

# Startup

INVESTMENT NEW ZEALAND

[pwc.co.nz/startupmagazine](http://pwc.co.nz/startupmagazine)

April 2018



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Investment magazine

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# Building New Zealand's startup ecosystem

**Anand Reddy**  
PwC Partner

## *Welcome to the new-look Startup Investment magazine*

You might have noticed by now that things are looking a bit different. PwC's now partnering with the New Zealand Angel Association and NZVIF to produce the magazine, and it's an opportunity we're all excited about.

So what's different between these pages and the old magazine? Well for starters, we've taken the publication down a few pages. We're all busy people and I'm excited to see if this new format resonates with the early-stage investment community.

What's more exciting though is the chance to re-energise the magazine as the voice of angel and early stage investors in New Zealand. You won't find buzzwords or corporate catchphrases within these pages, just an honest reflection on the state of Kiwi startup investment (wherever possible, in the words of investors themselves). It's our vision to develop the magazine into a one-stop shop for understanding how early-stage investment is tracking in New Zealand, with a few smart opinions on where it's heading next.

That's why we've led this new-look edition with an article on how our local startup ecosystem compares globally and the role of angel investors in taking it to the next level. Whenever I'm talking to startup founders, especially in the tech space, there's a real feeling that our startup ecosystem can – and should – compete with the best in the world. We've all got a role to play here, and it was certainly interesting to read Bridget Coates' take (page six) on how the sector has evolved and what the future holds.

I hope you enjoy the new-look magazine. For us, this edition is our MVP (a 'Minimum Viable Publication' if you will) and we'd love to hear from you where we should head after version 1.0. If you have any thoughts, please let me know @AnandSReddy.



# Startup investment in 2017 at a glance

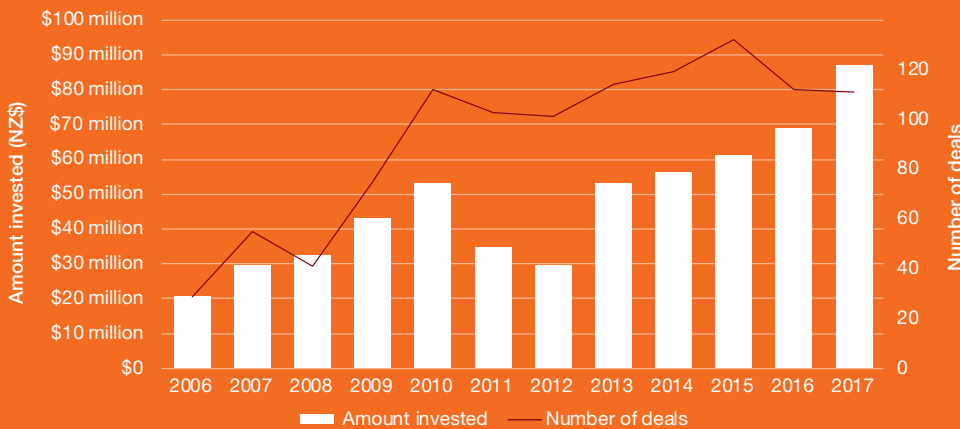
2017 was a big year for angel investment, the largest the Young Company Finance Index has ever recorded. Total investments are up 26% on the previous year. See what the big movements have been here, then visit our online data tool to get the full picture of the last 12 months.



## Deal value and volume

“Recently valuations have been creeping up and the market is frothy. A higher valuation might look good, but if companies miss forecast results, new businesses may struggle to raise their next round of capital.”

- John O’Hara, AANZ Chair



# 58%

OF INVESTMENTS ARE IN ORDINARY SHARES (ONLY 23% ARE IN PREFERENCE SHARES)

“Compared to overseas, our reliance on ordinary shares is high. There are investors here though who prefer ordinary to preference shares.”

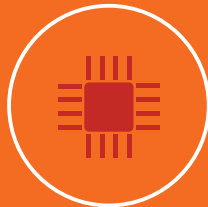
- John O’Hara, AANZ Chair

## Top 5 sectors



### 53.8%

SOFTWARE & SERVICES



### 17.1%

TECHNOLOGY HARDWARE & EQUIPMENT



### 6.7%

PHARMACEUTICALS, BIOTECHNOLOGY & LIFE SCIENCES



### 5.3%

EDUCATION



### 4.5%

CONSUMER DURABLES & APPAREL

VISIT OUR WEBSITE [PWC.CO.NZ/STARTUPMAGAZINE](http://PWC.CO.NZ/STARTUPMAGAZINE) TO SEE OUR FULL LIST OF 2018 DEALS AND HOW THE STARTUP ECOSYSTEM HAS CHANGED OVER THE LAST DECADE.

# Silicon Valley. Shanghai. Tel Aviv. New Zealand?

**“Many angel investors have wide networks of contacts for drawing on expertise and many also have deep sector experience. If a startup can attract the interest of an angel investor with deep experience and contacts in their sector, it’s an extremely valuable resource.”**

**- John O’Hara, AANZ Chair**

Every city and country around the world is racing to be the next startup hot spot. It’s no surprise, really, unicorn tech startups haven’t just turned their founders and investors into household names. They’ve also built up ecosystems around them of angel investment, venture capital and (most importantly) human capital that lays the foundations for future startups to succeed.

So, when the latest Startup Genome data came across our desks measuring how different startup ecosystems compare, we couldn’t help diving in to see where New Zealand compares to the rest of the world, what successful ecosystems have that we don’t (yet) and what role angel investors can play in moving our startup space in the right direction.

What immediately jumped out at us was the three different ‘types’ of startup ecosystems across the world. At the big end of town, you have the large startup centres in North America, China and Germany. These were cities that had the largest early stage investment pools, had seen more than their fair share of unicorns, and were the most likely to have exits of more than US\$500m.

So far, no surprises. But what also set these ecosystems apart was how attractive they were to national and global entrepreneurs. They’re pulling in talent from across their own countries and from around the world to drive their growth.

At the other end of the scale in the data set were the up-and-comers, places like India, Nigeria and Brazil. These startup ecosystems are growing the fastest and they’re some of the most likely to be targeting international customers first (established startup centres are being driven more by their own internal markets).

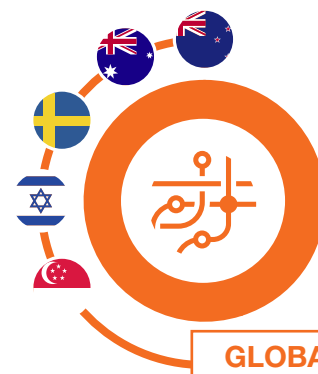
New Zealand doesn’t fit into either of these. Instead, we fall into the third type of startup ecosystem: the small, global player. It’s a space we share with the likes of Singapore, Israel, Sweden and Australia’s main cities of Melbourne and Sydney. This group shares a global outlook, established funding ecosystems and a much higher density of startups than the larger economies in the other groups. Like the big end of town, we rely on attracting global startups, and we’re selling to international markets early on.



- Large ecosystems with plenty of unicorns
- Use a large local customer base to drive growth
- Attracting entrepreneurs and skilled workers from across the world



- Some of the fastest increases in deal volume and size
- Looking for global customers early on in their development
- The most reliant on local seed funding



- Well-connected with global entrepreneurs
- Rely on an international customer base
- Dense concentration of startups to population



Time for the next question: what can New Zealand angel investors learn from these other markets that look a lot like ours? And how can we all take the Kiwi startup ecosystem to the next level? These are the three areas that stood out in the Startup Genome data where angel investors have a role to play:

**Networking with other startup ecosystems.** A startup founder in Sweden has met five startup leaders from an overseas centre like Silicon Valley. In Australia it's seven, and Singapore is leading our group at 17. In New Zealand, we're much further behind, averaging just two connections. It's here that angel investors can add a lot of weight to a local startup, by drawing on their own network, both here and around the world, to bring technical experts to this corner of the world.

**We need to get denser!** For all our talk of a number eight wire mentality here in New Zealand, we don't have the same quantity of startups that other countries have. We have about 100 startups for every 1 million residents here (a score of 0.10). While we're never going to reach the 1.6 they have in Silicon Valley, we're still a long way below Finland (0.39) or Estonia (0.23). For early-stage investors, and everyone involved in the early-stage startup space, it's a sign that we need to be doing more to support new companies – we have the people and the ideas, now we need the new businesses to follow.

**Bigger bets on a smaller number of companies.** In the other small global economies, angel and early-stage investors are making bigger bets on just a few startups. In fact, the median amount invested in seed funding is almost twice as high for the group as a whole as it is in New Zealand. That's despite NZ startups receiving a higher mean average of investment than many other markets in our group.

**LIKE THE BIG END OF TOWN, WE RELY ON ATTRACTING GLOBAL STARTUPS, AND WE'RE SELLING TO INTERNATIONAL MARKETS EARLY ON.**

Of course, it's going to be no small feat to take the startup ecosystem to the next level. Building a denser, better connected ecosystem where companies with real potential are receiving the funding they need, is going to take a lot of work. Angel investors, startup incubators and later-stage venture capital investors will all have a role to play, not to mention central and local government and the education sector. Kiwi companies have a reputation overseas for a strong social conscience and pragmatic leadership, now's the time to build on those strengths.

But who knows, maybe in the coming years we'll see New Zealand become a bona fide unicorn breeding ground...



**100**

**STARTUPS IN NEW ZEALAND PER 1 MILLION RESIDENTS**

**\$429k**

**AVERAGE EARLY STAGE STARTUP FUNDING (NZ\$)\***

**66%**

**OF NZ SEED FUNDING WAS SOURCED LOCALLY**

\* Exchange rate correct as at 2 April 2018.

# Past, present, future

## An interview with Bridget Coates



Bridget Coates

Bridget is one of New Zealand's most experienced angel investors and non-executive directors. As well as being the chairperson and cofounder of Kura, a consumer nutrition company, Bridget chairs the board of White Cloud Dairy Innovation and is on the Board of the Reserve Bank of New Zealand (when she isn't investing in early-stage companies).

We sat down with Bridget to talk about her experience as an angel investor and the founder of the ArcAngels network, and what she sees on the horizon in early stage-investment.

### *So Bridget, as a seasoned investor, how have you seen early-stage investment evolve in the last few years?*

**Bridget:** Well, I've been an angel investor now for over 20 years and in those early years the NZ ecosystem was quite underdeveloped. There were no incubators, there was no NZ Venture Investment Fund, no angel networks and very few angel investors. In the early days, many of our politicians and entrepreneurs were interested in what people were doing in Israel, Singapore and the US, and there was definitely an appetite to start creating those support mechanisms in New Zealand. From there, the early phases of the ecosystem were established and more and more people got involved.

Looking back over that period, it's been really gratifying to see a variety of new support networks, a huge growth in companies seeking angel financing and a multitude of new angel investors emerge. The disadvantages of the sector have largely been eliminated, there's a few little things we might still need to do to help our companies with their global aspirations but there's much better access to ideas and capital, to visiting experts and support from overseas than we had at that time.

### *OK so early-stage investment has come a long way, where do you think it's going next?*

**Bridget:** I think we're going to see the sector continuing to grow in breadth and depth. Success really brings a lot of excitement and energy. We have success stories like PowerbyProxi; they're an obvious example of experienced entrepreneurs who are now making themselves available to other smaller companies and who are reinvesting themselves into new enterprises. So those second and third round investments from a serial entrepreneur are really important. Because it's still a young market here, we don't really have a lot of those yet, but the ones we do are a crucial part of the growth in sophistication of the market.

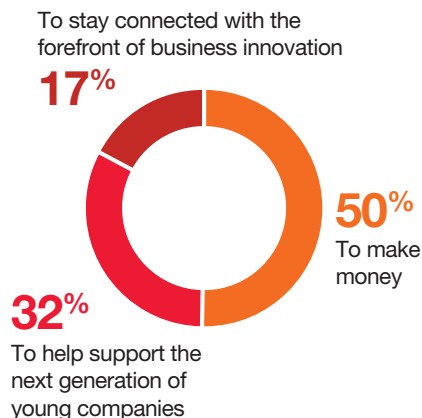
You can always learn from others and there's a lot of co-investment here, which brings more skills to a company. Within our angel network ArcAngels, which focuses on women-led startups, we're pretty quick to share companies that we think are a good investment. We've been delighted with the number of women entrepreneurs who are now coming through. That's partly been social change, but it's also been a deliberate strategy to make sure that when women do come forward, they can access capital that might not have been available four or five years ago. So you're seeing a lot more variety in businesses seeking financing which creates more momentum and excitement across the whole early stage community.

### *On a personal level, what do you think changes as you become a more experienced angel investor?*

**Bridget:** As you invest for longer, you get a lot more precise in what you want to see from the companies you're investing in – you could say you're more assertive and disciplined on what you need to see before you write a cheque.

The good thing is that, in New Zealand, we have investors at a range of different points in the market. You need that breadth of support, but you also need to bring discipline and a focus on results. So there's a subtle mix of different perspectives coming to bear that most companies will benefit from at various times in their growth.

### WHY DO PEOPLE BECOME ANGEL INVESTORS?



Source: New Zealand Angel Summit survey of angel investors



**Does New Zealand need more deep technical specialists in the angel investment community then, or more generalists?**

**Bridget:** I'd say the mix now is about right for our stage of development. I don't hear many startups complain they can't get the right expertise. Certainly in the early days investors who worked across industries and weren't specialists, like Stephen Tindall, were instrumental in getting the community started here.

Now that the sector's really flowering, targeting offshore specialists with those deep technical skills and networks is critical. Angel investors are really vital for making those connections, but institutional structures are also very helpful like Kiwi Landing Pad and the new Houston Biomedical Tech Hub. Our global network now needs further deepening, extending and internationalising.

**So what do you look for in a startup to invest in?**

**Bridget:** You're looking for passion but also realism and a commitment to stay the course. It's a combination of focus and level of commitment, but also resilience and persistence. Those characteristics are really important because the vast majority of entrepreneurs find it very hard – it's extremely difficult to build a business – so you're looking for those very special, very determined individuals.

I invest in my area of expertise – particularly consumer product businesses that are looking to move into the US. For startups, strategies for offshore expansion really depends on the industry and product they're offering. For many consumer brands, it's hard to go past the huge opportunities that the US offers. Allbirds is a great case in point.



“For many consumer brands, it's hard to go past the huge opportunities that the US offers.”

**You mentioned the importance of collaboration, how well is that working here in New Zealand?**

**Bridget:** I think the ecosystem works very collaboratively – that's one of the strengths we have here in New Zealand. You don't hear many stories of people holding on to an investment and not letting other people in. It's a positive aspect of our culture and it's something that's been very helpful for early stage companies and I hope it will continue.

We're building a really good group of excited, energised and positive entrepreneurs at the moment. It's been helpful that we have investors who've been active for many years now. That's been key in building the community and providing meaningful support for our young entrepreneurs and access to overseas investors and angel organisations. We still have plenty of challenges, but right now, there's a very energised and positive feeling in my experience.

**THE ECOSYSTEM WORKS VERY COLLABORATIVELY – THAT'S ONE OF THE STRENGTHS WE HAVE HERE IN NEW ZEALAND**

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