



VENTURE CAPITALISTS COME OF AGE

The National Business Review - 23 Jul 1999

BY DAVID SETON

In the aftermath of the New Zealand sharemarket crash private investors turned to the safety of super funds, while a number of brokers stopped trading completely.

The consequent decline in funding for venture capital has meant government privatisations rather than new entrepreneurial ventures have dominated the local investment climate since 1987.

By comparison, the US economy has been driven by huge investments in the sharemarket. In particular, the absence of minimum market capitalisation conditions has allowed venture capital companies and private investors to back winners unashamedly.

The resultant economic boom has fuelled further investments in research and development, reinforcing the global technology leadership of the US.

Traditionally in New Zealand, technology entrepreneurs have either gone offshore for funding or simply failed to grow their businesses. In 1999 however, New Zealand has experienced a significant rise in the number of small technology companies with goods ideas looking for capital to grow their businesses.

This growing demand for funding has led to an increased availability of venture capital.

After many years of virtually no venture capital activity in New Zealand, at least four companies are dedicated to funding technology enterprises. And this year IT Capital became the first to be publicly listed. Most venture capitalists do not provide first round funding via seed capital or finance greenfield projects, but rather fund technology companies that have already developed ideas into business plans and introduced products to the market.

Consequently, venture capitalists fulfil a critical role in the New Zealand funding market by nurturing small entrepreneurial businesses with the necessary finance for marketing and expansion.

Two large institutional investors, Royal & SunAlliance and New Zealand Funds Management, recently invested in Advantage, the technology company currently wooing the sharemarket with spectacular results.

IT Capital itself is also beginning to attract institutional attention and the shareholder base has almost doubled since April alone.

These are clear signals to smart investors that technology stocks are the current growth stocks and have become a desirable component of the portfolio mix.

Such corporate success stories as Fletcher Challenge and Carter Holt Harvey were built with the entrepreneurial spirit and capital of our forebears. Now new technology ventures are providing the New Zealand sharemarket with an opportunity to return to the growth rates of a more entrepreneurial era.

David Seton is managing director of IT Capital

©Fourth Estate Holdings Ltd(412 words)