



2019: The Halfway Point



David Wallace
Joint Managing Director

In this newsletter we look back at some highlights and achievements of the firm to date, as well as what is coming up on the horizon.

We have enjoyed a busy first half of the year, with a number of transactions coming to a close, as well as recently publishing our annual Return on Capital Employed (ROCE) Report for 2019.

The section below is the start of a series of articles which aim to explain the role that capital, governance, and financial literacy have in making a business successful. Keep an eye out for future editions and other news by following us on [LinkedIn](#).

Helping Our Businesses Grow

97% of New Zealand businesses are small to medium in size and employ 20 workers or less. Helping such businesses reach their full potential is important to Armillary, as doing so boosts local economies and employment rates. By helping our Kiwi businesses grow, we help their owners, stakeholders, and ultimately investors succeed. Armillary partners with businesses across New Zealand to help them during every stage of their evolution and growth. It all comes down to helping our businesses find the right level and mix of capital.

Capital helps to address solvency issues of a business. These are issues regarding a business' ability to meet its financial obligations and long-term debts. Capital is also an essential resource needed to drive growth. Armillary assists in the raising of capital for businesses, whether that be in the form of debt or equity or a mix of both. Most importantly, we ensure that the processes employed to do so, and the mix of capital are fair on all parties involved.



But what is the right mix of capital?

Finding the right level and mix of capital is an intricate process. A good starting point is to understand the business' strategy, uniqueness and vision; this provides context for important decisions regarding finance and growth. The people that make up the business should also be understood well. These include not just owners, governors and managers, but employees and other stakeholders. It is important to know what the long-term objectives are for all involved, as these will affect the type of capital required and what it will be used for.

Understanding the financials of the business is the next step. Financials primarily include historic financial performance, current budgets, projected financial performance, and the business' make-up of assets and liabilities. The environment in which the business operates is also beneficial to know. This includes information on a business' position in the value chain, its position in the industry sector and their geographical reach. Such information helps determine the risk of the sector which can impact prices and ability to raise capital.

After analysing the business holistically, a capital plan can be drawn up. This is essential in determining the "right mix" of capital required; permanent capital, debt or a hybrid of both. Ensuring that a business has the right kind of capital at the right time is imperative to its growth and success.



Equity capital is permanent capital. Equity capital usually provides investors with a percentage of the business' ownership in exchange for their investment. A general characteristic of this is that no regular payments are required. Furthermore, the risk is shared due to the now diluted ownership structure.

On the other hand, a business that seeks capital from a debt provider is required to pay back the principle loan and interest. The debt provider would not have a claim to equity in the business. This means that the business owner's ownership stays with them.

Having a clear capital plan as part of an overall strategy is important. Too often we see businesses raising capital in one form without considering to future impact of this for future capital requirements.

At Armillary we take pleasure in playing such a vital role in enabling businesses at every stage succeed and reach their full potential.

2019 Highlights



Leon Grandy
Joint Managing Director

This year, the team at Armillary have been busy advising on a number of successful transactions. We are delighted to announce the completion of the following deals

- Darling Group - Structured Finance
- Autodor - Sale of Business to Dormakaba NZ
- CHNZ - Sale of shares to Rinnai New Zealand
- Dodson Motorsport - Equity Raise with Booster Tahī
- SETEK Therapeutics - First Round Capital Raise (further capital raising ongoing)

Further to these transactions, we have been involved with a significant number of advisory projects, including:

- Promisia Integrative - Independent Appraisal Report
- Port Blakely - Business Case and Financial Forecasts
- Spectrum Consulting - Enterprise Valuation Report
- Whakatane District Council - Business Plan
- TRA - Directors Valuation
- Switched On Building Solutions - Directors Valuation
- IT Sector (unnamed) - Valuations and M&A Advisory
- Advantage Group - Employee Performance Option Scheme Review
- Pepper Home Loans - General Advisory Work
- Keith Andrews Holdings - Group Management Structure and Performance Pay Review

Current Activity

Looking forward we have a number of exciting projects:

- Lateral Profiles - Seeking strategic investment of c.\$5m for the company to grow its global reach. Lateral has developed a platform enabling commercialisation of digital content combining mobile, web and direct carrier billing.
- SETEK Therapeutics - Second round of capital raising for this innovative, organic medicinal cannabis company
- Aegis Retirement Villages - Structured debt and equity financing

- Digital Media - Capital raising for digital media entity to fund an acquisition

As always, Armillary continues to operate and manage the USX platform, which now has a total market capitalisation of c.\$3bn. If you are interested in finding out more about the USX or its issuers, please get in touch.

ROCE 2018 Report

The ninth Return on Capital Employed ('ROCE') report was released earlier last month. This year the total number of entities in our data set of NZX, NZAX, USX, and selected Crown entities was 144. Also included was a sample of 259 private companies.

Click [here](#) to view the full report.

Notable Appointments

Since March of this year, we've had two new members join the Armillary team:

Chantelle Rickerby

Chantelle joined Armillary Private Capital in March 2019 as an administration assistant. Chantelle is currently enrolled in the BCom program at Victoria University of Wellington – majoring in Accounting, Finance and Commercial Law.

Taryn Miranda

Taryn joined Armillary Private Capital in April 2019 as a marketing assistant. She is currently enrolled in a LLB and BCom conjoint at the University of Auckland – majoring in Marketing and Information Systems.

Looking Ahead

Following a successful working lunch with the Sustainable Business Network and its members in Wellington, we are looking to host a similar event in Auckland later in the year. We continue to be passionate about growing sustainable New Zealand businesses - if you would like to hear about the specialised services we offer sustainably focused businesses, please get in touch.

