

# September 2014 Update

Pencarrow Newsletter

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## Fund IV's portfolio is taking shape

Building on the momentum gained in 2013, the 2014 year so far has been very busy for Pencarrow. Fund IV has now made three further investments to join Bell Tea & Coffee which was acquired late last year.

We discuss each of the four current portfolio investments – Bell Tea & Coffee, BeGroup, Solar City and Aranz Geo – and our plans for them in more detail later in this newsletter. While it is early days we are pleased with the progress of these investments and our focus will be to ensure the original investment theses are delivered upon in each case to the greatest extent possible.

While we have seen the pace of investing activity significantly increase since Fund IV's final close, Pencarrow has continued its very disciplined and patient approach to investing, despite a number of opportunities culminating in investment at a similar time.

With the four current portfolio companies we see capacity for a further three to four new investment opportunities before the Fund's investment period is complete enabling us to be within the original objective of having between six and nine portfolio company investments.

### About Pencarrow

Pencarrow was formed in 1993 and is New Zealand's longest established private equity manager. In December 2012 we closed our fourth fund, the Pencarrow IV Investment Fund, with committed capital of NZ\$123.7 million.

To assist with the investment of Fund IV we took the opportunity to boost our investment team and since raising the fund we have added four professionals with great complementarity in their skill sets. More information on Pencarrow and the team can be found at [www.pencarrowpe.co.nz](http://www.pencarrowpe.co.nz).

Fund IV will continue our long established focus on MBOs, expansion capital and replacement capital investments in businesses with enterprise values typically in the range of NZ\$20m to NZ\$100m that have strong management teams, attractive positions in their markets and the opportunity to create significant value.



**Pencarrow Lighthouses:** Representing the combination of our insight with your vision to create a strategy for future success

## Portfolio Investments

A significant increase in investment activity has resulted in the conversion of three prospects into portfolio company investments over the last six months.



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Bell Tea & Coffee Company is an iconic New Zealand brand well positioned for future growth

### Bell Tea & Coffee Company

In October 2013, Pencarrow invested in the Bell Tea & Coffee Company (BTCC). BTCC has a long history under New Zealand ownership having been established in 1898 by Norman Harper Bell in Dunedin and was owned by Foodstuffs (New Zealand's leading grocery supermarket chain) since 1962. BTCC has grown to become a leading player in the New Zealand hot beverage market with a portfolio of well-known household FMCG brands encompassing Bell, Twinings, Gravity Coffee, Jed's Coffee, Burton's, NZ Live and Native Infusions and coffee machinery brands, La Cimbali and Jura.

Alongside the management team of BTCC led by CEO Mark Hamilton, Pencarrow intends to continue the profitable growth of the company. Growth will be driven by continued expansion of distribution into its traditional supermarkets and food service channels, introduction of further new products and potential bolt-on acquisitions as well as exploring opportunities to expand into offshore markets.

Pencarrow holds a majority stake alongside Accident Compensation Corporation (as a significant co-investor) and the senior management team of BTCC. Pencarrow is represented on the Board by Nigel Bingham and Rod Gethen and the Board is chaired by the ex-CEO of Coca Cola NZ, George Adams.

## BeGroup

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BeGroup provides affordable and modern retirement villages with an emphasis on helping residents enjoy life to the fullest extent possible

### BeGroup

In May 2014, Fund IV made an investment in BeGroup, a retirement village and aged care operator. The BeGroup aims to develop a network of modern retirement villages providing a full range of care and enhanced opportunities for residents to pursue personal interests and be part of the local community.

BeGroup has acquired a seed asset, The Falls Estate, located in Whangarei (a city with a population of approximately 50,000 north of Auckland) and intends to acquire further sites over time as part of a broader rollout. Pencarrow has been fortunate to attract one of the most experienced CEOs in the industry, Guy Eady, to partner with on this opportunity.

An ageing population demographic in New Zealand underpins the attractiveness of the sector with sustained growth over a long period expected. The industry in New Zealand remains highly fragmented apart from a few large corporate operators.

Pencarrow holds a significant majority stake and is represented on the Board by Rod Gethen and Philippa Weston.



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Solar City plans to revolutionise the way energy is delivered by giving customers a cleaner, more affordable alternative to their monthly utility bill

### Solar City

In June 2014, Fund IV provided expansion capital to Solar City, New Zealand's leading solar power company. Established in 2008, Solar City's services include design, financing, product development, installation, service and remote monitoring of solar facilities to provide an alternative option to traditional generation. Distributed solar generation is now economic in most regions in New Zealand without government subsidies because the falling costs of solar panels (largely due to rapid technological improvements) has led to it being cheaper than retail electricity prices from the grid.

The company has a growing and diversified order book with a number of large key contracts across the residential and commercial sector in New Zealand as well as large scale solar installations in the Pacific. Solar City intends to accelerate its growth strategy across both the residential and commercial sectors, taking advantage of the rapidly changing market environment.

Pencarrow holds a significant minority stake and is represented on the Board by Philippa Weston.



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ARANZ Geo is well placed to leverage international markets and make further acquisitions to broaden its geosciences offering

### ARANZ Geo

ARANZ Geo is a world leader in the visualisation and interpretation of geological sciences for the mining, hydrogeology and geothermal industries. The flagship product, Leapfrog Geo, provides exploration and mine geologists with the ability to generate 3D models directly from drill-hole data within a matter of hours as opposed to days with conventional software tools. Fund IV made a significant minority investment in the Christchurch-based company through a combination of new and existing shares in July 2014.

Pencarrow was particularly attracted to ARANZ Geo for its leading global niche, strong recurring revenue base, strong management and growth attributes on multiple dimensions. The expansion capital provided by Pencarrow will allow ARANZ Geo to accelerate its global expansion and product plans and fund bolt-on acquisitions, building on strong recent growth despite the mining downturn.

Pencarrow holds a significant minority stake and is represented on the Board by Nigel Bingham.

## Market Environment

The New Zealand economy and markets continue to perform strongly with New Zealand set to be one of the fastest growing economies in the OECD this year.

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The current market conditions are creating positive momentum for private equity

Key drivers of growth continue to be the Canterbury rebuild, dairy exports and a low interest rate environment. This has seen near record levels of consumer and business confidence. Rapidly rising house prices have heralded the beginning of a monetary tightening cycle with New Zealand's Reserve Bank being one of the only central banks in the world to be raising interest rates at this point. The tightening has led to the New Zealand dollar being one of the strongest in the world creating a difficult environment for exporters.



**Cashel Mall:** Rebuilding one of Christchurch's most important public and commercial spaces

Equity markets both in New Zealand and globally have been buoyant in the past year which has led to the highest level of IPO activity in New Zealand for decades. Merger and acquisition activity is also reasonably strong.

This combination of economic and market factors leads us to be optimistic about the current environment for private equity investments. A more confident market is leading to good levels of deal flow as business owners are more willing to contemplate taking on expansion capital to realise growth opportunities or seek sales of their businesses.

## Our Team

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The Pencarrow team.



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*Executive Director*



**Rod Gethen**  
*Executive Director*



**Philippa Weston**  
*Investment Director*



**Jonathan Goldstone**  
*Investment Director*



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