Skating to the future

New federal grants

BUSINESS OWNER
CLAIRE HEANEY

A START-up trialling anti-cheating software for universities and another building an all-terrain electric skateboard have been awarded more than $500,000 to help commercialise their products.

Working out of the Melbourne Accelerator Program, the grants have been made available under the $11.3 million Federal Government Accelerating Commercialisation initiative.

The Melbourne Accelerator Program is run by Melbourne University's Connect entrepreneur program that operates out of LAB-14 in the former Royal Women's Hospital.

BajaBoard, which is building the electric skateboard for off-road recreational use, has been awarded $264,643 to take the vehicle to the next stage and help it break into local and international markets.

Cadmus, started by university graduates Herk Kailis and Robbie Russo, has received $249,845 from Accelerating Commercialisation.

The University of Melbourne started trialling the software earlier this year and the Sydney and Queensland universities and Queensland University of Technology are due to begin trials soon.

BajaBoard co-founder George Li said the team, which includes James Murphy and Alessandro Noccioli, hoped to have the board to market by early next year.

Mr Murphy came up with the concept because he was disillusioned by the small window of time for people to go snowboarding. The all-weather skateboard should reach speeds up to 55km/h and must be used off-road.

Mr Li said testing of the board was continuing and feedback was being collected before it goes into production.

It will be on sale for between $3000 and $6000 and is pitched at the middle-aged market of buyers who might be interested in a jetski or a mountain bike. "It will be a bit like Tesla. There will be a base model and you can add options," Mr Li said.

Features include child-safety locks, such as a speed limiter to 3km/h.

Mr Li said the grant was originally sought in 2014 but the group needed to fine-tune its business case.

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LET'S CELEBRATE OUR DIGITAL INNOVATORS

VICTORIA's digital innovators are being celebrated in a two-week festival, starting next Monday.

The Digital Innovation Festival includes a program of events across business, government, non-profit and education sectors, which will showcase and nurture local digital innovation.

Victorian Small Business and Innovation Minister Philip Dalidakis will open the festival at the Cyber Security Forum, Thriving in a Digital and Secure Age.

The forum on Monday will highlight "capabilities in digital technology and data security".

It also will look at opportunities for the industry to grow into a global hub of cyber security expertise that will lead to more jobs and new businesses.

Speakers from Australia Post, Telstra and other organisations are scheduled.

vic.gov.au/digitalinnovation

Dog trainer Tim Watson with Elliott, his canine offsider. Picture: JOSIE HAYDEN

How to teach dogs new tricks

CLAIRE HEANEY

FINDING his job in a life insurance claims department unrewarding, Tim Watson was pondering other opportunities.

He was also looking for a new dog. Soon the two challenges overlapped and he had a career goal and welcomed Elliott the labrador.

He enrolled in a course to learn how to be a dog behavioural trainer and by November 2013, he had launched his inner suburban business, Good Dog Behaviour and Training.

Mr Watson set up a Facebook page and got the word out among his friends. His first client was a good friend whose dog had a fear of vet visits.

Other problem dogs have growled around food bowls, been aggressive to other dogs and chased their tails.

Nearly three years on, Mr Watson, 28, says starting his own business has been the best decision. "Social media has been good but word of mouth has been even better. I would get 90 per cent of my business from referrals," he said.

Every day is a little different; he works around clients and at times finds himself working seven days. He also runs occasional workshops which dog owners can attend, without their dogs, to learn new skills.

Like many business owners, the administration and chasing invoices is the least desirable part of the business.

He said while in the US for a conference he came across the Square Reader.

Square, which launched in Australia in March and is co-founded by Twitter founder Jack Dorsey, is a small reader that plugs into a mobile phone. Users are charged a flat 1.9 per cent fee when major debit and credit cards are used.

"It takes a lot of the awkwardness out of the payment process. The difficult discussions at the end of a session are no more, because quite often I've already spoken with people and informed them that I accept card payments," he said.

He also uses QuickBooks Online, which means that he can assess his cash flow at any time of the day.

Red flags fly as lessons from early learning re-emerge

THE SHORT CUT with ROGER MONTGOMERY

MANY years ago I warned investors through articles that a particular company was worth a mere fraction of its then traded price and that it could eventually collapse.

That forecast proved correct when ABC Learning Centres eventually collapsed.

As I examine the results of a company performing the same education role, I wonder if a similar share-price path may transpire.

G8 Education (GEM) recently reported its first-half 2016 results and the reading was not pleasant.

Revenue missed consensus estimates by 4.2 per cent and the earnings before interest and tax margin was 17 per cent against 19 per cent for the previous corresponding period. More concerning was that for centres acquired before 2015, we estimate the like-for-like incremental EBIT margin was just 2.8 per cent despite the fact like-for-like revenue growth for these centres was 8 per cent, thanks in part to a January fee rise.

For centres acquired before 2014, EBIT grew 17 per cent between the first half of 2014 and the first half of 2015.

But for the same centres, EBIT only grew 0.7 per cent between the first half of 2015 and the first half of 2016.

In the first half of 2015 the EBIT of $59.4 million, for centres acquired before 2015, equated to an EBIT margin of 20.7 per cent.

In the first half of 2016 EBIT had only grown by 1.1 per cent to $60 million for centres acquired before 2015 and the EBIT margin had declined to 19.3 per cent.

The increase in revenue between these two halves produced an EBIT increase of only $644,000, or an incremental margin of just 2.8 per cent. Another very significant deceleration.

Part of the reason for the deteriorating margins is a 10 per cent increase in wages, thanks to the imposition of higher carer-to-child ratios from January.

Another interesting aspect to the result was that management did not update its "guidance" from the full-year 2015 result in February 2016, when it forecast double-digit earnings growth.

Given that GAAP earnings declined by 16 per cent in the first half (-3 per cent on an adjusted earnings-per-share basis) achieving a double-digit, full-year result means the second half has to grow very strongly.

In fact the implied second half GAAP earnings per share of 18.3c suggests 11 per cent year-on-year growth, which is optimistic. The market could be very disappointed.

Subtracting the GAAP EBIT of $60 million from Centre EBIT of $68.5 million provides expected corporate costs of $8.5 million for the first half. Performing the same calculation for the 2015 corresponding period, we arrive at corporate overheads of just $2.4 million. Changes of such magnitude are a possible red flag. Another red flag is the resignation of an auditor. In November 2015, HLB Mann Judd resigned as auditor after six years.

If individual centres are suffering from margin compression or contraction, more of the future revenue and earnings growth will depend on acquisitions.

But the rate of acquisitions is slowing. In 2014, the company acquired more than 200 centres. In 2015, that was closer to 50 and in 2016, only nine have been acquired so far — with an expected 12 in the second half.

Finally, in 2014 the company stated the relatively large 2014 acquisition of Sterling was made at 5.8 times anticipated EBIT for the 2015 calendar year.

Sterling cost $228 million and management's anticipated 5.8-times multiple implies an EBIT for Sterling of $39.4 million.

The remainder of the year's EBIT amounts to $33.2 million and the remainder of the funds used to acquire centres was $248.7 million, which implies the remaining centres were acquired for 7.5 times EBIT.

So the company is paying more for acquisitions, there are fewer being acquired and those that have been acquired appear to be becoming less profitable.

We'll leave it for you to watch these metrics.

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