

Punakaiki Fund Limited

March 2020 Quarterly Report

The Year of COVID-19

Last time we signalled our concern about the emergence of COVID-19 for our companies, noting in the cover letter that “it’s beginning to affect some companies, and has potential for far-ranging impacts globally.”

That has certainly proven to be the case, and expectations for all companies have shifted from continuing their rapid growth to ensuring that their staff and customers are safe, the business sustainable and that they are doing what they can to help.

The first news is that everyone is safe, as far as we know, across the portfolio companies. It won’t be that simple of course, and we are all affected by the lockdown, and some by loved ones suffering from COVID-19.

We are fortunate at Punakaiki Fund to hold investments in companies that are not exposed to travel or tourism, the two sectors that are hardest hit and will no doubt take the longest time to recover. We do have exposure to retail and construction sectors – through investments in Vend, Timely, RedSeed, Weirdly and Onceit.

This quarter Chris interviewed several founders about the impact of COVID-19 on their business. Skip now to the green section “It’s not all Doom and Gloom” for their insights - it makes for encouraging reading.

It is a time where recurring revenue business models show their strength, and Vend, Timely, RedSeed and many others are weathering the shocks well. Over time though their success is clearly tied to the success of their customers and every portfolio company is helping on that side to.

Three companies are playing to their strengths. Mobi2Go has been moving rapidly to help their existing and a fast-growing number of new restaurant clients provide contactless service, through either pick-up or delivery through partners. Melon Health launched a [community](#) to provide self-care and support for New Zealanders during COVID-19, in association with the Ministry of Health. And Boardingware is adding contact tracing functionality to build on their contactless ability to check students and teachers in an out of schools and areas within schools.

Year-end Process

We do not yet have results for the end of March 2020 – and our financial year-end. We are still collecting formal results from portfolio companies and keeping the Board updated on company health. LWCM will draft a valuation report, which is sent to the Board (and copied to our auditors) before the next Board meeting late in May. The Board has also commissioned an external valuation of Devoli. The Board will consider these inputs, and if past history is any guide, amend some of LWCM’s valuations before settling on Punakaiki Fund’s year-end valuation.

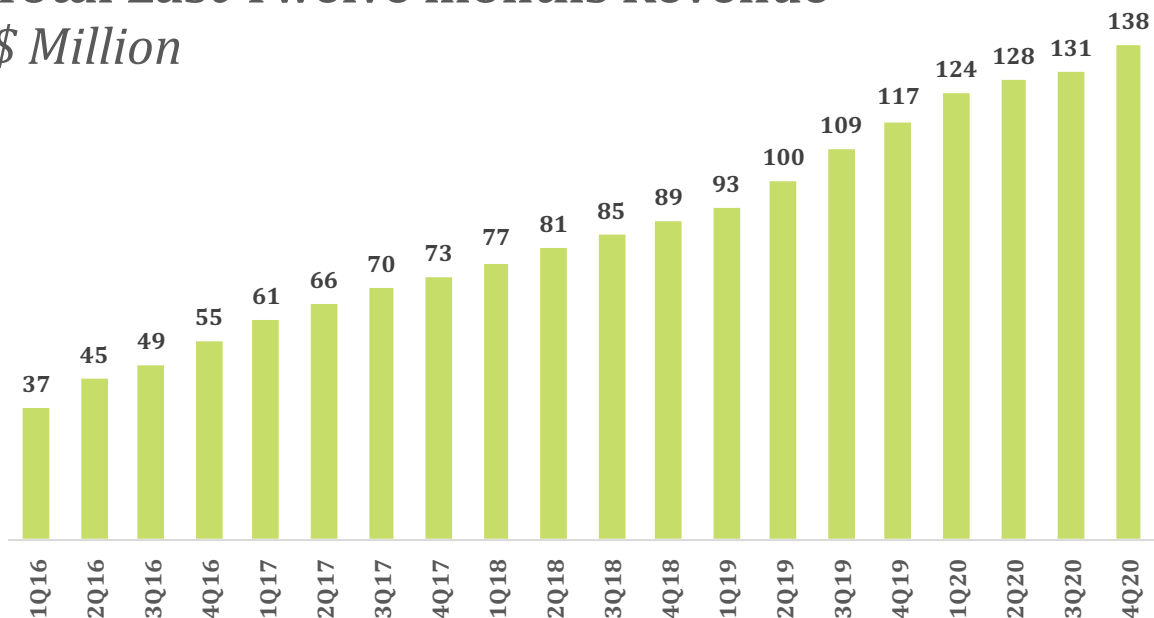


Company Revenue

It was pleasing to see a strong last quarter for many companies, bring up the level of revenue for the last twelve months to \$138 million. This will be a very interesting chart to watch in 2020 as we see the combination of positive and negative effects of COVID-19 on large companies like Vend, Timely, Devoli and Onceit, as well as the impact of overall growth trends.

Total Last Twelve months Revenue

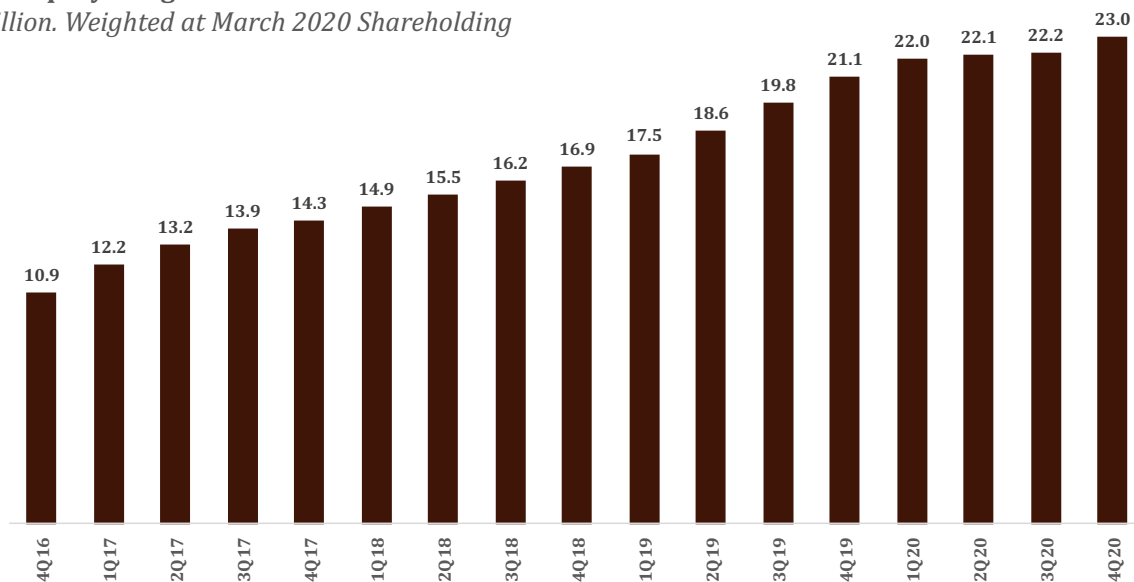
\$ Million



We also expect to see activity, perhaps more, in the equity weighted revenue chart – with over half of the weighted revenue coming from our large shareholdings in Devoli and Onceit.

Total Equity Weighted Last 12 month Revenue

\$ Million. Weighted at March 2020 Shareholding



New Investments

During the Quarter we closed, as signalled, a significant investment round with Weirdly. Their performance over the previous year was excellent, and they are positioned well for 2020, despite COVID-19. We also invested a smaller amount to purchase shares in RedSeed. Each of these investments was verbally committed well before COVID-19, and we were fast to stand behind our word.

After the end of the quarter we made a very small investment into Mobi2Go, as part of a larger follow-on round led by MOVAC.

We are taking the next investment more cautiously, with the Board asking us to preserve capital in these uncertain times. We are still wanting to invest at least \$2 million of the Rights Issue proceeds into companies new to Punakaiki Fund, but will allocate only a part of that for now.

Quarterly Webinar

Our Quarterly webinar will be held on Wednesday 6th May at 3pm. [Pre-register now](#). The webinar will be about 30 minutes long, is, as always, on Zoom, and we will answer any questions you have.

Quarterly Share Trading Auction

The quarterly share trading window this quarter will be from Monday 11th May to 10am on Friday 15th of May. Please email yvonne@lwcm.co.nz for more information or to offer to buy or sell shares.

The result last time was a low price of \$16 per share, a substantial discount to the investor net asset value per share. For this share trading window we do not have the quarter-end net asset value, as it is still part way through the lengthy year-end valuation process. We are unable to provide any formal guidance, though LWCM does not expect any truly dramatic changes in investor net asset value that would get anywhere close to \$16 per share.

Our thoughts are with you all during these times.

Lance



Portfolio Company Update

Key highlights for the March quarter for each company are set out below:



Shareholding: **1.9% (1.7%*)**

[Vend](#) provides cloud-based point-of-sale software that includes ecommerce, inventory management, customer loyalty and analytics.

First Investment: **Aug 2015**

- Vend's retail customers are seeing significant falls in revenue in most jurisdictions, for example, in NZ, there was a significant drop (~70%) in Gross Merchandise Volume following the move to Level 4 on 26 March 2020;
- All offices in New Zealand are closed and teams working successfully from home from mid-March; and
- Through their partnerships with BigCommerce and Marsello, Vend has offered promotions to help get retailers setup to trade online.

**Fully diluted shareholding after accounting for employee options*



Shareholding: **52.9%**

[Devoli](#) is an Internet Service Provider that provides wholesale and corporate telecommunication services.

First Investment: **Jun 2014**

- Devoli declared an "essential service" during the Level 4 lockdown;
- The business has experienced a significant increase in activity during the Level 4 lockdown, with a large increase in data and calling volumes;
- Devoli's staff have successfully transitioned to working from home.



Shareholding: **25.6%**

[Onceit](#) is an on-line daily deal site selling mid- to high-end fashion, beauty and homewares, predominantly in New Zealand.

First Investment: **Feb 2015**

- Supplied some essential goods to customers with a skeleton crew at the distribution centre; and
- Despite a tough start to the COVID-19 period, Onceit has performed well in recent weeks.



Shareholding: **19.6%**

[Mindfull](#) is a global advanced analytics practice that builds data, information management and warehousing, predictive tools and platforms.

First Investment: **Dec 2015**

- During the quarter, Mindfull signed up a new government agency as cloud-based planning client; and
- The company received NZTE and Callaghan grants to help with the development of their business intelligence software.



Shareholding: **3.8%**

[Timely](#) provides a software platform to beauty and wellbeing businesses to manage bookings, reminders, point of sale, reporting and analytics.

First Investment: **Jun 2014**

- Operating revenue in the March quarter was behind Timely's expectations due to the lower numbers of new customers and higher churn, which were partly driven by the COVID-19 pandemic;
- It received a higher than expected growth grant from Callaghan; and
- The business has refocused their product roadmap in the wake of COVID-19 to support their customers with revenue generation during lockdown, physical distancing and business disruption more generally.





Shareholding: **6.3%**

First Investment: **Apr 2014**

[Raygun](#) provides a software intelligence platform including crash and error reporting, real user monitoring, and deployment tracking.

- Named as a finalist in the 2020 NZ Hi-Tech Awards for the Most Innovative Hi-Tech Software Solution; and
- Joined the Amazon Web Services Marketplace (a big deal).



Shareholding: **17.7%**

First Investment: **Nov 2017**

[Coherent Solutions](#) develops and manufactures advanced laser test equipment for the global fibre optic communications market.

- Despite the lack of customer interaction (due to tradeshow cancellations or poorly attended by Chinese exhibitors or customers), the March quarter was very productive in terms of new sales, with new orders being multiple times higher than the same quarter in 2019;
- The company signed an exclusive agreement with Tektronix, the world's largest manufacturer of electronic test instrumentation, to collaborate to sell the company's coherent optical test solutions;
- Coherent Solutions shipped their largest ever single order in late March: a NZ\$2.9 million custom production test system for Raytheon.



Shareholding: **15.6%**

First Investment: **Oct 2015**

[Mobi2Go](#) is a digital ordering and engagement platform for the hospitality sector.

- During the quarter focus was on further establishing their presence in North America and rolling out kiosk and table ordering to clients in New Zealand and Australia;
- The company installed kiosks to Schintiz and Ribs & Burgers location in Australia, and rolled out table ordering to Burger Burger in New Zealand; and
- Mobi2Go has experienced a substantial increase in enquires and sales as restaurants establish on-line ordering to enable their takeaway offerings.



Shareholding: **28.2%**

First Investment: **Jul 2015**

[EverEdgeIP](#) is an intangible asset valuation specialist which helps companies drive growth and create wealth from intangible assets.

- Worked as a special adviser to Sir Ken Stevens providing support throughout the sale of Glidepath Group
- Saw the impact of COVID-19 early via the Singapore office, and transitioned to working from home; and
- Held "Get your Data in a Row" webinar on valuing and monetising business data with Mindfull.



Shareholding: **20.1%**

First Investment: **Feb 2017**

[Conqa](#) provides software allowing the construction industry to do their quality assurance planning and execution online.

- All construction sites in New Zealand served by Conqa have been shut down, however clients are continuing to pay Conqa's monthly fees for their software;
- The business has restructured the revenue portion of the business and appointed an internal candidate to take up the Head of Revenue role in order to drive greater success (and revenues) for the existing customer base; and
- Conqa's senior leadership has acted quickly to develop and implement COVID-19 'battle- planning' and the business is positioned well to continue through the pandemic.



Shareholding: **39.7%**

First Investment: **Mar 2015**

[RedSeed](#) helps large retailers increase their sales through proprietary and customised modules in a SaaS Learning Management System.



- The company signed off a Liquor Licensing Project deal with Foodstuffs during the quarter; and
- RedSeed created a wellness course in conjunction with a Christchurch-based psychologist and has offered it to all their customers to help them deal with COVID-19.



Boardingware

Shareholding: **30.1%**

First Investment: **Feb 2015**

[Boardingware](#) helps schools manage their students' movements and pastoral care using a SaaS product.

- During the March quarter Boardingware developed a new pricing model and a new subscription system for managing customer products and tiers; and
- It also hired two full-time engineers and one full-time UX designer.



Shareholding: **31.8%**

First Investment: **Dec 2014**

[Melon Health](#) gives chronic disease patients on-line platforms with the tools, support and information to help manage their condition.

- Closed their US operations and thus lowered its operating costs; and
- Signed a short-term contract with the Ministry of Health to deliver a mental wellbeing program.



Shareholding: **36.6%**

First Investment: **Feb 2015**

[Weirdly](#) is a Human Resources technology SaaS platform, helping companies filter the best candidates from thousands of applicants.

- Weirdly raised \$1.25 million from existing investors (lead by Punakaiki Fund) and new investor K1W1 during the quarter;
- It signed a deal with Vodafone UK, beating two UK-based and one US-based competitors; and
- Launched their new website.



It's not all Doom and Gloom



Yep, it's tough out there – no doubt about it. Most of us have been keeping up to date on COVID-19 and aside from the sickness itself, New Zealand (and the rest of the world) is facing a large post-pandemic economic hangover. I'm personally dreading the day I head back into my Te Anau office and start to get to grips with how the lockdown has impacted what is Southland's largest tourist town. We usually have over a million visitors a year pass through the town and the next year is looking particularly grim for local businesses as the previous torrent of tourist slows to a trickle at best. It will be a rocky road ahead.

However (and it's a big "however") as the title says, it's not all doom and gloom. I for one have been pleasantly surprised with the resilience of Punakaiki Fund's portfolio through these trying times. There are some companies that have been materially impacted, but that are well placed to recover going forward. Others have managed to tread water, which when considering how many other businesses in New Zealand have been severely impacted, is fantastic. We also have a small handful of businesses that are thriving, as demand for their services and products has exploded.



This quarter we hear the responses from the leaders of several Punakaiki Fund's portfolio companies as I pose to them three COVID-related questions.

Karl Rosnell – CEO Devoli

How has COVID-19 impacted your business?

Devoli provide core internet and voice services to businesses in Australia and New Zealand. The COVID-19 pandemic has forced millions of people to work from home and the government has categorised us as an essential service. We have seen a large uptake in new connections, upgrades to faster services and voice calling over the past five weeks and expect this to increase over the coming months.



Our business was already set up to work from home and we have been doing this on an ad hoc basis for many years, so the transition was largely painless for our team. One of the interesting by-products of having everyone at home is that our internal communications and staff engagement have actually increased.

We expect to post significant revenue growth over the next few quarters, and this has meant that not only have we retained our whole team, we are actively recruiting for additional roles right now.

How fast do you think your business' recovery from COVID-19 will be?

Our business expects to go from strength to strength through this time as there are plenty of talented people who are now looking for their next adventure.

Notwithstanding the obvious uncertainty of what COVID-19 does next, our current focus remains with our customers and their ability to weather this storm. Our team are proactively rallying around and supporting these customers to give them the best chance of success.

What advice would you give to other businesses suffering from the COVID-19 slowdown?

The leadership team decided to take quick decisive action and went into lockdown early. We agreed this was the best approach to protect our team and our business and also that we wouldn't return to the office until Level 0 was declared.

The advice I would give to other businesses is;

- Take Business Continuity Planning seriously - this can't be an annual item to tick off the agenda, it needs to be a real living thing that is refined with your teams regularly.

- Communicate often - to the point of overcommunication. Like others, we use Zoom and Slack to run our weekly all hands get together, individual and cross team meetings and drop in coffees. We also find that a Friday afternoon drinks session works well to officially end the week.
- Focus on the core things you do well - make some of the harder decisions on what you should say "no" too. This period of time requires intense focus on delighting your customers, so plenty of introspection is required to re-check what your customers actually value from you.
- And finally, I'd recommend that you constantly evaluate whether your core business can be adapted to take advantage of a changing situation. There are plenty of new opportunities presenting themselves every day, so it's important to remain fluid and open to suggestion, debate and discussion around what your business can be in this new way of life.

Ryan Baker – CEO Timely

How has COVID-19 impacted your business?

It's been a rollercoaster. We have moved quickly and focused our energy on our customers. The beauty industry is profoundly impacted by COVID-19 with most salons closed in our markets. However, we saw this as a positive opportunity from day one, with our customers having the time to work on their business and switch to a better system. The beauty industry is resilient and determined and will bounce back.



How fast do you think your business' recovery from COVID-19 will be?

Our recovery is already underway. Customers are starting to prepare to reopen again and a system like Timely is more important now than it was before COVID-19. As one example, many barbers will not be able to accept "walk in" bookings and will need an appointment system. On the whole, this reset will be positive for the beauty industry. Things like marketplaces and pop-up salons that have created a race to the bottom on pricing are now less relevant. The solid beauty businesses will stand strong and even thrive. A crisis like COVID-19 doesn't create character, it reveals it.

What advice would you give to other businesses suffering from the COVID-19 slowdown?

Focus on the things that are most valuable to your customers. Turn up and be visible during the hard times. Spread positivity and solutions for the challenges. Protect the livelihood of your employees. Resist the rhetoric to "cut deep and early" or "pivot". Refocus on the parts of your strategy that are now more valuable than they were before, and repurpose team members to work on those things. Be kind to yourself and stay safe.

Anya Anderson – CEO RedSeed

How has COVID-19 impacted your business?

COVID has affected our retail customer base significantly and that has had a knock-on effect on us. Most were seeing a slow-down in trade, especially in the malls, prior to lockdown and had delayed their payments to us, so we had a lot of outstanding receivables when we went into lockdown. With some of our clients having every retail door shut, they are unable to pay us at the moment and this has impacted cash flow significantly. It has also slowed down the sales pipeline - conversations that were happening leading up to COVID have mostly stopped, although some have continued but there was a dead period of about 2-3 weeks.



We have also seen the need / opportunity around applying what we know to other industries, so in some ways it has opened some doors through necessity.

How fast do you think your business' recovery from COVID-19 will be?

Recovery will depend on a few things:

How quickly retail recovers.

How much we can cut into other industries.

What we can access in the way of funding.

If buy New Zealand made campaigns are run.

Where companies who have experienced a downturn see the opportunity to grow and invest (and in which areas). Will they invest in their people?

What advice would you give to other businesses suffering from the COVID-19 slowdown?

Ring every single customer you can and see how you can support them, and what position they are in so you get a complete picture of your financials.

Think critically about how the landscape will change and apply it to your own business in the next 6-12 months. Look at best case and worst case and have a plan for each.

Look to see if you can apply your skills in a different way to pivot your offering and provide what people are looking for.

Talk to your team and be transparent about what's happening - they have great ideas, but also great fears! Do what you can to keep them and their families financially secure and safe.

Jay Goodey – CEO Onceit

How has COVID-19 impacted your business?

There have been many impacts, but also we recognise that we are in a fortunate position in that we are pure play e-commerce.

How fast do you think your business' recovery from COVID-19 will be?

There are some opportunities for businesses like ours, a lot of excess inventory in the market, strong repeat customer base, price sensitive consumer, no retail footprint etc.

So we think in the short term we have a fairly strong proposition.

What advice would you give to other businesses suffering from the COVID-19 slowdown?

Focus on any value add you could provide to the ecosystem and tighten the belt if needed.



Tarik Mallet – CEO Mobi2Go

How has COVID-19 impacted your business?

Mobi2Go is in the fortunate position of seeing increased demand for our platform as the hospitality industry turns to technology to try and help them pivot their business models and offer delivery and curb side pick-up in the absence of being able to open for dine-in service. As a result, Mobi2Go is seeing growth in both customer numbers and revenue.

Our New Zealand, Australian and Canadian teams rallied to release functionality and fast-track solutions to help support the industry with getting up and running with digital ordering fast, and with a reduced cost, whilst they are dealing with the extraordinary circumstances and challenges that Covid-19 has created for the industry.

How fast do you think your business' recovery from COVID-19 will be?

For us the challenge is not whether we survive as a business during Covid-19, but more how do we take this opportunity to ensure we come out of Covid-19 stronger as a business and as a platform. This will enable to continue accelerating growth and cement Mobi2Go as the industry leading platform for multi-channel digital ordering.

What advice would you give to other businesses suffering from the COVID-19 slowdown?



Stay strong, make the hard decisions and fast. Cut costs, talk to your customers and understand how you can support them and identify if there are opportunities to pivot and come out of this challenge stronger.

Andy Stevens – CEO Coherent Solutions

How has COVID-19 impacted your business?

The most significant short-term impact has been the delay of a large customer installation in the USA, resulting in the delay in payment of over \$2 million. We are also seeing much longer lead-times for key components, which will require us to increase our stocking levels.

In the medium term it will impact our business in Asia due to travel restrictions (we do not have an Asian office). Fortunately, the opening of our US office last year will minimize the travel restriction impact to our largest market.

How fast do you think your business' recovery from COVID-19 will be?

In the short term - we don't need to recover, our sales in Q1 were strong and our forecast is better than expected for this time of year. Our greatest concern is the medium-term impact to the US economy and how that affects our sales in Q4 and 2021.



"If you are going through hell, keep going." – Winston Churchill



In the News

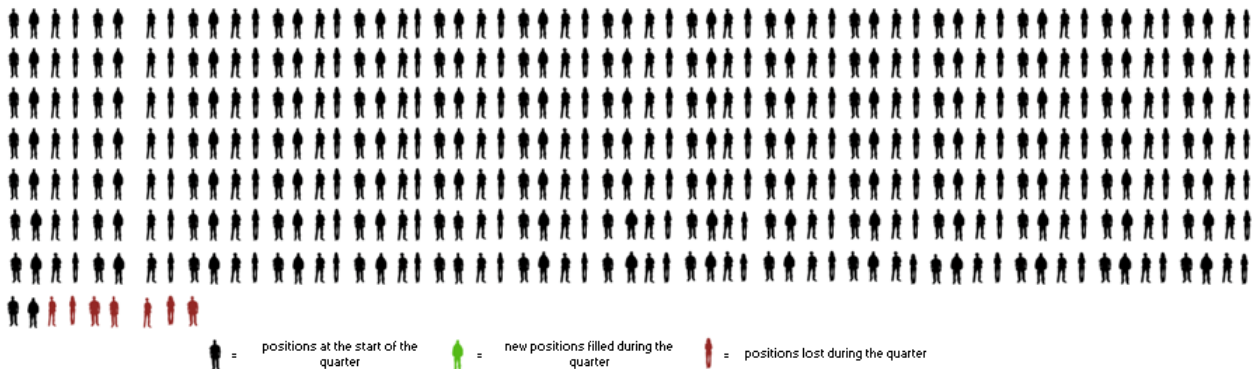
Coherent Solutions	<u>Digital River Celebrates a Successful Year as 2020 Comes Into View</u> <u>Test and Measurement - RCR Wireless News</u>
EverEdge	<u>EverEdge Capital Builds Strong Pipeline Of Investment Opportunities</u>
Melon Health	<u>NZ funds online tools for practical mental health support</u>
Mobi2Go	<u>Online ordering service designed for restaurants to grow revenue amid outbreak</u> <u>How you can get your food business online</u> <u>Wellington's Mobi2Go Offers Online Ordering/delivery Solutions For Businesses</u>
Raygun	<u>Tech industry, New Zealand needs you now</u> <u>2020 New Zealand Hi-Tech Awards – Finalists Announced</u>
Timely	<u>No 8 wire thinking key to Kiwi digital exports</u>
Vend	<u>Covid-19 coronavirus: Kiwi tech leader bombs</u>

Employment Monitor (March Quarter)

Here is a snapshot of our portfolio companies' employment situation at the end of March 2020:



That's 422 jobs as at the end of the March quarter – a net 7 less than at the end of December.



Vend's employment figures are not included. ThisData, Linewize, Hayload and Influx staffs have been removed



Corporate Update

Governance

The Board convened on 30 April 2020 for the quarterly Board meeting to consider, among other matters:

- To set the value of Punakaiki Fund's investment portfolio as at 31 December 2019;
- To review Punakaiki Fund's investment portfolio;
- To consider the new Communications Policy;
- To consider the approach recommended to value the Punakaiki Fund portfolio given the occurrence of COVID-19
- To receive a presentation from Onceit CEO Jay Goodey;
- To receive and consider this quarterly report; and
- To express their thanks to Mandy Simpson, who retired from the Punakaiki Fund Board on 31 March 2020.

The Board's next meeting is planned to be held on 29 May 2020.

Financial Reporting

The valuation of Punakaiki Fund's investments as at 31 March 2020 has not yet been determined and the financial year-end valuation process is still underway. This information will be released in the 2020 Annual Report, which is expected to be issued in July.

Punakaiki Fund's unaudited financial summary metrics are set out in the tables below. Financial highlights from the quarter include (all figures including GST where applicable):

- An opening cash balance on 1 January 2020 of \$4,203,417;
- \$944,318 was invested in Weirdly and RedSeed;
- Management fees of \$266,828 were paid to LWCM;
- An administration fee of \$50,313 was paid to LWCM in relation to the March quarter administration services provided to Punakaiki Fund;
- \$3,709 was paid for accounting services;
- \$8,653 was paid to other advisers and service providers;
- Net director fees of \$49,325 were paid;
- Income tax refunds of \$13,841 were received;
- GST refunds of \$8,533 were received; and
- A closing cash balance of \$2,902,541.



Punakaiki Fund Limited - Unaudited Financial Position	
as at 31 March 2020	NZ\$
Current Assets	
Cash on Deposit	2,902,541
Accounts Receivable	21,374
Prepayments	27,125
Non-current Assets	
Investments	
Total Assets	
Current Liabilities	
Accounts Payable	44,614
Non-current Liabilities	
Accrued Performance Fee	684,697
Equity	
Retained Earnings - Operations	
Retained earnings - Accrued Performance Fee	
Share-based Payment Reserve	
Asset Revaluation	
Share Capital	38,833,248
Capital Raising Costs	(1,036,822)
Total Equity and Liabilities	
 Accounting NAV	
iNAV (after deduction of the performance fee)	
iNAV per Share	

Punakaiki Fund Limited - Cash Flow Summary	
for the Quarter Ending 31 March 2020	NZ\$
Operating Cash Flows	
Gross Interest Received	956
Withholding Tax on Interest	(300)
Bank Fees	(26)
Payments to External Advisors	(12,361)
Management Fees	(266,828)
Administration Fee	(50,313)
Other Net Expenses	(36,221)
GST Refunds	8,533
Total Operating Cash Flows	(356,558)
Investing Cash Flows	
Investments Made	(944,318)
Investments Realised	-
Dividends Received from Investments	-
Total Investing Cash Flows	(944,318)
Financing Cash Flows	
New Capital Received	-
Brokerage Fees	-
Dividends Paid	-
Total Financing Cash Flows	-
Total Cash Movements	(1,300,876)
Opening Cash Balance	4,203,417
Closing Cash Balance	2,902,541

Expected Cash Flows for the June 2020 Quarter

Following the end of the March 2020 quarter, Punakaiki Fund has not raised any new funds. One small investment in Mobi2Go was made in April.

We will pay the interim June Quarterly Management Fees and June quarterly Administration Fee to LWCM of \$275,813. including GST, with LWCM and the Board agreeing to lower the interim quarterly management fee to prudently provide a large margin of safety due the uncertainty from COVID-19.

Interim financial audit fees of \$27,488 have been paid, and PAYE on directors' fees of \$11,550 has been paid to the IRD.

Capital Raising Plans

We may consider raising capital in the balance of the June 2020 quarter, depending on the progress of Punakaiki Fund's application for investment funding from the Elevate NZ Venture Fund.

Additional Disclosures / Conflicts

With the exception of the conflicts which have been previously disclosed, the directors of Punakaiki Fund or the managers of LWCM do not have any other additional disclosures or conflicts of interest to declare.



Contact

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