

More capital needed to help new companies take off

NEW ZEALAND'S appetite for angel investing is creating a problem of the best kind – a healthy pipeline of young New Zealand technology companies making waves internationally. Although down from last year's numbers, \$41.5 million was invested across 53 deals in the year to June 30, including 25 new investments.

Booktrack, PowerbyProxi, Mesynthes, Yikebike, HalolPT, Green Burton and Intro are examples of promising young companies that have received funding from angel investors. With such initial funding, the likes of Booktrack and PowerbyProxi are able to move from early commercialisation of their technology and take the first steps towards expanding into international markets. But angels tend to invest relatively small amounts across a portfolio of companies, rather than larger amounts into just one or two companies. This means growing companies need to find new sources of investment capital to fund their international expansion – typically they will need follow-on capital of up to \$10m, sometimes more, to get real market traction and real customers.

Venture capital and growth-focused equity funds should be filling this gap in the market. In



Franceska Banga

July, we saw the launch of the Movac 3 Fund – which successfully raised more than \$30m to invest into young growth companies. This was the first new venture capital fund since 2007. We can expect to see another one or two funds established over the next 12 months. These new funds will go towards filling the gap.

But New Zealand really needs a major shift in order to attract the scale of capital required to really make a difference, not only for these promising young companies, but in a broader economic sense. If there is to be a significant increase in economic performance to begin to meet the aspirations aired at the recent Ice Ideas conference, New Zealand Venture Investment Fund estimates that \$2 billion of new investment for young New Zealand companies would be needed over the next decade – that's \$200m invested each year,

about three times the current levels.

Finding that level of investment capital presents a significant challenge for New Zealand capital markets – we need to get creative and look at a range of sources, in particular where there are opportunities to attract additional capital from non-productive sectors and sources. Here are the possibilities:

New sources of capital include: **Wealthy migrants:** \$20-\$30m. We have a migrant plus policy which grants permanent residence to wealthy migrants provided they invest \$10m into New Zealand assets. Typically, those that come invest in bond products, managed funds and property investment, which barely adds to economic growth. A policy change could see this money directed towards productive investment into aspiring young companies. **KiwiSaver:** \$30m (or 1% of \$3b annual inflows). Requiring KiwiSaver funds to allocate 1% of their annual inflows to growth funds could make a significant change to the investment environment and capital available for high growth companies. **International-NZ co-investment fund:** \$25m. Attracting offshore institutional investors requires that we offer a medium for investing in a wide portfolio of NZ growth opportunities, alongside

NZ investors. Creating the right fund of funds investment products, together with NZ government support in fostering these partnerships, presents a significant new opportunity for New Zealand.

Strengthening existing sources includes: **NZ institutional investors:** \$50m. NZ Superfund has had a huge impact on the New Zealand

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private equity market over the last few years, including investing in a range of NZ growth opportunities. Better understanding of the diversification needs and risk-return profile not only of the NZ Superfund, but other local pension fund investors, and providing the right mix of investment products will be central if we want to see NZ Superfund and other institutional investors stepping up to invest. **Angels and "Friends of New Zealand":** \$50m-\$75m. Domestic angels have invested an average of \$34m per annum over the last few years, reaching more than \$50m last year. The opportunity here is

not only to attract new domestic angels but also to build links with wealthy NZ expats and offshore investors ("friends of NZ"), through the work of organisations like KEA and NZ Trade and Enterprise.

Venture capital, private equity, individual investors: \$20m-\$25m. This has been a rich source of capital to date. With the promotion of new funds, and greater profiling of the investment successes so far, this is an area which will continue to yield new investors.

NZVIF: \$20m-\$25m. Supporting new venture capital funds and emerging fund managers is likely to remain at the core of NZVIF's investment role over the next 10 years.

Over the past 10 years there has been a big shift in interest and understanding of how to fund and build globally minded companies from NZ. We expect to continue to see healthy levels of angel investment building a pipeline of good young companies. But if we want to see many more companies such as Booktrack and PowerbyProxi being able to keep growing and take on the world from NZ, new sources of capital will be needed.

Franceska Banga is chief executive of the New Zealand Venture Investment Fund.