

## ***Financing the Sale of Your Business***

If you are like many business owners a large portion of your net worth is tied up in the value of your business. When it comes time to sell your business it will likely be one of the largest financial decision you will ever make. Since such a large portion of your wealth is connected to your business you clearly want to get all cash for your business when you sell it, right?

Wrong.

Most business owners will tell you they are not interested in financing the sale of their business. They have a friend or family member who sold their business and had to take it back. They don't want any strings tied to them after they sell. No one financed them when they started their business so why should they finance someone else. The list is long and for the most part the concerns are valid. However, when done properly seller financing is often the difference between whether a business sells at all and it can have an enormous effect on the sale price.

### **Seller Financing Can Increase Your Net Price**

Buyers will often pay a premium for a seller financed business. Seller financing sends a strong signal to the buyer that the seller believes in the future of the business and that the investment is less risky. Buyers will pay for what they perceive as less risk.

Seller financing also creates interest earnings for the seller. **For each \$100,000 in seller financing interest earnings will be \$35,000!** This is based on \$100,00 on a 10 year amortizations at 8% with a 5 year balloon.

Seller financing can also help with tax deferral. By taking a large amount of cash at closing a seller often puts themselves in a higher tax bracket. Taking the money over time can also allow the seller to find other creative tax strategies and investments for the post closing income stream. Talk to your accountant about ideas on how to minimize your taxes.

### **Seller Financing Increases Your Chances of Selling**

Many businesses never sell. One of the most common reasons is the seller is so afraid of seller financing they demand mostly cash. Buyers with enough cash to buy their business

meanwhile are leveraging their money on much larger, more profitable businesses that are willing to seller finance.

Sellers and buyers who pursue bank financing are often frustrated. Banks do not like to lend on business acquisitions. When they rarely do they often artificially cap the price with valuations and ratios that limit what it can sell for. Banks also tend to eliminate many good buyers with restrictive experience requirements. Seller financing on the other hand is incredibly flexible and is limited only by what the parties can negotiate.

By offering seller financing the seller makes their business accessible to a larger pool of buyers versus waiting for that mythical buyer that is going to cash them out. The few cash buyers that are out there often want tremendous discounts that make them unappealing to sellers.

### **Protecting Yourself When Seller Financing**

If you decide that seller financing is something you want to explore here are some ways to protect yourself:

- Talk to multiple buyers. Carefully interview buyers and only finance the buyer you will believe has the right experience and financial wherewithal to continue the company's success
- Demand a high enough down payment. After investing a large portion of their net worth, many months of note payments and lots of hard work a buyer will not see failure as an option.
- Perform due diligence on buyers. Financial statements, credit reports and background checks are all tools for you to consider.
- Use a broker. If a buyer gets in trouble they will often contact the broker to resell the business.
- Get a personal guarantee from the buyer when possible.
- Have an attorney file a security interest on the assets of the business. This is your collateral.
- Require regular financial statements from the buyer after closing.

At the end of the day, seller financing works because it creates confidence in buyers that what they are buying is a solid investment. Buyers will often pay a premium for seller financing. On top of the interest earnings, tax advantages and increased chance of selling, this can make seller financing a very attractive and lucrative way to successfully sell your business.