

3 Questions and 3 Pieces of Advice:

In an Uncertain M&A Market, Is Now the Time to Sell Your Business?

In the lower middle market, the mergers and acquisitions market is still hot (despite the larger economic challenges). This is largely due to a combination of issues, including “Covid hang-over” concerns, challenges with hiring and retaining employees, baby-boomers getting older and the large amounts of cash that still needs to be deployed.

As a result, many business owners have a once-in-a-lifetime opportunity to retire wealthy.

To take advantage of that opportunity, however, owners need to act fast. The market won't stay hot forever. And with a potential further economic downturn ahead, the next window to maximize sales value may be five or 10 years out.

As I have been telling my clients, now is the time to choose a path:

- a) get ready to sell your business as soon as possible, or
- b) prepare to keep running it until the next M&A window develops.

To determine which path is right for you, consider the following questions:

- 1. Do you feel emotionally ready to sell?** The sale of a business is likely the most sophisticated and largest transaction a seller will encounter in the course of their career. There's a reason most only go through with it once. Even with years of preparation, no owner can fully predict the myriad of issues and uncertainties in M&A until a buyer commences diligence. You need to be ready for ups and downs, back and forth negotiations, false starts and sudden surprises.
- 2. Do you know what your business is really worth – and how much M&A may cost?** Get a valuation – perhaps more than one. Owners are too close to their businesses to assess their worth objectively. Once you truly understand the value of your company, be prepared to set aside more than you think you'll need to sell your business. Even if you achieve ideal terms, you will need to be ready to cover any trailing liabilities post-closing.
- 3. How long will you have the energy to continue running your business?** The older you get, the more critical the decision to sell your business becomes. Owners need to be realistic about their abilities and limitations, particularly if things were to go sour: e.g., contacts disappear, key employees leave, or industry disruption makes the business irrelevant. Even if a potential deal doesn't seem perfect, an owner selling now would have a longer runway to retirement. Otherwise, the owner would need to spend the next few years working harder than ever to carve out better numbers.

Whichever path you choose – selling now or waiting – there are three steps you can take to set yourself up for M&A success:

- 1. Commit to your plan.** Do not let others set the terms of your business's outcome for you. Use the market to your advantage. If you're thinking of selling now, don't sign the first letter of intent that comes your way. If you're waiting it out, don't concede to a mediocre offer in a couple years; instead, turn into an opportunity to create competition over your business.
- 2. Focus on creating conveyable value.** This one is simple: maximize your earnings, minimize your risks and secure your greatest assets – be they contracts, intellectual property, real estate or skilled employees.
- 3. Build the team.** Whether selling now or later, consider hiring an M&A advisor – they tend to pay for themselves. At the very least, discuss your exit plan with your financial planner, CPA and attorney. Look within your organization for people you can trust to go to bat for the business during negotiations with a buyer: executives, board members and finance personnel are good candidates.

Make no mistake: M&A is a challenging and costly prospect no matter what the market looks like. But by developing the right strategy, setting the right expectations, and finding the right allies early on, any business owner can begin their exit with confidence.



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