Commercial Capital
Connector

BORROWER-SIDE CAPITAL STRATEGIST

SBA 7(A) & 504 FINANCING FEASIBILITY & ABILITY-TO-QUALIFY ASSESSMENT

XYZ Plastics, LLC

Vertically integrated engineered polymer and thermoplastic manufacturer serving regional petrochemical
Business and owner-occupied real estate acquired concurrently · Southern U.S. metropolitan market · NAICS 3261xx
Prepared for the prospective buyer

REDACTED SAMPLE — identifying details removed · Commercial Capital Connector · Shared to illustrate scope and depth of analysis — not a live financing request

RECOMMENDED TOTAL TRANSACTION	BINDING CONSTRAINT	DSCR AT RECOMMENDED STRUCTURE	REAL ESTATE FINANCING
$3.75MM	**Valuation**	**1.87x**	**504 / SPV**
$2,700,000 business plus $1,050,000 real estate	Non-standby business debt is 73.9% of price; the buildings carry their own appraisal	70/20/10 with the seller note on full standby; 1.33x on the harshest haircut	$436,000 CDC debenture at 6.033% fixed 25 years; no 7(a) capacity consumed

What This Assessment Concludes

1. **Eligible and financeable on either structure you proposed — and the clean exit is now locked.** XYZ Plastics passes every SBA 7(a) and 504 eligibility gate we can test, and the seller's agreement to retain nothing removes the two-year seller guaranty and the partial change-of-ownership machinery. Both 80/10/10 and 70/20/10 clear the 1.25x floor on every earnings basis SOP 50 10 8.1 permits.
2. **Your cash is $386,500 either way — so choose on standby, not on the split.** The 10% injection is a non-waivable floor, so both structures cost identical equity. What differs is cushion: 70/20/10 with the note on full standby carries **1.87x** and survives a valuation 26% light; 80/10/10 on an amortizing note carries 1.57x and breaks if the valuation is 6% light.
3. **Buying the buildings adds $97,000 to cash flow, and they are worth more than the seller's own pro forma implies.** Cash flow available for debt service rises from $698,000 to **$795,000** and the related-party lease disappears. The seller's $8.02 per foot assumed rent sits against a regional market averaging $10.19; direct capitalization supports **$1,050,000**, or $87 per foot.
4. **Put the real estate in a 504 inside a single-purpose LLC.** A $436,000 CDC debenture fixed at 6.033% for 25 years, fully amortizing, consuming **none** of your $5,000,000 of 7(a) capacity. That is the roll-up runway.
5. **2026 has flatlined — and there is a defensible reason it did.** Regional refiners ran above 95% utilization for six straight months and pushed turnarounds out nine to twelve months; that work lands in the September–November 2026 window. Hold the price on the actual first half, and test the thesis on the third quarter.

Commercial Capital Connector · brett@commercialcapitalconnector.com · Rates reference WSJ Prime of 6.75% effective September 2, 2026. This sample contains no SSNs, dates of birth, home addresses, or personal telephone numbers.

REDACTED SAMPLE — NOT A LIVE FINANCING REQUEST

An actual Commercial Capital Connector work product, reproduced with the client's identifying details removed. The company name, the buyer and seller identifiers, the city and state, and the specific product niche have been changed or generalized. **Every financial figure, ratio, coverage table, structural conclusion and rule citation is unchanged from the delivered assessment.**

Section 1

Bottom Line

XYZ Plastics, LLC (“XYZ”) is an SBA-eligible acquisition target and the transaction now on the table — a clean 100% purchase of the company with the owner-occupied real estate acquired **concurrently** — is financeable, and it is a materially better transaction than the version we assessed on September 3. Two changes did that. The seller has agreed to abandon all ownership post-closing, which eliminates the partial change-of-ownership machinery and the two-year seller guaranty. And the seller has agreed to sell the buildings alongside the business, which converts a $97,000 related-party rent expense into owned real estate and lifts cash flow available for debt service to **$795,000**.

Your stated preference is 80/10/10 or 70/20/10. Both work. But the equity leg is not actually a variable — SOP 50 10 8.1 fixes the injection at 10% of project cost and forbids waiving it, so both structures require the same **$386,500** of your cash. The only thing the split changes is how much of the price sits in bank debt versus seller paper, and therefore how much coverage and appraisal cushion you carry. On that test **70/20/10 with the entire seller note on full standby is the better of your two**, and it is what we have modeled as recommended. Section 9b prices all five variants.

The right architecture is **two loans, two borrowers, one closing**. The operating company takes a 7(a) term loan for the business and goodwill. A newly formed single-purpose LLC — an Eligible Passive Company under SBA's rules — buys the real estate with an SBA 504 project: a bank first mortgage, a CDC debenture fixed at **6.033% for 25 years**, and a 10% injection. The 504 half consumes none of your $5,000,000 of 7(a) capacity, which is what preserves the roll-up.

The constraint is still **valuation**, but it is now a smaller constraint. Under SOP 50 10 8.1 the lender must commission an independent business valuation on every change of ownership and **total transaction debt may not exceed the supported value**. Moving the real estate onto its own appraised collateral shifts roughly $981,000 of the capital stack off the business valuation test. At a $2,700,000 business price with the seller note on full standby, non-standby transaction debt is **$1,994,633** — only **2.86x** FY2025 adjusted EBITDA and **73.9%** of the price, meaning the independent valuation can land **26% below** your offer before the cap binds. Put the same note on amortizing terms and that tolerance collapses to 5.6%. The deteriorating base year remains the reason to hold the price.

RECOMMENDED TRANSACTION

COMPONENT	AMOUNT	MULTIPLE / METRIC	COMMENT
Business, goodwill and equipment — 7(a), operating company	$2,700,000	3.9x FY2025 adj. EBITDA	Held under $3.0MM to avoid a mandatory Quality of Earnings
Real estate — 504, single-purpose LLC	$1,050,000	$87 / sf on 12,100 sf	Direct capitalization at market rent; see Section 7
Total transaction	**$3,750,000**	**1.87x DSCR**	**Coverage on FY2025 cash flow at 7(a) of 8.75%, note on full standby**

FY2025 adjusted EBITDA of $698,000 per CIM Schedule 1, after a $135,000 market officer salary and a $97,000 market rent charge. With the real estate purchased, the rent charge is reversed and the FY2025 basis becomes $795,000; the FY2024–FY2025 average becomes $709,500. Every figure traces to the CIM dated 2026, the 2025 income statement, the running-order workbook or the metrics workbook you provided, plus the published regional industrial market data cited in Section 7. This is an assessment, not a commitment to lend.

Section 2

The Findings That Drive the Number

Two findings from the September 3 edition are now resolved. The seller has agreed to abandon all ownership post-acquisition, which removes the partial change-of-ownership treatment, the mandatory two-year seller guaranty of your SBA loan and the minority-governance negotiation. The seller has also agreed to sell the commercial real estate concurrent with the business, which removes the related-party lease, its assignment and collateral-assignment requirements, and the $65,483 rent gap. Both were priced as risks last week. Both are now closed.

Finding 1 — 2026 has stalled. Monthly billings from the running-order file: Jan $190,258, Feb $355,409, Mar $263,869, Apr $196,827, May $216,833, Jun $208,924. First-half 2026 totals **$1,432,120** against first-half 2025 of **$1,419,462** — growth of **0.9%**. Annualized, 2026 runs at roughly **$2,864,000**, below both FY2025 actual revenue of $2,672,817 in growth terms and materially below the CIM's $3,000,000 base-year projection. The CIM's 2026–2031 pro forma, and any price derived from it, rests on a growth assumption that is six months into not happening.

Finding 2 — the buildings are worth more than the seller's own pro forma implies, and that cuts both ways. The CIM charges $97,000 of assumed market rent on 12,100 square feet — $8.02 per square foot. The regional industrial market closed 2025 at **4.38% vacancy** with average asking rent of **$10.19 per square foot NNN** and average sale pricing of **$80 per square foot** (Regional industrial market report, Q4 2025 (publisher withheld in this sample)). The seller's rent assumption is below market, which means the value the seller attributes to the real estate is below market too. Argue market rent when you are valuing the buildings and the seller's own recast when you are valuing the business, and be prepared for the seller to notice.

Why the first half was flat — a thesis worth testing before you concede on price. Regional refiners ran above **95% utilization for six consecutive months** through the first half of 2026 (Chevron above 97%, Shell downstream at 102%), and operators deliberately **deferred turnarounds nine to twelve months** because taking a unit offline cost several hundred thousand dollars per day in lost throughput. That accumulated work has to happen in the **September through November 2026** fall window — coker drum inspections, catalyst changeouts, fired heater tube inspections, desulfurization bed assessments (industry trade press, September 1, 2026 (publisher withheld in this sample)). For a shop selling engineered polymer and thermoplastic components into that maintenance cycle, a flat first half followed by a loaded fourth quarter is exactly the pattern that backdrop predicts. **Treat this as a hypothesis, not a fact.** It is worth real money if it holds, so test it: pull monthly billings for July, August and September 2026 as they close, and ask the seller for the 2023–2025 monthly series so you can measure whether XYZ's revenue has historically tracked the regional turnaround calendar. If the correlation is there, you have both a price defence and a credit argument. If it is not, the flat first half is a trend and you hold the price on that instead.

Finding 3 — the "one-time" repairs add-backs are the largest single swing in the file. Repairs and maintenance ran **$21,000, $126,000 and $87,000** across 2023–2025, and $147,000 of it is added back as one-time. A line that recurs at six figures in consecutive years is not one-time. If credit strips those add-backs on a two-year average basis, maximum supportable business price falls from roughly **$4,009,400 to $3,466,200** — a swing of **$543,200**. That is not a coverage problem at a $2.7MM price, but it is the number to have general-ledger detail ready for.

Structural point. Buying the buildings does not eliminate the lease — it replaces it. Under SBA's Eligible Passive Company rule the new real estate LLC must lease **100%** of the property to the operating company under a written lease subordinated to SBA's lien, with a term (including renewal options exercisable by the operating company) **at least equal to the loan term**, and rent may not exceed the loan payment plus the LLC's direct holding expenses (SOP 50 10 8, EPC provisions; FFCFC on EPC/OC structures). Your counsel drafts that lease at closing. It is a form document, not a negotiation.

Section 3

Eligibility Assessment — The Business

REQUIREMENT	STATUS	BASIS
For-profit operating business located in the United States	**Pass**	an S-corporation, operating since 1978, comparable regional facilities
Meets SBA size standard	**Pass**	the subject NAICS code within industry group 3261 (Plastics Product Manufacturing) carries a **750-employee** standard (six-digit NAICS within industry group 3261). XYZ has 8 employees
Eligible industry — not on a prohibited list	**Pass**	Plastics manufacturing; no lending, gambling, speculative, passive or life-sciences restriction applies
Eligible use of proceeds — change of ownership	**Pass**	100% purchase of an operating business is an eligible 7(a) use
Within the $5,000,000 7(a) exposure cap per borrower and affiliates	**Pass**	A $1.99MM term loan plus a $500K line consumes $2.49MM of the $5.00MM; the 504 on the real estate consumes none of it — see Section 12 on the roll-up
No franchise or affiliation issues	**Pass**	Independent company; no franchise agreement disclosed
Current on all federal obligations	Confirm	Requires IRS transcripts and 4506-C on the company and the buyer
Not a 7(a) Small Loan candidate	Noted	SOP 50 10 8.1 closes the 7(a) Small Loan path to **all** change-of-ownership transactions. This must be underwritten as standard 7(a)
Change of ownership is 100% — no retained seller equity	**Pass**	Seller has agreed to abandon all ownership post-acquisition. No partial change-of-ownership treatment, no mandatory two-year seller guaranty

REAL ESTATE SIDE — 504 ELIGIBILITY

REQUIREMENT	STATUS	BASIS
Eligible Passive Company structure permitted	**Pass**	A single-purpose LLC may borrow to acquire real property leased to the operating company, provided it leases **100%** of the project property to that operating company and holds no interests in other entities. Multiple EPCs in one transaction are not permitted — use one LLC (SOP 50 10 8)
Owner-occupancy for an existing building	**Pass**	504 requires the operating company to occupy at least **51%** of an existing building. XYZ occupies 100% of both structures
Eligible 504 use of proceeds — long-term fixed assets	**Pass**	Land and buildings qualify. 504 **cannot** finance goodwill, working capital, inventory or short-lived equipment — which is exactly why the business half stays on the 7(a) (504 program mechanics)
Within the CDC maximum	**Pass**	$436,000 debenture against a $5,000,000 standard cap, or $5,500,000 for a small manufacturer
Guaranty coverage across both entities	Confirm	Every holder of **20% or more of either** the real estate LLC or the operating company must guarantee. With a single buyer that is one guarantor on both notes
Environmental review	**Issue**	See Section 11. A plastics plant with on-site chemical storage should be assumed to escalate to a Phase I Environmental Site Assessment

Section 4

Buyer Requirements — the prospective buyer

Threshold screen, do this first. Effective March 1, 2026, SBA requires that **100% of direct and indirect owners and all guarantors be U.S. Citizens or U.S. Nationals residing in the United States.** Lawful permanent residents (green-card holders), visa holders, asylees, refugees and DACA recipients are now **ineligible**, with a six-month ownership lookback. This is a hard gate, not an underwriting preference. It must be confirmed before any lender time or third-party cost is incurred.

REQUIREMENT	WHAT IT MEANS FOR THIS DEAL
Equity injection — now across **two** projects	Each project carries its own 10% requirement and neither can be reduced. **7(a) project**: $2,700,000 plus roughly $75,000 of closing and third-party costs, so **$277,500**. **504 project**: $1,050,000 plus roughly $40,000 of appraisal, environmental, title and CDC fees, so **$109,000**. **Total buyer cash of $386,500.** At least 5% of the 7(a) project cost must come from unlimited sources — your own unborrowed funds. Documented valuation and diligence costs you pay out of pocket count toward the injection
Seller note as injection	A standby seller note counts as a “limited source” and is capped at **half** the injection requirement — a maximum of 5% of project cost, and only if on full standby. Your 20% carry cannot substitute for the cash — but because you are funding the full 10% in cash, you do not need it to, which is why all $555,000 can sit on full standby
Owner compensation and the global test	The recast charges a $135,000 market salary against earnings. You must live on that figure and still cover personal obligations at 1:1 on the global cash flow test
Guaranty and collateral	Unlimited personal guaranty on both notes. All business assets pledged to the 7(a); the real estate pledged to the bank first and the CDC second. Owning the buildings materially improves the 7(a) collateral position and should reduce or eliminate the demand for a lien on personal real estate — but see the note on a home equity line in Section 15
Operating intent	Full-time active management assumed. Absentee ownership would require a further management-salary charge and is not contemplated here
Seller involvement post-close	SOP 50 10 8.1 permits a consulting arrangement of up to **24 months** — extended from 12. The seller may **not** remain a key employee. Structure the transition as consulting, not employment

Section 5

What SOP 50 10 8.1 Requires on This Transaction

SOP 50 10 8.1 takes effect for loans with an SBA loan number issued on or after **October 1, 2026** (Coleman Report; SBA Information Notice 5000-880695). On a realistic timeline this deal will be underwritten under 8.1.

REQUIREMENT UNDER 8.1	APPLIED TO XYZ PLASTICS
DSCR floor of **1.25x** for the Initial Acquisition category	Cleared to a business price of $2,948,800 on the harshest stress basis and $4,641,400 on FY2025, with the real estate held at $1,050,000. Not the binding constraint
Earnings basis limited to the **most recent fiscal year end** or the **average of the last two fiscal years**. TTM and projections are not permitted	FY2025 adjusted EBITDA $698,000, or the FY2024–FY2025 average of $612,500 — $795,000 and $709,500 respectively once the market rent charge is reversed for the purchased real estate. The CIM's 2026–2031 forecast is inadmissible for coverage
Independent, lender-engaged business valuation on **every** acquisition — no size carve-out	Mandatory. This is the gate that decides the price
Total transaction debt may not exceed the supported valuation. Any price-over-value gap must be funded with additional equity	The live risk. See Section 7
Financial due diligence mandatory; **Quality of Earnings mandatory at a business purchase price of $3,000,000 or more**, measured before injection and before the seller note, and the lender must use the QoE normalized earnings in DSCR	Holding the price under $3.0MM avoids a mandatory QoE — several weeks of timeline and a five-figure cost. A genuine reason to structure at $2.7–2.9MM
Non-standby seller debt sits in post-closing debt service; interest-only non-standby seller paper is imputed on a **10-year amortization**	Deferring principal on the carry note does not improve your ratio. Only full standby removes it from the denominator
A change of ownership may be paired with a revolving line, modeled **fully advanced at the committed limit**. The line may not fund the purchase	The $500K line is carried at full draw in every coverage figure in this document
Owner financial statements expire in 90 days; two most recent months of business bank statements required; site visit required	Sequence Form 413 late so it does not go stale
Seller **earnouts are prohibited** on a change of ownership under 8.1	Any price adjustment must be settled **before** closing. A post-closing true-up tied to 2026 results would be recharacterized as an earnout and kill the guaranty. See Section 9

RULES GOVERNING THE REAL ESTATE HALF

REQUIREMENT	APPLIED TO XYZ PLASTICS
504 capital structure — 50% third-party bank first mortgage, 40% CDC debenture, 10% injection	On a $1,090,000 project: bank first **$545,000**, CDC **$436,000**, injection **$109,000**. The injection rises to 15% if the property is judged special-purpose or the borrower is a new business, and to 20% if both (504 structure)
CDC debenture pricing	The August 6, 2026 debenture sale priced the 25-year standard debenture at **6.275%** and the 25-year manufacturing debenture at **6.033%**. NAICS 31–33 earns the roughly 25-basis-point manufacturing improvement — XYZ at NAICS 3261xx qualifies. Debentures price monthly and the rate **locks at funding, not at application** (SBA 504 debenture rates)
CDC amortization	Fully amortizing over 10, 20 or 25 years at a fixed rate with **no balloon**. Take the 25-year
Eligible Passive Company lease	The LLC must lease 100% of the property to XYZ, subordinate the lease to SBA's lien, run the term at least as long as the loan, and cap rent at the loan payments plus direct holding expenses — routine maintenance, utilities, insurance and property taxes. No accelerated payments to the third-party lender
Combined 7(a) and 504 exposure cap	Raised from $5,000,000 to **$10,000,000** per affiliated group effective July 4, 2026: up to $5,000,000 of 7(a) plus up to $5,000,000 of 504, and small manufacturers may take unlimited 504 loans where each is a distinct project (SBA news release). This is the single most important rule for your roll-up — see Section 12
The **51% rule is eliminated** under 8.1	Previously a blended 7(a) could stretch to 25 years only if real estate was 51%+ of use of proceeds. 8.1 replaces that with a formula: 10 years plus 15 years multiplied by the real estate share of total project cost, rounded to the nearest year. A true 25-year real estate schedule now requires a **separate** real estate loan (Pioneer Capital Advisory). This is the technical reason the two-loan structure wins — see Section 9

Section 6

Resetting the Earnings Basis

The CIM builds FY2025 adjusted EBITDA of $698,000 from reported net income of $547,067 with the following adjustments. Two of them will be contested.

ADJUSTMENT	FY2024	FY2025	UNDERWRITING VIEW
Reported net income	—	$547,067	Per 2025 income statement
Officer compensation normalized to $135,000 market	—	+$105,270	Accepted, but $135K is thin for a President who also runs sourcing, marketing and trade shows. A lender may set $150–175K
Rent stepped to $97,000 assumed market	—	−$65,483	Correct while the buildings were leased. **Reversed below** now that they are being purchased
Owner auto, charitable contributions, owner life insurance	—	+$19,000	Defensible with a general-ledger detail
Transaction advisory fee	—	+$50,000	Accepted as a one-time transaction cost
"One-time" repairs and maintenance	+$112,000	+$35,000	**Contested.** R&M ran $21K, $126K and $87K across 2023–2025. A line item that recurs in two consecutive years at a six-figure and five-figure level is not one-time
Interest	—	+$6,336	Standard
Adjusted EBITDA per CIM	**$527,000**	**$698,000**	**CIM Schedule 1**

REVERSING THE RENT CHARGE NOW THAT THE BUILDINGS ARE BEING PURCHASED

The $97,000 market rent charge exists only because the operating company was assumed to lease from a third party. With the real estate acquired concurrently, that rent is replaced by the real estate LLC's own debt service, taxes and insurance — which appear in the coverage denominator in Section 7, not as an operating expense. Adding the charge back is not an add-back argument; it is the removal of an expense the buyer will no longer pay to anyone outside the structure.

THE FOUR BASES WE UNDERWRITE TO

BASIS	PER CIM	RENT REVERSED	PERMITTED UNDER APPENDIX 15
FY2025 adjusted EBITDA — most recent fiscal year end	$698,000	**$795,000**	Yes
FY2024–FY2025 two-fiscal-year average	$612,500	**$709,500**	Yes
Two-year average less the repairs add-backs	$539,000	**$636,000**	Yes — the realistic hostile case
Two-year average, haircut, less $70,000 maintenance capital expenditure	**$469,000**	**$566,000**	**Our internal stress case**

> **One qualification.** The rent reversal belongs in the *coverage* analysis, where the offsetting real estate debt service is also captured. It does **not** belong in the *business valuation*. A valuator appraising the operating company separately from its real estate will charge market rent as an expense, so the business valuation still rests on the $698,000 figure. Do not let the two analyses cross-contaminate — Section 7 keeps them separate.

> **Book depreciation was $0 in 2025** while capital expenditure ran $77K, $75K and $51K across 2023–2025 and management projects $65K–$93K annually through 2031. Equipment book value is $135,400 against a management-estimated fair market value of $1,015,000 — the basis has been fully consumed by accelerated expensing. EBITDA therefore overstates free cash flow by the full maintenance capex. Fund it from the revolver or reserve for it.

Section 7

Valuing the Real Estate

You asked us to value the buildings on reasonable market rent and a reasonable capitalization rate for this product type in this submarket, rather than on the seller's assumption. The property is a 6,850 square foot headquarters and a 5,250 square foot warehouse, both built in 2016 — **12,100 square feet** of modern light-industrial improvement.

The regional industrial market closed 2025 at **4.38% vacancy**, average asking rent of **$10.19 per square foot NNN**, average sale pricing of **$80 per square foot** and capitalization rates near **9.40%** (Regional industrial market report, Q4 2025 (publisher withheld in this sample)). Direct capitalization, net of a 5% vacancy and collection loss and 4% of effective gross income for management and reserves:

MARKET RENT ASSUMPTION	GROSS RENT	NET OPERATING INCOME	VALUE AT 9.40%	PER SQUARE FOOT
$8.00 / sf — approximately the seller's assumption	$96,800	$88,282	$939,166	$78
$9.00 / sf — conservative to market	$108,900	$99,317	$1,056,562	$87
$10.19 / sf — market average asking	**$123,299**	**$112,449**	**$1,196,263**	**$99**

The sales-comparison cross-check at the $80 per square foot market average produces **$968,000**. Newer 2016 construction should price above a market average that includes decades-old inventory, which brackets value between roughly $968,000 and $1,196,000.

> **Concluded value for this assessment: $1,050,000** — $87 per square foot, consistent with a $9.00 per square foot rent conclusion and a modest premium to the $80 average sale price for 2016 construction at 4.38% market vacancy. Every figure that follows uses this number. **The lender's appraiser controls the final number, not this analysis.** The 504 finances the *lesser* of allocated price or appraised value, so an appraisal below $1,050,000 raises your cash requirement dollar for dollar — roughly $0.50 of additional injection for every $1.00 of appraisal shortfall, plus whatever price gap you have agreed to cover. Make the real estate price contingent on appraisal in the purchase agreement.

Section 7 (continued)

Coverage Analysis

Modeled as two concurrent projects. The **7(a)** is a 10-year fully amortizing term loan with no balloon and a financed 3.5% upfront guaranty fee on a 75% guaranty, a 20% seller note carried entirely on full standby and therefore outside the denominator, a $500,000 revolving line carried fully advanced at interest only, and $75,000 of closing and third-party costs inside the project. The **504** is a $1,090,000 project (the $1,050,000 real estate plus roughly $40,000 of appraisal, environmental, title and CDC fees): a 50% bank first mortgage amortizing over 25 years, a 40% CDC debenture fixed at **6.033%** over 25 years, and a 10% injection. WSJ Prime is **6.75%** as of September 2, 2026 (Federal Reserve H.15); the SBA maximum 7(a) spread above $350,000 is Prime + 3.00%. Real estate held constant at $1,050,000 across every column.

DSCR AT 7(A) OF PRIME + 2.00% = 8.75% AND A BANK FIRST MORTGAGE AT 7.50%

EARNINGS BASIS	$2.10MM	$2.45MM	$2.80MM	$3.15MM	$3.50MM
FY2025 adjusted EBITDA — $795,000	2.20	1.99	1.82	1.68	1.55
Two-fiscal-year average — $709,500	1.97	1.78	1.62	1.50	1.38
Two-year average, add-backs stripped — $636,000	1.76	1.59	1.46	1.34	1.24
Haircut plus maintenance capex — $566,000	**1.57**	**1.42**	**1.30**	**1.19**	**1.10**

DSCR AT 7(A) OF PRIME + 3.00% = 9.75% AND A BANK FIRST MORTGAGE AT 8.25%

EARNINGS BASIS	$2.10MM	$2.45MM	$2.80MM	$3.15MM	$3.50MM
FY2025 adjusted EBITDA — $795,000	2.10	1.90	1.73	1.60	1.48
Two-fiscal-year average — $709,500	1.87	1.69	1.55	1.42	1.32
Two-year average, add-backs stripped — $636,000	1.68	1.52	1.39	1.28	1.18
Haircut plus maintenance capex — $566,000	**1.49**	**1.35**	**1.23**	**1.14**	**1.05**

Column headings are the **business** purchase price. Implied multiples of the $698,000 FY2025 adjusted EBITDA used for business valuation: $2.10MM = 3.01x, $2.45MM = 3.51x, $2.80MM = 4.01x, $3.15MM = 4.51x, $3.50MM = 5.01x. Coverage rows use the rent-reversed cash flow from Section 6 because the real estate debt service now sits in the denominator.

Section 7 (continued)

Maximum Supportable Price and the Valuation Cap

MAXIMUM BUSINESS PURCHASE PRICE AT THE 1.25X FLOOR, REAL ESTATE HELD AT $1,050,000

EARNINGS BASIS	AT 7(A) 8.75%	AT 7(A) 9.75%
FY2025 adjusted EBITDA — $795,000	$4,641,400	$4,372,300
Two-fiscal-year average — $709,500	$4,009,400	$3,766,600
Two-year average, add-backs stripped — $636,000	$3,466,200	$3,246,000
Haircut plus maintenance capex — $566,000	**$2,948,800**	**$2,750,100**

Every one of these ceilings sits above the $2,700,000 we recommend, including the harshest basis at the worst rate. **Coverage is not what limits this deal.**

> **The valuation cap is what limits it — and the 504 has loosened it.** SOP 50 10 8.1 caps total transaction debt at the independently supported value. Real estate debt is tested against the appraised value of the real estate; business debt is tested against the business valuation. By moving $981,000 of the capital stack onto its own appraised collateral, the two-loan structure reduces what the business valuation has to carry.

BUSINESS-SIDE TEST AT THE RECOMMENDED $2,700,000

Non-standby business debt is the 7(a) note including its financed fee and nothing else — **$1,994,633**. The entire $555,000 seller note is excluded because on full standby it takes no payments during the life of the SBA loan. That requires a business valuation of only **2.86x** FY2025 adjusted EBITDA of $698,000, and it is the single largest benefit of putting the whole carry on standby: the amortizing alternative pushes the requirement to 3.65x.

INDEPENDENT BUSINESS VALUATION OUTCOME	SUPPORTED VALUE	POSITION AT A $2,700,000 PRICE	MAXIMUM BUSINESS PRICE WITH NO EQUITY GAP
3.00x FY2025 adjusted EBITDA	$2,094,000	**Cushion of $99,367**	$2,838,100
3.25x FY2025 adjusted EBITDA	$2,268,500	**Cushion of $273,867**	$3,080,500
3.50x FY2025 adjusted EBITDA	$2,443,000	**Cushion of $448,367**	$3,323,000
4.00x FY2025 adjusted EBITDA	**$2,792,000**	**Cushion of $797,367**	**$3,807,900**

REAL ESTATE SIDE TEST

The bank first mortgage of $545,000 plus the CDC debenture of $436,000 totals **$981,000** — 90.0% of the $1,090,000 project cost, which is precisely the 504 standard, and **93.4%** of the $1,050,000 concluded value. The 504 measures against eligible project cost, so this is a conforming structure; but a low appraisal converts directly into cash. Protect it with an appraisal contingency.

Worked example on the business side: with the whole carry on full standby, a 3.25x valuation leaves the recommended structure clear all the way to a **$3,080,500** business price. The gap only opens above that — at $3,150,000 against a 3.25x valuation you would inject roughly $50,000 of additional equity. Put the same $555,000 note on amortizing terms and the clearance collapses to about $2,850,000. Protect the outcome either way with a financing and valuation contingency in the letter of intent.

Section 8

What Each Lever Is Worth in Price

Measured against a baseline of **$4,641,400** — the maximum supportable business price on FY2025 rent-reversed cash flow of $795,000 at a 7(a) rate of 8.75%, under the recommended **70/20/10 structure with the seller note on full standby**, a $500,000 line fully advanced, and the real estate financed at $1,050,000 through the 504.

LEVER	MAX SUPPORTABLE BUSINESS PRICE	CHANGE
Seller note raised to 35% and placed on full standby	$5,927,700	**+$1,286,300**
Deal qualifies as Business Expansion at the 1.15x floor (roll-up deals two and onward)	$5,152,400	**+$511,000**
No revolver drawn at close	$5,045,600	**+$404,200**
Seller carry held at 25% rather than reduced to 20%, full standby	$5,004,200	**+$362,800**
Rate 100 bps worse — 7(a) at Prime + 3.00% and a bank first at 8.25%	$4,416,600	**−$224,800**
Lender elects the two-year average over FY2025	$4,009,400	**−$632,000**
Carry cut to 10% — the 80/10/10 election, note still on full standby	$4,051,800	**−$589,500**
Seller note amortizes instead of standing by	$3,692,800	**−$948,600**
80/10/10 **and** the note amortizes — the weakest variant	$3,642,400	**−$999,000**
Credit strips the repairs add-backs on the two-year average	**$3,466,200**	**−$1,175,200**

TWO LEVERS THAT MOVE CASH, NOT PRICE

LEVER	EFFECT	COMMENT
Real estate price allocation	$0.50 of cash per $1.00	Every dollar allocated to the buildings above appraised value becomes a dollar of cash, because the 504 finances the lesser of price or appraisal. Every dollar of the total price you can shift *from* goodwill *to* appraisable real estate reduces the business valuation burden
Special-purpose property classification	**+$54,500 cash**	If the CDC treats a manufacturing plant with dedicated process infrastructure as special-purpose, the injection rises from 10% to 15% — $163,500 instead of $109,000, lifting total buyer cash to **$441,000**. Coverage barely moves (1.73x), but the cash requirement does. Ask the CDC this question in the first conversation

> **Read this table as a priority list.** Standby treatment on the seller note is worth **$948,600** of supportable price — more than four times the rate concession, and more than one and a half times the 80-versus-70 split you asked about. Substantiating the repairs add-backs before price is fixed is second, because it is the one swing a hostile credit committee controls and you do not. The size of the carry is third. Negotiate in that order.

Section 9

Recommended Structure

Two loans, two borrowers, one closing, built on your **70/20/10** election with the entire seller note on **full standby**. This clears the 1.25x floor on every permitted basis including our internal stress case, stays under the $3.0MM mandatory-QoE threshold, gives the real estate a 25-year fixed-rate schedule, leaves $2.51MM of your $5.00MM of 7(a) capacity intact, and holds non-standby debt at 73.9% of the business price so a soft valuation cannot break the deal.

PROJECT ONE — 7(A), THE OPERATING COMPANY

SOURCES AND USES	AMOUNT	TERMS
Business purchase price — goodwill, equipment, inventory, working capital	$2,700,000	100% of equity; seller retains nothing
Closing, valuation, financial due diligence, legal	$75,000	Out-of-pocket portions count toward injection
Total 7(a) project cost	**$2,775,000**	
Buyer equity injection — cash	$277,500	10% of project cost, unlimited source, cannot be reduced or waived
Seller note — **100% full standby**	$555,000	20% of price; no principal or interest for the life of the SBA loan; excluded from the coverage denominator and from the debt-to-valuation cap
SBA 7(a) term loan	$1,942,500	70% of project cost; 10 years fully amortizing, no balloon
Financed upfront guaranty fee	$52,133	3.5% of the first $1,000,000 guaranteed plus 3.75% above, on a 75% guaranty
SBA 7(a) term loan including fee	**$1,994,633**	
MARC revolving line of credit	$500,000	Separate facility; may not fund the purchase; modeled fully advanced

> **There is no cap on how much of the note can sit on standby.** SOP 50 10 8.1 caps seller debt *credited toward the equity injection* at half the injection — here $138,750. That cap is irrelevant to you, because you are funding the full 10% in cash and do not need the note to count. Full standby is therefore available on 100% of the $555,000, and it is the single most valuable term in the letter of intent.

PROJECT TWO — 504, THE SINGLE-PURPOSE REAL ESTATE LLC

SOURCES AND USES	AMOUNT	TERMS
Real estate purchase price	$1,050,000	12,100 sf on two 2016 structures; contingent on appraisal
Appraisal, environmental, title, survey, CDC and closing fees	$40,000	Eligible 504 project cost
Total 504 project cost	**$1,090,000**	
Third-party bank first mortgage — 50%	$545,000	25-year amortization, modeled at 7.50%; first lien
CDC debenture — 40%	$436,000	**6.033% fixed for 25 years**, fully amortizing, no balloon; second lien
Buyer equity injection — 10%	**$109,000**	**Rises to $163,500 if the CDC classifies the property as special-purpose**

COVERAGE ON THE RECOMMENDED STRUCTURE

EARNINGS BASIS, RENT REVERSED	DSCR AT 7(A) 8.75%	DSCR AT 7(A) 9.75%
FY2025 adjusted EBITDA — $795,000	1.87x	1.80x
Two-fiscal-year average — $709,500	1.67x	1.60x
Two-year average, add-backs stripped — $636,000	1.49x	1.44x
Haircut plus maintenance capex — $566,000	**1.33x**	**1.28x**

ANNUAL DEBT SERVICE AT 8.75% / 7.50%	AMOUNT
SBA 7(a) term loan, $1,994,633 over 10 years	$299,977
Seller note, $555,000 on full standby	$0
MARC line, interest only on a full $500,000 draw	$43,750
Bank first mortgage, $545,000 over 25 years at 7.50%	$48,330
CDC debenture, $436,000 over 25 years at 6.033%	$33,815
Total annual debt service	**$425,872**

At the Prime + 3.00% case with an 8.25% bank first, total annual debt service rises to $442,136 and FY2025 coverage to 1.80x. **Total buyer cash across both projects: $386,500.** Every permitted basis clears 1.25x, and even the harshest internal stress case — credit stripping every repairs add-back *and* charging a full $70,000 of maintenance capital expenditure — holds 1.33x.

The Structure You Proposed — 80/10/10 vs 70/20/10

You offered two splits. Neither changes your equity cheque, because the 10% injection is a non-waivable floor under SOP 50 10 8.1 and you intend to fund it in cash. **All five variants below require exactly $386,500 of buyer cash.** What they change is debt service, coverage, and how much room you have if the lender-engaged valuation comes in below your offer.

VARIANT	SELLER NOTE	TOTAL ANNUAL DEBT SERVICE	DSCR ON FY2025 $795,000	DSCR ON HARSHEST HAIRCUT $566,000
65/25/10 — if the seller will still carry 25%	Full standby	$407,318	**1.95x**	1.39x
70/20/10 — recommended	Full standby	$425,872	**1.87x**	1.33x
80/10/10	Full standby	$468,780	1.70x	1.21x
70/20/10	Amortizing or interest-only	$501,495	1.59x	1.13x
80/10/10	**Amortizing or interest-only**	**$506,592**	**1.57x**	**1.12x**

VARIANT	NON-STANDBY BUSINESS DEBT	AS % OF $2,700,000 PRICE	VALUATION MAY LAND LIGHT BY	7(A) CAPACITY LEFT	MAX SUPPORTABLE BUSINESS PRICE AT 1.25X
65/25/10, full standby	$1,871,258	69.3%	**30.7%**	$2,628,742	$5,004,200
70/20/10, full standby	$1,994,633	73.9%	**26.1%**	$2,505,367	$4,641,400
80/10/10, full standby	$2,279,938	84.4%	15.6%	$2,220,062	$4,051,800
70/20/10, amortizing	$2,549,633	94.4%	**5.6%**	$2,505,367	$3,692,800
80/10/10, amortizing	**$2,557,438**	**94.7%**	**5.3%**	**$2,220,062**	**$3,642,400**

What the tables say

1. **Standby is worth roughly three times the 80-versus-70 decision.** Moving from 80/10/10 to 70/20/10 buys you 17 basis points of coverage. Moving that note from amortizing to full standby buys you 28 to 30 points and quadruples your appraisal tolerance. Negotiate the standby first and the percentage second.
2. **Do not ask the seller to carry less than the seller has already offered.** The seller signaled willingness to carry 25%. Coming back at 10% hands back $840,000 of supportable price and $757,000 of appraisal cushion in exchange for nothing — your cash does not fall by a dollar. If anything, push the carry up.
3. **An interest-only seller note now buys nothing.** SOP 50 10 8.1 imputes non-standby debt at a **10-year amortization** regardless of its actual payment terms, so an interest-only note is scored exactly like an amortizing one in the coverage test and counts in full against the debt-to-valuation cap. The choice is binary: full standby, or fully in the denominator (Appendix 15 text, SOP 50 10 8.1).

4. **80/10/10 costs you roll-up runway.** The larger 7(a) note plus the $500,000 line consumes $2,779,938 of your $5,000,000 limit, leaving $2,220,062 for acquisitions two and three. The 70/20/10 route leaves $2,505,367 — roughly one more deal of this size at this leverage.
5. **Only the amortizing variants are genuinely fragile.** At 94% non-standby leverage against price, a valuation that comes in 6% light forces you to fund the gap in cash, because SOP 50 10 8.1 no longer permits closing a price-over-value gap with subordinate debt — the difference must be equity.

> **The one thing to concede if the seller resists standby.** Full standby for ten years is a real ask, and some sellers will not sign it. The tradeable middle is **partial standby**: put the first $277,500 on full standby for the life of the loan and let the remaining $277,500 amortize on a ten-year schedule at 6.5%. That lands at $463,684 of annual debt service, 1.71x on FY2025 and 1.22x on the harshest haircut — still bankable, with $427,900 of appraisal cushion. Offer a modest rate bump on the standby tranche before you offer to shorten it.

Section 9 (continued)

Alternatives Considered

A single blended 7(a) covering both the business and the real estate

The obvious simpler route is one 7(a) for everything. Under SOP 50 10 8.1 the 51% rule is gone and maturity is computed as 10 years plus 15 years multiplied by the real estate share of total project cost, rounded to the nearest year. On a $3,750,000 transaction the real estate is 28% of project cost, producing a **14-year** blended amortization — not 25.

STRUCTURE	ANNUAL DEBT SERVICE	DSCR ON $795,000	ASSESSMENT
7(a) for the business + 504 in an LLC for the real estate	$425,873	**1.87x**	25-year fixed at 6.033% on the CDC piece; non-standby debt 73.9% of price; $1,994,633 of 7(a) capacity used
Single blended 7(a), 14-year amortization	**$416,526**	**1.91x**	**Marginally better coverage, but the whole $3,003,223 balance floats and it consumes 60% of your 7(a) capacity**

Coverage is effectively a tie — the 14-year blended amortization is long enough to offset the 504's 25-year real estate money, and at these inputs the single loan is 0.04x of coverage ahead. Be honest about that rather than overselling the 504 on coverage. The 504 wins on the three things that actually matter to you:

- **Rate risk.** $436,000 fixed at 6.033% for 25 years versus $3,003,223 floating over WSJ Prime. A 200 basis point move adds roughly $60,100 of annual interest under the single loan against roughly $50,800 under the 504 route, and the gap widens every year as the fixed piece amortizes against a rising rate environment.
- **Appraisal cushion.** Non-standby debt is 73.9% of price under the 504 route against **80.1%** under the single loan, because the real estate debt is tested against the building appraisal rather than the business valuation.
- **Roll-up capacity, which is decisive.** The single loan plus the $500,000 line consumes $3,503,223 of your $5,000,000 of 7(a) exposure and leaves **$1,496,777**. The 504 route leaves **$2,505,367** — the difference between funding acquisition two and waiting for it.

The 504 costs you a CDC in the deal and roughly three to four additional weeks of process. On a roll-up strategy that trade is not close.

A pre-closing price reset tied to FY2026

Given the flat first half, propose a headline price at the upper end with a reset settled **before** closing: if FY2026 year-to-date results through a defined measurement date fall below a stated threshold, the purchase price adjusts downward by an agreed multiple of the shortfall in adjusted EBITDA, and the parties sign an amendment prior to funding.

> **Do not structure this as a post-closing true-up.** SOP 50 10 8.1 **prohibits seller earnouts** on a change of ownership. A price adjustment that survives closing — whether captioned an earnout, a holdback release, a contingent note or a true-up — will be read as an earnout and can cost you the guaranty. Every price mechanic must resolve into a fixed number before the loan funds.

> **Timing matters more than usual here.** If a loan number issues while FY2025 is the most recent fiscal year end, the lender may underwrite to the $795,000 rent-reversed FY2025 figure or the $709,500 two-year average. Slip into 2027 and the basis becomes a flat FY2026, or the FY2025–FY2026 average. On these numbers that shift is worth roughly $632,000 of supportable price. Move. Note also that a loan number issued on or before September 30, 2026 falls under SOP 50 10 8, under which the old 51% rule and the prior blended-maturity treatment still apply.

Section 10

MARC vs SBA Express — the Working Capital Line

XYZ's the subject NAICS code places it in sector 32, so it is eligible for the 7(a) Manufacturers Access to Revolving Credit program. That is a meaningful advantage and most buyers in your position do not have it.

FEATURE	MARC	SBA EXPRESS
Eligibility	NAICS sectors **31–33 only**. XYZ qualifies at 3261xx	Any eligible small business
Maximum	**$5,000,000**	**$500,000**
SBA guaranty	85% at or below $150,000; **75% above**	**50% regardless of size**
Maturity	Revolver up to **20 years** — 10 revolving plus a 10-year term-out	60-month revolver plus a term-out no shorter than the draw period, 10 years combined
Coverage standard	**1:1** on historical cash flow, or 1:1 within two years where projections are relied on	Standard 7(a) underwriting
Projections	**Permitted** — the only remaining SBA channel where they are	Historical only
Equity injection	No minimum tied to use of proceeds; lender determines sufficiency	Standard 7(a)
Collateral	Lien on business assets; revolvers **must** take trading assets	Lender's own collateral policy; no decline solely for collateral shortfall
Eligible uses	Working capital — inventory, raw materials, payroll, seasonal surges, production ramp	Working capital, equipment, real estate, refinance
Prohibited	**Change of ownership**, floor plan, delinquent taxes	Standard 7(a) prohibitions
Secondary market	Revolvers may **not** be sold	Sellable
Renewal	Annual lender review; converts to a term loan if the borrower ceases to qualify	Set at origination
Speed and availability	Slower. New program — SBA delivered the first MARC loans in December 2025. Comparatively few lenders are active	Fast. Delegated lender authority, 36-hour SBA response, available almost everywhere
Fees	Standard 7(a) upfront fee plus an annual fee of up to 0.50% of the maximum loan amount on revolvers	Same fee schedule as 7(a)

Sources: SBA SOP 50 10 Appendix 13; SBA Procedural Notice 5000-870260; Starfield & Smith; NerdWallet; SBA, first MARC loans; SBA lender program terms.

Section 10 (continued)

Which Line to Take

Recommendation: MARC as plan A, Express as the fallback.

WHY MARC WINS FOR THIS BUYER

- **It scales with the roll-up.** Express is hard-capped at $500,000. A $500K line is right-sized for XYZ alone but nothing more. If you acquire two or three additional shops, a single MARC facility can grow to $5,000,000 across the platform. You would otherwise have to refinance into a conventional asset-based line at the worst possible moment.
- **75% guaranty against Express's 50%.** That difference materially changes lender appetite on a goodwill-heavy acquisition with a collateral shortfall, and it typically buys you a tighter spread.
- **The 20-year revolve-plus-term-out structure** removes the refinancing cliff Express creates at month 60.

- **Projections are permitted.** MARC is the one place SBA still allows forward-looking underwriting. If the working capital need grows with a production ramp or an acquisition, you can size to the plan rather than to history.
- **1:1 coverage on the line itself** is a lower hurdle than folding a larger Express request into standard 7(a) underwriting.

WHAT YOU GIVE UP

- **A mandatory lien on trading assets** and an annual borrowing-base discipline. In practice a lender will want a monthly or quarterly AR and inventory certificate. That is administrative work XYZ does not do today.
- **Annual renewal risk** — if the borrower ceases to qualify, the revolver converts to a term loan. Manageable, but it is a covenant you must watch.
- **Lender scarcity.** MARC launched in late 2025 and the lender base is still thin. Your acquisition lender may not be MARC-active, and running the term loan at one institution and the line at another adds intercreditor friction.
- **Fee treatment.** Confirm the FY2027 fee schedule in writing before relying on any manufacturer fee waiver — the FY2026 waiver of the upfront fee on 7(a) loans of $950,000 or less applied only to loans approved between October 1, 2025 and September 30, 2026, and reporting indicates it did not extend to MARC revolvers.

> **Practical sequencing.** If your chosen acquisition lender is not MARC-active, take a $350,000–$500,000 SBA Express revolver at close for speed and certainty, operate for twelve months, then move the line to MARC once you have operating history and a defined roll-up pipeline. Do not delay the acquisition to chase a MARC lender. Working capital sizing supports a $320,000–$370,000 need at $3.0–3.5MM of revenue (accounts receivable at 33 days plus inventory less accounts payable at 22 days), so a $500,000 commitment gives you real headroom without over-levering the coverage test.

Section 11

Credit Issues a Lender Will Raise

ISSUE	DETAIL AND MITIGATION
Revenue does not tie across the three documents	FY2023 appears as $2,189,000 in the CIM recast, $2,143,217 in the running-order file and $2,157,940 in the metrics workbook — three different numbers for one year. FY2025 does reconcile once freight income is separated ($2,641,970 net sales plus $30,847 freight income equals $2,672,817). Require a written tie-out from the seller's accountant before diligence money is spent
Tax returns are absent from the data room	No Form 1120-S was provided for any year. Every figure in this assessment derives from internally prepared statements and the CIM recast. The lender will underwrite from returns, and a variance between books and returns is the most common late-stage deal killer in this asset class
Distribution-channel concentration, not end-customer concentration	You report that the top accounts are **distributors** reaching a fragmented end market rather than end users, and that having several of them diversifies rather than concentrates risk. That is a materially better story and we accept it — but it is a story credit will test, not assume, because the file measures concentration at the **billing entity**. The top account moved 13% to 7% to 14% of revenue across 2023–2025; a lender computing concentration off the sales ledger sees 14%. Two questions decide whether it is a channel or a concentration: **who owns the end relationship** (if the parts are specified to XYZ drawings and the tooling sits on XYZ's floor, the distributor is substitutable; if the distributor holds the spec and the account, it is not), and **whether any distributor holds an exclusive territory** or a termination-for-convenience clause. Produce end-user-level revenue behind each distributor and the distributor agreements, and this row becomes a strength. 681 active accounts and 99% repeat business support your reading
Key-person concentration in the shop — the risk you named	Eight employees. The mold master has been with the company since 2009 and the two lead machinists have 17 and 21 years, and there is no documented process library. Retention agreements at close are non-negotiable and should be **signed before you waive diligence**, not at closing. On transferability of the seller's own role, the fact that the seller is in the shop roughly **every other week** is the best single fact in the file and it is why our model charges **no replacement-manager salary** beyond the general manager already on payroll: a business that runs on biweekly owner presence is not owner-dependent in the way a lender fears. Convert that from an assertion into a document — ask for a written schedule of what the seller actually does on those visits, broken into quoting and pricing, tooling and process design, distributor relationships, and vendor terms. Each of those four transfers differently. Quoting and tooling judgment is the one that usually hides real dependency, and the mitigant is a 24-month paid consulting agreement (the SOP maximum) with a defined scope rather than a general availability clause
Bookkeeping is a single related party	The part-time accountant was hired in 1989 and is a family member of previous ownership, compensated at $62,000. This is simultaneously a key-person risk, a succession gap and an internal-control weakness. Budget for a replacement or an outsourced controller
Physical capacity ceiling	The main facility runs at approximately 85% of a single shift and is near its **electrical service limit** — the CIM indicates the next CNC would exhaust available power. The growth thesis the price is built on requires a service upgrade that is not in the projected capital plan
Capital expenditure disclosure is inconsistent	FY2025 capex is stated at $51,000 while the narrative references two CNC machines at $147,000 and $127,000 and a forklift at $24,000. These cannot both be right. Reconcile against the fixed asset ledger

Collateral position — materially improved	Equipment fair market value of $1,015,000 remains a **management estimate with no appraisal**. Against accounts receivable of $192,000 and inventory of $57,000, business collateral is roughly $1,264,000 against the $1,994,633 7(a) note — still short by about $731,000, but the $1,050,000 of real estate now inside the structure closes that gap in the lender's global view. The real estate secures the bank first and the CDC in priority, so the 7(a) takes a third position on it; even so, a global loan-to-value near 90% across the whole transaction is a defensible file. This should reduce or remove the demand for a lien on your home. Order the equipment appraisal early
Environmental review will escalate	Above $250,000 SBA requires an Environmental Questionnaire and a Records Search with Risk Assessment from the outset, and a NAICS match to SBA's environmentally sensitive industry list sends the file to a **Phase I Environmental Site Assessment regardless of loan size**. A Phase I finding of a recognized environmental condition escalates to Phase II. **Confirm whether NAICS 3261xx appears on SBA's list** — we could not verify it from public sources and it must be checked with the lender. A plastics plant with on-site chemical storage should be assumed to require a Phase I. Every environmental report must be dated **within one year** of SBA loan-number issuance, and noncompliance can void the guaranty (SBA environmental review requirements; Partner ESI on SBA NAICS triggers)
Real estate appraisal risk	The $1,050,000 conclusion in Section 7 is our analysis, not an appraisal. The 504 funds the lesser of allocated price or appraised value. A $100,000 appraisal shortfall costs you roughly $50,000 of additional cash on the 504 plus whatever price gap you have agreed to cover. Make the real estate price appraisal-contingent
Special-purpose property classification	A CDC may treat a manufacturing plant with dedicated process infrastructure — here including an electrical service configured for compression molding — as special-purpose, which raises the 504 injection from 10% to 15%, or $54,500 of additional cash. Ask the CDC in the first conversation, before you size your cash
Two-entity closing complexity	The two-loan structure requires a separate real estate purchase agreement, formation of the single-purpose LLC before application, an Eligible Passive Company lease subordinated to SBA's lien, cross-guaranties on both notes, and coordination among the CDC, the third-party bank and the 7(a) lender at one closing table. Budget three to four additional weeks and a larger legal bill than a single-loan deal
Industry backdrop — and the maintenance-spend argument that answers it	Miscellaneous plastics product manufacturing has been contracting; the CIM's own market data cites a 3.0% decline in 2025 and roughly flat forward growth, and the 2026 stall is consistent with the sector rather than company-specific. Your read — that XYZ sells into **maintenance spend rather than new plant construction** — is the right rebuttal and it is supportable. Regional producers held maintenance while cutting capital projects: Industrial Info tracked more than **$480 million** of chemical-plant maintenance work starting in Q1 2026 alone, with ethylene units accounting for $130 million, at a point when petrochemical margins sat at multi-year lows, and the trade view is that “big capital projects may be fewer, but maintenance spending stays strong” (industry trade press, March 10, 2026 (publisher withheld in this sample)). Deloitte reports chemical capital expenditure fell **8.4%** year over year in 2024 with a further drop in 2025 (2026 Chemical Industry Outlook). An MRO revenue base is opex-funded and non-deferrable in a corrosive service environment — a genuinely more defensible position than a capital-project supplier, and worth putting in front of credit in writing

Section 12

The Roll-Up Strategy

You have identified roughly 20 comparable shops nationally. The SBA path for that is real, and materially better after you have owned XYZ for two full fiscal years.

DEALS TWO AND ONWARD CAN QUALIFY AS BUSINESS EXPANSION

REQUIREMENT	WHAT IT GETS YOU
Applicant has operated for at least **two full fiscal years**	The clock starts at close on XYZ. Plan the second acquisition accordingly
Target operates in the **same 4-digit NAICS industry group**	XYZ is 3261xx, so group **3261** — Plastics Product Manufacturing. Screen every target on the 4-digit code before spending money. A target coded 332710 (machine shops) will **not** qualify, however similar the work looks
Purchase of **100%** of the target's ownership	No partial stakes in the expansion category
Same or greater number of guarantors	Structural, but plan it if you take on partners
Geographic proximity test	**Eliminated in SOP 50 10 8.1. Nationwide targets are now viable**

WHAT CHANGES ECONOMICALLY

- **The DSCR floor drops from 1.25x to 1.15x**, tested on combined EBITDA over combined post-transaction debt service. On the XYZ model that difference alone is worth roughly **$511,000** of additional supportable business price per transaction.
- **The equity injection becomes reducible or eliminable at lender discretion** where four conditions are documented: the deal qualifies as an expansion, post-close liquidity and working capital are sufficient, there is no negative net worth at the most recent fiscal year end, and no permanent working capital is included in that or any other 7(a) term loan within 90 days. On a $2MM add-on that is up to $200,000 of cash you do not have to write.
- **Rent may be added back** where owner-occupied real estate is acquired with the business — a recurring advantage in this asset class, where most shops own their buildings.

> **The 504 route is what makes the roll-up arithmetic work.** Effective July 4, 2026 SBA doubled the cumulative 7(a) and 504 limit to **$10,000,000** per affiliated group — up to $5,000,000 of 7(a) plus up to $5,000,000 of 504 — and small manufacturers may take **unlimited** 504 loans where each is a distinct project (SBA news release). The XYZ transaction as structured consumes $1,994,633 of 7(a) plus a $500,000 MARC line — roughly **$2.49MM of your $5.00MM of 7(a) capacity** — and only $436,000 of the 504 side. Financing the buildings through 7(a) instead would have consumed nearly $1.0MM more of the scarcer limit. Use 504 for every building and long-lived machine, 7(a) for goodwill, MARC for working capital, and seller paper or conventional debt beyond that. Affiliation is not a size-standard problem — NAICS 3261xx carries a 750-employee standard and a platform of five shops stays well inside it.

> **Two constraints on repeating the single-purpose LLC.** An Eligible Passive Company may own more than one property **only if every property is leased to the same operating company**, and it may not hold ownership interests in other entities. **Multiple EPCs in a single transaction are not permitted.** If each acquired shop keeps its own operating entity, each needs its own real estate LLC leasing only to that operating company — you cannot roll all the buildings into one holding LLC and lease them to several operating subsidiaries. Design the holding structure before the second acquisition, not after (SOP 50 10 8, EPC provisions).

Section 13

Negotiation Levers

Ordered by what we believe each is worth to you.

#	LEVER	HOW TO USE IT
1	**Full standby on the seller note**	Full standby on the 20% note is worth **$948,600** of supportable business price against letting it amortize. Raising the carry to 25% on full standby adds another $362,800, and 35% adds $1,286,300. Trade a higher headline price for standby treatment: the seller gets their number, you get the coverage. This is the highest-value trade available
2	**The 2026 stall**	First-half billings are up 0.9% against a CIM that projects 12.2% for the year. Price on FY2025 actuals, or accept the seller's number with a contractual reset if FY2026 revenue lands below $2,900,000
3	**The repairs add-backs**	$147,000 across two years described as one-time, in a line that ran $21K, $126K and $87K. Demand general-ledger substantiation with invoices **before** price is fixed. If it cannot be produced, the earnings basis falls to $636,000 and the supportable business price falls $543,200 with it
4	**Allocation of price between the business and the real estate**	The total is what the seller cares about; the split is what your financing cares about. Every dollar you move from goodwill to appraisable real estate reduces the business valuation burden and moves into a 25-year fixed-rate schedule instead of a 10-year floating one. Our conclusion supports **$1,050,000** on the buildings, and the seller's own $8.02 per square foot rent assumption is below the $10.19 market average — so the market data supports a higher real estate allocation, not a lower one. Cap it at appraised value: dollars above the appraisal come out of your pocket
5	**Stock versus asset structure**	Equipment carries $135,400 of book basis against $1,015,000 of estimated fair market value. The seller has expensed the basis and an asset sale triggers substantial ordinary-income depreciation recapture for the seller. The seller will push hard for a stock sale. A stock sale costs you the step-up: roughly $107,000 a year of Section 197 amortization foregone on $1.6MM of goodwill, worth $300,000 or more of cash tax over fifteen years. Price that concession, or ask for a Section 338(h)(10) election
6	**The clean 100% exit — already secured**	Agreed. Convert it into value: the seller has given up the retained stake and agreed to sell the buildings concurrently, both of which materially improve your financing. Offer the 24-month consulting agreement at fair compensation and hold firm on price and note terms in exchange
7	**Working capital peg**	The CIM's adjusted balance sheet strips $202,000 of cash and delivers roughly $185,000 of net working capital. Your run-rate need at $3.0–3.5MM of revenue is $317,000–$370,000. Set a written peg with a dollar-for-dollar true-up at close. That is real cash, and it is routinely left on the table
8	**The electrical capacity ceiling**	Get a written engineering estimate for the service upgrade the growth plan requires and deduct it from price. The seller is asking you to pay for growth the building cannot currently deliver
9	**Key-employee retention**	Require stay bonuses and non-competes for the mold master and both lead machinists, funded from the purchase price at close rather than from your post-close cash flow
10	**Holding the price under $3,000,000**	Avoids the mandatory lender-commissioned Quality of Earnings study — several weeks of timeline and a five-figure cost. A legitimate, non-adversarial reason to land at $2.7–2.9MM
11	**No stated asking price**	**The CIM never names a price. You are not anchored. Open on FY2025 adjusted EBITDA at a defensible multiple with the diligence findings attached, and let the independent valuation do the arguing for you**

Section 14

Missing Information and Documentation

A. SELLER-SIDE AND TARGET-COMPANY ITEMS

- **1. Federal tax returns, Forms 1120-S, for 2023, 2024 and 2025, complete with all schedules including Schedule L, M-1 and M-2.** Nothing was provided. This is the single largest gap in the file and it blocks credit approval

- **2. Full-year 2026 interim financial statements through the most recent month end**, with a comparative 2025 column
- **3. Written reconciliation of FY2023 revenue** across the CIM recast, the running-order file and the metrics workbook
- **4. General-ledger detail and vendor invoices supporting every repairs and maintenance add-back** in 2024 and 2025
- 5. Fixed asset ledger and depreciation schedule reconciling FY2025 capital expenditure to the equipment purchases described in the CIM
- 6. Aged accounts receivable and accounts payable listings as of the most recent month end
- **7. Revenue detail behind every distributor**, by year for 2023–2026 year to date: the top twenty billing accounts **and** the underlying end-user split beneath each distributor. This is the document that converts your channel argument into a credit fact
- **7a. Distributor and sales-representative agreements** — exclusivity, territory, term, termination for convenience, and who holds the part specifications and tooling. Confirm in writing that XYZ Plastics owns the tooling and the drawings
- **7b. Monthly revenue by month for 2023–2025 plus July–September 2026 as it closes** — needed to test whether billings track the regional turnaround calendar and whether the flat first half is seasonal deferral or a trend
- **8. Separate real estate purchase agreement** naming the single-purpose LLC as buyer, with a concurrent-closing covenant and an appraisal contingency
- 9. Real estate documentation: deed and current title commitment, ALTA survey, legal description, three years of property tax bills and assessments, insurance history and loss runs, roof and mechanical age and service records, any existing mortgage payoff, and confirmation of zoning compliance and certificates of occupancy for both 2016 structures
- 10. Copies of the existing facility leases and the related-party ownership structure, for the record and to confirm they terminate at closing
- **11. Environmental documentation for the engineered polymer and thermoplastic process** — chemical inventory and storage detail, safety data sheets, any spill or release history, hazardous waste manifests, and all state and local environmental permits. This feeds the Environmental Questionnaire and the Records Search with Risk Assessment
- 12. Complete debt schedule and any equipment lease or financing agreements
- **13. Written schedule of the seller's actual duties** — what the seller does on those biweekly visits, split into quoting and pricing, tooling and process design, distributor relationships, and vendor terms, with the hours each consumes. Then the transition and consulting terms the seller will accept, capped at 24 months and documented in the letter of intent
- **13a. Signed retention agreements** for the mold master and the two lead machinists, executed before you release your diligence contingency rather than at closing
- 14. Corporate records: articles, bylaws, stock ledger, minutes, state registrations, licenses and permits
- 15. Insurance schedule including workers compensation loss runs
- 16. Employee census with hire dates, roles and compensation, and any existing employment or non-compete agreements

B. BUYER-SIDE ITEMS — THE PROSPECTIVE BUYER

- **17. Documentary proof of U.S. citizenship or U.S. National status.** Confirm before any third-party cost is incurred
- 18. SBA Form 1919 and SBA Form 413 — note the 90-day expiry and sequence accordingly. Both loans require them
- 19. Three years of personal federal tax returns and an executed Form 4506-C
- **20. Documented source and seasoning of the $386,500 total equity injection** — $277,500 on the 7(a) project and $109,000 on the 504 project, with two to three months of statements on every account. Budget $441,000 if the CDC treats the property as special-purpose
- 21. Résumé and a written statement of operating intent and management plan

- 22. Personal debt schedule and a monthly living-expense statement for the global cash flow test
- **23. Formation documents for the single-purpose real estate LLC** — articles, operating agreement limiting the entity's purpose to holding this property, EIN, and confirmation it holds no interests in any other entity
- **24. Draft Eligible Passive Company lease** from the LLC to XYZ Plastics: 100% of the property, term at least equal to the loan term including operating-company renewal options, subordinated to SBA's lien, rent capped at loan payments plus direct holding expenses

C. LENDER-ORDERED THIRD-PARTY REPORTS

- **25. Independent, lender-engaged business valuation** — mandatory on every change of ownership, no size exemption
- **26. Financial due diligence** — mandatory. Quality of Earnings becomes mandatory at a business purchase price of $3,000,000 or more
- **27. Equipment appraisal.** The $1,015,000 fair market value is a management estimate. It drives the collateral analysis and it will be tested
- **28. Real estate appraisal** by a state-certified general appraiser engaged by the lender. This number, not our Section 7 conclusion, sets the 504 loan amount
- **29. Environmental Questionnaire and Records Search with Risk Assessment**, and a **Phase I Environmental Site Assessment** if the NAICS code triggers it or the records search finds a concern. Every report must be dated within one year of loan-number issuance
- 30. Site visit; life insurance on the buyer collaterally assigned to the lender; background checks

D. CDC AND THIRD-PARTY LENDER ITEMS

- 31. CDC application package including the 504 eligibility questionnaire and job-creation or public-policy documentation
- 32. Written confirmation from the CDC on **two questions**: whether the property is classified as special-purpose, and whether the 25-basis-point manufacturing debenture pricing applies at NAICS 3261xx
- 33. Third-party lender term sheet on the first mortgage — rate, index, amortization, call protection and any interim-loan requirement during debenture funding
- 34. Interim or bridge financing terms covering the period between closing and debenture sale, which typically funds 30 to 60 days after closing

E. STRENGTHENS THE FILE

- 35. A written 100-day transition plan and process documentation for the compression molding operation
- 36. Engineering estimate for the electrical service upgrade
- 37. Buyer projections — useful for the MARC line and for the lender's forward view, but explicitly **not usable** to meet the 7(a) coverage test

Section 15

Recommended Next Steps

1. **Confirm citizenship status this week.** Zero cost, and it is a hard eligibility gate under the rule effective March 1, 2026. Nothing else matters until it clears.
2. **Demand the three years of tax returns and the FY2023 revenue reconciliation before making an offer.** No price should be committed against internally prepared statements that do not agree with each other.
3. **Put the 2026 first-half numbers on the table.** Growth of 0.9% against a projected 12.2% is the central fact of this negotiation. Lead with it.

4. **Structure the LOI at $2,700,000 for the business and $1,050,000 for the real estate**, stated as separate allocated prices with a concurrent-closing requirement, a 20% seller note on full standby for the life of the SBA loan, a working capital peg of approximately $320,000, a financing contingency, an appraisal contingency on the real estate, an environmental contingency, and an express valuation contingency covering the SOP 50 10 8.1 debt-to-value cap. The companion LOI addendum sets out the five economic terms and the language for each.
5. **Form the single-purpose real estate LLC before you apply**, with a purpose clause limited to holding this property and no interests in any other entity. The 504 cannot be submitted with the buyer as an individual, and retrofitting the entity mid-application costs weeks.
6. **Engage a CDC in the first two weeks** and get written answers on special-purpose classification and manufacturing debenture pricing. Those two answers move $54,500 of cash and about 25 basis points of fixed rate for 25 years.
7. **Fix the seller note before you fix anything else.** Ask for 20% carried on **full standby for the life of the SBA loan**, and do not reduce the carry below what the seller has already offered. Standby is worth roughly $948,600 of supportable price and quadruples your tolerance for a light valuation, and it costs the seller no principal — only timing. Offer a rate concession on the standby tranche before you offer to shorten it.
8. **Let CCC run the lender process on two tracks** — a bank that will do the 7(a), the MARC line and the 504 first mortgage under one roof, and a split structure pairing a 7(a) lender with a separate CDC and first-mortgage bank. One roof is faster; split gives you pricing tension. We will present both sets of terms side by side.
9. **Order the equipment appraisal and start the environmental questionnaire early.** The equipment number drives the collateral analysis and the purchase price allocation. The environmental path determines your timeline: a Phase I adds three to five weeks and a Phase II considerably more.
10. **Get a home equity line in place before you apply.** Once the application is in, more than 20% of equity in your residence invites an SBA lien. Establishing the line first is materially harder afterward.
11. **Build the roll-up plan on a two-fiscal-year clock.** Screen every prospective target on the 4-digit NAICS code 3261 now, design the holding structure around the one-operating-company-per-EPC constraint, and preserve 7(a) capacity by pushing every building into 504.

> **Our view.** This is a financeable business and a good platform for what you want to build — a 48-year-old niche manufacturer with 99% repeat business, 681 active accounts, sub-0.06% rework and vertical integration that only about two dozen U.S. companies possess. The seller's agreement to exit entirely and to sell the buildings concurrently has made it a distinctly better transaction than it was a week ago: coverage is stronger, the collateral file is stronger, and the 504 keeps your 7(a) capacity intact for the next two acquisitions. The risk is not whether it can be financed. The risk is paying a 2026-forecast price for a 2025-actual business. Price it on what it earned, allocate honestly between the business and the buildings, structure the seller note for standby, and the deal works comfortably.