

Punakaiki Fund Limited

March 2016 Quarterly Report

Welcome

It's the end of the 2016 financial year, and that means portfolio revaluation time. I'm pleased to say that your Board is doing its job very well – with Mike Bennetts, John Berry and Bryan Hutchins applying considerable time and diligence to the fund. We thank them.

In our very robust Board meeting last week we went through in detail a comprehensive (122 pages) valuation document prepared by LWCM (that means Chris). The Board made a couple of small changes to values, one larger adjustment to be fairer to existing shareholders, and approved the valuation of the assets. The report is passed on to our auditors in both draft and finished form.

The net asset value per share* (NAV) has risen from \$15.80 at December 31, 2015 to \$17.09 at 31 March 2016. For clarity, if we were to do a share offer in March we would have added 3% brokerage to get \$17.62 per share, compared with the \$16.17 per share price used in the last offer.

We are very happy with that progress, which was in the face of a 20% downward market correction for globally listed Software as a Service companies during the quarter. We also wrote the value of one company significantly down in our valuation. But we also saw some companies move up strongly and overall we feel very comfortable that we have maintained a conservative and robust approach.

The fund is now managing gross assets of \$18.2 million, including \$1.4 million of cash at the quarter end. We made three investments in the quarter – the second tranche of the Mobi2Go investment, and new investments in Melon Health and Raygun. Expect more excitement soon.

Portfolio performance is strong - we saw equity-weighted revenue for the quarter grow by over 60% from a year ago, and the equity-weighted annualised revenue now exceeds \$7.5 million.

We have some more work to do on the year-end process, including finalising accounts and that audit, and then we will deliver the annual report. Until then please treat the numbers in this document as interim – we reserve the right to change them.

We have updated the Punakaiki Fund website's governance section, and uploaded the new Board Charter for your reading delight. It's one of several new policies that we have developed, and more are coming as we navigate our path towards IPO.

We thank you, as always, for your support and encouraging words. We hope to get out to cities across New Zealand to present to and meet more of you during this year.

Lance

*Previously we have reported the NAV used to calculate the management fee. That price does not include all of the contingent liability for the performance fee (just the 28% representing cash), and it should, so now it does.



Vend

Vend provides cloud-based point-of-sale and retail management software which includes ecommerce, inventory management, customer loyalty and analytics, and integrates with payments, accounting and other business applications.

What's New: Vend continued to grow strongly during the quarter. Highlights for the March quarter include:

- Significant improvements made to functionality of the Vend sales register for Mac & PCs.
- Functionality for the 'pro' service improved, including the addition of user permissions and with a lot more to come;
- Founder Vaughan Rowsell has stepped down as CEO and assumed the role of Chief Product Officer. He has handed over to CFO Alex Fala, who has assumed the role of acting CEO while recruitment for a replacement CEO is underway. Vaughan and Alex are both really enjoying their new roles.
- Pene Barton joined as Chief People Officer; and
- Finalist in the 2016 NZ Hi-Tech awards for Innovative Hi-Tech Software Product (head to head with Timely) – the winner will be announced at the High Tech Awards Gala Dinner on 20 May. LWCM is hosting both Vend and Timely at our table – so that will make for interesting times.

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 continued to grow during the last quarter. Highlights include:

- Quarter on quarter revenue growth of █% (that's an annualised rate of over █%);
- Launching IntelliPath in Australia in partnership with NextGen;
- Winning a large Chinese content delivery network contract including the provision transit services of racks hosted in Wellington;
- A number of part time and contracting staff becoming permanent employees; and
- Engaging John Wiggs, Lance's brother, to assist with the launch of Intellipath with NextGen in Australia.



Raygun

Raygun is a Wellington-based creator of developer tools. The engine of their growth is Raygun Crash Reporting, a tool that automatically tracks errors and crashes in applications across a wide range of platforms; and Raygun Pulse, a tool which offers Real User Monitoring, which provides insights into the performance experience users are having on a website/ application.

What's New: Raygun continued to grow strongly during the quarter. Recent highlights include:

- Quarter on quarter revenue growth of █%;
- New net customer growth of █% quarter on quarter;
- Work progressing on some significant software improvements, which are expected to be released this quarter;
- Completing a significant capital raising, in which Punakaiki Fund participated;
- CEO JD Trask re-locating to Seattle to establish the company's US sales team, with the hiring process well underway. This push into the US is expected to result in higher revenue growth over time; and
- Lana Vaughan being promoted to General Manager of New Zealand.

As discussed above, Raygun has recently raised additional capital. This capital was raised at a valuation which implied a nearly four times increase in the value of Punakaiki Fund's initial investment in Raygun.

Onceit

Onceit is an on-line daily deal site primarily offering clothing, beauty, gifts, homewares and accessories and selling high end New Zealand designer fashion at insider prices. Onceit is profitable and pays dividends.

What's New: Onceit moved into the quieter post-Christmas period during the quarter although they still managed to close out a record financial year. Highlights from the March quarter include:

- Quarter on quarter revenue growth of █% (although we note that revenues for the quarter were █% ahead of the same quarter last year);
- Recording its second best ever sales month (March);
- Moving to increase stock inventory, which will allow Onceit access to larger buying deals and brands Onceit couldn't otherwise access; and
- Expanding their sales team.

Lance, who is a director of Onceit, visited the new Onceit warehouse in Avondale and did a safety walk with the operations manager. The rapid rate of improvement in Onceit's logistics is evident – their average time to deliver is falling even as the sales are rising.



Timely

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

Boardingware

Boardingware helps boarding schools manage their students' movements and pastoral care using a SaaS product accessible by schools, teachers, parents and students.

What's New: As Boardingware moved into the new southern hemisphere school-year, it continued to add schools to its customer base. Highlights from the December quarter include:

- Quarter on quarter revenue growth of █%;
- New net customer growth of █% quarter on quarter;
- Releasing a number of software improvements including school-wide management (for large schools with multiple boarding houses), advanced information filtering capabilities, Insights (an analytics feature that gives schools the ability to aggregate all the data they're recording through Boardingware to see trends in student leave, pastoral and roll activity) and introducing the roll-checks function to the web app;
- Signing up their first South African school; and
- Replacing their US sales-lead and bringing on board a UK-based sales-lead.

Boardingware was one of three companies that were approached last quarter by external parties looking to invest or acquire. These approaches typically run in the same path, and in Boardingware's case the counterparty never presented an offer grounded in reality, which was disappointing, but not necessarily unexpected. At PFL we remain very content with our long-term buy and hold strategy, and the impressive Boardingware founders learned a lot and gained considerable motivation from this process.



Melon Health

Melon Health is a Wellington based provider of software which assists with better health outcomes for individuals by giving them on-line platforms which provides the tools, support and information to help manage their condition.

What's New: Melon Health had a busy quarter as it completed its capital raising activities and continued ramping up its effort both at home and abroad. Features of the quarter included:

- [REDACTED] (again, expect the lumpiness to continue);
- Strong interim results in the New Zealand pilot for pre-diabetes;
- Progressing towards starting a pilot with a large US health care provider;
- A Digital Diabetes Review from the US showing Melon Health ranked highest in terms of engagement, and fourth overall;
- Continuing on-going discussions with a number of large healthcare providers / insurers in respect of undertaking pilots;
- Completing a fully subscribed rights issue to existing shareholders (together Punakaiki Fund and K1W1 subscribed for all of the shares not taken up by other shareholders); and
- Continuing work towards their next significant round of capital raising.

The New Zealand pilot for pre-diabetes patients results included very high rates of patients losing weight (94%), reducing HbA1C (a diabetes marker – 91%), reducing BMI (Body Mass Index – 94%) and reducing waist measurements (87%). In addition, 78% of patients no longer have pre-diabetes and 59% of patients now have normal blood pressure. These results are simply outstanding – the benchmark hurdle for excellence was 20%, and we commend the Melon Health mHealth system to all health care providers.

EverEdgeIP

EverEdgeIP Global Limited (“EverEdgeIP”) is an intangible asset advisory and transactions firm, with an increasingly global footprint. It has consulting, advisory and transaction arms and offices in New Zealand, Australia, UK and USA.



ThisData

Formerly Revert, ThisData was originally a cloud backup company, backing up and restoring data held by SaaS products. ThisData is now provides a login security SaaS product primarily targeting high growth SaaS businesses.

What's New: This quarter ThisData made a major marketing push for its new software. Highlights from the March quarter include:

- Narrowing ThisData's focus for their security engine to concentrate on login intelligence for any company that has a login page to their application;
- New pricing starting from \$█ per month being put in place;
- The first new customers for this product have on-boarded; and
- Having a Callaghan grant approved.

ThisData's new login security product works by detecting when a user logs into a customer's site from a new phone or location. The software then sends that user an email saying that unusual activity on their account has been noticed and questions the user whether or not it was them. Unauthorised use can then be detected and escalated as appropriate. It's just as Google and Facebook do - but for any SaaS business.

Mobi2Go

Mobi2go helps food service businesses sell more by adding an ordering function to their marketing website, which is able to collect payments and route orders through to the kitchen.

What's New: Mobi2Go continued to grow during the quarter and began a period of significantly increasing the size of their team. Highlights for the recent quarter include:

- Quarter on quarter revenue growth of █%;
- New net customer growth of █% over the quarter;
- Significant increases in staffing levels to improve capability and hasten the development and release of features that will improve Mobi2Go clients' revenues. Additional staff will be hired in the June quarter to bolster Mobi2Go's sales and on-boarding capabilities;
- Adding the saving of credit card detail (for ease of repeat purchases) across 10+ supported payment gateways;
- Advanced delivery mapping functionality entering into the final stages of development;
- The introduction of a "Enterprise +" plan for larger clients which includes additional services such as 24 hour phone support and a dedicated account manager; and
- Receiving an IDG grant from NZTE help accelerate the investigation and setup of a Sales and Support office in Toronto, Canada.



Weirdly

Weirdly helps companies that actively recruit people to find better applicants, and also reduce the effort required to manage applicants through the use of innovative software.

What's New: Weirdly, albeit still from a relatively small base, strongly grew revenues during the quarter. Highlights from the March quarter include:

- Quarter on quarter revenue growth of █%;
- New net customer growth of █% over the quarter;
- Securing a number of large customers including well-known New Zealand brand names;
- Starting investigations into US sales, with a goal of securing Weirdly's first US sales in the June quarter; and
- Travelling to the US to establish relationships which lead to Weirdly's first integration into large, overseas sales channels.

RedSeed

RedSeed helps large retailers and suppliers train their staff by combining professionally created training videos with a SaaS Learning Management System.

What's New: RedSeed had a busy quarter. Highlights from the December quarter include:

- Quarter on quarter revenue growth of █% - in part the result of one large client paying once every six months (in the previous quarter), offset by solid underlying revenue growth;
- Moving all customers to monthly license / subscription pricing. Any customer who requires additional RedSeed products will now simply incur an increase to their monthly payment amount;
- Securing a number of new, well known customers and resigning two significant existing customers; and
Shaun Ryan (founder and former CEO of SLI Systems) joining the Board as an independent director. SLI Systems is based upstairs from RedSeed in Christchurch's EPIC Centre.



InfluxHQ

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

Mindfull

Mindful is an IBM Premier Business Partner who resells, implement and support IBM's TM1 business intelligence, financial performance, strategy management and analytics application software. It has also developed a number of pieces of supporting software.

What's New: Mindfull had a busy quarter. Highlights from the March quarter include:

- Quarter on quarter revenue growth of █% - which was very strong given the slowdown in Mindfull's business over the summer break period;
- Continuing to add large new clients including New Zealand household names;
- Developing the Qubedoc NOW product, which will allow users to install the product and use it on a once-off basis by paying for it by credit card;
- Accessing Callaghan R&D matched funding to assist with improvements to MindFull's Qubedocs and Mi Predict software products; and
- Continuing to grow the team by adding four new employees and looking to add another five in the June quarter.



In the News

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Corporate Update

Governance

The Board of Punakaiki Fund's last meeting was held on 6 May to consider among other matters:

- Reviewing the valuation of Punakaiki Fund's portfolio prepared by LWCM for the purpose of financial reporting;
- Determining the valuation of Punakaiki Fund's portfolio;
- Approving this quarterly report.

The Board spent considerable time before and during the meeting on the valuation of the portfolio (a 122 page document prepared by LWCM that valued companies based on recent material investments, analysis of comparable companies) and on the consideration of company financials. The Board requested two small changes to valuations and some other changes to the report, which is sent to the auditors in both draft and final form. The Board, noting that one valuation based on the last investment by an external party was much lower than the fair value of the company, split the difference and increased the asset value accordingly.

The Board determined that the total asset value, including investments and cash, at 31 March 2016 was \$18.2 million, and the Net Asset Value (after provisioning for performance fees) was \$17.4 million. The detailed numbers are below.

The Board's next meeting is scheduled for early August 2016.

Chairman Mike Bennetts commended the rigour of the valuation report and the board process. He was pleased to see that the uplift in value of investments by \$1.7 million from December 2015 to March 2016 was delivered due to both strong company growth and diversity of the portfolio, which provided robustness against market downturns for SaaS valuations. He also said that the board has a strong emphasis on risk management and is unafraid, as happened in this case, to write-down values of individual investments where warranted.

Financial Reporting

The exact Net Asset Value of the fund at 31 March 2016 was \$17,886,094, a material increase from the 31 December 2015 Net Asset Value of \$14,953,538 (the Net Asset Value after the deduction of the full contingent performance fee was \$17,114,885). During the quarter, final payments were received from the December 2015 private offer.

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 January 2016 of \$1,260,097;
- New capital of \$1,449,525 was received from the final investments in the December 2015 Private Offer (this offer closed on 31 January 2016 and raised a total of \$2,216,775);
- \$14,400 was received on behalf of shareholders who sold their shares and was subsequently paid to those shareholders in February 2016;



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- \$[REDACTED] was invested in Mobi2Go, Raygun and Melon Health;
- \$1,705,581 was recognised as an increase in the value of Punakaiki Fund’s investments at the end of the March 2016 quarter compared to those values recorded in Punakaiki Fund’s December 2015 quarterly report (i.e. as at 31 December 2015). This change in valuation relates to the Punakaiki Fund portfolio revaluation and reflects changes in valuations (both up and down) across a number of investments;
- Management fees of \$85,989 including GST were paid to LWCM;
- Brokerage fees of \$67,246 were paid to LWCM in relation to the December 2015 capital raising;
- \$5,529 was paid for accounting and legal services; and
- A closing cash balance of \$1,437,237.

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 31 March 2016	NZ\$	for the quarter ending 31 March 2016	NZ\$
Current Assets		Operating Cash Flows	
Cash on deposit	1,437,237	Net Interest received	1,888
Non-current Assets		Bank fees	(48)
Investments	<u>16,760,000</u>	Payments to external advisors	(5,529)
Total Assets	18,197,237	Payments to LWCM (Management Fee)	(85,989)
Current Liabilities		Payments to LWCM (Brokerage)	(67,246)
Accounts payable	11,229	Other Expenses	5,645
Non-current Liabilities		Share sale receipts received from buyers	14,400
Accrued Performance Fee	299,915	Share sale receipts paid to sellers	<u>(14,400)</u>
Equity		Total Operating Cash Flows	(151,280)
Retained earnings - Operations	(624,231)	Investing Cash Flows	
Retained earnings - Accrued Performance Fee	(1,071,123)	Investments made	(1,121,105)
Share-based Payment Reserve	771,209	Investments realised	-
Asset revaluation	5,979,848	Dividends received from investments	-
Share capital	<u>12,830,392</u>	Total Investing Cash Flows	(1,121,105)
Total Equity and Liabilities	18,197,237	Financing Cash Flows	
		New capital received	1,449,525
		Dividends paid	-
		Total Financing Cash Flows	1,449,525
		Total Cash Movements	
		Opening cash balance	1,260,097
		Closing cash balance	1,437,237

Expected Cash Flows for the June Quarter

Following the end of the March quarter, Punakaiki Fund has completed due diligence on some new investments. At the time of writing, these investments were either at the negotiation or contract forming stage and we expect some or all of these investments to be completed (if they are completed) in the current quarter. These three investments may total up to near \$1 million. There are likely to be further investments undertaken before the end of the current June quarter.

The payment of the June quarterly Management Fee to LWCM of \$93,575.33 including GST and \$3450.00 for Punakaiki Fund’s AML audit has been made, and total payments of \$8,323 will be made to Punakaiki Fund’s directors to pay their director fees and reimburse out of pocket costs.



It is expected that cost associated with the preparation of Punakaiki Fund's financial accounts and the auditing of those accounts will be incurred either during the June quarter or during the following quarter.

Capital Raising Plans

Following the completion of the December 2015 capital raise on 31 January 2016, Punakaiki Fund has, at this time, no plans to raise further capital in the June 2016 quarter.

Additional Disclosures / Conflicts

With the exception of the following and those conflicts which have been previously disclosed, none of the directors of Punakaiki Fund or the managers of LWCM has any additional disclosures or conflicts of interest to declare:

- Lance Wiggs' wife, Su Yin Khoo, is a shareholder and director of Gather Workshops and Gather Conference Limited and Gather Workshops Limited. The founder of those entities is now both an employee of Vend Limited and a Punakaiki Fund shareholder.
- John Wiggs, Lance's brother (and indirectly a Punakaiki Fund shareholder), is performing work for Vibe Communications and likely to be engaged with a formal employment contract. John, who is based in Sydney, has built several large businesses from within organisations like Hitachi Data Systems, Oracle and Peoplesoft. The blame is only partially Lance's – he suggested to Davey and Barry from Vibe that they seek advice over coffee from John, and they ended up engaging him. We are managing the conflict, and part of that is letting you know.

During the quarter LWCM committed small amounts of their own money (on Punakaiki Fund's behalf) as sponsorship to KiwiFoo and WWGSD, both unconferences that have a significant percentage of founders attending.

Contact

If you require any further information regarding Punakaiki Fund, please contact Lance or Chris at LWCM in the first instance:

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