

Startup Investment

| SPRING | 2023



NEW ZEALAND INVESTORS
BUCK GLOBAL TRENDS



CREATING A LEGEND: A GAMING
STARTUP'S PHENOMENAL SUCCESS



WHAT THE DATA SHOWS



TOMORROW'S TECH MAKING
AN IMPACT TODAY



FOR THE LOVE OF MONEY: NEW ZEALAND
INVESTORS NEED TO UP THEIR GAME



New Zealand investors buck global trends ↓

Welcome to the Spring 2023 edition of Startup Investment

In the first half of 2023 New Zealand investors bucked international trends, with the most recent data showing signs of resilience in our startup ecosystem.

Offshore, deals and dollars invested were well off the 2021 highs, and also down from last year's investment levels. Global economic conditions and geo-political uncertainty continue to affect markets – particularly tech. The impact of economic headwinds on the ecosystem was most evident in late-stage venture capital, with global seed stage valuations and investment activity proving more robust.

In New Zealand, however, confidence in the asset class held up, as our dollar value and deal numbers remain at similar levels to the first half of 2022 with 67 deals funded compared to 66. Just over \$71m went into those companies, representing a drop of 4% against the same time frame last year.

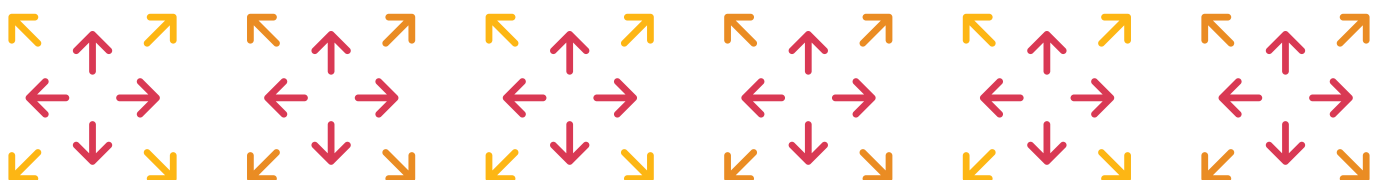
Historically, roughly two-thirds of deal activity happens in the second half of the calendar year and conditions continue to be challenging. Therefore, the full-year data will demonstrate whether the trend is supported, but so far the picture has been one of resilience.

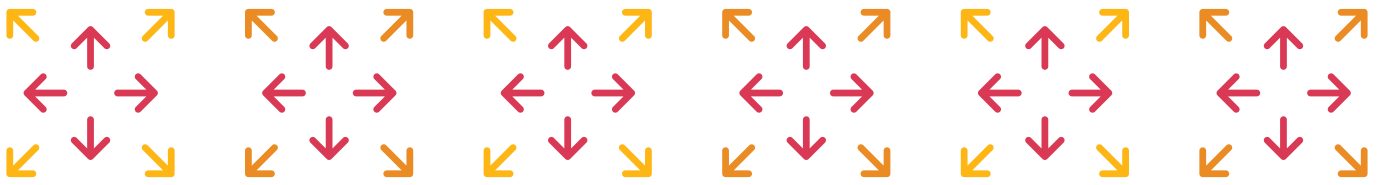
In the first half of this year, investors showed a very clear preference to support startups they have already backed, with only 25% of the deals done being investment in new companies. 75% of the deals were to support ventures already in their portfolios.

The notable shift in support from new deals to existing companies does speak to a change in behaviour from investors and could adversely impact the pipeline of new startups if the trend continues in the longer term.

“

As we look ahead, it is clear that challenges will persist and funding will be hard to come by. New Zealand's startup ecosystem, with its focus on value creation, Deep Tech innovation, and collaborative spirit, is well-positioned to navigate these challenges.





Investment generally follows companies that are able to demonstrate they are hitting milestones, show effective use of capital and have realistic valuations. We are also seeing investors in New Zealand back ventures grounded in their inherent, long term and sustainable value, rather than just their speed of customer or revenue growth. Growth matters of course, but it is not the only proxy for value.

Deep Tech ventures accounted for 49% of deals in the first half of 2023, with SaaS coming in at just 16%. This inclination toward high-impact, long-term value reflects a broader trend that emerged in 2022. Within the sub-categories in Deep Tech, Health Tech leads the pack, gaining 46% of all funding, followed by Clean Tech at 22% and Agri Tech at 17%.

As we look ahead, it is clear that challenges will persist and funding will be hard to come by. New Zealand's startup ecosystem, with its focus on value creation, Deep Tech innovation, and collaborative spirit, is well-positioned to navigate these challenges.

There is more to do to ensure a strong pipeline of disruptive companies continue to make a major impact on New Zealand's economy, as well as global social and environmental issues. Startup founders have never shirked tough challenges, and neither should investors.



TEREZA BEBICH
PARTNER,
PWC NEW ZEALAND



SUSE REYNOLDS
CHAIR, ANGEL
ASSOCIATION NZ



JACQUES RICHTER
ASSOCIATE INVESTMENT
DIRECTOR, NZGCP

In this edition of Startup Investment we delve into two trending sectors in angel and early stage venture capital – gaming and Artificial Intelligence (AI). We provide you with some insights from investors and founders who share the challenges and rewards of both building and investing in startups in these areas.

Startup investment trends ↑

The latest Young Company Finance deal data shows that in the first half of 2023, a total of 67 deals were funded by Early Stage Investors¹ with a total of \$71.6m capital funding provided. This represents a similar deal volume (1 extra deal), with a 4% decrease in investment amount, as the same period in 2022. The number of new deals has decreased to 17, while the number of follow on deals has increased to a record 50. New deals made up 25% of the funding in investment terms, with 75% of deals supporting ventures already in investors' portfolios.

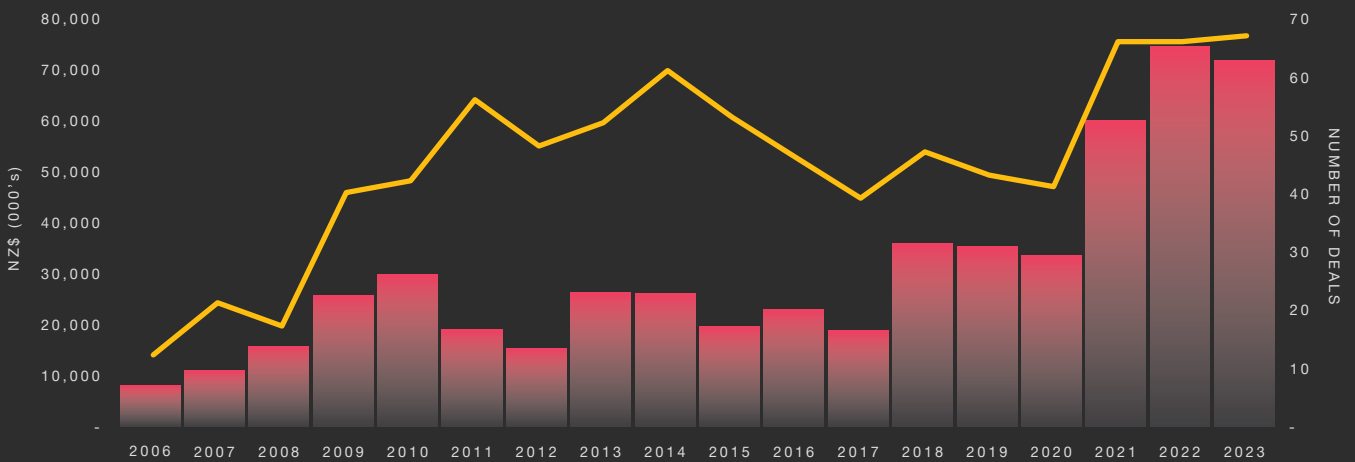
Deep Tech continues to be a favourite sector for investors, accounting for 49% of total capital funding during H1 2023. Software was the second most significant sector with 22% of investment – a significant drop from 40% in H1 2022. Among the Deep Tech sub-sectors, Health Tech attracted the lion's share of the funding (46%), followed by Clean Tech (22%).

¹ Early Stage Investors refers to angel investor groups or funds, incubators, university funds and early stage co-investment partners of NZGCP. It does not include venture capital investment.

² Deep Tech includes pharmaceuticals & biotechnology, Agri Tech, Clean Tech, Climate Tech, Space Tech and Health Tech.

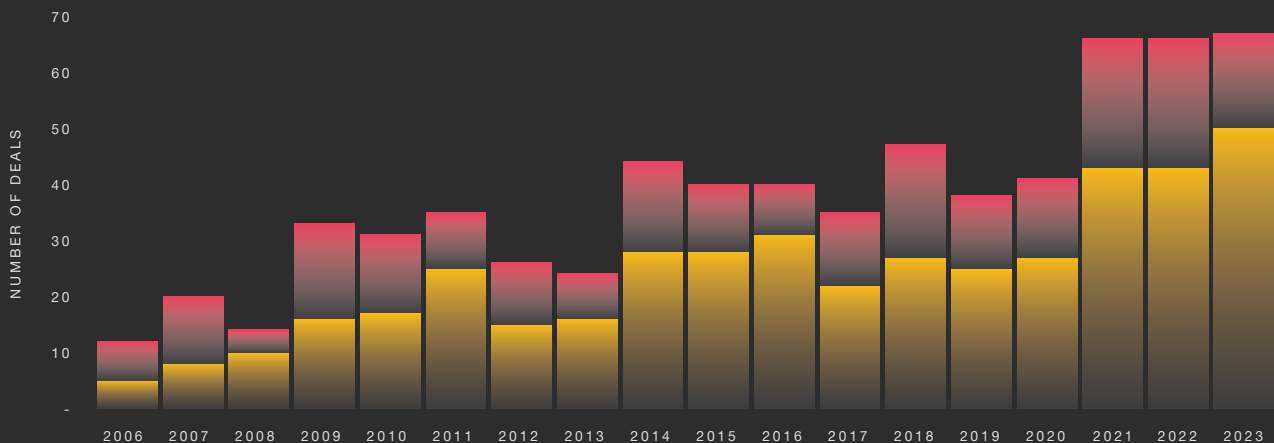
TOTAL INVESTMENT PROVIDED BY EARLY STAGE INVESTORS DURING H1 2006 – 2023

● CAPITAL INVESTED ● NUMBER OF DEALS



NEW AND FOLLOW ON DEALS COMPLETED BY EARLY STAGE INVESTORS DURING H1 2006 - 2023

● FOLLOW ON DEALS ● NEW DEALS



During the first half of
2023

Early Stage Investors provided
\$71.6m
in capital funding

3.8%
decrease from the
same period in 2022

76%
of deals were syndicated
(FY22 77%)

Deal types completed during the
first half of 2023 were as follows:

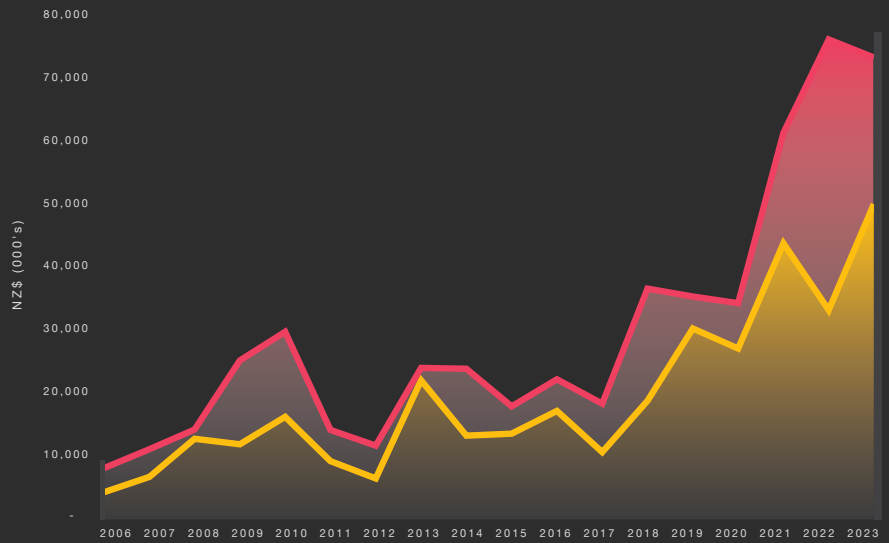
21%
Convertible loans
(FY22 24%)

51%
Preference shares
(FY22 52%)

28%
Ordinary shares
(FY22 24%)

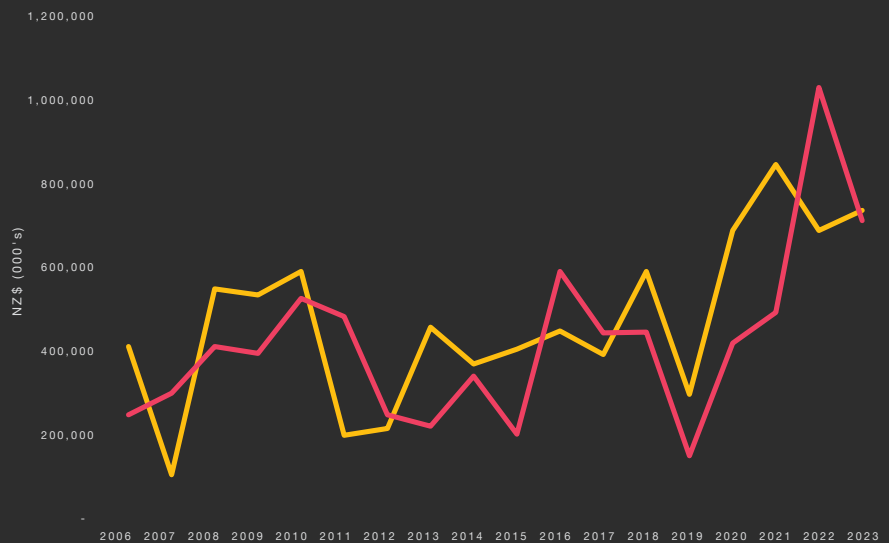
NEW AND FOLLOW ON CAPITAL PROVIDED BY EARLY STAGE INVESTORS DURING H1 2006 - 2023

● FOLLOW ON CAPITAL ● NEW CAPITAL



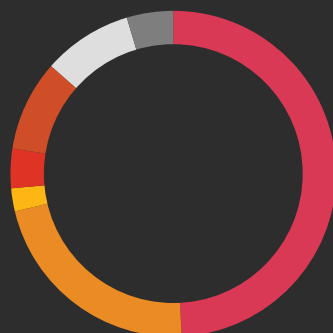
MEDIAN DEAL SIZE DURING H1 2006 - 2023

● FOLLOW ON DEALS ● NEW DEALS



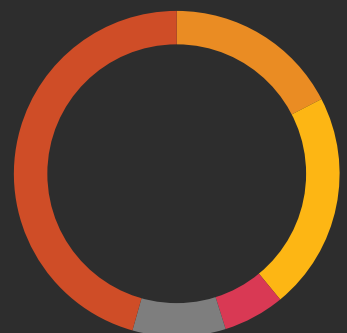
EARLY STAGE INVESTMENT BY SECTOR (% OF TOTAL FUNDS INVESTED DURING H1 2023)

- DEEP TECH 49%
- SOFTWARE & SERVICES 22%
- ARTIFICIAL INTELLIGENCE 2%
- ADVANCED MANUFACTURING & MANUFACTURING 4%
- FOOD TECH 9%
- INDUSTRIALS 9%
- OTHER 5%



EARLY STAGE INVESTMENT IN DEEP TECH BY SUB-SECTOR (% OF TOTAL FUNDS INVESTED DURING H1 2023)

- AGRI TECH 17%
- CLEAN TECH 22%
- OTHER 6%
- HEALTHCARE EQUIPMENT & SERVICES 9%
- HEALTH TECH 46%



For the love of money: New Zealand investors need to up their game ↓

New Zealand is a hard place to raise capital. It is the perennial complaint of innovators and entrepreneurs since anyone can remember.

Startups find it even harder, and now is arguably the worst time to raise funding, given international headwinds. Global investors are choosing alternative sector opportunities to startups generally, and the AI and gaming sector in particular. Traditionally many New Zealand companies have sought and sourced capital from markets in the US and Asia, but today this is where the diminished appetite for risk is most pronounced.

Venture capitalist Chris Jagger of Alt Ventures says, “We were telling our portfolio companies 12-18 months ago that they needed to be managing their bottom line aggressively. Gone are the days of burning through cash and raising again quickly in an ‘up market’. We are in a new normal of capital constraint and I don’t see this changing in a hurry.”

World class talent

But tight capital markets present opportunities that New Zealand is uniquely placed to take advantage of.

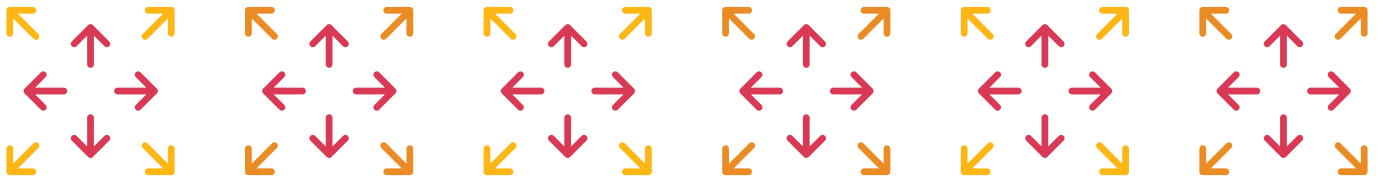
Founder and CEO of Futureverse, Aaron McDonald, says talent acquisition and retention is a global issue, but New Zealand is an attractive place to work for the global workforce, a point supported by Jagger.

“We are recognised as having world class talent,” says Jagger, who returned to New Zealand following an international career at Lehman Bros, GI Partners and Lloyds, to take up roles at the Future Fund and NZ Superannuation Fund. He set up Alt Ventures five years ago. “We have big global hit-makers like Grinding Gear Games with Path of Exile, and there are also studios in Christchurch that contract work for big offshore IP holders.”

“I prefer to invest in places where there are concentrations of talent and people,” explains Jagger. “Peter Jackson and Richard Taylor, for example, have created a world centre of screen and VFX excellence in New Zealand and the gaming industry leverages the success of Weta and what it does.” This is what he invests in – experienced teams with a differentiated vision and, importantly, an ability to execute.



↑ CHRIS JAGGER
INVESTOR AND FOUNDER
ALT VENTURES



Investors don't know this market. New Zealand investors don't know anything but SaaS and high tech manufacturing, and the local capital network isn't comfortable because it doesn't understand the dynamics of the industry.

 AARON MCDONALD
FOUNDER AND CEO, FUTUREVERSE

Supporting our startups

McDonald notes that New Zealand startups often get to cash flow faster than their American equivalents, possibly because of the difficulty of accessing funding. While Jagger adds that "it's a lot cheaper to build games here than in America."

"New Zealand is a great place to build a company, with a clear regulatory framework, clear valuations for early-stage startups and good support from Government agencies," McDonald says. He believes the local industry is not as prone to group-think capture as other jurisdictions, which allows a boldness in approach and execution of business strategy.

There is also Government support for gaming, with CODE expanding, plus the recently launched Game Development Sector Rebate.

But the need for investors to upskill and update their knowledge to take advantage of the myriad of opportunities in the AI and gaming space, is a consistent theme.

Understanding the opportunities

For Jagger, investors need to ask themselves why they are in this sector, and what is their appetite for risk.

McDonald agrees. "Investors don't know this market," he says. "New Zealand investors don't know anything but SaaS and high tech manufacturing, and the local capital network isn't comfortable because it doesn't understand the dynamics of the industry."

Ambit AI's Warren says private investors back AI companies "because it seems cool and the money is secondary," whereas venture capital is more market-return driven.

"People think AI is going to be romantic and it isn't," he says, pointing out the dangers of group-think in the investor community and the trend for investors to follow sectors in droves.

"I'm an investor. I don't ask for that money back. I give them money again. You build them up for success. Investors need to put on their big boy pants and take a real risk. But don't invest if you aren't comfortable with the risk profile."

Creating a Legend: a gaming startup's phenomenal success ↓

[Legend Story Studios](#), the fastest growing company in New Zealand with three-year revenue growth of 6416% to 2022, is set to launch in the massive Japanese market later this year.

Founder and CEO, James White, says the soft launch of [Flesh & Blood](#) will provide “a gentle on-ramp” to an official launch in May next year of the card trading game that has propelled the company to the top of the niche gaming entertainment category.

Japan will add 400 more gaming stores to the 4,000 that already stock [Flesh & Blood](#), and run global marquee events attracting up to 2,000 competitors and over US\$1m in prize money each year.

[Flesh and Blood](#) has about 50% global market penetration, and is in around 8,500 stores worldwide, so there is plenty of runway for future growth.

Following this November's marquee event in Barcelona, the current US\$1m prize will increase in 2024, reflective of the growing player base, says White.

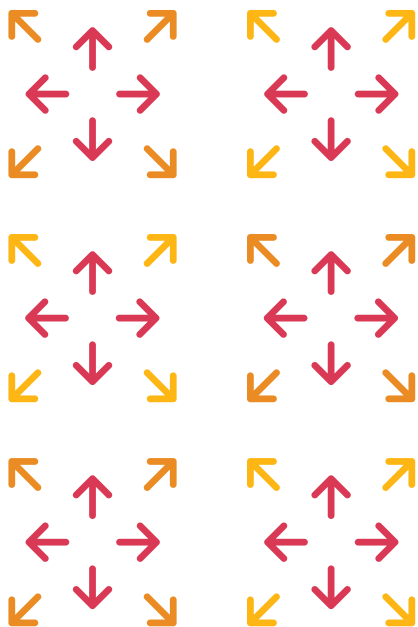
Raising capital

Shareholders will be delighted. After the initial capital raising, the company has funded growth through revenue, delivering big initiatives and five rounds of dividends, he says with justifiable pride and no small degree of relish.

The shareholder value is going to friends and family. Back in 2018/19 White wrote and presented a company prospectus “to professional investors and they just laughed at us”.

Chris Jagger, investor and founder of [Alt Ventures](#), set up a dedicated gaming venture capital fund after [Legend Story Studios](#) sought to raise capital, and notes that it is another big success story that got away from local VC funds.

Jagger moved into gaming because of the glaring lack of funding for the sector. “Gaming is the biggest entertainment sector in the world; half the planet are gamers, and gaming is an area where New Zealand is winning. We're the first fund to invest in gaming in Aotearoa and currently the only dedicated one.”



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“Most startups don’t succeed, and gaming companies are no exception. But when a team like Legend Story Studios has a hit, it wins big.”



CHRIS JAGGER
INVESTOR AND FOUNDER, ALT VENTURES

Alt Ventures has 12 studios in the fund and three other “crea-tech” investments that pre-dated the fund.

“We’re not picking hit games here; we focus on teams that can build winning products,” Jagger says. “Most startups don’t succeed, and gaming companies are no exception. But when a team like Legend Story Studios has a hit, it wins big,” he adds.

Continuing growth

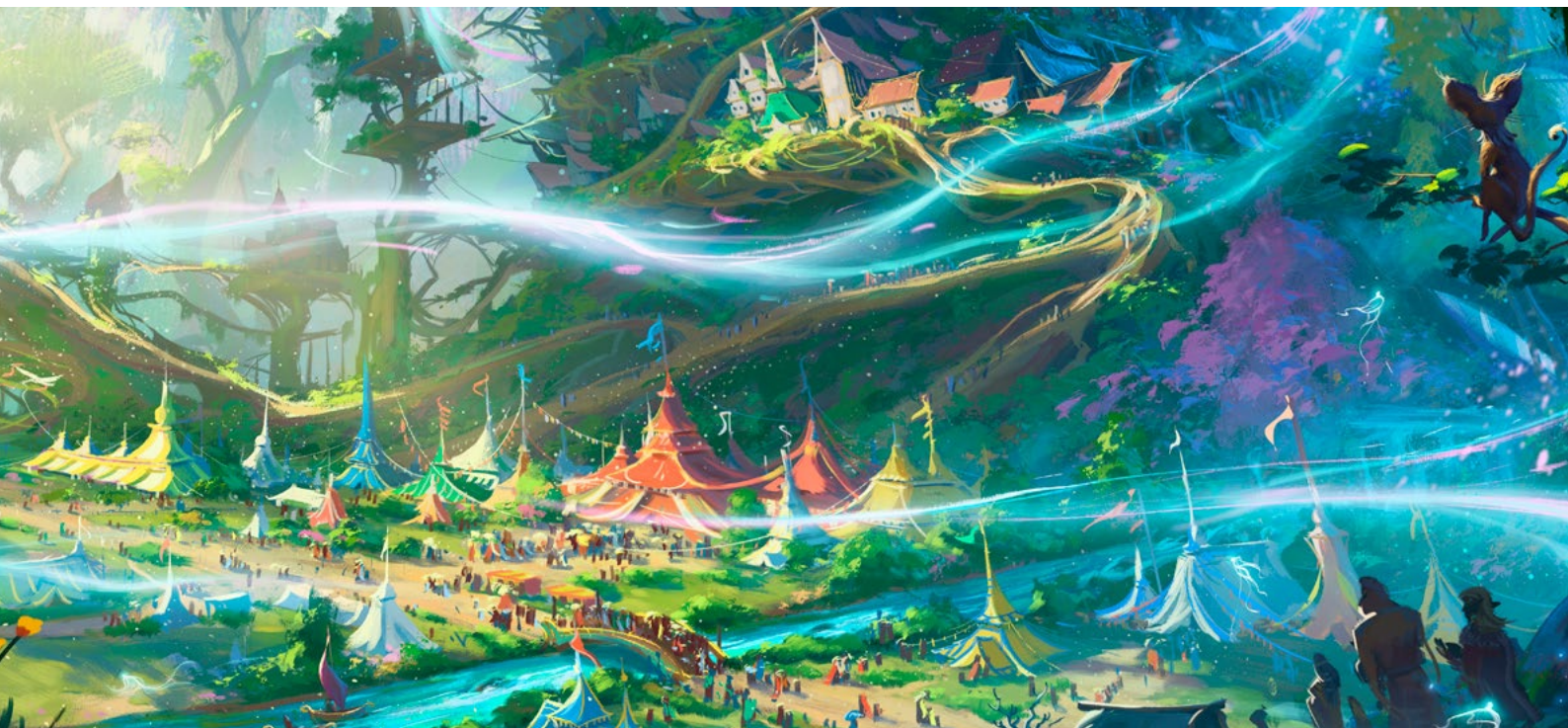
“Legend Story Studios is still in the fast growth stage, albeit not the vertiginous giddy heights of the early years, which means the growth is manageable and the company is able to fund and scale its operations appropriately,” says White.

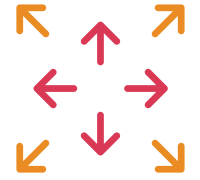
He says the company is now, strictly speaking, past the startup stage, with 47 staff around the world, including Paris, Madrid, Portland and Osaka.

“Legend Story Studios is a small independent startup from the end of the world. It’s a phenomenal success story, a David and Goliath story. We’ve managed to do something against all the odds.”



JAMES WHITE
FOUNDER AND CEO
LEGEND STORY STUDIOS





Tomorrow's tech making an impact today ↓

New and emerging technologies have the potential to make a significant impact on society and the economy. In this article, we explore two organisations – Ambit AI and Futureverse – that are already making strides, and putting New Zealand tech startups on the map.

[Ambit AI](#) is a conversational AI platform used by some of the largest organisations in New Zealand and Australia to ensure customers are always having the right conversation at the right time.

Founder and outgoing CEO, Tim Warren, says AI is a huge growth area. “Every company within the next 10 years is going the automated way; it’s going to happen and we’re at the beginning of it.”



Warren is particularly excited about the public sector opportunities in the human resources space. The health industry, where GPs and public hospital specialists are incredibly overworked, presents a significant opportunity to make a positive real-world difference.

“Medicine is evidence-based and ideally suited to AI applications,” he states.

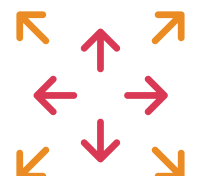
“We’re working with GPs and medical centres on AI solutions,” Warren continues. “AI will play a critical and complementary role in triage, diagnosis and reducing workloads.”

“I get excited about it,” he says. “Companies are going to come out and blow people away.”

In terms of industry challenges, the Kiwi ethos of “the No. 8 wire” plagues this particular sector, with Warren citing the example of an unnamed company to which Ambit AI presented its wares.

The CTO liked what Ambit AI did, but decided he could write his own AI code. “It’s like companies have been given a Lego set and think that they can build themselves a car,” says Warren. “It did not work. The issue wasn’t their technology, it was the execution. You can’t do this cheaply.”

← AARON MCDONALD
FOUNDER AND CEO
FUTUREVERSE



Futureverse

Aaron McDonald, the founder and CEO of Futureverse, is a pragmatic idealist, with a vision for making an open “metaverse” come true.

Futureverse merges social media, gaming, commerce and finance in an easily accessed format and is a big business. “We’re a billion dollar company,” says McDonald, of the merged conglomerate of companies comprising Futureverse.

The Futureverse platform enables open, scalable, and interoperable apps, games and experiences, with underlying technology to create content and content applications, including AI-generated content tools. It is underpinned by the group’s native IP and also third-party IP from the world’s largest brands, like FIFA.

“We’ve been busy building with our partners,” McDonald explains. “We allow other developers to build on top of our systems. It’s a SaaS model, with a fee or licence.”

“Our vision is making the idea of an open metaverse come true. We have built technology that is oriented towards open operations,” he continues. “It is idealistic, an ambitious goal to change the way the internet is, but we will succeed.”

With new technologies growing and developing exponentially, and New Zealand entrepreneurs at the forefront of innovation, the opportunities for investors in the emerging technology space are boundless.

“

It’s like companies have been given a Lego set and think that they can build themselves a car. It did not work. The issue wasn’t their technology, it was the execution. You can’t do this cheaply.



TIM WARREN
FOUNDER AND OUTGOING CEO
AMBIT AI



FUTUREVERSE – MYCELIUM





Quiet confidence in the outlook for New Zealand startups ↓

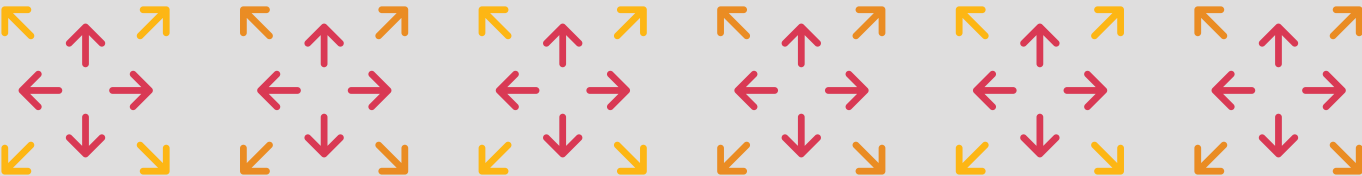
The New Zealand startup ecosystem has continued to evolve, with a growing focus on innovation in Clean Tech, gaming and AI. 2023 has seen New Zealand VCs lead rounds in these sectors, showing the growing confidence from domestic VCs in the depth and innovation in New Zealand startups in these sectors. The synergy between New Zealand’s entrepreneurial spirit, academic resources, and global mindset bodes well for this momentum to continue positively.

Although globally we saw downward pressure on valuations, as with 2022, domestic funds and investors have been relatively more resilient, as their historical investments were not at the lofty valuations of international portfolios. This has meant there is sufficient capital for new investments that meet the mandate of domestic investors, as well as follow-on rounds.

While it is taking longer for companies to secure funding and valuations are no longer at prior overheated levels, good companies executing well with a defensible competitive moat, showing operational efficiencies, and evidencing real traction, continue to successfully attract high quality investment. Given this, the Investment team at New Zealand Trade and Enterprise continue to focus on preparing and connecting New Zealand startups’ capital raising, enabling our startups to continue to do good and do well.



ANNABELLE GLAZEWSKI
RINGATOHU HAUMI - PĀKIHI
INVESTMENT DIRECTOR - COMPANIES
NZTE





About Startup Investment ↓

This biannual publication is put together by PwC New Zealand (PwC), Angel Association New Zealand (AANZ) and New Zealand Growth Capital Partners (NZGCP), using Young Company Finance deal data supplied by NZGCP.

The purpose of this magazine is to provide insight and commentary on the startup sector in Aotearoa New Zealand and what it means to invest in startups as an asset class.

We welcome your feedback on our content and suggestions for future editions.

NZGCP Young Company Finance deal data

NZGCP Young Company Finance deal data represents data collected from NZGCP's own investments, together with details of the transactions reported to NZGCP by its coinvestment partners as well as other early-stage investors in New Zealand. The data includes that provided by selected angel groups, incubators, university funds and venture capital funds which invest in early-stage companies. The data aims to cover the majority of startup funding activities by investors across the country.

NZGCP Young Company Finance deal data classifies investment into the following categories:



Seed

Often pre-revenue, negative cash-flow, managed by founders and part time employees, little formal governance / nascent Board of Directors, generally no prior investment, round size <\$1m.

The purpose of seed investment is to enable development, testing and preparation of a product / service to the point where it is feasible to start business operations.



Startup

Revenues <\$3M, negative cash-flow, FTE <20 with incomplete senior management team, governance a mix of founders & early stage investors, first investment round (if no seed round).

The purpose of startup investment is to enable business operations, further development of products / services, sales and international growth.



Early Expansion

Neutral cash-flow (EBITDA + CAPEX) based on aggressive re investment policy, structured management & governance.

Generally an investment into a company at this stage will be used to build out the sales and marketing teams, establish / expand offshore offices and / or scale up its production facilities.



Expansion

An investee company is in the mid-expansion stage of its development if the investment provides capital to expand commercial production and marketing and where the company is normally breaking even or trading profitably. Generally, Venture Capital investments.

Acknowledgement:

We appreciate the following investors who contributed their H1 2023 data: Angel HQ, Angel Investors Marlborough, Auckland UniServices, Blackbird Ventures, Climate VC fund, Enterprise Angels, Even Capital, Finistere Ventures, Flying Kiwi Angels, GD1 Fund, Icehouse Ventures, Impact Enterprise Fund, Launch Taranaki, Mainland Angels, Matu Fund, Movac, NZGCP, Nuance Capital, Otago Angels, Outset Ventures, Pacific Channel, Punakaiki Fund, Quidnet Ventures, Snowball Effect, Sprout Agritech, and WNT Ventures.

About PwC ↓

PwC New Zealand is dedicated to helping startups with great ideas make their way in the world. We provide support through tailored financial reporting, tax advisory and compliance, legal advice and support, structuring, strategic advisory services as well as networking opportunities. We collaborate with others in the local ecosystem including NZTE, AANZ, NZGCP, KiwiNet, and other New Zealand VC funds. Alongside publishing Startup Investment NZ, we are sponsors of KiwiNet Awards and the NZ Hi Tech Awards. *Please get in contact using the details below if you'd like to know more.*



← **ANAND REDDY**
Partner | PwC New Zealand
→ +64 27 592 1394
anand.s.reddy@pwc.com



← **TEREZA BEBICH**
Partner | PwC New Zealand
→ +64 22 390 8612
tereza.x.bebich@pwc.com

About AANZ ↓

AANZ exists to support the creation of New Zealand born, world changing businesses delivering exponential financial, social and economic returns through mutual support, connectivity and collaboration. AANZ is working to increase the quantity, quality and success of angel investments in New Zealand and in doing so create a greater pool of capital for innovative startup companies. It was established in 2008 to bring together New Zealand angels and early-stage funds. AANZ currently has 50 members representing over 900 individual angels associated with New Zealand's key angel networks and funds. Since 2006 over \$1bn has been invested in 1500 deals. AANZ works with NZ Growth Capital Partners, PwC New Zealand and a number of public and private sector partners. *For more, please visit: www.anglassociation.co.nz*



← **SUSE REYNOLDS**
Chair | Angel Association
→ +64 21 490 974
suse.reynolds@anglassociation.co.nz



← **BRIDGET UNSWORTH**
Executive Director | Angel Association
→ +64 21 555 563
bridget.unsworth@anglassociation.co.nz

About NZGCP ↓

New Zealand Growth Capital Partners (NZGCP) was established by the New Zealand Government in 2002 to build a vibrant early-stage technology investment market in New Zealand. We aim to achieve our vision by supporting Kiwi tech companies, innovators and investors to become world class. Alongside operating our Elevate and Aspire funds which are designed to stimulate private investment into this space through a fund of funds and co-investment model, we also have a market development mandate that includes sponsorship and support of programmes, events and other initiatives to benefit the ecosystem.

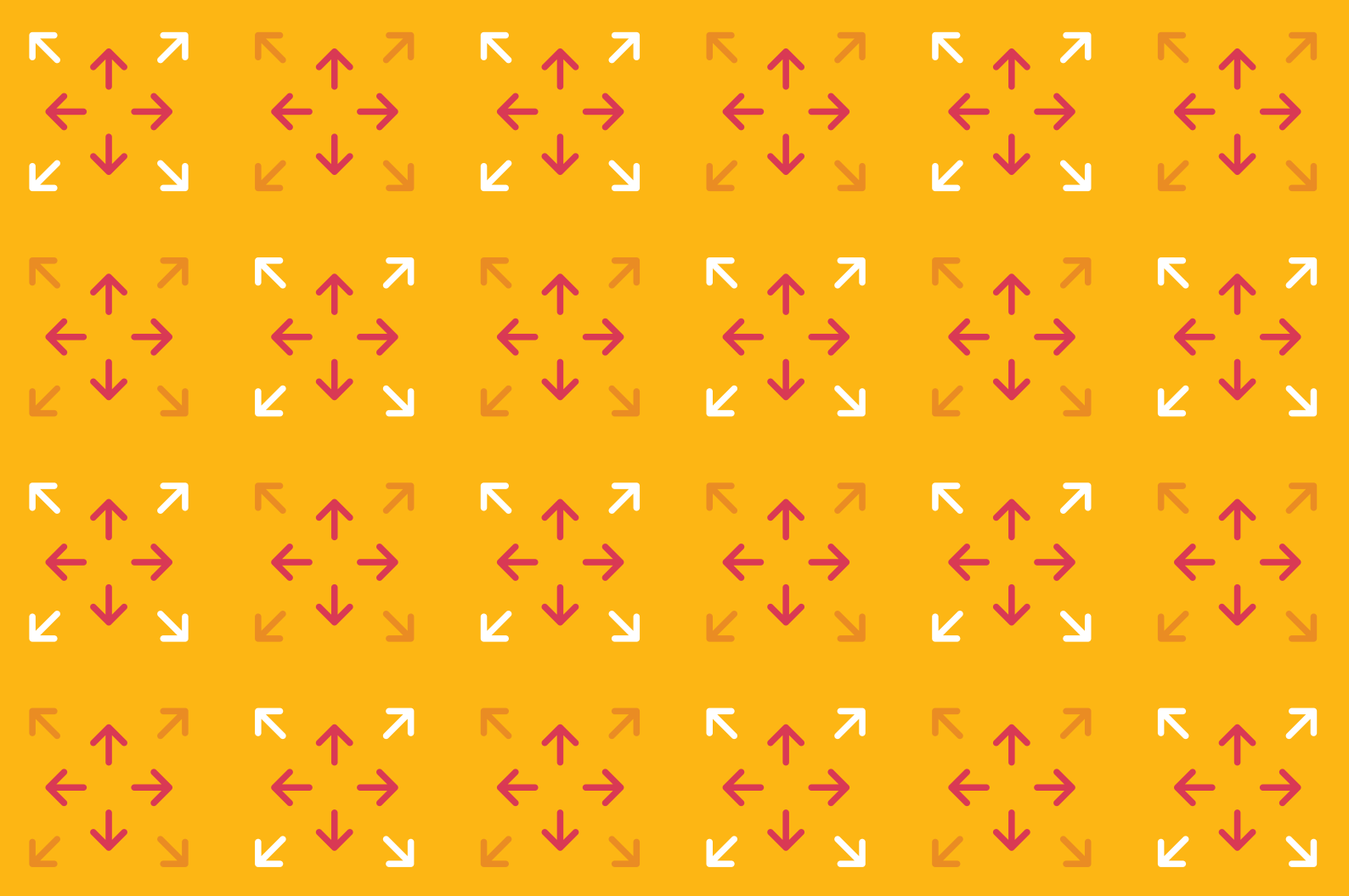


← **JACQUES RICHTER**
Associate Investment Director | NZGCP
→ +64 21 197 8120
jacques.richter@nzgcp.co.nz



← **MOLLY YANG**
Head of Portfolio Management | NZGCP
→ +64 22 390 5504
molly.yang@nzgcp.co.nz





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NZ GROWTH
CAPITAL PARTNERS