The Deal Room Podcast

Episode 244 – Entrepreneurship and positioning yourself for M&A success with Chris Rolls Part 1

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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. We have a very exciting two-part series here now for you. And this is our two-part interview with Chris Rolls. Now Chris Roll is a serial entrepreneur who's built and sold four businesses, three of which were amongst the largest of their kind in Australia.

Chris then went on to founder Pylab Venture Partners in 2016, which is a venture capital fund that invests in early-stage technology businesses focused on the real estate sector. And in this two-part series, Chris brings to us a very interesting approach of both having the experience of buying and selling businesses, so the sell-side experience, and also now from 2016 onwards, the experience as a buyer. Now in part one of this two-part series, we're digging into Chris's background, and his experience in buying businesses that he ultimately sold. And in part two, we venture into looking at his experience on the flip side as a buyer of businesses. Now, in this first part of the two-part series, we look at not just Chris's experience in building businesses to sell but the learnings along the way. And please ensure that after you listen to this episode, you make sure you hunt down part two, where we get into that experience of Chris, as a buyer and what he now is looking for in businesses that he acquires. And don't forget to check out our show notes. If you're interested in finding out more about Chris, and PieLab. Then just hit our show notes where we linked straight through to Chris. Right. Well, without further ado, here we go without part one of our two-part series with Chris Rolls.

Joanna:
Chris, welcome to the podcast. It is so fabulous to have you on today.

Chris:
Thanks, Jo. Looking forward to it should be an interesting conversation.

Joanna:
Absolutely. I absolutely can tell that it absolutely is. Okay, Chris. Now we have a two-part series here. And in this first part of our two-part series, we are hearing a bit about your background because it is a very interesting background. Indeed. And I think there are a lot of lessons there for our buyers and sellers listening in at the moment. So why don't you give us a bit of a snapshot of your background and start from the beginning? Tell us where you've been in this journey of business sales and acquisitions.

Chris:
Sure. So I started my first business actually when I was at school, I started our school canteen. And when I was probably in about year eight, or year nine, we used to buy chocolate bars and cans of soft drinks from Franklin's at the time, not sure if you remember the Franklin supermarket chain, I think they'd gone to the school that we used to sell them. And that was my first ever business. We actually had people in each of the different years who would sell different things for us. And it was a great little business that you had. We knew all the people in year nine but of course, we didn't know all the kids in year eight or 10 or whatever. And that was my first ever business. And that was a great business. Because first of all, we didn't pay any tax.

That was the first thing I didn't even know what it was. It was all cash. And it was instantly profitable. But it wasn't. It wasn't that great for that long, because when I got to about halfway through year 10 The school opened its own school tuckshop and of course, they were better capitalized on me and we went broke. People stopped buying stuff over so that was my first business. But you know, my first proper business was a clothing manufacturer company called Scotti performance which manufactures cycling and triathlon clothing. They're still around today, but I sold it probably 20 years ago, I started that when I was at uni, I was a sort of a mad keen cyclist and triathlete, and we started manufacturing clothing and it went really well. We sort of built that to the stage we had probably, I don't know 15 to 20% share of the Australian market at that time in my very early 20s. And that was a business that was a lot of fun. So and that was my first experience selling a business and I did it really badly.

Joanna:
In what way? What did you do?

Chris:
came into work one day, and I owned half of it with one of my best mates. And so who's still one of my best mates? And I said to him, I said, Look, I'm a bit sick of this. And, you know, we've grown really well, I reckon we should sell this. And so he agreed, okay, let's sell it. And then the next day, he came in with it, we're gonna go and see the accountant. And he had a change of heart. And he said I don't really want to sell it. How about I buy your share? And I said, Okay, so we had a conversation for five minutes, came up with the price the deal was done. Well, it sounds easy, except three years later, he sold my share for 10 times what I bought from him. And for the record, it wasn't him taking advantage, we were completely naive, and we had no idea what it was worth, I had no idea what it was worth, I had an amount of money that I had in my mind that I need to go and do my next thing. And he was willing to pay for it. And turns out, I completely undersold it. So that was my first experience selling a business. And I've built the sold four businesses four proper ones. So that was the first one.

Joanna:
And can I just say, reflecting on that word there? What were the main? What elements are out of that whole experience? Did you take moving forward? I mean, obviously, you didn't go through a formal process. And you know, I understand that. But I do, you know, I talk to business owners day in and day out. I'm an entrepreneur at heart, too. And I feel that all of our early ventures, you know, create this combination of experience. So what are the what were those lessons you got from that?

Chris:
Well, I think the first thing is don't come up with a price in five minutes. Why are you having a beer after work? And so the business that you've been, they've been building for the last three years? So that's the first thing learning plan and more than five minutes in advance? I think I mean, I've exited a few now. And I think, and even the sort of I look at it over time, I've gotten better at it. And doing what I do now, which is investing in businesses. I've been through the process many times, I think, you know, absolutely. Preparation is the key. And you know, what, five minutes isn't long enough, I think even a year or more, you know, really needs to be where you're aiming at. And, and planning sort of towards that over time. So the other thing I've learned, and I've gone through processes where I think I've learned from my experiences over time, I think, you know, things like having the right accountants working with you having the right lawyers working with you, makes a massive difference. So I've used a combination of different things. And more importantly, when we've bought businesses off people, I've seen them use, you know, really poor quality advisors, and that it's not that they're bad lawyers, they're just lawyers that don't do you know, m&a transactions very often. And you see transactions fall apart. So I think, you know, there's a whole range of things that I've learned, but you know, preparation, good advisors, understanding who your market is, and getting an understanding of what businesses are worth when you go through the sale process.

Joanna:
I love it. And I think absolutely right. This is one of the things that I talk about a lot this misunderstanding in the market about advisors who are generalist advisors or commercial advisors, so guru, you know, talking about lawyers, accountants, whoever, who deal with, you know, there's this perception that commercial lawyers understand business sells and acquisitions because they're lawyers in the commercial space. Right. But it's so often the case that our generalists, and lawyers just don't deal with business sales and acquisition on a day-to-day basis. And so don't understand the nuances.

Chris:
I always liken it to sort of a GP, you know, you don't go to your GP to get heart surgery, you go to a heart surgeon, and then a very different thing. And she typical accountant deals with tax your typical lawyer, deals with commercial contracts, predominantly everyday business stuff, like lease agreements, and, you know, and I'll be spread across a whole range of different things, both, you know, business, you know, personal wills, estates, you know, your mergers and acquisitions, and the legal transaction documents, you know, around the seller business are a very specialist topic. And what's interesting, it's not just that, you know, if you use the wrong lawyer, you'll get the wrong advice. It actually increases the chance of the transaction falling over because I mean, I've seen on the other side, you know,

lawyers come back with things that are completely uncommercial. And I look at that and think there's no way we're not asking for things that are unreasonable, we're just asking things that most lawyers that are experienced in mergers and acquisitions understand that that's, that's a completely normal ask. And you see transactions fall over unnecessarily as a result of those sorts of things.

Joanna:
Now, I interrupted you, you told us about your first, well, your second business, really your clothing business, what was after that?

Chris:
So I've had a few. So after that, I started a business called First Class accounts. Actually, I invested alongside a guy who was doing some consulting work with this a while ago, just when the GST was introduced, and he had a business that was kind of like small business accounting. So he was helping small businesses, with their, you know, their bookkeeping, helping them computerize their accounts. And of course, what happened is the government of the day introduced the goods and services tax, and all of a sudden, his phone just rang off the hook. They just weren't enough accountants, advisors, bookkeepers around to deal with the, you know, 2 million businesses that had to computerize their accounts, you know, or move on to MYOB or QuickBooks at the time. Xero didn't exist back then. And so we franchise that business, and 18 months later, we had sort of 120 franchises around Australia. So we were sort of in the right place at the right time. With, you know, this very rapidly growing business. And then, you know, while I had that, I actually invested in a business that some friends of mine were running in the real estate industry. And I helped them out on weekends because a lot of fun, and I came to the conclusion was actually more fun than accounting. And they asked if I would come on board as the full-time CEO. So I said, Yes, so I stepped out of the accounting business and went through a sales process with that. And which I did, I think, a better job with, but certainly didn't get it, you know, completely right. And then moved into the real estate industry.

Joanna:
And why?

Chris:
Oh, look, I think, once again, preparation, so it was one of those things where I wasn't expecting to sell it, and this other opportunity came up. And, I think also, at the time, I didn't understand the nuances of how to get a business to run by itself, because that was a really good recurring revenue business. And I kind of had this view, well, if I'm not the CEO, therefore, I need to sell it, which was complete, you know, an incorrect and inexperienced assumption.

And so, therefore, I didn't have the time to prepare, you know, for the sale process. And interestingly, you know, your business is typically worth far more, if it's under management and being run without the founder, who's exiting, you know, being a major part of the day-to-day business. I just didn't know that at the time. So it's things like that, you know, that that I learned. But certainly, I did a better job than the first one.

Joanna:
That's good, at least we're on the right trajectory.

Chris:
That's exactly right. And, you know, the, and then the real estate business was probably I think, the one I've executed best in terms of, first of all, I got into the industry, I invested in that business, because it's an industry that has a, you know, recurring revenue annuity income stream, and what I'm talking about there as the property management aspect of real estate. So if you look at the real estate industry, I'm talking residential real estate, there are about 8000 real estate agencies around Australia, and the bulk of them generate most of their revenue from sales. So selling properties, almost all of them do some element of property management, which is managing investment properties. So putting tenants in collecting the rent, doing inspections, doing maintenance, etc. But typically, it's an industry that is serviced very poorly. And that's because the people that own most real estate businesses are salespeople, they're out focusing on selling property, and their property management is sort of the poor cousin, we took a view that that's actually the biggest opportunity. So really good quality business that sells for high multiples, and poor competition, because, you know, most business owners in the industry aren't focused on it. And so we built a very large business one of the largest in Australia. So we have a portfolio of about two and a half billion dollars of property, predominantly around Queensland, I'm based in Brisbane. And we sold that probably about seven or eight years ago now. And to a national player, and we're a good fit for them. And it's also a business that's fairly easy to value. So you don't have too many issues in terms of negotiation around valuations, because they're businesses that sell very, very well because the buyer is effectively by a contracted revenue stream. And, you know, I went through a much better process I had better advisors I had prepared for that. You know, and it was a good outcome.

Joanna:
Love it. And when you entered the business, Did you..well, you went into business, obviously, at the same time that you were involved in the accounting business. But as you were leading, building, leading into building the business, did you have in your mind now planning for exit, given your last two experiences?

Chris:
Yeah, so the answer is yes. So I think a lot of people get into business, and I certainly did as well, without really any plan it kind of go, I'm gonna start a business and you're gonna get, I'm gonna start, I'm gonna make some money, I'm going to get some customers and you know, if our revenue is more than our expenses, and things are going pretty well, and then I've got a business and you know, most people don't think about what will How long are you going to do it for? What do you want to achieve? You know, how are you going to grow it? What do you actually want your business to look like? And as a result of that, a lot of people get themselves into sort of a situation where their business pretty much dominates their lives. I think a lot of people get into running businesses with this idea that I can be the boss, and I can, you know, work, convenient hours, and then they get in there and realize that actually, that's not how it works. In fact, quite the opposite, you end up working more hours offered any less than what you did previously. And that's I think, partly as a result of a lack of understanding and a lack of planning as to what they want to do with their business. So certainly, with our business, absolutely, it was a business that we were building to sell.

Joanna:
Love it. Okay, and then where to next after that?

Chris:
So after that. So that was about seven years ago. And then that's when I decided that I was going to start investing in businesses. And so I started a firm called PieLab Capital. And what we do is we acquire businesses, we sometimes acquire 100% of them, sometimes we acquire, you know, a majority of them and work with the partner with the person that's there to help grow those businesses. And we do that on behalf of our investors. So our investors invest in our fund, and we go out and acquire small and medium businesses and help them grow. And that's really sort of the next, the next segment of my journey that I'm working on at the moment.

Joanna:
And the next segment of our podcast, as it turns out to

Chris:
Absolutely, absolutely.

Joanna:
But before we finish off with part one of the two-part series, and look, I'm really excited for part two, where we talk about business acquisitions, and looking at that process through a buyer's eyes,

because I think that's such an important insight for people who are building to sell or close to the point of exit to be able to recognize, but before we get to that, I just want to come back to these learnings. And you talked about this in the beginning. But preparation is the key. And having the right deal team there. Are there any other sort of insights, I guess, that you have gleaned through your experiences?

Chris:
Yeah, sure. I think, you know, I think I think one of those is if you're thinking of selling a business, looking at it through the eyes of the buyer, and most importantly, what are the risks to that buyer. So as an example, one of the things I often see when you know, we go to acquire businesses is you have a history of little or no profitability. And then over the last two years, all of a sudden profitability has gone through the roof now that just rings alarm bells. Do you know, why? Why have there been five years of no profit and two years of good profits? So understanding and there may be good reasons for it, but being able to really map those out, you know, buyers like businesses, you know, when you think about it, what is a buyer buying when they're buying a business, they're looking to acquire an ongoing income stream. Sometimes they want to be doing that passively. Sometimes they want to do an activity by working in the business. But there's no question that your business is worth more if you can provide a scenario where that business is a standalone entity with its own management place, and that's, that can be a passive investment for someone. So that's a, you know, an important part of that is understanding the risks, you know, from a buyer's perspective, and showing them how the potential perceived risks can be mitigated. So that's one of the things that I think are important. And then I think the other thing that's really important, is having an honest conversation with the people internally because whether you like it or not, your people internally have quite a large influence on the buyer's willingness to buy your business. Because when you think about it when you buy a business, most businesses in the Australian economy don't have a lot of assets. They're not asset-heavy businesses. We are a service-based economy. So usually very few tangible assets other than, you know, computers, desks, maybe a fleet of cars, we don't have sort of You know, many businesses with heavy machinery, we're not into manufacturing. And so therefore, you know, you can be where predominantly services economy, the services are provided by a group of people. So thinking about how can you ensure that if those people were to leave, which is always a concern of a buyer, you can recruit more people to get up to speed quickly. And that can involve having things like training programs, and having processes in place so that the revenue stream that's generated by those people if they leave doesn't disappear. And so they're, you know, that's, I think, the way to look at it. And of course, the risks are unique to each different type of business. So you can't just sort of say, well, if you do X, you'll get a good outcome. I think you've got to look at your individual business and sort of say, well, what are the risks to someone who doesn't know what I know about the business?

And of course, the big thing, when you're selling a business, that's what I've found, and I found it on both sides, both selling and buying, and is the information asymmetry, as a seller, you will always know more about your business than the buyer will until they bought it and been in there for a couple of years. And as a buyer, you just don't know the risks. And so one of the things that happen is the seller sort of has this very often have this view of you know, there are no risks. This is a great business, it's really stable. And that's because you've been in it for 10 years, and you know it you know, the industry and you know, the suppliers and you know the people, but the buyer doesn't know that. And that information asymmetry is where you see the gap between, you know, the expected price of the seller. You know, and what the buyer will pay, and bringing that gap together is all about mitigating those risks.

Joanna:
Absolutely love it, Chris, I just want to say a huge thank you for coming on to the podcast. I'm super looking forward to having you on part two.

Chris:
No worries. Thanks, Jo.

Joanna:
Well, that's it for this episode of The Deal Room Podcast. We hope you're now primed for your next deal with these pointers and have enjoyed these fascinating insights. Now if you'd like more information about this topic, then head over to our website at thedealroompodcast.com, where you'll be able to download a transcript of this episode as well as access any contact details and any other additional information we referred to today's podcast. Now if you'd like to get in contact with our guests today and the services they offer, you can go ahead and check out our show notes for a link right through to them and their details. You can also book indirectly with our Legal Eagles at Aspect Legal. If you'd like to soundboard your next steps, discuss a legal question, or find out more about how we can assist whether that's with buying or selling a business or perhaps somewhere in between. Now, don't forget to subscribe to The Deal Room Podcast on your favorite podcast player to get notifications whenever a new episode is out. We'd also love to hear your feedback. So please leave us a review and rating. If you're already one of our subscribers or even if you're listening to these podcasts for the very first time, every review helps our team produce valuable content for you. 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.