

# How Long Does it Take to Sell a Private Business?

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Selling a privately held company can be a time consuming process due to the absence of a liquid market. For example, unlike a publicly traded security, an investor in a private company cannot simply execute a sell order at the market price and receive cash proceeds within three business days. Rather, a private business owner must engage in a relatively lengthy sales process, wherein a potential buyer must actually be found in the marketplace. This marketing period is time consuming and reduces the liquidity of an investment in private equity. A relevant question in the appraisal of a closely held company, therefore, is how long does it take for the average business to sell in the private market?. The purpose of this post is to address this question. Data & Methodology Data for my analysis was obtained from the Pratt's Stats Database. The Pratt's Stats database is a merger and acquisition database that reports transaction information on 18,031 private business sales (based upon data through December 31, 2011). The database includes over 83 data points for the transactions, including the "Sale Initiation Date" and the "Sale Date." Pratt's Stats defines the "Sale Initiation Date" as the date the business was listed for sale. The "Sale Date" is defined as the date the business sale was closed. Using these two data points, I compute the number of days to sell the business (defined as the difference between the "Sale Date" and the "Sale Initiation Date"). I exclude transactions that either (a) do not report date information or (b) have a "Sale Initiation Date" after the "Sale Date." This reduced the sample of transactions to 9,096 transactions, which forms the basis of my analysis. Results The chart below presents the frequency histogram of transactions based upon the number of days to sell. The following summarizes pertinent statistics (summary tables are attached at the end of this post) regarding the analysis: 1. The average business is sold in 203 days, or approximately 6.8 months 2. The median business is sold in 144 days, or approximately 4.8 months 3. Approximately 60% of businesses sell within 180 days, or 6 months 4. Approximately 85% of businesses sell within 1 year 5. The inter-quartile range, which measures the middle 50% of transactions, suggests that the majority of businesses sell within 75 to 260 days, or 2.5 months to 14.2 months 6. Only 6.5% of businesses sell within 30 days 7. Businesses sell within 60-90 days with the most frequency (i.e. 12.6% of transactions occur within this range) 8. Approximately 97% of businesses sell within 2 years 9. The number of days to sell ranged from 0 to 5.8 years Overall, the analysis indicates that a privately held business is significantly less liquid than a publicly traded security. Nearly 15% of transactions take more than 1 year to close from the date of sale initiation, with the majority of transactions closing within 150 days, or approximately 5 months, from the initiation of sale. The Effect of Market Value on the Number of Days to Sell I also analyzed whether market value of invested capital (or purchase price) affected the number of days to sell the business. The chart below summarizes the average number of days to sell grouped by market value of invested capital: The chart reveals a relationship between market value of invested capital and the number of days to sell. In particular, the number of days to sell a business appears to increase for firms with a market value below \$10 million. For example, firms with market value of invested capital less than \$500,000 took

approximately 195 days to sell on average, whereas firms with market value of invested capital between \$2.5 million and \$5 million took approximately 301 days to sell on average. I also performed the analysis using median days to sell in order to remove outlier transactions:

The relationship using medians is less pronounced than the relationship using averages. However, the medians confirm the general observation that the median number of days to sell increases for business with a market value of invested capital (MVIC) less than \$10 million. For example, the median number of days to sell a business with MVIC less than \$500,000 is approximately 162 days vs. 224 days for a business with MVIC between \$2.5 million and \$5 million. It appears that firms with MVIC between \$2.5 million and \$10 million take a longer time to market than firms with MVIC less than \$2.5 million or greater than \$10 million.

#### Statistical Analysis

I also performed a multivariable regression analysis to determine what factors can help explain the number of days to sell a private business. The variables I used included:

1. Market Value of Invested Capital (using logarithms)
2. Sales Revenue (using logarithms)
3. Operating Profit Margin
4. Profitability Flag (1= Positive Operating Profit, 2= Negative Operating Profit)
5. Sale Type Flag (i.e. 1 = Asset Sale; 2= Stock Sale)
6. Buyer Type (i.e. 1 = Private Buyer; 2 = Public Buyer)

The sample of transactions had to be reduced to 9,017 to analyze all the variables above. The table below summarizes the regression output:

The model has very low explanatory power, explaining less than 2% of the variation in the days to sell. However, certain variables were statistically significant in predicting the day to sell. These included the following variables:

1. Sales – Larger firms (as measured by sales) take longer to sell than smaller firms.
2. Profit Flag - Profitable firms (as measured by operating profit) sell faster than non-profitable firms. In particular, profitable firms sell 19 days faster than non-profitable firms.

3. Buyer Type – The buyer type (i.e. private buyer vs. public buyer) matters. In particular, it takes approximately 132 days longer to sell to a private buyer vs. a public buyer.

#### Conclusion

The analysis shows that private business are significantly less liquid than publicly traded securities. In particular, while a publicly traded security can be sold within 3 business days, the median closely held company takes approximately 144 days to sell. In addition, the time to sell a business appears to depend on the size of the business. Larger businesses take longer to sell than smaller businesses. This may be related to the complexity of analyzing a large business or difficulty in finding a buyer with enough resources to consummate a transaction. Furthermore, other factors appear to explain the length of time to sell, including (a) whether a firm is profitable or (b) the potential buyer. Specifically, profitable firms sell faster than unprofitable firms, while sales to public buyers occur more quickly than sales to private buyers. The profit margin, sale type (i.e. asset sale or stock sale) appear to have no impact on the time to sell.

Summary Tables:

Other summary information is described below:

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