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BUSINESS INTELLIGENCE

THE STATE OF DIGITAL INVESTMENTS IN MENA

2013-2016

In Partnership with

مؤسسة محمد بن راشد
لتنمية المشاريع الصغيرة والمتوسطة
DUBAI SME

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DUBAI SME

FOREWORD

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ArabNet, in collaboration with The Mohammed Bin Rashid Establishment for SME Development (Dubai SME), is excited to share with you the second edition of the "State of Digital Investments in MENA", a comprehensive analysis of investors and investments in technology startups in the MENA.

Digital entrepreneurship and innovation remain focal points for government leaders across the region as they develop their economic strategies, and we have seen the launch of many new initiatives to support this in the past year: the establishment of the SME Authority in Saudi Arabia, the launch of the Dubai Future Accelerators in the UAE, and the announcement of $300 million in government-backed funds in Oman (OTF and IDO) to name a few. In total, billions of dollars are being earmarked for programs to stimulate startup growth and investment. The ambition of this report is to help investors and policymakers' measure and identify the strengths and gaps in their ecosystems and monitor the impact of their policies and programs.

MENA witnessed a record year in technology startup funding in 2016: more than 30 new investment institutions launched, and more than $900 million were invested in 2016 alone, more than the value of all investments between 2013-2015 combined (approximately $750 million)! The UAE remains the region's tech startup hub, capturing the largest number of deals and almost all of the growth capital - a whopping 90% of total dollars invested. E-commerce still dominates the investment landscape, especially for growth-stage deals, but new areas of significant interest are emerging, including healthtech, fintech, and IoT / smart devices.

The second edition of this Investment Report covers more than 150 funding institutions and 760 transactions that took place between 2013 and 2016, and actively analyzes year-on-year trends – from the distribution of investors by geography to the percentage of founders who are female. With each consecutive report, we are also updating both historical and current data, making the analysis more robust and the findings more comprehensive. 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 investor activity, giving us all a much better picture of the industry as a whole than we had before.

This report is designed for you – government leaders, investors, entrepreneurs, and ecosystem stakeholders – so we welcome your feedback or ideas about types of analyses that you would like to see! We also encourage you to share your investment data with us if you haven't already, so that we can continue to improve and update the report, and deliver the aggregate data and insights that are needed by all of us.

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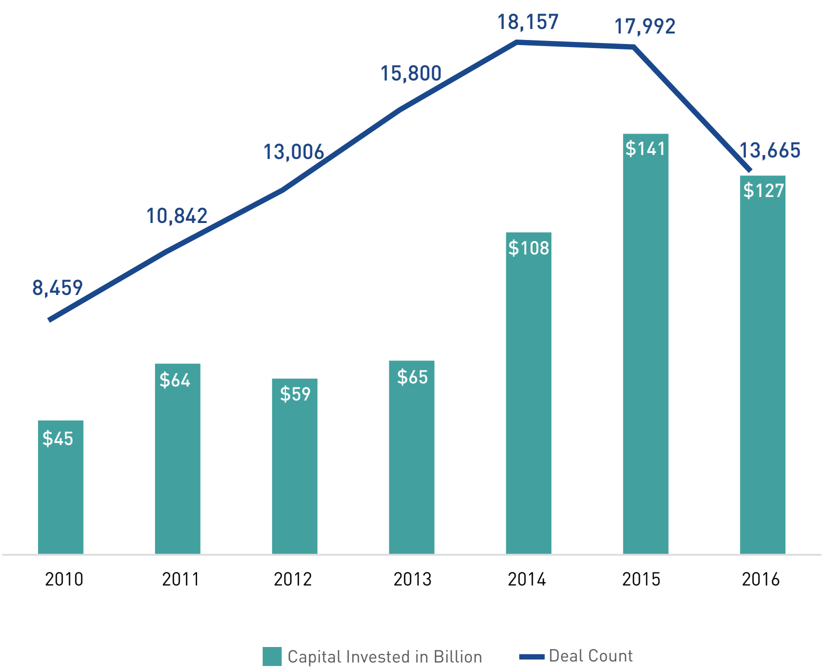
INTRODUCTION

BACKGROUND INFO: GLOBAL INVESTMENTS IN STARTUPS

GLOBAL VENTURE FINANCING TRENDS

The year 2016 saw a substantial total venture capital investment of $127.4 billion globally, while worldwide venture capital activity declined by 24%, closing in on with just 13,665 deals - suggesting some very large deals. While the value of investments appears relatively good in comparison to previous years - amounting to nearly double the total global VC investment seen in 2013 and only a 10% decrease in value of investments year-on-year, the major decline in the number of deals indicates a more complicated year for venture capital investment. The outlook for 2017 remains positive, however, with the announcement of new and expanded funds, including a $1.5 billion VR fund from HTC and a new AI-focused effort at Microsoft.

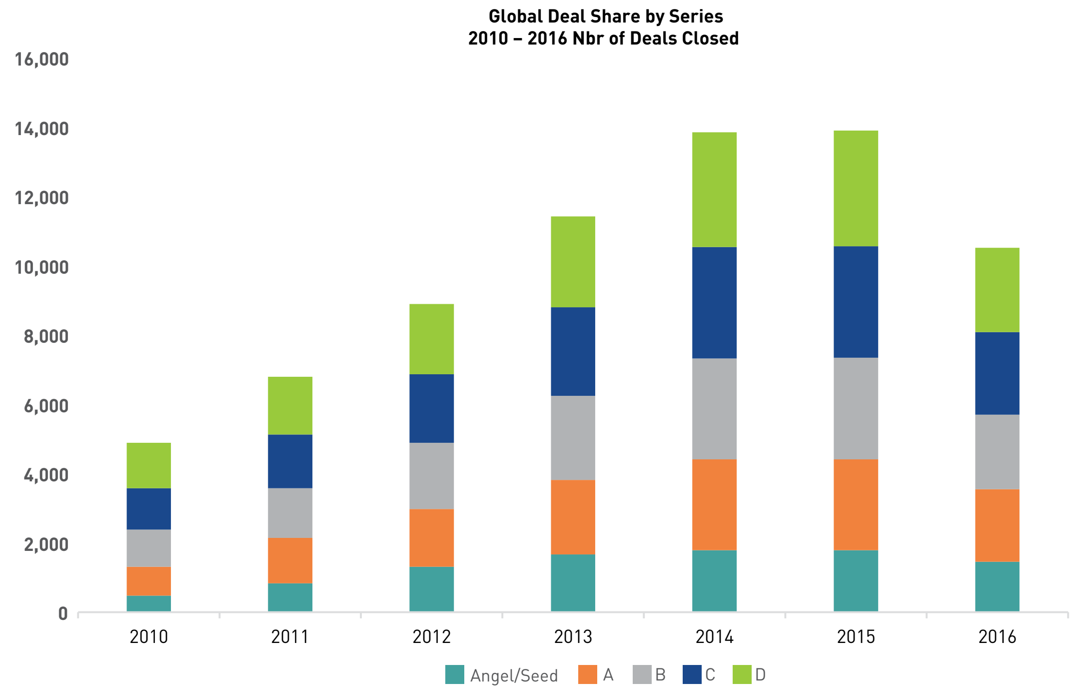
Global Venture Financing by Year



Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise - Jan 12, 2017 report.

GLOBAL DEAL SHARE BY TICKET SIZE

Rising caution among investors, alongside broader macroeconomic conditions, has seen a decline across all series in 2016 and specifically angel and seed-stage investments. Funding seems to have slowed as investors re-evaluate their portfolios and focus investments on the best bets. Furthermore, there was a significant increase in venture capital investment attracted by software companies, a testament to the prevalence of software into multiple industries while digital giants such as Uber sweep billions of dollars as they disrupt traditional sectors.



Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise - Jan 12, 2017 report.

THE STUDY: SCOPE AND METHODOLOGY

This research report investigates the technology investment landscape in the Middle East and North Africa (MENA) region. The first chapter examines the investor community overall and in specific by market, year, and ticket size. The second chapter examines MENA investments by market, number of deals, ticket size, and business model. The third chapter examines the lifecycle of startups. The fourth chapter is dedicated to gender distribution among founders. Finally, the last chapter analyzes investments made by corporate venture funds by year and across markets. The aim of the report is to provide a holistic perspective on the startup ecosystem in the region by identifying trends and market challenges.

The report findings are based on data collected from 75 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 available data such as those listed on Crunchbase, CB Insights, AngelList, and Eureeca among others. The report also collected new data from startups through surveys. ArabNet is grateful for the the participation of all investors, as well as the input of Abjjad, Eat, Elbotola, Brndstr, Modeo Systems, Instabeat, Moteur.Ma, Mytriphoto, Eventtus, Slighter, Onlivery, Tasameem, and Miniexchange in our survey. Finally, the report analyzes a total of 768 regional investments.

Due to the private and proprietary nature of some investments, it is likely that there are 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. ArabNet would like to thank a few non-equity investors that contributed to the report, however their data is not included in the analysis, such as International Finance Corporation (IFC), TIEC, Bahrain Business Incubator Center, and AUC Venture Lab. ArabNet hopes to include analysis on grants / non-equity based investments in future editions.

Personal thank you's go out to Noureddine Tayebi, CEO and Founder, InSence (Algeria), Nader Ibrahim, Partner – Financial Valuation, RSM – Financial Advisory & Valuation (Egypt), and Amad Almsaodi, CEO, Aqarmap (Yemen) for providing feedback on the their respective markets. Also, Fawzi Rahal, Managing Director, Flat6Labs Beirut who contributed to categorizing and identifying the tertiary business models.

LIST OF THE MENA INVESTORS INCLUDED IN THE STUDY

1. **1864 Accelerator**
2. **500 Startups - 500 Falcons Fund**
3. 9/10ths Startup Accelerator
4. AccelerAsia Middle East
5. Accelero Capital
6. **Afkar.me**
7. Al Ahli Holding Group
8. Al Khabeer Capital
9. Al Sanie Group
10. Al Tamimi Investments
11. Al Tayyar Group
12. Alabbar Enterprises
13. Alexandria Angels
14. Algebra Ventures
15. Almawarid Bank
16. Almawarid Bank
17. Arab Angel Fund
18. **Arabreneur's Investment Fund | MENA Apps**
19. **Aramco - Waed**
20. Aramex
21. **Arzan Venture Capital**
22. **B&Y Venture Partners**
23. Bank al Etihad
24. Base Ventures
25. **BECO Capital**
26. Beirut Angels
27. **Berytech**
    -Berytech Agrytech
28. **Berytech**
    Berytech Fund I
    Berytech Fund II
29. BLC Invest
30. Boost.tn
31. Boson Venture
32. Brilliant Labs
33. **C5 Accelerate**
34. **Cairo Angels**
35. **Capitalease Seed Fund / UGFS**
36. **Carthage Business Angels(CBA)**
37. Casbah Business Angels
38. **Cedar Mundi Capital**
39. Choueiri Group
40. **Crescent Enterprises**
41. Daher Capital
42. **DASH Ventures**
43. Delta Partners Capital
44. DHx (Dubai Holding)
45. Digital Spring Ventures
46. du
47. **Dubai Angel Network**
48. **Dubai Silicon Oasis Authority (DSOA)**
    -Dubai Technology Entrepreneurship Centre (DTEC)
49. Dunamis Ventures
50. Eiréné 4 Impact
51. Emerge Ventures (Paul Kenny)
52. **Endure Capital**
53. **EquiTrust**

54. **FasterCapital**
55. **FastForward**
56. **Flat6Labs Abu Dhabi**
57. Flat6Labs Beirut
58. **Flat6Labs Cairo**
59. **Flat6Labs Jeddah**
60. Fransabank
61. Glowfish Capital
62. Gulf Capital
63. Hatcher
64. **Hikma Ventures**
65. **Ibtikar Fund**
66. Idein Ventures
67. **Iliad Partners**
68. **IM Capital**
69. **iMENA Group**
70. **Impulse Kuwait**
71. InspireU
72. **IntilaQ For Growth Fund**
73. InvOrOut
74. **Jabbar Internet Group**
75. JISR Venture Partners
76. Jo Angels
77. **JuiceLabs**
78. **Kafalat iSME Program**
79. Kamelizer
80. **KAUST Innovation Fund (KIF)**
81. **KI Angels**
82. **Leap Ventures**
83. Lebanon Seed fund
84. MAF Ventures
85. Makkah accelerator
86. Malaz Capital
87. **Maroc Numeric Fund (MNF)**
    - MNF Angels
    - MITC Capital
88. MBC Ventures
89. **Middle East Venture Partners (MEVP)**
90. Miqlaa Ventures
91. Misk Booster Fund
92. Mobily Ventures
93. Mubadala - The Ventures Group
94. Namaa Ventures
95. NUMA Accelerator
96. **Numu Capital**
97. **Oasis500**
98. Oman Investment Fund | Ibtikar Development Oman Fund (IDO)
99. **Oman Technology Fund**
    - Ideation Fund
    - Accelerator Fund (Wadi Accelerator) - VC Fund
100. Ooredoo (tStart)
101. **OQAL Angel Investors Network**
102. Outlierz
103. PallnnO
104. Payfort
105. **Phoenician Fund**
106. **Precinct Partners**
107. **Qatar Business Incubation Center (QBIC)**
108. Qatar Science & Technology Park (QSTP) Accelerator
109. **Qotuf AlRiyadah**
110. **Ra'ed Ventures**
111. **Riyad Taqnia Fund**
112. Sada Partners
113. **Sadara Ventures**
114. Samena Capital
115. **Saned Equity Partners**
116. **Sawari Ventures**
117. SeedStartup Venture Fund
118. SEQ Capital Partners
119. **Silicon Badia | Badia Impact Fund**
120. Siraj Palestine Fund
121. SIRB Angel Investors Network
122. **Sirdab Labs**
123. Société Générale de Banque au Liban (SGBL)
124. Souq.com
125. Speed@BDD
126. **START'ACT**
127. **Startup Factory Seed Fund**
128. **STC Ventures (Iris Capital)**
129. STVentures
130. Synthesis Venture Fund Partners
131. **Tamkeen Capital**
132. Taqadam
133. **The Abraaj Group**
134. **The Bahrain Business Angels Holding Company - Tenmou**
135. The Venture Chivas
136. **TURN8 Innovation Fund**
137. **twofour54**
138. UGFS (United Gulf Financial Services-North Africa)
139. University Venture Fund (UVF)
140. Upgrade
141. Valour Ventures
142. **VentureSouq**
143. Verso
144. Vodafone Ventures Egypt
145. **Wadi Makkah**
146. **Wamda Capital (MENA Ventures)**
147. **WIKI START UP (WSU)**
148. **Womena**
149. **Y Venture Partners**
150. Y+ Ventures
151. Yemen Angel Group

INVESTORS IN MENA

FIGURE 1: NUMBER OF INVESTORS BY YEAR

The number of tech investors in MENA has been growing exponentially, with the ecosystem adding (on average) around 10 new funds per year between 2009-2012, accelerating to about 20 new funds per year in 2013-2014, and then jumping to about 30 new funds per year in the past two years (2015-2016). Of the 30 funding institutions founded in 2016, 40% of these funds are based out of the UAE; meanwhile, 6 funds have closed down in the period covered by the research.

The figure also highlights the additional historical data that was collected this year, with the report covering approximately 15% more funds than last year's report. The graph shows the difference in trend lines between last year's historical data and this year's, demonstrating the increased robustness of the data.

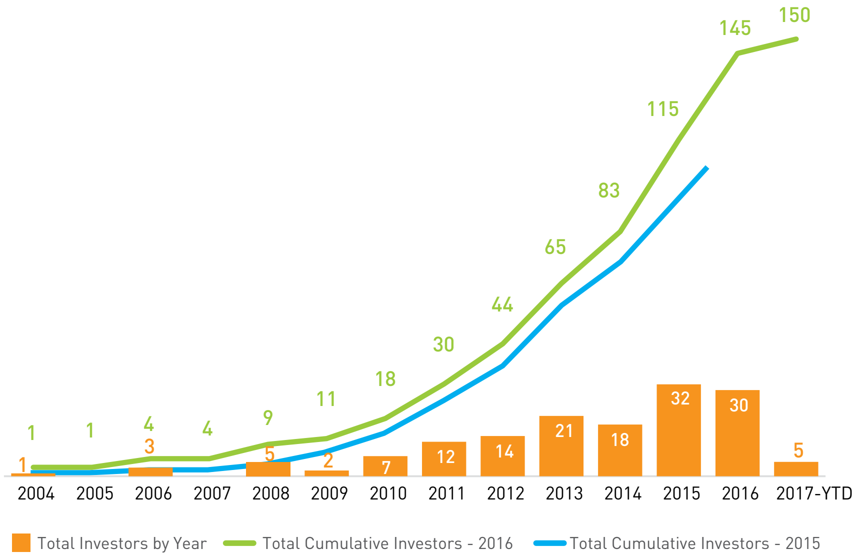
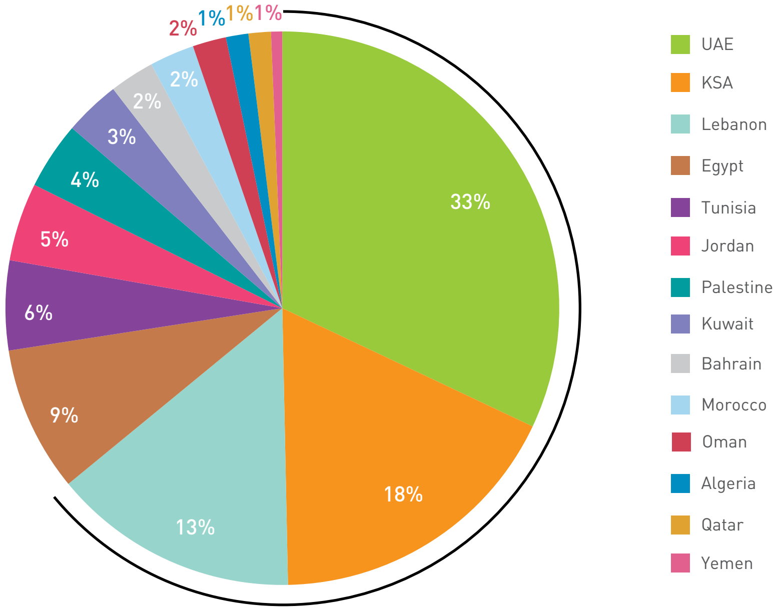


FIGURE 2.1: PERCENT NUMBER OF INVESTORS BY GEOGRAPHY

The investor community continues to be heavily concentrated in a few countries, with the rest of the investors being scattered, a few each, across other markets. The UAE is home to about one third of all investors; Saudi Arabia and Lebanon combined account for another third; and all other countries together make up the remaining third of the investor pie. Lebanon has an exceptionally high number of funds for such a small country, driven by Circular 331 of the Central Bank of Lebanon; meanwhile, Egypt, one of the region's largest markets, has a relatively low number of funds for such a populous country with so many startups.

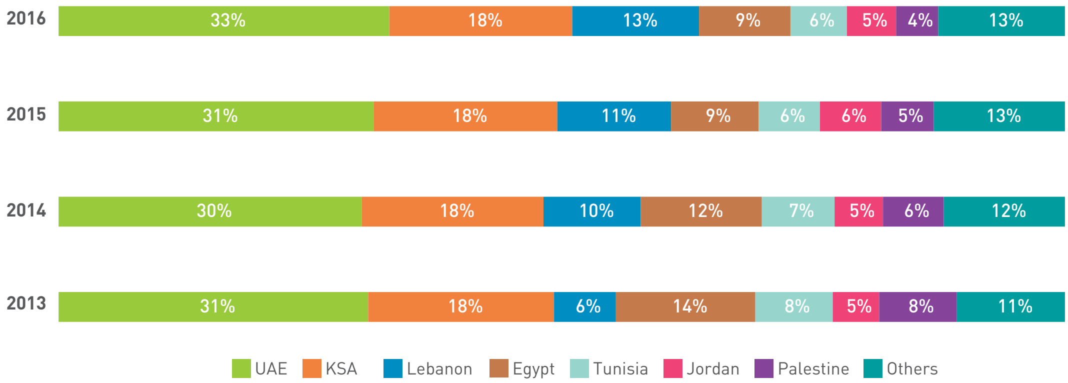
Investors by Geography in %



Cumulative years: 2004 to 2016.

FIGURE 2.2: PERCENT NUMBER OF CUMULATIVE INVESTORS BY GEOGRAPHY BY YEAR

The UAE continues to build a robust investor community, capturing a slightly increasing share of the overall investor market. Lebanon has also attracted a rapidly growing proportion of the investor community – with the share of the top three markets (UAE, KSA, Lebanon) growing from 55% to 64% of investors from 2013 to 2016. As countries in the region compete to be the premier destination for tech entrepreneurs, these three markets are flush with cash. Meanwhile, investment is getting more difficult to find in Palestine and Egypt. However, Cairo has witnessed the launch of several new funds, which are breathing new capital into the market, and has led to a slight uptick in 2016.



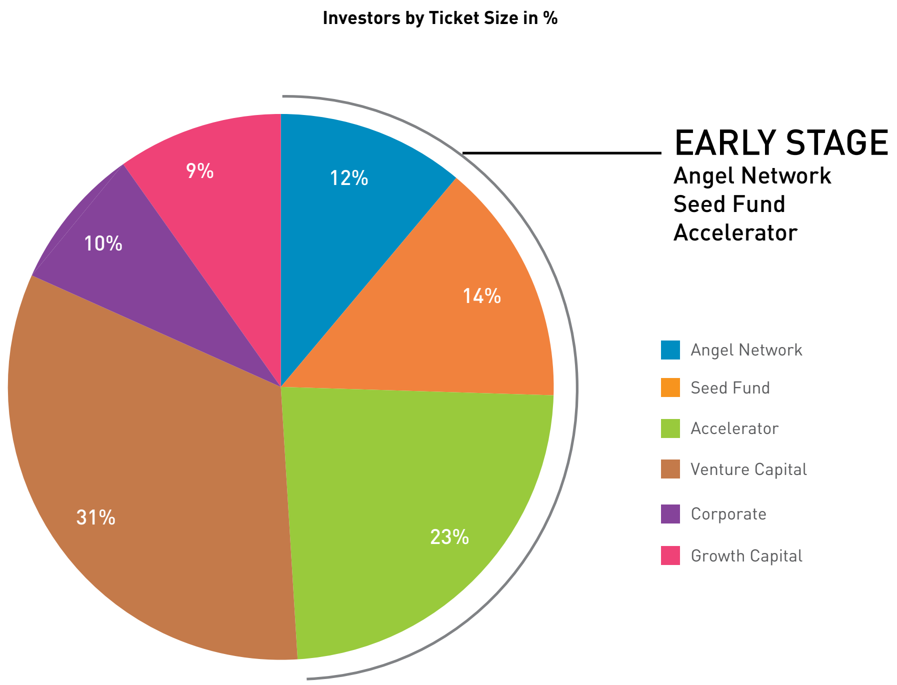
Others: Kuwait, Bahrain, Morocco, Oman, Algeria, Qatar, and Yemen.

INVESTORS IN MENA BY TICKET SIZE

FIGURE 3.1: PERCENT NUMBER OF INVESTORS BY TICKET SIZE

Approximately half of the investor community are early stage investors: accelerators make up a quarter, and seed funds and angel networks split the other quarter roughly equally. At the same time, venture capital funds represent the single largest group of investors, and account for one third (31%) of the community.

This year ArabNet is analyzing the corporate investors (10% of overall investor community) as a separate entity because corporate investors tend to invest across various stages and ticket sizes, depending on their innovation strategy and business objectives. For this report, they have been placed between venture capital and growth investors as they mostly tend to invest in the later stages / more developed products or businesses. The corporate investment space is attracting significant attention (globally and regionally), and is expected to continue to grow.



Cumulative years: 2004 to 2016.

FIGURE 3.2: PERCENT NUMBER OF INVESTORS BY TICKET SIZE BY CUMULATIVE YEAR

The fastest growing segments of the investor community over the past 4 years have been corporate investors and venture capital funds. The share of corporate investors in particular has increased by 30% in the past year alone. Meanwhile, early stage investors have decreased as a share of total investors – dropping from 55% to 49% of the total investor pool in the same time period. At the same time, 2016 saw a slight drop in the share of growth funds. There is a clear opportunity in this space - 2016 saw more than half a billion dollars in growth capital investments, mostly coming from investors outside MENA (with the notable exception of STC).

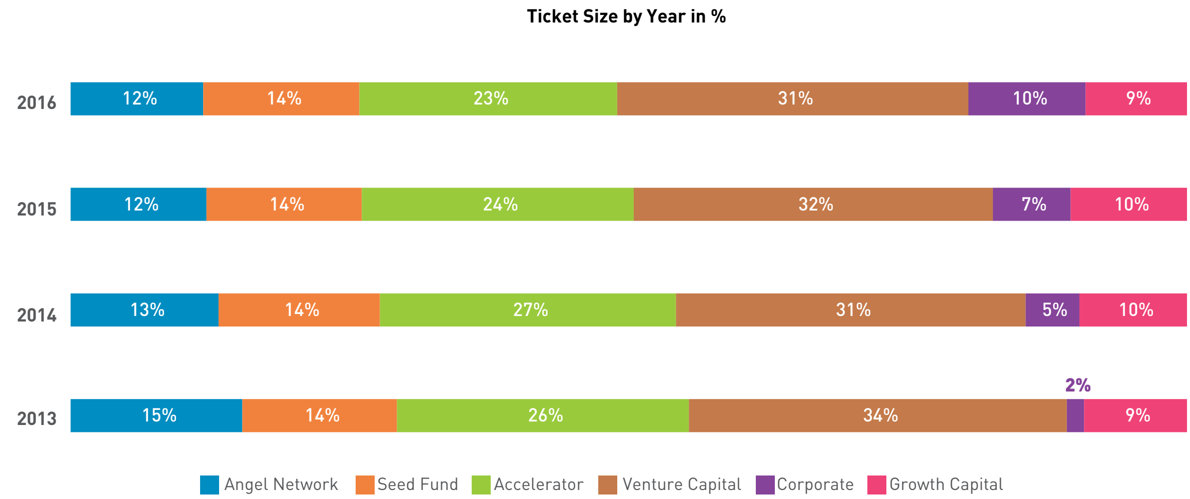


FIGURE 4.1: NUMBER OF INVESTORS BY TICKET SIZE

The most widespread type of investor across geographies is accelerators, which exist in 13 of the Arab markets. Seed funds are the next most prevalent, with notable gaps in Morocco, Kuwait and Qatar, which also lack formal angel networks – a clear market opportunity, especially with the investments that the Kuwaiti and Qatari governments are making into building their startup ecosystems. On the other side of the spectrum, growth capital funds and corporate investors are concentrated in only a few markets. The gap evident here is the lack of corporate and growth stage investors in Egypt – despite the fact that the market has seen great success stories like SySDSoft and Fawry.

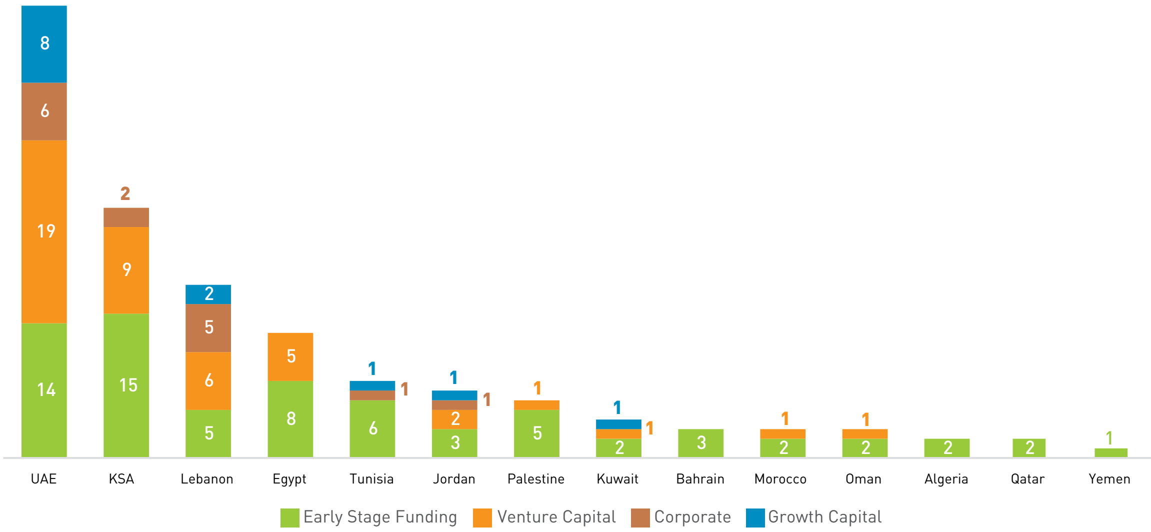
	UAE	KSA	LEB	EGY	TUN	JOR	PSE	KWT	BHR	MAR	OMN	DZA	QAT	YEM	Count
Angel Network	4	2	2	3	2	1			1			1		1	9
Seed Fund	4	4	2	2	2	1	3		1		1				9
Accelerator	6	9	1	3	2	1	2	2	1	2	1	1	2		13
Venture Capital	19	9	6	5		2	1	1		1	1				9
Corporate	6	2	5		1	1									5
Growth Capital	8		2		1	1		1							5

Legend	UAE	KSA	LEB	EGY	TUN	JOR	PSE	KWT	BHR	MAR	OMN	DZA	QAT	YEM
	UAE	Saudi	Lebanon	Egypt	Tunisia	Jordan	Palestine	Kuwait	Bahrain	Morocco	Oman	Algeria	Qatar	Yemen

Cumulative years: 2004 to 2016.

FIGURE 4.2: NUMBER OF INVESTORS BY TICKET SIZE BY GEOGRAPHY

The distribution of investors by ticket size across markets mirrors the level of maturity of the investor community in each country. More mature investor markets display a higher proportion of venture capital, growth capital, and corporate investors, while the less mature markets have fewer investors overall and they are mostly concentrated in the early stage.



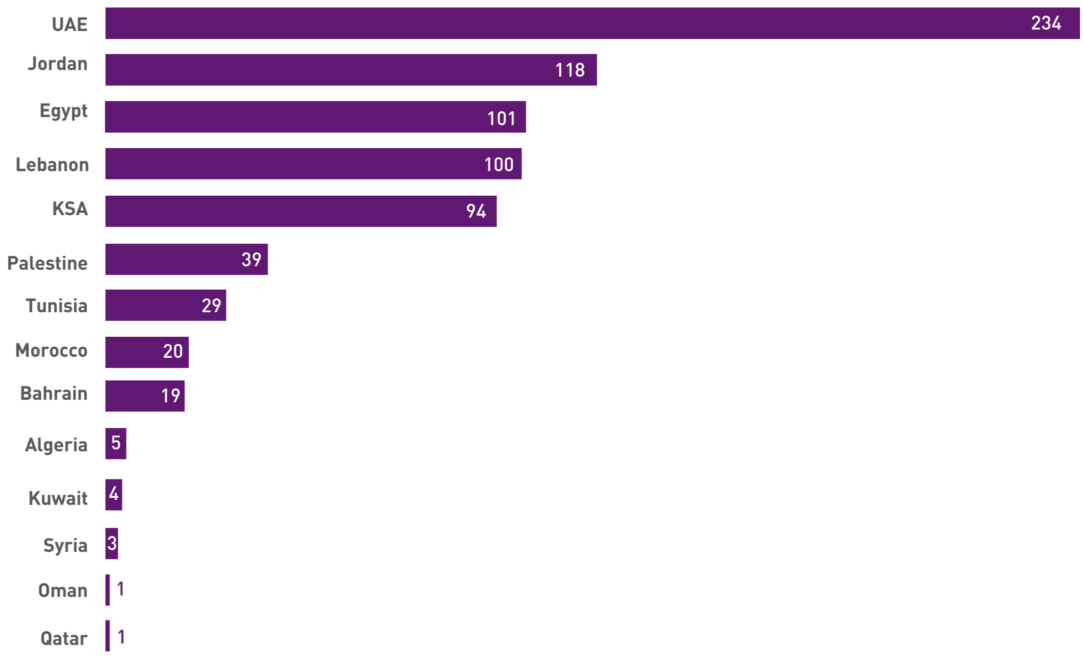
Cumulative years: 2004 to 2016.

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 per country over the past four years, the UAE (234) is far ahead of the pack, approximately double the next set of countries. The next set of countries is Jordan, Egypt, Lebanon, and Saudi Arabia, all hovering between 100 to 120 deals, roughly half the number of the UAE. Palestine, Tunisia, Morocco and Bahrain come next, ranging from 20-40 deals each, about a third of the previous set of countries.



Cumulative years: 2013, 2014, 2015, and 2016.

INVESTMENTS IN MENA BY YEAR

FIGURE 6.1: NUMBER AND VALUE OF INVESTMENTS BY YEAR

The total number of investments per year in MENA has remained level since 2014, hovering between 200 and 220 deals each year. This is surprising given that the number of investors has increased by 75% during that same time period (See Figure 1). At the same time, the total dollars invested witnesses a 70% jump in value. This increase is mostly explained by two mega-rounds, raised by Careem and Souq.com: Careem raised $350 million, while Souq.com raised $275 million.

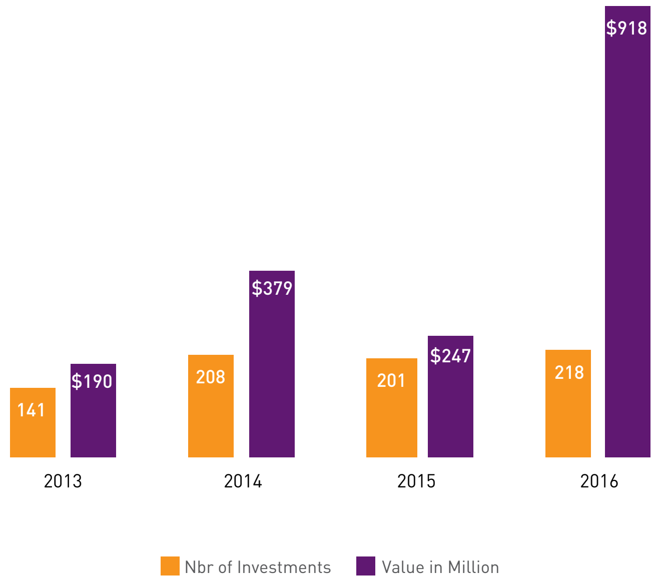


FIGURE 6.2: NUMBER OF INVESTMENTS BY QUARTER

Looking at the number of deals by quarter, there seems to be a slight pattern that emerges - an uptick of deals in Q4 at the end of the year.

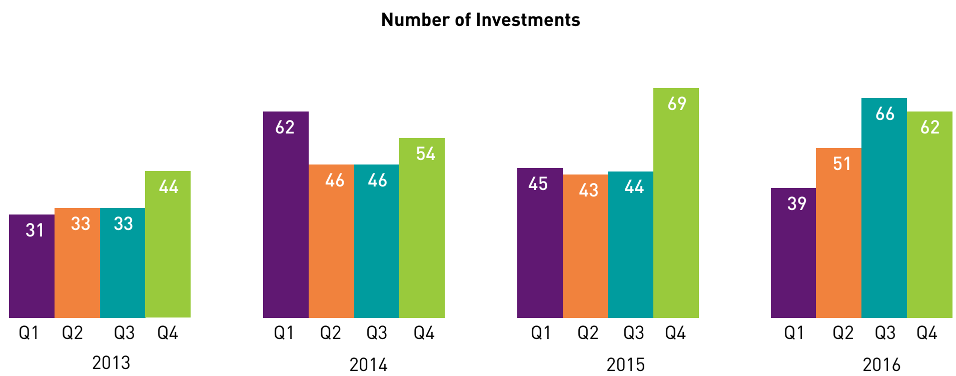
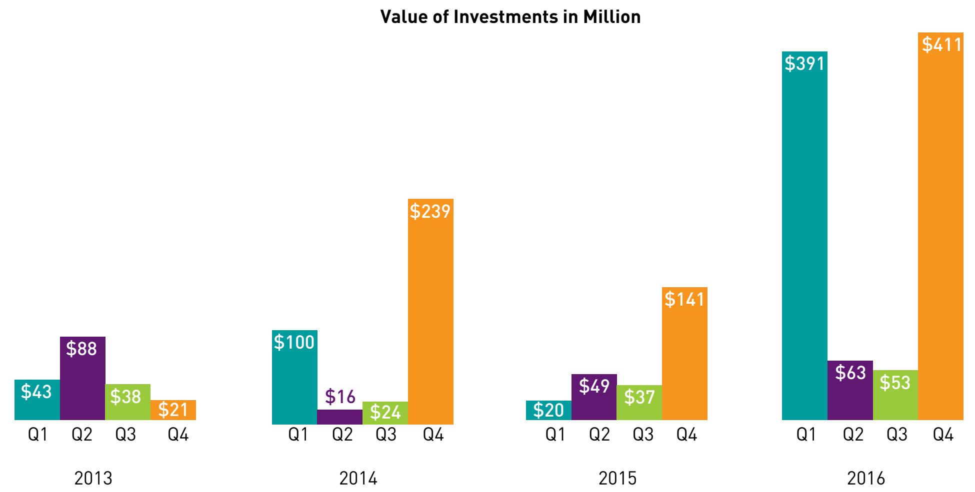


FIGURE 6.3: VALUE OF INVESTMENTS BY QUARTER

The value of investments by quarter is skewed by the disproportionate size of Souq.com ($275 million) and Careem ($350 million) deals, taking place in the first and fourth quarter respectively. More broadly, the graph indicates that growth capital rounds are still scarce in MENA, and so they tend to skew any quarter in which they occur.



INVESTMENTS IN MENA BY GEOGRAPHY

FIGURE 7.1: MARKETS RANKED BY NUMBER OF INVESTMENTS

Over the past four years, the UAE has consistently outranked all other MENA countries in number of investment. At the same time, Lebanon has risen steadily in the ranks, driven by the Central Bank of Lebanon's Circular 331, which opened up hundreds of millions in funding for startups. The launch of a number of new funds in Egypt helped it jump back to 4th position – still low relative to Egypt's scale and economic importance. Jordan, on the hand, has stagnated somewhat, with few new initiatives or funds launched, and consequently dropped to 5th place

	Number of Deals				Ranking			
	2013	2014	2015	2016	2013	2014	2015	2016
UAE	33	57	66	78	1	1 ---	1 ---	1 ---
Lebanon	11	21	31	37	5	5 ---	3 ↑	2 ↑
KSA	19	24	21	30	4	4 ---	4 ---	3 ↑
Egypt	30	32	13	26	2	3 ↓	6 ↓	4 ↑
Jordan	25	39	33	21	3	2 ↑	2 ---	5 ↓
Palestine	5	13	14	7	7	6 ↑	5 ↑	6 ↓
Tunisia	2	11	9	7	9	7 ↑	7 ---	7 ---
Bahrain	6	3	4	6	6	9 ↓	9 ---	8 ↑
Morocco	5	4	6	5	8	8 ---	8 ---	9 ↓
Syria	1	1	0	1	11	11 ---	12 ↓	10 ↑
Algeria	2	2	1	0	10	10 ---	11 ↓	11 ---
Kuwait	0	1	3	0	14	12 ↑	10 ↑	11 ↓
Oman	1	0	0	0	12	13 ↓	13 ---	11 ↑
Qatar	1	0	0	0	13	14 ↓	14 ---	11 ↑

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FIGURE 7.2: MARKETS RANKED BY VALUE OF INVESTMENTS

The UAE and Lebanon appear to be consistently the top two markets in both number and value of deals. Saudi Arabia experienced the largest drop in ranking in value of investments, going from fourth to eighth place. This is in contrast to Saudi Arabia's third place rank in number of deals – which indicates that while many deals are taking place in Saudi Arabia, few are in the growth phase. Meanwhile, North Africa is attracting more venture dollars, with Morocco and Tunisia both jumping up in the rankings with significant increase in the value of deals.

	Value of Deals in Million				Ranking			
	2013	2014	2015	2016	2013	2014	2015	2016
UAE	$35	$118	$160	$799	2	2 ---	1 ↑	1 ---
Lebanon	$7	$26	$30	$56	5	4 ↑	2 ↑	2 ---
Jordan	$31	$13	$22	$15	3	5 ↓	3 ↑	3 ---
Morocco	$4	$1	$3	$15	6	8 ↓	7 ↑	4 ↑
Egypt	$77	$155	$7	$12	1	1 ---	5 ↓	5 ---
Tunisia	$0.10	$2	$1	$8	11	7 ↑	10 ↓	6 ↑
Palestine	$2	$4	$6	$7	7	6 ↑	6 ---	7 ↓
KSA	$31	$57	$14	$5	4	3 ↑	4 ↓	8 ↓
Bahrain	$0.40	$0.60	$0.60	$1	12	10 ↑	11 ↓	9 ↑
Syria	$0.05	$0.01	$0	$0.05	9	12 ↓	12 ---	10 ↑
Algeria	$2.40	$1.20	$2.50	$0	8	9 ↓	8 ↑	11 ↓
Qatar	$0.20	$0	$0	$0	13	14 ↓	14 ---	11 ↑
Oman	$0.01	$0	$0	$0	10	13 ↓	13 ---	11 ↑
Kuwait	$0	$0.20	$2	$0	14	11 ↑	9 ↑	11 ↓

FIGURE 8.1: PERCENT NUMBER OF INVESTMENTS IN THE TOP 5 COUNTRIES

The UAE has consistently held the highest proportion of deals among the top five countries, and its share has been rising steadily; Lebanon's share of deals has been rising as well. On the other hand, Jordan and Egypt both experienced a shrinking share of the deals, while Saudi Arabia has held relatively steady.

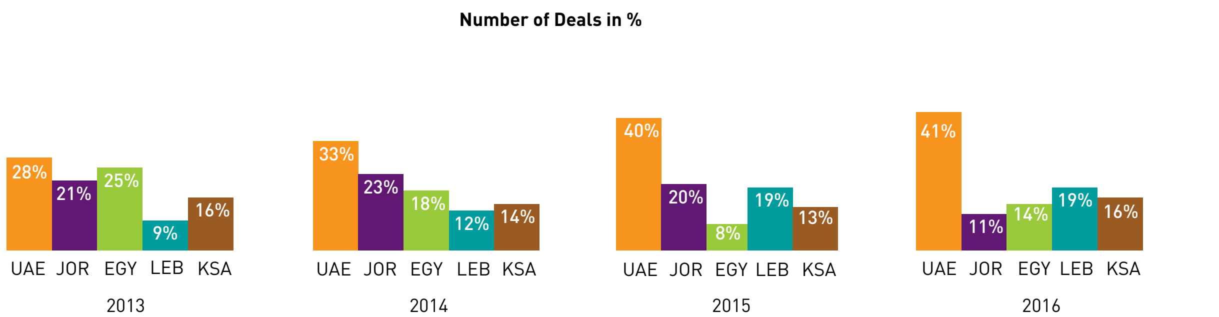


FIGURE 8.2: PERCENT VALUE OF INVESTMENTS IN THE TOP 5 COUNTRIES

When examining how the total dollars invested are distributed among the top 5 countries, the findings are skewed heavily by the few large deals that took place in each year. The figure shows that the UAE is capturing a larger and larger share of total dollars, driven by the fact that growth stage companies – and therefore deals – are increasingly based in Dubai. In 2016 this is stark – the Careem and Souq.com investments alone represented 78% of all dollars invested, which means that overall a whopping 90% of all dollars invested went into the UAE.

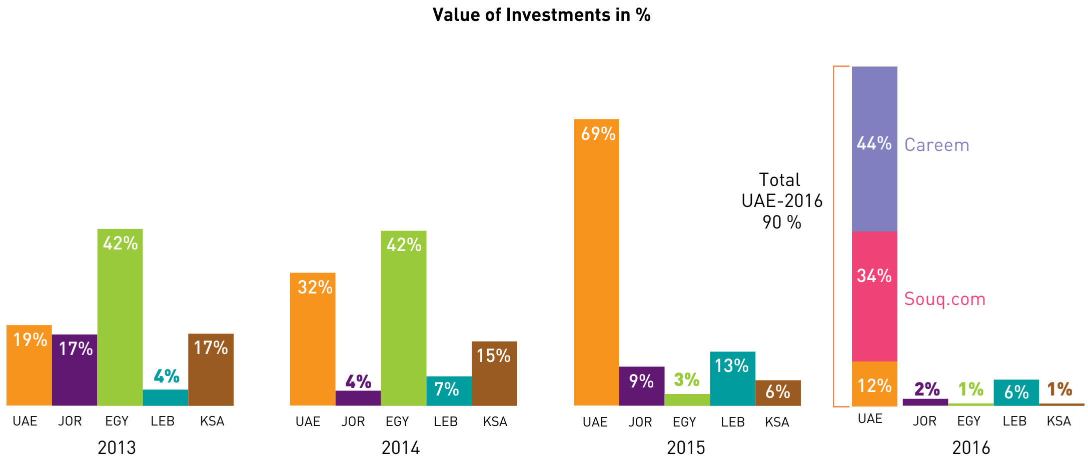
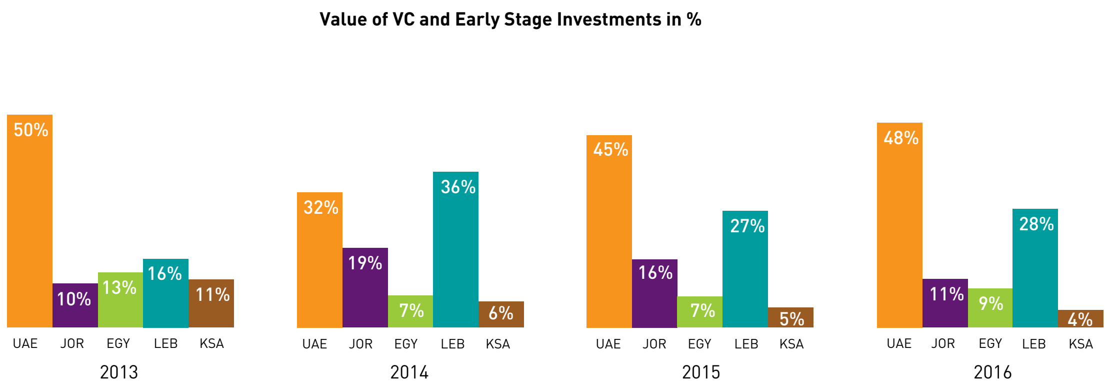


FIGURE 8.3: PERCENT VALUE OF INVESTMENTS IN THE TOP 5 COUNTRIES WITHOUT GROWTH STAGE

When analyzing the investment values less growth capital, the picture changes drastically. Lebanon's share of the value of investments increases significantly, highlighting the positive effects of Circular 331 on the startup ecosystem since 2014, while also predicting a future spurt in growth capital. Overall KSA, Jordan, and Egypt's values improve when looking at early stage and VC only – however, in general these markets have seen their share of total dollars invested drop over the past three years as well.



INVESTMENTS IN MENA BY TICKET SIZE

FIGURE 9.1: PERCENT NUMBER OF INVESTMENTS BY TICKET SIZE

The research shows that, over the years, the distribution deals by ticket size is quite consistent (with 2014 being somewhat of an outlier). The majority of deals have remained in the early stage, representing around two third of deals in the past four years.

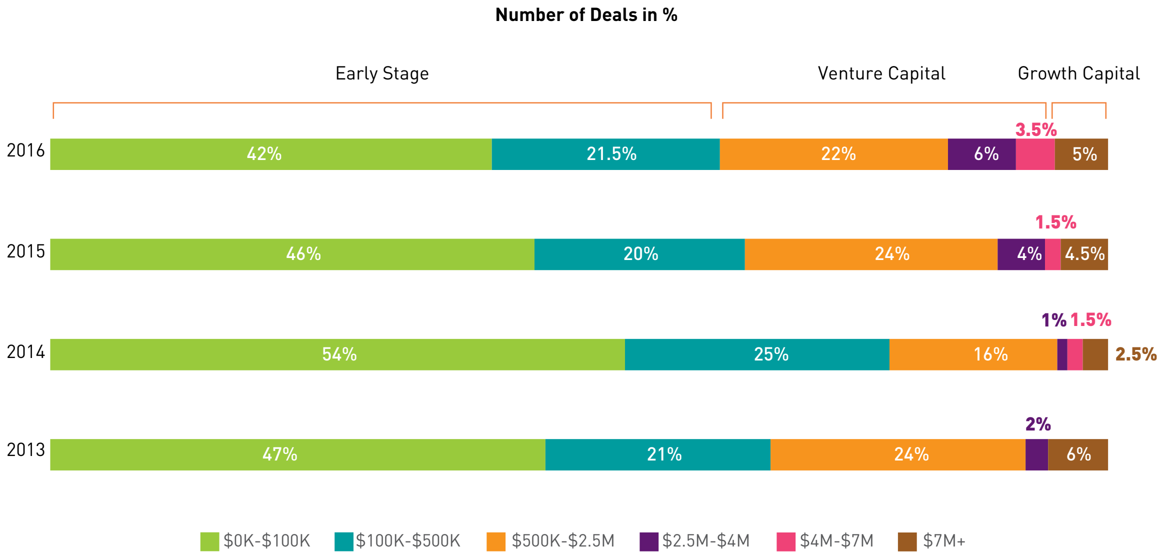
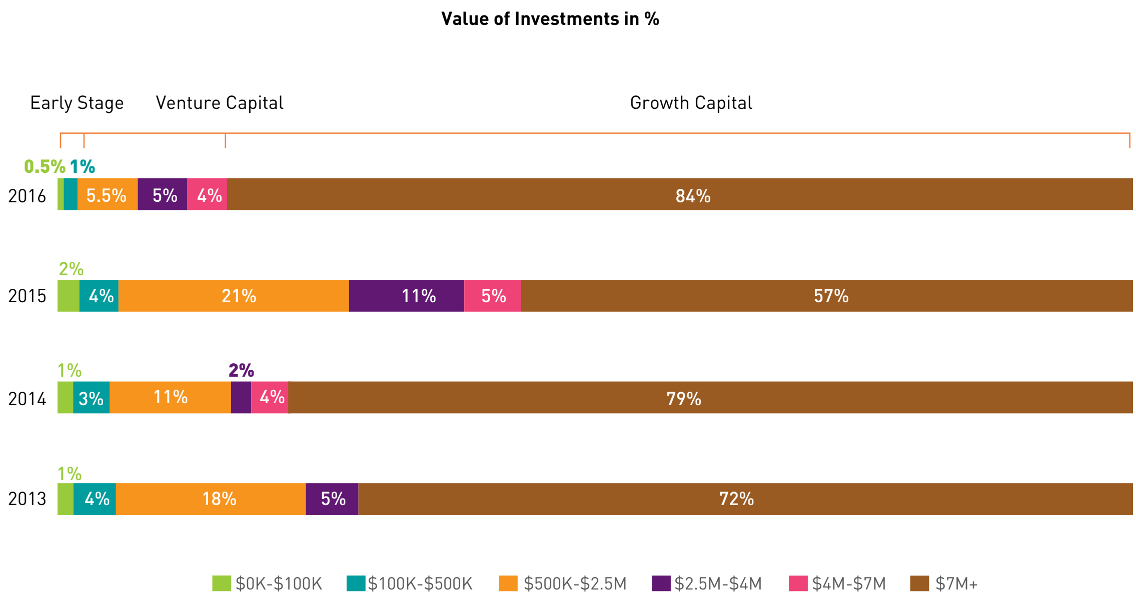


FIGURE 9.2: PERCENT VALUE OF INVESTMENTS BY TICKET SIZE

Although early stage deals are the biggest contributors to the number of deals conducted, they naturally contribute the least to the value of investments by ticket size. 2016 was a record year for growth stage deals, which captured 84% of all dollars invested – the highest share in the past 4 years, driven by Careems' $350 million round and Souq.com's $275 million round.

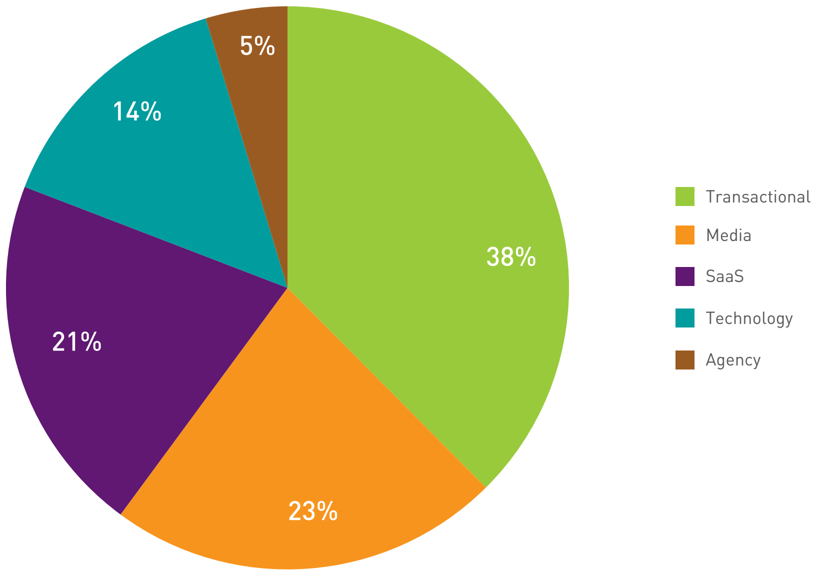


INVESTMENTS IN MENA BY STARTUP BUSINESS MODEL

FIGURE 10.1: PERCENT NUMBER OF INVESTMENTS BY STARTUP BUSINESS MODEL

Examining the past four years of deals, transactional business models (38%) comprise the largest share. Next come media (advertising) and software as a service which encompass close to 50% of all deals by business model. The three aforementioned business models add up to 82% of all deals that took place regionally in the past four years.

Number of Deals by Startup Business Model in %

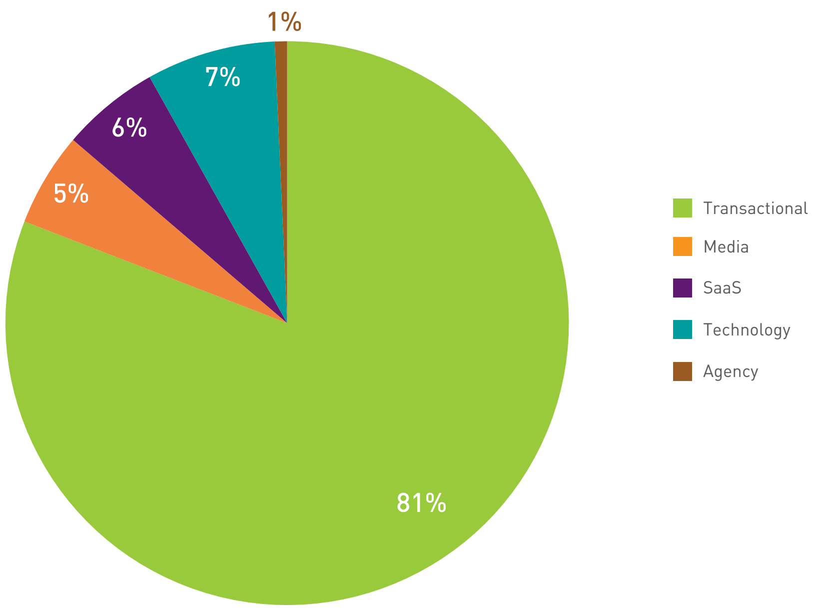


Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 10.2: PERCENT VALUE OF INVESTMENTS BY STARTUP BUSINESS MODEL

Diving deeper and analyzing by value of deals, transactional startups raised the bulk of investment dollars (81%), driven by the major rounds of Souq.com, Careem and Jumia, while the agency business model (1%) received the smallest proportion. Technology, software as a service, and media business models have captured roughly similar proportions (5-7%) of all dollars invested over the years, among which Cequens, a technology business, raised the biggest round worth $53 million.

Number of Investments by Startup Business Model in %



Cumulative years: 2013, 2014, 2015, and 2016.

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

Comparing number of deals versus the total value invested in each type of startup business model, it is clear that over the years transactional deals dominate the deal value. In all other startup business models we notice less of a discrepancy between deal values and number of deals. Looking at average value per deal, transactional business models are running at $7 million per deal, technology business models are just over $1 million per deal, and media business models are capturing roughly $0.5 million per deal. However, these numbers should only be considered indicative – as the majority of value captured by transactional business models is driven by a few large deals.

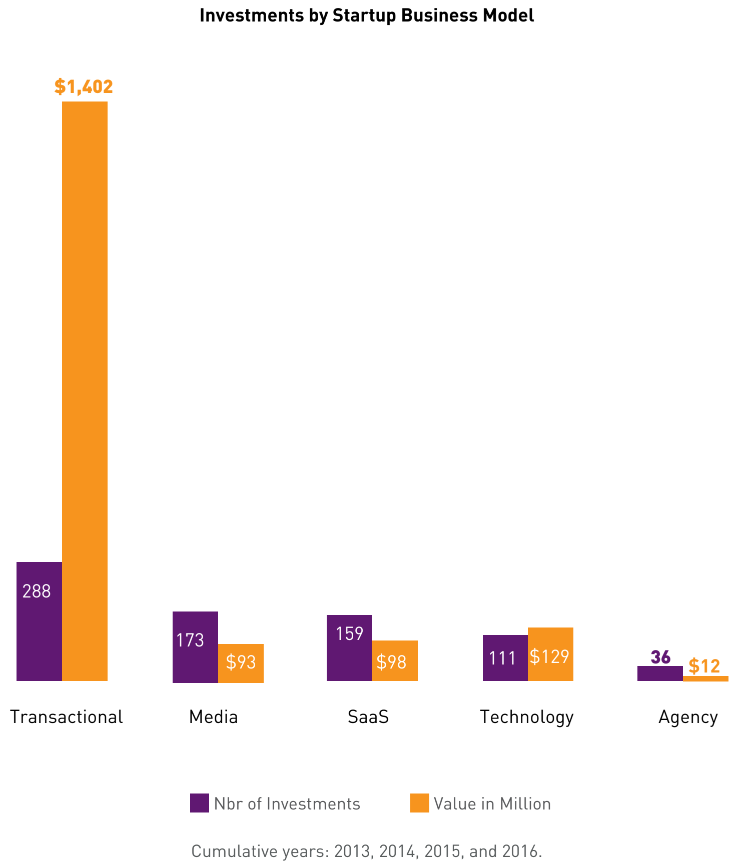


FIGURE 10.4 PERCENT NUMBER OF INVESTMENTS BY STARTUP BUSINESS MODEL BY YEAR

2016 was a major year for transactional businesses, which represented 42% of all deals done in 2016. The increasing interest in e-commerce is clear – the proportion of transactional deals has increased significantly since 2014. Technology startups – hardware, algorithmic software – are also capturing more investor attention, growing from 12% to 18% of total deals between 2013 and 2016. On the other hand, media investments have been on the decline for the past three years, and only represented 16% of all deals in 2016.

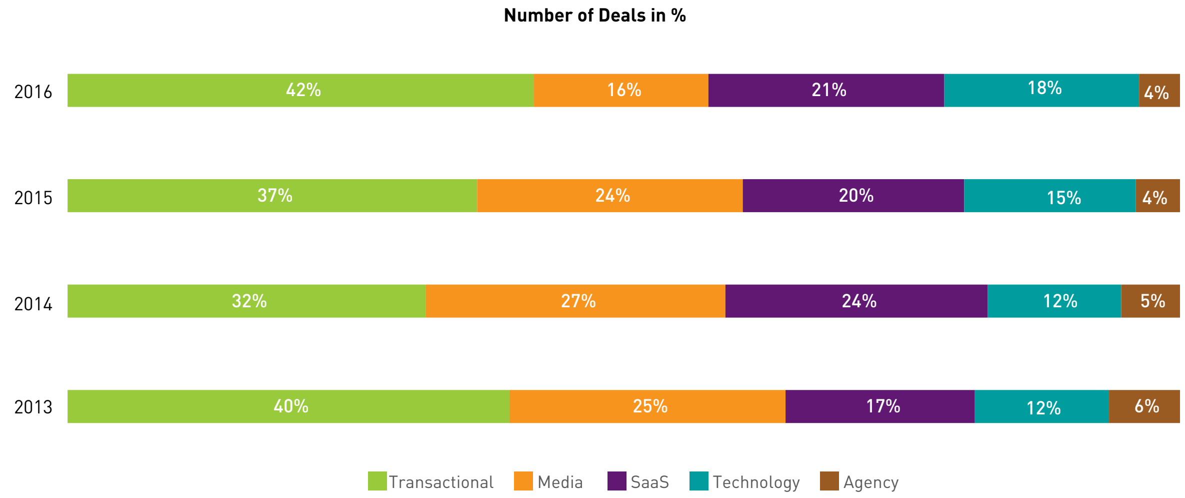


FIGURE 10.5: PERCENT VALUE OF INVESTMENTS BY STARTUP BUSINESS MODEL BY YEAR

When it comes to the value of investments by business model, large deals skew the findings and make it more difficult to see trend lines. The massive size of the e-commerce deals (not only Souq.com and Careem, but also Wadi's $67 million round, Bayut's $20 million round, Afrimarket's $11 million round and Bookwitty's $10 million round) means that they captured almost 90% of all dollars invested in 2016. Meanwhile, it seems that historically media, technology, and software as a service business models have all hovered between 5%-7% of total investment dollars, with departures from this trend when big deals take place – UTURN's investment in 2015 gave a boost to the value captured by media, whereas ArabiaWeather ($7.1 million), JRD Group ($6.3 million), and Newsgroup ($5 million) boosted software as a service in 2015; and Cequens $53 million deal boosted technology in 2014.

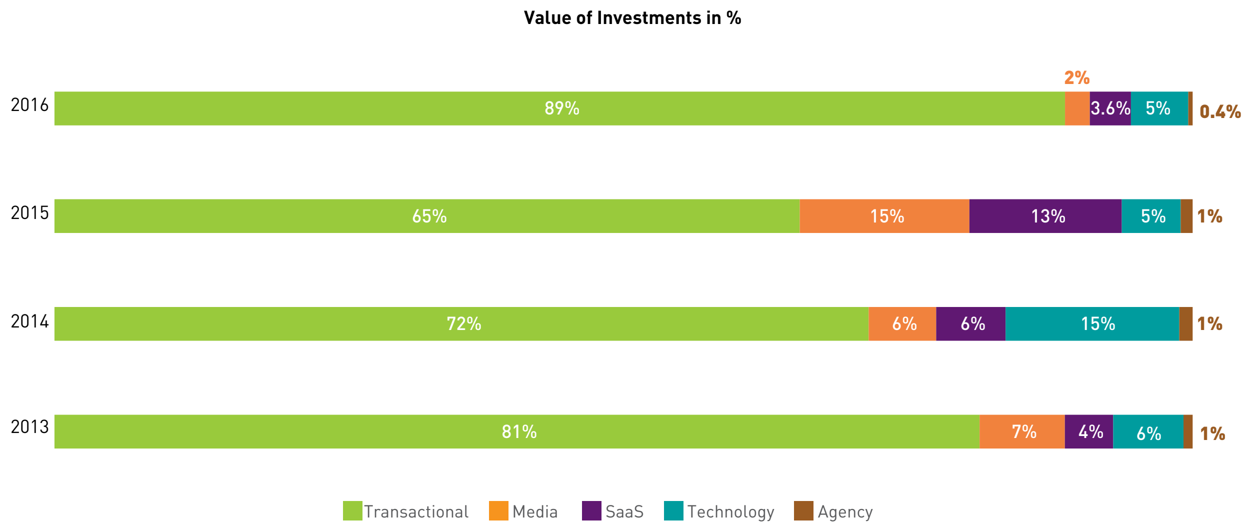
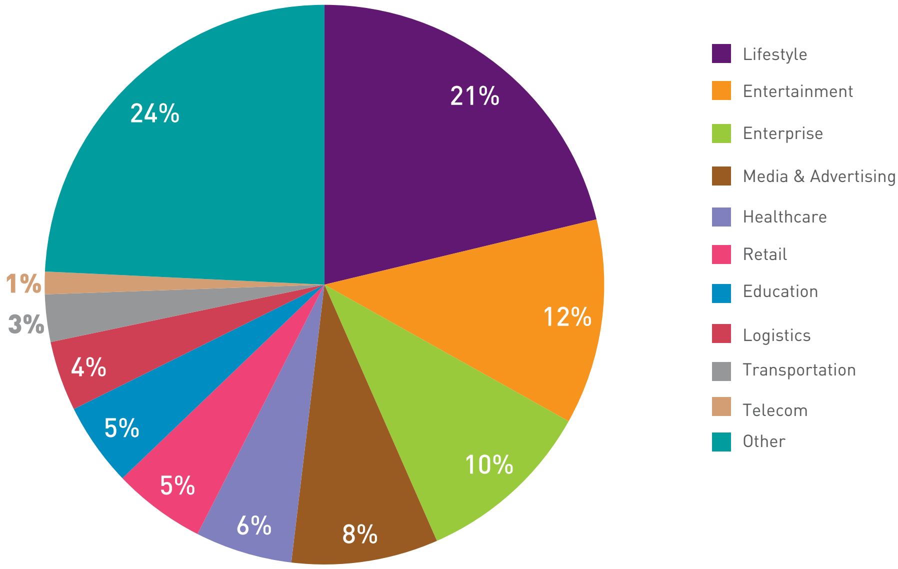


FIGURE 10.6: PERCENT NUMBER OF INVESTMENTS BY STARTUP TERTIARY BUSINESS MODEL

This year the report dives further into business models, and investigates the number and value of investments by tertiary business model – the industry sector targeted by the companies (view appendix to have a clearer picture of the categorization of business models into tertiary). Lifestyle (21%) followed by entertainment (12%) are the tertiary business models that take the biggest share of the pie when it comes to number of investments raised. This reveals major appetite from investors for lifestyle and entertainment digital products and services. Enterprise (10%) and media and advertising (8%) tertiary business models have the second biggest share of deals. While interest is high for startups in big industry verticals like healthcare and education, those sectors do not yet represent a significant proportion of investment deals – but this is expected to change in the coming years.

Number of Deals by Startup Tertiary Business Model in %

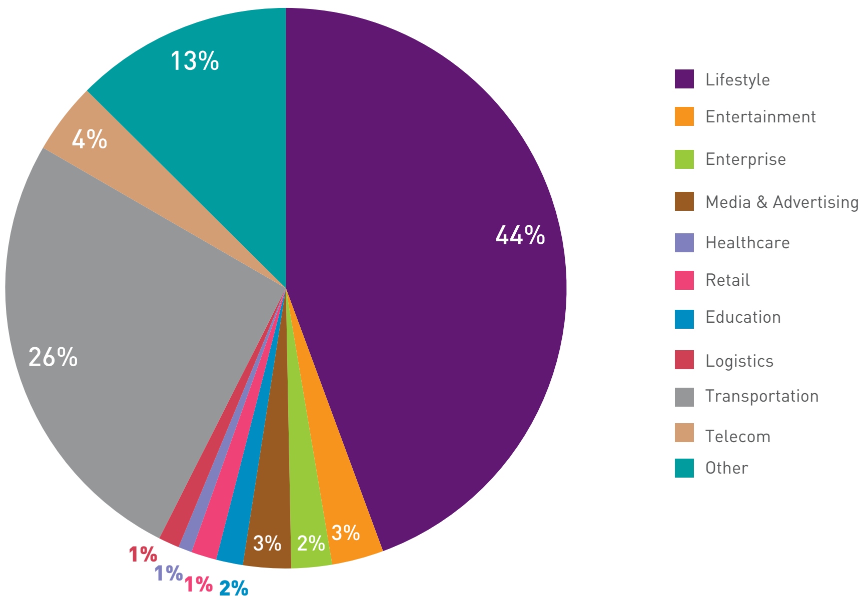


Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 10.7: PERCENT VALUE OF INVESTMENTS BY STARTUP TERTIARY BUSINESS MODEL

Just as the Lifestyle tertiary business model captured the largest share of deals, it also captured the largest proportion of total dollars invested (44%) across business models. Here again the large deals tend to skew the findings – while transportation represented only 3% of deals, Careem's massive investment means transportation attracted 26% of all dollars invested, the second highest after Lifestyle (which includes Souq.com).

Value of Investments by Startup Tertiary Business Model in %



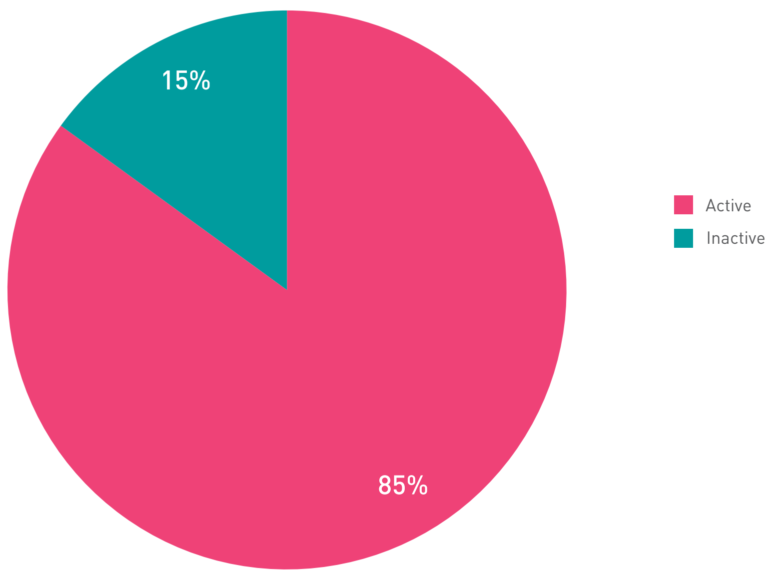
Cumulative years: 2013, 2014, 2015, and 2016.

VALLEY OF DEATH

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

With more than 500 startups having raised funding in the last four years, an important aspect to look into is the number of operational versus inactive startups. The operational status of startups has been categorized based on app / website updates, social media activities, funding year and any announcements from their founders / investors / accelerator on whether the startup is still operational or not. The result – only 15% of all MENA startups funded in the past 4 have shuttered. This low failure rate could be due to government initiatives to inject money / support into the ecosystem and the culture of fear of failure, with startups staying open even with poor performance traction and ability to scale. Another potential reason for this is that the volume of deals has been higher in the past 3-4 years than in the period before that, and these recently funded startups have not yet had the opportunity to run the course of their life cycle.

Number of Startups Active Vs. Inactive in %

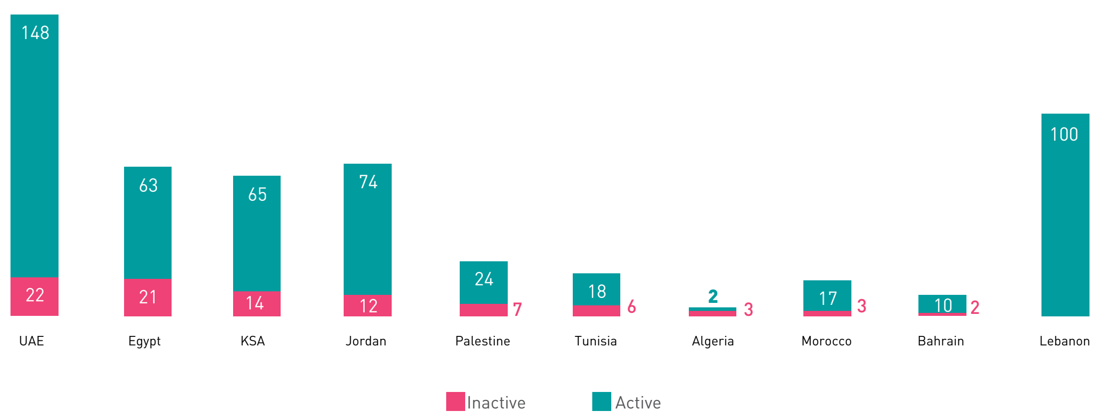


Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 11.2: NUMBER OF OPERATING VS. CLOSED FUNDED STARTUPS IN MENA BY GEOGRAPHY

Although UAE has the highest number of inactive startups (22), it is also the country with the most number of operational startups (148). An interesting insight is that Lebanon stands as an exception with zero closed startups. This may be attributed to the surge in capital brought on by Circular 331, which allows startups better access to financing and giving them a longer lifeline. Egypt has one of the highest rates of closure for startups, and this could potentially be attributed to the decrease in capital in Egypt – demonstrated in the first part of this report.

Number of Startups Active Vs. Inactive



Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 12.1: ANALYSIS OF STARTUPS FOUNDED IN 2013

To better understand the life cycle of startups in MENA, the research follows startups from their founding dates through the rest of their investment cycle. Of the 109 funded startups founded in 2013, 28% (30 startups) of them raised a second round – while an equal number (30 startups – 28%) closed down after their first round. Of those 30 that raised a second round, 37% (11 startups) raised a further third round while 13% shuttered. Of the 11 startups that raised a third round, 2 (or 18%) have managed to raise a fourth round. It is interesting to note that consistently about 30% of startups are passing from one round to the next. The failure rate, on the other hand, is decreasing as the startups become more mature and make it further down the life cycle.

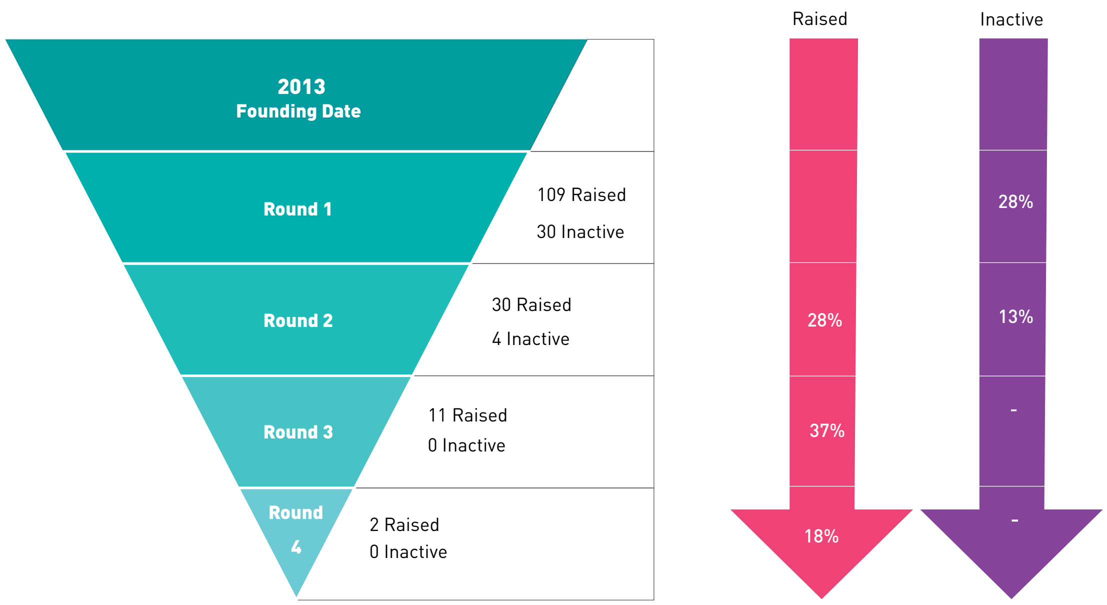


FIGURE 12.2: ANALYSIS OF STARTUPS FOUNDED IN 2014

Applying a similar analysis to funded companies founded in 2014, the research finds that 25% of startups failed after their first round, while 37% secured a second round – both these figures are similar to those of 2013-founded startups in the previous figure.

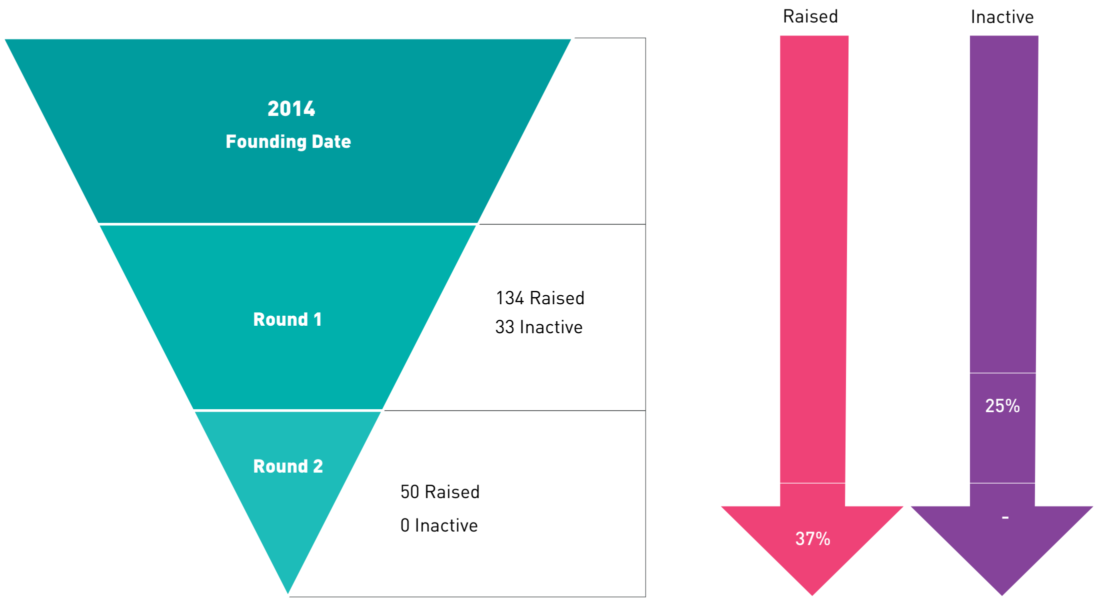
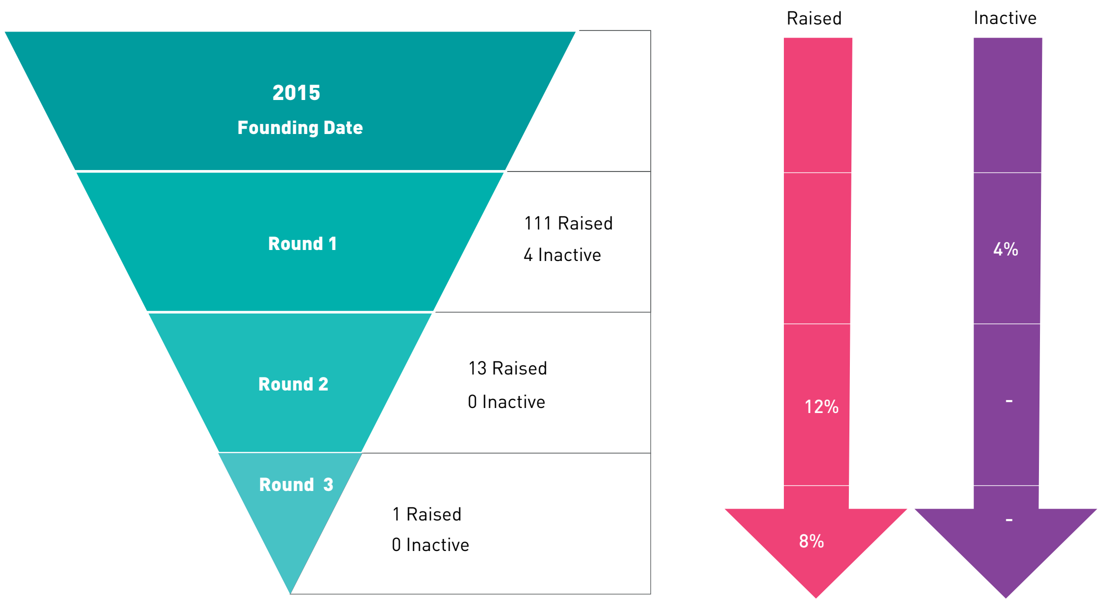


FIGURE 12.3: ANALYSIS OF STARTUPS FOUNDED IN 2015

Applying a similar analysis for funded startups that launched in 2015 is trickier – these companies have not had much time to raise additional rounds of funding or reach the point of closure. However, the research finds that 12% of those startups managed to raise a second round of funding within 12-18 months, and one even managed to raise a third round of funding! Failure rates are also very low at 4%, and this number is expected to rise to match 2014 and 2013 numbers once the startups have had more time to pass through the life cycle.

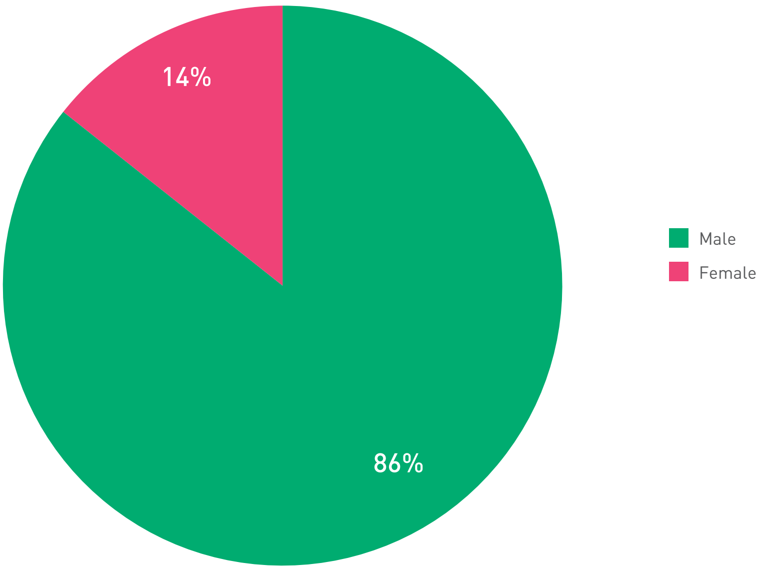


FEMALE FOUNDERS IN FUNDED STARTUPS

FIGURE 13.1: GENDER DISTRIBUTION AMONG FOUNDERS

Last year's Investment Report tackled the question of gender diversity in technology startups. Looking at the MENA region as a whole, not much has changed in terms of female representation. The previous analysis indicated that females represent 13% of all founders, while this year's updated data demonstrates that female representation is 14% - roughly 1 in 6 - of all founders / co-founders of investor-backed businesses in MENA.

Number of Total Female Founders Vs. Total Male Founders in %



Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 13.2: GENDER DISTRIBUTION AMONG FOUNDERS BY YEAR

Gender distribution among startup founders has been relatively stable over the years ranging from 10% to 15%. Interesting, this past year broke from that pattern – female founders in MENA tech startups that raised funding in 2016 jumped to 26%- demonstrating that the ecosystem is doing a better job attracting and supporting women founders.

Number of Total Female Founders Vs. Total Male Founders by Year in %

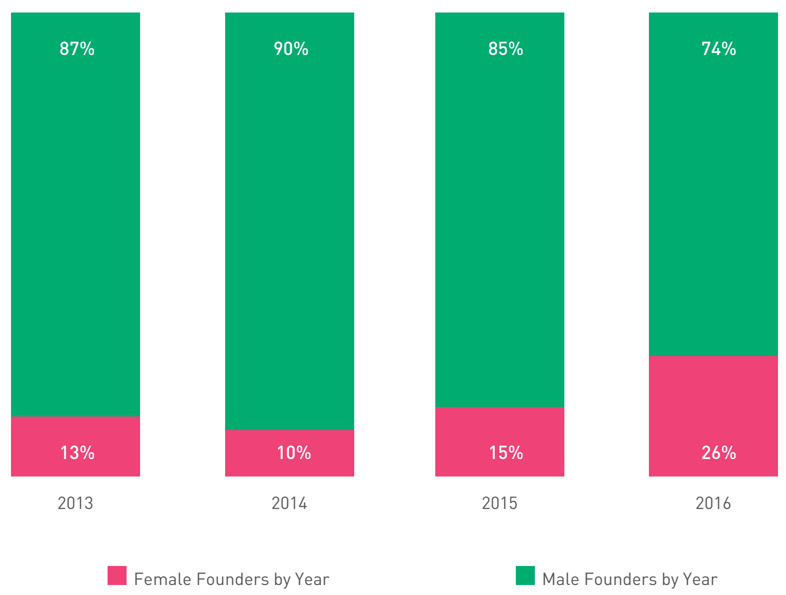
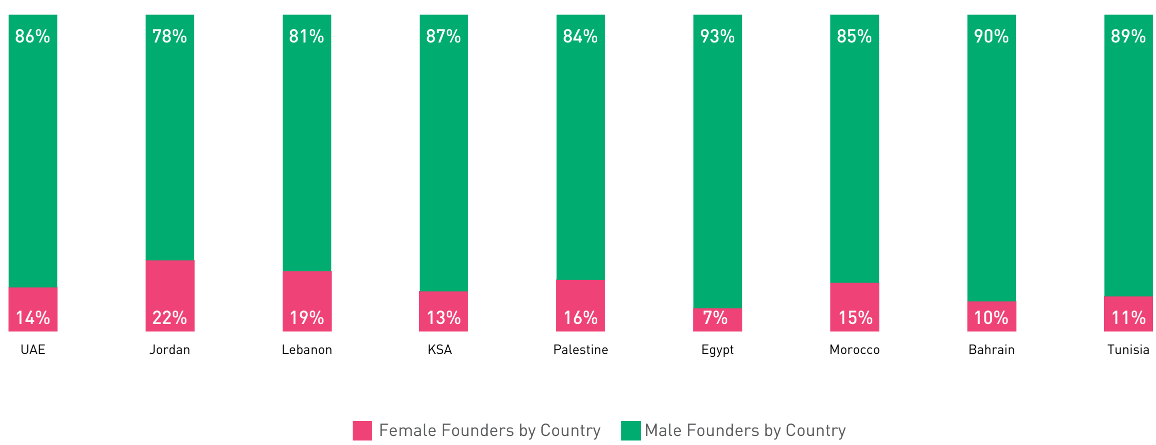


FIGURE 13.3: PERCENT NUMBER OF FEMALE FOUNDERS BY GEOGRAPHY

Studying the percentage of female founders by market, the data indicates that the Levant has the highest proportion of female founders (Jordan 22%, Lebanon 19%, and Palestine 17%). On the other end of the spectrum, Egypt and Tunisia have the lowest proportion of female founders. Compared to last year's data, Saudi Arabia has witnessed an increase in female founders. While the trend of low female participation in tech startups / industry is a global one, one additional factor that may explain the female to male imbalance in startup founders is the shortage of female investors / partners among the regional investors.

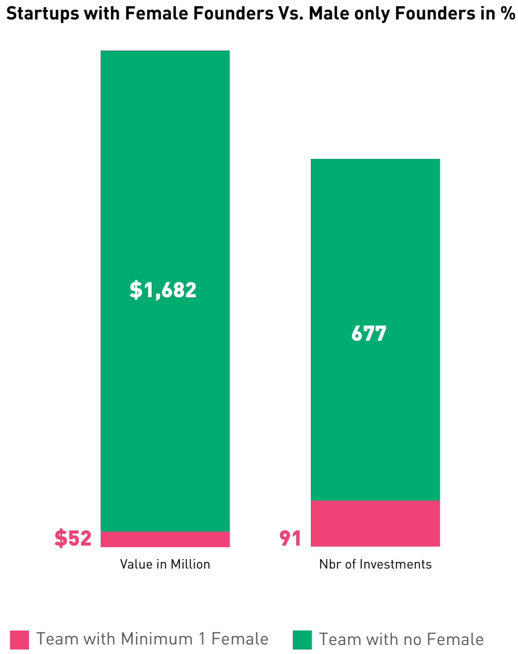
Total Female Founders Vs. Total Male Founders by Country in %



Cumulative years: 2013, 2014, 2015, and 2016.

FIGURE 13.4: NUMBER AND VALUE OF INVESTMENTS BY TEAMS WITH AT LEAST 1 FEMALE FOUNDER VERSUS TEAMS WITH NO FEMALE FOUNDERS

When looking at the number of investments into startups with at least one female founder versus teams with no female founder, the research notes that all male teams dominate the majority of investments. Teams with at least one female capture approximately 14% of all funding rounds, which is consistent with the percentage of overall female founders (14% - see figure 13.1). On the other hand, these teams capture a very small percentage of total dollars invested – approximately 3.1% – indicating that most female founders are probably in early-stage businesses, and very few of the startups raising big ticket sizes today have females among their co-founders.



Cumulative years: 2013, 2014, 2015, and 2016.

CORPORATE INVESTORS IN MENA

FIGURE 14.1: NUMBER OF INVESTORS VERSUS CORPORATE INVESTORS BY YEAR

The corporate investor trend is not new to the MENA investment scene, however, the trend truly started picking up in 2012. Companies across sectors are launching investment initiatives, either through standalone funds or opportunistic investments. Today corporate investors represent 18% of the surveyed investors. The main bulk of new corporate investors are located in the UAE and Lebanon. In Lebanon the latest corporate investors include banks (Almawarid Bank and Société Générale de Banque au Liban - SGBL); this was encouraged (again) by Circular 331, which supports investments by banks not only into VC funds but also into startups directly. The UAE's coporate investors are companies across broad sectors, such as du, Souq, Alabbar Enterprises, and DHx (Dubai Holding).

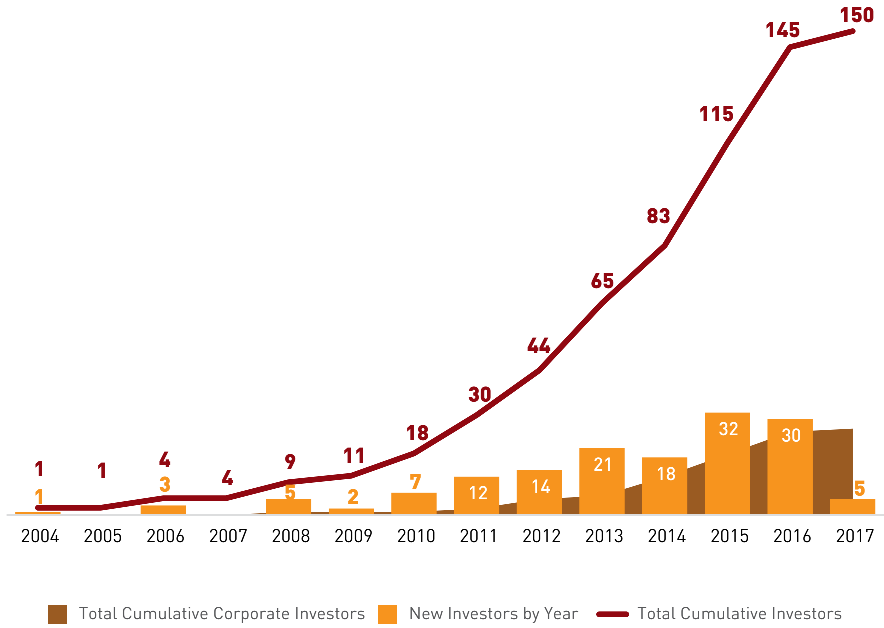


FIGURE 14.2: NUMBER CORPORATE INVESTORS BY YEAR

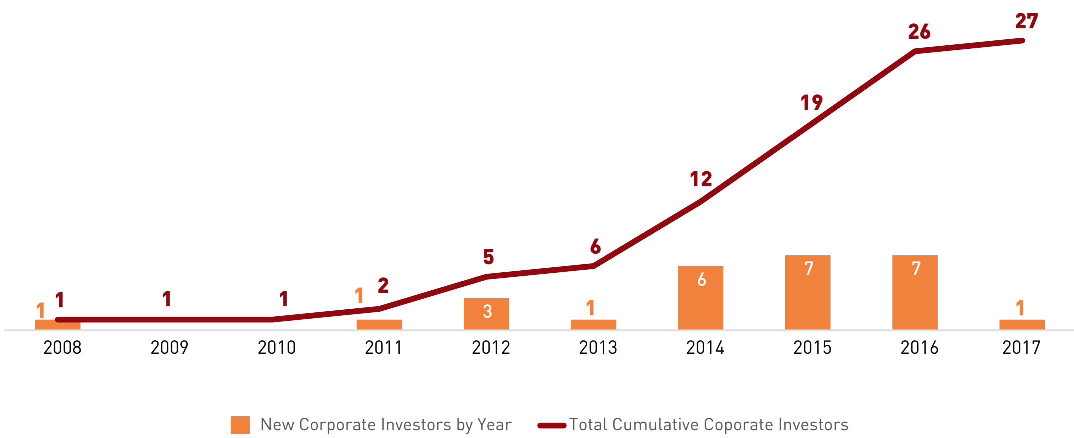
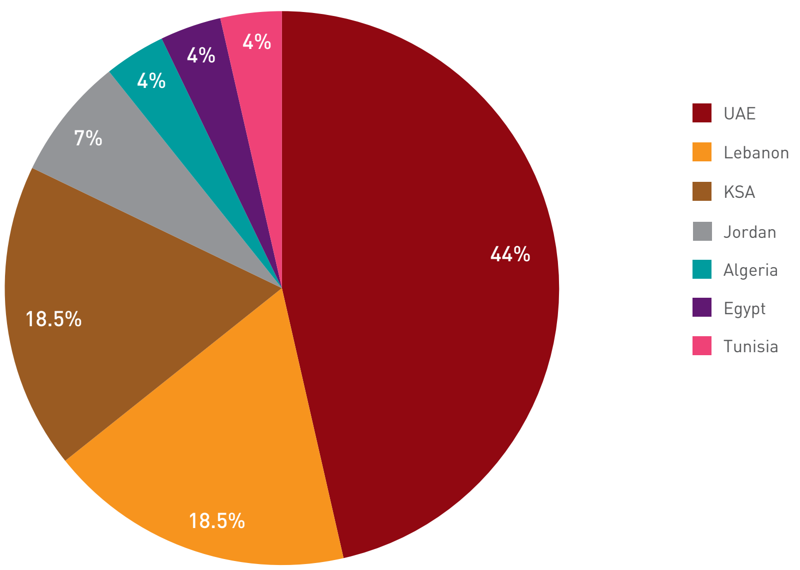


FIGURE 14.3: PERCENT NUMBER OF CORPORATE INVESTORS BY GEOGRAPHY

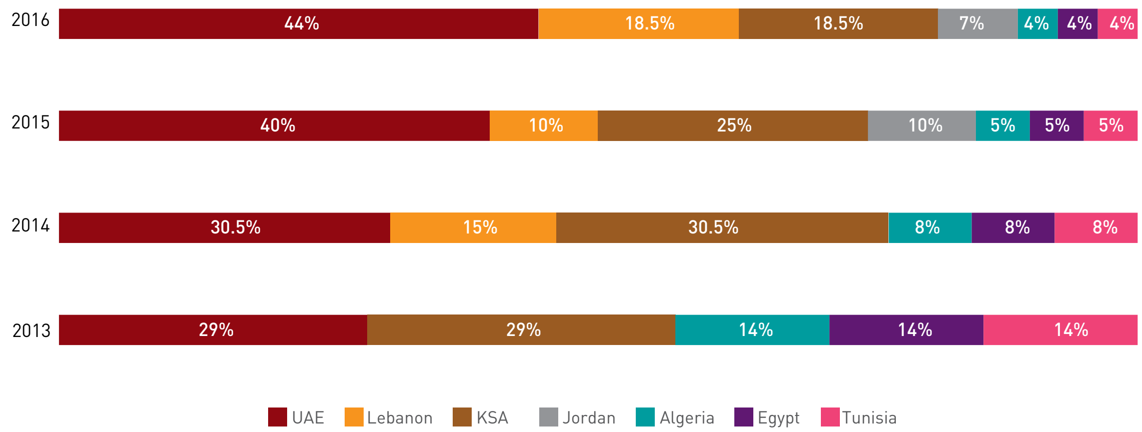
More than half (62%) of the region's corporate investors are GCC-based, with UAE topping the list at 44% followed by Saudi Arabia at 18%. Lebanon compared to last year's data has quickly caught up and is now standing at 18%, similar to Saudi Arabia. The majority of Lebanon's corporate investors became active in 2016; whereas Saudi Arabia did not see new corporate investors becoming active in 2016. Dubai is quickly outpacing the MENA region in the establishment of new active corporate investors especially with the activation of four new corporate investors in 2016.



Cumulative years: 2002 to 2016.

FIGURE 14.4: PERCENT NUMBER OF CUMULATIVE CORPORATE INVESTORS BY GEOGRAPHY BY YEAR

It is quite apparent that across the years the establishment of corporate investors in the UAE is overshadowing other countries. While Saudi Arabia has historically been an active player, over the past two years is has witnessed a decrease in its share of corporate investors. Lebanon, on the other hand, boasts more active corporate investors in 2016.

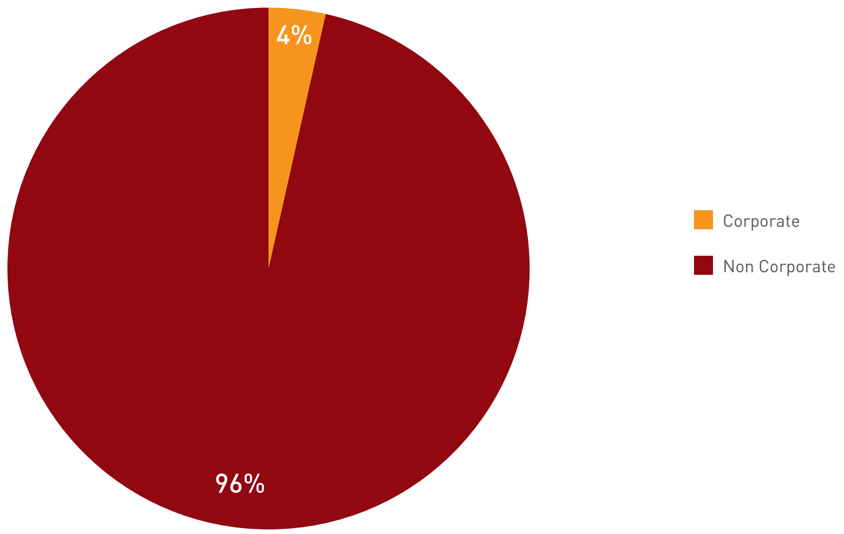


Cumulative years: 2002 to 2016.

FIGURE 14.5: PERCENT OF CORPORATE INVESTMENTS VERSUS NON-CORPORATE INVESTMENTS

While corporate investors represent 18% of the total investment community regionally, they are far less active and therefore far more opportunistic than the institutional investors. MENA corporate investors closed 27 deals over the years, representing approximately 4% of the number of total investments. This is a new space (regionally and globally) and corporate investors are just warming up – expect to see an increase in their activity and their numbers in the coming years.

Number of Corporate Investors Vs. non-Corporate Investors in %



Cumulative years: 2004 to 2017 YTD.

CONCLUSIONS

MENA digital startups are attracting increasing global and regional attention, with more governments pushing for innovation, an increase in the number of startups, and an increase in investor appetite. This research report provides an overview of MENA equity-based investments in the digital space in the past four years.

The report's key findings include:

INVESTORS IN MENA

- The number of tech investors in MENA has been growing exponentially, jumping to about 30 new funds per year in the past two years (2015-2016).
- Of the 30 funding institutions founded in 2016, 40% of these funds are based out of the UAE; meanwhile, 6 funds have closed down in the period covered by the research.
- The UAE is home to about one third of all investors. Saudi Arabia and Lebanon combined account for one third all investors, and all other countries together make up the remaining one third of the investor community
- Investor community share of the top three markets (UAE, Lebanon, and Saudi Arabia) has grown from 55% to 64% of investors during 2013 to 2016.
- Approximately half of the investor community are early stage investors.
- Venture capital funds represent the single largest group of investors accounting for one third (31%) of the community.
- Share of corporate investors has increased by 30% over the past year.
- Early stage investors have decreased as a share of total investors dropping from 55% to 49% of the total investor pool from 2013 through to 2016.
- The most widespread type of investor across geographies is accelerators, which exist in 13 of the Arab markets.
- Kuwait, Qatar and Morocco have early stage gaps (no angel networks or seed funds identified), whereas Egypt has a gap in corporate and growth stage investors.

INVESTMENTS IN MENA

- The UAE (234) is far ahead when it comes to the number of deals per country over the past four years, with a number of deals double that of Jordan, Egypt, Lebanon, and Saudi.
- Jordan, Egypt, Lebanon, and Saudi Arabia all hover between 100 to 120 deals - half the number of the UAE.
- The total number of investments per year in MENA hovers between 200 and 220 deals each year since 2014.
- Total dollars invested in the MENA witnesses a 70% jump in value in 2016 explained by the two mega-rounds raised by Careem and Souq.com.
- The value of investments in Q1 and Q4 of 2016 is skewed by the disproportionate size of the Souq.com ($275 million) and Careem ($350 million) deals.
- In the past four years UAE has consistently outranked all MENA countries in number of investments.
- The UAE and Lebanon are consistently the top two markets in number and value of deals.
- Morocco and Tunisia have jumped up in the rankings with significant increase in the value of deals.
- The UAE has consistently held the highest proportion of deals in the MENA; Lebanon's share of deals is rising steadily, Jordan and Egypt both experienced a shrinking share of their deals, and Saudi Arabia remains relatively steady.
- UAE is capturing a larger share of total dollars driven by the fact that growth stage companies are increasingly Dubai-based.
- In 2016 90% of all dollars invested in the MENA went into the UAE with the Careem and Souq.com investments alone representing 78% of all dollars invested.
- Analyzing investment values less growth capital highlights that Lebanon's share of the value of investments increases significantly.
- The majority of MENA deals have remained in the early stage.
- 2016 was a record year for growth stage deals, which captured 84% of all dollars invested.
- Transactional business models (38%) comprise the largest share of deals.
- Transactional, media (advertising) and software as a service business models add up to 82% of all deals that took place regionally in the past four years.
- Transactional startups raised the bulk of investment dollars (81%), driven by the major rounds of Souq.com, Careem and Jumia.

- Over the years transactional deals dominate the deal value, running at $7 million per deal on average as compared with technology deals ($1 million / deal) and media ($0.5 million / deal).
- Technology startups – hardware, algorithmic software – are capturing more investor attention, growing from 12% to 18% of total deals between 2013 and 2016.
- Media investments have been on the decline for the past three years and represent only 16% of all deals in 2016.
- Massive e-commerce deals have captured almost 90% of all dollars invested in 2016.
- Lifestyle (21%) followed by entertainment (12%) are the target sectors that take the biggest share of the pie when it comes to number of investments raised.
- Lifestyle startups (including Souq.com) captured the largest proportion of total dollars invested (44%), while transportation (including Careem) captured 26%.
- Only 15% of all MENA startups funded in the past 4 years have shuttered.
- UAE has the highest number of inactive startups (22) and the most number of operational startups (148).
- Egypt has one of the highest rates of closure for startups, and this could potentially be attributed to the decrease in capital in Egypt.
- Of the 109 funded startups founded in 2013, 28% (30 startups) of them raised a second round – while an equal number (30 startups – 28%) closed down after their first round.
- 25% of startups founded in 2014 failed after their first round.
- For startups founded in 2015, 12% managed to raise a second round of funding within 12-18 months.

GENDER DISTRIBUTION

- Females represented 13% of all founders in the 2015 data. 2016 data demonstrates that female representation is 14% - roughly 1 in 6 - of all founders / co-founders of investor-backed businesses in MENA.
- Gender distribution among startup founders has been relatively stable between 2013-2015, ranging from 10% to 15%.
- In 2016-funded companies, the rate of female founders was much higher, reaching 26%.
- The data indicates that the Levant has the highest proportion of female founders, Jordan 22%, Lebanon 19%, and Palestine 17%.
- Egypt and Tunisia have the lowest proportion of female founders.
- Startup teams with at least one female founder capture approximately 14% of all funding rounds.

CORPORATE INVESTORS

- In 2016 corporate investors represent 18% of the surveyed investors.
- The main bulk of new corporate investors are located in the UAE and Lebanon.
- More than half (62%) of the region's corporate investors are GCC-based, with UAE topping the list at 44% followed by Saudi Arabia at 18%.
- Compared to last year's data, Lebanon has quickly caught up and is now standing at 18% similar to Saudi Arabia – driven by direct bank investments into startups, supported by Circular 331.
- The establishment of corporate investors in the UAE is overshadowing other countries.
- MENA corporate investors closed 27 deals over the years, representing approximately 4% of the number of total investments.

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.

TERTIARY SUB CATEGORIES

- **Lifestyle**
  o Lifestyle - Sports & Fitness
  o Lifestyle - Arts & Decor
  o Lifestyle - Food
  o Lifestyle
  o Lifestyle - Beauty & Fashion
  o Lifestyle - Generic Shopping

- **Transportation**

- **Telecom**

- **Entertainment**
  o Games
  o Entertainment

- **Media & Advertising**

- **Enterprise**
  o Enterprise - Services
  o Enterprise - Directory
  o Enterprise - Solutions

- **Healthcare**

- **Retail**
  o Retail - F&B
  o Retail

- **Education**

- **Logistics**

- **Other**
  o Legal
  o Security
  o 3D Printing
  o Conferences
  o Crowdfunding
  o Manufacturing
  o NGO
  o Agriculture
  o Greentech
  o Services - Handywork
  o Automotive
  o Insurance
  o Weather
  o Publishing
  o Recruitment
  o Travel & Tourism
  o Real Estat
  o Finance

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مؤسسة محمد بن راشد
لتنمية المشاريع الصغيرة والمتوسطة
DUBAI SME

About Dubai SME:
Mohammed Bin Rashid Est. for SME Development (Dubai SME) is an agency of Dubai Economy, Government of Dubai. The establishment plays a leading role in building the entrepreneurial ecosystem in Dubai, in addition to enhancing the competitiveness of the SME Sector in the emirate. The agency is guided by 3 key strategies to support the Emirate's long-term economic development goals: (1) Advocating for a pro-business environment for entrepreneurship and SME development; (2) Seeding a pipeline of innovative start-ups and; (3) Grooming a pool promising Dubai-based SMEs to be global enterprises. Dubai SME's vision is to position Dubai as a global center for entrepreneurship in order to enable SMEs to start, grow and expand their businesses globally, thus adding greater value to the economy of Dubai and the UAE.

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