



The image shows a podcast cover for 'The Deal Room Podcast'. It features a yellow background with a circular portrait of a man in a suit. To the left of the portrait, the text 'EPISODE 130' is displayed in large white letters. To the right is the 'THE DEAL ROOM' logo, which includes a microphone icon. Below the portrait, a black banner contains the text 'Where to now in the face of COVID?' in white.

## *The Deal Room Podcast*

### Episode 20 – Where to now in the face of COVID?

## Transcript

Joanna: Hi, this is Joanna. Okay. And you're listening to The Deal Room Podcast. A podcast proudly brought to you by our commercial legal practise aspect, legal. Now, today, we have on the show Michael McGrath from Oasis M&A. Michael has been in business since the age of 23, spending more than 25 years building, buying and selling a range of private companies, including food manufacturing, recruitment, publishing, retail and distribution. Michael is the founder and CEO of Oasis M&A Sydney, and he now advises shareholders of private companies around succession and exit strategies. And today, Michael is on the show to discuss with me the particular conundrum facing business owners who are selling right now or who were planning to sell in the near future as COVID19, the dreaded coronavirus has landed on our doorstep and changed everything that was in play just only a month or so ago in the world of mergers and acquisitions. So without further ado, here comes Mike to chat with me about what the short term future looks like for those business owners who were planning on selling right now or planning to sell in the near future. So here we go with Mike.

Mike, hi, welcome onto the show, I'm really excited to have you here today, it's a bit of a serious topic that we're getting into.

Michael: Yes. I'm happy to be here. Thanks, Joanna.

Joanna: Great. Okay. Well, Mike, today we're sitting and our audience might be listening to this at all different times, which is the beauty of podcasts. But right now, we are sitting right in the middle of this coronavirus epidemic and it's creating a massive amount of uncertainty in the M&A market. And so today I wanted to have you onboard so that we could together, you know, just maybe talk about what we are seeing at the moment in the market and what our thoughts are for the future for businesses who are sitting there at the point of, you know, planning to sell right now or perhaps who are planning to acquire. And now suddenly sitting in the middle of uncertainty.

Michael: Yeah. Look, I mean, what the first thing I'll kick off with is that we did five transactions in the last six months of last year. And I can tell you now that those have already had some communication with some of those vendors that we acted for. They are so pleased that they sell their businesses complete.

Joanna: I know. Right. We just had two of those conversations yesterday.

Michael: So that's the first thing. And one of the companies would have been the six pulled out the last minute. I haven't spoken to them yet. But to be very interesting, what his thoughts on that? Because I think we're entering a very difficult period for any kind of transaction. I think the main reason for that is that how do you price an asset? It's almost impossible. I mean, how do you price a property? How do you price anything? So I think this is what we're seeing so that by the genuine strategic buyers that we're talking to, we had about launch transactions underway at various stages. With three of those, we're still in deep discussions with six have pretty much evaporated. There were early stages and effectively that those acquirers are saying to us, you know, they don't have headspace. Everything's changed. We'll come back to the three that I keep talking to us at the moment. I guess they're looking for some certainty. So we're working with our clients to put together this sort of COVID-19 response, which is effectively, you know, what was our year to a position to the end of February? What's happened since then? So far, March what does April, May and June look like what is Prox the next six months, the next year for you like? And how will that affect the results in twenty twenty-one, rather. And and then what does a postcode post-COVID-19 environment look like for that business if you can't communicate intelligently and logic, even if you're not exact? I mean, you've just got to put your key assumptions now to make sure that logical make sure you believe in them, at least at this point if you can't put that together. No one's going to do some kind of giveaway.

### Regaining a bit of control amidst uncertainty

Joanna: And so I guess what we're talking about here is, you know, because one of the issues I feel playing out at the moment is just this uncertainty, which creates, you know, creates this emotion or this reaction of just of our business owners, just not knowing what to do, what next step to make, because I just have no idea what the future looks like. And I guess here we're talking about, well, regaining a little bit of control and getting a bit of insight into what you can be doing now, what you can be planning now, and that will still keep you moving into the direction of the sale of exit or maybe even the acquisition, you know, depending on what side of the fence is that you're on. And it's stepping back into so let's run through some really concrete

examples here, because I have a number of businesses who are sitting at the point of exit and they had either, as you say, found buyers or they were about to hit the market or whatever. But I've got a couple who were looking to sell to employees where the employees knew the business and the business itself, I think will be quite stable, will be at all businesses. Almost all businesses are at a shock at the moment. So for those businesses, let's just start with that as a simple example for those businesses, I guess the message is just starting to collect a bit of a list for yourself in terms of backing up for the buyers as to why the business is solid and will continue on the pre-COVID path when COVID is over. Is that is that what you're saying Mike?

### Running through some concrete examples

Michael: Yes, I think so. I mean, look, in any you know, you know, in any economy, you're going to have winners and losers when you've got this kind of change for some businesses. I mean, if you look at food at the moment, foods didn't quite well.

I'm on the board of the organic food business. You know, we're really doing very well with the business is very resilient sales and holding up insofar as you know, what we're expecting to see. And, you know, we've done some pretty good work in that business to get them ready. Really. I mean, not that we knew COVID-19 was going to happen. But just just to have the business well-run and with good governance and a board. And, you know, we've got we've invested in our relationship with the bank and the bank have been very helpful.

And so I think, you know, that will be an example of perhaps not a winner, but certainly not a loser. I've got another couple of mining service businesses where I'm on the board and both those are doing pretty well.

I mean, one of those is doing exceptionally well, because the products that it's bringing to market are technology type products that, you know, the minors have got a great appetite for the moment because it saves them money. So they're kind of going gangbusters and that there's a three to five years window there to meet that need. And we're very well-placed to do that. And that's the issues for that business are on the supply side, not on the demand side. So and then I've got a business that's in health, safety and hygiene that I've been working with for over a decade. And that business is in really good shape. It's got some good resilience. And, you know, people are still going to need health, safety and hygiene. And they've already brought six COVID-19 products to market that are helping businesses now, you know, test their cleanliness and test their hygiene. So they will be three that I think are doing pretty well. And then, you know, then there's a whole bunch of other businesses right there. And I think you've got to it's situational, right. But there's quite a few other business that I'm involved with, one or two, in fact, that have got very heavy retail exposure. Yeah. You know, retail is in trouble. I mean, in big trouble. You know, they've taken the brunt of this to some extent. And so, you know, we're in survival mode. And we're trying to find a way through this thing. And, you know, the government stimulus, I know that with the government sitting today to hopefully approve the job, you know, the job saver scheme or jobkeeper scheme, which I think is a really big deal. I'll give you an example. I've got one company has got seventy five staff with a board meeting, emergency board meeting. We've got a few. The last one, you know, with done without this. But with this package, we'll keep touch. We'll keep all seventy five staff and everyone will take a fair cut of about 20 percent. And we think we can save

those jobs. Without that, we might have to look at some quite dramatic reductions in those numbers. So I think, you know, the government stimulus is really going to help for the next six months.

## Make a Plan

Like, you know, for SMEs, it's going to be absolutely critical. And bear in mind, small to medium sized enterprises are over 50 percent of the job market. I think we're 50. We employ 55 percent of the workforce. So, you know, this is a really big deal. And so I think that it's situational, but you've got to have a plan like you've got to pull together a plan and take some time out and do that. Don't wait and see. I worked with a company called Dynamic and they were in emergency crisis management was on the board for about 10 years. And Anthony was I was talking to him recently, who's the ex-CEO. And he's you know, he's obviously got a background in this kind of crisis management business resilience area. And he said, Mike, he said, if there's one thing I could say to people, it would be time is your enemy. Right. So, you know, waiting and seeing how things devolve isn't a good plan. The plan is to get on with it and make some calls and take some actions and get busy because otherwise we get overwhelmed in the 24 hour news cycle and we get obsessed with the negativity that's prevailing. And really, what we've got to do is leaders as business leaders, you know, figure out where we are. Figure out what might be, you know, what might be coming next, even if we're not quite sure you've got to put something down and how soft. The question we're asking is, how soft will this be for this business in this market? Is it 20 percent down? Is it 30 percent down? And we've seen anything from 10 percent down to 85 percent that we haven't seen zero anywhere yet. But I mean, if you'd said to me six weeks ago that we would be looking at an 85 percent softening in in any business, I would have kind of just not I just wouldn't have thought that was credible. But with this many businesses sitting there now, if you look at retail, the trend and we're seeing, you know, we saw 40 percent down last week like for like year on year in one business, we've seen 85 percent down in a supply business that's heavily exposed to retail. That's really looking at virtually nothing going on in this next quarter.

Joanna: So then let's get really practical. How is that? Is that a business that was gearing up for exit?

Michael: Yes.

Joanna: In the short term future, right.

Michael: We have two kinds of clients, right? Well, probably three. But the client number one is a guy that just wants to sell. He's made his mind up. We go to the market and we sell-side mandate, that's our bread and butter. We do that all day long. There's another kind of client that's saying, look, I might I need to do something. Can you help me with strategy over the next three to five years? I'm going to exit. So that's a different. And that will be. In that category, so that this is just your friends who will be in the open to that kind of strategic outcome, but not looking to do it tomorrow. Right. So and then there are the guys that are just looking for advisory strategic importance. But certainly the guys who are selling at the moment, if anything isn't contracted, it's evaporating.

Joanna: Although I must say we've still got a couple of deals moving at the moment that are in the most strongly impacted industry. So it surprises me that they're still moving. But I think, you know, sometimes sophisticated buyers who know what they're looking for and unusually are still actually moving, which I guess is unusual. You know, it's great that there's still a little bit in the market. That's still moving. Mostly it's all come to a standstill. So if we're just focussing just for now on the sell side, mandate clients that you're working with at the moment, you need one who you know right at this moment. The short term goal of sale obviously is immediately impacted. Are you talking to them about right now? What are the strategies that you can give?

## Strategies and survival mechanisms

Michael: Yeah. Well, the, if I take one, is exposed to retail in that kind of heating area. We've got a very acquisitive strategic acquirer based out of Ireland. And they said to us, look, we're very keen. We wanted to get this wrapped up by the end of June, but we want to now push it to the end of September. But we still want to do this deal and we still want to do it on the terms that we've agreed. Now, I don't know whether that's going to happen or not. Right. Because, you know, no one knows. But they intelligently pushed it out for three months. Our clients happy with that.

We've invested very heavily with this acquirer and they seem like the right sort of person to be acquiring this business. Now, what shape are they going to be in themselves? It's a billion-dollar business that's global with many good reasons to own our clients asset now. We're hopeful. But I wouldn't be you know, I wouldn't be surprised if it changed the game. If something changed, the terms could change. The timing could change. Now, what does a client do in the meantime? I think they just roll out a three-step plan and they and they just say, OK, how this soft this sale is going to be in Q4. What's going to happen in Q1? And to what's our response to that? Is it logical? Does it make sense? Are we acting in the interests of the business and the stakeholders? Are we using all the government stimulus we can? And then how do we expect our products and our services to fare? for twenty 21 in a slightly different environment. And I think if you put that together in a 10, 12 slides and you've done some work, you write the assumptions down, then I think that's the kind of conversation that you can have with a buyer who's going to be reassured by that. And that's what you should do, really. You should run your business as if you're going to own it forever. That's not a bad mantra. And you should plan like this thing's not gonna happen. And, you know, I think buyers get reassured by that kind of management.

## Keep communication

Joanna: And I think implicit in what you're saying right now is keep up the communication. Okay. So I don't want to continue right now. We're on hold for a few months, hopefully just a few months. But keep up the communication.

Michael: I think so. I mean, touching base connecting, you know, just checking in. I think you don't want to over-communicate because there's a headspace issue. The reason why they don't want to do the deal now is that they've got bigger fish to fry. And frankly, so you. But certainly, you want to keep connected. And if you've got an

intermediary, that's our job. Our job is to I mean, we responded, you know. You know, I mean, I was on the phone the other night to Dublin about so. Well, we got a good relationship. We know where we are. We know where they are. They're straight shooters. And so we. So if that deal can get done, we'll get it done. If it's possible, we'll get it done. And, you know, we get another deal with a guy in W.A. that's got an American acquirer looking to buy the business. Now, the business is really about some IP. So they've got a particular product. It's very valuable, potentially. Our clients, very small business. That's IP rich vs. a very large acquirer. And we think the fundamentals for that deal are still strong because, you know, the acquirer is going to leverage that IP across its bigger business. But they're starting they've started to try and renegotiate the price. And we've said we don't believe there's a basis for that as this point and that know we won't be entertaining that. And then they then said, okay, well, we don't have time anyway at the moment. So until the foreseeable, you know, you know, we'll come back to you. But at the moment, we're not proceeding at this point now.

You know, I don't know where that's going to go. I haven't I have no idea. And I could go on and on. But I would say most deals, you know, the. The rule is, if it's not contracted at the moment, the probabilities of a transaction are diminished significantly. And we do have buyers who are talking a good game and saying that might. We've got a strong balance sheet. I spoke to a New Zealand company the other day. I know the chairman said that Mike we have a strong a balance sheet. We see this an opportunity. Please bear this in mind. Now, that sounds good, right? But between you and I, Joanna and I really like this guy. I just don't think that even if I brought him something fantastic, he would do it in the next three months.

### Cheap capital and how it will play out in these times

Joanna: Yeah, I think you're right about the next three months. But I feel but I and I have to admit an optimist at heart, but I really have a very strong feeling that there will be a lot of when there's a little bit more certainty in the market that we're moving to the other side. You feel like there's a lot of opportunities here for opportunistic, you know, acquisitions. You know, because the fundamentals of many of these businesses that are suffering, suffering stress at the moment, you know, fundamentally may not have changed for someone who is sophisticated and knows what to do with business and to fund it, you know, appropriately to get them up and running it. You know, I mean, this might be the other side. Right. You know, maybe we'll start to see a flurry of. And, you know, there's cheap capital at the moment. How will that feel? What what's your thoughts about that, how that plays out and how quickly it might play out?

Michael: Yeah, well, look, I think you're right. I think that, you know, I think this causes will be the softest quarter on record. Right. I mean, I just don't think there's much going on. I think as you move, depending if we can really flatten this curve and keep it down and we can start to move back to some kind of more normal, if not completely normal way of doing business. July, August, September in that quarter, then I think you can start to see who's coming out. And I think they will be opportunistic largely, or they'll be people that see an opportunity to grab market share.

And I think that will go on and look, I mean, certainly, I've been surprised by the

recent stock market rally. I mean, we had that correction where, you know, we saw a 38 percent dip in the All Ords at the peak. And, you know, we rallied since then by about 17 percent. And that's the surprise when the same is going on on the Dow as well as in the U.S. So I'm surprised that the optimism there.

But, you know, the markets are probably sharing your view that this is very short term and that there are no good companies with good stories that are going to emerge from this and do OK, I guess, because of my exposure to the small to medium-size enterprise. Well, I'm much more cautious, really, about what the post-COVID-19 environment could look like, particularly if we've got some high unemployment. I saw the CEO of Westpac the other morning was talking about unemployment levels. So he was talking about unemployment. He's senior economist, was talking about 17 or 18 percent unemployment prior to that second stimulus package.

With the stimulus package, the recent stimulus, they've revised that down to 9 percent. Now, I think if we can keep unemployment in single digits, that would have been a fantastic achievement. Now, that's still high by historical standards in Australia. But so, you know, that worries me.

I mean, I get worried because when you see unemployment like that, you start to see the demand side softer. You know, your average SME doesn't have enough strength in the balance sheet to withstand that.

And as soon as the stimulus stops, then I think you're going to find out who can swim and who can't swim. And that I'm worried about that. But deals will always get done. I mean, you know, it's the nature of the free market. But it'll be different, I think. And I think deal structures will change. I think that where there's uncertainty that will get built into the price and the structure of the deal. And I see some earn-outs. Where they will say, okay, Joanna, I like your business and I share your optimism. But let's just you know, if you're right, then I'll pay you when you're right. I won't pay you all now. There'll be a lot of that kind of structured stuff going on. But, you know, the fundamentals are that which we've still got a plethora of baby boomers who are going to have to sell their businesses in the next 10 to 15 years. And that's a fact. So there's going to be you know, they're going to sell him or they're going to close them down or something's going to happen because you will exit your business. I mean, that is just a law of nature. At some point, hopefully not too soon.

Joanna: I think, you know, not wishing to harp on the optimistic side. But the one other side, you know, that I've had a number of recent conversations about is perhaps the potential benefit for people who are looking to exist in the falling Australian dollar. So, you know, if we're able to find it because, you know, a lot of people I'm talking to are saying that a lot of offshore investors are now looking at Australia and with this mind for the positive impact for them as buyers for the Australian dollar.

Michael: Yes. Look, Joanna, I share the optimism. I mean, can I give you just an anecdote? I don't want to kind of fall over..

Joanna: I think that what we're arguing, I like it. This is good lovely human tension, Mike.

Michael: Look, Joanna, I had a conversation with an American buyer on behalf of a guy, and we put that to him and he put straight back to us. But the earnings are no longer as attractive as they are.

But there's always a smart arse. But certainly, the Australian assets are going to be cheaper for anyone who's got US dollars.

## The action plan

Joanna: All right. So I think we've got we've had a few ideas on both sides. Well, I hope your I hope you're right and I'm wrong.

But the point is, because none of us know what the future looks like, I guess, you know, from either of our viewpoints. The action plan is the same. Have an action plan. You know, you don't just sit in overwhelmed. Don't just sit from the side of the fence, just waiting together. A plan. Any plan.

Michael: Yeah. And look, a lot of people says, well, we don't know what's happening on the next. How can we put a plan together? And unfortunately, you know, you this is your watch. You're in charge. You've got to put something together and you're looking for data points that support a view. It's not necessarily that, you know, it's going to happen. But, you know, I'll give you an example. We look at, you know, when we look at that food business with you was a particular you know, so we were dealing confectionary and other type products. And we you know, one of the things that I got the owner to do was to check how this these particular products had fared in previous recessions. Now, is that does that mean it's going to happen like that going forward? Probably not. But it's something that you can and you're looking for those kinds of data points. You know, we look to, you know, direct marketing business recently that was producing certain kinds of products. And when we looked at the environment in recessions. But marketing, because marketing is an area that gets turned off very quickly in any kind of recession or any kind of squeeze.

But in fact, it's the above the line that gets turned off, which is the television, the radio, all that kind of branding stuff, the below the line stuff, the leaflets, the brochures, the point of sale that often continues. You know, people continue with that. So, again, we use that as an example and circulars can test that. And I think you're looking into just paint a picture, that's all. And, you know, the one eyed man in the kingdom of the blind is in charge, John. So, you know, you might not have it all down, but if you've got some idea, then that's better than nothing and sitting on the fence, I think.

Joanna: Mike, I absolutely love it. I just want to say a massive thank you for coming onto the podcast today.

Michael: My pleasure.

Joanna: I think that's just a great takeaway to end with our listeners. But look, if any of our listeners are interested in getting in touch with you, perhaps to get a bit of a roadmap for, you know, what an action plan could look like for them at the moment. How can I get in contact with you?

Michael: Sure. I mean, by all means, you can email me at michael@oasisma.com.au or you can get a jump on the website at oasisma.com.au. And you know, I've got a good team. We're going to have a very quiet quarter. But we're busy trying to make friends. We're not doing any selling at the moment. I mean, that's my only instruction to my advisors has been no selling guys. Because it just makes no sense at the moment. So we're looking for ways where we can be of service. We've got a lot of advisory clients that we're working with. That has kept us pretty busy. We've just switched and pivoted to that board work that I mentioned. But that was more than happy to take some calls and chat people through what we've been doing and what we think has been resonating and making sense. We've certainly helped clients make the banks. We're good at that kind of we're helping them with any kind of right-sizing negotiations. So, you know, that's the kind of stuff that we see is getting increasingly involved in over the next six or nine months.

Joanna: That's absolutely brilliant. Okay. Well, thanks, Mike. We'll have you back on the show very soon. And in fact, any of our listeners who are interested.

Mike and I are going to have a discussion on talking law that we'll be talking all about coronavirus and what it means for your business and how owners can take practical steps, how they should talk to their banks, staff, other stakeholders, and how they get on top of their numbers. I'd be interested in that. And look out for Mike and I on Talking Law.

Joanna: Well, that's it for our episode today with Michael McGrath from Oasis M&A. And I think one of the key takeaways for me from the discussion was this great phrase time is your enemy, speed is your friend right now. So the speed of reacting and planning for the future, I think is one of the important survival mechanisms and the mechanisms for business to put in place to make sure that they are properly and appropriately positioned for still selling their business. On the other side of this COVID crisis. Now, if you'd like more information about this topic to see the discussion with me and Mike in a full transcript, if you're so inclined, or if you'd like to be able to get the contact details of Mike McGrath at Oasis M&A. Well then just head to our show notes or to our Web site at [thedealroompodcast.com](http://thedealroompodcast.com) and as I said there, we will be linking to Mike McGrath and Oasis M&A. And there at that website, you will also be able to contact our lawyers at Aspect Legal if you or your clients would like any assistance, not just with the sale or acquisition of a business, which might not be key in your mind right at this second. But we also assist businesses in making sure they make it through this coronavirus crisis strong and out the other side. In addition to our M&A, legal services also have lawyers who deal in employment law leases and with contracts. I can deal with the myriad of issues that are coming up for businesses right now through this crisis. Well, that's it for today. Thank you very much for listening in. And I want to take this note to wish you in your business wherever you're sitting right now. All the best in these crazy times, as you heard from this discussion. I am an optimist, and I think we'll all come through the other side, perhaps with businesses that look slightly different, but maybe with different ideas and opportunities at the other end. But until then, stay safe. And I'm wishing that you make it through the other side strong. And that's a wrap. You've been listening to Joanna Oaky and The Deal Room Podcast, a podcast proudly brought to by our commercial legal practice aspect legal. See you next time.