

OED: *Rumination*. 1. Contemplation, meditation. b. Pl. Meditations, thoughts, reflections. 2. The act of chewing the cud.

In-Context Finance

An Intelligent Approach to Finance

RAISING MONEY FOR SMEs

By Siu Ling Hui

You have a fantastic business idea. You've undertaken a 'proof of concept'. The results indicate that there's great market potential for your business model. However, to take the business to the next stage, you need funding.

So how do you fund the development of your business model? Your personal resources aren't sufficient. The banks have declined your proposal (and their refusal may well be a blessing in disguise – see "Debt or Equity?" on page 3).

In fund raising, you have the choice of one of two avenues:

1. **Personal Offers**, being small scale offers made pursuant s. 708 of the Corporations Act 2001. This is an affordable and quick avenue of fund raising as it does not require a registered disclosure document. However, you are limited to total of \$2 million fund raised and 20 "excluded" investors per year (generally referred to as the "20/12 Rule").
2. **Offers Made Under Disclosure** ie with an Offer Information Statement or Prospectus. This involves lawyers, accountants, experts report, and other advisors. It is an expensive process. There won't be any change from \$100,000 + and that's before you even raise a cent. And if plan to list on either the National Stock Exchange (NSX) or the Australian Stock Exchanges (ASX), the costs will ratchet even faster.

Fund Raising under s. 708 of the Corporations Act 2001.

Many businesses attempt to use this provision of the Corporations Act 2001

to raise funds. It LOOKS like a quick and cost effective way of raising funds. But like all things, the devil is in the detail.

There are very prescriptive rules around raising funds without a registered disclosure document. You must get it right in every respect.

Do not fall foul of any of the rules unless you wish to have "interesting discussions" with ASIC (Australian Securities & Investments Commission) and:

- (a) pay **fin**es of up to \$22,000 for individuals and up to \$110,000 for companies; and
- (b) spend **5 years** behind bars, and
- (c) have your company **wound up**.

Don't try a DIY job with fund raising under s.708: it could turn out to be a very costly exercise—financially and personally.

If your business has good prospects, then fund raising via a listing on the **Australian Small Scales Offering Board (ASSOB)** platform could allow you to achieve your growth objectives whilst limiting your exposure to potential offences that carry severe penalties.

The Australian Small Scales Offering Board (ASSOB)

A potted history: ASSOB was conceived over 20 years ago by its founding Chairman Tony Puls to find a way for SMEs to access private capital without the prohibitive expense of full disclosure to raise funds followed by a listing on a stock exchange. He worked with the corporate regulators for creation of some concessions within the Corporations Act. Finally in

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Editor's Note:

Welcome to the September 2009 edition of Ruminations.

As promised in last month's issue, this issue provides information about fund raising using the ASSOB platform.

In-Context Finance became a member of the Australian Small Scales offering Board (ASSOB) in August and your editor is an Accredited Sponsor and accordingly can assist SMEs with fund raising.

In the August issue, I referenced a live "turnaround financing" project that I was working on. I am delighted to announce that my client has achieved the full support of his banker for the turnaround financing. This financing involves a much needed significant increase in working capital facilities.

The process involved a rigorous due diligence review by the Bank's appointed accounting firm of the financing proposal and associated financial model developed by In-Context Finance. The successful outcome speaks for itself. I should also note that prior to In-Context Finance's involvement, my client has been consistently told by his accountant that the bank would never support any increase in financing for the business!

If you are facing financing issues and you believe you have a sound commercial case as to why your bank should support you, speak to us. We are happy to provide an 'no charge' initial review and assessment of the likely outcomes and suggest possible alternative solutions.

I wrote about the importance of 'bean reading' last month. Watch this space for news on a highly effective workshop program for bean reading.

Please do not hesitate to contact us if you want more information about any of the matters covered in this or previous issues of Ruminations.

Siu Ling Hui

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May 1997, ASIC issued a Class Order exemption and ASSOB was formed to operate as a platform to assist SMEs to originate, aggregate and trade unlisted securities.

Today, ASSOB is one of the largest introducers of private investment to early stage, high-growth companies through its network of accredited Sponsors.

To find out more, visit www.assob.com.au. Please note that you will have to register to access the site.

Benefits Of Using ASSOB For Fund Raising

Firstly it should be emphasised that ASSOB does not raise funds for you. It is not a Stock Exchange either. [Note: Stock Exchanges don't raise capital—they trade securities that have already been issued by a company ie “secondary sales”.]

ASSOB operates a platform that facilitates the origination, aggregation and sale of securities in unlisted companies. The platform supports both primary issues and secondary sales.

ASSOB works s. 708 of the Corporations Act 2001 and specifically ASIC Class Order 02/273. This Class Order provides key benefits for companies raising funds using ASSOB, including:

- **Cost effectiveness**

You do not need disclosure documents such as a prospectus, experts' reports etc. The fees associated with “listing” on ASSOB are significantly lower than NSX, ASX etc.

- **Ability to raise up to \$ 5 million under the 20/12 rule before having to go to full disclosure**

If you were to go it alone, you will be limited to \$2 million under the 20/12 rule ie you will need to move to full disclosure much earlier in your development stage.

- **Shareholder spread**

You will be able to reach a wider pool of potential investors than if you were doing it alone. You don't have to give control to a single investor who may demand onerous potentially dilutive terms and conditions as may be the case with venture capital funds, business angels or (sophisticated/professional) private investors.

- **Support & Credibility**

Conditions for listing on the ASSOB platform does require that a company have in place a strong experienced Board, capable management team, good governance practices and all the other business disciplines that should be in place to ensure sustainable growth of the business in the long term.

If these are not already in place, they can be put in place as part of the preparation for an ASSOB listing. Think of it as 'training wheels' for the “big bang” in the long term.

- **Potential investor liquidity via secondary sales**

It is extremely difficult for investors in unlisted companies to sell their shares prior to a major liquidity event such as trade sale, IPO (Initial Public Offering) etc. By listing on ASSOB, your investor has a “market place” to sell all or part of his/her shareholding (whether to realise gains or as a matter of need for liquidity due to personal circumstances). It doesn't guarantee liquidity—you still need a willing buyer on the other side. (Shares listed on the major stock exchanges aren't necessarily liquid either. Take a look at the trade volumes of some of the small cap companies on the ASX - some have virtually no turnover not to mention bid-offer spreads that you could drive a truck through!)

Getting Your Offer Listed On ASSOB

You have to engage the services of an Accredited ASSOB Sponsor to list your offer on the ASSOB platform.

A Sponsor is provided certain exemptions from the fund raising provisions of the Corporations Act. By appointing a Sponsor, you/your company is also covered by these exemptions.

The exemption also allows—under certain conditions -for your offer to issue or sell securities in your company to be advertised in ASSOB's subscription-based publications.

In-Context Finance is a member of ASSOB and Siu Ling Hui is an Accredited Sponsor. We can take you through the process of an ASSOB listing.

Contact us today about your fund raising requirements.

In-Context Finance

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In-Context Finance specialises in assisting businesses with the two key issues of all businesses: Money and People.

We are Melbourne-based with extensive national and global strategic alliances. We can assist in getting you the right industry or functional expertise for your business.

Contact us today for a free no obligation 2 hour review .

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DEBT VS EQUITY

Debt financing has been getting some pretty bad press of late. However, to demonise debt is to throw the baby out with the bathwater. The real discussion should be about “optimal capital structure” for a business: this structure will differ according to the stage of maturity of the business.

Debt is “cheap” relative to equity. This is a function of risk and reward as illustrated in the diagram below. Quasi-debt and Quasi-equity are broadly known as Mezzanine finance.

SENIOR DEBT	LOWEST COST, priority (if secured) or equal (unsecured) with other creditors claims on assets in liquidation
QUASI DEBT	
QUASI EQUITY	
EQUITY	HIGHEST COST; ranks last in line in liquidation

Debt financing is also known as financial leverage. “Leverage” is defined in the Oxford English dictionary as follows:

Leverage (noun): The power of a lever; the mechanical advantage gained by use of a lever.

Leverage (noun) - figurative: Advantage for accomplishing a purpose; increased power of action.

Debt increases the “power” of a given amount of equity: you are ‘renting’ someone else’s money to make money but without having to share the profits that are (hopefully) generated. In addition, interest on debt is tax deductible (whereas dividends are out of after tax profits).

Financial leverage has (and continues) to be widely used by successful businesses/individuals to grow wealth but all these parties fully recognise the character of debt: **a good servant but a bad master.**

In simplistic terms, an “optimal capital structure” means a mix of debt and equity financing that balances the increased financial risk of the business that arises with debt financing whilst maximising returns (dividends and capital growth) to shareholders for the funds they have invested.

A company in early stages of commercialisation doesn’t have the stability of cash flow to feed the unyielding demands of debt service. You HAVE to pay interest, and meet principal repayments, come hell or high water or there will be tears before bedtime (or at least in front of your bank manager). So if your business hasn’t reached a stage of sustainable recurrent cash flows, thank your bank manager for declining your request for debt finance!