



Media Release: 1 May 2015

Software hits angels' sweet spot

Angel networks and funds invested \$55.9 million into young New Zealand companies in 2014 – a record high which was powered by enthusiasm for software investment, New Zealand Venture Investment Fund chief executive Franceska Banga said today.

Releasing the latest Young Company Finance Index, Franceska Banga said that it is the first time the Index has recorded consecutive \$50 million-plus investment years – in 2013, \$53.1m was invested.

“When the Index first measured angel group investment activity in 2006, just over \$20m was being invested annually. The sector, if current growth trends continue, is likely to treble in size within a decade.

“The driver of this over the past few years has been the rise and rise of investment in software companies with \$26.2m last year and \$27.9m in 2013 – around a half of the annual investment. Historically, software companies have attracted about a third of the annual angel group investment.

“This is likely due to the demonstrator effect of companies such as Xero, Orion Health and Jade, along with global trends towards all things digital. Alongside the fact that New Zealanders have a good track record in this sector, the pathways for the creation of valuable enterprises is now more straightforward than in the past.

“The last year saw a higher level of ‘new’ compared with ‘follow-on’ investment - \$21.3m of new investment in 2014 compared with 2013’s \$10.3m. This is a positive sign for the continuing flow of the tech company pipeline.”



Franceska Banga said that alongside the angel group investment activity which the Index captures, there is also considerable additional angel investment not measured as it is private investment outside the formal networks.

NZ Angel Association chair Marcel van den Assum said that the growing number of angel investors joining networks and funds helped to deliver the record investment year.

“While it is a difficult statistic to assess, we estimate the number of angel investors involved in networks has grown from around 370 to 730 in the past two years. Having more investors contributing to deals is also good for the sector in that it allows individual angels to spread their capital across wider portfolios.

“The healthy result is indicative of wider interest and support for innovation and entrepreneurs throughout the ecosystem - accelerators and incubators, government IP commercialisation initiatives, the rise in IPO activity and the NZX’s NXT market promotion, and crowd funding. Angels are riding - and also part of creating - the investment wave.

“Having built momentum in seed and start-up, the consistent investment contribution by angels suggests a maturing of the sector with the perspective now shifting to outcomes and value creation. Angel groups are diversifying into side-car and showcase funds, reducing the barriers to entry, and increasing pipeline professionalism through improved deal selection processes.”

Franceska Banga said it was pleasing to see the leverage effect of NZVIF’s Seed Co-Investment Fund, which the government set up to catalyse greater levels of angel investment activity.

“Since SCIF’s establishment a decade ago, angel fund investment activity has grown from \$20 million per annum to nearly \$60 million. SCIF was designed to co-invest alongside angels on a 1:1 basis. SCIF currently invests around \$5 million a year alongside around \$30 million of investment led by its angel fund partners, with other investors also contributing.”

By the Numbers:

- 2014 saw a slightly smaller average deal size (\$490,400) to 2013 (\$505,600).
- Of the \$55.9m invested in 2014, 62 percent (\$34.6m) was follow-on investment and 38 percent (\$21.3m) was new investments. This level of new investment is more than twice that of 2013 (\$10.3m).
- In terms of the stage of investment, \$23.1m was seed investment, \$28.1m was at the start-up stage, and \$3.1m at the early expansion/expansion stages. The comparative figures for 2013 were \$13.7m, \$29.8 and \$9.5m.
- 2014 saw 78 percent of deals syndicated between different angel groups, a continuation of the trend of very high levels of collaboration between angel groups.
- Of the type of investment instruments used by angels in 2014, 25 percent of investments were convertible loans, 48 percent were ordinary shares, and 27 percent were preference shares.
- Since 2006, by region, 54 percent of investment was in Auckland, 11 percent in Christchurch and in Wellington, 7 percent in Dunedin, and 5 percent in Palmerston North and in Hamilton, and 3% in Tauranga.
- Since 2006, software & services received 35 percent of the amount invested, followed by pharmaceuticals/life sciences technology (17%), technology hardware and equipment (12%), and food & beverage (8%).

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