AVCAL

The AUSTRALIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION Limited

OCTOBER 2011

Market Observations

Australia and New Zealand

In association with

Capital IQ

Executive Summary

This report tracks trends and developments in M&A and private placements completed in Australia and New Zealand over the last five years, and the contribution of private equity (PE) to this activity.

Key observations for FY2011:

Australia

- Australian M&A and private placements grew by 58% in FY2011 in terms of total transaction value. This was underpinned by a number of large deals such as the AXA-AMP Asia Pacific Holdings merger and, despite the strength of the Australian dollar, continued foreign buying interest in the Energy and Materials sectors.
- PE-sponsored deals accounted for 7% of total transaction value in FY2011. While an improvement on the previous year, this remains below the levels seen in North America and Europe where leveraged buyouts made up 10% and 13% respectively of total M&A value during the same period.

New Zealand

- New Zealand M&A and private placements rose by 285% in FY2011 in terms of total transaction value, largely due a series of private placements by the Reynolds Group totalling NZ$6b. Excluding these would have resulted in a 91% increase in total transaction value.
- PE-sponsored deals accounted for 4% of total deal value in FY2011, boosted by the sale of Tegel by Pacific Equity Partners to Affinity Equity Partners.

While the M&A climate in both Australia and New Zealand has remained relatively resilient in FY2011, growing uncertainty over the global economic outlook and increased selectivity over new investments have tempered expectations of any strong rebound occurring soon in deal activity. These developments have resulted in a more cautious approach, greater emphasis on due diligence and increased willingness to walk away from potentially difficult deals. Nevertheless, transactions continue to be completed at a steady pace, underpinned by continued strong interest in the Materials sector in particular and the relative strength of the respective local economies.

Notes:

For the purposes of this report, all references to private equity do not include venture capital deals.

All currency units are in local currency unless stated otherwise.

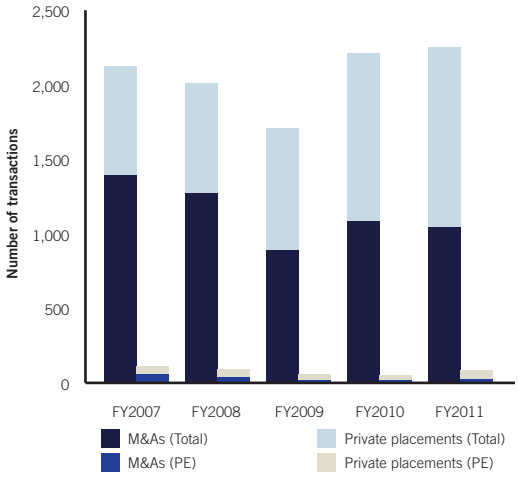
All transactions refer to completed transactions. Transaction locations refer to the country where the target company is headquartered.

All data used in this report is sourced from Capital IQ. This report represents the data available as of 30 June 2011.There may be some differences compared to PE statistics published elsewhere by AVCAL. These differences arise because of different definitions of PE: Capital IQ's definition includes, for example, investments made in unquoted securities made directly by institutional investors, infrastructure and real estate PE funds, while AVCAL's definition does not. Also, the AVCAL proprietary database is based on publicly available information as well as confidential information collected directly from AVCAL members.

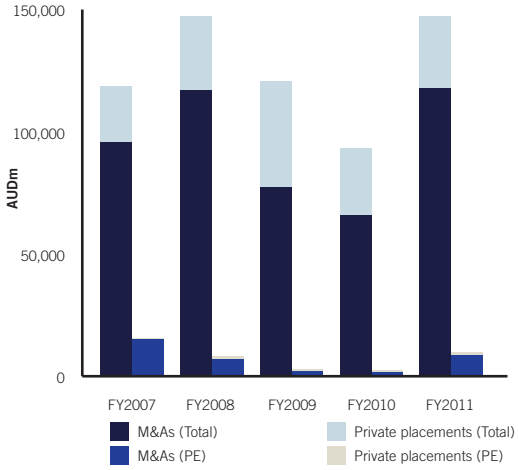
Trends in transaction activity FY2007 to FY2011

Overview

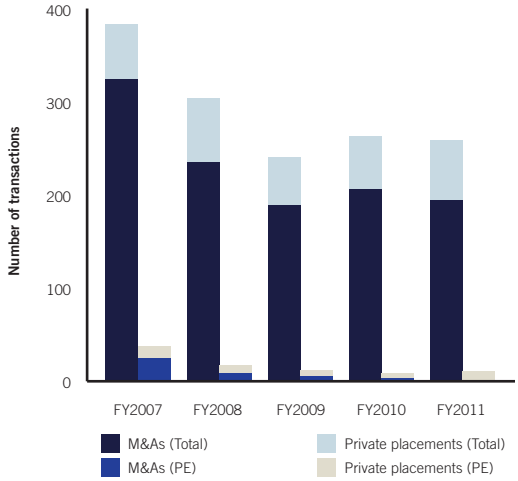
Number of M&As and private placements (Australia)



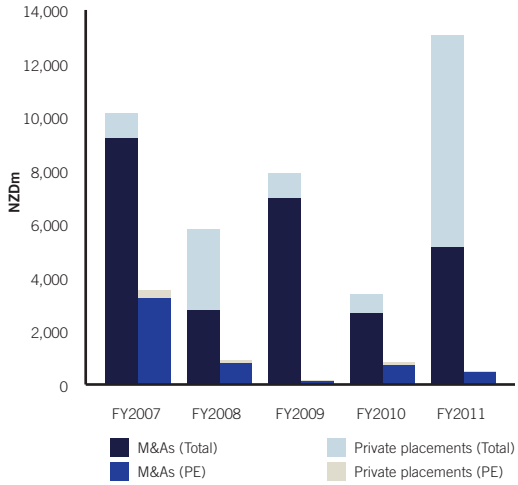
Value of M&As and private placements (Australia)



Number of M&As and private placements (New Zealand)



Value of M&As and private placements (New Zealand)



Overall M&A and private placement activity in both Australia and New Zealand increased in FY2011, driven mainly by the completion of several large deals such as the AMP-AXA Asia Pacific Holdings merger (in Australia) and the Reynolds Group's multi-billion dollar private placements (in New Zealand).

However, as the year progressed, continued global economic uncertainty and lacklustre consumer sentiment in domestic markets tempered expectations of a strong rebound in M&A activity.

The prevailing mood of uncertainty within the investment community was also – to some extent – compounded by natural disasters in parts of both economies: notably, the Christchurch earthquakes and Queensland floods in early 2011.

Data provided by Capital IQ

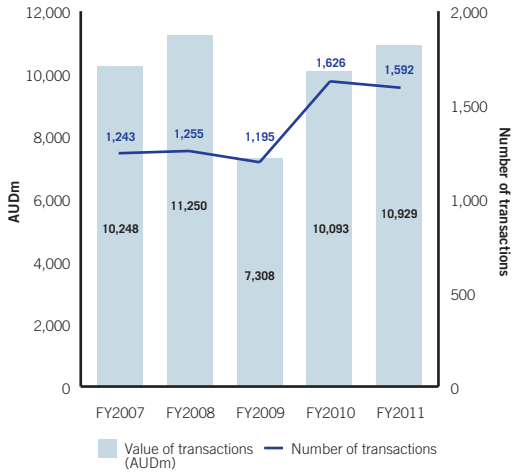
In Australia, the total value of M&As and private placements increased by 58% in the year ending 30 June 2011. The largest transaction of the year was AXA Asia Pacific Holdings' long-awaited AU$15b merger with AMP to create the largest non-bank wealth management company in Australia, and the concurrent sale of its Asian business to its former French parent company (the AXA Group).

Australian resources and energy companies also continued to attract considerable interest from both local and global buyers. Notable deals in these sectors sector included Canadian gold producer Barrick Gold Corporation's acquisition of Equinox Minerals, Rio Tinto's acquisition of Riversdale Mining, and PetroChina and Royal Dutch Shell's joint takeover of coal seam gas developer Arrow Energy.

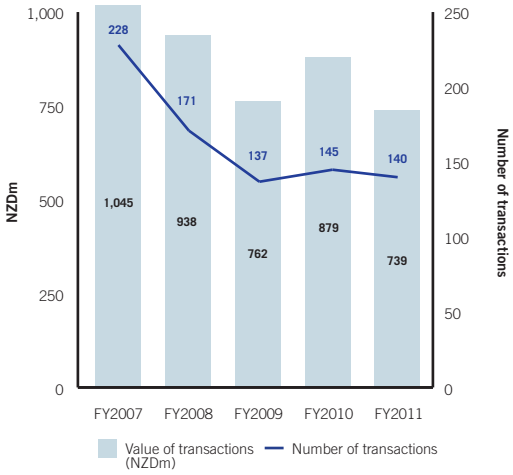
New Zealand saw a 285% increase in the total value of M&A and private placements in the year ending 30 June 2011. This was mostly due to a series of private placements by food packaging supplier Reynolds Group Holdings (formerly owned by Alcoa before being acquired by New Zealand's Rank Group in 2008) amounting to over NZ$6b to fund strategic acquisitions and working capital. Excluding the Reynolds Group's private placements, the actual annual increase in total transaction value was 91%.

Trends by transaction size

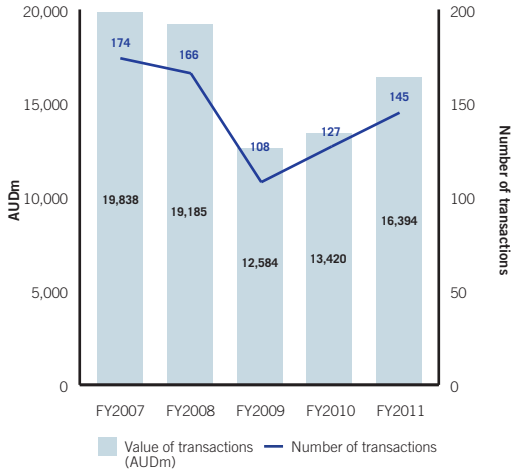
M&As and private placements <$50m (Australia)



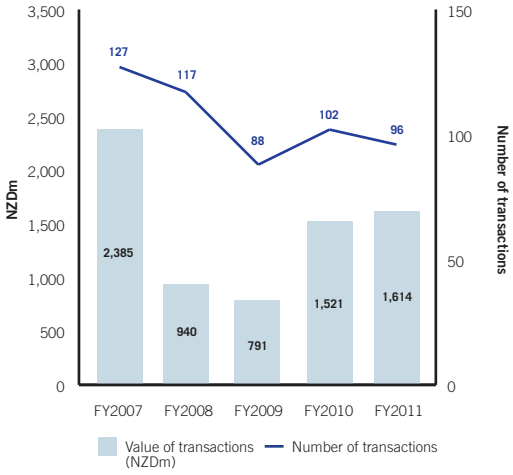
M&As and private placements <$50m (New Zealand)



M&As and private placements between $50m and $250m (Australia)



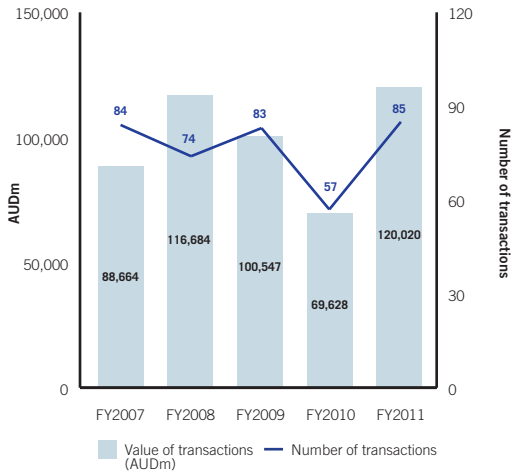
M&As and private placements between $50m and $250m (New Zealand)



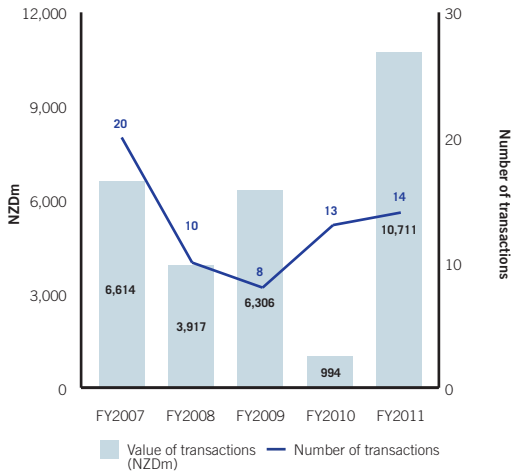
Activity in the Australian small- and mid-market segments continued to gain ground in FY2011. The total value of transactions under AU$50m rose by 8%, while transactions valued at between AU$50m and AU$250m rose by 22%. However, it was the 72% increase in the larger end of the market (transactions valued at over AU$250m) that underpinned the strong increase in overall deal activity for the year.

Data provided by Capital IQ

M&As and private placements >$250m (Australia)



M&As and private placements >$250m (New Zealand)



In New Zealand, the story was mixed across the various market segments. Activity in the small- and mid-markets remained relatively steady from the previous year, although still below FY2007 levels. Transactions valued at over NZ$250m bucked the trend, with the total value of deals completed surging by 978% compared to FY2010 if including the Reynolds Group's private placements, or by 316% if excluding those transactions. This market segment included the successful exit of poultry producer Tegel by PE firm Pacific Equity Partners to Affinity Equity Partners.

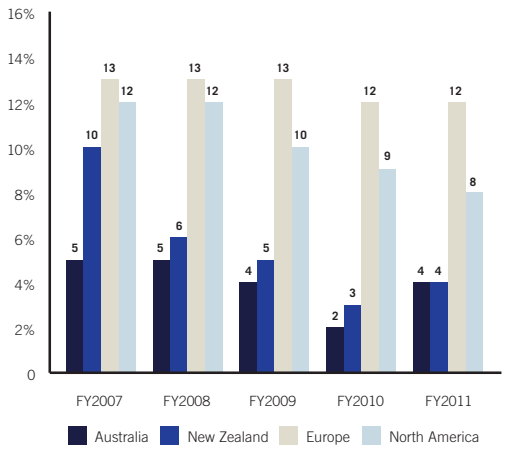
The total number of transactions in both Australia and New Zealand remained at roughly similar levels to FY2010. In Australia's case, slightly reduced activity in small-caps was offset by more mid-cap and large transactions completed compared to the previous year. This resulted in a modest 2% increase in the total number of transactions. In New Zealand, reduced activity in smaller and mid-sized deals could not be fully offset by the increase in the number of large transactions. This saw a net decline of 2% in the total number of transactions completed.

PE as a % of total transactions

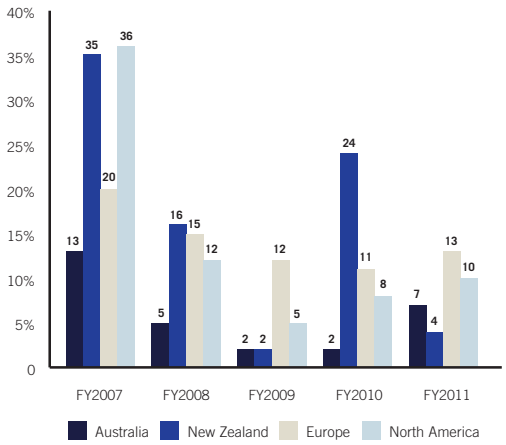
Note:

Australian and New Zealand figures are based on local currencies, and calculated as a percentage of total M&As and private placements. Europe and US figures are calculated in USD, and constitute leveraged buyouts only, calculated as a percentage of total M&As.

No. of PE transactions as a % of total transactions



Value of PE transactions as a % of total transactions



PE deals involving Australian targets accounted for 4% and 7% of the total number and value, respectively, of all M&As and private placements in FY2011. Excluding the two largest PE-linked deals of the year – Alinta and Healthscope – would have seen PE making up only 3% of total transaction value.

The number of PE deals in the Materials and Energy sectors increased, consistent with the trend observed in the broader market. Secondary deal activity also figured prominently, such as CHAMP Private Equity's sale of Study Group to Providence Equity Partners, and Quadrant Private Equity's exit from Quick Service Restaurants to Archer Capital.

Data provided by Capital IQ

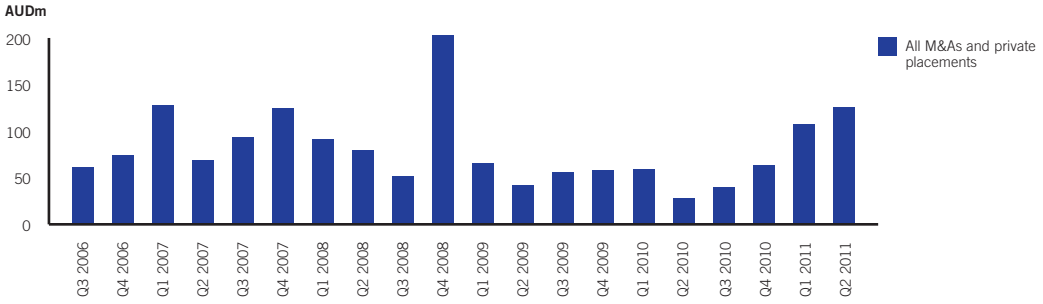
The relatively steady pace of Australian PE investments continued to stem predominantly from funds raised prior to the global financial crisis. Improving debt markets, the emergence of more post-GFC turnaround opportunities, and greater alignment between sponsor and vendor expectations combined to allow for more deals to be completed compared to the previous two years.

However, PE's contribution to overall transaction activity in Australia still has room to grow compared to the levels observed in North America and Europe, where leveraged buyouts in FY2011 made up 8% and 12% respectively of total M&A volume, and 10% and 13% respectively of total M&A value.

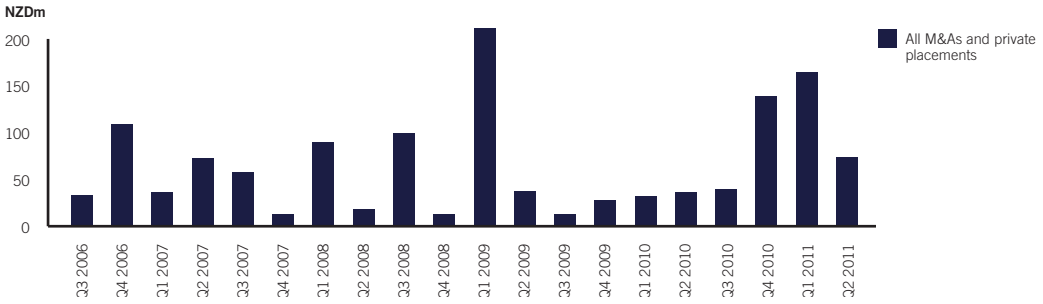
In New Zealand, PE deals accounted for only 4% of total transaction value, of which the largest deal was the acquisition of Tegel by Affinity Equity Partners in one of the largest domestic transactions in FY2011. While domestic PE investors such as the New Zealand Venture Investment Fund and Direct Capital continued to invest selectively in the mid-market, overall PE activity was muted.

Average transaction size

Average transaction size (Australia)



Average transaction size (New Zealand)



Average transaction sizes in Australia trended upward over the year, increasing from AU$51m in FY2010 to AU$81m in FY2011. FY2011 numbers are now slightly above the five-year average transaction size of AU$75m.

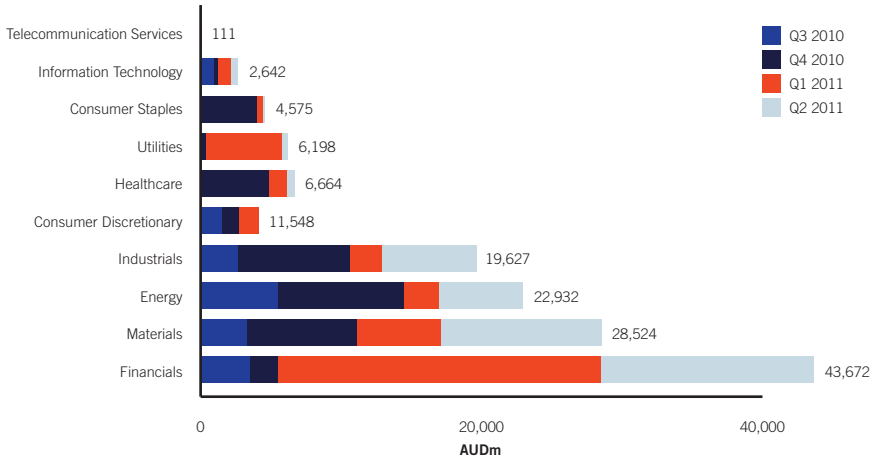
In New Zealand, average transaction sizes jumped in Q4 2010 and Q1 2011, boosted by the multi-billion dollar private placements by the Reynolds Group and the Rank Group's acquisition of UCI Holdings during those two quarters. However, average transaction sizes declined as 2011 wore on, particularly after the February 2011 earthquakes in Christchurch. Nevertheless, on an annual basis transaction sizes nearly quadrupled to average NZ$111m in FY2011 compared to only NZ$29m in FY2010, and the five-year average of NZ$75m.

Both countries had similar five-year median transaction sizes, at AU$4m and NZ$5m respectively.

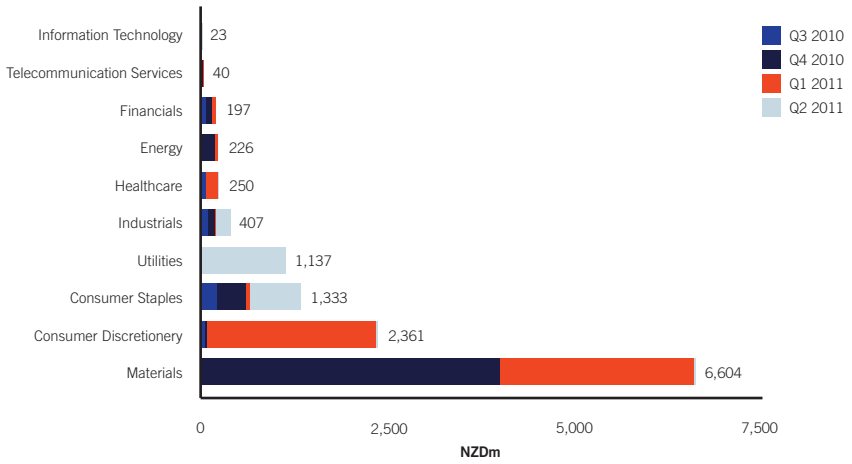
Data provided by Capital IQ

Sectoral Breakdowns

Value of total M&As and private placements by sector in FY2011 (Australia)



Value of total M&As and private placements by sector in FY2011 (New Zealand)



Similar to the previous year, Australian deal activity in FY2011 was led by the Financials, Materials and Energy sectors respectively. However, total transaction values in these three sectors roughly doubled those of the previous year. This was mainly due to the completion of the AMP-AXA Asia Pacific Holdings merger, as well as continued strong appetite among investors for resources and energy assets.

Despite the rising local dollar, foreign buyers still found value in Australian assets, accounting for five of the top ten transactions in FY2011 (down only slightly from seven the previous year). The Materials and Energy sectors in particular continued to attract the interest of foreign buyers. Significant deals in these sectors included acquisitions by Canadian gold producers Barrick Gold Corporation and Goldcorp of Equinox Minerals and Andean Resources respectively, and PetroChina and Royal Dutch Shell's joint takeover of coal seam gas developer Arrow Energy.

In New Zealand, the Materials sector accounted for the majority of transacted value thanks to the Reynolds Group's substantial private placements over the year. There was also increased deal activity in the Utilities and Agricultural Products (under Consumer Staples) sectors. These included Genesis Energy's acquisition of two of Meridian Energy's Tekapo hydropower stations, and global food supplier Olam International's acquisition of a substantial stake in NZ Farming Systems Uruguay Ltd.

Definitions:

Financial years: Australian financial years ending 30 June of every year.

M&A: The acquisition of equity stakes by purchasing existing securities.

Private Placement: The private sale of newly issued securities (equity or debt) by a company to a selected investor or a selected group of investors.

Transaction date: The date the transaction is completed.

Transaction value: The sum of the total consideration paid to shareholders, total net assumed liabilities (when the deal is for more than 50% of the company) and cash. For private placements, it refers to the gross proceeds raised in cash.

Data provided by Capital IQ

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