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Timing is Everything: Successful business owners know when to hold, and when to sell

By John C. Johnson, M&AMI

The old adage that "timing is everything" is never truer than when it comes to selling – or not selling – a business.

As respected mergers and acquisitions educator, Darrell Arne, notes: "owners seldom sell too soon, but very often wait too long." He coined a simple phrase on wise strategic choices for selling a business as being, "hold and grow or sell and go."

Examples abound of owners who held too long and lost. At the age of 67, one robust owner expected to build his beloved business for another decade. Overnight, illness put him in ICU for months prior to an untimely demise. His vibrant company lost its rudder, and its value to his heirs fell precipitously. All too often, the onset of a debilitating disease, such as dementia, leads to misery as families and employees suffer both the progressive decline of the owner's health and the protracted demise of great businesses.

Nor is any company immune from unexpected and uncontrollable market fluctuations. One needs to look no further than a major oil price bust to see the often-catastrophic effects that outside factors can have on once-solid businesses. Also scores of businesses became "unsaleable at any price" when new loan underwriting mandates were imposed and acquisition loans dried up overnight. Under the wrong conditions, the value of a great business can tumble rapidly with a terrible impact on the owner's net worth and estate.

A key entrepreneurial skill is recognising when to build the owner's estate by holding on to the business as opposed to capturing higher value by selling. The right time to hold tight or to divest is not obvious, but wise business owners can help optimise value and avoid the worst-case scenarios by proactively doing two things: checking their health, and scanning the horizon.

Health Check

Prudent owners keep a close eye on their own health. The time for major business decisions is not after waiting too long. It is amazing how many otherwise great business owners make that big mistake. Savvy owners know that, at some point, every business inevitably changes hands, so they weigh their personal situation as a key consideration on the right time to sell their business. Advancing age, health problems, fading energy, need to secure a liquid estate, and reserving time to enjoy life after business are key factors. Early recognition and seeking expert input from professionals who manage business sales and transitions is wise. For many reasons, of all the succession options, selling a business while it and the owner are healthy is most often the best choice for maximising the owner's net worth and estate value.

Horizon Scan

Even a healthy and growing business is subject to losing much or all of its value due to changing outside factors. Those other variables – often unexpected and unpredictable – make it essential to logically consider what might cause values to rise or drop. A good owner manages growth and profitability, but unanticipated market changes can easily trump great management and crush the value of the business. Strategically scanning the business horizon helps a smart owner avoid being blindsided in considering the best time to sell their business.

As with health screenings, attention to a handful of variables is key. Interest rates, for example, can have huge impact on business value. Declining interest rates increase business value; increasing interest rates drive value down. Inflation rates and money supply are also critical factors. With plentiful purchase

Table 1: Business Value Drivers

Factors that drive business values up	Factors that drive business values down
• Steadily growing profits • Steady or growing markets • Steady or increasing sales • Stable owner / management • Improved health – focus – stamina – energy • Interest rates go down • Income or capital gains tax rates decline • Inflation moves lower • Larger pools of aggressive buyers • More money supply • Economic stability and increased confidence • No litigation or regulatory issues • Strong economy	• Declining or unsteady profits • Cycles – crashes/recessions – competitive change • Declining sales • Owner / management instability • Age – illness – death – probate – dissention • Interest rates go up • Income or capital gains tax rates increase • Inflation moves higher • Diminishing pool of aggressive buyers • Lowering money supply • Economic instability or reduced confidence • Litigation or regulatory issues occur • Weakening economy

money available, as today, values may remain constant. Conversely, if today's ultra-low interest rates or inflation were to rise or plentiful debt and equity funds should return to more normal levels, business values could be driven much lower.

The "Business Value Drivers" table above identifies some of the main factors that can either increase or decrease business values.

Good News

Many owners are surprisingly uncomfortable looking beyond their firm's shell to seriously evaluate a strategic sale option. Staying within this comfort zone is a serious omission and can create major unintended consequences. We cannot accurately guess the timing of changes in the key drivers on business values. Nonetheless, to get maximum value from owning a business and for its owner's estate, it is essential to know the impacts on values that are certain to follow from foreseeable changes that will push business values up or down. Failing to weigh these drivers undermines an owner's ability to choose wisely when trying to maximise their net worth and estate.

Fortunately, there is lots of good news to share. For any business owner contemplating a sale, expert help is available. Professional M&A brokers and advisors know how to assess value and the options, and will have worked with scores of business successes. Based on experience with the market dynamics, M&A professionals can help virtually any owner navigate beyond their discomfort to make sound business sale decisions. A refined M&A sale process delivers top values to owners at the lowest risk, stress and distraction.

Today's mid-market business valuations are at all-time highs, and for reasons that are seen in Table 1. There is currently abundant "cheap" debt and excessive equity acquisition money, strong economic confidence, and historically low inflation. There is fierce buyer competition for quality companies. Buyers know they will have to pay up to play. All of these variables work to the advantage of anyone looking to sell a business, prompting many owners who have been inclined to wait to now look closely at selling their business while the outstanding market lasts.

There are no guarantees this market will continue. "This too will pass" applies to today's abnormally high business valuations. Favorable conditions today do not ensure those same conditions last beyond tomorrow. Ultra-low interest rates will certainly increase. No one can know with certainty how soon changes from today's favourable conditions might occur, or what might trigger them. Smart owners recognise the situation. They do their homework, visualise coming change, and seek the help of an expert M&A professional in deciding when and how to sell their business.

John C. Johnson *helps business owners exceed their objectives when selling businesses. A certified M&A broker, he is respected and trusted as an award-winning mergers and acquisitions professional. John Johnson is committed to ensuring clients' success and supporting the quality of the hard choices they face. Johnson is a founding partner of leading U.S. M&A broker and advisor firm, IBG Business (www.IBGbusiness.com).*