



DIRECT CAPITAL

# DIRECTIONS

NEWSLETTER OF DIRECT CAPITAL PRIVATE EQUITY LIMITED MARCH 2007

## A REAL PRIVATE EQUITY STORY DIRECT CAPITAL AND EZIBUY

### THE NEWS THAT DIRECT CAPITAL HAS SOLD ITS SHAREHOLDING IN EZIBUY BRINGS TO A CONCLUSION AN EIGHT YEAR INVOLVEMENT BY DIRECT CAPITAL WITH THE COMPANY.

Bill Kermode, a Direct Capital founding partner, said "We have known the Gillespie brothers since 1995. EziBuy was one of my first calls when we started Direct Capital. Direct Capital has always been a key supporter of the company's push into Australia and this investment and the length of our involvement with EziBuy is an endorsement of the success of that strategy. It is a very good financial result for Direct Capital and the company has a strong future."

Direct Capital first invested in EziBuy in 1999. At the time EziBuy operated in Australia through a joint venture arrangement with homeware catalogue company Innovations,

utilising their customer database and warehousing facilities in Australia. When Coles Myer made a corporate decision to exit their Myer Direct catalogue business in 2001, the opportunity to acquire a database of over 2 million names that targeted the same core demographic as EziBuy (women aged 20-45) was too good an opportunity to miss.

Direct Capital was a strong supporter of the transaction and took a lead role in promoting and arranging the funding for the Myer Direct transaction. The Myer Direct acquisition made EziBuy the biggest catalogue operator in Australasia. Direct Capital was the largest investor in the acquisition.

EziBuy has continued to go from strength to strength developing into a major multi channel retailer, now distributing through mail order, retail shops and an online retail website.



The EziBuy online shopping website has won many awards and now sells womenswear, menswear, homeware, gifts and lifestyle items.

## THE LUCKY COUNTRY DESPITE THE DROUGHT WE STILL THINK IT IS

### During 2006 Direct Capital has been busy investing in Australia and assisting its portfolio companies to expand and acquire businesses there.

Direct Capital has purchased a 20% stake in supply chain and logistics company Gluck Pty Limited which specialises in the textiles, clothing and footwear industries. Direct Capital has an option to participate in further funding calls.

BioPacificVentures has invested in Queensland biotechnology company Horizon Science Pty Limited which has developed a technique for retaining rich nutrients from part of the sugar cane. The extract developed slows the absorption of sugar by the human body, meaning it is good for you and critical in the fight against diabetes.

TMT Ventures has supported the growth of portfolio company Momentum Energy Limited by initiating and participating in new funding rounds to facilitate its entry into the Queensland and New South Wales electricity markets.

In total Direct Capital has now assisted more than 15 companies move into Australia. When the Canadian parent of Moore Australia (at the time the largest manufacturer and seller of business forms, stationery and associated equipment in Australia) decided to sell, it was Direct Capital that led the MBO. Another example was the initial investment in Robinhood (an Australian manufacturer and distributor of rangehoods), followed three years later by a successful MBO. Under the succession buyout the company's objective to grow strong market positions in New Zealand, Australia, the United States and Europe was achieved.

Direct Capital has developed a considerable number of business contacts and associates in Australia and has a thorough knowledge of the business operating, employment and legislative environments there.

If you are considering a move to Australia call Direct Capital. We have learnt valuable lessons through our 15 moves.

## INSIDE

- 1 A Real Private Equity Story – Direct Capital and EziBuy  
The Lucky Country – Despite The Drought We Still Think It Is
- 2 **SECTION 1  
DIRECT CAPITAL PARTNERS**  
A New Direction – New Zealand Pharmaceuticals  
We Like Moving Things – Gluck Logistics
- 3 I Hear You – Professional Hearing Services  
Onwards and Upwards – Max Fashions
- 4 **SECTION 2  
BIOPACIFICVENTURES**  
Naturally Good – Vital Foods Investment  
Sugar is Sweet – Horizon Science Investment
- 5 **SECTION 3  
TMT VENTURES**  
A Mobile Bank – GFG Group Technology  
Speed of Light – Momentum Energy
- 6 Portfolio Company Conference  
Direct Capital – Funds Under Management

# DIRECT CAPITAL PARTNERS

## A NEW DIRECTION NEW ZEALAND PHARMACEUTICALS



NZP

**With the help of Direct Capital, New Zealand Pharmaceuticals Limited ("NZP") has concluded the largest single investment in its 35 year history with the opening of a new \$10 million production facility on its site near Palmerston North. The new plant was officially opened by Prime Minister Helen Clark on 23 February 2007.**

Minister for Research Science & Technology Steve Maharey said "New Zealand's prosperity depends more than ever on the quality of our ideas and the ability of our firms to apply them globally. NZP is a fine example of this. It has become a significant supplier to the world's leading pharmaceutical and biotechnology companies by turning great ideas into export success"

The new production facility comprises 800m<sup>2</sup> of production area which includes chromatographic, freeze drying, vacuum drying, ultrafiltration and clean room finishing capabilities. It has been designed with the flexibility to allow a variety of glycotherapeutics ingredients and other synthetic products to be manufactured.

Glycotherapeutics are the building blocks used in new drugs that may lead to the successful treatment of cancer, heart disease and other ailments. Glycotherapeutic drugs include carboglycane structures that allow drugs to more efficiently interact with cells within the body as well as directly attack viruses. The potential for glycotherapeutics is huge, and will be a key driver of NZP's growth in the next five years. Worldwide demand for these products has been growing by approximately 20% per annum. NZP's expertise

in extracting and refining biochemicals has allowed it to establish a firm footing in this niche sector.

NZP has further strengthened its position by entering a partnership with the world renowned glycotherapeutics research team at Industrial Research Limited ("IRL"), a Crown Research Institute. The arrangement is synergistic, with IRL and its subsidiary GlySyn having international reputations for research and development of novel complex chemicals, while NZP has the technical expertise in refining methods, maximising yields, and scaling-up quickly to commercial production quantities.

Shaun Coffey the CEO of IRL said "Together, IRL and NZP are collaborating to offer our biotechnology clients and customers service from discovery through development to manufacture. The leading edge research of IRL's chemistry team and NZP's specialist manufacturing expertise are creating a commercially powerful symbiotic relationship, truly exemplifying NZ Incorporated."

NZP is very well positioned to use its core competency in the extraction, purification and manufacture of specialty biochemicals to significantly grow the business over the next 10 years.

## WE LIKE MOVING THINGS GLUCK LOGISTICS

**Direct Capital has completed an investment for an initial 20% shareholding in Australian company Gluck Pty Limited ("Gluck"). The balance of the shareholding is to be retained by Gluck's existing executive shareholders Mark Kellett and Brendan Moloney.**

Gluck is a global logistics management provider specialising in innovative supply chain solutions for clients. The range of services include import and export freight forwarding, logistics, customs brokerage, door to door transportation, shipping and freight management, warehousing and distribution. Gluck is committed to providing cost effective solutions to its clients. It specialises in providing supply chain services for vertically integrated companies, focusing on the textiles, clothing and footwear industries. It services both medium sized businesses and multi-national groups based in Australasia.

Mark Hutton, a founding partner of Direct Capital said, "The Gluck investment is further evidence of our on-going interest and investment in the dynamic and expanding logistics sector, which is well regarded by investors internationally. Direct Capital is looking forward to supporting the Gluck management team, which has demonstrated a successful track record of growth, as the company continues its expansion and development."

Mark Kellett, Gluck Managing Director, added that "The investment by Direct Capital will allow us to immediately take advantage of growth opportunities including strategic acquisitions within the Australian market, in the knowledge that we have both the capital and strategic support to do so. This is a very positive development for Gluck and all stakeholders as it will ensure we can seize the opportunities now available to offer customers a full range of services throughout Australasia."

Direct Capital is committed to provide additional capital to the company to support anticipated growth initiatives.

Gluck  
SINCE 1972



DIRECT CAPITAL  
PARTNERS

## I HEAR YOU PROFESSIONAL HEARING SERVICES INVESTMENT

**Direct Capital has partnered with businessman John Ryder and Howard Bretherton to invest in Professional Hearing Services ("PHS"). PHS is the leading hearing aid retail business in the Waikato and Bay of Plenty regions. It provides hearing tests and hearing aid fitting services to the public with clinics in Hamilton and Tauranga and visiting clinics in Matamata, Waihi and Thames.**

John Ryder and Howard Bretherton have been appointed Executive Chairman and Director respectively of PHS. John has founded a number of successful businesses including public listed company (and former Direct Capital portfolio company) Ryman Healthcare

which has a market capitalisation in excess of \$1 billion. Howard has extensive retail experience being instrumental in the development of Michael Hill Jewellers, joining when the business had just two stores, rising to joint Managing Director. Howard is also a Director of publicly listed Hallenstein Glassons and various private companies.

John said "We believe that there is excellent growth potential in this business. Ageing population demographics, technology innovations and aesthetic enhancements to hearing aids are expected to continue to underpin growth in the demand for hearing aids and associated hearing aid fitting services. The existing PHS business

provides an excellent regional platform from which we hope to develop a much larger business."

The PHS founders, Brett Robertson, John Ho and Carey Wright, remain as senior audiologists and shareholders in the company. Brett Robertson commented "My partners and I were very happy about how the share sale process was conducted and the introduction of Direct Capital as an investor. Obviously being able to realise significant value for the PHS business as it stands today has been important for all of us. But equally we are very much looking forward to working with John Ryder, Howard Bretherton and the team at Direct Capital on this exciting new phase in PHS' growth."

## ONWARDS AND UPWARDS MAX FASHIONS

**DIRECT CAPITAL IS DELIGHTED TO REPORT THE APPOINTMENT OF MIKE BEAGLEY AS THE NEW MANAGING DIRECTOR FOR MAX. MIKE'S APPOINTMENT IS AN EXTREMELY POSITIVE DEVELOPMENT FOR MAX.**



Mike had previously been Managing Director of both apparel chain Rodd & Gunn (which he purchased from Hellaby Holdings in 2006) and footwear retailer Hannahs. Mike's role with Hannahs has now ceased and he will divide his time equally between Max and Rodd & Gunn. Mike is a highly experienced apparel retailer and has been known to Direct Capital for some time as a Non Executive Director of 'Just Kids', owned 50% by Direct Capital former portfolio company EziBuy. Mike has been responsible for leading a multi-branded apparel group and has extensive Australian retail experience.

Mike said "David Wright and the Max team have positioned Max at the forefront of women's fashion retailing in New Zealand. They have created a fantastic brand and portfolio of stores which now total 38. Having already been a Non Executive Director of Max for some time I know the business and team well and am very much looking forward to working with them and supporting strategic and expansion opportunities in both New Zealand and Australia."

Direct Capital is also pleased to report that Sandy Burgham, long term brand and marketing adviser to Max, has been appointed to the Max board as a Director. Sandy's commercial expertise and knowledge of Max make her a valuable addition to the board.

When Direct Capital invested in Max in 2005, as a market leading retail business it had already built up a record of impressive growth and operating performance. The strategy going forward has been to open further new stores and selectively reformat existing stores in important locations into flagship stores. Max has recently opened new format stores in Queenstown and in Auckland on Queen Street and at Sylvia Park. Feedback has been very positive from customers and the retail industry generally.

The Max team led by Mike Beagley continue to review a number of strategic initiatives in Australasia.



## SUGAR IS SWEET HORIZON SCIENCE INVESTMENT

**BioPacificVentures has backed an Australian firm to develop the world's first natural low glycaemic ("GI") sugar. Low GI sugar is being hailed as a break through in helping to control the diabetes epidemic sweeping the World.**



Horizon Science Pty Limited ("Horizon Science") is a Melbourne based start-up company developing powerful new products out of old fashioned foods. With the substantial backing of BioPacificVentures, Horizon Science now plans to take their products all the way to market – Worldwide.

Horizon Science has been built by two men with vision. Dr David Kannar is a research doctor with long standing interests in using food for health, and Dr Barry Kitchen has extensive food industry expertise, where among other things he was a senior Executive with Cadbury.

David and Barry had a vision to search for the powerful biologically active elements contained in ordinary food, thus making new products which target specific effects.

Their lead product is a perfect example. When sugarcane is crushed and the juice distilled to produce white sugar, as you can imagine,

a lot of other things that were present in the plant become by-products (a euphemism for "waste"). David and Barry have found one extract from these by-products which helps the body to handle sugar in a much better way than usual. Instead of the big "sugar-rush" which follows consumption of pure white sugar, this extract slows down the absorption of sugar. Slowing absorption is not just good for you and the kids, it's critical for diabetics.

This extract is now being developed into a product for food manufacturers to use. It allows sugar to have a lower GI, which is the popular new measure for people watching their sugar consumption. You can already see it on labels in your supermarket, and by 2009 it should be a lot more common, especially due to Horizon Science's new extract.

For more information about this Company, contact Dr Andrew Kelly of BioPacificVentures.

## NATURALLY GOOD VITAL FOODS INVESTMENT

**BioPacificVentures ("BPV") co-investment with Seeka Kiwifruit Industries Limited ("Seeka") has provided \$7 million in funding to Auckland based functional food manufacturer Vital Food Processors Limited ("Vital Foods") to conduct clinical trials and launch their range of health oriented supplements beginning with products targeting common digestive disorders.**

Vital Foods currently produce and sell a natural health drink called Kiwi Crush®, a frozen fruit drink concentrate based on Kiwifruit that has developed a strong reputation for relieving the symptoms of constipation and supporting regularity. Kiwi Crush® is now recognised as a genuinely healthy drink that supports good digestion and general good health.

What is exciting is that using patented technology Vital Foods can now produce Zyactinase® powder to deliver these digestive benefits in capsule form. As little as two capsules per day can promote a return to regularity. One of Vital Foods' major achievements is their ability to create Zyactinase® powder while retaining a high activity level of the enzyme activity present in fresh Kiwifruit, one of the key drivers of the digestive benefits.

Vital Foods and BPV are confident that with considerable scientific investigation Zyactinase® will demonstrate that it has the potential to be a truly ground breaking product in the health and dietary supplement market.

Vital Foods is further developing Zyactinase® as an ingredient that can be incorporated in various foods to capitalise on the increasing demand for foods that also provide functional health benefits.

Bill Kermode, BPV Chairman, said "BPV is thrilled to be investing in a New Zealand Company that epitomises our investment focus on the functional food sector. Also in this case the product is manufactured from an iconic New Zealand raw material – Kiwifruit. The investment case was further enhanced

for us by our partnership with Seeka, a major player in the New Zealand kiwifruit industry"

A significant proportion of the funding from the investment will go into scientific investigation including clinical trials. Howard Moore, BPV Executive Director, commented "We were impressed by Vital Foods commitment to sound scientific support for their Zyactinase® products including clinical trials to confirm the anecdotal evidence that they can relieve the symptoms of digestive disorders."

Vital Foods is committed to delivering natural products with solid scientific evidence of safety and efficacy.

For more information visit [www.vitalfoods.co.nz](http://www.vitalfoods.co.nz)



## A MOBILE BANK GFG GROUP TECHNOLOGY

**IMAGINE BEING ABLE TO BUY LUNCH, WITHDRAW MONEY AT MCDONALD'S OR REPAY A DEBT TO A FRIEND JUST BY USING YOUR MOBILE PHONE.**

**Rather than some fanciful vision of mobile commerce in the next decade, these services are already available to cell phone users in the Philippines, using technology designed by New Zealand based TMT Ventures portfolio company GFG Group.**

Philippines mobile telecommunications company Smart Communications has in effect become a bank, offering its customers a range of financial services. Other telecommunications companies are beating a path to its door to see how it is done. And that is good news for GFG Group, which is looking to line up similar deals throughout Asia.

"The interest we have been getting in the last six months has been extremely high," says GFG's Southeast Asia general manager, Peter Goldfinch. "I would imagine you would eventually see these types of systems throughout the developing world. One of the reasons is that there is a large unbanked population."

GFG has also recently sold its electronic top-up technology to a consortium of three mobile carriers in Canada and won the contract to

supply the mobile payment technology to Etisalat – the largest mobile carrier in the United Arab Emirates.

"We're also getting a lot of interest from Indonesia, Vietnam and India," Mr Goldfinch says.

"We firmly believe we have a real chance to establish this technology as a global brand in mobile telecommunications. If we even half pull that off we could easily double or treble the size of the business in the next two to three years. We are very lucky to find ourselves in a market that's growing at this speed."

GFG Group's mobile payments software won the 2006 TUANZ Telecommunications Mobile Application of the Year Award. In New Zealand, GFG supplies Vodafone with the technology behind its hot-link mobile top-up service, which allows prepaid subscribers to top up airtime from their phones.

GFG Group is a highly specialised international payment solutions company, providing products, consultancy, systems integration and outsourcing services to more than 50 customers



in more than 40 countries. Accredited by the World Bank, GFG is acknowledged as a leader in its field.

GFG's products span four high demand payment solutions areas: Card Management Systems, Customer and Merchant Loyalty Systems, Mobile Payment Solutions, and Payment Tools.

## SPEED OF LIGHT MOMENTUM ENERGY



**Momentum Energy, a Melbourne based electricity provider to SME and residential customers, entered the Victorian market in late 2004. This was on the back of a cornerstone seed investment from TMT Ventures, alongside co-investment from a number of high net worth individuals.**

From a customer base of less than ten in January 2005 and after paying their first settlement cheque of \$2.70 to the National Electricity Market in Australia, Momentum has experienced remarkable growth. In two short years they have grown their customer

base to many tens of thousands of customers and are selling millions of dollars of electricity per month.

The growth that Momentum has experienced has been phenomenal and has come from a combination of innovation and aggressive growth aspirations. Chairman Bryan Mogridge and CEO Camillo D'Alessandro have been instrumental in both areas and have helped develop a real competitive advantage for Momentum through its ability to innovate. The innovative culture shows itself in Momentum's unique sales propositions and operational approaches, the latter resulting in significant cost savings. A prime example of how Momentum is leading the market with new offerings is its reverse loyalty product which offers new customers a discount off their first bill equivalent to what they would have saved had they been with Momentum the previous year. This is being warmly received by customers.

TMT has worked closely with Momentum in supporting its innovative approach and aggressive growth aspirations. TMT has a philosophy of supporting its portfolio companies over a number of rounds of funding and has been able to provide Momentum with the confidence to grow rapidly. In Momentum's case TMT has lead two follow-on rounds since its first investment in 2004.

Not content to rest on their laurels Momentum is currently executing on an acceleration plan to grow the business even more rapidly. They entered the South Australian market in 2006 and subsequently appeared on the Seven Network as the number one best priced provider. On the back of this and supported by the latest round of funding led by TMT, Momentum will enter Queensland and New South Wales in 2007. It has positioned itself to be generating revenues well over \$100m in the next few years.



## DIRECT CAPITAL PORTFOLIO COMPANY CONFERENCE

Every two years, Direct Capital arranges a conference and social function for the companies it has invested in, and for business associates. The aim of this event is to provide a format for key people from our portfolio and associated companies to meet each other, have a fun day and to share experiences and discuss issues facing private companies.

This year the event was held at Castaways Function Centre, Karioitahi, a beautiful west coast beach approximately one hour south of Auckland. The day started with an early morning helicopter ride from Mechanics Bay to Karioitahi. Guests then participated in a morning activity programme of Archery, Blokarting, Clay Target Shooting and Croquet. The afternoon was set aside as the Conference session, with a number of key people from our portfolio companies sharing some of their business experiences and insights.

Terry Hay of Pacific Flight Catering spoke on how they handled difficult times at the company, actions taken, issues that arose and the subsequent growth back to profitability.

David Wright from Max Fashions ran through how de-centralising the key role and the establishment of marketing and product committees helped energise and focus the company.

Mike Beagley gave his perspective on the differing business climates in Australia and New Zealand with some interesting thoughts on employment, supply deals, regulatory and compliance issues. He also spoke on his recently completed MBO of Rodd and Gunn.

Mary Devine from EziBuy spoke about doing business in Australia, supplying from New Zealand and how they best handle the logistical challenges.

Camillo D'Alessandro from Momentum Energy discussed transtasman ownership and operating the Melbourne based business as a predominately New Zealand owned business.

Mark Lister of ABN AMRO Craigs spoke about capital protection strategies once you sell or float your business. He talked about creating an income stream to replace company dividends and salary with the need to adjust your mindset from business owner to that of an investor.



The day wound down with a social evening highlighted by a wine tasting competition, hosted by well known wine critic Bob Campbell. Dinner followed with Kerry Woodham sharing her life experiences with guests.

The Portfolio Company Conference is the best way for Direct Capital to get our portfolio companies and key relationships together in one place and to acknowledge their importance to our business success.

## DIRECT CAPITAL FUNDS UNDER MANAGEMENT

Today Direct Capital is actively managing three capital pools:

FUND*	YEAR OF FIRST CLOSE	SIZE NZ\$ M	INVESTMENT SIZE NZ\$ M	FOCUS AND SECTOR
Direct Capital Partners	2004	120	5-25	Private Equity/Actively Investing – MBO/MBI/Expansion and pre IPO
BioPacificVentures	2005	100	3-15	Venture Capital/Actively Investing – Functional Food, Agriculture and Biotech
TMT Ventures	2001	103	3-15	Venture Capital/Fully Invested – Telecommunications, Technology and Media

\*Direct Capital also manages the DCP11 Fund which is fully invested.