



Australian Government

Department of Communications,
Information Technology and the Arts

Information and Communications Technology Incubators Program (ICTIP)

Annual Report 2004–05

04 05

**Information and Communications Technology
Incubators Program (ICTIP)**

ANNUAL REPORT 2004–05

© Commonwealth of Australia 2006

ISBN 0 642 75358 X

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to:

The Commonwealth Copyright Administration
Attorney General's Department
Robert Garran Offices
National Circuit
Barton ACT 2600

or posted at www.ag.gov.au/cca

Produced by the Australian Government Department of Communications, Information Technology and the Arts.

FOREWORD

In May 2004, the Australian Government announced a further \$36 million to support small and medium enterprises (SMEs) in the information and communications technology (ICT) sector. This funding was made available under the Backing Australia's Ability funding package to consolidate the achievements of the former Building on IT Strengths (BITS) Incubator Program. The eight incubators selected to receive funding under the ICT Incubators Program (ICTIP) have continued to deliver encouraging results during 2004–05.



The BITS Incubator Program was designed to include a range of business models, and as a demonstration program to help instil confidence in private capital markets in early stage ICT firms. The ICTIP complements other Australian Government initiatives to encourage SMEs in Australia's ICT sector to promote innovation, employment, wealth creation and economic growth.

The incubators are prepared to invest in new ICT companies before they become fully commercial, by providing seed capital and assisting companies to meet agreed business milestones. This provides a platform to transform new concepts and ideas into sustainable companies. The incubators also use their networks to identify Australian ICT companies with innovative solutions for the marketplace and then link them with other networks that can provide marketing support and further investment.

The incubators have also established and proven themselves to be a reputable group within the innovation system, and an instrumental source of seed capital and business advice for many ICT start-ups, which often face difficulty in accessing capital to develop their businesses. Incubators' efforts in tailoring support for their incubatees and establishing links with capital providers, research and development bodies and universities have also helped ICT incubatees develop and build their companies. The achievements of ICT incubatees are also being recognised in ICT innovation and business awards at the state and national level.

A handwritten signature in black ink, appearing to read 'Helen Coonan', with a horizontal line extending to the right.

Helen Coonan
Minister for Communications, Information Technology and the Arts
Deputy Leader of the Government in the Senate



Contents

FOREWORD	iii
HIGHLIGHTS	1
BACKGROUND	2
ROLE OF THE ICT INCUBATORS PROGRAM	3
FEATURES OF THE ICTIP	4
GOVERNANCE AND REPORTING FRAMEWORK	5
ACHIEVEMENTS	7
APPLICATIONS AND NEW INCUBATEES	7
GRADUATIONS	9
BITS / ICTIP SEED CAPITAL INVESTMENT IN INCUBATEES	10
CO-INVESTMENT RAISED FOR ICT INCUBATEES	12
REVENUE AND EXPORTS	13
EMPLOYMENT	14
STRATEGIES TO ACHIEVE ONGOING FINANCIAL SELF RELIANCE	14
SATISFACTION SURVEYS	15
INDUSTRY RECOGNITION RECEIVED BY INCUBATEES	16
ICTIP INCUBATOR PROFILES	17
AUSTRALIAN DISTRIBUTED INCUBATOR	19
DIVERGENT CAPITAL (FORMERLY BLUEFIRE GROUP INCUBATOR)	23
ENTREPRENEURS IN RESIDENCE	26
EPICORP LIMITED	29
INFORMATION CITY AUSTRALIA	32
INQBATOR	36
IN-TELLINC	40
PLAYFORD CAPITAL	43
APPENDIX—Incubator contact details	49



HIGHLIGHTS

- In August 2004 the Australian Government announced that eight incubators from the BITS Incubator Program would continue receiving funding under the new ICT Incubators Program (ICTIP) following a competitive selection process.
- Eight new funding agreements were negotiated with incubators to undertake ICT incubation services to June 2008.
- In 2004–05, the eight incubators reported a significant workflow that included:
 - 640 applications, bringing the total applications under the BITS Incubator Program and ICTIP to 4865;
 - 32 ICT companies being accepted into the ICTIP as ‘incubatees’ for a total of 376 over both programs;
 - 35 incubatees completing agreed business milestones to become ‘graduate’ incubatees for a total of 223 over both programs;
 - raising over \$42 million in private co-investment for their incubatee companies, which brought the five year total over both programs to more than \$169 million; and
 - assisting incubatees to win more than \$14 million in government grants, which brought the five year total over both programs to more than \$38 million.
- In 2004–05, \$22.9 million in exports were reported by incubatees, bringing the total over both programs to over \$42 million.
- In 2004–05, incubators reported the annual revenue of incubatees had increased by \$43.2 million to \$72.2 million.
- In 2004–05, incubators attracted over \$7.1 million in cash and in-kind contributions to support their incubator operations, for a total of \$34.8 million since the start of both programs.
- A number of incubatees were recognised for their achievements in numerous local and international industry award competitions during 2004–05.

BACKGROUND

On 20 June 1999 the Australian Government announced that \$158 million from the partial sale of Telstra would be allocated to the Building on IT Strengths (BITS) Program to promote innovation and commercial success in the information industries by encouraging the creation and growth of new high technology firms.

A core element of the BITS program was the \$78 million BITS Incubator Program, with the other components being the Advanced Networks Program (\$40 million) and the Intelligent Island Program (\$40 million).

The \$78 million BITS Incubator Program (including \$2.13 million in departmental running costs) established ICT incubators in all mainland states and territories. The aim was to address a market failure in the venture capital market, as early stage ICT companies often found it difficult to raise seed capital and business advice during start-up and initial business development. An additional \$8 million was allocated to establish an incubator in Tasmania from the BITS Intelligent Island Program.

The BITS Incubator Program was designed to include a range of business models, and as a demonstration program to help instil confidence in private capital markets in early stage ICT firms. The program was not designed as a permanent subsidy for ICT start-ups, but as a short term measure to complement other Australian Government initiatives encouraging innovation.

The BITS Incubator Program was originally scheduled for completion in 2003–04, and an independent evaluation was conducted during 2003. This evaluation found that the incubators had performed well in meeting the objectives of the program and had achieved encouraging results, particularly given the short period of operation and the prevailing business conditions. The evaluation report concluded that further funding was required to help the long term sustainability of the incubatees and their incubators. The full evaluation report is available from www.dcita.gov.au/ict/ict_incubators

In May 2004, after assessing the evaluation of the BITS Incubator Program, the Australian Government announced that a further \$36 million (including \$1.87 million in departmental running costs) would be provided as part of *Backing Australia's Ability* to extend funding to the better performing BITS incubators until 2007–08.

In June 2004, the BITS incubators were invited to submit proposals to demonstrate their ability to continue providing high quality ICT incubation services and their plans to achieve ongoing financial self reliance. In August 2004, following this competitive process, the Australian Government announced that eight of the previous 11 BITS incubators had been selected to receive funding under the ICT Incubators Program (ICTIP). Seven of the eight incubators were allocated \$4.57 million, with the Playford Capital incubator allocated

\$2.14 million (to take into account a \$5.25 million carryover of BITS Incubator Program funding). ICTIP funding agreements were then negotiated with each of the selected eight incubators.

ICTIP funding allocation (2004–05 to 2007–08)

Incubator	State/territory	Funding (\$m)
Australian Distributed Incubator	NSW / VIC	4.57
Divergent Capital (formerly Bluefire Group Incubator)	NSW	4.57
Entrepreneurs in Residence	WA	4.57
Epicorp	ACT	4.57
Information City Australia	VIC	4.57
inQbator	QLD	4.57
In-tellinc	TAS	4.57
Playford Capital	SA	2.14
Subtotal		34.13
Departmental running costs		1.87
Total		36.00

ROLE OF THE ICT INCUBATORS PROGRAM

The ICTIP and the former BITS Incubator Program have aimed to:

- strengthen the competitiveness of Australia's ICT sector;
- improve the rate of commercialisation of ICT ideas and research and development (R&D);
- increase the success rate of newly formed ICT businesses; and
- develop linkages with R&D bodies, universities and other capital providers.

Funding provided to incubators allows them to select a limited number of ICT start-ups which they consider have future prospects of success and assist them as incubatees during the critical first stages of their development. This is to help address difficulties that incubatees might otherwise experience in accessing finance from venture capital and other capital providers, especially during early stages of their development.

For each ICT start-up they accept, the incubators develop tailored incubatee agreements which contain agreed milestones and targets for a structured business growth program. Services provided by incubators include help with:

- co-investment capital raising (including direct provision of seed capital);
- accessing other government programs;
- intellectual property protection;
- locating key customers; and
- contract and business development advice through board participation and mentoring.

The incubators also help to develop and refine business plans customised to incubatees' individual needs.

One of the objectives of the ICTIP is to encourage incubators to adopt strategies to achieve ongoing financial self reliance. It is recognised that some time may be required for capital returns to be achieved from equity taken in start-up or early stage ICT companies. Early stage financing necessarily involves significant risks, and some incubatees do not succeed despite the best endeavours of incubators and their management teams. Incubatees, like all small businesses, face the challenge of gaining sufficient market traction to operate profitably. Incubators are required to report annually on their progress towards financial sustainability and are encouraged to develop alternative funding sources to fund their ongoing operations.

This report details the other contributions raised by incubators to support their operations and how incubators are aiming to achieve financial self reliance.

FEATURES OF THE ICTIP

Changes to the operation of the BITS Incubator Program have been made to the ICTIP. These changes were adopted to facilitate investment by ICTIP incubators following recommendations from the BITS evaluation and feedback from BITS incubators and incubatees. These changes removed limits on investment that may have affected incubators' ability to capitalise on opportunities and become more financially self reliant. They include:

- clarifying definitions for new incubatees, graduates and co-investment raised for portfolio incubatees;
- allowing incubators to support better performing BITS incubatees with follow-on seed capital where this is adequately disclosed as distinct from new incubatees;

- removal of the 45 per cent shareholding limit and \$450 000 total seed capital investment limit¹ in individual incubatees that existed under the former BITS Incubator Program;
- introduction of a minimum investment of \$20 000 for each new incubatee and a minimum incubation period of two months;
- allowing incubators to use financial instruments (convertible notes and options) as appropriate when investing in new or existing incubatees and graduates;
- requiring incubators to advise incubatees of their dispute settlement procedures before an incubatee agreement is signed;
- requiring incubators to disclose their costs of services before an incubatee agreement is signed and ensure that incubatees have the freedom to choose their business service providers based on mutually agreed value for money principles;
- introducing minimum overall levels of seed capital that must be invested by incubators over the four years of the program that were negotiated in individual ICTIP funding agreements; and
- conducting and reporting on an annual satisfaction survey of incubatees on the package of assistance provided.

Following representations from incubators, a further change was adopted in June 2005 to allow equity to be acquired from existing shareholders of incubatee companies in certain circumstances where there was a clear benefit for the incubatee. This change was regarded as being consistent with the overall objectives of the program, and lets incubators help incubatees in certain cases (e.g. if incubatee boards become unworkable, or if the volume of small shareholdings has become unmanageable for an incubatee company).

GOVERNANCE AND REPORTING FRAMEWORK

Under the ICTIP, the selected incubators signed funding agreements with the Australian Government and established company boards including independent members able to provide a balance of skills covering legal, industry, and management and financial expertise to oversee incubator operations. Some incubators have established a separate board investment committee solely to consider proposed investments in ICT start-ups. Incubators are required to obtain approval for any proposed changes to their management teams, business structure, major shareholders or board membership. Incubators are also required to make full disclosure should a conflict of interest arise in the course of their involvement in the program.

¹ The total seed capital investment limit was extended to \$600 000 in limited cases.

Under the ICTIP funding agreements, incubators are required to provide quarterly and annual reports, certified as being accurate by the incubator manager or a person duly authorised by the incubator. These reports have been used in compiling this annual report as well as previous annual reports under the BITS Incubator Program. Incubators must report their progress towards meeting the program's objectives and milestones, the progress of their incubatees, and report against specified program performance indicators. The financial statements in the annual reports of ICTIP incubators must be independently audited.

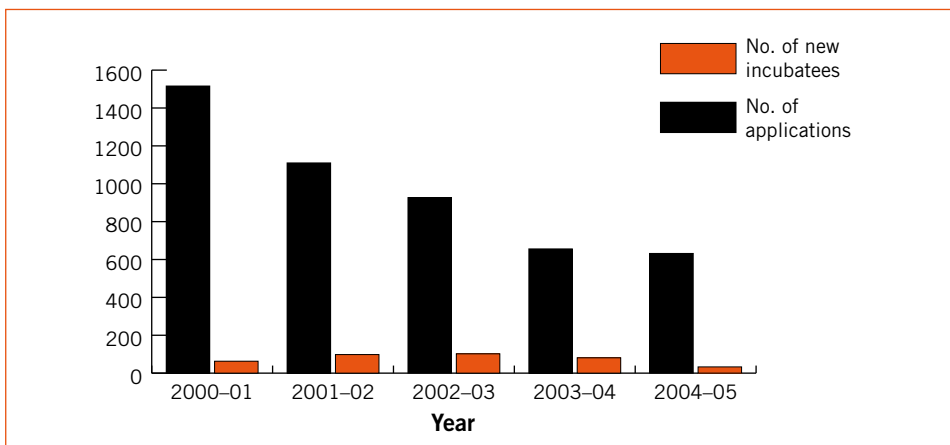
ACHIEVEMENTS

APPLICATIONS AND NEW INCUBATEES

In 2004–05 there were 32 ICT start-ups accepted into the program as incubatees from 640 applications. The total over the five years of the incubator programs is 376 incubatees selected from a total of 4865 applications.

There has been a decline in the number of applications over the five years (see below) which may reflect increased awareness of the program requirements, meaning less qualified applicants are choosing not to apply. As most ICTIP incubators can consider applications from all states and territories, there have been occasions where one company has lodged several applications with different ICTIP incubators. Overall, the strong interest in the BITS Incubator Program has continued into the ICTIP.

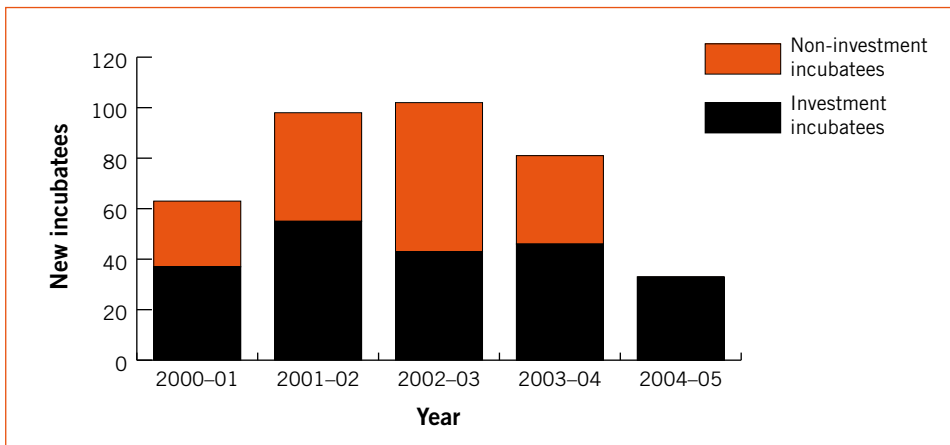
Figure 1: Number of applications and new incubatees (BITS Incubator Program and ICTIP)



Acceptance of new incubatees into the ICTIP is a decision each incubator makes autonomously based on the potential commercial merit of each application. Under the ICTIP, a new incubatee is accepted under the program after an incubator signs an incubatee agreement with an ICT start-up, and provides seed capital to acquire equity under mutually agreed terms. Under the BITS Incubator Program, the business models of

some incubators meant new incubatees received business planning and management training only, without an exchange of equity and the provision of seed capital. Figure 2 shows the break-up of investment and non-investment new incubatees.

Figure 2: Investment and non-investment incubatees (BITS Incubator Program and ICTIP)



Before finalising an incubatee agreement, incubators consider:

- compliance with fundamental program eligibility criteria;
- the additional value the incubator can create in the business;
- availability of funds;
- sales and market opportunities;
- the proposal's intellectual property strength;
- management expertise; and
- the attractiveness of the business proposition to other potential investors.

While incubators predominantly have incubatees located in their own states or territories, incubators have increasingly accepted new incubatees from other states or territories.

GRADUATIONS

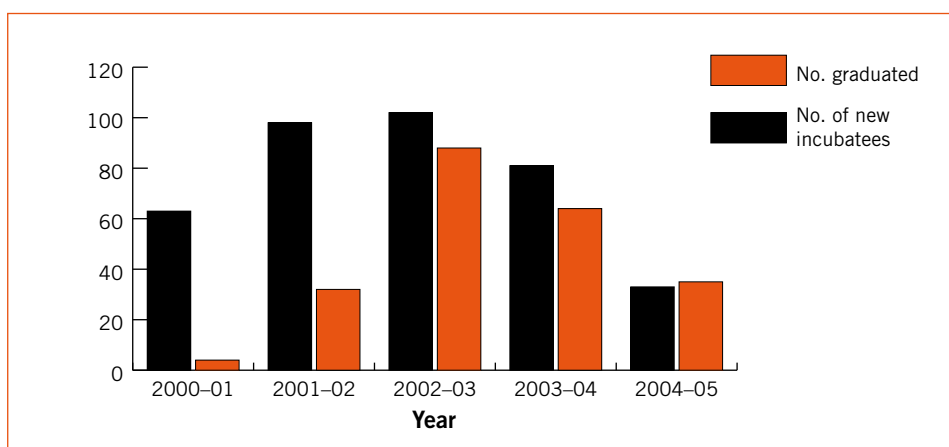
ICTIP incubators individually tailor each incubatee agreement when accepting ICT start-ups into incubation. An incubatee graduates when a mutually agreed set of milestones has been achieved. Milestones could include any combination of:

- achieving significant sales or revenue;
- raising follow-on investment;
- a trade sale;
- a sharemarket listing; or
- achieving business sustainability and autonomy over a period of time.

This means the term 'graduate' is not comparable between different incubators or incubatees. Under the ICTIP an incubatee agreement must be in place for at least two months before graduation can take place (assuming all business milestones have been achieved).

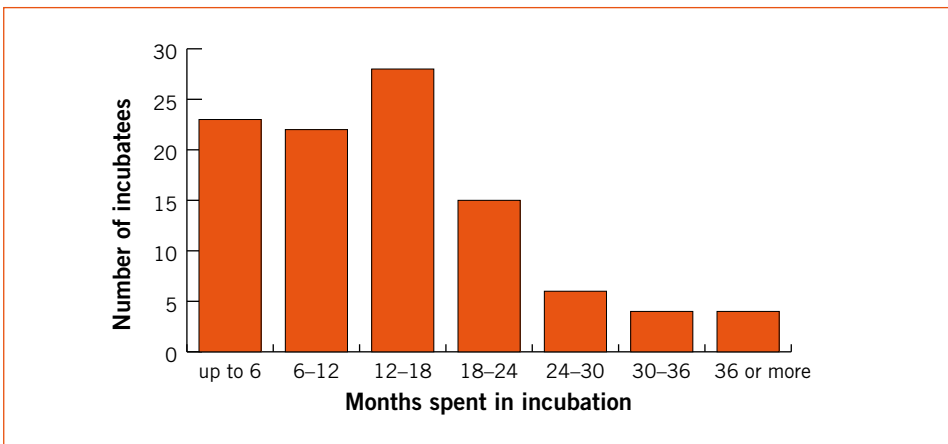
In nine cases under the former BITS Incubator Program, incubators co-invested or provided follow-on investment for existing incubatees of other incubators and so were permitted to count them as new incubatees and graduates. While the shareholder agreement terms of these investments may have been similar, the incubatees concerned would have benefited by having a stronger shareholder register and business base from which to source advice and expertise. As figure 3 shows, the number of graduates declined from 64 in 2003–04 to 35 in 2004–05 following the trend of fewer new incubatees being accepted into the program (see figure 1 on page 7).

Figure 3: Number of incubatees and graduations (BITS Incubator Program and ICTIP)



The time taken for individual ICTIP incubatees to graduate varies considerably according to the milestones agreed with their incubator (see figure 4). There are cases where incubatees have chosen to withdraw from the program (e.g. due to changing business prospects). Incubators choose when to exit individual investments, but generally retain their equity, interest and involvement in incubatees for some time after graduation. The willingness of ICTIP incubators to retain seed capital in incubatees after graduation is an important factor for many incubatees to realise their potential.

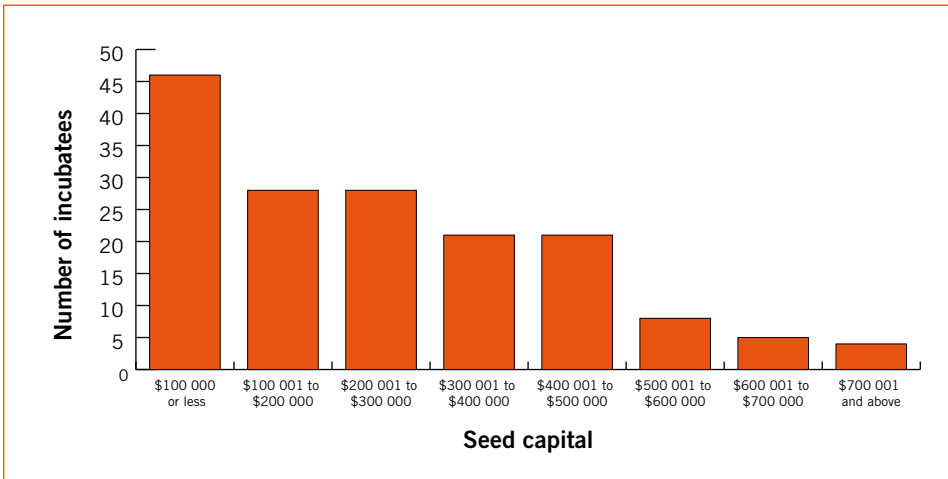
Figure 4: Months spent in incubation from acceptance to graduation (BITS Incubator Program and ICTIP) for current incubatees at 30 June 2005



BITS / ICTIP SEED CAPITAL INVESTMENT IN INCUBATEES

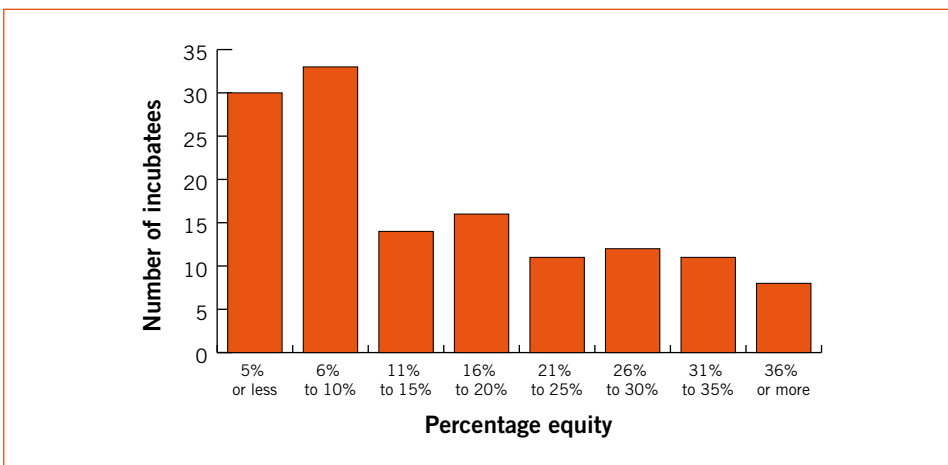
Incubators report on the amounts of seed capital provided to incubatees. Figure 5 (opposite) shows that as at June 2005, a significant proportion of incubatees received less than \$100 000 in seed capital. This indicates that incubators make smaller investments in companies at an early stage, when those small sums can be decisive in the success of the start-up. Under the ICTIP, incubators can provide follow-on capital at a later stage. As noted earlier, the \$450 000 or, in some cases, \$600 000 investment cap that existed under the BITS Incubator Program has been removed to allow incubators to provide follow-on capital into companies with better prospects.

**Figure 5: Seed capital provided to current incubatees at 30 June 2005
(BITS Incubator Program and ICTIP)**



The equity levels taken by incubators can vary considerably. Under the BITS Incubator Program, equity holdings were capped at 45 per cent (with a preferred level of under 35 per cent) in each incubatee. This cap was removed from the ICTIP following a recommendation in the BITS evaluation report and feedback from incubators. As figure 6 shows, the general level of equity holdings in incubatees at June 2005 is fairly low, which allows for founders and other co-investors to participate in the future of these companies.

Figure 6: Equity held in current incubatees at 30 June 2005 (BITS Incubator Program and ICTIP)

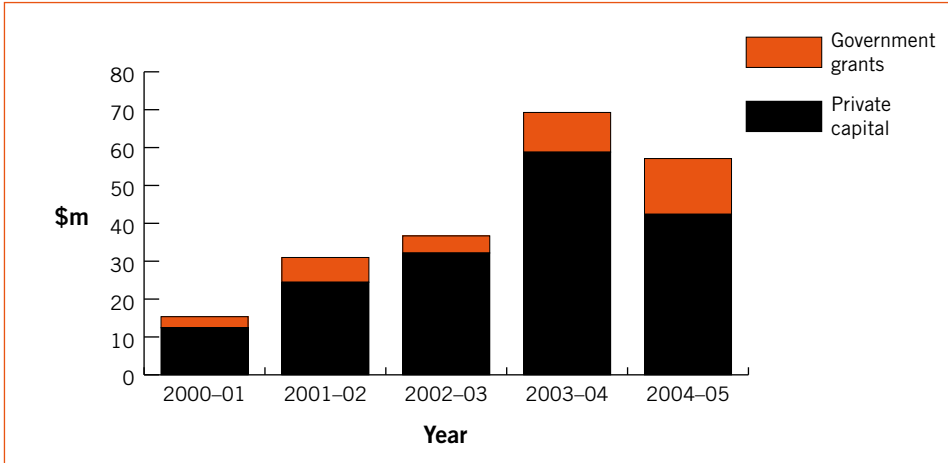


CO-INVESTMENT RAISED FOR ICT INCUBATEES

An important performance indicator for the ICTIP (and former BITS Incubator Program) is the ability of incubators to raise additional private capital and attract other government funding as co-investment for their incubatees. Access to ICTIP funding has enabled the incubators to leverage significant additional co-investment support for their incubatees, which, in turn, has provided the opportunity for these companies to accelerate their growth.

As shown in the figure 7, the co-investment performance for 2004–05 remained strong despite a slight fall from the previous year. The transition from the BITS Incubator Program to the ICTIP may partly explain the drop-off, as a number of incubators operated fully for less than a year after the end of the BITS Incubator Program while new funding agreements were being put in place. There are also three fewer incubators operating under ICTIP compared to the BITS Incubator Program.

Figure 7: Private co-investment and government grants raised for incubatees (BITS Incubator Program and ICTIP)

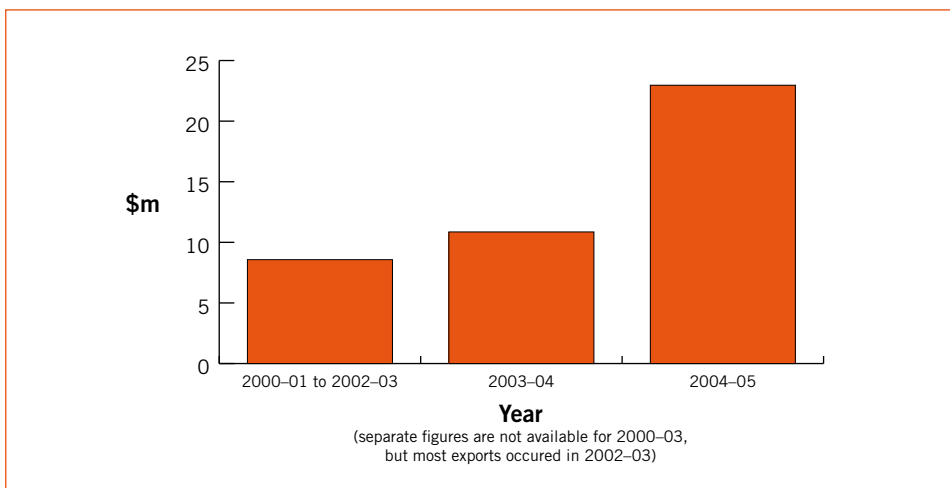


REVENUE AND EXPORTS

Small start-up companies often find it difficult to locate large customers who are prepared to adopt innovative technology and products. Incubators help their incubatees locate key customers to generate initial sales growth and act as references for future sales efforts. Incubatee revenue is an important indicator of the success of the ICTIP, as increasing revenue is an essential part of incubatees' efforts to become viable businesses. In 2004–05, incubators reported that their incubatees recorded \$72.2 million in annual sales revenue, up from \$28.9 million in annual revenue in the year they entered incubation.

On a number of occasions, incubatees have found leading edge customers and established early contracts in overseas markets. Total exports under the incubator programs have reached \$42.3 million. In 2004–05, ICTIP incubators reported that their incubatees achieved \$22.9 million in exports. Figure 8 shows exports achieved by incubatees have increased considerably over the past few years as incubatees gain presence and sales in overseas markets.

Figure 8: Total exports achieved (BITS Incubator Program and ICTIP)



EMPLOYMENT

ICTIP incubators reported that as of 30 June 2005, over 280 full-time or equivalent additional jobs had been created in incubatees, with a further 30 part-time positions also created. Incubators also reported considerable, but not quantifiable, additional employment flowing on from the planned business activities of incubatees and short term requirements for part-time workers and contractors.

STRATEGIES TO ACHIEVE ONGOING FINANCIAL SELF RELIANCE

The incubators are required to report annually on their progress towards financial self-sustainability, which is one of the key objectives of the ICTIP. The sustainability of the incubators could come from a mix of:

- return on investments in incubatees (while recognising that it could still take several years for these to become significant);
- other government funding (particularly state/territory grants for operating expenses);
- revenue for services provided (e.g. delivery of business training); and
- management of private investment capital funds (management fees could provide incubator operating expenses and funds could provide seed capital for incubatees).

Although much of the ICTIP incubators' operating costs have been supported by the ICTIP, incubators will need to generate a significant return from their portfolio of incubatee investments to achieve ongoing sustainability beyond the period of Australian Government funding. However, incubators also need to devote considerable time and resources to nurturing their investments before suitable opportunities for successful exits appear.

To overcome the time lag from seed capital investment through to business incubation and successful exit, ICTIP incubators have been encouraged to diversify their sources of income and develop complementary working relationships with state and territory governments and other capital providers and businesses.

During 2004–05, the ICTIP incubators reported that they attracted over \$7.1 million of cash and in-kind contributions to support their operations, bringing the total of other contributions for the incubator programs to over \$34.8 million.

The different strategies being adopted by individual incubators to pursue sustainability are discussed in the profile of each incubator.

SATISFACTION SURVEYS

The ICTIP requires incubators to undertake, and report the results of an annual satisfaction survey undertaken with the incubatees and graduates in their portfolio. This is intended to instigate a formal communication mechanism between incubatees and incubators and to encourage incubators to receive feedback and constructive criticism on the services they provide. As these satisfaction surveys are primarily to assist the incubators, incubators design their own surveys and present their results to DCITA.

Incubators reported a high response rate to the surveys, with results generally positive. Very few incubatees indicated a general dissatisfaction with the service provided by their incubators, but some provided feedback on specific improvements.

- Many incubatees indicated satisfaction with the incubators' understanding of the difficulties involved in running a start-up business and their ability to comprehend and work with complex business cases.
- Many incubatees appreciated incubators' willingness to take risks with their investments, their entrepreneurialism, and their knowledge of the Australian venture capital community.
- A positive correlation was identified between satisfaction and the length of time the incubatee had been with the incubator. This was interpreted by the incubator as indicating that significant benefits are often derived in the six to twelve months after acceptance, during which time the incubator can help the incubatee restructure and become ready for investors and the market.
- Defining a range of core services, rather than becoming a 'one stop shop' for incubatees, helped maintain the quality and timeliness of services and keep incubatee satisfaction high.
- One incubator regularly surveyed unsuccessful applicants to find out if they would recommend it to other potential applicants. It found that a significant number would do so because of the helpful feedback provided and that this number had increased from the previous year.

Incubators use the results of their surveys to better meet the needs of their incubatees in the future delivery of their operations.

The Department of Communications, Information Technology and the Arts (DCITA) closely monitors the relationships between incubators and incubatees and each incubator is required, as part of its funding agreement, to have in place a dispute resolution mechanism.

INDUSTRY RECOGNITION RECEIVED BY INCUBATEES

During 2004–05 BITS Incubator Program and ICTIP incubatees participated in numerous industry awards as winners, shortlisted entries or finalists. A selection of industry award competitions in which incubatees were recognised for their achievements follows.

Beonic Corporation	2005 Australian Information Industry Association (AIIA) iAward
Cohda Wireless	2004 Second place, Secrets of Australian IT Innovation, Award for Communication Applications 2005 Chairman's Award for Innovative New Product Development, Australian Telecommunications Users Group (ATUG)
Getbusi	2004 Winner, Tasmanian ICT Industry Achievement Award for Best Business Solution
GPSports Systems	2005 Finalist, Australia Sport Awards, Business Innovation Award
Hatrix	2004 Finalist, Secrets of Australian IT Innovation
JadeLiquid	2004 Winner, Tasmanian ICT Award for Best Emerging ICT Business 2004 Finalist, Tasmanian IT Export Awards CEO Anthony Scotney was joint winner of the 2004 Percy Award for Young Achievers
Momentum Technologies	2005 Finalist, ATUG Awards, Best Wireless Product 2004 Finalist, Secrets of Australian IT Innovation, Award for Communications Applications
OnPix	2004 Winner, Tasmanian ICT Industry Achievement Award for Best E-Commerce Solution 2004 Winner, Launceston Chamber of Commerce Award for Best ICT Company 2004 Tasmanian finalist, Telstra Small Business Awards 2004 Third place, Secrets of Australian IT Innovation, Award for Best E-Commerce Solution
Smartvisit Solutions	2004 NSW finalist, Telstra Small Business Awards
The Learning Edge	2004 Winner, Tasmanian ICT Industry Achievement Award for Best E-Learning Content Software

ICTIP incubator profiles





ICTIP incubator profiles

The incubator profiles in this section are based on information provided by the incubators. The different business models and approaches of the incubators do not necessarily allow direct comparison of specific performance indicators (such as incubatees, graduates and co-investment) between incubators.

AUSTRALIAN DISTRIBUTED INCUBATOR

New South Wales and Victoria

www.adinc.com.au

BITS Incubator Program funding: \$7 million

ICTIP funding: \$4.57 million

Operations

Business model and approach to investment

Since Australian Distributed Incubator (ADI) was acquired by Business Strategies International (BSI) in June 2003 its incubation and co-investment strategy has been based on holding regular investor forums to link early stage companies with other venture capital funds and equity investors. 'Expansion' forums are also used when greater amounts of co-investment are sought. Specific targeting of prospective investors through research and networking has been a key part of the business model which has included working more closely with other incubators. In addition, ADI works closely with BSI to deliver a range of services that help incubatee companies to grow.

ADI has identified incubatees' ability to commercialise their technologies in the United States (US) as a key success factor. In order to develop alliances and partners in the US it has developed a special program involving partnering with US fund managers and service providers interested in commercialising Australian technologies.

Linkages with other elements of the Australian innovation system

ADI has built a large network of links with other organisations and holds a variety of events to bring investors and entrepreneurs together. ADI/BSI investor forums provide both a unique opportunity for start-up firms to gain exposure to investors and a place for people in innovation industries to form networks.

Achieving sustainability beyond the ICTIP

ADI made its first partial exit this year and is focusing on investments with a view to an exit in the short to medium term. It is working on building up an investment fund in order to establish itself as a fund manager.

Achievements during 2004–05

Four investor forums were held, where 30 companies made presentations to potential investors in Sydney and Melbourne. In June 2005 the first investor forum was held in Brisbane, and will become part of the regular investor forum program. A number of networking events were held in ADI's Digital Harbour Melbourne office.

The forums contributed to the \$16 million of co-investment raised throughout the year for incubatees. In addition, portfolio incubatees made significant progress in increasing employment, revenue and exports.

As part of ADI's involvement in the Victorian Government's VicStart innovation program, ADI has assisted Victorian based companies raise capital and access US and Chinese markets. Following on from this experience, a pool of mentors will be engaged to advise portfolio incubatee companies on their operations in both Australia and overseas markets from January 2006.

Applications:	129
New incubatees:	6
Graduates:	6

Incubatee satisfaction survey

ADI surveyed its portfolio incubatees about their satisfaction with its incubation services. The responses indicated an overall satisfaction with ADI's performance, with positive feedback on assisting incubatees to grow, accessing government grants and focusing on exports. Some incubatees asked for further support with cross-selling to customers and mentoring.

Graduate summary (2004–05)

Bio Recognition Systems

www.brsgrp.com

Bio Recognition Systems produces a range of hardware and software based on biometric scanning for security and employee control. Its BioScan technology, which reads fingerprints under a variety of difficult conditions, won the Worldwide Biometric Conference's 2003 Product of the Year Award and it has received Australian Government endorsement as a supplier of biometric fingerprint products. Bio Recognition Systems has worked on growing its customer base.

CorProfit Systems

www.corprofit.com.au

CorProfit has developed KnowRisk®, a risk management software product, and provides risk management consulting services. The KnowRisk® product, which is aimed at insurance companies, banks and large companies and organisations, complies with

Australian and New Zealand risk management standards. CorProfit has raised significant co-investment, has expanded into markets in the United Kingdom (UK) and South Africa and is working on developing its sales force in the US.

Ivox

www.ivox.com.au

Ivox provides wholesale Voice over Internet Protocol (VoIP), which allows cheap phone calls over the Internet or private networks and related services. Products include complete Internet telephony, hardware, call termination and hosted billing. It has partnerships with a wide range of Internet Service Providers (ISPs) and other technology companies and is looking at developing its customer base.

NewLease

www.newlease.com.au

NewLease has arrangements with software companies to provide software leases to enterprises which prefer to pay ongoing fees for using software rather than buying licences outright. This allows customers to scale their installations up or down as determined by the size of the company. NewLease has licensing agreements from major providers and is working on promoting acceptance of its rental model in the marketplace.

Retriever

www.retriever.com.au

Retriever's products allow field staff to securely synchronise data with their head office using wireless technology, mobile telephony, landlines or other means depending on coverage in the area they are working. Its technology assists the administrative efficiency of coordinating information flows to workers in the field (such as tradespeople, technicians and transport workers). Retriever has expanded into France and is investigating North Asian markets.

Webit Technologies

www.webitcentral.com

Webit provides a number of e-commerce applications within a customer relations management package which can be customised to the needs of particular clients. It offers a range of services including event registration, sales and market reporting and the tracking of telemarketing campaigns. Webit has secured one main international client and is expanding into the UK, the US, Singapore and South-East Asia. In August 2004 it outgrew its premises and moved to larger offices.

Case study

bCODE

(formerly START Corporation)

(2004–05 graduate)

www.bcode.com

The company and the product

bCODE changed its name from START Corporation in March 2006 to focus on its primary product. It develops and sells the bCODE mobile ticketing service for films, sports and other types of events. Its service allows customers to receive various kinds of tickets on their mobile phones through the short messaging service (SMS). The customer places the display screen of their phone over a special bCODE scanner to identify themselves, allowing them to avoid queuing or having to pick up and keep a paper ticket. bCODE also provides a range of related products, including touchscreen software and services which allow companies to deal with customers directly through SMS.

The business opportunity

Unlike other similar products, bCODE uses text messages rather than barcodes or graphics, so tickets are displayed on ordinary mobile phones without registration, special hardware or expensive graphic messages. Nearly all mobile phones on the market, and many other portable devices such as personal digital assistants (PDAs) and MP3 players, are capable of using the technology. The bCODE system is suitable for deployment by a wide variety of businesses, including cinemas, sports arenas, passenger processing and retail. bCODE has patents covering its technology in Australia and is filing patent applications around the world.

The incubation story

In early 2005, bCODE needed capital to survive and develop its scanner technology but was having trouble raising capital quickly enough from venture capitalists. After an investment company referred it to ADI, bCODE was accepted into incubation in January 2005. It graduated in May 2005 after participating in ADI's March 2005 investor forum and raising significant private co-investment.

The future

bCODE has since attracted customers and investors from Australia and around the world and its technology was showcased at the 2006 Melbourne Commonwealth Games. There have also been demonstrations of its technology in entertainment venues. bCODE is now working to improve its scanning technology and plans to expand internationally in late 2006.

DIVERGENT CAPITAL (FORMERLY BLUEFIRE GROUP INCUBATOR)

New South Wales

www.divergent.com.au

BITS Incubator Program funding: \$6 million

ICTIP funding: \$4.57 million

Operations

Business model and approach to investment

The main focus of Sydney based Divergent Capital's investment activities is on start-up and early stage companies providing niche enterprise software applications and Internet-based companies tailored to specific industries. Strong linkages have been developed within the financial, investment and technology communities which can identify innovative early stage ICT companies and which can also contribute to their ongoing success and sustainability.

Divergent Capital changed its name from Bluefire Group Incubator in November 2004 to signify its independence from its founding parent and underline its corporate identity as an investor specialising in the early stage ICT sector. It also reorganised to revert to a dual-entity structure (comprising a fund and a separately incorporated fund manager) in order to meet the expectations of the venture capital industry.

Services to incubatees include:

- building incubatee management capabilities through developing human resources;
- establishing corporate governance policies;
- facilitating introductory meetings with investment firms to raise venture capital;
- clarifying business strategy development;
- assisting incubatee boards; and
- introducing incubatees to business advisers and service providers.

Linkages with other elements of the Australian innovation system

Divergent has forged close links with venture capital groups, government bodies, public research groups and angel investor groups. Divergent has also established links with relevant government agencies and programs, recruitment and human resources firms, and financial groups in order to build sustainability and value in its incubatees. Most of Divergent's investment opportunities come to it as referrals through these networks.

Achieving sustainability beyond the ICTIP

Divergent continues to make significant progress towards sustainability by setting goals for returns on its investments and is confident in its ability to achieve them. It is also working on generating a diversified and growing revenue stream and controlling operating costs.

Achievements during 2004–05

Over \$2 million in co-investment was raised and significant growth was achieved in the portfolio of incubatees in terms of employee numbers, revenue and exports. Work was initiated on a capital raising initiative through a fully underwritten rights issue for future co-investment in early stage technology start-ups.

Applications:	163
New incubatees:	6
Graduates:	4

Incubatee satisfaction survey

Divergent surveyed its incubatees about the support and services they had received during incubation. Overall there was a high level of satisfaction from respondents to the survey with a number commenting on the quality of advice and expertise in helping their business grow.

Graduate summary (2004–05)

Glass Onionwww.glassonion.com.au

Glass Onion provides a one stop shop for medium and large enterprises looking for web design and online marketing services. It assists clients at all stages of the process of achieving an Internet presence, from research and strategy formulation to building and managing standards compliant websites. It has built a strong client list and continues to grow its business in Australia and overseas.

Welding Technology Innovationswww.wti.com.au

Welding Technology Innovations has a licensing arrangement with Sydney University to commercialise its WeldPrint technology, an online fault detection system for welding which uses advanced mathematics and high speed processors to detect faults in automatic arc welding processes. It has sold a number of systems to manufacturers in Australia and overseas and has released a new generation of its technology with significant enhancements.

Windspringwww.windspring.com

Windspring has developed and patented an innovative data miniaturisation technology which allows compressed data to be searched, edited and displayed at a high speed. Its technology is used in the wireless, mobile, digital mapping, high speed network storage and online search industries. Following major product development its first commercial products, WindSpring Gazelle and WindSpring Mobile, were delivered in 2005. Windspring has relocated to San Jose, California in the United States to allow it to be closer to its key customers, and has raised significant funding.

Case study

PCTFiler

www.pctfiler.com

(2004–05 graduate)

The company and the product

PCTFiler provides an automated system for filing national phase patent applications in 19 countries under the international Patent Cooperation Treaty (PCT) and offers various other patent attorney services to its clients.

The business opportunity

For a company trying to protect its intellectual property, filing patents around the world can be an expensive and complicated process. PCTFiler's website allows patent applicants to file their claims in the National Phase of the PCT application process in many different countries at once for a flat fee, saving significantly on time and costs. Its flat fee approach distinguishes it from other companies offering similar services. PCTFiler has patented its key business process, which is cited on the World Intellectual Property Organisation (WIPO) website as an example of a 'notable invention' protected under the PCT.

The incubation story

PCTFiler started with capital from its founder and family members and a New Zealand patent attorney firm. In 2004 the company was expanding into the US market with an office in New York when it ran into problems coordinating its business across different continents. It also suffered from delays in the implementation of a new internal software system and the founder decided the company needed more capital to continue growing. During 2004 and 2005 Divergent invested in PCTFiler, allowing it to survive its immediate problems and continue its expansion into the US.

The future

After growing its annual revenue over several years, PCTFiler moved to New York to be closer to its major clients and to take advantage of the large demand for patent services in the US. It has maintained an office in Sydney.

ENTREPRENEURS IN RESIDENCE

Western Australia

www.eir.bz

BITS Incubator Program funding: \$10 million

ICTIP funding: \$4.57 million

Operations

Business model and approach to investment

Entrepreneurs in Residence (EiR) was established in June 2000 and is located in the EiR Centre, Technology Park, Bentley. EiR brings together investors and entrepreneurs with leading edge ICT business ideas and uses its co-investment sources to supplement projects that require significant capital as well as enhancing the scope of executive experiences and contacts. It also supports and assists entrepreneurs to find the best strategic focus for their businesses.

EiR provides support to its incubatees through its commercialisation partners located in a variety of markets. Each commercialisation proposition is unique and the ability to secure highly specialised skills on a project by project basis is important to EiR's success.

Linkages with other elements of the Australian innovation system

EiR has developed strong networks not only in Western Australia but also on the eastern seaboard of Australia, as well as in Europe. A significant strategy when investing is the ability to scale and replicate fledging technology companies in global markets. It has developed relationships with a number of highly respected public and private R&D institutions.

Achieving sustainability beyond the ICTIP

EiR's strategic plan for sustainability involves securing further funds to allow it to engage in more investment activity. In order to demonstrate its ability to deliver returns to new investors, EiR is focusing on successful exits from companies in its portfolio and developing relationships with sources of capital in Australia and overseas.

Achievements during 2004–05

EiR invested in a number of ICT start-up companies over the period of the BITS Incubator Program and has been successful in attracting significant co-investment from the public and private sectors. Revenue and employment in a number of incubatee companies have increased significantly and some are now making sound progress in international markets.

Applications:	38
New incubatees:	0
Graduates:	6

Incubatee satisfaction survey

EiR sent a questionnaire to its incubatees asking for assessments of its services. The majority of responses rated EiR's financial management advice and strategic planning services highly and as the most important service offered to incubatees.

Graduate summary (2004–05)

Australe Investments

No website

Australe has developed software to enable stockbrokers to feed real time information from the Australian Stock Exchange to clients using various media. It continues to seek further co-investment to allow full commercialisation of the system.

Imagemation

www.imagemation.com.au

Imagemation's ClickHome software allows residential construction companies to manage the building of project homes online, as well as keep their customers up to date on the progress of their homes through the web, enhancing relationships and avoiding unnecessary queries. Imagemation is expanding around Australia and its client list includes several of Australia's largest residential construction companies. EiR exited this investment in June 2005.

In2grape

No website

In2grape's web software links all the members of the wine distribution chain from winery to overseas importer, retailer and restaurateur. Its private, multilingual and cross-cultural wine trade management system improves procurement, promotion and distribution of wine in international markets and is targeted at companies at any level of the wine industry seeking to adopt e-commerce in their operations.

Sanctuary Systems

No website

Sanctuary developed the NightSafe data security product, a separate server on which sensitive information can be stored safely because of its one-way connection to an Internet server. Sanctuary continues to deliver services to clients but has been unable to achieve commercialisation of the NightSafe.

Unleashed Technologies

www.autumncare.com.au

(formerly AutumnCare Systems)

Unleashed Technologies provides back-end and mobile computing services to aged care facilities, helping them take advantage of wireless computing which provides better services and more accurate information. Its care management system, AutumnCare Connect, allows carers to access and update synchronised information anywhere and at any time. Unleashed has sold a full licence to an aged care service provider after a pilot period and trials are being negotiated with other service providers.

Case study

Luceo Systems

www.luceosystems.com

(2004–05 graduate)

The company and the product

Luceo has developed RiskWeb, a risk management system which uses a sophisticated web content publishing model. RiskWeb Publisher provides a framework for enterprises to create and publish their own risk management services on the Internet through the Microsoft®.NET platform.

The business opportunity

While taking its technology to the market, Luceo observed that many companies already have risk management policies, but lack a management tool to put them into practice. Luceo's software can identify, communicate, monitor and measure their risks online in the RiskWeb format. The resultant organisation specific 'RiskWebs' make use of Microsoft's .NET platform for easy implementation at all levels of an organisation and remain the intellectual property of the organisations which create them, to be redistributed or on sold.

The incubation story

Luceo began incubation in July 2002 and graduated in the second quarter of 2004–05 after achieving several agreed business milestones. The incubation journey has seen the product developed and tested, initial market pilot programs completed and most recently, some cornerstone sales made. Defining the needs in the market has meant that several risk management products have flowed from Luceo including Injury Connect for the workers' compensation market, Investment Connect for the financial planning industry and Carbon Connect for the carbon trading industry.

The future

Version two of the core product, RiskWeb, was released in January 2006 and includes improvements in functionality and security as a response to market feedback and experience. Luceo's products have application across nearly every business environment as the compliance regime in Australia continues to become more complex. Luceo's challenge is to continue building penetration in the Australian market before expansion into larger global markets.

EPICORP LIMITED

Australian Capital Territory

www.epicorp.com.au

BITS Incubator Program funding: \$8 million

ICTIP funding: \$4.57 million

Operations

Business model and approach to investment

Epicorp Limited, a not-for-profit company, delivers assistance to ICT start-up and spin-off businesses by providing:

- business development assistance in a tailored program extending over an average of two years for each company;
- office space at reasonable rates, for those incubatees who need it; and
- seed funding as equity capital.

Epicorp's portfolio of incubatees covers a variety of sectors including e-commerce, location systems, wireless and video technologies, content creation, wind energy, and telecommunications.

Epicorp invests in companies which are at the seed to early stage point in their development cycle, and provides hands on assistance to help them achieve their potential. Epicorp invests directly in companies on an equity basis and focuses on providing help with market access, financial and management improvement and appropriate governance.

Linkages with other elements of the Australian innovation system

Epicorp continues to work closely with government funded research organisations, tertiary education institutions and cooperative research centres. Epicorp's strategic partnerships have been instrumental in assisting it to spin out a number of opportunities from research institutions, producing companies with significant intellectual property portfolios with the potential to become high growth global players.

Epicorp works closely with the ACT Government, which has initiated a separate seed fund that is run alongside the ICTIP fund. Epicorp has extensive networks in place with venture capitalists, private investors and strategic partners. Epicorp also runs the Epicorp Angel Investor Network and has been instrumental in the establishment of Capital Angels Pty Ltd.

Achieving sustainability beyond the ICTIP

Epicorp's work is targeted to bridging the gap in the funding landscape for very early stage companies. The timeframe for returns on investments at such early stages is long and carries high risk. Sustainability is targeted through successful returns on investments and continued access to support programs.

Achievements during 2004–05

During the year approximately \$10.6 million was raised in co-investment and grant funding for incubatee companies. Many of the incubatees continue to make good progress in increasing sales revenue in Australian and overseas markets and building employment.

Applications:	21
New incubatees:	3
Graduates:	1

Incubatee satisfaction survey

Epicorp's satisfaction survey of its incubatee companies showed an increase in satisfaction with the package of assistance provided over the previous year. On a scale of 1 to 5 (with 5 being the highest satisfaction level), Epicorp achieved an average score of 3.9.

Graduate summary (2004–05)

Newton

www.newton.com.au

Newton's e.envoy software creates and displays multimedia content for display on various devices, such as televisions, information kiosks, public address systems and giant outdoor multi-screen displays. The content can be managed remotely, allowing constant updates. Newton both supplies the software and helps its clients with installation and implementation. Newton has sold its products to government and private customers around Australia and Asia and is working on further sales and the development of a next generation e.envoy product.

Case study

SIMmersion Holdings

www.simmersion.com.au

(Yet to graduate)

The company and the product

SIMmersion's SIMurban™ software produces realistic three dimensional models of physical environments such as cities and natural landscapes.

The business opportunity

SIMurban allows planners and developers to review the appearance of planned buildings and their effects on sunlight at different times of the day and year, helping to save money in planning and to avoid litigation over problems such as view obstruction and access to light. Local councils can use the software to create models of their districts which can be used by developers. SIMurban is being marketed to councils and property development companies and SIMmersion is exploring other potential markets (emergency services, telecommunications and utility companies).

The incubation story

SIMmersion started in September 2002 when its founders, who were working on three dimensional modelling software, modelled the town of Terrigal for Gosford Council in NSW. Gosford Council then contracted a model of the Gosford city area. Other council contracts allowed it to grow further and, when SIMmersion sought funding to expand into the US market, it came to Epicorp for assistance. Seed capital provided by Epicorp allowed it to take up residence in Epicorp's incubatee offices and achieve business milestones that helped it to grow.

The future

SIMmersion has been contracted by the ACT Planning and Land Authority to develop a model of the entire city of Canberra. It has formed a US subsidiary, signed memoranda of understanding with two US based strategic partners and secured contracts with councils to model the majority of North Sydney. SIMmersion continues to improve its product and is working on weather and audio simulation as well as interfaces for linking with Geographic Information System (GIS) databases.

INFORMATION CITY AUSTRALIA

Victoria

www.informationcity.com.au

BITS Incubator Program funding: \$13 million (\$8 million to Information City Victoria and \$5 million to Allen and Buckeridge Seed Stage Ventures)

ICTIP funding: \$4.57 million (Information City Australia)

Operations

Business model and approach to investment

In April 2004, Information City Victoria Pty Ltd and former BITS incubator Allen and Buckeridge Seed Stage Ventures Pty Ltd merged to form Information City Australia Pty Ltd (ICA). The merger allowed the organisations to bring together:

- a national incubator network with a presence in Melbourne, Ballarat and Sydney and representation in Brisbane and Silicon Valley;
- ICA's Mentre® Program, which gives ICT start-ups access to a pool of experienced mentors and entrepreneurs who work for equity rather than money; and
- Allen & Buckeridge's ability to raise significant co-investment through its venture capital connections.

ICA has a strong focus on working with R&D institutions and universities on intellectual property commercialisation by providing management and leadership expertise through the Mentre® Program. It also runs an alumni program for graduate incubatees with a particular emphasis on networking and mentoring assistance.

ICA's incubation program has included significant direct investment in ICT start-up companies. Direct investment businesses graduate when they have met set investment milestones or a level of sustainable profitability.

Linkages with other elements of the Australian innovation system

ICA develops and maintains its involvement with other innovation stakeholders through its involvement with tertiary institutions, its engagement with government bodies and programs such as AusIndustry, COMET, VicStart and National ICT Australia (NICTA), and its participation in networks and events for venture capitalists.

Achieving sustainability beyond the ICTIP

ICA aims to achieve financial sustainability by developing its incubatees to a stage where they can be exited at a profit. It is also seeking to diversify its sources of funding by working with other Australian and state government programs to provide innovation related services.

Achievements during 2004–05

ICA developed commercial relationships with R&D institutions to commercialise intellectual property and was successful in procuring several contracts. A number of institutional R&D projects have also been commercialised to form spin-off companies during the year. Support has been provided through alliance partners including Corporation Builders, Enterprise Angels and Technology Development Investments. These alliance partners have helped ICA incubatees attract considerable co-investment and increases in revenue, exports and full-time employment. ICA has also worked with another ICTIP incubator, ADI (see page 19), and has run VicStart commercialisation workshops for NICTA Melbourne.

Applications:	94
New incubatees:	5
Graduates:	5

Incubatee satisfaction survey

Most of ICA's incubatees responded to the satisfaction survey of ICA's package of assistance and overall there was reasonable satisfaction with the service provided by ICA.

Graduate summary (2004–05)

ArgusConnect

www.argusconnect.com.au

ArgusConnect has an Australian licence from the Health OpenWare Foundation to deploy, install, support and further develop its software, which enables health service providers to exchange clinical documents between their computer systems through secure encrypted email. ICA has since exited this investment.

Genscreen

www.genscreen.com.au

Genscreen was initially established to manage ICA's bioinformatics based businesses. The company has now expanded its focus and works on the commercialisation of medical products and services which support the prevention, diagnosis and treatment of cancer. It has entered into commercialisation contracts with a number of healthcare providers and is seeking to raise additional funds from private investors.

LIF Pharmaceuticals

No website

(formerly Ballarat Cancer Research)

LIF Pharmaceuticals has identified a promising cancer treatment, which is undergoing trials as a treatment for small cell lung cancer. Funding options for the next stage of development are being considered. LIF Pharmaceuticals has been acquired by and is managed by Genscreen.

Oztrak Group**No website**

Oztrak Group was established to develop and commercialise a number of applications linking Global System for Mobile (GSM) cellular technology and Global Positioning System (GPS) technology. Oztrak has merged with another company and ICA is no longer involved.

WebAssociates**No website**

WebAssociates provides a data mining tool and a consultancy and advisory service. WebAssociates has withdrawn from incubation with ICA.

Case study

RPO Pty Ltd

www.rpo.biz

(Graduated after the reporting period in March 2006)

The company and the product

RPO designs and manufactures advanced optical polymers and polymer optical waveguides for consumer electronics, telecommunications and data applications.

The business opportunity

The emerging field of photonics has the potential to revolutionise computing by replacing electronic devices with technologies that run on light rather than electrons. Photonics requires a range of new optical materials and RPO works on the development of optical polymers capable of manipulating light on scales small enough to replace many of the current generation of electronic components. RPO has a broad portfolio of patented key technologies and continues to develop them at its facilities in Canberra.

The incubation story

RPO was founded in 2000 (as Redfern Polymer Optics Pty Ltd) to commercialise intellectual property on polymer design and waveguide processing developed through the Australian Photonics Cooperative Research Centre. RPO established a 'wafer-based' pilot plant and developed the technology for telecommunications applications. In June 2004 ICA provided seed capital which enabled RPO to diversify its market applications to consumer electronics and establish a 'panel-based' pilot plant in Canberra to develop lower cost waveguide manufacturing processes. RPO has since raised over \$10 million in co-investment from Australian and overseas investors and has been successful in applying for a \$3 million 'Commercial Ready' grant from AusIndustry.

The future

RPO continues its R&D activities and is working on the development of state of the art polymer optical waveguides for flat panel display optical touch sensors. It is also continuing to focus on delivering solutions for overseas customers in Japan and the US and is discussing possible manufacturing partnerships with Asian corporations. At the same time RPO is active in the US to raise further capital to expand its operations.

INQBATOR

Queensland

www.inqbator.com.au

BITS Incubator Program funding: \$9.5 million

ICTIP funding: \$4.57 million

Operations

Business model and approach to investment

Timsco Pty Ltd, the owner and operator of inQbator, functions as both a 'bricks and mortar incubator' and a 'virtual incubator' providing services to incubatees within Queensland and interstate. inQbator staff provide operational and management support along with access to other professional services through companies familiar with the needs of technology start-ups. It maintains formal and informal relationships with the business community, universities and research organisations. There is a significant focus on bringing venture capital providers and strategic business partners to its ICT start-ups early in their development to enhance their prospects for growth and success.

ICT start-up companies accepted by inQbator provide equity in return for the range of mentoring, professional advice, services, and resources made available to them by the inQbator team. Incubatees may be located at inQbator's premises at Varsity Lakes on the Gold Coast, in their own premises, or in other incubators such as the Queensland Government's i.lab incubator, with which inQbator has an alliance. inQbator's success is reliant on creating value in its start-up companies and thus it shares the same incentive to perform as its incubatees.

Linkages with other elements of the Australian innovation system

inQbator has increasingly been finding its incubatees within universities and public sector research institutions and puts this down to greater awareness of the need for commercialisation in those organisations. The founders and directors of inQbator are members of major national, state and regional level innovation bodies and have developed strategic relationships with other venture capital providers.

Achieving sustainability beyond the ICTIP

With the continuing financial and operating support of its founders, inQbator is financially stable. Its business plan is centred on the management of a fund as the cornerstone of its future success.

Achievements during 2004–05

Many incubatees have been successful in applying for Australian and state government innovation funding and most incubatees were also successful in attracting venture capital or angel investment.

Applications:	105
New incubatees:	3
Graduates:	6

Incubatee satisfaction survey

inQbator surveyed its portfolio companies to provide feedback on its incubation program. A significant majority rated inQbator's performance as either excellent or very good. inQbator was praised for its understanding of the concerns of start-up businesses and the input it provided into the development of incubatees.

Graduate summary (2004–05)

Advanced Messaging Technologies

www.mantara.com

(trading as Mantara Software)

Mantara Software provides advanced real time messaging technologies. Its Elvin Router product quickly and securely distributes messages to customers according to the content of the information they contain. Mantara has demonstrated its products to telecommunications companies and investors and is working on expanding into the US market.

Live Technologies

www.livetechnologies.com.au

Live Technologies' patented Smart Filter technology controls exposure over the whole frame of an image taken by a camera, avoiding under- and over-exposure.

Locatrix Communications

www.locatrix.com

Locatrix Communications has developed wireless applications which work across a range of telecommunication network protocols to enable service providers to offer services based on the physical location of mobile devices and their users. Its technology includes privacy controls to maintain the confidentiality of a subscriber's location where required. Locatrix has trials in place with a number of telecommunications companies.

Momentum Technologies Group**www.momentumgroup.com.au**

Momentum Technologies Group's SquizBiz hardware and software system streams wireless video from video cameras onto the Internet, where it can be viewed through a web browser. Business development is focused on the security and emergency services sectors where clients use SquizBiz to stream 'first response' video images from the scene of an emergency back to a command centre, allowing experts to assess situations quickly. Momentum Technologies has appeared on the ABC's *New Inventors* television program. Momentum Technologies was reported as a graduate by ADI (see page 19) in 2002–03, but after ADI was taken over by Business Strategies International, Momentum Technologies was incubated by inQbator.

Telpay**www.telpay.com.au**

Telpay's MobilePay system allows businesses to process credit card payments by SMS. It involves a pocket sized reader device, Telcel, which can confirm transactions quickly and securely through encrypted communications. Telpay has introduced a new sales model and is working on its sales and marketing.

Windlab Systems**www.windlabsystems.com**

Windlab Systems came out of the Wind Energy Research Unit at the CSIRO in 2003. Its modelling technologies are based on the development of continental scale wind atlases and smaller scale high resolution wind maps to help governments and developers find and make the best use of appropriate sites for wind farms. Windlab has been involved in a significant proportion of wind farm developments in Oceania. Although Epicorp (see page 29) also made an initial investment in Windlab, inQbator provided follow-on seed capital. This investment means Windlab is treated an inQbator graduate under the conditions of the BITS Incubator Program (under which inQbator operated for most of 2004–05).

Case study

Cleveland Biosensors
(formerly Toxitech)
(2003–04 graduate)

No website

The company and the product

Cleveland Biosensors' BioFiniti system is a low cost handheld biosensor designed to detect environmental toxins in food and water. Consisting of a disposable 'biochip' and a robust reader, BioFiniti provides the onsite equivalent of laboratory diagnostics and can be used by non-technical operators. It performs most tests in less than ten minutes.

The business opportunity

Global water companies need decentralised testing of pathogens, residues and toxins to assist them in process control. Cleveland Biosensors' reader provides a fast and portable test to allow them to optimise chemical and energy use while minimising the risk of unsafe water being distributed to consumers. Cleveland Biosensors is initially developing a suite of diagnostics assays targeted at the water industry, especially for applications in large scale water management processes where time critical decision support is required.

Cleveland Biosensors has also identified market opportunities in immunodiagnostics, including human and animal in-vitro diagnosis, and is looking at licensing its flexible proprietary platform to other diagnostics companies to develop a range of assays for human, veterinary and food applications.

The incubation story

Cleveland Biosensors was spun out of James Cook University (JCU) and the Australian Institute of Marine Science (AIMS) in Townsville and entered the BITS Incubator Program in August 2002. An inQbator representative sits on its board and has taken an active role in the strategic management of the company. With input from inQbator, the company has established a high quality board with a highly regarded chairperson, negotiated new arrangements with founding organisations JCU and AIMS, and organised further seed investment. With the board and management, it has developed a comprehensive go-to-market strategy and negotiated relationships for pending follow-on investment. Cleveland Biosensors graduated in December 2003.

The future

Cleveland Biosensors is poised to enter into sales agreements with global water companies. In order to raise further capital to grow the business it has entered into discussions with international venture capitalists and strategic investors. While initially focusing on the water industry, Cleveland Biosensors will maintain an ongoing effort to demonstrate its BioFiniti platform for other diagnostics applications in human, veterinary and food markets and over time will diversify its business into these markets.

IN-TELLINC**Tasmania**

www.in-tellinc.com.au

BITS Intelligent Island Program funding: \$8 million

ICTIP funding: \$4.57 million

Operations**Business model and approach to investment**

Hobart based In-tellinc seeks to support companies across Tasmania and provides a comprehensive incubation service to early stage ICT companies which have national and international prospects.

In-tellinc provides hands on incubation assistance, including support with sales and marketing, finance and accounting, and general commercialisation assistance.

Linkages with other elements of the Australian innovation system

Through its consortium members, In-tellinc has established strategic alliances with local, national and international businesses as well as government bodies including the University of Tasmania. These alliances bring financial, information technology, infrastructure and network resources.

Achieving sustainability beyond the ICTIP

In-tellinc's strategy for sustainability is focused on extending its consulting and other services, both within the ICT sector as well as in general technology. In-tellinc continues to work with its incubatees to secure investment exits that will allow the proceeds to be re-invested in In-tellinc's ongoing operations.

Achievements during 2004–05

Across the portfolio In-tellinc incubatees are commercialising their technology and achieving solid growth in employment, sales revenue and exports.

Applications:	42
New incubatees:	3
Graduates:	2

Incubatee satisfaction survey

In-tellinc surveyed its incubatees on their satisfaction with its performance as an incubator and received positive comments indicating overall satisfaction with its services and assistance from management.

Graduate summary (2004–05)

Aqua Assist

www.aquaassist.com

Aqua Assist sells a range of software for the management of aquaculture businesses such as salmon and abalone farms. It has sold its products to a variety of aquaculture businesses around Australia and is looking to expand into overseas aquaculture markets.

JadeLiquid

www.webrenderer.com

JadeLiquid has developed WebRenderer™, a product that gives Java applications the power to render hypertext markup language (HTML) and many other documents and multimedia formats. It was commercially released in June 2003. Sales have continued to grow and the company has an impressive client base. The company is now positioning itself as a specialist Java component developer and is pursuing its second major product release.

Case study

The Learning Edge

www.thelearningedge.com.au

(Graduated after the reporting period in March 2006)

The company and the product

The Learning Edge has developed a range of products to help teachers and academics in kindergartens, schools, tertiary institutions and corporations deliver educational materials online in a format that suits them. It provides an easy way for educators to create and edit their material, a library for digital content to be used in teaching (with controls to manage copyright), a delivery platform for institutions without a Learning Management System already in use, and a variety of other products to help institutions use computerised teaching as easily as possible.

The business opportunity

The market for educational software is already large and continues to grow as computer assisted teaching becomes more widely accepted and used around the world.

The incubation story

The Learning Edge was started in 2002 by small Tasmanian software developer Dytech Solutions as a way of applying its experience in project management and system development to the educational software sector. From The Learning Edge's acceptance as an incubatee in March 2003, In-tellinc has provided a range of support measures which has helped it to grow through a series of business milestones.

The future

The Learning Edge has secured a large base of clients including universities, state government departments, private schools, tertiary institutions, professional associations and corporations, both in Australia and overseas. In the short term, further growth will be driven by international expansion into North America and the UK.

PLAYFORD CAPITAL

South Australia

www.playford.com.au

BITS Incubator Program funding: \$10 million

ICTIP funding: \$2.14 million

Operations

Business model and approach to investment

Playford Capital Pty Ltd is a not-for-profit subsidiary of Playford Centre. Playford Centre was established by the South Australian Government in 1997 to facilitate the formation and development of innovative technology ventures in the state.

Playford Capital invests seed capital in early stage South Australian telecommunications, electronics and IT businesses which demonstrate strong management and market potential. It acts as a 'money magnet' to attract additional investors and help businesses to reach their full potential.

While Playford Capital's investment funds are sourced from the BITS Incubator Program and the ICTIP, its operating expenses are supported by the South Australian Government.

Linkages with other elements of the Australian innovation system

Playford maintains links with the South Australian ICT industry, venture capitalists and other private investors, as well as key service providers.

Achieving sustainability beyond the ICTIP

Playford Capital's model relies on the South Australian Government for financial support. The South Australian Government has allocated funding for this purpose to June 2009. Proceeds from the sale of investments made with Australian Government funds are intended to form a recirculating fund for further investment.

Achievements during 2004–05

Playford continued its strong co-investment performance during 2004–05, with companies backed by Playford raising \$8.6 million of private co-investment and a further \$1.7 million from public sources. Over the life of the BITS and ICTIP programs Playford incubatees have raised more than \$30 million in private co-investment and \$6.7 million in government grants.

Early stage technology companies backed by Playford grew sales by 22 per cent during the year, with 65 per cent of this coming from interstate and overseas.

Applications:	48
New incubatees:	6
Graduates:	5

Incubatee satisfaction survey

Playford conducts an annual survey of both successful and unsuccessful applicants using an external market researcher. The survey found the overall satisfaction of successful applicants receiving seed capital to be at the highest level since 2002. A very high and increasing proportion of unsuccessful applicants were also prepared to recommend Playford to other potential incubatees.

Graduate summary (2004–05)

Australian Orthopaedic Innovations Pty Ltdwww.aoinnovations.com.au

Australian Orthopaedic Innovations licenses innovative medical products (generally in the area of orthopaedics) from universities, hospitals and research institutions. The company further develops these products and commercialises them globally.

Lync Software Pty Ltdwww.lyncsoftware.com

Lync Software develops software for use in managing mobile devices on computer networks. Its network security, auditing and policy enforcement software allows corporate IT asset managers to monitor and control the use of mobile equipment on their networks. Organisations can prevent unauthorised access and the theft of information, as well as protect computer networks against the introduction of viruses and other unwanted software. Lync Software has launched its software products in Australia and the US.

Microbric Pty Ltdwww.microbric.com

Microbric has developed a proprietary method of connecting electronic circuits which it is initially commercialising through user-assembled electronic toys and robots. It is exploring sales through major stores and other outlets in Australia. After the end of this reporting period, Microbric's I-Bot product was featured in a major newspaper promotion in Adelaide.

Seratec Pty Ltdwww.seratec.com.au

Seratec develops and markets business software for a variety of purposes, including automated workflow management, knowledge management, product tracking, report scheduling and file content indexing. Its artificial intelligence software reduces the need for staff to perform menial information processing tasks and provides a low cost alternative to common business applications.

Smartset Lasers Systems Pty Ltdwww.smartsetlasers.com.au

Smartset has designed a range of multi-function rotating laser levels for builders and building contractors. It is looking to expand sales overseas and has signed a heads of agreement with a major laser manufacturer.

Case study

Beonic

www.beonic.com

(2003–04 graduate)

The company and the product

Beonic develops and manufactures advanced surveillance technologies and information analysis systems that detect, count and record the movements of people in retail environments.

Its two flagship products are Traffic Pro, a people counting system, and Traffic Insight, a customer traffic and behavioural monitoring system.

The business opportunity

In 2002 Beonic developed a people counting system for shopping centres which addressed the inaccuracy and unreliability of simple infrared motion detectors. Using accurate sensors and patented smart analytical software, Beonic can deliver vital management information that provides the insight necessary for better management decisions on staffing, stock and marketing investments.

Beonic's Traffic Insight allows users to develop complex maps of customer flow and behaviour while tracking people as 'blobs' to preserve privacy. This lets users, among other things, assess the physical layout of their premises, reassign workers to areas where they can be most effective, and better target promotional campaigns. Beonic's Traffic Pro is a people counting system specially adapted for small businesses and its Interact Security product adapts some of its other technology to provide high-tech video surveillance.

The incubation story

Playford initially invested in Beonic in May 2002 and participated in a second round of investment in December 2004. The company has made steady progress during this time, securing a number of blue chip customers.

In May 2005, Beonic won an AIIA iAward for its Traffic Insight product followed by an Asia Pacific Information and Communications Technology Award in February 2006 (after the current reporting period) for the same product.

The future

Beonic exports to several countries and is planning to open an office in Sydney to add to its Adelaide and Melbourne offices. The company is expanding its product range and continuing to win contracts with major retailers and shopping centre owners.



Appendix

Incubator contact details





Appendix

Incubator contact details

Australian Distributed Incubator Pty Ltd

Mr Ivan Kaye
Chief Executive Officer
Level 3, 51–57 Holt Street
SURRY HILLS NSW 2010
Tel: 02 9212 5505
Fax: 02 9212 5545
Email: info@adinc.com.au
www.bsi.com.au/adi

Epicorp Ltd

Ms Roslyn Hughes
Chief Executive
401 Clunies Ross Street
ACTON ACT 2601
Tel: 02 6229 1700
Fax: 02 6229 1701
Email: epicorp@epicorp.com.au
www.epicorp.com.au

Divergent Capital Pty Ltd

Mr David Nelson
Managing Director
Suite 304, 15 Lime Street
SYDNEY NSW 2000
Tel: 02 8297 4403
Fax: 02 9290 2766
Email: info@divergent.com.au
www.divergent.com.au

Information City Australia Pty Ltd

Mr Robert Crompton
Executive Director
Level 1, 257 Collins Street
MELBOURNE VIC 8009
Tel: 1300 132 489
Fax: 03 9639 8255
Email: info@informationcity.com
www.informationcity.com.au

Entrepreneurs in Residence Pty Ltd

Mr Greg Riebe
Chief Executive Officer
Suite 4, 1 Sarich Way
Technology Park
BENTLEY WA 6012
Tel: 08 9473 8300
Fax: 08 9355 0282
Email: eir@eir.bz
www.eir.bz

inQbator (Timsco Pty Ltd)

Dr Laurie Hammond
Director
Ground Floor, Building 8
Varsity Central Office Park
173 Varsity Parade
VARSITY LAKES QLD 4227
Tel: 07 5553 6400
Fax: 07 5553 6499
Email: info@inqbator.com.au
www.inqbator.com.au

In-tellinc Pty Ltd

Mr James Robinson
Chief Executive Officer
301 Sandy Bay Road
SANDY BAY TAS 7000
Tel: 03 6226 6180
Fax: 03 6226 6140
Email: mail@in-tellinc.com.au
www.in-tellinc.com.au

Playford Capital Pty Ltd

Ms Amanda Heyworth
Chief Executive Officer
Ground Floor, EDS Centre
108 North Terrace
ADELAIDE SA 5000
Tel: 08 8468 9888
Fax: 08 8212 3809
Email: mail@playford.com.au
www.playford.com.au