Long-Term Entrepreneurs Globalizing Their Australian Businesses and Singapore's Can Do Spirit

By KEE Koon Boon

Snake venom with a S$550 million market cap then in 1994; a 54-fold multibagger since and a S$30 billion global biotech champion now. Data management software with a S$40 million cap then in 1994; a 150-bagger since and a S$6 billion global share registry solutions provider now.

How did these domestic small-medium enterprises in Australia scale and globalize their operations successfully right under the noses of powerful incumbent giant rivals?

The trajectory of their success stories is quite similar to Singapore's Keppel Corp which grew to become the global leader in offshore oil rig design and building with a market cap of S$18 billion – albeit a story that has not been reproduced frequently in a similar successful scale amongst Singapore enterprises.

Commonwealth Serum Laboratories, later renamed CSL, was a sleepy government outfit providing snakebite antivenin. It was privatized and listed in 1994 for A$500 million. Brian McNamee was plucked from relative obscurity at the age of 33 to head CSL at the recommendation of then Industry Minister John Button.

This was much like how the late Hon Sui Sen picked Chua Chor Teck to be Keppel Shipyard's first managing director in 1972 and to take over Keppel, formed in 1968 as a wholly-owned company of the Singapore government, from the hands of British managers of the Swan Hunter Group, then one of the best known shipbuilding companies in the world that has now disappeared when Bharati Shipyards bought its assets from a distressed sale in 2007.

Outstanding entrepreneur McNamee was diagnosed to have cancer and kidney problems when he was planning to buy Swiss plasma fractionation operation ZLB for A$1 billion in 2000. ZLB, a non-profit foundation affiliated with the Swiss Red Cross, was the only plasma processing plant outside the U.S. certified by the U.S. FDA. Swiss giant Novartis also offered more money and fanned the patriotism flame that ZLB should remain in Swiss hands during a period of plasma oversupply.

Due to the persistence of McNamee who flew to Switzerland against medical advice to personally negotiate the deal, CSL acquired ZLB despite paying 20 percent less than its rival bidder. CSL is propelled into the world stage and later consolidated its position by acquiring German Aventis Behring for US$925 million in 2004.

America was then dubbed the OPEC (Organization of Plasma Exporting Companies) of the global blood industry and CSL broke the dominance of America's grip in the blood industry. Today, domestic earnings account for 10 percent of the group earnings at CSL with the bulk provided by its global businesses.

Keppel got its oil rig design and technology from acquiring rig builder Far East Livingstone Shipbuilding (FELS), which Keppel took majority control in 1973. Subsequently, the late Sim Kee Boon, Chairman of Keppel Corp from 1984 to 1999, led the globalization push of Keppel, later continued by the capable team of long-term outstanding entrepreneurs in the likes of Lim Chee Oon, Choo Chiau Beng, Tong Chong Heong, Loh Wing Siew etc.

Mr. Sim outlined the basic strategy of avoiding “green-field” or start-from-scratch projects and to invest in yards that are already there. For instance, Keppel acquired Allison-McDermid in America, AHI in Middle East, PEM Setal in Brazil, and Verolme Botlek in Europe. Mr. Sim’s dream was to see Keppel become like a Nestle with a very significant global presence.

The story at CSL and Keppel highlight the benefits of creating national champions and world-class players. CSL is able to invest more than A$300 million a year in advancing its portfolio of R&D projects, as compared to the federal government’s budget of A$196 million in the Commercialization Australia program that is spread over four years. CSL has produced blockbusters such as Gardasil, the cervical cancer vaccine, and the cash flow avalanche from such hits further cemented its position as a significant and self-sustaining global research operator. Today, Keppel Corp is one of the largest private sector employers in Singapore with around 37,000 Keppelites.

A drab industry run as an appendage to accounting firms and backroom ops of financial institutions, the share registry business has emerged to be a colorful growth business after Christopher Morris introduced modern technology into the industry and saw early on that he could achieve global economies of scale.

Computershare, which made more than 100 acquisitions over the last 16 years, is the world’s largest provider of share-registry services with a staff of 11,000 serving 14,000 corporations and 100 million shareholder and employee accounts in 20 countries. Morris started Computershare, after working at EDP, Melbourne’s only computer bureau then, with accountant partner Ken Milner and Mrs. Michele O’Halloran in 1978, later listing the company in 1994. Morris’ younger sister Penelope Maclagan, who was tired of teaching mathematics, joined Computershare and was responsible for planning, developing and executing technology across the world in support of Computershare’s global strategy.

Morris scaled up its proprietary SCRIPTM registry software system, which maintains an up-to-date record of listed companies share registries, into North America, Europe and Asia-Pacific via acquisitions, all part of his master plan since inception to give what he calls a “global footprint”. For instance, in 1997, it bought the share registry businesses of Ernst & Young, KPMG, and RBS in Australia. In December 1999, Computershare paid A$38 million for half of HK’s largest share registry from Jardine Matheson, positioning the company for future opportunities in China.

As the only global operator in the share registry business, its research costs are amortized over 100 million shareholders, multiple times more than its established giant competitors in London and New York such as Lloyd’s, Mellon and Bank of New York, and its local rival, Perpetual/ASX in Australia.

The skills required to run a share registry – management of databases and financial obligations – are also handy in employee share and option plans, voucher, bankruptcy, and class-action administration, and Computershare leveraged upon its existing durable economic moat to integrate acquired companies into its network and expand into these new growth areas.

While CSL and Computershare benefited from growth through M&As, they were circumspect about such a strategy. McNamee commented that there is a risk when businesses think that they can rely on acquisitions at the expense of organic growth. “You’ve got to be careful that it does not become like cocaine for a company – what’s the next deal,” he says.

Growth through acquisitions has proven to be the graveyard for many companies in general. Warren Buffett, the world's greatest investor, likened growing via acquisitions to kissing unresponsive corporate toads who croaked and the tempting but value-destroying toy that executives must have because their peers have one too.

The globalization experiences forged by the outstanding long-term entrepreneurs at CSL, Computershare and Keppel illuminated important insights for entrepreneurs.

One, the first strategic overseas acquisition requires subsequent purchases, otherwise the company risk either being taken over as part of industry rationalization or having a marginal and insignificant overseas business branch that cannot take root.

Take the case of CSL. For the first two years, ZLB lived up to its promise, resulting in solid earnings growth for CSL, and CSL market cap more than doubled. But the wheels came off when the industry went into oversupply and a combination of sharply falling product prices and disadvantageous currency mismatch nearly crippled CSL. CSL turned risk into opportunity by acquiring German Aventis Behring to consolidate its position as the industry recovers.

Computershare had 5 percent market share in the U.S. when they acquired Georgeson in 2003. Many key executives sold their shares and left the firm to start rival outfits to compete against Computershare. Only when Computershare acquired, a year later in 2004, EquiServe, which conduct share registries for more than half the Dow Jones index and back-office work for ADRs managed by JPMorgan and Citibank, did Computershare made its American operations viable with a 25 percent market share. The acquisition also enabled Computershare to grow in key European markets given the rise in cross-border corporate acquisitions and cemented its position as a world leader.

Two, McNamee and Morris made mistakes in their global adventures by appointing the wrong people into key executive positions but were decisive in revamping their management.

Three, all three have risk management systems to cope with industry downturns and currency mismatch woes.

Back in 1983, Keppel's cash purchase of Straits Steamship saddled it with a debt of S$845 million. Furthermore, the shipbuilding industry during that period was pronounced a sunset industry by the pundits as the industry went into oversupply with more than 80 shipyards capable of building rigs. Mr. Sim was brought in and he turned Keppel around; in 1986, Keppel was the only surviving rig-builder in the world.

In addition, shortly after Keppel's acquisition of Texas-based jackup yard Allison-McDermid in 1990, an American firm brought a US$565 million litigation case against Keppel for alleged breach of contract and damages involving the building of jackup offshore drilling rigs. Keppel eventually won the suit. Keppel saw the need for control and bought out its partner, renaming the entity AmFELS which became a wholly-owned subsidiary of Keppel. It grew to become one of the best-equipped offshore yards in the Gulf of Mexico.

"Building a winning company is a team effort", as articulated by Keppel's current CEO Choo Chiau Beng; it takes a team of outstanding long-term entrepreneurs banding together to demonstrate the Can Do Spirit to weather the storms and emerge stronger, and to scale and globalize successfully.