Ridgeview HVAC Services: Acquisition Financing Request

SBA 7(a) complete change of ownership | Initial acquisition | Requested: $1,080,000, 10 years, 9.50% | Projected closing May 1, 2027

Sources & uses

Sources	Amount	%
SBA 7(a) loan	$1,080,000	90.0%
Buyer cash injection	$60,000	5.0%
Seller note (full standby)	$60,000	5.0%
Total = purchase price	**$1,200,000**	**100.0%**

Equity injection $120,000 (10% of project costs): **meets minimum**. Standby seller note is $60,000, exactly the 50% cap on limited sources.

The business

Residential heating and air-conditioning service and installation in Texas. Revenue of $1,860,000 in 2025, up 4.5% from 2024, at a 43.8% gross margin. Revenue peaks in summer (cooling) and winter (heating). The seller remains for a 90-day transition. The buyer is a former operations manager at a regional HVAC competitor.

Adjusted earnings and debt service coverage (SBA test basis: historical)

	2024	2025	2-yr average
Net income per tax return	$119,000	$130,000	$124,500
Add-backs (see memo)	$201,000	$214,000	$207,500
Less: buyer market salary	($100,000)	($100,000)	($100,000)
Adjusted EBITDA available for debt service	**$220,000**	**$244,000**	**$232,000**
Annual debt service (SBA loan; seller note on standby)	$167,699	$167,699	$167,699
Debt service coverage ratio	**1.31x**	**1.45x**	**1.38x**

Minimum for an initial acquisition is 1.25x on historical or adjusted historical earnings. **Result: passes on both the two-year average (1.38x) and the last fiscal year (1.45x).** Add-backs: seller's salary, depreciation, interest on debt retired at closing, documented personal expenses, and a one-time legal settlement; spouse wages are added back net of a replacement bookkeeper. The seller's lost-customer claim is excluded.

Sensitivity (two-year average basis)

Scenario	Adj. EBITDA	Debt service	DSCR
Base case	$232,000	$167,699	1.38x
Revenue down 5%	$192,250	$167,699	1.15x
Revenue down 10%	$152,500	$167,699	0.91x
Gross margin down 2 points	$195,600	$167,699	1.17x
Interest rate up 2 points	$232,000	$182,212	1.27x
Revenue down 5% and rate up 2 points	$192,250	$182,212	1.06x

A revenue decline of **2.8%** brings coverage to 1.25x; a decline of **8.1%** brings it to 1.00x. Projected coverage (supporting only): 1.50x in Year 1, rising to 1.77x in Year 5.

Key risks and mitigants

Risk	Mitigant
Thin cushion: adjusted EBITDA is $22,376 above the 1.25x requirement on the two-year average.	Last fiscal year covers at 1.45x with revenue growing; consider increasing the standby seller note or cash injection to widen the margin.
Ownership transition and customer retention.	90-day seller transition; buyer has direct HVAC operations experience; recurring service-agreement customers.
Limited liquidity: buyer retains $35,000 after closing; Year 1 cash starts near zero.	May closing ahead of cooling season keeps month-end cash positive (lowest $80). Recommend a working capital line as a backstop.
Seasonal revenue.	Monthly Year 1 projection reflects seasonality from the seller's 2025 monthly P&L.

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