

Is Now the Right Time to Get Your Company Ready to Sell?

Article

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Buying or selling a business, like many other decisions in life, is often accompanied by hesitation—doubt that causes an owner to second-guess their desire to exit their business and move on to their next adventure in life. In reality it is rarely, if ever, the “perfect” time to get married, start a family, or even embark on a new business venture or sell an existing business. With proper planning and a solid team of advisors, however, even the most reluctant business owner can overcome the inertia and doubt in order to get their business ready to transition in the near term.

A prudent owner will have some kind of business transition plan in place. After all, the old saying “failing to plan is planning to fail” has strong adherents in every business community. Yet a recent survey of businesses in the U.K., U.S. and Canada by RBC Wealth Management and Scorpio Partnership found that less than 40% had business transition plans in place. That means that over 60% of business owners are essentially leaving things to chance. The study does not indicate whether the three-fifths of business owners without a plan had any intention to transition their companies to an already-identified ownership group (family, management, or employees) or if those owners were looking to exit through selling their companies to third parties in an asset or stock sale or merger when the time is right.

Those owners without transition plans in place might want to take a look at the current mergers and acquisitions (“M&A”) market for inspiration in finally getting the courage to sell. A 2016 year-end report on M&A trends by Deloitte & Touche LLP found that, although 2016 lagged behind 2015 in terms of deals for much of the year, October 2016 was perhaps the busiest month ever for domestic M&A. In a survey of 1,000 corporate executives and private equity investors, over three-quarters of the respondents expressed optimism in the business transactions market. In fact, many of the companies and funds had set aside cash to participate in deals this year. Combine that level of enthusiasm with current economic conditions involving a record market, and the indicators show that the time has never been better (in general) for a business owner to consider an exit.

What does this mean for businesses in northeast Wisconsin? Most small businesses in the Green Bay-Fox Valley area are not candidates for an investment by a private equity firm or purchase by a larger company. That doesn't mean, however, that buyers are not looking at potential growth targets in our area.

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Some companies that consistently underperform on paper have tremendous upside potential and are therefore great candidates for investors looking to achieve greater growth and profit. Additionally, some companies that have a mature and stable market presence are also contenders for purchase by strategic partners (or even competitors). These purchases often allow local companies to grow and offer more jobs and economic opportunity on a regional basis. Additionally, national trends that initially affect larger or cutting edge technology companies will “percolate” down to the regional level in a matter of months, meaning that what happens today in Boston or Los Angeles may well influence what happens six months from now in northeast Wisconsin.

If you are a business owner without a solid transition plan in place or even if you have a business transition plan, but the prospect of a greater return on the open market is appealing, you should think about what can be done to get your business ready to market in the near term. Although you cannot change the past, you can fix current problems and shore up weaker performing areas in your business in order to increase the post-sale appeal to a potential buyer. In addition to considering the right kind of buyer for your business, you will want to embark on a comprehensive review of your company's current condition to get a real sense of what needs to be done. A good source for that review is a due diligence checklist often prepared by M&A law firms and private equity firms. Such a checklist details the areas that potential buyers will look at closely in evaluating a company for purchase, including such areas as financial health, employee issues, corporate governance and legal risk.

Many business owners that I know liken running their companies to a juggling act. They are constantly handling multiple aspects of their business that need immediate attention and then moving on to the next need. Like an accomplished juggler, a smart business owner thinking about selling should not only understand current conditions, but also look outward to see what is coming soon in the M&A market.

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