Preface

The world is now caught in the worst economic crisis since the Great Depression. This crisis has been created by an ideology of unrestrained greed… turbocharged by unregulated financial markets, by obscene remuneration packages that maximised risk with no regard whatsoever to the impact of their behaviour on ordinary investors… this has been extreme capitalism writ large.

Prime Minister Kevin Rudd, 2008

FROM THE recession of the early 1990s until the global financial crisis of 2008, shareholders experienced almost two decades of unrestrained joy, punctuated only briefly by an Asian hiccup and burst dotcom bubble. Insatiable share price and earnings growth, coupled with billions of dollars of superannuation money, saw the Australian stock market explode.

But as good as the good times seemed, the boom was built on very shaky foundations. Generous use of debt created many paper fortunes. However, it is often said, the greater the bubble, the greater the deception—and there is little doubt that many of the fast-growing businesses were running on bluff and bluster, rather than sustainable and honest business models.

Throughout this period of excess there were several constants: the ever-increasing trajectory of executive remuneration, coupled with a new-found love of debt and widespread use of financial engineering. While real wages for ordinary workers barely kept up with inflation, executives received lucrative share options, performance rights and

short-term cash bonus payments that contained very little alignment with long-term wealth creation (except for their own).

As executive remuneration skyrocketed, Australia also witnessed insatiable growth in companies that made very little of anything of value, but instead engaged in pursuits called 'asset origination' or 'asset recycling'. These companies (typically called 'financial engineers') would hide the nature of their businesses among an ever-growing cloak of complexity. Their Byzantine structures and opaque financial reports allowed executives such as David Coe and Phil Green to accumulate multi-million-dollar nest eggs. When the fall eventually came, these so-called masters of the universe would be well protected. Shareholders and creditors would not be so lucky.

The financial engineers, usually operating in the once staid, government-owned infrastructure sector, used layers of leverage and billions of dollars of shareholder capital to acquire assets and later pay income from that very capital and borrowings. The engineers —led by Babcock & Brown, Allco and MFS—would become the custodians of Australia's most important infrastructure and tourism assets. Their inevitable death, under the weight of burgeoning debt, would bear an eerie resemblance to the endeavours of the entrepreneurs of yesteryear—household names such as Bond, Skase and Spalvins would be replaced in 2008 by a new set of faces, with names such as Coe, Groves and Green.

The ease with which founders and executives enriched themselves at shareholders' expense will long remain a case study for the importance of corporate governance.

Eddy Groves, the man who ran what was once the world's largest childcare company, paid his brother-in-law millions of dollars in untendered maintenance works, while Allco directors David Coe and Gordon Fell collected tens of millions of dollars after they sold their Rubicon property business to Allco—after the sub-prime crisis had taken hold. Only days after the sale, Gordon Fell's wife spent $27 million purchasing one of Australia's finest homes on Sydney harbour, the asset remaining safely out of reach of Fell's creditors and Allco's beleaguered shareholders.

Babcock & Brown's Phil Green and MFS's Michael King stood by while the empires they created crumbled. Both appear to have

retained extensive private financial interests, often purchased with monies extracted from their companies during the glory years.

But it wasn't only the engineers who brought pain to shareholders.

The Village Roadshow troika of Robert and John Kirby and 'surrogate brother' Graham Burke would turn the notion of 'alignment' into a furphy. The Village executives received tens of millions of dollars over a decade while their bumbling management of Australia's largest cinema and production concern cost shareholders millions.

Telstra, once a staid, government-owned utility, would turn to a big-talking American to improve its fortunes. It took four years and many billions of dollars in lost market value for the Telstra board to realise the error of their ways.

Toll Holdings, one of Australia's most successful companies, became a pariah, paying its already wealthy executives millions for worthless options, right under the noses of shareholders.

Even two agribusiness companies, which sold woodchips to the Japanese, ended up being Australia's largest (alleged) Ponzi schemes, all the while costing taxpayers billions of dollars as Collins and Pitt street farmers collected tax deductions for upfront losses on revenue that would never materialise.

This is the story of how a generation of executives, under the apparent supervision of respected non-executive directors, duped millions of Australian investors, analysts and commentators.

From the carnage comes some valuable lessons. While the likes of Allco and MFS were complex, arcane entities, their financial statements gave warnings to investors to stay well away. But they were signals that were missed or ignored by almost all investors and analysts. At the same time, the business elite, the men and women who occupy the blue-chip boardrooms of corporate Australia, did little or nothing to rein in executives. On many occasions, non-executive directors were unwilling or unable to stand up to executives who enriched themselves while their companies burned.

This book is not merely a tale of greed, but of the clues that can be gleaned — important evidence that all investors who manage their own wealth should always be on the lookout for before trusting their retirement savings to the care of highly paid executives and boards of directors.

Pigs at the Trough will show you how to spot the next corporate car crash—and hopefully how to avoid becoming the next casualty. Santayana once noted that *those who forget history are doomed to repeat it*. Unfortunately for many investors, history is too often forgotten as soon as the next bubble appears.