



EPISODE
213

THE DEAL ROOM

From Small Business to a \$16m sale – Start ups, Acquisitions, Growth and Exits with Matt Alderton Part 1

The Deal Room Podcast

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Transcript

Joanna:

Hi, it's Joanna Oakey here and welcomes back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice, Aspect Legal. Now today we have the first part of a three-part series with Matt Alderton from BX Networking. Now Matt has got a really interesting story that he talks to us about over these next three episodes. It starts with his entree into business operating and opening a Subway franchise. And then over the years from that very first subway business, he bought started grew and exited six businesses along the way, resulting in a business that he ended up growing to a point where it raised two and a half

million dollars in a capital raise, and then ultimately sold for \$16 million to a listed entity that then went on to use all of this knowledge that he gained over the past 18 years of starting buying, growing and selling six businesses to start BX networking, that he is now scaling from ultimate sale or a continuation for investment into the future. So in this episode, which is part one of our three-part series, we talked all about Matt's early experiences in building small businesses, subway franchises, cafes and video stores. In part two of our two-part series, we then move on to discussing his experience with creating from the ground up an online payroll rostering software that he ultimately sold for \$16 million to a listed entity. And in part three, we talk about his current business and how he runs his current business that is now expanding internationally, based on the learnings from his past acquisitions, growth and exits along the way. Well, without further ado, here we go with Matt and part one of this three-part series

Wonderful. Matt, thank you so much for joining us on The Deal Room podcast. I am so excited to chat with you today.

Matt:

It's great to be here. Thanks, Joanna.

Joanna:

Well, great to be here in Australia. I mean, I'm lucky to capture you. I mean, I guess virtually, we could do this from anywhere. But you just seem to be constantly all around the world at the moment. Every time I look, you're in a different location worldwide.

Matt:

I was just saying to my wife this morning, that I get off the plane at an airport. And I'm like, which terminal am I in? Which city? Which direction? That's pretty confusing. Yeah, I've just got back from the US last week. And I was over there for a couple of weeks with our US teams and US groups over there and in Austin Texas, and then came back and spent a couple of days over in Perth in Western Australia, back for the weekend. Off to Canberra next week. Brisbane, Gold Coast, New Zealand. It's pretty crazy. But you know, when you've got so much growth happening across the place, you want to be there to support it and, you know, a flagship that growth, yeah,

Joanna:

oh, absolutely. And look, such a good story that we're digging into today. And of course, we've got a two-part series. And in the first series, we're going to talk about your background. So I want to hear about all of this experience you've had in buying, growing and exiting your businesses. And in the second part, I just want to talk about how all of that knowledge has impacted what you're doing right now. Because you have so many insights that I just think are so useful for our listeners. And we've got listeners who are buyers, who are sellers, who are growing their business, and just learning about the concept of acquisition and building for the exit, as well as business brokers, corporate advisors, accountants a whole range of different people who are interested in some way and other in the acquisition, growth or exit of the business. And the thing is your story holds so much interest for all of them. I think. So why don't we get stuck in? Matt, why don't you give us just a quick summary, we'll start with a high-level overview of where you've been and your business journey. And then we're gonna go back and dig into each in a little bit of detail.

Matt:

Sounds good. I was only reflecting on this. Yesterday, I was in WA and someone was asking about kids and how long I've been in business and stuff. And so I thought, oh, well, how long have I been in business for? My first business was in 2004. And that was 18 years ago. So I was like, holy crap I've been in business for 18 years. And so someone said, we're you nine? I said yes, yes, I was nine, thank you very much. Because you might be 21, or no you're 22 but no. I've been in business for 18 years. And my first business was a Subway restaurant. That doesn't count a couple of little entrepreneurial things I had going on through high school, and uni and all sorts of stuff that I did. But my first bricks-and-mortar business was a subway. Over the next decade or so I've opened and run and built several subways, video stores, and cafes. And so I was very retail hospitality based. And that's how I got to experience on that side is a gym for an I've probably done 40 retail shops, back in corporate land. But then I was always looking for solutions in business for how I could run my business better. And so I was looking for solutions. And one of those solutions was a business that I created. It was created really off the back of just creating something for my own business. And that was a business called IWS integrated Workforce Solutions, which is a rostering and payroll business, which integrated from a rostering point of view, team members rostering through creating and importing into a payroll system. And I developed this in about 2005 2006 for my businesses. And keep in mind, there was no Facebook back then.

So you got to think about what technology was available back then. There was nothing available to do this kind of thing. And so we created this and we built this, timesheet rostering Payroll solution that fitted together with rostering for retail businesses, and that took off. It grew fast over several years. And some exciting stuff happened then which we'll show we'll touch on shortly as well. And then obviously, I just love working with and within the business and SME community and I've done a lot of training education through business. And another one of my businesses, which started back in 2015 was BX. It originally started as a training and events organization for small businesses, helping business owners grow and scale their businesses to achieve success in their business, and grow and scale-up and avoid the pitfalls that many of us make. And let's face it, the statistics are that only 4% of businesses will make it to about 10 years. 50% failing in 12 months, 80% failing in about five years and only 4% being successful. I thought well, it's no point following the herd mentality doing what everybody else is doing. What are the experts out there doing? What are the successful businesses out there doing to make them part of the 4%? And I tapped into that and created a training approach training program around that.

That's where BX started. And then we morphed into this networking arena because everybody just wanted to do more networking and grow their business and connect with more people. And I've realized that many business owners love their business and love being involved in the business, but it was a lonely game because you felt like you didn't connect to a lot of people. After all, no one understood the challenges that you're facing. And that, that, you know, that long hours, people understand that when they're not in business. And so being part of a community that understood that meant that you all of a sudden had a whole bunch of new friends and, and family that could surround you and support you, in the good times and bad. And that's what networking, a lot of times is, it's about that community. That's where the networking side of BX was created more from, that's like a really quick summary of where I've come from, but 18 years, can you believe it? Yeah.

Joanna:

Oh, 18. Do you know what, I think I set up my first company, maybe 20? The other day, I realize it was 21 years ago,

Matt:

You must have been six or seven, then.

Joanna:

That's exactly how old I was. I love it. I just, you know, I think, Matt, I feel in you this entrepreneurial buzz. I love that entrepreneurial buzz, but I want to go back. There are so many bits that I want to talk about, so many nuggets that you've already sort of shared with us. And in part two, I'd like to come back to this, you know, what makes the successful 4%. That makes it through but we'll leave that for part two. And if you're listening in to this one, you'll have to head over to part two to hear all about that. But in this episode, let's start with the subway businesses because subway businesses are quite a different type of business, from where you ultimately ended up and to where you are now. But let's talk about what that was like, what you learnt. What did you do wrong? What did you learn? And did you exit those businesses as you built them to an exit? Okay, let's talk about that. So what did you learn in that process? What do you think looking back?

Matt:

Well, it's funny, I went into subway because I had that retail experience, working with the GM and I was different roles within the company as well. And what I loved is the people side of the business. So you know, every business these days they love the service side of retail and being able to, you know, bring to life, you know, and you know when people are after things, they want things, they need things, they're excited about buying things. And I love being able to deliver on that through the products and services that we had. And then when I looked at different businesses, and I researched a whole bunch of different businesses to get involved in I was working full time still, when I first opened my first Subway restaurant, so I knew that I needed a business that was turnkey, that had great systems and processes that could run without me needing to be involved in the day to day operations of the business. And one of the experiences I had was in building systems and processes in businesses to create, you know, operational success in those businesses. So I knew that I needed that. When I came into my business subway was the standout. It's the number one franchise around the world, there are more subway restaurants than any other fast-food chain globally.

I knew that it had the runs on the board to achieve what I needed to achieve. But my biggest lesson came from, which is stupid because you know, I should have seen this coming. But I bought the business. I opened the first one but I opened this business, I chose subway because of the systems and processes that would allow me to run the business without me having to be in the business. But the one thing that I found the most challenging was using the systems. I thought I knew better all the time. So what I do is I go, Oh, yeah, I get why they're doing that. But I think we should do it this way. And so I would say the typical entrepreneurial mindset, right like trying to herd cats entrepreneurs, so I was fighting always against doing things in this box format. And, and I realized that, hey, they've done this before. They've done it a few times, like over 40,000 times. They know how to make this work. They probably know better than I do, even though I thought I knew better. And when I had my first shovels in my 20s right so you know, in your 20s you think you know everything. In your teens, you know,

you're basically what we'd say to my daughter ask a teenager because they know everything. I think I think I was a bit like that in my 20s as well just you know Gardenhire entrepreneurial. 20-year-old who knew everything and I came to blows with somebody over it because they're like, No, Matt, you need to understand and once I got that, I'm like Right. And that's stuck with me for a long time. And even BX now like all these years later, 18 years later, when I build the systems in my business and people say to me, I think I know a better way of doing it, I'm like tell me, but remember, we've got years of building this and multiple times of success backing up what's working, but hey, we want to hear your ideas.

And, and I guess that's a small snippet that Subway probably lacked is that there was no going outside the box whereas I think what we need to know as an entrepreneur is, hey, you got to build your business on systems, you've got to have those systems, you know, bulletproof, but you need to listen to your people as well because the best ideas come from the people using the systems. And even though you've built it based on the success you had, if you want to keep moving into the future, you've got to certainly have people challenging your thought processes as well. So you gotta be open to that feedback. But you know, that's it's a good lesson to learn on multiple fronts.

Joanna:

It certainly is, it is. And so I love that you came into subway with management experience, but not business ownership at that point, and I'm hearing one of the things that you learned along the way is the way that you thought was the best way to do it maybe wasn't necessarily this interesting thing with this concept between the systems that are set up versus the ideas that you had to move out of them. And how long before you exited that business? What did that look like?

Matt:

So that was the second last business I sold. So the first business I opened was the one I had the longest. And so I had four subways, a couple of cafes, and a couple of different video stores. So in my retail side, it was, yeah, the last this is gold, right, the last shop that I sold was a video shop in 2019. So I'm pretty sure it was the last video store to be sold. So it's pretty crazy. But several different exits in those retail shops, and I'll talk about the retail specifically is that so some of them I bought from an operation that was already existing. So one of the shops I bought as an operating entity, three of them, I open from scratch and built and sold. And one of them I closed. So I made a decision. There was a shop that had a Narrabeen in Sydney. And it was a good shop, but it ran along well, there was a video stop shop as part of it. They both ran, you know, good little shops.

But my rent at the starting point was \$46,000 for the whole site, which was great rent. That went to \$68,000 and went to \$86,000. And I'm like more that's getting tight because it's doubled. And then my next rent review because it was that the whole review process was a pretty crappy lease. But then, my God, the number of leases I've negotiated over the time as well, that's a whole other podcast episode about lease negotiation, jeez. Waste negotiation, trust me, that'll be a boring episode. But I then put the rent up to \$134,000 in that next market review, and I'm like, I can't do it, I cannot do it. Like it was already hard work at the 86. So I just went, you know what, there's a time to say because I think we get so emotionally attached to our business. And of course, I was as well. But you have to make good decisions. And my account at the time said to me, you're not going to make any money. 134,000 bucks a year,

you'll be paying wages, we're paying rent, you're paying for your food, but you won't be paying yourself. And that's a problem. And there's no point having a business and you're never going to and this is the challenge with retail, you can't double your sales in retail, you grow a few per cent each year or whatever from scratch, you might go, you know, you might make 10 grand, and you might make 12, and then 15, you might get to 18 or 20 or something, but you're never gonna go up to 30 up to 40. You know, you know, that type of business because they only got a certain marketplace that you're serving. And the problem with that is that when your rent goes up too much, you can't sustain it. And so I decided to close that business. And that was tough. I was lucky we were able to sell a bunch of the fixtures and fittings and things like that and to get out pretty unscathed. But tell you closing a business is not fun. But it was a smart decision to make when you know because it's gonna send you broke, going the other way. So you want to make good decisions about what you're doing. And because I wasn't all tied into one business that probably made that a little bit easier as well. And a good accountant. Good advice, Joanna. Good legal advice. Good financial advice. The two most important people in your business are going to be those giving you that advice. And I've been hurt many times over by crappy accountants and I've been hurt a few times over by crappy lawyers as well. So you've got to make sure you've got the right people helping you make those decisions and the accountant at the time was making the right call with that business.

Joanna:

Goodness gracious there's another podcast. Okay, so we've got, and I just want to highlight what we've just talked about, the decision to exit a business by closing it. Because it's a hard decision to make, but I think it's an example of the cutting off of the disease before it you know, spreads and that, you know, as business owners, sometimes we have to make hard calls. And the hard calls can mean the difference between ultimate success and a bumpy ride along the way. So good on you for taking that call. But it's just a reminder to our listeners as well. But let's look at the other businesses. And you know, one of the things that I completely subscribe to is this concept, that failure is fabulous but just fail fast. Fail fast, keep trying, keep trying different things, of course, you want success, but you cannot get there without a few failures along the way. I tell you what, I do not know, I do not know any successful business owner that has not had a few failures along the way. I just do not know that. So, you know, it happens. Brilliant. Okay. So we've got past that, we've learned our lessons from the business we had to exit and for future lease negotiations, which are coming up at some point in the future. Because this is something, it's quite funny you bring up leases because we just have recorded a podcast a few days ago talking about leases. But actually, you've just finished a training session for business brokers on talking to them about leases, and from the buyer side as well, because there are so many things to think about for leases, it's not just the lease that is relevant to you in your business. But if you're ultimately going to sell your business, the lease can be a critical component.

Matt:

In a retail business. Because your goodwill is tied up in the site, in the premises, you can't move, you know, to another suburb, necessarily, and keep all that goodwill, your customer flow, the lease is such a critical part. And so in the subways and the cafes, you know, you're dominating that area, you can't move. So there's a lot of equity built into that lease if you've got a lease that's running out, sell your business if you've got, you know, silly conditions in there, and demolition clauses and stuff like that, it can screw up a sale, it's phenomenal. Like, you learn all this, you know, usually when you're trying to negotiate the sale of a business,

when you're doing your due diligence with the new buyer, it's crazy. So knowing all this in advance of entering your lease is so crucial, because, in that bricks-and-mortar business, it is, you know, can be hundreds of 1000s of dollars difference in the buying price, and the selling price for you.

Joanna:

I love it. And as you say you either learned it on the ground, you know, from lessons as is selling the business, or you learn it through the deal room podcast if you're educating yourself along the way, which, of course, our listeners are right now. But it's so good. It's so good to have, you know, we can talk from a legal perspective about the issues that we see and, you know, talk about cases and talk about how we negotiating things at a particular time, but there's nothing as strong as someone coming in and talking about it from their own experience. So you know, I didn't even know we were gonna go there. But anyway, it's fascinating and really useful for you to be casting this reality of running a business in some of these things that we talk about from a more theoretical perspective sometimes. Okay, so going back to your experiences and then growing and exiting a business. For these initial businesses, you said the subway was one of the later ones for you to sell. What was the first business that you exited?

Matt:

The first business I sold was a subway. It was a subway, a subway at Congra. And I bought it from like a border as an existing entity and built it up and sold it probably four years later, four or five years later. And yeah, so subway restaurants, pretty formulaic sale process. Even the cafe's fairly similar process there as well. Usually engage a broker, the broker finds buyers for you, buyers then begin a negotiation period with that broker. And it's quite a good process to go through because it helps you, what it taught me further with the first one is how are the due diligence process and I've gone through it when I bought the shop, and I realized that paid too much when I bought the shop, the very first business that I bought not open, like open from scratch. Yeah, so you know, my probable accountant at the time didn't give me a great deal of advice around that. But I sold it for more than I bought it for.

So that's also a good thing, right so made a profit over the years and also was able to sell it for profit. So you know, that's good in a way. But I would have made a lot more if I was a bit more of a hard-ass negotiator in the first instance. But due diligence is that crucial element and, you know when we often joke about it because you sit on the other side of the fence to me. And the due diligence process really is and this is what know all about this, but it certainly is, the more nose you give, or what you call substantiate information, the more the price drops, the price gets discounted.

But if you've got all the things that they're asking for, and you can go, yep, yep, tick, tick, tick, tick, tick, tick, then you're adding value to the business. And I found that, over the years, I've made sure that I've used that due diligence experience. And that checklist almost as a way to add value, not when I'm selling the business, but while I'm running the business, and that makes all the world of difference. And so I know when you're negotiating with us and BX it was like, you just couldn't get any answer out of me I had answers for everything.

Joanna:

You seem ready to go, Matt. And, you know, I think these are, you know, from a buyer's perspective, they, it's so often that we deal with sellers, and you will probably appreciate this having perhaps been one of these sellers right in the beginning, but so often that we deal with sellers who just don't fully understand that they're going to be required to provide information because the buyers want to test that the value that they think is in the business is there, that the value will transfer that there aren't risks in the business, that they're going to be taken over. And they do this through lifting the word of the business, soaking into the business through the information that you provide, but so many sellers just don't have that information readily at hand. Or if it's at hand. It's me. And it's got holes all over it. And the problem with that is buyers looking in will then immediately have red flags that are going, and you know, can slow down sales, put buyers off, reduce the price, you know, all of those sorts of things. So I don't know if you've felt this or at the very least caused you a lot of pain.

Matt:

Yeah, just have everything ready to go and your finance, like a lot of business owners they sell, I think this probably is what it comes down to. Business owners sell past the point of being ready to sell, they should have sold a year ago, or a time ago. And I told this yesterday when I was doing a presentation, and I said, you know who here loves their business, and everyone put their hand up, and I say, guess what, I know you will love it now, but you won't love it forever. And the time to start thinking about selling it is not when you fall out of love with your business, it's now so prepare yourself for sale, all the way through running it so that when you go, you know I've had enough, it's a great time to sell because you've been preparing for sale for a long time. Whereas most people don't do that.

What they do is they love it, and then I'm gonna be in this forever, this is the best thing ever. I love what I do. And entrepreneurs are like a bit like, you know, shiny object people, we see something oh I like that we chase the shiny object. At some point in time, when we're going to fall out of love with the business or we're going to lose our we're going to fall in love with something else more. And we're going to go and be distracted by that. We just want to exit and the problem is if you leave it to then to start, you know, bump up the profit and do all those various things that are going to add value to the business, then it's too late. And it's going to take you years to sell it because it's gonna take years to build that value into it. So the time that adds value to your business is like now. You want to make sure you're driving profit and the value, booting your systems and processes and having key people in place. All those key metrics to driving value. You want to have those in place now not when you're ready to sell.

Joanna:

Love it and what we'll talk about in our next part two of this discussion, really is how you have gone about implementing that idea now into your business.

Well, that's it for this episode of The Deal Room podcast. Don't forget to tune in to episode two, which is our next episode in this three-part series, where we talk all about Matt's experience with an online payroll rostering software business, that he started from the ground up, and ultimately ended up selling for \$16 million to a listed entity. And in that episode, we also dig into a discussion on employees holding equity as a path to locking in employee retention and the lessons learned along the way when selling to a public company. And on that note, we look at what you need to be aware of when selling to a public company and the

differences between selling to a public company versus a private buyer. And finally, we look at that very important question of how to correctly time your exit. Now if you'd like more information about this topic, head over to our website at 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. There you will also be able to book in with our legal eagles at Aspect Legal if you would like to talk about how we can 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. We also love hearing feedback so please leave us a review and rating if you're already one of our subscribers or even if you're listening to this podcast for the very first time. Well, 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.