



When is the right time to exit?

By Pete Sokoloff - 12.2006

The number one question I get asked in speaking with company owners is, "When is the right time to sell my business?"

There is a great deal of emotion that goes into selling a business. In terms of stress, it has been rated right up there with divorce and the death of a loved one. Though there are numerous logical reasons to sell or not sell a business, at the end of the day all decisions about making an exit are most heavily influenced by the emotions of the owners. This commentary will discuss not only the elements that should be considered, but what constitutes the right and the wrong mindset.

The logic of the right time to sell any company is indisputable. It is when multiple buyers are interested and the highest price can be commanded. This "perfect storm" occurs when the following elements are in place: 1. There is a history of financial improvement in your business over the last few years, both in revenues and earnings. 2. There is strong evidence that revenues and earnings will continue to increase in future years. 3. Market conditions are such that the investment community believes there is good upside ahead for the industry segment your company serves.

When these conditions are met, the owners of the business are in the enviable position of being able to find many interested buyers and a premium price for their company. So, why would a potential seller disregard this logic?

The usual answer is that they want the upside for themselves. They see their business as growing and continuing to do so, resulting in increasing value. This may be a valid choice for some, but for others it opens the door to a risk that the favorable conditions of today will not exist tomorrow. The wise investor knows that markets and businesses often turn on events that are not directly in anyone's control.

As an investment banker for over 25 years, I have dozens of stories to tell about owners who held on too long. Owners who left millions on the table because the blinders they wore made them think the good times would never end. Think of the Internet bust. Or the bumper stickers in Texas in the '80s that read, "Please God, let there be just one more oil boom." Or an old-fashioned recession when customers simply stop buying.

So, how does a rational owner decide whether to sell now or hang on for a later, possibly more lucrative, payday? Aside from the obvious decision about the money to be made, I find that asking a simple question can be very telling. "Are you, your family and your investors emotionally prepared to wait at least five years for the right time to sell?" This question gets to the heart of the emotion attached to the business. It causes the owner to take a hard look at what would happen if a downturn occurred in their business, requiring years to set things right and recoup value lost.

Often the owner has retirement plans, wants to spend more time with family, desires a change in lifestyle, has a yearning to pursue other interests or is just plain tired and ready for a change. How do these goals compare with the very real possibility of needing to stick with the business for another five years?

An intelligent business owner should explore with key advisors, spouse and family what kind of future they want and whether or not selling the business contributes or detracts from that.

When the "perfect storm" arrives, and with it a decision to continue to gamble or to take the winnings and leave the table, a smart investor knows that no winning streak goes on forever. Is the owner in it for the love of the game, win or lose for the next five years? If so, perhaps it makes sense to stay at the table. If not, it's probably time to cash out.

The decision to sell is a seesaw, constantly moving between emotion and logic. Evaluating risk and reward. Holding onto a growing business may be a correct action. Holding onto a non-growing business (revenues and earnings) costs money. Bottom line: Weigh the logic and then dig deep into your emotions. When the perfect storm for selling a business arrives you'll be prepared.