

FLOAT  
WATCH

## Software hopeful a work in progress

LiveHire

ASX CODE: LVH  
SHARES ON OFFER: 50 million  
LISTING PRICE: 20c  
MARKET  
CAPITALISATION: \$40m  
LISTING DATE: June 3

SIMON HERMANN

Australian technology company LiveHire is aiming to list on the ASX on June 3 to accelerate development of its HR software.

LiveHire estimates that the average cost to hire talent in the US is \$4000 as available technology is not efficient enough in an ever-changing marketplace. LiveHire seeks to solve this issue with its Talent Community software, a cloud-based online software application that assists employees with tasks related to human resources and recruitment.

### The commercial potential remains to be validated

The platform is an online ecosystem for employees and employers that automatically matches talent with job opportunities, thus saving cost and time.

The company was founded in 2011 and witnessed early interest for its product, which created a useful "first mover" advantage in the wider HR and recruitment industry.

LiveHire has since secured 38 clients, which has resulted in underpinning its first revenue figures. There is scope for exponential growth as the subscription model is recurring in nature and incrementally linked to the size of the client's network.

Nonetheless, the group does not presently generate sufficient revenue to fund its daily activities and development plans and remains reliant on external capital. The valuation incorporates a certain degree of business success that is not guaranteed. While the company has demonstrated its ability to secure clients, the commercial potential remains to be validated.

LiveHire offers speculative exposure to demand for software in the HR sector. Early growth and existing client network are attractive qualities, while funding and valuation risks present the primary hurdles. The company offers an innovative technological solution to a sector that has witnessed little development to date and LiveWire's cloud-based platform has the potential to generate recurring revenue.

Valuation risks are significant and the listing appears premature as the company has yet to demonstrate revenue momentum.

Simon Hermann is an analyst at wise-owl.com.

Providers are being penalised but residents will pay

JOHN RAWLINGS



In last week's budget, Scott Morrison announced that the government's investment in the aged-care sector would be \$17.8 billion in 2016-17, an increase of 7.7 per cent on 2015-16. Twelve months ago, in the 2015-16 budget, aged-care spending was forecast to be \$14.9bn.

The Treasurer announced that payments to aged-care providers would be cut by \$1.2bn over four years to help curb this predicted blowout in the residential aged care system. Much of the increased funding occurs at nursing homes for residents with complex needs.

Under the budget, the formula for deciding funding levels for patients with complex care needs will be changed, and the rate of indexation of payments for these patients will be halved.

These changes were flagged in the December 2105 Mid-Year Economic and Fiscal Outlook (MYEFO), when the Minister for Aged Care, Sussan Ley, revealed that, to save an original figure of \$472 million over forward estimates, it was cutting subsidies paid to aged-care providers on certain claims in the complex healthcare



GARY RAMAGE

Sussan Ley says the government is cutting subsidies paid to aged-care providers on certain claims

component of the Aged Care Funding Instrument (ACFI).

In a dramatic revelation for the sector, Ley stated that one in eight of the 20,000 claims audited in 2014-15 were deemed to be incorrect or false and that 2015-16 was tracking at one in seven.

With an election looming — and the severity of the action out-

lined (though not widely reported) in MYEFO — there was never going to be further direct action in the budget directly affecting aged-care residents or age pensioners.

But it is important for investors and savers to understand the changes the budget put through for the aged-care sector. Put simply, the government is trying to

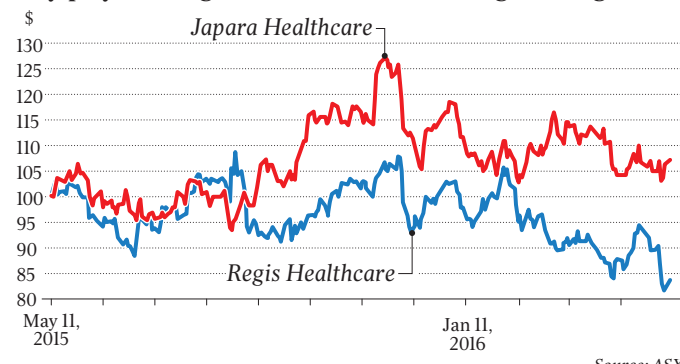
hold back the rapid rise in aged-care funding by punishing the providers for the blowout — the audit results gave them the ammunition.

The number of people in permanent aged care in Australia is expected to triple in the next 35 years, from 225,000 today to 700,000 in 2050. This is a con-

cerning trend for a government that must pay for much of the cost. The turnover of residents is also significant, which adds to the administrative burden; a man entering aged care lives on average for 2.1 years, while a woman entering aged care lives on average for 3.2 years.

However, by effectively penal-

Key players in aged care must absorb budget changes



Source: ASX

ising all aged-care providers for the sins of a small percentage, pressure is created on the funding models of some groups in the sector who will struggle to absorb the cuts. Included in this are the not-for-profit aged-care providers who run a significant number of the aged-care facilities.

The two largest groups of providers are the not-for-profit aged-care facilities and large corporates such as ASX-listed Regis, neither of which will allow the cuts to affect their bottom lines. Ultimately, there will be more of the on-going pull-push of who pays for aged care — the residents, the facilities and the government.

The residents will inevitably wear the cuts, although that might take a little time to filter through in higher Refundable Accommodation Deposits (RADs), higher extra services fees and higher capital refurbishment fees.

What else will be likely to change in the aged-care sector?

• More corporates will enter the sector. They will want a return on their investment, so resident fees will be affected accordingly.

• The means test will probably

change to force those with funds to take more responsibility for their aged-care fees.

• Today, those with few assets can get government subsidies into aged care, while those with lots of assets simply pay their way in. The people in the middle — the so-called middle class — are caught out, and can find it challenging to find a nice place to live. In some new facilities the cheapest rooms are \$1.1 million while the most expensive rooms are \$1.6m. Not many people have this sort of money, and a lot of people are being priced out of the market.

• The increase in property prices is affecting aged care. Groups building aged-care facilities are having to pay more for land and buildings, which inevitably gets passed on to residents. Residents who sell their houses to finance their entry into aged care are benefiting from higher house prices. Those who don't have a house to sell will place greater demand on concessional spots.

John Rawling is a consultant at Joseph Palmer & Sons, aged-care specialists.

## Structure the key after budget super changes

MONICA RULE



duction for personal contributions without the need to meet the "10 per cent rule".

The government will continue to offer a non-refundable tax offset on tax paid on concessional contributions by SMSF members with adjusted taxable incomes up to \$37,000.

SMSF trustees need to be aware that in order to receive the tax concessions, their SMSF must comply with the legal structure of an SMSF.

This is something that will remain constant and no budget measure will ever change this. Separately, it is worth always keeping in mind that the structure of your super savings is important. Most changes announced in the budget relate to individuals.

Today, I want to pay particular attention to funds where, sadly, a framework that began as an arrangement for a couple reverts to an individual situation, following the death of one member.

During my 30 years in the super industry, I have often come across SMSFs where the fund only had one member. Most of these funds originally had two members.

Unfortunately, due to the death of one of the members, the two member fund became a single member SMSF.

Typically, I have found in an SMSF that consists of a husband and a wife, it is the husband who operates the fund and makes all the decisions. Then, when the husband dies, the wife is left with the SMSF and is unsure of what to do next. It is also not uncommon that the SMSF continues on with

only the remaining member due to the member lacking awareness of the law. That's fine if the trustee is a corporate body, but if the couple have been operating the SMSF as individual trustees, that's a problem.

The remaining member may not be aware of all the requirements of operating an SMSF, which include the need for the SMSF to lodge an annual income tax return with the Tax Office. The reason I mention lodgement is because, had the member approached the SMSF's accountant for the preparation of the tax return after the husband's death, the accountant would be in a position to inform them of the need for the SMSF to maintain its status as an SMSF.

So while the grieving spouse is dealing with grief, the SMSF continues to exist without actually satisfying the legal structure of an SMSF under the super law.

If an SMSF is established under an Individual Trustees structure (which 90 per cent of them are), then an SMSF with only one member must have two individual trustees, where the sole member is one of the trustees and the other trustee is either a relative of the member or someone else, where the member is not the person's employee.

So in a typical case following the husband's death, the wife will need to appoint a family member or someone else as the second trustee. The super law requires the appointment of the second individual trustee to be done within six months of the event that caused the SMSF to no longer sat-

isfy the legal structure of an SMSF.

If the remaining member cannot find another person to act as the second trustee, they could restructure their SMSF into a corporate trustee structure where they become the sole director of the company that acts as the corporate trustee. The remaining member could also either convert the SMSF into a Small APRA Fund with an independent approved trustee, or roll their super entitlements into a retail super fund and wind up their SMSF. Of course, transferring super savings to a retail super fund may require SMSF assets to be sold.

While the super law does allow the Tax Office the discretion to allow a super fund to remain as an SMSF beyond the six month time frame, I don't recommend that people sit on their hands and do nothing. In any case the remaining SMSF member will need to seek approval from the ATO for it to exercise its discretion and there is no guarantee that it will.

I can't emphasise strongly enough how important it is to involve other members of your SMSF in its management. If they have a basic understanding of the super law it will relieve them of the additional burden of financial uncertainty when you are no longer around to manage your SMSF.

Monica Rule is an SMSF specialist and author of *The Self Managed Super Handbook — Superannuation Law for Self Managed Superannuation Funds in Plain English*.  
www.monicarule.com.au

## Forget Canberra, it's rate cuts that matter to small cap investors

RICHARD HEMMING



Forget the 2016 federal budget. The big news for small-cap share investors is that the Reserve Bank has cut interest rates by a quarter of a percentage point to 1.75 per cent.

The RBA's cut to record lows reflects an understanding that there is no magic bullet in the real economy.

The authorities have to use whatever weapons are left in the armoury of monetary policy.

It's all about the currency but, really, there is not much that can be done there.

Australia's economy is still too strong to win any race to the bottom, which might lead to an export-led revolution.

Don't take my word for it. A work colleague in the biggest economy in the world said that CNBC led with the story because of its global significance, being a market that supplies China with hundreds of millions of tonnes of iron ore and coal. The opening paragraph read:

"The (RBA) jolted financial markets by cutting interest rates to a new record low, as the central bank strives to counter the ad-

verse economic impact of feeble inflation." As a sharemarket investor, the point to digest is that Australia's official interest cut is of big significance to sections of the housing market exposed to mining, namely Queensland and Western Australia.

What does it all mean?

In the mining context, when you don't have a job you tolerate it for six months, and then after that you might work out that you're never going to get a job.

Everyone else has worked this out as well. You end up having to sell your house for \$300,000, instead of \$600,000.

**The RBA's cut to record low rates reflects an understanding that there is no magic bullet in the real economy**

It has been three years since peak commodities prices, but only one year since people realised this. Queensland Nickel went into liquidation late last month having incurred debts of \$771 million.

This is despite the fact that the company probably hasn't been profitable since the nickel price collapsed more than 80 per cent between April 2007 and late 2008, and hasn't really recovered

since. (It's just above its late 2008 levels.) In contrast to the issues for miners, housing stocks have key issues in their favour — such as ever lower interest rates. But then again they must operate in areas where the miners still create a drag effect.

One company I have supported consistently is residential property developer Villa World. About 85 per cent of its sales and 65 per cent of its land is in Queensland.

It's a nice Australian company fulfilling less than 1 per cent of the national housing need. It is yielding 9 per cent and it is making money.

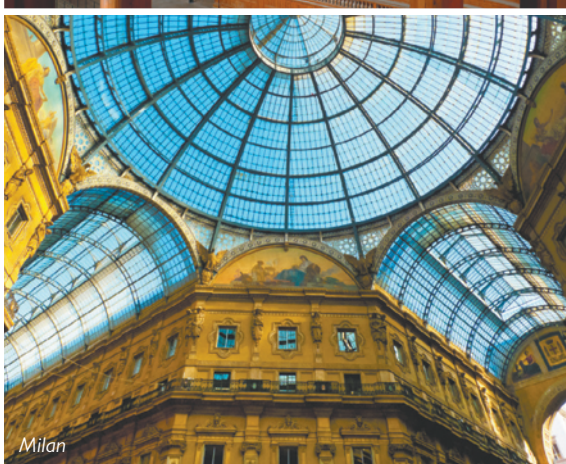
It's a simple business. At its half-year result it increased the dividend expectations from 16c for this year to 18c.

But because the economy is so weak, it has affected people's confidence in that 9 per cent yield being sustainable.

This company has strong management and a good business model. But the fact is that the mining downturn is sharper than anyone thought.

In the stockmarket, battling the wealth effect when it's going the wrong way is tough.

Richard Hemming (r.hemming@qundertheradarreport.com.au) is an independent analyst who edits [www.undertheradarreport.com.au](http://www.undertheradarreport.com.au), which provides investment opportunities in small caps.



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