

# Startup Investment

| APRIL | 2021



GROWING A SUSTAINABLE  
STARTUP ECOSYSTEM



PUBLONS: INCREASING  
ACADEMIC IMPACT



KAMI: TRANSFORMING  
DIGITAL EDUCATION



VENTURE INVESTMENT TRACKING  
WELL AS THE MARKET MATURES



MERLOT.AERO: STREAMLINING  
FLIGHT CREW MANAGEMENT



A MATURING NEW ZEALAND  
INVESTMENT SCENE – REALISING  
VALUE AND GLOBAL GROWTH



**NZ GROWTH**  
CAPITAL PARTNERS

# Growing a sustainable startup ecosystem ↓



Welcome to the April 2021 edition of Startup Investment magazine.

This time last year, we were considering what impact COVID-19 might have on the world of startup investment and the importance of backing startups through periods of uncertainty. A year later, and the ecosystem has demonstrated not only its resilience but an increase in maturity. In March 2021 alone we saw two substantial Kiwi grown technology businesses, Vend and Seequent, sold to offshore buyers. The realisation of value at this scale creates not only an opportunity for founders and investors to reinvest funds and expertise in new startups, it also attracts a wider pool of investors to New Zealand to help get future startups off the ground. We now have a startup ecosystem that is more self-sufficient and sustainable.

“  
We now have a startup ecosystem that is more self-sufficient and sustainable.

In this edition of Startup Investment we look at how the New Zealand investment scene has matured. We hear from the early stage investors and founders of Publons, Merlot.aero and Kami about their investment journeys so far, and their views of the future.

Government support for early stage startups remains crucial. When the Government's new Research and Development Tax Incentive was first launched in 2019/20, there were concerns that it was too narrow in scope to have any real impact for startups – with many Callaghan Innovation Growth Grant recipients unable to benefit. I'm pleased that policymakers have taken on board this feedback, confirming that existing Growth Grant recipients should [qualify for the new incentive and could potentially receive support at similar investment levels](#). This is great news for those startups who require funding to attract and support highly skilled individuals to carry out R&D.

Change is coming and the future looks bright...

We hope you enjoy this edition of Startup Investment.

ANAND REDDY  
PARTNER, PWC

# Venture investment tracking well as the market matures ↓

Interest in New Zealand startup investment did not diminish in 2020, despite some dire predictions early in the year as COVID-19 struck. \$158 million was invested into 108 deals, and this is the third year of \$100m+ of investment in startups and also the third year of more than 20% year on year growth in dollars invested.

For over a decade the formal sector of the New Zealand early stage venture investment market has been backing between 100-130 deals a year. In 2020 the 108 deals recorded were a drop from 128 deals in 2019 and 117 deals in 2018. Typically, one third of these deals are new deals and two thirds are follow-on deals.

Early stage investment as an asset class is maturing in New Zealand. A noticeable trend is that deal sizes are getting larger as early stage ventures and angel backed ventures scale and require larger quantum of growth capital. This is a trend we would expect to see and are pleased about.

Larger deals were especially prevalent in 2020. The three largest deals (Sharesies \$25 million, Mint Innovation \$20 million and FirstAML \$8 million) comprise nearly a third of the total investment, and are a reflection of New Zealand's flourishing fintech sector and growing deep tech sectors.

Over a quarter of the companies receiving capital in 2020, raised rounds of greater than \$2 million and over half of the companies raised rounds of more than \$1 million. Only three years ago 9% of companies raised rounds of more than \$2 million and only a quarter raised rounds of more than \$1 million.

Another positive trend is the increasing number of deals being led and supported by funds drawing on capital from offshore investors. This speaks to the quality of deal flow and increasing profile of New Zealand as a source of appealing opportunities. Seven deals were led by offshore VC firms and 11 deals received investment from offshore VC firms in 2020.

“

**Early stage investment as an asset class is maturing in New Zealand... deal sizes are getting larger as early stage ventures and angel backed ventures scale and require larger quantum of growth capital.**

In all these instances New Zealand angels and venture investors also provided capital. This bodes well for the ecosystem as these early investors continue to be part of the increasing value and growth of these ventures, and deepen their expertise as venture investors.

This data is collected by NZ Growth Capital Partners and draws on data from AANZ members and affiliates. This annual data collection began in 2006 when just over \$20 million was invested in 29 deals. This data is not a complete picture of early stage venture investment in New Zealand but it is a credible proxy for interest and activity in the asset class.



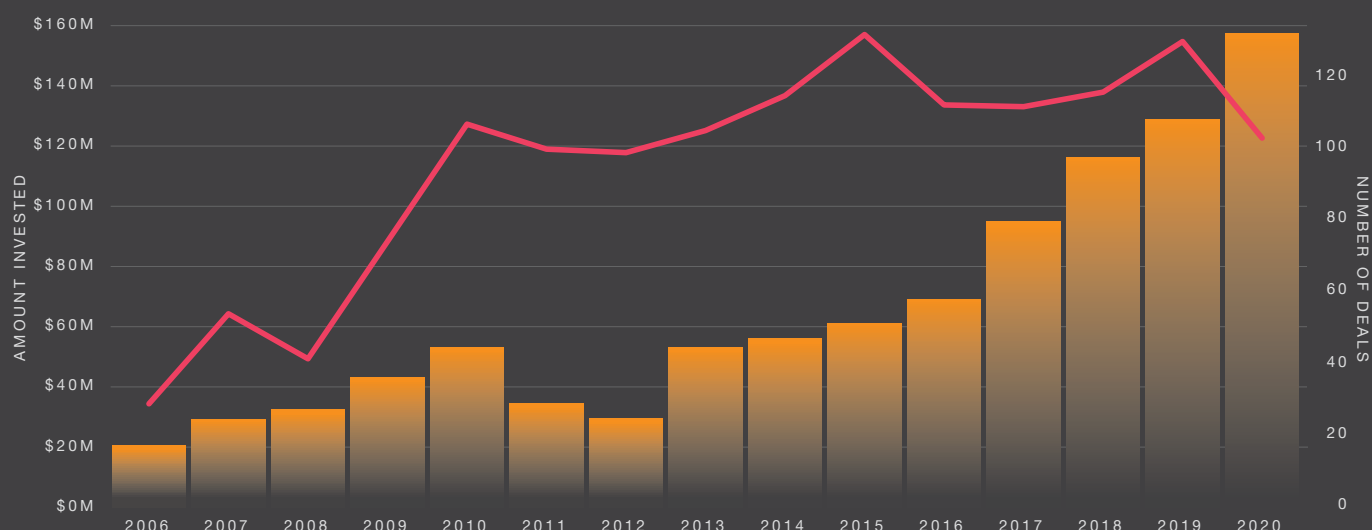
**SUSE REYNOLDS**  
CHAIR,  
ANGEL ASSOCIATION

# Startup investment trends ↑

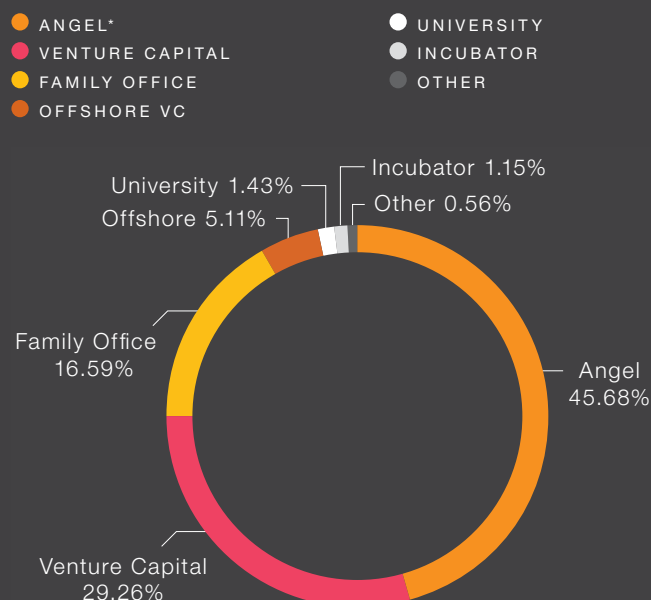
The latest Young Company Finance deal data indicates that startup investment in New Zealand is maturing. In 2020, investors provided more follow-on capital than ever before, indicating a commitment to support startups through to exit. At the same time, 2020 has seen a broadening of the startup investor base, with more venture capital funds choosing to invest in startups. This has offered more opportunities for investors to syndicate with others and the vast majority of investors chose to do so during 2020.

## STARTUP INVESTMENT OVER TIME

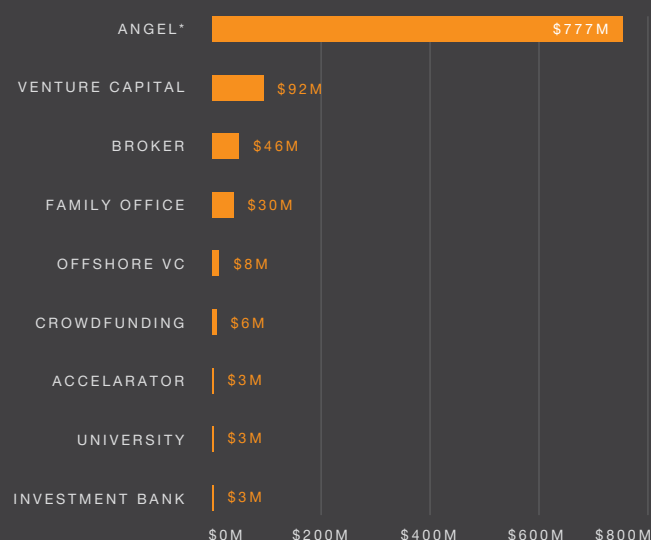
● AMOUNT INVESTED    — NUMBER OF DEALS



## LEAD STARTUP INVESTORS IN 2020



## TOP 10 LEAD STARTUP INVESTORS OVER TIME (2006 – 2020)



\*'Angel' includes Angel funds, Angel Network and Private Investors.

During

2020

investors provided  
**\$158m** of funding for  
 New Zealand startups.

**Amount Invested 2020****New Capital****\$48M****Follow on Capital****\$109M****Total invested****\$158M**

In 2020, the median  
 deal sizes were:

\$769k

for follow on capital

\$850k

for new capital

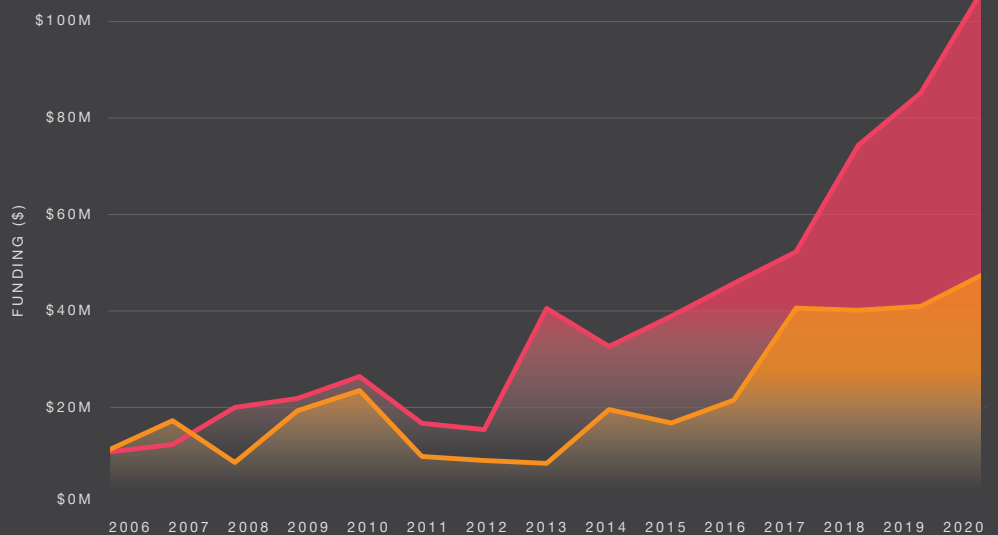
Investment syndication  
 continues to rise, with

85%

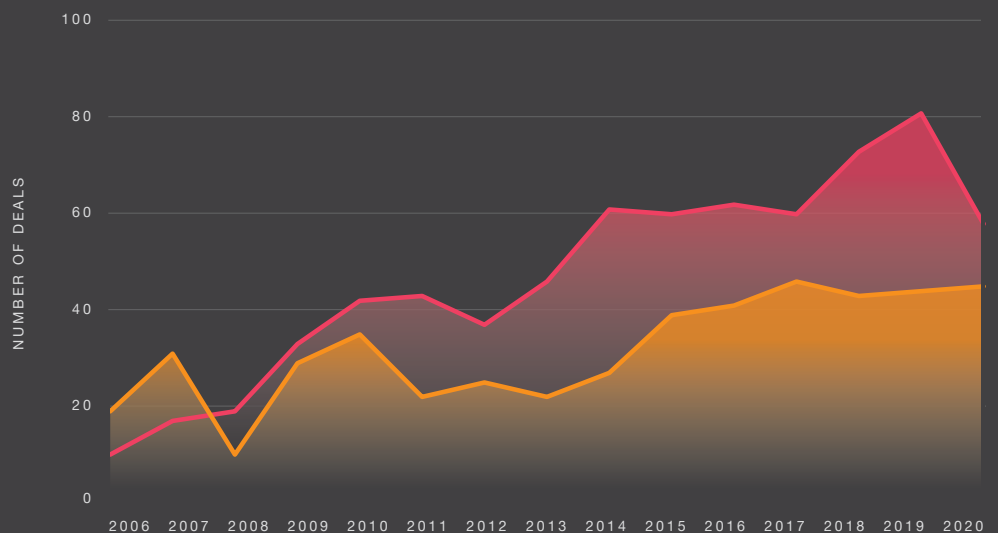
of investors choosing to  
 invest with others during  
 2020

**NEW AND FOLLOW ON CAPITAL PROVIDED OVER TIME**

● FOLLOW ON CAPITAL ● NEW CAPITAL

**DEALS COMPLETED OVER TIME**

● FOLLOW ON CAPITAL ● NEW CAPITAL



Investors are continuing to be active when it comes to backing Kiwi startups, with deal flow remaining strong and deal sizes increasing which shows signs of more selective and meaningful follow-on investments. To help ensure the long-term growth and profitability of startups looking to accelerate into their next stage of development, our Elevate NZ Venture Fund (Elevate) is set to announce further contributions to significant funding rounds into venture capital firms. We are optimistic that this will continue to support scale up funding of Kiwi startups.

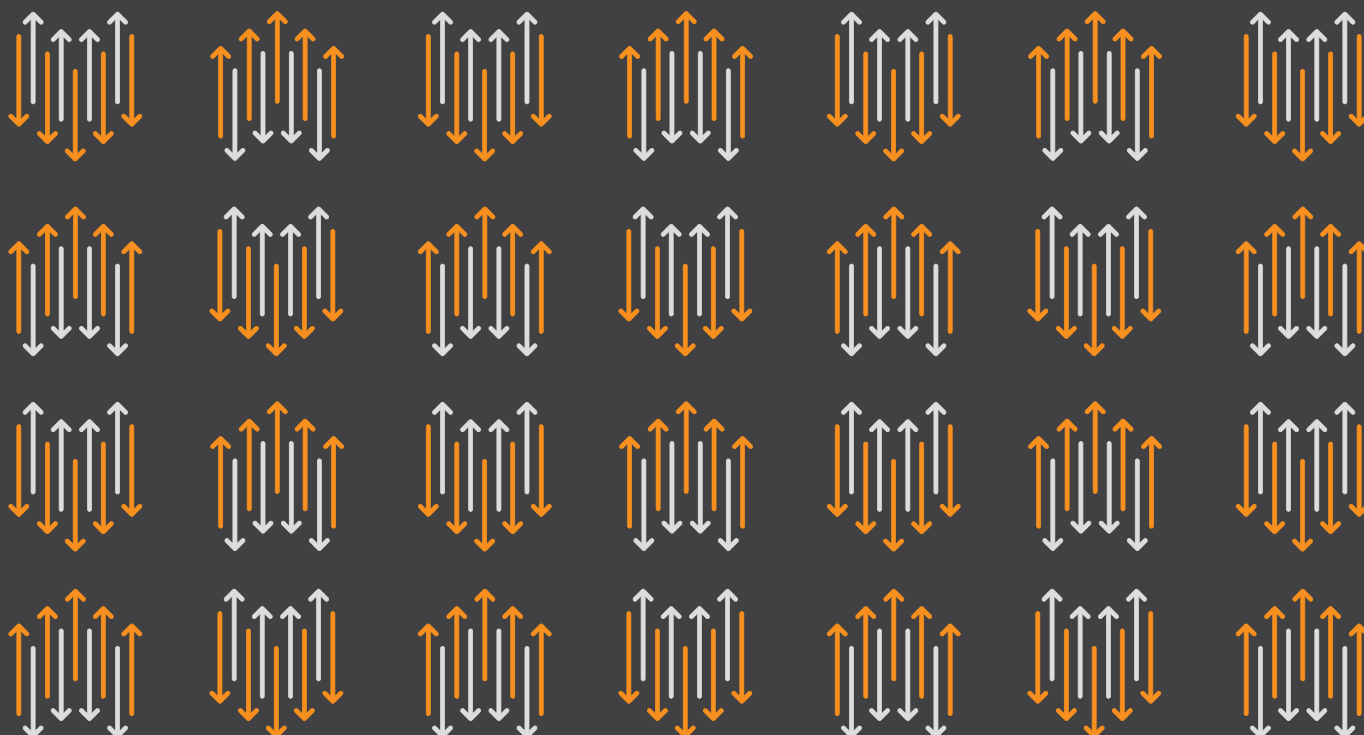
Data shows that despite a small drop in total deal numbers, the number of new ventures receiving funding remains constant, resulting in both job protection and job creation. Investment into new up-and-coming startups (as opposed to existing companies), helps create more opportunity and diversity for New Zealand's tech ecosystem, and this is a significant focus for our Aspire NZ Seed Fund (Aspire).

Uncertainty was heightened throughout 2020, and while some usual seasonality contributed to lower investment levels in the first half of the year, the overall 20% increase in investment year on year shows that confidence returned in the private capital sector. Aspire has co-invested in over 40% of reported deals in 2020, with our dollar contribution dropping to 4% of this year's record level of investment, which reflects the achievements of collaboration via co-investments.

New Zealand Growth Capital Partners (NZGCP) is also actively seeking opportunities to help further develop Kiwi entrepreneurs and strengthen collaboration within the tech ecosystem. Initiatives to date include sponsorship of the Velocity student entrepreneurship programme, Aotearoa AI Summit alongside Callaghan Innovation, Techweek 2021 partner sponsorship, OnBoard governance programme alongside NZTE, and the implementation of Early Stage Investment workshops alongside AANZ to name a few.



MARCUS HENDERSON  
INVESTMENT DIRECTOR  
NZ GROWTH CAPITAL PARTNERS



“

Right now we are seeing a two-speed economy emerging in New Zealand, with those in the tech sector more likely to be thriving, as businesses around the world explore the use of more technology. Because of the pandemic, digital or digitally enhanced offerings are in peak demand.

The qualities that underpin our tech sector (agility, inventiveness, a practical approach to problem-solving, and willingness to collaborate in partnerships) work really well in such a challenging time.

A vital factor in building tech companies is capital investment and the good news is that there is no shortage of global money, as Vend and Seequent have shown us lately. That's why the NZTE Investment team spends so much time working with entrepreneurs, coaching them on how to prepare for that investment, what form it should take, and connecting them with the right local or overseas investor.

New Zealand has outstanding examples of startups that have built themselves from nothing to multi-million-dollar companies and their founders are keen to share their experiences. Each generation of Kiwi entrepreneurs can lean on the war stories and wisdom of those who went before them.

So dream big entrepreneurs, there is a path you can follow.



DYLAN LAWRENCE  
GENERAL MANAGER, INVESTMENT  
NZTE



# Publons: increasing academic impact ↓

Publons started with a problem that founder Andrew Preston wanted to solve – how to get credit for the academic reviews he and other academics did. In 2012 he founded Publons, a commercial website that provides a free service for academics to track, verify and showcase their peer review and editorial contributions. Traditionally, reviewers are not paid and receive little recognition for their work but Publons helps researchers to advance their careers by building up a visible review portfolio.

Investor Dave Moskowitz came on board in 2013 and helped get an initial funding round then a more substantial capital raise. The business grew both in New Zealand and overseas with many major publishers joining Publons. Andrew moved to London, the centre of the academic publishing world, to further expand the business.

In 2017 Publons was acquired by global analytics and intellectual property giant Clarivate Analytics with Andrew joining the senior leadership team in the line of business that acquired Publons. Today more than 2 million researchers use Publons, and Andrew has exited the business to move onto his next venture.

Dave says that the most rewarding part of being the investor director for Publons was watching Andrew and co-founder Daniel Johnston going from being highly competent academically focused technicians to becoming really experienced business leaders.

“It was around 4-5 years for Andrew from startup to running a multi-hundred-million dollar part of the leading global

enterprise in this field. There is a real shift of focus from ‘how do we build this thing’ to ‘how do we enable our team to achieve greatness for themselves and the business.’ One of their key secrets to success was to always hold true to their vision of making science work better and faster. Andrew now splits his time between New Zealand and the UK, and has already invested in some New Zealand startups, demonstrating that virtuous cycle of investment, that today’s founders become tomorrow’s investors.

“

**We need more of this recycled capital in New Zealand, it plays a significant part in the startup ecosystem – not just for cash, but also for talent and connections.**

DAVE MOSKOVITZ



ANDREW PRESTON  
FOUNDER, PUBLONS



DAVE MOSKOVITZ  
INVESTOR, PUBLONS



# Merlot.aero: streamlining flight crew management ↓

Flight crew management software company

Merlot.aero was founded by Mark McCaughan in 2008. Merlot.aero pioneered the world's first fully cloud-based system airline operations management system, optimising the scheduling and rostering of flight crew. The software offers a 5-15% cost saving on crew, translating to millions of dollars annually.

Investor Marcel van den Assum got involved after a couple of years when the Board was formed and external capital was brought in from Angel HQ, Enterprise Angels, K1W1, and subsequently the Zino Fund. Early users included Regional Express (Australia), WestJet Encore (Canada) and Hong Kong Express (Hong Kong).

The customer base has now grown to more than 30 international airlines, with operations and customers in more than 20 countries. Merlot.aero was acquired by Canada-based CAE in December 2020 and Mark remains as CEO to steer the company through its next growth phase.

Marcel says that airlines tend to be very procurement orientated to try and drive down costs constantly.

"This is why Merlot.aero has been so successful, despite COVID-19 pressures. It is offering a transformational solution to airlines, to bust out of legacy technology and process which was holding them back. It's a good example of Kiwi ingenuity, a New Zealand software company that has built a successful business with global customers."

Marcel says that the recent acquisition by CAE is a fantastic result for Mark, his family and his team, and that much hard work and commitment has gone into getting this outcome.

“

"It has really built confidence in a bunch of angel investors seeing a result like this on a high risk endeavour. The money from that deal goes straight into the next lot of companies so it's a virtuous cycle."

"Some might ask, why exit? Why not grow it further into a substantial New Zealand company? But the airline industry is somewhat niche and still a bit outside the comfort zone for many New Zealand investors, so this constrains the path you take. It shows that for every Kiwi startup there are different growth and investment strategies. New Zealand investors need to become more open to a wider profile of startups. Things might look a bit more risky, but on the other hand there is the opportunity to be successful in a challenging market."



MARK MCCAUGHAN  
FOUNDER AND CEO,  
MERLOT.AERO



MARCEL VAN DEN ASSUM  
INVESTOR, MERLOT.AERO

# Kami: transforming digital education ↓

Taking and sharing university notes in different formats was the problem that the Kami founders Hengjie Wang, Jordan Thoms, Alliv Samson, and Bob Drummond set out to solve in 2013. Kami is now the world's number one digital classroom tool creating flexible learning environments with real-time collaboration, and also integrates with Google Classroom, Schoology and Canvas.

Chintaka Ranatunga was the original seed investor alongside San Francisco based ex-Google executive David Russel who remains on the Board. They later helped bring in Flying Kiwi Angels, then SCIF (now NZGCP via their Aspire Fund) and Right Click Capital, and Kami now has investment from a range of New Zealand, Australian investors, and Silicon Valley investors.

Today Kami has 25 million users in 180 countries, and CEO Hengjie Wang says it has been a wild ride.

"We didn't have any experience in the education sector, but we wanted to help in the transformation to digital classrooms. We have always listened to our users and customers, taking a naive approach, asking lots of questions, and understanding what they want to achieve."

Hengjie says that of the 1.5 billion students affected by COVID-19 around the world, Kami is now helping and supporting 25 million of them.



**HENGJIE WANG**  
FOUNDER AND CEO, KAMI



**CHINTAKA RANATUNGA**  
INVESTOR, KAMI

“

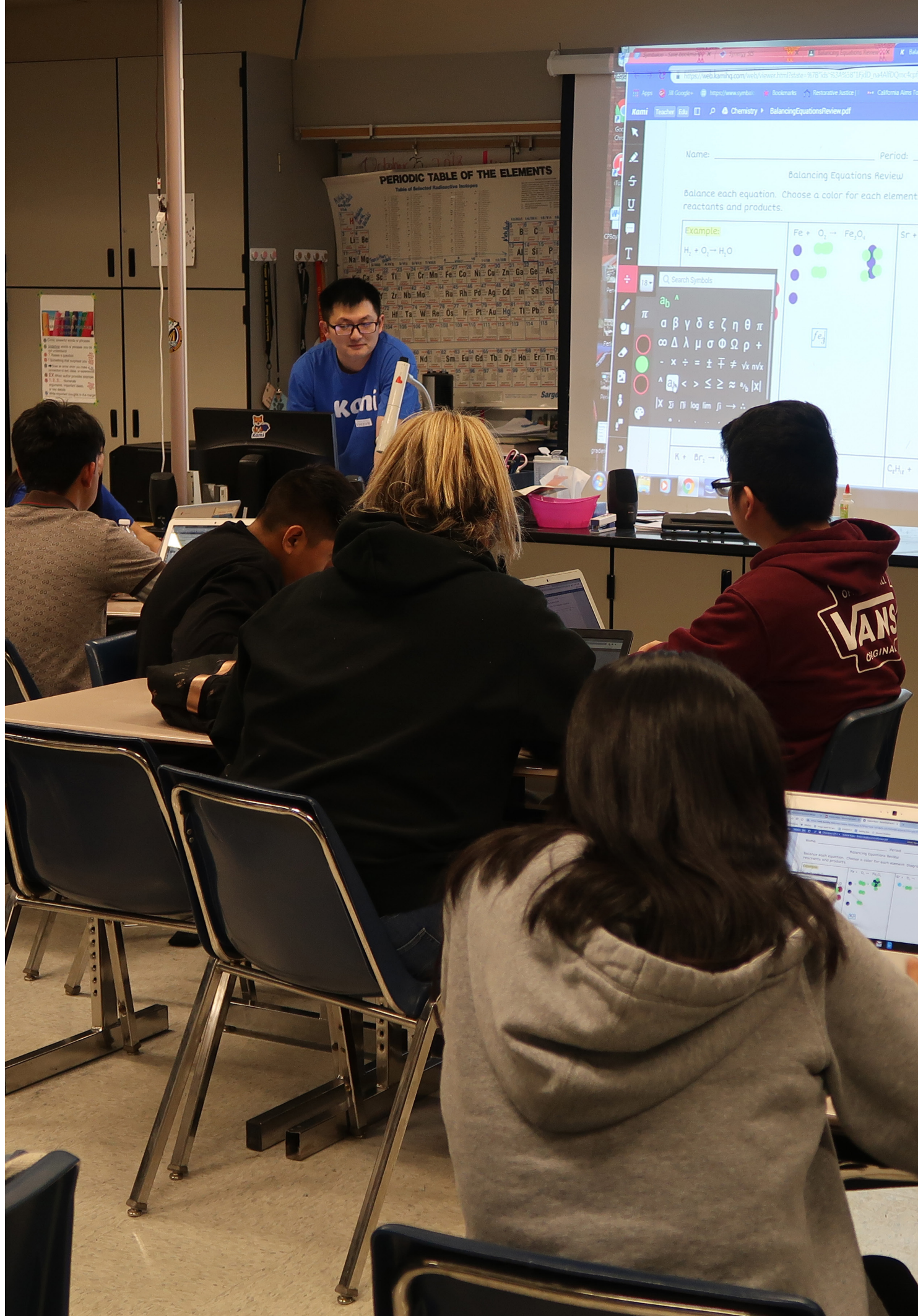
A good thing that has come out of the pandemic is that students can do classroom or learning at any time of the day. With digital tools they have learnt to unbind themselves from a teacher/classroom situation.

Chintaka says that while COVID-19 caused a huge uplift in growth for Kami, the reason the company has been so successful is that the founders and investors have been customer obsessed, ambitious and globally focused from the beginning. This is alongside having the perseverance to keep going in tough times to get to significant scale.

"We're constantly questioning: how can Kami be bigger and have more impact? We're challenging ourselves to increase the growth given the size of the market. Startups used to focus on New Zealand customers first then global later, but now startups need to think global first."

Hengjie says he's loving it. "I could do this for decades, it's a huge passion to improve our student learning. We're actively looking for more people to join Kami, to help us take it to the next level and grow to 100 million users. Anyone who wants to be part of that journey should get in touch!"







# A maturing New Zealand investment scene – realising value and global growth ↓

The startup investment ecosystem in New Zealand is maturing with an increasing cadence of founders and investors realising value, and then reinvesting into the next great Kiwi startup. It's part of a long term journey towards the investment ecosystem in New Zealand becoming self sustainable. There is a growing focus on 'global first' when startups think about their markets and their investors, rather than New Zealand first then global later. This maturing investment market will create exponential value and impact for Kiwis, the economy and communities around New Zealand.

## The signs of a maturing investment ecosystem

Investor and technology entrepreneur Dave Moskowitz is seeing a cycle of exits in the New Zealand startup ecosystem.

"The investors I know are taking money from exits and putting it into other startups. A company I invested in recently is raising another round, so I can cashout some of the profits and then put that money into other earlier-stage startups. I like to get involved super early as that's the most interesting part of the journey. I think of it as being like a startup 'Mid Wife' or 'Godfather' – my role is coaching the founders."

Investor Marcel van den Assum agrees with the increasing cadence saying it's an excellent sign of a maturing scene.

"Investors need some exits to put cash back into the next generation, and founders have got more funds to reinvest. This cycle is increasing the credibility of our startup ecosystem, and showing that we know how to do this!"

Dave says that reinvestment is a huge part of the maturing ecosystem, with nearly all of his money earned going back into more earlier-stage investments.

“

Investors need some exits to put cash back into the next generation, and founders have got more funds to reinvest. This cycle is increasing the credibility of our startup ecosystem, and showing that we know how to do this!

**MARCEL VAN DEN ASSUM**  
INVESTOR

"I'm trying to build the world, the New Zealand, that I want to live in – a thriving economy, where there are lots of interesting opportunities for people. A thriving entrepreneurial ecosystem, and people doing cool stuff.

"There's also a strong social good aspect – it's about sustainability, looking after the planet, and decreasing inequality. COVID-19 has just been the curtain raiser, but what's coming down the line is issues of environmental degradation and climate change."

Angel investor turned venture capitalist Chintaka Ranatunga, Managing Partner of GD1, believes there has been a substantial maturing of the investment scene in the last 15 years.

“A lot more Kiwi tech companies have got to significant scale in this time. We are seeing now not just the prominent listed companies, but also the next generation of Kiwi unicorns. Tech companies are now a much larger chunk of the economy than they were 15 years ago.”

### Changes in the last 15 years

There has been enormous growth and development to the New Zealand investment ecosystem over the last 15 years. Dave comments that back in 2002, NZVIF (now NZGCP) did not exist, there was no Angel Association, and only one institutional investor in New Zealand.

“By the mid 2000s we had a better base for angel investment, then in the last few years the investment ecosystem has changed completely with the arrival of

Australian investors and also the Punakaiki Fund,” Dave says. “We are seeing more angel investment funds starting to operate in New Zealand which is increasing the amount of seed and growth capital available.”

Marcel comments that there has been much written about what it takes to get to a sustainable startup ecosystem.

“In New Zealand, the Angel Association outlines three phases. The first 10 years is inputs, startup funding, startup weekends, and government investment. The second 10 years is outputs as companies are employing a higher value workforce and generating export value. The third 10 years is seeing outcomes and real value that is returned in some way.

“We’re at about the 15 year mark, so there is still a need to create inputs, the Government still needs to have clear policies and investment in startup, but we are employing more people and generating revenue. The question next is do we have enough startups coming through to the exit point, so we can redeploy the capital?”



“

While it's great that we're willing to 'have a go,' in order to be successful at scale we need to stop doing this... The number 8 wire approach is a good starting point, but when you get beyond that, you need specialist skills.

DAVE MOSKOVITZ  
INVESTOR

### Overcoming the hurdles

Dave warns that our much vaunted number 8 wire approach is holding us back.

“While it's great that we're willing to 'have a go,' in order to be successful at scale we need to stop doing this. We need to go get that specialist experience, looking for it overseas if necessary. The number 8 wire approach is a good starting point, but when you get beyond that, you need specialist skills.”

Marcel says that there are four areas that need further development in New Zealand.

“These are culture, connectivity, capability and capital. The property market, for example, attracts a huge amount of capital to what are unproductive assets. But only a fraction of investment in New Zealand is going to early stage productive assets, at a time when New Zealand is lagging against other similar economies.



“We need to think, can we bring the next 15 years down to five or 10 years, so we mature more quickly? What would that take? More specific government policies? Curriculum changes? This would be a game changer for New Zealand.”

Marcel adds that the other looming challenge is capability with the closed borders.

“We have founders starting companies, but we need the capability to really grow – it's about execution at scale. It's easy to get to \$1 million, it's how to get from \$10 – \$100 million that is the challenge. It's about going beyond the startup culture of all hands to the pump, to getting onboard people who come to work from 9 to 5pm to make a difference on a sustainable basis.”



## What next for startup investment in New Zealand

Founder and CEO of Kami, Hengjie Wang, says that COVID-19 has caused a big shakeup with transformation at massive scale.

“COVID-19 has provided a new generation of growth models. During the pandemic Kami proved that a company can continue to grow without travelling or on the ground marketing – and this is a big change.”

Chintaka says that a focus on ‘global from day one’ is the key, rather than New Zealand first and global later.

“Investors need to be patient, have a global focus, and be in it for the long term to get really large scale outcomes. For the first 3-5 years, when young companies are getting off the ground, that’s when the original investors need to keep supporting the company with capital, time and connections.”

“  
A focus on ‘global from day one’ is the key, rather than New Zealand first and global later... Investors need to be patient, have a global focus, and be in it for the long term to get really large scale outcomes.

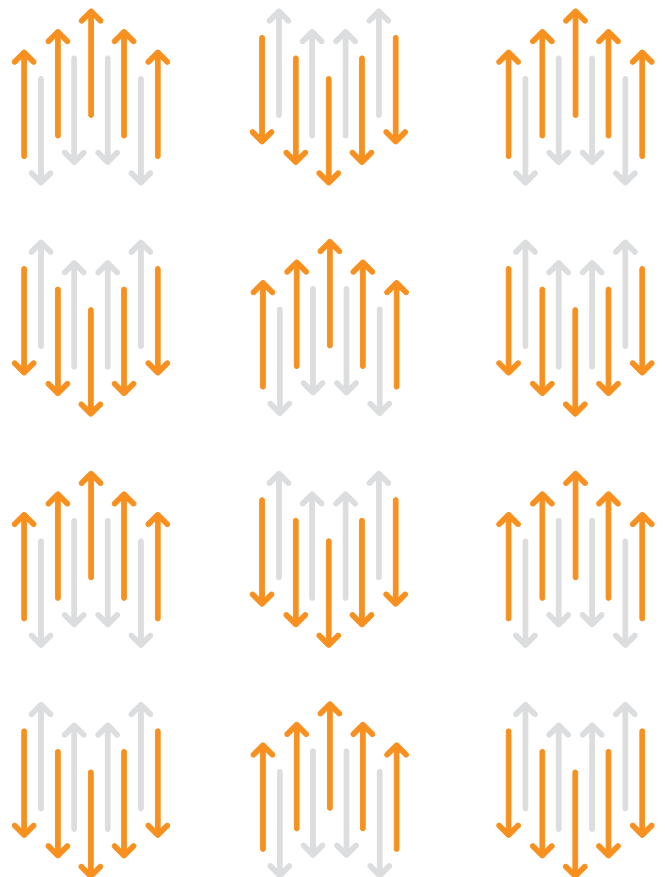
**CHINTAKA RANATUNGA**  
MANAGING PARTNER, GD1

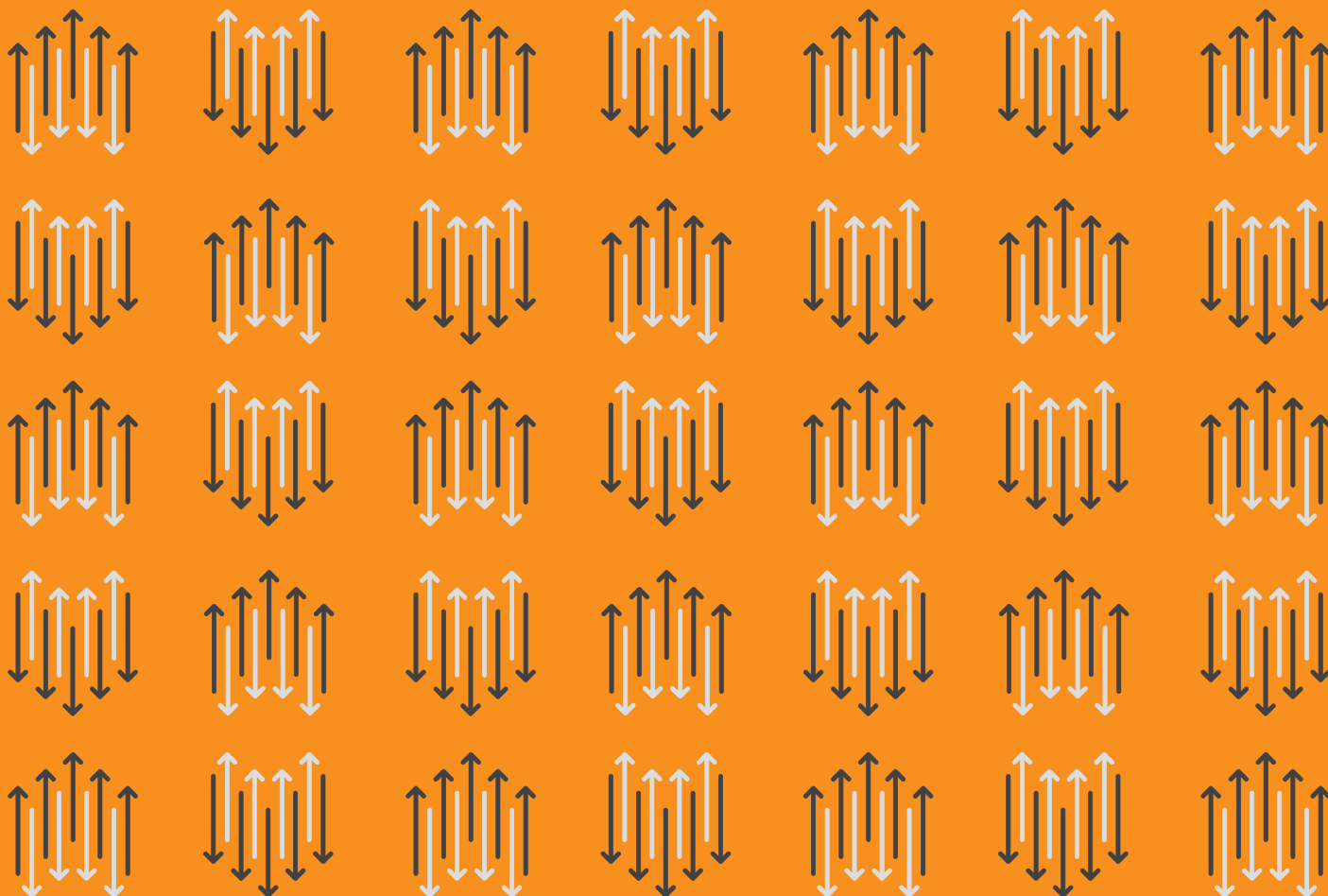
Dave says there are fewer wannabes now and more doers, in terms of both investors and entrepreneurs.

“Now, when entrepreneurs come to an investor, they already have their overseas trajectory mapped out. People have more experience at startups, they may have done multiple startups, or worked in multiple startups.”

Overall, despite the challenges, there is a strong sense of optimism for the future in the growth and maturity of the New Zealand startup investment ecosystem. Dave says he looks at the generation doing startups now, and they are more focused on people and planet.

“They are asking, ‘If I am committing the next 5-10 years of my life to a startup, will I be proud of what I manage to build?’ More people are choosing things that are meaningful to them, not just about producing a financial result. This makes me very optimistic about our future.”





**ANAND REDDY**

Partner  
PwC

+64 27 592 1394  
anand.s.reddy@pwc.com



**LISA DOUGLAS**

Director  
PwC

+64 21 872 609  
lisa.m.douglas@pwc.com



**SUSE REYNOLDS**

Chair  
Angel Association

+64 21 490 974  
suse.reynolds@  
angelassociation.co.nz



**BRIDGET UNSWORTH**

Operations Director  
Angel Association

+64 21 555 563  
bridget.unsworth@  
angelassociation.co.nz



This content is accurate as at 8 April 2021. This content is for general information purposes only, and should not be used as a substitute for consultation with our professional advisors. To find an advisor and to see more of our general guidance for businesses, please visit our website at [www.pwc.co.nz](http://www.pwc.co.nz)

© 2021 PricewaterhouseCoopers New Zealand. All rights reserved. 'PwC' and 'PricewaterhouseCoopers' refer to the New Zealand member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

