ANGEL ASSOCIATION NEW ZEALAND

Angel Financing in Asia Pacific

Exclusive preview for:

ABAF

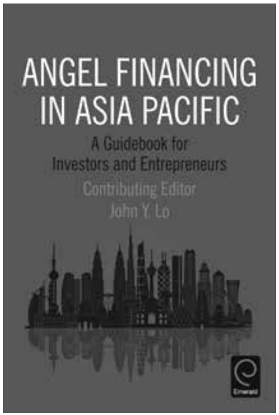
ASIAN BUSINESS ANGEL FORUM

A Guide to Angel Investing in New Zealand

AANZ • ABAF 2015

NEW ZEALAND CONNECTION

The Angel Association of New Zealand is pleased to be able to provide you with this exclusive preview of the soon to be released "Angel Financing in Asia Pacific" Guidebook for Investors and Entrepreneurs.



INTRODUCTION

The Contributing Editor

John Lo was one of the very early angels in Hong Kong. He has been an active angel investor in, and mentor and advisor to numerous startups over the past 15 years and has written a book about angel investing in Hong Kong (in Chinese).

John Lo is a partner of Edwards Wildman Palmer, and a seasoned, multi-lingual (English, Cantonese, Mandarin and Shanghai dialect) corporate transactional lawyer dually qualified in California and Hong Kong.

Educated at UC Berkeley (BA, JD and MBA), he has extensive and in-depth experience in business and legal matters spanning Hong Kong, China, and the US. He is a member and Honorary Legal Advisor to Hong Kong Business Angel Network.

The Book

This excerpt comes from John's second book, this one in English, which covers the fundamentals of angel investing in the Asian Pacific region.

The final book will include information about the early-stage space in Malaysia, Singapore, China, Taiwan, Korea, Ausralia and more.

The chapter provided for you in this booklet was released exclusively for the Angel Association of New Zealand (AANZ) to be promoted at the prestigious ABAF event. The author, Suse Reynolds, is an angel investor and co-founder of AngelHQ, Wellington's angel network. She has been an AANZ Council member since the Council's inception and in 2013 became the AANZ's Executive Director. Direct any feedback to info@angelassociation.co.nz.

The Event

Hosted by the Angel Association of New Zealand, the Asian Business Angels Forum 2015 offers the opportunity for international and local investors to join together in celebrating this small country's big contribution to early stage investment.

Over 50 international investors from around 15 countries join more than 100 investors from New Zealand's networks in an exclusive and rare opportunity to connect and do business.

NEW ZEALAND CONTEXT

An introduction to the New Zealand's angel investment and early-stage business community

Enthusiasm for inspirational, early stage, high growth, ventures is high in New Zealand. By just about any metric you care to name, our startup community is growing[1].

This includes angel investors. The number of angel investors who have joined networks and funds here has risen dramatically in the past two years. While it is not easy to be definitive about these numbers, it is estimated that the number of eligible angel investors represented by the Angel Association New Zealand has grown from around 300 to over 600 in the past two years.

Interest in this asset class is showing growth worldwide and in New Zealand this has coincided with a campaign to attract new investors. New activity and networks are emerging from one end of the country to the other in addition to the major metropolitan centers.

The growth in investor numbers is helping to fuel the increase in investment activity. This year angel networks and funds recorded their second consecutive year of more than $50 million of investment. The level of annual investment is almost triple what it was a decade ago.

The value of angel investing in economic development is being increasingly recognized internationally. The European Union has promoted policies to develop angel investing since the early 2000s. The World Bank and Inter-America Development Bank also actively promote angel investment. In many national jurisdictions governments are intervening in a variety of ways to stimulate interest in angel investment.

This is also the case in New Zealand. Local and central government and others with an interest in the innovation eco-system all recognize it is good practice to support both the supply and the demand sides for early-stage funding. Our government has put in place programmes to do both.

This includes, on the demand side, programmes such as the New Zealand Venture Investment Fund and support from New Zealand Trade and Enterprise for the last three years to the Angel Association to collaborate on a series of projects to grow internationalization, capability and capacity, professional development and to "tell the NZ angel investment" story.

On the supply side the government has instituted a number of programmes primarily through Callaghan Innovation, a government funded institute to support innovation and delivering initiatives such as founder and technology incubators and support for "tech transfer" to businesses through entities such as KiwiNet and Return on Science.

[1]New Zealand Venture Investment Fund - http://www.nzvif.co.nz/assets/publications/Startup-Issue18-May15.pdf

HISTORY

Much as in other countries, angel investors have been operating in New Zealand for a long time but it was only in the early 2000s that they began to be recognized and acknowledged in the way we know angel investment today.

In 2005, the first angel network, Ice Angels, was formed in Auckland. The following year, in 2006 the NZ Venture Investment Fund's Seed Co-Investment Fund was established. Angel Association New Zealand, the key umbrella organization, was founded in 2008. Today it has over a dozen members representing 9 networks and 6 early stage funds. The Association also has a close relationship with the newly established equity crowd funding platforms.

The New Zealand angel industry has been fortunate to have consistent leadership from a small group of passionate leaders - Andy Hamilton has been CEO of the Ice House in Auckland for ten years, Phil McCaw, the Managing Partner of Movac, an early stage venture investment fund, Greg Sitters who is a founder of Sparkbox, another early stage fund, Dean Tilyard, the CEO of the Bio-Commerce Centre in Palmerston North and Bill Murphy, the founder of the largest angel network in the country, Enterprise Angels - all have been true champions for this asset class and remain engaged.

THE PLAYERS

Angel investment is currently operating across New Zealand, from the top to the bottom, with budding networks in the deep-south in Invercargill to the far north in Whangarei.

Southland

A small team of enthusiasts are working to establish angel investment in Invercargill. It is yet to be determined whether this might take the form of a network or fund.

Otago

The Otago Angel network, was formed in 2007 to help fund the growth of the local incubator's companies. Upstart Incubator now no longer exists and has been absorbed into PowerHouse, a tech transfer operation based in Christchurch. Otago Angels members are primarily Dunedin based but also source funds from Queenstown based members. There are currently over 100 members on its data base but only a small number are active. These people now form the investment committee of a fund based entity.

Christchurch

The Christchurch angel fraternity is represented by two entities: PowerHouse and Canterbury Angels.

PowerHouse Ventures was established nine years ago. PowerHouse invests primarily in ventures sourced from Otago, Canterbury, Lincoln and Victoria Universities. It operates by using invested funds and co-investment. Five funds have been raised from a data base of over 1,200 investors who are largely locally based. A fund is raised every year and typically targets half a dozen investments in the range of NZ$100,000 to NZ$1,000,000 including follow-on rounds. [As this book goes to press in late 2015, US$=NZ$[1.50]] PowerHouse employees, managers and mentors for the ventures also contribute capital. PowerHouse is currently exploring listing on the New Zealand stock exchange to provide further liquidity for their ventures.

Canterbury Angels is a very new, conventional open-membership angel network. It has been in operation for less than a year with a dozen or so members and primarily sourcing deals from outside the region. There is likely to be good local deal flow as both local and central government are supporting initiatives to promote business establishment and growth following the 2011 and 2012 earthquakes.

Nelson

Venture Accelerator has been operational since 2007 and became a SCIF partner in 2008. It is a small but effective angel network of around 12-16 members and has actively worked with other networks to syndicate and source deal flow since its inception.

Wellington

Four angel funds and one angel network operate out of Wellington. The four funds are (a) Movac; (b) Jasmine Investments; (c) Webfund; and (d) Evander Capital.

Movac was founded in 2005 to invest in companies with the potential for rapid and large scale growth. The directors have raised three funds and invested in over a dozen ventures. The first two funds are fully invested and the third fund, Movac Fund 3, is an early-stage expansion fund, investing between NZ$1 million and NZ$ 5 million in high-growth companies. This reflects Movac's shift to the next stage of the capital life cycle.

Sam Morgan was the founder of New Zealand's equivalent of Ebay, TradeMe, which was sold for over $NZ750 million. His early stage investment enterprise, Jasmine Investments has been investing in angel ventures for the last eight years. Dave Moskovitz, formerly from the West Coast of the US, established Webfund at about the same time and has been making investments into digital and new media ventures. Evander Capital, run by Simon Holdsworth, was established in 2008 and has made a number of investments in early stage ventures. His family founded Datacom, a successful IT based service provider.

Angel HQ, the angel network, began as a business unit of the local economic development agency, Grow Wellington, in 2006 with 10 investor members. In 2009 it became an independent entity and today has over 60 members. Angel HQ has invested NZ$9 million in over 40 deals since its inception. Every year over 100 enquiries are received, with a dozen or so presenting at quarterly investment evenings and about 4 ventures receiving investment.

Palmerston North

The Manawatu Investment Group (MIG) was established in 2007 to provide funding for Manawatu start-ups, largely sourced from the local agricultural university, Massey University's Bio Commerce Centre (which is supported by the local economic development agency) and other locally based funding entities.

The group has evolved from a loose collection of interested individuals, who made several investments in local companies, to a sophisticated group of 50 angel investors.

In 2011, MIG Fund 1, a million dollar angel investment fund, was raised from MIG members. Since then a second fund has been raised. The MIG Investment Committee meets monthly to review propositions. The wider group meets quarterly for investment evenings. Local deal flow is predominately provided by the Bio-Commerce Centre, which also provide management services for both MIG Angels and MIG Fund 1.

Tauranga

Enterprise Angels started in 2008 as a fluctuating collection of 15 to 20 members for the first two and a half years. US angel Bill Payne's visit in 2011 provided a catalyst for Enterprise Angels' growth. He was guest speaker at a targeted dinner for the region's wealthy business leaders. The event attracted a large number of new members, who continue to promote angel investment to their colleagues and friends.

Enterprise Angels now has 140 members and 9 corporate members or sponsors. New Zealand Trade and Enterprise's support for international expert visits often provides a draw card for new members. Enterprise Angels, in the last two years, has been actively promoting angel investment

and attracting members outside Tauranga in Rotorua, Taupo and Hamilton where there are now about 30 Enterprise Angels members.

Auckland

Auckland is the base for three angel funds and the country's largest and oldest angel network and two newer networks; Arc Angels, founded to support and promote women investors and women led ventures and Flying Kiwis, a niche network exploring a different operating model. Ice Angels has over 130 members and was founded in 2003.

Since its establishment Ice Angels has invested over NZ$50 million into 72 companies. Ice Angels is an active club with a strong executive team. They are the instigators of a number of successful initiatives, including an annual showcase where up to a dozen ventures pitch to a room of over 300 potential investors (Angel HQ also hold an annual showcase) and the Lead Investor Forum, where up to 24 angels work for a full day on two to three ventures "learning by doing" on due diligence and the first draft of a term sheet. The showcase is the source of a number of new angels each year for both Ice Angels and Angel HQ. The Lead Investor Forum has proved a very popular and effective way of delivering professional development.

Sparkbox Venture Group has been investing in early-stage ventures since 2001 and has invested in more than 55 companies. Its preference is for high-tech companies and it will invest up to NZ$150,000 per round up to a maximum of NZ$2,000,000 over the life of a company.

K1W1 is owned by Sir Stephen Tindall, the founder of a highly successful chain of general merchandise stores. K1W1 has invested over NZ$200 million in seed and venture funding in over 70 start-up and early-stage ventures with about a dozen exits.

Pacific Channel was founded in 2006 and has placed more than $NZ25m into 16 New Zealand based, life-science and clean-tech companies. In 2010 one of its investee companies, Somnaceutics, which produces sleep enhancing milk, was sold to New Image Group for an undisclosed sum.

Cure Kids Ventures is a wholly owned subsidiary of the Child Health Research Foundation charity known as Cure Kids. Its investment focus is on research, seed, early-stage and expansion ventures with high-growth potential and with products capable of improving health outcomes, particularly for children.

Whangarei

A nascent network is also being formed in the most northerly major town in New Zealand, Whangarei.

STRUCTURE OF NZ NETWORKS

In New Zealand no two networks or fund share the same structure. They are variously incorporated societies, private companies, limited partnerships and wholly owned subsidiaries of organizations funded by a variety of local stakeholders.

Angel HQ is an incorporated society with five people on the Board. Enterprise Angels is also an incorporated society with a five-person board and with a charitable purpose that would see all assets and funds returned to the community should the network be wound up. In practice Ice Angels operates as a joint venture between by the investor members of the angel club and the Ice House. The Ice House is 100% owned by a registered charitable trust. The Trust's purpose is to enable economic growth through small to medium enterprises and start-ups for the benefit of New Zealand.

MIG and PowerHouse both largely operate as funds with their angel investors able to co-invest alongside the fund.

Nelson Gray, from the Scottish Angel Capital Association, points out that in Scotland he works with nineteen angel groups, with three in formation and that there are twenty-two different structures. They are all adapted to the needs and desires of the individuals running the groups.

It is in generally true to say that angel networks are 'member clubs' so the members decide how the club is run. The structures and rules change with time as the networks develop. Those running networks say unequivocally that it is very difficult to run a group that can cover the costs of full time management and administration. It is heavily dependent on part time resources and voluntary effort.

SUCCESS FACTORS

Without doubt an angel network must have a champion individual or individuals to start it and attract founding members. Founding members must be like-minded people who have similar attitudes to risk. They need to like and trust each other as they will do deals together and be involved with each other for a number of years. A solid core of people is needed; people who have the time to help run the network, including to support and promote deal flow and to help hold and run events. There is little space for "tire-kickers" and consultants given the expectation that club members have joined to invest in companies.

Networks need well-documented and supported processes and procedures and a common investment strategy. The absolute bottom line is that networks must have a steady stream of quality deals and invest in companies. This is what will hold the group together.

SYNDICATION & EXITS

Since 2009 there has been an increasing focus on syndicating deals amongst the wider angel communities. This has had a positive impact on competence and capability as it gives angels the opportunity to invest together, to continue to provide funding to growing companies, to aggregate capital so companies get sufficient funding and importantly to share skills and experience between angel groups and investee companies. In New Zealand the proportion of deals syndicated has grown steadily and today over 80% of deals are syndicated.

Another change in recent years has been the increased focus on exits. This has been in part the result of the publication in 2009 of three books by Basil Peters, Dr Tom McKaskill and Scott Shane[2].

Increasingly angels are looking at capital efficiency and the realities of exits and exit multiples and valuations. This focus on exits should support the creation of more sustainable, realistic start-ups, provide confidence around demonstrable returns to angels and attract more individuals to consider the asset class, with the consequent creation of entrepreneurial wealth and skills.

[2] Basil Peters, "Early Exits" Meteorbytes Data Management Corp, 2009; Dr Tom McKaskill, "Invest to Exit" Breakthrough Publications, 2009; Scott A Shane, "Fool's Gold" Oxford University Press, 2009

CAPABILITY & COMPETENCE

In the last few years the emergence of a number of individuals who are recognised globally as "educators" has seen a greater willingness on the part of angels to seek training and professional development opportunities.

The NZ angel industry has been fortunate to receive support from government to bring up to a half a dozen of these people a year to the country to build a skilled base of investors. This skill base then attracts more individuals to the asset class, who in turn help create more successful entrepreneurs.

Building angel capability and competency is done largely through experience; that is "on the job" by investing in, and assisting ventures. This further underpins the importance of supporting networks that provide support and opportunities for angels to invest together and share learnings, contacts and experience.

Professional development for New Zealand angels has largely been at two levels. At one extreme are one-day, formal seminars drawing on material and expert trainers from overseas such as the Kaufman Foundation and Bill Payne.

At the other extreme are ad-hoc, short sessions which form part of a network event where local experts or experienced angels give a presentation on a particular aspect of angel investment such as valuation, governance or due diligence.

A survey run by the Angel Association in 2012 on professional development preferences recently told us 90% of respondents were interested in professional development and that they would like these sessions to run for half a day (90%) and would prefer the sessions to be exclusively for angels (84%). In descending order of preference respondents asked that these cover valuation, "going global", due diligence, term sheets, portfolio management and an introduction to angel investment. Other suggestions for courses included the role of the lead investor, market assessment, governance, and how to use any preferred online platforms for pipeline and deal management.

There are a number of challenges to building angel competency;

- The lack of experienced angels with the time and training to be able to train other angels,
- The difficulty on the part of both existing and potential angels, who are almost always busy people, to find the time to attend education sessions,
- As a rule angels do not enjoy a classroom/seminar settings, and;
- Angels are unwilling to pay much more than a couple of hundred dollars for education sessions.

The Angel Association has supported the development of Lead Investor Forums to address these challenges. Angels "practice" or "learn by doing" on live ventures.

An entrepreneur with a fledgling deal pitches to a group of investors who afterwards segment into different groups to gain experience in putting a deal together. This involves arriving at an agreed term sheet and entails the involvement of experienced local or offshore angels and includes securing support from accounting, legal and IP expertise.

New Zealand's angel networks strongly encourage their members to be actively involved in their portfolio companies – as board members, mentors, and in-market channel and development support. These are skills that need to be developed and learned. It is rare for an angel network member not to be on the board to represent fellow investor interests, to call on other group members for help and introductions, to be involved in strategy and recruitment, to challenge the CEO, and if the time comes to help deal with non-performing founders. This role is typically non-executive and unlike more conventional companies, the line between governance and operations is often blurred.

There are very real issues in getting good directors for start-ups given that the skills required are quite different to those of corporate directorships and because the perceived exposure is increased due to the risk profile associated with early stage comanies. These shortcomings are hard to avoid given start-ups inherently have limited resources – financial and personnel. The AANZ has now established a course, with support from the Institute of Directors, to educate aspiring directors of angel backed companies about their role.

There is an ongoing discussion among New Zealand networks about the role of the network administrator in supporting portfolio companies. Network managers cannot promote deals without risking legal action downstream and yet, if they limit their involvement to "facilitation" and securing the involvement of a lead investor, the deals run the risk of failure. The risk of legal action can be mitigated with the right estoppel clause in the angel network membership form.

THE RELATIONSHIP BETWEEN VENTURE CAPITAL & ANGEL INVESTING

Reflecting overseas experience, only very few angel-backed companies get to the level where they either seek or receive money from New Zealand's venture capital providers. New Zealand's venture capital industry is thin[3], although probably commensurate with the size of our economy. The NZ Venture Investment Fund has also made a very real contribution to the growth of venture capital, as referenced in the next section, and is working with 9 fund managers. Some of these fund managers, such as Movac and No8 Ventures, are successfully raising venture capital and follow-on funds, deploying that capital to grow ventures they have backed from angel-funded rounds.

For a number reasons, as set out in Basil Peters book "Early Exits" [4] , there is a growing realisation that for many entrepreneurs and angel investors taking venture capital is not an option simply because it is not available and even when it is, it can actually be counter-productive given the different approach venture capital fund managers often take to value creation and exits, particularly early exits. The key point is that where angels might for the sake of example, look to take a start-up from $NZ2 million to $NZ15 million, a venture capitalist will want to take that company from $NZ15 million to $NZ100 million. This involves a great deal of extra risk as well as diluting any early angel investors almost out of the picture.

At the 2010 American Angel Capital Association conference a survey indicated 26% of angels said they never looked at deal that would require venture capital funding at any time and 48% said they "sometimes" looked at deals requiring venture capital.

[3] http://www.nzvca.co.nz/members
[4] "Early Exits" by Basil Peters, published by MeteorBytes Data Management Corp, 2009

GOVERNMENT SUPPORT

One of the most tangible forms of government support for angel investment in New Zealand is found in the New Zealand Venture Investment Fund's (NZVIF) seed co-investment fund (SCIF).

NZVIF was established in 2002 to build a vibrant early stage investment market in New Zealand. The organization has $300m of funds under management which are invested through two vehicles:

- the $260m Venture Capital Fund of funds; and
- the $40m Seed Co-investment Fund.

All its investments are made either through privately managed venture capital funds, or alongside experienced angel investors who NZVIF partners with to invest into New Zealand-originated, high growth potential companies.

To date NZVIF has cumulatively invested $353.5m into just over 130 companies. In a typical year the fund takes part in an average of 100 deals with two thirds follow on rounds and a third new investments. In July 2015 the NZ Government announced it would extend its underwrite of NZVIF through to 2022 and transferred $12m into the SCIF fund from the venture capital fund.

There are no tax breaks for early stage investment in New Zealand such as the United Kingdom and some states in the US operate. We do not however have a capital gains tax which in itself can be said to be a compelling incentive to engage in angel investment.

In a less direct sense, the government is in the process of implementing a research and development tax loss, refund proposal. In the AANZ's submission to government on the policy, while applauding the aspiration to incentivize innovation, the AANZ submitted that cash flow constraints in angel backed ventures meant that such a policy was in practice unlikely to have much uptake. We could also see difficulties with the definition of "R&D" which is linked to accounting standards with little relevance to the diverse nature of startups. And we expressed reservations about incentivizing R&D without also ensuring the R&D was directly related to generating commercial outcomes; that is R&D is not an end its own right.

REGULATORY ENVIRONMENT

http://fma.govt.nz/compliance/offer-information/faqs/#schedule1offers

At the end of 2014 the Financial Markets Conduct Act 2013 came into force. This was described as a once in a generation review of the regulatory framework for the capital and financial markets.

Among the key changes impacting on angel investment was the abolition of the widely used and so-called “bright line” test (net assets of $2m or gross annual income of $200,000 for the previous two years) for eligible investors. The new regime also made it much easier for startup companies to implement employee share ownership plans.

Rather than tick-box compliance, this new regime approaches compliance through the lens of what is appropriate in light of Act’s purpose and acting professionally. The focus is on promoting fair, efficient and transparent markets, which means more useable disclosure documents for investors, but also appropriate exclusions so that regulatory burdens are more proportionate to the harms being addressed.

It’s not practical or economic for early stage companies to comply with the disclosure requirements of the FMCA when raising capital so they therefore look to rely on the FMCA exclusion regime. These are generally referred to as “Schedule 1 Exemptions”.

A clear understanding of the application of these exclusions by early stage companies, their investors and advisers is therefore an important aspect of the vigour of our early stage ecosystem. A set of useful “frequently asked questions” can be found at the link on this page.

The FMCA specifies three categories of exclusion:
• Wholesale investors;
• Close relationships; and
• Nature of the offer.

Within these three categories there are two key exemptions applicable to angel investors. Satisfying the conditions of these exemptions minimises the risk of action by a disgruntled founder or fellow investor.

Angel investors fit most neatly as either meeting:
• “experienced investor” criteria under the ‘wholesale investor’ exemptions, or
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faqs/#schedule1offers

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INCUBATORS & ACCELERATORS

The Incubator Support Programme is run by Callaghan Innovation to accelerate the growth and success of New Zealand start-up businesses through a range of services and funding.

The programme recognises the important role of early stage, high-growth businesses to generate employment growth, commercialise intellectual property and grow emerging sectors.

Eight incubators in New Zealand work with start-up businesses to speed up their path to market. Some incubators also provide investment capital.

Their assistance might include:

• technology and market validation
• business planning and development
• capability development
• investment preparation
• governance and advisory board advice
• shared working spaces
• access to the repayable grant tool
(for technology-focused incubators only).

Callaghan Innovation supports two types of incubators – founder-focused and technology focused incubators. Founder-focused incubators typically work with entrepreneurs by providing them with access to support, networks and investments that help them take a business idea, validate it in the market and – when there is potential – take that idea and build a business. Founder-focused incubators operate a service model, providing similar sets of core-business support and development services for business formation and growth. Founder-focused incubators' equity stake in incubated businesses is typically small and not the primary means of funding for that business.

The founder-focused incubators are:

• BCC in Palmerston North
• Creative HQ in Wellington
• E-Centre in Auckland
• The Ice House in Auckland
• Soda Inc in Hamilton

The Technology-focused incubators operate with a market-based, profit-driven focus to establish and nurture businesses based particularly on complex technologies, often derived from public research and development. Technology-focused incubators identify intellectual property (IP) protected ideas or technology that may not have an associated entrepreneur, and then work to build a business team around that intellectual property. They typically focus on building up a business to the stage where it is attractive to angel or venture capital investors.

Technology-focused incubators are primarily funded from returns generated from equity stakes in successfully incubated companies. They are also able to access a new repayable grant by applying to Callaghan Innovation on behalf of the start-up companies they incubate.

This repayable grant is only available to businesses partnering with technology-focused incubators funded by Callaghan Innovation under the Business Incubator Award 2014-2017. The tech focused incubators are:

• PowerHouse in Christchurch
• Astrolab in Auckland
• WNT Ventures in Tauranga

Accelerators are designed to support the rapid formation of early stage ICT and digital technology start-ups that will drive growth in New Zealand's digital technologies industry. There are currently three recipients selected to receive funding from the Accelerator Programme. All three of the programmes are run under the Lightning Lab brand:

• Creative HQ in Wellington.
• Canterbury Development Corporation in Christchurch
• The Icehouse in Auckland

Co-funding is at a rate of 1:2 Government to private sector funding (for example: $250,000 from government is matched $500,000 from co-founders). Accelerate programmes typically run over three to six months and are focused on building businesses' capability to be investment ready. Accelerator Programmes complement Callaghan Innovation's expanded network of eight business incubators, which includes three new technology incubators designed to get more deep IP-based start-ups off the ground.

While technology incubators provide up to two years of co-funding and access to repayable grants for start-ups, accelerators provide start-ups with access to mentors, business planning, and investors.

Creative HQ is being particularly expansive with its accelerator programmes, setting up accelerators to help the government innovate and creating sector specific accelerators for manufacturing, women-led ventures and the energy sector. The Bio-Commerce Centre in Palmerston North is launching an agri-tech focused accelerator early in 2015 called Sprout.

To date, the three accelerator programmes have been very successful in raising funds for their ventures with about 70-80% receiving investment post demo day.

CROWDFUNDING

New Zealand law changed last year and equity crowdfunding is now fully legalized and regulated in this country, meaning that to participate you will have to be a registered New Zealand company and you'll need to provide documentation like a business plan, financials for up to the last three years, and projections for the next three years. You can also expect background checks to be run on all directors of the company.

There are three well-known platforms, namely Snowball Effect, PledgeMe and Equitise. All three have supported successful campaigns to date. Less well known New Zealand competitors include Liftoff, Crowdcube and My Angel Investment.

Fifteen companies have raised a total of NZ$8.7 million through the three first mentioned equity crowd funding platforms since the fund-raising mechanism got the green light from regulators last year. This is nearly 20% of the NZ$55 million that the formal angel market invested into high-growth businesses last year and to the NZ$4.7 billion bigger businesses raised through the NZX stock exchange in 2014. This has to be seen as a positive start and it will be interesting to see how his is sustained.

Equity crowdfunding in New Zealand lets companies raise up to NZ$2 million a year from selling shares to the public, without requiring them to issue a full-blown prospectus and comply with other red tape. Money needs to be raised through crowdfunding platforms, of which five have been licensed by the Financial Markets Authority (FMA) to date. The idea was to make it easier for young "high-growth" businesses to get off the ground and hopefully to unleash a wave of innovation.
An impressive 15 of the 19 equity crowdfunding campaigns that had closed by June 2015 hit their minimum fundraising targets, with only four falling short. A further six were still open to investors. Almost all the businesses raising money have been firms operating in the food and beverage, hi-tech and environmental sectors.

DEAL FLOW

In the past, angels, fund managers and network managers have had to “shake the trees” for deals. They have relied on incubators, early-stage investment bankers, the now defunct NZTE Escalator programme, professional service providers, some of the banks, economic development agencies and word-of-mouth to source deals.

In more recent times, given improving awareness of angel investment, network managers and angel funds in New Zealand can increasingly rely on entrepreneurs coming to them. Entrepreneurs will have a better chance of a good hearing if they are referred from trusted and educated sources; particularly fund managers such as Movac and Sparkbox, the incubators and the better tech-transfer offices in Crown Research Institutes and Universities. While the standard of applications has improved and entrepreneurs now have a much better idea of what investors are looking for, there is still a real need for support to get ventures ‘investment ready’.

The Angel Association surveyed angels about their deal preferences in 2012 including the source of angel opportunities. When asked about their preferred source of deals, 88% of respondents told the Angel Association they had no preference – “a good deal is a good deal”. Where angels did have a preference, in descending order they identified incubators, “garage or front room”, research institutions and economic development agencies. One respondent noted that it was not the source of deals that was relevant but the caliber of the people running the company.

Whether or not an angel will focus on a particular sector very much depends on the individual’s background. Every angel is different. Some angels focus on sectors where they have an interest or expertise, some take a broad approach based on their assessment of the market and business model the entrepreneur is presenting. The Angel Association asked about sector preferences in its deal preferences survey. This revealed New Zealand angels have a preference for web-based software and services, followed closely by technology hardware and equipment, biotech and life-sciences, fast moving consumer goods, clean tech and agriculture.

At present there are very few “cashed-out” or “exited” entrepreneurs who are now business angels. Most business angels have made cash in traditional businesses. They tend to be willing to make generalist investments and rely on others to provide experience in the vertical or industry in which the venture operates. There is a high degree of emotional engagement involved in angel investment decisions. John Huston of Ohio Tech Angels makes the distinction between physic income and financial income. When it comes to financial income, it’s not hard to make the case that angel investing is not a particularly rational economic activity. Angel investment is not financially lucrative for the majority of participants. The positive investment returns, when they come, are not evenly distributed.

A recent Rob Wiltbank, multi-year survey of angel investor returns showed 90% of returns came from just 10% of angel investments. With each individual investment there is a better than even chance the investor will lose his or her money. Angels are therefore looking to help local people and local companies. They are driven by a range of motivations; not just investment returns. Both the ‘softer’ returns and the prospect of financial returns make angel investment enormously rewarding.

DEAL SIZE & PERFORMANCE

New Zealand deal sizes and metrics are not dissimilar to other markets but broadly speaking our deals offer better value than those in the US market.

Valuations have hovered in the $1-2m range for the last few years. Across the NZVIF Seed Co-investment (SCIF) portfolio angel investors have historically been more likely to invest in companies valued under $1m. Only 9% of angel investment receiving see co-investment funding have been over $2.5m. In 2014 the average deal size was around $500,000. This was in keeping with the previous year but well above that of 2012 at $300,000.

Across the SCIF portfolio there have been 36 exits. Only two exits have earned greater than 3x and 84% of the active portfolio companies are valued at either the same or better than at the original time of investment based on a conservative fair value.[6]

[6] http://www.nzvif.co.nz/media/media-releases/

TYPICAL ANGEL DEALS

GreenButton

One of New Zealand's most high profile angel exits

GreenButton was founded by Scott Houston in 2006. After building super computers for the making of the Lord of the Rings movies, Scott used the idle capacity to established the NZ Super Computer Centre. In his view the process for bringing applications on to this service was onerous, so he created an approach that automated the onboarding of computationally intensive tasks such as animation rendering, genomic sequencing, monte carlo simulation. This software and service to enable this became the GreenButton, effectively a "turbo" icon embedded within applications that burst processor intensive tasks to the cloud, resulting in exponential performance improvement for customers that they were happy to pay for.

It was one of the first investments Wellington's AngelHQ members made in 2008. The founding investors, including Angel Association Chair, Marcel van den Assum, could see both the founder's ambition and the product's potential. GreenButton's journey through to exit is one which highlights a number of key angel investment mantras:

- Invest in making the founder successful,
- The benefits of an early exit focus,
- The value of strategic international partnerships,
- Competitive tension between acquirers is critical,
- Having the right acquisition team is worth millions, and
- The impact of exits on the startup ecosystem is powerful.

GreenButton was acquired by Microsoft in mid-2014 and provided early investors with a 12x return. NZVIF received 5x on its investment and later investors 3x.

Nexus6

An example of NZ angel backed company IPO

Nexus6 was founded in 2001 by Garth Sutherland to develop a world leading remote patient management platform, the Smartinhaler which helps manage conditions such as asthma and bronchitis. It received its first round of investment capital in 2007. It has since raised another three rounds of funding from CureKids Ventures, Ice Angels, K1W1 and SCIF. Since its inception investors have put between $8-10m into the company.

The founding investors knew that commercializing a medical device would take time and patience. The Nexus platform is known in more than 44 independently conducted clinical trials spanning 32 countries.

Three years ago international funds management group, Bioscience Managers provided cornerstone investment. Now called Adherium, Nexus6 has just listed on the Australian Stock Exchange looking to raise $35million.

Glassjar

An angel-backed, accelerator-generated company based in the US

Glassjar was started in 2013 by a group of Canterbury University students as a way for flatmates to more easily sort out paying the bills. Sparkbox Ventures, together with the founding accelerator investors were the first money into the company. Last year Glassjar became the first New Zealand startup accepted into YCombinator, Silicon Valley's prestigious business accelerator. The company has launched into the US market targeting young professionals and college students across America.

They tell a typical early stage investment story noting that their product has changed significantly since they landed in the US. It now covers a much broader range of situations such as shared holidays, restaurant outings and other events.

Glassjar's aspiration is to become a leading payment app and see being US based as critical. The company is now formally established in the US with the four founders, George Smith, Matt Galloway, Sebastian Petravic and Nelson Shaw all living in San Francisco.

Unfortunately, despite getting some initial good traction and taking advantage of the wonderful opportunity a YCombinator experience provided, in the end it wasn't possible to get enough momentum and it was decided to wind up the company.

ANGEL ASSOCIATION NEW ZEALAND

For more information www.angelassociation.co.nz

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