

Is it a good time to sell your business?

In 2009/2010 I met several business owners who had just seen their thriving business change in a very short period from being highly profitable operations to barely breaking even. Up until this happened many had experienced the longest growth period in the history of the company. A few of them had been contemplating exiting their business but had delayed it as profits continued to grow and they felt they could not walk away. Unfortunately, Covid-19 hit, and this has stopped the sustained pattern of incremental growth for many businesses. Some owners have weathered the storm whereas many non-essential businesses may face business closure.

I have had a similar reaction from business owners that I had been talking to pre-Covid-19 that decided not to sell and later told me they should have listened. It highlights how fast things can change. The only constant in life is change.

What does this mean going forward if you were thinking of exiting but see your continued upward growth profile stalling? Should you wait or should you act now? Here are some things that might be worth considering.

There are cyclical events and non-cyclical events. Cyclical events happen infrequently, and the hardest thing is forecasting when the next one will happen. These include things like:

- Recessions
- Stock market crashes
- Impacts resulting from political & policy changes

Non-cyclical events are infrequent and irregular and could include wars, terrorist attacks and pandemics. In addition to these there are also unique on-offs that happen whose impact is apparent if you look hard enough. One of these is starting to have an impact now. This is the growing impact of the baby boomers on the business sales market. By 2030 all baby boomers will be over 65. An estimated 12 million own businesses and some forecasts project there could be an eventually flood of these on the market. This may happen sooner rather than later as many that lived through the great recession decide that they have had enough after struggling with stress and health issues through the Covid-19 pandemic downturn.

Covid-19 was unique in that much of the impact was self-inflicted to constrain the growth of the virus. Before it happened there were several factors that made it a good time to sell a business. Many of these still apply:

- There is still a high level of money available to acquire good businesses
- Cash-flow multiples have grown and remain at a high level for essential businesses that are performing well (high demand and low level of supply)
- Many strategic buyers are actively looking to acquire companies as they cannot sustain their growth track record via organic operational improvements.
- Record stock market high.
- Very low interest rates

- Plenty of active buyers chasing a low “good” business supply level
- Recent stimulus activity ranging from PPP, EIDL the Cares Act and other initiatives have helped businesses cope through the pandemic and there are a number of SBA initiatives that offer buyers loans that include no loan setup fees and six months’ worth of free payments that should help the sales transaction market.

Pre-COVID-19 there was an expectation that another recession was just around the corner, and that it would decrease cash-flow multiples (low demand and high supply). The big unknown is whether stimulus activity to rebound from COVID-19 will drive future growth or whether the substantial hits that certain sectors took will cancel this out.

Depending on the business for some owners that are thinking about selling then this might be close to the best time to sell. How often do you have so many positive factors coming together and how long will it last? Perhaps it is time to follow the advice of JP Morgan Who made a fortune getting out too soon?

No matter how informed you are very few will accurately time the top of the market and exit at that peak. Many will miss it and then find themselves in the same position that many business owners found themselves in 2009/2010. If this happens then the only option to get that higher price may be to delay their exit for a further three to seven years if a new recession happens. If there is no recession, then all bets are off!

Whilst selling now might not be the answer there are things you can do today that may help offset some of this risk. Contact me to discuss some of these options. Call (310) 546 1016 or email Rmacdonald@agstrategicadvisor.com to find out more and see how we can help you.

You have spent years of blood sweat, toil and tears building your business and legacy. Is taking risks and cutting corners when you sell it the smart thing to do?