Synergy Insights™

SUPPLEMENT

DETERMINING WHEN TO SELL A BUSINESS

Two key factors that impact when to sell a business are the degree of urgency of the owner's desire to sell and the presence (or lack thereof) of conditions that support the owner's ability to maximize price.

In this *Synergy Insights Supplement* we will discuss reasons an owner will want to sell, key factors to consider for the best timing of a sale, and the role of synergy in the timing of a sale.

Synergy Insights Supplement is a companion newsletter to Taylor Companies' business journal, *Synergy Insights*. For more information about *Synergy Insights*, please visit www.tay.com/publications.

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Reasons an Owner Will Want to Sell

There are various reasons that could give rise to the need or desire to sell. The owner may wish to retire but lack a feasible succession plan for the business. For example, the next generation in the family might not want to or be capable of assuming control or the company may not have an adequate replacement in upper management. In both scenarios, an outright sale to an owner capable of running the new entity, with or without the participation from existing management and the family, is the primary means by which the owner can achieve his/her goal of retirement.

Additionally, and irrespective of a business owner's desire to retire, other circumstances may precipitate a need to sell. The business owner may wish to pursue other commercial interests and seek to fund those using the proceeds from the business to be sold. Alternatively, the business may lack the financial wherewithal to comfortably face a hurdle requiring significant investment in the company, perhaps driven by regulatory requirements, technological disruption, increasing customer requirements, or challenges within the competitive landscape.

Any one of the aforementioned factors can contribute to the desire or need to sell a business, but further considerations must be taken into account in order to optimize the timing of a sale.

Key Factors to Consider for the Best Timing of a Sale

The primary factors influencing the best timing of a sale, can be categorized as those that are related to macro trends, which are typically outside the owners control, and those which pertain to the business itself. Factors outside of the owner's control include the prevailing economic climate and the market conditions for the segment in which the business is operating.

The current economic environment may significantly impact the ease with which a Seller can find interested buyers as well as the price that such buyers will be willing to pay. For example, during a more challenging economic climate, a "buyer's market" may exist, during which a Seller may experience greater difficulty in achieving his/her price objectives. Therefore, a Seller may choose not to sell during such times and to wait until the economy has improved, along with the Seller's chances of achieving desired price objectives. Similarly, the cyclicality of the industry segment could have a bearing on a Seller's consideration of timing. It will generally be harder for a Seller to maximize price if the segment is moving towards the trough of the business cycle. Accordingly, selling when the segment is expanding or near its peak will result in more desirable results.

Although individuals have no control over the aforementioned factors, a Seller can proactively position a business to mitigate the downward pressure that macro trends have on price. Given enough lead time, a Seller can build features into the business which typically command premium value. Favorable characteristics include a history of exceptionally strong growth relative to peers, achievable financial projections that outpace the market, differentiated technology-enabled business processes and operations, and a business culture that supports and routinely delivers a high degree of innovation. Such attributes typically take years to develop within a business, so it is not likely that one can suddenly "switch" them on in preparation of a sale. Because selling at a premium value is often attributable to some of these factors, it is important for the business to have built in such favorable conditions well in advance of the decision to sell.

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Role of Synergy in the Timing of a Sale

As has been illustrated by the preceding considerations it is best to sell a business when the following ideal conditions exist:

- The prevailing economic environment is good and supportive of higher valuations
- The business cycle of the industry is in the expansionary stage

- One's business is exhibiting established characteristics that typically support valuations that exceed the norm of one's segment (higher growth, technology enabled operations, or a culture of innovation)

Using a sell-side advisor such as Taylor Companies can help tilt the odds in the owner's favor.

But, what if such an ideal set of circumstances is not the present reality, and yet one really wants or needs to sell? Under such circumstances, is a business owner destined to get a poor price for his/her business? One may well suffer such a fate if the business is sold strictly financially without a particular emphasis on synergy. However, using a sell-side advisor such as Taylor Companies can help tilt the odds in the owner's favor. By specializing in selling to strategic buyers with whom significant synergies can be achieved, Taylor Companies offers a means to proactively optimize the sale process. With Taylor Companies, a business owner can maximize price independent of the aforementioned considerations which strongly impact the stand-alone value of a business being sold, but over which an owner has little to no control.

In a sale process focused on strategic buyers, each buyer has a different magnitude of synergy that can be achieved by acquiring the Seller's business, and this synergy value is an amount on top of the stand-alone value that is largely determined by the factors discussed earlier. During a standard sale process, the Seller is at the mercy of circumstances largely beyond his/her control. Alternatively, substantial influence over price can be exercised through a strategic process in which achievement of synergy is the goal.

A strategic sale conducted when all considerations are optimal will certainly yield the best possible outcome; that is, the highest stand-alone valuation combined with a premium attributable to the synergies of the most strategic buyer. However, if an owner cannot wait for the perfect confluence of conditions, it is possible to take charge of the sale process and maximize valuation potential.

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As demonstrated by Taylor Companies' average 65% divestiture premium, it is clear that even if circumstances are suboptimal, a strategic sale focused on synergy will produce results superior to those of a standard process focused exclusively on a business's stand-alone value and the factors that impact it.

Something to be considered when contemplating a strategic sale, is the presence of strategic buyers for the Seller's business. Strategic buyers do almost always exist, but there can be a question as to how "hungry" the buyers are for assets like the Seller's. If strategic acquisition of similar assets has already been occurring, it is possible that the appetite of the prime strategic buyers will have already been satiated to some degree. Typically, such a determination can be made quite easily through a review of the recent happenings within the Seller's segment. Sometimes, however, the appetite of pertinent buyers is not so obvious and a deeper analysis is required. Because Taylor is an M&A related strategic consultant that is seamlessly integrated with deal execution capabilities, a granular determination of strategic buyer appetites and intentions can be verified so that likely achievement of a strategic sale of the Seller's business can be discretely known before there is any exposure of the deal to the market, and even before the buyer base is aware that the Seller's business is being considered for sale. It is because of this broad range of capabilities that Taylor is often referred to as a strategic consulting firm and investment bank all under one roof, providing the integrated services that are typically only available from distinctly different firms in the market.

WE WELCOME READER FEEDBACK

We are interested in your feedback and examples of synergy applied in acquisitions and divestitures with which you may have been involved. To share examples, or if you have questions, comments, or are interested in seeing a specific subject discussed, please contact us at SynergyInsights@tay.com, attn: Warren Bellis.

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