Introduction: New Zealand remains a popular investment destination

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Introduction:
New Zealand remains a popular investment destination

The last few years have been strong for inbound M&A in New Zealand, a crucial driver for much-needed foreign investment. This activity reflects overall global trends, but is it set to continue?

We went to 80 offshore organisations (global trade and private equity) who completed investments here over the past five years, asking them to share their views about the New Zealand market. This report summarises those views and offers a unique window into the experiences, perceptions and future investment intentions of offshore investors when it comes to New Zealand.

Offshore investor interest into New Zealand remains upbeat
A large majority (77%) of offshore investors surveyed say they are looking again to New Zealand in the next three years. Most seem likely to come from Asia Pacific, but also from Europe and North America.

New Zealand has a lot to offer offshore buyers
Our respondents explained why they see investment in New Zealand as an attractive option, despite our geographic location, small population and small market.

- **In-market opportunities.** Particularly in the Consumer and TMT sectors, local targets provide domestic growth opportunities and are seen to have sophisticated local consumer bases. There are also targets here with assets and expertise ripe for scaling up and deploying offshore.

- **Regional benefits.** Relative to other nations, New Zealand represents a good, stable investment option (good global recognition, corruption not an issue) for investors seeking to expand into the Asia Pacific region.

- **Fair valuations and positive deal environment.** Valuations are seen as fair, deal terms are reasonable and in line with global standards and local advisors are recognised as pragmatic and highly effective.

- **Buffer against uncertain global market conditions.** Global uncertainty is prompting caution but not halting offshore investors from coming to New Zealand. There is a view that our economy, despite size and geographic location, should be resistant to some global headwinds.

The overseas investment regime has room for improvement
New Zealand’s overseas investment regime was not a deterrent to doing deals, but meant some respondents faced uncertain timelines and process requirements. Investors who prepared well, and particularly those who sought local advisor help at an early stage, had the most positive experiences.

With the review of the scope of the regime signalled earlier in 2019, the government has an opportunity to improve experiences for investors by addressing the existing uncertainty and delay issues. We think investors would support those changes and view them as making a positive difference overall.

We hope you enjoy reading our report. Please get in touch with any of our contacts if you would like to discuss any of the findings in more detail.

Michael Pollard
*Head of Corporate*
Simpson Grierson
michael.pollard@simpsongrierson.com
### Key findings

<table>
<thead>
<tr>
<th><strong>77%</strong></th>
<th><strong>86%</strong></th>
<th><strong>87%</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Of foreign investors surveyed intend to invest in New Zealand in the next three years.</td>
<td>Expect an overall increase in the M&amp;A market in the year ahead.</td>
<td>Believe foreign MNCs will increase investments in the year ahead; 66% say the same for foreign PE/VC firms.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Inbound M&amp;A totals:</strong></th>
<th><strong>Inbound M&amp;A accounted for:</strong></th>
<th><strong>US$4bn</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>US$27.3bn</td>
<td>94% of deal value and 62% of deal volume in 2018.</td>
<td>(14 deals) in inbound M&amp;A in H1 2019.</td>
</tr>
</tbody>
</table>

| Political/Regulatory stability is New Zealand’s top advantage as an investment destination. | Consumer and TMT are tapped as the top opportunity sectors. | 74% say deals were easier than, or went as planned, resulting in an overall positive investment experience. |

| 72% completed deals within one year. | Local legal advisors were most frequently used by recent investors and provided the most value to the deal process. | Market size/Expansion limitations was the top challenge facing investors. |
Section 1: New Zealand M&A and the bigger global picture

Offshore investment into New Zealand is driven by global capital trends and local market conditions, resulting in a local M&A market that remains strong but is coming off the 2018 peak.

New Zealand M&A benefitting from global capital flows
Making sense of the New Zealand M&A market, and the intentions of offshore investors in relation to it, means understanding global capital flows as well as New Zealand market conditions.

Global M&A activity continues to rise, defying expectations, reflecting needs of multinationals to keep searching for market strength and private capital to find a productive home. Geopolitical instabilities are prompting caution but also creating significant opportunities. As our research shows, New Zealand and the opportunities it provides offshore investors seeking to manage these factors, is benefitting.

New Zealand M&A still strong in 1H 2019, but coming off 2018 peak
More than US$4bn in New Zealand deals funded by inbound investment were announced in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1). Inbound deals accounted for 96% of deal value in H1 2019, tracking behind H2 2018 (US$4.3bn) but ahead of historical half-year values (Figure 1).

Zealand for US$2.25bn played a significant part in the H1 2019 deal values.
H1 2019 results show that the New Zealand M&A market tracked global trends. While the overall volume of deals decreased in this period, against the global factors at play, we believe offshore investment into New Zealand productive assets will remain strong:

- A good investment is a good investment wherever it is – and investors see New Zealand as having some attractive targets.
- The phenomenal rise in private capital means fund managers...
Expanding horizons: The offshore perspective on investment into New Zealand

must work even harder to secure productive investments, making non-traditional and more distant markets (like New Zealand) more attractive.

- Global corporates searching for new markets and new products find good options in the Asia Pacific region, and New Zealand is a good option within that region.

Continued offshore buyer interest points to ongoing, albeit more moderate, dealmaking in the months and year ahead as New Zealand remains an attractive investment destination amid geopolitical turbulence and various global disruptions. Respondents anticipate a solid year ahead for M&A in New Zealand: 86% expected an increase in dealmaking while the remaining 14% said it will maintain current levels (Figure 2).

![Figure 2. What do you expect to happen to M&A in New Zealand in the next 12 months?](image)

- Increase significantly: 11%
- Increase moderately: 75%
- No change: 14%

Global M&A still growing, with offshore market opportunities remaining important

Defying expectations, global M&A staged a comeback in H1 2019, rising 20% in value from H2 2018 (US$1.5tn) to hit US$1.85tn. While this was 9% less than H1 2018 (US$2tn), it was the second-highest half-year on record, a surprise given geopolitical uncertainties and macroeconomic complexities that have shaken dealmaker confidence over the past year. In volume terms, however, fewer total deals were completed. The 8,964 deals announced in H1 2019 marked one of the lowest half years since 2014.

- Megadeals play heavily: Larger corporations completed transformational deals in a search for scale, as well as restructuring business lines, selling non-core and underperforming assets, freeing up acquisition funds while also creating deal opportunities for the right buyers.
- Continued rise of private capital: North American private equity firms completed over 20 deals valued US$1bn plus in H1 2019, European private capital capacity is at an all-time high, and megafunds are still being raised on both sides of the Atlantic. PE buyers look set to take on an even larger share of global M&A going forward.

- Focusing on home markets particularly in the US: Heightened geopolitical risks and rising protectionism are prompting investors to look inward for opportunities. US domestic M&A in H1 2019 accounted for 67% of global deal totals, up from the yearly average of 61% since 2010.

Dealmakers are not forsaking foreign markets though. Globally, cross-border M&A deal values increased 7% from H2 2018 to hit US$729.6bn in H1 2019, although volumes declined 14%. While the merits of such deals – access to new markets, customers, and technologies for the buying – remain sound, dealmakers will likely place greater scrutiny on M&A ventures abroad as they search for markets with not just abundant opportunities, but strong and stable fundamentals to ride out complexities that have become staples of the current global deal landscape.

Analysis provided by Mergermarket Global M&A H1 2019 trend summary
New Zealand M&A market: Bull run slowing but bears still asleep

2018 was a record-breaking year for New Zealand M&A. Greater than ever numbers of businesses were bought and sold – both privately and through takeovers of listed companies. Deal volumes and aggregate deal values rose still further from 2017. Drivers appeared to be led by solid economic fundamentals (domestically and amongst offshore buyers), strong corporate balance sheets, and private capital looking for opportunities, aided by an overriding sense of cautious optimism.

Any bull run has to end – however, we don’t think that’s happening just yet. More likely, the bull run is slowing to a more sustainable speed, highlighted by some of the following trends:

• Private equity is still looking to buy. The levels of private capital needing a productive home are still growing. Fund managers are working hard to find productive homes for that capital, including in markets like New Zealand.

• Global trade buyers push ever further into new markets, and New Zealand is no exception. The physical distances for these buyers mean much less than they used to.

• Traditional investment fundamentals remain. The prevailing focus seems to be on deals showing a solid strategic rationale or defensive growth characteristics – those which don’t require a bullish economy to grow.

There is a sense of cautious optimism for the New Zealand M&A market, despite global concerns. Deal volumes in the first half of 2019 are down on 2018, but investor sentiment about a desire to transact in New Zealand is still positive. With volumes easing but values remaining high, businesses are focusing on doing the critical deals and doing the work to ensure the investment case is well supported. We are seeing less opportunism and risk-taking.

However, sentiment rules the capital markets. With the unprecedented political upheaval in the US and Europe, and ever more complex geopolitical factors at play, one cannot help but wonder what major economic or political event will come along and wake up the bears.

James Hawes, Partner

New Zealand presents key strategic growth opportunities for foreign investors, whether it be the solid platform for growth through the Asia Pacific markets or new product availability from our innovation. The political and regulatory stability with a predictable business environment makes New Zealand an obvious candidate for investment. Beyond that, asset valuations are attractive – they’re not inflated or above expectations – and that’s critical in the quest for yield and return on capital, particularly in the current market.

Andrew Matthews, Partner
Section 2: New Zealand’s many advantages continue to drive international investment

77% of international investors are planning to invest here in the near term, supporting a positive market outlook.

Foreign interest in New Zealand is strong
77% of the offshore investors surveyed said they plan to invest in New Zealand within the next three years (Figure 3). All participants in our research have completed at least one deal in New Zealand, while several are serial acquirers, recognizing the country’s potential for solid returns, stability and future prospects. 75% of respondents represented global corporations and 25% represented private equity firms.

“Our last acquisition really helped increase our business geographically. The value add of doing a deal in New Zealand cannot be ignored and we’re already looking at other opportunities.” – CFO, US-based corporation

Several reasons why offshore investors look for opportunities in New Zealand
Despite its place on the globe, New Zealand is an attractive investment destination for offshore buyers – global trade players and private equity firms.

We’ve seen investment in New Zealand increase significantly over the last decade. This has been driven by our alignment with the predictable regimes in Australia, North America and Europe.

Rob McLean, Partner

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Figure 3. Are you considering or would you consider an acquisition in New Zealand?

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Yes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the next 12 months</td>
<td>13%</td>
</tr>
<tr>
<td>12-24 months</td>
<td>44%</td>
</tr>
<tr>
<td>24-36 months</td>
<td>20%</td>
</tr>
<tr>
<td>3-5 years</td>
<td>0%</td>
</tr>
<tr>
<td>No</td>
<td>3%</td>
</tr>
<tr>
<td>Unsure</td>
<td>21%</td>
</tr>
</tbody>
</table>
equity alike. Respondents count the following areas as New Zealand’s strengths (Figure 4).

**Good quality targets**
- A mature market with quality investment opportunities and a reliable exit environment;
- Sophisticated consumer base, proven as willing to adopt new technologies;
- Diverse and innovative range of products and businesses in key growth sectors (consumer and tech among these).

**Advanced technology, IP and consumer goods important drawcards**
- A mature tech market and the possibility to acquire (45% of respondents reported this as a key advantage);
- Home to an established and growing tech ecosystem with a highly skilled and stable workforce;
- Tech is one of New Zealand’s top export sectors;
- TMT and Consumer sectors rank as the top opportunity sectors (as discussed on pages 14-15), both historically deal-heavy sectors for inbound investment.

**In-market and regional expansion opportunities**
- Strong economic momentum in domestic market and potential to expand into regional consumer markets across emerging Asia;
- Provides a platform for growth in a region of high growth but sometimes high-risk emerging markets;
- Makes for an effective proving ground where investment and business strategies can be tested before expanding into other global markets.

**Political and regulatory stability**
- A sound and stable political and regulatory climate leads the list of advantages, according to 50% of respondents. Stability

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### Figure 4. What makes New Zealand attractive as an investment destination for you? Please choose up to three.

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political/regulatory stability</td>
<td>50%</td>
</tr>
<tr>
<td>New/advanced technology</td>
<td>45%</td>
</tr>
<tr>
<td>Valuations/returns</td>
<td>44%</td>
</tr>
<tr>
<td>Positive economic outlook</td>
<td>39%</td>
</tr>
<tr>
<td>Legal certainty</td>
<td>29%</td>
</tr>
<tr>
<td>Competitive environment (relatively few buyers/competitors)</td>
<td>29%</td>
</tr>
<tr>
<td>Funding/investment opportunities</td>
<td>25%</td>
</tr>
<tr>
<td>Deal sourcing opportunities</td>
<td>23%</td>
</tr>
<tr>
<td>Favourable tax regime</td>
<td>18%</td>
</tr>
</tbody>
</table>

While New Zealand has a very healthy domestic market in terms of private capital it is, by virtue of the size of the country, limited in nature. That, coupled with constraints in our public capital markets, means that inbound foreign investment is a vital mechanism for offering liquidity to New Zealand business owners.

*James Hawes, Partner*
Expanding horizons: The offshore perspective on investment into New Zealand
recognised as a significant plus as geopolitical uncertainty and nationalist fervour become norms globally.

“New Zealand’s economic stability is a definite plus and has helped minimize risks to a great extent.”
— Managing Director, Australian private equity firm

‘Safe haven’ from macro-events
- Respondents recognize New Zealand as a relative safe haven from macro-events (US-China trade war, Brexit, etc) shaking global markets.

Fair valuations and positive returns
- Valuations and robust returns (44% of respondents) are also factors that create investment incentives.

“Return prospects have been improving in recent years.”
— Director of Strategy, Chinese corporation

- Most respondents found valuations to be reasonable compared to other jurisdictions they have invested in recently. 59% said the price paid was within expectations or fairly valued.

Positive deal experience
- 61% of respondents say their past M&A experience in New Zealand was positive and this will be a factor behind further investment (Figure 5).
- This group also highlights that the experience gained from their first deals and the valuable lessons learned will make their next round of investing easier and potentially more rewarding.

Figure 5. How has your previous M&A experience in New Zealand had an impact on your investment intentions in New Zealand?

<table>
<thead>
<tr>
<th></th>
<th>More likely to invest again</th>
<th>Had no impact</th>
<th>Less likely to invest again</th>
</tr>
</thead>
<tbody>
<tr>
<td>61%</td>
<td></td>
<td></td>
<td>31%</td>
</tr>
<tr>
<td>8%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overseas investment welcome in New Zealand but protections exist for particular assets

Investments in ‘sensitive land’ and/or ‘significant business assets’ by an ‘overseas person’ need regulatory approval. Respondents have highlighted the benefits in being well prepared, both in terms of the approval application and timeline, to minimise delays.

Key points:
- An overseas person is anyone who is not a NZ citizen or who is not ordinarily resident in NZ. For companies – the test focuses on 25% or more overseas ownership or control.
- Sensitive land includes a freehold interest, or a leasehold interest of more than three years, in non-urban land areas of more than five ha, residential land and certain land adjacent to waterways, parks, conservation areas, or areas of historic significance.
- An investment in a significant business asset includes acquiring 25% or more of a business where the value of the investment exceeds NZ$100m. Also included is any acquisition of property for more than NZ$100m. The threshold values are higher in relation to investors from certain countries.
- The application focuses on whether or not the overseas person has relevant business experience, is financially committed and of good character. An applicant seeking to acquire sensitive land must also demonstrate that the purchase will bring a net benefit to New Zealand (assessed against certain factors).
- There are no statutory timeframes for application processing times. Investors can expect between five-six months for a significant business asset application, and six-nine months for a sensitive land application. Applications can take more time depending on the complexity of the transaction, the amount of sensitive land involved, and the workload of the OIO (among other factors).

While the recent consultation on changes to the overseas investment regime has not yet resulted in a firm proposal, we welcome changes to reduce appropriately the friction experienced by investors in the process.

Cath Shirley-Brown, Partner
Section 3: Global corporates and private investors set their sights

Respondents see opportunities in New Zealand for foreign corporations and private capital in 2019 and beyond. Investors from North America, Asia Pacific and Europe intend to increase investment in New Zealand following recent successful deal experiences.

Foreign investment will continue to drive deals in New Zealand in the short to medium term. 87% of respondents say foreign corporations will play a leading role in this activity, alongside foreign PE and VC firms (Figure 6). These sentiments follow a continuation of historical M&A trends, where inbound M&A has consistently tracked higher than domestic dealmaking. Inbound M&A hit an historic high in 2018, ending the year with US$7.7bn through 80 deals (Table 1). These figures contrast with the domestic M&A market where only US$490m and 49 deals were completed.

PE/VC firms have been important market participants despite the extent of activity by foreign multinationals. Since 2013, PE/VC firms accounted for 35% of all inbound deal dollars and 18% of deals, numbers that in H1 2019 reached 81% and 13% respectively. PE/VC firms have also been behind some of New Zealand’s megadeals since 2018:

- Apax Partners’ (United Kingdom) US$1.8bn acquisition of Trade Me Group in June 2018;
- Brookfield Asset Management (Canada) completed a US$2.25bn takeover of Vodafone New Zealand (while partnering with New Zealand-based Infratil) in May 2019;

Smaller PE/VC investments, however, have been the norm as larger funds recognize New Zealand businesses for their growth potential and favourable conditions, creating a buoyant exit market.

Other high-profile inbound deals since 2018 have included Finaccess Capital’s acquisition of Restaurant Brands for US$692m and OMV AG’s acquisition of gas producing fields in New Zealand from Royal Dutch Shell for US$578m. Chinese investment has also played into top deals, including Inner Mongolia Yili’s US$403m deal to acquire Westland Co-operative Dairy in March 2019.

Asia Pacific buyers lead the trends

Investors from Asia Pacific were most active, accounting for 55%
of deal value and 58% of volume since 2013 (Figure 7). Large numbers of these investors are also intent on investing in New Zealand within the next three years: 74% say they will do so, of which 15% say they will invest within the year.

Australian investors lead the Asia Pacific investment group reflecting close cultural ties between Australia and New Zealand. This dealmaking contributed US$7.5bn in deal dollars since 2013 (31% of total inbound deal value).

Chinese deals have also been numerous, although future investment is far from certain. While China was the third-largest inbound investor group (US$3.3bn in deal values) since 2013, Chinese investment has slowed as Chinese government efforts to rein in excessive cross-border dealmaking places greater restrictions on outbound forays.

Is European capital backing down or set to rebound?
Since 2016, European and North American investors have been noticeably more active (Figure 8). Inbound values from Europe reached a peak of US$3.4bn in 2018. Investors from the United Kingdom have led these investments, accounting for US$2.5bn in deals and the fourth-largest investor country since 2013. Private equity funds have played heavily in this activity, led by the Apax deal. However, most dealflow was based in mid-market transactions and those involving strategic corporate buyers.

While overall inbound M&A from Europe is down in H1 2019, respondent appetite remains strong and many are positive of a rebound:

- 81% say they will complete an acquisition within the next three years;
- 67% note that past deal experience will motivate this dealmaking.

Table 1. New Zealand M&A: Inbound-Domestic comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Inbound value</th>
<th>Inbound volume</th>
<th>Domestic value</th>
<th>Domestic volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>H1</td>
<td>US$499m</td>
<td>19</td>
<td>US$331m</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>H2</td>
<td>US$1.1bn</td>
<td>34</td>
<td>US$564m</td>
<td>28</td>
</tr>
<tr>
<td>2018</td>
<td>H1</td>
<td>US$3.4bn</td>
<td>39</td>
<td>US$92m</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>H2</td>
<td>US$4.3bn</td>
<td>41</td>
<td>US$398m</td>
<td>34</td>
</tr>
<tr>
<td>2019</td>
<td>H1</td>
<td>US$4bn</td>
<td>14</td>
<td>US$175m</td>
<td>12</td>
</tr>
</tbody>
</table>

Figure 6. What do you expect to happen to M&A in New Zealand regarding the level of activity from the following acquirers/investors in the next 12 months?

- New Zealand corporations: 28% increase significantly, 50% increase moderately, 21% no change, 1% decrease moderately
- New Zealand PE/VC firms: 20% increase significantly, 41% increase moderately, 35% no change, 4% decrease moderately
- Foreign corporations: 46% increase significantly, 41% increase moderately, 10% no change, 3% decrease moderately
- Foreign PE/VC firms: 6% increase significantly, 60% increase moderately, 26% no change, 8% decrease moderately

With New Zealand an attractive investment market, valuations may push higher as well funded private equity investors compete for quality investments. However, attractive opportunities are still available at valuations which, relative to other jurisdictions, still deliver significant returns.

Cath Shirley-Brown, Partner
North American investors ramp up dealmaking

North American investment accounted for 27% of inbound value and 19% of volume since 2013, and recent trends showed an uptick in investment spend. Respondents from North America are positive this will continue, with 73% saying they will invest in New Zealand over the course of the next three years.

PE/VC firms helped drive investment from North America. For example, the US$1bn acquisition of Transaction Services Group by US-based firm Advent International in June 2019 (the firm also bought Nuplex for US$799m in April 2016). Since 2013, Blackstone Group has completed investments, as have PE firms from Canada and Mexico.

In total, US buyers have completed US$4.7bn in deals since 2013, accounting for 18% of inbound values in that period. In H1 2019, the US was the second-greatest inbound buyer geography (US$1bn), behind Canada via the Infratil-Brookfield deal to buy Vodafone (US$2.25bn).

Investors come to New Zealand for a number of reasons. While our stable regulatory regime and attractive valuations are important factors, often the key driver for local investment is strategic, such as the opportunity to build their global footprint in the region or acquire new technology and IP.

Rob McLean, Partner
Figure 8. New Zealand M&A: Inbound deal volume by bidder geography
Section 4: Consumer and tech opportunities take centre stage

Investors see the most opportunities in the consumer and technology, media and telecommunications (TMT) sectors.

Investor appetite is strong for investments in several of New Zealand’s key industries. Consumer and TMT stand out, with 64% and 63% of respondents confident in both sectors to deliver value with a limited amount of risk (Figure 9).

Consumer sector sees shopping spree
New Zealand’s consumer space – including food related businesses (like dairy) and retail operators – has seen a noticeable uptick in foreign interest. Since 2016, value totals have skyrocketed from US$147m to US$2.5bn in 2018 with deal volumes increasing in step. The sector accounted for 22% of inbound deal value (US$5.6bn) and 19% of volume (64 deals) since 2013. In H1 2019, foreign buyers completed US$674m in deals, ranking among the top sectors for inbound M&A.

Disruptive forces in play for New Zealand’s dairy

The New Zealand dairy industry is experiencing a convergence of disruptive forces and is actively adapting to them. Four key forces are likely to impact deal activity in this sector:

- **Capital pressure** – Debt is high amongst the dairy sector. The Reserve Bank of New Zealand reported recently that around a third of dairy debt is held in farms with high debt-to-income ratios, which struggle to make profits and repay debt despite good milk prices. This is happening at the same time banks anticipate a signaled regulatory change requiring them to hold more capital against dairy debt, putting farmers under more repayment pressure. While interest rates are at record lows, changes to dairy debt appetite and risk-weighting mean that farmers’ costs of funds look to increase. It also means that, should incomes fall, debt repayment will become even more challenging.

- **Technological change** – This remains rapid in the dairy space, with current and future farming practices looking very different to those historically. An example of this is Livestock Improvement Corporation’s SPACE™ (Satellite Pasture and Cover Evaluation) service – providing important pastoral data, on demand, without requiring farmers to ‘walk the farm’.

- **Environmental** – Dairy is one of the ‘in focus’ sectors requiring changes to business practices in order to meet environmental and climate change challenges. Practices are moving to a more sustainable model, while also driving efficiencies and innovation to make up for biogenic emission levies.

- **Supply capture** – Capturing supply has always been a driver for foreign investment in dairy and, in our view, this will continue to promote deal activity in New Zealand. While we have historically seen investment in New Zealand-based facilities to produce and export milk powder, and recently infant nutrition products, we anticipate a higher degree of focus on capturing the milk earlier in the supply chain.

The opportunities arising from technological change and the need to respond to environmental drivers will, we think, promote M&A and investment to acquire new technology and innovation. Capital pressure may see a level of rationalisation, aggregation and innovation in ensuring value capture moves ‘closer to the cow’.

Andrew Matthews, Partner
In particular, New Zealand’s dairy industry continues to interest foreign investors.

“Consumer product demand has been on the rise and New Zealand has some very good opportunities. Especially for dairy products, it has a proven record of efficiency in terms of industry returns and the quality of goods provided.”

– Director of Strategy, Chinese corporation

Respondents pointed to several drivers behind the uptick:

- As a developed market, New Zealand is home to a host of established companies and mature brands.
- The operational expertise these businesses possess makes them ideal targets for buyers looking to expand locally or apply that expertise in their home markets.
- Many New Zealand brands have or are reaching a point of growth where they can expand regionally. Respondents noted the potential for these companies to expand into Australia, and other bigger economies, and to reach emerging consumer markets in China, Southeast Asia and India.

The rise of TMT

TMT deals have been a dominant force in the New Zealand M&A market, reflecting global trends. The past two years have seen abundant dealmaking, with TMT rising to become the top sector in value terms (US$1bn) in H1 2019 and tied with consumer in volume terms (three deals).

Respondents were particularly impressed with New Zealand’s rising tech space as start-up success stories begin to emerge, and as a rapidly evolving early stage investment ecosystem develops. Respondents mentioned that a scarcity of domestic PE/VC capital investment focused on this space is leaving the door open to foreign investors to fill the financing gap.

New Zealand’s tech sector is flourishing and of increasing interest to investors. At the start-up level, our venture capital community is energetic, growing and increasingly sophisticated. Its relatively small size helps founders to access the mentoring and business connections needed to get early stage ventures off the ground.

James Hawes, Partner

Figure 9. Which of the following sectors do you think will be most attractive over the next 12-24 months? Which are most challenging to invest in? (Please select up to 3 for each)
Section 5: Effective planning and local advisors boost deal success odds

While respondents say their recent transactions were completed according to plan, investing in New Zealand can still be a tricky endeavour. Getting the right guidance early on is the key to unlocking deal efficiency and success.

For most respondents (59%), the process of investing in New Zealand – from deal sourcing through to operating the company post acquisition – went as expected (Figure 10).

A small percentage (15%) noted that completing these investments was easier than originally planned. Most respondents acknowledged that preparation and research into local conditions was key.

“Before we decided to invest in New Zealand, we made sure we had all the required information in terms of the preparation and steps that would need to be followed. Consulting advisors helped us clarify the terms of the deal faster, which allowed for time through the diligence.”

– CFO, Australian corporation

Conversely, 26% of respondents said the process was more difficult than expected.

For instance, several respondents mentioned that getting necessary approvals and dealing with New Zealand’s Overseas Investment Office proved more difficult and time consuming than expected (perhaps indicative of the need to seek local support, early in the deal planning process to advise on likely issues).

“There were more challenges than expected, especially with the investment commission and getting the necessary approvals. However, we were persistent with the deal and it was eventually completed late last year.”

– Managing Director, Philippines-based corporation

Budgeting time appropriately can make or break the deal. Investments in New Zealand took respondents anywhere from six months (for 28% of respondents) to two years (just 1%) to complete (Figure 11). Regardless of timing, most respondents were satisfied with the timelines their deals followed, with 45% saying the time taken fell within the expected schedule and 16% saying it was actually quicker than anticipated.

“From sourcing to closure, it took around six to twelve months, which is what we’d expected. The deal itself went on smoothly, with the assistance of experts on a regular basis. The target was well prepared and it did help with the proceedings, general and specific.”

– Director of Strategy, Hong Kong-based corporation

Against a growing international trend of protectionism, New Zealand’s government has expressed a willingness to ensure that our policy settings do bring benefits by encouraging international investment.

Andrew Matthews, Partner
That said, 39% said the investing process took longer than expected. This group cited various reasons for the delays, including lack of appropriate targets and decisions from the OIO taking longer than expected. Respondents also mentioned challenges during the due diligence process where more time and resources were needed to investigate targets and complete an accurate risk analysis.

Local advisors make an invaluable addition to deal teams

Use of advisory groups – or the lack thereof – was mentioned as a key determinant of investor satisfaction, whether or not respondents were satisfied and dissatisfied with the recent investment timelines. Those that hailed their deals as successful from a timing perspective often consulted with local advisors to support the deal. Those that met with delays and stumbling blocks often admitted to a lack of appropriate advisory support to fill gaps in their expertise and readiness.

Across the board, respondents consulted local legal advisors most frequently in their recent investments (Figure 12). Legal advisors ranked among the most effective group of experts to assist investors in their deals. Financial/tax due diligence advisors, and risk consultants, were the next most effective groups of advisors used in recent inbound investments.

“Initially, we did not hire local consultants, but as time progressed, we realized the need to have legal counsel that was well versed with the most recent and important issues to guide us through the process.”
– Head of Finance, French corporation

“Legal teams were specifically helpful with completion of documentation and identification of problems during diligence.”
– CFO, Indian corporation

Reforms planned for New Zealand’s overseas investment regime

The New Zealand Government has reiterated the importance of offshore investment. Further reform of the regime (set out in the Overseas Investment Act 2005) to help facilitate this is being considered. An initial reform package passed in 2018 primarily relating to forestry and residential land. The Government has made clear that the reform process is not a ‘first principles’ review. There will still be a regime requiring an overseas person seeking to invest in sensitive land or significant business assets to get consent from the Overseas Investment Office, and the investment cannot proceed until that consent is granted.

The Government is nonetheless interested in addressing unnecessarily burdensome and inconsistent aspects of the regime to better encourage and support investment into New Zealand, while still ensuring that investment results in benefits to New Zealand. The reforms being considered include proposals that seek to:

- Better identify the sensitive assets (particularly whether all categories of land currently considered as ‘sensitive’ are appropriate);
- Better identify the types of investor that need approval under the regime (particularly clarifying how the regime will work for NZ listed entities);
- Improve the way that investments are assessed to decide if they are approved (application requirements, timelines).

The options put forward for consideration include ways in which the application process could be made more principled, more streamlined and with greater certainty for investors in relation to timeframes.

An area drawing focus has been the review of the ‘net benefit’ test for sensitive land investments. We have cautious optimism that the proposals will bring greater clarity and that any new tests (such as the ‘national interest’ and ‘substantial harm’ tests, which are amongst the proposals) are carefully considered from the point of view of vendor and investor certainty.

Government officials are currently considering submissions made in response to the reform proposals and will consider them in developing advice to the Government on proposals to reform the Overseas Investment Act. Any law change is unlikely to take effect before 2020.

Rob McLean, Partner
Financial, strategic and legal advisors are fundamental to deal sourcing in New Zealand – our close business and investment community makes it important to get the right advice and understanding of both the current opportunities but also those that don’t exist at the moment but could be precipitated with the right circumstances.

*Michael Pollard, Partner*
Deal terms achieve global standards
Respondents considered that deal terms in New Zealand were on par with global expectations. Almost half of respondents (48%) said they found deal terms reasonable and as expected going into the transaction (Figure 13). Another 24% said such features were more sophisticated than expected and in line with global standards based on their international dealmaking experience.

“There is proper support and information available at all times. Local consultants and solutions providers are aware of the discrepancies, if any, and able to provide appropriate answers whenever required.”
– CFO, Australian corporation

Figure 12. Which of the following advisory groups did you utilize in your most recent acquisition/investment into New Zealand? Which were most effective?

<table>
<thead>
<tr>
<th>Most recent advisors utilized</th>
<th>Most effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>89% Legal advisor (local/ based in New Zealand)</td>
<td>26%</td>
</tr>
<tr>
<td>85% Risk consultant</td>
<td>11%</td>
</tr>
<tr>
<td>84% Financial and tax due diligence advisor</td>
<td>24%</td>
</tr>
<tr>
<td>78% Legal advisor (not based in New Zealand)</td>
<td>3%</td>
</tr>
<tr>
<td>75% Environmental consultant</td>
<td>19%</td>
</tr>
<tr>
<td>69% Strategy/management consultant</td>
<td>11%</td>
</tr>
<tr>
<td>55% Financial advisor (investment bank)</td>
<td>6%</td>
</tr>
<tr>
<td>36% HR consultant</td>
<td>0%</td>
</tr>
</tbody>
</table>

Figure 13. What is your impression of deal terms and features in New Zealand?

<table>
<thead>
<tr>
<th>As expected (neutral)</th>
<th>Less sophisticated than expected</th>
<th>More sophisticated than expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>29%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Regulation of inbound investment, particularly the Overseas Investment regime for sensitive land, can create unexpected challenges to overseas investors. But investors who seek advice on navigating these requirements at an early stage will generally find these issues can be managed.

Cath Shirley-Brown, Partner
Section 6: Market challenges need not be deal breakers

Respondents highlight several key obstacles they expect to face now and into the near future. A clear understanding of these challenges will help investors navigate and succeed in the market.

While optimistic toward New Zealand, foreign investors still face several challenges
When asked to name the top three issues likely to face investors, respondents identified the following as clear obstacles:

- New Zealand’s smaller market size, placing limitations on how far they can expand their investments will be a concern;
- Lack of relevant or appropriate targets;
- Valuation gap between buyer and seller, creating challenges in closing deals.

These challenges, however, need not be deal breakers. New Zealand’s market size and smaller pool of investable targets mean targets may not be immediately apparent but can be found with the right team and resources. Respondents noted that a difference in opinion on appropriate value during the sale is part and parcel of any deal, and use of several common methods of bridging valuation differences helped.

Some of the challenges that frequently arise in an offshore search for investment opportunities beyond traditional markets don’t arise in New Zealand. Corruption and reputational risk (only 5%) were almost non-issues. Likewise, access to capital or financing ranked low.

Investors call for more support from Government
Delays in governmental approvals for foreign investment, elicited strong concerns from investors. Some said that regularly occurring delays can deter foreign investment. Others acknowledged that foreign investment has become a political hot topic in recent years compared to several years ago, making it likely that foreign investment will come under greater scrutiny than in the past.

Overall, only 45% of respondents considered the New Zealand government as supportive of foreign investment (Figure 14). Almost one in four (22%) felt New Zealand government policies are unsupportive.

“There could be some encouragement by the government to ensure that deals from overseas organisations do not dry up. It is important to maintain a healthy relationship between countries and the well-being of the economy. Understandably, there are constraints to immediate changes, but formulating a plan of action for the future would be useful to boost investor confidence.”
– Managing Director, Chinese PE/VC firm

“Policies and regulations should be made clearer to those who are unaware of the alterations. Although consultants are available, better clarity would be appreciated when it comes to investing.”
– Director of M&A, Australian corporation

Figure 14. How supportive do you think New Zealand government policies are toward foreign investment at present?

<table>
<thead>
<tr>
<th>Supportiveness</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very supportive</td>
<td>15%</td>
</tr>
<tr>
<td>Moderately supportive</td>
<td>40%</td>
</tr>
<tr>
<td>Neutral</td>
<td>33%</td>
</tr>
<tr>
<td>Moderately unsupportive</td>
<td>21%</td>
</tr>
<tr>
<td>Very unsupportive</td>
<td>11%</td>
</tr>
</tbody>
</table>
Expanding horizons: The offshore perspective on investment into New Zealand
Conclusion: The road ahead

The stage seems set for another promising year of inbound investment, as New Zealand continues to provide opportunities.

Reasons for optimism
The country’s most attractive features – sound and stable political environment and legal system matched with abundant and growing mature market opportunities – position us to see further, and potentially renewed, inbound investment following the drop-off in activity in H1 2019.

Will that activity include similar megadeals and overall momentum as seen in past years? That remains to be seen. New Zealand’s M&A market has been largely tracking global activities, whereby overall dealmaking may be settling into a cruising speed after several years of growth. Large cap transactions could still be a feature of the market, although in smaller numbers.

However, based on the feedback we received, medium-term offshore investor interest in New Zealand remains positive and may only grow stronger as global capital searches for and continues to find a home here.

Increasing scope of investor opportunities
Our research showed that the strongest investor interest comes from Asia Pacific investors (primarily Australia and China), but also from Europe and the USA.

This positive interest includes offshore trade buyers and global PE funds alike, as New Zealand’s market conditions enable each type of buyer to make solid and reliable returns on their investments.

These opportunities continue to be found in the country’s consumer goods and tech industries – led by New Zealand’s reputable dairy industry and a dynamic and growing tech start-up space.

Improvements needed to the overseas investment regime
Despite the opportunities here, New Zealand’s government must do more to make its overseas investment regime more certain and less time consuming.

Respondent feedback showed that this, above all else, is a concern for offshore buyers and possibly one of the key factors keeping even further inflows of capital from entering the market.

A secure home for global capital
As global uncertainties remain persistent, New Zealand will continue to provide a sense of security for the global investment pool — given the country’s strong fundamentals, unique opportunities and geographic location within Asia Pacific.

This may require treading a careful balance between realising in-market and regional benefits, while managing the impact of geopolitical and macroeconomic factors, but the rewards are certainly here for foreign investors planning for the road ahead.
Methodology

From June to August 2019, Simpson Grierson commissioned Acuris Studios, the publishing division of Acuris, to canvas the opinions of 80 foreign investors to gauge their opinions on the investment opportunities, trends and challenges in New Zealand. Respondents were evenly split between the following regions: Asia Pacific, North America and Europe. All respondents had in the past five years completed at least one investment into New Zealand.

Within the graphed survey results, percentages may not sum to 100% due to rounding, or when respondents were allowed to choose more than one answer.

All quoted data is propriety Mergermarket data unless otherwise stated. All deals are based on announced transactions.

How would you categorize your company?

75% Foreign corporation/MNC
25% Foreign PE/VC firm

Where is your firm based?

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>29%</td>
</tr>
<tr>
<td>Australia</td>
<td>15%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>14%</td>
</tr>
<tr>
<td>China</td>
<td>6%</td>
</tr>
<tr>
<td>France</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>4%</td>
</tr>
<tr>
<td>Japan</td>
<td>4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3%</td>
</tr>
<tr>
<td>Austria</td>
<td>3%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1%</td>
</tr>
<tr>
<td>Germany</td>
<td>1%</td>
</tr>
<tr>
<td>India</td>
<td>1%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1%</td>
</tr>
<tr>
<td>Norway</td>
<td>1%</td>
</tr>
<tr>
<td>Philippines</td>
<td>1%</td>
</tr>
<tr>
<td>Philippines</td>
<td>1%</td>
</tr>
</tbody>
</table>

What was your company’s most recent annual revenue (US$)?

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $499 million</td>
<td>15%</td>
</tr>
<tr>
<td>At least $500 million but less than $1 billion</td>
<td>15%</td>
</tr>
<tr>
<td>At least $1 billion but less than $5 billion</td>
<td>25%</td>
</tr>
<tr>
<td>At least $5 billion but less than $10 billion</td>
<td>15%</td>
</tr>
<tr>
<td>At least $10 billion but less than $20 billion</td>
<td>10%</td>
</tr>
<tr>
<td>At least $20 billion but less than $50 billion</td>
<td>20%</td>
</tr>
<tr>
<td>$50 billion or more</td>
<td>0%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0%</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>0%</td>
</tr>
</tbody>
</table>
We are one of New Zealand's largest law firms. While big isn’t always better, it does allow us to deliver holistic advice no matter the legal issue. Our market-leading reputation across the full spectrum of legal expertise sets us apart, with leading specialists in every area of commercial law.

We partner with international clients and their advisors to ensure that their investments into New Zealand are a success. When entering a new market, it is critical to understand both the business and regulatory environments. We are experts at all aspects of investment in New Zealand, whether that be through business or real estate acquisitions, establishment of a “greenfield” presence, or infrastructure investments. New Zealand is facilitative of overseas investment although seeking early advice on regulatory processes is advised. We guide clients through these regulatory processes to ensure the best outcome for their investments.

Simpson Grierson is also energetic for change. We influence and advocate on important issues, stay connected to ‘what’s next’, and position our clients for the future. We seek out, embrace and invest in positive change that benefits our people, clients and communities.

You can be assured we are the right team to back you to achieve your goals. If you are interested in discussing any aspect of this report, please contact one of our experts.

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

To find out more, please visit www.acuris.com

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