



Australian Government

**Department of Industry
Tourism and Resources**

Commercialising Emerging Technologies (COMET) Program- Sources of Investment Study

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Summary of Findings:

Capital raising, or sourcing investment, is important for the growth of early-stage companies such as those that use the Commercialising Emerging Technologies (COMET) program. This study provides insight into the program's sources of investment for COMET companies. This information on capital investment was provided by the COMET program's Business Advisers.

Overall survey results:

Seventy-seven COMET companies raised \$90,572,875 over the eighteen months from July 2004 to December 2005.

In terms of value, nearly 50% of investments came from non-public equity (equity investments include Business Angels, venture capitalists, and corporate investments); over a third from public equity (Initial Public Offerings (IPOs) on the stock exchange); while debt finance accounted for 5% of investment.

Out of 77 companies, 74% companies were metropolitan-based and 26% regionally-based. In terms of the value of total investments raised by location, metropolitan-based companies raised 72%, while regionally-based companies raised 28%.

While a high proportion of these COMET companies were from the manufacturing sector, the total value of investments in manufacturing companies is small relative to the total survey population.

Detailed findings

Non-public Equity investments:

- Seventy companies (91%) sourced investments through non-public equity.
- Average size of investments for non-public equity in FY 2004/05 and the first 6 months of FY 2005/06 were \$532,520 and \$591,270 respectively.
- Investments, in terms of value, generally came from Business Angels and corporate investment sources, and to a lesser degree from formal institutional Venture Capital sources.
- Business Angels:
 - Were the highest sources of investment in both value and number of investment;
 - Were a source of investment for 65% of all companies in the study;
 - Provided one third of the total value of investment;
 - Provided Investment to companies in all of the industries; and

- Investments ranged from between \$10,000 to \$2,980,000.

Public Equity investments:

- Three companies raised investments through IPOs.
- They **raised over one third of all investment**, valued at \$32,960,000.

Debt Finance investments:

- Six companies sourced debt finance.
- Debt finance was provided in most instances by 'other' finance providers (finance providers who the business advisers reported were not financial institutions or non-financial institutions).

'Other' investments:

- Seven companies raised finance to the value of \$8,520,000 through the sale of IP; sale of company to an ASX-listed company; a commercial ready grant; and a R&D Start grant.

COMET program performance compared with the VC market

The total value of investments in all COMET companies has been compared with ABS data for early and seed stage investments. The comparison showed that, for the period 1999/00 to 2004/05, COMET companies' sourced investments valued between seven to eleven percent of the formal VC market. Note that ABS does not collect data or include information on Business Angels and Corporate Investments in its VC survey. COMET company investments, as shown by this study, include formal venture capital sources and these alternative sources.

Section 1: Background

COMET companies are early stage companies who have or are close to having a product, process or service to commercialise, but who experience barriers to commercialisation. These barriers include a lack of knowledge and/or a lack of capital, to not only reach the market, but to reach the market at an appropriate pace in order to capitalise on opportunities. The activities and services supported by the COMET program are designed to assist companies to overcome these barriers.

The objective of this study was to identify and analyse the sources of capital raised by COMET companies. Capital raising, or the sourcing of investment, is considered one of a number of significant outcomes for the COMET program. It is part of the program reporting regime that the COMET Business Advisers provide information on the commercialisation outcomes of their past and present customers. Investment activity for the COMET customers is recorded under a number of outcomes, as outlined in Box 1.

This study required greater detail on investment data than is normally provided by the Business Advisers. Capitalising on the existing knowledge and networks the Business Advisers have with their COMET companies, information previously collected was sent to the Business Advisers, under Sections 1 and 2 on the survey form at **Attachment A**. The Business Advisers returned the survey with more detail than the normal reporting procedures allow (see Section 3 of survey form at Attachment A) for the financial years (FY) 2004/05 and 2005/06 (to December 2005) for each of the investment outcomes.

This study enabled analysis of the investments sourced by COMET companies to identify

- where (domestic and international) and who (business angels versus venture capitalists, financial institutions versus non-financial institutions) provided investment;
- the type of investment sought (non-public equity, public equity, debt finance or other);
- the value of investments;
- the location of the companies who sourced investment (metropolitan or regionally-based); and
- the industry sectors sourcing investments over the period.

Box 1: Detail of COMET Program Capital Raising Outcomes

Outcome 1: Non-public Equity: such as VC not elsewhere specified by the Business Advisers; Business Angel investments; venture capital; corporate investment; Innovation Investment Fund (IIF), Pre-seed Investment Fund (PSF), Pooled Development Funds (PDF); Australian/State/Local Government Equity programs; Mergers and Acquisitions (M&A); and other.

Outcome 2: Public Equity: through listings on the stock exchange (including through initial public offerings and reverse listings).

Outcome 3: Debt finance: finance that needs to be repaid. Providers of Debt finance can be a financial institution, non-financial institution or "other"

Outcome 4: Other: category to capture other types of investments sourced by the COMET companies

The Business Advisers provided data on 77 past and present COMET customers – which are approximately 6% of total program customers. Note that these companies may have raised capital in other financial years (which is not captured in this report), and may have sourced investment while participating in the COMET program in 2004/05 or 2005/06.

Although this study indicates that COMET companies are securing investments (in varying forms), it should be noted that companies may also have sourced investments of which the Business Advisers are unaware of. This report also does not address whether the companies received the level of investment that they were looking for or whether it was received on “appropriate” terms.

Section 2 reviews the sources of investment as an aggregate for the eighteen months, and Sections 3-6 examines the investment sources in more depth. Section 7 provides an overview of how the investments raised by *all* the participants in the COMET program relate to the investments of the seed and early-stage investments of the Australian venture capital market.

Section 2: Investment Sources – aggregate analysis

As stated above, revised investment data on 77 companies were forwarded to the Department by the COMET Business Advisers. Of these, 44 companies had investment outcomes in 2004/05, 21 companies had outcomes in 2005/06 and 12 companies had outcomes for both financial years. The total value of investments for this period is \$90,572,875 (see Box 2). The breakdown of these figures is at Attachment B.

Box 2: Total outcomes over 2004/05 and 2005/06 (to December)

Over the eighteen months of the study \$90,572,875 was sourced by 77 COMET companies.

In 2004/05 – \$55,203,500 was raised. In terms of value: Non-Public Equity (Outcome 1) - 47 %, Public Equity (Outcome 2) - 30 %, Debt Finance (Outcome 3) – 8 % and Other (Outcome 4) - 15 %.

In 2005/06 - \$35,369,375 was raised. In terms of value: Non-public equity (Outcome 1) - 51 %, Public Equity (Outcome 2) - 46 %, Debt Finance (Outcome 3) - approximately 1 %, and Other (Outcome 4) -approximately 1 %.

Non-public equity (Outcome 1) was the most frequent source of investment for 49 companies (83%)¹ in 2004/05 and 31 companies (93%)² in 2005/06. Overall, for the total eighteen months, 70 (91%) of companies in the survey recorded outcomes against non-public equity (with an average investment of \$634,125 for the eighteen month period).

In terms of value of investments, the majority of the 2004/05 investments total \$55,203,500 was sourced through non public equity (Outcome 1) at 47%. In 2005/06, \$35,369,375 was sourced; with the majority in non-public equity at 51% of the value. For the eighteen months, non-public equity equated to 49% of the total value sourced.

As Table 1 indicates, in 2004/05 the COMET customers obtained their investments through a variety of sources. In 2005/06 investments were sourced primarily through non-public equity (Outcome 1) and public equity (Outcome 2). Table 1 shows the average size of investments for each of the outcomes over the financial years. A number of companies sourced investments from more than one source and/or type of investment category.

Public equity (Outcome 2) investments were recorded by three companies (4%) as their source of investment. In terms of value, these companies raised a significant amount of investment, valued at \$32,960,000 – one third of the total value of investment for the eighteen months.

Table 1: Value and number of Investments for each investment outcome

| Outcomes | Value (\$) | | Number of companies | | Average size of investment per company | |
|-------------------|---------------------|---------------------|---------------------|-----------|--|--------------------|
| | 2004/05 | 2005/06 | 2004/05 | 2005/06 | 2004/05 | 2005/06 |
| Non-public equity | \$26,093,500 | \$18,329,375 | 49 | 31 | \$532,520 | \$591,270 |
| Public Equity | \$16,460,000 | \$16,500,000 | 2 | 1 | \$8,230,000 | |
| Debt Finance | \$4,330,000 | \$340,000 | 4 | 2 | \$1,082,500 | \$170,000 |
| Other | \$8,320,000 | \$200,000 | 6 | 1 | \$1,386,666 | |
| TOTAL | \$55,203,500 | \$35,369,375 | 56 | 33 | \$985,777 | \$1,071,799 |

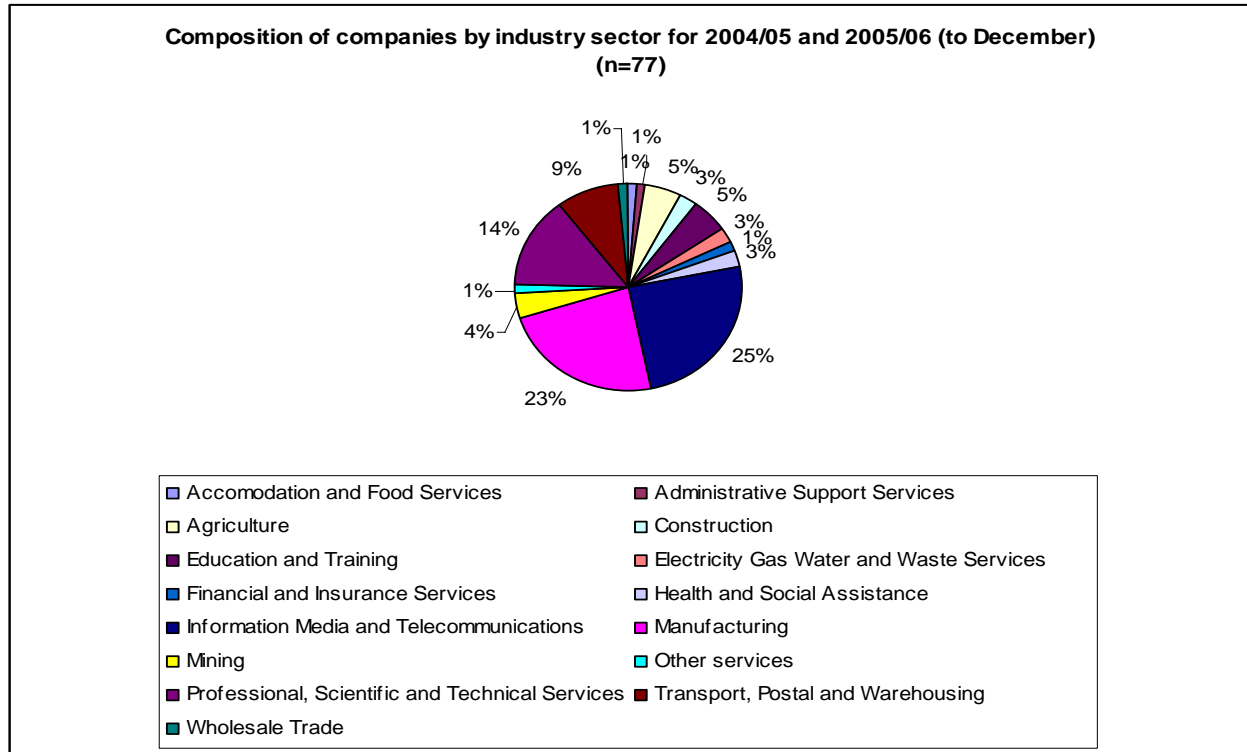
¹ as 56 companies sourced investments in 2004/05 in total

² as 33 companies sourced investments in 2005/06 in total

2.1 Aggregate analysis by industry sector

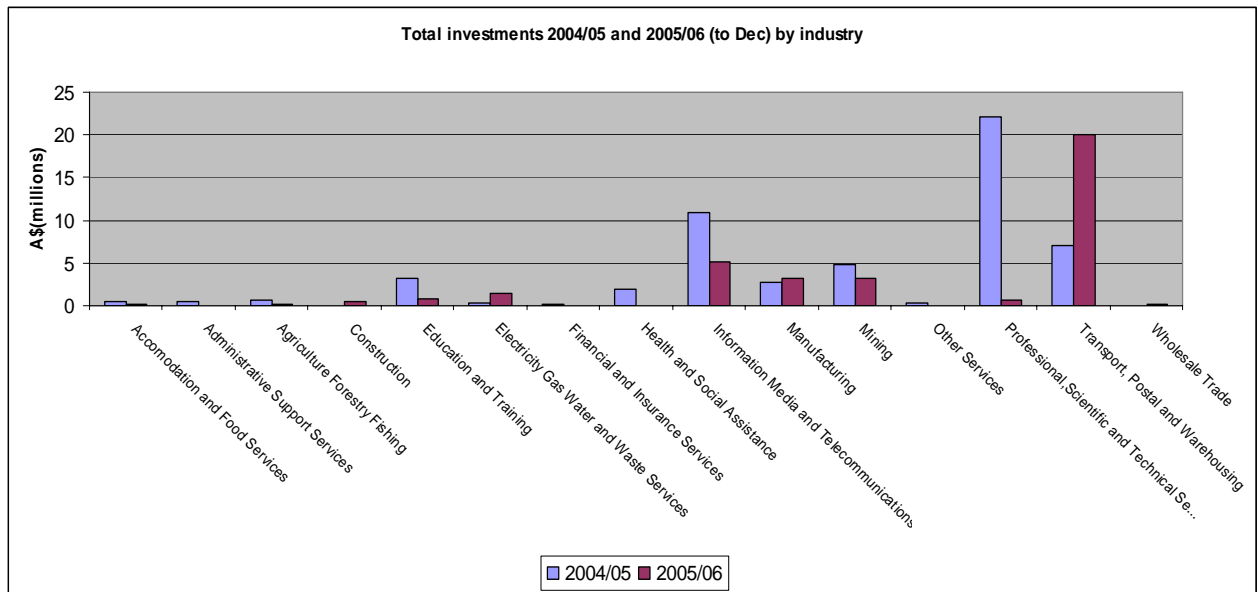
Regarding the *number* of companies that have sourced investment, Chart 1 shows that the majority belong to the Information Media and Telecommunications and Manufacturing industries at 24.6% and 23.7% respectively for the eighteen months. The Professional, Scientific and Technical Services industry recorded 14%, while the Transport, Postal and Warehousing industry recorded 9%.

Chart 1: Survey Population composition by industry sector (for 2004/05 and 2005/06 (to December))

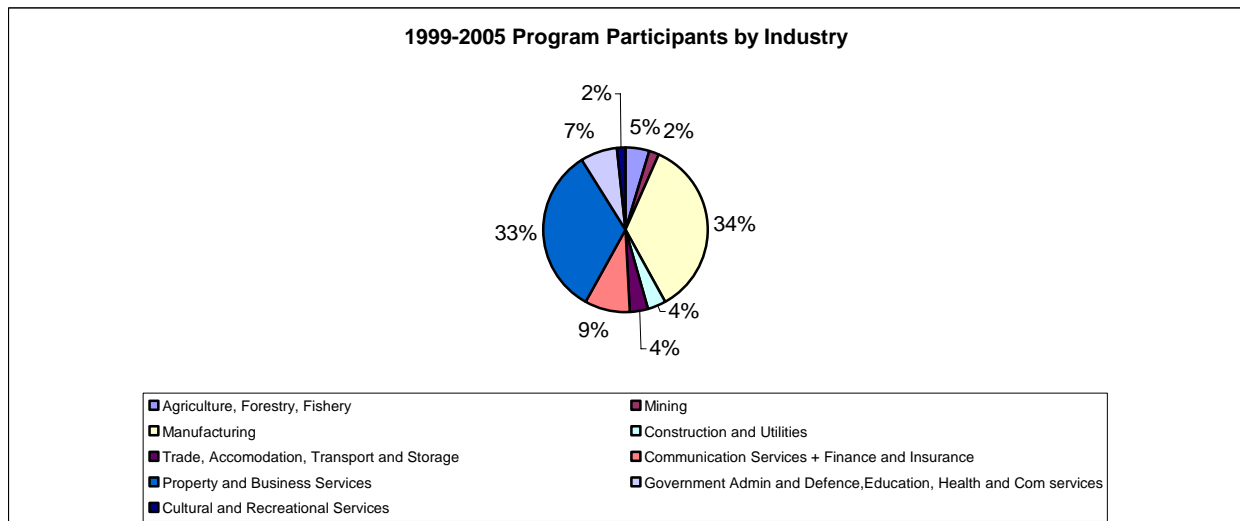


In terms of the *value* of investments sourced across industries (refer Chart 2 below), Professional, Scientific and Technical services has the majority of investment at 39% valued at \$22,058,000 in 2004/05, sourced by nine companies. Transport Postal and Warehousing secured the most investment of 51% in 2005/06, valued at \$20,025,000, sourced by two companies.

Despite the large *number* of Information Media and Telecommunications and Manufacturing industry companies who are included in the survey, the majority of the *value* of these investments was sourced by companies in the Professional, Scientific and Technical services and Transport postal and warehousing industries.

Chart 2: Total investments 2004/05 and 2005/06 (to Dec) by Industry by value

As Chart 3 shows, COMET companies generally are in the Manufacturing (34%) or Property and Business Services³ industries (33%). According to the data provided by the Business Advisers, in terms of the *number* of companies who sourced investment, manufacturing companies were among the highest.

Chart 3: 1999-2005 Program Participants by Industry

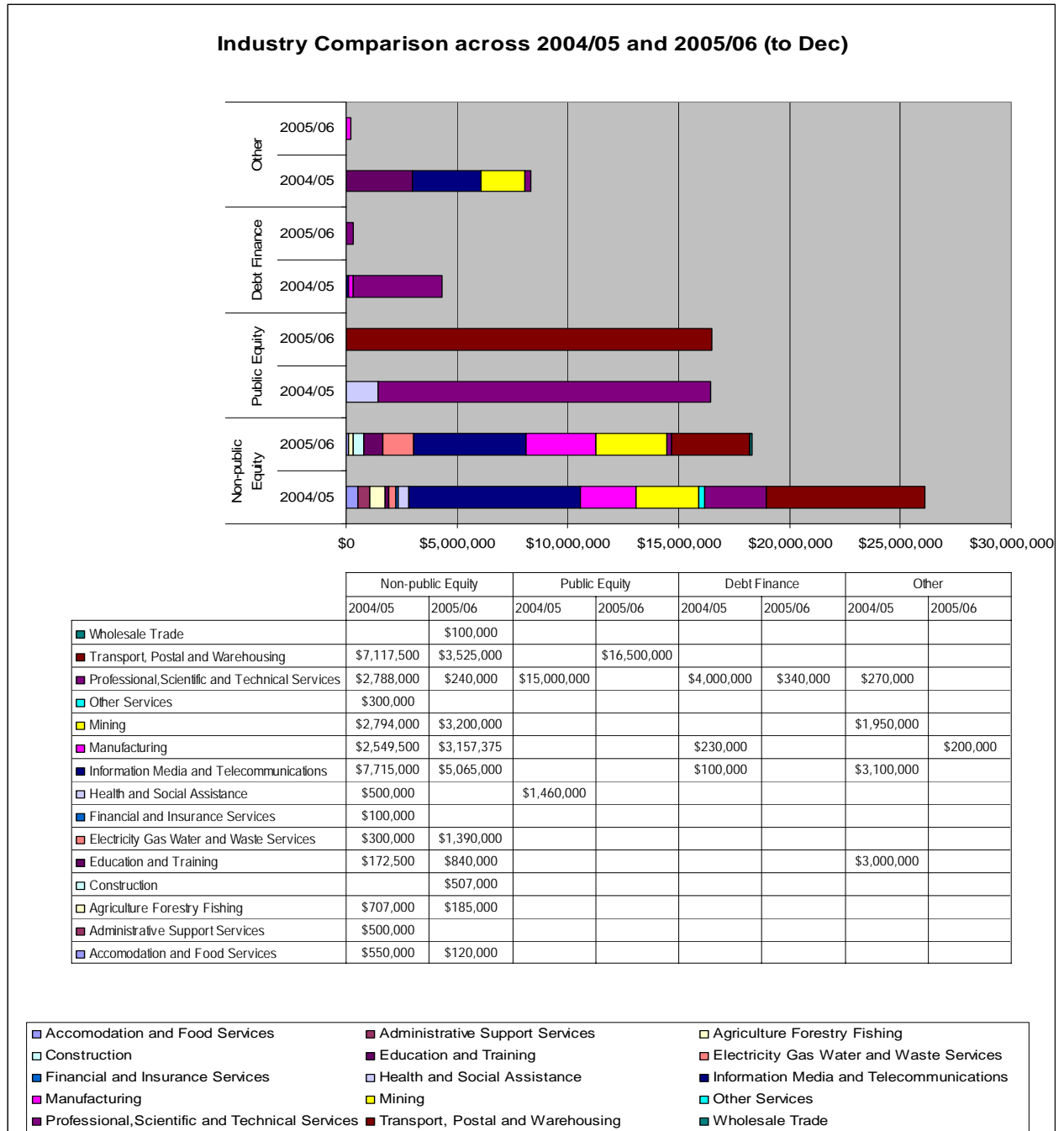
Source: IR&D Board Annual Reports 1999/00 to 2004/05

The picture changes when taking into account the level of investment received, showing that the *value* secured by these Manufacturing companies is quite small (see Chart 4). When the manufacturing companies seek investments, they do so mainly through Non-public equity (Outcome 1).

³ Because of changes to ANZIC in 2006, now divided between the Professional, Scientific and Technical Services and Information, Media and Telecommunication)

As Chart 4 shows, in terms of *value*, in 2004/05 Professional, Scientific and Technical services companies were able to source investments from all four outcomes, although the majority of investment was sourced via Public Equity (Outcome 2). In the 2005/06 financial year, Transport, Postal and Warehousing sourced the most investment, but this was through only one transaction via Public Equity (Outcome 2) valued at \$16,500,000.

Chart 4: Source of Capital: Comparison across 2004/05 and 2005/06 (to December)



2.2 Aggregate analysis by location

Of the 77 companies who raised capital, 74% are metropolitan based and 26% are located in a regional area. In terms of the *value* of the source of investment, 72% was sourced by metropolitan based companies, while 28% was sourced by regional companies.

Box 3: Notes on Regional companies' performance

At first glance, it appears that regional companies are "punching above their weight" in securing greater investment than their share (i.e. 26% of companies secured 28% of the value of investment). However, in 2005/06 one NSW regional company recorded an IPO valued at \$16,500,000 as well as securing angel investment at \$3,500,000, dominating the investment sourced in this financial year – as well as skewing the total average for regional companies. Removing this outlier, the total value of regional company investment is \$5,594,000 (or 8% of the total for the eighteen months).

The Business Advisers reported that the companies located in Sydney sourced the most capital, valued at \$31,611,500 or 35% of the total capital sourced. Next, six NSW regional companies secured 23% of the total investment; while in third place were Perth-based companies who sourced 13% (Table 2).

The success of Sydney companies is in line with the number (20.16%) of COMET companies based in Sydney (according to the total customer profile for the COMET program (Source: IR&D Board's Annual Reports from 1999/2000 to 2004/05)). However, NSW regional companies only comprised 4.38% of customers, and Perth 9.64%. As stated in Box 3, in 2005/06 one NSW regional company accounted for \$20,000,000 in investments through non-public equity and public equity. This leaves investments of \$1,072,000 for five companies (average of \$214,400). The Perth companies averaged investments of \$1,472,921.

Table 2: Comparison of the COMET program customer profile and survey companies

| State/Territory | % of companies who received COMET between 1999 - 2004/05 by location (n=1369) ⁴ | % of survey companies (n=77) | Value of capital raised by 77 companies | % of total investment |
|-------------------|--|------------------------------|---|-----------------------|
| Metro – Sydney | 20.16% | 27.27% | \$31,611,500 | 35% |
| Metro – Melbourne | 17.09% | 6.49% | \$8,230,000 | 9% |
| Metro – Brisbane | 14.97% | 14.29% | \$9,200,000 | 10% |
| Metro – Adelaide | 14.10% | 14.29% | \$2,764,000 | 3% |
| Metro – Perth | 9.64% | 10.39% | \$11,783,375 | 13% |
| Metro – Hobart | 1.53% | 0% | 0 | 0 |
| Metro - Darwin | 1.31% | 0% | 0 | 0 |
| ACT | 1.68% | 1.30% | \$1,390,000 | 1.5% |
| NSW- country | 4.38% | 7.79% | \$21,072,000 | 23.2% |
| VIC- country | 2.41% | 2.6% | \$350,000 | 0.4% |
| QLD – country | 9.86% | 7.79% | \$1,894,500 | 2% |
| SA - country | 1.97% | 2.6% | \$235,000 | 0.2% |
| WA - country | 0.15% | 1.3% | \$845,000 | 0.93% |
| TAS – country | 1.31% | 2.6% | \$497,500 | 0.5% |
| NT – country | 0.15% | 1.3% | \$700,000 | 0.77% |

⁴ Source: IR&D Board Annual Reports 1999/00 to 2004/05

Chart 5 represents the breakdown of company source of investments in regional and metropolitan areas, and over the two financial years across all categories.

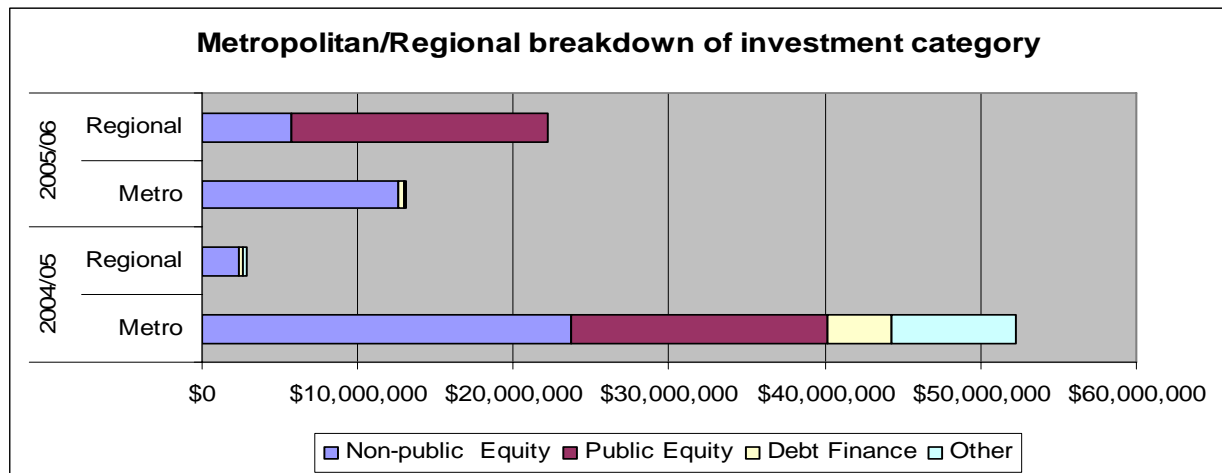
2.2.1 Regional Companies

In 2004/05, regional companies sourced investments via non-public equity (Outcome 1), debt finance (Outcome 3) and other (Outcome 4). In 2005/06, regional companies' primarily sourced investments through Outcomes 1 and 2 (Box 3).

2.2.2 Metropolitan-based Companies

In 2004/05, metropolitan based companies sourced investments through all four outcomes, including two IPOs valued at \$16,460,000 or 16% of the total value of investments. In 2005/06 (for six months), companies sourced investment through non-public equity (Outcome 1) and very little through debt finance (Outcome 3) and other (Outcome 4).

Chart 5: Metropolitan/Regional Company breakdown of investment category

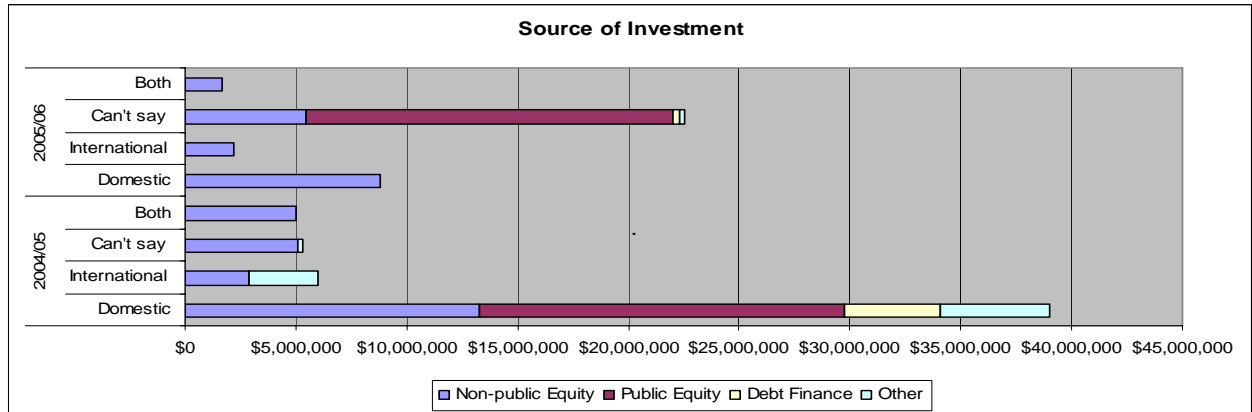


2.3 Source of Investment – Domestic or International.

As Chart 6 shows, in the 2004/05 financial year, it is not known where the majority of investments came from. It is known that international providers were involved in 'other' investments (Outcome 4) by purchasing IP or companies in outright sales.

For 2005/06, domestic sources were the main source of non-public equity (Outcome 1).

International sources of investment have been identified as China, New Zealand and the United States.

Chart 6: Sources of Investment

Section 3: Investment source - Non-public Equity

3.1 Analysis

Non-public equity includes investments sourced through VC not elsewhere specified (VC nes) by the Business Advisers; Business Angels; corporate investments; Government equity programs such as the Innovation Investment Fund (IIF), Pre-seed Fund (PSF) and Pooled Development Fund (PDF); other Australian, State or Local Government equity programs; other venture capital (VC) or private equity (PE) providers; mergers and acquisitions; and 'other'. These investments were provided by the Business Advisers in the survey form (Attachment A).

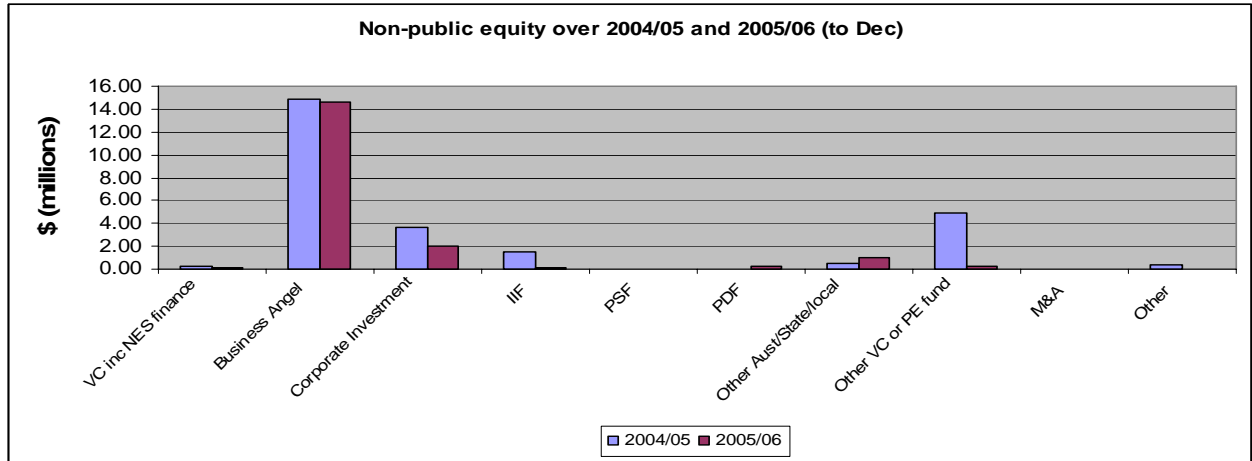
3.1.1 2004/05

Chart 7 shows the composition of non-public equity (Outcome 1) for 2004/05. Of the 47% of capital raised through non-public equity sources for the period, 56% was sourced through Business Angels to the value of \$14,811,000.

Other VC, PE and VC nes accounted for 9%, valued at \$5,187,500 of the total (2004/05) funds. The contribution made by corporate investment, at 6.7% was valued at \$3,700,000 of the 2004/05 total of \$55,203,500.

3.1.2 2005/06

The composition of non-public equity (Outcome 1) has changed for the six months of 2005/06 (Chart 7). The value of Business Angel investment was increasing in prominence at 81% of the 2005/06 total relative to the other investment categories. The value of other Australian, State and Local government sources of investment also increased – which includes investments from BITS incubators, the Queensland Government's TeQstart program, as well as the Centre for Energy and Greenhouse Technologies (CEGT). No companies sourced investments through the PSF or through Mergers or Acquisitions (M&A). The value reported under the 'other' category was for a joint venture agreement.

Chart 7: How Non-Public equity compares across the financial years**Box 4: Definition of Venture Capital**

Venture capital is high risk capital directed towards new or young businesses with prospects of rapid growth and high rates of returns. Venture capital is an investment not only of money, but also of skills and time.

Venture capital investors are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in venture capital investment vehicles which are mainly organised in the form of either trust funds or corporations. Venture capital trust funds obtain investment commitments from investors, which are drawn down over time. They must return capital plus profit (minus loss) as investments are realised.

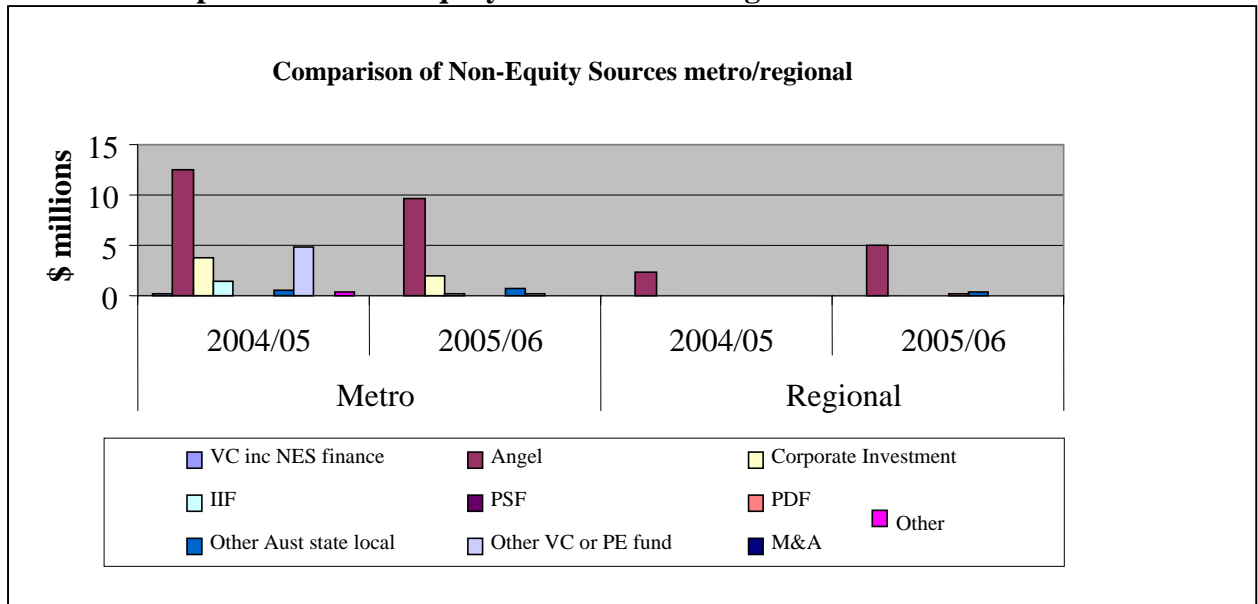
Venture Capital is known as the "formal" investment market

Source: ABS Cat 5678

3.2 Location of companies sourcing investment

Chart 8 highlights the value of investment from Business Angel and Corporate Investment in regional companies. Metro-based companies sourced investment from Business Angel and Corporate Investment, but also through other VC or PE sources.

Chart 8: Comparison of Non-Equity Sources metro/regional



3.2.1 State by State Comparison for Non-public Equity

This section looks at how the States compare in terms of location of companies who source investments through non-public equity (Outcome 1) by *value*. Chart 9 shows that NSW-based companies, predominantly metro-based companies, sourced the most investment in 2004/05 through equity, and in doing so, use a variety of sources (such as IIF and other VC or PE funds). Western Australian companies were not too far behind, using Corporate Investment and Angel sources.

Chart 9: State by State comparison 2004/05

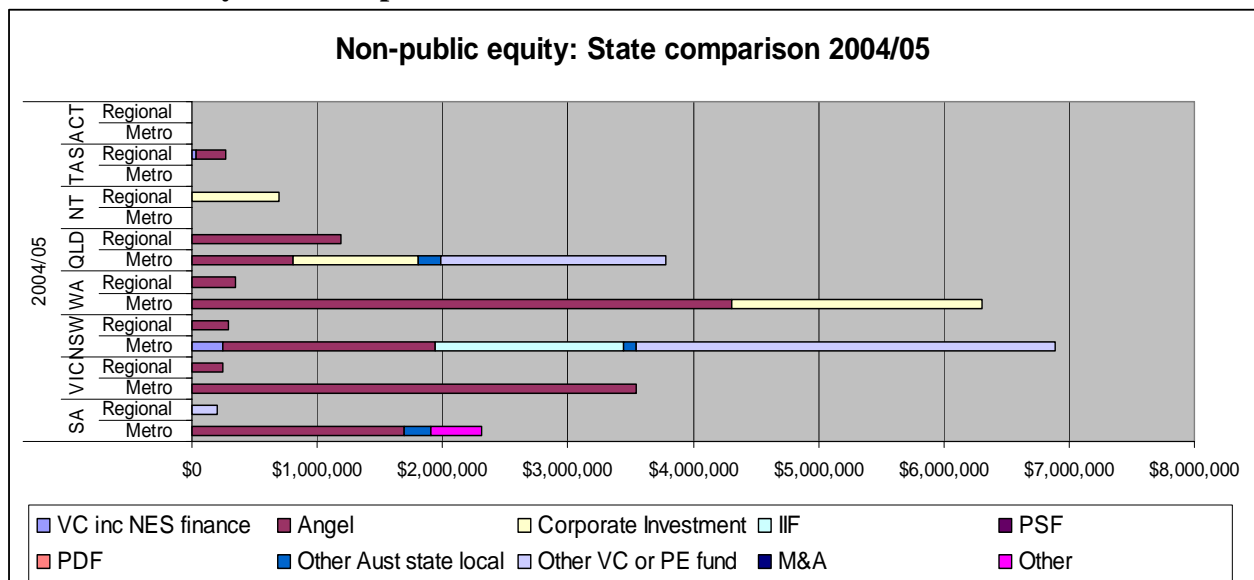
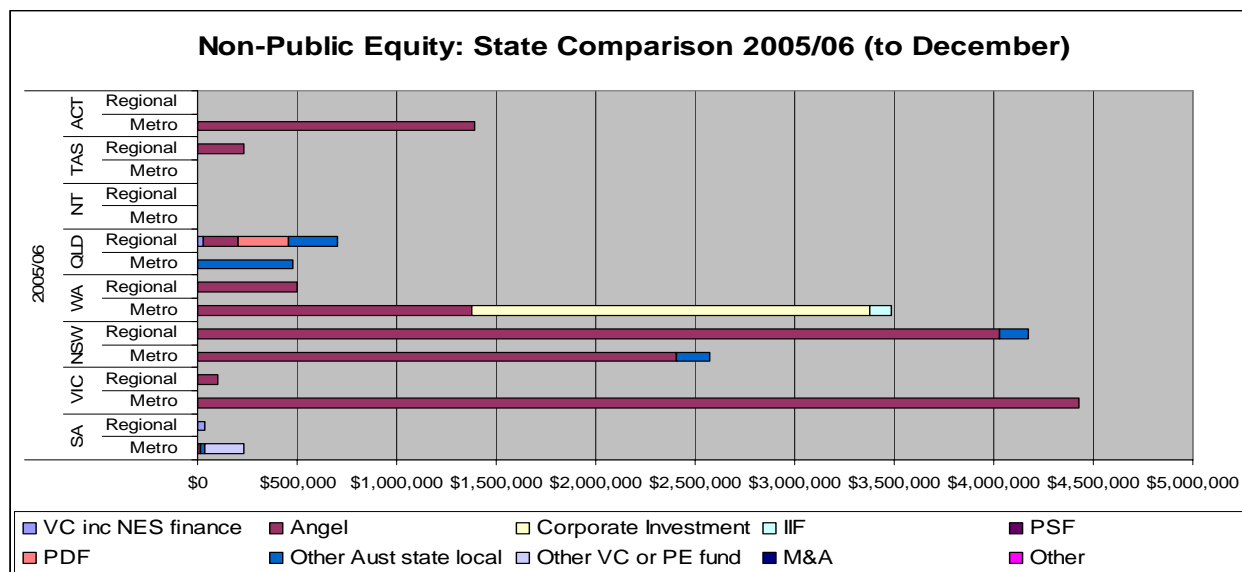


Chart 10 shows the predominance of the value of Business Angel investments across most States, particularly in NSW, Victoria and ACT for 2005/06. Corporate finance was dominant in Western Australia, while one Queensland regional company accessed Pooled Development Fund

(PDF) venture capital. In Queensland metropolitan areas, the major source of investment was other Australia State and Local Government Equity programs.

Chart 10: State comparison 2005/06 (to Dec 05)



3.4 Analysis of Business Angel investment

Fifty companies (65%) sourced investments from Business Angels for the survey period. As stated in section 3.1, in 2004/05 Business Angel investment comprised 56% of the *value* of non-public equity and 27% of total investments. In 2005/06 Business Angel investment was 80% of the *value* of non-public equity or 41% of total investments. Business Angel finance equalled one-third of the total *value* of investments made by the 77 COMET customers.

Box 5: Definition of Business Angel Investment

Business Angel Financing: Capital raised for a private company from independently wealthy investors. This capital is generally used as seed financing.

Business Angel Investor: A person who provides backing to very early-stage businesses or business concepts. Business Angel investors are typically entrepreneurs who have become wealthy, often in technology-related industries.

Source: www.vcexperts.com

Business Angel investment is also referred to as the "informal" investment market

Why do firms seek Business Angel investment instead of VC?

Venture capital companies can provide young companies with tens of millions of dollars in capital; they generally limit those investments to companies with the potential for hundreds of millions of dollars in revenue.

Venture capitalists may be trying to build a company that will do \$100 million a year in revenue, 250, maybe a billion, angel investors will be perfectly comfortable with a company that has 30, 40, 50 million in revenue and is wildly profitable.

In addition, venture companies often require entrepreneurs to hand over a larger chunk of the ownership of the company in exchange for the investment. Often, VCs can demand as much as 80 percent ownership, while an angel investor may be satisfied with 20 percent.

3.4.1 Profile of Business Angel Investors

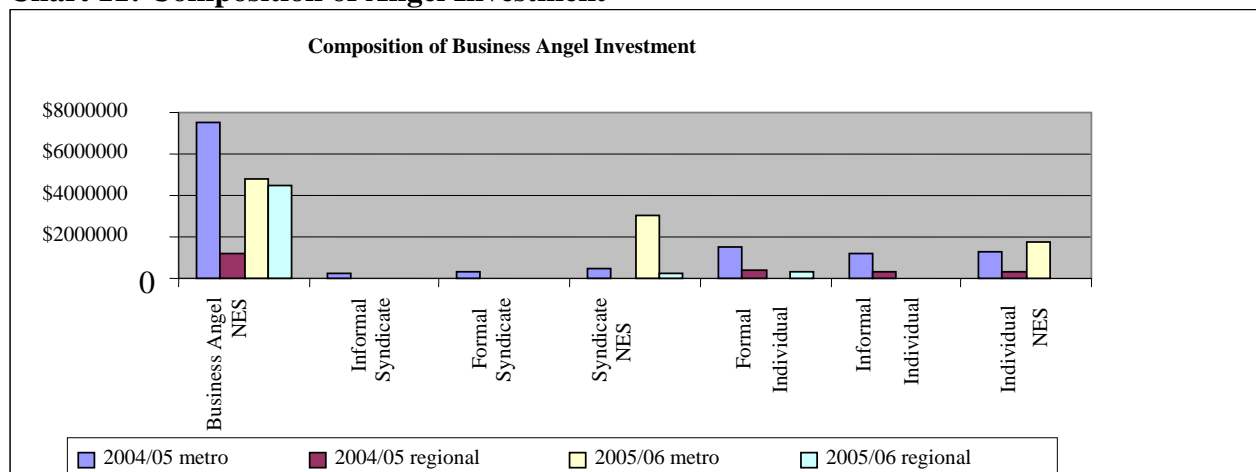
The COMET Business Advisers provided detail on the composition of Business Angel investors, broken down as follows:

- Individuals who would take an active role in the business by providing guidance etc (referred to as Formal – Individual);
- Individuals who would only provide finance in return for equity (such as a silent partner, referred to as Informal – Individual);
- A group of Business Angels, loosely affiliated but with pooled resources (known as Informal – Syndicate); or
- A professional alliance or network of Business Angels (known as Formal – Syndicate).

The data in this section is limited in terms of analysis as most Business Advisers did not disaggregate information on Business Angel investment in the survey.

As Chart 11 shows, when the data *was disaggregated* the value of Business Angel investment was sourced in 2004/05 from Formal – Individuals and in 2005/06 from Syndicates (not specified whether formal or informal). Generally, in order to present the data appropriately in this report, the investments were identified as Business Angel not elsewhere specified (NES). Note: Business Angel NES is not a total figure for this category.

Chart 11: Composition of Angel Investment



Section 4: Investment Source - Public Equity

Public equity refers to Initial Public Offerings (IPOs) or Reverse Listings on to a Stock Exchange.

In the eighteen month period of this study, three companies went to IPO. In 2004/05:

- Two companies went to IPO, valued at \$15,000,000 and \$1,460,000 respectively
- These IPOs were approximately 30% of the investments for this financial year.
- Companies were metropolitan based, and in the Professional, Scientific and Technical services and Health and Social Services industries.

In 2005/06:

- One regional company in the Transport, Postal and Warehousing industry went to IPO, valued at \$16,500,000
- This single investment comprised 46% of the total investments sourced for the 2005/06 financial year.

Section 5: Investment Source - Debt Finance

Debt finance is when a company acquires funds by borrowing. In return for lending the money to this company, the individuals or institutions become creditors and receive a promise to repay principal and interest on the debt. Lenders could be a financial institution, a non-financial institution or "other".

In 2004/05 there were four debt investments made by the COMET companies, valued at \$4,330,000 or 7% of the total investments sourced. Both metro and regional companies sourced debt finance, and the professional, scientific, and technical industry sourced the largest investments in terms of *value*. Companies from manufacturing and information, media and telecommunications industries also used debt finance.

In 2005/06, there were two debt finance outcomes recorded, valued at \$340,000 or less than 1% of the total investments for that financial year. This *value* of debt finance was sourced by companies from the Professional, Scientific and Technical Services industry.

Over the eighteen month period, only \$370,000 of debt finance was sourced from a finance institution. The majority of debt finance came from "other" debt sources, which were identified as private bank clients and a new shareholder that had extended a line of credit.

Section 6: Investment Source – 'Other'

The 'other' category is a catch-all to capture investments that may not have been applicable to Non-public equity, Public equity or Debt. Seven companies sourced 'other' investments.

In 2004/05, six companies sourced investments in this category, valued at \$8,230,000 (or 15% of the total). Explanations by the Business Advisers showed these entries to be occasions such as

the sale of IP, sale of companies to publicly listed companies and options for further investments. It also included an R&D Start Grant (which could be used by the company to progress projects).

In 2005/06, only one 'other' investment was made, listed as a Commercial Ready grant valued at \$200,000.

The 'other' investments were from domestic and international sources.

For the COMET program, additional finance from Government programs that are not equity based (such as the R&D Start Grants and Commercial Ready), are considered to be working capital for that company, rather than an investment.

Section 7: Overall COMET program investment results compared with the Australian Venture Capital Market

The scope of this study does not allow for direct comparisons of the data of the 77 companies against that of the total Australian VC market. This is because it is not known from the COMET at what stage the investments were made (ie seed and early-stage investments). Therefore it is only possible to provide an aggregate comparison of these stages of the VC market (based on the ABS VC Survey) with the total program figures for COMET over time to show performance.

COMET was introduced in 1999 to increase the number of investor-ready companies in the market. Capital raising has since been a significant performance outcome amongst others, for participants of the program. According to program data, COMET clients have raised approximately \$370m since the program began in late 1999.

Chart 12 reviews the aggregate COMET company data against the formal VC market, specifically for the Seed (where product is in development and company has been in business for less than 18 months) and Early (product in pilot production, usually in business less than 30 months) stages of investment. The chart does not include the expansion stage data. The data for FY1999 to 2001 incorporates the dot-com bubble.

As Chart 12 shows, when COMET companies have sourced investments, they track between 7% and 11% of the value of the seed/early stage VC market. NOTE: The entry for 2003/04 is inflated by two large investments: one of \$27m, which was a listing on the Alternative Investment Market in London; the other \$18m. Without these two large investments, the amount

sourced would be \$55m, which is in line with the amounts raised for 2002/03 and 2004/05, and equates to 9% of the value of the formal VC market.

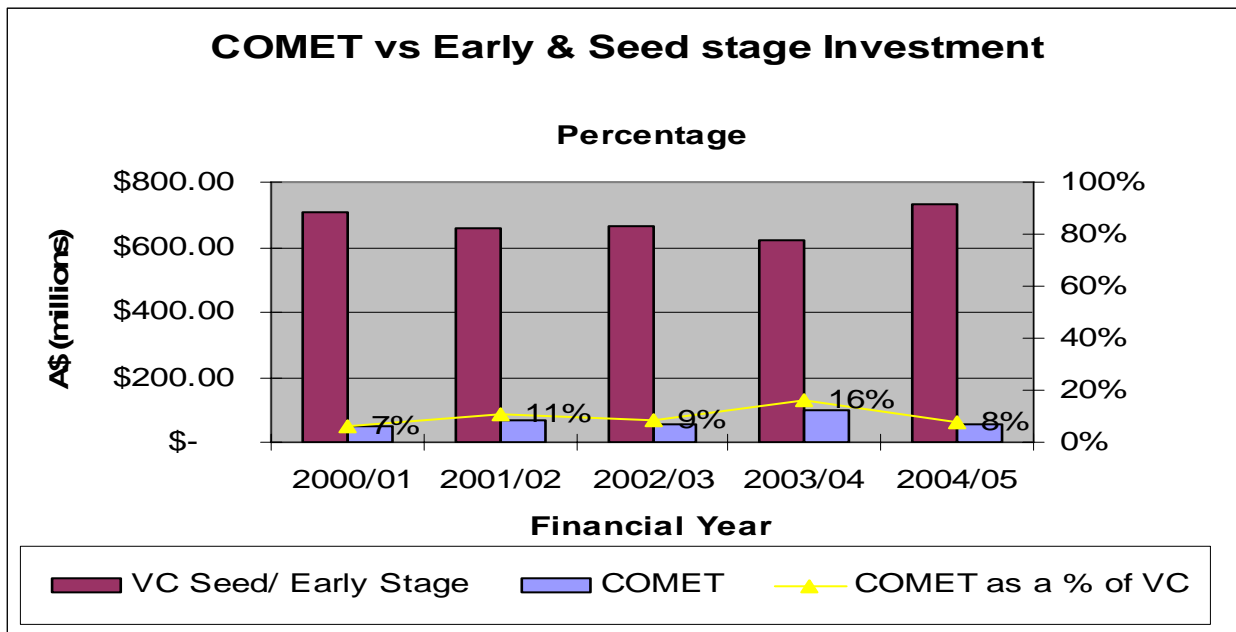
Box 6: COMET - Formal and Informal investment

The COMET source of investment survey is relevant in showing that COMET companies can source investments from both the *formal*/VC market and the *informal* market. However, it is important to realise that for the time series in Chart 12 the investments sourced by the COMET companies are unlikely to be a major percentage of the funds provided by the VC market, but in fact can run *parallel* to it (as alternative sources of finance).

The two outlier investments reinforce the message from this study in that COMET companies use the informal market sources for finance – the \$27m listing mentioned above would only be included in the ABS VC survey if the company had secured formal venture capital beforehand.

There is no data collection method or survey for the informal finance market in Australia – so the findings from the 77 COMET companies cannot be compared to see if they are following the trends of the VC market or not.

Chart 12: COMET in comparison to Early and Seed stage Investment market



Source: ABS Cat 5678 and COMET program data from the IR&D Board Annual Reports 1999/00 to 2004/05. Note the 2000/01 figure is an aggregate of data for 1999/00 and 2000/01.

Section 8: Conclusions

COMET companies come from a variety of industry sectors and locations across Australia. The ability of COMET customers to raise capital has always been an important performance outcome for the program. The program records an investment to funding leverage of 6:1.

This survey is a snapshot picture of the sources of investment for COMET companies. It is based on company investment data provided by the COMET Business Advisers. However, it should be noted that the survey does not show whether all firms received the finance that they

were seeking; or whether only 77 COMET companies were actually looking for finance over this period of time.

The data shows the success of the 77 companies in sourcing investments and that there was relatively little interaction with formal venture capital. During the 18 month survey period, there were also few links to other Government equity programs, such as the IIF, PSF and PDF programs. One hypothesis to explain this is that the COMET companies investments may be too small to attract venture capital providers. It is noted that there were only three firms going to IPO (which can be used as an exit mechanism for institutional investment such as that provided by venture capitalists) during the survey period.

Business Angel investors are significant providers of finance to COMET companies. Sixty five per cent of companies in the survey used Business Angel investors, and the Business Angel investors provided a third of the investments during the survey period to these early-stage technology based companies.

The report shows that COMET companies source finance from other forms of alternative investments (such as corporate investments. Corporate investments can be the basis of strategic alliances, and funding for early-stage technology companies.

Attachment A – Survey form

SECTION 1 GRANTEE DETAILS

| | |
|--------------------|--|
| Application Number | |
| Company Name | |
| Business Adviser | |

SECTION 2 COMMERCIALISATION OUTCOMES – data provided by AusIndustry via BA Monthly Activity Reports

| | ID number | Commercialisation outcome | Number of outcomes | \$ Value | Month/Year Details reported to AusIndustry | If this value is nil or not correct, please update |
|-----------------|-----------|---|--------------------|----------|--|--|
| Capital Raising | 1 | Equity Injection | | | | |
| | 2 | Initial Public Offering | | | | |
| | 3 | Borrowing/Debt Financing | | | | |
| | 4 | Other (please specify): | | | | |

SECTION 3 SOURCE OF CAPITAL RAISING

| | CAPITAL RAISING CATEGORIES (refer to Attachment B for Definitions of sources of Capital) | Please place a tick if appropriate |
|---|--|------------------------------------|
| (ID number 1) Non-public Equity Injection | 1. Angel Finance Please specify whether: syndicate - formal or informal..... OR individual - formal or informal..... | |
| | 2. Corporate Investment | |
| | 3. Innovation Investment Fund | |
| | 4. Pre-Seed Fund | |
| | 5. Pooled Development Fund | |
| | 6. Other Australian, State or Local Government Equity Program (please specify)..... | |
| | 7. Other Venture Capital or Private Equity Fund | |
| | 8. Merger & Acquisition | |
| | 9. Other (please specify)..... | |
| (ID number 1) Was the Equity Investment | a) Additional investment from existing shareholder | |
| | b) Investment from a new shareholder | |
| (ID number 2) Public Equity | 1. IPO | |
| | 2. Reverse Listing | |
| | 3. Other (please specify)..... | |
| (ID number 3) Loan/Debt Finance | 1. Financial Institution | |
| | 2. Non-Financial Institution | |
| | 3. Other (please specify)..... | |
| (ID number 4) Other form of Capital (please specify)..... | | |
| Was the capital sourced: | | |
| a) Domestically or | | |
| b) Internationally | | |

SECTION 4 TIMEFRAME OUTCOMES ACHIEVED

Was the capital sourced during COMET?

YES

NO

If no, please specify the month and year the outcome was sourced

Attachment B – Survey outcomes by category

| Capital Raising Categories | Number of Firms | Value of Capital Raised |
|--|------------------------|--------------------------------|
| 1. Non Public Equity Injection | | |
| 1.Angel Finance | 50 | \$29,461,000 |
| 2.Corporate Investment | 3 | \$5,700,000 |
| 3.Innovation Investment Fund | 2 | \$1,609,375 |
| 4.Pre-Seed Fund | 0 | 0 |
| 5.Pooled Development Fund | 1 | \$250,000 |
| 6 Other Australian, State or Local Government Equity Program | 8 | \$1,550,000 |
| 7.Other Venture Capital or Private Equity Fund | 4 | \$5,100,000 |
| 8.Merger & Acquisition | | 0 |
| 9. Other | 1 | \$400,000 |
| VC NES | 4 | \$352,500 |
| 2. Public Equity | | |
| 1.IPO | 3 | \$32,960,000 |
| 2.Reverse Listing | 0 | |
| 3.Other | 0 | |
| | | |
| 3. Loan/Debt Finance | | |
| 1.Financial Institution | 4 | \$370,000 |
| 2.Non-Financial Institution | 0 | 0 |
| 3.Other | 2 | \$4,300,000 |
| | | |
| 4. Other form of Capital | 7 | \$8,520,000 |
| | | |
| Total | 77 | \$90,572.875 |
| | | |