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BUSINESS INTELLIGENCE

THE STATE OF DIGITAL INVESTMENTS IN MENA 2013-2015

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FOREWORD

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Across the MENA region, interest in technology startups is skyrocketing. Government are launching large-scale initiatives to foster entrepreneurship as a driver of economic development and job creation. Enterprises are creating corporate venture funds and innovation initiatives to stimulate new product development and generate business growth. And investors of all stripes are proliferating.

The environment for starting a tech company in MENA has never been better, and the entrepreneurs are joining in droves – leaving their government jobs and the comfort of their corporate careers, aspiring to build the next billion-dollar dot-com. And many are on the fast track to success, with half a dozen tech startups in MENA today valued at over $100M each.

We're thrilled to share with you the first edition of ArabNet's "State of Digital Investments in MENA" report, the most comprehensive research on investments in technology startups in MENA to date. The report has been 2 years in the making, and the ArabNet team has painstakingly collected data about more than 95 funding institutions and 450 deals. Dubai Internet City (DIC) is proud to sponsor the report, as part of our broader commitment to supporting startups and innovation across the UAE and the MENA region more broadly. And with Dubai emerging as a leading regional and global entrepreneurship hub, we at DIC are excited to play a key role in this movement that is reshaping business across sectors and markets.

While we are aware that there are deals and investors that are not covered by the report, we believe that we have captured more than 80% of the market activity, bringing the entire industry significantly closer to a full picture than ever before.

Our ambition is to update this report annually to highlight market growth and opportunities. We hope that the report encourages more investors to participate and be more open about their investments. We invite you to share your 2016 investment data - which will be kept strictly confidential - to include in the next iteration of the report to be published in 2017. We also welcome your feedback on our analysis and your ideas for new ways of looking at the data. Contact us at intelligence@arabnet.me

We hope that this report will help grow digital startup investments in MENA, and that you will find it rich and beneficial for your business.

TABLE OF CONTENTS

FEMALE FOUNDERS IN FUNDED STARTUPS

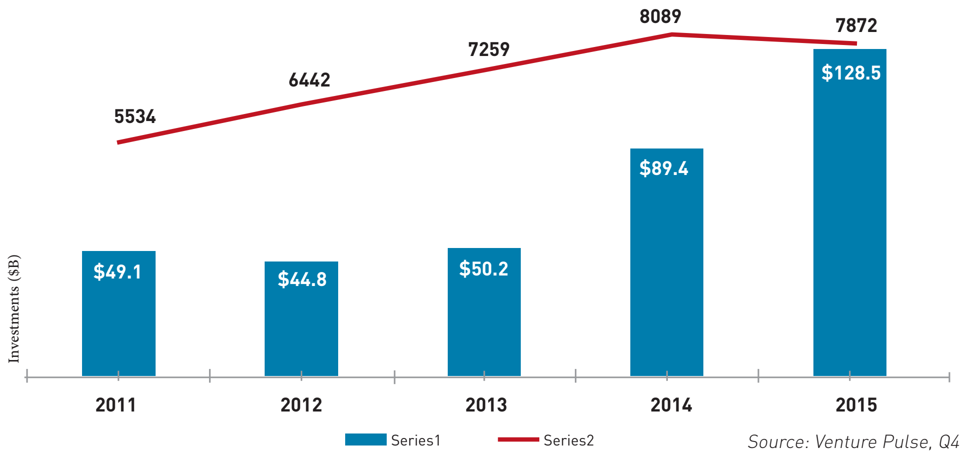
CORPORATE INVESTORS IN MENA

INTRODUCTION

BACKGROUND INFO: GLOBAL INVESTMENT IN TECH STARTUPS

GLOBAL FINANCING TRENDS TO VC-BACKED COMPANIES

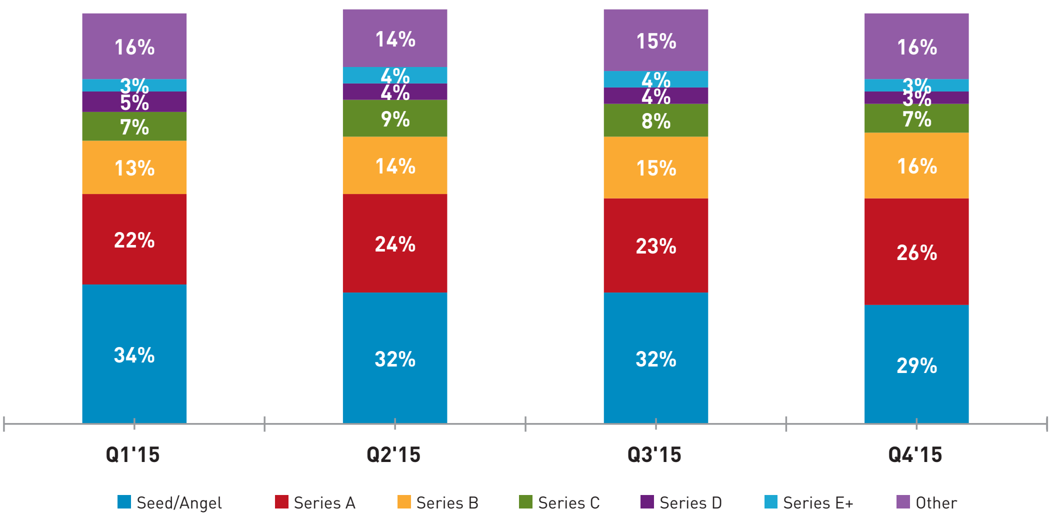
Global investment in tech startups continues to rise rapidly, with $128.5B deployed across 7872 global deals to VC-backed companies in 2015. The total value of tech investments has grown 250% over the past 5 years, and by 44% in the past year alone - mostly driven by very large deals, as the total number of deals declined slightly. MENA on the other hand saw 172 deals in 2015, representing only 2.2% of global deal flow, leaving the space open for further investment and growth. The opportunity is even more interesting given that, according to Google, the UAE and Saudi Arabia rank in the top 5 countries globally in smartphone penetration rates, while youth between the ages of 15-24 constitute the largest age group in MENA, representing over third of the total population.



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights - Jan 19th 2016 Report

GLOBAL DEAL SHARE BY TICKET SIZE

Examining global deals by ticket size, seed stage and series A round represent the bulk of deal flow, capturing around 30% and 25% of total deals respectively. It is interesting to note that the proportion of seed stage and Series A deals are very similar. The later stage, larger deals capture a smaller and smaller percentage of deal flow, consistent with the funnel of fewer startups succeeding from stage to stage.



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights - Jan 19th 2016 Report

VC INVESTMENT AS PERCENTAGE OF GDP

Internet and Mobile continue to represent the bulk of deals to VC-backed companies, where both sectors accounted for 66% of all global deals in the last quarter of 2015. According to the International Monetary Fund, the UAE, Saudi Arabia, and Arab countries more broadly are lagging far behind in terms of venture capital investment in the technology sectors: the ratio of VC investments as a percentage of GDP is 0.03% in the UAE and 0.02% in Saudi Arabia - in comparison to the USA, where it is 0.30% (10x the UAE ratio). The exception to this is Lebanon, where the ratio is 0.20%, due in part to the Banque Du Liban Circular 331 initiative, which has guaranteed $400M for investment in tech startups in the country.

VC INVESTMENT AS PERCENTAGE OF GDP				
Country/Region	GDP(IMF)	VC Investments	Ratio	US Ratio applies
Israel	306 bn	1,9 bn	0,62%	0,92 bn
US	17 348 bn	52,1 bn	0,30%	52,10 bn
India	2 051 bn	5,2 bn	0,25%	6,16 bn
China	10 357 bn	15,5 bn	0,15%	31,10 bn
UK	2 950 bn	3,7 bn	0,12%	8,86 bn
Lebanon	50 bn	0,1 bn	0,20%	0,15 bn
Canada	1 785 bn	1,4 bn	0,08%	5,36 bn
Europe	18 527 bn	10,6 bn	0,06%	55, 64 bn
UAE	399 bn	0,1 bn	0,03%	1,20 bn
Saudi Arabia	746 bn	0,1 bn	0,02%	2,24 bn

Source: Venture Capital Investments As A Percent of GDP In 2014 - International Monetary Fund, World Economic Forum - 2014 report

THE STUDY: SCOPE AND METHODOLOGY

This research report provides an overview of the technology investment landscape in the Middle East and North Africa (MENA) region. The first section focuses on the investor community, and examines the availability of funding sources across markets, ticket sizes, and how this has developed over time. The second section focuses on the investments that took place between 2013 and 2015, and analyzes them by market, ticket size, industry, life span and gender. The third section analyzes investments made by corporate venture funds across markets. The aim of the report is to provide a holistic perspective on the industry, identifying trends and pinpointing gaps in the market.

The report findings are based on data collected from 48 investors and accelerators in the MENA region, specifically in the United Arab Emirates, Egypt, Lebanon, Jordan, Saudi Arabia, Morocco, Kuwait, Palestine, Algeria, Tunisia and Bahrain. The report also aggregates information from publicly announced investments, and those listed on public databases such as Crunchbase, AngelList and others. The report analyzes a total of 480 investments in regional startups by regional and global investors. However, due to the private and proprietary nature of the investments, there may be deals that have not been included in the analysis. In the case where investments were announced without official investment values by either investor or startup, ArabNet has estimated the values based on history of involved investors, age of the company, and stage of the investment.

All investments analyzed in the report are for equity-based investments only, and therefore institutions that provide grant / non-equity funding have not been included in the analysis. In that respect we'd like to thank Bahrain Business Incubator Center's open contribution of data, which was later removed from this report as their investments are non-equity based. We hope to be including analysis on grants / non-equity based investments in future editions.

LIST OF THE MENA INVESTORS INCLUDED IN THE STUDY

We would like to express our deepest appreciation to all the investors and accelerators who provided us with all the necessary information to complete this report.

1. **Afkar.me**
2. 500 Startups
3. Accelero Capital
4. Al Ahli Holding Group
5. Al Khabeer Capital
6. Al Tamimi Investments
7. Al Tayyar Group
8. Almawarid Bank
9. Arabreneur
10. Aramco - Waed
11. **Arzan VC**
12. **B&Y Venture Partners**
13. **Badia Impact Fund (Silicon Badia)**
14. Bank al Etihad
15. Base Ventures
16. **BECO Capital**
17. Beirut Angels
18. Benamor group
19. **Berytech fund I**
20. **Berytech Fund II**
21. BLC Invest
22. Brilliant Labs
23. C5 Accelerate
24. **Cairo Angels**
25. **CapitalEase Seed Fund / UGFS**
26. **Carthage Business Angels**
27. Casbah Business Angels
28. CH9
29. Choueiri Group
30. Crescent Enterprises
31. Daher Capital
32. **DASH Ventures**
33. **Dubai Silicon Oasis Authority**
34. Emerge Ventures
35. **Endure Capital**
36. EquiTrust
37. **FastForward**
38. **Flat6Labs Abu Dhabi**
39. **Flat6Labs Cairo**
40. **Flat6Labs Jeddah**
41. Hatcher
42. Hikma Ventures
43. **Ibtikar Fund**
44. Ideavelopers
45. Illiad Partners
46. **iMENA Group**
47. **Impulse Kuwait**
48. InspireU
49. **IntilaQ For Growth Fund**
50. InvOrOut
51. Jabbar Internet Group
52. Jo Angels
53. **JuiceLabs**
54. **Kafalat iSME Co-Fund**
55. Kamelizer
56. **KAUST Innovation Fund**
57. **Khaled Ismail**
58. **Leap Ventures**
59. MAF Ventures
60. **Maroc Numeric Fund**
61. MBC Ventures
62. **MENA Apps**
63. **Middle East Venture Partners (MEVP)**
64. Mobily Ventures
65. Namaa Ventures
66. **Noureddine Tayebi**
67. NUMA
68. **Oasis500**
69. Ooredoo (tStart)
70. **OQAL Members**
71. PalInnO
72. Qatar Science & Technology Park (QSTP) Accelerator
73. **Sadara Ventures**
74. **Saned Partners**
75. Sawari Ventures
76. SeedStartup Venture Fund
77. **Silicon Oasis Founders**
78. Siraj Palestine Fund
79. SIRB Angel Investors Network
80. **Speed@BDD**
81. **Startup Factory Seed Fund**
82. **STC Ventures**
83. **Tamkeen Capital**
84. TAQNIA
85. Tenmou
86. The Abraaj North Africa Fund II (ANAF II)
87. **Turn8**
88. **Twofour54**
89. **University Venture Fund (UVF)**
90. Valour Ventures
91. **VentureSouq**
92. Verso Incubator
93. Vodafone Ventures Egypt
94. **Wadi Makkah**
95. **Wamda Capital**
96. **WIKI START UP**
97. **Womena**
98. **Y Venture Partners**
99. Y+ Ventures

INVESTORS IN MENA

FIGURE 1: NUMBER OF INVESTORS BY YEAR

The MENA region has witnessed a proliferation of new funding institutions in the past 5 years, with the number of investors increasing ten-fold since 2010. The pace of growth picked up significantly in 2010, which could be considered a turning point for funding in MENA, and has speeded up slightly since then. One reason may be that the region saw its first $100M+ exit - the acquisition of Maktoob by Yahoo - in 2009, followed by the first regional startup-focused conferences, including the first ArabNet conference during March of 2010, and the Celebration of Entrepreneurship organized by Abraaj Capital in November of 2010.

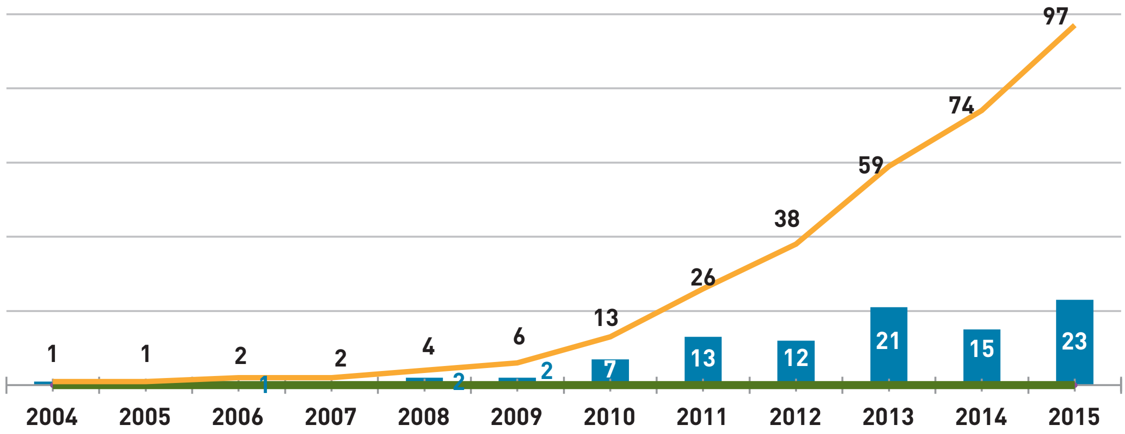


FIGURE 2: NUMBER OF INVESTORS BY GEOGRAPHY

The investor community is heavily concentrated in a few markets: the top five countries are home to more than 70% of all funding institutions surveyed. The UAE, Saudi Arabia and Egypt, the region's largest markets, all rank in the top 5 countries in concentration of investors. There are also strong investor communities in the Levant region, including Lebanon (13%), Jordan (8%) and Palestine (6%).

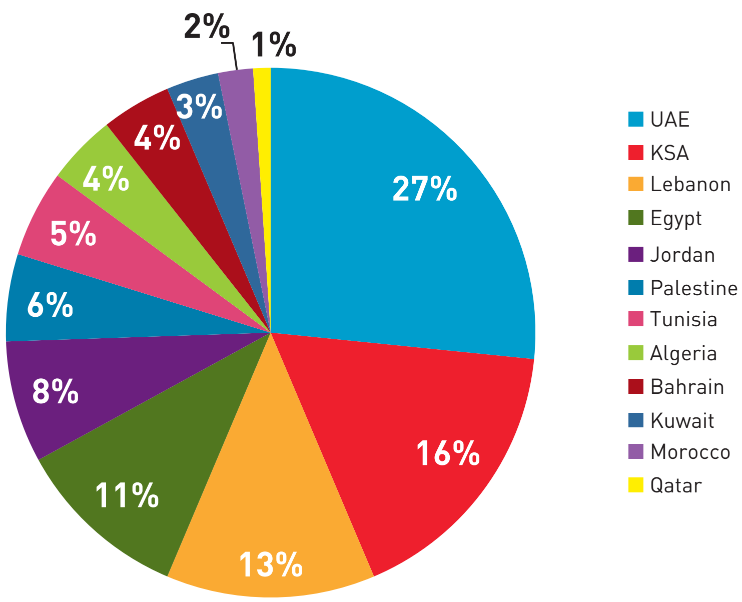


FIGURE 3.1: NUMBER OF INVESTORS BY TICKET SIZE

More than half (51%) of the investor community are early stage investors, with accelerators being the most common type of early-stage institution. Meanwhile, angel networks represent a smaller proportion of early stage investors; this space is currently attracting significant attention and is expected to develop quickly. Finally, there are few dedicated growth-stage venture capital funds in MENA; however, this gap is often filled by family offices and Private Equity investors in the region.

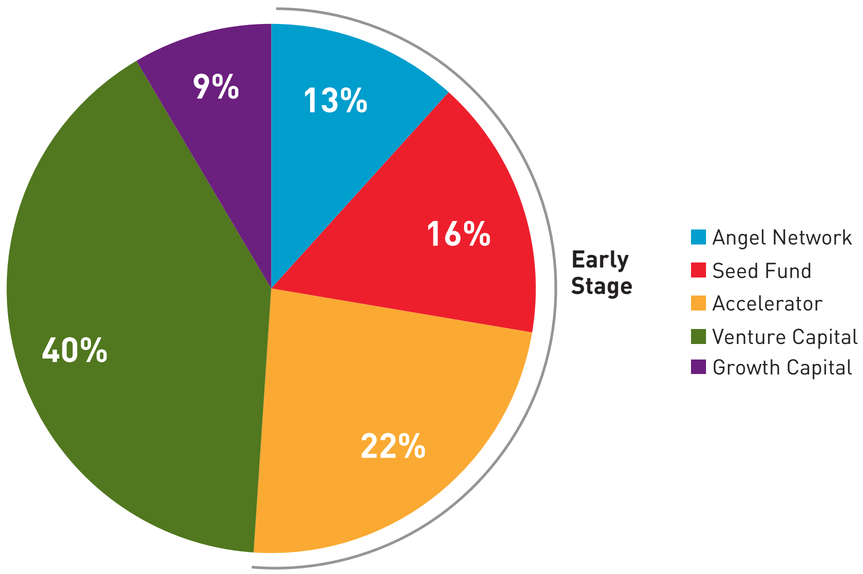


FIGURE 3.2: NUMBER OF INVESTORS BY TICKET SIZE BY YEAR

When examining the investor community by ticket size, the most striking trend is the increasing share of VC funds of the investor pie – doubling from 15% in 2013 to 31% in 2015. The proportion of early stage investors have decreased – with accelerators dropping from 40% to 28% of the investor pool, and angel networks falling from 15% to 10%. All these seem to be natural indicators of a maturing sector, which now requires more medium to large-ticket investors to help the region's rapidly growing startups to scale.

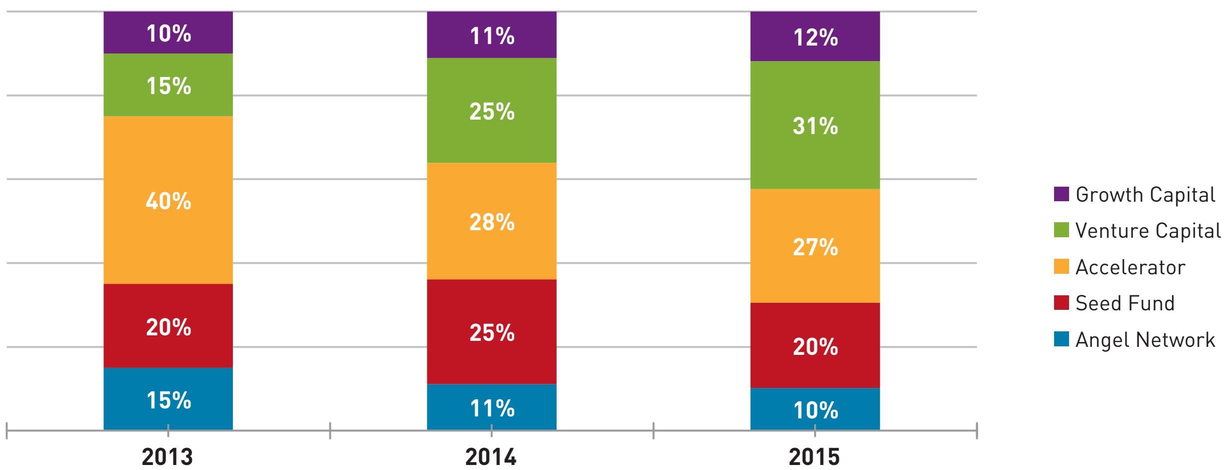


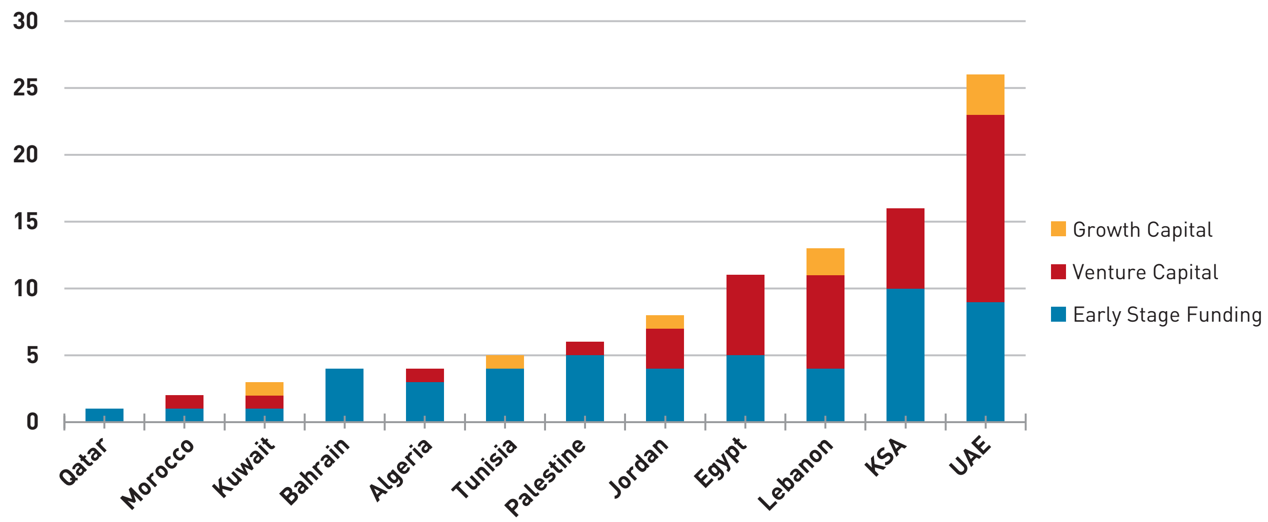
FIGURE 4.1: NUMBER OF INVESTORS BY TICKET SIZE IN TOP COUNTRIES

Examining the investor distribution in each of the top markets, a few insights emerge. First, many markets do not have angel investment networks, which are critical for the creation of early stage startups and a development of a strong funnel of deals to VCs. On the other end of the spectrum, many markets don't have growth stage VCs; this is particularly noticeable in KSA and Egypt, as two of the region's biggest markets. There seems to be an opportunity here, as a number of the region's biggest deals have been led by global investors, including Naspers and Tiger. At the same time, these markets also have strong Private Equity players and family groups, which can function as growth investors and which are not included in this survey.

	UAE	KSA	Lebanon	Egypt	Jordan	Palestine	Tunisia	Algeria	Bahrain	Kuwait	Morocco	Qatar
Angel Network	3	2	1	2	1		1	2	1			
Seed Fund	3	3	2	1	1	3	2		1			
Accelerator	3	5	1	2	2	2	1	1	2	1	1	1
Venture Capital	14	6	7	6	3	1		1		1	1	
Growth Capital	3		2		1		1			1		

FIGURE 4.2: NUMBER OF INVESTORS BY TICKET SIZE BY GEOGRAPHY

Looking at the distribution of investors by ticket size across the market, a maturity curve emerges. Markets with fewer funds and a more nascent ecosystem tend to be dominated by early stage investors; as these ecosystems mature and the number of investors increases, the proportion of venture and growth investors increases.

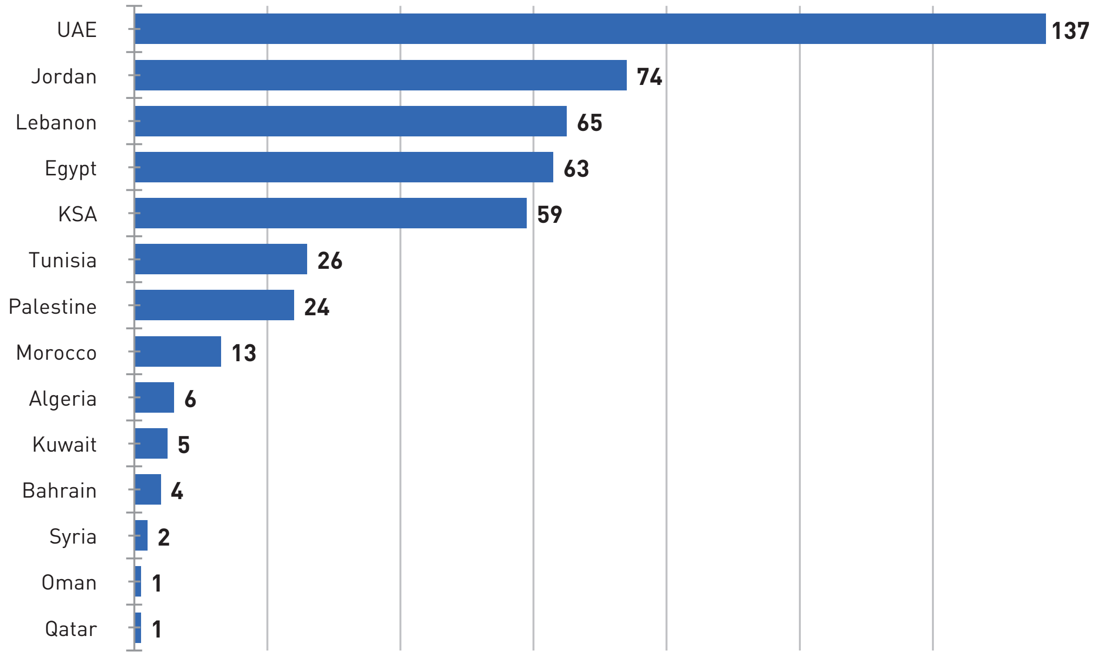


INVESTMENTS IN MENA

INVESTMENTS IN MENA AND BY MENA INVESTORS BY GEOGRAPHY

FIGURE 5: NUMBER OF INVESTMENTS BY GEOGRAPHY

When it comes to the number of deals by country, the UAE captures the lion's share, with 137 deals in the past 3 years. This is almost double the number of deals in the next biggest markets - Jordan, Lebanon, Egypt and Saudi Arabia - which hover around 60-70 deals each. Beyond these markets, some countries to watch out for are Tunisia, Palestine and Morocco, which have witnessed good deal flow and have the potential to grow rapidly. It is interesting to note that a number of MENA funds are investing actively outside of the region, with almost 50 deals across the USA, Turkey and the UK, and deals in Africa (Ghana) and East Asia (China). The rest of this report will focus on analyzing only the investments that took place in the MENA region.



NON-REGIONAL COUNTRIES MENA INVESTORS INVESTED IN

01. United States (38)	10. Spain (2)
02. United Kingdom (5)	11. Kazakhstan (1)
03. Turkey (4)	12. Ghana (1)
04. China (3)	13. Indonesia (1)
05. Jamaica (3)	14. Finland (1)
06. Russia (3)	15. Singapore (1)
07. Pakistan (2)	16. Barbuda (1)
08. India (2)	17. Srilanka (1)
09. Japan (2)	

INVESTMENTS IN MENA BY YEAR

FIGURE 6.1: NUMBER AND VALUE OF INVESTMENTS BY YEAR

According to ArabNet's research and collected data, more than $750M were invested in tech startups in MENA between 2013-2015.

The total number and value of investments increased by 44% and 127% respectively between 2013-2014 - a significant jump in just one year, showing the increasing interest in technology startups regionally. This growth was not matched between 2014-2015: although the number of deals was quite close, the total investment value dropped by almost 40%. This may be attributed to a number of mega-rounds in 2014 (including Souq.com, Jumia.com), which were not as common in 2015.

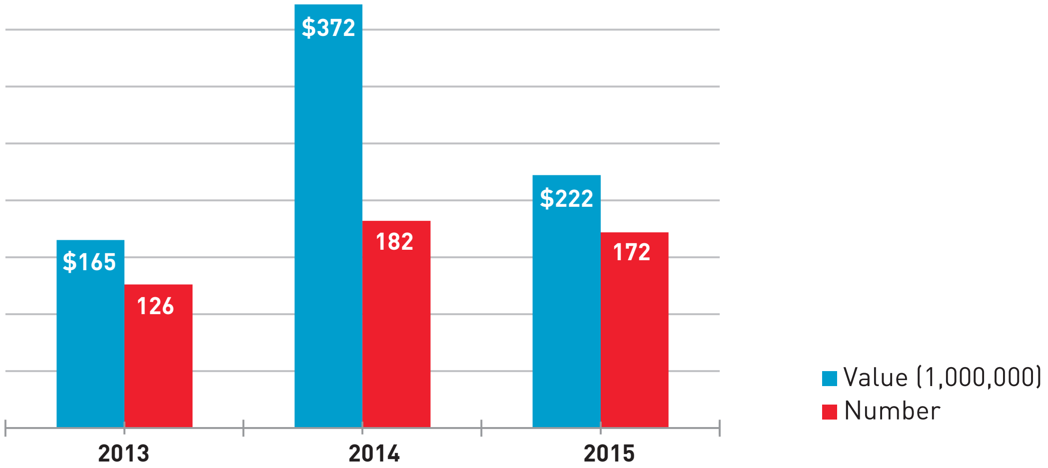


FIGURE 6.2: NUMBER OF INVESTMENTS BY QUARTER

Looking at the number of investments on a quarterly basis, no major trends emerge. Q4 does seem to consistently be a very active quarter for investors, and this is especially true in 2015 where it accounted for almost 40% of all deals. More broadly, this may indicate that the startup investment market is picking up and that 2016 promises to be a bigger year.

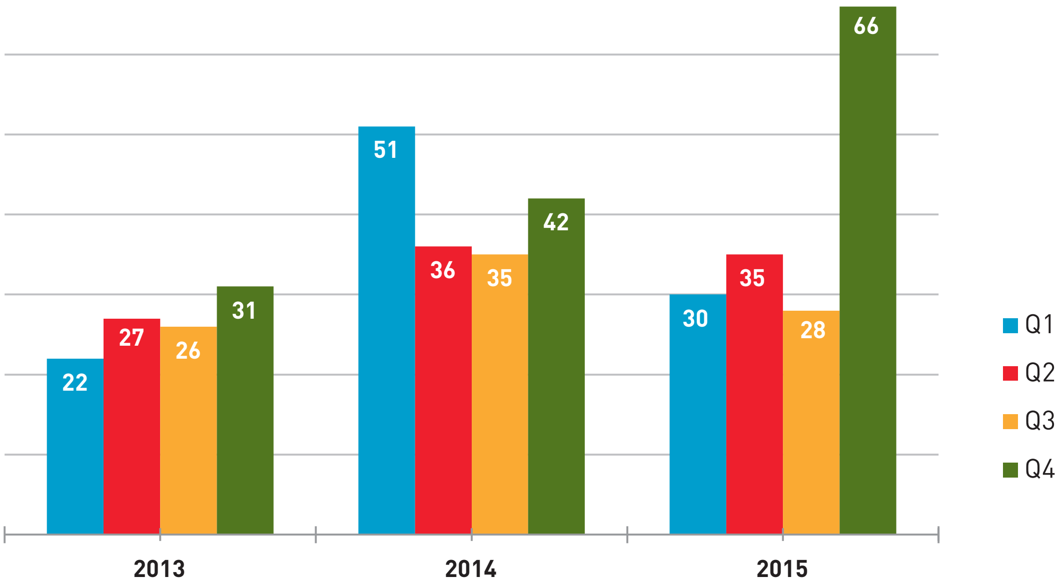
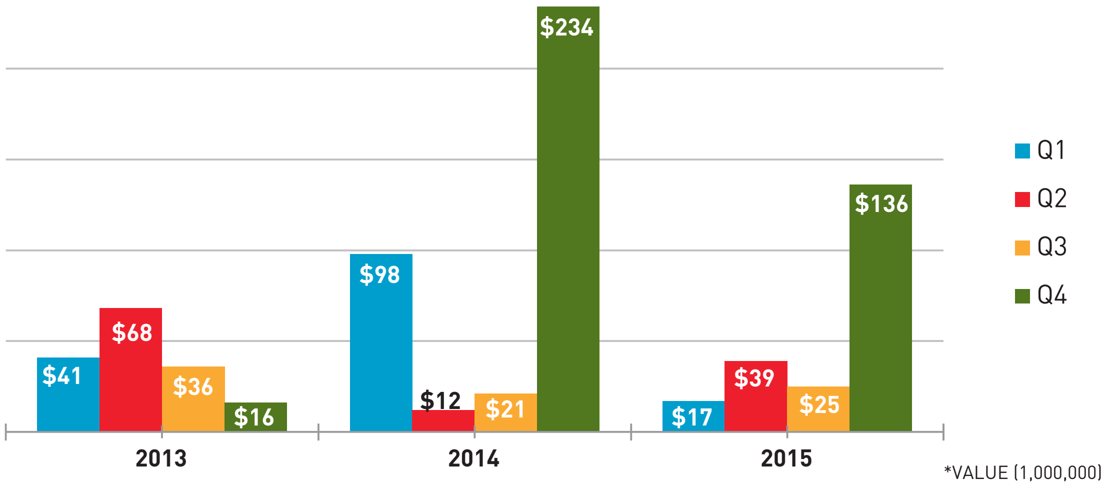


FIGURE 6.3: VALUE OF INVESTMENTS BY QUARTER

Examining the value of investments on a quarterly basis, it quickly becomes evident that a few big deals tend to drive much of the value, and they are infrequent enough that they create peaks in the quarters where they occur. The value in Q4 2014 is mostly driven by major investments in Cequens ($53M) and Jumia ($150M). Similarly, in Q4 2015 major deals like Careem's $60M round, PropertyFinder's $20M, and UTURN's $10M, made a big impact on total dollars spent.



INVESTMENTS IN MENA BY GEOGRAPHY

FIGURE 7.1: MARKETS RANKED BY NUMBER OF INVESTMENTS

Ranking the countries by number of investments, the UAE maintains the top position across the past two years. Jordan, Lebanon and Tunisia have been rising in the rankings - with the impact of Lebanon's Circular 331 starting to show and catapulting it into second place; meanwhile, Egypt has dropped the most due to political instability and the fact that some of the most active investors (Sawari Ventures, Ideavelopers) had invested their funds and were in the process of fundraising.

	Number of Deals			Ranking		
	2013	2014	2015	2013	2014	2015
UAE	30	52	55	2	1 ↑	1 ---
Lebanon	10	21	34	5	5 ---	2 ↑
Jordan	20	30	24	3	2 ↑	3 ↓
KSA	19	22	18	4	4 ---	4 ---
Tunisia	2	9	15	8	7 ↑	5 ↑
Palestine	3	13	8	7	6 ↑	6 ---
Egypt	31	26	6	1	3 ↓	7 ↓
Morocco	5	2	6	6	9 ↓	7 ↑
Kuwait	1	1	3	9	10 ↓	8 ↑
Bahrain	0	2	2	10	9 ↑	9 ---
Algeria	2	3	1	8	8 ---	10 ↓
Qatar	1	0	0	9	11 ↓	11 ↓
Syria	1	1	0	9	10 ↓	11 ↓
Oman	1	0	0	9	11 ↓	11 ---

FIGURE 7.2: MARKETS RANKED BY VALUE OF INVESTMENTS

Ranking the countries by value of investments, the UAE has risen to the top of the list, as it continues to develop into a global business hub and attract the region's fastest growing internet businesses. Egypt, which was ranked highest in 2013 and 2014 in total dollars invested (due to 2 major investments into Jumia), dropped the furthest to 5th place in 2015. Saudi Arabia has maintained a high-level ranking, but has been outpaced by the growth of investment activity in smaller markets like Jordan and Lebanon.

	Value of Deals			Ranking		
	2013	2014	2015	2013	2014	2015
UAE	$33	$114	$139	3	2 ↑	1 ↑
Lebanon	$6	$29	$31	4	4 ---	2 ↑
Jordan	$5	$17	$23	5	5 ---	3 ↑
KSA	$36	$56	$13	2	3 ↓	4 ↓
Egypt	$77	$152	$6	1	1 ---	5 ↓
Morocco	$4	$0.4	$3	6	7 ↓	6 ↑
Algeria	$2	$1	$3	7	6 ↑	7 ↓
Kuwait	$2	$0.2	$2	7	8 ↓	7 ↑
Tunisia	$0.6	$1	$1	9	6 ↑	8 ↓
Palestine	$0.7	$1	$1	8	6 ↑	9 ↓
Bahrain	$0	$0.3	$0.4	13	7 ↑	10 ↓
Qatar	$0.2	$0	$0	11	10 ↑	11 ↓
Syria	$0.5	$0.07	$0	10	9 ↑	11 ↓
Oman	$0.1	$0	$0	12	10 ↑	11 ↓

*Value (1,000,000)

FIGURE 8.1: NUMBER OF INVESTMENTS IN THE TOP 5 COUNTRIES

Examining the percentage of deals captured by the top 5 countries, a few trends emerge: the UAE and Lebanon's share of deals has been consistently rising, while Egypt, and to a lesser degree Saudi Arabia, have seen their share decrease. Egypt experienced the largest drop over the three-year period, capturing significantly less deal flow each year.

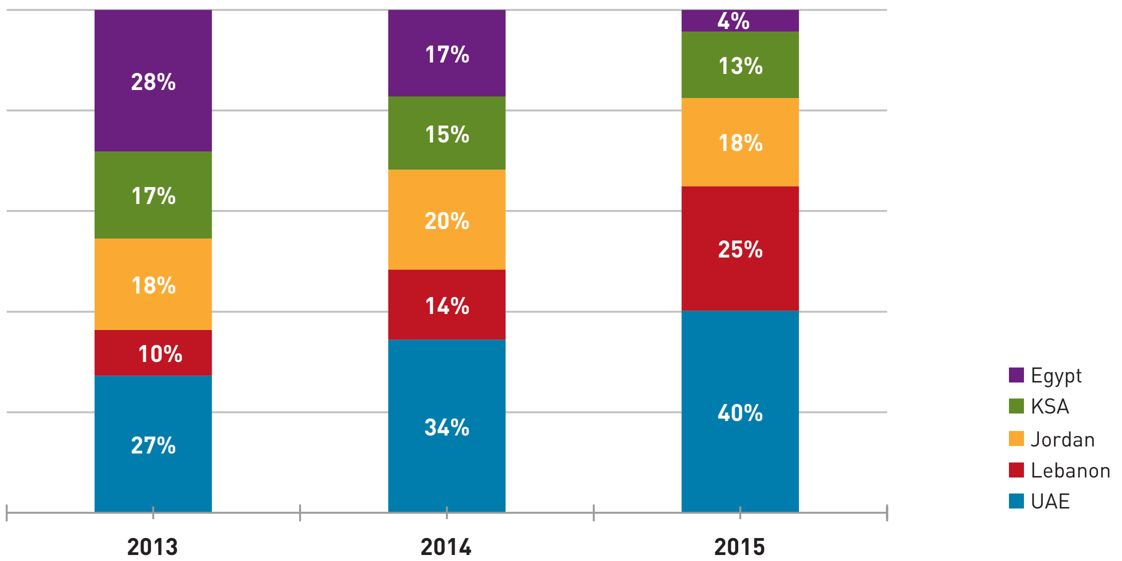


FIGURE 8.2: VALUE OF INVESTMENTS IN THE TOP 5 COUNTRIES

These findings are even starker when examining the share of total invested dollars in the top 5 markets. The UAE has tripled its share of dollars invested in the past 3 years, reaching a whopping 2/3 of the value of investments in the top 5 markets in 2015. The largest drop is also seen starkly in Egypt: big investments in Jumia in 2013 and 2014 gave Egypt the largest share of the investment pool, and without such a deal in 2015, that share dropped precipitously. This also demonstrates the significant impact that a few large deals have on the total value of dollars invested - a trend that is further seen in the next section in Figure 8.3.

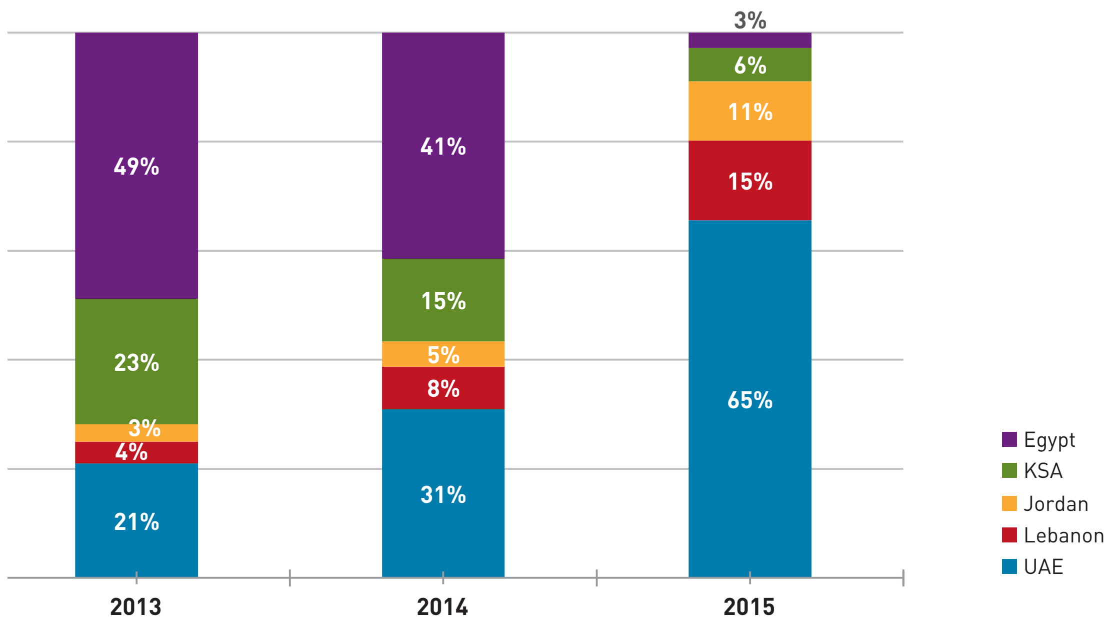
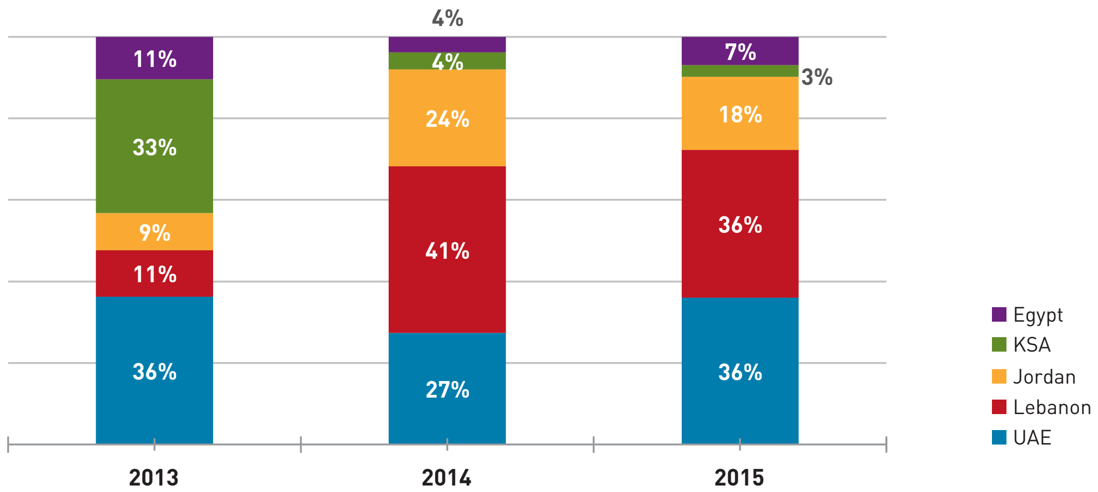


FIGURE 8.3: VALUE OF INVESTMENTS IN THE TOP 5 COUNTRIES WITHOUT GROWTH STAGE

Looking at the value of investments without growth stage deals ($7M+) helps generate more insights about where the first-round VC dollars are being spent, and where the next growth stage businesses are being built. Here, the UAE and Lebanon are the markets with the most dollars spent. On the other hand, Saudi Arabia and Egypt lag behind, indicating a potential opportunity for VC investors, especially given that these are two of the region's largest markets.



It's important to note that funds like Bahrain Business Incubator Center & TIEC (Egypt) fund startups without taking equity, and therefore were not included in this version of the report.

INVESTMENTS IN MENA BY TICKET SIZE

FIGURE 9.1: NUMBER OF INVESTMENTS BY TICKET SIZE

The majority of deals done in the past three years have been early stage deals (<$500K), representing between 70%-80% of the deals done each year. As the size of deal increases, the number of deals diminishes - which seems well-suited to a funnel of diminishing startups graduated from each level of funding to the next. The distribution of investments by ticket size has remained roughly consistent across the past three years.

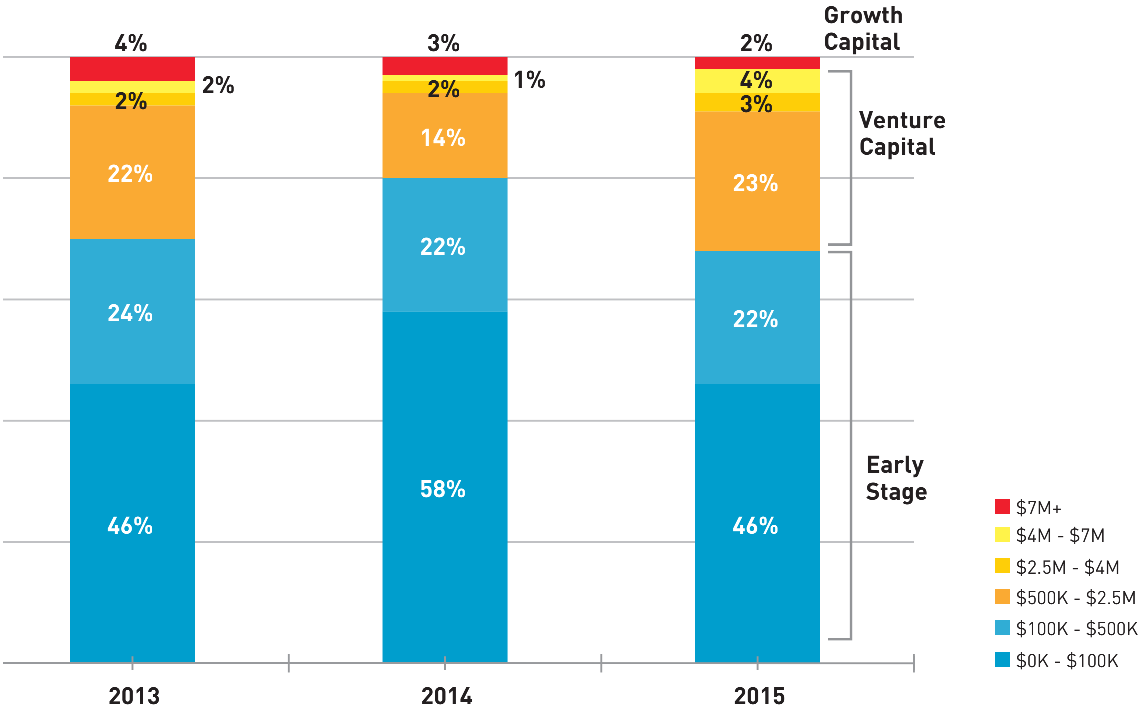
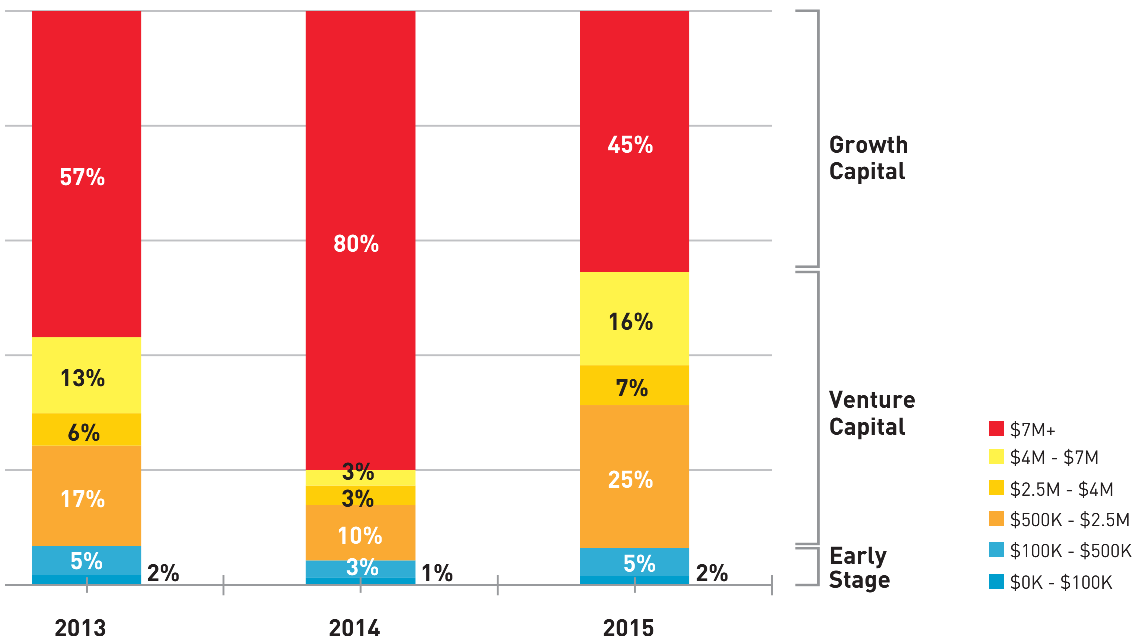


FIGURE 9.2: VALUE OF INVESTMENTS BY TICKET SIZE

Examining the value of investments by ticket size, growth stage deals over $7M capture an enormous portion of total dollars invested. In fact, the majority of the value is captured by even larger deals, over $50M: in 2013 this includes Jumia's $60M round; in 2014 Jumia again with $150M, Souq.com's $75M round, and $53M raised by Cequens; and finally in 2015 the $60M raised by Careem. As seen earlier in this report, 2014 was a particularly big year for growth stage investments, capturing 80% of dollars invested.



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INVESTMENTS IN MENA BY STARTUP BUSINESS MODEL

FIGURE 10.1: NUMBER OF INVESTMENTS BY STARTUP BUSINESS MODEL

Categorizing deals by business model proved challenging, as a significant portion of the startups have multiple or hybrid business models. The analysis indicates that Transactional business models represented the largest share of deals – about 1/3 of all deals – followed closely by Media (Advertising) and Software business models. These three business models account for 81% of all deals that took place regionally in the past three years. Technology and Agency business models represent 1/5 of total number of deals. *For more information on the definition of these categories and the classification of companies by business model, please refer to the appendix.*

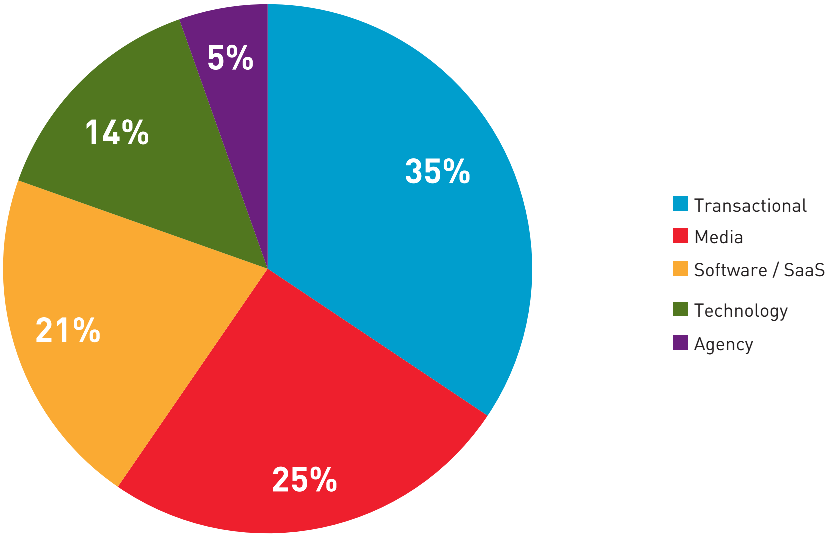


FIGURE 10.2: VALUE OF INVESTMENTS BY STARTUP BUSINESS MODEL

While the number of deals is relatively balanced across different business models, the value of deals is skewed very heavily towards transactional business models, which captured more than 2/3 of all dollars invested in the past 3 years. On the other hand, while Media and Software startups exceed Technology startups in terms of number of investments, Technology captured a significant portion of investment value, driven by a large investment round in the mobile messaging solutions company Cequens ($53M).

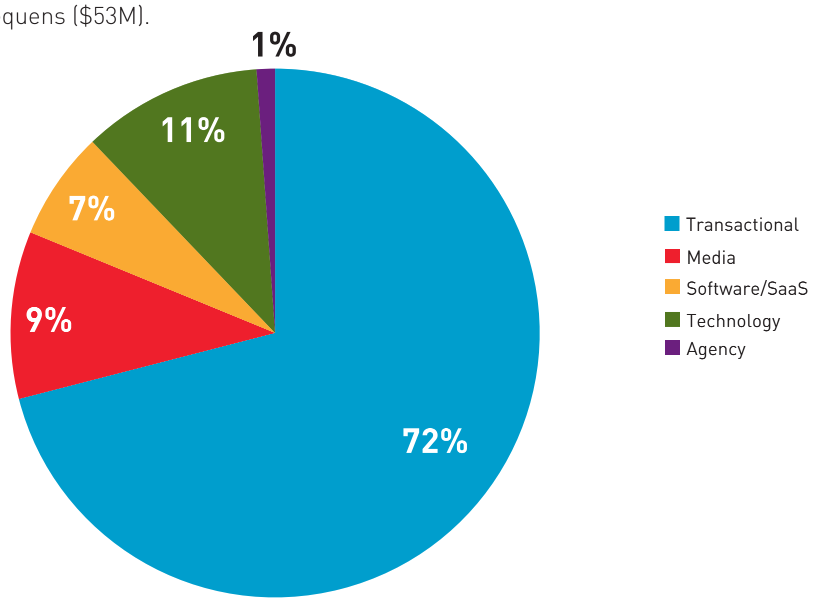


FIGURE 10.3: NUMBER AND VALUE OF INVESTMENTS BY STARTUP BUSINESS MODEL

Comparing the number of deals and total value invested in each type of startup business model, some clear differences emerge, especially in terms of average value of deal. Transaction deals dominate the deal value, with an average value of $3.3M/deal. At the same time, while Technology deals are less common, they capture an average value of $1.2M/deal. On the other hand, Media and Software deals are large in number but capture less of the total dollars, with an average value of about $0.5M-$0.6M/deal. However, these averages should only be considered as indicative, since the analysis demonstrates that most of the value is concentrated in a few large deals.

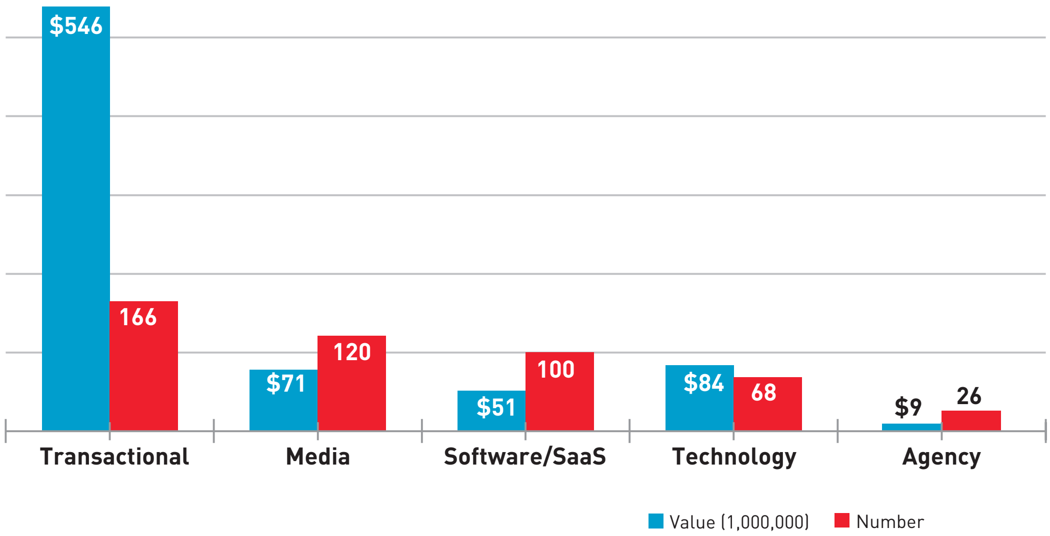


FIGURE 10.4: NUMBER OF INVESTMENTS BY STARTUP BUSINESS MODEL BY YEAR

The proportion of deals by business model has not changed significantly over the past three years, with Transactional and Media businesses capturing half or more of the investments in every year. Technology startups are capturing more investor interest - potentially driven by the increasing interest in smart hardware / Internet of Things - while agency-type businesses represent a diminishing portion of the deals.

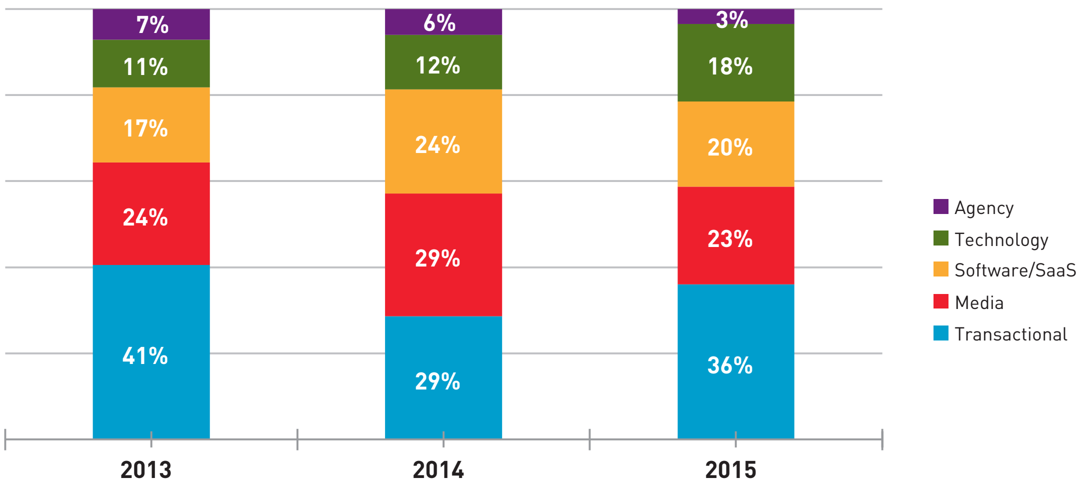
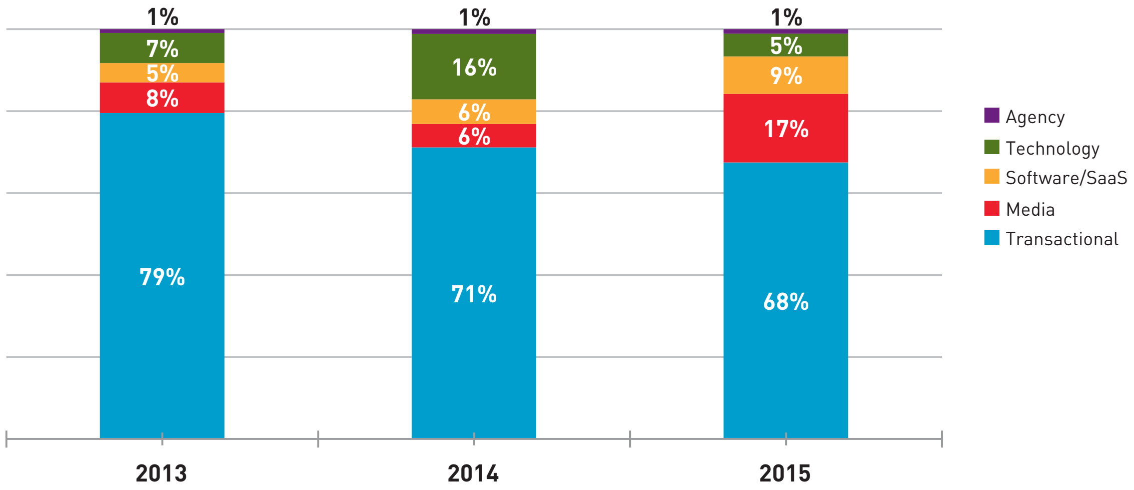


FIGURE 10.5: VALUE OF INVESTMENTS BY STARTUP BUSINESS MODEL BY YEAR

As seen previously, a few high-value deals heavily skew the distribution of dollars by business model. These high-value deals are predominantly in Transactional business models - including Jumia's $61M rounds in 2013, Jumia and Souq's $150M and $75M rounds respectively in 2014, and Careem's $60M round in 2015. In 2014, Cequens' $53M round boosts Technology investments to a 16% share, while Media boots to 17% of total value of investments in 2015 due to UTURN's $10M round and multiple deals between $2.5M-$3M. In general, it seems that investors' appetite for business models is diversifying slowly, with Transactional share of deals declining and Media and Software deals growing.



VALLEY OF DEATH

FIGURE 11.1: NUMBER OF OPERATING VS. CLOSED FUNDED STARTUPS IN MENA

While more than 480 startups have raised funding in MENA in 2013-2015, one the most recurring questions is how many of these startups are still operational? The funded startups have been marked as operating or closed after checking their digital presence in terms of their app/website updated date, social media activities, funding year and any announcements from their investor or accelerator on whether the startup is still operating or not.

Although it is generally accepted that startups have a very high failure rate, the analysis indicates that only 19% of the startups that received funding in 2013-15 have since closed. This insight is indicative, as some of these startups have just raised their first round, while others have been operating for many years. The low failure rate does raise the question: are startups being encouraged to stay open even if they have not demonstrated significant traction and ability to scale?

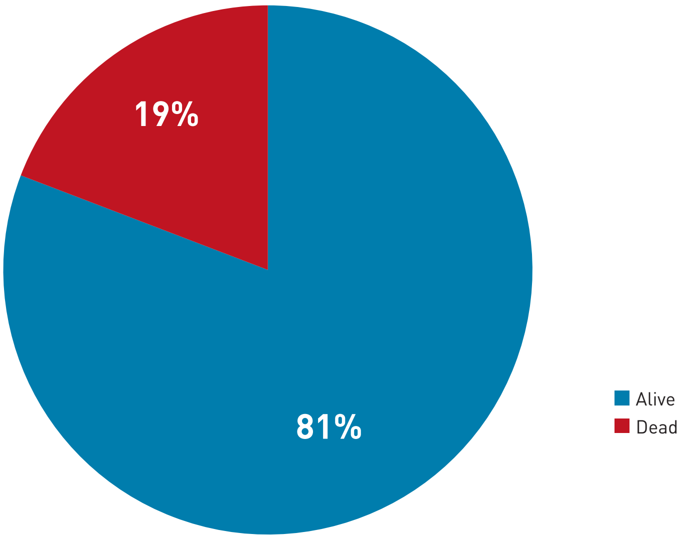


FIGURE 11.2: NUMBER OF CLOSED STARTUPS IN MENA BY GEOGRAPHY

Comparing the failure rate (number of closed startups / number of funded startups) across markets shows a very wide range – from almost 1/10 in Jordan to 1/3 in Bahrain, Tunisia and Egypt. The UAE sits right at the average of all markets – around 20%. One notable finding is that Lebanon stands as an outlier with 0% closed startups out of the 53 funded companies covered in this analysis. This may be due to the Circular 311-driven surge in capital in Lebanon, which means that companies are better funded and have a longer runway.

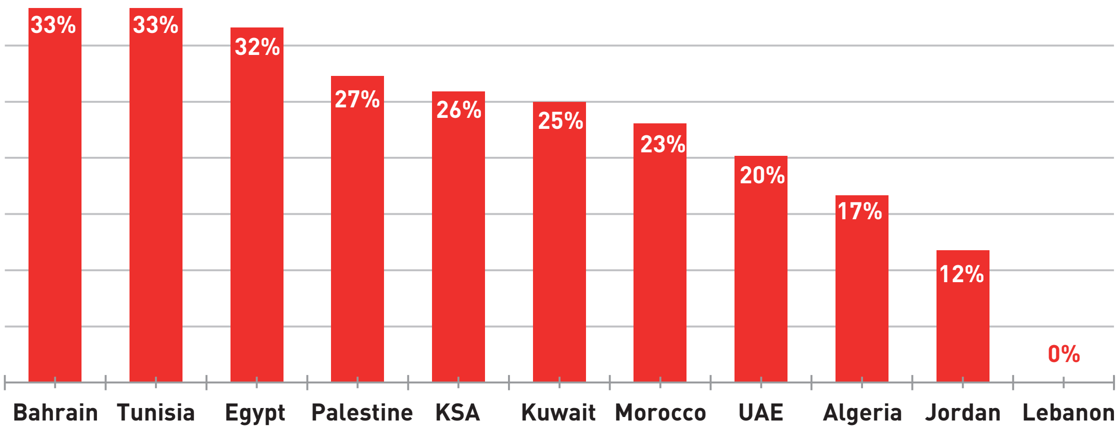
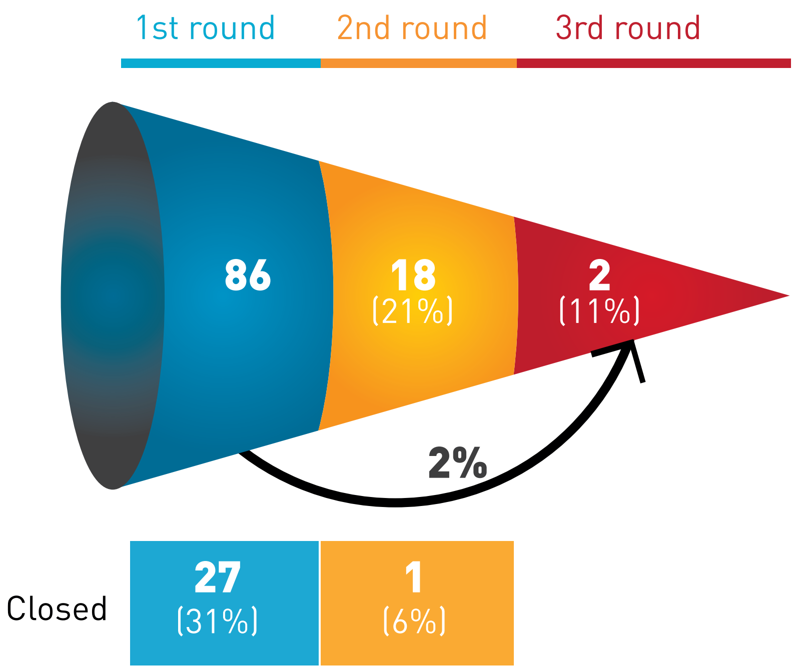


FIGURE 12: STARTUPS FOUNDED IN 2013 ANALYSIS

To better understand the investment journey of startups in MENA, in this chart we focused on startups that were founded in 2013, and followed them through the rest of the investment cycle. Of the 86 companies that raised a round in 2013, about 1/5 raised another round within the 3-year period, and about 1/10 of those raised a third round. In the meanwhile, 31% of the companies closed down after their first round of investment, and about 6% (only 1 company) closed after having raised two rounds of investment within the 3-year period.



FEMALE FOUNDERS IN FUNDED STARTUPS

FIGURE 13.1: GENDER DISTRIBUTION AMONG FOUNDERS

The question of gender diversity in technology startups is a point of debate globally, so ArabNet delved into the statistics to understand the proportion of women in regional investor-backed startups. The analysis indicates that females represent 13% - roughly 1 in 10 - of all founders / co-founders of investor-backed businesses in MENA.

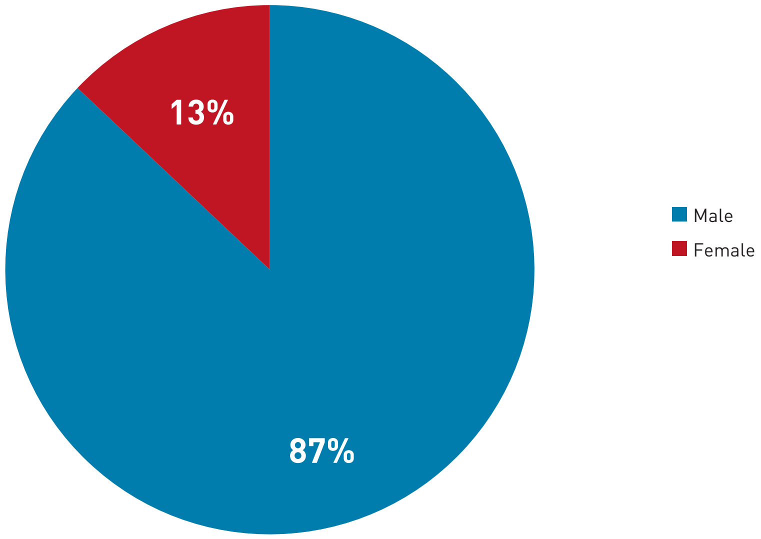


FIGURE 13.2: NUMBER OF FEMALE FOUNDERS BY GEOGRAPHY

Diving into the percentage of female founders in each market to understand the gender dynamics, the data indicates that the Levant has the highest proportion of female founders. On the other end of the spectrum are Egypt and Saudi Arabia, which have the lowest proportion of female founders, this may be due to cultural barriers to entry for females into this field. It is important to note that the shortage of female representation is evident in the limited number of female investors/ partners among the regional investors as well.

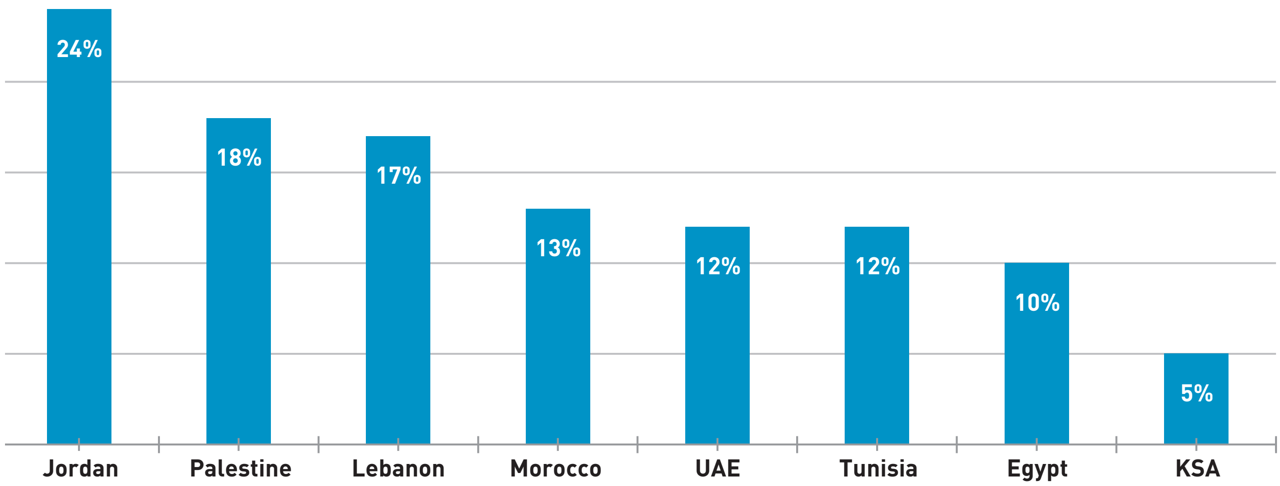
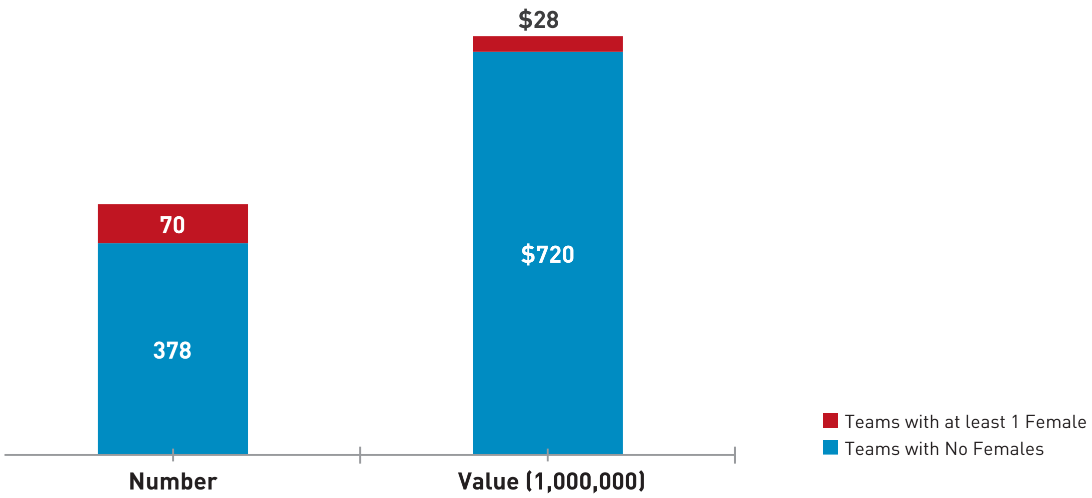


FIGURE 13.3: NUMBER AND VALUE OF INVESTMENTS BY TEAMS WITH AT LEAST 1 FEMALE FOUNDER VS. TEAMS WITH NO FEMALE FOUNDERS

More broadly, comparing the investments in companies with at least one female founder versus deals with no female founders, all-male teams dominate the large majority of investments. Teams with at least one female capture 19% of all funding rounds, which is higher than the percentage of female founders more broadly (13% - see Figure 13.1). However, these teams capture a very small percentage of total dollars invested – just 4% – indicating that most female founders must be in early-stage businesses, and few of the businesses raising big tickets today have females among their co-founders.

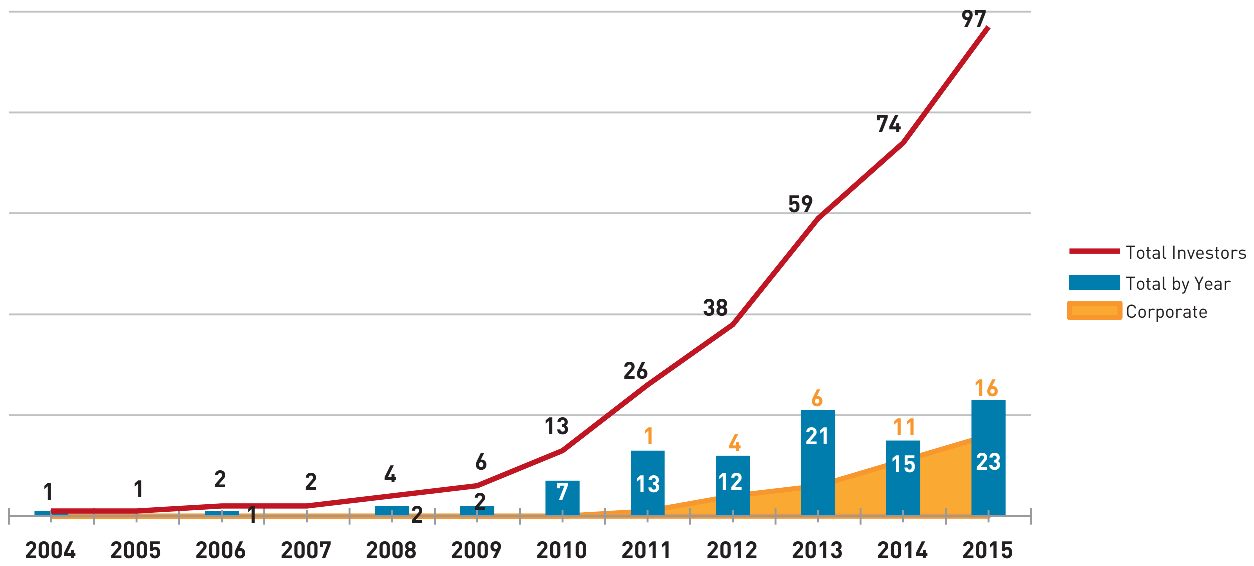


CORPORATE INVESTORS IN MENA

FIGURE 14.1: NUMBER OF CORPORATE INVESTORS BY YEAR

Corporate investors are the latest to enter the MENA investment scene, and this trend started picking up in 2012. Since then, companies across sectors – from telecom to retail to pharmaceuticals – have launched investment initiatives / activities, whether standalone funds or opportunistic investments. The number of corporate investors is increasing in line with the growth of the investor community, and today corporates represent 16% of the surveyed investors.

It's important to note that Corporates are active LPs for regional investment institutes, like iMENA Holding (Etisalat), Turn8 Accelerator (Dubai Ports), Middle East Venture Partners (Zain Telecom).



Corporate Investors

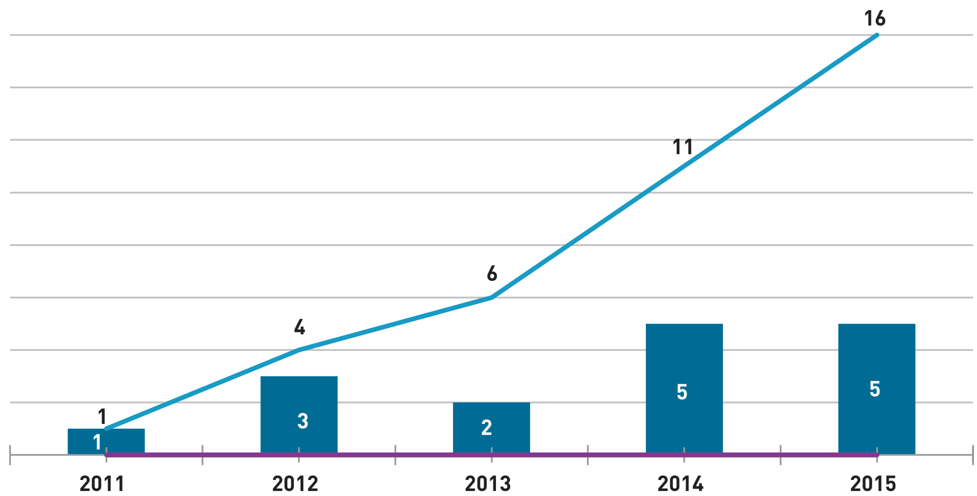


FIGURE 14.2: NUMBER OF CORPORATE INVESTORS BY GEOGRAPHY

More than half (56%) of the region's corporate investors are GCC-based companies, with UAE being on top of the list (31%) followed by Saudi Arabia (25%). Some of the first corporate VCs launched in the region were based out of Saudi Arabia (Aramco Wa'ed in 2011, STC Ventures /Iris Capital in 2012) – but Dubai quickly outpaced Saudi Arabia in terms of new active corporate investors coming onboard. While, corporate investors in Saudi Arabia have bigger portfolios, those in Dubai are more opportunistic. In some markets where the investor landscape is not as mature, corporate investment plays a more critical role in the ecosystem: for example, Ooreedo tStart and Benamor group in Algeria represent 50% of the active investors in that market.

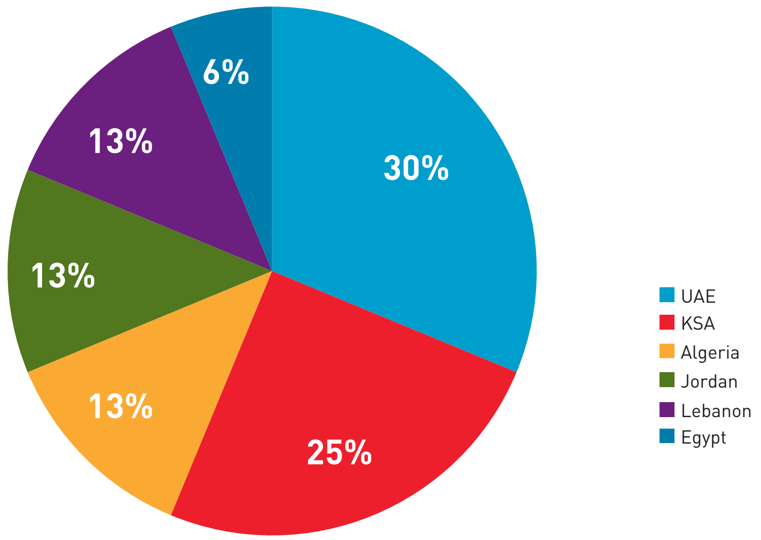
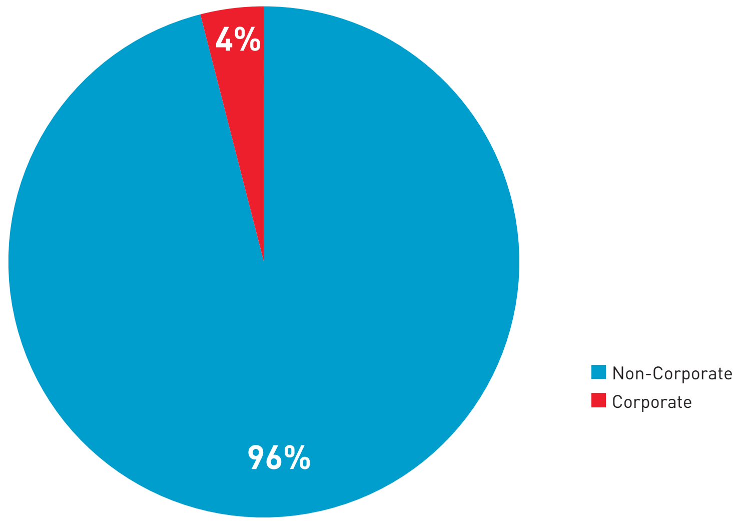


FIGURE 14.3: NUMBER OF CORPORATE INVESTMENTS VS. NON-CORPORATE INVESTMENTS

While corporate investors represent 16% of the total investment community regionally, they are far less active (more opportunistic) than the institutional investors / VCs. Combined, corporate investors participated in 18 deals in the past 3 years, representing only 4% of the number of investments. However, as this is a new space and these corporate investors are just becoming active, this number is expected to increase in the coming years.



CONCLUSIONS

Digital startups in the MENA region have attracted the attention of regional and global investors, who are multiplying in number and growing their funds under management. This research report provides an overview of equity-based investment in the digital landscape in the Middle East and North Africa (MENA) region for the past three years.

Its key findings are:

INVESTORS IN MENA

- The MENA region is home to more than 95 investors and accelerators. The number of investors increased ten-fold since 2010.
- The investor community is heavily concentrated in the top 5 markets - UAE, Saudi Arabia, Lebanon, Egypt and Jordan – which are home to more than 70% of funding institutions.
- 51% of the investor community in the MENA region are early stage investors (Angel Networks, Seed Funds and Accelerators).
- The fastest growing category of investors over the past three years is VC, doubling from 15% to 30% of total investors in that period. At the same time, the proportion of early-stage investors dropped from 75% to 57%.

INVESTMENTS IN MENA

- More than $750M were invested in 480 deals in MENA between 2013-2015.
- 2014 was the biggest year for investments both in terms of number (182) and value ($372M); 2015 was close in number of deals (172) but significantly less in total investment ($222M).
- On a quarterly basis, Q4 tends to see the most activity; in fact, Q4 2015 saw more deals than any other quarter in the past 3 years, potentially indicating that 2016 will be a big year for tech investment.
- The UAE is the regional leader both in terms of number and value of investments, with more than double the transactions of the next biggest market. The UAE also captured 2/3 of total dollars invested in 2015, due to the fact that many of the growth-stage businesses in MENA are based in Dubai.
- Lebanon has risen rapidly in the ranks to 2nd place in both number and value of investments, partly driven by the Central Bank's Circular 331 guaranteeing $400M of startup investments.
- Egypt experienced the largest drop over the three-year period, down by 76% in number of deals and 93% in value of deals.
- Saudi Arabia maintains its position in the top five markets, but has not been growing as fast as other markets and is therefore decreasing in share of deals and total dollars invested.
- The large majority (70-80%) of deals done in the past three years have been early stage deals (<$500K).
- The largest publicly announced investments in the past three years are: Jumia's $60M round (2013); Jumia's $150M round (2014); Souq.com's $75M round (2014); Cequens' $53M round (2014); Careem's $60M round (2015).
- Transactional, Media (Advertising) and Software business models capture 80% of all deals.
- While the number of deals is distributed somewhat evenly across business models, transactional business models capture the lion's share (more than 70%) of all dollars invested in the past 3 years.
- The average value/deal of the startup business models is highest for Transactional ($3.3M) and Technology ($1.2M) deals; meanwhile, Media ($0.5M), Software ($0.67M) and Agency ($0.3M) average deal sizes tend to be much smaller. These numbers are only indicative, as most of the investment dollars are going into few mega-deals.
- Of all startups covered by this research, 81% are still operating to this date and 19% have closed.
- Failure rates are lowest in Jordan and Lebanon, and highest in Bahrain, Tunisia and Egypt. Lebanon stands as an outlier with 0% failed startups out of the 53 funded companies included in this analysis.
- Looking more specifically at the investment life-cycle of startups launched in 2013, (86 startups), 21% of raised a second round of funding, and of those only (11%) raised a third round of funding.
- 31% of the startups founded in 2013 closed after their first round and 6% post their second round.

GENDER DISTRIBUTION

- Females represent roughly 1 in 10 (13%) of all founders / co-founders of investor-backed businesses in MENA.
- The Levant has the highest percentage of female founders (as a proportion of total founders) – ranging between 17-24%; on the other hand, Egypt and Saudi Arabia have the lowest proportion of female founders, ranging between 5-10%.

CORPORATE INVESTORS

- The growth in corporate investment kicked off in 2012, and corporate investors today represent 16% of the investor community
- The majority (56%) of the region's corporate investors are based in the UAE (31%) or Saudi Arabia (25%).
- Saudi Arabia's corporate investors hold the biggest number of investments in their portfolio; UAE corporate investors tend to be more opportunistic.
- While corporate investors make up 16% of all investors, they only participated in 18 deals – or 4% of total deals – indicating that corporate investors are more opportunistic / less active than institutional investors.

APPENDIX

DEFINITIONS

- TRANSACTIONAL: A business that requires a transaction - the transfer of goods or cash, such as eCommerce, Marketplace or Payment.

- MEDIA: A business that generates its revenues primarily from the content creation and advertising in all forms

- SOFTWARE / SAAS: SOFTWARE AS A SERVICE: A business that develops software that is accessed on a subscription basis and hosted via the internet (web or mobile application).

- TECHNOLOGY: A business that develops and manufactures hardware, Internet of Things (IoT) or 3D Printing. This also includes algorithmic software / tools (e.g. big data / machine learning, SDKs for app developers, etc).

- AGENCY: A business that generates its revenue primarily from services / work tailored for the clients they represent.

- ANGEL NETWORK: A group or syndicate of private individuals that invest their own money/capital mostly in an early stage business in exchange for equity or return on investment.

- ACCELERATOR: A structured program for businesses, usually over a 3-month period, that provides mentorship (product development), office space and seed funding between $20K-$50K in exchange for an equity stake.

- SEED FUND: A fund that invests $1-$500K in very early stage businesses in exchange for an equity stake.

- VENTURE CAPITAL FUND: A fund that invests $500K-$7M to companies with a product-market fit to facilitate their growth in exchange for an equity stake.

- GROWTH CAPITAL FUND: A fund that generally invests $7M+ in relatively mature businesses that are looking to expand or enter new markets.

- CORPORATE INVESTOR: A corporation that is investing in startups – either through a dedicated fund / initiative or opportunistically - in exchange for an equity stake, and often with a strategic interest in leveraging the investment to grow / improve the corporation's core business.

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