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- S1 00:12 [music] Hello and welcome to another episode of the Moxie Podcast. This is episode 39 recorded on the 30th of August, 2016, though the session this episode relates to was originally held in Auckland on the 9th of February, 2015. This is the companion web show to the Moxie Sessions, an Internet economy discussion group held once a month in Auckland, New Zealand. The Moxie Sessions bring together a small group of business thinkers every month to discuss how New Zealand can take advantage of the Internet to boost its national competitiveness.
- S1 00:43 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 some of the topics we'll consider in this session. The issue of capital is one that is always hotly debated between those who believe a good idea will always find investment funding, and others who are often frustrated at the seeming lack of appetite for risk in New Zealand, and the ability to access capital beyond the initial start-up phase. But what changes when a high growth company first takes external funding? Are our investors sufficiently savvy about how high growth investing is different, and do our founders know what is required to be investment ready? Also, are our investment advisors sufficiently well-connected to help firms grow?
- S1 01:27 Joining me to discuss all of this are Franceska Banga who was, until recently, the founding chief executive of the New Zealand Venture Investment Fund, an organisation established by the government in 2002 to invest in early stage companies and help build a more vibrant early stage investment market. Dr. Sean Simpson is co-founder and chief scientific officer of the well known biotech company LanzaTech, which was started in New Zealand ten years ago and is now based in Chicago. Along the way, LanzaTech has raised over US\$200 million to fund development of its products. And at the other end of the journey, Sean Molloy is a co-founder of Aventa, an Auckland based start-up-- let me try that again. And at the other end of the journey, Sean Molloy is the co-founder of Avertana, an Auckland start-up founded in 2013 that turns industrial waste products into valuable industrial commodities. Welcome to you all.
- S1 02:23 Well, firstly, this is a fairly expansive topic and we only have around 30 minutes in this podcast to consider a few aspects around the issue. But Franceska Banga, perhaps if we could start with you first, just to put some context around this discussion, how far have we come in 15 years in terms of the availability of investment capital and our willingness to make such investments?
- S2 02:47 Well, I think the short answer is actually we've made good progress. Overall, I think there's a better understanding in the New Zealand market around how important it is to support young technology companies and start-ups. And I think we see a magnificent pipeline of New Zealand technology companies, many who have gone on to be very successful in recent years, and LanzaTech is a good example of that. On the other hand, we know when we compare ourselves internationally against other countries that also recognise the importance of technology investment, that we still

feel woefully short in terms of available capital in the New Zealand market for those start-ups. So I think we've got plenty of good opportunities and very good capital at the angel end of the market, but we still really struggle to support companies beyond, if you like, the sort of first couple of million of capital investment.

- S1 04:03 You have a particular beef around this idea that a good business or a good business proposition will always be able to find capital.
- S2 04:16 Yes, that's one of the phrases. That's one of my pet hates, that particular phrase. Of course it's one of those kind of sort of self-obvious truths, if you like, except for I don't believe that is the case. When you look at the size of the capital market here and overseas, I think that many New Zealand companies that are deserving of capital don't always succeed in raising capital perhaps as readily as they should be able to. On straight numbers, I think Israel the size of their venture capital market relative to GDP is about 1%. Ours is about .01%, so clearly that we do have a lack of capital.
- S2 05:16 I also think that in the New Zealand market, the understanding of how important that capital is and the disciplines that come with that capital are not well understood. Many young entrepreneurs work really hard in their companies to bootstrap, to try and find the resources that they can from friends and family, to try and get the advise that they can for almost no money. And it's very different from what you see in the US for example, where if a young company with some really clever IP or technology, there's a well understood path to what you need to be able to tell investors, hey you need to be able to speak to investors, what sort of capital you need to get your company to the next stage. So I think we're still in a learning and understanding stage of development in New Zealand around that. So I don't think there's always good money available for good companies. I think there are many young companies that struggle when they shouldn't.
- S1 06:29 Sean Simpson, let's talk about your experience. LanzaTech is often held up as a case study of how to scale a business, particularly given the fact that you operate at the riskier end of the investment spectrum. You're not a simple software start-up. How would you characterise your experience to-date?
- S3 06:49 [inaudible] follow on from what Francesca is saying [inaudible] a business that needs serious amount of capital one must inevitably and [inaudible]. So [inaudible].
- S1 07:13 I tell you what, Sean, unfortunately, we're not getting a lot back here. It's just, yeah, you really in a fairly marginal coverage area. I think just try it one more time and we'll see if we get anything back.
- S3 07:31 Oh, can you hear me now?
- S1 07:32 Yeah, that's better. That's better. That's better.
- S3 07:34 All right. I'll stand by this window [chuckles].
- S1 07:35 Yeah, stay in that window, yeah [chuckles]. Right, away you go.
- S3 07:38 Okay, so what I was saying was our experience is in order to get very serious money into the business at a very early stage, we had to go offshore. We didn't have a choice. The investors that are available in New Zealand necessarily couldn't support the kind of investment that we ultimately would need. But more over, I think in terms of New Zealand in a broader context, the challenge I see for start-up companies in New Zealand is almost a-- it's a curious one in that in order to secure the first few hundred thousand dollars of investment, one doesn't necessarily need a sophisticated story. Whereas perhaps in the US, in Europe, you really do need quite a sophisticated

story. So the hurdle to get money in New Zealand in the first instance is pretty low, but then the hurdle jumped to be very high because in order to get serious investment as Franceska alluded to [inaudible] elsewhere, the training in order to get over that much higher hurdle is simply unavailable in New Zealand. Whereas in a place like the States, the training to meet your expectations of the investors that will give you a larger quantum of cash is part of the journey to you get your initial funding and funding thereafter. So for me, it's not only the money is not available, it's also the training to get money from wherever [inaudible] in the world is also not available.

S1 09:12

Do you think that we should just accept that that is just by virtue of the relative differences in the size of the two economies, and that what we've got is probably what might always be? Or do you think we could aspire for something bigger?

S3 09:31

I actually think-- you know, New Zealand has the population of Greater Manchester and that Greater Manchester doesn't [inaudible] venture capital [inaudible] Manchester the debts of different projects for company to be necessarily [inaudible]. So I think to me, the challenge is actually how do we attract very sophisticated offshore investors to be looking at New Zealand [inaudible] to me is the [inaudible] progress. And I know that is actually something that New Zealand and this [?] has sought to do over the years. And one only has to look at their initiatives in Taiwan, et cetera.

S1 10:22

We'll come back to that. Sean Molloy, you're on a much earlier stage on this journey. Tell us a bit about your experience from an investment in capital perspective.

S4 10:32

Yeah, sure. I mean, we're right at the beginning of our life cycle as it were. We're just coming into our series B fund rates. So two years ago we raised our first, sort of, liquid capital to start taking things in a serious sort of way. And I guess the two major benefits that we got in attracting a very good quality lead investor from the outset was that, that investor brought with them a group of other investors that they're very comfortable working with. And through the life cycle of a business, one investor is unlikely to meet all of your need and eventually you're going to need to bring in other groups, other investors, that are positioned for different parts of your life cycle. So you've got those that are very comfortable at the early stage and then start pulling back as the business starts to mature. You have those that really like to see that quick value uplift that comes as a company leaves that sort of seed stage and starts really getting some real traction, and then you have other investors that their comfort is right around the time that the business is heading the market, commercialising it, and making traction. And for all of those parties, they need to be aligned. You know, if you've got a group working together that are seeking different outcomes, then that quickly becomes problematic. So having an investor that has a group of like-minded investors is a huge advantage.

S4 12:06

And the other big bonus that you can get from having a good leading cornerstone investor right from the beginning is that they may not-- well, they're unlikely to know what success is going to look to your business physically in any great detail, but they have good experience in what value looks like, and what a path to failure looks like. And so they can't tell you what you should do, but they can give you great advise on what you should avoid, and any situations that you're starting to inch towards that they have familiarity with and that they'll lead to a bad outcome. So from our experience, finding a good cornerstone investor to help bring that experience is very, very valuable. And I guess the challenge in New Zealand is that-- I think it was Paul Callaghan, he said the thing that successful New Zealand businesses have in common is almost nothing. That from splitting the atom, to particle accelerators, to gas fermentation, to amazing software businesses, there's not necessarily a common

thread. And so what that means is that for a business that's coming up with something really innovative or disruptive, they may not necessarily find an investor that has particular experience for their industry. And so beyond common experience to growing a business, they're very quickly going to have to go overseas to find experts that have some familiarity in this field that they're working in.

S1 13:35

Franceska, at the session, you said we shouldn't despair. Silicon Valley didn't look anything like this at a similar age, and it will take three cycles of venture capital firms to build strength in our sector. Is that the issue that New Zealand faces? This is just an evolutionary time-based thing, that we have to recognise this isn't going to happen overnight?

S2 14:04

Well, I think that's part of it. You know, Silicon Valley is 50 years old at least now, and it took them 30 years or so to get to where they are. And if you look at the New Zealand market we're probably something between 15 to 20 years in. I guess there are a couple of other things though that we do need to do in New Zealand. There has to be a recognition of the importance of technology as part of a-- strategically for New Zealand. Technology and innovation, I should say. So the quality of the science, the quality of the IP. And for there to be both at a government and a corporate level a genuine commitment to say, "Well, we're strong in agriculture, we're strong in tourism, and from an economic perspective we want to be strong in the generation of IP and ideas that will build new companies, strong companies from New Zealand."

S2 15:17

So I think there still has to be a bit of work done in that area to collectively agree it's important for New Zealand, and it is. We know that we have that capability. And I think just picking up on a couple of the other comments, if you look at our capital markets in New Zealand and the capability, it is very challenging when we-- you know the great companies out of New Zealand and the deep innovation come from all sorts of different places. But I do believe that if we are focused on saying actually we've got to support these companies, we've got to be able to invest and find investment for these companies, then we can go forward.

S2 16:11

So this idea, for example, of-- and I just returned recently from the trade mission to Israel, and 90% of the capital that has been raised for their technology companies - and of course a hugely successful venture capital industry and we are different, but nevertheless, 90% of that capital comes from offshore, but it's very present in the local market. As in it invests through funds and fund managers that are active in the market seeking out opportunities. And I think that's one of the biggest missing things that we have in New Zealand.

S2 16:56

Sean mentioned that we formed a partnership, when I was at New Zealand Venture Investment Fund, with Taiwan which attracted significant capital to invest into New Zealand companies. I think one of the biggest areas for us to focus on in New Zealand is-- actually, there's no lack of international interest to look at investing in opportunities in New Zealand in the space, but we're not necessarily good at how best to engage that capital or for that capital to be able to easily find and look for the opportunities in New Zealand. It's very much a situation a bit like Sean Simpson, where he individually had to go and hunt out this money. It's a very high search cost. How do we actually engage with a wider international investor market to say, "Look at some of this technology in New Zealand and we'll work with you to bring the opportunities in front of you, and for you to have the opportunity to invest"? So there's a few things we've got to do to bring us - if not next to the scale of Silicon Valley. I doubt that that's what we aspire to in New Zealand. But to have a scale of market that really supports the best companies that are coming through.

- S1 18:25 Sean Simpson, how has LanzaTech--?
- S3 18:28 Sorry, can I--?
- S1 18:29 Sure.
- S3 18:29 Can I add a piece to that?
- S1 18:31 Sure.
- S3 18:31 I think Francesca raised a really excellent point, which is how does one make-- I mean fundamentally, what we're saying, how does one make New Zealand an attractive place for offshore investors? Look, because let's be very clear, there is no lack of places for them to look. And so amongst the various shopping grounds for these deep-pocketed, sophisticated investors, how do we make the New Zealand market an attractive one in which to look? And I think that there are many mechanisms to do that, but it's going to require a strict focus on exactly that and there's aspects of New Zealand's economy that is unattractive, to be very clear, to international investors. And when we look at the capital gains tax on IP commercialised offshore, that's unattractive and that's something that other economies have addressed in order to attract in offshore investment into local start-up.
- S1 19:38 I was going to ask you, too, on that point - just digressing slightly - in terms of this ability to adapt to external investors. How has LanzaTech had to change as an organisation or particularly the way that you manage it, the way that you report, to the change that comes from having external investors?
- S3 20:05 I mean the fortunate part of LanzaTech's journey was actually ensuring that early on we had investors who themselves were effectively the representation of smart money. There's two types of money: there's clever money and there's not so clever money, or just money [chuckles]. And in LanzaTech, we were fortunate to attract investment from very clever people who themselves have attracted investment from offshore. And they were able to coach us as to how we needed to position the company in order to attract in higher profile investors. There were also able to make some very useful introductions. And fundamentally, those introductions made the difference, because the difficulty is a very busy investor won't necessarily take a meeting that's been set up for them by a government official, but they'll take a meeting that's been set up for them by someone they trust and they know, and so that's something we were able to leverage. We didn't have to change how the company was, we had to change how we presented the company.
- S1 21:26 What about your own mindset? Was that always in alignment with those of the external investors or did you find that having them involved perhaps changed your mindset as well?
- S3 21:39 My mindset was completely changed, because as soon as you see the opportunity to raise [all those?] in New Zealand, you have an opportunity to raise perhaps a few hundred thousand to ones or twos or threes of millions of dollars, somewhere you're in a position that you can raise tens of millions of dollars. And your perspective on the speed at which you can develop technology, the breadth of or the scope of that business proposition, the talent one can hire, all of these things change as your, I guess, financial horizons are somewhat extended all of a sudden, and your vision of the technology in the context of this higher dollar figure that you can bring into the business is presented.
- S1 22:28 Sean Molloy, is this part of the journey that you're still to experience, perhaps?

- S4 22:34 Yeah, it is. But I think Francesca's point earlier about there being a maturity that has to occur in New Zealand generations of success coming through definitely rings true, because I had the benefit of working at LanzaTech and working with Sean, and so for me being immersed in that and seeing how things can occur and how growth can be fuelled and the perspective of the partnering groups that are supporting your business to do that is like an accelerated education course. It's a totally immersion in education. And nothing actually really replaces having that kind of experience. And then also having mentors that you can contact easily, who have real life experience that they can share with you when you get into a difficult position. So success will breed successful venture companies in New Zealand, I believe, because it's when people have the opportunity to build up that experience, then they're in a stronger position. You know, they're standing on the shoulders of giants, as it were, learning from their mistakes, and doing it much more successfully than those that have gone before them.
- S1 23:51 Francesca, I wondered about your perspective on the type of investments that appeal to New Zealanders. We perhaps don't see ourselves as big risk takers, so software start-ups where there's not a huge amount of capital required are perhaps more acceptable than propositions like LanzaTech. Is that changing, do you think? Is our risk threshold and profile perhaps another constraining factor here?
- S2 24:22 Well, yes, I think capital markets are still pretty risk averse, and it is certainly the case that you know, a business that is easy to explain or a product that is easy to explain, a market that is easy to explain is always probably easier to raise capital for, and if you see that with some of the crowd funding initiatives that have been hugely successful, they are often around you know very tangible products. That said, I think that there's an increasing openness and interest to look at companies where there is a mix of, if you like, technology software, but are really significant global opportunity in the mix that may not just be completely around that.
- S2 25:24 I'm doing some work at the moment with a company called Soul Packing, which is actually a combination of hardware, firmware, software into the packing industry which is a huge global industry, and they're a company that's actually getting a lot of traction internationally. And that actually is a company that people in the market, that people are very interested in. And investors are curious, they want to understand what the market opportunity is, because it's a tangible product as well as innovation. And I think that that's the sort of thing that we're going to see most likely to be attractive to New Zealand investors over time. Even software, sure you can raise the smallest round easily enough perhaps, but for that software to understand its unique position, what the opportunity might be, what the exit strategy, is not necessarily that straightforward either. So yeah, you can put a smaller amount of money and invest that as high risk.
- S2 26:41 So I think it is important for New Zealand investors to really get their heads around what these opportunities are all about and to understand the market. So I think it'll be a mix. I think that yes, software will continue to be an area of growth for New Zealand and is absolutely where we've had the most investment success to-date, if you look at the likes of companies like Orion Healthcare and Xero and so forth. But I think we will see other companies that are perhaps in the medical and health space, within hardware mixed with software coming through as well, and being attractive investments.

- S1 27:27 Sean Simpson, you mentioned earlier about changes that you think perhaps impede New Zealand's progress in this area. You mentioned capital gains as one area. Are there others that you think we should be focusing on?
- S3 27:43 Well, I don't necessarily know-- I mean, I think there are various things that we need to focus on. I think educating people about entrepreneurialism is something that's very important. I think actually as a country getting used to idea that start-up needs to be funded from elsewhere. Franceska mentioned that 90% of the funding for a venture-backed business in Israel came from elsewhere. And so there are experiences within New Zealand and when you start getting large amounts of money from elsewhere, people start questioning whether or not you're really a company that's from New Zealand despite the fact you were there. You know, there's aspects of this that I think culturally could be addressed. But I go back actually to Sean Molloy's point and some of the points that Franceska was making previously, that success will breed success, and I think with success will come education and will come opportunity and will come change.
- S1 28:53 Sean Molloy, your thoughts?
- S4 28:56 Well, I suppose one thing that I've seen firsthand which is very good, is that there are more initiatives in terms of educating companies coming through. We've received support from Trade and Enterprise, from Ministry of Business and Innovation, where they've sent specialists in to look at the way that we're approaching our market strategy, around our messaging, and this sort of thing. So there's clearly an awareness at a government level that the support needs to exist, and there are efforts being made to do that and we've definitely benefited from that. So in that respect I guess the message is being heard. And then in addition to that about there being a local community of successful people that are willing to share their experience as well.
- S1 29:48 All right. And just finally, some closing remarks from each of you as we're just about out of time. Franceska, how would you like to wrap us up?
- S2 29:57 Just going back to the start-ups and how we support those. If you think about entrepreneurs starting on the journey, usually it's only a couple of people that are going flat-out trying to develop their product, trying to sell it, and you know it can be very challenging for them to have the resource that they need. And I think that it is absolutely fundamental that we support in whatever way - whether it's through start-up capital, whether it's through advice - those entrepreneurs when they're starting out to give them all of the support and resources that we possibly can - both in terms of our own experience from government and corporate and what not, to just keep supporting these companies as they grow and to really encourage our entrepreneurs.
- S1 30:51 Sean Simpson.
- S3 30:54 I mean, I guess for me, it's really we've got to recognise that this is an industry that we want to grow, we got to leverage expertise that is home-grown and the experience that's come from that, we've got to leverage that very strongly. And I think moreover we've got to as a nation understand that the real big dollars and the big successes will often require large amounts of investment from offshore groups and those are the ones that we want to target and tap into.
- S1 31:32 And finally, Sean Molloy.
- S4 31:35 Well I suppose for those companies that are starting up to look carefully for who their ideal cornerstone investor is. Having identified someone who can bring the necessary expertise and capital, to have them involved in a significant way in your business and

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to help you prepare your launch pad, such that when you're going for your next stage of investment for attracting those investors that are going to help you through your next life cycle, that they've helped you prepare your strategy, you're thinking around how you're going to go to market or your failure analysis, so that you're armed with the experience of a good investor behind you as well as the capital you need to go out internationally and attract the right kind of support for your next phase.

S1 32:26

We'll have to leave it there. Thank you all for joining us. Speaking to Franceska Banga who was, until recently, the founding chief executive of the New Zealand Venture Investment Fund. Dr. Sean Simpson, co-founder and chief executive officer of biotech company, LanzaTech, and Sean Molloy, co-founder of Avertana. I'm Andrew Patterson. Thanks for listening to this Moxie Podcast. I hope you can join us again soon.