

# When is the Right Time to Sell Your Business? There's More to Consider Than the Economy



After devoting your blood, sweat, and tears (and a lot of your own money) to building a business, there comes a point when you consider whether it's the right time to sell. Often, founders assume the answer should depend on the market cycle. During a hot M&A environment like we experienced in 2021, you're likely to assume it's a great time to race for the exits and attract a sky-high offer. During an uncertain market, like we're facing now, you're more likely to conclude it's best to retreat.

In reality, the economy is only one factor to consider when deciding whether to sell your business. Taking a holistic approach to this complex and deeply personal decision is the best way to ensure you sell at the right time, for the right reasons, at the right price.

## Look Inward First

Few founders wake up one day and decide, "I'm ready to sell my company." It's typically a slow progression, influenced by a combination of factors.

With so much news swirling around about the challenging economic climate, it's understandable that the economy might be your primary focus if you're contemplating whether now is a good time to sell. After all, M&A activity clearly has cooled off due to rising interest rates (which make money more expensive) and the risk of recession (which makes future company performance less certain).

However, the decision to sell a business is personal and subjective, so it should never be driven solely by economic factors. While you should always approach the decision rationally, not emotionally, the state of the market isn't the only rational consideration.

Arguably, one of the most important factors is whether exiting now would align with your personal goals –whether you plan to retire by a certain age, sell the business when it reaches a certain size so you can invest in another venture, or do something else entirely. If you can obtain an offer that allows you to achieve your personal objectives on a timeline that suits you, then selling may be a good idea regardless of the state of the economy.

Your business's lifecycle stage also might influence your decision to sell. Reaching your first \$1 million in revenue is widely recognized as a key milestone, and one that takes significant work. Yet, each successive milestone is increasingly more difficult and more complicated to achieve. It's wise to think about whether you're prepared to scale the company to the next big plateau or whether your motivation is beginning to taper off.

The latter shouldn't be confused with burnout, though. Capitulating to fatigue never results in a strong outcome because it sets the stage for opportunistic buyers to offer a fire-sale price. And few professionals with the drive, motivation, and courage to start a business decide to sell just because the going gets tough. Most founders approach their ventures with eyes wide open, prepared to keep driving forward through the inevitable low points. It's more about whether you still have the desire to propel the business to the next milestone that will impact your valuation and ultimately the sale offer. If the business has already achieved a milestone that you envisioned as a good exit point, that's a factor worth considering.

## But What About the Economy?

Of course, we would have our heads in the sand if we didn't consider how the current market will impact business owners who choose to move ahead with a competitive sale process.

Although 2022 has proven a stronger-than-usual year for M&A, with a lot of capital still waiting to be put to work, the risk of recession is weighing on investors and buyers. Recessionary pressures make it more difficult to forecast, with certainty, how a business will perform 12 months from now. And if there is one thing investors and buyers like, it's certainty.

As a result, some investors are waiting on the sidelines to see how macroeconomic forces evolve and their impact on key metrics like revenue growth and gross margins. That said, private equity groups and corporate balance sheets remain flush with cash that needs to be deployed, so simply waiting out a difficult market isn't an option for some buyers.

For that reason, strong companies will attract competitive buyers and trade at a good price even in a tough market. One key difference a seller will see in less frothy times is a flight to quality: the tendency for buyers to become more selective in the target companies they pursue and set a higher bar for revenue and earnings quality. But even flight to quality has a positive side, since it's easier for a good business to stand out when buyers are chasing fewer companies.

## Why Now Might Be a Good Time to Diversify

Many founders find the bulk of their net worth is eventually tied up in the business. When you unlock all that value by selling the company, you're trading one asset for another, allowing you to diversify your portfolio. But you need to do something with the cash you now have in hand. Unless you plan to plow it into a new venture, it's likely you'll invest it in other assets like equities. And if you sell to a strategic acquirer, you might receive stock as part of the total offer.

Selling at an atypically high valuation in a hot market will yield more capital for you to deploy—but it also means you'll pay a premium for the equities or other assets you invest that capital in. Conversely, attaining a strong-but-realistic valuation in a softer market enables you to invest your payout in assets that are more attractively priced. Viewed through that lens, selling a business now can help you diversify your net worth at a time when you can trade the value of the business for assets that are selling at lower prices, with significant potential for appreciation. Just be sure not to attempt to time the capital markets or the stock market since that is just not possible to do with any accuracy.

Although no two situations are identical, it's safe to say that the one time it isn't prudent to sell your business is when you're approaching the process as exploratory. Unless you have complete conviction, you'll become distracted from your core responsibility of running the company without adding greater value. The further the exploratory process goes, the more invested you'll become and the more likely you'll agree to a suboptimal deal simply because you've already started envisioning life post-sale. If you're curious about what your business might sell for, and that curiosity is the main driver of your decision, then it's not the right time to sell.

# Why a Trusted Advisor is Essential

Selling your business is a complex, personal decision that should consider internal factors like your goal. It's never as simple as "sell in a hot market and hold in a soft market." By consulting with your trusted advisors, you'll be in a better position to make the right decision based on what you want to accomplish—and less likely to forge ahead with a sale you'll regret later.

That's why founders of quality companies partner with the experienced investment bankers at ScaleView. We help them determine the best time to sell, develop compelling messaging that resonates with the ideal buyer, and follow a methodical, strategic process that keeps all buyers moving in parallel, at the same pace, to yield the best outcome.

If you're thinking about selling your business, [schedule a call](#) with ScaleView Partners to learn how our approach yields strong outcomes.



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