

# TIMING THE SALE

OF YOUR COMPANY



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If you are like most business owners, your company is your most valuable asset. Therefore, whether you achieve your retirement goals likely depends on how much value you can generate through the sale of your business. When you sell your company, timing can be the most important factor. Just like any other major business decision, the choice to sell a company should be based on a combination of internal and external factors and whether prevailing conditions will allow you to achieve your desired benefit. This article discusses how to time the sale of your business to achieve maximum value.

## Buy Low/Sell High

When you take your company to market, prospective buyers will be most concerned with the business's future income-generating ability. Buyers will scrutinize your company's historical financial performance and evaluate its growth potential based on a combination of internal and external factors. Accordingly, it's best to sell your company when it has demonstrated consistent and strong financial performance.

It might be difficult to walk away from the company you've built, especially when business is thriving. However, many business owners make the mistake of waiting too long to exit, and ultimately decide to sell when something bad occurs or when they anticipate something bad may happen. When performance is trending downward and the outlook is negative, it may be extremely difficult to find a buyer, let alone one who is willing to meet your price expectations.

## Valuation Trends

Trends in the stock market can be a good indicator of whether it's a good time to sell your business because many of the external factors influencing stock prices will also impact the number of buyers in the market and the prices they are willing to pay for companies.

The price to earnings (P/E) ratio is often used to measure the value of publicly traded stocks. For privately held businesses, earnings-based multiples from transactions involving comparable publicly traded companies can be used to measure value. Multiples for private company M&A transactions are therefore correlated to P/E ratios for the public markets.

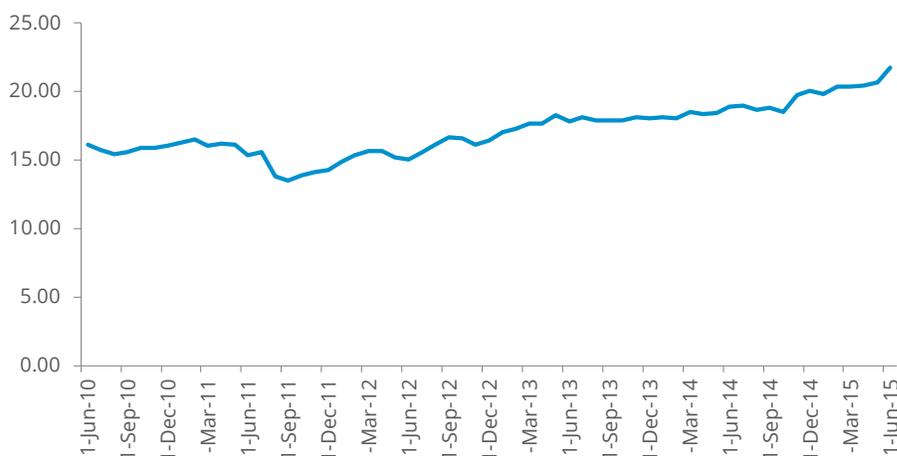
## S&P 500 P/E Ratio

The chart to the right shows that the P/E multiple for the S&P 500 is currently at a five-year high.

Valuation multiples for privately held companies have followed this trend and are also currently at five-year highs. This means that, as a whole, buyers are paying more for privately owned businesses than they have at any time over the past five years.

It's important to remember that

this upward trend won't last forever, which we know by observing volatility in the stock market. As such, you shouldn't delay your exit plan just because your company is performing well. As many business owners learned firsthand after the last recession, conditions can change quickly.



## Availability of Capital

One of the primary reasons why buyers are paying more for companies is that they have access to more capital than in recent years. Over the past several years, interest rates have remained low while credit availability for businesses has returned to pre-recession levels. Therefore, buyers have been able to borrow cheap debt to finance transactions. The Federal Reserve is considering increasing short-term interest rates in the near future, meaning buyers may be willing to pay higher multiples in the short term in order to complete deals before the cost of debt rises. However, this could cause a downward trend in valuation multiples over the long term as buyers may not be willing to pay as much for companies in order to preserve the rate of return on their investments.

## Industry Dynamics

While valuation multiples might be at five-year highs overall, they vary across industries. Therefore, when deciding whether to take your company to market, you should evaluate the conditions and trends within your specific industry.

As industries grow and mature, mounting competition can put downward pressure on profit margins, therefore lowering the prices buyers are willing to pay for companies. Factors such as regulations and emerging technology can also cause a shift in the competitive landscape within your industry, which may either have a negative or positive impact on the value of your company. Before taking your company to market, consider how various industry forces might impact your company's performance. If the outlook is positive, then it may be a good time to sell.

## Taking Advantage of Market Conditions

When market conditions make it an ideal time to sell, you won't be able to take full advantage and receive maximum value for your company unless you've prepared in advance. Selling a business typically requires several years of preparation, which allows the owner time to fully understand the value of his company and to focus on ways to make it more marketable.

This article on [building the value of a company](#) outlines ways business owners can prepare in advance for a sale. By following our tips, it will be easier to initiate the sale process in a timely manner and capitalize on a seller's market. This can not only help you maximize the proceeds from a sale, but may also help expedite the eventual sale process.

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