When Is The Right Time To Sell Your Company? ©

February 7, 2019

The decision of business owners as to whether or not and when to sell their business is a complicated and often perplexing issue. A number of factors related to the business need to be considered and balanced. How has the business performed over the past few years and what are its short and long-term prospects? What industry trends are impacting the business currently and what is their likely effect moving forward? How long does the existing management team want to run the business and what are the succession plans? What is the state of the M&A market and how is it likely to look in the coming years?

Then there are the personal considerations. Would I like to spend more time with my family? Am I taking too much financial risk by having all my eggs in the basket of my business? Can I keep my team incentivized without the prospect of liquidity? What will I really do when I retire? These questions can easily outrun the answers and as a result a lot of people simply kick the can down the road when it comes to thoughtfully considering the ultimate disposition of their business. This is a mistake. With certain notable exceptions, modern day businesses are being built to be sold or otherwise achieve liquidity through a public offering. Sure there are some family-owned businesses whose mantra is to pass the company from generation to generation, but this is less and less the case. The reality is that the timing of the sale of a company is the single biggest issue a business owner will make in his or her career. I hope in this article to raise at least some of the considerations that need to be thought through. The decision to sell one's business is an intensely personal one. Entrepreneurs and other business owners typically have invested enormous amounts of time, energy and personal assets in their company and the prospect of letting go is never easy. That said, a careful examination of the following factors can help frame the decision:

1. Is there a compelling reason to sell? In certain circumstances a sale is dictated by outside circumstances. The death of an owner, divorce, a major disagreement of co-owners or the retirement of a key employee can necessitate that the business be sold. In such circumstances the question is not whether to sell but how to make the best of the situation. This will typically require balancing the reason behind the sale with the complexities of the sale process.

2. Are you prepared to let go? An owner needs to pause and have a serious conversation with him or herself. The bond with a business that one has built over time is a strong one. Owning a business can be a big part of one's identity. The business also can give its owners a sense of independence, self-reliance and community recognition. What will life without the business really be like? It is not at all uncommon for people who have sold their business to have a difficult time after, sometimes resulting in depression and feelings of remorse. It is important to discuss your possible plans with family, friends and confidants. The point is that unless an owner is reasonably confident he can face the psychological reality of the difficulty of severing the ownership bond, it is not time to sell.

3. Where is the company in its life cycle? Companies generally fall into one of four categories: start-up, validation, growth and maturity. It is important to recognize where your business is as this can dramatically affect the value you will realize on sale. Start ups are early stage businesses that are formed around a new idea or technology. They are quite embryonic and typically entirely dependent on an individual entrepreneur. Absent a paradigm changing technology, these types of companies rarely sell for significant value. Businesses in the validation stage are largely focused on completing initial product development and gaining some degree of market acceptance. They tend to rely on the original management team and are experiencing various growing pains. Their growth is typically resource constrained.

Like start-ups, these types of companies are better suited for growth through investment rather than acquisition. Still, there are some rapidly growing "gazelles", particularly in the technology sector, that provide some notable exceptions. Companies in the high growth stage tend to be the most attractive acquisition targets. They tend to be experiencing high sales growth of products with good margins. While they face potential competition and may outgrow their existing management team, these businesses are often viewed with a "sky is the limit" mentality.

Earnings are trending in the right direction and acquirers frequently believe that they can provide the necessary resources, sales channels and management expertise to take the company to the next level. Mature companies are characterized by being focused on maintaining their share of the market. They can make attractive targets as they have established a favorable position in the marketplace as well as a track record of earnings. Still some mature companies are a bit tired and have lost their growth trajectory which can bring down valuations. It is important for a business owner and his constituents to take careful stock of exactly where the company is in terms of its development. What is the competitive landscape? Is there some game-changing industry change on the horizon? Again, the analysis becomes quite personal. Are you building a business that will have sustainable advantages in the marketplace and is the business model something you are capable of running and want to be a part of?

4. What happens if you don't sell? An important question you need to ask yourself is: do you really have the passion and commitment it takes to continue running the business? There is only so much "drinking out of a fire hose" that one can sustain and maybe the time has come to do something else like spending more time with your family. If you do stay the course, do you have a team around you that will enable you to get to the next level? There is only so much "coaching up" that you can do. Does your company have the resources and market position necessary to attract the talent it needs? Be realistic here. If your team is too lean then even more will fall on your shoulders. A sale can frequently help a business with the addition of new managerial talent and better defined distribution channels.

5. Will your expectations be met? Even assuming all of the foregoing considerations point towards a sale, the question then arises whether your objectives will be realized. How much is the business worth? The answer will ultimately be a market-based decision determined by what an arms-length buyer will pay. How to then set expectations? Certainly investment banks interested in marketing the business would be willing to provide indications of value that will set some parameters. It is also useful to ask how much the owner is able to take out of the business on a current basis. Selling for a small multiple of this cash flow wouldn't make sense absent some major disruption on the horizon in the marketplace. Finally, what is happening with our companies in your space?

Business owners also need to consider the overall state of the market. Macro economic factors such as the general national and international economy, the market outlook for the company and its products and the legislative and regulatory environment affect the valuations of businesses generally. The company's industry also should be examined with a particular eye towards the financial performance of the company compared with its competitors.

6. Running a Sound Process. Sales processes come in a variety of sizes and shapes. Sometimes a company receives a preemptive bid that is too good to pass up. .. Other times the company engages an investment bank that conducts a full blown auction. The exact path a business owner follows will depend upon a number of factors that are difficult to generalize. It is fair to conclude however that a sales process is most likely to succeed when a company is properly marketed at a reasonable price at a time when the market is right. Business owners need trusted advisors to help make these judgments.

Want to learn more about M&A transactions? Wondering if a merger or acquisition is right for your business? Contact:

Gene Barton

gbarton@goulstonstorrs.com

+1.617.574.0554