



VCs play a large role in boosting startups

Hong Kong venture capital funds: The future of startups?

Popular among local and global startups, VCs seem to be today's preferred choice of capital in Hong Kong.

When Australian entrepreneur Rosh Govindaraj decided to jump-start her sustainable lifestyle brand and embark on two sourcing trips to Indonesia and India, her personal leap of faith did not go unnoticed by Farook Jamal, managing director at Mark Masons Investments, a Hong Kong-based venture capital (VC) fund.

"I was impressed by her story and reached out to her to see how we can help in building brand awareness with our background in building fashion brands," says Jamal. Since then, Govindaraj has gone on to establish Issara – described in her LinkedIn profile as "a direct-to-consumer purveyor of premium, responsibly-handcrafted leather goods" – last August.

As an alternative source – as opposed to debt or equity markets

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– of much-needed capital, VCs play a large role in boosting new startups in a competitive business environment.

Roland Yau, investment director at CoCoon, recognizes this role all too well. Like Jamal, he has also dealt with a startup retail firm (which he declined to name) with a unique, "out-of-this-world" idea that had initially been met with skepticism by investors.

"As I continued discussing with the team, I delved deep into the team's thinking, their execution strategy, and saw how they worked tirelessly to get market validation for their idea," he recalls. Eventually, Singaporean companies, excited by the retail firm's distinct idea, approached them, eager to partner for possible collaborations.

"They came back to HK with a

spring in their step and newfound hope. There is no valuation for that kind of hope," says Yau.

According to experts, innovative entrepreneurs such as Govindaraj and the retail team Yau previously met are transforming the local business landscape and fuelling the rise of VCs in HK, all of whom are on the lookout for the next big thing to bankroll.

"HK has not been, and is not, lacking in investment opportunities," Yau argues. "I think this applies in all stages of investments from VC to private equity."

Melissa Guzy, managing partner at Arbor Ventures and a member of the HKVCA (HK Venture Capital and Private Equity Association) Venture Committee, agrees. "The startup activity in HK has increased over the last year, along with more companies being able to access initial capital. There is definitely more attention being placed on startups in HK and there are some very capable entrepreneurs," she says.

As of September last year, the HKVCA boasted a remarkable membership of nearly 300 global, regional, and local professional

firms, which “represent the full gamut of private capital market participants in Hong Kong, Greater China, the Asia Pacific region, and other parts of the world,” according to the HKVCA 2013-2014 annual report.

Among industries, the information technology and financial services sectors seem to be a favourite among VCs, given these sectors’ robust growth potential and the vigorous backing they receive from both the public and private sectors.

“Over the past year, there has been a continual increase in support toward the technology startup scene in HK, including support from co-work spaces, large corporations who host innovation conferences and networking events, and the government,” Yau says. “This support helps lower the barrier of entry for HK entrepreneurs, which in turn provides more investment options for venture capitalists,” he adds.

Similarly, the financial services industry offers exciting opportunities for VCs, says Simon Squibb, chief executive officer and founder of NEST Investments.

“In the past six to 12 months, we’ve certainly seen growth in some key sectors in HK. In particular, the financial services sector, traditionally seen as one of HK’s core strengths, has received a lot of attention in encouraging startups and FinTech (financial technology)-friendly regulation and support,” Squibb says.

HK VCs lagging in Asia?

Compared with counterparts in the region, however, HK still lags in terms of VC development. “HK has fallen behind many other countries in Asia including Singapore, Indonesia, and Japan,” Guzy notes. Jamal is more optimistic, however, given the relative youth of HK’s startup industry. “Hong Kong is still in the early stages of growing its ecosystem to support startups, so VCs have been more active in other Asian countries. However, there seems to be a trend with more VCs now

establishing themselves in HK and playing an active role in participating in both the growth stage and larger rounds.

“This will attract other established players to enter the scene and it will provide more funding options for emerging and existing startups,” he predicts.

A challenging road ahead

In the meantime, challenges still abound for HK’s VC industry. For instance, with HK being a major regional financial hub, startups face the threat of VCs opting out in the face of the wide array of investment options to choose from.

“It is easy for any HK investor to assess the risk and internal rate of return of investing into a tech startup, and decide they are better off spending their money on another class of assets,” Yau says.

“HK is not lacking in funds for tech startups,” Yau notes, “but the challenge is for startups to receive those funds on terms that are fair and reasonable to the startup.”

To remedy this, VCs must find way to properly engage startups and ensure networking events do not turn out to be mere soirees. “There are more tech events than before, but still limited [opportunities] for entrepreneurs to get in front of VCs and angels (angel investors). Startups with the potential to get funded are overlooked on pitch nights and demo days because of the way they are structured,” laments Jamal. “We need to adopt a different approach to these events, and I am talking to some VCs about some ideas that can generate a more productive outcome for entrepreneurs/accelerators/investors,” he adds.

The future of VCs

Overall, the outlook on VCs in HK is positive, driven by the city’s long-time status as a regional financial centre, which has cultivated a business environment in which startups and VCs can thrive.

“The outlook is promising because HK has all the components of an innovation hub. Our



Melissa Guzy



Farook Jamal



Roland Yau



Simon Squibb

history and geographical location has exposed us to culture, people, and issues that are beyond our borders, and we grew up knowing more about the world, understanding trade, and caring about global issues,” Yau says. “The HK tech startup scene will continue to find its niche over the next few years, and when it does, the city will be as competitive as any other innovation hub in Asia,” he adds.

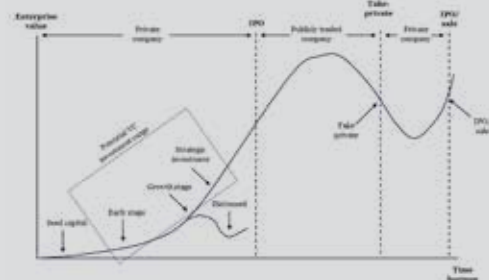
In the next three to five years, expect HK VCs to continue to grab the spotlight as more local and global startups reap success and seek new capital to fund growth initiatives.

“I believe that a large success story by an HK startup would be a catalyst and energize more entrepreneurs to start companies. Additionally, more and more US and European startups are considering HK as their HQ (headquarters) for global expansion,” Guzy notes.

VCs are also seen to evolve in terms of scale, in order to unlock values and exploit other investment advantages. “Valuations in all sectors are becoming a concern. The VC model is undergoing a lot of changes and we will see an emergence of ‘micro VCs’ that will be participating in all states of the investment cycle, enabling them to capture greater value than at present,” predicts Jamal.

Meanwhile, HK’s connection to China, the world’s economic powerhouse, may also prove useful – even invaluable – as VCs pursue opportunities in certain growth sectors such as FinTech, smart cities, and the Internet of Things, according to Squibb.

Typical investment range for venture capitalists



Source: Roland Yau of CoCoon