

KIWINET INVESTMENT COMMITTEE

INVESTMENT PRINCIPLES AND GUIDELINES

JULY 2013

PURPOSE

This document outlines the principles that the KiwiNet Investment Committee (IC) considers when making decisions about PreSeed (PSAF) funding. The aim is to encourage consistency and transparency of Investment Committee decision making and to provide guidelines for people submitting project development plans.

This document contains:

KiwiNet IC role

- The role of the Investment Committee.

KiwiNet IC High Level Project Assessment Criteria

- The general criteria that the KiwiNet Investment Committee will use to assess projects against.

KiwiNet IC Detailed Assessment Criteria

- A detailed breakdown of specific aspects the committee may consider when reviewing a proposal if the high level assessment is too vague.

Commercial Benefit to New Zealand

- A discussion on the variety of ways that a project can create commercial benefit for New Zealand, the most important criteria considered by the committee.

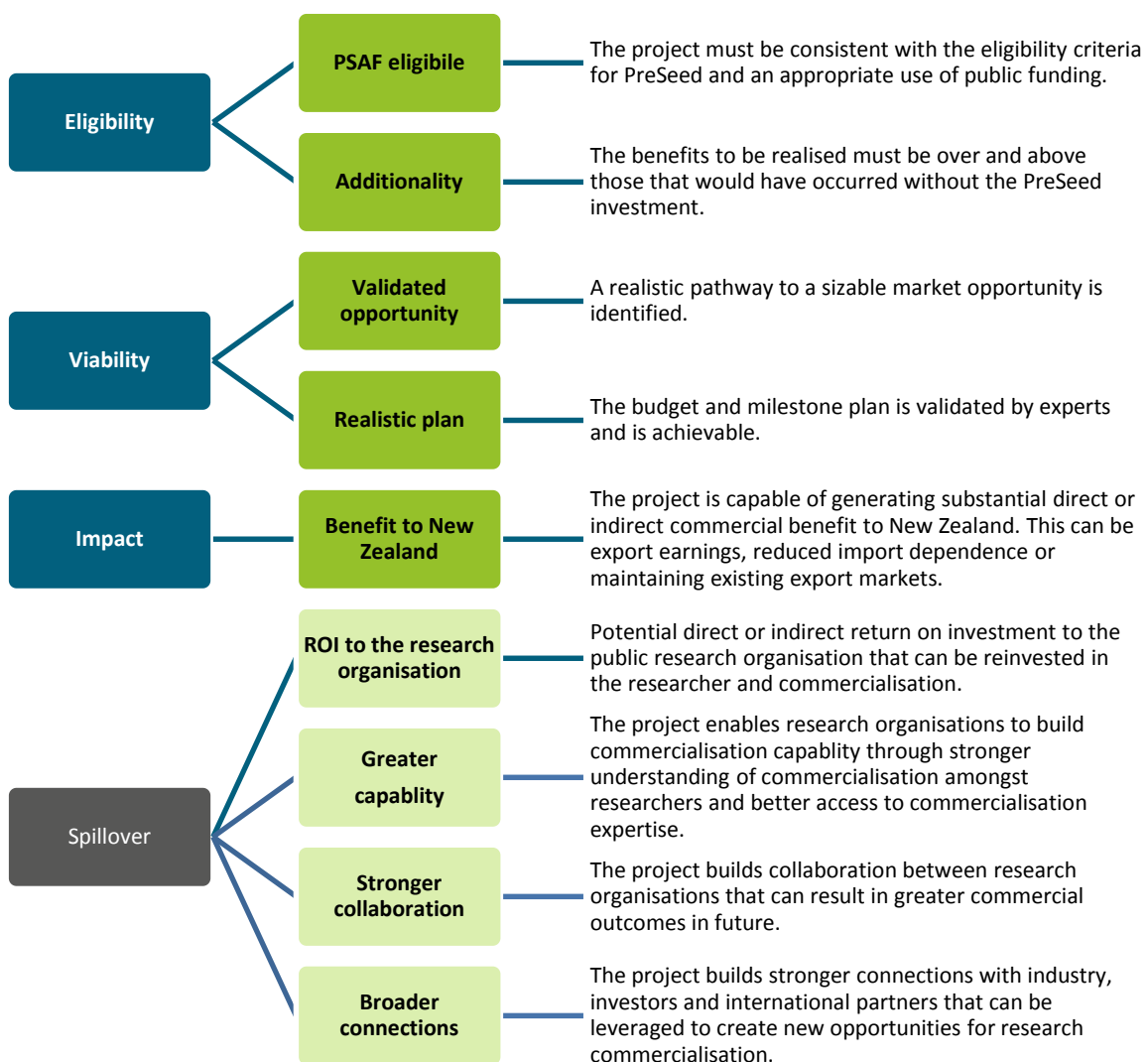
KIWINET INVESTMENT COMMITTEE ASSESSMENT CRITERIA

When considering a new commercial development plan there are three main areas the committee considers:

- Eligibility
- Viability
- Impact

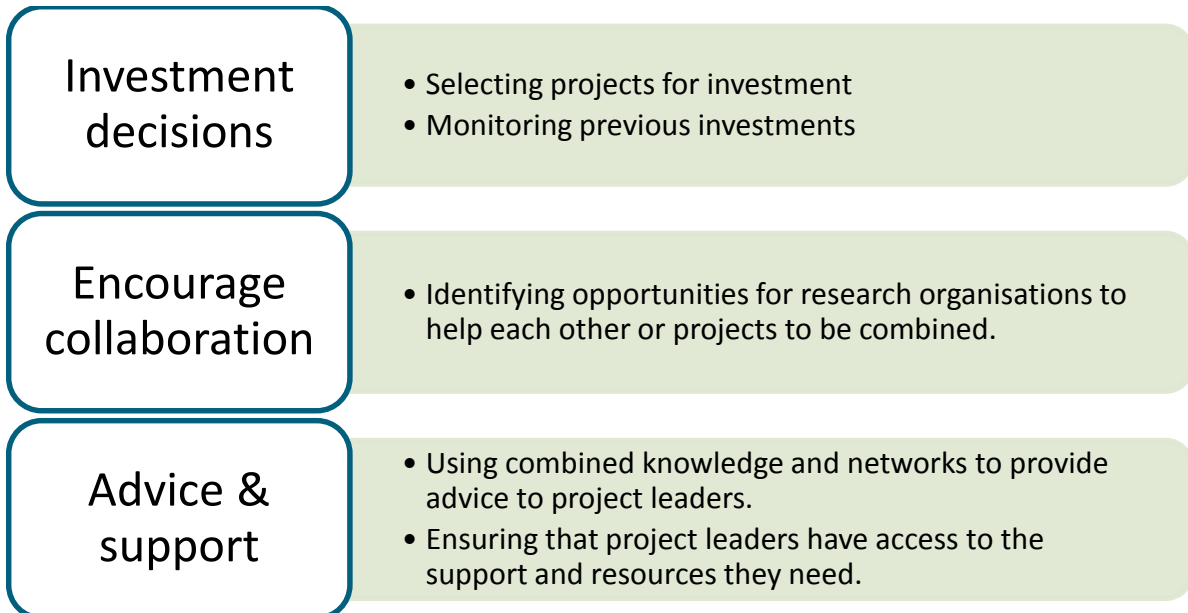
For a project to be funded it must adequately satisfy all of these criteria.

The committee will also consider “Spillover” benefits. These are outcomes that help create an environment that fosters greater research commercialisation in the future.



KIWINET INVESTMENT COMMITTEE ROLES

The committee performs three main roles when reviewing project proposals and monitoring projects in the portfolio:



If a project isn't funded

The Investment Committee's role is not just to make decisions on project funding. If a project does not get allocated investment, the committee can add significant value by providing clear guidance on why it was not funded and also by ensuring that the project leader has the support and resources needed to take the project where it needs to go. For example:

- If the project does not meet eligibility criteria, what other sources of investment could the project leader pursue?
- If the committee believe the market opportunity is not adequate, are there other opportunities for the technology that the project leader could pursue?
- If the development plan is not suitable, how can the committee help the project leader revise the plan?
- What expertise could the committee recommend to help the project leader address the concerns of the committee?
- Can someone from the committee be allocated to advise the project leader as a revised project proposal is prepared?

KiwiNet Investment Committee Project Assessment Criteria Checklist

The table over the page contains a general set of criteria that the KiwiNet Investment Committee will use to assess projects against.

For each of the primary criteria, the committee can respond:

- **Yes** - The report satisfactorily addresses this requirement.
- **Conditional** - The report does not satisfactorily address this requirement, but the committee are willing to support the project conditional on the requirement being satisfied by the set deadline.
- **No** - The report does not satisfactorily address this requirement and the committee cannot support the project until this requirement is satisfied.

If the committee respond “No” to any of the primary requirements, then it is likely the project will not get funding until it is revised.

If all answers are “Yes” or “Conditional” then the project can proceed, so long as all conditional requirements are met by the defined deadline.

KiwiNet Investment Committee Project Assessment Criteria Checklist

			Requirement satisfied			Comments / Conditions / Deadlines
			Yes	Cond.	No	
Primary requirements						
Eligible	PSAF eligible	Derived from publically funded research.				
		PSAF eligible expenses.				
		Appropriate co-investment committed.				
		Appropriate use of public funding.				
	Additionality	PSAF investment is enabling or accelerating outcomes greater than what would otherwise happen.				
		PSAF investment is enabling increased benefit to be realised for NZ than what would otherwise happen.				
Viabile	Validated opportunity	Market opportunity is big enough and accessible.				
		Clear novelty & valuable unique selling proposition (USP).				
		Market opportunity & USP has been externally validated.				
	Realistic plan	Good team with access to the right skills & resources.				
		Realistic & appropriate Technical, IP & Commercial development plan.				
		Budget and milestone plan is efficient & achievable.				
Impact	Benefit to New Zealand	Economic benefits to NZ are adequate relative to the amount of PSAF investment (e.g. export earnings/ reduced imports/ protecting existing exports).				
		Options to maximise benefits retained in NZ are explored.				
		Jobs created in NZ.				
Secondary benefits			Benefit realisable			
			High	Low	Unclear	
Spillover	ROI to research organisation	Revenue and/or contract research back to the research organisation.				
	Greater capability	Increasing the number and/or skill of research organisation staff to carry out research commercialisation.				
	Stronger collaboration	Greater collaboration between research organisations.				
	Broader connections	Greater connections between research organisations and industry/ investors/ international partners.				

Funding approved:

<input type="checkbox"/>	Yes
<input type="checkbox"/>	Conditional
<input type="checkbox"/>	No

Comments:

KiwiNet Investment Committee Detailed Project Assessment Criteria

PRIMARY REQUIREMENTS

Eligible	PSAF eligible	Derived from publically funded research	Project originated from publically funded research in NZ	
		PSAF eligible expenses	Project is working towards an investor-ready prototype or business	
			Project costs are PSAF eligible	
			Potential to create or enhance a knowledge or technology competitive advantage for New Zealand	
		Appropriate co-investment committed	Co-investment criteria have been met and co- investment is accessible	
	Appropriate use of public funding	Appropriate use of public funding		
		Potential to cause negative publicity for research organisations or KiwiNet.		
		Potential to unfairly compete with established New Zealand companies.		
	Additionality	PSAF investment is enabling or accelerating outcomes greater than what would otherwise happen		
		PSAF investment is enabling increased benefit to be realised for NZ than what would otherwise happen		
Viable	Validated opportunity	Market opportunity is big enough and accessible	Evidence of market need / market pain	
			Evidence of size of the accessible market opportunity	
			Evidence of access to channel to market partners	
			Value proposition for channel to market partners (e.g. margins for organisations along the supply chain)	
			Evidence of market interest from potential commercial partners	
			The strength of the competition in the target market (consider both current and potential future strength)	
	Clear novelty & valuable unique selling proposition (USP)	Demonstrated novelty of the technology or expertise		
		Demonstrated value to the consumer of the unique selling proposition (USP) for this project when compared to other products		
	Market opportunity & USP has been externally validated	Confirmation of demand from potential end users		
		Confirmation of interest from channel to market partners		
		Confirmation of market need by industry experts		
		The level of rigour applied to the validation of the market (surveys, calls to customers etc)		
	Realistic plan	Good team with access to the right skills & resources	Access to necessary technical expertise	
			Access to necessary commercial expertise	
			Access to necessary external commercial experts as contractors or advisors	
		Realistic & appropriate Technical, IP & Commercial development plan.	Technical: Plan to address key technical barriers	
			Technical: Demonstration that the intended outcome will be investor ready	
			IP: Clear validation of clean title and who owns the technology	
			IP: Quality of patent search results and freedom to operate opinion.	
			IP: Core technology or expertise is protectable (e.g. patent, trade secret, etc)	
IP: The overall strength of the IP position. How easy would it be to work around (in the case of a patent) or replicate (in the case of know-how)				
Commercial: The suitability and feasibility of the proposed commercialisation plan				
Commercial: The level of commitment from potential commercial partners				

		Commercial: Private co-investment secured as early as possible
		Critical point analysis: identification of milestones and clear go/no-go decision points linked to the budget
	Budget and milestone plan is efficient & achievable.	Quality of risk assessment and mitigation strategies
		Realistic timelines and budgets
Impact	Benefit to New Zealand	Quality of the analysis of expected economic returns
		Demonstrated potential to generate higher export margins for New Zealand located and owned firms
		Demonstrated potential to generate foreign exchange revenue that can be reinvested into commercialisation in New Zealand firms and research organisations
		Demonstrated potential to strengthen or protect existing exports from New Zealand that already generate substantial export earnings
		Demonstrated potential to reduce dependence on imports from overseas
		Demonstrated potential to create opportunities for other New Zealand suppliers
		Demonstrated potential to improve the productivity of existing New Zealand firms or industries
		Demonstrated potential for the project to be a platform technology
	Business plan explores maximising benefits retained in NZ.	Have options for maximising the benefits retained for NZ from the project been explored
	Jobs created in NZ.	Demonstrated potential to create jobs in New Zealand
		Demonstrated potential to create new high-value jobs in New Zealand that attract higher wages and contribute to a more innovative workforce

SECONDARY BENEFITS

Spillover	ROI to research organisation	Revenue and/or contract research back to the research organisation
	Greater capability	Increasing the number and/or skill of research organisation staff to carry out research commercialisation
	Stronger collaboration	Greater collaboration between research organisations
	Broader connections	Greater connections between research organisations and industry/ investors/ international partners

IMPACT

The Government invests in PreSeed opportunities to benefit society in New Zealand, in particular to raise income per capita. A critical consideration is establishing the nature and quantity of the long-term *benefit to New Zealand* arising from investing, and identifying opportunities to maximise that benefit. Building stronger capabilities that enable future opportunities in areas of competitive advantage for New Zealand is a valid consideration as part of this.

Return on investment to New Zealand - criteria

The Investment Committee will primarily assess New Zealand benefit as export earnings to New Zealand and high-value jobs created in New Zealand as a direct or indirect result of the project. Both these metrics lift income per capita and the international competitiveness of New Zealand. If a project is unable to substantially meet these criteria, the committee may consider alternative metrics proposed by a presenter with the following in mind.

The Investment Committee will look favourably on projects that are capable of generating at least a 10 times return on PSAF investment to New Zealand if the returns are purely financial. This rate of return is intended to strike a balance between being high enough to compensate for the high risk nature of these projects, whilst being low enough to accommodate the New Zealand good objectives of the PSAF fund. However, the committee will consider lower financial returns if the potential for other “spillover” benefits to New Zealand can be demonstrated.

DIRECT BENEFITS

The committee will consider *direct* benefits including:

- Creating new high-value jobs in New Zealand – high value means adding jobs that attract higher wages or incomes than the existing average. This will typically be associated with knowledge- or technology-intensive products or services. More high-value jobs are likely to drive more innovation and competitive advantage for New Zealand.
- Growing New Zealand located and owned firms’ profits through higher export margins – the degree to which the activity is located in NZ and/or the degree to which the profits are likely to be retained in New Zealand need to be considered.
- Growing investment capital available to New Zealand firms and research organisations for reinvestment into commercialisation – this may be a consideration where product or service development is likely to lead to an offshore trade sale, but where the recycling of capital back into New Zealand will provide benefit in the future.
- Strengthening or protecting an existing competitive advantage that already generates substantial economic benefits for New Zealand – this could be a technology that doesn’t grow an existing market, but that lowers the risk that an existing market could be lost resulting in a substantial reduction in export earnings.
- Earning income from licensing or selling IP offshore – this is typically the least likely to result in New Zealand benefit unless it includes other initiatives that bring jobs or income to New Zealand.

INDIRECT BENEFITS

The committee may also consider *indirect* benefits such as:

- Creating or enhancing a knowledge or technology competitive advantage for New Zealand
- Creating opportunities for complementary products from the same technology
- Creating opportunities for other New Zealand suppliers
- Developing skills that can be applied elsewhere
- Creating local or international partnerships that expand NZ firms' capabilities or access to capabilities

The indirect benefits are harder to evaluate and will usually be complementary to direct benefits.

OTHER IMPACT CONSIDERATIONS

Below are other points that the committee may consider in the context of the overall impact of the project. It is not necessary to address all these points in a proposal; however the presenter may wish to consider whether they are relevant to particular projects.

- **Productivity** - The committee may consider the nature and extent of the impact of projects aimed at productivity improvements in existing New Zealand firms or industries. For example, whether the technology is likely to be applied widely across a major industry sector and/or how long it will take for benefits to occur.
- **Impact on existing NZ business** - The committee may also consider what negative consequences might impact on firms that already exist in New Zealand.
- **Inward foreign investment** - The committee may consider and assess instances where gaining a small share of a large pie offers an opportunity for New Zealand. An overseas firm may have essential technical skills and marketing channels that no New Zealand firm has or could easily develop.
- **Trade sales** - The committee may consider the likelihood of a future trade sale that will limit the on-going benefit to New Zealand. The committee will consider the extent to which this may be offset partially or fully by the return of investment capital back into New Zealand.
- **Ownership** - The committee may consider whether the commercialising New Zealand firm is majority foreign-owned and, therefore, whether profits will be returned overseas and to what extent this may be offset by useful employment and capability gains in New Zealand.
- **Domestic versus International licensing** - The committee will always look for opportunities to retain as much of the benefits from the commercialisation of IP in New Zealand. This will often require the committee to consider the relative merits of licensing to a large overseas company with access into international markets and capability to generate significant royalties that can be reinvested into public research organisations, versus licensing to a smaller New Zealand company that will use the technology to grow international markets. In both cases the committee will need to consider the potential returns and risks involved. The committee will also look for compromises, such as non-exclusive licences or licensing to an offshore company on condition that they retain R&D capability in New Zealand.

Return on investment to research organisation - criteria

It is acceptable and necessary for research organisations to capture some level of benefit from investing in proposals. The committee believe it is important that projects can provide a reasonable return to the research organisations in order to:

- incentivise on-going research organisations commitment to commercialisation
- generate revenue that can be fed back into capability building around research commercialisation
- generate retained earnings that will reduce on-going research organisation dependence on public funding.

Returns to research organisations may not be limited to direct financial returns. They could also include on-going contract research or simply greater industry engagement between researchers and business.

APPENDIX 1 - PRESEED MINISTERIAL DIRECTION

Projects that meet the scheme's objectives are eligible to receive funds from MBIE (ex-FRST).

The scheme's objectives are to:

- maximise the commercial benefits to New Zealand of previously publicly funded research
- raise public sector providers' commercial capabilities and skills, and
- improve public sector research providers links with potential private sector partners.

In making funding decisions, MBIE will fund those projects that, in its view, best meet the following criteria:

- projects that commercialise previously publicly funded research
- have a clear link to a business strategy focused on developing projects with strong commercial potential (especially to create new exports) to the "investor-ready" point
- are likely to be started sooner and completed earlier because of the scheme's support, and
- have the potential to generate an enduring wealth creating capability in New Zealand.