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VALUED REPRESENTATION

WHY SELL YOUR BUSINESS AFTER YOUR BEST YEAR EVER

By JoAnn Lombardi, President VR Business Sales / Mergers & Acquisitions



WHEN CONSIDERING WHEN TO SELL A PRIVATELY HELD SMALL BUSINESS, CONSIDER THE FOLLOWING:

It takes a long time to recover from a bad year following the best year ever means the stakes are high to raise the bar for next year. Following your best year ever with even a “normal” year is a downward trend. A common “look back” period is three years. In our recasting exercises with owners, we put 60-70% of the weight on the cash flow of the most recent year. Buyers are extremely suspect of firms that are trending downwards; it’s considered a risk and risk is always expressed in a lower multiple of earnings/revenue or less favorable terms such as an earn-out or seller financing. Furthermore, banks are very conservative and have similar concerns about down years. Limited financing options send a signal that a business isn’t “worth it” and further weaken the owner’s position for getting an aggressive purchase price.

LAST YEAR COULD HAVE BEEN YOUR BEST YEAR EVER DUE TO FACTORS YOU CAN’T CONTROL

Even if you just had your best year ever and you’ve executed a long-term strategy to take your business to the next level in the years to come, you can’t control all factors, such as changes in technology (have you seen any movie rental stores lately?) or macro-economic factors. You could have your margins eroded by tariffs if you’re relying on overseas products due to a political fight in the White House... Business ownership is all about predicting and protecting, but some threats are unavoidable and unforeseeable.

MOTIVATING FACTORS TEND TO GET STRONGER

When an owner comes to my office there is a mitigating factor that drove them to book an appointment and carve out the time to learn their options. The ones with the most options start early, and the ones with the most motivating reasons for sale may not have been planned far enough. But for the vast majority of those with a need to sell, that reason doesn’t go away.

Whether it’s family pressure, illness, burnout, or the death of a critical business owner, those reasons for sale tend to get worse, not better. Sooner or later, the “pain” that drives them to consider selling the business outweighs the desire to get more money for the business. Imagining that business will keep getting better as life’s demands also get more distracting is an illogical frame of mind.

IT MIGHT BE TIME TO PLAY WITH THE HOUSE’S MONEY

Some owners come to us in a great position; they just had their best year ever, but they are also aware that to bring on more people, to take on more products and services, to take the business to the next level... is more than they are capable of or willing to do. This self-awareness is an asset, because taking some money off the table when an owner has taken the business to the peak of their capacity, and handing the reins over to another with a different set of skills and resources may just be the best option. Starting something new with lessons learned, an open calendar and a pocket full of cash is a great position to be in.



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AFTER YOUR BEST YEAR EVER

There's nothing wrong with getting out while the getting is good. And there is no guarantee that the good times will last. A unique skill set is recognizing where you are in the journey. And if you feel like you may be at the apex of your business, now might be the best time to sell. It never hurts to find out what it's worth...