

Malaysian start-ups that have reached valuations of a few hundred million US dollars usually come head-to-head with barriers

by JUNE MOH

TALK unicorns to your heart's content, but Malaysia is far from the go-to zone for the potential giants in the making. To be fair, Malaysia has produced a handful of major start-ups, with serious money now starting to flow to a number of them.

But the regional numbers tell us a different story. More than 80% of unicorn companies in Asia are concentrated in Singapore and Indonesia. Vietnam is fast catching up. Malaysia did finally see a homegrown unicorn. In January 2022, used-car e-commerce platform Carsome became the country's first unicorn after a US\$290 million (RM1.24 billion) funding round that gave it a valuation of US\$1.1 billion.

Malaysia was also the original home of regional ride-sharing giant Grab Holdings Inc, which was founded as MyTeksi in Kuala Lumpur in 2012 before relocating its headquarters to Singapore in 2014. It is home to a sizeable body of new technology companies, nearly 4,800, according to start-up data platform Tracxn.9.

On the scene is Aerodyne Group, a start-up that has hadged itself as the world's largest drone company. The Kuala Lumpur headquartered company may just be Malaysia's second technology unicorn after Carsome. At this juncture, the company is reportedly looking at raising between US\$100 million and US\$200 million this year, with an IPO next year.

Aerodyne provides DT3 enterprise solutions. It stands for drone technology, data technology and digital transformation. It claims to be leading the global tech curve in the use of drone data and artificial intelligence (AI)-powered analytics to resolve complex industrial challenges, enabling organisations to rapidly scale, digitally transform, operate optimally and increase productivity.

Under the leadership of founder and CEO Kamarul A Muhamed, Aerodyne has seen a rapid series of mergers and acquisitions (M&As) and partnerships, with the latest announced last month. On Jan 10, Aerodyne said it linked a strategic partnership with Astralium AS to offer to lead Drone-as-a-Service (DaaS) and Software-as-a-Service (SaaS) solutions in the Scandinavian region.

In December 2022, Aerodyne acquired a controlling interest in Grupo DR1, professional drone operators and service providers in Brazil. The Rio de Janeiro headquartered company claims a 90% market share in offshore drone inspections in Brazil with the national oil company, Petrosbras a major customer.

With time, more such start-ups may grow in size and reach, with some actually acquiring unicorn status.

A unicorn is a private company valued at more than US\$1 billion without being listed on the stock market. They are the dream of start-ups, especially those in the technology businesses. If that company subsequently goes public or is acquired, it is no longer referred to as a unicorn.

As for Malaysia, what are the impediments? What is being done on the ground?

What We Lack
Although Malaysia has a high market maturity of digital economy, it does not see many unicorns. One of the reasons is the lack of follow-up funding after

Funding, talent poser in the making of unicorns



Aerodyne is reportedly looking at raising between RM426.4m and RM852.8m this year, with an eye on an IPO in 2024

series A. Then there is the perennial issue of talent, or more precisely, the matching talent.

Investment banker-turned-investor Ian Young Kah Yin said Malaysia has immense potential for more unicorns. It has a large pool of capable entrepreneurs but underperformed due to lack of funding and the experience and knowledge needed to expand regionally to other Asian countries.

He believes that Malaysia should focus on the growth of industry clusters. Islamic finance and healthcare administration have gained traction over the past decade. However, Malaysia has a major disadvantage in nurturing emerging unicorns.

"We lack the funding infrastructure that Singapore has built. Malaysia lacks the infrastructure to support and provide series B, C and D funding. We have institutions that provide seed funding and that's it. The start-ups are expected to secure bank financing. Many start-ups in Malaysia will turn to venture capital companies (VCs) offshore," Young told *The Malaysian Reserve* (TMR).

He said Malaysia start-ups that have reached valuations of a few hundred million US dollars usually come head-to-head with barriers.

"The next level is of course regional expansion. The main obstacles are financial, human resources, management and most importantly, the motivation to grow beyond one's borders."

"Start-ups in Indonesia are able to secure series B, C and D funding as many VCs are drawn to the largest consumer market in Asia represented by Indonesia's 275 million population, the fourth-largest in the world. More importantly, the large Indonesian market enables start-ups to scale into unicorns," he said.

Funding is said to have started to reach a significant level. Total committed VC funds hit US\$3.2 billion in 2021, up 20% in 2020, and nearly five times more than Malaysian start-ups raised in 2019, according to Securities Commission Malaysia (SC).

Funding Series
A start-up's initial investment is usually known as seed funding. This is then followed by various rounds of funding, known as Series A, B, and C. Each funding round usually results in a new valuation, determined by factors like market size, company potential, current revenues and management.

Let's take one of the rounds. Series B financing is one of the stages in the capital-raising process of a start-up. Essentially, the series B round is the second stage of start-up financing and the second stage of VC financing, according to information on the Corporate Institute Finance website.



Talent development and access to funding continued to be the main challenges to building unicorns locally, says Mahadhir



According to Young, Malaysia lacks the infrastructure to support and provide series B, C and D funding



Gan strongly believes the next unicorns are the ones playing in the space of e-commerce, fintech and technology

Similar to the previous stages of financing that include seed and series A financing, in noted that the series B round is a type of equity-based financing. In other words, investors provide capital to a company in exchange for the latter's preferred shares. The majority of the deals include anti-dilution provisions like in the series A round. This means that a company usually sells preferred shares that do not provide its holders with voting rights.

However, the shares often come with a convertibility option, for example, the holders of the preferred shares can convert their shares into common stock at a future date.

Series B financing is appropriate for companies that are ready for their development stage. They are companies that generate stable revenues, as well as earn some profits. Also, such companies generally come with solid valuations of more than US\$10 million.

The proceeds from the series B round are primarily utilised to support the company's growth to the next level. The capital raised can be used in various ways, such as sales, marketing, talent acquisition and developing new technologies, according to the note.

No Shortcut
Folks at government agencies involved in this space are very much aware of the funding and talent issues.

Malaysia Digital Economy Corp (MDEC) CEO Mahadhir Aziz acknowledged that talent development and access to funding continued to be the main challenges to building unicorns in Malaysia.

"There is no shortcut to talent development but the establishment of Penjana Kapital is a big step towards strengthening the funding ecosystem in Malaysia."

"Ecosystems that nurture unicorns have a few critical success factors that are hard to replicate, for example, abundant talent and an open, learning culture," he said.

MDEC aims to facilitate the entry of talent through various means, including the Malaysia Tech Entrepreneur Programme (MTEP) for founders and Future Knowledge Workers (FKW) for employees.

On this, MDEC is working with ecosystem players such as accelerators, investors, incubators, co-working places, large corporations and universities to create more platforms for networking, competition, hackathons and proofs of concept.

"It is said that in Silicon Valley, people are not afraid to share ideas up to a point, but what will make the difference is the ability to execute. However, in an Asian context, ideas are often held close to the chest, for fear of being stolen."

"That said, the maturity of the ecosystem is more about mindset, rather than anything else. The key is having an orchestrator in the ecosystem that allows local and foreign start-ups to exchange ideas and collaborate," he said.

Scaling Up
A report by an international firm found that although Malaysia is good at generating start-ups, what is harder is for the more successful of these companies to find the right staff for scaling up. The report suggested that people in Malaysia understand technology and how innovation works. Hence, there was no shortage of good ideas.

"But companies sometimes find it hard to get the guidance and business support they need to grow. Though whether that will prove a major obstacle remains to be seen," said KPMG Malaysia's head of technology consulting Alvin Gan in a report entitled "Emerging Giants in Asia Pacific 2022".

While many Malaysian start-ups remain focused on the local market, he said the ones to watch tend to have a regional outlook from the start. He provided some examples. They included Aerodyne, FashionValet — an e-commerce fashion platform with operations extending to Singapore and Brunei — and Compsia, a second-hand electronic devices business now operating across nine South-East Asian countries.

The question, he added, therefore was not so much whether Malaysia would produce successful new economy companies, but how many would emerge.

Given the strong level of government support and the increasing amount of resources being funnelled their way — according to the 88-page report covering Asia Pacific — Malaysia's start-ups are poised to continue to play a major role in the country's development in the coming years.

Malaysia has a strong pipeline of young talent, the report said. The country's young population hovers with a median age of 29.2, increasingly well-educated. As Asia had some 600,000 students in higher education in 2020.

"This would be pivotal if Malaysia were to continue expanding its footprint in the start-up space as the younger generation is predominantly the contributing factor," he told *TMR*.

• FROM PAGE 12

Taking into account all of the above, Gan said it was only a matter of time before the nation sees more unicorns coming to emerge and there were many promising developments to support that.

Gan said as the country recovers from the effects of the pandemic, businesses would look to expand their ecosystem through partnering with start-ups such as fintech to help them become more agile, driving growth for their organisations.

"With regard to industries, I strongly believe the next unicorns are the ones playing in the space of e-commerce, fintech and technology, media and telecom," he said.

ESG Play

The KPMG report noted that Malaysia sees particularly strong concentrations of start-ups in financial technology (fintech), including in Islamic finance, gaming and environmental, social, and governance (ESG)-related services.

A majority of the Malaysian start-ups identified in the report were from the fintech space. The trend is expected to continue in 2023 and beyond with the booming of the industry, said Gan.

"Malaysia also has a strong competitive edge in Islamic finance owing to its many digital start-ups that are Shariah-compliant," Gan told *TMR*.

He said the ESG-related start-ups would be making headlines in the next few years as the government appeared to remain committed to prioritising ESG-focused development programmes and projects. This will spur growth in the ESG start-up scene.

Islamic Fintech

On Islamic fintech markets, Malaysia is widely regarded as one of the world's most promising, said MDEC's Mahadhir.

"The government has identified Islamic fintech as a strategic avenue to further bolster its global Islamic economic standing and as a source of economic growth. Malaysia is a global Islamic finance leader making it a very attractive proposition for many ambitious

Islamic fintech players," he said.

Referring to the Governance Index for Trusts (GIFT) 2022, he noted that Malaysia's thriving ecosystem leads in talent, regulation, infrastructure, the Islamic fintech market and ecosystem, and capital.

"One of MDEC's key roles includes facilitating market access opportunities for Malaysian-based fintech companies. We have successfully exported Malaysian Islamic fintech solutions to international communities by leveraging Malaysia's market dominance in Islamic finance and Islamic fintech," Mahadhir added.

Meanwhile, MDEC said ESG-related services were also an area of growing interest in Malaysia. The government and private sector were increasingly focused on ESG issues, and there was a growing demand for ESG-related services.

On its part, MDEC aims to encourage digital tech companies to leverage regulatory programmes, such as Bank Negara Malaysia's (BNM) low carbon transition facility (LCTF), to help accelerate the sustainability journey of SMEs.

Then there is also development of resources. One of them is the Malaysian Investment Development Authority's (Mida) SDG Investor Map. Then there is the United Nations Development Programme will provide insights and tools needed by the private sector to increase their investment toward SDGs.

"Last year was a foundational year for MDEC in terms of ESG. We have built this through the development of our ESG Policy and by commissioning an independent materiality assessment to better understand the key sustainability matters impacting MDEC and the digital economy ecosystem," he said.

In support of the ecosystem, MDEC's ESG focus in 2022 has been on climate change as we recently launched the Malaysia Digital Climate Action Pledge (MDCAP). It wants to galvanise digital tech companies to commit specific actions in addressing climate change and supporting SMEs in decarbonisation.

Time will tell if Malaysia sees the emergence of its next unicorn, and the ones after.

Unicorns in South-East Asia

In order to become a unicorn, companies must have an innovative idea, a clear vision for growth and a solid business plan

by JUNE MOH

THERE are more than 1,200 unicorns around the world. That's the number captured at the beginning of this year by CB Insights, a firm that tracks venture capitals and start-ups.

Facebook Inc and Google LLC are popular former unicorns, described as a private company with a valuation over US\$1 billion (RM4.38 billion). South-East Asia (SE Asia) has its share with the likes of Carsons Sdn Bhd, Sea Ltd, Grab Holdings Inc, Lazada Group and Vietnam's VNG Corp.

Varia include deacons, valued at over US\$100 billion, and hectocorn, valued at over US\$10 billion.

Reaching unicorn status is a rare feat. In order to become a unicorn, companies must have an innovative idea, a clear vision for growth and a solid business plan. On top of that, they also need to craft a viable way to get their message to venture capitalists and private investors. That last part is just as important. As they say: No money, no talk.

Unicorns have several exit options. They include remaining private. Founders who want to retain control tend to keep their unicorns private. But this limits the potential for growth. And they often must find ways to provide funders with a return on their investments.

The next option: Go public. Companies get access to the capital they need to grow with an IPO. Some unicorn executives may be slow to take their companies public because it means diluting ownership. Or they can appeal to a buyer. Company owners and executives can achieve their goals faster this way than remaining private.

Here are some unicorns from SE Asia.

Carsons

Carsons is the only unicorn that emerged from Malaysia so far and is valued at over US\$1 billion. It has operations across Malaysia, Indonesia, Thailand and Singapore.

The company provides end-to-end solutions to consumers and used-car dealers, from car inspection to ownership transfer to financing. The company said that every car that transacts on the platform goes through a comprehensive 175-point inspection. The icing on the cake is that every car purchase is backed up with an extended warranty and a money-back guarantee.

Founded in 2015 and headquartered in Malaysia, the company raised US\$290 million and became a unicorn on July 13, 2021.

Sea (Formerly Known as Garena)

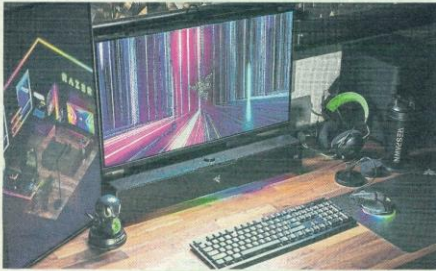
Backers: Tencent Holdings Ltd, Cathay Financial Holding Co Ltd, GPD Venture.

The first-ever Asian start-up to IPO in the US. The e-commerce and gaming technology giant Sea successfully raised US\$884 million with its listing on the New York Stock Exchange (NYSE) in 2017. The



Carsons is the only unicorn that emerged from Malaysia so far and is valued at over RM4.4b

Source: Carsons Malaysia Facebook



Razer has conquered 30% of the video game mouse and keyboard business on a global scale since 2015

Source: Razer's Facebook

Internet company officially entered the unicorn club in 2016 through its US\$550 million fundraising that involved Cathay Financial Holding, placing its valuation at US\$1.75 billion. At the time of its IPO, Sea was valued at US\$4.9 billion.

Razer

Backers: Horizons Ventures, Accel, IDG Capital.

Gamers will know Razer Inc. Founded in Singapore and relocated to San Francisco, Razer is sure to feature highly among gamers in SE Asia. It is the first company to create computer gear for gamers and has conquered 30% of the video game mouse and keyboard business on a global scale since 2015. The

company went IPO in Hong Kong in 2017 with a valuation of US\$4.1 billion.

Among its hardware includes high-performance gaming peripherals and Blade gaming laptops.

Razer's software platform, with over 175 million users, includes Razer Synapse (an Internet of Things platform), Razer Chroma RGB (a proprietary RGB lighting technology system supporting thousands of devices and hundreds of games/apps) and Razer Cortex (a game optimiser and launcher), according to its website.

Razer also offers payment services for gamers, youth, millennials and Generation Z. Razer Gold is one of the world's largest game payment services, and Razer Fintech provides

fintech (financial technology) services in emerging markets.

Today, Razer is dual headquartered at Irvine, California, and Singapore. It has regional headquarters in Hamburg, Germany, and Shanghai, China. It also has 19 offices worldwide.

Grab

Backers: Microsoft Corp, Hyundai Motor Co, Beacon Venture Capital.

Founded in 2012, Grab is an all-in-one transportation service providing a platform that is present in nearly every Asian country, covering over 500 cities and towns across eight countries.

Having recently raised US\$300 million from Invesco Ltd as part of its ongoing Series H funding led by Toyota Motor Corp, Grab's recent investments values the company at about US\$14 billion, according to a media report.

The start-up's founder, Malaysian Anthony Tan — also PT Gojek Indonesia's founder's Harvard MBA classmate — is going head-to-head with Go by spending about US\$700 million to expand its market share in Indonesia.

Trax

Backers: Broad Peak Investment Advisers Pte Ltd, Investec, Warburg Pincus LLC, Boyu Capital Advisory Co Ltd.

A newly minted unicorn, Singapore start-up Trax is in the mid of finalising a deal to raise US\$100 million at a pre-money valuation of about US\$1.1 billion. The start-up serves the retail industry with its image recognition technology being used by global consumer packaged goods companies including Coca-Cola Co and Nestlé SA to track their products on retail shelves.

PatSnap

Backers: Ant Financial, 500 Start-ups, Emtex Group, Mirae Asset-Naver Asia Growth Fund.

The early days of Bukalapak can be traced to 2020 when Achmad Zaky graduated from the Bandung Institute of Technology. He joined forces with his friend Nugroho Herachyonyo to form the company,

Lazada

Since its inception in 2012, Lazada has been a major player of online shopping in SE Asia, providing service in 6 countries



Gojek is one of the most reported start-ups in SE Asia with its aggressive acquisition activity to build its super app

GoTo, trading as GoTo. In 2022, GoTo emerged as Indonesia's largest IPO.

Both businesses have grown to be prominent participants in Indonesia's technology sector and have received sizeable investments from foreign venture capital firms. With a combined market value of over US\$10 billion, both businesses are regarded as unicorns and the most valuable start-ups in SE Asia.

GoTo became the issuer which received the greatest IPO proceeds on the stock exchange, reaching 11.73 trillion rupiah (RM3.88 billion).

The IPO was heavily oversubscribed, with retail investors placing orders for more than 20 times the shares available to them. This strong demand for shares in the company is a testament to the growth and success of GoTo, as well as the potential for the company to continue to grow in the future.

Tokopedia

Backers: Alibaba Group, East Ventures, SoftBank Ventures Asia.

Launched in Jakarta in 2009, Tokopedia is Indonesia's largest online marketplace. The platform became the country's most valuable start-up after raising US\$1 billion from existing investors including SoftBank and receiving a valuation of US\$7 billion.

Lazada

Backers: Tesco plc, Temasek Holdings Ltd, JPMorgan Chase & Co, Rocket Internet SE.

Since its inception in 2012,



Bukalapak has extended its tentacles into digitised small family-owned businesses, known in Indonesia as 'warung'



VNG offers a wide range of products and services, categorised in 4 biz groups: Online games, payment, Zalo and cloud

Source: VNG's Facebook

which literally means "opening a market stall".

Bukalapak is the fourth start-up in Indonesia to have received its unicorn status after Gojek, Traveloka and Tokopedia. The e-commerce business is an online marketplace that is currently home to more than 50 million users, processing two million transactions a day.

In the beginning, Bukalapak started life as an online marketplace to facilitate online commerce for small and medium enterprises. But it did not stay in that space for long when it extended its tentacles into digitised small family-owned businesses, known in Indonesia as "warung". In 2022, industry estimates that Bukalapak has its hands in one out of every four Indonesian "warungs" through its Mitra programme.

VNG Backers: CyberAgent Capital Inc, Tencent, IDG Ventures Vietnam.

Founded in 2004 by an Australian-educated investment banker Le Hong Minh, VNG is Vietnam's first ever unicorn start-up which specialises in online gaming and e-commerce for the local market. In 2016, the start-up reached a US\$1 billion valuation after an

undisclosed funding round led by CyberAgent and IDG Ventures.

VNG offers a wide range of products and services, categorised in four business groups: Online games, payment, Zalo and cloud. VNG has emerged as one of the country's most watched companies, with a possible IPO in 2023, according to recent reports.

The tech company has registered to trade some of its shares on a local exchange for unlisted firms, a move that is often used for companies to test the stock market before their official IPO. It is also reportedly eyeing a US listing, reported Viet Nam News.

Revolution Precrafted

Founded by design and real estate developer Robbie Antonio, Revolution Precrafted is a collection of limited edition, pre-crafted properties, varying from homes to pavilions.

The company sells prefabricated homes created and designed by dozens of internationally known architects and designers including Zaha Hadid, David Saller, Tom Dixon, Marcel Wanders and Lenny Kravitz.

The start-up is reported to have passed the US\$1 billion valuations in November 2017 and became the first unicorn from the Philippines.



This dining pavilion designed by Zaha Hadid is one of the products offered by Revolution Precrafted

10 Emerging Giants in Malaysia

Boost Holdings
Mobile Commerce

Exabytes
E-Commerce

Jirnexu
Fintech

Presto Mall
E-commerce, technology, media and telecom

Mindvalley
Artificial intelligence & machine learning, EdTech, mobile, technology media & telecom

Neuroging
Fintech, mobile

Eatcosys
Fintech

Says
Mobile, technology, media and telecom

Lapasar
Advanced manufacturing, B2B payments, E-commerce, mobile, SaaS

PolicyStreet
Real Estate

Source: Emerging Giants in Asia Pacific, KPMG and IDC

Asia-Pacific Emerging Giants - Breakdown by market of origin



Source: Emerging Giants in Asia Pacific, KPMG and IDC
Note: 10 emerging giants in Asia Pacific (KPMG and IDC) are ranked by market of origin. The total number of 1,472 start-ups compared to Asia Pacific with valuations of US\$50 million or less.

TMGraphics