

# Startup

INVESTMENT NEW ZEALAND

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October 2018



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# Scaling New Zealand to the world

**Anand Reddy**  
Partner, PwC

*Welcome to the October 2018 edition of  
Startup Investment magazine*

In this edition, we shine a spotlight on Kiwi businesses that have earned a place on the world stage. To be successful, Kiwi startups have always had to think and act global from the outset but there's now a number of factors helping these startups succeed in offshore markets, and often much earlier in their journey. We're seeing a developing ecosystem of support including government agencies, networks and people with experience at scaling global businesses, as well as investors who have the confidence to support these innovative companies.

The data is supporting this investor confidence. Five times the number of startup organisations successfully raised over \$1 million from local investors in the first half of 2018 verse the same period last year, according to the latest Young Company Finance Index. This year almost half of deals are co invested by two or more Angel clubs and funds. Why is the formula to achieve global success so critical? It means little old New Zealand can produce valuable companies winning on the global stage, which attracts investors and ultimately builds prosperity for us as a country.

We hope you enjoy this edition of Startup Investment, and I look forward to catching up with many of you at the Angel Summit in Marlborough in November.

**KIWI STARTUPS  
HAVE ALWAYS HAD  
TO THINK AND ACT  
GLOBAL**



# How is New Zealand's startup ecosystem tracking for 2018?

Market insights from John O'Hara



John O'Hara  
Chair, Angel Association NZ

'It's great to see the startup ecosystem in good health, as shown by continuing solid investment activity and recent exits from angel-funded startups including Flick.

We're seeing increasing valuations and amounts raised, and in many cases, startups are now appearing to be fully valued. While this is positive, it comes with some challenges.

New Zealand startups have a competitive advantage when it comes to disrupting markets defended by larger established companies. They are agile, lean and hungry. They can iterate strategies and pivot quickly because they are the speedboats of the new economy with portable missiles attacking ponderous battleships. However, being too well funded can lead to startups losing this flexible edge.

The key to securing early stage funding is still the ability to demonstrate potential for growth and securing a lead investor to drive funding momentum. A startup's first raise is very much valued on potential, whereas the second is primarily valued on performance.

To continue providing funding, investors need to see strong growth and an uplift in valuation from the initial round. If the initial round is highly valued, it places pressure on the team to deliver increases whilst the startup is still experimenting. Initial valuations and the amounts raised both need to be carefully considered to avoid challenging situations for startups several years down the track.

## FOR THE FIRST HALF OF THIS YEAR NZVIF DATA SHOWS...

2017

**\$18.3<sub>m</sub> 36**

**\$510<sub>k</sub> \$400<sub>k</sub>**

**\$30.8<sub>m</sub> 46**

**\$844<sub>k</sub> \$529<sub>k</sub>**

2018

CAPITAL  
RAISED

COMPANIES  
FUNDED

AVERAGE  
RAISE

MEDIAN  
RAISE

\*BASED ON AVAILABLE DATA. TO INCLUDE YOUR DATA FOR THE NEXT EDITION, PLEASE GET IN TOUCH WITH US AT [ANGELASSOCIATION.CO.NZ](http://ANGELASSOCIATION.CO.NZ)

# Taking Kiwi investment to the next level

## An interview with Lance Wiggs



Lance Wiggs  
Director, Punakaiki Fund

Lance Wiggs has been in the “business of helping companies” his entire career. His investment venture, Punakaiki Fund (which makes long-term investments into high-growth, revenue-generating New Zealand companies) holds \$40.6 million in assets and has almost 700 investors, many of whom are Angel Association members. We got together with Lance to review New Zealand’s current investment landscape and get his tips and tricks for making wise investment choices.

### ***Lance, what are your views on access to growth capital in New Zealand?***

**Lance:** New Zealand is small, and our investment ecosystem reflects our size. The angel community does what it can and is surprisingly large for the size of our country. But aside from a few large lone wolves, the angel community is only able to fund to a certain extent - usually under \$500,000 per round. Crowdfunding platforms have managed a handful of \$2 million rounds (including one for Punakaiki Fund in 2015) but have not been able to keep things moving up the food chain.

Ideally, companies can get to minimum economic scale with small amounts of funding and can fuel their own growth after that. We see this happen a lot in New Zealand, as the dynamic of limited funding and a tiny local market have created a number of companies that are frugal, growing steadily and carving out a global niche, but we fail at the next step – providing the funding to fuel global domination. At \$1 or \$2 million Annual Rate of Return (ARR), software as service companies, for example, should have the option of raising \$5 to \$10 million, and at \$5 to \$10 million ARR they should be able to raise at least \$10 to \$20 million.

We’re missing several local funds that can actively invest \$5 to \$20 million several times each year, which could be served by a well-functioning stock market, but the associated ecosystem has proven to be unmotivated to bring new companies to public listing.

### ***Are there any skills gaps in terms of understanding the role and execution of capital strategy in New Zealand startups?***

**Lance:** We just don’t have enough large funds with experienced investors, so companies often need to self-fund and grow at a slower rate. Kiwi founders are also notorious for being ‘heads down’ working away on the business, so sometimes a great company can’t get money as it can’t charismatically sell itself and its investment story.

### ***What’s your approach to building your own portfolio and generating the returns you desire?***

**Lance:** We have three sorts of investments – tiny placements for very early companies, sizeable placements for high growth companies from \$500,000 to over \$2 million in revenue, and mid-sized placements for slower growth companies over \$5 or \$10 million in revenue.

The intent is to provide relative balance across sectors, business models and stages, which gives resilience when markets turn or companies fail, but we’re unafraid of doubling down where we see quality results.

**UNDERSTANDING  
YOUR OWN  
STRENGTHS AND  
WEAKNESSES  
WHEN IT COMES  
TO ASSESSING  
OPPORTUNITIES IS  
IMPORTANT**





### ***So, what's your advice for making wise investment decisions?***

**Lance:** As an investor, you should diversify your assets across countries, sectors and so on, but only invest if you believe you can make returns well in excess of what you would make in a diversified portfolio.

You should also invest an amount that's relative to your personal financial position and take advantage of higher risk bets when you're younger (because you've still got many years in the workforce if things go wrong!).

Understanding your own strengths and weaknesses when it comes to assessing opportunities is important, as is understanding why you're investing. If you're investing to help a friend or family member, treat it as an investment rather than a grant.

If you're investing to help New Zealand, make sure you're incentivising the right people to do the right thing. And if you're investing to make money, understand that it takes a lot of homework to get it right.

The other element is knowing your role. If you're the biggest investor, for example, you need to take the lead with pricing and negotiations of that round as well as due diligence.

If you're the small investor, you don't have as much control and you may be more likely to lose money because you're further away from the deal.

### ***Are there sectors in New Zealand where you see better return prospects?***

**Lance:** We seem to be very good at growing business-to-business software as service companies with very little funding, which is a great strength. We also have some very interesting tech, agritech and hardware companies, as well as abundant natural resources. We may be small, but we have a lot going for us.

### ***What sort of data do we need to get a better view of startup investment?***

**Lance:** We're significantly under-reporting the amount of investment going on in New Zealand. We publish our information to some degree, but there needs to be a third party in the middle such as PwC that we can trust with this data. We also need to capture data from private investors - there's a bunch out there making investments no one knows about.

The great thing about New Zealand is that we have the Companies Office, so we should be tracking our local companies based on available data and collectively adding new companies to the list. Ideally, this list would be cloud-powered so people can fill in their own information.

### ***What do we need to do to turn angel investment into an asset class?***

**Lance:** By definition it's already an asset class - private investing in early stage companies is one of the smallest asset classes you can think of on a global scale. For most people, investing is gambling, but for a few professional angel investors who've worked hard over a number of years to make money out of this field (and who probably don't call themselves angels), investing is an asset class.

### ***How do you see the investment landscape changing over the next 10 years?***

**Lance:** I think we'll see a lot more companies that are up to \$30 million in revenue, but it's hard to predict - we could have a global market crash or things could keep going 'boom', which of course makes funding easier.

I hope investors who've done well will keep raising new funds and reinvesting into the next wave, and I'd like to see several funds emerge that are able to write increasingly large cheques of the \$5 to \$20 million variety, because that's our gap.

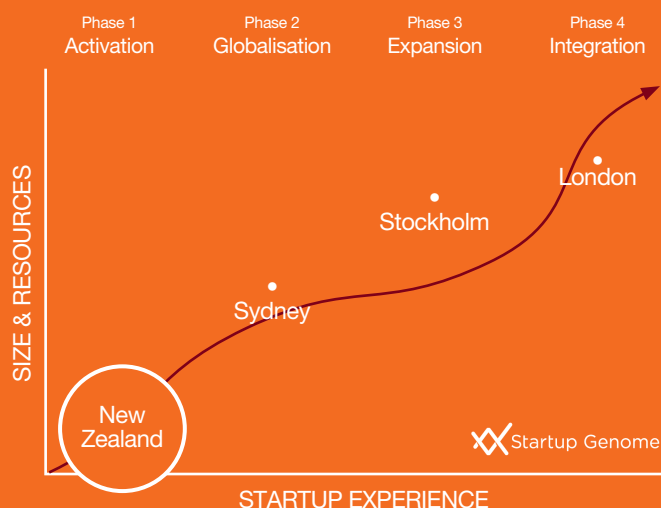
# Global Startup Genome report 2018: NZ insights



Working with public and private organisations in more than 30 countries, Startup Genome has built the world's largest primary research on startups, with over 10,000 founders participating each year. See the 2018 insights for New Zealand.

## How does New Zealand's startup ecosystem compare to global peers?

New Zealand is in the Activation phase (Startup Genome's Ecosystem Lifecycle Model)



## So what are New Zealand's strengths?

**NEW ZEALAND IS ABOVE ITS PEERS WITH REFERENCE TO THE AMOUNT OF EARLY STAGE START-UP FUNDING**

New Zealand has much higher Global Market Reach compared to its peers.

20%

SYDNEY

24%

MELBOURNE

32%

NEW ZEALAND

## And what should New Zealand be focussing on for the future?

	SYDNEY	MELBOURNE	NEW ZEALAND
MORE GLOBAL CONNECTIONS WILL HELP NEW ZEALAND EXPAND EVEN FURTHER BEYOND ITS BORDERS (AVERAGE NUMBER)	10.4	8.6	4.8
NEW ZEALAND'S LOCAL STARTUP COMMUNITY MEMBERS COULD HELP EACH OTHER MORE (SENSE OF COMMUNITY INDEX)	7.5	4.0	3.2
THERE'S ALSO OPPORTUNITY FOR FOUNDERS FROM NEW ZEALAND TO BE EVEN MORE AMBITIOUS	31%	12%	10%

VISIT [STARTUPGENOME.COM](http://STARTUPGENOME.COM) TO SEE THE FULL 2018 REPORT.

 Startup Genome

# From small startup to world domination

## An interview with Will Barker



Will Barker  
CEO and Founder, Mint Innovation

**INVESTORS AND ADVISORS PROVIDE BUSINESS SKILLS AND GOVERNANCE EXPERTISE, AND THE STARTUP COMMUNITY AND ECOSYSTEM HAS ALSO HELPED US BY SHARING EXPERIENCE AND KNOWLEDGE**

Will Barker is the CEO and Founder of Mint Innovation, a Kiwi startup changing the face of technology recycling with its innovative processes that extract value from metal waste while reducing environmental harm.

Every year, thousands of tonnes of electronic waste (including circuit boards which contain gold and copper) end up in landfill because, until now, it's been too expensive to recover the metals. This is all about to change thanks to Mint Innovation's metal extraction lab, which uses metal-hungry microbes to collect precious metals and recycle old technology.

Mint Innovation's goal is to recycle the 3,000 tonnes of old circuit boards New Zealanders throw away each year. From this, they'll create 600 tonnes of copper (12 percent of what New Zealand imports) and 600kg of gold. To do this, the Auckland-based company is building an automated New Zealand plant to process larger volumes of waste quickly, safely and efficiently.

Will is the driving force behind the company's vision to make better use of finite resources by reprocessing old technology. We sat down with Will to learn more about Mint Innovation's journey and to ask his advice to other startups looking to scale up in 2019.

### ***Tell us more about Mint Innovation's vision.***

Our vision is to have multiple plants overseas – city scale plants, with the ability to recycle business and retail technology equipment. The appetite for recycling is increasing around the world and many countries are looking for solutions they can build locally, so there's no real end point in our vision.

### ***What tools or support does Mint Innovation use to scale up?***

Because investment is key for growth, early stage companies need to use local angel investors to help them scale. Significant capital is key for companies going from laboratory scale to pilot, and then pilot to pre-commercial.

We haven't been able to rely on any outside support on the technology side of our business growth, but early stage funds and support is key for how we manage and grow the business.

Investors and advisors provide business skills and governance expertise, and the startup community and ecosystem has also helped us by sharing experience and knowledge.

### ***What advice would you give to other organisations looking to grow?***

Building global networks (particularly US-based) can be challenging. In New Zealand, we're a small ecosystem and we're willing to help each other, which assists in overcoming 'the tyranny of distance'.

To build networks in markets as large as the US, Kiwi startups need to rely on the angel community, organisations with a global presence like PwC and other influencers.

### ***What support do New Zealand startups need to access markets like the US?***

To achieve global scaling in a market like the US, Kiwi startups need a network that can introduce them to potential clients, and networks that can help them access capital.

In New Zealand, investment up to \$2 million is accessible, but to scale a technology-based solution they need to move offshore for investment in the \$10 - 100 million category. An ecosystem that can provide warm introductions to the right network is also very important as the business grows.

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