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Question of the Month: What kinds of businesses are selling in this economy?

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I am often asked what kinds of businesses are selling in this economy. In general, any business that is now showing recovering sales from recession lows and is returning to historical levels of profitability is finding buyers. Even so, some sectors are facing more difficulties than others. Most notably, the retail and hospitality trades and construction and home contracting services are still not doing well, and owners with businesses in these sectors are having to accept prices at lower multiples than what they'd hope to get, or not finding buyers at all.

On the other hand, other sectors of the economy are performing quite well and businesses in these sectors are attracting a great deal of interest among buyers. Sellers of these businesses are commanding multiples that are as high as they've ever sold for. Based on our experience, a few industry segments are attracting particular interest.

Manufacturing firms in Connecticut and the rest of New England that have proprietary products or are engaged in precision machining or production are in great demand.

Many of these businesses are actually quite busy. The aerospace sector in Connecticut is healthy and subcontractors to the industry are operating in many cases close to capacity (we hear it over and over again that their biggest problem is finding qualified workers to support their backlog). Many of these firms operate with profit margins of between 15% and 20% or greater which attracts strategic buyers in the industry and financial buyers outside of it. They also combine high levels of profitability with hard assets which makes them eminently financeable. They are therefore very attractive acquisitions that generate 20% to 30% cash on cash returns for their buyers. Most buyers are also becoming long term bullish on manufacturing in general and want to be in this segment.

Good service businesses are receiving strong interest from strategic buyers and individual investors. A number of white collar professionals who are wishing to escape corporate life view good operating service firms as something they can manage and grow to a new level, and they have the money and access to capital to effect an acquisition. Even if the buyer doesn't have the resources, SBA lending institutions view these businesses favorably even without a lot of hard assets, and will lend against the historical cash flows of the business.

We've had recent experiences representing owners of a large property management company and a mid-level technical services employment agency. Both were well run, generated solid cash flow and maintained consistent revenues through the last four years. The sale of their businesses yielded multiples of 4 to 6 times EBITDA which is good for closely held companies. In general, the most

important value driver of any service firm is the quality of its revenue stream. If it is diversified, not heavily concentrated and secured as much as possible, then all things being equal, they are selling for as high a price as ever.

Most businesses involved with the health care sector never saw any of the ill effects of the recession and continued to enjoy strong revenue and earnings growth throughout. In particular, the home health care sector has been benefiting from an increasing need for medical providers to reduce costs by moving medical care directly into homes. This segment has seen higher growth than in other segments of the health care industry and is therefore attracting more attention. Well run health care agencies are very profitable businesses. Some are beginning to differentiate themselves by services offered.

By way of example, we are currently representing the owner of a company that provides in-home physical therapy and it has experienced tremendous growth. Because of this and the market it is in, we've experienced high interest and expect to secure a ready buyer in a short period of time.

If you happen to be an owner of a business operating in an area not mentioned, don't get disheartened. The most important thing any owner can do is to make sure the business is running well, ie maintaining consistent profitability and revenue levels or growing, having a good management team and having an organization that will ensure a smooth transition to new ownership. If you have this, then you will find a buyer for your business and receive a very fair multiple of its value, even in this economy.

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