2019: The Best Year Ever to Sell Your Business

If your company is prepared to go to market then sell now! You may not get another chance like this for another five to seven years, GEM Strategy Management predicts.by GEM Strategy Management • Mar 6, 2019

In late 2018, I was asked by several business owners whether they should sell their businesses in 2019 or hold off until 2020 or 2021. I told them, "Do not wait." One of the biggest mistakes business owners make is postponing the sale of their businesses in hopes of selling at a higher price sometime in the future. More often than not, they mistime the market.

No one can accurately predict with any degree of certainty what the market will look like in two to three years. Even today, some experts predict that we are headed for a recession sometime during 2019 through 2021.

I do not believe the pessimists. The "Index of Leading Economic Indicators," the best predictors of the fundamental strength of the economy, strongly suggests that at least in the short term, the next 12 months to 18 months, shy of a major geo-political event like 9/11, the economy will stay strong.

As small- and- medium-sized businesses embrace a strengthening economy, there is another reason for entrepreneurs to be optimistic. It is a seller's market. Some advisers say it's the best market for mergers and acquisitions they have ever seen, certainly in recent years. Even small business owners who aren't yet ready to retire are looking to take advantage of this robust M&A environment.

In the Pepperdine Private Capital Market Study, business advisers state that seller sentiment hasn't been this high in the past five years. My colleagues tell me many active buyers are working on multiple deals simultaneously, which has not been seen in past years –- or, at least, not at the volume we are seeing today in the lower-middle market.

Separate research reported in Forbes Magazine confirmed those findings. According to Forbes, published a few months ago, nearly one-third of small business owners plan to sell their businesses within the next two years. The majority of business buyers –- 84 percent –- plan to buy in the next year.

Ready… Set… Sell Now!

I am advising our clients, if their companies are prepared to go to market, sell now! You may not get another chance like this for another five to seven years. Valuations are high and buyers are paying premiums for well-run companies.

However, business owners shouldn't rush to sell their businesses simply because the market is strong. Analysts insist that to maximize value, business owners must prepare their business for sale before going to market. Buyers have become much more cautious and sophisticated in their due diligence processes since the Great Recession of 2008-2009.

Today, 15 major areas that buyers look at closely when examining a company to purchase are the company's:

1. Historical financial statements and related financial metrics, as well as the reasonableness of the target's financial projections of its future performance;
2. Technology/intellectual property;
3. Customer base, its concentration and sales pipeline;
4. Strategic fit with the buyer's organization (cultural);
5. Contracts and commitments to suppliers, employees, contractors, lenders and senior management;
6. Past, present and potential future litigation;
7. Tax matters and understanding of any tax-loss carryforwards;
8. Governance documents and general corporate matters;
9. Overall operations and its cybersecurity protocols;
10. Related party transactions;
11. Regulatory filings and compliance issues;
12. Production/sourcing/suppliers and related matters for products and services offered by the target company;
13. Marketing and sales strategies and agreements related to the sales of the company's products and services.
14. Competitive landscape and market analysis of the industry sector the target company serves; and,
15. SWOT (strengths, weaknesses, opportunities and threats) analysis.

Because buyers will slice and dice numbers every way possible to understand the business and any problems, risks and opportunities going forward, sellers can prepare their companies by putting themselves through the same due diligence process as buyers do to shore up the "soft underbelly" of the companies. It is always better to identify any "warts" in a business before going to market, versus during a buyer's due diligence process. No one likes surprises. If buyers discover problems during the due diligence review, that was not disclosed by the seller in advance, it will usually cost the seller significantly.

Two Major Metrics to Know

I recommend to clients during the preparation to sell their businesses that they understand two major metrics about their businesses:

1. A valuation of their business conducted by an independent certified valuation firm so they don't over price or underprice their businesses; and

2. A benchmarking study focusing on how they stack up against competitors in their industry. A comprehensive benchmarking study can focus on the due diligence items listed above.

Both of those analyses and studies will point out key performance areas that are strong and/or could be problematic in the transaction process.

One new issue that is hurting some sellers in closing their transactions is their inability to attract new talent and retain current employees in this environment of record-low unemployment. In a separate report from Wells Fargo and Gallup published a couple of months ago, nearly one-fifth of small business owners cited hiring new staff and retaining current employees as their biggest challenge. Some experts note that the struggle to hire new talent is squeezing businesses' organic growth efforts, making companies less attractive to buyers.

Given this current labor shortage environment, I am recommending to some of our clients that they consider inorganic growth (acquisition strategies) vs. organic growth only (build from within) as a part of their overall exit plan. A smart acquisition, such as purchasing a competitor's well-run company, can add significant enterprise value, and therefore add significant shareholder value. In today's market a solid acquisition, rolled up into your current company's operations, can add more diversification, lower your risk profile and generate increased revenues and earnings.

Regardless of which strategies are employed, now is a good time to plan your exit strategies and prepare your company for sale. I remind them that "a bird in hand is worth two in the bush."