

THE AUSTRALIAN

Smorgon Investments, where the son also rises



Sandbar executive chairman Barry Smorgon flanked by his son and managing director Darren, left, and Wingate Private Equity director David Jackson. Picture Renee Nowytarger

DAMON KITNEY THE AUSTRALIAN 12:00AM April 24, 2017

The upmarket Bistro Moncur in the leafy inner-Sydney suburb of Woollahra is a world away from the sprawling factories of the city's western suburbs where Barry Smorgon relished spending two decades of his life.

But it is entirely appropriate for a lunch meeting with the deeply private scion of the \$2 billion Smorgon family.

For 20 years the younger brother of former Western Bulldogs AFL president David Smorgon ran a company called Jalco. It was an old-world, contract manufacturing and packaging firm, which he sold to packaging billionaire Raphael Geminder's Pact Group 18 months ago for a cool \$80 million.

The cash windfall prompted something of an epiphany for Smorgon, who turns 68 this year. His new world, in partnership with his equally private 41-year-old son Darren, is now one of private equity, technology, funds management and measured risk-taking, far more suited to one of Sydney's renowned eastern suburbs eateries. "I was born lucky so it wasn't a dream to do the Jalco deal for the sake of the money," Barry Smorgon tells *The Australian*. "I was in (the Smorgon family

conglomerate) Smorgon Consolidated for 20 years. Then 20 years in Jalco. And by then I had lost the passion. I thought I was only good for another 20 years and I figured I was too young to retire. I wanted to do something with my life. And for me it had to be different.”

His son, who joins us, is thankful he never had to make the long daily drive to Jalco’s western suburbs factories.

When Darren Smorgon left university, Smorgon Consolidated was no more following the infamous 1995 breakup of the famed conglomerate, a group that spanned meat, paper, chemicals, plastics and electronics industries. And he had no interest in working at Jalco. Nor did his sisters Emma, 38, and Lauren, 32.

Instead, Darren was snapped up by the CHAMP private equity juggernaut, and quickly became one of the firm’s top deal makers.

He oversaw CHAMP’s investments in the likes of oOh! media (in which the family still has a stake and where he sits on the board), Golding Contractors, LCR Group and Study Group International.

He always saw his surname as an asset, never a liability. Even if he didn’t flaunt it. “Not everyone knows it but plenty of people do. The broader family has an excellent reputation for not only philanthropy, but business fairness and success. I don’t promote it but when people know it, it is generally a positive,” he says. “I never thought of it as a burden. I grew up thinking I would join the family business and the opportunity didn’t exist by the time I finished uni, but it is always been something of pride.

“The values I had growing up, I have never thought of myself as different or special or that things should be handed to me on a plate ... Some of my CHAMP colleagues even said to me in a nice way, ‘If I was you, I wouldn’t work as hard as you do’.”

But after 16 years with the private equity group, his father came calling. Barry Smorgon had established a small family office entity known as Sandbar Investments during his Jalco days. It was a simple amalgam of his name and that of his wife Sandra. And the time had come to bring it to life.

“My one and only job ever was at CHAMP that I joined out of uni. I was on the board of Jalco and helped with the sale, but never worked in the business on a day-to-day basis. Jalco is not an easy business, it is quite complex. I like the variation of being involved in different companies and looking at deals,” Darren Smorgon says.

“We had always spoken about doing something together and the catalyst was Dad selling Jalco.

“We pretty quickly came to an agreement that what part of Sandbar would be focused on would be private equity. And there is some shares and some fund managers we have backed and there is some property.”

The three- to five-year vision of Sandbar is to have a portfolio of a few investee companies where the family office has a shareholding and a position on the board.

“We want to invest in businesses that in 10 years will be bigger than they are today,” Darren says.

Sandbar’s first big private equity play has been an investment in digital advertising company Medical Channel.

Last September a \$25m merger of Medical Channel and a firm known as Community Network to create one of the nation’s largest point-of-care digital marketing channels was facilitated by a partnership between Wingate Private Equity and Sandbar.

Wingate is a private investment house in which Barry and Darren Smorgon are investors, as is David Smorgon, Square Peg co-founder Paul Bassat and a host of other high net worths.

“We don’t have a private equity fund, we work on a deal-by-deal basis. And we had lots of interest in this deal from our clients,” says Wingate Private Equity director David Jackson, who is now on the Medical Channel board.

“There were parts of this deal that were appealing to the younger generation of our clients given it is a technology-led business whose category leadership is in the healthcare space. (But) at the heart of our private equity investment model is partnership — getting the great expertise.”

So far it hasn't all been plain sailing. Medical Channel CEO Nazar Musa has been forced to sack most Community Network staff and change the culture of the group, which ran into problems with the competition regulator last year.

“We knew we were buying a badly run company. We frankly underestimated some of the challenges there and its taken a bit longer to get where we thought we would be but we have turned the corner and had seven record weeks in a row of sales. We are still very positive on that business,” Darren Smorgon says.

And despite being in unfamiliar territory, his father hasn't panicked. “The principles of business don't change. You look at cashflow and ask are the people running the business good, do they have integrity and passion for what they do? It comes back to the base criteria for me — can you work with the people? That is what I assess in a very informal way. It is about gut feel. And any plan I have always seen takes a bit longer, costs more. So I am not concerned.” he says of Medical Channel.

The Medical Channel experience and the evaluation of other investments over the past year — which have yet to lead to a successful deal — has been telling for father and son in another way. Both have learnt something from the other. “The one thing that has surprised me is how much Dad has backed me and how good he has been in listening.

“In his role as executive chairman (at Sandbar) he has surprisingly been able to take a step back and back me — there has not been one thing I have wanted to do that we haven't done. Nothing we have fundamentally disagreed on,” Darren says.

For his father, a key lesson from his new Sandbar life has been conducting proper due diligence before leaping into an investment. He has long held a stake in Pack & Send, the national logistics group whose key customer is eBay.

“I am a gut-feel type person. And in my past I've jumped into things because it feels good without a lot of analysis. Darren is disciplined in his approach from start to finish,” he says.

But a more important lesson has been simple: backing his son.

“If Darren was simply an employee it would be different, but he's not, he's my son,” he says.

“He has to be empowered. I can’t do a lot of the things he can. And I don’t want to rule from the grave. He must be allowed to have the responsibility and authority. There is no point of having this association and then not letting him run.”

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