White Paper: Knowing When to Sell Your Business

For the past 20 years you have built your business. Your company has become part of your identity. Even when you are not at work, you are working, thinking, planning. You never stop. If you sell you are leaving behind much more than a job, or do you have something to sell at all? In this article, we will discuss some signs that might indicate that it is time to exit your business.

1. **You are faced with a major capital requirement in order for your company to maintain its competitive position.**
   You are supposed to be diversifying your assets, not concentrating them even further. Think about a simple payback analysis. Does that extend beyond your retirement date? You want to be able to defend that investment with the energy and intensity you devoted when you were originally growing your business. Maybe it is time to bring in an equity partner with smart money, an industry buyer with the management depth, infrastructure, or distribution network to protect that investment. You might consider selling now with a three year employment contract that would expire on your previously planned retirement date. Let the new owner defend the required capital investment.

2. **A large competitor is taking market share away from you.**
   Believe me, the news is not going to get better. As an investor you would probably sell the stock in a company you owned if Microsoft or GE decided to assume a presence in that market. Business owners often struggle with objectivity when a similar event takes place in their own company's industry.

3. **Your legacy systems, production capabilities, or competitive advantage have been "leapfrogged" by a nimble entrepreneurial firm.**
   This happens all the time and can cause an erosion of your customer base. Your inertia will sustain you for a while, but eventually you will begin to experience customer defections. Your options are to rewrite, acquire or sell. If you decide to sell, do so before losing too many clients.

4. **A giant company in a related industry just acquired one of your major competitors.**
   Watch out, they did not make this acquisition to maintain status quo. They want to grow their market share and that means they will be coming after your clients. The good news is that as a defensive measure, one or more of their competitors will be compelled to make a similar acquisition. It is best to be aggressively ahead of the curve and get acquired while the market is hot and prices are being bid upwards.

5. **Your interest, motivation and competitive fire are dwindling.**
   Let's face it, if you are not growing, you most likely are contracting. Your competition was tough when you were on your game. Your family's net worth is under attack if you are no longer fully committed.

6. **Your kids are not interested or are not capable of running the business.**
   They may not be interested or capable of competing at this level. Perhaps the greatest legacy you can leave to your kids is to convert your company into a diversified portfolio of financial assets that are far less risky than turning the company over to inexperienced managers.

7. **You have a health scare.**
   All of a sudden you start thinking of all the sacrifices you made and all the things you want to do before it is too late. Your list of goals is immediately changed from financial in nature to family, friends, travel, experiences, philanthropy, etc. You might want to listen to your heart this time.

8. **You lose a major client or a key employee.**
   That can be a real blow to a business. The owner, by nature, is optimistic and believes that the lost business will soon be replaced and does not ratchet down the expense level to match this new sales level. If he or she does cut, inevitably, it is not fast enough and not deep enough. Maybe it is time to seek a buyer that could replace that business before your company's value is severely impaired as your profits erode.

9. **The market is hot and you would like to take some chips off the table for diversification.**
   You may be thinking of retiring in four years, but a consolidation is occurring in your industry and valuations are up 20%. Sell at the top and sign a four year employment or consulting contract. The odds are that if you exit on your original schedule, valuations will have settled back down to the norm.

So what does the exit process look like when you have a professional sell-side M&A advisory firm by your side?

We will tell you...
Knowing when to sell your business is the hardest aspect of your business life. There is always a beginning, a middle and an end in every successful business, knowing when the end is the hardest, especially when you a highly valuable asset. Finding a trusted (M&A) advisor, who monitors the capital markets, will prove to be very valuable in choosing the right time. You sense it, you know this decision is close, now what? How do you start the process?

Kratos Capital LLC is a privately held, transaction-oriented, M&A advisory firm. Our principals have experience in a variety of strategic liquidity solutions including sales, divestitures, and mergers. We also work extensively with companies committed to expansion through acquisition.

We are an experienced, highly effective firm specializing in managing transactions with capitalized values of $5 million to $200 million. The firm provides industry tailored investment banking expertise, in order to help owners maximize the value of their investment of time, money and hard work. Each of our clients are represented by seasoned bankers, who bring a wealth of knowledge and experience. Our bankers comprise an aggregate of well over one billion dollars in completed transactions on behalf of the private middle market.