



SEPTEMBER 2018

Tylee+Co welcome you to another edition of our newsletter in which we cover:

- Our brand refresh and new website;
- Assignments we have recently completed;
- An opportunity to invest in the New Zealand cherry industry;
- M&A activity in, and insights on, the New Zealand veterinary sector; and
- An article on the merger of two Wellington digital design agencies (which we provided valuation advice on).

As always, we look forward to your feedback.

Regards, Dougal Tylee

Rebranding & New Website

We recently refreshed our brand and updated our website. We hope you like our new look - please view www.tylee.co.nz. Our thanks to:

- Dusty & Lulu - our brand advisor and website designer; and
- Wairarapa Web Design - our website developer.

RECENT ASSIGNMENTS

Corporate Finance Transactions



Confidential

Advisor to a significant minority shareholder on the divestment of a majority of their shares



Confidential

Advisor to an apparel company on a potential acquisition



Confidential

Advisor to a group of high-net-worth individuals on a potential acquisition in the retail sector

Strategic & Financial Advisory Services



Northpower

Advisor on financial performance benchmarking and measures



Freedom Internet

Consultant providing financial model development and review services



TORA COASTAL WALK

Tora Coastal Walk

Consultant providing indicative valuation advice for internal purposes



Bible Society New Zealand

Consultant providing an intangible asset valuation for financial reporting purposes



Confidential

Advisor on an investment case with Shoreline Partners



Springload and Touchtech

Advisor on valuation matters relating to the merger of Springload and Touchtech

We have also recently undertaken valuation assignments for businesses operating in the following sectors:

- Aviation maintenance, repair and modification services
- Diesel mechanical and repair services
- Building services / construction
- Professional services
- Medical services
- Property management services

Investment Opportunity - NZ Cherry Industry

A company with significant experience in the cherry and wider horticulture industry is developing investment opportunities in new and established cherry orchards in Central Otago.

Central Otago is a well-known fruit producing area, with a climate conducive to producing high quality summerfruit, pipfruit and wine grapes.

The NZ cherry industry is exhibiting strong long-term growth characteristics driven by New Zealand's key competitive advantages:

- Ideal temperate climate and soils
- Efficient people and systems trusted by consumers
- Proximity, and Free Trade Agreements, with Asia

Cherry export volume sales have more than doubled in the last four years. Two good weather seasons and improved packing technology have seen cherry quality lift and cherry demand increase over the last three years, in particular from Asia and notably China. New Zealand achieves premium prices for cherry exports, and strong dollar-value export growth is predicted.

The company is currently finalising aspects of the investment(s) including whether investors will take interests in either single or multiple orchard opportunities. Investors will participate via a Limited Partnership structure, which the company will also hold a minority interest stake in. The company will also develop and manage the orchards under management agreement(s). The initial opportunity requires NZ\$10 million of equity to develop a 60-hectare cherry orchard.

The company is seeking Expressions of Interest from investors seeking exposure to this particular sector. The opportunity is available to wholesale investors, including eligible investors. Minimum investment parcels will be NZ\$750k.

Please contact us if you would like to learn more about these opportunities and/or to request further information.

Tylee+Co is registered on the Financial Service Provider Register (FSP609449) to provide wholesale and/or generic financial adviser services to wholesale investors, including eligible investors (under the Financial Advisers Act 2008).

NZ Veterinary Sector - M&A Activity and Insights

In this article, we provide an overview of recent M&A activity in the New Zealand veterinary sector and associated insights.

Large Australian Veterinary Services Companies

Most of the large Australian veterinary services companies have been actively acquiring veterinary practices in New Zealand. A brief summary of these companies and their key attributes are:

Company	Main Type of Veterinary Services	Listed / Private	Year Listed / Formed	Market Cap AUD\$m	Veterinary Services Sales AUD\$m	No. of Veterinary Clinics	
						Australia	NZ
Greencross	Companion	Listed	2007	500	241 ^{*1}	179 ^{*2}	18
VetPartners	Companion	Private	2016	n/a	70 ^{+*3}	120	14
National Veterinary Care	Companion	Listed	2015	132	82 ^{*4}	66	11
Apiam Animal Health	Production / Mixed	Listed	2015	57	106 ^{+*5}	43	Nil

*1 Financial Year to 30 June 2018. Excludes New Zealand veterinary services *2 As at 30 June 2018. Includes standalone GP vet clinics, in-store clinics, specialist and emergency centres and pet crematoria *3 Refer <https://bit.ly/2BqDgrF> *4 Forecast to 30 June 2018 *5 Includes product sales

ASX listed Greencross is Australia's largest veterinary services company and is also a specialist retailer of pet food, pet-related products and pet accessories in Australasia. Greencross entered the New Zealand veterinary services market in 2015 through the Vetcare Group. It now has 18 companion animal clinics in New Zealand (16 in the North Island and two in the South Island). The clinics are branded Animates Vetcare, WellPet or Wellington Vet Group, and are either in-store GP clinics or stand-alone clinics. Greencross operate its New Zealand retail activities through Animates, a 50% joint venture with NZX-listed EBOS Group Ltd. Animates has over 30 stores in New Zealand.

Privately held VetPartners is Australia's second largest veterinary services company. It established VetPartners NZ in mid-2016, and through various acquisitions now has 14 New Zealand companion animal clinics (two in the South Island and twelve in the North Island). In early 2016, National Veterinary Associates (NVA), a 300+ practice group in North America, invested in and partnered with VetPartners.

ASX-listed National Veterinary Care (NVC) expanded into New Zealand in August 2016. Through acquisitions it now has eleven companion animal clinics. NVC stated in a recent press release that its current expectations for the 30 June 2019 financial year were solid revenue growth and a strong acquisition pipeline.

ASX-listed Apiam Animal Health (Apiam) is a vertically integrated animal health business, comprised of production and mixed animal veterinary businesses. Apiam acquired five clinics in Australia in the year to 30 June 2018, and in a recent update reported a strong pipeline of potential acquisitions. To date, Apiam has not acquired any New Zealand veterinary practices. In February 2018, Apiam also entered into a JV agreement with petcare retailer PETstock to open a number of new veterinary clinics. These will be co-located at various PETstock retail outlets, primarily in regional and

rural Australia. PETstock has 135 retail stores across Australia and 12 in New Zealand.

Large New Zealand Veterinary Services Companies

Pet Doctors is the largest companion animal group in New Zealand with 25 clinics nationwide (17 in the North Island and eight in the South Island), including two specialist centres providing orthopedic and surgical services. Pet Doctors also has two complementary businesses, VetNurse Plus and PetPost. Pioneer Capital, an investment company, holds a 43% stake in Pet Doctors. CareVets, launched in 2008, is the next largest companion animal group, with 22 clinics in the North Island.

Veterinary Enterprises Group (VetEnt) is the largest mixed animal group (production and companion animals) with 22 rural practices (seven in the North Island and 15 in the South Island) and 180 staff. VetEnt has diversified into related farm advisory services business, including StockCare (improving farm productivity), GrazCare (managing livestock grazing contracts) and PureMilk (managing Mastitis on dairy farms). Vetlife is the next largest mixed-practice group with 17 clinics in the South Island and 180 staff, followed by Anexa FVC with 14 clinics in the Waikato and Hauraki Plains.

Numerous smaller regional veterinary groups also exist. Examples include Veterinary Hospital Group, with nine clinics in the Auckland region, and Franklin Vets, with eight clinics in South Auckland and North Waikato.

Insights

Insights on M&A activity in the New Zealand veterinary sector include:

- The acquisitions have mostly been of small companion animal practices with low average turnovers of around NZ\$1m.
- Of the approximately 600 veterinary practices in New Zealand, the larger Australian veterinary groups have captured around a 7% market share and the larger New Zealand groups around a 14% share.
- The acquisitions by the larger Australian veterinary groups have slowed in the last twelve months. It is difficult to gauge the activity of the larger privately owned New Zealand groups, and whether growth has been organic and/or via M&A. However, CareVets appears to have grown rapidly from around eleven clinics in 2015 to 22 clinics today. Other past activity includes Pet Doctors adding three clinics in 2016.
- The Australian companies pay attractive EBITDA multiples for companion animal practices. A May 2016 article stated VetPartners acquired practices at around six times EBITDA, while its closest competitors targeted between four and five times EBITDA.
- Some of the acquisitions involve earn-out periods and a portion of script consideration (in addition to cash). For example, NVC acquisitions usually

involve a two-year earn-out period where the selling practice gets the last 20% of their value over this period.

- The larger acquisitive companies provide various ownership and operating options for the selling practices including outright sale and partnerships. Partnerships allow owners to retain their independence and remain partially financially vested in their practice. In many cases, the practice being acquired also retains its branding.
- Some of the veterinary groups have diversified their operations, such as Pet Doctors and VetEnt.
- The larger Australian veterinary groups have varying outlooks. In a May 2018 trading update, Greencross noted short-term weakness in its veterinary division, primarily due to disappointing visit numbers. However, Greencross also stated it was confident about the medium to longer-term outlook for both its veterinary and retail businesses. Greencross' CEO noted "Given structural changes in the pet sector, we need to review our previous capital-intensive model of renewing the physical layout of stores and clinics and instead focus on customer centricity and profitability of the existing fleet. We will continue to backfill veterinary and other services into retail stores in strong catchments and to grow our footprint where we identify synergies with our existing network." In its recent 2018 annual report media release, Greencross also stated "The performance of our veterinary business during FY18 was disappointing. However, like-for-like sales in standalone GP clinics stabilised in the fourth quarter". Other companies like NVC have indicated a strong pipeline of acquisitions in its 2019 financial year.

Merger of Springload and Touchtech

As outlined above, Tylee+Co advised on valuation matters for the merger of Springload and Touchtech. The article below provides more background on this transaction.

Wellington Digital Agencies Merge

NZBusiness Article, Thursday, 19 April 2018



Wellington-based digital agencies Springload and Touchtech have recently announced their

merger, describing the new entity as the intersection where technology and humanity meet.

The merger is regarded as a "game-changer" for the industry and a big win for innovative New Zealand-owned companies.

"Finally there's a large independent company in our local market (Wellington) who has the technical gravitas to deliver massive projects but with the focus on usability, user experience, customer experience, and organisational experience," says Springload founder and CEO Bron Thomson.

The merged entity, which will trade under the Springload brand, is now Wellington's largest independently owned experience design company. Almost 70 people will soon be working out of Springload's Dixon Street premises.

"When you look at other New Zealand-founded software development/experience companies many of them are owned by offshore companies. I think the fact we're independently owned makes a huge difference, as does our size. It's going to shake up the market because it's going to create a category of company that doesn't currently exist in Wellington," says Touchtech CEO Andrew Smith.

Springload now provides a true full-service digital offering that includes UX, content, design, development (native app, mobile and desktop), product and AI (natural language processing, machine learning and chatbots). The merger also increases their strategic capability.

"To be the best, and to be able to impact lots of people, sometimes you just need scale. This merger feels like it's a step change for us, for our growth and our ability to make a really tangible impact for good," says Thomson.

A year in the making, the merger idea was seeded at a series of WREDA-organised CEO meetups Thomson and Smith attended.

"Right from the start Andrew and I sensed there was a really nice fit. We shared similar values, and there was massive alignment around people and culture. Touchtech had a really strong technical capability that would complement our design and human-centred focus. It felt like a match made in heaven," says Thomson.

The result is a new kind of digital agency that has the deep development ethos and AI capability of Touchtech combined with Springload's human-centred approach.

"As a merged company, we're truly at that intersection where technology and humanity meet. The opportunities for growth and improving the customer experience are immense," says Thomson.

Our Services

CORPORATE FINANCE TRANSACTIONS



MERGERS AND
ACQUISITIONS



SALE OF BUSINESS
AND SHARES



CAPITAL RAISINGS

STRATEGIC & FINANCIAL ADVISORY SERVICES



VALUATION



FINANCIAL
MODELLING AND
ANALYSIS



DEAL
STRUCTURING



STRATEGY &
PLANNING



LITIGATION SUPPORT



ADVISORY BOARD
SERVICES

For a confidential discussion, please contact Dougal Tylee:
m: 027 326 3965 dougal@tylee.co.nz www.tylee.co.nz



Share



Tweet

[WHY CHOOSE US](#)

[OUR SERVICES](#)

[OUR CLIENTS](#)

[NEWS](#)

[CONTACT](#)

Copyright © 2018 Tylee & Co Limited, All rights reserved.

Our mailing address is: dougal@tylee.co.nz

Want to change how you receive these emails?
You can [update your preferences](#) or [unsubscribe from this list](#).

[View this email in your browser.](#)

MailChimp.