The Deal Room Podcast

Episode 224 – The relevance of business grants in acquisitions – top tips for buyers

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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 speak with the CEO and founder of Grant Guru, and GrantReady, Adrian Spencer. Adrian is an entrepreneur in the Grant space has pioneered grant strategies and better access to funding as well as the grant discovery platform. With more than 18 years in the sector. He has secured more than $500 million worth of grants and funding and with an advisor to the government on grant making. Now in this episode of The Deal Room Podcast we talk about, of course grants, you can see the theme you can't you, but we're talking about grants in relation to the acquisition of businesses and, what you should be considering in relation to grants. If you are considering that acquisition of a business. Now, Adrian drills into a step-by-step grants process that people can follow to maximize their chances of both finding and securing grants.

He also gives us a quick rundown on the top thing's buyers should be thinking about in relation to business grants when they're out looking to buy a target business plus, as we explain towards the end of this episode, or you can skip to the show notes. Adrian and the grant guru team have kindly put together an exclusive offer for both our business owner listeners and their advisors. So, make sure you check that out. So, without further ado, here's our very interesting discussion with Adrian, as we really dig into this area that isn't focused on much in the area of sale and acquisitions of business but is all about grants. Here we go with Adrian.

Joanna:
Adrian, welcome along to The Deal Room Podcast, it's so good to have you on the show. Thank you, Joe, good to be with you, whatever, whatever. Okay, now, today, we are talking about the considerations of grants in relation to the acquisition of businesses, which I think is such an interesting topic. Before we get into that maybe can you just give us a quick 30 second background of who you are, and why you are the go-to person in this grant space.

Adrian:
So, for 22 years, we've been working in the grant sector, we initially started as grant writers. But what we realized there was a big gap in the market around understanding what grants are available. So, we have built the most comprehensive list of grants in Australia. It's a live updated, ongoing list called Grant Guru. And we've got all the grants that are in there over 6000 for businesses and not for profits, worth approximately $100 billion.

Joanna:
Wow. Okay, that's brilliant. I mean, how fabulous to have a resource all in one place, you know, with all of this information. And I guess one other thing that we should mention as well, because you also have another business that has an advisory service in relation to grant. So indeed, the sorts of things that we're talking about today might be, you know, fall into that advisory service. If buyers want to ensure that understanding and grants that are on foot at the moment. So just that I tease that out for our listeners, so they understand sort of the two different options that you work with.

Adrian:
Yes, thank you. So GrantReady is our consulting arm. And we do the grant writing. And we do support services around grants. And Grant Guru is an online product, where people can find the information, they want themselves. It is all part of the grants process. If people want to be effective with grants, it is best not to start with grant writing, it's best to understand how grants work, then find the right grants, then they can do the grant writing. And then the ultimate step is the kudos and reporting, which is making sure they keep the funding that they have secured.

Joanna:
I like it, make sure they keep the funding they secured. Well, this is part of what I want to dig into in what to consider in relation to government grants in business acquisitions. So, Adrian, give us a quick rundown. What are the top things you think buyers should be thinking about in relation to the area of business grants when they are out looking to buy a target business?

Adrian:
Yeah, this is a really important point because most people do an acquisition and then they think about the issues later or they crop up. And they really realize they have a problem to deal with. So just awareness of these issues in advance. is helpful, you could break them into two categories. The first category is the compliance and the contractual aspects of a grant. And if an organization has been awarded a grant, they will have signed a contract, which will stipulate the terms in which they need to keep receiving that funding, how they need to acquit the funding, and any rules around what they do or do not need to do to make sure they don't have to pay that funding back. There will be clauses around ownership, funding that is incurred execution of that work, and even some IP clauses, those things are important. They are not overly complicated.

If you know in advance what they mean and the implications, it is generally fine. But 99% of the time, people don't think about it until the acquisitions occurred, and then we go, Houston, we've got a problem. And then they have to work backwards to try and solve it. And in my experiences, that's always problematic. Trying to solve a problem, when you got it is going to be more expensive, and riskier for your funding than just getting it right at the start. So just to break that down. Some of the simple things that people need to know is that when an acquisition occurs, the funding will have been provided to certain entities. So, it's important to understand what's going to happen to that entity, the assets been broken up and sold off as a new entity can acquire the capital the IP, etc. Or is that entity just going to sit within a larger group, there are rules around overseas ownership or where the activities are occurring.

If any of those changes, it is really important to go back and check the contract. And not all contracts will be the same. So, there's no one size fits all rule here, it's just important to go and tick these things off and go, yes, we've checked that activities are still occurring in a jurisdiction where they're required to occur, ownership still fits the requirements. If there's an entity structural change, perhaps you're going from being a Pty. limited company to perhaps becoming a trust that might affect eligibility. So, these are quite simple things, even the IP ownership what's happening with the IP, where's it held? That's really important to note, government doesn't really want to own your IP, but they will often stipulate where they want your IP to be held, and how they want it to be exploited. So pretty important just to check the issues around those.

Adrian:
They're pretty basic things. But also, simple things can happen when you're required, such as you might become part of a larger group. And as part of that your turnover might change. And some grants will have turnover requirements, or limitations or thresholds. For example, the R&D Tax Incentive Program Awards, the funding in diverse ways or in different amounts according to your turnover. So essentially, there's a $20 million aggregated group turnover threshold, if you're under that and you're in losses, you can access the funding is in the form of an offset a cash offset, which is really just, the HR will cut you a check. If you're over that, then you get an additional tax deduction. It might sound like semantics. But if you're used to claiming the R&D tax, and you spend a million dollars, and you get a refund of $430,000, check every year and use that for your cash flow, you suddenly go over the $20 million threshold, and now you're getting an additional 16% tax deduction, you're going to be a bit shocked and you won't be perhaps fully ready for the impact that's going to happen on your cash flow,

Joanna:
Such good points and fabulous points I get as you're talking; I'm just remembering a matter that I was involved in years and years ago. And it's quite a quite a funny memory. Actually, I hadn't, I hadn't thought about it for years. And still, we until we started talking today, I was working on an acquisition of an industrial business. In fact, I think it was a manufacturing business come to think that they had a large component of income in the business related to funding because they were doing that they're involved in some sort of innovative production at the time. And we're acting by side and our buyers wanted to make sure they understood what was happening when there was an audit that was taking place by US industry so as industry and sent a few representatives out to audit the business and so there was an urgent need for me to go out to the plant. And I just remember at the time, I'd gone straight from the office because it had been organized that day from the office.

So, I was in a suit. I had nothing else that I could wear at the time. So here I tried to in in my high heels in the middle of this, you know, let's just say I stuck out like a sore thumb. And of course, at that point, you know the buyers and the sellers didn't know sincerely want to be communicating that there was a sale that was happening with the business. So, we had to quickly come up with a title for me, they could justify why I was doing the walk around the plant with all of them, notwithstanding, I looked like I was the last person who fit in there at the time. So anyway, that was just a funny, funny story of the past.

But I guess the whole point of that is, you know, you need to understand, you know, if there is funding in the business, you're expecting that funding to continue into the future, you need to understand, you know, where the risk might be in a in a transaction for you in the continuity of that funding, you know, that might impact the way in which the sale happens, whether it's share, sell, or a business sale, it might impact, you know, your group structure might impact, as you correctly said, there, Adrian. And I guess, you know, you just have to understand that many elements of this funding aren't necessarily something that you can guarantee for the future as well. But I guess it's about understanding, you know, the eligibility criteria and whether you continue to meet that eligibility criteria, moving forward, and also, maybe any risk to you taking on the business in relation to any clawbacks that might happen in relation to any activity in the past that may not have been in compliance.

Adrian:
Yes. And we see this often at the highs and the lows of businesses. And, you know, the example you gave when you are getting acquired is generally a high point for most businesses. But sometimes at the low point, we've dealt with businesses where they've gone into administration, and the administrator has then contacted us, we haven't dealt with them the business beforehand. But they've contacted us and said, hey, we're about to fold this business. But we think that eligible, to claim R&D tax, and because it's a retrospective program, you look back to the last 12 months. And then if you are eligible, you can claim the costs you incurred. And there are times when we've been able to jump in and confirm eligibility, put a claim through, receive some funds. And that's been a lifeline for our business but allow them to get through that next 6 or 12 months, so they can move back into profitability and not have to fold.

We've seen this with grants as well. We had one business, this was probably 15 years ago, where the bank was ready to put them into administration. But a line item came up saying, oh, they've got a grant, that grant was a three year long grant. That was they were being paid every six months in milestones. And the auditors asked us to come out and discuss what that actually meant. And we were able to have a look at that grant and say, they're meeting all their milestones, they're quitting everything. Well, they're doing what they meant to do, they're going to keep receiving this grant funding for the next two years. And in that case, that funding was enough to keep them alive. In fact, they went on to become a national, multi multimillion dollar business. But that at that point in their life, you know, sitting in that room with the CEO who was shaking, because he thought the bank was about to close his business was pretty scary. And the fact that the grant, just allow them to scrape through and then become what they became, for me was a real eye opener about how important not just the grant can be, but the understanding of how grants work and fit into a business and their daily cash flow,

Joanna:
Brian, wonderful. One other thing that, you know, I think it's useful for us to throw in is maybe also just that opportunity for a buyer. So, we've talked about a buyer coming in and reviewing any of the government grants that might be there or other types of funding that might be there at existing at the point of acquisition. But perhaps there is also an opportunity for buyers to consider as well in their acquisition targets, whether there might be unrecognized opportunities that they can then, you know, take advantage of after acquisition in relation to grants. What's your thoughts there, Adrian?

Adrian:
I think they fall into two categories here; you've got grants that are entitlements, and some people don't realize they're actually as long as they qualify, they are entitled to that funding. So, we will have often will have an American or European conglomerate contact us and say we're acquiring an Australian entity. We just had a thought that maybe we should value the entitlement grant into the valuation of that business. And we've found that can make a really big difference to the valuation of the business. And sometimes it's overlooked or forgotten. And they might just want to assurance from us that they are entitled to get that funding and an estimate of the value of that funding. We've seen some really impressive increase in valuations by factoring that in and you know, sometimes that's I'm in the interest or not in the interest of the acquirer to do it.

But I think for the business that's been acquired, it's always in the interest of them doing that. And that relates to programs we were talking about, like R&D tax, export market development grant, and a number of the other entitlement programs. But there's also the prospect of programs, these are the ones where you're not entitled to them. But they're competitive, you apply for them upfront, if you're successful, you get them. And what we've been asked to do a lot more of lately, by CFOs, and by boards, is to actually build a grant strategy.

The grand strategy is simply a list of grants that a company might be able to access, and we would trawl through the 1000s of grants that are available, we'd look at their projects, we might come up with five or 10 grants and say, Look, you're eligible for these look, you're probably a good chance for a couple of them, this is the value of them. And this is the effort and cost you would have to do to get them. And we find that people are starting to factor that in just because grants are being seen as an income stream, just like any other income stream, not more important, not less important, but people are just starting to factor it in. And we're finding that people are almost getting in trouble at either a board level or an operation level, if they forget to think about grants.

Joanna:
Brilliant Well, look, I just want to say a huge thank you Adrian for coming onto the show today such interesting information. And I really think something that is not thought a lot about in this space. So really good points, really good ideas for buyers in relation to the opportunity that might be there that you may never have thought of. And so of course, we will put a link in our show notes through to you and through to Grant Guru and GrantReady, but maybe just tell us what's the easiest way that our listeners can find out more about you and interact with you,

Adrian:
Easiest way is just to go to grantguru.com.au. All of the information is spread out there. It's very easy to use. It's self-explanatory. If you've got any questions, just shoot us an email through the website. And we're really hear to support people. Our aim is not to stand in the way of them getting grants is to create a level playing field and to facilitate that, and we just want people to have the grants radar up, because we know the grants help businesses grow and often helps them to go to that next level or achieve something that they haven't been able to achieve to date.

Joanna:
Brilliant, love it. Adrian huge thank you for coming onto the show today.

Adrian:
Thanks, Jo. I really appreciate it.

Joanna:
Well, that's it for this episode of The Deal Roo Podcast with Grant Guru and GrantReady's Adrian Spencer. Now, as we have discussed in this episode, there are actually a lot of elements from a legal perspective relating to grants in acquisitions. So hopefully you found the content useful whether you're looking to acquire a business that already has grants or government funding, and you want to understand how you can test the business in terms of that future likely revenue stream of those grants that they've had in the past, or in terms of identifying where grants could be useful for you, as a new source of revenue for a business that you are acquiring.

And of course, as always, you should never embark on an acquisition without the right kind of legal assistance. And of course, if you'd like any assistance from a legal perspective, then we'd love to work with you. We have many services for buyers, both big and small to help you through an acquisition. All right. So, if you're interested in finding out more about Adrian, Grant, Guru and grant ready, then just check out our show notes on how to contact them. We'll have a link there straight through them. And of course, there you'll have a link to our podcast episode page, where we will have a full transcript of this episode if you'd love to read through it in more detail.

Now as a part of this podcast episode, Adrian and his team have been kind enough to extend a bonus offer to our listeners. In the show notes. There is a massive discount for annual subscriptions to grant guru which lasts as long as you have your service. This tool is exactly what any small business owner we'll need to really home in on finding grants throughout the year, you'll just need to apply the coupon code aspectlegal during checkout to take advantage of this offer.

We've also included a link to Grant Guru's pro product for Accountants, Consultants and other Business Advisors knowing they're going to be some of you who are interested in offering a grant search service to your clients, which is a great way to extend the value you're offering. You'll want to book a demo to see the power of this inaction for your clients. And there's a link to do that in our show notes too. So don't forget to mention this podcast for a huge discount. Now if you'd like to find out more about this topic, as I said, head over to our website at thedealroompodcast.com Or check out the show notes.

Joanna:
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