



## *The Deal Room Podcast*

### Episode 212 – Selling a business in 2022 – Market Trends

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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 are talking to Roy Levy from Core Business Brokers about a topic that's always very popular market trends. Roy is a corporate advisor specializing in business divestments, mergers and acquisitions in the SME and mid tier markets across Australia and New Zealand. And in this episode I discuss with Roy the state of the market at the moment. In particular, looking at where the opportunities are, we also discuss a few best practice tips in selling and buying a business based on these recent market trends. So here we go with our discussion with Roy

### **Joanna:**

So Roy, welcome onto The Deal Room podcast. It's so good to have you on the show.

### **Roy:**

Thanks, Joanna. Lovely to be here. It's been a long time with COVID lock downs.

### **Joanna:**

Exactly. And I am super excited to have you here. Because I just You have so much knowledge from all of that long history that you have in the broking industry. So there's just so many things

that I really want to dive into together. And of course, today, we're talking about market trends. And I think that's so important, because everyone wants to know, Is today, the right time to sell their business is the right time today to buy a business, and where are the trends in the market? what's hot and what's not. So what are you seeing in the market right now, Roy?

**Roy:**

Well, since COVID, there's certainly been a change that we've seen, you know, last year, that was very difficult. Everyone had this great uncertainty, what to do when to do it, and basically everyone just sat back and did nothing. Now what we're seeing since about February, we're finding the small business where what we call by yourself a wage top business, you know, making profit anywhere from 100 to 300,000, has become very difficult. And I think there's a couple of reasons for that. One is there's been no immigration. So those immigrants who immigrated with a business visa needing to buy a business, there's been none of that happening over the last two to three years. Second of all, those small businesses where there's a dependence on labour, buyers are very worried that there's a shortage of labour. I've had an incident in the maintenance business that we were trying to sell. And someone in the industry said, I'll buy the business provided this contractor to staff that will come across, I need the staff, not so much the business. And of course, the owners were doing the work and they were leaving, so that didn't work out too well. So in the hospitality side of things, it's very uncertain because a lot of businesses have returned to pre COVID trends or, you know, turnover, but a lot have not because foot traffic, for example, in the city is slowed down very, very badly. So those cafes have not bounced back to pre COVID levels. There's a lot of uncertainty in store, and a lot of fear. And I think the last answer to that question in the small side is that there is full employment as we know, so staff who are on a good job and earning good money, there's no need to go and take the risk of buying their own business because they don't need to right now. So the small end is been quite tough, quite frankly, and remains tough. Where we're finding big demand is in the next stage up, in other words, those businesses traditionally unsexy, solid, not too exciting engineering type businesses manufacturing making a huge comeback. With an EBIT and earnings number of let's say 500,000 to a million dollars, we're seeing a big spike in demand for those solid businesses. And there's not that many quality businesses around. So prices are relatively high. And those vendors who have been around a long time and have now said it's time to retire because I've lost two years of traveling at this stage of my life. They come into the Have you known they're looking to sell? And we find the big demand in those type of businesses, which is good for us?

**Joanna:**

Yeah. Look, it's fascinating hearing you talk because I am seeing exactly the same things, which, you know, I guess that makes sense. But we are mainly dealing with quite a few engineering businesses. Right now. We're right in the middle of deals in the 500 to a million EBIT, that you're talking about. And, and, you know, and they seem good, solid businesses. And I think that the thing right now in the market, is the appetite seems to be for the businesses that have that solid history, and that have predictability stability into the future, even more so than any time before that I've seen. That's, you know, that's what we're seeing, certainly, hospitality, travel, all of those types of industries that have been hugely impacted by the pandemic, for obvious reasons. You know, I think you're right, we're not seeing much in the business sale market. And in fact, earlier on, I was seeing a bit of distress sale in that area. I'm not even seeing that now, which is interesting. I'm just seeing very little movement at all, is that what you're seeing as well in that area?

**Roy:**

Absolutely. The largely those businesses traded right through the COVID. Because, you know, they weren't forced to close down other than possibly a few weeks. So their fingers didn't deteriorate very, very much at all. In fact, some of them even don't even better. That's another challenge these days. One, what a buyer always asking the question, were you affected by COVID? Or were you affected positively or negatively? So, we need to look at normalizing the figures of the business to say, what is going to be the sustainable profits into the future, rather than looking through the history and understanding what happened and why

**Joanna:**

I was just going to agree with you, because that's absolutely the thing, when we're dealing with businesses that have had a lot of volatility in these past couple of years, I think the problem has been going to market, getting, getting comfort from a buyer as to what the future looks like, for that business is really hard at the moment. And of course, so that's why we're seeing, you know, deal structuring moving a lot more to earn outs and contingent payments based on performance of the business post completion. That's a strong element in the market right now. But that makes sense. You know, they, and I think in many instances, that's better for the sellers as well, because where a buyer is not comfortable, then at least they'd be able, they're able to share in the downside and upside risk of future performance.

**Roy:**

Exactly right.

**Joanna:**

Yep. Okay, so what does this mean for our buyers and sellers, then so so, you know, and what is your when you're going to talk to businesses who are looking to move to a sale? At the moment? Do you have different things that you're talking that you're saying, depending on the market that they're in and the size of buyers that they potentially are looking for?

**Roy:**

Absolutely. So when we go and talk to potential sellers, the first thing we need to do is understand a little bit of the history of the business and understand the financials of the business and the trends as we've seen over the last couple of years, and especially during COVID, and then asked him the question, Are you comfortable in presenting these figures or an adjustment to a buyer as what they call maintainable future earnings, because that's the figure we need to base a valuation of the business together with other factors, the slot of analysis of their business, and the industry, the asset base, working capital requirements for certain industries is very critical. So basically, that's what another important factor is no buyer likes to buy a business and then have static performance, even though if the poor performance has been good. They want to see or want to understand that they can grow the business. So that's the question, we asked to a vendor, if you were 15 years younger, how would you take this business to the next step? And that we need to introduce to a buyer and provided it's feasible, that could excite them because they will have the energy to do that once they're comfortable with the business. Yeah, yeah. Yeah.

**Joanna:**

And sellers are more disappointed now than they had been in the pre COVID days in terms of the value that you think they're able to get out of the business compared to the value that they thought that they'd be able to extract?

**Roy:**

There's a bit of a mixed bag, sometimes a seller would have gone and got some opinions from his advisors, good friends in terms of value. And their opinion is often unrealistic in terms of what's going on in the market right now, when we give them our opinion, which is an honest one, and we give them the reasons for that, then, you know, if their answer is, well, X or Y told me that it should be a higher value. Typically, our answer will be when is the last time X or Y sold the business? We're out there talking to buyers talking to sellers every day of the week, understanding what's the trend in the market, what's going on. And we give an honest opinion, once we understand the business and the nature of their business, in terms of what we believe the value will be a good solid business today is getting a good price. And as much as if not higher, in some instances, then pre COVID for certain types of solid, old fashioned businesses that just chug along year in year out, shooting at the profits. So we encourage the buyers will give them an honest opinion. And, you know, if one market the business well and creates some options for the seller, in terms of qualified buyers, that's where you get real good value out of the business, because ultimately the market will determine what the value is. But the more qualified buyers you have chasing the one business that will ensure a really good price.

**Joanna:**

And obviously, we've been talking about, we've been referencing to the most recent history and impact of the pandemic, there's been another large global consideration at the moment with the war in Ukraine, we've had a couple of deals that have had a bit of wobbles, you know, arising from uncertainty in global markets. And I think, you know, it's interesting to think about these macro issues and the impact on us here in Australia impact some industries doesn't impact others. But I guess it's just something to bear in mind, for sellers in terms of ascertaining the best time for the sale of their business, and the impact of both domestic and international issues that might be at play that might impact the pool of buyers, or the pool of buyers ready availability of funds at that particular point or appetite. At that particular point, while we have a bit of instability, but we have a number of industries, like for example, we work in many, with many professional services, businesses, recruiting accounting, many other professional services, businesses, and even the health space, medical, dental, veterinary funding those industries, generally speaking, are still moving on through as though we're still sort of business as usual, which is nice to see. Any comment from you on sort of that the international impacts or impact of international issues?

**Roy:**

To be honest, we haven't seen that at all, the only impact from outside or will sources is we are interest rates going to end they are going higher, they will go higher. So that will really affect the funding requirements and ability to repay any loans should a buyer need the loan to buy their business, and that what they would need to take into account and no doubt the financial institution lending the money or make want to do due diligence in two ways I the business being acquired to make sure it has the positive cash flow to be able to read to service that loan the capital and interest. And secondly, of course, the buyer themselves would need to have financial capacity and security to be able to secure that loan. That's the only real impact we seen with our buyers and sellers at this point in time. Luckily, so yeah, you're right. It's business as usual. And in the bigger space, the mid tier space where businesses are being sold for, let's say 4 million to 100 million. There's a strong appetite for good businesses that particularly that can be bolted on to an existing business. And typically they will pay even higher prices provided this good management infrastructure in place. So, we are not seeing that impact at all at this point in time.

**Joanna:**

Yeah. And just a one other thing that I wanted to pick up on that you talked about earlier. The importance or other stress that can be caused by a tight, very tight labour market at the moment, and then, you know, the possibility that staff could be a really big value element at the moment in acquisitions. And you know that the data at the moment seems to be suggesting that we're headed for a far tighter labour market moving into the future, you know, this is, this is set to be something that is not a passing trend. And from that perspective, then I guess the one, the one thing to leave our listeners with is, you know, if you're thinking of preparing a business for market into the future, I think employee attraction and retention is has got to be a fundamental part of your strategy to underpin the maximization of the value at sale, because that's what buyers are going to be wanting, more and more of into the future, as the value of part of the acquisition is that does that accord with your thinking Roy?

**Roy:**

Absolutely. And it's always a critical issue that a buyer says, you know, if the vendor, especially in the smallest smaller size businesses, that the owner of the business, the vendor has really been making all the decisions and doing the strategic work, the buyer would need to come in and get trained in that in that area. And the vendor, you can contract as you as you appreciate, with a vendor legally, to make sure that that handover and assistant takes place. But it's difficult to contract with an employee because ultimately, if an employee clashes with a new owner, they can leave, and there's nothing they can do about it. So it is important for the vendors who want to sell their business to have the organizational structure in place, with good staff in place and to be transparent to the staff. Regarding the the size of the business, I would say to a buyer, why would the staff leave, because they would then have to go and find another job, which is uncertain, they would stay with you. And unless you teach them badly, there should be no risk.

But it's something very important that's going to be pursued by a buyer.

**Joanna:**

Look, absolutely, we are seeing quite a few deals at the moment where we have earn outs also linked back to being contingent on certain key staff continuing into the business, obviously, you know, quite often the key staff are the management staff are the owners who are who are the selling entities. But this is also quite often nowadays, bringing in other key management stuff of the business that don't have equity, which is an interesting, you know, it's interesting. And it's certainly cautionary, from a seller perspective, to make sure you've thought about how you're going to really motivate those staff to stay on, stay on to build the business up for sale, but stay on post sale as well.

**Roy:**

Correct? Absolutely correct. If there are any key employees in their business who are capable, and wish to be part of the new team going forward with the shareholding. And as we say skin in the game, that would be very attractive to an incoming buyer. Of course, it opens up a whole different aspect of negotiations with a shareholders agreement, which is probably as important as the contract of sale for the business.

**Joanna:**

Well, that's absolutely right. Because that's often forgotten about or or put last. But the shareholders Grimm is super important in terms of preserving those rights for the future. But Roy, I've just got to say this is you know, this is where I just love your ingenious thinking, because I think you've got some examples that we're going to talk about in a future episode of some, some nifty and creative deals that you've managed to stitch together to make sure deals happen. And, you know, I just I think when you're talking there about employees, you know, perhaps from a buyer's perspective, that might be a good idea to sort of position them as potential owners into the future. I think it just alludes to some of the creative options that you're often thinking about for your buyers and sellers.

**Roy:**

Correct. Absolutely correct.

**Joanna:**

Which is clever, very clever. And I can't wait. We've got an episode coming up with you, Roy, where we're going to talk all about the creative deal structures that you've been putting in place.

**Roy:**

Excellent. Look forward to it.

**Joanna:**

Wonderful what you find listeners want to get in contact with you, Roy, how do they go about doing that?

**Roy:**

The easiest way is check our website is [www.corebb.com.au](http://www.corebb.com.au) or email us at [sales@corebb.com.au](mailto:sales@corebb.com.au) Or give us a call on the website is our number. You can give us a call at any time.

**Joanna:**

And we'll link through to all of those have links and website and your phone number and all those sorts of things in our show notes. So if you're running along the beach right now and you weren't able to jot down Roy's details, have no fear you'll be able to access it from the show notes. Roy a just wanted to say a huge thank you for coming on to The Deal Room podcast.

**Roy:**

Thank you for having me. Been a pleasure. Thank you.

**Joanna:**

Well, that's it for this episode of the deal room podcast where of course Roy and I discussed the most recent market trends. Now if you'd like more information about this topic, or to connect with Roy Levy at Core Business Brokers, then just head over to our website at [www.thedealroompodcast.com](http://www.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. You'll be able to connect straight through to Roy Levy at Core Business Brokers or you will also be able to book in a call with our Legal Eagles at Aspect Legal if you would like to have a free discussion about how we may be able to assist from a legal perspective in buying or selling a business. Well that's it I hope you enjoyed what you heard today. If you did don't forget to subscribe to The Deal Room podcast on Apple podcasts, Spotify or your favourite podcast player to get notifications straight through to your phone whenever a new episode is out. 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.