



EPISODE
138

THE DEAL ROOM

Buying and selling a business during COVID:
The Buyer, Seller and Legal Perspective

The Deal Room Podcast

Episode 138 – Buying and selling a business during COVID: The Buyer, Seller and Legal Perspective

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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 have a treat for you. We have a panel of experts to talk about buying and selling businesses from the buy side and from the sell side and in particular, we looking at what it all looks like in the current COVID market that we're in at the moment. So in order to talk about this we have Zoran from Xclusive Business Sales and Paul Prowse from Business Buying Services. And in this episode, we look at what's happening with buyers, what's happening with sellers, we all provide our own perspectives on what we think it looks like at the moment, but also what our perspective of the outlook is, for the next six months.

We also dig into what you need to think about and what has changed if you're looking at selling a business in this current environment, of course, we're right in the midst of COVID right now, and this has created many complexities in selling a business we talk about how you deal with those complexities and what are the commercial terms that you can think about in dealing with some of the risk that sits both on the buy side and

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the sell side in selling a business right now. We look at the other things that have changed we look at FIRB approvals, pricing, transparency and speed. And we also look at the potential opportunities that we think maybe in the market right now and perhaps might be in the market in the coming years.

And finally, we wrap it up with a bit of a discussion about the opportunities for growth for businesses by acquisition as opposed to just organic growth. Well, if you were interested in finding out what each of us on the panel, say, from both a buyer's perspective, a seller's perspective, and of course, the neutral legal perspective, then buckle in because here we go.

Joanna: Zoran and Paul, thank you so much for joining us on The Deal Room podcast today.

Zoran: Hello, Joanna.

Paul: Pleasure. Looking forward to it.

Joanna: Me too. Now we have a panel today and this isn't something that I do very often, but we've had a bit of a chat beforehand, and I think this is going to be great. We've got some interesting and different perspective. I think it's nice to have a bit of different perspectives I'll try and keep you two apart so it doesn't end up in an all in brawl but, I love the different perspectives of the buy side, the sell side and of course, the legal perspective which as we all know is one of the most important... no, okay, I'm sounding biased here, haha. Okay guys. How about we kick in first and maybe if both of you can just give us a quick background just just so we know who you are and what you do. Zoran take it away.

Zoran: Well, I'm principal of Xclusive Business Sales. We got five offices. We operate anywhere except Western Australia. And our sweet spot is selling businesses one to \$3 million in value. We've got about 25 people and that's all we do. We just sell businesses into business valuations. We're not advisors, accountants, don't prepare them and sell transactionally based

Joanna: Okay, brilliant. All right. So on the sell side we have Zoran. Okay. And then on the buy side. Paul, maybe give us a bit of your background and who you work with?

Paul: Yeah, sure. Thanks, Joanna. I'm really the opposite of what Zoran has been talking about. For about 20 years, we've been buying businesses for clients representing the buyer only. So I've got a partner in Sydney, Phil Teudt, and I'm in Melbourne. And we set this up, I think in 2001. And our clients basically range from about 500,000 purchase price up to five mil that's a sort of normal spot, the majority of my clients, people looking to have a change in direction in life, where they're individuals buying to take their destiny into their own hands, whereas about 20 to 30% of my clients are corporates who are looking to grow through an acquisition and so by a synergistic type business, a figure up in Sydney is a bit different amount is about 5050. Phil seems to do between those two sectors. So that's What we do and like Zoran, we don't do any legal or accounting work, we are representing the buyer to hold their hand to help them at the value and negotiate the terms and conditions of a suitable acquisition.

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Joanna: Brilliant. Okay, wonderful. So I thought it'd be great today to have you both on the panel so that we can really look at a whole range of issues in relation to getting both the buy side and the sell side perspective, which I think makes for an interesting discussion, as I said earlier, so let's maybe kick it off with at the moment at the time of recording. We are right here in the throes of COVID-19, which is creating all sorts of differences in the usual business sale and acquisition environment. So maybe we kick it off with some what you each think the outlook is for the future. And maybe Paul, if we had to you for us, what's your thoughts about the outlook from where we are now?

Paul: Sure Joanna, what I found in the last month in particular is that buyers that we have around have basically gone into hibernation. There's a freefall occurring in the market at the moment, no one sort of knows where all this is going to land. We're in uncharted territory for all of us. And I think there's a lot of uncertainty, there will be some great opportunities, it's a question of when that will start to arise. There'll be a lot of tire kickers around the moment, I think, and people are basically gonna sit on their hands, they'll have trouble getting funding from banks, or rely more on vendors to help them with the transaction with the settlements.

And I just feel that that's so where it is at the moment. It's a really interesting time that that none of us have seen this before. But the business is going really well up until about three months ago, the whole year was tracking beautifully. And I think Zoran will probably confirm that everything was moving along. Absolutely on budget if not ahead, and then it's just like hitting the wall, you know, got to the sort of end of March and then you just ask yourself what's going on here? And that's what I found was down here. And and I feel says the same up in Sydney.

Joanna: Yeah. And I think the reality is, you know, obviously different industries have been hit in different ways. Certainly what we've seen and we have a really broad cross section of industries that we work in, and some of the industries that we work in are going really well, and some of them are not, but we've actually seen the exact same, which is there was really bouyant market, you know, February and March where we're really bouyant but and then, you know, COVID came and in fact, for us, it took a little while to pin it down because we had a lot of transactions that were still running and buyers were still prepared to continue.

But and then, you know, a few weeks ago, the brakes went on, and so we're seeing a lot of uncertainty in the market, across industry sectors. Having said that, though, We still had two matters exchanged this week. We've got new buyers coming in. So there's still stuff happening, but just a lot slower. And as I say, from what I've seen, that is some that is across industries, but Zoran I think you're seeing a few different things. Is that right?

Zoran: Yeah. Look it is like I am operating in different markets from here.

Joanna: Haha

Paul: He always talks it up. Haha

Zoran: Just before this meeting, we had two meetings. I was looking at people in

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zoom. And both of the meetings were very serious, very serious businesses, very serious buyers. But all these businesses came to market before the actual pandemic. So we got the buyers and I agree with Paul these people, they were looking to change their lifestyle. They wanted to change the direction in life, they can actually pull back but everyone else is still on the market acquisitions is still happening, buyers are looking for the businesses and we got a lot of people looking to buy employment.

Joanna: Are you saying that timeframes haven't pushed out in terms of how long deals are taking at the moment?

Zoran: They have because obvious reasons I mean, like the bank still know how to work. A finding new environment challenging. We talked about yesterday, anybody from overseas now needs to be approved.

Joanna: Yeah, the FIRB stuff.

Zoran: So these all adding up and young people are more cautious. What I'm seeing is a problem on the market is the new businesses are not coming on the market. And I don't think there's a reason for it. It's just that people think it's not a good time. I'm not going to put a Garan look, we publish our data all the time. The inquiries are actually above February, number of inquiries. Were we taking your businesses to the market? And you know, people say look, you know, there's a lot of people that are looking for the bargains. Well, you know, Going to find a bargain if somebody's got a strong business, you're not going to get the bargain. So you know those three months? Definitely,

Joanna: Not yet Zoran, maybe not yet.

Zoran: Well, yeah, my prediction is July August, September, distress sales gonna be happening. But in the moment good business. Definitely we'll find the buyer. Definitely. Come find the business, because they're no longer on the market. Interesting. Really interesting. Yeah.

Joanna: And I think, you know, we we sitting here recording this now. And in the beginning of May, I think, obviously, late March, early April was a period of time of massive change and massive uncertainty about what was going to happen. And it made sense that there was a large fall off in interest in progressing early stage investigations into into the acquisition,

Zoran: And I think businesses and all of us had to deal with the crisis. So you didn't have to tell him to do any long term planning. You were thinking of selling we stopped doing selling You started addressing your cash flow and the maintenance issues. And I think that's gonna start, it's not going to be immediate, like I said, in some other places before. I'm giving you at least six to eight weeks before it starts recovering from a sellers point of view.

Joanna: Yeah. Okay. All right. So let's talk about and of course, you know, this is a little bit of crystal ball gazing here. None of us really know for sure, right? We're all we can deal with is what we're seeing at the moment. And we're all saying slightly different things, which I think is really interesting. And I wonder if it's an industry difference as well, as they say certain types of industries Zoran that you're seeing

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particular interesting?

Zoran: Obviously, like anybody that's positively affected with crisis does create more interest, but it's funny, people don't want to pay too much extra for it because they don't know how long that interest going to go for. So anybody in commercial cleaning any safety equipment and medical supplies, it's obvious that it's a little bit stronger interest than normal, interesting. We took a mortgage trial book to the market, and we had over 70 people in about 30 days and valuations are coming to about two times travel income, which was what was happening before we had a royal commission in the banking. So after all commissions dropped off. And now in this crisis, the prices are back in. Like, it's very unusual. It's all over the place.

Paul: I had an interesting conversation this morning with an old client who had bought a commercial cleaning company eight years ago. And I said to him, you must be laughing your head off. And I said, What's happened? He said, we've got about three times in turnover in that time. I said, Well, fantastic. He said, Yeah. What's happened though, in recent times, is commercial cleaning company. The number of claims has increased dramatically, but he gave me an example of one of his big clients. Where he used to have up until recently spent 11 hours a day of cleaning at the business.

And with various people, he's now they used to have sort of like 58 people there, they've now got eight. So the amount of cleaners dropped off unbelievably, because they might be accepted cleaning sort of once a day, then they're cleaning, you know, three times a day, but it's in such a small area because they've closed off the rest of the building. This was one of his best clients. But the but the it was amazing how he said how the number of cleans has gone up so much, because it's such a smaller area because they've laid off everyone that the actual dollar terms have gone backwards,

Joanna: Wow.

Zoran: Also like anybody that's been servicing clubs and pubs industry, obvious reasons that it's a big effect on them as well.

Paul: Yeah. So it's very segmented, Joanna as to who's booming and who's busting in this market.

Zoran: It's not a concern. It's a short term issue. As soon as the when you start reopening, those businesses gonna pick up that's why I'm saying like, this is gonna be slow recovery, long recovery. Well, certain things going to recover very quickly. I know my local pubs is up.

Paul: But even with that, though, it's going to become probably an economic for a lot of those sort of places Zoran to have instead of having 100 people in the venue to have 25 people in the venue. Yeah, well, it might not be possible for it to work.

Joanna: And the problem is we don't know how long that will go on for I guess that's the issue and that is what's causing part of the concern. But you know, from what I'm seeing, you know, I'm talking to a lot of buyers out there who are saying, you know, we're gearing ourselves up we're really interested. We're not ready right now though, in that they just still want to See a little bit more stability coming in, but

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they gearing themselves up. And I think that's really sensible in not necessarily not commenting on the sensibleness of waiting. I'm just talking about this commenting on the sensibleness of gearing themselves up now, because I think once activity starts, I think we're gonna see a lot of activity come on the market really quickly what to both of you think about that?

Zoran: I still think we got activity when the businesses start coming on the market. But buyers are definitely there. But I think that's going to be and I don't know what what Paul thinks, I think is going to share my view on this. There's gonna be some deferred payments, some sick nonlinear to run as the deal, but in order to secure the deal and secure the income, so they'll pay for that because if you are affected, you don't know how quickly that's gonna pick up. So I can only see that the buyer is gonna say, look, we understand where you're coming from, but it's not there yet. We don't want to be the monster to take hold. risk. So let's pay portion of the for the portion of the business now and predetermine formula how we're going to calculate the what time we're gonna recalculate? hmm

Joanna: Okay and guess what we talking about right now is if you're looking to sell a business now you're looking to buy a business What's changed? What are the deal terms that are likely to really have changed and be at play right now and Paul? I interrupted you?

Paul: No worries, I was just I was just gonna say john on that on that the vendors are now going to have to sort of underwrite the performance of the business more than they used to with with earn outs because what the value of a business is really just a multiple reflecting the reliability of the recurring income with a change of owner. Yeah, what's gonna happen there doesn't matter how good the business has been historically, none of us are knowing what's going to happen in post September this year. When the all the assistances get finished. That's what I say but I don't think they will or not because they might just drip it out a bit longer.

Assuming it happens as the way they say it's going to happen, people are then going to have to decide, do we still continue working the way we used to work? Do we need this many people here? You know, maybe we've got by with fewer staff, fewer, smaller amount of space? Are we better? Are we more profitable by just sort of pulling their heads in a little bit? And, you know, our suppliers and our customers going to continue to buy the way they used to buy? Or is that multiple fact going to go right through the industry and eventually come back a little bit, they might be a whole new set of rules that apply after September.

And so what vendors I believe will vendors will do in my clients will be asking vendors when they buy business, that they want some certainty that they're projecting a certain level of income that that is going to continue in the next one to three years. And you know, we'll be looking to put in causes these are now sort of clauses which Zoran would hide them I'm sure but the testing just

Zoran: I am just waiting for you to finish to tell you all about

Paul: Just to protect what they propose is going to happen.

Zoran: Yeah. See john from sellers point of view. And look, I agree with folded some

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sort of mechanism has this will apply more and more for selling of the businesses to secure future performance, the problem with the earn out is that from the sellers point of view that they said, well, okay Paul's buyer bought a business now, I've got no control. What if the business is not running as good as when I was running it? Why should I pay for it? What do you propose, Paul? In those cases? How do you How can you overcome that situation?

Paul: You keep the person on a retainer, to have some sort of control as in watching what's going on. And maybe they go on a two year consultancy agreement where they get some sort of fee to make sure the business fundamentally stays on track the way it was been running.

Joanna: And one thing I want to throw in here, this is such a good discussion because these are real issues that are going on right now and we've got matters Right now that sitting, you know, effectively there are going to be a full purchase price up front, but now they've changed to deferred payment retentions earn outs even so we're utilizing all of these strategies right now. But you're absolutely right, this question about well, if we're talking about an earn out, as opposed to just simply a deferred payment, or even if we're talking about our retention, what happens in terms of control, and I think you're absolutely right pool, that the involvement can assist the vendor, but from a buyer's perspective, and even from a vendor's perspective, I think there is quite often a lot of tension in the business between vendor and buyer, once they actually start in the business together.

Certainly, this is something that I've seen on multiple occasions, because because quite often they have different ways of approaching how they'll run the business. either of you have a comment on that,

Zoran: But that's in your reality that's correct but you just got to find a way to work through it. And on what Paul said you can stay on consultancy for two years. They show you that from the sellers point of view is then issued to your attention or to your consultancies. did whatever caused seller to want to sell business it's still there and he wants to exit two years is a long time if you're retiring if you want to relocate if you if something happened in your life, but you need to find a way that you can work it out because realities if the future is uncertain, no more just gonna hand out the money.

So buyers and sellers will have to work close and you know, I'm starting to see that and we have placement try to manage the deals their way that you are trying to negotiate in friendly manner because you almost know that they'll have to stay together pass the exchange. It is really important for buyers and sellers and now more than Anything else is from both sides to be very transparent and to work together to make the deal work.

Joanna: Yeah.

Paul: Yeah. The answer to that question, sorry, Joanna, the answer that I think the response to that issue that you're talking about zarn is, well, it has to be reflected in the price you pay for it. So if you want to have a two year earn out, you might pay three times an even bigger say, but if you then want a one year earn out, well, you might only pay two. Yeah, because that reduces a certainly, because in this market that we're now going into, I don't know how a vendor can say there is a reliability

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recurring profit, I lived for Christmas last year, we would have been able to say that because we knew historically what the figures were and all that sort of stuff. But this is game changing stuff. And I don't think anyone can do it. If they're not prepared to give you that guarantee that the market is where it is. They're going to then reflect that in reducing the price which is the reducing the multiple in my opinion.

Zoran: Well, I also think from the sellers point of view, buyers, they really want to full guarantee on the future may not gonna buy the business over the next 12 to two years, just because a lot of vendors will say, Well, if I'm taking most of the risk may as well take most of the profit and keep the business. But this discussion is what actually is happening out there on the market.

Joanna: Yes.

Zoran: You know, we need to work with each other find a way.

Joanna: Yeah. And you know, and I guess out of this comes, you know, the importance of, you know, the deal team working together focused on finding a way to get through some of these issues and find, you know, both the commercial and off also some of it is the mechanics that sit within the earn out. So the legal elements together to make sure it works for both parties so that they get the deal across the line.

Zoran: Joanna, I wanna, I want to give not just you a good recommendation, but all good lawyers. Look, it's really important to have a good legal and good accountants on the side. Because both parties are taking risk. And if the lawyers are not commercial about it, they just gonna bury the deal. It's not gonna go through. Parties need to understand that in, in business in general, you're taking a risk. But in this environment, you have to accept high level of risk, if you want to sell or buy the business either way.

Joanna: Yeah. And that comes back to I guess, also, the approach to the deal team and the advisors comes back to exactly your point earlier, which was now more than ever, it's important that, that the relationship between the buyer and the vendor is good and solid, if they're going to be, you know, there's a high likelihood moving forward for a while that that many buyers and sellers will have to have an ongoing relationship together for a while. So that's why you need to make sure that your deal team and your advisors are, you know, not tearing each other apart because I think that's something that I you know, I've seen from afar happen to happen to deals but before they've come to us that have created real issues.

Zoran: Yeah.

Paul: So Zoran, can you recommend any solicitor?

Joanna: Hahahah I'm not trying to make this a self serving discussion.

Zoran: Hahaha

Paul: It's starting to turn to one Haha

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Joanna: I will need to cut that out. Hahaha or leave it in I like it I like it. Haha But the point is, I guess it deal teams working together.

Zoran: It is and from to diligence point of view from documenting the deal arrangement. Everybody has to be way more commercial than a there was a room for hard bargain in the past if you want a good deal. Now, if you're a buyer or the seller, you you really need to go for the fair deal. Not a hard bargain because you may want to get a good deal in the price, but you're going to get no support from the seller or you may going to get a really really good price, but you're going to get much longer terms and you've got to take on a lot of risk. There's a seller.

Joanna: Yeah. And you know, this podcast goes out to a lot of accountants as well. So part of what I'm talking about here about the deal team involves accountants, it's not just, you know, the lawyers, the other components of the team. It's also the accountants and you know, quite often there'll be finances involved. We need everyone here to be part of that saying, it all is a team working together to get to the ultimate outcomes, because highly conservative approaches from any of these areas, you know, can I think will trip us up moving forward in terms of because that's an uncertain area that we're in, right.

Zoran: A lot of vendors and buyers, turning to their accountants and asking for the advice from gray. So they won't say they will make a commercial decision and said, Look, what do you think? Are these books accurate in my mind what I'm really buying but actually turning around to accountants and saying, Do you think this is a good price or should I bought this?

Joanna: Yes, yes.

Zoran: I mean, it's not for them to make a decision. You need to make as a sell or buy, you need to make a buying decision. Use your accountants for due diligence for financial part of the business don't don't use them to make decision for you because look, it's much safer for them to make a no decision then yes decision and they always have to know decision. And that spooks, buyers and the sellers away.

Joanna: Yep.

Paul: Yeah. We've got hundreds of businesses over the 20 years, Joanna, and I think if we really analyzed it, you'd probably find a good excuse not to buy every one of those businesses. Yeah, the idea is, like Zoran saying, you've got to find a reason why you buy them. And they've been so many successful businesses that they would have been on the surface or in the textbook, a reason why you shouldn't have bought that business. But someone's had the mouse and the initiative and the guts to go ahead and buy it, and they've been very successful.

Zoran: That's why the return on on that investment is much higher than when you put a bond the money in there not on a long term but short term. So, but that's really true every business you can find a reason why not to buy? Yeah, every single one.

Joanna: Hmm. And I guess you know, it's been just about recognizing the risk, understanding your tolerance and then finding ways to minimize it as much as possible and come to a fair way that will work in terms of sharing of risk, as we've

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talked about in terms of looking at earn outs or retentions, or whatever the case may be. And obviously, we're going to have distress sales that I think will be hitting the market, you know, probably, as we see the stimulus coming out of the business economy. Do either of you have any comments on on what that might look like, from each of your perspectives?

Zoran: Well, we operate with quite a few liquidity as external administrators and sell their assets as a going concern. So buyers need to know one thing about this. If you want to buy distressed business, you have to move fast yeah was whatever made the distress you may gonna make it non existent in very short period of time. So you don't have a luxury of weekends to think about and another weekend to think about in doing a slow due diligence and having another three, four weeks for your lawyer to go through the tricky accounts, you really have to move fast if the business's distress, speed is of the essence. So, if you do it fast, you can pick up some good deals, longer you take the more the value of the of the business diminishes, which is not necessarily a good thing.

Even if you buy less well you bought a lesser asset. So with distressed deals, you have to move very quickly from the from buyers point of view, from sellers point of view, what they often do, they actually don't want to disclose that they're in distress. So they trying to act like businesses usual and that makes a buyer move much slower, and all of a sudden problem becomes even bigger 3-4-5 weeks, two months down the track. So disclosure from seller's point of view is a must open up a books tell them exactly what it is the reason why the seller doesn't want to do that, because they think they're going to use that in their advantage, but they won't. Because what are you going to do by being open and honest and telling people that you distress you're going to attract more interested parties and that competition amongst themselves? They will help you improve the price already.

Joanna: Yeah. As opposed to creating a situation where you get to a deal but the deal falls over because all of this comes out in wash it eventually.

Zoran: That's another problem. Paul what's your opinion on this?

Paul: I think with the distress and Joanna you'll probably concur with this is the golden rule with distressed businesses. You only buy the asset you don't buy the company.

Joanna: Yeah,

Paul: I think I think that just opens up Pandora's box when you try to buy a company and Normally is the case you only buy the assets of businesses anyway. I think by far the majority of transactions take place like that. But there may be a discussion for another day but but buying the company of a distressed businesses fraught with danger,

Joanna: I do have to say there are ways that you can wash that through. So what we actually deal with quite a high proportion of share sale here. So so obviously we say both Yeah, absolutely. I hear what you're saying in terms of buying the assets rather than taking on the liabilities. But there can be ways I guess, just as a pointer, there can be ways that you can in many instances, do that and still protect yourself

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with a restructure. But yet, yeah, I hear what you're saying. But sometimes, there's also an advantage in looking through and getting some idea because some times there can be some advantages of picking up even distressed businesses that might retain you know, some sort of tax advantages in it. So you know, It just depends

Zoran: Often when people in distress their businesses is in distress state the owners what makes business distress is a debt like so money that you owe and often they just want to really repay that just well I'm in situations that can't make any profit out of this but if I can go away with cleaning all the all the debts and all the creditors I'll be save so it could be way to actually finance the business so return on equity could be good maybe you don't have to have a cash but just making the arrangement with those creditors could actually get you into the business arrangement could be very far favorable to the buyer because the creditors sometimes don't have a way out of it they're gonna lose everything. So if done smartly a buyer can really benefit from buying distressed business and the seller can clean their debt and the creditors can get paid.

Joanna: Actually, I had a discussion earlier this morning with a potential buyer. A buyer I've worked with in multiple acquisitions before who's in the medical and dental space. And he said last week, he was approached by three businesses in the industry just handing in who wanted to hand in the keys and walk away. So there's some interesting things that are already starting to happen in the market.

Zoran: Sometimes distressed businesses have a reason to be in distress,

Joanna: Yeah. Of course.

Zoran: But just because something is in distress doesn't mean it's regular.

Joanna: Absolutely. Excellent point Zoran, because people who are perhaps not highly experienced in acquisitions might think well, there's a massive opportunity that the client I was speaking to a new enough to say, well, they're not the ones that I want, you know, because I know to walk away, you know, but it's a risk.

Zoran: But also if something is in distress doesn't mean he doesn't have a way out. The answer to that is you know, do your proper due diligence. The only thing you have to do too quickly.

Paul: Yeah and it's not for the faint hearted. You got to be ready to move quickly. And you've got to be experienced, I believe if you're gonna buy distressed business,

Joanna: Yeah,

Zoran: What I saw in GFC, that most of the deals that we've done for distressed businesses, were other businesses buying those businesses because they've got something to offset against.

Paul: Absolutely

Zoran: They can support them.

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Joanna: And so, let's just quickly flesh out then we talked about the importance of buyers being ready to go and ready to act quickly. And also, I think this applies also to sellers of businesses, you know, they need to recognize if they're thinking of selling their business, they can be a period of time you know, there is such a thing as leaving it too late if the business you know, in a distress sale or in any point, so, but what does it mean for a buyer to be ready, what are some of the tips that you will give buyers, both of you to make sure they lined up and ready to go to be able to move quickly when the opportunities come their way?

Paul: I think they've got to try and get a more focused brief on what they're trying to achieve and and fine tune that as much as possible. Now how much they want to invest know, geographically where they want to be, and know what they don't want to do, and and obviously have access to funds. And the funds these days may either come from the increase in a mortgage on their real estate banks to some degree, and obviously, the vendors to some degree, so it might be a cocktail of those sort of three things that put it together but focusing more on industries that you know a little bit about, so you can actually move quickly.

And you've got some interesting and you can see the upside but and the other those other three things geographically is a really big one, a practical side of things. We adjust to hard drive, you know, an hour and a half to work every day, you end up wrapping yourself around a pole somewhere. And it's just extraordinary how people sort of double or do overlook that. until I come to the harsh reality that Oh, I'm going to get out of bed on Monday morning and I've got to drive all the way along and back again that night in the traffic on the West Gate Bridge and, and they think it's true. It's a bloody nightmare. Are you guys in Sydney got such good traffic doesn't matter.

Zoran: Hahaha

Joanna: Hahaha

Paul: And it's just that's a practical thing. So they've got the more they can focus on what they actually want to achieve when something is presented that sort of ticks those boxes. They are then in a position to move and be ready.

Zoran: Yeah, from sellers point, I'd say. I agree with everything that Paul said I would just be explained this to to seller at the beginning. I'm cashed up, I can move quickly. It is a business that I'm looking for. And you'll find that the seller will always deal much rather with somebody that is more confident that's going to complete that somebody that he may be going to get something more Yeah, but there's a good chance that he's not going to get anything They'll favorably look for somebody who's prepared and ready to move quickly. Because if you're losing money, as the time goes by, you lose more and more. So you may go and get a better price. But you may want to lose more money before you get better prices. And that position is actually worse off.

Paul: Yeah, and I've got a little I've got a little, what I call a suitability test, I give all my clients and every time I present a business to them, I ask them to fill it out themselves, and there's no right or wrong answer to it. But it's five, five areas, and I get them to write from nought to five, each of the five, so you get obviously 25 points or near zero, but until I score something like 15 to 18 on their own assessment, and it

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doesn't take any to do with the value of the business. So we put that aside, this is purely to work out whether it's suitable or not.

And so the little litmus test we use straight away is fill out your questionnaire, what's your score, and they come back and say it's 12? Well, I don't even bother wasting any more time on that file with that client. But if they say it's 18, well hang on, we got a look at this closely. This is you're never gonna get a perfect business. No one's ever scored 25. But, you know, when you score something around that 20 Mark, it's really eminently suitable for you to buy. And assuming we can get it for the right value. But it's got to be suitable first. A business is just another form of investment, providing a lifestyle.

So you've got to be able to get out of bed on Monday and be happy going and doing what you are buying. Meet those clients go to that location. See that staff, whatever. And then obviously, you've got to get a return on the investment you're putting in. So there's two parts of the equation when you're looking at buying a business. And first one, actually, the suitability is probably the most important part.

Joanna: Yeah. And it's about understanding the business, right. And of course, because I come from the legal perspective, I'd say, you know, understand the risk that's sitting in the business as well, but it's just that general understanding of the business together with what you're actually looking for. And in fact, we have seen Over time quite a few buyers then go on to sell, you know, within a few years of acquisition and that always troubles me because quite often sometimes it's more of a flip and they've been able to add a lot of value and get a lot out of it so so that's a positive story, but most often it's because they haven't fully understood what it was that they wanted out of the business number one and number two, they haven't fully understood the business mostly from how it would feel like to be in there and be in the industry and running it.

Zoran: I want to give a call and feel from business bank services plug here because we do deal and they buy businesses of us now and then and often when I'm sending him a deal they'll look at it very quickly they're gonna certain it's not for my boss see you later and because the brief is really good that they know exactly what's happening so they're not losing much time.

So it really having a good adviser and a lot of buyers go in without the advisors, they do a lot of work themselves without their opinion. They don't really notice it's not even crystallized in their head what they really want to buy. Yeah, so look, it's our job. To me, it's not a waste of time, each time I talk to them, I educate them a little bit more. And that's the process that we're going to go through.

But I'm just afraid sometimes buyers do miss out on good deals. And sometimes they have a good deal they don't recognize it. And sometimes they just don't go through the whole process and don't do the best thing for themselves because they didn't have good advice about that emotional component before they go on the market, lawyers gonna look at the contract, accountants gonna look at the books, but no one's helping you with this emotional part of the of the journey...

Paul: And I need to be really clear. You mentioned it a minute ago, Joanna, the purpose of what why are they buying it.. are you buying the job? they bind to grow

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their existing business? are they buying it for capital growth, identify right from the start what you're actually trying to achieve before you jump into it.

Joanna: Yeah, I think you're absolutely right. And you know that that sounds obvious, but I think it's a step that's missed so many times.

Paul: Absolutely.

Joanna: Just, you know, that sort of foresight of what, what does success look like? And why is really critical. So before we wrap up, I guess I just want to touch on a few things quickly. One of them is we've given a bit of an overview of what's changed in the market. How about we make sure we've covered it all. So one of the things we talked about was right at the moment FIRB approval thresholds have changed. So if there's foreign buyers who are looking at buying in most likely they'll be caught up in a much more lengthier process and requirement to go through FIRB approval. So that's one thing. I think, certainly that it has changed recently. That's important for both buyers and sellers to understand what else are you guys saying that that has changed

Zoran: From sellers point of view? I'm really getting a mixed messages. We did have deals with the bank said yes, yes, yes. And then no last minute then we had the deals that went through without too much dramas. So I think that the different organizations, the banking organizations for the different appetite for risk, especially for buying businesses, so I think the money is out there. You just can't rely on the bank. Did you always dealt with it's going to go through? So I think you really got to do due diligence on your finances before you start purchasing not going to look at the business.

Joanna: I think you're 100% correct. Yeah, I agree with that one.

Paul: And I just think it's so early Joanna to call what's going to happen in this period coming up, we haven't got to it. We're in absolute transition as we speak. There's not a lot of activity going on. But the washing out after August, there'll be a whole different approach to everything. I think transition is going to take longer, which you won't be happy about Zoran but I and the transparency information will become more important, you know, and vendors are going to become more involved in the ongoing I believe that's this is my opinion.

Zoran: Definitely because of the perceived risk buyers are going to be more cautious of that transaction is going to get longer well the vendors can do is, let's make sure that we got everything ready. All information needs to be up to date. And very, very quickly available, so give it to them. All right. So, look, it doesn't matter how big businesses two weeks, every due diligence can be complete, what slows down the due diligence, it's a flow of information.

So if you've got an information, if it's done very quickly, and then fast, we have a lot of vendors taking this lightly. I think really, they need to prepare, have everything ready. You have to have your documents, you know, just put them in one file, very simple given to the buyer and say, knock yourself out. You're going to proceed or not.

Joanna: Yeah. And transparency, I think is he talked about before and I think that

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that's a good point that you know, be prepared to be transparent even when it might feel uncomfortable.

Zoran: And again, I'm not giving Joanna and any other lawyers plug out. But you really have to have a good lawyer, a commercial lawyer. You know, sometimes your lawyer that's been serving you very well for the last 25 years when you're buying properties and you're doing your deals and so forth, may not be the best person for the job. Same with the accountant find somebody confident and experienced in introductions to help you to process when you're buying and when you sell.

Joanna: Well, yes. I'm not going to agree to strongly because otherwise That sounds very self serving, but I totally agree with you. Absolutely. In fact, one of the best things you've said on this podcast. Okay, so And obviously, I'm from your perspective, Zoran, you're seeing an uptick in buyer enquiry at the moment. How many of those buyers to actually do a deal.

Zoran: We have a mortgage book and out of 70 odd inquiries. I think they were very quick coming offers, and it was over 15 offers. And look, these were there was about three or four or five, they were really opportunistic. The rest were really solid fail offers. So if that's something to go by, look, people are ready to purchase.

Joanna: You know, a mortgage book is, I guess, in one sense a little bit different to a normal type of business anyway, in that you're buying this, you know...

Zoran: I can tell you the deal this morning that we talked about, they actually started saying, look, we are ready to purchase. The money's in the bank. We want to go through so I think people are ready, I think. I'm not sure how ready are the people that you know, because we see this segment of the market growing with people that are looking to buy employment or secure employment going up to \$400,000 in profits. I'm not sure How ready they are, you know, because I don't know if they understand what needs to happen in order for you to purchase the business, and how easy or how hard is to buy the business.

But look, if you're selling you got to buy, that's a good buy, you'll work with them for this to happen. All right, so so these buyers are really really good buys for people for people that are not in distress. And look, we talked a lot about distressed selling businesses. We're not seeing that yet stuff to get to the market now at least the ones we really for that Yeah, good, strong businesses may gonna come later, you know, when when we start coming on the end, but at the moment, there's no distressed sales. They're almost distressed buyers, they're coming in because the guys that thinking they're gonna lose a job, but they lost a job, and I'm not sure how ready they are, but we'll look you know, you help them out through the process.

Joanna: I just wonder I do wonder and, you know, once again, this is crystal ball gazing, but you know, running a business takes a lot of effort. And I think at the moment, you know, the government's doing Mila measures have given a bit of breathing space to businesses, but I just wonder how many businesses and it's not even necessarily distressed businesses, but get to the end of the stimulus. And you know, and there's this need to rebuild again, how many business owners just don't necessarily have the energy emotion for that. I just wonder, you know, good point.

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Paul: Absolutely true that there'll be a lot of agenda that day, the baby boomers who have all got a secret family name, who are the majority of owners of businesses, they're gonna say, Well, we've been kicked in the guts and lost 30% of our value or turnover, whatever, cannot be bothered working for another two or three or four years to get back to that level. Hmm, I don't know. This is this is the September October November topic discussion that we are having.

Joanna: Yeah. But that's why I think, you know, I think that there is a really strong opportunity that's coming up for growth by acquisition for businesses that, you know, I personally think this is coming into real period of opportunity and even for businesses who haven't thought about that before who focus more on organic growth, you know, maybe now is really a time for a strong movement in acquisition for growth of the business,

Zoran: Especially if you're in position to do so if you still got a strong business business does Yeah. So you don't have your internal issues to deal with he could be ready to, to open up new markets to extend business that look is this always not just not but that that opportunities is always there? Yeah.

Is this what you said? Paul, earlier? Are you John as well? Like when you you know, you just had enough and, and you want to move on? It's a good time to actually change your hands on business, get some new blood into it. They can take it to the next level because you kind of run out of ideas before I mean, like it's expected to not no one no one has the same career hold their life when they're working in any job. So why would you expect the business owner to stay in the business in Was he asking for 40-50-60 years is impossible?

Joanna: Yeah. Yeah. And I think you know that that as well is a point that business owners should be thinking about if they are feeling that energy drain I think there's a story there's a reason why revenue may have dropped in this period of time, but if you are battling it out for the next couple of years, and you've not been able to pick up that revenue, you're not going to be able to get that value because you've lost that story. Do you know what I mean? So I just you know, I think business owners to think seriously about if they're having an...

Zoran: That's one possible scenario when this opens up that people really aggressively gonna start attacking the market. And if you don't have a business of aggressive nature, you may fall behind, and that's gonna display your business as well. You're in trouble in and maybe never gonna recover. So that's also something to think about. Like, I really think you It's going to be a big push once everything reopens to bring customers. So don't be left behind. And if you don't have that in you, maybe it's a good idea to start contemplating exiting now today, you know, planning and working with someone.

Paul: And the other thing though, I am sure Zoran would agree to this that time is the best conditioner of a vendor. And the longer the business is on the market, the more the vendor will start to realize that's probably priced at what is the reason why hasn't sold, and it starts to come down and now he's, they've all taken a hit or a lot of them have taken a hit now, and they got to then think, well, I keep pushing on, we're not going to get back to the levels we were Christmas time. It's going to take two three years. I've got the stamina to keep doing that. I agree with you guys that I

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think there'll be a lot of opportunities to come on the market in the latter half. half of this year.

Zoran: Paul, would you pay more for the business that actually didn't take a hit during this crisis?

Paul: I'm not going to say pay more, would I pay more than than, say a Christmas time?

Zoran: Yeah.

Paul: Well, it means the business is pretty resilient. But it depends on what sector it's in. Because some sectors haven't been affected, you only have to go to Bunnings, for instance, and you queue up for about 100 meters for milk.

Zoran:
Hahaha

Joanna:
Hahaha

Paul: I mean not every business falls into that bracket. But the ones that have been able to withstand this probably tells you that they're pretty resilient, strong business in good sectors. And when you pay more, you may not pay any less, but it's gonna hold its value.

Zoran: I think there is a case for those sellers with a strong businesses to demand premium, like I mean, it's not going to triple the price of their business, but some sort of premium. And the reason for that, like Paul is in the buy side and they are expecting a lot of distressed businesses to go on to market and lost a lot of people I think you're using a lot of businesses took a hit and if that's so then it's gonna be less good businesses on the market so in order to get into the good business you may gonna have to pay a little premium and what i'm talking good business is somebody who didn't get to this was a really good test for a lot of businesses.

Paul: Good point.

Joanna: Love it. Well, we really digging into some, some insights here I think that some hopefully our listeners will have found as interesting as I have. So guys, any parting words in our wrap up now and and of course, how our listeners get in contact with you if they're interested.

Paul: I'm in Melbourne and not within regions Zoran has to see, seeing the way you dealt with that other thing that came into the room. You can look up businessbuying.com.au is my business and I just think the really important thing, whether it's us or anybody else who could fill up in Sydney and myself here, but whether it's us to get proper advice when you're making an acquisition these days is probably more relevant and important than ever. Because there are so many unknowns that have come on into the market now in relation to values, returns, stock holdings, certainty of income that just needs to be taken into account. It doesn't shouldn't put anyone off buying a business, it just needs to be factored in and so

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there's nothing against whatever Zoran is putting up it just needs to have the sort of fence around rounded to give some certainty that what anyone is selling, they are actually selling.

Joanna: Right. Okay, and how about you Zoran?

Zoran: Well, from my point of view, look, I was gonna say something when Paul said like the term is the best conditioning factor for vendors. I do agree with that. And I also would like to add something else. Most of the businesses that I've seen over the last 15-20 years that sell below the market value, is because they start negotiation they go to market, they priced themselves out of the market. So yeah, thinking to sell a business today take a really serious advice take not one valuation, take a several valuations, take to as many consultants, you can look at a comparable sales don't believe anybody? If it's too good to be true, maybe it's not true. All right, get a comparable sales, see what the businesses are selling price the business well, and you're going to sell it very quickly. I don't care what time. And if you need a help, I know just the guy that can help you.

Joanna: I bet you do. Hahaha

Zoran: You can just google Zoran the business broker and pop up everywhere. I'm more than happy to help anybody, have a quick conversation, long conversation, whatever they need.

Joanna: Brilliant. Okay, look, I loved it, guys. This was a fabulous panel. Thank you so much for coming on to the durian podcast today. And maybe we'll have you back in six months time as we have a recap of we try to get a crystal ball gazing let's test ourselves in six months. How did we go and what's happening in? Let's do it.

Zoran: I'm up for it. Thanks, Joanna for having me.

Paul: Yeah, I really enjoyed it. Thanks Joanna.

Joanna: Wonderful. Thanks guys.

Joanna: Well, that's it for this episode where we had our panel session with Zoran from Xclusive Business Sales, and Paul from Business Buying Services. Now if you'd like more information about this topic, then just head over to our website at thedealroompodcast.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 Paul at Business Buying Services.

And there you'll also be able to find details of how to contact our lawyers at Aspect Legal. If you or your clients would like to discuss any legal aspects of sales or acquisitions and finally, if you enjoyed what you heard today, please consider heading over to Apple podcasts or your favorite podcast player make sure you hit subscribe and don't forget to leave us a review. Well look thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.