

Why Selling Your Company MIGHT ACTUALLY MAKE SENSE



By Andrew Silver

Many business owners are like gamblers. When their company is doing well, they're winning, and the cash is piling up. They can't imagine walking away and forgoing all the potential profit. But a wise gambler knows it's impossible to beat the house over a long period of time and cashes in while he or she is ahead.

Like a wise gambler, business owners should realize that cashing in today, while business is booming, is a great way to beat the odds and come out on top—even if they think they could win more by staying in the game. As that famous Kenny Rogers song reminds us, “You got to know when to hold 'em, know when to fold 'em, know when to walk away and know when to run.”

Almost all successful business owners believe that their company's future looks bright. After all, sales and profits are up and will certainly continue to grow. Therefore, the value of the company should continue to increase as well, right? So, they ask, “Why should I sell my company today when it's going to be worth more tomorrow?”

The simple answer is: Stuff happens. Bad stuff. Key employees leave. Customers defect. Competition intensifies. Owners age, get sick, or become fatigued. As it turns out, predicting the future of even the most successful businesses through the lens of today's performance is not foolproof.

In early 2007, a business owner came to us to discuss selling his company. The company was doing very well and was poised for even more growth. Based upon potential future growth, he decided to delay the sale. Then the Great Recession hit, and the company's value declined by approximately 30 percent. Recently, he called to say that he is now ready to sell his company because it had finally returned to its 2007 performance levels. No one can control the economy, any more than he or she can control the cards being dealt at a blackjack table.

Even if you believe your company will be worth more tomorrow than today, and even if you trust your ability to sustain steady growth amid market changes, you should still consider the time value of money. For example, would you rather have \$99 today or \$100 one year from now? Most people would take the money today. How about \$50 today versus \$100 in one year? Most will wait for the \$100. This example illustrates the time value of money.

The value of a dollar invested in a business today is determined by the risk involved in the business compared to other types of investments. For example, a low-risk business-services company with a solid customer base, a high level of repeat business, very fragmented competition, and low capital requirements faces less risk of loss. The owner can be fairly confident in his or her financial projections and won't take the \$50 being offered today. That owner will wait for the \$100 because the business is very stable, with minimal risk.

A biotech entrepreneur developing a new drug faces an entirely different scenario. The new drug could be a financial home run, but the company could just as easily strike out if the drug doesn't prove effective. Only after thorough testing, FDA approval, and the investment of large amounts of capital will the owner know if the business is a winner. The owner may be willing to take the \$50 today, as opposed to rolling the dice for a shot at \$100 in the future.

Unknown risks may also be lurking around the corner—risks that cannot be predicted or controlled. New competitors can move in; new, expensive technology can replace proven methods; and finally, the owner's health can deteriorate. If you knew you could sell all or part of your company today and deposit some number of millions of dollars into your financial portfolio, would you do it—even if you knew the value of the company could rise in the future?

Selling all or part of the company enables the owner to take some chips off the table while the company is still performing well. It also provides two distinct benefits: it ensures the owner's personal financial future, and it taps into any future success as the company grows. Even if the owner's health declines or the company's performance dips, the funds invested from the sale will still be available.

Selling for less today may be your first step to a more stable financial future tomorrow. Don't gamble with your financial future. You can sell and still stay in the game. **N**

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