

# Startup Investment

| OCTOBER | 2019



THE FUTURE  
LOOKS BRIGHT



FLYING ACROSS THE TASMAN  
WITH BLACKBIRD VENTURES



WHAT IT TAKES TO SECURE OVERSEAS  
INVESTMENT WITH FUEL50



AIRTREE VENTURES  
CROSSES THE DITCH



# Growing New Zealand's Startups ↓



Welcome to the October 2019 edition of Startup Investment magazine.

In this edition, we put a spotlight on two drivers in the New Zealand startup ecosystem that are having a positive impact on growth – capital and Government support.

The latest Young Company Index data shows offshore funding in New Zealand startups has grown exponentially since 2006. In 2018, 23% of startups received offshore funding, with an average round size of \$4 million, compared to an average round size of \$573k for those without. While those in the software & services and technology hardware sectors have benefited most from this investment, their success puts New Zealand on the world stage as a great place to find investment opportunities in innovative startups.

Australian venture capital firms BlackBird Ventures and AirTree Ventures see New Zealand's emerging world class talent as a key point of difference for New Zealand when they're looking for investment opportunities. Tip Piumsomboon from BlackBird explains in this edition how the new wave of technology startups emerging from New Zealand, along with our world class talent, has been one of the driving forces behind their decision to open an office here.

Another positive trend emerging is the wide range of Government support provided to startups, from pre-seed through to Series A. This can have a significant impact on a startup's growth trajectory. During the first half of 2019, KiwiNet provided \$1.14 million of pre-seed grant funding to early stage startups. The Government's co-investment fund provides additional opportunities for more developed startups looking to obtain Series A funding to scale their businesses.

Data collected by New Zealand Trade & Enterprise (NZTE) and shared in this edition shows that startups working closely with NZTE contribute a 35% increase in the number of deals concluded, with a strong interest from markets in Australia, Asia and the US. Looking forward, the Government's \$300 million funding into venture capital, and changes to the R&D grants and tax incentive regimes should give the startup ecosystem a further boost.

These trends demonstrate just how exciting it is to be a part of the startup ecosystem in New Zealand right now.

We hope you enjoy this edition of Startup Investment.

ANAND REDDY  
PARTNER, PWC

# The future looks bright ↓

There has never been a better time in New Zealand to be a founder seeking funding or an investor looking to invest. This edition of Startup reveals that growth remains strong with well over \$100 million in new funding for early stage companies in 2019. I remember a time when the only access to capital was through bank debt often secured against the family home or other property – this is a huge sea change in just a generation.

There are plenty of positive trends giving the market a boost.

The Government's new \$300 million co-investment fund is likely to build local capability in seeking Series A funding driven by both local and offshore funds.

Australian VC investors Blackbird Ventures and AirTree Ventures (both interviewed in this edition) are active here now and more are likely to follow. On the local side, several angel groups have successfully raised funds including Auckland-based Icehouse Ventures and Tauranga's Enterprise Angels. Founders now have a greater choice of funders who can step up and write substantial cheques.

These trends are positive for early stage startup companies seeking seed investment.

“  
...the next few years will see new capability in the early stage market and a lot of choices for founders as well as access to a wider group of investors.”

“

There are plenty of positive trends giving the market a boost.

Traditionally, angel groups have been the most active at this stage. But, they have also had to do the heavy lifting in later stage investing over the past few years because of the lack of capital available to founders.

With later stage funding becoming more available, angel groups will have more funds to utilise with early stage companies. They will also have more capacity to provide additional value including skills, contacts and encouragement that help startup companies prosper in the early days.

Other positive developments include the green shoots emerging from larger investors seeking exposure to high growth companies. Simplicity's recent announcement that they are investing \$100 million over five years into funds managed by Icehouse Ventures is the first step in this direction and I am sure others will follow that lead.

So, the next few years will see new capability in the early stage market and a lot of choices for founders as well as access to a wider group of investors. Founders will need to ensure they develop a capital strategy aligning their long-term objectives and then choose the funders that will best meet their needs from seed to Series A. As one of our earliest and most successful company founders, Sir Angus Tait, the founder of Tait Electronics in Christchurch once said, “The best is yet to come”.

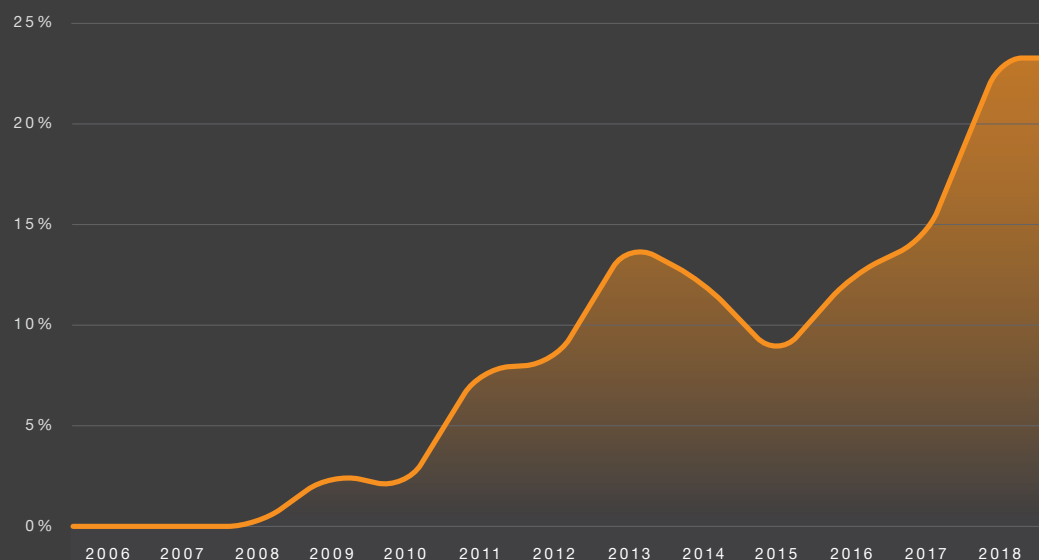


JOHN O'HARA  
CHAIR,  
ANGEL ASSOCIATION

# The state of offshore funding in New Zealand ↓

Offshore funding in New Zealand startups has grown exponentially since 2006. The latest Young Company Index data shows the changes and the level of investment. Check out our insights.

## GROWTH IN OFFSHORE FUNDING IN NEW ZEALAND STARTUPS FROM 2006 – 2018



During the first half of

# 2019

KiwiNet provided **\$1.14m** of pre-seed government grant funding to early stage startups.

Key sectors benefiting from this investment include:



ENERGY



PLANT  
PRODUCTION  
AND PLANT  
PRIMARY  
PRODUCTS



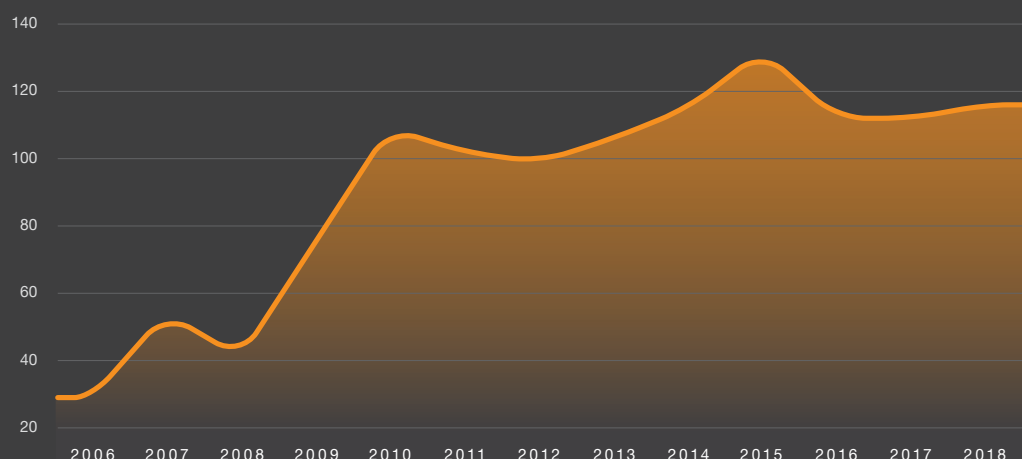
HEALTH



HORTICULTURAL  
PRODUCTION

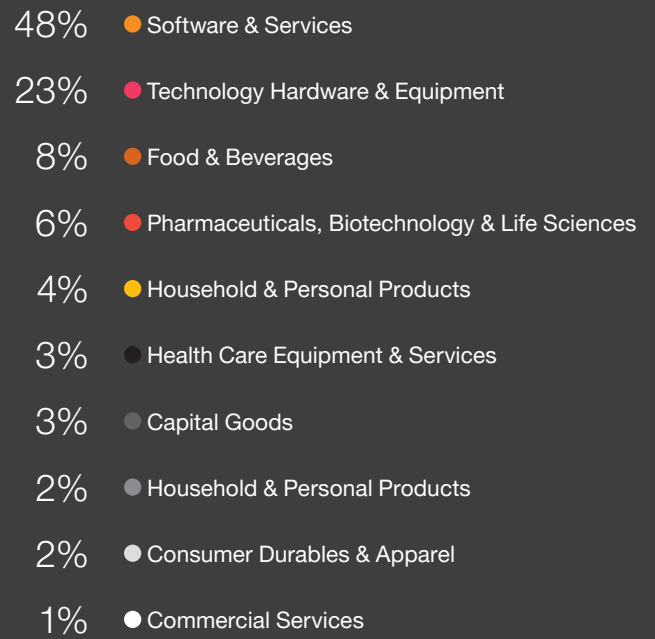
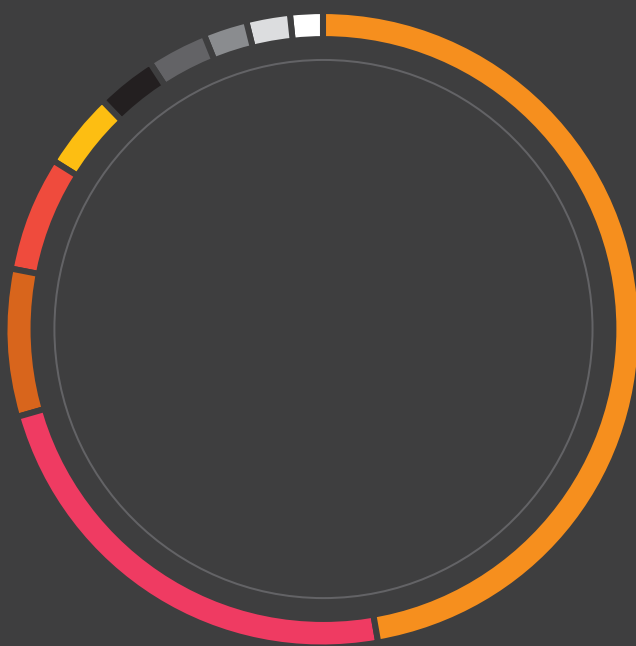


## NUMBER OF STARTUP ROUNDS FROM 2006 – 2018



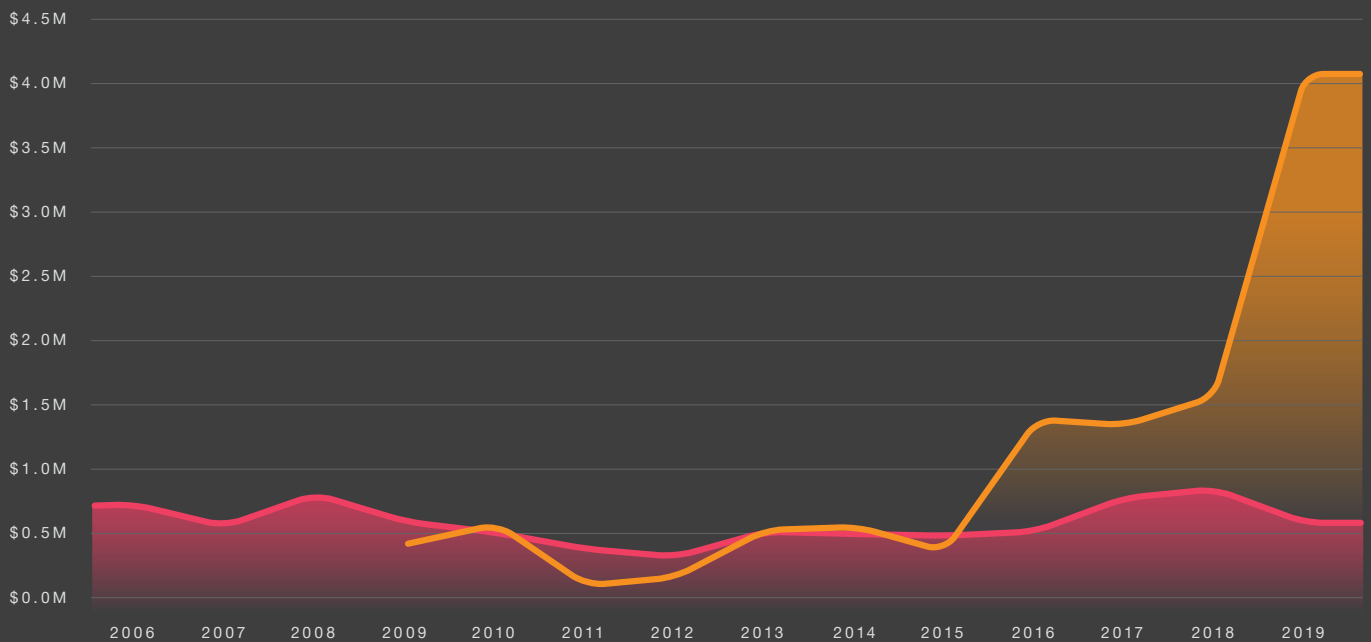


## SECTORS RECEIVING OFFSHORE FUNDING



## AVERAGE FUNDING AMOUNTS PER ROUND FROM 2006 - 2018

OFFSHORE VC  
● NO ● YES



Data excludes exits.

“

Ultimately, I think it is great that offshore investors are paying attention to New Zealand. It is very encouraging to see hardware and software companies dominating the sector pie chart. This tells me that New Zealand's specialism in enterprise and software-enabled hardware will remain a focus going forward. In relation to the average funding amount chart, it is great to see a sharp incline over the last 18 months in the amount raised, per round. This could be showing that New Zealand startups are generating increased enterprise value in their businesses and needing capital for expansion either within their vertical or into international markets.

**ROB VICKERY**PARTNER & CO-FOUNDER,  
HILLFARRANCE VENTURE CAPITAL

“

New Zealand Trade & Enterprise (NZTE) analysis shows strong interest in New Zealand startups from outfits in Australia, Asia and the US – with funding from Australia reaching 21% and 6% from both East Asia and North America. Our data reveals that growth companies are making a significant contribution to local economies with their teams supporting almost 1,000 new jobs and a 35% lift in the number of deals.

**DYLAN LAWRENCE**GM INVESTMENT,  
NEW ZEALAND TRADE & ENTERPRISE (NZTE)











“

I have a few thoughts on the data including that more attention from offshore funds means more companies are maturing enough to address large markets. It also signals that New Zealand can excel in the 3-4 sectors indicated in the graph. Government can work towards doubling and tripling down its infrastructure and R&D investment and ecosystem planning to help foster more growth in those sectors.

The relative flat line of funding from local investors could mean there is no more dry powder at later stages, or larger funds have lost deals at the later stages. My thinking is that there are too few institutionalised funds at the seed/Series A level and you have to rely on angel networks to fund the first few rounds of growth. Local later stage funds are missing out on the deals.

**JEFFREY PAINE**FOUNDING MANAGING PARTNER,  
GOLDEN GATE VENTURES



# Flying across the Tasman with Blackbird Ventures →

In August this year, Blackbird Ventures flew across the Tasman to establish itself in New Zealand. Launched seven years ago in Australia, Blackbird has quickly made a name for itself with its community-driven approach to venture capital. It invested in the first rounds of Canva, Zoox, Safety Culture, Culture Amp, Skedulo, Propeller and many other great companies. Now, it is looking to do something similar here.

We asked one half of the founder duo, Tip Piumsomboon to share her thoughts on setting up in New Zealand and the opportunities that lie ahead.

## As someone who's been involved with venture capital for a while, what do you look for in a good investment?

We're looking for globally innovative companies founded by Kiwis, who want to be the best in the world, not just the best in our region. We evaluate Kiwi startups against a global screen and we're drawn to ambitious founders attacking global markets from the outset, rather than starting in Australia and New Zealand first, then moving globally later. We love investing in a range of industries from software to frontier technologies.

In early stage startups, there's very little data or traction to base our investment decision on. We tend to place high emphasis on product and engineering-led teams with founders doing their life's work rather than those looking to make a quick exit. This is because we want to find a handful of incredible companies whose journey we can be a part of from the very beginning, from seed and Series A stages, and then continue to invest in for a very long time.



“New Zealand has always been a testing ground for new technology, but what's unique are all the different hubs of expertise located all over the country.”



“

**...we're seeing  
world class talent  
emerging...**

**So, what made you decide to  
invest in New Zealand?**

We're witnessing a new wave of technology startups emerging from New Zealand. This is fuelled by a fall in the cost of developing software and frontier businesses, enabling fast iteration and scaling of business models. We're also seeing a fall in the cost of sales and marketing through online distribution channels, allowing access to paying customers from day one. Most importantly, we're seeing world class talent emerging from technology companies such as Rocket Lab and Xero, who have provided training grounds for young engineers who are starting to split off and form startups of their own. These lighthouse companies have been critical in inspiring the next generation of Kiwi founders to raise their ambitions and show that it's possible to build a global company from our backyard.

**Tell us more about the opportunities  
you see in New Zealand.**

New Zealand has always been a testing ground for new technology, but what's unique are all the different hubs of expertise located all over the country. There is strong engineering talent coming out of Canterbury, medical and health sciences from Otago, visual effects and media tech from Wellington, just to name a few. The density of talent in these hubs make it a compelling case for us to have boots on the ground, forming relationships from the beginning with founders who may fly under the radar of most VCs.

**What lessons have you learnt in Australia  
that you will be applying to New Zealand?**

We have learnt that the most valuable support we can give founders is to connect them with other founders who are a few steps ahead of them. This creates a virtuous cycle of founders helping the next generation, leading to a stronger startup community. By bridging the Australian and New Zealand founder communities together, we have a higher chance of success.

**TIP PIUMSOMBOON, PRINCIPAL,  
BLACKBIRD VENTURES**

**LEFT TO RIGHT:  
BLACKBIRD VENTURES'  
SAMANTHA WONG AND  
TIP PIUMSOMBOON**

# What it takes to secure overseas investment ↓

The CEO of Fuel50, the fastest-growing employee experience platform in the world, knows what it takes to grow overseas, and fast. Anne Fulton and her team have been raising capital for growth since 2011, and recently secured another NZ\$21 million, led by Silicon Valley's PeakSpan Capital.

The AI-powered career mobility technology company helps employees gain a visible career path, enables leaders to engage and motivate their teams and delivers powerful talent insights to HR leaders. An award-winning game-changer, Fuel50 now has six offices, including Auckland and New York, where more than 50 'fuellies' transform employee career experiences in companies such as Mastercard, eBay and Pepsi. Anne Fulton talks us through her overseas investment journey, explains who to connect with before entering the US market, and how Fuel50 will be using its latest cash injection.

“

**There is a level of sophistication that US investors expect.**

**Anne, tell us, what is the most important consideration for New Zealand businesses looking to expand overseas?**

It's never just one thing, but in our case it was really valuable to have US and Australian clients before we set up in those locations. Having a referenceable story, in our case, CitiGroup and Westpac, was invaluable in getting offshore traction.

The second best thing we did was secure angel investment to support our establishment. Ice Angels led that for us with

Enterprise, Flying Kiwis, Arc Angels, NZ Venture Investment Fund and New Zealand Trade and Enterprise (NZTE) all being active supporters of our growth. Having this breadth of support was invaluable because we had a wide reaching community of growth experts we could tap into, and still do today. We are incredibly grateful for that. Our relationship with PwC, as our outsourced finance partner for a global finance function for an entrepreneurial venture, was also critical. Working with PwC has been a really good decision for us, as we scale globally. Their input has been crucial at so many inflection points along this journey.

**How did you develop partnerships with BonfireVC in LA and then PeakSpan Capital in San Francisco?**

I have to thank NZTE for introducing us to BonfireVC, who we met at a conference they sponsored us to attend. Coincidentally, our fantastic NZTE representative also road-showed our Board Chairman and one other board member, when they were on the Silicon Valley VC hunt with a previous venture. So the stars aligned, we kept in contact and it ended with a happy partnership. It was a similar story with PeakSpan, where we were introduced by a mutual industry contact.

We knew both VCs for about two years before we were successfully partnering with them. Trust and delivering on promise was really important, which of course is a team effort, so by the time we secured the funding, there were a lot of 'fuellies' to thank for their contribution to our success.

**How important is overseas capital in helping New Zealand businesses grow?**

I think overseas capital has a role to play in the growth trajectory, and becomes an endorsement of success and an invaluable asset to scaling. This was definitely the case with our VC partnerships – they've been a huge support as we have scaled and matured.





“  
Get great advisors  
around you.”

### What do US investors look for that differs from New Zealand investors?

There is a level of sophistication that US investors expect. There is a well-worn road to funding in the US and investors expect us to know how to play it. Coaching from our LA-based venture capital investors has been really helpful in our success. I think the other critical thing, that's in play anywhere in the world, is a well articulated story about growth. You need tangible revenues, sales pipelines, client stories and a carefully crafted growth plan that is both aspirational and defensible.

### What advice would you give anyone in New Zealand looking for overseas capital?

Get great advisors around you. The NZ Angel Association do great educational programmes for entrepreneurs and there are so many experienced people in that community you can tap into. Having the support of PwC and NZTE advisors has also been very helpful. Use these resources to help you prepare as best you can. NZTE has people who are dedicated to assisting across the globe and they are very willing to help.

### What will the new capital in Fuel50 help your business achieve?

Faster growth! Everything is about making the boat go faster. We are accelerating product and hiring a bigger team in New Zealand to assist with game-changing

talent analytics and AI to continue to stay ahead of the competition. We are also scaling our sales team globally, particularly as we grow in Europe and build out a channel strategy. Other teams are also being strengthened because we have added so many new clients in the last two quarters. It is like “the snake that swallowed the elephant” so we are hiring additional project managers globally, and New Zealand-based teams of career architects and IO psychologists. We're also onboarding consultants to continue to deliver an amazing experience to our clients, without any hiccups.

### How can Kiwi businesses best prepare for fast growth, once investment is achieved?

Get your hands on a copy of the book, *The Start-Up J Curve* by Howard Love!

We think of scaling across all the business dimensions, and relentlessly championing the business values as we scale. My personal business mantras are around 5 'A's. Build Aspiration, Alignment, Amplify the Positive and ensure our culture is focused on both Achievement and Appreciation.



ANNE FULTON  
CEO  
FUEL50



# AirTree Ventures crosses the ditch →



AirTree is often credited with being one of Australasia's leading VC firms. Launched in 2014, it has established a reputation for founding some of Australia and New Zealand's most ambitious technology entrepreneurs including Canva and Prosopa as well as Kiwi-based 90 Seconds and Joyous. The numbers tell the story – since it began AirTree has backed 54 companies and 18 exits. We took a moment to chat to one of AirTree's partners John Henderson about finding good investments in New Zealand and the lessons he's learnt along the way.

## John, what do you look for in a good investment?

We like to be the first institutional investor in a startup business and to then double down in subsequent funding rounds as the business performs. This means our first cheque is usually written at the very earliest stage, sometimes pre-revenue. Accordingly, we place a huge emphasis on the founding team. We focus on their unique strengths (cf. an absence of weaknesses). What is their super power? Do they have a unique insight into the problem or industry? Are they solving a problem that they've experienced directly? Is this their life's work? In addition to the team, we think a lot about markets and scalability.

“

...in addition to the drive, we find Kiwis are incredibly respectful with a great sense of humour – the best kind of business partner.

## Given that, what are your deal breakers when it comes to an investment?

In New Zealand, we have sometimes found the cap table to be a deal-breaker in an otherwise excellent investment opportunity. We've seen too many instances where an early angel investor has too much of the company or where an original founder has left the business but retains a meaningful shareholding.



“

New Zealand  
has one of the  
strongest angel  
networks globally.



“

Startups are a  
rollercoaster ride.

We want complete economic alignment which means the founders owning the vast majority of the business and retaining control after we invest.

What does an investment into a New Zealand company offer that opportunities in other geographies don't?

Kiwi ingenuity combined with an understated drive. You find New Zealand companies are succeeding at tackling some of the biggest problems globally in areas that have nothing in common and often haven't been done before – from space access (with RocketLab), to sustainable footwear (with AllBirds), to emission reductions (with Lanzatech). To be successful, companies know they have to be global from day one so they can't be small-minded in their vision. Though in addition to the drive, we find Kiwis are incredibly respectful with a great sense of humour – the best kind of business partner.

What lessons have you learnt in Australia that you will be applying to New Zealand?

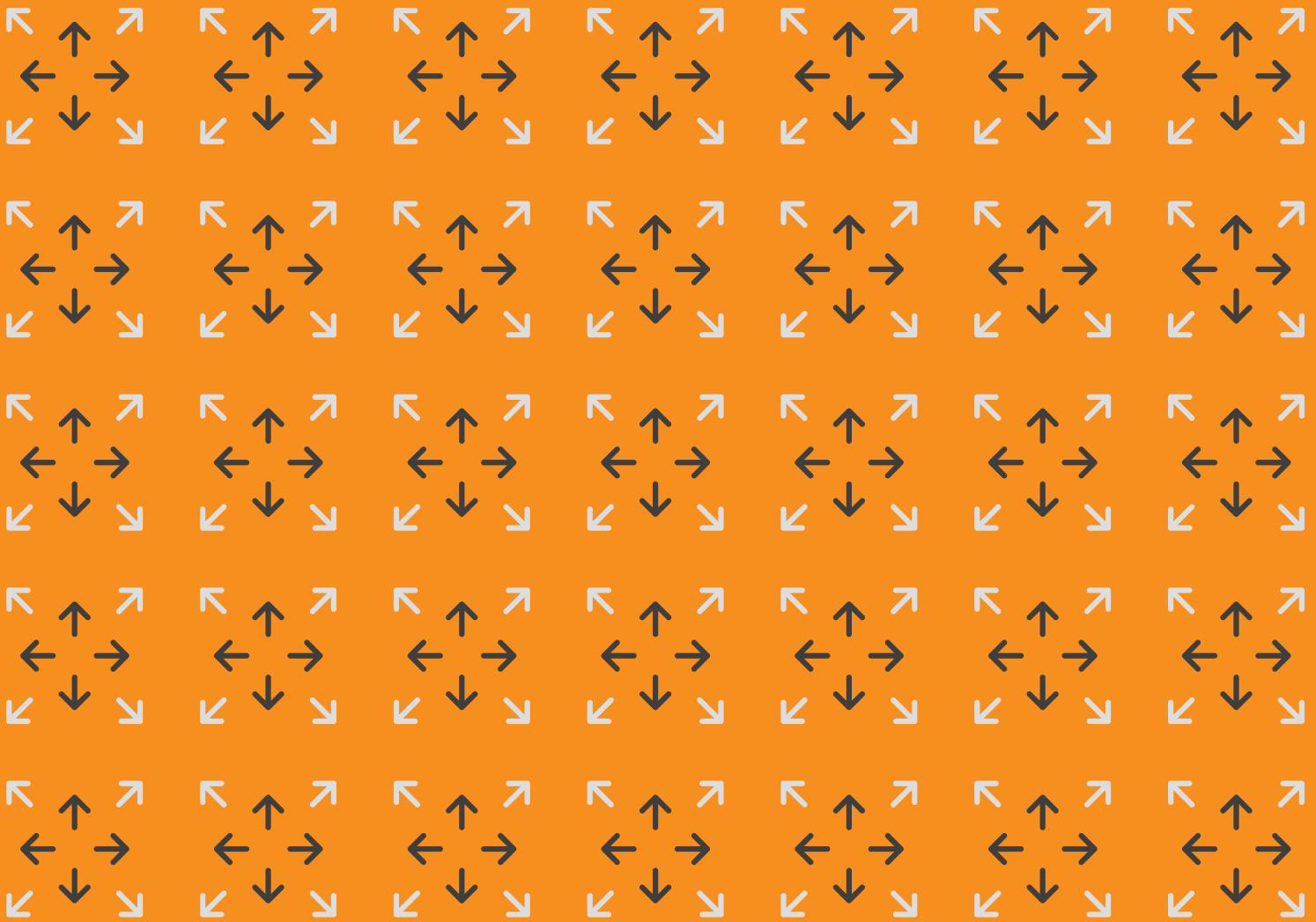
Startups are a rollercoaster ride. A real mix of highs and lows, and peaks and troughs that are underwritten by the continuous hard work of a lot of people. The successful companies in our portfolio like Canva, Prosopa and Secure Code Warrior have all been able to navigate the chaos of an early stage company by building a really strong company culture. Their teams not only come together to build great things, but rally together hard in the difficult times. We spend time down at a company's offices, talk to leavers and new hires, understand what makes a company's culture unique, all before we invest.

When it comes to the different startup ecosystems, have you noticed any differences between Australian and New Zealand?

New Zealand has one of the strongest angel networks globally – they're active, engaged communities and some have been investing in tech companies for 10 – 20 years. However, there is still a lack of “pathways” to the next stage for entrepreneurs (e.g. international expansion, growing to 100+ employees, later stage fundraising etc.). The Government's \$300 million venture capital boost will definitely help however, New Zealand still needs more forums for new entrepreneurs to learn from other successful entrepreneurs. In Australia, we've seen the rise of founder-led VC firms, communities of scale-up entrepreneurs (e.g. Innovation Bay) and investor resources dedicated to scale-up challenges (e.g. our Head of Talent focuses on recruitment and our Head of Community focuses on connections and access to expertise at AirTree).



JOHN HENDERSON  
PARTNER  
AIRTREE VENTURES



**ANAND REDDY**

Partner  
PwC

+64 27 592 1394  
anand.s.reddy@pwc.com



**MIKE BIGNELL**

Partner  
PwC

+64 21 730 855  
michael.j.bignell@pwc.com



**JOHN O'HARA**

Chair  
Angel Association

+64 21 040 3198  
john\_ohara@mac.com



**SUSE REYNOLDS**

Executive Director  
Angel Association

+64 21 490 974  
suse.reynolds@angelassociation.co.nz



© 2019 PricewaterhouseCoopers New Zealand. All rights reserved.  
'PwC' and 'PricewaterhouseCoopers' refer to the New Zealand member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

