

## PRODUCTIVITY COMMISSION SUBMISSION

Productivity Commission 2015, Migrant Intake into Australia. - Draft Report, Canberra.

The current draft of the Productivity commission draft report on Australia's migration program and its potential contribution to Australia through the SIV program shows a fundamental misunderstanding of early stage capital raising and small company equity sources in Australia. The proposed SIV program is, it is submitted, a crucial new source of capital to sectors that are starved for capital and yet are a major contributor to employment growth and economic development in Australia.

The following are extracted from public sources and referenced for the Commission to further research

1. Australia VC fundraising increased in FY2015 from \$126m to \$368m, a 193% rise from the prior year.
  - This equates on a per capita basis for Australia to an increase from \$5 to \$15 per capita
  - This can be compared with startup funding raised in Europe on a per capita basis [source <http://imgur.com>] of UK \$usd49, Germany \$usd24.42

And a further source with different measure - [www.informilo.com](http://www.informilo.com)

“Using data from Dow Jones VentureSource over the last five years (2009-2013) Israel raised \$254 per capita in venture deals for its tech industry: that is three times as much as the UK. It dwarfs Germany — which raised just \$42 per capita, barely a sixth of the amount”.

A further source gives a figure for USA of VC \$ per capita ([www.ssti.org](http://www.ssti.org)) of \$92 per capita on these measure Australia fails by comparison

2. Of this \$283 m was for seed and early stage and \$83m for balanced or later stage
  - Australian private equity and venture capital continued to deliver strong returns, outperforming the S&P/ASX 300 Index by over 8% in the June 2015 quarter and delivering a 23% net return for the year to 30 June 2015, according to data released today by the Australian Private Equity and Venture Capital Association Limited (AVCAL) and Cambridge Associates.
3. **The error in the perception of PE -private equity -funds is that this group FAILS TO FUND THE SMALLER companies**

This group of PE has criteria that just do NOT match smaller companies  
The example below is from Anchorage Capital partners and shows they are looking for minimum \$100 m of revenues - **THIS IS NOT VENTURE CAPITAL**

### **Example :Anchorage capital -Investment Focus**

- Companies that are currently not operating at their full potential
  - Headquarters in Australia, New Zealand or South East Asia
  - Minimum of \$100M in revenues
  - Enterprise values of up to \$250M, with a “sweet-spot” of \$30M - \$100M
  - All sectors, except direct property, direct mining, tech/biotech and start-ups or early stage.
4. Stages of PE & VC
- PE and VC generally invest in different stages of companies. While VC usually invests in early stage firms and PE generally invests in growth/ expansion and buyout stages, there are areas of overlap.

### **The federal Govt. has recognized this in their most recent release**

**Innovation for jobs and growth** - Australia is in its 25th year of economic growth but faces new challenges as the mining investment boom comes to an end.

Innovative firms are more competitive, more able to capture increased market share and more likely to increase employment than their competitors. **Over the period 2006-2011, 1.4 million new jobs were created by firms aged less than three years old. Employment in mature businesses, in contrast, fell 400,000.**

**Culture and Capital** - Only 9% of Australian small to medium sized businesses brought a new idea to market in 2012-13, compared to 19% in the top five OECD countries.

**Around 4,500 start-ups miss out on equity finance each year** and access to additional finance is one of the main barriers to growth that startups face. Innovative businesses that don't have a track record and that are not following a proven methodology can find it particularly difficult to raise finance from traditional sources.

### **This is not an isolated view**

Australian Financial Review – Wednesday 2 December, 2015

#### **“Crucial Funding bridges Valley of Death for start-ups”**

..Australia has become a common birthplace for technological advancements..

..But there has been little public discussion of on one of the most crucial aspects to ensuring Australia is a global leader in innovation – funding the basic research that underpins many of these start-up ideas..

..Fortunately, Prime Minister Malcolm Turnbull has recognised the importance of closing the so called “Valley of Death”, the chasm between early ideas that could yield global advancements, and those deemed investment worthy from the private sector..

5. **This source gives the demand for start-up funding for between \$6 to \$8 billion**

**The definitive guide for Australian start-ups**

<http://www.businessspectator.com.au/article/2015/5/18/technology/definitive-guide-australianstart-ups>

**Stephen Moss and Pezh Moradi, BlackCitrus** - “We estimate the demand for investment for startups is around \$6 billion to \$8bn, those are solid ideas we’re talking about, and the supply, it’s just \$90 million,” he says.

6. **Deepen the pool of capital or see startup talent ebb away, says AVCAL CEO Yasser El-Ansary**

<http://www.startupsmart.com.au/planning/business-planning/deepen-the-pool-of-capital-or-seestartup-talent-ebb-away-says-avcal-ceo-yasser-el-ansary/2015111615940.html>

The gap between seed and later-stage funding needs to be “urgently” addressed or Australia will continue to lose its best entrepreneurs and startups overseas, AVCAL CEO Yasser El-Ansary. According the recently released 2015 AVCAL Yearbook there has been a “significant increase” in funds available for early tech companies, but Australia is “lagging” behind in terms of later-stage offerings.

The report shows that only 23%, or \$85 million, of total VC funds are dedicated to these bigger startups. “These numbers confirm what we’ve been saying for a long time: it’s exceptionally hard for entrepreneurs to attract capital at a later stage,” El-Ansary says. “The depth of capital just isn’t there.”

7. **There are substantial new areas of funding but the Australian regulatory environment strangles these sources**

**“Asia kick starts online funding”**

*Newspaper article – Financial Review*

The crowdfunding industry world-wide reached \$US16.2 billion (\$22.9 billion) in 2014, pioneered by online hubs...

**Address to the Financial Services Council BT Political Breakfast Series, The Ivy, Sydney**

<http://kmo.ministers.treasury.gov.au/>

.. “In Canada, the United Kingdom, the United States of America and New Zealand, small businesses and start-ups are able to use technology to reach new investors to finance or expand their businesses. Mum and Dad investors are able to buy shares in these businesses through licensed intermediaries.

Right now in Australia, start-ups and small businesses cannot practically access retail investors due to significant upfront and ongoing compliance costs and red tape.. The Government’s CSEF will be focused on Australian public companies with annual turnover and gross assets of less than \$5 million so that the benefits are targeted.

**8. Venture Capital nears record**

Australian Financial Review – Tuesday 17 November, 2015

<http://www.afr.com/technology/venture-capital-headed-for-record-year-20151113-gky6gv>

Australia's fledgling venture capital market is headed for its best year on record, with more than \$600 million of new funds already slated to be raised by June 30 next year. But the Australian Private Equity and Venture Capital Association Limited (AVCAL), a lobby group, says the new funds are overwhelmingly concentrated on early stage commercialisation - turning an idea into a business.

**Later stage growth capital - to scale up successful start-ups' workforce, products and sales - remains in short supply**, Yasser El-Ansary, chief executive of AVCAL, said.

That leaves start-ups that lack the funds to take the next steps susceptible to having to go overseas to raise the capital - or being snapped up by a foreign buyer.

The \$600 million-plus of new VC funds already committed or planned for the 2016 fiscal year would be the highest since AVCAL began its Australian Venture Capital and Private Equity Yearbook in 2006. The money come from just three or four funds, and shows a return of superannuation funds to venture capital and a growing appetite from wealthy individuals.

It easily exceeds the \$368 million raised in fiscal 2015, which was nearly triple the \$126 million raised in 2014 and a return to pre-global financial crisis levels.

**9. Start-up incentives proposed to get investors on board**

<http://www.afr.com/news/special-reports/afr-national-policy-series/startup-tax-break-to-get-investorson-board-20150921-gjr9bx>

In Australia, there is a large funding gap between \$2 million and \$40 million of capital, which drives start-ups to leave the country once they are past the early stage of development.

**10. Crowdsourcing laws to unlock access to funds**

<http://www.smh.com.au/small-business/finance/minister-kelly-odwyer-details-equitycrowdfunding-laws-20151115-gkzfs3.html>

“Right now in Australia, start-ups and small businesses can't actively access retail investors due to significant upfront and ongoing compliance costs and red tape” *Kelly O'Dwyer*

**11. New \$200 million fund to focus on later-stage startups**

<http://www.startupsmart.com.au/financing-a-business/venture-capital/new-200-million-fundto-focus-of-later-stage-startups/2015120916111.html>

“We’ve developed such a strong deal flow that in the last quarter alone we could have deployed over \$180 million,” Stead tells StartupSmart. These large later-stage funding rounds are often the time when local startups are forced to look overseas for assistance. A recent AVCAL report identified an “urgent” need to address the funding

**12. Extracted Text – Funding**

*T:\- Cortical Dynamics Ltd\Venture Capital Fund Research\Extracted Text Venture Fund Capital.docx*

gap between early and later-stage, with only 23% of the country's entire VC funds dedicated to these large rounds. Encouragement and incentives for this level of funding was also identified by members of the startup community as a key area missing from the government's \$1 billion innovation statement.

13. *Reference; Doc 21*

**Tax relief to lure investors away from property portfolios**

Australian Financial Review – 8/12/2015

The government wants to encourage more start-ups because this is where there is potential for new job creation. “Over the period 2006-2011, 1.4 million new jobs were created by firms aged less than three years old”, the National Innovation and Science Agenda says. “Employment in mature businesses, in contrast, fell 400,000.”

14. *Reference; Doc 22*

**National Innovation & Science Agenda – “Biomedical Translation Fund”**

Patient investors needed for biomedical businesses to cross the ‘valley of death’ A gap between early and late stage research — often called the ‘valley of death’ — exists between biomedical research and when the medical product is ready for commercial deployment by doctors and hospitals. The commercialisation process for medical research and innovation is lengthy, involving clinical trials, regulatory and marketing approvals that can require hundreds of millions of dollars and often take a decade or more. Early stage innovative biomedical businesses have faced declining venture capital equity investment over the past three years. With the exception of the Medical Research Commercialisation Fund, there are very few early stage investors willing to wait the decade to realise a return. Patient venture capital investors have potential for significant return. CSL Limited looks at over 100 opportunities each year. Of these, 5-10% are chosen for full evaluation and then only a handful are selected for licensing.

15. A study on US start-ups and venture capital –Data from Qandl States ‘ New Businesses are an important part of the US economy -According to the Kaufmman foundation new businesses (0-5 years old ) are responsible for almost 20 % of gross job creation and nearly all of the net job creation in the United States

16. In summary there is grossly inadequate funding for the economic sector that can add significantly to employment and economic growth in Australia.