

# Expect recovery to go up staircase: Yorkway's Paul Batchelor



Yorkway principal Paul Batchelor and Quintet managing director Douglas Farrell. Picture: Adam Yip

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Australia should prepare for a “staircase-type” economic recovery rather than a strong rebound in activity, as near-term growth is curtailed by factors including a lack of international travel and fewer overseas students.

That’s the view of Yorkway Partners principal and former AMP chief executive Paul Batchelor, who expects the economic upswing after the COVID-19 turmoil won’t be linear.

“We are not forecasting a big V-shaped recovery,” he told The Australian, saying the recovery shape was more likely to resemble a staircase.

“We won’t get back to a pre-COVID level (of economic growth) until the international economy opens up.”

His comments come as boutique firm Yorkway on Monday announces a merger with Douglas Farrell’s Quintet Partners, creating a private markets investment company with \$260m in funds under management.

The new firm, Quintet Yorkway, which has investments in portfolio companies that manage and administer \$40bn, will focus on providing mid-market growth equity, private debt and making real estate and infrastructure investments in Australia and New Zealand.

Since 2009, Yorkway has invested in 10 businesses and delivered an internal rate of return of 25 per cent on exited investments.

Quintet was founded by former Citigroup banker Mr Farrell in 2016 and has the backing of high-profile investors including the Gonski family, Paspaley executive director James Paspaley and former UBS Australia CEO Matthew Grounds.

As part of the Quintet Yorkway deal, Mr Batchelor becomes executive chairman and Mr Farrell and Yorkway principal Michelene Hart are managing partners.

However, the marriage is happening against the backdrop of a domestic economy already in recession. March-quarter output shrank 0.3 per cent and the June quarter is on track for a much sharper contraction.

Market pundits are divided on how an economic recovery will play out, as federal government stimulus measures and loan repayment deferrals come to an end around September. Some economists expect a strong rebound in activity, or a V-shaped recovery, while others say it will take more time.

The operating environment may be tougher across many sectors, but Mr Batchelor and Mr Farrell say the merger is about scaling up and taking advantage of opportunities the downturn presents.

Mr Batchelor said given Australia's comparative success in suppressing COVID-19, and the financial implications, meant there was "significant interest" in the nation as an investment destination.

"Dislocation is still happening and it's certainly going to create opportunities," Mr Batchelor said,

Mr Farrell said he expected asset prices to fall over the next six to 12 months, creating more favourable conditions for private equity-style and other investments.

"We haven't yet seen bargain basement opportunities. They will come in the next six to 12 months," Mr Farrell said.

While a string of private equity firms targeting the middle market have emerged in the past four years, Mr Farrell believes many have morphed into chasing larger purchases and the space isn't too crowded.

One portfolio investment that will not transfer into the merged Quintet Yorkway entity is Ansett Aviation Training, a flight simulator training company that went into hibernation due to COVID-19. The business, acquired from Ansett's administrators, will remain in an existing entity.

Mr Batchelor said that, given Yorkway and Quintet had focused investments in services businesses, the majority of their respective portfolio companies had performed "very well" during the crisis.

The merger will bring together holdings in companies including Exact Radiology, broker Insurance House, financial planning group Fitzpatrick's, trustee and custodian business One Investment Group and recruitment business Talent.

Despite the COVID-19 turmoil, they jointly completed a transaction in late April to take a majority stake in international pension fund platform provider Northland Group, which has more than \$1.5bn of funds under administration.

Quintet Yorkway also plans to raise several new investment funds in the private equity and credit space, to underpin its growth ambitions.

But in the real estate sector, where parts of the commercial industry are reeling, the firm will have to tread cautiously.

Mr Farrell said "significant dislocation" in the retail property sector could spur a crash in prices, while yields in the CBD office market would also come under more pressure.

He thinks property precincts in areas on the fringe of city centres that have access to public transport will hold up.

While Mr Batchelor would not comment on AMP's current woes, he said it was more difficult for large groups to put customers at the centre of their business.

Quintet Yorkway will house 11 investment staff.

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