



DIRECTIONS

NEWSLETTER OF DIRECT CAPITAL PARTNERS JULY 199

No Retiring from **Developments** down South

Investment this year in Ryman Healthcare, one of New Zealand's leading operators and developers of facilities for the long stay care of the elderly, by Direct Capital Partners Ltd and Ngai Tahu Holding Corporation has facilitated some major developments.

These developments include major additions to one of its facilities, Beckenham Courts, based in the centre of Christchurch, and the development of the Rowena Jackson Village in Invercargill.

"We are very excited about 1997's developments," said John Ryder, executive chairman of Ryman. "At Beckenham we have added 32 fully serviced studio units, scheduled for completion in July, to the existing facility of 27 apartments and a 71 bed rest home.

And there has been no need to sell these studios in advance because we actually have a substantial waiting list in Christchurch anyway."

In Invercargill, Ryman has completed a 40 bed

hospital in the new Rowena Jackson Village and progress continues with the remaining aspects of the facility, including a 60 bed rest home, 28 studio units and 70 apartments.

"Direct Capital's addition to our resources has allowed this expansion and we really appreciate their relaxed but positive business style," said Mr Ryder. "We find their enthusiasm with respect to growth and targets lifts our own morale. "We also believe their assistance with strategic direction allows us the capability to be a major player in the industry."

Ngai Tahu Holding Corporation is the economic development arm of the Ngai Tahu iwi and chief executive Sid Ashton is a non-executive director of Ryman.

Direct Capital and Ngai Tahu have both taken a 25% share-holding in Ryman, their first joint investment.

Familiar with the locations in the South Island, Ryman has been based there since established in 1984, but with new directions on the horizon a move to the North Island may be imminent.

Rowena Jackson and her husband, Phillip Chatfield, outside the Rowena Jackson Village in Invercargill.



Inside

2. Levy leading Comunicado

3. Comunicado in Communications Coup

3. Airwork announces new Chairman

4. Gallaghers tackles the Tasman

5. Genesis searches for Forestry Genes

6. New Zealand Firsts for Nobilo's

7. Direct Capital – the Business

8. Direct Capital – the People

8. Emerald Capital acquires minority interest

Levy leading Communicado

Change is in the air for television, video and film production group Communicado, led by former South Auckland Health chief Dr Lester Levy, who took the helm as chairman in April.

Communicado is an independent television and film production company, with significant businesses in in-flight production for airlines and corporate video production. The chairman's role, formerly held by company founder, Neil Roberts, has become a non-executive role.

"My main role is to chair the board and provide strategic insight. I'm not at all involved in the day-to-day operation of the company," Dr Levy said. "It's my responsibility to build the company beyond the stage it is now."

Levy's strategic skills will be in demand as Communicado plans to double its revenue within the next three years by expanding sales of tourist/travel programmes, in-flight videos in Europe and the United States, feature films and increasing the number of TV mini-series co-productions with Australian television producers.

Levy said he was invited to join numerous boards after his resignation from South Auckland Health, but felt there were few to which he could add value.

"strategic skills will be in demand as Communicado plans to double its revenue within the next three years"



Dr Lester Levy, recently appointed Chairman of Communicado, aims to expand production for the company.

"However, media is something which I understand and I'm very interested in because of its influence on society. I am interested in seeing people's quality of life improve and that includes being entertained. But I'm also interested in promoting the reporting role of the media, for giving honest, accurate and clear information to people."

Dr Levy's main focus, however, remains with the Calan Group investment bank, which is building a private hospital and hotel complex on Auckland Racing Club land on Greenlane Road East.

Levy was selected from a wide range of well qualified candidates after Roberts' voluntary resignation.

Direct Capital took a 32.5% share-holding in Communicado in August last year.

Mike Hutcheson, Communicado's chief executive, said Direct Capital had improved its balance sheet and initiated stronger financial disciplines, including the appointment of a financial controller, more formal board meetings and monthly reporting.

A former doctor, general manager of the Bay of Plenty Health Board and adviser to the Prime Minister's office, Levy was one of the few health chiefs to see his CHE generate a profit.



The new Boeing Super Ranger is making historic, record breaking flights.

Communicado in Communications Coup

Communicado is looking at a long term relationship with Malaysian Airways after securing two ad hoc jobs in the space of ten days.

A Communicado film crew participated in the record breaking, around the world flight of the latest Boeing, the Boeing 777. Commissioned by Malaysian Airways, the state of the art Boeing, known as the Super Ranger, travelled around the world in 41 hours, breaking the record established three years ago by a stripped out Airbus.

While making a half hour documentary on the flight, Communicado's crew endured 16½ hours on the Seattle to Kuala Lumpur leg.

The company also secured a contract to produce a marketing video for the airline.

As Malaysian Airways has so many global destinations, the video will be used to introduce the fleet to the world's travel agents and marketing leaders.

"If we do well with these two projects, we will be discussing other prestigious projects in Asia," said Murray Roberts.

"We really hope to build a good relationship with Malaysian Airways and expand our in-flight productions division."

Stop Press

Airwork announces new Chairman

Aviation operations and maintenance company Airwork (NZ) Limited announced this month the appointment of David Irving as non-executive chairman. Mr Irving was



previously area director for Heinz-Wattie and brings extensive international experience to Airwork.

Direct Capital invested \$12 million in Airwork in January this year which was used to assist Airwork's growth into airfreight, in conjunction with its joint-venture partner NZ Post, and the provision of a full range of other aviation services both in New Zealand and off-shore.

Hugh Jones, managing director of Airwork, said Mr Irving's appointment would help to strengthen the company organisational structure and assist with the implementation of international 'best practices'.

"David will provide Airwork with a valuable range of both corporate and business skills as the company continues to expand its New Zealand and off-shore operations," said Mr Jones.

Gallaghers Tackles the Tasman

Gallagher InfoManagement Group is one company making the most of the merging trans-Tasman market.

The company provides information handling services in Australasia, including mailing and lettershop, laser printing, data processing, direct marketing, telemarketing and fulfilment services, and has recently been successful in securing three new long term contracts in Australia. The three contracts, totalling \$5 million a year, are with Time-Life, Warner Video (both part of the Time Warner Group), and a joint venture involving a large international direct mail house. The first two companies will be serviced from a new purpose built warehouse in North Ryde, Sydney, while the third will be serviced from the mail processing division when it relocates (due to the extraordinary growth of the company) to the Botany area.

Sam McCann, managing director of Gallaghers, said the expansion in Australia was mainly due to the cash investment made in the business by Direct Capital Partners in October last year and he was pleased to see direct results in new business success.

"The three new contracts will have a real impact on the New Zealand branches," he said. "They are all international companies with operations in New Zealand so there will be a natural flow of business.

"In addition to our expansion in Australia another significant advance has been the development of a new archival retrieval/scanning software system."

Gallaghers received formatting software from the United States that was not

complete. At the request of one of its major clients, it completed the software design to meet the client's needs and subsequently found the software to be popular with other clients.

The software allows the user to produce a billing run and then cut it to a CD ROM disc which holds 500,000 A4 sheets of information on it. Each bill can be accessed on that disc by more than one customer service operator at a time and in under one second.

"Obviously, the ability to view the billing information in the same format as the one the client has in front of them and to find the information extremely quickly on a multi-user system, increases the value added to the customer service relationship quite dramatically," Mr McCann said.

One of the most notable advantages of this system is its storage capability. New Zealanders are required by law to retain financial records for seven years and the new software makes storing records electronically a feasible option, saving volumes of paper files for businesses.

"We also believe that in places like the Pacific Islands, where paper records turn to solid blocks due to the humidity of the climate, this facility will be a very real advantage," Mr McCann said.

The system is currently installed in six sites in New Zealand and Gallaghers has acquired three new business development managers to promote the product which was officially launched in June.

Gallaghers was established 25 years ago and now operates four branches in New Zealand,

employing more than 350 people with a projected revenue of \$35 million plus.

Gallagher's Sam McCann (Managing Director) and Brian Allison (Chairman), discuss with Direct Capital's Mark Hutton the services of an information management house.





Dr Barry Flinn conducts tests at the Genesis Research and Development Corporation.

Genesis searches for Forestry Genes

Direct Capital investee company Genesis Research and Development is striding ahead in leaps and bounds with its joint venture into forestry tree research.

Genesis is a research based biotechnology company, with a primary aim of making commercially successful discoveries in the fields of health and forestry.

Formed in 1994, a collaboration with Immunex (a US biotechnology and pharmaceutical company), it now also collaborates with Corixa Corporation and Fletcher Challenge Forests.

In its collaboration with Fletcher Challenge Forests it has successfully been seeking the genes that control growth, wood development and disease-resistance in forestry trees.

"The discovery process involves developing libraries of DNA blueprints and then targeting genes by a technology known as bioinformatics," said managing director Jim McLean.

"Bioinformatics has been developed to understand information contained in DNA blueprints and the explosion in computer software that is needed to process and screen the information contained in gene libraries or databases."

"Following the success of the joint venture in the first year, Fletcher Challenge Forests and Genesis decided to accelerate the programme at the end of 1996," he said. "We have enlarged our capacity to build up the database, by increasing the number of DNA Sequencers that translate the genetic

blueprints, and extending the hours of operation on those machines to seven days a week, 18 hours a day."

This has brought Genesis to a point where its database information is already significantly larger than other forestry researchers.

In the past year Genesis scientists have isolated many genes that appear to influence wood development in particular. These are now entering a process of testing and screening in model systems as a precursor to eventually selecting the best candidate for use in the field.

At the Fletcher Challenge Forests Biotechnology Centre scientists can micropropagate small plants from mature trees which have been identified by foresters as having improved growth and wood characteristics. This technology allows a single superior tree to be expanded into millions of young identical trees for planting in new forests.

"This is the technology that will allow the improved characteristics developed through our discovery programme to be carried into the forests,"

Mr McLean said.

"There remains a technological challenge in taking those genes and putting them back into pine trees and we're working on the development of the technology for that also.

"Direct Capital's investment has given us the financial strength to take a

long term view of all the programmes we've been working on. We are less preoccupied with seeking cash and can concentrate our efforts on the work at hand."

"this technology allows a single superior tree to be expanded into millions of young identical trees..."

New Zealand Firsts for Nobile's

Nobile Vintners Limited is making the processing, distribution and marketing of premium branded bottle wine to international and domestic markets a true art form with its new range of fruit-driven New Zealand style wines, branded 'Fall Harvest'.

Fall Harvest is available in chardonnay, sauvignon blanc (both oak-aged and unoaked styles), riesling sylvaner, which the company sees as a drier, modern-day successor to muller thurgau, and cabernet sauvignon, which was released slightly after the others and completes the range.

"So far the range has been very well received," said executive chairman Nick Nobile. "So many countries are coming up with clever packaging and presentation and we believe that we need to be in the vanguard. We started this with White Cloud in its frosted bottle and it has become extremely popular."

Fall Harvest sports a number of details which are New Zealand "firsts". It comes in a bottle with a flange top, the first of its kind in New Zealand, a label that depicts an authentic rendition of the actual type of grapes used, and a synthetic cork to better protect the wine and retain varietal fruit flavours longer.

Mr Nobile said the synthetic cork is the main feature of the Fall Harvest concept and has had a positive reaction from both consumers and the wine-making industry.

"It has all the quality of natural corks - it looks like a cork, you can open it with an ordinary corkscrew, and it pops - but it offers a better seal," said Mr Nobile. "Being inert, the synthetic stoppers don't taint the wine and you don't get 'corked' wines. And if you put them back in they're as good as they were, so you don't get evaporation."

The distinctive labels depict the bounty of the autumn grape harvest and show the actual grapes used in the wine spilling out of the conventional borders of the label. While the Fall Harvest wines have been produced to meet New Zealanders' taste for varietal wines they have also been exported. The first shipments have been sent to the United Kingdom and Europe, and the first order from Japan has also just been received.



The labels of the Fall Harvest range depict the bountiful autumn grape harvest in colour and style.

Nobile Vintners exporting activity has increased significantly, including the Fall Harvest range, as part of the expansion programme brought about by the 49% shareholding taken by Direct Capital in 1995. It has also expanded the winery to double the previous capacity. The expansions involve eight additional 135,000-litre capacity stainless steel vats at the company's Huapai winery, just north of Auckland. In addition to those fermentation vessels, another five cold settling tanks have been supplied from New Zealand manufacturers, NDA. The company is now New Zealand's fourth largest wine producer as a result of the expansion programme brought about by Direct Capital's investment.

Direct Capital - the Business

Since its inception in 1994,

Direct Capital has made 12

investments totalling \$72 million.

Although the majority of these investments have been in privately owned companies, Direct Capital will also invest in a number of other unlisted company types. Among these are public unlisted companies, pre-listing placements, divisions of multinationals, public company subsidiary divestments, and management buyouts. Investee companies come from a wide range of industry sectors, but common themes shown are industry growth, offshore industry activity or domestic rationalisation.

Likely sectors for investment include electronics, telecommunications, information technology, media and entertainment, health and education, tourism, dairy and marine.

Direct Capital takes minority positions in medium sized unlisted New Zealand businesses with growth potential. "Our main objective is to grow shareholder wealth," said managing director Ross George. "Investments are made after careful industry analysis, looking for either industry growth, opportunities for rationalisation or acquisition of a low growth industry, as well as company analysis where we look for a track record in what we term key success factors that will provide a company with sustainable strategic value when run by a strong management team." Direct Capital also focuses on other issues that are important to a successful partnership, such as understanding the areas in which it can act to increase shareholder

value in the company. This often entails identifying key issues for shareholders and putting in place mechanisms for measuring and ensuring company performance.

"We see ourselves as a supportive, non-controlling shareholder," said Mr George. "But we believe we offer much more value to investee companies than simply additional capital."

"Of course, our investment leads to increased balance sheet strength, allowing more flexibility and force for overseas expansions, lower

"our investment leads to increased balance sheet strength, allowing more flexibility and force for overseas expansions"

interest costs and a stronger negotiating stance with banks. But we can also be a source of additional capital in the future if and when required."

In addition, Direct Capital's investment offers an opportunity for increased profile for investee companies, both directly, through the information that goes to financial market participants and DCP shareholders, and indirectly, through the association with a publicly listed company. Direct Capital personnel can also be used as a valuable additional source of in-house financial, strategic, and management expertise - either as a sounding board or by having a director as an extra executive on an as and when required basis.

The company has experienced and informed company acquisition skills, which are useful to investee companies for expansion in overseas markets and as well as consolidation in the New Zealand market. It also provides a well prepared, low cost, high priced and more easily managed float process for those private companies which are looking to list on the Stock Exchange.

Direct Capital's Managing Director, Ross George, says the company is always looking to invest in medium sized unlisted businesses with growth potential.



Direct Capital - the People

Emerald Capital acquires minority interest

Emerald Capital Limited has acquired an 8.9% holding in Direct Capital Partners. Emerald Capital is a New Zealand based, largely Canadian owned, investment company which specialises in investing in smaller public and private companies. Emerald takes long term minority interests in these companies. Direct Capital and Emerald have known, and worked, with each other since the establishment of both firms.

Ross George, LLB – Managing Director
– takes responsibility for the overall co-ordination of Direct Capital management's investment and divestment processes, as well as all legal and shareholder documentation. He has extensive direct investment, merchant banking and legal experience in Asia and New Zealand.

Mark Hutton, BCom – Director
– specialises in the establishment of capital structures, capital management and the utilisation of a wide range of financial products. He assumes the primary roles of financial and organisational analysis and evaluation, and investee company funding. He has experience in both corporate treasury and direct investment in Europe and New Zealand.

Bill Kermode, BSC (Hons) MA (Oxon) – Director
– specialises in business analysis and strategic planning. He has managed his own management and financial consulting business and worked for major banks in both New Zealand and U.K.

Paul Kane, BMS CA ACIS – Finance Director and Company Secretary
– has responsibility for financial management and evaluation. As Company Secretary he is responsible for legal, financial and administrative functions. He has experience of financial management in Europe and New Zealand.

Tony Batterton, BCom CA – Investment Manager
– has responsibility for financial analysis and evaluation, and the establishment of investee companies reporting systems. He previously worked for accounting firm Price Waterhouse and assumes the role of financial reviewer of investment opportunities for Direct Capital and its investees.

Fran Woods, – Office Manager / PA
– has responsibility for office administration, secretarial support and receptionist duties. She has worked in New Zealand and the U.K., including Marac Holdings and The Financial Times.



DIRECT CAPITAL

Direct Capital Management Limited
Level 7, Tower Two, Shortland Centre
55 – 65 Shortland Street
PO Box 4450, Auckland
Telephone: 09 307 2562
Email: info@directcapital.co.nz