

Time for a rebound?

Business listings, sales declined last year from '08 levels, but there are signs that conditions are improving

Sacramento Business Journal - by [Melanie Turner](#) Staff writer

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It was another bleak year for sellers of small businesses across the country. Tough credit markets and a challenging economy led to fewer businesses being sold last year than in 2008, and those that did sell sold for less.

Still, trends indicate the business-for-sale market could be in for a recovery this year, according to BizBuySell.com, the nation's largest business-for-sale marketplace.

In the Sacramento region, the market for buying and selling businesses in 2009 was fairly consistent with the U.S. market, said Mike Handelsman, general manager of BizBuySell.com.

There were 32 closed transactions in the region for the year, down 20 percent from 40 in 2008.

The median sale price was down 22 percent to \$120,500 compared to \$155,000 in 2008. Businesses that sold last year had median revenue of \$222,172 and median cash flow of \$82,270.

Because the median sale price does not take into account the size of businesses that sold, evaluating the sale price as a multiple of revenue can provide a more exacting comparison. When doing so, results indicate businesses in the region sold for 17 percent less than a year ago, according to BizBuySell.com. Business owners in the region typically asked for a revenue multiple of 0.57 in 2009, down from 0.69 in 2008.

The number of businesses listed for sale during 2009 also was down. In the fourth quarter, 137 businesses in the region were listed on BizBuySell.com, down 31.5 percent from 200 in fourth-quarter 2008.

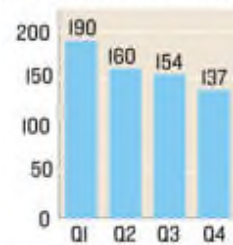
Nationwide, the number of businesses sold during the year fell 28 percent to 4,440. The median sale price dropped almost 16 percent to \$160,000, or by 3.5 percent when evaluated as a multiple of revenue.

As 2009 progressed, however, the number of closed transactions rose, Handelsman said. "So the trend is getting better," he said.



Business-for-sale listings decline

In four-county Sacramento area, 2009



Source: BizBuySell.com

Supply and demand expected to rise

There are other reasons to be optimistic, including a latent supply of businesses for sale, he said. Some people wanting to retire, for example, put off selling last year and many of those businesses are expected to hit the market this year.

Jerry Kearsing, owner of Cheers, a popular neighborhood bar on West Capitol Avenue, planned to retire about a year and a half ago but put it off to put more money in the bank.

Now, he said, he's ready. In October he put the bar up for sale for \$275,000. So far, he's had a lot of lookers, but no takers.

"If it sells, it sells," he said. "If it doesn't, it doesn't."

His plan to sell now has nothing to do with the economy, he said. He's simply ready to start using a fifth-wheel travel trailer he purchased in preparation for his retirement.

"We priced the business correct(ly)," he said, adding that it is valued at \$350,000.

While many businesses' revenue is down as much as 10 percent and 20 percent, Kearsing said Cheers' annual revenue is down 4 percent. "We're doing very well," he said.

The unemployment rate is another factor that could help boost sales of small businesses, Handelsman said. Unemployment statewide in November, the most recent month for which data is available, was 12.3 percent — and 12.4 percent for the four-county region. About 129,300 people were out of work in Sacramento.

Some of them will want to buy businesses, Handelsman said. As supply and demand rise, presumably more deals will be done.

Still, buyers will need capital. As lending has tightened, many have found it difficult to borrow the money they need to complete a purchase.

"We do believe that that will start to take root in 2010," Handelsman said.

Prices trending upward

Another encouraging sign, according to BizBuySell.com, is closed transaction prices started to rise late in the year. Businesses sold for a median sale price of \$300,000 in the fourth quarter, up from a median price of \$150,500 the previous quarter.

Businesses that sold in the fourth quarter had median revenue of \$375,000 and median cash flow of \$150,000.

Mel Jones, president and chief executive officer of Paramount Restaurant Brokers Inc. in Rocklin, said 2009 started out "dark" and improved slightly.

“Our transactions plummeted for the first half of 2009,” Jones said, adding that deals did pick up in the second half of the year.

For-sale inventory, he said, is at its lowest level in five years. In December 2007, there were 220 restaurants for sale in the Sacramento region. Last month, there were 105, he wrote in an e-mail.

“Our deal flow is not up to where we want it,” he said.

Companywide, as many as a dozen restaurant deals are closing each month, including three or four in Sacramento, Jones said. In the fourth quarter, Paramount closed 32 deals, including eight in the Sacramento market, he said.

Andrew Rogerson, chairman of the local chapter of the California Association of Business Brokers, said he also is seeing some positives following a “dreadful” two years in which most businesses declined to sell and buyers could not get lending.

“From my perspective, things have improved slightly,” he said, adding that he’s seeing lending starting to “loosen up” as more financing becomes available for buyers.

“I think we still have a ways to go,” he said.

Rogerson closed a transaction at the end of the year and expects to close another later this month.

According to BizBen.com, which features small and mid-sized businesses for sale in California, sales of such businesses dropped 36 percent in Sacramento County last year to 511 from 800 escrows completed in 2008.

Statewide sales declined by a similar amount, to 14,722 last year from 21,689 deals in 2008, according to BizBen.com.

Peter Siegel, founder and CEO of BizBen.com, also predicted an improvement in sale levels this year.

“Though we saw a very lackluster market for small businesses last year there are indications of improvement in activity for the country and the state in 2010,” Siegel said in a news release.

The city of Sacramento led the county with the most sales for the year with 308, followed by 37 deals in Folsom and 34 in Elk Grove.

Let’s make a deal

For some business buyers and sellers, the weakened economy provides the perfect motivation to make a deal.

Diane Hisao of Rancho Cordova recently purchased Ernie's Interlude, a small neighborhood bar just outside Carmichael. She worked as a retail manager for 25 years, most recently with **Goodwill Industries**, and was looking for a change of pace.

After Hisao's husband died two years ago she took a year off to reflect.

"I thought it was time for me to have my own business," Hisao said. "It's something I always wanted to do."

She started shopping for a small restaurant or bar in July. Jones of Paramount Restaurant Brokers led her to Ernie's last fall.

"I fell in love with it," Hisao said. "I think that with the economy the way it is the time was right to purchase."

The \$175,000 deal was half seller-financed. Hisao paid the other half in cash. She closed escrow Dec. 31.

Hisao doesn't plan to change too much about Ernie's Interlude because the bar has worked just fine the way it is for 50 years.

There's a juke box, full bar and popcorn. Hisao said she might add karaoke.

Year-over-year revenue was up 20 percent in December.

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