THE VELD GROUP VELD MERGERS & ACQUISITIONS

Being Aware of the M&A Market Important to Successful Business Sale

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

It is important to take into account personal motives and objective conditions when you are trying to determine the best time to sell your business. For owners who toil long and hard to overcome the endless challenges that test the survival and success of their businesses, the thought of someday selling out for a lot of money seems, at best, a pipe dream. A typical business owner in this situation may think, “Who would want to buy my business?”

Yet, as many owners are discovering, the Merger and Acquisition (M&A) marketplace can be receptive to acquiring closely held businesses – maybe even businesses like yours. In some niches, even smaller businesses are able to sell to much larger cash buyers. But the market can be fickle. A number of factors can fuel or damper the Merger and Acquisition mania. These can include:

- ***Fluctuating interest rates.*** Low, stable interest rates can provide buyers with inexpensive funds to buy your business. Climbing interest rates can increase acquisition costs and dampen buyer enthusiasm.
- ***Availability and pricing of financing.*** The availability and cost of financing can directly impact deal activity. When financing is readily available to buyers at attractive rates, deal activity can become frenzied because buyers can leverage their equity investment. For example, instead of requiring one dollar of their cash for every $2 of financing (in 2001 timeframe), in 2005, they could borrow almost $4 for every $1 of their own. This means they could pay more for businesses and this is the point in the M&A cycle when it may be favorable for owners to be poised to sell their businesses.
- ***The current state of the economy.*** A healthy economy tends to encourage investor confidence and a greater willingness to put money in otherwise illiquid businesses. A stagnant or contracting economy can depress valuation, thereby creating favorable conditions for a buyer’s market.
- ***Corporate earnings overall and in your industry.*** Strong earnings can provide cash and the tendency for future cash availability; weak earnings tend to portend the opposite.
- ***Stock market value.*** To keep corporate earnings ever-increasing, it can make sense for publicly owned companies to acquire closely held companies whose price/earning ratios are lower than the acquiring company.
- ***M&A currency.*** When publicly owned stock is trading at high earnings multiples, it can make sense for those companies to use their stock for acquisitions. As the stock market contracts in value, it can

be a reasonable expectation for a chilling effect on the M&A marketplace.

- ***Supply and Demand.*** According to a 2005 PricewaterhouseCoopers' survey of 364 CEOs of privately held, fast-growing companies, "nearly two-thirds . . . plan to move on within a decade or less; 42 percent within five years, and 23 percent in five to ten years." ("Wide Majority of Fast-Growth CEOs Likely to Move On Within Ten Years, PwC Finds." January 31, 2005.) If these owners, and others like them, follow through on these plans, there could be a glut of companies on the market, resulting in lower valuations and a buyer's market.

It is important for owners to be constantly aware of the condition of the M&A market. If it is healthy, owners may have the opportunity to adjust their personal timetables to take advantage of it. When the M&A market is favorable (a lot of buyers offering high multiples), you need to recognize that adjusting your "ideal" departure date can be a whole lot easier than adjusting your financial needs. Conversely, when markets shut down, your personal goals may need to likewise adjust.

Whether you find yourself leaning toward selling your business now or in the future, today is a good time to call our office to begin creating a plan for preparing your business for your eventual exit. We can help guide you through the process of reviewing all of the factors associated with exiting your business and creating a comprehensive Exit Plan that addresses all of your personal and business objectives.

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial professional. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial professional. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.

This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.

Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.