

Key Wealth Institute

Selling Your Business When Interest Rates Are High

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When interest rates are increasing, the values of businesses can be influenced by several factors. Here are some key considerations when contemplating selling your company:

Cost of borrowing

As interest rates rise, the cost of borrowing for businesses also increases. This can impact businesses that rely on debt financing as higher borrowing costs can reduce profitability and cash flow. Companies with high levels of debt may face challenges in servicing their debt, which can affect their valuation.

Discounted cash-flow analysis

The value of a business is often estimated using valuation methods like the discounted cash-flow analysis. In a rising rate environment, higher discount rates are used in the analysis. This means that future cash flows are discounted at a higher rate, potentially lowering the present value of those cash flows and, consequently, the overall business valuation.

Sector and industry sensitivity

Different sectors and industries may respond differently to increasing interest rates. For example, sectors such as financial services and banking may benefit from higher interest rates as they can improve their net interest margin and profitability. On the other hand, sectors like real estate or highly leveraged industries may face challenges resulting from increased borrowing costs and reduced affordability.

Investor sentiment and market dynamics

Changing interest rates can influence investor sentiment and market dynamics. Rising interest rates may lead to a shift in investment preferences as fixed-income securities become more attractive relative to equities. This can impact the valuation multiples and demand for businesses across the different sectors, affecting their market values.



Impact on customer spending

Increasing interest rates can have an indirect impact on businesses through changes in consumer spending patterns. Higher borrowing costs for individuals may reduce their purchasing power and discretionary spending, which can affect businesses that rely heavily on consumer demand. Industries such as retail, hospitality, and automotive may experience decreased sales and potential valuation adjustments.

Economic factors and inflation

Rising interest rates are often associated with efforts to control inflation. As interest rates increase, borrowing costs rise, which can help moderate inflationary pressures. Businesses must consider the broader economic environment and inflationary trends when assessing their value, as inflation can impact pricing, input costs, and profit margins.

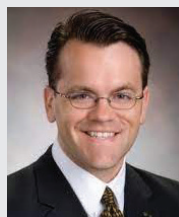
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It's important to note that the impact of increasing interest rates on business values can vary depending on the specific circumstances, industry dynamics, and overall economic conditions. Businesses should monitor market trends, adjust their financial projections, and consider the potential effects of rising interest rates when analyzing their valuations.

Professional guidance from financial advisors or valuation experts can provide valuable insights tailored to a specific business situation.

For more information, please contact your advisor.

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About the Author

Jim is the Head of Banking for Key Private Bank. Originally from Baltimore, Jim earned his undergraduate degree from James Madison University and MBA from Xavier University and started his banking career over 30 years ago working in various roles at other financial institutions. In 2007, Jim joined Key Private Bank and was named the Head of Banking in 2019. In this role, he works closely with clients to understand their unique needs and craft tailored credit solutions to assist them in achieving their goals.



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