PHILIPPINE VENTURE CAPITAL REPORT 2023

FOXMONT CAPITAL PARTNERS

BCG

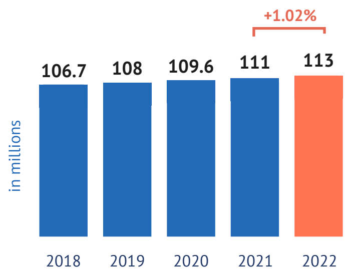
TABLE OF CONTENTS

THE PHILIPPINE INVESTMENT LANDSCAPE	1
PHILIPPINE 2022 DEAL ACTIVITY	6
EMERGING TRENDS AND THEMES	9
DEVELOPMENTS IN THE PHILIPPINES	18
THE PHILIPPINE STARTUP ECOSYSTEM THROUGH THE EYES OF FOXMONT	22
THE PROGRESSION OF IMPACT INVESTING	24
THE GROWING DEPTH AND BREADTH OF PHILIPPINE FOUNDERS	26

THE PHILIPPINE INVESTMENT LANDSCAPE

HIGH RATES OF DIGITAL PENETRATION DESPITE A RAPIDLY INCREASING POPULATION

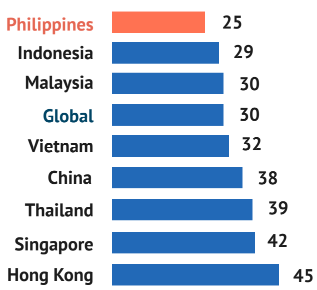
PHILIPPINES POPULATION



Source: Worldometer

On average, the PH population increases by over 1M per year

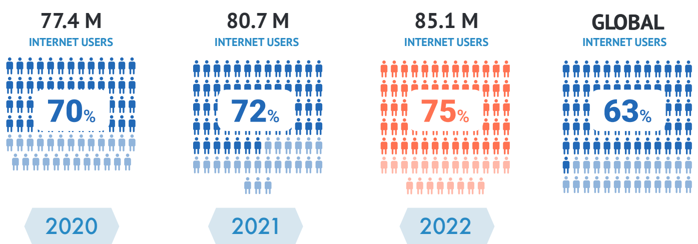
MEDIAN AGE



Source: World Economics

The Philippine population has consistently ranked the lowest in median age across the region. The government continues its efforts to promote sustainable population growth through various policies such as the Responsible Parenthood and Reproductive Health Act of 2012, and the Philippine Population Management Program. The government also continues to craft economic policies such as the Philippine Development Plan to improve poverty and unemployment rates. Between 1985 and 2018, poverty rates declined by two-thirds.

NUMBER OF INTERNET USERS AND INTERNET PENETRATION RATES

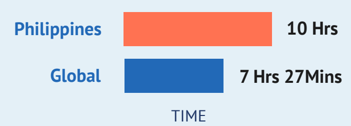


Source: Statista, DataReportal

- Internet penetration rates have increased by 5% in the last 3 years alone.
- The Philippines has a 12% higher internet penetration rate than the global average.

AVERAGE TIME ON THE INTERNET

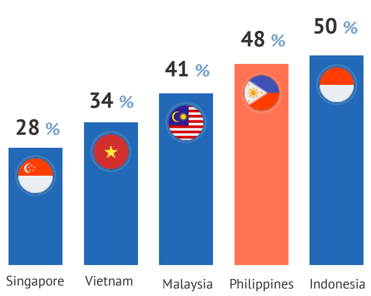
users aged 16-64



Source: PNA (Philippine News Agency)

The Philippines is 2nd in the world and 1st in Asia for most time spent on the internet.

SOCIAL MEDIA PURCHASES



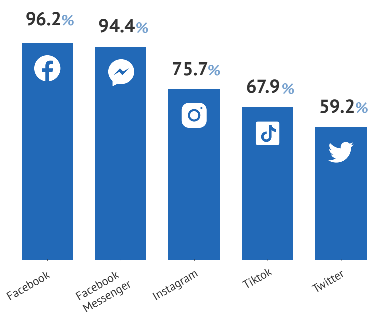
% of users that use social media to source purchases

Source: DataReportal

Filipinos use social media to source purchases more than most neighboring countries.

MOST USED SOCIAL MEDIA APPS

IN THE PHILIPPINES

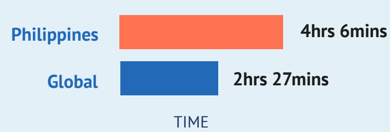


Source: DataReportal

Facebook remains to be the most popular social media app in the Philippines since its debut in 2004.

AVERAGE TIME ON SOCIAL MEDIA

users aged 16-64

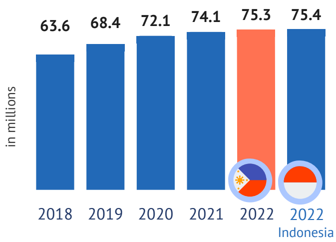


Source: DataReportal

The Philippines exceeds the global average by 99 minutes - **almost 2x the global average.**

Source: DOH (Department of Health), NEDA (National Economic and Development Authority), The World Bank

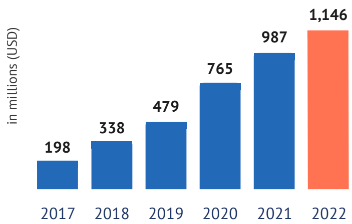
SMARTPHONE USERS



Almost 12M new smartphone users in 4 years - a ~20% increase, equivalent to Indonesia where population is double.

Source: Statista, Insider Intelligence

PH CONSUMER ELECTRONICS REVENUE

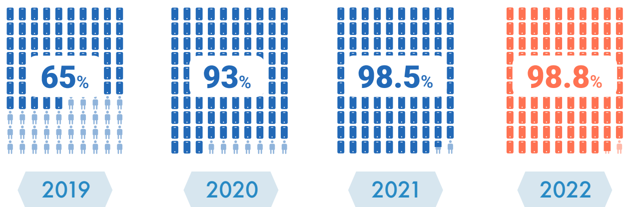


High YoY growth from 2017 to 2022

Source: Statista

% OF SMARTPHONE DEVICE OWNERS

relative to Internet Users, aged 16-64



The percent of smartphone device owners in the Philippines is higher than the January 2023 global average of 95.9%.

Source: DataReportal, Meltwater

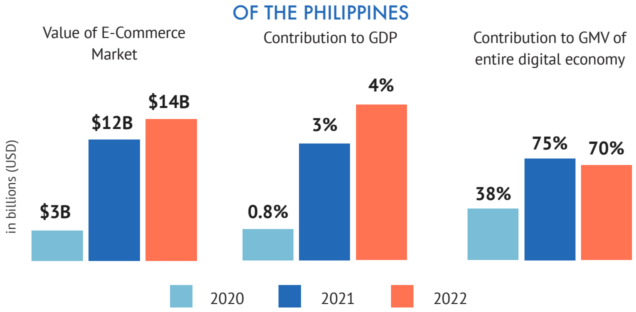
DRIVERS OF SMARTPHONE GROWTH

- Diverse and affordable internet plan options (e.g. postpaid, prepaid, unlimited) are now available through mobile devices and accessibility.
- New telecommunication players enter the field with technologies to improve 4G and 5G speed and accessibility.
- Smartphones became main medium to disseminate information within communities during the pandemic.
- Cheaper brands such as Oppo and Vivo have seen an increase in domestic popularity.

A BOOMING DIGITAL ECONOMY

E-COMMERCE AND MOBILE APPS

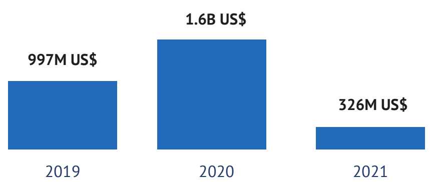
VALUE OF E-COMMERCE MARKET OF THE PHILIPPINES



Post-pandemic, the Philippine digital economy remains robust with a continuously increasing e-commerce market value that has seen a 33% increase in contribution to the overall digital economy in the last 3 years.

Source: e-Conomy SEA Report 2022

ANNUAL REVENUE OF FOOD DELIVERY



As the economy began to open up post-covid, annual Revenue in 2022 shrunk by 3x vs numbers in 2021.

Source: DataReportal

During the pandemic, Philippine shoppers had increased their number of purchases by 57% – the biggest increase in Southeast Asia.

During quarantine, 98.8% of all internet users searched for goods and services to purchase.

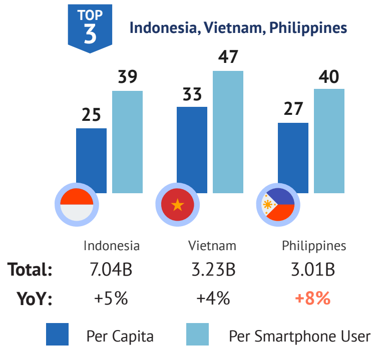
In 2022, the Philippines ranked 1st worldwide in terms of average revenue on e-commerce goods when normalized for GDP per capita, coming in at 10.54% of GDP/capita against the global average of 6.51%.

Among online shoppers aged 16-64, the follow are the biggest online purchase drivers:

1. Free Delivery
2. Customer Reviews
3. Coupons and Discounts
4. Cash-on-Delivery Option
5. Simple Online Checkout

Free delivery and discounts are a great marketing tool to increase chance of purchase.

NUMBER OF MOBILE APPS DOWNLOADED THROUGHOUT 2022 IN SEA



While Indonesia ranks first in total number of mobile app downloads in SEA, the number of app downloads per capita and per smartphone user in the PH is at par with Indonesia.

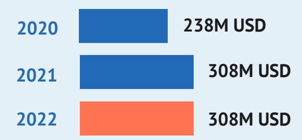
Source: data.ai

TOP 4 VIDEO STREAMING PLATFORMS IN THE PH

1. Vivamax
2. Youtube
3. HBO GO Asia
4. Kumu

Source: data.ai

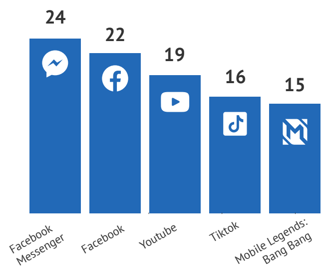
PH ANNUAL CONSUMER SPEND ON MOBILE APPS AND IN-APP PURCHASES



Despite macroeconomic conditions, the Philippines did not see a drop in mobile app consumer spend.

Source: data.ai

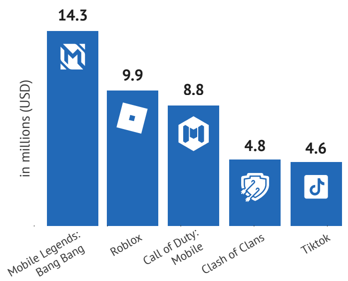
TOP APPS BASED ON AVERAGE ACTIVE DAYS OF USE IN A MONTH



Fun fact: King James' Bible ranked 9th at 12 days.

Source: data.ai

APPS WITH HIGHEST 2022 REVENUE



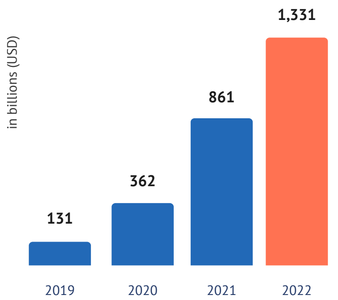
Top 4 apps are all gaming apps

PH-based apps VivaMax came in at #6 and Kumu at #11.

Source: data.ai

DIGITAL FINANCE

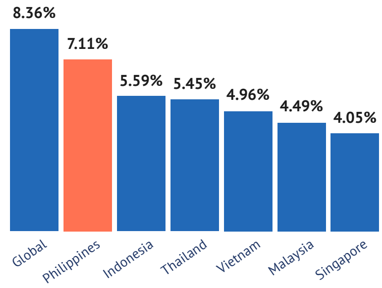
ELECTRONIC BANKING TRANSACTIONS



Total electronic banking transactions in 2022 were equivalent to three times the GDP of the Philippines in 2021.

Source: Statista

DIGITAL PAYMENTS TRANSACTION VALUE VS GDP IN 2022

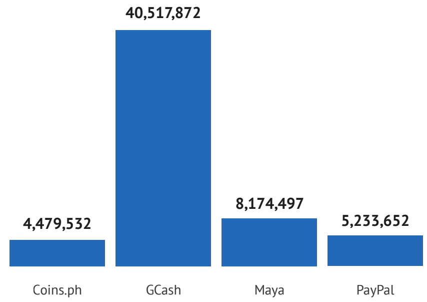


The Philippines ranks the highest among its SEA neighbors, however there still is upside potential for digital payments when compared to the global percentage of 8.36% and China at 19.09%.

In terms of Digital Payments ARPU vs GDP per capita, the Philippines fared well in 2022, coming in 2nd worldwide with a percentage of 16.73%, and higher than the global percentage of 15.23%.

Source: Meltwater

MONTHLY ACTIVE USERS PER MOBILE WALLET



Source: data.ai

While 24% of the PH population is banked in 2022, 36% of Filipinos are active Gcash users.

Mobile wallet transactions in 2022:

28.6B USD

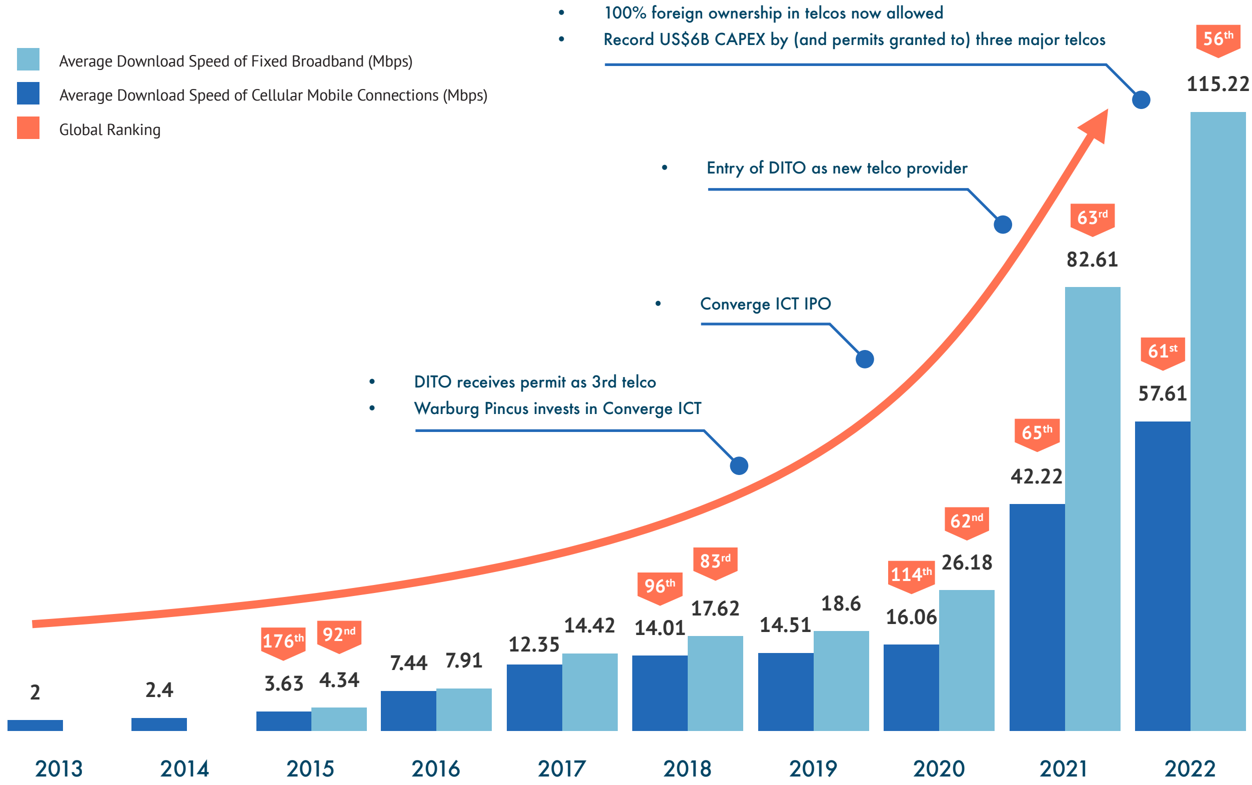
almost 2x that of 2020

The Philippines has one of the highest mobile wallet transactions in Southeast Asia, next to Indonesia and Thailand.

Source: Statista

Source: e-Conomy SEA Report 2022, Statista

DEVELOPMENT OF DIGITAL INFRASTRUCTURE



There has been a drastic improvement in internet speeds for both mobile connections and fixed broadband over the past decade, with the PH global ranking jumping 115 spots from 176th to 61st for mobile connectivity and 36 spots from 92nd to 56th for fixed broadband.

Source: Ookla Speedtest Annual Reports 2013 - 2022, Foxmont analysis

PROGRESSION OF THE STARTUP ECOSYSTEM

The Philippines ranked 59th globally on the Global Innovation Index by the World Intellectual Property Organization, scoring best on the innovation pillars of Business sophistication (ranked 39th worldwide) and Knowledge and Technology output (ranked 41st worldwide).

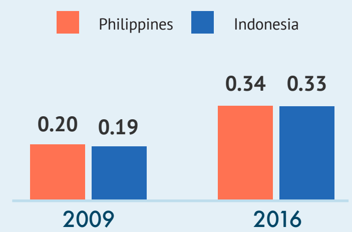
- According to the report, the Philippines' innovation performance is above expectations given our level of development (lower middle-income).
- The Philippines is one of the fastest innovation catch-up-to-date among middle-income countries.
- Within the region, the Philippines is one of the countries that have made the greatest advancements in the past decade, moving up by more than 20 slots.

In 2022, the presence of strong provincial-based startups became more visible and Foxmont invested in its first two provincial based startups:

Peddlr — A digital ledger and point-of-sales app from Catbalogan, Samar

colourette — A D2C beauty brand from Pampanga

NEW BUSINESS REGISTRATION
PER 1,000 PEOPLE



Philippine startup activity has increased in line with Indonesia.

Source: World Bank

WHY INVEST NOW:

Venture Perspectives

Kickstart Ventures

If there's one thing we've learned in the years spent investing in startups: it's to never underestimate the importance of timing. We've seen some wonderful ideas and business concepts fail, not because they were inherently bad, but simply because it was not yet the right time for them to launch. The market they wanted to serve wasn't ready to avail of their product or service in the way that they were offering it.

This was how it was with many of the B2C startups we saw at Kickstart Ventures from 2012 to 2018: so much so that we occasionally referred to B2C in the Philippines as "The Road to Tears" to founders and investors we'd meet. Nevertheless, while the majority of our deals from 2016 to 2019 were in the B2B space, e.g. Sprout, Aiah and Spiralytics, we did find some early success investing in Coins.ph, an upstart mobile wallet that was acquired by Gojek in 2019.

It was around 2019 when we felt the industry start to turn the corner, when the investments of tech giants like Alibaba, Tencent, Grab, and Sea into consumer apps like Lazada, GCash, Grab, and Shopee began to bear fruit. Consumer habits started to shift to digital in a meaningful way, as our local payments and logistics infrastructure grew in scale and maturity. Some of the Philippines' most iconic B2C startups were founded around this time: Kumu and Edamama, among several others.

This simmering demand came to a boil in 2020, as harsh COVID lockdowns forced Filipino consumers online in a massive way: our digital economy doubled from $8B to $16B from 2019 to 2021, and is projected to grow to $35B by 2025. Finally, the Filipino digital consumer has arrived.

We're very excited for what's next for the ecosystem, as there is still so much opportunity for innovation and growth. For 2023 and beyond, we're keen to find and support solutions to large and persistent problems such as food (in)security, climate change, resource inequality, and mobility, among others. For the Philippines in particular, we're fascinated by O2O models – merging the frictionless and data-driven world of digital with physical assets and infrastructure, to improve the consumer experience and overall efficiency.

As one of the earliest VC investors in the country, it's been great to see how the ecosystem has developed: we're happy to see more startups, VCs, incubators and accelerators – helmed by passionate tech leaders that draw from years of experience to build up the next generation. This virtuous cycle has been building over the past decade, and continues to accelerate. We believe there has never been a better time to be part of the Philippine startup ecosystem.

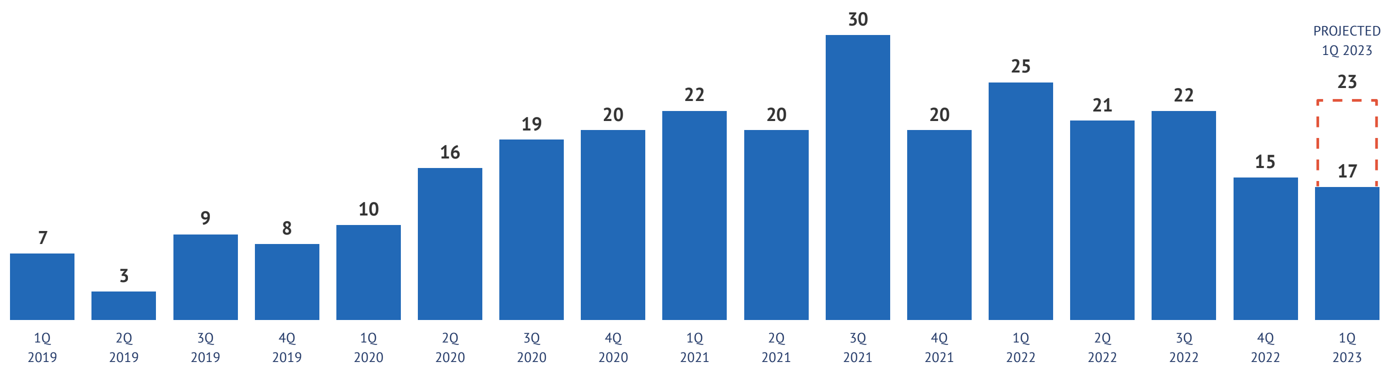
PATAMAR | CAPITAL

A strong startup ecosystem requires entrepreneurial spirit and local market understanding. And I'm glad to say that we are seeing much more of this now. We now see more founding teams who have seen and been involved with scaling a business, and the understanding that it is not enough to just copy successful models from other markets without considering local context and culture. We now have more discussions with local entrepreneurs who have better insights of the local market and its unique challenges, which can give them an advantage. Sure you can learn from a similar business from another market, but we believe that understanding the local nuances is the key for local startups to succeed and thrive.

Compared to when Patamar made our first investment in the Philippines 5 years ago, the funding ecosystem has come a long way. Today, the funding stack is more mature and developed, with a greater number of active investors, particularly at the early stage. The fact that more of these investors are local is crucial because we believe they have a deeper insight into the market and are better able to identify the most promising startups and founders. In addition, there have been some notable success stories of startups raising growth rounds from regional investors, indicating confidence in their future growth potential. However, there is still a lot of room for improvement. In order for the ecosystem to continue to thrive, it will be important to see more companies graduating to the next level and attracting the funding they need to grow and succeed. This will be key to ensuring the continued success and vibrancy of the Philippine startup ecosystem.

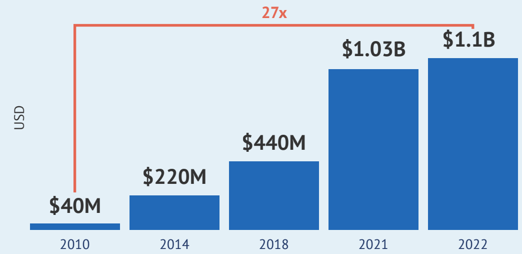
PHILIPPINE 2022 DEAL ACTIVITY

QUARTER ON QUARTER DEAL VOLUME



Source: Pitchbook, Crunchbase, Preqin, Foxmont analysis

FUNDS RAISED BY PHILIPPINE STARTUPS IN 2022 exceeds $1 billion for the second year in a row



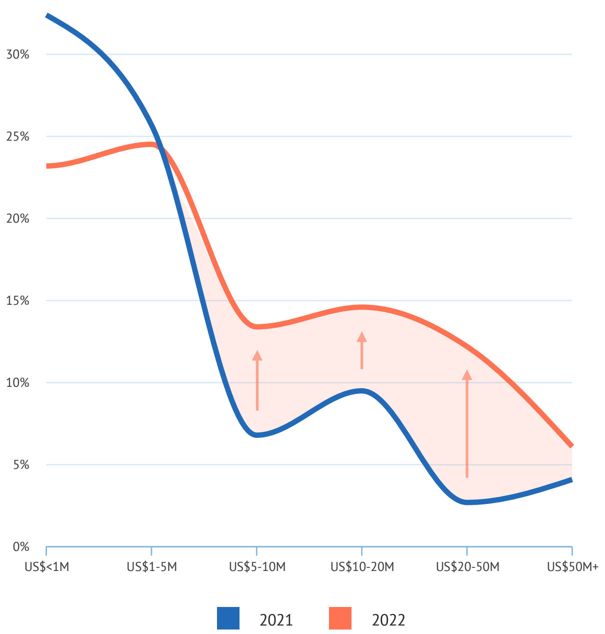
Total deal value per year has grown by over 27x in the last 12 years

Source: Pitchbook, Crunchbase, Preqin, Foxmont analysis

Despite a global slowdown in deal activity, 2022 continued to show steady deal flow in the Philippines, and Philippine Venture Capital surpassed projections. As of February 2023, the Philippines has already seen 17 investments, with Q1 projected to hit 23.

Investments below $5M still remain to have the biggest share in terms of number of deals, emphasizing that the Philippine market is agile and fresh with new ideas and startups. On the other hand, there has been a tremendous growth in later stage investments, reflecting the overall maturing state of the Philippine startup ecosystem.

DEALS BY INVESTMENT VALUE



Source: Pitchbook, Crunchbase, Preqin, Foxmont analysis

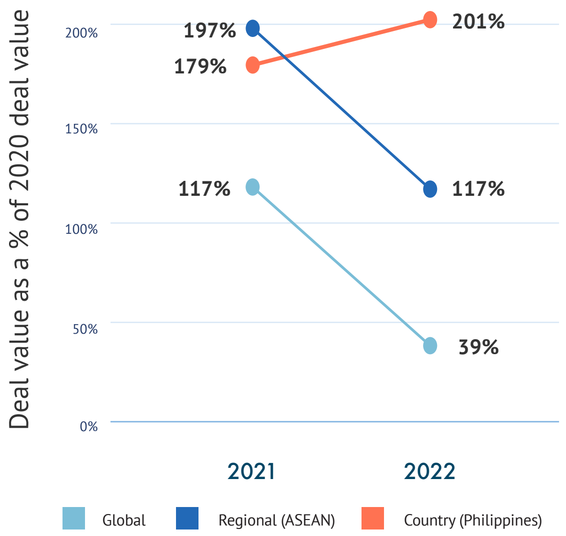
Many regional funds also entered the Philippines for the first time in 2022, validating the ripeness of the PH startup ecosystem.

Advance and Locad are also some of the first startups that are successfully growing into other regional countries

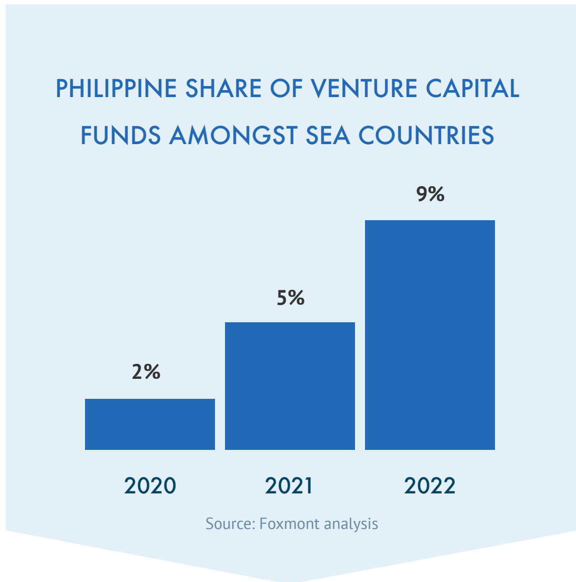
The Philippines also saw existing players doubling down in the Philippines through multiple investments in 2022.

Source: Pitchbook, Crunchbase, Preqin

PHILIPPINE INVESTMENT PERFORMANCE SUSTAINS MOMENTUM DURING A TIME OF GLOBAL HEADWINDS



Source: Foxmont analysis



Source: Foxmont analysis

2021 was the year of Venture Capital globally, with funds eager to invest in promising companies after rapid growth following pandemic recovery. This resulted in a record 31,526 deals, with USD$794.2B in aggregate capital raised. In 2022, worldwide venture capital investments shrunk by 37%, with a 27% decrease in total value of deals generated in Southeast Asia. However, the Philippine investment landscape continued to grow, with 2022 being an all-time high in terms of funds raised - growing 7% from the year prior. This outlines the resilience of the Philippine market, highlighting the immense potential for growth despite a global downturn in investment, with sections I and IV of this report giving better context for why.

Comparing the aggregate deals closed by country, the Philippines has increased its stake relative to neighboring SEA countries over the last 3 years. The Philippines more than doubled from 2% in 2020 to 5% 2021, and further grew to 9% in 2022. This once again shows that Philippine deal growth is reaching incredible levels compared to its neighbors.

WHY THE CONVICTION IN THE PHILIPPINES:

Venture Perspectives

OPENSPACE

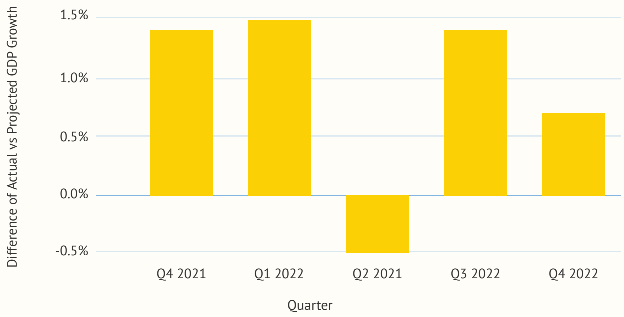
3 KEY DRIVERS OF OUR LONG-LASTING CONVICTION IN THE PHILIPPINES

1. A bright spot in the slowing global economy, with consumers leading the way

In the face of challenging global macroeconomic conditions, the Philippines continues to be a bright spot in the global economy. We can take the constant outperformance GDP growth forecasts driven by domestic household consumption as a signal that exceptional, brand-led businesses with products serving the needs of Filipino consumers will continue to grow.

We purposefully built a Portfolio Success team capable of helping companies deliver on consumer needs. Amongst others, we have specialisms in Brand Impact, Data Science and ESG & Impact. As a firm, we have helped build sizeable consumer-focused businesses from the earliest stages across Southeast Asia.

DIFFERENCE OF ACTUAL VS PROJECTED GDP GROWTH



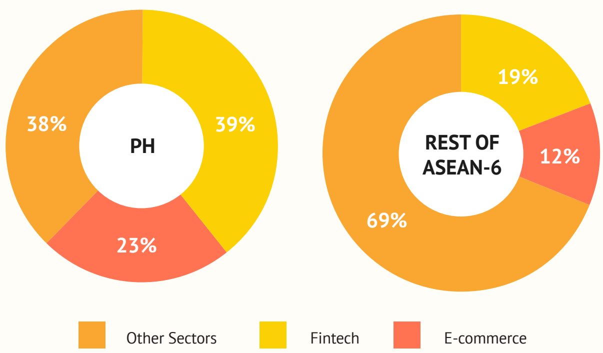
Source: Reuters and Bloomberg analyst polls

2. Funding is now flowing into vital new sectors outside of fintech and e-commerce

Over the past 2 years a record amount of capital was invested into Philippine startups, with the majority flowing into e-commerce and fintech. Headline mid-stage raises came from the likes of GCash, Maya, and Growsari. This sectorial dominance extends to the earlier stages, and can divert attention from other large sectors where technology can be a key force in solving pressing issues. As is the case in the rest of the region, we expect to see more balance in terms of where early-stage funding is directed in the Philippines. This will be driven by the maturation of e-commerce and fintech, and the emergence of start-ups in areas such as SaaS, health, education, and logistics.

Our approach has always been to look at the sector where we believe technology can have the most transformative impact. This agnostic approach has led us to consistently make early investments in overlooked sectors before they become hot. It also means we have gained significant operating knowledge that can be applied to our companies pan-regionally and across sectors.

2021-2022 EARLY STAGE PRIVATE FUNDING BY SECTOR (BY AMOUNT INVESTED)



Includes disclosed amounts from Pre-seed to Series B rounds only. Web3 deals further classified into sub-sector (i.e. fintech, SaaS, gaming, etc.)

Source: Openspace's internal database Alchemy

3. In uniquely Filipino style – the whole ecosystem is rallying together and supporting each other

Our team on-the-ground in Manila is living this experience every day. They are seeing an ecosystem, which is livelier and more collaborative than ever – despite the looming "tech winter" – with founders, investors, venture builders, other organizations and individuals all working together to build solutions and help each other.

Our Active Intelligence approach demands that we have decision-making teams on-the-ground in every market we invest in. In the Philippines, our team continues to support the ecosystem through capital provision, mentorship, and community fostering. We commit to working alongside our founders, co-investors and ecosystem partners to ride the cycles and delivering on our shared mission to have a transformative impact where tech meets life.

EMERGING TRENDS AND THEMES

EXPLOSION OF DIGITAL FINANCIAL SERVICES

Digital financial services in the Philippines is a growing space driven by market inefficiencies and unmet needs[1]

Lack of access			High friction and costs		
No **proper credit scoring** available	No accessible **formal lending options**	Lack of **convenient payment solutions**	**High fees** to conduct money transfers	**Difficult and long application processes** for traditional financial institutions	Financial products **too complex**
Alternative data providers	*Non-traditional lending FinTechs*	*Payment providers and gateways*	*Remittance and payment companies*	*DigiBanks*	*One-stop shop FinTech platforms*
trustingsocial, Lenddo, FinScore	HOME CREDIT, billease, atome	xendit, PayMongo, dragonpay	WorldRemit, MoneyGram, WISE	tonik, GOtyme bank, maya BANK	GCash

maya BANK, tonik

Digital banks leveraging on partnership ecosystem and deposit base to push lending products

Right to win: Access to **low cost of funds**

Grab, Shopee

Regional ecosystem players can leverage on their distribution and reach via non-financial services to cross-sell lending products

Right to win: **Captured user base** with **specific use case**

atome, HOME CREDIT, billease

Non-traditional lending players expanding to other categories

Right to win: Experience in **origination** and **collections**

GOLD RUSH TO WIN IN THE DIGITAL LENDING SPACE

GCash

Wallet players introducing lending to its user base

Right to win: **Ability to embed lending products** within a large **captured user base**

LISTA, Peddlr., growsari

B2B solutions can provide lending to targeted segments of the lending base who already utilize their solutions

Right to win: **Captured base in target segments**

xendit, PayMongo

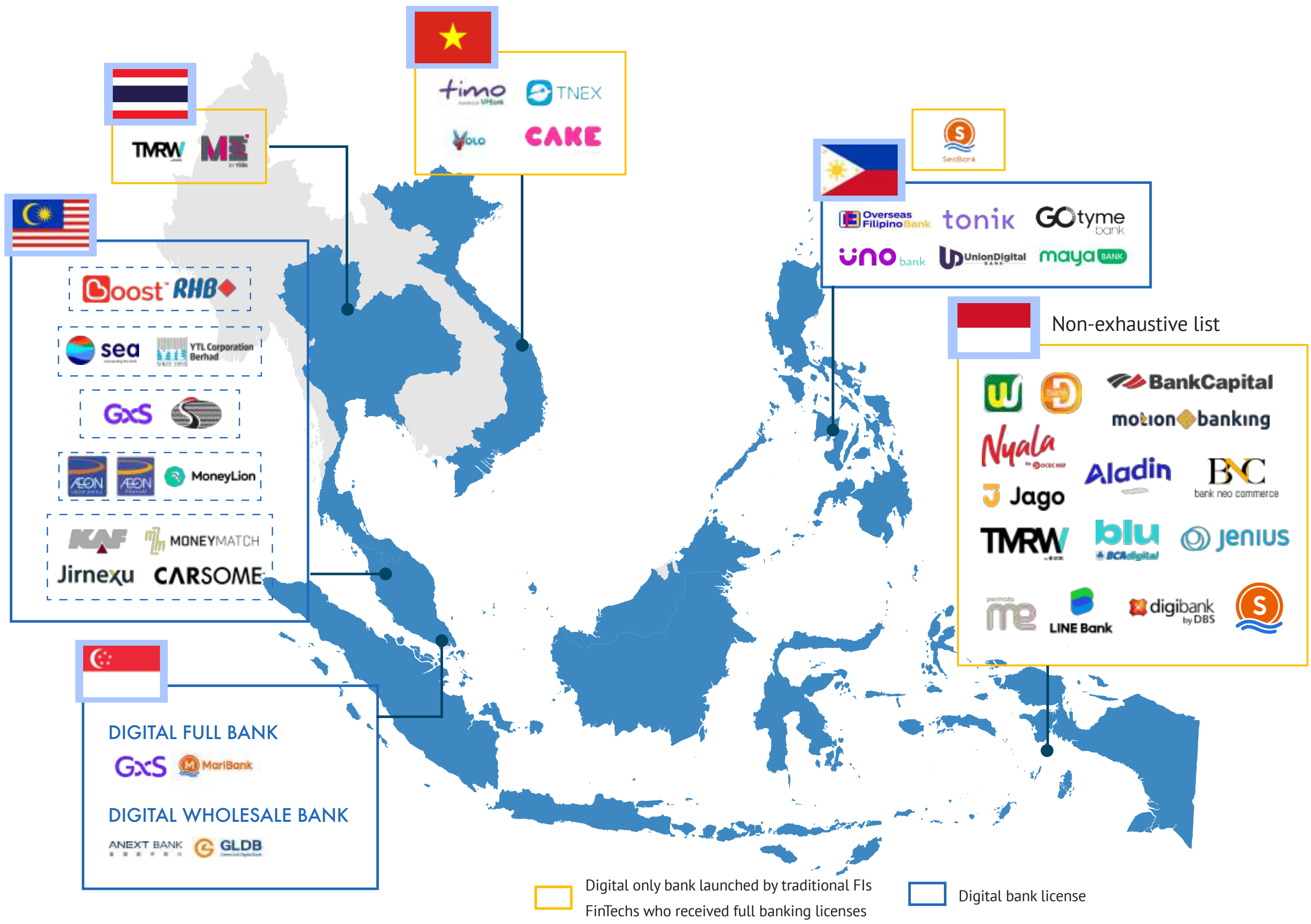
Payment providers providing installments at point of checkout or via working capital financing

Right to win: **Ability to embed** lending in the customer journey

1. Includes international players operating in the Philippines

Source: BCG Analysis

In Southeast Asia, the competition from digital bank business models is heating up



Example: Six digital banking licenses have been issued out of the Philippines, each with their own potential edge

	Overseas Filipino Bank	tonik	UNO bank	maya BANK	UnionDigital BANK	GOtyme bank
Key shareholders	Land Bank of the Philippines (state-owned)	Sequoia, Point72 Ventures, Insignia, Oak Drive, Altra, Camerton	Creador, various individual investors	Voyager Innovations (EDBI, First Pacific, PLDT, KKR, Tencent, IFC)	UnionBank	Robinsons Bank, Robinsons Retail, Robinsons Land
Launch date	Mar 2021	Mar 2021	Jul 2022	Apr 2022	Jul 2022	Oct 2022
Positioning / target	OFW / overseas workers / government employees	Transformative, highly convenient	Potential regional play	SME / merchant focus	Underserved markets, tailored products	Blended physical and digital model
Traction-to-date	N.A (none disclosed post digi-bank conversion)	Php5B in deposits, Php 100M in loans (Dec 2021)	N/A	Php10B in deposits, 1M customers (Oct 2022)	$50M in deposits, $70M in loan book (Nov 2022)	N/A
Potential edge	Only gov't owned digital bank, longer operating experience	First digital-only neobank in PH, first mover advantage	Regional backing and team experience	Anchored on digital payments solution and wide distribution	Deep banking expertise and wide FinTech ecosystem partnerships	Store rewards with retail ecosystem connections; retail kiosks

Source: Press releases, Company websites, Regulator website, BCG/Expand FinTech Control Tower, BCG analysis, Data as of Dec 2022

Winning in the digital lending space requires many ingredients for success beyond having a license

Digital channels with excellent UX to drive low-cost user acquisition

Access to low-cost capital, through ability to take deposits

Product ecosystem to drive embedded finance (e.g. payments platform, social media tools, e-commerce portal)

Attractive loan product design to capture large share of lending revenues (more sustainable vs fee-based income)

Strategy anchored on a clear target segment (e.g. selecting between individuals or SMEs)

Scalable operating and risk engine (including underwriting, KYC, collections)

Of the 415 digital banks launched[1], the 5% who became profitable had 6 ingredients for success

1. Total digital challenger banks tracked by BCG FinTech Control Tower database by end 2021.

STARLING BANK

OakNorth Bank

REDWOOD BANK

ZOPA

WeBank 微众银行

MYBANK

XW 新网银行

百信银行 AIBANK

Rakuten 楽天銀行

PayPay 銀行

ソニー銀行

じぶん銀行

nu bank

Tinkoff Bank

Aprila Bank

kakaobank

Paytm

Jago

Source: BCG FinTech Control Tower, BCG analysis

SARI-SARI STORES AS PLATFORMS FOR DIGITAL SERVICES

Sari-sari stores are an integral part of the economy, being the most ubiquitous distribution channel for common goods, but has historically been neglected and underserved.

>1M SARI-SARI STORES IN THE PHILIPPINES WHO ARE:

- Key part of local neighborhoods, as an access point to necessities and basic goods
- Important social location for Filipinos as a meet-up point in both rural and urban areas
- Has historically been a distribution point for offline goods (consumer food, prepaid load), saving consumers transportation and time

KEY PAIN POINTS

- No scale to negotiate with wholesalers
- Inability to take risks, or invest in business
- Highly manual, inefficient processes
- Insufficient customer insighting and outreach

However, they have become an increasing center of attention, given its growing relevance in the short-to-medium term

GROWING SHARE OF FMCG TRANSACTIONS

41% of fast-moving consumer goods (FMCG) purchases in 2022 were made in neighborhood sari-sari store (6% higher vs 2020)

INCREASING RELEVANCE IN THE DIGITAL PAYMENTS SPACE

Sari-sari stores are becoming an increasingly important channel for a conducting a wider variety of transactions

Telco load → Bills payment → Gaming E-Pins → Cash-in for E-Wallets

Globe, Smart | Meralco, Bayad Center | Mobile Legends, Garena | GCash, PayMaya

BECOMING PICK-UP POINT HUBS FOR E-COMMERCE AND REMITTANCES

Goods: E-Commerce Hub — Shopee, Lazada

Finances: Remittance Hub — GCash PO

Source: Kantar, BCG Analysis

Several digital players regionally have entered to capture the emerging opportunities in this space

udaan — B2B digital trading platform enabling SMEs to sell across India with logistics and payments support

STOREKING — B2B e-commerce platform providing rural stores with distribution and digital payment channels

telio — B2B e-commerce platform connecting brands with MSMEs by aggregating demand

VinShop — B2B2C e-commerce platform providing brands with ability to sell to consumers through retail stores

Peddlr. — Smart POS system that digitalizes the records of MSMEs

growsari — B2B end-to-end e-commerce platform to digitalize sari-sari stores

ula — B2B e-commerce platform providing credit and inventory distribution to small retailers

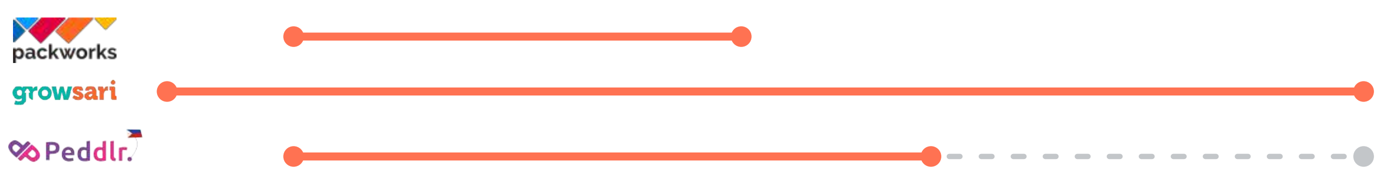
gudangada — B2B e-commerce platform that digitizes the B2B buying process between wholesalers with retailers

In the Philippines, we see four major value pockets which solve for key needs of these competitors

	OPERATIONS		FINANCE	
KEY PAIN POINTS	No scale to negotiate with wholesalers	Insufficient customer insighting and outreach	Highly manual, inefficient processes	Inability to take risks, or invest in business
POTENTIAL SOLUTIONS	1 **B2B commerce** Secure inventory at more competitive rates	2 **Customer analytics** Insights on customers to sell more products	3 **Payment solutions** Leverage digital payment solutions	4 **Merchant financing** Financing scale up sari-sari store business
ESTIMATED TAKE RATES	0-5% processing fees	~10-20%[1] of consumer research budget	0-5% MDR	40-50% APR

Largest value pocket but need lending and risk capabilities to unlock

EXAMPLES ECOSYSTEM PLAYERS



1. 30-40% is spend on market data, but assumes only a portion will go towards sari-sari store data

Source: Expert interviews, BCG analysis

The key to winning is figuring out how to drive profitability at the core through three key factors

KEY LEVERS TO ACHIEVE PROFITABILITY

1

Reduce merchant acquisition costs

Challenge in implementation

- Utilize better UX to improve onboarding experience
- Improve customer education to address gaps in digital literacy
- Increase organic engagement to utilize word-of-mouth acquisition

2

Improve unit economics per order / transaction

- Consolidate operations and supply chain to achieve scale
- Leverage tech platforms to increase efficiency
- Drive higher basket sizes through a mix of incentives and promotions

3

Extend lifetime value

- Widen product ecosystem to increase total value-add
- Capture and enable a larger share of total transaction value
- Drive customer loyalty by rewarding high frequency and long-time users

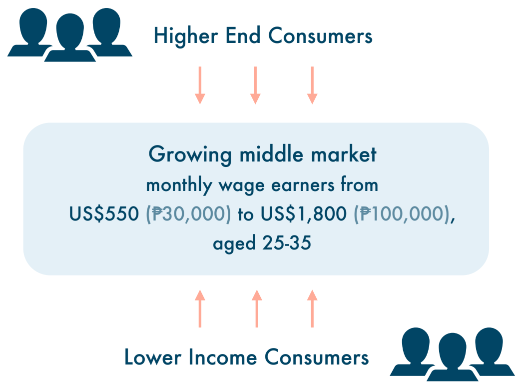
Source: BCG analysis

EMERGENCE OF HOMEGROWN DIRECT-TO-CONSUMER BRANDS

The Philippine economy is largely driven by domestic consumption. However, interestingly enough, there continues to be a large gap in aspirational consumer products. Luxury western brands win over the upscale market, while older generational brands win the super mass market, but the Philippines has yet to cater to the young population that is quickly turning middle class.

Homegrown direct-to-consumer (D2C) brands have begun to fill this gap providing an affordable middle where they are able to capitalize on the young middle-class demographic while also being able to capture market share from the high-end and low-end consumer brands as well.

Pickup Coffee, one of Foxmont's portfolio companies, is for example changing the coffee game by offering quality coffee at affordable prices. Known for its commitment to "nothing above US$2", but at the same time rivaling international coffee chains in terms of coffee quality, Pickup Coffee has gained heavy traction since its launch in February of 2022 with a rapid expansion to over 50 operating branches within its first year. Their offline presence, along with their growing online presence through platforms such as GrabFood, Foodpanda and pick.a.roo, have catapulted Pickup Coffee into one of the fastest-growing D2C startups in the Philippines. With more homegrown D2C brands emerging and executing on the middle market strategy, the D2C space is an exciting one to watch.



With D2C brands now moving towards omni-channel presence, the potential for growth in the D2C space is exponential.

In recent years, direct to consumer brands have started acknowledging the need to move online in order to be a leader in their category. The move from offline to O2O has helped D2C brands expand their reach, grow their brand awareness and revenue, and remain relevant.

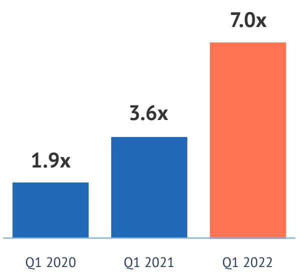
E-commerce platforms like Shopee, Lazada, and Zalora, have helped D2C brands expand their online audience quickly.

Since 2019, the top Philippine e-commerce platforms have seen steady year on year revenue growth.

Philippine e-commerce players have also seen YoY growth in the number of sellers on their platform, and for one of the leading e-commerce platforms, even with GMV increasing, local brands continue to take up a larger share of total revenue.

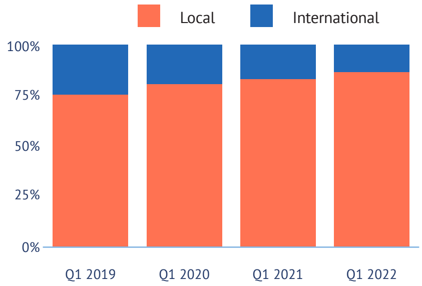
As e-commerce continues to grow as a whole, the D2C market also experiences a parallel surge. With the majority of seller growth coming from D2C brands, it's clear that consumers are increasingly interested in purchasing directly from companies rather than through traditional retailers. As a result, we can expect to see continued growth in the D2C market as e-commerce continues to evolve and reshape the way we shop.

GROWTH OF DAILY ACTIVE SELLERS VS Q1 2019



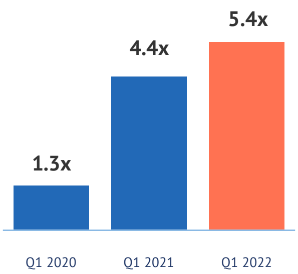
Source: Foxmont analysis

SPLIT OF LOCAL AND INTERNATIONAL REVENUE



Source: Foxmont analysis

REVENUE GROWTH VS Q1 2019



Source: Foxmont analysis

Social commerce has also opened up a new space for D2C brands to sell in a much more interactive way.

E-commerce has found a new frontier to dominate: social media. Simply put, social commerce is the use of social media for product discovery and transaction completion within a single application. Through social commerce, consumers can not only browse, but also directly purchase products, all while enjoying a personalized, interactive shopping experience that is tailored to their interests and preferences.

With D2C brands now able to sell directly on the same platforms that their consumers are already on, the selling experience has become a lot more organic, and the buying experience a lot more seamless.

Colourette, another one of Foxmont's portfolio companies, has always relied heavily on social media to build their customer base, and since the launch of their TikTok Shop has seen incredible growth in their revenue.

Their highest MoM growth of 154% came after launching their Tiktok Shop in June of 2022. Their revenue post launch has also sustained its growth at around 157% versus pre launch revenue.

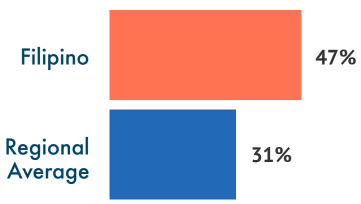
D2C brands have started producing more engaging content through social media trends such as live selling, tutorial videos, hashtag challenges and more. Colourette, for example, went live on Tiktok from 9pm to 12mn during 11.11 and sold **one Colourtint per second** within those 3 hours of live selling.

COLOURETTE REVENUE

Source: Foxmont analysis

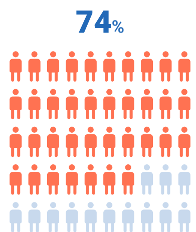
FILIPINOS AND LIVE SELLING

PERCENT OF LIVE SELLERS
WHO SELL DAILY



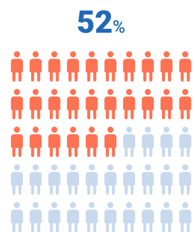
Source: Manila Bulletin

PERCENT OF LIVE SELLERS
WHO SELL TO ATTRACT NEW CUSTOMERS



Source: Manila Bulletin

PERCENT OF LIVE SELLERS
WHO CLAIM LIVE SELLING IS MORE PROFITABLE THAN MARKETPLACES



Source: Manila Bulletin

According to Colourette founder Nina "Because Colourette is a community-centric brand, social commerce has greatly impacted how we engage with our community. First off, it has made the buying process much faster and easier for our customers. Prior to social commerce, consumers had to navigate away from their social media platform to purchase specific products - a disjointed experience that often led to client fallout. More importantly, social commerce has paved the way to more authentic and organic relationships between our brand and our consumers. Community-building and social commerce work hand in hand and one can't be successful without the other. For Colourette, we're elated to reap the benefits of both and enjoy the best of both worlds."

The future of brand engagement, while still evolving, points strongly towards greater integration with the target audience. Live selling, direct chats with sellers, and the rise of Gen Z marketing tactics such as brands making personal Tiktok accounts and content more relatable to the youth, has shifted the goalposts of brands towards increasing customer loyalty in various ways that work in concert with the new abilities afforded to them through modern technology. Social commerce is more powerful than ever, and it is the most personable brands that will burst strongly into the new age of the marketplace.

On top of e-commerce and social commerce platforms, the Philippines has also seen a number of e-commerce enablers enter the market with the goal of ensuring that D2C brands successfully thrive in the digital economy.

While e-commerce and social commerce platforms are able to help many SMEs get online quickly and easily, e-commerce enablers have been able to help D2C brands further establish their own digital presence. The Philippines has witnessed an astounding growth in new webstore creations, with a staggering 3,700 fresh digital storefronts launched in 2022. This represents an impressive 185% increase when compared to the pre-pandemic yearly average of 1,300 new webstores. With the number of webstores in the Philippines predicted to increase further by 56%, e-commerce enablers can be a great help in ensuring their success.

How do e-commerce enablers such as Etaily, a Foxmont portfolio company, work?

- Channel creation and d2c/marketplace management
- Content creation and brand marketing
- Inventory and warehousing
- Order fulfillment and delivery

In 2022, Etaily was given a major project - help bring AyalaMalls, one of the country's retail giants, online. Through ZingMall, shoppers have the same in-store shopping experience they would normally get at an Ayala mall, but through their laptop or mobile device.

With Etaily's help, Ayala has begun to establish their dominance online as well with over 173 branches, 72 merchants, and over 7,000 total products now online. Since ZingMall's launch, the platform is hitting an average of 150,000 page views monthly, with average delivery time being an impressive 40 minutes only.

D2C enablers have granted unparalleled access and reach to consumer brands. Through e-commerce platforms, social commerce platforms and all other e-commerce enablers, the barriers to entry for D2C brands have been significantly lowered. In a sense, these enablers have democratized brand building, leading to cost reduction, faster time-to-market, and significant expansion of the brand's reach, thus propelling them to new heights. Growth is accelerating at unprecedented levels, and during the valuable time frame that this market is malleable and maturing, the D2C space is limitless.

Source: Armada Brands, Foxmont Analysis, Etaily and Manila Bulletin

DEVELOPMENTS IN THE PHILIPPINES

Supportive government policies launched within the past few years allow for a more investor-friendly climate.

1 STARTING UP

2018
Ease of Doing Business Act
Reduced steps in bureaucratic processes, easier process for business registration and similar requirements

2019
Revised Corporation Code
Removed capital requirements and allowed one-person corporations

2 STARTING & DOING BUSINESS

2018
Anti Red-Tape Authority
Created the ARTA agency under the Office of the President to monitor and ensure compliance of ease of doing business in the country

2019
Innovative Startup Act
Encouraged establishment of innovative new businesses

2021
Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)
Reformed, reduced and improved the taxation system in the Philippines

3 TECHNOLOGICAL PROGRESS

2017
Free internet Access in Public Places Act
Improved internet access for all

2021
Increased Budget Allocation
Congress doubled PH budget allocation to scale up internet access in all parts of the country

4 DEEPENING CAPITAL

2017
Build, Build, Build! Program
Created 104 infrastructure projects that encourage economic growth and reduced congestion in traditional infrastructure, ICT, health

5 EXIT

2021
PSE's Handholding Program
Rolled out to encourage SMEs to list on local stock exchange

6 CAPITAL MARKETS

2022
Umbrella Funds
Introduced umbrella funds to promote the development of capital markets

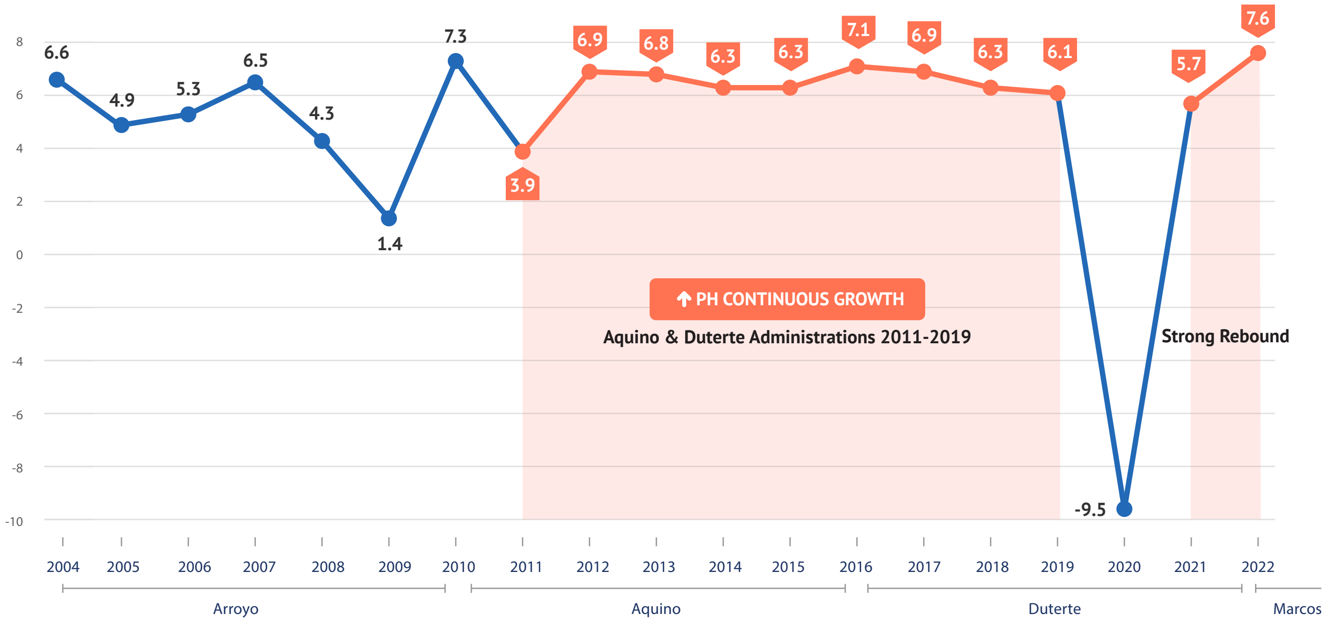
OWNERSHIP

2022
Relaxed Foreign Ownership Restrictions
Major amendments made to relax foreign ownership restrictions on public services, SMEs and retail enterprises

Source: Foxmont analysis

PHILIPPINE GDP GROWTH

2004-2022



Source: International Monetary Fund, World Economic Outlook Database

The Philippine GDP growth has remained consistent throughout multiple administrations.

NATIONAL PROJECTS

The new PH administration has also placed a very large focus on digitalization, launching many projects across multiple government agencies.

DICT Broadband ng Masa Project

- The DICT has currently begun the process of identifying areas with a population of over 1000 people and little to no internet access
- Make wifi accessible nationwide

DTI x DOST Regional Inclusive Innovation Centers

- Creating communities among entrepreneurial Filipinos, supported by strong government-industry-academia collaboration
- RIICs piloted in 4 regions: Bicol, Cebu, CDO and Davao

DTI 6-Year Plan for Industrialization

- Embrace Industry 4.0 (AI, Intelligent Manufacturing)
- Encourage the growth of MSMEs especially tech start-ups
- Deepen global value chain participation
- Upskill the PH workforce
- Modernize the agro-industrial activities regionally
- Attract investment

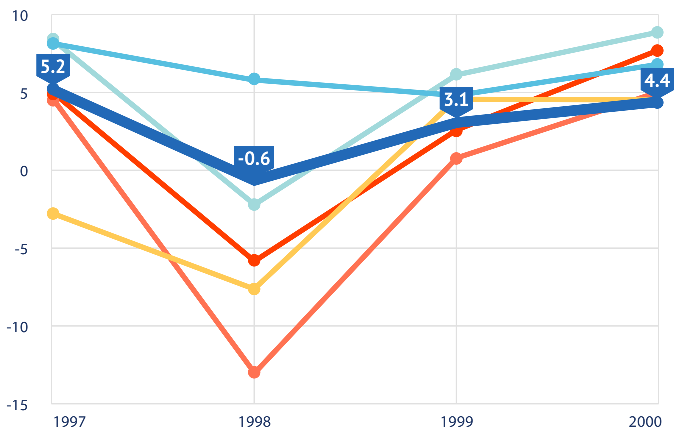
Source: International Monetary Fund, World Economic Outlook Database, Foxmont Analysist

If the past is any indication, the Philippines is expected to remain less affected than most despite current macroeconomic conditions

Historically, the Philippines has proven to be resilient throughout the past economic crisis', with the least volatility in GDP compared to neighboring countries.

ASIAN FINANCIAL CRISIS

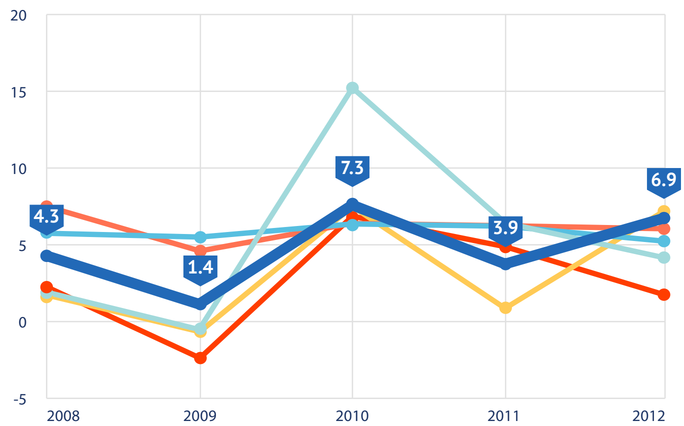
1997-2000 | GDP IN CONSTANT PRICES



Source: International monetary fund, world economic outlook database

WORLD RECESSION

2008-2011 | GDP IN CONSTANT PRICES



Source: International monetary fund, world economic outlook database

Philippines Vietnam Singapore Thailand Indonesia Hong Kong

The Bangko Sentral ng Pilipinas has remained proactive throughout the entire pandemic, leaving the Philippines in a relatively good place despite macroeconomic factors.

The BSP responded quickly to the pandemic by lowering interest rates and ensuring adequate access to credit for businesses and consumers. During 2020 and 2021, the BSP cut its policy rate by 175 basis points (bps) to 2%, reduced bank reserve requirements by 200 bps to 12% (with a target to further bring this down to single digits,) and provided the national government with over US$10 billion in monetary assistance to support public spending.

It also adopted the Open Finance Framework to enhance interoperability and cooperation between existing financial institutions and new third party players. Other pieces of legislation, such as the Financial Institutions Strategic Transfer (FIST) Act, Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Bill, and the amendments to the Agri-Agra Law served to reinforce the domestic financial system and strengthen rural development by providing support and credit to MSMEs and agricultural enterprises during the pandemic.

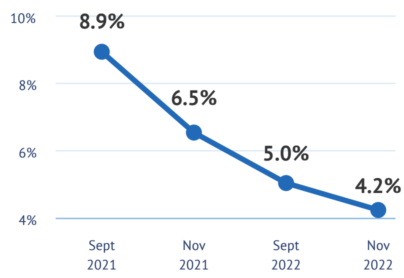
Although an independent body, the BSP has allowed for its reforms to pass quickly and decisively through both houses of Congress under the Duterte and Marcos administrations. Even prior to the pandemic, the BSP had already taken steps to strengthen local financial stability—launching joint initiatives with the Financial Stability Coordination Council (FSCC) to develop a Macroprudential Policy Strategy Framework and a Systemic Risk Crisis Management Framework, and creating the Office of Systemic Risk Management in 2017 to focus on a data-driven approach to local market surveillance and policy development.

The proactiveness of the BSP in recent years played no small role in allowing the Philippine economy to weather the worst of the pandemic and position itself well to tackle inflationary pressures that started in 2022. It was an early adopter of rate hikes in 2022, starting in May with a 25 bps increase, and continuing that throughout the year seven more times since then for a total increase of 400 bps to 6.00% by mid-February 2023. In February 2023, the Philippines saw headline inflation marginally slow down.

Source: Bangko Sentral ng Pilipinas Media and Research, Bangko Sentral ng Pilipinas Price Stability, Bangko Sentral ng Pilipinas Systematic Risk Crisis Management Framework

As covid restrictions continue to ease up, the Philippines is now entering its post-covid phase where unemployment is falling, GDP is picking up positive momentum and spending especially on recreation, travel and restaurants is rising sharply.

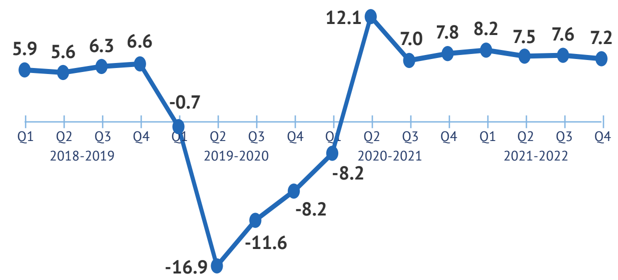
UNEMPLOYMENT RATE



The Philippine unemployment rate as of November 2022 was the lowest since April 2005.

Source: Philippine Statistical Authority, Nikkei Asia

GDP YEAR ON YEAR GROWTH RATES (at Constant 2018 prices)



GDP is picking up positive momentum, with 2021 full-year GDP growth at 5.6% and 2022 full-year GDP growth exceeding forecasts at 7.6%.

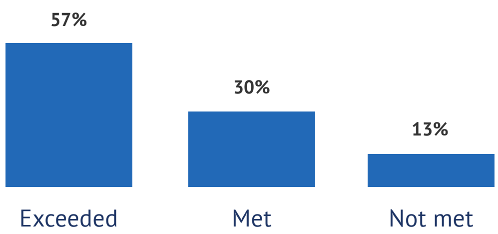
Source: Philippine Statistics Authority

National Economic and Development Authority Arsenio Balisacan, when asked regarding the Philippine's post-covid performance, emphasized that GDP growth continues to accelerate, standing out as one of the strongest in the region and comes as the country makes its bid to attract foreign investors. He explains that the "... growth in domestic demand was met by expansion in the services and industry sectors, with production in most subsectors back to their pre-pandemic levels." Return to pre-covid activity is also reflected in electricity sales, which grew 9.7% YoY in December of 2022.

This full-year domestic demand growth was the fastest in over four decades. Current Governor of the Bangko Sentral ng Pilipinas (BSP), Felipe Medalla, at the 5th BSP Financial Education Expo, explained that more Filipinos now own financial accounts and invest as a result of financial literacy efforts. In order to further increase the level of financial literacy in the country and drive investment and growth, the BSP is also working with the Departments of Agriculture; Trade and Industry; and Social Welfare and Development to develop capacity-building financial literacy training programs. These efforts aim to improve the financial health of Filipinos who were impacted as a result of the pandemic,and reach a level of financial stability that allows them to take out insurance as a hedge against illness and disaster.

By the end of 2022, the Net Profit After Tax (NPAT) of public companies in the Philippines were up by 45% YoY, with over 85% of them either meeting or surpassing forecasts.

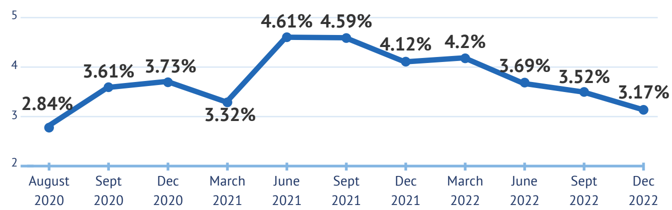
PERFORMANCE VS ANALYST PROJECTIONS



Source: Regis Partners

On top of this, the non-performing loan (NPL) ratio of Philippine Banks also dipped to pre-pandemic lows. NPLs have presented an incredible challenge to banks already struggling due to the bearish market brought about by the pandemic - as they both decrease bank profitability and slow down the velocity of money in the loan market, causing banks to lend less to businesses and consumers.

NON-PERFORMING LOAN RATIO



Source: Regis Partners

Source: Bangko Sentral ng Pilipinas Media and Research, Bangko Sentral ng Pilipinas Price Stability, Reuters, Regis Partners, Salisbury Securities Corporation
Bangko Sentral ng Pilipinas Systematic Risk Crisis Management Framework

PH STARTUP ECOSYSTEM THROUGH THE EYES OF FOXMONT

The Philippines is a large, attractive market that is ripe for investments.

Compared to our neighboring countries of Indonesia and Vietnam, the Philippines remains to be the most consumption driven, with a young, well educated, digitally savvy and growing middle class.

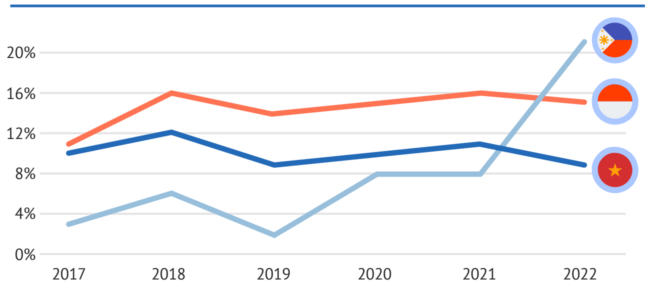
Population Million	Consumption-driven Consumption/GDP (2020, % of GDP)	High GDP Growth FY 2022, YoY	Growing middle class Poverty reduction (2010-18, % of pop.)	Young population Median age	Well-educated Secondary school (2019, % of pop.)	Time online Hours/day (2021)
113	90	7.6	10	25	71	11
274	68	5.3	4	29	51	9
97	75	8.0	14	32	65	7

Source: Foxmont analysis, World Bank, World Economics

Philippine deal activity in recent years has started catching up with regional peers, especially in growth deals. Until recently, larger deals have been relatively underrepresented in the Philippines, with growth deals in 2021 being <50% of Indonesian deal flow.

However, as also shown in section II, deals are getting larger, proving that the PH startup ecosystem is developing to more mature companies.

Growth deal count as % of total deal count



Source: Foxmont analysis

Amongst Foxmont portfolio companies alone, we've seen many successfully raise series A in 2022, including:

EDAMAMA

A community driven O2O platform curating the best products, content, and deals for mothers in the Philippines

LOCAD

An international 4PL network that enables merchants with frictionless e-commerce logistics

SARISUKI

A community selling platform that helps you become an online neighborhood grocery store

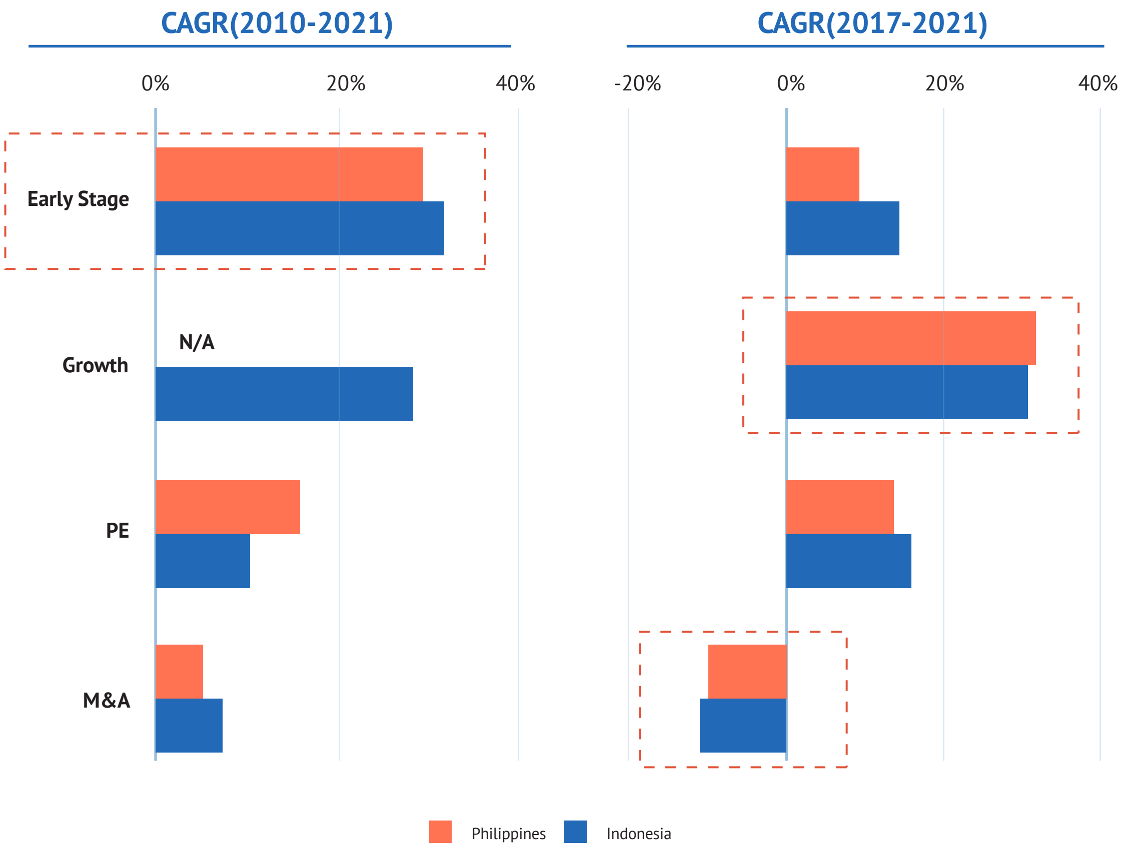
KRAVER'S

A cloud kitchen operator offering customized solutions to F&B brands looking to grow and scale their business across the Philippinesv

EXPEDOCK

AI-powered automation service that drives unprecedented efficiency and profitability to players in the supply chain industry

Increasingly more deals are happening through investment funds rather than directly through conglomerates



Source: Foxmont deal data

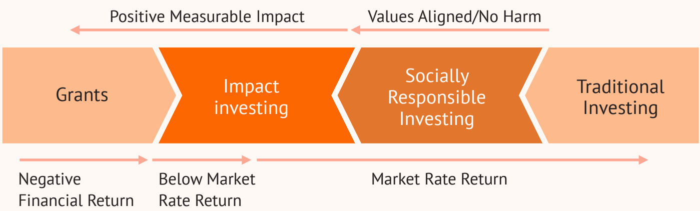
Early-stage deal activity remains a big contributor to fundraising activity in the Phillipines, and an enabler for Filipinos who seek to move from a corporate to entrepreneurial career. But since 2017, growth deals have outpaced other investment types. This reflects the general evolution of the Philippine startup ecosystem, with prior cohorts now executing later-stage funding rounds to continue their expansion and growth. Interestingly, M&A activity has increasingly been rerouted to growth and PE deal activity, as management teams prefer access to local and financial investors. Conglomerates historically contributed ~40% to M&A deal activity.

THE PROGRESSION OF IMPACT INVESTING:

Venture Perspectives

Impact investing is defined by the Global Impact Investing Network as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return". While the definition is straightforward, there is a spectrum of different types of impact investments.

INVESTING SPECTRUM



What is key is the positive impact that is being created, and this varies by organization. Some are smaller and less scalable but highly impactful to the people they serve. Others are a bit more commercial and more scalable but do not provide as profound an impact. Regardless, the idea is taking one of the most powerful drivers of capital and growth – the for-profit enterprise and use this to bring impact to a broader set of stakeholders, in addition to just the shareholders.

In the Philippines, impact investing has been around for at least a decade if we define this as when social entrepreneurship started, and much earlier if we consider when MFIs, cooperatives, and others emerged in the country. The era of social enterprises brought around some great companies such as Rags2Riches, Hapinoy, Bagosphere, and Virtualahan just to name a few. But, like the broader startup ecosystem, the impact space was greatly constrained by the shortage of capital, scarcity of talent, and poor infrastructure.

Fast forward to 2023, and despite the slowdown due to the various global and macro-economic issues, there has been a significant advancement in the Philippine startup ecosystem. A confluence of factors, including increased digitization due to the pandemic, improving founder quality and startup talent, and a more significant number of local and regional investors, have led to the start of what will (hopefully) be the tipping point for Philippine startups. And this has had a direct effect on the impact investing space given that in emerging markets like the Philippines, there is a good likelihood that startups will positively affect society. By nature, startups are meant to solve massive problems, whether it be the lack of access to financial services, challenges in getting quality healthcare and education, low availability of low-priced food and quality housing, and others. While startups tackle these various issues, they also create impact, sometimes intentionally, sometimes less so. So, as the startup scene has grown in the Philippines, it has brought the impact investing ecosystem with it.

USUAL PAIN POINTS FOR EMERGING MARKETS

As an impact-focused VC with an active presence in the Philippines, it is exciting to see the development of the overall startup landscape. We continue to see the convergence of the strong social space that has always been present in the fast-growing tech-based startup world. We at Accion Venture Lab always screen with an impact mindset. From the very start, we look to understand the theory of change of the startup and how their product and/or service will have sustained positive impact on the lives of our target customer segment – the underbanked and underserved Filipinos. And we are seeing more and more Philippine companies emerge in this space.

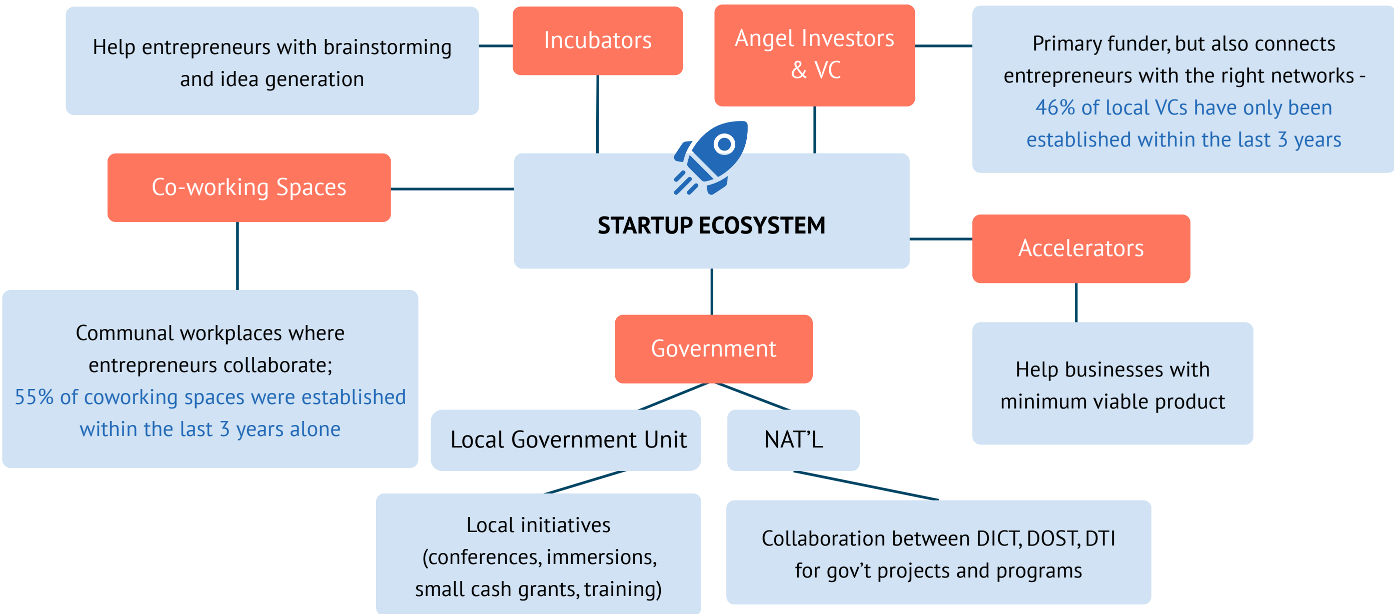
The impact investing space is expected to benefit from the maturity of the startup space. An increasing number of startups tackling key issues have already received funding and have strong potential to scale. Whether it is in fintech, agritech, healthtech, edutech, SME-tech, and others, more startups are emerging as they look to serve and improve the lives of Filipinos. Just as it is for the broader ecosystem, this is just the beginning for the impact investing in the Philippines.

Over the last few years the Impact Investing space has seen a rush of new entrants which is ultimately good for the venture markets of Southeast Asia and in particular the Philippines. This means there is more capital available for Founders to access when they're raising money. We invested in Philippines based-Peddlr in 2022 and we were joined by one of the region's leading Impact Investors as well as other well known pure venture capital investors. So there is now a cross-over where cap tables represent both impact investors and pure venture capital investors.

The other change we have seen is the adoption of ESG principles by companies in the region. Because ESG is a major investment focus, which has helped fuel the proliferation of Impact Investing and ClimateTech investors, companies are beginning to understand they must have an articulated ESG policy which will make it easier for investors (both impact focused and general venture capital investors) to more clearly understand a company's approach to ESG and thus the impact they have on their communities and stakeholders. This widens the pool of companies who can receive investment from Impact Investors.

Finally, most of the innovative and disruptive technology companies in Southeast Asia and in the Philippines in particular, are delivering products and services that positively impact the lives of a growing middle class by improving access to financial products, or education, healthcare or employment. Thus the Start-up and Venture Capital industries are helping to drive impact in the market and that is creating the result of benefiting the wider population and catching the attention of global impact and venture capital investors alike.

THE GROWING BREADTH AND DEPTH OF PHILIPPINE FOUNDERS



A thriving startup ecosystem cannot be solely credited to the startups themselves. Rather, it comprises a complex network of diverse entities that collectively play a crucial role in fostering the creation, growth, and success of startups.

Different players, such as government agencies, angel investors and venture capitalists, accelerators and incubators, and co-working spaces, all contribute to the startup ecosystem of a country. In the Philippines, the startup ecosystem has become visibly more robust, with an outpour of support provided to startups, and this has extended beyond Metro Manila.

Government agencies play an important role in bolstering the startup ecosystem through the implementation of regulatory frameworks, financial aid, and programs aimed at nurturing and promoting startups. This is exemplified in section IV of this report, which highlights the proactive measures the Philippine government has taken to aid startups through the passing of multiple laws. At present, joint initiatives and projects by the DICT, DOST, and DTI, such as the Innovative Startup Act and Startup Venture Fund, actively encourage the growth of startups.

Furthermore, **local government units (LGUs)** are also stepping up to the plate, implementing their own programs to raise awareness about the startup world as well as drive the success of businesses from their areas. For instance, the LGUs of Makati, Quezon City, Davao, Naga, and more, hold conferences, immersions, and training that provide aspiring entrepreneurs with valuable insights from experienced players in the field. Others create challenges and events through which entrepreneurs can receive modest cash grants. By implementing both nationwide and city-level initiatives, the government has continued to step up as a contributor to the growth of startups and founders.

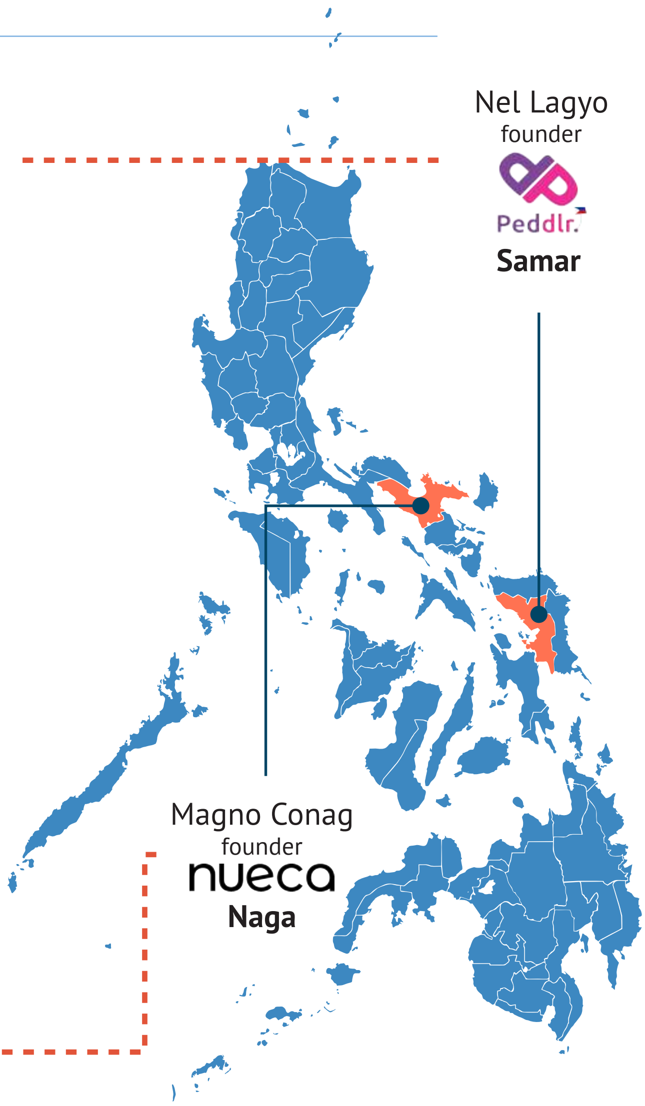
Accelerators and incubators are organizations that offer a wide range of resources and support to startups. The former aids existing businesses with a minimum viable product, while the latter helps entrepreneurs in the brainstorming and idea generation phase. These organizations provide an array of services, including hands-on mentorship, comprehensive training, and access to funding opportunities. Moreover, these organizations help startups build crucial networks that are essential in propelling their business forward. The Philippines currently has over 20 active incubators and accelerators, more than half of which were established in the last 2-5 years and nine of which are outside of Metro Manila.

Angel investors and venture capitalists are a pivotal force in the startup ecosystem, providing the financial resources that are vital for startups to scale and prosper, as evidenced in section II of this report. In addition to funding, they offer valuable expertise, guidance, and extensive networks that can prove instrumental in a startup's success. The Philippines has recently seen an increase in venture capital funds present in the Philippines, and more formalized angel investor networks have been established, all creating better ways for entrepreneurs to connect with investors seeking to offer capital funding and mentoring.

Co-working spaces are a flexible and cost-effective alternative to traditional office spaces. The opportunity to work alongside other like-minded entrepreneurs, sparking innovation and creativity, has made co-working spaces a breeding ground for success. Equipped with high-speed internet, meeting rooms and office equipment, co-working spaces enable startups to set up their offices quickly and efficiently, allowing founders to focus on what truly matters - growing their business, developing new ideas and building the right network. The Philippines now has a total of over 60 co-working spaces offering a diverse range of locations to meet the needs of entrepreneurs across the country, with 30% of them being outside of Metro Manila. Notably, almost half of these spaces were built in the past two years alone, showcasing the rapid growth of entrepreneurial ventures in the Philippines.

Together, these key players cultivate an ecosystem that nurtures innovation, entrepreneurship, and economic growth. Each player brings a unique set of skills and resources to the table, which collectively help mitigate the challenges faced by startups. By working together, they have made entrepreneurial success seem a little less daunting and a lot more attainable. We look forward to witnessing further growth and advancement among both new and existing founders, as a result of the ongoing support from these key players in the Philippine startup ecosystem.

THE RISE OF FOUNDERS BEYOND THE PHILIPPINE CAPITAL



According to Nel Laygo, “grassroots founders are problem solvers who possess a deep understanding of their local landscape and its most pressing problems.” Their origins in less developed areas grant them a unique advantage in creating products that are not just relevant, but often essential to underserved markets. Nina Dizon-Cabrera of Colourette further emphasizes that being immersed in local culture allows homegrown brands to gain a nuanced understanding of the diversity of Filipinos, enabling them to learn about multiple customer segments. Despite these clear advantages, why then have we not seen more provincial founders emerge in the startup scene sooner?

Nel Laygo, who founded his business in Catbalogan, Samar, has observed that while grassroots founders often have great solutions to local problems, many lack the necessary tools, training, and mentorship to make their solutions sustainable and scalable. He has noticed that provincial founders, especially those who lack corporate experience, face challenges in areas such as KPI management, efficient business management, and other critical success factors for their startups - all obstacles however that he believes can be overcome with proper mentorship. Other provincial founders voiced similar challenges, and raised additional roadblocks as well. John Vincent Fiel of Wela School Systems from Cagayan de Oro mentioned that funding is not readily available in the provinces, and heavily relies on your personal network of friends and family. But Magno Conag believes that “in some ways, this lack of funding can be advantageous as it forces founders early on to learn how to be frugal and keep their burn rate low.” John Vincent also pointed out that while the technical skill of founders from the provinces is no doubt comparable to those in the metro, due to their lack of exposure to the venture capital world, pitching to investors is an area that requires some improvement.

The growth of startup programs and communities in smaller cities throughout the Philippines is now helping to bridge these gaps. In Naga, for example, Magno notes a significant shift in the startup mindset and development over the past decade. While only a few individuals encouraged schools like Ateneo de Naga to get into entrepreneurship and innovation ten years ago, many schools and local government units (LGUs) have now started their own initiatives. Currently, the city has its investments board (NCIB), whose primary purpose is to develop local talent and the startup scene to meet the needs of priority industries, and to attract investment to the area. The

Source: City Government of Naga

NCIB also works closely with HAKA, Naga city's startup community, which was established by local startup founders to support up-and-coming startups in the city. Additionally, in 2022, a new project called STEP UP was launched, in which startups from around the region were chosen to participate in a 6-month mentoring program of the DICT and the Bicol Entrepreneurship and Empowerment Center for Accelerating Local Livelihood (BEECALL) to upskill founders and help them move beyond the initial idea stage. These are just a few of the major initiatives coming from Naga, a city with a population of fewer than 180,000 people.

According to John Fiel, "there has been a shift in mindset among the younger generation. With the addition of more entrepreneurship classes to university curriculums, it is now seen as a highly viable option for graduates." In addition, private institutions such as the Philippine Chamber of Commerce have continued to promote entrepreneurship by organizing talks and inviting speakers from Metro Manila to share insights about venture capital, angel investing, investor expectations, and other related topics, making entrepreneurship seem much less intimidating. As a result, these efforts have helped foster a culture of entrepreneurship, encouraging more people to consider it as a career path.

Local Government Units

- Technology Business Incubators
- Assistance through free use of office space / monitors / wifi
- Organizes networking and mentorship opportunities (e.g. conferences, pitching challenges)

Universities

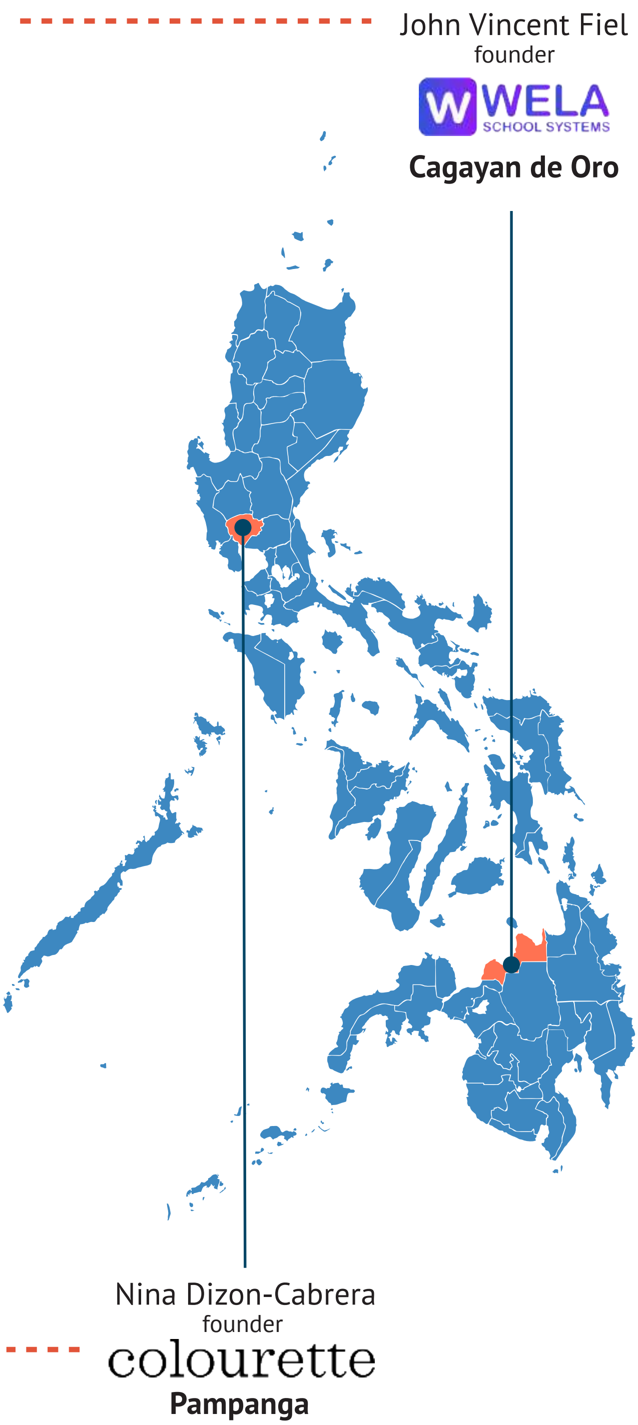
- Inclusion of entrepreneurship in curriculum
- Accessibility of entrepreneurship opportunities to different departments/colleges
- Incubators
- Partnerships with LGUs

Private Sector

- Building of startup communities among first founders
- Non-profit, non-governement identities like the Chamber of commerce focusing on growing provincial startups

Such initiatives are still young, but their impact is already starting to manifest. Nina believes that "as the local community of founders continues to grow and foster candid conversations and fireside chats among its members, success in provincial communities will be expedited. Having a panel of experts who can share their own skills and experiences is the fastest way to nurture the younger generation of entrepreneurs." Nel emphasizes that unlocking the full potential of provincial founders is achievable by having Technology Business Incubators (TBIs), which are mostly academe-run at the moment, partner with the right venture capital firms and communities of entrepreneurs and mentors. Through this, founders can validate their hypotheses more quickly and bring their ideas to market more effectively.

It is clear that all around the Philippines, there is a wealth of ideas and talent waiting to be harnessed. With the current initiatives and projects already in place, the founder scene beyond Metro Manila has great potential.



BUILDING UP THE LOCAL FOUNDER BASE:

Venture Perspectives

At its core, every start-up is a combination of three things: an idea, capital and talent. While a solid concept is a prerequisite for success, ideas are a dime a dozen. As the saying goes, "Ideas are cheap, execution is everything." Capital similarly abounds. Even amidst the global tech downturn, there is a whopping $15 billion of dry powder across Southeast Asian funds waiting to be deployed, with the Philippines increasingly on investors' radars. Of the three elements, therefore, talent is the scarcest and most critical resource of all.

This is something we recognize at Kaya Founders. We understand that sustaining the growth of our local tech ecosystem requires more than just deploying capital. Part and parcel of our job as venture capitalists is to be recruiters as well, convincing more talented Filipinos to eschew traditional paths and pursue their entrepreneurial calling. So is it our role to demystify and derisk the process of going from zero to one.

So how, exactly, have we been doing this? Once founders decide to partner with us, whether through our Entrepreneur in Residence (EIR) Program or via one of our accelerator programs, Kaya acts as an institutional co-founder, providing them with the capital and support they need to get their ventures off the ground. The EIRs can focus on developing, testing, and building their products without having to figure everything out from scratch or worry about burning through their savings. Whether a founder is a sea turtle, a corporate executive-turned-entrepreneur, an adopted Filipino, a second generation tech talent, a market expander, or a homegrown entrepreneur, our mission is to make the leap to entrepreneurship a little less daunting and, by sharing best practices, to boost their odds of success.

Ultimately, as more founders succeed, the bet is that they will serve as role models for the next generation of aspiring founders to give the scary yet wildly rewarding journey of entrepreneurship a shot.

Human capital is an essential part of any business and, more so, for the game changers who are working on defining and changing the world – tech startups. As some of the first members of the company, quality of founders are of utmost importance, and we are incredibly excited about the potential we see in founders operating from the Philippines.

SEA tech 1.0 executives leading the way

Zalora, Grab, Groupon, SEA and Viber are some of the most prominent and impactful technology companies that have been a huge part of our lives in the past decade across Southeast Asia. We are observing a new wave of highly-skilled executives from several iconic technology companies assuming the roles of first-time founders, accelerating technological innovation and adoption in the process. What sets the Philippines apart from other tech ecosystems across Southeast Asia is its ability to attract not only founders native to the country but also foreign founders with operating experience from more advanced markets globally. This knowledge transfer and widening of perspectives have far-reaching implications on the velocity of development of a nascent ecosystem like the Philippines.

Filipino diaspora – an increasingly available talent pool

In the past decade, the Philippines delivered the second fastest growing economy amongst major Southeast Asian countries while registering the highest rate of population growth. Economic headwinds within the United States acts as a catalyst, which places Philippines firmly as an increasingly attractive option for the more than 1.1m high skilled Filipino diaspora population residing in the United States to converge back on home grounds to fuel its economic growth story for the future, and we anticipate that the tech sector could get a significant uplift with this influx of highly qualified talent pool.

Home grown tech talent pipeline

As the first wave of Southeast Asian startups scale to unicorn levels and beyond, we observed a shift in mindset from some of our youngest and brightest minds as they graduate and enter the workforce. Multinational corporations no longer enjoy a monopoly on the best talent. These driven, ambitious young people are considering tech startups as a viable and attractive career option. They may not start off their careers as tech founders, but we firmly believe in the potential of this young talent pool to become gamechangers in their own right and contribute to the pipeline of future founders within the country.

Source: Google, Temasek and Bain & Company "e-Conomy SEA 2022 report".

Paying it forward

Lastly, it is encouraging and inspiring to observe members of the tech community giving back in their own ways to grow the Philippines tech ecosystem and enable more tech startups to blossom and succeed. Amongst some of the most prominent and active angel investors in the Philippines are founders who have achieved early success and are seeding the next wave of startups within the Philippines.

Conglomerates within the country and experienced operators with vast experience in operating and scaling tech companies in the region are taking on the role of availing institutional capital to many promising early stage companies within the country through their respective Venture Capital funds.

Most importantly, startup executives and founders are exchanging knowledge and helping one another in the true spirit of camaraderie. This culture of sharing and helping is infectious and powerful, building not only a credible and strong founder base, but a wider talent base that will shape Philippines' tech industry for years to come.

ABOUT US

Foxmont Capital Partners is a Philippine-focused venture capital fund that invests in early-stage, tech-driven, and scalable startups in rapidly digitizing areas such as e-commerce, fintech, and health tech, among others. We drive value for our founders and investors by leveraging our deep operational knowledge and network, building meaningful relationships across our stakeholders.

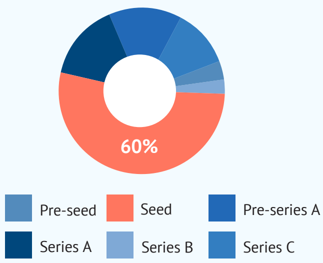
Our proven formula allows us to catalyze disruptive yet sustainable growth for startups nurtured in the Philippines and equipped for the world. This makes us the most attractive independent venture capital firm for investors who want to capture exponential returns in the Philippine startup ecosystem.

With our recent Fund II close of USD 21.3 million, Foxmont is now the first and largest independent Philippine VC firm. Now enabled by an amazing group of Limited Partners from both the Philippines and around the world, as well notable institutional investors, such as Pavilion Capital, AppWorks, and Orient Growth, we look forward to continuing our investment track record, scouring the Philippine market for great entrepreneurs, and empowering them to build Filipino solutions to Filipino problems.

Foxmont provides private capital to sectors and founders that otherwise would have been unable to attract funding

Foxmont portfolio generates critical source of income for over half a million Filipino individuals

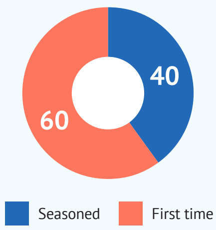
DEALS BY INVESTMENT STAGE



NUMBER OF 2022 DEALS

17

FIRST TIME FOUNDERS (%)



INCOME GENERATION THROUGH FOXMONT PORTFOLIO

Employees

2,450

Income earners

565,000

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and to capture their greatest opportunities. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, building sustainable competitive advantages, and driving positive societal impact.

Our diverse, global teams bring deep industry and functional expertise, and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

Our continuous presence in the Philippines spans over three decades and across industries. Our strong local anchorage helps us support both local leaders and multinational companies, unlocking the incredible value potential of this country to shape a stronger, more inclusive nation.

We strive to support and help shape a dynamic Tech scene in the Philippines. As a core member of the Sinigang Valley movement, we are deeply embedded in the Tech scene—strengthening our ability to identify key trends, activate partnerships, and accelerate Transformation agendas.

ABOUT THE AUTHORS

Franco Varona

Managing Partner at
Foxmont Capital Partners

Jelmer Ikink

Founding Partner at
Foxmont Capital Partners

Anthony Oundjian

Managing Director and
Senior Partner at
Boston Consulting Group

ACKNOWLEDGEMENT

The 2023 Philippine Venture Capital Report was inspired by the unprecedented growth of the Philippine start-up landscape, which called for an initiative that would not only document, but highlight key players and movers in this innovative space.

In the past 12 months, we've observed an explosion of new activity within the Philippine startup ecosystem, with thousands of new founders starting their businesses, new international investors participating, and existing startups exhibiting exponential growth capturing their markets despite a larger global downturn.

Our team at Foxmont Capital Partners would like to express our deepest appreciation and gratitude towards the following individuals and organizations for their priceless contributions to the ideation and creation of the Report, without whom this project would not have been possible.

To Nel Laygo, Nina Dizon-Cabrera, Magno Conag, John Vincent Fiel, for sharing their invaluable perspectives on the Philippine Startup Ecosystem.

To our collaborating funds: Kickstart Ventures, Patamar Capital, Openspace Ventures, Vulpes Ventures, Accion Venture Lab, Kaya Founders, and Monk's Hill Ventures, for continuing the mission to breathe life into start-ups and inspiring local changemakers to transform their visions into reality.

To the team, Bea Mantecon, Riva Fong, CJ Carlos, Reuben Paterno, Riche Lim, Julian Cua, along with the Foxmont Investments and Portfolio Management teams for your collaborative efforts to organize and create a comprehensive and compelling account of the Philippine Startup Ecosystem.

We at Foxmont are thrilled to witness the Philippine's continuous development and together, we hope to aspire towards ever-greater heights.

JOIN US IN THE PHILIPPINE DIGITAL REVOLUTION

https://www.foxmontcapital.com/

https://www.linkedin.com/company/foxmont-capital-partners/

Reference

The Philippine Venture Capital Report is an annual report covering the startup activity in the country. Foxmont Capital Partners used a combination of online resources, in-house analysis, third-party interviews, and information made publicly-available by databases such as Crunchbase, Preqin, and Pitchbook. Furthermore, data was cross-checked and verified against research publications, news articles, venture capital fund websites, and startup company websites. Insights from key players in the ecosystem, high-performing startups, and local and regional funds are highlighted to provide expert opinion on the startup and venture capital industry in the Philippines.

Startup Companies

We define a startup company as an innovation-driven company, usually involved in technology, in its early stages of business and characterized by high growth potential, social impact and/or delivering new solutions to consumer problems. This report only covers startup companies domiciled in the Philippines or with significant operations in the Philippines.

Investors

We define investors as any individual or institution that provides financing to startup companies in exchange for an economic interest in the business.

Deals

We define deals as venture capital transactions where startup companies raise capital from external sources, which include financing received from venture capital funds, angel investors, angel groups, accelerators, incubators, corporate venture firms, corporate startup investors, joint ventures, private equity funds, mergers and acquisitions, grants, and crowdfunding.

FOXMONT
CAPITAL PARTNERS

BCG