



Calling new angels

New Zealand needs to build on record-breaking early stage investment levels and keep VC funds flowing.

Monday, March 28 2011 || News || BY Lesley Springall



Startups had something to crow about in 2010 when angel investors pumped a record \$53.8 million into the early stage investment sector across an equally record-breaking 103 deals.

And that's only the total for deals that were reported. There is a lot of other activity in the sector that never gets reported, says Francesca Banga, chief executive of the government-funded New Zealand Venture Investment Fund (NZVIF).

The figures — from the latest Young Company Finance report — are certainly a vote of confidence for the sector, says Banga, but whether this level of investment can continue will depend on how many new investors NZVIF and the country's angel investment groups can attract. "New angel investment feeds the pipeline, because when capital's constrained, current investors are more likely to put money into existing investments than commit new money to new companies. So that's something we need to keep an eye on: whether we can continue to maintain the level of new investment activity."

Of the \$53.8 million invested last year, \$23.9 million was invested in first round investments and \$29.9 million in follow-on investments. This compares with

\$20 million and \$30 million in 2009, across 76 deals.

Startups attracted \$39.2 million of investment in 2010, the biggest of all investment stages (compared with \$29.9 million in 2009); \$5.3 million was invested in the earlier seed stage (\$8.9 million); and \$6.6 million (\$11.2 million) and \$2.8 million (\$300,000) in the later early expansion and expansion stages. Thirty-eight percent of 2010 investments were structured as convertible loans, 43% as ordinary shares and 19% as preference shares.

The trend towards angel cooperation through syndicated deals also appears to have bedded down. Last year's figures almost mirrored 2009 figures, with 47% of deals syndicated, compared with 53% that were not. NZVIF is doing all it can to promote more syndication, says Banga, because all the evidence from abroad points to this being the most successful investment model. "As well as mitigating the risks, it also allows investors to come in who may not be so familiar with a sector, but are just interested in investing in growth companies."

Phil McCaw, chairman of the New Zealand Angel Association, says syndication is now becoming the norm. Practically every deal done through his own investment firm — Movac — is now syndicated. "New Zealand is a small market, we shouldn't be constrained by geography ... you could argue that we should really be one angel group nationwide."

Banga says she's happy with last year's record investment levels and hopes 2011 will yield similar results. McCaw is even more positive, saying there's a lot more money to be tapped out there, especially as the Angel Association has barely started recruiting in some quite wealthy regions such as Tauranga and Hawke's Bay. Both agree, however, that attracting new angels into the early stage investment market is crucial.

Equally crucial, and perhaps more worrying given the gaping lack of funds in the sector, is the venture capital (VC) market — the \$2 million to \$5 million follow-on financing required by high growth startups to move to their next stage of evolution. With no new VC funds operating in New Zealand since 2007, there is a growing chasm for early stage companies to navigate, says Banga. "It's just too big a gap."

McCaw says his organisation is trying to encourage more investors to consider VC funds or growth investment funds as part of their portfolio. "Otherwise all we are doing is priming a great big pump that is going to go nowhere."

That said, we should be optimistic given last year's record-breaking results, especially as 41 of the 103 deals were rubber-stamped in the last quarter of the year, indicating investors' optimism could be back to where it should be, says McCaw. But if the sector can't attract new investors, or there aren't at least a few new VC funds established and operating this year, things may not look so rosy in next year's Young Company Finance report.

TOTALS FOR EACH STAGE OF INVESTMENT

	2009	2010
Seed stage	\$8.8 million	\$5.3 million
Startup	\$29.9 million	\$39.2 million
Early expansion	\$11.2 million	\$6.6 million
Expansion stage	\$300,000	\$2.8 million

SOURCE: YOUNG COMPANY FINANCE REPORT

[View the full Young Company Finance report.](#)

© Fairfax Media Business Group [Fairfax New Zealand](#) Limited, 2011