

# New Zealand Equity Capital Markets

TRENDS AND INSIGHTS

February 2018

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CHAPMAN  
TRIPP 



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## NZ Law Firm of the Year

Chambers Asia-Pacific Awards 2018

## National Law Firm of the Year (New Zealand)

IFLR Asia Awards 2018

## New Zealand Deal Team of the Year

2017, 2016 & 2015 Australasian Law Awards

## Bridging the gap

**After a mixed performance in 2017, this year will be a transitional year to healthier equity capital markets in 2019.**

New Zealand's equity capital markets in 2017 were a tale of two markets; a shrinking NZX Main Board, but booming levels of secondary capital raisings and strong market performance.

The number of NZX Main Board issuers fell by eight, primarily driven by takeovers and insolvencies. Several New Zealand-based companies, that may have listed on the NZX, have instead headed offshore through trade sales or, in the case of some smaller cap companies, listings on overseas markets.

Despite this, those issuers who remained listed have – on the whole – had a stellar year when it comes to market performance and secondary capital raisings.

We believe 2018 will be a bridging year to more vibrant capital markets in New Zealand from 2019 onwards, thanks to a number of factors, including: NZX's Listing Rule review, a strong regulatory framework, and robust private equity pipeline.

We also expect this year to be similar to 2017, with very limited IPO activity, and a continued decline in the number of NZX Main Board issuers – driven mostly by takeover activity.

If market performance remains strong in 2018, next year may see a return to healthier IPO activity and a growing NZX Main Board.

**“We believe 2018 will be a bridging year to more vibrant capital markets in New Zealand from 2019 onwards.”**

# 2017 – A disappointing year for NZ's equity capital markets

## Our take on 2017 at a glance



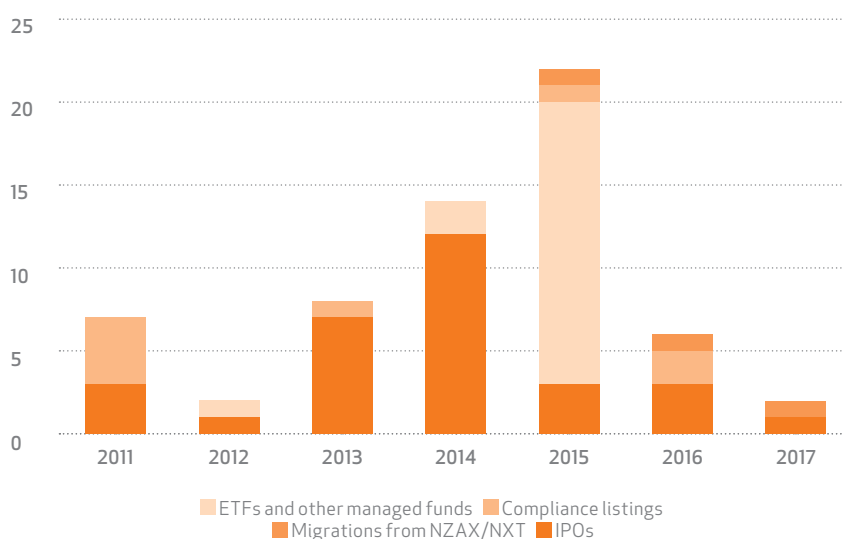
**Strong market performance and secondary capital raisings**

Since the halcyon years of 2013 and 2014 our equity capital markets have struggled to maintain a healthy level of IPO activity. 2017 was the worst year yet.

### New listings were thin on the ground in 2017

Only Oceania Healthcare joined the NZX Main Board following an IPO. There were no compliance listings, no listings on the NXT Market, and generally no good news as far as new listings were concerned.

### NZX Main Board IPOs and other listings



Excludes "reverse" or "backdoor" listings, such as the backdoor listing of Transport Investments Limited in 2017.

## 2017 – A disappointing year for NZ's equity capital markets *(continued)*



### The bad

Only one IPO



### The ugly

Number of NZX Main  
Board issuers declined for  
a second straight year

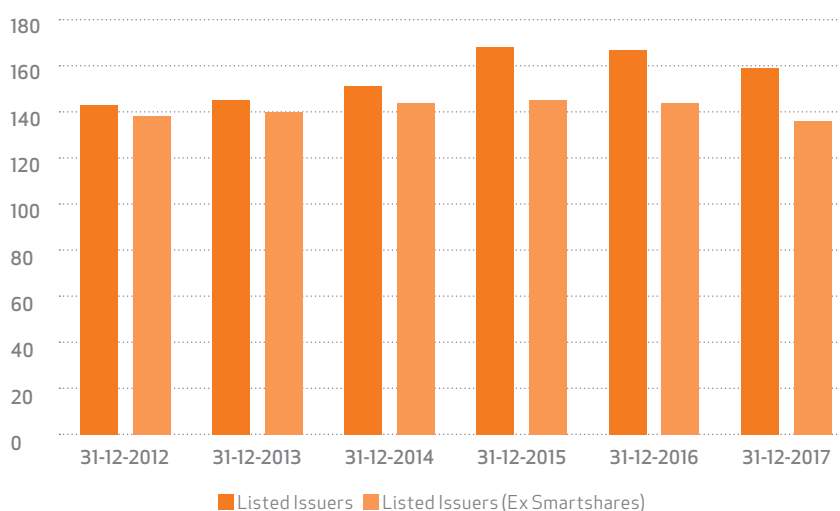
### A continued decline in the number of NZX Main Board issuers

Compounding matters, as we predicted last year, the number of NZX Main Board issuers continued to decline over 2017 dropping year-on-year for the second year in a row – the first time this has happened since 2010.

Takeover activity in 2017 saw Airwork Holdings and Hellaby delist. There were also insolvencies leading to the delisting of Intueri Education, Pumpkin Patch and Wynyard.

Perhaps more troubling for NZX was that some issuers chose to voluntarily delist, most notably Xero.

### NZX Main Board issuers



## Delistings in 2017

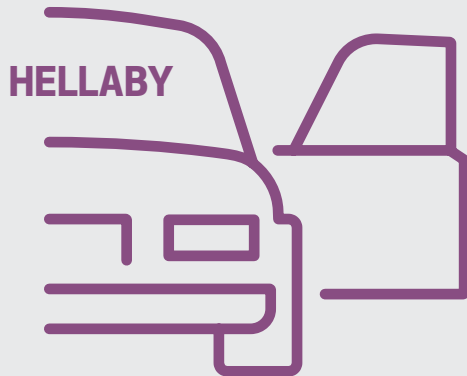


**AIRWORK  
HOLDINGS**



**PUMPKIN  
PATCH**

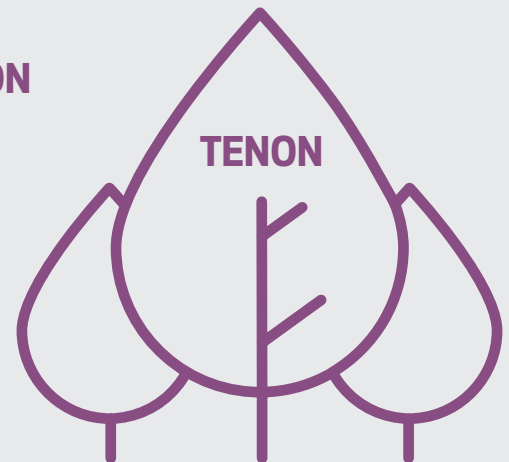
**THE EUROPEAN  
INVESTMENT  
TRUST**



**HELLABY**



**INTUERI  
EDUCATION  
GROUP**



**TENON**

**APN NEWS  
& MEDIA**



**JPMORGAN  
JAPANESE  
INVESTMENT  
TRUST**



**WYNYARD**

NZX Main Board delistings only

## 2017 – A disappointing year for NZ's equity capital markets *(continued)*

### From hero to Xero

Xero's move away from the NZX Main Board (to be solely listed on the ASX) generated a large amount of media coverage. Listing on both the ASX and NZX has been a common feature of most NZ IPOs in recent years.

A dual listing opens up greater access to capital as it may enable investors with restrictions in their investment mandate to invest in the company. It also means that the company will be eligible to be listed in indices on both exchanges, which may have taken on greater importance with the recent global inflow of funds into exchange traded funds.

The disadvantages to dual listing are minimal, as both NZX and ASX offer the option of a secondary listing, which minimises the additional compliance requirements. Trading may be split between the two exchanges, which may mean that Xero did not meet the liquidity criteria for inclusion in certain indices.

However, a dual listing has not stopped a number of NZX-listed issuers (currently Trade Me, Spark, SKYCITY, a2 Milk, Fletcher Building, Fisher & Paykel Healthcare and Chorus) being included in the ASX 200.

### No more ditch-jumping expected

We don't expect to see New Zealand issuers delisting from the NZX to list solely on other exchanges becoming a trend this year. Instead, we believe most New Zealand companies will continue to value the benefits of being listed on the NZX. In fact, Fisher & Paykel Healthcare, one of the largest New Zealand companies on the NZX Main Board, has said that it will not be considering delisting. Some key benefits of retaining an NZX listing include: simplified tax compliance and ease of trading for New Zealand investors and employees, eligibility for inclusion in New Zealand funds and indices as well as access to an attractive debt market with competitive interest rates for corporate bonds.

Despite the disappointment from some at Xero's decision, we believe that it is important to recognise that not all delistings are equal. Where issuers are delisting to pursue a listing on a larger foreign exchange (as is speculated with Xero and a NASDAQ listing), are being taken private at an attractive premium, or face insolvency where a business has failed due to taking appropriate and measured commercial risks it may be seen as healthy for the market as a whole.

The NZX would quickly become stale if no issuers were growing, taking risks and developing in ways that meant that they ended up finding it necessary or desirable to leave the NZX for a new home.

**“We don't expect to see New Zealand issuers delisting from the NZX to list solely on other exchanges becoming a trend.”**

# The silver lining in 2017

## Market performance and secondary capital raisings remain strong.

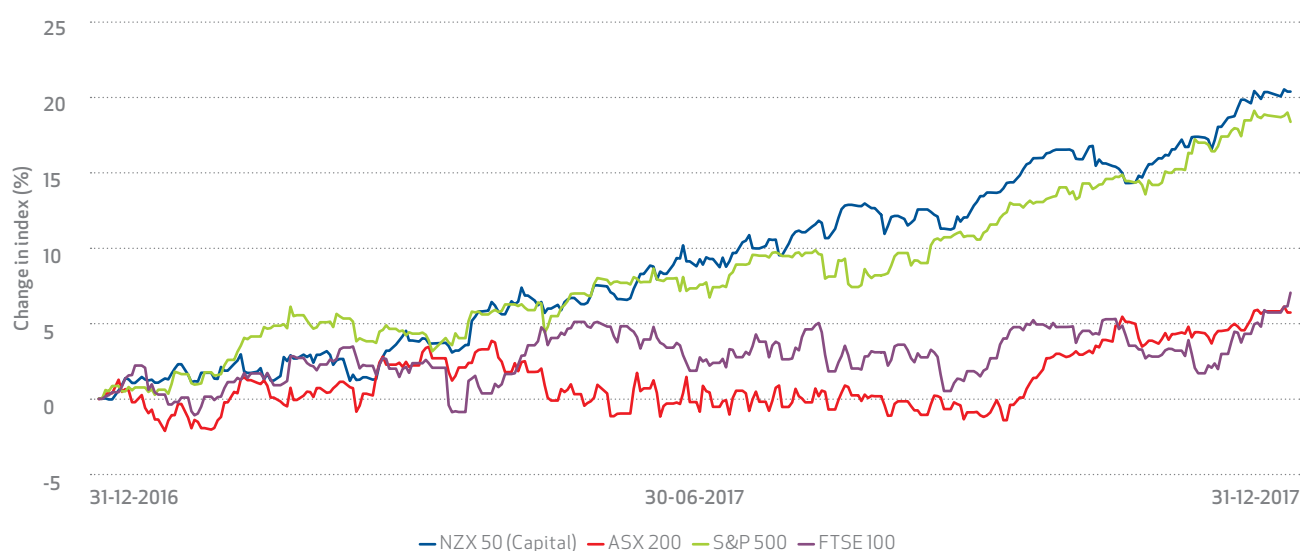
Despite the doom and gloom in 2017 regarding the number of issuers joining or leaving the NZX Main Board, those issuers who remain listed have – on the whole – enjoyed a stellar year when it comes to market performance and secondary capital raisings.

Some may dismiss this as simply reflecting the much heralded “bull market in everything”, but it does continue a trend of strong market performance by the NZX.

The index has been seemingly unaffected by geopolitical events, including the change in Government in New Zealand, and steadily marched upwards over the course of 2017.

Based on the NZX 50 Capital index, the NZX gained 20.41% over 2017, outperforming major international indices. The NZX 50 Gross index, favoured by NZX, hit 8,000 points for the first time ever in 2017, and finished up 22% for 2017.

## 2017 market performance



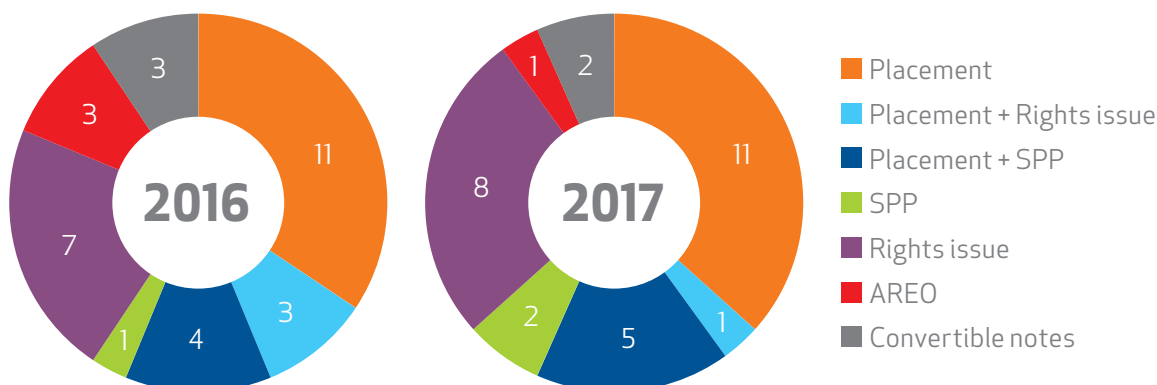
As we predicted in our 2017 publication, secondary capital raisings remained strong, with \$3.1bn of secondary equity capital raised by issuers. Rights issues were a favoured method of raising capital, although we did still see a number of placements.

One innovation we saw in the design of secondary capital raisings in 2017 was allowing retail shareholders to participate in a shortfall bookbuild at the end of a pro rata rights issue alongside institutional and high net worth investors.

This is a win-win, as issuers can ensure more shares go to supportive shareholders (rather than the shortfall going to opportunistic new investors who may be short-term holders), while also offering the opportunity for shareholders to increase, rather than merely maintain, their holdings.



## Types of secondary capital raisings



## “\$3.1bn of secondary equity capital was raised in 2017.”

Significant capital raisings in 2017 included:

- Precinct Properties’ \$150m convertible note issue
- Arvida Group’s \$77m underwritten pro rata rights issue and shortfall bookbuild
- Tower’s \$70.8m underwritten pro rata rights issue
- Property for Industry’s \$70m underwritten pro rata rights issue, and
- Heartland’s \$59m pro rata rights issue and shortfall bookbuild.

The continued strong performance and ready access to capital afforded by an NZX listing are in contrast to the general pessimism that has surrounded the NZX when it comes to new listings.

### RETAIL SHAREHOLDERS PARTICIPATING IN SHORTFALL BOOKBUILDS – A SUCCESS FOR HEARTLAND

In late 2017, Heartland undertook a \$59m pro rata rights issue and shortfall bookbuild. The rights issue took advantage of the new structure outlined, where retail shareholders were able to participate in the shortfall bookbuild at the end of the offer period.

The rights issue was undertaken to support continued growth in Heartland’s loan portfolio and maintain a strong balance sheet. Heartland was able to utilise the same class regime for the offer and as the offer was announced shortly following release of its quarterly disclosure

statement, preparation of the documentation and the capital raising process was straightforward.

Applications were received from retail shareholders for approximately 82% of the new shares on offer, with a further \$18.5 million of applications received from shareholders who wished to acquire additional shares under the shortfall bookbuild.

The strong demand generated by allowing retail shareholders to participate in the shortfall bookbuild proved a success, with a \$0.32 per share premium achieved above the issue price under the rights offer that was returned to shareholders who didn’t participate in the offer.

“Allowing retail shareholders to participate in the bookbuild meant that we were able to allocate additional shares to our loyal retail shareholder base. We were also able to save costs for all shareholders by not having the offer underwritten, given its size and the strong support from shareholders. We received excellent feedback from shareholders on this offer structure.”



**David Mackrell**  
Chief Financial Officer  
Heartland Bank Limited

# 2018 – Onwards and upwards

## Our picks for 2018 at a glance



## The good

**NZX's strategic initiatives will gain momentum, positioning 2019 to be a more positive year**

We're picking 2018 will look much like 2017, but expect it to be a transitional year to better, more vibrant capital markets in New Zealand.

### **IPO activity – encouraging signs for the future but still thin on the ground in 2018**

There are already signs of activity brewing for the year ahead, but we are not expecting 2018 to be a banner year for IPOs. We expect that alternative exit options such as trade sales or private equity purchasers will continue to loom large in the minds of founders and shareholders of companies that may otherwise consider listing on the NZX.

Vodafone has signalled a potential IPO of its local subsidiary in 2018. If this IPO proceeds, early indications are that it would be the largest private IPO in New Zealand in the past 10 years. As with the Government's mixed ownership model programme in 2013 & 2014, a single large IPO may be all it takes to spur greater interest in the capital markets and lead to an increase in IPO activity going forward.

Another source of new IPO activity in the medium term could be local authorities seeking to raise capital by partially privatising assets. Both Ports of Auckland and Napier Port have featured in the media as potential IPO candidates to join (or re-join) Port of Tauranga on the NZX.

**“We are not expecting 2018 to be a banner year for IPOs.”**

## 2018 – Onwards and upwards *(continued)*



### The bad

IPO activity will remain subdued

One undeserving culprit for a lack of IPOs that we have seen blamed in the media is New Zealand's regulatory regime for securities offerings.

The Financial Markets Conduct Act, which came into full force from 1 December 2014, has revolutionised secondary capital raising by introducing the same class offer regime. It has not had the same dramatic effect on IPOs, but the product disclosure statement regime is much improved on the previous regime, and compares favourably to the securities laws in other countries such as Australia.



### The ugly

Number of NZX Main Board issuers will continue to decline

NZX has, however, acknowledged that it could do more to support and encourage issuers, and potential issuers, following and leading up to listing. This is particularly relevant for small to medium sized companies, where the support of the exchange would be more appreciated than in larger companies that have more resources available.

## 2018 – Onwards and upwards *(continued)*

### Continued decline in listed issuer numbers

Leaving aside the migration of some issuers to the NZX Main Board, as a result of the proposed consolidation of the three existing equities boards, we think the number of issuers will continue to decline in 2018, primarily driven by takeover activity.

This year has already seen Opus and Fliway delist from the NZX Main Board as a result of takeover activity, and Xero has decamped to the ASX as its sole listing. Trilogy announced at the end of 2017 that it had entered into a scheme implementation agreement with CITIC Capital, which will see it delist in the first half of 2018 if the scheme receives shareholder approval.

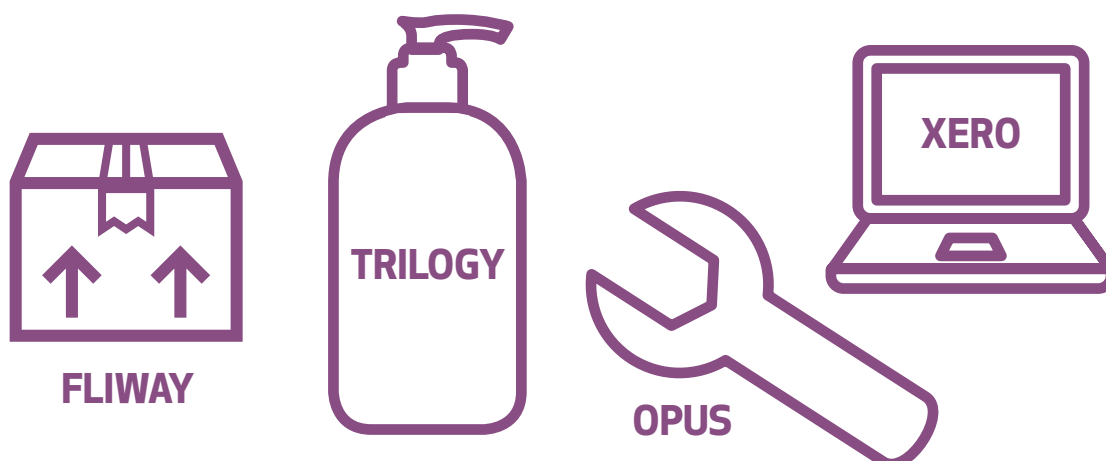
This takeover activity reflects the ongoing shortage of quality assets for sale in New Zealand, which has led investors to look at public companies. Many overseas investors have had positive experiences investing in New Zealand, and it has a good reputation globally as a “safe” place to invest.

Private equity funds worldwide are full to the gunwales with “dry powder” and other large institutional investors, such as sovereign wealth funds, also have significant amounts of money to invest. The strong performance of the NZX may have helped draw interest from these investors to look more closely at leading New Zealand-listed companies as a discrete investment proposition, rather than simply investing in the broader NZX.

To date, shareholders seem to be willing to accept these takeover offers, when made with an appropriate premium to the current market price, with very few foundering unless regulatory hurdles arise.

We think that market sentiment will be more positive towards the NZX Main Board from 2019 onwards. It remains to be seen whether this optimism will also affect shareholders when choosing whether to accept takeover offers, or if takeover premiums will start to rise as a result.

## NZX Main Board delistings in 2018 so far or signalled





## 2018 – Onwards and upwards *(continued)*

### Minnows in a large market

We have seen a trend of smaller issuers eschewing the NZX in favour of the ASX from the outset, despite not having a strong, established business. This contrasts with the approach taken by Xero, which first listed on the NZX, developed its business, and then shifted to the ASX.

Being a minnow in a large market like the ASX does present challenges for listed companies and it's telling that nearly all of the New Zealand companies that chose to list solely on the ASX have had very poor share price performance post IPO.

Despite the generally poor performance of New Zealand companies on the ASX, we expect that this trend may continue for early stage companies in 2018. We have already seen Trans-Tasman Resources Limited announce it is pursuing a backdoor listing on the ASX despite being mooted as an NZX-listing candidate in past years. This trend may abate in 2019, if the factors outlined elsewhere in this report start to make the NZX more attractive to a wider range of smaller issuers.

### New Zealand companies solely listed on the ASX

Issuer	Date listed on the ASX	Share price performance*
9 Spokes	9 June 2016	▼ -66%
Croplogic	12 September 2017	▼ -55%
Living Cell Technologies	1 September 2004	▼ -87%
Martin Aircraft	24 February 2015	▼ -90%
Neuren Pharmaceuticals	3 February 2005	▲ 635%
Powerhouse Ventures	12 October 2016	▼ -79%
Volpara Health Technologies	27 April 2016	▲ 45%

\*Share price performance since listing to 31 January 2018

# NZX strategic initiatives gaining much needed momentum

## NZX recently completed a strategic review and announced a five-year plan, taking a more customer-focused approach.

NZX has signalled it will change its trading and clearing pricing structure in 2018 to encourage more on-market liquidity, to be followed by upgrades to NZX's trading system in 2019 to further promote on-market transparency and liquidity.

Much ink has been spilled in the media about the concentration of both institutional investors and investment banks in New Zealand, and either or both of these being the reason for the limited number of IPOs. Greater on-market liquidity and transparency may enable smaller brokers to enter the market and provide more cost efficient broking services to investors. This could have a positive flow-on effect

to new listings, as these smaller brokers may also look to bring companies to the market. However, this will take some time to develop.

In addition to these strategic initiatives, we've identified NZX's Listing Rule review, the importance of getting the supporting regulatory settings right and a private equity pipeline as three factors which will be increasingly influential in encouraging listings in future years – although they are unlikely to have an immediate pay-off in 2018.

Each of these factors is explored in more detail in this report.



### ATTRACTING OVERSEAS LISTED ISSUERS TO NZX

One area that may prove fruitful for NZX is encouraging listed foreign issuers with a New Zealand presence to list here as NZX Overseas Listed Issuers. The benefits of accessing the New Zealand market by way of a secondary listing include:

- greater awareness with new investors, leading to more trade opportunities and increased liquidity (some New Zealand fund mandates restrict investments to NZX-listed stocks)

- benefiting New Zealand investors and employees (through simplified tax compliance by holding NZD denominated securities and receiving NZD dividends)
- minimal drawbacks, as there are significantly reduced compliance requirements, leveraging the existing regulatory oversight for listed issuers, and
- the cost is modest.

ASX has had significant success in attracting NZX-listed issuers to an equivalent secondary listing (a Foreign Exempt Listing) on the ASX. 22 of the NZX50 currently have a Foreign Exempt Listing on ASX.

Adding further issuers with a New Zealand presence, even with a secondary listing, would work to increase NZX's critical mass by

increasing the available trading options for investors on the NZX and giving greater prominence to the market by having more well-known brands in New Zealand listed.

If ASX 200 index inclusion is Xero's goal, an NZX Overseas Listing could complement its ASX listing, which may allow it to drive greater liquidity to the ASX as its primary listing (but still maintain its presence on the NZX). However, before this could become a reality, NZX would need to change or waive the listing rules (as to be eligible for an NZX Overseas Listing, an issuer must be incorporated outside New Zealand). This could be an area for NZX to consider, not just for Xero, but as a way to retain other New Zealand-based issuers that pursue an ASX primary listing.

# NZX's Listing Rule review

## NZX is undertaking a much anticipated review of its Listing Rules – the deepest and most fundamental since 2003.

In our publication last year we questioned whether New Zealand's equity capital markets were served by too many boards – spreading the market too thin and adding unnecessary regulatory complexity. NZX and the market evidently agreed.

Following consultation, NZX has confirmed that it is likely to move to a single equity market, the NZX Main Board, rather than continuing to have a separate equity market or markets for certain types of issuer.

We strongly support this approach, as the NZAX and NXT Market have not delivered the expected benefits to issuers, investors or New Zealand capital markets in general.

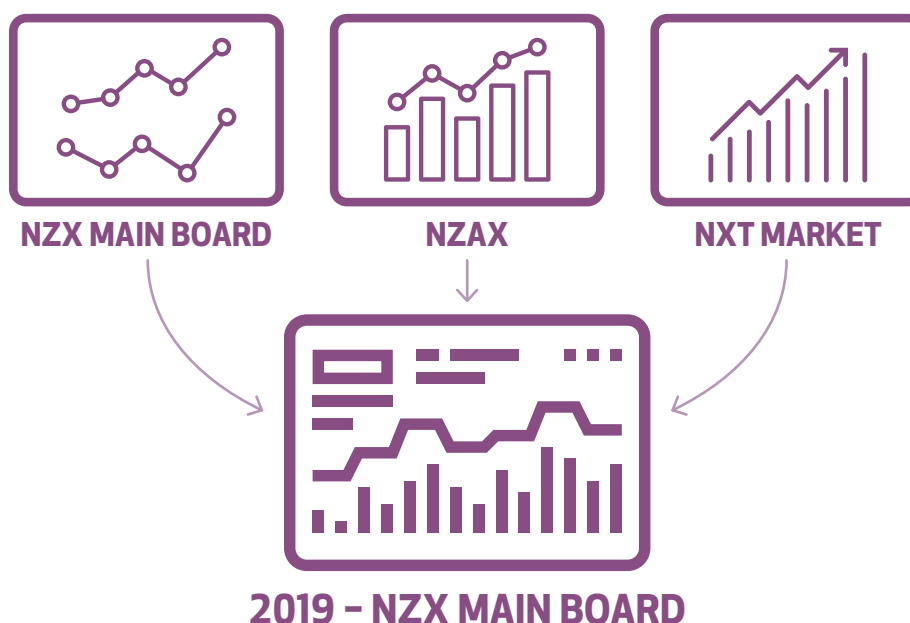
An objective of the Listing Rules review is to deliver flexibility and reduced compliance costs for smaller issuers. We believe that the best way to do this is to provide appropriate flexibility in the rules, rather than creating two separate categories of listings.

Also flagged is the introduction of tailored rules for managed investment schemes, an idea we promoted as a means to encourage product innovation in our 2016 trends and insights publication.

The review has attracted significant interest from market participants, with approximately 70 submissions received. NZX has signalled that the next step is the publication of an exposure draft of the proposed rules for further feedback, which we expect will be released by April 2018.

While changes to the Listing Rules can only go so far in addressing the number of new listings, we believe that NZX and the market in general will see benefits from the new rule set in 2019.

### Three become one



# Getting the regulatory settings right

**It is important that New Zealand's capital markets are subject to regulation that is robust and fit for purpose.**

As noted above, we believe the settings under the Financial Markets Conduct Act are broadly right and a significant improvement on the previous regime that applied to securities offerings in New Zealand.

Nevertheless, we believe there are some key areas where targeted regulatory changes in related areas could assist in making New Zealand's equity capital markets great again. Two such areas, we believe, are the removal of unnecessary restrictions that apply to listed companies under the Overseas Investment Act and improvements to the regime governing financial advisers.

These were both areas that were identified for improvement in the Capital Markets Development Taskforce's final report, released in 2009. With a new Government in office, it is timely to look back at the progress that has been made since this report was released.

The Capital Markets Development Taskforce was an industry-led initiative, and its report included 18 objectives identified by the taskforce to develop capital markets, together with 60 specific recommendations to advance those objectives.

We have issued a report card on how well the 18 objectives of the Capital Markets Development Taskforce have been met. While some progress has been made, most notably in improving information available to investors and filling market gaps, there remains plenty of room for improvement.

**“We believe there are some key areas where targeted regulatory changes could assist in making New Zealand's equity capital markets great again.”**



# Objectives of the Capital Markets Development Taskforce – 2018 Report Card

**B—** WHILE SOME PROGRESS HAS BEEN MADE, THERE  
REMAINS PLENTY OF ROOM FOR IMPROVEMENT

Improve information available to investors	<b>EXCELLENCE</b> Substantially improved under the FMCA
Improve financial advisory services	<b>NOT ACHIEVED</b> Parliament is currently considering replacement of the Financial Advisers Act to improve the previous legislation
Help raise investment literacy	<b>MERIT</b> The Retirement Commission has been rebranded as the Commission for Financial Literacy and Retirement Income to make inroads in this area, but further work is required as many adults lack basic financial knowledge
Improve the quality of existing products	<b>ACHIEVED</b> The FMCA has improved certain aspects, but the investment mandate of KiwiSaver default schemes has not become one that is better tailored to long-run investment needs
Fill market gaps	<b>EXCELLENCE</b> The Mixed Ownership Model proved a success, New Zealand has developed as an agri-business capital market hub (through NZX's dairy derivatives market) and social infrastructure bonds have emerged as an innovative new product
Improve commercialisation and start-up	<b>NOT ACHIEVED</b> Many initiatives in this area have run into controversy, including Powerhouse Ventures, NZVIF and Callaghan Innovation
Free up private markets	<b>EXCELLENCE</b> The FMCA has significantly improved access to private markets and enabled crowdfunding and peer-to-peer lending to thrive
Create stepping stones to public markets	<b>NOT ACHIEVED</b> The failure of the NXT Market highlights that these stepping stones are not working effectively
Fill gaps and deepen public markets	<b>MERIT</b> While there have been some successes in this area, such as the Local Government Funding Agency, there have also been misses, such as the failure to implement a recommendation to extend analyst research coverage to small (and particularly newly listed) firms
Develop exports	<b>NOT ACHIEVED</b> The vision of establishing New Zealand as an exporter of high-value middle and back office services for fund management companies has not been achieved
Develop market infrastructure	<b>EXCELLENCE</b> NZX has introduced a central counterparty clearing and settlement system, which has allowed it to launch innovative new products
Use better information	<b>MERIT</b> New Zealand has used its knowledge of agricultural export prices to help develop a market for dairy derivatives on the NZX
Define clear objectives for regulation	<b>EXCELLENCE</b> The FMCA has provided a clear base for legislation in this area going forward
Review and consolidate market conduct regulators	<b>MERIT</b> The FMA has been established, is well resourced and proven more active and connected to the investment committee than the Securities Commission
Reduce tax biases between different savings and investment options	<b>ACHIEVED</b> Tax changes have been made to addresses this objective, but further work remains to be done to reduce or remove tax biases between housing and other forms of investment

## Getting the regulatory settings right *(continued)*

### Overseas Investment Act

In 2013, the National-led Government published a progress report on Building Capital Markets. One of the items identified was to investigate amending the overseas investment screening regime to treat NZX-listed companies, with no more than 49% foreign ownership or control, as New Zealand companies.

However, this has not been implemented.

While many New Zealanders may agree with the sentiment that foreign investment into New Zealand should be screened, these restrictions also have severe unintended consequences.

New Zealand-based companies, listed on the NZX and which have significant ownership by New Zealand investors can end up needing to meet the same consent requirements as genuinely offshore based companies, such as: Apple, Australian private equity firms and other large multinationals.

### Let's do this – change is needed

Requiring NZX-listed companies to obtain consent makes it less attractive to be listed as it means that many transactions undertaken by these companies will require consent, which increases the time to execute and may count against such companies in competitive processes. In addition, we do not believe it is a good use of the Overseas Investment Office's already stretched resources to be considering these transactions – something that costs all New Zealand taxpayers money – and leads to further delays in scrutinising those transactions that merit closer examination.

The current Labour-led Government has signalled that it intends to change New Zealand's overseas investment regime, so it's an opportune time to progress this issue.

“While many New Zealanders may agree with the sentiment that foreign investment into New Zealand should be screened, these restrictions may have severe unintended consequences.”

## Getting the regulatory settings right *(continued)*

### Financial Services legislation

One area where significant reform has been signalled is the provision of financial advice. The Government has continued progressing the Financial Services Legislation Amendment Bill, which creates a new regulatory regime for the provision of financial advice.

The Bill has been referred to Select Committee, with its recommendations due 7 June 2018. The Bill aims to ensure consumers can access the financial advice they need, improve the quality of financial advice and not impose any undue compliance costs.

We believe that some advisers have taken an unduly conservative view under the previous legislation and accompanying code of conduct as to the nature of investments they can recommend to clients. This may have contributed to the perception that New Zealand investors are more risk averse than others, such as Australian investors.

As such, we believe it is important that the Bill and the revised code of conduct make it plain to advisers that it will be possible to recommend investments in high growth and more speculative shares on the NZX.

In particular, it should be clear that any requirement to assess or review financial products does not necessarily require an adviser to obtain written research on the issuer (as many smaller companies do not have research coverage).

Equally, it is important that the Bill does not impose liability on advisers who put their clients into high risk investments that turn out poorly, where this reflects the instructions from the client and the adviser has acted in accordance with their duties.

This is a difficult balancing act to achieve, but if the Labour Government can strike the right balance between protecting investors and enabling advisers to feel comfortable in recommending higher risk investments (in appropriate cases), it may help reinvigorate trading in the shares of smaller issuers on the NZX.

“We believe some advisers have taken an unduly conservative view under the previous legislation that may have contributed to the perception that New Zealand investors are more risk averse than others.”

# Private equity pipeline

## One trend that we expect will be influential in coming years is a renewed pipeline of private equity portfolio companies looking to IPO.

Several New Zealand private equity firms have raised new funds recently (including Direct Capital V, Waterman Fund 3 and the Pencarrow Bridge Fund), which have already invested in a number of companies. In addition, private equity funds continue to hold investments from past funds which they will look to exit over time.

A route that may prove attractive to realise value for investors in those funds, if the NZX continues to perform strongly, is to exit the holdings in part or in full by way of IPO.

It is fair to say that private equity IPOs may be viewed with some doubt by investors following high profile failures such as Feltex, Dick Smith and Intueri. However, there have equally been some stellar performers in the form of Scales and New Zealand

King Salmon. These IPOs prove that not all private equity IPOs are the dangerous investment some commentators would have investors believe.

Exit by IPO may be particularly attractive for private equity portfolio companies that have a strong retail brand and customer presence. Potential contenders that have been publicly mooted in this category include Partners Life and My Food Bag.

Given the changes we expect in the next year, and the relatively short period that has elapsed since new funds were raised, there may not be any private equity IPO action in 2018. However, from 2019 onwards, provided equity markets remain strong, we think private equity could be an increasing source of quality new listings for the NZX.



**Ross George**  
Managing Director  
Direct Capital

### WHAT DO YOU THINK HAS BEEN THE KEY TO DIRECT CAPITAL'S SUCCESSFUL IPOs?

When we floated NZ King Salmon and Scales they were both well supported during the float, and after-market. That's because they're both great businesses, with outstanding management, and in growing industries. Pricing is incredibly important too when floating a business, as is having

good relations with institutions from the get-go. We'd like to float more businesses in the near future so it's important we ensure the ones we put on the market go smoothly. Having successfully listed Ryman Healthcare, Scales and, most recently, NZ King Salmon, we have the credibility we need in order to float more businesses.

### DO YOU THINK THE MARKET IS STILL "OPEN" FOR PRIVATE EQUITY IPOs?

Yes – we could float any of the above mentioned companies at

the moment. However, there is a difference between New Zealand private equity, and off-shore private equity. For Direct Capital, New Zealand capital markets are sufficient to float our portfolio companies.

### IF THERE WAS ONE THING YOU COULD CHANGE TO MAKE NZ'S CAPITAL MARKETS GREAT AGAIN, WHAT WOULD IT BE?

New Zealand's capital markets need to mirror the country's business base. This would mean having over 200 large profitable private companies on the NZX.



# 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.

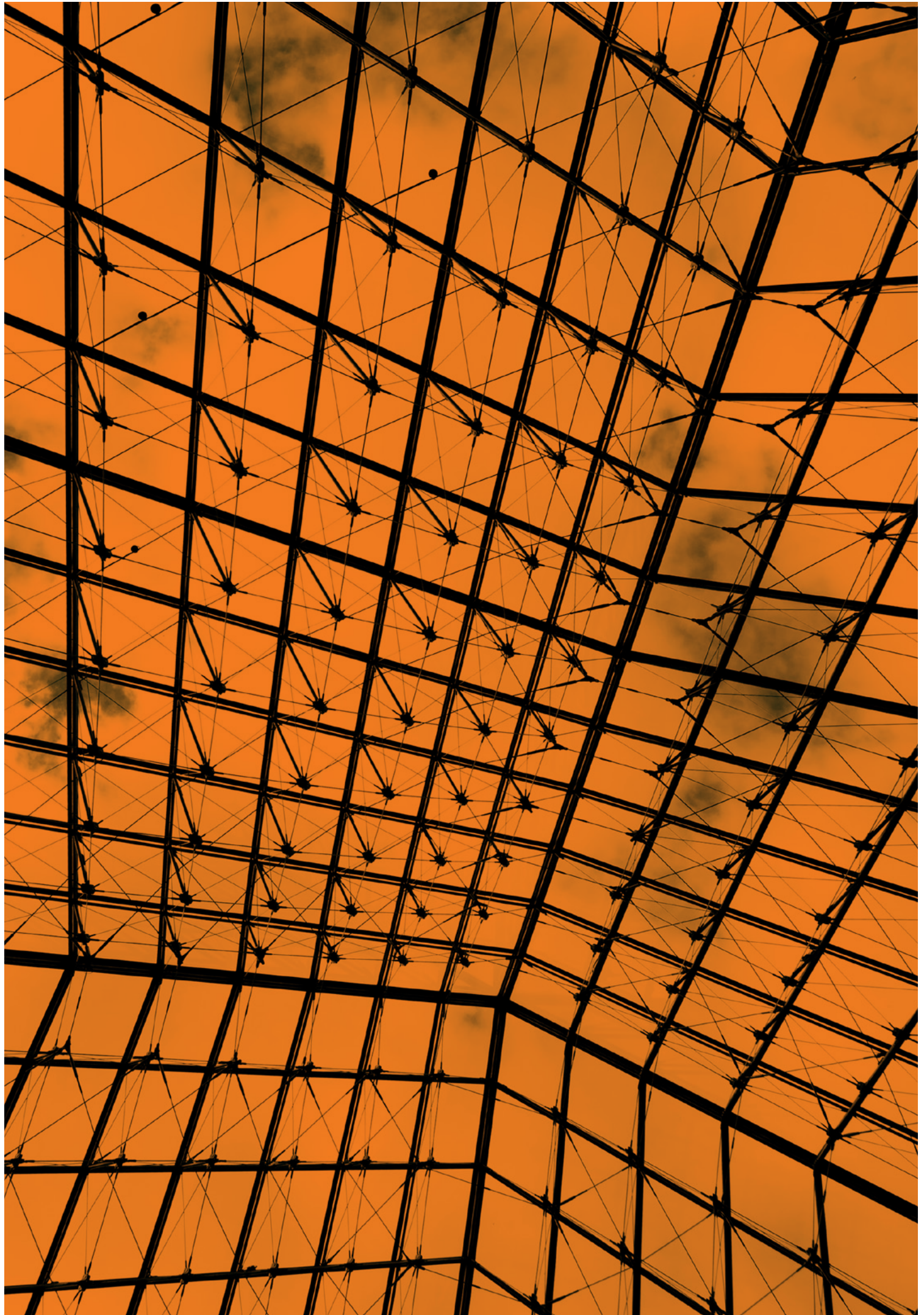
Our unrivalled ECM track record makes us best placed to help clients avoid the risks and obstacles with any capital markets transaction – such as choosing the wrong offer structure or a due diligence process that is not fit for purpose.

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.

## Chapman Tripp recent ECM highlights

In 2017 we advised:

- on 13 of the 16 rights issues, placements and convertible issues over \$5m in value that took place:
  - Precinct Properties on its \$150m convertible note issue
  - Arvida Group on its \$77m underwritten pro rata rights issue and shortfall bookbuild
  - Tower on its \$70.8m underwritten pro rata rights issue
  - Property for Industry on its \$70m underwritten pro rata rights issue
  - Heartland on its \$59m pro rata rights issue and shortfall bookbuild
  - HgCapital on its \$35.5m investment in Gentrack by way of a placement
- EROAD on its \$20.5m placement and sell down by its major shareholder
- Turners Automotive Group on its \$25m underwritten placement and \$5m share purchase plan
- Forsyth Barr as underwriter of Abano's \$35m rights issue
- Goldman Sachs and Forsyth Barr as underwriters on Kiwi Property Group's \$161m AREO
- FNZC as underwriter of Orion Health's \$32m rights issue
- DeutscheCraigs and Ord Minnett as underwriters of Pushpay's US\$25m placement
- FNZC as underwriter of Pacific Edge's \$20m rights issue
- on three of the five block trades that took place:
  - DeutscheCraigs as bookrunner and underwriter for BP New Zealand's sale of its 11% stake in The New Zealand Refining Company for \$80.4m
  - Hugh Green Investments on the sale of its 19% stake in Turners Automotive Group for \$47.4m, and
  - Metlifecare on Infratil's sale of its 19.9% stake for \$238m.





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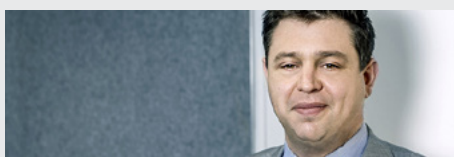


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Chapman Tripp is New Zealand's leading full-service commercial law firm, with offices in Auckland, Wellington and Christchurch. Our lawyers are recognised leaders in corporate and commercial, mergers and acquisitions, capital markets, banking and finance, 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.

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Our thanks to Philip Ascroft and Michelle Chan for helping to write this report.

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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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