

2019 Year in Review & 2020 Outlook

A note from Brad Prout, FC Capital CEO

“As the year draws to a close, I couldn’t be more confident that our product offerings at FC Capital are continuing to meet the market need. A year ago we had a vision for each of our businesses and 12 months later I am pleased to see that our businesses and market position are gratifyingly in line with this vision. I’d like to extend my thanks my team, our clients and investment partners in what has been another milestone year for FC Capital; we are well positioned to leverage our success as we go into the new decade.”

Australian Market Update

Structural change and heightened scrutiny: The Australian financial services sector saw another significant transitional year in 2019. Our domestic market continued to evolve as a result of the reduced interest rate environment and the fallout of the watershed final recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. At the same time, publicly listed companies have seen increased scrutiny of their governance, people and culture by shareholders and wholesale investors alongside a concerted effort by the Regulators to monitor and address performance and approach to conduct and fiduciary responsibilities.

Capital flow: Against this backdrop, the Australian Private Markets witnessed a significant year in 2019. The Australian Investment Council 2019 Yearbook shows fundraising activity is strong, hitting a record high of \$6.6 billion. This follows \$2.2 billion total deal value in the VC sector, out of an available investment pool of over \$11 billion in 2018. Aggregate deal value in 2018 increased 200% for VC backed deals and 64% for PE backed deals compared to 2017.

Overall, about \$30 billion in assets is managed by private capital in Australia, demonstrating a substantial support from wholesale investors for investing in private markets. The sector is now a material part of super fund portfolios. An Ernst & Young report completed in August 2019 for the Australian Investment Council entitled [‘Will the rise of private capital tip the balance of investment power?’](#) highlighted super funds invested 19% of scheme allocation to alternative asset classes including private equity, hedge funds, unlisted property and private debt.

New sources of funding: Under this regulatory and structural pressure, we have seen Australia’s banks pivot scale away from the SME and mid-market corporate arena. A new class of lenders has emerged, nimble, focused and supported by investors hungry for the yield that private credit and debt solutions can provide.

We believe this trend is here to stay, despite the recent launch of the **Australian Business Growth Fund for SME lending**, a federal government initiative. This sees government teaming up with pledges of \$100 million in funding each from the Big 4 banks alongside \$20 million from both Macquarie and HSBC. FC Capital joins various industry voices in questioning the implementation and practical accessibility to funds for SMEs, given that another initiative for mid-sized corporate funding, the Australian Business Securitisation Fund, launched in November 2018, is yet to be meaningfully established.

As an established lender to the mid-size market, FC Capital has formally approached the government to better understand the practical objectives of the initiative, the opportunity for wholesale investors to participate and the process and accessibility for SMEs.

Increased Choice for Investors: The other significant trend that we have seen in 2019 is the increased access for wholesale investors to the private markets, particularly private debt. Once the sole domain of super-funds and institutional investors, it is now accessible for well-informed wholesale investors. There has been an increased number of offerings launched by domestic and foreign providers. With the onset of the new Listing Investment Trusts (LITs) these have also been made available to retail investors looking for steady income distribution and capital preservation.

FC Capital believes these trends are here to stay. There have never been better opportunities for both SME borrowers to access cashflow loans and wholesale investors to access private credit investment opportunities in the Australian market.

FC Capital Year in Review

Increased market awareness

In 2019, we continued to build-out our credentials as one of Australia's leading alternative asset managers.

In lending: FCC continued to build out our operations to serve an ever-expanding community of small and mid-size corporate borrowers requiring tailored, result-driven lending solutions alongside hands-on relationship management. We have strengthened our distribution channels, including our existing third party and broker networks through to borrowers looking to access bespoke advisory, equity and debt financing solutions to support their growth.

One of our incubated assets, FINSTRO, catered to the individual, micro-finance and SME business arena, whilst mid-market enterprises have been able to access lending solutions through FC Capital's direct and Investment Fund offerings.

In Investment: We continued to build strong relationships with the broad community of HNWs, Family Offices, Wealth Advisory Firms and wholesale investors who are looking for consistent and reliable returns.

Our Funds Under Management has grown to \$450m equating to 12% growth on year to year basis.

A strong second half

Notwithstanding the drag of the various State and Federal elections in the first half of the year and the general concerns regarding economic headwinds, the Australian market has experienced buoyant growth in some sectors such as food manufacturing services which is experiencing strong business growth.

Furthermore, falling interest rates have seen some yield-starved wholesale investors keen to invest in the emerging Private Credit space. As a result, FC Capital saw a good level of business lending activity throughout the 2nd half of 2019 in the niche SME market.

Moving into 2020 this upward trend will remain in the near term. Investors' appetite for increased access to Private Credit will persist and borrowers will continue to seek easy access to tailored debt financing solutions that support their growth.

Whilst the competitive environment will continue to expand in the Australian market, the scale of the market is so large at \$1.7 trillion (growing by 7% year-on-year) that there is easily enough market share for FCC to continue to capture. With a continued focus on underwriting quality, non-reliance on property and tight grip on industry concentration limits, we are confident in maintaining a distinctive market offering.

Active growth

Labour markets have remained robust in 2019 and, as CEO, I recognise that hiring and retaining quality staff can always be a challenge, but I'm delighted with the human capital that joined FC Capital in 2019 and the quality team I'm surrounded by on a daily basis.

Looking back over the past 12 months, I am happy to share some key milestones that we achieved in 2019:

- As an employer, we continued to enhance our resources and capabilities in 2019:
 - We hired and retained quality experienced and solution focused professionals such as Patrick William, with extensive experience domestically and offshore in mid-market transactions and credit underwriting, who joined our corporate team as Director, Corporate Finance. As well, we saw Paul Shaw joining our funds management team as Head of Distribution, bringing years of fund raising and investor relations experience including several successful raisings for PEP.
 - I am proud to say that our drive to do things right was recognised and we won the "Employer of Choice" award by the NSW Business Chamber in August 2019.
 - Overall, it is pleasing to see the build-out of a dynamic and collaborative collegiate structure, and the fact that we are able to retain a calibre of people, is testament to a shared vision in what we are building.
- Our team continued to be busy with completing time-sensitive and result-driven transactions to benefit our borrowers:
 - **Swiftly executed;** Providing debt worth \$17.5 million with a short turnaround time and a hard EOFY deadline to support one of our clients acquire a well-known branded canned/package produce business via an LBO structured from a global FMCG provider.
 - **Solutions focused;** Completing one of our largest single debt transactions to date as we granted debt facilities in excess of \$20 million that allowed our client, a retail pharmacy operation, to refinance existing supplier finance at a lower funding cost with less purchasing restrictions, and to fund an acquisition aimed to assist them in achieving their growth aspirations with a clear business exit strategy.
 - **Supporting growth:** Offering advisory and corporate finance solutions to one of our longest standing QLD based clients to support them in expanding their domestic footprint in the shipping container leasing sector with a drawn-out purchase of a competitor's business. The quality of FCC's advisory work coupled with some additional short-term funding was greatly appreciated by our client.

Outlook for 2020

Macro market trends

The message "lower for longer" rings true for all participants within the global financial markets as we all get used to a low interest rate environment being the new norm. Investors will be chasing a higher yield but with a cautious eye on risk.

The banking sector retrenchment from small and mid-size market lending will continue in 2020 with more opportunities for non-bank lenders and private debt providers to capture a bigger share of the market. This, combined with the increased investor awareness of the merits of, and safeguards in place for, investing in alternative assets such as Private Credit will continue, presenting a great opportunity for FC Capital in the year to come.

FCC Leveraging success for the future decade

Going into a new decade, we believe we are particularly well positioned to benefit from the seismic structural shift in the banking sector and to leverage upon our success with small and mid-size borrowers. and provide compelling solutions for yield-starved investors.

On a personal note, I would like to extend my thanks to the team for their hard work and for contributing to another milestone year for FC Capital, its clients and investment partners. It's been a fantastic year for the business and I'm very excited for the year ahead.

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For more information, please visit <https://www.fccapital.com.au/>

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