Market Conditions Matter

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An important consideration when deciding to sell a company is the market environment and its impact on potential buyers. Because the playing field has changed dramatically over the last several decades, the market factors that matter have proliferated. The importance of financial buyers in virtually every sale process has expanded those considerations to those that uniquely impact leveraged transactions. Strategic buyers, on the other hand, will be impacted by both industry-specific factors, including regulatory, as well as overall economic conditions.

How should a business owner evaluate timing when deciding to sell a business? While there is no right answer, a disciplined thought process will help the owner evaluate the risks and rewards of moving forward. Begin with the obvious: consider your company's latest twelve months' performance and its near-term prospects. While those are not strictly part of the market environment, they are the most critical factors affecting a successful sale.

If that evaluation yields a green light, the owner should next consider the universe of buyers and their interest and ability to participate in a sale process. While different factors can affect different buyers, some will affect everyone. Start with overall economic conditions: Is the economy growing, and by how much? While every company has specific factors impacting its growth prospects, the overall economy matters. Buyers can be impacted by fear of recession or booming economic growth. Their appetite for risk can change dramatically, even though those conditions may change within twelve months. As a result, sellers should weigh economic conditions as an important factor in their decision.

Interest rates are a related consideration. The cost of debt capital is important not only in financing the initial transaction but also in making future investments necessary to grow a business. Buyers will do capital budgeting with a cost of capital that includes the costs of both debt and equity. Obviously, higher cost debt changes the calculus and affects conclusions, at a minimum, about valuation. Interest rates are also an essential consideration for sellers. On the one hand, if they do not sell, they may incur borrowing costs to run and grow their company. On the other, their investment return on sale proceeds should be higher if interest rates are high or rising. The trade-off should be considered when evaluating a sale.

Other economic considerations, such as the conditions in the labor market, the inflation rate, commodity prices, supply chain efficiency, and financial markets may impact timing. Each of these may have a different relative weighting depending on the nature of the seller's business. They also will likely impact the attitude of potential buyers. Generally, difficult market conditions can affect each buyer's evaluation of risk and reward, potentially manifesting in fewer buyers and a lower market clearing price.

Another category of market factors worth consideration relate to government policy, more specifically, potential changes in government policy. These factors create uncertainty, which always impacts the audience for a company sale. Consequently, as they consider their plans, sellers should consider the timing and potential outcome of elections and the possible impact on taxation, regulation, immigration, and international trade, among others. Depending on the type of your business, changes in government policy may have a large, small, or no impact. Generally, government policy changes slowly and therefore these factors tend to be less impactful. Nevertheless, sellers should weigh them into their evaluation of timing.

Overall, market conditions are likely to play a secondary role in determining the timing of a business sale. Typically the overriding considerations are strategic, whether the sale is corporate or personal. Individuals and families generally sell when it makes sense for them based on factors affecting their lives. Those often will and should override other considerations in making decisions to sell.