

-  News
-  Features
-  Stocks
-  The Insider

# The Business

## Angel investors

Backing start-ups  
for fun, satisfaction  
– maybe even  
profit p12-14



**EMPLOYMENT**  
JOBLESS RATE  
TAKES A TURN  
FOR THE WORSE p4



**US BUYER  
MOVES ON  
MEDIWORKS**

p2

**TAMSYN  
PARKER**

All that's gold?  
Stock Takes p8



*Interested? Then talk to Robbie Paul  
our funding manger at the ICE Angels.*



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## Feature Q

The Ice Angels use their money to help young businesses get off the ground. But who are they? **Lesley Springall** stepped into the cold to find out

**R**AY THOMSON laughs when he is compared to The Warehouse founder and philanthropist Stephen Tindall.

He admits they look alike. He has even been approached in coffee shops by eager young things looking for a bit of capital, advice or just to say "hello" to one of New Zealand's best-known businessmen, only to have them depart disappointed when he reveals he's not who they think he is.

Thomson might not be as well-known as Tindall, but they share at least two all-consuming passions: start-up businesses and New Zealand's economic future. For both, the two are inextricably linked.

Both have invested significant time and money in helping young companies grow: Tindall through his own early-stage investment fund K-one-W-one and Thomson directly and through the Ice Angels, an early-stage investment group affiliated with the Auckland business incubator The Icehouse.

Thomson joined the Ice Angels in 2006. He was appointed to the Ice Angel Advisory Board in 2010 and joined the national Angel Association's council last year. He was made association chairman in June. His active role in New Zealand's start-up scene was recognised in 2010 when he was awarded the inaugural William H. Payne Active Angel Award — named after United States investor Bill Payne, who founded four US angel groups and spent several months in New Zealand as the University of Auckland Business School's executive in residence.

Angels are wealthy individuals who choose to invest their money and sometimes their time in high-growth (they hope) start-up companies. They were nicknamed "angels" by American academic Bill Wetzel, who borrowed the term from the old-time Broadway investors who supported young artists.

Thomson, an investment analyst and sharebroker with a doctorate in physics, started investing in early-stage companies before the term "angel investor" had been heard in New Zealand. He made his first angel investment in energy-efficient motor manufacturer Wellington Drive Technologies in 1988, while heading the listed investment company Strathmore Group. Since joining the Ice Angels he's invested \$750,000 in 17 startups.

It's exciting, he says. "There's quite an academic challenge to trying to identify the winners from the losers."

Given the high risk nature of start-up investment, Thomson admits there is an element of gam-

bling in angel investing.

"But then, we're all gambling to make money. You can't say angels are just charitable fellows who like throwing money away, because you'd struggle to find one who's not concerned about the results.

"The Ice Angels aren't really, really wealthy people. They invest money they can afford to lose, but

**It's the best of both worlds: feeling good about what you're doing, while trying to make money at the same time.**

#### Ray Thomson

none of them want to lose it."

Rudi Bublitz, winner of the 2011 Active Angel Award, jokes that he's "on the brink of becoming a serial s\*\*\* investor" after recently investing some of his hard-earned cash in a smart portable toilet start-up and another new company focused on counting parasitic eggs in sheep poo.

**B**UBLITZ was introduced to the Ice Angels through a neighbour a couple of years ago and has been a stalwart member ever since. Soon after joining he made his first investment, in former Genesis Research and Development founder Jim Watson's new prostate cancer-focused company, Caldera Health.

"I'm getting older, so it seemed like an appropriate investment," Bublitz jokes. More seriously, he says he was attracted to Caldera because of the considerable scientific and business experience of the founders: Watson and fellow Genesis R&D scientist Richard Forster.

The added bonus of being able to support something that could do some serious good in the world, while possibly making a lot of money at the same time, is not to be underestimated either.

Another key motivation for becoming an angel is the opportunity to help companies grow, says Bublitz. Many angels use their experience to mentor the entrepreneurs they invest in, and their contacts to help grow the business more rapidly. Bublitz grew his Team 121, providing services for users of SAP business software, from two people based in his bedroom in Britain, to 400 people in nine years. Dealing with growth like



Ice Angels Ray Thomson (left) and Rudi Bublitz are attracted by the chance to make money, do something positive — and have fun in

that isn't easy; it helps to have someone there to guide you, he says.

"You get to pass on your own experience and that's very rewarding."

Few angel investors, however, have time to scrutinise lots of deals or join many boards, which is why it helps to be part of a group. Bublitz is a member of the Ice Angels screening committee, which identifies those young companies ready for investment, and thus presentation to the members; those requiring a bit more angel help before they can be presented; and those which are just never going to get there.

The Ice Angels hold monthly investment evenings where two to four companies are given 10 minutes apiece to present their proposition.

Then, behind closed doors over a

glass or two of wine — while the entrepreneur presenter waits, knees knocking, in another room — the angels discuss whether the investment has legs, and see if anyone's keen to find out more. If someone is, that angel will usually pick up the ball and drive the due diligence and investment process. "If you lose momentum, eventually the deal will just evaporate," says Bublitz.

Though the vast majority are men in the later part of their lives, the Ice Angels are a very varied bunch and that's great for the effectiveness of the group, says Bublitz. "Each has their own likes and dislikes or particular issues they are concerned with [in a potential investment]. Some are very focused on IP [intellectual property], others are concerned

about international markets, others have more of a manufacturing drive and can understand a business better from that perspective.

"It's about trying to pull all those skills and judgments together to come up with some kind of cohesive judgment so eventually everyone can say 'we've looked at this well and we're happy to proceed.'"

Bublitz also dismisses the notion that you need pots of money to be an angel investor. Legally, you have to be registered and independently vetted as a high net worth individual so you can hear from companies looking to publicly raise money, without them having to go through the costly process of preparing an investment prospectus. In New Zealand that means having an income of more than \$200,000 a year, and



n the process.

PICTURE / DEAN PURCELL

proving you've been in that category for at least three years, or having net assets worth more than \$2 million.

**S**OME investors put just \$5000 or \$10,000 into a company, says Bublitz, but when you get a group of 10 people putting in \$10,000 each, that's \$100,000. "So it's not that little. I'd far rather people put in money at a level they feel comfortable with so they can put more money in, in a follow-up round."

Angel investing is not for the conservative, says former investment banker and Ice Angel Michael Blennerhassett. "I like making money, but the fun part is working with other optimists who believe they can take on the world. It also

gives you a chance to roll up your sleeves a bit and try and make something work, rather than just advising about it."

Discussing, investing and sharing the risk with like-minded souls is one of the biggest drawcards of the Ice Angels, says Ken Erskine, director of start-ups and the Ice Angels at the Icehouse. Erskine was one of the earliest Ice Angels, getting drawn in after he left Compaq Computer, one of the founding partners of the Icehouse.

He joined after seeking help on a potential investment and realising he didn't know a lot about what he was doing. "I knew about value propositions, but didn't really know then how to value a company. The Ice Angels were perfect for me because it's working with people

who had experience in this area; it's a shared investment so I can learn about how to do due diligence and structure deals and share the risk and the opportunity with others."

The Ice Angels were founded in December 2003 by Icehouse chief executive Andy Hamilton, after he realised his first crop of young companies were struggling from a lack of experience and funds.

But the first group of wealthy Kiwis Hamilton approached weren't the angel type, he says.

"We realised we needed people who were really passionate about start-ups and that wasn't the really high, high net worths; it was people with backgrounds who'd been there, done that and who could sniff out a deal who were interested."

A bit of to-ing and fro-ing later

## An angel near you

■ AngelHQ — Wellington:  
www.angelhq.co.nz

■ Angellink — Waikato:  
www.angellink.co.nz

■ Enterprise Angels — Bay of Plenty:  
www.enterpriseangels.co.nz

■ ICE Angels — Auckland:  
www.iceangels.co.nz

■ Manawatu Investment Group —  
Palmerston North:

■ www.thebcc.co.nz

■ Otago Angels (formerly Upstart  
Angels) — Otago and Southland:  
www.upstart.org.nz

■ Powerhouse Ventures —  
Canterbury: www.powerhouse-  
ventures.co.nz

■ Venture Accelerator Ltd — Nelson,  
upper South Island: www.eda.co.nz/  
van-venture-accelerator-network

and the Ice Angels was born, with eight founding members including apparel manufacturer Perry Knight, former Intel staffer and technology entrepreneur Scott Gilmour and former Rothmans International European chief executive and company director Trevor Smith. Since then the group has grown to 110 members who have collectively invested more than \$32 million in 34 companies through 78 investment rounds.

**T**HE success of the Ice Angels has had a knock-on effect around the country, with Hamilton, Wellington, Otago, Canterbury, Nelson, Palmerston North and Tauranga all boasting their own angel groups. There are estimated to be more than 300 angels in formal groups.

There are also professional angel investment firms such as Movac, founded by some original Trade Me investors, and Sparkbox Ventures, as well as dedicated early-stage funds, such as the recently launched Global From Day One Seed Fund — a joint venture between the Icehouse and Sparkbox — aimed at providing seed capital (often viewed as earlier-stage funding than angel capital) to technology companies with international aspirations. Both the funds and the firms often invest alongside the angel investment groups, together with the government's New Zealand Venture Investment Fund (NZVIF), which runs its own Seed Co-Investment Fund to encourage more early-stage investors by sharing some of the risk.

According to reported deals, the combined early-stage investment market invested \$30.7 million in 97 investments last year, compared with a record-breaking \$54.2 million in 110 companies in 2010 and \$22.4 million in 30 deals in 2006, when records began. But this is probably less than a third of the total investment in this category, as the vast majority goes unreported, says New Zealand Angel Association executive director Colin McKinnon.

The trend of angels investing smaller amounts in more companies, however, is consistent with overseas experience and indicates a maturing of the market, says NZVIF chief executive Franceska Banga. "Angels are learning more about how much and when to invest ... As angels protect their current portfolios, they are more conservative about engaging in new

investments, particularly those which have requirements for large amounts of capital."

The Ice Angels as a group has also got much wiser, admits Erskine. The operation is slicker, with more angels helping out to manage deal flow, and more deals are now shared nationally with other angel groups to spread the risk and to provide a bigger pool of investment capital for young companies as they grow.

But it's not all business. The Ice Angels is also a club where members meet to invest and get to know other businesspeople over a glass of

**I like making money, but the fun part is working with other optimists who believe they can take on the world.**

**Michael Blennerhassett**

wine or two, while comparing war stories about investment successes and failures.

Erskine dismisses suggestions that it's like a gentlemen's club, which he says sounds old and stuffy. "The Ice Angels is anything but. It's fun."

But angel investing is not a decision to be taken lightly: most angel investors won't see any return on their investment for at least 10 years, and each investment will need at least one if not two further investment rounds before it is big enough to attract larger venture capital funds.

Once you start, however, it's hard to stop, admits Erskine. But considering that you need at least 10 and preferably 20 investments to ensure one gives you a good return, that's no bad thing.

Thomson hopes the rising number of angels reflects an increasing understanding of the importance of start-ups to our economic future. "We are going to lose our standard of living if we don't create some new, great companies in New Zealand," he says.

CONTINUED ON PAGE 14

# Feature

CONTINUED FROM PAGE 12

"That is a primary driver for me and I think a primary driver for a lot of people in angel investing."

Andrew Bell, another of the Ice Angels, agrees. "You see a lot of ideas that just wither on the vine because they simply don't have access to sufficient capital and that to me is the essence of angel investing."

**T**HERE has been a more formal push to widen the angel network in the past few years. Behind the scenes Immigration New Zealand has been, and still is, lobbied to do more to encourage wealthy migrants to put more of the capital they're required to invest to obtain residency, into more active, preferably more early-stage investments.

The Ice Angels has also set up a new investment group targeting wealthy Chinese businesspeople who are based at least part of the time in New Zealand, and moves are afoot to attract more female angels, with ongoing talks between angel groups about setting up a dedicated women's angel network focused on investing in ventures run by women.

One of the few women Ice Angels, Leonie Freeman, says she was keen to get involved after experiencing the rigours of running a start-up herself. Freeman set up the successful real estate website [realeznz.co.nz](http://realeznz.co.nz) before selling it and moving into property management.

"I know how hard it is for start-ups in this country," she says. "I thought I could do a little bit of business mentoring and invest some of my money to help grow that sector."

Since joining the Ice Angels a year ago, Freeman has made one investment in a previous Ice Angel investment, 3D planning technology company Nextspace. The investment appealed because it combined her knowledge of property and technology, she says.

"This is all still quite new to me so I wanted to understand how it works through a business I understand. But I love business and

## Newcomers get ready-made network

**W**ITHIN just a few weeks of migrating to New Zealand with his family, Londoner James Hoseason had sunk a sizeable chunk of his Immigration New Zealand-required investment capital into two early-stage companies: prostate cancer company Caldera Health and kids' social networking start-up MiniMonos.

"It was just happenstance. It was the first [Ice Angel] presentation I went to and there were these two great companies presenting."

Hoseason had been introduced to the Ice Angels after meeting Phil McCaw, director of angel investment company Movac and at that time chairman of the New Zealand Angel Association, at a get-together for prospective wealthy migrants from Britain at the New Zealand High Commission.

By then the government already had \$1.5 million of his money in "very plain vanilla" government and corporate bonds as part of his residency application.

But Hoseason, a corporate property developer who had set up and grown both property and travel companies in his past, had already decided to invest some of that capital in higher risk investments.

"I'm an active investor; I've done my own start-ups so I've got some degree of knowledge about the risks and also the returns." Hoseason was also attracted by the Ice Angels' network. "It's a very good way when you're new here, for a relatively low level of investment, to suddenly get you into a whole new community of interesting people."

Immigration New Zealand didn't advise him on what to invest in, nor should it have done, says Hoseason,

[through the Ice Angels] you get to meet some great people from all walks of business life and see some great opportunities."

Another relatively new Ice Angel, David Russell, had been



Former Londoner James Hoseason found two investments at his first Ice Angels presentation.

PICTURE / DEAN PURCELL

but a change in the rules since 2009 has made it easier for wealthy migrant investors to enter the country and put their money into more active investments, such as start-ups.

Before the government lowered the investment thresholds in 2009, just 23 people had applied for residency in two years under the old wealthy migrant scheme. Since 2009 there have been 362 applications and \$255 million invested: \$145 million through the Investor 2 category, requiring \$1.5 million of funds invested, with conditions, and \$110 million through the Investor 1 or Investor Plus category, requiring \$10

million invested, with fewer strings attached. The vast majority of this cash is still sunk into safer investments, such as bonds, though 13 per cent has been invested in private equity — though what "private equity" actually includes isn't broken down. Strict rules ensure no money is invested in residential property, closing an old loophole and a former immigration bugbear.

In a written statement, Stephen Dunstan, Immigration New Zealand's general manager (settlement, protection and attraction) says research shows migrants are keen to know more about the full range of

investment opportunities available in this country. If asked, the department will refer clients to organisations including New Zealand Trade & Enterprise (NZTE) and the New Zealand Venture Capital and Private Equity Association (NZVCA).

Hoseason applauds the stance and his immigration experience. He says he agrees with comments that's it's not the government's job to push money around or tell you to put it into riskier investments; it's the job of the angel groups to encourage new migrants to invest in the sector when, or preferably before, they get here.

— Lesley Springall

to New Zealand he decided that becoming an Ice Angel would be a great way to meet new people and to invest something back into the country that raised and educated him.

Thomson says Russell is typical of many of the Ice Angels. "It's the best of both worlds: feeling good about what you're doing, while trying to make money at the same time."

# one to watch.

## Business Thought Leaders Series

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