



C-MAC INDUSTRIES (AUST) CO-OPERATIVE LTD

ANNUAL REPORT 2018



Co-operative
enterprises build
a better world



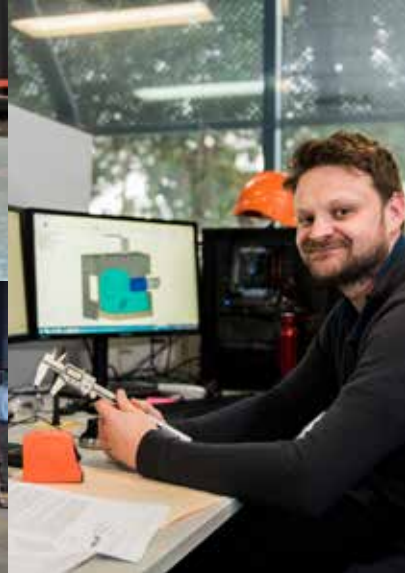
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WELCOME TO OUR FIRST ANNUAL REPORT

Who are we?

C-Mac Industries (Aust) Co-Operative Ltd is a manufacturing business focused on:

- Providing our customers with excellent products and service at a fair price.
- Ensuring that our members receive a livable wage and do interesting and fulfilling work.
- Becoming a partner in building profitable long-term relationships with our customers and suppliers.

A critical plank in the life of a co-operative like ours is our social agenda. To this end we will be assembling plans for the development of our members to assist them in developing new skills and meeting personal goals beyond the financial. Our Co-Operative development task group is active in engaging community conversations around the formation of co-operatives as a way to preserve manufacturing in Western Sydney in particular, but Australia in general.

THANK YOU
TO OUR CUSTOMERS,
SUPPLIERS AND OUR
FINANCIER
THE COMMONWEALTH
BANK OF AUSTRALIA
FOR YOUR SUPPORT

C-MAC INDUSTRIES (AUST) CO-OPERATIVE LTD

Directors' Report - 30 June 2018

The directors present their report on C-MAC INDUSTRIES (AUST) CO-OPERATIVE LIMITED for the financial year ended 30 June 2018.

Information on Directors

The names of each person who has been a director during the year and to the date of this report are:



Craig Phillip Zawodny



Robert James McMaster



Position to be filled



John David Cooke



Francis Edric Webb



Dr Anthony Jensen

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the co-operative during the financial year were:

- Sheet Metal Fabrication
- CNC Precision Machining
- Gear Cutting
- Agricultural Machinery Manufacturing
- Industrial Acoustics

No significant changes in the nature of the Co-operative's activity occurred during the financial year.

Operating Results

Turnover \$4.6M and profit of the co-operative after providing for income tax amounted to \$102,701.

Review of Operations

A review of the operations of the co-operative during the financial year and the results of those operations are as follows:

The co-operative's operations during the year performed as expected in the opinion of the directors.

Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the co-operative during the financial year.

Events After the Reporting Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the co-operative, the results of those operations, or the state of affairs of the co-operative in future financial years.

Future Developments and Results

Likely developments in the operations of the co-operative and the expected results of those operations in future financial years have not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the co-operative.

Environmental Issues

The co-operative's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory of Australia.

Dividends Paid and Declared

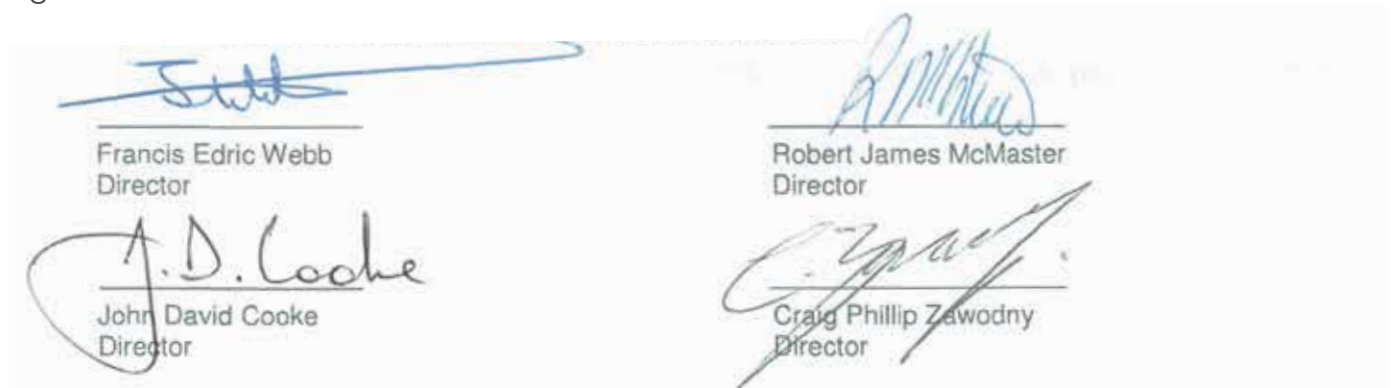
Dividends paid or declared since the start of the financial year are as follows:

- a) No dividends were paid since the start of the financial year.
- b) An unfranked dividend of \$30,810.00 was provided for 30 June 2018 and is expected to be declared in the next financial year.

Indemnification and Insurance of Officers

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the C-MAC INDUSTRIES (AUST) CO-OPERATIVE LIMITED.

Signed in accordance with a resolution of the Board of Directors:



Francis Edric Webb
Director

Robert James McMaster
Director

John David Cooke
Director

Craig Phillip Zawodny
Director

Dated 6 March 2019

MESSAGE FROM THE CHAIR

Becoming a Co-operative

It gives me great pleasure to present an overview of the 2017-2018 year, C-MAC's first year operating as an employee co-operative.

This business has been operating for 50 years. That is a tribute to past management. Now, as a cooperative, we have an opportunity, in fact a need to re-align the business with its rapidly changing environment. Change is never easy, but we are now masters of our own destiny, and as we bed down new ownership, new management, a Board that previously did not exist, a new financial structure, and new member expectations this change will be complex and sometimes slower than some may expect

With respect to our financial structure you now know that we have established an overdraft facility with the Commonwealth Bank. This facility took almost two years to establish we will soon hold an event to extend to the Commonwealth Bank of Australia and associated officers our thanks for the trust that they have shown us. This facility is, and will continue to be a critical plank in our well-being, and growth.

Safety

This year we had an unfortunate accident in the plant when Tony Simpson had his hand caught in the rolling machine, causing severe bruising to his right hand and fingers, as well as a fracture. Since receiving medical treatment Tony has recovered well, with a full recovery expected - we all wish Tony the very best in this recovery. This incident received full investigation by WorkCover, the Police, and internal audits whereupon the incident was deemed an unfortunate accident, but it serves as a reminder that we all must strive to make our plant and equipment, and our work practices safe. In this instance, and though not faulty, this machine was replaced with new equipment and our operating practices revised accordingly.

A site-wide audit of machinery and practices was conducted and we are satisfied that C-Mac is a safe place to work.

No other Lost-Time Accidents were recorded for the year.

Reflections on the year.

A decision was taken at the first Board meeting that the 2017-2018 year would be one of consolidation. Cash was extremely 'tight'; expenses had to be met by the existing cash flow. Subsequently, and following two years of negotiations, capably lead by Mr Frank Webb, the CBA finally agreed to provide C-Mac an unsecured overdraft facility of up to \$250,000. This was a very significant milestone at that time and will be for our future. Facility approval was founded on the underlying success of the business over the previous fifty years, the underlying cash flows and projections, and most significantly on the 'quality' of the Board - that is, its depth of experience and broad business skills. The overdraft set the Co-operative 'free', but not to be reckless. Expense and investment decisions must continue to be made in line with the needs and capabilities of the current business, and those anticipated for the future. We must take this opportunity to thank Mrs. Margaret McMaster for her extreme generosity in under-writing the business until negotiations with the Bank were concluded and the facility was established. Without Mrs. McMaster's financial support C-Mac may never have survived at all, let alone earn a profit in its first year of operation. We must never forget this generosity.

An eye to the future.

With our new Overdraft comes a most onerous obligation on our part. We must remember that if we 'dip' into the overdraft we immediately create a debt that must be serviced from the cash flows of the Business.

To this end, the Board underwent a short series of 'strategy workshops' to introduce the language of strategy into our discussions, firstly at Board level, but eventually cascading through the Business. The work in the strategy space never concludes because the environments in which we conduct our business will forever change. These workshops agreed a medium-term goal of growth, primarily by acquisition. Several 'targets' have been/were identified and discussions opened to assess the efficacy of each, and to test our resources (financial, managerial, leadership, skills base, and plant and equipment) against the demands and opportunities presented any potential acquisition will bring. At the time of writing no acquisition has proceeded.

We are constantly improving our systems and processes to better match the demands of operating a complex business in today's complex business environment.

We have procured two 3D printers; Luke Rigg has been developing his expertise in their operation and has been offering prototyping services to external entities and customers where this technology offers a huge benefit. No one is sure where this technology will be of greatest financial benefit in the future, but what we do know is that the service C-Mac is offering falls under the umbrella of 'servitisation' where we in Australia must head to keep up with the rest of the world. The Europeans and Americans have been on this road for more than a decade. 'R&D' and product development will continue to be a feature of our evolution though just which direction we will head has not yet been fully established. We've had notable successes on this space, mostly in response

to customer demands for innovative products/business solutions. We will have to extend our risk profile to establish more competitive products, thus shaping our future markets.

A critical plank in the life of a co-operative like ours is our social agenda. To this end we will assemble plans for developing our members with respect to new skills and personal goals. Our Co-Operative development task group is active in engaging community conversations around the formation of co-operatives as a way to preserve manufacturing in Western Sydney in particular, but Australia in general. There is a long, and hopefully rewarding journey in front of us.

I cannot finish this summation of the year without thanking a number of people for their extraordinary contributions. Whilst I thank all members of the co-operative for their belief, patience and contribution, I must single out some special mentions: Steve Grylak for his efforts not just this past year, but in the lead-up to 1 July 2017. Rob McMaster and the McMaster family must be thanked for their belief in the viability of the business and its continuation as a Co-operative for your long-term benefit and that of the Australian Manufacturing community. Frank Webb has been tireless in his belief and effort, most notably in securing an overdraft facility and in developing our financial systems. Anthony Jensen has provided sage advice and unwavering belief. Craig Zawodny must be thanked for being so brave as to volunteer his services as a Board Member, especially noting that not all Board meetings have been exactly what so many of us hoped for – with patience and belief we will settle down to better steerage of the Company; I'm absolutely convinced that will be the case, and that's when the real fun of growing the business will ensue.

MESSAGE FROM THE GENERAL MANAGER

Operating Highlights

This report covers the financial 2017 - 2018.

This financial year was an exceptional year with good profit margins well done.

Basic overview \$68K profit after tax \$40K Profit, however R&D claim was the trigger. This helped in not only paying the tax but also getting a return -- bringing us back up to \$102K Profit. For our Administration staff this shows how we must utilise this government scheme while it's still active.

Dividends were decided by the board 10% 30% 60% keeping business as safe as possible but also rewarding all staff for a great effort. 30%, which is \$30,810, paid out to share owners.

Dividend split was voted on by the share owners 50% to a paid member, 50% based on normal hours of work during the financial year. Subject to the approval of the General Assembly. *This I believe was very fair and a great call.*

We have also managed to purchase some equipment:

- vehicle,
- 2 rollers,
- 2 3D printers, and
- spent a lot on maintenance on our equipment to get them back in working order.

Frank Webb will hand out all the data relating to financials.

Staff Changes and Workshop

I believe we have a great skilled team in all our staff, but we need to implement change and drive the company forward. Change is always difficult to implement but we together can strive for excellence.

The External Market

Sydney infrastructure has driven confidence in the market in civil Industry and we are trying to utilize this opportunity in sales and Marketing.

This Financial year is not tracking as well as last -- basically we are down on profit and sales and playing catch up to break even and or hopefully a small profit end of year .

This year is a challenge and we all must be aware of efficiency, productivity and cost reductions required to get the company back on track.

Again I thank all the staff for a great effort.



Steve Grylak

FINANCIAL SUMMARY

This report contains an extract from the formal accounts in the pack labeled "Supporting Financial Pack" In our first year of operations we were busy, we now have set a benchmark for future years and as a quick summary we:

	Notes	2018	2017
Revenue	3	4,653,556	
Finance Costs		6,716	
Employee Benefits		1,899,886	
Other Expenses		2,678,136	
Profit before income tax (Expense)/Refund	4	68,818	
Profit after income Tax		102,701	

As the Co-operative is operating with internal capital accounts for each of the members you will all be receiving statements and an explanation peck which will elaborate in detail how these accounts will operate and how to interpret your statements.

This is the first year for the operation of the Co-op and while there are many co-operatives around the world we are operating in the Australian legislative environment and Co-operatives are not very well understood by legislators and the Government departments, we are trail blazers and with that comes some challenges.

Community engagement

- Melanoma Foundation \$1,300
- Providing internships to Australian Catholic University student teacher work experience
- Kirsten Webster designed a special spring bench for patios
- Engineering internship for 3 months for Arun Kummaresham - research IOT's
- Pro Bono work provided to elderly members of the community and Lachland Valley Railway steam societies
- Staff survey of workers

PIONEERING BUSINESS SUCCESSION with Employee Owned Cooperatives

The McMaster family in Girraween Western Sydney has created the first employee-owned manufacturing worker cooperative in Australia since the introduction of the new 2012 National Cooperative Laws.

Cliff McMaster's had started C-Mac Industries in his garage in 1962. Half a century later he had passed, leaving his son Rob with a successful medium sized engineering and fabrication company employing 47 people and turning over \$4.5 million pa.

C-Mac's product and services included: custom designed industrial acoustics, nursery horticultural equipment, insulating oil treatment equipment, maintenance services, CNC machining, gearcutting and detailed sheetmetal work. See www.cmac.com.au

In his mid-fifties and facing impending retirement brought on by health issues, Rob started seeking a succession plan. How would he extract himself from the business? What legacy did he want to leave? How would he fund his golden years? After initial investigations, his options appeared limited:

- Family members didn't want to operate the business
- No one wanted to buy the business
- His employees lacked the necessary resources to buy the business
- Closing the business would leave his family in debt and
- The employees would be out of jobs in the declining manufacturing sector

In short, Rob faced a dilemma common to many business-owners facing retirement, especially Baby Boomers.

Driven by his looming retirement Rob widened his research and discovered an overseas option, uncommon in Australia; a workers' cooperative. With the assistance of local academics and business advisors Rob converted ownership of his family company, to his employees. Now one of 30 owners of the ex-family business, Rob works one day a week at something he loves. His father's legacy has been preserved, as have 28 jobs together with the attendant work skills.

Owners Win: Workers Win: Australia Wins
Cooperate and unlock our wealth

“A workers cooperative is an alternative business entity that exists solely for the benefit of its members; all expenditure should be to the benefit of members”.

C-Mac Industries (Aust) Cooperative Ltd has been trading for nearly two years. 28 owner members brings a “x” factor and many advantages to the business, workers and our community.

The transition to this new business entity takes perseverance and time and has challenges changing traditional cultural attitudes in the workplace. The end result brings shared equity and better ethical behavior to business.

C-Mac adopted the **Seven principles of Cooperatives** as set by the International Co-op Alliance.

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation between cooperatives
7. Concern for community

C-Mac would like to encourage other business owners to consider this succession option by setting up and registering your own worker cooperative or “Join us” and grow our cooperative.

Alternatively, if you are not ready for succession, consider your local manufacturing worker cooperative for your “Innovative Metal Solutions”

For more information contact; the team at C-Mac or Rob McMaster (Director) robmcm@cmac.com.au or visit our website: <https://www.cmac.com.au/worker-cooperatives> for a little more detail on the capabilities that the C-Mac Industries (Aust) Co-Operative Ltd could bring to your organisation.

Organisation affiliations







MATERIAL HANDLING



SHEETMETAL



NURSERY EQUIPMENT



TRANSFORMER OIL TREATMENT



ACOUSTIC ENGINEERING



MECHANICAL ENGINEERING

Seven

PRINCIPLES OF C-MAC CO-OPERATIVES

1 VOLUNTARY AND OPEN MEMBERSHIP

C-MAC INDUSTRIES (AUST) CO-OPERATIVE LTD IS OPEN TO ALL WHO ARE WILLING TO ACCEPT THE RESPONSIBILITIES OF MEMBERSHIP, WITHOUT DISCRIMINATION.

2 DEMOCRATIC MEMBER CONTROL

C-MAC INDUSTRIES (AUST) CO-OPERATIVE IS A DEMOCRATIC ORGANISATION CONTROLLED BY OUR MEMBERS, WHO ACTIVELY PARTICIPATE IN THE SETTING OF C-MAC POLICIES AND DECISION-MAKING. C-MAC MEMBERS HAVE EQUAL VOTING RIGHTS (ONE MEMBER, ONE VOTE).

3 MEMBER ECONOMIC PARTICIPATION

C-MAC MEMBERS CONTRIBUTE EQUALLY TO THE FUNDS OF THE CO-OPERATIVE AND CONTROL THE ALLOCATION OF SURPLUS C-MAC FUNDS.

4 AUTONOMY AND INDEPENDENCE

C-MAC INDUSTRIES CO-OPERATIVE IS A INDEPENDENT ORGANISATION CONTROLLED BY MEMBERS. ANY AGREEMENTS ENTERED INTO WITH OTHER ORGANISATIONS MUST ENSURE DEMOCRATIC CONTROL BY MEMBERS AND C-MAC INDUSTRIES (AUST) CO-OPERATIVE INDEPENDENCE.

5 EDUCATION, TRAINING AND INFORMATION

C-MAC INDUSTRIES (AUST) CO-OPERATIVE PROVIDES EDUCATION AND TRAINING FOR MEMBERS, ELECTED REPRESENTATIVES, MANAGERS, AND EMPLOYEES SO THEY CAN CONTRIBUTE EFFECTIVELY TO THE DEVELOPMENT OF THE C-MAC CO-OPERATIVE. C-MAC INFORMS THE PUBLIC ABOUT THE NATURE AND BENEFITS OF CO-OPERATION.

6 CO-OPERATION AMONG CO-OPERATIVES

CO-OPERATIVES SERVE THEIR MEMBERS MOST EFFECTIVELY AND STRENGTHEN THE CO-OPERATIVE MOVEMENT BY WORKING TOGETHER.

7 CONCERN FOR COMMUNITY

C-MAC CO-OPERATIVE WORKS FOR THE SUSTAINABLE DEVELOPMENT OF OUR COMMUNITY THROUGH POLICIES APPROVED BY C-MAC MEMBERS.



Innovative metal solutions