

## WAKE UP AND SMELL THE CANDLES

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There's strength in numbers and the investment team of Geoff **Ross**, Grant Baker and Stephen Sinclair brings complementary skills to its investment forays, writes Kris Hall.

ON ARRIVAL, the office air is warm and heavy with aromatics; it doesn't take long to spot the culprit - a cluster of elegant candles quietly burning in the corner.

"Pretty potent, eh," says Geoff **Ross** striding into view. "They're from **Ecoya**, an Aussie fragrance house we're backing. They're environmentally friendly - soy-based, actually - which is why we've got high hopes for them." And who would doubt the business nous of Mr **Ross** and his investment partners, Grant Baker and Stephen Sinclair? After all, this is the trio that sold 42 Below to global spirits group Bacardi in 2006 for a cool \$138 million without it ever breaking even, let alone making a profit.

More recently, they have tasted success with New Zealand mobile marketing venture The Hyperfactory, raised eyebrows by grabbing a 20 per cent chunk of struggling finance company Dorchester Pacific, and taken a crack at the financial services market by buying funds management business Foundry Asset Management.

Add to this a "work in progress" with AgResearch and Wool Innovation Australia to develop natural-fabric outdoor wear and their investment horizon, it seems, knows no bounds.

"There's no common ingredient in what we look for, but growth is key to our investment decision," Mr Baker says. "We look for something that's small, (so) that we can turn it into something big quickly."

Parading under the banner of their 15-month-old private investment company The Business Bakery, the trio launch into what by now must be a well-rehearsed pitch. "We could talk at length about what happened with 42 Below but there can't be too many people out there who don't know the story," Mr **Ross** says. "Obviously we're proud of what happened there, but we'd like to focus on what lies ahead."

But for the sake of those who haven't heard the 42 Below story, back in 1999, Mr **Ross** quit advertising powerhouse Saatchi & Saatchi to distill vodka full-time in his Wellington garage. Mr Baker and Mr Sinclair came knocking.

With Shane McKillen, the pair had grown electricity retailer Empower from startup to a company boasting 10 per cent market share in less than five years. They sold it to Contact in 2000 for \$55m.

Hungry for fresh investment, Mr Baker spied an opportunity to commercialise the vodka business and take it global. Aware Mr **Ross** was limping along struggling to fund his dream, Mr Baker went in with a \$500,000 tempter.

Despite an initial reluctance to part with half his business, Mr **Ross** admits to being swayed by the promise of capital and his investors' credentials in scaling up fledgling companies.

Mr Baker learned his trade as a buyer and seller of businesses under the tutelage of another highly successful Kiwi entrepreneur, Eric Watson, with whom he helped build Blue Star Office Products.

As a minority shareholder, he pocketed about \$6m when Mr Watson sold Blue Star to US Office Products in 1992 and, with Mr McKillen, wasted no time in launching eftpos reseller Netco, which was later sold to Advantage for \$4m. "We did well out of those businesses and I got the taste for money," Mr Baker says. "It felt like everything that we touched would turn to gold."

Then came deregulation of the power industry and the scope for quick growth with Empower. Enter Mr Sinclair, who ended more than a decade with PricewaterhouseCoopers to join Mr Baker as financial controller. "We pretty much built that business from nothing," Mr Sinclair says. "In its heyday we were getting 1000 new customers a week coming on board. Maybe we should have held on longer - we might have done even better out of it."

Teaming up with Mr **Ross** at 42 Below wasn't without its hangups. All three say there was an initial air of distrust.

"I was worried they were going to dull it down and take more of my shares," Mr **Ross** recalls. "And we were worried he was going to hang out in Ponsonby and drink all the product," Mr Baker counters.

In hindsight, their coming together probably couldn't have worked out any better.

Following a risky 2003 sharemarket float, 42 Below grew rapidly overseas. Much of that success was down to the trio's complementary skills: Mr Baker's and Mr Sinclair's experience and business acumen underscored by the bold marketing strategies of Mr **Ross**.

Deloitte accounting and advisory partner Matt McKendry says: "All three of them have individual skills which have obviously been a driver behind their success. Stephen's got the accounting experience, Geoff knows a great deal about marketing and brand power and Grant's strengths lie in businesses and finance. That's a pretty powerful combination."

Then there's the group's substantial capital base.

As founder, Mr **Ross** reportedly scooped more than \$30m from the 42 Below sale, while two successful decades as a venture capitalist have earned Mr Baker a reputed \$60m (Mr Sinclair's wealth is harder to guess, he owned 5.6 per cent of the vodka business compared with Mr **Ross**'s 46 per cent stake).

"Not only do they have money but they're also well connected," says Mr McKendry, who supports small and medium-sized businesses through his involvement with Angel Association New Zealand.

"And they've proved themselves as professional investors rather than hobbyists. This is important because they will analyse businesses critically and pick the ones they can add most value to."

The group receives as many as four or five approaches each day. First to tick all the boxes was The Hyperfactory, which in July formed an alliance with United States media giant Meredith Corp.

Privately owned and founded in 2001 by brothers Geoffrey and Derek Handley, the company has established itself as a force to be reckoned with, scooping more mobile marketing awards than any other agency worldwide.

Although the global financial crisis understandably hit marketing budgets, since May, The Hyperfactory has thrived. It boasts a substantial forward order book and Mr Sinclair estimates 2010 will see revenues of \$14m.

Like 42 Below, The Hyperfactory is brand-driven. The three investors are now comfortable with The Hyperfactory and are leaving the business in the capable hands of the Handley brothers.

So to Australian fragrance house **Ecoya**, in which the trio has acquired an 83 per cent controlling stake.

Mr **Ross** puts the wholesale value of Australia's home fragrance market - scented candles, oils and creams - at NZ\$350m, while the US and Europe markets are reputedly worth NZ\$5 billion each annually. "What we like about **Ecoya** is, just like 42 Below, the high margins: your battlefield is your brand and distribution. This is a global growth category, so if you're growing, it's exponential.

"What separates **Ecoya** from its competitors is its green and clean image," Mr Baker says. Products are sourced from soy waxes rather than paraffin; the burn time is slower and candles emit less carbon.

Unlike the substantial stake the group bought in The Hyperfactory, **Ecoya** has benefited so far from an investment in the "low millions" of dollars. Monthly sales have jumped eight-fold since mid-2008 and the company has just opened its first flagship store in Shanghai after signing a joint-venture agreement with a Chinese party.

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