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Spotlight on Australia

Nine Perspectives on the Australian PE Market

With Experts from

Cambridge Associates • OPTrust
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Anacacia Capital • Allegro Funds Management
& Wolseley Private Equity

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About Privcap Digest

Privcap Digest is a monthly publication exclusively for Privcap subscribers. It offers in-depth features and edited summaries of the most recent and important thought-leadership from Privcap.com. The Privcap editorial team has extensive experience reporting on the global alternative investment industry.

For inquiries about the Digest, please contact Matt Malone at mmalone@privcap.com.

In This Report

Interview transcripts in this issue have been edited for clarity and length.

Welcome to Privcap's Spotlight on Australia briefing, featuring nine interviews with a diverse range of players in the nation's growing private equity market.

The Australian private sector has come to the fore in recent years, as investors have sought out stable markets, with relative economic strength, in the wake of the financial crisis. The country has emerged as a destination for foreign investors looking for exposure to the Asia Pacific region and as an investment powerhouse in its own right, as its superannuation funds increasingly invest offshore.

This report, presented in partnership with sponsor MVision, is based on interviews with players in the venture capital lower-to-mid-market, distressed debt, and larger fund spaces, all of which were shot in Sydney in early 2014. The result is a collection of stories which provides a snapshot of the Australian market today and a forecast of what's to come.

For a more in-depth look at any of our interviews, please click through to view the collection of extended video interviews on our Australia channel at Privcap.com.

Ainslie Chandler
Managing Editor

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Defining the PE Landscape/

Australia's robust economy has helped create many mid-cap businesses which are now ripe for investment and expansion, says **Yasser El-Ansary** of industry body AVCAL. He expects a positive year for private equity deal flow, even as the government looks at tightening up regulation of the banking and financial services sector.

Bio

El-Ansary joined the Australian Private Equity and Venture Capital Association as chief executive in 2013. Previously, he was general manager of policy and advocacy for the Institute of Chartered Accountants. A chartered accountant himself, he holds a degree from Australian National University and a master's degree in taxation law from the University of New South Wales.

What do overseas LPs and GPs need to know about the Australian market?

We, as an economy, have fared pretty well over the last few years, and that means there are plenty of opportunities here in Australia to work with mid-cap businesses as well as larger businesses to help unlock their growth potential. We have fertile ground here in Australia, plenty of opportunities, plenty of businesses that are doing really well, but also plenty of businesses that need to step up and capitalize on the opportunities that global markets present to them. That often means that they need to partner with skilled and experienced providers who can contribute to helping them take that next best step. Private equity and general partners within the industry are in a good place to be able to provide skills and expertise to help them take that big step.

What is the Australian government's attitude towards private equity?

Over the last few years in Australia, we've seen government policy shift a little bit more towards regulation, and that's understandable, given the global economic crisis. That's meant that governments are more prepared than in the past to put regulations in place, to tighten up on compliance obligations and improve the level of transparency. Some of those costs are still working their way through the system.

We're starting to see the introduction of new rules and regulations. This year, the new federal government is building momentum around delivering on its policy agenda and on all of the commitments they've made in the last few years. We are eagerly anticipating the commencement of a wholesale review of our financial services industry.

The financial system inquiry was born out of a need to look at how we increase banking competition in Australia but evolved into a broader wholesale review into the financial services industry. There's a lot of consensus that it's time that Australia looked closely at whether or not we need to make changes to our regulatory environment for financial services

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"The signs at the moment are very positive for private equity. That has to be tempered with what's happening around us."

Yasser El-Ansary, AVCAL

to help modernize our economy, drive us into the 21st century, and compete as effectively and efficiently as we can on the global stage.

How strong do you expect Australian private equity activity levels to be throughout 2014?

The signs at the moment are positive for private equity. That has to be tempered with what's happening around us. Across the world and throughout the U.S. and Europe, we're still doing it tough. But we're starting to see green shoots of revival, and it should flow through to increased deal activity. We're starting to see the start of a new cycle of deal activity throughout private equity, and that's a great opportunity for the industry to identify new markets and businesses that they can partner with to unlock the value within and drive our economy forward. Australia as a destination for foreign investment—as well as local investment—is a hugely attractive jurisdiction right now. ■

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Global Investors Target Australia/

John Haddock of CHAMP Private Equity tells Privcap about offshore investors' appetite for the firm's local market, why activity levels are increasing, and how exit markets are opening.

Bio

Haddock is CHAMP's chief executive and managing director. He joined the company in 2002 after a career in investment banking. He previously worked for Westpac Institutional Bank's structured-debt division and Credit Suisse First Boston's M&A and equity capital markets divisions. He received a degree in economics and a master's degree in commerce from the University of New South Wales.

What is CHAMP, and how big is its presence in the Australian market?

CHAMP's been around for more than 25 years, which makes us one of the original private equity institutions in this country. At the moment, we are primarily focused on the domestic midmarket segment, looking at companies from enterprise value of about AUD$150 million to $500 million. We're currently investing our AUD$1.5 billion CHAMP III buyout fund, which was raised a couple of years ago. And we're looking for good, stable businesses where we can apply some leverage, albeit not over-lever them. Good market position, strong management teams.

Is your investor base mostly local or offshore?

Both. We're fortunate to have a solid domestic base of investors, some of which have been with us for 25 years. As time's gone by, as we've got larger, and also as more foreign capital has come into the Australian private equity industry, we've sourced a lot of investment from overseas. Nowadays we have probably 40 investors from the U.S., from Europe, Asia, Middle East, and Australia.

What opportunity do the offshore investors see in Australia?

We've seen increasing interest from offshore institutions looking to invest in Australia. It's been growing significantly over the last 10 years. In our latest fundraise, we had interest literally from all parts of the world. They see a stable political environment in Australia. They see an economy that's been growing for nearly 22 years consecutively, with good growth still forecast, a stable regulatory environment, and a banking system that's developed and liquid. Importantly, they see managers in this market that have been operating for a number of years with a proven track record.

Has it become harder for Australian GPs to attract local superannuation fund investors?

Probably across the world there's been a narrowing in the focus of GPs that investors want to support. Invariably it gets down to GPs that have delivered the returns over a

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"We're looking for good, stable businesses where we can apply some leverage, albeit not over-lever them. Good market position, strong management teams." *John Haddock, CHAMP Private Equity*

long period of time, have a stable team, and hopefully have something different to offer. In terms of CHAMP, that's been the case in our track record, our ability to look at some opportunities that also have an offshore angle to them. From our perspective, whilst fundraising is never easy, we would agree that there appears to be a narrowing of investor interest into a smaller number of GPs.

You exited a number of investments in 2013. How easy were those transactions?

It is becoming easier. If you look at the last three to six months, there's been an opening up of the IPO market that wasn't there for a few years. And the next six months is forecast to have a fair bit of interest from the public markets. Most of corporate Australia's in a reasonable position, in terms of their balance sheets and interest in doing things. A low-interest-rate environment helps that.

How much activity do you expect in the Australian private equity market this year?

There will probably be a few private equity funds out raising money. CHAMP will probably look to be in the market in the second half or maybe the fourth quarter of this year. I'd expect GPs that have an established track record, a stable team, and an attractive offer, for them to be well supported. There's some increasing interest from offshore providers of capital into private equity funds, and continued growth from domestic suppliers as well. ■

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Australian PE by the Numbers/

PE in Australia continues to outshine the domestic public market and remains a strong performer compared to its global peers, says Cambridge Associate's **Eugene Snyman**

Bio

Snyman is a managing director in Cambridge's Sydney office. He established the firm's Australian office in 2004, after joining the firm in London in 1998. He was previously a portfolio manager associate at RMB Asset Management. He holds a master's degree in economics from the University of Johannesburg.

What is Cambridge's data saying about the Australian and New Zealand private equity markets?

Private equity up to the third quarter 2013 generated a year-to-date performance in the mid-teens, about 13 percent. That lagged the public markets slightly; public markets were very strong up to that point in time. But if we take the numbers going back further, over a 10-year period, performance is north of 10 percent net of fees, net of carried interest, and net of expenses. When you compare that to the public markets, it's ahead. Most importantly, if you compare private equity on a public-market-equivalent basis, where you're taking those cash flows that the private equity managers have deployed and you invest them as if they've been invested in the local market in the ASX 300, the premium to private equity is quite stellar.

Over that 10-year time period, it's about 450 basis points ahead of the public market. So that's in line with what you would expect for private equity to generate, given the illiquid nature of the asset class. But also, if you are able to invest in the top two quartiles of managers, their premium extends significantly. It's in excess of 700 basis points above the public markets, which really does illustrate a strong-performing Australian private equity market over the 10-year time period.

How does Australian PE stack up to its global peers?

We have the ability to compare like-for-like data. And Australia does stack up very well, particularly over the five- and 10-year time period. Over those time periods, it's on a par with, if not better than, what you've seen in some of the other developed markets. It's obviously a smaller market when compared to the U.S. and Western Europe, but it compares very favorably. When compared to the greater Asia region, Australian numbers stack up very well. The more recent time period—one to three years—it has not been as strong as private equity in the U.S. and Western Europe.

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"We have seen limited partners that have invested in Asia start to diversify their exposure. So they were initially attracted to China, India, maybe north Asia in general, and are looking to complement that exposure with a more stable backdrop, which the Australian market does offer." *Eugene Snyman, Cambridge Associates*

What is the appetite like for Australian private equity from offshore investors?

I'll say it's improved. It certainly has picked up in the last couple of years. The reason for that is multifold. The domestic LP market has been diversifying more of their dollars offshore, which has freed up capacity for foreign LPs to consider investments into the local market. Secondly, we have seen limited partners that have invested in Asia start to diversify their exposure. They were initially attracted to China, India, maybe north Asia in general, and are looking to complement that exposure with a more stable backdrop, which the Australian market does offer

How much activity do you expect in the Australian private equity market this year?

The last year we've seen a pretty subdued investment market. The public markets have been on an absolute tear, so from a pricing point of view it's been less attractive for private equity. They've been competing with the public market. We've seen more patience from private equity in terms of deploying that capital. Secondly, the political elections were far more extended than what one would have been used to. That was very hard both for vendors as well as for private equity practitioners, to feel confident pulling the trigger on deploying capital. Last year was pretty lean in terms of new investments. It was a very active divestment marketplace.

Looking at the data that we have available through September 2013, it's the second-most-active realization market for private equity. The previous peak achieved in 2011 was about $2.6 billion of realized capital. We were at about the $2 billion mark at the end of September, and there were a number of IPOs and other exits that occurred in the fourth quarter of 2013. So it may have been a record realization year for private equity.

Going forward, it's hard to compete with public markets. ■

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The Emerging Distressed-Debt Market/

Offshore investors recognize the opportunities that lie in Australia's burgeoning distressed debt market, says **Chester Moynihan,** head of turnaround investor Allegro Funds Management

Bio

Moynihan is the founding principal and owner of Allegro Funds Management. Prior to co-founding the group in 2004, he spent 12 years as an investment director at Sydney's Gresham Private Equity and London's Schroder Ventures. He is a chartered accountant and has a degree and a postgraduate accounting diploma from South Africa's University of Natal.

What is Allegro, and which part of the market is it active in?

Allegro is a special-situations investment firm. The way we define special situations is turnaround investing. So we're looking to target businesses that have suffered some form of dislocation and where we can get control and use our skills in operational turnaround to drive value for our investors. We've been active in the turnaround investing market since 2008.

During the financial crisis. you took over an ABN AMRO fund at the request of investors. Can you describe that process?

We'd been operating broadly for four years in quite a buoyant economy. And in early 2008 we were approached by the investors in the ABN capital fund. It was a 2006 vintage AUD$300 million fund focused on growth investing that then became a distressed fund.

It was the first time that Australian LPs had exercised a divorce from their fault clause, and so we made a bit of history. There was a process run to find a replacement manager for ABN. Other Australian LPs had lost faith in the GP, and we were unanimously selected. The operating environment turned significantly negative. Within a week of us taking over the fund, Lehman collapsed, and it soon became clear that the fund had severely distressed investments, a number of them with deep negative equity value. For us, it was an opportunity to move the business into more of a principal role and also to work closely with existing Australian superfund LPs.

We commenced turning those businesses around, through operational means. It's been a successful journey. The great thing that that enabled us to do was demonstrate a track record of turning severely distressed businesses around in a negative external environment. To date, that fund is yielding just over a 25 percent IRR.

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"The great thing with the U.S. LPs is that they have seen turnaround distress investing for 15, 20 years, whereas in Australia this is a market still in its infancy." *Chester Moynihan, Allegro Funds Management*

You have been in the U.S. raising your new fund. What were investors' perceptions about the Australian market?

We had a positive reception from the U.S. LPs. The great thing with the U.S. LPs is that they have seen turnaround distress investing for 15, 20 years, whereas in Australia this is a market still in its infancy. It really has only commenced since the global financial crisis, so really 2009 and 2010. The other interesting thing is that they've seen the outsized returns that managers in the segment have been able to demonstrate early on in the market's development.

That struck a chord. We're not looking to raise a lot of money—AUD$200 million. But the thing that we were really impressed by was their understanding of the ability to generate outsized returns in the turnaround market. Our ability to access the market has been demonstrated through not having a committed fund, and the U.S. LPs recognize that's probably one of the hardest ways to invest. You do have to have a differentiated offering to be able to convince a vendor to have patience with you while you raise the money to do the deal.

All those factors have been helpful in our discussions with them. We see the predominance of our fundraising coming out of Asia. There will be some coming from Australian LPs, and hopefully some coming out of the U.S. ■

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An Opportunistic Focus on SMEs/

Demographic change means the health, food, and education sectors are ripe with opportunity for PE investment, particularly in small and medium enterprises, says Anacacia Capital's **Jeremy Samuel**

Bio

Samuel is the founder and managing director of Anacacia Capital. He has previously served as chairman of ANZ's private equity management committee and as a strategy consultant with Booz & Company. He received degrees in arts and law from the University of New South Wales and an MBA from Yale School of Management.

What segment of the market is Anacacia active in?

We focus on the lower midmarket of small medium-sized companies. These are typically established, profitable businesses often dealing with succession issues.

Australia's population is aging. What opportunities is that presenting?

We're an aging population; the birthrate's relatively low. There's a steady immigration rate, and we've got a baby boomer generation coming through whose kids often want to work in different businesses. Small businesses are really the lifeblood of the Australian economy, and there are many wanting to deal with succession issues. They may not want to sell to the competitor down the road, and thus someone like Anacacia or other private equity firms can step in, help with succession planning, bring in a new management team—or use the existing management team and do a management buyout—and help the founder, then grow the business at the same time.

You recently raised a fund. What will it focus on?

The fund we raised last year was AUD$150 million and was oversubscribed. Its focus is exactly the same as our first fund, on the lower midmarket of established, profitable small medium-sized companies. Many of these businesses are dealing with succession issues, or they're a non-core divestment of a larger sort of business unit. Early investments are in education, health, and food. These are here-today, here-tomorrow industries where we're trying to back the absolute best-quality management teams and help those businesses to grow.

Tell me about the opportunities in food, healthcare, and education.

Those three sectors are big parts of the Australian economy. If you take education, it's about an AUD$8 billion industry. The Australian economy's had 21 years of consecutive growth. One of the constraints on further growth is increased productivity from the workforce, so the government and the businesses here are focused on continuing to upscale the workforce. So we've chosen businesses

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"The Australian economy's had 21 years of consecutive growth. One of the constraints on further growth is increased productivity from the workforce, so the government and the businesses here are very focused on continuing to upscale the workforce." *Jeremy Samuel, Anacacia Capital*

that are involved in areas where there's high need for skill, like age-care workers, childcare workers, occupational health and safety, mining services, those areas.

Food, again, is a big part of the Australian economy. Australia's got a great reputation for a clean, healthy, good food supply and some great branded food companies that have come out of here.

With an aging population, none of us are getting any younger, and there are needs within the hospital and products sectors. So we invested in K Care Healthcare Equipment, which is the largest local supplier of wheelchairs, walkers, and trolleys.

You exited a portfolio company, Rafferty's Garden, last year. How hard was that? Are exit markets opening up?

Rafferty's Garden is a terrific business. We were fortunate to exit a couple of businesses last year, and Rafferty's was a baby food business. By the time we exited, we had 40 percent market share. We sold the business to PZ Cussons, a London Stock Exchange–listed company. After they announced the exit, their share price went up 10 percent, so their investors were happy and we're happy. It was a terrific return for our investors, great result for the management team and the customers and other stakeholders.

We find that if you have a good-quality management team and business, then exits are relatively easy. Nothing's completely easy, but we had a lot of demand for that business, and it was a terrific company from the time we first invested. ■

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The Baby Boom Bust/

The retirement of the baby boomer generation presents great opportunities for Australian PE firms, says Wolseley Private Equity's **Andrew Petering**

Bio

Petering is Wolseley's managing director. He joined the firm in 2004 after working for Equity Partners, UBS, and Commonwealth Bank. He is the author of the private equity text "In the Driver's Seat" and received degrees from the Australian National University and Harvard Business School's Advanced Management Program.

Which part of the private equity market is Wolseley active in?

We're an owner-managed firm, focused on the lower end of the midmarket in Australia and New Zealand. We'd define that space as about AUD$30 million to $120 million of enterprise value. Wolseley's distinguished by a hands-on approach to its investments and a controlling-interest investor.

You are raising your third fund. Are there any broad themes regarding Australian private equity that have emerged from talks with offshore investors?

Access to Asian growth is a common theme. Most of the investors that we've spoken to have been targeting a developed-Asia theme, which seems to be a bucket of Korea, Singapore, and Australia. There's been quite a bit of recognition that China and India, whilst interesting markets, are challenged in terms of returning capital. So that access into Australia as part of that developed-Asia bracket is a strong driver.

Within the Australian focus, we're also seeing strong interest in the midmarket sector, and that's being driven by deal flow and pricing. They are common things that are coming through in the discussions with investors. Our research has indicated more than 10,000 companies in that lower-mid bracket space in Australia alone. We estimate more than two-thirds of those are owned by baby boomers. So by the time you see succession play through in the next five to 10 years, there's an enormous wave of transition of ownership that will occur. We have been seeing that as a strong theme in our deal flow pipeline already.

What is the opportunity presented by the retirement of the baby boomer generation?

They're typified by people in their late 60s, even into their 70s, who have built successful and robust businesses with good brands but typically have started to become more risk-averse at a later point in their life and are much more focused on protecting their nest egg than driving strong growth in those businesses. So we're seeing a real opportunity to reinvigorate the management, allow a bit of fresh capital in, and a bit better risk appetite to actually acquire or organically grow those businesses. We're seeing good results out of that. We've deliberately targeted what we've termed our "bankable CEO program" as a strategy of providing succession solutions for those businesses.

What is your bankable CEO strategy?

The tag line for Wolseley's business is "It's all about the people." The most fundamental piece we have to get right in any investment thesis is the management team that we're backing. We've taken that to its ultimate conclusion in a number of circumstances, partnering with the management team before we find the company. And we'll go out and proactively search together for a great business that has an opportunity to be unlocked with new management and capital.

We'll work in a partnership with those bankable CEOs. They're typically people with in excess of 20 years' industry experience in a sector. Those connections are invaluable for us in unlocking opportunities that we may not see otherwise. ■

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OPTrust's Australian Push/

The Australian government's asset privatization program means big opportunities for private equity and private capital, Canadian pension giant OPTrust's **Stan Kolenc** tells Privcap

Bio

Kolenc has more than a decade of experience in infrastructure investment and is a managing director in OPTrust's Sydney office. He joined the pension group's private markets division in 2006. He received a degree from the University of Western Ontario and is a CFA charter holder.

What opportunities does OPTrust see in Australia and the broader Asia Pacific region?

The opportunities we see here in Australia are twofold. They follow our desire to build our portfolio, which is in infrastructure and private equity—different but equally interesting opportunities. On the infrastructure side, they're really led by both the government and the private sector. The government is looking to privatize a large number of assets. They've had some recent successes with things like the Port Botany and have a larger number of assets lined up around that success, and also independent of it, like other ports, poles, and wires and the electricity network. We're interested in putting our capital to work alongside and in partnership with some of the local institutions in those assets as they come up for privatization.

The third area that we're focused on is assets from the private sector. We'd like to partner with the private sector, such as the big miners, to partner all of their assets and alleviate capital for them to put back into the core area of their businesses. And then we would work to own those assets and run them in partnership with the miners.

On the private equity side, we've seen the market grow to be a reasonably well-covered and mature market. More recently, we've seen the amount of capital taper a bit. Local institutions brought capital back from the space, and that's getting backfilled by international institutions that are providing capital to the space.

What investments have you made since you opened the Sydney office?

We have two fund investments down here, with Archer and then Quadrant in the mid-area. We've had those relationships in place for several years. On the direct investment side, in private equity we're building a facility for a soil-remediation business called Renex, in Victoria. It will be Australia's largest permanent full-scale soil-remediation company once it's up and running in the latter part of 2014. We also have an interest in two coal-loading terminals, one in New South Wales that's operating, and another in Queensland that's under construction.

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"We have about $200 million of commitments in Australia. But if you look at the overall capital of our program and what we want to do in the region, that's probably a fifth of where we could and where we want to get to ultimately. So we have a bit of work to do."

Stan Kolenc, OPTrust Private Markets Group

In total, we have about AUD$200 million of commitments in Australia. If you look at the overall capital of our program and what we want to do in the region, that's probably a fifth of where we ultimately want to get to.

Is the Australian market front of mind for North American pension funds, or is it still an outlier?

I'd say it's front of mind for Canadian pension funds, because we see a lot of similarities between Canada and Australia. There are cultural similarities, similarity of language, a similarity of law, a similarity to how business is done. Canada is very much an oil-and-gas plus America-driven economy, whereas Australia is a coal-and-iron-ore plus China-driven economy. Of course, all of those things are interrelated

Do you expect more North American pension funds to establish a presence in Australia?

It's a good question. Since we opened our office, another Canadian institution has opened an office focused on infrastructure here, which has been great, because it validates our views. You don't want too many people to follow suit, but it's always good to see one or two come along to give you a bit of confidence that you've made the right decision.

We'll definitely see more international institutional capital come to Australia. On the private equity side, a lot of that will be through funds or co-investments in the larger, mega-end of the market. On the infrastructure side, most of that will be through investments and investee companies that have their presence. I wouldn't be surprised if you see one or two more institutions focused on infrastructure come to invest in Australia, particularly big international institutions. ■

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Chasing Super Funds' Dollars/

Australian superannuation funds have changed their attitudes to private equity investment, says MVision's **Nikki Brown**

Bio

Brown is managing director of MVision's Sydney office. Prior to joining in 2001, she worked at Merrill Lynch Investment Managers, where she was involved in establishing its alternative-assets group and responsible for distributing private equity and hedge funds to clients in Europe and the Middle East. She received undergraduate degrees in management and physical education from New Zealand's University of Otago.

A number of international GPs and LPs have started looking at the Australian market. What is the appeal?

Much has been made of the fact that Australia has proximity to China and is an indirect beneficiary of the China growth story. We saw that play out in the resources industry. As the economy matures and moves into different phases, the proximity to the much larger population markets of Asia is a positive thing. Also, there is the fact that Australia is an advanced private equity market in terms of its ability to take control of companies. Australia is one of the Asian markets that has a significant number of buyouts as compared to growth investments. That provides a degree of comfort to offshore investors, when they feel confident that the GP has full control over the company and is able to pull whatever levers are available.

How much activity do you expect to see in the Australian PE market this year?

We're going to see a bit more momentum, definitely. The quality of deals coming to market makes it much more interesting to the private equity players, whether that's because of the fundamentals of the markets they're operating in or the quality of the management teams. There is going to be an increase in the number of deals completed this year.

Do you expect to see an increase in fundraisings this year?

There seem to be more Australian GPs in the market now. In the past couple of years, there has been a focus on really driving value within the portfolio. With the recent IPOs, the recent exits, we're seeing GPs that are more comfortable in the story they're telling to offshore GPs. We're also seeing limited deal flow in other areas of Asia Pacific. Markets like Southeast Asia, which were interesting in the past year or two, have now become a little bit hot. We see China as a market that is continuing to provide good opportunities, but from a growth perspective. In terms of developed Asia Pacific economies, there seems to be a big gap, and Australia is definitely of interest.

How has the political environment changed since last year's federal election and government change?

The political environment is always fairly stable. And people have a high degree of confidence in the infrastructure around investment. After some regulatory reforms in the past couple of years, that activity is now slowing a little. In the next few years, we'll be seeing a period where those reforms are really bedded down, certainly with regard to some of the stronger superannuation reforms. A lot of the superannuation funds have been spending time working out how they're going to structure themselves in order to attract and maintain new members. Within that, private equity has been affected, and that has resulted in a decrease in some of the super plans that were actually investing. Now we've seen those that are committed to private equity formulating strong programs to invest for the future. ■

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Commercializing Life Sciences/

Brandon Capital's **Stephen Thompson** tells Privcap about the opportunities he sees in the Australian life sciences sector

Bio

Thompson is the firm's managing director and a founding partner. He previously worked with Bio Innovation SA and established life science fund manager Terra Rossa. He has also been a director of Apax Partners and served as a director of Imperial Innovations, Imperial College London's commercialization company. He received degrees in immunology and biochemistry, a Ph.D. in immunology from King's College London, and an MBA from Imperial College

What is Brandon Capital Partners, and what does it invest in?

We're a life science venture capital fund. We only invest in early-stage life science companies developing new drugs or new devices or diagnostics here in Australia. We have AUD$100 million under management in two funds—$50 million in each. We will be trying to raise capital again later this year.

Why did you elect to invest in life sciences?

It's personal expertise and domain knowledge. I came out of a life science research background and a life science startup. We believe it's that domain knowledge that's needed in order to make the critical judgment of early-stage investments and decide what's a good investment, and then helping investments actually come to fruition.

What opportunities do you see in the Australian VC market?

We think there's a tremendous opportunity in health-care. There's a lot of medical research that goes on here that doesn't get translated into products going to market. So the team we've built is specialists with domain knowledge and expertise. The challenge is that we have a shortage of capital. One of the big issues that we're facing is finding co-investors to help us in the syndicates as we grow the companies.

You established the Medical Research Commercialisation Fund. How does that work?

It's where we collaborate with 30-odd medical research institutes and research hospitals around the country. We work with them, with their tech transfer group, with their leading academics and medical researchers, trying to identify technology—often before it's patented—and try and help them file the patents and establish the intellectual property around the technology, then really work with them to establish the quickest way to get clinical proof and get into the market.

In general, is there a lack of knowledge among scientists about how to commercialize their technology?

Their core strength is academic endeavor and treating patients. When we look at an investment, we ask questions about the regulatory hurdles: Which government's going to pay for this? What about reimbursement? Can you design a clinical trial? Can you do this with the amount of capital we can provide? There are a bunch of questions we ask that they don't intuitively ask when they're looking at their new invention. ■

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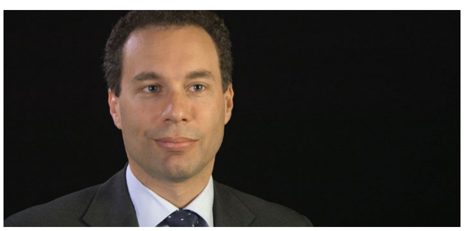

Australia By The Numbers

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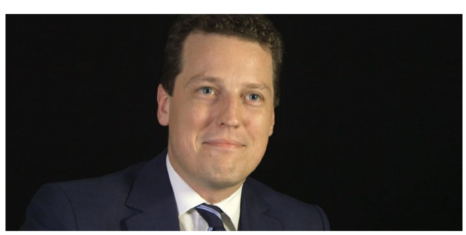

The Australian PE Landscape