

Cash Is King: Why now may be a great time to sell your business and retire

By Jeffrey T. Paquet, CBI



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Many business owners are now reaching retirement age. They have grown successful businesses with the eventual plan of selling the business to fund their retirement. Everything was going as planned until the economy took a drastic turn for the worse. Bank failures, liquidity problems, bailouts; what does it mean to a business owner if they are preparing to exit my business? Is now a bad time to sell even though its time for them to retire? Will the owner get to retire? Surprisingly, the answers to these questions are completely within an owners control.

The fundamental problem with the economy is that it has literally run out of gas. The ability to borrow money is what makes the economy run and grow. Businesses of all sizes use credit facilities to fund gaps between receivables and payables. They use borrowed funds to buy more equipment so that they can produce more products and hire more people. Without credit every economic entity is forced to make due with what it has in the bank.

This is why "Cash is King" if you are considering selling your business. Because banks are unwilling or unable to lend money during this crisis it makes it very difficult for a potential business buyer to purchase a business. The effect is to drive down the price of businesses to a level where someone has enough cash and desire to buy them.

If a seller has very little debt, can afford, and is willing to finance a buyer the net effect is to increase the value of that particular business. Instead of putting 100% down to purchase the business a buyer can put down 50% or 30%. This increases the pool of potential buyers and also gives them the ability to pay more for the businesses through leverage.

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This creates a tremendous opportunity for a business owner who has cash and wants to sell now. In fact it may be the best possible time to sell. The very fact that a buyer can use leverage to make the purchase will potentially increase its value over businesses that are more profitable or in more desirable industries.

If you are a business owner with cash and little debt you are in a unique and enviable position to control the outcome of your own future. Ask yourself these questions:

- Am I ready to retire?
- Is my debt load on the business low enough that I can afford to "be the bank?"
- Am I willing to take on some additional risk to get more value for my business and earn extra return from the interest on a loan to a buyer?

If you answered yes to these questions don't despair about your retirement. Right now may actually be the best time to exit your business.

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