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e-Conomy SEA 2020

At full velocity: Resilient and racing ahead

5th edition of **e-Conomy SEA** by Google, Temasek, Bain Southeast Asia's Internet economy research program

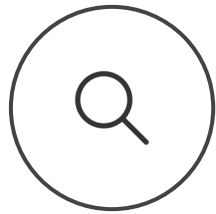


e-Conomy SEA

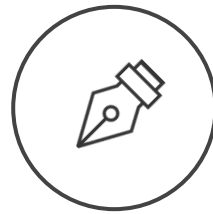
research methodology



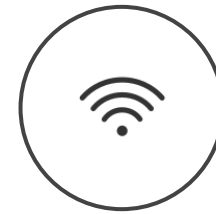
Google trends



Temasek insights



Bain analysis



Primary research*



Expert interviews
&
Industry sources

In partnership with



APP ANNIE



* Note : Kantar e-Conomy SEA 2020 primary research commissioned by Google, Research was conducted in Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Fieldwork ran from 18/08/2020 - 02/09/2020 online via a 25-minute Computer Assisted Web Interviewing survey with a total of 4,712 respondents interviewed.

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Market coverage: **5 leading** Internet e-Conomy sectors and **2 new ones**



e-Commerce

Marketplaces
Malls
Direct to Consumer



Transport & Food

Transport
Food Delivery



Online Travel

Flights
Hotels
Vacation Rentals



Online Media

Advertising
Gaming
Video on Demand
Music on Demand



Financial Services

Payment
Remittance
Lending
Insurance
Investing

New to this year's research are **two nascent sectors** that have rapidly accelerated due to COVID-19.



HealthTech



EdTech

Executive summary

Flight to digital

Internet usage in Southeast Asia (SEA) continues to multiply, with **40M new users this year alone (400M YTD vs 360M in 2019)**. But even as we write this report, the region remains in the throes of COVID-19, and its economic impact is still unfolding. Already evident, however, is that the coronavirus has brought about a permanent and massive digital adoption spurt, with more than **1 in 3 digital services consumer** (36% of total) being new to the service, of which **90% intend to continue their newfound habits post-pandemic**.

Online with a purpose

Southeast Asians spent **on average an hour more a day** on the Internet during COVID-19-imposed lockdowns, and it's easy to see why. The Internet sector provided **access to essential goods, healthcare, education, entertainment, and helped businesses “keep the lights on”**. With 8 out of 10 Southeast Asians viewing technology as very helpful during the pandemic, it has become an indispensable part of people's daily lives.

Resilience in times of crisis

e-Commerce, Online Media and Food Delivery adoption and usage have surged this year, while Transport and Online Travel have suffered significant challenges. Ultimately, the net effect is that the Internet sector will remain resilient at **US \$100B GMV by year end 2020, and is poised to grow to over US \$300B GMV by 2025**, a clear indication that momentum has not been derailed by the year's challenging environment. The crisis will also boost Digital Financial Services (DFS), as consumers and SMEs become more receptive to online transactions.

Executive summary

On the path to profitability

Since peaking in 2018, **funding for unicorns in mature sectors (e-Commerce, Transport & Food, Travel, and Media) has slowed. Platforms are now refocusing on their core business to prioritize a path to profitability**, and are addressing consumers' broad range of needs through partnerships. The emerging **DFS battleground is one of the few spaces where the super-services do collide**, and though it's too early to tell the outcome, we expect that continued funding and a strong cash-generating core business to be key.

New frontiers

HealthTech and EdTech have played a critical role during the pandemic, with impressive adoption rates to match. Even so, these sectors remain nascent and challenges need to be addressed before they can be commercialized at a larger scale. Nonetheless, the boost in adoption, compounded with fast growing funding, is likely to propel innovation in this space over the coming years.

Cautiously optimistic

Deal activity across the region continued to grow unabated in the first half 2020. Despite market turbulence, growth fundamentals in the region remain strong and investors are cautiously optimistic. Where the goal of years prior has been “blitzscaling”, investors are now looking for sustainable, profitable growth.

What's ahead

This year's seismic consumer and ecosystem shifts have advanced the Internet sector in unimaginable ways, putting it in a stronger position than ever. In our 2019 report, **we identified six key barriers to growth - Internet Access, Funding, Consumer Trust, Payments, Logistics and Talent - and this year has seen significant progress on most (Payments and Consumer Trust, especially).** Talent, however, remains a key blocker that all parties will need to keep working on to ensure the momentum gained this year is sustained.

Flight to digital

Quick adoption, lasting growth

New users are coming online at a blistering pace, adding **40M new Internet users** this year alone

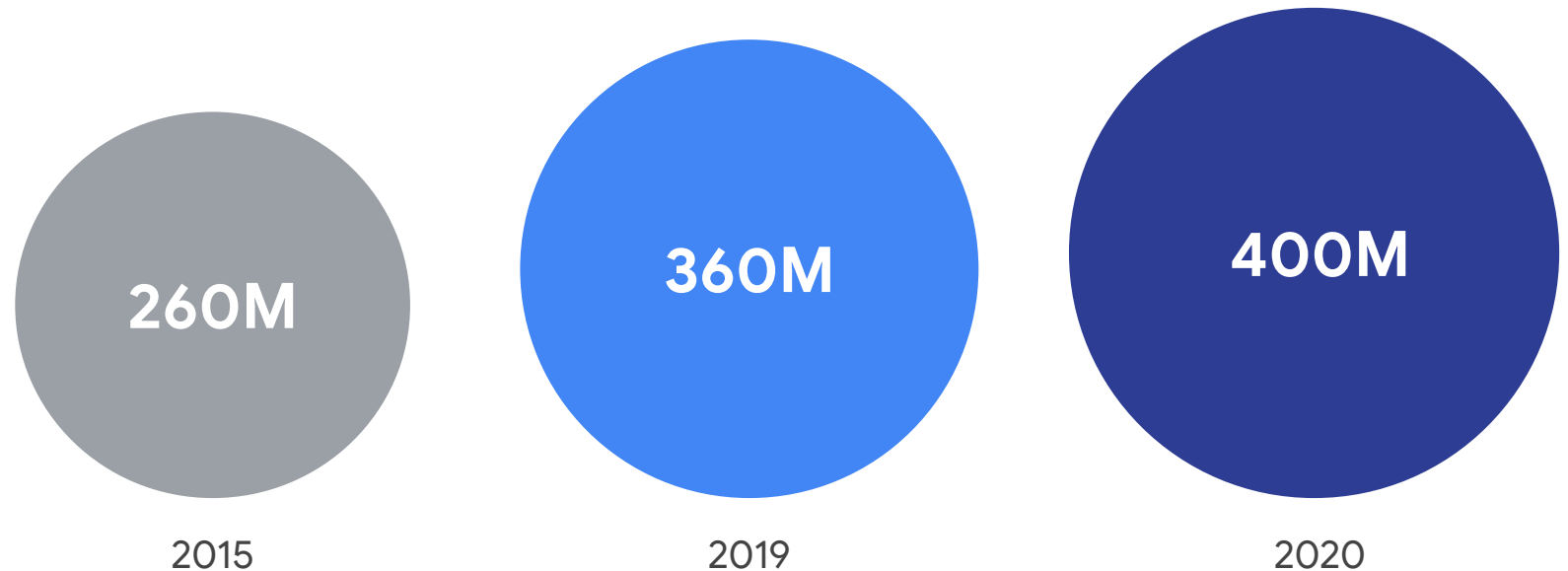
40M

new users joined the Internet in 2020, compared to 100M between 2015 and 2019

70%

of the region's population is **now online**

Total Internet users in SEA

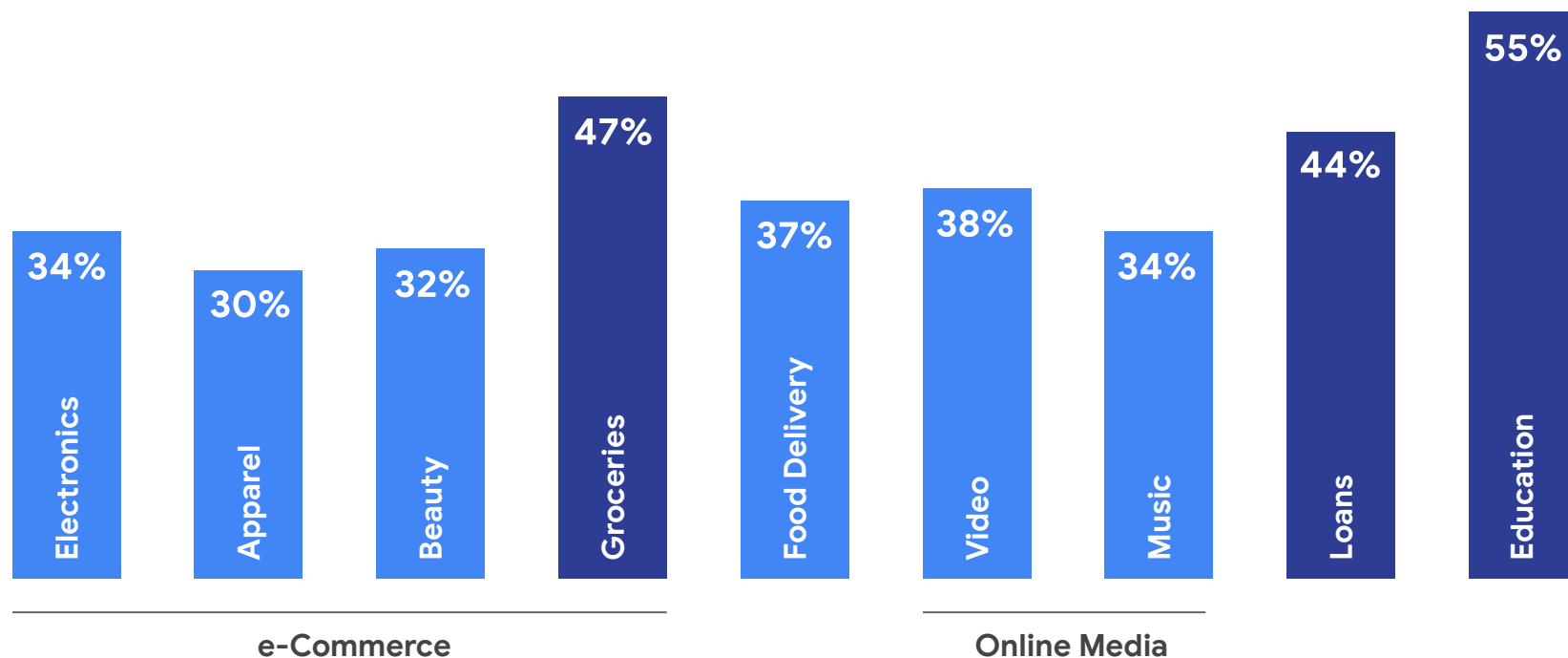


In addition to new online users, COVID-19 led to an **acceleration of digital consumption** as users tried **new digital services** for the first time.

More than 1 in every 3 digital service consumers started using **the service due to COVID-19**.

**Education,
Groceries, and
Lending** benefited
most from the influx
of new digital
consumers

% of new digital consumers out of total service consumers (SEA aggregate)



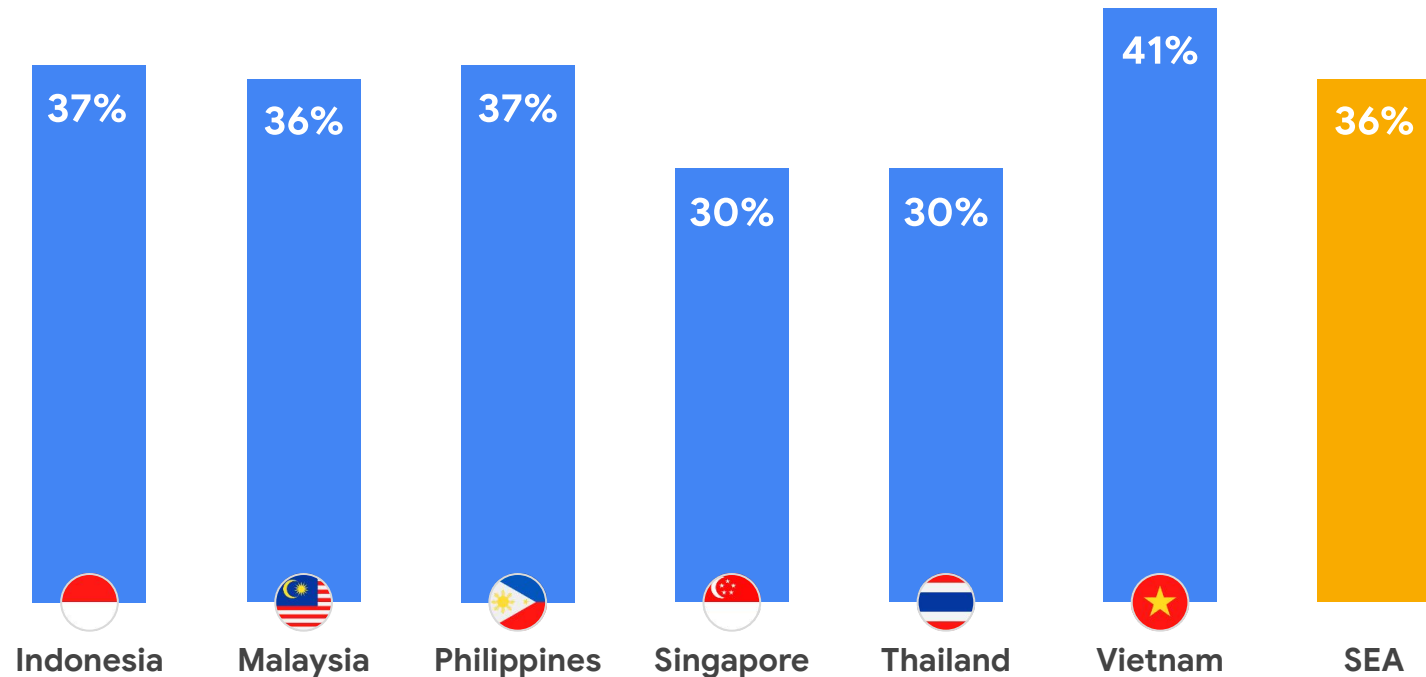
S7. You mentioned that you did the following in the past 6 months. Did this come about as a result of the Coronavirus/COVID-19 lockdown?

Base: Total 'new' user responses: Singapore n=1443, Indonesia n=2762, Malaysia n=1628, Vietnam n=2814, Philippines n=1818,, Thailand n=1707, SEA n=12,172 Source: Kantar

Note: %s are based on responses rather than respondent -on all who qualified for the vertical

On average across
SEA, **1 in 3 (~36%)** of
all digital service
consumers are new
to the service due
to COVID-19

% of new digital consumers out of total service consumers (SEA aggregate)



*New digital services users: consumers who were not already purchasing / signing up for / subscribing to digital services, but did so as a result of lockdowns

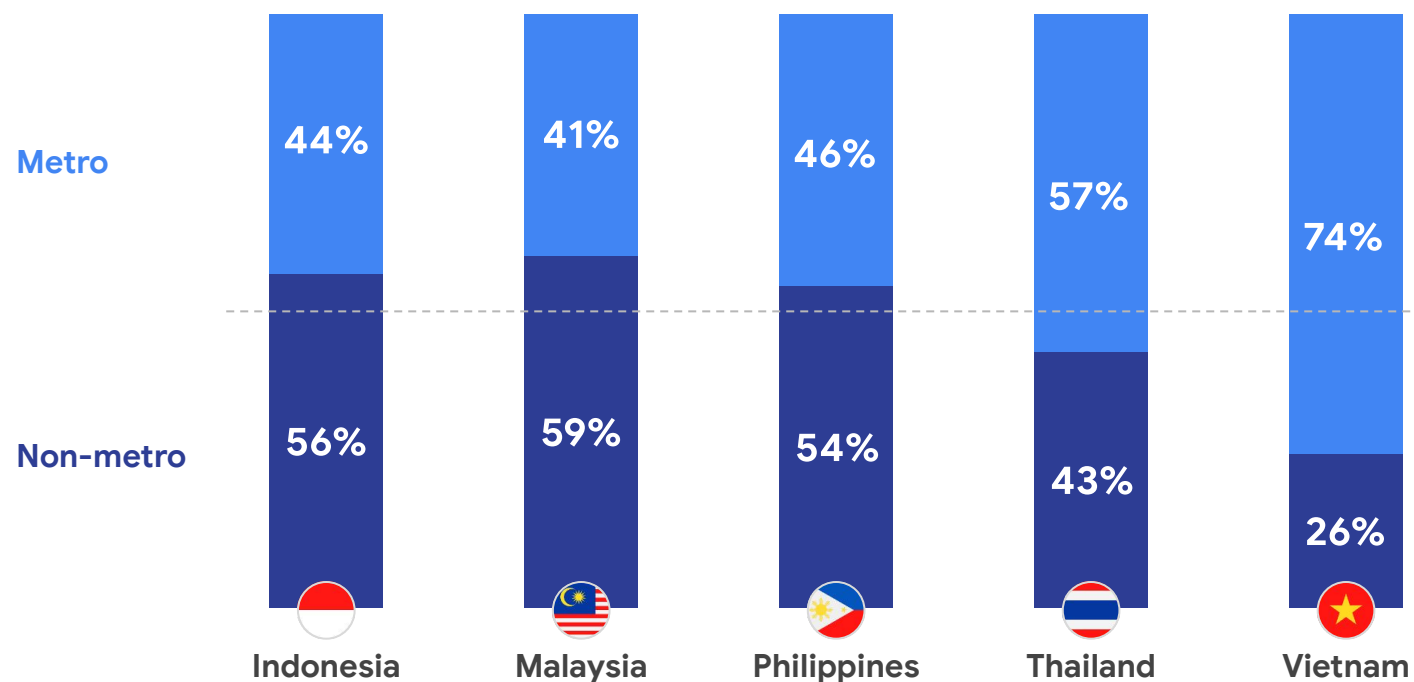
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Source: Kantar. Note: %s are based on responses rather than respondent -on all who qualified for the vertical (not necessarily allocated to vertical)

Aside from
Vietnam and Thailand,
majority of **new**
consumers are from
non-metro areas

% of new digital consumers to services, by geography



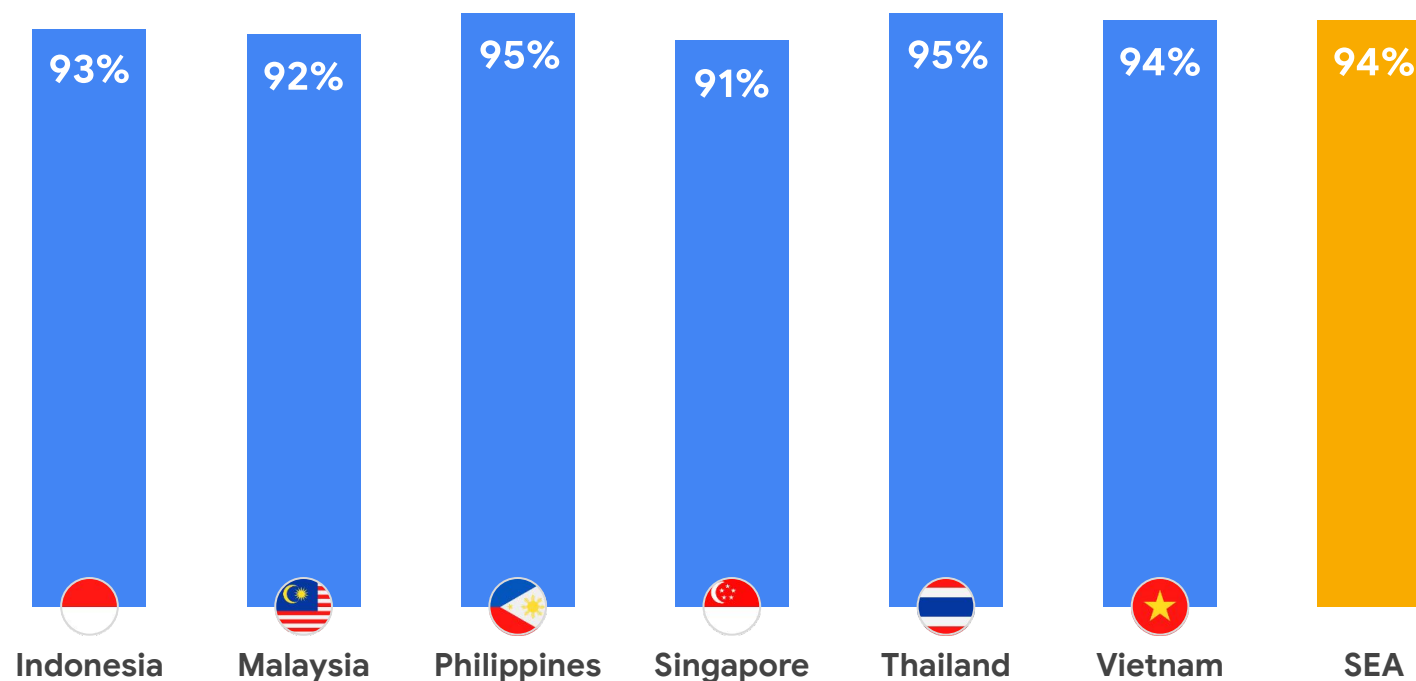
S3. Where do you live? Base: Total new users: Indonesia n=564, Malaysia n=438, Vietnam n=593, Philippines n=465, Thailand n=378, SEA excluding Singapore n=2,438
Total existing users: Indonesia n=814, Malaysia n=605, Vietnam n=747, Philippines n=640, Thailand n=649, SEA excluding Singapore n=3,455 Source: Kantar

*Note: %s are based on respondent level within new/existing, rather than responses

This new digital acceleration is sticky:
94% of new digital service consumers intend
to continue with the service post-pandemic.

9 in 10 new digital consumers intend to continue using digital services going forward

% of new digital consumers who will continue to use at least one digital service post-COVID-19



E1.. In comparison to the COVID-19 lockdown period, do you think going forward that your online purchases of/frequency of using will....(increase/stay the same).

Base: New users: SG n=425, ID n=564, MY n=438, VT n=593, PH n=465, TH n=378

Source: Kantar

*Note: %s are based on respondent level within new users; Continue = purchases/ frequency of using will 'increase' or 'stay the same' going forward

Resilience in times of crisis

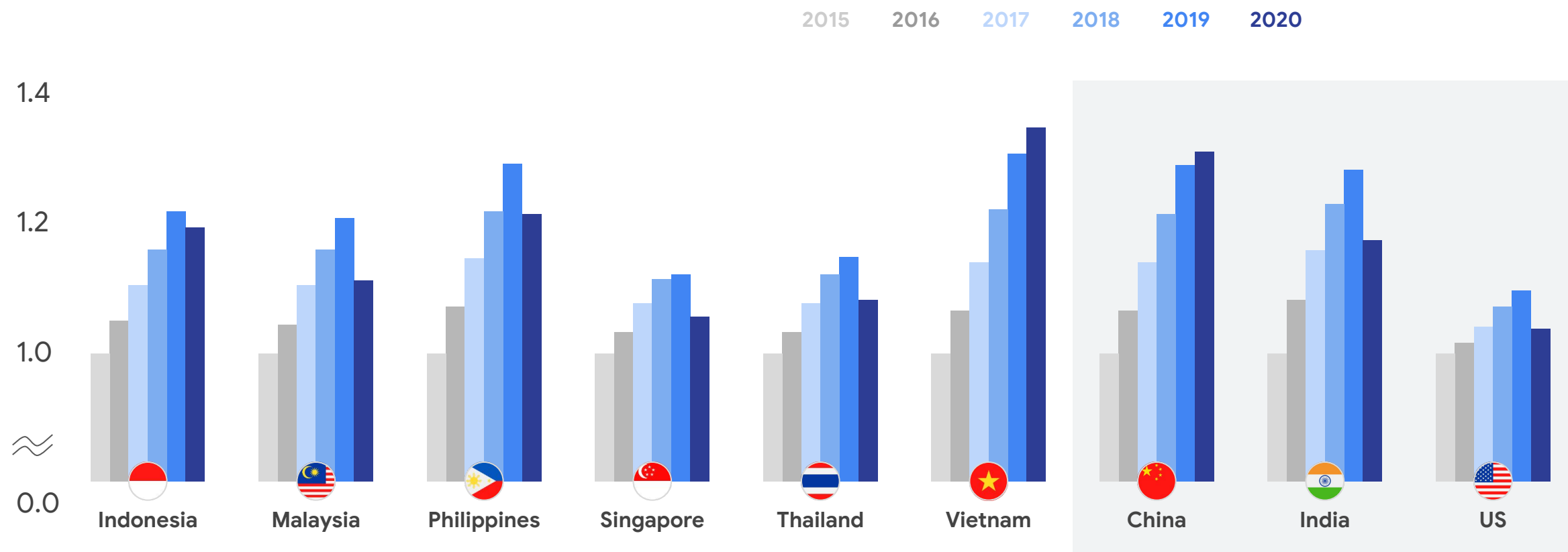
Growth prospects are stronger than ever

The Internet economy **remains resilient at US \$100B GMV**, even in the face of a global slowdown.

As consumers and SMEs come online, the **2025 number stands strong at over US \$300B**, indicating growth despite a challenged environment.

COVID-19 reversed years of economic growth

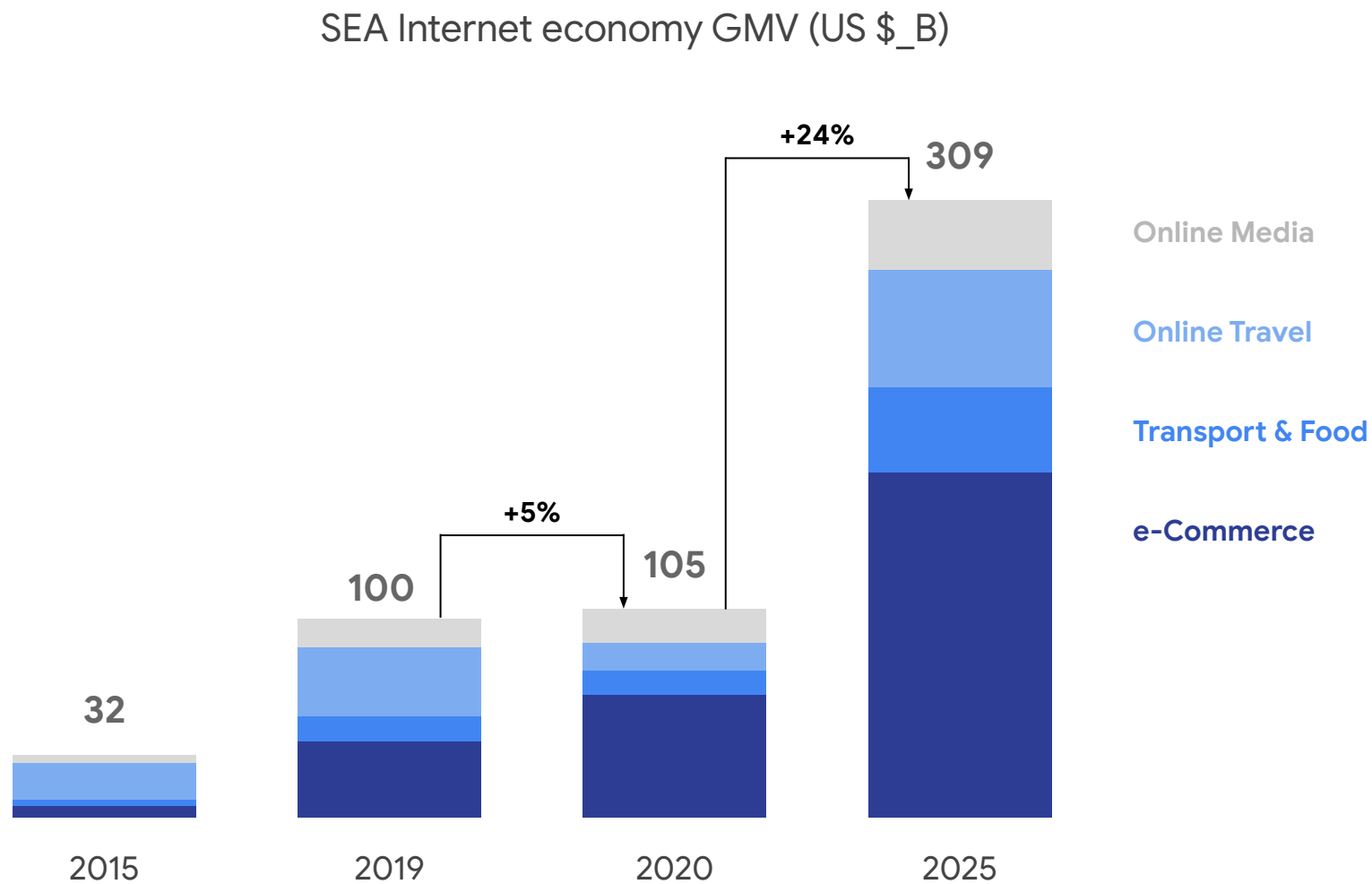
Real GDP 2015-2020, by country, indexed to 2015 levels



Note: Real GDP is based on 2010 US\$ prices.
Source: Economist Intelligence Unit, extracted Oct 2020

The SEA Internet economy will exceed **\$100B GMV** this year despite headwinds

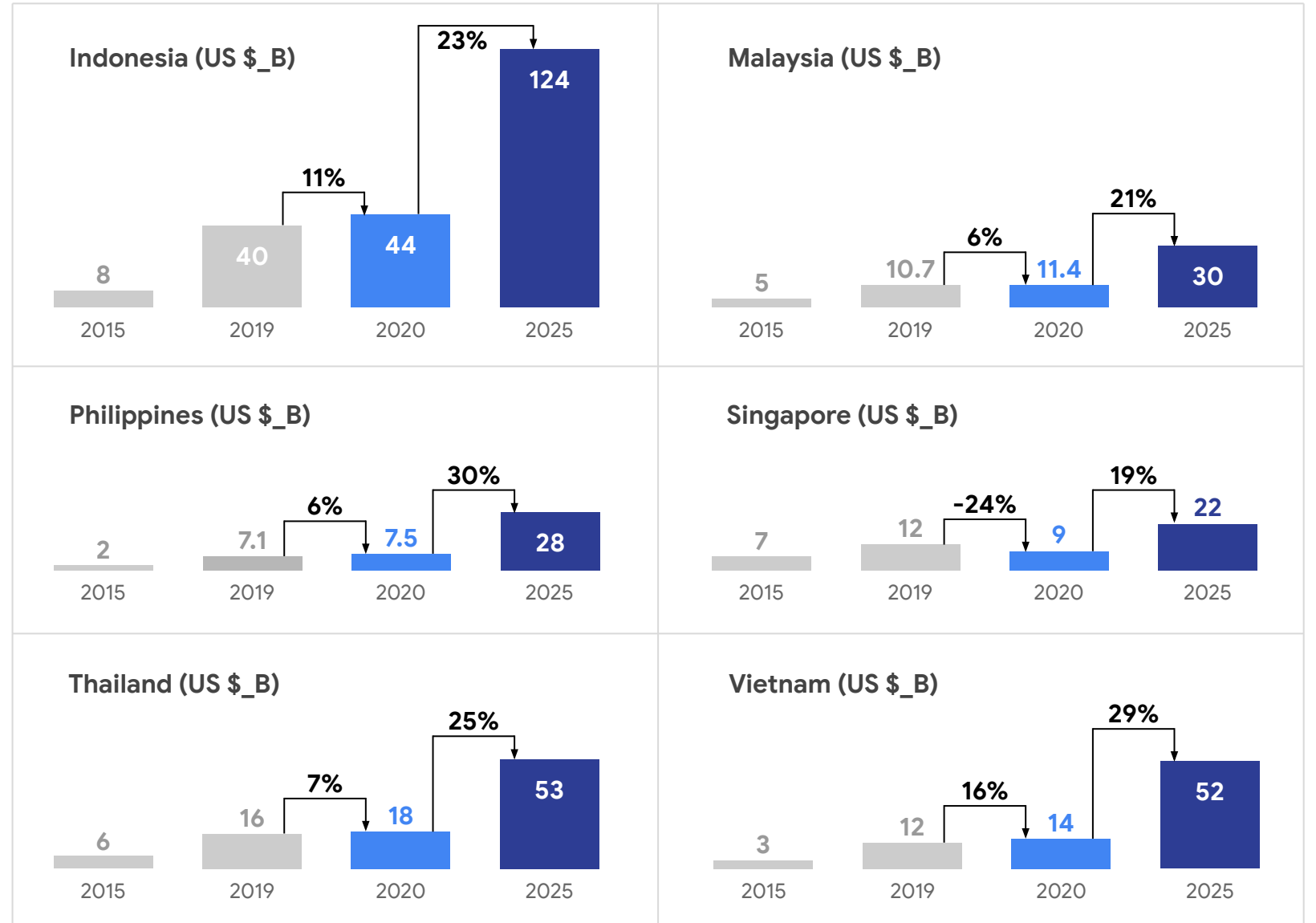
CAGR



SEA Internet economy GMV (US \$ _B)

Vietnam and Indonesia's digital economies still growing double digits

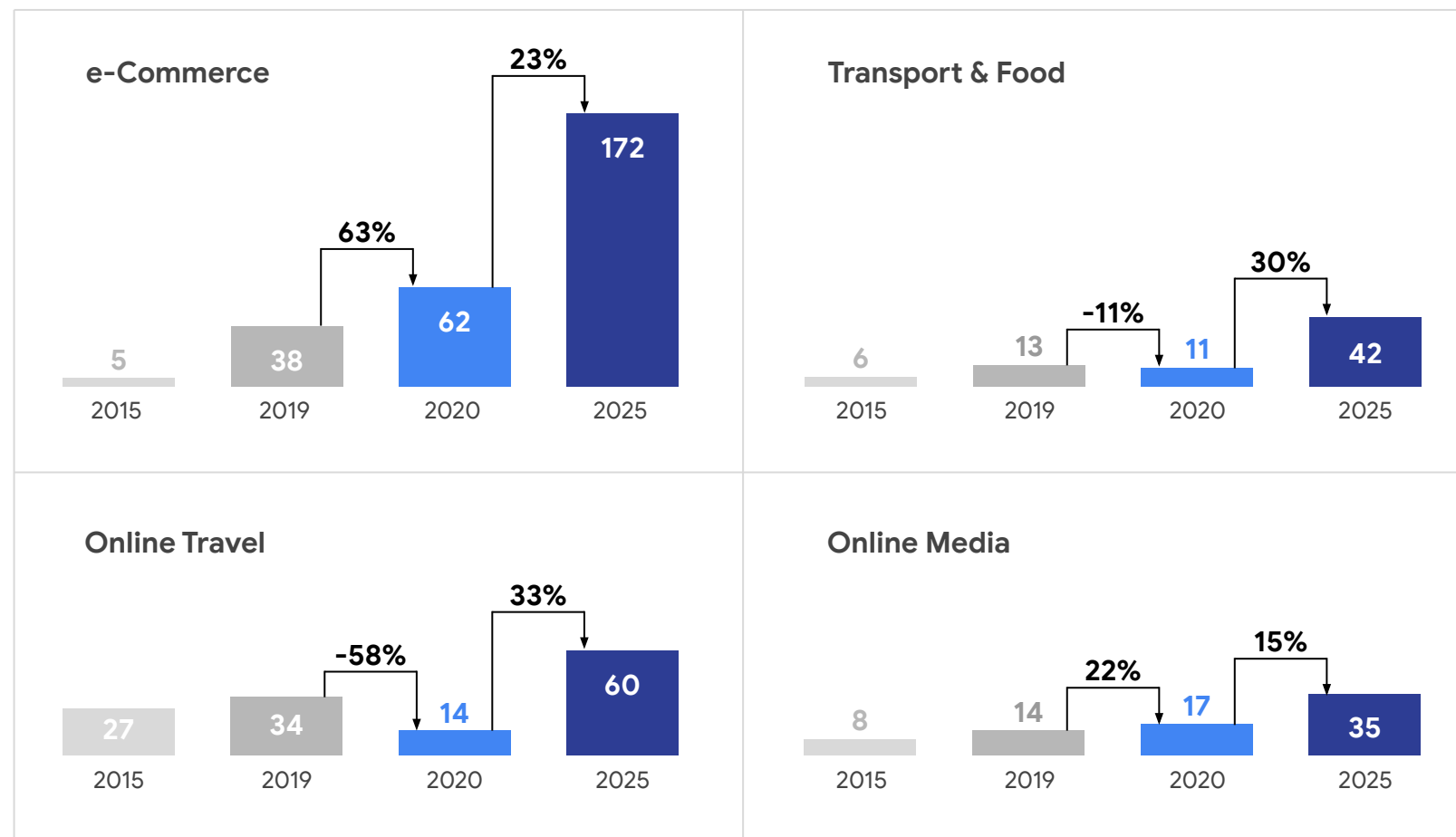
CAGR



Overall, **gains**
in e-Commerce,
Media, and Food
Delivery **have offset**
contractions in
Travel and Transport

CAGR

GMV (US \$ _B) per sector



Cautiously optimistic

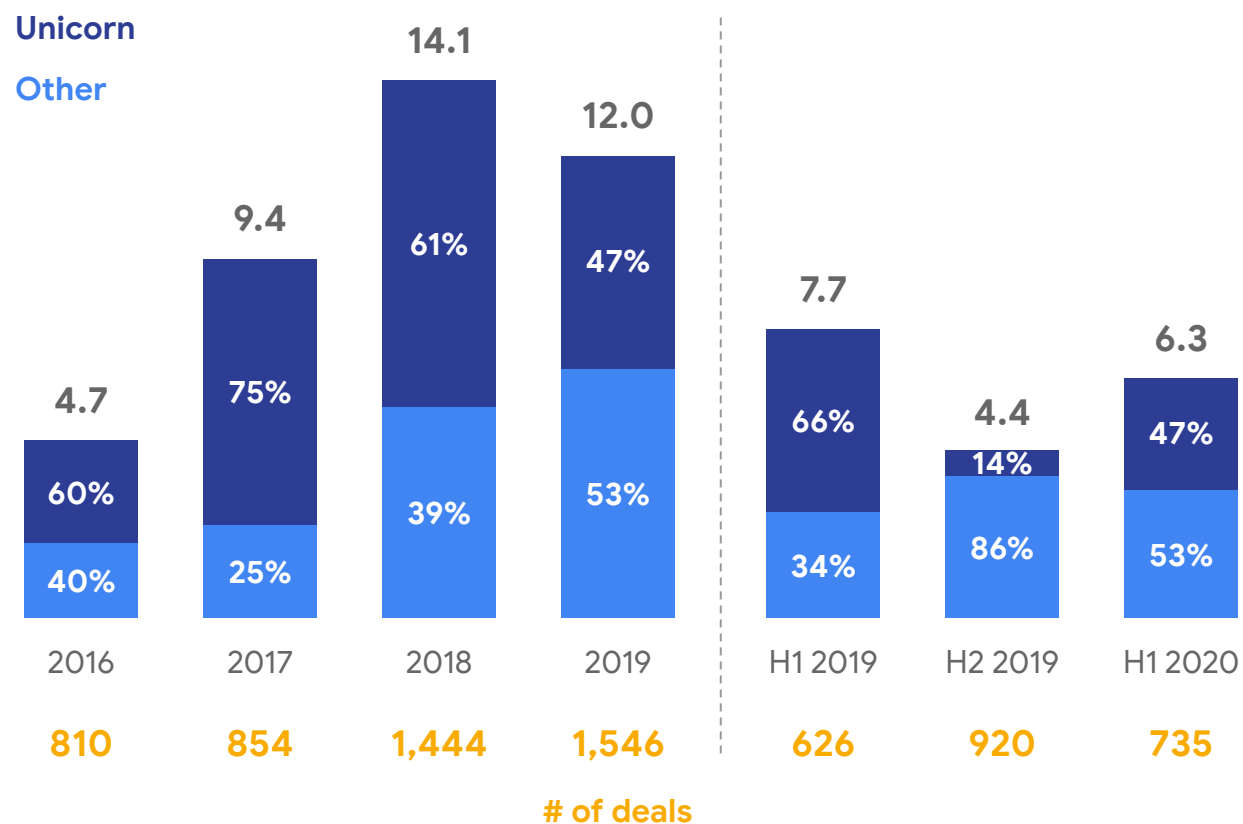
Investors remain confident

Outlook remains strong, and significant dry powder remains; **investors are cautiously optimistic.**

Investments will be more selective going forward,
shifting from only growth metrics towards
sustainable profits.

Deal activity across the region continues to **grow**

Deal value (US \$_B)



Tech investment landscape in SEA continues to flourish – number of transactions increased by 7% between 2018-19, and 17% YoY between H1 19 and H1 20.

Deal value has declined since 2018, primarily driven by a slowdown in big-ticket unicorn investments.

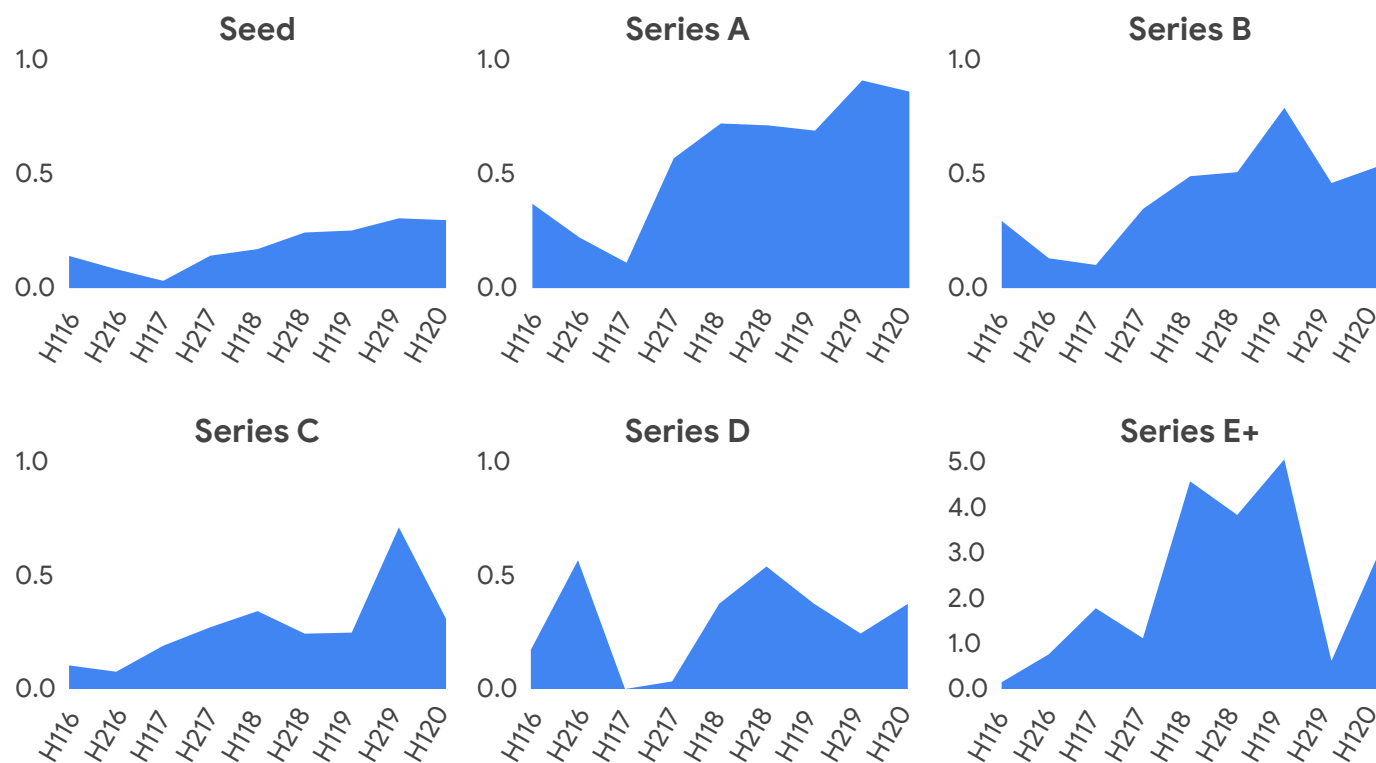
Non-unicorn investments continue to exhibit strong growth.

Momentum is largely sustained through H1 2020, though some deals were likely struck before the pandemic.

Looking ahead, investors continue to remain optimistic, albeit cautiously, about investment opportunities in the region.

Early stage remains strong, though mid-stage funding has plateaued

Funding (US \$_B)



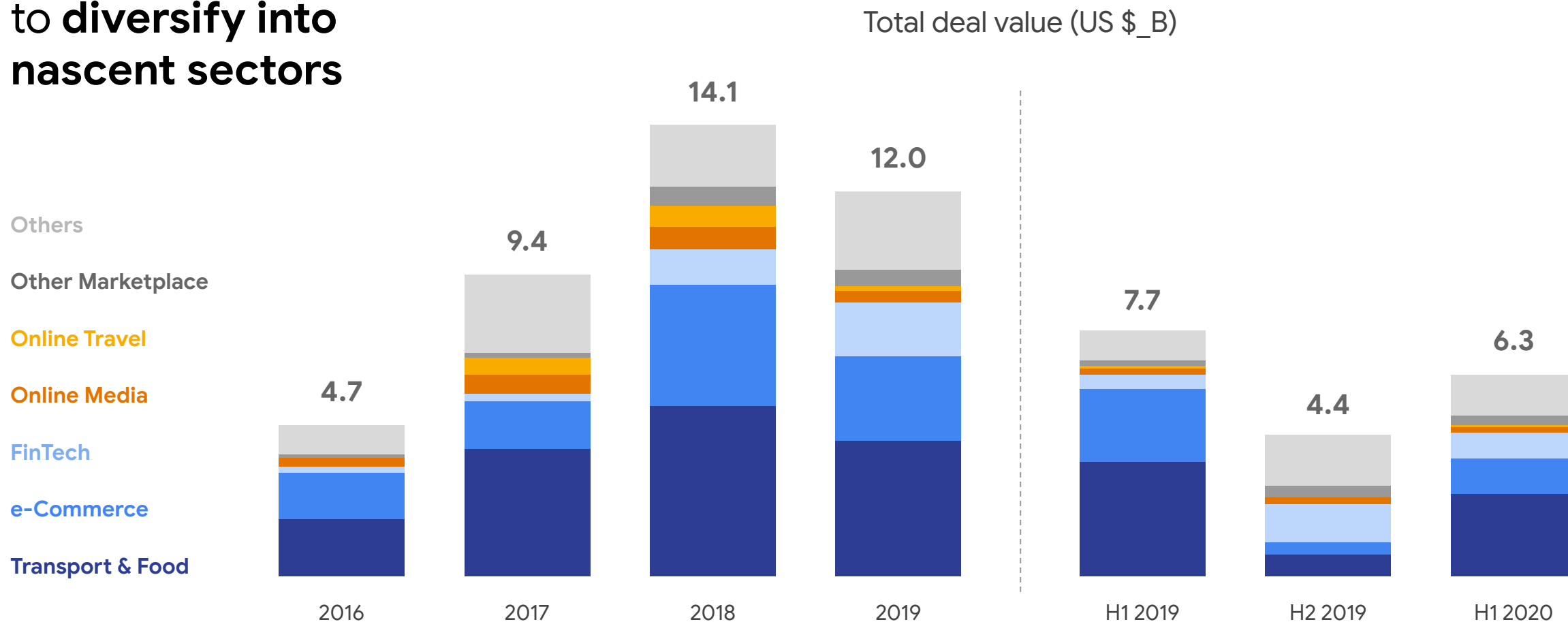
Early stage funding (Seed, Series A, Series B) makes up more than 95% of yearly deal transactions.

Average deal size for early stage funding continues to swell.

Between 2016 and 2020, Series B doubled while Seed and Series A nearly tripled.

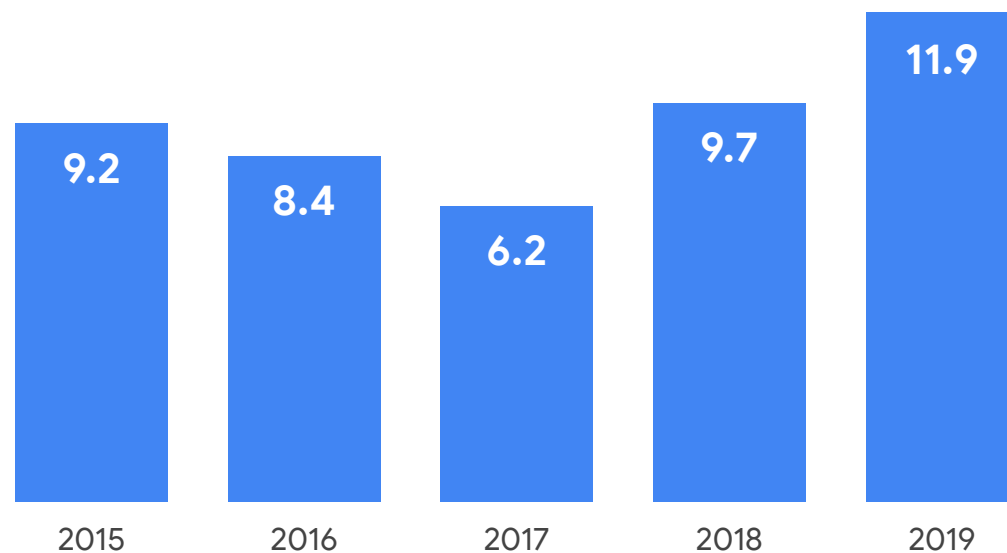
However, mid-stage funding has plateaued. There were 17 Series C and D in H1 2020; down slightly from 19 in the same period the year before. Total amount raised had increased by 9% to US \$700M.

Investors continue to **diversify into nascent sectors**



Investors remain cautious but ample dry powder maintains activity levels

SEA-based funds dry powder (US \$_B)



Note: Funds include both PE and VC funds; dry powder refers to the amount of capital that has been committed to a fund minus the amount that has been called by the fund for investment. Source: Preqin

More caution, lower likelihood of cross-border deals

- Funds may pivot efforts in 2020 to focus on stabilizing their portfolios
- Deal-making could temporarily be at a stand-still in some markets due to logistical delays in conducting due diligences or in securing regulatory approvals

Ample dry powder to deploy

- Dry powder reached record heights in 2019 with investors holding substantial capital going into 2020
- Sequoia Capital and Wavemaker Partners had both announced the close of their Southeast Asia funds in July 2020, while others like Openspace Ventures had completed their first close.

Investors still have sufficient capital for good opportunities

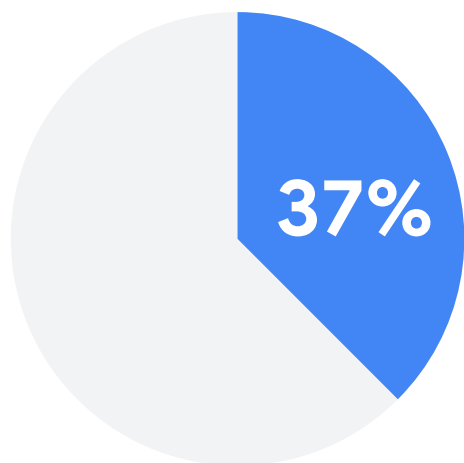
- In the current climate, different investors will have varying investment strategies moving forward
- Most are adopting a wait-and-see approach so natural market forces can separate the wheat from the chaff before making more calculated investments.

Country view

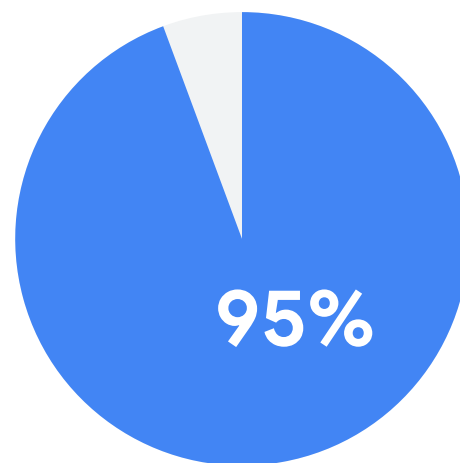
Philippines

Exponential growth of digital consumers (who will stay)

New consumers to Internet
economy services

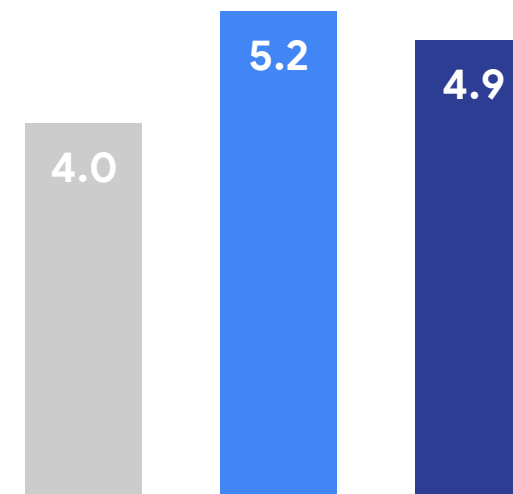


% of new consumers who will
continue to use at least one
digital service post-COVID-19



Average hours spent online
per day (personal use)

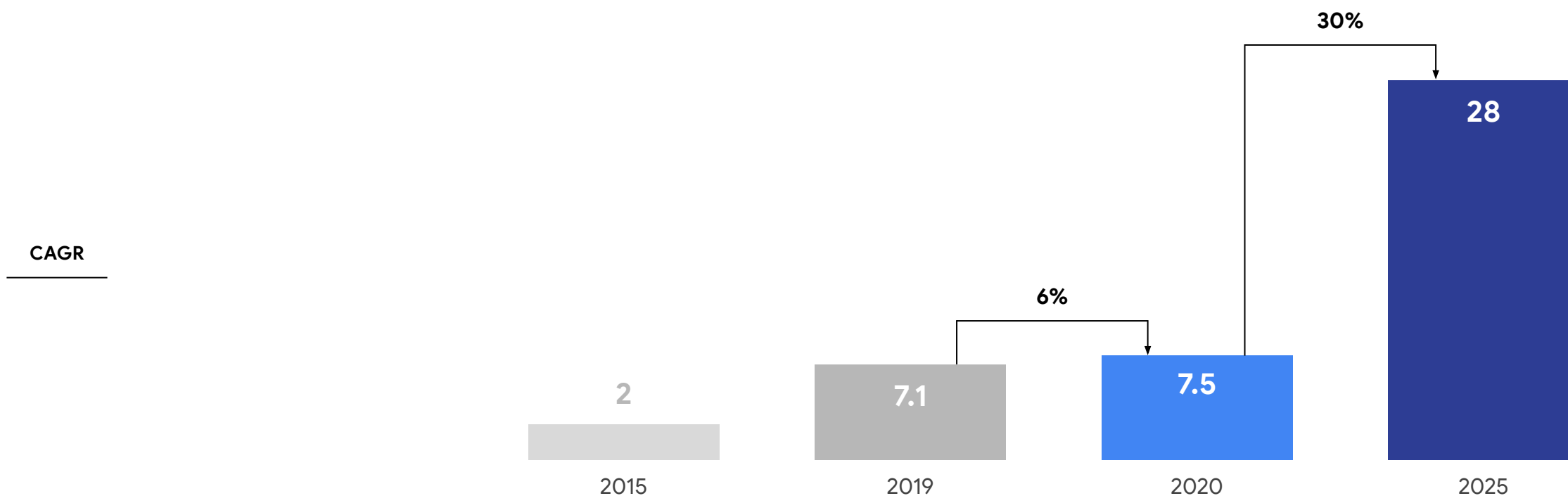
Before During After



Philippines

Internet e-Conomy stands resilient at US **\$7.5B**

Internet e-Conomy GMV (US \$_B)

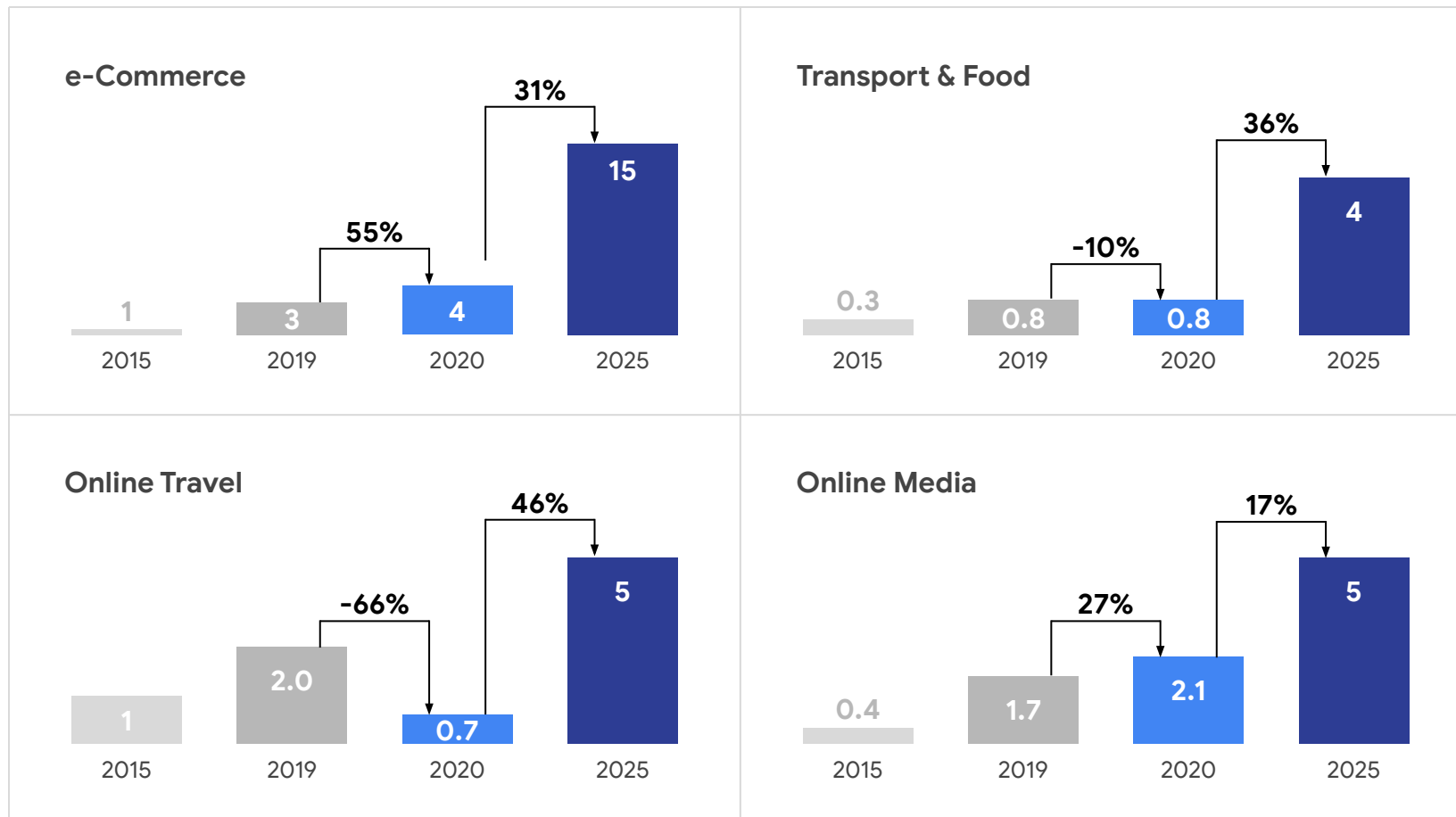


Philippines

e-Commerce and Media offsets contraction in Transport & Food and Travel

CAGR

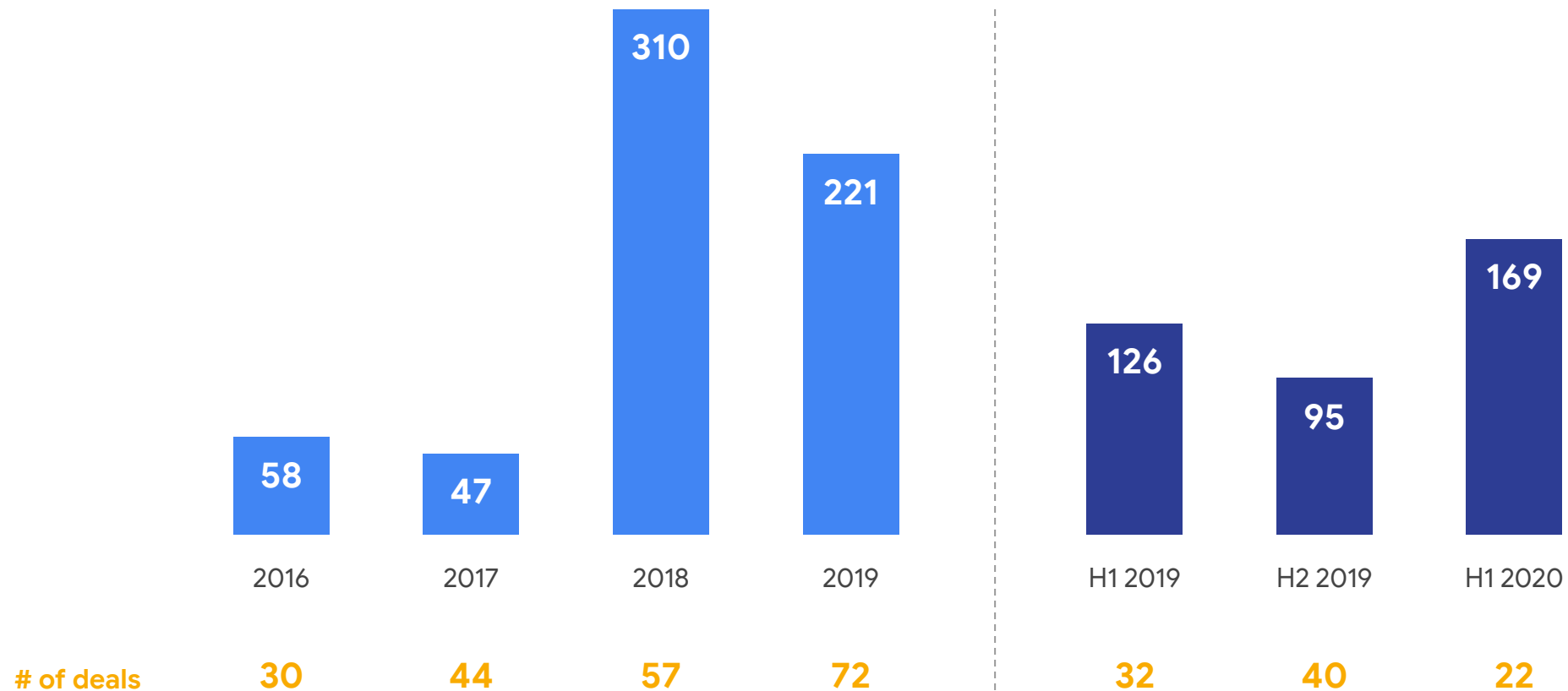
GMV (US \$ _B) per sector



Philippines

Investment in Internet sector

Deal value (US \$_M)



Source: Industry reports, VC partners, Bain Analysis

What's ahead

e-Conomy SEA 2020: the Internet economy will emerge stronger than ever



Unprecedented move towards digital services, putting digital technologies in center stage, now and hereafter.



Adoption, acceptance, and usage hyper-accelerated for both consumers and SMEs.



The Internet economy hits US \$100 billion and is on track towards >US \$300B in 2025, despite challenges.



Market competition remains healthy, with more opportunities in an open ecosystem.



Investments in technology remain strong, with shifting attention towards budding sectors HealthTech and EdTech.

The key 6 momentum drivers remain the same as last year; talent continues to be the critical blocker

 Significant progress

 Limited progress

Internet access

- There are 400M Internet users in SEA, of which 70% are online
- 40M new users were added in 2020

Payments

- Cash as payment method fell from 48% of transactions to 37% in 2020
- In comparison, e-wallets rose from 18% to 25%

Talent

- Growth of Internet sector may be held back due to shortage of workers with right skills
- Urgent need and opportunity to reskill and upskill workers so that they can find jobs in growing Internet sectors amid the tough employment climate

Consumer trust

- 1 in 3 of all digital services users were new due to COVID-19; 94% of them intend to stay
- 80% of users also find tech helpful and indispensable

Funding

- Deal activity is growing but pace of activity has slowed
- Ample dry powder still available for proven sustainable and profitable ventures

Logistics

- While the growth of e-Commerce indicates better logistics, “Issues with delivery” remains the single biggest barrier to e-Commerce cited by consumers in 5 out of the 6 countries

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