

NZ Young Company Finance

News, comment, and analysis on the young company market in NZ

INSIDE:

CONSOLIDATING ANGELS HOLD THEIR OWN

AANZ NEWS - FOCUS ON INDUSTRY GROWTH

SCIF REVIEW

EARLY STAGE INVESTMENT VALUATIONS

US NEWS - ANGEL DEALS HIGH BUT DOLLARS FALL

FAST-GROWING COMPANIES SHOW UP IN SURPRISING PLACES

BRIT ANGEL INVESTORS GET TAX RELIEF EXTENDED

MATCH-FIXING SUSPECTED IN MAJOR INTERNATIONAL AWARD

NEWS FROM EUROPE

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Consolidating angels hold their own

Angel investment in New Zealand is consolidating at around 100 deals a year involving \$30 million of investment into start-up companies a year, according to the Young Company Finance Index.

Angels invested \$27.6 million across 95 deals involving young New Zealand companies in 2012. This compares to \$34.5 million invested across 100 deals in 2011. It is similar to the investment levels in 2007 and 2008, although below the 2009 and 2010 boom years when annual investment reached \$50 million. Cumulatively, \$251.8 million has now been invested into young companies by angels since the Young Company Finance Index began measuring activity in 2006.

The consolidation of activity at around \$30 million a year shows that angel investor support for New Zealand start-up companies in 2012 remained solid despite the on-going challenging macro-economic environment. By international standards, nearly 100 angel investments per year is a healthy rate per capita and a positive result for the early-stage capital market.

The Angel Association hope to see a steady lift in investment levels and is aiming to recruit 200 new angel investors to join angel networks (see page 2), along with a number of other initiatives to increase the profile and capability of angel investing.

The average deal size in 2012 was \$294,021 and has been declining since 2006. Nearly 70 percent of all deals in 2012 were of \$250,000 or less. A lower deal size is in line with international

investment trends as angels invest in smaller tranches based on companies reaching performance milestones.

Nearly 100 angel investments per year is a healthy rate per capita and a positive result for the early-stage capital market.

Of the \$27.6 million invested in 2012, 71 percent (\$19.7m) was follow-on investment and 29 percent (\$7.9m) was new investments. (In 2011, 78 percent was follow-on and 22 percent was new.) In terms of the stage of investment, \$10.5 million was seed investment, \$16.2 million was at the start-up stage, and \$0.95 million at the early expansion stage.

2012 saw 70 percent of deals syndicated between different angel groups. This shows a significant increase in collaboration between angel groups, which is welcome given the small size of the New Zealand market and the need to spread deal flow.

In terms of the type of investments angels made in 2012, 27 percent of investments were convertible loans, 46 percent were ordinary shares, and 27 percent were preference shares.

Since 2006, by region, 54 percent of investment was in Auckland, 11 percent in Christchurch, 10 percent in Wellington, 8 percent in Dunedin, 6 percent in Palmerston North, and 5 percent in Hamilton. Software & services received 27 percent of the amount invested, followed by pharmaceuticals/life sciences

NZ Young Company Finance

technology (23%), technology hardware and equipment (15%), and food & beverage (10%).

The fastest growing region for angel investment over the last year has been Bay of Plenty, which in 2012 accounted for 9.4 percent of investment by amount (4th biggest region for investment), reflecting the presence there of a strong and growing local angel investment group, Enterprise Angels. This is up from just over 1 percent the year before. 2012 saw the emergence of specialist angel investment funds - such as the Manawatu Investment Group's MIG One Fund and the Global from Day 1 Fund (a collaboration between the Icehouse and Sparkbox Ventures) - to fill gaps in the New Zealand angel investment market.

A key advantage of these funds is that they provide a more nimble and streamlined investment decision making process, supported by a professional management structure. They are vehicles through which angels can get exposure to a portfolio of companies more easily than if they were investing as individuals on a deal-by-deal basis. The expectation is that other specialist funds will be launched over the next few years.

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Capital Invested 2nd half year

Year	Amount invested	Number of deals
2H2006	\$14,379,096	18
2H2007	\$18,406,958	33
2H2008	\$16,971,568	24
2H2009	\$23,116,741	35
2H2010	\$24,751,385	71
2H2011	\$15,798,001	46
2H2012	\$12,582,340	50

YOUNG COMPANY FINANCE INDEX

Capital Invested Year to 31 December

Year	Amount invested	Number of deals
2006	\$22,360,762	30
2007	\$29,300,848	53
2008	\$32,656,902	41
2009	\$50,905,088	76
2010	\$54,471,411	112
2011	\$34,450,777	100
2012	\$27,637,959	95
Total	\$251,783,747	507

AANZ NEWS - Focus on Industry Growth

By Suse Reynolds,
AANZ Executive Director

Scottish uber-angel Nelson Gray laid out a challenge to the room at the Angel Summit last year. Make a commitment right now, he said, to recruit a friend or colleague to angel investment in the next 12 months. He pointed out that if everyone did this we would boost the national network by over 100 angels.

Of the 13 companies pitching for funding at the showcase event, eight went on to complete term sheets, with four deals having either closed or being very close to doing so.

Encouraged by this, one of the Association's projects this year is to create a range of resources to help existing individual angels, the networks and angel funds introduce 200 new angels to this end of the capital market.

Other projects will focus on showcasing ventures offshore, trialing new methods of delivering

professional development, working with the Institute of Directors to develop a seminar specific to high growth ventures, and working to promote the role of public policy (including tax incentives) in growing angel investment.

"Investathons" will see angels "learning by doing" with up to three investment-ready companies presenting to angels who will then work with relevant experts, both domestic and international, to frame the due diligence and prepare term sheets, shareholder agreements and other deal supporting documentation. These will be held in mid-June.

Those who attended last year's summit may be interested to know that of the 13 companies pitching for funding at the showcase event on the first evening, eight went on to complete term sheets, with four deals having either closed or being very close to doing so. If the matching funding received from SCIF is included, the evening is expected to raise over \$2m for these ventures.

The summit organisers were also pleased with feedback on the connections made with 72% of respondents to the post-summit survey noting it delivered "a lot" of useful connections. This year's Angel Summit will be over 31 October and 1 November in Dunedin. Some terrific speakers

have already indicated their attendance and sessions will include effective directorship in a high-growth company and the implications of domiciling a company in the US.

SCIF review

A review of NZVIF's Seed Co-Investment Fund (SCIF) programme is underway to assess its progress and how well it is meeting its objectives.

SCIF was established by the government in May 2005 to address a gap in the early-stage investment market. The gap related to the level of capital that was flowing to early stage businesses, the number of angel investors and variability of capability of those investing. The fund, which co-invests alongside angel groups, began investing in December 2006 and to date \$21m has been put into 88 seed and early stage New Zealand companies, co-investing alongside 14 private sector partners.

In August 2012, the Ministry of Business, Innovation and Employment began the first full government review of SCIF since its establishment. The evaluation is reviewing the programme's progress towards its objectives, and its efficiency and effectiveness. It is looking at how angel investment networks and funds are evolving, the

evolution of skills in the sector, the evolution of the early stage capital market since SCIF was established (including constraints to market growth and how these are being addressed), and the importance of angel investment for business growth. It will also look at the need for the programme to remain in place, including the possible need for a new SCIF fund, and look at how SCIF fits with other parts of the government's Business Growth Agenda.

It is expected that the review process will be completed shortly with the full review report expected to be available in a few months.

The Angel Association made an industry submission on the review to MBIE in January 2013. A copy of that submission can be found at www.angelassociation.co.nz/library/publications/.

Early stage investment valuations

NZVIF recently published an analysis of the valuation of early-stage investments in New Zealand, which updates an earlier 2011 report.

The key findings from 310 complete investment rounds made between 2004 and mid 2012 include:

- The median seed, start-up and early expansion

The median pre-money value in 2011 and 2012 has remained largely consistent with previous years, consolidating the view that valuations of around \$500,000 for seed stage and \$2m for start-up stage companies appear to be the market norm.

valuations were \$874,000, \$2.27m and \$7.52m respectively, however, there remains substantial variance across the industry sectors.

- The median pre-money value in 2011 and 2012 has remained largely consistent with previous years, consolidating the view that valuations of around \$500,000 for seed stage and \$2m for start-up stage companies appear to be the market norm.

- Follow-on investments continue to outweigh new investments.

Little has changed in the last 18 months in relation to pre-money valuations for the early stage investment market. If anything valuations have fallen slightly and are consolidating around the current levels. While the amount invested on an annual basis has certainly reduced, the number of companies invested in to seems to have remained stable.

Software, pharmaceutical,

biotech & life sciences, and technology hardware & equipment continue to provide the bulk of the investment focus in the New Zealand early stage company investment industry. The majority of investments, both by number and dollars invested, are being made into the start-up stage of a company's life cycle.

The New Zealand's results can be contrasted with angel group investment activity and trends in the United States, as reported in the Halo Report. Latest results include:

- In Q3 2012, the median size of angel and angel group syndicate rounds reached US\$640,000, the highest in the five quarters the data has been tracked.

- The median pre-money valuation for early stage angel group deals is US\$2.6m.

- Median round size is US\$1.59m when angel groups co-invest with other types of investors.

NZ Young Company Finance

US news - Angel deals high but dollars fall

The US angel investor market in the first two quarters of 2012 showed

dollars and the matching increase in total investments resulted in an average deal size of US\$336,390 in the first half of 2012, comparable to the deal size in the same period in 2011 of US\$338,400.

Healthcare services/medical devices and equipment accounted for the largest share of investments, with 24 percent of total angel investments in Q1 and Q2 2012, followed by software (14 percent), biotech (12 percent), retail (10 percent), IT services (7 percent) and media (6 percent).

2012, followed by software (14 percent), biotech (12 percent), retail (10 percent), IT services (7 percent) and media (6 percent). While investment levels continue to recover, a prominent California angel investor is predicting a collapse of early stage companies which have received initial angel but fail to make the next stage and secure Series A funding from venture capitalists

Veteran angel investor Ron Weissman, a member of Band of Angels - the oldest angel group in the US, warned the Silicon Valley Business Journal of an 'investment bubble' and that there was a froth was caused by a shift of money toward social media and consumer startups that could be started on the cheap, a proliferation of incubators and accelerators, and the irrational exuberance of some callow angel investors.

Weissman already sees signs of an angel pullback. Veteran investors are more reticent to place money with social, mobile and local startups, he said. He does not, however, foresee a downturn on the same scale as the \$3 trillion bust that rocked Silicon Valley in the dot-com era. Instead, many investors see the cleansing is a part of life in Silicon Valley likening it to economic natural selection, with weak investors and entrepreneurs getting weeded out.

signs of steady recovery since the correction in the second half of 2008 and the first half of 2009, with total investments at US\$9.2 billion, an increase of 3.1 percent over the same period in 2011, according to the Center for Venture Research at the University of New Hampshire.

Angels continued their appetite for seed and start-up stage investing, with 40 percent of Q1 and Q2 2012 angel investments in the seed and start-up stage, which is virtually unchanged from the 39 percent in the same period last year. There was, however, a shift to expansion stage financing to 22 percent of investments in Q1 and Q2 2012 from 13 percent in Q1 and Q2 2011, indicating that angels are positioning their investments for exits in the coming year. New, first sequence, investments represent 49 percent of Q1 and Q2 2012 angel activity, unchanged from the same period last year.

New, first sequence, investments represent 49 percent of Q1 and Q2 2012 angel activity, unchanged from the same period last year.

There was a 3.7% increase in the number of entrepreneurial ventures receiving angel funding during the first half of 2012 over the same period in 2011. The increase in total

Healthcare services/medical devices and equipment accounted for the largest share of investments, with 24 percent of total angel investments in Q1 and Q2

Fast-Growing Companies Show Up in Surprising places

The US-based Kauffman Foundation has found that a surprising number of fast growth US companies are found outside regions generally regarded as centers of innovation – such as Silicon Valley, Boston and, the Research Triangle in North Carolina.

Most ‘innovation’ rankings use metrics based on the concentration of high-tech industry, venture capital investment, world-class universities and patents per capita, under the assumption that these indicators are a good proxy for innovation. Instead of looking at these factors, Kauffman researchers focused more simply on where are the fast-growing firms geographically concentrated.

Analysing the annual ‘Inc. 500’ list – which ranks private firms with fastest-growing revenues in the US – the research specifically traced fast-growing firms’ geography over the last decade.

Among large metropolitan areas, Washington, D.C., has the highest concentration of fast-growing firms, both in absolute number and per capita. More than 46 percent of

fast-growing firms in the D.C. area operate in government services, suggesting that government can play a large role in the growth of private firms.

The top 20 metros that house these fast-growing firms include Salt Lake City, Indianapolis, Buffalo, Baltimore, Nashville, Philadelphia, and Louisville.

Startup valuations must be kept at a low enough amount to allow for the extreme risk taken by the investor and to provide some opportunity for the investment to achieve a ten times increase in value over its life.

According to the Kauffman research, the usual proxies - the presence of venture capital investment, patents per capita, high-quality research universities and federal R&D spending - are not associated with a concentration of fast-growing firms. Instead, the presence of a highly skilled labour force is the only important regional factor associated with high numbers of fast-growing firms.

This suggests that cities

don’t have to join the race to become the next high-tech centre or Silicon Valley. Innovations from fast-growing companies generate wealth and employment, and policymakers should consider more about what are sources of growth for these companies and how regional development models function in those understudied areas. Second, government seems to play an important role -- not in the sense of providing R&D funds, creating large research universities or establishing public venture funds, but by training a highly skilled labor force.

Brit angel investors get tax relief extended

Wealthy UK investors are being offered more incentives to put money into start-up ventures as part of the government’s push to promote angel investment.

Angels can avoid paying CGT on money put into companies before April 2014

A waiver on capital gains tax (CGT) for investors in early stage enterprises is being extended for another year, increasing the potential gain angels can make from

NZ Young Company Finance

successful investments and enabling them potentially to write off more than 100 per cent of any money put into failed ventures.

Angels can avoid paying CGT on money put into companies before April 2014, 12 months longer than previously believed, by using a process called carrying back, although there will be a limit on the amount of investment funding that could be carried back.

Match-fixing suspected in major international award

NZVIF's Chris Twiss and Carl Jones won the 'astute company pickers' prize during the gala dinner at the recent Australian Association of Angel Investors conference in Queensland. A match-fixing investigation has been launched. Both are being interviewed and decline to comment.

News from Europe

Below is a graphic produced for EBAN, the European Trade Association for Business Angels. It shows trends in European Startups Seeking Angel Capital Q4 2012 based off data collected by Gust, the platform for the sourcing and management of early-stage investments.



NZ Young Company Finance

Private Financing Deals – 2nd half of 2012

Month	Name of Company	Location	Sector	Round	Stage	Range	Lead Investor	Syndication Partners
Jul-12	Googly Inc Limited	Auckland	Consumer Durables & Apparel	T1	Seed	\$0-\$250k	Sparkbox	SCIF, K1W1
Jul-12	Green Button Ltd	Wellington	Software and Services	7	Start Up	\$1m-\$1.5m	ICE Angels	SCIF, Enterprise Angels, Movac, Private Investors
Jul-12	Kaynemaile	Wellington	Materials	6	Start Up	\$250-\$500k	Movac	SCIF
Jul-12	Simtics (Go Virtual Medical Ltd)	Auckland	Software and Services	6	Start Up	\$0-\$250k	Sparkbox	SCIF, Private Investors
Jul-12	TranscribeMe	Auckland	Software and Services	1	Start Up	\$0-\$250k	ICE Angels	Private Investors
Aug-12	CropLogic	Christchurch	Software and Services	T1	Seed	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Aug-12	Manawatu Diagnostics	Palmerston North	Pharmaceuticals, Biotechnology & Life Sciences	4	Start Up	\$750-\$1m	NZDx	SCIF
Aug-12	Plantier Development Limited	Nelson	Household & Personal Products	1	Start Up	\$0-\$250k	Venture Accelerator Group	SCIF
Aug-12	Vesper Marine	Auckland	Consumer Durables & Apparel	3	Start Up	\$250-\$500k	ICE Angels	SCIF, Private Investors
Sep-12	Charge Communications Limited	Auckland	Software and Services	T1	Start Up	\$0-\$250k	ICE Angels	SCIF
Sep-12	Kaynemaile	Wellington	Materials	T6	Start Up	\$0-\$250k	Movac	SCIF
Sep-12	Kiwi Semiconductor	Auckland	Semiconductors & Semiconductors Equipment	3	Start Up	\$500-\$750k	Movac	SCIF, Angel HQ, Private Investors
Oct-12	Matakina	Wellington	Medical	2	Start Up	\$0-\$250k	K1W1	Other Angel Investors
Oct-12	Snakk	Auckland	Software and Services	2	Start Up	\$0-\$250k	K1W1	Other Angel Investors
Dec-12	Triplejump Ltd	Auckland	Software and Services	4	Early Expansion	\$0-\$250k	K1W1	Other Angel Investors
Oct-12	Anzode	USA	Materials	9	Start Up	\$0-\$250k	Manawatu Investment Group	SCIF
Oct-12	Booktrack Holdings Limited	Auckland	Software and Services	4	Start Up	\$1m-\$1.5m	Sparkbox	SCIF, Private Investors
Oct-12	Caldera Health	Auckland	Pharmaceuticals, Biotechnology & Life Sciences	T3	Start Up	\$250-\$500k	Pacific Channel	SCIF, Private Investors
Oct-12	HSN Group	Auckland	Software and Services	1	Start Up	\$250-\$500k	ICE Angels	SCIF
Oct-12	Plantier Development Limited	Nelson	Household & Personal Products	T1	Start Up	\$0-\$250k	Venture Accelerator Group	SCIF
Oct-12	Podscape Holdings Limited	Auckland	Software and Services	3	Seed	\$500-\$750k	Sparkbox	SCIF, Angel HQ, Cure Kids, Enterprise Angels, MIG
Oct-12	Scitox	Auckland	Pharmaceuticals, Biotechnology & Life Sciences	4	Seed	\$0-\$250k	Pacific Channel	SCIF
Oct-12	TravelMob	Auckland	Software and Services	1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Oct-12	Mi5 Security	Auckland	Software and Services	1	Start Up	\$250-\$500k	ICE Angels	SCIF
Oct-12	Peeld NZ Limited	Auckland	Food, Beverage & Tobacco	2	Start Up	\$0-\$250k	ICE Angels	
Oct-12	International Trading Cartel Limited (Stolen Rum)	Auckland	Food, Beverage & Tobacco	1	Start Up	\$0-\$250k	ICE Angels	
Nov-12	Barrington Arch		Software and Services	T1	Start Up	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	CropLogic		Software and Services	T1	Seed	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	Havelock North Fruit Company	Hawkes Bay	Food, Beverage & Tobacco	T1	Seed	\$0-\$250k	Enterprise Angels	SCIF
Nov-12	Invert Robotics Ltd		Technology Hardware & Equipment	T2	Seed	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	Koti Technologies		Technology Hardware & Equipment	T1	Seed	\$0-\$250k	Powerhouse Ventures	SCIF

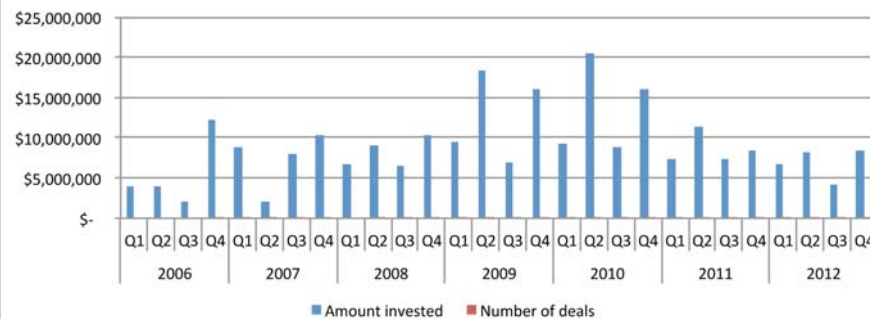
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Q4 cont

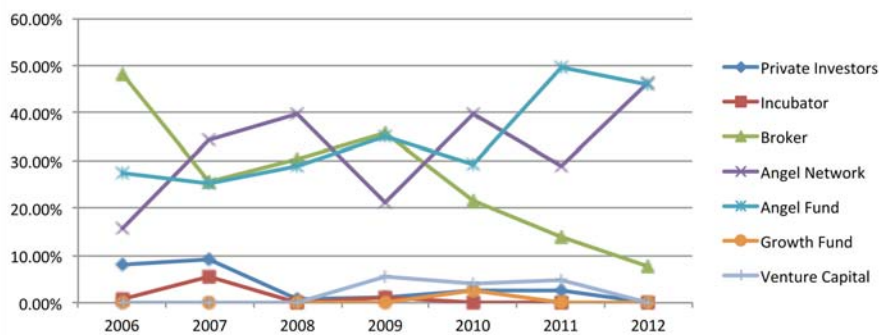
Month	Name of Company	Location	Sector	Round	Stage	Range	Lead Investor	Syndication Partners
Nov-12	Mohio	Auckland	Software and Services	1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Nov-12	Motim Technologies Ltd		Software and Services	1	Start Up	\$250-\$500k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	Quantec	Hamilton	Pharmaceuticals, Biotechnology & Life Sciences	2	Seed	\$0-\$250k	Angellink	SCIF, Private Investors
Nov-12	Solar Bright		Consumer Durables & Apparel	1	Start Up	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	Trac Plus Limited	Dunedin	Technology Hardware & Equipment	5	Start Up	\$500-\$750k	Otago Angels	SCIF, Private Investors
Nov-12	Veritide		Technology Hardware & Equipment	3	Seed	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Nov-12	TranscribeMe	Auckland	Software and Services	T1	Start Up	\$0-\$250k	ICE Angels	Private Investors
Dec-12	Anonymous	Auckland	Software and Services	1	Seed	\$0-\$250k	Sparkbox	
Dec-12	Barrington Arch		Software and Services	T1	Start Up	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Dec-12	Hydroxsys Ltd	Auckland	Materials	1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Dec-12	Mobot Industries Ltd	Auckland	Capital Goods	1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Dec-12	Mohio	Auckland	Software and Services	T1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Dec-12	Solar Bright		Consumer Durables & Apparel	T1	Start Up	\$0-\$250k	Powerhouse Ventures	SCIF, Private Investors
Dec-12	Trac Plus Limited	Dunedin	Technology Hardware & Equipment	T5	Start Up	\$0-\$250k	Otago Angels	SCIF, Private Investors
Dec-12	TravelMob	Auckland	Software and Services	T1	Seed	\$0-\$250k	Sparkbox	SCIF, GD1 Nominees
Dec-12	SYL Research	Wellington	Software and Services	1	Start Up	\$500-\$750k	Angel HQ	SCIF, ICE Angels, MIG, Enterprise Angels
Dec-12	LightKnight International Limited	Auckland	Consumer Durables & Apparel	2	Start Up	\$250-\$500k	ICE Angels	SCIF
Dec-12	Nextspace	Auckland	Software and Services	5	Start Up	\$0-\$250k	ICE Angels	
Dec-12	Pictor Limited	Auckland	Pharmaceuticals, Biotechnology & Life Sciences	3	Start Up	\$500-\$750k	Cure Kids Ventures	SCIF, ICE Angels, K1W1, Private Investors

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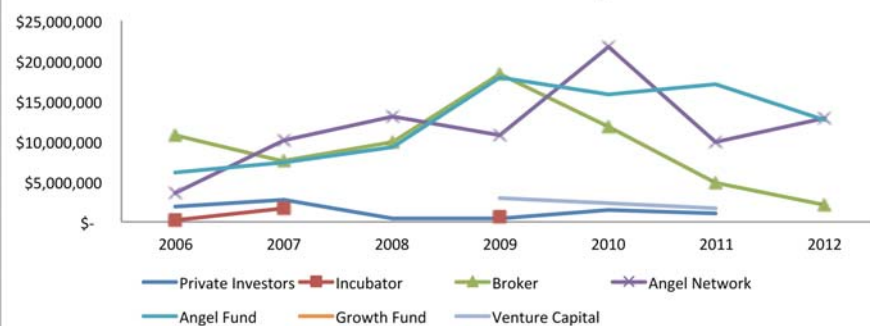
Capital Invested 2006-2012



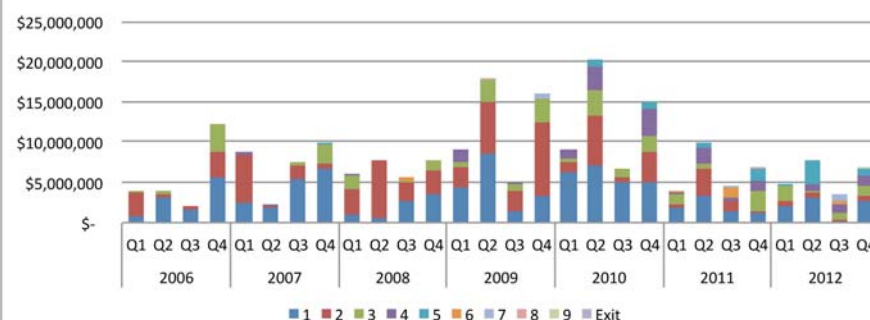
Deal Sources 2006-2012 %



Deal Sources 2006-2012 \$

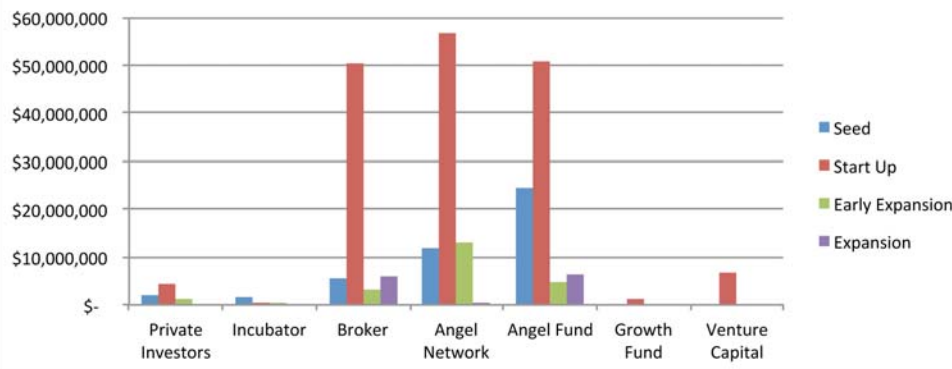


Capital Invested by Round 2006 -2012

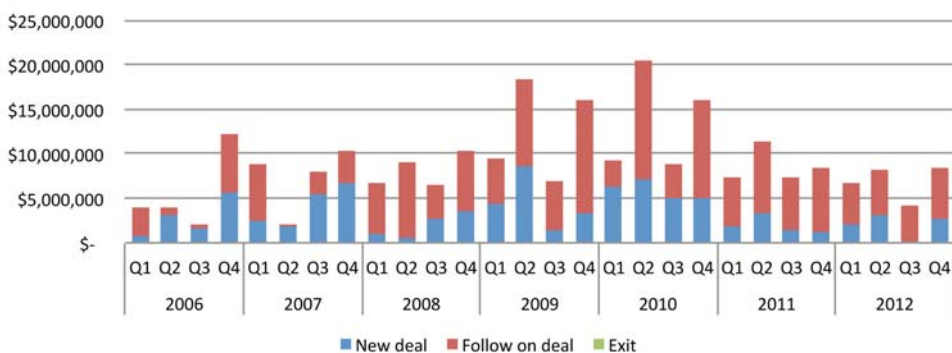


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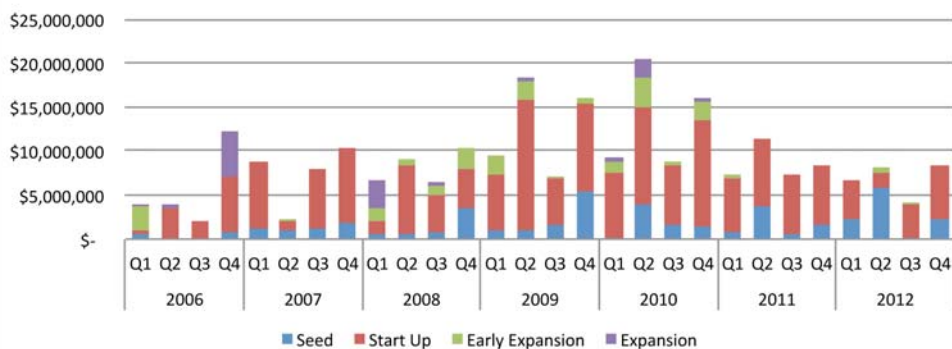
Deal Sources by Stage 2006-2012



Capital Invested by Type 2006-2012

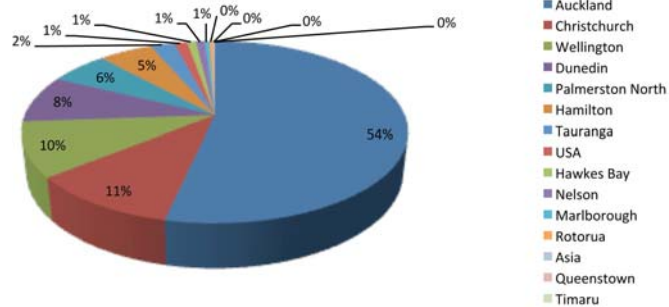


Capital Invested by Stage

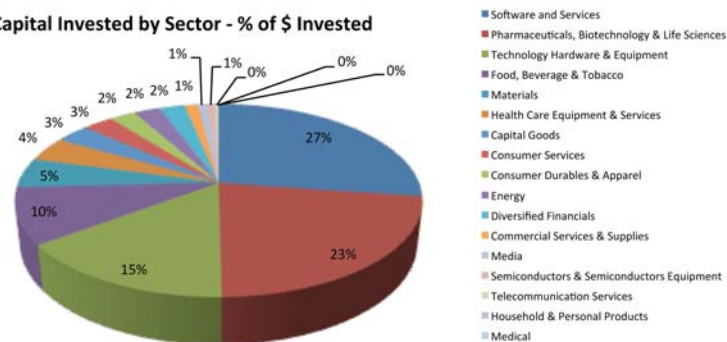


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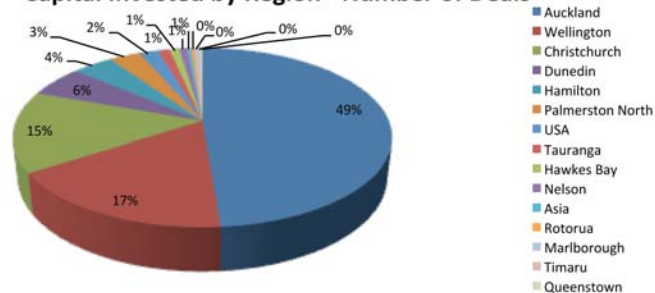
Capital Invested by Region - % of \$ Invested



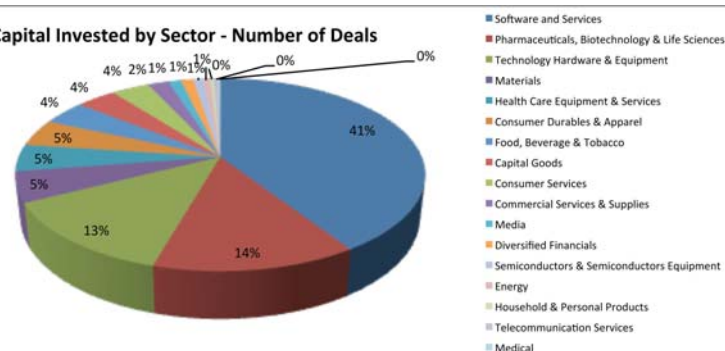
Capital Invested by Sector - % of \$ Invested



Capital Invested by Region - Number of Deals



Capital Invested by Sector - Number of Deals



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