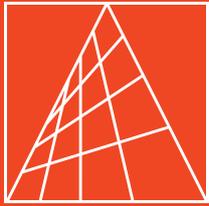


SEPTEMBER 2010



AVCAL

*The AUSTRALIAN
PRIVATE EQUITY &
VENTURE CAPITAL
ASSOCIATION Limited*

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 in Australia and New Zealand over the last five years, and the contribution of private equity (PE) in this context.

The total value of Australian M&A and private placements fell by 27% y-o-y in FY10. However, the small- and mid-market segment continued to anchor overall transaction activity, which meant that the decline in deal levels was not as sharp as it otherwise might have been. In addition, a number of significant transactions in recent years – including bank mergers and resources/energy deals – ensured Australia remained a major centre for M&A in the region. Notably, many of the largest deals during this period involved offshore buyers, confirming the continued attractiveness of Australian companies as long-term investment propositions.

Transactions in New Zealand saw a 64% y-o-y fall in the total value of M&As and private placements completed in the year ending 30 June 2010. However, the number of transactions actually increased by 3% over this period, reflecting the general concentration of focus on small- and mid-market targets amid a challenging environment for identifying and financing larger deals.

PE currently accounts for a relatively low proportion of total transaction activity, relative to recent years. PE deals constituted only 2% of the total number of M&As and private placements for both Australia and New Zealand in FY10, down from 5% and 9% respectively in FY06.

In summary, the Australian deal climate has remained relatively robust despite the global financial crisis. Transactions have continued to be completed, albeit at smaller average sizes than before due to the scarcity of credit funding and downward revaluations. While PE-sponsored activity has been slower in recovering compared to the overall transactions market as PE managers have focused on strengthening their existing investments, a spate of recent deal announcements suggest that this is about to turn around. New Zealand has experienced a relatively sharper constriction in activity over FY10, but the completion of new acquisitions in recent months – including PE expansion deals – also suggests the cautious return of interest to this area.

Notes:

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

All currency units are in Australian dollars unless stated otherwise (currency conversions are at historical rates).

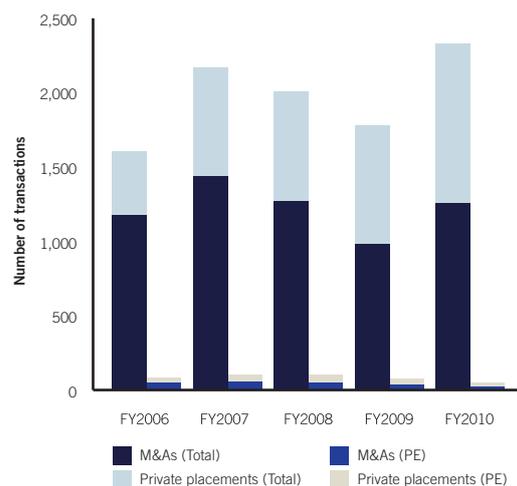
All transactions refer to completed transactions. Transaction locations refer to the country where the target company is headquartered.

All data used in this report is sourced from Capital IQ. There may be some differences compared to PE statistics published elsewhere by AVCAL. These differences arise because the AVCAL database is primarily based on information collected directly from PE & VC fund managers who are AVCAL members – including information not available to the public – and excludes direct investments by non-PE institutional investors (such as pension funds) in privately held companies.

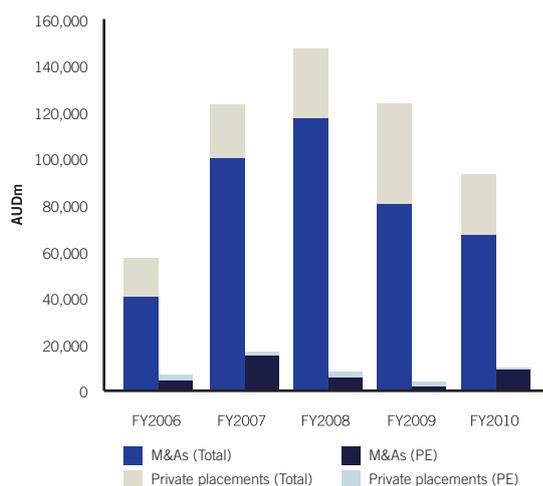
Trends in transaction activity FY06 to FY10

Overview

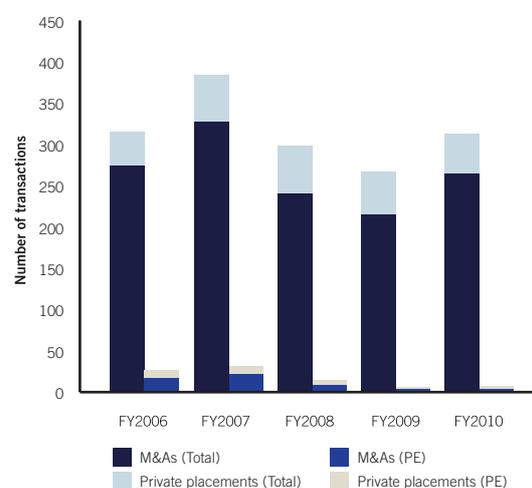
Number of M&As and private placements (Australia)



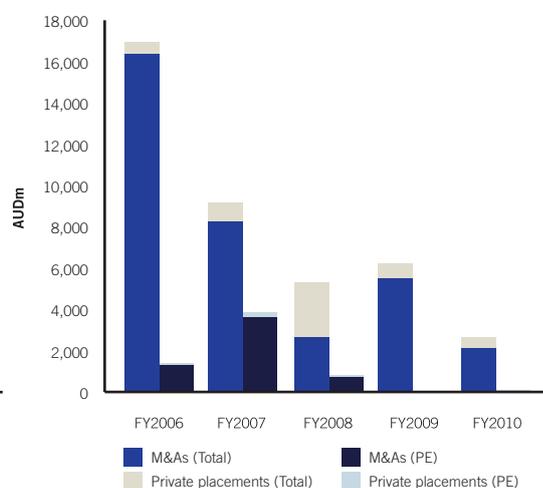
Value of M&As and private placements (Australia)



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



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



Consistent with most other major markets, the total value of M&As and private placements has declined relative to pre-crisis levels in both Australia and New Zealand. Australia experienced a 27% y-o-y fall in total transaction value in the year ending 30 June 2010. New Zealand saw an even sharper drop, with a 64% y-o-y fall in the total reported value of M&As and private placements completed over the same period.

For both markets, however, the number of transactions actually increased in FY10 (New Zealand by 3% and Australia by 24%), with a higher proportion of deals completed during this period involving small- and mid-market targets. These segments of the deal market have remained the mainstay of overall transaction activity during a period where credit scarcity and market uncertainty made larger deals much more difficult to complete.

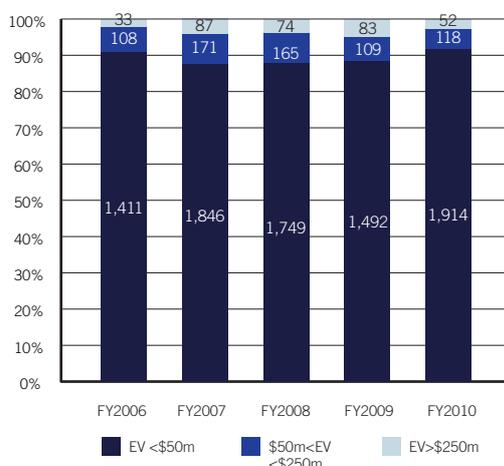
Despite the general fall in average transaction values over the last two years, several significant deals kept Australia among the top M&A markets in the world. These included the \$21b merger between Westpac and St George Bank in 2008, overtaking the \$19b acquisition of Coles Group Ltd by Wesfarmers in 2007 as the largest deal in Australian history.

Other notable deals in Australia during this period included a number of oil and gas deals such as formation of Australia Pacific LNG (a joint venture between Conoco Phillips and Origin Energy) and British gas producer BG Group's acquisition of Queensland Gas Co. in 2008.

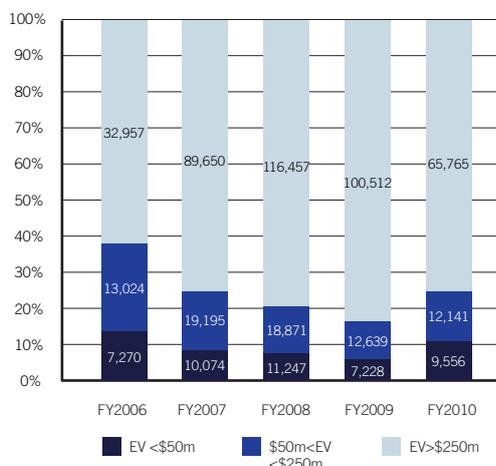
Post-2008, the single largest deal completed as of end-FY10 was the acquisition of Macquarie Communications Infrastructure Group by the Canada Pension Plan Investment Board (CPIB) in July 2009: at an enterprise value estimated at over \$7b.

Private placement activity saw a notable increase during and immediately after the GFC, reflecting both the reduced availability of bank lending as a source of funding as well as increased bank recapitalisation activity.

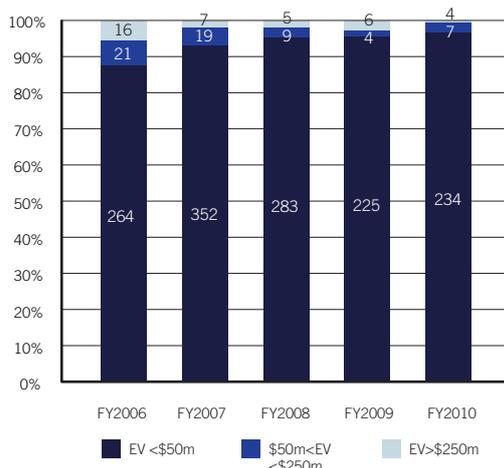
Number of M&As and private placements by size (Australia)



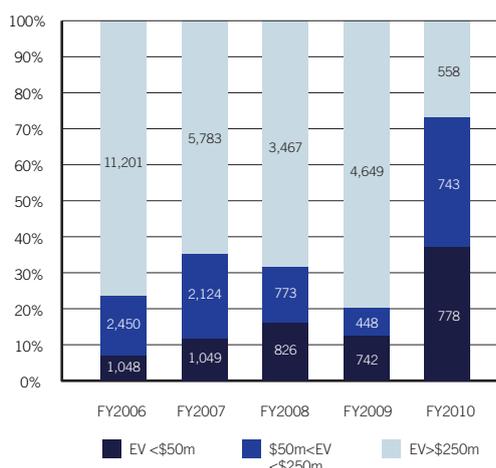
Value of M&As and private placements by size (Australia, AUDm)



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



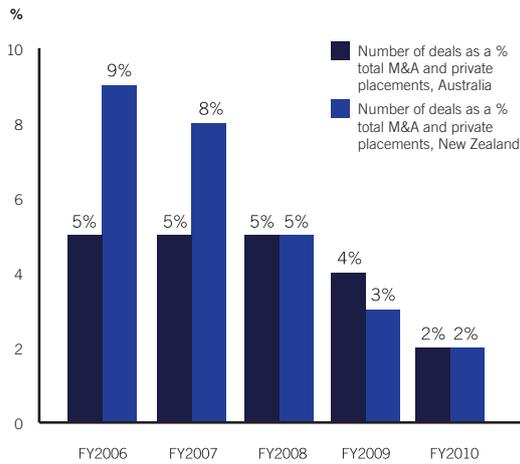
Value of M&As and private placements by size (New Zealand, AUDm)



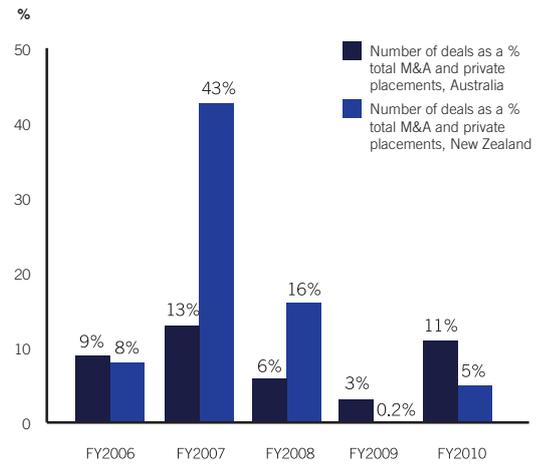
¹ Note that Capital IQ includes PE-style direct investments by institutional investors as PE investments.

PE as a % of total M&As and private placements

Number of PE transactions as a % total M&A and private placements



Value of PE transactions as a % total M&A and private placements



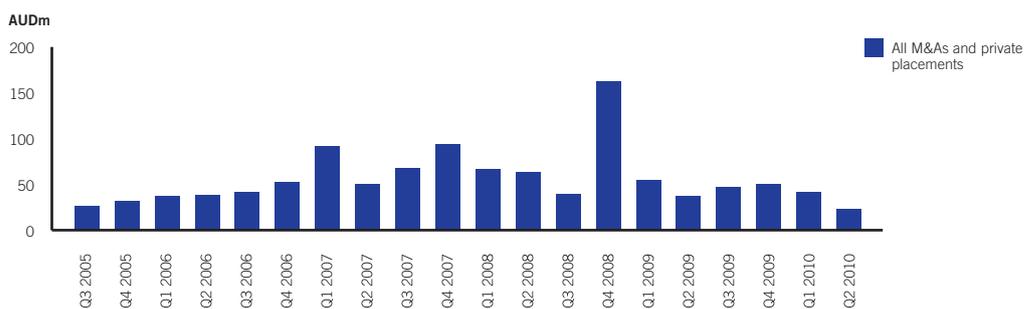
The number of PE deals as a proportion of total M&As and private placements has declined steadily over the last five years in both Australia (from 5% of the total number of transactions in FY06 to 2% in FY10) and New Zealand (from 9% to 2% over the same period).

In terms of the value of transactions done, PE accounted for 11% total deal value in Australia in FY10, up from 3% the previous year. However, if CPPIB's acquisition of the Macquarie Communications Infrastructure Group is excluded, Australian PE deals would only have constituted 3% of total transaction value in FY10: unchanged from the previous year.¹

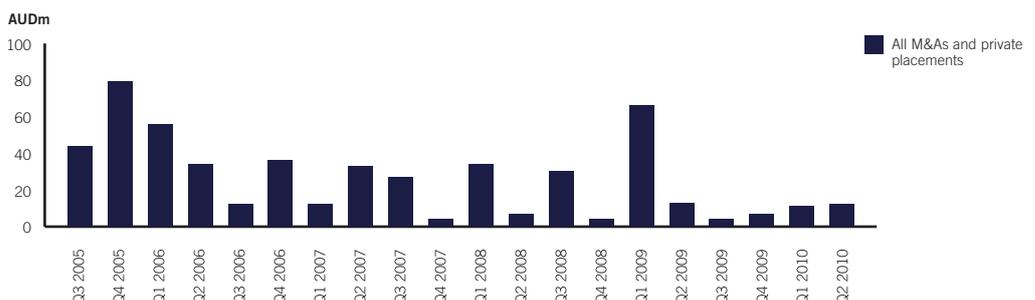
In New Zealand, PE has accounted for between 0.2% and 43% of total annual transaction value over the last five years. FY07 saw a sharp spike in PE activity with some of the largest buyouts in New Zealand seen to date, including those of the Yellow Pages Group and the Independent Distillers Group. However, the GFC saw a sharp constriction in overall deal activity after FY07. Nevertheless, there have been signs of a gradual return in PE activity with a number of new deals completed in FY10, including several expansion deals by Direct Capital Partners which closed its NZ\$325m Fund IV during this period.

Average transaction size

Average transaction size (Australia)



Average transaction size (New Zealand)

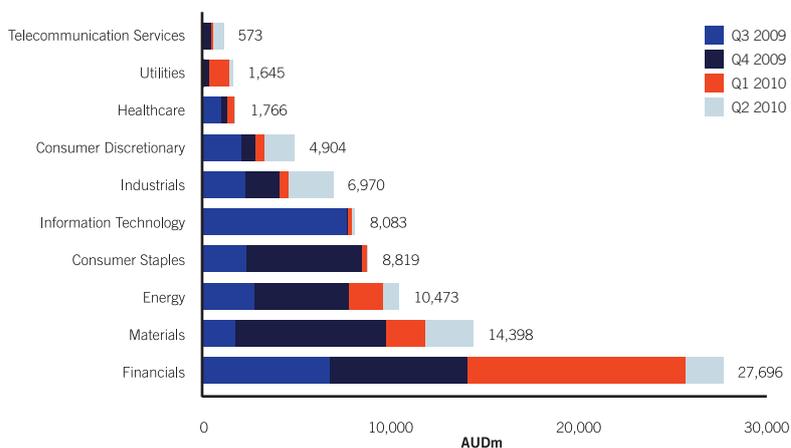


Average transaction sizes in Australia have generally remained within the \$30m to \$70m range for most of the last five years, occasionally augmented by a few large deals such as the \$21b merger between Westpac and St George Bank in 2008.

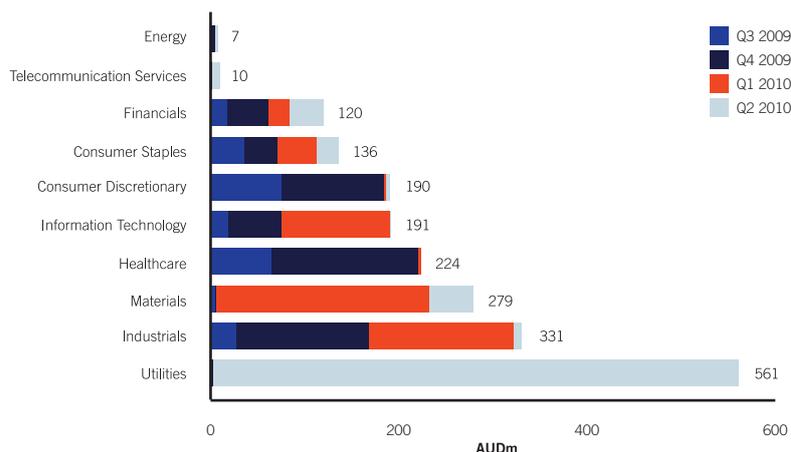
The median transaction size over the last five years was \$48m in Australia and \$20m in New Zealand. In FY10, the average transaction size in Australia and New Zealand was \$42m and \$9m respectively, down from \$71m and \$25m respectively the previous year.

Sectoral breakdowns

Value of total M&As and private placements by sector in FY10 (Australia)



Value of total M&As and private placements by sector in FY10 (New Zealand)



Financials, Materials, Energy and Consumer Staples were the top Australian sectors in FY10 in terms of transaction activity. Most of the largest deals completed during this period involved offshore buyers, confirming the continued attractiveness of Australian companies as long-term investment propositions. These included the acquisitions of Macquarie Communications Infrastructure Group, ABB Grain and Sino Gold Mining by various Canadian interests, China's Yanzhou Coal Mining's buyout of Felix Resources, and Kirin Holdings' successful bid for full ownership of brewer Lion Nathan.

In New Zealand, overall activity was muted with the single largest transaction for the year seen in the Energy sector: Infratil's joint venture with the NZ Superannuation Fund to buy Shell NZ's downstream assets. Other key deals completed during this period included National Hearing Care's acquisition of Bay Audiology, and Archer Capital's sale of Onesource Group to CSG 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 sale of newly issued securities to a select group of investors including private investment in public equity (PIPEs) and placement of debt securities.

Transaction date: The date the transaction is completed (not the date it is announced).

Transaction value: The target company's enterprise value.

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