Achieving deal success in a seller's market

Top five considerations for private company deal-making

With interest rates low, valuations on the rise and higher multiples across a number of industries, it's not surprising that many owners and owner managers of private companies in Canada are asking themselves how long will this cycle last, and if now might be the right time to sell their business.

There's no easy answer. Before making the decision to sell, private companies need to consider the deals environment and examine key factors that might affect the sale of their business. To help with this, we've identified five key considerations for owners and owner managers thinking about selling their business.

1 It's a seller's market

When it comes to deal-making, it's definitely a seller's market. Valuations are up considerably from where they've been in recent years – in many cases since before pre-crisis levels. And it's not one industry dominating; high deal flow has led to strong upward price pressures, making conditions favourable for deal-making across a broad base of industries (but there are exceptions, like in the extractive sector, where companies are trading at lower multiples today). Low interest rates and low lending costs are only helping to drive value up. There's a lot of money in the market right now, and a lot of buyers looking to M&A as a means to drive growth.

For mid-market private companies, there's never been a better time to sell. But to get the value you think you deserve, you must make sure your company is well-positioned for sale.

2 Sell now–or wait for later?

In recent years, many owners and owner managers of private companies may have delayed the sale of their business in anticipation of a market rebound. Now that the deals environment has shifted in their favour, however, not all are ready or even considering a sale. In fact, the wave of private company sales projected as a result of aging baby boomers has not materialized to the level expected, for reasons that include greater health and life expectancy, and lifestyle. In addition, another recent change has been the rise of alternative business structures–models through which some owners have been able to take step back from the operations of the business while retaining all or partial ownership.

With more options outside of an outright sale available, the question for many potential sellers is whether valuations will remain high, or even go higher. Given the state of the economy and the deals market, should owners try and sell their business now–or wait until they are ready to fully exit their business? The answer may be different depending on the nature and location of the company, among other factors.

If you're thinking about selling within the next five years, consider engaging an advisor who can help you evaluate when the best time to sell would be. Asking the right questions early can help keep you from leaving money on the table.

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Higher valuations, higher scrutiny

When it comes to selling a business, higher valuations often mean higher levels of buyer scrutiny. That's because the higher the cost, the more challenging it can be for a buyer to achieve their desired outcomes. With increased valuations comes increased leverage, meaning that buyers may have to pay a financing premium—and that contributes to increased risk for them. Owners and owner managers looking to sell their business must evaluate the transaction from the buyer's perspective and be prepared for increased due diligence – including some potential buyers doing a deeper dive in evaluating post-deal cost savings. This means presenting consistent information, projections and forecasts, supported by realistic assumptions and robust models.

Inconsistent information can erode projected deal value very quickly. Before putting your private business up for sale, work with an advisor to make sure all your financial and operational information is in order and that any forecasting models and their associated assumptions are well supported. By ensuring consistent information at the get-go, you will be far better prepared to get the value your business deserves.

Exchange rate matters

For private companies that have a material reliance on customers in the United States, paying attention to exchange rate trends is critical. Currently, the low exchange rate is driving healthy interest on the part of sellers who have grown their earnings simply as a result of the falling Canadian dollar – in some cases by as much as 50%. For companies operating in low-margin or highly challenged industries (e.g. auto parts, food processing), the exchange rate is giving them a sales advantage many haven't seen in a decade.

With the positive deals outlook and the low Canadian dollar, now could be an optimal time for owners and owner managers of private companies focused on exporting goods and services to the US to consider the sale of their business.

5. Getting the deal done right

Among companies who are facing aggressive growth objectives, there's a common belief that operations have been optimized and that companies have done almost all they can to create efficiencies and encourage organic growth (e.g. introduce new products, enter new markets). Because of this, many companies now see M&A as a lower risk growth option. At the same time, buyers are not going to close a high-value deal without confidence that they will be able to achieve their desired objectives.

That's why, when it comes to the successful sale of a private company, a carefully planned transaction execution is critical. Owners and owner managers need to develop their exit strategy early on, including plans to quickly and thoroughly transition activities and systems to the buyer, as any delays while moving from signing to close can quickly erode the value of the transaction.

To achieve deal success in a seller's market, owners and owner managers of private companies must still plan for every stage of the transaction – from ensuring the business is well positioned to sell, to developing an executable plan to transition the business post deal.

Making a difference to you and your business

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