

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 █% increase in Vibe's recurring revenue in the six months between February and July.
- A █% increase in Timely's recurring revenue in the three months to the end of July.
- A █% increase in Mindscape's Raygun.io recurring revenue in the last four months.
- An over █% 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.

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 \$■ 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 team at Timely



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 \$█ 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 █%;
- 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 \$█ 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 \$█m 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 \$█ 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 █% over the last four months;
- Average monthly revenue growth of █% over this period;
- New net Raygun.io customer growth of █% 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 █% of Mindscape’s R&D expenditure over the next 15 months, representing \$█ in funding;
- Increasing staff to █, 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 █ 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.



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).

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

