

New Zealand Venture Capital: A Struggling Enterprise



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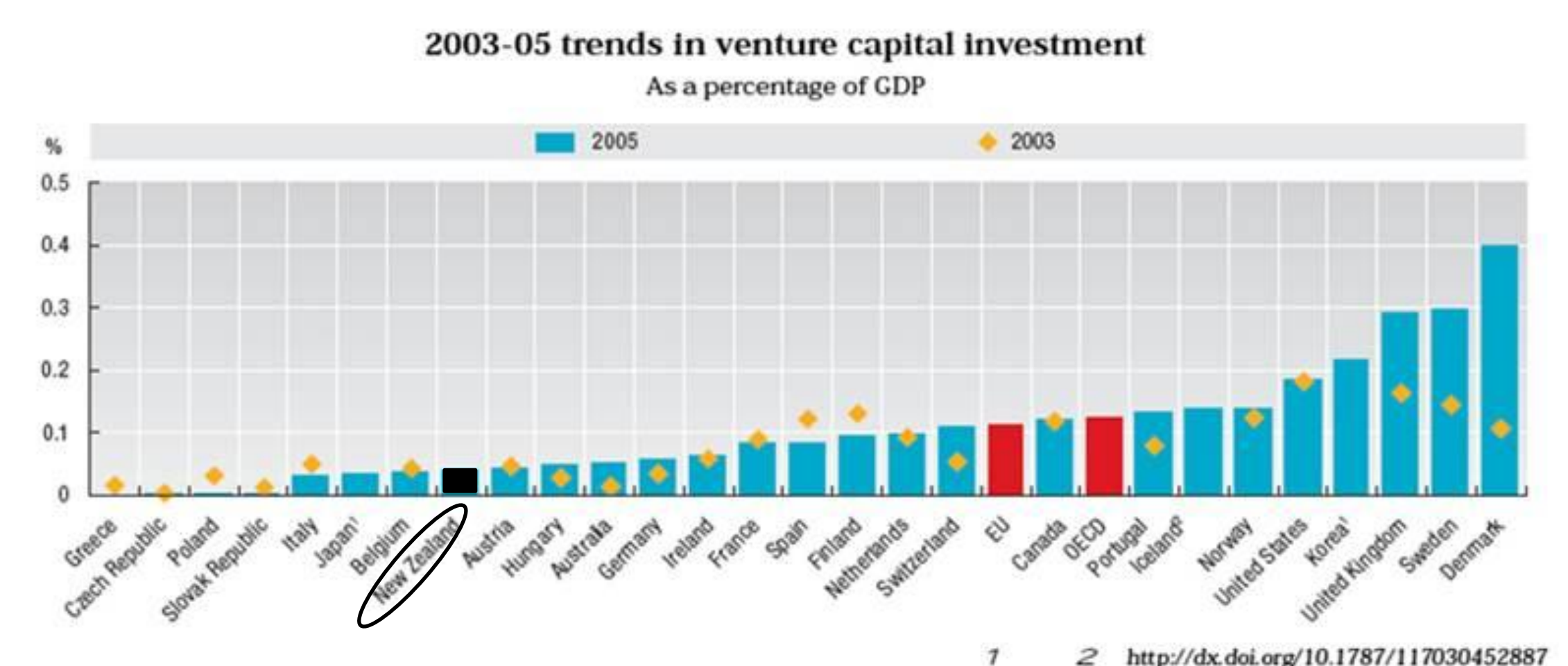
Overview— Not an Economic Leader

Venture capital (VC) in New Zealand is a relatively new phenomenon; it is immature by world standards and facing many challenges. Moving forward, there are numerous changes that can be undertaken for continued development; however, even with positive change, the venture capital market is not going to be the strategic element for stimulating the economy, nor the leader for developing the capital markets. Instead, due to the many challenges facing the industry, the venture capital market will only reach its own potential as the other segments of the financial markets align with international standards as well.

Current State— Still in its Youth

Government policy and support did not occur until 2002; Thus, investment levels in NZ's venture capital industry are low compared to similar OECD markets

- As of 2006, VC as a percent of GDP = .05%
- Establishing a venture capital market in NZ on par with comparable OECD countries would require a threefold increase in the size of the industry



Challenges— Big and Small

Characteristics specific to New Zealand have made development difficult and could ultimately limit the venture capital markets future

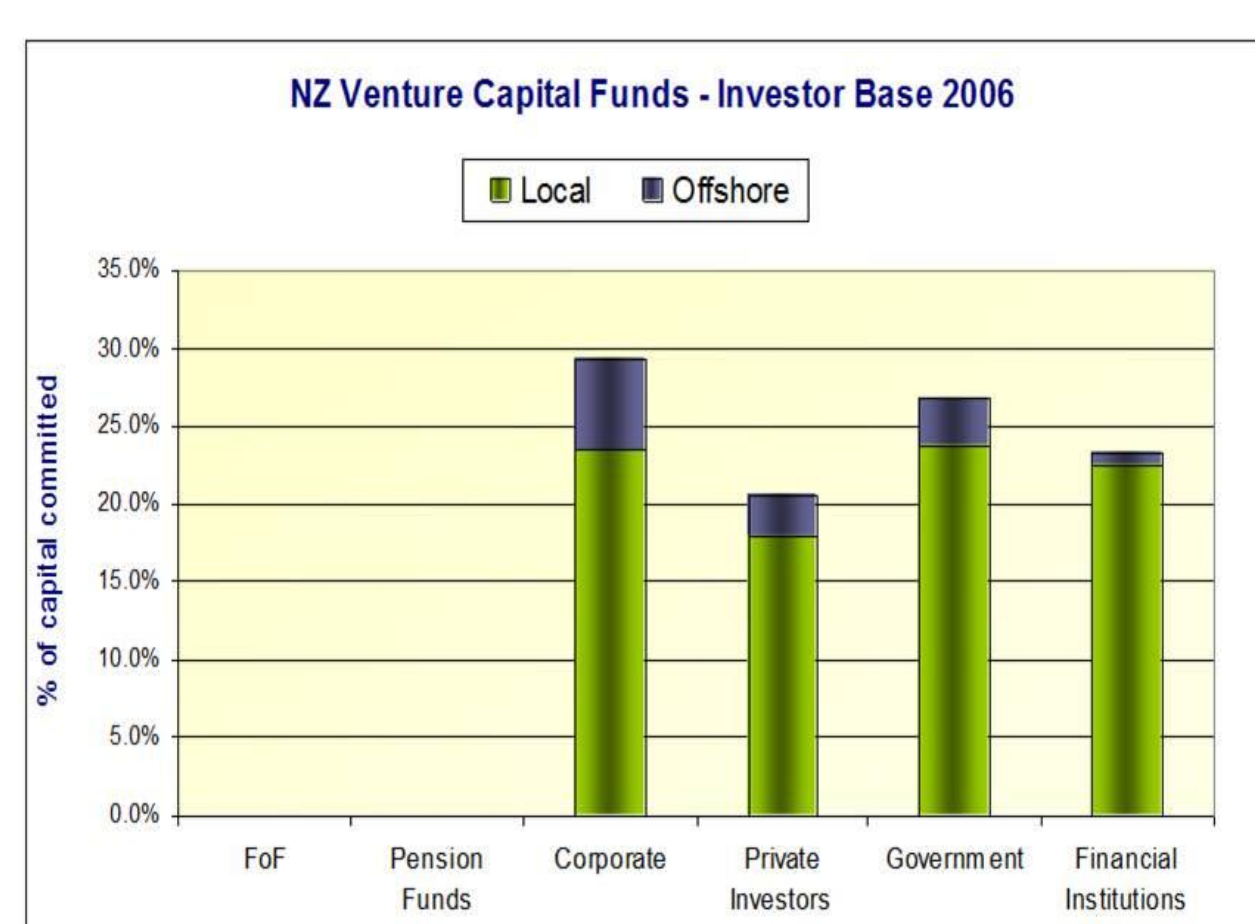
Underdeveloped Capital Markets:

- Excluding the banking sector, capital market components are weak and not providing efficient access to capital
- Equity, venture capital, & debt markets are not mature in size, depth, liquidity, or skill base

Small Domestic Economy:

- A lack of domestic savings, resulting in not enough domestic capital for venture capital to reach sustainability
- Lack of domestic capital demands inflow of foreign funding; less than 4% of global investors interested in NZ market

Limited Investor Diversity:



- Venture capital is not attracting necessary range of domestic investors—relies too much on gov't support; there is an absence of fund of funds and pension fund contributions
- Institutional investor's turning away from venture capital b/c of its high costs & illiquidity. Their absence is alarming b/c they are a key source of funding for many VC communities

Internal Barriers:

- Barriers include inexperienced fund managers & incomparable levels of business expenditure on R&D
- A cultural barrier exists among entrepreneurs in their resistance to growth, referred to as the "Bach, Boat, & BMW"

The Future— A Long Way To Go

Moving forward, the venture capital industry should look to continue to develop and grow, but it is a long road ahead, and the venture capital market should not be counted on as a means of jumpstarting the economy

- NZ should collaborate markets w/ Australia, which will augment market size and provide additional resources
- VC market needs to implement a fund-of-funds vehicle, take advantage of the FTA with China & increase R&D in NZ