



Metro Innovation Project Maximising high-growth potential: The case for improving early stage investment

EDANZ Conference August 2009



Starting point ...

- Proposition
- What we did
- What we decided
- Reflections for EDAs



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Why Early Stage Investing Matters to New Zealand

Current Position

- NZ is in the bottom quartile of OECD countries for standard of living.
- There are currently, 750 globally capable and competitive firms, 350 of which are firms focused internationally.

Economic Goal

- Standard of living in top half of the OECD.
- 3,000 globally capable and competitive firms – four times the current number, with a significant shift from ‘domestic’ to ‘international’ focus.



Business Life Cycle Stages

	EARLY STAGE			EXPANSION	
	Seed	Start-Up	Early Expansion	Expansion	Late Expansion
	Capital will enable the development, testing and preparation of a product or service to the point where it is feasible to start business operations.	Capital will enable actual business operations to get underway. This includes further development of the company's product(s) and initial production and marketing.	Capital is provided to initiate or expand commercial production and marketing but where the company is typically or likely to become cash flow negative.	Capital is provided for the growth and expansion of a company which may or may not break even or trade profitably. Capital may be used to finance increased production capacity or market or product development, or provide additional working capital.	Capital is provided for financing the expansion of a company that is producing, distributing and increasing its sales volume and to help a company to achieve critical mass to position it for an initial public offering.
Approximate Investment Required	\$100,000	\$250,000 - \$2 million	\$2 million - \$5 million	\$5 million - \$20 million	\$20 million +
Sources of Investment	Friends, Family & Founders	Individual Angel Investors		Venture Capital Funds	
		Angel Networks & Early Stage Funds		Institutional Equity	



Economic impact of early stage investment

- Provides the pipeline of high-quality high-growth businesses with 90% of venture backed companies having been backed by angel investors first.
- Only 4% of start-ups seek external equity finance for growth yet **in 10 years time they will provide about 50% of the employment** of those firms remaining.
- **Angel backed companies are more successful.** Research indicates that high-growth companies have more angels than slower-growth firms.
- High-growth companies make up 3% of all companies in Europe but create 85% of all jobs. A number are required to replace $\frac{1}{4}$ of the top companies that will die each year.



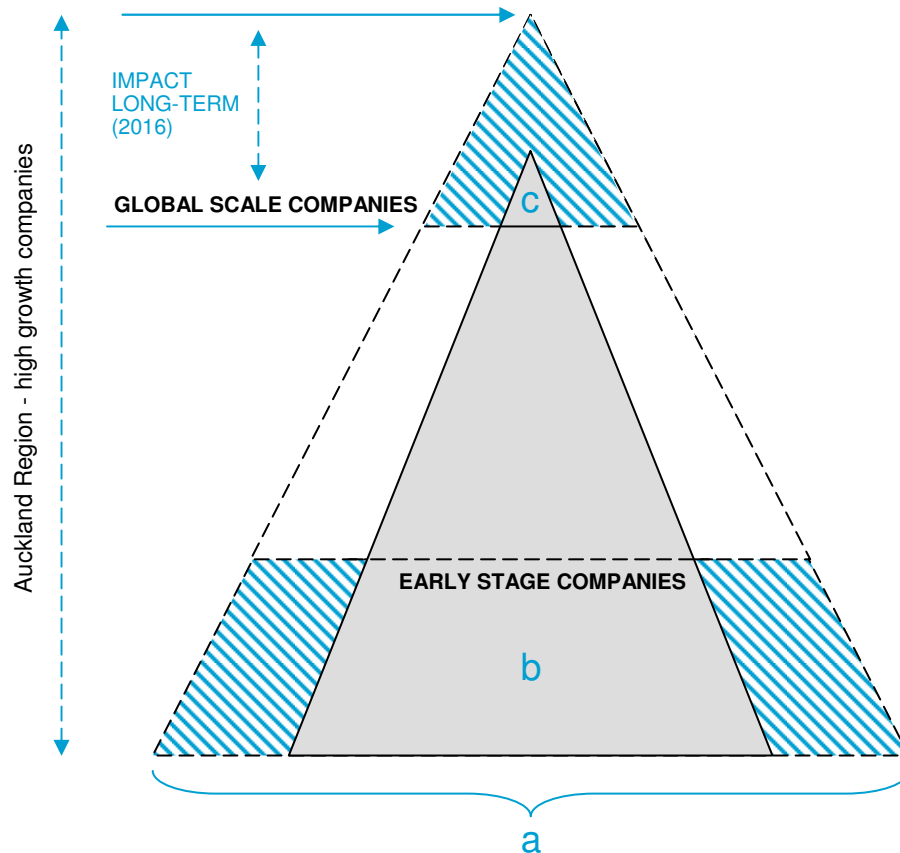
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The Project Goal

- By 2015 grow the current number of early stage high growth companies funded and capital invested by 5 times.



FOCUS

- a. Increase in the number of early stage high growth companies.
- b. Increase the number of early stage high growth companies that are investment ready – currently only 3 out of 10 meet this measure.

OUTCOME

- c. More global scale companies from the Auckland region.



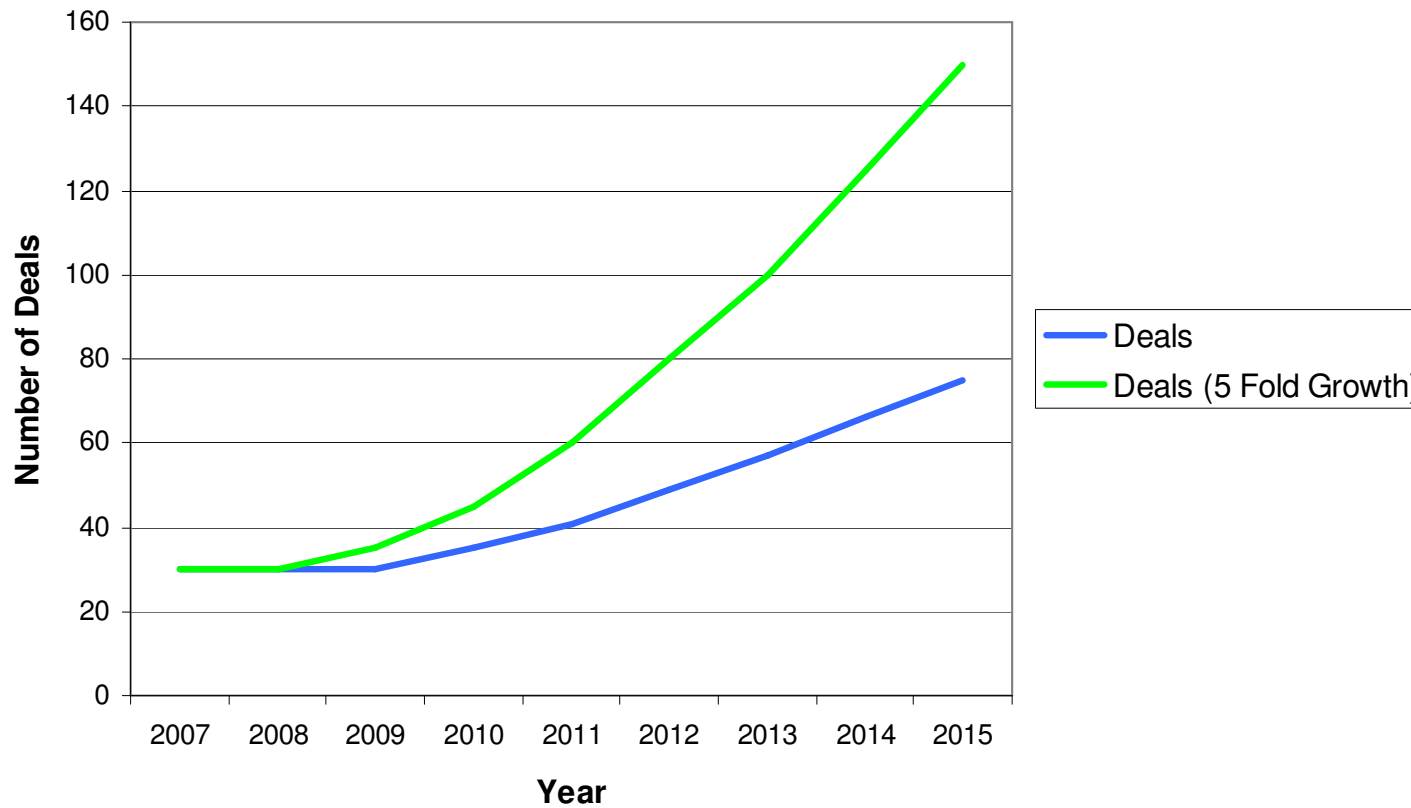
Call to Action

- Access to finance underpins business start-ups and growth, and is one of the largest barriers to innovation.
- Current financial crisis severely affects access to finance with a critical lack of second stage funding.
- Good progress has been made in recent years but we need to do more.
- Settling for organic growth of the early stage high growth market would result in an opportunity cost to Auckland of \$250 million p.a. by 2018.
- The opportunity is both helping more Kiwi high growth start-ups to be funded but also, importantly, helping SMEs to become early stage high growth companies themselves by becoming exporters and international companies.



Call to Action

Number of Early Stage High Growth Companies Funded: Organic Growth Compared with Fivefold Increase.



Dashboard

	2007	2015	
Investment Ready Rate	30%	60%	2x
Number of Early Stage Companies Funded Annually	30*	150*	5x
Size of Early Stage Investment Market	\$30m*	\$150m*	5x
High Growth Early Staged Companies:			
SMEs	18	90	5x
Start-Ups	12	60	5x
Economic Opportunity	By 2018 - \$250m p.a.		

* These figures are for the Auckland Region. Nationwide goals for 2015 are 250 Early Stage Companies funded annually and the National Early Stage Investment Market to be \$250 million annually.



Demand Side Challenges

- Lack of companies who are investment ready - need to double investment ready rate from 30% to 60%.
- Lack of good quality investment opportunities.
- SMEs generally not interested in investment.
- Specific sectors face unique challenges.
- Few opportunities to test investment readiness.
- Depth of pipeline affected by the infrastructural capacity – i.e. incubators, science parks etc.
- Small number of spin-outs created from CRIs/Uni's.



Supply Side Challenges

- Concerns over the sustainability of existing angel networks.
- Lack of investor capability in specific sectors.
- Not enough investors & capital pools available.
- Limited access to profiles of opportunities seeking investment.
- Limited promotion of early stage investing.
- Low levels of investment syndication.
- Limited investment successes.



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Recommendations

To increase the level of early stage funding for high growth companies in Auckland and New Zealand there is a need to:

- Grow the size & number of capital pools
- Grow the number of investors
- Increase the infrastructure capacity for companies
- Encourage SMEs into the investment marketplace
- Improve the capability of entrepreneurs & investors
- Improve coordination among the market players on the demand and supply side



Recommendations

The detailed recommendations can be broadly viewed in three areas:

- Awareness
- Capability & Connections
- Infrastructure



Recommendations: Awareness

- Hosting of an International Early Stage Investment Conference at the time of the Rugby World Cup.
- Establishment of a National Business Plan Competition.
- Greater support for culture changing media programmes.
- Delivery of a national communications programme.



Recommendations: Capability & Connections

- Development of an International Angel Investor Exchange programme.
- Pilot programme to translate between Researchers and Private Sector.
- Delivery of a national education programme.
- Investment ready programmes for entrepreneurs.



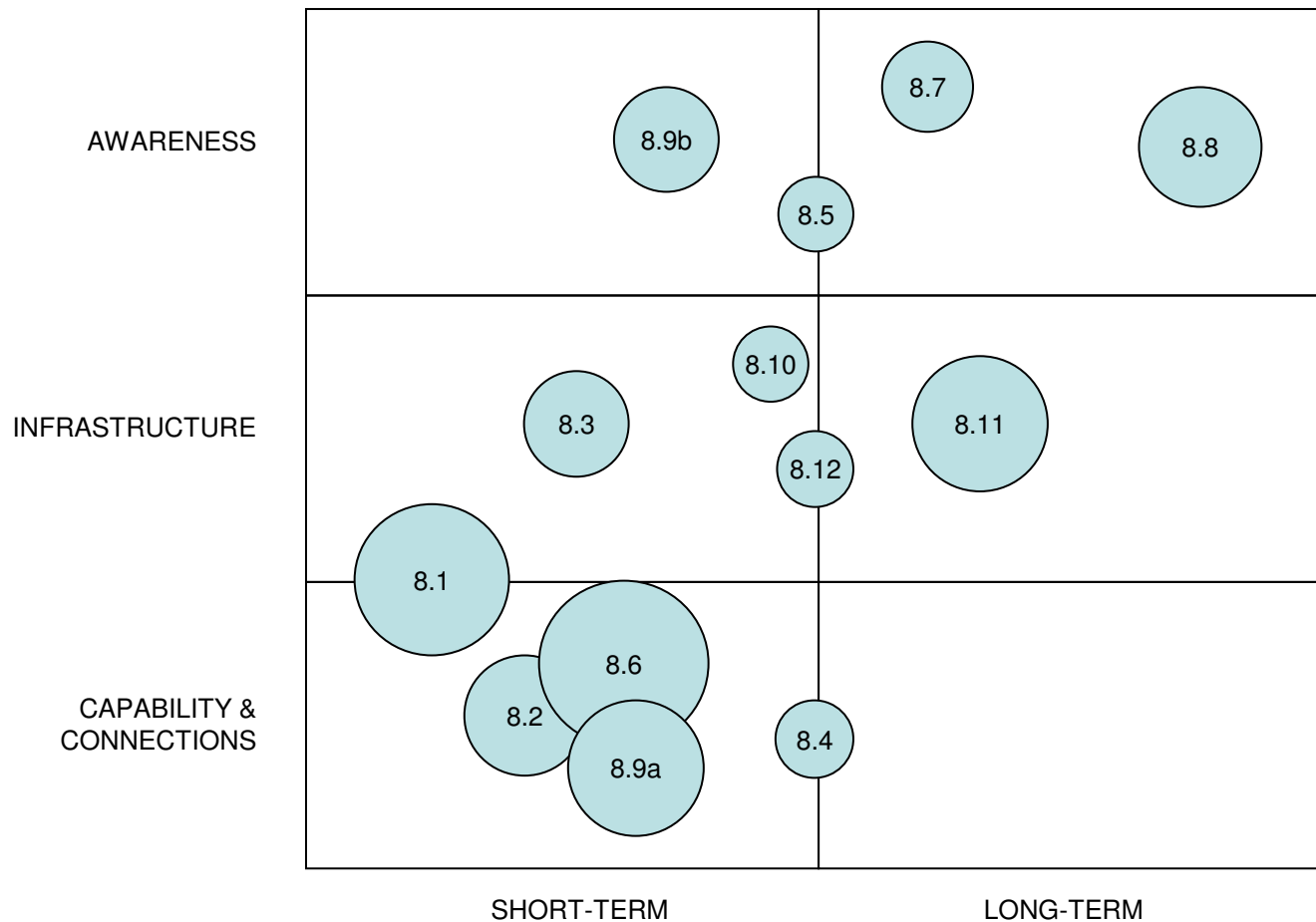
Recommendations: Infrastructure

- Formation of a national Angel Association (already completed)
- Feasibility on the need for a Life Science Angel Network (already completed)
- Continuation of SCIF Fund with increases in investment levels and a change in the mandate (given current market conditions).
- Launch the Halo Fund and encourage development of other early stage investment funds.
- Support for tech park and incubator capacity development.



Recommendations

Set out below are the recommendations in the context of time & potential impact, the size of the circle recognising the size of impact.



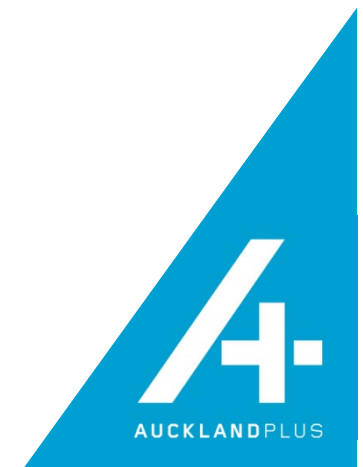
RECOMMENDATIONS

- 8.1** National Angel Association
- 8.2** Angel Investor Exchange
- 8.3** Life Science Angel Network
- 8.4** Translators
- 8.5** Investment Conference
- 8.6** Investment Ready Programmes
- 8.7** Business Plan Competition
- 8.8** Culture Changing Media
- 8.9a** National Education Programme for Investors
- 8.9b** National Comms Programme
- 8.10** SCIF Fund Increases
- 8.11** Tech Park/Incubator Development
- 8.12** Creation of New Passive Funds



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Reflections for EDAs

- Early stage investment is just a small part of the story
- Investment Ready rate
- SMEs represent up-side that is hard to unlock
- Capability is low
- Scale is a nightmare





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