

The benefits that can flow to Australia from a vibrant venture capital & private equity industry

Prepared by Andrew Green for the Senate Economics Committee June 18, 2004

Venture Capital Managers invest in early and expansion stage companies, such as Resmed, Sirtex Medical and Austal Ships.

Private Equity Managers invest in the management led buyout of struggling business enterprises.

The skill set of a Venture Capital Manager and a Private Equity Manager involves the following common elements:

1. A contribution of at risk equity capital, and a strong alignment of interest with the owners of the business to make sure that the business achieves success.
2. The empowerment of the management team with the prospect of making life changing profits. The risks are of course high. But so are the rewards.
3. The provision of experienced strategic, operational and financial advice
4. Access to strategic alliances

Benefits that can flow

1. With a deeper venture capital market, we will be able to grow more high-value companies in Australia like Resmed. More great scientists can continue to call Australia home. Australia will continue to move up the value chain in ICT and Life Sciences.
2. More private equity for expansion of existing businesses, or the turnaround of rust-belt companies, will boost our national productivity. Preliminary findings of a 2004 study into Australian private equity backed companies by Meyrick & Associates shows that during the period of private equity ownership, productivity increased by at least twice the national average! Given the serious challenges of an ageing demographic, we have an urgent need to start using our human capital more wisely. Private equity helps Australia move up the value chain.
3. The end result of the venture capital and private equity process is the creation of a generation of social entrepreneurs and philanthropists.

Conclusion

A vibrant venture capital & private equity industry will enable Australian scientists, engineers and entrepreneurs to grow great companies in Australia - companies like Resmed, Austal Ships and Sirtex Medical. And the availability of private equity will mean that established companies can always get new capital to keep pushing the boundaries of productivity.