

# Startup

INVESTMENT NEW ZEALAND

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April 2019



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# Looking back and moving forward

Anand Reddy  
Partner, PwC

Welcome to the April 2019 edition of Startup Investment magazine.

In this edition, we take a look back and reflect on how far the startup community in New Zealand has come over the last 10 years, and how important angel investment is for getting these businesses started. Those who have been on the journey know how exciting it's been and how much potential there is for the future - it's a great time to be involved.

By taking a look at the data, we can see just how vibrant the startup community has become.

The latest information from the Young Company Finance Index shows investment has steadily increased from over \$30 million in 2008 to over \$100 million in 2018. The breadth of sectors companies operate in has expanded significantly, from eight to 12, with the addition of education and household/personal products to name a couple.

The regions where capital is invested is also changing. Nelson, New Plymouth and Cambridge, amongst others, are now home to dynamic startup communities.

When it comes to funding stages, there is more startup investment than 10 years ago (up from \$19 million to \$55 million) and at the early expansion stage (up from \$5 million to \$21 million).

This data is consistent with the TIN100 reports showing New Zealand tech sector revenue growing from \$6.3 billion in 2008 to \$11.1 billion in 2018, with many initially angel-backed companies contributing to this growth.

These findings reveal an ecosystem in great health and give us plenty of reasons to be excited for the next decade.

We hope you enjoy this edition of Startup Investment. I look forward to sharing more insights with you in the next edition.



# We are one, they are us.

Market insights from John O'Hara



John O'Hara  
Chair,  
Angel Association of New Zealand

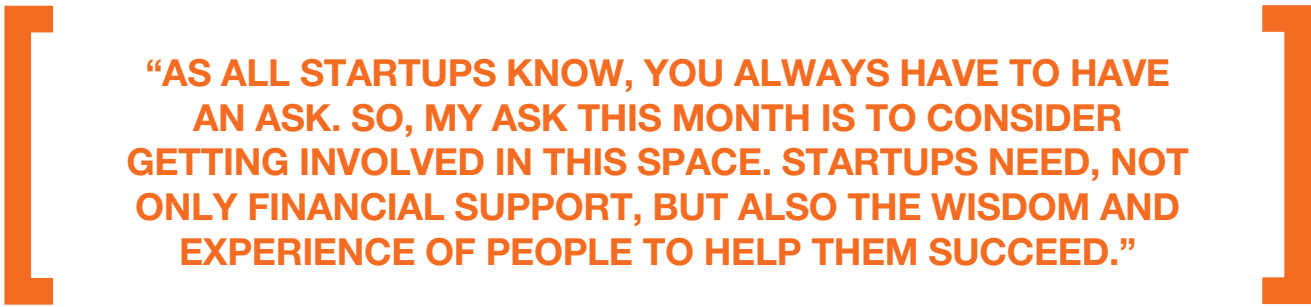
Who would ever have imagined the events of 15 March? It's not only New Zealand's darkest day but also the day we lost our innocence. In the wake of this previously unimaginable tragedy, we've seen a tremendous outpouring of support, flowers and fundraising. This has made me, like many of us, proud to be a Kiwi.

Looking at our Kiwi startup community, we have had much to celebrate over the past 10 years of early stage investing. It is now a legitimate asset class attracting the attention of more institutional investors. We are starting to see green shoots for larger rounds of capital with increasing syndication as well as more, and larger, early stage funds. I do not believe it will be long before we can support successful businesses with New Zealand led \$10 million series A rounds.

As all startups know, you always have to have an ask. So, my ask this month is to consider getting involved in this space. Startups need, not only financial support, but also the wisdom and experience of people to help them succeed.

Last month I wrote about CEOs having coaches and the idea had a lot of positive support. Whether as a mentor, coach, board member or advisor, if you are interested and have something to offer, startups need your help. It's ultimately hugely satisfying to play a part in helping people succeed.

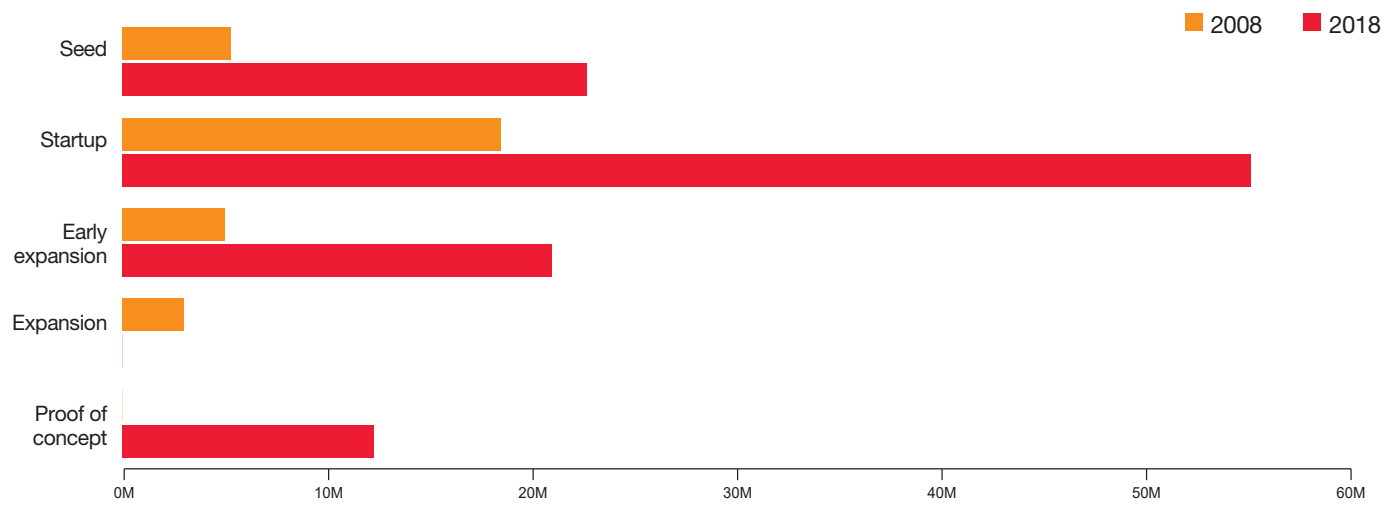
If you would like to learn more, please contact the Angel Association or your local angel club. Come along, see what happens and if you like what you see, offer to help. We'd love to see you and I'm sure you will find it hugely rewarding.



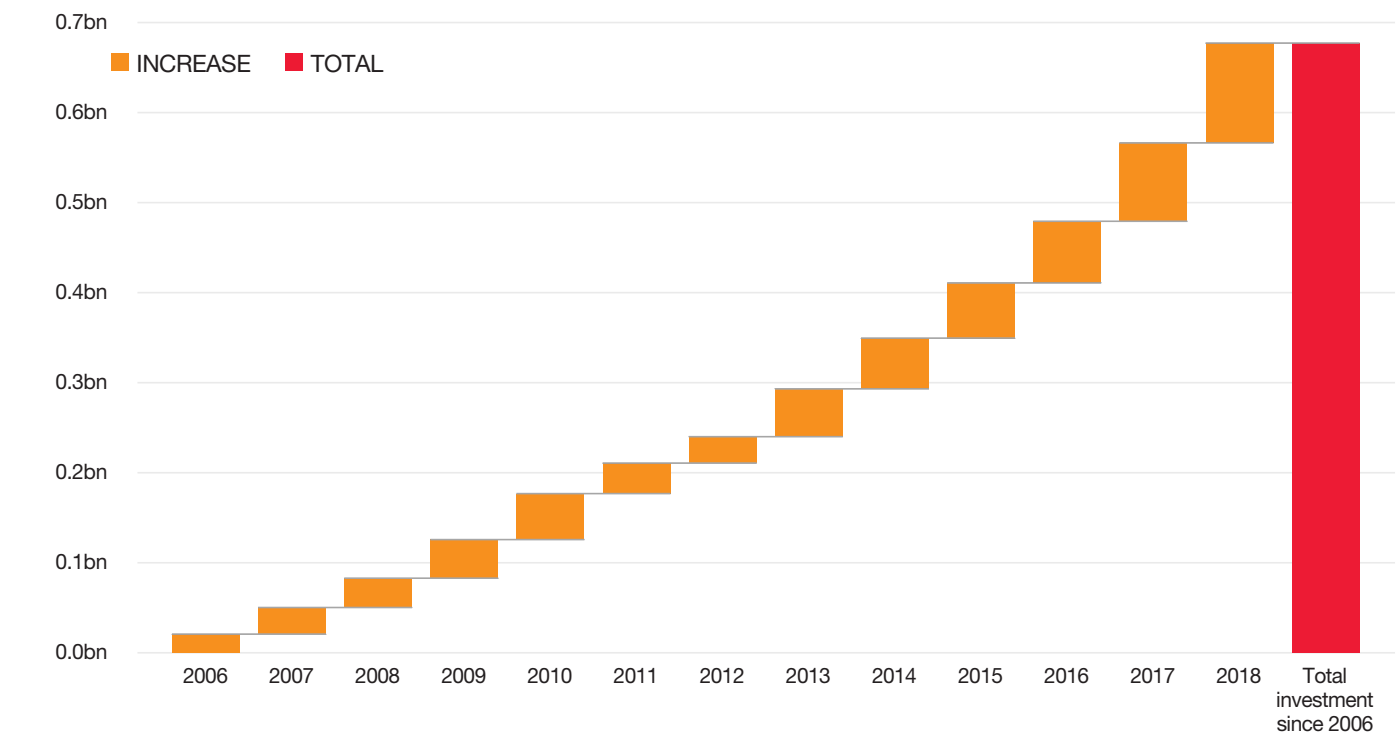
# 10 years of startup investment in New Zealand

The startup world has changed significantly over the last 10 years. The latest Young Company Finance Index data reveals where we've been and where we're going. Take a look at our insights.

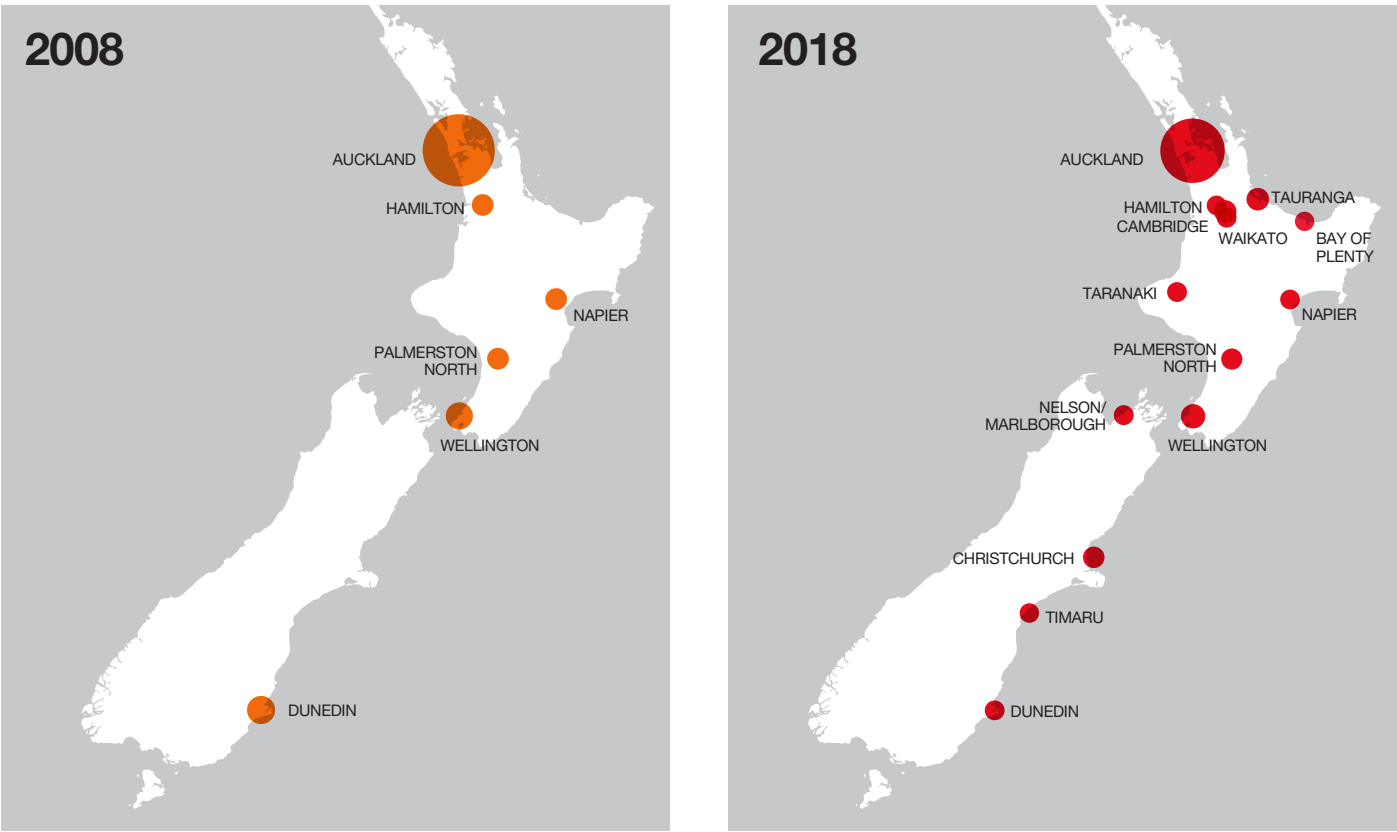
## At what stage are investors investing?



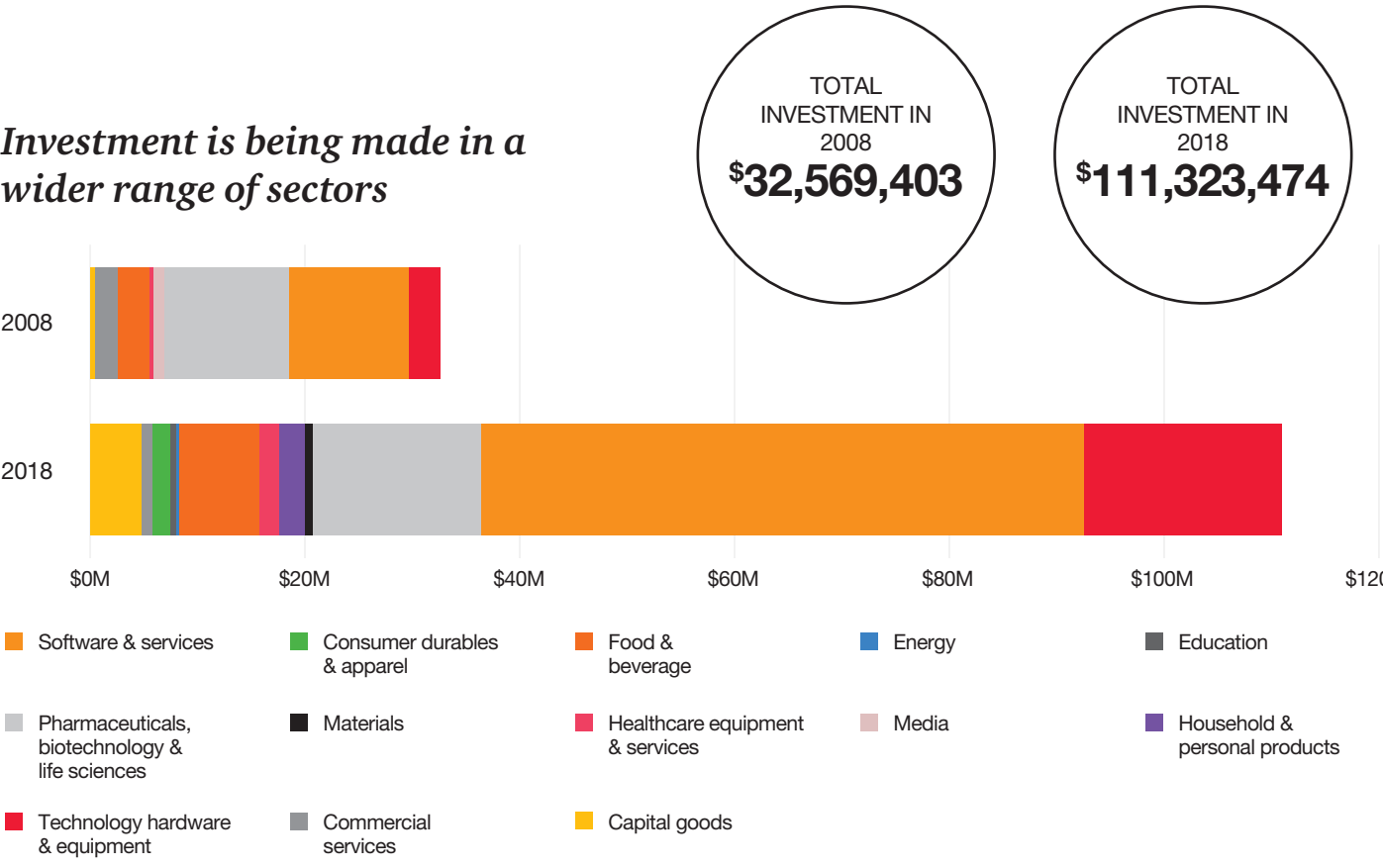
## Cumulative investment since 2006



## A growing number of regions are seeing investment



## Investment is being made in a wider range of sectors





# Reflections on a decade of science startups

An interview with Cather Simpson



Professor Cather Simpson  
Chief Science Officer,  
Engender Technologies

One of the country's leading scientists, Cather Simpson is Chief Science Officer of Engender Technologies - a company pioneering tech that separates bull sperm by gender. After joining the University of Auckland faculty in 2007, she set up her own lab, the Photon Factory, where she studies ultra-fast pulsed lasers and their effects on materials. Over the last eight years, Cather's work has been spun out into two different companies, with another three in the pipeline.

We sat down with Cather to talk about how the entrepreneurial landscape has evolved over the last decade, and the challenges and opportunities it's faced.

**From when your first company began, through to today, how do you think New Zealand's business environment has changed?**

I've found the sheer number of entrepreneurs has grown dramatically, especially in the science industry. I used to feel as though I was the only entrepreneur in the room - but that's no longer true. Today, there are far more robust networks, and far more people to bounce ideas with.

The best part is that a lot of the growth is coming from young people. There are all sorts of organisations in place to help foster that entrepreneurial spirit - like Chiasma, a national student organisation encouraging links between science and business. And KiwiNet, a network that helps turn scientific research into marketable products.

Being an entrepreneur means believing that, even though you're one small person out of the seven billion on the planet, you can make a difference. That mindset takes confidence, and it's great to see the younger generation embracing it.

**What do you think has been the main driver behind the growth in the number of Kiwi entrepreneurs?**

I think the Internet has made the world much flatter. Today, I can go online and see a pitch competition that happened in California two years ago. I can see what the world is doing and how I could apply that to what I'm doing here in New Zealand.

Studies have shown that people whose parents are entrepreneurs are more likely to become entrepreneurs themselves. It's because when you see people go through it - see them fail, solve problems, find solutions - it gives you the confidence to do it yourself. And in a way, the Internet is helping show people everywhere just what can be achieved.

**What do you know now, that you wish you knew when you were just starting out?**

I wish I'd had a much better understanding of the business side of things, right from the start. At Engender Technologies, I'm the Chief Science Officer, not the CEO - because really, I'm a scientist first, and an entrepreneur second. That meant in the beginning, I was perfectly happy to let the business side of things be handled by other people, when really, I should've been more aware of what was involved. If I had it to do over again, I would've read a lot more books on the subject, a lot earlier on.

That idea of being a scientist first and a businessperson second is an interesting one. Do you feel like these days, "slashies" - like academics/entrepreneurs, or designers/entrepreneurs - are popping up more often?

Yes, particularly in the university or scientific landscape. At universities, we're suddenly seeing raises and promotions tied to entrepreneurial activity.

Patents are becoming a bigger part of the landscape, too. It's opening up the idea of entrepreneurship to people who otherwise might never have given it a second thought.

Ten years ago, if you'd said, "So, do you think we should spin out a company to sell this technology?" you would've been met with stony silence. Today, people would say, "Oh, yeah, we should probably start thinking about that."

**Have you found raising capital has changed over the last 10 or so years?**

As the scientist in the room, I've never been heavily involved in organising or developing our fundraising strategy. I'm more the dog at the dog and pony show, trotted out to talk science for a few minutes, before being tucked back away - so I'm by no means the expert!

But I can say that with each new venture, it seems to be getting easier. There appears to be a lot more money in the system, and more avenues to obtain funding.

The profile of Kiwi startups is also really high - with ventures like Rocket Lab, Soul Machines, and PowerbyProxi.

There's nothing better than being able to say to a potential investor, "Oh, you know that wireless charging stuff Apple does? That was developed across the street from us." It definitely makes the path to overseas investment a lot smoother.

**There've been some very meaningful societal shifts for women, in just the last year or two - let alone the last decade. Do you feel like that's been reflected in the business landscape?**

I do. There are a number of very strong female entrepreneurs who've been around for a while now, and they get great recognition. In saying that, it's still very much a man's world. Especially in the tech industry, and on the investor side.

But I do think there's been a change. I've noticed a lot more eye contact, and a lot more handshakes. It feels like there's more respect for women in business today than there was 10 years ago. Hopefully in another 10 years, that will have increased tenfold.

**Speaking of the next 10 years, where would you like to see the business landscape go?**

For a lot of Kiwi businesses, the goal is to be sold overseas - which can be great. But when a company leaves New Zealand, it often means taking the money, the people, and the potential for growth along with it.

In the future, I'd like to see the balance shift a little bit, so that some of these big ideas stay in New Zealand. It'd mean more high-tech jobs for our graduates, a larger and more well-informed tax base, and a more thriving entrepreneurial ecosystem.

**If you could give 10-years-ago Cather one piece of advice, what would it be?**

I'd actually go a little further and tell 20-years-ago me; just give it a go. Back then, if you'd told me that I'd have two spin-off companies, and another three in the works, I'd have thought you were insane. But playing with ideas, working with exciting people, and solving new challenges - it's all been incredibly rewarding.

So, I'd tell my 20-year-old self - you need to start thinking about entrepreneurship today. Because it'll be invaluable.

**"BEING AN ENTREPRENEUR MEANS BELIEVING THAT, EVEN THOUGH YOU'RE ONE SMALL PERSON OUT OF THE SEVEN BILLION ON THE PLANET, YOU CAN MAKE A DIFFERENCE."**





# Looking back on 10 years of Kiwi business

An interview with Mike Carden



Mike Carden  
Director, Joyous and AskNicely

Mike is one of the New Zealand tech world’s biggest names. Back in 2006, he founded Sonar6 - a SaaS human resources tool that went on to win a host of awards, before being acquired by a listed U.S. company six years later.

These days, Mike’s keeping busy advising on the boards of a slew of successful global tech companies. He’s also jumped head-first back into the startup world, with the launch of Joyous; an app designed to break HR tasks down into manageable, bite-sized areas of improvement.

We took a moment to chat to Mike about how he thinks New Zealand’s entrepreneurial landscape has evolved over the last 10 years, and where it could be heading next.

**As someone who’s been there since the early days of Kiwi startups, how do you think their journey has evolved over the last decade?**

I think the single biggest thing that’s changed is that, 10 years ago, no one really knew how to build a tech business. Looking at SaaS specifically, which is the category I’m native to, there was almost no one in New Zealand doing it back then. There was no playbook yet; no set of rules.

Fast forward to today, and the way you build these kinds of businesses - the metrics you use, the way you structure your team - it’s all really well established. There are examples to follow, and plenty of advice from people who’ve already been on the journey.

Now that the playbook’s been written, it feels like there’s an expectation to innovate and be creative. To go beyond the executional and data-centric side of building a business, and into totally new territory.

Ten years ago, it felt like it was enough just to nail the basics. Today, it’s the wild-eyed ideas that make the difference between doing something mediocre, and doing something sensational.

**With these sorts of ‘wild-eyed ideas’ becoming more critical to success, do you think the classic innovative Kiwi mindset gives us an edge?**

I’ve found that some of our country’s biggest drawbacks are actually its biggest strengths. There’s that expression, “constraints are the midwife of good design.” And business-wise, New Zealand has constraints in spades - like available capital, talent pool, and market size.



“TODAY, IT’S THE WILD-EYED IDEAS THAT MAKE THE DIFFERENCE BETWEEN DOING SOMETHING MEDIOCRE, AND DOING SOMETHING SENSATIONAL.”

Those constraints force us to do things differently. For example, with Sonar6, the fact that we were 6,000 miles away from our nearest customer initially looked like a handicap. But in the end, it became our biggest asset. We couldn’t just drive over to fix something, we had to design the business around the constraint, and it led to a vastly better product.

It’s a bit of a trope these days, but interesting things often do come from unexpected places. The New Zealand business landscape of today definitely feels like one of those places.

**How about the importance of global connectivity. Do you think it’s grown in the last 10 years?**

Here in New Zealand, we’re still geographically removed, but the big blocks that prevented people communicating 10 years ago have disappeared. These days, most tech companies don’t think of themselves as exporters; they see themselves as global businesses. The walls have come down and we’re living in a shared information economy.

All that has led to this feeling that the idea of global connectivity has gone beyond being ‘important,’ and has just become our new reality.

**Does it feel like the way we raise capital has changed?**

When we were raising capital for Sonar6 more than 10 years ago, we were very dependent on a few high net-worth individuals. That’s changed dramatically over the last few years.

Angel Groups have become more formalised and are starting to raise their own funds. It’s led to a real burgeoning entrepreneurial environment in Oceania, and that’s great to see.

These days, we’re also seeing an increase in big investors willing to back companies from all over the world. For a player like New Zealand, that’s huge. The time when people would only invest in companies that were an hour’s drive down the road has well and truly gone.

**How about your own feelings towards starting a business. Have those changed in the last 10 years?**

Do you know what? I don’t think they have. I often think to myself, would I want to go through all the hardships of building a business again? But to me, it’s not really a hardship at all. Getting to work with immensely talented people, and build something amazing - it’s a joy. If I could go back and do it all again, I don’t think I’d change a thing.

**Shifting from the past towards the future, where do you see the next 10 years of Kiwi startups heading?**

Right now, there’s a really interesting playing field. A mixture of entrepreneurs on their second or third startup, and then a few wide-eyed, confident people building their very first businesses. It’s an exciting combination, and I hope it will lead to a very interesting next decade.

I also think we’re moving towards a much more diverse tech environment. We’re seeing more Māori and Pasifika entrepreneurs, and a better balance between women and men in founding teams. The industry’s starting to realise that if your business doesn’t make the most of its nation’s diversity, it won’t reach its full potential. I’d love to see that mindset continue well into the future.

**Let’s say you’re sitting across from 10-years-ago-Mike. If you could give him one piece of advice, what would it be?**

If you have to choose between being memorable and being professional, choose memorable. Too many startups spend all their energy trying to pretend they’re big and established, which is just boring. But a group of humans disrupting, creating and inventing something new? That’s what gets the world really going.

# The development of an asset class

## Insights from Suse Reynolds



Suse Reynolds  
Executive Director,  
Angel Association of New Zealand

A rewarding new investment opportunity has emerged for New Zealanders in the last 10 -15 years. But, to be involved, you need a finely-honed appetite for risk as well as a desire to contribute to a generation of future wealth creators.

It is only relatively recently those involved in angel investment have felt bold enough to start referring to equity investment in high-growth, startup tech ventures as an asset class.

Investing in these companies does not fit easily into the conventional view. Investopedia defines an “asset class” as a group of securities exhibiting similar characteristics, behaving similarly in the marketplace and subject to the same laws. But, there is no cookie cutter for high growth tech startups.

There are some similarities though, grounded in the aspiration of startup founders to disrupt old ways of doing things and create radically new products and markets. Investors need a high degree of faith there is actually a huge new market opportunity to be tapped. And, all high growth startups need capital to grow quickly or risk missing the opportunity. The depth of the relationships and role people personally play in success are also common features.

Those who began investing in this type of company a decade or more ago were doing it with an irrepressible faith that it was worth doing for the financial returns. They also believed if these ventures succeed, they will create a better future for New Zealanders.

Ten years ago, deal flow and capital for these ventures was sparse. The NZ Venture Investment Fund’s early records show just 29 deals were done in 2006, two thirds were new deals, with equal amounts of the \$20 million invested going into new and follow on rounds. Last year, 115 deals were done and a third of those deals were new ventures and two thirds of the \$111 million invested was deployed into follow-on rounds. This is in keeping with our maturing market - those deals done in the early years require ongoing support.

Deal flow in New Zealand continues to rise with a raft of accelerators and incubators delivering dozens of startups every year. Co-working spaces are becoming increasingly common and publicly-funded researchers are being encouraged to invest the intellectual property being generated into startup companies.

Gratifyingly, we are now seeing increasing evidence of returns from investment in startups. This is on cue. It’s thought that it takes seven to 10 years for ventures to reach the point where trade sales and IPOs are viable options for the next stage of value creation in the growth of a new market. In the last year we have seen rewarding outcomes for investors from ventures such as Engender, SwipedOn, One6One, Publons and PowerbyProxi.

And, there is more in the pipeline with companies like Nyriad, AskNicely, Parrot Analytics, 8i, Rockit Apples, Kami, Lanzatech, Rocket Lab and Sunfed all getting great traction and raising meaningful growth capital at appreciating valuations.

The need for more support in the form of capital, connections and experience for ambitious kiwi tech startups shows no sign of abating. There will be plenty of opportunity to be part of the next ‘big thing’.

## What do the investors say?

“We started investing in 1998 when the term Angel Investor and Angel Group didn’t exist. It was hard graft, capital was hard to come by and opportunities were ideas on the back of a napkin. Fast forward 20 years and what a difference time and a focused bunch of dedicated individuals makes!”

- Phil McCaw, Movac Partner

“Over the past decade, we have seen a shift towards early stage and growth capital targeting ‘for purpose’ businesses. These companies are looking to solve social and environmental issues and generate financial returns. Businesses such as Ethique, Oi and Cogo (Conscious Consumer), as well the NZ Impact Enterprise Fund, are part of a global impact investing movement. ‘Profit with purpose’ is moving from being a niche idea to the way we do business.”

- Sharon Bryant, Movac Partner

“Here at FNZC - soon to be Jarden - we believe generating sustainable returns that meet our investors needs begins at the asset allocation level.

Determining someone’s risk appetite and investment time horizon is the first step in helping to build solutions that are unique to their needs. But investors need access to all aspects of a capital market.

Capital markets are broader than just listed equities and debt. To achieve each investors goals, they need to have access to the full range of asset classes appropriate to them.

One of the areas in New Zealand which has been encouraging to see develop has been the emerging asset class of growth companies.

Over the next few years we expect to see this sector to develop further and form into investment funds that become more widely available, including to KiwiSaver investors.

A vibrant capital market requires new ideas to form new companies, and we’re excited to have a leadership role in the markets, connecting people and capital.”

- James Lee, CEO, FNZC

“...THERE IS NO COOKIE CUTTER FOR HIGH GROWTH TECH STARTUPS.”

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