Stratagem
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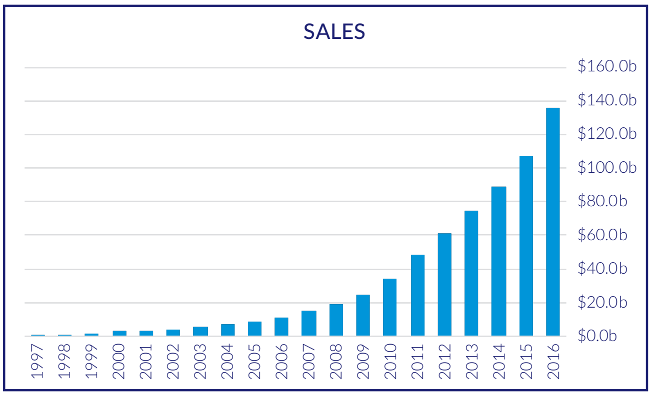
Jeff Bezos makes the right choices

"When you are 80 years old, and in a quiet moment of reflection narrating for only yourself the most personal version of your life story, the telling that will be most compact and meaningful will be the series of choices you have made. In the end, we are our choices." – Jeff Bezos, Founder and CEO of Amazon

Jeff Bezos got the idea to start Amazon over twenty years ago. He came across the fact that internet usage was growing at 2,300 per cent per year. He had never seen or heard of anything that grew that fast, and the idea of building an online bookstore with millions of titles, something that simply could not exist in the physical world, was very exciting to him. Jeff had just turned 30 years old, and had been married for a year. He told his wife MacKenzie that he wanted to quit a very well-paying job at a financial firm in New York City and start this online business that probably would not work since most start-ups do not. She told him to go for it. Today, Jeff is worth more than $80 billion, putting him within $5 billion of the world's richest man, Bill Gates.

Amazon listed on the NASDAQ stock exchange in 1997, three years after its inception. In its first year as a public company, it reported sales of $148 million. Eighteen years later in 2015, Amazon became the fastest company ever to reach $100 billion in annual sales. In 2016, Amazon reported sales of $136 billion, achieving a compounded growth rate in sales of 43% per annum for the period 1997-2016. What makes this even more remarkable is the fact that this sales growth was achieved without raising any additional capital (other than the $49 million it initially raised upon its listing), without borrowing any significant amounts of money and without making any major acquisitions.

In every annual report since 1997, Jeff Bezos has enclosed a copy of his original 1997 letter to shareholders to help investors decide if Amazon is the right kind of investment for them, and to help determine if Amazon has remained true to its original goals and values. How many CEOs of a listed company would be willing to be measured every



year against commitments they made twenty years ago? Not many.

In that original 1997 letter to shareholders, Jeff Bezos stated Amazon's fundamental management and decision-making approach:

"We believe that a fundamental measure of our success will be the shareholder value we create over the long term. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

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Because of our emphasis on the long term, we may make decisions and weigh trade-offs differently than some companies:

- *We will continue to focus relentlessly on our customers.*
- *We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.*
- *We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.*
- *We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.*
- *When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.*
- *We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.*
- *We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.*
- *We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.*
- *We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner."*

Much has been said and written about Amazon's profitability or lack thereof. However, as Jeff Bezos stated in the 1997 shareholders' letter, the focus is on value-creation over the long-term and on investing for growth by extending Amazon's market leadership. Jeff also pointed out that Amazon's financial focus is on long-term growth in free cash flow. It is worthwhile noting that Amazon is profitable and reported $2.4 billion in after-tax profit in 2016 (or $5.01 per share).

How much value has Amazon created for its shareholders? If you had invested $10,000 at Amazon's IPO in 1997, you would have more than $6.5 million today.

All the way back in 1997, Jeff Bezos referred to the term Day 1 in the context of Amazon: *"This is Day 1 for the Internet and, if we execute well, for Amazon…"* He re-visited the term again in the 2016 shareholders' letter to explain what Day 2 looks like and why Amazon works hard to invent to remain at Day 1: *"I've been reminding people that it's Day 1 for a couple of decades. I work in an Amazon building named Day 1, and when I moved buildings, I took the name with me. Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1. To be sure, this kind of decline would happen in extreme slow motion. An established company might harvest Day 2 for decades, but the final result would still come."*

For a number of Amazon's traditional bricks-and-mortar competitors, unfortunately they are at Day 2.

Good financial advice may help more than a pay rise

Research shows 46% of employees worry about their finances and that worry can stop them achieving at work and feeling positive about their job.

It's a statistic that is motivating employers to take action. Improving financial wellbeing among staff was the top employer initiative for just 30% of companies in 2014. That figure has now jumped to 56% according to AON Hewitt's 2016 *Hot Topics in Retirement and Financial Wellbeing* research.

It seems there is both a bottom line benefit and a moral imperative to boost financial wellbeing among employees. Eighty-five per cent of Australian employers say they're focused on financial wellbeing because it's the right thing to do, but almost as many (80%) are motivated by the desire to improve employee engagement. Yet barriers to seeking financial advice remain. Employers may not know a good financial adviser or how to evaluate one. And recent scandals among big bank advisers have understandably put many business and HR leaders off taking that first step. Experts agree people need to be empowered to take control of their financial wellbeing just as they do with maintaining a healthy lifestyle through a good diet and exercise. Fitness programs, fruit boxes and gym passes have long been a part of Australian workplaces, so why not high quality financial advice tools and qualified financial advisers?

Talk to us about running an advice seminar at your workplace to give employees accesss to a reputable financial health check.

Making sense of the Budget super and housing proposals

Two measures of interest announced in the recent Budget are the ability to make contributions to super when downsizing your home and the First Homeowners Savings Scheme.

As is often the case, the Budget papers lack detail regarding exactly how this will work. These details will come out of the consultation process.

Downsizing the family home

The new contributions rules are a reverse of the normal super rules. They allow people who are selling their home to put up to $300,000 for a single and $600,000 for a couple into super, where that person would otherwise be unable to contribute to super. The rule that you cannot make after tax contributions if you have $1,600,000 or more in super already, does not even apply.

The requirements are as follows:

- You are over 65 (no Age Limit)
- You have owned the home for 10 years

Questions left unanswered at this stage include:

- Could this apply if your home was sold to go into Aged Care?
- Do you have to buy a new home?
- Do you have to buy a home for less?
- Are there limits based on assets outside super?
- Can you use it more than once in your life?

While we do not know full details at this stage, it looks like a good opportunity that is worth keeping an eye on. The measure is intended to apply from **1 July 2018**.

First Homeowners Savers Scheme

From 1 July 2017, you will be able to salary sacrifice up to $15,000 per annum, up to a maximum of $30,000, into super and then from 1 July 2018 you will be able to withdraw these funds (net of contributions tax) plus a deemed earnings rate (90 day bank bill + 3%) for the purchase of your first home.

When withdrawn, tax is payable at your marginal tax rate, but with a 30% tax offset. This was a surprise as we expected that the funds would be released tax free. As a result, your marginal tax rate impacts the tax effectiveness of the strategy, especially if you are adding around $30,000 on top of your other taxable income.

The following table shows the tax you would pay when taking into account contributions tax and tax of the release of the funds and compared to just taking the funds as salary.

Marginal Tax Rate	Take Home	Salary Sacrifice	Benefit
35.00%	$19,500	$24,225	$4,725
39.50%	$18,150	$23,078	$4,928
47.50%	$15,750	$21,038	$5,288
Over $250,000	$15,750	$17,325	$1,575

So, if you are saving for your first house, it appears that this will be worth utilising. It is good that it still requires you to save, rather than just pulling our existing super. As a result, it will have no impact on near term demand and will not reduce super balances, that are in many cases already insufficient.

These are based on our assumptions of how the scheme will work as we do not have full details yet. We have ignored earnings to keep the numbers simple. We assume $15,000 is salary sacrificed 2 years in a row and then $25,500 (contributions net of contributions tax) is released. Additionally, we have assumed that the 0.5% increase in the Medicare Levy goes through and that the temporary high-income Budget Levy ceases as it was intended.

Be careful when comparing aged care providers

The first thing to understand when it comes to aged care is that there are two types of aged care accommodation. The first is aged care provided by organisations that are licensed by and receive subsidies from the Commonwealth Government. The second type of aged accommodation is provided by what is often known as retirement villages.

In most cases this second type offers independent living with very little opportunity to provide increased care for residents suffering from illnesses such as Alzheimer's. One of the major differences between the two types of aged accommodation is that licensed aged care facilities must operate within very strict guidelines, whereas retirement villages do not have the same level of controls placed on them.

The best way of evidencing this difference is the way that accommodation deposits are treated. For Commonwealth Government regulated facilities, since the changes to the regulations were introduced on 1 July 2014, the maximum Refundable Accommodation Deposit (RAD) is $550,000. If a facility wants to charge a higher RAD it cannot do so until it has received approval from the Aged Care Pricing Commissioner.

When it comes to the RAD for retirement villages there is no maximum amount set. By far the biggest difference between a retirement village and a regulated facility relates to what happens to the RAD when a resident leaves a facility.

The RAD for regulated facilities must be fully refunded to either the resident or their estate, and in addition interest must be paid on the deposit held at a specified interest rate from the date that the resident had to leave the facility.

For retirement villages the treatment of the RAD is more a matter of what the contract states, rather than something that is regulated. For example it is not uncommon for a RAD paid to a retirement village to have an amount that is retained by the owner of the retirement village. This means that when a resident leaves that village they do not get all of the deposit that they paid back.

In addition the calculation of the amount of the RAD paid to a retirement village owner can vary greatly. This may sound inequitable and harsh, and therefore not something that would be allowed by the authorities, but in fact as these are the terms of the contract the retention amount can not be avoided.

The important point to stress when anyone is contemplating going into a Commonwealth regulated facility or a retirement village, is to shop around. Get good appropriate advice as there are several ways to structure your situation depending on your position to achieve the best financial result that you can.

Intralink is on the move!

Where does the time go? We can't believe we have been fifteen years at our current office! But now it's time for us to make the BIG move... just one block down the street... to **Level 10, 360 Collins Street.**

From **1 August** we will be working out of our new office. We're very excited to be making the change to a more modern office with more room and better facilities for our clients and staff. We look forward to showing you around the next time you visit.

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