

3.4 OMEO TECHNOLOGY

PGF Application		For: Approval	
Applicant:	Omeo Technology Limited (previously known as Ogo Technology Limited – and referred to here as ‘the Omeo group’)	Pipedrive ID #	Commercial Information
Entity Type:	Company	PGF Funding Sought:	\$ Commercial Information
Region	Wellington (Kāpiti- Ōtaki)	Total Project Value:	\$ Commercial Information (approx.)
Tier:	1 - Regional	Co-contribution rate:	Commercial (approx.)
Sector:	Manufacturing	Funding Structure:	Loan Commercial Information

We recommend that the IAP:

- a) **Support** the PDU’s recommendation to approve \$ Commercial Information in PGF funding towards the cost of bringing the Applicant’s various operations (currently spread around the wider Wellington region), into one Centre, encompassing engineering workshop, assembly plant, and offices, plus land for product testing, all located in Ōtaki. This would include leasing suitable premises adjacent to their current office premises and fitting it out.
- b) **Note** that approval of the loan would be subject to the following (as Conditions Precedent to any drawdown of PGF loan funding):
- confirmation of advice from Ministry of Foreign Affairs and Trade that the proposed loan from the PGF does not raise any concerns under New Zealand’s obligations under relevant Free Trade Agreements and/or the World Trade Organisation;
 - securing suitable premises in Ōtaki, with an acceptable Lease executed;
 - change of control provision;
 - Commercial Information
 - Commercial Information
 - evidence of patents/trademarks registered as necessary, and included under GSAs; and
 - satisfactory evidence of contracts with Commercial Information and other major input suppliers/customers (incl. Commercial Information)).
- c) **Note** the Omeo Group has recently undertaken two separate capital raising processes, which has resulted in approximately \$ Commercial Information in capital being received from local shareholders.

Proposal:

- The Omeo group is seeking \$ Commercial Information in PGF loan funding to assist with a growth strategy to meet anticipated sales demand both in New Zealand and overseas markets.
- The Omeo group’s growth plan involves:

- on-boarding approximately [redacted] new local Ōtaki based employees via direct and sub-contracting arrangements;
- acquisition of new manufacturing/ plant equipment; and
- re-locating assembly operations to a fit for purpose industrial premises in Ōtaki along with the associated fit-out.
- The Omeo has been designed and developed over a number of years by Ōtaki resident, Kevin Halsall, with the goal of providing mobility assistance to a wheelchair bound personal friend.
- The Omeo is based on the [redacted] platform (see Conditions relating to supply contract).
- Although there are other personal mobility devices in the market, the Omeo's point of difference is the utilisation of a patented hands free [redacted] technology to operate the device (joystick mode is also available to control the Omeo).
- A 3 hour training package is provided as part of the sales process.
- Existing users of the Omeo have received funding from the likes of [redacted] in New Zealand (already paid out on [redacted]; another order has been received; and a further [redacted] quotes or trials have been requested) and the [redacted], on the back of referrals from occupational therapists.
- Omeo group has sold [redacted] devices in the 11 month to 28 February 2019 and participant sales of [redacted] units for the year ending 31 March 2019 – being its first year of commercial operations.
- Funding assistance is needed to scale up assembly operations to meet anticipated demand for the Omeo which is forecast to grow to [redacted] units sold in the year to 31 March 2020.
- The Omeo has received considerable media coverage, with recent articles appearing in national newspapers, an episode of Seven Sharp on TVNZ, and exposure via social media such as Facebook.
- A short video clip of the Omeo can be viewed at the following link: <https://www.youtube.com/watch?v=E8gQjZM-eWU&feature=youtu.be>

Figure:



Assessment against the PGF criteria:

Eligibility Criteria

[redacted] new jobs are expected to be created as part of the growth plan in a relatively deprived part of the Kāpiti region, Ōtaki. These will be a mixture of specific professional roles (sales and marketing, engineering and finance) employed directly by the Omeo group, with the balance involving the creation of a number of semi-skilled assembly type roles through a sub-contractual arrangement with [redacted]. Ōtaki locals will be targeted for the new employment opportunities that are created.

Funding will enable the Applicant to accelerate its growth plans and meet expected demand for the Omeo.

Productivity Potential

The patented ^{Commercial Information} technology is seen as the point of difference from other devices in the market, with patents registered in ^{Com} jurisdictions and ^{Commer} sales agents appointed in NZ, Australia, USA, Canada, the EU and UK.

The Omeo group is targeting total sales of ^{Comme} units in FY19/20, (being the company's first year of commercial operation).

There is a need to scale up its operation (break even profitability estimated at circa ^{Commerci} units per year @ ^{Commerical Informat} per unit = ^{Commercial Information} in sales revenue).

The Omeo group estimates that demand could potentially reach as much as ^{Commercial Info} units per annum, but more conservative forecasts are \$ ^{Commercial Information} in sales for year 1 (^{Commercia} units sold), \$ ^{Commercial informa} in year 2 and \$ ^{Commercial Information} in year 3.

The Omeo group's ability to meet the anticipated sales demand and realise economies of scale (and associated efficiencies) is currently constrained by a lack of access to capital to scale up its operations. These estimates are based on customer enquiries following recent media exposure.

The Omeo group has established subsidiaries in both Australia and the United States which are seen as key markets. Commission based sales agents have also been appointed in other markets including Europe and Asia.

Current operations are spread across the wider lower North Island region and there are constraints on their ability to expand under the current arrangements, and there is a reliance on part time contractors to cover a number of tasks which increasingly require full time equivalents. In this regard, the Omeo group is seeking to on-board new full time professional marketing and operations management personnel along with administrative personnel.

In addition, a key supplier, ^{Commerc}, a company specialising in manufacture of industrial applications and assembly (ISO accredited), is based in ^{Commercial Informatio}, but has limited capacity to expand its operations for the Omeo from its current location.

Omeo is working with ^{Commerc} to create a new manufacturing assembly line from better, fit for purpose, leased premises located in Ōtaki resulting in the creation of upwards of ^{Commerc} new assembly related jobs in Ōtaki via the sub-contracting arrangement with ^{Commerc}. The new jobs are not expected to any result consequential job losses at ^{Commercial Information} operation.

Further operational efficiencies are expected to drive the price per Omeo unit down by as much as ^{Commercia} (to \$ ^{Commercial Informa}) and improve the attractiveness of the Omeo to potential customers, whilst retaining current margins. In this regard, discussions are ongoing with ^{Commercial Informa} which provides base device infrastructure, with a view to obtaining potential input cost reductions.

Policy objectives and regional priorities

The main area of alignment is that funding will enable the applicant to scale up its operations resulting in ^{Comme} new jobs in Ōtaki, which is an area on the Kāpiti Coast, which is generally recognised as having higher levels of deprivation/unemployment than other parts of the region.

The new jobs will be a mixture of full time professional office based roles with the Omeo group itself and semi-skilled manufacturing roles via a sub-contractor arrangement with ^{Commerc}. This aligns with regional priorities for Kāpiti and the PGF criteria.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> Expected to deliver ^{Commer} new jobs in Ōtaki alongside ^{Commer} existing employees. Jobs are likely to be semi-skilled (assembly related roles) to skilled (operations, marketing and administrative related) roles. These been assessed by SWEF as having the potential for ongoing upskilling opportunities including electrical apprenticeships in Ōtaki. 	✓✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> The project is essentially a start-up which is looking for capital to scale up its operations so that it can operate as a commercial venture and realise its potential. The prototype Omeo was developed on the Kāpiti Coast by Ōtaki local, Kevin Halsall, who remains committed to the business as the majority shareholder and de facto chief innovation officer. This provides good exposure to the region and Ōtaki in particular. There appears to be a strong commitment from Omeo group management to scale up operations from an Ōtaki base and using suppliers based in the Kāpiti, Horowhenua and Manuwatu region. The funding will create new employment opportunities for an area of the Kāpiti region which has a disproportionately high level of unemployment (approximately ^{Comm} %). Adds diversity into the make-up of the local Ōtaki economy which is predominantly horticulture based. The application has been assessed against Te Ara Mahi criteria with the assessment being that offers opportunities for increases in skills. Testimonials have been provided by users of the Omeo about the 'life changing' improvements that the Omeo has provided to them. 	✓✓✓✓
Increased utilisation and returns of Māori asset base	<ul style="list-style-type: none"> Unclear – although Māori do make up a higher than average proportion of the Ōtaki community and therefore could be a beneficiary in terms of new employment opportunities. 	✓✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> N/A 	

Mitigation of climate change effects	<ul style="list-style-type: none"> • Limited – battery powered mobility has the potential to reduce reliance on conventional carbon emitting transportation devices. 	✓✓
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> • The applicant has spent over 6 years developing the prototype Omeo and the <small>Commercial Information</small> technology from its base in Ōtaki, with patents gained in 9 countries. • It has subsequently sold over <small>Comm</small> Omeo devices in its first year of commercial operation, both in New Zealand and internationally without really driving for sales targets. • Funding is required to take the applicant beyond the start-up phase and meet with anticipated demand for sales of the device in New Zealand and internationally. 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> • Creation of new semi-skilled to skilled jobs in Ōtaki which is a small community with limited opportunities. • Ongoing continuous improvement including development of the technology to eliminate reliance on <small>Commercial Informati</small> based technology and potentially create further high skilled jobs. • Some evidence of demand has been provided in the form of favourable referrals from occupational therapists to funding organisations such as <small>Commercial Informati</small> <small>Commercial Informati</small>. These referrals provide an independent assessment of the Omeo device in comparison to other similar products. 	✓✓✓
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> • Aligns with the future vision of ‘toitū Kāpiti’ which is the Kāpiti District Council’s strategic plan seeking to provide for a vibrant and thriving Kāpiti, while also incorporating an aspiration for strong, safe communities . • Ōtaki is one of the more disadvantaged communities on the Kāpiti Coast, with higher than average unemployment 	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> • Kapiti District Council – letter from the Mayor is fully supportive and indicating alignment with council objectives (toitū Kāpiti) 	✓✓✓

Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> The Omeo group has established experienced local business people on its Board to assist with getting the project up and running. It is expected that both a marketing manager and an operations manager will be appointed to work with the developer and the CEO. 	
Risk management approach	<ul style="list-style-type: none"> Identified a number of risks as noted below. The risk has been assessed as medium following application of mitigations. These include: <ul style="list-style-type: none"> Product failure – input supplier warranties (e.g. ^{Commercial Information} , monitoring systems Competition – ^{Commercial Information} device is unique, build up brand reputation Sales and Revenue lower than forecast – relatively achievable break even at ^{Commerc} units per annum Litigation risk – insurance Insufficient capital/competition Supplier failure – establish good relationships Compliance – achieved in most target markets Personnel – rigorous processes and targeting experienced personnel, noting that some of the higher skilled roles may need to be sourced from outside of Otaki (e.g., engineering specialist) Lithium batteries – dangerous goods Intellectual Property – registered patents in nine jurisdictions. Trademarked ‘Omeo’ 	
Future ownership / operational management	<ul style="list-style-type: none"> Existing shareholders/management are expected to continue to own, operate and manage the business. <p>^{Commercial Information}</p>	

Analysis of the benefits and costs

- Based on testimonials from existing users, the Omeo provides considerable lifestyle improvements for people who are reliant on wheelchairs for mobility by enabling greater freedom to access previously inaccessible places. The Omeo also has the potential to be used in other situations, such as film making and sporting coverage.
- There is a need to scale up to sales of ^{Commercial} units per year to break even (@ \$NZ ^{Commercial Inform} per unit = ^{Commercial Information} in sales revenue). The ability to achieve this is dependent on having sufficient working capital in the early stages of scaling up operations. Delays will potentially result in an opportunity cost as competitors look to develop alternative devices.
- Estimates that demand could reach as much as ^{Commercial In} units per annum but forecasts are ^{Commercial Information} in sales

for year 1 (FY20) and [Commercial Information] in year 2.

- The current inputs and processes used in the manufacture of the Omeo are of piecemeal nature and are reliant on third party contractors.
- In particular, a key supplier, [Commercial Information] and has limited capacity to meet the expected increase in demand for the Omeo from its current premises.
- The development plan seeks to reduce reliance on third party contractor inputs and provide for increased operational efficiencies by relocating operations to a fit for purpose building in Ōtaki and on-boarding and training permanent employees for the benefit of Ōtaki.

Financial Analysis

- Omeo Technology Ltd is [Commercial Information] % owned by Omeo Group Ltd (previously Ogo Holdings Ltd). The Applicant has confirmed that the borrower will be the parent, Omeo Group Limited.
- Over [Commercial Information] of the share capital in Omeo Group is owned by the Halsall Family Trust is connected to the company founders – Kevin and Kay Halsall.
- Funding of operations in Omeo Technology appears to have been by way of cash injection from Omeo Group (liability of [Commercial Information]).
- There is no bank debt - although BNZ has provided an overdraft facility of [Commercial Information], which is secured by a General Security Agreement.
- [Commercial Information]
- [Commercial Information]
- The Omeo group has raised approximately [Commercial Information] from 2 capital raising processes in April – July 2018 ([Commercial Information] -including \$ [Commercial Information]) and in December 2018 to March 2019 [Commercial Information] – including [Commercial Information] in Convertible Loans).
- Given the cost per unit, there is a reliance on third party funding for the devices from disability funding insurers like ACC in NZ and the equivalents in Australia, US, and parts of Europe. Use of media is a key strategy to increasing product awareness in target markets.

Funding Arrangements

\$ [Commercial Information] in loan funding is sought for a [Commercial Information] to accelerate the Omeo group’s growth plan.

Cost Description: \$ (excluding GST)

- Lease [Commercial Information] p.a.
- Equipment; Engineering Shop, Assembly operations
- Office Fit Out / Equipment; R & D Centre
- Supply chain investment & personnel required to accelerate growth.
- Develop new versions, product, accessories, base unit

\$ [Commercial Information]
 \$ [Commercial Information]
 \$ [Commercial Information]
 \$ [Commercial Information]
 \$ [Commercial Information]
 \$ [Commercial Information]

Total

The above cost descriptions will be subject to continued evaluation and refinement with Omeo Group to get further granularity and accuracy.

Due Diligence and Ownership

No issues were found.

The due diligence report profiles the directors – in particular Greg Ball who is executive director of the Property Group and the CEO, Stuart Ayers [Commercial Information] Privacy of natural persons [Commercial Information]

Privacy of natural persons

Shareholders:

Shareholder	%
Omeo Group Limited (which has 22 shareholders owning <small>Commercial Information</small> shares, with the majority shareholder being Halsall Family Trust with <small>Commercial Informal</small> shares (<small>Commercial Info</small> %))	100%

Directors:

- Greg Ball,
- Kay Halsall,
- Kevin Halsall,
- John Parker, and
- Stuart Ayers (CEO).

Key Management Personnel:

- Stuart Ayers - CEO

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Ongoing viability	Sales and Revenue projections are not realistic	<ul style="list-style-type: none"> • Obtain forward sales order information/ enquiries 	M
Regulatory	Potential Regulatory hurdles (e.g. Lime Scooter Health & Safety issues)	<ul style="list-style-type: none"> • Working with NZTA • 3 hour training package is provided as part of the sales process 	L
People	Personnel – attracting people with appropriate skills and experience. Reliance on sub contractual arrangements with <small>Commerc</small> / supply arrangements with <small>Commercial Informal</small>	<ul style="list-style-type: none"> • Work closely with suppliers who will benefit from increased sales and expansion 	L

Consultation undertaken or implications:

Supporting proposal:

Yes

Appendices:

Yes – Applications and supporting letters are as annexes

Author of paper:

Matt Chisnall, Investment Analyst