



PRIVATE EQUITY

● The voice of private capital

THE AUSTRALIAN INVESTMENT COUNCIL IS COMMITTED TO BUILDING AWARENESS OF THE PRIVATE CAPITAL INDUSTRY, HOW IT OPERATES AND THE CONTRIBUTION THE SECTOR MAKES TO THE GROWTH OF BUSINESSES AND THE NATIONAL ECONOMY.

Alongside [venture capital](#), [corporate venture capital](#) and [private credit](#), private equity forms an important part of Australia’s private capital ecosystem and is a growing asset class. The information set out below introduces private equity for those who are new to the industry and demonstrates how private equity operates within the private capital ecosystem.



WHAT IS PRIVATE EQUITY?

Private Equity (PE) firms use a combination of debt and equity investment capital to invest in unlisted companies with growth potential, or in public companies looking to go private, in return for an equity stake. The firms aim to improve the portfolio company’s performance through appointing new management, changing operating practices and providing additional capital for the company to expand or make strategic investments.

To invest in a company, PE investors raise capital from Limited Partners (LPs) to form a fund. When they have reached their fundraising goal, the fund is closed and the private equity fund managers – known as General Partners (GPs), invest into companies with growth potential.

This is when the expertise of PE comes into play. GPs often have expertise in specific industries or industry sectors enabling them to work alongside their portfolio companies

to provide deep industry knowledge and management experience to assist with all areas of the business from revenue growth, cost, and efficiency savings to supply-chain management, sales and marketing, and human resources. They typically have representation on the board, or influence on the management of an acquired company. In some cases, the management team also has an ownership stake which helps to align their interests with those of the investor.

Investment capital is deployed into several ‘portfolio companies’ usually for a period of four to five years before determining the best way to ‘exit’ the investment. This is typically achieved through selling the portfolio company to a corporate buyer or another investor or listing on the Securities Exchange.



PE INVESTMENT IN AUSTRALIA

As an alternative asset, PE drives the growth and expansion of thousands of Australian businesses across all sectors of the domestic economy every year, generating jobs and creating value for both the portfolio companies and the investors that back the PE funds.

COMPANIES THAT HAVE BEEN BACKED BY PE INCLUDE: ARNOTTS, THIESS, HEALTHSCOPE, COLONIAL FIRST STATE, JOURNEYS BEYOND, NAVITAS AND VIRGIN AUSTRALIA.

AUSTRALIAN PE AT A GLANCE

366	\$42 billion ¹
Active fund managers	122 ²
Portfolio Companies	366 ³



¹ Preqin & Australian Investment Council Yearbook, May 2022

² PreqinPro

³ Ibid

TYPES OF PE FUNDS



GROWTH/EXPANSION FUNDS

Growth/Expansion funds invest into companies which are already established but seek investment to enable them to make transformational changes which might include expanding services or products or entering new markets. The companies are cash flow positive, profitable, or approaching profitability, but need additional funds to meet their strategic and business objectives.



MEZZANINE DEBT FINANCING

Mezzanine debt financing is offered to buyout funds when companies under stress need capital but do not want to sell out completely. If the company is liquidated, mezzanine debt holders are low priority for creditor repayments. The reward for this risk is that the return on mezzanine debt is much higher than for other debt products.



OTHER

Other industry specific funds such as real estate, infrastructure and energy.



BUYOUT FUNDS

Buyout funds provide investment capital to take a majority stake in a company or to purchase it outright. Buyout funds invest in private companies or publicly listed companies which they take private. The focus of buyout funds is to build value in the companies they invest in through improving processes and funding future business activities.



DISTRESSED AND SPECIAL SITUATIONS

Distressed and Special Situations investment as made before in equity debt securities of financially stressed companies. Distressed debt investment refers to the purchase of the debt of a company in default or whose default is imminent, while special situations investment stems from a one-time event that has a positive or negative impact on the investee company.



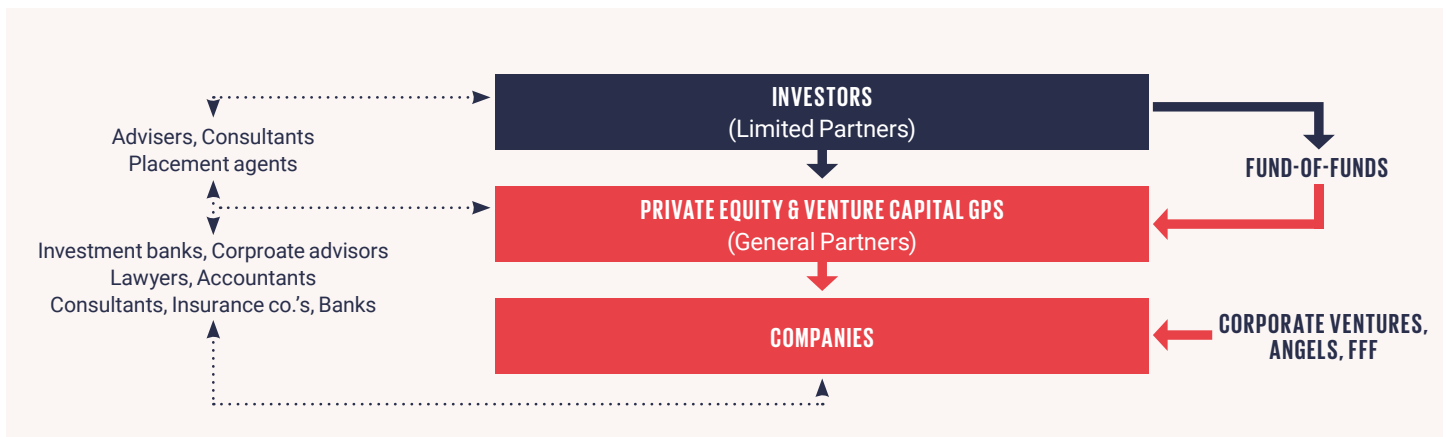
**AUSTRALIAN PRIVATE EQUITY FUNDS HAVE
\$42.2 BILLION IN ASSETS UNDER MANAGEMENT.**

PRIVATE EQUITY ECOSYSTEM

LPs are passive investors in PE funds and typically include institutional investors, companies, superannuation and endowment funds, family offices and high net-worth individuals.

The capital raised from LP investment is placed into a fund structured as a limited partnership and managed by a private equity fund manager – the GP.

GPs invest the funds raised into carefully selected 'portfolio companies'. They actively work alongside the company management team to enhance the value in the business in all areas of operation, from the top-line growth, efficiency savings, cash generation and procurement, to supply-chains, marketing and sales, improving reporting and human resources.



SOURCES AND STAGES OF FUNDING

PE financing is done through a range of techniques according to the type of investment.

This includes Add-on, Growth Capital, Public to Private, PIPE and Recapitalisation. PE firms usually hold their investments for between five and seven years, before they sell or 'exit' their investment, either on the stock market, to a corporate buyer or to another investor.



ADD-ON

Add-on acquisition is when a private equity firm or other buyer acquires a company and integrates it into an existing business within the buyer's portfolio.



GROWTH CAPITAL

Growth Capital, also known as expansion capital, is provided to relatively mature companies to expand, restructure or to enter new markets with the purpose to accelerate growth.



PUBLIC TO PRIVATE

Public to Private transactions involve the acquisition of a publicly listed company by a private equity investor who then takes the company private.



PRIVATE INVESTMENT IN PUBLIC EQUITY (PIPE)

Private Investment in Public Equity (PIPE) refers to the shares of publicly traded stock which are purchased below the current market value.



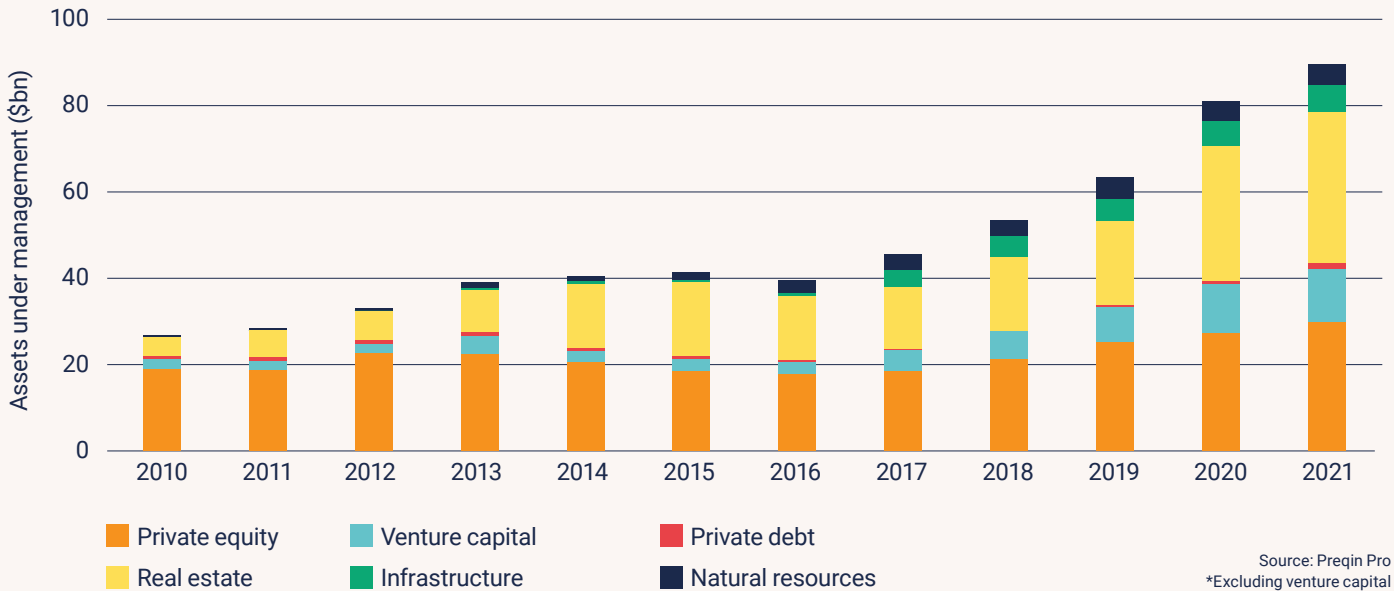
RECAPITALISATION

Recapitalisation is a financing method used to invest in privately held businesses that enables the owner to restructure the debt or equity of their company.

PE IN AUSTRALIA

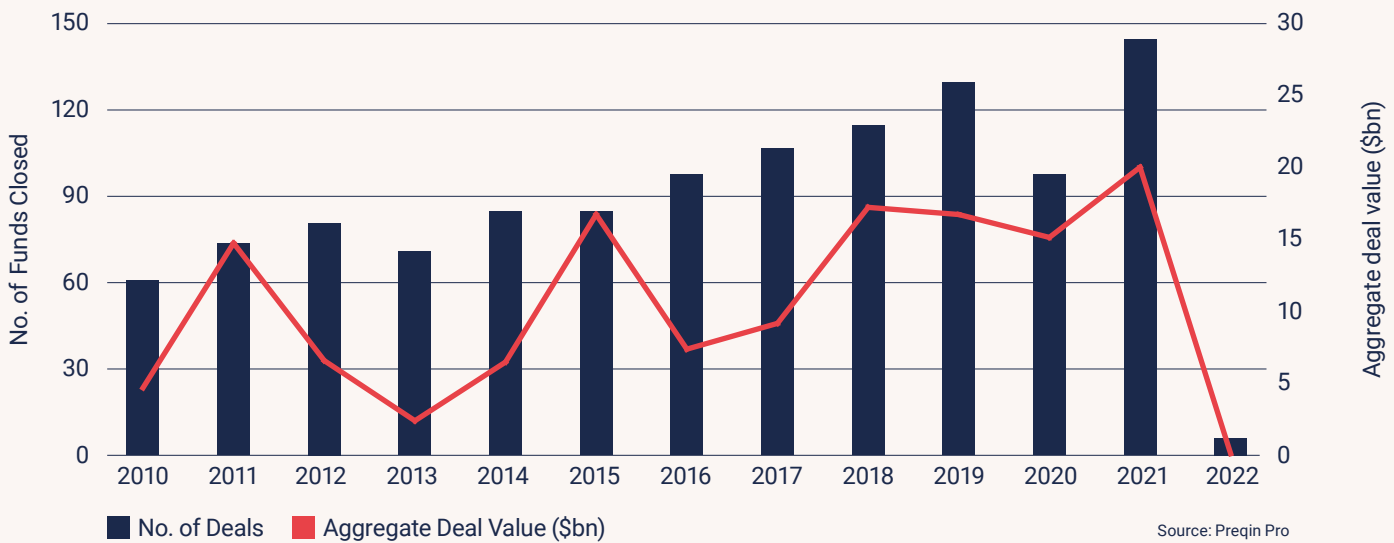
Private Equity (including venture capital) remains the dominant asset class with \$42.2bn in AUM, constituting a third of private capital's total, and growing at an average rate of 11% over five years from 2017 to 2021.

FIG. 01 AUSTRALIA-FOCUSED PRIVATE CAPITAL AUM BY ASSET CLASS 2010 - 2021⁴



The aggregate total deal value reached a record \$20.1 bn in 2021, up 32% year on year and 20% higher than in 2019.

FIG. 02 PRIVATE EQUITY-BACKED BUYOUT DEALS* IN AUSTRALIA, 2010 - 2022⁵

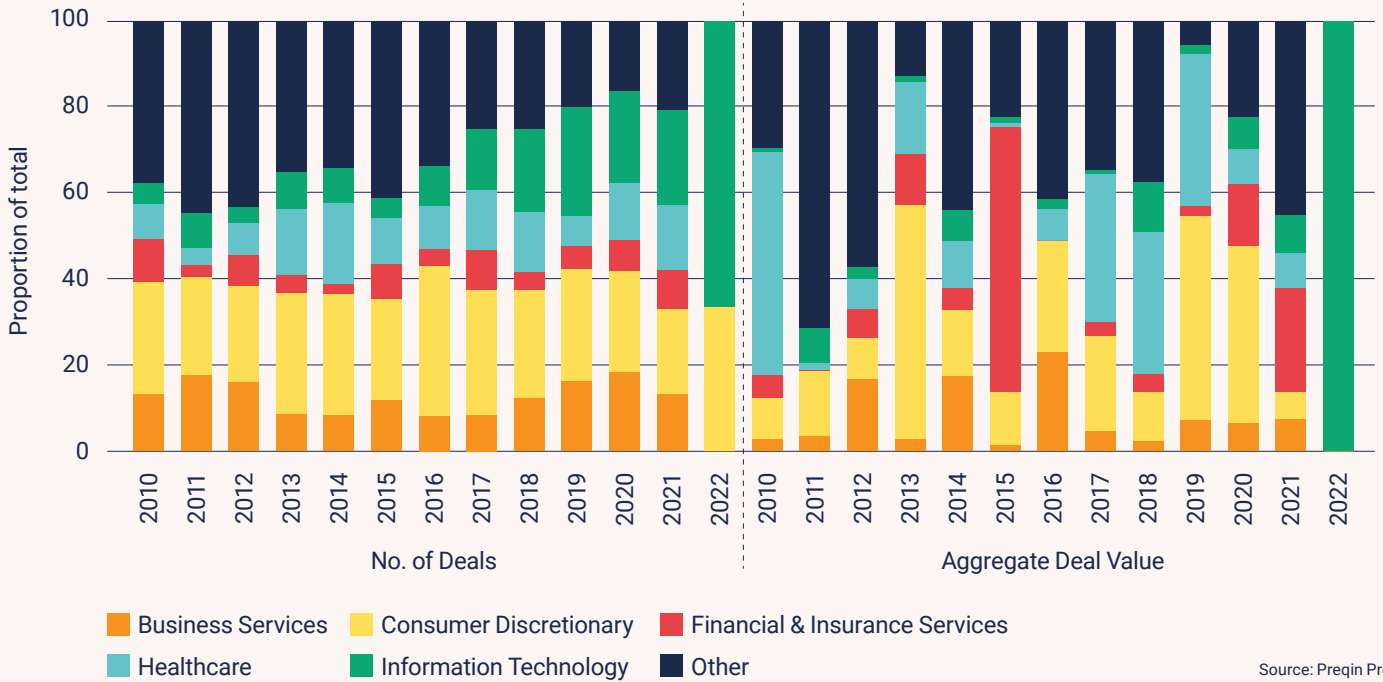


⁴Preqin & Australian Investment Council Yearbook 2022
⁵Ibid

PE IN AUSTRALIA

Private Equity invests across every sector of the economy, creating jobs and contributing to economy growth. Investment into Consumer Discretionary, Financial & Insurance Services, Healthcare, Information Technology and Business Services have been prominent choices for private equity investment over the past decade.

FIG. 03 PRIVATE CAPITAL DEALS* IN AUSTRALIA BY INDUSTRY, 2010 - JAN 2022^b



PRIVATE EQUITY HAS CONTINUED TO DEPLOY CAPITAL INTO AUSTRALIAN COMPANIES AND DISTRIBUTE CAPITAL BACK TO INVESTORS. **OVER TEN YEARS TO 31 MARCH 2022 PE AND VC COMBINED HAD A NET ANNUAL RETURN OF 17.85%.**

*Figures exclude add-ons, grants, mergers, secondary stock purchases, and venture debt.
^bIbid



ABOUT THE AUSTRALIAN INVESTMENT COUNCIL

VISIT [AIC.CO](https://aic.co)

The Australian Investment Council is the voice of private capital in Australia.

Private capital investment has played a central role in the growth and expansion of thousands of businesses, which when combined, represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity, venture capital, corporate venture capital and private credit funds, alongside institutional investors such as superannuation, sovereign wealth funds and family offices as well as leading financial, legal and operational advisers.

FOR FURTHER INFORMATION

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