NEW ZEALAND venture INVESTMENT FUND LIMITED

New Zealand Private Equity Returns 1994 - 2010

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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 16 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 74 companies over the past 16 years. This is a comprehensive dataset and covers a wide range of sectors and deal sizes.

The total amount invested into these companies was $675 million, with an average deal size of $9 million. The median deal size is $5 million which points to a size skew in the data, with the largest deal being over $30 million of equity and the smallest being less than $1 million.

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 $675 million of investment into New Zealand companies has returned $1.7 billion for investors. This represents a cash on cash multiple of 2.54 times. The average holding period across the data set was 4 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 - 2010	33.6%	22.0%	2.54x

The difference between the pooled average (which is a dollar weighted return) and the median indicates that there is a positive skew in the returns data. This is not unexpected for private equity investment because good performing companies often generate spectacular returns. If the two largest deals are taken out of the data, then the returns are as follows:

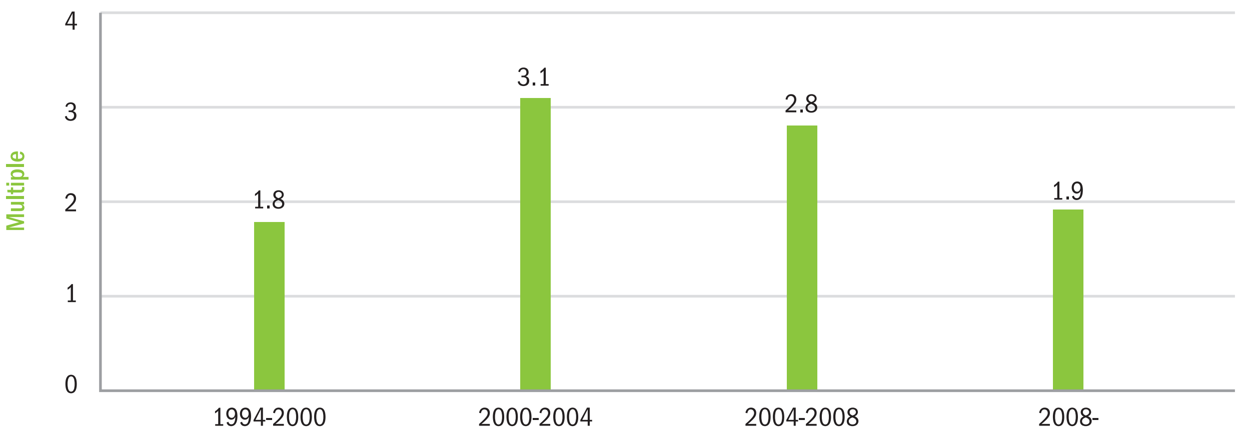
Table 2 - New Zealand Private equity company returns (excl top two)

Period	Pooled Average	Median	Cash on cash multiple
1994 - 2010	26.8%	21.7%	2.13x

Time Period Analysis

When looking at the returns achieved by the date they were exited 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 2000–2004 and 2004–2008 periods as this was a time of high liquidity and low interest rates which resulted in strong exits.

Chart 1 – Returns by time period (Years)

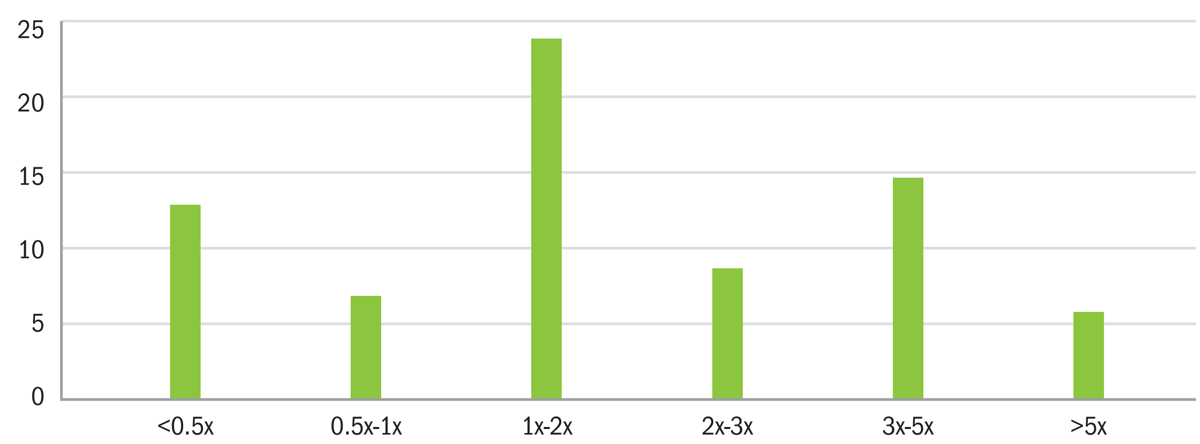


Range of returns

The range of individual exit multiples reaffirms the need to take a portfolio approach. The data set includes a full range of outcomes with:

- 6 investments earning over five times that invested
- 30 earning more than double that invested
- 24 earning between one and two times that invested
- 20 investments earning less than that invested.

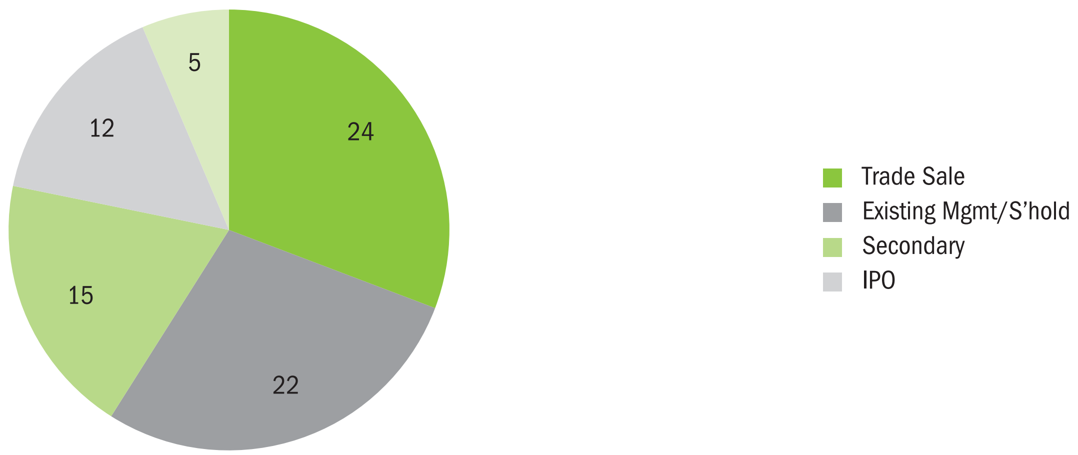
Chart 2 – Range of returns (multiples)



Exit Types

Looking at how the private equity fund managers exited their investments, the data consistent with what has been observed offshore. The sale of companies to a competitor or trade buyers accounts for almost a third of all exits, with sale back to existing management and/or other shareholders in the company not far behind. Secondary sales, where the fund manager sells the company to another private equity firm or financial investor, also remains a common form of exit.

Chart 3 – Exit types



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.

For investors looking to invest into private equity, adopting a portfolio approach across time and fund managers is required to achieve consistent returns. Fund manager selection is the key to successful private equity investment, selecting managers who apply a professional, active approach.

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