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FUND THE CHANGE YOU WANT TO SEE IN THIS WORLD: The Rise of the "Tesla Evangelists"

AUTHOR // JAMES NICKLESS

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Much has been written recently in relation to the potential changes to Australian insolvency laws, among other things, as part of an overall initiative to incentivise innovation. One of the issues commonly discussed is the competing interests of driving innovation and protecting investors.

The purpose of this article is not to analyse the potential legal changes foreshadowed by the innovations statement, but to consider the implications of investor expectations and values in relation to the risks associated with innovation.

INVESTOR EXPECTATIONS

There is a general assumption that all investors are seeking as their primary objective to maximise the return on their investment. While it may be the case that this is true in the overwhelming majority of cases, it may also be that there is a class of investors for whom the achievement of certain tangible or intangible objectives takes precedence over maximising returns.

For these investors, one of the key issues will be the effective communication of the company's goals and objective as well as full and frank disclosure of the potentially heightened risks of investing in innovative startups.

For investors whose primary purpose is to be a part of achieving some type of change in the world, the risks of little or no return on investment in the short term may not dissuade them from investing in companies whose cause they truly believe in.

ALIGNMENT OF PURPOSE

In order for the aims of the innovations statement to be effectively achieved, investors and entrepreneurs will need to be in alignment as to the predominate purpose of the company. Alignment of purpose can be particularly powerful.

In his book "Start with Why", Simon Sinek posits that it is a clear understanding between the purpose, or "why" of a great company or an inspirational leader which attracts loyal, like minded employees and customers. If this is true and is the reason why some consumers will queue up for hours to purchase a new smart phone or wait months to take delivery of a prestige motor vehicle, then perhaps this power can be utilised to attract diehard fans as investors for innovative startup companies.

With much of the literature in the field of entrepreneurship citing as some of the key factors in entrepreneurship and innovation things like willingness to take risks as well as the ability to recover from and learn from failure, it is essential that the investment environment for innovative startups embraces and supports these concepts.

Investors whose primary focus is to be involved in the development of an effective treatment for a particular

Queensland
Level 7, 300 Queen Street
Brisbane QLD 4000
Australia

T // + 61 7 3001 9222
F // + 61 7 3001 9299
E // ck@clarkekann.com.au

New South Wales
Level 4, 9 Castlereagh Street
Sydney NSW 2000
Australia

T // +61 2 8235 1222
F // +61 2 8235 1299
E // ck@clarkekann.com.au

disease or the establishment of a dependable network of charging stations for electronic vehicles may feel differently about the financial performance of their investment if measurable progress towards the primary purpose is being achieved and effectively communicated to them.

CHANGING ATTITUDES

Within the context of an uncertain global economic outlook and anticipated market volatility, it is likely that any changes implemented by the Federal Government in furtherance of the aims of the innovations statement will be met with equal parts excitement and scepticism.

Given the importance of investor sentiment and confidence for the performance of markets generally, incentivising innovation cannot be expected to be effective merely by implementing legal reform.

Another key factor in the success of any incentives for innovation will be the changing of attitudes surrounding failure and iteration (and the risks associated with them) as being highly prevalent, perhaps even necessary, in innovative enterprises.

Perhaps disclosure statements could take some instruction from the famous advertisement of Ernest Shackleton, who was seeking adventurers to join his "Endurance" expedition:

> *"Men wanted for hazardous journey. Low wages, bitter cold, long hours of complete darkness. Safe return doubtful. Honour and recognition in event of success."*

Whilst the practical and legal effect of the failure on an innovative enterprise may well be the same, the way the investors feel about the failure may be significantly different if the investment was presented to them in the following way:

> *"Investors wanted for ambitious and hazardous new enterprise which is dedicated to changing the world by…[insert worthy cause of choice]. Low to no initial returns, no promise of returns in the medium term future and safe return of capital doubtful. Honour, recognition and sharing in the pursuit of the [insert world changing cause] in the event of success."*

While the above example is somewhat hyperbolic, the recent real life example of the enormous presales for the Tesla Model 3 (reportedly $10 billion worth of presales in 2 days) demonstrates the willingness of Tesla's customers to finance its operations for no return other than the ability to purchase an innovative motor vehicle which was yet to go into production and would not be available for over a year. The power of this "Tesla evangelism" is immense and provides an alternative funding model for companies that can connect with customers who share their "why".

The obvious parallel to draw here is that of Dick Smith's customers who were left wondering if their gift vouchers would amount to anything more than a place in the unsecured creditor's line. If Tesla were to fail, then its customers would be in the same position.

Yet, hundreds of thousands of people around the world made preorders and paid deposits which would enable Tesla to build its Model 3 without taking on further debt or relinquishing equity.

It is ultimately the role of the Legislature and Regulators to strike the balance between consumer/investor protection and innovation. However, the way in which the changes are accepted by Australian investors will be largely affected by their perception of risk and failure in the face of the desire to innovate.

FOR MORE INFORMATION, PLEASE CONTACT:

JAMES NICKLESS //
Partner

T 61 7 3001 9237

E j.nickless@clarkekann.com.au