



# Family Business News

A newsletter for the family business sector

## Introduction

Welcome to the eleventh edition of Family Business News.

Family Business News addresses issues relevant to the family business sector including communication, change management, employment and issues surrounding the transfer of the business to the next generation.

This edition focuses on finance and capital raising strategies, the results of the National Family Business Awards and important events for 2008.

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## Financing & capital raising strategies in the face of the credit crunch

*Kim Batchelor, Director, Private & Entrepreneurial Clients, BDO Kendalls*

In the face of the current credit crunch, businesses are likely to encounter some obstacles in regard to financing and capital raising. Sources of finance are shrinking as a result of the US sub-prime mortgage crisis. As a consequence, raising funds is now a far more onerous exercise than we have experienced in recent times.

The lack of liquidity in the banking system has also resulted in an increase in the cost of funds. Non-recourse loans will most likely dry up and not be as readily available until liquidity in the banking sector returns.

Strong banking relationships are unlikely to guarantee favourable borrowing arrangements. Borrowers can expect stricter application of loan covenants when bank reviews are conducted on existing facilities. In addition, banks are also unlikely to lend unless there is an exit strategy available to them.

In general, we can expect some difficulty in obtaining borrowings which cannot be supported by cash flow to fund the debt repayments.

So what can a business do in order to combat these changes in the current lending environment? Some suggested tips and alternatives include:

### **Alternative sources of funding.**

Consider if funds can be raised from initiatives such as:

- Debtor financing. The quality of debtors will have a bearing on this form of financing. Most banks have a debtor financing product available and there is no longer a stigma attached to this form of funding. Today's debtor financing is structured such that customers are unaware of the arrangement.

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- Sale and lease back of assets. This may be an option if there are suitable assets available to borrow against (eg new fitout, plant and equipment).
- Issuing equity in the business to other parties (eg management). This is not going to be an option for everyone for a multitude of reasons. There is generally a reluctance to 'selling the farm'. In many instances, there is no other management involved in the business. However, it may present an opportunity to those businesses where succession planning and retirement strategies are on the horizon.

Documentation can be put into place (via Shareholder Agreement) which provides the appropriate protection and contingency mechanisms to give each party the necessary comfort on the financial and non-financial arrangements and exit strategies.

**Deferral of capital expenditure.** Consider deferring expenditure on new assets. Planning for such expenditure should take into consideration the current climate and the long term needs of your business.

**Focus on cash flow.** Spend time developing a comprehensive cash flow model. Depending on the nature and complexity of the business, it is desirable to build an integrated cash flow model which is linked to a forecast Profit and Loss Account and Balance Sheet. Many businesses prepare a cash flow forecast without

linking it to a Balance Sheet which shows the future net asset position based on the cash flow assumptions. This is a dangerous and potentially unreliable practice which may give an inaccurate picture of the real funding needs of the business.

**Speak to your bank** and explore their willingness to fix interest rates and/or convert to interest only repayment options. These initiatives will provide your business with some certainty around debt repayments and will assist with your long-term planning. Keeping your bank informed and providing them with comprehensive, reliable and timely data is also a good habit. It sends the bank a message of responsible financial planning, good corporate governance and should enhance your banking relationship.

**Consider engaging a broker.** If banking relationships are not strong it may be useful to engage a broker who has a strong relationship with bankers. This will often assist in garnering the support of the lender for any loan application. Finding a broker with strong credentials and experience in a similar lending environment will ensure you are presenting your case in the most effective manner.

#### **Author profile**

*Kim Batchelor is Director, Private & Entrepreneurial Clients at BDO Kendalls and provides growth strategy, taxation planning, succession planning, financial accounting and business restructuring advice to individuals, public companies and family businesses.*

## National Family Business Awards wrap up

The Family Business of the Year Awards provides an opportunity for family businesses to benchmark themselves against the best in the country while celebrating the achievements of family businesses, their contribution to our lives, our culture and the economy.

Ms. Thompson, FBA Tasmania Chairman, said "the Awards are given to those businesses that demonstrate a commitment to family business best practice, with entrants indicating their understanding of and commitment to, creating an effective and dynamic family business environment."

### **First Generation winners – Bruny Island Charters**

Rob Pennicott and wife Michaye Boulter started Bruny Island Charters in 1999.

Having together built the business on the foundation of environmental education, preservation and wildlife adventure, Bruny Island Charters has gone from strength to strength over the past eight years.

Today the company employs just under 20 people and is the largest employer on the stunning Bruny Island, Tasmania.

### **Second Generation winners – Petuna Seafoods Pty Ltd**

Founded by Peter and Una Rockliff (where the name originates), Petuna Seafoods is a family owned business which has been involved in the fishing industry since 1950.

Petuna Seafoods has grown to become Tasmania's largest multi-species seafood provider directly employing 140 across its wild fishing, hatchery, farming and processing and sales operations.

### **Third Generation winners – Kuyan Apiaries**

The Fewster family has kept bees in the Gingin area since 1934, though the business was founded in 1966 when Nelson formed NH Fewster & Sons, with his wife and their three sons Colin, David and John. Colin left the business in 1988 and David left in 1994. In 1995 the business' name changed to Kuyan Apiaries and John and his wife Kerry took 100% control.

The family now owners of the largest bee keeping enterprise in Western Australia, are heavily involved in the industry at a local, national and international level.

The Fewster family have also been involved in the education side of the industry, helping write children's books and is a keen supporter of the environment assisting with the rehabilitation and protection of native bushland on their farming properties.

### **Fourth Generation winners – Hawkins Family Group**

The Hawkins Family Group is a diverse range of businesses including Hawkins Road Transport, Moreton Island Ferries, Hawkins Fuels – Truck Stop/Truck Wash and Brick Creek Banana Farm.

Rosalind Shaw heads up the entire group as Chief Executive Officer and the business has a team of 180 staff led by an experienced team of industry professionals.

**Hawkins Road Transport** operates depots in Brisbane, Mackay, Townsville, Tully, Cairns and Richmond and specialise in the handling of fresh produce and general freight.

**Moreton Island Ferries** operate Micat which runs from Port of Brisbane to Moreton Island.

The business provide an array of services such as Catered Beach Events, Adventure Day Trips, 4WD Tours and operates the largest freight business on Moreton Island.

**Hawkins Fuels** - In 2005 the family business purchased the Truckstop at the Port of Brisbane. The facility aims to provide a range of services for drivers, such as washing machines, shower facilities, internet access and a comfortable lounge area, as well as providing nutritious, delicious food for the drivers and workers within the area.

**Brick Creek Bananas** - After many good years of carrying bananas, an opportunity came up to buy a small banana farm on the famous Davidson Road. This small farm has now grown into a business boasting 150 acres of Cavendish bananas under plant.

### **Jason Lee Award winners – The Navarra Group**

The Navarra Group is an independent large size family business owned by Filippo Navarra and family comprising of three venues; Le Montage, Curzon Hall and Conca D'oro event centres.

Filippo Navarra migrated to Australia from Sicily and 10 years later in 1972 opened the first Navarra event centre Conca D'oro.

Filippo's philosophy is quite simple; 'anything is possible with hard work, dedication and belief' and has been carried through all the departments in the Navarra Group.



(Top row, left to right) Bruny Island Charters, Petuna Seafoods Pty Ltd, Kuyan Aiparies

(Bottom row, left to right) Hawkins Family Group, The Navarra Group.

## Diary dates

**FBA The Winning Edge** - 23rd October 2008 (NSW)

**BDO Kendalls Thriving in Tough Times: ensuring you take the opportunities** - 6th November 2008 (WA)

**FBA family EXPO** - 9th November 2008 (ACT)

**BDO Kendalls / ANZ Succession Event** - 12th November 2008 (Brisbane)

**Dealer Group Family Office Congress** - 1st & 2nd December 2008 (VIC) - Contact Paul Salmon 02 9810 7964

Please contact your state representative for more information on 1300 138 991



## Shareholder concerns

### Question

*I am a shareholder in a large family owned company, which has a broad mix of property and business interests. As this business has moved into the third generation of owners, it is represented principally by a cousin consortium. A significant shareholder who is the Executive Director has advised the Board that he wishes to step down from his day to day involvement in the business. He has recommended to the Board that his son should take over his role. His son does not currently work in the business but is a very talented professional who has become a Partner in an international accounting firm. The Executive Director has also recommended that in order to encourage his son to join the business, the company should issue shares to him at no cost and all other shareholders should agree. This has caused very significant concern to the shareholders. Could you please give us your thoughts?*

### Answer

You have not indicated to me whether your family has a Family Constitution, uses a Family Council for communication purposes or whether there is a Shareholders Agreement in place. Judging by the recommended course of action by your Executive Director, I would assume that none of the abovementioned documents or the Family Council Forum exists.

My first observation is that succession is a process not an event. Your Executive Director should have been planning his retirement some ten years ago. The Board should have insisted on the identification of a number of potential succession candidates. In this way, each candidate could have been evaluated, mentored and eventually anointed as the next Executive Director.

I would also see a problem in simply bringing in a family member who has never worked in the business, particularly one who has only worked in a professional services environment. You will most likely find that a significant range of skills are needed that this candidate does not currently have. However, the recommendation is that he be offered the top job.

A large problem will arise if the shareholders accept that their shareholdings be diluted by the issue of the free shares to the Executive Director's son particularly if he does not maintain or increase the level of profitability of the company. In the first instance he could be offered a bonus based on performance rather than being offered free shares in the company. After a time, he may be offered shares to purchase perhaps on attractive terms once the shareholders are comfortable with his performance.

These problems could have been reduced or eliminated if the family and the shareholders had put time into developing a Family Constitution which would deal with acquisition or sale of shares, had practised communication through a Family Council and most importantly, spent time with the company's lawyer in drafting a legally binding Shareholders Agreement. Therefore, the shareholders should express their concerns and not yield to such an unreasonable set of demands.

## We want to hear from you

Your feedback is important to us. If there are any topics or issues that you would like addressed in Family Business News, please send your request through to [marina.skinner@bdo.com.au](mailto:marina.skinner@bdo.com.au)

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