Fund to back mid cap businesses

With the economy expected to improve from 2010, one of the biggest issues confronting growth-oriented private companies is almost certainly going to be a shortage of available capital.

There will be an ongoing requirement for balance sheet restructuring across business both large and medium at a time when banks are rationing credit and the finance company sector has been severely reduced in size and capability.

During the recession it has been evident many businesses have put expansion plans on hold. Soon these businesses will require new capital and just where it's coming from is unclear.

Larger private equity funds are not likely to be too deeply interested in the medium-sized businesses that make up most of the private sector. At a venture capital conference last year, there was reference made to around 3,500 companies generating revenues in the $10-150m range and a further 8,000 businesses generating revenue in the $5-10m range.

These businesses are to be the target of the Rakaia Fund, a new fund being established by Murray Capital, the principal investment arm of Murray & Company.

Private equity is also considered likely to be increasingly seen as a mainstream method for business owners to realise their business investments.

The Fund will have the ability to invest using a range of financial instruments from ordinary equity to convertible notes to debt in order to recapitalise stressed or under-capitalised businesses that generate cash flow. The Rakaia Fund will provide expansion capital, fund management buyout/buy-ins; help industry consolidation or provide succession capital.

Justin Murray, Managing Director of Murray & Company, says many businesses were struggling to fund growth in the current climate. "Access to capital is critical for these businesses to grow, to reduce debt or to provide an exit for retiring shareholders."

The Rakaia Fund will not provide funding for unproven technologies or start-ups, says Murray. His preference is for agri-business, food, specialist manufacturing, tourism, healthcare and energy, consumer products, logistics, retirement and aged care and property.

The investment targets will be businesses that generate EBITDA in the range of $2-10m and have an enterprise value in the range of $10-50m. The preferred investment size is $3m to 6m. The fund will seek control positions or ways to exert influence beyond its shareholding.

They'll be high quality businesses destabilised by current market conditions where balance sheet restructuring would yield benefit; established medium sized firms with strong management teams, have a competitive advantage within the sector and an ability to generate sustainable cash flow and profitability. They might operate in a fragmented industry with attractive consolidation prospects.

A long-term investment strategy is proposed but as and when appropriate potential exits could include trade sale, listing, MBO/MBI or secondary private equity market or refinancing.

The investment into the fund is not being found from the public, but is an offer to eligible persons under the Securities Act 1978. The fund is finding support among the company's existing clients and contacts, and through the networks of its 25% shareholder, First NZ Capital, most of whom would meet the tests as eligible persons certified by their individual accountant as having net assets of at least $2m or a gross income of at least $200,000 pa. The minimum investment in the Rakaia Fund is $250,000 with 10% of that to be paid upfront.

JUSTIN MURRAY, MANAGING DIRECTOR OF MURRAY & COMPANY, SEES A GAP IN CAPITAL MARKETS.

Rakaia Fund will be a limited partnership with the manager Murray Capital holding 100% of the general partner, with each investor a limited partner holding a partnership interest that represents the level of its committed capital.

Murray Capital is a subsidiary of FDJ Murray & Company Holdings Ltd, a Christchurch-based financial services company firmed in 2004 and now operating investment banking and wealth management businesses. The firm's shareholders are the Murray Family Trust (60%), First NZ Capital Investment Ltd (25%) and Asset Management Ltd, associated with chairman Humphry Rolleston (15%). Other principals hold shareholdings in the individual subsidiaries.

The directors of the general partner are Rolleston, Murray and Alan Isaac and they'll also be the investment committee.

"There's no denying the financial environment presents opportunities to invest at attractive levels. In the last couple of years of financial volatility the balance of power has moved from those using capital (through the availability of credit) to those with the ability to provide capital."

Murray sees the economic growth of tomorrow coming from companies in the $10-50m revenue space and this is a sector not currently well supported by existing capital providers. "There is no shortage of opportunities and we are often contacted by entities interested in capital."

Murray Capital expects to source deal flow across New Zealand and it has established networks in the South Island from its Christchurch base as well as having an international network. Justin Murray has 16 years investment banking and legal experience acquired mainly in London with Rothschild, Bankers Trust and Bear Stearns. He established the firm in 2004 with Humphry Rolleston as Chairman.

We will look to profile the firm in an upcoming issue.