

Indonesia Venture Capital Outlook 2017

Google-A.T. Kearney Study
September 2017



Objectives

1.

Highlight key global and regional trends in VC investments

2.

Review the VC investor and startup landscape and growth in Indonesia

3.

Showcase the VC investor confidence and outlook for Indonesia

4.

Give recommendations to further strengthen the startup ecosystem in Indonesia

Context

This study provides a deep dive into the Indonesian startup investment environment by analyzing investment flows and directly engaging the investors.

While the startup landscape in Indonesia is still young in comparison to other Asian markets such as China and India, it's nevertheless growing rapidly. This growth is primarily driven by the e-commerce category.

Several foreign venture capitalists (VCs) and local investors (many in partnership with foreign VCs) have invested in the market over the past five years. They remain extremely bullish on Indonesia's outlook, driven by the growing economy and a growing population of digitally savvy youth.

While on the right trajectory, future investment in startups is highly dependent on investor confidence in the market and can fluctuate drastically, as seen in other markets like India.

Given the recent entry of Alibaba, the imminent entry of Amazon, and potential additional regulatory changes, it's important to understand the investor outlook and identify areas of improvement to further stimulate the investment environment.

Google and A.T. Kearney's joint study on Indonesia's venture capital (VC) outlook

Methodology



More than
25 VC
interviews



Data
inputs
from VCs



A.T.
Kearney
research



Google
research



Third-
party
research

Executive summary

Global investment values have continued to soar over the past five years, although deal flow has stabilized and shifted to later stages (Series C+) as VCs focus more on the path to profitability versus topline growth. Asia has seen the fastest growth on the back of China and Southeast Asia (SEA) investments. The 2017 YTD investments in SEA have reached \$10.1B with Singapore capturing the most deals, but other countries—led by Indonesia—are quickly catching up.

The Indonesian startup ecosystem is young but growing rapidly. Most deals are still in the early stages, but they generate only a small portion of the value. We also see a slight decline in the number of early stage deals from 2015 to 2016. This highlights a shortage of attractive startups where there is a clearer path to profitability. As a result, late-stage investments are generating most of the value, driven to a large extent by private equities. E-commerce and transport categories dominate deals and investment values, and the largest funding rounds have been led by companies such as GoJek, Traveloka, and Tokopedia.

Both local and foreign VCs are optimistic about the Indonesian market. The positive outlook is driven by the fact that Indonesia is still under-tracking regional peers on investment value versus GDP and Internet users, which indicates high room for growth. VCs are also confident in the strong macroeconomic fundamentals and favorable demographics in Indonesia.

Most VCs are looking to diversify from e-commerce because of potential market consolidation, major new entrants, high investments, and the long lead time for profitability. As a result, fintech and healthcare are emerging as top investment categories in Indonesia.

VCs have highlighted four key focus areas for accelerating the growth of the startup ecosystem in Indonesia: talent development, fiscal incentives, funding/exit options, and facilitation. Government has to play a strong role, as evidenced by mature markets.

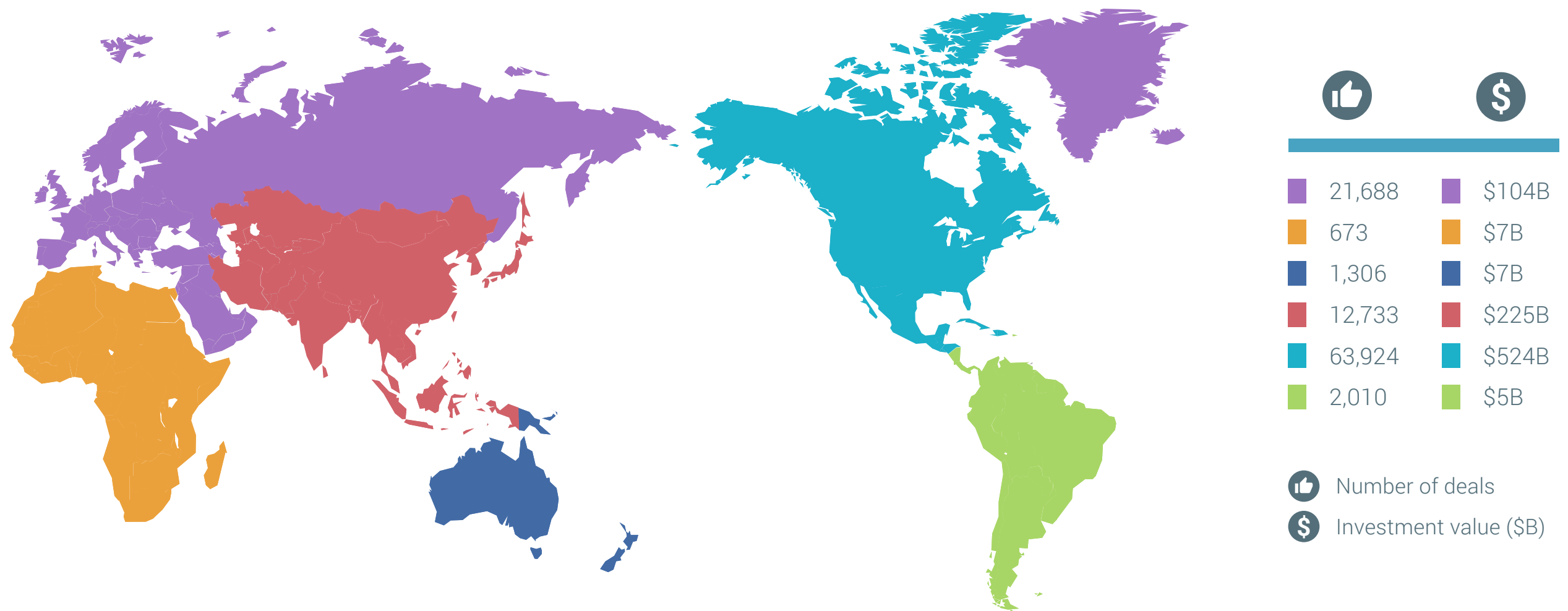
Global and regional investment trends

Indonesia investor outlook and priorities

Indonesia investment overview

The U.S. remains the international startup hub with more than 50% of the deals and investment value globally

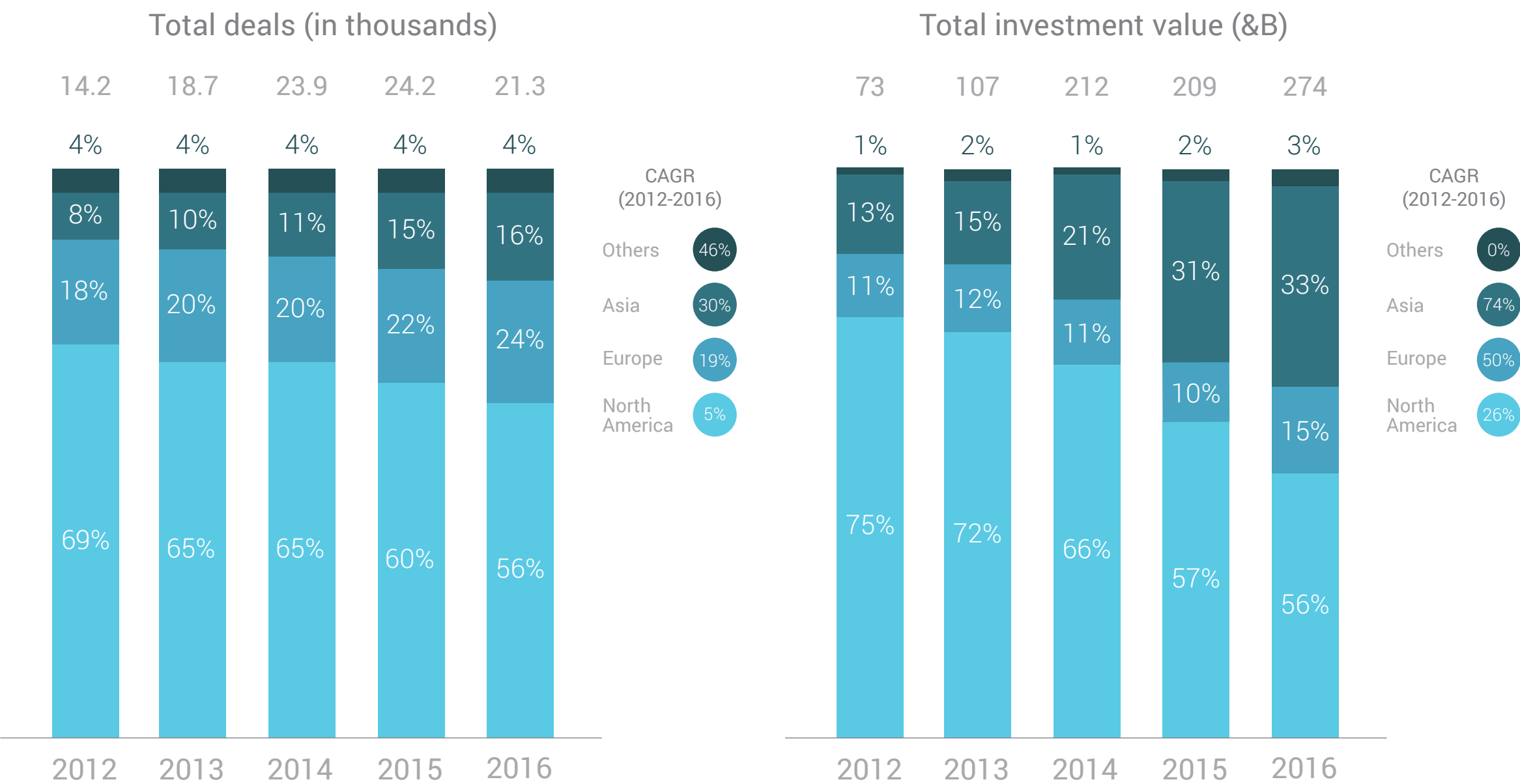
Global deals trend 2012-2016



Note: Deal value represents only reported deal value.
Sources: Crunchbase; A.T. Kearney analysis

But, Asia is catching up quickly

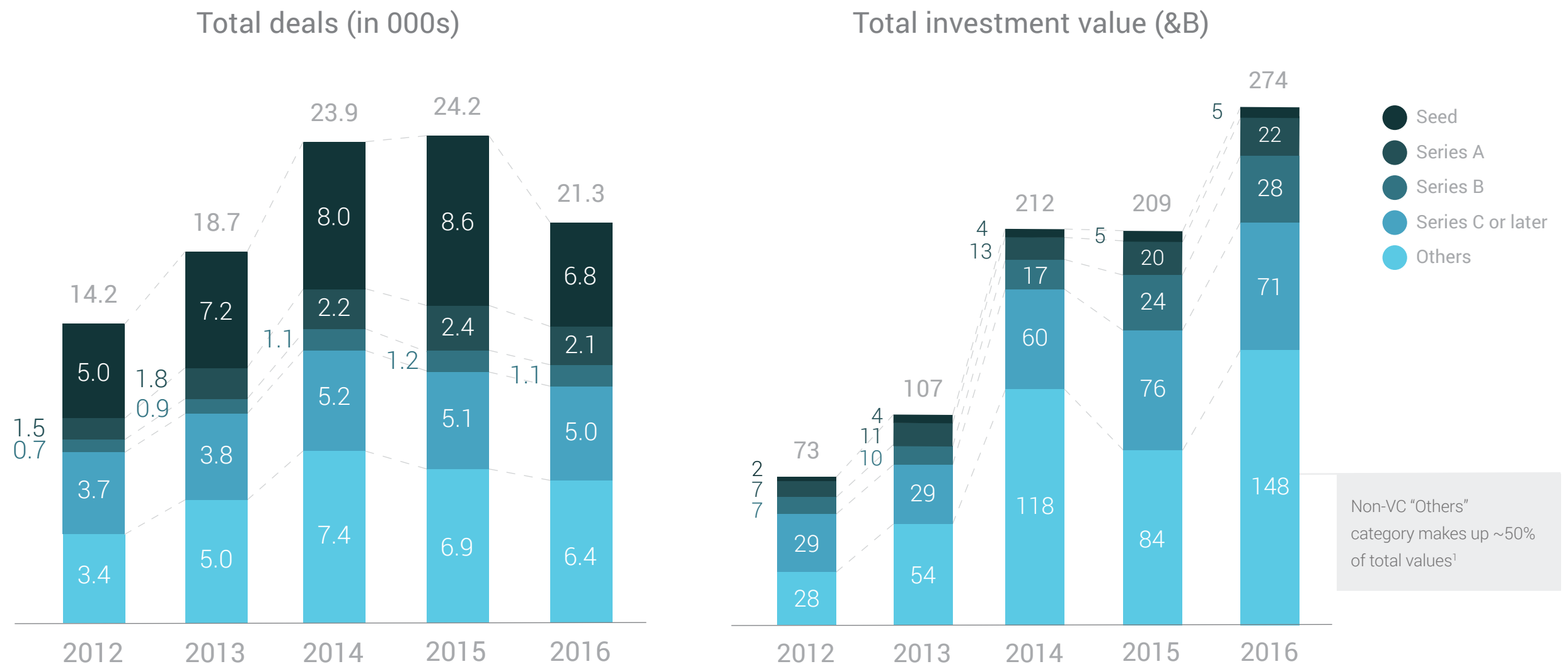
Global deals trend



Note: Percentages may not resolve due to rounding.
Sources: Crunchbase; A.T. Kearney analysis

Deal flow seems to have stabilized in the past three years—though it has shifted to later stages—while investment values continue to grow

Global deals trend

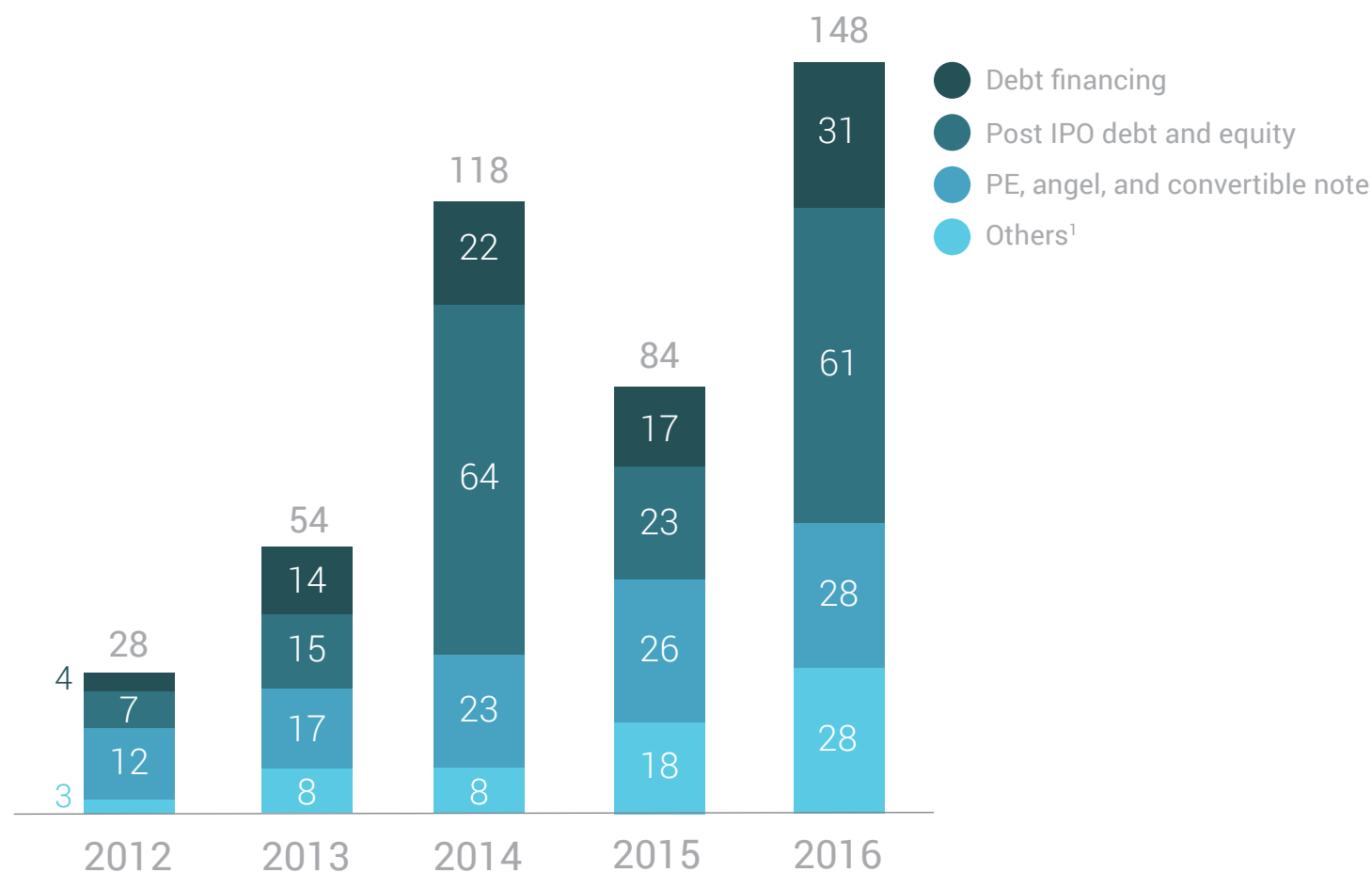


Note: Numbers may not resolve due to rounding.¹ Others includes debt financing, crowdfunding, and private equity. Sources: Crunchbase; A.T. Kearney analysis

As deals shift to later stages, new investment sources—such as PE firms and debt financing—are rapidly gaining share

Global non-VC investments

Non-VC total investment value (\$B)



Note: Numbers may not resolve due to rounding.

¹ Others includes non-equity, grant, secondary market, and crowdfunding.

Sources: Crunchbase; A.T. Kearney analysis

Large start-ups are turning to debt financing as an alternate source of funds



Mar 2016: Raised a five-year, **\$3B syndicated loan** with a set of eight lead arrangers



Mar 2016: Raised **\$1B in convertible debt** led by TPG Capital and Dragoneer Investment Group

UBER

Jun 2016: **\$1.15B leveraged loan** led by Morgan Stanley

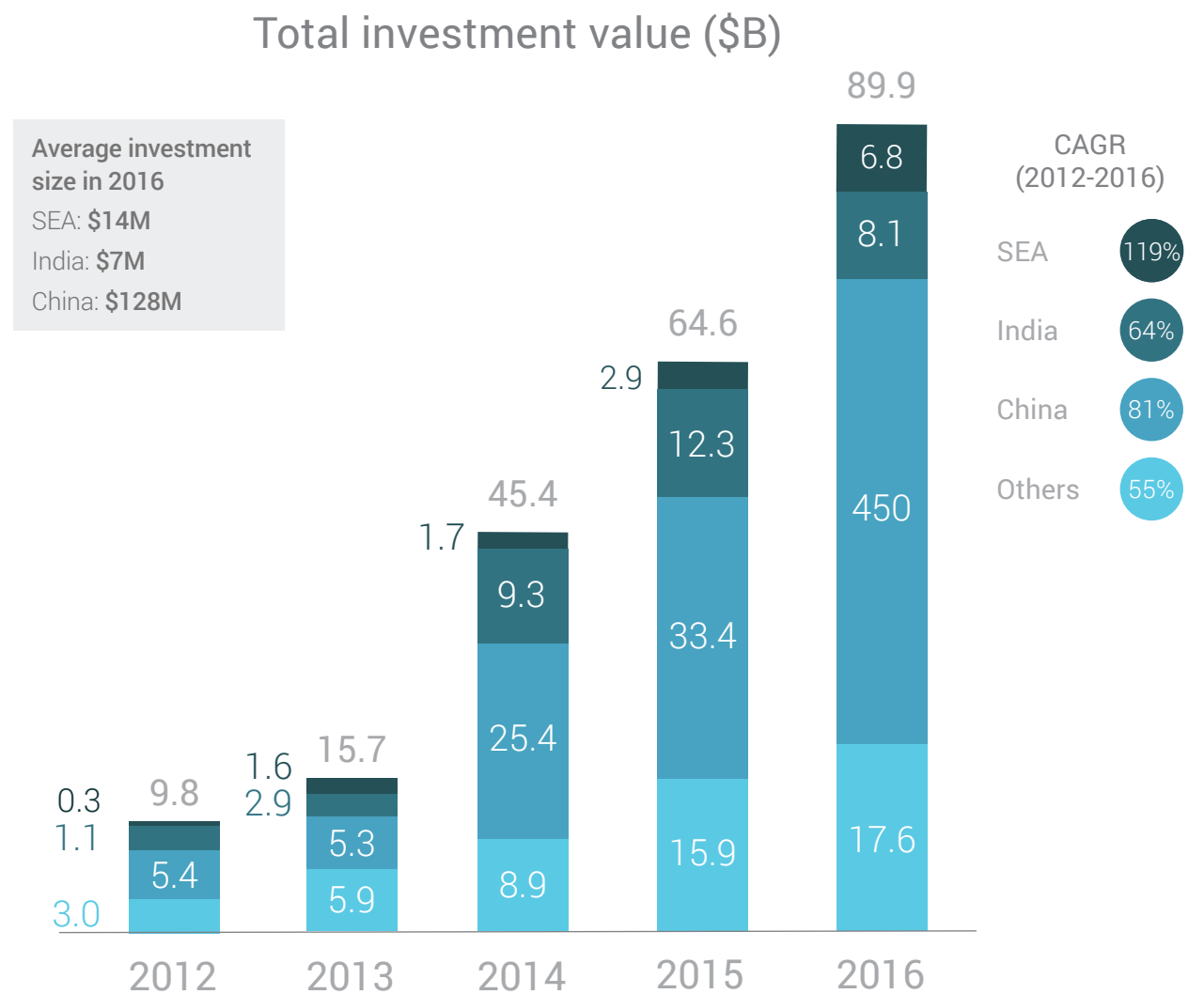
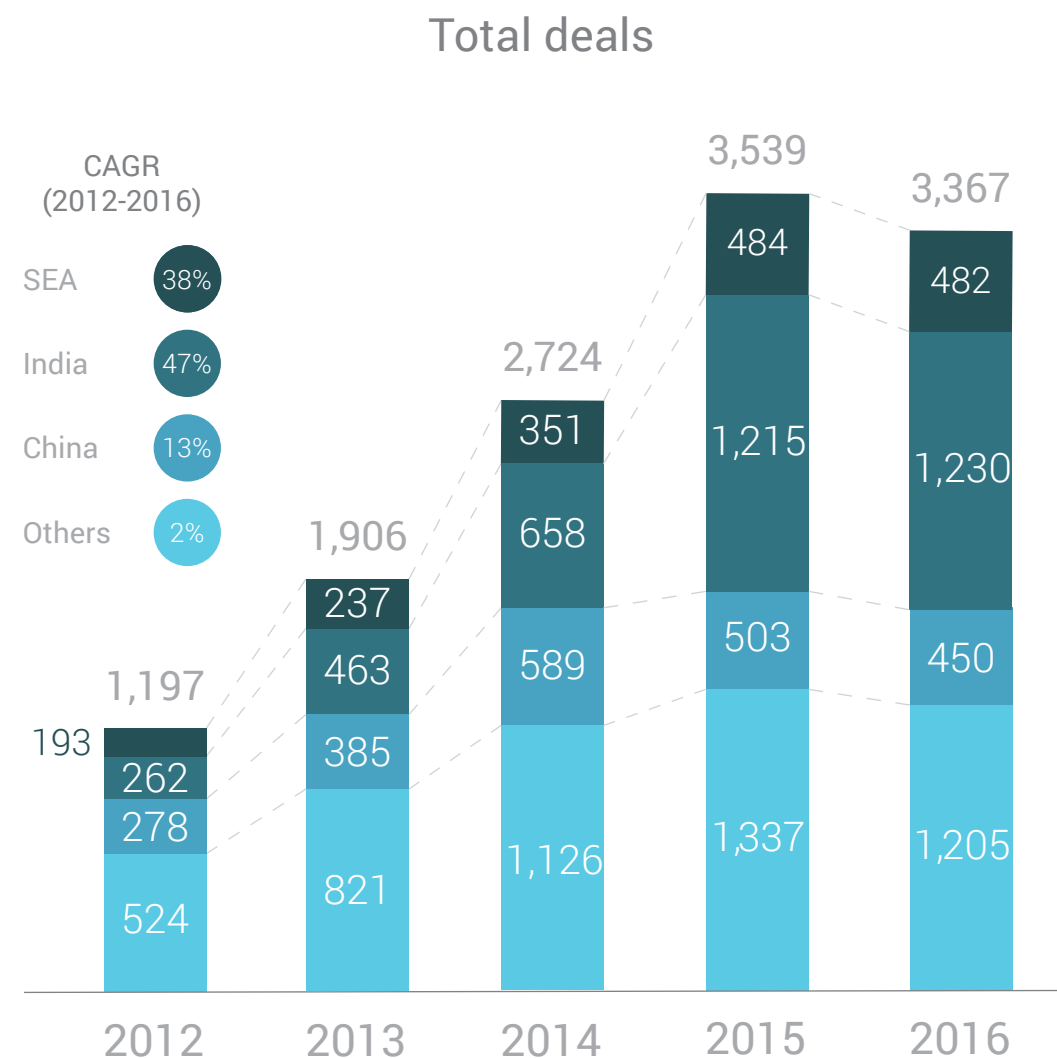
Jan 2015: **\$1.6B convertible debt** issue



Jun 2016: **\$2.5B syndicated loan** from China Merchant Bank as part of a \$7.3B combined equity and debt financing round

Deals stagnated in Asia in 2016, but investment values have soared in China and SEA

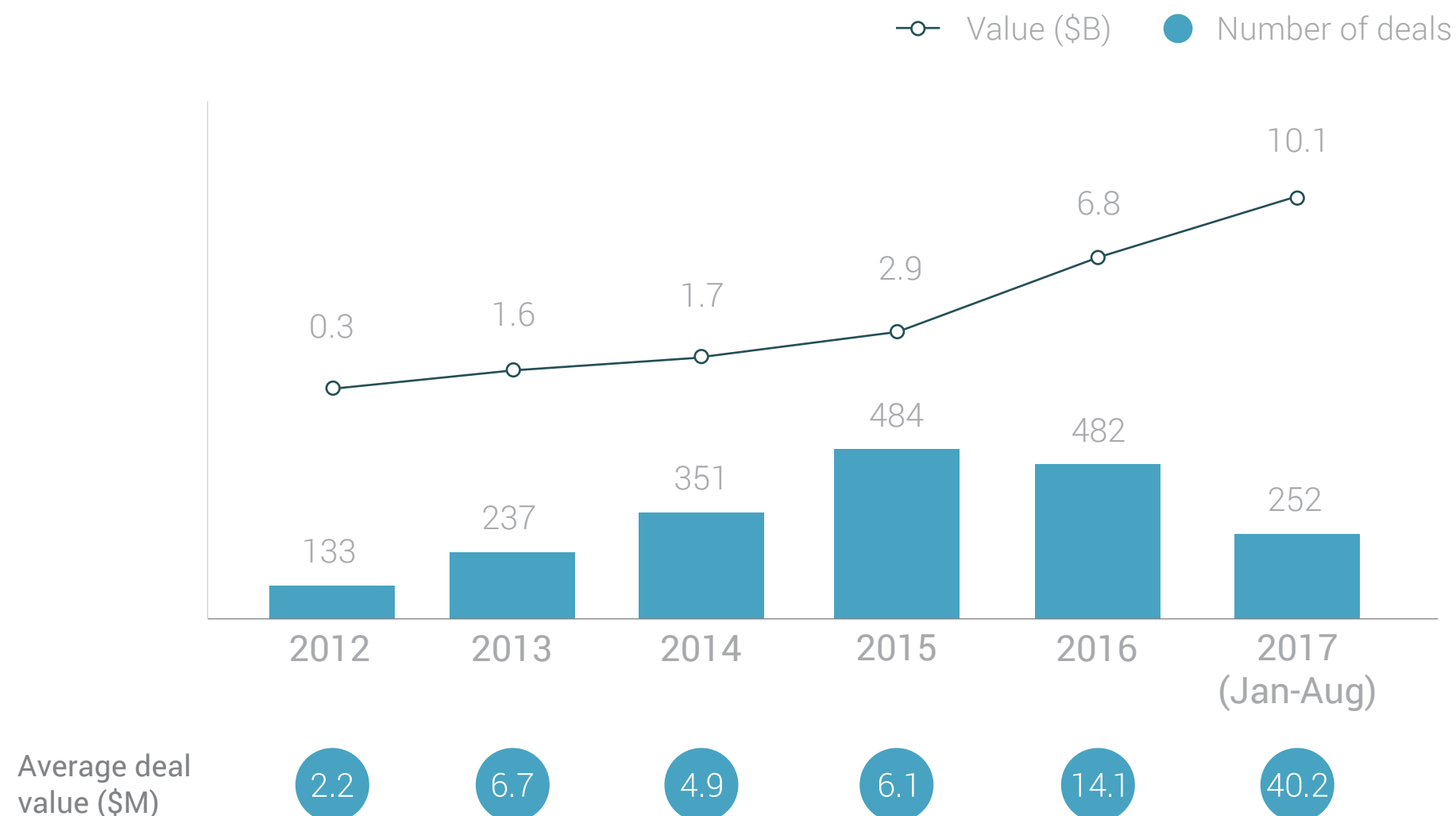
Asia deals trend



Notes: Numbers may not resolve due to rounding. SEA is Southeast Asia.
Sources: Crunchbase; A.T. Kearney analysis

SEA in particular is a high-growth market with increasing investment values, reaching \$10.1B in 2017 YTD

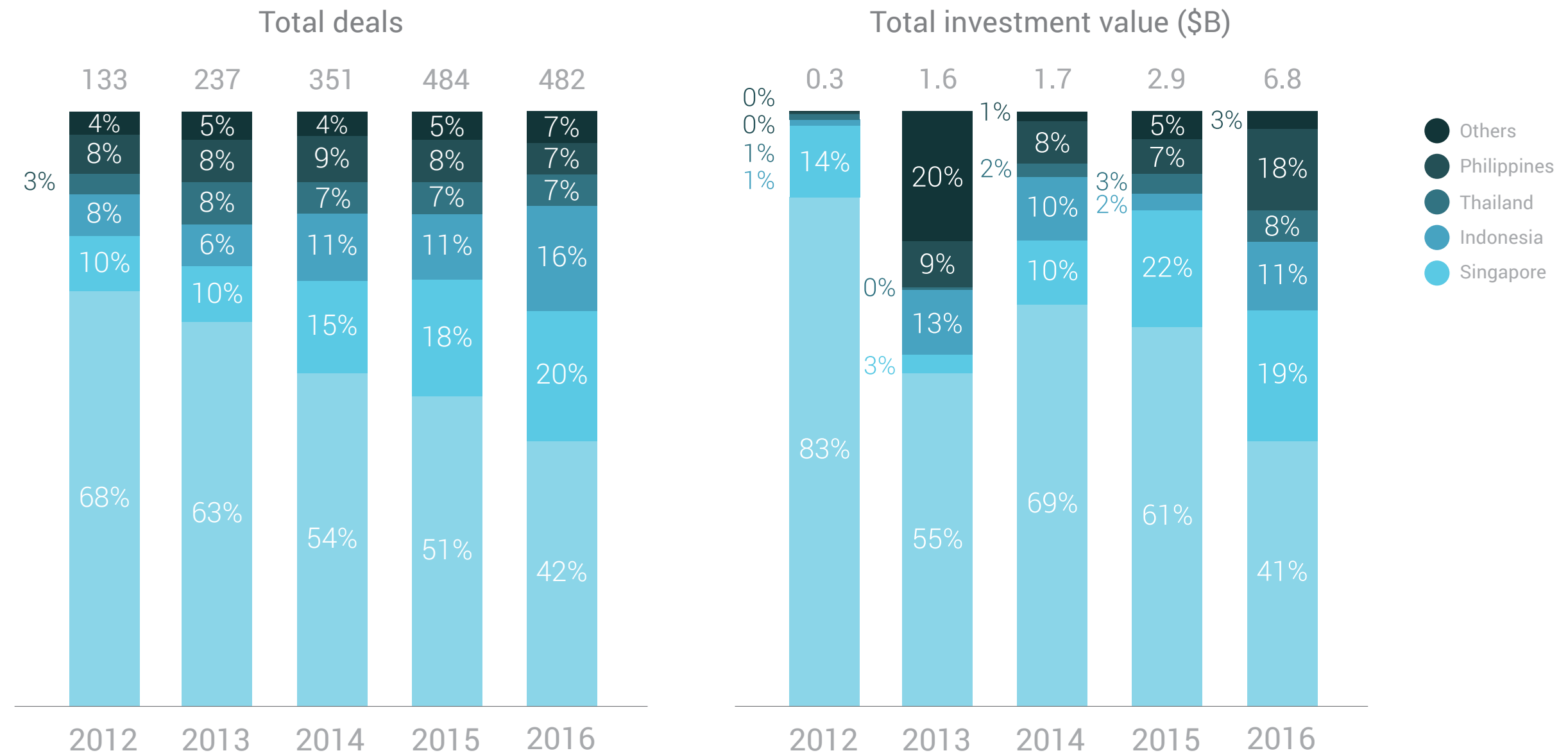
Number of deals and values, Southeast Asia (\$B)



Sources: Crunchbase; A.T. Kearney analysis

Within SEA, Singapore remains the main hub, but other countries are quickly catching up, with Indonesia leading the way

SEA deals trend



Notes: SEA is Southeast Asia. Percentages may not resolve due to rounding. Sources: Crunchbase; A.T. Kearney analysis

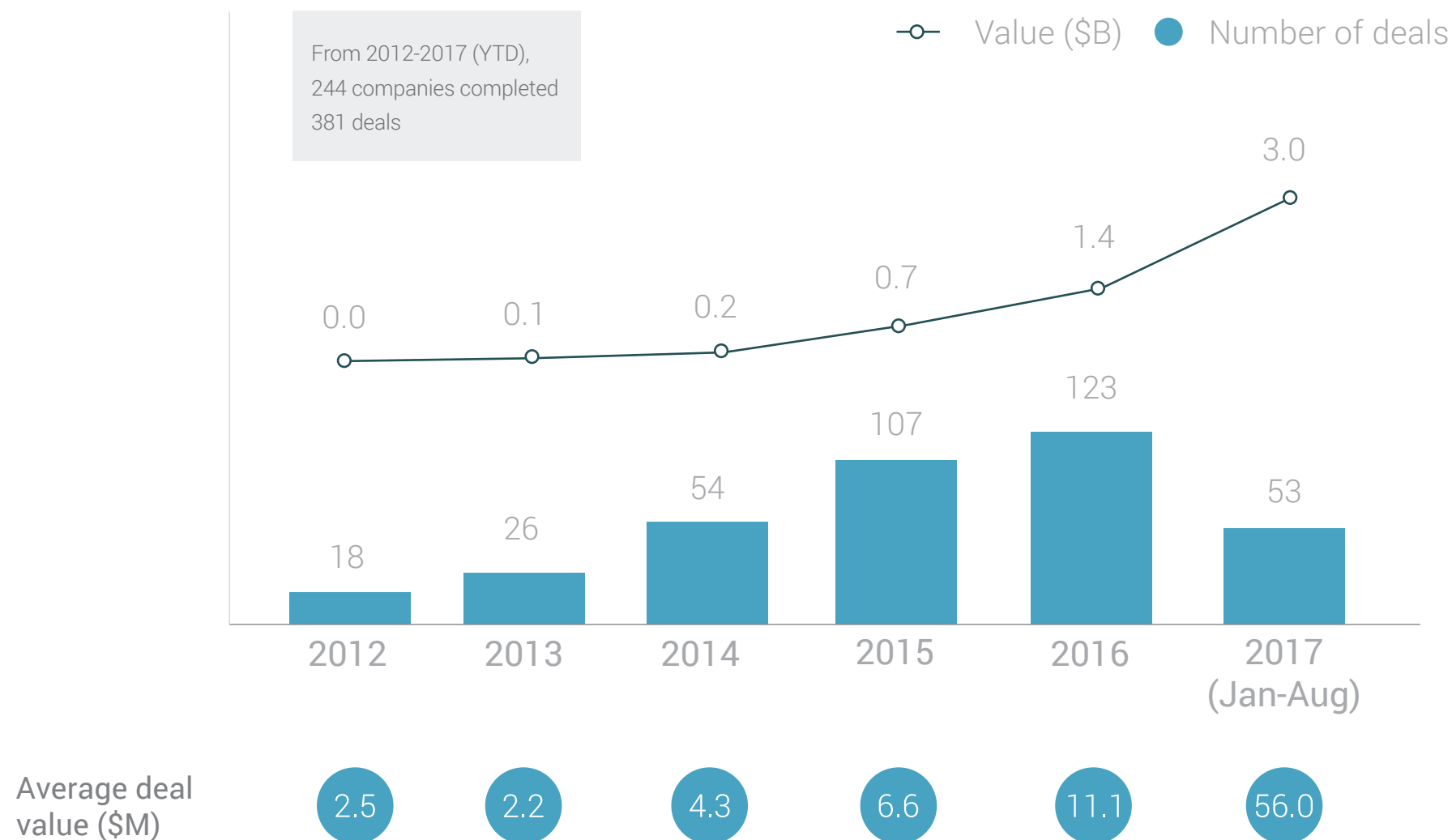
Global and regional investment trends

Indonesia investment overview

Indonesia investment overview

While still young, investments in Indonesia are soaring, reaching nearly \$3B in 2017 YTD—2X more than the previous year

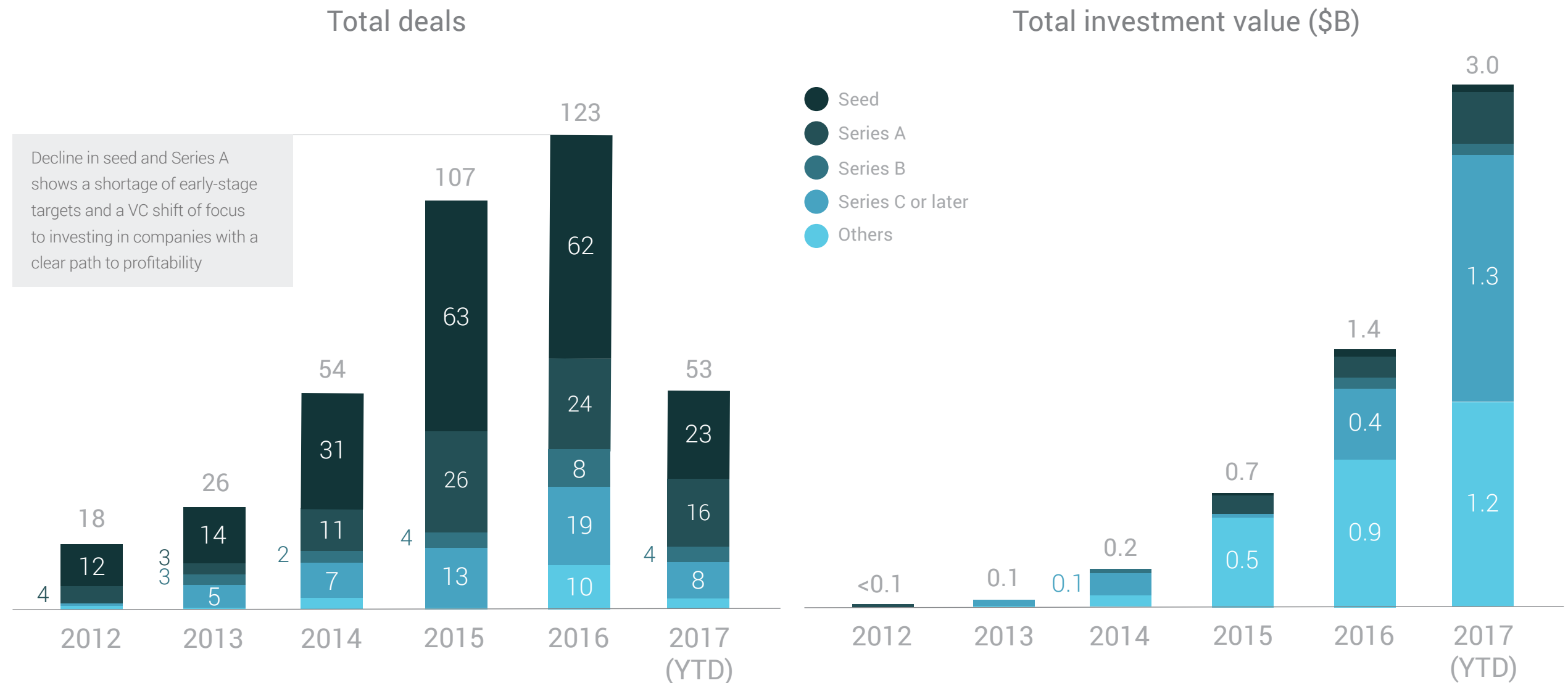
Numbers of deals and values, Indonesia (\$B)



Sources: Crunchbase; A.T. Kearney analysis

Most of the investments are still in the seed or early stages, but late-stage investments are generating most of the value

Indonesia deals trend



¹ Others includes debt financing, crowdfunding, and private equity.
Sources: Crunchbase; A.T. Kearney analysis

In Indonesia, VCs largely fall into two broad categories

VC funds in Indonesia

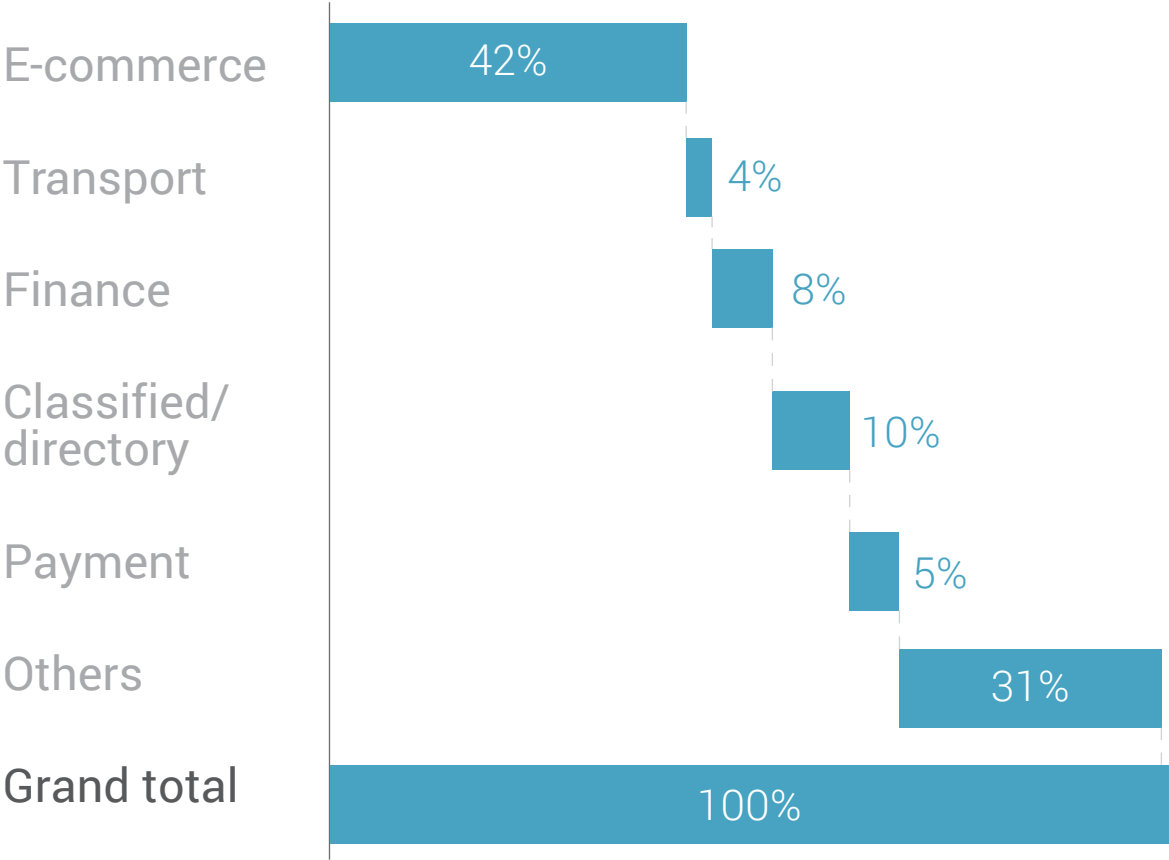
Category	Capital (\$)	% Value ¹	Value proposition
Local investors	54%	28%	<ul style="list-style-type: none">• Some VCs are backed by conglomerates or state-owned enterprises and have the clear advantage of a strong local presence and knowledge of the Indonesian market• Primarily participate in smaller, early-stage deals
Foreign investors	46%	72%	<ul style="list-style-type: none">• Typically originating from more developed startup markets (Japan, U.S.), these investors bring global expertise and networks• Primarily participate in larger, late-stage rounds

¹ Calculated based on sample of subset of VCs using number of deals involved and deal value participation (where reported) between 2012 and 2016.
Sources: Crunchbase, Technasia, company websites; A.T. Kearney analysis

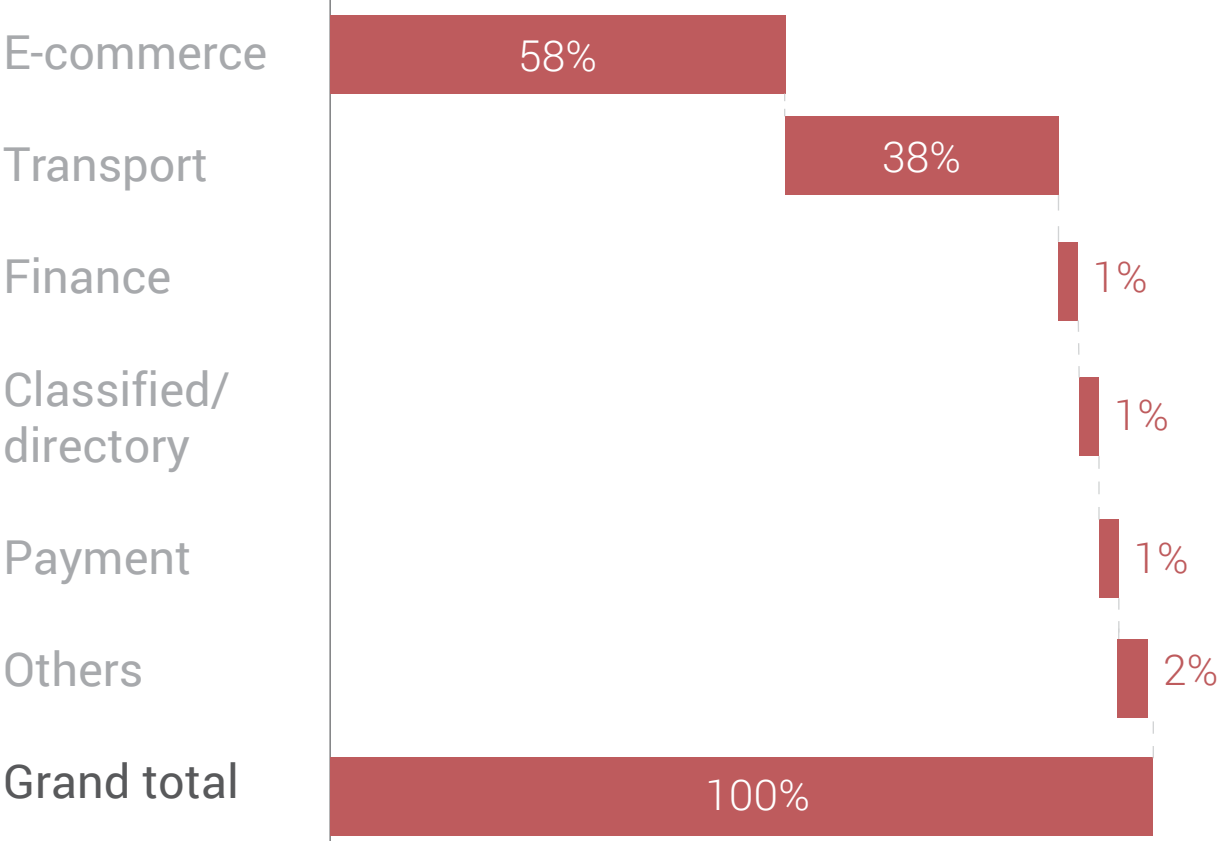
E-commerce and transport categories heavily dominated deals and value (where reported)

Indonesia deals by category (2012 – Aug 2017)

Breakdown of number of deals



Breakdown of % of total investment value



Note: Percentages may not resolve due to rounding.
Sources: Bloomberg; TechCrunch, Techniasia.com, Crunchbase; A.T. Kearney analysis

The largest funding rounds are led by e-commerce and related transport companies

Total funds raised (to date)

~\$1.8B



- On-demand logistics service that started with Ojek (motorcycle taxi) transportation services
- \$550M raised in one round from international investors, including KKR, Warburg Pincus, and Farallon Capital
- In May 2017, raised \$1.2B from Tencent Holdings

~\$1.4B



- Online C2C e-commerce marketplace/platform
- \$147M investment round with undisclosed investors; previous \$100M investment round led by Softbank and Sequoia Capital
- Raised \$1.1B with Alibaba-led investment

~\$500M

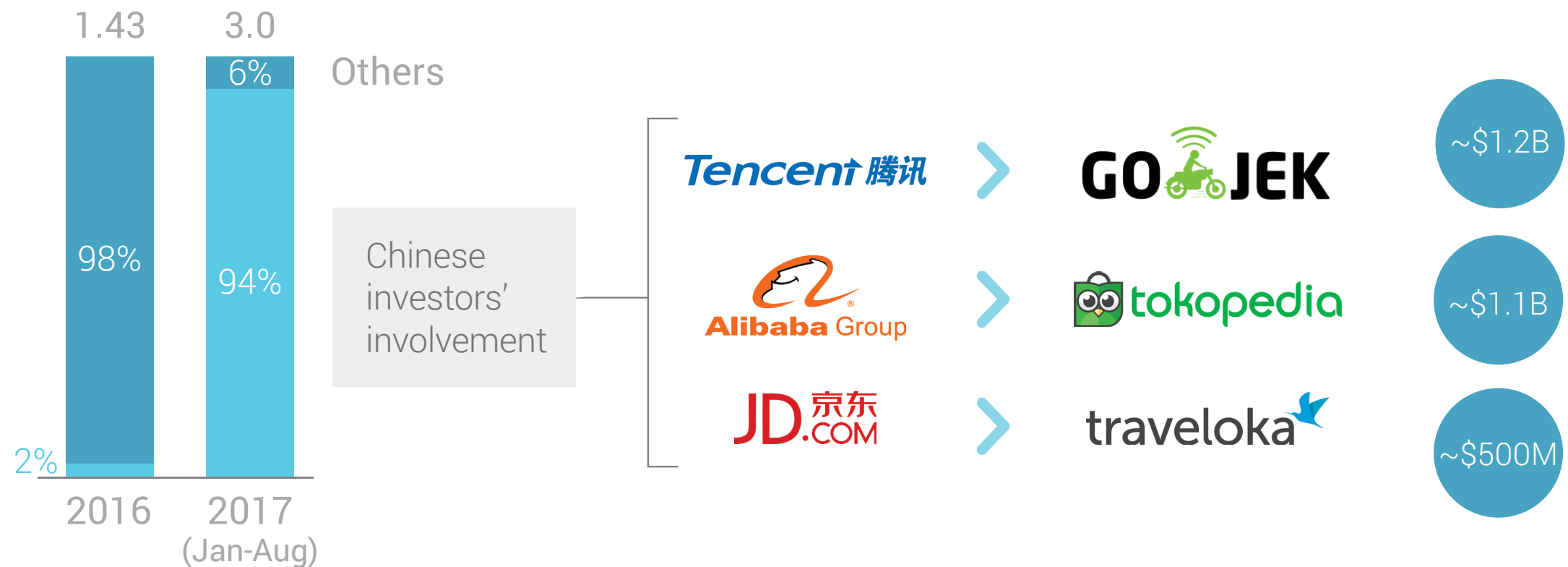


- Online travel aggregator and flights/hotels booking services
- \$150M investment from JD, East Ventures, Hillhouse, and Sequoia
- \$350M from Expedia, an American online travel company

Sources: Press articles; A.T. Kearney analysis

In 2017, Chinese investors became heavily involved in Indonesia's startup environment, accounting for ~95% of its investment value

Indonesia investment value (\$B)



Note: The total investment cannot be attributed to Chinese investors, as there were also non-Chinese investors that participated in the funding rounds involving Chinese investors Sources: Crunchbase; A.T. Kearney analysis

Content

Global and regional investment trends

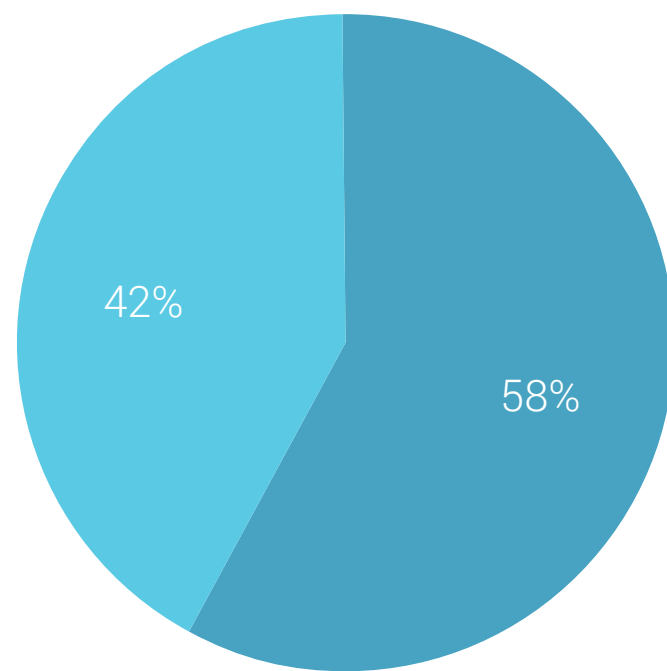
Indonesia investor outlook and priorities

Indonesia investor outlook and priorities

We interviewed more than 25 local and foreign investors about their outlook and priorities

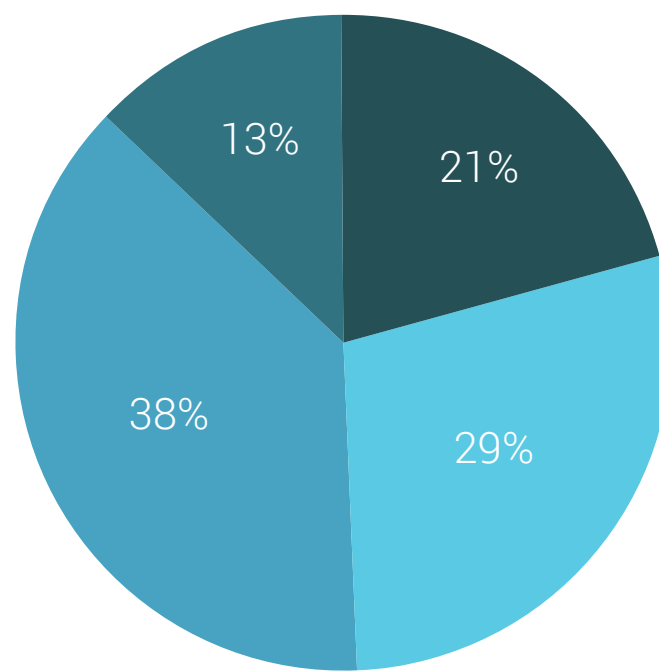
Respondents

By category



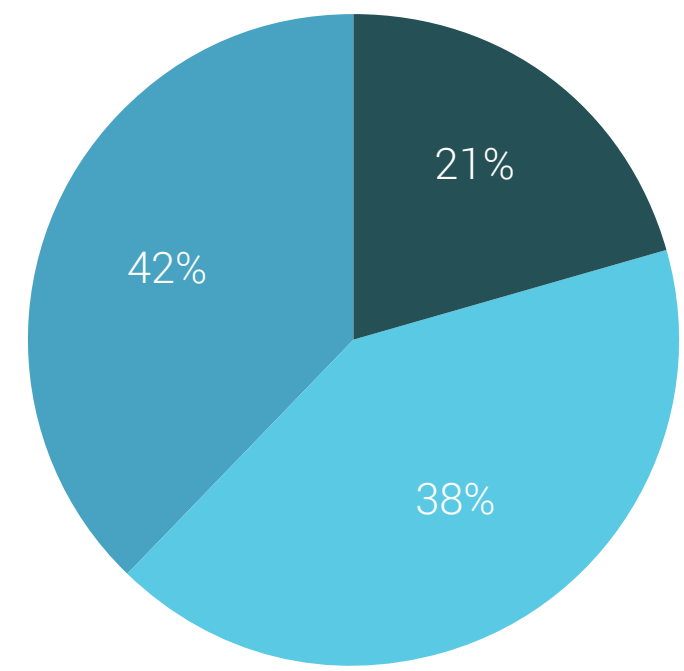
● Foreign ● Local

By fund size



● \$50-100M ● <\$50M
● >\$500M ● \$100-500M

By role

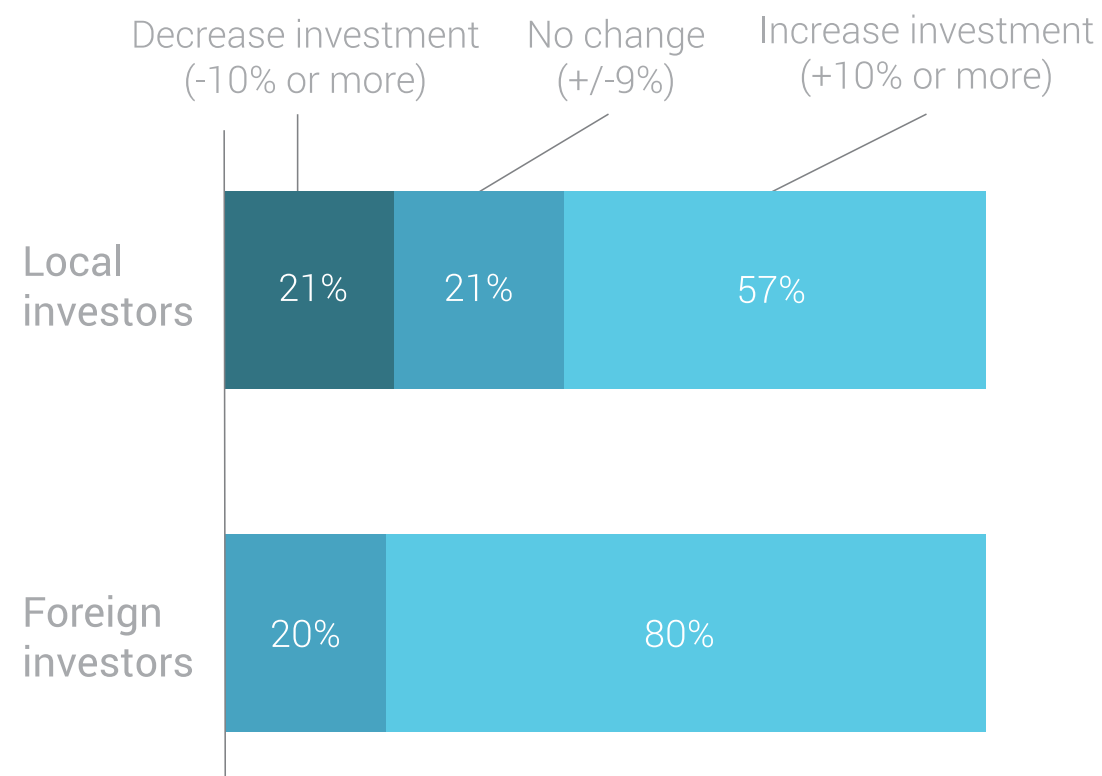


● Partner/director ● Founder/CEO
● Investment officer/manager

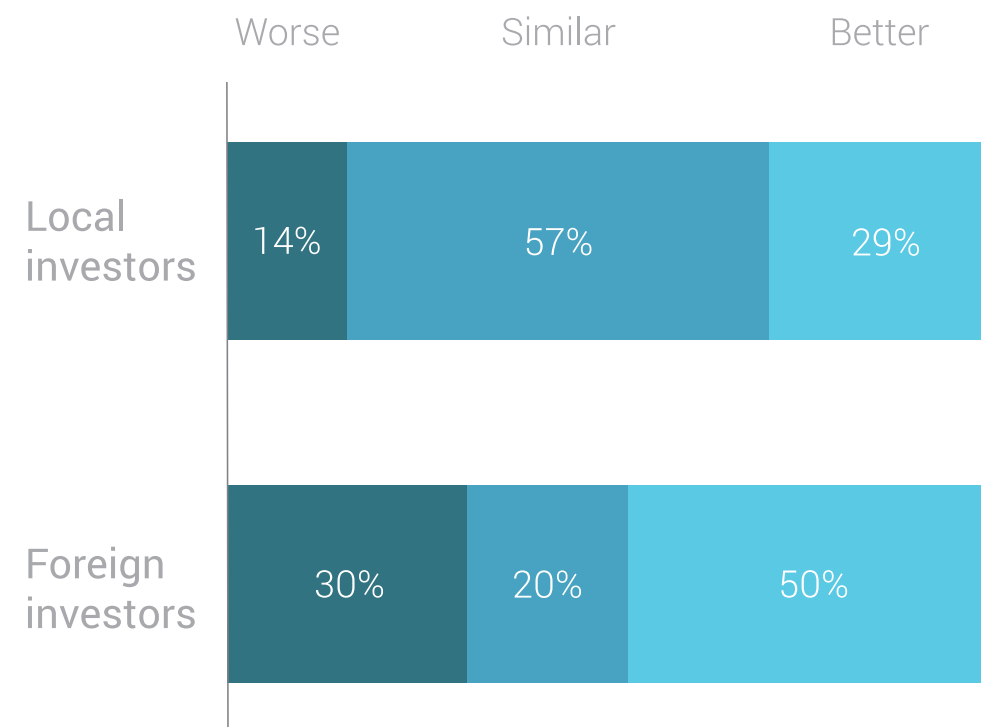
Note: Percentages may not resolve due to rounding.
Source: Google - A.T. Kearney Indonesia VC Outlook Survey (2017)

Investors are generally optimistic about the outlook of the Indonesian market, even compared with other Asian markets

“What is your investment outlook for Indonesia?” (% of responses)



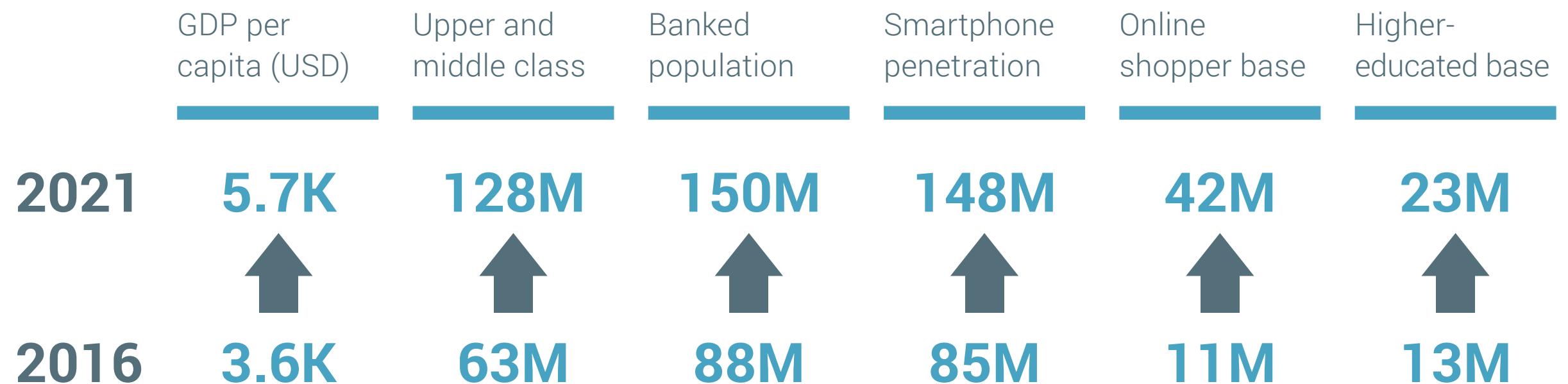
“How does Indonesia’s outlook compare to other Asian markets?” (% of responses)



Note: Percentages may not resolve due to rounding.
Source: Google - A.T. Kearney Indonesia VC Outlook Survey (2017)

One key reason for the positivity is that Indonesia has a strong macro-economic outlook and favorable demographics

Indonesia consumer trends 2016 vs. 2021

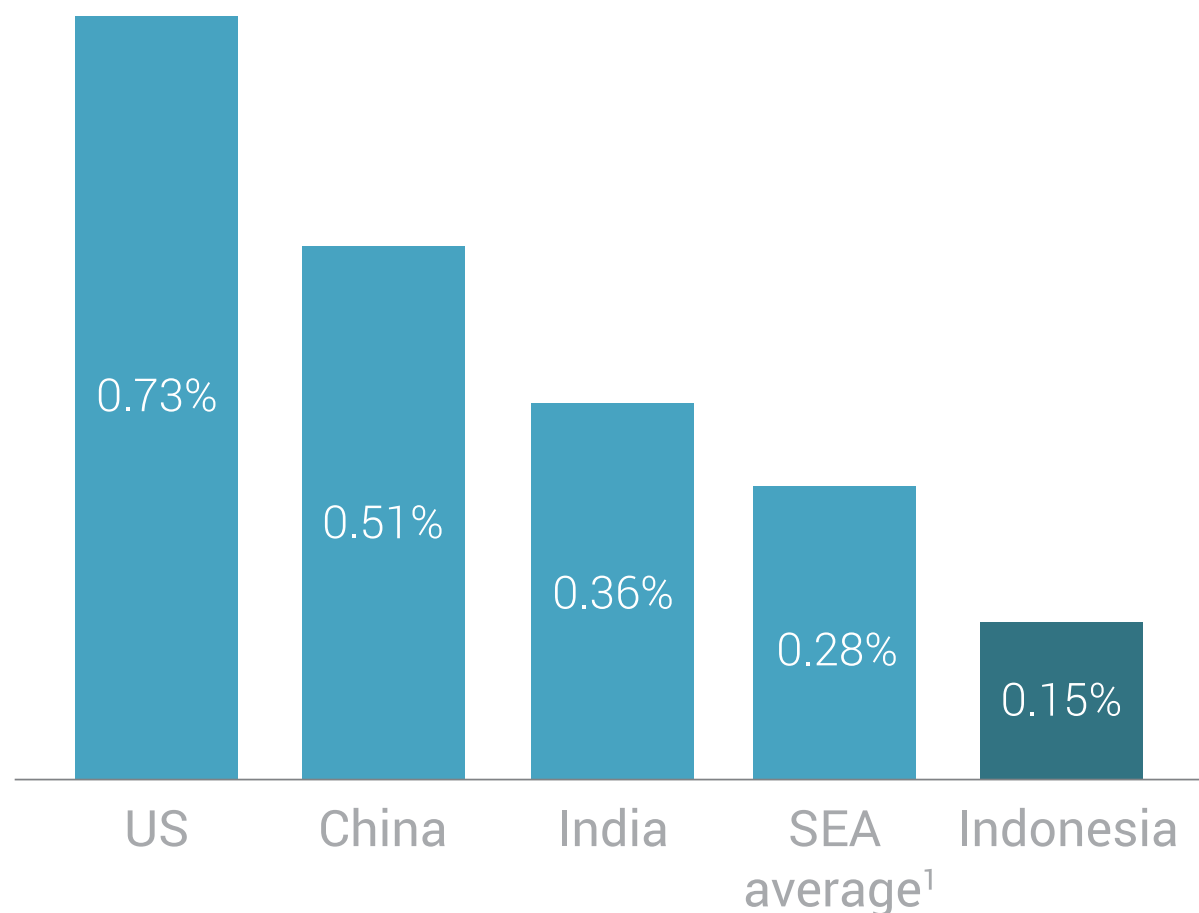


Sources: BPS, Bappenas, EIU, Nielsen, World Bank, UN, Statista; A.T. Kearney analysis

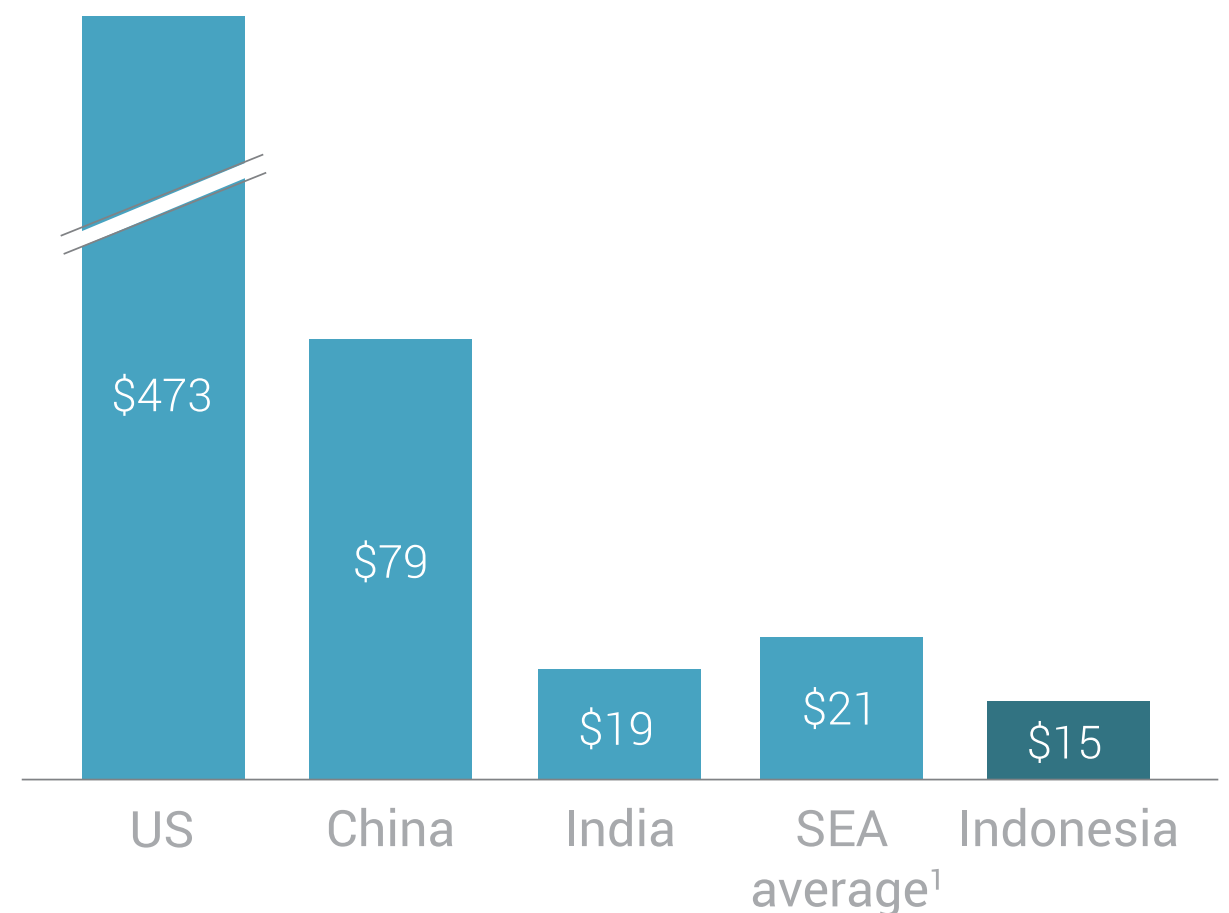
Another reason is that Indonesia is still under-tracking peers in VC investment, which indicates high room for growth

Country comparison (2016)

VC investments as share of GDP (%)



VC investments per internet user (\$)

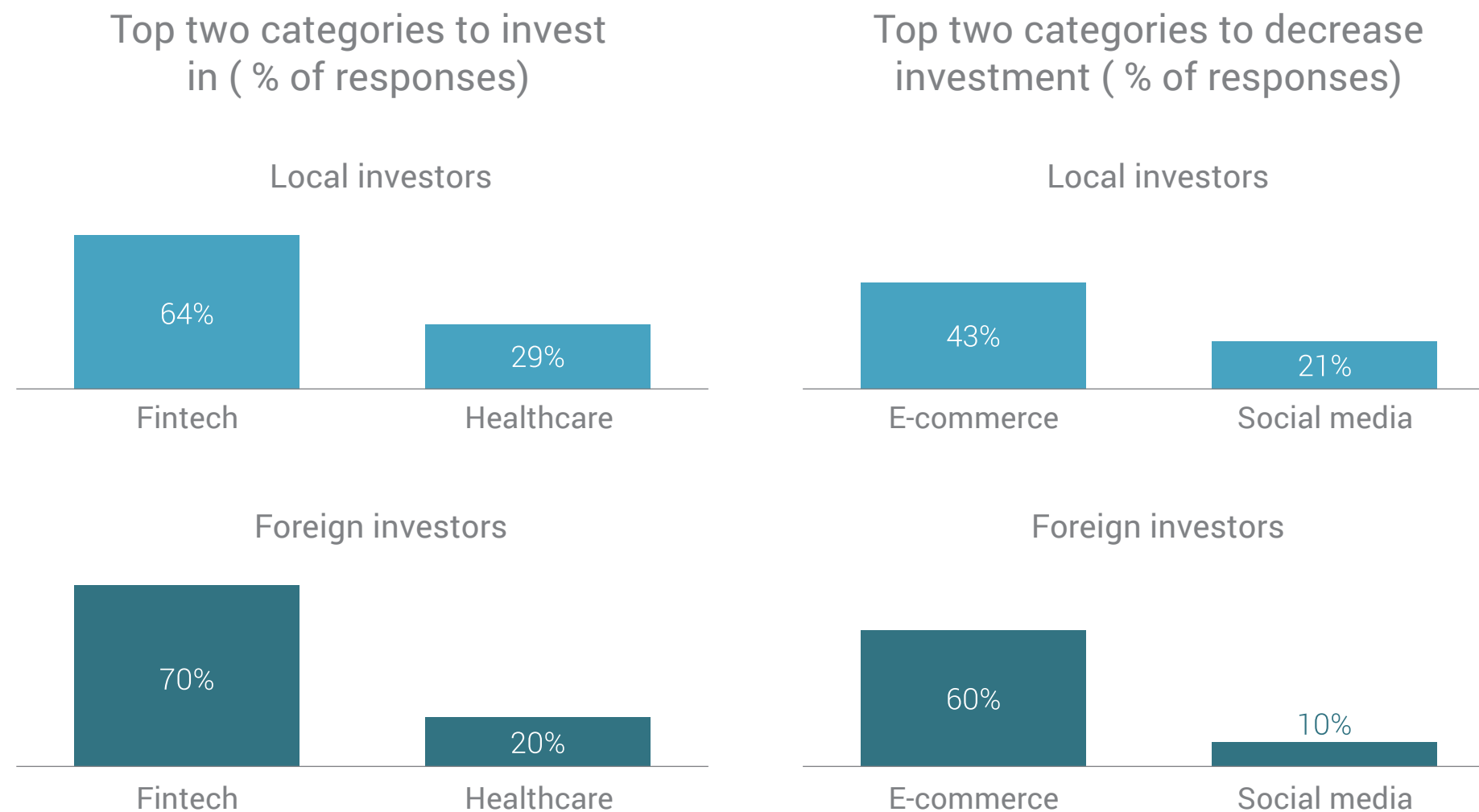


¹SEA consists of: Singapore, Malaysia, Indonesia, Vietnam, Philippines, Thailand, Cambodia, Laos, Myanmar, and Brunei.

Sources: Crunchbase, World Bank, Internet World Stats, Statista; A.T. Kearney analysis

Fintech is emerging as the top investment category in Indonesia, with most VCs looking to diversify from e-commerce

Top categories in Indonesia



Source: Google - A.T. Kearney Indonesia VC Outlook Survey (2017)

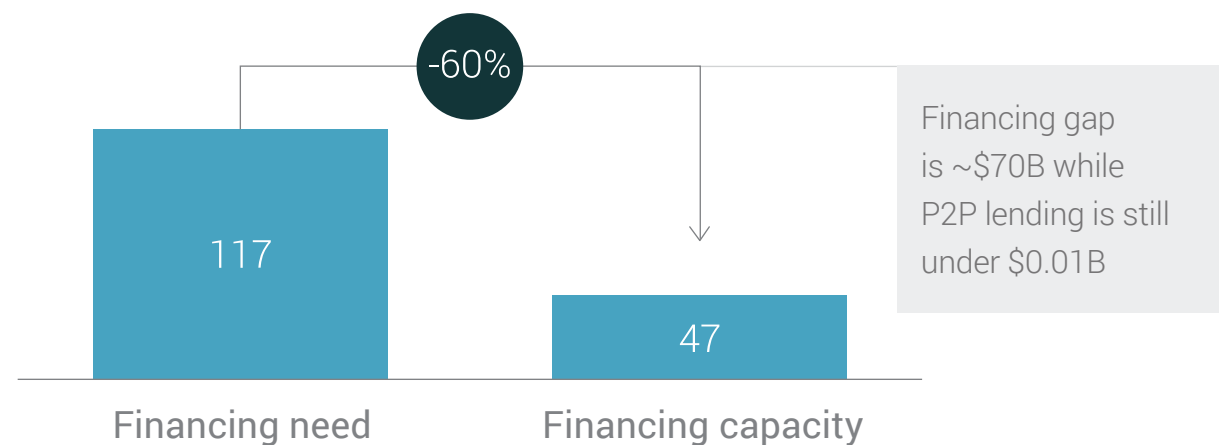
The opportunity in fintech is spurring a growth of startups in this category

Indonesia fintech market outlook

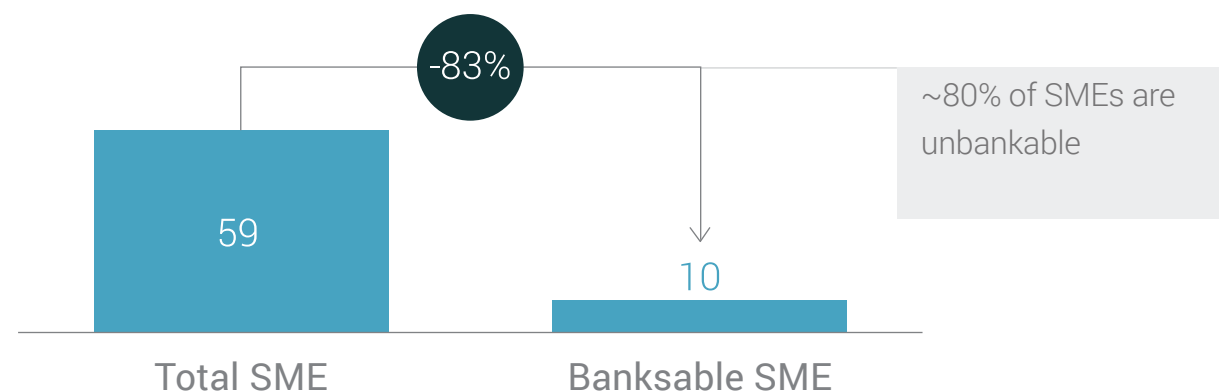
High potential opportunity in the market...

... results in large number of fintech players (total ~150 players)

Indonesia financing outlook (\$B, 2016)



Number of SME (M unit, 2016)



¹ Includes digital transaction support and other types of fintech (for example, asset management)

Note: SME is small and medium-size enterprise.

Sources: Indonesia Fintech Report 2016 by Association of Fintech Indonesia; A.T. Kearney analysis

Payment	40-50%	GCI, e2pay, OVO, IPAYMU, DOKU, t cash, GO PAY
Lending	10-20%	investree, uangteman, MEKAR, cicil, modalku, amantha
Aggregator	10-20%	bareksa, PremiKita, cermati, TEMAN USAHA, cekaja, KreditGoGO
Personal finance/planning	5-10%	ONLINE PAJAK, Dompot Sehat, akunting mudah, Finansialku
Crowdfunding	5-10%	KAPITALBOOST, gandengtangan, WeCare, WUJUDKAN
Others ¹	5-10%	privyid, Ruma

The fintech category has attracted many investors, but regulation remains the key challenge

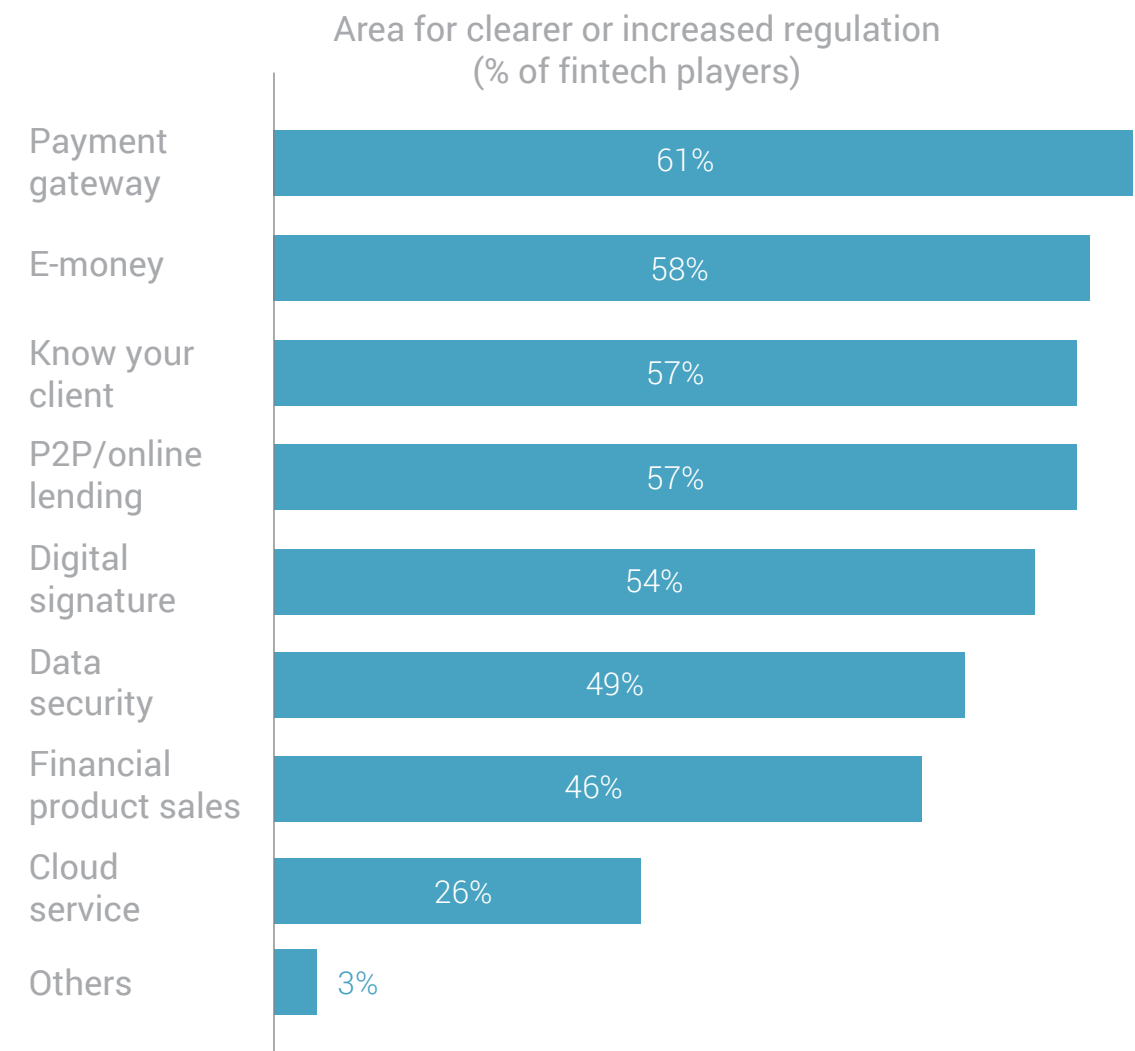
Indonesia fintech investment and regulatory trend

Investment in Indonesia fintech in 2016 reached more than \$30M (disclosed)...

2016 fintech funding

	Series	Capital (\$)	Investors
EasyPay	Undisclosed	>15M	Foreigner
Modalku	Series A	5-10M	Local + foreigner
Moka	Series A	1-5M	Local + foreigner
KinerjaPay	IPO	1-5M	Public (IPO)
Cermati	Series A	1-5M	Local + foreigner
JojoNomic	Venture	1-5M	Local + foreigner
Redivo	Seed	1-5M	Local + foreigner
Ethis	Seed	<1M	Foreigner

... but regulation remains the key challenge



Sources: Indonesia Fintech Report 2016 by Association of Fintech Indonesia; A.T. Kearney analysis

Most VCs are diversifying away from e-commerce by potential consolidation, long lead time, cash outflow, and major new entrants

Key reasons for diversifying from e-commerce

Potential consolidation of e-commerce

- *"E-commerce market is already overcrowded, too many generalist e-commerce players for the size of the Indonesian market."*
- *"Naturally, a maximum of two to three players will become the clear winners in the e-commerce market."*

Long lead time and cash outflow until profitability

- *"Successful e-commerce players will require lots of investment and many years to establish a distribution network."*
- *"As an investor, we want to invest in the startups that had a clear head start and more established infrastructure."*
- *"Established e-commerce players are already invested in by foreign investors, so their valuation is already high."*

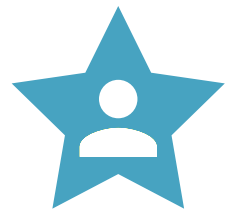
Potential major new entrants

- *"Everyone is in 'wait and see' mode with news that Amazon will come to Indonesia."*

Selected quotes
Source: Google - A.T. Kearney Indonesia VC Outlook Survey (2017)

Investors have highlighted four key areas for improvement: talent, fiscal incentives, funding/exit options, and facilitation

Key asks from investors



Talent development

- *"Develop more-qualified founders and technical engineers"*
- *"Streamline work permit process for foreign talent"*



Fiscal incentives

- *"Lower capital gains tax to attract more investment into the tech sector"*
- *"Introduce tax shield for returning expats (or repatriation of skilled Indonesians)"*



Funding and exit options

- *"Create an exchange to buy and sell privately held tech shares"*
- *"Create an Indonesian sovereign fund to actively invest in the tech sector"*



Startup facilitation

- *"Simplify regulatory processes relevant to startups, (e.g. company incorporation, patent certification)"*
- *"Build 'startup parks' with a conducive infrastructure and synergistic ecosystem"*

Selected quotes
Source: Google - A.T. Kearney Indonesia VC Outlook Survey (2017)

Currently, Indonesia faces challenges across these four areas

Current status in Indonesia

Talent development



- Indonesia is not producing enough talent. Every year, Indonesia produces only 278 engineers per 1M population, far behind Malaysia (1,834), Thailand (1,248), Vietnam (1,094), and India (1,159)
- No specific government programs or initiatives are in place to attract foreign talent or to retain local talent from going overseas

Fiscal incentives



- Currently, there are no special fiscal incentives for investments in startups or in startup operations
- Government plans to develop two initiatives: 1) a special tax treatment for e-commerce players with less than IDR 4.8B in revenue and 2) a tax incentives scheme for VCs and angel investors

Funding and exit options



- Foreign companies are allowed to own 100% of e-commerce companies with investment value of more than IDR 100B
- No startup has yet gone to IPO, and there are no clear exits with high returns for any VC yet
- By end of year, government is planning to develop various funding schemes, such as:
 - Grants for business incubators
 - Reallocating SOEs CSR toward e-commerce

Startup facilitation

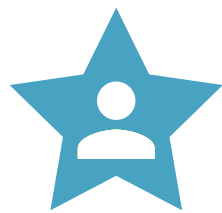


- No clear facilitation mechanisms for startups exist currently, even though relevant associations have now been set up and plans are in place
- Several associations have been established, such as Indonesia eCommerce Association (idEA) and Indonesian Fintech Association
- Government is planning to develop a national incubator program for startups, especially in early stages

Note: SOE is state-owned enterprise. CSR is corporate social responsibility. Sources: News articles, Ministry of Research, Technology and Higher Education, World Bank, UNESCO, Indonesia E-Commerce Roadmap 2017-2019; A.T. Kearney analysis

Government can play an important role to further stimulate the startup industry

Recommendations



Talent development

1. Work with educational institutions to develop engineers and entrepreneurs
2. Attract overseas entrepreneurs and talent



- **French Tech Visa**, a four-year visa for startup founders/employees/investors
- **French Tech Ticket**, a one-year benefits package



Fiscal incentives

3. Provide tax incentives for investments in startups and for startup operations
4. Set up government funds/government-led VCs aimed at startups



- Establish **startup Intellectual Property Protection (SIPP)**
- Various **tax exemptions** for investments by VC and incubator funds in startups



Funding and exit options

5. Establish multi-tier system in the public market for high-risk, high-tech startups
6. Simplify legal/administration requirements to start and operate startups



- Set up **national VC fund**
- Set up **SME Board/ChiNext/New Third Board**, special board/market for high-tech and fast-growing enterprises



Startup facilitation

7. Develop startup ecosystem to facilitate start-up growth (for example, mentoring)



- **Start-Up Chile**, a public startup accelerator that helps startups at all stages of growth by providing funding and mentorship

Source: A.T. Kearney analysis

Government should develop programs to build and attract overseas talent to close the human capital gap

Talent development

Develop engineers and entrepreneurs

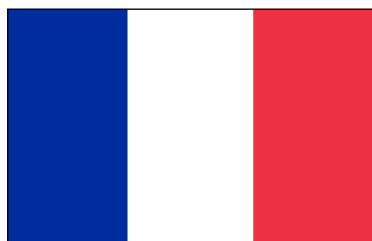


Technology for Enterprise Capability Upgrading (T-Up): A program to boost innovation by seconding scientists/engineers to SMEs

Attract overseas talent and entrepreneurs



Society for the Acceleration of Technology Transfer: A program to foster technology transfer



Society for the Acceleration of Technology Transfer: A program to foster technology transfer



French Tech Visa: A four-year visa for startup founders/employees/investors

French Tech Ticket: A one-year benefits package (including grants, training)

Note: SME is small and medium-sized enterprise.
Sources: A STAR, Singapore MoM, CNRS; A.T. Kearney analysis

Preferential tax treatment can encourage startup investments

Fiscal incentives

Provide tax incentives



#startupindia

Startups Intellectual Property Protection (SIPP) scheme provides up to 80% tax rebate on patent applications

VCs investments are exempted from income tax, capital gains tax, and investments above fair market value (FMV)



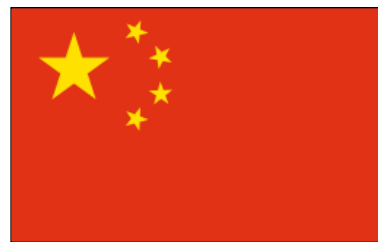
INVEST Grant Scheme reimburses angel investors for 20% of the investment value and compensates for taxes paid on capital gains (25% of the profit)

Sources: start-upindia, Germany Federal Ministry for Economic Affairs and Energy;
A.T. Kearney analysis

Active government participation in funding and exit options can also accelerate growth of the startup ecosystem

Funding and exit options

Provide state-based funding



National VC fund was set up by the **State Development and Investment Corporation (SDIC)**



Local government-led fund was set up, i.e. **Shanghai Science and Technology Investment Corporation**

Establish multi-tier system in the public market



ChiNext, a NASDAQ-style board to attract high-tech and fast-growing companies

SME Board, a special sub-board to cater to SMEs



New Third Board Market, an OTC market that serves as a platform for financing high-tech, high-growth enterprises

Note: OTC is over the counter.

Sources: China SDIC, Shenzhen Stock Exchange; A.T. Kearney analysis

Administrative aid and knowledge-sharing platforms facilitates creation of a growing startup community

Startup facilitation

Simplify legal and administrative requirements



Simplify legal processes:

- Lower costs on legal support and fast-tracking patent exam
- Relaxed norms of public procurement for startups

Develop start-up ecosystem



Introduce an online platform to allow company incorporation within as little as two days.



Launched **Startup India Action Plan** that includes 13 startup centers and 18 technology business incubators.



ST>RT-UPCHILE

StartUp Chile, a public startup accelerator which helps startups at all stages of growth by providing funding and mentorship.

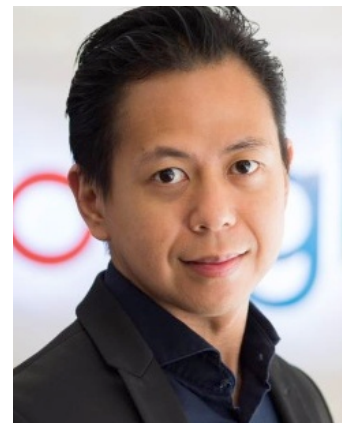
Sources: start-upindia, InvestChile, Start-up Chile. Desk Research, World Bank Doing Business Report; A.T. Kearney analysis

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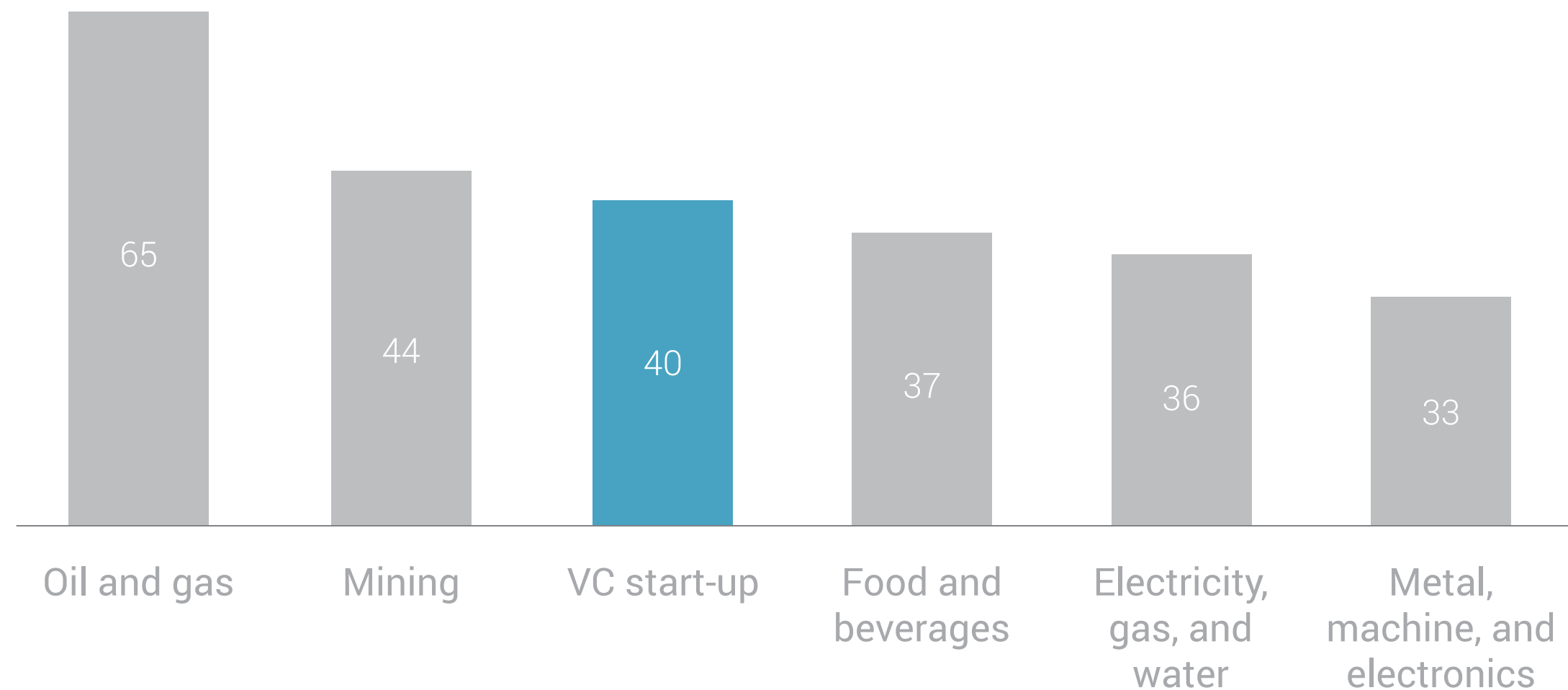
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Glossary

Term	Definition
Amvesindo	Asosiasi Modal Ventura Untuk Start-up Indonesia
Banked population	Population that has an account at a financial/banking institution
Debt/PE	Deals that are driven by non-VC sources such as private equity, debt financing, IPO; VCs may be involved in the deals, but are not the lead investors
Foreign investors	Investors that are based and/or have majority of investments outside of Indonesia
Higher-educated base	Population that has at least a university degree
Local investors	Investors that are based and/or have majority of investments in Indonesia
Smartphone penetration	Smartphone-using population
SME	Small and medium-sized enterprise
Upper and middle class	Socio-economic group based on the number of households earning more than \$10,000 per annum
VC	Venture capital

At IDR 40T (or \$3B), investment in the start-up sector is one of the top drivers of investment growth in the Indonesian economy

Investments in Indonesia by sector (H1 2017, Rp T)



Note: VC start-up investment value is Jan-Aug 2017, while other industries are Jan-Jun 2017
Sources: Crunchbase, BKPM, SKK Migas, web search; A.T. Kearney analysis