AFR FAST GLOBAL

Tech start-ups defy slowdown to tap jump in demand

Digital growth Diversification into international regions has seen two Australian companies move into positions of strength, writes Agnes King.

Espresso Displays co-founder Will Scuderi has two pieces of advice for aspiring entrepreneurs: ignore naysayers and don't be afraid to swim against the tide.

"Australia is well positioned to build hardware, but everyone told us it didn't make sense," Scuderi says.

"They said it's not going to work, you're competing against Dell, Apple, Lenovo. But every signal we saw said yes," he says.

Espresso manufactures premium portable monitors that workers can connect to their laptop, tablet or PC to get a second screen at their desk or on the road.

The portable monitor manufacturer's overseas sales surged more than fivefold to $5 million in the six months to June 30 last year on the back of the booming work-from-anywhere trend.

Australia's superior design and engineering talent, along with its proximity to Asia's manufacturing base and growing consumer market, has served the technology start-up well.

Headcount has climbed to 30 and it has secured the patronage of tech billionaire Richard White as an angel and seed investor.

Sales remain steady despite a slowdown in consumer spending last year.

Scuderi says Espresso, which sells 70 per cent of its products in the US, is classified by consumers as a "must-have" productivity tool rather than a "nice-to-have", giving it a level of insulation as individuals and businesses cut back on discretionary spend.

However, he concedes that the cost of acquiring new customers has risen in recent months as competition for digital advertising heats up. The price of search engine keywords has skyrocketed.

Meanwhile, insurance technology start-up POP International Holdings is sailing through its second slowdown since launching five years ago.

Global mergers and acquisitions were running hot when POP, which sells M&A insurance for transactions under $US100 million ($154 million) in enterprise value, launched in 2018. Activity ground to a halt in 2020 when COVID-19 hit.

Co-founder David Rogers says regional diversification allowed the company to maintain "modest growth" through the dry spell. When one region shut down, another was still transacting.

Pent-up post-COVID demand drove the insurtech start-up's international sales up 333 per cent, to $12.5 million, for the 12 months to June 30 last year. It contributed nearly half of total group revenue.

This period was one of the hottest transaction markets that Rogers and POP co-founder Killian McDermott have witnessed in their combined half a century working in the insurance game.

"It was like opening the floodgates from mid-2021 to the third quarter of 2022. The market didn't have enough underwriters to deal with the volume," McDermott says.

Transaction activity is once again experiencing a lull due to high inflation, rising interest rates, the trade wars between China and the US, and ongoing conflict between Russia and Ukraine.

McDermott says there are signs of recovery. But he expects it will take until the first quarter next year for M&A activity to return to normal. The key is alignment between buyers and sellers around valuations.

"We're seeing signs of a recovery, especially in healthcare, renewable energy and sustainable investments," McDermott says.

"It takes time for sellers to realise and accept what the new market conditions are," he says.

"There is still a record level of dry powder sitting within balance sheets, private equity in particular, and corporations still holding a lot of cash. We're hearing from our contacts in the ecosystem that private equity funds are closer to deploying that capital and looking at the SME segment," McDermott says.

POP and Espresso are carefully timing their next rounds of fundraising.

POP, which bootstrapped operations until selling a minority stake to New Zealand and private equity fund Direct Capital last December, wants to diversify into more product lines over the next 12 months, including real estate transactions.

Espresso is focused on building up business-to-business sales, which it hopes will constitute 15 to 20 per cent of total sales by this time next year.

While the global pandemic acted as a handbrake on POP's growth plans, it supercharged demand for Espresso's portable screens, which easily convert people's kitchen tables into workspaces.

Espresso was spawned from a university project in 2018. Scuderi and classmate Scott McKeon wanted to prove that workers could be as productive from the local cafe or kitchen table as they could be in an office setting, given the right tools.

Desire for portability was becoming a global trend. US research predicted that by 2028 more than half the US workforce would be freelancers requiring unprecedented levels of flexibility and tools to work from anywhere.

Within 24 hours of posting a discounted prototype with a $300 price tag on Kickstarter's crowdfunding platform, the duo had secured $10,000 worth of pre-sales. By the third day this had risen to $100,000.

Little did they realise that just around the corner was a global pandemic that would cement flexibility into work practices.

Following another round of crowdfunding on Kickstarter and Indiegogo, Espresso had $1 million worth of pre-sales and customers in 35 countries waiting for its product.

While a boon for sales, COVID-19 presented a massive roadblock to standing up its supply chain and securing componentry in Espresso's early days.

Scuderi had been in Shenzhen for two-and-a-half months before Chinese friends told him to put on a mask and go home because "something very serious was happening".

He didn't. Instead, Scuderi spent the next three months holed up in an apartment in the electronics capital of the world while McKeon and the company's other co-founders Fabian Maritato and Gary Caldarola continued to work on the product in Australia.

"There's a reason most hardware start-ups fail: hardware is hard," Scuderi says.

"Building a product is supremely difficult and building a product in a global pandemic was unchartered territory," he says.

Espresso's Will Scuderi.

Scuderi says China is a tough place to do business but far from impossible.

"We had to visit four different police stations to get our identity confirmed to get set up on WeChat Pay," he says. "No one speaks English and those that do aren't going out of their way to help you. You have to hustle your way through China but that doesn't mean you can't be successful there."

Espresso has since shifted its manufacturing operations from China to Malaysia.

At the same time, geopolitical tensions are providing an unexpected windfall for POP.

Roger says the trend towards "friend-shoring" – where companies are encouraged to invest in friendly geopolitical countries – is driving growth.

"Our global infrastructure is well placed for these types of cross border transactions where you have, for example, a US seller of a German target company and a Japanese buyer," Rogers says.

POP's secret to cracking global markets is supporting experienced boots on the ground with a global infrastructure.

"We hire local teams, people that are already embedded in the ecosystem," Rogers says.

He concedes that this means paying at the upper end of the spectrum for talent.

But it has paid off. POP was writing policies in Hong Kong, Singapore, Japan, Korea and India on behalf of insurance giant Allianz within six months of hanging its shingle. It entered the US during COVID in 2020, and the UK and Europe earlier this year. AFR

2023 AFR Fast Global

Top 50 finalists

	Company name	CAGR FY20-FY22 (%)
1	Telix Pharmaceuticals	453.9
2	POP Holdings	267.9
3	Espresso Displays	254.6
4	Body Fit Training (BFT)	240.5
5	Avance Clinical	222.3
6	RMA Global*	184.0
7	One Stop Warehouse	182.3
8	Custom Neon	157.1
9	Fluent Commerce	140.8
10	Nexba	129.6
11	Heaps Good Services/SolarReviews	114.7
12	Truescope	110.8
13	Evolt IOH	98.9
14	DroneShield	97.5
15	Roller	97.3
16	Camplify Holdings*	96.5
17	Jcurve Solutions	87.8
18	Solbari	82.1
19	Vitex Pharmaceuticals	76.1
20	Netlinkz Limited	75.6
21	Association of Professional Builders	73.4
22	Spacer Technologies	69.9
23	Gold Star International	66.6
24	Cizzy Bridal Australia	63.6
25	Xref	63.5
26	Hydralyte International	63.2
27	Satellite Office	60.7
28	Coronado Global Resources	58.3
29	Secure Code Warrior	54.4
30	TechnologyOne	52.8
31	Green Light Worldwide	50.1
32	REDARC Electronics	50.1
33	Quad Lock	46.2
34	Adaptovate	43.8
35	Skyfii	42.9
36	Megaport**	42.7
37	PolyNovo	39.2
38	Pureprofile	38.1
39	Studiosity	33.7
40	Vegepod	32.2
41	EZZ Life Science Holdings	30.8
42	Probe CX	27.9
43	Roccoco Cosmetics	22.8
44	IDP Education	19.4
45	UNIFIED Music Group	18.7
46	Micro-X	18.4
47	Collins Foods	18.0
48	Hancock Prospecting	17.9
49	Frosty Boy Australia	17.7
50	Michael Hill International	14.0

CAGR: Compound annual growth rate
* CAGR calculated using $0.4m as their FY20 revenue
** International revenue is total revenue minus APAC revenue

SOURCE: FINANCIAL REVIEW