

Report of Council to NZVCA AGM

22 September 2005

Overview of the 2004/2005 year

The 2004/2005 year again saw the NZVCA build significantly on the platform that has been created since the association was re-established in November 2001.

We've continued to structure the council around five working committees, namely:

- Industry Development
- Regulatory and Tax
- Annual Conference
- Member and Sponsor Services
- Finance and Operations

Looking back at the 2004/2005 year the highlights included:

- Great success in retaining and attracting new members. Membership levels are now at 80 members compared to 59 last year.
- Ongoing development of the NZ Venture Capital Monitor. My thanks to Ernst & Young for their ongoing commitment to this survey. Maintaining comprehensive and reliable industry statistics is a critical function of the association – validating that an industry does indeed exist in NZ but also providing benchmarking of the asset class and the managers within it. Further developing our market stats will be a key target for the association going forward and we thank all the managers for their time and effort in supplying their data to the survey, and to Jon and his team for producing such a terrific publication.
- Continued engagement with Government officials on specific tax and regulatory initiatives.
- Ongoing upgrading of the NZVCA website.
- Generating \$220,000 in income from membership fees, sponsorship and our flagship event, the Annual Conference.
- Running successful events throughout the year including the two day "Art of venture capital negotiation" course in February 2005 and our various networking events.
- Assisting with the venture capital industry study currently being undertaken by LECG for MED and MoRST. We hope that this will be visionary and immodest in its goals.
- Hosting the forum for New Zealand institutional investors and asset consultants held in November 2004.
- Ongoing profile building for the industry through attendance at, and support of, industry related events and media exposure.

It's been an enormously busy year and the momentum we've achieved will continue to be built upon if we can secure a sustainable financial basis.

Overview of the year ahead

For the 2005/2006 year, the Council and Executive Director continue to set ambitious goals for the development of the association and the industry generally. Having spent much of the first two years since Chris came on board as executive director establishing proper administrative and financial systems, building the membership and establishing key relationships with a diverse range of industry participants, more time has been devoted in the last 6 months to looking at alternative ways in which the NZVCA's financial footing can be strengthened to create the solid base needed to support its activities.

Despite achieving a revenue base of \$220,000, you'll have noted in the accounts that the association has operated at a deficit for the last 2 years. Clearly there is a minimum funding base the association needs in order to meet the basic infrastructure costs of running the association and to execute on the goals we have.

In isolation, the funding provided by the membership base, sponsorship and events such as the annual conference won't be sufficient to meet the current activities or growth initiatives going forward and if not addressed, New Zealand is missing out on important venture capital and private equity industry development opportunities.

As a result we approached a number of the government funding organisations requesting financial support to match our private sector funding base and allow us to further extend our development of the industry. Our various requests for funding haven't succeeded with the general issue being that general funding of this type is targeted to industry bodies at the "fledgling" stage. Despite the association having net assets of \$24,556 the NZVCA is considered to be beyond this. The council will be working hard to ensure we don't re-qualify in the future!

We are disappointed at this response but we are continuing to look at other avenues for additional funding for the association. We believe that the best medium term funding prospects are in specific government funded "projects" that the association would be well placed to participate in and we are continuing to work with the likes of MED and NZTE to consider opportunities in this regard.

The NZVCA is looking forward to the next year with a Council that will include 6 new members. The proposed increase of Council members from 10 to 12 at this year's AGM reflects the growth of the industry in New Zealand and the desire by a greater range of industry participants to take an active role in industry development. It's been a function of the market in the last 4 years that much emphasis has been placed on the venture end of the industry but private equity remains the backbone and it's pleasing to see more private equity representation on the Council going forward.

Key operational objectives for the NZVCA for 2005/2006 will include:

- **To make further progress on key regulatory/tax issues facing the NZ private equity industry**

The NZVCA continues to work actively with MED and IRD officials on a legislative initiative to introduce a world-class Limited Partnership regime. A reasonable objective is to have the new legislation in place by late 2006 or early 2007 and the association will continue its work in this area.

The NZVCA has also been working with IRD officials for 2 years looking at the issue of non-recoverability of GST paid on private equity fund management fees and we hope to have a decision from IRD on this matter by the end of this year. The association is also maintaining a dialogue with IRD and MED officials regarding problems for the industry with the capital/revenue account boundaries. The NZVCA will continue to work with officials to achieve more certainty in this area for the industry.

- **Maintain and increase Association membership.**

The number of full (manager) members now stands at 17 (12 last year). There are currently 27 associate members (20), 12 incubator members (12), 4 Angel member (1) and 20 individual members (14). Total current membership therefore stands at 80 (59). We continue to actively seek new members to build the underlying strength of the association but it is encouraging to see the large increase in membership over the past year. We believe that this reflects the growing value proposition of the association as a key player in New Zealand's private capital market.

- **Hold networking events throughout the year.**

The key remaining event this year will be the 4th Annual NZVCA Conference in Auckland on 3 November 2005.

Subject to securing adequate funding, during the course of next year the NZVCA would also like to run an educational programme targeting entrepreneurs and other company owners and managers providing a comprehensive overview of venture capital, expansion capital, and buyout funding in New Zealand. This would focus on key issues including investment attractiveness and readiness and capital raising options.

It is anticipated that, once developed, the programme would be refined and repeated each year through a variety of business and educational channels. Elements of the programme would also be used as marketing/information collateral by private and public sector partners (such as Investment New Zealand) for their activities in international markets.

The NZVCA member networking evenings that began in June 2005 have been very successful and the Association will continue to hold these on a quarterly basis in Auckland, Wellington and Christchurch.

- **Publish relevant industry statistics**

Progress continues to be made with the New Zealand Venture Capital Monitor survey. It is critical that the association maintains a highly credible source of data for the industry. As I mentioned, the survey now has the support of all the significant venture capital and private equity managers in New Zealand. Thank you for that support and again, our thanks to Ernst & Young for their tremendous efforts in collating and publishing the survey.

LECG will report specifically on the NZ Venture Capital Monitor as part of the industry study work being undertaken. We believe this may give rise to opportunities for further developing the survey, including possible government funding to implement any recommendations made.

- **Enhance communications with all industry participants but particularly Association members**

The NZVCA website continues to be the key industry hub. The website regularly receives over 1000 visitors a week – another indicator of the high levels of interest in the industry (both within New Zealand and from offshore). We continue to add industry related resources – including the launch today of a Guide to Venture Capital Term Sheets. Our thanks to Simpson Grierson for their work creating this important resource. We see this as being a very useful resource for investee companies and their advisors wanting to familiarise themselves with typical private equity investment structures and processes.

- **Run the 4th NZVCA Annual Conference on 3 November 2005**

Plans for this year's conference are now well advanced. The conference will be held at the Hilton Hotel in Auckland and we have confirmed a number of excellent speakers including Dr Paul Coleman, President and CEO of the Girvan Institute of Technology, USA; Linda Jenkinson, President and CEO of Les Concierges, San Francisco, USA; Professor Josh Lerner, Harvard University, USA; Jim Robbins, Executive Director, Software Business Cluster, California, USA; Mark Weldon, CEO, NZX; Maureen Frank, Head of Mergers & Acquisitions, Aon Risk Services, Australia; Ralph Suters, Director, Quentin Ayers, Australia; John Brakey, Head of Alternative Investments, Macquarie Bank, Australia; Judith Smith, Senior Investment Manager - Private Equity, Industry Funds Management ("IFM"), Australia.

This year, the association is also embarking on a specific program to invite key New Zealand and Australian investors and investment advisers to attend the conference. Invitations will be extended to approximately 40 investors and advisers in New Zealand and 20 in Australia. On a related note, the NZVCA is also establishing a new "Institutional Investor" membership category as part of our overall plan to put increased focus and resources into this crucial part of the industry over the next year and beyond.

We are aiming to attract at least 200 delegates and to further develop the conference as the premier annual event of the New Zealand venture capital and private equity industry. In this respect, we also welcome Connect New Zealand and Investment New Zealand as specific conference sponsors. Connect New Zealand's Springboard Showcase will be held on the afternoon of 2 November (also at the Hilton Hotel).

Overview of 2002/2003 accounts

Income for the year amounted to \$219,427 (\$147,398) made up of income from sponsorship \$70,000 (\$43,333), annual conference \$77,024 (\$47,517), membership fees \$59,767 (\$51,475) and other events of \$12,636 (\$5,073).

Expenditure for the year amounted to \$252,863 (\$191,399) the majority of the expenses having been incurred in relation to appointment of the Executive Director and the running of the 2004 Annual Conference. No tax is payable. The association's operating deficit after tax was \$33,436 (\$44,001). The cash balance as at 20 September 05 was \$68,331 (\$70,678).

As can be seen, the association continued to draw on its reserves in the last year and this again highlights the importance of its finances continuing to be strengthened. The Executive Director and Council are confident that revenues forecast for the current financial year are sufficient to meet budgeted costs and a small profit is forecast. As noted earlier though, this will remain an area of utmost importance to the Council and we will continue to explore funding alternatives to strengthen the association's finances.

Closing comments

On behalf of the Council, I would especially like to thank Chris Twiss for his outstanding contribution to the development of the NZVCA and to the industry. Having been on the council since its re-establishment in 2001, I can assure you that what we have achieved to date would not have been possible without an executive director and in particular Chris. I have enjoyed working with Chris this past year and look forward to his further substantial contributions to the industry.

I would like to thank the association's sponsors, ANZ, Ernst & Young, NZ Venture Investment Fund, Direct Capital, Pencarrow and Simpson Grierson for their support. The support of each of our sponsors is critical and their on-going support underlies their commitment to the development of a vibrant and growing New Zealand private equity market.

I have enjoyed being Chairman of the NZVCA this year and I would encourage others in the industry to consider getting involved in the council and making a contribution. Over time, larger funds management groups become very self-sustaining but it is in our collective interests to grow the industry and the NZVCA lies at the heart of that through encouraging more firms to establish themselves, by attracting the very significant pools of capital we have in New Zealand into the asset class, and deepening the pool of management groups backing the entrepreneurial economy that we say we have.

As a nation we're an odd bunch – we admire sporting excellence to the hilt even when it's combined with huge financial success, yet when it comes to business success we seem to have a very poor attitude – smug joy in failure and envy for those that succeed. Equality in poverty isn't something we should target. But despite our eccentric selves we have a tremendous opportunity. New Zealand is almost the perfect environment for private equity investment – a high level of entrepreneurship in what is essentially an SME economy. The oft reported statistic that New Zealand has in excess of 3000 companies with turnovers exceeding \$10m represents a terrific market in which private equity can genuinely unlock the country's growth potential and help return New Zealand to the top half of OECD performance.

As an industry we can be very pleased with the on-going development of the NZVCA this past year and together we can look forward to further substantial growth and development over the next 12 months.

Gavin Lonergan
Chairman