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The NZ Venture Capital Monitor 2005

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Welcome to the New Zealand Venture Capital Monitor. This issue consolidates the findings of previous surveys and provides a review of 2005. In addition to the commentary on local and global industry trends, this issue provides a commentary on the industry from the NZVCA Chairman, and an Industry Perspective from a recipient of Venture Capital. This report is based on responses received from Venture Capital and Private Equity participants in the New Zealand market, including firms from both New Zealand and Australia, as well as comparisons from Ernst & Young's global partnership with VentureOne.

Executive Summary

Important findings from our full year survey are:

- \$212 million invested across 72 deals – a 34% increase in dollars invested compared with 2004, \$185 million occurring in the second half of 2005;
- \$148 million, or 70% of dollars invested were by Private Equity funds, while \$64 million, or 30% was invested by Venture Capitalists;
- Leading sectors measured by dollars invested were Health/Biosciences (30%), Technology (13%) and Business/Financial Services (11%). Health and Biosciences were assisted by the largest individual deal for 2005 being Ironbridge's purchase of Qualcare Holdings Limited;
- Average and median deal sizes also increased in 2005 at \$2.9 million and \$1.5 million respectively. This increase is mainly attributable to four large deals completed in the second half of 2005;
- Six divestments totalling \$185 million, a significant portion of which is attributable to Pacific Equity Partners divestment of Guardian Healthcare in July 2005;
- Committed capital reaches \$2 billion for the first time, this represents a 28% increase from 2004; and
- \$764 million notionally available for investment – with 22.75% or \$174 million for Venture Capital deals and 77.25% or \$590 million for Private Equity transactions.



*Jon Hooper
Director
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*Christopher Twiss
Executive Director,
New Zealand Venture
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Review of 2005

Introduction

The first half of 2005 was characterised by strong capital raising and modest levels of investment activity, mainly by Venture Capital Funds, which prompted us to ask "What's happening in Sherwood Forest?"

Despite widespread predictions of an economic slowdown and pessimistic business confidence surveys, Robin and his merry men have clearly been working hard and the result can only be described as a sensational finish to year.

With \$185 million being invested in the second half of 2005 the year finished on a very positive note for some private businesses in the New Zealand market. Many of the high profile Private Equity deals have already made headlines in their own right and as a consequence the dramatic turnaround which occurred in the second half of the year should come as no surprise to those involved in the industry.

What may, however, be surprising is the level of Venture Capital activity which accounted for 71% of the deal activity and 30% of the total dollars invested in 2005. These statistics will be

well received by those associated with the New Zealand Venture Investment Fund ("NZVIF"). The second half of 2005 also saw fund managers capitalising on the increasing awareness of Private Equity as an alternative asset class with \$496 million of new capital raised for the year, an increase of 218% over 2004.

Significant also to the increase in new capital in 2005 was the New Zealand Superannuation Fund's ("NZSF") allocation of 13% of its investments to alternative assets. Following this announcement was the news that Direct Capital had raised \$65.5 million for its Direct Capital Partners III ("DCP III") fund, \$20 million of which was contributed by the NZSF.

Also significant to the amount of new capital raised was an allocation of A\$150 million which ANZ Capital received from its ANZ Bank parent.

"...fund managers saw \$496 million of new capital raised in 2005, an increase of 218% over 2004."



Table:1 NZ Venture Capital / Private Equity Committed Capital Balances as at 31 December

Fund Manager	Committed Capital Balance as at 31 December 2004 (NZ\$)	Committed Capital Balance as at 31 December 2005 (NZ\$)
ANZ Capital (A\$400 million 31 Dec 05)	147,137,071	426,439,232
I-cap Partners	318,000,000	334,000,000
Direct Capital Private Equity	188,000,000	285,736,962
Pencarrow Private Equity Ltd	197,000,000	236,600,000
Rangatira Limited	110,000,000	125,300,000
West Coast Development Trust	112,000,000	115,000,000
Goldman Sachs JBWere NZ Limited	91,000,000	91,000,000
No 8 Ventures Management Ltd	62,000,000	62,000,000
Endeavour Capital Ltd	60,000,000	60,000,000
iGlobe Treasury	31,000,000	31,125,000
Invest South Ltd	10,000,000	10,000,000
Other/Not Separately Disclosed	236,100,000	248,100,000
Total Committed Capital as at 31 December 2005	1,562,237,071	2,022,301,194

Source: Ernst & Young/NZVCA Survey

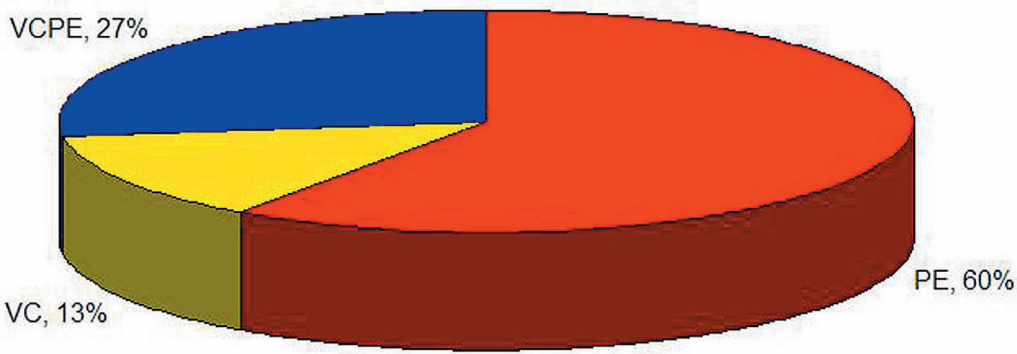
On the back of new capital raised, committed capital as at 31 December 2005 broke through the \$2 billion mark for the first time. Refer to Table 1 for a detailed breakdown of committed capital balances by fund manager. Of the total committed capital \$764 million (38%) is notionally available for investment in 2006. As discussed previously, this figure somewhat overstates the effective amount of investment capital available in New Zealand, given the Australasian and regional nature of many of the funds.

To further understand the industry we asked fund managers to split their committed capital balances between Private Equity and Venture Capital. This new information highlights the dominance of Private Equity which accounts for 60% of the

Committed Capital in New Zealand as at 31 December 2005. Venture Capital funds make up 13%, with the remaining 27% of funds stating they have elements of both Venture Capital and Private Equity. However when looking at the capital invested to date by these mixed funds it is clear to see that most of the capital has been invested into Private Equity transactions, so the true split is likely to be closer to 80% Private Equity and 20% Venture Capital.

"...committed capital as at 31 December 2005 broke through the \$2 billion mark for the first time."

Figure 1 - New Zealand Venture Capital and Private Equity Committed Capital Split



Source: Ernst & Young/NZVCA Survey

In July 2005 the Government announced the establishment of the Seed Co-investment Fund, which is aimed at small to medium sized businesses with strong potential for high growth. The fund will have \$40 million available for co-investment in seed and start-up investments, alongside selected private investor groups on a 1 for 2 basis. This fund will be implemented by the NZVIF, and reinforces the Government's commitment to supporting New Zealand's growing Venture Capital and Private Equity industry.

Late in the year the Ministry of Research Science & Technology and the Ministry of Economic Development released their LECG commissioned study of New Zealand's Venture Capital market and implications for public policy. The study examines Venture Capital from the perspective of how a vibrant Venture Capital market could strengthen New Zealand innovation and recommended actions the Government could take to achieve this.

The report's recommendations were in part fed from LECG's observation that New Zealand science struggles to translate innovative ideas to the market, and that the way to solve this problem is to ensure venture capitalists are able to operate seamlessly across the New Zealand border in order for New Zealand to have access to the most appropriate forms of capital.

The report recommended some high priority initiatives for the Government to introduce into public policy, examples of which include removing the tax impediments from Trans-Tasman capital flows, encouraging education, showcasing of New Zealand Venture Capital opportunities locally and internationally, and ensuring a tax structure which does not tax

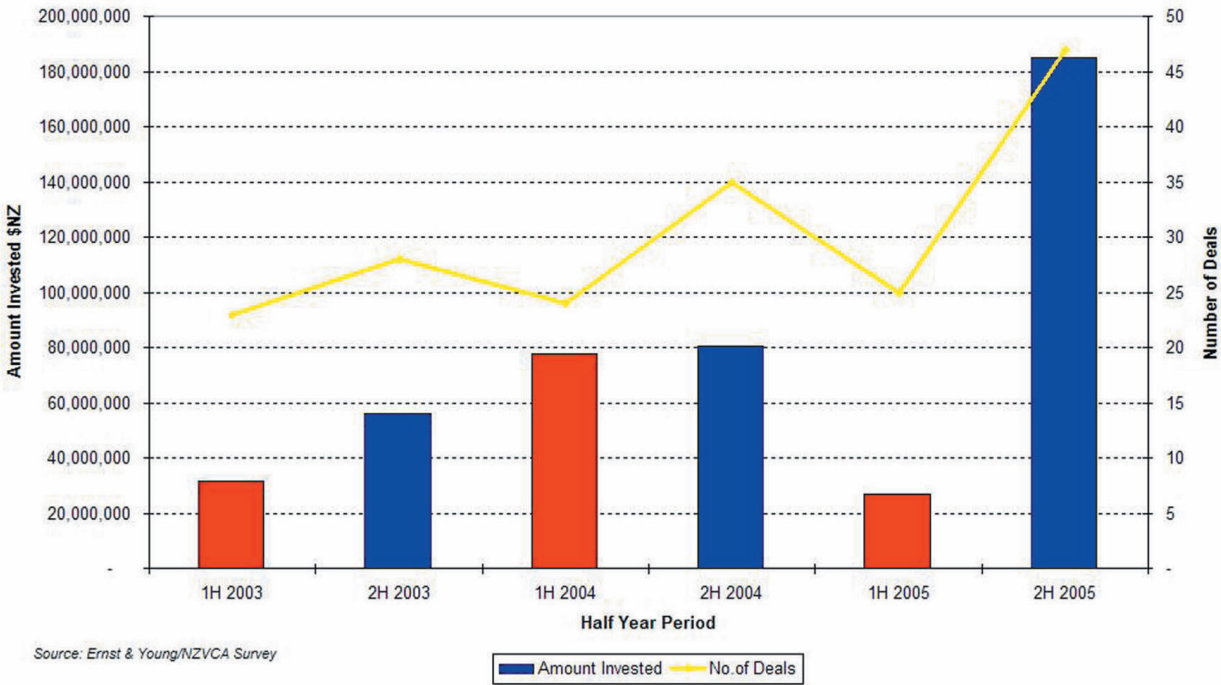
disadvantage investing in Venture Capital relative to common investment alternatives. We will wait with interest to see how the Government plans to incorporate these recommendations into public policy.



Give to the needy ...

In the first half of 2005 we predicted strong growth in investments for the second half of the year, and as noted earlier this prediction has been well and truly fulfilled. Refer Table 2 below.

Figure 2 - New Zealand Venture Capital Activity 2003 - 2005



Source: Ernst & Young/NZVCA Survey

"Total investment value for 2005 reached \$212 million, a 34% increase on the \$158 million invested in 2004."

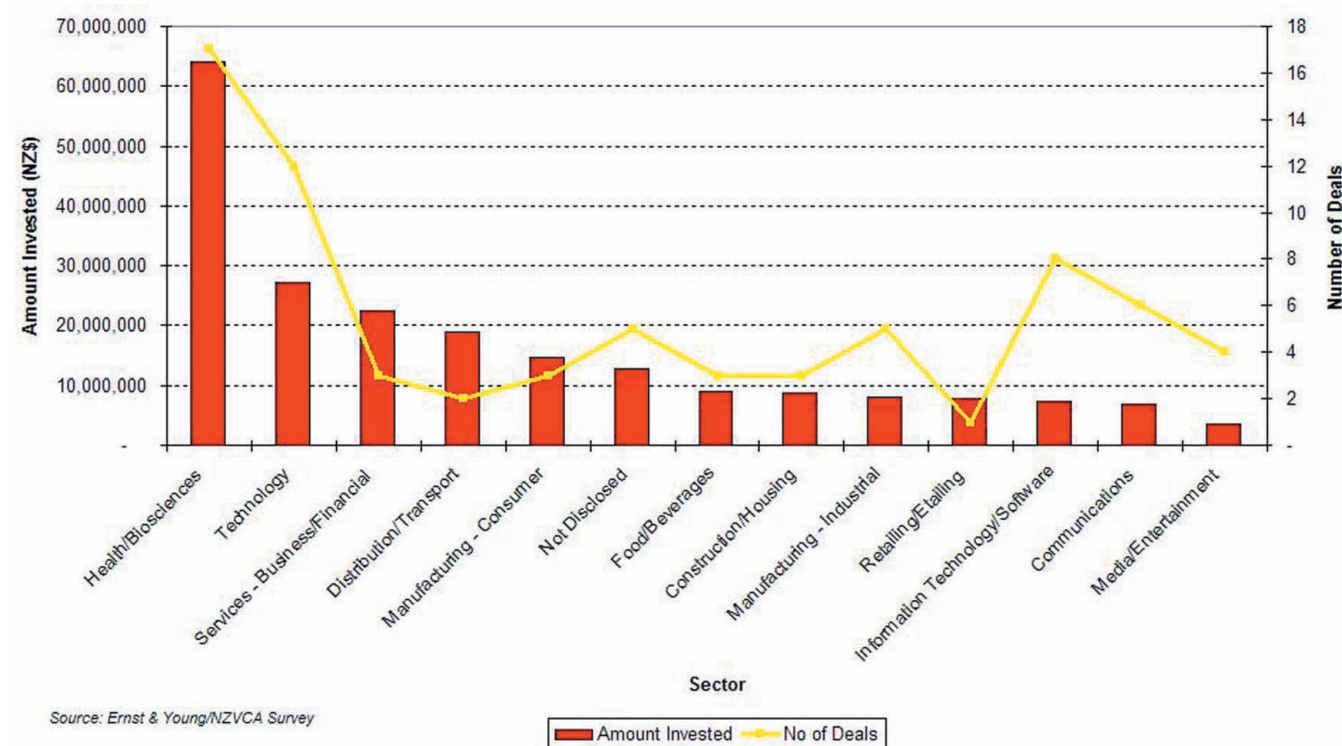
Total investment value for 2005 was \$212 million, a 34% increase on the \$158 million invested in 2004. Analysed further, the second half of 2005 contributed \$185 million across 47 deals, which represents significant increases on both the \$27 million and 25 deals for the first half of 2005. This clearly shows we have a vibrant industry and also reflects the growing acceptance of the role Venture Capital and Private Equity can play in helping businesses either expand or address succession issues. In total 72 deals have been completed for the year to 31 December 2005, 13 more than in 2004.

The largest deal of 2005 originated from Australasian Private Equity firm Ironbridge, who acquired several aged care facilities in December, and incorporated them to form Qualcare, now one of the largest aged care operators in New Zealand. The investment was valued at over \$38 million. Jon Hooper, Ernst & Young Director – "This is part of an on-going trend of "roll ups" in the Private Equity sector, which has significant opportunities arising from a combination of succession issues and a shortage of capital."

The average deal size for 2005 was just under \$3 million, while the median deal size was up 25% on last year to \$1.5 million.

"Auckland has held steady once again as the main location for investment... while there was a considerable drop in the number and value of investments made overseas."

Figure 3 - New Zealand Venture Capital Investments by Sector - 2005



As indicated by Figure 3, investment continues to flow across a diverse range of sectors. This year Health/Biosciences dominated the pack, in terms of both investment value (\$64 million) and number of deals (17), although this sector's results were assisted by the Ironbridge deal. Other popular sectors by investment value included Technology (13%), Business/Financial Services (11%) and Distribution/Transport (9%).



In terms of deals done, the most active sector after Health/Biosciences (17) was Technology (12), which regularly features near the top of the sector list. Other active sectors include Information Technology/Software (8), Communications (6) and Industrial Manufacturing (5). The dominance of Health and Biosciences is consistent with global trends where medical devices in particular have enjoyed unprecedented levels of interest in both the United States and European markets during 2005.

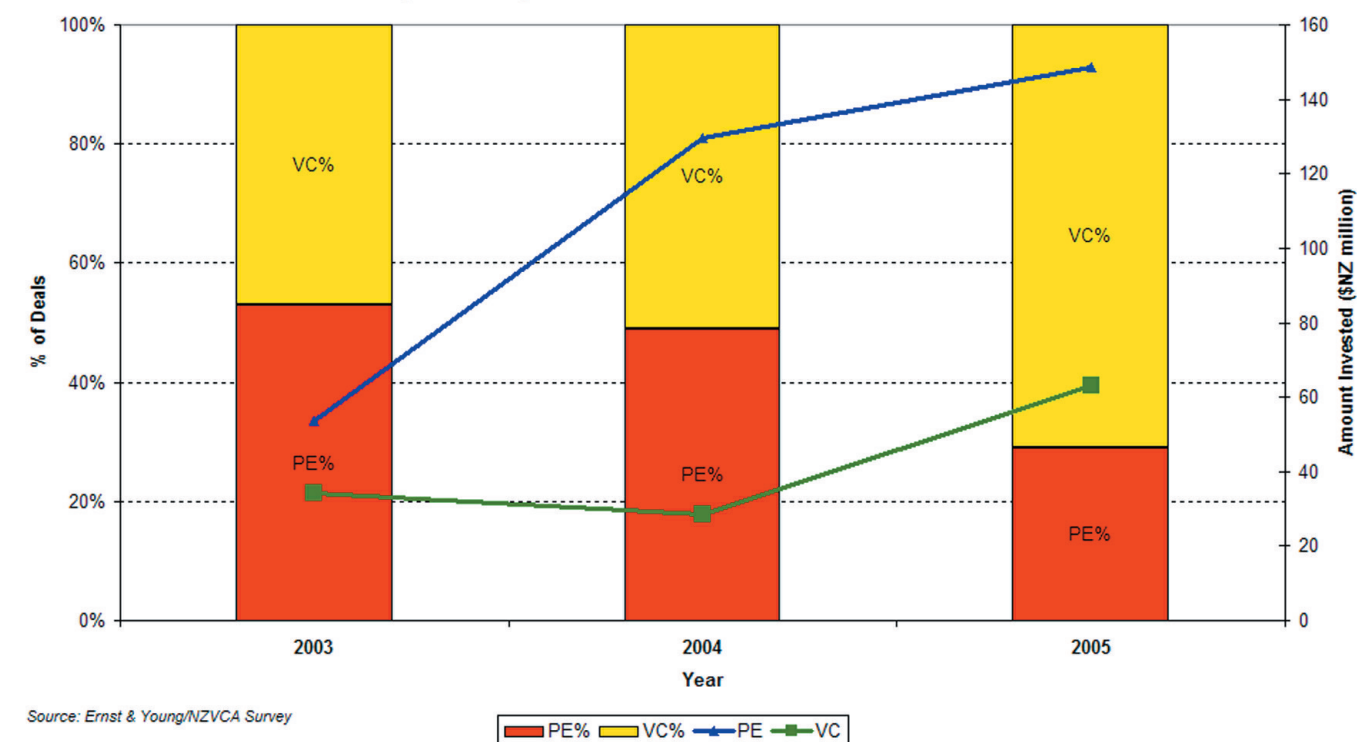
In this Monitor we profile a local health sciences company, Proacta Therapeutics, and get CEO Paul Cossum's perspective on being a Venture Capital-backed company.

It is also worth noting that Later Stage and Mature businesses accounted for just over 50% of the capital invested in the current year, a decline on previous surveys. Seed and Expansion deals in contrast made up more than 67% of investments by number of deals. These figures are encouraging, and build on the trend identified last year of a shift in the market to earlier stage opportunities, demonstrating both investor confidence and the high quality of investment opportunities available.

Continuing positive trends from 2004 include the proportion of new investments to follow-on, with new investments making up 86% of investments by value and 63% by number of deals. Another trend mentioned last year was the growing willingness

of fund managers to co-invest with each other, with 53% of total deals being in partnership in 2005, up from 37% in 2004. This is another milestone on the road to maturity for the industry.

Figure 4 - Venture Capital / Private Equity Split by Percentage of Deals and Amount Invested 2003 - 2005



In addition to our analysis of Committed Capital balances we also asked Fund Managers to provide information on the split between Private Equity and Venture Capital investment activity for the year. As can be seen by Figure 4 Private Equity made up 70% of investment value in 2005, while Venture Capital dominated by number of deals, accounting for 71% of activity or deals for the same period. It would also appear from this graph that for both Private Equity and Venture Capital the stakes are getting higher, with an increasing trend of more dollars invested between 2003 and 2005.

Auckland has held steady once again as the main location for investment, accounting for two thirds of both the value and deals completed, which remains steady on 2004 figures. In the second half of 2005 there was a considerable drop in the number and value of overseas investments. Overseas investments by New Zealand Funds made up 1% of investment value and 4% of the number of deals in the second half of 2005, considerably down on the 19% by investment value and 16% by number of deals in the first half of 2005.

For the first time our statistics include activity from most of the large Australian Private Equity and Venture Capital funds who invested in New Zealand during 2005. It is anticipated that Australian Venture Capital and Private Equity activity in New Zealand will continue to be captured and reported, to develop a more complete picture of the New Zealand industry. Despite the investments undertaken here these funds do not have a specific allocation of capital for investments in New Zealand and to include their total committed capital balance would only serve to compound the measurement issue associated with determining the amount of capital notionally available for investment. For this reason committed and available capital balance have not been reported on for these funds.

"It is encouraging to see the growing level of divestment activity, which signals the increasing maturity of the Venture Capital and Private Equity industry in New Zealand."

Divestment Activity

There were six divestments reported in 2005, with a total divestment value of \$185 million. The average holding period was 2.3 years and trade sale continues to be the most favoured exit mechanism. This divestment value figure has been largely skewed by the significant divestment of Guardian Healthcare ("Guardian"), whose majority owner was Australia's Pacific Equity Partners ("PEP"). PEP held their investment in Guardian for just eight months, after their initial 90% investment in the company at the end of 2004.

The current levels of divestment activity are indicative of the young nature of the industry, and exits are expected to increase as New Zealand's Venture Capital and Private Equity industry matures. Capturing this information will result in a meaningful

dataset of returns, which is the best barometer of maturity. It is encouraging to see to the current level of divestment activity given New Zealand is made up of relatively young Venture Capital and Private Equity firms.

Global Activity

United States

Venture Capital firms in the United States raised \$22.16 billion in 2005, a 19% increase over the amount of funds raised in 2004, making it the largest fund raising year since 2001. Investments for 2005 also rose to their highest level since 2001, with \$22.13 billion invested in 2,239 deals. This represents a 2% increase over 2004 in capital invested, while deal-flow was flat.

Among the noteworthy trends in 2005 was an increase in financing for medical-device companies, which garnered more than \$2 billion in capital this year – the most directed at this segment since 2000. In addition, \$2.42 billion was invested in consumer and business-service companies, which includes a number of Internet companies, the most to this segment since 2001 – and a 53% increase over 2004.

"Investors clearly showed diversity in their portfolios in 2005. While information technology continued to receive the lion's share of investment at just under \$12 billion, companies focused on health care, business, consumer and financial services, and alternative energy; advanced materials also gained favour," said Stephen Harmston, director of global research for VentureOne.

"Overall, the year's positive outcome – coupled with a dynamic acquisition market for venture-backed companies of late – indicates that Venture Capital investors remain committed to funding entrepreneurial innovation in all its forms."

For the full year, early-stage deals represented 35% of all rounds, up from 34% in 2004. The median size of a round of financing in 2005 was \$6.6 million, down from \$7 million in 2004. By region, the San Francisco Bay Area dominated the Venture Capital investing landscape, with 731 deals and \$7.69 billion invested – or 33% of all deals and 35% of the capital in 2005. New England was the second most active region with 272 deals and \$2.83 billion, followed by Southern California with 203 deals and \$2.09 billion invested, and the New York Metro area with 159 deals and \$2.19 billion invested.

'Strong Science' Attracts Investment Backing

The Ingredients That Led To Proacta's Venture Capital Success

The same formula that convinced Australian-born Dr Paul Cossum to take the helm of cancer drug research company Proacta is what motivated a consortium of New Zealand and international investors to put their financial faith—to the tune of US\$12 million—into launching the business.

Namely - outstanding scientific research capabilities, mixed with excellent intellectual property development potential, and targeted toward the treatment of an extremely high profile disease.

Cossum joined the company in August 2004 just two months after it was incorporated in the United States, following the initial funding tranche of US\$8 million being secured. Given that most of the scientific research emanated from the University of Auckland, their commercialisation 'arm' UniServices handled the initial quest for capital and still retains a significant shareholding.

The underlying science behind the venture is such that it can be applied across a variety of situations, treatments and disease management. Ironically, this complexity proved an initial problem in attracting funds. The first business case was built around cancer gene therapy treatment capabilities, with the market showing little interest. Once the treatment of hypoxia in cancer became the focus, and the business model was revised accordingly, and the 'deal' quickly gained attention and traction.

The first 'suitor' was GBS Venture Partners—a leading life science Venture Capital group based in Melbourne, Australia. They came on board, says Paul Cossum, as Proacta's rationale fitted in with their mission of helping talented entrepreneurs build great life science companies. They also oversaw the recruitment of a highly skilled management team with complementary business and medical/research capabilities.

From there the investment consortium broadened in both size and geographic representation. Two local groups—Endeavour I-Cap Ltd and No 8 Ventures Management Ltd—joined, utilizing the opportunities provided under the New Zealand Venture Investment Fund.

Other Phase I investors include United States biotechnology research and development heavyweight Genentech Inc and its Swiss-based owner, pharmaceutical giant Roche. Proacta has subsequently received additional Government grants from New Zealand Trade and Enterprise and Tech New Zealand.

Once the company got up and running, with the help of the investment consortium, the possibilities and opportunities for Proacta broadened, which required the company to seek extra funding. An additional \$US4 million came from Alta Partners, a San Francisco-based venture capital group.

While, in business terms, Proacta is truly a new venture the science underpinning it has been under investigation for over 15 years. What makes Proacta's cancer drugs—and, by definition, the investment opportunity—all the more significant is that over 65 per cent of the 10 million people who are diagnosed with cancer each year have the types of cancer that can potentially respond to their new type of treatment either alone or in combination with other methods.

Other aspects of the venture, says Paul Cossum, have proved to be attractive to investors.

"Proacta Inc is the US-based company which owns Proacta Therapeutics Ltd in New Zealand, whose research operates out of the Auckland Cancer Society Research Centre. We fund seven scientists as well as have access to more than 30 scientists working via government grants on our cancer hypoxia-related projects. This level of government support, and the possibility of commercially viable discoveries becoming new opportunities for Proacta, certainly helped to strengthen interest."

Though Cossum and his management team have all been involved in similar ventures, he believes the Board's contribution is, and will continue to be, significant.

"We have a strong and active board with a mix of skills and backgrounds all broadly based around finance, health and drug products, research, development and commercialisation. Management has used, and will continue to use, this extensive expertise to help in driving our development and success."

Three of the Venture Capital companies have board representation—namely GBS, Number 8 Ventures Management and Alta Partners. Proacta also has three independent directors.

There is no doubt, says Cossum, that the Venture Capital input, business talent and diversity of expertise has accelerated Proacta's ability to move from the realm of science and research to potentially creating significant clinical oncology products. The company, says Paul Cossum, is *"exactly where we want to be right now."* Phase I clinical trials of the company's lead compound PR-104 are underway at the Waikato Hospital, in Melbourne and very shortly will commence at the UCLA Medical Centre in the United States.

He recognizes that the level and quality of investors to date will significantly help in attracting interest for potential new investors as the company continues towards its long term goal of commercialisation.

Europe

European Venture Capital firms raised €3.7 billion, the highest amount raised since 2002 and 160% more than the amount raised in 2004. As with the United States, European Venture Capital firms appear to be maintaining a trend of raising more capital in general, and also raising substantially larger funds. For example, the median size of a fund closed in Europe in 2005 was €39.4 million, compared to €17.2 million in 2004.

Overall Venture Capital investing into European companies slowed compared to 2004. In total, 1,020 financing rounds were completed and €3.6 billion was invested, which translates to a decline of 16% and 5%, respectively, from the preceding year. This decrease in Europe stands in contrast to the United States. Capital investment in Europe did not decrease as much as the number of rounds, resulting in the highest median amount invested since 2002.

Driven by an improved liquidity market, later-stage Venture Capital investments grew to €1.76 billion in 2005. As a percentage of total investment in 2005, later-stage capital represented 49% - the highest allocation to this round class since at least 1999. In addition, later-stage financing rounds made up 40% of the total deals that were completed in 2005, up from 33% in 2004. In contrast, the number of seed and first-round deals completed in 2005 represented 31% of the total deal activity, down from 33% in 2004.

As in the United States, European investors directed capital to an increasingly diverse range of industries in 2005. Gil Forer, global venture capital advisory group leader for Ernst & Young - *"New activity appeared in a range of emerging industries in Europe, such as alternative energy which saw investments increase 25% to €50.3 million in 2005. This was likely fuelled by the success of several venture-backed energy IPOs around the world last year."*

The largest deal of 2005 was a biopharmaceuticals deal with €46.2 million invested. The information technology industry had the most significant decline of all industry categories. The United Kingdom remains the most active country in Europe, but deals were down 9% and capital was down 11% to €1.04 billion.

Australia

Australian Private Equity funds raised \$3.1 billion during the year to 30 June 2005. Of the 209 investments made for the year, 48% of these were in expansion stage investments, which represented four times as many as the next most common type of financing. By deals completed the 'other products' category dominated with 24%, which includes agriculture/forestry/fisheries, business services and manufacturing. However, 31% of the amount invested was in the industrial/energy category, followed by 27% in other products, 23% in consumer related and 11% in medical/health.

Sixty seven companies located in New South Wales received 86 rounds of financing, more than twice that of the next highest location. However the highest percentage of capital (29%) was invested in Western Australia. This figure was skewed by one large transaction.

New investments made up 80% by investment value and Mergers & Acquisitions dominated as an exit method.

The global statistics reproduced in this section are taken from research published by VentureOne and the Australian Venture Capital Association Yearbook for the period.



Industry Opinion: Endeavour Capital's Mark Dossor and Chairman of the NZVCA



In the first half of the year it appeared Venture Capital and Private Equity funds were proceeding cautiously, with a slow start to the year in terms of investment value. Yet as has been identified in this Monitor, 2005 has proved to be a golden year for the Industry. The road to maturity has been evidenced by an increasing number of participants in the local market, increased fund raising, increased deployment of these funds and a number of exits through either trade sales or local and international IPO's.

In addition to local players we are seeing more and more international Private Equity investors entering the New Zealand market, supporting local managers and executing transactions themselves. These international players are providing healthy competition for the Industry and it appears the time for Private Equity and Venture Capital as a mainstream asset class in New Zealand is upon us.

The maturing Industry is providing owners of local businesses a credible alternative to funding their development plans and exit aspirations, other than the local or international public markets. The benefits that accrue to the economy and owners from private investment are numerous, and well documented. New Zealand will see the fruits of this investment in the coming years.

There is ample research to support the thesis that companies with Private Equity or Venture Capital investment grow at a rate of two or three times that of organically funded entities, thus creating value for the owners of the companies, and the economies they operate in. In the United States in 2004 over 20% of all publicly listed companies had been backed by Private Equity or Venture Capital investors.

An example of such a New Zealand company has been included in this report – Proacta Therapeutics – which, through the support of New Zealand, United States and Australian investors, is developing a world leading drug development platform. There are many such examples in New Zealand beginning to appear, and it is encouraging to see New Zealand funds co-investing with funds from around the globe.

With New Zealand's high incidence of entrepreneurship, the economy has many times the number of private companies than those which are publicly traded. Until recently, other than some exceptions, these companies have found access to capital extremely difficult, and potential investors for such innovative companies have

lacked an adequate avenue by which to invest. The Private Equity and Venture Capital industry is creating a bridge for business owners and investors alike.

Also promising is that growth is being supported by a considerable improvement in the infrastructure that supports the Industry. The Government's commitment to the Industry has been evidenced by the announcement of the Seed Co-Investment Fund, the third call for further NZVIF fund managers and the commissioning of the LECG report on issues affecting the industry. The NZVCA continues to be vital to ensuring the longevity of the Industry.

On top of this, and in part has gone unnoticed, is the significant assistance provided by local advisors, who develop world best templates for New Zealand managers to work from, assist local and international asset allocators and institutional investors to perform research and get comfort to invest in the New Zealand industry. This survey is an example of such a program.

Nothing is a more compelling advertisement though than strong returns from the sector, and, as has been previously stated, divestment activity gives the best indicator of a market's maturity. While these returns have been made in past, this survey highlights the success that can accrue from Venture Capital and Private Equity investments, with six significant exits in 2005.

Going forward the Association is committed to fostering continued development. Specific focus will be on addressing issues identified by NZVCA members, examples of which include developing education programs for market participants and developing international presence and connections for members.

"The maturing Industry is providing owners of local businesses a credible alternative to funding their development plans and exit aspirations, other than the local or international public markets. The benefits that accrue to the economy and owners from private investment are numerous, and well documented. New Zealand will see the fruits of this investment in the coming years."

In the field

Respondents were asked what they believe the key challenge is for the New Zealand Venture Capital and Private Equity industry going forward. While there were the usual responses such as finding high quality management, and the competition for quality investment opportunities, the range of issues mentioned were very diverse.

The slowing economy was identified as a key issue, with mention that such conditions could distract managers from undertaking new investments, and also impact the success of exits. Although the economy has been predicted to slow, the significant new capital raised and the increase in investment value for 2005 are clear indications that the Industry is well positioned to withstand a downturn. A slowing economy can also be viewed in a positive light, as deal flow can be expected to increase with the need for alternative funding and exit mechanisms.

Education of entrepreneurs and investors, and the difficulties of an international market also came through. Respondents are concerned about competition from offshore competitors, potential adverse New Zealand tax implications, and building a track record which attracts both international investors and the best investment opportunities locally. While foreign investment creates competition for New Zealand funds, the move by international players to the New Zealand market is a good sign for the Industry. As stated by Chris Twiss, executive director of the New Zealand Venture Capital Association, *"There is deal flow, that's why the Australians are here. And there are clear signs that this deal flow will actually grow in the years ahead."*

The key driver of deal flow was identified as succession planning. Education was also acknowledged as another driver of deal flow. With baby boomers reaching retirement, and the prevalence of many business owners having a single-asset superannuation fund, these succession issues create significant opportunities for the Industry. There is an increasing awareness about the alternatives business founders have to exit their businesses, and this growing awareness will make up the core of the Private Equity industry going forward.

A number of people highlighted the growing role Angel networks are playing in providing finance and support to businesses that would otherwise fall below the radars of the larger Venture Capital and Private Equity funds. Approaching their sixth year in existence, Angel investors are increasingly making their presence known in investment circles. Angel investors are successful business people, with significant spare cash, which they make available for investment into companies

which are seen to have growth potential. Investments are typically valued between \$50,000 to \$1 million.

Incubators such as Icehouse (International Centre for Entrepreneurship) and Escalator, can nurture a fledgling business and give it a solid foundation with expertise and funding assistance. Government assistance in the form of New Zealand Trade and Enterprise and the Incubator Support Scheme, is providing further credibility to the industry.

ICE Angels are another group of private investors who are experienced entrepreneurs and business people, who take an active interest in managing the companies in which they invest. ICE Angels, which recently marked its second year in operation, is one of the most active angel investment groups in New Zealand with over 60 members nationwide. From Cory Williams, ICE Angels CEO, *"The Angel scene in New Zealand is gaining momentum, with a national steering committee set to create a national voice for angel investment...We've had a lot more interest and we're really gaining some traction from both the investment perspective and in encouraging interest around the country."*

"There is an increasing awareness about the alternatives business founders have to exit their businesses, and this growing awareness will make up the core of the Private Equity industry going forward."

Incubators New Zealand, which represents 16 regional business incubators, has had a record year, with the total number of firms housed by the 16 incubators reaching 143. There were 58 start-ups aided by incubators in the first half of 2005, with 16 graduations – both figures being indicative of encouraging trends. The amount of capital raised by start-ups is expected to exceed Incubators New Zealand's target of \$7.5 million, which takes the total invested in incubator firms over the past three years close to \$37 million.

The outlook of respondents was evenly split between optimistic and neutral, which is a solid indication of the year ahead for 2006. The Private Equity and Venture Capital industry in New Zealand is receiving increased awareness, and the continuing growth of local and international opportunities will help see the industry mature further in 2006.



About the Survey

The Survey

If you are aware of a colleague that did not receive a copy of the New Zealand Venture Capital Monitor or if you would like to participate in future surveys, please contact either Jon Hooper at Ernst & Young or Christopher Twiss at the NZVCA. Contact details are provided below.

Ernst & Young Entrepreneurial Growth Markets

The Ernst & Young Entrepreneurial Services group is a global leader in providing specialised advisory services to businesses in high growth markets. Globally, Ernst & Young is involved in the analysis of the venture capital industry in association with VentureOne. Our New Zealand team has over 15 years experience in the local entrepreneurial marketplace and a dedicated team of over 20 partners and 200 staff to provide integrated business solutions.

For further information about the New Zealand Venture Capital Monitor or to find out more about Ernst & Young, please contact one of the specialists noted below.

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About the NZVCA

The NZVCA is a not-for-profit industry body committed to developing the Venture Capital and Private Equity industry in New Zealand. Its core objectives include the promotion of the industry and the asset class on both a domestic and international basis and working to create a world-class Venture Capital and Private Equity environment.

Members include Venture Capital and Private Equity investors, financial organisations, professional advisors, academic organisations and government or quasi-government agencies.

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