



Valuable Advice from Workshop 5

Growth Companies: Capturing the Synergies between Entrepreneurs and Smart Capital

Held on Monday 31 October 2016

Executive Summary

Smart capital is the lifeblood of many early stage companies. But equally important are the ideas, commitment and passion of the entrepreneurs behind them.

So an interesting question is, how do investors and entrepreneurs work together to gain the greatest synergy from what each bring to the table?

We brought together a panel of four investors to tackle this and other questions. The discussion was chaired by Lowndes Managing Partner, Mark Lowndes. Unless indicated otherwise, questions came from the chair.

Note: The notes below are edited panellist responses and, in some places, paraphrased for clarity or elegance.



(L-R) Ross Finlay, Dana McKenzie, Debra Hall and Rudi Bublitz with Mark Lowndes (Chair)

The Speakers

Ross Finlay is Co-Founder and Director of Canada's First Angel Network Association. He is a board member of the National Angel Capital Organization (NACO), director of the Angel Capital Association (ACA), and Vice Chair of the Angel Resource Institute.

Dana McKenzie, Vice Chair of Ice Angels, New Zealand, is a “corporate refugee” who originally trained in computer science. She began investing in 2008 while in Switzerland. She was inspired by a legend in the angel investing arena, Brigitte Baumann, in the early days of setting up her Go Beyond organization and was part of Go Beyond's first investing group in France.

Debra Hall is an independent director, mentor and advisor, and was the first woman in South Africa to qualify as a Metallurgical Engineer. Debra holds various public and private governance and advisory board roles. She is on the Angel Association New Zealand Executive Committee and is an active angel investor.

Rudi Bublitz is Co-Founder of Flying Kiwi Angels. Rudi is a co-founder and 'chief cat herder' of Flying Kiwi Angels, and ADI.Clinic which provides founder advice between Queenstown and Whangarei. He has been investing in startups since 2010. He is a director of, now UK-based bookaPark, and US-focused Aisleworx, and he is on the advisory board of ANZ- crowdfunder Equitise. Rudi was the co-founder of a UK based SAP focused business, growing it from two to over 400 staff within nine years before exiting by trade sale in 1999.

What They Said

Q: Regarding investor involvement in a company, how much is too much or too little?

Rudi: What's important is that we want to invest in the people. The idea's important, but people are more important. You want to leverage your networks and resources to grow the business. Then trust the team to do the job.

Q: How do you build synergies between investor and entrepreneur?

Ross: They have to happen naturally. You can't force someone to be a mentor or to accept one. It comes when people are comfortable and respect each other. It starts early – sometimes at the first handshake. You're investing in the jockey, not the horse.

A good relationship builds over time. We have members that have relationships where they never even made the investment. But they still believe in the company.

Debra: I'm really interested in that last comment. We don't have good mechanisms for facilitating that in New Zealand. I get my jollies from mentoring people.



(L-R) Dana McKenzie, Debra Hall and Rudi Bublitz with Mark Lowndes (Chair)

Q: What is smart capital? Do investors and entrepreneurs see it the same way?

Debra: From the entrepreneur's perspective, it may be about being able to say "look at the smart money I have got; you need to invest too".

Founders often have little idea how much or little interference they'll get. The A team with the B idea will always win over the B team with the A idea. Part of smart money's job is to get the right people running the company, and that's often not the founder. I'm convinced that one of the skills of smart money is how to transition the founder into the right role and bring in the right people around him or her. That's not a technical or financial skill, but a social or EQ skill.

When a founder brings in an investor or smart money, they're selling their life and soul. I tell them, "don't think that because you're keeping 60% of company you're keeping control. That's not true."

Dana: Apart from the cheque you write, smart money means adding skills, experience and networks that the founder doesn't have. I've worked and lived in the US and Europe for a long time and I know that certain NZ startups can benefit from reaching out to partners in those geographies. If I can add that, that's smart money. It takes my money and the company further than other cheque writers might be able to.

Q: Has your perception of what you want to invest in evolved over time?

Dana: I hope I've got better at identifying people with intrinsic elements of greatness in them. I'm better at identifying people with that healthy obsession. With that in mind, sometimes I want to imagine I can complement the founder's skill set, but they're the one with the fire in the belly, who'll take the company to the next level. That hasn't changed.

What has changed is I'm a lot more careful about investing in companies that want to bootstrap; that is, the money will go where the business leads them, rather than into structures, etc. I'm also more careful about the dilution effect of the next rounds. I ask what should it look like for the founder or founding team so they keep the fire in their belly and continue to drive it through ups of downs.

Q (from audience): What detail do you go into to understand the people you're investing in?

Ross: Clear studies show that the longer you spend on due diligence the better results you'll have. We spend 40-80 hours on it, minimum. We've hired an analyst with access to competitor info, market data, etc, who's saved us money by discovering IP that the founder claimed didn't exist, for example.

Rudi: We do thorough due diligence. You can't pick winners, only avoid the likely losers. When a company pitches with us, it must have a champion – one of our angels who's looked under the hood, clarified a few things, knows that they would want to invest themselves, and now need collective due diligence. When we do that, we have 4-5 people participate, looking at different areas, sometimes going to code level (is it changeable, scalable?), can the next person run with it, is it on a platform where you can hire other people? If we don't understand the business we won't invest.

Debra: That's the most important thing. I go to investment evenings, and at least once each time I write on the feedback form, "after 10 minutes of presentation and 10 more of Q&A, I still have no idea what your business does. I'm out."

Having been through due diligence when a global company bought my business, we don't do due diligence like they do. Firstly, financials in early stage companies are mostly pie in the sky, a twinkle in someone's eye. But we do enough to make the people writing the cheques comfortable. We ask questions they would want answered.

Ross: Due diligence for us is not about digging for dirt. We're actually trying to find the gold – we know we're going to have to move some dirt to find it. It's also an education process for the entrepreneur; they've never been through it before. It's also relationship building and figuring out the terms of the deal. What do we need to ensure we're protected? If they're weak at governance, for example, we put that in the terms sheet.

Debra: Absolutely! Dirt's not a problem. It's about disclosing it. Failure is not a barrier. The question isn't "did you fail?", but "what did you learn from that?" Part of due diligence is on the people. Smart money brings the assumption that we're bringing more than money. The No. 1 thing I look for in a founder is are they coachable? More deals fall over on that in my sphere than on anything else. If you're a founder and get labelled as uncoachable by the funding community, good luck.



Ross Finlay

Dana: Often some members in networks don't have the bandwidth or curiosity that we, as active investors have – we have passive investors who follow the investment strategy of someone that they know. For them, due diligence may be a maximum of three hours. They rely on the fact that someone else has done the work. For them, it's more about who's already invested.

Rudi: We feel uncomfortable with passive investing. Sooner or later active investors will resent the passive investors as hangers-on.

Debra: Or passive investors will blame the active ones for failures.

Rudi: We screen our angels, and the first criteria is that you must be active; it could be by participating in weekly advice sessions, bringing deals to the table, participating in due diligence. We vote as a group whether to do due diligence – so our angels must look at each pitch and vote. For us "passive" doesn't exist. That's why we're a smaller group with only about 30 people.

Debra: That's why that's not the norm. There are about 550 members of angel clubs in New Zealand and only 1 in 7 spend more than a day a month on their portfolio. About 20-30 do the heavy lifting in the sector.

Q (from audience): Do any groups use psych tests, and if so what kind?

Ross: I haven't found one yet that works, but I hear there's one in New Zealand that I will be trying.

Debra: My view is that if we put founders – the good ones and the bad ones – through currently available tests, they'd just come out looking crazy. So when you administer the test you have to know what you're testing for.



Rudi Bublitz

Rudi: We've started doing that. It's not a binary outcome – a yes or a no – but one that helps you identify potential areas where you can provide something. We want to achieve a certain level of understanding and consistent assessment. The verdict is still open on its value.

Ross: Atlantic Canada is a small area – the same as New Zealand with fewer people. At our level, you can pick up the phone and make 3 or 4 calls and find out all you need. We don't do that enough I think.

Debra: We use that a lot in New Zealand! The key is to understand what drives the fire in the founder's belly. Then you can understand the support they need. We're trying to make people successful.

Q (from audience): What's the right level of involvement?

Ross: That's a conundrum. We try to make it easy for members to invest, so we do due diligence and set the bar for investment at just \$10,000. That raises the question, if the company needs guidance, do our investors give enough of a crap to get in and help? Are we setting up the entrepreneur to have a bunch of investors who don't care?

Rudi: We tackle that by encouraging investors to bring every single deal to the group. That gives you a much better opinion than one or two mates will give. In terms of dollars, I discourage people from writing big cheques on their first deal, but whoever becomes the investor representative on our side, we see that they represent the whole investment even if they've only invested a small amount themselves. Whoever writes the biggest cheque doesn't necessarily have biggest commitment to the company – they may just have deeper pockets.

Q (from audience): We see enterprises sold offshore when local funding is no longer enough. Is that a problem?

Debra: Not necessarily. When that happens, capital is invested with multiples back to New Zealand and reinvested in the sector. More than that, the expertise of the founders and investors gets recycled into the community. When Navman was sold offshore, it resulted in a whole lot of other startups in New Zealand. Green Button's capital gain (a double digit multiple) got reinvested in the startup sector.

Ross: ROI is not the best motivator in the world, but its way ahead of whatever's next.



Dana McKenzie

Dana: There's always an urge to compare New Zealand with other countries, especially the US and UK. I think New Zealand punches above its weight. For the last 10 years, the quality of benchmarking and monitoring and access to data and people who are accountable for fuelling the sector has been very good – not many economies in the world have it. New Zealand is similar to Singapore and Israel – similar principles are at work, and that's very commendable. Yes, we run out of money before accessing other markets, but we do incredible things as well.

Q (from audience): How does a founder get into speed dating/meeting angels?

Debra: Networks are incredibly important. I recently worked with an investor who was turned down by two investor groups. I said, "You know someone who'll invest in you. Go and find who it is." She came back three days later and said, "There is this guy, he was a director in a company I used to work in". I said "What took you so long to tell me? Why did we have to kiss so many frogs?" She said, "I don't know how to approach him". I said, "Invite him to coffee and I'll come". We had the coffee meeting and within two weeks she had all the money she needed.

Mark (Chair): Lowndes puts on these Business Intelligence Sessions because we're interested in business and love to hear what talented people have to tell us, and today has been no exception. So thank you, Ross, Dana, Debra and Rudi. And to those of you who come along to these series, thank you very much. We've been going fourteen years, and we enjoy this as much as we hope that you do.

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