AfricArena
VC Unconference
North Africa 22 Feedback

August 2022

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COLLECTIVE
AFRICA

Topics Covered:

1. Tunisian Ecosystem overview

2. Race to fundraising versus building a sustainable company

3. Building the ecosystem bridge between North Africa and the rest of the continent

4. Best practices in investing and navigating various economic cycles. Downturns vs Booms

5. Build or buy | Mergers and acquisitions as a method to achieve the best returns in a fragmented continent

Attendees:

Over 45 participants:
(across 10 countries of birth and 12 countries of residence)

INVESTORS

(VCs, Impact Investors, Angels, LPs)

Breega; Smart Capital; Plug n Play, Double Feathers Partners; FMO; Arzan Venture Capital; Silicon Badia; Sawari Ventures; Launch Africa Ventures; Kepple-Verod Ventures, Edge Growth; Startupbootcamp; SPE Capital Partners,

ACCELERATORS

Flat6Labs
FSAT Labs
Startupbootcamp

ECOSYSTEM

GIZ
JICA
GSMA

ENABLERS

AfricArena
Digital Collective Africa
Briter Bridges
Expertise France

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SUMMARY OF TOPICS COVERED & ACTION ITEMS

Race to fundraising versus building a stable company

Action Items

Best practices in investing and navigating various economic cycles. Downturns vs Booms

✓ Educate Foreign investors on the investment opportunities on the continent	
✓ lobby to the government to provide revenue for revenue-based financing as an additional instrument to provide patient capital	
✓ Accelerate investment from corporate VC	

Building an ecosystem bridge between African regions

✓ Develop more corporate partnerships as corporates control distribution	
✓ Increasing the ecosystem partners on the ground for start-ups to make expanding into new markets easier eg incubator programs provide soft landing programs	
✓ Value chain approaches between companies should be encouraged instead of one company building an entire value chain it can partner with a different start-up	
✓ Investors, we should be able to support and encourage synergies between portfolio companies in different regions	
Increase links with major companies to offer maximum backup for startup support (Develop an approach, comms through DCA resource)	

Build or buy| Mergers and acquisitions as a method to achieve the best returns in a fragmented continent

✓ Provide guidelines for doing valuations,	
✓ ongoing live discussions on valuations	
✓ Encourage start-ups to Create ESOPS at the beginning so that it's not done at higher valuations	

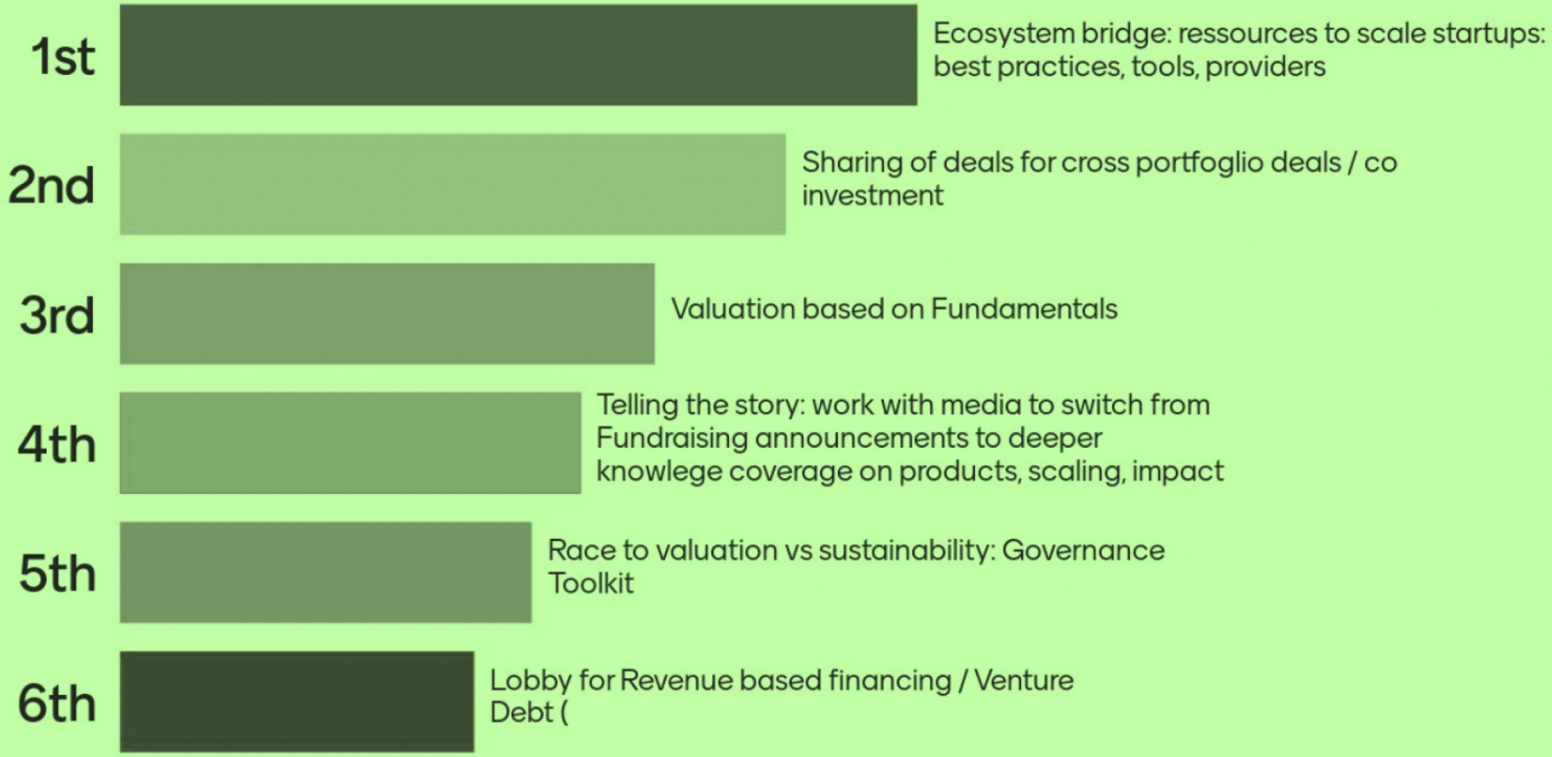
Summary of DCA Action Items

*The following were the top 6 rated action items in order of priority from the Unconference as well as allocations of the task teams.

Digital Collective Africa	Building Ecosystem bridges: Resources to help scale start-ups, Best practices, tools & providers	Farah Abd El Gawad - Sawari Thapelo Masoko – Edge Growth Mohammed Salah Frad - UGFS Blanca Ribbas– Plug n Play Mohamad Karar- Launch Africa
	Deal sharing platforms: Sharing of deal flow /co Investment	Walid Bellagha – Endeavor Samar – Angel
	Valuation Guidelines: Best practices for valuations based on fundamentals	Hosam Shafick – Silicon Badia Merdi Cherfi – SPE Capital Ben Marrel – Breega Satoshi Shinada– Kepple-Verod
	Telling the story: Working with Media to provide more substantial start-up news	Farah Abd El Gawad – Sewari Yasmin Laribi – Epertise France
	Race to funding vs Sustainability: Governance toolkit	
	Lobby for funding for alternative instruments: Revenue based financing/ Venture Debt	Thapelo Masoko - Edge Growth

Ranking

Mentimeter



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Tunisian Overview

Facilitated by Salma Baghdadi

Overview of Tunisian Ecosystem

40%	Percentage of start-ups in Tunisia that are B2B
$32M	2021 investment is not huge start-ups raised $32 Million dollars
$15M	Start-ups raising in Tunisia have raised about 15 Million Tunisia
$50M	2020- 2021 Start-up turnover was about $50 Million meaning for every $1 invested Tunisian start-ups received they made about $2 in revenue
19	About 19 start-ups in 2020 came and launched in Tunisia mostly I Europe we are seeing more from GCC, Algeria

Strengths

- Regulation Available - Startup act support from Smart Capital an entity Public-private connecting data on the ecosystem
- Ecosystem support with the establishment of hubs like Flat6 labs
- Skilled **Workforce**, Tunisians are well educated, very strong in IT,
- High Mobile connectivity rate of 90% with 70 % usage of Mobile phones

Weakness

- A lot to do on regulation administration to help to close the deal flow
- Start-ups don't have the right partners to scale to other markets

Opportunity

- Local VC funds investing in local & foreign currency and the development of soft landing programs strengthening of the Ecosystem
- Smart capital investing in funds eg Silicon Badia
- Attract more accelerator programs eg Start-up Bootcamp in Tunisia to encourage more
- Increasing investment from business angels and mentor support for business increase corporate innovation is something that doesn't work well in North Africa

Threat

•The currency controls are an issue of policy Most start-ups will need to abroad at some point and getting forex is challenging
•Start-ups are beginning to set up abroad in Delaware

•Talent retention is low as graduates studying in France or Germany prefer staying there and working after studies especially engineers

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Building Bridges between North Africa & Sub-Saharan Africa

Facilitated by Philip Kirakofe & Satoshi Shinada

Building the ecosystem bridge between North Africa and the rest of the continent

The session started with a survey of two questions. How many of the investors had investments in both North and Sub-Saharan Africa as well as how many of their companies had expanded from North Africa to the rest of Africa? Only a handful of investors and Start-ups operated in both regions, confirming the existence of the

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Building the ecosystem bridge between North Africa and the rest of the continent

The Participants recognised the following as Existing challenges with building Bridges between North Africa and Sub-saharan Africa

- The founder's willingness to expand beyond regional North Africa into Sub-saharan Africa borders might be low
- Start-ups are driven by market opportunities available in their domestic markets making an expansion in other regions challenging eg Tunisian start-ups are not big on Fintech because the domestic market is small
- Limited corporate Synergies in North Africa make expansion challenging for start-ups as corporates own distribution
- The delineation between valuations in different regions makes expansion through mergers and acquisitions challenging
- Travel restrictions eg a lack of direct flight to various markets, and visa requirements make it challenging for start-ups to expand

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Building the ecosystem bridge between North Africa and the rest of the continent

The following were identified as initiatives to encourage bridges between North Africa and the rest of Africa.

- Driving corporate partnerships as corporates control distribution
- Ensuring the start-ups have the right ecosystem partners on the ground to make expanding into new markets easier e.g incubator programs providing a soft landing for start-ups looking to expand
- Increasing cross-pollination and deal flow sharing between investors to bring awareness of start-ups
- Value chain approaches between companies should be encouraged instead of one company building an entire value chain it can partner with a different start-up
- Achievement of more 'success stories' in the regions will increase interest in smaller less developed markets making them more attractive for expansion opportunities
- Investors, we should be able to support and encourage synergies between portfolio companies in different regions

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How to scale a business without sacrificing on traction

Facilitated by Ibrahim Ramadan

How to scale a business without sacrificing on traction

The session began with the question ‘Valuation or growth why does It need to be either. Which lead to the below questions being raised.

- Do we invest in a sustainable start-up or do we invest in a start-up that has the potential to be sustainable?
- What are some responsibilities of investors?
- How do we really measure success in the ecosystem?
- Why are fundraise announcements the measure od start-up success in the media?

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How to scale a business without sacrificing on traction

What are some responsibilities of investors to start-ups beyond finance?

"For every dollar, you invest into a startup as an investor you need to follow with a dollar of non-financial support which includes,

- Corporate introductions for POCs
- understanding the strengths and weaknesses of founders and supporting them accordingly, knowing your boundaries and seting boundaries'
- Helping with hiring, as investors receive thousands of CVs daily that they can and should share with founders
- Helping with introductions to other investors
- Sharing Investment memo and DD with founders
- Media & PR support through recommendation

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How to scale a business without sacrificing on traction

The participants then discussed how success was measured in the ecosystem by the different stakeholders

Business Angel

Ability to provide access to expertise market & finance for founders

•Holding and supporting an investment until it reaches the series A stage

Accelerators

•Supporting businesses to achieve Commercial traction
•Helping start-ups get to a point where they don't need funding to continue running

Venture Capital

•Exit
•Good valuation and return on investment
•unicorn status

Start-up

•Recurrent revenue
•Recurrent in NPS
•Customer retention
•And founders understand that for an In investor success is an exit
•Growth & Sustainability
•building and solving real problems that founders are passionate about and still making money
•Resilience and surviving the cycles pivot successfully where necessary

Building the ecosystem bridge between North Africa and the rest of the continent

A question was asked if success is measured in the above ways, why then is the most celebrated thing in Media fundraising announcements.

- Media pushes it
- Start-ups asking to get coverage because it is good for them
- Founders are paying for stories
- Investors benefit from the publicity for their own reputation

> **Founder's perspective,**
>
> *Media doesn't understand what it actually means to raise 100M they think its the founder walking away with the funding.*

> ***Investors perspective,***
>
> *Early stage communication of fundraising is disruptive to the founders because the founders became rockstars.*

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How to scale a business without sacrificing on traction

Some participants held the view that the media announcements of fundraising rounds were not a bad thing for the following reasons;

- It helps to improve the profile of Africa and create momentum and the only real way to measure success
- For early-stage markets like Tunisia that do not have widespread investor interest, it is the first step to raise interest and inform traditional stakeholders like the government, banks international investors, and family offices about the market potential
- speaking about other success measures like traction exposes the start-ups to competitors. Fundraising is a safer option
- The deals and other success metrics eg milestones of corporate partnerships are kept private because of confidentiality agreements with the corporates
- It creates visibility for the startup and it is branding for the ecosystem and it can be an indicator of the commercial success of a start-up for investors who are assessing it
- Fundraising amounts are universally easier to understand for all stakeholders

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Best practices in investing in different economic cycles boom vs downturn

Facilitated by Zach George

Best practices in investing in different economic cycles

The session was opened with a discussion around what portfolio companies had struggled with during the downturn and the covid-19 pandemic and how the investors had supported the companies

Requests for bridge round financing

Strategic Advice

Investor Perspective

Prepare start-ups to appreciate that cycles are normal and that they are faced every day, so they must always strive to maintain good business fundamentals regardless of crisis

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Best Practices in investing in different Economic cysles

The investors shared the different types of support they provided portfolio companies in the downturn

- Non-financial advisory to provide businesses with continuity support
- Support in pivoting from a super market-based business model to a product-based business model. Ensuring they shift marketing strategy and viewpoint on customers to become a lot more focused on retention strategies as opposed to being on an acquisition model
- Ensuring that the company has a sufficient runway of 12 months is a good minimum to give enough time to fundraising
- Communicating and informing founders about how the global landscape could affect them as at times founders can be too invested in their operations
- Assisting portfolio companies with building relationships and trust with corporates and other investors before a crisis. Help with introducing to key industry players.
- Facilitate acquisitions between companies
- Approaching LPs to set up special support funds eg a covid relief fund which gave confidence to businesses.

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Best Practices in investing in different Economic cycles

Support structures continued…

Encouraging founders to communicate with customers and finding out how they can better support customers in crises ensures long-term customer retention long after the crisis

Investor Perspective

It's a little bit healthy for some businesses to fail during downturns, a kind of survival of the fittest, as it stresses business models that were relying on surviving on cash and were not really sustainable vs finding sustainable ways of surviving to pace themselves in terms of growth

Investor Perspective

As fund manager maintain your role & accountability to founders ensuring that they follow fundamentally sound business models at all times even prior to crises prepared for it.

Best Practices in investing in different Economic cycles

Some Investors Shared case studies of how their funds handled portfolio support in the downturn

Portfolio Prioritization

We went to all portfolios and asked for best and worst-case estimates for runway.

As a fund, you love all your children but you want to prevent the ones that have the best chance of succeeding from failing.

You have to prioritize support by identifying with the companies with the greatest chance of success vs those with a less chance of making a 2X return that if they fail they have a less chance of having an effect on the ecosystem.

Cost Management: Team

We advised founders on how to manage their costs in the downturn. HR/Salaries are the biggest cost for most start-ups and one of the worst things you can do is lay off employees in a downturn because no one would ever want to work for you in an upturn.

Give people options, eg listen the company can't sustain itself on your current salary of X amount would you consider taking a 20% cut in salary for the next few months? This must be done across the organisation. Whatever you have lost we will make it up in the future either for cash bonuses or increase your ESOPs.

Portfolio acquisitions

We facilitated acquisitions of portfolio companies by identifying the top performing companies and sending them a list of smaller companies doing less well that they could acquire

Alternative Financing

We think that the downturn will last for longer and that the impact of covid was limited so they set. As a longer-term strategy, we have set up a venture debt fund so to help companies extend their runway

How to scale a business without sacrificing on traction

The discussion transitioned into the alternative financing options open to investors in a downturn

Venture Debt

Venture debt is targeted toward series A and later stage companies looking at profitability as and repayment is on EBIDA.

Pros

- Helps limit founder dilution

Cons

- It has limited flexibility in terms of payments interest + principle

Forgivable Grants

Commonly used for development funding

Revenue-based Financing

Funding with debt-like component with Equity like features

Pros

- High flexibility in payment for start-up
- The founder can choose over what period to pay back say 3-5 years
- You choose % of revenue, not profits to pay off
- Does not sit on the Balance sheet as debt but instead as a sort of a warrant or an

Cons

- Skims from top revenue and messes up unit economics for start-ups with high burn rate are trying to grow

Best Practices in investing in different Economic cycles

Where should investors invest in a downturn Necessities vs nice to have

Start-ups need to have both Pricing power & customer retention to remain resilient eg Netflix had all the customer retention in the world but it didn't have pricing power. Given that disposable income is shrinking going forward I would rather invest in real-world problems rather than in conveniences.

During a recession, people prioritize necessities/needs to have eg food, and groceries but in reality is most valued companies are nice to have eg Netflix before the crash, amazon.

Investors rush to invest in 'need to have groceries start-ups, education, and electronic health, in a downturn but ultimately human beings are dopamine creatures they like nice things and preferences change in up turn

Investor Perspective

"We find out that start-ups I catering to specific needs of must-have demand of consumers in Africa are often undervalued because the don't have similar/ copy-cat models in other exact global markets. Despite having good fundamentals they are undervalued.
As African investors we must educate global investors about the investment landscape in Africa

Investor Perspective

"A majority of African opportunities will be MnA. It critical to understand what industry players\ coporates are looking for what so we can better support and add value to companies we invest in start-ups to reach the next level.

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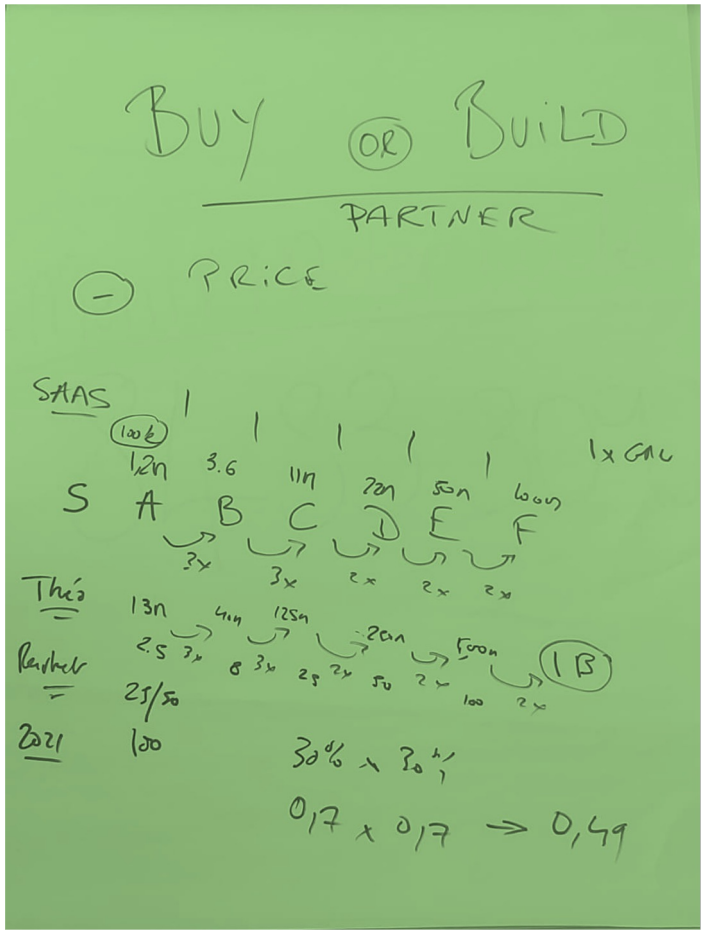
Build or Buy

Facilitated by Ben Marrell

Build or buy| Mergers and acquisitions as a method to achieve the best returns in a fragmented continent



The final session was a workshop around valuations where investors worked through how valuations are currently done, assumptions used and the challenges with current valuation methods on the continent

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Digital Collective Africa

Facilitated by Christophe Viarnaud

Digital Collective Africa

AfricArena introduced digitalcollective.africa as a resource for collective use by ecosystem players such as investors, accelerators, and start ups.

These resources include:

- CONTRACTS
- STANDARDISED TOOLS AND TEMPLATES
- OPEN DOCUMENTS
- DEDICATED RESOURCES

Main call to action is for people to use appropriate resources such as those provided by digitalcollective.africa as well as continue to contribute to the growth of the resource bank.

A drive to have at least one resource dedicated to the DCA work was discussed by the group.

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THANK YOU

Rough Notes