Assumptions Memo

Ridgeview HVAC Services: SBA 7(a) acquisition analysis | Accompanies the financial model and lender summary

1. Purpose and basis

This memo explains the adjustments and assumptions behind the financial model. Under SBA SOP 50 10 8.1 (Appendix 15), an initial acquisition must show debt service coverage of at least 1.25x on historical or adjusted historical earnings, using the last fiscal year or a two-year average. Projections support the request but cannot be used to meet the coverage test.

2. Source documents

Seller's Form 1120-S for 2024 and 2025; 2025 monthly profit and loss; letter of intent and asset allocation; seller's add-back schedule with support; buyer's personal financial statement (SBA Form 413); landlord's lease assignment terms; staff list. Figures were not audited or independently verified.

3. Recast adjustments

Adjustment	2024	2025	Basis and support
Owner's salary	$120,000	$120,000	Seller exits at closing. Replaced by the buyer's market salary below.
Depreciation	$38,000	$35,000	Non-cash expense.
Interest	$14,000	$11,000	Seller's equipment loan is repaid from sale proceeds at closing.
Owner's personal truck	$9,000	$9,000	Mileage log and title show personal use; vehicle excluded from the sale.
Family health insurance	$14,000	$15,000	Policy invoices; benefit to the seller's family only.
Spouse wages, net	$6,000	$6,000	Spouse's $30,000 wages added back, less $24,000 to hire a part-time bookkeeper for the same role.
Legal settlement	$0	$18,000	Settlement agreement on file; dispute closed and non-recurring.
Buyer market salary	($100,000)	($100,000)	Market cost of a general manager for a business of this size. Lenders deduct it.
Adjusted EBITDA	**$220,000**	**$244,000**	**Two-year average $232,000.**

Excluded: the seller proposed adding back revenue lost when a commercial customer left in 2024. Lost revenue is not an expense and cannot be added back; reported results stand. Adjusted EBITDA is shown before owner tax distributions, consistent with the lender's coverage calculation.

4. Structure and debt

Purchase price $1,200,000 (asset purchase): equipment and vans $180,000, inventory $40,000, goodwill $980,000. SBA 7(a) loan $1,080,000 at 9.50% (assumed Prime 6.75% plus 2.75%; to be confirmed by the lender), 10-year level amortization: $13,975 per month, $167,699 per year. The $60,000 seller note is on full standby with no payments during the SBA loan term, so it carries no debt service. SBA guaranty fee and closing costs are excluded and would be added once the lender confirms them.

5. Projection assumptions (supporting)

- Revenue grows 3.0% a year, below the 4.5% achieved in 2025, to allow for the ownership transition.
- Cost of goods sold held at the 2025 ratio of 56.2% of revenue.
- Operating costs start from 2025 actuals, excluding the add-backs above, and rise 3.0% a year. The buyer's salary of $100,000 replaces the seller's; rent resets to $66,000 under the assigned lease.
- Maintenance capital spending of $15,000 a year; equipment depreciated straight-line over 5 years. Goodwill is not amortized for book purposes.
- Pass-through entity: no entity-level income tax. Owner tax distributions of 30% of net income are deducted from cash.
- Working capital assumed stable; no cash is acquired at closing.

Result: projected coverage of 1.50x in Year 1 rising to 1.77x in Year 5 (EBITDA $252,180 to $296,382).

Prepared from information provided by the borrower; not audited, reviewed or independently verified. Projections are estimates. SAMPLE: all names and figures are illustrative.

6. Seasonality and closing date

Year 1 is projected monthly using the seasonal pattern in the seller's 2025 monthly P&L (peaks in June to August and December to January). With a May 1 closing, month-end cash stays positive throughout Year 1, with the lowest point at $80 in the first month. A closing in the fall or late winter would start with slow months and would likely need working capital.

7. Matters for the underwriter

- Coverage passes, but the cushion is thin: $22,376 of adjusted EBITDA above the 1.25x requirement on the two-year average. A 2.8% revenue decline reaches the minimum and a 8.1% decline reaches 1.00x.
- Buyer retains $35,000 of liquidity after closing. A working capital line would strengthen the request.
- Each add-back is supported by documents in the file; the lost-customer adjustment was excluded.

8. Limitations

This analysis relies on information provided by the borrower and seller, which has not been audited, reviewed or verified. It is not an appraisal, business valuation or quality of earnings report, and it is not legal, tax or accounting advice. Projections are estimates; actual results will differ. Nothing here guarantees loan approval.