

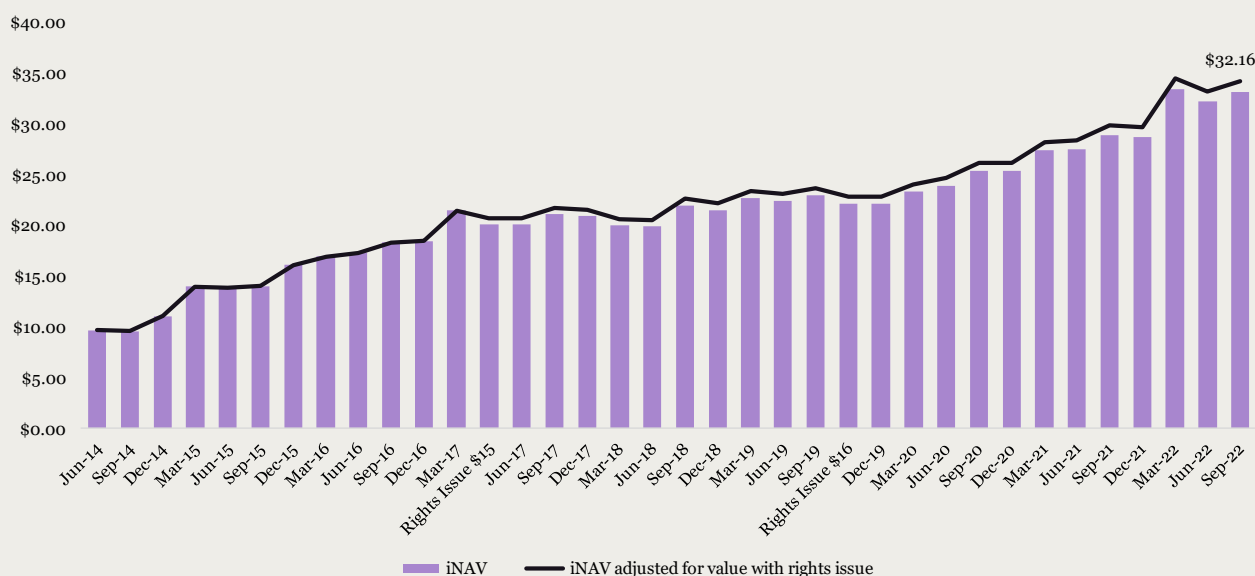
# Punakaiki Fund Limited

## September 2022 Quarterly Report

Key Statistics	
Total Asset Value	\$95.1 million
Investor Net Asset Value (iNAV)	\$85.4 million
Shares on issue	2,655,382
<b>Total Asset Value / share</b>	<b>\$35.82</b>
<b>iNAV/share</b>	<b>\$32.16</b>

Performance	
Annualised Share price Return – last 12 Months <sup>1</sup>	13.2%
Annualised Share price Return – Since Inception <sup>1</sup>	15.6%
Annualised Internal Investment Returns <sup>2</sup> – All Investments	20.5%
Internal Total Value to Paid-in Capital (TVPI) <sup>2</sup> – All Investments	2.0x

### Punakaiki Fund iNAV/Share (Including Adjustments for Rights Issues)



<sup>1</sup> Assumes full participation in option and rights issues.

<sup>2</sup> Internal performance measures are exclusive of all fund costs.

Dear Shareholders

We are once again delighted to bring you our quarterly report. While the top-line asset value of \$95 million and investor net asset value per share of \$32.16 have not materially changed since the last quarter, underneath the surface we saw some substantial movements in our portfolio valuations this quarter.

These were driven by three factors – the first, obviously, is the declining stock market (impacted by inflation and rising interest rates), particularly technology stocks. We have seen some large declines in the valuations of both listed and unlisted companies over the year.

Some of the stock market valuation drops were also driven by the second factor – individual company performance. And in turn company performance is sometimes a function of the third factor – the industry sector that the company operates in.

There was also a fourth factor, reserved for those companies that have no real underlying business. Obviously, we have seen some damaging collapses in the crypto sector, as we have been forecasting for many years, and we expect to see other businesses with poor utility fail.

A former lecturer of mine who traded in Wall Street used to refer to stock market crashes as “Judgement Day”, referring to the Terminator series of movies, and meaning that all asset classes get harshly judged, and those investors found holding poor investments lose everything. We have worked very hard over the years to be Judgement Day resilient, and are very happy with our performance this year so far.

But we remain cautious, because a tumbling market can spread across all asset classes very rapidly. So far, we are proving resilient – I’ll explain why.

Firstly, we have benefited from our market valuation caps, which allowed us to avoid the recent excessive frothiness of the capital markets when we performed our valuations. These caps are no longer in play for most companies, so we are now more exposed to the market movements.

Secondly, however, the companies that we have invested into are growing, on average (weighted by holding value), by 50% per year. Over time that sort of growth will beat any market.

Thirdly, we have a well-diversified portfolio of companies that are at different stages, have different revenue models, and are exposed to different industry sectors. Some of them are thriving in this economy, and almost all of them have the ability to set their own prices in the face of rising inflation. As for the ones that are not doing so well, we have marked their value down, sometimes substantially. We expect that some of those companies will return to their rightful place on our list of valuations once their industry sector recovers.

Fourthly, this is venture capital, and we always have the risk that companies might fail. Indeed failure is expected, though it is never enjoyable or desired. In our case we know that all companies do provide valuable products or services, but some may have revenue that is too small for a genuinely sustainable business. In our portfolio, these companies have a collective valuation of under \$4 million, so our exposure is small. In general companies we invest in, under our current mandate, can continue to operate when times are tough, though they might need substantial restructuring to continue without funding. For this to happen the founders, who may have invested many years of their lives into their businesses, would need to embrace even further struggle for the next few years. It is absolutely reasonable, allowable and sometimes necessary in our sector for both founders and investors to stop, to fail, to close down or walk away from a business. At 2040 Ventures we are not happy seeing founders driving themselves to exhaustion, poverty or worse, and while founders are typically wired to continue at all costs, we feel it may sometimes be more courageous to look instead to the next venture, albeit with vastly more experience.

In summary, to reiterate, we see that the overall strength of our portfolio is good. We are confident that the companies we have invested in are providing high-quality and valuable services and products. We are confident that almost all companies are performing well and have strong, often very strong, long-term prospects. And while short-term markets may have their say, the underlying growth of portfolio companies means that we are very confident of the long-term success of your investment.

## **Fund Raising**

Despite our performance, and perhaps because of capital markets or uncertainty about our performance, our own fundraising efforts this year have been very poor. We have raised, as we write this, under \$1.5 million from the wholesale offer, which does not allow us to invest more than a token amount into portfolio companies.

We have an increasingly strong appetite to invest into companies, seeing great value within and outside our portfolio. We do like to invest - over the last year since September 2022 we invested \$15 million, and it is already seeing returns. We see that we can place tens of millions into companies at good valuations that are growing at a pace well in excess of that required to deliver strong returns.

So we've decided to do something about it by bringing in some experts to help. We are delighted to introduce Ben Kay, our new chief financial officer, and Tom Culley, our new marketing director. Their principal role will be to lead us on the path to an initial public offering (IPO).

Ben has already travelled to Australia and met with a good number of equity capital market participants in both countries. His early assessment is that an IPO is unlikely, as far as the bankers see it, in 2023. His current hypothesis is that we would look to a pre-IPO investment round in a year's time, followed by a public offering in early 2024. There is obviously a considerable amount of work to do before we can have a reasonable expectation of whether or not this will happen, and we will keep you well informed as we embark on the journey.

We are very conscious that we not only need to provide a compelling investment deal for new investors, but then we also need to ensure that all existing shareholders benefit from our offers. What that means in effect is that we would likely make the pre-IPO investment round into a retail offer so that we can offer benefits, perhaps including rights or options, to all existing shareholders. Our guiding star is to drive returns for investors based on changes in share prices over time and we are 100% aligned with that goal through the way our performance fee is calculated. The accrued performance fee does make it difficult for new investors to understand the value of the fund, so we are investigating ways to handle that.

Tom is taking over a wide range of marketing activities, meaning that I'll no longer be the one making edits to the website or tweaking fonts in emails. He is intent on uplifting all our communications, and exposing some of the great content that we have assembled over the years.

## **New Investment**

We did have a small amount of money left to invest this year, and I happy to announce our latest investment in Friendly Manager. The company has carved out an interesting position in software that helps sports clubs run their business. It's the first investment process led by Andy Magness, who is an analyst based in our Te Anau office. Andy is a long-term sports participant, organiser and business owner and his enthusiasm for the company and team has been infectious. There is more to come on the story, but we cannot tell it yet, although we can say we have options to invest further capital into the company.

## **2040 Ventures News**

We are sad to report that Anahita Haridasani left the 2040 Ventures team in October this year. We are very happy for Ana because she landed a role in mergers and acquisitions at a company that undertakes a large amount of that activity. She is eager to learn more and return to the venture capital industry in the future. We wish her well, and enjoyed the time we had her on the team. We are keeping an eye out for a replacement investment analyst, but until we have more capital this is not urgent.

Meanwhile we now have a good number of people who can act as directors of companies. At the moment myself, Nadine, Chris, Jez and Rohan are directors but we may also call on Ben and perhaps Tom in the future, while Anum is already acting as a board observer for two companies. The expansion of the team means that my own director workload has reduced significantly, and I am able to spend more time focused on high value situations. For me that means times of change – perhaps with rapid growth, as with Couchdrop, or for mergers and acquisitions (where Ben also brings experience), or for major strategic changes. Nadine has taken on quite a few directorships, all SaaS companies, and she is working hard to spread learnings on how to sustainably accelerate growth. The results are showing growth – and the substantial impact already made to the Projectworks board, which was our most recent SaaS investment, has been noted by the three Projectworks founders, and we are excited to say this company's growth rate continues to accelerate.

## **Company Highlights**

This quarter sees the usual range of news, and a deep dive with Karl into Devoli, our largest investment. We were happy to see Devoli's growth recognised, once again, at the Deloitte Fast 50 awards, with the company placing third in the Masters of Growth awards (for larger companies), and a credible 29<sup>th</sup> in the Fast 50 itself, against a wider list of small companies. Devoli has signed on a new virtual ISP customer – Nova Energy. If Nova supplies your power, or even if they do not, then consider adding their broadband service to your home. We continue to see Devoli make great strides with Contact Energy, who reported 75,000

broadband connections as at the end of September. When we add the 14,000 connections from Nova we see that the total number of connections is steadily rising towards 100,000 – the next target.

Quantifi Photonics' news about the Intel Capital-led \$25 million round has had unexpected benefits. The company saw a number of very highly qualified and experienced people, from across the world, seek to join the team. Their experience covers a range of roles across several competitors, and we, and they, are very excited to have them on board.

Conqa's four-day work week continues to work well – certainly for attraction and retention of staff, and from where we can observe, the work outcomes are also strong. The next milestone for the company will be \$5 million in recurring revenue, though I am keeping an eye on the overall construction sector. We would dearly like to invest more funds into the company.

RedSeed is also having a strong year, with some well-known brands joining their already large number of customers. We see RedSeed is setting the standard for retail associate training on both sides of the Tasman.

Read on for more company news below.

### **Grant Wakelin 1963-2022**

We are saddened to farewell Grant Wakelin. Grant was a good friend of mine, and of Punakaiki Fund, Devoli and a number of Punakaiki Fund shareholders.

Grant was most recently the CFO of Devoli, and a key part of the transition of the company into the much larger, carrier grade company it is today.

Grant started his career at IBM, and was asked, at a very young age, to fly to the USA to acquire a company, in order to maintain an important service for Telecom.

He completed the deal, returned to New Zealand, married the love of his life Trish Wakelin, and within days they left for the USA.

Grant led the company post acquisition, and then carved out a career spanning Texas, London, Connecticut and California as an entrepreneurial technology CEO. He built a substantial business, before, during and after the dot com boom, and then returned to New Zealand with his now expanded family.

Some time after he returned to New Zealand, Grant started 200 Square, along with his son Nik Wakelin and others. I met Grant through Nik, and I subsequently invested in 200 Square, which was an online real estate agency. I became a director alongside Grant. Grant, along with help from Trish and occasional help from other members of his family, drove the company for a number of years, moving from Taupo to Auckland in 2017. A few weeks later he turned up at the 2040 Ventures offices, as he was wont to do, and immediately said that 200 Square was running out of steam. He asked whether there were any work opportunities.

Serendipitously I'd just got off the phone with my brother, John Wiggs, after completing my final act as a director of Devoli. The founders of Devoli, Davey Goode and Barry Murphy, had decided that they wanted to appoint John as CEO, and so obviously I had to resign as a director. My last act was to suggest strongly to John that he find a highly competent CFO to take control of the accounting systems, to get the books into an auditable state. That's exactly what Grant did, and a lot more, including playing a critical role in forming and cementing the Contact Energy partnership.



Grant had the pleasure of working with his son Bryon at Devoli, who has also chosen to go into accounting and recently passed his Chartered Accountancy exams.

We have all known that Grant was ill for some time – he and Trish were living in the same complex as me during COVID, and they decamped to north of the Kapiti Coast for much of the last two years. Grant got to spend high quality time with family and friends, caught some suspiciously large fish, and enjoyed a peaceful live. I was honoured to be asked to speak about Grant, as was Karl Rosnell from Devoli, and I helped facilitate his service, and learned a lot more about his life. Grant had a strong moral compass, but enjoyed ambiguity and tough problems, always searching for the best negotiated outcome. He packed a lot into his relatively short live, and leaves behind a large hole. We miss him a great deal.

### **Quarterly Webinar and Quarterly Share Trading Auction**

We will hold our next share trading auction in the week Monday 5<sup>th</sup> to Friday 9<sup>th</sup> of December. It has been quite a few months since our last window, and we have some people who would like to sell, and also had a number of retail investors who were unable to invest in the wholesale offer.

Please [sign up to Catalist](#) as soon as possible so that you are ready for the trading, if you would like to acquire or sell shares.

We will have a Quarterly Update, which will include highlights of the offer, on Monday, 5<sup>th</sup> December, at 4:00pm. [Pre-Register now.](#)

Lance



# Portfolio Company Update

Key highlights for the September quarter for each company are below:



Shareholding: **53.9%**

First Investment: **Jun 2014**

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

- Devoli placed in the Deloitte Fast50, improving on their 2021 placings to 29th as well as placing 3rd in the Masters of Growth awards.
- Nova Energy migration has been completed with over 14,000 connections migrated onto the Devoli Network at the end of September resulting in over \$0.9 million of additional revenue per month.



Shareholding: **25.6%**

First Investment: **Feb 2015**

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

- The workforce at Onceit has stabilised since Covid, seeing a return to regular sick leave levels.
- Last quarter they saw a dramatic shift in productivity, having 56 units processed per hour vs 45 per hour this time last year, with no current bottlenecks around distribution or restrictions.
- Onceit have completely replaced their plastic infill packaging with paper infill, with the impact of this change being better for the environment at a slightly lower cost.
- They have renegotiated freight costs with Mainfreight for consolidated bulk deliveries.



Shareholding: **26.5%**

First Investment: **Dec 2015**

*[QUBEdocs](#) is a software as a service business that automates documentation for IBM TM1 on-premise and Planning & Analytics in the cloud.*

- The team are back with face-to-face customers and partners in Cologne, Germany.
- They now have a tight knit team which are running well together and have successfully won solid new customers including the Australian Defence Force.
- Their existing large enterprise customer base continue to renew their contracts reflecting their strong product-market fit.



Shareholding: **17.0%**

First Investment: **Nov 2017**

*[Quantifi Photonics](#) develops and manufactures advanced optical photonics test equipment for the global fibre optic communications market.*

- Quantifi Photonics successfully completed their Series C capital raise in July 2022 raising NZ\$25 million.
- Kees Propstra joined Quantifi Photonics team in September 2022 as VP of Marketing and General Manager of Quantifi Photonics USA Inc. Kees came from Multilane and has over 20 years of experience in product management and technology marketing.
- Caroline Williams was appointed as the new Board Chair in August 2022 and is an experienced director of high-growth companies. She brings extensive expertise in telecommunications, financial and the professional services industries.



Shareholding: **19.6%**

First Investment: **Oct 2015**

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

- MOBI have rolled out Auto upsell to 1/3 of all locations with further onboarding progressing well.
- MOBI have launched a new product offering 'Last mile delivery' providing delivery services through integration with the likes of Uber and is growing in popularity and provides cost savings.
- The company achieved a 37<sup>th</sup> placing in the Deloitte Fast 50.



Shareholding: **20.5%**

First Investment: **Feb 2017**

*CONQA provides software allowing the construction industry to do their quality assurance planning and execution online.*

- CONQA has hit \$4.8 million in Annual Recurring Revenue (ARR) and are averaging 6,266 photos per day, 13,200 checkpoints completed per day in the platform with 1,290 projects created.
- Several new feature improvements have been released, including: faster editing and data handling, streamlined project creation from templates, enhanced navigation, automatic saving of checkpoints, enhanced dashboard reporting, colour blind scheme and new filters.
- A four-day work week is being trailed until the end of November.



Shareholding: **6.3%**

First Investment: **Apr 2014**

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

- Raygun's software is soon to be integrated with Microsoft Teams and Slack.
- The company was a finalist for 'Homegrown Independent Software Vendors' (ISV) at the Innovation Awards and were amazed to make the list. However, the company was not successful in winning the award this year.



Shareholding: **17.9%**

First Investment: **Mar 2022**

*[Couchdrop](#) changes the way SFTP works on the cloud, allowing clients to move files automatically, securely, and efficiently between platforms.*

- The company signed 30 new Managed Service Provider (MSP) partners for Movebot.
- A major channel partner that supports large hotel chains in the UK and USA was also signed as a customer.
- Couchdrop saw strong quarter-on-quarter revenue growth.
- A Vancouver-based customer support team was launched to assist customers in North America.



Shareholding: **48.1%**

First Investment: **Mar 2015**

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

- New customers PVH Brands, PB Tech, Farmers, Jaycar, Boating and Outdoors, National Tiles and Jenny Craig have all been onboarded during the quarter.
- RedSeed saw a 32% increase in year-on-year total revenue, a strong result compared to last year.



Shareholding: **28.9%**

First Investment: **Feb 2015**

*[Orah](#) is a student engagement platform that helps schools and families better understand and support student needs.*

- Orah released their module called Conversational Survey within their Nurture product.
- The company held 3 webinars with experts on various topics related to student engagement.
- Development of their Family app has started.
- New deals were signed with Eton College in the UK and Phillips Exeter Academy in the US.



Shareholding: **29.6%**

First Investment: **Dec 2014**

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

- Melon is on track for a commercial launch of Bubble' in January 2023.
- A new Chairperson, Dr Laura Chappel has joined Melon. She is a seasoned healthcare executive with extensive experience in innovating digital health solutions, digital transformation, value-based care, and provider-health plan joint ventures.
- Melon's board now consists of four experienced directors, all with US Healthtech experience.
- Melon are currently undertaking a \$1.0m capital raise.



Shareholding: **49.6%\***

First Investment: **Feb 2015**

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

- Following the launch of the Weirdly Managers App (WMA) last quarter, Weirdly have grown their users base from 404 in June to 1,000 in September, having rolled out the app across two of its customer brands.
- JB Hi-fi and Boating Camping Fishing (BCF) have become customers and both come with significant expansion opportunities including JB Hi-fi Australia.
- An expenditure optimisation project has been completed to reduce operating cash burn.

*\* Shareholding prior to dilution by a material amount of founder options on issue.*



Shareholding: **17.5%**

First Investment: **Jun 2020**

*[Core Schedule](#) is SaaS-based scheduling software that allows hospitals and other medical service providers to develop and administer staffing rosters.*

- The company has attended three major conferences: QLD Health week, Emergency Medicine SA and ACEP in San Francisco, creating a significant customer interest in Core Schedule.
- Core Schedule have seen a 1,450% increase in activity on their social media platforms.





Shareholding: **16.7%**

First Investment: **Dec 2020**

*[Get Home Safe](#) delivers personal safety, lone worker, and journey management software solutions to everyone from individuals to small-medium businesses, to large corporations, government departments and multi-national enterprises.*

- The company has a new fatigue management solution being piloted by Livestock Improvement Group. This comes as an alternative to the often-conflicted requirements of the NZTA's commercial driving hours and MPI's animal welfare requirements for transporting livestock.
- Get Home Safe have closed a deal with the Matrix Environment in Canada with 500 licenses, their biggest sale outside of NZ & Australia.
- Get Home Safe's launch into the UK is going strongly with 26 customers as well as two channel partners.



Shareholding: **3.0%**

First Investment: **Aug 2021**

*[Whip Around](#) is a digital Driver Vehicle Inspections Reports and Maintenance platform that primarily services customers in the USA.*

- In September Poohan Nathan was welcomed back to Whip Around as Chief Operating Officer and New Zealand Country Manager, replacing Frank Jasper who has moved into his new role as Chief Strategy Officer. Poohan was Whip Around's first Chief Financial Officer.
- The past quarter has seen Whip Around realign both New Zealand and US teams ready for the next phase of growth, while making a conscious effort to preserve funding raised in late 2021 and protect their cash runway.
- Whip Around released two new product features – Whip Around Wallet and Vehicle Identification Number (VIN) Decoder.
- Chief Executive Officer Noah Hickey relocated to California in August to maintain some time zone balance between Auckland and Charlotte, North Carolina. This also allows him to connect and understand more of the US market and find future funding partners.



Shareholding: **3.0%**

First Investment: **Dec 2021**

*[Formus Labs](#)' platform employs cutting-edge biomechanics and machine learning to empower surgeons and improve the lives of patients worldwide.*

- A paper presented by Dr David Liu validated the ability and the accuracy of Formus Labs Formus Hip software and won the best open-source paper award at the Asia Pacific Arthroplasty Society conference in Bali.
- Formus passed its stage 1 MDSAP (Medical Device Single Audit Program) quality system audit and look forward to the stage 2 audit in Q4 2022. This will streamline entry of current and future products into Australia, Japan, Canada and the US.
- Formus has been attracting major interest from the orthopaedic community and will meet with top US surgeons in November to share the vision and bring them along on the journey.



Shareholding: **12.9%**

First Investment: **Mar 2022**

*[Projectworks](#) is a whole company optimisation platform that utilises intelligent business management software to improve a company's performance and bottom line.*

- Founders Doug and Matt spent a month in the US working on strategic partnerships and better understanding the US Market.
- The company signed their first customer in Croatia.
- Projectworks launched their first webinar on Change Management.



Shareholding: **3.7%**

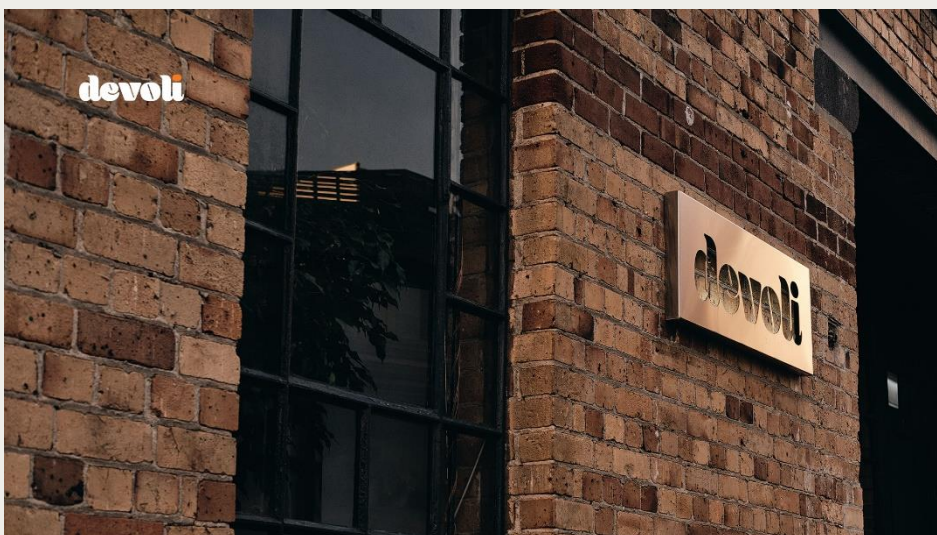
First Investment: **Oct 2022**

[Friendly Manager](#) enables clubs to focus on the game by providing time saving club management and administration automation.

- The merger between Friendly Manager and Hello Club is ongoing with more details to follow next quarter.
- The team have moved to their new premises in the Tauranga CBD.

# Riding the telco tsunami. How Devoli found opportunity in disruption

**Devoli has chalked up another great year and has grown significantly since our first investment in 2014. Devoli now manages over 100,000 broadband connections and Australian expansion beckons. Vincent Heeringa tells the backstory about this devilishly good company.**



To understand Devoli you need to cast your mind back to 2008. ‘Mad Men’ was the hottest TV show on the globe. Teenage singer Taylor Swift was riding high with her second album ‘Fearless’. And Paul Reynolds presided over a Telecom that was in the process of being broken in two. The split into wholesale (Chorus) and retail (later Spark) was long overdue. It had been fought for by free-market innovators and resisted by Telecom’s board and its skills.

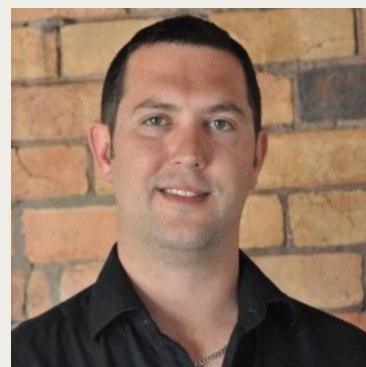
The split sparked a minor revolution. New Zealand was the first to see an incumbent telco ‘voluntarily’ break up and welcome aspiring competitors into its network. It also coincided with the rollout of Ultra-Fast Broadband, providing Kiwis with some of the fastest and cheapest Internet delivery in the world.

The Internet was suddenly anyone’s business.

Into this fertile soup stepped entrepreneurial telco engineers, Davey Goode and Barry Murphy, and software specialist Hadleigh Bognuda, with Vibe Communications. The mission: make it easy to navigate the tangle of pipes and relationships needed to set up direct relationships with Chorus.

“Davey and Barry were dynamos in a sector that was lazy,” recalls Lance. “I remember when I first met them, Davey stuck a transceiver against the window, pointed it at the Sky Tower and said ‘there ya go, you’ve got the Internet’. They were just those kind of guys. Anything’s possible if you just push it hard enough.”

The two did push hard, making the technology and the market bend in their favour.



*Barry Murphy (Founder)*

“Davey and Barry had seen first-hand the frustrations of smaller businesses working with the legacy Telco providers. With Chorus opening up the network, there was a need for an independent aggregation business to be the champion for the customer by allowing more tailoring and the ability to scale without having to

buy and manage your own network. In today's terms, it's a bit like fractional ownership," says the now CEO Karl Rosnell.



*Davey Goode (Founder)*

The model worked. IT firms used Vibe to create networks for their customers. New ISPs launched using Vibe as a 'white label' for their retail brands – so-called Virtual ISPs. Vibe itself launched new products including IntelliPath, which allowed inter-data centre connections to be established within minutes. And it imported gear to expand its network for its growing customer base.

By 2014, Vibe ranked 34th in the 2014 Deloitte Fast 50 with 252% revenue growth and 189th in the 2014 Deloitte Technology Fast 500 Asia Pacific index.

## Punakaiki Fund jumps in

Across town, newly minted venture capital fund Punakaiki Fund was hunting for opportunities. It had already invested in a couple of smaller companies but had bigger fish in mind. "Vibe was the kind of company we were looking for. It had strong sales, a terrific team and great potential to benefit from the market disruption," says Lance.

Punakaiki Fund was the first external investor, originally investing for a 20% stake in April 2014 and lifting that to 25% the next year. Lance joined the board.

Soon after, Vibe took its first foray across the ditch, purchasing an Australian group of companies called RackCentral for a share and cash deal. By 2017 the company was humming, recording just under \$1 million per month in recurring revenue, expanding access for the Intellipath brand in Australia, and netting some big New Zealand customers.

The company was winning ugly, picking up contracts and opportunities where conventional telcos left money on the table. Punakaiki brought some corporate discipline. The company hired John Wiggs, Lance's brother, as CEO and also brought in Grant Wakelin as Head of Finance and Operations, later CFO (sadly, Grant died of cancer earlier this year).

"The idea was to get some enterprise discipline in there," says Lance. "The wheeling and dealing, just make it happen culture is right for a start-up. Davey and Barry formed relationships and by hook and by crook they put it together. What we needed were processes."

A key step was creating the automation software that could turn the bootstrap into business. "Davey wrote it and combined with the new executive leadership, Vibe was starting to look like an enterprise."

The company also hired young-gun Karl Rosnell as a general manager. Karl had just wound up as CEO of Connect, a successful IT and unified communications business and customer of Vibe.

"Connect is really successful in what it does but the rental model means a customer sale is generally once every three or five years, depending on the size of the deal. We were great at selling vehicles but were leaving all the petrol in the pump. When I got introduced to the Vibe guys it was a real 'aha' moment for me. They had something magical – they allowed IT companies like us to create wonderful recurring revenue streams by selling the petrol".

"I joined Vibe when there was just under a million dollars a month of recurring revenue. For a business run by a couple of engineering founders that's an outstanding success. Building scalable, recurring revenue streams is challenging in any environment. It speaks volumes about them and the quality of their solution that it grew through word of mouth and relationships."

What Vibe lacked was scale and speed. Karl saw a future and so did Punakaiki Fund.





## New look, new brand

In late 2017, Vibe rang in the changes. Karl was made CEO, replacing John Wiggs, and immediately led a rebrand, transforming Vibe into Devoli – a play on the idea of being devilishly clever. The company moved premises to a freshly renovated Victoria Park and started hiring new staff.

New directors were added. Paul Trotter, Sean Hannan and Brook Paterson joined while founders Davey Goode and Barry Murphy stood down. Punakaiki Fund lifted its share to 33%, then bought further shares from the founders in 2018, taking its stake to 44.5%.

Success bred success. A big win occurred when Devoli was appointed to back Stuff Fibre, the first virtual ISP customer of real scale. “They put their brand on the front of our machine and we grew them to 20,000 customers in a pretty short space of time. It was an important proof point for us – showing that we could operate at scale with a big New Zealand brand.”

The win was short lived. Much to the team’s dismay, Stuff Fibre was purchased in 2020 by Devoli’s competitor Vocus Communications. “It was obviously extremely disappointing for our team. And to be fair, it was disappointing for Stuff too. We grew them from 3000 customers to 20,000 and they won Broadband Provider of the Year for four years in a row.

Disappointments aside, it’s a measure of how robust Devoli is that revenues continued to grow, especially after winning the contract to provide broadband for Contact Energy in 2019 and more recently Nova Energy (2022).



*Karl Rosnell (CEO)*

## Devil’s in the detail

Karl says the secret behind Devoli’s success is that it delivers exactly what the founders originally intended – making the complex simple. Networks are largely the same, he says. As a country we’ve upgraded our networks to cope with demands of Netflix and the Rugby World Cup - but essentially what comes down our pipe is the same no matter who the provider is.

“What makes Devoli different is the service we offer our customers, especially through automation. Our platform creates a single pane of glass for a customer to order what they want. That might be provisioning a new 0800 number, installing a new site for a business or a residence, upgrading to fast fibre, checking a fault or

billing queries”.

“You don’t have to be technical to use it. It strips the lingo out of the market to help anybody to be successful.”

## Covid, Australia and beyond

If you were to design a way to handle a Covid lockdown, it might just be Devoli in March 2020. The company was already ‘light’ in that it works in software, so being physically present was not strictly necessary. A culture of trust meant working from home was not as disruptive as it was for many. And they’d just signed Contact Energy to provide broadband to its now burgeoning work-from-home customer base.

“We did really well. It wasn’t as disruptive for us as it was for many, and of course we were busy with Contact. But I’ll be honest, it was unpleasant. How do you connect with each other and generate the kind of magic from humans bumping into each other regularly? You know, that’s been the bit that I’ve worked personally on the most. How do we continuously try to extract that goodness?”



Culture has been a key part of Devoli's success. To present a simple solution to clients requires a backroom full of hardworking, smart engineers.

Karl says Devoli's culture is built on the "old fashioned stuff". The Victoria Park premises are a former restaurant and during the refit they decided to keep the bar and large kitchen area. Every Friday the company hosts drinks and holds barbecues in the summer. They celebrate successes every week and encourage multidisciplinary teams to ensure problem solving. "We want our engineers to mingle with the network team and the customer success team. It's one company with a single aim: to solve customer's problems."

The company now employs 46 staff and expects to grow. "But the nice thing about our business is that it's scalable. We don't need hundreds of new staff to grow hundreds of new sites or connections.

And speaking of growth, where next?



Rohan MacMahon, a Punakaiki-appointed director, says Australia is especially attractive because it's large but relatively unsophisticated. "We don't see anyone over there doing the same things as us or at least not well."

He says mobile is a possibility. Mobile is often rebranded by retailers such as Coles – so-called mobile virtual network operators. "With some modification our tech could provide that virtual mobile service as it could in Singapore or elsewhere," says Rohan.

Karl's bullish as ever. He says the unbundled telco markets offer opportunities in Singapore, UK, South Africa, Europe and North America. "There's plenty of places to compete and win. But also there's emerging technologies, right? We're looking at mobile, fixed wireless, Starlink, Google Fibre or whatever, it doesn't matter. Our job and our platform is to provide the right product for the customer no matter where they might be."

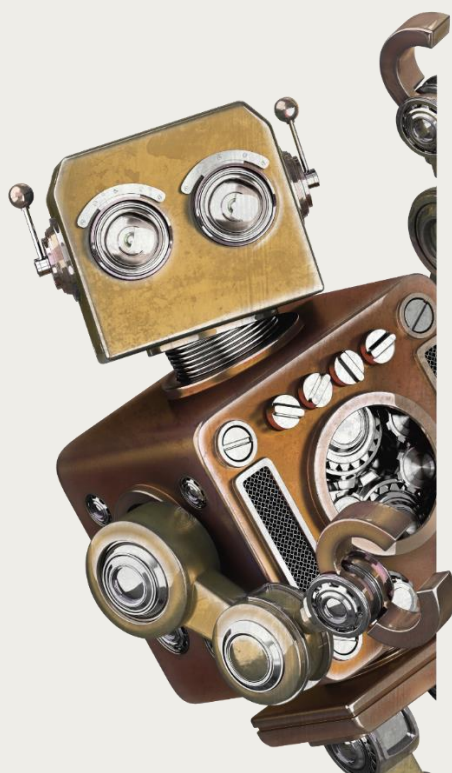
### **Helluva good company**

Back home the success continues. Earlier this year Devoli reported 75,000 broadband connections up from 44,000 a year earlier. The most recent data, released in mid-November 2022, indicates that new broadband signups have continued at pace with Contact Energy now having over 75,000 broadband customers, with Contact Energy now having more broadband connections than they do for gas!

It's also undertaken significant network modernisation and investment allowing Devoli to compete head-to-head with the larger incumbent telco businesses, leveraging their agility and ability to deliver complex network-based solutions.

And the growth continues. In November last year, Devoli was ranked 47<sup>th</sup> in the Deloitte Fast 50, and 10<sup>th</sup> in the Masters of Growth category, and this year it improved ranks to 29<sup>th</sup> and 3<sup>rd</sup>, respectively. It was also named one of the top 27 New Zealand-based Network Security Firms and

Companies, and had a material role in helping Contact Energy claim multiple accolades at the New Zealand Compare Awards including the Supreme Champion Award and the prize for Best Customer Support.



As we were writing more action has occurred. Davey and Barry were keen to sell the remainder of their shares – 38% of the company. Punakaiki Fund though, is limited to buying more of the company. “It represents a very large portion of our portfolio, it’s over our (maximum), so we’re unable without board approval to buy more shares in a company,” Lance told BusinessDesk last week. “We’re doing a fundraising now to get more money to do a bunch of investments, but that would be hard for us to get past the board at this stage.”

As this story goes to press, we have met with a prospective buyer of these shares and the match looks good – a New Zealand based family office with history of long and patient investments.

Watch this space.

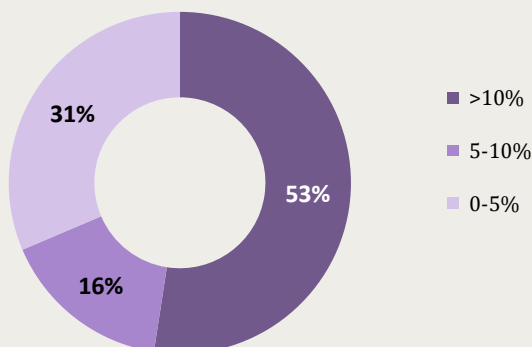


# Portfolio Valuation Splits

(as at 30 September 2022)

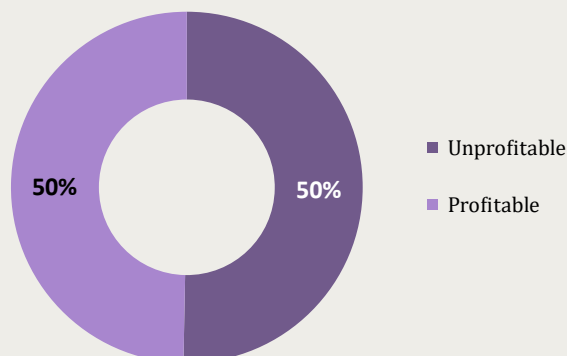
The diagrams below show various splits of the valuation of our 18 core portfolio companies.

## Valuation Split By Concentration



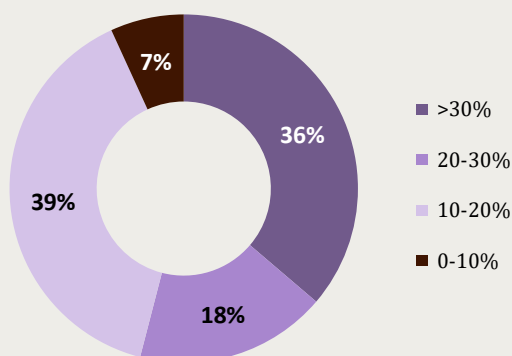
Investments in three companies represent 52% of the value of Punakaiki Fund's portfolio.

## Valuation Split By Profitability



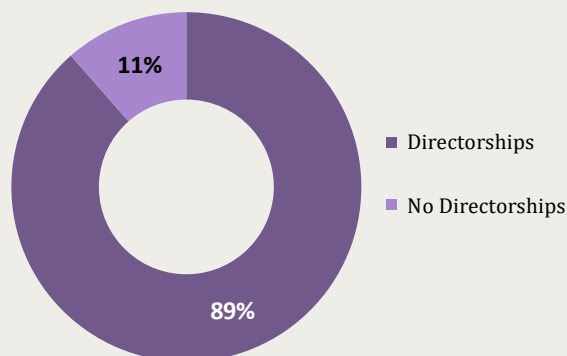
There is a good mix of profitable and unprofitable (investing for growth) companies. We are comfortable with the sustainability of the companies for now, given each's cash reserves.

## Valuation Split By Ownership %



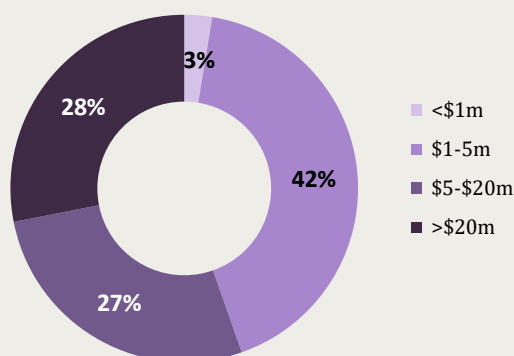
Unusually for a venture capital firm, we have large shareholdings in a number of companies – and that is where the value is increasingly concentrated.

## Valuation Split By Directorship



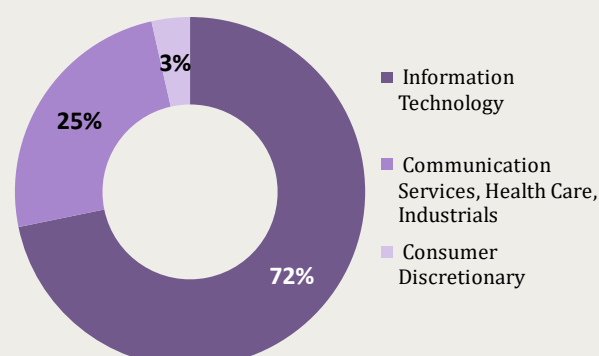
Directorships reflect that we are able to contribute where we have larger shareholdings, and thus have more visibility of and influence on company performance.

## Valuation Split By Revenues



As companies grow in revenue, so, in general, does their value and the amount we can invest. We expect that over time the portfolio value held by medium and large companies will increase, unless those investments are sold.

## Valuation Split By Industry



We have a deliberate strategy of diversifying across industries, and that provides resilience to external shocks, such as the COVID-19 pandemic.

# In the News

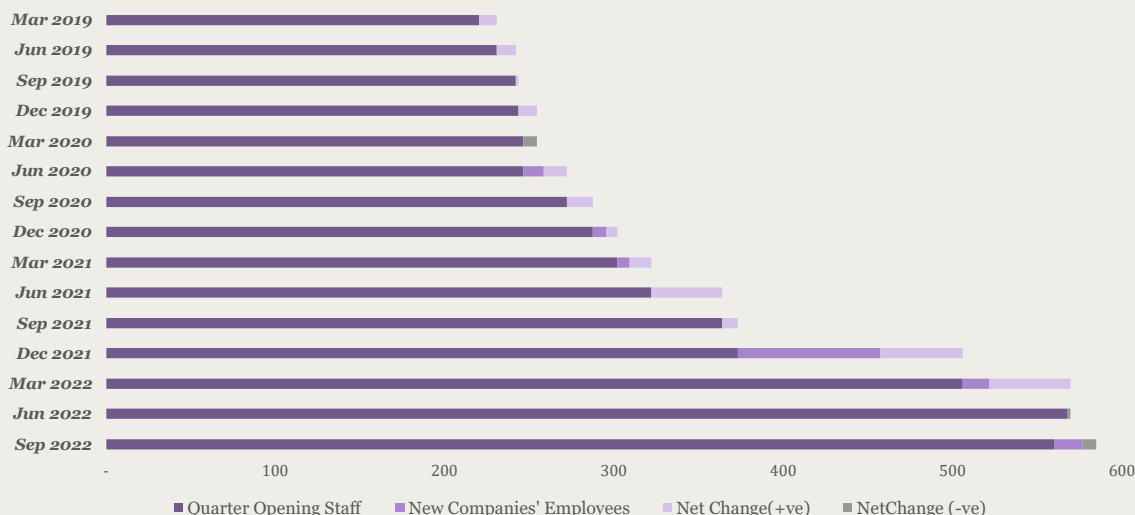
<b>Conqa</b>	<a href="#">Making the four-day week work: 'You've got to move to the future'</a>
<b>Devoli</b>	<a href="#">'Frustrated' Devoli founders look to offload shares</a> <a href="#">Deloitte Fast 50 and Master of Growth Award list</a>
<b>Formus Labs</b>	<a href="#">Former J&amp;J exec joins orthopedic medtech company</a>
<b>MOBI</b>	<a href="#">Deloitte Fast 50 Award</a> #37
<b>Moxion</b>	<a href="#">The Moxion story: a Kiwi movie classic in the making - Newsroom</a>
<b>Orah</b>	<a href="#">Orah offers schools a student wellbeing solution (The Spinoff Podcast)</a> <a href="#">Kiwi startup Orah signs Mark Zuckerberg's school, raises millions</a>
<b>Quantifi Photonics</b>	<a href="#">Quantifi Photonics raises \$25m in oversubscribed Series C round</a> <a href="#">Quantifi Photonics targets silicon photonics testing with \$15M series C round</a> <a href="#">Caroline Williams appointed chair of Quantifi Photonics</a> <a href="#">Kees Propstra appointed Vice President of Marketing and General Manager of Quantifi Photonics USA</a>
<b>RedSeed</b>	<a href="#">How retailers can meet changing customer needs: RedSeed</a>
<b>Punakaiki Fund</b>	<a href="#">Punakaiki Fund presses pause on listing as its venture assets near \$100m</a> <a href="#">Punakaiki Fund offers investors \$400 to overcome compliance pain</a> <a href="#">2040 Ventures appoints financial executive to new CFO role</a> <a href="#">Business leader found he was on a 'manel' so did something about it</a>

# Employment Monitor

## (September 2022 Quarter)

Here is a snapshot of our portfolio companies' employment situation at the end of September 2022:\*

### Net Change in Employment



Our employment monitor shows a total of 577 jobs at the end of September 2022 quarter, represented by our new investment, Friendly Manager having 17 staff. The remaining portfolio companies had a decrease of 8 compared to June 2022.

### Hiring Intentions



Hiring intentions since last quarter have risen slightly from 30 to 37 across all portfolio companies since end of June quarter. This includes our new investment in Friendly Manager.

*\*Employment figures are not included for companies that are sold or inactive (non-core portfolio companies).*

*\*\* The quarterly periods prior to June 2022 have been restated following the reconciliation of quarterly employee numbers for these periods.*



# Corporate Update

## Governance

The Board convened on 25 November 2022 for the quarterly Board meeting to consider, among other matters:

- A review of Punakaiki Fund's investment portfolio;
- The value of Punakaiki Fund's investment portfolio as at 30 September 2022;
- Punakaiki Fund's Path to IPO;
- An update on progress towards Punakaiki Fund's Objectives and Key Results and Punakaiki Fund's future growth and management;
- The refresh the Management Agreement between Punakaiki Fund and 2040 Ventures;
- Insurance;
- A review of share register provider Catalist Markets; and
- This quarterly report.

The Board's next meeting is planned to be held in February 2023.

## Financial Reporting

The Investor Net Asset Value ("iNAV") of the fund after all contingent performance fees at 30 September 2022 were accounted for was \$85,407,364 (or \$32.16 per share), compared to an iNAV of \$85,905,021 (or \$32.70 per share) as at 30 June 2022, a minimal change. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was \$92,273,746 at the end of the quarter, compared to \$93,012,235 at the end of the June quarter.

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

- An opening cash balance on 1 July 2022 of \$1,067,000;
- \$275,000 was invested in Friendly Manager and Melon Health;
- \$110,196 was received in principal and interest repayments from EverEdge;
- \$840,300 was received from the issue of 28,010 new shares in the wholesale capital raising round;
- Management fees of \$417,465 were paid to 2040 Ventures;
- Administration fees of \$70,438 were paid to 2040 Ventures in relation to the September quarter administration services provided to Punakaiki Fund;
- \$37,375 was paid for CFO recruitment services;
- \$18,596 was paid for accounting services;
- \$58,251 was paid for audit services;
- \$20,844 was paid for legal services;
- Share register monthly fees and set-up costs of \$2,598 were paid;
- Branding and design expenses of \$1,799 were paid;
- Directors' Fees of \$9,225 were paid;
- GST refunds of \$27,303 were received; and
- A closing cash balance of \$1,134,059 as at 30 September 2022.

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 30 September 2022	NZ\$	for the Quarter Ending 30 September 2022	NZ\$
<b>Current Assets</b>		<b>Operating Cash Flows</b>	
Cash on Deposit	1,134,059	Gross Interest Received	875.57
Accounts Receivable	18,727	Bank Fees	(26)
Prepayments	17,238	Payments to External Advisors	(136,864)
<b>Non-current Assets</b>		Management Fees	(417,465)
Investments	93,955,000	Administration Fee	(70,438)
<b>Total Assets</b>	<b>95,125,023</b>	Other Net Expenses	(11,823)
		GST Refunds	27,303
<b>Current Liabilities</b>		<b>Total Operating Cash Flows</b>	<b>(608,438)</b>
Accounts Payable	181,018		
<b>Non-current Liabilities</b>		<b>Investing Cash Flows</b>	
Accrued Performance Fee	2,670,260	Investments Made	(275,000)
<b>Equity</b>		Investments Realised & Dividends Received	110,196
Retained Earnings - Operations	(7,858,025)	Dividends Received from Investments	-
Retained Earnings - Accrued Performance Fee	(9,536,641)	<b>Total Investing Cash Flows</b>	<b>(164,804)</b>
Share-based Payment Reserve	6,866,382		
Asset Revaluation	56,831,093	<b>Financing Cash Flows</b>	
Share Capital	47,260,579	New Capital Received	840,300
Capital Raising Costs	(1,289,641)	Brokerage Fees	-
<b>Total Equity and Liabilities</b>	<b>95,125,023</b>	Dividends Paid	-
		<b>Total Financing Cash Flows</b>	<b>840,300</b>
<b>Accounting NAV</b>	<b>92,273,746</b>	<b>Total Cash Movements</b>	<b>67,058</b>
<b>iNAV (after deduction of the performance fee)</b>	<b>85,407,364</b>	Opening Cash Balance	1,067,000
<b>iNAV per Share</b>	<b>32.16</b>	Closing Cash Balance	1,134,059

### Cash Flows for the September 2022 Quarter

Since the September 2022 quarter-end, an interim quarterly management payment of \$418,286 (including GST) has been made to 2040 Ventures. The Administration Fees for the December 2022 quarter (totalling \$117,875 including GST) and subscription cost recovery of \$23,334 including GST has also been paid to 2040 Ventures. Director Fees of \$124,275 (including withholding tax when applicable), share register fees of \$1,698 and design costs of \$1,875 have been paid. GST refunds of \$7,078 have been received

No new investment have been made to date during the quarter.

\$265,980 has been received from the issue of 19,066 new shares in the current wholesale offer, with additional amounts expected following the close of the offer.

### Capital Raising Plans

Punakaiki Fund current wholesale offer remains open until 30 November 2022.

### Additional Disclosures / Conflicts

With the exception of the conflicts which have been previously disclosed, the directors of Punakaiki Fund or the managers of 2040 Ventures do not have any other additional disclosures or conflicts of interest to declare.

## **Contact**

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