Business owners pondering a sale should strike while the iron is hot

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Business owners who are considering selling their companies in 2019 might want to pick up the pace of their deliberations, at least if they're looking to collect top dollar.

We enter the new year as we exited the old one and several before it: at an all-time high in terms of valuations. The M&A marketplace right now is perhaps the heartiest sellers' market for private companies in history.

Buyers, their pockets stuffed with capital that they need to deploy, are all but fighting over attractive for-sale businesses. We're seeing bidding battles and other aggressive tactics. For example, some potential acquirers are scrambling to make sure they are the first in the door with hopes that sellers won't talk to others.

Given that the M&A market has been so strong for roughly a decade now, sellers may be in the mind of the great Mark Twain, who once quipped: “Never put off till tomorrow what you can do the day after tomorrow.”

But going forward, they might want to think of Benjamin Franklin instead: “Don’t put off until tomorrow what you can do today.”

Why?

Generally speaking, the bull run in M&A is getting a little long in the tooth, having gotten out of the gate in 2009. We know that markets are invariably cyclical, and for the first time in a long time we’re hearing talk of uncertainty about our economic future. History tells us a downturn is coming at some point.

More specifically, as interest rates rise, debt becomes more expensive, requiring buyers to put more equity into deals. That could dampen prices paid.

Additionally, we are trading at unprecedented EBITDA valuations. A decline is all but inevitable.

All of that said, while valuations may begin to decline going forward, we fully expect deal activity to remain robust in 2019.

Here are some things owners contemplating a divestiture should know.

Once in a lifetime

We have worked with scores and scores of successful owners throughout the years, and we have yet to meet one who wasn’t expert in the business he or she operated. That makes perfect sense.

But what we rarely meet is an owner with previous experience in selling a business. This is something most middle-market owners do only once in a lifetime.

And, quite frankly, selling a business is complex in multiple ways.

First and foremost, owners need to figure out their true objectives for the sale. For many — if not most — money isn’t everything.

There are family dynamics to think over. What are the implications for the owners and the key employees in the business? How will a sale affect them?

There’s the matter of timing and being truly ready to go to market. Yes, now is a great time to sell, but the performance of the seller’s business matters – a lot. Companies preparing to sell need to maintain what we refer to as good internal hygiene. The corporate documents must be in line, financial systems must be running smoothly, and the business must be operating at peak performance levels.

There's the question of which potential buyers will best take care of the current employees and customers, and continue the legacy of the company. Finding good fits can be challenging.

Then there's need for strategic messaging, supported by the fundamentals, to position the company to appeal to those potential buyers.

With all of these questions answered and all the work complete, a business, usually with the aid of a company like ours, goes in search of the perfect match, whether it is a strategic buyer (another company in the same or related industry) or a financial buyer (an investor paying for financial returns).

What's hot in 2019?

Buyers are keen on a number of industries right now.

The fact that manufacturers are currently appealing to both strategic and financial buyers comes as a surprise to many outside of the mergers and acquisition business. Many cannot get beyond the image of a mundane business with workers punching time cards and old physical plants shuttering. But companies that make something distinctive and sustainable are enticing acquirers, even in the face of potential economic uncertainty, tariffs, and trade wars. Recent local examples include:

- McCormick & Co.'s $4.2 billion acquisition of Reckitt Benckiser Group's food business that boasts such brands as French's mustard and Frank's RedHot sauce.
- The acquisition of Hanover-based Phillips Corp.'s insertion machine division by Penn Engineering.

Health care, technology, and professional service business are also drawing a great deal of interest.

Let's start with health care. First, this industry isn't as susceptible to economic fluctuations as others are. When we break an arm, catch a cold, or develop some other type of condition, we can't wait around for the next bull market or GDP expansion to seek treatment. We need it now, regardless.

Moreover, there's a lot of innovation happening in the industry that's attractive to buyers. Companies are working to find ways to make health care more accessible and affordable. Examples include a push toward smaller, more local treatment centers as opposed to large hospitals. As for cost, businesses are trying to reduce redundancies and improve billing and collections, among other initiatives. And they're not sacrificing quality along the way. Quite the opposite.

For instance, health care providers are tapping the power of data to identify better patient-centric solutions. All of these factors and more have buyers lining up to check in.

Various technology firms are also appealing to acquirers. As we all know, thoughtful, well-designed tech can address many business problems at relatively low cost. Some of these offerings are stand-alone, while others can be embedded in the buyer's products to produce an even more powerful tool for customers. There are lots of different potential plays for the buy side when it comes to tech.

For instance, Fourth Dimension, a Columbia-based cyber solutions firm, was acquired by Polaris Alpha, a portfolio company of Arlington Capital Partners, less than a year ago.

Then there's business services. Buyers have a number of compelling reasons to make purchases in this sector. They might do a deal to acquire the target's customers or competency. This seems to have been a factor in Brink's Co.'s $520 million purchase of Hunt Valley-based Dunbar Armored Inc. this past summer.

Acquirers also strike deals to expand geographically. The New Jersey office furniture distributor bought Baltimore's Hyperspace in recent months for just this reason.

There's also the possibility of buyers reaching out of their own industry into something tangentially related to give their customers a broader array of services. And don't overlook the motivation of buying for the purpose growing and ultimately selling.

Regardless of industry, well run companies with good prospects and numbers will allure bidders, if potential buyers can be identified and informed in an effective way. Baltimore-based WillScot Corp.'s acquisition of Modular Space Holdings Inc. last summer for roughly $1.2 illustrates the point.

Final comment

If you're thinking about selling during the next three to five years, you should consider selling now. Get something done before this window closes. At some point, the market will have a blip. If you wait, you may have to then wait some more for the market to come back.

Many owners will say, "but if I just keep the business operating as it is, I will earn a certain amount of money during the next three to five years." This postulation assumes that all other conditions will remain the same. While this may be true for some business and markets, for many, change will occur. Business owners need to really ask themselves if they are prepared for that change and are they willing to accept the lost opportunity that this historical cycle is presenting to them now?

We don't believe the deal shop is going to close anytime soon, but owners looking to maximize valuation should make 2019 their year to act.