



## Can the Deal Be Financed?

There is a common phrase that I hear quite a bit in the business brokerage industry – “The Buyer and the Seller have agreed on price and terms, but I cannot get the deal financed!” What I find interesting about this statement is: to have a deal...you have to have a closing. If the Buyer cannot finance it with all cash, and the banks will not finance it, and the Seller will not finance it, “it” does not exist – no Deal.

My point to you is this - do the necessary preliminary work making sure your “deal” can be financed before you spend hours of time and money on something that does not have positive cash flow now nor in the future. Do you have a company/sale/product that somebody is willing to finance?

**Bank Financing** - A Bank needs to make sure that it will have sufficient cash flow from the proposed transaction and that this cash flow is sustainable in our new economy. Typically it will want three years of cash flow history, but on rare occasions have gone to one most current year of historical cash flow plus positive interim financials. The banks typically are still looking for a debt coverage ratio of 1.2 to 1.25.

**Seller Financing** - A Seller needs to make sure that the Buyer has all to other tools and resources to take the business to the next level if the Seller is going to be the Bank.

**Buyer Financing** - A Buyer needs to bring a lot of cash to the table and have a lot of cash for working capital in the future if the Banks and Sellers are not willing to play the financing game.

**The Market Trends** - The days are gone where 10% down will take a deal to closing. Well heeled equity groups are finding that they may need to put down up to 50% into transactions – which leads to lower returns for their investors. With main street deals, if the buyer and business are strong, you may be successful with just 20% down.

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