

Punakaiki Fund Quarterly Report

December 2014

Welcome

Hello and welcome to the December 2014 quarterly report. This is just the third quarterly report for Punakaiki Fund, and we continue to be very happy with the progress of the fund and our investments.

Highlights

We continue to be pleased with the **fund's** performance, including:

- Mindscape grew █% quarter over quarter, and made a critical hire of Kevin White to lead their new US based office and head up marketing.
- Timely surpassed the \$█ annualised run rate milestone by giving staff and certain investors T-shirts with Dr. Evil emblazoned on the front. I have not been brave enough to wear mine yet. They hired Amanda Dorrell from Southgate Labs as their lead designer – a fantastic choice.
- InfluxHQ established their growth curve, ending with 28 paying customers.
- Vibe Communications launched Intellipath, making it trivially simple for ISPs and ICT service providers to quickly connect between data centres.
- Vibe placed 34th in the Deloitte Fast 50, a great result and their first time entering.

We had two successful fund raising rounds in the quarter:

- We concluded the November 2014 Option round with 98.4% of options being exercised, raising \$1.5 million at a price of \$10 per share.
- We raised another \$1.155m in the December 2014 subscription round, at a price of \$12.50 per share plus attached option. We took a low profile approach to this round, marketing the fund just once to potential investors on our mailing lists.

We made two new investments

- We purchased an additional 5% of shares in Vibe Communications from the founders, bringing our stake up to 24%.
- We placed a vanilla convertible note for \$█ with Social Code, a company that helps patients manage their care by connecting them with doctors, other medical professionals and family. This converted to equity with our Social Code investment in February 2015.

We ended the year with over \$2.1 million in uncommitted cash, but as always had built a very strong deal pipeline to match and exceed that number.



The Net Asset Value (NAV) is calculated strictly on the basis of the value as at the last round invested in each particular investee company unless we see that there is impairment, or if after external validation, there is a significant uplift. During the quarter the **Fund's NAV increased as a result of an increase in Vibe Communication's value following investment** initially by Rudi Hefer (CEO) and then by Punakaiki Fund, the exercise of the November 2014 options and the funds received from the December capital raise.

Commentary

The Net Asset Value of the fund at 31 December 2014 was \$4,622,611, with a little of the December round arriving after that date.

We delighted both with the response to the option raise in November and to welcome our new investors in December. That made us very busy with the dual tasks of paperwork and investing in the last two months, but we are also starting to ponder our next offering. We will, of course, always offer rounds to existing investors, but are investigating how we might reach some **of the smaller investors who participated in the original public offer. We've** talked to crowd funding platforms Snowball Effect and Pledge Me about this and will formally ask for your feedback before progressing to an offer, which would be in April at the earliest. There is still far too many investment opportunities versus funds at hand.

Vibe Communications, as does the entire wholesale telecommunications space, entered "lockdown" in mid December until mid January, where all network changes are frozen, essentially stalling new wholesale business. Meanwhile internet use at work and home drops of as we all enjoy the outdoors. But their quarter was up █% over the previous one so we are very happy with progress.

Timely had a tough November, but tough in their business means they grew at an average rate of █% per month or █% quarter on quarter. Mindscape grew customer numbers by █% and revenue by █%. InfluxHQ started to deliver – with 28 customers at year end, along with a baby boy (Aston) who was a little late to make the quarterly numbers. Mum and Dad (the founders) are coping very well with both matters. And finally we welcomed a late entry – Social Code – just before the end of the year.

Vibe Communications

Vibe Communications (Vibe) is an Auckland based ISP (Internet Service Provider) that provides wholesale and corporate telecommunication services to businesses in New Zealand.

What's New: Vibe has continued to grow strongly while putting in place a refreshed business strategy. Highlights from the last quarter include:

- Quarter on quarter revenue growth of █%;
- Placed 34th in Deloitte Fast 50 and 189th in Deloitte Technology Fast 500 Asia Pacific;
- Identifying an opportunity to focus on being a wholesale service provider, effectively acting as a wholesaler to wholesalers. As part of this strategy, Vibe has made the decision to exit the consumer retail market and adopt a passive growth strategy in



respect of the corporate Internet market, relying on only organic or word of mouth growth;

- Moving into software-led telecommunications and carrier automation, including undertaking a full refresh of its Wholesale Portal;
- Partnering with Vadamcom to incorporate PBX into the Wholesale Portal. This move has been well received by wholesalers;
- Announcing the Megaport infrastructure deal during the quarter, which has the **potential to significantly increase Vibe’s revenue derived from Trans Tasman** bandwidth. Read more about the Megaport deal here:
<http://www.geekzone.co.nz/content.asp?contentid=17053>
<http://www.reseller.co.nz/article/558524/megaport-partners-vibe-break-down-nz-connectivity-barriers/>
<http://www.geekzone.co.nz/content.asp?contentid=17065>
- The Intellipath (bandwidth on demand) offering continuing to be very well received by market. Vibe is targeting connections to 15 NZ data centres by the end of February. Vibe has also been working with NextGen in Australia to access up to an additional 60 data centres in Australia, in addition to the current 35 Megaport data centres which it already has access to;
- Pursuing opening a full time office in Australia; and
- Punakaiki Fund invested a further \$█ in existing shares to increase its holding by 5% to 24.02%. These shares were purchased from founders Davey Goode and Barry Murphy.



Mindscape

Mindscape is a Wellington based creator of developer tools. The engine of their growth is Raygun.io, a dev-ops tool that automatically tracks errors and crashes in applications across a wider range of platforms including PCs, the web and mobile devices.

What's New: Mindscape's Raygun.io product is continuing along a strong growth trajectory. Recent highlights include:

- Quarter on quarter revenue growth of █% (average monthly revenue growth of █%);
- New net customer growth of █% quarter on quarter;
- Making a first significant sale to a large customer, with further potential large customers in the sales pipeline. This sale generates \$█ in monthly revenue; and
- Hiring Kevin White to be Chief Marketing Officer and the lead of US operations. Kevin has previously built sales and marketing teams at two successful developer tool companies (Dev Express and Component One).

In the quarter ahead, Mindscape will look to establish an office in the US, having already established a U.S. subsidiary. After setting up the office, Mindscape will look to hire 5-6 additional U.S. sales & marketing focused staff over the coming six months.

Influx

InfluxHQ Limited (Influx) is a Wellington based provider of software for gym owners and their clients to manage and self-manage their classes. They aim to provide the simplest fitness business software.

Timely

Timely provides appointment booking services to beauty salons, hairdressers, spas, consultants and personal trainer.

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- Winning the Emerging Business Award at the OBIZ awards:
<http://www.otagochamber.co.nz/about-us/obiz-awards-2/>

Timely in the media:

<http://www.odt.co.nz/news/dunedin/325324/there-will-be-flexibility-do-anything-anywhere>



Social Code

In December, Punakaiki provided \$█ of funding to Social Code in the form of a convertible note as a precursor to a subsequent equity round (as announced on 7 February 2015).

Social Code has created software which empowers people to take control of their health by giving them the right tools, support and information to manage their condition by combining private social networks, clinical support, video appointments, health tracking, data integration, resource libraries and goal setting in a simple to use package which can be accessed across numerous platforms including mobile device.



Social Code has won numerous accolades to date, including its mobile application Code Blue being the Grand Prize Winner of the 2014 Mobileys Awards, being selected as a finalist in the Health Technologies category for the first-ever SXSWV2V Venture competition (based in the US) and being named among Entrepreneur Magazine's 100 brilliant companies of 2013.

We will provide more information on Social Code in the next quarterly report, but in the meantime please visit their website: <http://socialcode.io/>



Corporate

Financial Reporting

Punakaiki's unaudited financial summary metrics are set out in the tables below. Financial highlights from the quarter include:

- An opening cash balance on 1 July 2014 of \$14,215;
- \$1.500m received from the exercise of the November 2014 Options (98.4% take-up);
- \$1.065m received from the issue of new shares and options by 31 December 2014 (a total of \$1.155m was raised from this round, with the balance received after 1 January 2015);
- A \$X follow on investment in Vibe Communication;
- A \$X investment in a convertible note in Social Code;
- Management fees of \$16,905 including GST paid to LWCM for the September 2014 and December 2014 quarters;
- Brokerage of \$44,999 paid to LWCM in relation to the exercise of the November 2014 Options;
- A closing cash balance of \$2.122m; and
- **A recorded uplift in the Value of Punakaiki Fund's holding in Vibe Communications** of \$X based on the value implied by an investment by new CEO Rudi Hefer (and subsequently by Punakaiki Fund).

Expected Outflows for the March Quarter

Significant investment cash outflows are expected for the March quarter as Punakaiki Fund deploys its capital into several investments currently being investigated. In addition, the payment of the March quarterly Management Fee to LWCM (\$26,580.01 - including GST) and the payment of a brokerage fee to LWCM (\$34,650.00) in relation to the December 2014 capital raise will also be made. For clarity, the management fee is calculated using the NAV at the beginning of each quarter.

Capital Raising Plans

There are no immediate plans to raise any additional capital in the current quarter, however LWCM is engaged in the on-going investigation of capital raising options including the use of crowd funding. The final tranche of options issued in April 2014 are due to expire on 30 June 2015 and their exercise may raise up to \$1.8m.

Disclosures / Conflicts

With the exception of the following, none of the directors of Punakaiki Fund or the managers of LWCM has any additional disclosures or conflicts of interest to declare:

- Lance Wiggs is a current (and satisfied) residential broadband customer of Vibe Communications.



Contact

If you require any further information regarding Punakaiki Fund, please contact Lance Wiggs at LWCM in the first instance.

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Where has the **Fund's** money come from?

The short answer is Auckland (45%), but a closer look at the data shows a number of provinces punching above their weight. Our shareholders from Nelson have invested 3.9 times what we might have expected given the size of their regional economy. Likewise **Hawke's Bay** (1.6x) and Wellington (1.6x) are also over-represented. Canterbury is conspicuous by its low level of investment, holding just 2.1% of the fund compared to their 13.2% share of national economy, while Manawatu-Wanganui is not represented at all.

