

# Deciding Whether to Sell Your Business in 3 Steps



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The proverbial blood, sweat and tears. Money, time and heart. You've poured them all into your business, so rarely does the decision about whether and when to sell your business come easily. After all, there are personal financial and emotional elements involved, not to mention the employees relying on your business for their livelihoods.

Experience is the best teacher, meaning in this case that talking to business owners who have been in your shoes can help you come to the best decision—one that supports your best interests, future goals and legacy.

Apex Business Advisors are former business owners, and now we work with others who are ready to sell their businesses and move on to what's next, from embarking on their next business venture to enjoying retirement. What we have learned over the years as business owners and advisors is that the decision to sell your business can be made in three steps.



### Step 1: Identify Your Reason for Selling

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There is a motivation for every decision you make. Motivation drives action. This applies to most everything you do, from the mundane, like what is for dinner to the important, like whether to sell your business.

Doug Hubler, president, Apex Business Advisors, says, "I've heard all kinds of rationale in my years of asking business owners, "Why are you selling your business?" Namely, there are three reasons. Retirement, health issues and simply being ready to move on. Each is legitimate, and can be an attractive opportunity to buyers."

The most common reason owners sell their business is retirement. Retirement rarely raises a red flag in buyers' minds, recognizing it as a natural step in life. A flat period oftentimes precedes the owner's retirement due to lack of inclination and/or energy to grow the business, yet it continues to remain profitable. This could be a good opportunity for a buyer who is looking for a business with growth opportunity.

The next reason is serious health problems on the owner's part, and he or she has no obvious successor. Depending on the situation, there may be a need to expedite the sale, requiring a higher level of flexibility with potential buyers. In this scenario, it's critical for the business to be positioned for sale with little to no reliance on the current owner.

And, last but not least, the owner is just burned out and wishes to move on to whatever is next – be it another business, industry, job opportunity or semi-retirement. Similar to a corporate employee getting burned out in a job, the same can happen with a business owner. The owner can spend some time with a potential buyer as to why they have gotten to that point and a buyer will look for growth opportunities that the current owner doesn't have the desire to pursue. Sometimes the owner wants to alleviate ownership burdens associated with sales or human resources, or would prefer to be an employee.

### What is your motivation?

There is a story behind why you started your business. When it comes time to sell, creating your selling narrative helps narrow down your motivation. More importantly, it can help you stay focused on the "why" of selling your business, which acts as your North Star as you navigate the financial and emotional moments you encounter in the process.

### Why are you selling your business?

1. Retirement
2. Health Issues
3. Owner Burnout



## Step 2: Start a Conversation with a Qualified Business Broker

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One of the wisest business principles is to surround yourself with smart, experienced people and trust them to put their expertise to work for your company's benefit.

Using a business broker to sell your business is a prudent direction to make sure your financial best interests – and your legacy – are put first and foremost. Before placing your business assets in any business broker's hands, you must make certain that the broker is the right one for you.

While the importance of your “comfort level” with a business broker cannot be overestimated, that is a gut feeling you will determine after a meeting. But also, your broker should be a professional in the field.

### **Your business broker should carry specific insurance.**

A business broker should carry errors and omissions insurance. Errors and omissions insurance (E&O) is a type of professional liability insurance that protects companies, their workers and other professionals against claims of inadequate work or negligent actions.

Many brokers don't bother with E&O insurance, and that's a risk to their brokerage business and their clients.

### **Your business brokerage should belong to associations or trade groups.**

It's important for any business to participate in their industry associations. A business brokerage is no different. Education, training, and keeping up on both laws and industry trends are important components of making sure your broker is dedicated to excellence.

Trade associations also provide a framework to follow for professional accountability and ethics. In general, a business broker who is dedicated to these activities will be better at what they do, resulting in a more professional broker representing your business sale.

### **Your broker should offer an exclusive listing agreement.**

To get a business broker dedicated to your transaction, you should expect an exclusive agreement with your broker, so one broker is marketing your business. If many brokers are involved in the sale of your business, you may expand the potential network of buyers, but there is typically less control and more likelihood that word gets out that your specific business is for sale. Typically, brokers operate on a one-year agreement since businesses can take some time to finalize a sales transaction.

“I can highly recommend Apex Business Advisors to anyone selling a business. My Apex advisor worked diligently with me from our first appointment through closing to accurately describe and explain our business to prospective buyers. A great deal of interest was generated even though our country was dealing with the pandemic and an election year. Meetings with prospective buyers were held in person, by phone and through Zoom. My broker and the Apex team were professional, caring and attentive throughout the selling process.”

Andy Brown, Former Apex Client

## Is There Really That Big of a Difference Between Business Brokerages?

There are many different kinds of business brokerages, and differences among them are likely to surface early. A broker's buyer network is an important consideration – the bigger the better since it represents a larger audience to which to market your business.

The number of brokers in the office can magnify your broker's ability to make sure your business is visible. You should also look at the broker's history, education and certification. Plus, were they business owners before becoming a broker? If so, chances are that your broker will better understand your perspective and be better equipped to value your business.

Finally, your business broker should include a network of professionals (legal, banking, accounting) to help both buyer and seller of the business get a deal done without relying on you to find and make those connections.

At the end of the day, you should find a broker you'll be confident will get the best price possible and help put together an exit or succession plan.

Get more answers to the most common questions about selling via a brokerage.

Download our "Frequently Asked Questions about Selling Your Business" Guide.

**DOWNLOAD NOW at [kcapex.com/whitepaper-faqs/](https://kcapex.com/whitepaper-faqs/)**



## Step 3: Determine Whether Right Now is the Right Time to Sell

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You've likely heard about fears of a 2024 soft recession undermining market confidence, and high interest rates affecting deal financing and decreasing buying power. In spite of this, there is currently significant demand from buyers, particularly in the Main Street and lower middle markets. If you are ready to retire or feel it's time to sell your business for any other reason, there may still be ample opportunity to exit your business in the near future with excellent terms.

## Who Is In the Market to Buy My Business?

Advisors have recently noticed increasing interest from both private equity groups and individual buyers, particularly former C-suite individuals looking to build their own businesses. Private equity groups are always open to the right deal that presents a strategic opportunity. Former C-suite individuals tend to have the net worth to manage a deal even in today's tight lending environment, and are motivated by the option for more freedom and control.

Based on recent data, first-time buyers tend to purchase in the Main Street (under \$2M) market, while the likelihood of selling to a strategic buyer or private equity firm increases with deal size. The buyer's geographic proximity to a company is more important for smaller deals, and may not matter to a more strategic buyer.

## Affecting the Market This Year

### The Lending Environment

High interest rates and tightened lending are widespread concerns. Not only is buying power decreased with higher interest rates; those who cannot fund a cash purchase or a significant down payment face tighter lending criteria, especially for larger deals. Some buyers are moving down market for easier financing and the ability to put down more cash at close.

Due to this trend of competition pushing buyers down market, valuations for businesses in the Main Street market have remained steady for the last several quarters. Cash at close has also increased year over year for deals under \$5M.

For businesses in the \$5-50M range, cash at closing decreased year over year and valuations are down slightly, as expected with a rise in interest rates. However, because demand does not seem to be diminishing, the decrease is expected to be small and short lived.

### Time to Close

Average time to sell increased year over year, particularly for businesses over \$5 million. This increase is again attributed primarily to the lending environment.

- The current average time to close for businesses over \$5M is 11 months from engagement of an advisor to close.
- The average for businesses under \$5M ranges from 7 to 8.5 months.
- These numbers are up from 8 months and 6.5 to 8 months respectively in the second quarter of 2022.

### Most Popular Sectors

Construction & Engineering has been a hot sector for several quarters and remains a top sector in Main Street and lower middle market transactions.

Other top sectors include Restaurants in the <\$500k market segment and Manufacturing in the \$2-5M market.

## Is Your Business Prepared?

External economic considerations aside, the current state of your specific industry and business will factor into your value potential. The following questions can help you determine how attractive your business may look right now to a potential buyer:

- Do the business financials represent a true picture of business activity?
- Have revenue trends been positive, steady, or declining?
- Are there growth opportunities in the industry?
- Does the business have operational documentation to pass to a buyer?
- Are there trusted employees in place to transition to a new owner?

Some signs that your business may not be ready to sell include:

- Your business financials need to be cleaned up, which can take some time.
- Business revenue trends have been in a slump, and the rebound hasn't materialized yet.
- You need to find a manager to take on some of your responsibilities, thus enhancing the business value.
- You don't know what you are going to do next and don't have a plan. (If this is the case, return to Step 1 – what is your motivation to sell?)



## So, Is It Time to Sell Your Business?

Current economic conditions and the lending environment create challenges for financing deals. However, demand and business valuations remain strong. If you have identified a solid motivation to sell and determined you're ready to start the process, there is plenty of opportunity for the right business broker to help you get the price you deserve for your business.

Remember, every business offers a unique selling proposition in the market place, so it's critical to determine yours when deciding if the time is right to list your business for sale.

### Next Steps

Whether your heart is set on selling your business, you're just considering your options, or you still have questions, it's a good time to reach out to our experienced staff.

Let's discuss maximizing value and developing your exit strategy soon or down the road. We both have the same goal: to get you the largest return on investment while minimizing your company's time on the market. In one free, no-obligation meeting with an Apex Business Advisor, we'll help you determine if now is the right time to sell your business.

"Letting go for any business owner is tough, but Apex helped us develop a plan and we stuck to it."

Christine Robinson, Former Apex Client



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