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- S1 00:01 Hello and welcome to another episode of The Moxie Podcast. This is episode 31, recorded on the 20th of April, 2016, though the Moxie session this episode relates to was held in June, 2015 in Wellington. This is the companion webshow to the Moxie Sessions, an internet economy discussion group held once a month. The Moxie Sessions bring together a small group of business thinkers to discuss how New Zealand can take advantage of the internet to boost its national competitiveness. I'm Andrew Patterson with you here in Auckland. I'll introduce our guest panel shortly. But first, let me tell you a bit about our topic for this session.
- S1 00:38 Investing in high-risk, high-growth ventures isn't for the faint-hearted. Yet an increasing number of people are being attracted to the area, thanks to a growing number of platforms and investment opportunities that are making all of this possible. But is this part of the start-up ecosystem as well developed as it could be, and what else should be done in this area to increase the size of the capital pull available for those with good ideas looking for investment. Joining me to discuss this are Mark Clare, founder of Clare Capital, a Wellington-based corporate finance advisory firm. He has a background in investment banking strategy and technology. Anna Guenther, the founder of PledgeMe New Zealand, New Zealand's first crowdfunding platform, and one of the first companies licensed to crowdfund equity. And Mark Vivian joins us from Movac, a Wellington venture capital firm. Amongst other things, he's responsible for sourcing deals and contributing to the boards of companies that Movac invests in. Also the founding CEO of Kia, the network that harnesses New Zealand's ex-pat community. Welcome to you all.
- S2 01:42 Hi, Andrew.
- S1 01:42 Mark Clare, perhaps to you first. It wasn't that long ago that all you ever heard from start-up founders was the difficulty they were having getting funding to actually start their businesses. Is that largely a thing of the past these days?
- S3 01:56 The answer to that is yes and no. For the right types of opportunities, we definitely see there's capital available, but they need to be the types of opportunities that are attractive to investors sort of like Mark Vivian and Movac guys. The comment we specifically make around that is that's often about a big opportunity and not necessarily a cool idea. Just stepping through a couple bits there, the one thing we've definitely seen, and the change has occurred sort of recently, here in New Zealand all of a sudden, we've got a range of successful tech companies, which have gone through that sort of start-up phase and have created some sort of real wealth. This is further along from where Anna's talking with some of the stuff on her end, but the likes of Trade Me were founded in '99. Now they've got a market cap of 1.8 billion. Zero, founded in 2006 with market cap of 2.4 billion, and even Pushpay up in Auckland, founded in 2011, which has now got a market cap over half a billion dollars. So one of the things we've definitely seen is-- which is a good thing, is investors are suddenly starting to see a situation where there are success stories which people can look at, and the fact that the northern end of Cuba Street here in Wellington, you've got two technology companies that were founded here in Wellington that have got over a billion dollar market cap just is a good thing.
- S1 03:34 And so you feel that has given more confidence to the sector, because they can look and see success stories now?
- S3 03:43 Yes, it certainly does, and we need to see more probably M&A exits, Diligent being acquired in the last couple of months and the deal completing with a US private equity fund. Again, that's a good thing. Trade Me, although it's listed now, was originally acquired in 2006 by Fairfax. We need to see more of those M&A transactions where investors get their money back, but it's good to see the size of deals moving forward. The one thing we're definitely seeing-- and again, at our end on the advisory side, for businesses, the issue of growth has been a pretty big question and investors wanted to see that. And over the last five years, the issue of growth has considerably-- people are looking for a lot more growth in some of these early stage ventures, traction and growth, when they previously weren't. The example there is probably Pushpay, which again are a listed entity now, but they went from a million dollars of annualized recurring revenue to ten million in ten months, and they've just put their most recent financial results out, and their annual recurring revenues, they've increased it 5 times in the last 12 months. We're seeing some incredible things starting to happen here in New Zealand.
- S1 05:05 Absolutely. Anna Guenther, tell us a bit about your motivation to found PledgeMe, and the impact it's had on the start-up ecosystem.
- S4 05:15 I started PledgeMe as a reformed public servant. It came out of my Masters thesis on entrepreneurship, and just really wanted

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to change the way that Kiwis fund things. Instead of it just being one person deciding what gets funded, and moving into more of a crowd approach. We see it as democratizing capital in New Zealand. Over the past four years, we've had over eight and a half million dollars pledged on the platform, almost 1,000 successful campaigns, ranging from a single-bladed wind turbine that a bunch of engineers were building down in Dunedin, through to a man who built a bionic hand for his friend.

- S1 06:01 Fair to say, was there a bit of doubt in the market before you started about this whole idea of [chuckles] of crowdfunding?
- S4 06:10 Most definitely. I think there was a lot of people thinking that taking money from a crowd is dumb money, but I think that we've definitely proved that there are people that are willing to invest in companies that they care about, and that it's a whole different dynamic.
- S1 06:31 I suppose the investors who use the platform cover the spectrum from those who are really serious about this idea, to others who just treat it like something-- perhaps are more casual. Is there any way, though, that you can sort of try and typecast the sort of people that are attracted to the platform?
- S4 06:52 I think the thing that we're seeing more is it's companies activating their own networks first. So often it's existing customers, or people that really care about the company, and they bring a lot more than just the funding to the table. So one of my favourite examples was a woman, Brienne West. She crowdfunded her solid hair care business. So she makes shampoo bars, because she wants to reduce waste, and when she raised money to move from her home kitchen into a factory, not only were 80% of her investors current customers, but four of them were chemists, and [chuckles] so when she was trying to figure out how to double the batching system in her new factory, one of those chemists came in and solved her problem in ten minutes. So it's way more than just the money that people are getting out of crowdfunding.
- S1 07:37 Mark Vivian, Movac has been involved in this space for some time. How do you characterize the current situation in terms of the way capital is able to flow through the ecosystem?
- S2 07:47 I agree with what Mark said when he started out. I don't think there's ever been more early-stage investment opportunity in the sector. There's a huge amount of money. That doesn't necessarily mean that all of those early-stage companies should-- or deserve funding. It's also a function of how big are the opportunities these companies are chasing, and what does the reward look like for investors if a few entrepreneur does it right. Right now, we're seeing an exceptional volume in quality of [?] coming through our doors. It's terrific.
- S1 08:25 What about the risk tolerance, Mark Vivian, about the way New Zealanders are perhaps changing their approach? Because we have always been characterized as being fairly conservative, and somewhat perhaps risk-averse. Is that changing, do you think?
- S2 08:40 My observation at the moment would be, in a low-interest rate environment, where investors are chasing yield, if you look at property, fixed-income equities, where is the opportunity for breakout return? And that's why they do look at alternate [investment?] classes like venture capital private equity and think, "Yes, I accept the risk, but the reward is potentially there." The base that we start from, talking to any potential investor is firstly, understanding the risk associated with operating in this space. There is a chance you may well lose your money, depending on the stage of the investment that you're getting involved with. But as part of an overall well-balanced portfolio, we're seeing strong interest from investors in what we're doing, that's for sure.
- S1 09:25 Mark Clare, if we look at the sort of businesses that are being attracted to this area, it's very much dominated around the tech space, software, SAS, and so forth. Are there parts of the economy that perhaps aren't necessarily participating to the extent that they should be? I'm thinking of areas like perhaps agri-tech, those sorts of thing. We hear much less about those sorts of areas.
- S3 09:49 Mark Vivian, I'm sure, is seeing probably quite a lot of agri-tech stuff at the moment. One of the big things we are seeing, and it is a challenge, again, coming back to the growth side of things. We do a lot of work with companies that are at a pretty early stage. Again, one of the challenges they've got is - the software companies and the SAS businesses - if they get that business model right, it is very attractive, and that's attracting quite a lot of-- at our end, we're seeing a lot of investors [inaudible] to that, and that is a challenge for other parts of the economy that turn around and go, "Well how do I compare with-- my growth might be 20, 30% per year, but when you're competing with companies that are doing that per month, that can be challenging. And we are certainly seeing-- so first [?], and investors turn around and say, "We only want to see companies with particular characteristics." And that's more challenging for certain industries than others. I think one of the observations from May in terms of agri-tech has-- it's really affected by commodity price [inaudible], firstly. Secondly, figuring out the past market is often quite challenging. The idea of selling to farmers is all well and good, but in terms of costs of sale, how many farmers' driveways do you need to get out to and convert the farmer in order to develop some sort of scale-able business that you can do it with limited capital requirements? That's a real trick that we haven't quite seen overcome in a number of opportunities that we see.

- S1 11:38 What about--?
- S3 11:39 We are seeing - just closing that one off - we are seeing-- a couple of years ago, I led the sale of an agri-tech business product called MilkHub to Tru-Test, and we are seeing a bunch of those primary sector sort of supply companies, companies like Tru-Test that have been quite active trying to get a hold of new technology to grow.
- S1 12:04 So you've spoken about the sophistication of investors. What about the sophistication of founders? How is that changing, perhaps from what you've seen previously, in terms of the way founders are turning up with the product offerings' understanding of their market? I guess all of those elements. Anna Guenther, is there some thoughts from you on that area?
- S4 12:31 This has been really interesting for us over the last 18 months, seeing the types of companies that are coming through looking at crowdfunding. We see a whole range of everything from founders who have founded companies before, through to really, really early-stage. But it feels like - and the Marks can correct me - it feels like there's a piece missing often, with companies in New Zealand, specifically around financial literacy, and there's a big piece of work for New Zealand to really educate founders on what that means.
- S1 13:04 Where do you think the gaps are, specifically, around that?
- S4 13:10 I think just generally New Zealanders are potentially not as financially literate as they could be, and when it comes to companies, there's definitely things these founders understand and things that are completely outside of their realm of thinking. Especially if it's the first time raising capital, it's something that they're thinking about outside of the day-to-day of running their business, so it's something that really I think is a-- as a country, we need to figure out how to do that better.
- S1 13:37 Mark Clare, as somebody working in that early-stage start-up space, is that something you're seeing as well?
- S3 13:45 Yes, but the one thing I would say, and I've been working in this space for a period of time. I was working for Jenny Morel in the early stages of some of the venture capital stuff back in sort of 2004, and one thing I would say is there's so much more information available to founders these days, be it methodologies for approaching capital raising and the like. I agree we can always do it better, but I think-- and I'd be interested in Mark Vivian's take on this, we've definitely seen people-- they've become more sophisticated, certainly over the last ten years, of being more prepared. I would agree with Anna. We've got a distance to go in getting some of the literacy and the financial stuff right, but we're seeing-- people have used the online resources and that reasonably well, and people are further ahead than certainly they were five or ten years ago.
- S1 14:51 Mark Vivian?
- S2 14:53 I agree with both Anna and Mark. I was lucky to be involved in a start-up in the Valley in the late '90s, and I used to meet with a stream of Kiwi entrepreneurs coming up to the Bay area, and they were very, very green. Very unknowledgeable. Very undecided about what path they should take. I think it's been a quantum shift since then. Your average Kiwi entrepreneur has a far better idea about what they should and need to be doing. I do agree with Anna, though. A lot of the entrepreneurs aren't fully formed and there will be gaps in their capability, and often they don't actually understand what those gaps are, or how they can fill in those gaps. Compare that with-- and I know this is a message in [?], but often your US entrepreneur may have gone through an MBA program, may have gone through a graduate program within a large US corporate, so they understand how these beasts work. We find, by contrast, the Kiwi entrepreneur is relying on other members of the team, or the board, to fill in those gaps for him or her. So that needs to be factored in at the time of investment. Where are the blank spots in the entrepreneur and how do we fill those?
- S1 16:10 That's a good point, and if we think about that, yes, you've got options to go and do MBA programs, or to do the MCE program in Auckland, the Masters in Business Commercialization and Entrepreneurship program, which I did myself a couple of years ago. Two years, though. Quite a serious investment. Should we be looking at options which are quicker and faster? Perhaps online delivery programs that are able to fill some of these knowledge gaps?
- S2 16:36 I think that the best experience you can gain is university of life. Again, if you look at the US entrepreneurs, they've often been through one, maybe two early-stage companies before, so they understand the process, what goes into building a business. And the clock speed there is so much faster that you can work in and out of three or four early-stage companies in the space of five or six years. New Zealand just doesn't have the benefit of that faster clock speed, so we're having to learn a lot more at a slower rate. That's a real challenge.
- S4 17:13 I think we have a--
- S3 17:14 Mark, can I just--?

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- S1 17:15 Anna, you jump in, and then we'll go to Mark Clare. Anna, away you go.
- S4 17:19 I think we do have an opportunity in New Zealand now. I think often we're trying to solve bigger problems and we can collaborate. If we know that we want to start exporting and get offshore, there is an ability in New Zealand to collaborate where potentially there wouldn't be in the Valley, and I think there's a lot of peer learning happening, especially here in Wellington, between entrepreneurs just sharing where they're at and figuring out how to pull things together, which is different from going to school.
- S1 17:43 Mark Clare?
- S3 17:45 Just picking up on what Mark Vivian, and both what Anna's just said there as well about the collaboration component as well. I think there is a generational-- it takes a period of time to bring some of this together, and Mark's comment about people learning within high-growth businesses and within technology start-ups is a great one, and I'm intrigued to see what we're going to see happening next when-- and we've seen it to an extent with people coming out of the likes of Trade Me, and Xeros, StarNow, just around the corner from Mark Vivian's office is a good example of a guy that's coming out of Trade Me and building something new, and doing it a sort of second time round. Rod Drury frequently says the best thing that a bunch of these early-stage people could do would be to go and work within some of the slightly further ahead, slightly more successful earlier-stage businesses and then take those lessons and go further. And I think we will start to see some of that stuff come together, and completely [crosstalk] collaboration--
- S4 18:52 Isn't that just him trying to acqui-hire everyone?
- S1 18:58 Anna, just go with that again?
- S4 19:01 I was just saying, isn't that just Rod trying to acqui-hire everyone [chuckles]?
- S1 19:06 Yes, possibly. Let's just end the remaining time-- focus a little bit on perhaps where you see gaps in the ecosystem that should be plugged or addressed in this area? Mark Vivian, where are the gaps in the ecosystem that we perhaps still need to be focusing on, or where there are more opportunities to perhaps change our thinking?
- S2 19:32 I think the big one for me would be governance. You need people that have firm opinions, the ability to listen, and a good background of experience to really earn the right to be on the board of an early-stage company. I think far too many companies that we see come through the door have a whole bunch of lawyers and accountants, which are great, as long as they're not associated with an early-stage company from a governance perspective. It's all about risk and compliance, whereas what the business really needs is a focus on strategy and growth and how to get there. Often, the very people that have been mandated or tasked with helping grow the company are the very people that hinder its growth, often, and I could name 15 to 20 really good, high-growth directors in New Zealand, and we need 100. 200.
- S1 20:28 And when you talk about the governance on the board of a start-up, how do you feel that that differs from being on the board of a more established company?
- S2 20:38 I think the ability of a board to deal with real issues like key hires helps the CEO-- help him or her find the great hires globally, using their networks. Dealing with things like limited capital. So how do you deal with a high-growth company that's got a limited runway? You can literally see how the company's going to run out of money in the next four to six months. What do you do? A number of people that we've seen in that situation literally freeze at the wheel, and that's the absolutely last thing that the entrepreneur wants to see from his or her board.
- S1 21:16 Mark Clare?
- S3 21:18 I'm going to completely agree with Mark Vivian that governance is one of the big issues. The differences-- it's almost night and day. We see start-up governance compared to large company governance. We use a couple of analogies. One is using Mark's example of the fundraising one, you've got to be sprinting at a wall, and you're hoping that you're going to be able to keep raising enough money to keep pushing that wall back, but you've got to keep going really fast. That's actually quite a terrifying mindset for a lot of people. I'd agree with Mark. I'm not even sure there's as many as sort of 15 to 20 high-quality early-stage directors around in New Zealand. Maybe there is, but we're definitely going to need a lot more. But it is quite a mindset change, and using the Mario Andretti quite, what they need is that mindset of, "If everything seems under control, then you're just not going fast enough" [laughter].
- S1 22:18 Anna Guenther, what are your thoughts around governance?
- S4 22:23 We recently actually just went out to find a new director, and crowdsourced 107 applications from our community. Ended up

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hiring not one but two amazing directors, and I think for us, it was really interesting looking wider than just financial and legal skills, though obviously, the people that we were searching for had to acknowledge that they were coming on to a pretty risky start-up, since we're in a financial market. But it definitely was-- I echo, it's thinking wider and thinking faster, and thinking more diverse and acknowledging that actually you need to have some pretty robust conversations at the boardroom table to go quicker, but be okay with that.

- S1 23:05 What about the realities of remuneration for directors, where obviously start-ups, you don't have a lot of money [chuckles]? How do you make it attractive, given the level of kind of risk I suppose that they're taking on?
- S2 23:19 I think if they're doing it for cash, Andrew, they're doing it for the wrong reasons.
- S4 23:24 Yeah--
- S2 23:24 I think yes, they need to be remunerated, but I think that can be done alongside the success of the company.
- S1 23:30 Anna?
- S4 23:30 I agree. I think that you don't want to be paying your directors excessively, but at the same time, you want them to feel like they're part of the company, so what we've done is shared in paying the tax component of that, for our directors, and having really good director's insurance.
- S1 23:47 When you say you crowdsourced, how did you go about that process of building that pool of directors that you were selecting from?
- S4 23:57 We just wrote a really open blog post, saying that we were looking for directors, and ran a cross-list through Weirdly, which is recruitment technology, and sent it out through our network. So it went quite wide. I also wrote a blog about how I'd really like women to apply, because I know there's a severe lack of women on boards in New Zealand, and I don't think it's because women aren't skilled enough. I think it's often they need to be shoulder-tapped and told to apply. So 52% of our applications were from women, and three of them were fricking dames [chuckles]. You couldn't find more skilled women. It was a pretty awesome process.
- S1 24:41 Were you surprised at the extent of that response?
- S4 24:44 Totally, and I've never had a more terrifying task, really, than going through 107 names of amazing people and only picking one of them. But it was actually really good. I'm not sure if you can share length of this podcast, but we wrote a whole blog about the process we went through to try and demystify finding directors in New Zealand, because I think a lot of founders often get a bit scared at the idea of having to go and find people.
- S1 25:11 It's a great story. Just in the remaining minutes, perhaps a final comment from each of you just about your take-aways in this space and maybe just some thinking points to end on. Mark Clare?
- S3 25:27 I think it's an exciting time here in New Zealand for early-stage businesses. I think we're going to see more and more entrepreneurs appearing and creating a lot of value, and I think it's an exciting time for as many people as possible to be involved in that, ideally through either being entrepreneurs or helping to find some of these companies. And having the systems in place like PledgeMe, where you make it available to a wider group of people. That's just all around a good thing. We're definitely long on the start-up space in New Zealand. We think it's an exciting place to be at the moment.
- S1 26:10 Mark Vivian?
- S2 26:12 I'm really excited to be playing a very small role in what's going on in the ecosystem. I think there's a real transformation going on, and hopefully our kids will benefit from it. The idea of working for a large corporate won't necessarily be the only option when our kids come to get jobs and build their careers. The idea of working for smaller, more nimble, innovative companies that are solving real-world problems, I think that's fascinating and really exciting for next generation of kids coming through. And I think the really nice thing is we see the momentum, or the clock speed actually increasing in rate. I think it's really started to pick up quite markedly in the last three to four years as entrepreneurs really understand what needs to be done and build teams in and around them that can deliver on that.
- S1 27:04 And final word to Anna Guenther.
- S4 27:08 I guess I'm just going to echo what's already been said, but I think it's a really exciting time. I think that technology is enabling

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us to enhance community rather than replace it. It's allowing us to collaborate at a speed and in a way that we've never really been able to do before, and I think that the transparency of the way that we're doing things now is pretty powerful.

S1 27:29 Well thank you all for joining us. Speaking to Mark Clare. With us Anna Guenther, founder of PledgeMe, and Mark Vivian from Movac. Appreciate your time. And thank you for joining us here at the Moxie podcast for episode 31. We hope you'll join us again for another Moxie podcast at some point in the future.