GEN 22 ON SLOANE

Investor
M I X E R

S T A R T U P & I N V E S T O R F E E D B A C K

August 2022

1. Introduction

Early-stage investing, otherwise known as seed investment, involves giving capital to businesses to get off the ground. Usually, investors have mixed feelings about early-stage funding because of the higher level of risk compared to later-stage investing. However, this stage is important in building an investment pipeline for investors and more importantly, to encourage innovation.

The pandemic brought many startups into the spotlight as it encouraged more innovation within their business models. As a result, investors' interest climbed in 2020 and 2021. According to the Global Venture Capital Report, Africa managed to conclude 170 deals which amounted to US$923 million, an increase from the fourth quarter of 2021. This success was led by Kenya which recorded 3 of the 5 biggest deals in the continent followed by Nigeria which concluded 46 deals. South Africa may have been in the top 5 with 21 deals concluded, however it's the only country in the region that recorded a decrease in the venture capital raised.

After a difficult year in 2020, Africa's investment landscape was certainly successful in 2021 with the overall funding exceeding US$4 billion. It is safe to say that the pandemic drew investor's attention to unpopular tech enabled sectors like e-commerce, particularly food/grocery delivery platforms, EdTech and HealthTech. Despite the challenges that the continent might face, these numbers can make one optimistic about the growth of the African startup environment.

2. Aim of Investor Mixer

22 On Sloane in partnership with Jozi Angels and 234 Pro Network, hosted its first ever Investor Mixer with the aim of bringing together the investor and startup community in Johannesburg. It provided a knowledge sharing and networking platform for all role-players across the investment and entrepreneurship value chain. The aim of the event was:

1. To discuss key metrics and prerequisites for early-stage startups raising funds and the anatomy of a fundable company.
2. To discuss how startups can make themselves attractive to investors.
3. To connect startups to Johannesburg based investors.
4. To contribute towards strengthening the Johannesburg startup ecosystem.
5. To assist in the creation of a pipeline for investor portfolio.

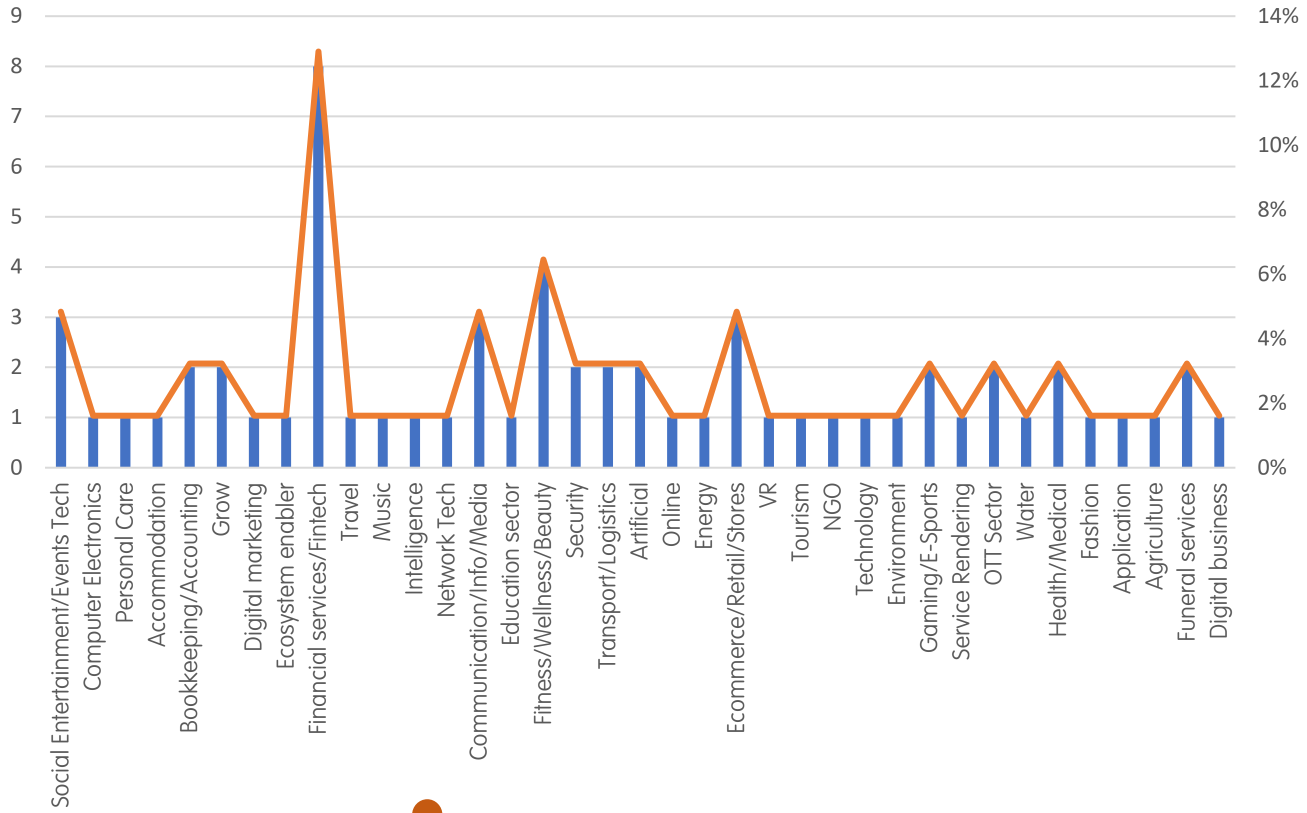
The Investor Mixer included two breakaway sessions, one with investors and the other with the startups. **There were 19 investors and 33 startups in attendance.** Each session sought to gain the following insights from the respective groups. This document seeks to provide feedback and insights from those breakaway sessions, covering the following insights:

- The sectors they are a part of and interested to invest in (slide 4)
- The startup stage they are in or invest in (slide 5)
- The funding instruments used and applied for (Slide 6 and 7)
- Investors' funding terms (Slide 8)
- Challenges faced when startups apply for funding and challenges when funding startups (Slide 10)

3. Sectors of Interest

SECTORS OF INTEREST FOR INVESTORS

STARTUP SECTORS



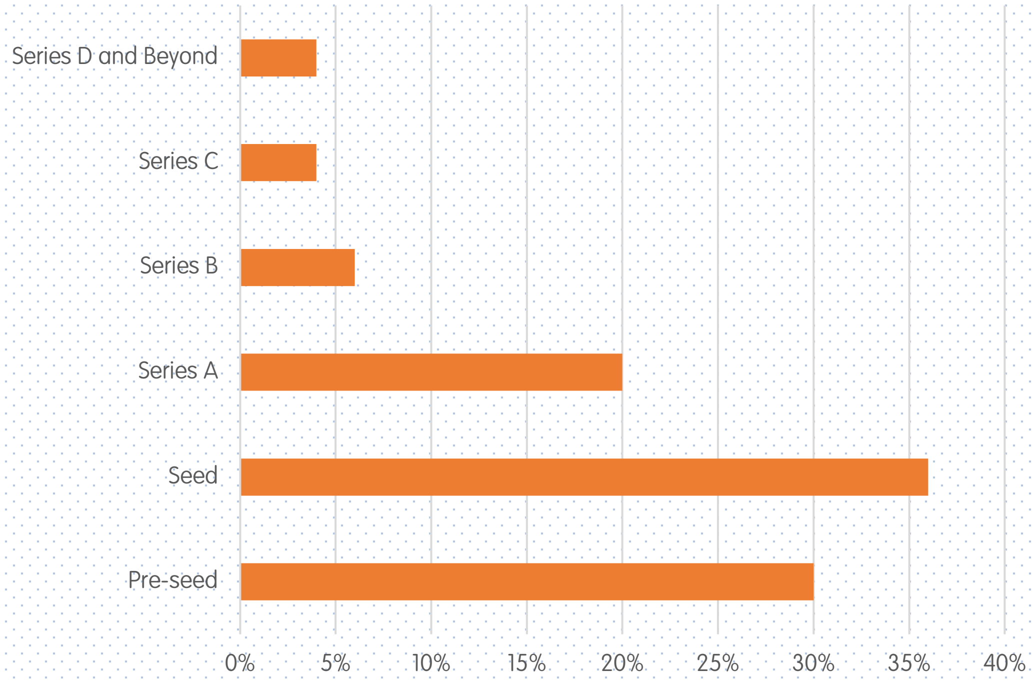
There was a wider variety of startups some of which through their offering cover several sectors and technologies.

Just over 12% of the startups were in the fintech or financial services sector. This was followed by startups in the fitness, wellness and beauty sector (6% of the surveyed startups).

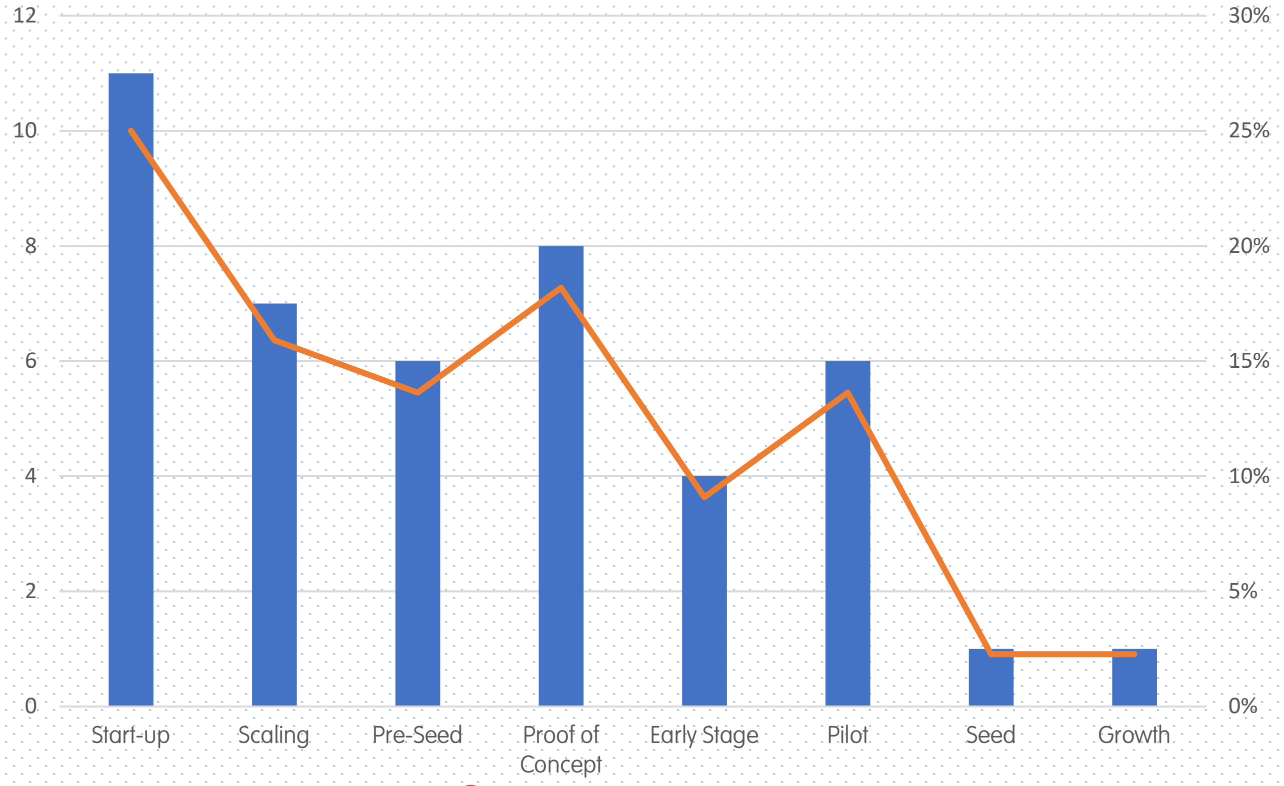
A number of investors were either agnostic (3), technology neutral (3) or chose to sectorise their funding through the growth stage of the startup.

4. Desirable Funding Stage

STARTUP STAGE OF FUNDING



STARTUP STAGE



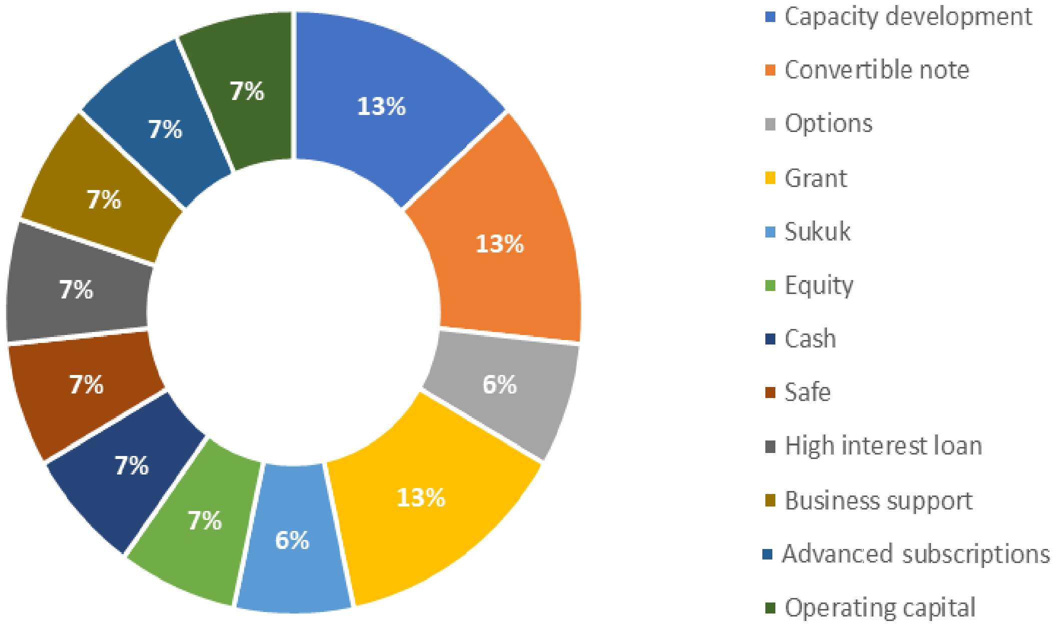
More than 65% of the investors fund startups at pre-seed and seed stage. At this stage, the startup raises funds to validate its problem-solution hypotheses, propositions, and demand. Pre-seed capital is required to set the base for the business operations to start and ensure that the founders' business is a viable one[1].

About 60% of the startup respondents were between proof of concept stage and early stage of their startup which aligns well with what the investor respondents were interested to fund.

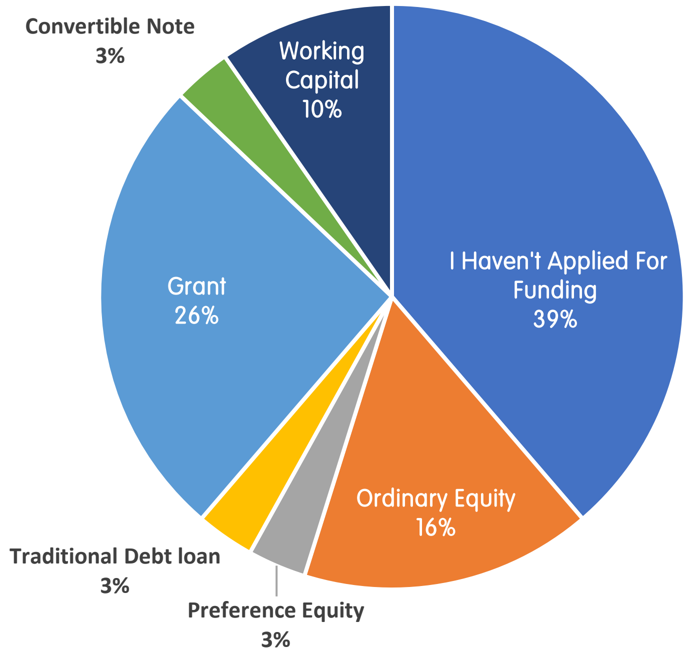
However, more than 26% of the startup respondents indicated they are at "startup stage" which is not specific.

5. Popular Funding Instruments

TYPICAL FUNDING INSTRUMENTS USED BY INVESTORS



TYPE OF FUNDING APPLIED FOR

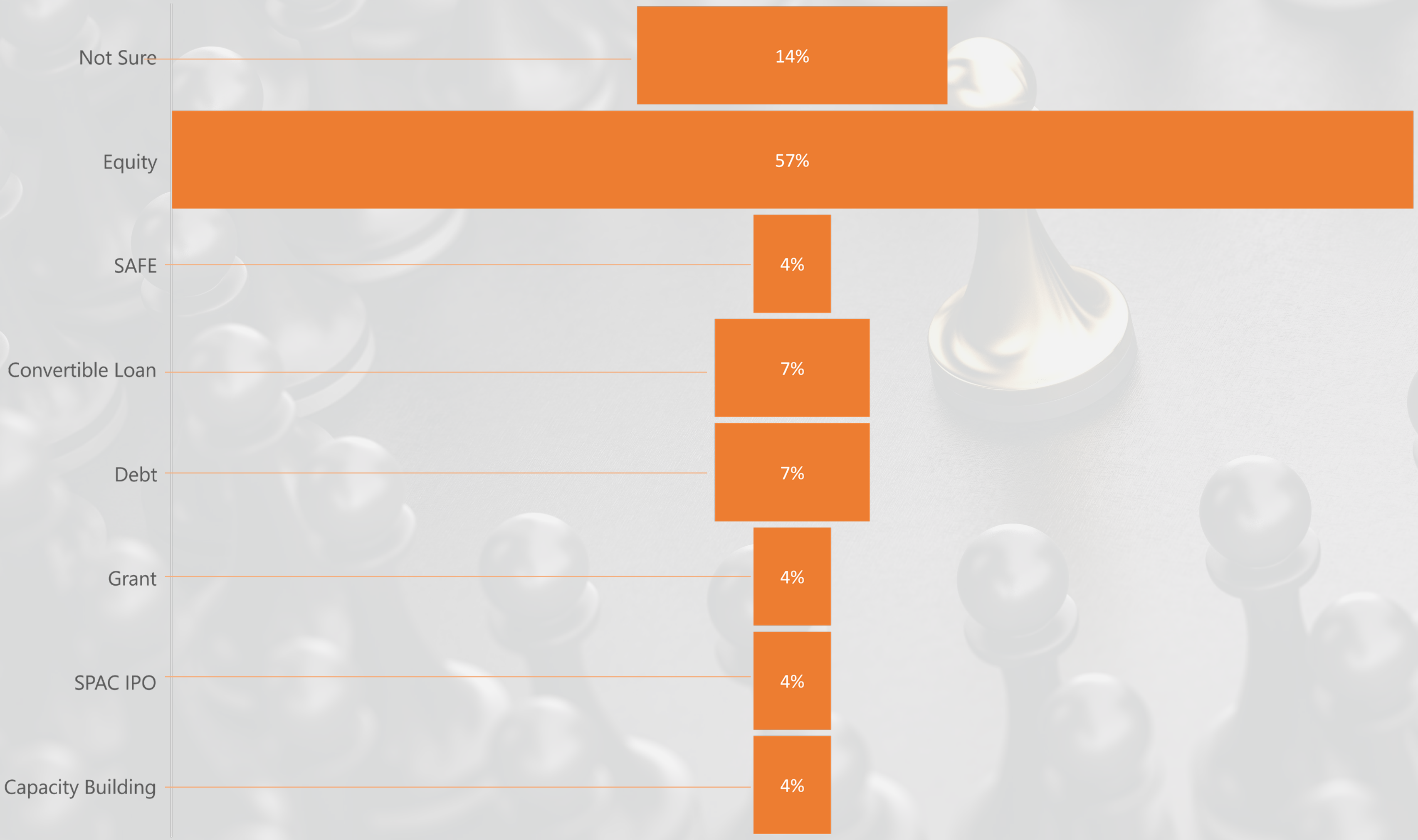


No specific funding instrument was dominant amongst investors. Capacity development and business support (13% and 7% respectively) was prominent alongside convertible notes1 (13%) and grant funding (13%). This would align with the stage at which the investors are interested to fund. Debt instruments in the form of high interest loans (7%) and operating capital funding (7%) did not feature prominently.

Two instruments worth noting are Sukuk which is an Islamic financial certificate that shares similar qualities to a bond complying with Islamic religious law, Sharia. The other is an advanced subscription agreement (ASA) which is an equity instrument where investors 'pre-pay' for shares in a company – they hand over money but receive their shares when these are issued at a future funding round[2].

Almost 40% of the responding startups have not applied for funding and to those who have applied for funding, close to 50% have applied for either grant-based or equity funding.

6. Ideal Startup Funding Instruments

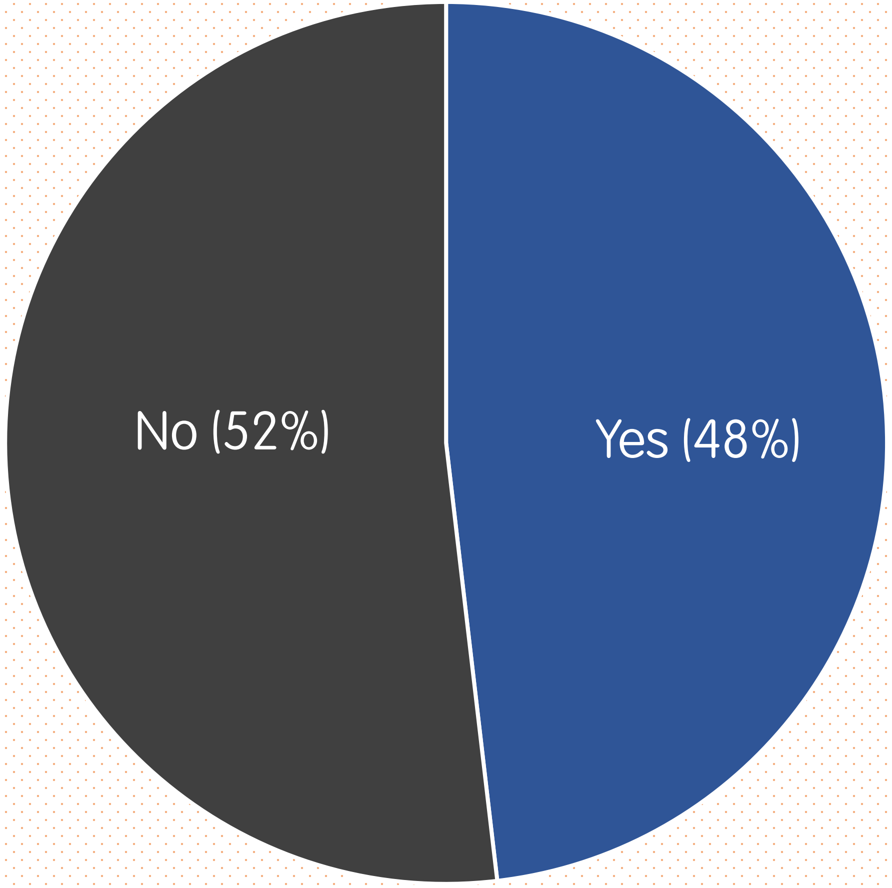


- Most of the startups believe equity funding instruments would make more sense for their businesses while 14% are not sure which funding instrument would be suitable for them.
- One startup mentioned a SPAC IPO as an instrument of funding. A special purpose acquisition company (SPAC) is formed to raise money through an initial public offering (IPO) to buy another company[1].

7. Typical Investor Funding Terms

- According to their respective mandates, investors would look to impose or monitor a number of terms.
- Key terms highlighted by the investors include the Return on Investment (ROI), capital growth and a positive revenue or EBITDA line.

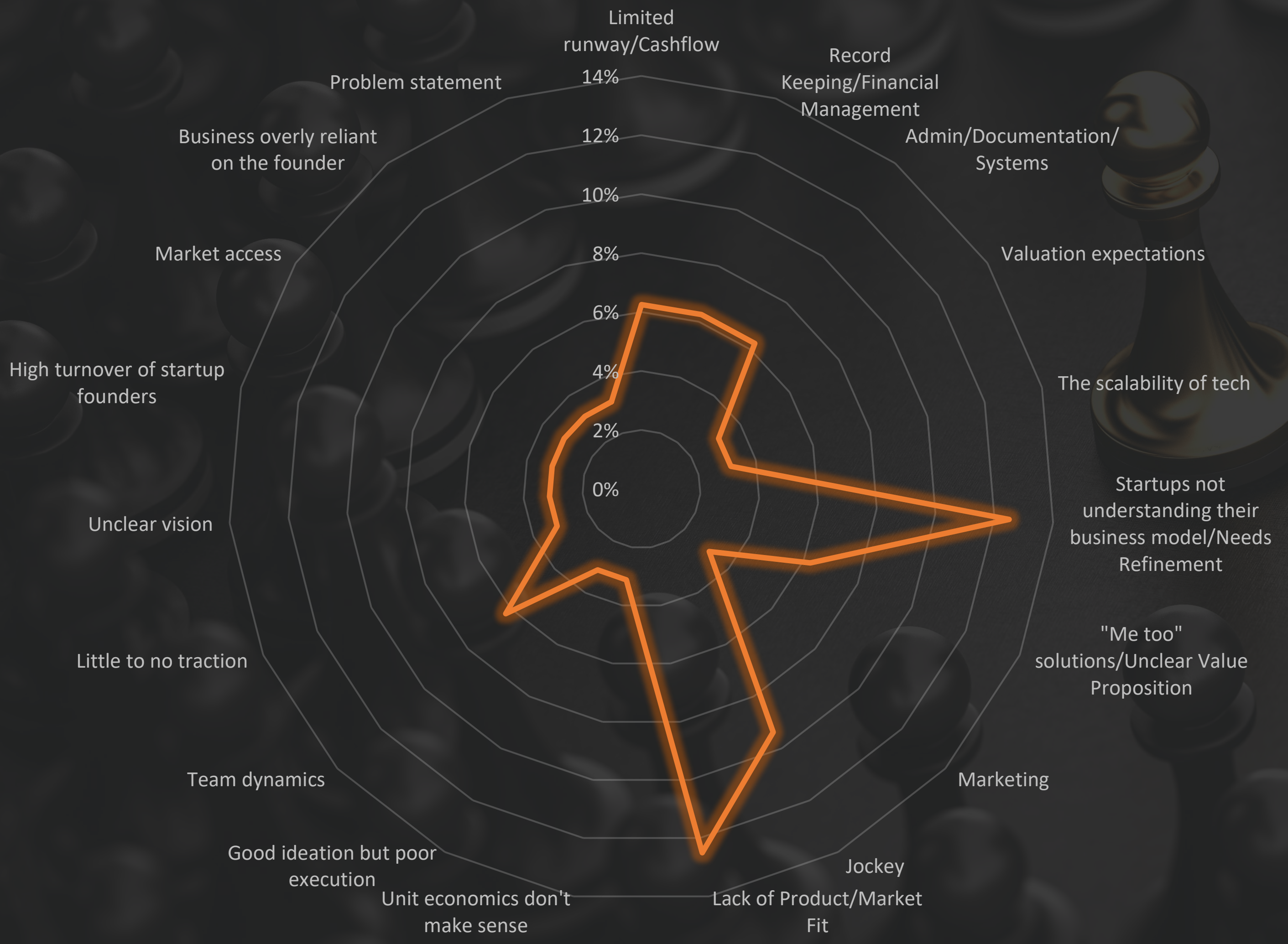
8. Startups' Programme Participation



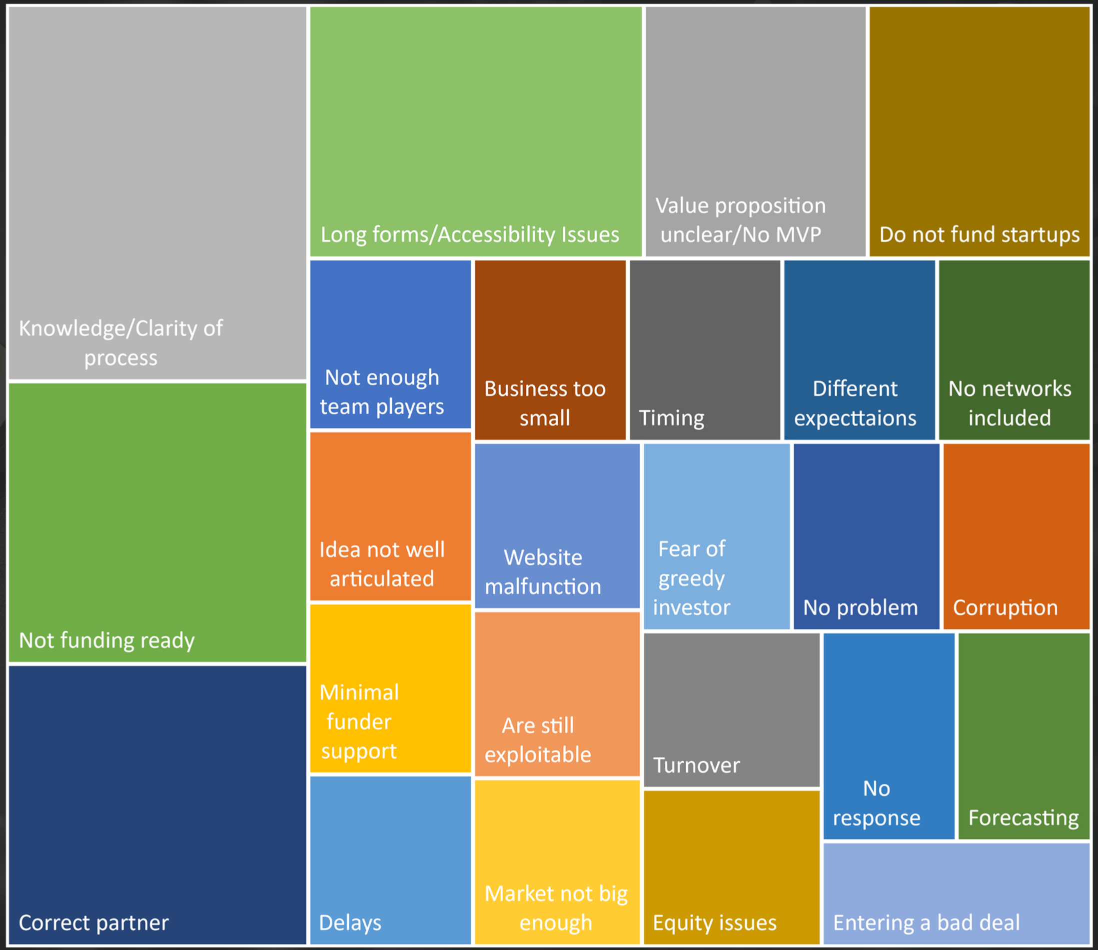
- Just over half of the responding startups have either been in an incubation programme or an accelerator programme or are currently in an incubation or accelerator programme
- It has not been further specified the ratio of those who have been in an incubator versus those who have been in an accelerator
- This question did not further ask those who have not been in any programme why they have not been in a programme

9. Startups' Funding Challenges

CHALLENGES WITH FUNDING STARTUPS



CHALLENGES EXPERIENCED APPLYING FOR FUNDING



10. Conclusion and Way Forward

There is more alignment between investors and startups in terms of sectors and startup stage than differences. Most of the investors are able to fund the sectors and stage in which the startups are in.

What makes these startups not to be attractive to investors would be the listed challenges which can be summarized in the following categories:

- Issues around the founder and their suitability or readiness
- Issues concerning the business model and value proposition
- The suitability of the team
- Systems and necessary documentation.

From some of the responses received from startups, a gap exist for better knowledge dissemination in terms of understanding the following:

- The type of funding instruments and their implications on the business
- Funding terms and their implications
- The universe of investors alongside their typical funding instruments and terms.

Investors would also need to be more clear, accessible and transparent to startups in their processes, feedback and negotiations with startups.