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How to Sell Your Business When You Are Not Making Any Profit

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1984



U.K.

2009



Australia

We do deals in the mid market



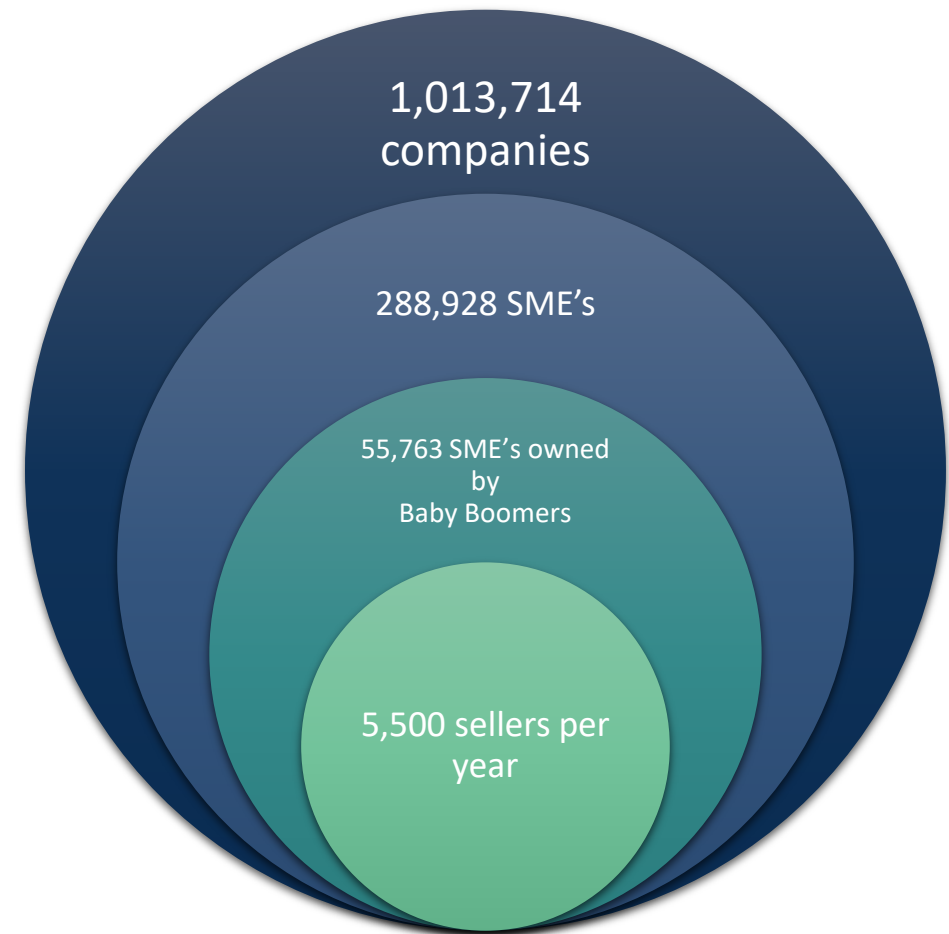


The Market

The biggest shift in wealth in history is currently underway

Baby Boomers

- There are 1,013,714 companies in Australia (excluding non-employing businesses)
- There are 288,928 SME's in Australia (defined as between 5 and 199 employees)
- 19.3% of SME owners (55,763) are aged 60+
- Very few of these owners have a succession plan or expect to be succeeded by their children in the business
- We estimate this will result in approximately 5,500 sellers per year from this demographic alone



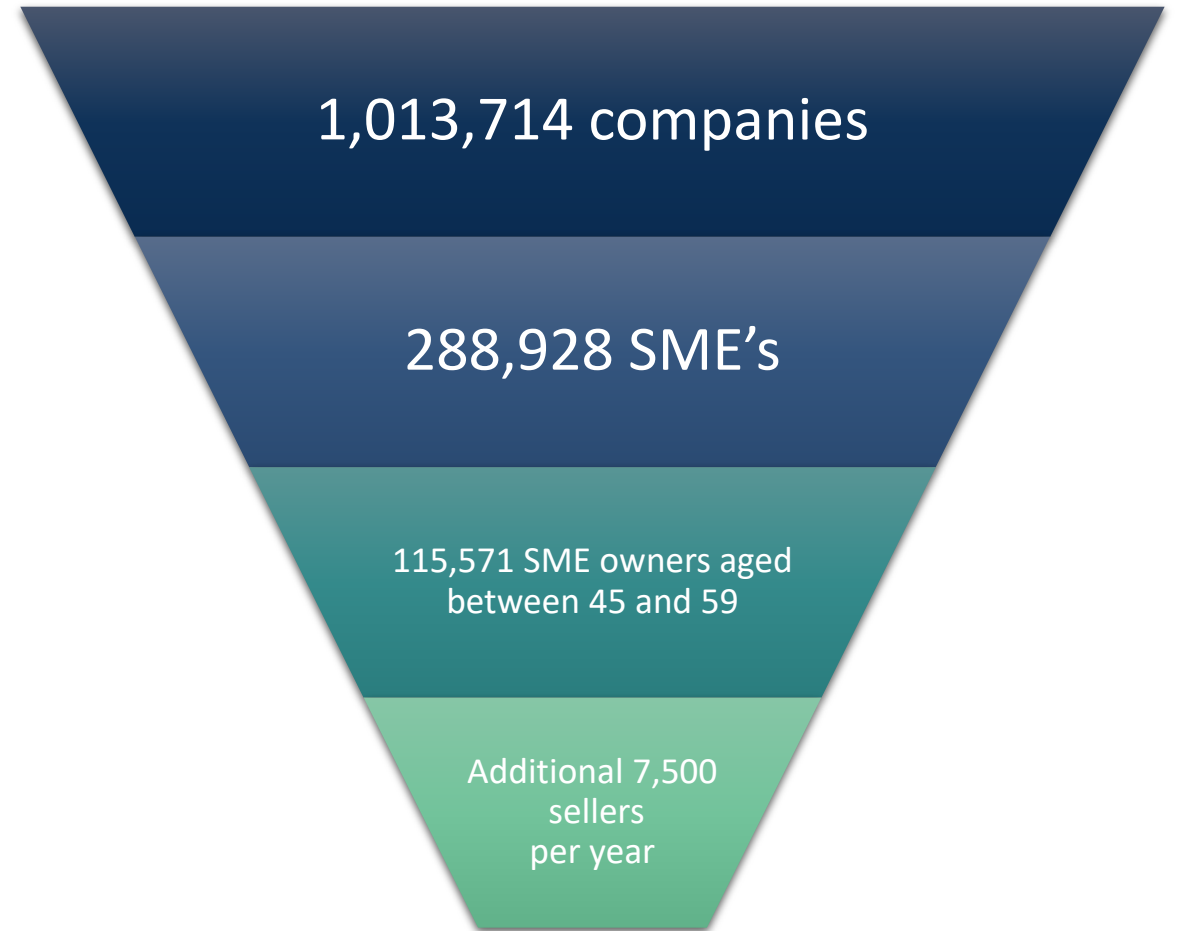


The Market

The biggest shift in wealth in history is currently underway

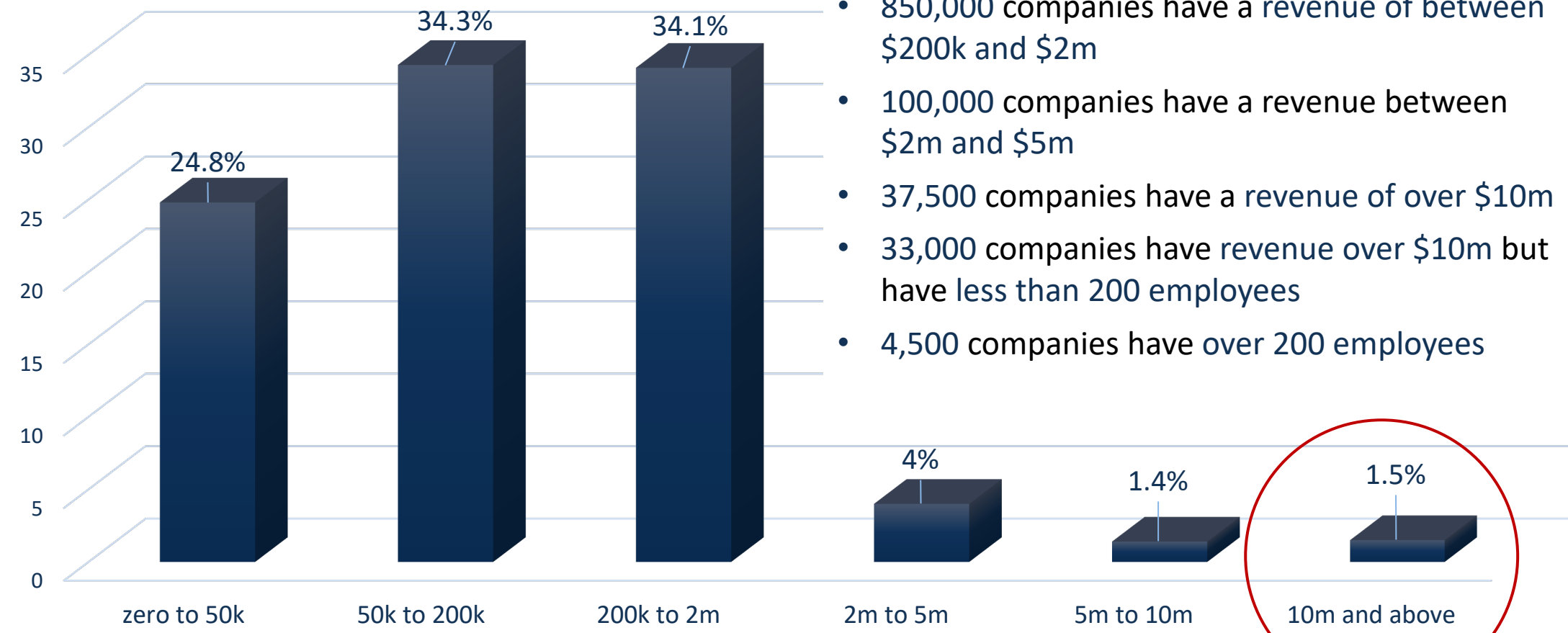
Gen X

- A further 40% of SME owners (113,571) are currently aged over 45
- Over the next 10 years, some of these owners will start to consider what to do with their business
- We estimate a further 7,500 Gen X sellers per year over the next 10 years
- Gen X added to the Baby Boomers could see 13,000 business selling per year every year for the next decade
- In addition, owners will keep selling for other non age-related reasons





Annual Turnover Breakdown



- 850,000 companies have a revenue of between \$200k and \$2m
- 100,000 companies have a revenue between \$2m and \$5m
- 37,500 companies have a revenue of over \$10m
- 33,000 companies have revenue over \$10m but have less than 200 employees
- 4,500 companies have over 200 employees



The current market dynamics in Australia:

During the next decade, for **every acquirer** of a business in the mid-market there is likely to be **60 vendors!**

(excludes overseas buyers)

The Playing Field

Oasis Partners Last Ten Divestments



The current performance of SME's in Australia



Profit Margin



The average profit margin across all businesses was **10.9%** (2021)

An average of **1 in 5** Australian businesses
don't make a profit

Of the **130,000** mid market businesses that are going to be for sale
in the next 10 years, **26,000** of them won't make a profit

Transaction Aggregation – Point of Sale Software



Deal Values (AUD Million)

217
15.7
13
221.4
9.3
150.3
55.2
122.1
35
118.1
155

Average Transaction
A\$101.1m

EBITDA Multiples

5
6.4
8.3
9
14
16.3
25
27.1
33
46
51.4

Average Multiple
21.95 times EBITDA

EBITDA Multiples

- Based on the transactions (excluding outliers) with disclosed transaction multiples the average EBITDA multiple is 21.95
- The EBITDA exit multiple range was between 5 and 51.4
- Multiples are typically adjusted by -10% to 30% for scale
- -30% for scale gives us an EBITDA exit multiple of 15.4

Transaction Aggregation – Freight Trailer Manufacturing



Deal Values (AUD Million)

15.4
58.1
18.5
106.4
179.1
66.9
36.9
12.3
56.3
73.6
117.8
478.5
2099.8
4180.9
464.3
320.6
2352.9
956.2

Average Transaction
A\$644.2m

EBITDA Multiples

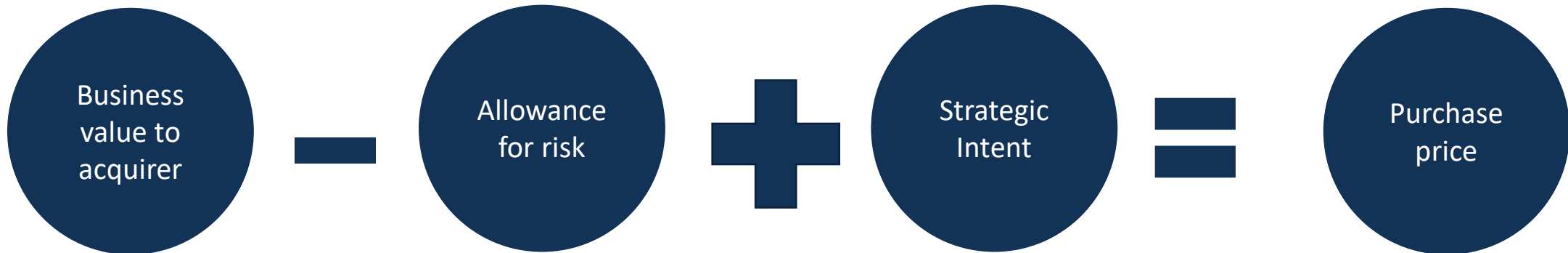
3.1
3.2
4
4.8
4.9
5.3
6.7
6.9
8.5
9.5
9.9
10.1
12
12.2
12.5
14.8
16.9
23.4

Average Multiple
9.4 times EBITDA

EBITDA Multiples

- Based on the transactions (excluding outliers) with disclosed transaction multiples the average EBITDA multiple is 9.4
- The EBITDA exit multiple range was between 3.1 and 23.4
- Multiples are typically adjusted by -10% to 30% for scale
- -30% for scale gives us an EBITDA exit multiple of 6.6

What's a Business Worth?



Acquirers will value private companies differently and sometimes significantly differently, nevertheless their valuations will all be legitimate.

How do you sell a business that is
not making a profit?



SPECIALIST COATINGS MANUFACTURER



This technology rich business is a highly regarded formulator of decorative, architectural and protective water-based coatings.

The business has been built on the principles of innovation, reliability and service which are reflected through its strong, long-standing relationships with its loyal customers and suppliers. The business manufactures its own line of products and contract manufactures products for several leading brands.

The company operates out of a modern facility utilising quality equipment to manufacture formulations that generate a high gross profit margin with minimal overheads. The market recognises the fact the business charges a fair price for a comprehensive range of premium, high performance coatings and compounds and exceptional technical expertise.

The company has formulated a revolutionary new compound system for a wide variety of climatic and tectonic conditions. The company's product addresses the major flaws in competing products. This product is subject to patent applications in the world's major markets. Overcomes huge issue in New Zealand cold conditions. Sales of compound is gaining traction.

Set out below is a table of the company's recent trading history and projections for FY22 & 23.

	FY18	FY19	FY20	FY21	Projected 22	Projected 23
Revenue	1,400,000	1,500,000	1,150,000	1,510,000	1,370,000	1,980,000
Gross Profit	775,000	860,000	750,000	985,000	800,000	1,150,000
EBITDA	130,000	150,000	40,000	340,000	41,000	374,000
EBITDA Margin	9%	10%	3%	22%	3%	19%

What makes this opportunity unique?

- Premium products
- High gross profit margins
- Low overheads
- Contract manufacturing relationship with leading brands
- Revolutionary technology IP
- Patents pending
- Cross selling opportunities

The shareholders are now seeking a strategic acquirer who recognises both the tremendous value that has already been created as well as the significant future opportunities for further growth.

Whilst the above information is believed to be reliable, it is given for general guidance purposes only and no responsibility whatsoever is accepted for its accuracy. Any interested party must make such investigations as it considers appropriate in relation to any proposed transaction. Oasis Partners will not be offering advice to recipients of this document and will not otherwise be responsible for providing customer protections in respect of transactions and arrangements proposed herein.

Specialist Coatings Manufacturer



	FY21	FY22	Forecast FY23	Forecast FY24	Forecast FY25
Revenue	1,511,000	1,372,000	1,980,000	2,574,000	3,346,000
Gross Profit	985,000	801,000	1,155,000	1,493,000	1,941,000
Contribution	279,000	130,000	436,000	692,000	1,044,000
Adjusted margin	18%	9%	22%	27%	21%

Restated numbers and outlook based upon our estimated cost synergies and strong strategic intent from the buyer (valuation gap \$500k - \$3.0m)

Strategic Sale of an Technology Business



- The owner of Practice Insight had built some software
- Had six customers overseas with revenue sub \$1.0m – no earnings
- Owner approached Oasis Partners and asked “what is it worth?”
- Enter IPH Limited - strategic and motivated!
- A\$8 million consideration agreed and paid – no earn-out!
- Practice Insight solved a problem for IPH– that problem was worth \$8.0m

Strategic Sale of an Avionics Testing Business



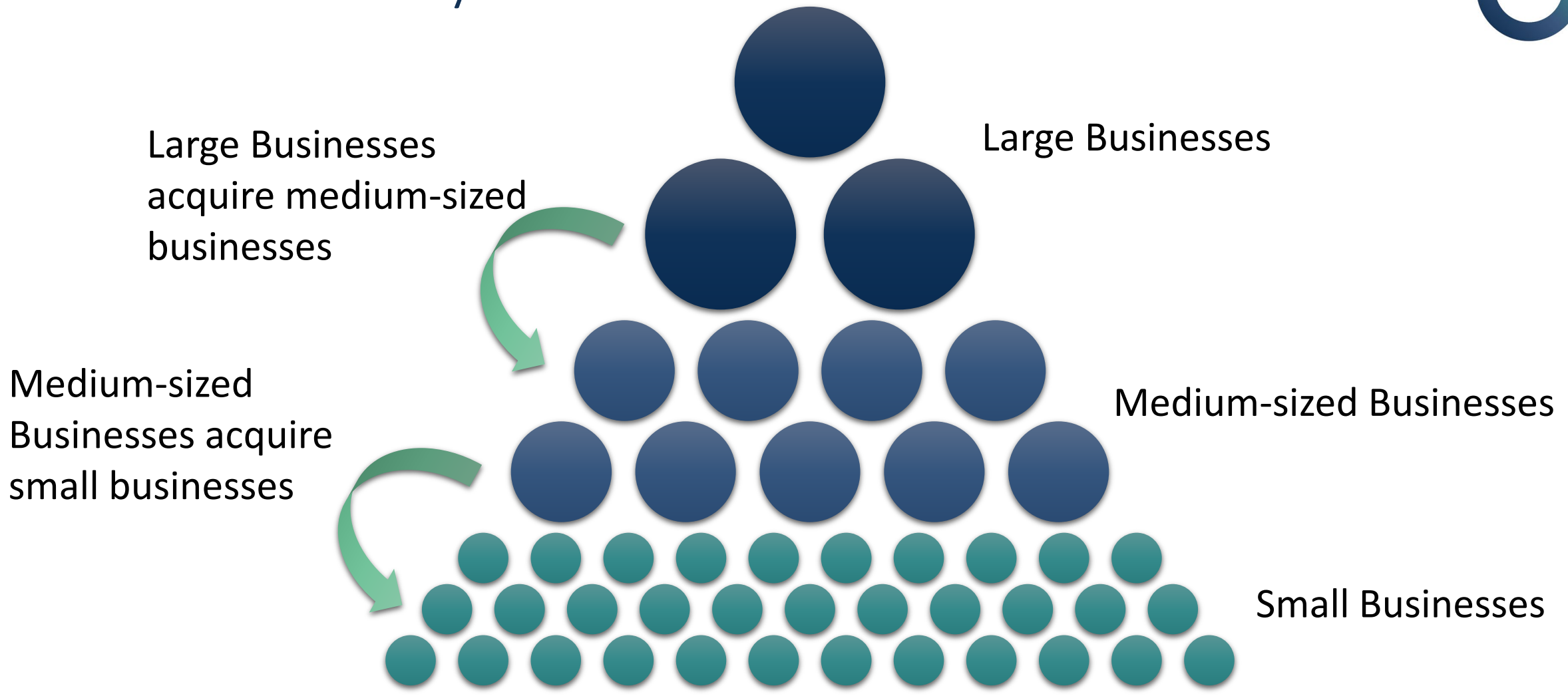
- Partech Systems is an avionics testing and evaluation service provider for Australia's defence aircraft fleet – service business
- Revenues sub \$1m, earnings **-\$150k**
- Oasis Partners undertook a search for an acquirer
- Selex ES, a global technology provider and a subsidiary of Leonardo S.p.A, the ninth largest defence contracting company in the world
- Qualified and motivated
- 60% sold for cash, 40% held via a put option
- 7 figure consideration – plus guaranteed earn-out floor agreed

Market Sector Dynamics

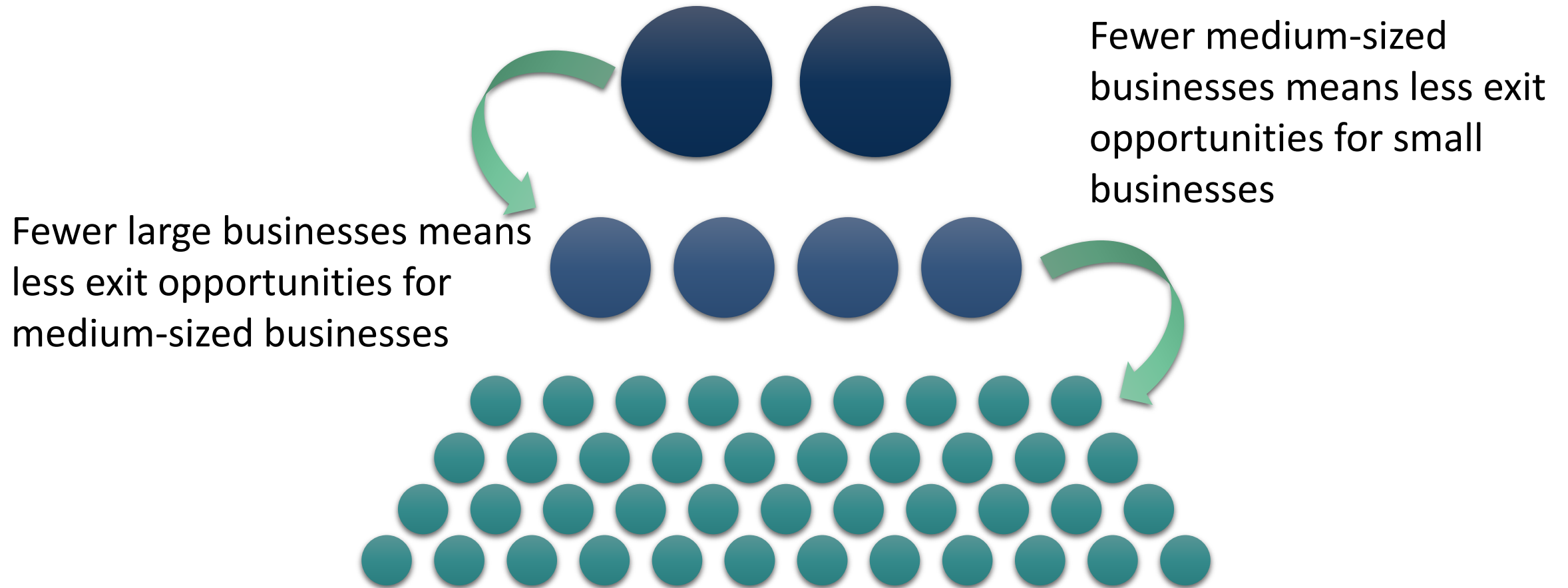




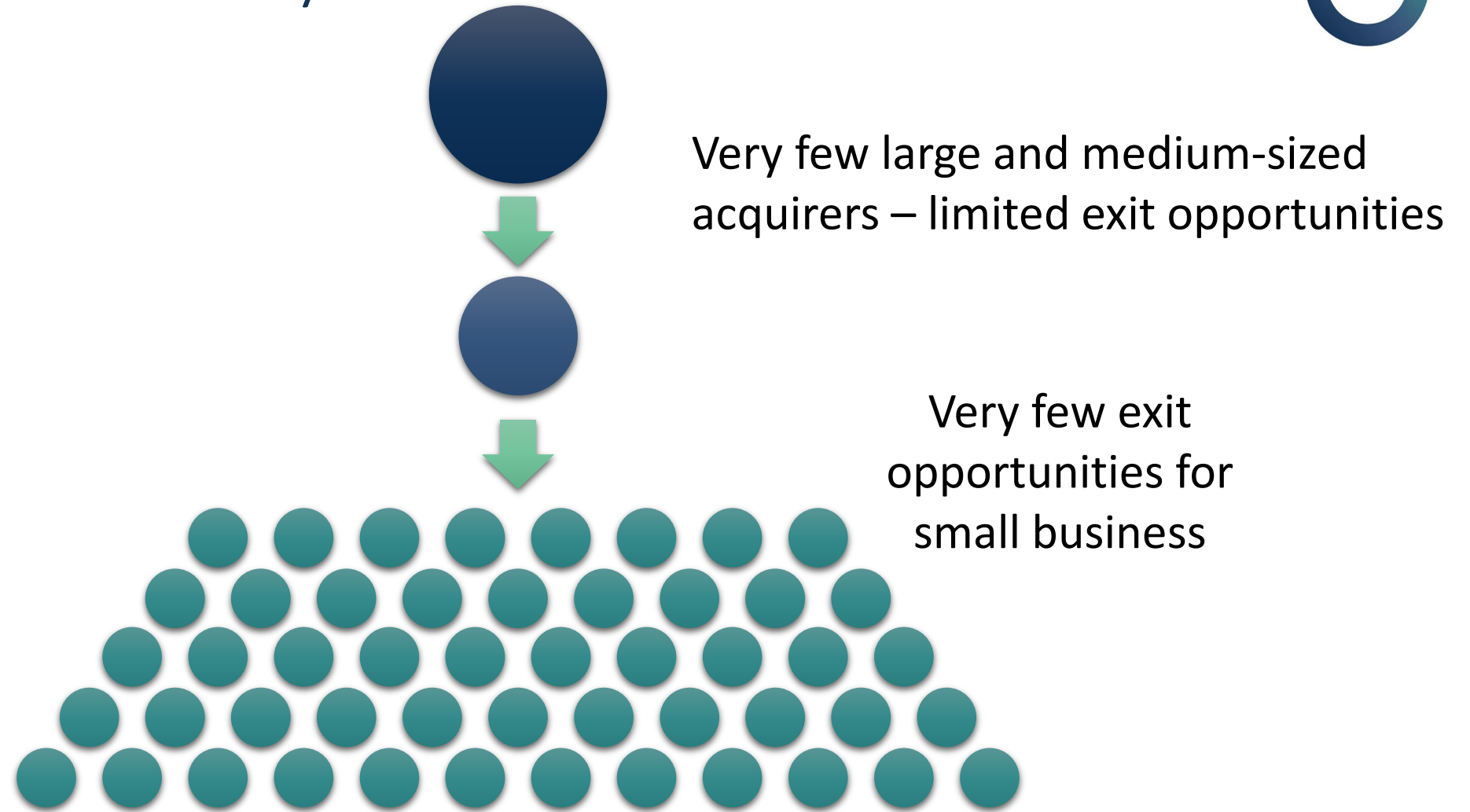
Ideal Sector Hierarchy



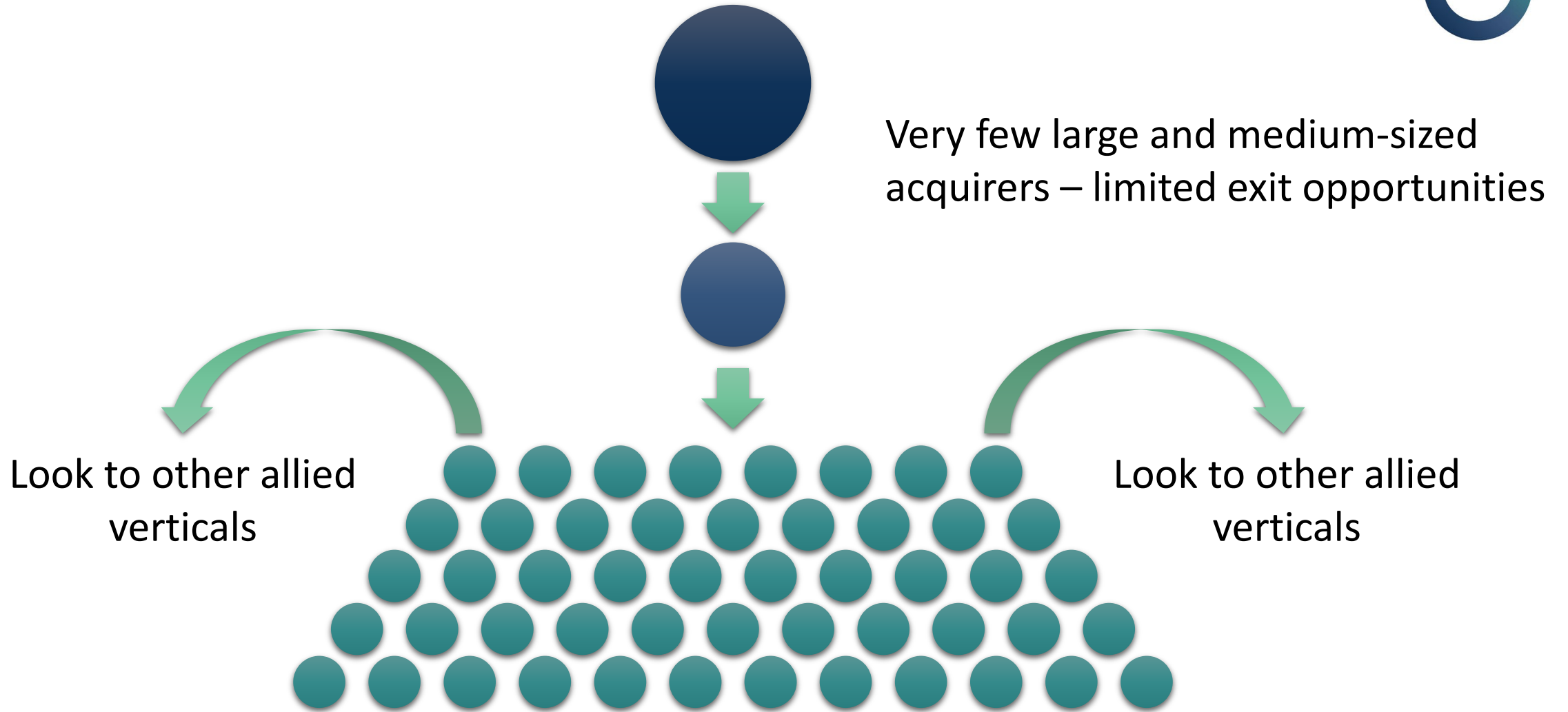
Challenging Sector Hierarchy



Sub-optimal Sector Hierarchy



What to do? Go wide.....



B2B PROMOTIONAL PRODUCTS BUSINESS

This established and successful B2B promotional products supplier has developed a scalable business model that is generating rapidly increasing revenue and profit year after year.

The business has been built on the principles of innovation, reliability and service which are reflected through its strong, long-standing relationships with its foreign based manufacturing partners and its stable and experienced Australian based workforce. The company is highly responsive, and it is able to supply bespoke solutions to its customers at short notice. The business sources a wide range of products, and its customers include a host of ASX listed corporates and representatives from all three tiers of government.

The key to the success of the company is the comparative advantage the business enjoys over its competitors with respect to product quality, product pricing, product delivery and marketing. These advantages are the result of sourcing quality manufacturers who can be relied upon to deliver merchandise directly to our client's customers in Australia by air in a matter of days. This truncated supply chain results in unparalleled speed of delivery, far lower handling costs and receipt of payment from its blue-chip customers at the time of ordering product. Bad debts are non-existent.

In addition, the company's targeted investment in search engine optimisation and search engine marketing over many years has resulted in the business being required to spend only a modest amount on marketing in comparison to its competitors.

The outstanding service provided, and the low-cost base of the business makes our client unique in its sector.

Set out below is a table of the company's recent trading history and projections for FY19.

	FY14	FY15	FY16	FY17	FY18	EST FY19
Revenue	5,210,000	6,840,000	8,020,000	9,630,000	11,810,000	14,000,000
EBITDA	750,000	1,535,000	2,045,000	2,680,000	3,240,000	3,800,000
EBITDA Margin	14%	22%	25%	28%	27%	27%

The shareholders are now seeking a strategic acquirer who recognises both the tremendous value that has already been created as well as the significant future opportunities for further growth.

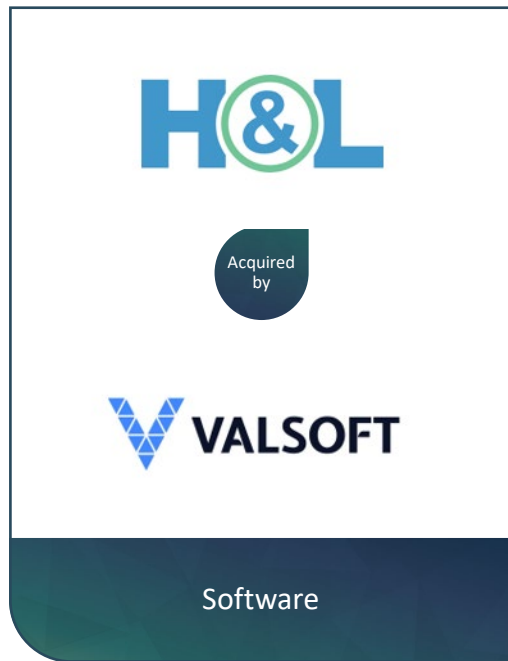
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What makes this opportunity unique?

- Scalable business model
- Strong long-standing relationships with manufacturers
- Built on the principles of innovation, reliability and service
- Competitive advantage with respect to quality, pricing, product delivery and marketing
- Average annual growth of 22% over the last five years
- EBITDA Margin of 27%

Strategic Sale of a Hospitality Software Provider to an International Purchaser



- Technology leader in the hospitality industry offering a complete suite of integrated hospitality POS, workforce management and booking solutions
- No interest from other software buyers in the POS niche

Allied Verticals – Go Wide!



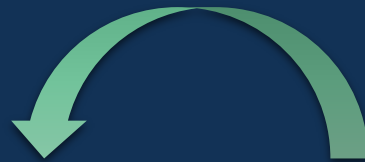
POS Software Developer



POS Software Developers



Technology Aggregators



Software Providers

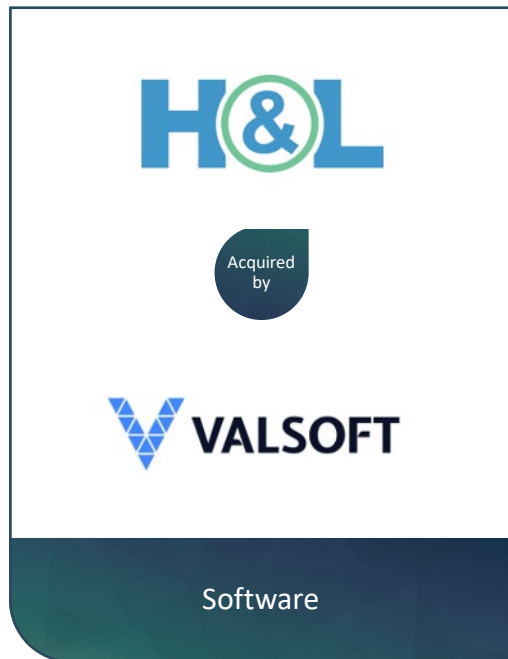


Cloud-based Software Publishers



Private Equity where already invested

Strategic Sale of a Hospitality Software Provider to an International Purchaser



- Technology leader in the hospitality industry offering a complete suite of integrated hospitality POS, workforce management and booking solutions
- No interest from other software buyers in the POS niche
- Some interested parties from both Private Equity and from the tech aggregators
- 3 offers received
- Global campaign covering Australia, North America and Europe led to Montreal-based Valsoft as the final acquirer
- Significant premium secured due to strong synergies and motivation

EQUIPMENT MANUFACTURING BUSINESS – STRUCTURED DEAL

	FY15	FY16	FY17	FY 18	FY 19	FY20	FY21
Revenue	7,100,000	7,540,000	8,960,000	8,570,000	8,080,000	8,950,000	10,970,000
EBITDA	1,810,000	1,810,000	1,940,000	1,910,000	1,550,000	1,900,000	2,490,000
EBITDA Margin	25%	24%	22%	22%	19%	23%	23%



Deal Structure

- 65% Enterprise Value (EV) on completion
- 35% Enterprise Value after 2 years

Enterprise Value at Completion (FY20)

$$= 5.5 \text{ times EBITDA}$$

$$= 5.5 \times \$1.9\text{m}$$

$$= \underline{\$10.45\text{m}}$$

Cash Payment at Completion

$$= 65\% \times \$10.45\text{m}$$

$$= \underline{\$6.8\text{m}}$$

FY22 EBITDA

$$= \underline{\$7\text{m}}$$

EV at EOFY22

$$= 5.5 \times \$7\text{m}$$

$$= \underline{\$38.5\text{m}}$$

Cash Payment at EOFY22

$$= 35\% \times \$38.5\text{m}$$

$$= \underline{\$13.5\text{m}}$$

Total Consideration

$$= \underline{\$20.3\text{m}}$$

$$= \underline{10.7 \text{ times}} \text{ FY20 EBITDA}$$

What makes this opportunity unique?

- Unique intellectual property
- Stellar track record of research and development
- Competitive advantage through multi award winning superior technology
- World class manufacturing
- High quality customers locally and overseas
- Strong profit margins
- High growth potential

What to do if you can't find a buyer?



Value Creation - acquirers are buying the future of your business





What if a buyer does not emerge?

Plan B

- Many of the 130,000 mid market vendors will not be able to find a buyer, either straight away or at all
- 'Plan B' – an exercise aimed at putting the business under professional management
- Immediate or stepped removal of owner management
- Appropriate and right-sized governance structure to hold management to account (professional)
- The creation of further value capable of being unlocked later either by way of dividends or a future exit
- No buyer today does not mean no buyer in the future



Advisory Clients



DASHING



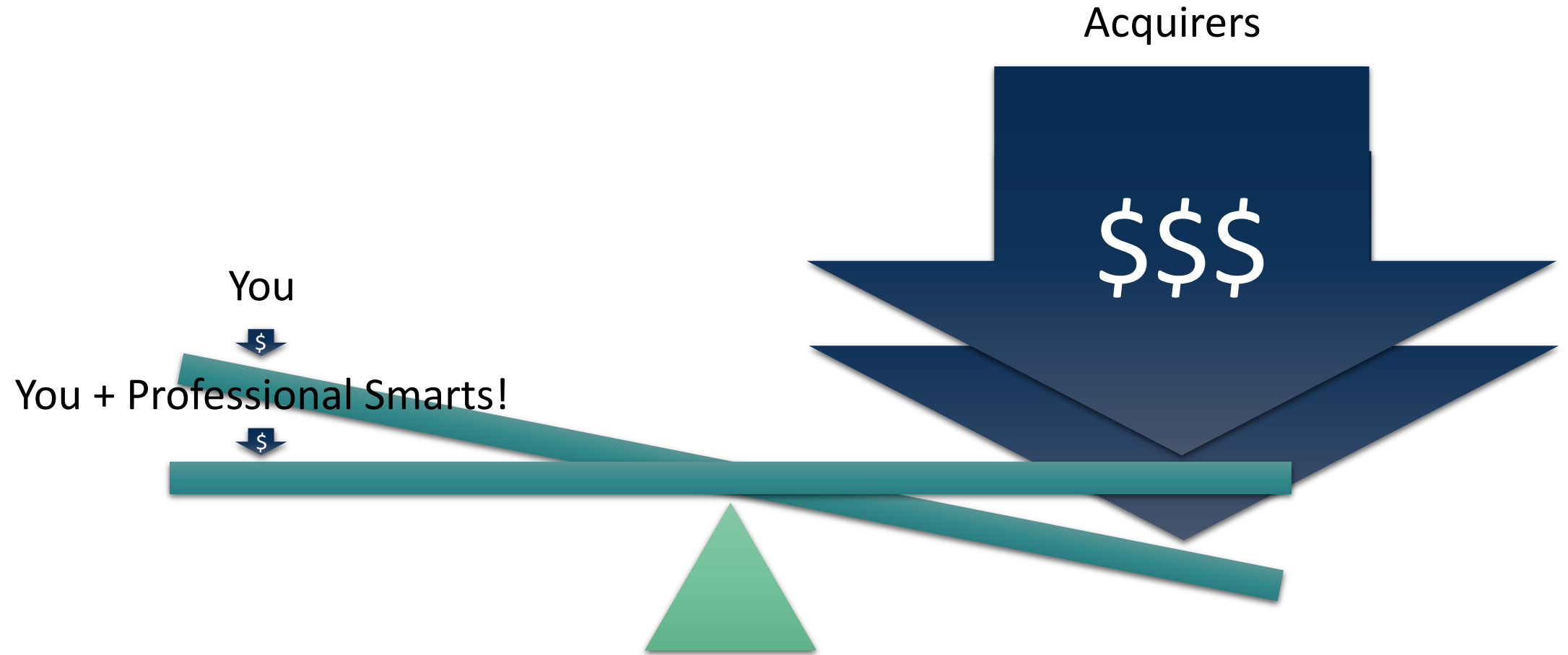
lovingearth



rivium



The Playing Field



Thanks for listening

Happy to take any questions



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Weekly posts on both creating and unlocking value driven by a practical real world approach



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No agenda beyond creating some content for business owners or those aspiring to be owners that might help, inspire and encourage them to either get started, keep going or just do better

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