18th Annual Banking Law & Practice Conference

7-8 June, 2001
Gold Coast, Queensland, Australia

Joint Ventures
"Great When They Work ....."

Presented by

Roger Perry
Head of ANZ Ventures

JOINT VENTURES
"GREAT WHEN THEY WORK....."

Background

- ANZ Ventures is the business unit accountable for all strategic minority equity and Joint Venture activity at the ANZ Bank
- Started in 1999 servicing 1/3 of the Bank, it now services the investment needs of all ANZ Business Units.
- The team not only executes new deals, but also "lives with the consequences" by managing the investments on an ongoing basis
- Furthermore the team have a number "legacy" investments under management (ie investments made some time ago or by executed by another party)
- Team of 9 personnel - including venture professionals and support staff
- Backgrounds in consulting, investment banking and line management.

Why does a bank engage in Joint Ventures ?

Joint Ventures are difficult to execute and fraught with economic and relationship challenges. So why do we do them?

There are 3 key reasons for engaging in J.V.s

- To access a capability (eg. payments technology)
- To access scale benefits (eg. back office processing)
- To change the market dynamics (eg. Ausmarkets)

Why ANZ prefers incorporated JVs ?

- Legal vehicle means that we do not have to define a “shadow company” in the contracts
- Provides flexibility to bring in other partners investors
- Opportunity for purely capital plays VC Money up to listing
- Incentive staff through partial ownership of the company
- Easier for customers to have a discrete entity for contract purposes

What should the investor/JV partner consider on the deal side

- Value of contribution → Cash / Intangibles (eg IP) / Skilled Staff / Tangible assets...
- % ownership
- Management Control
- Board/Governance
- Shareholder's Agreement / other Docs
  - Restrictions (eg non-competes)
  - Veto Rights
  - Divorce Clauses - Exit Value / Process
  - Milestone based contributions
  - Conflict Resolutions
  - Control Triggers
- Exclusive from liability (eg. "Machonochie" Clauses)

Ways JVs Can Go Wrong From The Beginning

- Unclear objectives
- Unrealistic plans
- **No** management team in place
- Poor processes / governance shared accountability often means no accountability
- Poor capital planning
- Inexperienced management
- **DO NOT** put in a "corporate" management team in a cash constrained environment!!

Key Reasons For Ongoing Failure

- Diversion of interests amongst the shareholders
- Delivery failures
  - Technology
  - Management of JV
  - Partner failure to deliver (i.e shareholders do not do the job)
  - Market changes…… no market….. wrong market

Conclusion

When entering a JV

- Be clear about the objective. Why are we doing this?
- Really understand the economics - realism NOT optimism
- Be sure you understand your partners drivers' and can live with the resultant behaviours
- Have the deal professionally structured and negotiated - if it is your 1st JV (and you are not professionally supported) the commercial result <u>will always</u> be sub-optional
- Do not spend money until a competent management team is in place. Make sure that they have relevant commercial experience.