Selling Your Business – Why You May Be Waiting Too Long

If you are a business owner, you likely spend much of your time immersed in the details of your business – meeting with customers and prospects, running the day-to-day operations, managing employees, and developing strategies for the next phase of growth. Like many business owners, however, your end game might be the successful sale of your business.

If so, selling your business is one of the most, if not the most, important financial decisions you will make in your life. It is not only a financial decision but is personal and the outcome typically impacts a large number of people. Many factors will influence a business owner's decision to sell, but one factor above all may be the most important factor to consider - the timing of the sale. This of course begs the question: when is the right time to sell your business?

Many business owners plan the timing of the sale around reaching key performance metrics (e.g. revenue or profits) or as a result of personal or subjective influences (e.g. the desire of a spouse to spend more time together in retirement). Business owners may cling to any number of reasons to delay the sale of their business, including:

> *"My business is generating real forward momentum; I'd like to revisit selling when growth starts to plateau."*

> *"I've made investments in my business and I intend to realize the full value of those investments."*

> *"I have a solid business, but there are initiatives I want to implement to make it more appealing to potential buyers – that is my focus right now."*

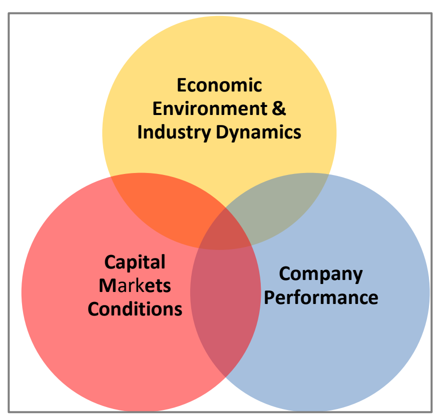
> *"Right now I'm too busy running my business to even think about selling it!"*

> *"I don't know the first thing about how to sell my business or what the process entails."*

The reasons listed above for delaying a sale are all understandable. However, if like most business owners your primary objective is maximizing the value of your business, you need to understand the answer to the question we posed above – "when is the right time to sell your business."

The value of a business for sale is driven by three factors: (i) Company Performance, (ii) the current Economic Environment and Industry Dynamics, and (iii) the current Capital Markets Conditions.

Business Value Drivers

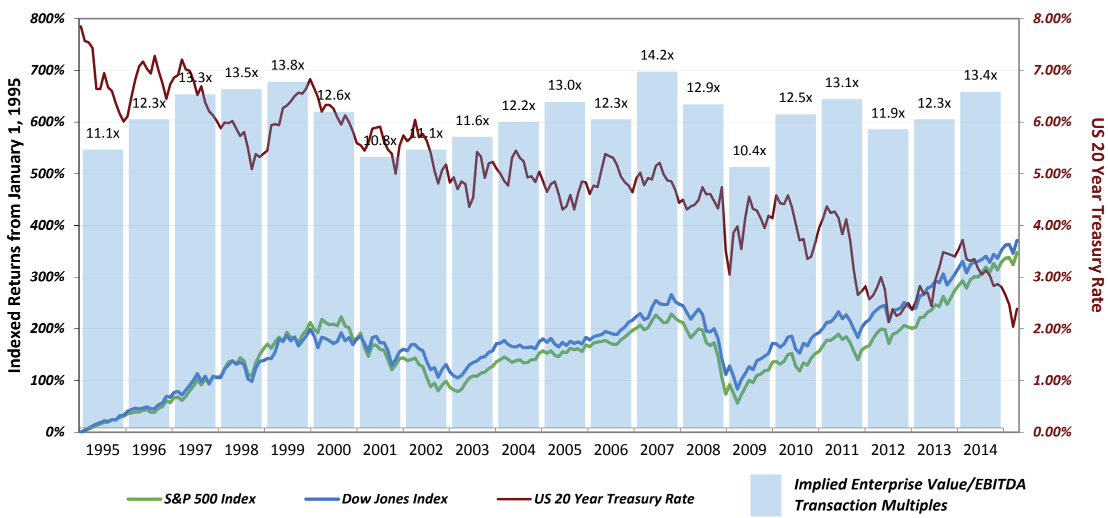


On his or her best day, a business owner can control only one of the components of what drives value, "Company Performance." (In actuality of course, there are many days where owners don't actually feel much in control of anything!)

So what does this mean for business owners? Waiting to sell may be the wrong answer ***if*** the then current economic and industry and capital markets conditions support high valuations. Are you paying attention to the most important factors that are impacting value even though you can't control them? Are you missing out on a seller's market?

Figure 1 below highlights the relationship between interest rates, public equity markets, and transaction valuations. Over the past 20 years, there is a clear correlation between lower interest rates, strong stock market performance and high transaction valuation multiples for privately held businesses. You will note transaction valuations climbed to multi-year highs in 1999, 2007 and 2014 along with stock market performance. Each of these highs followed periods of stable or declining interest rates.

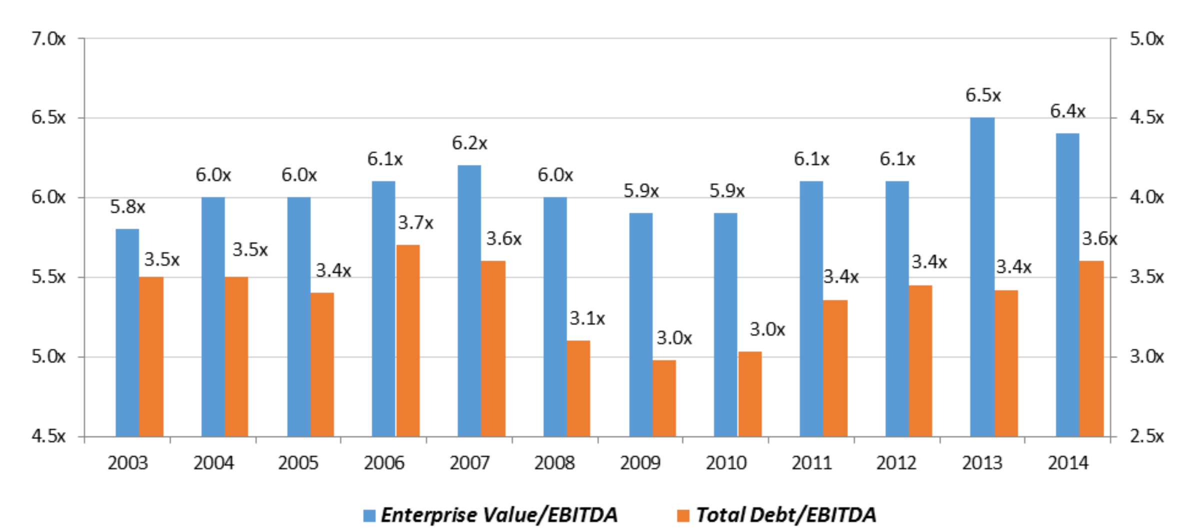
Figure 1: Market Performance and Implied Enterprise Value/EBITDA Transaction Multiples 1995-2014



Source: Capital IQ; Implied Enterprise Value/EBITDA Transaction Multiples represents a mean of disclosed values

Another positive contributing factor is the amount of debt (credit) available to fund acquisitions. More debt has historically been available to fund acquisitions during a seller's market, effectively allowing private equity firms to compete with strategic acquirers during the sale process, yielding more competitive sale processes and higher valuations. Figure 2 below notes the close correlation between leverage and valuation multiples in reported private equity transactions. Again, the 2006-2007 and 2013-2014 debt markets stand out in terms of availability of debt and its positive impact on valuations.

Figure 2: Total Debt / EBITDA and Total Enterprise Value / EBITDA in Reported Private Equity Deals 2003-2014



Source: GF Data

So what does all of this mean for you, the business owner?

Understanding and paying attention to each of the three value drivers that can align to create a seller's market will allow you to identify the most attractive time to sell your business.

Factors to Consider When Assessing if it's a Seller's Market

Company Dynamics	Economic Environment & Industry Dynamics	Capital Markets Conditions
• Upward trending revenue • Healthy and growing profit margins • Stable or improving competitive position • Strong and stable management team • Diverse, recurring customer base	• Positive macro-economic trends (GDP growth, declining unemployment, etc.) • Industry growth (e.g., more competitors, more customers, more products, more services, etc.) • Large competitors are growing through acquisitions • Private equity firms are investing in or consolidating the industry	• Public and transaction valuation multiples are rising or even peaking compared to historical rates • Interest rates are relatively low and have been stable or are trending down • The debt (credit) markets are accommodative

There is no concrete formula for determining the right time to sell, but it is important to understand what factors will affect the value of your business – factors you can influence and control, and equally important, those you cannot. Seller's markets do not last indefinitely, and often the "window" to sell closes rapidly and without warning. For example, a decision by the Fed to raise interest rates could portend a closing of the current window; or conversely, positive economic trends could continue to push equity markets higher and extend the seller's market. These factors ultimately may have more bearing on the outcome of the sale of your business than your revenue or profits.

Don't risk waiting too long to sell your business because you think the business "isn't ready." By understanding all the factors that influence the value of your business you can more confidently select the "right" time to sell.