



EPISODE
219



Finding creative solutions to selling a business

The Deal Room Podcast

Episode 219 – Finding creative solutions to selling a business

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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 on the show, Roy Levy from Core Business Brokers, here to talk all about creative solutions in selling a business. Now Roy Levy is a corporate advisor specializing in business divestments, mergers and acquisitions in the SME markets and mid-tier markets across Australia and New Zealand. And in this episode, Roy and I discuss some creative approaches to finding the right deal between a buyer and seller. Roy also shares a fabulous story of how creativity in deal structuring can create incredible long-term results. So without further ado, here we go with our discussion with Roy

Joanna:

Hello, Roy. Welcome back to the deal room podcast. It is so good to have you on the show.

Roy:

Thanks, Joanna. Thanks for having me again.

Joanna:

My absolute pleasure. Now, before we get into the topic of today, which is all about creative solutions in selling a business, which I know is one of the things that you're particularly good at Roy. Maybe just give us a quick background of your experience in business sales, who you are, how long you've been in the industry,

Roy:

Well, that's going back a long time. So as you can hear from the accent, I was brought up in South Africa, and I emigrated approximately 25 years ago. So back in the day there, I'm a chartered accountant. And we were doing a lot of management, corporate management, management, training, etc. As well as mergers and acquisitions. And we actually listed our company on the stock exchange back in 1985. So that was exciting times. Since I emigrated in 1996. We went back into business broking started in a started our own company called Core Business Brokers. And since then have been working now 25 years here in Australia, and have gone from selling small businesses to medium-sized businesses. And now even into the mid-tier size, which is a nice space to be. And there are six of us in Core Business Brokers, and everyone's a slightly different experience that enjoys setting up different types of businesses. So that's who we all we boutique and we love doing what we do.

Joanna:

Brilliant, love it. Well, today we talk about a story that you have. And I love this story. Because it's such a great example of a bit of ingenuity. And I think in this space, you have to be a bit nimble and flexible and able to come up with creative solutions. Because boy, no deal is straightforward, right? We all love to be pretty good at finding flexible ways to get things done.

Roy:

And you know, when you enlist your business, typically the vendors will tell you what you need to know not always what you should know. And we always try and do our own due diligence. And it's not deep due diligence. We don't go check it our records and all that. But it's enough of due diligence, the end and evidence in the information we present to a buyer, we will pass muster in due diligence, otherwise, we wasting everyone's time and money.

Joanna:

That is so clever.

Roy:

And you know, without experience asking the appropriate questions, we will find appropriate answers. And there are always some issues with most businesses. And once we know what the issues are, we can then suggest creative ideas to get around that objection, which we know is going to come from a buyer. And when the objection comes, we hope to have a suggested solution that may get him over those objections and seriously thinking about buying the business.

Joanna:

And so some examples of that. We're going to talk today about another story. But before we get into that, I want to hear some examples here. What are some examples you've seen where you've anticipated objections and then you've sort of come up with a way to to get ready to deal with them when they came up.

Roy:

It's a lot to do with a business when it has a technical bent or technical aspect, where the vendor is the expert in that field. So give you an example. We sold a manufacturing business company, in fact, it was during the COVID time the first cover locked down, believe it or not. And when I switch in to talk to the vendor, they had very sophisticated machinery. It was laser cutting, and

to selling a business the owner of the business was the factory manager. And he was the operator of a very sophisticated laser cutting machine. And then he had two other machines with two other employees. And I said to him, at the time, if you leave, who's going to do their job, it's quite a skilled job. And he said he does he didn't know. So what I suggested to him at that point in time, is to put an advert in the paper immediately for someone to replace him so that by the time we've listed the business and marketed it, and started talking to people, that critical issue is going to come up. And hopefully, we'll have an answer. He put an advert in Seek and a few others. And within a span of three weeks, he had structural engineers, it was COVID time and a lot of people that lost their jobs, he had six choices to make, he found someone who had been working on exactly that piece of equipment, but the older model, he employed him. So within six weeks, we had four offers for their business. And two of them who are not technical said who will replace either I'm not a technical person, I'm more of a sales and marketing drove. And we could immediately overcome that objection by saying we have employed someone who is already in training. So within three months, he will be an expert. So take that objection off the table. And that was a critical objection because it would have ruled out many of the qualified buyers. So we saw that as an objection coming up as it is a key issue. And we solved the problem and took that objection off the table before we even got into that filing negotiations.

Joanna:

I love it. Well, look, I think it's a similar approach from a legal perspective as well, you know, we say, Okay, well, what might a buyer object to, once they get to the due diligence phase, for example, let's make sure we tidy it all up, let's make sure it looks clean, let's make sure a buyer is not able to come and use due diligence as a tool to nudge down the price that they've already committed to. So, you know, I think it's such a critical perspective, from a commercial from a financial accounting legal perspective.

Roy:

Absolutely and also, one of the issues is very often a serious seller/vendor will have his financials, reflected or correct. But the wage that he pays himself or herself is not market-related, because it doesn't pay them for tax purposes, which is fine, it's totally legitimate. However, when you're selling a larger business, any buyer and their accountant would want to know that there is a market-related wage applied for every activity in this in respect of their business. So what we will always do is we will adjust the figures for their business to apply the market-related wage. And again, remove that objection, which we know is going to come. Similarly, when they own the premises in a related company for their business, it needs to be a market-related rate applied to the business. And again, we would make that adjustment if it needed to be made. So we remove we anticipate the objections with our experience, we've seen a lot. And we try and remove all those objections and minimize them when it comes. And you know, Joanna, buyers appreciate that because when they see all that, and they see that you've already adjusted to appropriate market conditions. They understand that this is serious, they're dealing with someone serious, and no one's trying to pull the wool over their eyes. And it gives them the confidence to move forward with negotiations and look seriously at their buyer in that business.

Joanna:

is about retaining that trust as well.

Roy:

Correct. Absolutely.

Joanna:

Yeah. And so let's move on now, to this story. I love this story. I think you told me 22 years ago, when you had a little bit of difficulty in finding buyers for a particular business run us through what happened in that story.

Roy:

Yeah. So it was approximately 22 years ago. What happened was I had it was a small engineering business and it was quite technical. So a buyer who had just emigrated from South Africa as it so happened, came to our office looking to buy himself a business. And I showed

him this business and he said, Look, I've got a background as a tool maker. It's exactly up my alley. It's what I like it's what I can do, I don't have the funds available. And because I've just landed in the country, a bank is not going to be lending me money without having the security of a property. So, unfortunately, I cannot buy their business. And a couple of days later, another person walked into my office and said, I'm looking for a business gave me some parameters, and I showed him various businesses, including this one. And he said That looks like a very solid business. But my background is administration, and sales marketing, I don't have the technical skills, and it worries me that I'd have that gap. So what I did is, I contacted both of them separately, and I said, Come to my office next week for a meeting. At the same time they came, I introduced them to each other, they had a similar background from the same country, but they didn't know each other. And I've told them that they are both in the business, in my opinion, one had the technical skills to drive the technical side, and the other one had the organizational skills. And I said this could be a perfect fit for you, if you can, in so-called get married, and form a partnership. But you need to work on that, that situation, I can't help you. And I walked out of the offices and I said, here's a cup of coffee, have a chat, call me when you're done. And let's see how it goes. And they bought the business.

Joanna:

That's such a good story.

Roy:

Two years later, we back and they've now called me and said we've you know that the business is going exceptionally well, it's time to retire, sell the business. And I'm in the process of selling that business right now. And as it so happens, I found a young gentleman who has the technical skills and a businessman who is looking for more overall investment. And we've had our third meeting together.

Joanna:

I mean, that is just a story of a lifetime, right? I can't believe it, I can't believe that you introduce these two people together. And then you know, it solved their issues individually as buyers, because you're both looking to buy a business but needed each other to run it to solve the problem of the seller at the time. And then, you know, they lasted in business for 22 years. And now you're doing it all again. It's just fabulous.

Roy:

Yeah. It is one of the best stories.

Joanna:

And it must be touching for you to find, you know that buyer that you dealt with more than two decades ago, or still are in contact with you. And you know, you're the person that they'd reach out to now, all of these years later. And what's your secret to that? Because I think that, you know, that's really telling Roy. That's a massive positive. And I think something that anyone who's coming into the market, as a business broker now would want to understand in terms of how you create that sort of longevity in relationships,

Roy:

I think it's, you know, the old days, the marketing used to be letters, post office drops, the brochures, and you only sell the business sort of once or twice in your life, and said, Well, I'm not ready to do that. And typically, you put that into your bottom drawer somewhere. And five or six years later, we used to get a phone call and say, you won't remember this, but also got your brochure from five years ago. And I think I'm ready to go but these days, of course, it's not posters anymore. It's a website, it's Google Ads, etc. And if we do a good job and a good honest job, you know, Google reviews are honest reviews, because they're not your reviews. It's someone who's making a subjective review, working well with solicitors and accountants and showing that you're on top of your job during the standard by coming up with creative solutions. That's a very important source of referrals. Because if someone wants to sell their business, generally what they'll do the first port of call will be to talk to the accountant. This is what I'm thinking, what are the implications? What are the capital gains tax implications? What do you

to selling a business think, who should we use, and therefore the accountant, if you've got, you know, done a good job before, the accountant will feel very comfortable in recommending you. And once that happens, you know, everyone's comfortable in going forward. So, it's just been to be frank, just being totally honest and upfront. And we've often turned around and said to a buyer made an excuse not to sell a particular business to the buyer because we just knew he was going to fail. And, you know, we'd like to sleep well at night and the Commission wasn't not going to change our lives and we'd really persuade the buyer that it's not for you if we felt it was appropriate. And, you know, that's just our philosophy. And it's worked well, for us.

Joanna:

It's clearly worked very well for you, boy, and what a fabulous philosophy. Absolutely. And clearly, you know, as we say, that's what's worked for you over the years, but you must have been in contact with these buyers and these owners who had bought 22 years ago and now coming to market, have you just maintained a relationship with them over all of these years? Or did they just not speak to you but just suddenly remembered about you 22 years later?

Roy:

A bit of both, we certainly try and keep up the relationships and the contact, knowing that they're going to come back to market one day. But sometimes time gets away with you, things change. And I would say it's probably more than 50% of the sellers who come back to us remember what we did for them as a buyer, and it was a fair deal and trusted us at the time and what came back to us as the first port of call. So which is always a good feeling.

Joanna:

Well, there's the I guess, the lesson as well, it's to treat both parties with respect. You know, and true concern about whether they're purchasing whether the seller is selling to someone whether the buyer is purchasing something that they're capable of maintaining and growing into the future.

Roy:

Absolutely. Another example sticks in my mind. Many years ago, someone who wants to sell his business does this smallest business buyer walked into my office one day and said, I'm looking for a business, it gave me some parameters and gave me a price guide. And I said to him, I'm working on the business at the moment but I'll get back to you. I didn't call him back into the office. The following week, I showed him this business, which I just listed, hadn't even started marketing yet. And I say to him, Look, it's a very solid business that meets all the parameters except the price. This is it's a higher price, and you gave me but we know that that's often the case buyers will sort of under quote you with that prepare to pay. And he looked at us with ease and I showed him the information memorandum. And he looked at me and said, This ticks all the boxes, said, I need to ask you a question. I've just cancelled the deal from another broker putting in an offer to pay the deposit, suspended due diligence, and what I found in the due diligence, compared to what I was told was talk and cheese and cost me a lot of money. And I'm very, very distrustful now, at the moment, you know, generally. And I'll say to him, what, let me show you this. And I went back to my office and I brought in the file. And I said, here are the profits according to terms of the information memorandum, open my file, I pulled out the tax return. And I'd say there's the property got on the tax return. It's one and the same with one or two adjustments, there's the lease summary. Here's the actual lease. This is the wages summary. And it was all in the file. And once he saw the evidence that he could rely on the information on the IM, he sort of said, thank you very much. I'll go and discuss it with my wife and his kid because he wants to bring in his kid with him. And six weeks later, we did the deal. And it and we didn't even have to advertise that business. He bought it at the price that we asked for. It was a fair price. He knew he could rely on the figures. And it was a fantastic deal. The vendor stayed with him for six months, just because the vendor was such a wonderful person as well. And that is another nice story and it gives you a good feeling when that happens.

Joanna:

I just love stories like that.

Roy:

And he still holds the business today.

Joanna:

Oh, I love it. Afterwards, you have to tell me the business. But look, I just love these stories, right? I love love this area. I love seeing good deals get done. And I just love this philosophy that you clearly have, which is about making sure that you're doing the right deals, because the right deals lead to such great future outcomes for both the seller at the time and obviously the buyer by evidence by the mere fact that they keep coming back to you so huge kudos to you, Roy and a massive thank you for coming on to the program. How do our listeners make contact with you if they would like to find out more about how you might be able to assist them in the sale of the business, or perhaps in the acquisition of a business?

Roy:

The easiest way is just to get onto our website at www.corebb.com.au or send us something. You'll find all the communication numbers, emails address or sales at corebb.com.au, if you Just give us a call directly first, all the numbers are on the website. And we have a motto, we will always get back to someone within 24 hours, irrespective even if we say we cannot talk to you today, but we will be in contact tomorrow that you will hear from us on the same day.

Joanna:

What a great service promise. I love it. I love it. Roy, thank you so much for coming on to the deal room podcast,

Roy:

Pleasure, thank you for having me.

Joanna:

Well, that's it for this episode of The Deal Room podcast with Roy levy from Core Business Brokers all about how creative solutions can help tremendously in the sale, and acquisition of a business. Now if you'd like more information about this topic, then check out our show notes which will take you straight through to this episode page at our website, 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. And of course, we also there link straight through to Roy Levy and Core Business Brokers if you would like their assistance for the sale of a business or perhaps in the acquisition of the business there in the show notes you'll also find details of how to contact our Legal Eagles at Aspect Legal about anything related to this topic or 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. 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. 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.