Building to a Crescendo

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The flow of private equity deals in New Zealand reflects a new mindset. Kate Perry reports.

Crescendo Partners set up in Australia almost 18 months ago and recently decided to branch out into New Zealand.

Since inception, Crescendo has conducted due diligence on behalf of clients on 28 private equity deals. Of those, eight deals involved New Zealand companies or assets.

Private equity firms, mainly from Australia, have spent more than $3 billion on New Zealand assets during the past 18 months.

Companies that have been snapped up include Independent Liquor, Hirepool, Kathmandu, Hirequip, EnviroWaste, Griffin's, Tegel, Healtheries and Metropolitan Glass.

Crescendo co-founder and director Chris Paxton says his company advised on all but one of the completed major deals.

The deals carried out in the past year involving New Zealand companies have given private equity funds and their advisers a greater understanding of the market and increased interest for potential deals, he says.

"The deal flow started to pick up (in New Zealand) as advisers started to understand what kind of transactions worked there."

He has not seen a let-up in the pipeline of potential deals involving New Zealand companies.

Private equity firms are also kicking the tyres of Telecom's Yellow Pages business, and the New Zealand assets of Canadian media company CanWest, which include TV3 and RadioWorks.

Until recently, the high interest in New Zealand firms meant a lot of trans-Tasman travel. Rather than continuing to rack up frequent flyer miles, Crescendo's partners decided to set up a permanent presence in New Zealand. As well as the practicalities of cutting down on travel, it also served as a symbolic flag-staking, showing the company was committed to the market.

Crescendo in New Zealand is a one-man band, with the recently appointed Thomas Klotz leading the charge.

For Mr Klotz moving to New Zealand with his family was a long-held ambition. While he was stationed in China for the past 15 years or so, New Zealand was a popular and regular holiday destination for the Klotz family.

"It was exciting in China. But it was time to make a change, a lifestyle change."

Mr Klotz had been working in management consulting for BCG in China, and had assisted Crescendo on a transaction last year. When he heard there was a position going in New Zealand, it was a win-win situation.

Though Auckland-based Mr Klotz is Crescendo's only permanent New Zealand-based employee, several Crescendo consultants have been there for the past few months to advise on deals.

The deals in New Zealand are part of a wider global boom in private equity transactions that have prompted warnings from some of Australasia's biggest banks, and attracted increased scrutiny from central banks and regulators.

Chief executives from BNZ's parent, National Australia Bank, and Westpac, said this year that the global boom in debt-laden private equity deals could end in tears. In Australia, the Treasury and Reserve Bank have established a working group to examine private equity deals and the associated risks.

But Crescendo's Mr Paxton does not think that just because there has been a private equity boom, a bust will necessarily follow.

Rather than a fad or a bubble, Mr Paxton says the wave of interest in private equity represents a new paradigm, where private equity buyers are automatically in the fray when it comes to mainstream corporate transactions.

"There's been a shift in the market. Transactions that would just have attracted interest from trade buyers now have private equity interest as well."

He cites the sale of grocery chain Foodlands as an example. Though a trade buyer, in this case Woolworths, won out, private equity interest was strong.

He says the Australasian market has been in catch-up mode to more established private equity markets.

"I don't think private equity is overheated. Australia and New Zealand are just catching up to benchmark levels set by markets like the US and Northern Europe."

As well as private equity consulting, Crescendo provides strategic consulting services for corporate clients, advising on how best to grow or maximise profits.

Mr Paxton says clients are increasingly asking for help to think like private equity funds.

"Corporate clients are questioning why private equity firms can come in and extract so much more money from a business, or turn around and sell it for a massive profit."