

How Long Will the Current Window of Opportunity to Maximize the Sale of One's Business Remain Open?

Mergers and Acquisitions (M&A) activity for privately owned companies track the economy. In the best economic times, middle-market privately-owned companies are gobbled up for frothy multiples. When the economy is down, i.e. this current recession, buyers are plentiful but sellers are few. In 2000 (the height of the dot com bubble), approximately 11,000 public and private companies were sold for approximately \$1.3 trillion dollars. At the bottom of the ensuing recession (2002), 7400 companies were sold for a total of \$441 billion dollars. In 2006, at the height of the residential real estate bubble 11,750 companies were sold for \$1.5 trillion dollars. Everyone knows what has happened to business valuations starting in the fourth quarter of 2008 and continuing through today.

For the past 18 months, owners of companies hit hardest by the recession have been asking me whether they should sell, knowing that the company's enterprise value is at an all-time low. These owners are tired, acknowledge that they missed previous windows of opportunity and never want to experience another serious recession. My response has been in the form of two questions: When the economy returns will your sector bounce back? When your sector returns, will your company's revenue and earnings return to historical levels? If the answer to both questions is "Yes", then do whatever it takes to weather the storm. Many of these owners are now starting to see definite signs of improvement and are putting their companies on the market. Does this sound familiar?

How long will this window of opportunity remain open?

At a gathering of business owners in Denver on September 29, 2009, Brian Beaulieu, noted economist and nationwide speaker extraordinaire stated, "Sell your business during 2011 and 2012, not during 2013 and 2014. Start preparing now for inflation in 2013 and thereafter, which will trigger layoffs." Strategic buyers and well-funded private equity groups are seeking acquisitions and are plentiful. Financing for these acquisitions is starting to loosen up as lenders seek to get back into the game. Buyers are paying multiples between 4 to 6 times EBITDA on a recast basis. The greater the EBITDA (Earnings Before Interest, Taxes Depreciation and Amortization) the higher the multiple. Transactions are taking between eight to 12 months to close. This time frame affords a potential seller additional time to demonstrate a consistent growth pattern.

On January 1, 2011, federal capital gains will increase from 15 to 20 percent and on January 1, 2013, to 23.8 percent. This is in addition to state capital gains rates if applicable. If you have not already started the sales transaction process, it is probably

too late to close a transaction during 2010 and take advantage of the current rate. If you are just starting to contemplate a sale, keep Brian's time frame in mind. His projections are historically very accurate. In 2005, he stated, "The economy will click along nicely through 2008. In 2009/10, the economic downturn will be nasty. There are two courses of action for you to take. Sell your business before 2008 or figure out ways to recession-proof your revenues and profits between now and then." Many former owners took Brian's advice and are extremely thankful they did.

For ninety-five percent of all business owners, their business is their largest asset. Although these owners enjoy a nice lifestyle, they will not achieve their definition of wealth and financial independence until they sell their business. Every owner will someday leave his/her business. They can go out feet first on a stretcher or sipping champagne celebrating the biggest deal of their lives, the sale of their business. If today's valuations and market opportunities will deliver your definition of wealth and financial independence, are you emotionally prepared to sell? If you are not ready to sell during this window of opportunity for any reason whatsoever then at least commit to defining, designing and implementing your long/short term exit strategy. If you run your business with your financial end game in mind, wealth creation, you will be well prepared to maximize its value during any window of opportunity.

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