Time to Get Out? Why Now is a Good Time to Sell Your Business.

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As we've plunged into 2014, it's clear that large and small companies alike are feeling the optimism that comes with rising asset prices. Private equity spending power has topped $1 trillion, a buyout bubble is possibly on the horizon, and competition is driving valuations and demand. In the entrepreneurial ecosystem, business owners looking for an exit strategy are likely to find 2014 an optimal year for selling.

There are three reasons in particular entrepreneurs might consider this move in 2014: rising stock prices, low interest rates and solid performance the last few years.

Stock market rise. The recent stock market rises may not seem to have a significant impact on small and medium business valuations, but the higher share prices make acquisitions easier. Corporate buyers often choose to acquire companies with stock rather than with cash, meaning higher stock prices actually cost the company a smaller percentage of ownership.

If a large corporation, worth $1 billion for example, wanted to buy a company on the market for $100 million at the beginning of 2013, it would have had to issue new shares worth more than 10 percent of its total value. But publicly traded corporations whose stock skyrocketed last year could potentially use half as much stock to buy the same company in 2014 -- making an acquisition much more tempting.

Low interest rates, at the moment. While interest rates have been discussed the last few years as being nearly ready to rise, it appears that 2014 could very well be the year they do go up. The Federal Reserve has begun cautiously winding down its bond-buying program, and if business owners wait too long to sell, they could be facing much higher rates.

As interest rates rise, so does the price of capital -- leading to lower valuations. Many buyers will be using loans to make their acquisitions. Because earnings are used to pay the interest on loans, interest rates greatly impact the multiple at which someone can afford to buy a business.

The more expensive it is for buyers to access capital, the less willing they are to pay a premium valuation. As rates begin to rise meaningfully this year, the more likely it is that valuations of businesses will be negatively influenced.

Three years of profit. It’s no secret that 2008 and 2009, and in some cases 2010, were difficult years for business owners because of the collateral damage associated with the financial crisis. Demand was dampened significantly for products and services across the board. But with the recession well in the rearview mirror, businesses have had the opportunity to recover and are in a position to show three or four years of solid growth again.

When doing due diligence, many buyers build their projection models from the past three years of business performance. Having a positive upward trend line in historical financials offers potential buyers rosy projections for future growth, making valuations better and the odds of a sale higher. The financial picture is more likely to be one of a business that can survive a serious economic downturn, giving buyers confidence in projecting a continued upward climb.

Business owners who do decide to sell should assume that the process from start to finish will take 12 months. Those who want the deal to close this year should start thinking now about cultivating the relationships they need, retaining the right investment bank or broker, and negotiating with buyers. They need to embark on a carefully constructed path of defining goals, determining measurable targets, setting deadlines and clearing a path for execution.