

POLITECNICO DI MILANO

School of Industrial and Information Engineering

Master Programme in Management Engineering



POLITECNICO
MILANO 1863

*Sarava Pars Venture Capital Firm:
The Case of the Emerging Start-Up market of Iran*

Supervisor: Prof. Giancarlo Giudici

Master Thesis of:

Nooshin Lalmohammadi Matr. 824114

Academic Year 2015/2016

Index

Case study.....	4
Teaching note.....	32
1. Case Synopsis.....	32
2. Venture Capital funds mechanism.....	33
2.1 Venture capitals' characteristics and the prerequisites for their development.....	35
2.2 Legal history of venture capitals in Iran.....	36
3. Final Analysis.....	38
3.1 How and from which resources can Sarava raise the further funds it will need in the future?.....	38
3.2 Which businesses and specific markets are more attractive to invest the raised funds in?.....	40
3.3 At what stage of their lifecycle should the start-ups be in order to be invested in and what level of selectivity should the firm maintain when it comes to specific investment opportunities?.....	44
3.4 How should Sarava modify the services it offers to entrepreneurs in order to differentiate itself from other investors in the market and how should it avoid neglecting credible start-up ideas on the market?.....	45
3.5 What exit solutions would be possible for start-ups in Iran given the existing business rules and regulations?.....	47
4. Conclusion.....	49
References.....	51

Exhibits Index

Exhibit 1: Pomegranate raises EUR 60 million.....	27
Exhibit 2: Pulse & Pixel's Portfolio.....	27
Exhibit 3: Pomegranate's Portfolio and the fair value of the holdings.....	29
Exhibit 4: Pomegranate's IPO and the share offering price.....	29
Exhibit 5: The breakdown of Pomegranate's Investors by region.....	30
Exhibit 6: Iran's Capital Market by Industries.....	30
Exhibit 7: Five main Markets of IFB.....	31



POLITECNICO
MILANO 1863

***Sarava Pars Venture Capital Firm:
The Case of the Emerging Start-Up market of Iran***

"In business we talk about win-win. Countries are no different."

—Saeed Rahmani, CEO of Sarava Pars Venture Capital and Chairman of Digikala Board

*"One of the cautionary lessons of VC is, if you don't invest on the basis of serious flaws,
you don't invest in most of the big winners."*

—Marc Lowell Andreessen, Co-founder and general partner of Silicon Valley venture
capital firm Andreessen Horowitz

Introduction

In December 2015, Saeed Rahmani, the CEO of Sarava private venture capital firm, received the confirmation of Pomegranate's participation in their next financing round for a share of issue of 41 million Euros to be carried out within four instalments during 2016. Pomegranate had been Sarava's sole foreign investor since 2014 and had taken just another step to help this Iranian Venture capital provide seed and growth level support to the start-up companies that it had taken under its wings.

Succeeding this, Sarava Staff and the Iranian venture capital and start-up markets' participants were anticipating what this venture capital would be destined to eventually;

while considering that this financing round for the provision of a total of 169 million Euros in new capital, would value Sarava at 243 million Euros.¹

The management team of Sarava, specifically the chief investment officer, Shiva Saadat was assigned the task of elaborating on the future investments to be made in the most promising start-up ideas on the market and Rahmani, well-known as the angel investor among the Iranian entrepreneurs, had expectations of meeting with a good number of credible ideas.

With a 2% ownership share of Sarava, he was appointed as the CEO of the firm. Rahmani, himself, had been born in Iran but left as a teenager for the United States. He worked for IBM and launched a start-up in Upstate New York. Later as an employee of Internet company Naspers, he was asked to evaluate the possibility of investing in Iranian start-ups.

Ultimately, Naspers decided not to invest, but Rahmani was convinced of the country's potential and returned to where he was born.²

Finally, by early 2015, Sarava proved itself as a success story becoming the first Iranian venture capital to have earned support from a foreign investor, Pomegranate.

The venture capital with the official name of "Novin Andishan Saravapars" was established with the objective of becoming the largest holding that provides internet services in the middle-east. The establishment involves the participation of some native credible persons and firms including Kardan Asset Management Company, Tose'e San'ati Iran Financing firm, Tadbirgaran Fardaye Omid Private Financing firm.

In the meantime, a percentage of the shares of this company has been assigned to Pomegranate, whose scope of activity is e-commerce in developing countries. One such

¹ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page 14: <http://pomegranateinvestment.com/en/>

² This information is taken from an article by Washington Post titled as "Here's what it's like to launch a start-up in Iran" dated 10Nov, 2014

decision has been made with the purpose of gaining further international expansion.³ This company has continued to make investments in accordance with the original investment agreement of 2014 and has since increased its holding in Sarava.

In March 2016, Pomegranate, itself, raised 60 million Euros in a round to increase its ownership in Sarava (**Exhibit1**). Therefore, Pomegranate's equity interest in this firm was raised to 15% from an initial 9.6% as at Dec 31, 2015; thereby the revaluation of the existing holding to 14.2 million Euros from an initial 9.6 million Euros.

In an e-mail sent to shareholders in March 2016, Pomegranate's CEO Florian Hellmich writes that the interest for investing in Sarava has been "overwhelming". "The new investors include specialist tech investors and entrepreneurs as well as specialist and generalist institutional investors, predominantly from Northern and Western Europe, but also from other jurisdictions", Hellmich writes.⁴

By the second quarter of 2016, Rahmani started to feel that Sarava, with more than 30 start-ups⁵ in its portfolio and such level of success in fund raising, was about to face a crossroad in its evolutionary path and therefore further critical decisions were to be made with regard to the firm's strategic investments and future targets. What concerned him majorly was whether the strategic direction of the company and the existing operations procedures would lead to the right investment decisions and the right scope to focus on in the start-up market of Iran.

The company also needed to define some criteria as for the decisions that were supposed to be made over the size and typology of the future investments and the level of selectivity the firm would have to maintain while confronting special investment opportunities.

³ This information has been Translated from the website of the private financing firm "Tadbirgaran Fardaye Omid", dated as 26th February 2014: <http://tfod.ir/>

⁴ This information is taken from the article titled "Swedish company raises € 60 million- Invests in Amazon of Iran" published on the website of Swedish Start-ups, dated as 21st March 2016: www.swedishstartupspace.com

⁵ This information is based on an Interview with Masoud Amoozegar, the former marketing manager of Sarava

Since the market was very attractive, many other local investors had been appearing, some at times more politically powerful. It mattered to realize how the company could remain relevant within time and what other services it could offer to entrepreneurs and their start-ups to differentiate itself from other investors.

Additionally, Sarava, proud to be the pioneer in the venture capital business in Iran and a leader in paving the way through privatization in Iran, was facing a two-folded challenge.

Firstly, the firm would need to provide more and more capital in the start-up market in Iran and would have to figure out the best method through which further future capital would be provided in a supportive manner and not a competitive manner. Secondly, the partners were facing many questions with regard to the destiny of these start-ups.

The Role of Sarava⁶ in the Start-up Market of Iran

Background

Saravapars, the venture capital company in Tehran, Iran was founded by a Naspers Alumnus, Saeed Rahmani, who is practicing the same Naspers-style market leadership strategy.⁷ It provides entrepreneurs and their start-up practices with talent, technology, finance and investment, business, legal and marketing assistantship. The start-ups are of early, mid and growth stages functioning in the main areas of internet, mobile, e-commerce, games and software as a service.

The organization is composed of three main teams of management, investment and operations. With the motto of "think global, act local", Sarava provides world class services, mentorship and access to an exclusive network of founders and investors to help the

⁶ Company's website: <http://saravapars.com/en/>

⁷ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page 7: <http://pomegranateinvestment.com/en/>

entrepreneurs fulfill their vision. Sarava has publically stated that they believe founders and not investors make the best companies.

Business Operations

In terms of investment services, Sarava helps the start-ups create their investment structure, perform due diligence and do valuation. Their support is not only limited to providing the capital for these start-ups but it is also about helping them with future support and fundraising, IPO and possible M&A opportunities.

In terms of financial services, assistance is given with scalable financial processes such as budgeting, fueling growth while controlling assets and liabilities amount and resource allocation. Workshops related to accounting and reporting practices and also services regarding internal control and audit and financial risk management are provided. Together with the start-ups, modifications of the business model and evaluating these models are done in order to ensure the necessary flexibility for the business to compete in the changing environment.

In fact, all the investment and support procedure is done through Avatech, the accelerator arm of Sarava- itself a start-up. Until the second quarter of 2016, a seed fund of 25 million Tomans⁸ would be provided including services for an exchange of 15% of the start-ups' shares. An additional access to 100 million Tomans based on convertible loan had also been considered. Up until then, the steps towards earning Sarava's support included applying for the demo days, interviews and presentations and then in case the idea of the start-up seemed feasible enough the team would enter the accelerator.

Many issues, however, had come up within these few years of practices in Avatech such as: incomplete teams, lack of professional experience of the founders, some team members having lack of sense of responsibility and planning and therefore spending the initial 25

⁸ -Toman is the super unit of the official currency of Iran, the Rial. (1 Toman= 10 Rials). Every 1€ is approximately equal to 4,000 Tomans

million Tomans of investment on wastes. These could all easily lead to non-functional products and businesses where at times Sarava would have to decide not to continue practicing with. Therefore, later, the firm decided on a rather strict approach for accepting the new rounds of start-ups by not accepting any team that lack members, expertise and professionalism in the area that would be crucial to their future business.

Unfortunately, this at many times meant neglecting many credible and innovative businesses that could come into perfect outcome in future if well taken care of and the entrepreneurs approaching other less-experienced investors that could not provide them with the mentorship and training at the level Sarava does.⁹

Therefore, in 2016, the question that the Avatech team was assigned to respond to was what modifications could be made in the admission process of the accelerator and how Sarava could serve the market at its best.

The modifications were expected to be proposed at the end of the second quarter of 2016. Undoubtedly, better-organized series of services would be what could differentiate Sarava from other investors and attract more brilliant youngsters and business plans into the accelerator.

In July 2016, as for the procedure to join Avatech, the accelerator decided to act on the introduction of some new programs as an improved version of their past operations. Modifications were supposed to be made in order to reduce the waiting time for start-ups to enter the accelerator and also to build a tailor made program that fits the specific needs of the entrepreneurs.

⁹ All this information is based on an Interview with Masoud Amoozegar, the former marketing manager of Sarava.

Portfolio

Sarava currently holds a portfolio of more than 30 start-ups¹⁰, the most important of which are mentioned below with their specific characteristics:

1: Digikala¹¹:

The largest online store in Iran which represents the lion's share of Sarava's Net asset Value, launched in 2007 as Digikala TV, it is now also the largest and most reliable forum that provides product information and helps the comparison. According to Financial Times the company, known as the Amazon of Iran, was worth 100 million Euros as at December 2014 and has since kept the year on year growth rate of 100%¹² despite political and economical upheavals in Iran.

The business was established by the twin brothers Hamid & Saeed Mohammadi, who currently own 49% of the shares and the rest is owned by Sarava Venture capital. This dominant brand in online retail owns more than 85% of the market share in 2016 and has been ranked the 3rd most-frequently visited website in Iran by Alexa¹³.

Digikala has many future growth initiatives. The new Digikala Fashion was launched as a joint venture in the second quarter of 2016, however, the strong growth has put tremendous pressure on the logistics side of the business, which is being substantially expanded in 2016. One of the key milestones for Digikala will be to build a new fulfillment center to accommodate for dramatically increasing order volumes since for the third quarter of 2016, they have been delivering an impressive 10,000+ orders per day.¹⁴ These are to mention only a few as for the reasons why the business needs further constant

¹⁰ This information is based on an Interview with Masoud Amoozegar, the former marketing manager of Sarava

¹¹ Company's website: www.digikala.com

¹² This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page 4: <http://pomegranateinvestment.com/en/>

¹³ Alexa is a California-based company that provides commercial web traffic data and analytics. Alexa ranking system basically audits and makes public the frequency of visits on various Web sites:

<http://www.alexa.com/topsites/countries/IR>

¹⁴ Same as 12

investments from its major shareholder, Sarava, and future solutions for financing its operations.

2: Cafebazaar¹⁵:

With the mission of empowering local App developers, Cafebazaar is the largest Persian Android application marketplace. It is the most popular android marketplace in Iran which was founded in 2010 with currently 20% of its shares owned by Sarava. Cafe Bazaar has since filled the gap in the Iranian market by providing its services to the Persian speaking users while Google was blocking its services to the Iranian users due to the international sanctions.¹⁶

On March 2016, Hesam Armandehi co-founder and CEO of Cafe Bazaar announced that their marketplace app is installed on more than 28 million tablets and smartphone devices to date and has gained 120% revenue growth this year.¹⁷ Very recently, the company expanded its market to Afghanistan too.¹⁸

Café Bazaar has been Sarava's second largest holding with an impressive three digit growth rate in 2016 and it has remained Iran's first android app store.¹⁹

3: Pulse & Pixel Group²⁰:

It is the newly-formed digital advertising holding, itself a fast-growing corporate venture investor which makes early and mid stage investments in innovative companies in the digital

¹⁵ Company's website: <http://cafebazaar.ir/?l=en>

¹⁶ This information has been published in an article by Tchrasa Start-up news platform titled "Cafe Bazaar android market installed on more than 28 million devices" dated as 4th March 2016 : <http://techrasa.com/>

¹⁷ Same

¹⁸ This information has been mentioned in an article by Tchrasa Start-up news platform titled as "Café Bazaar and Divar expand to Afghanistan" dated as 23rd August 2016: <http://techrasa.com/>

¹⁹ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page 4: <http://pomegranateinvestment.com/en/>

²⁰ Company's website: <http://pulseandpixel.com/#>

media landscape. By the third quarter of 2016, PPG invested in 15 companies that function in the same area. (Exhibit2)²¹

How Pulse & Pixel was formed

Initially, the main investment that Sarava had made in the digital media market was in Anetwork which was the first digital advertising network in Iran. Later, the nature of the digital market led to the formation of many other small start-ups whose existence was crucial and inevitable for responding to the digital market demand.

Therefore, Sarava grabbed every opportunity and did everything in its power to assist these start-ups and innovative ideas of the entrepreneurs to remain relevant in the digital media market.

As pointed out previously, all this challenge started by the first investment in Anetwork which was launched in 2010 by Shayan Shalileh and with more than 9.5 million monthly unique online users, it made the decision to become the first Digital Media Agency in Iran through the strategic plan of expanding its services.²²

This led to their fast growth in the market with 50 billion banners on display as of May 2016. 6 billion ads serve monthly to their publisher networks as they have access to market of more than 32 million Iranian users and more than 7500 websites to display their ads.²³

4: Avatech²⁴:

It is a start-up accelerator program that offers the necessary mentorship, training, seed funding and the ingredients of success to the entrepreneurs. Currently, it holds around 30 start-ups. Further information about the services of Avatech has been provided formerly on the section of business operations.

²¹ This information has been gathered through research on Pulse & Pixel company's website: <http://pulseandpixel.com/>

²² This information has been pointed out on Anetwork's website: <https://anetwork.ir/en/>

²³ Ref. <https://taskulu.com/case-studies/anetwork/>

²⁴ Company's website: <http://avatech.ir/en/>

5. Shezan²⁵:

It is an accelerator launched by Reza Kalantarnejad as the first and only knowledge-based accelerator in Iran which focuses on commercializing emerging tech-based products in the main areas of Nanotechnology, Biotechnology, Information Technology and Cognitive Sciences known as NBIC market. It is currently composed of 8 main labs performing on a site provided by Sarava and has newly marketed its heart attack diagnosis device.

The Role of Pomegranate²⁶ in Iranian Start-up market

Background

Pomegranate Investment firm, based in Sweden, was founded in 2014 and is mainly focused on Iran's consumer technology sector. The company entered the market quite early, before the implementation of JCPOA²⁷, due to which it gain the first-mover advantage in a market with extraordinary growth opportunity especially after the easing of sanctions.

Main Holdings and turning points

Pomegranate's main investment is in Sarava, where it remains a minority shareholder and is committed to transfer of know-how and management experience. As per June 30 2016, Pomegranate holds a 15% minority stake in Sarava, which remains the company's anchor holding. The company's profile is majorly made up of four main local companies with their specific fair value in Pomegranate's financial reports. **(Exhibit3)**²⁸

Fund Raising in Pomegranate

Before March 2016, capital raising and investment in this entity would be done mainly through share issues to the investors.

²⁵ Company's website: <http://nbic.co/>

²⁶ Company's website: <http://pomegranateinvestment.com/en/>

²⁷ Joint Comprehensive Plan of Action known as Iran deal which led to the removal of sanctions imposed on Iranian businesses.

²⁸ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page 6: <http://pomegranateinvestment.com/en/>

The timeline of the events in the financial reports of 2015 represents that in January 2015, the company was provided with almost 12.5 million Euros of capital through the issue of 1,253,050 shares at price of €10. In autumn of the same year, a further amount of 7.75 million Euros of capital was raised through an issue of 387,551 shares at the subscription price of EUR 20 per share. During this event approximately 65% of the shares were subscribed by existing shareholders and the rest by new investors.

In 2016, however, Pomegranate announced its first public offering. The following provides a deeper discussion on this topic.

Pomegranate's IPO: further fund provision to Iranian start-up market

On March 4th, 2016, Pomegranate announced itself as a public company, intending to raise capital through pre-IPO private placement of shares. Later in their information prospectus it states that:

"The offering was over-subscribed and the upsize option was fully exercised. The offering was structured as a pre-IPO private placement of new shares. Pomegranate's intention is to complete an initial public offering, with listing in Sweden, within twelve months post closure of the offering."

In their pre-IPO press release, May 16th, 2016, while pointing at their intention to hold between 5 to 10 minority stakes in consumer tech and consumer companies, more details with regard to the offering price and number of shares on offering was provided. **(Exhibit4)**

Investor's reaction to the IPO

More than 50% of the 100 existing shareholders including the CEO took part in the offering. It met with strong interest from the existing shareholders who jointly acquired €11.6 million of the offering.

It should be noted that approximately 100 new shareholders were allocated new shares and they are geographically scattered- predominantly in Northern and Western Europe. **(Exhibit5)**

Pomegranate's Portfolio

Apart from Sarava which is Pomegranate's major investment, the rest of the portfolio of this company is composed of three other businesses, details of which follow.

1. Sheypoor²⁹

Sheypoor was launched in 2010, founded by Reza Arbabian. It offers a platform for users to buy and sell their products quickly and easily free of charge.

Sheypoor offers its services through both web and mobile apps and the website is in direct competition with Divar, a peer-to-peer (P2P) platform that connects buyers and sellers.

In January 2015, EUR 0.8 million outstanding for shares in Sheypoor was paid by Pomegranate after it received authorization to pay in accordance with the share purchase agreement entered into in November 2014. After this transaction, the equivalent of 26.6% of Sheypoor is owned by Pomegranate, on a fully diluted basis.³⁰

Afterwards, by launching an intensive marketing campaign in mid-June 2016, the number of the users doubled and the liquidity on their platform increased massively with major exposure to the two markets of real estate and vehicles.

²⁹ Company's website: <http://www.sheypoor.com/>

³⁰ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page14: <http://pomegranateinvestment.com/en/>

By the third quarter of 2016, by taking part in the company's capital increase and also purchasing secondary shares, Pomegranate increased its ownership percentage in Sheypoor up to 41.7%.³¹

2. Griffon Capital³²

Griffon Capital is an Iran-focused asset management and private equity group, fully licensed by the Securities & Exchange Organization of Iran (SEO), with 15.2% of it owned by Pomegranate as of the second quarter of 2016.

As on the equity side, the company has anchored various opportunities in different sectors ranging from the fast-moving consumer goods market to media and advertising.

It is noteworthy to mention that within the first half of 2016, Griffon launched its Iran Flagship Fund with 6 million Euros Asset Under Management, in which Pomegranate invested around 2 million Euros.³³

Griffon's Iran Flagship Fund, domiciled in the Cayman Islands³⁴, is an open-ended vehicle investing mainly in the Tehran Stock Exchange and Iran Fara Bourse³⁵.

By the end of the second quarter, the fund outperformed delivering 3.6% of value growth.

2.1. Griffon Capital Asset Management

As an asset manager, Griffon invests both local and foreign capital into a locally licensed and regulated entity. Griffon was the first foreign-backed entity to be awarded an Asset Management and advisory licenses by the Securities and Exchange Organization (SEO) of Iran.

³¹ Same

³² Company's website: <http://www.griffoncapital.com/>

³³ Same as 30

³⁴ This information was mentioned in an article published by Bloomberg titled as "Griffon starts \$108 million fund to invest in Iranian stocks" dated as 25th January 2016: www.bloomberg.com

³⁵ Further details about these markets have been provided as the case study continues.

2.2. Griffon Capital Private Equity

Griffon's Iran-focused private equity fund invests in a diversified portfolio of “consumer-driven” companies in different sectors of the Iranian economy. The main subsectors that this private equity has focused on are consumer packaged goods, pharmaceuticals, retailing & e-commerce, consumer and ancillary services.

As the reasons for its "consumer-driven" strategies, Griffon capital states that favourable macro and demographic trends expected in the post-sanctions era will lead to the growth of the middle-class and increased discretionary income.

3. Carvanro³⁶

It is an on-line ride sharing services business. And in partnership with Saravapars it announced its official start on April 28th, 2016.

The Swedish-Iranian contractor Rouzbeh H. Pasha- with previous background as the head of the Middle East for Skype- Daniel Stocks and Filip Premberg are claimed to be the main founders with seeding money support from pomegranate.³⁷

Carvanro brings the element of trust and accountability in the ride-sharing process to improve the overall user experience throughout the value chain. Carvanro's platform is light and easy to use and offers simple search and research functionalities. The company deploys agent business model to mitigate fraud and payment risks. Its system architecture allows easy international roll out and addition of new languages.

As of June 2016, 25% of this business is owned by Pomegranate and is valued at 2 million Euros.

³⁶ Company's website: <https://www.carvanro.com/en/>

³⁷ This information has been mentioned in Pomegranate financial report of the second quarter of 2016, page8: <http://pomegranateinvestment.com/en/>

Sarava's main competitor: Romak³⁸

Background

A joint venture called "Middle East Internet Holding" has been created between Germany's Rocket Internet and MTN Irancell and it operates under the name of "Romak" in Tehran. (It is noteworthy to mention that MTN Irancell itself is a joint venture between South Africa's MTN telecom company and the Iranian Government with 49% of its shares held by MTN Africa and 51% by the government in Iran).

According to an article by financial times, Romak is known as a foreign investor in Iran's e-commerce sector and so far has set up three major start-ups of Bamilo, an online shopping website; Mozando, a market place; Bodofood, which delivers food and a few hardly-functioning start-ups such as Taxiyaab, expected to be the "Uber" in Iran and "Eskano", an application for smoothing real-estate market operations.

Romak has been expected to become Digikala's main competitor, however, Financial Tribune- first Iranian English Economic Daily- has pointed at the recent poor responses that the company has got from each of its well-funded businesses.

Such poor performance has been associated with little or no brand recognition, jobs being executed in a wrong fashion, lack of local experience of the company in Iran compared to the competitors, too high salaries for the managers as up to \$30,000 per month, failure in adapting to local norms and understanding the culture and a lot more.

In fact, it is possible to consider a number of the start-ups that was invested in by Romak and discuss where it went wrong.

³⁸ The Information for this section is based on an article by Financial Tribune title "No take off for Rocket Internet" dates as 4th January 2016: www.financialtribune.com

For instance, "Taxiyaab"- currently known as Snaap- was expected to be a business similar to Uber where it brings the possibility of requesting a taxi through an application.

For instance, "Taxiyaab"- currently known as Snaap- was expected to be a business similar to Uber where it makes it possible to request a taxi through an application.

The main issue is the fact that through a well-established study of this market in Iran, it can be readily observed that this market is highly segmented. Iran's taxi industry is highly developed and with many sub-categories; therefore, using an application instead of simply calling for a taxi would seem excessive. In fact, the application has been hardly downloaded by citizens.

Another good example of the investments made is "Eskano", which aimed to do what Rightmove.co.uk did for the British real-estate market. The problem is that Iran's real- estate market is very difficult to penetrate and third parties are never trusted and due to Alexa, the ranking of this application is at 3,529th in Iran.

As for Bodofood, finding hard time gaining some market share, in the end it was merged with its rival "Zoodfood" which had been acquired for \$270,000 as Techrasa has announced.

Bamilo which has been the group's largest investment, has been going steady; however, there has been no increase in its market share even after a 60 million euro reinvestment and it has remained much lower than what was expected in 2013 compared to its rival "Digikala" which now holds the largest market share.

Although the number of players in the start-up investment market in Iran is not high, the level of competition is high given the special political power and connections that some of the market participants have.

As previously mentioned, Sarava also started to take new initiatives for entering the new market of investment on NBIC products. Undoubtedly, one such step helps the business growth of this venture capital; however, the first and foremost requirement would be larger

amounts of investments and support by Sarava for this market to get shaped and become a reliable and profitable investment opportunity. The fund required for this purpose can be provided by various means one of which is the Iranian capital market.

Iran's capital market³⁹

The existence of a wide variety of industries on Iran's capital market that comprise a large portion of the GDP of the country, has led to high volume and value of trades. The pie chart in **Exhibit6** represents the total market value by industries.

There is a high variety of entities functioning in this market. There are two main supervisory authorities on this market: The Securities and Exchange High Council (SEHC) and Securities and Exchange Organization (SEO).

Furthermore, there are mainly four exchanges performing on the market including two equity markets of: Tehran Stock exchange (TSE) and Iran Fara Bourse (IFB) and two commodity markets: IME and IRENEX. Further detail on the equity markets is provided in the following.

Tehran Stock Exchange (TSE)

Launched in 1967, TSE is the first equity market in Iran. This self-regulatory public corporation currently has more than 318 listed companies from 41 diverse industries.

Iran Fara Bourse market (IFB)

IFB is Iran's second equity market; a public self-regulatory company that was launched in November 2008 and is functioning as conventional Over the Counter (OTC) markets but with more features. Under the supervision of SEO, the IFB market is both for listed and unlisted securities and by nature tries to design innovative financial instruments to direct more

³⁹ The information provided on this section has been mainly extracted from reports and reviews on the capital market of Iran that have been published by the Security and Exchange Organization (SEO): www.SEO.ir

capital towards developmental plans and industries. It consists of five main markets each serving its own unique role. **(Exhibit7)**

Some general information on the functioning of these markets, their main roles and the main financial instruments that are traded on them can be found below.

● **First and Second Market:**

These are the main IFB markets for trading equity shares and for rights offering. The advantage it has over TSE is more available functions and fewer conditions and requirements for listing.

There are various requirements for the companies that want to be listed on these markets such as registration with SEO and being a public joint-stock company with the market cap of at least 3.3 million USD dollars for listing on the first market and 0.3 million USD dollars for listing on the second market.

● **Base market:**

Limited public companies whose shares are not listed on any other market can use this opportunity. But they have to be registered on SEO- as this condition must hold for all public companies- and therefore their shares can be traded on this market without any restrictions.

There are three main groups of registered companies as below:

1. Public companies that don't want to be listed but regulations impose that they become registered.
2. Companies that do not meet the listing requirements but are registered.
3. Companies that get delisted from TSE & IFB

This market is advantaged in many various ways such as private placement procedure that is convenient, ownership transfer that is very transparent, and finally fair shares pricing and some tax relief.

● **Third Market**

Designed to carry out some specific transactions, institutional investors enjoy four main services on offer on this market:

1. Private placement:

Even if not listed on the capital market and not even registered on SEO, a private or public limited company whether state-owned or private can sell a part of shares on this market.

2: stock Repurchase:

Companies that have the intention of buy-back of part of their shares outstanding, for instance those that opt for exit strategy or those that are delisted from TSE or IFB will take advantage of this service offered on the third market.

3: Underwriting:

The third market acts as the primary destination for underwriting different securities.

4: intellectual property:

This service is offered on the market for the sake of supporting patents and new ideas out of researches, which are expected to be guided towards venture capital and industrial investors for more funds.

● **Modern financial instruments market**

Specifically Islamic securities that have been approved and considered as eligible by the Securities and Exchange High Council can be traded on this market. These include: Certificate of Deposit, Housing Mortgage Right, Sukuk and exchange Traded Funds (ETFs).

Why the creation of IFB was inevitable

As reported by the website of Iranian venture capitals⁴⁰ more than 98 percent of the registered businesses in Iran are small and medium enterprises; however, their contribution to the GDP of the country is much lower than expected. One of the main reasons behind this would be lack of a mechanism for guiding the funding towards such enterprises. Given the existing market conditions in Iran, including lack of liquidity and transparency and availability of tax escape methods on the market, the emergence of the new Iran Fara Bourse market seemed unavoidable.

TAX Relief

In order to push incentives towards companies and their commodities to become listed on the exchange markets, the authorities have eased the investment and have facilitated the procedure for corporations by placing tax exemptions as below:

- > Listed companies on TSE are eligible for 10% of tax relief (in case the amount of free float shares exceeds 20%, the rebate would be doubled)
- > Listed companies on IFB are eligible for 5% of tax relief (in case the amount of free float shares exceeds 10%, the rebate would be doubled)
- > Commodities selling proceeds on IME and IRENEX are eligible for 10% of tax relief⁴¹

⁴⁰ <http://irvc.ir/en/>

⁴¹ The information provided on this section has been mainly extracted from reports and reviews on the capital market of Iran that have been published by the Security and Exchange Organization (SEO): www.SEO.ir

The bylaw for foreign investment in Iran's capital market⁴²

In April 2010, the bylaw for governing foreign investment in exchange markets and OTC market of Iran were adopted, according to which some main conditions are stipulated:

- The ownership of foreign investors cannot exceed ten percent of any listed company's shares and in case it does they are considered as strategic investors and are subject to more restrictive conditions
- The ownership of all foreign investors shall not exceed twenty percent of all companies' shares accumulatively
- The Central Bank of Iran is responsible to exchange original capital, capital gains and cash dividends upon request of foreign investors.

Apart from searching for the methods of fund provisioning, the management team of the company alongside the accelerators that were in direct contact with start-up teams needed to provide an answer to the entrepreneurs when they were questioning the destiny of their business, their future paths and the exit strategies they could put in place such as possibilities of merger and acquisition by a larger international firm of the same type. Therefore, earning a deeper insight into merger possibilities was crucial for the management team.

⁴² Same

Companies' merger in Iran

In Iranian law, a real merger of businesses is impossible unless authorized by legislators. The first reason for this is the fact that the law does not potentially anticipate dissolution without treatment of every accounting element. Secondly, the transfer of debt obligations entails novation.⁴³ Lastly, the share transfer of the shareholders, without their consent is not legal unless it is forced by legislators.⁴⁴

Given the specific nature of legal merger in Iran and its relevant set of principles, only in case of authorization can such legal establishment be put in place for businesses. Undoubtedly, the existing rules and practices that are being put in place for governmental companies and the cooperatives cannot be generalized over other businesses and new definitions are required.

Therefore, just as real merger has been accepted for cooperatives in this country, Iranian legislators have to fill in the gap that exists for other businesses as currently authorization from legislators seems crucial for merger decisions.

⁴³ Novation is the act of replacing one party in a contract with another, or of replacing one debt or obligation with another. It extinguishes (cancels) the original contract and replaces it with another, requiring the consent of all parties involved.

⁴⁴ This information has been translated from Persian to English and the content is mainly extracted from an analytic report available on the personal website of Masoud Hajarian, the professor of Allameh Tabatabaee university in Tehran: <http://www.hajarian.com/>

Conclusion

What are the possible future directions for Saravapars Venture Capital firm?

In the end, five main questions have been raised through this case study and they need to be provided with reliable answers while taking into account all the investment and operational details that were mentioned about Sarava before and simultaneously the characteristics of the market and the market participants and the existing rules and regulations should be considered. These questions are as below:

1. How and from which resources can Sarava raise the further funds it will need in the future?
2. Which businesses and specific markets are more attractive to invest the raised funds in?
3. At what stage of their lifecycle should the start-ups be in order to be invested in and what level of selectivity should the firm maintain when it comes to specific investment opportunities?
4. How should Sarava modify the services it offers to entrepreneurs in order to differentiate itself from other investors in the market and how should it avoid neglecting credible start-up ideas on the market?
5. What exit solutions would be possible for start-ups in Iran given the existing business rules and regulations?

Exhibit 1

Pomegranate raises EUR 60 million.

During the first quarter of 2016, the Company carried out a private placement, whereupon the Company was provided with a further EUR 60 million. The issue costs associated with the capital issue amounted to EUR 2.94 million.

Date	Event	Capital provided	Cumulative	Of which share capital	Cumulative
	Opening balance		20,384,020		1,654,601
2016-03-24	New subscription	60,000,000	80,384,020	2,500,000	4,154,601

A resolution to issue up to 35,000 warrants was adopted at an Extraordinary General Meeting held on 18 February 2016, as a result of which the Company's share capital may be increased by up to EUR 35,000. All the warrants were allocated to the Company CEO and other key persons.

Changes in the number of outstanding warrants	2016	
	Average exercise price per warrant	Number of warrants
Opening balance		50,000
Allocated	20	35,000
Forfeited		-
Exercised		-
Fallen due		-
Closing balance		85,000

Source: Pomegranate's financial report, Q2 2016

[\(http://pomegranateinvestment.com/en/\)](http://pomegranateinvestment.com/en/)

Exhibit 2

Pulse & Pixel's Portfolio

PPG Portfolio	
Digital Media Centre	Established to deliver a 360 degree media experience through programmatic media buying and performance marketing. It helps brands to execute effective campaigns and have access to 70% of the Iranian reach media.
Anetwork	The largest digital advertising network in Iran that was launched in 2010 as a CPC Ad-Network. In 2015, it made the strategic decision of expanding its services to become the first digital media Ad- network in Iran and reached a 13-million monthly unique online users with 6 billion impressions per month and more than 15,000 publishers.
Adro	Adro connects ad networks, agencies and third-party demand-side platforms with a vast Iranian and international inventory. It is the first ad exchange business with access to 190K Iranian

	websites, has more that 350 million impressions and access to more than 32 million Iranian users.
Adad	The first Iranian Mobile Ad Network, where the network is supplied with more than 7500 applications and is directly connected to CafeBazaar (the Iranian Google Play). Through Adad Dashboard advertisers are allowed to distribute targeted ads on a high volume of audience.
Akhbar Rasmi	The first online news distribution with access to both public & private organizations and business in Iran that need to be provided with access to content media and journalists. It offers solutions for online public relations and faster and cheaper brand management.
RasaRank	An automated link-building platform that improves search engine visibility and helps businesses to be seen by customers. It is designed to raise a website's ranking to top 10 in google.
Rasanext	The first Demand-side Platform* in Iran integrated with 5 international Ad Exchanges and Ad Networks, currently in use by 7 offline agencies for their media planning.
Congoro	A text processing engine that builds a graph of the semantic relationships between the web pages in its network. It offers the suitable content to the users and utilises Persian natural language processing.
Ava Media	An accelerator with focus on media
Kamva	An easy-to-use service that allows anyone to design their website or online store without writing lines of codes. The service it provides is end-to-end meaning that the customer doesn't need to take care of servers, domain and security as all is provided. This business has been established with the purpose of freeing up the time for entrepreneurs to focus on what they really want to work on.
Others	Companies in digital media: Online videonext, Gen media And Pub tech

* A Demand-Side Platform is used to identify the advertising opportunities that offer the best prices for the most eyeballs in your target demographic across different networks. Once the banner graphics along with the desired target market and the maximum budget have been defined, the opportunities are identified and the advertising spaces are purchased until the budget dries up.⁴⁵

Source: Pulse & Pixel's website

(<http://pulseandpixel.com/>)

⁴⁵ This definition is provided on the website of small businesses:

(<http://smallbusiness.chron.com/dsp-advertising-13691.html>)

Exhibit 3

Pomegranate's Portfolio and the fair value of the holdings

'000 000 euro

Company	Fair value June 30, 2016	% of net asset value	Fair value December 31, 2015	% of net asset value
Sarava	64.0	66%	23.3	59%
Sheypoor	8.1	8%	4.2	11%
Griffon Capital (equity)	2.8	3%	2.8	7%
Griffon flagship fund	2.0	2%	-	
Carvanro	0.5	1%	-	
Total portfolio companies	77.3		30.2	
Cash and bank	48.4	50%	12.3	31%
Total assets	125.7		42.6	
Other net liabilities	-28.7		-3.0	
Total Net Asset Value	97.0	100.0%	39.5	100%
Net Asset Value per Share, eur	23,34		23,89	

Source: Pomegranate's financial report Q2 2016, page 6

(<http://pomegranateinvestment.com/en/>)

Exhibit 4

Pomegranate's IPO and the share offering price

Number of outstanding shares before offering	1,654,601
Number of shares on offer- initially expected	2,083,333
Number of additional shares on offering	416,667
Total number of shares on offering	2,500,000
Offering price	€24
Total offering value	€60 mln
Pre-money valuation	€40 mln
Post- money valuation	€100 mln
Total number of shares after offering	4,154,601

Source: Pomegranate's Pre-IPO press release, May 16th, 2016

(<http://pomegranateinvestment.com/en/>)

Exhibit 5

The breakdown of Pomegranate's Investors by region

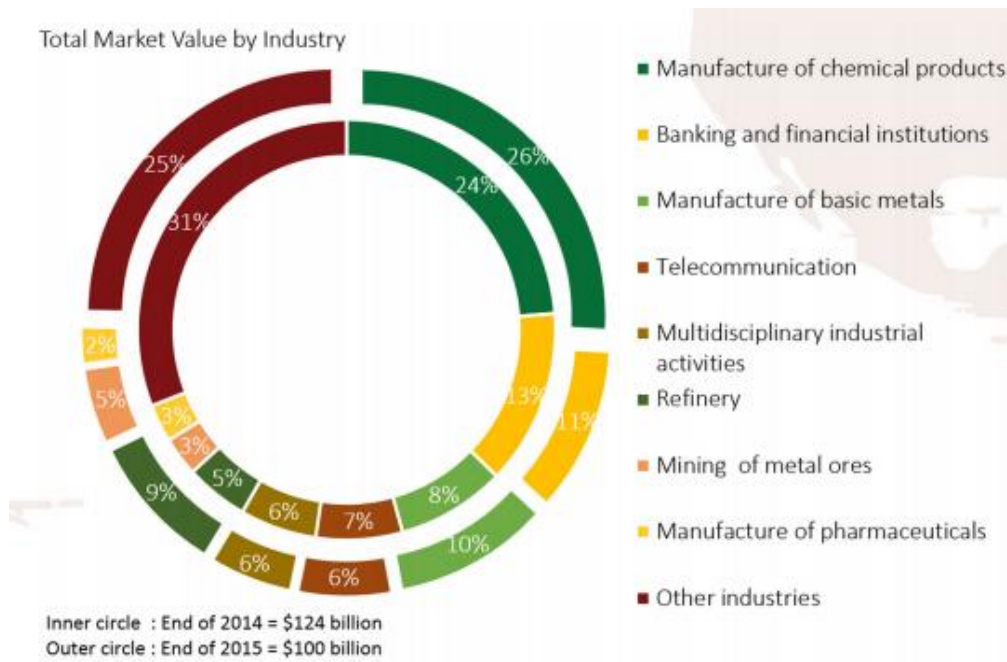
Country	Percentage
Sweden	50%
The UK	18%
CEE*	17%
Switzerland & Austria	12%
Others	3%

Source: Pomegranate's Website

[\(http://pomegranateinvestment.com/en/\)](http://pomegranateinvestment.com/en/)

Exhibit 6

Iran's Capital Market by Industries

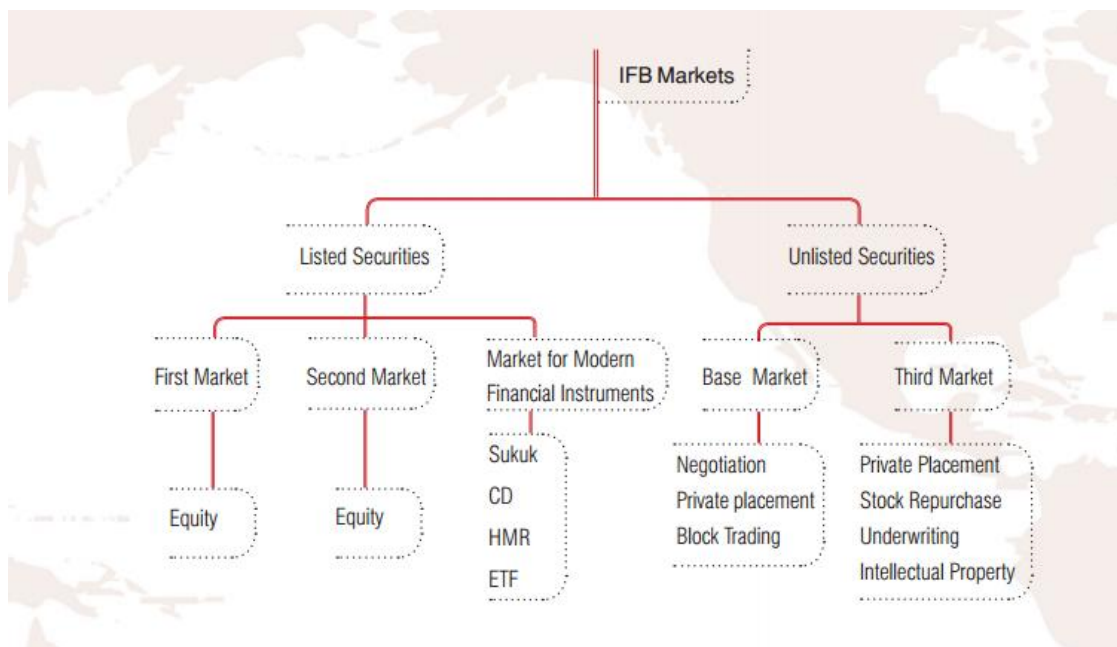


Source: Website of Security and Exchange Organization (SEO) of Iran:

www.SEO.ir

Exhibit 7

Five main Markets of IFB



Source: Website of Security and Exchange Organization (SEO) of Iran:

www.SEO.ir

Teaching note

1. Case Synopsis

The case study is about Sarava Venture Capital firm which has focused its investments on the emerging start-up market of Iran. The firm has been involved in improving its business operations in the post-sanction era where it has managed to attract funds from an Iran-focused Swedish foreign investor, the Pomegranate Investment Company.

The protagonist is the CEO of the company who has challenged the management team by a few questions. Firstly, as the firm's exposure to the market was growing and more start-ups were taking part in the firm's acceleration programs, Sarava would need to realize a reliable source of funds apart from asking shareholders to invest more every time a good opportunity would come up. The case later focuses on the relevant opportunities offered by the capital market of Iran.

Secondly, Rahmani recognized it as crucial to know what the right scope of the investments would be and what start-up markets would be the right ones to aim at. In addition to this, decisions would have to be made over the stage of the lifecycle that the start-ups should be at for Sarava to invest in them. It is important to consider that in every market that Sarava has made investments in, due to its nature and growth potentials, the stage of the lifecycle to focus on differs from another.

The next issue of importance was about the transformation of service provision by Avatech, the accelerator of Sarava. One of Sarava's comparative advantages against the other investors and competitors is the special training programmes and the consultancy services that it provides for start-ups; however, in case these services are not designed in an optimized manner it can lead to ignoring some very profitable future opportunities.

Lastly, a major concern for Iranian entrepreneurs has been the possibilities of putting the common exit methods in other countries into practice in Iran and dealing with the relevant

Iranian business rules and regulations. With this regard, the case offers a deeper insight into the regulations related to merger opportunities in Iran as it seems to be one of the main problematic issues that has been raising questions among the market participants.

Within the case, some helpful hints for finding solutions to these problems have been mentioned and the following provides a deep analysis into each and every one of these questions after a brief explanation over the mechanisms of venture capital firms (VC) and their functioning and a brief on the reports published by the Iranian venture capital association.

2. Venture Capital funds mechanism⁴⁶

Risky investments can be either done individually (as angel investors) or by an institution. One type of risky investment institutions is known as institutional venture capital funds that are branches of financial institutions and commercial banks and are mainly formed to help develop different corporate groups and will eventually become profitable customers of the parent company itself.

Another type would be corporate venture capital funds that are usually formed by industrial corporates and are willing to invest in tech-based start-ups in order to have access to emerging technology trends. A major weakness of these two types of VC funds would be the conflict of interest that might occur between the entrepreneurs and the investors given that the corporate or institutional investment funds tend to act in the interest of the parent company.

A third type would be the limited partnerships that are the funds created by professional venture capital. In such cases, the general partners are specialized and experienced in VC scope, have unlimited responsibilities and should manage the investments of the limited

⁴⁶ The information for this section has been majorly translated from the reports published on the website of the Iranian Venture Capital Association: <http://irvc.ir/en/>

partnerships. Some of these risky investment corporates manage several funds simultaneously and in fact provide 1-1.5% of the venture capital fund resources and as for the management expenses of the fund between 1% to 3% (usually 2.5%) of the total capital commitment of the fund is annually paid to the fund manager. Moreover, at the end of the fund's activity and after the liquidation of properties, 20% of the fund's profit is paid to the fund manager (general partner) and the rest is divided among the investors.

The following would be the venture capital's tasks during the limited life of the fund –usually between 7 to 10 years:

- searching for investment opportunities and negotiations over the investment conditions
- monitoring the investee companies while providing further funds and consultancy during their development phases
- finding a suitable exit such as IPO or M&A that allows to earn the investments back
- Fair profit distribution from such exit opportunities among the shareholders and ending the life of the venture capital fund

Venture capitals are majorly of the limited partnership type and can be focused on one specific industry or scope. Limited partnerships dominate the venture capital industries in almost all countries since they can mainly concentrate on the funding and development of the companies they invest in and unlike financial and corporate funds there will be no conflict of interest between the investee company and the parent company. Limited partnerships also have the advantage of limited life and responsibilities for the investors.

2.1 Venture capitals' characteristics and the prerequisites for their development

VCs' characteristics and the requirements for their establishment and success may differ from country to country depending on their various political and economical approaches; however, there are a few lessons to learn from studying major success stories:

1. VCs do not fund companies using mortgages unless the mortgage is in some way convertible to shares. They also prefer investing in new businesses.
2. VCs mean to become a member of Board of Directors (BOD) and create value for the company through monitoring and consultancy.
3. The investment opportunities must have the potential of creating huge capital gain in less than 5 years. High rate of return for investments is crucial since the possibility of default is high and lack of existence of such investment opportunities in a country can be discouraging.
4. VCs are not permanent investors. They search for earning their capital back and complete the investment cycle. The VC investment processes are supposed to end using IPO, M&A or even by the company going bankrupt. Unsuccessful performance of VCs can be observed in case country policies place obstacles for VCs to find a suitable exit opportunity and to complete their investment cycle.
5. Limited partnership is the dominant legal form in VC industry of all countries.

Additionally, a few other conditions should be existent at organizational level and these include:

1. The existence of entrepreneurship is a necessary condition. Business ideas must lead to the formation of entities with high growth rate.

2. Such risky investments require a stable currency, non-corrupted government and a predictable legal environment. In countries that lack such characteristics, the possibility of success would decrease.
3. Universities and Institutes of higher education are crucial factors in success of VC industries alongside the governmental funding of complementary education and research.
4. The presence of stock exchange markets with a fine level of transparency and liquidation would be necessary. Therefore, well-established laws of the market and its ability to fund the promising companies are important.

2.2 Legal history of venture capitals in Iran

A country should have a simplifying legal infrastructure in order to be able to support the development of VC industry. In Iran, this industry is very young. Although the non-governmental research and technology funds have formed and activities in the over-the-counter market exist, the legal conditions still need to be facilitated further.

In September 2015, the Iranian Venture Capital Association published a report about the existing challenges and legal capacity in the establishment of venture capital funds in Iran. The challenges were recognized using the "focused group" analysis and it resulted in an agreement for no need of passing new independent laws for the industrial development of VCs but only the need for modifications of the already-existing articles such as recognition of new tax incentives in the long run, defining new financial instruments, easing the ownership transfer through company stock and also predicting suitable mechanisms for exit such as IPOs and M&A.

Within the report the problem with the governmental research and technology funds such as the new "Innovation & Development Fund" has also been addressed. It has been pointed

out that the position and scope of activities of such funds should be well-defined in order to avoid parallel or overlapping tasks with private institutions and therefore to avoid the underperformance of the financial system. Hence a comprehensive plan for the players of this system and their functions and tasks has been considered essential to aim at increasing effectiveness and support among them.

While taking into account that this industry is very new in Iran and better practices of the regulations require more time and effort, in the following it has been attempted to provide some analysis for the questions that were of major concern to Sarava's CEO. For such further analysis, it is important to consider that this market is still in the process of forming expertise and more experienced specialists and Sarava has been the leading pioneer in the market.

The next section has been divided into five parts each dealing with one main question and then it is followed by a conclusion that provides a general insight into the Iranian start-up market situation and the risks and benefits involved in holding a portfolio of this market.

3. Final Analysis

3.1 How and from which resources can Sarava raise the further funds it will need in the future?

In general, different methods of raising funds for venture capitals exist. These include asking the shareholders either through offering further shares or through rights offering and internal fund provision, acting on mergers and acquisitions or opting for Initial Public offering.

With Pomegranate now going public, Sarava can have access to a rather well-sustained stream of investments; however, this mainly depends on what the management team of Pomegranate decides to do with the revenues they earn. Whether the revenues will be split among the shareholders and they will be remunerated or they will be invested on Sarava's future projects or the current ones depends on the future decisions, preferences and expectations of Pomegranate's CEO and shareholders.

Another possibility for Sarava would be to go through merger & acquisition process but given the current projects it has undertaken and its high level of involvement in the start-ups' operations and given the expertise that it still needs to pass on to the new-comers in the market it is still not time for Sarava to consider one such option.

Moreover, the lack of transparency of the rules and regulations related to mergers in Iran makes the procedure rather risky for Sarava. Apparently, some time should pass and further practices should be done in Iran until the regulations become rather sophisticated and applicable in the real business world.

In the meantime, given the situation described above, the mere method of fund raising that seems to suit the current specificities of this venture capital's businesses, would be

requesting funds on the capital market of Iran which provides access to a greater number of investor.

With the creation of the Base market and the Third Market on Iran Fara Bourse Market the way has been paved for investment companies for raising funds or carrying out other activities such as selling and buying different financial instruments.

In fact, as Financial Times states, until 2008, a wide range of financial firms in Iran did not have the opportunity to raise funds on the stock market and both public and private institutions were heavily dependent on their shareholders or the banking network facilities.

Iran Fara Bourse market was established in order to provide a good range of new financial instruments such as exchange traded funds (ETF) to compensate for the shortcomings of funds for the nascent industries and those in need of financial resources. The priorities on this market have been considered to be transparency, liquidity and reliability. Other issues that are to be focused on are improving competition, bringing profitability and stable growth, extending the reach and penetration rate and encouraging public participation.

Additionally, in case of capital market exposure, launching IPO and going listed on IFB, some type of tax relief of 5% has been considered for companies and then in case the amount of free float shares goes above 10%, this amount of tax saving will become doubled. This makes it more profitable for Sarava to choose funding from the capital market of Iran.

3.2 Which businesses and specific markets are more attractive to invest the raised funds in?

It is apparent that Sarava has already reached the desired level of diversification in its portfolio participating in different markets of start-ups. Exposure to a new market then would seem as a decision that would distract the firms from focusing on its current investments and it is not recommended.

It should be noted that the firm's current investments are in need of further attention in financial terms. Further details about the conditions of each major investment and its financing need come in the following.

1. Digikala:

As mentioned in the case, this business requires more funding in order to deal with its logistics-related issues. With the company's number of orders growing every day and the competition getting tighter on the market, Digikala needs to improve its services to be able to keep up with its rivals and safeguard its market share.

The investment in logistics operations is essential since the traffic issues in Tehran can easily cause delays in service delivery and therefore lead to the dissatisfaction of the customers who can switch to another competitor at low or almost no cost.

Another reason why this company needs more investment is the fact that it has just launched Digistyle which is Digikala's fashion brand. One such decision of participating in a new market means having to hire new consultants and specialists and provision of new products that require their own type of care and maintenance. At the same time, it means having to negotiate with a whole new set of suppliers and study a new target market. All such initiatives can be taken in case they are properly funded.

2. The newly-formed Pulse & Pixel Group

The formation of Pulse & Pixel Group occurred when the impressive growth of Anetwork- the largest digital advertising network- led to a more strategic targeting of the digital media marketplace by Sarava and when the potential for growth in this scope was recognized by the management team of Sarava.

The advantage that Sarava has as an investor in this market is the first-mover advantage. Currently, Sarava is an investor of great importance for Anetwork which is both the largest and the first player in this market and even the facilities and the physical infrastructure of Anetwork is provided by Sarava.

Furthermore, the many small investments of this firm in the many diverse start-ups functioning in this market can be very beneficial and can bring a brighter future to the firm. Sarava has taken advantage of the synergies that exist among these investments in its portfolio by putting them all together under another venture capital that is specifically focused on this market.

Obviously, further future investments of Sarava on this marketplace will mean a greater amount of benefits to come in terms of return and level of market control.

3. Avatech:

Avatech has launched its new set of services and some specific programs to offer to start-ups which means that the major part of the fund that it will require will be with the purpose of providing these services to entrepreneurs.

However, it is important to bear in mind that in the mean time it is suggested that Sarava focuses on the start-ups that already exist in its profile and as far as possible try to avoid more investments in the new markets where it will have to get introduced to.

It is recommended that the money provided to this accelerator gets invested on the transition of services and hiring new professionals that can hold specialized training programmes in order to support the entrepreneurs.

4. Shezan: The Recent Strategic Decision of Sarava

With Pomegranate which is one of the main investors of Sarava going public and with the other rivals in the market not being able to perfect their operations as Sarava planned to do by changing its methods of service provision, a more positive outlook on Sarava's performances started to get shaped on the market and the firm's investment operations and approaches started to appeal to an even larger number of entrepreneurs from other markets.

The one market that had hardly been penetrated by private investors was the market of innovative products of Nanotechnology, Biotechnology, Information Technology and Cognitive Sciences known as NBIC products. Sarava managed to hold another accelerator, Shezan-as mentioned previously in Sarava' portfolio- that mainly functions in NBIC area in its profile.

Undoubtedly, with this step towards the exposure to a new market, Saeed Rahmani hopes to achieve a greater level of risk diversification on the company's portfolio compensating for the volatility and political instability which are the inherent characteristics of investments in Iran. Additionally, with this new move he now expects to be able to attract more foreign investors while reassuring the existing shareholders of the soundness of his business in Iran.

There is no doubt that this strategic decision will lead to a business of much larger size to manage and will bring significant growth to the company.

What to expect after entering the new market

Earning access to a whole new market of start-ups for Sarava meant having to provide more and more funds, offering services more efficiently and of course managing the business at a much larger scale.

Therefore it should matter a lot to Saeed Rahmani to come up with a reliable and durable method of fund provision in future. In many countries, the solution would be in the hand of the stock exchanges and the capital market of the country. In Iran, although the specificities of the capital market make it rather complicated for companies to list their equity shares, the creation of IFB has been a great help.

In the end, it should be noted that the main markets to invest in for Sarava are the market of NBIC products and the market of digital media. Improvement in the area of NBIC products is important because the market is new and there is a lot of potential to benefit from and as for the digital media market the importance of further financing is due to the fact that there are a lot of synergies among businesses to benefit from and also the start-ups in this area are generally at their early and mid stage and require constant care, attention and financing to improve their operations and acquire the needed skills for their businesses.

In addition to this, Sarava should financially support its other businesses including Digikala and Avatech to maintain their competence by improving their operations and services.

3.3 At what stage of their lifecycle should the start-ups be in order to be invested in and what level of selectivity should the firm maintain when it comes to specific investment opportunities?

As suggested in the previous section, Sarava should focus its investments mainly in the two areas of digital media and NBIC products and it is important to decide what stage the start-ups should be in, in order for Sarava to invest in them.

1. Digital Media Market:

In this market a huge percentage of the start-ups that exist are of early stage since the whole business type is new in Iran.

In addition to this, it is very important for Sarava to maintain a certain level of control on this market as great growth potential and huge revenues are expected to be reached on it.

Therefore, the expected behaviour of Sarava with regard to this market's start-ups would be the firm investing mainly in early stage businesses and at times on the mid stage businesses.

2. NBIC Products market:

This area would be quite difficult to focus on since it requires its specific knowledge and even the relevant business operations on NBIC market differ from what Sarava had been involved in before.

It is doubtful that Sarava's investments will reach immediate return on this market but in order to manage their profile better, it should be suggested that Sarava firstly looks for investment opportunities that are at their mid stage and then those that are at early stages.

The reason for adopting such mannerism is the fact that the opportunities of early stages in this area require other huge amounts of investments as for hiring professionals that are able to deal with issues of this specific market and there are other expenses of earning expertise of dealing with market characteristics; however, the opportunities of the mid stages already

have their complete team of entrepreneurs and the established expertise of the teams is what is needed for an investment to be considered as a good opportunity.

3.4 How should Sarava modify the services it offers to entrepreneurs in order to differentiate itself from other investors in the market and how should it avoid neglecting credible start-up ideas on the market?

The services that Sarava offers to the entrepreneurs are usually delivered through its accelerator arm, Avatech.

As it has been pointed out in the case study literature, problems of many types have been faced about service provision and different solutions have been tried. Since Sarava offers financial support to these start-ups from the very early stages of their businesses, there appears to be a lot of space left for opportunistic behaviour to get shaped. This entails entrepreneurs not behaving in a very dedicated manner to their businesses feeling assured that Sarava is always available to support them.

From another point of view, in case the selection process for entering the accelerator is extremely challenging to go through, it is possible that we will have the crowding out effect and neglect some credible ideas with very bright future.

Therefore, a good solution would be the one that provides financial support to the start-ups that have the expertise and the professionalism to deal with their start-up as a serious business and at the same time the solution should be able to provide support to the start-up ideas that are brilliant but need to be worked on more and require help in other different aspects such as team completion and finding developers, business training and mannerism, etc. It would be much better if financial investments on the second type of the start-ups would be carried out after a well-designed training process.

With this regard two main programmes can be introduced by Avatech accelerator as below:

The first program, known as Avacamp, is a two-month free program that provides workspace, mentorship and training to startups. Avacamp runs 4 times a year (i.e. quarterly) and is developed for boosting startups by helping them validate their business model, gain customer insight, understand their market and go to market strategy, optimize their product, build up their team and learn the basics of fundraising.⁴⁷

The second program, known as Acceleration Program, is for a period of 4 months for more experienced teams that have a product already running with all its necessary features, with a constantly growing customer base generating revenue with a complete and experienced team. The program offers startups with workspace, trainings, mentoring sessions and coaching, 25 million Tomans of funding, with an additional access to extra 100 million Tomans based on convertible loan. The startups are expected to focus on developing and optimizing their marketing strategy, develop their product road map, create business plan and financial projections and Avatech helps them build their advisors and investors network.⁴⁸

This is a more reliable approach for both sides of the deal. Sarava hedges the risk of wasting funds on the lack of experience of the teams and the teams get the opportunity to go through training program for free.

⁴⁷ This information is taken from the website of Avatech accelerator published on 12th July 2016: <http://avatech.ir/en/blog/newapproach/> and has also been mentioned in the interview with the marketing manager of Sarava, Masoud

⁴⁸ Same

3.5 What exit solutions would be possible for start-ups in Iran given the existing business rules and regulations?

There are generally three main exit solutions that start-ups can expect to end in. These include: liquidation, public offering and doing mergers and acquisition.

As for liquidation and public offering the regulations seem to be of proper clarity and ease of application. Public offering for small enterprises has been facilitated through the Iran Fara Bourse market.

The most sensitive matter due to the Iranian regulations is the case of doing mergers on companies. The relevant merger regulations seem to be strict and not very considerate of the shareholders and their rights. Therefore in case a merger is to be conducted the shareholder's benefits would be at risk and then the situation gets much more complicated in case the company to merge with is a company of foreign origins.

In fact, what matters in merger contracts is how they affect the shareholders. The existence of supportive law and legislation for shareholders is crucial. In American law, for instance, protective regulations as for minority shareholders have been considered and those who are against the merger, do not have to accept its conditions and can choose to receive the equivalent cash as for the shares they hold; however, in Iran's business law no evidence of such support and guidance for shareholders can be found.

Additionally, although Iranian legislators have mentioned the need to prohibit monopoly practices and the formation of monopolistic behaviour through mergers, they have failed to provide any details on the government's participation or possible measures in case of future violations.⁴⁹

⁴⁹ This information has been mentioned in a report titled "Merger Control in Iran: Toward an Efficient Merger Control Regime in Iranian Competition Law" conducted by Mohsen Nikbin available on the website of The International Iranian Economic Association (IIEA): <http://www.iraneconomics.org/>

This lack of information affects the shareholder's decisions and preferences and leads to lack of willingness to put companies together and take advantage of the synergies between the businesses.

It also acts as a hindrance against the start-ups' hopes of being acquired by their comparable international versions and it can easily de-motivate the start-ups in remaining competitive and simulating the operations of their better international versions.

Needless to say, rules and regulations that are not well-defined and are not sophisticated enough can decrease the level of competition in a country and therefore the pace of improvement and advancing in businesses reduces incredibly. This then affects the quality of the service provision, customer satisfaction and the general level of expectations on the market.

4. Conclusion

Sarava's mission, ultimately, is to offer funding and business solutions to start-ups in Iran's volatile markets and finally helping them find an exit solution. The need of Sarava to raise funds to finance its ongoing operations on the one hand and its task of offering credible exit solutions to start-ups on the other hand seem to be the two major issues that the firm is struggling with.

It is true that with the incomplete regulations that are still at their nascent stage in Iran the process of searching for an exit solution takes longer than usual.

The establishment of Iran Fara Bourse Market seems to be a great method of providing funding solutions; however, the low level of sophistication of the relevant rules and regulations again makes it quite a risky step to take.

Moreover, the regulations related to companies' mergers seem to be more of a hindrance than a help and their lack of transparency and obligations for earning authorization are among the obstacles against further future growth of the start-ups.

Epilogue on what happens next

Due to the typology of the investments in Sarava's portfolio, for many of the start-ups merger and acquisition has been pointed out as an expected solution by different analysts and even the management team of Sarava expect the acquisition of Digikala by the Amazon to occur sooner or later⁵⁰; however, for such an event to take place regulative authorizations will definitely need to be earned, the process towards which seems to be of complicated nature.

As for the fund-raising issues that Sarava has faced, there has been news of Sarava signing agreements with the Stock Exchange Organization to have access to more funds and future financial assistance.⁵¹

⁵⁰ This information is based on an Interview with Masoud Amoozegar, the former marketing manager of Sarava.

⁵¹ Same

References

Alexa website

<http://www.alexacom/topsites/countries/IR>

Anetwork's website:

<https://anetwork.ir/en/>

Articles on Bloomberg website

<https://www.bloomberg.com/news/articles/2016-01-25/griffon-starts-108-million-fund-to-invest-in-iranian-stocks>

Article by the Financial Tribune:

<https://financialtribune.com/articles/sci-tech/33360/no-takeoff-for-rocket-internet>

Iran Fara Bourse Website:

<http://www.ifb.ir/>

Website of Iranian Venture Capitals:

<http://irvc.ir/en/>

IRVC reports on Venture Capital funds in Iran:

<http://rc.majlis.ir/fa/report/show/937340>

Personal website of Masoud Hajarian:

<http://www.hajarian.com/>

Pomegranate financial report of the second quarter of 2016:

http://pomegranateinvestment.com/content/uploads/2015/08/Pomegranate1H16_Report1.pdf

Pulse & Pixel company's website:

<http://pulseandpixel.com/>

Security and Exchange Organization Website:

www.SEO.ir

The website of Swedish Start-ups

<http://swedishstartupspace.com/2016/03/21/swedish-company-raises-e60-million-invests-more-in-amazon-of-iran/>

Private financing firm website "Tadbirgaran Fardaye Omid":

<http://tfod.ir/index.php/2014-02-26-06-52-17/2014-02-26-06-53-35/2014-03-13-12-04-05.html>

Taskulu's website

<https://taskulu.com/case-studies/anetwork/>

Techrasa Start-up news platform

<http://techrasa.com/2016/03/04/cafе-bazaar-android-market-installed-on-more-than-28-million-devices/>

<http://techrasa.com/2016/08/23/cafе-bazaar-divar-expand-afghanistan/>

Washington Post Article:

https://www.washingtonpost.com/news/innovations/wp/2014/11/10/heres-what-its-like-to-launch-a-start-up-in-iran/?utm_term=.21dd48272436