



The Deal Room Podcast

Episode 132 – The current state of the SME business sales market and buyer demand

Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to The Deal Room Podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we are talking all about how COVID has impacted buyer demand and the state of the business sales market. And to talk about this we have onboard the one and only Zoran Sarabaca from Xclusive Business Sales to talk all about their latest Market Report all about the state of business sales and the increasing buyer activity or Increasing buyer inquiry they're seeing at Xclusive business sales. So without further ado, let's talk to Zoran.

Joanna: Hi Zoran, Welcome back to The Deal Room Podcast.

Zoran: Hello, Joanna. Thanks for having me here again.

Joanna: My absolute pleasure. Okay, we've got a couple of things that I want to talk about today I want to talk about your survey that looks at the state of the business sales market, like to talk about your report results there. But let's first start off with what you're seeing at the moment because we've had some interesting discussions around the spike in buyer enquiries that you've seen. So I'm just really I think, maybe let's start it all off by having a bit of a chat about what you have seen so far. And now

what you're seeing right now in terms of buyer inquiry activity.

Zoran: Okay, so what we do we actually measure our enquiries on a daily basis. So we every day we come to enquiries, with putting them in the system and we graph these to get a feeling of what's happening on the market. And normally, our enquiries are sitting on average and about 70 ish per day. So there would-be buyers and enquiries from different sources, being our database being us approaching other businesses in the industry to buy businesses that are selling or just enquiring from the web or different websites and website. And normally that sits in good times and about 70. So what has happened? Lots has happened in the last four weeks. When everything started changing towards the end of February, and enquiries started dropping, and then they really dropped where we had on 22nd of March, we had a stage one restrictions on 26th of March, we had a stage two restriction and then until the first or till the first of March, we had a total lockdown. So what happened as a consequence and enquiries dropped out and I'm looking at graphs, your listeners can't see this, but from another peak, but just normal trading of about 70 days dropped on average, down to about 35 from the end of February until about March 26.

Joanna: So we're talking about a 50% decline in enquiries. I'm intrigued. I have to say, I actually find that amazing. I find it amazing that there was still enquiries at that point because going back, you know, we're only looking backwards around about a month now, but that that was a massive period of uncertainty. So it's interesting, there was still buyer enquiry.

Zoran: Look it was but they were not moving very fast. They were looking and still looking. We will also shell shocked. Alright, so we did not know what happened. There was a big shock. there was agreement, fear of people's and look, they were looking at the businesses, but no one was making move. And this did further from there. So after the 21st emerged, they went down to about 30 enquiries per day so they go down by 40% sent around. And another interesting thing that happened since February each day Monday, Tuesday, Wednesday, Thursday, Friday, our enquiries were kind of uniform. They were more or less similar each day with a little bit of drop on Friday. But what happened since then we had a massive spike every Monday. And like, I'll give you some, some examples like 66, a Monday and then on Tuesday, 26, then another 169 on Monday and then 28 on Tuesday. So we looked at who was looking on Monday, and we find out that people that were looking these enquiries, they were coming to us on Monday, they were coming through the weekend, they were processing on Monday, and there were people that were looking to for the type of size of the job business the can replace their job, right. So with a profit of up to 300,000. It tells you two things tells you that you know like people are insecure about their work and they're looking to say well if this really gets worse Can I actually buy myself a job and tells you another thing that people do work from home actually work from home and on only on the weekends. They do their product stuff.

Joanna: So they've had a shocking week at work they're worried they're about to be made redundant and they've spent the weekend looking for businesses they can buy basically

Zoran: Right and then we'll happen we had a four days holiday and we all have the

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time to reflect and regroup and so on. And then Monday, Monday Thursday after Easter break we had 139 enquiries that day which is doubled

Joanna: I can see this massive spike in your graph, sorry you the listener can't see this. Maybe we'll put it in the show notes but it is this massive spike.

Zoran: To prepare there were a four days weather enquiries. We have four days selection buyers had four days to enquire about this, but then continued okay and Monday repeated and we actually now sitting, we are back on average, somewhere between 60 and 70. So the buyers are coming back. But the interesting thing when you're looking when we look at the buyers. These are not just people, now they're looking to buy the job or replace the job. But we're getting a, you know, hardware pad net worth individuals actually looking for the businesses. Because if you do have some cash or serious equity or especially if you got to cash, it's really find a good place to pocket and then starting to look into businesses. Well, what if I actually purchased the business? Because it gives you instant some cash flow as well. And the returns on the good business are way better than when you can get anywhere at the moment.

Joanna: I think that's a good point that you know, and of course, we're both in this industry so I guess we would say but you know, here are the benefits right of buying a business, you're creating something, if you're an employee, looking at a business is the opportunity to make a lot more than what you could from your income as an employee.

Zoran: Well, yes, you can buy a lot more but you also, you know, the taking control of your future as well. And you're having security and these are very unsecure times not to say that buying a business, it's going to be very secure going forward but it's at least you have way more control in working for somebody. But now what we're starting to see these sales on a million dollars is starting to get some serious enquiries. And we will get into details more into the demographics of the buyers. But these are now businesses also looking for mergers and acquisition type deals. And look not necessarily they're looking for the for bargains, they want a good solid business. And if you've got a good solid business at the moment, it could be a really good time to put it on the market. Oh, again, as you said earlier, of course, I'm going to say that I'm a broker. It is a good time to market but another interesting thing that happened and number of sellers that inquiring to put the business on the market has dropped drastically, and the last four weeks is down by about 80%, which is kind of understandable. Because you've got more pressing issues, you controlling your cash flow your sound to care to take a flood, all these government grants and helps us substitutes and banks, you got to deal with that at the moment. So it's not a priority, but it's gonna create if it continues like this, I think it's gonna create oversupply three or four months down the track because if he had done about 80%, and this continues for another three months, and then those people start taking businesses to the market and a normal number of enquiries first returns, you may want to have increase of about 50, 60 or 70% more businesses going on the market, three months down the track. Another thing if you are in trouble and you're forced to put the business in the market, and we think that's gonna happen, that's gonna add more supply to the market and there is a good chance I can't guarantee but my, you know, my educated prediction is that come August or end of August, we're gonna have a

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double the number of businesses on the market, that compared to a normal period. And because what's happening also, you're gonna have distressed activity going to the market, we got this moratorium for directors insolvent trading, which is ending in August. So the people, if they are not really solid will be forced to make the decision upon the administrator subsequently got to the market and put on business on the market themselves early. And we think that's going to be double supply of the businesses after August and at the moment is very low. But the buyers are there and desperate to find good deals.

Joanna: Well, I guess that might characterize different businesses that are likely to be on the market now versus in six months time, but I think absolutely right, those distressed businesses when we see the COVID safe harbour coming off when we see the statutory demand extension of six months and \$20,000 increase come off. I think you're absolutely right. We are going to see a lot more activity in distressed business sales.

Zoran: What's interesting is all the buyers that we talking to now they're not looking for bargains, they're looking for good solid businesses, if you have a business at the moment that's really not being affected or positively affected because of the situation because your suppliers are people that actually doing well and you're supplying them or you're the business, that is doing well in this environment. These are the type of businesses that the buyers are looking for, but then not coming on the market.

Joanna: Yeah, well, I mean, it's interesting that you say that because I just had you know discussion today with the buyer who's out there looking for good solid businesses and we just closed a deal yesterday then we exchanged, so there's still activity going on and but it's just, it's interesting to see your graph in terms of the rise after Easter and in buyer by interest buyer enquiries. And when I'm looking at your graph, and I guess you know, the thing makes sense maybe that there's a bit more buyer activity or enquiry after Easter because things sort of stabilized a little bit. But what I find so interesting is just the number and the number in comparison to say for example, early February before any of this was really hitting, it looks like we're even potentially above where we were in early February.

Zoran: Another interesting thing that normally these are school holidays, all right. And in school holidays, we have a drop off in enquiries because of people...

Joanna: People are usually going some ways aren't out there but not at the moment.

Zoran: Yeah, We have kids at home, you have to deal with this. And with just the fact that we don't have to school the kids. It's good this holiday. I think this is normal because if you're on the market to buy something and you did an enquiry for two weeks, some number of people didn't enquire for two or four weeks. Then they come in and you get that spike before it drops down. So it's normal. But look, I think it's gonna stabilize a little bit below the normal or I because and I'll tell you why we can get them to survey now.

Joanna: Yeah, just before we get to the surveys Zoran, I just want to ask one last

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question about these buyer enquiries. Is there any way are you able to or have you segmented the data into the types of enquiries? So do you have a bit of a feel for you know, what level what proportion of this inquiry is in businesses acquiring in the, you know, 1 million-plus space? Or do you not have that sort of breakdown?

Zoran: We do have a breakdown, but there's nothing that can read from data. It's just like it's across the board, yeah it is across a board every week and it's more for the quality businesses. All right, so better businesses will prize business properly prize business. I'm not saying underpriced but just properly priced business are getting enquiries, and that's for the people after they want to solid businesses and you'll seal that from the surveys.

Joanna: Okay. All right. So now that we're talking about the survey, how about you tell us all about the survey? What is the survey? And what did you find?

Zoran: We went to our buyers and we said, Look, you know, let us make a sense out of what's going on. All right. And we asked them a few questions mainly about, you know, how long they've been on the market, how they felt about buying pre-COVID-19, and how their situation changes after this health crisis that we had. And it was really, really interesting. Alright, so I'm going to run through some numbers here with you. So just so you understand who we were talking to. These are the demographics of the buyers when we ask them why you're looking to buy the business 32% told us they're looking for the businesses in the investment 30% was to change lifestyle 21% were other businesses looking to buy businesses to expand their operations and 20% was the jump tab market. These are people that want to replace their job. Another interesting point that I want to make only 3% words Others in they were like immigration agents. They were trying to buy their businesses to help people migrate to Australia. It was only 3% and for years you were hearing this thing about like a big influx of foreign buyers, they never were there. In my honest opinion, they were never there. It's a very, very small percentage of the market when we ask them from there, so approximately one-quarter investors one-quarter of people that want to change the lifestyle a little bit more, and one-quarter of a businesses looking to buy the business and then some small segment looking to buy the job. Now it's kind of equally distributed, how long they've been on the market. So it's only 39% was six to 12 months, and 35% were more than 12 months on the market. And we know from experience that people that are on the market for less than six months, they just entering they're probably not gonna purchase the business immediately. And then so if you take 25% about three-quarters of the buyers with solid buyers, they've already spent some time on the market ready to purchase and when we asked them how positive you were that you're going to bought a business how confident you were that you will find a business pre-COVID-19, 23% said extremely confident 34% said, well, reasonably a somewhat was 23%. And about 20% either don't have a clue or no confidence. And so it's solid is a real buyer. These are people that want to buy businesses. Now, we start to look at how this situation affected your way of thinking and how do you see the situation going forward. All right. So we asked them, How long do you think the crash is going to last for 85% said more than six months 85% think this is going to stay for six months before it starts normalizing. All right, 14% of three to six months and there was 1% of that. So that's going to be less than three months. Let's hope their right.

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Joanna: Your rose coloured glasses responders. I like that.

Zoran: More than half of the people told that recovery is going to be slow. There was a 21% reasonably fast recovery and the other study is going to be a slow recovery. But 51% told that we're going to have a slow recovery. That's when we get to the end of this. Now, this is an interesting question, we asked them, How do you think will the value business going to be affected? And 78% told that, on the end of this, there's gonna be a significant reduction in the business prices in the business value.

Joanna: And just to be clear, I guess I want to be clear, you sent this survey out to your pool of buyers who have shown interest in the past in business you had listed.

Zoran: Correct.

Joanna: And it's not necessarily representative of your new enquiries. It's just people who are on the book?

Zoran: These surveys, I think it's two weeks old now. Yep. Around two to three weeks.

Joanna: So it's all your buyers who were there at the moment? Really, you're saying they think the likelihood is that the value of businesses has been significantly impacted? You know, surely that's dependent on industries. But anyway, that's an interesting response.

Zoran: Well, look, that's what they think that's gonna happen that the business is gonna need to significantly reduce? I don't think that's going to be the case, right? Because yes, if your profit drops, then you have your business will be reduced. But if your profit holds especially for increases a little bit you may want to be able to demand some premium makes sense because of your business

Joanna: Yeah, it does make sense. I just have to throw in this is hilarious. Zoran, I love the last option here on question six. And this is how do you think the value of the business has been affected as we just discussed that you know, you have significant number have said significantly reduced. I love the number no clue 5%

Zoran: It's a guesstimate but look, what are you talking is about not what's gonna happen but how people feel. Right? Yeah,

Joanna: Exactly. That's right. Yeah.

Zoran: Well, if you ask me if something like this happens, I would guarantee you that because we know in GFC the number of businesses that went on the market increased but the buyers decrease and at the moment it's opposite. When you look into that and you actually understand why, but we actually haven't lost supply and

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increased demand. Banks are lending it's not like a GFC you can borrow the money for the business banks want to give money. Banks are encouraged to borrow money, but banks got a social agreement with the government's gonna help us get through it. So they're giving you money but there's no there are no businesses and offer to sell. So I know the seller think that the rent is going to be reduced. But if your profits reduce, it's going to impact your value. Definitely. All right? Even for GFC, the multiples and multipliers and formulas for calculating on businesses didn't change significantly, just very small impact depending on the industry. And that continued, and it's going to keep on continuing. So what else we find in this survey, this is an interesting one, so he said, how has the current situation, change your experience of buying a business and 36% of the buyers said, we're gonna sit on the sidelines. We are gonna sit on the sidelines, we're gonna see what happened. So 32% of the people told us, then they see opportunity in the current market. Alright, but maybe we didn't ask a question. I don't know what opportunity means just you think they're gonna be good deals, or you're looking for the bargain, or I don't know, so 22% all this say, we still want to buy a business but we are cautious and we want to buy a good solid business. All right? So these are three segments now. So 36% We'll sit on the sidelines for some time, right now, that's really not sure which part of this 36% I would say, people that were looking to change their lifestyle, which was 30 odd percent may gonna sit on the sidelines. But if you need an income, or you need to invest and if your business want to buy the businesses, I think this markets still gonna stay very active over the next three to six to 12 months.

Joanna: I was just gonna say one thing that I think is interesting about the response to this particular question was that only 7% said that we're no longer interested in buying a business. So, you know, that's really interesting. That means that 93% of potential buyers on your database are still interested in buying a business

Zoran: Looking for would consider something Yeah, but they're going to be very cautious. Correct. All right. Mind you this was like when you look conclusions from the survey. And statistically, this was a 6.5% margin of error. So maybe this 7% is a margin of error.

Joanna: That strikes me as a small number so you know, that's in comparison to what I thought it might be. So that's interesting. It's good. Good to see him.

Zoran: He asked him another question. Look, would you consider buying your house for business now? And then half a business later when we on the other end - 63% said, Yes. And the interesting thing is we see more and more deals that because of the situation, people will say, look, let's do the deal. Now, let's agree on the formula we'll buy now and we're gonna recalculate in six months to a month, whatever. It's agreeable to both seller and buyer.

Joanna: And so you were saying you've got a few deals with that running at the moment. So when do you want to talk about how many deals you've got going on with that at the moment?

Zoran: We've got a few they are running with some sort of arrangement like this, and look at one particular case. And this is a good example. All right, so we're not going to mention any names or types of the businesses, but in one particular case, the seller is in serious trouble due to the cash flow problem. So the buyers that we had on it, not trying to take the advantage but really trying to make a deal happen and help everybody because unless that cash injection is put the business is going to probably not gonna make it to the other end. Now we've got the back said, Look, all right, we want some sort of discount because we're gonna input the money, but we're gonna finance this through taking over your debt. Alright, so debt becomes a way to finance actually transaction. So we'll take your debt to supply we're gonna make an arrangement with them. Let's get it to the other end. And then based on the formula, we're gonna pay the balance, you're structuring those deals, you know, there's always a risk with any deferred payment, but if the goodwill is there and we commercially do it you cannot secure it.

Joanna: Yeah, yeah. I mean, you can find ways can't you?

Zoran: There was a one open-ended question on the end where we said, well, you know, what are the characteristics of the businesses that you're looking for going forward? There was all sorts of stuff that people told us, but there were two answers was we could group them together, someone is low overheads relative to sales level, people are looking for the businesses with low overheads or relative to the turnover. So if this continues, I want to be able to be flexible. And you know, if I need to construct a need to be able to contract music, and another one was good forward planning, alright, we know that it is what it is at the moment, but what's your plan what's on the other end? And that's what people are looking for. And I really advise people that thinking of selling a business today is to really sit down and you don't need I said that a few other interviews and videos. You don't need a 200-page business plan, but give me bullets points of what you think the future holds and how you're going to handle it forward. That's what I want to see at the moment. And that's in a nutshell survey. So look, I was really surprised that was expecting that the number of the people that will exit the market is going to be much higher. And but and I was also surprised with everything increase. So well, we kind of knew that the increase in buyers looking to buy a job or secure the income will increase, but we don't think that's going to increase this quick.

Joanna: Yeah, well, look, I mean, it's really interesting news from the report and certainly from your spike in buyer enquiries, just shows you that I guess just rehashing it's potential is a great time to get back into the markets. If you're a buyer, and maybe before the flood of buyers come in.

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Zoran: I don't want you to be alarmed but when you think about that, there's a really good chance that there may gonna happen in six months time. We're going to have all the supply Another good point for buying a business now or a good reason for buying a business now is because the different ways of funding the business through taking over the debts from the supplier in negotiating leases and also the bank zap funding at the mall. Yeah, right.

Joanna: And there is cheap capital right now, so..

Zoran: but also, really, there was never a better time to restructure the business if you needed to. Alright, if you want to take it in a different direction if you want to, you know, make a different employer arrangements and everything because normally when you buy the business and you take over, you don't want to rock the boat, you want to really use it, let it continue the way it was before we start making some changes. This situation gives a buyer the opportunity to make any drastic changes needed without being affected badly because of that. So there's a lot of positives in buying a business into this environment. We just need businesses to sell and look I'm open about this. The buyers or the sellers are not putting a business on the market at the moment.

Joanna: Yeah. So he's the plea from Zaran and he's looking for the sellers to match up with the buyers. Is that right?

Zoran: We need the good businesses to sell the buyers are out there.

Joanna: Yeah. Love it. Love it. Now look, before we leave, I've just got a quick question. So firstly, what is the general range of industries that these prospective buyers are in?

Zoran: It's across the board like, you know, if you're seriously affected, it's gonna be a bit of a hard task to do it now. But in general, anything business to business or business to consumer, like always was manufacturing is starting to get a little bit more popular. We don't operate in the hospitality market very much. So I wouldn't know how that's got that has been affected. But everything else that is outside hospitality. Retail has been the affected little bit negative at the moment, simply because there's no movement of people. A lot of retails less operate operating on a very, very small income at the moment and all the issues with the leases and the negotiations. So that's definitely been affected. But anything in manufacturing anything in the building sector, anything in distribution, import/exports, transport and logistics, Medical Center also doing well and also interesting thing is that the medical sector doctors in generally were impacted by this not positively but negatively. Which is also surprising, you've got the health emergency and doctors that are losing money. Why? Because people are shying away from going to GP because they don't want to get exposed to other sick people and whatnot. But then we got a few medical center of the market and even that there is an uninterrupted demand for those businesses as well. Accounting practices are still selling so yeah, look it's across the board.

Joanna: Excellent. Okay, wonderful. And my last question is you had exclusive during the GFC, yes, yeah. And so do reflecting back on the GFC. And, you know, I take your point, and I agree that this is potentially quite different from the GFC. But what are some of the were there some of them, I guess, trends after the GFC GFC, that you think might be replicated here? Is there anything that you're taking out of your learnings during the GFC? That you think is interesting to reflect on?

Zoran: Definitely, we expected that these markets going to increase people that are looking for the income and that has increased. In GFC we had a shortage of capital and we couldn't finance the businesses. We think that's going to opposite capital is going to be available and the banks will need to lend and so I think that's going to be positively affected. Another thing with distressed sales and external administration and liquidations have started happening immediately after GFC. And now because of this grace period of six months, that we think that It's gonna start in August September that is going to increase. Yeah, these are what I can see, but I think from a business sales point of view because the capital is more available than what was in GFC I think it's going to be a different picture from looking from that side that is going to the transactions will be happening relatively faster than what they were in GFC because raising money GFC was really really hard.

Joanna: It seems like the message is if you're thinking of selling your business don't feel like it's not possible right now because there are buyers out there.

Zoran: Look, I don't either want to say this is the greatest time to sell the business. If you didn't want to sell the business and you have a good business. If you don't need it to you shouldn't put the business on the market. But if you needed to, before this crisis and you wanted to sell before the crisis, there is no danger. There's a lot of positives going early rather than later that's my message.

Joanna: Brilliant. And so Zoran, I guess now's a good time to throw in a bit of a plug in what where do our listeners go to if they're perhaps looking at selling their business or their an advisor, who have businesses that are interested in selling? How did they go about finding you?

Zoran: Finding us? Well, we are a national company, we operate everywhere except in Western Australia. So just google us Xclusive Business Sales, and you'll find our website and contact us and our analysts the brokers will talk to you and give you as much information so you can make a decision should you put the business on the market. And another way to find me just google Zoran, the business broker and I'll pop up somewhere in the search. That's much easier to remember.

Joanna: And this, this great report you've put together I presume it's put together for the point of distributions. So how do people get a copy of it?

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Zoran: It's available on our website they can download it from our website also what we're gonna do and we're gonna publish every..well we'll try daily but it's not daily just gonna be weekly running total of enquiries so people can actually see what's happening on the market for themselves. These are cross two brands, they will have smaller businesses and mid-market which is million-plus. So we're working on the report may be to split them up so people can see on the smaller end and like sub 1 million and above 1 million, what what enquiries are, but they're very similar.

Joanna: I'm very interested to say that I'll put my hand up first, Zoran, send it through to me. Brilliant. Okay, well look wonderful. We'll put a link to all of those in the show notes, and Zoran, I just wanted to say a massive thank you for coming onto the show.

Zoran: You're welcome, Joanna. Thanks.

Joanna: Well, that's it for our episode today with Zoran from Xclusive Business Sales. Just as a recap, we obviously talked a bit about the perhaps unexpected buyer demand that Zoran seeing at the moment. And we also talked about the state of business sales in the market report recently undertaken by Xclusive Business Sales. Now if you'd like more information about this topic, then just head over to our website at the deal room podcast.com, where you'll be able to download a transcript of this podcast episode if you'd like to read it in more detail. There you will also find details of how to contact Zoran at Xclusive Business Sales and how to get a copy of that market report all about the state of business sales in the current market. At our website you will also find details of how to contact our lawyers at aspect legal If you or your clients would like to discuss legal aspects of sales or acquisitions. And finally, if you enjoyed what you heard today then please pop over to Apple Podcasts or your other favourite podcast player and hit subscribe. Well, that's it thanks again for listening in. You've been listening to Joanna Oakey and the deal room podcast a podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.