

A WORD FROM J.P. MORGAN

Southeast Asia's VC landscape: Navigating challenges and embracing opportunities in 2025

In recent years, Southeast Asia's VC landscape has undergone significant transformations, shaped by macroeconomic pressures and shifting investor priorities. 2024 marked a period of recalibration as the focus shifted from "growth at all costs" to "growth with profitability."

Funding trends in Southeast Asia

The VC scene in Southeast Asia faced notable challenges in 2024, with a marked decline in deal volume and value. Total deal value plummeted to nearly half of what was raised during the COVID-19 pandemic in 2020, as valuation multiples remained below the peaks of 2021. Despite these challenges, Singapore maintained its position as the leading VC market in the region, attracting the majority of funding, followed by Indonesia and the Philippines. Equity funding focused primarily on early-stage companies, as later-stage firms turned to debt financing or cost-cutting measures.

Key sectors: Fintech, e-commerce, SaaS, and emerging verticals

Fintech continued to dominate the VC landscape, attracting nearly twice the deal value of the next two sectors—e-commerce and software as a service (SaaS)—combined. Within the fintech vertical, wealthtech, cross-border payments, and financial software enterprises were the most active subverticals. The e-commerce sector experienced a decline in deal value and volume, driven by macroeconomic pressures and a heightened emphasis on profitability. In the SaaS sector, early-stage funding remained prevalent, with limited activity for late-stage companies.

In 2025, emerging verticals such as deep tech, AI infrastructure, and life sciences are expected to drive growth. These sectors are poised to propel economic development and address pressing regional challenges, supported by generally favorable government policies toward technological innovation.

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Alternative funding: Venture debt and private credit

In response to challenging equity-raising conditions, Southeast Asia's venture debt and private credit markets expanded significantly in 2024. Startups increasingly turned to less dilutive financing options, with early-stage companies leveraging venture debt, often accompanied by warrants, to secure lower-cost capital. Meanwhile, private credit attracted interest from later-stage companies seeking larger funding amounts. As we move into 2025, debt financing is anticipated to remain a key strategy for companies aiming to raise capital for expansion or working capital needs.

Creating exits in a challenging environment

VC funds faced mounting pressure to increase distributions to their LPs in 2024. As a result, they focused on creating liquidity through M&A, secondary sales, and IPOs. Strategic investors from China, India, Japan, and Korea showed strong interest in M&A, driven by their desire for international expansion and Southeast Asia's geographical and cultural proximity. However, capital markets activity was muted, with IPOs in the region raising the lowest amount of capital in nearly a decade.

Governments in the region have taken steps to address these challenges. Singapore's central bank announced a \$3.7 billion Equity Market Development Program and tax incentives to deepen its equity markets, while Malaysia reduced the stamp duty on equities traded on its exchange. These measures are expected to enhance the depth of local exchanges and attract more successful listings over time.

Outlook for 2025

As we look to 2025, Southeast Asia's VC landscape is poised for growth, driven by strong macroeconomic fundamentals, technological innovation, and supportive government policies. While global investor sentiment may remain opportunistic in the near term, funding will continue to be available for high-quality companies with strong unit economics and profitable growth at normalized valuations. Venture debt and private credit will remain viable funding alternatives, while venture capitalists seek liquidity through M&A, secondary transactions, or IPOs. Despite the challenges, the innovation ecosystem in Southeast Asia is set to thrive, offering exciting opportunities for investors and entrepreneurs alike.