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**July/August 2015**

## **Cash is King, Queen, Prince, Princess ...**

Cash is King, Queen, Prince, Princess ... you get the idea! Businesses and/or real estate investments fail when they run out of cash and can't get any more.

In a business or operating real estate investment, cash can be obtained from one of three ways:

- cash generated by operations
- additional investment
- new financing

### Cash Generated by Operations

There are many reasons that cash may not be generated from operations. These include such things as poor management, location issues, increased competition, failure to reinvest and update facilities, and poor marketing. The critical question is: can the problem be adjusted or fixed?

Occasionally I encounter a business that generates excess cash, i.e. more cash than needed to continue to operate the business and for some reason the owners choose to leave it in the business. A certain amount of excess cash can be a good thing. Depending on the nature of the entity, there can be a tax on excess cash accumulations. If that is a possibility, the Company's professionals need to make sure that there is a specific plan in place that justifies the need for the excess cash in the near future.

If excess cash exists in a business, the operating business is valued using only the amount of cash typically maintained for operations. The amount of the excess cash is then added to the value of the operating business to arrive at the value of the stock or equity in the business.

### Additional Investment

The well-known saying "don't pour in good cash after bad" must be considered. Sometimes things have simply changed to the point where additional investment is not a good idea – the concept or property may need to be completely revamped, i.e. the highest and best use of the assets or the property may be to close the business or scrape the improvements for a real estate investment and start with something else.

For example, I occasionally am asked to appraise a very old building that is generating a small amount of rent. In such a case the cost of remodeling the improvements such that they are in a condition to generate market versus the cost to tear down the old building and construct a new building, often with a different use, should be evaluated.

Some people continue to operate a family business that has been in business for many years simply out of a feeling of duty. Some old businesses have outlived their useful life and may need to be closed rather than

continuing to dump more cash in to maintain operations each year. These can be difficult decisions to make. Other times an old business can be revitalized by an additional investment and returned to operating profitability.

### New Financing

When a business (or property investment) fails to generate cash from operations, new financing from a bank is generally not a viable option. In such cases, owners or family members may choose to loan money to a business. If the problem that is causing the loss from operations is likely to be cured, obtaining new financing can be a good thing. Of course, the same things apply if the business operations cannot be fixed, there may be no point in borrowing additional cash.

### Summary

When a business or other investment runs out of cash – and cash is not generated by operations even after making all possible changes, when cash can no longer be obtained from additional investment, and/or the entity can no longer borrow cash – the game is over, it is time to pack up all toys and go home.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**



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