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Edition 11 | 2016

News flash: *PwC's Private Clients is excited to announce the launch of PwC's Next*

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Articles

In the News: *19th Annual Global CEO survey and PwC Next Generation Survey 2016*

Newsflash: PwC's Private Clients is excited to announce the launch of PwC's Next

PwC is collaborating with a range of Australasian startups and emerging technology companies to deliver a purpose-built cloud platform that brings together some of the leading cloud solutions in the market today, all in one place.

"We chose Sydney-based startup Maestrano as the engine for PwC's Next due to its highly innovative approach, agnostic capabilities and market-leading technology, which seamlessly integrates cloud applications." PwC's Private Clients' Leader David Wills said.

PwC's Next combines multiple cloud accounting tools and integrated cloud applications on an open platform. It also includes customisable dashboards that provide a holistic view of a client's entire business in real time, in one place.

"We recognise every client is different, with different business and personal needs. Our clients are looking for deeper insights and the ability to get on the front foot in making decisions. They want the freedom to choose the cloud tools that best suit their needs – whatever they may be." Wills continues.

Open architecture technology is at the core of PwC's Next, we've created a rich cloud ecosystem that goes beyond bookkeeping and accounting; it's a whole of business solution.

In addition to Maestrano, we're working with a wide range of other startups and data providers in Australia and New Zealand to solve business problems through cloud technology.

> *"Tailored to your needs, Next gives you a live integrated view of your business in one place. Access your information anywhere, anytime, and combined with our expert insights you can be more proactive in protecting and growing your wealth.*

PwC's Next steps

Pilots are already in place for PwC's Next with clients in both Australia and New Zealand trialling the solution - their feedback will help to continually develop the latest version of the product.

"This is just the start of the journey – a meaningful first step," says Mark Solous, PwC's Next lead partner.

He adds: "Clients and advisers are able to see everything that's important to a business in one place. This builds the ability to identify unique business challenges, source valuable insights and help clients realise their business goals. We can assist more effectively with strategic plans and growth, not just compliance and tax returns."

"Our ultimate vision for PwC's Next is considerably more ambitious. "We're open to connect with any credible options that add value and enhance our clients' experience. Our aim is to provide a rich premium cloud solution experience for existing and prospective clients, with multiple general ledgers and whole of business add-ons, including a range of unique PwC business tools." says Soulos.

To read the full press release click here:

Visit our website to find out more:

Read the recent AFR article:

Mark Soulos
Lead Partner for PwC's Next
E: mark.soulos@pwc.com
T: +61 (2) 8266 9037

Article 1

Get fit. Get funded. Get big. Get out …what's next?

How to sell a business: IPO and trade sale veterans share their lessons

Notable Australian business operators shared their experiences on how to effectively prepare a company for a trade sale or IPO, while advising on how to avoid the pitfalls that will inevitably present along the way.

To read the articles and watch the highlight video click here.

Get fit. Get funded. Get Big. Get out. article | Grow Edition 11 2015

Get fit. Get funded. Get Big. Get out. …what's next?

At the end of last year PwC's Private Clients team provided BRW readers tips on how to maximise a businesses value, how to prepare for an exit event, as well as life and implications post-exit. The following is a snapshot of these articles.

In addition we hosted a BRW roundtable event on exit ready with key executives from Swisse, Integral Diagnostic, Capi Sparkling, AussieCommerce and Advent Private Capital.

Click here to read the BRW article and watch the video

Get fit. Get funded.

Get fit. Get funded. Get big. Get out.

Top 10 tips for maximising your company's value

1. Revenue must exceed costs. Hobby? Charity? Business?
2. Know how much capital you have invested
3. Know how much you own of the capital
4. Know the limit of your borrowing
5. Know what return you are getting on your investment
6. Know if you are creating wealth or destroying value
7. Know how much working capital you should have to run your business
8. Know if you are generating positive free cash flow
9. Know when to and not to take cash out of the business
10. Measure and improve economic denominator

According to the Australian Bureau of Statistics only 4 per cent of registered businesses make it to $1 million turnover. Is the fundamental reason so many businesses fail is that their owners don't appreciate how much capital they have invested?

The answer is yes, according to PwC's Private Clients Principal, Rob Ashley, who for more than 30 years has advised entrepreneurs and business owners on improving their growth and profitability.

"Ask a founder how much money they've got in the bank or how much equity in their house, they'll know, but in their business? Often they have no idea." Says Ashley.

Business owners often don't know how much of the invested capital is owned by their financier. This can lead to growth-killing repayment schedules not being questioned until it's too late.

If another lease or another overdraft is taken out, and a schedule is set that sucks out too much of the cash - which should be getting reinvested in growth. And this is not happening to just startups but established, profitable businesses."

The good news is that the banks are almost always willing to relax repayments once the situation is explained, however the onus is on business owners to have visibility into their finances which goes beyond the balance sheet and profit and loss statement.

> *When a business is growing fast, the temptation is taking too much cash out without understanding "working" capital absorption."*

Two businesses for sale can have the same profit but the one that converts it more efficiently into free cashflow will always attract a higher price. Knowing the optimal working capital percentage and turnover is essential to ensure a business can manage growth from profit and debt in the right proportions.

Rob Ashley
Principal, Private Clients
E: rob.ashley@pwc.com
T: +61 (7) 3257 8203

Read the full article here.

Get Big. Get out.

"Selling a business requires different skills and a different mindset from running it." According to Private Clients Partner and Deals advisor Andy Cloke.

"We advocate that business owners, above all, give themselves time to do their homework, explore all potential options well in advance and have a flexible plan should circumstances change in the lead up to an exit." Cloke added.

Whether looking at a trade exit or an IPO, many private business owners underestimate the rigour and demands of a due diligence process. If you're considering an IPO, you'll need to consider a myriad of factors in order to assess whether it's a realistic option, and how ready you are to operate as a listed company, including capability of the management team, the adequacy of its governance structure, and your reporting systems.

Many successful private businesses considering an IPO plan by undertaking a comprehensive 'readiness' diagnostic exercise which produces a detailed action plan to guide the business through the preparation and execution stages of an IPO transaction and into listed life beyond.

Private Clients Partner, Alan Elliot, observes that the recent rise of vendor due diligence - where a business contracts a third-party to perform due diligence on it before there are any actual buyers - helps businesses prepare for the pressure of a sale process.

"We advocate that business owners, above all, give themselves time to do their homework, explore all potential options well in advance and have a flexible plan should circumstances change in the lead up to an exit."

However, business owners should not fall into the trap of thinking about the sale purely in financial terms, they must consider the emotional ramifications too.

"Your purpose in life will fundamentally change - do you know what it will be? Is your family prepared for the change in personal and financial circumstances that will flow to it? Too often we see money break families apart, because plans have not been made, conversations have not been had in advance," warns Elliott.

Andy Cloke
Private Clients Partner
and Deals Advisor
E: andrew.cloke@pwc.com
T: +61 (2) 8266 3524

Alan Elliott
Private Clients Partner
and Deals Advisor
E: alan.elliott@pwc.com
T: +61 (3) 8603 2378

Read the full article here.

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Top 10 tips for maximising your company's value

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What's next?

Family business to family wealth: PwC's tips to ease the transition by Sue Prestney

Imagine it's the big day, the day your investment in your family business turns into a large pot of cash, when you realise the reward for the lifetime's work of one or more generations. The months of unrelenting pressure preparing for and negotiating the sale, reviewing and signing arcane legal documents and the endless meetings are finally over. The lawyers pop the champagne and you watch the funds roll into your bank account.

You are so proud of your achievement, you feel elated and excited. Or do you?

Many business owners find that their big day produces a cocktail of emotions. Pride and relief, certainly, but also a sense of loss. Loss of the thing that has got them out of bed every day for decades, kept the adrenalin pumping, taken on much of their identity and then given it back so that sometimes they find it hard to separate their sense of themselves from the business.

This business which brought enormous challenges, sometimes anger and despair, also provided a place to go that was yours, where you knew everybody and everything, a "home" where you probably spent more time than your actual home.

And now, suddenly, on this day, all that is gone. It's no surprise that, for many vendors there is a degree of mourning mixed with the elation.

One business owner felt he had gone from "a peacock to a feather duster" overnight – from being the boss to whom everyone deferred, to having nothing but a pile of cash.

Another referred to his sadness on the loss of his business life, in particular the loss of contact with people who had been employees, suppliers and customers for many years.

And then, with the financial security a large amount of cash can provide, and the freedom of not having to be anywhere at any particular times comes new, alien responsibilities and concerns.

Plan portfolio like it were a business

Investment is more digestible when it is considered like a business plan, according to Stuart Morley, Wealth Lead Partner at PwC's Private Clients. Work out your purpose for the wealth, what after tax income it needs to provide and what level of capital growth is desirable in light of your risk appetite. Then have an expert, who is not an investment manager with a vested interest in the outcome, work with you on a strategic asset allocation. This should take account of asset categories that interest you and could include direct property, private equity, new business ventures for family members, and even some impact investing in social enterprises.

You can then get additional specialist advice on selecting from the opportunities in each asset category. In time, you will develop your own due diligence check lists for many of these asset categories. You should aim should to appoint the best asset managers for each of the asset classes in your strategic asset allocation.

Just like you would not have engaged members of the family in aspects of your business for which they were untrained or unsuited, nor should you try to squash them into real (or artificial) roles in the family office or in managing the wealth. This can only end in tears. For most business people this is unfamiliar territory and you need experts (independent experts) to guide you through it.

Ideally, prior to the big day, you will have determined and established the legal structure for holding and investing the wealth. This allows the investment returns to flow immediately into an appropriate vehicle, away from entities that have been involved in the business and provided warranties and indemnities under the sale contract.

This new structure should take account of asset protection for the family and should reflect policies in relation to succession, including bloodline policies and intentions for the family office to continue in perpetuity.

Read the full article here.

Sue Prestney
Partner, Private Clients
E: sue.prestney@pwc.com
T: +61 (3) 8603 1201

Stuart Morley
Partner, Private Clients
E: stuart.morley@pwc.com
T: +61 (3) 8603 0280

Article 2

When your business partner is no longer your life partner

Image © Jessica Alexander

When your business partner is no longer your life partner

When entrepreneurs Jodie and Michael Fox separated in 2012 after six years of marriage and three years in business together, they kept it a secret for two months.

The Shoes of Prey co-founders told their fellow co-founder Mike Knapp and close friends and family, but kept it from their employees.

“I remember the first week we split up was one of the most challenging weeks I’ve ever had. To keep up that normalcy of every day while dealing so many things - physical exhaustion, moving house, lack of sleep – it was a huge demand to keep that up…” Jodie says.

Although it was difficult, Jodie believes keeping the break-up private was a good move, because it gave the two of them time understand it and make sure it was the right decision.

It also meant that when Jodie and Michael eventually told the team, they had convincing evidence they would be able to work together, because they were already doing so.

Such subterfuge is not usually advisable for business partners going through a divorce, says PwC's Private Clients Partner Paul Brassil.

"I've worked with many family businesses in this situation and trust me, your staff will know. Even if you've said nothing, they just do," he says.

"Your staff just need to know what the management changes are going to be, if any, and how their day-to-day might be affected, treat staff with respect and be consistent and truthful. They're not there for one of you to emotionally unload on." Brassil says.

Back to 'business as usual'

Jodie Fox says her working relationship with Michael changed once they were no longer a couple. She could no longer read between the lines, so they would constantly have to grab each other after meetings to make sure nothing was misconstrued.

"We always talked it out and never let anything fester," Jodie says. "

Michael points out that he and Jodie have quite different roles in the business, so they are not rubbing up against one another day to day.

The best way to keep a divorce from disrupting a family business is to pre-empt it by having plenty of knowledge and responsibility sitting alongside the husband and wife, say PwC's Brassil.

"Successful founders figure out early on that they're good at some things and not good at others, and bring in a range of internal and external advisers – independent board members, perhaps – so if there is a divorce situation they've already got others in the room," he says.

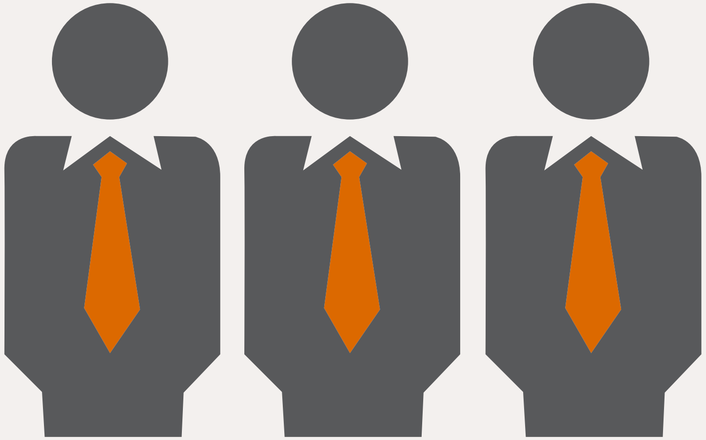
Michael Fox says, the separation has not been an issue from a business point of view, and he has no regrets. And nor does Jodie. "For all the challenges, I wouldn't live my life any other way," she says.

Read the full article here.

Paul Brassil
Partner, Private Clients
E: paul.brassil@pwc.com
T: +61 (2) 8266 2964

Article 3

Three ways to get the ATO and bank backing your property development



Three ways to get the ATO and bank backing your property development

As the property boom falters, family offices dabbling in development can expect to talk to the Australian Tax Office almost as much as their financiers.

"The ATO is very aware they missed out on a lot of revenue during the last downturn when off-the-plan buyers failed to settle, so it's wanting to really understand projects before it releases the GST credits that developers need to pass on to suppliers," says PwC's Private Clients Partner, and adviser to family businesses for 27 years, Kel Fitzalan.

Banks are as nervous about property markets as the ATO. Investment property loans are attracted unprecedented premium rate to owner-occupier loans.

The Grollo family's redevelopment of Melbourne's Rialto Towers is at the higher-end of projects undertaken by family offices - but similar principles apply to de-risking them all, says PwC tax expert Kel Fitzalan.

"Families must do more than ever to prove up the feasibility and viability of a property development, we recommend they use a tool they might already be using in their day-to-day business - a three-way budget," says Fitzalan.

Three-way budgets involve the preparation of a projected profit and loss statement, a resultant cashflow statement, and finally a balance sheet. Regularly reviewed to check tolerances, is vital in showing the developer and the bank where the pressure points are and when the drawdown of debt will be required, and in giving the ATO comfort in releasing those GST credits.

"Our family office clients are telling us the ATO is requesting information earlier than ever before in the lifecycle of a development. Specialist property development teams within the ATO have even been known to undertake their own valuation of a project in the event of a dispute."

"They're also very alert to secondary development risks. The family gets one marketing campaign away and then there's the temptation to overspend on the next site and be unable to meet tax obligations on the first project," says Fitzalan.

“The more mature developers know that if they put their best foot forward, they get better pricing on the debt. They’ll have more than one financier willing to back the project.

Banks are tougher than ever, rarely lending more than 60 per cent of the projected cost of a development, and wanting to see at least 80 per cent, if not 100 percent of units pre-sold before debt to fund construction can be drawn down.

The best way to negotiate better terms with the banks is to prepare the three-way budget early. “The more mature developers know that if they put their best foot forward, they get better pricing on the debt. They’ll have more than one financier willing to back the project,” says Fitzalan.

Families without a long track record of completed developments should consider joint-venturing with a developer.

You’ve only got to look at the BRW Young Rich List to see how big the private developer sector has become. A good JV here can de-risk your project significantly.

Read the full article here.

Kel Fitzalan
Partner, Private Clients
E: kel.fitzalan@pwc.com
T: +61 (2) 8266 1600

Article 4

Why structured giving is now a family favourite

Why structured giving is now a family favourite

When the $3.3 billion estate of healthcare entrepreneur Paul Ramsay was placed into a private ancillary fund (PAF) after his death in 2014, it almost doubled overnight the amount held in these philanthropic vehicles.

PAFs are a charitable trust controlled by a company as trustee. As a vehicle for “structured giving”, Instead of a benefactor making large, one-off payments to chosen charities, PAFs require only a minimum of at least $11,000, or 5 per cent of the market value of their net assets, to be disbursed to charities each year - although the government has released recently draft legislation that looks to revise this.

“The ongoing nature of a PAF makes them a useful tool for promoting harmony within the families behind successful businesses” PwC’s Private Clients Partner Paddy Carney says.

“A one-off event like an exit or a partial sale is a great time to think about your philanthropy strategy,” Carney says. “We’ve seen that the act of getting together regularly to decide where the family will direct contributions from its PAF helps keep the next generation aligned.”

Broader range of causes

PAFs are also free to donate to any “type 1” charity with deductible gift recipient (DGR) status, allowing a family to support a much broader range of causes than if it were to attempt to start its own charity, PwC’s Private Clients Director Michelle Le Roux says.

Stats reflect a growing trend for wealthy Australian families to establish foundations through a PAF structure, rather than fund and operate their own charities.

“To be considered a charity, PAFs still have registration and reporting requirements to the ACNC and ATO but they can be easier to achieve than what is now required from charities to maintain or receive DGR status,” Le Roux says.

Potentially the trickiest requirement for a PAF is the need for at least one independent director to sit with the family on its board.

However, Le Roux says a trusted lawyer, doctor or accountant is an acceptable choice. About $500,000 is the minimum fund size at which a PAF begins to make sense, given its associated compliance costs, she says.

Apart from greater control through structured giving, Le Roux says another trend is families seeking vehicles that can deliver a positive social outcome, as well as a market investment return.

PwC’s Private Clients team is seeing more interest in social impact bonds, or innovations like the Future Generation Investment Company, where asset managers have agreed to waive their fees, which are redirected to donations to various charities, while investors receive a normal investment return.

Read the full article here.

Paddy Carney
Partner, Private Clients
E: paddy.carney@pwc.com
T: +61 (2) 8266 7312

Michelle Le Roux
Director, Private Clients
E: michelle.le.roux@pwc.com
T: +61 (2) 8266 2602

Article 5

New financial reporting requirements for private businesses

New financial reporting requirements for private businesses

In December last year, Federal Parliament passed tax legislation which will create significant new disclosure requirements for many privately owned companies and other entities that are not currently subject to financial reporting requirements.

At a glance

The earliest of these disclosures is expected to become effective in March 2016 when the ATO will publish the accounting income, taxable income and tax paid by Australian private companies with income greater than $200m as disclosed in their tax returns. The first round of data to be published will be for the year ended 30 June 2014.

The second change will require entities with consolidated income of more than $1 billion to prepare and lodge general purpose financial statements with the ATO – these will be passed on to ASIC for public access. This reporting requirement is the focus of this update.

Who is impacted by the New General Purpose Financial Reporting Requirements?

We anticipate the highest impact will be for previously “grandfathered” except privately owned companies whose consolidated income exceeds the $1 billion threshold.

The new requirement also affects some other types of entities that do not lodge financial statements with ASIC, for example corporate limited partnerships, corporate unit trusts and public trading trusts.

The parliamentary debate on the change highlighted that many large proprietary companies currently lodge special purpose financial statements with ASIC, and questioned whether some of these should be general purpose financial statements. Many private companies who already lodge financial statements will also need to consider whether they are a reporting entity or not in light of this debate.

When do these disclosure requirements apply?

The amendments become effective for income years commencing on or after 1 July 2016.

They apply to the entity’s financial year that most closely corresponds to the relevant income year. For example, if an entity has a year ending 31 March for both tax and accounting purposes, the new requirement will first apply to the financial year commencing on 1 April 2017.

However, as the current (i.e. FY16) financial year comparatives will also likely be required, these new reporting requirements need immediate attention.

Read more about the new financial reporting requirements here:

Article 6

Creating a roadmap for exit readiness

Creating a roadmap for exit readiness

With a record number of private businesses having recently been sold or listed on the ASX, business owners are more focused than ever on how to maximise shareholder value during exit.

At a recent PwC Master of Business session, private business owners from a range of industries came together to examine key learnings from an exit readiness roundtable hosted by PwC Private Clients and BRW, and to hear key insights from leading from local businesses who had gone through an exit event.

Exploring PwC's 10-point to-do list for exit readiness, host Andrew Cloke, Partner, Transaction Services, emphasised the fundamental rules that underpin any successful exit: take your time and do your homework, accentuating the need to shape a business within the context of a considered exit strategy, in order to maximise its value and attractiveness to specific potential buyers.

All three panel members' insights aligned closely with the roundtable findings, with each emphasising the need to gain a comprehensive understanding of industry dynamics and to be prepared for swift action in response to an exit opportunity.

The first panel member to address the audience was Brad McCarthy, CFO and COO of Parnell Manufacturing. McCarthy shared learnings from his experiences leading the $50m IPO of the Parnell Manufacturing on the NASDAQ Global Markets in June 2014.

His primary advice to businesses during preparation was to professionalise the business by optimising the corporate structure, assembling a respected board, formalising related party transactions on an arm's length basis, and bringing in skilled senior management to take the company forward. He also expressed the importance of engaging respected advisors early in the process.

"We brought PwC on as our auditors four years prior to IPO," McCarthy said. "We worked closely together on improving our financial results, financial reporting and financial systems. When we went to IPO we were told it would take six months to do our initial filing. We did it in two, because we were so well prepared."

McCarthy stressed that preparation was also the key to balancing power during valuation negotiations. He encouraged businesses to develop comprehensive and justifiable financial forecasts, identify potential synergies and be ready to articulate business drivers in order to validate claims of future profitability.

"There's nothing more powerful when sitting around the table with a potential buyer than presenting hard numbers. Giving them the metrics and drivers behind your story show that you've really done your research."

He also recommended businesses look outside Australia when it comes to seeking potential investors. In the case of Parnell, they discovered after 9 months of pitching to local investors that the animal health care market was simply not mature enough. This prompted them to seek support in the US, where they found a far more receptive audience.

Mark McConnell, serial entrepreneur and angel investor named 2006 Canberra Entrepreneur of the Year and featured on the BRW Rich List in 2004, recommends that any business owner considering exit should begin by asking "Why am I selling?" and "What problem will my business solve for an acquirer?"

He said that any exit strategy had both pros and cons, and that understanding the motives of both seller and buyer was central to choosing the appropriate strategy.

> *Any exit strategy has both pros and cons, and understanding the motives or both seller and buyer is central to choosing the appropriate strategy.*

McConnell told the audience that "any business is only worth what someone is prepared to pay for it", and that the dispassionate use of proxy valuations could be an important tool in encouraging buyers to recognise value. Reinforcing McCarthy's advice, he expressed the importance of professionalising the business in readiness for a sale or IPO by optimising the structure of the organisation, its board and its management, and the value of engaging top tier advisors early in the process.

"The investment you make in an auditing partnership is something that will pay you back in spades, because it gives the market confidence," McConnell said. "Half the due diligence is done when potential buyers see a tier 1 company as your auditor."

Lisa Foster, a director in PwC's Family, Business and Wealth team, specialises in supporting high net worth individuals and families through the cycle of building, selling, protecting and growing their business and wealth.

Foster's advice focused on the personal aspects of preparing for exit. She encouraged business owners to plan ahead for life after exit, and to give considerable thought to the way sale proceeds would be distributed, reinvested or used to sustain the family.

"With any exit there comes a sense of financial security, but there also comes a new suite of concerns," she said. These largely stem from the fact that your income and lifestyle have been supported by a business that was largely under your control, but are now reliant on market conditions that you can't control."

Foster emphasised that clearly articulated and documented plans for both exit and subsequent financial strategy were crucial to avoiding disagreements and delays during the divestment of a family business.

She encouraged business owners to seek expert advice on the tax-efficient structuring of the exit transaction and to engage a credible wealth manager to support them in the transition from active to passive wealth.

Andy Cloke
Private Clients Partner
and Deals Advisor
E: andrew.cloke@pwc.com
T: +61 (2) 8266 3524

Alan Elliott
Private Clients Partner
and Deals Advisor
E: alan.elliott@pwc.com
T: +61 (3) 8603 2378

In the news:

19th Annual Global CEO Survey

Private Companies View

Old-Style strengths, new style challenges

PwC's Private Companies view of the 19th Annual Global CEO Survey ***- Old-style strengths, new-style challenges*** explores the views of 848 CEOs of private companies in 79 countries. We look at how the views of CEOs of private companies vary from their public equivalents across three interrelated perspectives of progress, perceptions, and people.

Click here to view the report:

PwC Next Generation Survey 2016:

The Female Perspective

To mark International Women's Day, ***The Female Perspective*** is a special edition of the upcoming Next Generation Survey which explores the views and experiences of female next generation business owners working in family businesses to assess how well they're represented compared to male next gen. PwC interviewed 73 female next generation business owners in 25 countries who shared their plans for the future and the unique challenges they face working in the family business.

The report is available here:

***Liz Westover** is our new superannuation specialist within our Private Clients team*

Check out her superannuation blog on LinkedIn