

## When Should A Business Owner Sell Their Business?

The number one reason that business owners sell their business is ‘retirement’, according to more than five years of quarterly Market Pulse Survey<sup>1</sup> results.

The primary purpose of selling a business owner’s largest asset is to create liquidity and, in turn, that liquidity is intended to diversify the risk associated with owning a business. Risks such as regulations, employees, customers and general economics all play into the success or failure of a business. Just ask any business owner that survived the 2008 recession; 10 years later many businesses have recovered, but was it worth the risk?

I worked with a business owner back in 2001 who received an offer of \$6 million dollars for his company from a qualified buyer (a public company). The day of closing of the transaction, the shares of the purchasing company fell by 30% (along with the overall stock market) during the tech bubble bust which cause the transaction not to get completed. Ten years later, in 2011, the business owner actually ended up selling his business to the same suitor for \$18 million dollars.

The business owner received three times the original purchase price ten years later, which, on the surface, seems like a great victory. However, when I asked him if this increase in purchase price was worth the wait, he surprisingly replied, “absolutely not”. He explained that the past ten years of rebuilding his company and the risks associated with the process took a huge toll on his health and wellbeing. Despite the ultimate success of selling his company, the delay in the sale was not worth the wait due to the negative effects on this business owner’s quality of life during that ten-year period.

In looking at recent survey results on multiples for businesses of \$5 million or less in transaction value, you will see an average swing of 16% over the last 5 years (see table, top right). You will also notice the general downward trend of average multiples. My question for business owners is, “is it worth the risk for timing a 16% premium if you hit the peak?”

	2018	2017	2016	2015	2014
	Q4	Q4	Q4	Q4	Q4
Median Multiple Paid (SDE)					
<\$500K	2.0	2.0	2.3	2	2
\$500K - \$1MM	2.8	2.5	2.8	2.5	2.9
\$1MM - \$2MM	3.3	3.1	3.3	3.3	3
Median Multiple Paid (EBITDA)					
\$2MM - \$5MM	4.3	4.3	4.8	4	4.6

<sup>1</sup> Source: *Compilation of The Market Pulse Survey, by the Pepperdine Private Capital Markets Project and the Graziadio School of Business and Management at Pepperdine University.*

Tax rates are currently low and will likely go up after the next election, along with interest rates. There are still many buyers for quality businesses per the 4th quarter survey results - what (if any) is the potential premium for waiting to sell? Another detail to take into consideration-according to the Market Pulse Report, selling a business is taking longer today than it did 5 years ago. Today, it takes an average of 10.5 months to sell a business that is \$2 to \$5 million in value.

Even large companies such as Apple, whose share price dropped 30% from October 1 to December 31, 2018, are experiencing an economic decline as of late. If it can happen to the large companies, what might happen to your retirement nest egg if you do not realize the value from the sale of your business sooner than later? Is it truly worth the risk?

David Ryan welcomes the opportunity to have an initial complimentary exploratory call or meeting to learn more about your transition goals and objectives. All discussions will remain strictly confidential.



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