PRAXIS PROFIT.

SAMPLE DELIVERABLE · FULL DEAL REVIEW

Deal Financial Review

An independent read on what you're actually buying — recast earnings, a valuation sanity check, and a plain verdict.

Target business	Sierra Comfort Heating & Air, LLC
Prepared for	[Buyer Name]
Asking price	$1,150,000
Deal type	Asset purchase — HVAC service & install
Financing assumed	SBA 7(a) — SOP 50 10 8
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Date	[Date]

SAMPLE — FIGURES ARE ILLUSTRATIVE

OVERALL VERDICT — YELLOW

Proceed only with a meaningful price reduction and a secured transition plan.

The business is real and the licensed crew is an asset. But it is priced well above defensible value, the earnings were dressed up, and too much depends on the owner and two customers.

How to read this report. Every section carries a plain traffic-light rating so you can see where the risk sits at a glance.

● **GREEN** Clean — no material concern	● **YELLOW** Caution — verify or negotiate	● **RED** Serious — resolve before proceeding

01 The Verdict, Up Front

● YELLOW

This is a fundamentally real business with a tenured, licensed crew and steady demand — not a shell. The problem is price and dependency, not viability.

Three things drive the rating. The asking price implies roughly 4.2× the earnings we can actually defend, well above the market range for a business this size. About $90,000 of the seller's stated earnings comes from soft or one-time add-backs a buyer should not pay a multiple on. And the owner personally holds the estimating function and the two largest accounts.

> **What I would do:** renegotiate toward $850,000–$900,000, secure a 12-month owner transition with a signed non-compete, and budget to hire an estimator in year one. If the seller will not move on price, this is a walk.

02 Recast Earnings (SDE Normalization)

● YELLOW

We rebuild the seller's reported profit into a defensible Seller's Discretionary Earnings figure — adding back true owner benefits, then subtracting the costs a buyer will genuinely inherit. This is where the real number lives.

Reported net income (TTM, per tax return)	$168,000
Add: Owner's W-2 salary	+ $95,000
Add: Depreciation	+ $28,000
Add: Interest expense	+ $16,000
Add: Owner health insurance & personal	+ $14,000
Add: Personal auto & travel run through business	+ $9,500
Add: One-time legal settlement (non-recurring)	+ $12,000
Add: Spouse on payroll (minimal role)	+ $22,000
Seller / broker stated SDE	**$364,500**
Less: Replacement for owner's sales & estimating role	− $65,000
Less: Non-recurring grant income booked in revenue	− $25,000
Defensible Recast SDE (what you should price on)	**$274,500**

The gap that matters: the deal is marketed on $364,500 of earnings. The number a buyer can defend is $274,500 — about 25% lower. Every dollar of overstated SDE gets multiplied into an overstated price.

03 Valuation Sanity Check

● RED

We apply a fair market multiple for an HVAC service business of this size to the recast earnings, then compare that to the asking price.

Asking price	$1,150,000
Implied multiple on seller's SDE ($364,500)	3.15×
Implied multiple on recast SDE ($274,500)	4.19×
Typical SDE multiple — HVAC service, this size	2.5× – 3.25×
Fair value range (on recast SDE)	**$686,000 – $892,000**
Estimated overpricing	**$258,000 – $464,000**

At the asking price you would be paying a premium multiple for a business carrying above-average risk. The valuation only starts to make sense in the high $800Ks.

04 Red-Flag Scan

● RED

What the numbers and the file reveal, rated by severity.

Area	Finding	Severity
Customer concentration	Top 2 property-management clients = 47% of revenue	● RED
Non-recurring income	$25,000 grant income inflating the earnings base	● RED
Owner dependency	Owner performs all estimating and holds the key accounts	● RED
Worker classification	3 of 11 field staff paid on 1099 with company trucks and set schedules	● RED
Revenue trend	Trailing-12-month revenue down ~6% vs. prior year	● YELLOW
Gross margin	Slipped ~3.5 pts — rising equipment costs not passed through	● YELLOW
Receivables aging	22% of A/R is over 60 days	● YELLOW
Add-back quality	~$36,000 of add-backs undocumented	● YELLOW
Deferred maintenance	2 of 6 service vans near replacement	● YELLOW
Sales tax	Single-state operation, filings current and verified	● GREEN
Workforce	Technicians licensed and tenured	● GREEN

> **On the 1099 finding:** three field staff are paid as contractors but drive company trucks on set schedules under supervision. If reclassified, the business owes back payroll taxes, penalties, and interest — and the margins you're pricing on assume the contractor treatment holds. Get this indemnified in the purchase agreement or price it in.

05 Owner-Dependency Read

● RED

The single biggest risk in most Main Street deals: does the value stay after the owner leaves? Here, too much walks out the door. The owner personally runs estimating and bidding and owns the relationships with the two largest commercial accounts — the same accounts that make up nearly half of revenue. There is no sales manager and no second estimator.

> **Mitigant:** the service technicians are licensed and tenured, so field delivery is not owner-dependent. Plan for a firm 12-month transition, a signed non-compete, and hiring an estimator during year one. Price and deal terms should reflect that cost and that risk.

06 Does the Deal Pencil? (Debt-Service Check)

● YELLOW

A buyer-protection check, not loan prep. Most acquisitions are financed, so the real question is simple: at this price and today's rates, do the recast earnings cover the loan payments and still leave you a living wage? Your salary and the debt service are one calculation, not two separate hurdles.

Purchase price	$1,150,000
Buyer equity injection (10% — SOP 50 10 8 minimum)	$115,000
Seller note (full standby, SBA Form 155)	$115,000
Bank acquisition loan	$920,000
Assumed rate / term	~10.5% / 10 yr
Estimated annual debt service	~$149,000
Cash available — Recast SDE	**$274,500**
Less: buyer's living wage	− $80,000
Cash available for debt service	**$194,500**
Debt-Service Coverage Ratio (DSCR)	**1.31×**
Cushion lenders look for	≥ 1.25×

> **Read:** at the asking price the deal clears the bar by a hair — 1.31× against the 1.25× a bank wants. That leaves almost no room for a slow quarter, a rate increase, or the customer-concentration risk actually hitting. A price cut of roughly $200,000 lifts coverage to a much safer ~1.5× and materially de-risks you. Do not buy a deal that only pencils in a perfect year.

07 Financing Structure Check

● YELLOW

The SBA rules governing this structure changed on June 1, 2025 under SOP 50 10 8. A lot of LOIs still get written against the old rules, and the problem does not surface until underwriting.

Under the current rules, a complete change of ownership requires a minimum 10% equity injection. A seller note counts toward that injection only if it is on full standby — no principal and no interest for the life of the SBA loan, documented on SBA Form 155 — and it can cover no more than half the required injection. If the seller retains any equity in the deal, they generally have to personally guarantee the loan.

Structure test	Status
Buyer cash injection meets the 10% floor	● MEETS
Seller note within 50% cap of required injection	● MEETS
Seller note on full standby for the loan term	● CONFIRM
Seller retains no equity (no personal guarantee trigger)	● MEETS
Coverage clears 1.25× on recast earnings	● THIN

> **The item to resolve first:** the seller has agreed to carry $115,000, but the LOI does not say the note is on full standby. Full standby means the seller receives nothing — not even interest — until the SBA loan is retired, potentially ten years. Confirm the seller understands and will sign Form 155 before you spend money on the rest of diligence. This single term kills more SBA deals than any valuation dispute.

08 Your Seller Question Punch-List

● YELLOW

Hand this to the seller or broker before you sign an LOI. The answers will confirm — or break — the numbers above.

- → Provide the last 3 years of filed federal tax returns and the matching P&Ls.
- → Provide 12 months of business bank statements so deposits can be reconciled to reported revenue.
- → Break down revenue by customer for 3 years to confirm the concentration.
- → Document every add-back over $2,500 with support.
- → Detail the $25,000 grant income — its source and whether it recurs.
- → Provide the accounts-receivable aging report as of month-end.
- → Provide the payroll register and a list of all 1099 contractors with their roles, schedules, and tenure.
- → List all vehicles and equipment with age, condition, and replacement timeline.
- → Confirm which technicians hold licenses, and their tenure and retention.
- → Explain the trailing-12-month revenue decline and any lost accounts.
- → Provide the lease: is the building owner-owned, and is rent at market?
- → Confirm the owner's willingness and timeline for a transition period and non-compete.
- → Confirm in writing that the seller will accept a full-standby note on SBA Form 155.

09 What Happens After You Close

● YELLOW

A review answers whether to buy. It is worth being clear about what the first year looks like if you do, because the risks flagged above do not disappear at closing — they become operating problems.

On this deal specifically: you would be taking on roughly $149,000 of annual debt service against earnings that have declined 6% year over year, while hiring an estimator to replace the owner and absorbing whatever the 1099 reclassification costs. That is three cash pressures landing in the same twelve months.

> **What that means practically:** a 13-week rolling cash view from day one, margin tracked by job rather than in aggregate, and a monthly reporting package your lender will eventually ask for anyway. The businesses that struggle after an acquisition usually do not have a revenue problem. They have a visibility problem — nobody built the forward view before it was needed.

10 Scope & Limitations

● PLAIN ENGLISH

This review is independent financial analysis and buyer decision-support, prepared for your own use in deciding whether and at what price to proceed. It is based on documents provided by the seller or broker and has not been independently audited or verified.

It is not a certified Quality of Earnings engagement, a certified business valuation, an audit, or legal, tax, or investment advice. Your lender may still require its own appraisal or verification. Engage qualified legal, tax, and accounting professionals before completing any transaction.

I do not earn a commission on this transaction and I am not paid by the broker or the lender. I have no stake in whether you buy.