MDI METRA DIGITAL INNOVATION

by Telkom Indonesia

Telkom Indonesia

BITS X BRICKS

UNDERLYING LEGACY BUSINESS AS THE FOUNDATION FOR DIGITAL FUTURE

A PERSPECTIVE ON INDONESIA'S STARTUP ECOSYSTEM

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Foreword

DAVID BANGUN
Director Digital and Strategic Portfolio
Telkom Indonesia

Telkom Indonesia has made a firm commitment to support the development of Indonesia's startup ecosystem and corporate innovation. Via MDI Ventures, our corporate venture arm, we have set out the vision to bring the best of the world's innovations into our rapidly emerging markets and expand our border to lead corporate open innovation in Indonesia.

Historically, telecommunication industry has been disrupted by multiple waves of technological disruption over the course of its existence. Telegraphy, once considered as one of main revenue streams in the telco ecosystem, completely lost its relevance after the introduction of e-mail. Fixed line telephone, once the core business of telecommunication companies, will also be completely obsolete in the near future. Today, we are the leading mobile connectivity provider in the country. However, we cannot stay comfortable with status quo. Digital revolution is changing the world and we need to keep evolving to stay ahead.

We set ambitious targets for our corporate transformation initiatives. Telkom Indonesia aims to be the country's leading digital player by actively building partnerships with both startups and established companies. We are also seeing that the adoption of internet results in diminishing national boundaries. Being a forward-looking digital telco company, we do not want to see this as a threat, but rather an opportunity to grow larger than ever. This is time for us to mobilize our resources and lead the transformation by making strategic investments in the Asia-Pacific region's fastest growing digital companies.

MDI Ventures has been working to establish thought leadership in the field of open innovation. The firm had expanded beyond investment activities to support corporate partners in solving the toughest challenges of the information age.

We are pleased to present you with our industry report on the state of Indonesia's startup ecosystem, **"Bits by Bricks: Underlying Legacy Business as the Foundation for Digital Future."**

On the behalf of Telkom Indonesia, thank you very much for your attention, and we wish that you find this information useful.

Sincerely Yours,
David Bangun

INTRODUCTION

The Startup Funding Ecosystem on a Yellow Alert?

We were fortunate to have the opportunity to learn from our past experience in a venturing almost six years ahead of everybody. Clearly 'spray' model won't work, especially in this part of the world.

It is no surprise that the essence of the venture capital business is not that much apart from startup: fundraising. Venture capital firms raise capital quite frequent too — especially the micro funds. The 'spray' tactics rely heavily on the would-be unicorns and preached that 1-2% of the investments achieve the unicorn status, returning 50x or more investment. But in reality, these numbers are way below 1%.

Steve Blank in many of his interviews warned the Silicon Valley bubble is going to burst as investors are making unreasonably high bets on startups.

"VCs won't simply admit that they're in a giant Ponzi Scheme. And then, they have to play along, because they've taken money from their investors, and their investors expect a certain return, but it's no longer an honest game. That's why it feels like 1999 again," said Blank voicing the problem.

Blank puts it clearly that the fundamental purpose of venture capital is sales and profit, "There was an unspoken but pretty solid rule: We need five consecutive quarters of profitability and increasing revenues to go public. The role of venture capital is to teach startups how to turn the idea into a profitable company."

In 2016, more Silicon Valley startups and investors are evangelizing the word "profitability" back into their jargon. This market correction was a response to the down rounds in many unicorn startups and making money is now 'cool' again in Silicon Valley.

ASEAN is thought to be the next gold rush of the Internet, -- and thanks to the 'spray guys', the early ecosystem flourished. Many back then were hoping when the capital market is ready, then they were able to make huge profit, but it turns out no clear pathway to exit in the public market and the rarity of significant acquisitions. In Silicon Valley, there are so many public money making ways into venture capital deals in a form of various mutual funds, hedge funds, and private equity funds, with Fidelity, Janus, Blackrock were among the most active in since the beginning of venture capital industry.

In ASEAN, particularly in Indonesia, super high net worths and big conglomerates are fueling the runway needed for the industry. In the early days, venturing for the super high net worths was an 'extracurricular activity' with no expectation. They relied on GPs (usually those who had been exposed to startup industry) to advise them on what 'new exciting technology' company they shall procure. Some of these GPs/advisors also advised acquisitions of the startups that could make impact on their legacy businesses — and later most of these acquisitions turned out to be dead end for both the acquired and acquirer. These acquired startups were turned out to be stagnant shortly after the acquisition were completed — after all who'd want to sell out a company that is growing? Even some of the big conglomerate venture capital entities were quiet in the past eight months. Alarming to the community of angel investors and seed stage players as the term caveat emptor is playing now all over the boards.

This report shall address the dynamics of the local startup ecosystem, and bring a different perspective in corporate venture investing. 'Bits by bricks' is an illustration of how the scaling up of digital startups is possible through leveraging the existing brick-and-mortar ones, and maximizing portfolio performance in the form of synergy.

As we're continuously reassessing our progress from time to time, we're confident that these partnerships built upon the foundation on mutual benefits will yield more business value and opportunities for both startups and the ecosystem as a whole.

Executive Summary

INDONESIA'S PROMISING FUTURE FOR TECH STARTUPS

Many experts and researches have started to predict that Southeast Asia is the next global economy growth frontier. Indonesia, as the largest country and economy in the region, is right in the epicenter of it. Indonesia's young demographic structure and rapid Internet/smartphone penetration are some of the most determining factors in boosting digital economy growth. Today, Indonesia is the ultimate market destination for any startups and venture capitalists, not only in the region, but also from countries such as China, India, Japan, and Australia.

TECH STARTUPS ARE HAVING PROBLEMS TO SCALE

Indonesia definitely has a huge market potential, which theoretically can be utilized to scale up startups faster. However, some data and case studies in the country's startup ecosystem have proven otherwise - Series A and growth stage funding crunch, expensive growth, non-sticky customer behavior, and less-than-adequate tech infrastructures are some of the barriers for startup companies to grow in Indonesia.

CORPORATES HAVE PROVEN TO ACCOMODATE STARTUPS SCALE

We believe that technologies (bits) that are brought in by startup companies into the market can only achieve their utmost potential by utilizing the infrastructure and market access (bricks) that have been developed by Indonesian corporations for the last 20 years. Our thesis is that growth in Indonesia hasn't been distributed evenly across all market segments and channels so that for startups to be able to scale, corporate involvement is crucial to develop go-to-market strategies and growth channels.

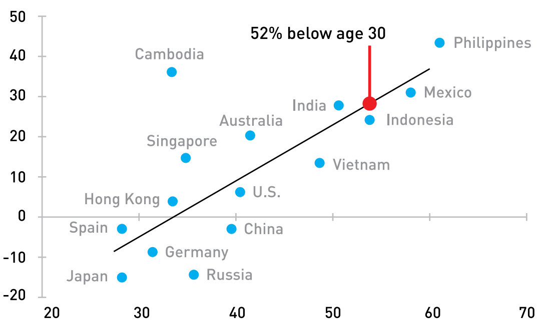
MORE STRATEGIC STARTUPS-CORPORATES ALLIANCES IN THE FUTURE

As markets are converging, we believe that more strategic startup-corporate alliance will be happening more often in the future. In Indonesia, the scale and size discrepancy between major corporations and startup companies are still pretty wide, and sooner or later, startups and other players in the ecosystem will eventually realize that access to the corporate network is crucial for startups to be able to build their ecosystem and monetize their services in scalable ways.

Indonesia: Promises and Reality

THE INDONESIAN DREAM

Indonesia's tech sector has been receiving enormous attention over the past few years. High profile mega deals such as Go-Jek, Tokopedia, and Traveloka has been marked as the beginning of a new "digital era" for the nation's economy. Such large investment rounds are possible due to high expectations of the large market size of Indonesia - the fourth most populous country in the world. Before we go further, it is important that we understand the major driving forces behind the current boom.



Young Demographics

(Source : KKR, United Nations World Population Prospects, Haver Analytics)

Indonesia is experiencing a population boom. Per 2016, 52% of the country's population is below the age of 30. This trend will continue for some time, as population is estimated to peak in 2060.

2013 → **2019**

TOTAL

Fixed Broadband:
15% HH (1Mbps), 5% pop

Mobile Broadband
12% pop (512kbps)

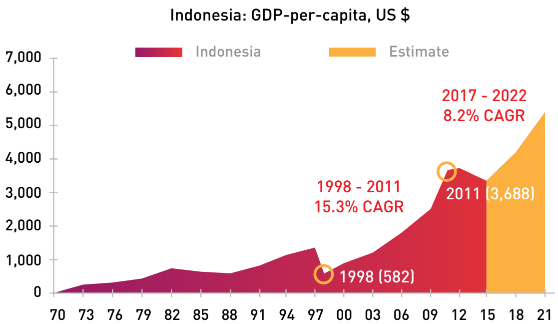
Urban
Fixed bb: 71% HH (20Mbps)
Mobile bb: 100% pop (1Mbps)

Rural
Fixed bb: 49% HH (10Mbps)
Mobile bb: 52% pop (1Mbps)

Rising Internet Penetration

(Source : Indonesian Coordinating Ministry of Economic Affairs)

Thanks to massive connectivity infrastructure projects and low smartphone prices, broadband access in Indonesia is predicted to cover 100% of urban population. The country is literally generating millions of new internet users each year.



Rising Middle Class

(Source: KKR, BPS, IMF, Haver Analytics)

Indonesia's income per capita is growing rapidly at 8.2% annually until 2022. The size of the country's middle class is predicted to cross 150 million[1], the third largest in emerging markets.population. The country is literally generating millions of new internet users each year.

BARRIERS TO GROWTH

Our early findings is that in the Indonesian market, scaling up a tech company is significantly more challenging than the more developed and homogenous markets of United States and China.

Payments

Indonesia does not enjoy the United States' high credit card penetration or China's widespread digital wallets. Digital payments in Indonesia are mostly done by bank transfer, resulting in high friction from customer experience standpoint. Moreover, the percentage of unbanked population is still high at 163 million[2].

Behavior

Monetizing digital products in Indonesia is proven to be challenging. In the pre-internet era, consumers (and even businesses) were accustomed to using pirated software, resulting in under-appreciation of intangible products. A recent survey showed that 73% of respondents are not willing to pay for digital contents.

Difficulty of Doing Business

Similar to other emerging markets, building businesses with new social connections in Indonesia is challenging. Building new business networks or navigating regulatory landscape is difficult without social reference or backing from well connected individuals or institutions. While this is mainly based on our observation, one plausible indicator is World Bank's ease of doing business ranking[3]. In 2016, Indonesia was ranked number 91, on par with Uruguay and Kenya.

[1] Source: The Consumer in 2050, HSBC (2012)

[2] Source: World Bank (2014)

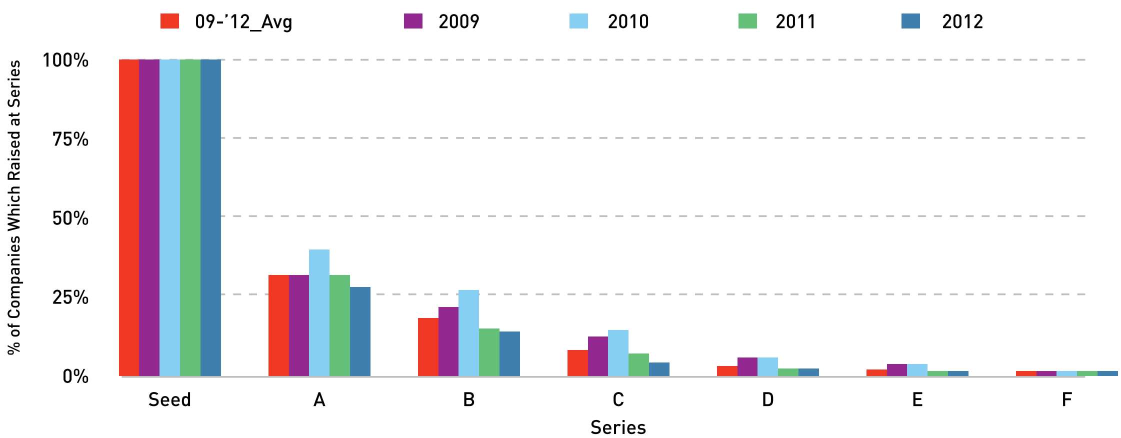
[3] Source: World Bank (2017) - "Doing Business 2017" (http://bit.ly/2vKdaJG)

Reality Bites

FUND RAISING CRUNCH

Most people conveyed their concerns that Indonesia is in a Series A crunch. In 2015, it was reported by Tech in Asia[4] that there were 53 Seed investment deals recorded. In 2016[5] and H1 2017[6], there are only 17 and 9 Series A investment deals recorded, respectively. It means that most of the startups who are able to raise their seed round back in 2015 have not been able to raise further rounds of funding.

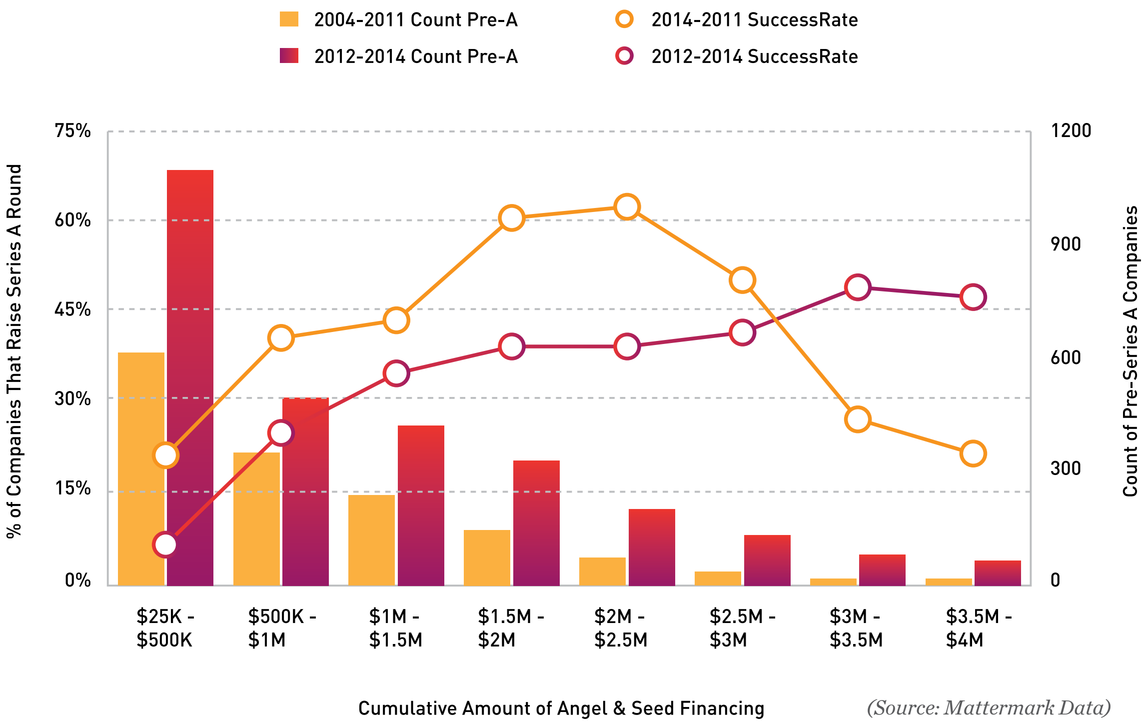
Startup "Matriculation" Rates From Round to Round (Linear Scale)



We can say that it is a crunch, although the trend is pretty normal, based on Mattermark's research[7] that concludes that only 31.7% startups between 2009-2012 that are able to raise Series A investment - which means that of startups that have raised their seed/angel round between 2009-2012 are not able to raise their Series A investment.

[4] Tech in Asia (2015) - "A Breakthrough Year: Indonesia's Startup Landscape in 2015" (http://bit.ly/2wCFtpX)
[5] Dailysocial (2016) - "Indonesia's Tech Startup Report 2016" (http://bit.ly/2wCriBd)
[6] Tech in Asia (2017) - "Dinamika Dunia Startup di Kuartal Kedua Tahun 2017" (http://bit.ly/2wCs0OU)
[7] Mattermark (2016) - "The Startup Funding Graduation Rate is Surprisingly Low" (http://bit.ly/2wCENB5)

Percentage of Companies With Recorded Series A Rounds As a Function of Seed & Angel Funding



(Source: Mattermark Data)

We believe that one of the factors that causing this crunch is because starting a company and growing it is getting more expensive. The data from Mattermark[8] showed that between 2012-2014, for startups to be able to have → 30% chance of raising their Series A round, they would need at least US$ 1 Mio in Seed and Pre-Series A funding.

[8] Mattermark (2016) - "No, Starting a Startup is not Cheaper Today Than Before" (http://bit.ly/2wCswMH)

GROWTH CRUNCH

Growth is getting expensive, as what Uber's Andrew Chen conveyed in his post[9], due to intense competition, consolidation, and saturation. Mobile platforms are getting more concentrated into a duopoly structure of Google and Apple dominating the channel. Due to this structure, mobile is more closed and far less rich compared to the web, at least from a growth standpoint - which means that mobile is far more stagnant and harder to break into. In 2016, Facebook and Google control most of the Top 10 apps in the mobile ecosystem.

Top Smartphone Apps of 2016

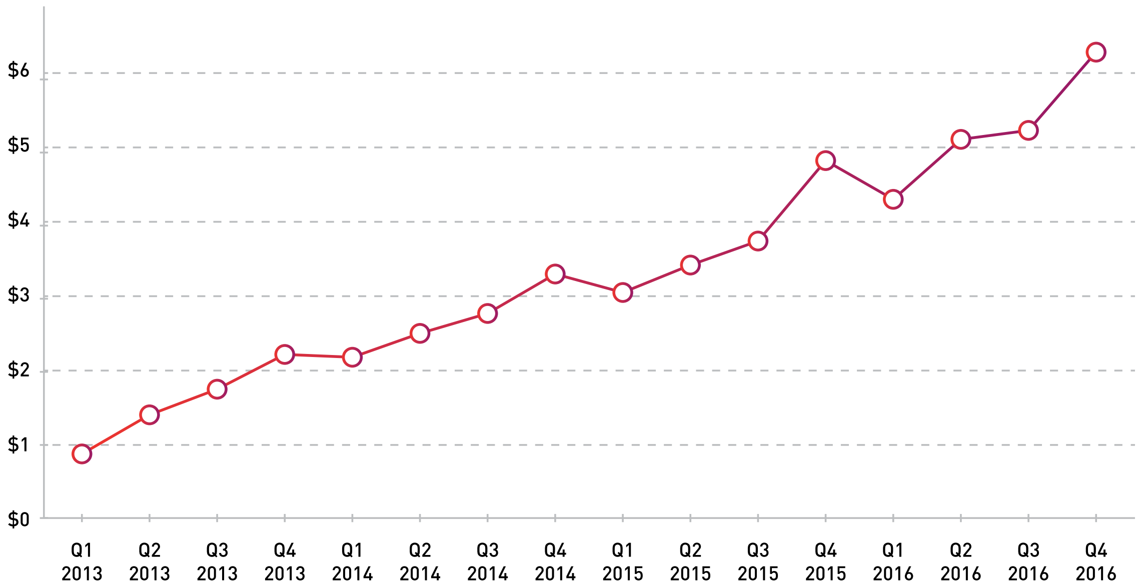
RANK	APP	AVERAGE UNIQUE USERS
1	FACEBOOK	146,027,000
2	FACEBOOK MESSENGER	129,679,000
3	YOUTUBE	113,738,000
4	GOOGLE MAPS	105,749,000
5	GOOGLE SEARCH	103,959,000
6	GOOGLE PLAY	99,773,000
7	GMAIL	88,572,000
8	INSTAGRAM	74,672,000

Source: Nielsen (Dec 2016)

Competition on paid channels is also intensifying. If startups can find the right untapped audience segments with high ROIs, paying for customer acquisition is a viable growth strategy. That's not happening today, because prices are bidded up and startups are facing too much competition for the same ad inventory.

[9] Andrew Chen (2017) - "Growth is getting hard from intensive competition, consolidation, and saturation" (http://bit.ly/2wCoBj9)

Facebook mobile ad revenue per mobile Daily Active User



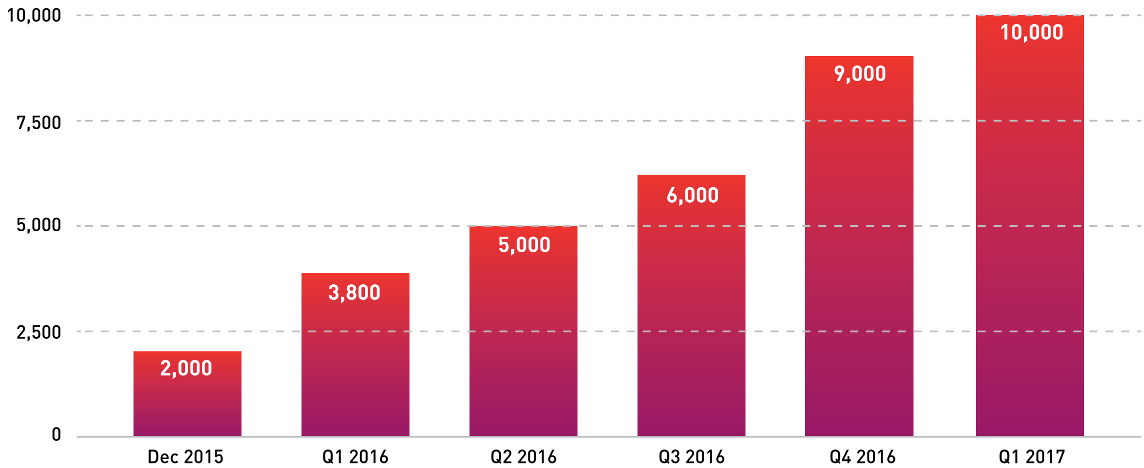
From the figure we can see that the mobile ad revenue per DAU for Facebook is constantly increasing between 2013-2016. It implies that competition is getting fiercer on Facebook ads, not less, which is evidenced by the rapid increase in revenue per user. This fierce competition leads to low retention, and low retention leads to no growth - as what former VP of Hubspot Brian Balfour conveyed that retention is the foundation for all growth[10].

In Indonesia, where most revenues are made through transactions, there are no stickiness. The phenomenon is imminent on the ride-hailing platform competition in Indonesia, where all players in that vertical are rolling out constant discounts and promotions to increase their DAU. Unfortunately, there are no stickiness in Indonesia consumers' behavior that are highly price-sensitive - they are only picking the lowest price amongst all, every time.

This lack of growth is what we think that makes VC model doesn't fit Indonesia's current startup ecosystem. VC investment model is designed for fund managers to be able to get 3-5x return in 5-8 years. So for a US$ 1.5 Mio investment, VCs will need to return at least US$ 4.5 Mio in the next 5 years - which indicates that assuming the valuation during investment is US$ 7.5 Mio (20% equity), the startup needs to reach +/- US$ 25 Mio valuation in 5 years through 2-3 rounds of follow on funding.

[10] Producthabits (2016) - "Acquisition is Easy, Retention is Hard" (http://bit.ly/2wCn90n)

Monthly Recurring Revenue (MRR) - US$



The chart above is the quarterly MRR run rate of a SaaS startup in Indonesia that successfully raised US$ 1.5 Mio back in Q3 2016 (these numbers are coming from a startup that has successfully raised funds from some prominent regional and global VCs in Indonesia). We can see that the startup is growing at 40% QoQ from Q4'15 to Q1'17. It's not that bad for Indonesian SaaS startup standard[11], however the MRR itself is still too low to justify the valuation of US$ 7.5 Mio. Extrapolating from the given data, only if it can maintain the 40% QoQ rate, then it can justify a US$ 25 Mio valuation in Q3 2021 (Using the standard of 6-7x Revenue-EV[12] multiple for premium SaaS company). Moreover, it's really improbable to see any VC firms would like to write a US$ 5 - 10 Mio cheque for a mere US$ 25 Mio exit value.

even though the startup can achieve the desired number for an exit event to occur, it is really hard to find any channel for liquidity in Indonesian market, as IPO is a rarity in SEA region[13] and finding acquisition channels in Indonesia is also difficult, as only 37 startups acquisition recorded in the last 8 years[14].

[11] Brad Feld (2015) - "The Rule of 40% for a Healthy SaaS Company" (http://bit.ly/2wCH6Eh)

[12] Tomasz Tunguz (2016) - "What is Your SaaS Startup Worth in Acquisition?" (http://bit.ly/2wCMpTY)

[13] Liz Lee (2016) - Deal Street Asia, "M&As set to be Preferred Route for Startup Exits in Singapore" (http://bit.ly/2wCMSWk)

[14] LBased on MDI Ventures's internal research (2017)

Notable M&A Activities

2009-2014	2015	2016	2017
Koprol Acquired by Yahoo	KapanLagi.com Acquired by MediaCorp	RoomToday Acquired by NorthCliff	kudo Acquired by Grab
detikcom Acquired by Para Group	ADPLUS Acquired by Yello Mobile	MOXY bilna Merged and rebranded as Orami	Tiket.com Acquired by Blibli.com
GROUPON Disdus Acquired by Groupon	SHOPDECA.com hipwee Acquired by MigMe		SETIPE Acquired by Lunch Actually
KASKUS Acquired by Djarum's GDP Ventures	Quipper SCHOOL Acquired by Recruit Holdings		
tokobagus.com cara tepat jual cepat berniaga.com Jual beli di seluruh Indonesia Acquired and Merged by OLX			

37 Indonesian Startup M&A over 8 years

All of them exited through company acquisition

These facts should lead to a conclusion that VC model is not suitable for current Indonesian market. The lack of stickiness and growth in the market, also the unavailability of solid exit ecosystem, makes venture investing activities highly vulnerable. This particular reason is also what we think as the main reason that it is very hard for venture capital firms to raise over US$ 50 Mio fund in Indonesia, and also the fact that it is really hard to see any new successful independent venture capital firms in the near future.

Unlocking Growth Barriers : Corporate Strategic Investment

ACCORDING TO CBINSIGHTS CORPORATE VENTURE CAPITAL REPORT 2016 AND HISTORY[15], ASIA ALONE HAD OVER 30% FUNDING COMING FROM CORPORATE VC. IT IS A SIGN THAT POINT TO THE GROWTH OF CORPORATE ROLE AND PARTICIPATION WITHIN STARTUP ECOSYSTEM, ESPECIALLY ON SERIES A AND LATER STAGE DEALS.

We have seen large financing round where Indonesia corporates participated such as Djarum Group's GDP Venture investment in Garena (now become Sea) and Lippo Group investment in Grab. However, we also saw more corporates/conglomerates taking stakes earlier at Series A or even Seed stage, such as several deals made by Sinar Mas Digital Ventures (SMDV), Venturra (Lippo Group) and KMK (Emtek Group).

Corporate participation will continue to increase. In Asia as a whole, corporate participation in venture deals reached an all-time high at US$28bn in 2016[16]. Corporate view on venture capital investments has shifted from an isolated experimental vehicle to take a significant role in supporting high-level corporate strategy. Being the first venture capital arm of a state owned entity in Indonesia, we are seeing serious interest from other large Indonesian corporations, both state owned and not, to pursue innovation agenda through venture capital investments. As corporates validate strategic justifications, the budget allocated to venture capital investments will increase.

While most of them aim for gain as their primary agenda, yield through corporate synergy also come into a justification of their investment as it helps corporate to take small steps towards technology innovation that would affect their core business. It would ideally take 'Research and Development' budget as their investment makes it time-efficient to gather case studies and data, not to mention access to proprietary technology and bright talents.

Through those goals, corporate appetite to invest in startups grows and their typical preference of proven business, case studies and technology naturally put their investment timing on the later stage. In Indonesia startup funding stage, that means Series A and above.

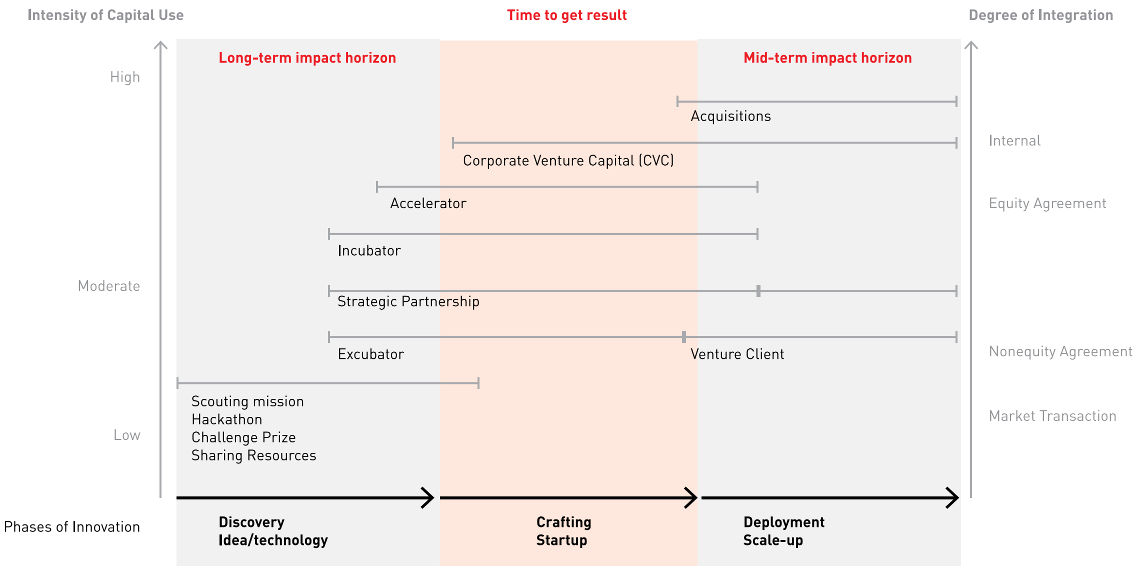
[15] CB Insights (2016) - "The History of CVC" (http://bit.ly/2wCFIRI)

[16] Source: KPMG

The journey At MDI Ventures has been about identifying the ‘‘synergy’ between startups and Telkom group of subsidiaries would create mutual benefits. We have broken down the typical synergy types based on the level of impact created by corporate business as the following diagram:

Acquiring new Technology and competency needed to support internal growth • To Improve corporate’s current businesses operational efficiencies. • Note: products have to be competitive in price, arrays of services, and can’t be found in existing vendors.	**LOW LEVEL ENGAGEMENT** Cost Saving
Startups who have experience working inside large enterprises identified ways to significantly improve businesses through partnering with corporations • Expanding both market share (startups and corporate’s business unit).	**MID LEVEL ENGAGEMENT** Go-To Market
The ideal relationship between tech companies and the Group of Subsidiaries • Formation of new business initiatives leading to the creation of new revenue streams for corporations. • Utilize both strengths and weaknesses, forming partnership to ensure digital transformation.	**HIGH LEVEL ENGAGEMENT** Ecosystem

BUSINESS IMPACT EXPECTATION



Source: mVentureBcn (Mobile World Capital Barcelona and IESE), Corporate Venturing: Achieving Profitable Growth through Startups, January 2017

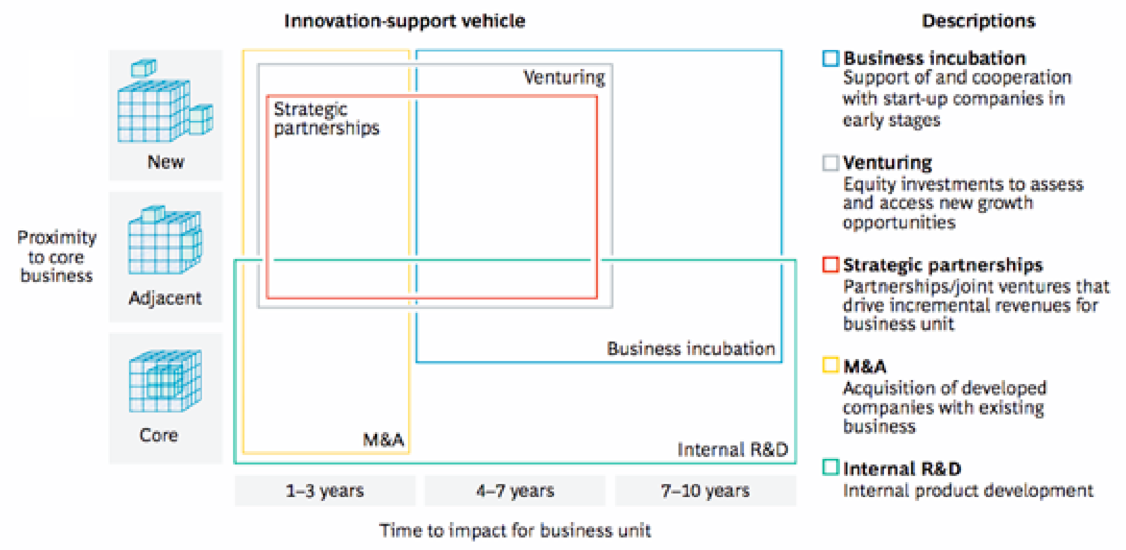
According to mVentureBcn study in 2017[17], Corporate Venture Capital functions as transition steps prior to Acquisition. It is within corporate expectation that their portfolio would accelerate their business forward in digital age, compared to smaller steps like hackathon, incubator and accelerator model. However, all the methods lead to digitalization of corporate existing business, thus the growing participation of corporates contributed to unlocking the startup funding and scaling barriers. It creates mutual benefit, especially in terms of market access, the portfolio could leverage a corporate brand that supports them, meanwhile corporate develops experience and product accordingly.

Each corporate has expectation for each synergy to generate impact to their business, but it varies based on multiple case studies. BCG compiled their case studies in 2014[18] and identified the typical integration timing applicable to startup-corporate synergy effort.

[17] mVentureBcn - "Corporate Venturing : Achieving Profitable Growth through Startups", Jan 2017

[18] Boston Consulting Group : "Incubator, Accelerator, Venturing and More", Jun 2014

BY EMPLOYING MULTIPLE TOOLS, COMPANIES GAIN A HOLISTIC VIEW OF GROWTH OUTSIDE THE CORE



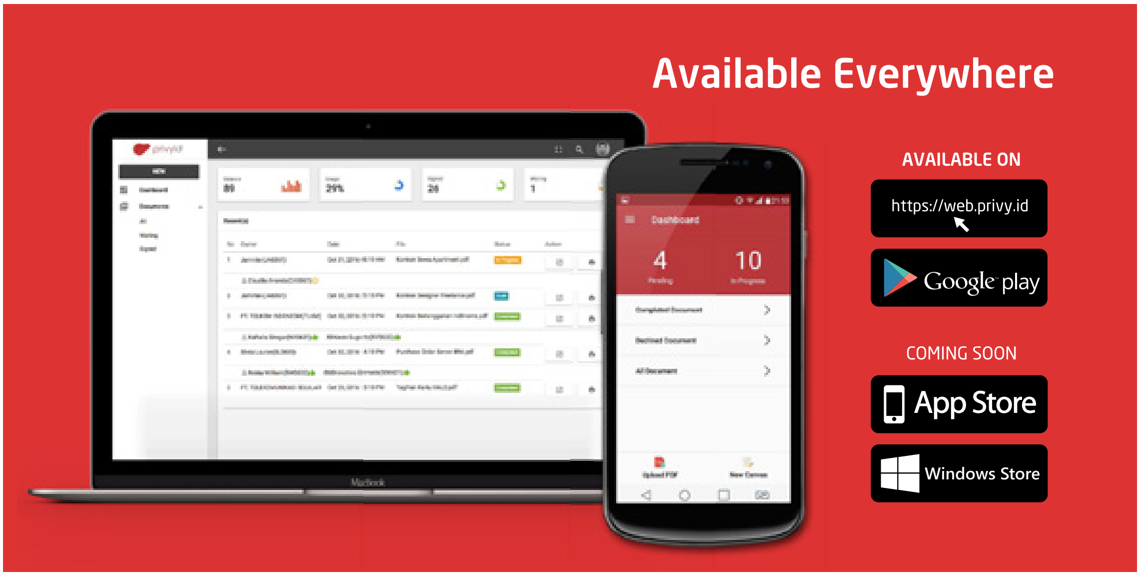
Source: BCG analysis.

It can be seen that Venturing and Strategic partnerships take ideally 1-3 years time integration period due to corporate bureaucratic process. However, MDI Ventures identified the problem-solving situation and business opportunity could accelerate this effort.

Two case studies of MDI Venture's portfolio in Indonesia that had been successfully implemented within Telkom group of subsidiaries:

privyid

Kata.ai



PRIVYID DEVELOPS AN ELECTRONIC IDENTITY VERIFICATION TECHNOLOGY THAT IS ACCOUNTABLE AND INTEROPERABLE.

PrivyID provides a credible electronic identity by verifying multiple governments issued IDs, phone number, e-mail, and signature of a person. By ensuring that each person could only have one PrivyID, they prevent duplication of online services accounts and encourage Internet users to act responsibly on the web.

The original idea of PrivyID is to provide business contract templates for enterprises. The team eventually found this model to be unscalable for a tech startup because at the enterprise level in Indonesia, most documents are varied across business verticals and in need of multiple customizations before customers can finally use them.

PrivyID is a business concept that was born as the project goes with Indihome, where the company realized that focusing on the identity verification aspect of business transactions is a better growth roadmap.

PrivyID is a business concept that was born as the project goes with Indihome, where the company realized that focusing on the identity verification aspect of business transactions is a better growth roadmap.

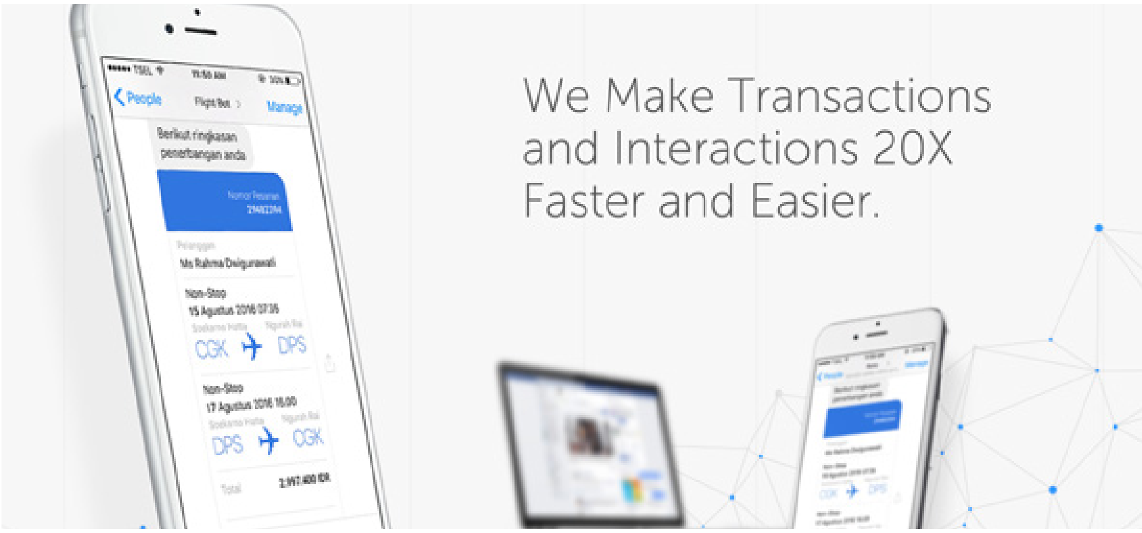
The Pivot: After some months working on the concept of business contract templates for enterprises, the team tried to implement the technology for Indihome signing-up activities. Realizing that some contracts require being highly customized and that there is the problem of legal verification in the electronic signature process in Indonesia.

The Use Case: PrivyID came up as a government-approved digital signature verification in Indonesia, and Indihome uses its service to make user onboarding process more efficient. Today, users can sign up for Indihome's services through its app, and all data verification technologies in the app are provided by PrivyID.

Telkom Group of Ecosystem: The early success of PrivyID digital signature verification system implementation in Indihome's user onboarding process validates the need for ID verification system for KYC process in customer-facing businesses, especially in the sector of financial services.

Beyond Telkom: Outside Telkom Group, PrivyID has been successfully implemented in other enterprises, such as Bussan Auto Finance, ZTE, and Adira Finance. In less than 16 months, PrivyID has reached 430,000 users. We will see more implementation use cases for PrivyID, especially in major financial institutions in Indonesia, such as Bank Mandiri & BRI.

Kata.ai

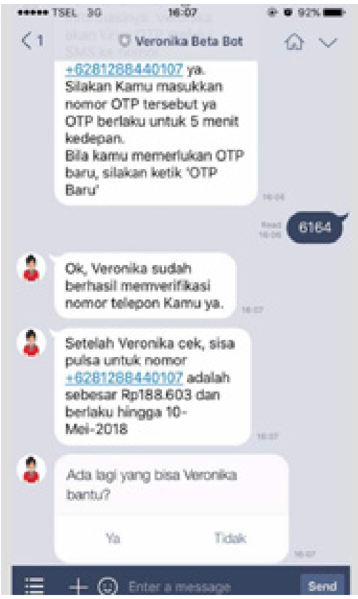


KATA.AI (FORMERLY YESBOSS) IS A SERVICE WHICH PROVIDES THE FIRST INTELLIGENT CHATBOT IN BAHASA INDONESIA. IT IS SUITED WITH NLP TECHNOLOGY THAT BRINGS IMPROVEMENT TO CUSTOMER EXPERIENCE FOR INDUSTRIES.

Kata.ai (formerly YesBoss) is a service which provides the first intelligent chatbot in Bahasa Indonesia. It is suited with NLP technology that brings improvement to customer experience for industries. YesBoss was Indonesia's answer to Magic, a virtual assistant that gets you anything you desire via SMS or/and app, for example, you could ask for a table reservation, order food, or send flowers to someone. Amidst the hype, YesBoss closed down all services in September of 2016, and from then on, Kata.ai rose from the ashes.

The Pivot: After the phasing out of YesBoss, the team began to work on a different segment, the enterprise segment. The artificial intelligence that had been used to process orders from customers to merchants was 'spinned off' into a new CRM channel that would be

The Use Case: After months of preparation, in August 2017, Kata.ai launched the first AI chatbot, Veronika, with Telkomsel on Line. In just weeks, Veronika Chatbot had reached almost a hundred thousands active users. Beyond CRM, Kata.ai engine is equipped with more features that would be utilized by Telkomsel customers to recharge, purchase packs, and more.

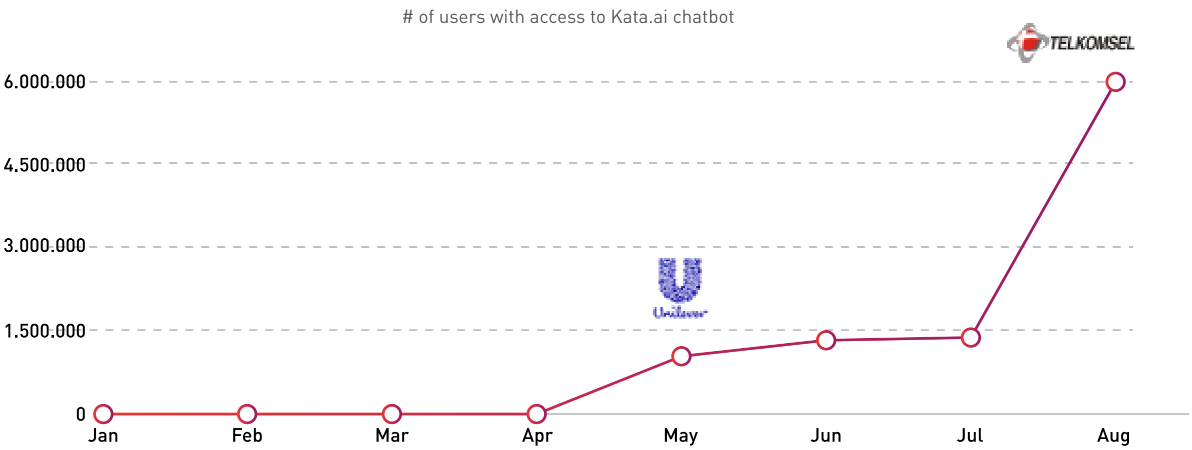


YesBoss was Indonesia's answer to Magic, a virtual assistant that gets you anything you desire via SMS or/and app, for example, you could ask for a table reservation, order food, or send flowers to someone. Amidst the hype, YesBoss closed down all services in September of 2016, and from then on, Kata.ai rose from the ashes.

Telkom Group of Ecosystem: The early success of Veronika Chatbot being implemented in Telkomsel validates the need for new channels in customer experience and prompts a new collaboration with Telkom's Infomedia.

Beyond Telkom: Outside Telkom Group Kata.ai has been successfully implemented in Unilever through Jemma Chatbot, and within just a few months reached almost two million active users. In the future, we will see more of Kata.ai engine being implemented in many enterprises under different names, activating new channels and rejuvenating existing ones to the fullest.

Users Adoption Growth



6 million users within 8 months

Conclusion

OUR FINDINGS HAVE SHOWN THAT WHILE THE INDONESIAN MARKET PROVIDES ENORMOUS POTENTIAL, SCALING UP TECH COMPANIES HAVE PROVEN TO BE EXTREMELY CHALLENGING.

We have seen that a “hands-off” approach from a typical venture capital deal to be not effective enough in supporting startup growth. Investors need to be proactively involved in helping portfolio companies in building businesses with well-established companies.

We think that there are at least 2 ways to win in Indonesia’s tech ecosystem, encapsulated into access to growth and ecosystem building.

ACCESS TO GROWTH

It is important for tech startups in Indonesia to have access to growth through corporates’ existing business channels and infrastructure. Corporates like Telkom and other state-owned enterprises in Indonesia have successfully built their business for 50+ years, and the legacies of those businesses are the ones that build up their enormous wealth and scale today. What tech startups in Indonesia can do to win the market is by tapping this abundance of growth potential inside Indonesia’s corporate business units, and changing it from bricks to bits. As what Steve Case articulated in his book “The Third Wave”, technology will shift from being the software and the app, which is the hallmark of the second wave, to being much more about partnerships with players in each of these sectors of healthcare, education, energy, transportation, government services, or other kinds of things, and innovators that are skilled at partnerships will be the winners[19].

[19] CForbes (2016) - “Steve Case Offers Advice for Entrepreneurs of the Third Wave” (https://goo.gl/XJ7NnC)

ECOSYSTEM BUILDING

As lackadaisical infrastructure is one of the main barriers to growth in Indonesia, we believe that in order to thrive in Indonesia's market, startups would need to emulate Alibaba's model of building an end-to-end ecosystem.

Alibaba's tech conglomerate model - capturing value chain throughout the ecosystem

	Ecommerce				Enablers		
	B2B	B2C	C2C	Cross-Border	Logistics	Finance	Ecommerce Operator
Alibaba Subsidiary in China	Alibaba.com	TMALL.COM	Taobao.com	AliExpress	CAINIAO	ANT FINANCIAL	BAOZUN
Comparable Company in Indonesia	Bizzy Mbiz	LAZADA blibli BLANJA	tokopedia BukaLapak	N/A	POS INDONESIA JNE	N/A	aCommerce

From Alibaba's ecosystem model, we can see that the enabler companies in logistics, finance, and e-commerce operator are constructing most of Alibaba's revenue share, compared to the other customer-facing services (marketplace, B2C, etc). We believe that this model will be applicable in Indonesia tech space, as the successful startups will be between companies that are able to create this end-to-end ecosystem or the ones who can tap into a growing ecosystem (i.e: e-commerce, fintech) and create the enabler technologies to optimize the process and monetize from it. To dominate e-commerce ecosystem, Alibaba has been aggressively acquiring ecommerce sites in different cate gories within chinese market, this strategy has been extended to South East Asia

WHERE DO WE GO FROM HERE?

Our findings might not provide a straightforward answer to those asking "how can we build and scale tech businesses in Indonesia". However, we are confident to assert that strategic partnerships between legacy business and tech companies are proven to produce substantial value for all parties involved.

We also see that these strategic partnerships may eventually lead to equity alliances or acquisitions. MDI Ventures as the innovation arm of Telkom Indonesia will continue to support the ecosystem to the fullest and open our arms to a mutual partnership with local and international stakeholders.

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