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Start-ups find their progress stalled by 'valley of death'

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We have seen considerable progress over the past five years in the development of the pipeline of these companies.

Exciting commercialised technologies are emerging from our universities and crown research institutes, spending time in business incubators, and receiving angel investment to take their ideas to market. Other private sector innovation is following the same path.

This is evidenced in the burgeoning angel investment sector – usually the first source of external investment for young start-ups. It has grown from around \$20 million a year in 1996 to currently over \$50 million annually. These angel-backed companies are progressing through the pipeline, nearing the point where they need investment capital beyond the capacity of most angels. Many are staring into the valley of death and wondering how to cross it.



Photo / Thinkstock

It is at this stage that we need private capital markets to be stepping up to the plate.

We are beginning to see some signs of life emerging – Wellington investment firm Movac recently commenced fund-raising for a new growth fund to target promising angel-backed companies.

But we need a significant increase in the availability of venture and growth capital if "NZ Inc" is to meet the needs of the young technology company pipeline.

Two other fund managers – Treasury iGlobe's Pan Pacific Capital fund and Pioneer Capital – are enjoying early support for the launch of their next funds.

The past few years of fundraising has demonstrated how difficult it is to raise private capital in New Zealand for early stage and growth companies. We have a core of high net worth individuals who regularly invest into new funds, but to satisfy the demand for capital from the company pipeline, we need much higher levels of investment – year in, year out.

For that sort of capital, New Zealand institutions need to overcome the reluctance they have to invest into growth funds.

Failing that, however, New Zealand needs to turn to external funding sources.

Hamilton-based biotech company BioVittoria has just shown one way to overcome the lack of depth in New Zealand's capital markets. Unable to raise investment capital through a public offering, it has found a solution to its capital requirements through a partnership with Tate & Lyle, a global food ingredient company.

Just as finding an international partner proved to be the solution to BioVittoria's valley of death (and a solution

which keeps the company firmly New Zealand-based and owned), the solution to a lack of capital to build new private capital funds could lie offshore.

There is international capital which is interested in New Zealand companies, not just for the investment opportunity.

Our regulatory regime compares very well. Our workforce is well-educated and skilled. We are entrepreneurial and, particularly in some areas of comparative natural advantage such as agri-tech, we develop world-leading research and technology.

NZVIF is in discussions with a Taiwan based venture capital fund-of-funds attracted by the wealth of opportunity in the New Zealand company pipeline. We could see this Taiwan fund investing into New Zealand funds.

Not only will that help to bring in new capital to grow our young technology companies, but we will also benefit from Taiwan's 30 year expertise in venture and growth capital investing.

In the absence of New Zealand institutional investment participation, we should not be shy of finding international partners keen to invest alongside New Zealand funds into young New Zealand companies.

Just as we are seeing interest from Taiwan, China looms as an investment partner worthy of serious consideration. We have also seen, for example, the likes of the US's Peter Thiel, the co-founder of PayPal and an early Facebook investor, investing in New Zealand technology.

Alongside the deep pools of capital they offer, international investors provide an entry to networks and experience in offshore markets whose importance should not be underestimated.

The biggest hurdle for young New Zealand companies – alongside the valley of death – is the tyranny of distance to sizeable markets.

Overcoming these obstacles is crucial if we are to see the pipeline of young technology companies continue to flow. Considerable progress has been made in developing the infrastructure to support private capital and angel investment.

Thanks to the angel investors, there are good investment opportunities. The missing element is that next stage of growth capital.

Franceska Banga is CEO of NZ Venture Investment Fund.