The Deal Room Podcast

Episode 214 – From Small Business to a $16m sale - Start ups, Acquisitions, Growth and Exits with Matt Alderton Part 2

Note: This has been automatically transcribed so will be full of errors! We are not providingit to you as a word-perfect version of the podcast but just as an easy way to provide you with a different way to be able to scan for information that might be relevant to you.

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 we are now at part two of our three-part series with Matt Alderton from BX Networking. Now if you miss part one, make sure you go back and have a listen to that because, in that episode, we talked all about Matt's early experiences in building small businesses, subway franchises, cafes, and video stores.

And in this episode, we discuss how his start in owning and building these small businesses helped to contribute to his next move, which was to start an online payroll rostering business. In this episode, we dig into understanding as well how to use employee share schemes and arrangements in order to increase employee retention, the lessons along the way when selling to a public company, and the importance of timing for your exit. We also really dig into a lot of differences when selling to a private versus a public company buyer, what you need to be aware of when you're selling to a public company and the differences in selling and the process of negotiation dealing with a public company versus a private buyer. And finally, we also talk about the importance of shareholder agreements. Now if you miss part one, don't forget to go back and listen to that. But for now, here we go with part two with Matt.

Joanna:
I want to focus on the next big business venture after you know the subways and the video shops. Let's talk about this next business because there was quite, there was quite a difference. There was quite a change in gear for you in terms of your approach, not just because you're not then dealing with franchisors but I guess that that is one element and be interesting to reflect on the differences that you felt in the businesses there. But let's talk about the next business.

Matt:
Yeah. So the next business that I started right before BX was a business called IWS, which was Integrated Workforce Solutions. And so IWS created online rosters. So when my management team across all my shops could do their rosters online, and I could have transparency on that, I could see what was happening, because costs in retail, your cost of goods and your wages and having transparency on that is super important. And there was nothing out there that did that. My first instinct was to go look for something available in the marketplace to do it, there was nothing, so I thought I'll build it. So I could do it for my shops. And we, you know, we had nine shops in a very short period of time. So it made sense to invest in that. And so what I then did, and I mentioned, I was working full time as well. So I was working for this company that had a whole bunch of other retail shops as well. So I wanted to be able to, you know, provide for that as well. And so we built this online rostering Payroll solution. So from who was rostered, to who works and pays them, it's all automated, knowing that was gonna save us a heap of time and save us a heap of money as well. And what we found is that so many people outside of our businesses were looking at the so cause employees to work in subways, not just your shop, but other shops and stuff. And all of a sudden, people are asking you about it, I get a franchise meeting, I'd be having conversations about subway owners about it. And I'm like, go, yeah, you can use it and like, how much is it going to cost and I'm like, oh, such and such a week, and I can just pull numbers out of my head right kind of thing, and before in New York, we were selling that and give an offering into there. And then I start to realize the value proposition of what we're doing. And then created the business of IWS grew it and scaled it within the first probably three, four years, brought on two key people. One of them is still the CEO of the organization, and e of them was like a sales manager. And both were just instrumental in the growth of the business. And I always say the best decisions you can make with any new business or any business is the people that you bring on, you know, hire slow fire fast, I always say make sure you've got the right people because that first person you hire will either double your capacity or will have it. So you've got to have the right people in the right seats. And so I was very fortunate. The first two people that I recruited for the organization, one is still the CEO today. And he was the

operations manager at the time, and one was the sales manager. He was with us for about seven or eight years and was instrumental in the growth of the business. Because you know, running retail shops and everything else that I was doing, can't run the business by myself, gotta have good people to do that. And so that's the number one lesson I will probably have learned through any of the businesses that I've had is the people that are in your organization, are going to be made or break that success for that business. So I grew it and scaled it. In about 2013, 14, 15 we were experiencing some growing pains, we're in that seven-figure realm, we've got, you know, thousands of clients, we're providing payroll and rostering services for and we're feeling just that pain of scalability. And we've probably reached our sort of benchmark without having to do more in the business. And we realized we probably need to spend around one and a half $2 million over the next few years to upgrade the technology, to bring on key personnel, to you know, build some other structures in the business. And it was gonna, you know, it's probably one to two million worth of expense that we would probably need to cash flow into the business over that time to scale it fast.

Matt:
And so these two partners in the business and also the company that I work for, we'd all partners in the business, the two guys that were employees, now, we'd sold shares in the business, and to hold on to them, you know, you've got to have good people, but you get there's an opportunity to hold on to people for a long time if they've got some skin in the game. So they bought into the business. And we decided that rather than us all throw money in, we would look for some equity partners. So we raised about two and a half mil through an equity raise. We sold down some of our shares, we got a bit of a payday, which was all nice for us, but also got that, you know, two and a half a million put into the business as well to help take that to the next level. That was in 2015. Part of that equity raise meant that for five years, we weren't allowed to take any dividends. And you know, we're all committed to seeing the company grow. And one of the equity partners came in as the managing director of the business and had a whole heap of experience in this kind of tech space. And then we also had our operations director become our CEO as well. We've kind of had two key people running the business. And I very much took a back step at that point there. But I also had BX which was just launching at that time there as well and made a decision that I was not the best person to be running the business in that space. And we know that when you start splitting your focus, it does impact the growth in any of the businesses you have.

Joanna:
I just want to pause for a second and just highlight a couple of things. And then we'll keep going. Just fascinating when you talk about this realization, that perhaps you weren't the best person to be running a business so that you're not always, you know, the founders are not always the best people to be running the business. And it's very interesting, because we do as, as entrepreneurs, as founders get connected to our businesses as well. So I think that's a really, that's a fundamental insight that you've just talked about just then. But there is also I think, you know, on the one hand, you might, business owners might understand that, but then seeing someone else, run their business baby, without them, having control can be a really hard thing, an emotional perspective, you know, based on what I've seen again, and again. So that's just one thing. And another thing I wanted to come back to, it's this interesting concept of when you get on board capital, and then you're driven by the requirements of others as well, rather than just yourself at that time, but that whole five years, no dividends, that's a tricky one because then that's it, you're sort of, you're locked in and you're not taking, you're

not making money off the table along the way. So once you said you got a bit of money off the table, at the point of that raise, then that's it, you've got five years where you can't touch that, so that that must have taken a bit of soul searching to, you know, to commit to that path.

Matt:
I guess it's about seeing the bigger picture, I think seeing the bigger picture in both elements, you know, the role and the bring on partners and the loss of control, and also the, you know, the non-dividend side of it, it's about seeing the big picture. So for either of us, the big picture for us was that, hey, we could be, you know, a small seven-figure business, we could keep sort of, you know, growing organically. But we would never be able to go to, you know, eight figures and beyond if we didn't do something different. And we made the decision not to invest that money into the business to do that, we wanted to bring partners on. And so you just have to make a decision, you're not going to put the money down, then you kind of need to give up some of that opportunity in the short term for the long term result, and it to pay off tenfold in that process as well. Because we then sold it five years later, to a public or six years later to a public company just last year, which is a whole other exciting element to what happened with that business. But the CEO side of it, and I look at the same scenario that I looked at with IWS. I look at that with BX. And there's just I guess, you've got to be careful of confusing your ego with your ability. And not even your ability, in IWS it was merely time, I couldn't do the roll. There's just no way I could have done that. And do the other stuff that I was doing. I still had a few retail shops, I was just starting BX, and I was already maxed with my focus. And you know, it doesn't matter what people you've got in roles, if you're taking the senior role over leading those people, then you are going to be a cap on the success of that organization. So it was a complete step out of IWS. You know, I wasn't the CEO, I wasn't the managing director, I wasn't involved in strategy moving forward with that business, like I certainly had been, since founding it 10 years before that. So that's a pretty hard, tough position to make. But I knew where it was going as well. And I was passionate and deeply passionate about the new projects that I had been involved in as well. So that was good. I wasn't going to do anything, you know, look at the situation with the BX at the moment. And we've got, you know, we're in Australia, New Zealand, the US we're launching in Canada, we've got some things happening across in Europe. And I'm like, man, like, I think I'm doing a pretty good job so far with it. But where's my limit of capacity? Not even capacity, experience. I've never run an international organization before. So where is my ability to keep doing that? And I'm learning all the time but you got to be open to learning. I'd like you to know, that the stuff that I learn about and read about, listen to podcasts about to get me up to speed on things and especially when dealing in different countries is crazy. But there's a point where you become the ceiling, the lid on your organization and the success of your organization. So I know with BX, there'll be a point in the next three, four or five years where I'm gonna go, you know what, there's gonna be some very clever person who can come in and run this organization that has way more skills in international business than I do. And I can step aside and still be involved strategically and on the board very much as my other partners, my wife to be as well, but not have to have the responsibility of running the business, give that to somebody who's much more skilled at doing that. Right now, that's not the time for it, because I, you know, the skill set I have is still something that I can give to continue to grow that business. But I recognize in IWS, that the time had come to let go. And it's, you know, it's hard because I said, it's, you know, ego, ego and experience are two critical factors when, when the experience, you know, does not match what the company needs, you need to let go of the role. And I think a lot of us get caught up in the title that we have. And, you know, it's human nature, significance, you know, Tony

Robbins talks about the seven the needs we have, and, you know, significance is part of that. So we get wrapped up in what that means to us. But if it's not serving us, then it's probably a good thing to let go of that and to find someone who actually can do it, do exceptionally well out of it. And then everyone benefits, you benefit, your team benefit, you know, the consumers benefit everyone, everyone benefits from that. And that's an exciting place to be in as well. And that letting go is an exciting place to be as well. And I know with IWS, it was quite cathartic when I went I'm no longer responsible for that.

Matt:
That's fantastic. And I can see it grow. And I look at, you know, the operations manager, I put on 10 years before that, and eight years before I saw him grow, and, you know, invested in the business. And then he took on the operations director role then he became the CEO, like, I'm enormously proud of that, like, that's, that's a testament to being able to allow people to grow within your team, and to see what someone like that can achieve off the back of that. Now, if I was, you know, I wanted to hold on to the control of the organization the whole time, he would never have been able to flourish like that at all. And it's pretty exciting to see where he's gone, and what he's been able to achieve with the organization of that as well.

Joanna:
So we've sold to a public company in just a moment, I just want to quickly come back to selling shares to employees as well, because that's, I think that you know, absolutely is something that lots of businesses are thinking about, very sensibly. But before we get there, let's just talk about the experience of selling to a public company, obviously, a very different experience, from selling the other types of businesses you had. And, you know, obviously, very different variables between the two. Let's talk about what you know, any surprises that you had in selling to a public company?

Matt:
Selling to a public company is like having a rectal exam? There's nothing that doesn't hit the table and see the cold light of day. It is like a gruelling experience. And, like, it's very eye-opening, as well. But it is, it's full-on like it went on for over a year, the due diligence process.

Joanna:
Okay, that's even for selling to a public company. And I think, can we talk about the sale price?

Matt:
Yeah, it's public. It's online. So yeah.

Joanna:
So a $16 million sale. What I can tell you right now, even selling to a public company selling to anyone a year in DD, like, that's pretty full. Yeah, that's a very long time

Matt:
During COVID too, that might have added to that timeframe. Yeah, right.

Joanna:

Yep. Yep. But I mean, you know, hats off to you for making it through to the end there. And you know what, it's not unusual in those sorts of situations in any you know, sale over the business. It's not unusual for deals to fall and come out again, but it certainly it's still not unusual for public companies, or sophisticated buyers who might be out analyzing multiple businesses at one time. And just a bit of sort of, you know, the behind-the-scenes information quite often. Sometimes it can take a long time in DDs because they're actually running different deals at a similar time, and going through DD in different organizations at a similar time and so as a seller, just as a suggestion here, you have to be careful to keep your eye on that potential pool of buyers if they drop out because it can be, it can be horrendous emotionally, if you've been for a long period of DD, and then it drops off. That's a horrible experience, but you have to hold tight and not drop your price if that's the case, because sometimes it can be in negotiations. So a year of DD, they've, you know, they've investigated everything, including the kitchen sink. And, you know, you've probably, you know, learned far more than you ever wanted to know about.

Matt:
Yeah, yeah, that's interesting, well, their strategy was, when we did the equity raise, we're either going to take it public in five years, or we're going to sell it public in five years. And the thing about a public organization, when when you either when a public company when they buy an existing private entity and take it public, there's inflationary matrix or process that happens to the value of those shares. So that was from selling to a public company perspective, it's fantastic because it means that the value of your business could go up 10 times from when what it's worth at a private sale through to when it becomes part of that public organization. So it makes your negotiating better. And it makes, so it gives you much more scope, you know, typically you're talking about, you know, two or three times profit multiple, well imagine that that's going to be 10 times more when it goes public, you've got a lot more negotiating room in there as well, which means that when you take your own company public, you have that sort of inflationary benefit as well. So that's why it was always a strategy with that, but I'll tell you why there, it's a fun process to go through.

Joanna:
But you know, as you rightly say, whilst it can be a painful process, when you reflect on it, generally the process if it continues through, and you get the value that had been discussed in the beginning, and they don't end up dropping the price out on you, at some point during the process, when they feel that you're most susceptible to take it and accept it, you do have the opportunity of a much higher multiple than if you sell to a private, individual buyer. And that's the win. That's the reason for it. That's why you go through that pain, but it doesn't necessarily have to be a year of DD. And in fact, that's quite often what will develop timelines and try and keep people in timelines because otherwise, it can be a very harrowing process when it goes on for so. And so we've talked about selling to a public company. And was that a complete exit, then?

Matt:
Yeah so we ended up, the deal was that we ended up with both a cash payout of our shares, plus some shares in the public company as well. And we're not going to do anything with those shares for a couple of years after the sale of that, of that as well. So there were a couple of different elements there. But we don't own any shares of IWS as such, and there are no shareholders of IWS now, the public company owns all of that. But we do have shares in that

public company as well. So it's, you know, it was really like, I'd never done any of that before. And, and hats off, obviously, to the CEO and the operations team and the team that orchestrated the deal, because obviously, I wasn't as involved in that part of the process as they had been five years before the equity raise, and through the running of the business before that. But yeah, like, it's just an amazing, amazing journey to see your business that was an idea that served my businesses and taking it to a place where it could serve, you know, 1000s of business owners across Australia, it's like, it's a proud daddy moment kind of thing.

Joanna:
You know, such an exciting, such an exciting moment. And I say this all the time. I'm sure the listeners are so sick of me saying it, but you know what, I just love this area of law because I love deals. And you know, and I just love the joy that you know, it's just really using that moment of crystallization. All of those hard years of work when you get to that point of exit if you can do exit right. And ultimately, that's what it's about, isn't it? You know, when we're growing the business, trying to ensure that we get to that day where we look back and feel the joy that we feel like we walked the walking road as well as we could have at that point. Quickly, before we wrap up on this section and move to the current day business. Selling shares to employees. Let's quickly look at that. Talk to us about how you came up with a value for the employees? Did they pay it upfront? Did it get paid over time by dividend?

Matt:
Yeah, a combination of both those elements there, it came with IWS, it came about a little bit by twisting the arm behind the back, as well as so we got to a place where, and this can happen in organizations as well, you know, people feel the value they're contributing exceeds that of an employee. And, you know, like, me, as an employee, I always gave way more value than what I was probably being paid for. Many of us would never be paid the value in the organization of what we're contributing. But I guess that's, you know, that's part and parcel of just what working for an employer is about sometimes. But in this instance, the employees, we had the two key drivers in the organization working for me at the time, they were like, amazing employees giving heaps of value to the business. And they wanted more than just a paycheck. And because we were a startup at the time, they wouldn't have, they weren't earning a pay packet, proportionate to kind of a corporate executive salary to what they would be getting based on that as well. And so they said, well, you know, we'd love a big pay rise, or we'd like to, you know, buy-in and get some equity in the business. And I thought we thought about that, whether or not we could afford him the pay rise at the time, or whether you know, equity was going to tie them into, to why not have to have a conversation in the future about this, again, not to lose them, because there's a cost of losing great people. And so we just worked together with them to work out what the best solution for them was, in terms of what they could financially afford to buy with, because we wanted to have skin in the game want to feel like, well, we needed them to feel financially invested, not just go, here's X percentage and by the way, you're gonna pay it off over the next five years, because that's kind of not real then, you want them to I have to put something down the table so I have skin in the game that ties them in. Because it's easiest to walk away from something that you haven't had to put the money down for. So I feel like some skin in the game is a key element to it, but probably not proportionate to the value of the sales, probably, then you could pay those off at future dividends in the business as well. And it's, I reckon it's a great strategy to have either a profit share arrangement, where they haven't had to physically buy in the rewards based on performance in there, in their capacity or if they've gotten they can financially afford to

contribute to the organization, then putting some money down to have that financial bind to the business. And then you know, whether that's for those shares, or you then have the dividends pay off a higher proportion of that over time as well.

Joanna:
I can't help throwing in from a legal perspective, of course, and then you always need a tight shareholders agreement. So you know, you've dealt with issues of decision-making distributions exit all of those sorts.

Matt:
It's really interesting. I'll just talk about that for just a sec, as well, because my business partner of BX is Dale Beaumont. And as I said, Joanna was responsible for the negotiations on behalf of Dale, and I had my legal representation at the time, this was a couple of years ago. And Dale and I would walk into a room, and shake on a deal. That's enough for us, we like, and that's the great thing, like, actually, we're pretty good partners, I think, Dale if you're listening. I think we run on a very similar wavelength. And we run on a very high level of integrity and trust in each other. And I feel like, you know, your word is your worth. And I get that with Dale. However, our legal agreement, our shareholder's agreement, has everything in it. Because I don't want to ruin the relationship with Dale, because one of us doesn't understand something that we thought we did. And there's so much that goes into running an organization and bringing together shareholders that if you don't have pretty much every single, like contingency that's going to happen, documented in a way to handle it, then you could come to blows because there's going to be misunderstanding and so, like, I know, my solicitors are pretty full-on in the process. And I know that Joanna was as well. There were never confrontations always. There was like Argy bargy kind of push and pull till we came together on stuff, but it was so crucial that we knew what was important to each other and get that articulated in the document whereas if we just shook hands, that would have been great, but then there's going to be situations where in the future where we're gonna go, oh, well, then how do we handle this because this is going to cause an issue if we don't do it this way, or this way. And what happens then is the relationship is destroyed over something that could have been sorted out at the beginning. And I think that's what we did it well with Dale and me. And I think that is a such a crucial part of any arrangement, whether it's an employee buying in, whether it's even just starting a new employee and understanding that you have with them in the documents, setting that out, in the beginning, is much easier than fighting it out at the end, that's for sure.

Joanna:
100% It's just well, you know, I say these documents as a checklist of the sorts of things you should be talking about that you probably will never talk about unless you're forced to talk. And it doesn't have to be difficult, but you have that discussion once and then everyone's on the same page. And, you know, I think law from the perspective or documentation from the perspective of never having to need it, because what it's created is an understanding between the parties is the absolute best outcome. And that's what everyone should be aiming for ultimately. But of course, if you need to pull it out, then everyone knows where they stand.

Joanna:
Okay, great, Matt. Thank you so much. What a fabulous story. I just love you know, that progression. And of course, we're going to have you back on our next episode of The Deal

Room podcast to talk about where you are now and I guess a reflection on the learnings along the way. But in the meantime, before we get to the next episode, why don't you let our listeners know how they can find out about you and find out more about BX because we haven't been able to talk much about BX yet. So if you're interested, make sure you come to the next episode. But also, Matt, let's tell everyone where they can find you and find information about BX.

Matt:
Thanks, Joanna. So as you know, BX kicked off in 2015 and is now an organization that runs across several countries. And if you're in any of those locations from Australia, the US and New Zealand wherever you're tuning in to this podcast, we'd love to have you on to one of our BX events. I was going to throw in for you, Joanna that any of your listeners will shout them a VIP ticket with a complimentary breakfast, lunch or dinner at one of our events if they book in and we'll provide the links and stuff in the show notes for you as well. If you want to find out more about BX in general, you can go to BXnet.com where you can find all about BX and what we do. But make sure you look at the link there that Joanna is going to share with you and you can grab a VIP ticket to one of our events and experience BX.

Joanna:
Wonderful. Fabulous. Matt, thank you so much for coming along. I'm super looking forward to hearing the next instalment of your story in the next episode of The Deal Room podcast. Thanks, Matt. Wonderful.

Well, that's it for part two of our three-part series with Matt Alderton. Join in for our next part three, the last part of this three-part series, where Matt and I talk all about how to build a business by learning from the past. So in this third part of our three-part series, Matt discusses his current business and international expansion, and some of the important learnings he is now implementing in this new business. And in this episode, we also have a number of rapid-fire questions where we compare owning a franchise to other types of businesses, the best approach to staff retention, how to maximize value in a business and so much more. Now, if you'd like information about this topic, or to connect with Matt Alderton at BX networking, then check out our show notes, which will send you straight over to our episode page at thedealroompodcast.com. You'll also find details of how to contact our legal eagles at Aspect Legal about anything related to this topic. Or you can head over to our website at www.aspectlegal.com.au To book a free 15-minute discussion with our legal team. Well that's it I hope you enjoyed what you heard today. We love hearing feedback. So we'd love you to leave us a review and rating if you're enjoying what you're hearing. Well, that's it thanks again for listening in. This has been Joanna Oakey and The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.