



The Deal Room Podcast

Episode 261– Unlocking Business Value: Understanding Trends, Valuation and the Power of Data with Richard Hemingway

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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 the fabulous Richard Hemingway talking to us about a lot of really important and interesting information



coming out of the biz stats database and from his own experience in the market in relation to the state of the market and state of valuations in the market. Now, Richard talks to us today wearing many many hats, listening to the podcast as we talk about the many hats that he wears, and many interesting statistics that he has been able to draw out of biz stats data and his other exposure in the industry. This really is quite an interesting episode, we really dig into various market changes, and some interesting statistics. So buckle in. Here we go with our discussion with Richard Hemingway.

Excellent. Richard, a huge thank you for coming on to the podcast today.

Richard:

Oh, it's great to be here. Again, Joanna, it's been a while hasn't,

Joanna:

it has been a while. So excited to have you back. Now, of course, you're here talking today from a Bizstats perspective, but also you wear so many hats. Like, I feel like it'd be useful for our audience just to get a bit of background from you, as to these multiple hats that you're wearing. So they, you know, have a bit of an idea of the perspective that you're coming out today from some of these topics. Yeah, thanks,

Richard:

Joanna. Yeah, and then any conversation with me doesn't get far without mentioning Bizstats. I'm fairly passionate about it. And so absolutely wearing the Bizstats hat today. It's such a great tool, but we'll get into that shortly. Yeah, look, I have. So we're in a number of hats. The founder of the Manadancx Group, which is essentially an m&a advisory and business sales company that started in New Zealand was living there, however, many years ago, about 10 years ago, and grew to have operations in Australia, Indonesia, and Singapore. And we've now sort of spun off as well, a finance brokerage and an Ex Finance that operates here in Australia. Butlatterly, in particular in Australia have sort of merged my business here with Blue Mountain Capital, which is a mid-market investment bank, long established with a deep pedigree in the market. And I'm the CEO of the Blue Mountain business in Sydney, which so with all those hats, yeah, I'm a busy, busy boy. All the time.

Joanna:

So many hats, Richard, so many hats. Okay, all right. Well, look, let's just get into the state of the market and the information that's coming out of Bizstats and any other information that you have access to. So I guess, first headline, what are you seeing in the market? What are some of the trends that you're seeing?

Richard:

Yeah, thanks, Joanna. Well, it's interesting, we've certainly within visits, we've had a brisk start to the year, and I have had, over the last year, we've had around about, well, in excess of 400

sales, going into our business database, which is, which is great. It shows a couple of things, it shows that there's, you know, more traction for biz debts as a tool that brokers out in the market are actively using and wanting to participate in growing for the, for the benefit of that whole sort of SMA sort of business outside of the market. I'm seeing in there, within, within biz data, I'm seeing a probably, on average, an increase in the size of the businesses that are being entered into the database. Bearing in mind that it's kind of an average, but the sort of the average turnover, the last six months of businesses sold in there was over 1.1 million. And that's kind of an interesting lift. And we're seeing more and more sort of multimillion-dollar turnover businesses and consequently, the deal sizes are increasing, as you'd understand as a function of that. So so the database itself is getting, some great traction. And so it means that it's very important. And here's my sort of first plug for this, I guess, very important that the active brokers out in the market should think about joining the AIBB and start contributing their sales and consequently getting access to, the sales that are in that available.

We're seeing and again, I don't have precise data on this, but seeing that the multiples in the market are sitting sort of up towards 3.5 times our internal acronym of the pivot, which is EBIT da and I think the whole sort of listening audience will sort of understand what EBIT DA is and paper digest says its profit before the proprietors of the business take their either remuneration or any other sort of drawings out of the business. And so that that figures for the first six months of this year was sitting up around 3.5 times which is you know, it's a strong bounce back I guess from from what we saw through the COVID COVID times and then and then the year following seeing in there as well.

And forgive me I'm just flicking between screens to make sure I don't tell everybody incorrect figures relying on my memory that intangibles, intangible assets as a component of business sitting, sorry, is a component of total sales value is sitting around about 70% of, of total sales value. So it's interesting. And again, I don't I just haven't gone back and tracked exactly how that's trended over the last few years, but, but it certainly highlights that the components of, of, of a business sale, outside sort of stock and plant and equipment are very, very important, then the intangible assets are really the key component of value that that buyers are, are investing in.

Joanna:

Fascinating, that really is fascinating, because, you know, I always look at from the perspective of what's the value for the buyer? And how are they seeing that value transfer? And of course, when we're talking about tangible assets, that concept of transfer of value is so much easier than the intangibles. So, yeah, fascinating. Okay, interesting. And then never seen any data on any sort of trends from an industry basis. So any industries that you're seeing a lot more activity in or a lot stronger sort of performance?

Richard:

I think the the sort of hospitality industry obviously has, has come through a very rough patch through the through COVID, year COVID years and has, has bounced back quite strongly. And

there's sort of, you know, a lively sort of transaction flow there probably, I'd have to go back really and analyze it to see what the underlying data is telling us. But my sense is that there's a bit of pressure on multiples in that sector, whereas some of the services businesses, I think, are trading very well,

Joanna:

is there anything that surprised you that sort of popped out from the data that you weren't expecting?

Richard:

Really, it was kind of what I said earlier, that, that there are a lot of sort of big markets, depending on how you define that but sort of, sort of lower middle market businesses are transacting through again, through the IRB membership are transacting very, very strongly over the last six months, and that's, that's probably a change. If you like, in terms of the activity the AIBB broker members are doing, in terms of valuations themselves, I, it's not really surprising to see such a strong component of intangibles within the makeup of our businesses that it fits with the, you know, fits with what you'd expect. And potentially if we look at it as a, you know, look at that in comparison with sort of what the data you'd see out of the ASX. I think the component of intangibles looking at the total sort of market capitalization in the ASX would be significantly higher than that 70% number. So that kind of makes sense. As a figure 3.5 times EBITDA, is quite a strong number. And so I was kind of surprised. But it shows, I guess it shows confidence out in the market

Joanna:

be interesting to know, and you probably hadn't broken the data down this far. So but just sort of as a discussion point be interesting to see if, in this last quarter, there's been any difference to the previous quarters. Obviously, there's this concern right now about the ratcheting up of interest rates and what impact that might be having on buyers. Have you seen, was there anything in the data sort of to talk about? You know, I get broken down more granular like that completely fine. If you haven't looked at that, Richard, just that I check.

Richard:

Yeah, yeah, no, no, I haven't I haven't looked at that. Joanna, but you're right. I mean, you know, the overall economic driver drivers have some level of uncertainty and pressure on pressure on people. But say the, you know, the multiple seems to be holding up quite strongly.

Joanna:

And those multiples Did you have a comparison rate to the prior to the prior year to see where they'd moved? Obviously, you talked about 3.5 times P bit tough, but I'm just interested do he you know, what it was in the past

Richard:



and again, if we go back through the unusual and go without saying the unusual sort of COVID period, then they come off and I don't have that number in the top of my head, but this is probably restoring it back to historic levels. Probably a little bit stronger at the moment, but it's but you know, as I haven't, I haven't got those sort of written in front of me, but nonetheless, it's true to say that certainly over the last sort of 24 months that's been strengthening in multiples.

Joanna:

It's great to see, isn't it? It's really good to see in the market. And what about valuation trends? Have you and perhaps this might be even drawn more from your own experience, than the Bizstats data, but have you seen any changes in valuation trends?

Richard:

I have, I guess, again, what we've seen over the last couple of years as the international valuation standards have come into force, and they're very strong ago. So they're a fantastic tool for values to, to use, they underline and give credibility and sort of give a framework for, for ways values to, to perform our work, they certainly talk a lot about the use of market data in valuation, and give us say, a requirement and a framework for which we should be accessing Martin market data. And so again, I think it's only the second time that I plugged the membership and was part of this data, but it really is important.

But So accessing appropriate market data is really important. So the international valuation standards haven't come in force,, they talk again, a lot about how best to analyze intangibles, and that it's not just one lump that we should be looking in a bit of detail as to the component parts of, of what makes up those intangible assets, but customer bases, etc, etc. The other component in terms of trends of in the valuation area is it, I don't think it's really hit the Australian market too much as it would say in the European market, but how to factor in ESG-type considerations within a business value, it's something that I think has value is here in the Australian market, and certainly at the lower middle market and middle market sort of side of it, it tends to be known but not, not anyway, tried to factor into the actual sort of formal and numerical part of, of deciding on business value.

But it's something that I think is coming we're seeing again, at the big end of things a lot of investors are requiring ESG protocols in some of the larger mega transactions around the world. And just as we've, we've seen in our chat that may not be live yet in the podcast. But at any rate, we talked around some of the components of you know, the rep and warranty insurance and those sorts of things that are finding their way down into the lower middle market, just as we're saying that I suspect over time, as value is in this end of the market, we're going to need to take a more formal and methodical way of assessing ESG impacts. And I guess the other thing that is seeing in the market, and this is really a question and you know, something that we'll need to keep a watch on is the impact of AI on business valuation, I think you can find your, your favourite AI sort of tool and ask it against some parameters to do the task for you. There's a long way to go before that's realistic and I guess I need to say that truly believe that I'm not



sure that it will ever get there in terms of that because there is so much you know that there's science in valuing a business but there's also a great deal of experience and, and strong just a gut feeling but you know, experience and non-quantitative factors that need to be brought into, to arriving at an appropriate value for a business. So it'll be interesting to see what the AI space does to valuation and, you know, techniques use for valuation.

Joanna:

And what's your tip, so or even, you know, in the ways in which you're using AI at the moment, or do you feel that we're very close to being able to use AI in that area? And,

Richard:

look, there are it depends a little bit, I guess on what other tools you use, you know, as I access to data is very key. And so, if you have access to TBIs, that's through, you know, through the IRB amendment membership, then unless, unless one of our members happens to be a bot of some sort, which we think then I don't have access to any that data and so that's, that's something that you're not going to be able to access. But again, you know, I use a tool called politico, which is a fantastic Valuation Tool out of Europe, but it's, as part of that it gives access to the Capital IQ database, which is fantastic to be able to draw market data now, I think in part, publicly available information will can be, you know, sourced through through some of the AI tools, but why would you do it if you've already got access to it, and I think a lot of that information that's in, in most of the, you know, the chat, GP T's, et cetera, is a bit historic and dated, and therefore, therefore sort of be compromised, and its utility within the valuation space. But look, over time, I think it's going to evolve, it's going to evolve as something that can create efficiency. So rather than doing everything for you will potentially be able to create efficiency in terms of some of the, you know, some of the drafting and what have you so that we can spend more time, more time sort of thinking rather than doing type of thing.

And it's kind of unrelated, but maybe interesting for listeners, you know, as part of a number of sort of large ERP system implementations I did back in a public company days, we sort of started those processes thinking that we'd be gaining significant hard dollar cost savings out of such implementations. But once you get through them, you realize it, it's not the cost savings, that that is important, it's more changing people's jobs to ensure that people are spending more time thinking and adding value than then doing work by rote sort of thing. And, and I suspect, it's going to be the same sort of efficiency gain that that will allow people to get through some of the laborious parts of the work and allow, allow them to then sit back and really deeply interrogate parts of the valuation, which are the, you know, give rise to the key value drivers within any, any business and yet allows more thinking time, if you like, which, which would be a good evolution, really.

Joanna:

I mean, the whole topic of AI, and we could do many, many podcasts, just about the, you know, AI and the potential impact on the industry, I see many opportunities, so many opportunities, but

also, you know, what I mean, you know, I've spent a lot of time working out what the, what the opportunities, and also what the risks might be in the use of AI. And at the moment, it has this incredible ability to produce information that sounds hugely credible but contains a whole heap of inaccuracies. So I mean, I think that is that that is the race, you know, we certainly still need to be, you know, filtering information, even closer than perhaps we were before. Because there's, there's, you know, things that sound credible can be completely off the mark. So, I guess there's something going on in the background there. I look, all of this is fascinating. And I guess, you know, one of the things that we should do is just restate, you know, access to the BS stats database comes through AI BB membership. And through that membership, you get access to the data. But also, you know, I think it's fair to say there should be an expectation on members to be adding in the data. And, you know, what are some of the benefits? Do you see of being a participant in adding in the data? Because, you know, like, let's just bust a few myths to you. You're not giving away commercially sensitive information simply by uploading data because the data is, is anonymized? You know, there's no identifying information within that data. I think it's useful to add that in.

Richard:

Yeah, no, absolutely. It's really important to add it in Jonah, and thank you for putting that line because it's, it is important too, to understand, even, you know, I sit as the administrator, the business database, if you like, and, and even I've got no idea, you know, what businesses they are that are going in there. So, so as a user of the database, you don't have that visibility, of what's happening in the database. And this is not quite directly answering the question, but we actually are seeing more and more members of the AIB inputting data, which is great. I think it's something like well over 100 members and it's we're at an all-time high now with the number of members who are countries Adding data. And what that means is that the type of sales that are being entered into the database are more varied.

We're getting more industries, more, more locations and geographies that are going in there, and we're getting a greater spread of small, medium and larger businesses in there. So as the database grows, that the tool is getting more and more useful for members, and so the, you know, the consequence of that, obviously, is the more members that participate, the better the data is, and that's really, in everybody's interests. You know, I guess we don't need to go back over the philosophy of why a private business sales database exists, you know, private information is, by definition, private or private business sale information is, by definition, private. What that means is that it's, it really is very hard to benchmark what's going on in, in the market without access to data.

And, the more data there is, the more accurate that is that feeds into accurate pricing of businesses, which then in turn, increases, it allows expectations from a seller point of view to be realistic, it gives a great sort of benchmark, too, you know, an overambitious seller who's able to see that their expectations are out of line with the market, that's very important. And that then helps facilitate that a transaction sort of happens at the right level.



And the converse can apply, you know, you can have business owners who feel that their business is only worth a certain amount. And by observing transactions in the market, it can go the other way. So, you know, it's important that both sides of it. And look, as I say, it's self-evident that the more data that's in there, the more representative it is of what's happening in the market. And I think that's just to, to everybody's interest. One other thing

Joanna:

that I'd love to see in the data one day, and I don't think is a, I think that the data in these debts is for completed deals, not deals, not sellers, who put their business on the market, and then ultimately not found a buyer. Is that right? There is no data that sort of captures that element.

Richard:

No, this data is just for completed, completed sales. That's right. I know, some of the business sale Portals will allow and publish, they publish data on businesses that are for sale at the moment. But he had no right to my knowledge that there's no data out in the market that shows businesses that have been for sale and have not sold.

Joanna:

Well, as an aside, I just still see that as a massive opportunity. Because of course, we've got the body of businesses that, you know, and data, you know, and successful sales, but there's so much in the market, and I feel it's like increasing in the market. I don't know if that's correct or not, but this is the businesses that aren't selling, and you know, I think it's huge, you know, ultimately there's a lot of opportunity for able to help direct sellers as to what, what differentiates that sale versus non-saleable business? And, you know, I mean, we'd put out lots of content around that. I know, lots of people talk about that, but it just, it's very interesting, you know, to watch how that, how that number, that percentage sort of moves over time. Yeah. And

Richard:

it is, it is very interesting. And, look, a lot of the work I personally do out in the market at the moment is in the sort of capital raising side of things. And, but I think there's a close parallel and while I'm about to say through to the, the m&a world and the business sale world, I know that, you know, raising capital in the market, your success or otherwise is, is very closely linked to the amount of preparation that you have, you have to be able to tell a story, that an investor whether that's an investor buying a whole business or an investor, you know, investing in in either debt or equity in your business needs to understand what it is that they're investing in, and that that strong preparation, I always say to clients that at times the process of preparing for a transaction can seem a little lengthy and torturous, but it's time well spent. It really is time well spent in ensuring that you're ahead of the game. In terms of being able to answer questions and understand yourself what it is it's again, going to sound nerdy again here, but it's a it's quite an enjoyable process working with business owners in terms of, you know, preparing the story and getting the ducks in a row in terms of a prospective transaction.



Joanna:

Love it, Richard just want to say a huge thank you for coming on to the show? And I'd like to leave us before you go with two points here. Number one, if we've got people who are interested in getting involved in ABB and in finding out more about the business database, how they, how they go about doing that, and then separately how they go about contacting you if they'd like to talk about some of your workings with you in the market.

Richard:

Yeah, yeah. No, thanks. And thanks for having me on. Again. Joanna. It's always great to chat. The AI BB I don't have off the top of my head. But I think it's info at ai bb.com.au I think that would be the right email address, but aib.com is the website for the AIB and they all the contact details will be on there. And if you call Zoe or Ebony at the AIBB, they will be very happy to talk to you about membership. Any questions you've got on this that's typical if you call through AIBB, they'll put you in contact with me. But for me, Yeah, happy always for people to reach out to me by phone. I'm very findable. Very findable.

Joanna:

We'll put a link there Richard for both for that AI BB. Fantastic organization. I wholeheartedly recommend to every business broker that I meet shouldn't get involved. And, to you personally, Richard, we'll make sure we have some links there in our show notes for you. Huge thank you for coming on to the show. It's always a pleasure to have you, Richard.

Richard:

Great to chat with you, Joanna.