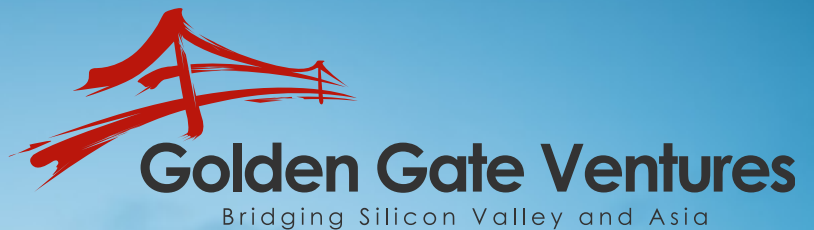


SOUTHEAST ASIA: THE EAST'S NEXT BLOCKBUSTER ECONOMY

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INTRODUCTION

With 600 million people, vast social and political diversity, and some of the fastest growing economies in the world, Southeast Asia (SEA) is already one of the world's most dynamic economic zones. But its future looks even brighter. At the end of 2015, the region will integrate under the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC). Under the AEC, the region will be considered a single market with a single production base, with the result that it will have enhanced infrastructure and freer movement of goods, services, skilled labor, and capital. Some analysts believe that the AEC's economic growth could outpace the European Union's.¹

These factors all point to SEA's emergence as the third pillar of growth in Asia, after its predecessors China and India.

China became the region's first pillar of internet startup growth in 2005, when regulations were lifted that prevented privately-owned companies from entering a number of economic sectors. This accelerated the growth of a powerful private sector in the Chinese economy. India, the second-fastest growing economy in the world, soon became the second pillar; in 2010, its economy rebounded after the Global Financial Crisis, thanks to a booming middle class.

China became the region's first pillar of internet startup growth in 2005, and India in 2010.

Now SEA is showing all the signs of being the next blockbuster economy. In this report, we compare investment trends in SEA today to those of China in 2005 and India in 2010, using data sourced from CrunchBase and the alternative asset information provider Preqin, as well as proprietary data scraped from more than twenty separate sources. We find that both in terms of the number of deals and the aggregate value of investment, the investment climate in SEA mirrors that of China and India in these prior periods. The region is on track to hit US\$83m in total investments by the end of 2015.

The likely impact of AEC makes the investment climate in SEA difficult to forecast beyond the end of 2015; results for 2016 are likely to overshoot predictions based on current data. It is possible, however, to take these predictions as a conservative estimate. Based on this analysis, Southeast Asia will at least double the number of Series A investments in 2016 to forty, and reach a total Series A investment of at least US\$120m.

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I've been studying innovation in Asia for the past decade and in 2011 published Chinnovation, which covers the ascent of Asia and how it has introduced new avenues for entrepreneurship, especially in China. What I'm seeing now on Southeast Asia – particularly with the fervour of US-educated engineers returning to the region to start companies and the influx of smart money in the region – reminds me of China in early 2000s and I'm excited for what lies ahead

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- **Tan Yinglan**, (Honorary) Adjunct Associate Professor at National University of Singapore and author of Chinnovation.

In 2016, SEA will double the number of Series A investments to at least forty, a total of US \$120M.

THE VALUE OF DIVERSITY

Since 2000, the region has become increasingly globally competitive, thanks largely to its diversity. From the perspective of OECD-based investors, the nations of SEA can be divided into four groups²:

- Singapore is the region's financial hub and lead destination for investors. Boasting high-value chain industries like pharmaceuticals, IT, and chemicals, Singapore attracts more than half of the total stock of the investments in SEA.
- Indonesia, Malaysia, and Thailand follow Singapore in the number of investments in the region. These countries have established a huge commodity base and are strong on the technology front.
- The Philippines and Vietnam form the third group, with more export-oriented economies.
- The fourth and final group is formed by Cambodia, Lao PDR and Myanmar. Their abundance of rich mineral and water resources, as well as relatively affordable labor, have resulted in the emergence of these economies as a hub for low value goods.

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UNPRECEDENTED GROWTH AND INVESTMENT POTENTIAL

According to IMF estimates, if considered as a single country, SEA would have been the eighth largest economy in the world in 2014, with a combined GDP of US\$2.4t, comparable to China in 2005 (US\$2.3t) and far ahead of India in 2009 (US \$1.365t).³ While several economies are still struggling to recover from the Global Financial Crisis, the ASEAN nations are expected to grow 5.4% on average for the next five years.⁴ According to OECD's *Economic Outlook for Southeast Asia, China, and India 2015*, the prospects for international investment for the region have not been this positive in almost two decades.⁵ FDI inflows in the region are at historic highs, exceeding those of China in 2013. Mergers and Acquisitions (M&As) deal value grew by about 50% in 2012, according to analysts at Bain & Co.⁶ Energy, mining and utilities, financial services, and industrials and chemicals sectors show the greatest increase in M&As, both in terms of deal value and number of deals.⁷

Global flows, urbanization, and technology are already reshaping the region. If policy makers and businesses could unearth the opportunities associated with these trends in SEA, the results could be transformative. Moreover, with the region's large market size, emerging middle class, and internet-savvy population, the potential gains of investing here are enormous.

Global flows, urbanization, and technology are already shaping the region.

METHODOLOGY

To gauge the investment opportunity in SEA, we analyze the growth trend of its Series A investment deals over the past 15 years (2000 – 2014). We combine data from CrunchBase and the Prequin Venture Limited database so as to construct a more comprehensive and accurate data set. Our sample period covers up to March 2015 based on the availability of complete data for all the targeted countries. We aggregated the original monthly data to yearly data.

In Figure 1, the scatterplots of SEA, Indian and China suggest that the annual number of Series A investment deals seem to increase exponentially over time. To characterize this non-linear time trend, we use the following exponential regression model to fit the data:

$$y_i = \alpha_i e^{\beta_i t} \quad (1)$$

where y_i represents the number of Series A investment deals in country/region i , t is time (year), and α_i and β_i are parameters to be estimated, which are specific to each country/region i .

The estimated values of α_i and β_i are shown in the respective trend lines in Figure 1. Once we estimate α_i and β_i from model (1), we can predict the number of Series A investment deals for year 2015 and 2016 in each country/region.

We find strong correspondence in the number of deals and Series A investment trends between SEA, Singapore, China, and India.

THE THIRD PILLAR

Comparing the number of Series A investment deals (US\$1m-\$10m) for the three regions, we see that the expected number of deals in SEA in the year 2015 (22) is similar to the number of deals in China in 2005 and in India in 2010. Moreover, the exponential trend of the number of deals is similar in three regions. Figure 1 shows the expected number of deals in SEA in the year 2015, in China in 2005, and India in 2010.

Since Singapore leads SEA in terms of the number of start-ups, we can specifically compare the investment trends in Singapore with that of India and China. The scatterplot of Singapore in Figure 2 demonstrates an exponential growth. Hence, we use the exponential regression model again. Based on the regression, the number of Series A investment deals in Singapore in the year 2015 is expected to be similar to that of India in the year 2009 and China in the year 2004. Moreover, the exponential trend in the number of deals for Singapore follows the similar pattern as that of India and China, but with a lag of 6 years and 11 years respectively. The time-lag correspondence is even more evident in the monthly and quarterly data for the last 15 years.

We do a similar analysis on the aggregate amount of Series A investments. The trend is prominent not only in the number of deals, but also the aggregate amount of Series A investments in the region. Aggregate Series A investments in SEA in 2015 are expected to be approximately US\$85m, which is similar to those of India in 2010 and China in 2005; the aggregate Series A investment in Singapore in 2015 is expected to be around US\$55m, which is similar to that of India in 2009 and China in 2004. If the trend continues, SEA will then hit the \$120m investment mark by 2016. Thus, we find strong correspondence in the Series A investment trends between Singapore, China and India. Singapore is undoubtedly expected to continue as the first choice for investment in the region.

For 2015, aggregate Series A investments in SEA are expected to be approx. US\$85, which is similar to those of India in 2010 and China in 2005.

Figure 1 - Southeast Asia Comparison

Data Comparison of the Number of Series A Investment Deals from 2000 - 2014 between SEA, China, India

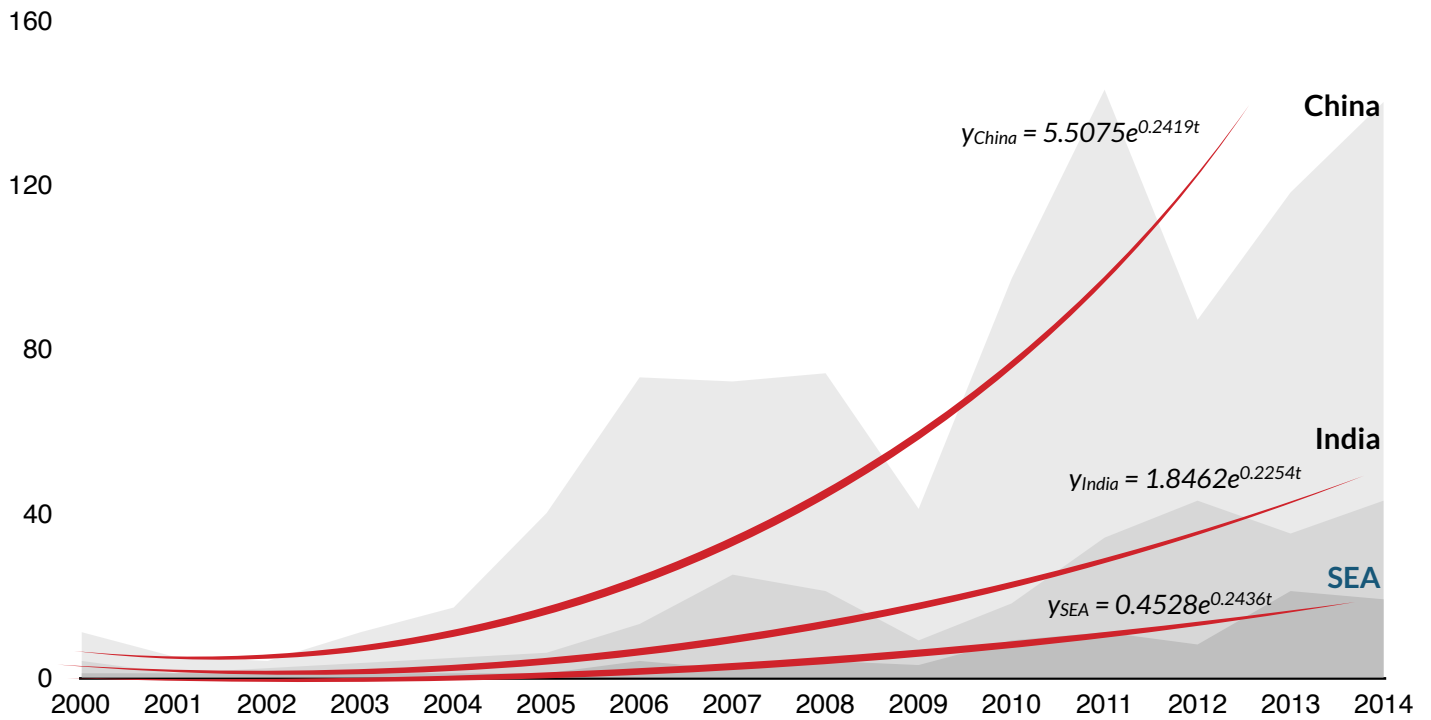
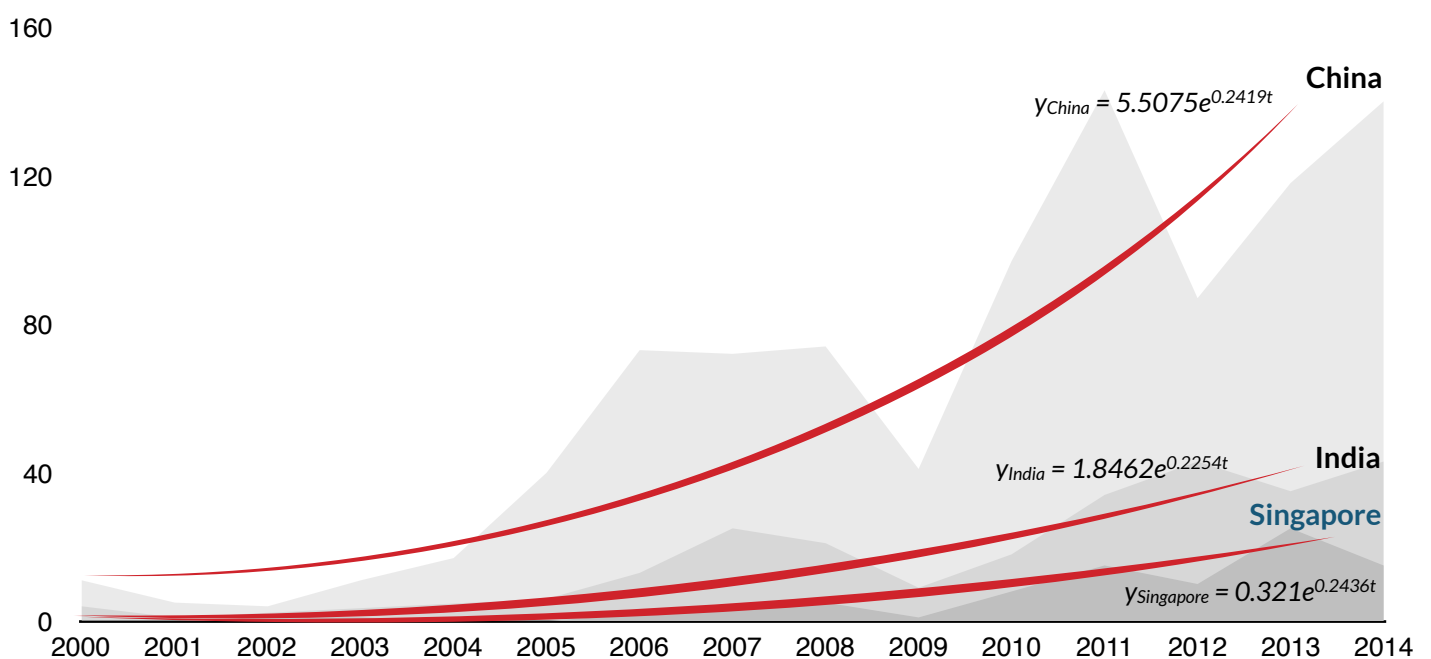


Figure 2 - Singapore Comparison

Data Comparison of the Number of Series A Investment Deals from 2000 - 2014 between Singapore, China, India



¹ We impose the standard assumptions of conditional homoscedasticity and no autocorrelation.

CONCLUSION

Like China and India before it, Southeast Asia (SEA) is on the brink of a meteoric economic rise. The numbers show that, both in terms of number of deals and the aggregate value of Series A investment, the region today follows the same trajectory followed by India in 2010 and China in 2005. In particular, Singapore continues to be the lead destination for investment in SEA. Both in terms of number of deals and the aggregate value of Series A investment, Singapore today resembles China and India with the China of 2004 and the India of 2009.

As the region looks ahead to the implementation of AEC in late 2015, SEA is expected to become a Mecca for global investors. Our most conservative estimates predict that 2016 will see double the number of Series A investments and aggregate Series A investments of US \$120m. AEC will accelerate growth further by tapping into the vast diversity of the region. Combining the capital and technology of the advanced nations like Singapore with the labor and resources of developing nations like Myanmar, an economically unified SEA is indeed poised to emerge as the third pillar of growth in Asia.

In terms of number of deals and aggregate value of Series A investment, Southeast Asia follows the same trajectory followed by India in 2010 and China in 2005.

ENDNOTES

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APPENDICES

Appendix 1

Number of Deals in:

Southeast Asia, Singapore, China, and India from 2005 - 2014

	SEA	Singapore	India	China
2005	1	0	6	40
2006	4	2	13	73
2007	2	2	25	72
2008	4	4	21	74
2009	3	1	9	41
2010	9	7	18	97
2011	11	8	34	143
2012	8	6	43	87
2013	21	17	35	118
2014	19	10	43	140

Appendix 2
Aggregate Series A Investment in:
Southeast Asia, China, and India from 2005 - 2014

	SEA	Singapore	India	China
	<i>US \$ million</i>	<i>US \$ million</i>	<i>US \$ million</i>	<i>US \$ million</i>
2005	\$ 2	\$ 0	\$ 29	\$ 150
2006	\$ 19	\$ 15	\$ 67	\$ 303
2007	\$ 13	\$ 14	\$ 92	\$ 413
2008	\$ 20	\$ 20	\$ 107	\$ 362
2009	\$ 13	\$ 3	\$ 21	\$ 194
2010	\$ 29	\$ 27	\$ 62	\$ 469
2011	\$ 34	\$ 51	\$ 150	\$ 798
2012	\$ 30	\$ 38	\$ 176	\$ 394
2013	\$ 64	\$ 70	\$ 161	\$ 501
2014	\$ 87	\$ 60	\$ 149	\$ 821