

Starting and raising the Series A round

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Introduction – taking stock of the Turkish start up landscape

Great momentum since 2005...

- Sustained economic growth has put Turkey firmly in the top-20 with a **GDP of ca. \$800 bn.**
- Compares well with other markets in terms of foreign investor perception:
 - **Favourable demographics** compared to rest of Europe / CIS region
 - Significantly **better infrastructure** (human and physical) than the rest of Middle East / Africa
 - **Stronger rule of law, low corruption index compared to other** big emerging markets like Mexico, S. Africa, Russia, India, etc.
 - **More accessible** than South East Asia and China
- Funds that have invested are seeing **good results** and **a few big successes** > \$100M market cap

The real opportunity is ahead

...but this only the beginning

- Only a handful of VC's have actually made \$5 million+ investments
 - Many are waiting on the sidelines and will probably start to come in soon
- **Talent is starting to pour in** with reverse migration of top talent from Ivy schools in the US, and from UK, Germany and rest of Europe
- **Supporting structure** coming into place:
 - Incubators (Etohum, Stratosphere)
 - Competitions and events (IBM, MIT, etc.)
 - Angel networks
 - Universities supporting research

Journey of our portfolio companies

Date	Trendyol.com	Peak Games
2009 Q4	Founded	
2010 Q1		
2010 Q2	Sales begin	
2010 Q3	1st Rnd w. Tiger	Founded
2010 Q4	2nd Rnd w. Tiger	1st Rnd w. Hummingbird
2011 Q1		
2011 Q2	3^d Rnd w. Tiger and Kleiner	2nd Rnd w. Earlybird
2011 Q3		3rd Rnd w. Earlybird, H.bird and Alpha



Today:
One of the top ecommerce companies in Turkey with > \$100 million in revenues



Today:
Top gaming company in Turkey/MENA and #6 globally with > 15 million monthly active users

Key lessons learnt in the fundraising process

- **Don't be too valuation-sensitive**
 - The company's success is driven by how well it does
 - Think of the funds as your strategic partners, rather than entities that are “buying shares”
- **Choose funds that particularly suited to the company** and can add value beyond \$ - we have been extremely lucky in this respect:
 - Suitable for the stage of the company
 - Well connected in the respective industry
 - Open to collaborating with other funds
- **Practical advice on negotiating terms**
 - Know what to negotiate and what's “sine qua non” for the funds
 - Don't let the lawyers do the negotiating for you, make sure you have a detailed term sheet that covers all the key “substance”
 - Don't fuss about contingency terms etc. many of them are unenforceable under Turkish law any ways and most investor agreements are rewritten at the next round
 - Most funds will typically not enforce special rights, vetos etc. when the company is doing well – their main goal is to keep the entrepreneur happy
- If you have the option, set up the **legal entity** in BVI, Luxembourg or Netherlands as Turkish Commercial law can be somewhat restrictive with options, minority rights etc.

What VCs expect to see at the outset

- Strong, committed, experienced **management team**; previous track record of management / angel investors is a big plus
- **Business plan** – this is less about detail, and more about “have you really thought this thing through ?”
 - Value proposition - solid understanding of market, product, differentiation
 - Comps - comparable businesses in Turkey and outside, key learnings from them
 - Stickiness – how vulnerable is the business to changes in tech, consumer behaviour etc.
 - Traction - in revenues, users, etc. to see that your assumptions are valid
 - Growth - how do you plan to grow / spend funding proceeds ?
 - Lockins - what prevents everybody from cloning you if you are successful ?
 - Size of opportunity – most VCs look for exit opportunities greater than \$100M
 - Exit plan - strategic sale, IPO, else ?
- **Realistic expectations** about how to work with VCs, valuation, DD process (from 2 weeks to 6 months) etc.
- **Protective rights:** right of first refusal, tag along, drag along, lock-in, liquidation preference, option pool, board seat, “nay” over major decisions etc.

Thank you for listening !