AVCAL

The AUSTRALIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION Limited

VC FACTSHEET

– April 2013

Current VC environment

VC funds in Australia have invested $1.5b in 250 companies in the last 10 years.

Rich innovation pipeline

Patents granted in Australia reached almost 23,000 per annum in 2011.

Government policies providing support

The government has pledged an extra $350m in funding to be invested alongside Australian VCs.

Dynamic start-up community

Sydney and Melbourne are the first and third-ranked start-up hubs in the Asia-Pacific region.

Current VC environment

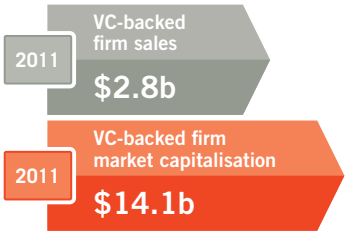
The venture capital (VC) industry has raised over two billion dollars in Australian funds over the past 10 years, and has invested over one and a half billion dollars in 250 companies.

Key Statistics, 2003-2012	
VC funds raised	$2,052m
Number of VC investments	1,286
Number of VC-backed companies	250
Total equity investments	$1,522m

Source: AVCAL

In 2012, Australia was ranked 6th most attractive country in the world for investors in VC, according to the Global Venture Capital and Private Equity Country Attractiveness Index.[1] The Index highlighted Australia's strong capital and labour markets, and ease of starting and running a business, as ranking particularly highly compared to other countries. Recent examples of portfolio companies backed by Australian VCs include:

- **Pharmaxis** – has achieved sales of respiratory treatment products in 3 continents.
- **Avita Medical** – commercialised spray-on skin device to help treat burns and scarring.
- **ScriptRock** – received over $1m in funding six months after being founded in January 2012.
- **Osprey Medical** – medical device company listed on the ASX in May 2012.
- **5th Finger** – tech start-up first backed by VC in 2008 and acquired by US giant Merkle in 2012.



Source: Cumming & Johan (2012)[2]

1 *The Global Venture Capital and Private Equity Country Attractiveness Index*, IESE Business School, 2012.

2 Cumming, Douglas J. and Johan, Sofia A., *Venture's Economic Impact in Australia*, York University, working paper, December 2012.

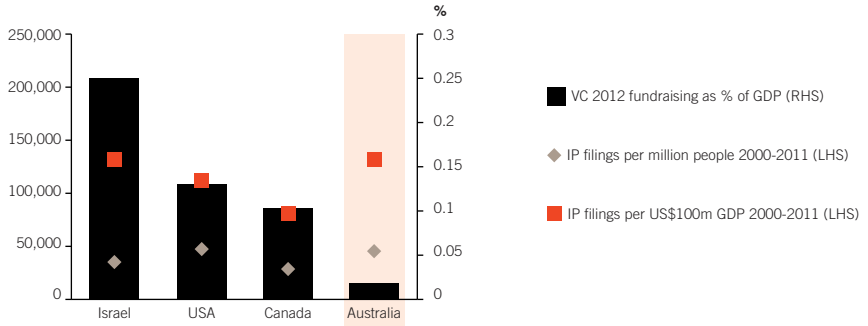
Rich innovation pipeline with substantial commercialisation opportunities

Key measures of Australia's innovative potential continue to indicate substantial opportunities for productive early stage investment. Australian intellectual property (IP) filings per capita and per GDP dollar over the last decade exceed those of most other developed economies.[3] In addition:

- The annual GE Innovation Survey of senior business executives showed that Australia had improved its innovation ranking from 16th in 2012 to 13th in the world in 2013.[4]
- Australia's total patents granted increased from 13,000 in 2006 to almost 23,000 in 2011. Since 1997, Australia has also seen a three-fold increase in filings per annum for both patents and trademarks, and a more than two-fold increase for industrial designs.[5]

However, current levels of VC funding available for investment are still a small proportion of GDP compared to other countries, indicating that the pool of untapped opportunities for successful venture investment is significantly deeper relative to most other developed markets.

Figure 1: VC funds raised vs intellectual property filings



Sources: WIPO, AVCAL, CVCA, IVC-Online, NVCA

Government policies are supportive of innovation and VC investment

The Australian federal government announced in February 2013 that its **Innovation Investment Fund** programme would see an extra $350m of funding invested alongside VC funds, targeting high-potential start-ups and other early stage investments.

The Government's **R&D Tax Incentive** is also a key programme supporting innovation in small and medium-sized businesses. Companies with turnover of less than $20m p.a. can access a 45% refundable tax offset (equivalent to a 150% deduction) for their R&D expenditure. Quarterly credits for this R&D tax offset will be accessible for each quarter from 1 January 2014, thus giving innovative but cash-strapped start-ups access to their tax refunds on a quarterly basis.

Many government grants at the state and federal levels are available to VC-backed companies. These programmes, available through organisations such as **Commercialisation Australia, Enterprise Connect** and government departments, give businesses additional support and funding to grow and compete globally.

In addition, **Early Stage Venture Capital Limited Partnerships (ESVCLPs)** and **Venture Capital Limited Partnerships (VCLPs)** offer flow-through tax treatment to both resident and non-resident investors. Eligible investors can also access further tax exemptions when investing in Australian early stage businesses using these fund structures. Recent reforms to the partnerships scheme will attract further interest to the sector and help boost investment in innovative new businesses in Australia.

Top-ranked start-up ecosystem in the Asia-Pacific

Australia's start-up community is among the most dynamic in the Asia-Pacific region and comparable in many ways to the best start-up ecosystems worldwide. In a broad-based study of 50,000 start-ups around the world, Sydney and Melbourne were, respectively, the top and third-ranked start-up ecosystems in the Asia-Pacific, with Singapore coming in second. The same report also ranked Sydney joint first (with Silicon Valley) in the study's Trendsetter Index, a leading indicator of the future success of a start-up ecosystem.[6]

3 Includes filings for patents, trademarks and industrial designs.

4 *GE Innovation Barometer 2013*, General Electric, January 2013.

5 http://www.wipo.int/ipstats/en/statistics/country_profile/countries/au.html (accessed on 11 February 2013), World Intellectual Property Organization.

6 *Startup Ecosystem Report 2012*, Startup Genome, November 2012.