

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 \$█, up from \$█.
- 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 █% increase in Mindscape's Raygun.io monthly revenue during the quarter, traditionally the quiet northern hemisphere summer.
- Timely's monthly revenue rose █% (including non-recurring items), with underlying customer numbers up by █%. The revenue increase seems relatively low due to lumpiness of non-recurring revenue.
- Vibe's monthly revenue increased by █% – 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 █% 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.



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 \$█ to \$█ – 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 \$█ to \$█, but as at the end of September we continue to formally value our investment in Vibe Communications at \$█.

We thus **formally assess the Net Asset Value of Punakaiki Fund's investments (before cash) to \$1,460,000.**

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.

- Winning the Deloitte Fast 50 Rising Star Award (Otago and Lower South Island);



The team at Timely

<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/>

Timely in the media:

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



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 █%;
- Significant network upgrades through the purchase of equipment; and
- Hiring Rudi Hefer (formerly of Telecom Wholesale), who will accelerate deal making.

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

- Achieving October 2014 revenue growth of █% versus September 2014;
- Appointing Rudi Hefer as CEO as of 1 November, 2014;
- Agreeing that as part of his appointment Rudi Hefer will invest \$X in Vibe, valuing the company after his investment at \$█, up from \$█ after we invested. This will dilute our interest in Vibe from 20% to 19%, but increases the value of our investment from \$█ to \$█. Vibe will grant a long term loan (\$█) 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 improved 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 █% over the quarter, despite the northern hemisphere summer break;
- Increase in recurring revenue by █% 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 \$█ left in the bank, enough for █ 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=cziEzR9xFk>



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.



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.**

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).

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.

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Timely – where are you?

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

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

