

Punakaiki Fund Quarterly Report

June 2014

Welcome

Hello and welcome to our first quarterly report. The quarter has been a watershed one for the Fund, successfully completing its first capital raising and making its first four investments. We are very happy with the fund's progress to date.

Highlights

During the quarter we completed the raising of \$1.525m from 56 private investors. We issued 152,500 Shares along with the two sets of Options expiring in November 2014 and June 2015.

We invested essentially all of the proceeds (after brokerage), and now own:

- 20.00% of Vibe Communications, a corporate and wholesale ISP;
- 4.71% of Timely, an appointment booking SaaS company;
- 18.33% of InfluxHQ, who have a SaaS gym management solution; and
- 5.26% of Mindscape, developer of Raygun.io, which tracks software errors.

We like that we completed these deals for a total cost to the fund of just \$1,768 in legal fees.

We are very pleased with the performance to date of these companies. Examples of progress include:

- A 45% increase in Vibe's recurring revenue in the six months between February and July.
- A 50% increase in Timely's recurring revenue in the three months to the end of July.
- A 126% increase in Mindscape's Raygun.io recurring revenue in the last four months.
- An over 100% increase in Influx's recurring revenue between March and July – although tiny numbers.

All four companies have hired more staff, and high quality people too. Vibe have bought on board a former senior Telecom Wholesale staffer Rudi Hefer, who can construct deals for both buying and selling wholesale capacity, and we have some ambitious plans beyond that. Timely hired Dave Curlewis, the Head of Database at Trade Me, as well as award winning salon owner Larissa Macleman. Mindscape hired three people, and after the end of the quarter Influx hired their first person, Bradley Simpson (Rowan Simpson's brother – see the Timely overview below) who is a fitness professional, and is off to a great start in his sales role.

This update is very late, and I apologise for that. I'm currently in Europe and apparently working on your honeymoon is just not the done thing.

But I'm still keeping an eye on the next wave of potential investments, with several that appear very promising. Once again I'm not making any promises to companies before we have cash in hand.



Punakaiki Fund Limited - Investments				NZ\$
Company	Shareholding	Invested	Current Investment Value	Total Company Equity Value
Vibe Communications	20.00%	300,000	300,000	1,500,000
Timely	4.71%	650,001	650,001	13,800,446
Influx HQ	18.33%	110,000	110,000	600,109
Mindscape	5.26%	400,000	400,000	7,604,563
Cash			15,953	
Total		1,460,001	1,475,954	23,505,118

Please keep these exact numbers confidential. Shareholding percentages will change over time as new investors arrive and/or employee shares are granted.

The Net Asset Values (NAV) are, as we promised, calculated strictly on the basis of the value as at the last round unless we see that there is impairment, or if after external validation, there is a significant uplift.

Commentary

We believe that our portfolio is performing very, very well, and that the NAV reported is significantly lower than the intrinsic value of the investments.

In particular we note that the implied value of Vibe Communications of \$1.5 million is under a third of their current revenue run rate. They are a growing company, with a (now) comfortable debt position and so we are very bullish on their value, and note that comparable companies trade at significantly higher multiples.

Mindscape and Timely are, in our opinion, on a relatively well-worn path, which, if followed, would see them look for further investment rounds at substantially better value in 9-15 months from today. Both are lead by very cost-conscious people who are using their money very wisely. Mindscape, for example, are not hitting their target monthly net spend as their revenue growth has exceeded forecasts, while Timely are investing most of the capital they raised into growing the sales and marketing team.

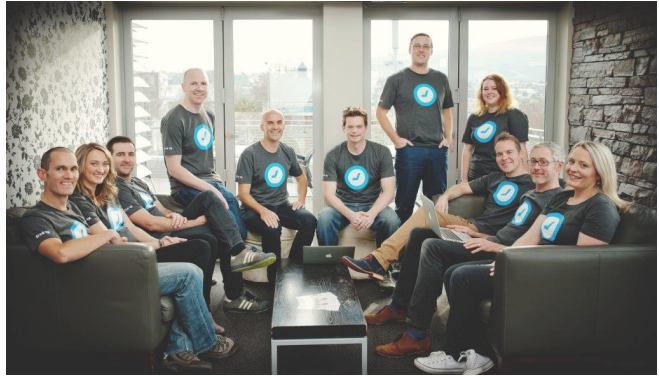
It's very early days for InfluxHQ, and we expect it will remain unproven for a few more months as well. They have switched focus from just Crossfit gyms, who are proving to take a long time to make decisions, to other gyms, and that's increased their addressable market substantially. It's still an earlier stage investment than the others and they now need to deliver on increasing sales.

We look to updating you with more of the same in our next quarterly report.



Timely

Timely provides appointment booking services to beauty salons, hairdressers, spas, consultants and personal trainers, and are a copybook SaaS company in the spirit of Xero and Vend. The company was founded by Ryan Baker and Andrew Schofield in December 2011 and since then has grown significantly, now boasting 10 (at the end of June) staff spread across a number of different locations including its headquarters in Dunedin.



The team at Timely

The post-investment Timely Board is being formed, with Ryan and Andrew likely to be joined by Rowan Simpson and one other. Rowan invested in Timely a year before we did and holds 13.8% of the company.

New Investment: We led Timely's second external investment round, investing \$650,000 for a 4.71% stake in the company. This investment was matched by professional investors David and Nicki Wilson who, along with Rowan Simpson, also invested in Xero, Vend and Pacific Fibre (Lance Wiggs invested in the last two as well).

This capital raise provided Timely with \$1.3m of new capital, which will fund the on-going growth of the business in the medium term. Punakaiki Fund's investment in Timely valued the business at \$12.5m before the investment was made.

What's New: As we expect, Timely continues to grow strongly. Highlights from the last quarter include:

- Quarter on quarter revenue growth of 45%;
- Average monthly revenue growth of 13% over the quarter;
- New net customer growth of 39% quarter on quarter;
- Receiving a Highly Commended award in the Start-up category in the New Zealand Hi-Tech Awards;
- The NZ Association of Registered Beauty Therapists selecting Timely exclusively to promote to their members;
- Increased staff to 10;
- Is looking to hire for eight newly created positions;
- On the tech side, improved the product offering with the following changes:
 - New & improved registration page;
 - Two-way sync with Google Calendar;
 - Invoice discounting; and
 - Multiple bookings on invoices.



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. They have a strong technical reputation, and use their networking and procurement deal skills to provide high quality service to other ISPs and ICT service providers. They are most comparable to an early version of Australia's Vocus, which is now listed on the ASX. The company's "just make it work" approach to deliver customers high quality, high speed connections has seen Vibe grow quickly in recent years.

The company was founded in 2008, but the current owners Davey Goode and Barry Murphy gained control only in the last few months. They have a staff of 10 and a significant list of satisfied customers. The Directors are Davey Goode, Barry Murphy and Lance.

Investment: We were very pleased to be the first external investor in Vibe, investing \$300,000 for a 20.00% stake by purchasing shares from Barry, Davey and their associated trusts. The investment was used to clear their own short term loans to Vibe, which they incurred after buying out the former major shareholder. The company, as well as Barry and Davey, is now on a sound financial footing.

What's New: Vibe has continued to grow strongly. Highlights from the last quarter include:

- Quarter on quarter revenue growth of 17%;
- Significant network upgrades through the purchase of equipment ; and
- Hiring Rudi Hefer (formerly of Telecom Wholesale), who will accelerate deal making.

Importantly, Vibe has a number of exciting new opportunities available to it in the near term, but we will keep quiet on those until they happen.



Mindscape

Mindscape Limited (Mindscape) is a Wellington based developer of well-regarded developer tools for the Microsoft platform. Their latest product and 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. It helps companies find errors faster, and fix them more quickly, by telling them the exact line of code where the software error occurred.

Mindscape was co-founded by John-Daniel (“JD”) Trask (indirect 42.5% owner) and Jeremy Boyd (indirect 41.2% owner) in 2007. The Board comprises JD Trask, Jeremy Boyd and Ben Kepes (as the shareholder director). Ben is stepping down as a Mindscape director in order to help the company in a more hands-on manner, especially around its marketing initiatives. Michael O’Donnell (“Mod”), who is leaving his job as head of Trade Me Operations, is being appointed in his place. Mod is also friend and very smart guy – so we are very happy with this appointment.



Ben Kepes, Hilary Cook, John-Daniel Trask, Jeremy Boyd and Zheng Li at the New Zealand Hi-Tech Awards.

Investment: We were pleased to be part of Mindscape’s first external investment round, which was closed prior to Punakaiki Fund completing its own initial capital raising. The round was reopened for us and Punakaiki invested \$400,000 for a 5.26% stake in the company. We joined Michael O’Donnell, Ben Kepes, Nick Lewis and 12 other new shareholders.

This capital raising provided Mindscape with \$1.4m of new capital to fund the on-going growth of the business and Raygun.io in particular. Punakaiki Fund’s investment in Mindscape valued the business at \$6.3m before the investment was made.

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

- Raygun.io revenue growth of 126% over the last four months;
- Average monthly revenue growth of 23% over this period;
- New net Raygun.io customer growth of 98% over the last four months;
- Winning the Hi-Tech Innovative Software Product of the Year category in the Hi-Tech Awards;
- Being awarded a grant from Callaghan Innovation to meet 45% of Mindscape’s R&D expenditure over the next 15 months, representing \$540,000 in funding;
- Increasing staff to 10, an increase of three from the start of the quarter;
- Signing a lease for a new office on Cuba Street in Wellington with room for 20-25 staff; and
- Raygun.io processing its **billionth** error.

Mindscape has also featured recently in the media. You can read about them here:

<http://www.stuff.co.nz/business/unlimited/10002658/Tech-firm-fast-tracks-growth>

<http://www.stuff.co.nz/technology/digital-living/60300218/kiwi-software-detects-a-billion-bugs>



Influx

InfluxHQ Limited (Influx) was founded as a Wellington based provider of software for Crossfit Gym owner-operators to run their gyms. Crossfit gyms are typically small and have several classes a day of up to 15 people per class. As the content of the classes changes from class to class and day to day, gym administration is generally very demanding on gym owners. Influx solves this problem by providing software which is able to be easily used by the gym owners on a smartphone or tablet without the need for specialist technical know-how.

They subsequently extended their offering to other gyms with large groups of people taking classes, seeing themselves as the “Simplest Fitness Business Software”.

Influx was founded by Scott Mayo, and was joined after the investment full time by his wife, Dania Mayo. Scott worked on Influx for a year and a half before the investment, and brings almost 10 years of experience from developing software for Les Mills International - the world's leading provider of gym programs. Together Dania and Scott own 70% of Influx. Influx's directors are Scott, Dania and Lance.

Investment: Punakaiki Fund acquired 18.33% of the company for \$110,000. We lead this round, which was otherwise a “friends and family” round with the remaining 11.67% of the company not held by the Mayo's acquired by their relatives. This capital raising provided Influx with new capital to fund the on-going growth of the business and the ability to hire their first employee. Punakaiki Fund's investment in Influx valued the business at \$490,000 before the investment was made.

What's New: Influx is still at a very early stage of its growth path. Recent highlights include:

- Influx's software now out of beta status;
- 12 paying customers at the end of July;
- Signing a deal with Wellington City Council, signalling Influx's extension into non-Crossfit Gyms and larger gyms.
- Hiring their first employee, who is dedicated to sales and off to a great start; and
- A target to reach 100 customers by the end of the year.

Co-founder Dania Mayo is now pregnant, and that will mean Influx may need to build the team a bit faster than anticipated (although Dania says not). Congratulations to Dania and Scott.



It's not just about the returns...

At Punakaiki Fund, we love great people who turn great ideas into great products and services. The companies that these founders grow provide us with opportunities to make great returns. But they also do good things for the country, in particular creating new, high paying jobs.

The New Zealand Herald recently carried an article on job creation in the New Zealand economy which illustrated that while new companies (those under five years old) employed one in every five employees between 2001 and 2009, there were actually responsible for 53% of all new jobs created. That's an incredible contribution to the New Zealand economy and one which we are very mindful of at Punakaiki Fund. You can read this article here:

http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11282474

We will periodically look at how our portfolio companies are contributing to the creation of jobs. Here's a snap shot at the end of June:



Founded: 2011

Employees (including Founders): 10 (at the end of June)

Intentions: Now hiring – 16 staff today



Founded: 2007

Employees (including Founders): 10 (3 new)

Intentions: Now hiring



Founded: 2008

FTE Employees (including Founders): 9

Intentions: Now hiring – 11 staff today.



Founded: 2012

Employees (including Founders): 2

Intentions: 1 hired since then, no more hiring for now

That's 31 jobs as at the end of the quarter - and growing every month.



Corporate

Financial Reporting

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

- Nil opening cash balance on 1 April 2014;
- Raising \$1.525m in new capital in April 2014;
- Investing \$1.460m in four new investments during the quarter;
- The payment to LWCM of \$45,750 in brokerage in relation to the April 2014 capital raise;
- The payment to LWCM of a quarterly management fee of \$7,010.18 including GST; and
- A legal advisory expense in relation to investment contract forming of \$1,768 (paid after the end of the quarter).

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 30 June 2014	NZ\$	for the quarter ending 30 June 2014	NZ\$
Current Assets		Operating Cash Flows	
Cash on deposit	15,953	Net Interest received	3,828
Non-current Assets		Bank fees	(36)
Investment in Timely	650,001	Payments to external advisors	-
Investment in Mindscape	400,000	Payments to LWCM (Management Fee)	(7,010)
Investment in Vibe Communications	300,000	Payments to LWCM (Brokerage)	(45,750)
Investment in Influx	110,000	Total Operating Cash Flows	(48,968)
Total Assets	1,475,955		
Current Liabilities		Investing Cash Flows	
Accounts payable	1,768	Investments made	(1,460,001)
Non-current Liabilities	-	Investments realised	-
Equity		Dividends received from investments	-
Retained earnings	(50,736)	Total Investing Cash Flows	(1,460,001)
Share capital	1,524,923		
Total Equity and Liabilities	1,475,955	Financing Cash Flows	
		New capital received	1,524,923
		Dividends paid	-
		Total Financing Cash Flows	1,524,923
		Total Cash Movements	15,953
		Opening cash balance	-
		Closing cash balance	15,953

April Capital Raise

During the Quarter, Punakaiki successfully raised \$1.525m from 56 private investors, issuing 152,500 Ordinary Shares, 152,500 November 2014 Options with a strike price of \$10 and 152,500 June 2015 Options with a strike price of \$12.

Expected Outflows for the September Quarter

No additional investments are expected to be made in the September quarter. Expected cash outflows for the quarter are expected to be limited to the payment for legal advice provided by Buddle Findlay (\$1,768.13) and the payment of the quarterly Management Fee to LWCM (\$8,476.57 - including GST).



Capital Raising Plans

LWCM has identified a number of additional growth companies which may provide Punakaiki Fund with attractive investment opportunities. In order to pursue these and other investments, Punakaiki Fund is investigating raising additional capital in October/November. While the form of the capital raise has not been finalised, it is likely to be a private offering similar to the April capital raise. Existing Punakaiki Fund shareholders will have priority entitlement to invest new capital into Punakaiki Fund.

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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Punakaiki Fund Investments

