

Welcome to the first edition of AutoTeam Australia's quarterly newsletter. We look forward to bringing you the latest automotive industry news and trends along with business and accounting advice from our team of experts. You will also learn more about AutoTeam Australia and how we work as a team to improve your franchise dealership.

In this edition we discuss Self Managed Super Funds, Strategies to grow your business and Valuation on non-marketable minority interests, along with what AutoTeam Australia means to the member firms.

We welcome feedback and encourage you, the reader, to participate and let us know what areas are important to your business and what you want us to talk about. Email meganbarrow@colledges.com.au.

Megan Barrow, Editor

Who is AutoTeam Australia (ATA)?

Working with fellow professionals with a commitment to the auto dealership industry who love working to enhance outcomes for dealer clients. Ken Rich, Rich & Co

As a member of ATA, our firm is able to tap into a national and international network of specialist resources, which ultimately benefits our clients. George Pantahos, Pantahos & Co

ATA is a way of providing clients with "Big Four" resources from traditional, personal service, accounting firms. Brendan Brooker, LSA Partners

ATA further enhances our firm's credentials as an automotive dealer specialist through combining the resources of all the member firms to provide clients with superior advice that leads to profit and sales improvement. Angelo Sirianni, Colledge's

Stop Press!

The Victorian State Revenue Office recently released a bulletin [Jan 10 D1/10](#) advising LMCTs of the opportunity for voluntary disclosure to comply with their obligation under Sec 231 of the Duties Act 2000, whereby they can remit unpaid stamp duty on vehicles that have not complied with the exemptions.

Please contact your AutoTeam Australia member firm for further information.

Self Managed Super Funds (SMSF)

Self Managed Super Funds (SMSF) have experienced extraordinary growth over the last couple of years as more and more Australians take control of their financial future. There are many benefits of establishing an SMSF, including increased control, greater returns and significant tax savings.

One reason business owners choose an SMSF over a retail fund is for the choice in investment strategies. The typical investment strategy for an SMSF involves a mix of listed shares, term deposits and trusts, but may also involve investments in business real property.

Business real property is defined by the ATO as any freehold or leasehold interest of the entity in real property where the real property is used wholly and exclusively in one or more businesses whether carried on by the entity or not. (Ref <http://www.ato.gov.au/super/content.asp?doc=/content/00138072.htm>) Many business owners are attracted to the idea that the lease repayments made by the business contribute to the retirement savings of the business owners. This may be of particular use to those who are currently

leasing their place of business and are considering buying the underlying freehold. "Business real property is exempt from the rule prohibiting trustees from acquiring assets from related parties." (Ref <http://www.ato.gov.au/smsf/content.asp?doc=/content/00097019.htm&page=8&H8>.) This effectively allows business owners who currently own the freehold of their business premises to transfer the asset to the SMSF without risking the fund becoming non-compliant.

More and more people in the motor trade are realising the benefits of vertical integration and the effectiveness of incorporating a business real property strategy in an SMSF. By establishing an SMSF and using the pooled funds of the members to buy the underlying property, the money that previously would have gone to a third party contributes towards the retirement benefits of the members. The lease repayment expense remains deductible under s.8-1, provided that the repayments are at market value. The GST component of the repayments will continue to provide input credits for the business, provided that the fund is registered for GST.

The lease agreement needs to reflect an arm's length arrangement and should be written as though the property was to be leased by a third party, showing no favouritism to the related party. The SIS Act outlines that investments held by an SMSF are to contain no more than 5% of the total investments in related parties.

One exception to this rule is the investment in Business Real Property, so provided that everything has been established correctly, the fund will remain compliant and members of the fund will benefit from the lease repayments.

The ATO carefully monitors this area of superannuation, so it is imperative that if you choose to implement such a strategy that you seek professional advice and adhere to the requirements of the law. If this is something that you are interested in and would like to know more about, contact your AutoTeam Australia member to discuss how an SMSF and business real property can be a powerful investment strategy.

Brendan Brooker, LSA Partners

Strategies to Grow your Business

Smart business leaders are looking beyond the economic climate and creating a new future for themselves to improve their position in a tightening market. Taking a strategic approach to thinking is critical.

Three key areas you should focus on to ensure your business' continuing success are:

1. Vision: The first step is to make sure that you have a clear vision of how you want your business to look in the future. Make projections of where you want to be in a year's time in sales, customers, staffing, systems, profit, products and services.
2. Competitive Advantage: The next step is to clearly define how you will win within your defined market place. Your definition could be in the form of a "we will win by..." statement.

Do you have a Sustainable Competitive Advantage (SCA) statement? SCA is an advantage that a business has relative to its competing businesses. To be really effective the advantage must be, sustainable, hard to copy, unique, superior to the competition, and applicable to multiple situations. Your SCA will make it clear what areas you need to focus your energy on to be successful.

3. Marketing: Marketing is different to sales, it is about building an awareness and demand for your products or services. Under the heading of marketing you need to review your competitors and

understand the gaps in the market. Marketing collateral includes website, business cards, testimonials, prospect and customer database, and a contact program.

This is not a complete list but describing each of these key elements will enable you to get a clear vision of where you could be in the future.

The rewards of owning or managing a business are great, but there is no easy way to success. The key to survival is to make sure you build an element of fun in along the way.

George Pantahos, Pantahos & Co

Valuation on non-marketable minority interests

It is easy to fall into a mind trap where the valuation of a minority interest in anything of value is merely the relevant fraction of the value of the whole. This article explores why this approach is incorrect when applied to privately owned corporations and trusts.

Valuation of minority interests requires a consideration of the degree of control a minority interest has over the decision making ability of management regarding the future of the entity being valued. Although management control is vested in a board of directors, shareholder power resides in the ability to approve significant management decisions through annual general meetings or special general meetings called in accordance with Corporations Law and the constitution of the company.

In addition to the above, shareholders in privately owned corporations typically additionally agree to be bound by shareholders' agreements which specify certain courses of action on occurrence of certain defined events concerning directors and shareholders. These include death, incapacity and bankruptcy.

If an individual shareholder cannot garner sufficient influence over significant management decisions of a corporation through a shareholding because the proportion of shareholding does not constitute control, the value of such a shareholding is problematical, because the basis of valuation varies with different circumstances. For example, the market value of a business which is conducted by a corporation assumes market values obtainable for assets as if freely sold or traded and may include a premium payable by a purchaser of the business for the going concern nature of the business being acquired.

A further restriction applies to owners of privately owned corporations because there is no formal market for ownership in privately held companies, and even if a purchaser was prepared to acquire such a share, shareholder agreements typically ensure that ownership is retained to the original participating shareholders in the business venture. This control of ownership is maintained through buy back provisions in shareholder agreements.

The intrinsic value of any asset is the net present value of the future cash flows the asset will procure to the owners. The net present value is determined by reference to not only cash flows but the risk attaching to the future income stream giving rise to those cash flows. Therefore the net present value of a shareholding in a privately owned corporation is equal to the net present value of all dividends expected to be received by the shareholder in respect of both past derived distributable profits and expected future profits.

Clearly it is one thing to be presently entitled to such distributions and a quite separate issue to be paid entitlements in cash. After a trading corporation has paid statutory income tax on earned income any remaining income is available to either pay dividends, pay down external borrowings, or finance expansion. There is a limiting factor to the corporation's ability to pay any of these individually or in the aggregate equal to after tax earnings.

Therefore the three critical elements of future dividend streams are the quantum of dividend entitlement, the likely date of receipt, and the holding period risk incurred by a shareholder in waiting for payment.

Mercer (2007) (page 89) has pointed out that there are four factors influencing the value of a nonmarketable minority interest. They include:

- The cash flow received by a nonmarketable minority investor may be less than, or equal to, but may be no greater than the cash flows generated by the business
- The risks faced by the nonmarketable minority interest encompass the risk of the business generating those cash flows
- Inevitably a nonmarketable interest is worth less than the ordinary pro rata share of the business
- There is a logical and theoretical disparity between the value of an illiquid minority interest and the value of the corresponding business

Clearly there is a difference between a non-marketable minority interest and the value of the shares in a corporation which owns a business intended to be sold on an open market. Feldman (2005) (page 91) says that "the size of the discount has been debated, with almost no consensus on how to estimate it or what a plausible range might be".

In his 2006 text book Hitchner has pointed out (page 379) that "for a minority interest in a private company, the term "non-marketable" does not assume that the interest cannot be sold, only that it is unusually difficult to do so under normal circumstances.

Trugman (2002) contrasts control value with minority value by pointing out (page 368) that "having the ability to sell the company is an attribute of control that adds value". Conversely it could be argued that a minority interest has no ability to influence a decision to sell either a controlling interest in the company or the underlying business owned by the company.

Therefore, the valuation of a non-marketable minority interest is equal to the present value of the future cash flows the investment will produce. This requires a consideration of the likely timing of receipt of those cash flows and the risks attaching to them, and that is another matter entirely.

Ken Rich, Rich & Co

References

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Trugman, G.R., in Understanding Business Valuation, Second Edition, American Institute of Certified Public Accountants Inc., New York.

Mercer, Z.C., and Harms, T.W. in Business Valuation, Second edition, John Wiley & Sons, New Jersey.

Hitchner, J.R. in Financial Valuation – Applications and Models, Second Edition, John Wiley & Sons, New Jersey.

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Member firm Colledge's, along with the Victorian Automobile Chamber of Commerce (VACC), submitted to the Australian Government, on behalf of automotive dealers, a paper arguing for the permanent "point-of-sale" exemption to apply to automotive dealerships under the National Consumer Credit Protection Act. To read the submission, along with others, visit [Australia Government Consumer Credit Submission](#).



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