ASIAN VENTURE CAPITAL
2016 TRENDS / 2017 OUTLOOK

MOUNT PARKER VENTURES

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HIGHLIGHTS

2016 was a year of consolidation after three consecutive years of strong growth in total VC funding. Some areas have bucked the trend and continued to expand – most notably South East Asian funding which is up over 90% from 2015.
Mega-rounds of over USD250m have also seen strong growth with the number of rounds nearly doubling from 2015.

Geographically, Chinese companies still dominate the landscape accounting for 50% of all funding and over 90% of mega-rounds over USD250 million.

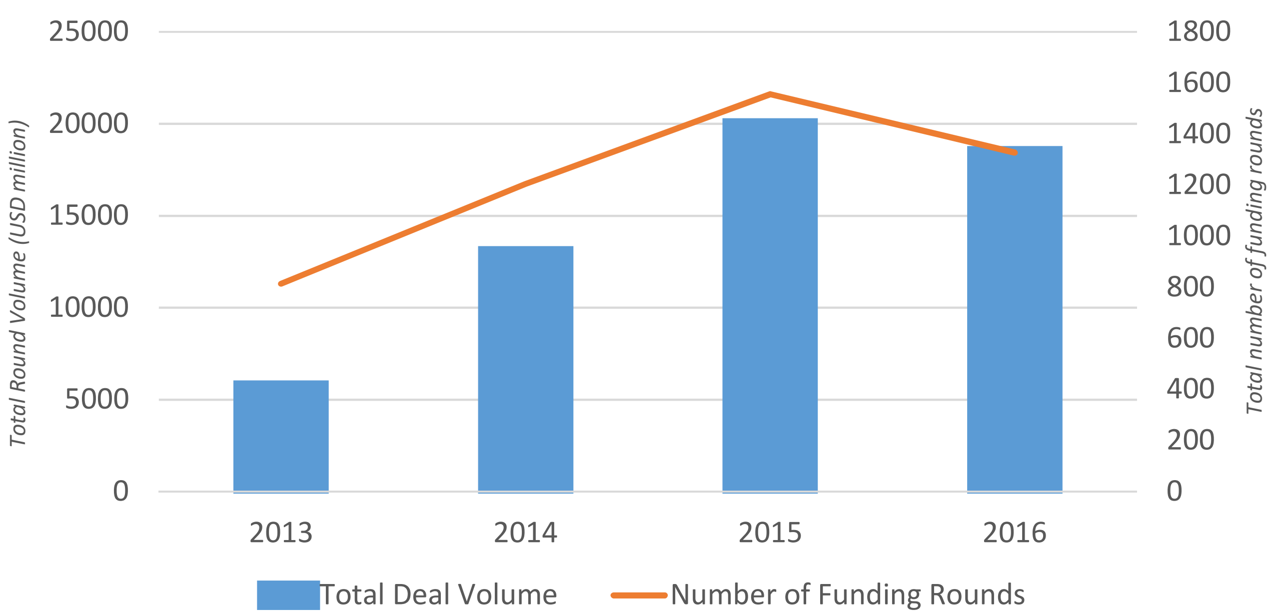
The Asian VC ecosystem shows signs of continued maturation – the average age of a funded startup continues to decline reflecting their ability to grow faster and the willingness of VCs to invest in younger companies.

Company valuations appear to have been robust and the median funding round size has increased for all funding stages (Seed – Series C) from 2015.

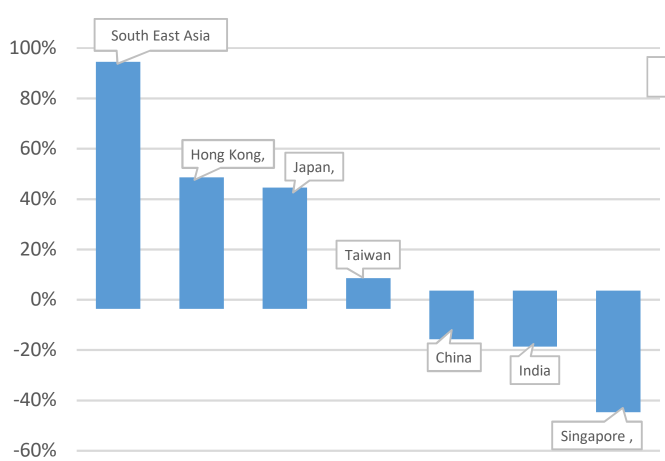
eCommerce is still the largest sector with almost 20% of all funding going to eCommerce companies. However the overall weakness has been most acute for eCommerce companies with funding down 35% from 2015.

SUMMARY

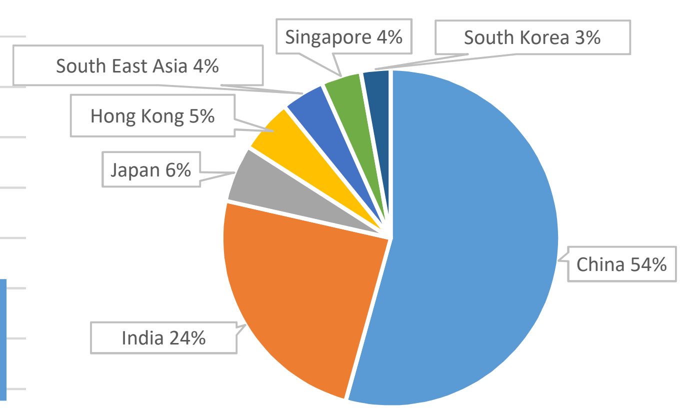
2016 was a year of retrenchment for Asian Venture Capital, with overall VC funding declining by 8% after three consecutive years of strong growth. The two largest markets of China and India (which account for 52% and 23% of total VC funding respectively) both declined by over 10%. In contrast the north Asian markets of Japan and South Korea as well as South East Asia posted solid growth.



Growth in Total Funding

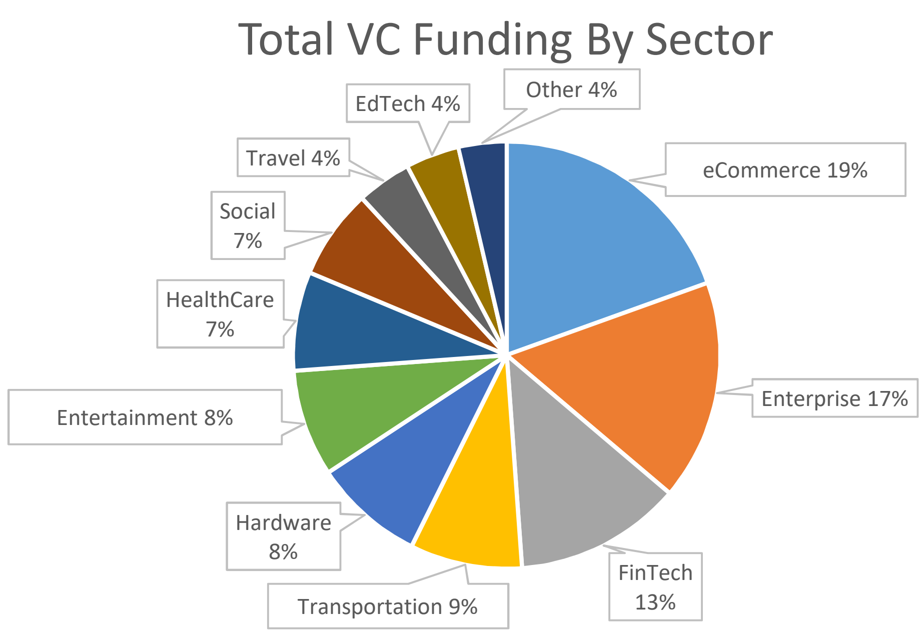


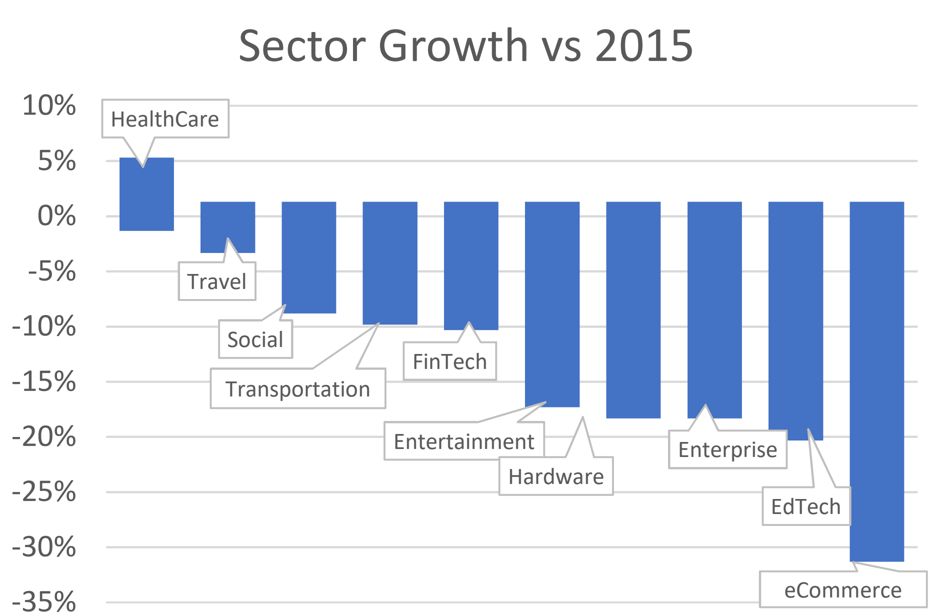
Regional Share of Total Funding Volume



SECTORS

eCommerce remains the largest sector across Asia accounting for almost 20% of all funding. The overall share of eCommerce has declined every year since 2013 when it accounted for over a third of all funding. All major sectors saw significant declines in funding with eCommerce being especially weak with a 35% decline.

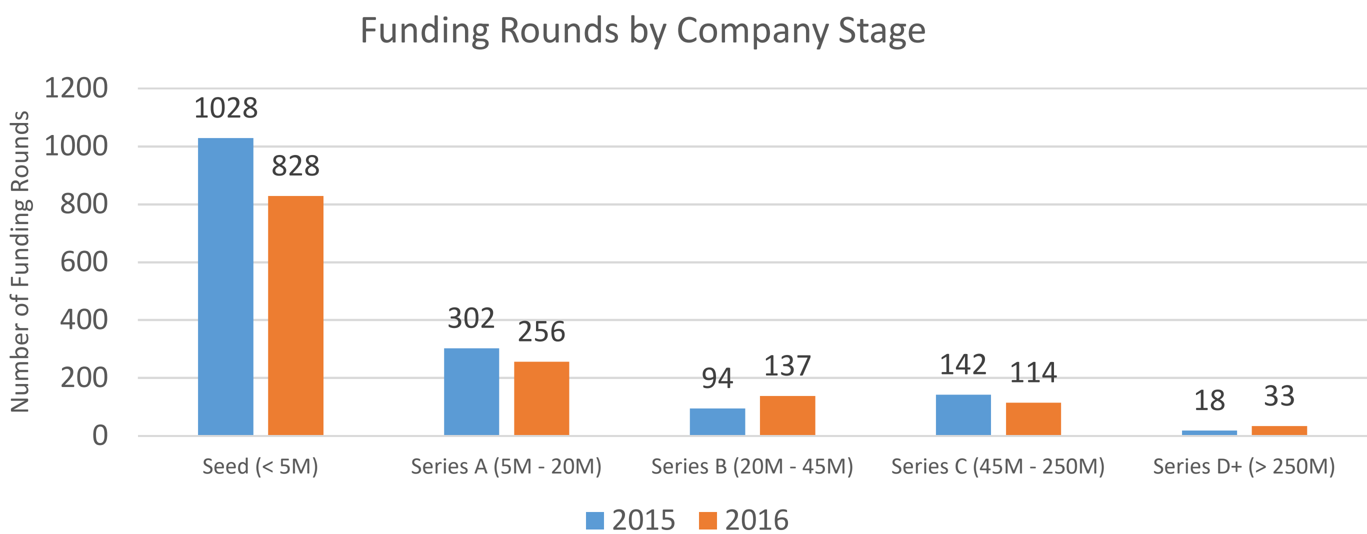




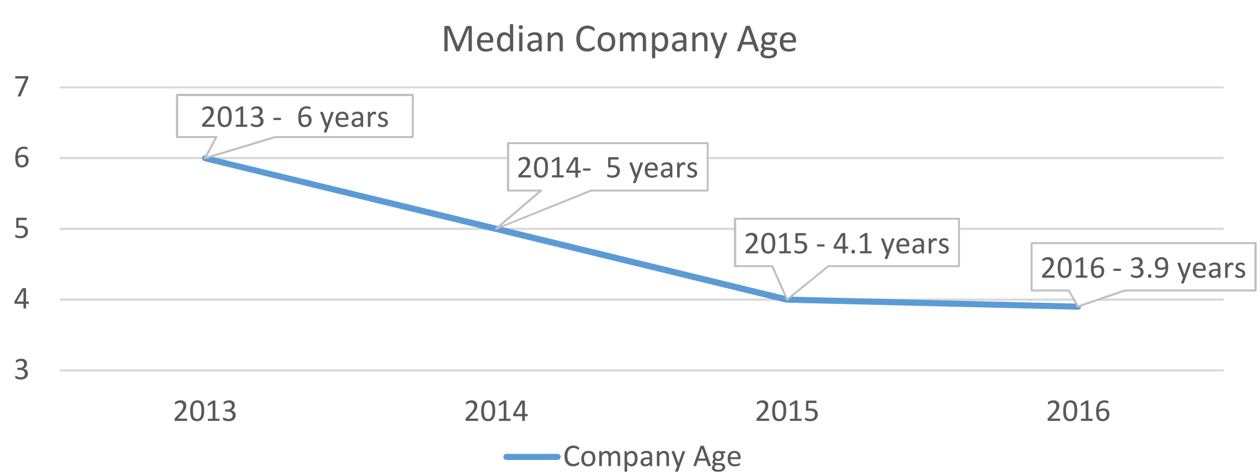
COMPANY STAGE

2016 funding heavily favoured larger, later-stage companies with a strong emphasis on mega-rounds in excess of USD250m, which almost doubled in number from the previous year. Chinese companies dominated the market for these, accounting for 30 of 33 mega-rounds. In total, almost USD36 billion was raised in mega-rounds — three times the total for Series C.

In contrast, early stage companies raising seed stage rounds of less than USD5m, struggled, with only 828 funding rounds completed versus 2015's record 1028 rounds. Seed rounds raised a total of USD1.1 billion in 2016 versus USD1.35 billion in 2015.

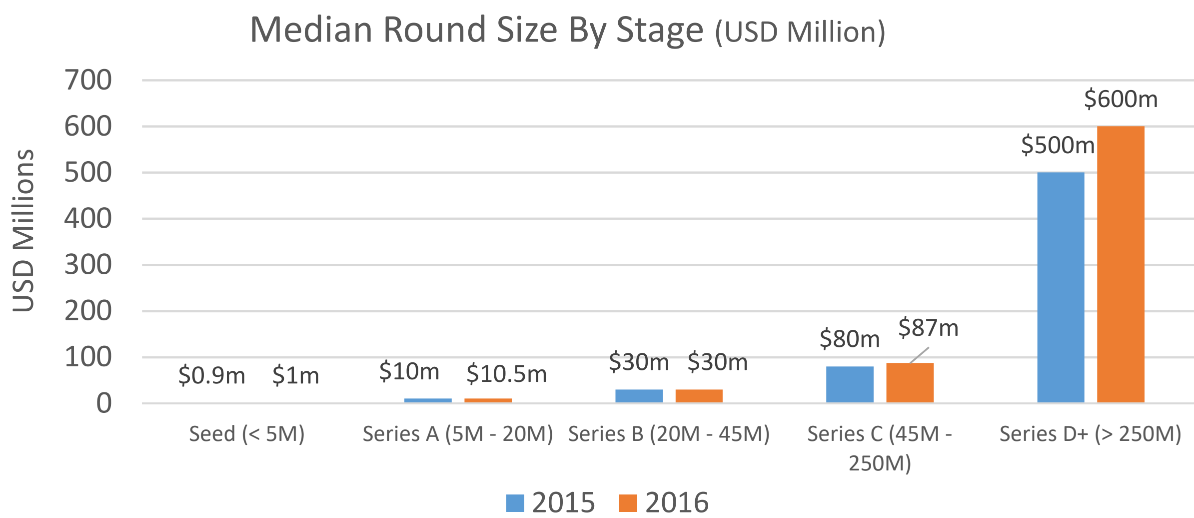


Despite the increased focus on later stage companies, one notable feature of the Asian VC funding market is the consistent decline in the median company age. The most satisfactory explanation for this is that in a maturing ecosystem companies are able to grow faster to reach the next funding stage.

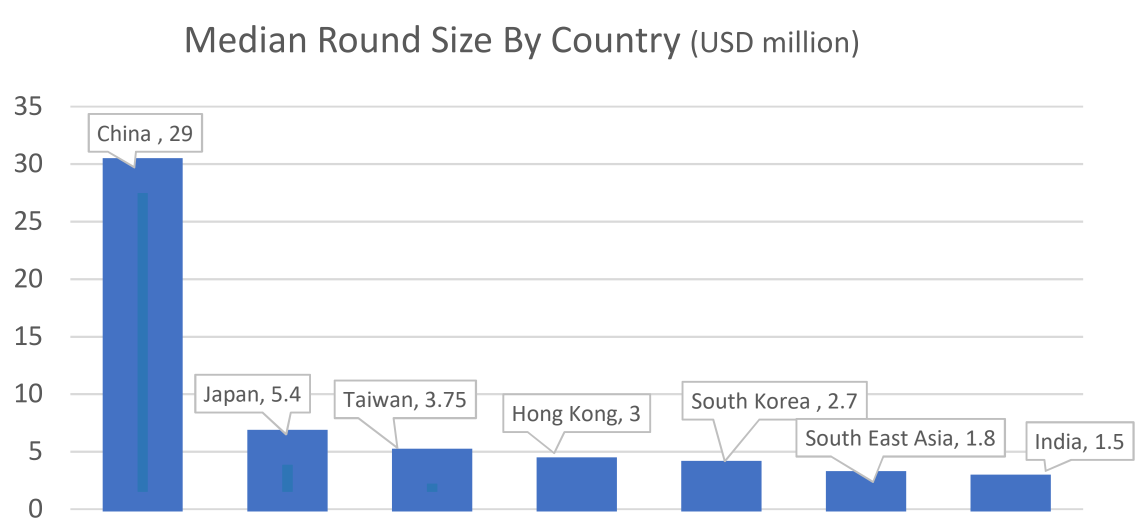


FUNDING ROUND SIZE

In spite of the overall weakness, the size of funding rounds has continued to increase reflecting resilient valuations and a maturing VC ecosystem.

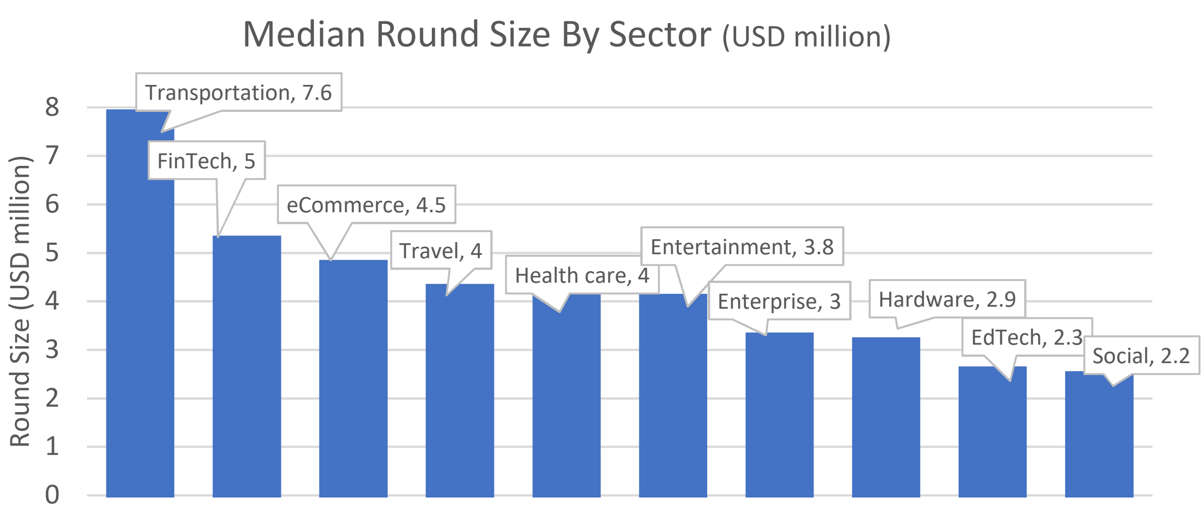


Geographically, round sizes in China dwarf those in other countries, with the median round in China now at USD29m versus an overall median in Asia of USD2.5M. Median round sizes in Asia are now approaching those in the US - in 2016 the Median round size for San Francisco startups was USD4m.



FUNDING ROUND SIZE CONTINUED...

Transportation companies raised the largest funding rounds in 2016 with a median round size of USD7.6m. Round sizes for most sectors grew in 2016 with FinTech rounds almost doubling in size from 2015, the strong growth in Fintech rounds sizes was driven primarily by larger FinTech rounds in China which accounted for almost 50% of funding to FinTech companies.

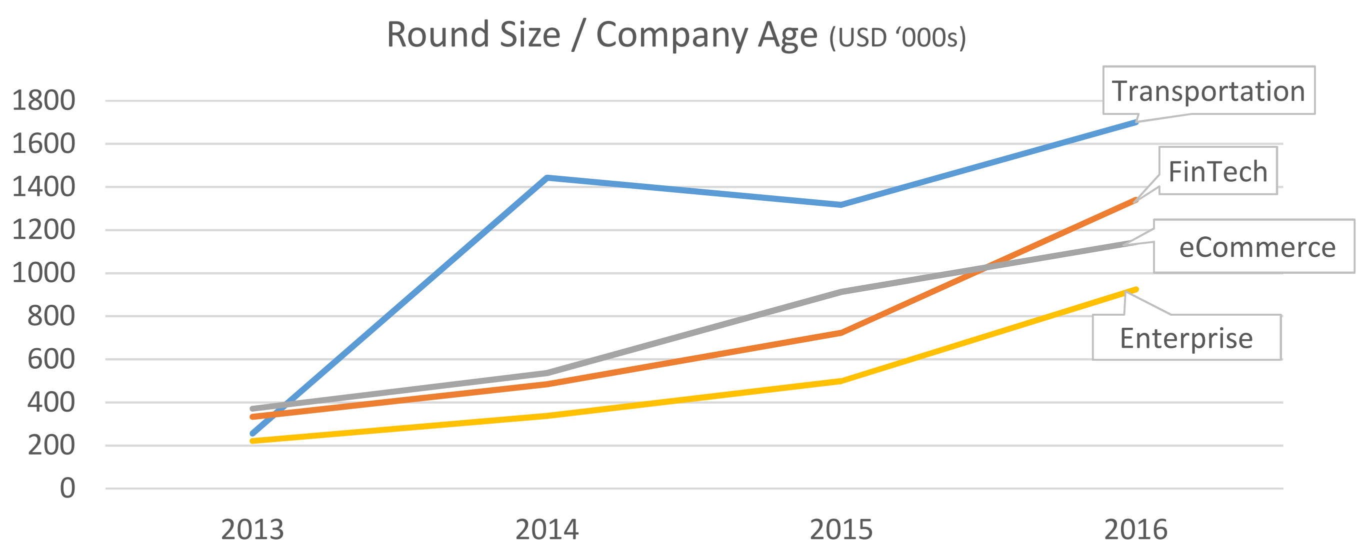


Since 2013, round sizes have increased consistently across all major sectors except for Hardware.

COMPANY VALUATIONS

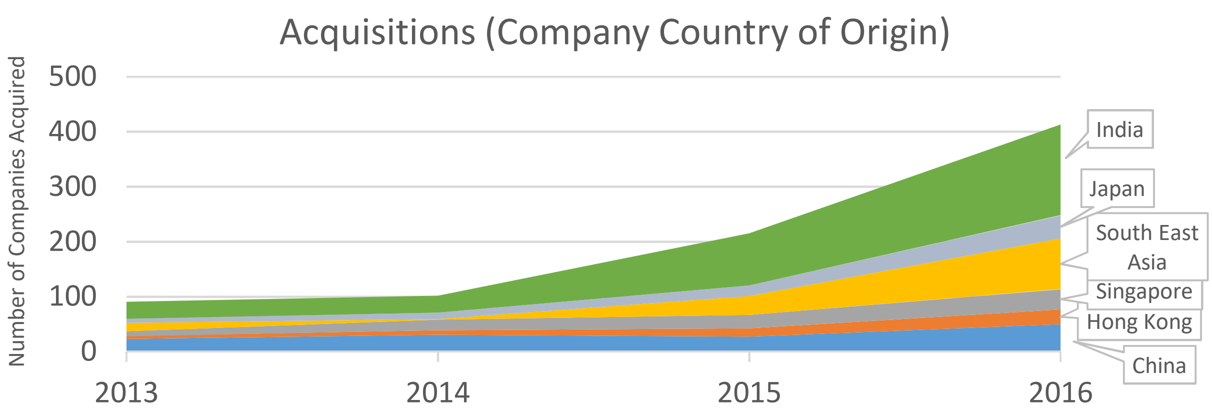
In spite of the overall weakening in the VC funding market, valuations appear to have been resilient. Company valuations are rarely disclosed in funding rounds. As a proxy for company valuation, we can use the size of a funding round since company valuation is correlated with the amount of funds raised.
To adjust for the company maturity we can divide the round size by the age of the company in years.

The below chart shows [round size / company age] for selected sectors. Using this metric, companies in the transportation sector have achieved the highest valuations with an average round size of $1.8 million per year of company age. By comparison, eCommerce companies which enjoyed the highest valuations in 2013 have grown their average valuations at a slower pace than transportation and Fintech companies.

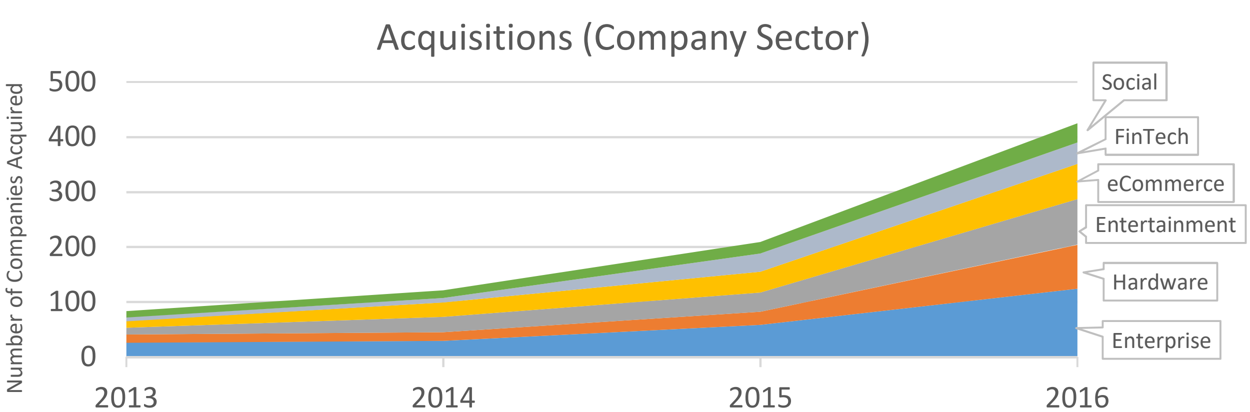


ACQUISITIONS

Acquisitions in the technology space have grown steadily in Asia since 2013 but remain far below the levels seen in other mature markets. 2016 saw just under 400 acquisitions announced compared with over 1600 in the US.
Despite the large size of the China VC funding market, reported acquisitions of Chinese companies remain low at just 39 for 2016 compared with 150 in India. Foreign companies are active acquirers India and much of Asia. The high valuations of Chinese companies and the regulatory environment restrict the amount of foreign acquisitions.



Enterprise software companies are the most common targets of acquisitions but Hardware companies are over-represented relative to the number of companies founded. The branding, expertise and IP protection of hardware companies make them an attractive acquisition target.



2017 OUTLOOK

2017 Deal Volume

We expect 2017 overall deal volumes to continue to reflect the caution VCs exercised from early-2016 onwards. Early to mid-stage valuations outside China are likely to remain strong although VCs will continue to demand stronger financials from early-stage companies. Valuations of Chinese companies are likely to come under pressure as Chinese investors broaden their scope to include US and Asia.

Funding to South East Asian companies is likely to expand significantly due to the wealth of opportunities afforded by the lack of technology currently deployed in SEA and the saturation of funding in China and India.

Chinese Investment

Chinese investment in Asian companies outside China is likely to expand significantly in 2017. Alibaba's US$1 billion investment for a controlling stake in Lazada signaled its commitment to diversifying its geographical revenue base. Other large corporates such as TenCent (which is now the world's largest gaming company after its purchase of SuperCell) are also starting to focus their attention to Asia for expansion of their core operations as well as investments. Chinese institutional investors faced with a weakening currency, slower growth and high company valuations are also focusing attention to Asia.

eCommerce

eCommerce is likely to see continued consolidation as Alibaba and Amazon enter Asian markets. Early-stage eCommerce companies are likely to face difficulties in acquiring funding. Companies targeting a specific niche and having a strong brand or innovative business model will be most likely to secure early-stage funding.

FinTech

FinTech funding has grown the most of any sector over the past three years. We expect continued high levels of funding, however funding will be increasingly concentrated on a select group of dominant players which have major institutional backing or have already acquired significant market share in more established finance verticals such as payments. The more esoteric areas of FinTech such as Bitcoin/Blockchain will experience a challenging funding environment as 2015 saw a flood of funding but there was little widespread adoption in 2016.

2017 OUTLOOK CONTINUED...

Hardware

Consumer hardware endured a challenging 2016 – the two public pure-play benchmarks GoPro and FitBit exemplified the difficulties of building sustainable consumer hardware businesses. GoPro suffered to due the commodisation of it core product whereas FitBit struggled to maintain user engagement. Pebble (an early wearables pioneer) was shuttered, Apple's watch failed to achieve widespread adoption and VR sales disappointed. Consumer hardware companies are likely to find 2017 an extremely challenging year to secure financing.

Enterprise hardware companies, by contrast, have up to know seen relatively lower levels of investment, will have easier access to funding due to their more compelling use-cases and sustainable business models. We believe enterprise hardware/IoT companies will perform well in 2017 and attract significant VC funding.

Distribution

The methods of software/service distribution will be interesting to observe in 2017. App-fatigue is now a well established trend with consumers increasingly reluctant to download and install apps. To compound the difficulty in generating app-installs, app-stores laden with several million apps continue to struggle with the issue of discoverability.

2016 saw the introduction of several new distribution methods that innovative companies may exploit in 2017. Chabots, which enable businesses to interact directly with consumers via messaging apps, began to emerge in 2016 (although interestingly not on Chinese messaging platforms such as WeChat). Whilst being a promising innovation chatbots will likely be limited to customer service or initial customer interactions.

In 2016 both Google and WeChat introduced platforms for 'mini' apps to be accessed without an install. 'Mini' apps allow companies a low-friction way of introducing their service to consumers.

The issue of app distribution will primarily impact consumer facing companies, companies servicing enterprise will continue to deploy their products as web-apps.

Exits

Significant exits (except for distressed sales) are likely to remain low in 2017. We believe this is primarily a reflection on the maturity of the ecosystem - the average time from company foundation to exit (by acquisition or IPO) in the US has been six years. Given that lead time and the small level of tech startup formations prior to 2013 we would expect to see significant exits starting 2019.

METHODOLOGY

- The data for this report is primarily sourced from publicly available commercial databases such as Crunchbase and CB Insights. Manual adjustments were performed to eliminate financings that were inter-company transfers, to account for headquarters located in a different country than a company's primary operations, and also for funding announcements which were later discovered to be incorrectly reported.

- Only funding rounds between US$100,000 and US$250 million are used in most of the analysis in this report. Rounds below $100,000 are often not reported and including rounds greater than US$250 million would skew some of the analysis such as 'Total VC Funding By Sector'.
  The exception to this is 'Fund Round Size' which includes rounds greater than US$250 million in a separate segment.

- Most South East Asian countries such as Thailand, Indonesia and Vietnam are grouped under South East Asian. The exception is Singapore which is shown separately.

- Companies are assigned to a single segment which best describes it's primary operations. 'Enterprise' is the broadest of these segments which encompasses all companies (not already assigned to a more specific segment) who service businesses – most of these companies in recent years would be considered as Software as a Service (SaaS) companies.
  Entertainment is also a broad segment including digital media, consumer apps and games.