

New Zealand Equity Capital Markets

Trends and insights

February 2017



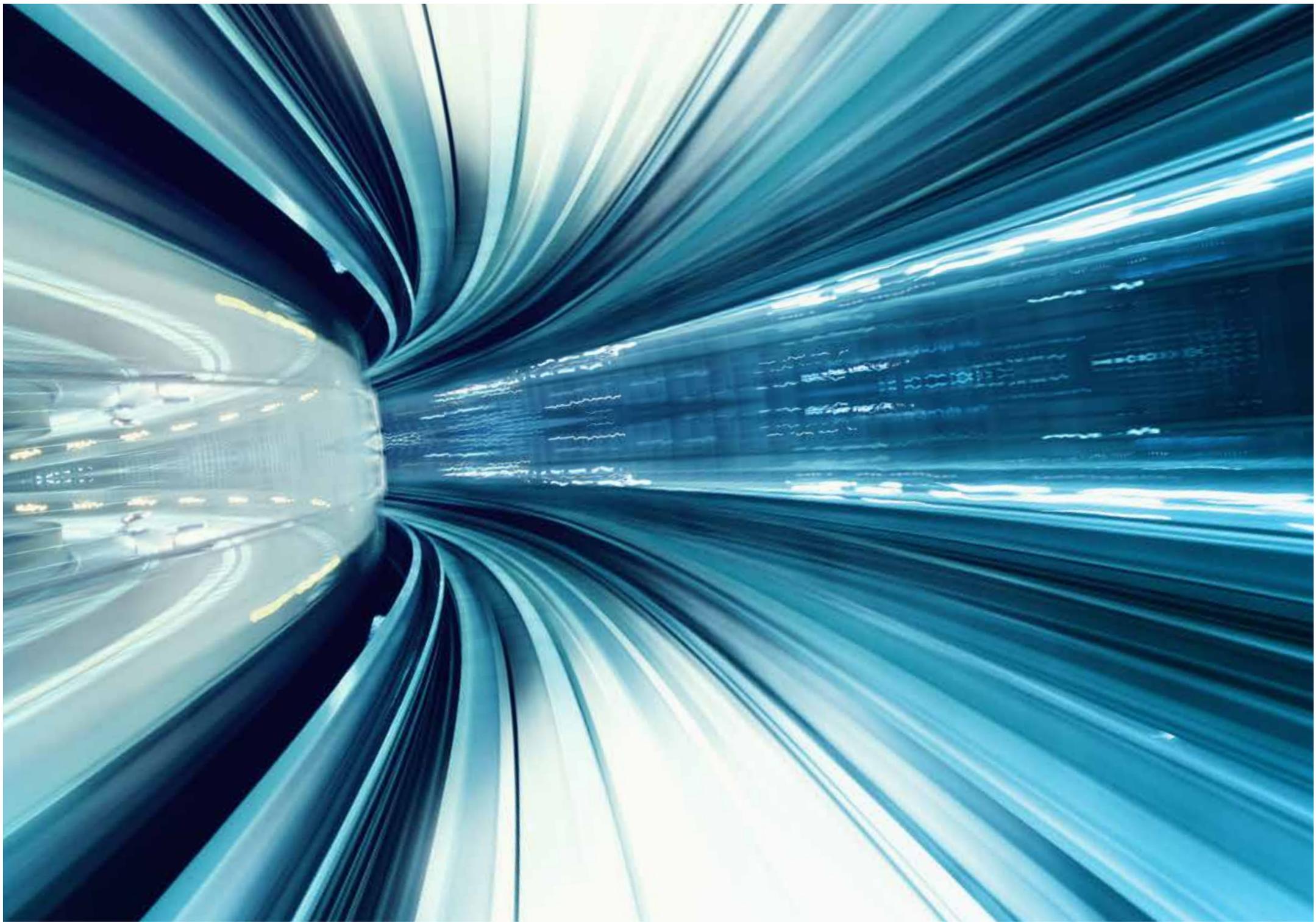
National Law Firm of the Year, New Zealand – 2016 IFLR Asia Awards

Large Law Firm of the Year – 2016 New Zealand Law Awards

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In this publication, we look back at the performance of New Zealand's equity capital markets in 2016 and identify likely trends for the year ahead.

Activity in New Zealand's equity capital markets in 2016 remained consistent with 2015 after giddy growth in 2013 and 2014.

Steady as she goes in 2016

The New Zealand equity capital markets continued to perform reasonably well throughout the year, with the NZX 50 absorbing the Brexit and Trump shock waves to reach a record high in September and finishing 8.8% up on 2015.

But the number of issuers on the NZX Main Board dropped, ending at least five years of expansion. The drop was due largely to delistings as a result of takeovers, combined with a modest number of IPOs.

2017 expected trends at a glance

- A continued decline in the number of NZX Main Board issuers
- IPO outlook in line with the disappointing trend from 2015 and 2016
- Continued innovation in capital raising structures
- Strong secondary capital raising volumes
- NZX and the Financial Markets Authority (FMA) continue to focus on secondary market activity, regulatory change and issuer inquiries.

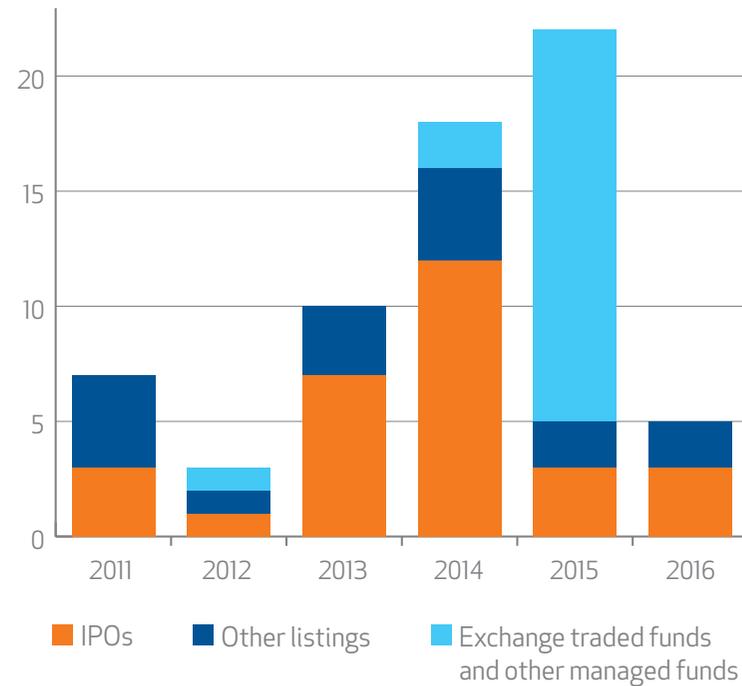
Listings in 2016

Three issuers were added to the NZX Main Board following IPOs: Tegel, Investore Property and New Zealand King Salmon. This was the same number as 2015, indicating, disappointingly, that around three a year may be the “new normal”.

In addition:

- NZME and Tilt Renewables joined the NZX Main Board through compliance listings following their respective demergers from APN and Trustpower, and
- Oceania Natural and Marlborough Wine Estates joined the NXT, NZX’s newest market.

NZX Main Board IPOs and other listings



2016 NZX LISTINGS

3 MAIN BOARD IPOs



2 NXT LISTINGS



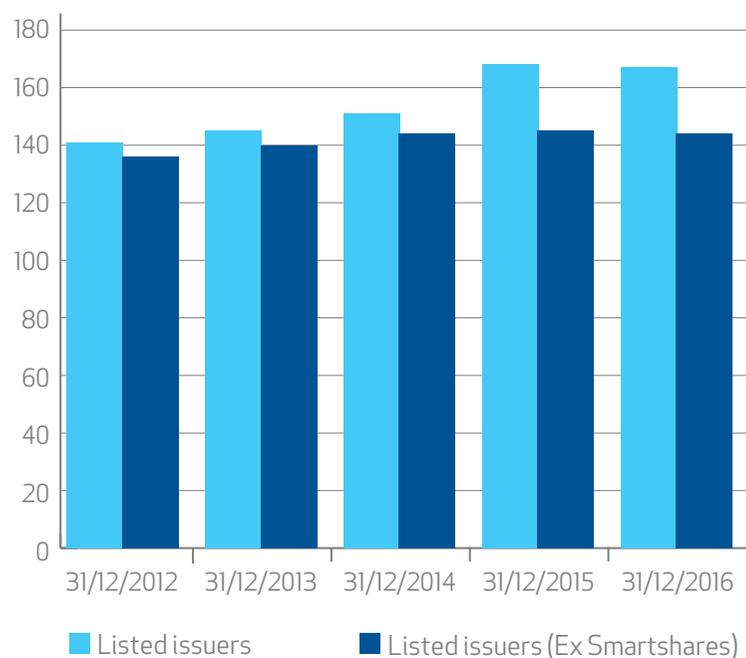
2 COMPLIANCE LISTINGS



A continued decline in NZX Main Board issuers

We expect that the number of NZX Main Board issuers will continue to decline over 2017.

NZX Main Board issuers



Total market capitalisation over the last few years has exceeded the growth in the number of NZX Main Board issuers, reflecting that the market value of the average listed company has increased. This is largely due to strong performance by existing issuers and the listing of three large gentailers through the government's mixed ownership model programme.

Delistings and insolvencies

In 2016, the decline in the number of issuers was primarily driven by delistings following takeovers, including Diligent Corporation, Nuplex Industries, and Wellington Merchants (previously Kirkcaldie & Stains). The three IPOs in 2016 were not sufficient to outweigh these delistings.

2016 also saw several insolvencies on the NZX Main Board. The collapse of one-time stock market darlings, Pumpkin Patch and Wynyard Group, was particularly disappointing and will likely result in them being delisted this year. There has also been media commentary recently on other issuers facing troubling trading conditions ahead so further insolvency events may be on the cards.

This year we may also see further foreign companies delisting on the NZX, but remaining listed on their home exchange, as is APN's stated intention.

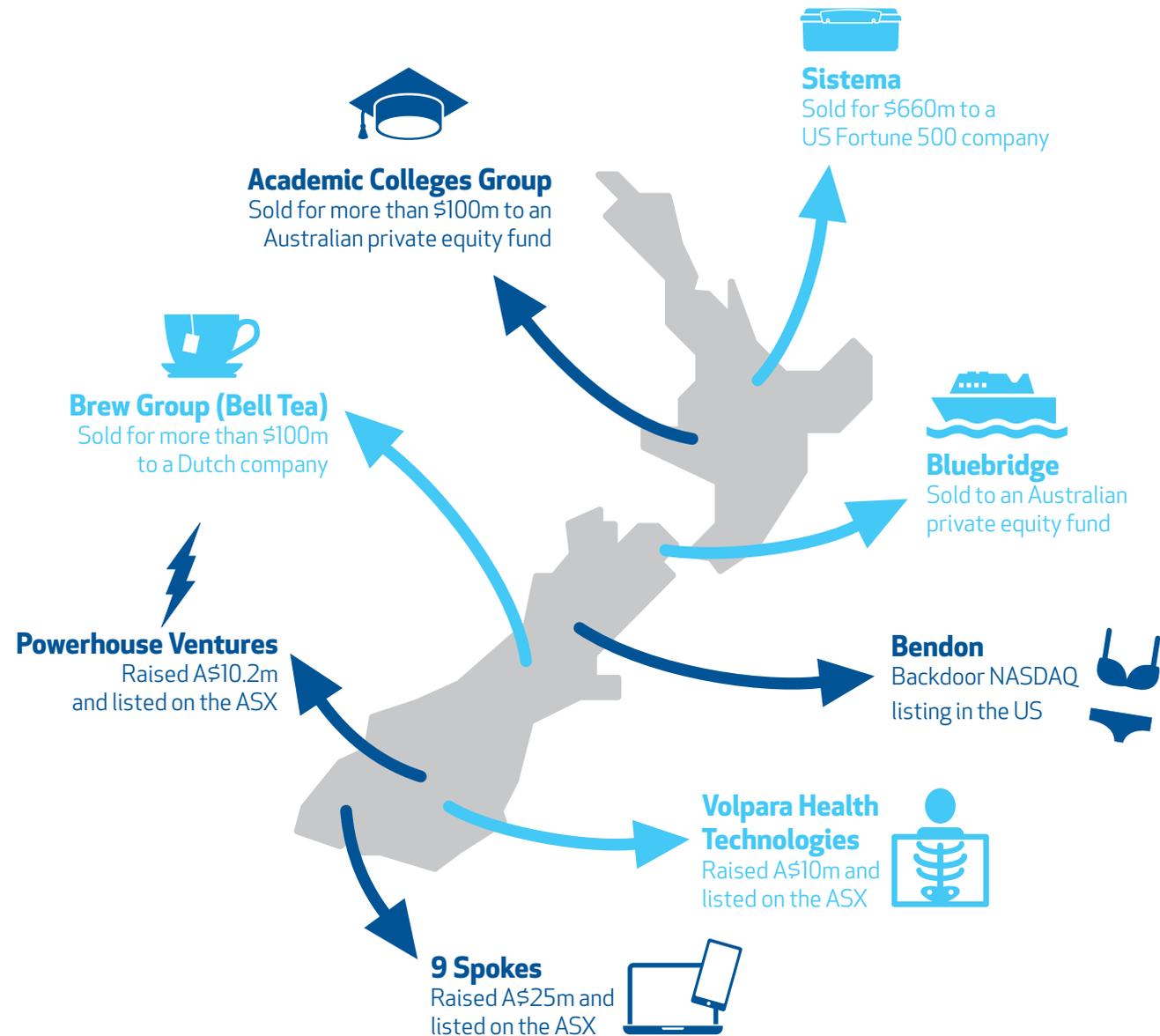
“ The collapse of one-time stock market darlings, Pumpkin Patch and Wynyard Group, was particularly disappointing. ”

Offshore capital raises and trade sales

As a result of trade sales or listings on overseas markets, several New Zealand-based companies which might have listed on the NZX have instead headed offshore. These include Sistema, Bendon, Brew Group, Volpara Health Technologies, 9 Spokes and Powerhouse Ventures.

A number of these offshore listings reflect that smaller companies in more speculative investment sectors, such as technology, may find it easier to raise capital in larger and more sector specialist markets, such as Australia.

At the other end of the scale, it is disappointing not to have larger companies such as Sistema, Bendon and Brew Group (Bell Tea) join the NZX and provide New Zealand retail investors with the opportunity to readily invest in such iconic Kiwi companies.

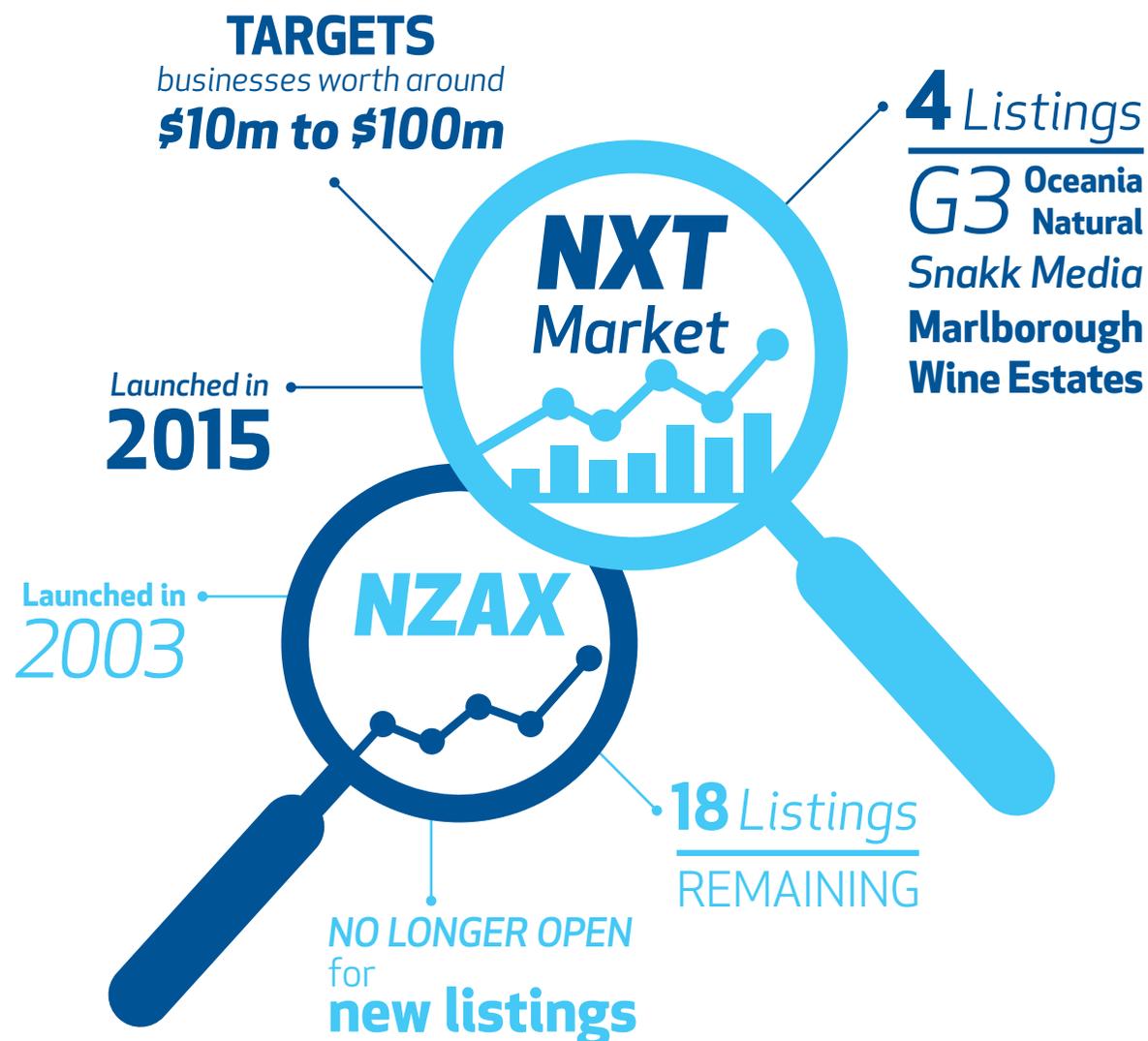


Too many boards?

The “junior” boards operated by the NZX (first the NZAX, and now the NXT) have failed to develop a strong pipeline of new issuers.

These boards have worked well in larger markets, like the FTSE AIM in London, but it may be that New Zealand’s capital markets are just too small to sustain them – especially given the early success in New Zealand of the equity crowd funding model which provides smaller issuers with a way to raise capital from the public without having to list. We expect crowd funding to continue to be a popular avenue for smaller businesses to access capital in 2017, although further reduction in the number of licenced platform operators is also likely. More than \$11m was raised from 17 deals in 2016 by Snowball Effect, the most prominent crowd funding platform. Ten of these were retail/equity crowd funding (\$7.645m), while seven of them were wholesale (\$3.619m).

The impending appointment of a new CEO at the NZX will create an opportunity for the NZX to review whether the New Zealand market can support more than one equities board or whether some consolidation is needed. After all, ASX still only operates a single equities market in the larger Australian capital markets.



IPO outlook disappointingly in line with the “new normal”

In 2017, we are picking the number of IPOs to continue in line with the levels in 2015 and 2016.

The initial effects on the NZX of the Brexit decision and the US presidential election were relatively short-lived. The Trump win, for instance, precipitated a dramatic 3.34% fall in the NZX50 at the close of the day the votes were counted but within two days the market had rallied to finish ahead of its pre-election close. The uncertainty created by each of these events will, however, continue through 2017 and beyond.

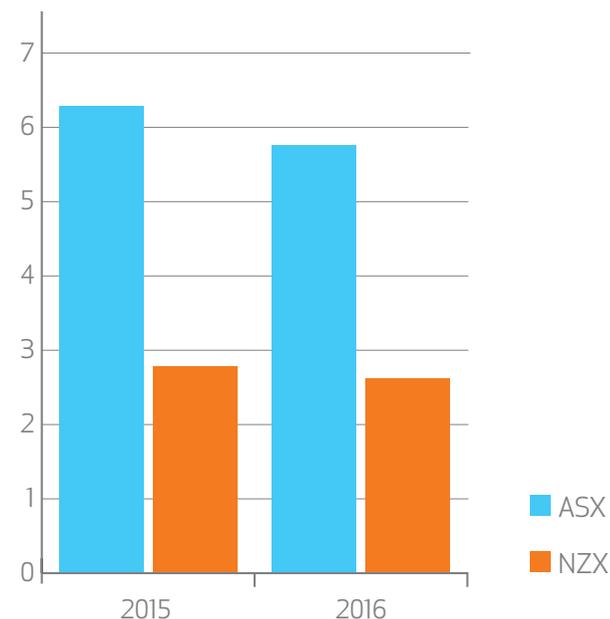
New Zealand also goes to the polls this year, which will increase local market uncertainty especially following John Key’s surprise resignation last year. However, the last general election in 2014 coincided with the busiest year for IPOs in recent memory – although the outcome may be more uncertain than in 2014.

The uncertain local and global political environment and the mixed performance of a number of recent IPOs is likely to dampen investor appetite. A healthy M&A market, which carries lower transaction costs for vendors and greater certainty of a successful exit, is another reason likely to keep listings at a lacklustre level.

After strong years in 2013 and 2014, this is a disappointing trend emerging for New Zealand’s capital markets which are growing at a slower rate than our nearest competitor market, Australia.

Rumoured 2017 IPOs and listings include Hirepool, Oceania Healthcare (a perennial listing candidate), Dairy Farms NZ, the UK’s Arria NLG and Complectus (which came close to listing in 2016, but is tipped to pursue an M&A exit instead).

IPOs per \$100bn of market capitalisation



RUMOURED 2017 IPOs AND LISTINGS



Certainty may be favoured with front end bookbuilds

The political undercurrents, both local and global, may promote a continuing preference for “front end bookbuilds” from potential issuers, as used in the New Zealand King Salmon IPO last year. The attraction of a “front end” bookbuild is that, because it is conducted before any offer document is registered, the issuer will know whether there is sufficient demand to proceed with the IPO.

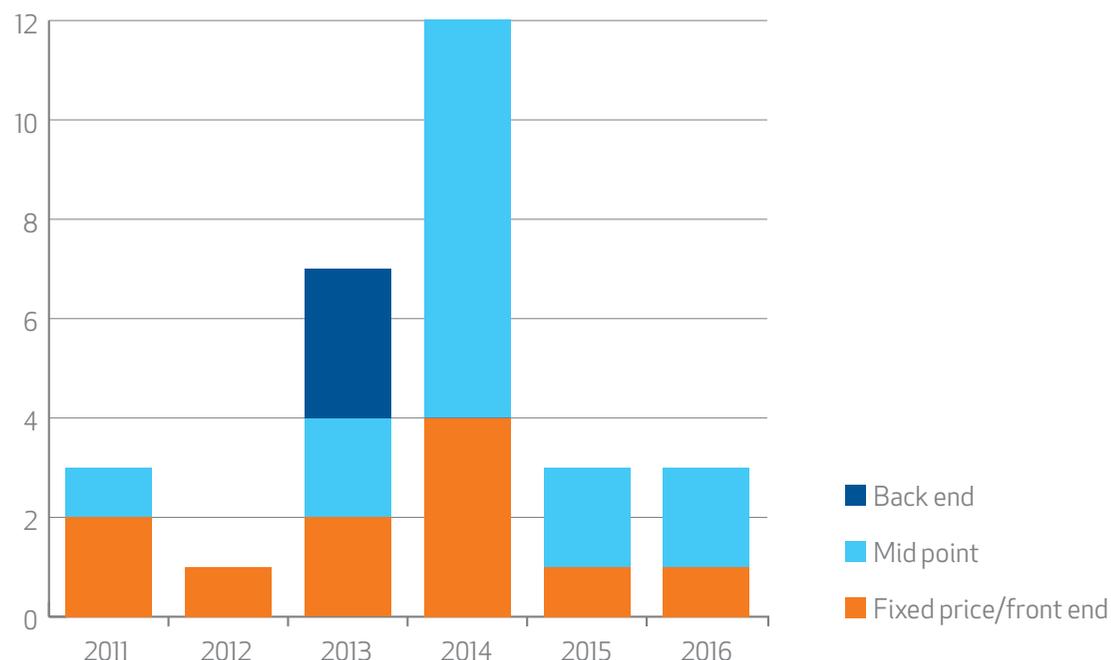
“Front end” bookbuilds also suit “mum-and-dad” retail investors as they know the share price as soon as the offer document is registered, without having to wait for a bookbuild to be completed after registration.

The risk for the issuer is that they may fetch a lower price as participating institutions are required to make binding bids earlier in the process. But, in the current environment, issuers may value certainty above obtaining top dollar for their shares.

What is a bookbuild?

A bookbuild is an auction for shares conducted to determine the pricing of an IPO and to allocate shares to those interested in purchasing them. A bookbuild can be completed prior to registration of the offer document (a “front end” bookbuild), after registration of the offer document but prior to the offer opening (a “mid point” bookbuild), or after the offer has closed (a “back end” bookbuild).

Bookbuild type for NZX Main Board IPOs



“ Front end bookbuilds enable issuers to assess demand before publicly launching an IPO. ”

Continued innovation in capital raising structures

A key trend in 2015 and 2016 was the rising popularity of the Accelerated Rights Entitlement Offer (or “AREO”).

These have been used by Restaurant Brands, Synlait Milk, SkyCity, Kiwi Income Property Group and Precinct Properties.

We expect this will remain a preferred capital raising structure because it can reduce risk for the issuer and the underwriter. We understand the Takeovers Panel has recently approved a class exemption to facilitate AREOs and Chapman Tripp has recommended that NZX grant a class waiver from the current requirement to obtain a suite of technical waivers.

Several similar AREO structures currently used in Australia may also be adopted in New Zealand. These include the “SAREO” (Simultaneous Accelerated Rights Entitlement Offer) and “PAITREO” (Pro rata Accelerated Institutional, Retail Trading Entitlement Offer). In each case, shareholders have a pro rata entitlement to receive shares but the timing for application and/or the pricing for shareholders who do not participate can be adjusted to better reflect the issuer’s particular situation.

The New Zealand Shareholders Association (NZSA) prefers that issuers undertake a pro rata rights offer, over placements and share purchase plans, as this allows all shareholders to participate proportionally and have the opportunity to avoid dilution. The NZSA has noted that where capital is required quickly, the issuer can accelerate the institutional component of the offer, with a follow-up offer to other shareholders on the same or better terms (i.e. an AREO).

The PAITREO structure, a refinement of the AREO structure, has been heralded by some commentators as fair to both institutions and retail investors as it enables retail shareholders to trade in their entitlements without having to wait for a bookbuild, and therefore may be adopted in New Zealand.

What is an AREO?

An AREO is a rights offer under which an entitlement offer is made first to institutional investors before it is opened to retail investors who have a longer period to take up their rights. A bookbuild is held at the end of each component to sell shares not taken up by shareholders, and those shareholders who do not take up their rights receive a premium if the bookbuild clears above the price of the offer.

“ Alternative accelerated rights entitlement offer structures currently used in Australia (such as SAREOs and PAITREOs) may be adopted in New Zealand. ”

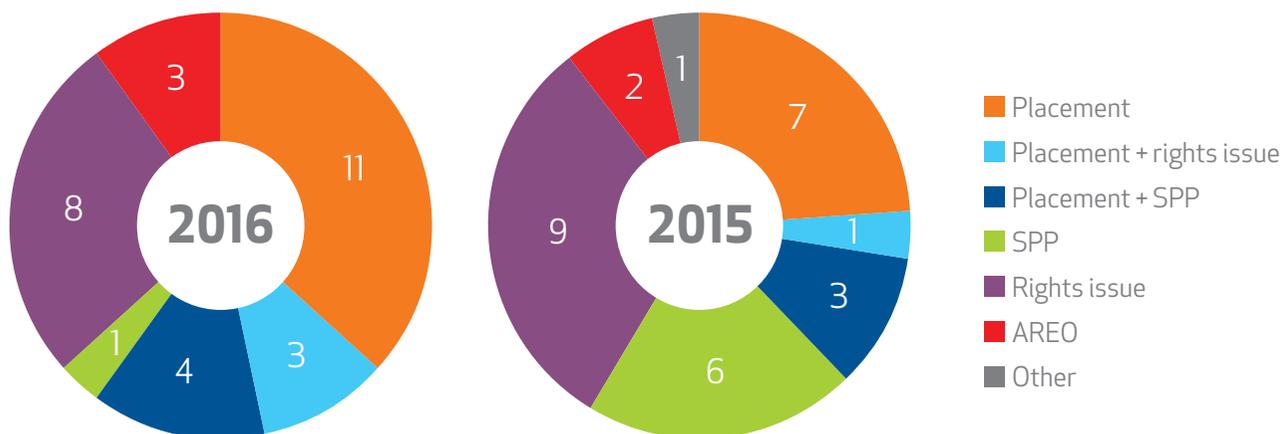
A recent decision from the New South Wales Supreme Court recognised that the AREO structure can have particular benefits for the underwriter, issuer and shareholders, and did not suggest the structure is inappropriate, even though there is a differential treatment of “institutional” and “retail” investors.

As we predicted in our ECM trends publication last year, share purchase plans (SPPs) have continued to decline as a capital raising option. Capital raisings featuring a SPP fell from 31% of all secondary capital raisings in 2015 to 16% in 2016. In contrast, capital raisings including a rights issue (whether an AREO, along a placement or just a vanilla rights issue) rose to 47% from 42%.

Placements continued to feature as a method of raising capital. While the NZSA is not a fan of placements as they do not enable all shareholders to participate, placements can still be a valuable tool for issuers who need to raise capital quickly or who wish to introduce strategic or cornerstone investors to their share register.

As we flagged last year, the expected upcoming NZX Listing Rule review could provide a valuable opportunity for NZX to make rights issues more attractive by shortening minimum offering periods. More widespread use of electronic acceptance facilities means mailing of physical acceptance forms is no longer a limiting factor for offering periods.

Types of secondary capital raisings



Number of secondary capital raises to remain strong

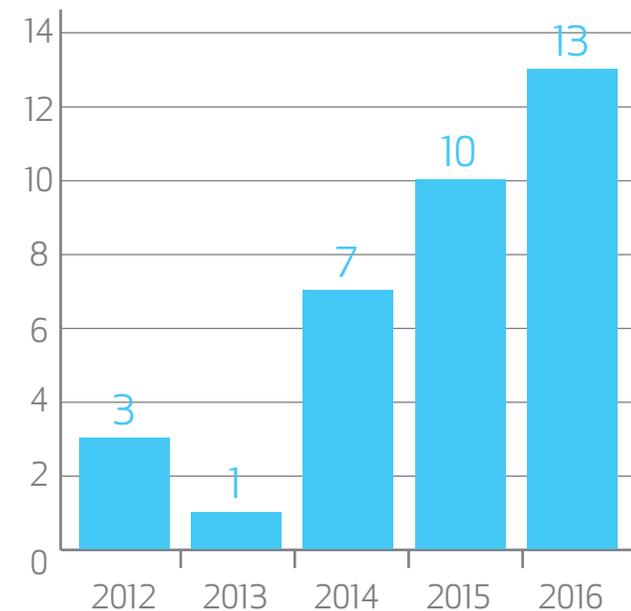
We expect issuers to continue to use secondary capital raises to strengthen their balance sheet and fund acquisitions, given that the market continues to perform well and interest rates are still relatively low.

This should mean the NZX remains an attractive investment option.

Issuers can also more easily issue debt once they are equity listed. In 2016, 30 debt instruments were listed on the NZX Debt Market in total. Of these, 43% were issued by equity listed issuers.



Number of listed debt issues by equity listed issuers



NZX and FMA to maintain current focus

We expect NZX and the FMA's increased oversight of secondary market activity and issuer inquiries to continue. Neither does the tide of regulatory change show any sign of ebbing.

Price inquiries

In 2016, NZX toughened its price inquiry process. In addition to the previous practice of seeking public explanations from issuers that they continue to comply with their disclosure obligations, it has now begun the practice of making simultaneous confidential inquiries.

Questions to issuers under confidential inquiry are:

- whether they are in possession of material information
- whether they are relying on an exception to immediate disclosure, and
- the reasoning for relying on any exception.

Responses are generally required on the day the enquiry is made.

Regulatory change

NZX has published an exposure draft of amendments to the NZX Participant Rules, which will provide further clarity around the obligations of market participants once in force.

A range of other regulatory change is also underway: NZX continues to publish useful guidance for issuers and their advisors, and a long-awaited review of the NZX Main Board Listing Rules is expected in 2017, together with the release of its updated Corporate Governance Code. The FMA has also been active in publishing class exemption notices and regulatory instruments.

Feltex appeal

The litigation funded shareholders of Feltex have sought leave to appeal last year's Court of Appeal decision to the Supreme Court. This represents their final opportunity to recover damages from the former directors and lead managers of the now insolvent carpet maker's IPO.

“2017 should see a review of the NZX Main Board Listing Rules, as well as a new NZX Corporate Governance Code.”

Monitoring of trading

FMA and NZX regularly monitor trading, particularly around material announcements and by staff and directors. Queries to issuers from these regulators are increasing and often also include more general questions about the internal controls in place to protect market sensitive information prior to its release and to ensure that employees are aware of relevant in-house trading policies.

This increased vigilance, especially when taken together with the new confidential price inquiry process from NZX, means that issuers need to keep their internal controls under continuing review and to ensure that they are keeping internal records in relation to decisions around continuous disclosure and staff trading.

The High Court's full judgment in the high-profile Warminger hearing will also likely be released in 2017. This is the first market manipulation case to go to trial in New Zealand and the findings will be highly interesting to both the wider capital markets and legal community, given the lack of case law in New Zealand. The limited liquidity in the New Zealand market can make it more difficult to distinguish market manipulation from legitimate trading, so the result will be fascinating.

NZX has recently released a draft guidance note for consultation on "good broking practice" outlining common pitfalls for traders and how to avoid them.

“ Issuers need to keep their internal controls under continuing review and to ensure that they are keeping internal records in relation to decisions around continuous disclosure and staff trading. ”

Continued trend towards ASX Foreign Exempt Listings

As we highlighted last year, the trend towards dual NZX and ASX listings, particularly using the “ASX Foreign Exempt” category, has continued.

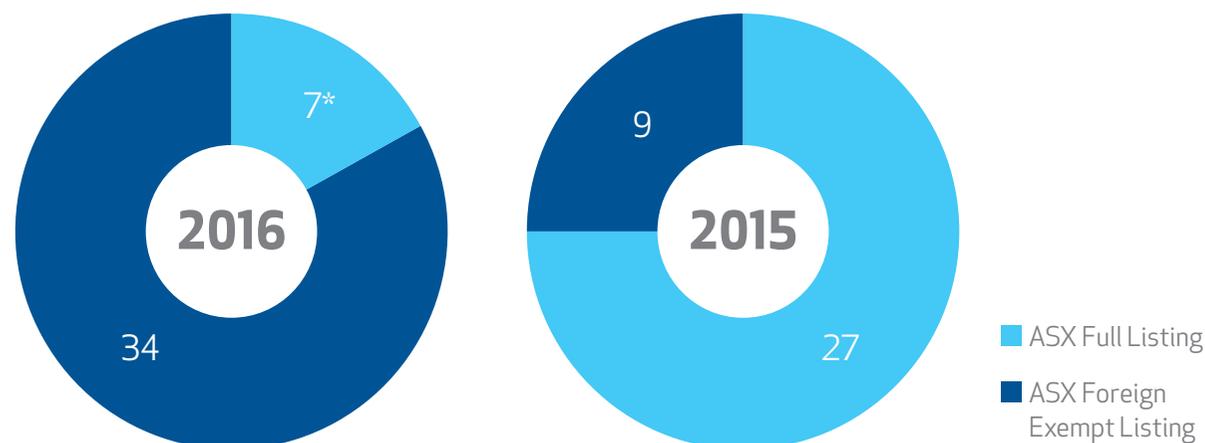
Most NZX Main Board listed issuers who are also listed on the ASX now have Foreign Exempt Listings, and this was a feature in two of the three IPOs in 2016.

This trend has been supported by continued granting of Australian Securities and Investments Commission (ASIC) relief, with ASIC now apparently prepared to grant relief for historic on-sale restrictions as well – a welcome development.

What is an ASX Foreign Exempt Listing?

An ASX Foreign Exempt Listed issuer is exempt from complying with the majority of the ASX Listing Rules (apart from a limited number of procedural rules). The key obligation imposed is the requirement to release to ASX the same information that the issuer releases to NZX at the same time. Recognising the special trans-Tasman relationship, NZX Main Board listed issuers are given preferred access to Foreign Exempt Listings by only having to meet the profit or assets criteria for a standard ASX listing rather than significantly higher thresholds for issuers from other countries.

ASX listing type of NZX Main Board listed issuers as at 31 December



*Intueri de-listed from ASX in January 2017 and two issuers do not qualify for Foreign Exempt Listings

“ Fifty percent of the NZX 50 are now listed on the ASX, including nine of the NZX 10. ”

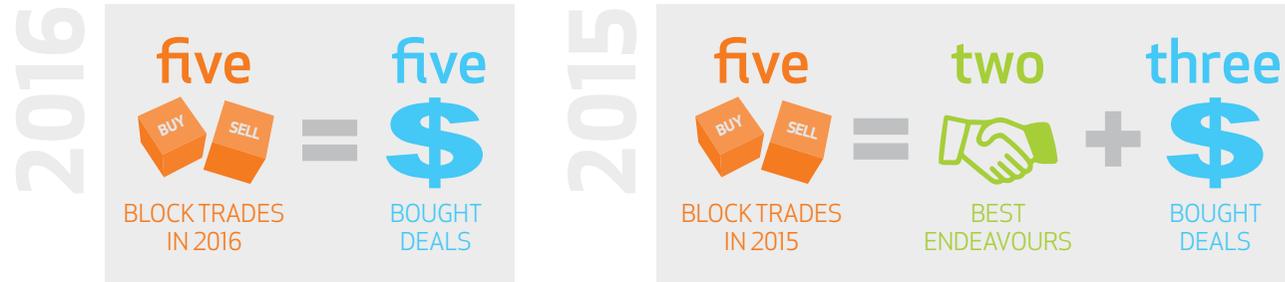
Block party continues

Block trades continued to be a prominent feature of the market in 2016, with numbers in line with those in 2015.

Each of the five trades in 2016 were “bought deals”, in contrast to our comments last year that market volatility may see a shift to best endeavours deals (which have less risk for the bank undertaking the trade).

In addition, there were a couple of large parcels of shares that changed hands with a single purchaser taking all of the shares. If a competitive price can be achieved, this reduces risk for the vendor and the bank undertaking the trade.

A number of substantial blocks of shares from recent IPOs will be coming off escrow in 2017, providing additional opportunities for block trades.



2017 ESCROW RELEASE DATES



CBL Corporation

25 FEBRUARY



AFT Pharmaceuticals

LATE MAY



Tegel

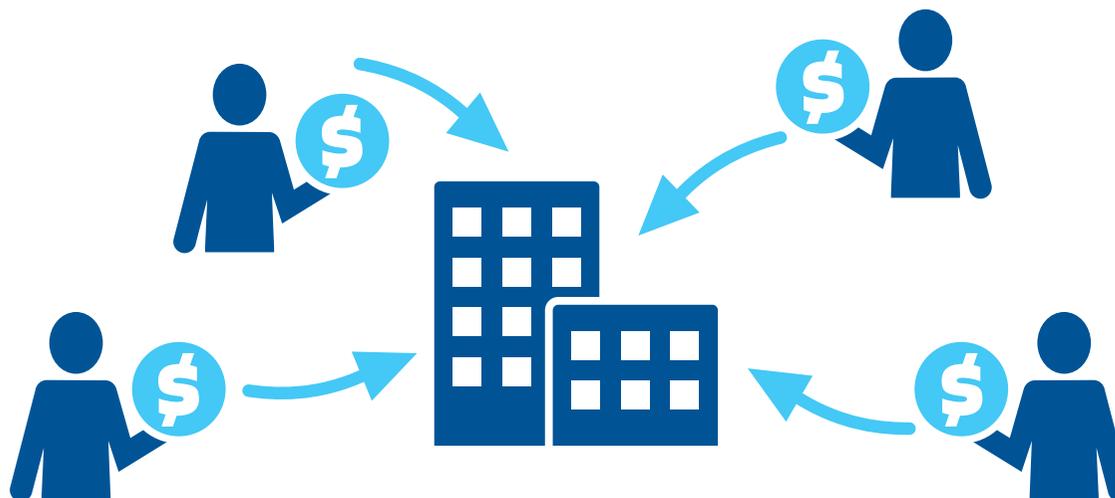
LATE JUNE

Property syndicates – a fixture in the market

While not strictly an equity financial product, property syndicates were a fixture in the wider New Zealand capital markets in 2016, with their popularity continuing to increase as investors searched for alternatives to the low returns on offer at banks.

Perhaps reflecting New Zealanders' love of property as an investment, the two largest syndicate providers (Augusta Capital and Oyster) alone raised over \$350m in capital raising in 2016.

The securities offered in syndicates are not listed, which limits liquidity to informal secondary markets provided by the syndicate managers. NZX has signalled that as part of its review of the Listing Rules it may consider revisions to better accommodate managed investment products, which could lead to syndications being listed to provide investors with better liquidity.



Chapman Tripp's equity capital markets team

Chapman Tripp's national ECM team is the largest and most highly regarded in New Zealand with a reputation for acting on the country's most significant and complex deals.

Our unrivalled ECM track record makes us best placed to help clients avoid the risks and obstacles with any capital markets transaction – such as choosing the wrong offer structure or a due diligence process that is not fit for purpose.

Our experience ranges across all aspects of ECM transactions including pre-offer structuring, IPOs and secondary capital raisings. Our deep relationships with issuers, lead managers, underwriters, regulators, and government departments and agencies allow us to advise on all securities and capital markets matters – from capital raising to regulation and market supervision.

New Zealand Deal Team of the Year

2016 Australasian Law Awards

“They are a cohesive unit and appear to discuss current issues and problem-solve to reach solutions – as a client you really feel like you are getting their best advice.”

Band 1, Corporate and Commercial, Chambers Asia Pacific 2017

Chapman Tripp recent equity capital markets highlights

In 2016, we advised:

- on initial public offers, including:
 - New Zealand King Salmon on its \$77.5m IPO and NZX Main Board and ASX listing
 - Powerhouse on its A\$20m IPO and ASX Listing
 - Goldman Sachs as lead manager and bookrunner on the \$185m Investore IPO and NZX Main Board listing
- NZME on its NZX Main Board compliance listing, and de-merger from APN News & Media
- on secondary market transactions, including:
 - Arvida Group on its \$42m underwritten pro rata rights issue and shortfall bookbuild
 - Moa Group on its underwritten institutional placement and non-renounceable rights issue to raise \$4m
 - First NZ Capital and Credit Suisse (Australia) as underwriters of SKYCITY Entertainment Group's \$263m fully underwritten accelerated renounceable entitlement issue
 - First NZ Capital as arranger of Wynyard's \$30m rights issue
- Heartland Bank on its \$20m institutional placement and associated \$10m share purchase plan (on-going)
- G3 Group's novel equity raising through crowd funding marketplace Snowball Effect
- Trilogy International on its underwritten \$20m placement, \$5m share purchase plan, and ASX listing, and The Business Bakery on its \$30m block trade
- Vista Group International on the \$100m sell-down by founder shareholders of part of their escrowed equity
- Direct Capital on the sale of its stake in Scales Corporation to China Resources for \$60m
- ikeGPS on its \$9.15m capital raisings via private placements and an underwritten share purchase plan, and its dual-listing on the ASX
- Augusta Capital on its acquisition of a 9.26% stake in NPT for \$11m
- Augusta Capital on its syndicates of a number of major commercial properties which raised over \$220m

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Chapman Tripp is New Zealand's leading full-service commercial law firm, with offices in Auckland, Wellington and Christchurch. Our lawyers are recognised leaders in corporate and commercial, mergers and acquisitions, capital markets, banking and finance, restructuring and insolvency, litigation and dispute resolution, employment, government and public law, intellectual property, telecommunications, real estate and construction, energy and natural resources, and tax law.

Our thanks to Philip Ascroft and Kit Adamson for helping to write this publication.

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Every effort has been made to ensure accuracy in this publication. However, the items are necessarily generalised and readers are urged to seek specific advice on particular matters and not rely solely on this text.

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