

UAE start-up ecosystem goes from strength to strength

Angel Rising, the investor symposium organised by startAD and VentureSouq at NYU Abu Dhabi, reflects the optimism of a steadily expanding sector



Andy Bromberg, chief executive of CoinList. The company's success provides a pointer for other start-ups. Victor J Blue/Bloomberg



Rosa Panadero
April 30, 2018

“It’s in the DNA of the locals to be entrepreneurial and commercial,” said John Tate, chief executive of Tamkeen, when he addressed the packed audience at the fourth Angel Rising at NYU Abu Dhabi recently.

He recalled how some years back he

planned startAD with Ramesh Jagannathan, managing director of startAD and vice provost for innovation and entrepreneurship at NYU Abu Dhabi, and he says he is delighted that today UAE is home to 42 per cent of the Mena start-ups, followed by Egypt in second position with 12 per cent. In the Global Innovation Index (GII), the UAE is ranked the first among the Arab countries and the 35th worldwide in 2017. The GI is co-published by Cornell University, Insead, and the World Intellectual Property Organisation, an agency of the United Nations

At the Abu Dhabi event in March, investors and entrepreneurs heard presentations on investment in technology, start-up acquisitions and blockchain integration at corporate level.

Jake Zeller, partner at the US-based investor platform AngelList, gave some tips on how to navigate investments in technological start-ups. "We call ourselves the backbone in the Silicon Valley," he said regarding what he sees as four core areas of consideration: an investment platform; a recruiting market place for start-ups; a market platform for acquiring customers; and cryptocurrency compliancy services.

"In the investment platform we connect start-ups with investors, we make \$200 million to \$300m per year in investments mostly in the early stage start-ups," he said. The firm registers about one million introductions each year between start-ups

and job seekers, he said. "We connect start-ups with designers, engineers and other people to build your business. In terms of start-ups recruiting, we are bigger than LinkedIn, we have 6.5 million users and 500,000 companies." AngelList also acquired Product Hunt, a platform that helps companies find their initial customers and there have been 100,000 views of its content.

"Our latest venture is CoinList, a cryptocurrency compliant services company. CoinList made \$206m in its first deal," he said.

The new venture serves as a goal for start-ups of all type but especially those targeting the fintech sector. Last month, CoinList announced it had closed \$9.2m in its initial fundraising round. Among its investors is a group of the industry's most notable cryptocurrency funds: Polychain Capital, Digital Currency Group, FBG Capital, Libertus Capital, Blockchain Capital, CoinFund and Electric Capital.

"This successful fundraising round reflects the growing need that promising blockchain companies have for superior token sale compliance and execution," CoinList co-founder and CEO Andy Bromberg told PR Newswire at the time.

Barry Silbert, founder and CEO of Digital Currency Group, said: "CoinList has emerged as a leader that has uniquely developed credibility with the three most important stakeholder groups –

entrepreneurs, investors and regulators.

The fundraising round capped a seven-month stretch in which CoinList processed more than \$400m in cryptocurrency investments through its infrastructure, with thousands of accredited investors on the platform.

AngelList started with an email list, according to Mr Zeller. In 2010, it offered introductions to Uber when the US ride-hailer was valued at just \$4m. A \$250,000 investment in the firm then then would yield around \$90m today.

"Technology has changed the world of start-up companies," Mr Zeller said. In the pre-Facebook era companies had to acquire customers individually, while now you get a person to authorise you access to the user's Facebook profile and friends network, so you can acquire your 100 million users through that social media. Mr Zeller calculates that in the past 20 years, the number of internet users has grown in a 73 fold and the amount they spend online has grown approximately 19 fold. The online user numbers have grown from 53 million in 1997 to the current 3.89 billion, and the average amount spent per year in 1997 was US\$72 per user and now is \$1,375.

"The addressable market is 100 times bigger but the cost of starting a technology company is down by a factor of 10," he said. "Every dollar you invest in a start-up today is a thousand times more leveraged

that it was 20 years ago. As an example, Mr Zeller cited Whatsapp. The messaging company that has 450 million users began in 2009 with 35 engineers and 53 employees. In 2014, it sold for \$19 billion when Facebook snapped it up. “Never before was this hyper-value creation possible with so low resources and so quickly.”

Read more:

Generation start-up: The entrepreneur nurturing Baby Arabia one step at a time

Silicon Valley’s Plug and Play woos Gulf banks for deals with its fintech start-ups

Mr Zeller recommended investors keen on technology investment to start by consulting experts, setting a budget and diversifying the number of deals over time, because no one knows when the next unicorn will canter on to the stage. “When you set your budget, plan to make one tenth of your available amount each year for the next 10 years. We recommended being patient because an asset class takes time to build.”

“In the Mena region, [investors] are valuation sensitive. One of the challenges here is to try to scale, and sometimes growth is slower, so you negotiate lower valuations than in Silicon Valley because you want to make sure you are getting

compensated for taking the risk.”

Mr Zeller said the trends in initial coin offerings (ICOs) of cryptocurrencies as opposed to traditional venture capital was a concern. “There is crazy stuff happening, a team with a white paper and 3 employees raising \$200 million.” But he said that was unlikely to remain the case. “I think instead of raising \$200m in ICO, you raise \$2m in ICO and then if you do well, you raise another round of funding, and another ICO and it will scale to a more traditional, series A and series B model. I think what is happening now is not sustainable.”

Delegates also heard about the importance start-ups being prepared to be acquired and of maintaining their innovative edge after being bought. “Problems of today are the solutions of yesterday,” reflected Saeeda Jaffar, managing director and Middle East office co-head of Alvarez & Marshal Middle East. “The challenge is how you can preserve that founders' mentality from being able to execute quickly to being an organisation that is more standardised. Most of the time, it will not work,” she said.

“Founders have to focus on the culture they want to create and identify the working style they want.”

If innovation is across the entire organisation, she said, there is a chance to collaborate and therefore maintain the culture of entrepreneurialism. “Normally, when they are acquired, innovation stops.”

Ms Jaffar said another challenge for investors was choosing who to put money into. "There are so many different companies out there, how do you pick the winners?" She advised that they seek out business ideas that makes sense and that solve real problems; that the start-up has an effective team, and whether the start-up fits with their current portfolio of investments.

But Christos Mastoras, founder of Iliad Partners and co-founder of Glambox, pointed out that start-ups should keep in mind that building a good business was primary rather than thinking about being acquired. Investors in the region, he said, look for three signals: "They look to tap into growth and technology is a driver; they invest in technology as a defence mechanism for competition or not to be disrupted; and they tap into innovation."

Blockchain technology was also discussed at the Angel Rising event. Lina Hediah, executive director of Consensusys, pointed out that it was still a nascent arena. "So far, every large corporate and financial institution is experimenting with blockchain," she said. "The regulatory framework is still not there."

Jonathan Nelson, founder and CEO of Hackers/Founders, pointed out some basic thoughts investors should bear in mind: "My rule of thumb is that if the entrepreneur can't explain in a way you can understand and it feels fuzzy, a lot of times it is

because the start-up is fuzzy.”

Rahul Pai, COO of UAE Exchange, said to evaluate a company using blockchain, there are three main features to consider: transmission data; reconciliation of payments; and real-time settlement. Blockchain disrupts in the latter, “but it is an unregulated space”, he said.

Ahmed Al Qassim, CEO of Emirates NBD Capital-Investment Banking, said the growing start-up ecosystem of the UAE and wider region was encouraging: “The scene has changed in two years. We did not have a proper ecosystem [before], but now the scene is changing positively.”

Updated: April 30, 2018 02:39 PM

Most Popular
Dubai's Careem
cuts 536 jobs
amid pandemic

Economy

How to relocate
from the UAE
during the
pandemic

Money

Zoom Video
meeting logins
sold on the 'dark
web'

Technology

Finablr uncovers
additional \$1bn
in hidden debt

Business

Exclusive:
Emirates' Tim
Clark on
Covid-19's effect
on aviation

Aviation