Venture Capital, Tech and Start-ups – the Funding Frenzy in Asia

In recent years, Asia has seen a tremendous expansion in venture capital activity, with the aggregate value of venture capital deals in Asia reaching $67 billion, a staggering increase when compared to the 2013 figure of $11 billion. The latest, largest, history-making fund raised to date, SoftBank’s $93 billion Vision Fund, is like no other and proves that appetite in investing in tech and start-ups is continually growing.

It is interesting to note, however, that while the aggregate value of venture capital deals in Asia is increasing, Asia-based venture capital fundraising has been decreasing over the previous two years. Bain & Company, in its 2017 report on private equity and venture capital funds in Asia, noted that after allocating $115 billion to funds focused on the Asia-Pacific region over the previous two years, total funds raised in the region dropped almost 16% from a year earlier to $43 billion and slipped to 9% of the global total from 11% in 2015, which is unsurprising as results from the 2017 Bain Private Equity Survey indicate that general partners ("GPs") sitting on a mountain of dry powder may not have been giving fund-raising their full attention during the year, prioritising instead the buying of companies and working on their existing portfolios. However, in the coming year, while deals and portfolio management will continue to be priorities, many GPs indicated in the 2017 Bain Private Equity Survey that they will be refocusing on fund-raising as well. Close to 70% said they will launch a new fund in the next 12 to 24 months.

In China and Southeast Asia, the investment in tech and start-ups is on the rise, with an emphasis on social media, payments, e-commerce, ride hailing apps, online travel or pure technology. The general sentiment is that opportunity for growth in the Southeast Asian markets remains high.

Southeast Asia

For the first nine months of 2017, technology companies in Southeast Asia have pulled in approximately $6.4 billion in disclosed equity funding, which represents twice as much as the $3.1 billion brought in in 2016 and more than three times the amount raised in 2015.

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1. Preqin, Preqin Special Report: Asian Private Equity & Venture Capital, September 2017
2. Ibid.
4. Ibid.
5. CB Insights, Tech Investing in Southeast Asia, 7 September 2017
Singapore and Indonesia are rapidly driving investments in start-up formation in the region, with many of the fastest growing start-ups, including Grab, Traveloka, GO-JEK and Tokopedia, hailing from Southeast Asia. There have also been an increased number of mega-rounds in excess of $100 million, for example, the $2 billion Series G round by Singapore ride-hailing company Grab⁶.

2016 alone saw sixteen Asian start-up companies ascend to billion-dollar valuation or above, of which four hailed from Southeast Asia: two Singaporean companies, ride-hailing app Grab and online gaming company Sea, and two Indonesian companies, travel bookings site Traveloka and ride-hailing app GO-JEK.

We have seen a notable number of Cayman Islands exempted companies and exempted limited partnerships being used as the vehicle of choice for start-ups receiving equity funding, including certain well-established tech companies and many early stage start-ups, which reflects the continued popularity of Cayman structures as fundraising vehicles. We have also dealt with the restructuring of local domiciled companies into Cayman holding company structures as part of an equity fund raising round.

**China**

China features heavily on the map with tech darlings such as Alibaba, Baidu, Didi and Weibo. In April 2017, Alibaba Group’s affiliate, Ant Financial Services Group, attracted the largest private fund-raising round for an Internet company ever, when sovereign wealth fund China Investment Corp. (CIC) and others invested $4.5 billion in the online payments platform⁷.

Smaller venture capital and early-stage private equity deals are also increasing. Bain & Company noted that the particularly strong activity in Greater China in early-stage deals where value rose 24% from 2015 and was three times higher than the past five years’ average⁸. These include, for example, $600 million second-round financing of electric car company Singulato Motors by Beijing’s Lancapital Holdings to GGV Capital’s $60 million Series B financing round of Zuoyebang, an online education company spun off from China’s Baidu Inc⁹.

There has also been an increased use of Cayman Islands entities over the past twelve months in the Chinese market, with some Chinese clients electing to list such entities overseas rather than on the domestic exchanges. Cayman Islands exempted companies do feature heavily on the Hong Kong Stock Exchange and are also popular vehicles for listing on the New York Stock Exchange and Nasdaq.

Traditional Cayman Islands fundraising structures continue to be the vehicles of choice in China. We have seen an uptick in activity in hybrid funds with some Chinese managers launching hybrid funds offering both closed and open-ended funds and using the Segregated Portfolio Company in Cayman as the vehicle for these hybrid products.

**Conclusion**

Investment appetite in venture capital, tech and start-ups is here to stay with China and Southeast Asia very much leading the way. All signs are pointing towards investment activity levels in Asia continuing to grow as investors and managers look to Asia for opportunities, and we expect to see continued use of Cayman Islands entities to structure fundraising vehicles as the funds industry in Asia continues to grow from strength to strength.

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⁹ Ibid.
The information contained in this advisory is necessarily brief and general in nature and does not constitute legal or taxation advice. Appropriate legal or other professional advice should be sought for any specific matter.

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