

City of Perth

Investment in Perth's Startups

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Prepared by Perth Angels

Prepared for



City of Perth

Table of Contents

1	Preamble.....	4
1.1	Purpose of Study	4
1.2	The Investigator Consortium.....	4
1.3	Profile of Participants in Investment in Startups	5
1.4	Capital and Finance Participants	6
1.5	Startups	6
1.6	Support Services – Collaborative Workspace, Incubation and Acceleration	7
1.7	Support Services – Professional Disciplines	8
1.8	Policy and Regulatory	8
2	Executive Summary	9
2.1	Key Inhibitors to Growing Capacity for Investment into the Sector.....	9
2.2	Key Opportunities to Redress Inhibitors	13
2.3	Next Steps	20
	2.3.1 Recommendations for the City of Perth.....	20
	2.3.2 Release Recommendations to the Community	21
3	Detailed Report	22
3.1	Introduction	22
3.2	Capital and Finance Participants	22
	3.2.1 Where Is The Money	23
	3.2.2 Where and How They Participate.....	36
	3.2.3 Funding Types - Pros & Cons	37
	3.2.4 High Growth Investors in Australia	38
	3.2.5 Interstate.....	38
	3.2.6 International.....	39
3.3	Startups	40
	3.3.1 Where Are They Found	40
	3.3.2 Key Findings.....	41
3.4	Support Services – Collaborative Workspace, Incubators and Accelerators.....	43

3.4.1 Where Are They Developed	43
3.5 Support Services – Professional Disciplines	44
3.6 Policy and Regulatory	44
4 Annexures	45
4.1 Annexure I – Key Stakeholder Interviews	45
4.2 Annexure II – Interview Questions	46

1 Preamble

1.1 Purpose of Study

The purpose of this report is to:

- i. Update the City of Perth as to:

The various investment stakeholders that play a part in Perth's innovation ecosystem, particularly in startups¹, across various channels and at different stages of the lifecycle, and from that gain insights into, inter alia:

- where they are placed in terms of average funding quantum each organisation would invest;
 - whether there are particular industry verticals that the players preferred; and
 - when is the usual timing or stage of funding placed.
- ii. Provide insights into the ecosystem involved in developing investment opportunities for local companies, where investment is concentrated, and insights into interstate, national or international investors active in Perth.
 - iii. Provide insights into how companies and investors engage with each other, how the ecosystem facilitates these relationships, and whether there are opportunities for improvement.
 - iv. Provide recommendations as to what actions the City might look to undertake or facilitate to enable further investment in startups.

1.2 The Investigator Consortium

This study was led by Perth Angels with the support of Entrepreneurs in Residence, StartupWA, Techboard and Visagio.



eircorporate.com



startupwa.org



techboard.com.au



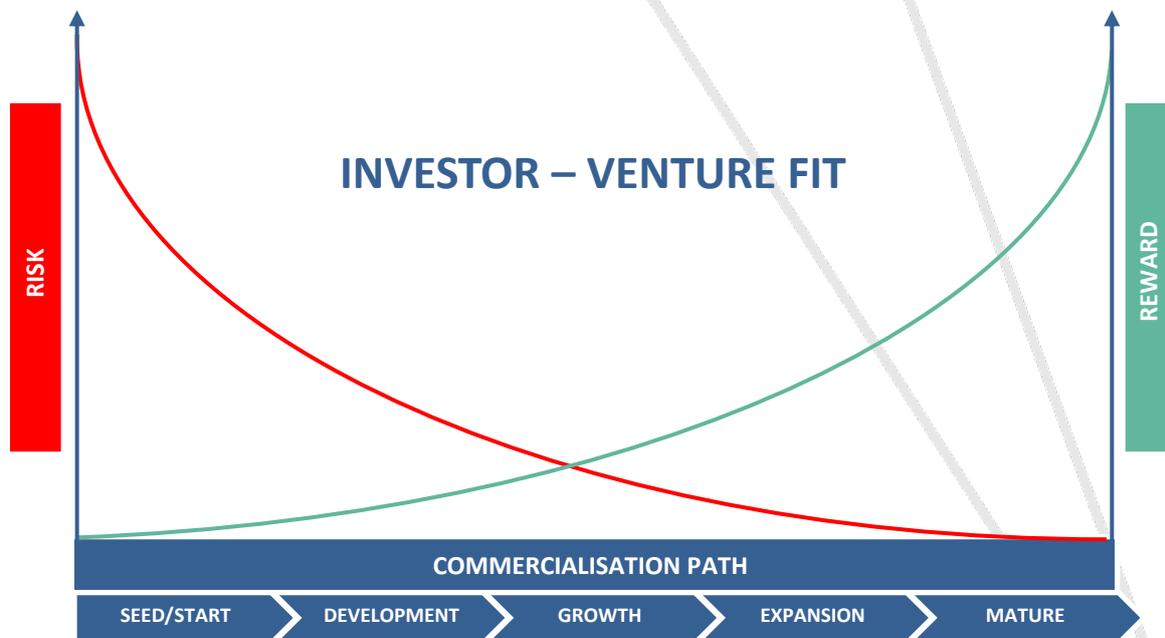
visagio.com

¹ https://en.wikipedia.org/wiki/Startup_company

1.3 Profile of Participants in Investment in Startups

There is a wide range of individuals and organisations that participate in investing in the innovation and technology sector in Western Australia.

Each, however, has a different appetite for risk and reward and, as such, not all participate in the early stage of an innovative technology venture’s commercialisation lifecycle.



An individual’s or organisation’s preferred risk/ reward profile influences their appetite and interest in select ventures:

- i. At different stages preferences;
- ii. Capacity at different stages; and
- iii. Across different sectors.

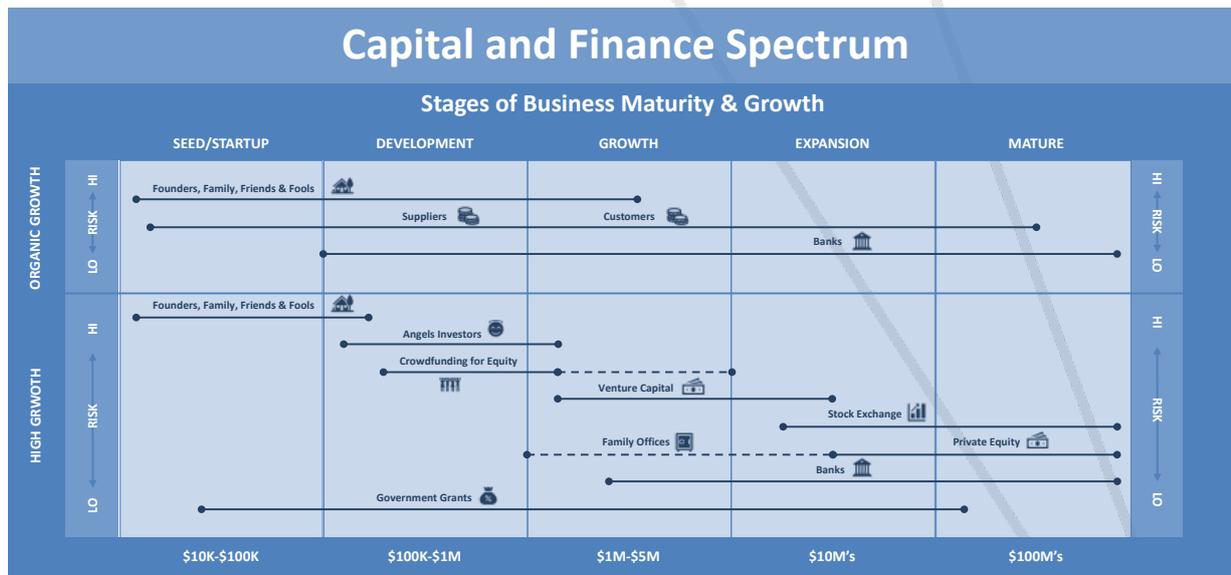
The key participants involved in the ecosystem of investment in the early stage of the innovation ecosystem comprise of:

- i. Capital and Finance Participants – those who provide the money
- ii. Startups – those who require the money
- iii. Support Services – Incubation and Acceleration – those who assist venture development
- iv. Support Services – Professional Disciplines – those who provide advice
- v. Policy and Regulatory – those who set regulatory guidelines

1.4 Capital and Finance Participants

Where Capital and Finance providers participate in the innovation and technology sector is driven by their risk/ reward appetite.

The following diagram summarises where capital and/ or finance may be sourced in context of either organic (or lifestyle) growth businesses, or high growth ventures.

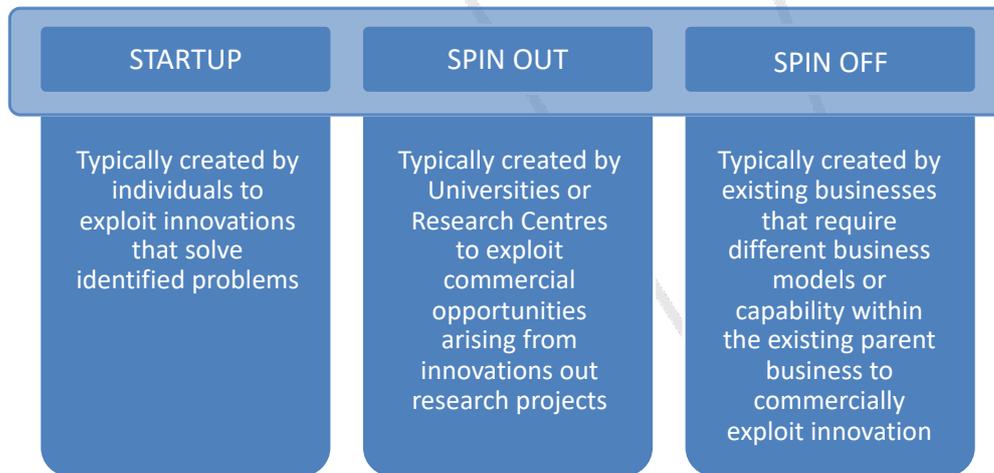


The high growth ventures are predominantly associated with the Innovation and Technology Sector. As such, this report focuses on participants with an appetite for high growth ventures, which we will call startups, and seeks to provide a description of each of the key capital & finance providers, what drives their interest, what reward they seek, where they like to participate (sector/ geography/ stage), how they seek to participate (in terms of quantum and amounts), how they make decisions, and where they find deals.

1.5 Startups

Startups – usually innovative technology high growth early stage ventures – are typically characterised by the stage of their commercialisation path, the sector they dominantly service, and their genesis as a newly created venture, e.g. Med Tech startup, or Mining Tech spinoff, or Cyber Tech spinout.

Characteristics of the different genesis types of newly created ventures maybe summarised as follows:



While the different genesis types are described separately above, along this document we will refer to both startups, spinouts and spinoffs as startups.

1.6 Support Services – Collaborative Workspace, Incubation and Acceleration

Participants that support startups seek to develop and enhance their entrepreneurial capability, business model, offerings, customer validation and market connection comprise this category.

Collaborative workspaces	Provide destinations in the form of physical of space for startups to associate and gain collaboration with like-minded people.
Incubators	Provide management training to incubatees and can be operated by academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, or combination of the above.
Accelerators	Provide management training to cohort members to build entrepreneurial capability, build business models, validate offerings and provide market connections; accelerators may or may not provide investment for selected cohorts; accelerators tend to be sector or disciplined focussed.
Innovation hubs	Are discipline or industry focussed and acts as a beacon to attract startups and small and medium-sized enterprise to achieve a critical mass of people to access expertise and facilities and make better use of talent and technology.
Growth centres	Are to build specific industry competitiveness through increasing collaboration and commercialisation, improving international

opportunities and market access, enhancing management and workforce skills and identifying opportunities for regulatory reform.

1.7 Support Services – Professional Disciplines

Participants that support startups through the provision of specialist disciplines such as accounting, business and technology consulting, legal, intellectual property, or marketing. Such services tend to be fee-for-service based.

1.8 Policy and Regulatory

A number of policy and regulatory participants influence the ecosystem by which other participants operate and engage with startups.

These participants operate at each level of Government: Federal, State and Local.

Different levels have different abilities and instruments by which to influence the other participants in Innovative and Technology Sector.

Federal Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities;
- ii. Tax incentives;
- iii. Governance and risk management; and
- iv. Funding incentives.

State Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities;
- ii. Market connections; and
- iii. Funding incentives.

Local Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities;
- ii. Market connections; and
- iii. Funding incentives.

2 Executive Summary

This study was commissioned to investigate the startup ecosystem in Western Australia to gain insights into how participants engage in innovative high growth technology ventures and provide recommendations to enable investment across the sector.

The study reviewed a number of recent industry studies and interviewed a number of industry participants to identify key inhibitors to, as well as, key opportunities to grow the capacity for investment into startups, to increase the growth and success of these ventures.

The study focussed on the startup and development stages of early stage ventures.

This report seeks to provide a treatise on:

- i. The various participants in the capital and finance spectrum;
- ii. What drives them to where and how they typically prefer to participate; and
- iii. What the inhibitors and opportunities are to:
 - Increase capacity in a particular class; and
 - Shift or increase their appetite to participate at the earliest startup stage.

2.1 Key Inhibitors to Growing Capacity for Investment into the Sector

In brief, a number of key inhibitors were identified that limit the level of investment in creating, developing and commercialising startups and are summarised as follows:

- i. Proven investment paths in alternative sectors and geographies:
 - In WA, this has traditionally been in listed stocks and/or property; and
 - Outside WA, in other early stage ecosystems that have proven success: eastern states, offshore.
- ii. Risk at early stages (real and perceived).
- iii. Don't invest in what you don't understand.

Proven investment paths

Western Australia has a long heritage of investing the public markets and property.

***in later stage
investing***

These investment paths have proven overtime to have relatively easy engagement to investing guided by supporting stakeholders such as corporate advisers and stockbrokers with relatively short-term access to liquidity regardless of investment performance.

While due diligence is more dependent upon individual effort in direct property investments, listed investments (tech, industrial, property or other) have the supporting stakeholders undertake such effort given they tend to be remunerated as part of the transaction and as such as funded to do such work.

In comparison, startups tend to be very illiquid, have little or nil cash to pay supporting stakeholders, and so require much more individual effort in sourcing investment deals, complete disciplined due diligence and involvement in ongoing monitoring and/or management.

Indeed, something largely absent from the Australian landscape, but more prevalent in more developed ecosystems like the US, is the trend of successfully exited local tech entrepreneurs reinvesting significant amounts of their wealth into the next generation of startups.

On a positive note, there are increasing examples of this occurring in Australia in recent years, most notably Square Peg Capital (co-founded by Paul Bassat of SEEK fame) which last year raised Australia's largest ever fund at \$340m. As well as VC firms, others invest through family offices and other investment vehicles, such as the Atlassian founders investing through their respective funds Skip Capital (Scott Farquhar) and Grok Ventures (Mike Cannon-Brookes), and Transition Level Investments (Steve Baxter).

However, this trend is yet to really emerge in Western Australia.

***Risk/ reward
profile***

Simply, investing at the earlier the stages of a venture growth and maturity has a commensurate increase in risk the earlier the stage and correspondingly less value or reward.

From an investor perspective a key risk, as stated above, is that startups tend to be very illiquid and present limited if not nil opportunities for cashing in or exiting the investment until sufficient value has been created:

- i. For others to acquire (and thereby provide an opportunity for an investor to gain a return for their investment); or
- ii. Participate in a public listing to provide liquidity (and thereby provide an investor the opportunity hopefully to gain a return or at least provides the ability to more easily convert to cash and possibly choose an alternative investment).

Other key risk areas seen by investors in startups tend to be:

- i. Lack of 'hygiene factors' that demonstrate and substantiate investment readiness typically required by investors to assess the opportunity; these typically include:
 - Unrealistic valuations that increases the risk of not achieving an acceptable return;
 - Limited number of founders that have all of domain knowledge, scaleup experience and capital to push through the valleys in technology business growth;
 - Limited awareness in clarifying what risks have been taken out, what risks do remain but how these will be mitigated;
- ii. For national and international investors, there is a risk in the 'tyranny of distance'; there is insufficient capacity to assess and take initial participation/investment in an early stage venture to give confidence in a venture's potential for success.

***Industry
opportunity
awareness***

In brief, private investors do not invest [directly] in what they don't understand.

Lack of awareness of sector dynamics that a specific innovative technology high growth early stage venture operates in presents increased risk and, as such, a hesitation to participate.

As opposed to listed or property stocks, awareness is either perceived to be better understood (WA has a long heritage developing mining stocks, some have delivered positive return through liquidity options; property is more tangible and again reasonably liquid) or is supplemented by supporting stakeholders such as corporate advisors and/or stockbrokers.

Such ventures tend to be in traditional sectors and/or well-established businesses and consequently have historical performance metrics. Startups by their very nature tend to be in emerging technology that disrupts the traditional and, as such, does not have historical performance metrics.

This aspect requires a more disciplined investment approach and support of startups to ensure that appropriate and adequate validation of market problems, solution fit, and market entry tactics are implemented to mitigate such risks.

Relative to this, is the small number of avenues to field test products, validate and gain early traction. This can be accentuated in the eyes of

the investor where the venture is in a new market with untested technology. The investor then questions: is another market more attractive? Is the period for the return on investment uncertain? How urgent is the customer need?

The study highlighted a general lack of experienced investors or funds in early stage technology.

2.2 Key Opportunities to Redress Inhibitors

To redress the above inhibitors, the study identified a number of opportunities to grow the capacity for investment into the Innovation and Technology Sector to increase the growth and success of startups.

These are as follows:

Publish and promote profiles of success of early stage ventures and private investments

As expressed above, something largely absent from the Australian landscape, but more prevalent in more developed ecosystems like the US, is the trend of successfully-exited local tech entrepreneurs reinvesting significant amounts of their wealth into the next generation of start-ups.

While there may be a lack of high value exits in startups, there are certainly several ventures that are experiencing significant uplifts in enterprise value as part of follow on investment rounds.

The lack of exemplars limits the awareness of opportunities and consequently sustains a perceived greater risk/lower reward in startups.

The opportunity exists for the City to support the profiling of, or showcasing, successful startups that demonstrates how value is being created, how risk is being mitigated and importantly how and where other startups are being developed.

The study identified that assisting in building higher profiles of successful scale ups and those who are past the early stage but growing faster would lift the awareness of private high net worth investors in startups.

This is especially important for those ventures that are in sectors where Western Australia exhibits natural entitlements for success such as in Mining, Energy, Agriculture and, increasingly, Health and Medical Technologies as well as Cyber Security.

Options for the City to profile/ showcase successful ventures include:

- i. Publish case studies in local and national business press (e.g. The West, Business News, LGA newsletters);
- ii. Publish case studies in international business press as part of facilitating international missions (e.g. to Singapore) to showcase investment opportunities in WA-based startups;
- iii. Contributors to the study also highlighted that, where success metrics such as exit valuations or share prices are wanted to remain confidential, and not for public disclosure, the City could facilitate boardroom lunches hosted by the Mayor and or Councillors with exclusive invitations to local high net worth individuals and entrepreneurs to discuss (under Chatham House Rules) investment outcomes and best practices;
- iv. Contributors to the study also highlighted that the City could consider establishing in the CBD, an Innovation Precinct (as opposed to more collaborative workspaces) that could be seen as the destination to showcase successful ventures (a living museum) and as an activated place engage with startups.

***Promotion of a
WA as a
destination that
leverages WA's
natural
entitlements***

By profiling successful startups in sectors where Western Australia has natural entitlements for success will cement a brand for Western Australia as a centre to find and participate in such ventures.

Western Australia has a number of natural entitlements that increase the probability of successful commercialisation of certain technologies and business.

- i. WA has a strong natural entitlement in technologies and businesses that align and service the mining and METS sectors; i.e. both in the mining and mining supply aspects of the supply chain including:
 - Engineering

- Software
- Automation
- Remote operations
- ii. WA also has strong entitlements in
 - Energy production and energy supply chain
 - Agriculture
- iii. WA has improving natural entitlements in the sectors health and medical.
- iv. WA has little natural entitlements in the sectors of Fin-Tech, Enviro-Tech and Marketing-Tech.

The opportunity is for the City to leverage these initiatives to promote these natural entitlements to establish a WA brand as a natural, capable, well supported ecosystem with proximal connections to markets where large global firms operate.

Lobby for and support the mitigation of financial risk for private investors

The City can assist in mitigating risk in investment in startups in the following ways:

- i. By supporting programs to build capability in private investors to increase their awareness of opportunities in successful startups;
- ii. By lobbying and supporting the provision of subsidies that will offset the financial risk of investing in startups.

This would be at each level of:

- Federal;
- State; and
- Local.

Contributors to the study also highlighted that the City could consider ways to liberalise certain local government regulations to facilitate the engagement with certain emerging technologies; for example, there are certain emerging technologies that are restricted under current regulations to operate on the Swan River waterways that if

liberalised would provide a public demonstration of the emerging technology.

Build capability that understands that early stage ventures are bone fide alternative investment class

To lift the awareness and understanding that investing in startups is a bone fide alternative investment asset class requires the building of capability in both the private investor and the investment readiness of entrepreneurial ventures.

The opportunity is for the City to actively support capability building programs that for:

- i. Private Investors, awareness of 'how to invest in' early stage ventures across:
 - Different stages
 - Different technologies
 - Commercialisation practices
 - Different industry sector or domains; especially those industry sectors that Western Australia has natural entitlement
 - That there is capability in the creating and realising of value and risk can be mitigated in investing in startups.

Build capability in early stage venture entrepreneurs to be investment ready

To increase the probability of investor interest in innovative high growth technology ventures requires the building of capability in the investment readiness of entrepreneurial ventures.

The opportunity is for the City to actively support capability building programs that for:

- i. Innovative technology high growth early stage venture entrepreneurs in assist in:
 - Preparing and readying their ventures to demonstrate a clear investment proposition that has a probability of generating returns.
 - How to push through the valleys in technology business growth.
 - Increase capabilities in commercialisation, capital raising and export.

Good examples of capability programs in this area are:

- i. Programs with high access to customers such as QuantumTX, Regional CONNECT, ON Prime, Curtin Ignition.
- ii. Investor education programs from Perth Angels and South West Angels.

Contributors to the study also highlighted that the City could consider supporting the offering of a second accelerator, similar to Plus Eight that would attract private funding of successful delegates.

Build capability and capacity in the ecosystem that supports startups to be investment ready

To assist in building capability in startups, their investment readiness as well as the attractiveness of their investment proposition can be improved through the attachment of experienced mentors and advisory boards.

The opportunity exists for the City to increase the availability and access to experienced mentors and Advisory Boards through implementing, or facilitating the implementation of:

- i. Platforms to provide opportunities for both entrepreneurial ventures and prospective mentors/advisors to engage with each other.
- ii. Engagement with industry bodies such as the AICD to promote entrepreneurial ventures that might attract qualified company directors and experienced business leaders to sit on advisory boards.
- iii. Facilitating mentor/advisor train the trainer program to increase the access to capable mentors with experiences in startups.

Build Capability in Established SME/Mid-Tier Businesses to Create More

Western Australia has a substantial number of established SMEs who are successful and well regarded in servicing the large global players in the mining, resources, energy and agriculture industry sectors.

These businesses are typically services-based businesses, albeit inherently not scalable due to being service based,

***Viable New
Created Ventures***

and have proven and valuable *intellectual capital* that if transformed into *intellectual property* could be scaled globally.

The opportunity is for the City to actively support capability building programs that for:

- i. SME/ Mid-Tier Business Proprietors to assist in:
 - How to transform intellectual capital into intellectual property that can be productised.
 - The opportunities of commercialising this intellectual property via spin-off structures, that effectively are newly created ventures but spin-offs as opposed to startups.
 - Building similar capability that ought to assist entrepreneurs to be investment ready.

***Leverage above
opportunities to
profile
investment
opportunities in a
capable
ecosystem to
encourage WA
corporates (Govt
and Industry) to
adopt corporate
venturing
practices and
facilitate cross
sector
collaborations***

While Western Australia has a limited number of large corporates, many of those that do operate here are large global players and, in a few sectors, provide a critical mass of world class industry. For example, the biggest and best of the global miners and energy producers operate in WA.

Consequently, WA has infrastructure, plant and equipment assets that are the best in the world.

Opportunities to solve real world problems in these environments innovatively, if solved here, have global potential with global credentials.

Taking action on the above opportunities, especially profiling successful and growing ventures and building a capable private investment ecosystem could be leveraged to raise awareness and encourage Corporates (Government or industry) to adopt corporate venturing and facilitate cross sector collaborations and development.

The opportunity is to unlock the large budgets and cash flows to provide funded opportunities to apply innovation in real world environments.

Globally, the practice of corporate engaging with startups is called corporate venturing; an example is RAC's BetterLabs.

Furthermore, corporates that are encouraged to engage with startups could also facilitate cross sector collaboration; for example, WA's capable autonomous remote operation technology providers in the energy sector can apply their technology at scale and demonstrate the ability to apply their technology in the space sector; or, if WA's capable Telehealth providers can apply their technology in remote mine sites they could demonstrate the ability to apply their technology in other countries.

Leverage above opportunities to profile investment opportunities in a capable ecosystem to attract national and international institutional funds

Western Australia has nil, and at most limited or fully invested, institutional venture funds focussed on early stage ventures. Given the lack of fund of fund managers (e.g. superannuation funds, banks, etc, that typically are the source venture fund funds) headquartered in Western Australia it is difficult to see the establishment of venture funds of any size located in Perth.

Acting on the above opportunities, especially profile successful and growing ventures and building a capable private investment and ecosystem could be leveraged to raise awareness in and attract national and international institutional funds.

2.3 Next Steps

2.3.1 Recommendations for the City of Perth

The following section will provide guidance into how the City can begin taking advantage of the opportunities which the study has identified. The accompanying steps have been structured in accordance with what is deemed most feasible to implement now through to what is expected to be a lengthier roll out.

1. Publish successful case studies in local press and online media

Successful case studies motivate and encourage readers to pursue further learning by researching the content further. By releasing a series of articles in conjunction with growing a presence online, the City can begin the facilitation process of growing a suitable audience with emphasis on online press/media. A structured approach for this to be achieved is:

- i. Publish cases in local and online media with tracking/cookie capabilities to learn more about the users engaging with the content. This can include marketing material which positions Western Australia as a strong incubator for startups in fields of mining, METS, energy production, energy supply, agriculture, food-tech and more recently health and medical.
- ii. Methodically release more case studies and begin to leverage online targeting tools to market to engaged individuals. As analytic insights of these individuals begin to optimise, the audience will consist of high net worth, entrepreneurs or other investors who are interested in the space.
- iii. With this audience established, the City can begin to investigate the feasibility of providing educational resources to this demographic and can consider future events.

2. Promote events and demonstrations highlighting the successful profiles to this audience

Engaged individuals are known to spread content/information/events which they find interesting via word of mouth. The City can take advantage of this phenomena by creating educational/networking events with the aim of providing information, resources and examples of successful industry profiles to generate a genuine interest in WA private investment. These events can be hosted at a precinct in the CBD which is dedicated to successful venture innovations.

3. Promote capability programs in partnership with early stage firms

Partner with early stage investment organisations such as Perth Angels to provide capability sessions/events. These sessions can take place at the CBD precinct and connect experience directors/mentors/advisors to entrepreneurs. If facilitated optimally, these connections may evolve to the consideration stage of the global corporate venturers in Perth.

4. Lobby for private investment and for commercial demonstrations in the Swan River

In conjunction with education sessions, attendee interest of a subsidy or risk mitigation provision should be documented. If there is substantial interest, these matters should be elevated to higher levels of discussion with policy makers.

Further to this, to fully position Western Australia as a prime incubator for early stage firm growth, the City should consider supporting a lobby for use of the Swan to showcase disruptive innovative solutions.

2.3.2 Release Recommendations to the Community

To build a community that aligns with the City's plans the use of local media press/online and a prime-time news feature would be of value. The content shared should include a broad overview of the steps, events and features the City are considering implementing. With each release of content there should be links available to direct those with a keen interest in the space to a page/site where they can learn more and potentially become involved.

Consideration should also be given around the use of social media to establish a community. This comes on the back of the WA premier's success in establishing a community where his transparency of information has been well received.

3 Detailed Report

3.1 Introduction

IBISWorld in their Start-up Genome Report 2017 stated that 92% of start-ups fail.

Research by the University of Melbourne suggests that for start-ups at least two years old, 77% of economic benefits will be created by 3% of start-ups².

These high growth 'scale-ups' typically require significant growth capital to fund that growth. But who is funding them?

The past five years has seen a steady increase in funding coming into the start-up sector in Australia, manifesting itself in billions of dollars raised by venture capital funds and an increase in technology funding by public markets.

According to data captured by Techboard which specialises in Australian start-up and tech data, total start-up funding from all sources during the 2019 financial year was \$6.9b, a 96% increase from the previous year's \$3.5b³.

Funding data suggests a maturing of the start-up and tech sector in Australia, with funding events generally getting larger as companies are maturing. In particular, there is a marked uptick in funding events greater than \$100m, up 167% in quantity and 235% in value.

3.2 Capital and Finance Participants

An individual's or organisation's preferred risk/ reward profile influences their appetite and interest in select ventures. Typically, this appetite is reflected:

- i. At different stages preferences.
- ii. Capacity at different stages.
- iii. Across different sectors.

The following section overviews the dominant capital and finance providers to startups.

² <https://pursuit.unimelb.edu.au/articles/why-are-australian-start-ups-failing>

³ <https://techboard.com.au/techboard-annual-funding-report-2018-19/>

3.2.1 Where Is The Money

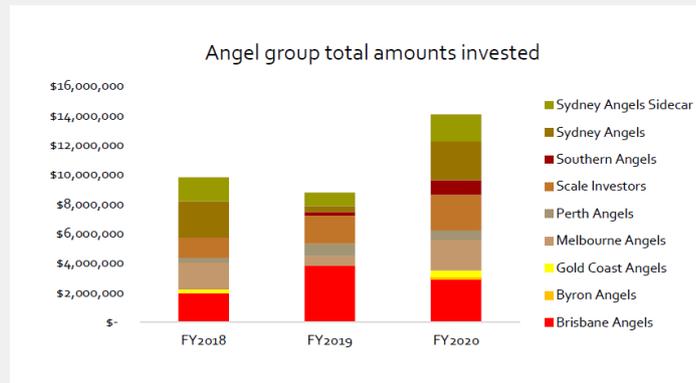
PARTICIPANT CATEGORY	VENTURE CAPITAL	
Characteristics	<ul style="list-style-type: none"> • Typically comprise 2 entities (i) the Fund Manager and (ii) the Fund • The Fund Manager is contracted by and paid by the fund investors in 2 ways (i) a management fee, predefined, as a percentage of the funds under management (ii) a performance bonus (or free carry) on fund returns over and above targeted returns agreed with the fund investors • Domain and operational expertise relevant to the intended portfolio • Intended deal hold time less than 6 years • Capital is sourced from their Fund • Traditional VC \$1-5m+ Micro VC \$100k+; they support their investments with follow on funding to maintain equity position • Market sector they have experience • Equity investment (rarely debt) • Controlling shareholder (not necessarily majority shareholder) • Powerful terms and conditions including significant rights • Funds are established for 10-year terms 	
Sources of Their Capital	<ul style="list-style-type: none"> • Investment agent using someone else’s money (e.g. your super), generally, under a 10-year contract to make predefined equity investments 	
How to Measure Success	<ul style="list-style-type: none"> • For the Fund Manager in their own performance <ul style="list-style-type: none"> ◦ Incentivised by a share of the ‘carry’ • For the Fund in their investments <ul style="list-style-type: none"> ◦ Measured by IRR – Seeking 25% p.a. 	
Commentary	<ul style="list-style-type: none"> • Venture funds tend to participate at the Growth stage of a venture maturity and, as such, do not typically participate at the Start up or Development stage. • Venture Funds typically seek a Capital Yield only and all surplus cash during the life of the investment is applied to accelerate growth • Fund Investors tend to engage experienced Fund Managers and as such it is problematic to see new Fund Managers established 	
Examples in WA	<ul style="list-style-type: none"> • Yuuwa Capital • CP Ventures • Lateral Capital Ventures 	<ul style="list-style-type: none"> • 808 ventures • Upswell • Viburnum

PARTICIPANT CATEGORY	PRIVATE EQUITY
Characteristics	<ul style="list-style-type: none"> • Typically comprise 2 entities (i) the Fund Manager and (ii) the Fund • The Fund Manager is contracted by and paid by the fund investors in 2 ways (i) a management fee, predefined, as a percentage of the funds under management (ii) a performance bonus (or free carry) on fund returns over and above targeted returns agreed with the fund investors • Operate under a defined contract to invest in particular types of businesses • Managers usually have financial engineering skills in portfolio market sectors, e.g. retail • Frequently use leveraged investments – debt
Sources of Their Capital	<ul style="list-style-type: none"> • Typically, a fund of institutional money
How to Measure Success	<ul style="list-style-type: none"> • In their own performance <ul style="list-style-type: none"> ○ Incentivised by a share of each deal ○ Measured by IRR for the fund but, also by ROI per deal – typical deal hold time is less than 4 years • In their investments <ul style="list-style-type: none"> ○ Measured by IRR – 15+% ○ Fund Investors typically seek an Income Yield during the life of the investment as well as a Capital Yield on exit of the investment
Commentary	<ul style="list-style-type: none"> • Private Equity funds tend to participate at the Expansion and Mature stage of a venture maturity and, as such, do not typically participate at the Start up or Development stage. • Private Equity funds tend to apply funds to acquire or aggregate mature businesses to achieve growth
Examples in WA	<ul style="list-style-type: none"> • Banksia Capital

PARTICIPANT CATEGORY	EQUITY CROWDFUNDING
Characteristics	<ul style="list-style-type: none"> • A way to raise money from the public to finance their business; The Corporations Amendment (Crowd-sourced Funding) Act 2017 provides a framework for crowdfunding • Certain Limitations on Investors
Sources of Their Capital	Own funds (retail investors)
How to Measure Success	<ul style="list-style-type: none"> • In their own performance • In their investments
Commentary	<p><u>Equity vs. Reward</u></p> <p>Equity-based</p> <p>Equity-based crowdfunding has existed in Australia for many years but has been restricted to wholesale investors investing through the platforms. Following the introduction of legislation in 2017, the regulation was extended to retail investors, creating what is today referred to as crowd-sourced funding (CSF). In this respect Australia followed in the footsteps of the UK (2011) and New Zealand (2014). Further legislation introduced in 2018 extended CSF to proprietary companies (it was previously limited to public companies). In order to raise funds in this way, companies must use an accredited intermediary (a “platform”). In 2019, over \$50m has been raised across Australia and New Zealand through CSF campaigns (as compared to roughly \$500m in the UK).</p> <p>The main platforms operating in this space are:</p> <ul style="list-style-type: none"> • Equitise (40,000 subscribers), which helped neobank Xinja raise several million dollars over multiple rounds. • VentureCrowd (11,000 subscribers), which has focused on wholesale investors for now, even though it is licensed for retail investors CSF. • Birchal (14,000 subscribers), a spin-off from the non-equity-based platform Pozible. • AngelList: this US crowdfunding platform has been a trail blazer in this space, allowing predominantly US-based start-ups to raise equity funding from remote investors, using a syndicate model. AngelList lists 24 angel investors in Perth, as compared to 752 in Australia. That being said, these numbers need to be taken with a pinch of salt, as AngelList hasn’t penetrated the Aussie market to the same extent as it has elsewhere. <p>Other active licensed platforms include ONMarket, Enable and Billfolda.</p>

	<p>Platforms typically charge a success fee of 5% and above on successful completion of a raise (this requires the minimum target to be raised).</p> <p>Reward-based</p> <p>Kickstarter</p> <p>At time of writing, Kickstarter has only five Perth-based projects currently live on its platform, and another 199 historically successful campaigns. The most financially successful campaigns in Western Australia have both come from cycling start-up Cycliq: raising \$668k and \$267k from over 1,700 backers in 2016 and 2015 respectively. Cycliq has since listed on the ASX. Interestingly the third most successful WA campaign was also a cycling related business, ShockWiz, raising \$133k in 2017 from over 400 backers.</p> <p>In the last couple of months, Perth-based indoor garden start-up Urbotanica raised just over \$100k from close to 500 backers on Kickstarter, having previously been unsuccessful in a CSF campaign on Equitise.</p> <p>Indiegogo</p> <p>Indiegogo was initially focused on independent movies (hence the name), though its focus has broadened over time. It is perceived as more flexible than Kickstarter. For instance, it allows healthcare campaigns, which Kickstarter doesn't, and it allows campaigns to collect backer funds even if they haven't reached their campaign target, whereas Kickstarter has traditionally been strict about its 'all or nothing' approach. As a result, campaigns on Indiegogo have a lower 'success' rate (circa 20%), versus Kickstarter's 33%, where campaign-owners are incentivised to push harder to achieve their target.</p> <p>While initially focused on independent film projects, Indiegogo has come a long way since. Well-known Australian success story Flowhive, the company that makes an easy-to-use beehive, launched on Indiegogo in 2015, with a target of \$70k. It went on to have a dream run and raise over \$12m, with 25,000 orders from 130 countries. It became Indiegogo's most successful campaign ever. Flowhive returned to the platform in 2018 and raised another \$15m.</p>
<p>Examples in WA</p>	<p>Over the past 12 months Western Australian start-ups have taken to crowd-sourced funding big-time, with multiple start-ups being funded. West Winds Gin (not Perth-based but WA) was first off the mark with close to a million dollars raised, followed by Credi (\$250k), Rhinohide (\$660k), Tiller Rides (\$1m) and TetraMed (\$400k) all closing successful campaigns.</p> <p>WA-based smart earbuds company Nuheara raised \$1.1m from 3,600 backers in 2016 – after it had listed on the ASX. This makes it the first ever ASX-listed company to do a crowdfunding campaign. It is also the first wearables company to list on the ASX. It returned to crowdfunding (of a kind) this year, raising \$2m in pre-sales through its own website.</p>

PARTICIPANT CATEGORY	ANGEL INVESTOR
Characteristics	<ul style="list-style-type: none"> • Angel Groups <ul style="list-style-type: none"> ○ Individually or as a Group ○ Amounts \$5,000 - \$500,000 ○ Market sector they have experience ○ Equity investment (sometimes debt) ○ Prefer minority shareholding, but do want some controls ○ Generally, “get their hands dirty”. “Put back” from experience to coach entrepreneurs and build success. ○ Generally, terms and conditions that protect their interests, not overwhelming. ○ Want returns for all stakeholders ○ Generally, accept some level of risk ○ Generally, term 3-5 years. ○ To have fun • Angel Individuals
Sources of Their Capital	<ul style="list-style-type: none"> • An Angel is a person who invests his/her own money and time in an unlisted growth company as a personal decision with the objective of realising a capital return in the foreseeable future.
How to Measure Success	<ul style="list-style-type: none"> • In their own performance • In their investments
Commentary	<p>Angel investment plays a vital role in supporting earlier stage businesses, though total funds deployed are small in terms of total venture dollars. As of last year, WA now has two angel groups, with Southwest Angels joining Perth Angels, or three if you include Innovation Bay. A positive sign is that Perth Angels invested more in FY19 than Melbourne Angels or Sydney Angels, despite being a younger group with a smaller membership operating in a less sophisticated environment. The reality is, there have still not been any exits by angel groups in WA, and the larger angel cheques tend to be written outside of the formal angel groups and are often less visible.</p>



Examples in WA

- Angel Groups
 - Perth Angels
 - SW Angels
 - Innovation Bay
 - Melbourne Angels
 - Brisbane Angels
- Angel Individuals
 - Larsen Ventures
 - Stokes Family
 - Steve Baxter
 - Vukelic
 - Dorado Capital (multi-family investment house)

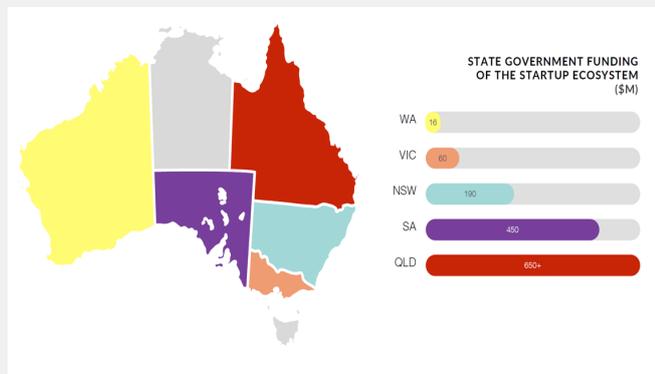
PARTICIPANT CATEGORY	FAMILY, FRIENDS AND FOOLS
Characteristics	<ul style="list-style-type: none"> • Family <ul style="list-style-type: none"> ○ Individually or as a whole ○ Usually invest in small amounts ○ Tend to have no experience in investing ○ Commonly equity investment ○ Want returns for better standard of living for the family ○ No real concept of required rate of return • Friends <ul style="list-style-type: none"> ○ Individual or as a group ○ Investment can be of substantial size with enough members ○ Typically, equity investment ○ Want high returns in a short period of time • Fools <ul style="list-style-type: none"> ○ Individual or as a group ○ Invest on blind faith ○ Overly optimistic ○ Emphasise potential over risk ○ Commonly equity investment
Sources of Their Capital	The primary source of capital is from savings, inheritances and gains from other investment.
How to Measure Success	<ul style="list-style-type: none"> • In their own performance <ul style="list-style-type: none"> ○ The venture is growing rapidly due to their contribution. • In their investments <ul style="list-style-type: none"> ○ The value of their investment has appreciated
Commentary	Family and friends are the most common to get involved with this sort of financing. They invest more based on liking the entrepreneur rather than the feasibility of the idea. Fools generally become involved as a last resort of financing after family and friends' investments have become exhausted. Fools invest on the back of the entrepreneur's optimism and expect to make a significant return while downplaying the risk of their investment.
Examples in WA	<ul style="list-style-type: none"> • KeepSpace

PARTICIPANT CATEGORY	CORPORATE VENTURE
Characteristics	<ul style="list-style-type: none"> • Finance projects in alignment with their mission, goals, values • Look to invest in technology which complements their existing and future operations • Equity investment, on occasions lines of credit • Provide expertise/mentorship/guidance
Sources of Their Capital	<ul style="list-style-type: none"> • Retained earnings • Capital raisings
How to Measure Success	<ul style="list-style-type: none"> • In their own performance <ul style="list-style-type: none"> ◦ Gain significant appreciation on invested capital through exit events • In their investments <ul style="list-style-type: none"> ◦ The investee company is generating increased sales and profits • Investee companies are successful in disrupting industries or trends
Commentary	<p>Corporate ventures are generally involved in seed, early stage and expansion financing. Their primary motive is for significant capital appreciation through their investee company experiencing a liquidity event such a M&A or listing on the public markets.</p>
Examples in WA	<ul style="list-style-type: none"> • Consumer <ul style="list-style-type: none"> ◦ RAC's Better Labs • Health <ul style="list-style-type: none"> ◦ HBF • Energy <ul style="list-style-type: none"> ◦ Woodside • Agriculture <ul style="list-style-type: none"> ◦ CBH

PARTICIPANT CATEGORY	PUBLIC MARKETS – STOCK MARKETS										
<p>Characteristics</p>	<ul style="list-style-type: none"> • Australia’s stock markets are dominated by the Australian Securities Exchange (ASX) but also includes secondary exchanges including the National Stock Exchange of Australia (NSX) and Sydney Stock Exchange (SSX) • Ventures listed on the stock exchange must meet minimum compliance criteria (net assets, governance, structure, etc). • Ventures listed on stock exchanges enter the exchange either through an Initial Public Offering (IPO) or through a Reverse Takeover (RTO). • Shares must be able to be traded openly in the market. • Share value is determined through the price a share is bought by a willing buyer from a willing seller. 										
<p>Sources of Their Capital</p>	<ul style="list-style-type: none"> • Capital is sourced from the issue of new shares from the public 										
<p>How to Measure Success</p>	<ul style="list-style-type: none"> • In their own performance <ul style="list-style-type: none"> ○ Public market investors measure their own performance in ability to sell shares held in listed companies at an higher value than that which they bought those shares at. • In their investments <ul style="list-style-type: none"> ○ Public market investors measure the performance of their investment through being to sell their shares held in listed companies at an higher value than that which they bought those shares at. 										
<p>Commentary</p>	<p>In addition to private capital, the public markets provide a disproportionately high (compared to other states) source of funding for start-ups and tech companies. In FY2019, \$6m was raised by WA tech companies listing on the ASX (this excludes amounts raised by foreign companies relocating to Perth in order to list on the ASX). But dwarfing this amount was the \$180 raised by tech companies across over 42 placements, including companies like Fastbrick Robotics, ResApp Health and AusCann.</p> <div data-bbox="927 1346 1374 1778" data-label="Figure"> <p>GLOBAL HEADQUARTERS</p> <p>32.3% of Australian Stock Exchange (ASX) listed companies have Perth headquarters. This collectively accounts for the largest proportion of Australian mining companies working in Africa, Latin America, Central Asia and many other markets.</p> <p>Source: ASX, June 2019</p> <table border="1"> <thead> <tr> <th>State</th> <th>Number of Headquarters</th> </tr> </thead> <tbody> <tr> <td>Western Australia (WA)</td> <td>716</td> </tr> <tr> <td>South Australia (SA)</td> <td>71</td> </tr> <tr> <td>Victoria (VIC)</td> <td>772</td> </tr> <tr> <td>Queensland (QLD)</td> <td>444</td> </tr> </tbody> </table> </div>	State	Number of Headquarters	Western Australia (WA)	716	South Australia (SA)	71	Victoria (VIC)	772	Queensland (QLD)	444
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<p>Examples in WA</p>	<ul style="list-style-type: none"> • ASX 										

PARTICIPANT CATEGORY	ACCELERATORS
Characteristics	Cohort-based, educational program, typically providing startups with education, mentoring and a small cash injection in exchange for equity
Sources of Their Capital	Varies – most typically one or several corporate partners
How to Measure Success	<ul style="list-style-type: none"> • In their own performance • In their investments
Commentary	The number of seed accelerator programs has multiplied over recent years, in particular the Plus Eight program supporting a number of ventures with funding, education and networks. Other programs like Founder Institute and Vocus Upstart are not currently active.
Examples in WA	<ul style="list-style-type: none"> • PlusEight • Curtin Accelerate • Also, non-WA accelerators that have accepted WA companies: Blue Chilli, SproutX, CreativeHQ

PARTICIPANT CATEGORY	GOVERNMENT GRANTS
Characteristics	Non equity, grant funding, typically based on specific criteria
Sources of Their Capital	Can be federal government, state government or sometimes local government. Also international grants (eg European Union) and corporate grants (Google)
How to Measure Success	<ul style="list-style-type: none"> • In their own performance • In their investments
Commentary	<p>The biggest funder of earlier stage ventures likely remains the R&D tax incentive. Federal funding is also available through Accelerating Commercialisation grants and the Export Marketing Development Grant. The Medical Research Commercialisation Fund (managed by Brandon Capital) has supported a number of WA life science companies, with OncoRes Medical a notable example. Over the past four years, the Accelerating Commercialisation program has provided \$12m in funding to 23 businesses in WA with pre-revenue projects.</p> <p>Other sources of grant funding include:</p> <ul style="list-style-type: none"> • Australian Renewable Energy Agency (ARENA), which last March awarded a \$9.4m grant to Perth-based Hazer; • AustCyber Project Fund, which awarded a \$300k grant to local startup QuadIQ in February; • Advanced Manufacturing Growth Centre (AMGC), \$150k grant awarded to Cellr in March; • The Medical Research Commercialisation Fund’s Biomedical Translation Fund which granted \$20m to Respirion Pharmaceuticals last year and \$1m to NoisyGuts more recently. • The federal government’s \$5m grant to Perth ASX-listed startup PainChek.
Examples in WA	<ul style="list-style-type: none"> • State Government <ul style="list-style-type: none"> ○ JTSI Innovation Vouchers



PARTICIPANT CATEGORY	BANKS AND NON-BANK LENDERS
Characteristics	<ul style="list-style-type: none"> • Banks <ul style="list-style-type: none"> ○ Debt based financing (Venture Debt) ○ Debt repayments based on a prime rate. I.e. LIBOR ○ No collateral ○ Combined with warrants, or convertible equity ○ Form of intermittent financing between equity rounds
Sources of Their Capital	<ul style="list-style-type: none"> • Retained earnings
How to Measure Success	<ul style="list-style-type: none"> • In their own performance <ul style="list-style-type: none"> ○ Investee firms consistently able to pay interest payments on time • In their investments • Firms invested in are scaling rapidly in terms of sales and are close to the next round of equity financing
Commentary	<p>Investment by banks and non-lenders in early stage firms can be a positive for firms looking to list on the public markets. By having a bank or non-lender involved, the public market is better positioned to perceive a public valuation as fair due to the second valuation provided. This valuation is usually on top of the valuation given by venture capitalists who may have invested prior.</p>
Examples in WA	<ul style="list-style-type: none"> • NAB • ANZ • IdeaBank

3.2.1.1 Key Findings

Nationally, venture capital funds have been consistently growing. According to start up advocacy groups StartupAUS, VC firms raised over \$4 billion from 2015 to 2018, with the annual value of new funds closed roughly doubling each year⁴. VC firms are now attracting more institutional level capital as larger fund sizes become more practical for industry super funds that historically have been too large to invest in early stage ventures. In particular, super fund HostPlus has established itself as a hugely significant player in the tech investment space, having backed a range of VC firms including Square Peg Capital, Brandon Capital's Medial Research Commercialisation Fund and CSIRO's Main Sequences Ventures fund. Other super funds are following in HostPlus' footsteps, including First State Super, Sunsuper, AustralianSuper and Hesta.

Having recently announced the biggest capital raise in Australian VC history, Square Peg Capital is the largest Australia-based VC firm. Its current US\$500m targeted raise follows previous funds of \$US235 and US\$180m. Another significant player in the space is AirTree Ventures, which has raised \$585m across its three funds to date. Other notable VC funds include Blackbird Ventures and One Ventures.

These large funds don't just back Aussie companies – Square Peg also backed Uber and Stripe– however their impact as facilitators of Australian unicorns (young, private companies with a valuation in excess of US\$1 billion) is significant. Melbourne-based Airwallex was one such start-up to benefit when Square Peg invested \$8m in the two-year-old fintech in 2017. Two years later the company was valued at over \$1 billion.

Other Aussie unicorns include now NASDAQ-listed Atlassian (arguably Australia's first ever unicorn), Canva, CultureAmp, Safety Culture and Afterpay, suggesting a trend of approximately one unicorn per year.

In Western Australia, we are used to lamenting the scarcity of venture capital in WA, but we sometimes forget Perth has a not-insignificant VC track record.

Stone Ridge Ventures operated several funds with decent exits like Scanalyse, and Yuuwa Capital's \$40m fund is now a decade in and focussed on managing existing investments (like iCetana). There haven't been any funds of this size launched in a while, though other boutique funds are coming onto the scene with big ambitions, like 808 Ventures (not exclusively focussed on WA but based in Perth), Lateral Capital Ventures (NCX, Spectur, Soar), Viburnum and Upswell.

By virtue of their smaller size, these funds tend to target the seed stage, and so there remains a funding gap at the later stages which continues to be filled largely by the ASX.

⁴ <https://crossroads.startupaus.org/>

3.2.2 Where and How They Participate

SOURCE	DESCRIPTION	BUSINESS STAGE	AMOUNT \$	SECURITY
Personal Savings	Own Resources @ Early Stage	Very Early	1,000 to 50,000	None
Family And Friends	Likely To Believe In The Entrepreneur	Early	5,000 to 200,000	Minimal
Grants	Feasibility & Proof Of Concept	Early To Middle	500 to 1,000,000+	None
Business Angels	Likely Successful Business People With An Interest In Your Innovation	Early	10,000 to 100,000 (500,000 in total)	Share & Legal Agreements
Venture Capital	Funds Business Expansion But Can Be Early Stage	Early To Middle	250,000 to 1,000,000+	Shares, Boards, Legal Agreements
Banks	Only When Sales Track Record, Overdraft, Factoring, Loans	Middle To Late	1,000 to 1,000,000+	Likely 100%
Corporate Venturing	Large Business Provides Funds For Growing Business	Middle To Late	10,000 to 1,000,000+	Shares, Boards, Legal Agreements

3.2.3 Funding Types - Pros & Cons

TYPE	PROS	CONS
Family And Friends	Trust Based	May Lose Friends
Reward Crowd Funding	Concept Validation	Only For B2c
Grants	Limited Dd, Transparent	Fit, Matching Funding
Equity Crowd Funding	Can Raise Money Quickly, creates brand ambassadors	Done In Public
Angel Investors	Hands On Support	Can Run Of Steam
Seed Funds	Invest Early	Ability To Follow On
Customers	Early Validation	Commercial Obligations
Venture Capital	Amount Of Funding	Loss Of Control
Venture Debt	Limited Dd, Follows Vc	Secured Against Assets
Invoice Discounting	Non-Dilutive	Need Invoices
Bank Loans	Low Cost	Security, Covenants

3.2.4 High Growth Investors in Australia

HIGH GROWTH INVESTORS IN AUSTRALIA		
Private	Family, Friends & Fools & (Founders)	100,000's
	Angel Investors	10,000's
	Private Investors	1,000's
	Crowd Funding	7
	Accelerators	12's
Institutional	Government Grants – national	1
	Government Grants – state	8
	Venture Capital	100
	Private Equity Funds	60
	Family Office	200

3.2.5 Interstate

Sources of interstate funding for Perth based startups include venture capital, angel investment and grants:

- Venture capital: Blackbird Ventures led a \$5m round into local startup Roborigger in February this year, while last year Artesian Ventures led a round into Stratus Imaging.
- Angel investment: once a company is backed by Perth Angels, the group will often look to syndicate investments with other investors, in particular other angel groups nationally. Notable examples include Rhinohide (Brisbane Angels and Melbourne Angels) and Bunsters (Scale Investors). Outside of the angel groups, there are a number of private investments made in Perth by angels and family offices located over east, including Steve Baxter (Spacetoco), Ian Green (Komo), David Warren (Electro.Aero).
- Grants: notable grant programs include the Australian Renewable Energy Agency (HAZER Group, Aeolius Wind Systems), the AustCyber Project Fund (QuadID), the Biomedical Translation Bridge program (Noisy Guts) and of course the Accelerating Commercialisation program.

3.2.6 International

Sources of international funding for Perth based startups include grants and venture capital:

- Grants: local biotech startup Respition received a US\$3m grant from The Cystic Fibrosis Foundation, while real-time software specialist Vection received a \$3.2m grant from the European Commission as part of a consortium of VR companies.
- Venture capital from overseas funds rarely makes its way to Perth. However one notable example in 2017 was HealthEngine, which closed a \$26.7 million Series C round led by Indian VC firm Sequoia India, part of global VC firm Sequoia Capital. This was the first direct investment for the India-focused VC fund in an Australian-based and founded startup.

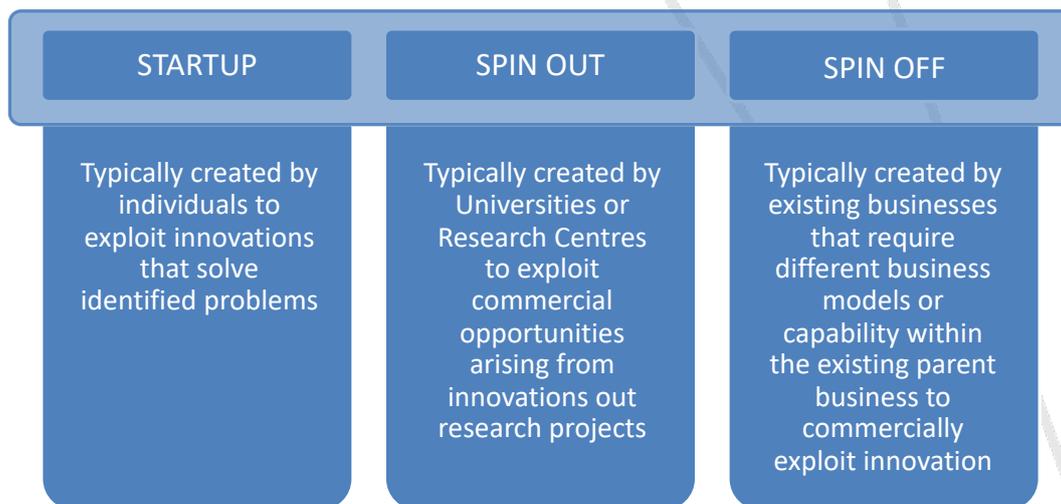
Local startups can also be acquired by overseas companies. For example earlier this year Spookfish was acquired by US-based Eagleview.

3.3 Startups

3.3.1 Where Are They Found

Startups are typically characterised by the stage of their commercialisation path, the sector they dominantly service and their genesis as a newly created venture; for example, a MedTech startup, or Mining Tech spinoff, or Cyber Tech spinout.

Characteristics of the different genesis types of newly created ventures maybe summarised as follows:



While the different genesis types are described separately above, along this document the term startup is used to refer to both startups, spinouts and spinoffs.

3.3.2 Key Findings

Inadequate Investment Readiness

The study identified a number of key characteristics that a start-up should exhibit to be considered investment ready; ie. those hygiene factors that need to be adequately addressed to engage with an investor. These typically include:

1. Clarity of Opportunity
 - a. A real-world problem that a customer has both a need and want
 - b. A solution that has unique competitive solution
 - c. A size of opportunity worthy of pursuit
2. Clarity of validation/proof of assertions
 - a. Identified customer with need and want (ie. has a problem and will buy)
 - b. A Go-To-Market model that is scalable
 - c. Confirmation of stated commercialisation stage
 - d. Due diligence evidence to support assertions
3. Clarity of Execution
 - a. Capability, competency and capacity available or could be available to:
 - i. take a defensible, valuable and protectable position in the target market
 - ii. execute through to Exit/Cashing-In/Harvest
 - b. Understanding of commercialisation risks; those already mitigated and those needing to be managed and mitigated
4. Clarity of Investment Proposition
 - a. Valuation at investment
 - b. Exit/Cashing-In/Harvest proposition: type of liquidity event, terminal value

As noted above, key findings from the investor side is that there is still insufficient investment ready preparedness for many start ups which is an inhibitor to attracting investment; this also presents an opportunity to increase the awareness of start ups as to what it means to be investment ready..

Sectors Better Understood

In addition to start-up ventures not being inadequately investment ready, there are other factors that affect attracting private investor's interest. These are:

- (i) The private investor's understanding and knowledge of the sector that the start-up is involved in
- (ii) A knowledgeable eco system in the target market to guide the commercialisation of emerging technologies
- (iii) Market connectivity to test new innovations and secure initial sales

Collectively, these might be referred to as natural entitlements of the eco-system. Given the industry make-up of the Western Australian economy, there are certain sectors that present natural entitlements to emerging technology ventures and improve the probability of private investor interest. Those sectors where there are:

(i) Where there are strong entitlements:

In the METS, energy and agriculture sectors; notably in the areas of Engineering, Software, Automation and Remote operations.

Strong entitlements exist in these areas due to the overall knowledge of the sectors

(ii) Where there are improving natural entitlements:

Improvements are being seen in the Med Tech sector largely due to the success of prominent practitioners and researchers such as Prof Fiona Wood, Prof Barry Marshall and some notable ventures including Linear, OncoRes and Orthocell.

Some improvement is in the Advanced Manufacturing sector due to its involvement in the mining (METS) and energy supply chains.

(iii) Where there are fewer natural entitlements:

Fewer natural entitlements exist in WA in the Fin-Tech, Enviro-Tech and Marketing-Tech sectors due to the lack of corporate headquarters and decision makers located in the state.

Where these natural entitlements are not present or limited, it increases the need for private investor education to better understand the opportunities present in the sector and increasing linkages to markets where start-ups and the eco-system can connect to targeted customers.

3.4 Support Services – Collaborative Workspace, Incubators and Accelerators

3.4.1 Where Are They Developed

Participants that support startup founders to develop and enhance their entrepreneurial capability, business model, offerings, customer validation and market connection comprise this category.

<i>Collaborative workspaces</i>	Provide destinations in the form of physical of space for startups to associate and gain collaboration with like-minded people.
<i>Incubators</i>	Provide management training to incubatees and can be operated by academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, or combination of the above.
<i>Accelerators</i>	Provide management training to cohort members to build entrepreneurial capability, build business models, validate offerings and provide market connections; accelerators may or may not provide investment for selected cohorts; accelerators tend to be sector or disciplined focussed.
<i>Innovation hubs</i>	Are discipline or industry focussed and acts as a beacon to attract startups and small and medium-sized enterprise to achieve a critical mass of people to access expertise and facilities and make better use of talent and technology.
<i>Growth centres</i>	Are to build specific industry competitiveness through increasing collaboration and commercialisation, improving international opportunities and market access, enhancing management and workforce skills and identifying opportunities for regulatory reform.

3.5 Support Services – Professional Disciplines

Participants that support startups through the provision of specialist disciplines such as accounting, business and technology consulting, commercialisation advisors, legal, intellectual property, or marketing. Such services tend to be fee-for-service based.

Examples of service providers to startups in Perth include:

- i. Consulting
 - Axito
 - Scale.partners
- ii. Research
 - CSC – Commercialisation Studies Centre

3.6 Policy and Regulatory

A number of policy and regulatory participants influence the ecosystem by which other participants operate and engage with startups.

These participants operate at each level of government: Federal, State and Local.

Different levels have different abilities and instruments by which to influence the other participants in Innovative and Technology Sector.

Federal Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities
- ii. Tax Incentives
- iii. Governance and risk management
- iv. Funding Incentives.

State Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities
- ii. Market Connections
- iii. Funding Incentives

Local Levers that are able to be pulled to influence Innovative and Technology Sector include:

- i. Industry priorities
- ii. Market Connections
- iii. Funding Incentives

4 Annexures

4.1 Annexure I – Key Stakeholder Interviews

The following stakeholder groups have been interviewed face-to-face in the engagement:

Private Investors

- i. Matt Macfarlane Partner, Yuuwa Capital
- ii. Peter Rossdeutscher Managing Partner, Atomic Sky
- iii. Tim Mahony Director, Wentworth (representative of /Hatcher.com)

Corporate Venturers

- i. Derek Gerrard BetterLabs
- ii. Rod Paredo Western Power

EcoSystem

- i. Sheryl Frame Entrepreneurs Program – Accelerating Commercialisation
- ii. Tom Goerke Chair, StartupWA

4.2 Annexure II – Interview Questions

Private Investors

- i. Supply and demand of investment capital
 - Where do you fit in the investment ecosystem?
 - What deals have you done recently?
 - What challenges or success did you have in the execution of those? How was your experience looking for investment opportunities?
 - What are the requirements when you search for an investment opportunity?
 - What do you expect to get in return from your investments? (e.g. financial return, social impact)
 - Do you have any ethical or diversity requirements when you are seeking for investment?
 - How has the COVID-19 crisis affected your investment criteria and deal execution?
 - How competitive is the investors environment in Perth?
 - What are your considerations about overseas investors?
 - If you do not invest in early stage ventures in WA, why not?
 - What would you need, to participate in early stage ventures in WA? I.e. what would shift you to consider ventures in WA?

- ii. Lack of knowledge of information about how to seek investment opportunities
 - What channels do you reach to find start-ups to invest?
 - What works well in Perth innovation ecosystem and what doesn't?
 - Is there any specific tool that you use in your business that helps reaching out for investment opportunities? (e.g. databases, websites)
 - Do you seek overstate investment opportunities? Why?
 - Do you seek international investment opportunities? Why?

- iii. Lack of business/domain knowledge in other industries
 - Are there any sectors/ industries you are more comfortable investing and why?
 - Is there a particular industry you don't feel comfortable investing in?

Corporate Venturers

- i. What corporate innovation strategies and tactics has your organisation adopted to 'shift the dial' in your business?
 - Research and Development
 - Innovation and/or continuous process improvement
 - Mergers and Acquisition

- ii. Do you consider innovations from?
 - External early stage innovation; i.e. open innovation practices and/ or Corporate Venturing practices

- iii. If you engage with Open Innovation, whom are you involved with at present?

- iv. If you engage in Corporate Venturing, [ask Private Investor Questions]?

- v. If neither, why not?

Entrepreneurs

- i. Supply and demand of investment capital
 - Has the company raised funds recently?
 - What challenges or success did you have in the execution of those? How was your experience looking for investors?
 - What are the requirements when you search for investors?
 - What do you expect to get from investors, e.g. funds, business knowledge, introductions, access to social networks?
 - How the COVID-19 crisis affected your business and fundraising?
 - Do you consider that being in Perth is a competitive advantage or disadvantage for your business?

- ii. Lack of knowledge of information about how to seek investment opportunities
 - What channels do you reach to raise money?
 - What works well in Perth innovation ecosystem and what doesn't?
 - Is there any specific tool that you use to give visibility to your business in the local ecosystem?
 - Have you approached international and interstate investors? How was that different compared to local investors?