



The Deal Room Podcast

Episode 193 – Going From Zero to Small Business Hero Part 1

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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 three-part series for you with fabulous Mike Davis, who is a client of Aspect Legal, who's been on an interesting journey for the last 41 years. In this three-part series, we investigate his business journey, we look at his growth from a single employee to building a business with 50 employees and winning the Australian Telstra Small Business of the Year Award, then going through the process of exit, and then acquisition all again, building up another company and then ultimately leading to another exit and this winds up with what Mike now in the new place that he's not quite yet retired because Mike is not the kind of guy that retires easily. So this is a fabulous story of Mike Davis's zero to hero story that has a number of key takeaways. And I think it's really useful listening, whether you're just starting out in business, whether you're gearing up for sale one day, whether you're in the middle of growth, with you're looking at bringing onboard partners and other equity holders into the business, because boy, do we drill into that in quite a bit of detail. Or indeed if you're at the point of exit because this three-part series has just got so much in it no matter where you are at in your business journey. Now, in this episode, part one, we dig into Mike's formative years in the business, to understand how

to deal with growth, leadership and management. We also talk about the consequences of not having a shareholders agreement, and we discuss how you can achieve success when entering into an earn-out. So buckle in and here we go without an episode with Mike.

Mike, I just want to say a massive thank you for coming on today to The Deal Room Podcast. I am so grateful for you giving up your time

Mike: Pleased to be here.

Joanna: Great, Mike. Well, look, I think probably the best place for us to start and there are so many things that I want to traverse today I want to understand your feelings about the sale process and you know, what you wish you had have known in advance and you know, all of those things so that we can talk to our audience about what it feels like when they're at exit. But, but I'd like to start maybe back a little bit. Maybe if you can take us through a little bit of the history of your business. Let's start there, Mike.

Mike: Well the history started way back when I was about 16.

Joanna: Wow!

Mike: I completed an electrical apprenticeship in a company in Wollongong in New South Wales. Which was involved in the repair of electric motors. And I spent five years as an apprentice, and they burned me out.

Mike: So you were burned out. You said you started at 16? Yes, work for five years. So by 21. That's it. You're burnt out and ready for retirement? Is that right? Hahaha

Mike: Yeah. Well, I was burned out and ready to leave that trade. And in the RAAF, this is where I learned in RAAF the importance of discipline around engineering and how you conducted yourself and problem solving as well. And after three years, and the arrival of Gough Whitlam, he gave us the opportunity to exit the RAAF, which I did. I call those my formative years.

Joanna: Your formative years. Okay. I love it. I love it. And I guess, you know, it is the case, I speak to lots of business owners that have, you know, run very successful businesses. And quite often there is this, I mean, for everyone, there's this, this period of training, where you do all sorts of different things, but all of those different elements, arm you, in perhaps many different ways for that evolution of being able, you know, to build your own business in that space. And what did you So looking back on those years from that perspective, what were the things that you got out of those early was at that early 10 year period? That, you know, really set you up for future business ownership? entrepreneurship?

Mike: Well, I think it was in my DNA because my dad insisted that all his sons did a trade.

Joanna: Right? Got it. Uh huh.

Mike: And there I was with this qualification, but there was a major interruption in my life when I was around 25. I got married.

Joanna: Oh! hahaha, I don't think your wife would like to be referenced as an interruption. Haha

Mike: Well, my wife is a medical practitioner. So I became second string to the relationship. I had to get out and go get a real job,

Joanna: Right? So where did you go then?

Mike: I went to university studied education and went teaching. I taught maths and physics in Australia and New Zealand for six years. And then we landed back in this lovely place called the Hunter Valley Newcastle. And I didn't have a job, I had a pregnant wife, we didn't have a house at that stage. And I made an announcement one day that I was going to go back to where I started, and I established the company repairing electric motors.

Joanna: Oh, wow. And what year was this Mike?

Mike: 1981.

Joanna: 1981. And so this is when the business was born?

Mike: Yes. This is when the real journey started.

Joanna: Yeah, yeah. And do you remember some of those struggles when you're first starting?

Mike: Yeah, vividly. I remember imposters out in the community that are dealing with those who suggested you weren't good enough. You haven't been in business long enough. They said that won't work. We can't trust you to it. And I remember the bank manager, I go in the bank and saying I needed a loan to buy some stock for this business. And I walked out of the bank with a \$2,000 bank card. Wow.

Joanna: Wow. That was the only finance that they had to offer you at the time and a \$2,000 bank card

Mike: Yeah I had that finance and other savings and cash flow. But it's actually interesting in business when you're a sole trader at that stage which you lost. You can use those negatives to motivate yourself.

Joanna: Yeah, absolutely.

Mike: I had huge motivation from that. I had the energy. Yeah. And you needed it because I had to get up at 4 am in the morning and do the invoice. Wow. Because I needed the daylight to do the work. Yeah, yeah, I've fed and energized myself after negatives, to turn them into the positive. And the major positive I had was, I'm going to show them. Yeah, right. I love that. I've got to make this work. Yeah. And, and I did, we took that business within 10 days, from one guy to 50 employees,

Joanna: Wow.

Mike: Made it to Australian Small Business of the Year,

Joanna: Wow.

Mike: And then to our business recognized in the federal parliament, by winning an Australian Quality Award. And that's where RAAF discipline came in. I structured the discipline shop. And bear in mind, this industry I was in it was a cottage industry, essentially run by artisans. They weren't real business peoples or corporations besides these types of companies at that time. And so I had a recipe day, and we were famous, but you know, you had burnout is a limit to what a human can do.

Joanna: Of course. Absolutely. And look, that's huge growth from one to 50 employees. And there's a massive mindset shift that has to happen there along the way. Because, you know,

clearly as the one, you were doing everything, as he said, you're getting up at 4am and invoicing. And then, you know, along the way to 50. You know, generally what happens is you go from doing the work to being the manager to then ultimately stepping back and working out, you know, how to find managers to manage. So can you tell me a little bit about that process? And how you navigated understanding how to deal with growth to deal with leadership and management?

Mike: Well, that was difficult because we're 50 people. You can't be a sole trader, you've got to be a team.

Joanna: Yeah, yeah, absolutely.

Mike: You've got to be able to choose the right people. And on a technical level, I was fine with that. And on the sales level, was essential, I took the role of being the salesperson and the evangelist for the business. But on the commercial side, we always floundered a little.

Joanna: Yeah, right.

Mike: And that's where I was at a crossroads. Do I employ an accountant? Yeah. And I was focused on my accountant at that time, and he said, Now I'll buy into the business.

Joanna: Oh, wow, okay.

Mike: And the accountant bought into the business. But that changed the chemistry of the business.

Joanna: Right, in what way? And so until that point, until the accountant bought in, it had been you holding all of the equity and making all the major decisions in the business, is that right?

Mike: Yes. And he made the decisions, but for staff, it wasn't the same. He brought the level of accountability.

Joanna: He brought accountability. Got it, the same sort of from a positive perspective as in he brought this a better level of accountability. Is that what you mean?

Mike: He bought a level of accountability. I wouldn't want to put an adjective anywhere there.

Joanna: Hahaha And tell me, where do we move from percentages? So you owned 100%? And then what percentage did the accountant own as he came in?

Mike: 30% .

Joanna: 30% Okay, got it. Alright. Okay. And how did that feel? Moving from n sorry, how many years into the business was that?

Mike: 10 years.

Joanna: 10 years, okay. And I know, there are many, many, many business owners who will run the race of growth on their own for many years, and then get either the business gets to a particular size with where they feel they need other people around to share some of this responsibility or perhaps provide, you know, cash flow for the business or whatever the reasons are for bringing on partners, or that I need an extra skillset. But often, the reality of partnerships is different from the idea behind them. And you know, sometimes that can be really hard when you've run your own race for such a long period of time that decade. What was that like for

Mike: It was hard. Yeah, yeah. For a start surrounding equity in the early days was based on a good feeling. Yeah, I said I felt this is fantastic. And again, all this opportunity and help. Yeah, in my business now we're just gonna go to the stars with this business. Yeah. And in reality, it actually put a glass ceiling on where we went.

Joanna: Really, and why talk through that?

Mike: A bit we became so busy looking around the processes that we're being developed, And we forgot who funds the business. It's not the owner. It's the customers who fund the business.

Joanna: Yeah, right. Okay. So I guess you would say then that part that decision about bringing in Equity Partners, you have to be really clear about what you want that focus in the business to be, and to drive who it is that you bring on board. Because since you brought on board, someone who was that I'm presuming because they're an accountant, they are someone who was good at looking at figures and you know, looking at that side of things. And is that what you wanted? from him? I

Mike: Yeah, I wanted to get up at 6am. Not for 4am.

Joanna: I presumably, you already had a staff by this point. Is that right? So at the 10 years, how large were you at that point?

Mike: In terms of revenue?

Joanna: Well, I guess in terms of employees.

Mike: 50 staff.

Joanna: Oh you were at 50 staff at that point. Yeah, right. Got it. Okay.

Mike: So there was significant worry about having that level of staff meeting the high role each week, collecting cash and all those everyday things. And on top of that, being a technical guy being involved in the technical operations of the business, and it wasn't something I was prepared to give away on diluting any of the quality of it out the door. Because somebody is, machines we're working on could break a business. Yeah. If we got it wrong.

Joanna: Yeah and how did you navigate at that point? You know, the idea of how this would work together? Did you sit down and create a bit of a game plan of, you know, what happens if we don't agree who's going to make decisions about each of these areas? How might we exit if one person, you know, doesn't agree with the other?

Mike: There was no business plan? There was no shareholders agreement.

Joanna: And that's so common, isn't it? It's just so common, Mike, it is absolutely. You know, massively common. I actually held a webinar on this very topic quite recently. And more than 80% of people who are attending didn't have a shareholders agreement in their business. In fact, I've run a number of them some of the webinars had better figures than others. But it's indicative of the fact that it's a reality that, I think, certainly probably fair to say, majority of businesses don't have either don't have any shareholders agreement, or they don't have sort of a comprehensive, you know, fit for purpose, shareholders agreement for where they are right now. And I have lots of ideas about why I think that's the case. But maybe, can you just tell me reflecting back, you know, why is it that you don't have a shareholders agreement? And I asked these, on the basis that I think it's useful for, to be able to reflect back because whatever

the reasons are or for you then are the exact reasons why many of the businesses who will be listening in today haven't got one in place at the moment. So you know, it's great to reflect.

Mike: When we say that sort of participation, expand, get rid of equity and bring partners in, and you can lay down on a bottle of red wine and dinner.

Joanna: Say that's a more unique answer than I've had in the past. I love it. Of course.

Mike: Yeah, it's feeling. It's amazing. It's done

Joanna: It's probably the emotion in reality, isn't it? It's that feeling of trust. And, you know, the belief in a future vision together, and perhaps not the time to sit down and unpick, you know, what the detail is behind that and perhaps sometimes for a fee that it will create disagreement right from the beginning may well,

Mike: it's probably best in hindsight to have the disagreement at the beginning.

Joanna: Oh, 100%. Mike. Yeah.

Mike: So that you can actually fashion your shareholder agreement or accommodate that in the future?

Joanna: Yeah, yeah, absolutely. And if you're happy to talk about it, and you know, don't if you don't want to but if you're happy to reflect on the consequences of not having a shareholders agreement, what would you say they are?

Mike: Well, that came home to me later on when we need to have shareholders a fair amount of more talk about then. The fact that you don't have a shareholders agreement leaves you exposed. It leads to there being no rules in place. There are no boundaries in place. And there's no recipe if it turns to change the whole deal. Yeah, how you exit. Now it happens. Yeah. And that happened to me in my first business at that award-winning company had a very ordinary break up with a partnership and exit,

Joanna: Did it? and what happened there talk us through that.

Mike: There was a third investor bought in to prop cash up in the business because of this glass ceiling and this failure to grow but a very high-cost structure sitting underneath it. We were profitable but weren't profitable enough. You know, profitable to meet the probably the needs of a sole trader, but not a company running 50 staff. Yeah, having corporate clients across Australia or New Zealand.

Joanna: Yeah. So that must have been disappointing given you brought an accountant on board. But anyway,

Mike: So we sought trade sales. We eventually sold the company or probably undersold the company, right? to a listed Singaporean company,

Joanna: Right? So I didn't know this element. So you'd had this original sale? And when was that? What year was that you sold?

Mike: That was 1997.

Joanna: 1997. So at that point, you'd had the business for 16 years?

Mike: 16 years? Yes.

Joanna: 16 years. Okay. So 10 years on your own, six with a business partner at play. These issues appearing and by the time you sold it, you had the third business partner as well, it sounds like so you had the three?

Mike: Yeah, there was the silence of partner who was here, We sold that business off to a listed Singaporean company. And I stayed on to work out a non compete. And it was I felt like a job on the ash whip for three years.

Joanna: And I want to talk about that because that's a super common feeling so can you dig into that a little bit more? Why did you feel like that? What happened? Take us back to what you're feeling then and why it'll change for you.

Mike: The Singaporean based companies really don't care how you do it, quite frankly, as long as the cash flows in.

Joanna: Yeah, yeah.

Mike: But there was huge pressure to get cash in every month.

Joanna: And were you in an earn-out at that point?

Mike: Well, I sold my component to shareholders for cash and script,

Joanna: Right? I see.

Mike: I had a script in the company, I still have a script in that company. Today, because it cost me more to cash at the moment.

Joanna: Okay. All right. So on reflection maybe taking it all as cash would have been a good move.

Mike: Just be careful if you're by script. Like you are talking to a guy here who has done everything wrong. And is a slow learner when it comes to commercial stuff. Hahaha

Joanna: Hahaha but you know, isn't that the way though, Mike, I mean, you know, and I say this coming from the position of being a business owner myself, I think business owners who are able to get the most ultimate satisfaction or fulfilment at the end of the day. You don't do that without making a hell of a lot of mistakes along the way. It's just part of business, isn't it? You know, when they say fail fast?

Mike: Yes, that's right. Absolutely. But what you've got to do is, get out of some positives.

Joanna: Yeah. 100%

Mike: In the process that is what you've got to focus on? It turns out that that three years of non compete was probably the best three years I had in developing my ability to read a balance sheet and know what a P&L is really about. And to be able to do a cash flow.

Joanna: So it's like a master class for three years.

Mike: And that a financial boot camp.

Joanna: Okay, I like that. Okay. Uh-huh. And you were I guess, at that point, then you're back into being a wage earner for those three years.

Mike: And I'll say you don't have the authority, even your MD, you don't have the authority, that same authority you had when you were a sole trader, you could please yourself what to do really?

Joanna: Yeah, there's this saying, Mike, and I'm sure you've probably heard the saying, but once you've run your own business for I can't remember five years, 10 years, something like that, you're effectively almost unemployable because it's so hard to match to someone else's tune. But you did that. So you managed to do it for three years. And it's one of the things that I talk to our clients about, and I think it's important to be aware of if you're entering into an earn-out period where you're required to keep turning up in order to extract that extra value out of the sale. It's just important to be aware from the beginning, that the reality of might be different to how it seems that might be in your head, which is not to say not to do it. But it's just important to go in eyes wide open.

Mike: Absolutely. A hindsight is a wonderful thing.

Joanna: Isn't it just? Yes absolutely.

Mike: It is only wonderful if you learn from it,

Joanna: That's absolutely true. So true, Mike.

Mike: And in that three years, I was always yearning to have my own business.

Joanna: Yeah. To have your own business again.

Mike: There were certain elements of the business in Australia that weren't performing to the satisfaction of the Singaporeans. And I distinctly remember being in Singapore for a board meeting. And the MD is saying to me, Well, look, you sold me pop in this business. And I said I'll buyback.

Joanna: Oh, wow. And what happened?

Mike: I bought it back.

Joanna: Oh, my goodness, for less than what you received?

Mike: A lot less.

Joanna: Oh, my goodness,

Mike: I bought the parts that I knew I could do something with it in the future as opposed to doing the similar things I did in the past.

Joanna: Oh, that is amazing. I love that. What a great story. And so that was, did you say that was three years after the sale?

Mike: Yes. That was 1999? Just on the cusp of the.com year. And we had this department, which used to go around and monitor electrical machines. And I decided that if I got hold of that we'd put that technology on the web in those early days.

Joanna: So world wide web, back in 1999.

Mike: Exactly right. It was the hype. And it sounded good. And it really got everyone excited.

And there were lots of VCs around, it was cash flow. The ideas. And so we set up a company and started a journey to develop a web-based machine management system for remote sites, maybe the remote mining sites, so on. And the original thing is that we sell an online community where we bring the vendors who provided the service and customers together, but back there, there was so much suspicion around what the web was

Joanna: Really?

Mike: And that we didn't get by.

Joanna: Right. You were too early. You're ahead of your time, clearly Mike.

Mike: And the customers weren't quite ready to let you across their firewall and into their business. So we had a wind that idea back and set up a traditional high value consulting company around it because we couldn't get those other early adopters out there. But the majority early majority weren't moving for us. Yeah, right. But we didn't get a VC.

Joanna: Well, that's it for part one of our three-part series all about a very interesting story of how our client, Mike Davis went from zero to small business hero. So that was part one of the three-part series we're coming back in our next episode, with part two of our three-part series, where we're looking at Mike's venture capital experience, the conflict and breakdown of relationships between shareholders, and how exciting the business affected Mike's life. So don't forget to tune in to part two of this three-part series. Well, that's all if you'd like to find out more information about this topic, then head over to our website at www.thedealroompodcast.com, where you'll be able to download a transcript to this episode if you'd like to read it in more detail. And there you'll also find details of how to contact Mike Davis. And of course, you'll also be able to find details of how to contact our Legal Eagles at aspect legal if you or your clients would like any legal assistance in a deal. And finally, if you enjoyed what you heard today, then don't forget to pop over to iTunes and leave us a review. 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.