

- S1 00:12 Hello and welcome everyone into the Moxie Podcast episode number eight. This is the companion web show to something called the Moxie Sessions. Now they are an internet economy discussion group that happens once a month in Auckland, New Zealand. Its purpose is to bring together a group of interesting people from across the economy to talk about how New Zealand can take advantage of the internet to improve its economic performance.
- S1 00:37 The Moxie Sessions has a home on the web as you'd expect. It's up at the themoxiesessions.co.nz. This is available as an audio podcast up there with all the show notes as well, so if you miss anything throughout the show or you can't quite hear it for some reason, you can always check out the transcript. Also, feel free to share the link to the show as well via the iTunes link there or the RSS. Get it through your favorite reader or even just play it on the website.
- S1 01:03 Now this Moxie podcast is going to be centered around the topic of money – venture capital. We're going to be talking about where the money comes from to get some of these young tech start-ups – or even existing technology based firms – and actually get them growing and perhaps expanding around the world. This was the topic discussed by the three speakers on today's show at the last Moxie Session. First up on today's show is Amelia Wong at the New Zealand Stock Exchange. Welcome to the show, Amelia.
- S2 01:36 Good morning. I head up the equity and the debt market businesses here at NZX. So, this topic this morning is very dear and close to our hearts, because the NZX mission is to give New Zealanders more choice of investments – other than houses – but also to ensure that our New Zealand businesses get the capital they need in order to grow.
- S2 01:58 In terms of the extra capital, and the tech start-up at the earlier stage company [phase?]. Our current view is that the excess of capital is very good. In the private market, it's quite common for us to meet with companies, that have raised somewhere up to, half a million to a couple of million dollars basically through networks of high net worth individuals, perhaps with a lead investor or a main investor involved. The listed space in New Zealand is actually the key new development in recent years, really lead by Xero which came to the market and went public in 2007 raising \$15,000,000.00. At the time, it was a very, very early stage company. It had very few customers and very little revenue. Of course, it has since grown into a one and a half billion dollar market company. So, they've really shown the way to other early stage companies that have sort to list at fairly early stage on the stock exchange.
- S2 03:00 Most recently, we've seen [inaudible] media come to the market raising \$6,500,000.00. And also the largest to date was Wynyard Group which came to the market and raised \$62,000,000.00, and that was a very early stage of technology company. We now also have – we've prepared also that company called GeoOp, is going to be trying to do a private round of \$8,000,000.00 before it comes to market. So, it's just gives you a sense of the kinds of dollars that can actually be raised by early stage companies in New Zealand, both on a semi-private context as well as as part of the public market listing. So, we're fairly optimistic about this part of the market. We're also planning on putting up a new equity market that would address this segment early next year. So, that will hopefully help things even more.
- S1 03:53 Sure, well that's sounds like there's a lot of positivity there. There's a lot of money sloshing around. Let's bring on our next guest, Sacha Judd, who is a partner at Buddle Findlay and a self-described, not evil lawyer, specialising in mergers and acquisitions – corporate and commercial laws, securities law and takeovers including capital market's regulation, disclosure requirements, insider trading, market manipulation and financial adviser rules. Welcome to the show, Sacha.
- S3 04:19 Thank you Glenn. I'm talking about this topic I think, because I'm acting for a really large number of early stage and hybrid companies now in New Zealand. Many of whom capital raising is perhaps their primary focus or one of their primary focuses after growing the business first and foremost.
- S3 04:35 At the Moxie Sessions the other night I circulated a diagram – a visualisation from

foundersandfunders.com – which sets out the different stages of capital raising for a company. And hopefully we can link to that on the website, so people can see what we're talking about. And that's an American diagram, but it also speaks to the process of New Zealand companies, raising capital from the early stages, when it's just the founders themselves to when they bring on friends and family. And then look to take outside investment whether that's Angel investment [inaudible] investment, or getting to the stage that Amelia is talking about of taking the company to the public markets.

S3 05:12 And at the top of that diagram there's quite an interesting quote. It says 17% of our company, that's worth a lot of money, is better than a 100% of nothing. I think that summarises the challenge for New Zealand companies who are raising capital in the stage of their growth at the moment. Because, taking on outside money is about trying to decide how much control of your company you're going to give away, and what you're going to give that away in return for. So, who are you going to bring on board as an outside investor, and what value are they going to contribute – both in terms of their expertise, their networks, how they can raise the profile of your company overseas.

S3 05:47 And we hear the message a lot in New Zealand that raising capital is hard. But, when we look at the figures, there is a reasonable amount of investment in private and unlisted companies in New Zealand. And I think we're starting to see a market for high net worth individuals investing either on their own or through Angel groups in these companies and getting a much better understanding of technology companies and early stage investment. So, I think that combined with the life coming back into the capital markets has meant that this is an area where people are interested in investing.

S3 06:22 So, what's making it difficult? At the moment I think we have this mismatch of expectations around valuation. So, we joke a bit about the fact that every entrepreneur that thinks that 10% of their company is worth \$100,000.00, but I don't think it's true that we have that many million dollar companies in New Zealand. So, it's about founders and funders trying to meet in the middle in terms of what the company is worth, how much of it is going to be in the hands of outside investors.

S3 06:54 The other thing that makes it very difficult at the moment is regulation. So, at the moment we're still under the Securities Act. That's changing. The Financial Markets Conduct Act was passed, a week before last, which will make a lot of things simpler. I'll talk about that in a second. But at the moment it's very difficult. There are a lot of rules. It's very expensive to comply with our capital raising regulation in New Zealand. And it's a real distraction from running the business which is the thing that their founders should be doing. Ironically at the very point where they want to be pitching to investors with hockey stick graphs showing how well their business is growing and how many new customers they're acquiring. Looking for outside capital is a massive distraction and can have a real impact on just the business itself.

S3 07:42 What we're seeing changing with the financial market's conduct rules from next year – first of December – we will see the ability to make smaller offers. That's the ability to go out to 20 people or less to raise more amounts of money – up to \$2,000,000.00 . So, that's going to make some of these private offers a much more simple process without the need for a prospectus. From the first of April, we'll also have the possibility of crowd funding, and there's been a bit about that in the press. So, there will be websites established where you'll be able to put your company up on the web and look for very small amounts of money from a larger number of investors.

S1 08:22 Yes, so crowd funding, that's certainly one of those areas that's sort of sexy for the media at the moment and there's a lot of it going on around the world. So, it'd be interesting to see that moving in to New Zealand. But, before we talk more about that let's go to Karl von Randow who is the co-founder and CTO of multi-media studio Cactuslab. These are the guys who not only devise the platforms behind many successful websites, but also get stuck into apps, game development, data

base design and implementation and secure e-commerce. Karl, welcome to the show.

S4 08:52 Hi, thanks Glenn. It seems like we probably do need to update our bio on our website. [laughter]

S1 08:58 Do tell us, what else are you up to this days?

S4 09:01 That's absolutely fine but you know secure e-commerce – I love e-commerce, don't get me wrong but – but boy, I don't want to do too much of it. I feel like a bit of a wild card in the discussion about capital. I've done a lot of – quite a few things – made apps for mobile, for desktop, for websites. So, I've been involved with a few companies. They've always been put straight to companies. So, they have always been companies that basically have started a web design company where all he needs is the computer that you've already got. So, they didn't need a whole lot of capital to get going.

S4 09:41 So, I'm recently new to the idea of capital as something that is used to grow a business. What I spoke about at the session was a little bit about that history and then talked about my recent doings, which is getting involved with the ICE Angels in Auckland. And kind of getting involved from an investor point of view. We came out of a few successful ventures and thought, "Right, I'm quite interested in seeing what other people are doing." You're investing in interesting kind of companies, and I found that a really interesting and eye opening experience. Looking at other people with ideas at very early stages. So, less early, but still quite young companies and try to imagine what they're doing and what success is going to look like – or how they're going to get there – and to see what that is like as an investment.

S4 10:53 I guess what that's done and continues to do for me is to get a better understanding of what that might look like if we ever needed to raise capital for any ventures that we're involved in. It so, it happens that we're working on a venture at the moment that is currently bootstrap funded, but that probably falls into this kind of classic thing that actually raising some capital might be quite advantageous for its growth. So, that's been quite an interesting experience. I go on to look at this subject of raising capital being hard and yes, I think my feeling – and would seem like the feeling around the table was that, as Sacha just mentioned it – raising capital is not particularly – necessarily hard. It's out there. What I find hard about it is the fear of the commitments that raising capital brings to a business.

S4 11:57 And then, at the session, I branched off unexpectedly into a counter-argument to Steve Jobs' suggestion of focus was the key thing, to suggest that a lack of focus was my key, as if to excuse being involved in a number of ventures. But, also to suggest that you can focus on one idea too soon, and sometimes you see people, or see ideas and you go, "Wow, you seem like maybe you could do good stuff but is that the one idea that you want to take forward and put all of your energy into? And so I posited that having a lack of focus – where you'll be chasing a few different ideas and giving them your focus according to the merits and search in between them – may be an interesting way for things to start-up. I think I even dared to drop the number eight wire bomb and suggest that was a property of the way that Kiwi businesses have been successful in that past.

S1 13:14 Yes, I do wonder if that's a big point of differentiation between New Zealand start-up entrepreneurs and Silicon Valley start-up entrepreneurs. Let's just get back to where this capital exists, this money sloshing around. Is there a lot of money sloshing around in New Zealand? Are we perhaps a little bit too optimistic about what going on in New Zealand?

S2 13:35 I think there's an enormous amount of capital sloshing around, as you put it, in New Zealand at the moment. I think the issue really is connecting the capital up with the good ideas. In terms of the private raising, the high net worth area or that kind of raise, or the angel area, one of the issues here is that those networks are informal networks. So, you can't do a search on the web and find out who these people are. You really have to hit the road and do the leg work and go around and talk to some companies that have successfully raised capital or start to meet with a

large number of different kinds of advisers. A lot of these people have their own networks. And that's kind of the way it works. Either that, or meeting with another tech entrepreneur or one of these tech guys whose been in this place for a while. And finding out from them where the money really lies.

- S1 14:29 So, is the network perhaps sometimes even more important ,or just as important, or more important than the money itself?
- S2 14:36 In terms of the people who give you the money – obviously if you can get someone who's a knowledgeable investor, who's been active in the space, who can actually bring things other than their money, that's a hugely valuable thing.
- S4 14:47 I think there's definitely an element of that. I think where that falls down is that not all the angel investors are looking to be actively involved in what's going on. I think from my brief experience, because I've literally joined at the end of last year, that if you get in front of an Angel club and you get someone with some experiences who says, "Right, I want to step up and I want to be the lead investor and I want to take this and encourage the other Angels and get people behind it and pitch in and give my experience, I think then, absolutely. I was at the– there was a lead investor forum the ICE Angels organised a couple of weeks ago and it was fantastic. It was amazing to sit around the table, to see all this people, I've kind of just seen in passing at regular events and maybe had a conversation with over dinner. But, see them really kind of turn their attention and expertise and experience to these issues. So, I think that definitely can be the case and I think that sitting at a table with a bunch of Angels that should be a significant part of the offering, because a lot of these people do have good experience. I don't think that it's perhaps not always the case, it doesn't necessarily work out like that.
- S1 16:12 Let's move on to this idea of crowd funding, now that it's going to be legal in New Zealand. Sacha can you give us a breakdown of what kind of crowd funding will be legal? Will it be like what we see at Kickstarter? Is it that type of stuff?
- S3 16:26 So, that sort of crown funding is already legal in New Zealand and has been all along. You're able to put up a project online and ask for contributions to that project. If you're just asking for a donation, then it's just a gift from the person that gives you the money. Typically in order to incentivise people, you'll say that you're going to offer rewards. So, if you're crowd funding an independent film, you might give people tickets to the movie, a digital download, you might put they're name in the credits, that sort of thing.
- S3 16:49 What you haven't been able to do, either here or overseas, is crowd fund equity. So, you haven't been able to offer a percentage return. You haven't been able to offer shares in your company because that falls foul of s ecurities legislation appearing overseas. But that's changing. In the United States, they've already seen the introduction of what's called the Jobs Act, which stands for jump start-uppers in the start-ups which permits crowd funding and our Financial Markets Conduct Act will permit it from April 1st next year. So, that will mean that websites will be able to be established. And it may go through some of the existing ones like Kickstarter or here in New Zealand [Pledge Me?].
- S3 17:28 I also know that there are a number of specialist sites that are just going to be about raising capital that will start-up. And you'll be able to put your business up on our site and ask for capital and the people who contribute that money will be shareholders of some description and will be entitled to returns if the business does well.
- S3 17:48 Whether or not it's a panacea for cash-strapped companies, I think is yet to be seen. We don't have an example to point to yet. I think the danger is that if your project is successful and you do attract a largish number of investors putting in a very small amount of money, you will wind up with quite a big audience of people who have a very small amount of skin in the game, but who have disproportionately loud voices online about the success, or otherwise, of your business. And I think perhaps that's not as well understood. We've already seen with Kickstarter projects that you sometimes have the problem of what Jason Scott calls devastating success, which is, your know your project is massively over funded, so it's successful in that sense. But then you have this huge crowd of

people, who clamouring for you to finish your product – what ever it is – and ship it on time. And it's not taking into account the problems of starting something from scratch, building something you've never built before. And that's particularly true for young companies, whether they're going to be able to meet their targets or their deadlines. And suddenly they've got this crowd of people who will be complaining about that loudly online.

S1 19:09

As you were saying, I'm not sure it's going to be the panacea. But, is it going to be disruptive? Amelia, do you see it – coming from the point of view of the NZX – do you look at the whole crowd funding, or crowd equity funding, with some amusement or do you welcome it into the market?

S2 19:24

I think it will be an interesting development and as Sasha says, we don't have it yet. So, it think we will see how it goes. The internet is really an enabler and has enabled a lot of different businesses and really in one area where, perhaps could bring quite a revolution is in this area of embracing equity capital. There's no reason why we couldn't be using a website to, for example, to generate demand for initial public offerings or listings as well as just in a crowd funding space. To me it's just a way of actually seeing of how something like that could work. It's a way of basically giving people– many, many people the ability to see online businesses that they can potentially like to invest, or to be a part of. And I think that's a really good thing in terms of finding a way to really connect people who've got money with people who need money.

S4 20:25

What I find fascinating about this– I didn't actually properly understand this– about what the changes are in New Zealand in relation to this. But, what I've always seen and been amused about with Kickstarter, is that people get the feeling like they're investing in a company when in fact they're just pre-purchasing a particular thing and I think there's been– it seems that some of the shine has come off that with a number of Kickstarters where exactly where Sacha described happened, that things didn't really turn out how they were. You think that this seems like a great idea, but then realise that some of these other companies that have been in this game for quite a long time are actually– there's quite a lot involved in producing a really slick product. I'm really fascinated by the idea of crowd sourcing equity. It does sound like a nightmare.

S2 21:20

I think – I'm just going along those lines again – that getting the expectations clear would be really important. I've had a couple of companies come to see us and also, actually a friend of mine has literally been working out of his garage for over 10 years to try to essentially create a prototype of a product and he's actually just has made it. So, it takes a really, really long time to get some of these things started and it'll be really important for people who put money into this ventures to understand that it takes time and sometimes deadlines don't get met for actually very good reasons. So, it'll be up to the companies definitely to make that really clear to people.

S1 21:53

Is there a complete gap in the education and information right from school, but also when people leave school and then go out on their own – and perhaps they are a tinkerer like your friend out there in the garage – is there a lack of a destination sites perhaps in New Zealand, or a handbook, a PDF? Or something that will go through step-by-step if you need extra funding. Here are the various types of funding. Here are your options. Here's how it works in New Zealand. If you want to go over seas here for if you go to overseas.- Are we lacking a place to go for all this?

S3 22:31

I think there is perhaps a need for slightly more co-ordination and that's certainly something that Government's Better by Capital programme is designed to address. I think they share your view Glen that for some companies who are not connected to particular networks that challenge of capital raising, when to raise money, how to be ready to raise money, how much money to raise, where to get it from – those are quite difficult questions. So, Better by Capital is designed to try and work those questions through with the company to try and position them best to look for outside money.

S3 23:05

But, I think for the space that we're talking about – early stage tech companies are

almost overwhelmed with information about raising money. It seems to have become almost a need in itself. That success the story – to be able to have a story published about you saying that you've closed a successful round. I think in some ways, in this particular sector, it's almost become too much of a focus and I see some companies that are losing sight of just building a great business and getting a lot of customers, because that's not as successful as saying that you've brought on Google Ventures as an outside investor.

S1 23:47 Some people say that because we are destined to be a start-up shop for the world. That is, selling our ideas on at an early stage. Or accepting that foreign funding means moving the head office overseas. That means we'll never grow massive companies on the tech side of things like Fonterra within New Zealand. Is that okay? Should we just accept that? Is that fine or should we definitely try and change that pattern?

S2 24:09 I'm not sure that what you're saying is true. There are a large number of – I'm sure there are a large number of New Zealand companies that do sell at a fairly early stage. And that is because they get offered basically enormous amounts of money to do so. I think what Sacha and I are involved with is a real need to make sure that the capital raising environment works better in New Zealand. So that companies that choose to stay on shore – entrepreneurs that choose to stay in control of the companies, not to sell, and actually to try to grow the businesses themselves – can actually get the capital they need on shore. We can keep those companies here, we can keep the jobs here, and we can have basically a very lively ecosystem of companies that are really trying to be global from New Zealand. I think that Rod Drury at Xero is a very strong advocate of that, of basically keeping control of your company – continue to raise money, especially from a public market – but really just not selling out to basically create the business from New Zealand.

S1 25:17 Karl, what are your thoughts on that?

S4 25:18 I guess I like living in New Zealand, so I wouldn't really like to sell my company and then move overseas. I think that, as I said, without having actually tried to seek capital in New Zealand, I don't actually know what it's like to do. I'm not terribly – I guess I dream of a world where there is less boundaries in between countries. I don't find myself awake at night worrying about a companies going offshore. I think that if there's one thing it seems to be true of New Zealand – I guess that this speaks to the previous Moxie session – is that people seem to want to come back. So if you sell your company offshore it's not too much of a loss to our local community if you then come back with that expertise and experience. And potentially, particularly relevant to this, capital, and then decide to go again in the New Zealand space. Obviously Rod had a successful business and then went on. Started another successful business in New Zealand. It seems to definitely be demonstrating that you can do that here. So, I definitely feel that anything we're involved in, it's going to be centered around here. We talk about how easy it is to get up to Silicon Valley if you need to. Just buy more plane tickets.

S1 26:50 Very true. I think we have concentrated quite a bit on the entrepreneur side of things. Just before we go, one final point. If someone did have a bit of money in the bank and they suddenly they want to give back or they want to be involved in the sector in New Zealand, how would someone go about being an investor or an Angel investor or something along those lines?

S3 27:14 Well the hard thing at the moment is that the Securities Act only really gives that Freedom to high net worth individuals. That's because companies can't be seen to be offering their investment opportunity to the public. Which is not defined, but what we have is these safeguards, so you're allowed to present your investment opportunities to people who are considered eligible persons. And that tends to be wealthy individuals. Unless you're someone who can get your accountant to say you've got \$2,000,000.00 in assets, or have earned 200,000 or more for the last two years. Then you're not able to be within that safe harbour of having investment opportunities presented to you. So, that's one restriction.

S3 27:56 One of the things that you'll have seen talked about a bit in the press at the moment is the Punakaiki Fund and that's a registered prospectus to try and let

people who don't qualify get some access to these kinds of investments as well. That will be a managed fund that invests in these types of companies. But other than that, you really are estranged to investing in the public market which is why it's so encouraging to see some of these companies look at listing.

S1 28:27 Absolutely. It's been fascinating to talk to this. It's also good to hear that there is a lot of positivity going on around the market as well in New Zealand, which is fantastic stuff. The conversation will continue over at the moxiesessions.co.nz. You can join in the conversation there, on Twitter as well. And you can also go back and check out previous episodes. But, for today I really would like to thank all my guests Amelia Wong, Sacha Judd, and Karl von Randow. In fact, Amelia where can people go online and find out what you're up to? What's a good place to go to?

S2 29:02 They can always go to our website. It's NZX.com. We try to keep that updated and we have a twitter feed on there as well that basically talks about all the latest things that we're launching and doing.

S1 29:12 Fantastic stuff. Thanks very much for being part of the show Amelia. Sacha what about you?

S3 29:16 Find me online? You can check out the start-up company page on the buddlefindlay.com website. We've got an event coming up on the 24th of September, where we're going to be talking about term sheets. So, if this is an area that you're interested in let us know if you like to come along.

S1 29:28 Wonderful stuff. And Karl where are you hanging out online?

S4 29:30 That would be letterboxd.com, that's letterboxd without the final 'e'. That's our firm website.

S1 29:38 Nice stuff. All right, thanks very much to all of you for being part of the show and the Moxie Sessions. That has been episode number eight. themoxiesessions.co.nz. We will catch you next time. See you.