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IBISWorld

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# Special Report: The Top 500 Private Companies in perspective

By Phil Ruthven, Founder, IBISWorld

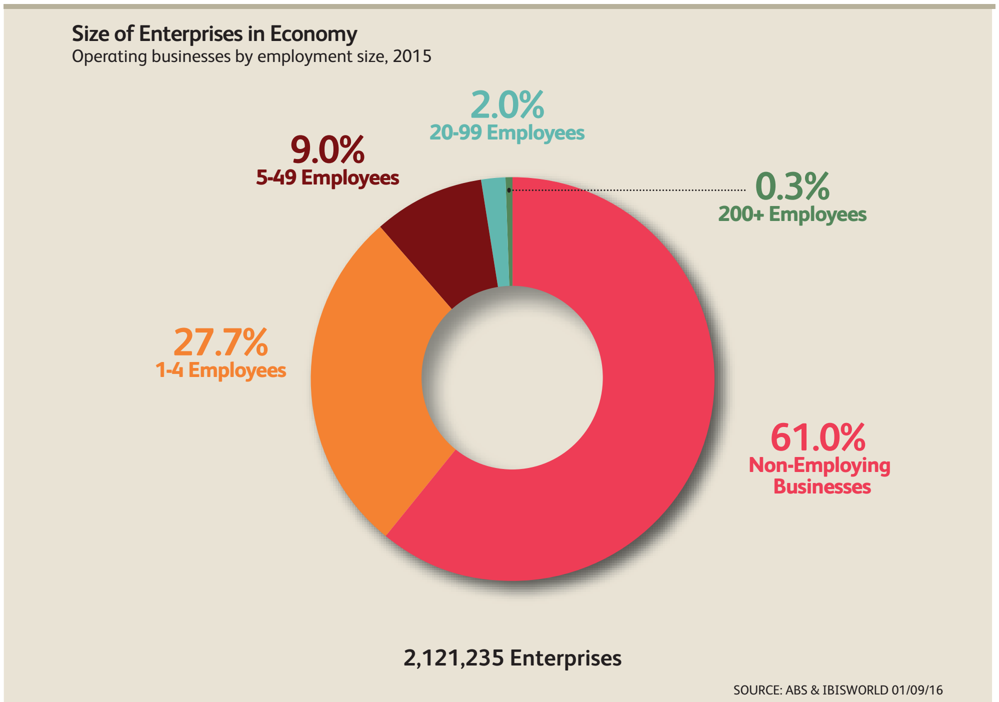
Australia's largest private companies are an important group in the Australian business landscape.

With some exceptions, Australia's largest private companies fly under the radar, and yet they consist of a wide cross-section of businesses. They include new entrepreneurs, older and even many dynastic businesses, plus companies of new age, industrial age and even agrarian age economic origins.

But before we look at the largest of these private companies, the Top 500, it is useful to get some insight into the business world in Australia.

### The size of enterprises

Most businesses across the nation are small, as we see from the first chart.



# The Top 500 Private Companies in perspective

### The Top 500 Project

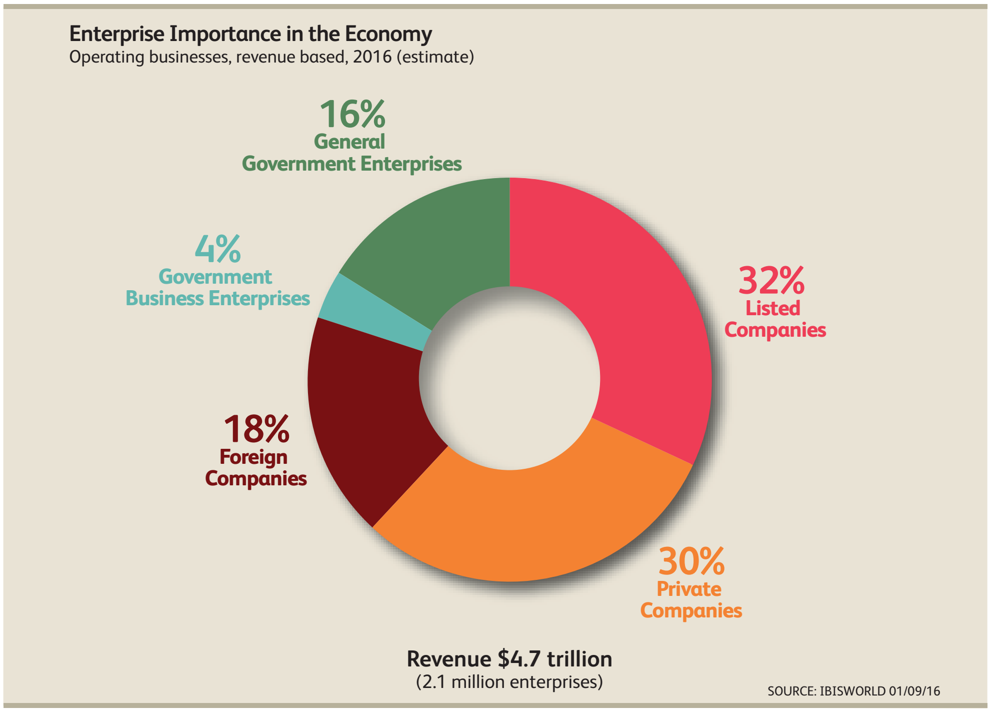
IBISWorld's Top 500 Private Companies list is ranked by revenue. The list includes public unlisted companies, partnerships, associations and private companies. To compile the list, IBISWorld gathered data through primary research, ASIC-lodged company reports and its own appraisals of company revenue based on historic data and industry analysis.

The nation has some 2.1 million businesses, suggesting that almost one in five households owns a business, although 61.0% of these businesses do not employ anybody other than the owner(s). So, some 820,000 businesses employ the bulk of the nation's 12.0 million workforce, and generate the majority of Australia's $1.6 trillion GDP and $4.7 trillion revenue.

Ambition, if not innovation and entrepreneurship, leads to some 280,000 or more new businesses starting up each year; however nearly as many are lost each year, mostly within three years of start-up. So the attrition rate is around 13%, pointing to a vibrant economy where, mostly, the best businesses survive. But at any point in time, one in five households own a business that may or may not represent some or all of their income.

### Types of enterprises

The type of business ownership varies, from private to public, from government to foreign, as the next chart shows.




While the proportion of foreign and government enterprises is small, the revenue shares are not. Government owned businesses account for a fifth of the nation's $4.7 trillion revenue and foreign enterprises nearly another fifth (18.0%).

Foreign companies have been a feature of Australia's economy since British settlement. The economy became more international in the 1930s in the second half of the Industrial Age with US investment, then European and Japanese investment and – nowadays – Chinese and global corporate investors. Government owned businesses take two forms: government business enterprises (GBEs) such as electricity, water, communications and other utilities; and general government enterprises (GGEs) that cover education, health, defence and police.

Listed public companies have the

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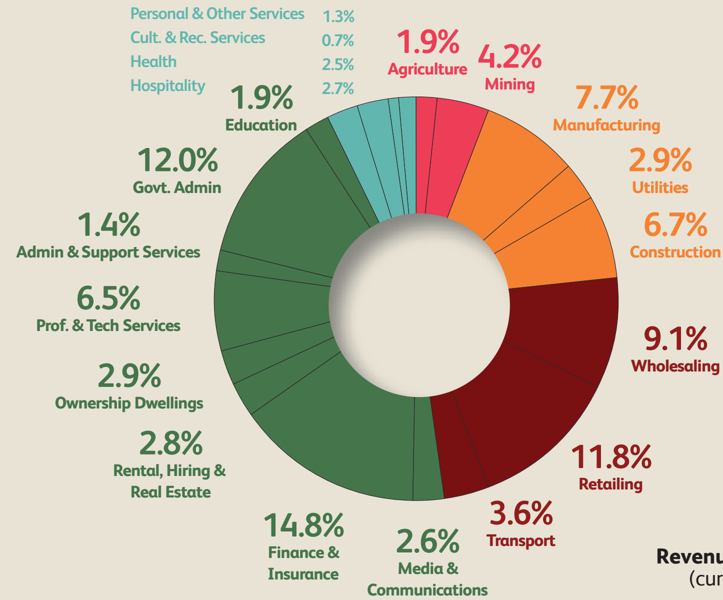
largest share of revenue (32.0%), followed by private companies (30.0%). In turn, the Top 500 Privates have, somewhat consistently, around a fifth of this 30.0% share, as we will see shortly.

## Industries of involvement

The relative importance of the industries in which our 2.1 million businesses operate is undergoing constant change. Australia has moved from a nation of hunters and gatherers at the time of British settlement at the end of the 18th century, through an Agrarian Age where agriculture and mining dominated, to an Industrial Age, characterised by manufacturing, utilities and construction. In the current Infotronics Age, which has existed since the mid-1960s, the quaternary and quinary sectors dominate, as can be seen in the chart below, coloured in green and blue.

**Australia's Industry Mix**

By revenue, shares of total, 2015-16 (estimate)




**Revenue $4.7 trillion** (current prices)

SOURCE: IBISWorld 01/09/16

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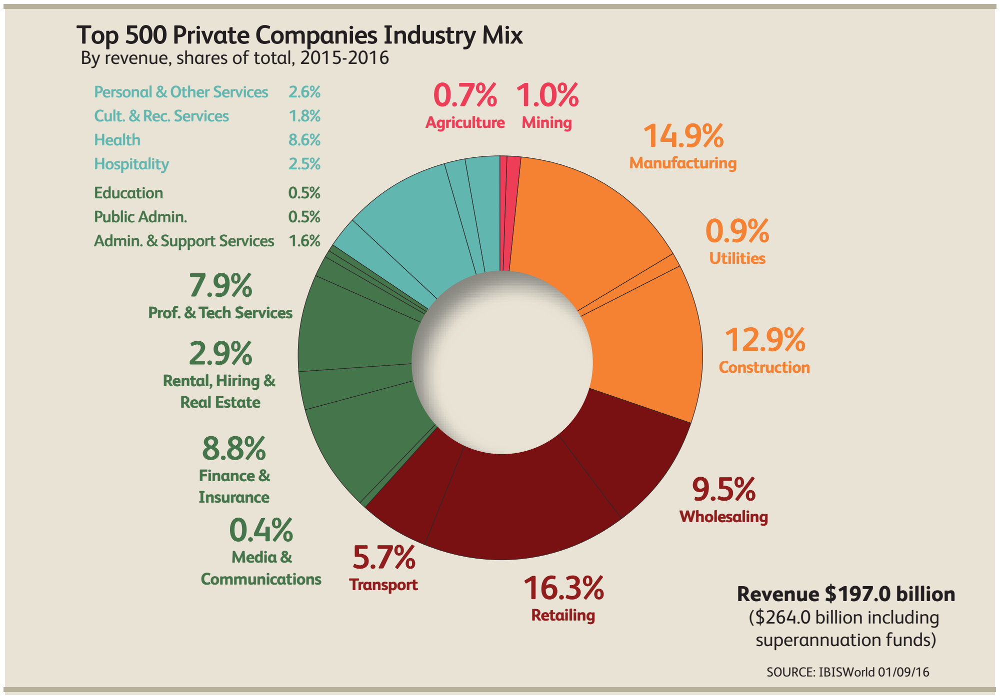
In contrast, the industry mix of our Top 500 Privates varies significantly from that of the nation at large, as shown below. It excludes superannuation funds that, while being private companies, would dominate the industry mix in terms of the Finance & Insurance industries.




Over the past decade, superannuation funds have grown so large on the back of the superannuation levy scheme, as to account for over a third of all Top 500 revenue. Indeed, the revenue of the over 250 funds in 2015-2016 totalled an estimated $259.0 billion, with more than a third of them qualifying for entry into the Top 500 Privates list.

So, it has been an IBISWorld practise for some years to separate superfunds from the list. To this end, 32 entries were separated and replaced by others. The 32 superfunds, which generated revenue of approximately $90 billion and employed an estimated 4,600 people, were replaced by a further 32 companies with revenue totalling $22.8 billion and employees numbering an estimated 9,005 people.

But, returning to the Top 500 Privates industry mix chart above, we see the nation's past more so than its future. (If superannuation funds were included, the reverse is true of course).

The chart represents the nation's past in that the majority (60.2%) of the Top 500's revenue is generated in the secondary (manufacturing, utilities and construction) and tertiary sectors (wholesaling, retailing and transport). Comparatively, these sectors generate 41.8% of the nation's total revenue. The future is mainly in the quaternary (information and/or finance based) industries, and the quinary (personal services based) industries.

Private companies, such as Visy, Terry White Chemists, Sutton Motors and The Good Guys (now under a take-over offer from listed company JB

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HiFi) are in these old and bold sectors – albeit with world best practice performance – and many are dynastic, going into third or later generation management and ownership.

But the Top 500 Privates list is also about the future. Professional service firms, led by PwC Australia with growth of 11.0%, are in abundance, as are health services firms, headed by Epworth HealthCare with 9.8% growth. Accommodation operators such as Quest Serviced Apartments (8.2% growth), fitness operators such as Anytime Fitness (11.3% growth), education operators such as Bond University and Australian Catholic University and IT firms such as ASI Solutions (11.5% growth) all testify to the influence of the new age on the composition of the Top 500 Privates.

Ironically, not only are these new age industries and their companies starting to populate the list to a greater extent, their employment already dominates. In 2016, almost two-thirds of employment is in the quaternary and quinary sectors.

So we do see innovation at work in this eclectic mix of companies. We also see the advance of the digital-disruption era, which began in 2007, as it both displaces industries and companies (e.g. video stores, music stores, photographic processing outlets) and underpins the emergence of new industries and companies such as Uber, Airbnb and Airtasker. This is likely to spark Australian copyists and entrepreneurs that we could see in the Top 500 Privates lists as we head into the third decade of this extraordinary 21st century.

## Other characteristics of the Top 500 Privates

For decades, the nation's 500 largest private companies have shared around 6% of the nation's total revenue; and this year was no exception, coming in at $264.0 billion (including superfunds) and 5.6% of Australia's $4.7 trillion revenue in 2015-2016. Employment, at an estimated 526,000, accounted for 4.4% of the nation's 12.0 million workforce, a lower share than the revenue share and pointing to greater capital-intensity than labour-intensity.

Interestingly, only 66 of the 2015 Top 500 Privates list dropped off, being a relatively low but healthy attrition rate of 13.2%. After all, renewal is part of a vibrant economy. That said, some of those companies no longer on the list are still going well as either subsidiaries of other firms, or publicly listed companies. Some are still growing, but not fast enough to keep up with newer, more energetic and faster growing displacers.

That said, more than one in five (113 companies) in the list had falling revenues over the past 12 months, suggesting that being big doesn't make one immune from setbacks.

It is encouraging to know that this year's list follows, reasonably closely, the importance of our states – the pecking order of revenue by states mirroring their population shares very closely.

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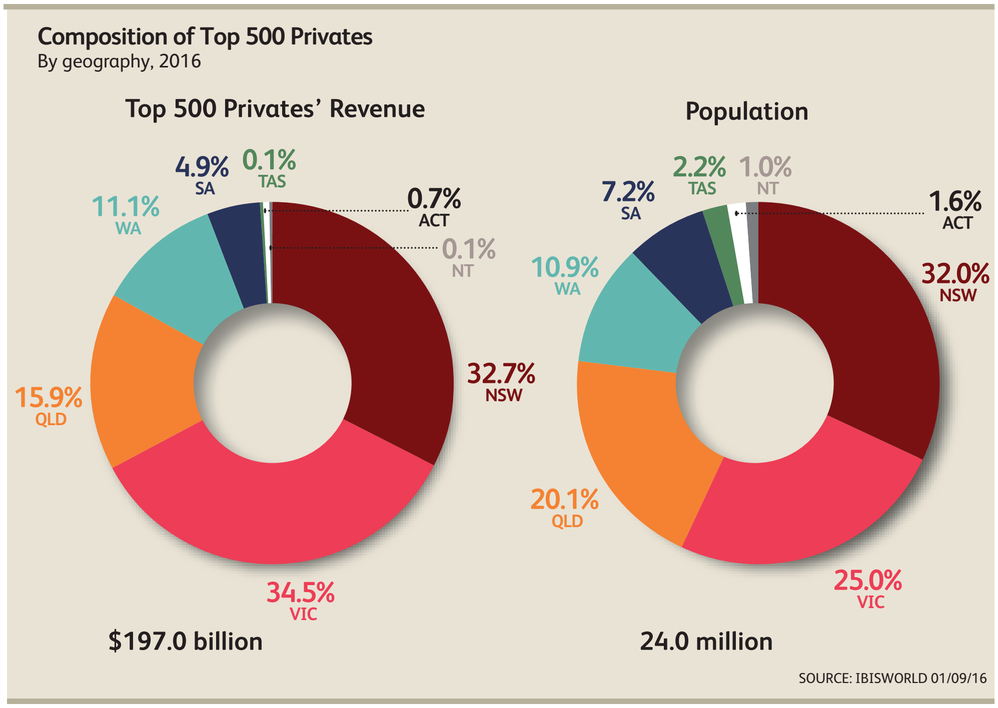
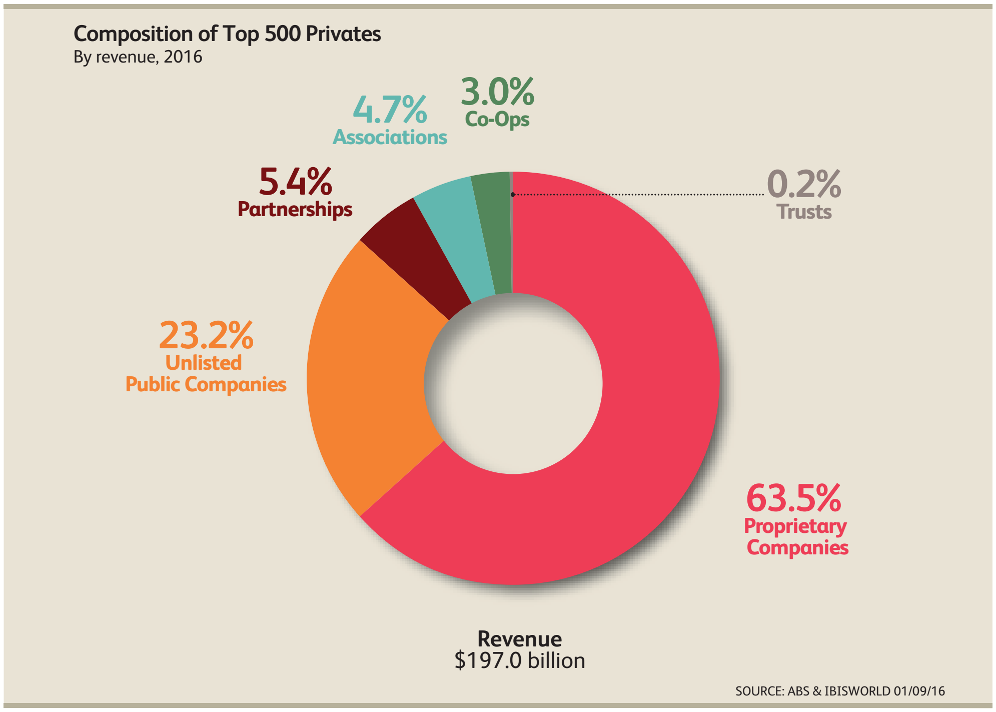



Clearly incorporation is de rigueur in the list, with 86.7% of revenue generated by proprietary companies and unlisted public companies, with the remainder coming from partnerships, co-operatives, associations and trusts.



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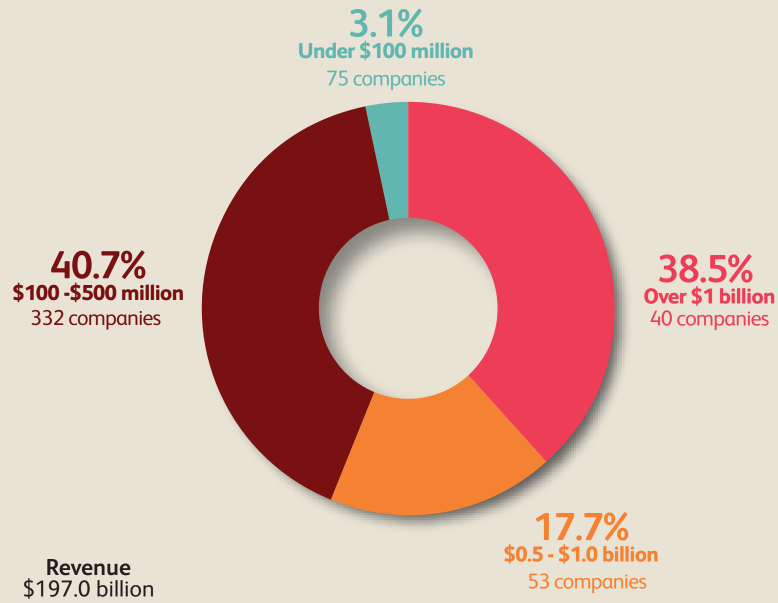
### About the author

Phil Ruthven is the Founder and Director of IBISWorld, an international corporation providing online business information, forecasting and strategic services. IBISWorld now operates in Australia, the United States (NY and LA), Canada, China, United Kingdom and Indonesia. It plans to add the rest of the European Union, and Japan over the next five years or so. In 2014, Phil became a Member of the Order of Australia, in recognition of his significant service to business and commerce, and to the community.

Phil contributes regularly to radio, TV, newspapers, magazines and documentaries on business, economic and social issues. He continues to be one of Australia's most frequent and prolific commentators in demand by the media, and is widely considered the nation's most respected strategist and futurist on business, social and economic matters.

And size? The modal group was $100-500 million revenue accounting for 40.7% of the Top 500's revenue, followed by the over $1 billion group at 38.5%. The largest player was Visy at $5.7 billion, the smallest player was ASI Solutions at $63.3 million. The average of the Top 500 Privates was $394.0 million ($528.0 million if we were to include the Superannuation Funds).

**Composition of Top 500 Privates**
By revenue size, 2016




SOURCE: IBISWORLD 01/09/16

IBISWorld's annual survey of the nation's private companies is a valuable one. It does point to the greater conservatism in the Top 500 Private firms. Many have been around and survived for so long they have become dynastic. Yet it does also represent the new age we are in with the significant number of quaternary and quinary sector businesses. And it does tend to reflect the same attrition rate (13.0%) in terms of departures, as the nation's total 2.1 million businesses. The difference is that most departures from the Top 500 Privates are more likely to live on, either at a slower pace than when they joined the list, or as a subsidiary of another firm that acquired them. Not many of them shut up shop or go broke.