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Note: This picture was made famous by Tony Stark, where he wore it on his t-shirt.

Source: Internet

"You must be shapeless, formless, like water. When you pour water in a cup, it becomes the cup. When you pour water in a bottle, it becomes the bottle. When you pour water in a teapot, it becomes the teapot. Water can drip and it can crash. Become like water my friend!"

- Bruce Lee -



What We Learned This Quarter

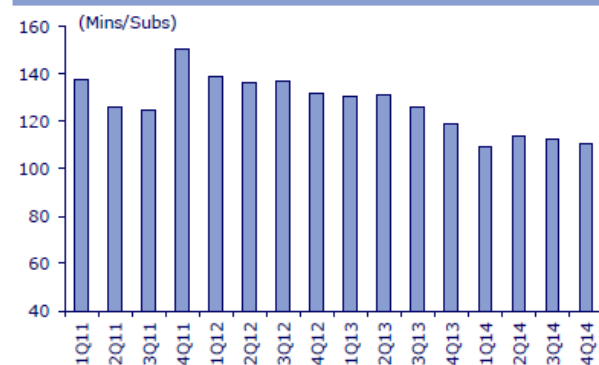
The way of the intercepting fist

Heyokha Brothers are fans of martial arts. We believe that many lessons can be drawn from the history and philosophy of martial art.

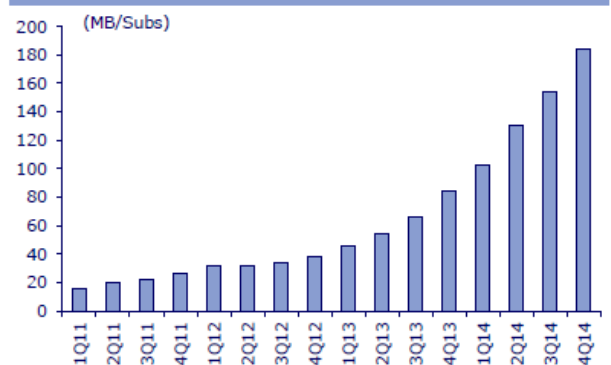
For example, we see that the development of martial arts over the past decades illustrates that instead of blindly sticking to tradition, being open minded and applying new knowledge is the road to survival.

This might sound like knocking at an open door, yet so many people and companies stick to what has worked for them in the past, until they find out that they have been surpassed by others. Taxi companies were taken off guard by Uber, Whatsapp singlehandedly disrupted Telco bread and butter voice business and this list goes on much further.

Voice consumption- Monthly MOU/total subs



Mobile data consumption - Monthly MB/total subs



Indonesia Voice Versus Data Usage

Source: CLSA

Martial arts have typically been very traditional and full of rigid styles, where teachings are not to be called into question. Students didn't dream of venturing outside the system, only competing with other martial artists of the same style. That is, if they compete at all.

Then came the opportunity to do product testing at an international scale. Aside from the ancient Greek Pankration introduced at the Greek Olympic Games in 648 BC in which fighters would engage each other in very similar way as in today's mixed martial arts (MMA) competitions, it was the emergence of the Ultimate Fighting Competition (UFC) in 1993, where all martial arts from all over the world could face off and see who is the boss.



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First UFC tournament in 1993, Brazilian Jiu Jitsu fighter Royce Gracie from famous Gracie clan fought Kyokushin karate fighter Gerard Gordeau from the Netherlands. Royce Gracie won the first UFC event.

Source: Getty Images

Guess what martial art was the most effective in the UFC? The answer is: not a single martial art!

In the early stages, it was the grapplers such as Brazilian Jiu Jitsu fighters and wrestlers who dominated the arena against strikers such as (kick)boxers who were not used to counter grappling.

Yet, not long after UFC's inception, athletes started to employ multiple martial arts into their style. This led to information sharing and applying the science of body movement, improving the understanding of the combat-effectiveness to a great extent.

UFC's Joe Rogan claimed that martial arts evolved more in the ten years following 1993 than in the preceding 700 years of its history combined.

The essence here is that the arrival of MMA and UFC completely disrupted the comfort zone of the authoritative Grand Masters who claim that their martial art is superior, but don't spar because they are "too deadly and don't want to hurt anyone".

Also, the UFC unsettled the "McDojos" of the world, where students are guaranteed to get a black belt in a year (or six months if the student pays up and does a "special course") and the "Grand Master" studies marketing more than Karate.

Suddenly, students started to ask themselves: "Is my martial art realistic in a real combat situation?"; "Is my school a McDojo?"



Since UFC became mainstream, students started to ask "Is my school a McDojo?"

Check this out: For a collection of McDojo "black belt" testing clips, check out the video below. I guess they were scammed by a "grand master" into believing that their "skill" is deadly.

Link here : <https://www.youtube.com/watch?v=QWzAEXm9ItI>

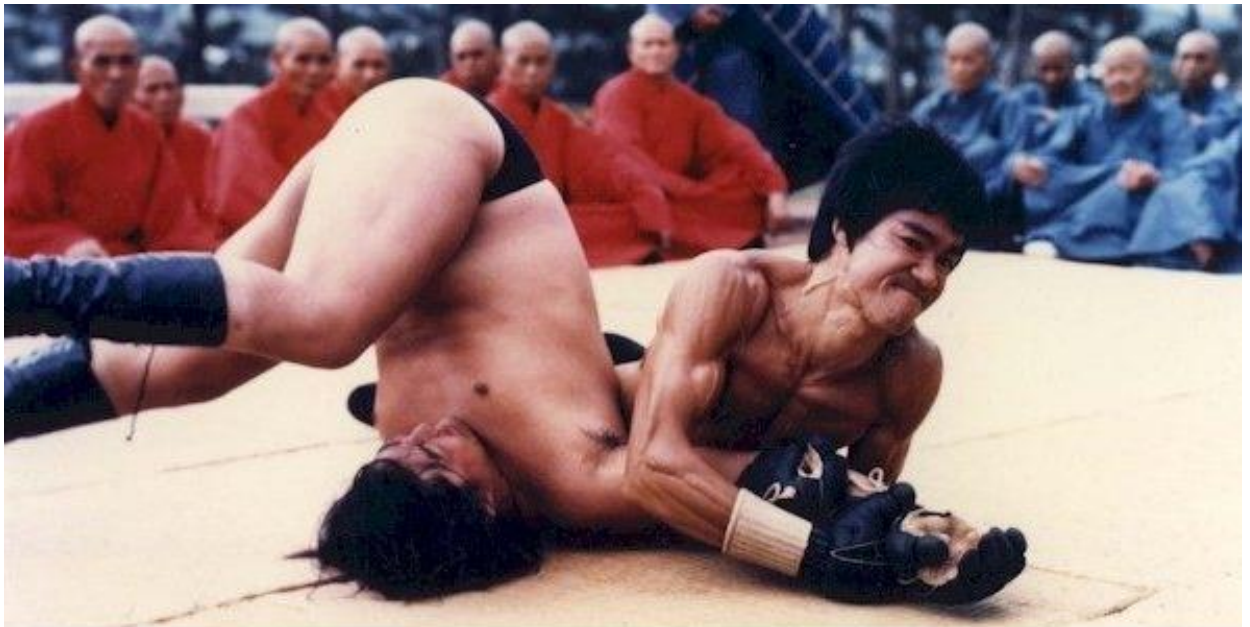
The martial art world got turned upside down overnight. The choice is either to adapt or lose one's relevance.

While UFC brought mixed martial art into reality, it was Bruce Lee who advocated mixing different styles long before UFC existed.

Forty two years after Bruce Lee passed away, Lee is still an icon to many contemporary top (UFC) fighters such as Jon Jones, Anderson Silva, and Georges St-Pierre. UFC President Dana White and boxer Manny Pacquiao grew up idolising Lee. They all still raved about Lee's impact on contemporary martial art.



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The opening scene of Enter the Dragon, Bruce Lee submits his opponent with an arm-bar. That's not Wing Chun. That's "the Way of the Intercepting Fist".

Source: Enter The Dragon Movie

Lee's own martial art system called Jeet Kune Do – or in English "the way of the intercepting fist" – is founded on the basis of continuous adaption, unbound by tradition, taking what works and discarding what doesn't.

For us it is imperative to identify companies who adhere to these principles. Adapt or be obsolete

"Actually, the father of mixed martial arts, if you will, was Bruce Lee. If you look at the way Bruce Lee trained, the way he fought, and many of the things he wrote, he said the perfect style was no style. You take a little something from everything. You take the good things from every different discipline, use what works, and you throw the rest away."

- Dana White, UFC President, on Bruce Lee -



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Inspired, Not Enslaved by Tradition

**"Stilstaan is achteruitgang"
(Standing Still is Going Backwards)**

- Old Dutch saying -

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change"

- Charles Darwin -

A recent Reuters report caught our attention. The title is self-explanatory "Many big companies live in fear for their future in digital age".

The article discussed a new survey by top-ranked Swiss business school IMD. The survey finds how business leaders believe that four out of 10 top-ranked companies in their industry worldwide won't survive the next five years.

Four out of ten! The incumbents are like the conventional martial artists (or even marginal companies / the McDojos) during the early days of the UFCs.

Either they adapt and embrace the change (digital revolution) or they dismiss the change as a temporary fad and become less and less relevant over time.

It is worth noting that the average life expectancy of a Fortune 500 company was 55 years in the 1960s. Most of the companies on the list from that era are unrecognisable at the present moment (e.g. Armstrong Rubber, Pacific Vegetable Oil, and Riegel Textile). Today, the average life expectancy is merely 15 years. A lot of creative destruction.

With this natural tendency towards being disrupted, the key to survival is revolutionary innovation i.e. innovation that enables the transformation of an existing market or even creating new markets altogether.

When companies grow bigger and get listed, the focus is shifting from innovating to meeting quarterly numbers. Projects with longer payoffs, no matter how disruptive, could be put on the shelf. History is full of such examples.

Kodak was the first that invented the digital camera but didn't push it through because it jeopardised its existing business.

Then there is the former movie rental giant Blockbuster, who not only missed out on investing in streaming technology to protect their existing 9,000 rental stores, but later also turned down a chance to purchase the still fledgling Netflix for \$50 million in 2000. The value of Netflix today is about \$50bn. Only a 1000 bagger.

The challenge for public market investors is that market cap-weighted indexes (to which many funds are benchmarking to) are largely represented by mature incumbents that are at risk of disruption by the new nimble challengers.

In Indonesia's case, there is not even one disruptor in the public equity market, let alone listed small caps.

At the same time, we are starting to see the same disruptive nimble tech companies devastating the incumbent giants. As such, we re-examined our public portfolio carefully and potentially adjust to this new paradigm.

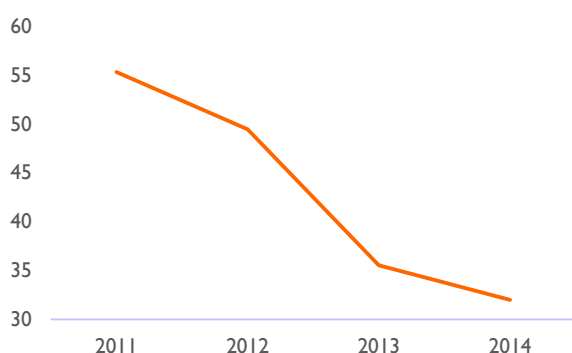
If it's really true that four out of ten top-ranked companies won't survive the next five years, the key question is how we find the six companies that will survive and thrive... More importantly how do we find those companies that can potentially be significant disruptors.



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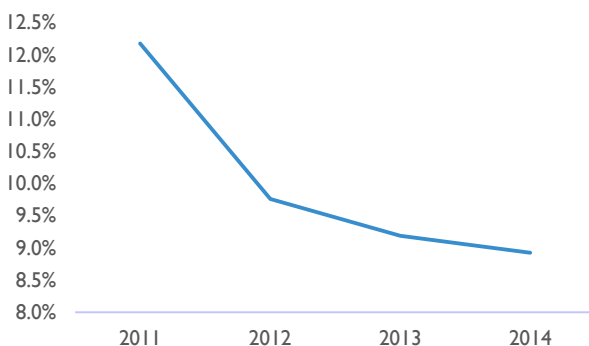
For example, a brick and mortar electronics retail chain trading at single digit PE and below Price to book might be a value trap when its market share continues to get taken away by the online companies. (Whereas a property company or a healthcare company - hospitals or pharmaceutical - is less likely to be disrupted anytime soon). The key is for the brick and mortar businesses to be able to integrate their online strategy. We will watch the space very closely.

Electronic City's sales/sqm, Rp mio



Source: Company Data

Erajaya's gross margin



Source: Company Data

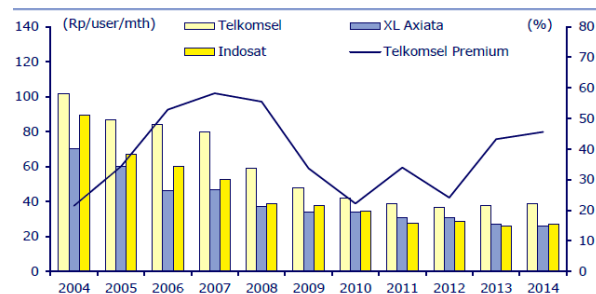
Aside from the examples above, two other compelling Indonesian case studies come to mind where companies managed to successfully follow a new approach.

The first one is from Telkomsel. The country's leading mobile phone operators needed to increase up-selling of product offerings. They also need to decrease customer attrition rates, which is a leading cost to operators.

Telkomsel's VP for Strategic and Scientific Marketing at that time decided to take an unconventional method by predicting consumer behaviour and give consumers "the right offers".

Using Big Data Analytics, he was able to identify 1.5-2mn subscribers who fit perfectly for up-sell opportunities. Additionally, they identified 1-1.5mn subscribers who were at-risk of attrition and proactively reached out to retain them.

Telkomsel ARPU Premium Expanding



Source: CLSA

The second example is in the highly competitive banking sector. One bank that had enjoyed steady growth and doubled assets in 5 years was seeking ways to continue this growth trajectory.

Instead of running conventional marketing campaigns, they also decided to use Big Data Analytics to extract deeper customer insights, segment these customers into clusters and target more personalised and relevant marketing campaigns and investment offerings.

The market lift (campaign improvement over the bank's typical approach) was 181% for their assurance product and 75% for their auto-loan product.

Data Analytics enables the extraction of these valuable insights to enhance decision-making. We see this field poised to grow exponentially as more industries embrace it.

To enhance value for our investors, the structure of our Heyokha funds allows us to invest directly into these non-listed disruptors. So far we have made two small private investments and in the process of finalising the third. – More on this later in a separate section of the report.



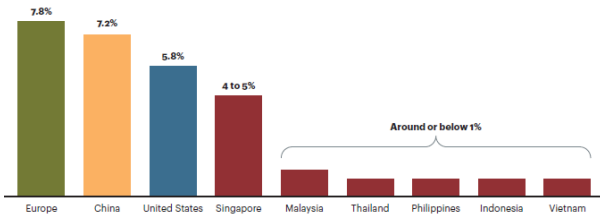
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Where are we in Indonesia?

Ground zero

In the South East Asian region, it is pretty much still ground zero for tech. E-commerce, for example, still accounts for less than 1% of total retail sales vs. 6-8% in Europe, China, and the US.

E-commerce as a % of retail sales



Source: Frost & Sullivan, AT Kearney

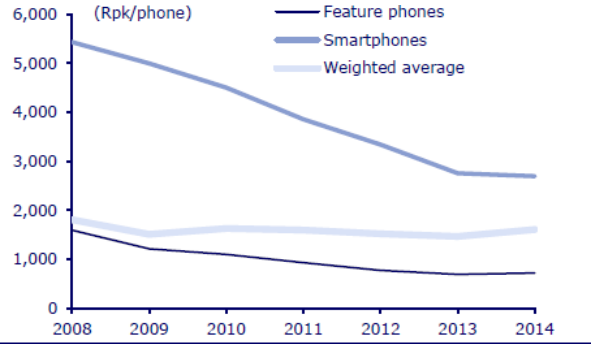
However, the main barriers that limit retail e-commerce growth in ASEAN are being lowered. Cheaper Chinese smartphones, investment in broadband infrastructure, cross border connectivity, and better e-commerce law (Electronic Information and Transaction Act in Indonesia in 2008 and 2012) are reasons to be more optimistic.

The government too has embraced the young technology crowd to solve problems. Pragmatic and visionary Chief of Presidential Office Luhut Panjaitan and Jakarta Governor Ahok hosted the Hackathon Jakarta 2015.

This Hackathon encourages the programmers to collaborate on solving social issues, from dealing with the rice mafia and illegal fishing to Jakarta's traffic. A clever and cost efficient way for the government to get code without having to hire programmers. And a great platform for coders to showcase their skills.

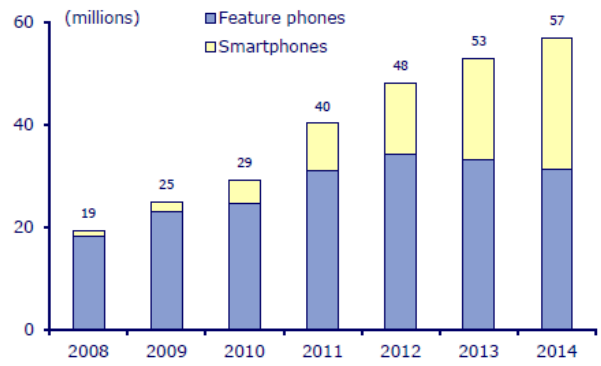
With better internet penetration and improving online offering, the growth rate could be exponential.

Average Price for Mobile Phones - Indonesia



Source: Euromonitor, CLSA

Unit Sales of Smartphones - Indonesia



Source: Euromonitor, CLSA

In the past four years, the ASEAN online retail market has grown roughly by 15% per year, or 3x the GDP growth. The potential for e-commerce growth, i.e. digital disruption for brick and mortar retailers, is HUGE.

In fact, the pace of technology adoption is already taking off in Indonesia. Sales of the e-commerce marketplace and other tech companies we track has gone up anywhere between 3 to 10 times in the last 12 months. These are leaders in their respective vertical and space.



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Social networking, Belitung style. Chess board makes way for the Wifi at Kong Djie coffee shop.

Source: Heyokha, Internet

In Heyokha's recent trip to gorgeous Belitung Island (a small island in east coast of Sumatra, Indonesia), we noticed that even there internet access is proliferating in every corner of the island. The "global village" is now becoming reality.

Unlike the tech bubble of 2000 where tech business initiatives were mostly a concept, we are now seeing for the first time that technology is disrupting companies and is reshaping markets faster than ever.

The incumbents' traditional strengths such as scale and distribution networks, brand and existing customer relationships – seem to be no longer as valuable they once were to keep barbarians off the gate.



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Disruption to Indonesian companies: case #1, Online Retailers

So...where would you shop?

Type of handphone	Offline modern retailer - price, Rp		Online retailer - price, Rp Lazada	Bargain earned from purchase on Lazada
	Erafone	Okeshop		
Samsung Galaxy S6 Edge 64GB white	12,500,000	11,499,000	10,998,000	9.1%
Iphone 6 128GB Silver	14,999,000	14,699,000	13,225,000	12.3%
Xiaomi Mi4i 16GB	2,799,000	2,799,000	2,799,000	0.0%
Blackberry Passport Black 32 GB	8,599,000	N/A	6,193,700	38.8%

Disruption to Indonesian companies: case #2, GOJEK / Grab Bike

With poor infrastructure and suicidal traffic, logistics is a key issue in Jakarta. Two companies Go-Jek and Grab bike have totally transformed both the motorcycle taxi market and the delivery market.

In less than a year, Go-Jek has managed to have over 12,000 drivers in Jakarta alone, surpassing the countries second biggest taxi company Express with capex requirements that are far lower. Just imagine how many jackets and helmets you can buy for the price of a car.



Go-Jek Army

Source: Internet

The beauty of Go-Jek and Grab bike is that it's a win-win for the drivers (better income and status), the users (convenience, summoning Go-Jek and Grab Bike is now just a few taps away and feel safer) and the government (better organised, transformation from informal to formal sector, and more tax collection).



Grab Bike Army

Source: Internet

Drivers seem to be happy folks who are now making multiples more money compared to when they were just an independent motortaxi driver. It is not uncommon for a Go-Jek driver to take home around Rp500k (USD37) a day, a very decent sum by Indonesian standard.

No wonder joining Go-Jek is now seen as a move towards greener pastures. Even some of Go-Jek's former customers have now turned into Go-Jek drivers themselves. Also, we read many stories of those who switched from a stable 9-5 white-collar job to join Go-Jek.



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Disruption to Indonesian companies: case #2, GOJEK / Grab Bike



A Go-Jek driver picking up cups of coffee order from Giyanti Coffee Roastery in Jakarta. Amazing solution and time saver for Jakartans.

Source: Heyokha

Resistance from the disrupted traditional independent motorcycle taxi drivers (Ojek drivers) is not small (with reported assault on Go-Jek drivers in some areas).

The existence of motorcycle taxi's itself is not regulated. The independent drivers are used to fight amongst each other over territories where they could pick up passengers.

Life is already tough to begin with. Now the ride-hailing applications from Go-jek and competitor Grab Bike make life even harder for them. Some degree of conflict is not avoidable, especially for those who managed to monopolise busy pick-up spots.

We figured that this “social issue” will be significantly reduced once the unregulated motorcycle taxi drivers make the migration to join formal businesses like Go-Jek.

It is just a matter of time for the Go-jek drivers to dominate the street corners of Indonesian cities. If you can't beat them, join them.

-The End-