
PROPRIETARY

Family offices set to play bigger role in Australian M&A driven by diversification, higher returns

Analysis

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When Australian mining billionaire Andrew Forrest bought boot maker RM Williams through his private investment group Tattarang last month, a banker familiar with family offices said, “who would have thought?”

But things are changing. The Australian M&A market will likely see more family offices, not just Tattarang, playing a bigger role in direct private investments or even making private equity-like deals, as they are seeking diversification and higher returns, according to bankers, advisors and investors interviewed by this news service.

Globally, more than two thirds of family offices view private equity (PE) as a key driver of returns, while 35% of their capital are currently allocated to alternative investments including 16% in PE, according to UBS' latest *Global Family Report* that surveyed 121 of the world's largest family offices. Of that allocation to PE, 9% of the capital is in direct investments, while 7% goes into funds, the report noted.

It is hard to draw accurate data about Australian family offices specifically, given most tend to stay under the radar, but global data could be applied to the leading family offices in Australia, a second banker familiar with the space said.

Apart from Tattarang, other notable Australian family offices include AMB Capital Partners of Angela Bennett, LJCB Investment Group of the Liberman family, Australian Capital Equity of Kerry Stokes, Thorney Investments of Alex Waislitz, Paspaley Group of the Paspaley family, Tanarra of John Wylie, Lederer Group of Paul Lederer, Marinya Capital of the Fairfax family, etc., according to Fundcomb, an online database.

Direct investment has garnered “huge interest” lately among Australian family offices, but it is probably still “nascent” locally in comparison with the US or Europe, and could develop over time by attracting top-tier talents equivalent to those found in PE or VC houses, said Dillon Hale, principal and founder of strategic family office advisory firm Peninsula Capital Asia.

As family offices get larger and more sophisticated we see them becoming more active and looking to get into those illiquid investments, potentially via co-investments with PE managers, said Partner at Sydney-based PE firm ROC Partners Brad Mytton.

Over time they could potentially go head-to-head with PE investors on the small to medium-sized M&A transactions and sell assets to PE buyers, other advisors noted.

Why direct private

Australian family offices have been overwhelmingly biased towards property and listed equities but in recent years their investments have shown some notable trends: globalization, alternative investments, venture capital, direct investing and direct control, the second banker said.

Tattarang’s move on the boot maker would have been unthinkable two years ago, but over the past 18 months we have seen significantly lower interest rates, thus many family offices’ “sub-debt” type of investments are not that favorable, the first banker said. That is why there has been “a fair bit of going into PE” chasing higher returns in the last year or two, he said.

Peninsula’s Hale said he often engages with family offices about the “illiquidity premium” in private equity, venture capital and private asset investment generally, as opposed to traditional asset classes.

Whether a family office is more inclined to make direct private investment also depends on the owners and where the family office got its wealth from, said Darren Smorgon, MD of Sandbar Investments, the Sydney-based family office of the Barry & Sandra Smorgon family. In Sandbar’s case, the MD noted that Barry, his father, has always been running operating businesses.

There is also a generational change as more recent billionaires are emerging in the technology space, such as Mike Cannon-Brookes, co-founder and co-CEO of Atlassian [NASDAQ:TEAM]. They are more willing to back new entrepreneurs and invest directly into tech businesses as opposed to the earlier generations, the second banker said.

Investment mandates

When it comes to direct private investments, some family offices tend to invest where their strengths are and go for an area adjacent to where they have created their wealth from, the first and second bankers said.

Dymocks, the group behind the iconic Dymocks bookstores still in family hands, is looking to acquire tutoring businesses to complement the organic growth of its education division, *Mergermarket* [reported](#) last week. Group Company Secretary Mark Buckland said the move into education is a “logical expansion” for the 141-year old family owned group.

Jack Cowin, whose private Competitive Foods owns the Hungry Jack's fast food chain, last year took a stake in v2food, the Australian food start-up that is developing plant-based products made from legumes, according to local media reports.

Some are diversifying further from the industries they have derived their wealth from, the second banker said, noting that no two family offices are the same.

Gina Rinehart, who topped the 2020 AFR Rich List with a net worth of AUD 28.89bn, owns 67% of the S. Kidman cattle farm through her privately owned Hancock Prospecting. Forrest's Tattarang, which controls some AUD 23bn worth of assets, currently has six business divisions covering lifestyle, agriculture, energy, metals, property, and marine and will be seeking deals across all divisions, *Mergermarket* [reported](#) last week.

Sandbar Investments is interested in sectors including food and beverage, manufacturing, media, education and waste services, according to its website. The Smorgon family, one of the richest in Australia, initially made their wealth in steel.

John Wylie's Tanarra Capital recently emerged among the bidders for Lion Dairy and Drinks, alongside trade buyers Bega Cheese [ASX:BGA] and Saputo [TSE:SAP], local media reported.

There is really no one rule at all when you try to detect a trend in family offices' direct private investments, the second banker said, noting that this is such an “idiosyncratic” area. The common thing could be it is all private capital with a long duration mindset, he said. The aim is generally capital preservation with capital opportunities on top, but they are opportunistic about the way they use the capital, he added.

Still nascent

Peninsula's Hale, who has about 15 years' experience advising family offices in the US and Hong Kong, said he finds that Australian family offices are yet to develop the required skills for direct private investment, or PE-like investment. "Private asset investing, particularly direct, is very complicated and requires a certain skillset which you do find in PE firms," he said.

Instead, given their overwhelming weight towards equities, Australian family offices often hire ex-private banking or private wealth management talent that have traditionally been their services providers. "The mindset is different and the skillset is very different," Hale said. "Private banking guys are essentially allocators of capital across asset classes... However, when you invest directly in private companies you are an investor, less so allocator, taking a truly long-term view."

Family offices must ensure that at the least they have talent at the same standard as a top-tier PE firm. To attract that type of skillset and experience they need to pay at least what the market is paying for talent at top PE funds and VC funds, he added.

Sandbar's Darren Smorgon also noted that lack of skillset. What is lacking in many family offices is someone with the PE-like skills to run an operating business and to be involved in a number of businesses, he said. The MD himself had a 16-year career as a director, member of the advisory board and partner at CHAMP Private Equity, one of Australia's longest established PE firm, before joining his father at Sandbar.

Another factor that has been inhibiting the move to private direct investment is the fact that Australia has never experienced a really significant recession, Hale said, noting that "people are unfortunately by nature generally reactive, not proactive".

"I often wonder whether it's going to take a significant recession in Australia before necessary changes in investment behavior to better reflect best practice," he said.

Role in ecosystem

ROC Partners has spoken to a handful of family offices that are looking to do deals together, Mytton said. PEs usually have that management and turnaround expertise with ROC "driving the deal" and family offices having that direct exposure, he added.

The first banker said that now family offices would be more proactive in seeking deal flows and want to "get an earlier look" at potential opportunities. Sandbar's Smorgon, however, noted that although they speak to advisors constantly, they only engage on the basis of exclusivity. "Most of the deals we have done have been exclusive," he said.

While family offices have the potential to go for deals head-to-head with PE buyers, the competition is more likely in the small to mid-market end instead of in mega deals, Hale said, noting that at least that is the case in the US.

Sandbar, for example, mostly looks at targets with an EBITDA in the range of AUD 2-8m, which is too small for traditional PE firms, but will sell to PEs opportunistically, Smorgon said. Similarly, Dymocks also plays in the mid-market when it comes to potential acquisitions, according to Buckland.

In comparison with PE, family offices are more “collaborate and collegial”, according to Smorgon. In Dymocks’ case, Buckland said that their advantages lie in the speed of execution, a partnership model to retain the original owner, and a long-term investment timeframe.

“Unlike other players that really need to make some return in 3-5 years, we can take a longer view,” he said.

by Maggie Lu Yueyang and Gabriele Rutkauskaite in Sydney

Grade: Strong evidence

BIDDERS

Tattarang Pty Ltd

TARGET

Lion-Dairy & Drinks Pty Ltd

BIDDERS

Tanarra Capital Pty Ltd

BIDDERS

Dymocks Pty Ltd.

BIDDERS

Sandbar Investments Private Limited

BIDDERS

Countries

Australia

Sectors

Consumer: Foods

Consumer: Other

Consumer: Retail

Financial Services

Services (other)

Sub-Sectors

Business support services

Dairy products

Food-others

Lifestyle including
sports/music/books etc

Other services

Principal finance

Soft beverages

Venture Capital/Private
Equity

Topics

Analysis

Bolt on/Oppportunistic

**Competitive Foods Australia Pty
Ltd**

Family Owned/Closely
Held
Private equity related
Takeover situations

Intelligence ID: intelcms-
ccbf69

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