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Tip of the Month
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THINKING OF SELLING YOUR STORE?

THINGS YOU'LL WANT TO KNOW, AND SOME YOU MAY NOT.

By Jay Jacobowitz

Is now a good time to sell your store?

Yes, if you've got good profits. What are good profits? Net profits—cash that remains available to you at the end of each year after you've paid all your expenses—vary widely depending on the type, size, and age of store(s) you own. But a good rule of thumb is, to be attractive to a buyer, your projected future profits should exceed the wholesale value of your inventory by a solid margin. Otherwise, you are better off liquidating your inventory and closing your doors.

Multiples of earnings

The normal way to value a natural products retail store is measuring its capacity to generate future profits, which investors call free cash flow. Your wholesale inventory is usually your store's largest asset and, when you mark it up to retail, is the engine that pays your expenses and will generate all future free cash flows.

Investors looking to buy your store will want to know your sustainable annual profits, and they will reward you by paying you a multiple of these annual profits—provided they are sustainable year to year. In the past, natural products stores enjoyed a "multiple of earnings" of two to six times net annual free cash flows.

An interesting thing happened on our way past the pandemic

In 2020, your state likely deemed your store an "essential" business, allowing it to remain open as lockdowns swept the country, shutting down many non-essential businesses. The realization that natural products, vitamins and supplements, are foods, and essential to protecting life in crises, has increased the value of our stores in the eyes of professional valuators and investors.

A lifestyle business

Believing in the curative powers of natural products is what drove many independents to open their stores. Trouble is, many lifestyle owners did not pay as much attention to the bookkeeping side of the business, and will now have difficulty substantiating its value. To increase your chances of getting full value for your business, put these items on your to-do list before you enter negotiations:

1. Inventory value. Pay an inventory service annually. Or, if you have a point-of-sale system you keep up to date with costs, double check with physical cycle-counts, department by department each quarter, until you are complete every 12 months.
2. Expenses on the books. If you've resorted to paying some employees off the books, paid yourself more or less than it would cost to replace yourself, or taken product for personal use, do your best to fully account for these.
3. Non-business expenses. If you run a car lease through the business, or charge it with any other non-business expenses, remove these costs.

Timing is everything

A few months ago, before the Fed began raising interest rates, was perhaps the best time to sell your store. But if you've got proof of sustainable profits, the timing is still good. **JJ**