

NZ Young Company Finance

News, comment, and analysis on the young company market in NZ

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If you want to contribute a feature or publicise a private deal, please contact

Richard Palmer
Mail to: venture@nzvif.co.nz

Or

Mark Robotham
Mail to: info@escalator.co.nz

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WELCOME

to the second issue of the New Zealand Young Company Finance, the industry deal monitor for the early stage funding sector.

The purpose of this quarterly publication is provide the local private capital market with a regular source of deal information, industry news and features on specific deals and people. It is already an important part of the market development and education for the sector.

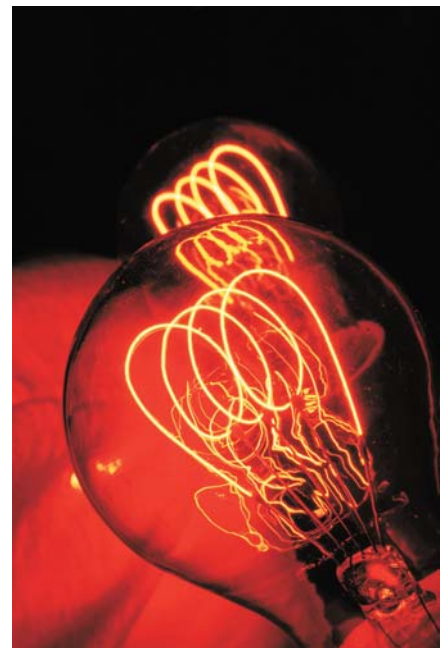
Young Company Finance has been developed by the New Zealand Venture Investment Fund, the Economic Development Association of New Zealand, the New Zealand Venture Capital Association and Connect New Zealand, with the support of the Angel investment community.

Since the first issue in September, the industry has seen the best New Zealand Venture Capital Association conference so far, a new Minister in the Economic Development portfolio, a successful Connect New Zealand Showcase, the finalizing of many young company deals and a growing recognition of the early stage investment opportunities in New Zealand.

The industry continues to build momentum. Young Company Finance

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will be there for the ride, providing news and views to help keep readers up with the play. The YCF Team wishes you a safe and prosperous holiday, and best wishes for next years investing.



NZ Young Company Finance

NEW LIMITED PARTNERSHIP BILL WILL ENCOURAGE INVESTMENT

The Government's Limited Partnership Bill has received a warm welcome from the early stage funding sector. The Executive Director of the New Zealand Private Equity and Venture Capital Association (NZVCA), Chris Twiss, praised the Government for "listening to the industry, learning from overseas best practice and acting in the best interests of New Zealand."

"Enticing offshore investment has been very difficult in recent years. While there are still challenges to be met, this change will ensure New Zealand has an investment regime that international investors are familiar and comfortable with and will put us on a level playing field," said Twiss.

He said the Government is moving to implement the proposals put to them by the venture capital and private equity industry four years ago.

"This proposed legislation will allow venture capital and private equity investment funds to be established as limited partnerships, providing

the level of certainty on the limitation of liability and tax flow-through that investors are looking for," said Twiss.

"To date, many investors have been put off investing in New Zealand at least in part because of the lack of a suitable investment vehicle.

This form of investment in New Zealand has sometimes been seen as "too hard", particularly when compared with other international markets. A key deficiency was in the field of Limited Partnerships. The introduction of this new regime will appeal to offshore investors and we

believe that it will help encourage investment into New Zealand's best companies and early stage businesses," he said.

"Enticing offshore investment has been very difficult in recent years.

While there are still challenges to be met, this change will ensure New Zealand has an investment regime that international investors are familiar and comfortable with and will put us on a level playing field," said Twiss.

Franceska Banga, Chief Executive of the New Zealand

Venture Investment Fund, described the proposed Limited Partnership legislation as a welcome step towards New Zealand becoming globally competitive in attracting venture capital.

"The Government is taking a very positive step with this initiative. Combined with recently announced changes to tax rules for investors in venture capital funds, this will ensure that New Zealand is more attractive for international venture capital investors," she said.

"Last year, we surveyed sixteen of the world's leading private equity and venture capital investment groups which together control over \$60 billion in funds. The lack of a suitable Limited Partnership structure in New Zealand was cited as a major deterrent to investment here. This planned change bring New Zealand into line with international best practice and will help address this issue," said Banga.

Ms Banga also commented that the legislation would complement similar Australian legislation. "We're often seen as being one part of the wider Australasian market by major overseas investors so it makes sense if our investment structures are aligned," she concluded.

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AN OVERVIEW OF ANGEL INVESTING IN NEW ZEALAND

Angel investment is a subset of the private equity markets in New Zealand which target young companies. It is a key source of capital for the 60 percent of companies not represented in the public markets.

While the New Zealand Angel investment community is relatively small compared to Europe or the United States, it is an active, healthy and growing industry that operates at both a formal and informal level. The community includes the classic 'friends and families' supporting new businesses, informal local investment 'clubs' and experienced individual Angels such as Sam Morgan and Rod Drury.

New Zealand has recently developed a proliferation of Angel investors including a stable of more professional active Angel networks. This change has been driven by a number of factors including successful individuals looking to re-invest in new companies and the introduction of the Seed Co-Investment Fund. Several of these new professional networks organize investor events where prospective

pre-screened companies can pitch directly to member Angels. Other Angel structures are based around high net worth individuals who often employ managers to scrutinize prospective deals.

Angel networks primarily link aspiring entrepreneurs with the Angel investing community. They bring a discipline to early stage investing, capital and – importantly – access to individuals with significant experience in building business.

Michael Murphy, Chief Executive of the ICE Angels said "although the ICE Angels are focused on seed or early stage investing as a high return aspect of our members' investment portfolio, we cannot underestimate the powerful networking component for our members within the ICE Angels and across the New Zealand wide Angel industry. The Angel scene is all about working together and co-investing with other Angel groups to spread the risks and the hopefully significant returns. The more this happens, the better for everyone."

Many of the better-known Angel networks in New Zealand are the Seed Co-Investment Fund partners. In 2007, they have already

invested in over fifteen early stage companies and committed more than \$7m of capital to these businesses. Profiles of each network will appear in upcoming issues of Young Company Finance.

All the networks are actively seeking investment opportunities and additional members looking to invest. Their contact details are:

- ICE Angels (Auckland)
– Mike Murphy
www.iceangels.co.nz
- Cure Kids Ventures (Auckland)
– Maxine Simmons
021 625 635
- Sparkbox (Wellington / Auckland) – Greg Sitters
www.sparkbox.co.nz
- Chrysalis Ventures (Auckland)
– William Randall
William@cvi.net.nz
- Manawatu Investment Group (Palmerston North)
– Dean Tilyard
www.biocommerce.co.nz
- Powerhouse Ventures (Christchurch)
– Dr Stephen Hampson
03 366 0155
- Upstart Angels (Dunedin)
– Murray Downes
021 88 66 78

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SHOWCASING NEW INNOVATIONS

Connect New Zealand's October Springboard Showcase in Auckland saw start-up companies demonstrating a range of innovative ideas to potential investors.

Viisibility Systems, based in Auckland and Christchurch, exhibited their software which builds online communities to allow companies to share information held in multiple systems with customers, staff, suppliers and other stakeholders.

The idea came from observing that many businesses had problems

communicating with each other because of different systems, different processes and different time zones. Chief Executive Nick Shier decided his company would build a solution and, together

with systems architect Adrian Beveridge, put his money where his mouth was.

Their solution is a website where information from different systems and spreadsheets, both external and internal, is hosted and standardized. Users can then log in to find up-to-date information on their orders, dispatches or inventory. The website can control the information different users can access.

Viisibility is already in use in New Zealand, Australia and the UK and partner

companies can access the system from around world at any time of day.

Customers pay a set monthly fee regardless of the number of

people that use the online community.

Insulin Technologies were also at the forefront of the Showcase. The company was formed earlier this year

by a group of undergraduate mechanical engineering and commerce students at the University of Canterbury.

Their company has improved the insulin testing technology originally developed at the University.

The new product, Mobolic, is more efficient at diagnosing Type 2 Diabetes than the current test. By using a mathematical model, Mobolic can produce a result that is 70% quicker and 75% cheaper. Significantly, it can be carried out at any clinic. Insulin Technologies is already targeting significant global markets that could include the health insurance, pharmaceutical and wellness markets.

The regular Connect New Zealand Springboard Showcases hosted are a great opportunity for potential investors to see many of the exciting innovations being developed in the start-up space. See www.connectnewzealand.com for a Showcase schedule.

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NZX LISTED - THE FUEL TO GROW

Dynamic companies gearing for high growth need to secure capital to fuel expansion. That means they should consider all funding options well before they are needed. Public listing is an important growth option for any emerging company.

Common reasons for listing on the NZX include:

- A need to raise capital for growth and expansion to realize potential beyond the company's current resources,
- A desire to raise and enhance the company's public profile and attract talented staff,
- The ability to access price valuation for a company's shares by trading them on the public market, finding an accurate market price for the shares and, in turn, broadening the shareholder base,
- An exit strategy for current directors and owners.

Listing on the NZX market can be a more realistic option than many young companies realize. Once listed, there can be additional benefits to the company including:

- easier and cheaper additional capital raising,
- enhanced brand and credibility,
- a positive impact on internal culture,
- increased focus on performance,
- strategic flexibility to expand through mergers and acquisitions.

Xero's ambition is to create then grow a niche in the SME market by providing an essential product (accounting software) with smarter, faster and clearer delivery...

Compared to other capital raising methods, the costs of raising equity by listing can be very competitive.

One company which has successfully gone down the NZX path is a local technology company with global aspirations - Xero. Xero is an online accounting system for small and medium sized businesses (SMEs) co-founded by Rod Drury and Hamish Edwards.

Xero was founded after Drury and Edwards became exasperated at the lack of accounting solutions available for the SMEs, a highly significant sector in the New Zealand economy.

Xero's ambition is to create then grow a niche in the SME market by providing an essential product (accounting software) with smarter, faster and clearer delivery through the software-as-a-service (SaaS) model. This is a new delivery model where client companies use, rather than own, the software. It eliminates many of the traditional constraints to rapidly growing a software company.

Following the success of Rakon and Pumpkin Patch, Xero hopes to show that New Zealand companies can compete in the international market. Globally sized

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companies can be built right here and serve the world. With the right technology, size and geographical location become irrelevant.

Rod Drury said “it doesn’t seem long ago that we set the goal of being listed on the main board of the NZX. Xero was able to grow from a small start-up software company to an NZX listed company within a year. That is significant because it marks a maturing of the New Zealand technology industry. It signals a willingness for New Zealand investors to look for growth opportunities in our space.”

Drury believes that being listed was a compelling success factor for a company like Xero because:

- Incumbent providers tend to acquire new entrants that gain significant market share. It is harder to take on an incumbent as a private company.
- Customers wanting a SaaS solution need to have certainty in the vendor - they want to know the company is robust and in for the long-term. It is hard to selling internationally as

a small private company from a ‘rock in the South Pacific’.

- In the software industry, the first company funded often wins. It is difficult for followers to attract funding and the first public company has the resources to acquire

“Listing is a key part of Xero’s strategy and why we have worked towards listing from day one.”

competing market participants in its wake.

- Though it has potentially high rewards, SaaS requires more upfront investment than traditional software. It needs to be more scalable and requires a broader set of operational capabilities to manage the scale. SaaS is normally charged for in recurring monthly fees so the revenue ramp must also be funded.
- In a global market, there is not usually time to move sequentially. Companies

need to be simultaneously executing on a number of fronts which requires funding.

- In the weightless world of software, it’s not the big that eat the small - it’s the fast that eat the slow.
- Another important benefit of being listed is it provides a better chance of staying New Zealand-owned in the long term. That is important to Xero’s co-owners.
- When successful, the listing will allow some of our young shareholders to take some value off the table - without us having to sell the business entirely. This will minimize future internal pressure for a liquidity event.

“I’ve learned that if you want to grow a technology business you cannot separate your capital structure from your business strategy. They are so intertwined. Listing is a key part of Xero’s strategy and why we have worked towards listing from day one. We have proved listing is an option for high growth companies to consider,” said Drury.

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Private Financing deals - year to date * Newly reported deals in Bold

2006

Date	Name of Company	Location	Sector	Round	Stage	Range	Syndicate / Adviser
Feb-06	Chopper Productions Ltd	Auckland	Manufacturing	1	Early Expansion	\$0-\$250k	Private Investors Deloitte Auckland NZTE Escalator
Feb-06	Go Virtual Medical Ltd	Auckland	Software and Services	Unknown	Seed	\$0-\$250k	ICE Accelerator and Private Investors
Mar-06	Virtual Katy	Auckland	Software and Services	2	Early Expansion	\$1.5m-\$2.5m	VC, Deloitte Auckland NZTE Escalator Service
Mar-06	CabCo	Auckland	Retail	2	Expansion	\$500-\$750k	K1W1
Mar-06	My Kids Biz	Auckland	Software and Services	Unknown	Seed	\$0-\$250k	ICE Accelerator and Private Investors
Mar-06	Flight Technology Limited	Wellington	Aviation Electronics	3	Seed	\$250-\$500k	Renouf Corporation, Stephen Underwood
Mar-06	Ecoloigics	Christchurch	Agriculture	1	Start Up	\$250-\$500k	K1W1
Apr-06	Rural Livestock Finance	Dunedin	Rural Finance	1	Start Up	\$1.5m-\$2.5m	Private Investors Parker O'Connor
May-06	Anselmi Consulting Ltd	Waikato	Software and Services	1	Start Up	\$0-\$250k	Private Investors Ignition NZTE Escalator
Jun-06	Eurekster	Christchurch	Software and Services	2	Expansion	\$250-\$500k	K1W1
Jun-06	Biomatters Ltd	Auckland	Software and Services	3	Start Up	\$250-\$500k	ICE Angels
Jul-06	Auximedic	Auckland	Medical Device	1	Seed	\$0-\$250k	Ice House
Jul-06	Tomizone	Auckland	Wireless	2	Start Up	\$250-\$500k	K1W1
Aug-06	Androgenix Ltd	Auckland	Biotechnology	1	Start Up	\$1m-\$1.5m	Private Investors Pacific Channel
Oct-06	Mobile Mentor NZ Ltd	Auckland	Software and Services	1	Early Expansion	\$250-\$500k	Private Investors Deloitte Auckland NZTE Escalator, ICE House
Oct-06	Rural Livestock Finance	Dunedin	Rural Finance	2	Expansion	\$1m-\$1.5m	Private Investors Parker O'Connor, SBS
Nov-06	SMX Ltd	Auckland	Software and Services	1	Early Expansion	\$750k-\$1m	Private Investors NZTE Escalator Howard & Co
Nov-06	Plan HQ	Wellington	Software and Services	1	Seed	\$250-\$500k	Rod Drury
Nov-06	Non-identified	Christchurch	Manufacturing	1	Start Up	\$1.5m-\$2.5m	Private Investors Deloitte Christchurch NZTE Escalator
Nov-06	BeLike No 1	Dunedin	Motion Analysis	1	Start Up	\$250-\$500k	Private Investors, Upstart Angels
Dec-06	Anzode	Manawatu	Energy	3	Expansion	\$250-\$500k	K1W1
Dec-06	Phitek	Auckland	Hardware	3	Expansion	\$500-\$750k	K1W1
Dec-06	Go Virtual Medical Ltd	Auckland	Software and Services	1	Start Up	\$1m-\$1.5m	ICE Angels, Sparkbox, SCIF
Dec-06	Triplejump Ltd	Auckland	Financial Services	1	Start Up	\$750k-\$1m	Private Investors
Dec-06	IQ Ideas	Auckland	Creative and Services	1	Start Up	\$0-\$250k	Private Investors Deloitte Auckland NZTE Escalator
Unknown	eBus	Auckland	Software and Services	1	Start Up	\$0-\$250k	Ice House
Unknown	Arena	Auckland	Software and Services	1	Start Up	\$500-\$750k	Ice House
Unknown	Telemetry Research	Auckland	Medical	1	Start Up	\$500-\$750k	Ice House

2007

Jan-07	Calcium	Auckland	Software and Services	2	Start Up	\$0-\$250k	ICE Angels
Feb-07	Databrake International 2006 Ltd	Auckland	Technology Hardware	1	Seed	\$250-\$500k	ICE Angels, SCIF
Feb-07	Whats in Play	Auckland	Software and Services	1	Seed	\$0-\$250k	Rod Drury
Feb-07	Resonance Systems Ltd	Auckland	Software and Services	1	Seed	\$500-\$750k	Sparkbox, SCIF
Feb-07	Biomatters Ltd	Auckland	Software and Services	4	Start Up	\$250-\$500k	ICE Angels, SCIF
Mar-07	Unimarket	Auckland	Software and Services	1	Seed	\$250-\$500k	ICE Accelerator and Private Investors
Mar-07	Photonz	Auckland	Neutraceuticals	3	Start Up	\$250-\$500k	K1W1
Mar-07	LanzaTech	Auckland	Cleantech	2	Start Up	\$500-\$750k	K1W1
Mar-07	Mobile Mentor	Auckland	Software and Services	2	Start Up	\$500-\$750k	Private Investors
Mar-07	CG Surgical Limited	Dunedin	Medical Device	Unknown	Start Up	\$750k-\$1m	Private Investors Pacific Channel
Apr-07	Digi-Click	Auckland	Hardware	1	Seed	\$0-\$250k	ICE Accelerator and Private Investors
Apr-07	Bittogether	Auckland	Software and Services	1	Seed	\$250-\$500k	ICE Accelerator and Private Investors
Apr-07	eBus	Auckland	Software and Services	1	Start Up	\$0-\$250k	ICE Accelerator and Private Investors
May-07	Visual Footprints	Manawatu	Creative and Services	Unknown	Early Expansion	\$0-\$250k	Private Investors Ignition NZTE Escalator
May-07	Doppelganger	Auckland	Software and Services	1	Seed	\$250-\$500k	ICE Accelerator and Private Investors
May-07	Sentry Bay Corporation	Auckland	Software and Services	4	Start Up	\$0-\$250k	Private Investors
May-07	Hectors World	Auckland	Software and Services	2	Start Up	\$0-\$250k	ICE Accelerator and Private Investors
May-07	The Street	Dunedin	Creative and Services	1	Start Up	\$250-\$500k	Private Investors
Jul-07	IQ Ideas	Auckland	Creative and Services	2	Start Up	\$0-\$250k	Private Investors

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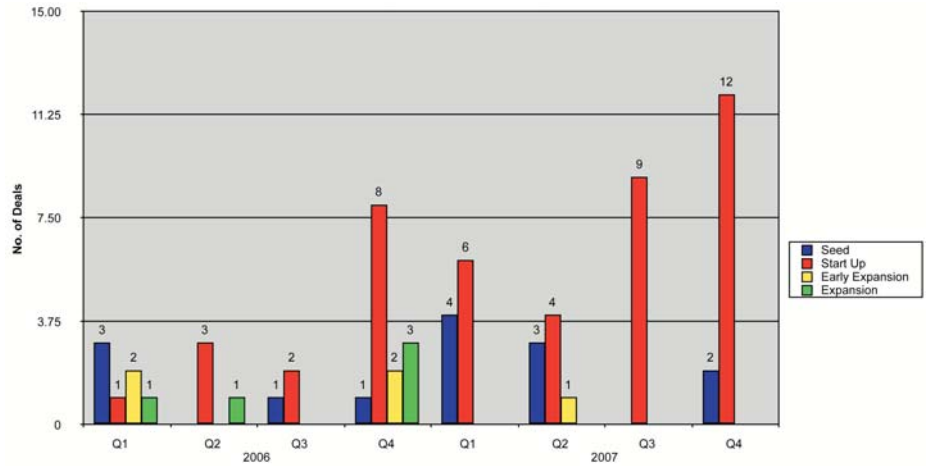
Private Financing deals - year to date (cont.)

Date	Name of Company	Location	Sector	Round	Stage	Range	Syndicate / Adviser
Jul-07	Daestra New Zealand Ltd	Dunedin	Software and Services	1	Start Up	\$500-\$750k	Private Investors Deloitte Dunedin NZTE Escalator, Upstart Angels
Jul-07	Zander Corporation	Auckland	Creative and Services	1	Start Up	\$0-\$250k	Private Investors Ignition NZTE Escalator
Jul-07	Sleep Limited	Auckland	Biotechnology	1	Start Up	\$0-\$250k	Private Investors Pacific Channel
Jul-07	Vouchermate	Dunedin	Software and Services	1	Start Up	\$500-\$750k	Private Investors, Upstart Angels
Jul-07	Great Sleep Company Ltd, The	Auckland	Consumer Durables	1	Start Up	\$500-\$750k	Sparkbox, SCIF
Aug-07	Fundit	Queenstown	Financial Services	1	Start Up	Unknown	Private - Eion Edgar
Aug-07	Clocktower Games	Dunedin	Software and Services	1	Start Up	\$1.5m-\$2.5m	Private Investors Parker O'Connor
Sep-07	Xenos	Manawatu	Capital Goods	1	Start Up	\$250-\$500k	Manawatu Investment Group, SCIF
Oct-07	Post a Movie	Auckland	Tourism	1	Seed	\$750k-\$1m	ICE Angels, SCIF
Oct-07	Mesoma	Wellington	Healthcare Equipment and Services	1	Seed	\$0-\$250k	Sparkbox, SCIF
Oct-07	BlackHawk Tracking Systems	Auckland	Software and Services	1	Start Up	\$0-\$250k	ICE Angels, SCIF
Oct-07	Inro Technologies	Auckland	Technology Hardware	1	Start Up	\$1.5m-\$2.5m	ICE Angels, SCIF
Oct-07	Biomatters Ltd	Auckland	Software and Services	5	Start Up	\$250-\$500k	ICE Angels, SCIF
Oct-07	Nexus6	Auckland	Medical Device	3	Start Up	\$750k-\$1m	ICE Angels, SCIF, Private Investors
Oct-07	Indigo Systems	Christchurch	Technology Hardware	1	Start Up	\$0-\$250k	Powerhouse Ventures, SCIF
Oct-07	Migco Pharmaceuticals	Christchurch	Biotechnology	1	Start Up	\$1m-\$1.5m	Private Investors NZTE Escalator Pacific Channel
Oct-07	Ecodiesel	Auckland	Biotechnology	1	Start Up	\$2.5m+	Private Investors NZTE Escalator Pacific Channel
Nov-07	RPM Retail	Christchurch	Software and Services	2	Start Up	\$0-\$250k	Private Investors
Nov-07	Triplejump Ltd	Auckland	Financial Services	2	Start Up	\$250-\$500k	Private Investors
Nov-07	Unimarket	Auckland	Software and Services	2	Start Up	\$500-\$750k	ICE Accelerator and Private Investors
Dec-07	Anzode	Manawatu	Energy	4	Start Up	\$1.5m-\$2.5m	Manawatu Investment Group, SCIF, K1W1
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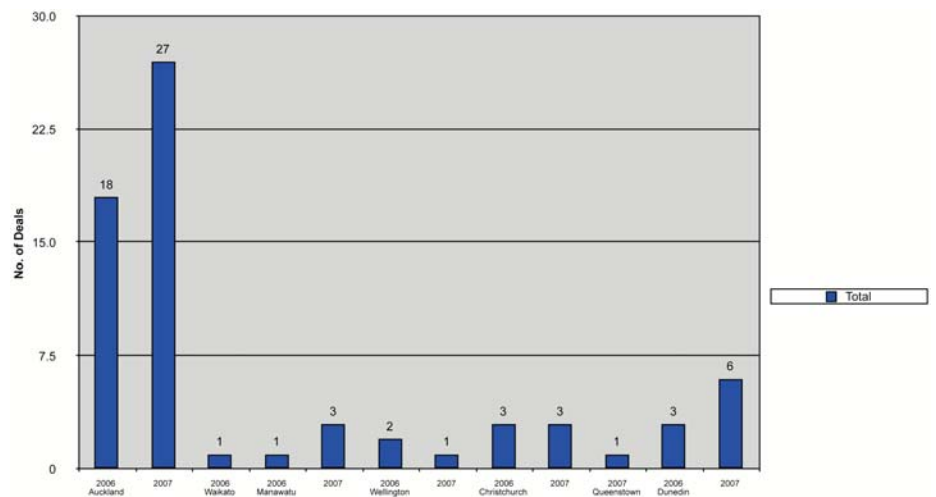
The YCF team continues to seek information on private deals that have been finalised over the last 18 months. If you have details on any other deals that you would like to publish please e-mail venture@nzvif.co.nz

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Deals by Quarter & Stage



Deals by Region



Deals by Range & Quarter

