

The Treasury

Budget 2011 Information Release

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



Date: 17 May 2011

To: Minister of Finance
Minister for State Owned Enterprises

AIDE MEMOIRE: COST OF IPOs: DOMESTIC AND INTERNATIONAL COMPARISONS

A recent Official Information Act request sought the cost of the sale of Contact Energy in 1999 (ref: 20110070). This note provides some domestic and international comparisons of the cost of initial public offerings (IPOs). The standard measure of IPO costs is as a proportion of sale proceeds.

Globally, IPO costs can be significant: around 3-4% in Europe and 7% in the US.

A common finding in the literature is the IPOs in the US are surprisingly consistent at 7% of sale proceeds (so consistent that there is speculation about the industry dynamics to produce such an outcome).

European IPOs tend to cost about half as much as US IPOs on average, at around 3-4%.

In New Zealand, large IPOs in recent years have cost around 2-9%...

The following table sets out the total costs of some recent large New Zealand IPOs (anticipated at the time of the prospectus as a percentage of anticipated proceeds):

	Transaction	Proceeds of NZ offer (\$m)	Total Expenses as a % of sale proceeds
2004	Feltex Carpets	\$260	8.4%
2004	Pumpkin Patch	\$105	2.6%
2004	Mediaworks	\$120	6.0%
2005	Vector	\$590	1.7%
2005	Goodman Fielder	\$1,900	3.6%
2007	Opus	\$45	4.4%
2009	Kathmandu	\$400	3.8%

Source: Company prospectuses

...while government IPOs in the late 1990s cost around 2%.

Government IPOs have tended to be lower cost than private sector IPOs. The following table sets out the brokerage costs of IPOs in the late 1990s. (Note that these are brokerage costs only rather than total costs, so are not perfectly comparable, but brokerage costs make up the majority of total costs, eg for Contact Energy the brokerage was 1.4% out of a total cost of 1.8%.)

	Transaction	Proceeds of NZ offer (\$m)	Brokerage costs as a % of sale proceeds
1988	Telecom Instalment Receipts	\$3,868m	2.5%
1998	Auckland Airport	\$390m	1.5%
1998	Capital Properties	\$120m	2.0%
1999	Contact Energy	\$1,123m	1.4%

Source: Treasury

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