

Building blocks for a not-for-profit revolution

Emma Connors

The GoodStart consortium that won the bidding war for 678 ABC Learning child-care centres last Wednesday is at the epicentre of a new force in philanthropy in which banking, legal and corporate finance networks cross the not-for-profit landscape.

It was serial entrepreneur and former politician Evan Thornley who got the ball rolling on the GoodStart transaction with a Sunday night call to Michael Traill, founding chief executive of Social Ventures Australia (SVA).

The call took place last November just after the global credit crunch had revealed ABC Learning to be a financial house of cards, and when the group's bankers had called in the receivers, much to the concern of thousands of parents.

Thornley wondered if Traill, who had come to the not-for-profit sector from Macquarie Group, had taken a look at the ABC business.

Thornley suggested ABC Learning was a once in a generation opportunity, noting it had a national footprint in the child-care industry and, if run with business disciplines, could achieve a significant amount.

It didn't take long for Traill to warm to the idea.

"One thing I have learned in the last seven years is that spending money on early intervention when people and families are struggling is money saved in the long run," he says.

"It means an alienated, isolated three-year-old doesn't turn into a 16-year-old stuck in the juvenile justice system, costing society \$60,000 a year to support."

When Traill gets stuck on an idea it tends to get around.

SVA joined forces with like-minded organisations in the not-for-profit sector, including Mission Australia, the Brotherhood of St Laurence and the Benevolent Society, headed by Richard Spencer and whose general manager Maree Walk became the GoodStart spokeswoman.

All agreed the failure of ABC Learning as a listed entity could be an opportunity to do a lot of good if the economics worked and if they could access funding.

They were big ifs: the final purchase price agreed with receivers on Wednesday is thought to be around \$100 million – a lot of money in anybody's business.

And there was competition: Archer Capital was also interested.

"We were conscious we were playing in the big league," Traill says. "It's a significant-sized business – over \$600 million in turnover and 55,000 kids – and we

are competing in a market that I knew well from my private equity life that you can't take short cuts.”

At this point KPMG director Will O'Neill and Trevor Allen, a mergers and acquisitions partner, approached the not-for-profits.

KPMG had had an advisory role with the board of ABC Learning before it went into administration.

Mission Australian chief executive Toby Hall says that the two “convinced me it was viable and they really wanted to work with us on the delivery model”.

“They gave us the momentum we needed to move forward.”

Mission Australia had already purchased 29 centres in April from the ABC receivers, who made it clear they were keen to sell the rest of the centres to a single buyer.

Hall, in investment banking before a move to the community sector, knew the work needed to get a deal this size off the ground.

The legal fees alone would be substantial. But Danny Gilbert from Gilbert + Tobin was part of the SVA network and much of the work the firm did for the bid was pro-bono or heavily discounted.

The same applied for KPMG, while David Jones and Darren Smorgon from CHAMP Private Equity and Rob Koczkar from Pacific Equity Partners made significant pro-bono contributions as the bid started to take shape.

The next turning point came when former Macquarie Group director and well-known philanthropist Robin Crawford agreed to chair the consortium.

Crawford also contributed financially as GoodStart went about proving the viability of social capital that in financing terms equates to a sub-debt instrument but also generates a social return.

The individuals who kicked in did so on the understanding the goal was to generate returns of around 12 per cent or half what they would expect if they put that money into private equity.

And with luck there would be a non-financial return; it is hard to argue against the importance of quality care and education for babies and young children.

Capital raised from individuals, a \$15 million federal government loan and cash contributed by the consortium members helped gain the support of National Australia Bank, which lent the consortium an undisclosed sum.

Given NAB had lost \$140 million when ABC went into receivership, the bank took a substantial haircut on the eventual sale to GoodStart, whose head Matthew Horton now becomes the new entity's CEO.

Personal networks were at play here too as Crawford dealt directly with ANB deputy chief executive Michael Ullmer, with whom he had often worked before.

“The consortium still has to prove its model will work but the bid itself has already forged new ground,” MA’s Hall says.

“As far as I know this is the first time private equity firms, big-end-of-town law firms and corporate finance have come together to work for not-for-profits on a deal. I think it is something we will see more and more of.

“We face major, complex social issues that are not going to be solved by philanthropic donations.

“The money helps but the reality is we are going to have to come up with more creative ways of dealing with social issues. We need to find more ways of using capital to general social purpose outcomes.”

The Australian Financial Review.