Tech start-ups funding trends and outlook: Singapore

Preparing for a bigger leap forward?

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After years of unabated growth, Singapore saw a slide in tech start-up funding in 2019 as investors turned more cautious, resetting focus around business fundamentals and cash generation as opposed to growth potential or other less pragmatic business metrics like Gross Merchandise Value ("GMV"). Investors were also seen turning more demanding at the beginning of this year, scouting for cheaper valuations and lower ticket size deals. This resulted in fewer deals, and lesser "mega deals".

The COVID-19 crisis followed, causing unprecedented uncertainties, disturbing the funding outlook and disrupting the ecosystem as a whole.

Today, as we see businesses crawl back to a new normal, the key questions are: Will funding in Singapore's tech start-up ecosystem continue to be slow, and plateau? Have we touched the "high"? Or, is the ecosystem pausing to take a step back, before a much bigger leap forward?

We believe the global pandemic has unleashed a new gamut of opportunities for start-ups, while adding in several new dimensions to the valuation game. Successful entrepreneurs will continue to innovate, and leapfrog to the new normal.

With transition towards digital economy accelerated in today's post COVID-19 new world, sectors spanning Urban Solutions, ConsumerTech, FinTech, Analytics and Artificial Intelligence ("AI") are further gathering steam to dominate the start-up scene in 2021.

Start-up funding in H1 2020 at S$3.3 billion has nearly crossed the halfway mark of fundings garnered in 2019, pointing at a steady year ahead. Buoyed by the massive support extended by the Singapore Government to DeepTech start-ups, the local tech start-up ecosystem is expected to charge up for a potential take-off in 2021 and beyond. Robust funding will find a way into the ecosystem with home-grown start-ups efficiently demonstrating agility in adapting and reconfiguring business models to survive a crisis of such unprecedented magnitude.

This publication takes a closer look at the funding trends in Singapore's tech start-up ecosystem over the past three years and first half of 2020, to analyse potential outlook scenarios and key pockets of investment opportunities. We have reviewed the funding opportunities across promising sectors during the pandemic and beyond, aside from identifying key investors, and trends across the investment stages. We have also highlighted key action points for start-ups and investors to strengthen their position and portfolio in the post COVID-19 new world.

Research definition introduction:

This paper focuses on investment in Singapore-based start-ups (with less than 10 years of existence). It does not include exits (e.g. full buy-outs or IPO). When a round of funding took place over several calendar years, with a number of different investments, we have not consolidated the whole amount at the date of the investment round closing, but have allocated each investment to the year when it was announced. For these reasons the numbers you will find in this document may vary from other publications you may find. Full methodology note can be found at the end of this paper.

Tech start-up landscape in Singapore

Singapore is known for its vibrant tech start-up ecosystem. It was ranked **14th** in 2019 by Startup Genome, valued at **US$25 billion**[1]. According to our research, there are over **4,000 tech-enabled start-ups in Singapore**, a significant growth from about 1,000 in 2014[2].

The success of the island Nation's tech start-up ecosystem can also be measured by its unicorns.

Valued at S$18.8 billion, Singapore's Grab joined the decacorn club in 2018. Other Singapore unicorns include Trax (valued at S$1.7 billion) and Acronis (S$2.7 billion). Beyond these, Zilingo, Circles Life and Carousell are among the growing number of aspiring unicorns, aside from the former ones such as Lazada (now part of the Alibaba group), BIGO (now part of JOYY group), the NYSE- listed SEA and Razer (listed on the HKSE).

In a nutshell, it is a flourishing ecosystem providing fertile ground for start-ups, supported by a forward looking Government ensuring ease of doing business, conducive infrastructure, strong research bases at local Universities and a skilled talent pool. Singapore is often seen as a great test bed for new technologies, and the gateway to access the broader Southeast Asia market opportunity.

Another factor underpinning the growth of the Singapore ecosystem is the concentration of investors and availability of funds. The local ecosystem comprises an estimated 500 plus investors and over 100 accelerators and incubators[3]. Singapore's ecosystem has been on a growth trajectory with fundraising at all time high in 2018 at S$10.1 billion.

This explains why, in addition to home-grown start-ups, a number of overseas start-ups have decided to relocate - at least partially - in Singapore. Grab is the most iconic move into Singapore in 2014, and more recently start-ups such as Konigle, Interviewer.ai and Privyr have set up bases here[4].

[1] Startup Genome – https://startupgenome.com/ecosystems/singapore
[2] See methodology note in Appendix for detailed sources
[3] https://www.edb.gov.sg/en/news-and-events/insights/headquarters/start-ups-share-how-they-incorporated-their-business-in-singapore.html
[4] https://vulcanpost.com/685496/bytedance-tiktok-global-headquarters-singapore/

Funding Trends

Key highlights:

- Record high funding in 2018, a decline in 2019 and a surprisingly steady H1 2020 - much on track to meet 2019 annual numbers.
- Grab accounted for almost half of total funding over the 2017-2019 period. In H1 2020 Grab secured another large funding S$1.2 billion, accounting for about a third of the total funding of H1 2020. Other notable deals this year include Ninjavan, Moglix and RWDC Industries.
- Average value per deal fell from S$22.5 million in 2018 to S$16.3 million in 2019 with number of deals reduced from 449 in 2018 to 397 in 2019[5]. The average value per deal in H1 2020 stood at S$17.3 million across 188 deals.
- "Mega deals" reduced, for example, Grab raised a lower amount in 2019 vs 2018. Lazada raised S$2.7 billion from Alibaba in 2018. Other than Grab's Series I round in February 2020, there were no mega deals in H1 2020.
- H1 2020 saw growing interest among investors in AI driven start-ups, aside from emerging start-ups in BioTech and AgriTech.

Global announcements involving marking down valuation in 2019 highlighted clear signs of investors turning cautious last year. Growth potential, based on market opportunity or business metrics like GMV, was not enough anymore. Investors have been looking for proof points and a clear path to business sustainability. Investors have reset focus on business fundamentals this year besides training sight on DeepTech start-ups demonstrating agility in reshaping business models to align with changing market conditions and business needs.

The first half of 2020 saw a steady flow of funding and it looks to be on track to reach 2019 funding numbers. Resilient start-ups have been raising funds in the last few months. Grab raised its latest Series I round of S$1.2 billion in February 2020, led by Mitsubishi UFJ Financial Group Inc. and TIS Inc. Ninjavan raised its Series D in April 2020 at S$390 million. Other start-ups like Elara Technologies (B2B and Augmented Reality advertising), Shopback and Moglix (e-commerce) saw renewed interest and raised S$100 million in January 2020, S$40 million in March 2020 and S$210 million in May 2020 respectively.

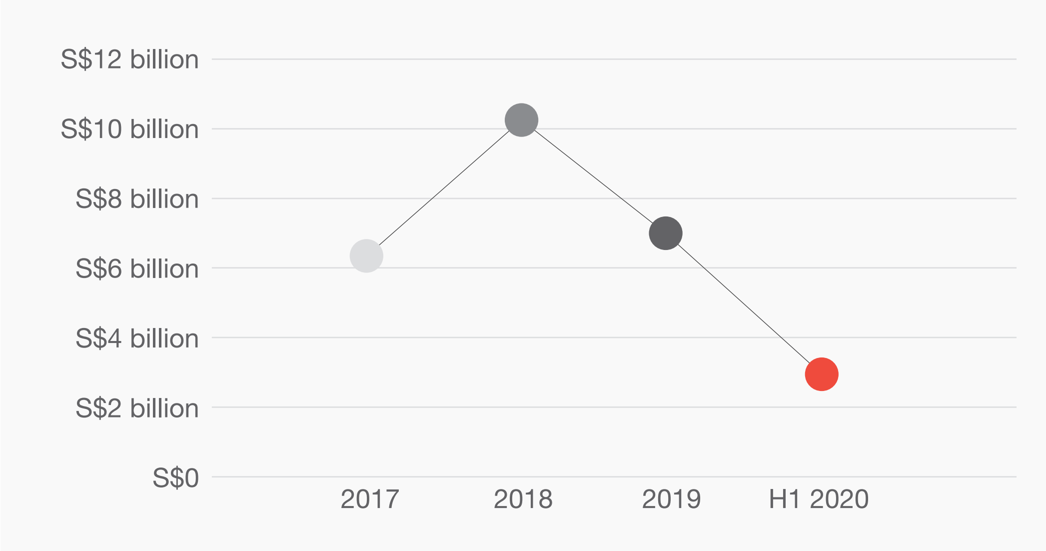
Grab was by far the largest contributor to the total funding amount, raising S$3.4 billion in 2017, S$4.1 billion in 2018, and S$3 billion in 2019. Overall, Grab accounted for more than 45% of the total fund raised in Singapore over the last 3 years. However, start-up funding slowed down in 2019 garnering only S$6.5 billion against over S$10 billion in 2018 (Exhibit 1). This was however in line with similar declines that have been observed in other parts of the world.

The growth in funding in DeepTech start-ups[6] continue to hold true. DeepTech start-ups funding increased from S$702 million in 2017 to S$980 million in 2018 and S$1.11 billion in 2019. Another S$571 million has already been injected in H1 2020.

[5] See methodology note in Appendix for detailed sources
[6] For the purpose of this paper, DeepTech is defined as Advanced manufacturing, Agritech, Analytics, Biotech, Blockchain and Cleantech.

> **"The COVID-19 crisis has disrupted fundraising in Singapore's start-up ecosystem, but we will continue to see investments coming in this year and ahead. We believe there are significant opportunities in Singapore with high growth innovative companies for investors to consider."**
>
> – Patrick Yeo, PwC Singapore's Venture Hub Leader

Exhibit 1: **Start-up funding in Singapore 2017 - H1 2020**



Source: PwC Research

Sector trends

Key highlights:

- Urban Solutions, and especially Grab, continue to dominate tech start-up scene in terms of investors' attention
- ConsumerTech gathering momentum in post COVID-19 new world
- FinTech and Analytics/AI remain strong
- Advanced Manufacturing, Health and BioTech captured interest

Urban Solutions and Sustainability

Within this sector, the Transport and Logistics sub-sector has been fairly resilient to COVID-19 crisis, attracting S$1.89 billion in funding in the first half of 2020. Grab is still the largest funds recipient, with S$1.2 billion raised from Mitsubishi UFJ Financial Group Inc. and TIS Inc. in February, while Ninja Van raised about S$400 million from GeoPost, B Capital and Grab in April 2020.

This sector secured maximum attention in 2019 as well with S$3.6 billion in fundraising. Other than Transport and Logistics, this sector comprises sub sectors such as Real Estate, AgriTech, etc. While the vast majority of the fund raising in this sector is driven by Grab, this segment has experienced significant growth - even when excluding Grab - from S$153 million in 2017 to S$700 million in 2018 and S$595 million in 2019. H1 2020 saw a rebond of S$691 million in this segment.

AgriTech sub-sector which was seeing some traction with investors in 2019 experienced a slow down in the first half of 2020. However, we believe this subsector is likely to gather momentum again in the short to medium term as Singapore pushes towards food self reliance. It will be difficult to reach the national objective of producing 30% of the nutritional needs locally by 2030 without an increased on technology[7]. Some start-ups like Shiok Meats, raising S$6.3 million in 2019, are starting to emerge with another note round of S$4.2 million in June 2020.

Digital Economy

Singapore's Digital Economy is powered by ConsumerTech (including E-Commerce, EdTech, MediaTech, Enterprise Tech) aside from FinTech and other platforms. Having secured S$2.6 billion in funding in 2019, ConsumerTech continues to see strong investments in H1 2020, especially with e-commerce and media start-ups, although some sub sectors like Traveltech, have suffered more directly from the COVID-19 impact. Shopback raised over S$40 million from various investors, including Temasek, Rakuten and Softbank. Circles.life has also completed an injection from Warburg Pincus in February 2020.

ConsumerTech experienced a record year in 2018, with S$4.0 billion raised. This spike is not only driven by Alibaba's investment of S$2.7 billion in Lazada, but also the successful fundraising of fast growing businesses such as Bigo and One Championship.

[7] https://www.straitstimes.com/singapore/spore-sets-30-goal-for-home-grown-food-by-2030

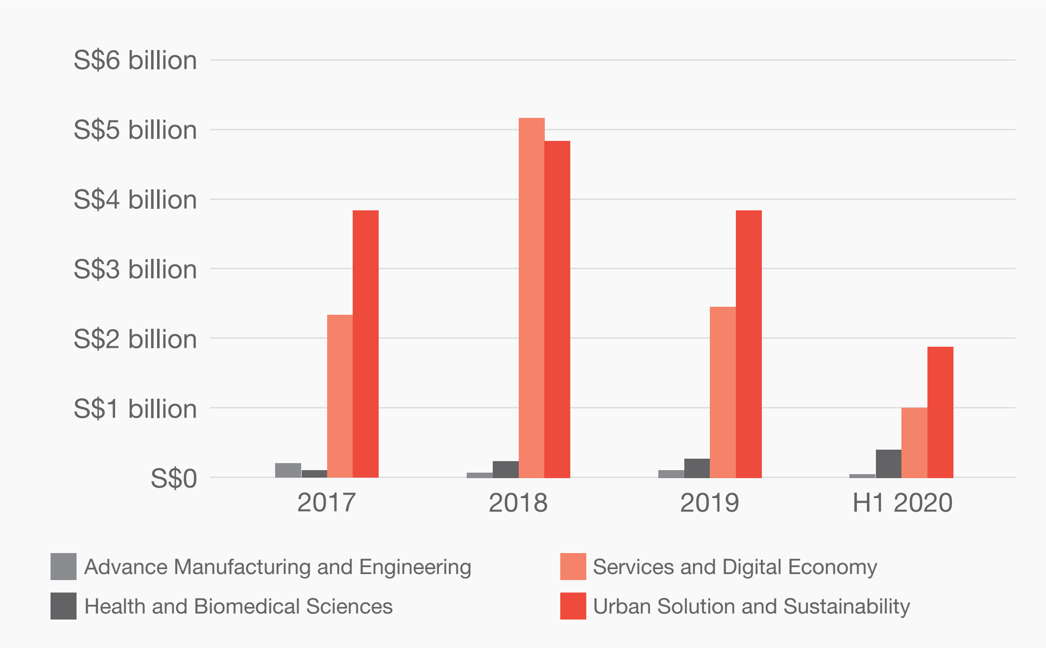
One sub sector that continues to forge ahead with strong growth this year is **FinTech** with S$400 million invested in the first 6 months of 2020. Funding Societies raised S$56 million in April 2020 from a few investors including Line Corporation, Sequoia Capital, Softbank and Golden Gate. A further amount of S$42 million was invested by BRI Ventures in June 2020. Investments in FinTech have continued to grow, from S$377 million in 2017, to S$520 million in 2018 and S$686 million in 2019. Singlife and Gobear have attracted significant investment in 2019, followed by crypto exchanges such as TenX.

Analytics and AI is also a strong sub sector in Singapore attracting S$150 million in funding in the first half of 2020. Anymind Group raised a significant amount of S$36.9 million from Japan Post Capital in March 2020. The funding injected in Analytics and AI has grown from S$322 million in 2017 to S$534 million in 2019. The key beneficiaries of these funds are Trax, Near, and Advance.ai. Each of them has raised more than S$100 million in 2019.

Advanced Manufacturing, Health and BioTech

Although Advanced Manufacturing, Health and BioTech remain much smaller than the sectors noted above, it attracts more and more interest from investors, particularly against the backdrop of COVID-19 crisis. Total funding for the first half of 2020 amounts to S$352 million, exceeding the total for the whole of 2019. As an illustration, RWDC Industries raised around S$186 million in the latest Series B funding in May 2020. Funding in Health and BioTech increased from S$49 million in 2017 to S$201 million in 2018 and S$230 million in 2019. AWAK Technologies raised S$56 million in 2019, in a round co-led by Vickers Venture Partners. Advanced Manufacturing has seen an increase in funding from S$75 million in 2018 to S$97 million in 2019. Notable start-ups are Igloohome and Zenyum, with close to around S$40 million of combined funding in 2019 - almost half the total funding of 2019. We are also likely to see renewed interest in this sector where consumers turn to next generation appliances to increase productivity in this COVID-19 era.

Exhibit 2: **Start-up investments across key sectors**



Source: PwC Research

Funding Stages Trend

Key Points

- Series A funding in 2020 is on track to exceed the numbers in 2019. There was a 60% surge in 2019 against 2018.
- Growth rates of over 45% to 55% per annum in Series B and C between 2017 and 2019 but H1 2020 saw a drop in Series B and C funding.

Analysing the funding stage is also an interesting way to measure the progress of the ecosystem. The ecosystem has come a long way: there used to be a funding gap beyond Series A a few years ago, when Singapore was a much younger ecosystem. But we have seen a rapid increase in Series A funding in recent years. The amount invested in Series A has gone up by more than 60% per year, to reach almost S$850 million in 2019. As of H1 2020, Series A funding at S$586 million is close to 70% of prior year numbers.

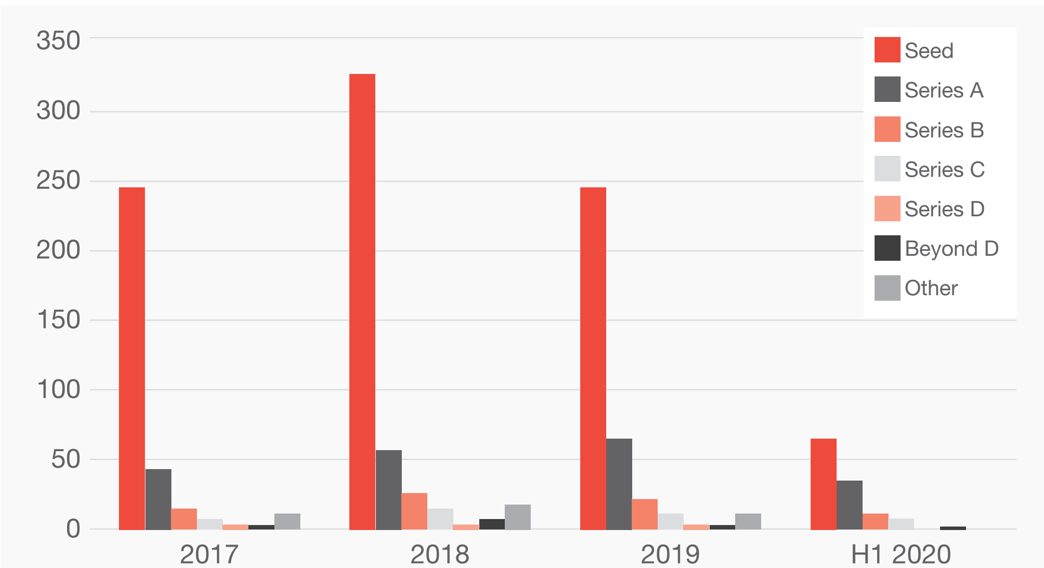
This rapid growth has impacted almost all stages of fundraising beyond Series A. We observe growth rates of over 45% to 55% per year in Series B and C between 2017 and 2019. However, Series B and C funding for H1 2020 stood at S$634 million.

The seed stage however, has been roughly stable over the last 3 years, and this can be explained by the relative early development of seed stage funding in Singapore. It was the first stage to grow, and has now matured to a certain extent. Seed stage funding raised in H1 2020 is S$140 million against S$270m in 2019.

Alibaba's investments in Lazada account for the majority of the "other" category in 2017 and 2018 (considered secondary market). We have not seen such kind of deals in 2019 and H1 2020.

The DeepTech sector is maturing and continues to attract investors with significant growth in Series A and beyond expected. A few Analytics and AI businesses are now big and mature enough to raise significant tickets, such as Near (Series D), Trax (Series D) and Advance.ai (Series C). It is also interesting to note that the DeepTech space remains vibrant this year and it's not just about the bigger start-ups. Analytics company Anymind Group raised a Series B round at S$37 million in March 2020 and Digital Health startup Holmusk raised S$30 million Series A round in May 2020.

Exhibit 3: **Number of deals across funding stages**



Source: PwC Research

Meet the investors

Singapore attracts funding from various types of investors. The most active will complete 3-5 deals per year on an average. These investors include:

- Well established global VCs, such as Accel, Sequoia Capital and Wavemaker Partners, with strong local/regional hubs in Singapore
- Singapore or Asian VCs, such as Insignia Ventures, Vickers Venture Partners and Surge
- Government-linked investors, led by EDBI, SEEDS Capital and SGInnovate

A number of accelerators VCs are also very active in Singapore, such as Antler, 500 Startups and Tribe Accelerator, as they take equity in the start-ups going through their programme. Even as the COVID-19 crisis unfolded, the most active accelerator VCs have already taken equity in more than 10 start-ups in the first quarter of 2020. Most likely they will continue to do so, as more founders/entrepreneurs are looking for funding options during these times. These are interesting partners for early-stage start-ups that provide opportunities to accelerate the growth journey and scale up.

We also observed growth in investments made by corporate venture capitals ("CVCs") over the last 3 years, with a number of deals completed by local CVCs (e.g. ComfortDelGro Capital Partners, PSA Unboxed, SPH Ventures) and international ones (SC Ventures, Experian Ventures, NTT DOCOMOVentures). These investors are often attractive partners for local tech start-ups as they provide both funding and other capabilities, such as technology or market access. Crunchbase estimates the number of CVCs to be about 70 in Singapore in 2019[8].

Looking at the largest deals in terms of value it is apparent that the local ecosystem is increasingly getting attractive to overseas investors. In 2019, nine of the ten largest deals have been completed by foreign investors. Softbank has been the largest investor in 2019, with almost S$2 billion invested in Grab, followed by InvestCo and Central Group who also invested S$400 million and S$272 million respectively in Grab. We see this trend continue in H1 2020, where Grab secured its Series I funding at S$1.2 billion by Mitsubishi UFJ Financial Group Inc and TIS Inc. The overseas investors see these investments as a way to gain market access in the region, or technology access for most innovative start-ups. On the flip side, local start-ups are more interested to get overseas investors, often considered offering higher valuations.

This trend of overseas investors attracted in Singapore is also true for DeepTech funding. The largest deals in AI are also completed by overseas investors. Namely HOPU's investment in Trax, eGarden's investment in Advance.ai and MCM's investment in Taiger.

[8] https://www.crunchbase.com/hub/corporate-vc-investors-investments-in-singapore-

Outlook

We believe Singapore's tech-enabled start-up ecosystem is poised for further growth in the medium term. Of course there will be some turbulence in the short term as investors become more careful and selective in their investment, potentially making fundraising more uncertain amid COVID-19.

In the medium term, we believe significant growth is to be expected. Singapore has set the right foundations, and will continue to attract more entrepreneurs and investors as the network effect kicks in. The prominence of Singapore's ecosystem across key sectors is here to stay.

Successful entrepreneurs will continue to innovate, and leapfrog to the new normal. They will be able to attract the right investors and get funding despite the global crisis situation. Case in point - Grab raised another S$1.2 billion in February 2020. Other promising start-ups have also been able to close investment rounds this year, including NinjaVan, Elara Technologies and Funding Societies. Streaming services like Bigo, Cybersecurity providers such as Acronis and other start-ups in telemedicine, remote collaboration tools, digital services, etc. will likely emerge stronger post COVID-19. These start-ups will more likely attract the right investments going forward.

Good investment opportunities will arise from the new normal as businesses shift online and new business models emerge. For instance, advanced healthcare technologies and deep-research start-ups providing life sciences solutions. As more digital platforms continue to emerge, to connect people and businesses digitally and across sectors, more data will be generated, and will need to be analysed, creating needs for Analytics and AI solutions, as well as risk management solutions for issues such as cyber security.

As key sub-sectors (e.g. FinTech, Analytics and AI) and emerging sub-sectors (e.g. BioTech, CleanTech, AgriTech) assume larger significance in the post COVID-19 world, funds will find a way to boost strong assets led by adaptive strategies, innovative business models and robust growth potential.

Subdued sentiments against the backdrop of the pandemic, will keep valuations under check in the near term.

"COVID-19 has added many new dimensions to the game. It's now important for investors to lay greater emphasis on the fundamentals and resilience of the start-ups' business models. On the flip side, outstanding start-ups should be able to clearly show how they have emerged much stronger and more relevant in the new post COVID-19 world."

– Patrick Yeo, PwC Singapore's Venture Hub Leader

Key takeaways

For entrepreneurs

Even as the fundamentals remain strong and the funding scene looks steady in the near term, be prepared for a potential slowdown. Maintain a good cash visibility, start-ups should ideally have a healthy cash runway. Embrace cash conservation initiatives while ensuring careful assessment of all options, particularly against the backdrop of the COVID-19 crisis. For instance, considering pay cuts instead of lay-offs.

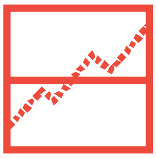
Choosing the right investor is a key success factor for start-ups. More often than not, investors don't just bring money, but also bring valuable insights and market access among other benefits. Evaluate the non-cash benefits investors may potentially bring in to fast-track the start-ups' success. This becomes even more important in the current context.

Leverage the advantages created by the new normal. Discuss these opportunities with the potential investors and together understand the ways in which COVID-19 crisis has impacted the business as well as the sector. Adaptability and agility are key attributes for successful start-ups and they must be able to realign strategic focus with changing business environments.

Tap on the support extended by the Government. To catalyse investment into DeepTech start-ups, Singapore's Budget 2020 has set aside an additional S$300 million under start-up SG Equity. The Government intends to improve support for DeepTech start-ups — particularly those in emerging technology areas such as Pharmbio and MedTech, advanced manufacturing and Agri-foodTech. The Government expects this to draw in more than $800 million of private funding over the next 10 years, Singapore's Deputy Prime Minister and Finance Minister Mr Heng Swee Keat said in his Budget 2020 speech.[9]

[9] https://www.businesstimes.com.sg/government-economy/singapore-budget-2020/budget-2020-deep-tech-start-ups-to-get-more-support-under

For investors



Keep eyes set on proper due diligence. Unfortunately, we have seen some large start-ups fail in the recent past. Against the backdrop of COVID-19 investors must focus on the sustainability of the business models as opposed to excessive emphasis on the growth potential. In today's scenario, we expect investors to play around with businesses they know, and those they've been following, as opposed to experimenting with totally new start-ups.

Protect value in existing investments, help portfolio companies navigate the current situation. Focus on stabilising portfolio businesses amid the COVID-19 crisis, with short term liquidity reviews, evaluation of new funding options and rapid cost reduction. Consider re-focusing and re-positioning the business models of your portfolio start-ups, including Online to Offline ("O2O") and direct to consumer, to ensure alignment with the post COVID-19 world.

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Methodology note

The above numbers were generated based on data from Pitchbook, Crunchbase, Prequin, Mergermarket and PwC Singapore's data (duplicates across sources were removed).

We have focused this paper on equity financings into tech-enabled start-ups. It includes fundings of private companies only. Funding rounds raised by public companies of any kind on any exchange are excluded from our numbers, even if they received investment from a venture firm. Only verifiable fundings are included. Fundings are verified via (1) various databases i.e. Crunchbase, Prequin etc; (2) press release; or (3) credible media sources.

Tech start-ups are defined as Singapore-incorporated businesses, less than 10 years old and leveraging technology for their business operations. The data is disaggregated by the number of deals and their announced date, rather than the cumulative amount for a single series round.

Current valuations of start-ups are translated into Singapore dollars at the month end rate of 31st May 2020.

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