AN EQUITY FUND FOR SUSTAINABLE RECOVERED MATERIALS BUSINESSES

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TABLE OF CONTENTS

1. Background

1.1 The situation

New Zealand is a place where a great deal of innovative thinking and business activity takes place, for a variety of reasons. The so-called "number 8 wire" mentality for solving problems is prevalent, often due to lack of resources for solving the problem in a more conventional, resource-rich manner, and this applies in the world of sustainable business development as well.

However much of the sustainable technology and sustainable ideas in New Zealand never make it to market because of the lack of traditional funding sources, or any kind of network of significant alternative financing.

Loan funds such as Prometheus Finance and The New Zealand Recovered Materials Enterprise Trust (RMET), through its RecycLoans Fund, go some way to bridging this gap, but they have three major problems:

a) Many entrepreneurs are uncomfortable taking on high levels of debt
b) The profile of many businesses does not fit with the requirements of the lender
c) These lenders, even if the profile of the applicant is suitable, have lending limits insufficient to bring a product to marketability.

What is missing is the availability of resources for those who can't or don't wish to further extend themselves into debt—that is, flexible equity investment resources.

One common problem experienced by many New Zealand entrepreneurs is the inherent public skepticism about new and therefore unproven technologies. Due to scarcity of R&D resources for many small businesses, there is an understandable reluctance to put funds at risk. As a result of this inherent financial conservatism, New Zealand is not known as a nation of "early adopters", and is often considered a very challenging test market due to consumer reluctance to embrace new products. This is exacerbated by the added dimension sustainability adds to the mix, which is further discussed in section 1.4

In summary, the same situation exists as does with new companies which do not have a primary focus on sustainability, but there is a greater lack of institutional infrastructure to assist sustainability-oriented companies with the funding needed to bring products to market.

1.2 What are some examples of Recovered Materials/Waste Minimsation (RM Sustainable) Businesses?

The RecycLoans Fund has made loans to fifteen businesses in these sectors, multiple loans to some with ongoing business expansion activities. The sector is well represented in New Zealand in terms of number of enterprises, but most are quite small, at a "pre-equity capital" stage where "angel investment" is the most common way of achieving financing to bring new products to market.

This paper will focus on six ventures of the more than 20 interviewed in New Zealand. Of those interviewed, three have successfully raised sufficient capital independently and as a result, declined to be discussed in detail for this report. Those companies, which we congratulate on their success to date, are VCU Technologies, Ark Computer Recycling and Windflow Technologies. Six companies with good potential for significant growth to result from investment will be discussed below. These companies are The NZ Potato Plate Company, ReHarvest Timber, Materials Processing Ltd, Pacific Plastic Recycling, Earthmaker and Enviroproducts.

1.3 How have they been selected?

With regard to selection of companies to evaluate for this paper, there are two conventional forms of evaluation in sustainability analyses—positive and negative screening. Negative screens are more common, in part because they are easier to monitor.

1. Negative screening—eliminates candidates for inclusion because they are involved in activities that are judged to have a deleterious effect on society, such as arms sales, nuclear power, liquor, gambling, alcohol or tobacco, or in the case of this review, profligate wasting of resources through unsustainable manufacturing practices.

2. Positive screening—selects candidates for inclusion based upon the types of products or processes they are developing and the underlying ethos of the company as exemplified by their activities.

This analysis will utilise the negative screening method implicitly, based upon the activities of the companies being reviewed, and will take an inclusionary view of activities in terms of a positive screening, as a wide net will be need to be cast in order to develop a critical mass sufficient to support the development of a fund. That said, the waste minimisation and resource utilisation practices of each company to be reviewed will be considered.

1.4 Why can't RM Sustainable companies get traditional equity sources?

There are a number of reasons why it has been difficult for firms working in this sector to access capital, summarised briefly below:

1. Company size and age

Sustainability companies are generally smaller and younger, and looking for smaller amounts of money, than the average NZ venture capital investor is interested in. There isn't a formal angel investor (supporting a project for its worthy goals, or its unknown but exciting looking potential, rather than strictly financial analysis) capital market in NZ, so the alternatives are limited.

2. Unusual sector style

The sustainability sector works in a different way from many other sectors, as it has:

a) More voluntary / community input
b) More government funding + legislative influence

This makes it much more difficult to value fledgling companies using traditional valuation techniques and hence harder to effect a transaction.

3. Investor knowledge of the sector

Venture capitalists (VCs) and angel investors tend to specialise in sectors they understand well (have a number of investee companies in, have in-house expertise in, etc). No NZ VCs have specialisation in RM sustainable businesses so this is an unloved area.

4. Track record of the sector
There is not an established track record of investment success in this sector (in fact it is still young worldwide in this respect), hence making it less attractive to VCs.

5. Investor – Investee match
The kind of person /organisation who has a particular interest in recovered materials and sustainable business is not generally the kind who invests frequently in angel or VC situations. Hence education of the investor sector and the development of a conduit between the sources of money and RM sustainability interests needs development.

1.5 The international situation

In the international arena, people have recognised this issue and moved to do something about it. For example, funds like the Sustainable Asset Management Fund[1] (SAM) of Switzerland are proving to be very successful in the larger markets of Europe and North America, and to a lesser extent in Australia.

SAM has a small presence in Australia and was very actively looking at launching a fund in Australasia earlier this year. This has been delayed, but they are still very interested. As far as we know this Australasia initiative is the only new sustainability fund they have on the cards, and this shows how good they consider the opportunity here. With the whole world to choose from, either new territories or additional funds in their existing territories, this is their current focus for development.

There is concerted international activity in a variety of so-called socially responsible investments. Across the Tasman, a study of such activity in Australia has identified AU$13.9 billion[2]) in a variety of investment vehicles which all have other goals in addition to maximisation of return. The same study has indicated a much more highly developed mechanism of positive and negative screens for socially responsible investing in Canada and the United States.

Even though the study declined to make a concrete estimate of the amounts, it did indicate that in the US, for example, the total funds under management exceeded US$19.9 ***trillion***[3]**.** A very small portion of these funds were invested with social goals encompassed in the investment criteria, but even a very small proportion of US$19.9 trillion can be significant, so the potential for such fund investment exists and is growing.

1.6 Why invest in a fund?

One might easily ask – why wouldn't people just invest directly in the investee companies and eliminate an expensive aspect of the investment process? The answer to this follows

[1] SAM was founded in 1995 and is the first sustainability focussed VC fund in the world, and now the largest. They have expressed interest in launching in NZ, and if we get a fund moving they will very likely be keen to be involved, which would be a great partnership for us to have. For more info: http://www.sam-group.com/e/about/about.cfm

[2] Socially Responsible Investment In Australia 2002—Deni Greene Consulting Services

[3] ***ibid.***.

the same logic as existing VC funds, and relates directly to the services provided by a qualified fund manager in more conventional investment vehicles:

- The investor's risk is significantly reduced by having multiple investments. For example, if out of ten investment recipient companies, a majority fail to reach their planned goals, or even to successfully get their product to market, this failure is ideally more than offset by the one company whose technology becomes spectacularly successful. In conventional VC situations, these returns to the initial funders can be 30:1 or more. Even if most of the fund recipients are either modestly successful or unmitigated failures, as long as others get useful products to market and just one achieves a significant financial return for those who invest initially, much is achieved in terms of sustainable technology innovation, job development and waste reduction while an acceptable financial return is provided to the investor.
- The fund provides the resources to support a management team which effectively brings in-house specialists to all the companies, as well as screening the prospective investment targets to get the best quality investments
- The fund goes out and finds other investment to ensure that the investees have the liquidity required to grow. This means the investee management can get on with doing the RM sustainable business activity they do best instead of mucking around chasing money.

2. The New Zealand Investment Market

2.1 Recent history

NZ investors are renowned for being conservative and our capital market reflects this. We have a very low level of VC and organised angel capital activity compared to rest of the civilised world, a very low R&D spend and a slant amongst banks to favour the safe bet – all quite surprising considering the entrepreneurial nature and ability of our people!

The combination of the information technology (IT) boom and a realisation of how important early stage capital and entrepreneurship is to our nation's financial health led to a burst of activity, fuelled by both the private sector and the government, in the late nineties.

This has led to a better situation than before; however a large number of these VC companies have struggled, either due to inappropriate management or market conditions.

Hence two things are evident:

- NZ still lags significantly in early stage capital compared to our trading partners, and the government realises this and is trying to change it.
- It is still a difficult market for both the establishment of a NZ-based VC fund or similar, and for the companies out there who would benefit hugely from an accessible and well structured early capital climate.

This means that in order to be successful in the development of a fund, it is necessary to have good support from both government and investee companies, and any big business players who really care about invigorating NZ's wealth.

2.2 The sustainability factor

Dennis Parker, ex GM of MacPac, said:
"I see a lot of potential for a sustainability fund if it is put together well. I have met the types of investors who would be interested in such a fund and I look forward to seeing it in action."

Sustainability is a buzzword these days and it is on the lips of the everyday New Zealander as well as the financially savvy (note that the Dow Jones Sustainability Index – on the world's biggest stock exchange[4] - has consistently outperformed the main index since its inception late last decade). Within the sustainability sector, waste minimisation and resource recovery issues in particular are achieving a prominence that they have not previously attained.

However we believe the investor interest goes a lot deeper than this, with a large body of medium high net worth investors out there who would like to invest in something:

a) Good for NZ in a financial sense;
b) Good for NZ in a nature and community enhancement/protection sense..

The beauty of the proposed fund is that it covers both these aspects, something that no other fund in NZ currently covers. We believe this factor, combined with the risk reduction offered by the fund adds (compared to an option such as investing directly in a new technology RM sustainable company) will be the key value proposition to our target audience.

Sustainable technology was certainly one the main drivers for investors in Windflow Technologies, which raised $2.6m in its first round and has just successfully followed up with a monumental $5.5m in their second round recently. Our discussions with financial planners has confirmed this interest among New Zealanders, with a view coming back to us that many people may even be tempted to shift investment classes and/or reduce return if an option such as this fund was available.

2.3 Getting the story through

We have had feedback that the kind of investor we will be attracting will want to feel a strong connection with the actual investee companies, not just the fund, and for this reason another key aspect of this fund's success will be to get the stories of the people in the company, their product and what it does, and the struggles and triumphs they have experienced through to the investors.

We feel it would be optimal to build the stories of the investment recipients in this manner (i.e. a bit more poignant than the average prospectus) into investor communications from day one. An example of a financial body doing this at present is Prometheus Finance, with their very personal feeling annual reports.

2.4 Target investor

We believe the main bulk of our target investment funds will come from two sources:

1. The small investor, with $5k-$50k available for this class of investment

[4] = the New York Stock Exchange (NYSE)

2. The high net worth individual, with up to $10m in early stage investment, but probably $50k-$500k available for this fund.

Both would most likely have an interest in NZ's wealth and sustainability as well as their own financial returns, much as the Windflow investors do. The second type of investor would likely be easier to target and reach, as the NZ investment community has developed ways of targeting such individuals for other types of investment. They would also likely be less risk-averse, as this investment's performance would has a lesser impact upon their financial future than it would on a small investor, who would be more likely to wait until a track record for this type of fund has been developed in New Zealand.

2.5 Access to target investment funds

To some degree, this will come through the normal paths (i.e. financial planners, stockbrokers, contacts of the fund raiser - if a specialist in this area is convinced to participate in this venture fund development). However we suspect because of the unusual nature of this fund, more inventive methods may have to be employed to gain access to funds and reach the investor directly as well, either via marketing or word of mouth.

2.6 Additional investment sources or support

The proposed Waste Minimisation Recovered Materials Sustainability Fund has a special card to play due to the fact that its outcomes are so strongly supported by the government, Maori and community sectors. Due to this we expect that additional cash, or support in kind, may make this a much more attractive offering to the retail investor.

An example of how this might come about, for instance, is that this fund may qualify for Industry New Zealand's VIF programme[5].

3. The companies

3.1 Overview

In the development of this analysis, representatives of 22 companies were interviewed, representing a range from startups with no funds or paid employees to companies which have multi-million dollar turnovers and a ten-year trading history. This includes several mentioned above which have successfully raised capital using their own efforts. Brief profiles of six of these firms follow below.

3.2 ReHarvest Timber

Synopsis

ReHarvest Timber is a company utilising waste wood, primarily broken pallets, to make wood chips used as landscaping products. They feature various grades and uses for the chips, ranging from decorative landscaping material (organically coloured) to equestrian ring base made from tannalised lumber. In an average year over their six-year life,

[5] VIF = Venture Investment Fund, a government funded initiative aiming to increase the venture capital activity in New Zealand. If a venture capital fund can jump make it through a couple of hoops then it will receive $1 (effectively as a grant) from the government for every $2 it can raise itself from the private market.

ReHarvest Timber has recycled over 3500 tonnes of waste wood destined for the tip. ReHarvest Timber had a turnover of over $875,000 in its last fiscal year, up from $630,000 the year before. An increase in turnover of 10-15% is anticipated for the current year based upon orders and year-to-date comparisons from the prior year. They are currently profitable, and employ eight staff.

Shareholding and governance
The company is a sole proprietorship and has been run by its founder, Ted Edwards, since its inception. He is quite amenable to sharing the decision-making with a substantial investor, and would even consider a major reduction in his management activities if an investment allowing for significant expansion were forthcoming.

In terms of ongoing management processes, he develops his budgeting based upon an analysis of the last two years' operational figures and current orders. He is confident of ongoing growth, given its increase in plant and equipment (the business recently purchased the site to which it has relocated its operations).

Investment requirements
They would be seeking $150,000-$175,000 to improve their yard by completing the concreting, finishing the office block and installing a weighbridge at the entrance. They would ultimately like to expand into Wellington and Christchurch; numerous expressions of interest from businesses in the vicinity of those two centres would appear to justify such plans, as transport of both raw material and the finished product comprises a significant portion of the expense involved in the business.

Other
The main areas where he feels he could benefit from partners (aside from providing capital) would be with more marketing expertise, although his contacts in the field are excellent.

3.3 The NZ Potato Plate Company

Synopsis
The NZ Potato Plate Company has created a product out of a waste material that is also recyclable and biodegradable. Demand has outstripped their ability to produce the product to date, but new machinery has been designed and developed. This development has dominated most of their last fiscal year, resulting in a very modest $29,000 gross income. The new technology has been completed, and they own three new machines with a value of $900,000. Their most recent contract has been implemented, calling for two containers of plates and cutlery to be shipped to the UK at approximately $60,000 each per month. This contract alone has the director anticipating a 2000% increase in gross receipts. The company will return to having 8 full time employees as of this September, when their new equipment becomes operational. They have successfully raised funds through private sale of shares.

The company have developed a financial target of reaching $770,000 annual sales in the short term. This should be easily attained, as they have turnover of $34,000 in September 2003, the first month since the new equipment has been installed. Orders from The Warehouse will be doubled next month and likely quadrupled by January (to $120,000/month), such is the desire for such an environmentally friendly product. There is no alternative domestic provider of a comparable product (only a Chinese import that is not actually biodegradable due to various types of impurities), so a large chunk of the market should be attainable.

Research is continuing in an effort to develop a plate more resistant to meat juice, as the meatpacking sector has expressed great interest in the product. Exporting to Australia has commenced, and more shipments to the UK are expected to take place this month. The company also anticipates selling license agreements, which will enable the purchasers to use waste products in their own countries to develop the products.

Shareholding and governance
The company have had a successful experience in equity investment, and they now have 23 shareholders. They currently have a board of directors with representatives of the shareholders, and would happily expand that board to encompass an additional 20% representation for new ownership, which would be one seat in addition to the four directors currently serving.

Investment requirements
Their managing director is happy to divest some further control of the company, but would not wish to divest in excess of 20% of the total share capital. $50,000 needs to be spent on upgrading a hopper and adding two new moulds for existing demand. Furthermore Managing Director Richard Williams feels that they would like to integrate the current round of funding plus the expansion it has triggered into company activities before consequent rounds are investigated.

Other
In addition to investment capital, the directors would seek expertise in internationally marketing the product.

3.4 Enviroproducts

Synopsis
Enviroproducts utilise plastic-encased steel-belted tyre treads as the material to make structural composites for various purposes. These products include vineyard posts, railway sleepers, roof tiles and highway barriers, all of which show great potential for the substitution of this recovered material for virgin wood, which is predominantly used today. They have expended some initial investment to obtain international patent protection for their process and products, and have several written expressions of interest. They have no revenue as of yet, but have developed a fairly detailed budget of what it will take in terms of prototyping, tooling and other pre-production costs to get their initial product to market. They are approaching raising these funds with the possibility of selling licenses to produces specific products in specific regions.

The inventor of the process has engaged a technology development expert, Realize Technologies, to become a partner in the firm and be responsible for the development of the business prospects of the product.

Investment requirements
The inventor is willing to divest up to 70% of the company. Realize Technologies has estimated a budget of $2 million to bring all products developed so far to full production.

The company has raised some equity, as an initial investor has provided the funds for patent protection, though he may divest his share of the business as other investment is obtained. The company has various objectives, including the capture of a 15% market share of vineyard pole sales in New Zealand; such sales would provide gross revenue of approximately $2 million annually.

3.5 Earthmaker

Synopsis
Earthmaker is a domestic three-stage composting machine which has been on sale in New Zealand for several years. It has been reconfigured as an injection-moulded kitset to improve shipping and market appeal. Turnover for the current version of their product has been approximately $150,000, but they anticipate a tenfold increase based upon conditional orders and expressions of interest received from overseas for the reconfigured product. They have worked with a plastics fabricator and developed a licensing deal in exchange for his development of the specialised tooling for injection moulding. While this is a very costly initial outlay, the subsequent per-unit production costs are substantially lower and the product quality superior to other forms of production. The primary value of the enterprise lies in its intellectual property as well as its specialised tooling, ownership of which is shared with the fabricator. They currently employ three people in sales, administration and product management, while their production partner employs two working on their product. It can be viewed on the company's website at www.earthmaker.co.nz

Shareholding and governance
Managing Director Lannes Johnson would be happy to cede some management control to a suitable investor, although not majority control. He sees the company's best path forward as licensing the technology for overseas production. They have already taken in some early stage investment, divesting themselves of 30% of the company, but do not feel that they have a robust enough management structure in place to take on true equity investment as yet.

Their objective is to become the dominant provider of home composting equipment in New Zealand and Australia, and to license their product for production in the major international markets (US, UK, Europe). It is already being sold overseas on a limited basis. Their goal is to have 1 million units in production internationally within 5 years. They currently have a board of directors, and do anticipate expanding the number of seats as additional investors participate in the company.

Investment requirements
Their main need for financing would be in the arena of international marketing.

3.6 Pacific Plastic Recyclers Ltd

Synopsis
Pacific Plastic Recyclers Ltd is the largest manufacturing recycling company in New Zealand, collecting and reprocessing a variety of types of plastic, 1200 tonnes throughout the lower North Island of New Zealand. They are an established enterprise, and last year's annual turnover was over $2.2 million. They are currently operating on a breakeven basis, but are anticipating a profit of $150,000 this year on a turnover of approximately $2.4

million, a turnover almost 10% greater than last year's. They employ 36 people. General Manager John Cribb values the company based upon land, plant equipment, turnover and prospects for the future, and ascribes a $3 million value to it.

Shareholding and governance

The company currently has a single managing director. They would willingly put a board of directors together, which would include representatives of the investor(s) as a precondition for receiving investment funding.

Investment requirements

The company would welcome investment to reach the level of activity they aspire to, although as mentioned earlier would be unwilling to cede majority control. GM Cribb feels that an $800,000 investment in plant and equipment would give the firm the ability to increase their turnover by a minimum of $1.5 million. They would be able to take on more contracts and develop greater quantities of plastic products than they are able to do currently (over 70 different products).This is a significant limiting factor in their ability to pursue business across the Tasman, where interest has been expressed numerous times but unfortunately had to turn them away. The company is working to full capacity on the extrusion side and can not engage in any new contracts.

The company's objectives include doubling their turnover to $5 million, which would enable them to increase their research and development budget, purchase additional equipment and market locally and overseas. In addition to the funding they would receive from an equity investment, it would allow them opportunities to further develop the company and benefit from being part of a network with access to financing. They are frequently upgrading their materials handling capability and have not in general felt that the service they have received from the banking alternatives out there have met their needs due to the low margins in the recycling industry.

New Development

An example of what can be achieved should a new production pipeline be put in place follows. The current pipeline has five employees driving it, yet with two pipelines working along side each other, they would need six employees (only one additional) to drive them both and double their output. The plant operates 24 hours a day, seven days a week and employees work twelve hour shifts. This proposed development would save the company $200,000 a year in wages alone to produce the same amount of recycled material, or double pipeline material output for only 20% increased wages. This wage saving is enormous, especially with the recycling industry being so labour intensive.

3.7 Materials Processing Ltd

Synopsis

Materials Processing Ltd is a company which has taken a "basket approach" to recycling and recovered materials in the mid-North Island. Their turnover is roughly $3.6 million, and they are anticipating a 10% increase this fiscal year. They are profitable this year, but expect to increase their profit margin this year as well. They have a staffing level of 30 people, including four part-time. Materials Processing has the following objectives: stay within its region and its mission of processing as many recyclables as possible; maintain long term contracts; grow the competency of all staff, particularly management; lift profitability to a 15% return on investment.

Shareholding and governance
Managing Director Peter Fredricsen is the sole director, but is answerable to his shareholders; as mentioned above, he would continue such accountability with new investors, and would consider the establishment of a board of directors, but remains interested in maintaining control of the company, particularly with regard to its philosophical orientation.

Investment requirements
They would utilise investment for research and development on two new initiatives they are exploring, approximately $250,000 each on "plastic wood" and bio-energy.

Managing Director Fredricsen is in general pleased with the direction in which Materials Processing is heading, and reluctant to surrender a "significant" portion of management control to a new investor, and certainly not majority control. Investment has been sought in years gone by. Fredricsen has had problems with other prospective investors demanding too much management control without understanding the philosophy or process of the business. His current shareholders are not demanding any control, having subscribed to the business action plan as he outlined it.

3.8 Summary overview of businesses discussed above

Company	Stage	Size	Wants
ReHarvest Timber	Reasonably settled model, looking for structured expansion	$900k turnover, 8 staff	$150k-$175k
The NZ Potato Plate Company	Experiencing an explosion of demand growth, looking for support around expansion.	$800k turnover, 8 staff	Probably > $200k
Enviroproducts	Brand new technology, wanting funding for commercialisation process	Not to market yet	$2m for total line but $150k to get first product out
Earthmaker	Very young company, with good new technology, wanting to go international	$150k turnover, 3 staff	Probably > $500k
Pacific Plastic Recyclers	Very established company, looking for gradual further expansion.	$2.5m turnover, 36 staff	$500k
Materials Processing Ltd	Established company, looking to develop new recovered materials technology	$3.6m turnover, 30 staff	$250k

4. The management team

4.1 Fund size factor

The size and caliber of the fund management team is naturally going to hinge on the size of the fund.

If we aim for a $15m+ fund, i.e. big enough to really be a VC fund, then we will need a full strength team to raise and run it. On the other hand, if we decide to start small and grow from there (or if we aim for the big fund but fail to raise it) then we will need (and only be able to afford!) a much smaller team.

To give an idea of this, Jenny Morel, principal of No. 8 Ventures (VC fund), suggested that fund management costs in the NZ VC market range from 2.5%-10% of total assets, but she believes the 2.5% end is the correct end to work at.

This means that if the fund is $15m we have $375k for costs (probably $200-250k on personnel, balance on other costs); if the fund is only $3m we only have $75k to spend, although a smaller fund will probably require going somewhat higher within the percentage spending range set forth by Ms Morel.

4.2 Skill mix

There are two aspects to fund management:

1. Raising funds
2. Overseeing investee growth

We have identified strong contenders for the second part in the form of commercialisation companies such as Realize Technology and the Kariba Group.

The first aspect has so far been harder to identify, as people who are strong at this are thin on the ground in New Zealand[6], and there needs to be a strong case presented to those who are capable to lure them on board.
Note that if the fund developers are successful in finding investors committed to supporting these waste minimisation/recovered materials technologies, there may be less of a need for conventional fund raising specialists.

4.3 Special skills

The sustainability sector works in a different way from many other sectors, as it has:

a) More voluntary / community input
b) More government funding + legislation influence
c) Management + staff with a generally different approach to business

Because of this, the management team should have in it, or have access to, people well familiar with these aspects of the sector, as well as those with business and financial backgrounds. The fund size, which will be contingent upon the amount of capital raised, will ultimately determine what persons and what mix of skills the fund can afford in its management team.

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[6] Although the relatively lacklustre performance of the sector as a whole over the last couple of years probably means that talent is relatively poach-able at present.

5. SWOT analysis

Strengths

- New Zealanders are very resourceful and talented innovators and entrepreneurs, and we have a real ability to create exciting projects if only we can sort out the framework (i.e. funds + strategy) to support it
- New Zealand is recognised as being in the top handful of countries worldwide with regard to sustainability technology, and is recognised for the strength of the voluntary sector's commitment to waste minimisation and resource recovery
- New Zealand has a very good Capital Gains Tax regime

Weaknesses

- NZ investors are naturally very conservative (except when it comes to speculative real estate purchase!), so raising the funds + keeping the investors happy (and therefore investing more as required) will be the massive challenge of launching this fund
- Our early stage equity market is underdeveloped and because of this we are relatively light on the ground in terms of good commercialisation resources; in addition, entrepreneurs are not always good at working with VC
- Our potential for developing world beating technologies and/or companies will always be constrained by the small market size here as well as a difficult consumer base; therefore a successful enterprise must factor in the cost required to go overseas relatively early in a company's life if it is to be successful on the global plane

Opportunities

- Funds like SAM are performing very strongly, and sustainability worldwide is a market currently showing tremendous potential – this fund could make a lot people wealthy as well as accruing benefits to society and the environment
- We have strong connections already forged with SAM; if this fund got off the ground we could leverage this connection to make it considerably more successful than it might otherwise be
- The current government has realised how important sustainability is to New Zealand and so the fund can expect strong government support

Threats

- Finding the right people to run the fund is going to be very important; the inability to find such personnel is something several NZ VC funds have experienced, leading to trouble due to inappropriate management or staff
- It is crucial that:
  a) We get sufficient funds to run the fund well and
  b) We get the ongoing investor support that early stage companies need
  If either of these is inadequate, the fund is likely to run into trouble

6. Summary and conclusions

The situation in summary

The first consideration to note is that this paper is a starting point, and by no means an exhaustive analysis of the venture capital scene or all emerging businesses in the sustainability sector in New Zealand. However there is no doubt that New Zealand has a lot of potential in this sector, and that the caliber of much of what we have to offer is financially viable. This is qualitatively shown by what we have found, and very strongly confirmed by the SAM Fund's interest in NZ[7].

There is reasonable deal flow potential – SAM estimated that NZ could sustain a NZ$50m fund, though it has yet to undertake and exhaustive analysis.

There is also no doubt that New Zealand does not currently have a healthy enough early stage capital market to harness this potential.

What is possible

This is potentially promising territory for further exploration, and in a market the size of New Zealand literally one or two key developments could be the make or break of the critical issue – raising the capital.

The optimal scenario would be:

- Convince a good, well respected and preferably well connected fund manager to do the job of raising the cash
- Aim for a $15m+ fund
- Possibly obtain VIF '$1 for every $2 raised' funding
- Possibly partner with SAM

The possibly more likely secondary scenario is:

- Establish a reasonably strong advisory board overseeing 1-2 less prominent individuals in the VC/technology community, possibly part time to keep the cost structure acceptable.
- Aim for $2-4m initially
- Possibly springboard off this to a full size fund.

Acknowledgement

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[7] Given that SAM is the longest running and biggest sustainability focussed venture capital firm on the planet, this is a pretty good indication