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Multiple factors influence the timing of M&A deals

- By Bob Kipps
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The traditional adage that timing is everything is equally applicable to an owner's decision to sell or exit from his or her business.

When to sell - whether in whole or in part, via acquisition, management buyout or employee stock-ownership plan - is the second-biggest business decision, following the one to start the business, an owner will likely ever have to make.

When owners are unable to sell a company, the most common reason is bad timing.

A business owner's or chief executive officer's decision to pursue a transaction is based on a multitude of more dynamic factors than the relatively simple investment decision when to sell individual stocks or mutual funds.

Those considerations include their own professional and financial objectives in addition to an honest assessment of their business' performance and prospects. Also in the mix is the vibrancy of the mergers-and-acquisitions market at the time, relevant industry trends and - especially for midsize companies - the strength and goals of the senior management team.

It sounds overly simple, but the most important determinant of the optimal time to sell or exit is when the primary owner wants liquidity and can get an offer that meets or exceeds his or her financial goals.

Owners of many government services firms also happen to be CEO of the company, intertwining the exit decision with their own professional goals and aspirations. Most active buyers presume selling CEOs are looking to phase out of the business, but that is not always the case.

The second-most-important determinant is the company's financial condition and preparedness. Buyers evaluate companies on their future growth prospects, the leveragability of their intangible assets - intellectual property, customer relationships, capabilities, vehicles and clearances - and the associated risks.

Ideally, the best time is when the company is growing profitably, has a strong backlog, minimal - if any - higher-risk set-aside contracts, a rich bid pipeline, satisfied customers and no outstanding disputes or litigation.

Fantasyland? Perhaps. But the right time to consider an exit is when the signs are pointed up.

Nobody can perfectly time the stock market, but changes in the M&A market fortunately do not typically occur quite as abruptly.

That being said, the likelihood of getting a premium deal is better when valuations are up - as they've been for most of the past seven years - buyers' M&A appetite is keen and there's not an oversupply of sellers.

An elevated level of consolidation activity in the government services industry has mirrored the increased global adoption of M&A - along with research and development, alliances, and strategic hires - as a meaningful strategic growth and repositioning tool. Interrelated but not always correlated with valuations are industry trends, such as changes in procurement rules, customer sensitivity to organizational conflicts of interest, changes in Small Business Administration rules, and political or funding uncertainties, that can materially affect the attractiveness of certain sellers.

Last but not least is the issue of people. In a people business like government services, success is dependent on the skill sets of a company's people and strength of its customer relationships. Picking a time when the management team is motivated and capable of continuing to grow and perform is critical to achieving desired results.

Owners can always hope to get lucky in a transaction, but careful consideration of these variables will broaden their options, increase the likelihood of transaction completion and, perhaps most important, improve the likely deal terms.

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