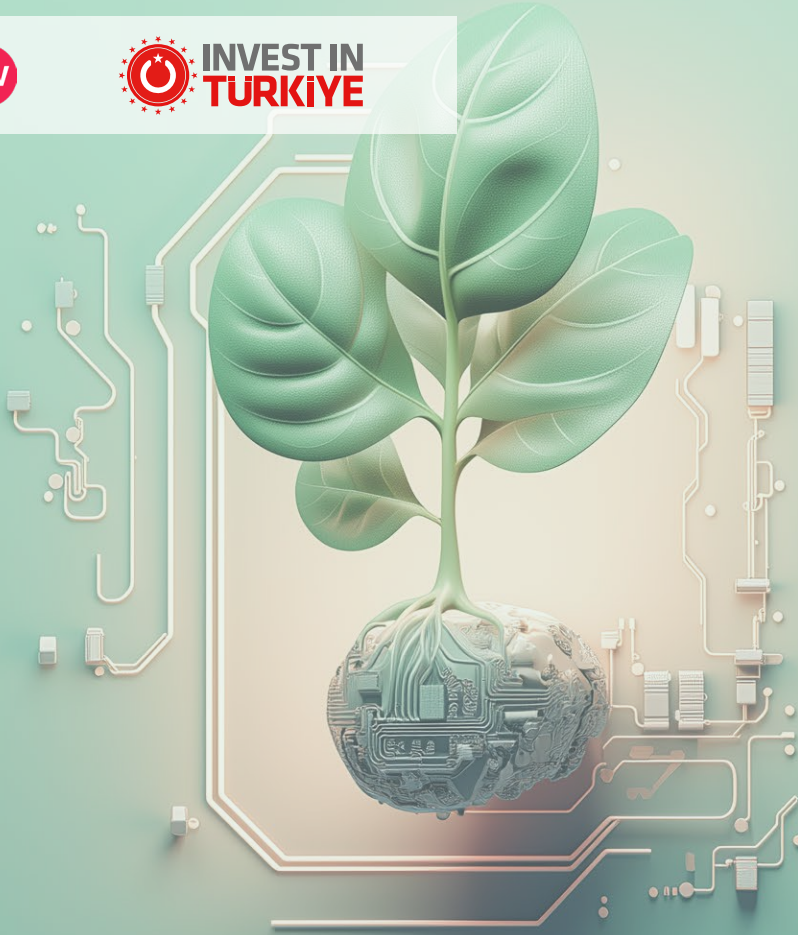


SW



INVEST IN
TURKIYE



2024

THE STATE OF TURKISH STARTUP ECOSYSTEM

An In-Depth Analysis and Evaluation

WELCOME TO THE TURKISH STARTUP ECOSYSTEM

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Startups Watch
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Serkan Unsal Founder, CEO

The State of Turkish Startup Ecosystem 2024
Version: v1.01 // October 31, 2024

Preliminary Version



Presidency of the Republic of Türkiye Investment Office
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KEY TAKEAWAYS

A Brief Overview of the Ecosystem

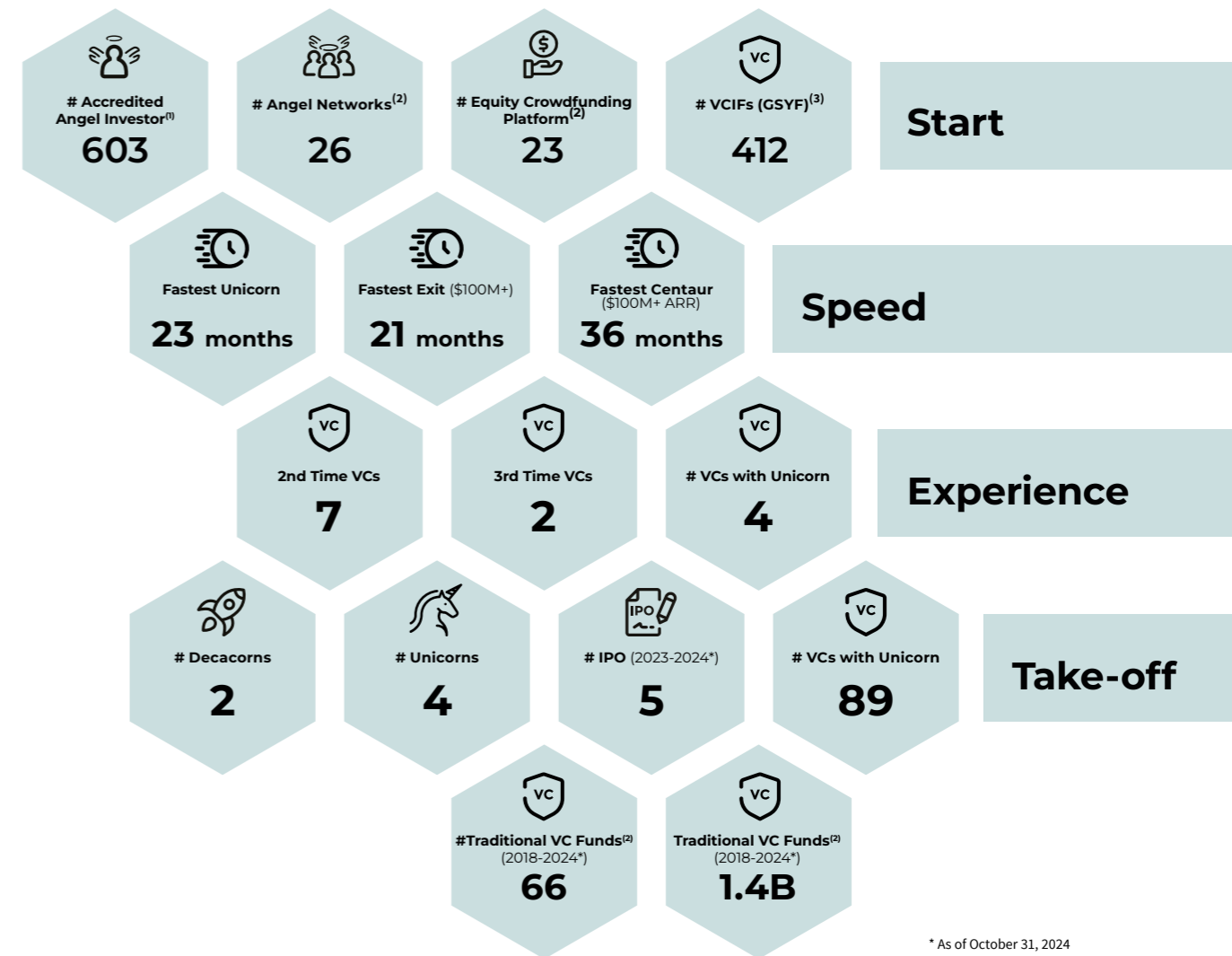
By 2018, Türkiye's startup ecosystem had made substantial progress during its early stages, driven by collaboration among investors, entrepreneurs, and key ecosystem stakeholders. In the following years, Türkiye emerged as a regional leader in funding for ideation and seed-stage startups, gaining a competitive edge in Central and Eastern Europe (CEE) and Southeast Europe (SEE). This success was facilitated by several factors, including the rise of multiple fund-of-funds, the development of traditional investment funds, the establishment of numerous Venture Capital Investment Funds (VCIF), and the steady increase in equity crowdfunding platforms.

Post-2018, Türkiye's competitive positioning was further strengthened through initiatives like the Turcorn program, aimed at giving rise to more unicorns, and the Türkiye Tech Visa program, designed to attract global talent and high-potential startups. Additionally, the TÜBİTAK BiGG fund, which annually supports an average of 300 idea-stage startups, has positioned the country for another significant leap in the near future.

This anticipated breakthrough is expected to be driven by Türkiye's focus on high-growth sectors, including gaming, fintech, and artificial intelligence (AI). Notably, new regulations in the fintech sector, combined with a growing appetite for international expansion and acquisitions by fintech companies, point to fintech as a flagship industry within Türkiye's startup landscape.

Moreover, Istanbul's airport, projected to be the most connected airport globally by 2024 with 309 destinations, further reinforces Türkiye's strategic role as a leading candidate for becoming the regional hub for innovation and business expansion.

01 TÜRKİYE SNAPSHOT



* As of October 31, 2024

Achievements Unlocked



02

QUICK HISTORY

The Emergence of the VC-Backed Ecosystem

Prior to 2010, Türkiye's startup ecosystem was predominantly driven by bootstrapped startups, with minimal presence of venture capital (VC) firms or angel networks. At that time, only a single Fund of Funds, iVCi, was active in the space. However, the rapid growth of startups like Peak (later acquired by Zynga), Markafoni (acquired by Naspers), and Trendyol (acquired by Alibaba), following external investments in 2009 and 2010, laid the groundwork for the development of a VC-backed startup ecosystem in Türkiye.

In the years that followed, Türkiye's startup ecosystem saw the emergence of angel networks, venture capital firms, incubators, and accelerator programs, marking its transition into a more structured and dynamic environment. This phase can be regarded as the ecosystem's learning period, during which entrepreneurs, investors, and other stakeholders gained valuable experience, though early missteps and growing pains were common.

One of the key misconceptions during this early phase was the assumption that Türkiye's large population would be sufficient for startups to succeed within the domestic market alone, given its large population. Unlike smaller countries that had to prioritize global scalability from the outset, Turkish startups focused on local growth before seeking international expansion. However, a handful of precedents existed to guide Turkish startups in navigating the challenges of scaling beyond the domestic market.

At the beginning of the 2010s, the number of funded startups barely exceeded a handful. However, with the establishment of the first angel network (GBA) and the first VC firm (212) in 2012, combined with the increasing support for entrepreneurs and investors, the number of

investments began to rise year by year. Catalysts such as grants for early-stage startups and tax incentives for angel investors significantly accelerated the growth of the ecosystem. As a result, the total investment volume, which stood at \$20 million in 2010, surged to \$116 million by 2017.

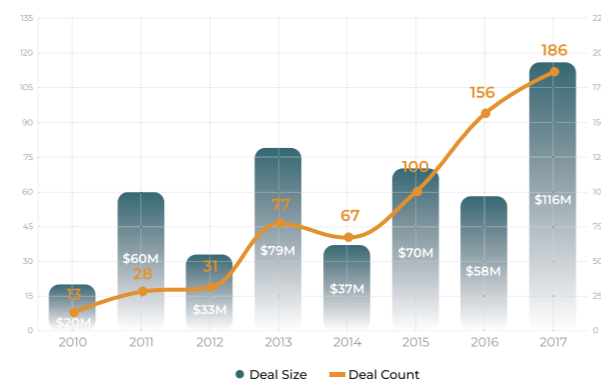


Chart 1- Angel & VC Deals in Türkiye in the Learning Phase⁽⁶⁾

By the mid-2010s, accelerators and investors began to recognize that globalization was essential, leading to a significant increase in visits and programs focused on Silicon Valley. This shift marked the beginning of efforts to explore and enter new markets, as entrepreneurs sought to expand beyond local boundaries.

During this period, the number of incubators, accelerator programs, and co-working spaces grew exponentially.

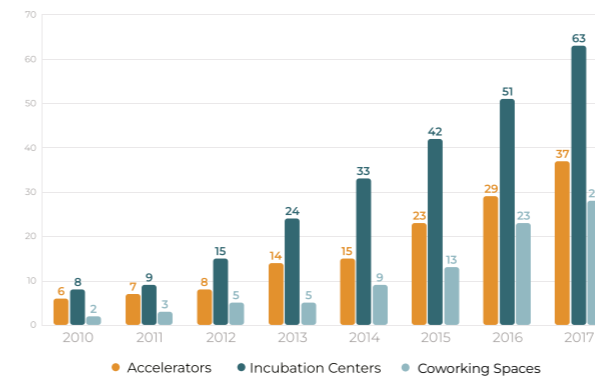


Chart 2- # Accelerators, Incubation Centers, Coworking Spaces in the Learning Era⁽²⁾

Restructuring

Following the learning phase, many funds reached the end of their investment cycle without producing a global success story. As a result, 2018 and 2019 saw investors focusing on recovering returns and raising new funds. Despite this, some VCs successfully exited with local champions, which facilitated the faster launch of their second funds and maintained momentum in the ecosystem.

Pandemic

Despite being early in the pandemic, Zynga's \$1.8 billion acquisition of Peak and the acquisition of 80% of Rollic for \$180 million just 21 months after its founding gave a significant boost to the ecosystem.

As the pandemic intensified, Türkiye, like the rest of the world, experienced an accelerated digital transformation, advancing sectors by 5-6 years. E-commerce, logistics, and gaming industries reached milestones during the lockdown that would have otherwise taken several more years.

In 2021, Getir achieved unicorn status, followed by Dream Games just 23 months after its inception. Hepsiburada's IPO on Nasdaq and Trendyol's rise to decacorn status further propelled Türkiye's startup ecosystem, setting an all-time investment record that year.

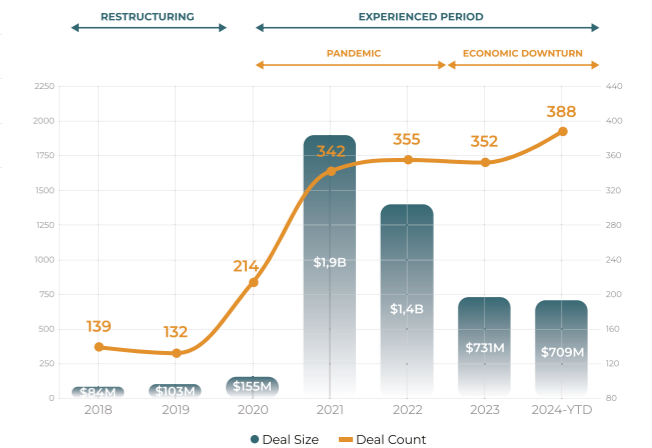


Chart 3- Angel & VC Deals in Türkiye 2018-2024⁽⁶⁾

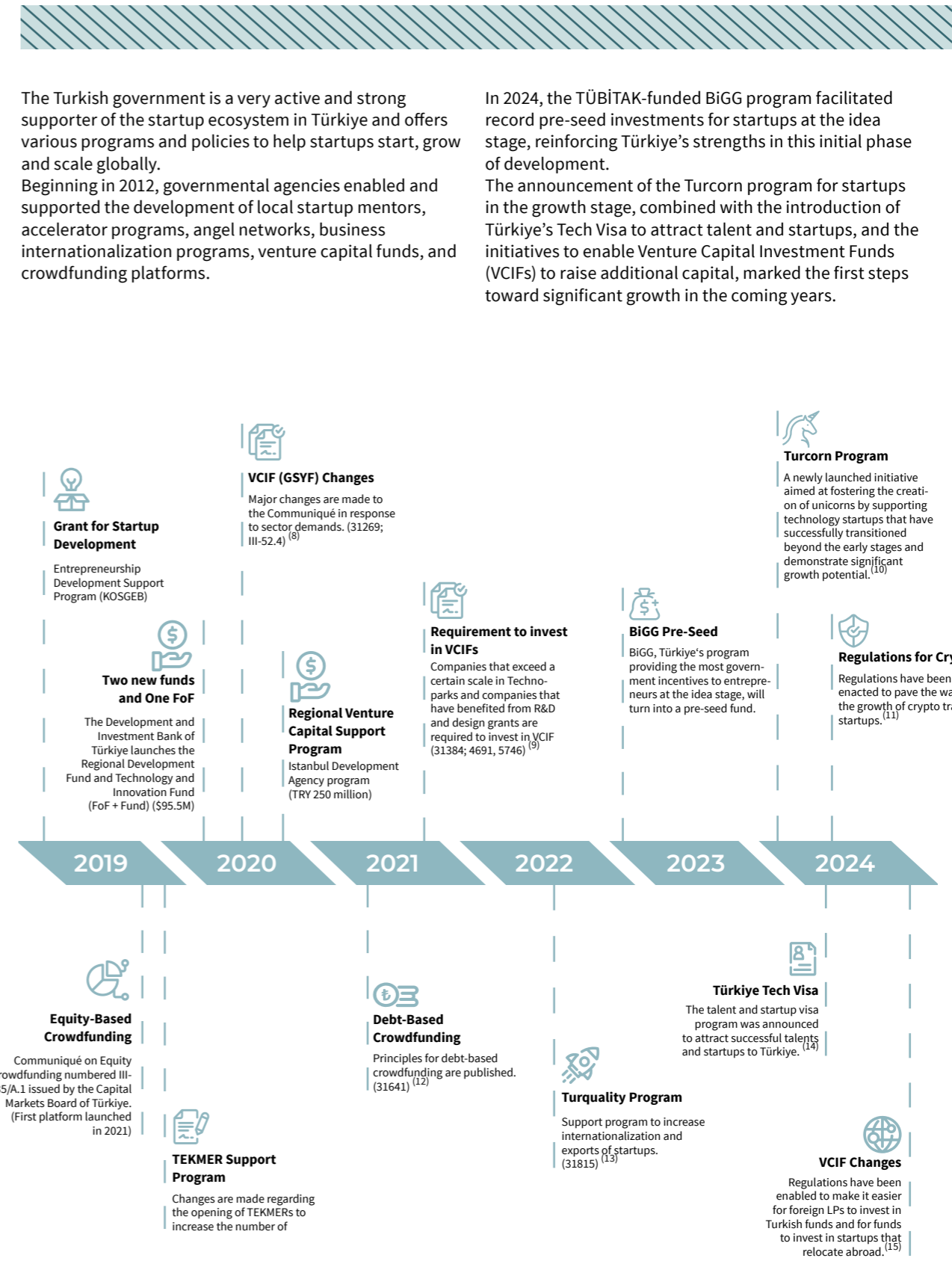
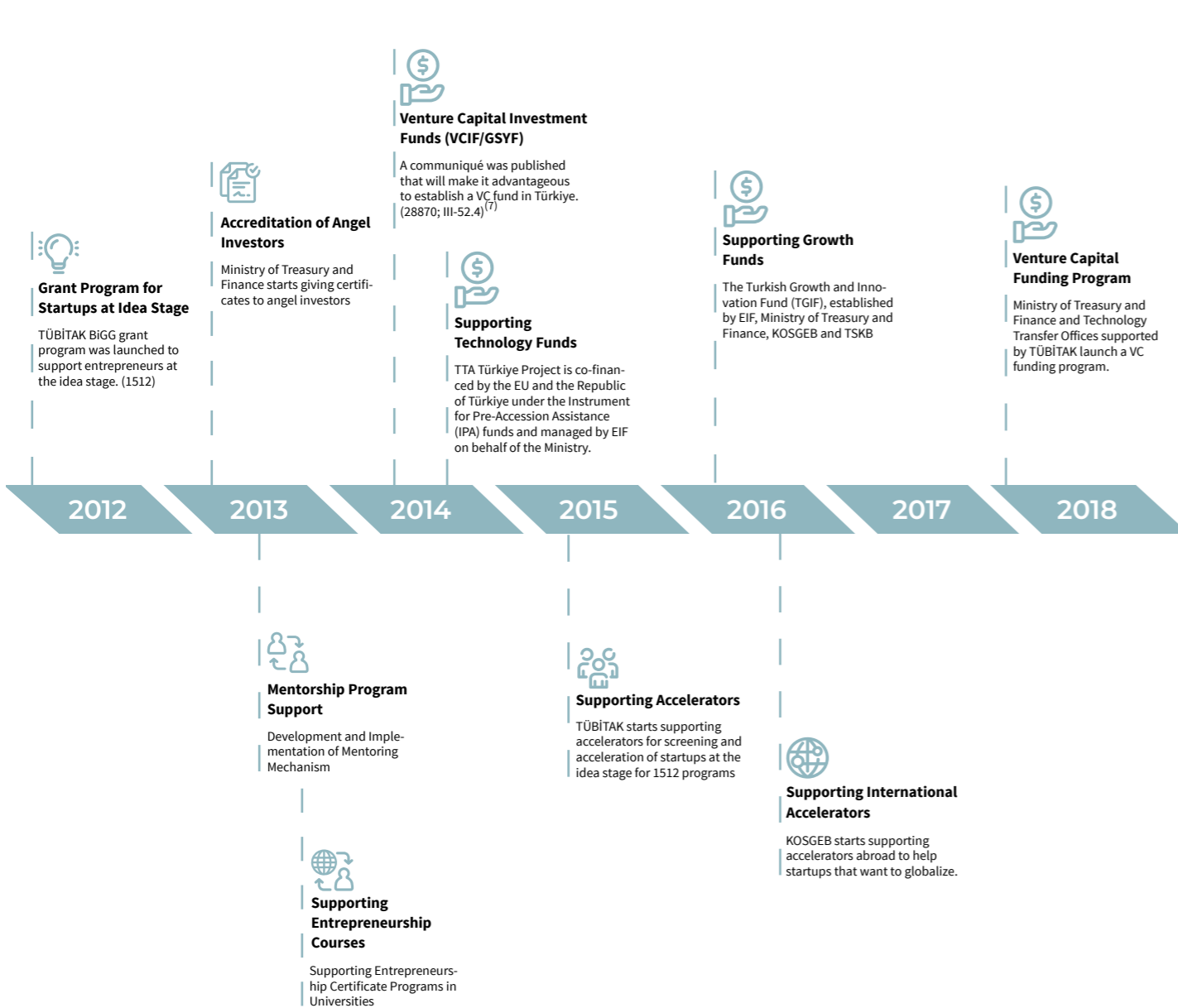
Economic Downturn

Valuations in Türkiye did not drop significantly because they had not surged dramatically during the pandemic and remained at reasonable levels. Additionally, the funding shortage had little impact on pre-Series A stages. This was due to several factors: the introduction of equity-based crowdfunding regulations in 2019, allowing startups to secure financing through crowdfunding; the establishment of three fund of funds between 2020 and 2022 to support VCs; the 2021 regulation allowing R&D firms to accelerate their investments in Venture Capital Investment Funds (GSYFs); and the transformation of the BiGG program from an idea-stage grant initiative into a pre-seed investment fund by the end of 2023, now investing in nearly 300 idea-stage startups annually. These measures fostered an abundance of early-stage capital.

The only similarity Türkiye shares with the global trend is the capital shortage observed in the post-Series A stage, which has been keenly felt in the local market. The abundance of seed-stage capital, combined with a more experienced investor base—many of whom have unicorn and decacorn success stories—positions Türkiye to achieve new milestones in the coming years.

03

SUPPORTIVE ECOSYSTEM



The Turkish government is a very active and strong supporter of the startup ecosystem in Türkiye and offers various programs and policies to help startups start, grow and scale globally. Beginning in 2012, governmental agencies enabled and supported the development of local startup mentors, accelerator programs, angel networks, business internationalization programs, venture capital funds, and crowdfunding platforms.

In 2024, the TÜBİTAK-funded BiGG program facilitated record pre-seed investments for startups at the idea stage, reinforcing Türkiye's strengths in this initial phase of development. The announcement of the Turcorn program for startups in the growth stage, combined with the introduction of Türkiye's Tech Visa to attract talent and startups, and the initiatives to enable Venture Capital Investment Funds (VCIFs) to raise additional capital, marked the first steps toward significant growth in the coming years.

Timeline 1 - Prominent Milestones for Government Support in Turkish Startup Ecosystem

04

A NEW ERA

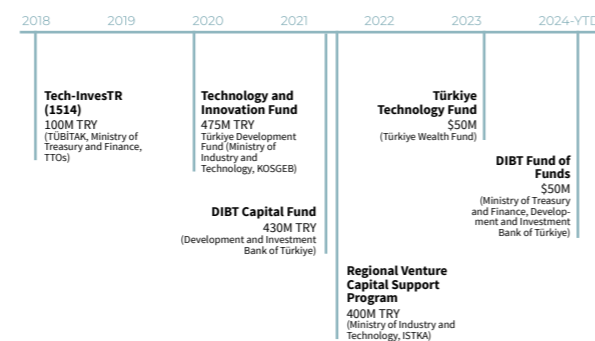
Multiplicity of Financing Options

As success stories made headlines in quick succession as the ecosystem gathered pace quickly, Türkiye has made significant strides in giving rise to unicorns, achieving global expansion, and securing exits at a much faster pace compared to the pre-2010 era when startups grew through bootstrapping. Before 2020, the ecosystem had yet to produce a unicorn, but post-2020, it has generated six unicorns, two of which have reached decacorn status.

01	Hepsiburada Founded: 1998 Years to become unicorn: 23 years (NASDAQ-IPO)
02	Trendyol Founded: 2010 Years to become unicorn: 11 years Years to become decacorn: 1 year
03	Peak Games Founded: 2010 Years to become unicorn: 10 years
04	Insider Founded: 2012 Years to become unicorn: 10 years
05	Getir Founded: 2015 Years to become unicorn: 6 years Years to become decacorn: 1 year
05	Dream Games Founded: 2019 Years to become unicorn: 2 years

List 1 - Billion Dollar Club Members

The rise in success stories can be attributed to the groundwork laid and the experiences gained during the 2010-2017 period. The belief in the ecosystem's exponential growth established a robust financing infrastructure. Between 2018 and 2024, six fund-of-funds (FoFs) were created to target Turkish VCs, enhancing investor appetite and facilitating the establishment of new funds. The creation of 66 new Funds, totaling \$1.4 billion, serves as clear evidence of this progress.



Timeline 2 - Fund of Funds in Türkiye Timeline⁽¹⁶⁾

However, it's important to note that not all of these funds are exclusively mandated to invest in Türkiye; some focus on startups in Southeast, Central, and Northern Europe, or target Turkish diaspora-led startups abroad. Additionally, nearly all of these funds concentrate on seed and Series A investments, highlighting a notable lack of capital available for Series B and later stages.

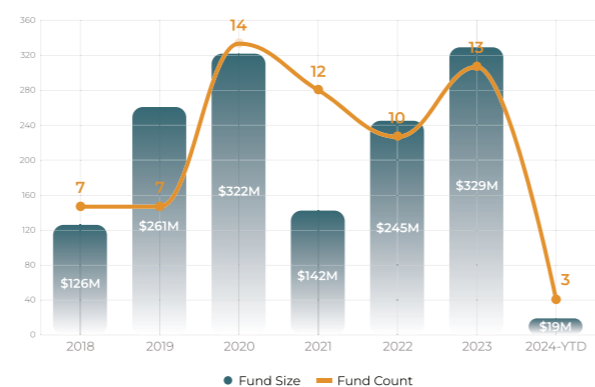


Chart 4 - # Traditional VCs Founded⁽⁶⁾



In 2014, Türkiye introduced a new venture capital structure alongside traditional VCs under the regulation of the Capital Markets Board, known as the Venture Capital Investment Fund (VCIF). Regulatory changes in 2021 allowed companies receiving R&D incentives in Türkiye to invest in VCIFs, leading to the creation of 399 VCIFs, with a total size of \$1 billion between 2018 and 2024. With average fund sizes under \$5 million and a local focus, VCIFs are often referred to as "onshore funds" or "micro funds," providing startups with more diversified financing options. The main difference from traditional funds is that VCIFs are mandated to invest exclusively in Turkish startups. However, a 2024 regulation expanded their scope, allowing VCIFs to invest in startups with a presence both in Türkiye and abroad, with a particular focus on targeting Turkish diaspora-led startups.

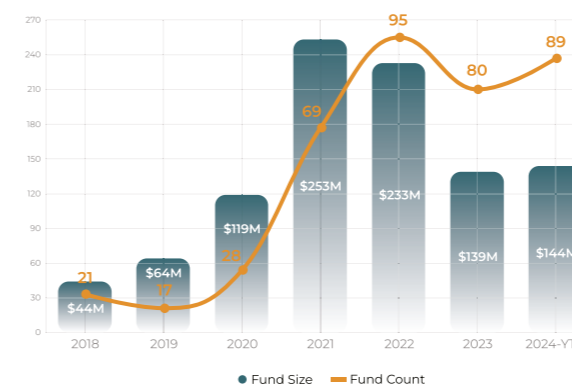


Chart 5 - # VCIFs (GSYF) Founded⁽⁶⁾

Since 2013, the Ministry of Treasury and Finance has been licensing angel investors for 5 years to benefit from tax advantages. As of 2013, 1098 licenses were issued and the number of angel investors with active licenses reached 603 by the end of 2024-Q3.

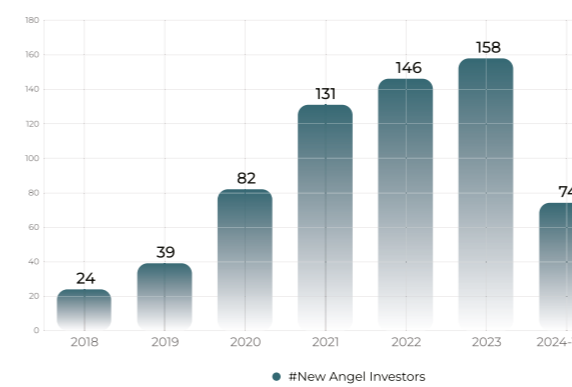


Chart 6 - # Newly Licensed Angel Investors⁽¹⁾

With the introduction of equity-based crowdfunding campaigns in 2021, platforms rapidly began to emerge. To date, 25 platforms have received operating licenses, with 11 actively launching campaigns. Although the number of successful campaigns in the first nine months of 2024 decreased compared to the previous year, crowdfunding has proven to be a valuable financing option, particularly for seed-stage startups.

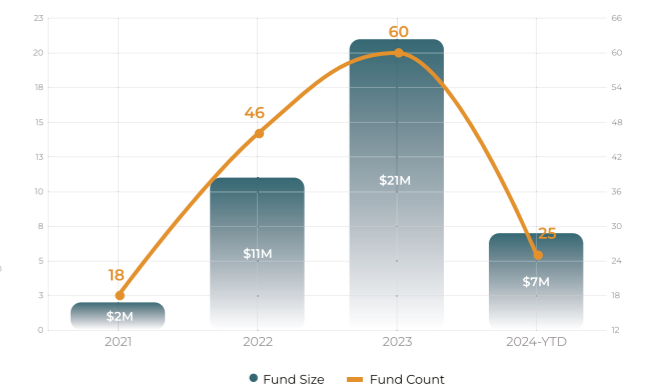


Chart 7 - Successful Crowdfunding Deals⁽⁶⁾

Another factor contributing to the increase in financing options has been the growing investment appetite of corporations. Companies became more eager to establish new funds, driven by both the favorable investment environment created by the VCIF regulations and the fear of missing out (FOMO) following successive success stories. This led to the creation of 89 corporate venture capital (CVC) funds to date. This growing appetite has been reflected in funding rounds, with CVCs or corporations participating in at least one out of every three investments in Türkiye over the past five years.

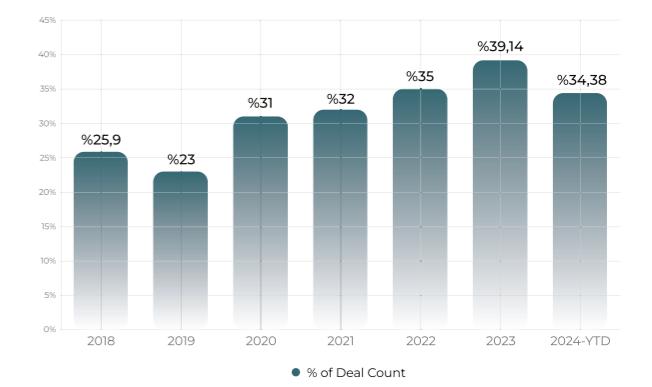


Chart 8 - CVC+Corporate Participation in Deals⁽⁶⁾
*: TÜBİTAK BIGG Fund excluded

Hot Verticals: Gaming

Türkiye's gaming ecosystem, which began with local success stories in online games in the early 2000s, gained momentum with social games in the early 2010s and accelerated further with mobile games by 2012. Since 2018, a series of exits has heightened the interest of both game developers and investors. The gaming sector peaked during the pandemic, producing two unicorns. During this period, Dream Games set a record for both Türkiye and the gaming industry by raising \$467.5 million in just two years after its founding in 2019.

Although the gaming vertical faced challenges in early 2022—stemming from the end of the pandemic, the Russia-Ukraine war, liquidity tightening by the Federal Reserve, and interest rate hikes by the European Central Bank—key milestones have demonstrated that the vertical's momentum remains robust. Significant developments include Good Job Games selling a portion of its game assets, Ruby Games being acquired by Rovio, and Spyke Games—founded in 2020—raising \$105 million over three funding rounds in just four years. Additionally, with 814 active game studios, Istanbul ranks second in Europe, just behind London. Post-2020, Türkiye has seen the establishment of 8 game-specific investors, including four gaming-only funds, as well as 12 gaming incubators and 21 game-focused accelerator programs, further solidifying its position as one of the top gaming ecosystems globally.

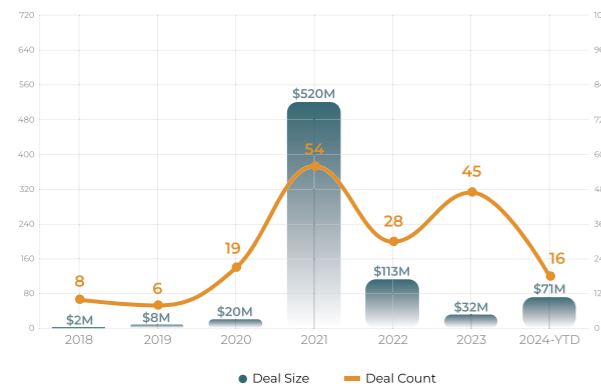


Chart 9 - Gaming Deals in Türkiye⁽¹⁷⁾

While investment volumes dipped in 2023 compared to the previous year, early indicators suggest a rebound in 2024. This trend points to an uptick in activity within the gaming sector in the upcoming months.

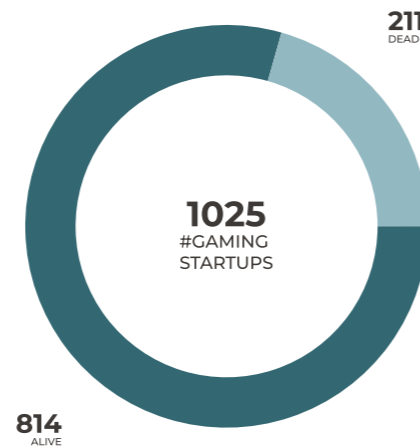


Chart 10 - # Gaming Studios in Türkiye⁽¹⁷⁾

Hot Verticals: Fintech

Following the gaming sector, fintech has emerged as one of the most vibrant industries in Türkiye, particularly in areas for generating exits and creating local champions. Historically, the fintech vertical was known primarily for producing local success stories but faced challenges in achieving global growth. However, this trajectory began to change post-2023, as Turkish fintech startups increasingly set their sights on global expansion. Several companies have pursued international acquisitions as a means to enter new markets, signaling a shift toward a more aggressive global growth strategy.

As a regulation-driven ecosystem, the fintech vertical is undergoing significant changes, particularly in areas such as digital banking and open banking. The recent introduction of regulations governing cryptocurrency assets in 2024 will also contribute to shaping the future of Türkiye's fintech ecosystem.

2024 is set to be a watershed year for fintech investments, with substantial funding awarded to key players such as Colendi, Dgpays, Midas, and Sipay. This influx of capital is playing a pivotal role in positioning Türkiye's fintech ecosystem as one of the most dynamic and high-potential verticals in the industry, further accelerating its growth and expanding its global footprint.

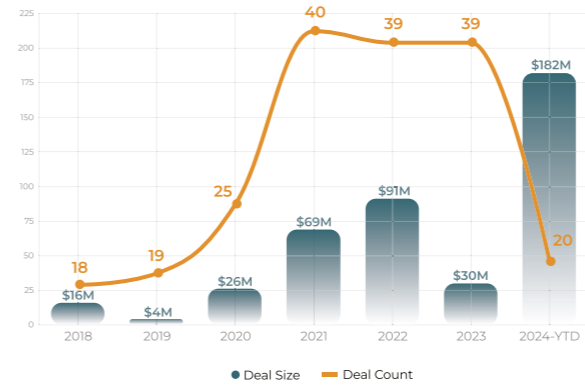


Chart 11 - Fintech Deals in Türkiye⁽¹⁸⁾

With 710 active fintech startups and numerous regulations in place, Türkiye has a strong likelihood of producing its next unicorn from the fintech vertical.

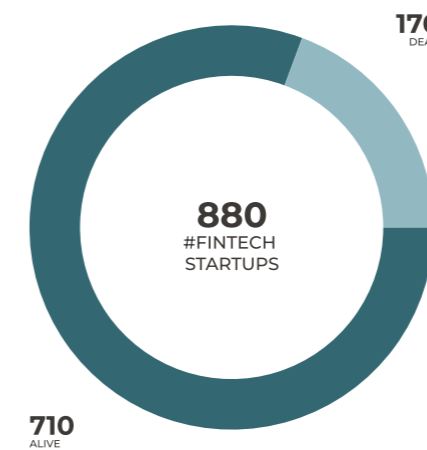


Chart 12 - # Fintech Startups in Türkiye⁽¹⁸⁾

Hot Verticals: Artificial Intelligence

While artificial intelligence (AI) is a hot topic globally, Türkiye is experiencing remarkable momentum in this vertical, with 720 active AI startups.

In 2023, 60 AI companies secured the investments, with 48 of these deals taking place in first three quarters alone. The rise of AI-specific accelerator programs and dedicated funds further underscores the evolution of Türkiye's AI sector into a thriving and robust ecosystem.

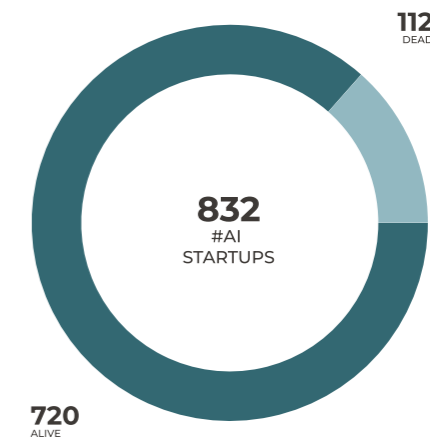


Chart 13 - # Artificial Intelligence Startups in Türkiye⁽¹⁹⁾

Exit Diversity & Top Exits

In recent years, Türkiye has gained prominence not only for its diverse investment opportunities and dynamic verticals but also for the variety of its exit options.

Over the past two years, the startup ecosystem has seen several notable IPOs, including companies such as Altınay Savunma, Binbin, ebebek, Mackolik, and Odine. Additionally, Martı went public in the U.S. via a SPAC within the same period. Good Job Games demonstrated the potential for asset sales as an exit strategy by selling some of its game assets. Global companies have also increasingly turned their attention to Türkiye for acquisitions. Alibaba, Zynga, and Rovio are just a few of the global companies that have made acquisitions within Türkiye's startup ecosystem over the past five years. In a recent significant deal, Kaspi.kz acquired Hepsiburada for \$1.1 billion. Moreover, 212's fund-secondary transaction with Isomer Capital, delivering over 2x returns to investors in its first fund, marks a key milestone in advancing the Turkish VC ecosystem and highlighting alternative exit opportunities.

05

APPENDIX

Disclaimer

The information provided in this report is general and does not constitute financial, tax, or legal advice. Whilst every effort has been taken to ensure the accuracy of this report, the editors and authors accept no responsibility for any inaccuracies or omissions contained herein. Financial, tax, or legal advice should always be sought before engaging in any transaction or taking any legal action based on the information provided. Should you have any queries regarding the issues raised and/or about other topics, please contact the authors of this report.

All information in this report is up to date as of October 31, 2024

Key Terms and Definitions

Startup : A product-focused private tech company with lots of blurry elements like revenue model, customer and product. Tailor-made solution providers are not considered as startups.

Corporate Venture : A subsidiary of an established company created to launch a new product or service

Venture Capital Funds (VC): VC funds are structures that invest in startups and receive minority shares in return. Investment periods are limited and generally five to six years. The goal is to sell the shares at much higher prices when the fund expires.

Corporate Venture Capital (CVC): CVC funds are the same as VC structures, except this fund is financed by a single company. (e.g. Intel Capital)

Pre-Seed Investment : The initial round of funding used to build and demonstrate the viability of a product idea. Pre-seed round size in Türkiye is usually less than \$50 thousand.

Seed Investment : The funding round used to reach product/market fit. The startups at this stage have a working product and some paying customers with some early metrics. Seed round size in Türkiye is generally \$200 thousand.

Series A : The funding round used to scale up a startup. Startups at this stage have achieved product/market fit and have repeat customers. Series A round size in Türkiye is generally \$1 million in Türkiye. It's usually the first round of financing that a startup receives from a venture capital firm.

Series B, C, D, E.. :Funding rounds made by VCs with higher valuations compared to the preceding round.

Convertible Debt : This is an “in-between” round of funding to help companies hold over until they want to raise their next round of funding. When they raise the next round, this note “converts” with a discount at the price of the new round.

Growth Equity : This is the type of investment for growing well-established, less-risky businesses. The company does not have to be profitable. The firm's minority or majority shares may be acquired by the fund.

Private Equity : A private equity round is led by a private equity firm and represents a late-stage financing round. At this stage, the firm has already moved beyond generating revenue and has developed profitable margins along with a stable cash flow.

Equity Crowdfunding : A method of raising collective funds through online platforms where individual users can invest in companies in exchange for equity. Typically, these platforms allow investors to contribute smaller amounts, often through syndicates. In such syndicates, a lead investor evaluates the investment opportunity and pools funds from a group of individual backers.

Corporate Round : A corporate round occurs when a company, rather than a venture capital firm, invests in another company.

SAFE : Alternative to convertible notes. An investor makes a cash investment in a company but gets company stock at a later date in connection with a specific event.

Exit : The method by which an investor and/or entrepreneur

intends to “exit” their investment in a startup. Common options are IPO and buyout from another company.

Primary Transaction : Transaction or funding type where investors buy equities directly from the company issuing them.

Secondary Transaction :Transaction or funding type where investors buy equities from the existing shareholders.

Cash Out : Shareholders who sell their shares personally earn money as a result of this second transaction

Buyout : The purchase of a controlling share in a company

Unicorn : Startup valued at over \$1 billion

Decacorn: Company valued at over \$10 billion

Ticket Size : Average investment amount made by an investor.

Term sheet : A non-binding agreement that outlines the major aspects of an investment to be made in a startup.

Due diligence : A comprehensive analysis conducted by an investor to audit and verify all relevant facts and figures of a potential investment.

VCIF/GSYF (Venture Capital Investment Fund): A fund structure established under the supervision of the Capital Markets Board of Türkiye and based in Türkiye.

VCIT/GSYO (Venture Capital Investment Trust): A company structure established under the supervision of the Capital Markets Board of Türkiye to invest in startups.

Centaur: Company with \$100 million in annual recurring revenue.

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