

Small Business Sales are Picking Up

Selling of Small, Medium-Sized Businesses Pick Up

Brad Carlson - *The Idaho Business Review*
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Uptick in economy brings buyers out

The market for selling businesses has recovered in the past year or so, recovering from a lull that began when the economy sagged in 2001, several Boise business brokers say.

Art Berry said **Arthur Berry & Company** recorded increases in revenues from business sales for 20 years straight - a streak that ended early in 2001 as the national economy began to stumble. "Then 9/11 was a devastating blow to our business, as well as everyone else's in the country," he said. "We've seen it slowly build back up," Berry said, "to where, beginning at the end of last summer, we've seen a pretty strong small business sales climate." Berry attributed the resurgence to "an influx of people to the area, low interest rates, and a resurgence of confidence in middle-market America."

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Bill Laska, who has more than 20 years in business brokerage and investment banking, said business for Laska Co. is up by about 50 percent from a year ago in terms of the number of businesses sold. "The economy, and investors, are regaining their confidence in the business environment," said Laska, based in Boise. Prospective buyers "are not afraid to step up and buy," he said. "They have their confidence back."

One recent buyer is Melanie Davidson, who acquired Ceramica in early May with **Arthur Berry & Company** acting as broker. She relocated the paint-your-own-pottery studio, in business for a decade, half a block to add space and consolidate operations onto one floor. "Everything has gone really well," Davidson said. Although she worried that the move from the corner of Sixth and Main to a space with less visibility at 510 Main - formerly the leasing office of Old Boise - would reduce business from passersby, "sales-wise, everything is right on track."

Davidson - who previously worked as controller for Creative Arts, Boise - said she "was looking for a business that had an existing cash flow and a proven business concept" when she decided to buy Ceramica from founder Jennifer Casey. The price she paid "seemed fair - not extremely high or extremely low." Costs associated with plans to relocate it were taken out of the purchase price, she said.

Berry said population growth has helped the market recover. "In the high-growth states of the South and West, small-business development parallels population growth," he said.

Arthur Berry & Company, which sells businesses throughout Idaho, has seen business sales increase this year statewide. The agricultural sector, an important driver of many local economies in the state, has been stronger, and "businesses sold in the Magic Valley, eastern Idaho and the Treasure Valley are all selling at high prices with much demand for them," he said. Among prospective buyers, "we're seeing fewer people leaving corporate America and more new buyers being sophisticated, out-of-state buyers looking for the instant credibility of an established business," Berry said. Manufacturing and distribution businesses "remain the most sought-after types of businesses," he said. "They typically have the highest valuations, they have good growth potential...and the larger the population, the larger the resulting small businesses, including manufacturers and distributors," Berry said.

As for middle-market businesses, "we are very encouraged by what we are seeing," said Meg Carlson, a former Ore-Ida Foods executive who with CPA Korri Hall launched business-intermediary firm C&H Group in Boise in late 2002. "There is still sort of a sense that we have an economy still in recovery, with sellers taking a wait-and-see approach," Carlson said. "But from our view, this is a great time to think about selling your business." C&H sees strong demand for mid-sized businesses, increasing valuations, and "strategic investors getting back into the market," she added.

C&H offers services to companies in the \$5 million to \$150 million sales range for improving efficiency and valuation in preparation for an eventual merger or acquisition. Potential buyers include private equity funds, and "strategic" buyers such as corporations.

Berry and Laska offered somewhat different views on small business valuation trends.

Berry said valuations "are stronger today" because "more buyers are chasing fewer good businesses, and hence prices are rising. Earnings are up," he said, and "sophisticated buyers buy based on future earnings potential. A fundamental change in the direction of income is more important than a long history of mediocre income," Berry

noted. Meanwhile, technological improvements in the last decade have enabled businesses to be more productive, and thus more valuable to prospective buyers, he added.

Laska said valuations are "trending up just a tad." Sellers "are having a harder time with the low valuations of the last couple of years - they want it priced on what it's doing now and in the future, not the last year or two. The fact that business is down in a lot of industries in the last couple of years has brought the value of businesses down, and you can't pretend it didn't happen," said Laska.

In the mid-market, a number of private equity groups that bought businesses when the economy was sagging "got good deals, and have been able to sell those properties at even better deals," Carlson said. Many businesses that sold for five times annual cash flow a few years ago have grown and are selling for seven to eight times cash flow now, she added. "Activity on the private equity side is really driving the middle market right now," Carlson said. "What we are adding to that is the strategic buyers. In the past two years, these strategic, corporate buyers generally have seen increases in their profits, stock prices and cash reserves," she said. The corporation cut costs aggressively during the downturn, "and that will only work for so long in increasing the value of the business," she said. "At some point they need to grow the top line (revenue)," Carlson noted. "Increasingly, a viable strategy for growing the top line is to acquire companies." In the first quarter, the number of acquisitions increased by 40 percent in the traditional middle market (businesses with \$25 million to \$100 million in annual revenue) and by 30 percent in the lower middle market (revenues up to \$25 million) from year-earlier figures, Carlson said, citing Association for Corporate Growth/Thomson Financial reports.

Berry said he expects business sales to increase for the rest of this year and into 2005. Idaho business bankruptcy rates have been declining while the number of U.S. Small Business Administration loans to Idaho businesses has been increasing, he said, "and as conditions worsen in other areas, we only look relatively better to forward-thinking people."

SOURCE:



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