Alternative funding to help grow local MNCs

| BY TRINITY CHUA |


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Naysan Munusamy, who runs Malaysian start-up MoneyMatch, is shopping for investors in Singapore. He is considering a less conventional option: equity crowdfunding. Much like an IPO, equity crowdfunding involves issuing equity to individual investors in exchange for funds. But crowdfunding takes place on a private platform with fewer prerequisites.

"I have seen angel investors who squeezed start-ups on valuations and deal terms and changed the company's direction unnecessarily. But on a [crowdfunding] platform, start-ups set their terms and investors [join] if they believe in the business," says Naysan, a former Goldman Sachs banker. His start-up, which helps users exchange currencies, raised a seed round of US$150,000 ($209,884) from angel investors in Malaysia, and is now keen to set up operations in Singapore.

A move by a company such as MoneyMatch is just what the government is hoping for. Last month, the Committee on the Future Economy unveiled seven strategies to reshape the local economy. Among other things, it called for more financing options to help start-ups scale up and innovate. "Crowdfunding should be facilitated as an alternative source of financing," the report says. "We should widen the network of angel investors in Singapore to offer start-ups a more diverse support structure and the possibility of syndicated deals."

In doing so, Singapore hopes to attract global investors and build its own global companies. "In the past, the mindset was Singapore supports only big MNCs," says Steven Fang, founder of syndicated deal platform Capbridge. "Singapore is coming to a stage when it recognises that it has invested a lot of time and money in creating good technology. And now, we have enough of these growth companies in the ecosystem to build our own [MNCs]."

Patrick Yeo, PwC Singapore's venture hub leader, says home-grown businesses can be a valuable buffer during economic downturns. "Take the banks, as an example. **UBS** and the like are huge investment banks, but their roots are not here. In the event of a recession, [or when] something happens to their home base, the first thing they do is pull out of overseas countries such as Singapore. But if your home office is here, your R&D centre is here, you won't leave."

Funding gaps

There is no shortage of capital for start-ups in Singapore. A record US$3.5 billion was raised in private equity (PE) and venture-capital (VC) deals here last year, according to global valuation firm Duff & Phelps, exceeding the investments made in neighbouring countries.

But most of the deals have been early-stage investments, at an average of US$276,000 per start-up. "When a start-up wants to raise $10 million to $20 million, there is a gap," says Yeo of PwC. "This is the stage at which start-ups are growing at a fast pace and need the quantum of money to expand quickly overseas. But there are not many players in this space."

Chong Chee Wah, founder of digital security start-up TreeBox Solutions and a former partner at incubator Clearbridge Accelerator, says the amount of money needed tends to be the problem. "It is too big for most Southeast Asian VC firms but too small for PE firms."

At the moment, some of these funding gaps are being plugged by equity crowdfunding and syndicated deals. There are at least three such fundraising platforms in Singapore: FundedHere, Fundnel and Capbridge. Two other players — Malaysia's Crowdo and Estonia's FundedBeam — are launching here this year.

Companies tend to turn to these platforms when they find VC terms too onerous. "VC firms want some control over business decisions and some representation on the boards of these start-ups," says Agnes Siaw, executive director of FundedHere.

Kelvin Lee, co-founder of Fundnel, says these platforms are also a great way for start-ups to reach investors with specialised knowledge. "For instance, healthcare professionals may know how to evaluate medical technology firms better than traditional financial investors. But these doctors do not have the money to start a fund. Through the platform, they can mentor the companies they invest in."

Ambrasia, which used Fundnel to raise money for a drone maker in its investment portfolio called Rooftop, says crowdfunding can also be a speedier option. "It is a lot faster to reach a big network of Singapore investors than to go on a roadshow and meet investors door-to-door," says Ambrasia's founder Kim Min Soo.

A long way from success

The growth of equity crowdfunding is restricted. In Singapore, these platforms are open only to institutional and accredited investors. Platform operators also need a capital markets services licence.

A key concern is how safe it will be for retail investors. A recent study by UK law firm Nabarro and European data analytics provider AltFi Data says one in five companies that raised money on crowdfunding sites between 2011 and 2013 had gone bankrupt. In Singapore, food delivery start-up Hawker.Today, which raised $50,000 on Fundnel, has ceased business; its investors and founders are involved in legal proceedings.

There are also questions about the impact of crowdfunding on a start-up's fundraising potential. "VC firms and angel investors will be less interested in a company if it comes with hundreds of crowdfunding investors. An important point seldom raised is the type of security instruments used in crowdfunding and how it could significantly impact future fundraisings," says Lim Jui, CEO of NTUitive, the innovation arm of the Nanyang Technological University.

Craig Dixon, entrepreneur-in-residence at incubator Muru-D, thinks the transparency of crowdfunding platforms will ultimately work in their favour. "In the long run, crowdsourcing brings transparency to the start-up ecosystem — like a **Yelp** for private investment," he says. "Investors can see what other investors are investing in. This means rogue deals and investors will be known and held accountable."

Yet, it is not a certainty that encouraging crowdfunding will create a local pool of MNCs. Most start-ups in Singapore are acquired at the pre-Series B stage, at less than US$50 million a deal. According to CB Insights, 44% of all tech exits occur before raising Series A funding while 68% of exits are made by start-ups that have not even gone through public funding rounds. "The question we need to ask is, why are start-ups selling out before they become global companies?" says PwC's Yeo.

Possibly, the local start-up scene just needs more time. James Batinga, chief legal officer of venture firm REAPRA, says there have not been that many deals so far. "It will take the emergence of an increasing number of stable and somewhat proven Series B companies to test the appetite of investors."

But Singapore will need to do more if it hopes to lure start-ups. Damian Tan, managing director of Vickers Venture Partners, says: "It is not just Singapore that has the potential to be a hub for great companies of the future." E