

FINANCIAL REVIEW

HD Australia's techs appeal

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WC 1,199 words

PD 20 December 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 60

LA English

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Chanticleer

In the spirit of the festive season this penultimate column for 2014 is full of optimism that the nation can make the adjustment from the **mining** and resources boom to a knowledge economy. The Big Questions are: will Australia's distance from Silicon Valley matter when it comes to creating the next generation of home-grown tech companies? What sort of stocks will replace the **mining** companies that operate around the world?

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Chanticleer turned to two serial tech entrepreneurs to find the answers to these questions. Both men, Stephen Goh and Paul Ostergaard, are involved in a fascinating period of creative destruction under way in Perth.

Goh, who started Australia's first internet broking site in 1996, this year backed his social entertainment platform, called Migme, into a **mining** shell called Latin **Gold**.

Ostergaard is in the process of backing his mobile roaming network **company**, called Norwood Systems, into a former **gold** explorer called Monterey **Mining**.

These "backdoor listings" have been a feature of corporate life in Perth for decades. Goh says it is a unique advantage Australia has over the three big sophisticated capital markets in this time zone. He says Japan, Singapore and **Hong Kong** cannot match Australia when it comes to combining high levels of corporate governance, ease of listing and, above all, skills in assessing and taking risks.

This attractive cocktail of ingredients did not happen overnight. It took years of successes and failures including a fair share of spectacular losses.

Scepticism towards Perth and its **mining** entrepreneurs is understandable. You only need read the most recent features by The Australian Financial Review's Pierpont, aka Trevor Sykes, to know that there are still many who play fast and loose.

But Goh knows from investor roadshows conducted in Europe and Asia over the past month that foreign investors have a positive perception of Australia's capital markets. They like the fact that Goh's home listing market, Perth, has for years churned out companies that have taken on high-risk **mining** activities in remote parts of the world.

"They are impressed by the business adventurer approach taken by Australians. The outsider's view is that because of the history of **mining** investment, people are used to putting capital into projects where not everything is certain and not everything is known."

Goh runs Migme out of Singapore where the investment culture is distinctly risk averse. Investors want real estate investment trusts and predictable returns.

Migme is based in Singapore because it is central to the main markets where the **company** operates: Indonesia, Philippines, India, Nepal and Bangladesh.

Migme is serving customers using mobiles, which helps explain why its biggest shareholder is the Taiwanese handset manufacturer Foxconn. It makes about 50 **million** phones a month.

When Goh talks about the opportunity for his **company** in the Asian region he also addresses the question about the relevance of Silicon Valley.

He worked and lived in Silicon Valley for three years. That taught him a valuable lesson about the focus and strategic priorities of the big United States tech companies. Their focus is first and foremost on North America. The rest of the world is a secondary consideration.

Goh says the countries where Migme is growing fastest are turning away from the established US internet brands such as Facebook. For example the internet messaging and entertainment service Line has overpowered the big American products. Goh gives the example of Tencent, **China's** largest internet service portal, as a **company** that proves new players with cultural affinity can win ahead of the Americans. Its market capitalisation has grown \$US160 **million** to \$US160 **billion** (\$196 **billion**) in a decade.

A phrase that keeps coming up in discussions Goh has had with investors interested in Migme is "risk affine". This apparently is the opposite of risk aversion. It refers to the propensity for investors in Australia to take risks.

That certainly is true of Perth. A breakdown of the number of listings by ASX home branch (**equity** issuers only) shows Perth 873, Sydney 798 and Melbourne 326.

The relevance of Silicon Valley to the development of Australia's knowledge economy is questioned by Ostergaard, who visits the valley regularly.

He works as a mentor to young tech entrepreneurs in Perth through the West Australian government-funded Innovations Centre WA. It is focused on the commercialisation of ideas, entrepreneurship and innovation.

"The up and coming young people I meet are so much more knowledgeable than I was when I started Norwood Systems," he says. "The data is so easy to get these days and that means they have 1000 times more information."

Ostergaard says it's fitting that Perth, which is the most isolated city in Australia is the home to a thriving new bunch of companies. "You see people now out there unleashing human capital," he says. "What we need to do now is to release the pools of capital that are sitting here in Australia."

Ostergaard, who has been working for more than a decade to make Norwood Systems a success, says he was encouraged by leading Perth stockbroker John Poynton from Azure Capital to consider a backdoor listing of his **company**. Poynton is a mentor to many entrepreneurs in Perth.

Norwood's business is aimed squarely at global corporations wanting to cut the phone bills of travelling executives. Users of the system seamlessly connect back to their home base while avoiding expensive cellular systems.

Ostergaard will raise \$4 **million** as part of a backdoor listing in March next year.

It is worth giving credit to the ASX for the role it has played in creating the right environment for capital formation by risk takers in Perth.

It made astute changes to the listing rules in recent years. These lifted the standards of compliance and investor protection for backdoor listings.

While a prospectus is compulsory for a backdoor listing, the rules are entrepreneur-friendly.

Goh says a backdoor listing of Migme in Perth cost one-third as much as an initial public offering and avoided about 12 months of waiting time.

Since listing Migme has risen from 8¢ a share to 52¢ a share. The returns for original investors are about five-times their initial investment because of the impact of a capital reconstruction.

But there are similar stunning share price increases for companies that have backdoor listed this year including Covata, Ziptel, 1-Page and Digital CC.

Sure, Australia's sharemarket is dominated by big banks but the risk taking companies of tomorrow seem to be showing better returns. They are riskier propositions but they may also represent the future of the Australian economy.

According to the latest data from the ASX, there will be about 34 backdoor listings in 2014, the highest level in more than four years.

It is appropriate that Perth has become the home for this cycle of death and renewal. After all if we are going to make the transition from **mining** to a sustainable economy founded on education, science, technology and engineering then why not use the shells of the old world to make the new.

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CO norwsy : Norwood Systems

IN i3441 : Telecommunications Equipment | itech : Technology | iwrlssl : Wireless Area Network Technology

NS ccat : Corporate/Industrial News

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AN Document AFNR000020141219eack00010