

BusinessPlus+ Newsletter



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Issue – December 2019

Merry Christmas and Best Wishes for 2020!

More Capital Raising Opportunities!

The Federal Treasurer, Josh Frydenberg, has announced that the government and banks are forming an investment fund that will be authorised to invest in companies with annual turnovers from \$2 million-\$50 million

The fund will be known as the "Australian Business Growth Fund" with the Federal Government investing \$100 million and the banks investing \$420 million.

The fund is expected to invest "long-term patient equity capital" in 30 to 50 firms a year.

The National Australia Bank has indicated that it believes the Australian Business Growth Fund will make it easier for SMEs to access equity, which will allow them to grow and employ more people.

There has been some criticism of this initiative of the government by an academic who stated that *"whilst making capital available to businesses is a welcome move, achieving the stated aims of helping Aussie businesses to grow strongly and sustainably will require more than just capital"*.

"Money in itself is not enough. People need knowledge and skills in order to know how to make the most of the money" Dr Jana Matthews, Director of the Australian Centre for Business Growth at the University of South Australia.

Money is only part of the requirements to successfully develop and expand a business

In previous editions of Business Plus+ we have identified the key components of the life-cycle of a business which includes:

- Attracting and keeping the right people
- Developing an outstanding leadership team
- Creating a truly differentiated strategy
- Driving flawless execution

When these attributes are combined with having plenty of cash to weather the storms, the business will be in a far better position to survive and grow.

The creation of the Australian Business Growth Fund caps a remarkable transition in the availability of finance for small businesses and medium-sized enterprises since the then Prime Minister, Malcolm Turnbull, announced the coalition government's Innovation Policy in December 2015.

- Young companies (under 3 years of age) that have developed new products, processes, services, marketing or management methodologies can now utilise Early Stage Innovation Companies status to assist in capital raising which also conveys some taxation and avoidance of capital gains tax possibilities to investors in Early Stage Innovation Companies
- Crowd Sourced Funding Equity Raising is available for small and medium-sized enterprises with turnovers up to \$25 million that can raise up to \$5 million in a 12 month period and repeat the capital raising in future years, if they wish, and have support from the market.
- The Australian Business Growth Fund, whilst available for companies with turnovers from \$2 million, will probably appeal to companies with current turnovers from around \$5 million that have already developed the documentation that they will require. Indeed, many of them may already have had experience of the documentation requirements because they may have already raised capital utilising one or more of the other capital raising options that are now available for private companies:
 - Section 708 of the *Corporations Act*,
 - Early Stage Innovation Companies
 - Crowd Sourced Funding Equity Raising

There is now a very positive climate in Australia to support private companies that wish to grow using equity capital raised direct from the public.

Dr Matthews has identified a very important issue that money, on its own, is not enough to grow a business. If you are interested in wanting to expand your business and to take advantage of these new financing opportunities businesses will need to have developed:

- Business Plan – for the next 3 years
- Budgets and Cashflow Forecasts for the next 3 years
- Corporate Chart
- Vision for the business
- Leadership team that is keen to expand the business
- A team that is committed to supplying first-grade products/services to the business' customers

We are at the start of a new decade – now is the time to “Prepare for the Decade of Change”.

If you are interested in reviewing the opportunities that the new capital raising legislation offers to your business, why not contact us in January for a discussion?

Execution Of Strategies – Plant, Equipment, Computers, Technology Enhancements

Appoint a member of the leadership team to be responsible for the implementation of the strategies that have been determined.

Who is responsible for the preparation of feasibility studies relating to the consideration of acquisition of new assets?

Execution Of Strategies – Competitors

- A member of the management team needs to be allocated the portfolio of “competitors”.
- The leadership team member should prepare a report for consideration by the leadership group each month on the activities of competitors and what information has been heard about competitor's activities and plans.

A summary of the strengths, weaknesses and trends relative to competitors could be presented to the leadership group on a quarterly basis.

Execution Of Strategies – Developing Your Vision

- This is primarily a role for the Chief Executive Officer but all members of the leadership team should be giving thought to the vision that they have for the business.
- The CEO could identify various components of the “vision” and allocate these components to individual leadership team members to develop policies that relate to that particular component so that these could be considered by the CEO.
- The components relating to developing your business' vision, that could be allocated to individual leadership team members, include:
 - Developing strategies on turnover models – what resources will the company require to be able to adequately handle envisaged turnover levels?
 - How could improvements be made in the gross profit margin being earned on individual business activities – improve negotiations with suppliers?

- Analysing various ways to finance the business.
- Working on the “Big Hairy Audacious Idea” that has been identified for your business. What is a realistic timetable for achieving this big target?

Execution Of Strategies – Funding Your Business

- A member of the leadership team needs to be allocated the portfolio of “future fundraising”.
- The best way to undertake this task is to prepare 3 way financial forecasts incorporating:
 - Budgets
 - Cashflow Forecast
 - Projected Balance Sheet

Utilise the non-financial section in the three-way forecast software package e.g. Plan Guru to envisage what might happen in your business as it grows. Many people overlook the working capital problems that can occur to businesses as they grow because of the growth in items such as:

- Debtors
- Work in Progress
- Inventory

Some of these investments will be offset by a corresponding increase in the amount owing to creditors. However, the business might find that creditors are insisting on receiving their payments within a specified time - say 30 days - whilst the business is having difficulties in achieving a debtors' days outstanding of less than 60 days. This means that, whilst there is some offset with creditors, in many cases the increases in debtors, work in progress and inventory will not be compensated by a corresponding increase in creditors.

Consideration needs to be given to other activities that the business might be considering including:

- A significant amount of research and development activity.
- The identification of research and development that patents could be applied for – this can cost a fair amount of money.
- Plant and equipment that might be necessary to develop a new product.
- Investment in social media promotion and website development.

Businesses have a number of options relative to funding the business including:

- Borrowing from a Bank or Financial Institution
- Debtors' Financing
- Inventory Purchases' Financing

Companies have some additional options available to them. (Businesses which are not companies always have the opportunity to roll the business over into a company – if you would like to talk to us about this please do so).

- For a young company under 3 years of age, with turnover under \$200,000 annually and expenditure under \$1 million annually, there is the possibility of being able to be classified as an Early Stage Innovation Company. There is no limit to the amount of capital that can be raised. If you have developed a new product, process or service,

marketing or management methodology and you are interested in raising capital, please contact us.

- Section 708 of the Corporations Act has been available to Australian private companies for the last 35 years.
- Crowd Sourced Funding Equity Raising – companies with turnovers annually under \$25 million and gross assets valued at less than \$25 million, not listed on a stock exchange, can raise up to \$5 million in capital from the public every 12 months.
- Australian Business Growth Fund is currently being created by the Australian government and banks to invest in small/medium-sized companies. The Treasurer has indicated that the fund will not acquire more than 40% of the capital in a company.

Section 708 Capital Raising

This section of the *Corporations Act* enables private companies to raise capital without producing a Prospectus.

This section is often referred to as “20/12/2 Million” or “Small-Scale Offerings Exemptions”. This section provides that personal offers of company securities by a person do not need disclosure to investors via a Prospectus, if none of the offers results in a breach of the 20 investors ceiling in 12 months and none of the offers result in a breach of the \$2 million ceiling in a 12 month period.

Offers must be personal, which means that there must be some connection with the person who is likely to be interested in the offer.

What is a “Personal Offer”?

A personal offer is one that:

- May only be accepted by the person to whom it is made; and
- Is made to a person who is likely to be interested in the offer having regard to:
 - previous contact between the person making the offer and that person; or
 - some professional or other connection between the person making the offer and that person; or
 - statements or actions by that person that indicate that they are interested in offers of that kind.

There is also a restriction on advertising of offers for the issue of securities covered by the exception for 20 issues in 12 months. The effect of this prohibition is that a person, who is representing a company seeking to raise capital, must not advertise or publish a statement that directly or indirectly refers to an offer, or intended offer, that would not need a disclosure document.

If you are contemplating raising capital under Section 708 you also need to be aware of the prohibition on “Hawking”.

Under the *Corporations Act* a person representing the company seeking to raise capital must not offer financial products for issue in the course of, or because of, an unsolicited meeting or telephone call. An offer includes inviting an application for the issue of shares.

Another issue to bear in mind, if you are contemplating raising capital under section 708 of the *Corporations Act*, is the 50 shareholder limit which applies to private

companies.

When seeking to raise capital under Section 708 you need to prepare some calculations based on your current number of shareholders and make sure that, if 20 new shareholders accepted your personal offer, the number of shareholders would not exceed 50.

Crowd Sourced Funding Equity Raising Intermediaries appear to be very keen to encourage a company to raise some funds under Section 708 before commencing a Crowd Sourced Funding Equity Raising process.

This is because the Intermediaries know that the only people who can be approached are basically friends, suppliers, customers, employees of the company – people who normally know something about the business and the directors and leadership team.

If this group of people is inclined to invest in the company, it can give an assurance that the directors and leadership team are “good people” to other potential investors who might be attracted via Crowd Sourced Funding Equity Raising who will probably have no direct knowledge or contact with the directors or leadership team of the company seeking to raise the capital. It’s virtually like a personal reference on the company, directors, leadership and the team.

If you have any questions on any aspect of utilising Section 708, please do not hesitate to contact us.

Comments by a Crowd Sourced Funding Intermediary

We raised a number of questions with some Crowd Sourced Funding Intermediaries on their thoughts on the first 20 months of operations of Crowd Sourced Funding Equity Raising in Australia of which only 12 months related to private companies.

- 55 companies have raised \$39.9 million.
- The Intermediary who supplied these answers indicated that he thought this was a fair result as he believes Australia will follow the example that was set in the UK from the introduction of the equivalent of Crowd Sourced Funding Equity Raising in that it took 2 to 3 years for the market to settle. In the last few years in excess of \$2.2 billion has been raised in the UK for small and medium sized companies.
- The Intermediary indicated that only 30% of the people who contact them have an understanding of the Intermediary’s role, duties, responsibilities and powers.
- 80% of the companies have prepared Business Plans.
- 50% of the companies have prepared Budgets and Cashflow Forecasts.
- Only 10% of the companies had prepared a Crowd Sourced Funding Offer Document which is the key document that the Intermediary has to approve for listing on the Intermediary’s website for the company to be able to raise capital.
- One Intermediary indicated that they would reject 50% of the people who approach them because they did not have an awareness of how the whole situation worked. Another Intermediary indicated that his organisation was asking 95% of the people who approach them to go away and do some more work on their proposal.

What all this seems to indicate is that companies need to get advice and have the key documents appropriately

prepared before making contact with an Australian Securities and Investments Commission appointed Crowd Sourced Funding Intermediary.

If, as part your vision for 2020, you're contemplating raising capital, please do not hesitate to contact us for a discussion.

Execution Of Strategies – Preparing Your Business' Differentiated Strategies

- A leadership team member could be allocated the role of continually reviewing proposals and ideas that will assist in differentiating your business from your competitors.
- It is a very crowded marketplace these days and for most businesses it is an international marketplace.
- Being able to differentiate is very important in your home location as well as international locations.
- To implement differentiation strategies the leadership team members should have discussions with your customers/clients to gain an understanding of why they deal with your business and not with your competitors or perhaps they do deal with your competitors to buy some products from them and others from you – why do they do that?
- Does this mean that your business should have a wider range of products or is your business not presenting or promoting these products and services so that your customers understand that you do supply these types of products and services?
- The person responsible for the identification of your businesses differentiated strategies should be producing, at least, a quarterly report for the leadership team and the Board of Directors so that consideration can be given to implementing new strategies to emphasise the points of difference that have been identified.
- This identification of points of difference is not something that should just be referred to once a year. That opportunity may have passed by then because some of your competitors may have had a similar idea and have implemented that strategy, thus making it very difficult for your business to then try to implement a strategy that, at least, some of your competitors have already moved onto. Therefore, the person responsible for the identification of different strategies should be continually bringing potential changes to the leadership team's attention.

Execution Of Strategies – Marketing The Strategies

- The CEO should appoint a member of the leadership team to be responsible for the "marketing of the strategies that have been agreed to".

- The initial market is the business' own team – making sure that they are all "sitting on the right seat on the bus" and that they understand the strategies that have been adopted for the business.
- The next group to be informed of the strategies are other key businesses that are part of your supply chain or professional advisory service team so that they all have an appreciation of the direction that your business is wanting to head. There may be some opportunities for this group of businesses to be able to supply some services to assist or to work in conjunction with you.
- Once these two very important groups have an awareness of your business' strategies, it is then important to ensure that the correct message is getting through to your customers and prospects. This will obviously involve the marketing team and sales team, but will also require information being made available to the manufacturing department (if you have one) or the key areas within your business that are producing services or products that you wish to sell to customers.

Prepare Now For The Decade Of Change!

The commentary in this edition and the previous edition on Execution of Strategies could become part of your key theme for looking at the business challenges that are going to confront virtually every business over this decade of the 20s.

The government has laid out various ways that small and medium-sized enterprises can now finance their businesses with a significant amount of funding being possible from raising capital direct from the public.

We have included a comment from an academic/researcher who has quite correctly identified that businesses just don't need cash! To be successful and to grow your business and to have the ability to raise capital direct from the public, businesses need to have implemented the other key components relating to:

- People
- Leadership
- Strategies
- Execution of Strategies

The 20s will be a decade of change – if you wish to prepare now for the decade of change we will be happy to have discussions with you and to assist you on this journey.

Please do not hesitate to contact us for a discussion about the preparations that would be required for your business.

Merry Christmas and a Very Happy 2020!

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

Contact us:

CMA Collins Melody

P: 03 9836 1533

F: 03 9836 3025

E: admin@colmel.com.au

W: <http://www.cmagroup.com.au>

Ground Floor, 1 Chapel Street, Blackburn, VIC, 3130