



شركة وادي الرياض
Riyadh Valley Co

Venture Capital:

What is it and how does it work?



April 2022

Introduction



Consumer and business patterns have been in a transitional phase in the last decade, the effect of this transition was more pronounced in the last couple of years as various stakeholders of the global economy were seeing doubling down on the digitalisation front due to the pandemic. With changing consumption habits, and the way business is conducted, the world witnessed an advent of new businesses opening up. These new-age business or segments demand financing at various stages of growth, but are typically seen as high risk investments with nascent stage of business, illiquidity of investment, and long-time horizon.

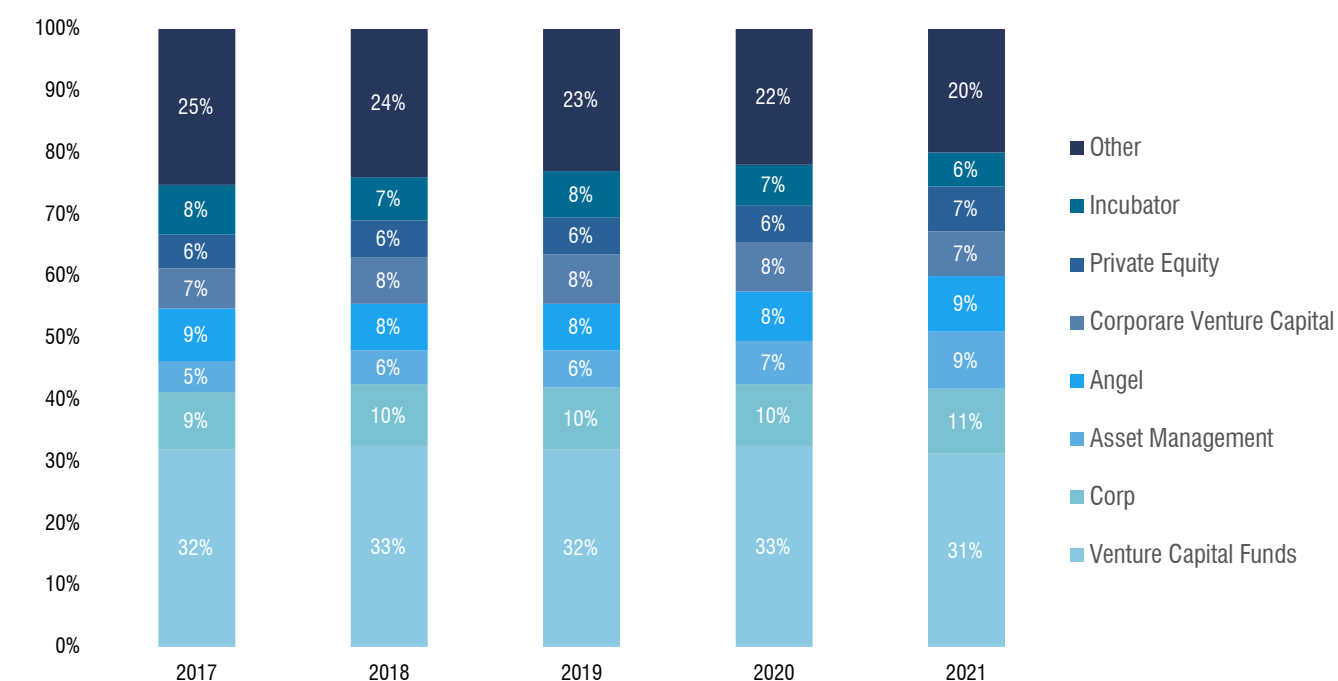
Private investment vehicles have an appetite for such high risk- high return ventures and among private investment vehicles, Venture Capital funds are the most prominent with more than 30% of the private investment deal share in the last five years. Global venture funding has witnessed an annual growth of 111% to reach USD 620.8billion in 2021, fuelling the growth of new businesses. Interestingly, of this USD 620.8billion, USD 132billion has been raised by fintech start-ups, accounting for roughly 20% of global venture funding in 2021.

Closer to home in MENA, last couple of years of the global pandemic have underscored the need of diversifying from the oil-economy, to embrace the new digital economy. To this effect, we see a marked growth in the private sector concerning new businesses, new business licenses issued, and growth of small and medium size enterprises in the region. On the financing end of the business, Saudi Arabia, UAE and Egypt are the market leaders in total venture capital funding in the region. Saudi Arabia in particular has witnessed a growth of nearly 3x in venture funding in 2021 relative to 2020 to touch USD 548million in venture funding.

Overview of Venture Capital

Venture Capital funds dominate the investment deal share among private investment vehicles, holding more than 30% of total deals over the last 5 years.

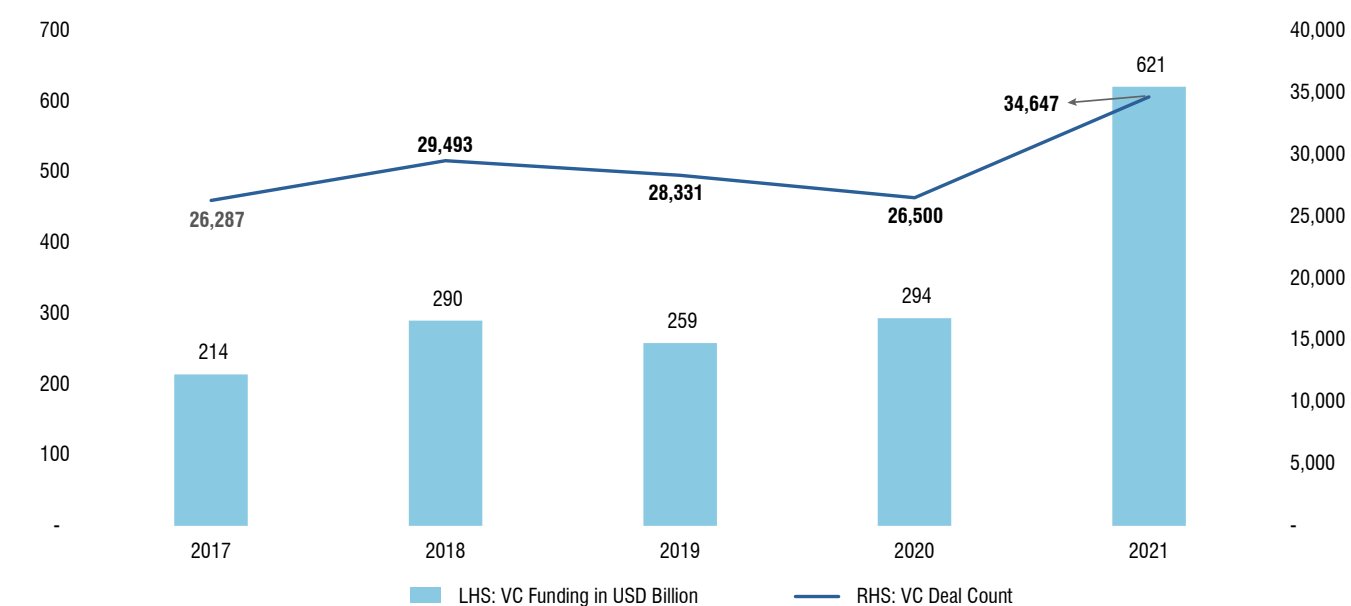
Deal Share by Type



Source: CB Insights

Global venture funding continues its upward momentum, with VC funds rising roughly 3x in 5 years to reach USD 620.8billion in 2021 marking a 111% YoY growth relative to 2020.

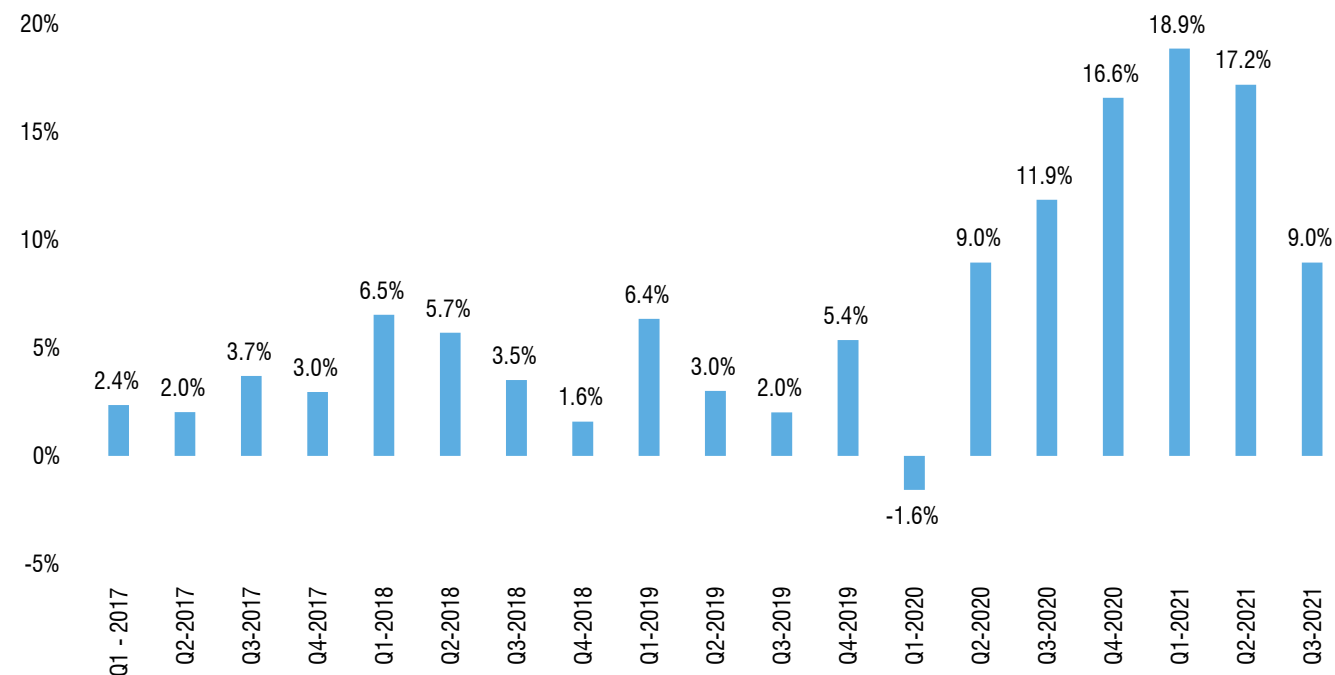
Global venture funding (in USD billion) and deal count



Source: CB Insights

Quarterly Internal Rate of Return (IRR) for VC funds has been trending upwards since Q2 of 2020 and reached its high in Q1 of 2021, touching 18.9% in Quarterly IRR.

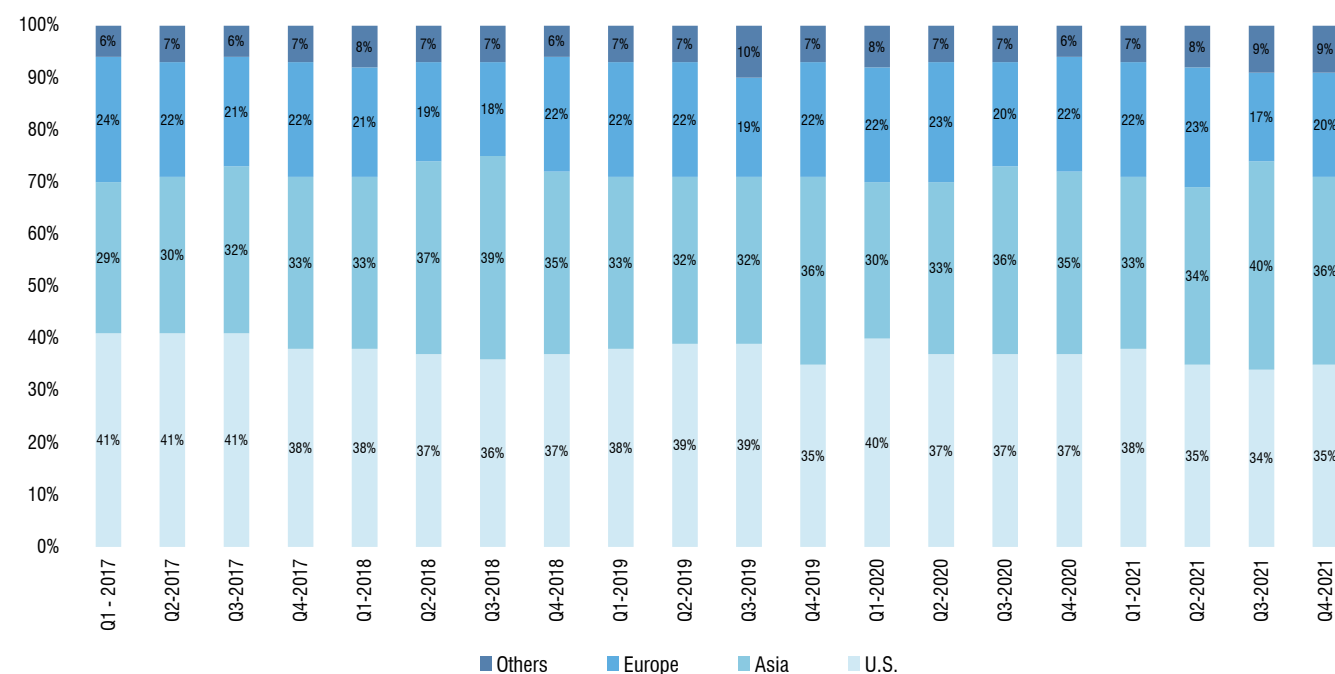
Quarterly IRR for VC funds



Source: Pitchbook

Asia and U.S. dominate the global deal share, capturing roughly 70% of the global venture deals. In recent quarters, Asia has overtaken U.S. in the total deal share.

Global Deal Share by Region



Source: CB Insights

Stages of Venture Capital Financing

Venture capital funds can be distinguished by the stage in which they invest in companies, or by the sector of companies in which they invest although a number of VC funds are sector agnostic in their investing. Venture capital financing starts as early as the product's ideation stage and continues until the company's pre-IPO stage.

Venture capital Fund types

At this juncture, there is merely an idea for a product/service. Financing is typically modest and is utilized for product/service development, business plan development, market research, building a management team etc.

Seed Stage

This is the prototype stage, that involves fine tuning the product further and in-depth market feasibility study. Funding is also utilized for acquiring more management personnel, marketing and advertising.

Start-up Stage

This is the stage where the company breaches the pre-revenue mark and could also be moving towards profitability. Funding from this stage is significantly higher, and is typically used for manufacturing, sales and additional marketing.

Early Stage

Stages of Venture Capital

Expansion Stage

This growth stage is identified with growing revenue and market share. Funding at this stage is typically utilized for scaling the business further, expanding to other markets and ways to gain competitive advantage.

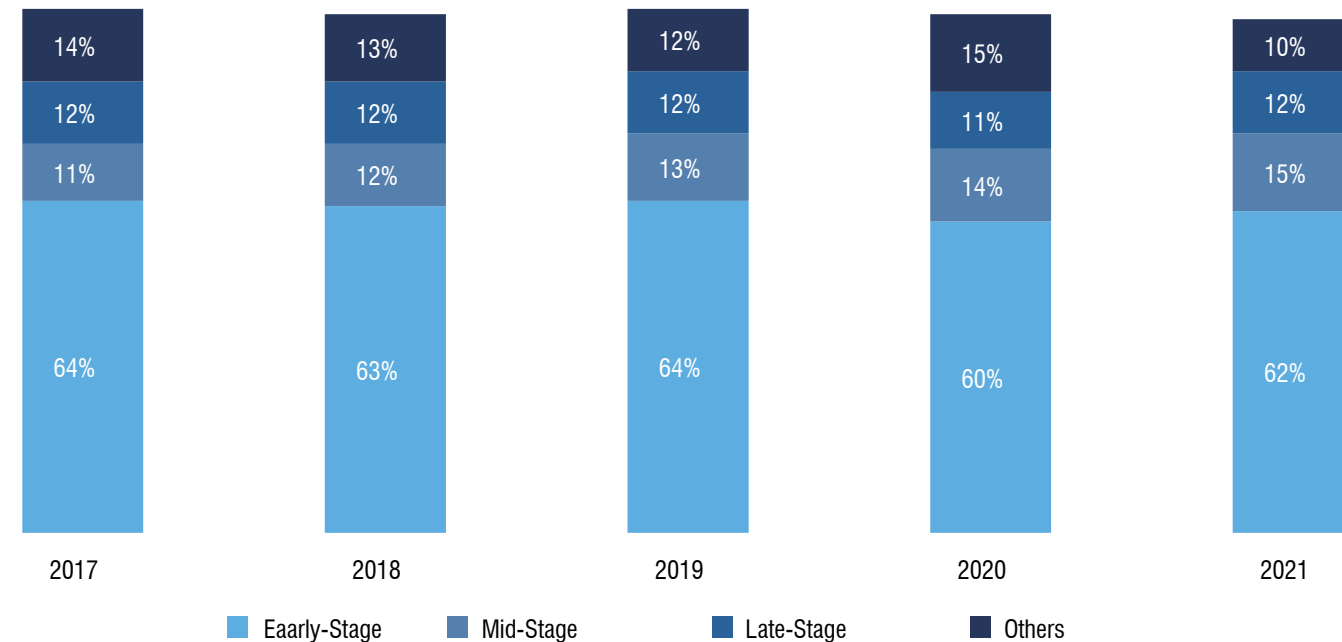
Mezzanine Stage

The pre-IPO stage is the last stage of venture capital financing. Funds at this stage are typically used for mergers and acquisitions, or financing the steps involved with an IPO.

Source: Startup.law, Cox Blue

Early-stage round investing continues to dominate, holding 62% of total venture deals closed globally in 2021.

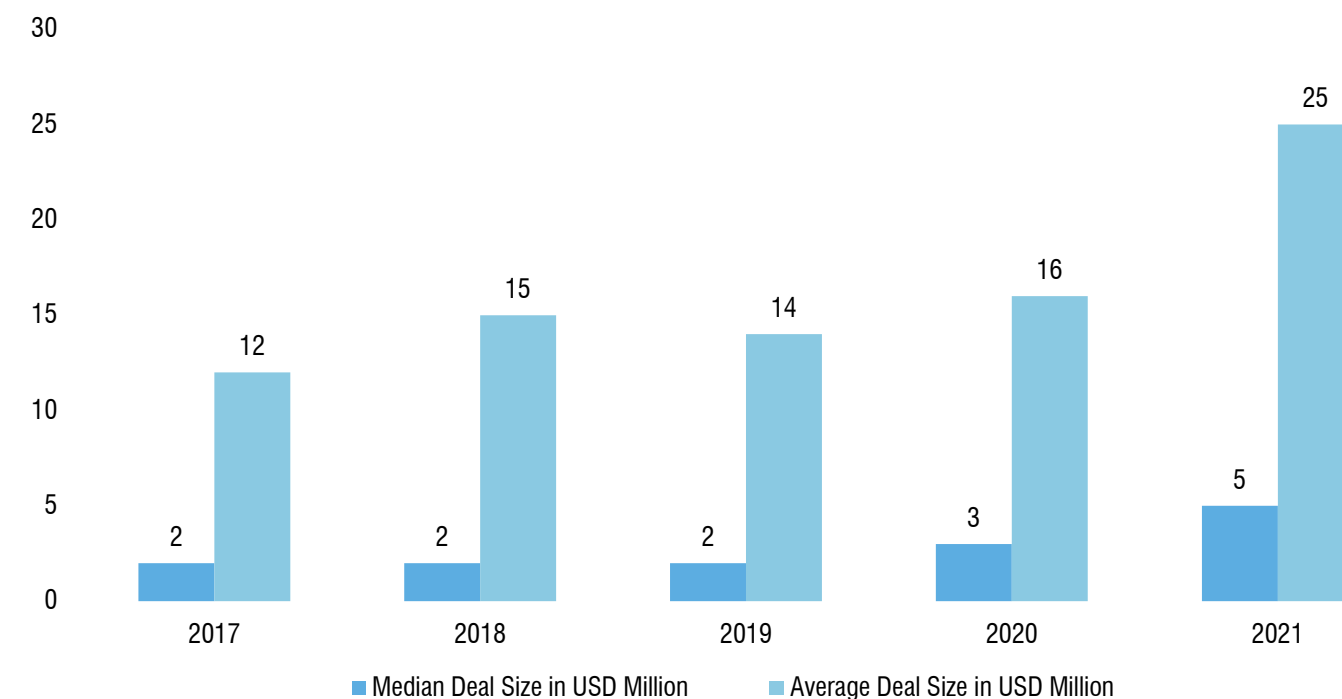
Global trends in the VC Fund types



Source: CB Insights

The global average VC deal size has been trending upwards, reaching USD 25million in average deal size in 2021.

Global trends in the VC Deal size (USD million)



Source: CB Insights

How venture capital evaluates start-ups

Different valuation methods at different stages

	Seed Stage	Start-up Stage	Early Stage	Expansion Stage	Sustainable Growth Stage
Cash Flows	NA	Negative cash flows	Negative but increasing cash flows	Positive cash flows	Stable positive cash flows
Proof of Concept	✗	✗	✓	✓	✓
Historical Data	✗	✗	Limited	✓	✓
Forecast Data	✗	Limited	Limited	✓	✓
Valuation Methods	<div>Replacement Cost</div> <div>Scorecard Valuation</div> <div>Discounted Cash Flow Method</div> <div>VC Method</div> <div>Market Multiples</div>				

Source: PwC



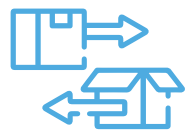
Discounted Cash flow

Company value is obtained by discounting expected future cash flows at an appropriate discount rate. Requires estimating future cash flows and discount rate, which requires companies to have sufficient operating history. Highly sensitive to the inputs for discount rate i.e. risk premium and growth.



Market Comparable Multiple

Company value is obtained by typically multiplying the earnings of the company with the earnings multiple of average of a group of public companies. Other multiples like revenue, cash flow could also be used. Requires finding a group of comparable companies and a relevant multiple for valuation. Sensitive to the group of comparable companies and fundamental multiple chosen for valuation.



Replacement Cost

Company value is determined by estimating cost to recreate the business as on the valuation date. Requires estimating the cost of each individual asset in the company with a suitable valuation approach. Prone to assumption of recreating a company by merely replacing tangible assets.



VC Method

Company value is determined by estimating the exit value of investment, investment horizon and an anticipated ROI to compute post-money and pre-money valuation. Requires estimating sales/earnings for the company in the exit year. Further, a fundamental (earnings/sales) multiple is assigned for exit value of the company. Highly sensitive to the estimated exit value used for valuation.



Scorecard Valuation

Company value is determined by scoring the target company relative to a group of representative companies within the same industry and stage of business on a list of decided parameters, weighted by their degree of importance. The final weighted score (%) is multiplied with the average valuation of the representative companies. Highly sensitive to the parameters and their respective weights along with the group of representative companies chosen.

Factors for venture capital in evaluating start-ups

Founding Team & Management

Human resource is one of the most important factors VC funds look at in a start-up. Experienced professionals with sector expertise, with history of planning and execution play a central role in company's future.

Size of the Market

For VC funds to make a return on their investment, they look for products that cater to a large market. Market size analysis can be done either by a top-down or bottoms-up approach.

Momentum of the Market

Apart from the total market size, VC funds typically look for momentum indicators like financial performance, user numbers, stable customer base and other growth indicators to judge if the product can scale well.

Competitive Advantage

VC investors look for newer products or products with competitive advantage over the existing products in the market. Technological advancements that increase efficiency and scalability score well in this regard.

Risk Assessment

Risk Assessment is done qualitatively as well as quantitatively. Regulatory or legal risks, longevity of the product, future funding requirements, potential ROI, exit strategies are analysed carefully.

Mission

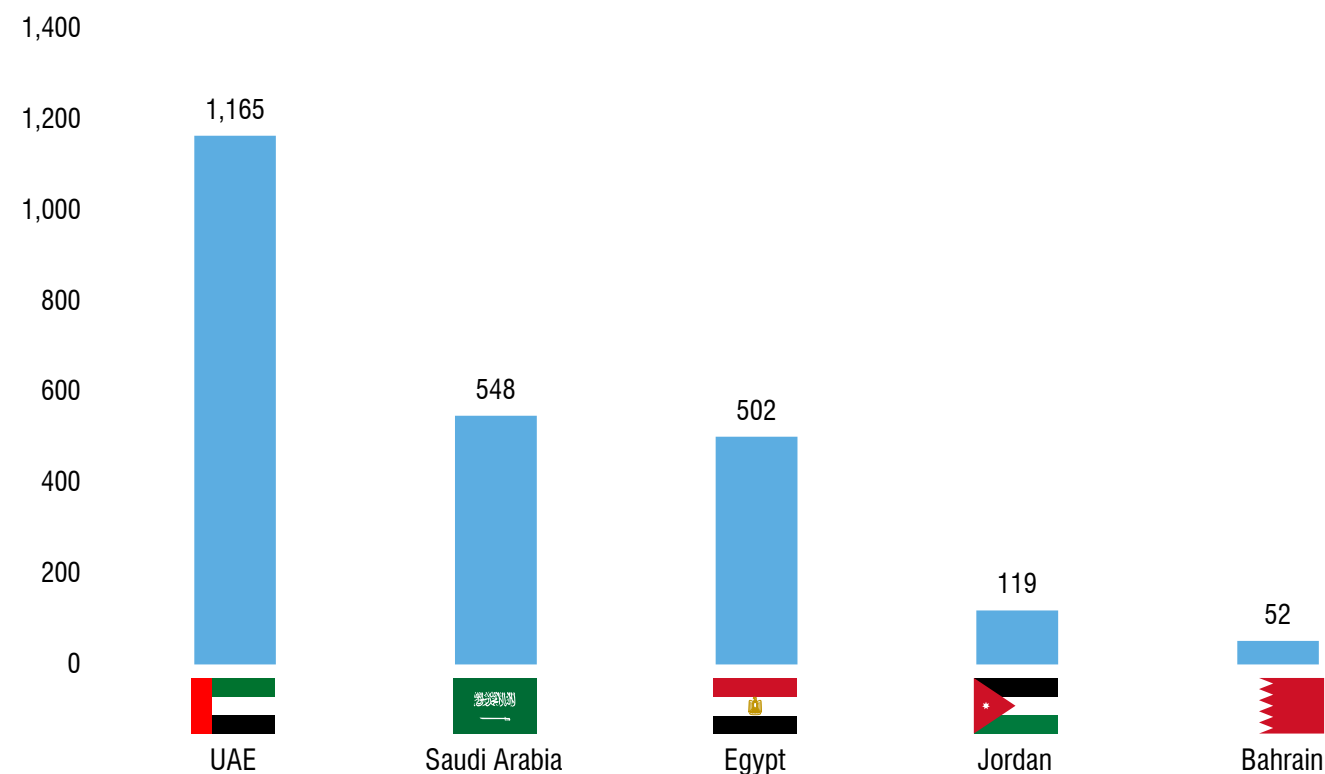
A company with a mission looking to deliver products to create social change are attracting eyes of the VC funds. With ESG investing gaining momentum, VC funds are eyeing products aiming to make an environmental and social impact.

Source: Rocketspace, Forbes

Closer To Home

Saudi Arabia is second only to UAE in the MENA region in terms of total VC funding in 2021. Egypt has also witnessed a spur in VC funding along with UAE and Saudi Arabia.

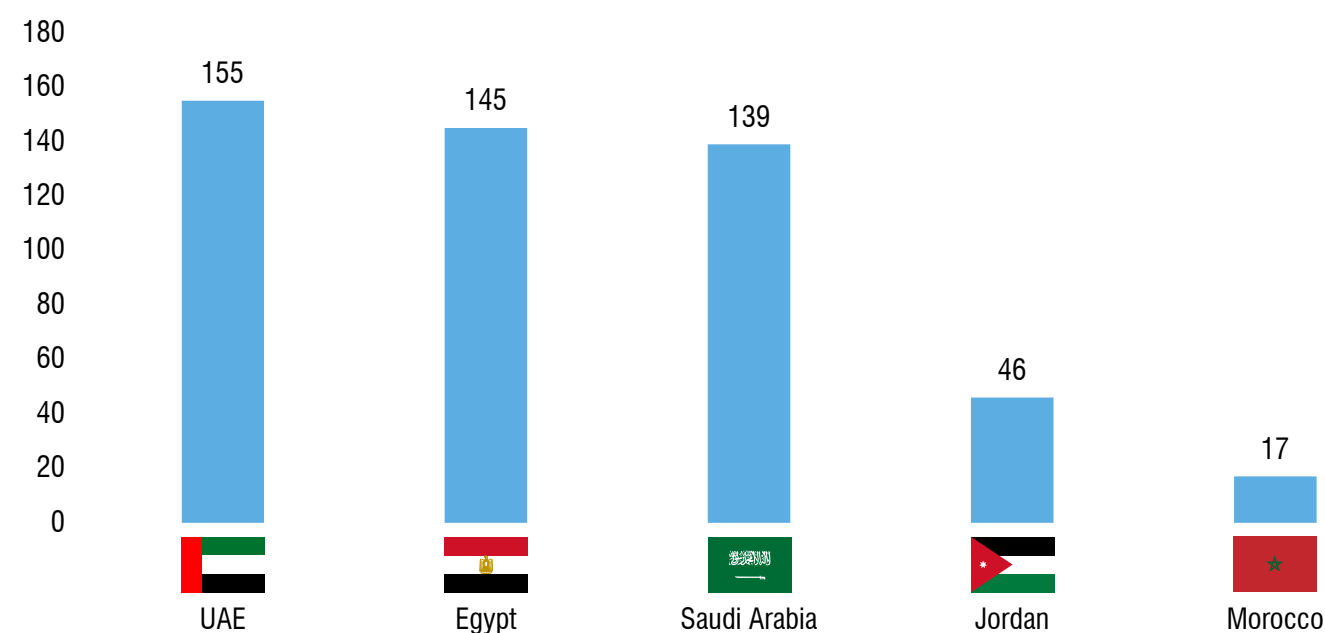
Top Countries by Total VC Funding in MENA (USD million) in 2021



Source: Magnitt

UAE, Egypt and Saudi Arabia dominate in regards to total number of VC deals closed in the MENA region.

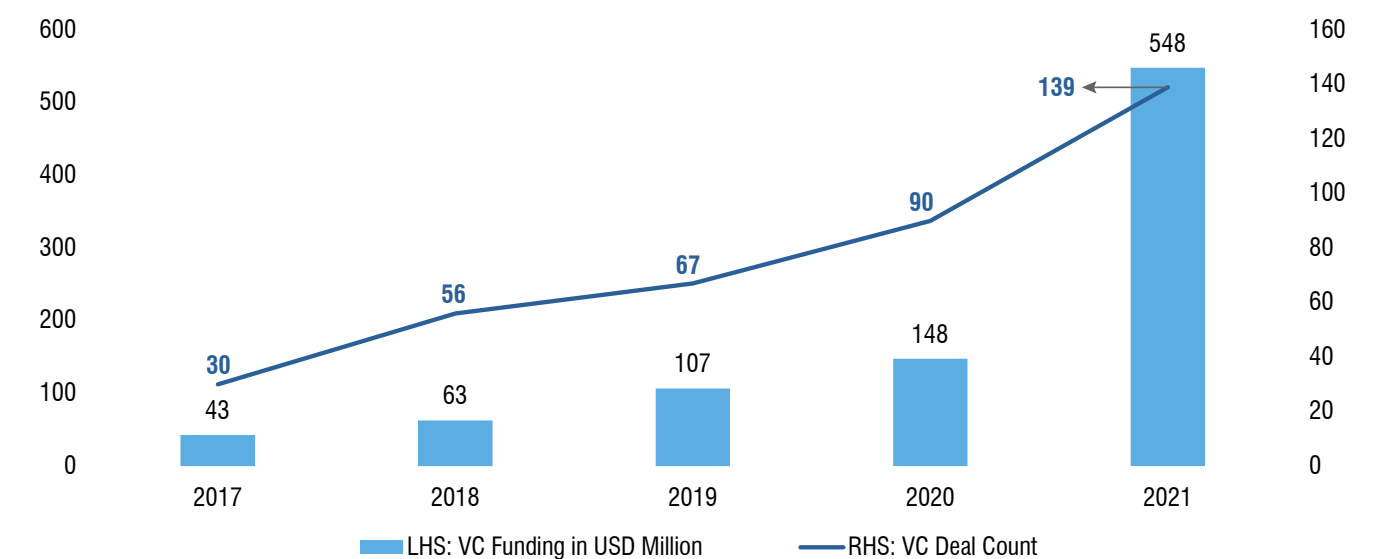
Top countries by number of deals in MENA in 2021



Source: Magnitt

Saudi Arabia has witnessed a marked growth in VC funding and VC deal count over the past 5 years. The country posted a record USD 548million in VC funding and 139 VC deals in 2021, a near 3x growth in VC funding relative to 2020.

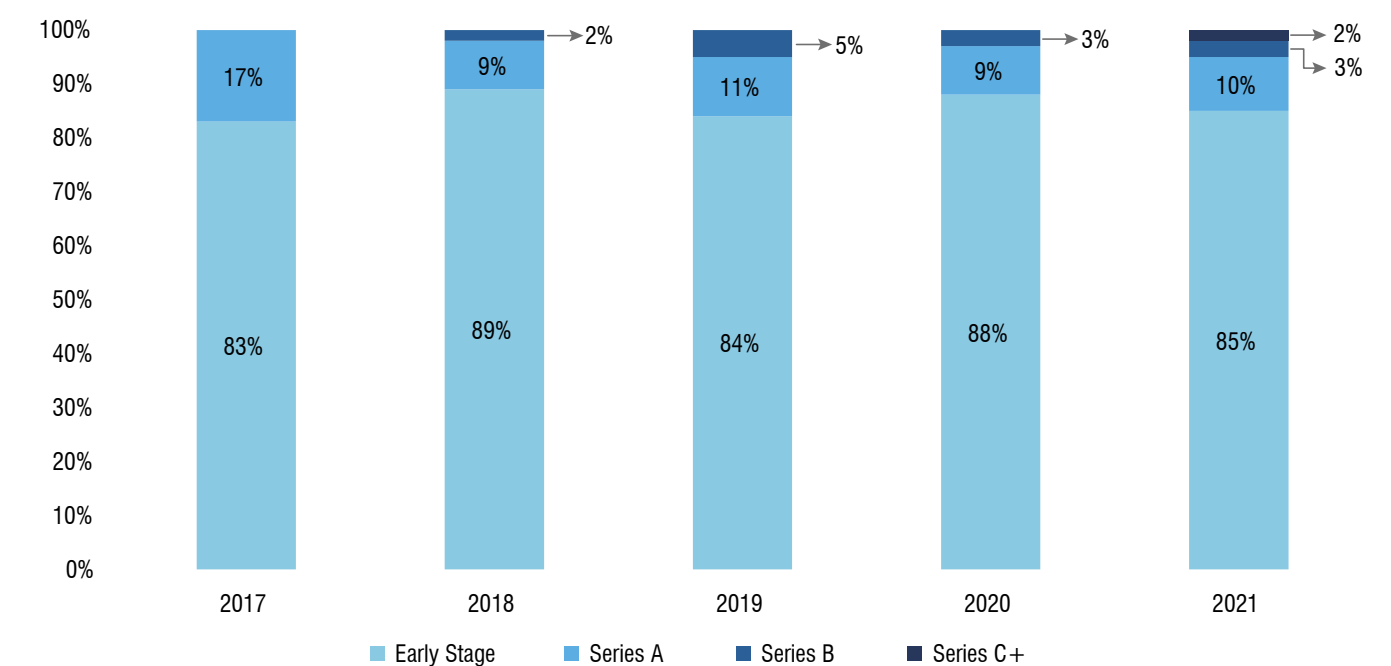
VC Funding in Saudi Arabia



Source: Magnitt

Similar to global VC trend, early-stage VC deals dominate the total VC deal share in Saudi Arabia as well, accounting for 85% of the total closed deals in 2021.

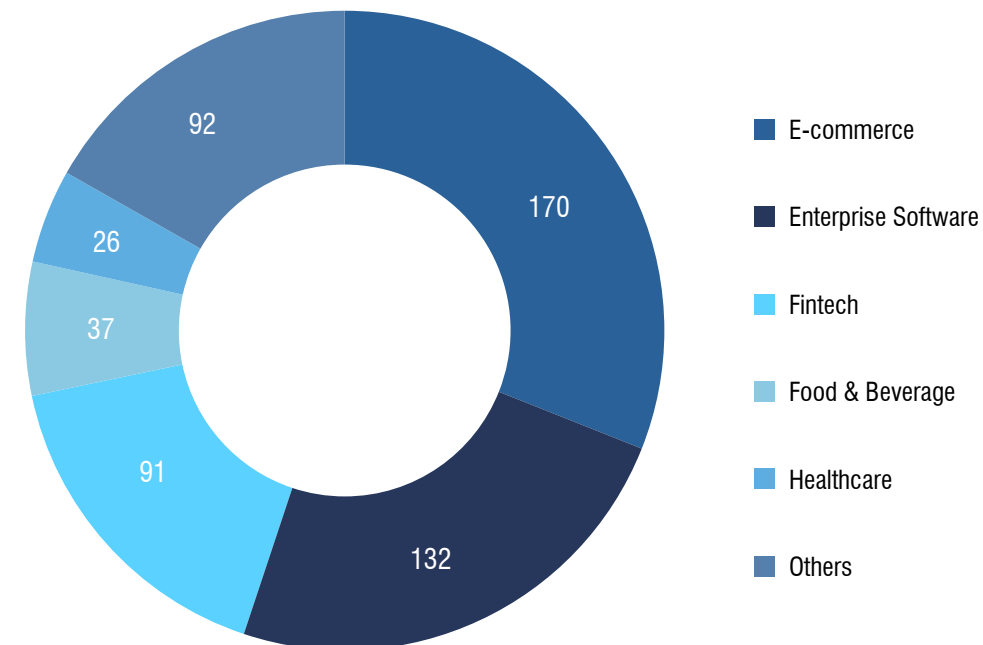
VC Stage Funding trends in Saudi Arabia



Source: Magnitt

E-commerce accounted for 31% of all venture capital raised in Saudi Arabia in 2021 with USD 170million invested in the sector marking a YoY growth of 492% relative to 2020.

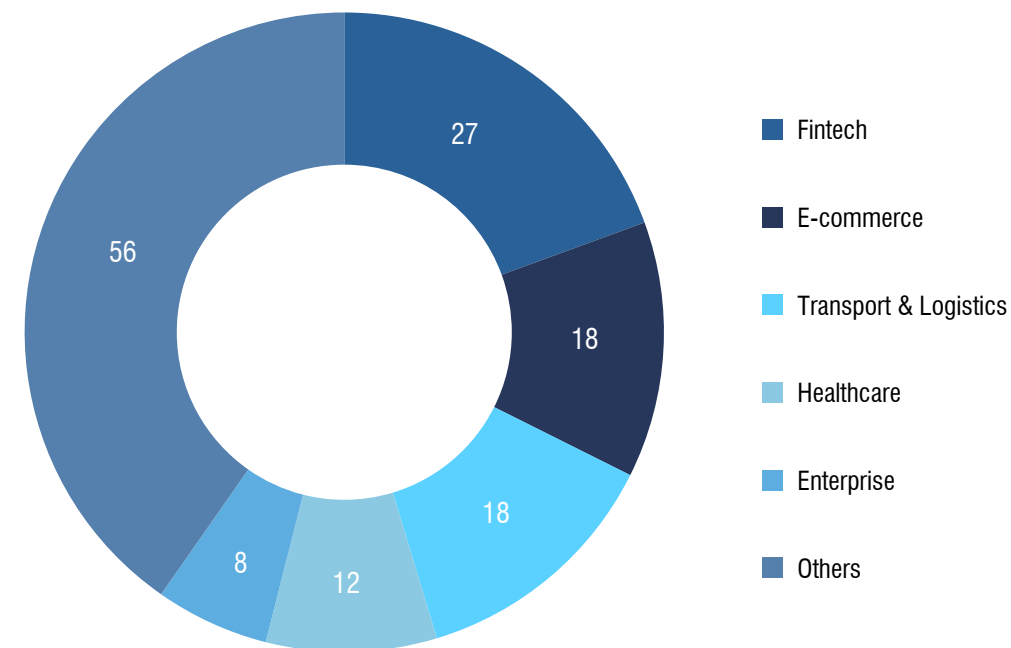
Top industries by total funding (USD million) in Saudi Arabia in 2021



Source: Magnitt

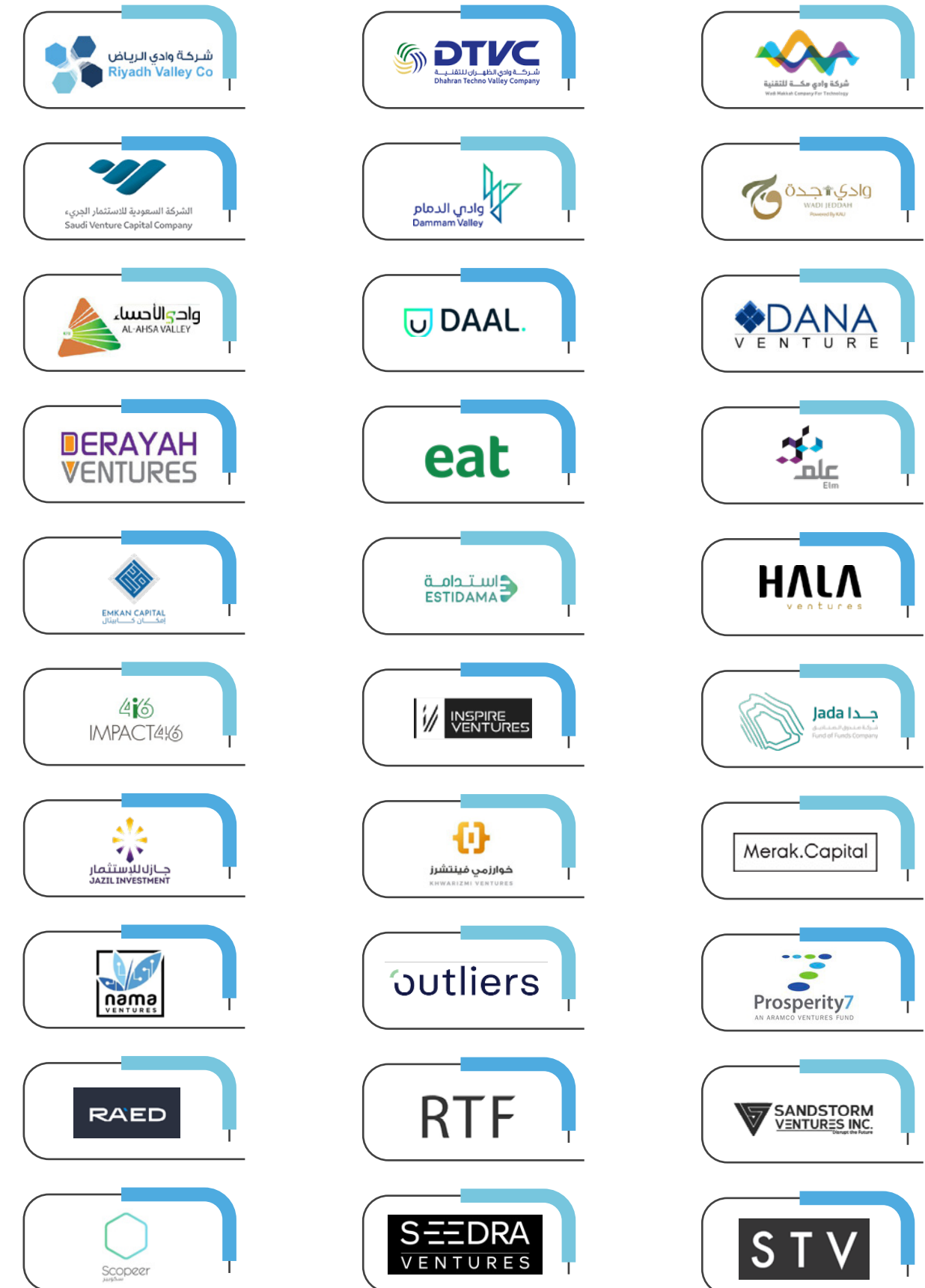
In terms of total VC deals closed in 2021, Fintech sector witnessed the highest deal number at 27 deals followed by the E-commerce sector. Focus on Fintech and E-commerce aligns well with the Government's priority on developing a digital economy.

Top industries by total funding (USD million) in Saudi Arabia in 2021



Source: Magnitt

Examples of some Venture Capital firms in Kingdom of Saudi Arabia



Source: Hussein Attar

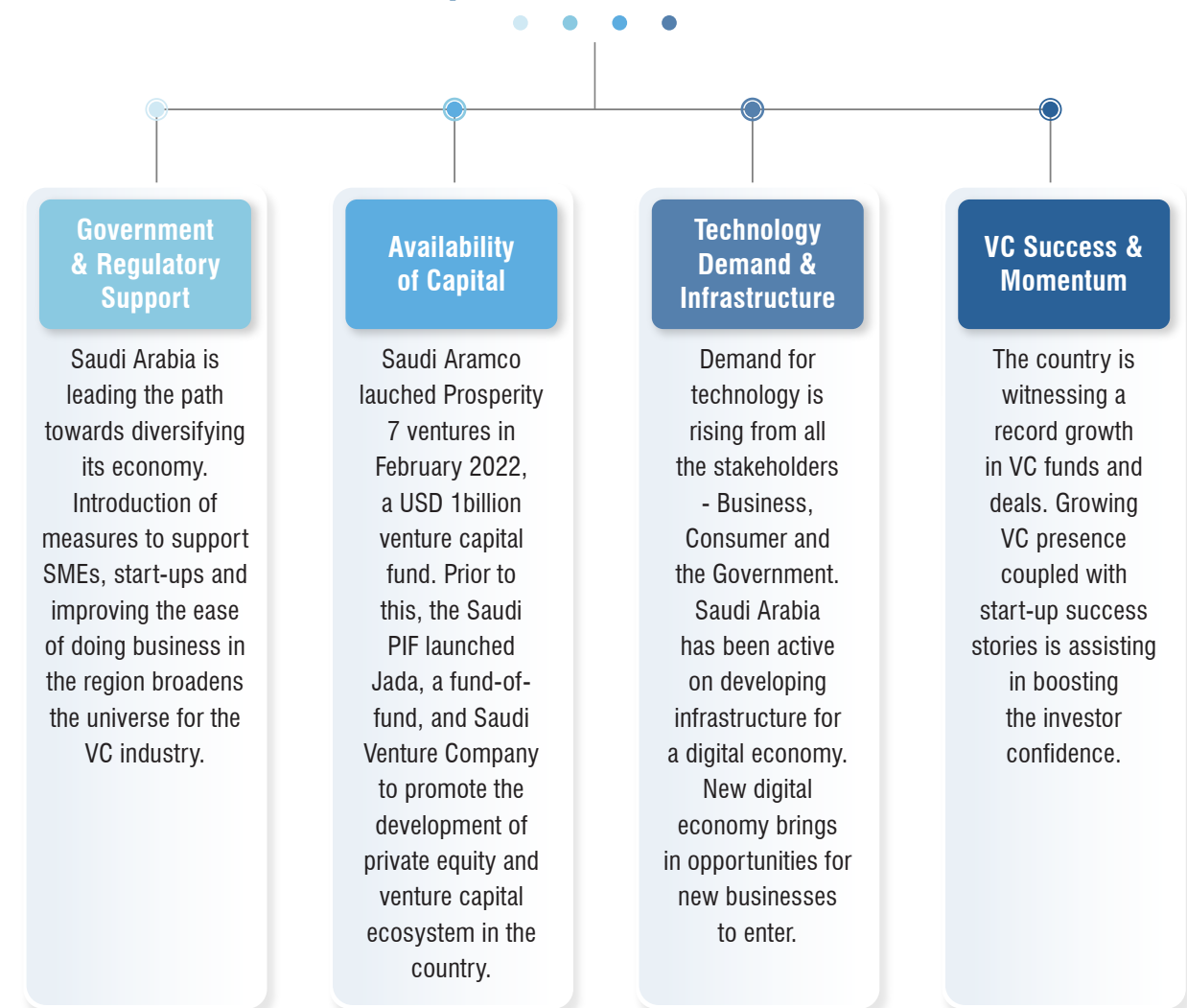


Source: Hussein Attar

Saudi Arabia's Venture Capital Outlook

Growth drivers of VC ecosystems in KSA

Growth Drivers of Venture Capital in Saudi Arabia

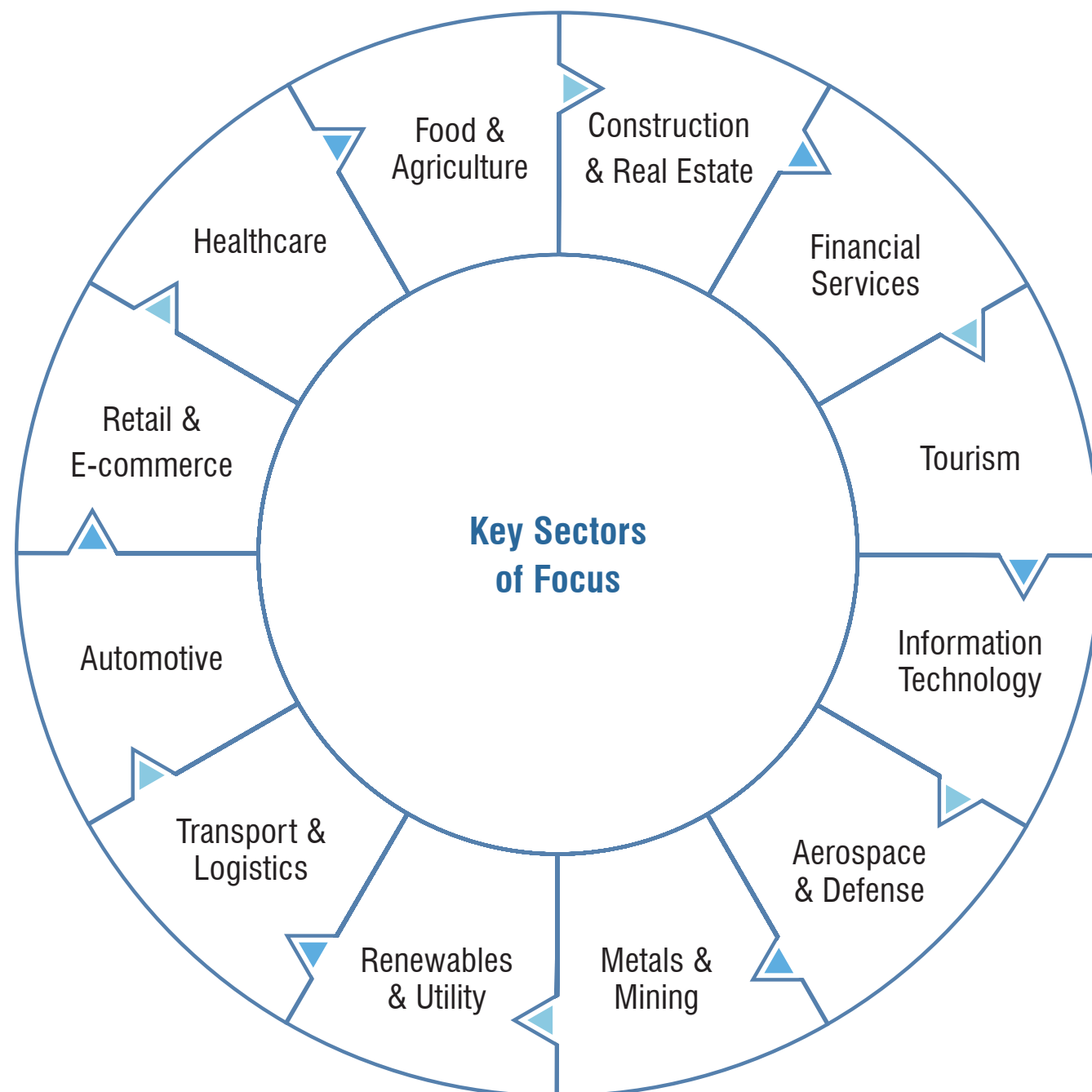


Source: STV, Ashurst

Expected VC investments 2030

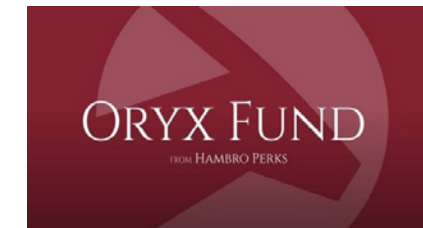
Saudi Arabia has been embracing the spur in the foreign investment into the country via development of SMEs, public-private partnership and friendly FDI & Visa policies. Post the oil price crash in 2020, the steps taken by the Government has been pivotal in the 3x growth in venture funding that the country has witnessed in 2021 relative to 2020. The long-term goal of diversifying the country's revenue stream as highlighted in the Vision 2030, paints an optimistic picture for the growing venture funding in the country.

PIF's sectors of focus



Source: PIF

Overview of the Oryx Fund



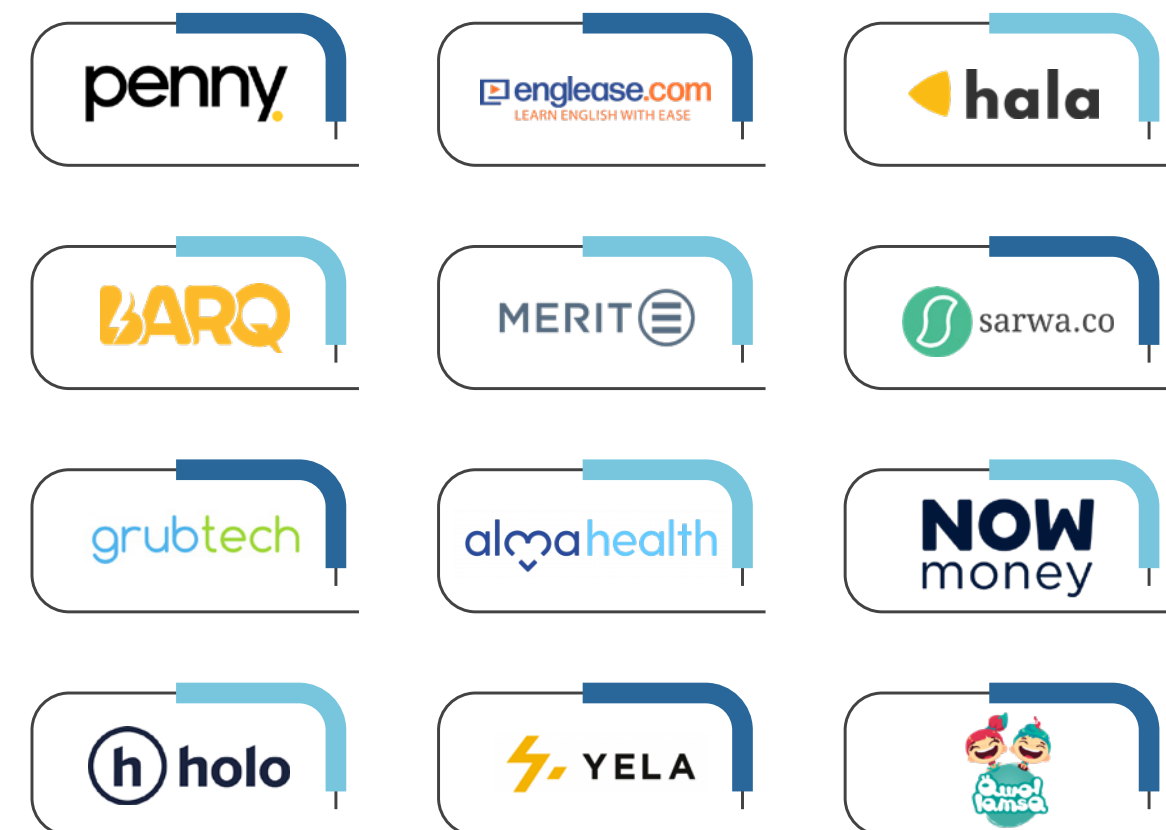
About Oryx Fund

Oryx fund is one of Riyadh Valley Company's knowledge investments that is managed by U.K-based Hambro Perks, an international venture and asset management firm. Oryx fund is the first London-based venture capital fund with a 100% focus on Saudi and MENA region.

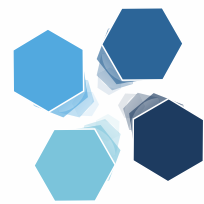
Oryx Fund highlights

- **Year of foundation: 2020**
- **Investment stage: Seed to Series A**
- **Sectoral focus: Technology sector with a focus on fintech, healthtech, and edtech**
- **Geographical focus: 100% MENA**
- **Backed by prominent regional investors**

Oryx Fund investment portfolio



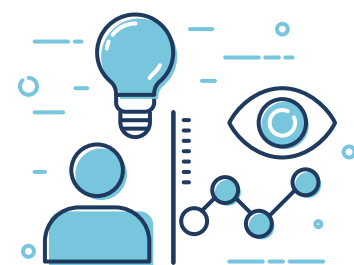
Source: Oryx



شركة وادي الرياض
Riyadh Valley Co

Riyadh Valley Company

Riyadh Valley Company established in 2010 by Royal Decree No.116 dated 13/4/1431 AH to be the investment arm of King Saud University in the fields of Knowledge Economy and the university strategic projects.



Vision

To be the regional leader in knowledge-based investment and technology.



Mission

Riyadh Valley Company is a strategic investor, focused on leveraging the local capabilities, investing locally and globally in growth - stage businesses to create financial and strategic returns that will support the future of economic development in the Kingdom.

Investment Sectors:



Knowledge Investments



Healthcare investment



Renewable energy & sustainable resources



Information & Communication technology



Real Estate Investments



Innovation and R&D Projects



Educational Projects



Healthcare Projects



Commercial Projects

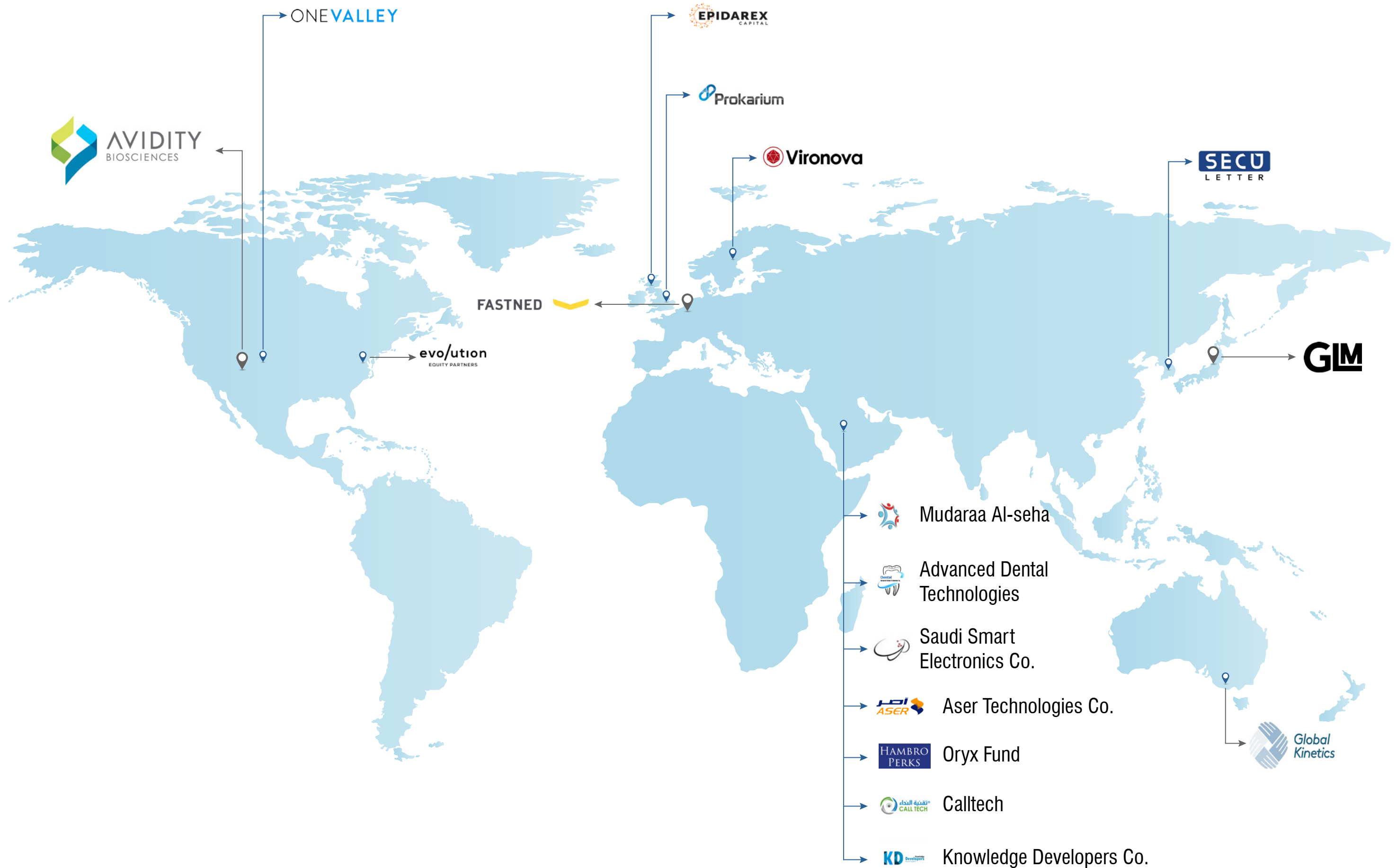


Residential Projects



Mixed-use Projects

Knowledge Investment Portfolio



Real Estates Investment portfolio



Sudair Pharma Company Project

Research center and company offices for Sudair Pharma Company



ELM Information Security Company Project

Innovation Center project for Elm information security company



Four Directions Company Project

Commercial and office project contains office buildings and multi-use halls



Retail Real Estate Company Project

Social-Entertaining and sports project



Derma Clinic Company Project (Residential)

Residential project for Derma Medical Clinics



City Lights Real Estate Company Project

Entertainment-Commercial project contains screens on the building and architectural blocks, in addition to areas for live shows



NMR Real Estate Company Project

Mixed-use project includes a hotel, restaurants and cafes



Hamad Bin Mohammed Bin Saedan & Partners Investment Company Project

The project serves King Saud University Campus residents. It includes large areas where events that reflect Saudi culture are held



Al-soroooh Al-Mubarakah Company Project

Mixed-use project contains office complex, Mall, Restaurants, cafes, and walkway for visitors



Derma Clinic Company Project

Medical-Commercial project contains several medical clinics, medical products stores, and pharmacies



Arrowad For Higher Education Company Project

Educational complex, Arrowad colleges University campus in Riyadh



Unified Real Estate Development Project

Cultural-Entertainment project that includes Luxury restaurants, Cafes, Cinemas and green spaces



Sahat Al-Ardh Company Project

A commercial project contains various shops



Obeikan Company Project

Commercial project contains various stores near the Common First Year building



Dur Alkuttab Company Project

Educational project for Primary Schools



Omnia Real Estate Development Company Project

Commercial project contains various shops



University Boulevard

Commercial-Entertainment project gives visitors a different experience, and it includes Restaurants and cafes



Riyadh Valley Company

Kingdom of Saudi Arabia, Riyadh – King Saud University, Innovation Tower

+96611 469 3219 | **www.rvc.com.sa** | info@rvc.com.sa



@riyadhvalley



Riyadh Valley Company (RVC)