

Angel fund bucks trend

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Angel investment in young companies grew 72 per cent year-on-year in 2009, bucking the trend in what was a recessionary economy and indicating strong support for entrepreneurial activities in the country.

Data compiled under the Young Company Finance index indicates more than \$50 million was invested, compared with \$29m in 2008 and \$27.4m in 2007. The number of companies funded also increased to 68, compared with 29 and 49, respectively.

NZ Venture Investment Fund chief executive Franceska Banga says the increased activity is the result of years of market development by the angel investment community, NZVIF's seed co-investment programme, New Zealand Trade and Enterprise's escalator programme, and economic development agencies and incubators throughout the country.

Banga says angel investors are "playing an increasingly significant role in the financing of high-growth, innovative start-ups" but she voices concern about the sustainability of funding higher levels of entrepreneurial activity.

"As the number of companies being invested in grows, and those companies need follow-on investments, the investment activity increases.

"The challenge facing the industry and our capital markets is to ensure there is sufficient investment capital to fund further growth.

"These companies represent part of the pipeline of companies referred to by the Capital Markets Development Taskforce.

"Some will be the next generation of top New Zealand companies on publicly listed markets - providing our capital markets can provide the investment to allow them to grow and develop through the growth pipeline," Banga says.

Broadly around 40 per cent of these

new companies are in the technology software and hardware sector, 30 per cent in biotechnology and 30 per cent in others such as design and manufacturing.

Banga says last year's \$20m first round investments - seeding and starting up ventures - is so far the highest annual dollar value of angel investment into new companies.

"Of the \$50m invested last year, \$8.9m was seed investment, \$29.9m was at the start-up stage, \$11.2m at the early expansion level, and \$300,000 at the expansion stage," she says.

Deal syndication between different angel groups also grew last year, where about 48 per cent of deals were syndicated, compared with 26 per cent in 2006.

"This is a welcome trend, demonstrating the increasing amount of co-operation and sharing of deal flow and due diligence between angel groups," Banga says.

There is also a change in the type of investments angels are making.

In 2009, 31 per cent of investments were convertible loans, 47 per cent were ordinary shares and 22 per cent were preference shares.

In 2006, there were no convertible loans, 75 per cent were ordinary shares and 25 per cent were preference shares.

"This reflects the fact that investors are increasingly prepared to invest at a very early stage, before a company is ready for a shareholder deal," Banga says.

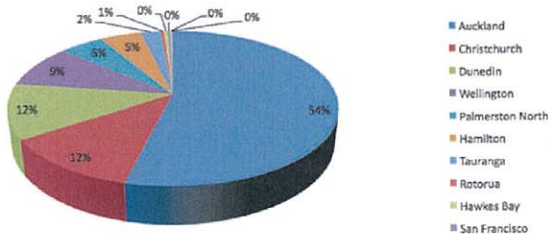
Some \$127m has been invested by angels since the Young Company Finance index began compiling angel investment data in 2006. About 54 per cent has been invested in Auckland, 12 per cent in Christchurch, 11 per cent in Dunedin, 9 per cent in Wellington and 5 per cent in Palmerston North.

Software and services have received 28 per cent of the amount invested, pharmaceuticals 23 per cent, technology, hardware and equipment 13 per cent and food and beverage 12 per cent.



Franceska Banga: NZ Venture Investment Fund chief executive.

Capital Invested by Region - % of \$ Invested 2006-2009



Capital Invested by Sector - % of \$ Invested 2006-2009

