-RAD IAI-

4th Oct 2021

Corporate Venture Capital (CVC)

MDI Ventures

MDI Ventures

MDI ventures
by Telkom Indonesia

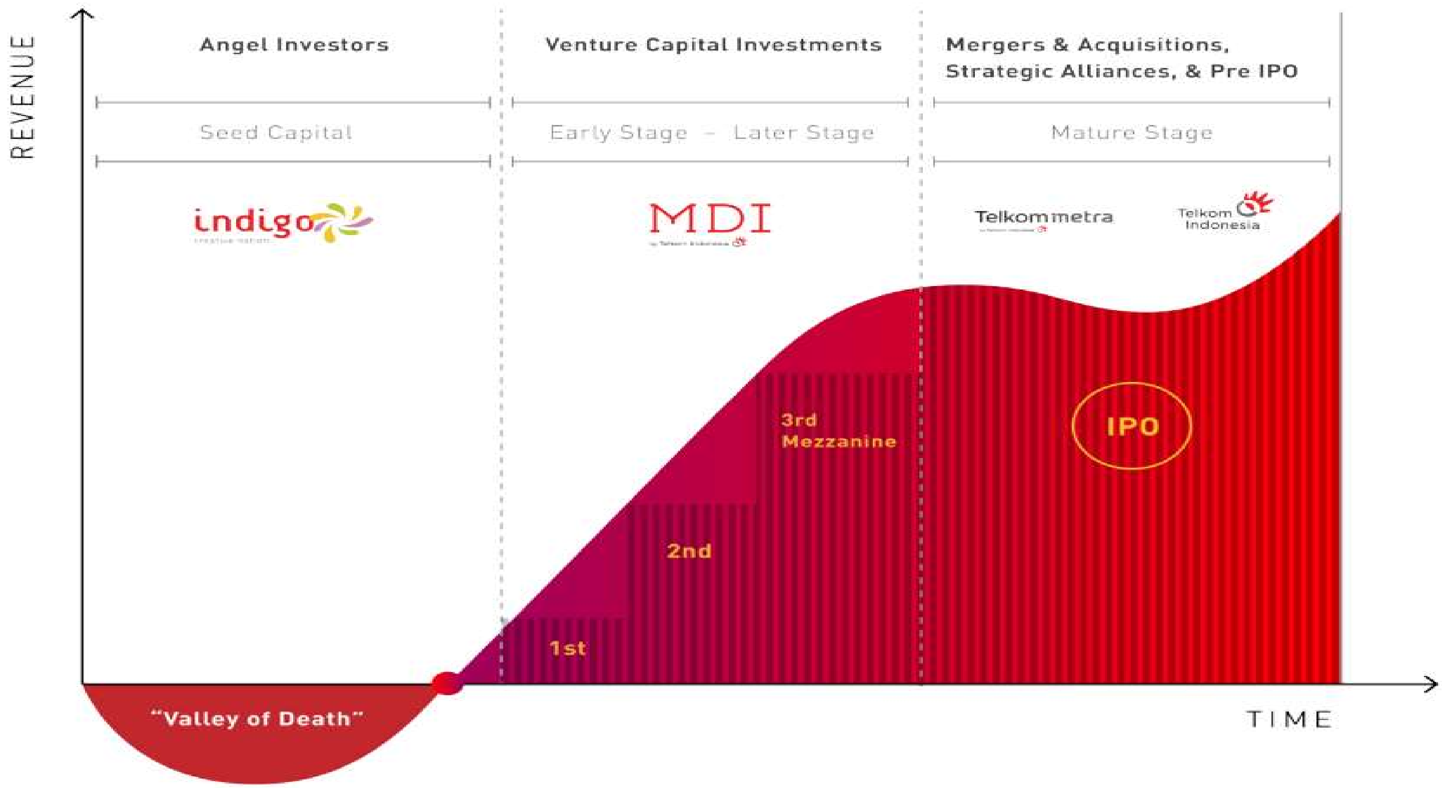
MDI is a corporate venture capital initiative by Telkom Indonesia which is based in Jakarta with operations in Singapore and Silicon Valley. It is set as an independent entity with its own funding processes.

#1 CVC IN INDONESIA (BY CRUNCHBASE)	#1 CVC IN SEA (BY CRUNCHBASE)

MDI uniquely combines a VC model with services in providing companies from Telkom Group with access to operational assistance and help in building startups' growth engine after making a financial investment

MDI METRA DIGITAL INNOVATION
by Telkom Indonesia

TELKOM GROUP STARTUP INITIATIVES



MDI PORTFOLIO LIST BASED ON THE EMERGING TECH SECTORS IN THE REGION

Since 2016, MDI Ventures has invested in 38 companies in various sectors and stages. In the early years, MDI made investment based on strategic synergies but has since shifted to focus on maximizing capital gains.

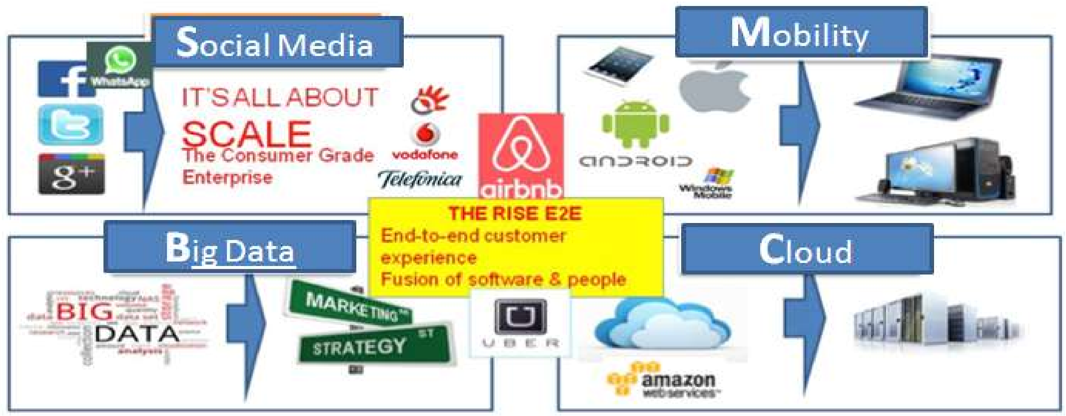
Financial Technology	red dot payment, privyid, Kredivo, cxagroup, INSTAREM, FPay, PAYFAZZ, STEALTH FINTECH COMPANY, CODAPAY
Healthcare	cxagroup, mClinica, heals
Logistics	Paket ID, roambee
eCommerce Enabler	aCommerce, ematic, anchanto
IoT	NComputing, qlue, nodeflux, beam
Enterprise	Kata.ai, LOTUSFLARE, CLOUDIKE, Panviva, LOFT ORBITAL, element, Wavecell, observe it, whispir.
Others	bahaso, adskom, VOLANTIS, GOERS, opsigo, postr, MPL MOBILE PREMIER LEAGUE, GENIEE

Why CVC ?

Why Corporate Venture Capital ?

Start-up Disruption

Innovation is a must to keeping up the existence & up to date with Industry



Source : Compile from How google works and Orange SV

Barrier entry in Telco Services has melted away makes **Dico disrupt** almost all existing value chain

Value Creation

Bringing Innovation Opportunities to corporation & start-up for Explorational Values

Key Characteristics of CVC

Definition	• **Financial investment** to receive a **minority equity stake** in an **entrepreneurial company** • **Focus is on start-up companies** in seed (for proof of concept) to late stage (expansion of business) • **VC Fund duration** is between 7 and 10 years; **Corporate Venture funds with long-term focus** • **Risk inherent**: Out of 10 investments, usually 3 go bankrupt, 5 are viable, and 2 outperform
Objectives	• **Strategic return** – Leverage external sources of innovation – Bring new ideas and technology • **Financial return**

VC versus CVC

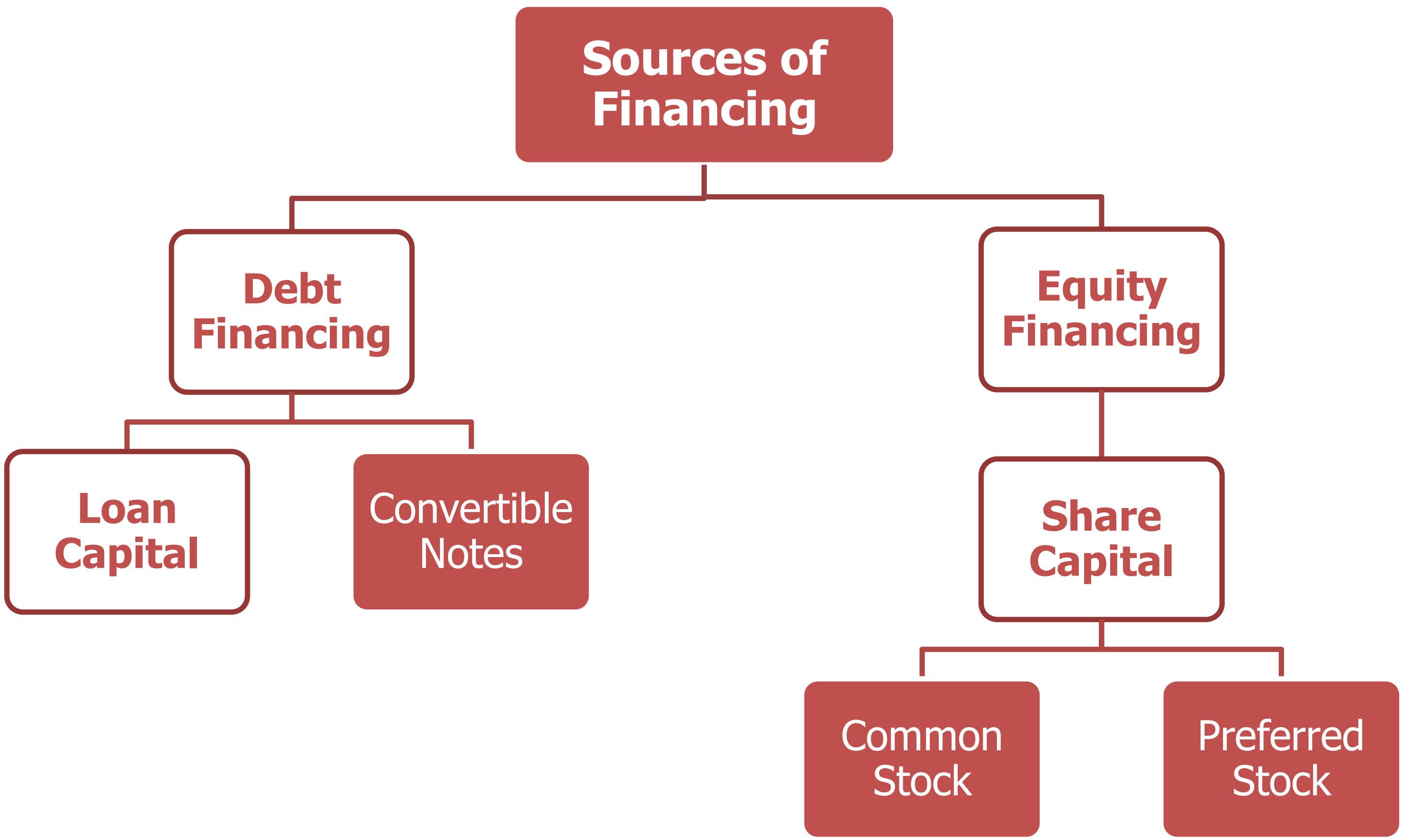
Venture Capital (VC)	Corporate Venture Capital
Limited period, portfolio of investments in **privately held ventures** with growth potential	**Corporation setting up** an **open-ended** investment fund to hold a portfolio of investments for strategic or financial purposes
Main objective to **realize capital gains** in a short time frame	**Financial gains from leveraging corporate assets** (channels to markets, expertise, and management discipline)
Synergies achieved between portfolio ventures, but the end objective is **purely financial**	Strong **strategic gains can be achieved for the corporation**, such as enhancing demand, accelerating market entry, learning new markets or technologies

Investment Criteria

What We See ?

- Market
  - Product of Start-up
  - Synergy with Group of Corporate
- Growth
  - Potential Market & Competitive Landscape
  - Traction
- Financial Analysis & Projection
  - Cash Flow
  - Gross Margin & EBITDA
- Return
  - Fundraising & Exit Plan (M&A, IPO, Secondary Sale)
  - Financing Scheme & Expected Valuation

Financing Scheme

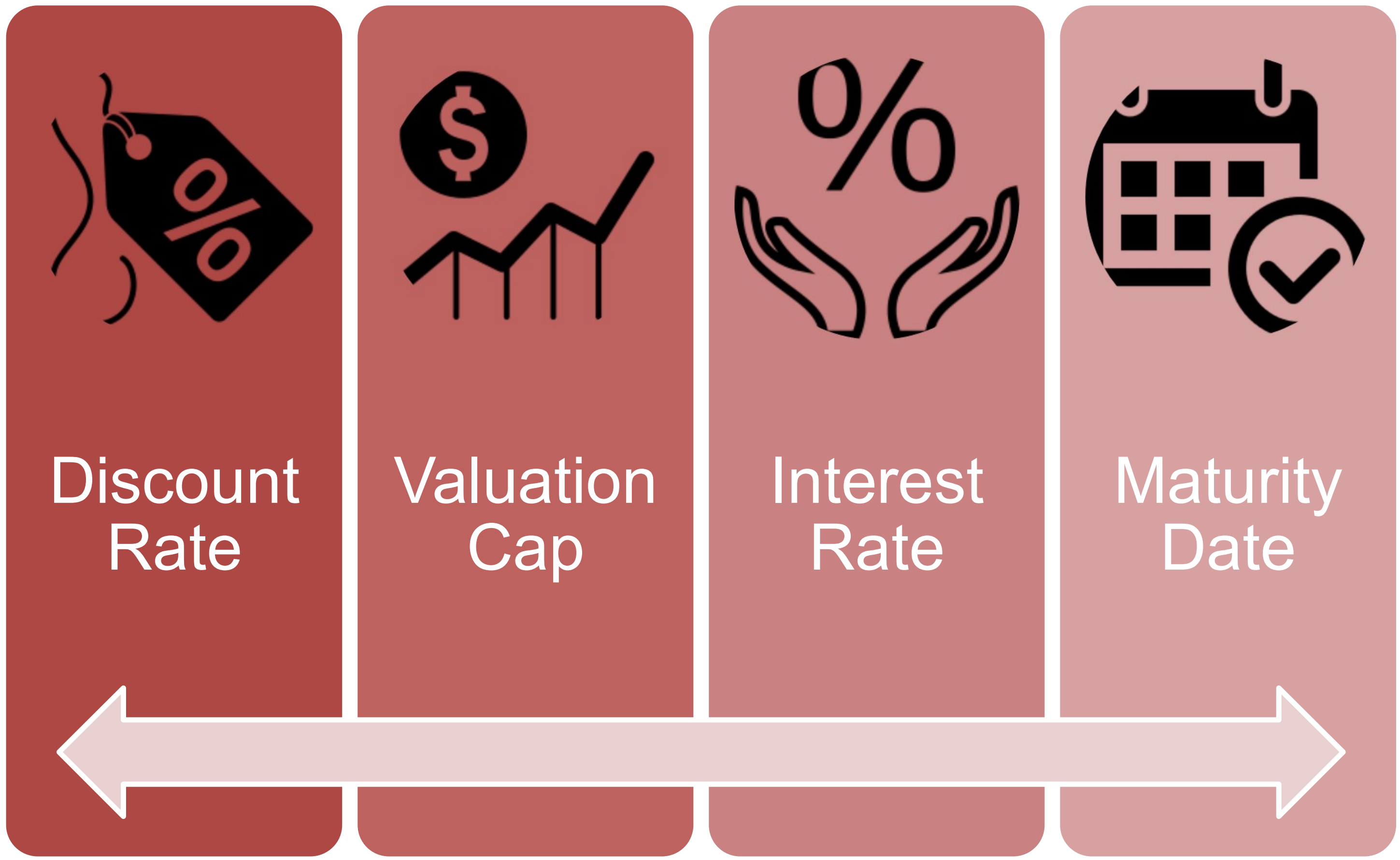


Convertible Note

What is Convertible Notes?

- Form of **short-term debt that converts into equity**, typically relate with future financing round;
- The investor loans money to startup and instead of return in the form of principal plus interest, **the investor receives equity in the company**
- **Used for bridge financing**

Convertible Notes Key Parameters:



1. Discount Rate

A discount in a note sets a percentage reduction at which the convertible note will convert relates to the next qualified priced round

Price commonly range between 10% – 30%

The graphic below shows the concepts described above: milestone and discount. Here you see if an investor were to invest $1,000 in a company at a 20% discount to the next milestone (in this case a subsequent round of financing) the investor receives more shares and therefore more ownership at the same price as a later investor.

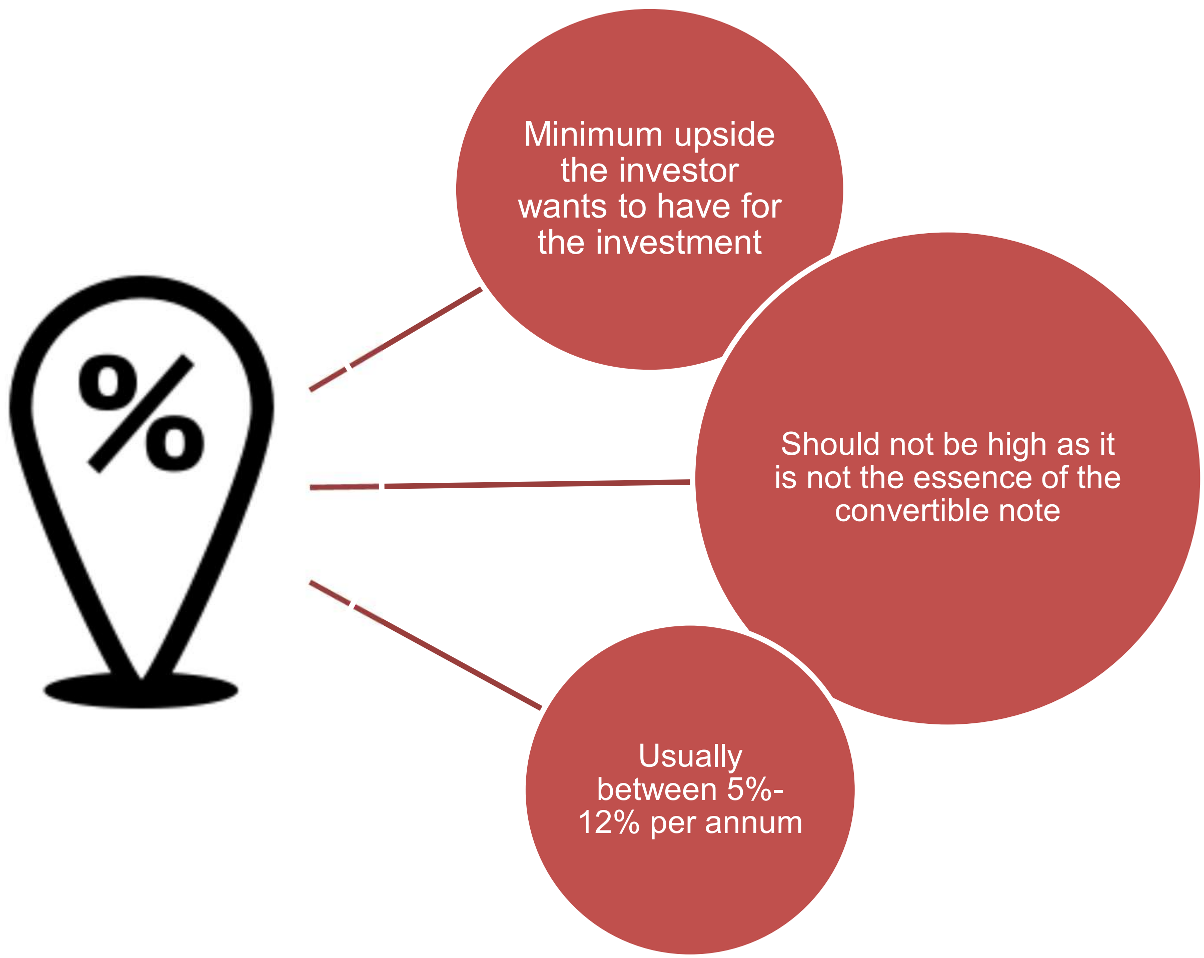
2. Valuation Caps

Investor-favorable term that puts a cap on the conversion price of the debt

Protection against overvaluation of the company by new investor(s) and resulting loss of influence

Effectively used caps can create alignment between startups and investors as long as they thoughtfully negotiated

3. Interest Rate



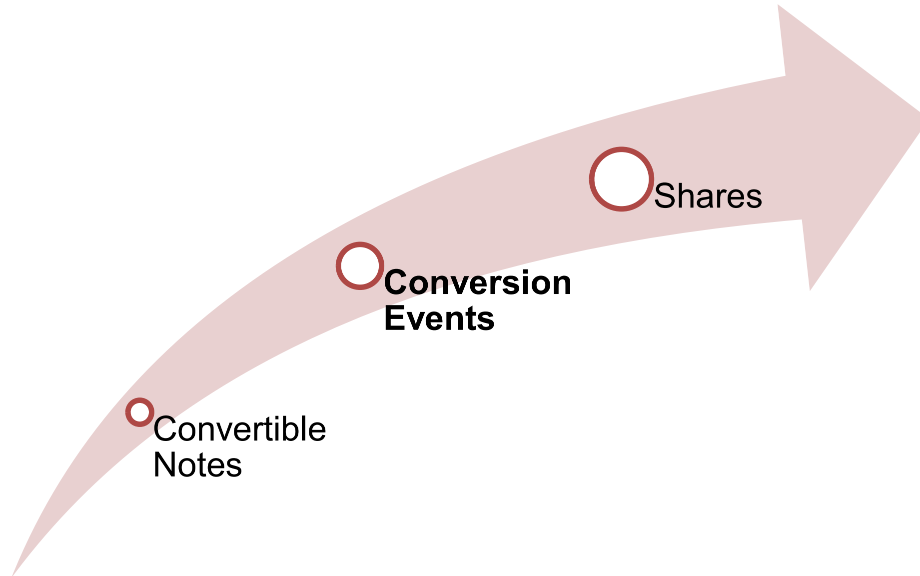
4. Maturity Date

The maturity date of a note indicates **the date when the note is due** to be repaid to the investor

along with any accrued interest

if it has not yet converted to equity.

Conversion Mechanism



Describe the time and the way in which the notes will be converted.

The notes does not convert and stays outstanding if the company does not reach its financing goal

Conversion Events

Qualified Financing

Financing event that meets specified criteria, such as capital amount raised and/or valuation company

Mandatory Conversion

Exit Events

Merger & Acquisition, Initial Public Offering, etc

Reach maturity date

Optional Conversion

Note holder options/rights

Convertible Notes

Advantages

- Cheap
- Fast
- If the Company shuts down, notes will be paid ahead of all equity holder
- No decision making power for investor(s)
- Reward early investment through Discount

Disadvantages

- Potential to misaligned incentives
- Less control to the company
- Draws a line of what the company will be worth at the time of the first series financing

Equity/Stocks

Equity Financing

Common Stock

- Its valuation must be determined
- Sets price for option grants
- Usually low rights or preferences (such as liquidation preferences)
- Dividends depends on profit the company makes

Preferred Stock

- Provide preference privilege to shareholders
- Commonly accepted by VC
- Receive dividends before common stock holders
- Pre-determined dividend rate
- Less risky
- Liquidation preference

Advantages

- Investor gets ownership
- Control of company
- Dividends
  Capital Gain
- Limited Liability

Disadvantages

- Complex
- Required exit
- Time consuming of legal process
- Dilution

Valuation

Investor Objective → Valuation

Key Characteristic

- Start-ups usually have complex capital structure
- Each class of equity has different conditions therefore should have different value

Fair value hierarchy

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Methodology of Valuation for Start-ups

Methodologies Used

- Option Pricing Model
- Latest Round Financing
- Discount on Conversion Price
- First Chicago Method

Accepted by:

- *AICPA (American Institute of Certified Public Accountants)*
- *IVS (International Valuation Standards)*

Significant Unobservable Inputs

- Exit Event
  - Event → IPO, M&A, Trade Sale
  - Timing → Management's expectation & Probability of event
- Volatility
  - Long-Term historical of comparable companies (quoted market comparable)

Thank You