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Introduction

Unlisted businesses make up a significant proportion of enterprise in New Zealand and are a major driver of growth in the New Zealand economy. Private equity provides access to this investment opportunity. Yet many investors, including institutional investors, have been reluctant to invest due to the limited transparency on the performance of private equity, as an investment class, in New Zealand. This research seeks to address that by investigating the returns from private equity investment into New Zealand companies over a 18 year period.

The Approach

The survey involved investments into New Zealand companies by professional private equity fund managers from New Zealand and Australia. It does not include unrealised returns and does not look at the performance of individual funds, but provides an evaluation of the aggregated company level returns over the period. These are gross returns from realised investments – or ‘cash on cash’ returns. The returns are before management fees and costs are accounted for. The analysis does not include venture capital investments as there is insufficient information available on returns.

The Survey

Data has been collected for investments made into 92 companies over the past 18 years. This is a comprehensive dataset and covers a wide range of sectors and deal sizes.

The total amount invested into these companies was \$1.36 billion, with an average deal size of \$14.2 million. The median deal size is \$6.1 million, with the largest deal being over \$200 million of equity and the smallest being around \$1 million.

Number of Investments	92
\$ invested	\$1.36b
Number of fund managers	13
Average investment size	\$14.2m

The Results

Prior to this research, the anecdotal evidence was that returns from private equity investment into New Zealand companies have been strong. This research has been able to quantify this thesis and confirms that private equity fund managers have been able to generate consistently good investment returns over a long period of time.

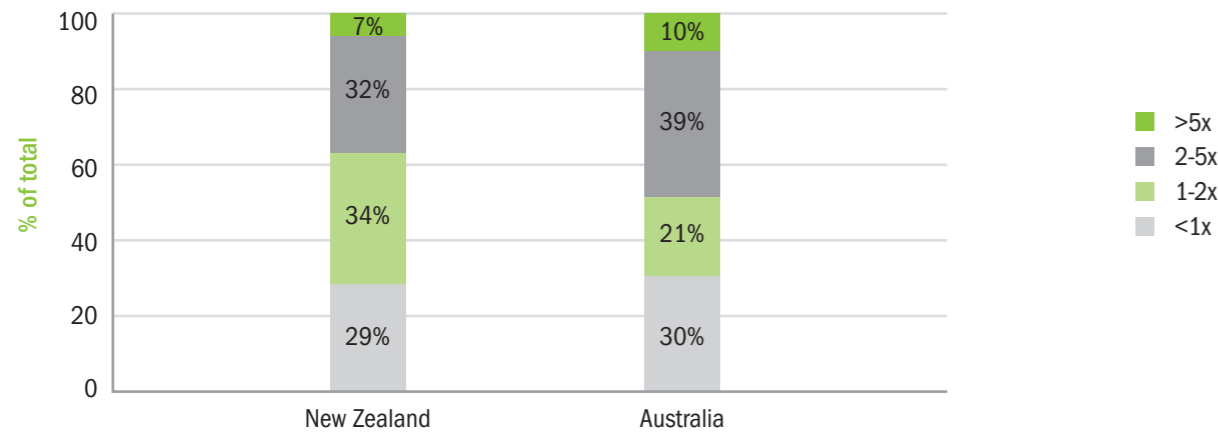
The \$1.36 billion of investment into New Zealand companies has returned \$2.85 billion for investors. This represents a cash on cash multiple of 2.1 times. The average holding period across the dataset was 4.5 years. Table 1 provides a summary of the return metrics:

Table 1 - New Zealand Private equity company returns

Period	Pooled Average	Median	Cash on cash multiple
1994 - 2012	33.7%	22.0%	2.1x

Thirty-nine percent of investments returned better than two times, with 7% better than five times. Fewer than 30% returned less than capital invested. Comparing this with Australian mid-market experience, the only observable difference is there are relatively more deals in 2-5 times band in Australia.

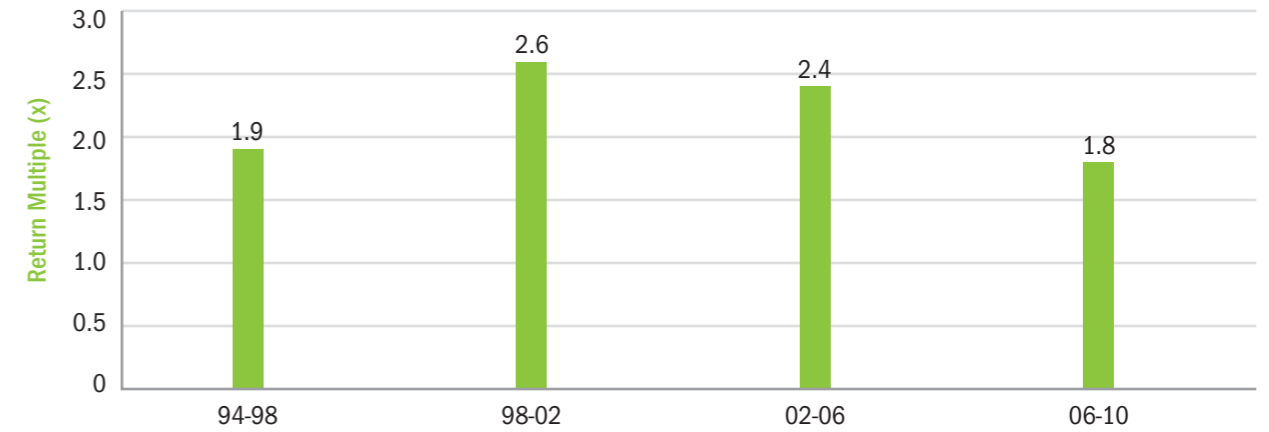
Chart 1 - New Zealand and Australia – return on investment multiple



Time Period Analysis

When looking at the returns achieved by the date they were realised indicates that private equity fund managers have been able to achieve strong returns consistently across time and economic cycles. Not unexpectedly returns were stronger in the 1998-2002 and 2002-2006 periods as this was a time of high liquidity and low interest rates which resulted in strong returns from realised investments.

Chart 2 – Returns by time period (Years)



Focus on Mid-market

Investment activity in New Zealand is largely focussed on the ‘mid-market’ space. For the purposes of this research, ‘mid market’ has been defined as equity investment of less than \$40 million (this has been used in the absence of enterprise value information for each company). The results for this subset are consistent with the findings for the full dataset with a slightly higher pooled IRR and multiple.

- Total deals = 84
- Pooled IRR of 34.1%
- Cash on cash multiple of 2.5 times
- Total investment = \$668m
- Average investment = \$7.5m
- Average holding period = 4.6 years

Conclusions

Investing into private New Zealand companies through professional private equity funds delivers high quality returns which are consistent over time and across economic cycles.

Private equity achieves this through its investment discipline - taking a strict portfolio approach across sectors and consistently over time - together with an active approach to managing investments. This builds profitability in companies and value for investors.