



Lachlan Hughes, Head of Venture Capital - Aditum Investment Management Limited, offers his views on the Venture Capital Market in the UAE

What's the appetite for VC funding in the UAE? Is it picking up after this so-called funding winter?

We are seeing a resurgence in deal flow, with more companies coming to market for funding. However, the deployment by venture funds still lags well behind the record levels observed in Q1 2023. Investors are being more discerning with a heightened focus on capital efficiency. With central bank interest rates at a decade-long high, investors are applying steeper discount rates to potential future cash flows. Consequently, businesses capable of delivering venture-scale returns with relatively low capital requirements have become increasingly appealing to venture investors.

What sort of deals do you see on the horizon?

Pre-seed and seed deals are leading the charge, which is logical. It is easier to secure funding at these stages due to their lower capital requirements. Valuations have also been less affected at these earlier funding stages, and these businesses have greater flexibility to adapt their business models to suit a more challenging funding environment. Although there are still plenty of attractive Series A deals available, they sometimes come with legacy deal structures that are challenging to navigate with valuations having normalized from elevated levels. We are seeing great businesses get funded across all stages, but the bar for venture funding has undoubtedly been lifted.

Do UAE start-ups remain attractive to funds? Why?

The UAE and the broader MENA region continue to be highly appealing for venture investing. The market opportunity remains as exciting as ever, but now with more reasonable deal terms. We also believe it's an opportune time for founders to start a startup. Significant technology shifts are enabling new business models and disrupting traditional industries, while VC investors are holding record levels dry powder waiting to be deployed over the coming years.

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What sectors are seeing the most traction?

We have always had a strong investment thesis around B2B software and B2B business models, given their capital efficiency, sticky revenue streams, and lower customer churn. However, these startups often target niche industries or verticals, requiring them to scale into foreign markets for a venture investment case to stack up. We are seeing more and more startups founded in the MENA region that possess the potential to build globally relevant B2B software businesses, which we are very excited about.

Talk a little about how you work with founders to support them from idea stage to Series A/B/C? What UAE start-ups are alumni of this process?

The last six months has undoubtedly been a challenging time for founders. We've increased our engagement with founders through more frequent calls and workshops. Our ultimate goal remains unchanged: to assist founders in building and scaling resilient, high-growth businesses that will be attractive to later-stage growth investors.

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*Source: Aditum Investment Management Limited as of 31 July 2023

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