



VENTURE CAPITAL

● The voice of private capital



THE AUSTRALIAN INVESTMENT COUNCIL IS COMMITTED TO BUILDING AWARENESS OF THE PRIVATE CAPITAL INDUSTRY, HOW IT OPERATES AND THE CONTRIBUTION THE SECTOR MAKES TO THE GROWTH OF BUSINESSES AND THE NATIONAL ECONOMY.

Alongside [private equity](#) and [private credit](#), [venture capital](#) forms an important part of Australia's private capital ecosystem and is a growing asset class. The information set out below provides an introduction to venture capital for those who are new to the industry and demonstrates how venture capital operates within the private capital ecosystem.



WHAT IS VENTURE CAPITAL?

As a distinct asset class, venture capital (VC) is a form of financing provided by investors for an equity stake in early-stage and fast growth companies, which are frequently referred to as start-ups. These venture capital-backed companies are developing new and innovative technologies, therapies, systems and processes that create jobs, re-define markets and generate new industries. These companies are often cash poor in the early phase of their lifecycle and must rely on a number of funding sources to get them to their next stage of growth. VC is particularly suited to helping companies overcome these barriers and can be a critical enabler for helping firms transition to a growth stage.

Innovation investment in Australia is largely driven by the willingness of investors such as VC firms to take risks and invest in new businesses that are creating markets and industries which may not even exist today.

This funding is accompanied by highly valuable strategic and operational advice and guidance to the founders and management teams of early-stage fast-growth businesses, known as portfolio companies. This model of working in partnership is often the 'x-factor' that can help these innovative businesses realise their ambitions in domestic and global markets. The expansion and growth of such businesses leads directly to more revenue and sales, greater levels of investment into innovative market-leading research and development, and ultimately, is the key driver behind the creation of new, high-value jobs within the economy.

Australia's VC ecosystem has facilitated the growth of countless companies. These include homegrown 'unicorn' companies – businesses whose value exceeds \$1 billion – including Afterpay, Airwallex, Canva, 10x Genomics, ZipMoney and Zoox. Importantly, 75% of Australian companies that have grown to be worth \$100 million or more have maintained their headquarters in Australia.¹

AUSTRALIAN VC AT A GLANCE

Funds Raised FY20	\$1.3 bn
Active Fund Managers	36
Portfolio Companies	448
Investment in FY20	\$2.4 bn

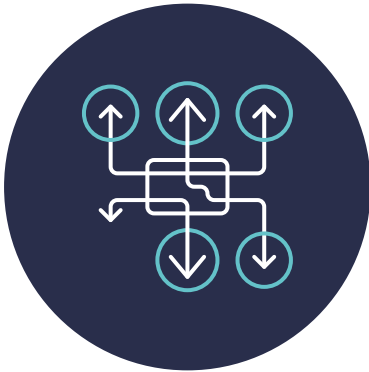
Source: Australian Investment Council

75% OF AUSTRALIAN COMPANIES THAT HAVE GROWN TO BE WORTH \$100 MILLION OR MORE HAVE MAINTAINED THEIR HEADQUARTERS IN AUSTRALIA.¹



¹A unicorn a year: More than 50 Australian startups founded since 2011 are valued over \$100 million: Smart Company, May 24 2019

TYPES OF VC FUNDS



Venture capital funds cover a wide spectrum of the innovation ecosystem from businesses in their early start-up phase to fast growth companies that create thousands of jobs and contribute to the broader economy.



MICRO VCS

Micro VCs provide seed funding to start-up companies to build a minimum viable product and test the viability for the product in the market. Generally, the funds raised and the amounts of capital invested will be smaller than subsequent funding rounds.



EARLY STAGE VCS

Early Stage VCs offer funding which may go towards developing further versions of the product, building production facilities, or implementing early sales and marketing initiatives.



LATER STAGE VCS

Later stage VCs invest in companies that typically have a commercially available product, may be generating revenue, and are seeking capital to fund their growth.



CORPORATE VCS

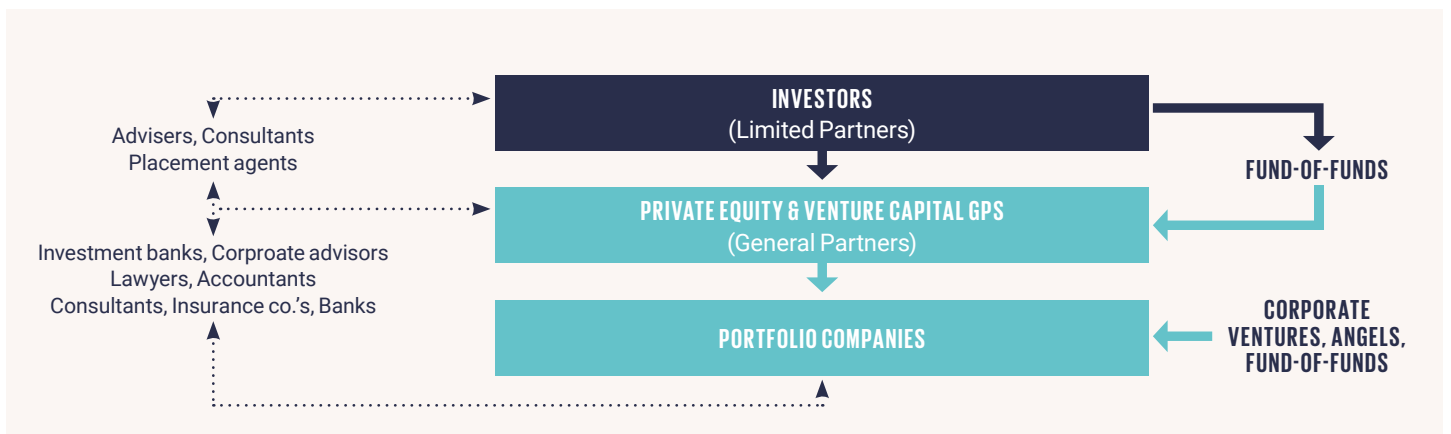
Corporate VCs are launched and/or funded by a large corporate institution, and may invest at all phases in the venture capital lifecycle. Examples of companies in Australia with venture capital arms include Woolworths, Telstra, National Australia Bank, IAG and Coca-Cola Amatil.

VENTURE CAPITAL ECOSYSTEM

A typical VC investment will involve raising money from sources such as institutional investors, companies, superannuation funds and High Net Worth individuals.

The capital raised is placed into a fund structured as a limited partnership (LP) and managed by a venture capital fund manager, described as a general partner (GP) because they manage the fund and are liable for its legal debts and obligations. Investors are described as LPs because their liability

for debts and obligations to the fund is limited to the amount of their investment in the fund. LPs are passive investors because they are precluded from getting actively involved in the management of the companies invested into which are known as portfolio companies.



SOURCES AND STAGES OF FUNDING

VC financing is classified according to the various stages of a business. Early stage companies raise capital in 'rounds' (Series A, B, C, D) with VC fund managers typically taking minority stakes in each round.

These start-ups also receive funding prior to a Series A round through seed capital from angel investors, university funds, crowdfunding, family and friends. VC firms usually hold their investments for between five and seven years, before they sell or 'exit' their investment, either on the stock market, to a corporate buyer or to another investor.



SEED CAPITAL

Seed capital is the first official capital raised to help a start-up finance its first steps which include initiatives such as market research and product development. It is generally provided by family, friends or university funds, or by angel investors who receive an equity stake in the business in return for their investment.



SERIES A FUNDING

Series A funding is raised to further the development of the business' product or service offerings. This funding traditionally comes from VC firms who will have undertaken a due diligence process to determine the risks of the investment and the company's potential market opportunities.



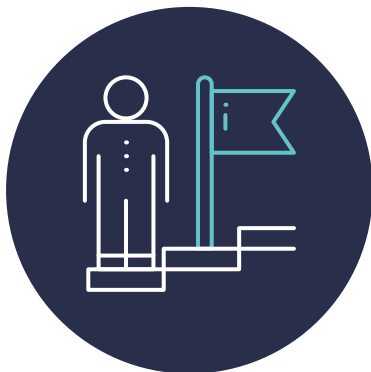
SERIES B FUNDING

Series B funding is used to take the business to the next level. It is deployed to grow the company so it can meet new levels of demand or open in new markets.



SERIES C & D FUNDING

Series C & D funding are larger capital amounts deployed when the business has already proven its potential to continue to drive more accelerated growth. These funding rounds are often used to boost a company's valuation prior to an initial public offering on the securities exchange. Series D funding may be used because the company has not yet achieved goals set out in a Series C funding round.

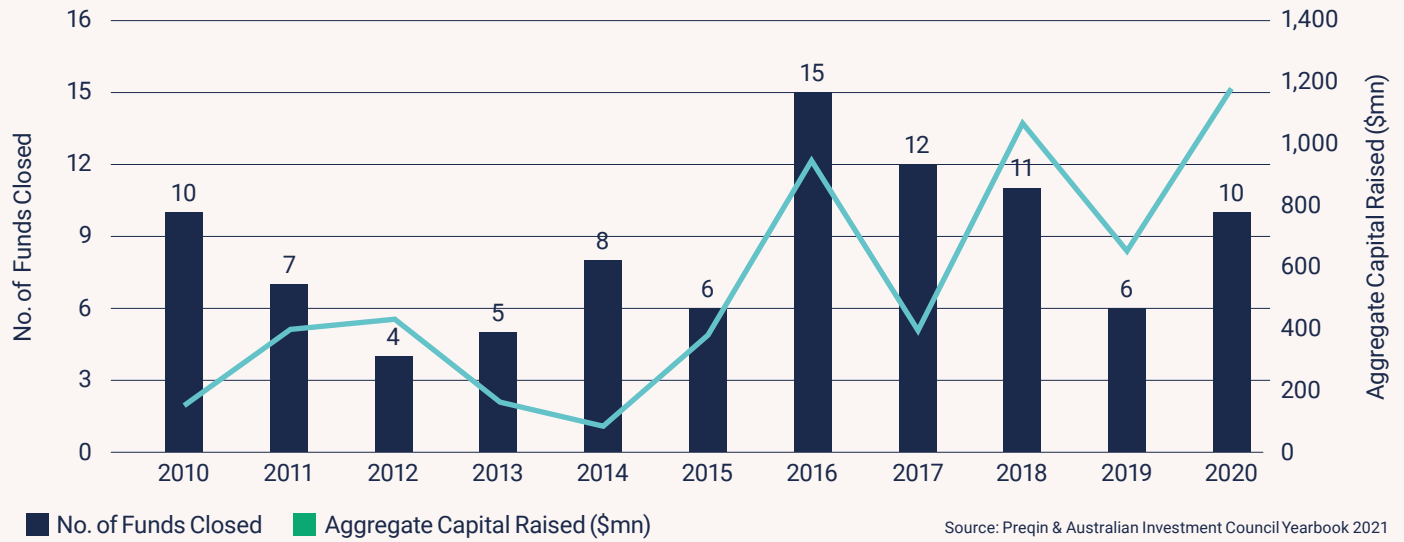


VC FIRMS USUALLY HOLD THEIR INVESTMENTS FOR BETWEEN FIVE AND SEVEN YEARS, BEFORE THEY SELL OR 'EXIT' THEIR INVESTMENT, EITHER ON THE STOCK MARKET, TO A CORPORATE BUYER OR TO ANOTHER INVESTOR.
VC HAS BACKED SOME OF AUSTRALIA'S MOST SUCCESSFUL COMPANIES SUCH AS AFTERPAY, AIRWALLEX, CANVA, 10X GENOMICS, ZIPMONEY AND ZOOX.

VC IN AUSTRALIA RECORD FUNDRAISING LEVELS

Australia's venture capital industry boomed in the second half of 2020 on the back of a global acceleration in digitalisation trends and growing interest in new technology-driven business models. Fund managers raised \$1.3bn in 2020, the largest sum ever, and almost double the \$735mn recorded in 2019.

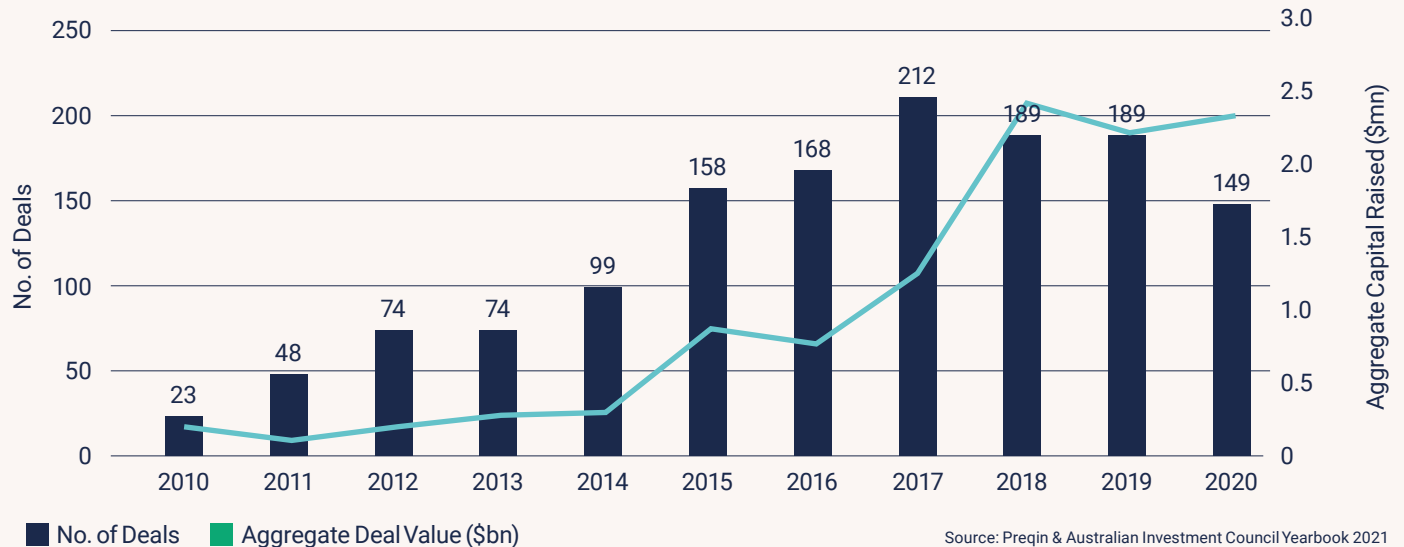
FIG. 01 VC FUNDRAISING IN AUSTRALIA, 2010 – 2020²



Australia's venture capital ecosystem has continued to mature in recent years demonstrated through aggregate deal value in 2020 of \$2.4bn.

*Figures exclude add-ons, grants, mergers, secondary stock purchases, and venture debt.

FIG. 02 VENTURE CAPITAL DEALS* IN AUSTRALIA, 2010 – 2020³



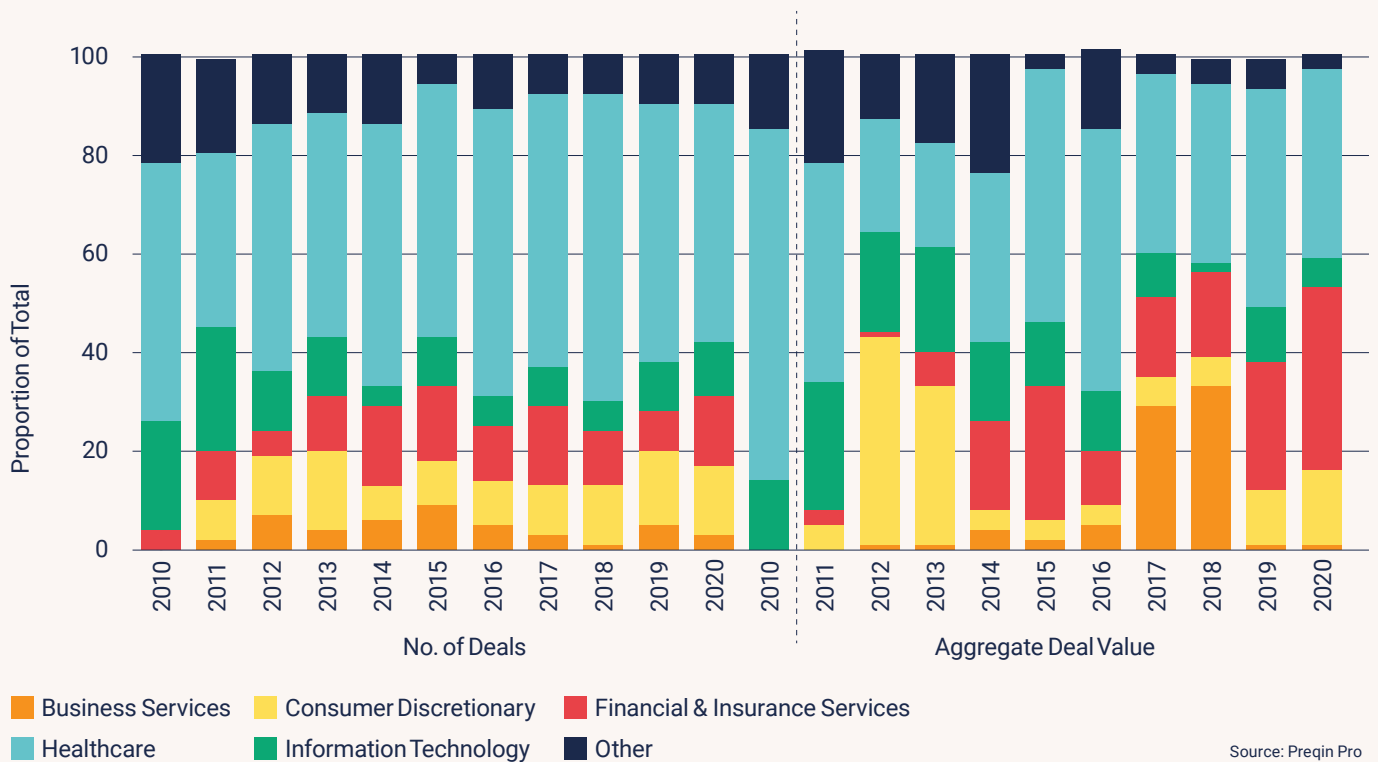
²Preqin & Australian Investment Council Yearbook 2021
³ibid



VC IN AUSTRALIA RECORD FUNDRAISING LEVELS

The information technology (IT) sector has long dominated the Australian venture capital scene. Since 2010, IT deals have comprised 51% of total transactions and accounted for 41% of aggregate deal value. In 2020, the dominance of IT receded slightly, to 38% of total transactions, with activity in financial and insurance companies climbing to 37% of deals. technology is one area undergoing radical transformation. In 2018, 12% of Australians were utilising digital payment solutions, but this is expected to accelerate rapidly to 70% by 2023.⁴

FIG. 03 VENTURE CAPITAL DEALS* IN AUSTRALIA BY INDUSTRY, 2010 — 2020⁵



OVER THE PAST DECADE, VENTURE CAPITAL HAS BEEN AT THE FOREFRONT OF DRIVING INNOVATION THROUGH INVESTMENT INTO BUSINESSES SUPPORTED BY NEW TECHNOLOGIES IN AREAS SUCH AS FINTECH, CYBER SECURITY, FOOD TECHNOLOGIES AND HEALTH AND MEDICAL SERVICES.

⁴Cashless payments spike in fight against covid-19. In the Black, June 2020
⁵Ibid



ABOUT THE AUSTRALIAN INVESTMENT COUNCIL

VISIT [AIC.CO](http://aic.co)

The Australian Investment Council is the voice of private capital in Australia.

Private capital investment has played a central role in the growth and expansion of thousands of businesses, which when combined represents a multi-billion-dollar contribution to the Australian economy.

Our members are the standard-bearers of professional investment and include: private equity, venture capital, corporate venture capital and private credit funds, alongside institutional investors such as superannuation, sovereign wealth funds and family offices, as well as leading financial, legal and operational advisers.

FOR FURTHER INFORMATION

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