Is now a good time to sell your company?

US seafood companies may have a window.

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President Trump's increasingly tough stance on trade is worrying many US seafood industry players, as it does not necessarily consider that some 85-90 percent of the seafood we consume in this country is imported. Increasing barriers to imports may result in higher raw material costs, lower profitability, a slowdown in revenue growth and, consequently, a potential general decrease in Enterprise Values (EV) for those companies exposed to these possible regulatory challenges.

However, this sector-specific risk is currently mitigated by a much more positive economic environment. Presently, the US economy is strong, the cost of capital remains relatively low, the seafood industry is rapidly consolidating, and the recent tax reform is likely to increase company valuations and accelerate mergers & acquisition (M&A) activity.

Facing all these economic and potential market changes, our clients have been asking us: Is now a good time to sell my business?

Of all the above changes, the implementation of tax reform seems to be the most important new factor with immediate impact on the buy-sell discussion. Hence, to address this question, and without intending to dwell on the technicalities or details of the new tax rules, let's explore certain key aspects of the new economic realities facing business owners today.

First, the lower marginal corporate tax rate is expected to lead to increased after-tax corporate cash flows (all else remaining equal), thereby boosting equity valuations, since companies are most usually appraised based on their future cash flow generating capacity. The recent upward trend and volatility observed in the US stock market points to this general re-appraisal of equity values, but thing have not yet clearly settled.

Second, monetizing the value of a business in a sale transaction is a large taxable event for owners (and particularly relevant in family-owned businesses). With personal tax rates being lower and the removal of the inheritance tax, owners and their families are, for now, poised to receive larger after-tax proceeds from a sale transaction.

Lastly, the new tax rules contain various benefits to businesses and individuals that will expire in the next five to seven years, and it is unclear what will happen at that time. It's also unclear if the current general favorable tax environment will withstand a change in either Congress or the White House.

While we are not tax experts, but from the point of view of an M&A advisor, in general terms, it is expected that the new tax rules will continue to support the attractive valuations US seafood companies have enjoyed over the last few years.

However, given the "ticking clock" on certain provisions of the Tax Reform rules, coupled with the expectation of increased fiscal deficits and inflationary pressures, this might be a window of opportunity that may not remain permanently open.

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