



Australian Private Equity &
Venture Capital Association Limited

Private Capital Investment in Australia

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AVCAL

- Australian Private Equity and Venture Capital Association Limited (AVCAL) is a national association which represents the private equity and venture capital industry
- AVCAL's members comprise most of the active private equity and venture capital firms in Australia
- These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies
- AVCAL's core objective is to ensure that the business community and other key stakeholders understand the benefits of the private capital model of business ownership, and the role that it can play in contributing to investment and employment growth across the Australian economy
- In March 2019, AVCAL will become the Australian Investment Council

What is private capital?

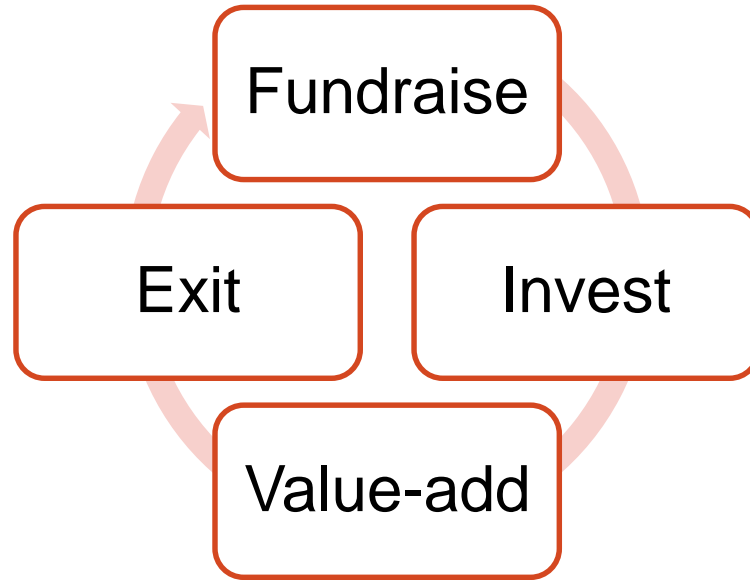
- Private capital refers to investment into a business that does not come from institutions such as banks or through the public markets
- Capital is usually professionally managed by an investment firm rather than personal investments by private individuals
- Most often is in the form of equity capital but can also be private debt or hybrid
- The most common types are **private equity** and **venture capital**
- Private equity is financing provided for an equity stake in a business
- Companies backed by private equity are usually established and profitable but need a capital injection to fund further growth or restructure the business
- Venture capital is financing provided for an equity stake in an early stage company
- Companies backed by venture capital are developing new and innovative products and services, and are often referred to as startups
- From the perspective of fund investors, private equity and venture capital are also a distinct asset class

Economic contribution of PE

PE ADDED
\$43 BILLION
TO THE
AUSTRALIAN
ECONOMY IN FY16

11% OF TOTAL
AUSTRALIAN
EMPLOYMENT
GROWTH
WAS DRIVEN BY PE
INVESTMENT IN FY16

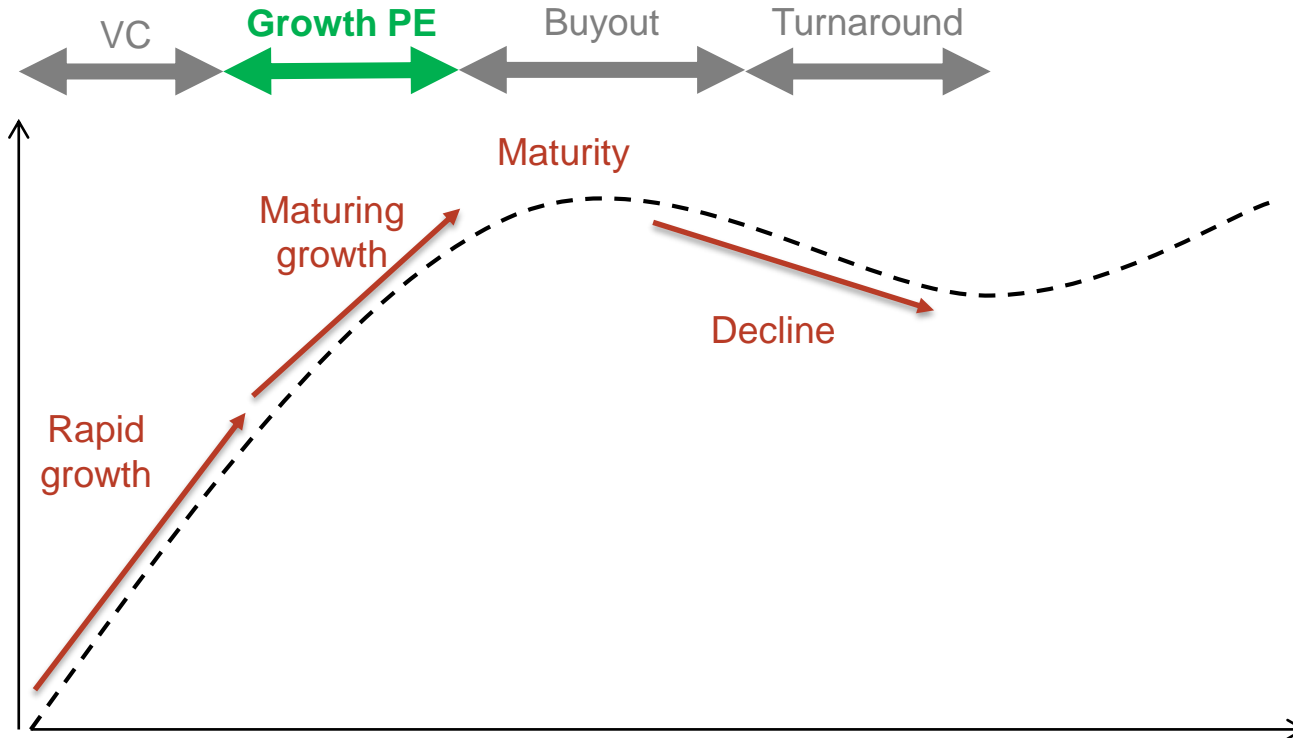
The private capital fund model



Common terms and abbreviations

- **PE:** private equity
- **VC:** venture capital
- **General Partner:** the fund manager who invests money on behalf of the investors in the PE or VC fund – GP for short
- **Limited Partner:** the investor that puts money into a PE or VC fund (but has no say in how that money is invested) – LP for short
- **Term Sheet:** a document outlining the key terms and conditions of a PE or VC investment
- **Exit:** the sale or exchange of the ownership stake(s) of a company

Private capital investment in the life of a business



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What do Growth PE investors look for?

- Established businesses that are looking for capital for further growth
- Opportunities for expansion (organic or through acquisitions)
- Scope for value creation
- Unique market or competitive dynamics
- Management team that can drive growth

Investment parameters

Target investments

Size

Location

Industry

Cheque size

Environmental factors

Competitors

Suppliers & customers

Industry, economy and demographics

Potential exit route

Acquisition criteria

Veto rights

Board participation

Management alignment

Defensible IP and legal risks

Scope for value creation

Technology

Mentoring, networks, advice

Governance

Next slide →

How does a PE investor add value?

Operational improvements

- Improve corporate governance & reporting
- Improve ESG practices
- Staff development
- Improve work safety
- Group purchasing

Management team improvements

- Focused strategy & milestones
- Align incentives to performance
- Fill skills gaps
- Bridge succession planning gap
- Sounding board for management
- Access to key contacts/networks
- Expertise/PE Business Advisory committee

Capital efficiency

- Capital expenditure
- Strategic acquisitions, expansion
- Put excess cash to productive use
- Working capital management
- More efficient funding

PE brings more than just money

Intellectual capital

- **Technical knowledge**
- **Strategic expertise**
- **Entrepreneurial experience**
- **Provide a sounding board to founders/entrepreneurs**

Relationship capital

- **Networks**
- **Recruitment**
- **Promote products/services of portfolio companies ('soft marketing')**

Types of financing instruments

Equity

- Equity
- Bridge equity
- Preference shares

Hybrid

- Call options
- Convertible notes

Debt

- Senior debt
 - Amortised
 - Bullet
 - Revolving credit facility
- Junior/Subordinated debt
 - Cash payment
 - Payment-in-kind (PIK)
 - Mezzanine
- Bridge loan

Types of PE funds

Buyout

- 10-30 staff
- Inv: \$50m-\$500m
- EV: \$250m-\$5b
- Fund size: \$500m-\$6b

Examples:

- Adamantem
- Crescent
- CHAMP PE
- KKR
- Pacific Equity Partners
- Quadrant
- BGH Capital
- Bain Capital
- Navis

Growth / Expansion

- 5-10 staff
- Inv: \$5m-\$50m
- EV: \$10m-\$250m
- Fund size: \$100m-\$500m

Examples:

- Anacacia Capital
- Bridgeport
- Next Capital
- Odyssey Private Equity
- Advent Partners
- Riverside

Mezzanine & Turnaround

- Similar to Growth PE characteristics
- Look for refinancing, turnaround and special situations

Examples:

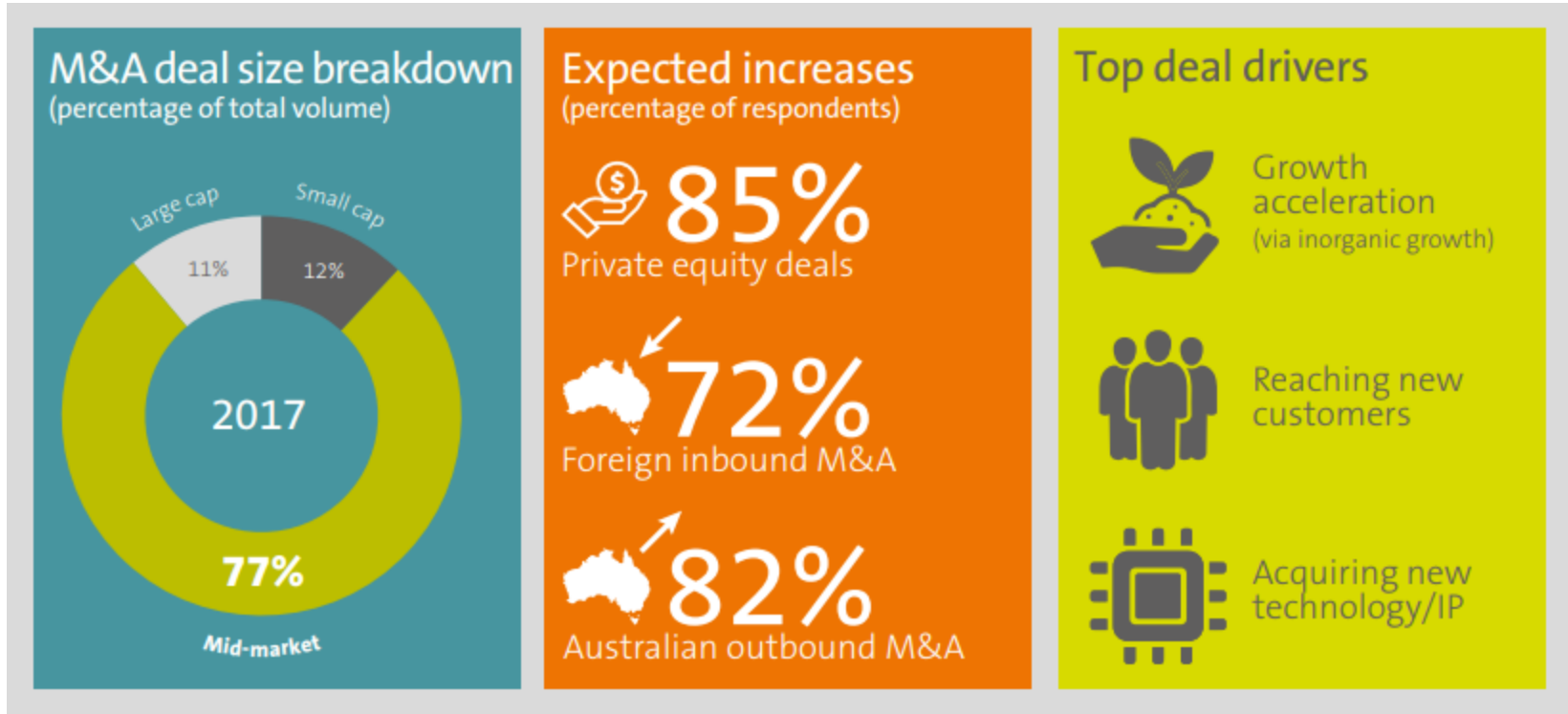
Refinancing:

- Babson Capital
- Intermediate Capital Group

Turnaround:

- Allegro
- Anchorage

Mid-market deal activity in Australia



The current policy landscape

- Instant asset write-off
- Employee Share Schemes
- Australian Business Securitisation Fund and Business Growth Fund
- What will the federal election bring?

Questions?