

Join a festival of ideas

Events to connect, learn

VICTORIA'S small businesses have been urged to take time out to attend one of the Small Business Festival's 400-plus events.

Victorian Small Business, Innovation and Trade Minister Philip Dalidakis said the festival, which runs through August, was a great way for businesses to learn and connect with other businesses.

In its 11th year, the festival has a range of Melbourne and country events, workshops, networking sessions and webinars.

"More than 541,000 Victorian small businesses provide nearly half of the state's private sector jobs and contribute a third of the state's output in goods and services — making up 97 per cent of the state's businesses," Mr Dalidakis said.

He said rural and regional Victoria was home to 28 per cent of small businesses.

"They are the heart and soul of many communities."

Mr Dalidakis said the festival, which continues to evolve, attracted more than 39,000 participants last year.

Of those, 79 per cent attended the festival for the first time. Just over two-thirds were females.

The 450 events are free or low cost and will be staged in the city, suburbs and regional areas of Geelong, Ballarat, Bendigo, Great South Coast, Gippsland, North Eastern Victoria, Mildura and Shepparton.

BUSINESS OWNER
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The festival will cover topics from marketing and export potential through to technology and financial management.

It also offers small businesses an introduction to the range of government services available year-round and an opportunity to be inspired by successful business leaders.

"I encourage all small business owners, and those interested in starting their own business journey, to take part in this excellent month of events and networking," Mr Dalidakis said.

Key events include Small Business BIG Marketing — a half-day event dedicated to improving marketing practice — on August 11 at the Melbourne Convention and Exhibition Centre. Futurist Chris Riddell is one of the keynote speakers.

Living in country Victoria, he has first-hand knowledge as to how country-based businesses can use digital technology.

Mr Riddell will join a month-long roadshow visiting Ballarat, Geelong, Bendigo, Traralgon, Warrnambool and Wangaratta.

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Australian Defence Apparel chief Matt Graham with frames used in the company's adjustable packs. Picture: ROB LEESON

BACKING A PROFITABLE CARRY TRADE

A **HOMEGROWN** backpack designed to be adjusted to the needs of the wearer is turning heads internationally.

Designed and made locally by Australian Defence Apparel, the hi-tech adjustable pack was developed for the Australian Defence Force.

But Australian Defence Apparel chief Matt Graham said it was garnering interest worldwide and could have wider uses in the adventure and recreational markets.

He said that about a year ago, the company was challenged to come up with a design for a pack that was adaptable to people of all sizes and heights.

Mr Graham said the pack was designed to be both sturdy and adjustable, ensuring that every soldier was able to move freely.

CLAIRE HEANEY

"The pack fits each individual wearer like a glove, no matter their size," Mr Graham said.

In contention for many innovation awards, the pack is a collaboration between two Victorian companies, led by Australian Defence Apparel senior designer Nick Rassmussen with design input from local industrial design company Cobalt.

It is made from a polymer plastic sourced through plastic injection moulding company KCS in Lilydale.

"We have rolled out 30,000 units to the ADF up until the end of May," Mr Graham said.

He said he had demonstrated the pack overseas and there was some interest from large American

recreational brands as well as defence forces in the US and United Arab Emirates.

Mr Graham said while local manufacturing was generally in decline there was still plenty of innovation in the industry.

Australian Defence Apparel has also developed a covert body armour, which is concealed under a shirt and is used in the law enforcement, defence and security industries. He said the company was filling its first order for the presidential guard in the UAE.

In addition to its defence contracts, Australian Defence Apparel makes industrial clothing, fire suits for state fire departments and it also outfitted the Glasgow Commonwealth Games team in 2014.

Based in Thomastown

with a factory in Bendigo, Australian Defence Apparel began as a government-owned business more than 100 years ago.

Over the years, the company — originally based in Coburg — has evolved and is now a private business and subsidiary of the Canadian-based Logistik Unicorp.

About 120 people are employed in Melbourne and 125 in Bendigo. The Australian Defence Force combat uniforms are made in Bendigo.

Mr Graham said Australian Defence Apparel was the nation's biggest manufacturer of distinctively customised military garments and protective equipment. "We will manufacture and dispatch over one million units this financial year," he said.

Beware lure of 'free' cash flow in aged care investments

MUCH has been written of Australia's publicly listed residential aged care providers of late.

While seemingly a simple business, in which operators provide accommodation and socially imperative care for our elderly in return for a fee, the economics of these businesses are surprisingly complex. Probably the most confusing aspect relates to funding sourced from Refundable Accommodation Deposits (RADs).

Essentially, a non-concessional resident of an aged care facility has an option to post a RAD to pay for their accommodation or a daily fee, known as a Daily Accommodation Payment (DAP). Think of RAD as a



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deposit that you post upfront that is returned upon your exit and saves you from needing to pay the DAP for the time you are a resident.

The concept of a RAD is a great idea. RADs provide aged care operators with funding to support new expansion of facilities.

Indeed, net RAD inflows typically account for a substantial share of reported cash flows from operations in the financial accounts of operators.

Investors also love the idea of RADs, for they provide the operator with "free" capital to

fund new expansion, the earnings of which accrue to shareholders, not the RAD providers. But the question is: is this capital truly free?

From the perspective of a cash cost of funding, a RAD is free. The operator gets the use of the RAD for the duration of the resident's stay and does not pay any interest on this funding. But this does not mean the funding is truly free.

Economists explicitly consider opportunity costs when evaluating economic profit. And so too should investors in aged care operators.

Consider a bed for which the RAD is not posted and, instead, a DAP is paid.

The annual fee payable is calculated as a government-mandated interest rate, currently 6.28 per cent, multiplied by the RAD that would have otherwise been paid. The point is that, for every RAD that is posted, the aged care operator forgoes an amount of annual income for that bed equivalent to 6.28 per cent of the RAD.

This means the RAD is economically equivalent to debt that carries an interest rate of 6.28 per cent per annum. So no, this funding is not economically free.

And what to do with these RAD liabilities when thinking about the enterprise value of an aged care operator?

Some would argue these can simply be ignored.

Consider the 2014 prospectus of Regis Healthcare, widely considered to be a high-quality operator of residential aged care facilities.

It says: "While RADs ... are accounted for as current debt for accounting ... when valuing aged care businesses on an enterprise value basis market practice is to exclude these liabilities."

"This is due to the fact that when the Company repays a RAD on departure of a Resident it is replaced soon after by a new RAD ..."

To exclude RAD liabilities from an enterprise value on this basis is analogous to excluding debt from an enterprise value on the notion

that debt can always be replaced with new debt.

Said another way, imagine a million-dollar property funded 80 per cent with debt.

Even if you think you will always be able to refinance your mortgage with a new mortgage, it does not mean your house is worth only \$200,000. The debt is still there and needs to be added to your equity to arrive at the value of your asset.

Those that fail to account for RAD liabilities may well be underestimating the true enterprise values of residential aged care operators.

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