A practical guide for entrepreneurs and executives of Angel-backed businesses

Reporting guidelines and principles
Foreword

“Angel Investors are proactive in assisting their portfolio companies grow and succeed. Regular updates from portfolio companies help Angels identify opportunities to contribute experience, expertise and networks to support tactical and strategic execution.”

Jordan Green, Chairman, Australian Association of Angel Investors

“The leaders of private business are perfectly suited to Angel Investing. Often from humble beginnings, these founders understand the real value of creativity, tenacity and established business networks – using experience, these attributes are handed down to budding entrepreneurs with the manner and effect of real currency.”

Rob Bazzani, National Managing Partner, Private Enterprise, KPMG
Angel investing is pivotal to the entrepreneurial ecosystem and is often the earliest source of outside financing, particularly for high-technology or high growth start-ups.

Angel investors are sometimes referred to as Business Angels or simply Angels. Angel investors are financially secure individuals looking for investments with potential for high returns. Angel investors often work in groups where they invest individually or in a syndicated transaction. Angels comprise active and passive investors, where passive investors rely on active investors to identify prospects, conduct due diligence and oversee investments.

Angel capital is differentiated from other asset classes including venture capital. Angel investors proactively seek to build a portfolio of early-stage investments in rounds of $25,000 to $2 million. The Lead Angel investor is usually located in the same city as the entrepreneur and it is common for Angels to syndicate investments with each other nationally and, increasingly, internationally. The due diligence process is generally thorough, professional and quick. An exit strategy is important with investment hold times of 4 – 6 years being common. Investment terms are usually uncomplicated and designed to create strong alignment with the interests of the founders. It is very common that Angels take an active role in the governance of the companies in which they invest.

Given the nature of engagement between Angels and start-up companies, KPMG recognises a number of barriers that both the Angels and entrepreneurial businesses experience during the journey. KPMG has collaborated with the Australian Association of Angel Investors (AAAI) to develop A practical guide for entrepreneurs and executives of Angel-backed businesses: Reporting guidelines and principles to facilitate and prepare both Angel investors and entrepreneurs to foster greater success in the early-stage ecosystem.
The growth of Angel investing (both informal and organised) together with the emergence of crowd-based equity funding makes now a pivotal time to provide reporting guidance for early-stage, high-growth companies that have attracted third party seed investors. Ensuring investors are informed and engaged increases the quality and value of their support and contribution toward the success of the business. Providing entrepreneurs with an appropriate framework to follow relieves them of unnecessary stress and optimises the application of time and funds toward the growth and success of the venture.

This document provides guidance on investor reporting guidelines and principles for privately funded companies. The guidelines are voluntary and principles-based rather than rules-based, encouraging entrepreneurs to ‘do their best’ with respect to reporting rather than be fearful of non-compliance. These guidelines are based on good professional management and assume most information will be to hand as part of the routine management of the company through normal reporting tools. The expectation is that the reporting burden can be optimised using automation.

Effective and timely reporting can unlock significant benefits for the company. Entrepreneurs rarely know all the ways in which their investors can help. Angel investors provide proactive assistance but, even then it can only be properly focused when the needs and progress of the business are known. Optimal reporting is a combination of narrative and metrics as neither has much meaning on its own. A well-written, succinct narrative provides context, explains the changes in execution and keeps the relationship personal. Clear, well-presented metrics highlight performance, challenges and inflection points.

Companies often require additional investment and, typically, approach existing investors initially. Second round investments are often not as profitable for the investor as the first round, therefore investors are cautious when asked to invest again. First round investors may not receive regular information relating to the performance of the company and can be surprised at how quickly their funds are used in the business. When a company meets its milestones and achieves growth as predicted, investors are more likely to support the business. In both cases, diligent and regular reporting to investors can help to enhance communication and is more likely to result in early investors becoming a repeat investor.

A business with an established strategy and business plan are more likely to attract investors. Good reporting shares the evolution of the strategy, the adaptation of the business plan, the discovery of new opportunities and the challenges to continuing success. To avoid any surprises, it is important to communicate open and honest insights to reap the greatest benefits from your early-stage investors.
The ‘Principles of Cooperation’ is a code of conduct for both entrepreneurs and investors to promote a balanced and effective collaboration.

### Entrepreneurs

1. Consistent reporting methods and practices
2. Have the same threshold to share bad news as well as good news
3. Set realistic targets and track performance

### Investors

1. Consistent methods and channels of engagement
2. Clear and constructive feedback
3. Pro-actively share insights and make introductions
4. Keep commercially-sensitive information confidential

### Professional and equitable

1. Treat investors’ capital as if it was your own (hard-earned!) money
2. Treat all investors fairly (regardless of amounts invested)
3. Act in the best interest of current investors and of future investors (as far as practicable)
4. Disclose material, related-party transactions or potential conflicts of interest

### Governance and participation

1. Hold 6 – 8 board meetings each year
2. Invite an investor or non-executive to attend a management or board meeting at least once a quarter (or set up an advisory panel)
3. Prepare a budget annually

### Timely & regular

1. Set a formal agenda (e.g. quarterly reports and annual meetings)
2. Once established, follow formal agenda items as closely as practicable and promptly explain deviations
3. Keep investors up to date: share major news updates, good & bad, on an ad-hoc basis

### Supportive yet fair

1. Use your network to help your entrepreneur
2. Recognise smaller businesses don’t follow a smooth path – there will be bumps in the road and difficult decisions to be made
3. Praise good performance and key milestones
4. Offer assistance to address poor performance and missed milestones
5. Assist the entrepreneur to identify and address weaknesses in the team
Reporting

Reporting is set out against three levels:

**Good**: Basic requirements which all Angel-backed companies should strive to achieve.

**Better**: More advanced reporting; encouraging companies to extract greater value from their investors by providing more meaningful insights and analysis.

**Best**: Optimal reporting level, which represents a benchmark of excellence towards which companies should strive.

The optimum reporting structure will be specific to each individual company. Some behaviours and information may be more important to some companies and their investors than others.

This guide should be used in conjunction with each company’s constitution and shareholder agreement which may include specific reporting requirements and investor consents.

The Business Overview provides the opportunity for a narrative report that addresses the highlights of activity. Key areas to address are matters of strategic importance, changes in the team, achievements and failures, the changing nature of the competitive market space, progress against agreed milestones and updates on core assumptions (validated, updated, wrong).

<table>
<thead>
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<th>Reporting guide</th>
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<td><strong>Business Overview</strong></td>
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| General business activity | Quarterly overview of key areas:  
• Summary quarterly narrative where material activity  
• Team  
• Product  
• Market  
• Customers and sales  
• Opportunities and risks | Quarterly overview of key areas:  
• Summary quarterly narrative  
• Team  
• Product  
• Market  
• Customers and sales  
• Opportunities and risks | Quarterly overview of key areas:  
• Summary quarterly narrative  
• Team  
• Product  
• Market  
• Customers and sales  
• Opportunities and risks  
• Exit |
| Action plan (plan for next period) | Report quarterly | Report quarterly with variance | Report quarterly with variance and revision |
| Key KPIs (1 – 3 metrics key to management of business) | Don’t blindly follow, experience may demand different metrics | Don’t blindly follow, experience may demand different metrics | Don’t blindly follow, experience may demand different metrics |
| **Financial information** | | | |
| Financial accounts (integrated profit and loss, cash flow and balance sheet) | Prepared and reported annually | Prepared annually and reported quarterly | Prepared and reported quarterly audited annually |
| Management accounts (financial performance) | Key figures shared quarterly | Key figures shared quarterly & compared to previous period | Key figures reported quarterly; including variance to budget & compared to previous period |
| Financial information | Forecasts (estimates) prepared annually  
Profit and Loss | Budget prepared annually, summary shared within 30 days of year end  
Profit and loss plus cashflow | Prepared annually; summary shared within 30 days of year end. Profit and loss plus cashflow and balance sheet  
Reforecast after 6 months if performance materially different |
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<tr>
<td>Capital table</td>
<td>Prepared and circulated at time of investment</td>
<td>Updated and circulated immediately after each subsequent investment transaction or change in shareholdings</td>
<td>Prepared and circulated with share class breakdown and key rights/provisions including a fully converted equivalent every 6 months without an investment transaction.</td>
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<td>Position in bank</td>
<td>Report quarterly</td>
<td>Report quarterly with variance to budget</td>
<td>Report quarterly with variance to budget and impact assessment</td>
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<td>Monthly cash burn</td>
<td>Report quarterly with comparison to last period</td>
<td>Report quarterly with comparison to last period and with variance to budget</td>
<td>Report quarterly with comparison to last period, variance to budget and forecast trend</td>
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<td>Estimate of runway and capital requirement</td>
<td>Report quarterly forecast annually</td>
<td>Report quarterly forecast quarterly</td>
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<td>By exception if material</td>
<td>Analysed and reported quarterly</td>
<td>Analysed monthly and reported quarterly</td>
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<td>Capital commitments and long term liabilities</td>
<td>Ad hoc for every material change</td>
<td>Report status quarterly and ad hoc for any material change</td>
<td>Reported status quarterly and ad hoc for any material change with relevant risk assessment</td>
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<td>Quarterly headcount summary. Material new hires and losses reported ad hoc</td>
<td>Quarterly headcount summary with variance to budget explained. Material new hires and losses reported ad hoc.</td>
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<td>Material changes to service contracts</td>
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<td>Reported ad hoc for senior executive team and key staff</td>
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<td>Reported ad hoc for senior executives and IP creators</td>
<td>Reported ad hoc for senior executives and IP creators including legal risk assessment</td>
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<td>CEO – founders, active investors and board</td>
<td>CEO – founders, active investors, board and management team</td>
<td>CEO – founders, all investors, board, management team, key advisors – senior team, advisory board</td>
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<tr>
<td>Feedback</td>
<td>Facilitate feedback from founders and active investors</td>
<td>Encourage feedback from founders, active investors, board and management team</td>
<td>Encourage, facilitate and share feedback from all investors, directors, management and key advisors against quarterly reports</td>
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<td>Shareholders agreement and constitution</td>
<td>Ad hoc reporting of compliance with key terms</td>
<td>Ad hoc reporting of compliance with key terms complemented by annual summary report including any failures to comply</td>
<td>Ad hoc reporting of compliance with key terms complemented by quarterly summary report including any failures to comply and related risk assessments.</td>
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<td><strong>Governance</strong></td>
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<tr>
<td>Functioning of the board and advisory panel</td>
<td>Report annually the number of board meetings, attendance, major issues raised or resolved &amp; status of exit plan</td>
<td>Report quarterly the number of board meetings, attendance &amp; major issues raised or resolved; the number of committee meetings, strategic initiatives &amp; status of the exit plan</td>
<td>Report quarterly the number of board meetings, attendance and major issues raised or resolved, the number of committee meetings, attendance and strategic initiatives, assessment of board performance and status of exit plan and exit value drivers</td>
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## Regulatory filings

The following is a selection of the most common recurring regulatory obligations a company may experience. This is not an exhaustive list and each company must assess the particular regulatory filing obligations that apply to it based on form of incorporation, operational jurisdictions, sector or product specific regulation and operational activities.

Status and compliance with filing obligations should feature in periodic reporting to shareholders.

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<tr>
<th>What</th>
<th>When</th>
<th>Details</th>
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<td><strong>Company tax</strong></td>
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<tr>
<td>Company tax return</td>
<td>Usually by 15th day of the seventh month following the end of an income year. However, this may change in certain circumstances, depending on revenue levels, compliance history and extensions granted.</td>
<td>30 June year end, lodgement usually by 15 January the following year.</td>
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<tr>
<td>Pay company tax liability</td>
<td>Balance of annual tax liability usually payable on first day, one month before lodgement and for certain entities may be payable upon lodgement, depending on revenue levels and compliance history</td>
<td>Quarterly or monthly income tax instalments may be payable depending on the level of income generated.</td>
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<tr>
<td><strong>GST</strong></td>
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<td>GST</td>
<td>GST reporting obligations are completed in the Business Activity Statement and are mandatory for all business where actual/ projected annual turnover meets or exceeds $75,000. Business Activity Statements are usually due for lodgement and payment 21 days (for monthly lodgements) or 28 days (for quarterly lodgements) after the end of the reporting period, subject to extensions in certain circumstances.</td>
<td>GST reporting obligation is usually quarterly if revenue &lt; $20M. GST reporting obligation is usually monthly if revenue &gt; $20M. Annual GST reporting is available in only limited circumstances.</td>
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<td><strong>Employment taxes</strong></td>
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<tr>
<td>Superannuation</td>
<td>9.5 percent of base salary payable 28 days after the end of each business quarter</td>
<td>This rate is forecast to rise to 10 percent in July 2021.</td>
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<tr>
<td>Payroll tax</td>
<td>Payroll tax is imposed by each state/ territory of Australia on certain wages paid to employees. Registration is mandatory if Australia-wide wages exceed the threshold in each state/ territory where employees are based. Payroll tax returns are due 7 days after the end of the month and annual payroll tax reconciliations are due by 21 July.</td>
<td>The threshold and payroll tax rates differ in every state and territory.</td>
</tr>
<tr>
<td>PAYG Withholding tax</td>
<td>PAYG Withholding tax is mandatory for all Australian businesses with employees. Withholding tax is levied on employee wages at prescribed rates and remitted directly to the ATO by employers. Most employers report and remit PAYG Withholding tax obligations monthly. The Annual PAYG Payment Summaries are due to employees by 14 July and to the ATO by 14 August. Additional reporting is required if there are any employee share schemes.</td>
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<tr>
<td>Workcover levy</td>
<td>Workcover insurance is mandatory in each state/ territory where employees are based. Employers must provide workcover agencies with an estimate annual wages, which, in conjunction with industry statistics, are used to calculate premiums. Annual workcover declarations are prepared at the end of each year to ensure workcover premiums paid are correct.</td>
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In Australia, KPMG operates across 13 offices with around 5,200 people, including over 380 partners. Our local experience, enhanced by the technical and industry knowledge of our global network, means we bring a deep understanding of our clients’ businesses. It enables our professionals to deliver informed and timely advice.

We provide the understanding, insight and tools to assist business owners navigate the complexities that their businesses face including competitive pressures, resource restraints, innovation and technology, growth and a shrinking global market.

The Australian Association of Angel Investors (AAAI) is a national voice for the early-stage ecosystem in Australia. Established in 2007 as the seminal driver for a national community of private investors skilled and active in early-stage investing, the AAAI has fostered the formation of more than 16 Angel groups in Australia.

The AAAI is the national forum advancing Angel Investors, their professionalism and their passion for investing in entrepreneurial business. Angel investors are the primary source of risk capital for new company growth in the 21st century, they are powering a new generation of entrepreneurs all over the world. Early-stage investors are the persistent element in a dynamic market space. Many of them are also current or former start-up company entrepreneurs.

The AAAI is the only voice for early-stage investors in Australia and is acknowledged by its international peers as a leader. As a core member of the global leadership of the Angel Capital sector, contributing to the harmonisation and setting of best practice standards globally, the AAAI gives members and the companies in which they invest direct access to markets and investors all over the world.

The Association represents and serves the early-stage ecosystem stakeholders, it advocates for change in support of early-stage investment and entrepreneurial, high-growth ventures. It delivers professional education for early-stage investors, keeping its members at the forefront of global best practices for early-stage investment. Experienced members of AAAI can qualify for Fellow status (FAAAI – an international first), distinguishing them as Angel investors of significant and credible experience in the Australian early-stage economy. This assists investors and founders establish relationships based on trust and empirical evidence.

AAAI is a not-for-profit, social enterprise promoting a vibrant Angel Investor and early-stage community and culture. It brings together numerous private individuals and organisations who share the passion, drive and capability to support Australia’s early-stage entrepreneurs.
Angel capital
Angel capital is a private equity asset class in which individuals invest for high order capital returns on equity investments that support rapid value growth, commercial ventures.

Angel investors
An Angel investor is a person who invests his/her own cash in an unlisted growth company for equity or convertible debt as a personal decision with the objective of realising a capital return in the foreseeable future.

Angel group
An Angel group is a collection of individual Angel investors who combine under a common brand with defined rules of membership and conduct to collectively identify, review, select and evaluate Angel investments. Members of an Angel group typically make an individual investment decision for each investment opportunity.

Angel syndicate
An Angel syndicate is the subset of Angels who decide to invest in a particular deal.

Syndication or co-investment
Syndication or co-investment is what occurs when an Angel group, or other lead Angel investor, recruits other individuals, companies, or funds to invest in a deal.

Angel network
An Angel network is a mailing list of potential and/or active Angel investors. This is typically used by service providers to shop deals in exchange for a fee.

Angel fund
An Angel fund is a pooling of money by Angel investors and refers to an Angel group that operates on the basis of one-in all-in for each investment opportunity.

Angel side-car or co-investment fund
An Angel side-car fund or co-investment fund is a pooling of money that provides other investors passive access to the deal flow and investments of the Angel, or Angel group by investing in opportunities alongside the Angels according to a predefined formula or set of rules.
The guidelines and principles outlined in this publication have been formulated by KPMG in collaboration with the Australian Association of Angel Investors (“AAAI”).

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The AAAI provides a national voice for private investors with a passion for investing in and supporting emerging businesses.

www.aaai.net.au

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