

## **Selling a business now may make economic sense**

By Don Wiggins  
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Values for public and private companies are frequently expressed as a multiple of earnings, cash flow, or some other performance measure, and there is no question that over the past year or so, multiples for companies being sold have gone down. A resulting phenomenon has been one similar to the housing downturn psychology we have endured over the past three or four years.

When housing prices headed south, many homeowners refused to sell, or at least strongly resisted selling, their houses for less than the values they perceived they were worth the year before. The result was that many houses were overpriced and sat on the market for months before the owners either conceded to reality by marking the prices down, or simply took their homes off the market.

A similar mindset is occurring in many situations in which there is a business for sale. Owners may want to sell, but who are not being forced to sell because of health, personal or other forces, are resisting selling at lower multiples than their cohorts sold for in the relatively recent past.

But is that rational? If we look back three or four years from now and prices have gone up, it may be.

However; it may also prove to be a bad decision. It's extremely difficult, at best, to accurately forecast where prices for publicly traded or privately held companies will be at any point in the future. And they may go down even further. Many people forecast, but the key word is "accurately."

It may be totally rational to sell now, even if prices are down. Earnings multiples that companies sell for in the market at any specific point in time vary widely depending on macro factors such as trends in the current economic environment, technology changes, population growth and geographic location. Individual company characteristics, such as product lines, management and employee quality and company reputation may have major impacts on the value of the company.

Regardless of the specifics of the company, macroeconomic turmoil such as we're going through right now will have a major negative impact on the vast majority of companies. A few may buck the trend, but not many.

Let's say you own a company that has fallen in value in the past year from nine times earnings to six times earnings. That's a 33 percent drop. If you have an offer to sell at six times, should you take it? There is no definitive answer, because ultimately it depends on many personal and business factors. But what you can say is that, if you sell, you may not be any worse off, and in fact, you may be better off than if you had sold a year or two ago at a nine times multiple. Here's why:

Over the past two years or so, the prices of many major items that affect our lives have dropped precipitously. Although these numbers vary a little day to day, here are a few examples:

**Housing:** Top 20 U.S. markets, down about 32 percent from the peak; Florida, down more than 20 percent from the peak; Miami, down about 47 percent from the peak; Tampa, down about 41 percent from the peak.

**Crude oil:** down more than 55 percent from the peak.

**Gas at the pump:** down about 40 percent from the peak.

**Commodities:** corn, down about 45 percent from recent highs; steel down more than 50 percent from recent highs; broad index, down almost 50 percent from recent highs.

**Mortgage rates, 30-year fixed:** currently at 40-year lows of less than 5 percent annual rate.

**Stock prices:** down about 40 percent from the October 2007 high.

Sellers may not be able to get the same prices for their businesses that they could two or three years ago. However; the prices of many of the major items that they will invest in or consume with that money have fallen at least as much as the prices of their businesses.

Food, energy, consumer goods and housing prices have fallen and are either stable or declining even more. Investments such as real estate and stocks have fallen significantly as well. On a relative basis, business owners may be no worse off and, in fact, may be better off if they sell now in a broadly depressed market.

If an owner wants to sell or has to sell for personal, health or other reasons but waits until the value of the business recovers, he or she could be making a major mistake.

First, the value of the business may not recover for a long time, if ever. If the reason for selling is, say, health-related, it may be too late entirely.

Secondly, if the value of the business recovers, the value of all of the items shown above will surely rise as well, wiping out most or all of the advantage of waiting.

*Don Wiggins is president of Heritage Capital Group Inc. and Business Valuation Inc., both based in Jacksonville, and a professor emeritus of accounting and finance at the University of North Florida.*

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Don Wiggins, D.B.A, ASA, CVA, CPA/ABV

<http://businessvaluationinc.com>

<http://www.heritagecapitalgroup.com>

904/354-9600

[dwwiggins@heritagecapitalgroup.com](mailto:dwwiggins@heritagecapitalgroup.com)

Don Wiggins is president of both [Business Valuation, Inc.](#), a firm specializing in business valuations, and [Heritage Capital Group, Inc.](#), a boutique investment banking firm focusing on middle market companies. Headquartered in Jacksonville, Florida, Wiggins has over 30 years of

experience advising clients on a wide range of mergers and acquisitions and finance transactions, including M&A, sales and divestitures, capital placement, value enhancement, exist planning and related business owner transitions. He has advised international and domestic companies and successfully led transactions in numerous sectors, including business services, healthcare, distribution and logistics and manufacturing.

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