

ADDRESS TO AVCAL – AVCAL CONFERENCE 2016

(TRANSFORM AND INNOVATE)

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Melbourne

Bill Ferris AC

***** CHECK AGAINST DELIVERY *****

What an interesting comparison today's conference is to our first one back in 1993. At that time I was chair of Austrade and was successful in persuading the then Australian Treasurer, John Dawkins, to provide the keynote address at the inaugural AVCAL conference event. This was held in Sydney in the large conference room of the Four Seasons. The Treasurer would address the importance of VC and PE to the capital markets of the nation, to the future of small and expanding companies, to job growth and exports. With just 30 minutes to go before this awesome address we had less than 12 people in the audience. Frantic phone calls by my business partner and then chair of AVCAL, Joe Skrzynski, to all AVCAL members in Sydney plus friends managed to scramble about 40 people together, just in time to enthusiastically greet the Treasurer.

So a fast forward to our contemporary AVCAL conferences provides the impressive comparison where Yasser El-Ansary and his team have trouble in accommodating the 450-plus applications to attend.

It is a great compliment to me to have been invited to open today's conference. Since the early days AVCAL has built a vibrant brand and a voice of influence in Canberra and nationally. It has tenaciously advocated for the reduction in impediments to entrepreneurship, in taxation and regulation. It has doggedly and successfully championed the case for intervention in the early stage risk capital supply gap. The IIF programs, the ESVCLPs and VCLPs, the MIT "see through" structure, the improved ESOPs.... All of these have enjoyed the talented and sustained sponsorship of AVCAL. Yasser enjoys a reputation for providing articulate and constructive feedback privately to the government of the day, and publically through the media.

Mention of the media brings me to another issue ... the special Aussie culture of schadenfreude, taking pleasure in others' misfortunes. This is a derivative of the "tall poppy" syndrome, gleefully lubricated by some parts of the Australian press and much loved by their readers.

Call it what you may, entertaining gossip, harmless banter, poking fun, or nasty payback for anyone who pokes their head up and comes a cropper... we saw it in its fully glory on Census night. It certainly was not a good look, nor am I an apologist for the ABS, but the public reaction on social media was a toxic mix of mocking and smug delight with demands for harsh retributions. These sorts of reactions raise the social cost of failure and dampens the willingness to chance the new. So what for us in this room? PE has been portrayed as the ogre from central casting ... as "the barbarians at the gate", the "insatiable bottom feeders". Maybe we can assume the commentators have done their worst, that we should cultivate a thick skin to all this and move on. Maybe, but I don't recommend that passivity.

I think we have to keep trying to get more of our great stories told.

Back in 1997 when I was Chair of AVCAL we introduced the annual awards for best deals. Resmed was our inaugural awards winner. In 1993 this sleep apnoea medical device company received \$5m in expansion capital from Nomura Jafco GP. Now listed on the NYSE, Resmed enjoys a global leadership in its medtech field with a market cap of approximately A\$12.6 billion.

In year two of the AVCAL awards, there were two stand-out winners.

... best expansion capital, Austal Ships, then an innovative high speed ferry manufacturer in Perth and backed by \$15m from Aussie Mezz (now CHAMP). Today Austal has sales of about \$1.4bn in 2015, with a shipyard in Mobile Alabama and now the largest supplier of high speed vessels to the US Navy and Marine forces. Approximately 5,200 employees worldwide.

... best MBO, FirstState Computing. Funded 50:50 by Aussie Mezz (now CHAMP) this was a buy-out of the NSW State government computer services business. Successfully excited to Fujitsu, this company achieved important cost downs and service level improvements for several government departments.

Most of you in this room have contributed to so many of these AVCAL award winning stories over the past 20 years. But when was the last time you read anything in the press about a PE sponsored IPO where the shares have moved up since listing? In December 2014 CHAMP floated its outdoor media company oOh.Media at \$1.93 per share. It now trades around \$5 but never has this received a single press mention. Had it tanked to \$1 we would be famous!

And some fabulous VC stories about companies such as the nanopatch vaccinator, Vaxxas backed by OneVentures and others. No needles, no temperature control issues, potential game changer for disease control in developing countries. Or spin-offs like Fibrotech (from Melbourne Uni and Brandon Capital) with great investment returns and benefits for fibrosis sufferers worldwide.

I think AVCAL and all of us need to keep celebrating and promoting our success; and this should include a more sophisticated use of social media channels.

In the time remaining I want to say something about my task as Chair of the independent statutory board, Innovation and Science Australia (ISA) and the relevance of the NISA – National Innovation and Science Agenda – to you and AVCAL.

The NISA announced by the PM in December last year is a range of 24 measures aimed at encouraging the role of innovation and science in a future Australia. An Australia increasingly in need of knowledge intensive businesses and less dependence on the resources sectors. It aims to transform and innovate – AVCAL's conference theme.

Inter alia, the NISA established a reinvigorated Innovation and Science Australia board to assist in delivery of many of the measures. Recognising the need for national innovation funding as lifeblood for innovation success, the following actions have already been implemented:

1. From July 2016, a new tax-based incentive for angel investors with a 20% non-refundable tax offset for those investing up to \$1m p.a. in start-ups, and a 10 year CGT exemption for investments held at least 12 months.
2. Plus funding for incubators and accelerators, and 5 landing pads overseas, to strengthen the start-up entrepreneurial ecosystem.

- b) To create jobs and wealth by capturing longer and stronger value from our discoveries and IP i.e. avoid premature bail outs to offshore pharmas, or premature and underfunded IPO's or even forced binning.
- c) To deliver better healthcare and quality of life So Gardasil a great win, the first vaccine against a cancer (cervical); but we need more of these, and more Cochlear and Resmeds and Fibrotech, Spinifex and Hatchtechs.

This HMR sector is already a sector of considerable activity for PE as well ... in big diagnostics (scanning, radiology and pathology), in aged care, private hospitals. But in the next 10 to 20 years I believe PE will also need to participate in the development phase of drugs and devices in clinical genomics and big data analytics if it expects to stay in the front of this fast moving bus. To be relevant to innovative corporations like CSL and smaller versions thereof.

5. The new CSIRO Innovation Fund which supports early-stage commercialisation of innovations from CSIRO, universities and other publicly funded research bodies. This early-stage innovation fund of about \$200 million will support co-investment in new spin-out/start-up companies with products and services created by Australian research institutions. This fund will comprise \$70 million in new government funding, as well as private sector investment and new revenue from CSIRO's WLAN programme – the godfather project to Wi-Fi.
6. The \$1 billion Clean Energy Innovation Fund is rebadged to support emerging technologies in making the leap from demonstration to commercial deployment – with \$100 million a year available for ten years. By offering innovative equity and debt products, the Fund can accelerate the availability of new technologies to the energy market.
7. And the CEO of the DSTG (Defence Science & Technology Group) recently announced the creation of a NextGen Defence Technologies Fund of \$700m, targeting partnership for commercialising new products and services for the Defence sector.

So lots is already happening in the national innovation funding space. And indeed there is a raft of other activities relevant to AVCAL, like the Entrepreneurs Programme and the CRCs.

For information about any of these go to Hotline Number 13 28 46 or have an on-line chat with someone on business.gov.au.

It will no longer be enough to just go for the low hanging fruit of cost-outs and lazy balance sheets. Big investors will take these pursuits in-house and save the fees. The sustainable PE model in a future Australia will be one which seeks out and insists on growth through innovation by portfolio companies. GPs will look different because they will have more technology engineers than financial engineers, more networks with CTOs and universities than with CFOs and banks.

In my view there is a compelling opportunity for private equity GPs to play a lead role in the take-up of innovation. GPs who on-board VC experience and skills are most likely to succeed in identifying and unlocking the opportunities for their portfolio companies to be disruptors not disruptees, to drive top line growth via products, process, and/or business model innovation. Their LPs will be delighted to pay internationally competitive fees for this sort of internationally competitive performance.

Finally, let me ask for your help. The ISA Board is also tasked with developing a 2030 national strategic plan for science and innovation. This plan is not being created in a professor's study at a university, or a government office somewhere in Canberra. It's going to be borne out of the wisdom and experience of people like you – who know how to make capital and ideas work for people, to make a difference in the market place, and to build Australia into one of the top 10 innovation nations in the world.

I invite AVCAL to give us your ideas; critique our work and get on-board for the “transform and innovate” ride to 2030.

Thank you.