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Go big or go home

Practical lessons in portfolio constructio

Phil McCaw

What does *portfolio* mean in early-stage investment?

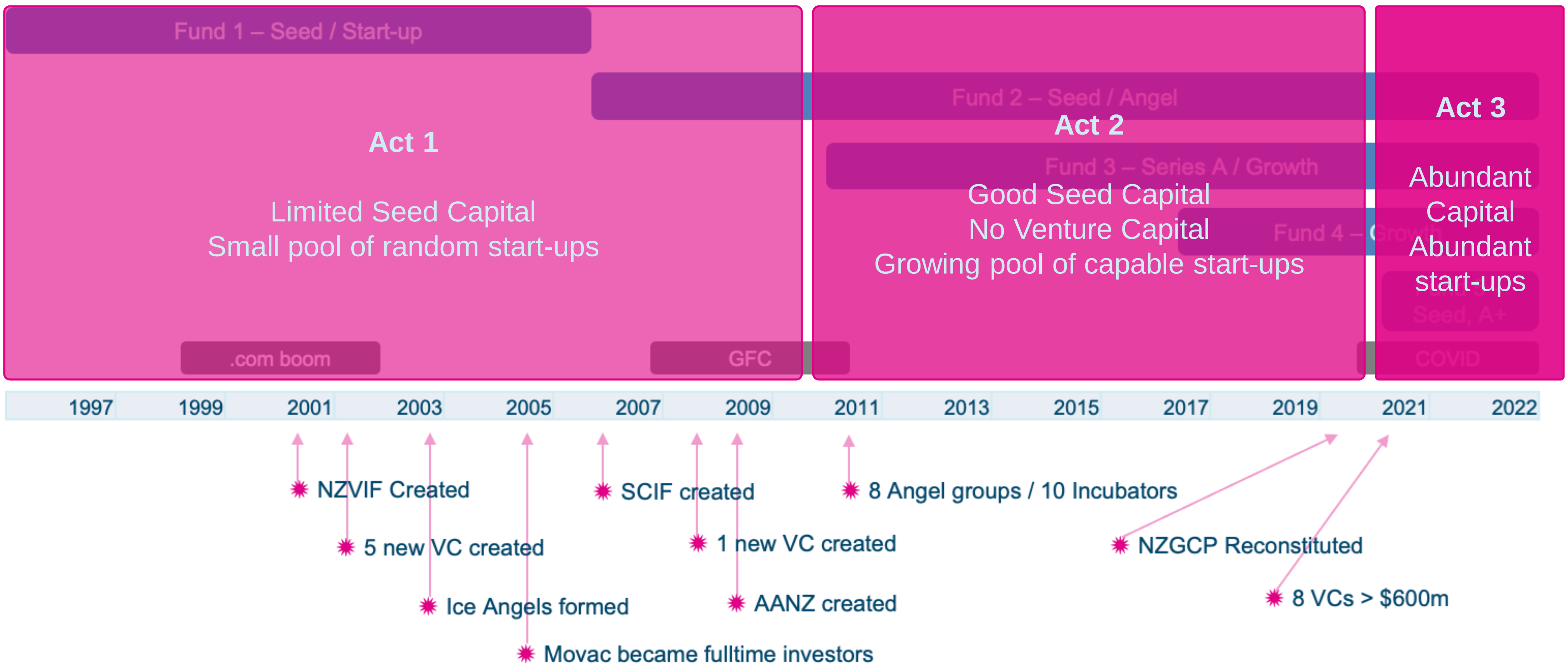
- The mix of investments that **YOU** choose to make that maximizes what's important **TO YOU**.

- You might think of this in terms of:
  - Working with **people** that motivate and inspire you
  - Doing things aligned with your **personal values**
  - Maximizing **return**
  - Having **fun**
  - Leveraging your **experience**
  - **Diversifying** tech, sector, geography, stage etc.

- So…you write your own rules

Movac's journey

Strategy has adapted to market conditions



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Fund 1 – Seed / Start-up

Size:	~$500k
Stage:	Seed
# of investments:	7
Goal:	Financial independence
Externalities:	**No NZ Angels, No NZ VCs**
Thesis:	.com, mates, related services
Lesson learned:	Services suck but are a means to an end. Mates need good ideas. Can't rely on others to fund growth
Result:	50x (TradeMe)

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Fund 2 – Seed

Size:	**~$20m**
Stage:	Seed
# of investments:	15
Goal:	Repeat TradeMe
Externalities:	**Little Angel or VC capital in NZ**
Thesis:	"Market Places in Wellington" → "anything tech that looked good in NZ"
Lesson learned:	Solve follow-on capital problem Back your winners, but how do you know? Avoid getting overly concentrated in the wrong deals Committed Founders and Committed Boards
Result:	5.7x / 15 years 2 deals > 10x **(Deep Tech)** 2 deals – 2 – 5x 7 failed 4 battle on

US Angel portfolio theory:

- 1 in 10 deals will deliver excess return (30x)
- 2 to 4 will deliver modest returns.
- The rest will fail.

Overall if you get it right you should generate returns of ~25%.

US Angel Returns average 27% IRR (Kauffmann Foundation)

Return multiple	Proportion of deals
> 10x	7%
5x – 10x	6%
1x – 5x	32%
Negative IRR	52%

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Fund 3 – Series A / Growth

Size:	**~$42m**
Stage:	Series A / Growth
# of investments:	6
Goal:	Follow-on capital fund
Externalities:	**No VC capital in NZ**
Thesis:	70% Capital to Growth (safer bets), 30% to Early stage (generate out performance)
Lesson learned:	Fund too small - # of companies + capital to invest. Avoid getting overly concentrated in the wrong deals Committed Founders and Committed Boards Back your winners
Result:	2.3x / 10 years 2 deals > 5x **(Deep Tech)** 3 deals < 1x 1 still going

<u>Diversified by:</u>

- Investment Stage
- Sector
- Tech

Creating "modest" risk mix.

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Fund 4 – Growth

Size:	**~$110m**
Stage:	Growth
# of investments:	8
Goal:	Return + show NZ institutions VC can work
Externalities:	**NZ Institutional capital not interested in Venture**. Extraordinarily good timing. Soft market at the start and then explosive growth. Severely limited VC / Growth capital in NZ
Thesis:	Back companies that are showing signs that they can scale.
Lesson learned:	Proved hard to get cash into best performers (didn't need it) Consolidation plays - are you going to be eaten or do the eating? Watch getting overly concentrated in the wrong deals
Result:	**4 exits,** 4 still going Running @ 20% IRR net of fees + carry

Concentrated in:

- SaaS – NZ strength of the time
- Growth stage - $2m - $20m revenue

Reasonably low-risk

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Fund 5 – **Seed / A+**	
Size:	**~$250m**
Stage:	Seed -> A, B, C, D, E, F, G
# of investments:	up to 25
Goal:	Scale up Aotearoa VC
Externalities:	**COVID Whiplash** **NZ Institutional capital waking up.** International markets awash with cash and discovered Zoom. Very dynamic M&A environment
Thesis:	Seek Alpha from early stage, balance risk with later stage growth
Lesson learned:	Most competitive market we’ve operated in Need early stage to access better value Patience
Result:	**TDB**

Observations

- **Consolidates** what we’ve learnt
- **Seed Allocation** (10x+ opps) - $20m allocated to invest alongside Angels and other VCs. Focus on opportunities with the **potential to build $1b businesses.**
- **Balance to Series A+** (3x+ opps) - focus on sales acceleration. Lower returns, lower risk, faster turnaround.
- **Unprecedented pace** - 17 Deals done so far
- **Unprecedented competition** – domestic and international
- **Unprecedented valuations**
- **Unprecedented deal size** – can Kiwi companies spend it well?

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So how do I think about all this now….

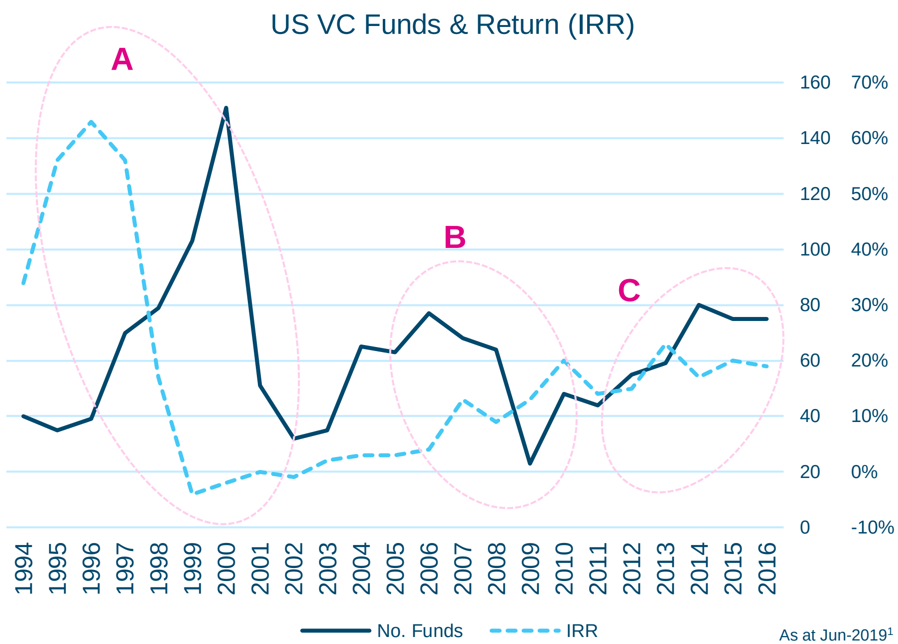
- Focus on **high impact, high return**.
  - Frontier tech: **Climate, Med Tech, Metaverse, FinTech, Crypto, Space, Robotics**
  - Mix of Deep Tech and Software Tech
  - Takes a long time.
- Plus, **“crank the handle” investments**. Hard to access if not following on, consider funds.
- Allocate capital for **follow-on**.
- Back highly committed, smart **founders** and **investors**. A group that are good to hang out with and will go deep in a crisis.
- **Cash vs time**.

Placeholder slides

Challenging times…

VC returns are historically counter-cyclical.

This is driven by **valuation**, **scarcity of capital** and **opportunity set.**



A. **Dot-com bubble**. Only after the number of new Funds entering the market dropped, did VC returns recover.

B. **GFC**. Big drop in new Funds saw Fund returns climb.

C. **The 'forever boom'.** Despite the longest bull market in history, average US VC returns flatlined as new Funds entered the market.

When Venture Capital is scarce, returns climb. When returns climb, new funds enter the market, driving valuations up and returns down.

1 – Cambridge Associates US VC report (Q2 2019)

Best VC returns generated in down cycles

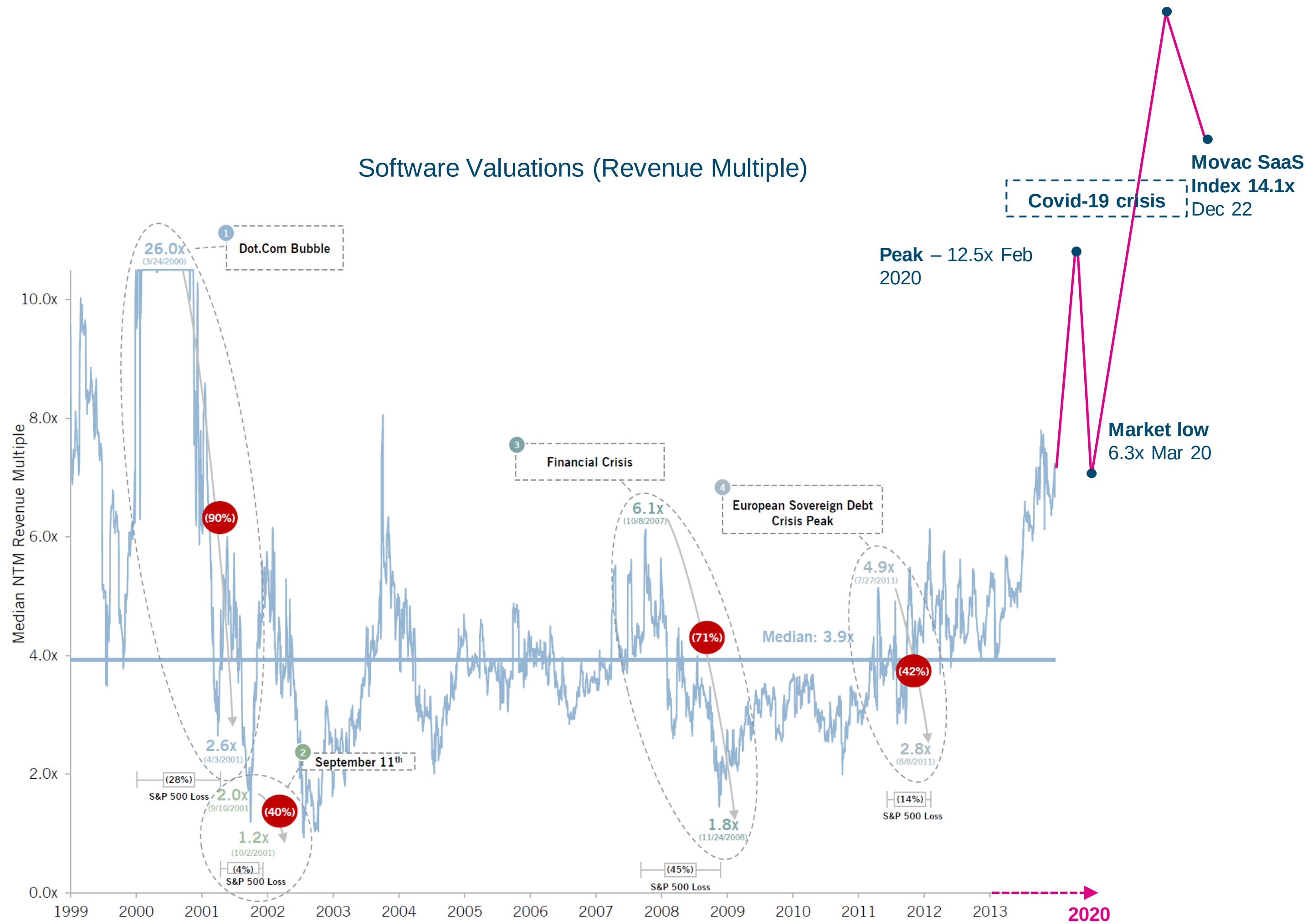
VC returns are counter-cyclical.

This is driven by **valuation**, **scarcity of capital** and **opportunity set.**

Lower entry valuations

Creating value into the next 'boom' cycle

Software Valuations (Revenue Multiple)



Jefferies Software Market Update (2020)

Sector diversification - SaaS v Deep-tech

Investment characteristics

generalised

	SaaS	Deep tech
Risk	**Lower**	Higher
Return, if successful	Lower	**Higher**
Entry valuation	Higher	Varies, often **Lower** than "hot" SaaS co's
Barriers to entry	Lower	**Higher**
Capital required	**Lower**	Higher
Moat	Lower	**Higher**
Time to value	**Lower**	Higher

- Like SaaS, there is a **natural cashflow gap** where the earnings of the business are significantly delayed compared to expenses – this makes room for Angel/Venture investment.
- Deep-tech is often creating markets or disrupting industries, often off a **large body of previous and ongoing R&D**.
- Progress can be incremental and hard to measure, which can mean **delayed time to value**.
- These creates barriers to entry (**moat**), and also **higher capital requirements**.

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Strategy has adapted to market conditions