

S1 00:12 [music] Hello and welcome to the Moxie Podcast. This is episode number nine. What is the Moxie Podcast? Well it is the companion web show to the Moxie Sessions. And the Moxie Sessions is an internet economy discussion group held once a month at Auckland in New Zealand. Its purpose is to bring together a group of entries and technophiles from across the economy to talk about how New Zealand can take advantage of the internet to improve its economic performance. A very worthwhile thing to bring everyone together for. Who am I? Well my name is Glenn Williams and I'm pushing the buttons on this podcast over in London. My guest who I'll bring on very shortly are in New Zealand and today we're going to talk about the health of New Zealand's tech ecosystem. How, in fact, does the pipeline look? How mature is the sector by comparison with earlier times or indeed with other countries? And where should we focus out if it's to improve things where they're not going so well? Now, talking at the Moxie session in October, where Andy Hamilton who is the CEO of the Icehouse. Welcome to the show, Andy.

S2 01:11 Good day.

S1 01:12 Lance Wiggs is an independent consultant providing management, strategy, growth and evaluation, consulting to industrial media and internet-based businesses. Lance, good to have you here.

S3 01:20 And also founder of Punakaiki Fund, hello.

S1 01:23 And Miles Valentine, who was up until recently the CEO of Zeacom, which is founded in 1994 but can now be found providing consultancy services via Coates Avenue Ventures. Miles welcome to the show.

S4 01:35 Yeah, nice to be here. Thank you.

S1 01:38 Yes, it's very good to bring these very top-end minds in this sector and people who really know their stuff altogether. First of all Andy, can you give us a brief rundown on what you talked about at the last Moxie Session.

S2 01:53 Yeah, sure Glenn. So talking about the health of the ecosystem. My comments really were that the ecosystem has never been healthier and that raising money these days is relatively easier than what it was five and ten years ago. So that's really encouraging. However, in some area, just like in the two to ten million dollar area, it is very challenging. And the thing that remains for our New Zealand companies is getting up and offshore successfully. It is the biggest challenge that remains. Internationalization is something that a lot of our founders are doing for the first time. And even with the internet, it creates significant challenges. And really, how we can more collectively support the founders to achieve better internationalization or something, that just continues to be a massive challenge. My own personal slant on that as well is that I think that we are significantly underdone into Asia. And that's something that we're really going to have to work on if we want to improve the opportunities or leverage the opportunities out of that. So that was why internalization is the big thing from my perspective.

S1 03:09 Okay, brilliant. Lance, where were you coming from for this Moxie Session?

S3 03:14 I agree with Andy that it's better than it was 10 years ago. There was no good deal flow at all 10 years ago in New Zealand and no good money. It's tremendously better now and we're on the right track. And take that criticism on that to talk about with that in mind. We are all in a bubble. I believe that each of us here, each one of us in New Zealand has their own perspective of things. And it's like the proverbial elephant in the room, you only see part of it, you don't see the whole thing and this very figure will do it, if any. I believe that there are some very good things happening, but there are also some very bad things happening. We need to connect these bubbles up and get more communication going on. I believe there's some investments going on that are really quite dangerous and it shouldn't be being made by the investors who'll going to lose a bunch of money. And there are some other ones being made that are really quite smart. And then, there are people who are like wheedle, who are in their own bubble and no idea what they're doing out there. So, it's getting better. We have a lot of things to fix in terms of the way that we do term sheets and contracts with people. Sure, internationalization is an issue but there are plenty of other issues out there as well that need to be solved on a case by case basis.

S1 04:32 Okay, Miles give us a rundown on your bit at the Moxie Session.

S4 04:36 I was asked to come here and share my personal experiences between when we started out which was 1999-2000, in terms of looking for funding to go primarily to the US. We were already in Australia at that point. I think it's fair to say, as Andy and Lance both said, the market's much more developed. The New Zealand environment and funding market is much, much more developed than it was back then, obviously, but it's still smaller, it remains a cause. Particularly, as ABC is the next sort of \$2 million plus area which frankly most New Zealand companies need to go to a big market like the US or Asia. What I'm seeing now as I'm going around talking to a lot of, not necessarily start-up, but companies that have got an idea, built a product probably getting some credibility through actually selling it and validating it. I'm seeing a lot of CEOs that are relatively naive, in terms of how the capital raising process works. They are naive in terms around control and delusion of what's going to have to happen and what's going to happen if they're going to go down that path. And similarly, I see a lot of shareholders that are not necessarily focused on the same types of things as international shareholders are focused on that stage for their company's life. Primarily, being growth, I think in New Zealand we have a much greater more focus around not to try to burn too much money so that we can bootstrap it as best as we can. And grow in a very managed or slow form because there's just not enough money around. I'm afraid they probably have capital in that scenario. So yeah, things are better than they were and there's still a ways to go. There's more education really and experiences needed with CEOs, shareholders and actually I should mention directors as well. I see a shortage of experienced directors in the New Zealand market as well.

S3 06:59 One thing we talked about with the Directors as Lance said was there is a bit of a director gap and I think we had a good conversation that we should fill the gap with younger people who are actually embedded in a companies that we're investing in and not locked to the classic Booker graduate who is in the 60s– he's 60s, no doubt. There are a bunch of folks who are capable of being a very very good directors who just aren't being checked right now.

S2 07:29 And I thank you that. Glen, just one of things I would say, the benefit that I think all of us would get from founders and people on that system being on other boards is that will actually improve their own performance because just like Lance sees around the elephant bit, they will get a bit of perspective around seeing a different company that they can bring back to their own company.

S1 07:50 Is this particularly a New Zealand challenge where we're not allowing younger people to go into these positions of responsibility in these businesses and I guess, its a two-pronged question really and also, is it particularly a New Zealand issue where founders and people who start up these great little businesses don't have the skills yet to take it to the next level, or is this a problem found worldwide?

S3 08:18 No. It's a bit both. New Zealand has a particular issue with directors [chuckles] and loving this corporate graduates and stuff. I disagree with Andy a bit in that. I believe that there's a lot more realistic ambition and knowledge and blooming going on with founders. Sure when they're 23 they don't really know everything about business, but they learn really fast. We just have to back them. I thought the point though that Miles raised about international shareholders over the seas, paid all and willing to invest a lot of money into growth rather than New Zealand having the lean start up philosophy. It's an interesting point because the lean thing– the manage growth thing is actually pretty smart but there does come a time when you need to have a few extra zeroes on that funding and the ability to grow really, really quickly. We have seen a bit of that zero with the last round and I kind of wonder sometimes whether New Zealand even has those sorts of shareholders that are willing to put down a whole bunch of cash, or whether even definitionally they've said, 'I love overseas now. I'm a citizen of the world, and I wonder around the world with my bigger [watches?]'.

S2 09:30 The bit around which Miles has also mentioned around the growth funding is this in that a lot of the companies are funded by angels and they have a genuine concern that if they pushed a foot down, they will be able to raise 10, 20 million

dollars to keep the business going while they go for growth. Often that's because those angels themselves, have not raised money in off shore markets or raised significant venture and they just get concerned and they go for a conservative route as opposed to sitting back— as opposed to go and look, "Actually, this is the right strategy for the business. Let's find a path," and that's the challenge. People do what they know and what they have as far as experience. Once they've dug up the ground with the VC, they maybe a lot more equipped to be able to do that with other companies.

- S1 10:24 Some of the problems though, that exist in New Zealand involve our adversity to risk overall, and visitors out there, they are not prepared to take the same risk that perhaps over in Silicon Valley there are.
- S3 10:38 That's definitely about it. We haven't— the business in New Zealand haven't hit enough positive experiences where they've seen risk and growth pay off. And frankly, they haven't seen enough experiences where they've seen the investments pay off. We need more successors that— I'll say that's in between area that ten to 50 million dollar exits which frankly in New Zealand they will still put — in most cases — some pretty decent multiples, taken hands over and invests them. It is an experience— it's definitely an experience problem. Yeah, it's just definitely an experience problem.
- S2 11:24 One of the issues from my perspective is that there is a lot of— there are different types of investors. The best type is that people that are wealthy and experienced in both the sector and the company and early stage companies. And they're [headlong?] with those people but the once that we do have, the five of them or so make good money themselves. They didn't make their money by raising money from other people, if you know what I mean. They raise money from friends and family only, not from the former networks. The Four networks of the [birth-backed?] things have never really had a big success, and that's a fundamental issue and disconnect we have in our community. This kind of worries me that we're doubling down on that side of the thing rather than on the independent side of the things and building up independent sources of capital that— it wouldn't move maybe a bit quicker, sign simple term sheets and that sort of stuff.
- S1 12:13 What can be done on the government side of things to show some leadership in this area? The government seems to be fairly quick to roll the dice on the America's Cup but not so much on New Zealand's tech firms. Would you agree with that?
- S2 12:28 No I don't agree with that at all.
- S3 12:31 I feel there's another way. I mean seriously, the birth on the things time is almost done now. I think they should be acting as an investor, and not as a whatever thing that they are. The Superfund and ACC, I would love to see those guys, almost having a mandate to invest more in New Zealand but they're not really set up for it to be fair. You know— [crosstalk]. So its not a Government thing its actually a thing for all of us.
- S1 12:57 Sorry, go ahead Andy.
- S2 12:59 Yeah, sorry. I agree with it but Lance why do ACC and Superfund not invest in this sector?
- S3 13:07 It's too small for them, they write 5 million dollar cheques at minimum, maybe 10, 20 million dollar cheques minimum, right?
- [crosstalk]
- S2 13:14 And the returns are not good, but they had put 30 million into the pioneer fund.
- S3 13:20 Sure. But they're not really a VC fund, right? They're probably equity fund, really. [crosstalk] It's not really because it's— the combined number of VC firms making investments — if you call those guys VC firms — was only two, three or four investments a year. It's just not enough, but we—
- S2 13:42 I agree with that. Glen, I think that Governors actually do it a lot in that sector. Could they do more? Absolutely. Do I share the criticism that Lance has of the Venture Investment fund? No I don't at all. I don't think it's actually that helpful for him to be that negative but that's his stick and that's what he wants to do, because that helps him in his positioning in the market.
- S1 14:11 Let's have—

S3 14:12 It's a bit– I have to be able to respond to that.

S1 14:15 Okay. Sure.

S3 14:15 It's not something that I haven't been saying for years to be clear. Rather than winter that all the time, I basically stood up and said "Oh, let's try to do something about with our own venture."

S1 14:29 Let's get back to perhaps the talent side of things. One of things that came out at the Moxie Session was that the fact that there needs to be the right talent, and also the younger talent on boards to advice some of these start ups and companies that they are going to be doing great stuff. Is there enough talent out there to spread around all these companies that needs this sort of help?

S2 14:50 Absolutely, look at Miles. He'll sit in there, and after six months, after your exit or whatever, now you are running around all year and now you are running around and helping people. There are a lot of people out there that can help and are helping.

S4 15:05 Yeah, I think there are a lot of people, but I think the question was are there enough? Now, I don't know if there was enough yet. I think I am sure that they aren't enough because this– one of the things that I learned– and I had one of these boards that was made up of six New Zealand and Australian based accountants and I'm probably being a little harsh there but, fundamentally, it was. They were all shareholder representatives except for two; who were one independent out of– in fact no sorry there was only one independent out of America that I appointed. I did however learn over the years an awful lot of 'serve the other side' where there is the governor's side, and there is definitely a strong financial requirement and a governance here that you only get through experience. Starting result boards with younger people is definitely needed. I say younger kids, I'm early 50s myself, and these days, that's relatively old. You know, we can definitely do with some younger people who are least inhibited, who are hopefully reigned into a degree by the governance and financial requirements that boards have.

S2 16:32 This came up on the data, and I think Lance made a really good point – Is that actually amongst the founder community, informally, they are already doing this. They get together online. They get together in person, and they are sharing their learnings and experiences. That is happening naturally, the question is can we leverage that talent even a little bit more for the businesses. I mean one of the companies I'm on, we got Mario Winans from Pittock on our board and its a gaming company. The amount of value that he has brought to that has been fantastic, but at the same time why Mario joined, I think, was he could see some of the experiences this business was going to go through in the valley might be relevant for his business as well, and so it's actually been a good thing for everyone.

S3 17:25 I think to double on that. 'By founders for founders' is what we should be aiming at here. So lets put the founders at the center of the ecosystem, lets help founders talk to each other as the first port of recall rather than talk to the advisers and the investors, and lets have the rest of the ecosystem support the founders, as they learn and grow and develop, because they're the ones doing all the work, they're the ones crediting with the value.

S1 17:52 That's interesting that these founders and entrepreneurs are, in fact, doing some of the roles of boards by getting online and talking to each other and being part of discussion groups. Is there an issue where they don't get into the formal side of things, actually being on a board, because is there a perception issue that, "No, that's for the old guys. That's for they guys that have been around for a few decades, and perhaps had been through a few businesses." So they don't think that they have value to give in that formal context. So is that a perception thing?

S3 18:25 Don't think so, no. It's probably more of a sometimes a money thing, sometimes a time thing and look these informal networks that have sprung up all over the country are just fantastic, some female only ones in Wellington in particular there's one, just absolutely fantastic.

S4 18:45 Yeah, I don't think its a perception and I think the reality is a lot of them are really

- busy. And—
- S2 18:53 I was just going to say, I think it's time when you're up to your elbows in your own business, it's very hard to find that extra amount of time to go out and engage in someone else's business. I think they're very hard to do.
- S1 19:06 Okay so, let's look to the future. Let's look 5, 10 years down the line. We're having these discussions now about where the New Zealand tech community is at, and you can look back 5, 10 years and see where we were but can I get you guys to do some crystal – ball gazing and hopefully, a positive future. You can paint a negative one if you like, I'm not sure that you would. How much better will the ecosystem in New Zealand be in 5, 10 years? I'll go to you first, Andy.
- S2 19:37 I look at and it's going to be excited. We spend so much time thinking about today, as opposed to dreaming about what it would be like in 5 or 10 years. I think you'll see a massive shift of talent both into New Zealand and internationally with founders just hitting to Shanghai, San Francisco, Hong Kong so I'm pretty excited about that. I think there will be even a continuation of international capital floating all over the place, and I think you'll find there will be a lot more innovative business models around funding companies, like what Lance is trying to get away but even more so in 5 years time. So, I think it's going to be great to be a founder.
- S1 20:16 I should say Andy, as an extension to that question, what key things do you think will be put in place or should be put in place to make that happen and make that future reality?
- S2 20:25 Well, the only thing I would say about that is that I think Lance's point 'by founders for founders' is spot on. You put the founder at the center, you put the entrepreneur at the center and everyone else act as to support them but they are the magic at the beginning. And the better they are, the stronger they are, the better our economy will be.
- S1 20:47 Lance, where is the ecosystem going to be in your view and what needs to happen to make that happen?
- S3 20:52 So, Paul Callaghan's book with— and the latest one is shown when Andy talks about the 40 billion dollar worth of high-tech lead exports that New Zealand can and will generate. And I don't only take with everything in those books [inaudible] they are a bit too— let's figure that around to do signed, that is going to happen. I think in 5 to 10 years time we'll increasingly see companies emerge that taking up that mental, driving forward the export dollars for New Zealand. And those companies already exist right now, most of them. And that is going to keep growing and keep getting bigger. So we'll see that, it will be obvious. How's it going to happen? Well, obviously its got to be founder-centric, more funders in the market, there are lots of wrong ways to do it and there are lots of right ways to do it. What we need is simply more ways and let them filter, but we do need a track record of success to hit the market as well. What we can't afford is are investments that should never be made. And as a company out there at the moment. So, we just need the track record successes. We need lots and lots of place, we needed to be founder-centric. And months later, it will let a thousand flowers bloom, as they say.
- S1 22:10 Miles, are you on that line or do you have a different take on what's going to happen in the future?
- S4 22:15 One of the things that I see an awful lot more now, again, particularly going back in decade, I'm really happy to see things starting out at school. Like young enterprise scheme programs, the various universities where the entrepreneurship courses with funding competitions for start-up money are much—
- S1 22:36 Would that be at— what about high school level even before university do you think?
- S4 22:40 Well, young enterprise is high school its 6th and 7th form, year 12, year 13, 6 and 7th form in the old days kids enter competitions to build an enterprise which is a fantastic start. Right through to the— a much greater celebration of success, the Ernst & Young Entrepreneur of the Year dinner comes up I think its next week which is in fact, I'm taking my two kids to it this year because it was so good. I've been to it for a number of years and last year, I thought "Gee, I've got to bring my

kids to this." It's just a fantastic celebration of kiwis doing really good, smart things and very successfully. So, I'm sort of seeing a much greater, there's a much greater drive that will win us. And a whole perspective around starting businesses entrepreneurship which was not there decade ago anywhere near to the same extent, certainly. And that's just got to lead to, as both Andy and Lance saying, a much more— many more founders, many more entrepreneurs, giving it a chance and starting. I think there's a greater acceptance now of failure which is going to happen. It's part of it and a very necessary part of it. So I think all of those things are going to lead to a much more active— got to lead to a much more active future.

S1 24:03 Well, that basically wraps up this Moxie session but before we go, I know that you guys are extremely busy and if anyone was to follow you guys around for a day or even a week, they'll probably drop dead through lack of sleep or something along those lines. So, how can people keep up with your individual activities online. First of all Andy, where are you hanging out and where should people find out more?

S2 24:22 So, Twitter handle @iceandy, is probably the best one, to be honest.

S1 24:29 Okay. Of course, the Icehouse website. I guess, would also be a good spot.

S2 24:34 Yup.

S1 24:35 Lance, what are you doing online?

S3 24:37 Everything. @lancewiggs on Twitter. Lancewiggs.com is my blog but the only site I'd like people to go and check out is punakaikifund.co.nz. We have a public prospectus and we are accepting subscriptions now.

S1 24:52 All right. Go along to them, Miles. What about you?

S4 24:54 I am very embarrassed to say I'm not hanging online personally. Maybe, it's the function of my age but— [laughter]

S1 25:02 More time person to flesh as they say?

S4 25:05 I do an awful lot of— I am into that coffee culture that New Zealand seems to have grown over the last decade or so. I'm not online so people can track me down through normal way of LinkedIn. However, yeah, so sorry. It's just my age.

S1 25:26 [laughter] So fantastic. It's great that we've got such diverse range of people involved in providing the right advice to all these young. They start-ups and founders and entrepreneurs. This has been such a really, really lovely session. I want to thank Lance Wiggs for joining us. Also, Andy Hamilton and Miles Valentine. You can find the Moxie sessions online at moxiesessions.co.nz. You will find us as an embeddable audio link there but you will also find the links to subscribe via our iTunes, or your favorite iRC's audio player. Until next time, that has been the Moxie Podcast, episode nine. See you. [music]