"I Can't Sell My Business Because I Can't Live Off the Interest"

One of many flawed reasons that business owners don't take advantage of exceptional markets.

By Lance R. Tullius

First off, if you're a business owner who views your business as a hobby, nothing more, nothing less, you need read no further. These sentiments are not for you. You have found something that you love to do for the sake of itself, and so long as that can essentially fund a job, you're fine. You don't view your business as a means to wealth creation. You have more than just a huge emotional tie to the business; it is your baby, and economics and wealth generation are distant priorities. That's perfectly fine. But for other owners, I appeal to you to never again use the excuse that you're not going to sell your business because you couldn't live off the interest from the sale proceeds. It's a lame excuse.

We are in the midst of another great market for merger and acquisition activity. All the key drivers to bullish markets are nicely aligned. Cash is in great supply, easily accessible and inexpensive. The public markets have been good, and despite recent downward volatility, public companies continue to be enticed to aggressively grow revenues in an effort to push stock prices up. It's rarely easy to grow organically, resulting in these same companies searching for big revenue "hits" that can come with strategic acquisitions. And for the most part, the economic prospects look good. All of this is yielding premium valuations being paid for private companies of all sizes. And many business owners, especially appreciating that we're not all that far removed from the depress…um, I mean recession…are taking advantage of opportunities to fully maximize the value of their business. But many are not. And their rationale for not doing so is oftentimes baffling.

It's always struck me as comically contradictory to hear a successful entrepreneur whose very being is lined with risk say that they can't sell their business because the interest they would generate on the sale proceeds would not be nearly enough to fund the rest of their life. Their inherent assumptions are that a) regardless of age, they will never ever earn another honest dollar again in their life; b) regardless of how many millions of dollars they net from the sale, their rate of return on those dollars will be less than 2 percent; c) touching the principal proceeds, no matter for

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A NEW DAY. In today's world, the age range of business owners at the time of selling their business truly runs the gamut. The world has changed, and with it has the motives for selling a business. No longer is selling a business simply timed with an owner's retirement. Many business owners are selling their businesses in their 20s, 30s, 40s and 50s. They're largely made up of Type A personalities, and when they exit one business, it doesn't take long before they're searching for another. Many started their first business with no money and built it. The differences between then and now are that they are equipped with a lot more wealth and experience to likely parlay even greater success. They can say all they want that if they sold their business they plan to go lay on a beach or play golf for the rest of their lives, but try that for six months or so and you'll likely be itching for something to do. Perception and reality are most often different concepts. Even when entrepreneurs divest of a business, it doesn't change the fact that at their core they're an entrepreneur.

How about the assumption that I can never dip into my principal proceeds once I sell my business? Why not? Money itself is arguably the single greatest driver to making more money. Ever heard of compounding? Why do most rich people get richer? Rarely is it because they are smarter than the rest. Rather, they can leverage their financial resources further than a smart person can leverage their time. Unless you do stupid stuff, money almost always begets more money. Allocation is the key. Prior to selling your business, you should have a sense for what it's worth or what it might yield in the current market. From there, you should lay out a plan for what you will do if you do sell.

Part of this plan should include an allocation of the consideration you plan to get in exchange for selling the business. Perhaps you'll plan to put 50 percent of the proceeds in a low risk investment that also yields a low, yet safe and steady return. This portion of your proceeds gives you a level of security for the unlikely event that the world comes crashing down.

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And yes, if the world does come crashing down, you might have to adjust your lifestyle somewhat. But think about it; if that were to happen, and you still owned your business, don't you think your business, as well as its value, would be substantially impacted as well? Absolutely they would! It is much more likely, of course, that history will be the greatest predictor of the future, meaning that while the economy and the markets will experience up, down and in between cycles, they will survive and thrive in the long run. This is why you should take some of that principal and continue to do what is in your nature as an entrepreneur by investing it in things you are passionate about and that likely come with higher risk but also greater upside.

A DIFFERENT LOOK. From yet another perspective, let's assume that these assumptions for not selling a business are true. That is, if you sell your business, you're never going to earn another dollar, you'll earn less than 2 percent interest, you won't ever touch the principal, and you'll live to 110. Despite even this scenario, if maximizing your personal wealth is a high priority, you should sell your business when signs point to valuations of businesses in your industry being at their peak or substantially above historic market levels. At the end of the day, the mighty dollar continues to be the means by which we measure wealth. And how much wealth we generate or create is driven by the assets within which we deploy the dollars we have. If we continually invest in assets for which the value grows, we create exponential wealth. And whenever an asset's value goes down, regardless of where its value has been or when the value goes down, our personal wealth declines.

You can have the highest quality business in existence, yet its market value will almost certainly decline at some point. This is because so much of a business' value is tied to outside forces that are completely independent of the quality or characteristics of the business. So when the value of your business goes down, regardless of what drove that decline, you have less wealth. Maybe it will come back. But that's far from a sure thing. Consider this: Most all businesses will either be sold or die, the latter not appealing to the business owner. So if you sell at any other point than when the value of your business is strong, you will have less dollars, less wealth in your possession, regardless of what you intend to do with those dollars or that wealth.

As you continue to observe companies selling for premium valuations, challenge yourself as to why you are holding on to your business. Don't let the fear of what you will do in your next chapter prevent you from capitalizing on opportunity. **PCT**

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