

## Is This A Good Time To Sell?

“Is this a good time for us to sell our business?” The question came from a business acquaintance who managed to grow his company to about \$25 million by showing up every day, working hard, and consistently doing things right, in good times and bad, for many years. I sensed he was disappointed in my blank look. He knew I had heard the question five hundred times before, and probably expected an inspired perspective gained from my decades of working on deals.

“I don’t know,” I finally shrugged, “the external cycles are great, how are you internally?” I wasn’t intending to be evasive or flip, nor was I lobbying for an opportunity to sell my services – the fact is, I have found it is a complicated undertaking to properly time the harvest of your business.

Many forces enter into the determination of whether it is a “good time” to sell any given business. If we are really talking about the most basic of selling questions, “how is the supply and demand balance?” then the question is insufficient. It’s been nearly thirty years since I first negotiated an acquisition and as far as I know, there has been a shortage of deals ever since.

To understand the many forces involved, it helps me to view them in the same way as biorhythms. You may recall that biorhythms recognize that certain personal interior forces behave in cyclical ways. These cycles can be measured, they say, so that an analyst can determine when the forces are aligned in the optimum relative positions for timing certain behaviors. The basic forces they used had to do with Physical, Mental and Emotional cycles of the individuals. I would suggest that there are similar cycles to be considered when looking at the forces that impact optimum timing for selling your business. These forces, which we could call “Divestirhythms,” can act in positive or negative ways on the process of harvesting the fruits of your labors.

Generally, the forces impacting your sale fall into two major categories – External (or Macro) and Internal (or Micro). Measuring External forces would require a study of such things as Taxes, Interest Rates, and Financing Availability (while supply: demand is external, I view that force as always being positive and not requiring cycle analysis). Internal forces might include Readiness, Financial Goal Achievement, and Owner Fulfillment.

With so many variables involved, I prefer examining this data in chart form. But first, let’s look at each of these forces independently. In particular let’s consider that each of the forces commands a different level of importance on a relative basis and that the importance will vary from one type of business to the next for *External* matters and from one owner to the next for *Internal* matters.

Let's review some ways these factors can influence your decision to sell:

## External Forces

External forces generally impact the price and terms you may receive for your business and the likelihood the sale can be handled expeditiously for both buyer and seller. These factors also impact the internal force of financial goal achievement.

1. **Taxes** – Currently very favorable capital gains rates are encouraging to sellers. Additionally, now that goodwill is amortizable, buyers have relief for costs attributed to capital gain intangibles such as goodwill, tradenames, etc. Helping buyers with their tax burden can help accommodate a sale.
2. **Interest Rates** – Again, very attractive today. Buyers can service more debt with the same payment if the interest rate is lower; therefore, they are able to pay more for a business when interest rates are lower.
3. **Financing Availability** – Ultimately, buyers are driven largely by the rate of return on invested capital. Normally borrowed capital costs much less than equity capital ( $\frac{1}{2}$  to  $\frac{1}{3}$  as much). Therefore, the more of the price that can be financed with debt (at, say, 6%), the less equity is required (which demands, say, 25%). Today buyers can easily find aggressive lenders with very high advance rates (the amount that can be borrowed, on a percentage basis, given a static asset value). This has the effect of allowing for a higher price, while still providing a higher return for the buyer.

## Internal Forces

Internal forces are related to the specific owner. If all the External forces have aligned favorably but they are not aligned in harmony with the internal forces, it is probably not the right time to sell.

1. **Readiness** – A business has to be prepared in order to sell for the full value. This preparation would include such tasks as cleaning up the financial statements and eliminating the need to explain personal or unnecessary expenses. Also, fine tuning the organization chart and preparing an updated business plan are very important. The best time to sell is when the business is doing its best! Resist the temptation to stay and have fun in the good times. If you start to slide, the buying marketplace will have to interpret your sale as a retreat from an upcoming failure and the amount you can get for your business will plummet geometrically. If you don't know how to prepare your business for sale, ask your intermediary or use the services of a professional to advise you on getting prepared.
2. **Financial Goal Achievement** – You may need to examine the financial goal you must attain to be a seller. If it is clear that you have surpassed your goal, why would you continue to risk everything everyday? Think of it as the Vikings being on their own 20 yard line, 1st and 10, winning 24-23 with 30 seconds left in the game. Would they throw a 'Hail Mary' pass? Once you've already won, don't risk losing it just to win by a wider margin. The only exception to this rule is our last Internal force.
3. **Fulfillment Goals** – One of the most sensible reasons I encounter for an owner to sell is BOREDOM. If you aren't being fulfilled, then you are quite likely not performing at your optimum and therefore risking the business going into an atrophy stage from which it may not recover. Conversely, if every day you wake up and can't wait to get to your business because you enjoy it so much, how are you going to replace that sensation in your life? Business owners are notoriously generous to social causes, but many find that a life of volunteer service is torturously slow and boring for them. Many think they will never get enough free time to play golf, but after selling



their business they give up the game. You are more likely to pursue another business opportunity after your sale than you are to retire. Study these factors and discuss them with knowledgeable and experienced professionals.

The following chart can be helpful to sort through the External and Internal factors and to monitor your readiness to sell. Prepare your chart, update it semi-annually and watch for a telltale trend. It might look like this:

Divestirhythm	Weight	Jan.'07	June '07	Jan. '08	June '08	Jan.'09
<b>External</b>						
Taxes	-5 to +5	4	4	4	4	4
Interest Rates	-5 to +5	4	4	4	3	3
Financing	-5 to +5	4	4	3	3	3
<b>Internal</b>						
Readiness	-5 to +5	-1	0	1	2	3
Financial Goals	-10 to +10	-7	-3	1	5	7
Fulfillment	-5 to +5	-5	-4	-3	-1	0
<b>OVERALL RATING</b>		<b>-1</b>	<b>5</b>	<b>10</b>	<b>16</b>	<b>20</b>

*Michael P. Hannon, Managing Principal, Lingate Financial Group*