



Iron Sharpens Iron When Financing the Transaction

What does it take to close a deal where the Buyer seeks reasonable outside financing?

I have found a great deal of wisdom in the words of Proverbs 27:17 “Iron sharpens iron”. It may have been written many years ago, but truths do not change. This wisdom can be applied more than ever to a Seller and Buyer when they are trying to close a deal and need reasonable financing to make it all happen.

A bank is looking for a strong Buyer, a strong Seller and a strong Company. When working together, the Buyer and Seller can strengthen each other...”Iron sharpens Iron.”

Financial Institutions have always wanted strong parties in a transaction, but the definition of “strong” has been “refined” in this recession:

- A strong buyer needs to have experience in the business industry he is buying;
- A strong buyer needs to have approximately 50% down in cash;
- A strong buyer needs to have strong collateral up and above what assets they are buying with the business;
- A strong seller needs to be ready to put in approximately 10% to 20% into the transaction;
- A strong seller needs have a business that has tax returns that can prove a coverage ratio of much better than the old 1.2 rule of thumb;
- A strong seller needs to have future sales that can support the future cash flow of the Buyer – this is not to say that gross revenue has to be up...it can be down.

So for a deal to happen, everyone needs to hold up the other...”Iron sharpens Iron” and everyone wins, enjoying the future.

Copyrighted 2020

Capital Endeavors, Inc.

P.O. Box 895, 232 Crogan Street, Lawrenceville, GA 30046

Web: www.capitalendeavors.com Email: davidstill@capitalendeavors.com

PHONE: 770-962-8399 FAX: 770-962-8640