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Finance

JP Morgan set to seal \$1.2bn Waco purchase

Buyouts

THE long-awaited \$1.2 billion sale of scaffolding and porta-cabin company **Waco International**, which is expected to set a record for private equity deals in Australia, could be concluded this week.

Private equity firm JP Morgan Partners entered into exclusive talks to buy **Waco** at the end of October after it bettered CVC Asia Pacific and Catalyst Investment Managers, who were bidding together.

But the complex deal has been delayed by several factors, including financing.

Most of **Waco's** revenues come from Australia but a large part of its business is in South Africa and Britain. Because of exchange controls, JP Morgan has been obliged to finance **Waco's** South African operations separately from its Australian operations.

But debt syndication for the deal has now been completed and the deal is awaiting final regulatory approvals.

A further complication was that the selling shareholders owned all of **Waco International** but only 80 per cent of **Waco** South Africa. The remaining 20 per cent was owned by a black empowerment group who also had to agree to the sale.

JP Morgan Partners is attracted to the deal because **Waco's** businesses are linked to the resources boom, but also because they have a large degree of predictability.

When companies lease porta-cabins they tend not to change their minds after a few months and it is even rarer that they switch porta-cabin supplier. Porta-cabins often stay in place for years. JP Morgan also has some knowledge of this sector having bought scaffolding company Brand Services in a hotly contested US auction in 2002.

The completion of the **Waco** deal will be another milestone for an Australian private equity market that is awash with cash and desperately looking for places to put it.

The top end of the market has proved fiercely competitive in recent months. Pacific Equity Partners' attempt at a \$3.65 billion buyout of food company Goodman Fielder was turned against a few weeks ago in favour of an initial public offering.

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Prior to that, supermarket giant Woolworths beat private equity bidders in bids for Australian Leisure & Hospitality and Taverner (in partnership with Bruce Mathieson) and also saw off private equity when Foodland's New Zealand operations were sold.

Strategic buyers normally have an edge over financial buyers not only because they have very different return expectations but also because they are typically able to extract synergies from a deal.

In addition to the **Waco** sale, private equity firms are involved in about a dozen sales processes including the sales of Myer, Qantas Flight Catering, Tegel Foods and Griffin Foods.

Private equity bidders are particularly enthusiastic about the sale of Brambles Cleanaway and Industrial Services businesses, but they expect little movement on those sales until next February.