



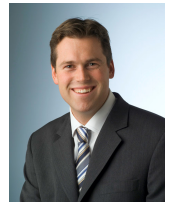
# MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

[www.martinbros.com.au](http://www.martinbros.com.au)

## Christmas Quarter 2006

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of ABN AMRO Morgans Ltd



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### Welcome Tim Billington

We would like to welcome and introduce Tim Billington who has joined our Team as an Associate Advisor. Tim's primary role will be as an annual review planner and assisting Paul & Jarrod with the portfolio management administration and general technical support. So please introduce yourself to Tim and make him feel welcome when you cross paths.



### Stock Review Wide Bay Australia Ltd

Wide Bay Australia (WBB) provides financial facilities to its members and is based in Queensland. Its head office is in Bundaberg with a network of branches and agencies in Sydney, Brisbane, Melbourne and Adelaide. WBB offers a range of banking products as well as acting as an agent for several companies. Funds generated are used to provide finance for home equity lending secured by registered mortgage over residential freehold or perpetual leasehold properties. All society loans are protected by a recognised mortgage insurer or reinsurer.

WBB currently has two shares on issue, an ordinary share and a converting preference share. The converting preference share (WBBPB) shares were issued on 19<sup>th</sup> December 2002 at \$100 per security and will be converted into ordinary shares this year on December 19<sup>th</sup>. They have a fully franked yield of 2.4% above the floating 90 day bank bill rate (interest rate – currently 6.4%).

The conversion of the WBBPB's into WBB shares occurs at a **minimum** of 13 WBB shares for every WBBPB security. This is why the WBBPB share price has risen from an issue price of \$100 to \$150.

### Private Equity – Good or Bad?

Private Equity (PE) has been likened to 'pirates' in the 1600's. Pirates were dismissed as an occasional nuisance, until they became such a factor that they changed the seas dramatically. Even the large colonial fleets were under threat.

The PE market has also taken the world by some surprise, such as the pirates once did. Once considered a small industry that bought out financially distressed companies, the private equity sector has emerged into a real force that can shake fear into even the world's largest companies.

Now a \$1 trillion industry worldwide, PE firms are targeting companies with strong cash flows and lazy balance sheets (low gearing). These companies are not in financial distress - they would take too long to turn around and make meaningful changes at.

In Australia, \$3 billion was raised in PE in the year to 30<sup>th</sup> June 2006. PE investments usually mean that investors are locked in for a ten year commitment on their money. Fees charged by PE firms are likely to be around 2% per annum plus a performance fee.

So what is the attraction to PE firms? PE firms are private, therefore they do not have to meet strict and onerous reporting requirements to regulatory bodies such as ASIC and the ASX. They can get on with running the business, make the hard decisions and not having to put up with the 'noise' of equity markets and the associated media coverage. PE is not forced to succumb to the 'short-term-ism' that listed companies often are.

PE is riskier in nature than buying ordinary listed equities because they seek to get a high return on equity by using large amounts of gearing (debt) to fund acquisitions. Any return / cash flow after meeting the costs of this gearing is distributed amongst a small amount of invested equity resulting in a much higher return on equity. The flip side, as with any gearing, whether it's margin lending, lending to buy an investment property or PE, is that returns are magnified, both on the upside and the downside. We are concerned about future corporate indebtedness.

Based on research from the US, only 25 out of 3,000 global PE funds outperformed publicly listed equities over the past two years. That is less than 1% globally. In Australia, only 25% of PE firms have had a positive return in the past year. But here's the catch. The best performing PE funds are by invitation only. You don't choose them, they choose who they want to invest in their funds. Unfortunately, I'm not sure whether you or I would qualify!

From a listed equities holder perspective, PE funds are often viewed as a good thing as any takeover of a company usually translates into a premium being paid by the acquirer over the current share price.

PE will also have the effect of waking up lazy companies and forcing them to drive continual improvement. Without superior shareholder returns a company is more likely to be a target of a PE takeover and thus put the board members out of a job.



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## CHRISTMAS HAMPER COMPETITION

By popular demand, the Christmas Hamper competition is on again for 2006.

As in previous years, you must 'qualify' to enter the draw for the Christmas Hamper. You need to answer each of the questions below and get them all right to go into the draw.

Please either email Rochelle on [rgordon@abnamromorgans.com.au](mailto:rgordon@abnamromorgans.com.au) or call her on 9947 4137 with your answers. The competition closing date is Wednesday 20<sup>th</sup> December at 4:00pm. The winner will be drawn on Wednesday evening and then notified by delivery of the gift basket. Winners will be announced in the next edition of the MBM.

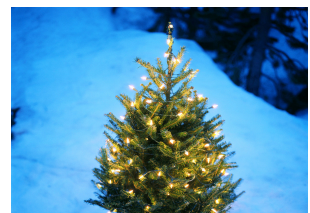
The gift basket:

**Valued at over \$250 – It's called 'All the Bells and Whistles'**

Including an assortment of biscuits, chocolate, sauces, wine, pudding, coffee, pesto, sundried tomatoes, nuts and more.....

### Questions

1. What is the name of Melbourne's tallest building?
2. What is the square root of 1089?
3. Who won this years Green Jersey in the Tour de France?
4. Who sings the song 'Safety Dance'?
5. The 2008 Olympics officially open on what date?



### Would you prefer **NOT** to get MBM?

Hardly, but perhaps you would rather receive an email link each quarter so that you can access the MBM online rather than receive a paper copy in the mail. If so, call or email Rochelle on 9947 4137 or [rgordon@abnamromorgans.com.au](mailto:rgordon@abnamromorgans.com.au).

### MBM Movement of your Team

Throughout the entire Christmas / New Year period at least two of the Martin Bros Team will be available. The stock exchange closes at 12pm on Friday 22<sup>nd</sup> December and re-opens Wednesday 27<sup>th</sup> December, before closing at 12pm on Friday 29<sup>th</sup> December and reopening on Tuesday 2<sup>nd</sup> January.

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