
BLACKTECHSTARTUP EDUCATION

Finance and Close a Small-Business Acquisition

Build the capital stack, lender package, seller-financing terms, purchase-price allocation, working-capital reserve and first-100-day transition plan that turns a good target into a survivable acquisition.

Build the capital stack, lender package, seller-financing terms, purchase-price allocation, working-capital reserve and first-100-day transition plan that turns a good target into a survivable acquisition.

Finance the whole transition, not just the purchase price

The funding need is purchase price plus fees, working capital, inventory normalization, immediate repairs or equipment, insurance deposits, technology changes, payroll timing and a contingency reserve. Build a sources-and-uses schedule before asking a lender for money. A buyer who puts every available dollar into the closing check can own a healthy company and still create a cash crisis in Week 3.

Model monthly cash flow for at least the first year under base, 20% revenue-down and margin-pressure scenarios. Include debt service, market-rate replacement compensation for the seller's work, taxes, planned capital expenditures and your household draw if you need one. The business should finance its operations after the transaction, not rely on hope that "sales will pick up."

Understand what SBA 7(a) can and cannot do

SBA 7(a) loans can be used for complete or partial changes of ownership, subject to program and lender requirements. SBA currently states that most 7(a) loans have a maximum loan amount of \$5 million. The SBA guarantees part of the loan; it does not hand you money directly or guarantee approval. The participating lender underwrites the borrower and transaction.

Talk with multiple experienced acquisition lenders before you sign a binding deal. Ask what equity injection they expect, how seller notes are treated, what cash-flow coverage they require, how they evaluate add-backs, collateral and personal guarantees, and which closing documents create the longest lead time. Use SBA Lender Match as one channel, not as proof that a lender or deal is approved.

Use seller financing as alignment, not as a substitute for diligence

A seller note can reduce the cash needed at closing and keep the seller economically exposed to whether the business performs. Negotiate principal, interest, payment start, amortization, maturity, subordination to senior debt, security, setoff/indemnity interaction and what happens if material representations prove false. Do not assume seller financing means the seller believes the business is safe; the note can still be protected heavily in their favor.

Transition compensation should be separated conceptually from purchase price. Define how long the seller stays, hours, responsibilities, customer introductions, training, noncompetition/nonsolicitation where lawful and appropriate, and what constitutes completed transition. “Seller will help for a while” is not an operating plan.

Build the lender package before asking for money

Prepare buyer resume and personal financial statement; business tax returns and financial statements; interim financials; debt schedule; purchase agreement or LOI; normalized earnings bridge; customer concentration; sources-and-uses; projections; ownership structure; management transition plan; licenses; and a concise explanation of why you can operate this company. Reconcile every number before submission. Inconsistent revenue or unexplained add-backs slow underwriting and damage credibility.

Your projections should connect to operational drivers—customers, price, volume, headcount and margins—not a spreadsheet that grows revenue by 10% because the formula was easy. A lender is testing repayment. You should be testing survival.

Protect cash at closing

Build a closing funds-flow statement showing every dollar: lender proceeds, buyer equity, seller note, purchase consideration, escrow/holdback, fees, prorations, debt payoff and working capital. Confirm which accounts receivable, cash, inventory and payables transfer. The words “cash-free, debt-free” or a working-capital peg can move economics materially; have transaction counsel and your accountant explain exactly what you are buying.

Keep a post-close reserve that is not mentally spent. Customers may pay late, a vehicle may fail, insurance may reset, employees may leave or the first inventory order may be larger than expected. The correct reserve depends on the business, but zero is rarely a strategy.

Make tax allocation and legal structure part of economics

Asset purchases and equity/stock purchases can create different liabilities, transfer mechanics and tax consequences. In applicable asset acquisitions, IRS Form 8594 is used by buyer and seller to report allocation of consideration among acquired assets. The allocation affects basis and the character/timing of tax consequences. Do not agree casually to a seller-favorable allocation at the end of negotiation because “the total price is the same.”

Use experienced tax and transaction professionals to model structure before the purchase agreement is final. A price that looks identical on the first page can have different after-tax economics and risk depending on structure.

Close with a 100-day transition plan already scheduled

Before the wire, schedule Day 1 employee communication, key-customer introductions, vendor/bank/processor transitions, payroll, insurance, administrator credentials, physical access, cybersecurity resets and ownership of every recurring deadline. Weeks 1–4 should stabilize people and cash; Days 30–60 document processes and customer risks; Days 60–100 begin deliberate improvements after you understand why the system works the way it does.

Do not celebrate by changing ten things in the first week. The acquisition created ownership; the next objective is preserving the cash flow you paid for. Guide 60 owns target diligence. This guide owns the capital, legal/tax coordination and transition that get the right target across the line.

Research behind this guide

Use the primary and authoritative sources below to verify current rules, prices, eligibility and program details before acting. Terms can change.

SBA — 7(a) Loans



SBA — Lender Match



SBA — Loans



IRS — Instructions for Form 8594



IRS — Publication 334



SBA — Buy an Existing Business or Franchise



Important: This guide is educational information, not individualized legal, tax, investment, employment, security or compliance advice. For decisions with material legal or financial consequences, use a qualified professional who can review your facts.

SHARE THIS GUIDE ↗

POWERED BY: BLACK TECH STARTUP

blacktechstartup.com