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So… Can I Sell in 2023?

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You've put in your time, raised capital appropriately, surrounded yourself with a top-notch team, built a great product, and demonstrated the right metrics — so, is now a good time to ride into the sunset? Well, in 2023, that's a definite… maybe.

In an ideal world, the development of your business will peak along with the market, corresponding to a market flush with eager buyers and available capital. Remember 2021? While the combination of high interest rates, geopolitical challenges, and stubborn inflation has limited immediate exit opportunities for many businesses, if you happen to be in certain industries, think artificial intelligence (AI) and energy storage — it could be game on.

If your company is lucky enough to be in one of those industries, it's a great time to make a hard move toward an exit, and your stockholders will be well-served to seriously consider near-term exit planning. If you're not, well, deals are still being done. Large corporations are, after all, still sitting on large cash reserves. And, there's always next year.

In all seriousness, even if 2023 ends up not being your company's year, we are starting to see some encouraging green shoots throughout the macro economy. Inflation, while still above the Federal Reserve's target, is generally considered to be stabilizing. Similarly, the Conference Board Measure of CEO Confidence, with respect to the likelihood of a U.S. recession within the next 12-18 months, while still high, has been dropping quarter over quarter. The IPO window appears to be opening, at least a crack, for certain companies in tech. All of this points to a better outlook for exit opportunities in 2024, perhaps even the tail end of 2023; again, depending on your industry.

Companies finding themselves in need of weathering the storm are wise to prioritize liquidity and revenue, over growth-at-all-costs. When the exit market rebounds, buyers are likely to pay a premium for companies that can demonstrate robust financial health and proven revenues. On the flip side, we continue to see opportunistic acquirers buying promising startups at discounted prices due to liquidity constraints.

Founders should also brace themselves for extensive due diligence during the exit process. Uncertainty leads to risk, and risk, in turn, fosters caution. Cautious buyers will invest more time and effort scrutinizing a startup's financial records and other documents before deciding to proceed with an acquisition. To address this reality, founders should collaborate closely with their legal counsel and financial advisors to conduct pre-diligence of their own companies.

At the end of the day, despite the prevailing economic uncertainty, there are reasons for optimism in the venture-backed M&A market. Founders can prepare for the future by focusing on liquidity, revenue, and due diligence.

Such strategies will only help to increase your company’s valuation when the M&A market fully recovers.

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