



*Center for Private Company Excellence Webinar*  
**Financing an M&A Transaction**

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# Agenda

- What is an SBA loan?
- Features/Benefits of the SBA loan programs
- Financing Change of Ownership Transactions

# What is an SBA loan?

- Business loans guaranteed by the U.S. government i.e. Small Business Administration
- When are SBA loans used?
  - situations that are outside of the bank's risk appetite
  - terms that a bank would not otherwise offer
- Purpose: To provide businesses with access to capital.



# Features/Benefits of SBA Acquisition loans

## Key benefits:

- Lower down payment requirements
- Longer terms
- Flexible collateral requirements
- Lower cash flow requirements
- Projection based underwriting

# Features/Benefits of SBA loans Acquisition Financing

## **Real estate purchases**

- 90% financing
- Up to 25 year term

## **Business acquisitions & Partner buyouts**

- 10 year term
- Up to 100% financing
- Flexible collateral requirements

# SBA Programs: Who Qualifies?

## Eligibility Requirements for SBA loans:

- Must be a for-profit business
- Owner/operator businesses
- For real estate financing, must be owner occupied property.
- Maximum SBA loan amount of \$5 million
- Business must meet definition of a “small business”
  - Number of employees (varies by industry)
  - Total revenue (varies by industry)
  - Less than \$5 million net income and \$15 million tangible net worth
- Minimum debt service coverage ratio of 1.15x

# Financing Change of Ownership Transactions with SBA

- Borrower equity injection requirements:
  - Business acquisition: 10% of total project cost
    - Seller note can make up 5% of required equity injection. Must be on full standby for term of the SBA loan.
  - Partner buyout: 100% financing is eligible if following requirements are met.
    - All owners must have the same or increasing % of ownership for the past 2 years.
    - Business must have less than 9:1 debt to worth ratio.
- Earn-out provisions are ineligible
  - Seller notes are okay but cannot be based on future performance of business.
- Owner cannot remain as key employee, officer, director, or stockholder of business post-closing.
  - ESOPS are the only exception
  - Owner may remain as a consultant for up to 12 months post-closing.
- Buyer must have transferable experience. Specific industry experience is strongly preferred.
- “Add-backs” to cashflow may be considered.

# Contact the Moderator

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Brian leads Kreischer Miller’s Business Advisory Services group, which offers an array of services including M&A/transaction advisory, business valuation, transition/exit planning, and ESOP consulting.

Brian is experienced in business valuations, transition planning, due diligence, and merger and acquisition activities. He helps his clients by actively working with them to solve issues, provide recommendations, and offer opportunities for success. Brian’s experience includes working with a variety of privately-held and family-owned businesses such as manufacturers, distributors, professional service companies, and Internet-based organizations.

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