

Punakaiki Fund Quarterly Report

September 2014

Welcome

Hello and welcome to our second quarterly report. The quarter has been a quiet one for the fund but a strong one for our portfolio companies, which are all growing well.

Highlights

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

- Rudi Hefer at Vibe Communications is landing important deals, including one just signed with Bevan Slattery's Megaport. We have promoted Rudi to CEO, and as part of this he is making a material purchase of shares that values our investment in Vibe at \$950,000, up from \$300,000.
- Bradley Simpson has also started well, driving business development at InfluxHQ. He will also be moved to a more serious contract and as part of that we will issue shares into trust to incentive employees. He has landed a good number of new clients, with the first paid customers hitting the books from October.
- We saw a 64% increase in Mindscape's Raygun.io monthly revenue during the quarter, traditionally the quiet northern hemisphere summer.
- Timely's monthly revenue rose 25% (including non-recurring items), with underlying customer numbers up by 34%. The revenue increase seems relatively low due to lumpiness of non-recurring revenue.
- Vibe's monthly revenue increased by 6% – and while the percentage is low, the dollar amount of this increase was comparable to Timely and Mindscape's combined increases. Vibe also delivered a 12% increase in October, and has made strong progress on several opportunities to further increase revenue, signing two of four deals, losing one and with the other one at least delayed.

I've investigated several potential new investments, including, for example, Biolumic (who I know well from Better by Capital work) and Notable PDF. These were each offered to many other investors and are now subscribed. We were only comfortable investing if we were able to take the largest and lead investor position, and for Biolumic we also had strong perspectives on a sales-first strategy. However as we did not have sufficient funds, and given that they have successfully raised capital elsewhere, we found it easy to pass. It's good to see good companies funded, and we may look again in their following rounds. However we continue to believe that Punakaiki Fund should focus on investing in situations that are not open to other investors, and there are plenty of those which we won't talk about until they are done.

November 2014 Options

As a shareholder you have the option to purchase shares up until the 30th of November, 2014. **Some shareholders have already indicated that they would like to purchase more than their allocation,** so please let us know if you would like to offer your options for sale. We will contact you again shortly.



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	4.69%	650,001	650,001	13,850,014
Influx HQ	18.33%	110,000	110,000	600,109
Mindscape	5.26%	400,000	400,000	7,604,563
Cash			14,215	
Total		1,460,001	1,474,216	23,554,686

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 continue to believe that our portfolio is performing strongly, and that the NAV reported is significantly lower than the intrinsic value of the investments.

Vibe Communications appointed Rudi Hefer as CEO from 1 November, and as part of that appointment he will be purchasing newly issued shares representing 5% of the company. This new issue will dilute our shareholding from 20% to 19%, but increase the value of our investment from \$300,000 to \$950,000 – a pleasing milestone in just 6 months. Note that we still believe that the price is beneath intrinsic value, and that there is plenty more growth to arrive from Vibe. We see Rudi as key to continuing that growth.

Once the legals are done this will result in the Current Investment Value for Vibe Communications increasing from \$300,000 to \$950,000, but as at the end of September we continue to formally value our investment in Vibe Communications at \$300,000.

Timely and InfluxHQ have performed or will also perform share transactions, with the former accepting investment from new director Michael O'Donnell, and the latter issuing shares into an employee trust. Each of these was done at the same valuation as our investment, and with no equity activity for Mindscape we also formally report no net change in value for these three companies. Our interest in Timely has been diluted slightly from 4.71% to 4.69%, though the value of our investment remains the same.

We thus formally assess the Net Asset Value of Punakaiki Fund's investments (before cash) to \$1,460,000. The Vibe Communications investment will see our equity component of the NAV increase to \$2,110,000, or \$13.80 per share.

We note that if all \$1.525 million of options are exercised then the fund would have \$1.48 million in cash and \$2.11m in equity, for a total NAV of \$3.635 million, or \$11.80 per share. We think that this makes for a simple decision for the end of November, as each \$10 invested in exercising the options will be buying a share with NAV backing of \$11.80.

Of course we believe that all of the companies will continue to increase in value, and that while this evidence is nice to have, we remain firmly focused on the long term.

We look to telling you more about the option process in the next week or two, but you can exercise your options at any time simply by wiring us the funds. We will also have some paperwork for you.



Timely

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

What's New: Timely has continued to grow strongly over the quarter. Highlights from the September quarter include:

- Quarter on quarter revenue growth of 25%;
- Average monthly revenue growth of 8% over the quarter, which is traditionally a tough one due to northern hemisphere summer;
- New net customer growth of 34% quarter on quarter;
- Increasing staff from 10 to 16 at the end of September, with two more hired in October;
- Looking to hire for five to six newly created positions;
- On the tech side, improved the product offering with the following changes:
 - A full application redesign;
 - Class booking invoicing functionality;
 - The addition of a stock control feature for products; and
 - The reporting features have been overhauled and improved.
- A new pricing regime went live on the 1st of October, with more pricing changes planned in the near term;
- Mike O'Donnell (MOD) and Rowan Simpson joined the Board of Directors, with MOD also investing \$50,000 into Timely on the same terms as Punakaiki Fund and the Wilson Family, including a small loan component. This investment has diluted Punakaiki Fund's interest in Timely from 4.71% to 4.69%;
- Winning the Deloitte Fast 50 Rising Star Award (Otago and Lower South Island);
<http://www.deloitteprivate.co.nz/fast50/2014/2014-regional-award-winners/>
- Being selected as a finalist in the OBIZ awards in two categories (the winners will be announced in November);
<http://www.otagochamber.co.nz/bconnected/obiz-awards-2014/obiz-awards-finalists/>



The team at Timely

Timely in the media:

<http://www.stuff.co.nz/business/small-business/10581964/On-cloud-nine-for-growth>

We are pleased to note that Timely has been able to maintain its strong growth path while still retaining all of the investment received in April, extending the timeframe until the company needs to go back to investors for additional investment.



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. Highlights from the last quarter include:

- Finalist in the Deloitte Fast 50, the first time they have entered the competition;
- Quarter on quarter revenue growth of 6%;
- Significant network upgrades through the purchase of equipment; and
- Hiring Rudi Hefer (formerly of Telecom Wholesale), who will accelerate deal making.



Vibe's Rudi Hefer

Since the end of the quarter end the news has come quickly, including:

- Achieving October 2014 revenue growth of 12% versus September 2014;
- Appointing Rudi Hefer as CEO as of 1 November, 2014;
- Agreeing that as part of his appointment Rudi Hefer will invest \$250,000 in Vibe, valuing the company after his investment at \$5,000,000, up from \$1,500,000 after we invested. This will dilute our interest in Vibe from 20% to 19%, but increases the value of our investment from \$300,000 to \$950,000. Vibe will grant a long term loan (\$100,000) and short term bridging loan for the balance to Rudi as he frees up funds from offshore;
- Signing a deal with Megaport and introducing IntelliPath, a product that will allow inter-data center connections to be established within minutes. The owner of Megaport, Bevan Slattery, is a very well known figure in Australasian telecommunications, primarily for being the successful founder of the PIPE trans-Pacific subsea cable. The deal is notable for the speed from initial conversations with Megaport through to a deal and the new product launch; and
- Signing a deal with a major Auckland-based customer which has potential to grow into an enduring relationship

Vibe continues to have other exciting opportunities, but we will keep quiet on those until they happen.

Vibe in the Media:

CommsDay (the industry reference): [NZ wholesale player Vibe ups the ante with Megaport expansion](#)

Reseller News: [Megaport partners Vibe to break down A/NZ connectivity barriers](#)



Mindscape

Mindscape Limited (Mindscape) is a Wellington based developer of well-regarded developer tools for the Microsoft platform. 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:

- An improving approach to enterprise sales is moving several large sales through the pipeline;
- Product additions that will truly differentiate Raygun.io from competitors due in Q1 2015, with prototype demonstrations generating strong demand interest;
- Average monthly revenue growth of 64% over the quarter, despite the northern hemisphere summer break;
- Increase in recurring revenue by 195% in the six months to the end of September;
- Steadily increasing average revenue per user (ARPU);
- A nice bonus with the fall in the NZD versus the USD, as all of Mindscape's sales are denominated in USD, but so are their marketing and server costs; and
- Over \$1 million left in the bank, enough for a year and a half without external financing at current burn rates.

Mindscape in the media:

<http://www.nbr.co.nz/article/bonus-growth-saas-exporters-ns-163236>

<http://www.youtube.com/watch?v=cziEfzR9xFk>



Influx

InfluxHQ Limited (Influx) was 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.

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

- Strongly accelerated sales efforts from a full time sales staff member;
- Rising customer numbers, but the sales approach has been to grant 3 month free trials, which means the paying customer numbers have not yet risen. We forecast that paying customer numbers will double once the current free trial periods are over. The free trial approach is itself likely to be phased out, if acceptable to the market;
- We have committed to signing the first employee on as full time, including an equity package;
- The introduction of Enterprise Pricing and Service options to serve Councils and larger gym networks. This is a lot earlier than we anticipated after signing a smaller deal with Wellington City Council's Club Active program;
- A prioritised development list to meet demands of clients who have expressed that they will sign once certain features are available. This includes a very large potential client who would start in February/March; and
- Cash on-hand is expected to last for at least another 6 months.

Some coverage:

<http://www.nbr.co.nz/article/bonus-growth-saas-exporters-ns-163236>.



The early stage investment community...

A bit of fireworks for Guy Fawkes as Rowan Simpson wrote about [his investment track record](#), and challenged others to do the same. [Ben Kepes](#), Andrew Simmonds from Simmonds Stewart and [myself](#) responded, and I updated my [personal page on investments](#) including ours with Punakaiki Fund. I suspect that Ben, Andrew and I were not Rowan's targets. Rather I suspect Rowan was taking aim at the formal angel community.

As it happens I had a chance to present at the Angel Association of New Zealand conference recently, and pointed out that while they [recorded \\$23.1 million](#) invested into young companies in the first half of 2014, the deals that I alone saw (where I had to sign something) in the same period were worth over \$32 million, including Punakaiki Fund's investments, Vend's \$25m raise, Performance Lab's investment by Intel Capital and more. None of these were recorded in the "official" statistics, and once again Rowan wrote about this, [pointing out a few more deals](#), but missing My Tours, where we placed a small internal round.

Punakaiki Fund invested in Mindscape alongside Ben, and Timely alongside Rowan, as well as Vibe and Influx, where we stand alone. That's pretty much how we like it – a mix of opportunities available to smart investors like Rowan and Ben as well as those available only to us.

It was great to see how the AANZ conference was focused on helping angels to learn, but as I stated there when companies are pitching for money to a group of people in a room it's probably time to leave the room. At Punakaiki Fund we've seen that most of our investment conversations are over coffee, phone, email, Twitter and video conferences, as well as in person visits.

Last year I put together a "1 hour Xero Model" to show how easy it is to build a financial model from very limited information. This year I [checked in on its performance](#). I was pleased to see that the main part of the model, the financial forecast, held up very well, with the forecast and actual annualised run rates both at \$132 million. I'd made (and had picked up) a big formula error last year – which provides more evidence that two sets of eyes are better than one. That's yet another reason that I'm very glad that both Chris and I have spent far too much time in our careers creating and diving into financial models.

Employment Monitor

Here's a snap shot of our portfolio companies' employment situation at the end of September:



Founded: 2011

Employees (including Founders): 16 (6 new)

Intentions: 7-8 new hires, including 2 to date in October



Founded: 2007

Employees (including Founders): 11 (1 new)

Intentions: 1 hired in October



Founded: 2008

FTE Employees : 11 (2 new)

Intentions: 1-2 new hires



Founded: 2012

Employees (including Founders): 3 (1 new)

Intentions: No more hiring until 2015

That's 41 jobs as at the end of the quarter – 10 more than at the end of June.



Corporate

Financial Reporting

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

- Opening cash balance on 1 July 2014 of \$15,953;
- No new capital raised during the quarter;
- No new investments during the quarter;
- Payment of a legal advisory expense incurred in the June 2014 quarter of \$1,768; and
- A quarterly management fee of \$8,476.57 including GST (paid after the end of the quarter).

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 30 September 2014	NZ\$	for the quarter ending 30 September 2014	NZ\$
Current Assets		Operating Cash Flows	
Cash on deposit	14,215	Net Interest received	74
Non-current Assets		Bank fees	(45)
Investment in Timely	650,001	Payments to external advisors	(1,768)
Investment in Mindscape	400,000	Payments to LWCM (Management Fee)	-
Investment in Vibe Communications	300,000	Payments to LWCM (Brokerage)	-
Investment in Influx	110,000	Total Operating Cash Flows	(1,739)
Total Assets	1,474,216		
Current Liabilities		Investing Cash Flows	
Accounts payable	8,477	Investments made	-
Non-current Liabilities	-	Investments realised	-
Equity		Dividends received from investments	-
Retained earnings	(59,183)	Total Investing Cash Flows	-
Share capital	1,524,923		
Total Equity and Liabilities	1,474,216	Financing Cash Flows	
		New capital received	-
		Dividends paid	-
		Total Financing Cash Flows	-
		Total Cash Movements	(1,739)
		Opening cash balance	15,953
		Closing cash balance	14,215

Expected Outflows for the December Quarter

Any new investments made in December quarter will be conditional on Punakaiki Fund raising sufficient new capital to fund these potential investments. Expected cash outflows for the quarter are expected to be limited to the payment of the accrued quarterly Management Fee to LWCM (\$8,476.57 - including GST) for the September 2014 quarter, the payment of the quarterly Management Fee to LWCM (\$8,428.00 - including GST) for the December 2014 quarter and the payment of any brokerage fees due to LWCM as a result of Punakaiki Fund raising new capital. For clarity the management fee is calculated using the NAV at the beginning of each quarter.

Capital Raising Plans

LWCM has identified a number of additional growth companies which may provide Punakaiki Fund with attractive investment opportunities and is talks with several potential targets at the time of writing. In order to pursue this and other potential investments, Punakaiki Fund is finalising the raising of capital from two sources during the December 2014 quarter. The first of these is from the exercise of the 30 November 2014 options issued to shareholders during Punakaiki Fund's April 2014 capital raising. Punakaiki Fund will soon be sending application forms to option holders to exercise these options.



The second source of capital may be a private offering of ordinary shares and options to new shareholders similar to the April 2014 capital raise. This new private offer would be scheduled to close after the options date on 30 November 2014 and we will provide more information in due course. It is likely that the price for this round will be set at \$12 per share. Existing Punakaiki Fund shareholders will have priority entitlement to invest new capital into Punakaiki Fund via this offer.

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.

Lance Wiggs

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Timely – where are you?

Timely is headquartered in Dunedin, where it has ten staff. It also has staff in Wellington (6), Auckland (1) and Melbourne (1).

As for its customers – they are located all over the world...

