

tepaV

Economic Policy Research Foundation of Turkey

Private sector alternatives to SME financing in a growing economy: The case of Turkey

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TEPAV in brief

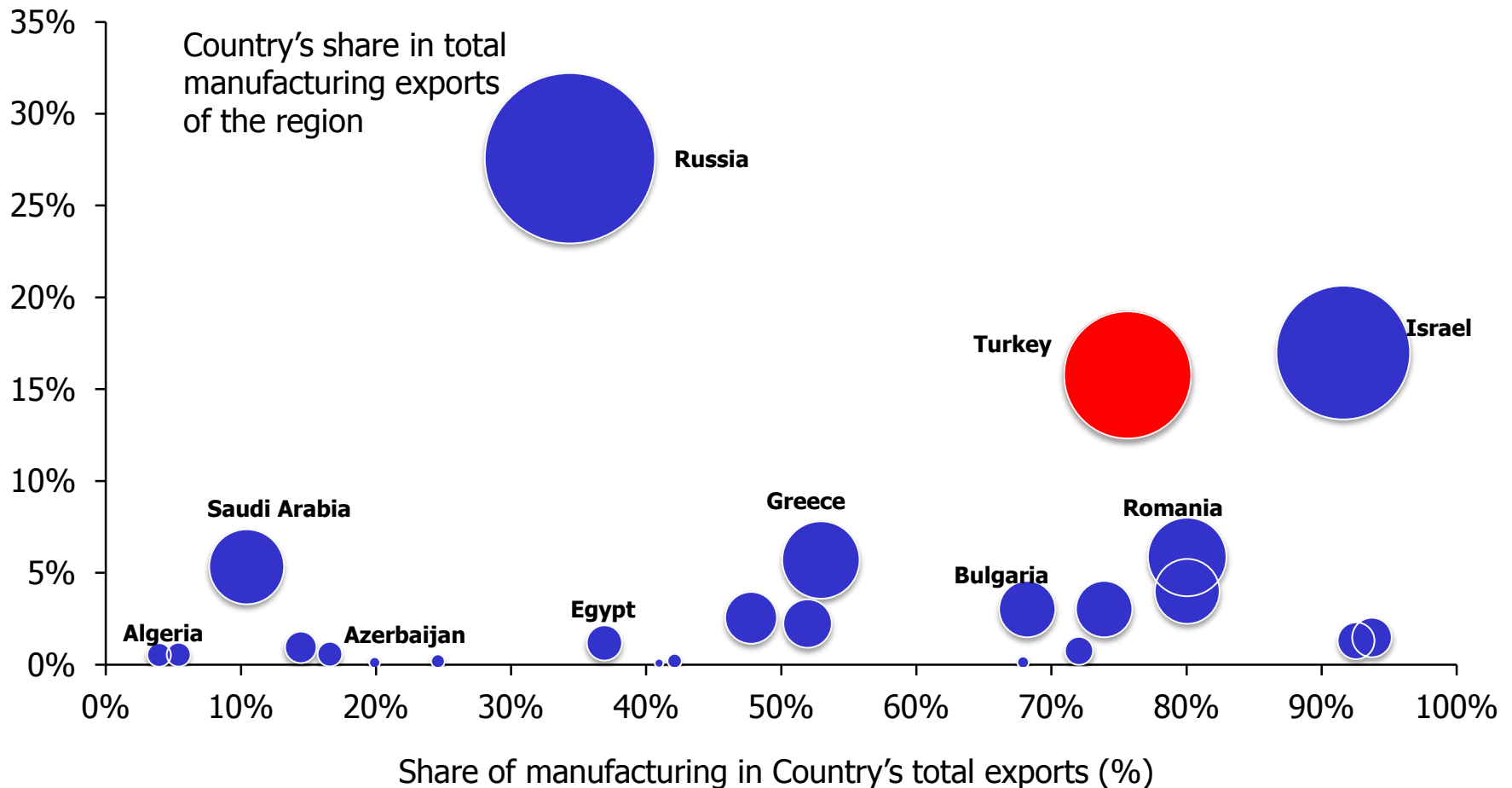
- The Economic Policy Research Foundation of Turkey
 - A private, nonpartisan, nonprofit think tank devoted to independent research and project implementation
- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey
 - Funding sources increasingly diversified
- Three major disciplines
 - Economic policy,
 - Foreign policy
 - Governance
- Three interrelated themes
 - Competitiveness
 - Regional economic integration
 - Entrepreneurship

Framework

- Current entrepreneurial environment in Turkey
 - Macroeconomic outlook
 - Opportunities and Challenges for SMEs
- What does economic diversity imply?
 - Star companies
- 3 Stages in access to finance
- Private sector alternatives in SME funding
 - Private Equity
 - Venture Capital
 - Angel investment
- Establishing links with entrepreneurs abroad: GEP

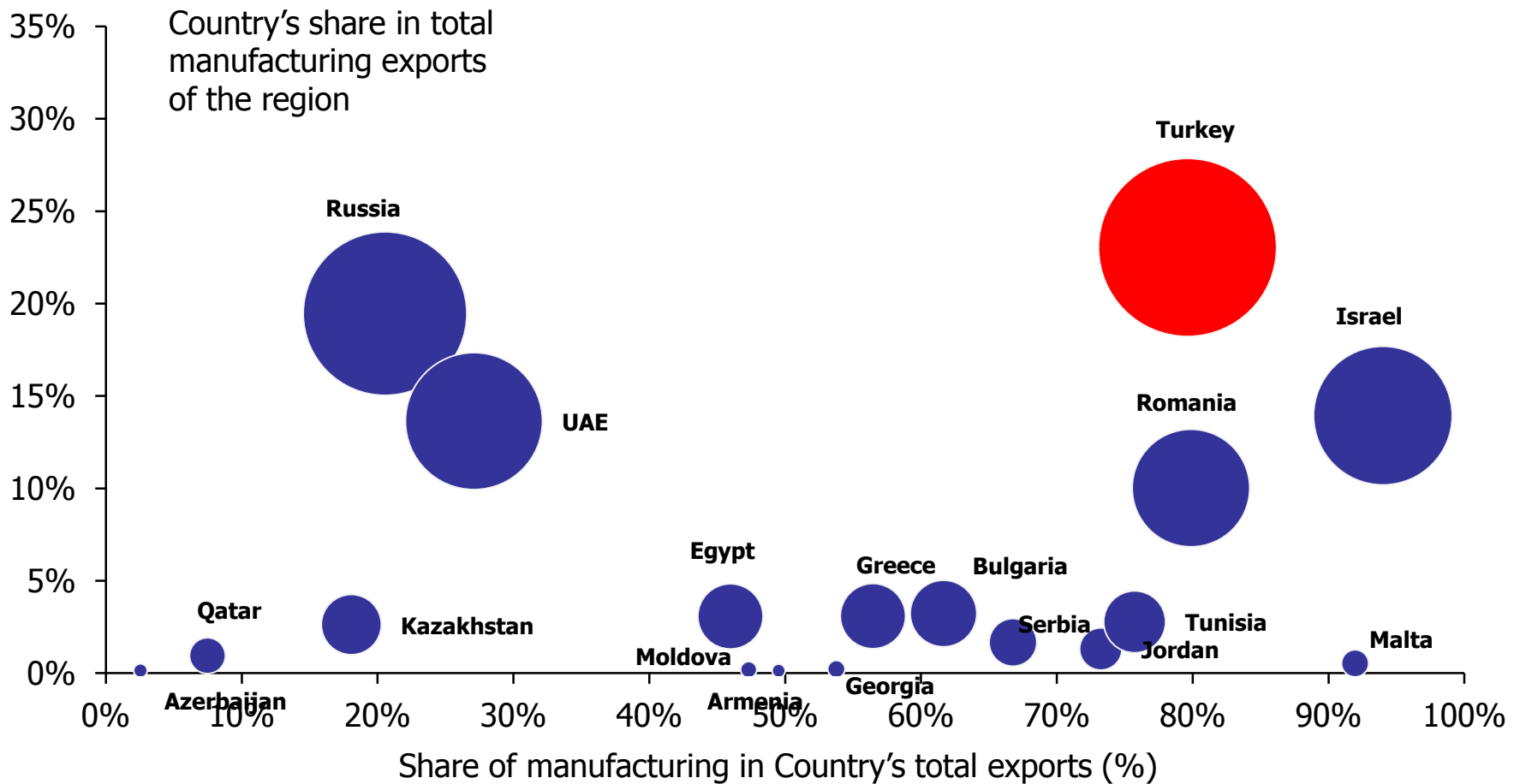
Turkey was an important manufacturer in the region in mid-1990s

Share in exports of the region and level of industrialization (1996)



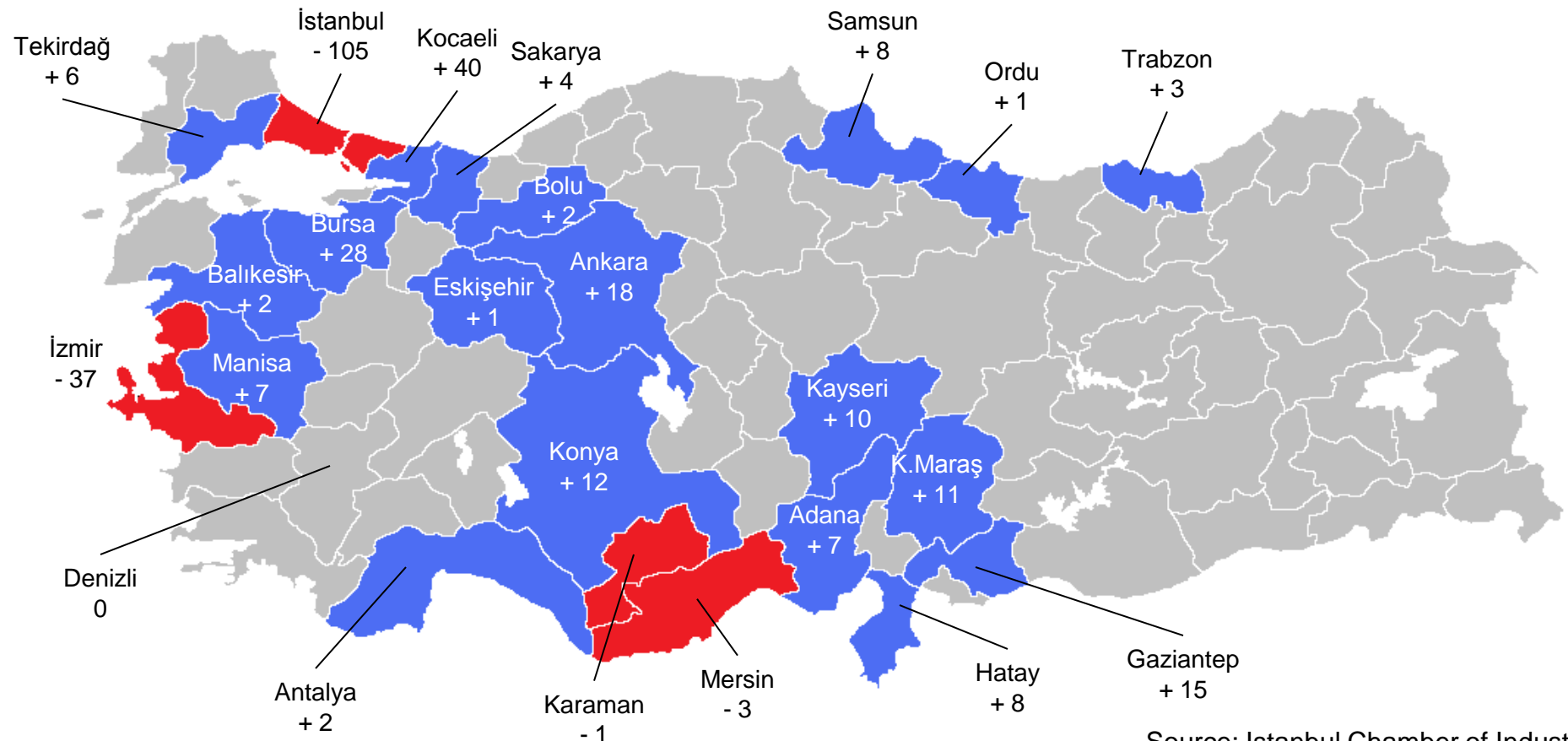
Now it is the largest manufacturer in its region

Share in exports of the region and level of industrialization (2010)



And manufacturing base is becoming geographically diversified

Change in the number of companies in Istanbul Chamber of Industry Top-500 List (1997-2009, provinces with a number of companies above 5 only)



Source: Istanbul Chamber of Industry

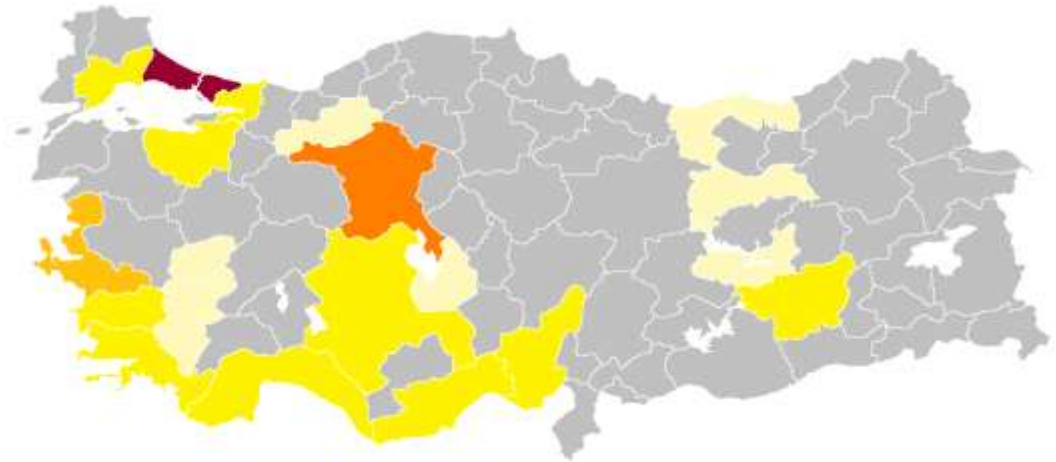
Demand side also presents many opportunities, due to rapidly growing middle class

	2003	2010
Automobile Sales (thousand)	359	761
Passangers served in Turkish airports (million)	34	102,7
Mobile phone subscribers (million)	26,6	61,6
Personal retirement funds (billion TL)	0,3	12,1
Consumer credits (million \$, 2010=100)	7	60
Number of consumer credits given (million)	2,2	7,8

Spread of consumption follows spread of production (number of shopping malls)

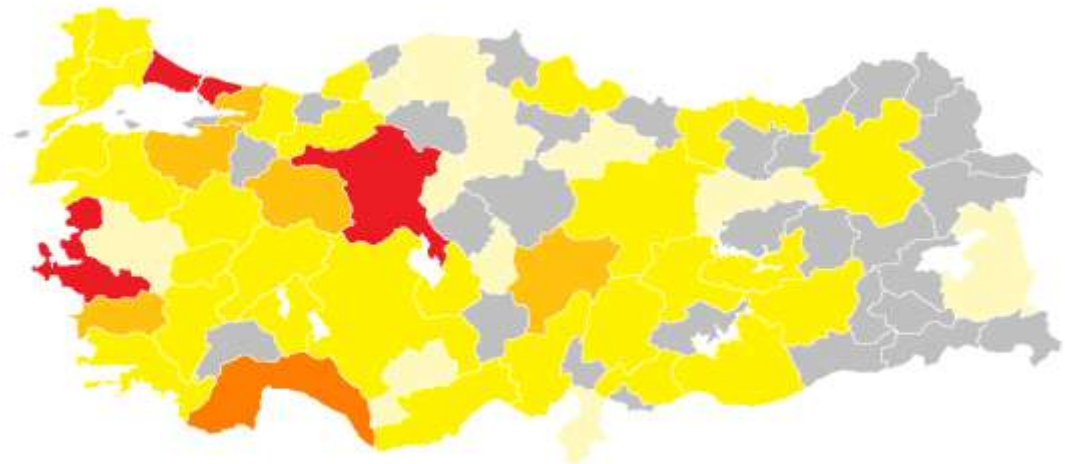
2005

Total	94
Outside 3 big cities	36



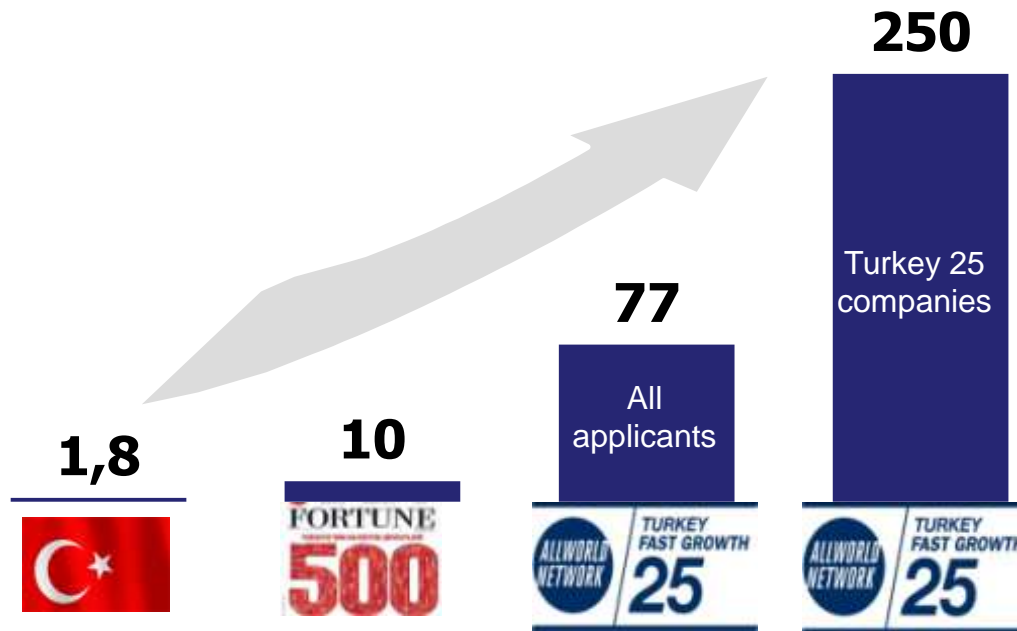
2011

Total	334
Outside 3 big cities	159



The diversity of economy present opportunities for investment in many areas: a lot of star companies

2008-2010 average annual growth rate (%)



Despite loss in competitiveness in overall economy:

Doing Business rank

(2008 – 2011): 57 → 65

Global Competitiveness rank

(2008 – 2011): 53 → 59

Source: TurkStat, Turkey 25 survey, Fortune 500 data 2008-2010

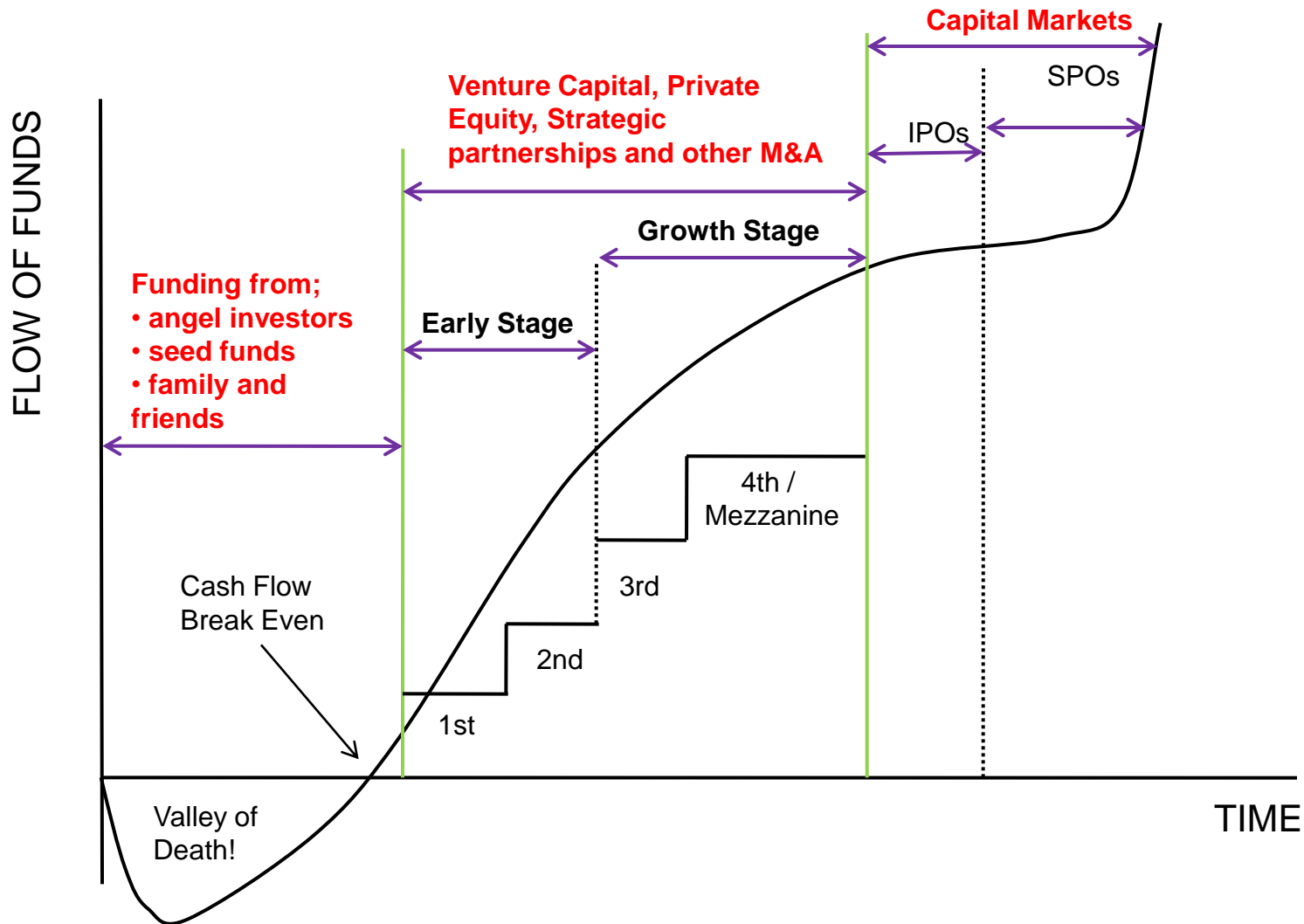
- Turkey 25 is an effort to identify and celebrate high growth companies.
- The pool of applicants include self-identified high growth companies with minimum conditions:
 - 2008 revenue > 100,000 USD; 2010 revenue > 500,000 USD
 - Number of employees ≥ 10 (full time)

...and from many different industries

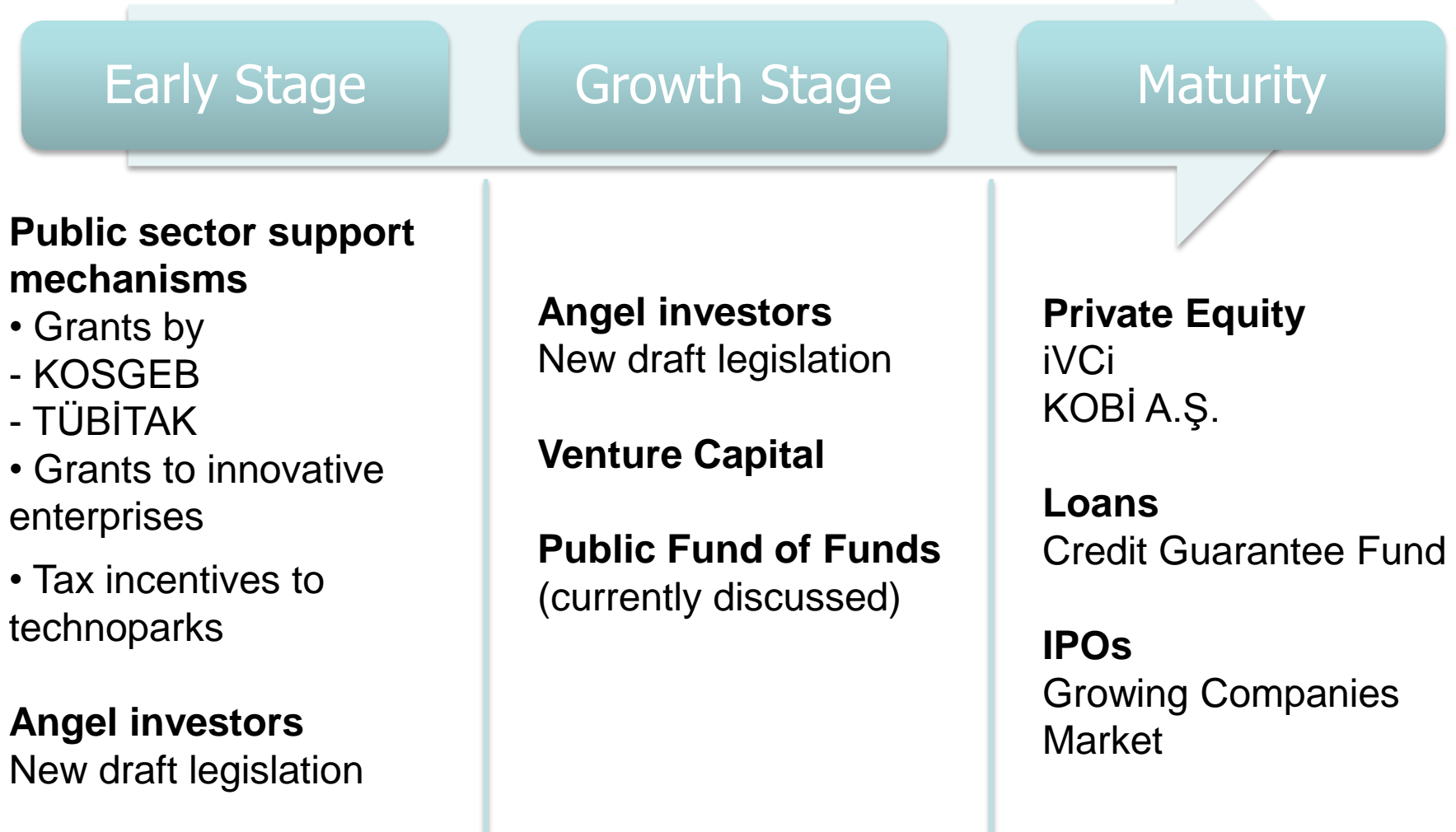
Industry distribution of Turkey 25 applicants

	%
Software services	12,2
Manufacturing and packaging	7,3
Food	7,3
Machinery	7,3
Transportation and aviation	7,3
Automotive	6,1
Construction and engineering	6,1
Computer network and software	4,8
Professional services and consulting	4,8
Construction materials	3,6
Textile and fashion	3,6
Other manufacturing	15,8
Other services	13,4
<i>Total manufacturing</i>	<i>50</i>
<i>Total services</i>	<i>50</i>

Can entrepreneurs access to finance in Turkey?

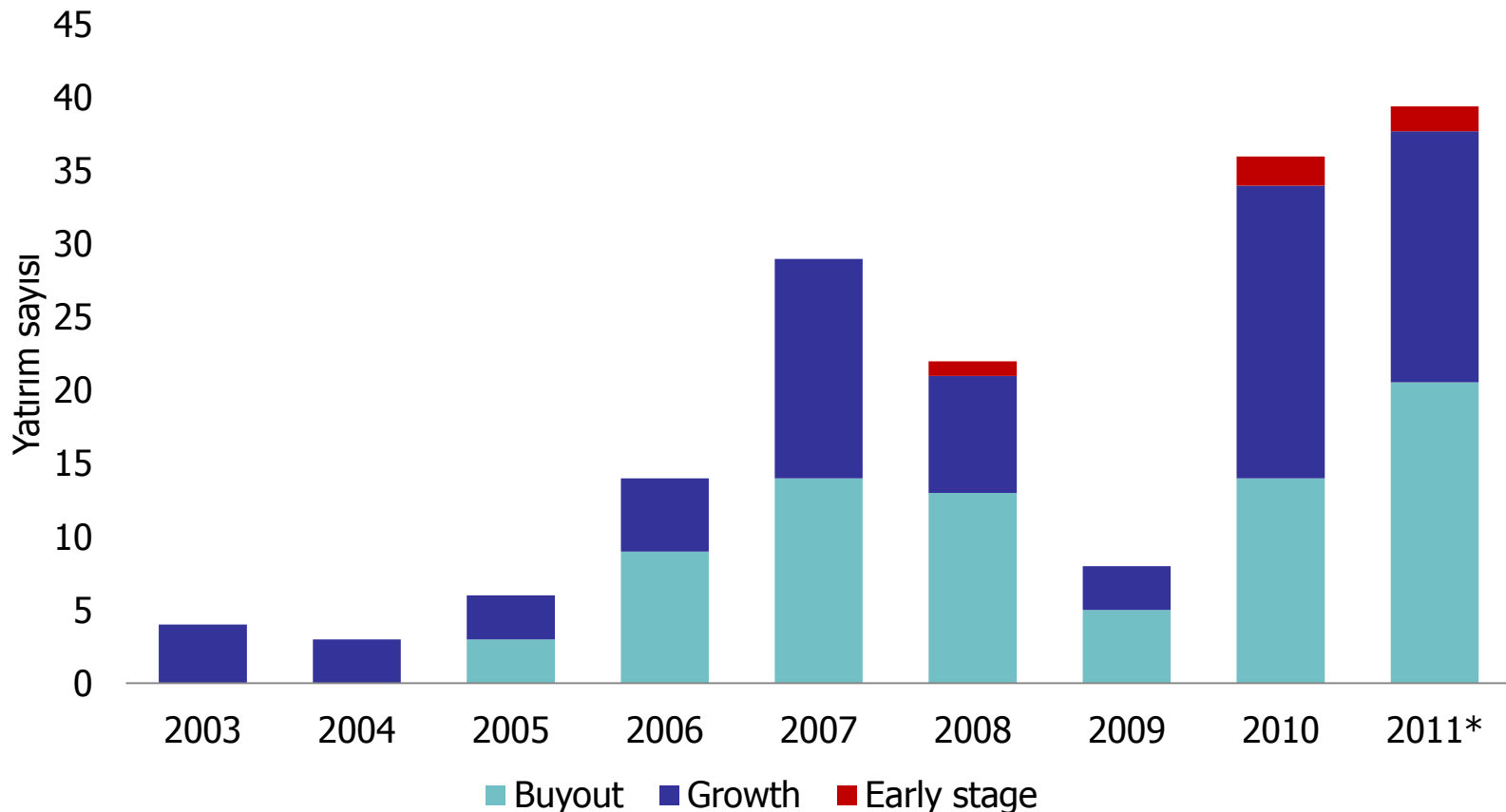


Current or potential public sector support mechanisms or regulations, with respect to types of funding



PE funds have been following the opportunities presented by Turkey's growing economy

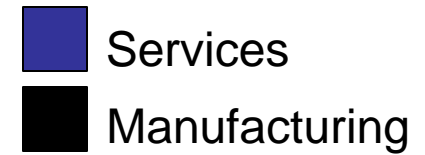
Number of PE deals in Turkey



*Projection of the number of the deals for the end of 2011, given the data up to July 2011.

Source: Web sites of the PE funds, TEPAV interviews and calculations

PE investments are spread to a diverse range of industries



Airport Services	Entertainment	Mobile Marketing
Arts &Ent. & Recreation	Eyewear	Motion Picture
Automotive	Factoring Services	MultiplexOperator
Biotech	Fairs and Exhabitions	Paper & Packaging
Broadcasting	Fleet Rental	Payment Systems
Brokerage House	Food & Beverage	Pharmaceuticals
Cargo Carrier	Furniture & Carpets	Plastics
Ceramic Tiles	Health Care	Real Estate
Construction	Household Appliances	FMCG Retailing
Cosmetics Retail	Information and IT	Security Services
Dental Hospital	Leasing	Ship Building
Edible Oil Production	Logistics	System Integrator
Electrical Accessories	Media	Textile
Electronics Retail	Medical Equipment	Travel Accessories
Electronics	Mineral Products	Vehicle Inspection

...and almost totally concentrated in Istanbul

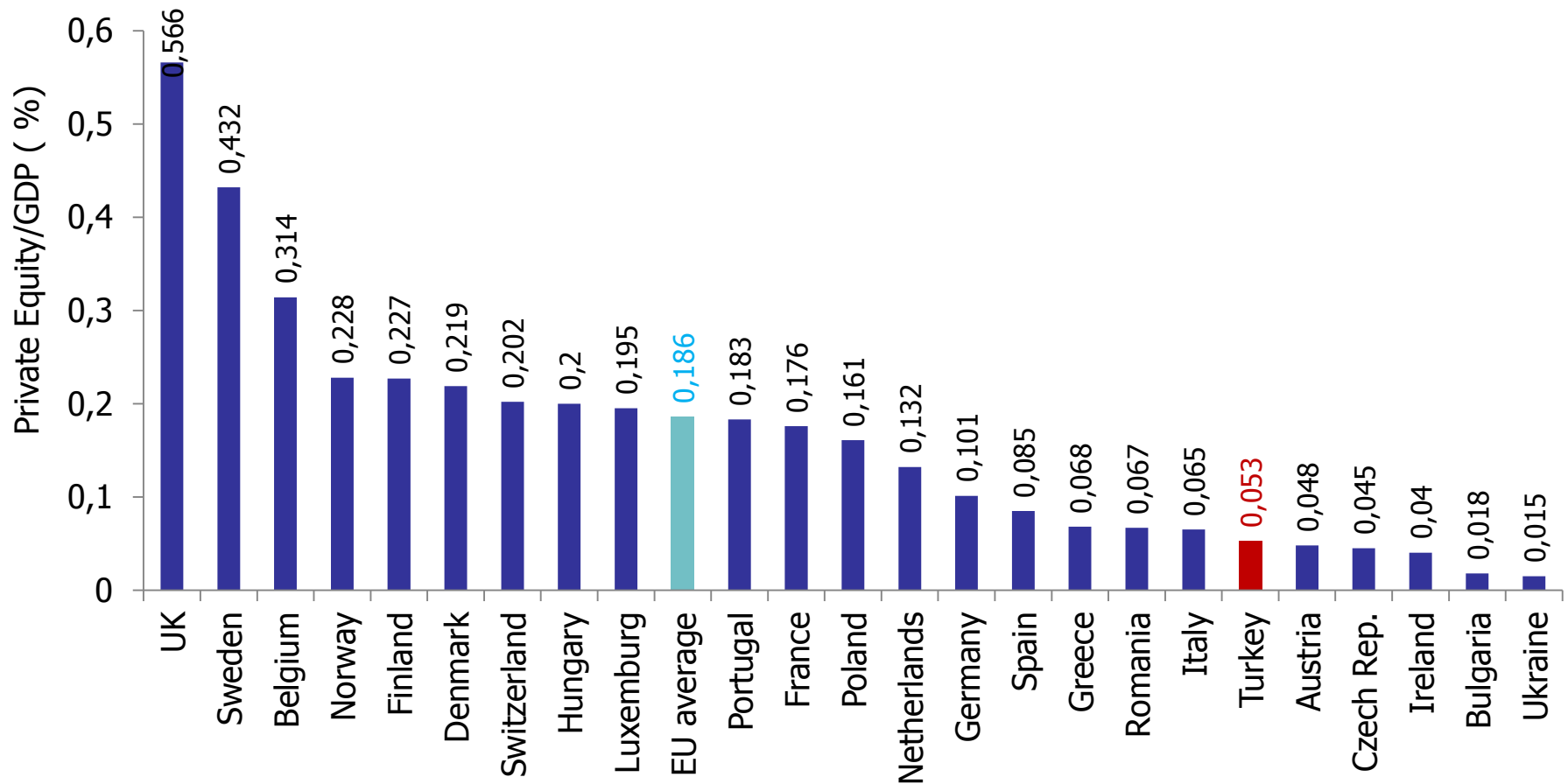
Location of company HQ	Number of deals
İstanbul	120
İzmir	4
Kocaeli	3
Ankara	3
Muğla	2
Balıkesir	1
Eskişehir	1
Isparta	1
Samsun	1

Research by Josh Lerner on US data shows that:

- Best PE/VC funds are concentrated in a few locations
- These best PE/VC funds mostly invest to the firms in the same locations
- Their returns from investments in other locations is higher than average
 - ➔ Better diligence
 - ➔ Access to better, untapped opportunities

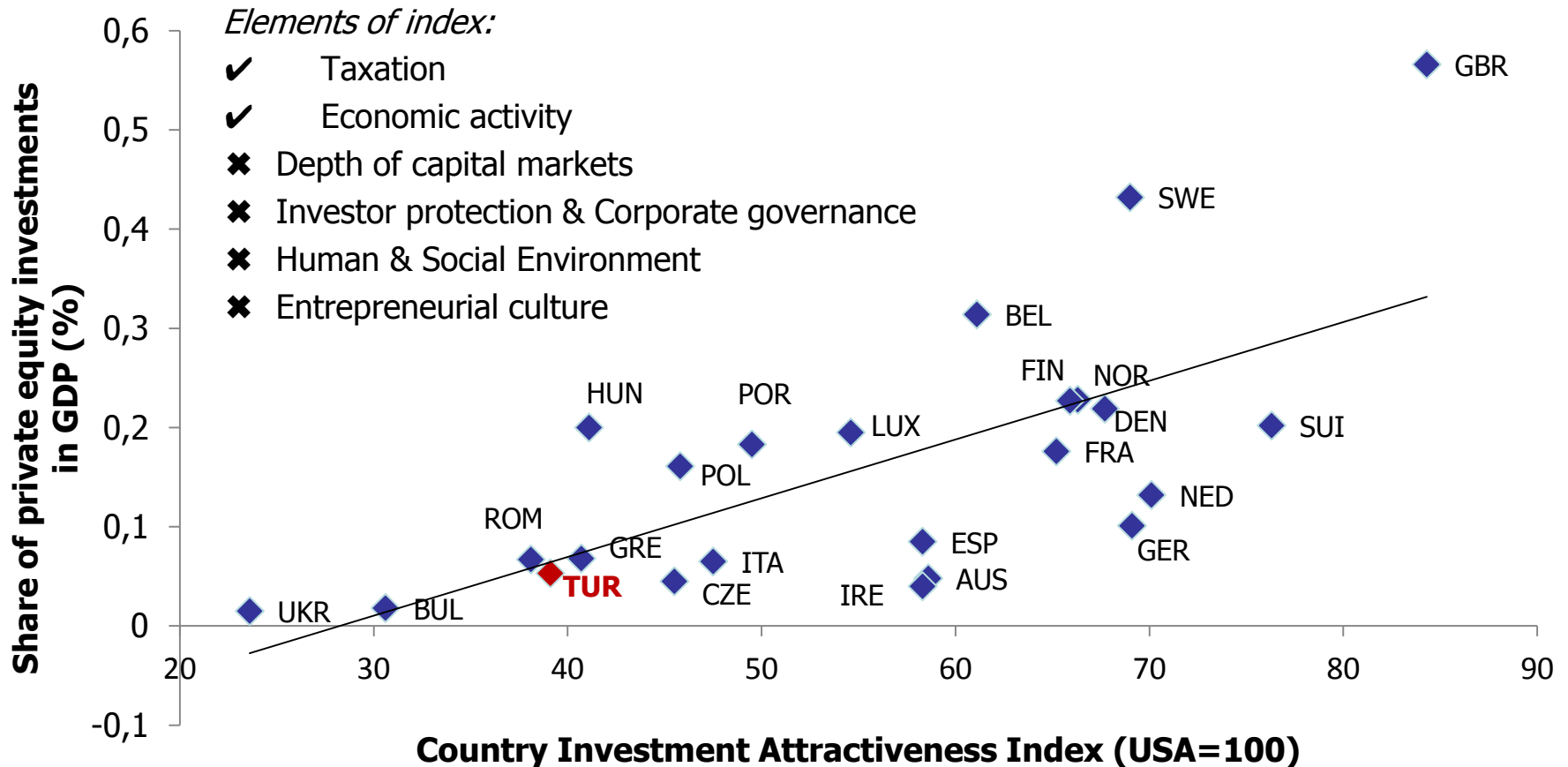
But there is still plenty of room for improvement in PE

Comparison of private equity investments in Europe and Turkey



A position that is proportionate with Turkey's investment attractiveness: need for reforms

Private equity investments with respect to country investment attractiveness



New draft legislation regarding angel investment in Turkey

- Undersecretariat of Treasury has drafted a law that provides tax incentives to Turkish business angels, pending approval by the Parliament
 - For investments with less than 50% share
 - 5-year long tax incentives
 - Not limited to Turkish investors
 - 75 to 100% tax deductions to accredited angel investors, depending on R&D involvement
 - Investor obliged to be involved with the business for minimum 2 years
 - Currently, about 200 angel investors registered to BANs
- Similar tax incentives are planned to be provided to venture capital and private equity funds as well.

Some Investment Examples

- Trayas invested www.markafoni.com -private shopping company- 11 m TL in May 2010
- Tiger Global invested www.trendyol.com -private shopping company- USD 10 m for 14% in October 2010
- Intel Capital invested www.nokta.com –online media company- USD 2.5 m for 8.5% in March 2011
- Ebay invested www.gittigidiyor.com – e-commerce USD 215 m for 93% in March 2011

Fostering Entrepreneurship: GEP Turkey's Entrepreneurship Delegation

- Visit of a delegation comprised of 16 American investors and entrepreneurs established new global connections for many Turkish start-ups



- Turkey's "Best of the Best" entrepreneurs competed in a business plan competition:
 - 153 applicants
 - 32 finalists
 - 12 potential deals

U.S. Entrepreneurship Delegation (May 29 - June 2) & Showcase of Turkey's "Best of the Best Startups"

- 15 distinguished American venture capitalists and angel investors sat together to judge Turkish start-ups
- A total of 145 best start-ups of Turkey
 - agribusiness, biotech & medical, game, mobile, social, energy & greentech, mecatronics
 - 10 provinces, 43% is from out of Istanbul.
 - pre-revenue companies to companies that seek 3rd round of ventures investment
- Application has been by-nomination only:
 - Universities including METU, Bilkent, Bosphorus
 - NGOs including MIT Enterprise Forum, Endeavor
 - Government institutions
- All were connected to American entrepreneurs and investors
 - 16 early-stage and 16 growth stage companies pitched
 - Top-3 in each track won cash and in-kind awards
 - Rest attended speed-mentoring in Istanbul and Ankara

Takeaways

- There are high growth companies in Turkey
 - From every industry
 - Not only limited to Istanbul
 - Emerging cross-border opportunities
- Crucial recent steps
 - New Turkish Commercial Code
 - Self-organized industry board: TOBB Venture Capital Sectoral Council
- Next steps
 - Active dialogue with policy-makers
 - Removal of remaining legal & regulatory obstacles
 - Fund of Funds