created in Indonesia and then they start selling that into an Indonesian market, Vietnam market or Philippine market. These are solutions that would target the largest industrial industries of Indonesia. So mining, software, telecommunications, banking, and finance - these are very deep tech, very highly sophisticated technology solutions and products. And these are the types of solutions that are not being created in Southeast Asia.

There's a growing understanding as to what are the needs of Southeast Asian businesses, large corporations, there's also a growing sophistication amongst outside investors, of understanding that, if they want to do business in these countries, some of them can do it alone. But if you're dealing with these particular types of industries, and very high-value contracts, it makes sense to partner with a local investor or a local operating business. We believe that's the right strategy. And that's something we're going to be focusing on for the next 12 months.

What are your thoughts on government support?

I would say that I can talk about two specific countries where we do business, Indonesia and Singapore. President Joko Widodo, who is in his final term, has been very supportive of business. Indonesia has been very stable over the last 10 years. And his government has built a lot of infrastructure within the country when it comes to roads, tolls, ports, and that signals to the world that Indonesia is a safe and stable place to do business. There's been a lot of government initiatives as well hat we've been part of, for example, the Next Indonesia Unicorn initiative by the government where they select Indonesian Series B companies and invite foreign investors to have a look at these companies and get to know them. So, the government, through these policies, has been extremely supportive. They put a lot of funding to these kinds of initiatives, a lot of the state-owned enterprises as well have been investing in venture companies such as Mandiri Capital, very large Indonesian companies, such as the telcos as well. We love working with the Indonesian government.

The Singaporean government in very much the same way has also been supportive for startups in Singapore. The fact that a lot of funds are now deciding to set up their funds in Singapore, as opposed to the Cayman Islands, I would say that Singapore has really done well in that. So very much similar to how Hong Kong is the center for hedge funds in Asia. I would say that Singapore is definitely the center of Asia when it comes to venture capital. It's a place where most companies have set up their holding company. So, it's been a very supportive government there as well.

Insider Insights

Raja Hamzah Abidin
CEO
RHL Ventures

Q: What stage are we at in the startup fundraising cycle currently? Is the period of reduced funding, often referred to as the funding winter, coming to an end?

A: Even though the statistics show a slowdown in venture funding with the June 2023 quarter seeing a 50% fall in startup funding versus a year prior, we at RHL are still deploying at a healthy clip at a deal a month this year. In Malaysia specifically, we see strong support from the sovereigns including the likes of EPF, KWAP and Khazanah investing in the venture space, hence we are still very bullish on the space.

What are the particular reasons or challenges that are holding investors back from investing more capital assertively?

Generally speaking, investors are waiting for exit events or DPI to happen more frequently before committing capital to the venture space in Southeast Asia. Hopefully we see a few more exits within the unicorn space, so capital can recirculate itself to different parts of the ecosystem

Is the trend of demanding lower valuations likely to persist? Can you elucidate on the different nuances of asset repricing dynamics across various business sectors?

Compared to a year ago, investors now have more time to decide and negotiate on deals. This probably means that we can price deals more accurately, and benchmark the deals to what is more comfortable from a risk reward perspective. I would say valuations have fallen by at least 20-30% versus similar stage businesses a year ago.

How would you characterize the difference in risk tolerance between Southeast Asia-based fund managers and those from the global investment community?

Local fund managers are usually more comfortable to take earlier stage and seed stage risk versus global managers. This is probably a win-win type scenario, as local managers with local expertise underwrite earlier stage deals, and then bringing in the global players with deeper pockets to fund later stage rounds.

How are government policies or incentives in Southeast Asia playing a role in the startup fundraising cycle during this period?

Government linked funds including the likes of Temasek and Khazanah are key in providing an anchor, especially in a time of slowing LP commitments in general. Signalling is a key factor in raising a fund, and we definitely need more of that in the region.

Are there any emerging trends or new models of fundraising that are gaining traction as a response to the ongoing funding challenges?

GP's are becoming more open to taking money from strategic pools of capitals, which means more capital allocated either from a country or region perspective, or a sector perspective.

With the shift towards business sustainability, have consumer tech startups in the region shown robust financial improvement?

For growth stage companies, it's at a stage of getting to profitability as quickly as possible, otherwise the markets will eat you up. We had a portfolio company Webuy, that listed on the Nasdaq after it hit profitability, which is proof that the markets can absorb and appreciate Southeast Asian companies if they are profitable and not burning capital.

What challenges are startups facing in implementing efficiency measures, and how are these hurdles being addressed to ensure long-term business viability?

Startups are not used to cutting jobs and reducing fat in their business. In some cases these startups need a 'wartime' CEO, which not all founders are equipped with at this juncture.

Are the reforms and efficiency measures undertaken by startups sufficient in navigating the current market challenges? Or do existing strategies need a re-evaluation for better financial resilience?

I think VC's and startups need to take a hard look at the mirror and judge for themselves what business models will work long term. The grow at all cost method has ceased to work, and we are seeing the effects of it with some down rounds and blowups already taking place.

Are investors' valuation criteria evolving with the startups' shift towards sustainability? How is this affecting investment trends in the region?

I think in general investors are just more careful with valuations, irrespective of whether there is a sustainability angle or otherwise.

How would you compare your deal flow this year relative to last year and what is your expectation in the next 12 months?

This year has been an exceptionally active year for us especially on our venture debt side. Last year, we took a conservative approach as we felt companies were overvaluing themselves, which leaves us with still healthy amounts of dry powder to reply.

What adjustments have you made on your investment thesis and funding strategy in light of the challenging market conditions?

Instead of focusing on consumer tech, we have focused a lot more on hardware tech including semiconductors, and also selectively into less loved sectors such as waste management and carbon credits.

Looking ahead, are there particular areas or sectors sectors you aim to target for funding in the coming year?

Our focus will be on supporting our existing portfolio companies, while at the same time selectively take synergistic bets within the food and agriculture, healthcare, fintech and renewable sectors.

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