Turkey

Destination for Early Stage Investments

September 2020
What makes a country attractive for early stage investments?

• A supportive ecosystem
• Investments and successful exits
• New investment opportunities
Supportive Ecosystem
A Supportive Startup Ecosystem

**FUNDING**

- Business Angel Networks
- Corporate Investors
- Local Investors & VCs
- Foreign GEs PEs
- Accelerator Funds
- Foreign VCs
- Business Angels
- Crowdfunding
- FI/DFI
- Fund of Funds/Grants
- Local GE & PEs

**SUPPORTING**

- Technoparks
- Community Centers
- Media
- Mentor Trainers
- Living Labs
- Deal Rooms / Investment Platforms
- Co-working spaces
- Start-up Events
- Government
- NGOs & Organizations
- Investor Analytics
- Accelerators
Turkish Startup Ecosystem in 2010

**FUNDING**

- Business Angel Networks
- Business Angels
- Crowdfunding
- FfS/Grants
- Local GE & PEs
- Accelerator Funds
- Tech Accelrtr Funds
- Local Investors & VCs
- Accelerators (Run by Banks)
- Corporate Investors
- Foreign VCs
- Foreign GE & PEs
- Corporate Investors & GE & PE
- Corporate Investors & GE & PE

**SUPPORTING**

- Accelerators (Run by Universities, TTO, Technoparks, NGOs)
- Accelerators (Privately Held)
- MENTOR Trainers
- Media (English)
- Technoparks
- Investor Analytics
- Community Centers
- Mentor Movement
- Top 3 Startup Friendly Companies

**Source:** Startups.Watch
Turkish Startup Ecosystem in 2020

FUNDING

- BUSINESS ANGEL NETWORKS
- BUSINESS ANGELS
- CROWDFUNDING
- FFs/GRANTS
- LOCAL GE & PEs
- ACCELERATOR FUNDS
- TECH ACCLRTR FUNDS
- LOCAL INVESTORS & VCs
- FOREIGN VCs
- FDI
- CORPORATE INVESTORS
- CORPORATE INVESTORS & GE & PE

SUPPORTING

- ACCELERATORS (RUN BY UNIVERSITIES, TTO, TECHNOPARKS, NGOs)
- ACCELERATORS (RUN BY BANKS)
- LIVING LABS
- ACCELERATORS (PRIVATELY HELD)
- MENTOR TRAINERS
- MEDIA (ENGLISH)
- TECHNOPARKS
- INVESTOR ANALYTICS
- COMMUNITY CENTERS
- MENTOR MOVEMENT
- TOP 3 STARTUP FRIENDLY COMPANIES
- NGOs & ORGANIZATIONS
- GOVERNMENT
- DEAL ROOMS / INVESTMENT PLATFORMS

Source: Startups.Watch

10 Years Challenge

Turkish Startup Ecosystem in 2020

463 Accredited Business Angels

(As of September 30, 2018)
Ongoing Reform Process in Turkey

- **1981**: Capital Markets Law (L.No:2499)
- **1982**: Establishment of the Competition Board (L.No:4054)
- **1985**: Technology Development Foundation of Turkey
- **1987**: Establishment of the Capital Markets Board
- **1987**: Issuance of the first mutual fund
- **1991**: Establishment of the Istanbul Stock Exchange
- **1994**: Foreign Direct Investment Law was passed (L.No:4875)
- **2000**: The first venture capital trust offered to the public
- **2001**: The Law on Technology Development Zones (L.No:4487)
- **2003**: Establishment of Invest in Turkey Agency (L.No:5523)
- **2006**: The Law on Supporting R&D Activities (L.No:5746)
- **2007**: New Investment Incentive Scheme
- **2008**: New Capital Markets Law (L.No:6362)
- **2009**: Introduction of VC Funds by the Capital Markets Board
- **2011**: New Commercial Law (L.No:6102)
- **2012**: New Investment Incentive Scheme
- **2013**: Tax Incentive Program for Companies investing in VC Funds
- **2014**: The Law on Supporting R&D Activities updated
- **2014**: Crowd funding legislation was passed
- **2015**: Establishment of the Turkey Wealth Fund
- **2016**: Tübitak 1514 Tech-InvesTR "Venture Capital Funding Program" V1
- **2017**: Tübitak 1514 Tech-InvesTR "Venture Capital Funding Program" V2
- **2018**: New Investment Incentive Scheme
- **2019**: Law on Industrial Property Rights went into force (L.No:6769)
- **2020**: Growth and Innovation Fund established by Development Investment Bank of Turkey

**Key Events**:
- **1981**: Ongoing Reform Process in Turkey
- **2018**: Capital Markets Law (L.No:2499)
- **2019**: Establishment of the Competition Board (L.No:4054)
- **2020**: Technology Development Foundation of Turkey
- **2021**: Establishment of the Capital Markets Board
- **2022**: Issuance of the first mutual fund
- **2023**: Establishment of the Istanbul Stock Exchange
- **2024**: Foreign Direct Investment Law was passed (L.No:4875)
- **2025**: The first venture capital trust offered to the public
- **2026**: The Law on Technology Development Zones (L.No:4487)
- **2027**: Establishment of Invest in Turkey Agency (L.No:5523)
- **2028**: The Law on Supporting R&D Activities (L.No:5746)
- **2029**: New Investment Incentive Scheme
- **2030**: New Capital Markets Law (L.No:6362)
- **2031**: Introduction of VC Funds by the Capital Markets Board
- **2032**: New Commercial Law (L.No:6102)
- **2033**: Law on Supporting R&D Activities updated
- **2034**: Crowd funding legislation was passed
- **2035**: Establishment of the Turkey Wealth Fund
- **2036**: Tübitak 1514 Tech-InvesTR "Venture Capital Funding Program" V1
- **2037**: Tübitak 1514 Tech-InvesTR "Venture Capital Funding Program" V2
- **2038**: New Investment Incentive Scheme
- **2039**: Law on Industrial Property Rights went into force (L.No:6769)
- **2040**: Growth and Innovation Fund established by Development Investment Bank of Turkey
Government grants were the most active financing solution in the idea stage in 2019. The share of government grants was; %100 in idea stage and %20 in seed & early VC stage.

**Idea Stage**
- 985 Startups received $8.6M government grants in 2019 through Tubitak and Kosgeb Programs

**Seed & Early VC Stage**
- 983 Startups received $24M government grants in 2019 through Tubitak and Kosgeb Programs
- 91 Startups raised $95M through Angels & Venture Capital Funds

Source: Tubitak (The Scientific and Technological Research Council of Turkey), Kosgeb (Small and Medium Enterprises Development Organization of Turkey)
Government Supports the Early Stage Investors

When invested through venture capital and private equity funds in Turkey, instead of investing directly into the companies:

%0

- Withholding tax for the distributed dividends
- Withholding tax on exit

When invested in the Turkish Venture Capital Investment Trusts and Funds by corporations:

The investment amount can be deducted from the corporate income tax base\(^1\)

When invested in startups by individuals with a Business Angel Certificate\(^2\):

75% of the investment amount can be deducted from the angel investor’s personal tax base\(^3\)

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\(^1\) Turkish Tax Law, Article:325/A - Up to %10 of the total corporate income tax base. - On exit from the fund, same amount must be invested in similar venture capital funds within maximum 6 months after exit, otherwise exempted tax amount will be paid. Even in this case, it can be considered as a tax postponing.

\(^2\) Can be obtained from the Turkish Treasury

\(^3\) Shares must be held by the angel investor for at least 2 years. - In cases where the angel investment is made in companies that have research, development, and innovations projects that are supported by the Ministry of Industry and Technology, Scientific and Technological Research Council of Turkey (TUBITAK) and Small and Medium Industry Development and Support Organization (KOSGEB) within the last 5 years, deduction amount will be %100 instead of %75.
Turkey’s Global Rankings in Social Media Use

Facebook
43M Reach
9th

Instagram
38M Reach
5th

Twitter
9M Reach
5th

Linkedin
7.3M Reach
17th

Source: Digital 2019 Report-Turkey, January 2019, Hootsuite & we are social

Mobile, Internet, and Social Media Use in Turkey

Penetration Rate

<table>
<thead>
<tr>
<th>Total Population</th>
<th>Mobile Subscription</th>
<th>Internet Users</th>
<th>Active Social Media Users</th>
<th>Mobile Social Media Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>82.4 Million People (2019)</td>
<td>76.3 Million People</td>
<td>59.4 Million People</td>
<td>52.0 Million People</td>
<td>44.0 Million People</td>
</tr>
</tbody>
</table>

Average Daily Time Spent Using

- the Internet: 7h 15m
- Social Media: 2h 46m
- TV Viewing: 3h 9m
- Listening to Streaming Music: 1h 15m

Source: Digital 2019 Report-Turkey, January 2019, Hootsuite & we are social
Large and Increasing Population

Populations in 2020 EU Countries, UK and Turkey

1. Germany 83.8
2. Turkey 83.2
3. UK 67.9
4. France 65.3
5. Italia 60.5
6. Spain 46.8
7. Poland 37.8
8. Romania 19.2
9. Netherlands 17.1
10. Belgium 11.6
11. Greece 10.4
12. Czechia 10.7
13. Portugal 10.2
14. Sweden 10.1
15. Hungary 9.7

Population Projections for 2050 EU Countries, UK and Turkey

1. Turkey 104.8 ▲
2. Germany 82.7 ▼
3. UK 77.6 ▲
4. France 74.4 ▲
5. Italia 59.0 ▼
6. Spain 49.3 ▲
7. Poland 34.4 ▼
8. Netherlands 19.2 ▲
9. Romania 16.3 ▼
10. Belgium 13.3 ▲
11. Sweden 12.7 ▲
12. Czechia 10.5 ▼
13. Austria 10.2 ▲
14. Hungary 9.3 ▼
15. Portugal 9.1 ▼


83.2 million people
### Young and Dynamic Population

#### Median Age in 2020

<table>
<thead>
<tr>
<th>Position</th>
<th>Country</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>45.9</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>45.1</td>
</tr>
<tr>
<td>3</td>
<td>Portugal</td>
<td>43.5</td>
</tr>
<tr>
<td>4</td>
<td>Bulgaria</td>
<td>43.4</td>
</tr>
<tr>
<td>5</td>
<td>Greece</td>
<td>43.4</td>
</tr>
<tr>
<td>6</td>
<td>Austria</td>
<td>43.0</td>
</tr>
<tr>
<td>7</td>
<td>Croatia</td>
<td>42.8</td>
</tr>
<tr>
<td>8</td>
<td>Slovenia</td>
<td>42.8</td>
</tr>
<tr>
<td>9</td>
<td>Latvia</td>
<td>42.7</td>
</tr>
<tr>
<td>10</td>
<td>Lithuania</td>
<td>42.7</td>
</tr>
<tr>
<td>11</td>
<td>Finland</td>
<td>42.4</td>
</tr>
<tr>
<td>12</td>
<td>Spain</td>
<td>42.3</td>
</tr>
<tr>
<td>13</td>
<td>Netherlands</td>
<td>42.2</td>
</tr>
<tr>
<td>14</td>
<td>Hungary</td>
<td>41.6</td>
</tr>
<tr>
<td>15</td>
<td>Turkey</td>
<td>32.4</td>
</tr>
</tbody>
</table>

#### Median Age Projections for 2050

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<tr>
<th>Position</th>
<th>Country</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Portugal</td>
<td>52.4</td>
</tr>
<tr>
<td>2</td>
<td>Greece</td>
<td>52.3</td>
</tr>
<tr>
<td>3</td>
<td>Lithuania</td>
<td>51.8</td>
</tr>
<tr>
<td>4</td>
<td>Italy</td>
<td>51.4</td>
</tr>
<tr>
<td>5</td>
<td>Poland</td>
<td>50.7</td>
</tr>
<tr>
<td>6</td>
<td>Bulgaria</td>
<td>50.1</td>
</tr>
<tr>
<td>7</td>
<td>Cyprus</td>
<td>49.8</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>49.3</td>
</tr>
<tr>
<td>9</td>
<td>Latvia</td>
<td>49.3</td>
</tr>
<tr>
<td>10</td>
<td>Slovakia</td>
<td>49.0</td>
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<tr>
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<td>Croatia</td>
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</tr>
<tr>
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<td>13</td>
<td>Slovenia</td>
<td>47.7</td>
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<tr>
<td>14</td>
<td>Austria</td>
<td>47.5</td>
</tr>
<tr>
<td>15</td>
<td>Turkey</td>
<td>40.5</td>
</tr>
</tbody>
</table>

Half of the population is below 32.4 years old

Source: EUROSTAT, TURKSTAT, Million people. ¹: The EU countries’ 2015 records.
One of the Largest Talent Pools in Europe and MENA Region

Number of graduates from universities during the 2018-2019 academic year in Turkey

891,458

41,040 university graduates from Engineering and Engineering Trades
14,351 university graduates from Information and Communication Technologies (ICT)

Source: Council of Higher Education. Associate Degree Programs, Bachelor’s Degree Programs and Graduate Programs are included.
The number of accelerator programs in Turkey increased 8 times in the last decade and reached 57 at the end of 2019.

Given the popularity of fintech in Turkey, 8 banks launched fintech-focused accelerator programs in the last period. Also, 15 technoparks started new accelerator programs, both locally and internationally.
61 Technoparks and 44 co-working spaces in Turkey house more than 5,000 startups & scaleups & grownups and the number of employment exceeds 60,000 people in those places.
Major Start-up Events in Turkey

- Take Off International Startup Summit
- WBAF World Business Angels Investment Forum
- Startup Turkey
- Ankara Start-Up Zirvesi
- Glocal Start-Up Days
- Webrazzi Summit
- Big Bang Start-Up Challenge
- Geleceğin Gücü Girişimciler
Investments and Successful Exits
Early Stage Investments in Turkey since 2010

Angel and VC funding for Turkish startups grew by 69% to $105M (100 deals) in 2019.

Source: Startups.watch Only disclosed equity fundings are counted. Non-Equity, Secondary and Post-IPO transactions, Grants and convertible debts are excluded.
Most Funded Verticals

Grocery delivery received the largest amount of fund, whereas Fintech received the highest number of funding rounds in 2019.

Source: Startups.watch Only disclosed equity fundings are counted. Non-Equity, Secondary and Post-IPO transactions, Grants and convertible debts are excluded.
Early Stage Investments in 2019 in Europe

Angel and VC funding for Turkish startups grew by 69% and reached to $105M in 100 deals last year.

<table>
<thead>
<tr>
<th>Super League</th>
<th>1.League</th>
<th>2.League</th>
<th>3.League</th>
</tr>
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<tbody>
<tr>
<td>UK</td>
<td>Belgium</td>
<td>Estonia</td>
<td>Latvia</td>
</tr>
<tr>
<td>Germany</td>
<td>Denmark</td>
<td>Hungary</td>
<td>Croatia</td>
</tr>
<tr>
<td>France</td>
<td>Finland</td>
<td>Island</td>
<td>Albania</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Ireland</td>
<td>Malta</td>
<td>Belarus</td>
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<tr>
<td>Netherlands</td>
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<td>Czechia</td>
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<td>Spain</td>
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<td>Serbia</td>
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<tr>
<td>Sweden</td>
<td>Poland</td>
<td>Ukraine</td>
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<td></td>
<td>Austria</td>
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<td></td>
<td>Russia</td>
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<td></td>
<td>Portugal</td>
<td>Romania</td>
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<tr>
<td>Lithuania</td>
<td>Luxembourg</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Turkey</td>
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</tr>
</tbody>
</table>

Source: Startups.Watch
Turkish Startups’ M&A Activities in the last decade
Turkish Startups’ largest deals in the last decade

2011
- **Ebay**: Global marketplace
- **Gittigidiyor**: Ebay acquired Turkish leading marketplace: Gittigidiyor

2015
- **Delivery Hero**: German takeout food company Delivery Hero bought Turkish yemeksepeti.com for $589M

2018
- **Zynga**: Zynga bought Turkish game developer Gram Games for $250M
- **Atlassian**: Australia based software developer paid $295M for Turkish e-commerce company Trendyol
- **Alibaba**: Chinese Alibaba paid $728M for the %82 stake of the Turkish e-commerce company: Trendyol

2019
- **PayU iyzico**: Naspers’s PayU bought fintech startup Iyzico for $165M
- **Microsoft**: Microsoft acquired Turkish open-source firm Citus Data

2020
- **SOVOS**: Sovos acquired Turkish e-invoice startup Foriba
- **Team Blue natro**: Team Blue acquired Turkish web hosting firm Natro
- **Yabb Fango**: Social networking and instant messaging company Yabb acquired influencer marketplace Fango
- **TPAY Mobile Payguru**: UAE-based FinTech firm TPAY Mobile acquired Turkish mobile payment platform Payguru
- **Zynga peak**: Zynga bought Turkish mobile game maker Peak for $1.8bn
- **Zynga Rollic**: Zynga paid $168M for the %80 stake of the Turkish mobile game maker Rollic
Peak Games has become Turkey’s first Unicorn

- The US-based interactive entertainment giant Zynga acquired a Turkish mobile game developer Peak Games for $1.8 billion.
- Peak’s investors had included European VCs Earlybird and Hummingbird Ventures and Endeavor Global.
- Zynga had also bought Peak Games’ mobile card game for $100 million back in 2017. And also bought %80 stake of Rollic Games for $168 million in 2020 (after Peak deal).

**Zynga**

- The leading global social game developer running social video game services.

**Peak**

- Founded by Mr. Sidar Sahin in Istanbul, Turkey, in 2010.
- The owner of Toon Blast and Toy Blast games, which have over 12 million average mobile daily active users.
VC Fund Raising Activity in Turkey

18 local VC funds has raised 354 $M funds in Turkey since the beginning of 2018

Source: Startups.watch Only local funds are considered. 2020 figures are as of April 30.
CVC participation in early stage investments has been on the rise in the last 4 years.

Source: Startups.watch Only disclosed equity fundings are counted. Non-Equity, Secondary and Post-IPO transactions, Grants and convertible debts are excluded.
An Investment Opportunity; co-investing with the Turkish Treasury and Technoparks in Turkey

Tübitak 1514
"Tech-InvesTR"
Venture Capital Funding Program
Co-investing in Turkish startups with Turkish Treasury

Tübitak 1514 - Tech-InvesTR “Venture Capital Funding Program”

A support program by TÜBİTAK to provide grants to venture capital funds focusing on early stage equity investments in technology based small and medium sized enterprises.

Investors (Limited Partners)

Universities + TÜBİTAK + Ministry of Treasury and Finance + Private LPs

Fund Managers (General Partners)

5 Venture Capital Funds selected by TÜBİTAK & Turkish Treasury

Technology based startups & Early stage ventures in Turkey
Co-investing in Turkish startups with Turkish Treasury

Venture Capital Funds to be Supported by the Turkish Treasury for the Tubitak 1514 Program:

• 500 Startups Istanbul Annex L.P.
• Arz Gayrimenkul ve Girişim Sermayesi Portföy Yönetimi A.Ş.
• Bogazici Ventures / Gedik Portföy Yönetimi A.Ş.
• Collective Spark Fund B.V.
• Diffusion Capital Partners II SCSp

Note: Shown in alphabetical order.
Why Invest in Turkish Startups?

- Mature ecosystem supported by ever expanding reforms
- Affordable and competent developer pool
- Large and young population with high tech penetration rates, ideal for product testing
- Increasing investment trend in diverse sectors of industry with increasing VC and CVC involvement
- Successful exits to global companies
- Co-investment opportunity with the Turkish Treasury to benefit from the next successful exit round