SELL Too Early

By Lance R. Tullius

You heard that right. When valuing your business, it's important to separate emotion from prudence, and that balancing act can make or break your ability to gain and preserve wealth.

I once heard a quote that has stuck with me, perhaps more than any other relative to my line of work as a mergers and acquisitions advisor. First some context:

I was in a closing involving the sale of a client's business. The client, by all accounts, was a very successful business person that had started, built and sold numerous businesses. I hadn't been involved in any of his previous transactions; this was my first opportunity to have represented and advised him. I could tell that he had done quite well and was independently wealthy. He was not showy or lavish — anything but, in fact — but was very sensible and extremely fundamental, and perhaps for that reason more than any other, I found it fascinating to be in his company. I could tell that other people enjoyed being around him as well.

During the closing, as various documents were circulating, and there were those inevitable moments of down time, one of the lawyers asked my client a question, of which the answer so perfectly addressed one of the major challenges in my line of work. The lawyer asked: "If you had to point to one thing that has led to your success in business, what would that be?" The man answered: "I've always sold my businesses too early."

How prophetic, I thought. And by the raised eyebrows in the room, others felt the same way. Bearing an emotionless look, you could tell he was dead serious. He then expanded his thought, adding that in hindsight, he had most always sold businesses he owned before they reached their peak in market value. However, it wasn't until he had sold a few of his businesses that this became a calculated strategy of his. You see, he realized in time that he always generated excellent returns on his investments. In fact, he had never lost.

The man would follow a business after he sold it, as well as the industry it was in, so he knew in hindsight if whether he had held the business longer, he could have sold it for even more money. But he was also keenly aware, unusually so I'd say, that business and markets can change on a dime; that they're inherently risky, and that there is a direct correlation between risk and reward. So, he explained, he got scientific about it: by selling early, he hypothesized, he made a stellar return with substantially less risk. Alternatively, with respect to each of the businesses he had sold, had he held them until their approximate peak in value, he estimated he likely would have fetched another 10 or 15 percent. But, that's assuming he would have guessed correctly the timing at which the business was at its peak value, which can only be known with the benefit of hindsight.

In holding the business longer, there's an inherent risk he would have born. Removing that added risk, he reasoned, was worth something. And finally, and I think most profoundly, he took into account what the impact might be if he held onto a business too long and sold too late. That possibility, to him at least, was far more painful, than the likelihood that he might have left some money on the table.

COUNTER-INTUITIVE. Business owners ask me all the time: "When is the right time to sell?" By now, as you can perhaps infer, my answer these days is this: "Too early."

It's a fabulous answer. But if that's the case, why do most business owners sell too late? Most business owners sell either in a down market or when their health or age dictates retirement. Why? Because as human beings, that's our natural instinct. We flee from things when pending doom is on the horizon, and we gravitate to things when the future looks bright — this is the "buy high, sell low" phenomenon. It's what everybody does — buy when everybody else is buying, and sell when everyone else is selling. Yet, history has proven, indisputably, that people who do the opposite accumulate the majority of the wealth. I can assure you that the recession we're just coming out of, for instance, created a new flock of multi-millionaires despite the toll it took on the masses. In 2008 and 2009, we saw the mass exodus from stocks and real estate; everyone was selling. And those that were buyers then, while everyone else was selling, made out in a big way. These are extreme examples, of course, but similar circumstances occur all the time on a much smaller level.

ANOTHER SUBHEAD. So how can you apply this sound judgment in today's market? Well, let's take a quick look at what's happening in this current market. First, the market is loaded with liquidity, with corporations and investors lined with record amounts of cash. These folks have limited options for where to deploy this cash. Banks are paying barely any interest, and while companies are hiring, I wouldn't say they're doing so at robust levels. Organic business growth remains hard to come by, thus somewhat stifling capital expenditures. Acquisitions, on the other hand, provide a perceived sound means for deploying capital and generating good-to-excellent long term returns.

To this end, many large companies and institutional and private investment firms have set aside significant budgets strictly for prospective acquisitions and are doing little short of mandating that this money be spent. On the other hand, while demographic trends continue to yield enough sellers to make for a decent M&A environment, there's not exactly an abundance of such. I suspect there will be in time, however. As we see more sellers populating the landscape, you can be sure that the scales will tilt back to a level that at best favors neither sellers nor buyers. In the meantime, we remain in the midst of a seller-friendly market.

Selling in this market represents selling early, which means winning! Mind you, that's not to say you might not be able to sell your business for more at some point in the future. You may. But believe me, I've seen way too many business owners sell their businesses too late, trying to catch that elusive peak and capture every potential dollar, only to end up on the wrong side of that peak with downhill momentum working against them. As they say: pigs get fat, hogs get slaughtered.

So if you're that business owner considering selling your business, and find yourself wondering if it's the right time, think about it this way: You can't do anything about the past. If you sell now, you're more than likely not selling too late. That leaves two scenarios: you're selling too early or at just the right time. In either case, you win! **PCT**

Lance R. Tullius is managing partner of Tullius Partners, an investment banking firm that specializes in providing merger and acquisition and financial/strategic advisory services to companies operating in the pest control industry.

PCT to Host Mergers & Acquisitions Conference 2.0

Are you thinking about selling your business? Buying a business? Both are complicated processes best approached while armed with as much knowledge as possible — and PCT is here to help (again!)

On Aug. 14, PCT will be hosting its second Mergers & Acquisitions Virtual Conference. From the comfort of your office, you can spend the day listening to the advice of top experts in the M&A market: Paul Giannamore, director of mergers and acquisitions for The Potomac Company; Lance Tullius, managing partner at Tullius Partners; Tamera Dosenbach, business intermediary and consultant for A+ Business Brokers; Dan Gordon, owner and president of PCO Bookkeepers; John Corrigan, attorney, Corrigan & Baker; Rand Hollon, licensed broker with Preferred Business Brokers; and former NPMA President Norm Cooper, president of Norman Cooper & Associates.

So if you're at all thinking about dipping your toes into the M&A market, this is a can't-miss event. Registration is $99 per person, and will get you a full-day pass to attend any or all of the educational sessions. Visit www.pctonline.com/virtualevent to learn more and to register, or call PCT's conferences division at 800/456-0707.

(Editor's note: There are still sponsorship opportunities available. If you are interested contact PCT National Sales Manager Michael Kelly at 757/233-4100 or Western Region Sales Manager Mike Zaverl at 330/523-5380).

SCHEDULE:

8:45 a.m. - 9:00 a.m. (EST)
Welcome to the PCT Mergers & Acquisitions Virtual Conference & Trade Show
Moderator: Dan Moreland, Publisher, PCT Media Group

9:00 a.m. -10:00 a.m. (EST)
The Successful Exit: Planning a Sale or Internal Transfer of Ownership
Paul Giannamore, Director of Mergers and Acquisitions, The Potomac Company

10:00 a.m. - 11:00 a.m.
What is Your Company Worth? A PMP's Guide to Valuing a Pest Control Business
Lance Tullius, Managing Partner, Tullius Partners

11:00 a.m. - 12:00 p.m. (EST)
M&A Survival Guide: Mistakes to Avoid When Selling Your Business
Tamera Dosenbach, Business Intermediary/Consultant, A+ Business Brokers

Noon - 1:00 p.m. (EST)
Lunch Break

1:00 p.m. - 2:00 p.m. (EST)
Due Dilliegence – Conquering Financial and Legal Obstacles
Presenters: Dan Gordon, owner and president, PCO Bookkeepers, and John Corrigan, attorney, Corrigan & Baker, LLC

2:00 p.m. - 3:00 p.m. (EST)
Successful Integration Strategies Following an Acquisition
Rand Hollon, Licensed Broker, Preferred Business Brokers

3:00 p.m. - 4:00 p.m. (EST)
Life After the Sale: When Golf Isn't Enough
Norm Cooper, President, Norman Cooper & Associates

4:00 p.m. - 5:00 p.m. (EST)
A Word from Our Sponsors: How They View the M&A Market