



DIRECT CAPITAL

# PRIVATE EQUITY

NEWSLETTER OF DIRECT CAPITAL PRIVATE EQUITY LIMITED MAY 2001

## TMT Ventures completes successful first close

TMT Ventures

**Following a first close of \$85 million,**

**Direct Capital has announced the operational launch of TMT Ventures, the NZ\$150 million corporate venturing initiative with Telecom New Zealand.**

Having commitments for more than half of the capital at first close already establishes TMT as one of the biggest technology investors in Australasia. In addition to Telecom's commitment of NZ\$40 million, Direct Capital has received commitments for a further NZ\$45 million from other corporate and financial investors including technology companies Lucent Technologies and Marconi, entrepreneur Stephen Tindall, utilities owner Rotorua Energy Trust, and fund manager AXA New Zealand.

Direct Capital was appointed as joint manager for TMT Ventures with US-based global equity investor Advent International last year. TMT Ventures targets investment in the digital economy spanning the telecommunications, technology, e-commerce and media sectors to provide both the capital and corporate backing required for young technology companies in New Zealand and Australia to succeed internationally.

TMT Ventures' first investment has also been completed, with Sydney-based photonics business, Redfern Integrated Optics (RIO), a company seeking to commercialise the integration of fibre optic and electronic componentry.

Direct Capital managing director Ross George says the Sydney deal is an excellent example of how corporate venturing works.

"Corporate venturing is about large corporates being involved in backing entrepreneurial companies and strengthening ties with these innovators. It is a new concept in this part of the world. From RIO's point of view the mix of capital and corporate partner relations

made the Advent and TMT deal an excellent early round investor," he says.

"Being able to use our corporate partners to help evaluate the technology significantly de-risked the investment for us."

Ross George says that this is what differentiates TMT from the rest of the Australasian venture capital industry.

"So it was a win win situation for both parties and a compelling reason for prospective companies to be approaching TMT," he says.

TMT offices have been established in Melbourne, Sydney and Auckland. Direct Capital's Gavin Lonergan has been appointed to manage investment activities in New Zealand while Advent's Campbell Olsen has been appointed to look after TMT investment activity in Australia. Previously Vice President of Jafco Investments Pty, Campbell brings his considerable technology investment experience to the new position. He is based in the Melbourne office.

Fundraising is ongoing to complete the NZ\$150 million capital raising.

TMT Management

### INSIDE

**2. Image Centre thriving after reinvention**

**3. EziBuy focuses on Just Kids**

**4. Innovation turns ideas into reality**

**5. First Investment a wise choice for CHH Ventures**

**6. Corporate venture capital in practice**

**7. Growth moves follow Direct Capital initiatives**

# Image Centre thriving after reinvention

**Communications technology is one of the most dynamic and rapidly evolving areas of commerce today. As a result many companies and industries have adapted the way they conduct their business.**

Image Centre ([www.image-centre.com](http://www.image-centre.com)) is an excellent example of a business that has not only survived the challenges faced by technological developments, but has emerged from the changes as a reinvented, highly successful business. Image Centre, founded in 1989, is a fully integrated communications provider based at a 35,000m<sup>2</sup> complex in Ponsonby, Auckland.

"With all of the imminent changes in the printing industry, we knew that it was a time of great opportunity for Image Centre," says Syd Atkins, managing director of Image Centre.

The company originally specialised in pre-press work. However, after digital technology began to revolutionise the printing industry at the start of the 90s, it was no longer a viable business option to remain solely focused in one area. By managing and multi-purposing digital information Image Centre is able to offer integrated communications solutions through internet, design, new media, pre-press and print.

"We are constantly seeking means to provide our clients with new and innovative ways to communicate with their customers," says Syd Atkins.

Image Centre creates and processes digital information in a range of applications, from web design to print. For the client, storage of digital material in one secure location means greater control and ensures consistent production of brand communication.

Image Centre has experienced rapid growth in the last two years as a result of the business focusing on the development of integrated solutions. But the area that stands out with the most dynamic growth is undoubtedly website development.

As communication tools, today's websites need to be strategically planned, well-designed, high impact and easy to navigate. Every month new tools for website designers are available. It is a specialised job and Image Centre's experts provide a full web service - from initial marketing requirements

and concepts through to strategy, site design and programming, links, copywriting, hosting, and database management.

Without a doubt, integration of a website into offline marketing and communication activities is a critical factor for success.

The Anne Geddes website is a standout amongst the many websites Image Centre has developed. After being named Yahoo site of the month following its initial launch the site has continued to attract extraordinary international interest. The site ([www.annegeddes.com](http://www.annegeddes.com)) attracts 550,000 unique visitors each month, which translates into 32,000,000 hits.

Other key clients to take advantage of Image Centre's tailored solutions include Club Med, AHI Roofing, EMI Virgin Music, Bayleys Real Estate, and recently the internationally acclaimed Cirque du Soleil.

Direct Capital announced its investment in Image Centre Limited in August last year. Direct Capital acquired a 25% shareholding through the injection of new capital to provide for the continuing and rapid expansion of Image Centre's business. Direct Capital's equity funding has enabled the company to continue its growth.

"The new capital has been used to provide further infrastructure for pre-media development," says Syd Atkins.

"We have also recently acquired Stredder Print. This acquisition signals instant growth in the print division but most importantly opens the opportunity to provide full service through all aspects of our business to an exciting end user client base."

Direct Capital's interest in Image Centre is a further investment in the communications sector, following its previous investments in leading print and database solutions providers, Moore and Gallaghers, which merged last year.

Image Centre in Ponsonby, Auckland, a 35,000m<sup>2</sup> site



# EziBuy focuses on Just Kids

**EziBuy is soon to be delivering to new markets after entering a joint venture with JK Limited (Just Kids).**

Just Kids is a successful nationwide company specialising in clothing for children up to 12 years.

With nine shops throughout Auckland and a supplier at Auckland Airport, Just Kids has a solid foundation for its planned rapid growth.

The move by EziBuy, a more recent investment of Direct Capital's, is further confirmation of the company's position as one of Australasia's most progressive catalogue selling companies.

EziBuy took a 50% market share in Just Kids to create a joint venture with owners Ben and Lisa Sproat.

"Children's clothing was an obvious market niche that EziBuy wanted to be part of. Rather than going it alone, it made sense to partner with a company like Just Kids, which is already so successful in the market," Direct Capital director Bill Kermod explains.

Just Kids provides EziBuy with the basis for a new and growing mail order business.

All of Just Kids' clothing is designed in New Zealand and the company's success is attributed to market understanding. Ben Sproat, managing director, and Lisa Sproat, head of design, have a philosophy of "quality children's clothing that is made to last". The couple are also young parents, allowing them to relate easily to their target market.

Ben and Lisa aim to conduct a socially responsible business by making philanthropic contributions of clothing - for example, sending end-of-line products to Russian orphanages and outfitting the local school rugby team.

Released seasonally, the Just Kids catalogues are glossy, beautifully presented and well received by customers. With seven main catalogues currently in the EziBuy range,



including the recent 'Sara' catalogue for the larger woman, EziBuy commands a significant share of the Australasian women's apparel market.

# Innovation turns

**“Revolutionising the Everyday” is Chief Executive Chris Liddell’s vision for Carter Holt Harvey, and innovation is one of the company’s key business strategies.**

Turning great ideas into viable new businesses is the basis of the company’s internal i2b (Ideas to Business) programme, headed by Carter Holt Harvey New Ventures chief executive Craig Knox and ideas acceleration manager Andy Blackburn. i2b is a journey during which an idea must reach a number of important milestones before receiving venture capital funding from the \$15 million fund, which Direct Capital manages on behalf of Carter Holt Harvey. A mark of the company’s absolute belief in the success of the programme is the fact that the New Ventures business unit is charged with contributing \$1 billion of new value to the Carter Holt Harvey bottom line in the next 5 years. Idea generation is at the very heart of i2b and considerable time and effort is dedicated to promoting the programme throughout its 33 recently restructured business units spread throughout Australasia. An aggressive i2b marketing campaign focuses on energising Carter Holt Harvey employees to submit their own business ideas. Emphasis is placed on ideas for new products and technologies rather than improvements to existing processes & technologies. Such improvements, while still important, are deliberately placed outside the i2b programme. Widespread distribution of the criteria used by the internally recruited judging and coaching team ensures that every Carter Holt Harvey employee is empowered to submit the best possible ideas. The best of those ideas then go forward to the next steps on the path that sees those ideas being progressively developed,

honed and in some cases radically changed into a concept capable of becoming a viable new business. Carter Holt Harvey takes care to ensure that idea generators are adequately resourced and are not separated from their ideas.



i2b is now in its second year, with the 2001 programme currently in the Idea Generation Phase. In 2000, i2b was expected to generate around 300 entries from Carter Holt Harvey’s 11,000 employees; an overwhelming 512 entries were received.

The 50 strong judging team (recruited internally throughout Australasia) had the daunting task of judging the entries. From those initial 512 entries, 50 went on to the second round, during which the idea creators completed a specialist workshop specifically focused on building a business case. Finally, 15 ideas were selected to develop a business plan, five of these being selected for investment. All are in an incubation period this year, ensuring an effective launch into the marketplace.

The 2001 programme will follow a similar pattern, although this time around, Knox and Blackburn are looking to exceed last year’s ideas tally.

Successful ventures from 2000 include Smart Forests, KaraCoat and Moods:

- Smart Forests uses one-pass aerial remote sensing for determining the grade and amount of wood in a given forest pre-harvestation. This is a joint venture with Air Logistics, a full solution aerial mapping business based in Albany and Nelson.
- KaraCoat is an innovative wood-coating product initially targeted at the office furniture



# ideas into reality

market. Expansion into kitchen cabinetry, window frames, and external products has also received significant interest and will be among KaraCoat's second tier markets.

- Moods is a marketing concept making the unique link between colour and emotion. Moods is a re-launch and extension of Carter Holt Harvey's existing Moods brand of coloured paper into other stationery and art products, both in New Zealand and offshore markets. Moods has grabbed the attention of Kevin Roberts and Saatchi & Saatchi Worldwide who are working with the incubation team to develop a global strategy.

Andy Blackburn is passionate about the i2b programme, which focuses on ideas first, and gives them a chance to be developed before business disciplines are applied.

"Good ideas can often be throttled by established business disciplines before they have a chance to see the light of day" he says, "i2b is a unique opportunity to break this pattern." Continues Blackburn, "with i2b everybody has the same chance. It's purely about the quality of their idea. Imagination is the only differentiator."



**Brave Black**



**Jealous Jade**

## First Investment a wise choice for Carter Holt Harvey new ventures



Carter Holt Harvey New Ventures, the NZ\$15 million fund sponsored by Carter Holt Harvey and managed by Direct Capital, has, appropriately, come up with a ground-breaking venture as its first investment.

Internet-based freight company eCargo Ltd, in which the fund has a 49% share, involves a \$660,000 commitment by Carter Holt Harvey New Ventures.

"The investment in eCargo will pay off for Carter Holt Harvey both in lower costs as a freight moving customer of the site, and as an investor and capital provider in the company," says Craig Knox, chief executive of Carter Holt Harvey's New Ventures team. "It is an excellent example of how corporate venturing can work."

As one of New Zealand's largest freight movers, with an annual road cargo bill in excess of \$30 million, Carter Holt Harvey started using eCargo immediately for its non-contract road freight needs.

The Internet site ([www.ecargo.co.nz](http://www.ecargo.co.nz)) allows customers to register their freight requirements. This is then matched to transport and freight operators who are recognised members of the site and are available. After an online tender, the customer selects who they want to move the job.

Operators do not need to be in front of a PC all day long for eCargo to be working for them. Instead eCargo can notify customers about new jobs as they come in via mobile phone text messaging or email.

Carter Holt Harvey's investment is with joint venture partner eCentric, an incubator of technology companies which has a proven record in delivering smarter and cheaper e-commerce including TradeMe, New Zealand's leading Internet auction site.

The NZ\$15 million Carter Holt Harvey Venture Capital Fund invests in new ventures in Australia and New Zealand linked to Carter Holt Harvey's core businesses.

# Corporate venture capital in practice



**It is no secret that investors have in recent times become increasingly sceptical of new technology listings.**

As they become more selective, one of the key selection criteria now being used is the quality of a company's corporate backers. Corporate sponsorship has almost become a pre-requisite to reaching the US public markets.

Intel, Microsoft and Dell Computer all stepped up their venture investment programs in 2000. In addition, seven Cisco-sponsored companies went public in 2000 and despite the general market malaise, at the end of December were trading at an average of 117% over their offering prices.

What is it that makes corporate backed IPOs perform so much better than other listings?

Most corporate investors demand that the companies they invest in be self-sufficient and that their venture investments supplement the company's own research and development efforts. The nature of the partnership with the corporate backer also has an impact on the market's valuation of the company.

The market recognises that the corporate backer can add a lot of value because of its sheer size and credibility. Most corporate investments are truly strategic and not merely an attempt to make a quick killing on Wall Street's latest technology fad. They invest because they think there's strategic value with being associated with that portfolio company.

Corporate investments are made either to develop new market niches, to create competition among its suppliers, or to gain access to future technologies. For these reasons, most corporates have a vertical incubation strategy. Rather than entertain ideas of acquiring, they groom companies for public offering by acting not only as a customer but also as sounding board for product and channel development.

The best corporate investors are willing to spend time to define the product, develop channels of distribution, and generally understand an investee company's needs. But they do so only at the request of management.

# Growth moves follow Direct Capital initiatives

**Direct Capital has made a fresh start to the year with four new appointments and new premises. The new offices at level 6, 2 Kitchener St are still in the heart of Auckland's CBD. Both moves make room for growth amid Direct Capital's two major investment initiatives of 2000. Management of TMT Ventures and Carter Holt Harvey's venture capital fund last year has reinforced Direct Capital's leading position in the Australasian private equity sector.**

In line with the current workplace growth and moves at Direct Capital, four key appointments have been made.

## **Kory Fagan MCom (Hons), PGDipFin, BCom — Investment Manager**

Coming from a background of experience in venture capital, investment banking and corporate advisory roles, Kory has been appointed as Investment Manager.

Kory previously managed the business and intangible asset valuation service line at Ernst & Young. Kory has had prior involvement in the venture capital industry as an independent consultant with activities undertaken in this position including investment analysis, profit forecasting, risk identification and analysis, and venture capital investment structuring.

## **Gavin Lonergan, BBus, CA — Associate Director**

Gavin has been appointed as an Associate Director having worked with the company for three years. From a background in banking and finance, Gavin has spent the last 10 years in technology roles gaining considerable experience in the evaluation of investment opportunities in

telecommunication, technology and related industries. Before joining Direct Capital he was senior analyst with Clear Communications in its commercial finance division, reviewing and evaluating its investments in network expansion and emerging technology projects. Prior to this he spent four years with British Telecom where he was an analyst in its managed networks business.

Gavin brings his specialisation in the telecommunications and technology sectors to his role as Associate Director and his appointment to TMT Ventures, where he is responsible for investment activities and investor relations.

## **Chris Marshall, BCom, CA — Investment Manager**

Chris joined Direct Capital after returning from London, where he initially worked with Credit Suisse First Boston and then with European consulting firm Mazars, specialising in strategic planning. Prior to this he gained his professional qualifications in the business advisory team at chartered accountant Spicer & Oppenheim, where he provided a range of advice on investment appraisals, taxation and corporate structuring. Chris's role at Direct Capital includes assessing investment opportunities, valuations, transaction execution and an ongoing role in managing investments.

## **Esther Bass, BA (Hons), M. Sc — Finance Manager**

Esther has joined Direct Capital this year in the new position of Finance Manager. In this role she takes responsibility for the financial and reporting relationship with investee companies, as well as managing Direct Capital's internal financial, organisational and compliance requirements.

Esther has worked in a variety of corporate finance, accounting and audit roles in New Zealand, Bermuda, Luxembourg, and her native United States. She initially studied and commenced work in Chicago, Illinois. Immediately prior to joining Direct Capital she worked with Deloitte Corporate Finance in Auckland.

Continued overleaf

# Growth moves follow Direct Capital initiatives

## The other members of the Direct Capital team are:

### Ross George, LLB – Managing Director

A founding director of Direct Capital, Ross has extensive venture capital investment, merchant banking and legal experience in Asia and New Zealand.

He has been managing director of Direct Capital since its establishment in 1994. Directly prior to that he was a director in the Auckland office of merchant bankers Grant Samuel & Associates for two years.

Ross was previously a founding director and shareholder of the BKW Group, a Hong Kong business active in the private equity and funds management sector.

### Mark Hutton, BCom – Director

Also a founding director of Direct Capital, Mark has a background in corporate finance.

Mark spent six years as Group Treasury Manager of Gestetner Holdings Plc in London, which was owned by direct investment group AFP.

Mark has been a director of a number of private companies including Airwork, Blue Star Group, Gallagher Infomanagement, Moore Australasia, Nobilo Wines, Open Holdings, Tasman Building Products, Pacific Turbine and Image Centre.

### Bill Kermode, BSc (Hons), MA (Oxon) – Director

The third founding director of Direct Capital,

Bill specialises in business analysis and strategic planning.

Bill had previously established the currency and interest rate options business at the DFC and then negotiated its sale and worked for BNZ. He also previously managed his own management and financial consulting business.

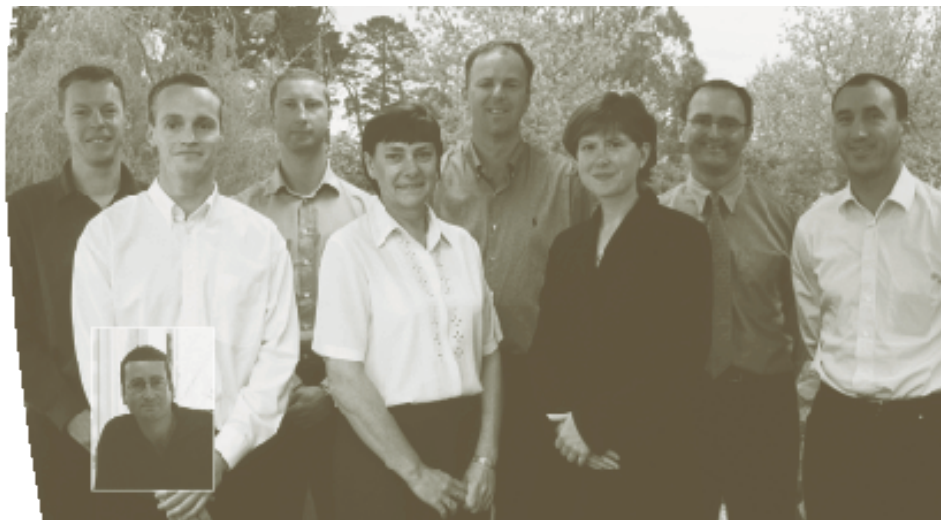
Bill has been a director of a number of private and public companies including Ryman Healthcare, EziBuy and EziBuy Pty Ltd, EFTPOS NZ, PC Direct, Public Trust Investment Board, Robinson Industries, and AMR.

### Matt Riley, BCom, MBA, Ca – Investment Manager

Matt joined Direct Capital three years ago after completing a project for the company for his Otago University MBA. Prior to joining Direct Capital, he was group financial controller of London based hedge fund and venture capital investor IFM Asset Management (a subsidiary of Rothschilds), and before that, worked as a chartered accountant in Dunedin for three years.

Matt's role at Direct Capital includes investment modelling, valuation, industry research, and transaction execution.

Longstanding office manager Fran Woods has retired, and Ann Grieve now provides the support for the Direct Capital team in that position.



The Direct Capital Private Equity team: (from left) Chris Marshall, Kory Fagan, Matt Riley, Ann Grieve, Bill Kermode, Esther Bass, Mark Hutton, Ross George (inset: Gavin Lonergan)