



Private equity reports rise in overall activity and market confidence

New Zealand's private equity market is emerging from the recession in a positive frame, according to a new report released today by Ernst & Young and the NZVCA.

Results of the report – the seventh full-year New Zealand Private Equity and Venture Capital Monitor 2009 - show significant increase in activity compared with 2008, both in terms of the number and value of deals.

The rise in overall activity saw \$645.1 million of activity in 2009 compared to \$224.6 million in 2008. Medium-sized private equity deals were resilient, and angel investor-led venture capital activity increased significantly.

Results show a significant rise in optimism in the sector with 93 percent of respondents optimistic or neutral about the next six months, up from 46 percent in 2008. Optimism for the medium-term prospects has also risen sharply.

Ernst & Young Partner Andrew Taylor said the survey results are promising.

“While 2009 was a challenging year for private equity on all fronts, confidence is returning to capital markets. The increased activity both bodes well for the sector over the next 18 months.

Mid-market is the one to watch. While overall investment levels have remained stable, with recently completed successful capital raising by a number of private equity firms we can expect to see some solid mid-market investment activity over the next few years.”

“Large top-end deals remain quiet, although 2009 saw two follow-on investments. This is to be expected given the reluctance of the financial institutions to provide support for leveraged deals.

Angel-led venture capital activity shows that promising young companies are finding investment capital, but the results also show the need for more venture capital investment to support companies through the early stage pipeline.”

New Zealand Private Equity and Venture Capital Association Chair, Franceska Banga, said that the survey results provide a good platform for growth over the next few years as the economic climate improves.

“We are seeing confidence in private equity from experienced investors attracted by the industry's successful track record. We would like to see new funds emerging at the venture capital stage, and more large institutions – like the pension funds – following the example of the New Zealand Superannuation Fund and allocating investment capital to private equity.

“With so many New Zealand companies in private ownership, private equity is a crucial source of capital. There are attractive investment opportunities, particularly as we emerge from the recession, and more private equity investment is needed to support the growth and expansion of the New Zealand economy and the development of our capital markets.”

The New Zealand Private Equity and Venture Capital Monitor is an annual survey of New Zealand's private equity and venture capital funds. It is undertaken by Ernst & Young and the NZVCA.

Highlights

Investments

- Total 2009 investment of \$177.6m was almost identical to that seen in 2008.

- In the venture capital segment angel investor activity supported similar investment levels to 2008 while the return of top-end private equity activity, largely in the form of follow-on investment, offset a decline in mid-market investment activity by Australian domiciled funds.
- New Zealand mid-market fund investment levels remained steady at around \$50m, being closely in line with 2008.
- In total, 108 deals occurred in 2009, similar to 2006 and significantly up from 2007 and 2008 levels, with average deal size decreasing from \$2.2m in 2008 to \$1.6m in 2009, reflecting the influence of the angel investment activity.

Divestments

- Divestment activity in all categories was up substantially on 2008.
- A significant venture capital divestment transaction was completed during 2009.
- Five mid-market divestments with a total value of \$58.9m were reported in 2009. This represents a significant increase on the total divestment activity of \$46.5m in 2008.
- Two significant divestments were recorded in the top end private equity segment, with a total deal value of approximately \$390m.

About the survey

The New Zealand Private Equity & Venture Capital survey is based on 19 responses received from venture capital and private equity participants in the New Zealand market, including firms from both New Zealand and Australia. Also included in the analysis is any publically announced information. It is noted that there are a small number of industry participants that elect not to participate.

About the New Zealand Private Equity & Venture Capital Association

The NZVCA is a not-for-profit industry body committed to developing the Venture Capital and Private Equity industry in New Zealand. Its core objectives include the promotion of the industry and the asset class on both a domestic and international basis and working to create a world-class Venture Capital and Private Equity environment. Members include Venture Capital and Private Equity investors, financial organisations, professional advisors, academic organisations and government and quasi-government agencies.

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