

EXECUTIVE INBOX

Anne Fisher

Are you ready to put a price tag on your business?

By ANNE FISHER

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If you've tried to sell a company in the past four years or so, you know the market for small businesses has been taking a long snooze, due to scarce cash, tight bank credit and general economic angst. The good news, if you've been yearning to cash out and retire or start something new: Since late 2010, demand has been picking up again.

One sign of a more favorable climate for selling a small business: The most recent [Money Tree Report](#), compiled by PricewaterhouseCoopers and the National Venture Capital Association, notes that "the venture-backed exit market appeared to be on the rebound" as of the end of 2010, with private equity investors reporting they sold 420 companies for a total of \$18.3 billion. That's a substantial increase over the levels in 2009, which saw 273 such deals valued at \$13.5 billion.

Here in the city, demand is heating up, too. Mel Lisiten, for one, says he has never been busier. The founder and president of [Lisiten Associates Business Brokers](#), on East 38th Street, has hired three new staffers so far this year (for a total of 14) to help handle a rush of new business. Prospective buyers are registering on his website at a rate of about 150 a week, he said.

Why the sudden surge of interest? "We're seeing a large group of former Wall Street executives who want more control over their own destinies," Mr. Lisiten said. "Business ownership is a way to get that, and many people see buying an established company as preferable to starting something from scratch."

"Another factor is that more and more young people, just beginning their careers, looked around during the recession and decided that they don't want to be at the mercy of a corporation," he added.

Of course, not every business is in salable shape. Mr. Lisiten frequently runs across two main obstacles to a successful sale. "The most common problem is that entrepreneurs get so busy running things day to day that they don't keep accurate, detailed records," he said. "Even if you're making money hand over fist, if you can't prove it, your company won't fetch a fair price."

Then there's the little problem of unrealistic expectations. "Many business owners have a vastly inflated idea of what their business is worth," Mr. Lisiten observed.

A standard formula bases the price on a multiple of 3 to 5 times the owner's discretionary income, so that "if you're taking out \$500,000 a year, and you have recurring revenues with solid contracts, we can price the business at 5 times \$500,000, or \$2.5 million," he said.

Trouble often starts when the owner of a far less lucrative enterprise insists nonetheless on a multimillion-dollar price tag. "I have one client right now who says he won't take less than \$2 million for his company," said Mr. Lisiten, who described his commission on each sale as "somewhat lower" than the 10% brokers typically charge.

"Luckily, that particular gentleman is in no hurry to sell, so I've told him, 'Fine, we'll wait for a buyer who will pay that,'" Mr. Lisiten said. "But it could be a very long wait. For someone who wants to sell right now, the asking price has to reflect reality." Noted.

Have you considered selling your business? If you did sell it, what would you do next? Tell us at www.crainnews.com/execinbox.

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