ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Inquiry into State Government Taxation and Debt

Sydney — 29 October 2009

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Dr K. Woodthorpe, Chief Executive, Australian Private Equity and Venture Capital Association Ltd.

The CHAIR — I welcome Dr Katherine Woodthorpe to our parliamentary inquiry into manufacturing. We are also receiving evidence today on our tax inquiry, but I venture to suggest that we will be talking to you primarily about manufacturing.

Dr WOODTHORPE — It depends which bit of tax you are talking about.

The CHAIR — Yes, I think we will be talking to you primarily on manufacturing. Thank you for coming. Could you give us your official title and your business address and the fact that you are appearing here as a professional witness and not in a personal capacity.

Dr WOODTHORPE — My name is Dr Katherine Woodthorpe. I am the Chief Executive of the Australian Venture Capital and Private Equity Industry Association, AVCAL. I am appearing here today to give evidence as a professional witness. My business address is level 41, Gateway Building, 1 Macquarie Place, Sydney 2000.

The CHAIR — We will move straight into questions. We have received quite a lot of evidence that suggests that the manufacturing industry in Victoria and Australia is suffering because there are orders that people are wishing to place with companies that cannot expand in a time when many think there is not a lot of expansion occurring. They want to expand to meet their orders, but they are having difficulty finding capital. Another point that comes up a lot is that those who do provide the capital tend to think manufacturing is a past industry and that big manufacturing sites, or even niche manufacturing sites, should be located offshore, and therefore they do not consider them an appropriate place to lend money. Would you like to comment on those two points?

Dr WOODTHORPE — The venture capital and private equity industry is a very broad spectrum. It ranges from those who invest in early stage companies that have been commercialised out of universities or public sector research agencies, right through to the likes of GPG who are about to sell Myer through an initial public offering onto the stock exchange. So that is the broad spectrum of the kinds of companies that fall under this general label of venture capital and private equity. But the common theme is that it is private money, the origin of which is in Australia very, very largely from the superannuation industry, invested through collected vehicles to make investments into those divergent types of companies, from early stage technology through to very successful, capable businesses, manufacturing or otherwise — retail, mining, all sorts. Those companies all provide capital in exchange for equity of some kind or another. Now in the earlier stage companies that equity does not usually take control; it is usually of the order of something like 40 per cent, so if a venture capitalist is investing in an earlier stage company, they will put money forward and they will take usually of the order of 40 to 45 per cent equity in that company.

At the private equity end of the spectrum more generally they take control and they buy the company outright. Within the total equity there is usually then a piece which the management of the company both get given and buy into, in a classic management buyout, so that the senior executive team of the company have a significant shareholding in the company which aligns their interests with that of the remaining shareholder, the private equity fund.

In this environment with the global financial crisis we have pretty much been one of the few mobilisers of capital in Australia, because there has been very little other capital. If you are not already listed and a large bank raising additional funds on the stock exchange, there has been almost nowhere for you to go to obtain capital to expand, and that does not matter whether you are small or large, that has been true for everybody.

The management buyout model usually also incorporates a significant portion of debt. Usually between 40 and 70 per cent of the total price paid will be provided through debt; they will provide a certain amount in cash and take the remainder as debt. Of course that has been much more difficult to get hold of across the board, again regardless of what sort of company you are. The deals done to purchase companies with private equity have been significantly reduced over the last

12 to 24 months in line with the general reduction in economic activity, or mergers and acquisitions activity, around the world.

We are one of the few mobilisers of capital, but we have not been mobilising anywhere near as much as we had in the past, and that will continue. It will not fall any further, but it will continue to be a problem for the short-term foreseeable future, say the next 12 months, as we are starting to ramp up back into making acquisitions but very slowly, so it is a problem right across the board.

The area that you are particularly referring to in terms of how it reflects back — —

The CHAIR — How manufacturing is perceived.

Dr WOODTHORPE — Before I get to that, I was going to say that in terms of when you are talking about companies taking additional funds to grow, it is the area kind of in the middle of that full spectrum that I described, which we would call expansion capital. Expansion capital is usually where a company's shares all or a part thereof are bought and additional capital is then injected to grow the company, whether it is through offshore, whether it is through capital injection into their manufacturing, whatever it might be. The sort of dilemma that you are referring to falls in that middle bracket of ours, which we generally loosely call expansion capital.

In terms of the second part of your question about whether or not we should be manufacturing in Australia, I am afraid I am a bit of a diehard' I believe absolutely strongly that we should be manufacturing in Australia. I come from the high-tech manufacturing end of industry. My background was in scientific instruments and medical devices, and certainly at that end there is absolutely no question that Australia has a very strong place, and there are people who come here to manufacture because the quality and the productivity, all bundled together, make it more attractive than going offshore where you might have quality issues. Although the productivity might be higher in a labour sense, labour is not the highest component of the whole price and therefore becomes less relevant.

A nice example of this, it was a few years ago now, was Varian instruments, which is based in Melbourne. It started as an Australian company which was then bought by the large Varian from Walnut Creek in California. I think it was about 10 years ago that they shipped to Australia, or changed their manufacturing of one of their major instruments that had always been made in the US to Australia because of both the quality and productivity of the manufacturing base out in the eastern suburbs of Melbourne. Even international companies recognise that sometimes it is actually worth bringing stuff here, as opposed to our propensity to think we always have to ship it offshore.

The CHAIR — So comments made in evidence by some manufacturers that trying to obtain capital is made more difficult because they are asking for capital for manufacturing expansion could well be an inaccurate presentation of your sector?

Dr WOODTHORPE — I do not think so. I think it is just capital is so hard to get full stop. Our sector would not look at manufacturing in any biased way. They would look at the deal, the opportunity for growth and take that at face value. There certainly would not be any predisposition to say, 'We do not invest in manufacturing', and many of them do.

Mr ATKINSON — Would it be true, though, that manufacturing is its own worst enemy in terms of individual companies? In retailing, for instance, everybody understands how you bowl up into retailing, but manufacturing, because it is so specific to particular processes and products, has often been started by an entrepreneurial individual whose business plans and a lot of the other material are all in his head, which actually makes them fairly difficult to size up for investment. They do not necessarily have the written processes and procedures in place and so forth. In fact, one of the things that private equity often does is bring some systemisation to companies. Is that an issue, or could that be an issue, in terms of manufacturing sourcing funding from venture capital sectors or private equity?

Dr WOODTHORPE — It could be. There are certainly some of my members who specialise basically in the family company succession plan — how does the original entrepreneur/owner sell the company in a way such that he or she can actually take a benefit, but over a period so that they are not selling it tomorrow and letting go? There are some of our members who very much specialise in that area and quite a lot of those are manufacturing, but we are talking about small manufacturers who might be employing 10 to 50 people.

The CHAIR — That is a really interesting comment because Bruce has pursued that line of questioning with a number of people in evidence, talking about succession planning and maximising profits from the sale of a company.

Mr ATKINSON — Particularly exits.

The CHAIR — Could you expand that a little more and mention, if it is appropriate, what organisations specialise in this area?

Dr WOODTHORPE — To expand, firstly, the point you made at the beginning is really quite valid. Private equity is a good option for those kinds of people as an exit mechanism because it is a progressive one; it is not saying, 'I'm selling the company and walking out of here tomorrow'. You are quite right; so often so much is in their heads. But because it is progressive, where they are earning their way out over a period of time, they get a chance to make that transformation from being a sole owner of the intellectual property in the broadest sense to 'processising' that and standardising it so that others can get on with it. That is why a number of private equity firms look at that as an opportunity, and some of them work very closely with people like — I cannot remember the exact name — the family business association.

Mr ATKINSON — Family Business Australia.

Dr WOODTHORPE — Yes. The only one that comes to mind offhand is a company called Helmsman. They were originally a few executives, two or three, out of Macquarie, and they set up Helmsman private equity fund maybe some five years ago. In doing so they very much focus in on that succession planning and exit type of business, and as I said they work closely with the family business association to educate their members as to this being an opportunity and one possibility as an exit route.

Mr ATKINSON — Can we understand a little bit about the profile of the association as it is today in terms of its membership, particularly Sydney vis-a-vis Melbourne? You might go on in this vein: we have had evidence led that one of the issues in terms of access to capital for companies in Victoria is the fact that most of the venture capital industry is based in Sydney, and financial services is quite strong in Sydney, and — I used this term earlier today and I will use it again — it is almost human nature to buy up something that you can keep an eye on, that is close to hand. Therefore there tends to be a greater involvement and greater opportunity created in New South Wales for these buyouts or private equity investments, because they are on the spot, they can keep an eye on it and it is just a lot easier to facilitate the interactions that are important in terms of that investment. I am just interested in how you profile the association and perhaps respond to the broader issue that was raised with this.

Dr WOODTHORPE — It depends which end of my spectrum I described at the beginning you are referring to. Actually at the venture capital end Victoria does very well. Victoria has roughly as many venture capital companies as Sydney, and we are talking about a very small pool. Victoria actually had the lion's share of venture capital investment in the last 12 months, not least because of the large life sciences public sector research agencies that get a lot of investment out of the venture capital sector. But I do not think that is so much the sector we are talking about.

As you said, in that expansion area there is very much less representation. There is literally a very small handful in Melbourne, and by far the big bulk of them are in Sydney. If you talk to the ones who are based in Melbourne, they would very specifically say, 'We like being down here because the opportunities are down here and none of those other buggers are around'. It is a strategic move that they have consciously done. TPG is a good example of that. TPG, being one of the biggest international players in private equity, deliberately set up in Melbourne because they believed the opportunities were there.

Mr ATKINSON — TPG is Texas Pacific Group.

Dr WOODTHORPE — Yes. These days they have sort of dropped what it stood for and just left the abbreviation on its own.

Mr ATKINSON — That is true.

Dr WOODTHORPE — They based themselves very specifically in Melbourne because of the opportunities they saw and the lack of competition for those opportunities. It is really true that there are literally only two or three of them down there. Catalyst has a small office; TPG is based there; Advent is based there; and then there are some small ones like Yarra Capital, Jolimont, which is a secondaries, and that is about it outside of the VC — —

Mr ATKINSON — Does Macquarie do anything out of its Melbourne office?

Dr WOODTHORPE — They do not have a VC or private equity fund any longer, so not really, no. They have a fund of funds which invests in turn back into other VC funds, but they do not have their technology fund any longer; that has finished.

Mr DAVIS — I am going to ask questions in relation to our tax inquiry, and particularly state taxation. I am curious as to whether there are aspects of the state system, particularly in Victoria but also more generally, that impact negatively and could be improved in terms of your private equity and venture capital focus. Are there impediments?

Dr WOODTHORPE — No. There are impediments, but they are at a national level rather than at a state level. For example, there has been a recent inquiry into the taxation of managed investment trusts which the Board of Taxation has been looking at. I have spent the last what feels like a year of my life doing nothing but tax, which to a chemist has not come very naturally. At a state level the sorts of taxes that the state levies — —

Mr DAVIS — Stamp duties on property movement.

Dr WOODTHORPE — They do not influence whether or not my members themselves would set up, and they do not influence whether or not my members would do a deal.

Mr DAVIS — Deals would progress.

Dr WOODTHORPE — The deal is based on the overall opportunity, and taxes would be taken into account as just the overall profitability opportunity of that deal. But if you want to do any lobbying at a federal level, I would be happy for you to do so. I can give you the crib sheet.

Mr DAVIS — You probably should send us your material. I am happy to look at it.

Mr CRISP — I am interested in how opportunities are identified. I have learnt more about venture capital today than I knew before. How are the opportunities identified for private equity funds, and when a manufacturing business wants to access capital, which has been a problem, what are the criteria that are applied by the funds in assessing those businesses?

Dr WOODTHORPE — On the venture capital side the criteria are very much about the opportunity, because we are talking about a company that is not yet profitable and might have barely been in existence. It is pre-profit; it is certainly spending a lot of money and has a lot of cash to burn through before it gets to a profitable stage. So they are looking for world-class opportunities. They have got to be something that is bigger than Australia. Australia is not strategically even in their thinking in terms of their selling. It has to be something where the world is their opportunity.

They look at the opportunity, and they look at the team. People are one of the most important components of any deal you ever do, because the question is: is the deal worth doing, but then can this team actually pull off what they have proposed to us? If you cannot believe in the team, the best opportunity in the world is not worth investing in. The third thing they look at is what it is actually going to take in terms of the input of capital over what period. Quite frankly at the moment the state of the venture capital industry is dire as to whether or not they can actually see a company through the 5, 7 or 10 years of the investment phase that it will take to get them to that stage of either being profitable or being saleable.

One thing that is really important to remember right across the private equity spectrum is that you buy a company with a view to selling it. The funds are all roughly 10-year, closed-end funds. You are only ever buying with a view to selling it at a profit, and that is something that at the family business end can sometimes be difficult to get across: 'I am really buying your company because I want to sell it and make money out of it. I am not buying it because I love this thing and will run it for the rest of my life'. That can be a bit of a psychological barrier for some people.

On the private equity side usually what they are looking at is something that is underfunded in terms of capital, working capital and investment into growth or something that is quite often an unloved division of another larger company. A really great example was Bradken, based up in Newcastle. It is a component manufacturer for what they call consumables in the mining industry, but we are talking about consumables that cost $1 million a pop — things like the giant teeth on a dragline — so it is heavy foundry-type work.

They were part of ANI and then Smorgon, undercapitalised. The management team had a great view of what it needed to do to turn this into something really exciting. The company head office said, 'No. We are not interested. We have other priorities for the capital that we have available'. The management team went and approached a private equity house and said, 'We have this great opportunity. We believe it will just take capital and a winning partner', and it got the investment. It was bought as a division out of Smorgons. It was in private equity hands for about three years. It was sold on to the stock exchange and has done tremendously well since that time as well, but it needed both the capital and the time out to redirect itself, rework the strategy and invest in the new directions that it wanted to take, which included investing a lot in plant and equipment; now it is manufacturing and selling to China. We are talking about a manufacturing plant that is doing what you would think is low-skilled foundry work; in fact it is very highly skilled foundry work, but from the outside people would not understand that until they got into it. It is really heavy stuff. It is not high-tech in the sense of small componentry that costs very little to ship by airfreight overseas. It is selling to the Chinese because what it does it does better than anyone else in the world. It can be done.

Mr ATKINSON — Is there anything that the government in Victoria could do to actually stimulate more interest from the funds in opportunities in Victoria notwithstanding not wanting to upset TPG? Is this a roadshow opportunity? Is there some other facilitation that we can provide? How can we actually get more interest in our companies? The question I have asked previously that Christine was alluding to concerns the fact that the age of a lot of the owners of manufacturing businesses is getting on and a lot of them are looking at exit strategies because they want to retire, and as you said, they want to take something to fund their retirement. There is an enormous opportunity there in that sense. How do we stimulate that interest from the funds to the extent that they do have money available, recognising those constraints, to participate in Victorian companies from that point of view and in some cases renovate those companies, make them stronger and more competitive?

Dr WOODTHORPE — Absolutely, and really what they are after is something they can renovate. They do not want to buy the beautiful designer home on the waterfront that has had everything put into it already and the only uplift you will get is from the whole sectorising; they want to buy the run-down terrace house that they want to be able to spend money and effort on to actually get a real uplift in the underlying value of the property as opposed to just a sectoral uplift. Yes, they are looking for renovation delights.

I do not know on the venture side. I would have to say that the Victorian Government has, over many years and in all shapes and colours, been very proactive in and conscious of building the VC industry in Victoria to complement the highly research-intensive nature of Parkville, for example, and the significant number of research centres that you have in Victoria. It has been both the Liberal and Labor governments which have been of a similar mind and have had similar set of policies in terms of what they have done to encourage the venture capital industry in Victoria. I would have to say that you get the lion's share of the investment there. If we end up with what is likely to happen in the venture capital industry broadly, which as I said is in dire straits at the moment, the lion's share of it will be housed in Victoria. We might end up with only half a dozen companies, and of those, three of them will be Victorian. I think on the VC side it is as good as it is going to get. Other than pumping money directly into the venture capital industry, there is probably not much that could be done.

On the other part — the expansion, succession and so on — probably one of the biggest problems for those companies is having a form of brokerage almost, having a place they could go to (a) help them understand that private equity is an option; (b) help shape them into a form that private equity might be interested in — and it is not changing the company but the way they present themselves, the information they present, the business planning that they can present and so on — and then (c) just have that brokerage of a place where people could go to find them. It is really hit and miss from both sides. I get a call daily from either a kitchen table entrepreneur right through to a succession style of middle-sized business saying, 'How do I get capital? Where do I go? Who do I turn to?'. It can be difficult. I do not have the time or energy to do that. I have got a great website which we start them off with and say, 'Go to our website. Look through our members and what each of them are individually looking for, whether it is a sector, a size of investment or a style of investment, and use that to inform who you go to'. There are contact details there too. It is hit and miss from the entrepreneurs' point of view, but from the PE firms, they have no way to seek those kinds of investments other than working with Family Business Australia or trawling through the stock exchange to see what opportunities might be there for either undervalued companies or particularly, as I mentioned earlier, divisions of companies. There needs to be some mechanism of improving that flow of opportunities.

The CHAIR — Can I push you on this?

Dr WOODTHORPE — Yes.

The CHAIR — If you were one of our research officers — —

Mr ATKINSON — You would cost too much!

Dr WOODTHORPE — Yes.

The CHAIR — What would you put to the Committee as a recommendation on that very point? We write recommendations that the Victorian Government does such and such; we are very much focused around what the Parliament can do to enhance, in this case, manufacturing. Let me brainstorm. Should there be a quota of what is invested with Australian money into Australian businesses? Should there be component sections of the funds going into manufacturing? Should there be — I do not want to give you the answers!

Dr WOODTHORPE — Please give me the answers, because I am coming at it cold as well.

The CHAIR — I have an example here of a company that came to us. This is a newspaper clipping. This company is utterly convinced that it has a very good business proposition, and it is frustrated because it wants to manufacture in Australia. It has got huge orders overseas, but it needs the capital to get tooled up and run this.

Dr WOODTHORPE — There is no such thing as a bank at the moment that is prepared to lend anything, and even when they do the price is so outrageous that that is rarely an option.

Mr ATKINSON — And I have never met a businessman who does not think that he has got the world-beating formula.

Dr WOODTHORPE — That is always true.

The CHAIR — Part of our role is making sure that manufacturing and jobs are enhanced in Australia.

Dr WOODTHORPE — I do not know if a body like VECCI or something like that may be a vehicle. You need a vehicle. There have been some government programs in Victoria that are new. I know the Victorian Government is trialling a copy of a US program at the moment which is called SBIR.

The CHAIR — SBIR stands for?

Dr WOODTHORPE — Small Business Innovation Research. It is a very successful US Government program which I understand sometime during this last calendar year started being trialled in Victoria. It is the sort of program that I would be watching very closely. This is very much aimed at the earlier stage companies; not necessarily those who are only researchers, but those who are already starting to manufacture. It is a way of giving government contracts for research to small companies: it is a quota-type system where X per cent of a government department's research capacity has to be fed to small companies, not big companies. It is something like that; I really cannot remember it in detail. It would be interesting to see how that is travelling and what that is delivering.

The CHAIR — Other than people ringing you saying, 'I have a great idea'.

Dr WOODTHORPE — I really would like to have somewhere to send them. I cannot promote one member over another, for example. If it is something that really falls into certain very specific bailiwicks like it is just life sciences, there are two or three pure life sciences people I can post them at. But with a middle-level manufacturer of gardening equipment based in the eastern suburbs of Melbourne — one I happen to know of specifically — I phoned around a number of members just because I knew this company and I knew they were a great wee company and they really needed a hand, but I cannot do that for everybody. I cannot say just to one member, 'This is a great opportunity'; I have to be even handed.

Some sort of mechanism whereby that brokering can occur is something that is lacking. They do not know where to go for help, and the private equity places do not have a single point where they could look at a number of different deals, run their eyes over it and say, 'Yes, that suits our particular shape and form'. I wish I had the answers.

Mr ATKINSON — It is on the right track anyway.

The CHAIR — Should there be a website? Perhaps you might like to have a think about it, because I think this is what we keep coming up against as a big blocker for our companies.

Mr ATKINSON — Christine also raised the bigger notion, which is the opportunity for your members to access capital at this point, and you have mentioned a dearth of capital available for venture capitalists in particular. Obviously the superannuation industry has substantial reserves.

Dr WOODTHORPE — And they are going up daily.

Mr ATKINSON — And it has been investing some, but proportionately it is not perhaps as big a player as it might well be in terms of nurturing our future industries. I wonder what your perception is of that and whether you have any views on forms of encouragement to superannuation funds or other sources of funding to free up more funds.

Dr WOODTHORPE — I have strong views, and they are sometimes controversial. The superannuation industry exists because we mandate that it does so. We mandate that every salary has 9 per cent of it creamed off and sent off on a daily basis. They also exist because they have tax-friendly structures and tax-friendly treatment that encourages people to put more than that 9 per cent in wherever possible. So when they get back to me with their usual arguments whenever I suggest they should be mandated to do anything, I keep pointing out they only exist because of these two anomalies that they benefit from. They just hate to admit that.

In the whole of the private equity field across the whole of the superannuation industry they spend something of the order of 2 per cent.

Mr ATKINSON — Of their funds?

Dr WOODTHORPE — Are invested. That then is the chunkiest; there is a whole lot that do not invest at all. Of those that do, it usually represents maybe 5 per cent of their investment portfolio, and that is almost exclusively with the private equity end of our spectrum. There are a number of reasons for that. One is private equity returns have been very good for some time now, and so in terms of what they are supposed to do, which is to increase the returns to their members, it is a good place to be. And private equity takes the sorts of sizes of money they can hand out. They can put $50 million into a private equity firm; they cannot put $50 million into a venture capital fund, because that would be swamping it. Also given the risk profile of VC, if they even decided that they would have a $50 million allocation to venture, they then would want to spread the risk of that. When they do, they generally invest via a fund of funds so that they can (a) put bigger licks in and (b) spread that risk across.

I fly a kite regularly any time I speak to members of the Federal Government and say that I do not see why, given that superannuation funds exist by mandate, they should not also be mandated to do certain things which are nation building. One superannuation fund ex-CEO said to me the other day, ‘And frankly the 0.1 per cent that we would put into a VC fund, we can afford to lose without our members being affected’. The 0.1 per cent is not going to affect them so dramatically.

Mr ATKINSON — I lost more than that on the share market in the last little while.

Dr WOODTHORPE — Yes, and 0.1 per cent would be an enormous amount of money into the venture capital industry. So we are not talking of increasing their risk profile so dramatically.

Overall, venture returns have not been great. The Federal Government has, over the last 10-plus years, had various programs to increase the reward and reduce the risk with things like the innovation industry funds, which have been subsidised effectively by the Federal Government. They have been doing their bit. But I do not think the superannuation industry believes it is their role. I had a really interesting discussion with, for example, UniSuper, whose members, when you think about it, are those very entrepreneurs and academics who might go out tomorrow and be the next ResMed, like Peter Farrell, who was an academic. They say, ‘Yes, we get a lot of noise from our members about this. They really want us to do that, but it is not the best fiduciary thing, so we don’t’.

It is a conundrum. I do not envy them the conundrum, but I wish a few of them were a bit braver. One I would really like to cite that is, is VicSuper. They have had a certain branding around cleantech and things like that.

Mr ATKINSON — Environmental stuff.

Dr WOODTHORPE — It has been very effective; it is very appealing to their members. They have invested in things like Cleantech, and to my understanding, because they are one of the first investors in a group called Generation IM overseas, they are doing very well out of it. It can also be shown that it can deliver. But there are not many as far-sighted as Bob Welsh.

Mr ATKINSON — This might take you just a little outside your area of observation, but you mentioned that venture capital funded enterprises have not had a spectacular track record of late. The performance has not been terrific. From your understanding, is that partly because a lot of them are obviously biotechs and so forth? Is that partly because of difficulties in accessing international markets? Are there barriers in international markets for them releasing the drugs or the products that they are looking to commercialise? In other words, are the returns not there not because their product is not good but because they are simply coming up against the American Food and Drug Administration saying, 'No, we would rather hear from somebody from Texas or Oklahoma'?

Dr WOODTHORPE — Yes and no. A large problem with the life sciences industry is the time it takes to get something not even to market but to phase 2 and 3. It means that quite often — and given the scenario I painted at the beginning where we have 10-year closed-end funds — they are having to make their returns to their investors in a period that is out of sync with the life cycle of a biotech company. They are having to return the money to the investor and therefore sell out of their investments too early. They cannot wait for that uplift on that last phase 3 or phase 4 part of a biotech's life cycle.

So that is a structural anomaly that is one of the contributors. There is also a degree of vintage issues. We came into the venture capital industry, as a country, largely very late, and we have a number of integers to still wash out. We came in right in the middle of the dot-com boom and bust, and so there is a lot of stuff that needs to wash out of the horizons before we can start to get a cleaner snapshot of the industry and report back on the returns in a more uncluttered way that does not have these anachronisms attached to it.

Mr ATKINSON — A better overview.

Dr WOODTHORPE — Some of our VCs perform as well as anywhere in the world, but when you only have a tiny industry, that means we are talking about one or two of them compared with the US where there are a hundred times more. It is also just a sheer scale issue as well.

The CHAIR — You mentioned before that if we had 0.05 per cent of the super funds into VC, it would make a huge difference. If we did that, would it be realistic to stipulate that they would be only for Australian companies or Australian manufacturing or Australian work?

Dr WOODTHORPE — Yes, in principle, but you have to be careful, because sometimes you throw the baby out with the bathwater. We have a structure called the venture capital limited partnership structure, which is a tax-advantaged structure. It is aimed at Australian investment. There is a clause in there that says that if your investments go over 20 per cent of offshore investment, then the whole thing becomes ineligible. If you are doing venture capital, very often that will happen by the nature of the sorts of companies starting in Australia that you invest in. They might have all their research and all their manufacturing here, but because their sales and marketing is overseas it changes their profile enough to make them a non-Australian company in the way it is measured. So people are precluded or discouraged from actually doing the best thing for the company in terms of its growth — by putting in a big US sales and marketing effort, for example. You can get caught up.

In principle I think it should be very much for Australian companies, but how is that defined and should it be at that initial investment point? Let the company grow and do what it has to do, and if a lot of it goes offshore, that is okay, because we still get a collateral return back here and a residual benefit left in Australia.

The CHAIR — We have also been briefed on the World Trade Organisation and various international obligations that we have to honour, so all that would have to be factored in. Your comments have been very helpful.

Dr WOODTHORPE — It has been a pleasure. And if you have any further questions you want to ask by correspondence, do so; I am happy to answer them.

The CHAIR — Thank you. The Hansard transcript will be provided to you within about a fortnight. You are free to correct typographical errors but not the substance of your submission.

Dr WOODTHORPE — Some of the things that have been in *Hansard*! I presented to something in Tasmania; I chair an Antarctic research institution, and I was giving a presentation. Because it was at the behest of the Governor, Hansard took note of everything, and I have gone down in history talking about these little shrimpy guys, which just makes me sound so ignorant. So that is the problem with *Hansard*.

Mr DAVIS — Now it is there twice. You have done it again.

Dr WOODTHORPE — Why not? I will do it every time now. I did bring with me a history of Australian venture and private equity. It is 10 years of data and 20 years of narrative, because we did not have data going back that far, but the industry does, so there is some narrative attached to it. And these are the latest papers on venture, cleantech and private equity, with some of the latest facts and figures for you.

The CHAIR — Thank you.

Witness withdrew.