

New Zealand Merger & Acquisition Trends

And Implications for the Future

September 2007

CAMERON PARTNERS
investment bankers



About Cameron Partners

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We offer high quality and thoughtful advice that is aligned to our clients' strategic objectives and goals.

We have one of New Zealand's largest corporate finance teams with 17 professionals operating from offices in Auckland and Wellington. Our commitment to delivering solutions that help our clients succeed is backed by our team of senior, experienced investment bankers providing advice on:

- Mergers, acquisitions and takeovers.
- Divestments and disposals.
- Capital management including IPOs.
- Corporate finance and strategic thinking.

Cameron Partners roots are firmly entwined in New Zealand's business landscape. We were established in 1995 to create an investment bank based on the principles of independence, long-term relationships and quality advice. We have a strong local focus, market knowledge and connections.

Our independence means we are able to focus exclusively on our clients' interests free from conflicts.

We have earned our reputation by providing insightful analysis and superb execution.

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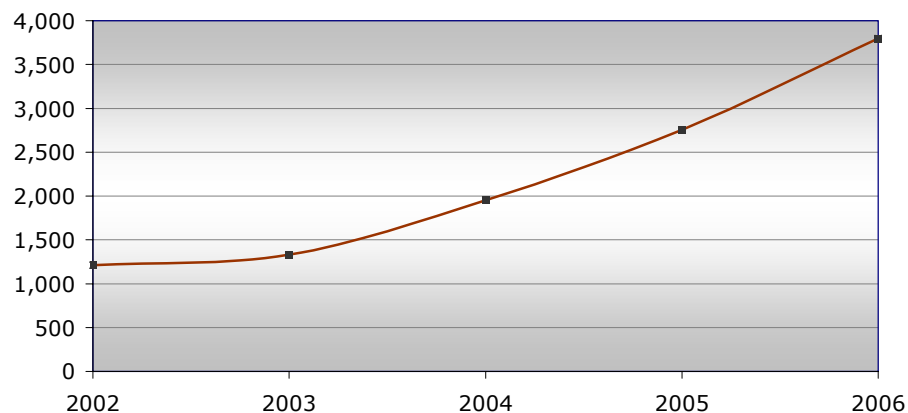
Global and New Zealand M&A Trends

- Globally M&A activity is at record levels and has increased rapidly in recent years:
 - US\$1.3 trillion in 2002 to US\$3.8 trillion in 2006.
 - Compound Annual Growth Rate (CAGR) of 30.8% pa in this period.
 - 1st quarter of 2007 is at around US\$1.2 trillion (up 23% on same quarter previous year).

- NZ is part of this global trend. M&A activity is at record levels and has also increased rapidly between 2002 and 2006.
 - US\$4 billion in 2002 to US\$14 billion in 2006.
 - CAGR of 36.8% pa during the period.

Global M&A Volume

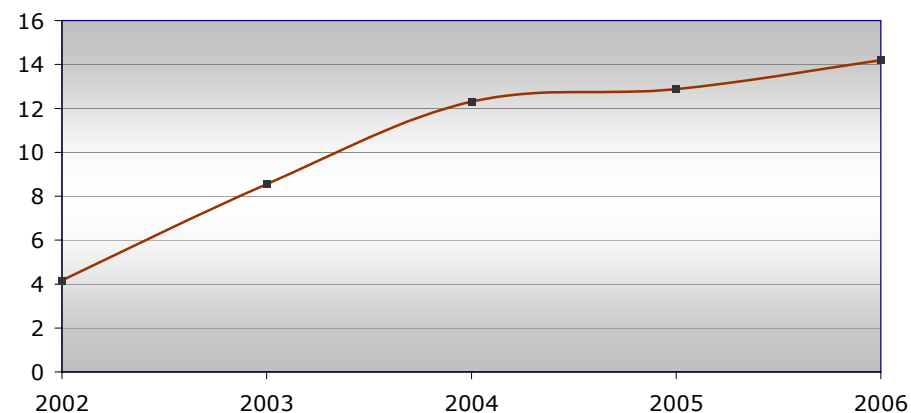
Total Value (US\$b)



Source: Thomson

New Zealand M&A Volume

Total Value (US\$b)



Source: Thomson

What's Driving M&A Activity?

- Much of the global M&A activity is a response to opportunities and threats resulting from forces changing the business landscape:
 1. Globalisation of trade.
 2. The liberalisation of formerly closed economies.
 3. The integration of world capital markets.
 4. The ICT 'revolution'.
 5. The global rise of Private Equity.

- The first two forces are bringing an additional 1.5 billion (relatively low paid) workers on to world markets (five x EC plus US workforces). They are also radically changing the competitive advantage of countries and firms.

- The third force is enabling common capital and execution capabilities to be applied to opportunities on a global basis.

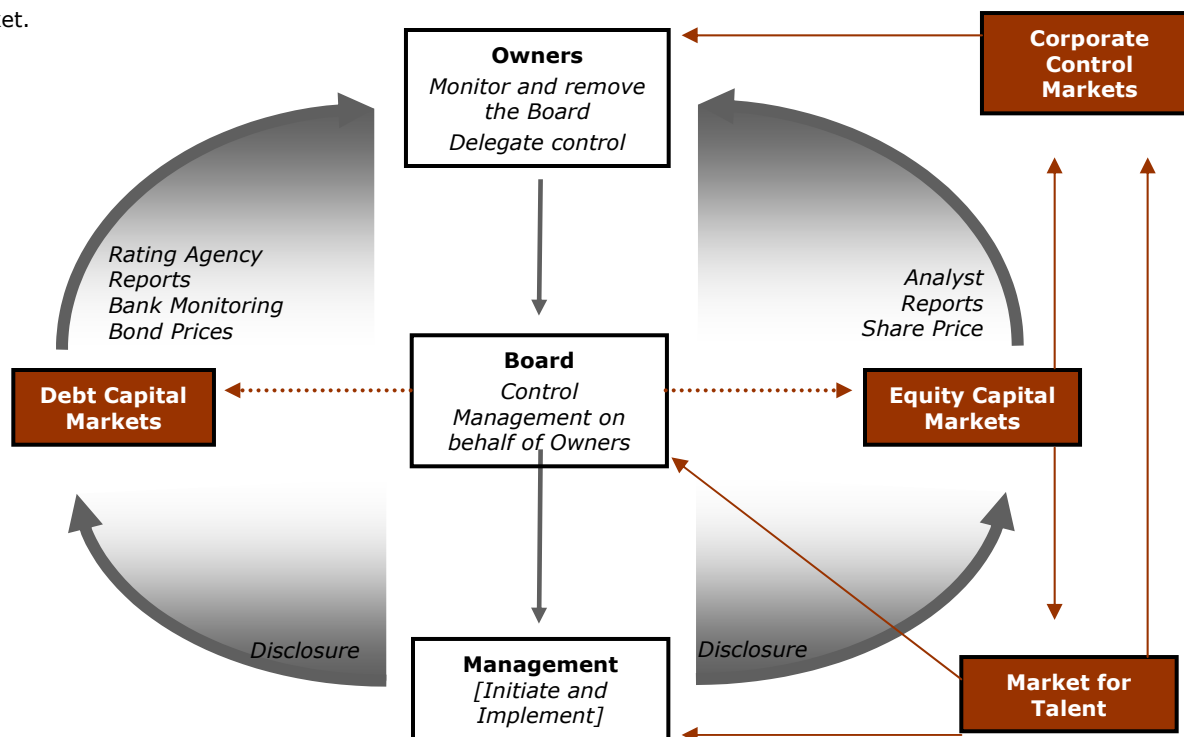
- The impact of the ICT revolution is still in its early stages. There is a long way to go before existing (let alone new) technology is standardised, managed and fully deployed. Previous technological revolutions (eg motorcars, mass production, rail, electricity, telecommunications, etc) demonstrate that, until this deployment occurs and use of the technology become ubiquitous, the impetus provided to productivity and change remains powerful.

- Private equity is proving an increasingly effective ownership form for the organisation of investors' capital.

The Rise of Private Equity

- These structural changes are placing pressure on organisations to adjust and adapt to remain competitive by:
 - Consolidating to capture economies of scale and scope.
 - Reorganising to improve focus, efficiency and capabilities.

- The “efficiency” of corporate form depends on its interaction with three markets:
 - Corporate Control Market.
 - Equity Capital Markets.
 - Talent Market.



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The Rise of Private Equity (continued)

- Each of these markets is coming under increased scrutiny and regulation which impact on the cost and adaptability of the open corporation:
 - The corporate control markets are governed by legislation and regulation which increasingly influences the speed, cost and outcomes of control transactions.
 - The equity capital market is facing higher standards of regulation from rules and legislation affecting securities trading, disclosure, and securities issues.
 - The talent market (directors and managers) faces growing legal and reputational risks arising from new regulatory regimes and regulator, shareholder and consumer activism.

- On the other hand the growth of Private Equity is being driven by two categories of factors:
 - **Performance factors**; and
 - **Funding factors**.

- **Performance factors** are those which are giving Private Equity a competitive edge as an organisational form. They include:
 - Small, capable and focused boards, representing those with value at risk.
 - A focus on growth and value creation rather than short term earnings, and compliance.
 - Active use of high powered/expert advisors.
 - Rapid decision-making.
 - Strong alignment of decision rights, performance measures and incentives.
 - The ability to attract high quality board and management talent.
 - Active use of leverage to drive financial and operational efficiencies.
 - Low compliance and other direct costs.

The Rise of Private Equity (continued)

- **Funding factors** are those which have provided Private Equity with the capital to play and enable its expansion:
 - Aggressive lending from a widening range of financial institutions has dramatically increased the leveraged value of this equity. Lending levels have increased from four to five times EBITDA in 2003 to over eight times in 2006.
 - A number of banks, including Bank of Scotland, are leading the structuring and provision of debt to PE firms.
 - The supply of capital from pension fund growth is increasing allocations to Private Equity. Australian Private Equity funds have grown from \$7.4 billion under management in 2002 to \$22.4 billion in 2006.
 - This supply of capital and the asset pricing resulting from competition amongst Private Equity firms makes it now a genuine (and often preferred) source of capital for growing companies.

M&A at the Local / Regional Level

- While these structural forces are driving global trends our data indicates that two additional features are at work at the local/regional level:
 - The increasing integration of the New Zealand and Australian economies.
 - Increased sales of private companies by their “baby boomer” owners.

- The integration of Australian and New Zealand markets (goods and services, capital and talent) is driving economies of scale and scope across the region in many industries - and leading to Trans-Tasman industry consolidation (eg merchandising, retailing, building products, transport and logistics, financial services, food and beverages, fund management, waste management, civil engineering and construction, tourism and leisure, media and communications, etc).

- ‘Baby boomer’ business owners are boosting M&A levels as they seek to ‘crystallise’ the wealth accumulated in their business, or address succession challenges through complete or partial ownership exits.

What are Acquirers Looking For?

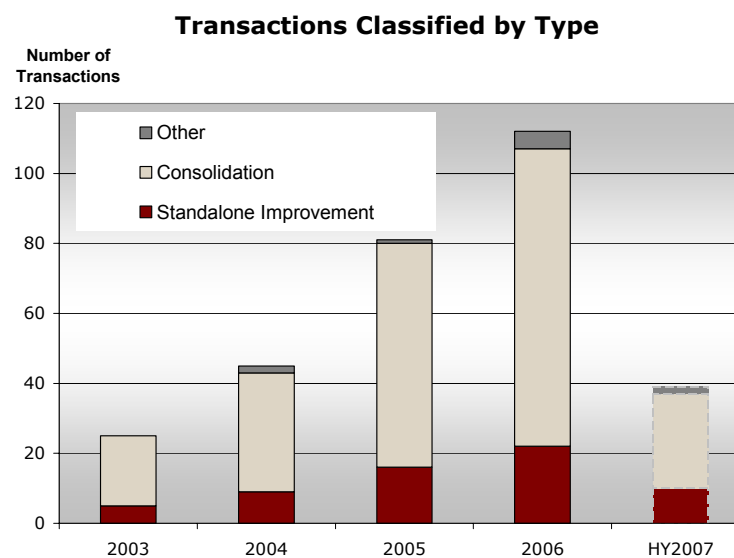
- 'Undervalued' assets are becoming increasingly hard to acquire.
- Even in the 'mid market', acquirers are required to participate in competitive tender processes.
- Acquirers must therefore look to create value and 'buy well'.
- The alternatives for creating value are as follows:
 - Standalone improvements to businesses:
 - Better business plans and business processes.
 - Improved organisational structure.
 - Additional or better capabilities.
 - Financial efficiencies.
 - Consolidations / combinations:
 - Synergies.
 - Best practice gains.
 - Financial efficiencies.
 - Break-ups of businesses:
 - Divesting units / divisions to higher value owners.
 - Capturing synergies with buyers.
 - Other gains:
 - Financial 'engineering' (leverage, lower cost of capital).

How Successful Have Acquirers Been in Finding These Opportunities?

- Between 2003 and 2006 by far the highest proportion of M&A transactions involved **Consolidations**.
 - Consolidations represent the highest proportion of all transactions between 2003 and 2006.
 - In 2006 85 transactions representing 75.9% of total transactions were consolidations.
 - Between 2003 and 2006 the number of consolidation transactions grew at a CAGR of 48.0% pa.

- The next most frequent type of transaction in 2006 targeted **Standalone Improvements**.
 - 19.6% of the total number of transactions were Standalone Improvement Transactions.
 - They are a growing proportion of total transactions.
 - Between 2003 and 2006 the number of standalone improvement transactions grew at a CAGR of 63.9% p.a.

- **Other Transactions** (break-ups and other gains) represented the remainder.
 - 4.5% of total transactions were other transactions.
 - Between 2003 and 2006 Other Transactions represented the lowest proportion of all transactions.



Source © Cameron Partners Merger & Acquisitions Database.

Where Have Acquirers Found These Opportunities?

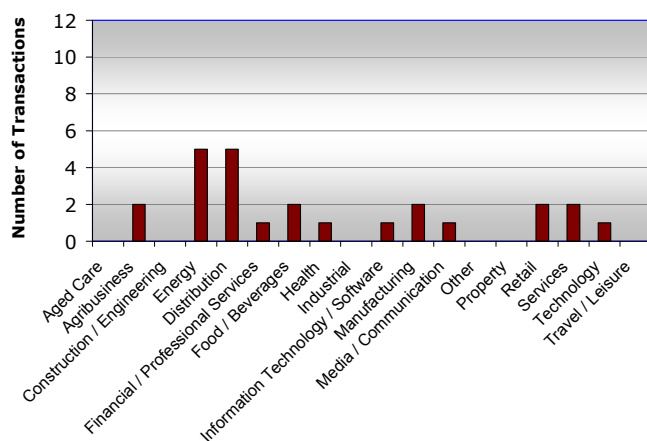
Our analysis focuses on **Consolidation Transactions** and **Standalone Improvement Transactions**, which represent the overwhelming bulk of total transactions (89.4% of the total number of transactions and 88.0% by value in 2006).

Consolidation Transactions

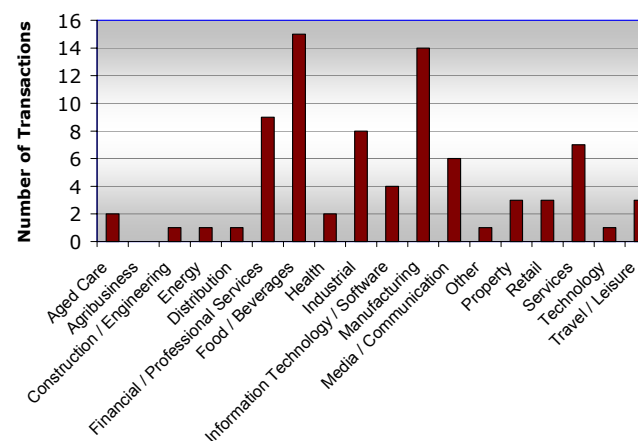
- Every industry experienced Consolidation Transactions between 2003 and 2006.
- The industries which were most targeted for consolidation include:
 - Food / Beverages.
 - Financial / Professional Services.
 - Manufacturing.
 - Industrial.
- In 2006 the Food and Beverage industry represented in excess of 20% of consolidation transactions by value – by far the most targeted industry.

Consolidation Transactions by Industry

Number of Transactions - 2003



Number of Transactions - 2006

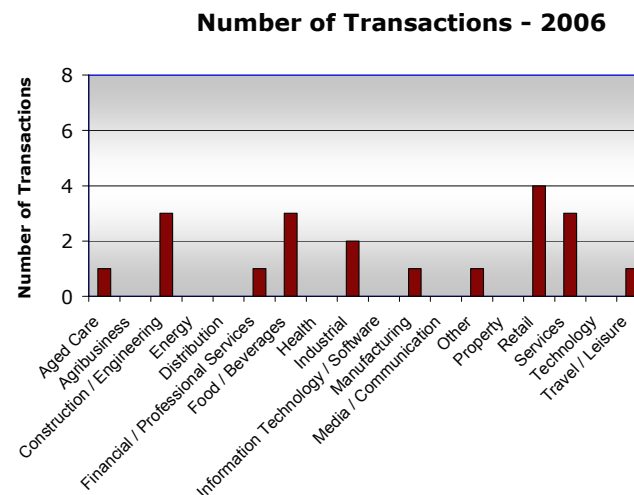
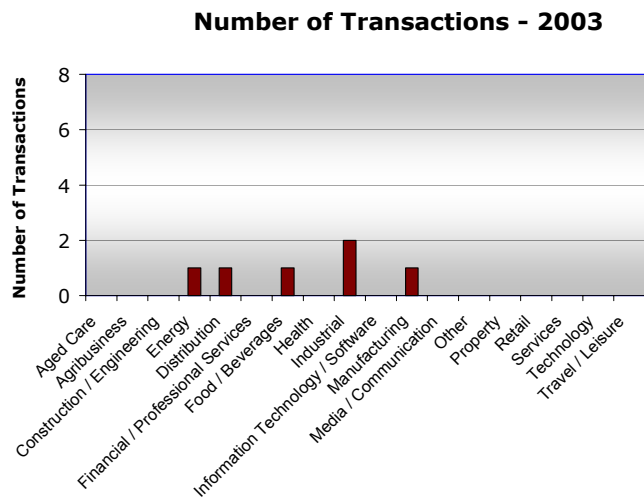


Where Have Acquirers Found These Opportunities? (continued)

Standalone Improvement Transactions

- The majority of industries were targeted by acquirers seeking standalone improvements between 2003 and 2006.
- The exceptions were:
 - Energy.
 - Media / Communication.
 - Property.
 - Technology.

Standalone Improvement Transactions by Industry



Source: © Cameron Partners Merger & Acquisitions Database.

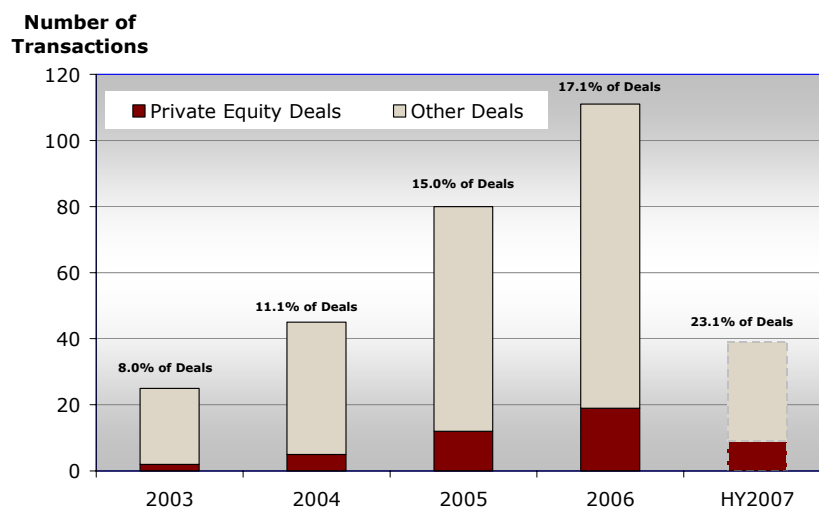
What Type of Acquirer Has Been Involved?

- **Trade players** are still the most prolific acquirers.
 - In 2006 they made 72.3% of all transactions.
 - Their particular focus has been on Consolidation Transactions where they represented 97.0% of transactions.

- The next most significant acquirer is **Private Equity**. These acquirers are also the fastest growing group.

- **Private capital** was involved in 5.4% of transactions in 2006. As with Private Equity, their focus has been on Standalone Improvement Transactions.

Private Equity Share of Total Transactions

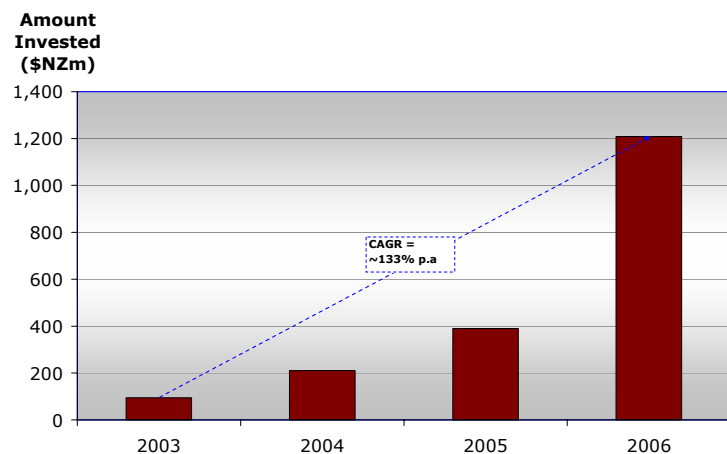


Source: © Cameron Partners Merger & Acquisitions Database.

Private Equity and M&A

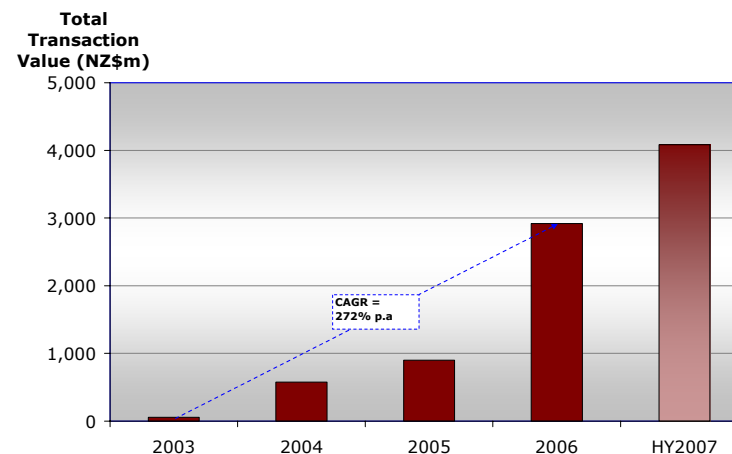
- The rise of Private Equity is the standout development in New Zealand M&A transactions.
- The amount invested into Venture Capital and Private Equity between 2003 and 2006 has increased significantly, most of which was invested into Private Equity.
- This investment has facilitated a significant growth in the value of transactions undertaken by Private Equity.

New Zealand Venture Capital & Private Equity Activity 2003 - 2006



Source: Ernst & Young / NZVCA Survey 2006.

Private Equity Transactions by Value



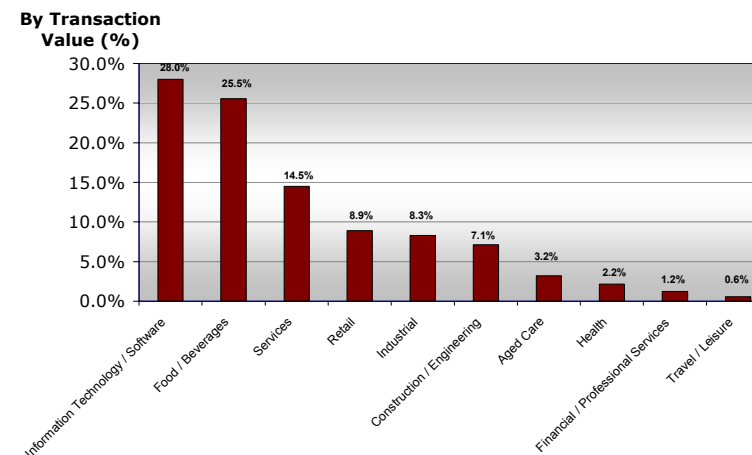
Source © Cameron Partners Merger & Acquisitions Database.

Private Equity and M&A (continued)

- Private Equity activity has increased dramatically from 8.0% of transactions in 2003 to 17.1% of transactions in 2006.
- In this period the number of Private Equity transactions has grown at a CAGR of 111.8% while the value of Private Equity transactions has grown at a CAGR of 272.4%.
- Private Equity acquirers constituted 69.4% of all Standalone Improvement Transactions (compared with 1.7% of Consolidation Transactions).
- Since 2003 Private Equity has invested most heavily in the following sectors:
 - Information Technology / Software¹.
 - Food and Beverages.
 - Services.
 - Retail.
 - Industrial.
- Since 2003 Private Equity transactions have been dominated by Australian Private Equity firms.
- New Zealand Private Equity firms have been active but have generally participated in smaller transactions.
- Non Australasian Private Equity firms have had a much lower profile in New Zealand.
 - The transaction value data is skewed by the acquisition of the Yellow Pages by overseas Private Equity firms.

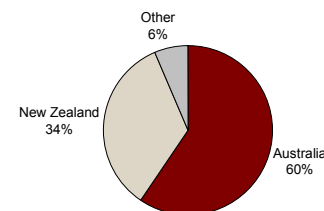
¹ Includes the Yellow Pages Acquisition (\$2.2 billion).

Private Equity Transactions by Industry (2003 – 2006)

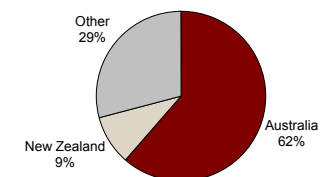


Source of Private Equity Participation in New Zealand Transactions Since 2003

By Number of Transactions:



By Transaction Values:



Source: © Cameron Partners Merger & Acquisitions Database.

The Outlook and Implications

- M&A trends are unlikely to lose momentum. Structural factors will continue to drive global and Australasian activity.
- We will continue to see further integration of the New Zealand and Australian economies.
- Private Equity will increase its role in and share of M&A transactions in New Zealand.
 - Many of their standalone acquisitions will become platforms for industry consolidation.
 - 'Public to private' offers have become prominent in Australasia (less contestable than sale tenders) although large acquisitions are proving difficult to complete.
 - Private Equity 'clubbing' and 'partnering' is increasing the size and number of deals that Private Equity can contemplate.
 - The level of committed funding in place has risen rapidly and continues to rise.
- Publicly listed companies are coming under increased pressure to learn from and adopt the practices of Private Equity firms, including:
 - A focus on value creation.
 - Regular review of business plans and strategy.
 - More aggressive capital structures.
- Publicly listed companies will need to learn how to deal with an increasing incidence of unsolicited offers and develop protocols to manage conflicts around management participation. New Zealand publicly listed companies are 2-3 years behind their Australian counterparts in developing their response to takeover and merger offers – few are well-prepared.
- An increasing number of private companies will partner with or be acquired by Private Equity firms looking to enhance value, grow their businesses and deal with succession.
- The injection of capital, capability and performance pressures associated with these developments will be positive for:
 - New Zealand's wealth base.
 - The efficiency and productivity of our industries.
 - New Zealand's economic growth.

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