MDI ventures
by Telkom Indonesia

How Large Enterprise Can Enter CVC

OUTSIZED RETURN ON INVESTMENT
AND REAL CORPORATE SYNERGY

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FOREWORD

The current global situation, brought on by the "winter" thread, has caused massive digital disruption in Indonesia.

This has created a new set of challenges for large enterprises and State-owned Enterprises (SOEs). In order to survive and thrive in this digital age, it is crucial for these organizations to form synergies with startups in order to digitize their companies.

As the digital landscape continues to evolve, it is more important than ever for companies to be at the forefront of innovation and technology. At Telkom Indonesia, we understand this and are committed to supporting the development of Indonesia's digital ecosystem. Through our corporate venture capital arm, MDI Ventures, we have set out a vision to encourage growth in the digital ecosystem by collaborating with digital startups and creating new opportunities.

MDI Ventures, established in 2016, is a CVC that has helped establish these synergies between SOEs, large enterprises, and high-growth digital startups. Our goal is to bridge the gap between these parties and enhance collaboration in order to generate synergy value.

We are pleased to present this industry report on the state of Indonesia's digital ecosystem and the benefits of CVCs for large enterprises. Through this report, we aim to demonstrate how CVCs can lead to an outsized return on investment and real corporate synergy and hope that our efforts here will serve as a valuable resource for other entities looking to enter the CVC space.

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IN BRIEF

This whitepaper will explore the opportunities and challenges of corporate venture capital (CVC) for large, legacy enterprises, with a focus on state-owned enterprises (SOEs) in Indonesia and the ASEAN region, and how businesses can best get into the CVC industry to drive outsized growth for both their corporates and startups alike.

Section 01

Large Enterprise Challenges in a Digital Business Jungle

Section #1

Large Enterprise Challenges in a Digital Business Jungle

A DISRUPTED, DIGITAL FUTURE

We are in an era of digital disruption – new technologies are cropping up at never-before-seen speeds, partly due to the lasting impacts of Covid-19. And, due to the meteoric rise of digitalization, the global challenges we face today are far different from those a decade ago.

Competition from Indonesia's neighbors in Southeast Asia and the wider Asia-Pacific region is also ramping up, with each country jostling for a slice of the digital pie.

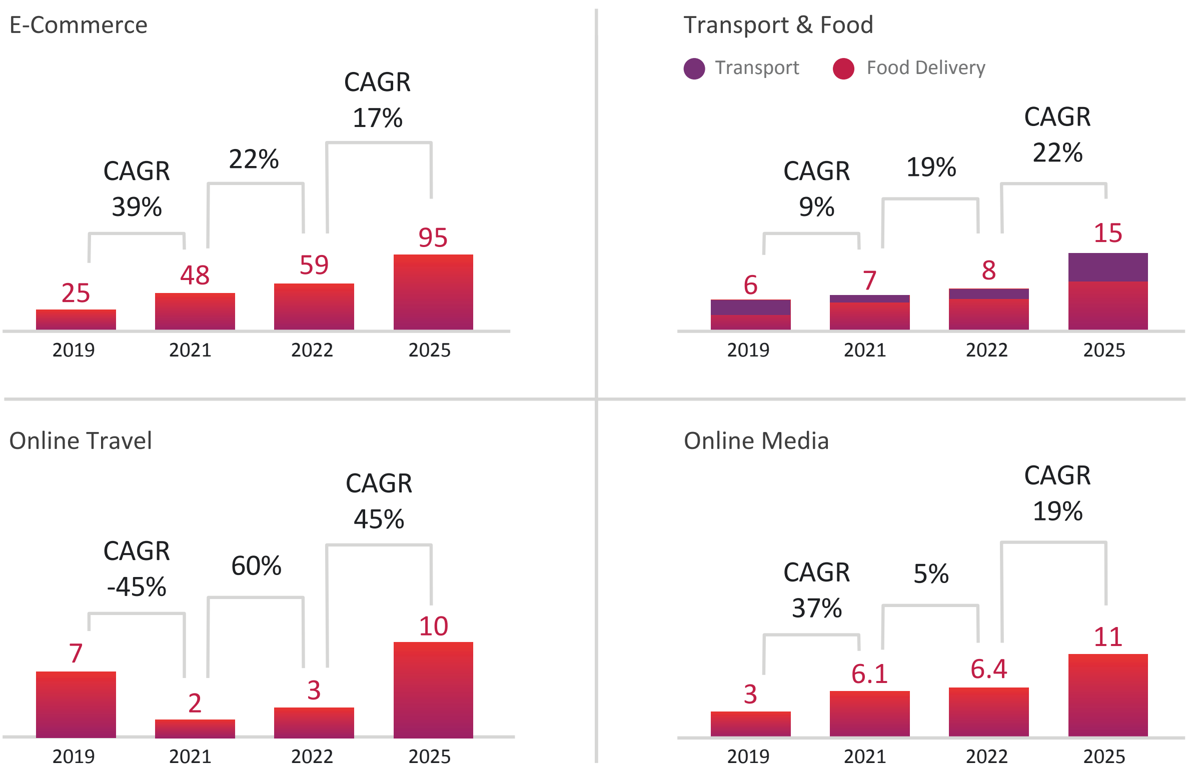
Illustration analogy: Digital disruption

Although Indonesia has a reputation for successfully creating tech unicorns and seeing rapid digital adoption, the reality is that most Indonesian businesses are having a difficult time adapting. According to a 2021 survey by law firm Baker McKenzie, 84% of Indonesian businesses were slower to digitalize their operations as compared to competitors – and only 34% felt successful in onboarding and commercializing new technologies[1].

The rising tide of tech startups is forcing their traditional counterparts to keep up with the times or get left behind.

All sectors of the digital space are seeing double-digit growth this year, and this is only set to rise exponentially in the future.

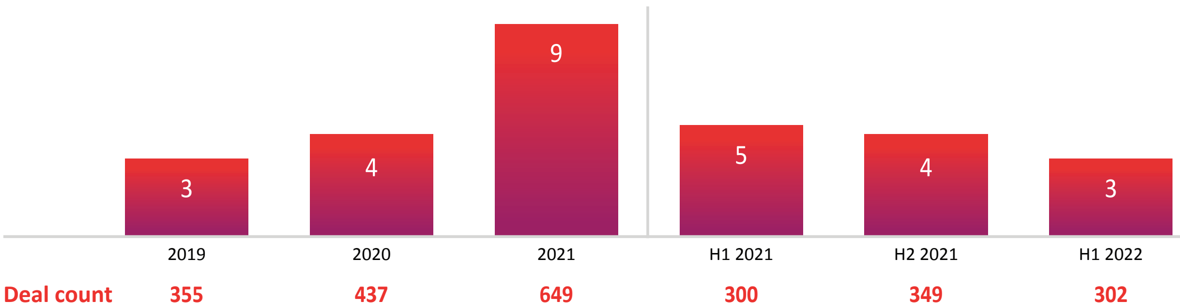
GMV per sector (US$B)



GMV per sector in Indonesia's Digital Economy (e-Conomy SEA 2022[2])

Both domestic and foreign capital are getting wind of this. In just the first half of 2022, dealmaking in Indonesia had already surpassed the value of each of the previous four years.

Deal Value (US$B)



Value of deals in Indonesia's Internet Economy 2019 - 2022 (e-Conomy SEA 2022[2])

Differences between Incumbents and Digital Attackers

INDUSTRY	INCUMBENT COMPANIES	DIGITAL ATTACKERS
BANKING	mandiri, BANK BRI, BCA • Most have their own dedicated ATMs • Physical branches allow a more personal banking experience • Preferred by consumers who are not as tech-savvy • Legacy reputation that heightens trust and reliability	Jago, Aladin, BNC bank neo commerce • Easier to reach the >66% of population that remains unbanked • Leverages high internet penetration rate and young population • Lower running costs due to lack of a brick-and-mortar branch • Convenient for consumers, especially those in non-urban areas
RETAIL	mppa, Ramayana, MAP • Preferred by less tech-savvy merchants and consumers • Established presence	tokopedia, Shopee, bukalapak • Convenience and ease of use for consumers • Wider diversity of goods for consumers • Can be leveraged by micro, small, and medium-sized enterprises (MSMEs) to reach a wider audience
LOGISTICS	Agility, CEVA Logistics, Yusen Logistics • Established track record of operating in a country where both sea and land freight are very necessary • Promising compound annual growth rates despite digitalization of industry[3]	waresix, Kargo, Logisly • Eliminate uncertainty and inefficiency in the supply chain • Act as middle-man between businesses and logistics providers • Increased ability for businesses to track inventory • Reduce verification time for transporters • Lower overall costs
HEALTHCARE	IHC, Siloam Hospitals, kimia farma • More credibility, especially among more mature customers • Enhancing the communication experience with doctors by facilitating offline meetings.	halodoc, ALODOKTER, SwipeRx • Simplifies a typically-long process of medical care • Prevents physical contact to mitigate spread of virus • Reduces waiting time for patients with teleconsultation • Increases the accessibility of medical care and medicine • Lower overall costs
AGRICULTURE & FOOD	JAPFA, ID FOOD, Charoen Pokphand Indonesia • Established track record as agriculture provider/enabler • Possesses close proximity to the target market (in terms of geography and familiarity)	DELOS, AgriAku, Pitik • Acts as middle-man between tools producers/distributors and farmers • Incorporates technology to enhance agriculture and aquaculture supply-chain • Enables farmers to operate more cost-friendly and efficiently

CHANGE STARTS FROM WITHIN

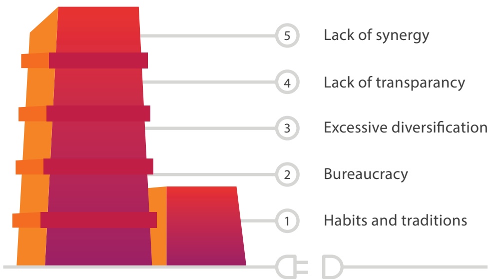
Trends are clear. The digital attackers of today will significantly disrupt — if not fully upend — their larger incumbent counterparts. To avoid getting left behind, corporations, including state-owned enterprises (SOEs) and private conglomerates, must first recognize and address their internal challenges. As large organizations with an established history of operating in Indonesia, these two face similar hurdles.

The 90+ SOEs in Indonesia have always played a central role in providing infrastructure and public services. However, they have come under scrutiny for their financial performance.

For example, 80% of SOE income is generated from 15 companies[4]. This has led to calls for reform, but it is easier said than done, due to bureaucratic resistance and a lack of independent auditing. However, restructuring is slowly taking place, which signals an awareness that processes have to be adapted to be more nimble and efficient[5].

Similarly, large private conglomerates are often bound by excessive bureaucracy and tradition, making it difficult to efficiently and sufficiently reform their internal processes. The nature of a conglomerate also makes it difficult to specialize in a single vertical, unlike most digital attackers which now concentrate on a single niche with a laser-like focus. The tendency to cling to the outdated idea of diversification and incremental, long-term growth can hold risk-averse conglomerates back.

Internal Challenge



Challenges businesses face in the digital age

Opportunity Costs

For large, traditionally-run organizations, the opportunity cost of not addressing their digital threats does not come cheap. Although resources like time and manpower can be saved by sticking to tried-and-tested routines, they run the high risk of losing money in the long term due to digital attackers being better able to adapt and meet the rapidly evolving needs of consumers. Other than technology, this also applies to companies in industries such as media, healthcare, and education[6].

Section 02

Cautionary Cases of Tech Disruption

Section #2

Cautionary Cases of Tech Disruption

STARTUPS VS CORPORATIONS

Most of us are no strangers to the story of David toppling Goliath. It is a narrative that has rung true multiple times in the business world. We can look to prominent historical cases of newcomer tech startups ousting corporate incumbents to see how this has played out in the past.

The case studies below are just a few instances of this classic story wherein the underdog climbs its way to the top. The earliest of these is the story of how **Amazon** dominated **Barnes & Noble** and other offline bookstores in selling books. More recently, with the arrival of the 2020 pandemic and increased demand for remote working, household name **Zoom** also quickly overtook tech giant **Google** in the market for video conferencing. Lastly, there is also the classic case between **Netflix's** future-oriented strategy that managed to triumph over the long-standing entertainment giant **Blockbuster.**

Illustration analogy: Startup disruption

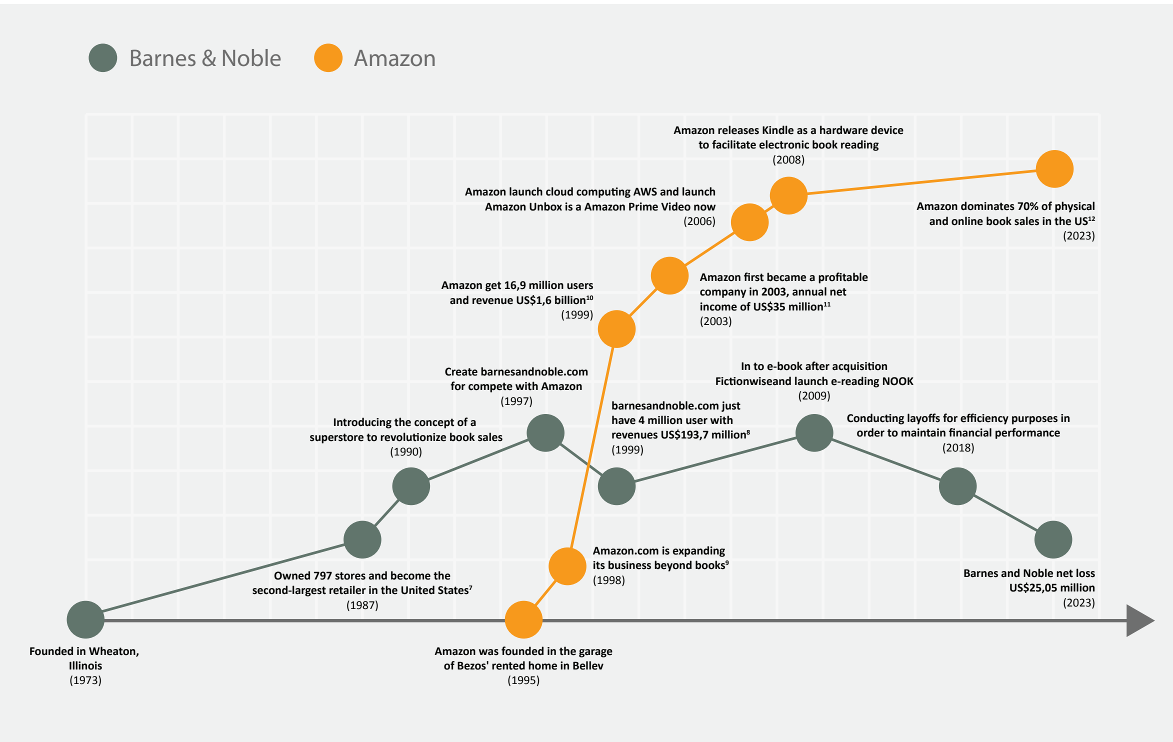
Case Study 1: Amazon vs Barnes & Noble

amazon vs BARNES & NOBLE BOOKSELLERS

Amazon.com emerged as a new form of book sales, specifically online. In fact, when Amazon was launched in July 1995, Jeff Bezos referred to it as the World's Largest Bookstore.

However, one of the largest bookstores in the US, Barnes and Noble, actually embraced the competition with Amazon. Despite that, in terms of business growth scale, Amazon proved to be more resilient and disrupted Barnes and Noble, forcing them to undergo digital transformation in order to survive.

Timeline of Disruption



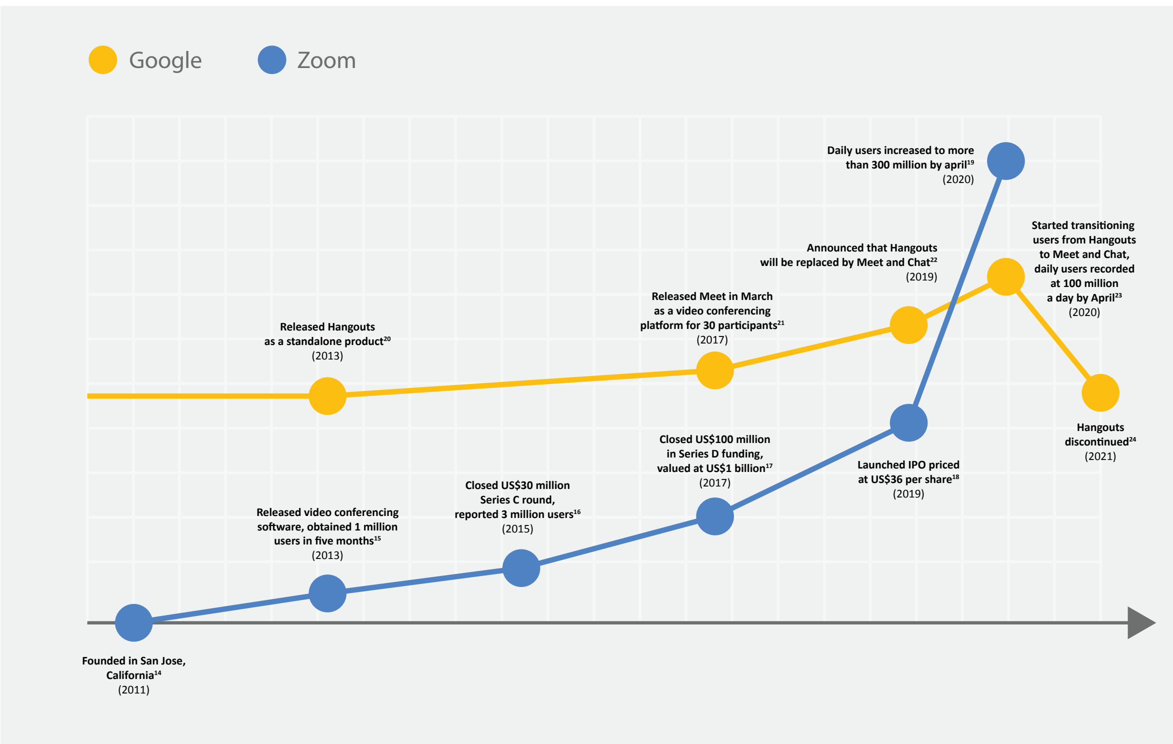
Case Study 2: Zoom vs Google

VS

Both companies are now household names, but Zoom is undoubtedly still the video conferencing app of choice for most users. Google had rolled out multiple video conferencing platforms before Zoom's meteoric rise, but it failed to capture the market during the critical remote working boom driven by Covid-19.

Currently, Zoom holds about 50% of total market share, compared to 22% for Google[13].

Timeline of Disruption

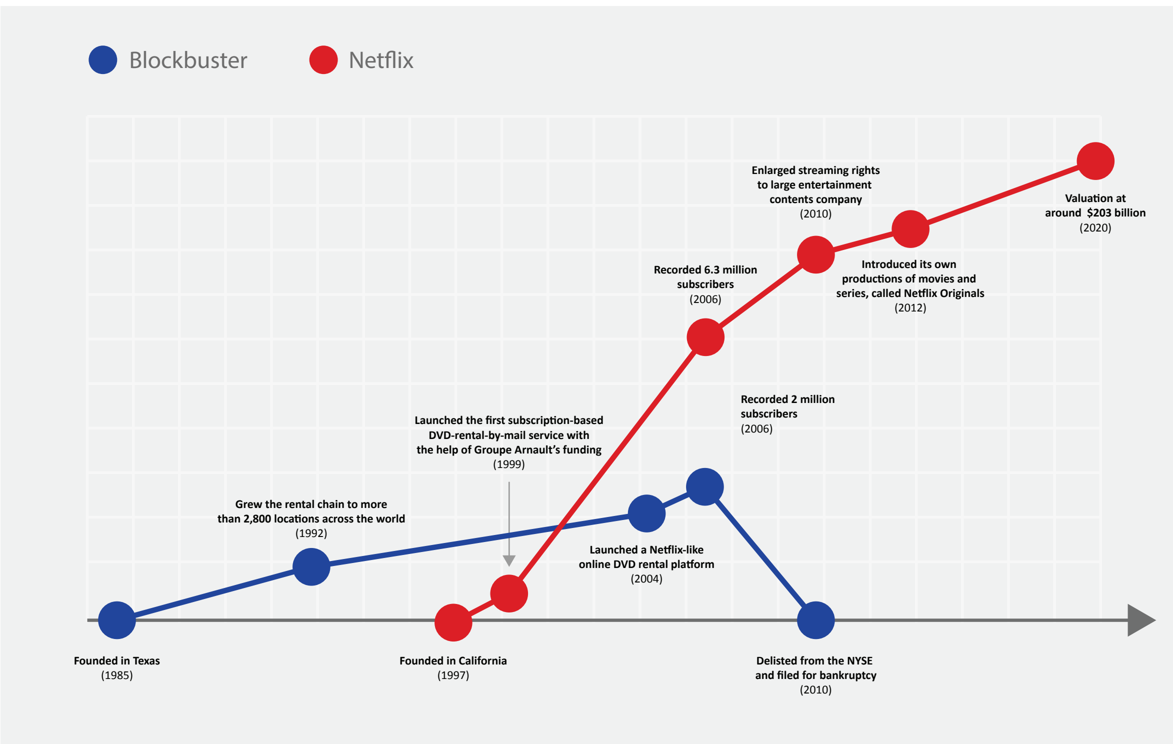


Case Study 3: Netflix vs Blockbuster

NETFLIX VS BLOCKBUSTER

Netflix and Blockbuster is a classic tale that underlines the importance of making the right change, at the right time. Both started as video rental companies, but due to its continuous improvements and pivots, Netflix – which was founded 12 years later than Blockbuster – managed to beat the giant within only six years since they competed on a rental-by-mail model. Netflix was highly anticipative of the future, and made the right move to create an on-demand streaming service in response to the boom of the internet. Blockbuster, however, relied too heavily on its brick-and-mortar strategy and failed to catch up with the market trends[25].

Timeline of Disruption



Source: Drift.com[25]

RED FLAGS IN THE DIGITAL AGE

In the context of tech disruption, state-owned enterprises and legacy conglomerates would do well to have a thorough re-evaluation of their current processes and products. This is crucial for any organization that wants to remain relevant in the long term.

The following table lists several traits that can be problematic and gives reasons as to how they can negatively impact businesses.

Trait	Reason it's a Risk
Traditionalist culture	A traditionalist mindset is dangerous, as it places too much emphasis on maintaining existing structures and values, instead of adapting to current trends. This puts the organization at high risk of getting left behind.
Lack of innovation	While a lack of innovation can be due to many things, it ultimately leads to a failure to come up with relevant solutions for novel challenges. In comparison, many startups are premised on innovation, which keeps their culture dynamic and adaptable.
Fear of the unknown	As companies get larger, they often become increasingly risk-averse. While it might be counterintuitive to go against the grain, thinking out of the box and taking calculated risks is what tends to pay off in this day, something we often see in tech startups and their guerilla strategies.
Excessive consensus building	In large organizations, decisions are often made with the input of every single department. However, this can be counterproductive. It takes far more effort to account for every single business unit and grapple with differences in opinion that it does to trust a key decision maker.
Lack of adaptability	Existing structures that are too rigid are often maintained in the name of stability, but the digital age requires companies that are nimble and agile. With unprecedented challenges such as Covid-19, companies that are not adaptable will quickly be usurped by eager newcomers.
Excessive bureaucracy	Large companies are also often suspect to the pitfalls of excessive red tape and bureaucracy. Similarly, this can hinder an organization's adaptability, preventing it from meeting challenges in a timely and effective manner.
Revenue over growth	Startups tend to prioritize growth, often at the expense of cash flow. In contrast, large companies tend to focus on revenue, partly because they have to answer to major stakeholders. However, prioritizing revenue is not always beneficial, as it can make a company too risk-averse. Sometimes, it's better to concentrate on scaling up and growing more aggressively (potentially suffering a temporary loss) to capture key markets.
Maintaining existing legacy products	Another responsibility that companies take on as they scale up is that of maintaining existing legacy products. This means that they have to allocate resources to supporting a product or service that might have been successful in the past, but is no longer relevant. In contrast, startups do not have this burden and can more efficiently allocate resources.
Reputation upkeep	Unlike startups, large companies already have a large-scale brand reputations to worry about. This can limit a company from trying new things that are outside of its comfort zone and established brand identity.
Overly defined markets	This is another result of being overly rigid. While it is no doubt a good thing to have target markets, having too sharp of a focus on a single thing can blind an organization to other, more crucial changes.

Section 03

Understanding Corporate Venture Capital

Section #3

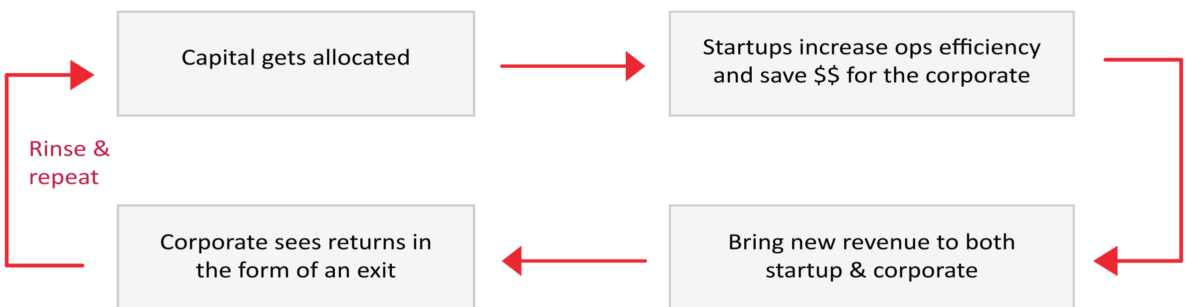
Understanding Corporate Venture Capital

CREATING CORPORATE VALUE THROUGH VENTURE CAPITAL

Sometimes known as corporate venturing, **corporate venture capital (CVC)** refers to the act of a company (usually a large corporation) investing in startups[26]. Unlike traditional venture capital, CVC does not involve the use of third-party investment companies nor external funds. This is also different from a merger or acquisition; the parent company does not own a majority stake in the startups it decides to back.

Compared to putting capital into external VC funds, CVC allows the company to have full control over how it wants to realize investments. Often the case, goals such as **gaining market knowledge, increasing industry know-how**, and **improving brand reputation** become equally if not more important than generating outsized returns on deals, which traditional VC firms tend to tout as their main draw. When it comes to CVC, the focus is often more on **creating synergy revenues for the core business through startup investing and establishing strong partnerships** rather than only aiming for successful exits via IPO or M&A.

Although CVC has become a buzzword in recent years, it has been around for more than a century[27]. It has seen a legitimate boom, however, in the past five years due to the rising tide of tech startups worldwide, with nimble, innovative, and disruptive internet companies drawing attention and achieving rapid scale. Aside from traditional equity and investment firms, many large companies are also embracing the potential of startups by directly investing. In fact, **global CVC-backed deals have tripled in the last five years alone[28].**



LEVERAGING CVC FOR STARTUP GROWTH

Partnering with a CVC offers various advantages for startups. For one, the startup is often provided with **access to the larger company's resources**[29]. This is because the corporate is often looking to create new growth opportunities by collaborating with the startup. It is common for the corporate to provide a startup with resources, assets, personnel, and industry connections to help it expand. Further, the corporate's existing customer base can act as a testing ground for a startup to trial and refine its products and services before releasing them to the market at large.

Another benefit is that a CVC investment tends to be accorded **higher credibility**. Typically, if an established company invests in a startup, other investors, especially those from outside the industry, see it as a good sign. This is because they trust that the corporate has thoroughly evaluated the startup from an inside perspective and deemed it to have real potential (not just to succeed, but to potentially transform the corporate from within). This bolsters the startup's credibility among other investors, but it also increases its reputation in the eyes of big potential partners.

Lastly, CVC investments provide **more exit opportunities** for startups. By and large, the main milestone on a startup founder's roadmap is to realize a liquidity event, be it going public on the stock market or selling the business privately to a third-party buyer.

Partnering with a CVC investor early on can sometimes create an extra option of being acquired by the corporate itself. This is because a long-term collaboration between a startup and corporate already lays a strong foundation for a future deal. When other investors see that a CVC fund has invested in a startup, they are often cognizant of this potential acquisition that might happen down the line. Thus, the startup becomes a more attractive investment overall.

BUILDING A CVC ARM

SWOT Analysis for building an in-house CVC arm

	Helpful	Harmful
Internal	**Strengths** • Strengthen business ecosystem[30] • Address gaps in present company portfolio • Establishes company as a thought leader	**Weaknesses** • Have to invest capital and resources • Requires dedicated investing talent that can evaluate a startup properly • Effort has to be put into creating strong synergy between the startup and corporate
External	**Opportunities** • Novel technologies and capabilities • New revenue streams for core business • Potential for handsome return on investment	**Threats** • Early and Seed-stage investments are inherently high-risk endeavors • No guaranteed return on investment

It is also important to identify when is the best time to start a CVC arm. The first and most obvious thing to do is to ensure that your company has **sufficient funds** to start investing. You also have to make sure that your company has **sufficient resources**, such as personnel and assets, to establish a dedicated CVC arm.

Once these things are put in place, it becomes a matter of asking whether now is the opportune moment for your firm's CVC vehicle to come to life. Often, starting a CVC arm is a good idea when your company is already an **established market player** that is seeking to **expand its offerings** and **explore new niches**. The latter two goals are best-aided by collaborating with innovative, agile startups.

Next, large companies that are considering their own in-house CVC arms should take care to do a careful **Strength, Weaknesses, Opportunities, and Threats (SWOT) analysis**. Like with any other venture, CVC comes with its own set of risks, but there are also many benefits that may outweigh the threats. Each corporate has to carefully evaluate their own industry position and needs in order to determine whether they should build an in-house CVC arm.

If your company does not have enough corporate funds or resources, does not have the right systems in place to truly help a startup grow, or does not have a clear thesis on how tech startups can generate new revenue streams for the core business, it may be best to invest via a traditional VC or third-party CVC vehicle.

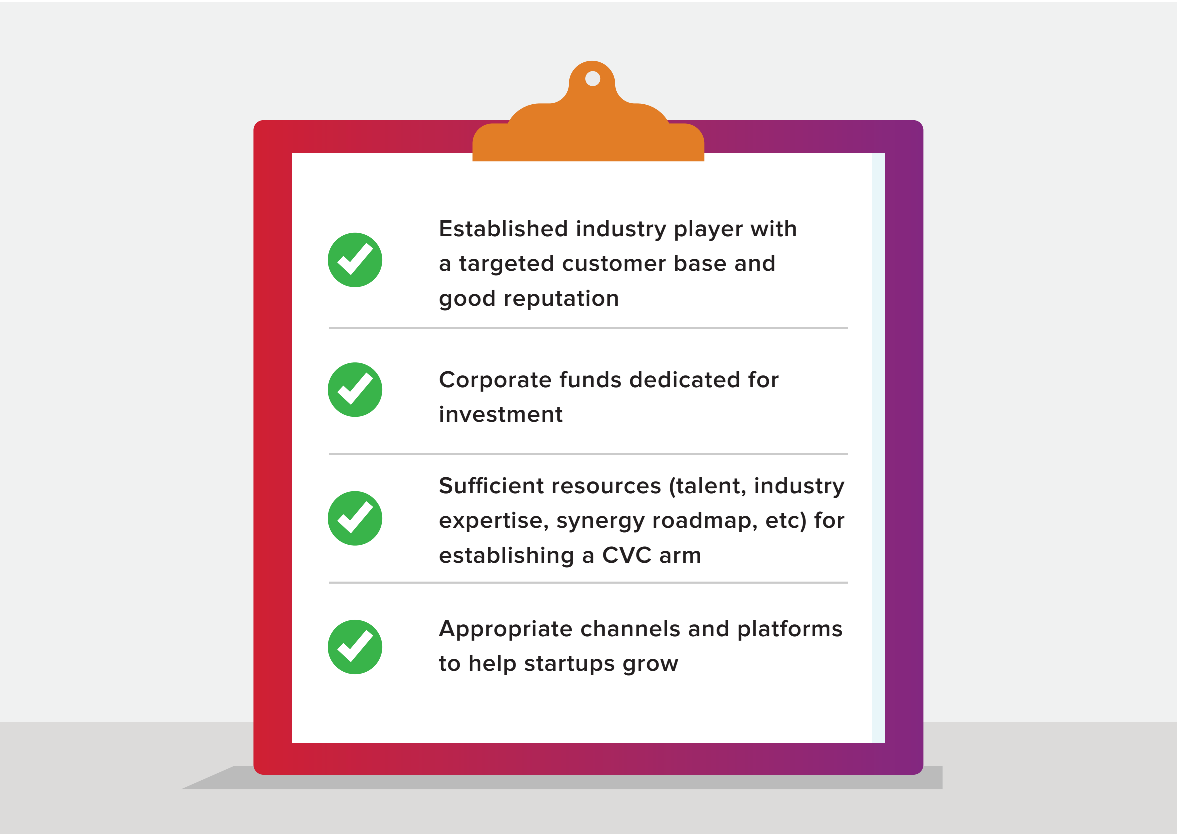


Illustration analogy: Checklist - Starting a CVC

Section 04

ASEAN's CVC Landscape and Why it Matters

Section #4

Why ASEAN's CVC Landscape Matters

INDONESIA'S LARGEST CVC PLAYER

The CVC industry is still relatively new in Indonesia compared to western markets. But even so, more large companies are starting to place their bets on the potential of the startup sector by establishing dedicated investment arms. The most successful CVC firms are those that can identify their niche, harness real synergy between their corporate parents and the startups, and add value to the overall tech ecosystem.

While CVC players like Sinar Mas Digital Ventures were already making relevant investments earlier in the decade, in the mid-2010s, the CVC landscape soon became more populated by firms affiliated with state-owned enterprises.

To understand what CVC brings to the Indonesian market, it is important to look at some of the biggest players in the local ecosystem.

Main CVC firms in Indonesia

NAME	FOUNDED	PARENT COMPANY	PORTFOLIO COMPANIES
gdp venture	2010	Djarum	blibli, goto, tiket.com
SMDV	2014	sinarmas	bukalapak, omise, Warung Pintar Group
MDI ventures by Telkom Indonesia	2015	Telkom Indonesia	Kredivo, Run System, privy
mandiri capital	2016	mandiri	bukalapak, goto, investree
central capital ventura	2017	BCA	Airwallex, Railsbank, Sinbad
tmi telkomsel mitra inovasi	2019	Telkomsel	halodoc, privy, Kredivo

One key trend we see from the market's largest CVC firms is that they focus on digital consumer needs, such as **e-commerce** and **logistics**. Even though **fintech** is undoubtedly one of the hottest areas for global tech investors, these 3 startup sectors are interrelated with each other in this digital industry. Therefore, in Southeast Asia, especially Indonesia's CVC portfolio companies span a wide range of related verticals, such as e-commerce, B2B solutions, digital wallets, and investment tech.

The investment niche is understandable, especially once we note that most of the CVC firms in Indonesia are the big player focused on enhancing Indonesia's digitalization. There is no doubt that many CVCs choose to help local consumer digital startups grow and support their core business, such as support distribution or financial ecosystem.

Most of them call themselves **stage agnostic**, though there does seem to be a clear pattern of backing startups while they're still nascent.

MDI Ventures is the only CVC player in the nation that aims to invest and partner with tech companies at every stage. It invests in startups across the board at pre-product, early, middle, and later stages of growth. In addition to MDI's main fund and its signature Indigo incubator, the firm recently launched an early-stage fund called Arise, as well as a later stage fund called Centauri.

EMBRACING SYMBIOSIS, REAPING RETURNS

Many of the largest players in Indonesia's venture capital landscape are state-owned enterprises (SOEs), and for good reason. As government-affiliated entities, SOEs are audited more carefully and, at the same time, have the channels to distribute their portfolio companies' products for public good.

But startups also have much to offer for SOEs. Specifically, they can provide valuable defense for SOEs during an era of unprecedented technological disruption. By working with and supporting startups, SOEs have much to benefit from.

Cases

Privy is a Jakarta-based digital signature and identity services startup. In 2018, Privy raised US$5 million in a Series A round led by Telkom Indonesia-owned MDI Ventures. Eventually, Privy's technologies were adopted and integrated throughout the entire business group. This made the group's processes faster overall, more efficient, and more secure.

MDI Ventures portfolio company **Zenlayer** have forged a strategic partnership with Telin to provide top-tier IP transit and collocation services. Zenlayer's global network and Telin's expertise in telecommunications infrastructure create a potent synergy, delivering enhanced connectivity solutions for businesses worldwide. Since 2017, Zenlayer and Telin have collaborated with edge data centers and cloud networking services.

TMI has teamed up with **Kredivo (FinAccel)** to carry out credit scoring based on Telkomsel's extensive data. They also offer diverse payment options for various Telkomsel products and services. Another notable partnership is with Halodoc, where they provided a complimentary health service and telemedicine consultation data package during the COVID-19 crisis.

Mandiri Capital's investment in financial API startup **Ayoconnect** led to a strong collaboration, with Bank Mandiri tapping Ayoconnect's Autobilling API to implement automated bill payments and expand its credit card business. Specifically, this partnership led to a growth in sales volume by 19% and transaction count by 23% in 2020.

CCV has a sharp focus on investing exclusively in fintech and embedded finance startups, particularly[31] those in the payments, investment, financial management, security, and banking sectors. For example, **Moduit**, a startup in CCV's portfolio specializing in wealth management and advisory services, has collaborated[32] with BCA's digital bank 'blu' to expand access to meticulously curated wealth management products.

Illustration analogy: CVCs in Indonesia

Moreover, this type of partnership could also accelerate the digital transformation efforts of State-Owned Enterprises (SOEs).

For example, Bank Mandiri took advantage of **Bukalapak**'s extensive merchant and customer network to offer various financial services and banking products, including bill payments, digital loans, and financing options for BukaMotor, BukaMobil, and BukaRumah.

Similar cases are visible with MDI Ventures' investments in **Geniee**, **Whispir**, and **Run System**, which debuted on the Tokyo Stock Exchange (TYO), Australian Securities Exchange (ASX), and Indonesian Exchange (IDX) respectively.

While IPOs are still relatively rarer and hard to come by for startups in ASEAN, investors can also realize high returns via mergers and acquisitions (M&A). We see this with MDI Ventures' portfolio company **Red Dot Payment**, which was acquired by Dutch fintech firm PayU in 2019[33]. In the same year, another MDI Ventures portfolio company, **ObserveIT**, was acquired by Nasdaq-listed enterprise security company Proofpoint[34].

Similarly, Mandiri Capital's portfolio company **Moka** was acquired by Gojek for US$130 million[35] and **Orami**, which is one of SMDV's portfolio companies, was acquired by Indonesian e-commerce startup **SIRCLO**[36].

Navigating the threat landscape for CVCs in Indonesia

Name	Offense	Defense
Telkom Indonesia the world in your hand	• Returns from IPO exits by Geniee, Whispir, and Run System and M&A exits by Red Dot Payment and ObserveIT can be re-distributed to the parent company and re-invested in the wider startup ecosystem.	• Privy's digital signature services distributed throughout the business group to provide extra digital security. • Zenlayer collaboration enhanced connectivity solutions for businesses worldwide.
central capital ventura	• Expected IPO exits from Akseleran[37] and Airwallex[38] in 2023, which can be re-invested to other fintech startups.	• Collaborated with Moduit to offer wealth management products through digital banking "blu" app. • Collaborated with Verihubs to create a more seamless verification and "Know-Your-Customer" process.
mandiri	• Leveraged Bukalapak's database to offer digital financial services to sellers/SMEs, including bill payments, credit services, mutual funds, investment products at BukaReksa, financing products at BukaMotor, BukaMobil, and BukaRumah, and opening Mandiri accounts through Mitra Bukalapak[39].	• Disbursed the National Economic Recovery Fund (PEN) for SMEs through the Investree platform in Jul-Sep 2020, totaling IDR 40 billion.

Section 05

Liquidity No Longer Eludes Tech Investors in Indonesia

Section #5

Liquidity No Longer Eludes Tech Investors in Indonesia

INDONESIA'S TECH INVESTMENT LANDSCAPE

Until recently, the mainstream global investment community has been decidedly skittish about backing Indonesian tech startups. This caution was despite widespread knowledge of the country's position as Southeast Asia's largest market.

In the past, these apprehensions were understandable. The country was known for its inefficient bureaucracy, which makes it hard for startups to thrive. In 2010, Indonesia was listed among the worst countries in the world for **"red tape" challenges[40]**. While it takes an average of five days to launch a corporate entity in places such as the United States, it takes 47 days in Indonesia, according to the Organization for Economic Co-operation and Development (OECD)[41].

Further, **target audiences** for technology products can be slippery and hard to capture. As recently as 2014, Indonesia's consumers were known for their lack of trust in e-commerce, preference for platforms that had already gained traction in other markets, and relatively low internet usage[42]. For example, despite being the world's fourth most populated country, Indonesia ranked last in Asia's top five online retail markets.

Illustration analogy: Barriers to backing Indonesia's tech startups

A decade earlier, mainstream exit scenarios such as IPOs for Indonesian technology startups were virtually unheard of. The most common and desirable exit scenario for a tech founder was to get their company **acquired by a state-owned enterprise (SOE)** or **family office,** a process which often ends up with the startup being absorbed and wound down. For example, usual suspect include companies such as Djarum Group, Kompas, and Telkom Group. This popular exit scenario came to be known colloquially in the industry as "**acquihire**," and still happens regularly.

Things have matured on Indonesia's M&A front. Local tech startups can now also be **acquired by larger tech companies**. This comes as no surprise, given the strength of regional giants like Grab, Traveloka, Lazada, and GoTo.

Often, an acquired startup's services end up being integrated into its parent company's ecosystem. In 2017, Grab acquired assisted e-commerce startup Kudo for more than US$100 million, which helped to bolster its own mobile payment services arm[43]. In the same year, Gojek acquired Loket, an Indonesian event and ticketing company, to complement its Go-Tix ticketing feature[44].

Tech investors realize returns by cashing out during an exit-via-acquisition. While acquisitions are good for investors looking for a quick win, a company that aims to go public tends to have clearer business sustainability and a more long-term roadmap.

Looking overseas for an example, in the United Kingdom, the average pre-IPO startup has an operating profit of GBP£1.2 million (approximately US$1.6 million), whereas the average acquired company has an operating profit of GBP£600,000 (approximately US$812,000)[45].

Startups that aim for exits via IPO, rather than M&A, may achieve higher growth. Their aim is to scale large enough such that listing becomes a real possibility. This means that IPO requirements such as meeting cashflow, profit, and revenue criteria must be met as well. These are positive spillover effects that result in **higher returns for investors in the long run**, as they get to enjoy outsized returns from larger companies.

AN EVOLVING EXIT ENVIRONMENT

Previously, the local exit environment was dominated by acquisitions, either by large corporations or established tech companies. A lack of domestic IPOs could be partly attributed to red tape and strict regulations implemented by the Indonesia Stock Exchange (IDX).

In fact, in the past, many Southeast Asian startups would look to the Australian Securities Exchange (ASX) or Singapore Exchange (SGX) when mulling the idea of going public.

But this is quickly changing. For example, e-commerce startup Kioson went public on the IDX in 2017 and raised US$3.3 million. Similarly, tech firm NFC raised over US$20 million in an IPO on the exchange in 2018.

Local regulators are actively making the IDX more hospitable for tech startups, loosening their criteria for going public. In fact, dual-class shares with multiple voting rights can now be issued[46]. Both these features are attractive for fast-growing tech companies led by founders who'd want to go public using the most efficient means possible and raise capital while retaining control of the company.

A Past/Present table with the IDX as the background

PAST	PRESENT
• Only single-class shares can be issued • Companies must have fulfil the following: 1. Generated net tangible assets of minimum US$6.96 million 2. Operated for three consecutive years 3. Generated operating profit in the previous financial year	• Dual-class shares with multiple voting rights allowed for tech listings • Companies can full fill one of five alternative criteria[47]: 1. Generated profits before taxes in the past financial year and net tangible assets of at least Rp250 billion 2. Generated aggregate profit before taxes of at least Rp100 billion and market cap of at least Rp1 trillion before listing date 3. Generated revenue in the past financial year of at least Rp600 billion and market cap of at least Rp3 trillion before listing date 4. Total assets in the past financial year of at least Rp1 trillion and market cap of at least Rp2 trillion before listing date 5. Generated cumulative operating cash flow in the past two financial years of at least Rp200 billion and market cap of at least Rp4 trillion

Changes to the public listing process on the IDX

CORPORATE SYNERGY MOVING FORWARD

This exciting and evolving exit environment makes startup investing a safer prospect for corporates and SOEs by providing multiple exit scenarios.

If a startup grows enough to successfully carry out an **IPO**, corporate tech investors can reap handsome returns. This is especially true for IPOs, as they tend to generate a great deal of buzz in the market, arouse the interest of stock market investors, and result in greater gains on listing day.

Corporate investors can also cash out via the tried-and-true **third-party acquisition path**. What makes this interesting today is that there are now more chances to do so. With tech IPOs ramping up in Indonesia, acquisitions are also becoming more plentiful, as pre-IPO consolidation takes place before the larger company goes public (e.g. A larger company buying out a smaller company right before its public market debut).

Lastly, the corporate can **merge with and/or acquire the startup itself**. Such a situation is especially desirable in cases when a startup's niche is directly complementary to the corporate's core business, or if the startup is already well-integrated within the corporate's internal ecosystem.

Startup investments by SOEs have succeeded in terms of both **corporate synergy** and realized returns. For example, MDI Ventures' portfolio company **Geniee** worked with Telkom Indonesia, the parent company of MDI Ventures, to launch a novel digital marketing platform in Indonesia[48]. While Geniee could leverage Telkom's 170 million-strong customer base, Telkom could tap into Geniee's digital advertising solutions. It the end, Geniee went public on the Tokyo Stock Exchange (TYO) in 2018, generating a profitable exit for Telkom Group.

Similarly, Mandiri Capital's portfolio company **Moka** worked with Bank Mandiri to launch a mobile payment solution in 2015[49]. This collaboration culminated in outsized returns for Mandiri when Moka was acquired by Gojek for US$130 million just five years later[50].

Illustration analogy: 3 different exit scenarios for corporates

Section 06

How The Largest Companies Can Get into CVC

Section #6
How the Largest Companies Can Get into CVC

BOLSTERING THE ECOSYSTEM

As tech disruption continues to change the face of Indonesia, the nation's state-owned enterprises and large corporations can no longer sit back and wait for industries to be radically transformed without becoming part of the journey.

With early success stories of homegrown tech startups like GoTo and Traveloka in mind, it becomes paramount for traditional companies to engage in mutual symbiosis with innovative, agile, and risk-taking startups of today. This is in fact a form of defense, so corporates may protect their core business tomorrow.

Corporate investments into startups not only have the potential to generate outsized returns. The partnerships that arise from this kind of investing are also some of the best ways to generate **true corporate synergy** (e.g. substantial savings on operational costs while also opening new revenue streams for the corporate).

Corporate synergy is not just a buzzword today. It happens when a startup's business activity directly or indirectly complements the corporate's core business in some novel way. On the more macro level, this also generates value for entire industries – not just individual companies.

One way for corporates and family offices to participate in the exciting tech startup ecosystem is to build their own in-house corporate venture capital (CVC) arms.

However, like any new venture, the endeavour comes with pros and cons alike. Integrating venture capital with existing corporate processes is not always easy. It can also be difficult to find the proper balance between external venture capital on one hand, and internal corporate investments on the other[51].

Any corporate or SOE that is thinking about establishing an in-house CVC arm should do a careful cost-benefit analysis, and ensure that it has the appropriate risk appetite.

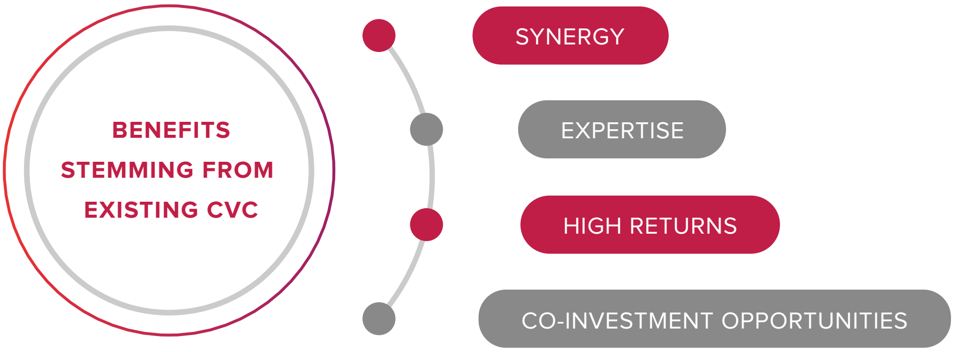
Pros & Cons of Building an In-house CVC Arm

PROS	CONS
• Possibility of attaining outsized financial returns, if the right startups are identified • Access to new technologies that can complement a company's existing products and services • Strengthen the overall business ecosystem and create corporate synergy • Affirms company as a pioneer and thought leader that mentors startups and bolsters the industry at large	• High-risk nature of investment inherent to venture capital • Resources, such as money, time, and labor, have to be dedicated to CVC, which could be spent elsewhere • Must engage experts who are able to identify successful startups • Must dedicate resources to incubating, mentoring, and monetizing startups once partnership is established • Difficult to balance between venture capital and other types of investment opportunities, such as M&A.

GENERATING SYNERGY

Building an in-house CVC arm is in no way the only avenue to participate in the dynamic world of venture capital in Indonesia.

Instead, corporates can also put their capital to work in an existing **third-party CVC vehicle**. This is ideally an entity borne out of a **large, state-owned parent company** in Indonesia. This crucial characteristic means that the CVC firm has the upside of industry insiders who are well-versed in the local startup ecosystem, but who also have the support and backing of the government.



AN EVOLVING EXIT ENVIRONMENT

Existing CVC firms like MDI Ventures can provide much needed **expertise**, as it already has a large, thesis-driven portfolio and several years of successful investing outcomes on the books. The firm is ideally placed to identify and monetize startups in the archipelago for large corporates and SOEs.

Further, state-owned CVC firms like MDI Ventures already have established teams of experts and insiders. They know how to navigate the world of founders and startups, and have likely already spotted those with the most potential. MDI Ventures **already has a corporate synergy apparatus in place**, ready to get your company partnered with relevant tech startups.

When getting into a local CVC fund as a limited partner, you will have the chance to work hands-on with professionals whose entire job is to understand your investment goals. This, in turn, ensures your money is being allocated in direct accordance with your corporate agenda.

This strategy also promotes **resource efficiency**. When a corporate decides to invest via an external CVC firm (instead of building one in-house), essential resources such as time and labor are freed up internally.

If a company already has a department that works on investment activities such as corporate M&A, building a dedicated CVC arm can sometimes mean diverting resources away from that division. With a third-party CVC vehicle, more talent, money, and time can be more efficiently put to work.

EMBRACING SYMBIOSIS, REAPING RETURNS

One key trend we see from the market's largest CVC firms is that they are all focused on focus on digital consumer needs, such as **e-commerce** and **logistics,** even though **fintech** is undoubtedly one of the hottest areas for global tech investors.

By partnering with an external CVC firm, corporates and SOEs can still achieve the same form of **corporate synergy** they would otherwise get from an in-house CVC arm.

While investments are indeed made via the third party, limited partners can still (and are actively encouraged to) work closely with the startup themselves to build a complementary relationship and gain access to **new technologies** that would otherwise be unavailable.

Even better, partnering with an existing CVC firm like MDI Ventures delivers crucial **co-investment opportunities** for corporates and SOEs. While they have placed capital into the fund, they are still able to make direct investments into startups they're bullish on, right along side the CVC firm.

This sort of partnership can strengthen the working relationship between the company and the CVC firm — and, in some cases, the CVC's parent company (e.g. MDI Ventures' parent company is Telkom Indonesia). In fact, 80% of investors report that their co-investment deals outperform traditional private equity fund investments, and 46% of these deals outperformed by more than 5% [52].

Illustration analogy: Partnership

If you represent a corporation, family office, or SOE with a keen interest in allocating capital to Indonesia's technology sector, please reach out to MDI Ventures. We will be glad to share more about about firm's unique value, the fundamentals of CVC investing, and how we can future-proof your business in the forms of **outsized return on investment** and real **corporate synergy via startup partnerships**.

SUMMARY

This whitepaper delves into the opportunities and challenges of corporate venture capital (CVC) for large, legacy enterprises, with a specific focus on state-owned enterprises (SOEs) in Indonesia and the ASEAN region, as well as how businesses can effectively enter the CVC industry to drive outsized growth.

The first two sections analyze common problems faced by large enterprises in today's business climate and how startups can help solve these issues. Additionally, it examines the cautionary tales and case studies of disruption in the industry, where innovative startups have overtaken legacy incumbents.

In order to remain competitive and defend against digital disruption, it is crucial for SOEs and large corporations to recognize and address their internal challenges. These organizations must thoroughly re-evaluate their current processes and products, and be aware of and address certain "red flag" traits that may impede the growth and success of their businesses moving forward.

Sections three and four delve into understanding CVC as a model, and how large legacy players can leverage it to their advantage. It provides a snapshot of the ASEAN region's CVC landscape and an overview of Indonesia's largest CVC players. The focus of CVCs is often on creating synergy revenues for the core business through startup investing and establishing strong partnerships, rather than only aiming for successful exits via IPO or M&A.

The paper also emphasizes the importance of conducting a thorough SWOT assessment for corporates, providing a checklist of things to look out for. It also delves into navigating the threat landscape with offensive and defensive strategies for CVCs in Indonesia.

In the fifth section, the whitepaper examines the liquidity in the ASEAN region's capital markets and how they show real returns for CVC players, as well as predictions of acceleration in this segment. Startups that aim for exits via IPOs, rather than M&A, may achieve higher growth.

Finally, the last section provides viable paths for SOEs to enter the CVC space, and explores how partnering with an established CVC firm such as MDI Ventures can greatly benefit companies by providing the expertise, corporate synergy, and resource efficiency needed for an enhanced CVC establishment experience.

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