

2013-2022

ECOSYSTEM REPORT

**Venture capital backed 'Exits' Profile in
the Turkish entrepreneurial ecosystem**



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THE FOUNDERS



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Sedat has both deep-tech startup management and venture capital establishment & management experience. He holds a BSc degree in Electrical & Electronics Engineering; and a MSc degree in Industrial Management from KTH Royal Institute of Technology in Stockholm. In addition, he took Venture Finance education from Said Business School, Oxford University. He is one of the co-founders of Techventure VC. He has experience in scouting, analyzing and evaluating startups, analyzing startup valuation, participating in deep dive sessions, making investment decisions, developing investment strategies, building relationships and reputation in the entrepreneurial ecosystem.



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ABOUT

Ventures & Beyond was established in 2022 in Istanbul by founders coming from both academic and practical entrepreneurial backgrounds. Trusting on their background and the wise network surrounding them, their main goal is to globally support the entrepreneurial vision for a sustainable future.



Through Ventures & Beyond, they aim to accomplish their vision by providing consultancy and services specialized in the entrepreneurial ecosystem. For firms (startups, corporates) and individuals who need guidance in the venture landscape, they provide consultancy from basic training to custom solutions for specific needs.

WHAT WE DO

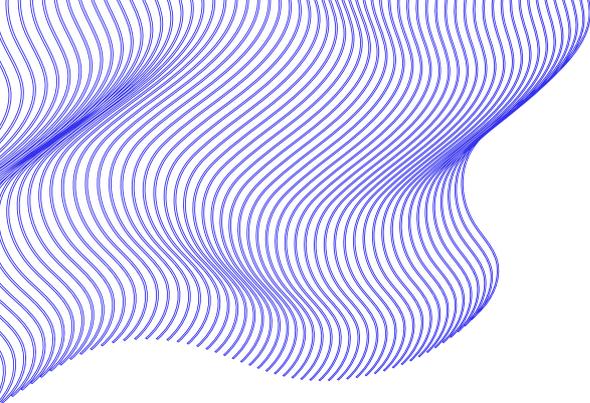
Ventures & Beyond has the following core expertise and services:

EXPERTISE

- Entrepreneurship & the ecosystem
- Investment management
- Startup business & law
- Venture capital business
- Corporate venture capital
- Intrapreneurship

SERVICES

-  Insights (ecosystem reports, academic/business articles)
-  Startup evaluation (Ventures & Beyond framework)
-  Scouting and selection of startups
-  Consultancy within our core expertise
-  Tutorial material (media, literature, ...)
-  Digital/Physical events
-  Entrepreneurship programs



INTRODUCTION

In 2021, startup funding globally almost doubled since 2020 (Bryan, 2022). Majority of this funding belonged to venture capital (VC) activity with a 108% increase from the year before (CB Insights, 2022). Looking at facts & figures, VC funding is a key source of startup financing. Besides, VC funded startups grow and innovate more, and bring forth an increase in employment (Akcigit et al., 2019). Similarly in Turkey, the VC financing model is thought to contribute to economic development, cause increase in production and reduce unemployment (Aktas & Darwish, 2020). Also looking at the figures, startup funding in Turkey has also reached unprecedented levels in terms of total transaction volume in 2021, a nearly 10-fold increase compared to 2020 (KPMG, 2022). Although an encouraging landscape of the ecosystem; it is still a risk-reward game. The risks of startup investment are very high and VC funding inherently comes with high risk and uncertainty (Ramsinghani, 2021).

Taking into account the impact of VC funding for the entrepreneurial ecosystem and its value for economic development, it is important to have more insight in this area. Also considering the large risk and uncertainty involved in the VC business and its low success rates, it is particularly important to have insight into VC business performance. As for measuring VCs performance, according to Schwiendbacher (2010), data related to exits are considered as signals for VCs' performance and can be used as a key element for successful follow-up investments.

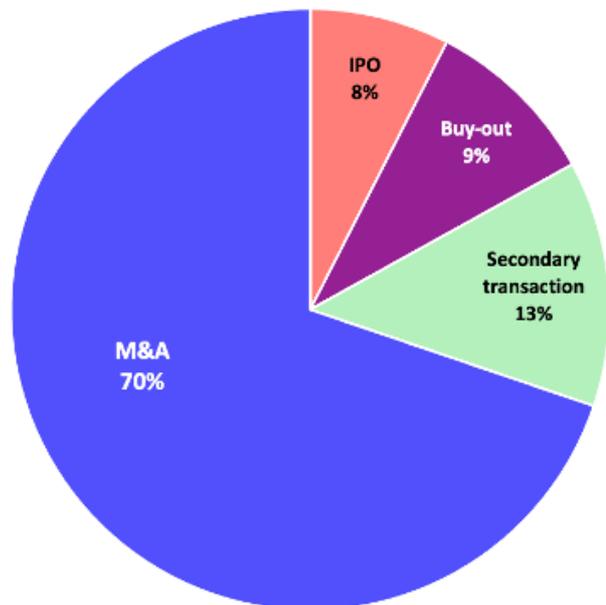
Based on the correlation above, generating a profile of VC exits by collecting data on VC exit characteristics was thought to be key in understanding and tackling low success rates. This report attempted to achieve this by analyzing the Turkish VC exits in terms of their sector, fund type, exit stage, exit type, and exit duration; within a time interval of 10 years (2013-2022).

VC EXITS PROFILE

The final dataset of this report encompassed 106 VC exits collected within a 10-year time interval (from 2013 till August 2022). Exits to be analyzed were chosen which occurred through either a sale or public offering and not liquidation. Secondary data was collected from relevant databases (Crunchbase, Pitchbook, StartupCentrum, Startups.watch), websites, reports, news and cross checked for validity. These exits were analyzed in terms of exit types, fund types, exit durations, sectors, and exit stages. This report attempted to generate a profile of VC exits by interpreting and implicating the analyzed data.

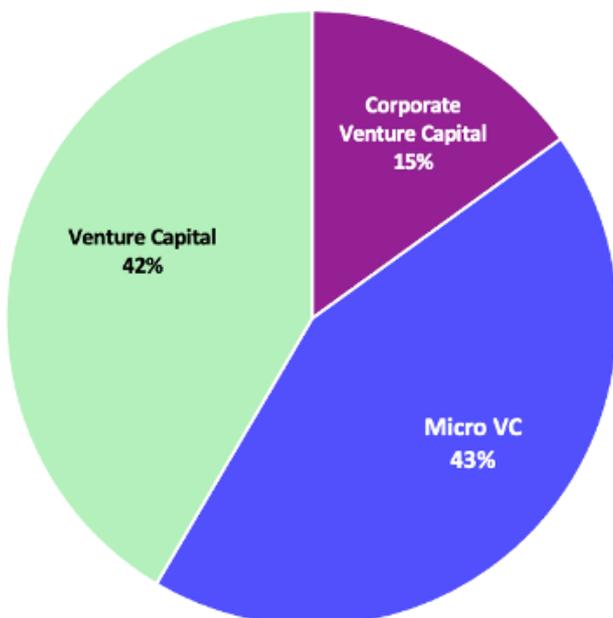
EXIT TYPES IN TURKISH VC EXITS

According to the exit type distribution analysis, M&A was found to be the highest exit type with 70% by a wide margin. The rest of 30% consisted of (in a descending sort): Secondary transaction, Buyout and IPO (%8) exit types with similar ratios. As for the reasons for these results, IPO being the least exit type can be related to startups preferring to exit without waiting until the IPO process which is, as mentioned by Ramsinghani (2021), an expensive, long, and complex process with many regulatory and market challenges when compared to M&A. Secondly, it can be related to the stock market in Turkey which is very small in volume compared to global players like the US. According to our results and other reports' data, M&A seems to stay as the main exit type for a long time and ecosystem actors should take this into consideration in their plans.



FUND TYPES IN TURKISH VC EXITS

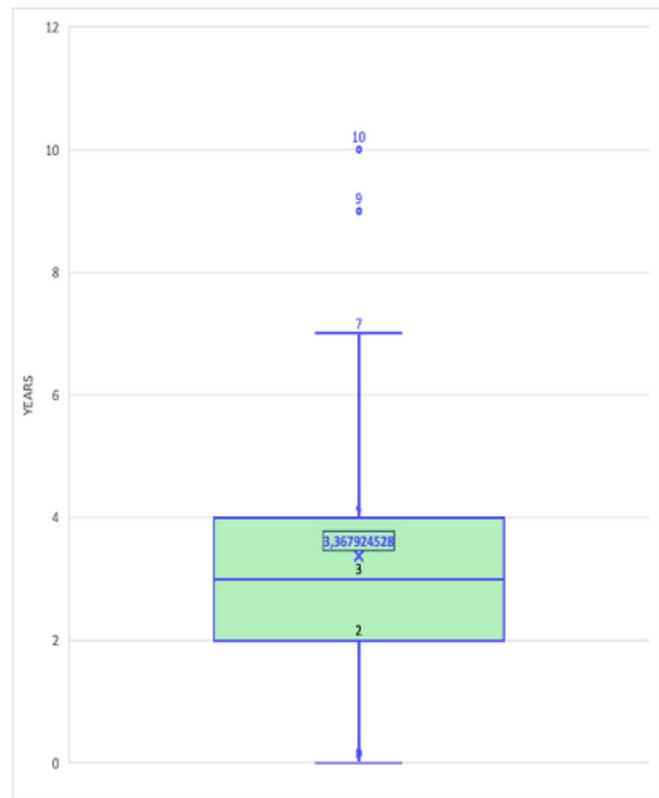
In fund type analysis of Turkish exits, it can be observed that VCs and Micro VCs dominated with 85% of exits compared to CVCs. Even though CVC exit ratio is very low compared to VCs and Micro VCs, it should still be taken into consideration with 15% because of the following reasons. As mentioned in CB Insights report (2022), entrepreneurship ecosystem has recently attracted the attention of large companies; thus causing CVCs departments to emerge. With CVCs joining the ecosystem much later than VCs, they have yet to receive returns on their investment. Another reason is that CVCs are very different in structure from VCs. As stated by Metrick & Yasuda (2010), while VC is exit oriented, CVCs may not focus too much on exit in their investment strategy. VCs and Micro VCs stand out mainly due to them being a player in this game for a long time. They have higher experience, team capacity, knowledge, and network.



In context of increasing the success rates of the VC industry, startups need to thoroughly discuss whom to make investment deals with. Since CVCs do not necessarily have the ultimate exit goal and also make plans for their own interest; but also could provide distinctive support in terms of business/manufacturing etc. compared to VCs; startups should consider all this and make benefit-risk evaluation before an investment deal.

EXIT DURATION OF TURKISH VC EXITS

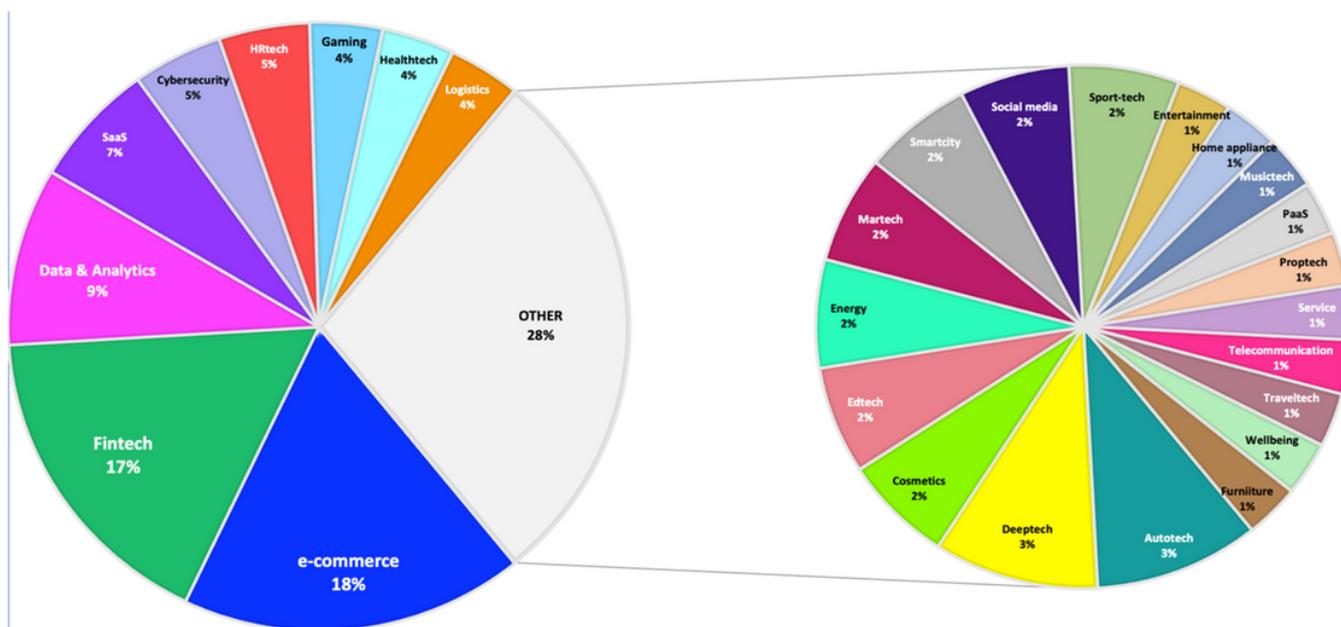
By using exits' initial investment and exit dates data, exit durations were calculated and analyzed. Analysis was made calculating the arithmetic average and standard deviation of exit durations. Results came out to be that investments were realized between 3-4 years (~3,5 years) on average with a standard deviation of 2 years. The shortest and longest exit duration were recorded as less than 1 year and 10 years respectively. Exit intensity was seen in the region between 2-4 years. Data from Metrick & Yasuda (2010) and Ramsinghani (2021) indicate that exits are expected between 5-7 years or 3-5 years. Results came out to be within the range of theory expectations which can be interpreted as a positive sign for the Turkish entrepreneurial ecosystem.

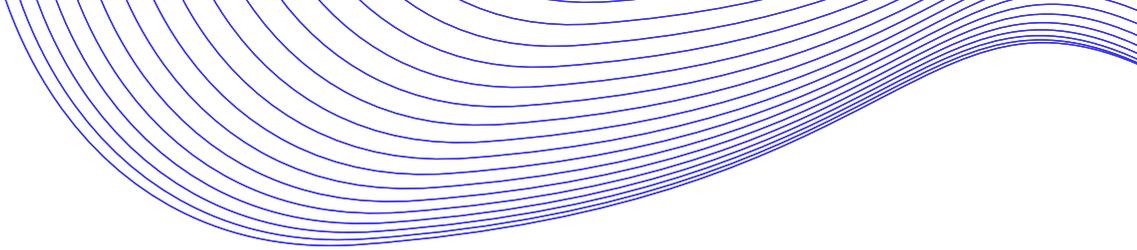


Furthermore, results can be considered as a powerful indicator for ecosystem actors such as current and future limited partners of VCs. Investors who want to invest in a VC fund can foresee that their investment will potentially turn into an exit after 3-4 years, can expect a return from the investment after this period, and this waiting period can be foreseen when planning their future moves.

SECTORS IN TURKISH VC EXITS

Sectoral distribution results (see Figure 13) showed that almost all exits are based on digital technologies with the majority belonging to E-commerce (18%) and Fintech (17%) sectors. As mentioned by Metrick & Yasuda (2010), in order to attain the expected fast growth in startups, VCs usually focus on high technology sectors, where startups' products/services can potentially penetrate or even create large markets. Similarly in results, almost all exits are from sectors which use high-digital technologies in their products/services. E-commerce and Fintech sectors were followed by (in a descending sort): Data & Analytics, SaaS, Cybersecurity, HRtech, Gaming, Healthtech and Logistics. Sectors below and equal to 3% were presented as "other" sectors and were evaluated as less common sectors compared to the rest. These included (in a descending sort): Autotech, Deeptech, Sporttech, Social media, Smartcity, Martech and lastly sectors with 1% ratio included Traveltech, Telecommunication, Service, Paas, Musictch, Entertainment, Home appliance, Wellbeing and Propotech.

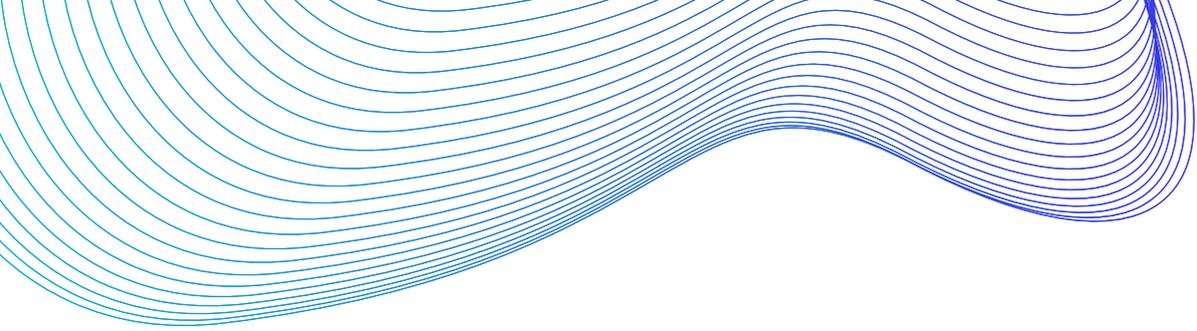




Discussion will go further with E-commerce and Fintech sectors with the two being top sectors with the most exits compared to other sectors. Additionally, selected key sectors will be interpreted afterwards.

E-commerce is one of the sectors that receive the most investment by volume, so the results were expectable. The reason why this is the case can be related to the increase in the digitalization trend with the effect of the pandemic and technological developments; thus causing an increase in the number of e-commerce users, ultimately an increase in e-commerce companies' success. Some of these developments include increase in online stock management solutions, development of delivery systems, and development of payment systems especially in terms of security. All these brought a dramatic attraction from the entrepreneurial ecosystem toward this sector in terms of startup establishments, investments, and exit opportunities. Investors started to give a lot of space to entrepreneurs from this vertical in their portfolios because they are more successful and have lower risk. The same applies for buyers where they preferred e-commerce startups which are more profitable and have low risk. Based on these interpretations, it can be expected that e-commerce sector will continue to attract the ecosystem and support its development.

Fintech covers online banking, crypto money technologies, billing (accounting), NFT and blockchain technologies. One of the reasons why this sector is at the forefront and attracts attention by entrepreneurs can be related to the successful development of the e-commerce sector and its success. As the e-commerce industry developed, needs such as secure and fast payment systems have emerged. In other words, the two sectors became solution partners for each other. In addition, as a result of the recent development in NFT and blockchain technology, the increase in user interest in crypto money initiatives have triggered the exit success of startups from the Fintech sector. Also the majority of large companies with need of digital accounting services such as e-invoicing have increased the interest in Fintech startups. In the light of all this, it is not a surprise that Fintech sector, which offers solutions that require high know-how to many users, achieved this high exit rate.



As seen in the KPMG's Turkish Startup Investments review (2021), **Gaming** is the sector that recently received the most VC investment by number in Turkey. Since unicorns and even decacorns emerged from Turkey in this field, the interest of the ecosystem has shifted to this sector. So it has recently received a lot of investment. Although this sector does not currently have the highest number of exits; in the light of all this, the number exits is highly expected to increase in the future. Therefore it is likewise important for the ecosystem to put emphasis on this sector for their future plans.

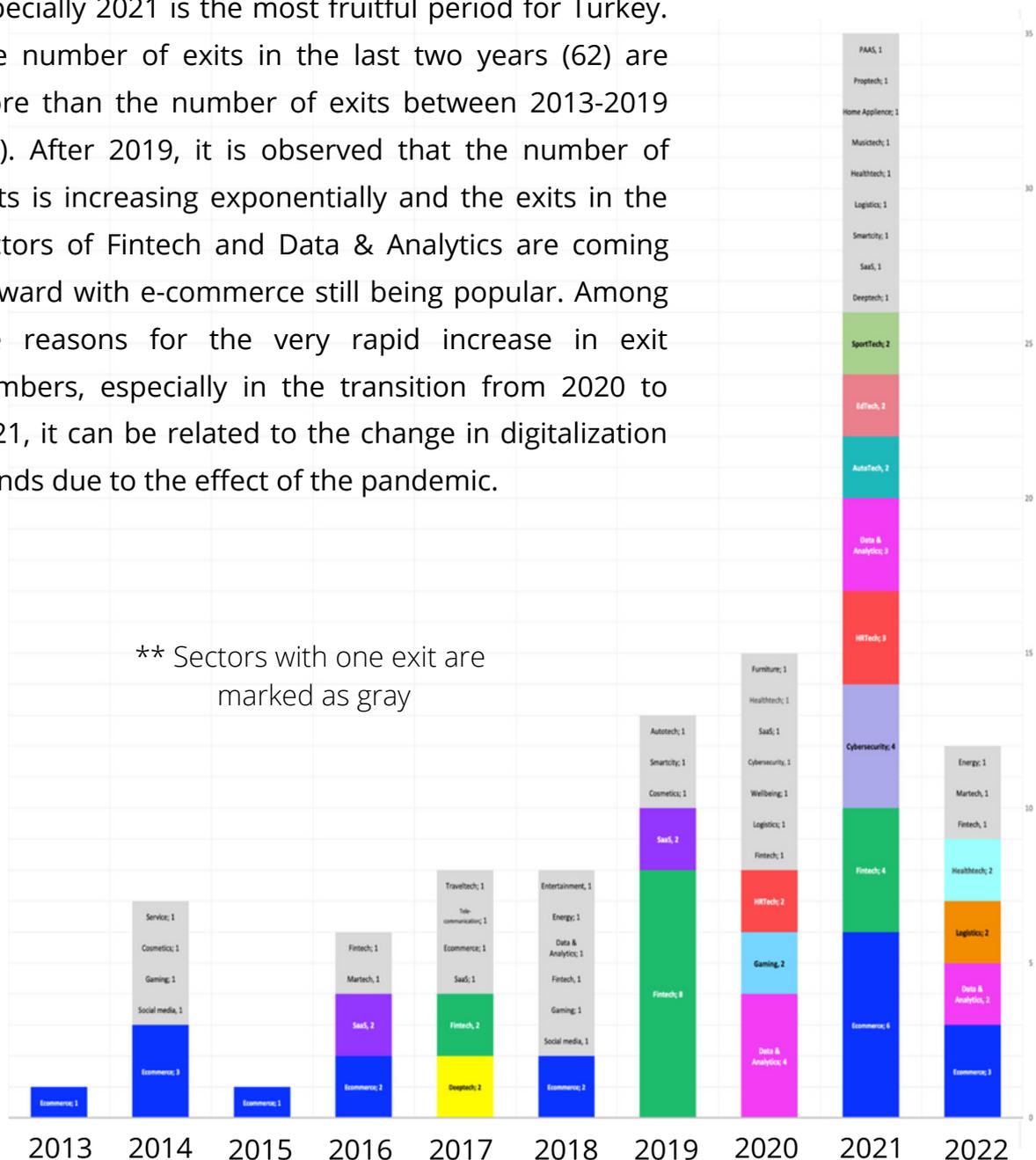
Healthtech sector also gained importance after the pandemic (Healthcare Finance, 2022). However, as it is an area with many technical and regulatory requirements which also affects the exit durations; so it is expected that we do not encounter many exits from this sector yet as expected. Ecosystem actors should take this into consideration while dealing with this sector.

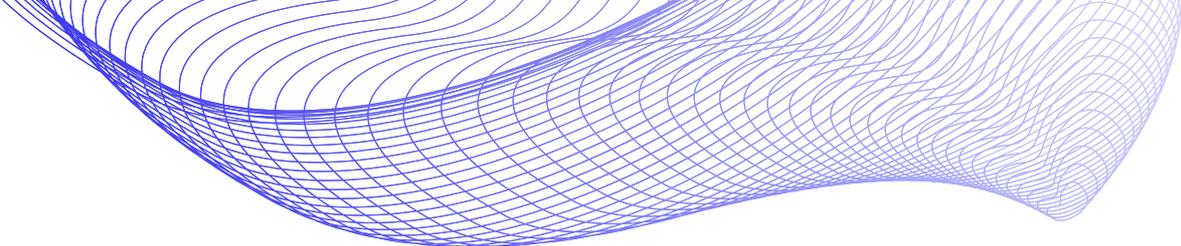
Another sector that is selected to be further discussed is **Deeptech**. The reason is that this is one of the sectors that is among top 10 in Turkish VC investments data (KPMG, 2021) but its exits are among "other" sectors with 3%. This result may have occurred for many reasons. Deeptech startups have high standard requirements for development in terms of know-how, technical capabilities and infrastructure. Besides, there are also regulatory requirements adding up which involve many testing processes. Considering the fact that Deeptech startups are dealing with state of the art technologies, requirements are even harder to fulfill compared to conventional ones. All of these consume a lot of time and money which affects the exit potential. It takes a long time for the startup to become mature enough to simply prove and manufacture their product/service. Ecosystem actors must ease the development process of Deeptech startups otherwise investments will not make returns as expected or investments will decrease so do the startups. This would be a big loss for the ecosystem due to Deeptech being among promising sectors for the future.

SECTORS BY YEARS IN TURKISH VC EXITS

Regarding sectors, another analysis was conducted by combining exits' sector and exit year data which portrayed the trends in sectors by years. Besides, the trend in number of exits by years was also revealed. The results showed that before 2019, e-commerce turns out to be the sector that clearly stands out. Each year from 2013 till 2019 there is at least one exit from e-commerce. Regarding exit numbers, the last two years especially 2021 is the most fruitful period for Turkey.

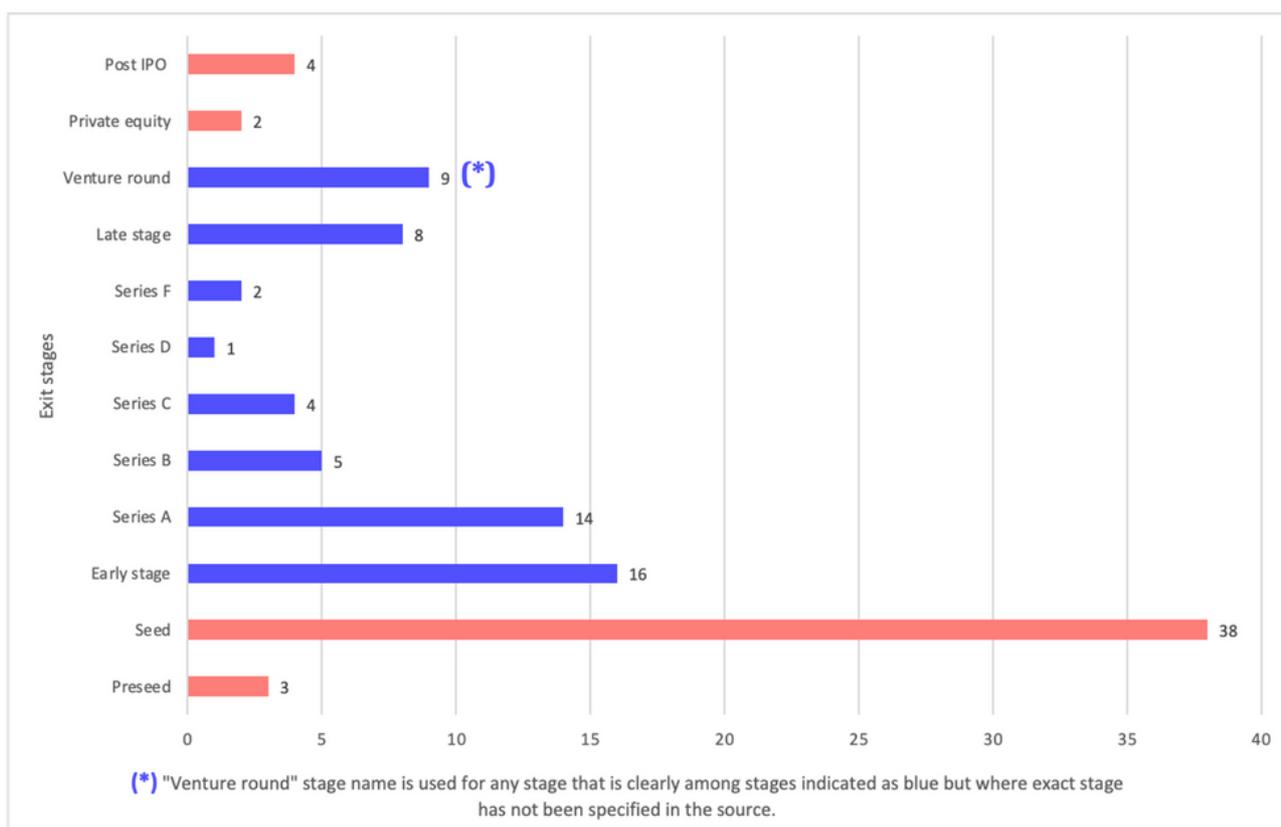
The number of exits in the last two years (62) are more than the number of exits between 2013-2019 (44). After 2019, it is observed that the number of exits is increasing exponentially and the exits in the sectors of Fintech and Data & Analytics are coming forward with e-commerce still being popular. Among the reasons for the very rapid increase in exit numbers, especially in the transition from 2020 to 2021, it can be related to the change in digitalization trends due to the effect of the pandemic.

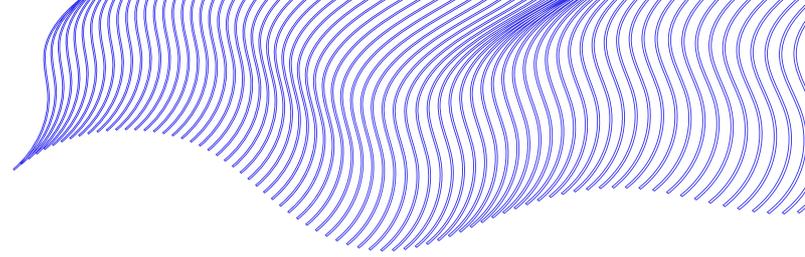




EXIT STAGES OF TURKISH VC EXITS

The analysis of stages at which Turkish VC backed startups made exits were presented in Figure 15. Results showed that most of the exits (36%) occurred at Seed stage. Seed was followed by Early stage and Series A stage exits with 15% and 13% respectively. In theory chapter, Series A, B are presented under early stage and will be interpreted as so in discussion. The rest of the stages mainly consisting of growth and late stages were below 8%. 3 exits were recorded at Preseed stage that was interpreted as uncommon as if an outlier. To sum up, the main idea that should be interpreted from the results is the fact that majority of exits were made at seed and early stages and minority at growth and late stages.





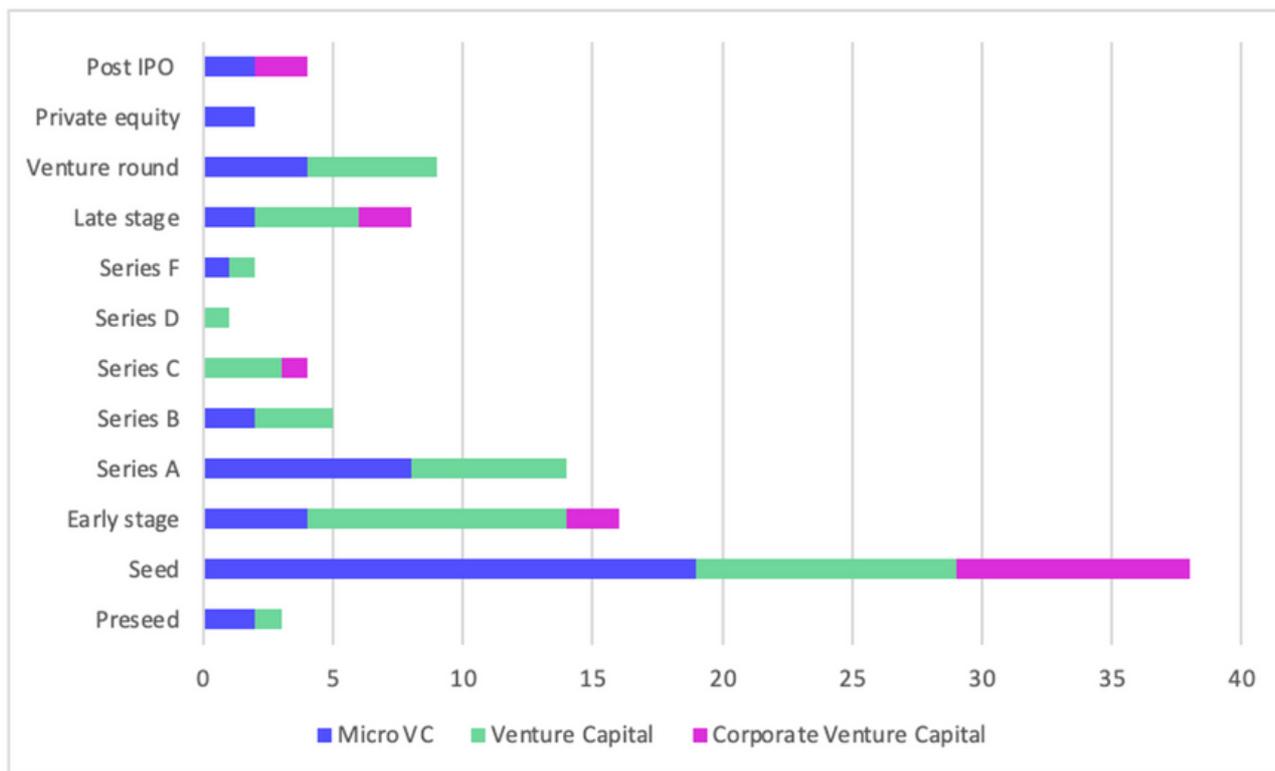
Reports from CB Insights (2022) and KPMG (2021), indicate that majority of investments were made at seed stage (77%) for Turkey landscape and at early stage (63%) for global landscape. Other report findings showed similar patterns with our results which is an interesting outcome considering the fact that investment and exit stages are two different phases in a startups lifecycle and inherently expected to have stage differences between them. Similarly with Preseed, it is the earliest startup development stage, and exits made at this stage are rare in the natural course.

As for the reasons that majority of exits were made at seed and early stages and minority at growth and late stages, can be related to the fact that startups that have the potential to succeed are put in an exit process at earlier stages by other companies or funds at low valuation. Buyers may have started the exit process with startups with undervaluation at an early stage, due to the possibility of the startups' valuation going up and buying a lower-than-desired share with each investment round. Also, according to Schwienbacher (2010), VCs are not long-term investors and when investing they seek an exit option within a few years. Besides VCs getting rewarded based on exit value, they also have incentives to make profitable exit deals without unnecessary delay. This may also be the reason why so many exits took place at early stages. Another reason may be that buyer large companies can make an exit deal with startups which develop the solution they need, at an early stage; anticipating that it will be much more costly to develop the solutions they need in their own departments. Here large companies may be under pressure to develop the solution they need with less time and low cost. Therefore, they can solve this solution by purchasing early-stage startups at low valuation.

Since the startups exited at the early stages have not actually completed their full growth and company dynamics often change after exits, there may be a high probability of problems occurring and even failure in the future. Startups and buyers are advised to consider this situation thoroughly. Even though it may seem advantageous in the beginning for an exit option at early stages, in the long run it may not be a win-win for both parties.

EXIT STAGES & FUND TYPE

CORRELATION OF TURKISH VC EXITS



Regarding exit stages, another analysis was conducted by combining exits' stages and fund type data which portrayed the exit trends in fund types by stages and aimed to reveal any significant correlation between them. In the results, it was observed that the exits of CVC exits were lower in late stages (~30%), especially in the serial rounds whereas highest in early stages (almost 70%). This can be evaluated in two ways. Firstly, while CVCs invest in early-stage startups, they may be avoiding investing in late-stage startups due to the high valuation. Secondly, simply their late-stage investments could not be exiting which means that they could not choose the right startups on the scouting side.

Regarding Micro VC and VCs, it was also observed that a high number of exits were at early stages (almost 60% for VC and 70% for Micro VCs), especially at seed stage for Micro VCs. When compared to CVCs, it can be said that exits of VCs and Micro VCs were more proportionally distributed to other stages; whereas in CVCs there was no meaningful distribution observed among other stages.

IN A NUTSHELL



EXIT TYPE

M&A is the highest type of exit by a wide margin than other types especially with **IPO type**

FUND TYPE

VCs & Micro VCs dominated exits compared to **CVCs**
Nevertheless, CVCs are more and more becoming visible in the game.

SECTORS

Majority of exits belonged to **e-commerce** & **fintech** sectors.

EXIT STAGE

Majority of exits occurred at **seed** and **early stages** with seed leading. Minority at **growth** and **late stages**

EXIT DURATION

Investments exit between **3-4 years** (~3,5 years) on average with a standard deviation of 2 years



SUSTAINABILITY

According to UN definition, sustainable development is defined as the long-term stability of the economy and environment which is told to be only achieved via the integration and acknowledgement of economic, environment and social concerns into all aspects of decision-making process (United Nations General Assembly, 1987). The three dimensions of sustainable development, “economic, environmental and social”, are accepted as the main pillars of sustainability. When this report is analyzed from the point of view of these three pillars, although it contributes to each pillar indirectly, it mainly serves for the economic pillar of sustainability. As recognized in the UN report on Entrepreneurship for Sustainable Development (2020), entrepreneurial ecosystem makes contribution to sustainable development by creating jobs, driving economic growth and innovation, improving social conditions, and addressing social and environmental challenges. Just as other actors of the entrepreneurial ecosystem, VCs contribute to revealing the economic potential of countries by supporting entrepreneurship, creativity, and innovation, which creates new momentum for economic growth and job creation. Although VCs contribution to the ecosystem may seem only on an economic dimension, they can also contribute to other pillars indirectly due to the contributions of portfolio startups to other pillars (e.g. startups tackling the improvement of social structure and environmental preservation). This report tried to tackle the low success rates in the VC industry and aimed to guide the ecosystem actors in their future plans; therefore, all contributions mentioned above can also be said for the contribution of this report.

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THANK YOU

Stay tuned for more valuable insights on the
entrepreneurial ecosystem

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