

# The Advisor



## 2010: Possibly the Best Year to Sell Your Business

Slow steady economic rebound, increasing confidence, expanded credit for business acquisition, low interest rates and very low tax rates create the perfect environment for sellers.

If you are a business owner and have been pondering when to sell your business, then this article is a "must read" for you. I will share with you some of the reasons why 2010 is shaping up to be the dream year for business sellers, and why you might not get another year like 2010 for years to come.

Someone once quipped, "I'd rather be lucky than good." Often "luck" has to do with the right timing. As a professional business intermediary, I believe that a number of factors are in play to make 2010 the right time to sell a company. As 2010 began, economic tides were rising somewhat. And, a rising tide will raise all ships (companies may be more valuable in 2010).

### Economic Confidence is Growing

According to the November National Economic Report by KeyValueData, the economic recession plaguing the U.S. economy for the past two years finally appears to have ended. On October 20, 2009, the Commerce Department announced

that the U.S. economy grew during the third quarter of 2009. This was a rise for the first time in more than a year, signaling a conclusion to the worst U.S. recession in 70 years.

More recent data suggest that the rebound was not quite as strong as originally thought, however. In revised estimates released on November 24, the Commerce Department said that GDP actually rose by 2.8% for the third quarter. The main factors behind the downgrade from the original report, according to the Department's analysts: consumers did not spend as much as thought, commercial construction was weaker, the nation's trade deficit was more of a drag on growth, and businesses trimmed their inventories significantly. The import of the new figures therefore was both positive and negative. "The good news," said the Associated Press "is that the economy finally started to grow again... The bad news is that the rebound, now and in the months ahead, probably will be lethargic." (*Author's observation: A lethargic rebound*

*may help eliminate another "bubble" that would be sure to "burst."*)

Stocks started off 2009 in dismal shape. But by late March a turnaround had begun. These positive trends continued throughout the spring and summer with the result that, by mid-June, the Dow-Jones Industrials Index entered positive territory for the year for the first time since January. Stocks largely moved sideways for a time, but October proved to be highly positive, as the Dow reached the coveted 10,000 mark for the first time since October 2008. Then, in early November, the Dow, S&P, and NASDAQ indices all rose, achieving year-long peaks. The Dow closed 2009 at 10,428.05.

### Rebound in Business Activity

U.S. industrial production rose by 0.7% in September, representing a third straight monthly gain. For the third quarter as a whole, output climbed at an annual rate of 5.2%, the first quarterly gain since the first quarter



*As 2010 began, economic tides were rising somewhat. And, a rising tide will raise all ships.*

“Whenever you see a successful business, someone once made a courageous decision”

- Peter F. Drucker



## 2010: Possibly the Best Year to Sell Your Business (cont.)

of 2008 and the largest increase since the first quarter of 2005. manufacturing output also advanced by 0.6% during August and subsequently rose by 0.9% in September. The U.S. Bureau of Economic Analysis further reported that corporate profits from current production rose by \$67.6 billion in the second quarter of 2009 following a \$59.1 billion jump for the first quarter.

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The U.S. auto market stabilized in October, recovering from the end of the government's "Cash for Clunkers" program that led to the previous month's declines. Overall, new U.S. vehicle sales reached at annual rate of 10.46 million-up sharply from the annualized 9.22 million in sales for September but still slightly below the October 2008 level of 10.82 million, AutoData Corp. reported on November 4. The ma-

major U.S. automakers experienced mixed results: sales at General Motors and Ford Motor Company improved slightly, while Chrysler suffered a sharp, year-over-year drop of 30%. A recent *USA TODAY*/IHS Global Insight Economic Outlook Index indicated moderating but firm growth in the first half of 2010 after a strong recovery in the second half 2009. The December update indicates the economy is recovering strongly from the recession. The last months of 2009 are likely to post strong gains in real gross domestic product as trade and inventories provide a boost. The Index forecasts slightly slower growth in the first half of 2010 as the inventory cycle turns, credit conditions remain tight, and consumer spending loses the support of government stimulus programs.

### Increased Availability of Credit for Business Acquisitions

In late December 2009 President Obama signed the U.S. Department of Defense (DOD) appropriations bill. This included \$125 million to continue through Feb. 28, 2010, the enhancements to SBA loan guarantee programs made possible through the American Recovery and Reinvestment Act (ARRA). The enhancements are extended to SBA's two larg-

est loan programs (one for the acquisitions of businesses and one for real estate acquisitions). New approvals of loans with the higher guarantee and reduced fees made possible by ARRA were expected to begin by Dec. 28. According to the president, "The extension of these programs through February is important to continuing our path toward recovery and will mean thousands more small business owners have access to the credit they need." The United States Senate Committee on Small Business and Entrepreneurship on December 17, 2009 passed two bills to increase access to capital for small businesses and enhance small business trade opportunities. S. 2869, the "**Small Business Job Creation and Access to Capital Act of 2009**," includes provisions to increase Small Business Administration (SBA) loan limits and extend government guarantees and fee eliminations enacted in the American Recovery and Reinvestment Act earlier this year. S. 2862 will ensure small businesses have access to the resources and tools needed to explore new export opportunities in emerging markets or

"In the business world, the rearview mirror is always clearer than the windshield. "

-Warren Buffett



## 2010: Possibly the Best Year to Sell Your Business (cont.)

expand their current export business.

S. 2869 contains several critical provisions to bolster SBA assistance to America's nearly 30 million small businesses and aspiring entrepreneurs. Specifically, the bill would:

- Increase the loan limit on 7(a) loans from \$2 million to \$5 million;
- Increase the loan limit on 504 loans from \$1.5 million to \$5.5 million;
- Increase the loan limit on micro loans from \$35,000 to \$50,000 and increase the maximum loan made to a micro loan intermediary from \$3.5 million to \$5 million; Direct the SBA to create a website where small businesses can identify lenders in their communities.

- Allow the 504 loan program to refinance short-term commercial real estate debt into, long-term, fixed rate loans;
- Extend the authorization to provide 90 percent guarantees on 7(a) loans and fee elimination for borrowers on 7(a) and 504 loans through December 31, 2010; and Direct the SBA to create a website where small businesses can identify lenders in their communities. S. 2862 would strengthen and improve support for American entrepreneurs seeking opportunities to expand their business, create new jobs and com-

pete in the international market.

### Low Interest Rates for the Foreseeable Future

The Prime Rate Forecast website forecasts the Prime Lending Rate from 2010 through 2040. At December 31, 2009 the prime interest rate was 3.25%. That rate is forecast to increase to 4.75% by the end of 2010, 6% by the end of 2011 and 7% by the end of 2012. By the end of 2039 the rate is projected to be between 9.5% and 10%.

Why is the prime rate important to business sellers? Because the lower the cost of borrowing (to the buyer of the business), the more value an acquired business can have. That means more money to the Seller. And, businesses are much quicker to sell when the borrowing rates are lower. 2010 is projected to have the lowest prime rates over the next 40 years!

### Favorable Tax Breaks End After 2010

Favorable Long Term Capital Gains tax rates are still in effect for 2010. That means that if you sell your company in 2010 and incur long term capital gains, your maximum federal income tax

rate (on the capital gain) will be only 15%. With expanded federal spending and larger federal deficits, most experts anticipate much higher capital gains tax rates beginning 2011.

### Conclusion

2010 may be the perfect year to sell a business. Slow steady economic rebound, increasing confidence, expanded credit for business acquisition, low interest rates and very low tax rates create the perfect environment for Sellers. Timing is everything. Don't wait until later to begin investigating. Why? It takes time to value and prepare a business for sale. Only after the business has been properly prepared should it be placed on the market. Once on the market, it might take from nine to twelve months before selling and closing.

Direct the SBA to create a website where small businesses can identify lenders in their communities.

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**Please let us know if you have any questions or would like to discuss the above articles with one of our trained Business Analyst.**



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