YOUNG COMPANY FINANCE

NZ GROWTH CAPITAL PARTNERS

ANGEL ASSOCIATION NEW ZEALAND

SPRING | 2024

News, comments and analysis on the young company market in New Zealand.

WELCOME

to the Spring 2024 edition of Young Company Finance, providing insights into the New Zealand start-up ecosystem.

This report departs from previous industry reports by combining angel and venture capital investment data. Our view is that separate reporting no longer best describes the state of the start-up ecosystem, which has matured, with investor activity straddling more of the typical start-up development stage. The focus of this publication is to provide information on start-up investment activity from the earliest stages of company formation to late-stage venture capital funding. This report, therefore, does not include private equity investment activity or listed equity fundraises, but it does include investment facilitated by crowdfunding platforms.

To compile this report, we surveyed angel groups, family offices, seed funds, venture capital firms, and crowd-funding platforms, collecting data on round sizes, company stages, sectors, regions, lead investor types, instrument types, and syndication. We also augmented this information with financial data platforms including Dealroom and PitchBook. For this first edition, we reconstructed the data of the prior two years to make like-for-like comparisons about the activity levels in this reporting period.

NUMBERS AT A GLANCE

The first half of 2024 saw a notable downturn in the start-up ecosystem, with both the number of deals and the total investment amount declining for the first time since the post-COVID recovery period. The number of deals fell by 30%, dropping from 67 to 47 transactions, while the total investment amount decreased by 30%, reducing from $180 million to $126.5 million.

Among the deals in this period, seed-stage companies dominated capital-raising rounds, accounting for 83% of all transactions during H1 2024; which compares to 64% in H1 2023.

The trend, of investors prioritising their existing portfolio, continued with a marked reduction in the number of new companies backed. Just six new deals were reported, down from 16 in H1 2023.

Geographically, the distribution of fundraising activities remains consistent with previous years. Auckland, Wellington and Canterbury are the leading regions, collectively representing 85% of the total deals in the first half of 2024.

Deep-tech companies continue to attract increasing interest from investors, accounting for over 50% of all deals during this period.

This marks a significant rise from 36% in the first half of 2022, which indicates a shift in investor focus towards start-ups with strong intellectual property portfolios.

The landscape of lead investors has shifted, with venture capital funds now comprising 64% of the total deals, while angel investors account for 28%, which reflects changing dynamics in the investment ecosystem. In H1 2023, venture capital funds and angel investors lead 37% and 45% of the total deals, respectively.

$126.5M

Total investment amount in the first half of 2024.

83%

Seed-stage companies dominated capital-raising rounds, accounting for 83% of all transactions.

64%

Venture capital funds now comprising 64% of the total deals.

Tough Start to the Year for Early-Stage Investment: A Significant Decline in New Investments

By Bridget Unsworth from the Angel Association of New Zealand

ANGEL ASSOCIATION NEW ZEALAND

The release of data for the first half of 2024 presents a mixed yet encouraging picture for investors and companies alike. Although overall investment dollars have seen a decline, a significant 90% of capital has been directed towards supporting existing portfolio companies. This is a reassuring sign that investors remain committed to helping these firms navigate through a challenging economic period, highlighting a strong belief in the potential of their investments.

The recent reduction in the Official Cash Rate (OCR) has sparked renewed optimism among investors, which suggests that green shoots are beginning to emerge across the investment landscape. This shift in monetary policy is expected to bolster investor appetite, as lower borrowing costs can stimulate both consumer spending and business investment. As confidence gradually returns, it creates an environment ripe for growth, paving the way for companies to innovate and expand.

We are nearing the end of a course correction that followed the peak investment period during the COVID-19 pandemic. The surge in funding that characterised the peak years is giving way to a more measured and sustainable growth trajectory. This transition marks a maturation of the investment landscape, where the focus is shifting from sheer volume to the quality and viability of business models. Investors are becoming more discerning, seeking opportunities that promise long-term value rather than short-term gains.

A notable trend in the data is the average size of seed capital raises, which is $2.3 million. This figure is significant, as it reflects a solid backing for early-stage companies to continue scaling and growing despite economic headwinds. Investors are clearly demonstrating their confidence in these ventures, recognising the potential for innovation and disruption. The willingness to provide substantial seed funding indicates a belief in the long-term success of these companies, even in a tighter investment climate.

Overall, the upcoming investment data for the first half of 2024 is set against a backdrop of cautious optimism. While challenges persist, the trends we are observing – particularly the strong commitment to existing portfolio companies and the gradual return of investor appetite – paint a promising picture for the future.

As we move forward, the focus will undoubtedly be on sustainable growth and strategic investment, setting the stage for a more resilient economic environment.

The commitment to supporting existing companies, combined with emerging signs of renewed investor enthusiasm and a shift towards more sustainable growth, sets a hopeful tone for the remainder of 2024 and beyond. Investors and entrepreneurs alike will need to navigate this evolving environment thoughtfully, embracing the opportunities that lie ahead while remaining aware of the challenges that may arise.

Average size of seed capital raises

$2.3M

On the positive side, as we look towards H2, we have seen acquisition activity returning

By James Pinner, Chief Investment Officer at NZGCP

Green shoots of market recovery

Despite the depressed investment activity during H1 2024 we anticipate the ecosystem will rebound during the second half of the year as liquidity returns to the market and investor sentiment improves on the back of decreasing interest rates and falling inflation. We have seen a couple of strong exits of early-stage investors (including our Aspire seed fund) through both Kami and, more recently, Tradify. These exits allow investors to reinvest into the next generation of Kiwi start-ups and, as importantly, signify green shoots of improving conditions across the broader markets.

Where are all the AI start-ups?

Generative Artificial Intelligence (GenAI), which enables machines to create content such as images, text or music, is a burgeoning field that's attracting substantial interest from investors and the public alike, particularly with the use of large language models (LLMs) like ChatGPT, Gemini and Claude which have seen mass public and increasing business adoption.

Artificial intelligence is not new, and there have been many specialised companies working in this area for years but the rapid advance of LLMs and their potential use cases has seen a change in thinking globally. The LLMs and associated use cases and adoption are advancing at a pace that we have never witnessed before in any technology and the opportunities for business disruption is enormous.

However, in New Zealand we have not yet seen as many GenAI start-ups as in the USA or even Australia where the excitement around investment opportunities in this space is palpable (even potentially over-hyped). In other jurisdictions, it is evident that companies leverage LLMs to access new sets of customers, provide different business models and increase the efficiency of personal or business lives.

While we are seeing a few New Zealand start-ups embracing GenAI to enhance their existing businesses, we (and other investors) have been surprised by the lack of new companies entering this space or utilising this exciting technology. It is not entirely clear to any of us why this is the case and, although there is inevitably considerable hype, we do fear that New Zealand may be missing the boat. If you are involved in a start-up looking at this space, we would love to hear from you.

The state of the venture capital market

As mentioned previously, we have seen a significant retraction in investment activity in the first half of this year compared to prior years. Thankfully, there appear to be early signs of market recovery in H2 and there is much more optimism in the market than this time last year.

That said, fundraising for venture capital firms remains extremely difficult. We are also at somewhat of a natural downturn in the investment cycle for New Zealand as a significant number of firms raised vintages in 2020/21. With investment periods usually around five years, this means that most of these funds will make their initial investments over three to four years and from then on reserve their remaining funds for follow-on investments. This, at least partially, explains the decline in the number of new investments in the first half of this calendar year. There are exceptions, of course, with some new vintages in 2022 onwards, and we hope that markets return more favourably and the next vintage of funds will be there to support the continued growth of capital to support the best Kiwi start-ups.

Similarly, overseas venture capital markets have retracted and, while clearly possible, the hurdle for raising later-stage overseas capital has risen. Again, as markets return, we expect conditions to improve over the next 18 months and for the USA venture capital appetite to look further afield to increase.

FIRST HALF YEAR 2024:

Start-up Ecosystem Overview

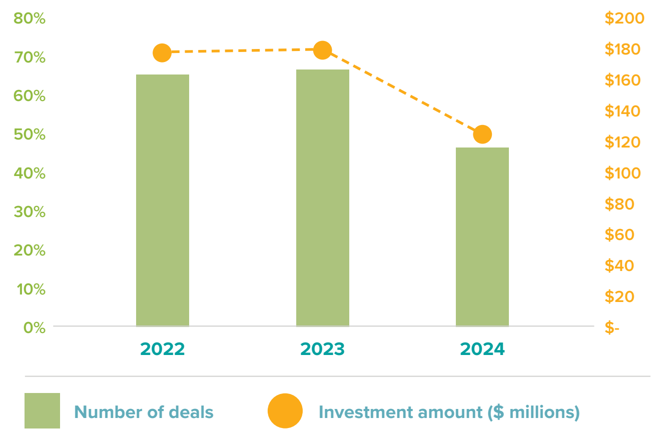
What the data shows

In the first half of 2024, there were 47 funded deals, totalling $126 million. This represents a 30% decline in both the number of deals and the total investment amount compared to previous years. Specifically, the number of funded deals over the past three years was 66 in H1 2022, 67 in H1 2023 and 47 in H1 2024. Correspondingly, the investment amounts were $179 million in H1 2022, up to $180 million in H1 2023, and down to $126 million in H1 2024.

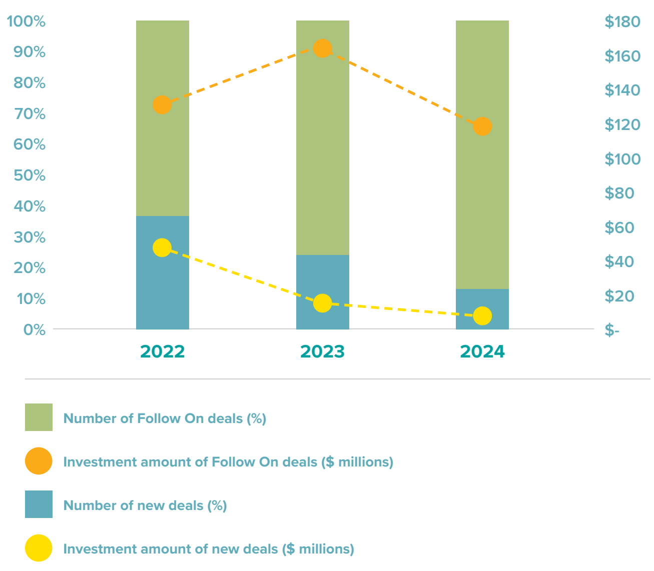
Deal Type Breakdown of H1 Trend

Although both new and follow-on investments decreased, the proportion of new investments has steadily declined in the post-COVID period, falling from 36% in H1 2022 to 24% in H1 2023, and down to 13% in H1 2024.

H1 Number of Deals and Investment Amount



H1 Number of Deals and Investment Amount by Deal Type

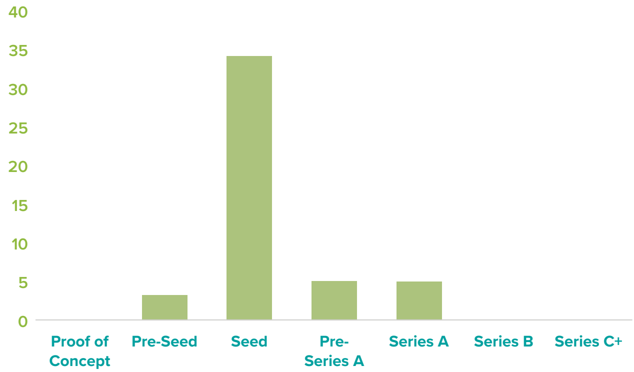


Stage Breakdown of H1 Trend

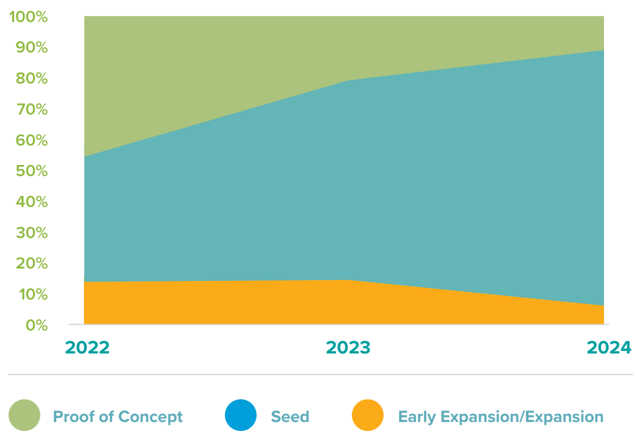
In H1 2022 and H1 2023, the distribution of funded companies by stage was as follows: an average of 14% for proof of concept (POC), 53% for seed stage and 33% for early expansion/expansion stages. However, in H1 2024, the percentage of POC deals dropped dramatically to 6%.

The data is characterised by the growth in the proportion of deals reported as seed stage, from 41% in H1 2022, to 64% in H1 2023 and 83% in H1 2024. This is due to a reduction in POC deals, potentially indicating a shift in investor risk appetite, and an increase in bridge rounds as companies struggle to hit the milestones required for Series A investors.

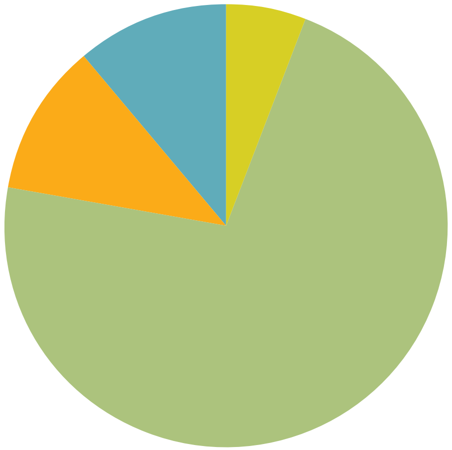
H1 2024 Number of Deals by Stage



H1 Proportion of Deals by Company Stage



H1 2024 Proportion of Deals by Company Stage



- Proof of Concept — 0%
- Pre-Seed — 6%
- Seed — 72%
- Pre-Series A — 11%
- Series A — 11%
- Series B — 0%
- Series C+ — 0%

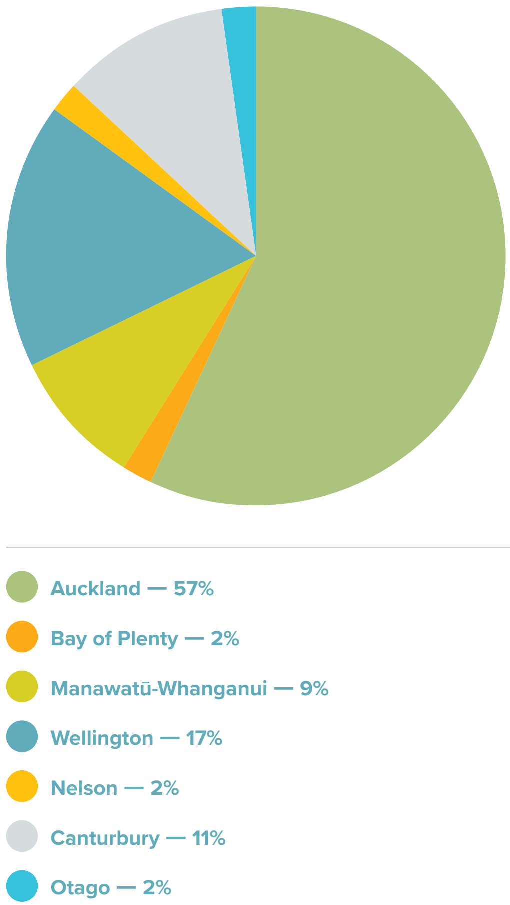
Regional Breakdown of H1 Trend

Auckland, Wellington and Canterbury remain the top three regions with the highest number of deals. Despite fluctuations in the post-COVID period, these three regions have consistently accounted for 80% of total deals. In H1 2024, their contributions were 57% from Auckland, 17% from Wellington and 11% from Canterbury.

The percentage from the Canterbury region fluctuated significantly, reflecting its smaller number of deals. The 11% figure for H1 2024 is close to the 15-year average of 12%.

In the first half of 2024, the regional breakdown of deals reveals that Auckland continues to lead the market with 57% of the total deals, followed by Wellington at 17% and Canterbury at 11%. Manawatū-Whanganui accounts for 9%, while Nelson, Otago and the Bay of Plenty each represent 2%. Notably, there were no deals recorded in Northland, Waikato, Gisborne, Hawke's Bay, Taranaki, Tasman, Marlborough, West Coast, Southland or the Chatham Islands during this period. This distribution underscores a strong concentration of activity in Auckland, with limited participation from other regions.

H1 2024 Proportion of Deals by Region



Sector Breakdown of H1 Trend

Investor interest in deep-tech companies has surged over the past two years. In H1 2023, deep-tech deals accounted for 57% of total transactions, and this figure remained strong at 55% in H1 2024. This represents a significant increase compared to the long-term average of 36%.

Alongside deep-tech, software companies continue to remain a key segment of the New Zealand start-up ecosystem. Together, these two sectors comprise over 90% of total deals in H1 2024.

Detailed Sector Breakdown of First Half Year 2024

In the first half of 2024, the detailed sector breakdown of deals illustrates a varied landscape. Clean-tech and Climate-tech led the way, accounting for 30% of the total number of deals. Following this, Health-tech contributed 11%. Software as a Service (SaaS) and Artificial Intelligence & Machine Learning sectors represented 32% and 8% respectively of the total deals.

The remaining sectors, totalling 19%, showed a more diverse distribution, with each contributing between 4% and 9%. This indicates a broad spread across various industries, suggesting a healthy and competitive market landscape with multiple sectors actively participating in deal-making during this period.

H1 2024 Proportion of Deals by Sector

- AI — 8%
- Clean-tech and Climate-tech — 30%
- Fin-tech — 4%
- Health-tech — 11%
- Software — 32%
- Other Deep-tech — 6%
- Other — 9%

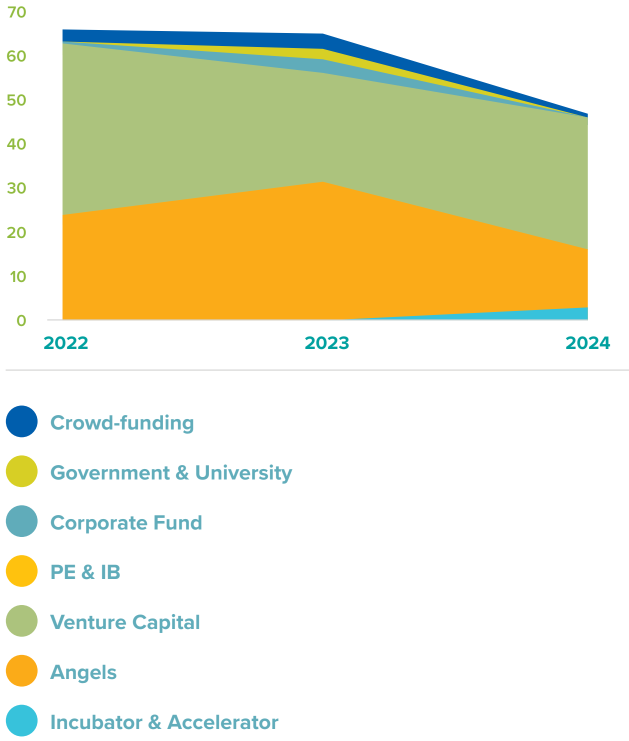
Lead Investor Type Breakdown of First Half Year 2024

There has been a marked shift in the types of lead investors participating in the ecosystem. In H1 2024, deals led by angel investors plummeted to only 13 deals, representing just 28% of the total and one-third of the long-term average for the year.

Conversely, venture capital funds have become proportionately active in the early-stage ecosystem, leading 64% of total deals in H1 2024.

This can also be attributed to the change in deal stage, where we saw a drop in investment in the POC stage, where angels start investing, compared with the seed stage, where venture capital firms start investing – speaking in general terms. It also reflects the prevailing economic conditions where high interest rates increase the opportunity cost for angel investors to invest in early-stage start-ups.

H1 Number of Deals by Lead Type



TERMINOLOGY

Stage Classification

The recent classification we used in the H1 2024 data collection is proof of concept, pre-seed, seed, Series A, Series B and Series C+.

To ensure comparability with previous classifications, we have consolidated the categories as follows:

Proof-of-concept stage: This includes both proof-of-concept and pre-seed stages.

Seed stage: This includes both seed and pre-Series A stages.

Expansion stage: This includes Series A, Series B and Series C+ stages.

Definition of the stages as follows:

Proof of concept – The realisation of an idea alongside demonstration that a concept or theory has practical potential. The company is planning out what the product could look like, the problem it wants to solve and the ideal team to help realise this vision.

Pre-seed – The period in which a company's founders are first getting their operations off the ground. They are starting to build the product, develop a Minimal Viable Product (MVP) and iterating to find a market application.

Seed – Companies use the round of funding to iterate the product and find Product Market Fit. A repeatable go-to-market strategy should be proven also, to secure interest from Series A investors.

Pre-Series A – This round is to finance the further strengthening of the competitiveness of the product, technology or service and to help the start-up achieve key milestones as it prepares to scale and gets ready for a Series A round.

Series A – Once a business has developed a record of accomplishment (an established user base, consistent revenue figures, or some other key performance indicator), that company may opt for Series A funding, then scale the team and expand their sales efforts.

Series B – This round is all about taking business to the next level, past the development stage so that it can meet the levels of demand. The funding will be used for expansion offshore or into new markets.

Series C+ – At this stage, a company has demonstrated significant traction; winning in its targeted industries or geographies and has achieved profitability. The capital is used for further scaling of the business, to gain market share or for expansion into new verticals or geographies.

Regional Classifications

Regional classifications align with the boundaries outlined in the Local Government New Zealand (LGNZ) council websites and maps. ↗ Council websites and maps – LGNZ

Sector Classifications

For the H1 2024 data collection, we utilised the vertical and primary sector classifications from PitchBook, categorising companies into deep-tech, software and other sectors.

Deep-tech: Start-ups in this category focus on developing technology solutions that address substantial mathematical, scientific or engineering challenges. ↗ What is deep-tech and why do we invest in deep-tech companies? – NZGCP

Software: This sector encompasses start-ups whose primary offerings include various forms of software, software technology, distribution, and software product development. Products may be offered through subscription models or one-off purchases.

Contributors

NZGCP gathered the information on behalf of the New Zealand start-up ecosystem. We appreciate the following investors who made significant contributions to the H1 2024 data: Angel HQ, Arc Angels, Auckland UniServices, Blackbird Ventures, Climate VC fund, Cure Kids Ventures, Enterprise Angels, Even Capital, GD1 Fund, Icehouse Ventures, Maker Partners, Marlborough Angels, Motion Capital, Movac, Nuance Capital, Outset Ventures, Pacific Channel, Snowball Effect, Sprout and WNT Ventures. The dataset includes deals supported by angels and venture capital firms; it excludes private equity deals and rounds led by offshore investors.

Data Collaboration – Investors

If you are an investor interested in contributing to our data collaboration, please feel free to contact us at reporting@nzgcp.co.nz. Your participation helps enrich the insights and trends within the start-up ecosystem.

Data Collaboration – Start-ups

If you are a start-up interested in contributing to the ecosystem dataset or displaying your company to the ecosystem, we invite you to join the NZ Dealroom platform to raise the profile of your company with both domestic and international investors. ↗ nz.dealroom.co

Once registered, you can search for other potential investors using the matching tool, explore the New Zealand start-up ecosystem and advertise any job openings.

DISCLAIMER

The data presented in this publication is the result of voluntary collaboration among investors within the ecosystem. While we strive to capture most deals and reflect the overall trends, some transactions led by non-participating investors may not be included in this report.

Data is provided voluntarily by investors, and while we have undertaken efforts to clean and organise this data, we cannot independently verify its accuracy due to limited resources and restricted access to primary market deals. The information and graphs included in this publication are intended for trend indication and to stimulate discussions within the ecosystem.

Investors are encouraged to conduct their own due diligence and make informed investment decisions based on a comprehensive range of data. New Zealand Growth Capital Partners refuses any responsibility for claims of loss arising from the use of this data.

Angel and venture data was previously reported separately. Going forwards this publication combines both sets of data; therefor figures previously reported might not easily be reconciled to this one.

YOUNG COMPANY FINANCE
is prepared by NZGCP

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