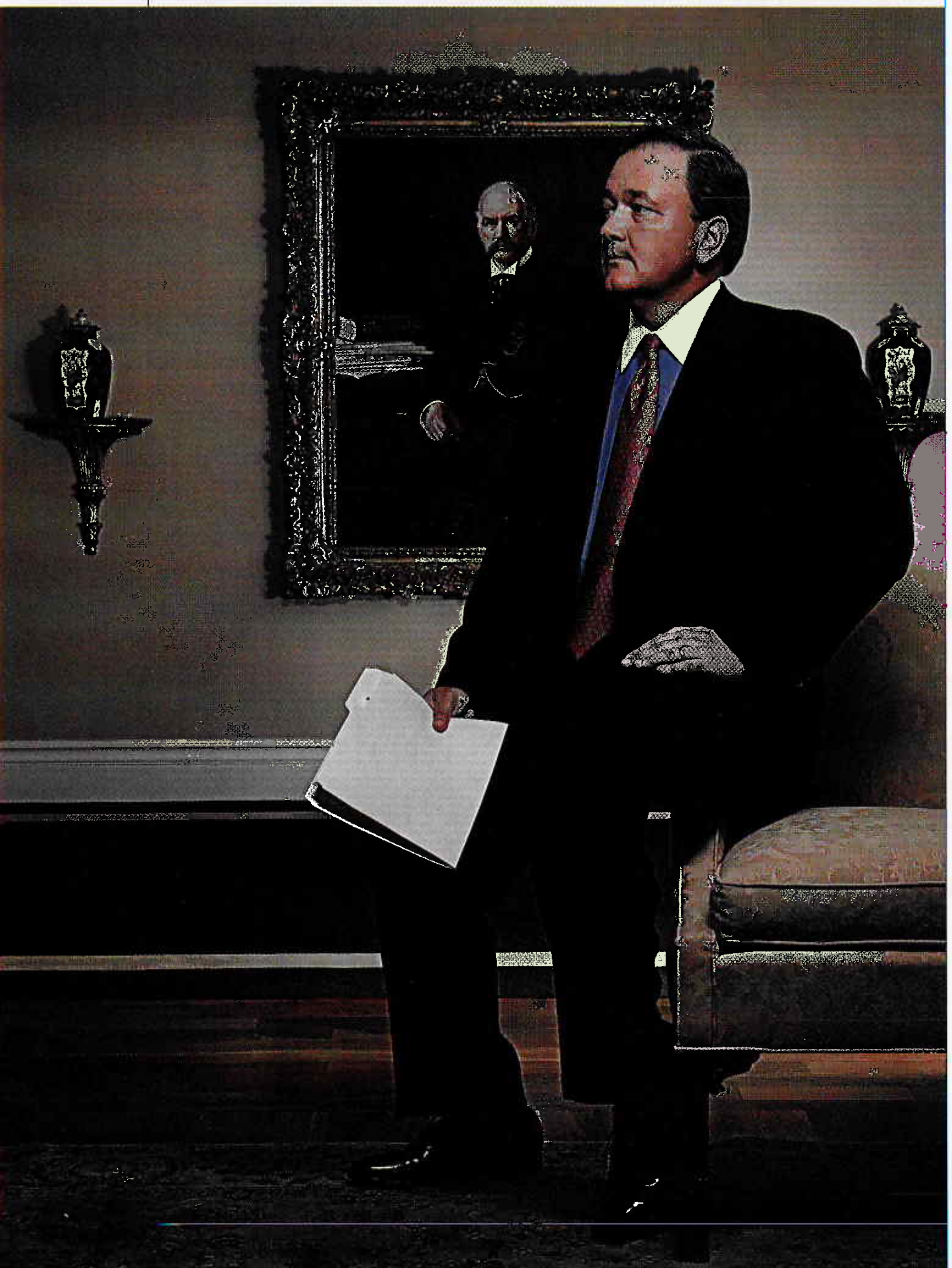
Cross-Border

Aussie Rules

Acquiring companies in Australia requires respect for the laid-back culture and a low-key approach. Doing deals Down Under with Castle Harlan's Howard Morgan BY GARY M. STERN



Castle Harlan's Howard Morgan takes troubled Aussie companies and works his magic.

Back in 2000, when Howard Morgan, managing director of New York–based private-equity firm Castle Harlan, set out to launch a sister company in Sydney, a fellow Harvard alumnus, Australian Ben Sebel, gave him some advice. "Don't turn into one of those tall poppies," Sebel warned, explaining an old Aussie maxim about how the tall poppies are always the first to be cut.

"In other words," Morgan says, "if you're flashy, you're not going to make it."

Australians are known for their easygoing, devil-may-care attitude, and the country's business climate reflects it. What is seen in Manhattan as admirable moxie will probably be regarded by Australians as boorish arrogance.

Morgan took Sebel's advice to heart as he set up Castle Harlan Australian Mezzanine Partners (CHAMP), starting slowly and networking quietly. "Howard was the anti–Stephen Schwarzman," says Mark Brown, a JPMorgan Chase banker who briefly worked alongside Morgan at CHAMP in Sydney. "Operating behind the scenes, he didn't try to draw too much attention to himself."

That deferential style worked. Morgan would eventually pull off a spectacular media play from right under the nose of home-court king Rupert Murdoch, a deal that would help lay the groundwork for the rise of LBO activity in Australia, where buyouts were previously viewed with trepidation. "Howard, in his own way, helped the buyout space here overcome an image that's always been synonymous with hostile raiders and vultures," Brown says.

Morgan, who lived in Sydney from 2000 to 2002 while getting CHAMP off the ground, says Australians tend to be every bit as convivial as Paul Hogan's film oeuvre makes them out to be. But when it comes to dealmaking, they can also be as intense as Harry "Breaker" Morant — "sophisticated, blunt, conservative in their risk-taking, not showy and egalitarian in business," as Morgan says.

Now 45, Morgan has since moved back to New York but remains a CHAMP director and sits on its board. He's still quite fond of his niche market on the other side of the world, despite the unfathomably long flights he makes three times a year. "We set our sights on Australia because Europe was saturated," he says. "And in Asia you had many cultural differences and a

PHOTOGRAPH BY IAN SPANIER. STYLING BY KATIE CALAUTTI lack of infrastructure. But Australia possessed all the critical elements: rule of law, stable government, an established banking system and some private-equity firms. It's worked out well."

Like Castle Harlan's target market in the U.S., CHAMP sought middle-market businesses with $20 million to $100 million in EBITDA. But first, it had to prove to Australians that private-equity firms weren't simply bottom-feeders looking to break up businesses and put people out of work. "We needed to explain how we could take under-cared-for assets and give them attention," Morgan says.

To get off the starting blocks, Castle Harlan partnered with a local firm, Australian Mezzanine Investments, which, despite managing a small fund ($50 million), knew the local culture and players. The new entity launched in 2000 with $330 million, at the time the largest stand-alone LBO fund in Australia.

Not long after that, Morgan, while attending church in Sydney, became friendly with Jonathan G. Morphette, the former CFO of Austar United Communication. Austar was a satellite-TV service that had 20 percent penetration in Australia's rural markets but was owned by United Australia Pacific, a U.S. holding company mired in Chapter 11. "It's ripe for growth," Morphette insisted at the time. As CFO, he had tried to fix Austar's problems, which included a muddy balance sheet, but couldn't do so without significant operational changes. He eventually left.

Morgan, realizing a prime acquisition target — or the key to unlocking it — was his for the taking, hired Morphette as his deal consultant. Then the two prepared for an attack. The trick would be to snag the business out from under the nose of Rupert Murdoch, who, despite owning most of the Australian airwaves, focused on the major cities — Sydney, Perth, Melbourne — while the rural areas, often regarded as scarcely inhabited outback, were wide open.

By 2003, CHAMP had acquired 82 percent of Austar, a complicated takeover that involved a strategic partner, John Malone's Liberty Media. The total price tag: $600 million, including debt. Austar's business model included cellular service and broadband, but

SCORECARD
Howard Morgan

Age 45

City Formerly Sydney, Australia; now works in New York and lives in Darien, Connecticut

Firm Castle Harlan

Position Senior managing director

Education B.A. in mathematics from Hamilton College in 1984; MBA from Harvard in 1988

Career Arc 1984–1986: Worked in M&A for Allen & Company; 1988–1996: was a partner in the Ropart Group, a private-equity firm. Joined Castle Harlan in 1996, for which he served as executive director of Castle Harlan Australian Mezzanine Partners (CHAMP) from 2000 to 2002.

Really Big Deal In September 2005, Morgan engineered Castle Harlan's $580 million acquisition of Polypipe, a plastic piping manufacturer.

CHAMP, aided by the former insider, saw the most opportunity in core satellite business. By focusing on long-term customers and improving service, CHAMP was able to increase its market penetration to 25 percent. In December 2005, CHAMP sold its stake to Liberty, which simultaneously issued more Austar shares to the public. All told, CHAMP was paid $1.2 billion, or seven times its original equity investment.

Such success, while remarkable, hasn't come easily for Morgan. Adjusting to the local idiom, for example, took some time: "Punting" means to make a bet, not to cut one's losses. "Rooting" has a far racier meaning in Australia than in the U.S. Australia's bankruptcy system is different as well: Companies seeking protection are placed into receivership — under the control of an appointed third party — which can lead to immediate liquidation. Lightning-fast negotiations often ensue, a marked contrast from the protracted legal struggles so common in the U.S.

Having played rugby during his undergrad years at Hamilton College in upstate New York put Morgan in good stead with the various Aussie contacts he made. "Rugby is a mainstay sport in a country that loves sports, and having a playing knowledge of the game unquestionably helped me in social situations," he says.

"Australia has all the critical elements for LBO deals: stable government, an established banking system and private-equity firms."

Experience at the prop position and being down-to-earth, by contrast, didn't always mean a whole lot — in any country, money talks. But contacts made in Australia helped Morgan pull off another deal that recently bore fruit. In 2005, a mutual friend who just generally enjoyed Morgan's personality introduced him to David Hall, the former chief executive of U.K.-based Polypipe, a manufacturer of plastic pipe systems. Aided by Hall's insight, Castle Harlan bought Polypipe for $580 million. This July, Polypipe sold to Bank of Scotland for more than four times Castle Harlan's original investment.

What does Morgan see happening to private equity Down Under in the future? "Australia, like the U.S., is in a boom cycle," he says. "Australia has never really experienced a down cycle, and eventually there'll be an adjustment. But the disciplined players will do well."

Spoken, you might say, like a true CHAMP.