AVCAL

Australian Private Equity &
Venture Capital Association Limited

2016 Yearbook

AUSTRALIAN PRIVATE EQUITY AND VENTURE CAPITAL
ACTIVITY REPORT – NOVEMBER 2016

In partnership with

EY

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CONTENTS

FOREWORD

The Australian private equity and venture capital industry saw a continuation of significant deal activity over the course of the 2016 financial year. Pleasingly, overall fundraising and investment levels remained strong, which is especially noteworthy given the uncertainty and volatility seen across financial markets in a number of leading economies around the world.

The major focus on divestment activity in recent years allowed the GPs to focus on raising and deploying fresh capital, underpinned by high quality deal flow and investment opportunities which help build existing portfolio companies.

In a positive sign for the innovation ecosystem, fundraising levels for Australian VC funds reached a record high. A diverse range of investors, particularly at the institutional level, are now seizing the opportunity to back home-grown startups and other early-stage companies through established Australian VC funds. Superannuation funds continue to be an important source of new capital flowing to Australia's VC sector, which reflects a re-emergence of big-ticket support from the domestic investor community. The federal government's policy initiatives through the National Innovation and Science Agenda (announced in December 2015), as well as new interest in the early stage sector by large corporates, have worked in tandem to encourage investors to think about allocating capital to this fast-moving and high-growth segment of the economy.

PE fundraising levels also remain strong, with offshore investors again constituting the major component of new commitments, in a continuation of the trend seen over recent years. Domestic investors continue to be the foundation for the Australian PE industry, but increasing policy and regulatory focus will need to be addressed before domestic commitments begin to rise once again.

Overall PE and VC investment amounts increased as GPs on average made larger investments into a more select number of companies compared to last year. The increase was driven by domestic PE and VC fund managers – and in another positive sign for Australia's early stage sector, domestic VC funds invested the largest amount seen in the last 10 years. The growing quantum of capital raised by VC funds should help sustain healthy levels of investment into fast-growth early-stage businesses over the coming years.

More modest levels of divestment activity were seen across the PE and VC industry over this past year, which was expected given the increased exit activity recorded in FY2014 and FY2015. The investment returns being generated by our fund managers nevertheless remain an important part of the value that the industry brings to Australia's economic landscape, and to the beneficiaries of the institutional investors who allocate capital into PE and VC.

I would like to express my thanks to all the GPs who contributed their valuable time, data and information to AVCAL to assist in the production of this report. I would also like to thank EY, our long-standing research partner for the eighth year running, for their valuable input and support of our organisation and the industry we represent.

Yasser El-Ansary
Chief Executive
AVCAL
November 2016

FROM OUR RESEARCH PARTNER

EY is proud to support AVCAL in our eighth consecutive year as Research Partner.

The AVCAL data for FY2016 shows the Australian private equity and venture capital industry is growing from strength to strength, as high levels of fundraising and dry powder signal strong investment activity over the next few years.

PE and VC funds continue to make significant amounts of investment into Australian businesses, bringing with them the right skills and expertise to make transformative changes to these companies.

While the pace of divestments was slower compared to the previous two years, we saw a number of strong exits through both trade sales and via listed markets.

The PE and VC sector in Australia also continues to mature. The internationalisation of both funding sources and investment by domestic GPs suggests that Australia is playing an increasingly influential role in financial and economic growth, at both the regional and global levels.

We look forward to another great year for investments and continued exit success.

Bryan Zekulich
Oceania Leader - Private Equity
EY
November 2016

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EXECUTIVE SUMMARY

Australian venture capital (VC) fund managers reached a record level of VC fundraising, whilst private equity (PE) fundraising remained strong. Investment activity across the industry was also higher in dollar terms, largely due to increasing amounts of domestic VC and PE capital being deployed by fund managers.

Some of the key highlights of the year are listed below.

Fundraising:

- Australian PE and VC funds raised $2.74b in FY2016, slightly lower than the FY2015 total but still higher than the levels seen in FY2013 and FY2014.
- VC fundraising rose to $568m, a record level. Seven VC funds had successful fundraising closes during the year, including Blackbird Ventures' $200m fund and OneVentures' Innovation and Growth Fund (Fund II), which reached its $100m target in December 2015.
- PE fundraising was slightly lower in dollar terms but spread across more funds than in FY2015, with 10 funds raising a combined total of $2.17b.
- The majority of new PE commitments came from overseas investors, in a continuation of the trend seen in the previous year.
- A diverse range of domestic investors such as superannuation funds, corporate and financial institutions, and private individuals contributed to VC fundraising.
- As of 30 June 2016, an estimated $7b of dry powder was available for investment by Australian PE and VC fund managers, a 13% increase on the previous year's total.

Investment:

- PE and VC investment in dollar terms increased by 5% to $3.68b from FY2015 to FY2016, while the number of companies that received PE or VC investment was 16% lower at 150.
- Total PE investment grew by 2% to $3.33b in FY2016, while the number of companies invested in by PE fell to 60, a 30% reduction on the previous year.
- The rise in the amount of PE investment was driven by a 9% increase in the total amount invested by domestic PE funds.
- Average PE investment sizes were higher in FY2016 than in FY2015, increasing from $35m to $58m.
- Total VC investment in FY2016 was almost 50% higher in terms of total value compared to the previous year, with $347m invested.
- Domestic VC funds invested almost $300m in FY2016, 84% higher than the domestic total in FY2015 and the highest annual figure seen in the last 10 years.
- An emerging investment trend was the growth of VC investment in fintech, totalling $45m for FY2016.

Divestments:

- The total number of companies exited by PE and VC in FY2016 fell to 42, 11 fewer than the FY2015 figure.
- Divestment through public markets (whether through IPOs or the sale of stakes held post-flotation) accounted for the most PE exits by number of companies, while trade sales accounted for the largest amount divested at cost.
- Trade sales also accounted for the majority of VC exits, although the biggest VC exit of the year was via public market listing – the US$4.4b IPO of enterprise software company Atlassian on the NASDAQ exchange in December 2015.

ABOUT THE REPORT PARTNERS

Australian Private Equity &
Venture Capital Association Limited

The Australian Private Equity and Venture Capital Association Limited (AVCAL) is a national association which represents the private equity and venture capital industry. AVCAL's members comprise most of the active private equity and venture capital firms in Australia. These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies.

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EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We have a dedicated team of professionals committed to helping our private equity clients and their investee companies achieve their potential. EY will address your investment, transaction and portfolio needs to help deliver the returns your stakeholders expect.

ABOUT THE YEARBOOK

The AVCAL database contains comprehensive data on the activities of 188 venture capital and private equity firms (both active and no longer active). FY2016 figures are based on the activities of 75 venture capital and private equity firms, which represented $26,556m in funds under management ($2,710m for VC and $23,846m for PE) as of 30 June 2016.

The information was obtained via direct submissions to AVCAL and other sources such as firm websites, press releases and industry news sources. Australian investments and divestments made by global/regional funds are included in the investment and divestment figures. However, global/regional funds are not included in fundraising numbers, unless the fund manager can identify the specific amount allocated to Australian investments.

Total funds under management are based on submissions or estimated amounts. For global/regional funds, these estimates are calculated as funds invested in Australia.

Notes:

1. All annual figures correspond to Australian fiscal years (ending 30 June) except where otherwise stated, e.g. FY2016 refers to the year ending 30 June 2016.
2. All currency units are denominated in Australian dollars unless otherwise stated.
3. All data are from AVCAL's PEREP_Analytics platform, except where otherwise stated.
4. Historical data is updated when new or improved information becomes available. Therefore, the historical data presented in this Yearbook is the most accurate available as at the publication date.

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1 FUNDRAISING ACTIVITY

FUNDRAISING ACTIVITY

Total funds raised

Figure 1: Australian VC funds raised by fiscal year (in AUD millions)

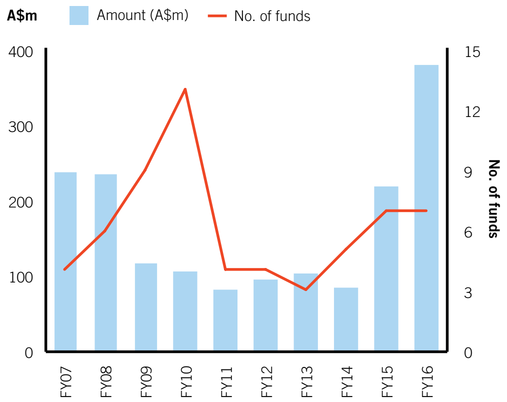
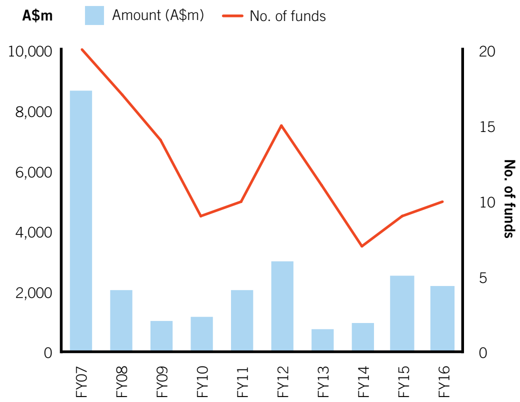


Figure 2: Australian PE funds raised by fiscal year (in AUD millions)



Total fundraising levels across PE and VC were slightly lower in FY2016 compared to the FY2015 totals, falling from $2.87b to $2.74b. However, the FY2016 total was still the third highest level of fundraising seen across the PE and VC sectors since FY2008. 17 PE or VC funds were able to secure commitments from investors over the FY2016 period.

PE fundraising fell from $2.55b in FY2015 to $2.17b in FY2016, a 15% decrease. However, this total was still higher than the combined PE fundraising recorded in FY2014 and FY2013.

Almost all PE fundraising in FY2016 was conducted by growth PE or buyout funds, accounting for 29% and 71% of the total dollar value of PE fundraising, respectively. Buyout funds like PEP Fund V and CHAMP IV successfully raised funds in FY2016, while growth PE firms such as Next Capital and Advent Private Capital also secured new investor commitments during the year.

VC fundraising increased to the highest level on record, with seven funds raising a total of $568m in FY2016. The total amount of VC fundraising seen in the last two years (FY2015 and FY2016) was larger than the totals raised over the preceding six years (FY2009-2014).

VC funds that raised new capital included Blackbird Ventures' latest fund at $200m, OneVentures Innovation and Growth Fund at $100m, and Uniseed and NAB Ventures, each with $50m raised.

Over $1b of intended VC fundraising was announced in FY2016, with the environment for Australian VCs looking to raise capital the most attractive it has been since the GFC.

The government's National Innovation and Science Agenda, announced in December 2015, has helped increase the awareness of the VC sector and its importance to the innovation ecosystem and Australian economy as a whole.

FUNDRAISING ACTIVITY

TABLE 1:
Amount of funds raised by fiscal year (in AUD millions)

NOTE:
Total number of funds and the total commitments include first, intermediate and final closings, reinvested gains, interest and dividends, and captive raisings.

YEAR	VENTURE CAPITAL		PRIVATE EQUITY		TOTAL	
	AMOUNT (A$m)	NO. OF FUNDS	AMOUNT (A$m)	NO. OF FUNDS	AMOUNT (A$m)	NO. OF FUNDS
FY2007	356.92	4	8,690.04	20	9,046.96	24
FY2008	351.90	6	2,052.88	17	2,404.78	23
FY2009	174.89	9	1,034.57	14	1,209.46	23
FY2010	158.00	13	1,190.00	9	1,348.00	22
FY2011	120.00	4	2,014.79	10	2,134.79	14
FY2012	140.02	4	3,031.26	15	3,171.28	19
FY2013	153.93	3	719.93	11	873.86	14
FY2014	123.75	5	933.27	7	1,057.02	12
FY2015	325.63	7	2,549.21	9	2,874.85	16
FY2016	567.93	7	2,172.84	10	2,740.77	17

Funds raised by investment stage focus

While VC funds raised in FY2016 were spread across a range of investment stages, PE fundraising was concentrated in the growth/expansion PE and buyout categories. The buyout category accounted for 71% of all PE and VC fundraising in FY2016, with $1.56b raised. Growth/expansion PE funds raised $628m, the highest amount recorded since FY2012.

The vast majority of new VC commitments in FY2016 were made to later stage or balanced VC funds, accounting for 86% of the VC total. This is in contrast to FY2015, where most VC money was raised by seed or early stage funds.

TABLE 2:
Funds raised by investment stage focus – amounts raised in FY2016 (in AUD millions)

NOTE:
Amounts do not reflect final fund size but rather the incremental commitments raised where a first, intermediate or final closing occurred in FY2016.

INVESTMENT STAGE	AMOUNT (A$m)	NO. OF FUNDS
Seed/Early Stage VC	60.00	2
Balanced/Later Stage VC	507.93	5
TOTAL VC	**567.93**	**7**
Growth/Expansion PE	628.20	3
Buyout/Later Stage PE	1,543.73	6
Other	0.91	1
TOTAL PE	**2,172.84**	**10**
NEW FUNDS RAISED	**2,740.77**	**17**

FUNDRAISING ACTIVITY

Sources of new commitments

Offshore investors contributed the majority of new capital to Australian PE and VC funds overall, as Australian LPs accounted for 32% of new funds raised in FY2016. This was consistent with the shift to a more global investor base seen previously in FY2015.

North American investors, such as public pension funds and financial institutions, made over $1b in new commitments – which represented 38% of FY2016's total PE and VC fundraising, whilst Europe and Asia combined accounted for a quarter of all funds raised.

Looking at PE and VC fundraising separately, there was a pronounced difference in sources of new fund commitments in FY2016. For VC fundraising, over 90% of new capital came from domestic investors, while Australian LPs accounted for only 17% of funds raised by PE funds. Just under half of new PE commitments were from US or Canadian investors, the highest proportion recorded over the last 10 years.

A diverse range of domestic investors such as superannuation funds, corporate/financial institutions, and private individuals contributed to VC fundraising in FY2016. Corporate/financial institutions were the biggest sources of new VC commitments, contributing over 30% of the total. As in FY2015, superannuation funds also provided a significant amount of capital in FY2016, at 21% of the VC total. These included not-for-profit and industry superannuation funds like First State Super and Hostplus, both making commitments to the $200m fund raised by Blackbird Ventures in late 2015.

Likewise, superannuation funds and overseas pension funds made up a significant portion of the PE fundraising in FY2016, at 38%. Corporate/financial institutions also stepped into the gap left by the reduction in sovereign wealth fund commitments, contributing over $500m, or 23% of total PE fundraising.

Figure 3: Sources of new PE and VC commitments in FY2016 by investor type (based on AUD millions)

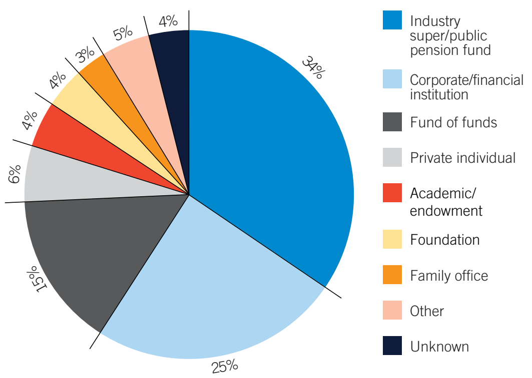


Figure 4: Sources of new PE and VC commitments in FY2016 by region (based on AUD millions)

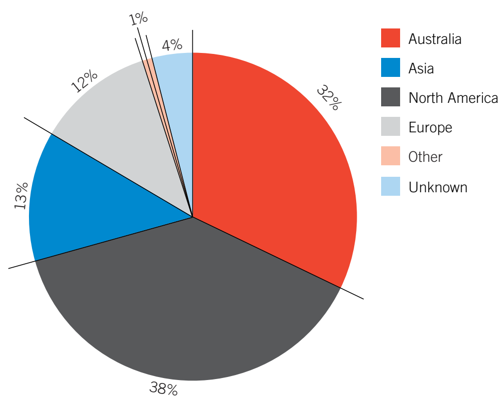


Figure 5: Sources of new VC commitments by investor type, FY2012-FY2016 (in AUD millions)

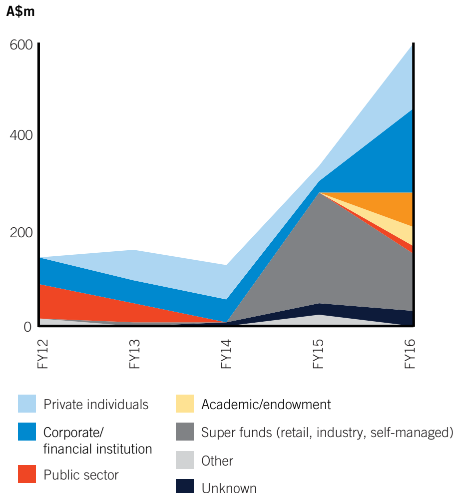


Figure 6: Sources of new PE commitments by investor type, FY2012-FY2016 (in AUD millions)

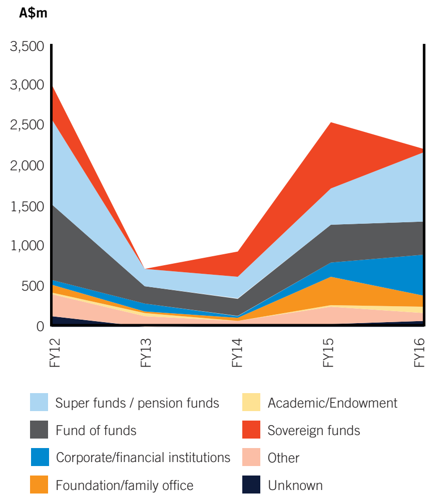


Figure 7: Sources of new VC commitments by geography, FY2012-FY2016 (in AUD millions)

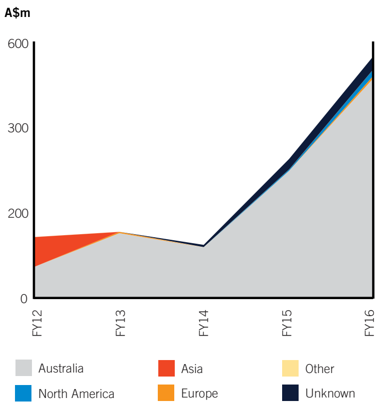
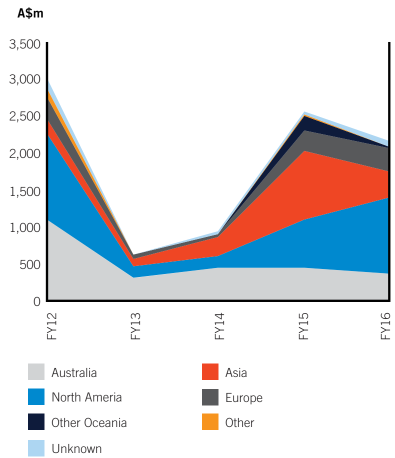


Figure 8: Sources of new PE commitments by geography, FY2012-FY2016 (in AUD millions)



Dry powder

An estimated $7b in dry powder was available for investment as at 30 June 2016, across 60 PE and VC funds.

Almost 87% of this amount was held by PE fund managers in 39 funds. Buyout/later stage PE accounted for 52% of the total PE dry powder.

With record levels of fundraising recorded, VC dry powder rose to $883m in FY2016 (up from $757m in FY2015) with 21 VC funds having available dry powder.

TABLE 3:
Dry powder available in FY2016 (in AUD millions)

NOTE:
Estimated amount based on Australian funds with available capital and vintage years after 2009.

	DRY POWDER (A$M)	NO. OF FUNDS WITH AVAILABLE DRY POWDER
VC	882.70	21
PE	6,111.40	39
TOTAL	**6,994.10**	**60**

2 INVESTMENT ACTIVITY

INVESTMENT ACTIVITY

Total investments

PE and VC investment in dollar terms was higher in FY2016, as the total amount invested rose to $3.68b, a 5% increase on the FY2015 total, while the number of companies that received PE or VC investment was 16% lower at 150.

The higher investment total was largely as a result of domestic PE and VC investment activity, which accounted for 62% of all PE and VC dollars invested.

Total PE investment grew to $3.33b in FY2016, a 2% rise on the previous year's total PE investment amount. However, the number of companies invested in by PE fell to 60, a 30% reduction on the FY2015 figure of 86.

Similar to the previous year, international PE firms made some of the largest deals in FY2016. These included the purchase of GE Capital's Australian and New Zealand consumer finance business for $8.2b by a consortium made up of KKR, Deutsche Bank and Varde Partners, completed in November 2015, and Chinese PE firm Hony Capital's acquisition of a minority stake in ASX-listed Santos Limited at the end of 2015.

As a result of fewer but larger PE investments being made, average PE investment sizes were higher in FY2016 than in FY2015, increasing from $35m to $58m, as six equity investments of $150m or greater were recorded (compared to three in FY2015).

Total VC investment in FY2016 was almost 50% higher in terms of total value compared to the previous year, with a combined $347m invested by Australian and overseas VC funds. This was also the second highest total recorded in the last 10 years, below the $542m recorded in FY2014. The number of companies backed by VC remained steady – at 94 in FY2015 and 93 in FY2016.

The VC investment figures underscore the continuing growth of the local VC industry in Australia, driven by firms such as Blackbird Ventures and Blue Sky Ventures, and corporate VCs like Telstra Ventures. Domestic VC funds invested almost $300m in FY2016, which is 84% higher than the domestic total in FY2015 and the highest annual figure seen in the last 10 years. Domestic VC investment accounted for 86% of total VC investment, higher than the 70% and 45% seen in FY2015 and FY2014, respectively.

The average investment by VC was $2.7m, up from the $2.0m average seen in FY2015. The number of VC firms making investments also rose to an all-time high, with 33 VCs recording investments in FY2016, which is far higher than the annual average of 21 over the nine years from FY2007 to FY2015.

INVESTMENT ACTIVITY

TABLE 4:
Investments by fiscal year (in AUD millions)

YEAR	VENTURE CAPITAL			PRIVATE EQUITY			TOTAL		
	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs
FY2007	150.57	69	17	5,837.23	106	36	5,987.80	174	53
FY2008	211.57	77	16	4,194.40	103	40	4,405.97	176	56
FY2009	228.61	98	21	2,916.45	113	46	3,145.06	208	67
FY2010	191.38	95	22	2,155.74	97	40	2,347.12	189	62
FY2011	289.31	81	20	3,949.50	86	39	4,238.82	164	59
FY2012	162.28	90	17	3,080.19	70	34	3,242.47	159	51
FY2013	143.69	72	19	2,729.36	67	34	2,873.05	139	53
FY2014	542.05	102	23	2,120.56	67	35	2,662.61	169	58
FY2015	233.06	94	27	3,278.55	86	37	3,511.61	179	64
FY2016	346.75	93	33	3,333.08	60	36	3,679.82	150	69

Figure 9: VC Investments by fiscal year (in AUD millions)

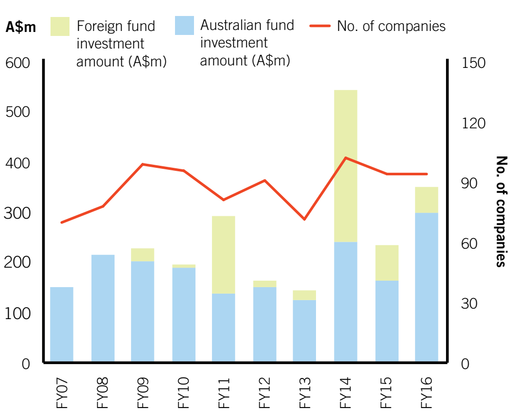


Figure 10: PE Investments by fiscal year (in AUD millions)

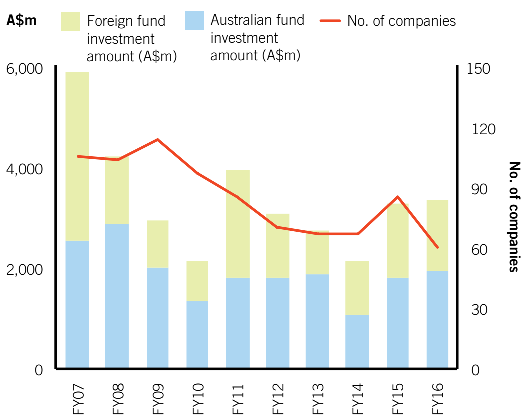
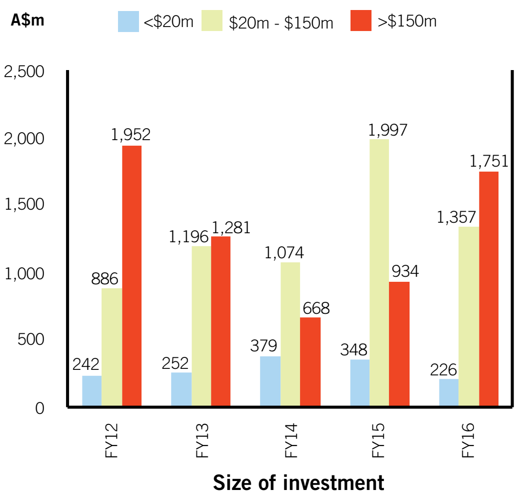


Figure 11: PE investments by size of investment in FY2012-FY2016 (in AUD millions)



INVESTMENT ACTIVITY

Distribution of investments by current stage of investee company

The buyout stage, which includes MBOs, LBOs and public-to-private deals, contributed 57% of the total dollar value of PE investments in FY2016. Buyout deals for FY2016 included the MBO of Auckland-based private educator Academic Colleges Group by funds advised by Pacific Equity Partners, and the buyout of The Real Petfood Company by Quadrant Private Equity in July 2015. The increasing level of buyout deals as a proportion of the number of PE investments, from 19% in FY2012 to 32% in FY2016, indicates that the Australian PE sector is evolving into a more mature market.

The expansion/growth segment remains an important part of the PE investment landscape in Australia, with 47% of companies backed by PE in FY2016 at the expansion/growth capital stage of investment. Meanwhile, the total amount of investment in rescue/turnaround deals rose to $96m, increasing by 57% on the FY2015 total.

For VC investments, a similar proportion of total investment dollars was put into later stage deals as in the previous year: 46% in FY2016 and 42% in FY2015.

In a continuation of recent trends, most VC investment rounds were concentrated on the seed and Series A stages, together accounting for 74% of the number of investments. Investment amounts were more evenly split across financing rounds, the highest being at Series A at 26% and lowest at the Series E+ rounds at 8% of the total investment amount.

TABLE 5: Distribution of investments in FY2016 (by stage of investee company)

NOTE:
Stages with fewer than three companies invested in have been aggregated into "Other VC" or "Other PE". Percentage figures have been rounded off to the nearest whole percent, and refer to the percentage of either total PE or VC investment. As the figures only cover investments by Australian VC or PE funds and international funds investing in Australian companies, investments in companies domiciled overseas will only reflect the amount invested by the Australian fund, not the total round amount invested by a syndicate of international investors.

STAGE	AMOUNT (AUDm)	% OF TOTAL PE OR VC	NO. OF COMPANIES	% OF TOTAL
Seed	20.73	6%	21	23%
Start-up	87.01	25%	36	39%
Other early stage	43.43	13%	14	15%
Late stage VC	158.36	46%	20	22%
Other VC	37.23	11%	2	2%
TOTAL VC INVESTMENT	**346.75**	**100%**	**93**	**100%**
Expansion/growth capital	512.71	15%	28	47%
Rescue/turnaround	95.95	3%	6	10%
Buyout (MBO/MBI/LBO/P2P)	1,907.02	57%	19	32%
Other PE	817.39	25%	7	12%
TOTAL PE INVESTMENT	**3,333.08**	**100%**	**60**	**100%**

INVESTMENT ACTIVITY

Figure 12: Investments by VC funds in FY2016 by investment round

NOTE:
Only includes investments with financing round information.

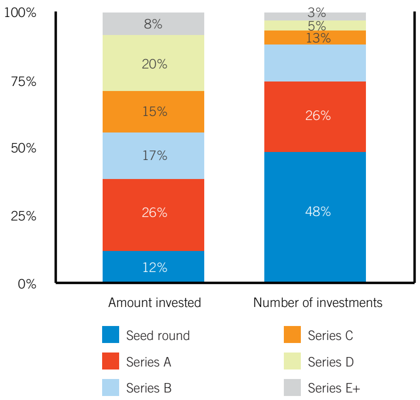


Figure 13: VC investments by stage of investee company, FY2012-2016

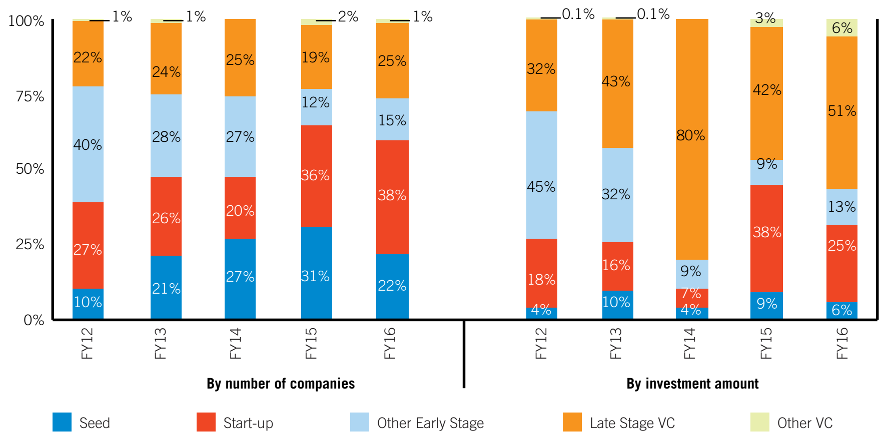
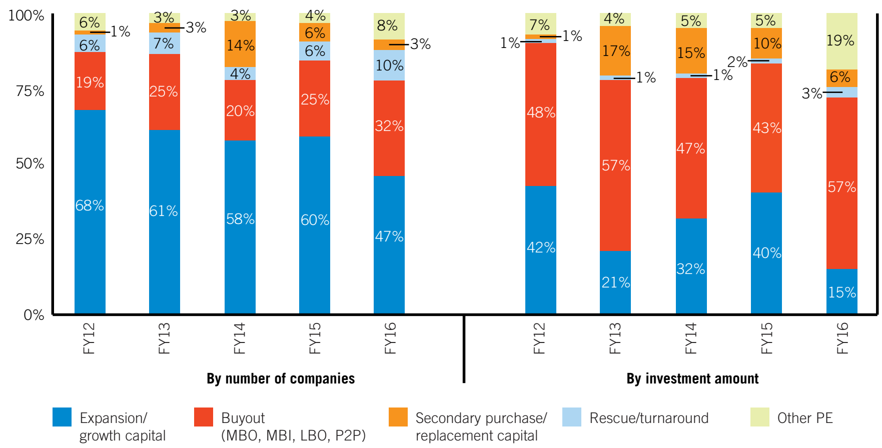


Figure 14: PE investments by stage of investee company, FY2012-2016



INVESTMENT ACTIVITY

Distribution of investments by company sector

The consumer and healthcare sectors saw the most activity in terms of PE investment in FY2016, together accounting for half of the total investment amount and 52% of companies receiving PE investment. Several investments in healthcare services came from Australian listed healthcare companies divesting non-core businesses to both domestic and offshore GPs. These included Crescent Capital Partners acquiring Healthscope's pathology business Australian Clinical Labs and Hong Kong-based Affinity Equity Partners, which bought a GP practice management software business, Medical Director, from Primary Health Care for $155m.

Some of the largest PE deals of the year were in the financial services sector, making up a quarter of the total FY2016 PE investment amount. Transactions in this sector include the purchase of GE Capital's Australian and New Zealand consumer finance business for $8.2b by a consortium made up of KKR, Deutsche Bank and Varde Partners, completed in November 2015, and the secondary sale of financing company Alleasing by CHAMP Private Equity to Monash Private Capital.

Similar to previous years, ICT was the most active sector for VC investment in FY2016, garnering 47% of invested dollars and accounting for 39% of companies receiving VC investment. Local startups focused on developing easy-to-use business or consumer software benefited from this investment activity, including Invoice2Go and Canva, raising US$15m and A$15m respectively in FY2016.

An emerging trend seen in FY2016 was the increasing level of VC investment in fintech startups. Investments in this sector included funding rounds from VCs affiliated with large financial institutions (e.g. Reinventure's participation in a $25m Series C investment round for peer-to-peer lending platform SocietyOne in May 2016, or AMP New Ventures' investment in MoneyBrilliant, a budget management platform, in 2015), as well as backing from independent VC firms (e.g. the $4m investment in online mortgage provider Click Loans by Bailador in May 2016, or AirTree Ventures' contribution to a $60m investment round in small business lender Prospa). VCs invested a total of $45m in fintech in FY2016.

INVESTMENT ACTIVITY

Figure 15: VC investments by sector in FY2016 (based on AUD millions)

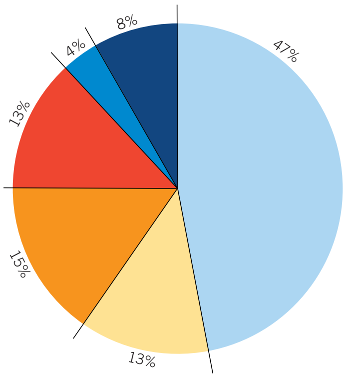
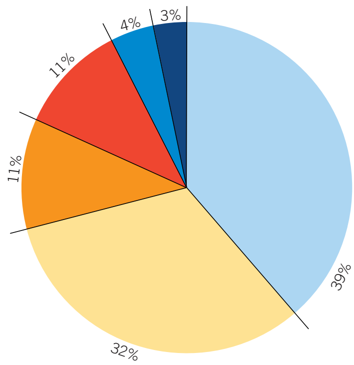


Figure 16: VC investments by sector in FY2016 (based on number of companies)



NOTE:
Sectors with fewer than three companies receiving investments have been aggregated into "Other".

- ICT
- Healthcare and life sciences
- Consumer products, services and retail
- Financial services
- Energy and environment
- Other

Figure 17: PE investments by sector in FY2016 (based on AUD millions)

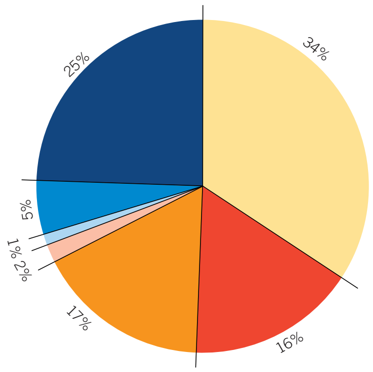
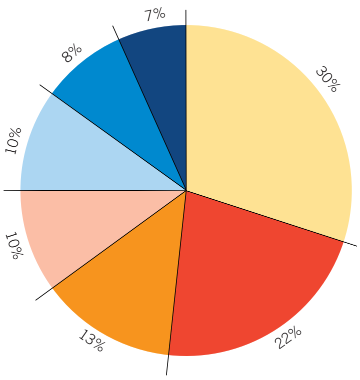


Figure 18: PE investments by sector in FY2016 (based on number of companies)



- Consumer products, services and retail
- Healthcare and life sciences
- Energy and environment
- ICT
- Business and industrial products and services
- Agriculture, chemicals and materials
- Financial services

TABLE 6:
Distribution of investments in FY2016 (by sector)

NOTE:
Sectors with fewer than three companies receiving investments have been aggregated into "Other".

NOTE:
The categories displayed in Figures 15-18 have been grouped as follows: Business and industrial products and services (Business and industrial products, business and industrial services, construction, transportation), consumer products, services and retail (consumer goods and retail, consumer services), financial services (financial services, real estate), ICT (communications, computer and consumer electronics).

SECTOR	AMOUNT (AUDm)	% OF TOTAL	NO. OF INV	% OF TOTAL	NO. OF CO.S	% OF TOTAL
Business and industrial products	35.54	1%	3	2%	3	2%
Business and industrial services	1.90	0.1%	5	3%	4	3%
Chemicals and materials	170.48	5%	3	2%	3	2%
Communications	81.20	2%	14	7%	10	7%
Computer and consumer electronics	140.43	4%	43	22%	30	20%
Consumer goods and retail	397.13	11%	11	6%	11	7%
Consumer services	797.01	22%	20	10%	17	11%
Energy and environment	575.60	16%	14	7%	12	8%
Financial services	860.00	23%	16	8%	13	9%
Healthcare and life sciences	590.36	16%	65	33%	43	29%
Other	30.18	1%	5	3%	4	3%
TOTAL INVESTMENTS	**3,679.82**	**100%**	**199**	**100%**	**150**	**100%**
Subtotal High-tech	683.58	19%	119	60%	86	57%
Subtotal cleantech	31.74	1%	6	3%	6	4%

Figure 19: VC ICT investment by round type in FY2016

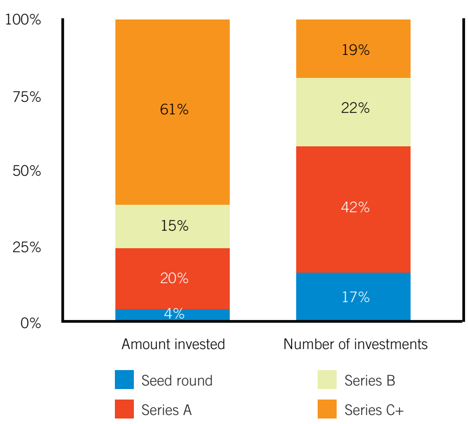
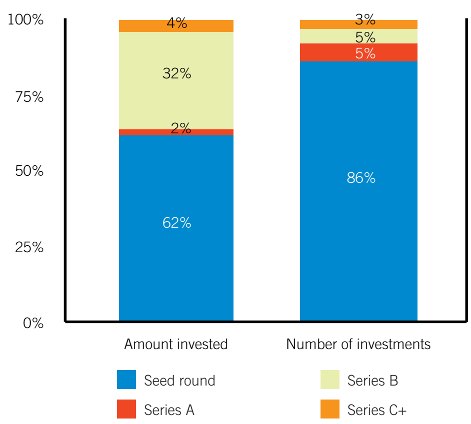


Figure 20: VC life sciences investment by round type in FY2016



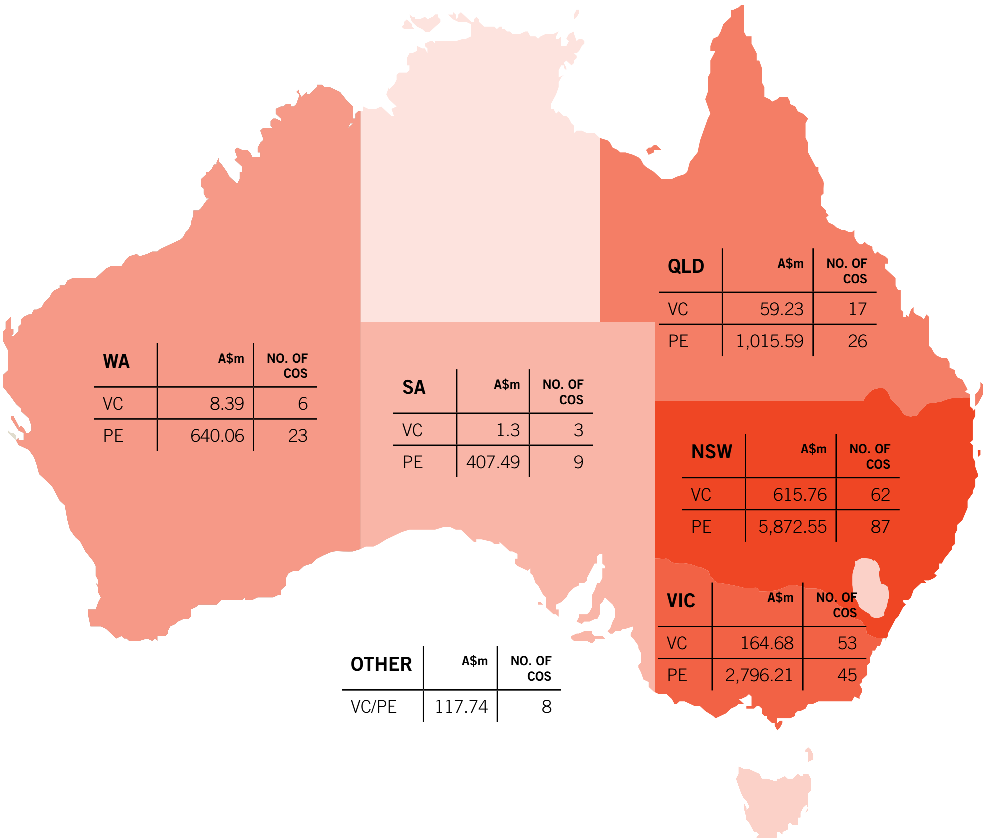
Distribution of investments by geographical location

Two thirds of VC investment, or $232m, was made in Australian companies – the bulk of it to startups based in New South Wales (at $120m) followed by Victoria (at $78m). But more VC investment is being directed from Australia to companies based overseas, in particular to the US, but also large markets closer to Australia. For example, Telstra Ventures made an investment in Chinese cloud provider Qiniu in early 2016.

Domestic businesses accounted for 87% of PE investment by number of companies and 82% by the investment amount. Almost a third of PE investment capital went to companies based in New South Wales, whilst South Australia-based companies benefitted from $683m in PE investment, greater than the combined total PE investment amount recorded in the state over the preceding four years.

Seven companies based in New Zealand secured 18% of total FY2016 PE investment. These included Academic Colleges Group (backed by funds advised by Pacific Equity Partners), NZ Pharmaceuticals (an Archer Capital investee company) and Macpac (backed by CHAMP Ventures).

Figure 21: Distribution of Australian investments in FY2012 - FY2016 (by location of company headquarters)



WA	A$m	NO. OF COS
VC	8.39	6
PE	640.06	23

SA	A$m	NO. OF COS
VC	1.3	3
PE	407.49	9

QLD	A$m	NO. OF COS
VC	59.23	17
PE	1,015.59	26

NSW	A$m	NO. OF COS
VC	615.76	62
PE	5,872.55	87

VIC	A$m	NO. OF COS
VC	164.68	53
PE	2,796.21	45

OTHER	A$m	NO. OF COS
VC/PE	117.74	8

TABLE 7:
Distribution of investments in FY2016 (by location of company headquarters)

NOTE:
States/countries with fewer than three companies receiving investments have been aggregated into “Other”.

	VENTURE CAPITAL				PRIVATE EQUITY			
LOCATION	AMOUNT (AUDm)	% OF TOTAL	NO. OF COMPANIES	% OF TOTAL	AMOUNT (AUDm)	% OF TOTAL	NO. OF COMPANIES	% OF TOTAL
Australia	**232.33**	**67%**	**72**	**77%**	**2,741.38**	**82%**	**52**	**87%**
New South Wales	119.50	34%	35	38%	1,059.61	32%	23	38%
Victoria	77.83	22%	20	22%	742.36	22%	10	17%
Queensland	32.15	9%	12	13%	249.88	7%	10	17%
Western Australia	N/A	N/A	N/A	N/A	7.02	0.2%	3	5%
South Australia	N/A	N/A	N/A	N/A	682.50	20%	5	8%
ACT	2.85	1%	5	5%	N/A	N/A	N/A	N/A
Other	N/A	N/A	N/A	N/A	106.92	3%	1	2%
North America	**59.72**	**17%**	**15**	**16%**	**N/A**	**N/A**	**N/A**	**N/A**
Oceania	**6.55**	**2%**	**3**	**3%**	**587.99**	**18%**	**7**	**12%**
Other	**48.14**	**14%**	**3**	**3%**	**3.71**	**0.1%**	**1**	**2%**
TOTAL INVESTMENT	**346.75**	**100%**	**93**	**100%**	**3,333.08**	**100%**	**60**	**100%**

Total investee companies in VC and PE portfolios

The total number of investee companies in VC and PE portfolios as of 30 June 2016 was 669, a 10% increase compared to the number recorded on 30 June 2015. This was driven by growth in VC portfolios in particular, and lower levels of divestment across both PE and VC.

TABLE 8:
Number of investee companies in VC and PE portfolios as of 30 June 2016

NOTE:
High-tech and cleantech are not mutually exclusive. A company can be backed by both VC and PE funds at the same time. See glossary for the definitions of high-tech and cleantech companies.

	VENTURE CAPITAL	PRIVATE EQUITY	TOTAL
TOTAL NUMBER OF COMPANIES	**310**	**375**	**669**
Subtotal: no. of high-tech companies	246	56	286
Subtotal: no. of cleantech companies	23	20	42

3 DIVESTMENT ACTIVITY

DIVESTMENT ACTIVITY

Distribution of divestments by exit methods

Divestment activity was lower for both PE and VC in FY2016 compared to FY2015. The total number of companies exited by PE and VC fell to 42, with 11 fewer companies being divested compared to the FY2015 figure.

For PE, divestment through public markets (whether through IPOs or the sale of stakes held post-flotation) accounted for the most divestment by number of companies at 15. But trade sales accounted for the largest amount divested at cost, at $1.44b, or 52% of the total PE divestment at cost. This included the sale of Chinese PE firm Hony Capital's stake in oil and gas company Santos Limited to ENN Group, a Chinese energy company, six months after its initial investment.

The listed markets saw a number of PE firms sell down their holdings in companies that had been floated in prior years, as well as a number of new PE-backed IPOs, such as Vitaco Holdings (previously backed by Next Capital), Integral Diagnostics (an Advent Private Capital portfolio company) and Link Administration Holdings (previously backed by funds advised by Pacific Equity Partners).

Trade sales again accounted for the majority of VC exits, even though the number of VC-backed companies divested by this method in FY2016 were half the FY2015 figure.

Atlassian, a Sydney-based enterprise technology company which received a US$60m investment from US VC firm Accel Partners in 2010, was floated on the NASDAQ exchange for US$4.4b in December 2015. This was one of the largest exits for an Australian VC-backed startup that has ever been recorded.

DIVESTMENT ACTIVITY

Figure 22: Divestments by Australian VC funds by fiscal year (in AUD millions)

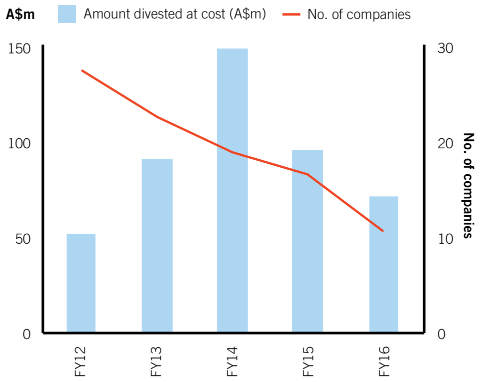


Figure 23: Divestments by Australian PE funds by fiscal year (in AUD millions)

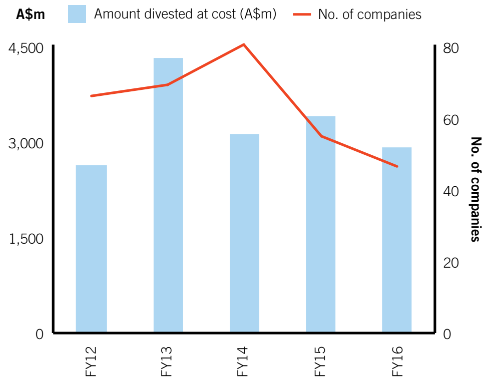


TABLE 9: Divestment by exit routes in FY2016

	VENTURE CAPITAL		PRIVATE EQUITY		TOTAL	
TYPE OF DIVESTMENT	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**
Divestment by trade sale	23.29	5	1,440.61	9	1,463.90	14
Divestment on flotation (IPO)	N/A	N/A	93.74	4	93.74	4
Sale of equity post-flotation	N/A	N/A	778.97	11	778.97	11
Repayment of preference shares/loans	N/A	N/A	35.10	3	35.10	3
Other	48.64	4	397.18	6	445.82	10
TOTAL DIVESTMENTS	**71.93**	**9**	**2,745.59**	**33**	**2,817.52**	**42**

NOTE:
Divestment types with fewer than three companies have been aggregated into "Other". Divestments by public offering are not included in the totals unless the investment has been realised partially or in full during the financial year.

Distribution of divestments by sector

The business and industrials sector was the most active in terms of PE-backed company divestments, accounting for one third of divestments in FY2016. Xtralis, a commercial security systems manufacturer backed by funds advised by Pacific Equity Partners, was sold to the US conglomerate Honeywell in February 2016, while Crescent Capital Partners sold down an existing stake in dual ASX/NZX-listed glass supplier Metro Performance Glass in June 2016.

The energy and environment sector was also an active sector for PE exits, at 31% of the total amount divested at cost, and 9% of companies divested. Two of the biggest exits for PE came from this industry sector – Hony Capital's sale of its stake in Santos, and the Energy Developments divestment by funds advised by Pacific Equity Partners.

Consumer and retail-related companies accounted for the biggest portion of divestment at cost for PE in FY2016, at 39%. Examples include Independent Pub Group (an investee company of Quadrant Private Equity and Next Capital), and Navis Capital's secondary sale of Guardian Early Learning to Partners Group in February 2016. Navis Capital had itself acquired the business from Wolseley Private Equity in September 2013.

The majority of VC exits in FY2016 were for ICT companies. These exits accounted for 56% of the total number of companies divested, and 89% of the amount divested at cost.

The Atlassian IPO was the biggest VC exit in FY2016, while a number of US-based technology companies backed by Telstra Ventures were also exited throughout FY2016, including Elastica Group, Nexmo and Elemental.

DIVESTMENT ACTIVITY

NOTE:
Sectors with fewer than three companies divested have been aggregated into "Other".

- ICT
- Healthcare and life sciences
- Other

Figure 24: VC divestment at cost by sector in FY2016 (based on AUD millions)

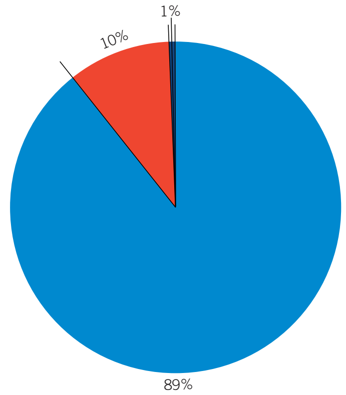
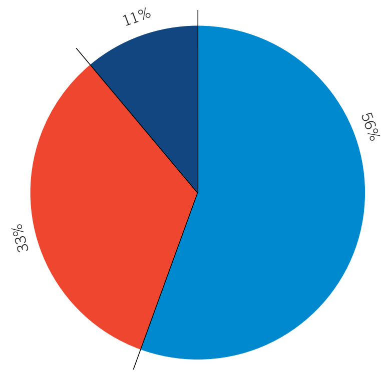


Figure 25: VC divestments by sector in FY2016 (based on number of companies)



- Business and industrial products and services
- Consumer products, services and retail
- Healthcare and life sciences
- Energy and environment
- ICT
- Other

Figure 26: PE divestment at cost by sector in FY2016 (based on AUD millions)

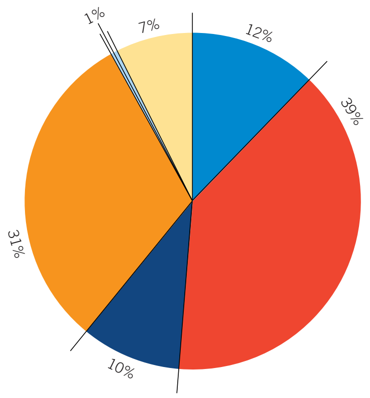


Figure 27: PE divestments by sector in FY2016 (based on number of companies)

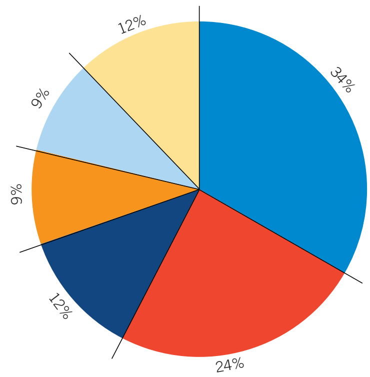


**TABLE 10:
Divestment by sector in FY2016**

NOTE:
Sectors with fewer than three companies divested have been aggregated into "Other".

NOTE:
The categories displayed in Figures 24-27 have been grouped as follows: Business and industrial products and services (Business and industrial products, business and industrial services, construction, transportation), consumer products, services and retail (consumer goods and retail, consumer services), financial services (financial services, real estate), ICT (communications, computer and consumer electronics).

SECTOR	AMOUNT (AUDm)	% OF TOTAL	NO. OF COMPANIES	% OF TOTAL
Business and industrial products	101.55	4%	4	10%
Business and industrial services	234.13	8%	7	17%
Communications	41.30	1%	6	14%
Consumer goods and retail	57.22	2%	3	7%
Consumer services	1,015.87	36%	5	12%
Energy and environment	850.68	30%	3	7%
Financial services	96.47	3%	3	7%
Healthcare and life sciences	270.60	10%	7	17%
TOTAL DIVESTMENTS	**2,817.52**	**100%**	**42**	**100%**
Subtotal High-tech	586.93	21%	11	26%
Subtotal Clean-tech	N/A	N/A	N/A	N/A

METHODOLOGY & GLOSSARY

METHODOLOGY

SAMPLE

FY2016 figures are based on the activities of 75 venture capital and private equity firms, both AVCAL members and non-members. Of this number, 39 submitted data directly to AVCAL, representing 90% of total Australian funds under management. Publicly available information from firm websites, press releases and industry news sources was used to estimate the activities of the remaining firms. The sample does not include fund-of-funds, infrastructure or real estate funds.

Firms that participate in the survey benefit in the following areas:

– Access to more detailed industry data (see http://www.avcal.com.au/stats-research/statistics-research for details).

– Customised research reports by request.

Non-AVCAL members are also eligible to participate in the survey; however, they will need to contact research@avcal.com.au to receive individual login details to the PEREP_Analytics platform.

DATA COLLECTION

Participants have the choice of providing data via the secure online PEREP_Analytics platform, or through standardised Excel spread sheet templates which are then uploaded by AVCAL research staff into the online platform.

The data collection exercise is complemented by the use of public sources of information (e.g. firms' websites, press releases, news reports). This data is used for the following purposes:

– To pre-populate the database. The participant then either validates or edits this pre-populated information as necessary.

– To reduce response errors and verify accuracy of responses.

– To fill in missing information where such data is not provided directly.

Each submitted piece of information is reviewed according to a systematic process of quality checks, of which a certain number of checks are built into the PEREP platform. AVCAL research staff also contact the participating firms where necessary to seek further clarifications on the data provided.

EXCHANGE RATES

The Yearbook's default currency is the Australian dollar (AUD). PEREP_Analytics automatically converts non-AUD fundraisings, investments, and divestments to AUD at the Reserve Bank of Australia's spot foreign exchange rates (which can be found here: http://www.rba.gov.au/statistics/frequency/exchange-rates.html) on the date of the fund's reported close or investment/divestment date. If no exchange rate is available for a given fundraising or transaction date, the exchange rate of the previous available date is used.

FUNDRAISING

Fundraising amounts

These figures record the amount of commitments received as of a first, intermediate or final fund closing occurring within a particular financial year. It refers to the incremental commitments raised during a particular period. If a fund has had successive closings over more than one reporting period, only the incremental amount raised during the reporting period is included.

Fundraising by location of fund management office

The fund country is defined by the location of the advisory team, not by the place of incorporation of the fund. Global/regional VC and PE firms headquartered outside of Australia – including those with Australian offices – with funds that invest in Australia are not included in total funds under management or fundraising numbers, unless the fund manager can identify the specific amount allocated to Australian investments. However, investments/divestments made by these funds are included in the investment/divestment results.

INVESTMENTS AND DIVESTMENTS

Important parameters apply to the measurement of investments and divestments:

– Only investments and divestments derived from VC or PE funds are included. If a deal involves non-VC or non-PE co-investors, only the investment from VC or PE vehicles is included in the total amounts invested.

– The activities of global/regional VC and PE funds that are active in Australia are included in the investment and divestment aggregates.

– While ad hoc investments into real estate or infrastructure deals made by qualifying funds are captured, any investments made by dedicated real estate or infrastructure funds are not captured (as these funds do not qualify as part of the universe of eligible funds in the sample).

METHODOLOGY

Amount of Investment

This refers to capital (in the form of equity, convertible equity, mezzanine, unsecured debt or secured debt) invested by the PE or VC fund. It does not refer to the deal's transaction/enterprise value. Debt provided by third parties as part of a deal is not included in the investment figures, unless the debt is provided by VC or PE funds. This means that external bank debt, for example, is not included in the calculation of investment totals.

Number of investments

The number of investments is calculated based on the number of investments made by each reporting investment vehicle. For example, if a PE firm that manages three separate funds invests in a company using capital from each of these funds, then this is counted as three investments. New and follow-on investments are counted as separate investments. For syndicated deals, the investment attributable to each vehicle in the syndicate is counted as a separate investment.

Number of companies invested in

This refers to the companies receiving VC or PE investment. Companies with multiple VC or PE investors are only counted once under "number of companies" except for the instances described below under "Distribution of investments by stage of investee company" and "Sectoral distribution of investments".

Distribution of investments by stage of investee company

The total number of companies in the relevant table corresponds to the number of portfolio companies that received PE or VC investments with respect to their stage. Because a company can be recorded under different investment stages over successive funding rounds, the sum of the number of companies in all stages can thus exceed the actual number of companies that receive investment. For a company receiving multiple rounds of financing a year – for example, an early stage venture investment of $100m by one investor, followed by a later stage venture investment of $200m by two investors in the same company in the same financial year – the table would indicate the following:

INVESTMENT STAGE	AMOUNT (AUDm)	NO. OF INV	NO. OF CO.S
Early stage VC	100	1	1
Later stage VC	200	2	1
TOTAL INVESTMENT	300	3	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

Sectoral distribution of investments

The total number of companies in the relevant table corresponds to the number of portfolio companies that received PE or VC investments with respect to their business sector. Because GPs that are part of a syndicate may record the same portfolio company under different sectors, a small number of companies can be recorded under more than one business sector. The sum of the number of companies in all sectors can thus exceed the actual number of companies that receive investment. For example, for a syndicated deal involving two investors, with one investing $100m and the other $200m in the same company but with both independently reporting different business sectors for the target company, the table would indicate the following:

SECTOR	AMOUNT (AUDm)	NO. OF INV	NO. OF CO.S
Business and industrial products	100	1	1
Business and industrial services	200	1	1
TOTAL INVESTMENTS	300	2	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

METHODOLOGY

Number of divestments

This is based on each fund's exit from an investee company (e.g. two funds exiting the same company will be counted twice). Partial divestments are included in this number. A company could have had a number of divestments made from it in any particular year.

Number of companies being divested

This is the number of companies where there have been full or partial exits during a given reporting period. A company will only be counted once even if two or more funds are exiting from that company, or if multiple partial exits from the company have been made in any particular year.

Exit method

This refers to the means by which the divestment occurs. If the divestment is to a syndicate made of various types of buyers (e.g. a corporate, management and another buyout firm), the splits by divestment method would need to reflect the respective divestment methods (e.g. divestments by trade sale, sale to management and sale to another private equity firm). Similarly, partial divestments through different methods would need to reflect the respective divestment methods at each partial divestment.

Sectoral distribution of divestments

The total number of companies in the relevant table corresponds to the number of portfolio companies that were divested by VC or PE funds with respect to their business sector. Because GPs that are part of a syndicate may record the same portfolio company under different sectors, a small number of companies can be recorded under more than one business sector. The sum of the number of companies in all sectors can thus exceed the actual number of companies that were divested. For example, for a syndicated divestment involving two investors, with one divesting $100m at cost and the other $200m at cost from the same company but with both independently reporting different business sectors for the target company, the table would indicate the following:

SECTOR	AMOUNT DIVESTED AT COST (AUDm)	NO. OF DIV	NO. OF CO.S
Business and industrial products	100	1	1
Business and industrial services	200	2	1
TOTAL DIVESTMENTS	300	3	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

GLOSSARY

A – M

Balanced VC fund Venture capital funds focused on both early stage and development with no particular concentration on either.

Buyout/Later stage PE fund Private equity funds whose strategy is to acquire other businesses.

Calendar year Year ending 31 December.

Captive funds Funds that are 100% owned by the parent organisation.

Cleantech Covers a diverse range of products, services, and processes that are inherently designed to provide superior performance at lower costs, greatly reduce or eliminate environmental impacts and, in doing so, improve the quality of life. Clean technologies span many industries such as Agriculture, Energy, Manufacturing, Transportation and Water.

Closing A closing is reached when a certain amount of money has been committed to a private equity or venture capital fund by investors. Several intermediate closings can occur (the initial one is called first closing), which allow the GPs to draw capital for investments while they are still finalising the fundraising. Some funds only have one (final) closing. The fundraising is captured at the date of commitment (when the closings are formalised) where possible. For evergreen funds their closings are always classified as intermediate closings.

Convertible equity Non-equity securities which are convertible to equity.

Corporate investor Corporations that deliver non-financial goods/services (excludes banks, fund-of-funds, insurance companies, pension funds, and other asset managers).

Distressed debt fund Funds that primarily invest in companies with undervalued debt that have either filed for bankruptcy protection or likely to be bankrupt in the near future with an intention to reorganise and reinstate the company as going concern.

Divestment A full or partial exit from an investee company.

Early stage VC fund Financing to companies that have completed the product development stage and require further funds to initiate commercial manufacturing and sales. They will typically have a proven concept, with minimal products but negative earnings. In most cases the product has not yet been commercialised. They will not yet be generating a profit.

Equity Ownership interest in a corporation, represented by the shares of stock, which are held by investors.

Fiscal year Year ending 30 June.

Fund-of-funds A private equity fund that primarily takes equity positions in other private equity funds.

Funds under management The total amount of funds available to fund managers for future investments plus the amount of funds already invested (at cost) and not yet divested. Excludes fund-of-funds, real estate funds, infrastructure funds, and venture credit funds.

Generalist fund Funds with either a stated focus of investing in all stages of private equity investment, or funds with a broad area of investment activity.

GP General partner A class of partner in a partnership, the general partner retains liability for the actions of the partnership. Another term for fund manager.

Growth/Expansion PE fund Funds whose strategy is to invest in or acquire relatively mature companies that are looking for capital to expand or restructure operations; they often provide the first private equity investment in a company.

High-tech A company with exclusive ownership of certain intellectual property rights such as design rights, patents, copyrights, etc. which are critical elements in adding value to the products and business of a company and which are being developed in-house by the company's permanent staff. Although companies possessing these attributes are not limited to specific industries, they are most frequently found in telecommunications hardware, internet technology, computer products and services, electronics, biotechnology, medical instruments and devices.

ICT Information and communications technology.

Independent funds Semi-captive funds (those in which the parent owns less than 100%) as well as wholly independent funds.

Investment Capital (in the form of equity, convertible equity, mezzanine, unsecured debt or secured debt) invested by the fund. It does not refer to the deal's transaction value/enterprise value.

IPO Initial public offering.

Later stage VC fund A venture capital fund focused on investments in later-stage companies in need of expansion capital, usually providing third- or fourth- (or a subsequent) round of venture investments.

LP Limited partner. An investor in a limited partnership, they are generally protected from legal actions and any losses beyond their original investment.

Management buy-out (MBO) Financing provided to enable current operating management and investors to acquire an existing product line or business.

Management buy-in (MBI) Financing provided to enable a manager or group of managers from outside the company to buy-in to the company with the support of private equity investors.

Mezzanine fund or **Mezzanine financing** Mezzanine funds are funds which provide (generally subordinated) debt to facilitate the financing of buyouts, frequently alongside a right to some of the equity upside. Mezzanine financing is loan finance that is halfway between equity and secured debt, either unsecured or with junior access to security.

GLOSSARY
P – Z

P2P A public-to-private transaction. A form of leveraged buyout where a listed company is acquired and subsequently delisted.

PIPE A private investment in public equity (PIPE), as a minority or majority stake, without taking the company private.

Portfolio companies Companies the private equity firm have invested in and have not fully divested.

Private Equity Private Equity covers growth/expansion, generalist, buyout/later stage, turnaround, secondary and mezzanine funds.

Private Pension Fund A pension fund that is regulated under private sector law.

Proceeds Total proceeds realised from the sale of a portfolio company net of debt, transaction, and other costs.

Public Pension Fund A pension fund that is regulated under public sector law.

Public-to-private A transaction involving an offer for the entire share capital of a listed target company for the purpose of delisting the company; management may be involved in the offering.

Refinancing bank debt To reduce a company's level of gearing.

Repayment of preference shares/loans If the private equity firm provided loans or bought preference shares in the company at the time of investment, then their repayment according to the amortisation schedule represents a decrease of the financial claim of the firm into the company, and hence a divestment.

Rescue/Turnaround Investment in companies with poor performance with an intention to achieve a positive performance reversal.

Sale of quoted equity post-flotation Sale of quoted shares by a PE or VC fund, e.g. sale of a listed investment, or sale of quoted shares after a lock-up period.

Sale to another PE firm The sale of company shares to another PE firm.

Sale to management The sale of company shares to the management of the company.

Secondary funds or **secondary purchase/replacement capital** Secondary Funds are funds that focus on purchasing the portfolios of investee companies from an existing PE firm. A secondary purchase is typically a purchase of existing shares in a company from another private equity firm.

Secured debt Loans secured on the company assets.

Seed stage Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

Sovereign funds A state-owned investment fund.

Start-up Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their product commercially.

Trade sale The sale of company shares to an industry investor or a strategic buyer.

Unsecured debt Loans not secured on the company's assets.

Venture capital A venture capital firm refers to a firm that makes equity investments for the launch, early development, or expansion of a business, typically in an innovative/high-tech product or service. Venture Capital covers Seed, Early Stage, Later Stage VC and Balanced VC funds. It does not include buyout investing, mezzanine investing, fund-of-fund investing, secondaries, etc.

Vintage year The year of the first closing of the fund.

Write-off The write-down of a portfolio company's value to zero or a symbolic amount. The value of the investment is eliminated and the return to investors is zero or negative.

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