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It's All About Timing!

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Many years ago, I was asked to express an opinion of value on a decades old business. Revenue was $3,000,000. EBITDA was $100,000. Employed 28, located in a facility that was decorated 20 years out of date. Sales had been declining from year to year and the prospects for the future did not look bright. I hazarded a range of $500 to $600,000. At that point, the prospective client, who had just turned 69, jumped up from behind his desk and exploded "You're crazy, I turned down $5,000,000 for this business."

With that he reached down into his desk, and pulled a file folder from a drawer and threw it at me. The bulldog clip holding it together slipped off and the contents flew all over the room. He then sat down and with his head in his hands, began to sob!

I was speechless, spellbound and didn't know what to do. My first inclination was to get out of there as quickly as possible, but I sensed the danger had passed as I looked upon the man with his head in his hands, sobbing uncontrollably. So I slowly started to gather the papers that were strewn all over his office and began to re-collate them. The documents were indeed an offer for $5,000,000. But it was dated 5 years earlier. Attached to the offer was a copy of the financial statements of the day, but they told a completely different story than the ones I had just looked at.

Revenue back then was over $5,000,000. The EBITDA was $1,200,000 and the staff compliment was over 50 employees. No doubt that back then the business was worth significantly more than today.

As he regained his composure, I gently engaged him in some light conversation. I pointed out that the business five years ago when he received the offer was much different than today and inquired as to what, from his perspective, had changed. He responded that many key employees had left and some had started up competitive businesses and taken some of his customers, which was a partial answer to the drop in sales and the lower employee count. He went on to say that the type of work they were doing also had changed and he had not invested in some rather expensive capital expenditures to acquire equipment to remain current, also resulting in some lost business.

Discussions continued for a couple of hours during which time he also admitted that he wasn't as 'up to snuff' as he used to be. He became tired after 7 or 8 hours whereas he used to work 12 or 14 hours without even thinking about it. He admitted that he was losing his touch.

I asked why he didn't accept the $5,000,000 offer and his answer was 'I was hoping my son would take over the business and continue to operate it'. But further discussions revealed the son didn't really have the skills needed to operate it and had declined. He also didn't like working with his dad when he was employed by the business. His father had not utilized a professional in assessing whether or not his son could, would or should take over.

The above story is true and often repeated in some form by many other business owners. They remember how fast they could run as a boy, as they hobble down the street with their trusty cane. They think they will live their youthful life forever, and don't realize they are slowly succumbing to dementia.

As we get older, we gradually lose our analytical skills, but don't notice this change because we do things automatically from past experiences not realizing we didn't have to think something through, but just repeat a past activity.

The 69 year old made two classic mistakes: He wanted his son to follow in his footsteps (don't we all) and didn't take the necessary step of retaining an Industrial Psychologist to determine if he was capable and motivated; and secondly, he did not monitor his business against a business plan, which would have shown the declines years earlier, and perhaps he would have accepted that offer, or been in a position to initiate corrective action.

We must remember that we are all mortal; consequently an exit strategy is a must. The best time to sell any business is when you don't have to. It should be profitable and growing; in a market that has potential for the purchaser to continue growing the business.

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