VC Mega Funds and What It Means for Southeast Asia

The Venture Capital (VC) industry is one that has seen considerable growth in the last decade and experienced gradual increase in deal sizes. More importantly, this growth was also contributed by the more nascent Southeast Asian region. For example, of the five major deals above US$1 billion globally in Q1'2018, two are Southeast Asian i.e., Singapore-based Grab and Indonesia-based Go-Jek.

With this growth in the industry, one trend that seems to be gaining worldwide attention is the rise of "Mega Funds" – or so they're called – due to its never-seen-before fund sizes for venture funds. We'll explore what some of the potential implications this rise may have on the overall VC and tech investment industry, specifically in Southeast Asia (SEA).

The Mega Fund that started the trend

A name comes to mind when discussing the advent of Mega Funds – Softbank's world's first US$100 billion Vision Fund that invests in late-stage growth companies. Known for its mammoth US$9.3 billion investment in Uber, the fund has also invested into US$4.4 billion into WeWork with potential follow-on investment up to US$20 billion in exchange for a majority stake in the co-working industry giant.

We have since also seen the launch of other similar funds globally including Sequoia Capital's US$12 billion Global Growth Fund and China Merchant Group's US$15 billion China New Era Technology Fund (targeted at growth stage companies in Mainland China and Hong Kong), in addition to the typically larger fund sizes of the Private Equity players such as Carlyle (US$18.5 billion US Buyout Fund) and KKR (US$ 7.4 billion Global Infrastructure Fund focused on North America and Europe).

Does the Southeast Asian market need one?

The overall VC market in SEA, albeit a relatively nascent one in comparison to other mature markets, seems to be finding its own successful niche when it comes to the funding space. SEA is also a unique market in that it is made up of 11 starkly-different countries with different cultures, languages while the more mature markets have been (often) more homogeneous as they are made up on each country e.g., the US, China, and India.

It should be noted that the region's VC industry caters to a very different crowd of startups as compared to the Vision Fund that invests in later-stage companies, which are more prevalent in mature tech investment markets. In this region, the number of startups that reaches unicorn status is just slightly more than what you can count on two hands. Hence, at present, there does not seem to be a need for funds to exceed the billion-dollar mark, given the lack of diversity in late-stage growth companies, though that would be a different case a decade from now.

For the small pool of companies that require higher funding levels in this region, they – more often than not – already have an international presence. This provides them with the option of raising funds from more mature markets that may be better positioned to cater to their funding needs. An example of this was Southeast Asian e-commerce giant Lazada's receiving a total of US$4 billion funding from Alibaba.

The exponential growth of Southeast Asia's startup ecosystem

According to Bain & Co's report in late November this year, SEA's booming VC and PE market is poised to see deal value soar to US$70 billion in 2024, doubling that of the previous five years. The report also predicts that the region will also produce at least 10 new unicorns in the next five years.

According to another report released on the same day by Google and Temasek, the SEA's internet economy is expected to exceed US$240 billion by 2025, beating the previous estimate of US$200 billion. This is because the costs of mobile internet access have been decreasing and that enables consumers to go online using their mobile phones.

Given the current rate of growth for the startup and venture investing scene in Southeast Asia, it is likely that will see more Mega Funds arising in this region to cater to a flourishing ecosystem of founders and startups that progress into later stages of growth. This will be a form of natural progression for the VC industry that is already seeing startups maturing, strong exit momentum and promising returns.