When is the Best Time to Sell My Business?

The Straight Forward Answer: Ideally, an owner decides to sell when the business is performing well, a high value can be obtained by selling now, and there is a desire to pursue other passions or reap the benefits of years of hard work. Alternatively, a good time to consider the sale of the business is when it has reached a point where taking it to the next level requires meaningful additional investment and an outside investor to fund this growth is the preferred approach.

One of the most difficult decisions made by a business owner is when to sell his business. While some private businesses last for many generations, the majority are sold by the entrepreneurs who started them. Most business owners have, for many years, worked hard and sacrificed much to build up their business so the thought of selling is a very emotional issue. It is not possible to entirely remove emotion from the decision; however, there are ways to determine the best time frame to sell a business.

Company Readiness

Many successful business owners never consider the correlation between company readiness and valuation of the business. Is there a history of revenue growth/consistent revenues with attractive margins? (While many businesses have seen their revenues shrink or remain flat over the last 12-18 months, buyers will appreciate a business that has seen revenues decline but much less so relative to competitors.) Does the company have a differentiable value proposition relative to competitors? Is the company demonstrating positive momentum? Does the company have a history of attracting and retaining customers? Has the company taken market share? Does the business have a management team that can run the day-to-day operations if the owner/founder steps away in a sale? Has the business been growing so fast that it is beyond the owner’s ability to manage? Is a new management team required to take the company to the next level? From a timing perspective, well managed businesses always sell.

External Market Conditions

External market conditions include everything outside the control of the company. They are hard to ignore but are also very frustrating for many business owners accustomed to being in control. External market conditions include, for example: interest rates; availability of credit; tax implications (capital gains, estate planning); industry trends such as consolidation and technology advances; and the M&A environment. Low interest rates enable a buyer to pay more for the business while low capital gains rates mean the seller retains more money from the sale of his business. Being able to be considered as a platform transaction or being at the forefront of technological advances commands a premium value as buyers move in to gain market share, reduce time to market, or improve economies of scale. While recent M&A activity has been significantly slower than in previous years, there are indications the M&A environment is strengthening driven by one the highest levels of cash reserves sitting on buyer’s balance sheets. For a more detailed discussion on the M&A environment, please visit our “Merger & Acquisition Market Overview 2010”.

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Another factor to consider is the value an owner can receive today versus in the future. Increased investment, both time and money, in the business is no guarantee of increased performance. Market conditions may change creating the risk of underperformance and, hence, lower valuations.

**Personal Considerations**

Personal considerations are usually the driving factor in an owner’s decision to sell his business. He may be ready to retire or to pursue another business venture. In some instances, an owner is facing health or family issues that make selling the business a necessity. Or perhaps, the owner is just burnt out. Serious burn-out may significantly impact the value of a business if the owner finds it difficult to make routine decisions, prioritize issues, and is no longer having fun running the business. These considerations lead to a rushed/forced sale – one which does not provide the highest value to the owner.

Wealth diversification or unwillingness to assume additional risk may also impact an owner’s decision to sell either all or part of his business. Most business owners have at least 80% of their personal net worth tied up in their business. For additional motivators that may cause an owner to sell his business, please visit our paper “Why Should I Sell My Business?”

There are many factors to consider when deciding when to sell a business. To achieve maximum value, it is critical to evaluate company readiness, external market conditions and personal considerations. The most strategic time to sell is when revenues and profits demonstrate consistent growth without having reached their peak. Buyers want a company with growth potential, not one that has hit its plateau. Even if a sale is not an immediate objective, periodic review of the business, the external market conditions and the owner’s personal considerations is most prudent. Being proactive ultimately translates into a higher value for the business.

*The primary function for an Investment Banker is to review a seller’s unique circumstances and provide recommendations related to the appropriate time to pursue a sale transaction.*

*To confidentially discuss your own unique circumstances, please contact Aaron, Bell International.*