Are We At the Peak of the Sellers' Market?

By Michael Friar, Ascend Strategic Partners Business Brokers and M&A Advisors, July 2016

The past few years have been an excellent time for business owners to sell and this should continue for at least another year. Interest rates are low, private equity groups (PEG's) and strategic buyers have trillions of investable cash (dry powder) to invest and are hungry for acquisitions that can be grown or will be accretive (give them instant value) to their businesses. Additionally, there is a lot of interest in US companies from foreign buyers that are willing to pay a higher price to gain access to the US market. For those companies who were properly prepared and ready for sale these past few years, the financial rewards were evident in valuations at high multiples.

Are we at the peak of the sellers' market? The "good times" for selling a mid-market company cannot last forever, but we believe 2016 will continue to be strong. Currently, multiples for businesses with adjusted EBITDA (normalized earnings before interest, taxes, depreciation and discretionary expenses) between $1 million and $5 million range from 5 to 8 times EBITDA. Businesses with adjusted EBITDA above $5 million can have multiples as high as 8-10+. For business owners thinking about an exit strategy, the next 12-18 months may be the best time to take advantage of current market conditions and prepare their companies for a transaction*. At Ascend Business Brokers, we advise owners to "run their business like they will own it forever, but be prepared to sell it tomorrow."*

As a seller, there are also numerous options to take cash off the table while retaining partial ownership in the company. The sale to a PEG is an ideal option. This allows the business owner to sell a portion of the company, get cash out of the business, reduce personal risk, yet still be able to help grow and guide the company. The goal of a PEG is to obtain a 200%-400% return on investment within a 3-5 year period. Therefore, any co-ownership with them could be very profitable to the seller down the road (second bite of the apple).

Preparing for Sale

At Ascend Business Brokers, we understand the set of value drivers that buyers find most important when evaluating a prospective acquisition. For a business owner getting ready to sell their company, a key point is **preparation**. In order for a business owner to maximize their value, they need to ensure that their value drivers are as strong as possible.

Value drivers include:

1. Experience and depth of the management team
2. Gross margins and EBITDA margins (high margin companies usually sell for more)
3. Sales trends (year over year growth)
4. Repeat customers and recurring revenue (i.e. long-term contracts)
5. Normalizing EBITDA (as ex-CPA’s we are excellent at this)
6. Balance sheet strength (especially working capital and leverage ratio’s)
7. Product/service differentiation or reputation
8. Minimizing customer concentration (customers comprising 10% or higher of revenue could negatively affect valuations. However, often there are ways to mitigate these issues)
9. Growth opportunities

Another item that could materially affect a valuation and deal structure is the type of tax entity a company has. LLC’s and S-Corp’s permit the seller’s gain to be taxed once at the individual level, while also allowing the buyer to write-off the purchase price over time. This could save the buyer 20% or more of the purchase which increases the value to all parties. A C Corp does not allow for this. In most instances, businesses should try and convert from a C Corp prior to selling. There are many options to accomplish this with different results. Feel free to call and discuss possible plans which you can then work with your CPA's on.

The strength of a company's value drivers, along with recognizing and eliminating deal killers (inadequate/inaccurate accounting records, litigation, significant employee claims, etc.), will directly determine the value of your company.

Ascend Strategic Partners, a Business Broker and Merger & Acquisition advisory firm is based out of California and covers the US Western Region. Ascend has specialized in business sales and value build advisory for privately held companies for over 20 years. Our sweet spot lies with companies whose sales range between $2 million to $100 million. Our ability to understand your business in order to find the right buyer, understanding the psychology of all the players to maximize deal terms negotiations, and our financial sophistication to fully manage you through the due diligence process all existing within the utmost confines of confidentiality, are the cornerstones of our practice.

Mike Friar, the Managing Member of Ascend Business Brokers, has closed over $1 billion in M&A transactions as an investment banker/business broker. He has also sourced over $400 million in debt. Not only has he been involved in over 100 Business Broker type transactions, but has also been a consultant in hundreds of additional M&A and Financial advisory engagements.

Mike brings over 35 years of investment banking/business brokerage, public accounting and strategic business management experience to the Ascend team. In 1990, he launched FHA CPAs, which by 2005 had 50 people and was one of the top 25 accounting firms in the San Francisco Bay Area. Prior to that, he was an audit partner at a regional accounting firm (Harb, Levy & Weiland) and a manager at KPMG.

Mike has extensive experience with middle market companies ($2 million to $500 million in revenue) in a wide variety of industries including; manufacturing, wholesale and distribution, technology, service companies, ecommerce, construction, real estate and franchise businesses. Mike graduated with a B.S. in Accounting and Finance from California State University East Bay in 1979. He obtained his CPA license in 1981 and became a certified valuation specialist in 1998. Mike has his series 63 and 79 licenses.