

BusinessPlus+ Newsletter



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Issue – February 2020

Welcome to 2020.... the start of a new decade - the "decade of change".

An Opportunity for Small Businesses and Medium-Sized Enterprises

As we commence the decade of change many small business operators and medium-sized enterprise directors and senior managers are looking for opportunities to equip themselves with an understanding of the new capital raising opportunities that are available for private companies. It is expected that throughout this decade the ability to be able to raise capital direct from the public will be a significant contributor to business success. Over the next decade we should see a material shift in business ownership as the next generation make their way into leadership and ownership roles. These new owners will embrace technology and be far more connected to their customers than most business people have been in the past.

There is significant innovation in the Australian SME market, however these businesses often run into brick walls because access to traditional capital is limited and therefore, growth stagnates.

Crowd Sourced Funding Equity Raising and Early Stage Innovation Companies flip the old capital market model on its head by centralising the investment opportunity into one or two platforms and defining clear outcomes for the business. These changes, which originated from the Federal government's innovation statement in December 2015, brings more speed and energy into the capital raising process as the investment opportunity can now be marketed and advertised, especially with digital and social channels in ways that were not envisaged when Section 708 of the Corporations Act was introduced 35 years ago. There is a sweeping global trend that is not going to go away anytime soon which thankfully, Australia has finally embraced. It has taken a while, given that this revolution in capital raising for small and medium-sized businesses commenced about 8 years ago in most of the Western world.

If you wish to find out more about how your business could become "investment ready" to utilise these new capital raising opportunities, please don't hesitate to contact us.

There is also a new breed of investors now operating in Australia, numbering in excess of 38,000, who have already invested into Crowd Sourced Funding Equity Raising. Unfortunately, there is no database available of the number of companies and the amount of capital that has been raised utilising Early Stage Innovation Companies, but a few of the Crowd Sourced Funding Intermediaries, who also assist companies to raise capital as an Early Stage Innovation Company have indicated that a significant amount of capital is being raised for those companies that are eligible to describe themselves as an "Early Stage Innovation Company." This has created opportunities for these investors to participate in the opportunity to make investments into a wide range of businesses operating in Australia – something that, in the past, has been reserved primarily for sophisticated and wholesale investors.

2020 is the start of a new decade – the "Decade of Change". There will be many changes occurring during this decade because of the ongoing development of technologies, software and the willingness of firms, such as ours, to assist you on your business growth journey.

We look forward to growing with you on this journey. If you would like to discuss the concept of evaluating the benefit of utilising Crowd Sourced Funding Equity Raising or Early Stage Innovation Company Capital Raising for your business, please don't hesitate to contact us.

Surviving the Difficult Times

Australia has certainly been subjected to a wide range of challenges affecting everyone including farmers, small businesses, fishers, education facilities, tourist industry which encompasses a whole range of businesses including accommodation, restaurants, cafés, hotels, nightclubs, tourist attractions and transport etc. We have certainly had a double whammy recently with fire, floods, cyclones and now the COVID19 (formerly known as the Coronavirus).

To all of you who are suffering we extend our best wishes. There are various government programs that have been announced ranging from grants to special low interest loans. Please don't hesitate to contact us if you require assistance on the preparation of the government application forms or the additional information that many of these grants require you to submit.

If you are concerned about what is happening within your business and your industry, please contact us so we can have a meeting with you to consider the options that you have available. This could include preparing a special submission to your banker or financier for a special facility or for the preparation of a submission to your suppliers with an application for extended trading terms.

Research and Development - Registration

There are a number of deadline dates for research and development purposes occurring over the next few months. These are as follows:

- Registration of a company's research and development activities for which the company wishes to claim the R&D Offset must be lodged with AusIndustry within 10 months of the end of the financial year, which for a company with R&D expenditure in the financial year ended 30 June 2019, is the 30 April 2020.
- If your company has incurred R&D expenditure overseas in the current financial year (2019/20) for which the company wishes to claim an R&D Offset, then the company must submit an "Overseas' Finding" summarising the overseas' expenditure to the Australian Taxation Office prior to 30 June 2020.
- A company can submit a summary of a proposed research and development project to the Australian Taxation Office to gain approval that the expenditure will qualify for the R&D Offset so that the company has some certainty that the expenditure will qualify for the R&D offset. The "Advance Finding" must be submitted to the Australian Taxation Office before the end of the income year in which the activity was conducted.

If you have any questions relative to these research and development deadlines, please do not hesitate to contact us for a discussion.

Crowd Sourced Funding Intermediary Survey

A survey has been conducted with questions submitted to Crowd Sourced Funding Equity Raising Intermediaries. The answers produced in this summary relate to questions that referred to the companies' investment readiness.

<u>Question</u>	<u>Response</u>
• What is the level of understanding of the Intermediary's role from companies that were seeking to raise capital utilising Crowd Sourced Funding Equity Raising?	Nil to 50%
• What percentage of businesses were rejected by an Intermediary because the business had no understanding of Crowd Sourced Funding Equity Raising?	50% to 95%
• Comments made by Intermediaries relating to the documentation that was submitted by companies included "poor performance for some documents – especially the Crowd Sourced Funding Offer Document".	
• What do you expect Crowd Sourced Funding Capital Raisings to be in 2019/20?	\$30M to \$60M
• What do you expect Crowd Sourced Funding Capital Raisings to be in 2020/21?	\$40M to \$150M

These responses from the Intermediaries highlight the desirability of company directors/senior managers seeking assistance from accountants who are aware of the requirements that companies have to undertake to get themselves into an investment ready status to raise Crowd Sourced Funding Equity Raising.

Crowd Sourced Funding Equity Raising Scorecard

The scorecard as at 31 January 2020 records the journey from when the first Crowd Sourced Funding Intermediaries were appointed in January 2018.

The highlights are as follows:

- Companies that have completed capital raising - 68
- Crowd Sourced Funding Equity Raising - Capital Raised - \$45.1 million
- Number of Investors - 38,329
- Average Investment - \$1,178

The summary of the Crowd Sourced Funding Equity Raising Scorecard is as follows:



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SCORECARD AS AT 31 JANUARY 2020

BA55027

Reference	Intermediary	Progressive Capital Raise		Completed Fund Raising		In Progress Raising		Location	Number of Investors	Average Investment
		Number	\$	Number	\$	Number	\$			
1	AG Crowd	1	\$ 42,960	1	\$ 42,960	0	\$ -	Sydney	8	\$ 5,370
2	Big Start Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Perth	N/A	N/A
3	Billfolda Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Sydney	0	\$ -
4	Birchal Financial Services Pty Ltd	35	\$ 19,987,299	35	\$ 19,987,299	0	\$ -	Melbourne	12559	\$ 1,591
5	Capital Labs (IQX Investments)	1	\$ 828,476	1	\$ 828,476	0	\$ -	Sydney	547	\$ 1,515
6	Crowd88 Limited	2	\$ 1,102,840	2	\$ 1,102,840	0	\$ -	Sydney	633	\$ 1,742.24
7	Crowd Funding AFSL Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Gold Coast	N/A	N/A
8	Enable Funding (Global Funding Partners Pty Ltd)	1	\$ 671,000	1	\$ 671,000	0	\$ -	Adelaide	90	\$ 7,456
9	Equitise Pty Ltd	15	\$ 11,071,238	14	\$ 10,808,438	1	\$ 262,800	Sydney	5213	\$ 2,073
10	Fundisition (SME Crowd Funder Pty Ltd)	0	\$ -	0	\$ -	0	\$ -		N/A	N/A
11	Galaxy Crowd Funding Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Melbourne	N/A	N/A
12	OnMarket Bookbuilds Pty Ltd	10	\$ 6,759,183	9	\$ 6,592,140	1	\$ 167,043	Sydney	17183	\$ 384
13	Pledge Me Pty Ltd	5	\$ 5,137,335	5	\$ 5,137,335	0	\$ -	Sydney	2096	\$ 2,451
14	Pulse Markets Pty Ltd (BIR Financial Limited)	0	\$ -	0	\$ -	0	\$ -	Sydney	N/A	N/A
15	Venture Crowd	0	\$ -	0	\$ -	0	\$ -	Sydney	N/A	N/A
Total		70	\$ 45,600,331	68	\$ 45,170,488	2	\$ 429,843		38329	\$ 1,178

Interested in Raising Capital Using Section 708 of the Corporations Act?

In the December edition of Business Plus+ we started the discussion on the use of Section 708 of the Corporations Act which was introduced to the legislation 35 years ago. Some Intermediaries are very keen for the company to raise as much capital as possible from the Section 708 capital raising prior to moving onto the Crowd Sourced Funding Equity Raising component. The key thing to remember is that for capital raising to be conducted under Section 708 there must be a "personal offer".

This means that someone who knows the directors or senior managers or as a customer, supplier or employee is likely to be an investor under Section 708. When these people make an investment, they're virtually offering a "testimonial" on the directors and senior managers that the Crowd Sourced Funding Intermediaries can include in the marketing material that they're going to use relative to the Crowd Sourced Funding Equity Raising process. There are a series of documents that are required to be able to successfully raise capital utilising Section 708 of the Corporations Act, including:

- Business Plan
- Shareholder's Agreement
- Budgets and Cashflow Forecasts and Projected Balance Sheets
- Valuation of the Company
- Determination of the Share Price
- Information Memorandum
- Subscription Agreement
- Application for Shares
- Information Video

We can assist directors and senior managers in the preparation of these reports and also in mentoring the directors and senior managers on the presentation of the information sessions that are normally utilised to inform people who fall under the definition of being eligible to be invited to subscribe to shares under Section 708 of the Corporations Act.

Strategies for 2020

In the November and December editions of Business Plus+ we discussed the concept of businesses developing strategies and then deciding how those strategies would be executed. The start of a new calendar year is an ideal time to start the implementation of the strategies that you have thought about, particularly under the key headings:

- People
- Leaders
- Identifying Strategies
- Executing Strategies
- Financing the business from capital raising, grants, ongoing support from your financial institution

If you would like to have discussions with us relative to the identification of strategies and the execution of those strategies in your business please contact us for a discussion.

Cost Control - Strategies Help

Cost control is a detailed process of collecting, analysing, summarising and evaluating various alternative courses of actions. The goal is to advise management of the most appropriate action, based on the cost, efficiency and capabilities within the business. This can include:

- Investigating procedures to detect variances of actual cost from budgeted cost.
- Diagnostic procedures to ascertain causes of variances.
- Directive procedures to affect the re-alignment between actual and budgeted costs.

Costing also includes a review of new products and services and looking at various components that go with making a product.

- What do they individually cost?
- What is the effect of the cost of the final product by making various changes, adding something to it, or removing something?

The overall exercise is to determine what the final cost of the product or process will be: can that product or process then be effectively marketed so your business earns a profit? Another field of cost management is in project management, where costs are allocated against the original estimates for a building project or a major construction site.

If you are having difficulties in controlling costs within your organisation, please don't hesitate to contact us for discussions, on strategies to help you with the management of costs.

What Services Can Accountants Offer?

As your accountants, we're happy to supply you with a range of services beyond the traditional annual accounts and income tax service. The additional services can include:

- In-depth review of your monthly financial accounts.
- Preparation of budgets on an annual basis, then monthly or quarterly updates.
- Preparation of annual cashflow forecasts, then monthly or quarterly updates.
- Review of your debtors' aged analysis.
- Advising on strategies to reduce debtors' days outstanding.
- Assisting in the management of costs.
- Reviewing your insurance needs.
- Identification of government grants that might suit your business.
- Reviewing your operations relative to your exposure to the Personal Property Securities Act.
- Advising on implementation of systems to ensure there is proper consideration given to tax invoices and location of assets owned by your business, in determining whether a 'security interest' should be lodged on the PPSR.
- Assist in the organisation of quarterly business review meetings with yourself and key personnel.
- Assist in the identification of strategies that you could implement to assist in the "scaling up" of your business.
- Reviewing the business financing opportunities that are available for your business including capital raising utilising Section 708 of the Corporations Act, Early Stage Innovation Company status, if you are operating a business that has developed new product, process or service or Crowd Sourced Funding Equity Raising that is available for virtually every type of business in Australia that can raise capital direct from the public of up to \$5 million each year.

If you would like to have a discussion on any of the additional services we can supply to assist you in your operations, please don't hesitate to contact us.

Disaster Grants

If you have suffered business interruptions, property damage, or any other matter which has affected your business operations from the recent bushfires, floods, cyclones that have occurred in Australia there are grants that are available from the Australian, State and Territory governments to supply funds to assist small businesses and farmers through these difficult times. Some of the grants that are available are as follows:

- Australian Government – Disaster Recovery Allowance
- Australian Government – Disaster Recovery Payment

Each State and/or Territory have their own grants and loans schemes for primary producers and small businesses. If you need any assistance in the preparation of grant application forms please do not hesitate to contact us.

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.

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