

Report: Sales of small businesses rise as sellers earn higher prices



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Sales of small businesses in the United States remained at historically high levels in the third quarter, according to a BizBuySell.com report.

A total of 1,987 closed transactions were reported in the third quarter this year, representing both a 17.9 percent increase from last year and the highest number of small business sales recorded in a third quarter since BizBuySell began tracking data in 2007.

This quarter's numbers slipped just 2.1 percent from the second quarter of 2014, which remains the most active quarter for small business sales since before the recession. It also keeps 2014 on pace to record the highest number of small business transactions since the inception of the report, which aggregates statistics from business-for-sale transactions reported by participating business brokers nationwide.

It's good to see that we have not plateaued and that both buyers and sellers are still eager to make deals happen. There remains a strong supply of quality small businesses on the market. As the economy and financing options continue to improve, buyers remain very interested in acquiring small businesses.

Financials show market shift beginning to benefit sellers

While the post-recession market has generally favored buyers, a shift appears underway, with sellers now receiving higher sales prices.

The median sale price for businesses sold in the third quarter rose 5 percent compared to last year, increasing from \$180,000 to \$189,000. Meanwhile, the median asking price remained virtually unchanged, rising 0.5 percent from \$199,000 to an even \$200,000.

This means sellers in the third quarter were able to receive roughly 95 percent of their asking price, the highest percentage we've seen since the recession hit in mid-2008. Active sellers appear to be taking notice of the market change as the median asking price of businesses listed on BizBuySell.com also increased 4.3 percent in Q3.

Sellers' increased negotiation power is likely a result of stronger small business financials. Both the median revenue and median cash flow of businesses have risen each quarter of 2014, and were up 1 percent and 2 percent respectively in the third quarter.

But perhaps even more telling is how much sellers are receiving in relation to their revenue and cash flow. The average revenue multiple grew nearly 6 percent this quarter compared to last year, now up to .62. At the same time, the average cash flow multiple jumped even higher, up nearly 9 percent to 2.38.

While buyers are still receiving good value for their investments, rising multiples show that sellers are now successfully translating their financial growth into higher sales prices.

It's a sentiment we also saw from sellers in our recently released Buyer & Seller Confidence Survey. The study revealed that sellers are more confident they will receive an acceptable sales price this year than they were last year. In fact, 21.2 percent of sellers said they were "very confident" they could sell at an acceptable price, a 20 percent increase from those who felt the same in the 2013 survey.

Even with increased seller confidence, buyers also remain generally confident with 78.6 percent believing they can buy at an acceptable price, according to the same survey.

Improving lending conditions and the overall growth of the economy are helping buyers meet the higher demands of sellers.

Buyers are also benefiting from the increasing number of sellers willing to offer seller financing in order to push deals through. In the BizBuySell Confidence Survey, nearly 30 percent more sellers planned to take on part of the financial burden through seller financing than planned to in 2013.

More manufacturing, service and restaurant businesses on market

In addition to an increasing number of closed sales in Q3, there were also a growing number of businesses listed for sale.

Total listings were up 2.2 percent from the same time last year, with the most notable growth in manufacturing businesses (up 4.1 percent), service-industry businesses (up 3.9 percent) and restaurants (up 3.5 percent).

These sectors also saw an increase in the number of closed transactions. Service-related businesses led the way with a 17 percent increase while manufacturing was up 16.2 percent and restaurants up 13.3 percent compared to last year. The overall mix of sold businesses remained consistent with last quarter as shown below.

Bob House is general manager for BizBuySell.com and BizQuest.com, the Internet's largest and most heavily trafficked business-for-sale marketplaces. Together, BizBuySell and BizQuest offer an inventory of tens of thousands of small businesses for sale that refreshes continually and receives more than 2 million monthly visits from business owners and aspiring entrepreneurs. House is a recognized spokesman on small business transition issues.



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