



Valuation And Tax Considerations When Buying/Selling A Business

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Introductions



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Firm Overview

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Agenda & Objectives

- Highlight the importance of the Target Working Capital (PEG), how to determine it, and the impact of seasonality
- Analyze the impact that Price vs. Terms can have on the sale of a business
- Gain an understanding of the tax implications of an asset sale vs. a stock sale
- Analyze the implications of an installment sale vs. a cash sale



Working Capital in a Transaction



Working Capital in a Transaction

Traditional Working Capital

The traditional definition of working capital (WC) is current assets minus current liabilities. In a transaction situation, this definition doesn't work.

New Definition of Working Capital

A new definition of WC is needed for transactions. Most transactions are done on a cash free debt free basis. Because of this traditional WC is not sufficient.

Net Working Capital

For transaction purposes, net working capital (NWC) is the standard. NWC starts the same as traditional WC, but it removes cash, non-operating assets and liabilities, debt, and debt-like liabilities.

Net Working Capital PEG

What Is the NWC PEG?

The NWC PEG is the “negotiated” target working capital that is put into a sales agreement and represents the NWC that should be transferred on closing date. This is “negotiated” because the Buyer and Seller don’t always see eye-to-eye on it.

What Is the Impact of the PEG?

If NWC comes in lower than the PEG, then it is typically a \$ for \$ reduction in the sales price. If it comes in higher, it is a \$ for \$ increase in the sales price. Given this, the Buyer would want a higher PEG and the Seller a lower PEG.

NWC Collar

In many transactions there is a negotiated “Collar” established which is typically + or – a certain percentage, such as a Collar for NWC of 95% to 105%. This means that if NWC comes in between 95% - 105% of the NWC PEG then the purchase price would not be adjusted.

Net Working Capital Due Diligence

It is important to review and analyze NWC because there could be adjustments for:

- **Seasonality – NWC could be adjusted to account for seasonality issues.**
- **Non-recurring or non-operating accruals/payables may understate NWC or may need to be made in an interim period if they are only typically done at year end, such as Bonuses.**
- **A/R without an appropriate reserve or Inventory without a reasonable reserve for obsolete inventory could overstate NWC.**

Net Working Capital Due Diligence

- **Non-operating A/P (for capital expenditures) or related party payables which are not operating in nature can understate NWC.**
- **Deferred Revenue and customer deposits – these accounts should be reviewed and addressed in the agreement. These represent \$ received by the Company with an obligation to be provided in the future, potentially by the new owner while the cash remains with the seller.**
- **Adjustments to other accounts may need to be made in an interim period if they are only typically done at year end, such as prepaid expenses.**

WC Analysis Example – Year End

	<u>2023 Total</u>		<u>2024 Total</u>		<u>2025 Total</u>
Monthly Revenue	4,073,081	Monthly Revenue	3,868,673	Monthly Revenue	3,983,964
Monthly Profit	610,962	Monthly Profit	580,301	Monthly Profit	597,594
Traditional Working Capital		Traditional Working Capital		Traditional Working Capital	
Cash	1,367,119	Cash	1,718,324	Cash	2,068,990
Accounts Receivable	156,274	Accounts Receivable	148,602	Accounts Receivable	150,233
Inventory	63,486	Inventory	60,370	Inventory	61,032
Prepaid Expenses	90,226	Prepaid Expenses	91,267	Prepaid Expenses	93,308
Total current Assets	<u>1,677,105</u>	Total current Assets	<u>2,018,563</u>	Total current Assets	<u>2,373,563</u>
Accounts Payable	50,789	Accounts Payable	48,296	Accounts Payable	48,826
Accrued Expenses	9,767	Accrued Expenses	9,288	Accrued Expenses	9,390
Total Current Liabilities	<u>60,556</u>	Total Current Liabilities	<u>57,584</u>	Total Current Liabilities	<u>58,216</u>
Traditional Working Capital	1,616,549	Traditional Working Capital	1,960,979	Traditional Working Capital	2,315,347

WC Analysis – Year End

Required Working Capital Analysis

12/31/2025 Revenue	\$ 3,983,964
Times Required Working Capital as % of Revenue	49.41%
Estimated Required Working Capital	<u>1,968,603</u>

Excess Working Capital Analysis

Adjusted Current Assets at	12/31/2025	\$ 2,373,563
Less: Current Liabilities at	12/31/2025	<u>(58,216)</u>
Working Capital at	12/31/2025	2,315,347
Less: Estimated Required Working Capital		█ (1,968,603)
Excess Working Capital		<u><u>\$ 346,744</u></u>

Historical Working Capital Analysis

	<u>12/2023</u>	<u>12/2024</u>	<u>12/2025</u>	<u>Total</u>
Revenue	\$ 4,073,081	\$ 3,868,673	\$ 3,983,964	\$ 11,925,718
Current Assets	\$ 1,677,105	\$ 2,018,563	\$ 2,373,563	
Less: Current Liabilities	<u>(60,556)</u>	<u>(57,584)</u>	<u>(58,216)</u>	
Unadjusted Working Capital	\$ 1,616,549	\$ 1,960,979	\$ 2,315,347	\$ 5,892,875
<i>% of Revenue</i>	39.69%	50.69%	58.12%	
3 Yr Avg Working Capital as % of Revenue	<u>49.41%</u>			

NWC Analysis – Year End

Required Net Working Capital Analysis

12/31/2025 Revenue	\$ 3,983,964
Times Required Working Capital as % of Revenue	<u>6.19%</u>
Estimated Required Working Capital	246,688

Excess Net Working Capital Analysis

Adjusted Current Assets at	12/31/2025	\$ 304,573
Less: Adjusted Current Liabilities at	12/31/2025	<u>(58,216)</u>
Adjusted Working Capital at	12/31/2025	246,357
Less: Estimated Required Net Working Capital		<u>(246,688)</u>
Deficient Net Working Capital		<u>\$ (331)</u>

Historical Working Capital Analysis

	<u>12/2023</u>	<u>12/2024</u>	<u>12/2025</u>	<u>Total</u>
Revenue	\$ 4,073,081	\$ 3,868,673	\$ 3,983,964	\$ 11,925,718
Current Assets	\$ 1,677,105	\$ 2,018,563	\$ 2,373,563	
Less: Current Liabilities	<u>(60,556)</u>	<u>(57,584)</u>	<u>(58,216)</u>	
Unadjusted Working Capital	1,616,549	1,960,979	2,315,347	
Adjustments to Working Capital:				
Less : Cash	<u>(1,367,119)</u>	<u>(1,718,324)</u>	<u>(2,068,990)</u>	
Adjusted Working Capital	\$ 249,430	\$ 242,655	\$ 246,357	\$ 738,442
<i>% of Revenue</i>	6.12%	6.27%	6.18%	
3 Yr Avg Adjusted Net Working Capital as % of Revenue	<u>6.19%</u>			

NWC Example – Seasonality

	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	September 2023	October 2023	November 2023	December 2023	Total
Monthly Revenue	204,967	198,617	206,477	215,230	592,975	592,976	647,376	623,023	195,305	205,426	195,366	195,343	4,073,081
Monthly Profit	30,745	29,793	30,972	32,285	88,946	88,946	97,106	93,453	29,296	30,814	29,305	29,301	610,962
Traditional Working Capital													
Cash	969,995	1,002,559	1,028,996	1,008,735	777,590	807,461	846,955	948,018	1,278,706	1,302,033	1,338,913	1,367,119	
Accounts Receivable	163,974	158,894	165,182	172,184	474,380	474,381	517,901	498,418	156,244	164,340	156,293	156,274	
Inventory	66,614	64,551	67,105	69,950	192,717	192,717	210,397	202,482	63,474	66,763	63,494	63,486	
Prepaid Expenses	100,000	100,418	96,482	93,919	94,289	95,681	96,009	95,787	95,210	92,395	91,065	90,226	
Total current Assets	1,300,583	1,326,422	1,357,765	1,344,788	1,538,976	1,570,240	1,671,262	1,744,705	1,593,634	1,625,531	1,649,765	1,677,105	
Accounts Payable	53,291	51,641	53,684	55,960	154,174	154,174	168,318	161,986	50,779	53,411	50,795	50,789	
Accrued Expenses	10,248	9,931	10,324	10,762	29,649	29,649	32,369	31,151	9,765	10,271	9,768	9,767	
Total Current Liabilities	63,539	61,572	64,008	66,722	183,823	183,823	200,687	193,137	60,544	63,682	60,563	60,556	
Traditional Working Capital	1,237,044	1,264,850	1,293,757	1,278,066	1,355,153	1,386,417	1,470,575	1,551,568	1,533,090	1,561,849	1,589,202	1,616,549	
Less: Cash	(969,995)	(1,002,559)	(1,028,996)	(1,008,735)	(777,590)	(807,461)	(846,955)	(948,018)	(1,278,706)	(1,302,033)	(1,338,913)	(1,367,119)	At Year End
Net Working Capital	267,049	262,291	264,761	269,331	577,563	578,956	623,620	603,550	254,384	259,816	250,289	249,430	6.12%

NWC Example – Seasonality

	January 2024	February 2024	March 2024	April 2024	May 2024	June 2024	July 2024	August 2024	September 2024	October 2024	November 2024	December 2024	Total
Monthly Revenue	202,420	180,867	182,751	194,377	569,615	609,427	572,759	557,631	214,656	197,742	200,675	185,753	3,868,673
Monthly Profit	30,363	27,130	27,413	29,157	85,442	91,414	85,914	83,645	32,198	29,661	30,101	27,863	580,301
Traditional Working Capital													
Cash	1,344,260	1,386,513	1,413,834	1,387,469	1,156,394	1,160,860	1,264,125	1,347,106	1,611,462	1,654,489	1,680,757	1,718,324	
Accounts Receivable	161,936	144,694	146,201	155,502	455,692	487,542	458,207	446,105	171,725	158,194	160,540	148,602	
Inventory	65,786	58,782	59,394	63,173	185,125	198,064	186,147	181,230	69,763	64,266	65,219	60,370	
Prepaid Expenses	92,134	92,767	89,496	90,076	89,382	88,172	89,251	91,091	92,788	91,230	90,666	91,267	
Total current Assets	1,664,116	1,682,756	1,708,925	1,696,220	1,886,593	1,934,638	1,997,730	2,065,532	1,945,738	1,968,179	1,997,182	2,018,563	
Accounts Payable	52,629	47,025	47,515	50,538	148,100	158,451	148,917	144,984	55,811	51,413	52,176	48,296	
Accrued Expenses	10,121	9,043	9,138	9,719	28,481	30,471	28,638	27,882	10,733	9,887	10,034	9,288	
Total Current Liabilities	62,750	56,068	56,653	60,257	176,581	188,922	177,555	172,866	66,544	61,300	62,210	57,584	
Traditional Working Capital	1,601,366	1,626,688	1,652,272	1,635,963	1,710,012	1,745,716	1,820,175	1,892,666	1,879,194	1,906,879	1,934,972	1,960,979	
Less: Cash	(1,344,260)	(1,386,513)	(1,413,834)	(1,387,469)	(1,156,394)	(1,160,860)	(1,264,125)	(1,347,106)	(1,611,462)	(1,654,489)	(1,680,757)	(1,718,324)	At Year End
Net Working Capital	257,106	240,175	238,438	248,494	553,618	584,856	556,050	545,560	267,732	252,390	254,215	242,655	6.27%
TTM Revenue	4,070,534	4,052,784	4,029,058	4,008,205	3,984,845	4,001,296	3,926,679	3,861,287	3,880,638	3,872,954	3,878,263	3,868,673	
Net Working Capital %	6.3%	5.9%	5.9%	6.2%	13.9%	14.6%	14.2%	14.1%	6.9%	6.5%	6.6%	6.3%	

NWC Example – Seasonality

	January 2025	February 2025	March 2025	April 2025	May 2025	June 2025	July 2025	August 2025	September 2025	October 2025	November 2025	December 2025	Total
Monthly Revenue	194,556	201,109	188,490	203,757	581,981	591,249	581,949	655,568	199,865	189,423	208,225	187,792	3,983,964
Monthly Profit	29,183	30,166	28,274	30,564	87,297	88,687	87,292	98,335	29,980	28,413	31,234	28,169	597,594
Traditional Working Capital													
Cash	1,691,786	1,715,492	1,752,508	1,725,804	1,495,357	1,518,421	1,599,239	1,624,594	1,977,321	2,011,677	2,026,715	2,068,990	
Accounts Receivable	155,645	160,887	150,792	163,006	465,585	472,999	465,559	524,455	159,892	151,538	166,580	150,233	
Inventory	63,231	65,360	61,259	66,221	189,144	192,156	189,133	213,060	64,956	61,562	67,673	61,032	
Prepaid Expenses	93,047	92,156	91,813	89,782	87,634	89,058	91,474	91,342	93,175	93,849	92,638	93,308	
Total current Assets	2,003,709	2,033,895	2,056,372	2,044,813	2,237,720	2,272,634	2,345,405	2,453,451	2,295,344	2,318,626	2,353,606	2,373,563	
Accounts Payable	50,585	52,288	49,007	52,977	151,315	153,725	151,307	170,448	51,965	49,250	54,139	48,826	
Accrued Expenses	9,728	10,055	9,425	10,188	29,099	29,562	29,097	32,778	9,993	9,471	10,411	9,390	
Total Current Liabilities	60,313	62,343	58,432	63,165	180,414	183,287	180,404	203,226	61,958	58,721	64,550	58,216	
Traditional Working Capital	1,943,396	1,971,552	1,997,940	1,981,648	2,057,306	2,089,347	2,165,001	2,250,225	2,233,386	2,259,905	2,289,056	2,315,347	
Less: Cash	(1,691,786)	(1,715,492)	(1,752,508)	(1,725,804)	(1,495,357)	(1,518,421)	(1,599,239)	(1,624,594)	(1,977,321)	(2,011,677)	(2,026,715)	(2,068,990)	At Year End
Net Working Capital	251,610	256,060	245,432	255,844	561,949	570,926	565,762	625,631	256,065	248,228	262,341	246,357	6.18%
TTM Revenue	3,860,809	3,881,051	3,886,790	3,896,170	3,908,536	3,890,358	3,899,548	3,997,485	3,982,694	3,974,375	3,981,925	3,983,964	
Net Working Capital %	6.5%	6.6%	6.3%	6.6%	14.4%	14.7%	14.5%	15.7%	6.4%	6.2%	6.6%	6.2%	

Sum of total 2024 & 2025 TTM Revenue for each month \$ 94,578,921
Sum of total 2024 & 2025 Net Working Capital for each month \$ 8,587,494
9.08%

2025 Total Revenue 3,983,964
Calculated Required Net Working Capital \$ **361,732**

NWC Example – Seasonality – Impact

Traditional working capital calculation - 3 year average working capital as a % of Sales Revenue	\$	1,968,603
Net working capital calculation - 3 year average net working capital as a % of Sales Revenue	\$	246,688
Net working capital calculation - 2 year average total TTM net working capital % of total TTM Sales Revenue	\$	361,732

Price vs. Terms

- There is a classic negotiating strategy that goes “You name the price; I’ll name the terms.”
- Does this make sense in a business transaction setting?
- We think it can. Financing terms can impact the ability of a deal to cash flow.
- Let’s assume that a business has EBITDA of \$600,000, no growth, no capital expenditure requirements, no working capital requirements (simplifying assumption).
- The weighted average cost of capital is 20% and tax rate of 25%

Price vs. Terms – Deal A

Assumptions

12/31/2025 - Down Payment	40.0%	Down Payment	\$ 1,200,000
12/31/2025	60.0%	Loan	\$ 1,800,000
Value of Business*	\$ 3,000,000		
Cost of Transaction	\$ 3,000,000		
L/T Growth	0.0%		

Loan Terms

Interest Rate	8.00%
Loan Term	60 months
Amort. Period	60 months
I/O Period	0 Months
Balloon Payment	N/A

	Year 1 12/31/2026	Year 2 12/31/2027	Year 3 12/31/2028	Year 4 12/31/2029	Year 5 12/31/2030	Year 6 12/31/2031	Year 7 12/31/2032	Year 8 12/31/2033	Year 9 12/31/2034	Year 10 12/31/2035	Totals
Net income prior to interest expense	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 6,000,000
Total Interest Expense	(132,978)	(107,664)	(80,248)	(50,558)	(18,403)	-	-	-	-	-	\$ (389,851)
Net income	467,022	492,336	519,752	549,442	581,597	600,000	600,000	600,000	600,000	600,000	\$ 5,610,149
Income taxes	(116,756)	(123,084)	(129,938)	(137,361)	(145,399)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	\$ (1,402,537)
Tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	
Projected net income	350,267	369,252	389,814	412,082	436,198	450,000	450,000	450,000	450,000	450,000	\$ 4,207,612
Cash flow adjustments											
Add:											
Interest expense	132,978	107,664	80,248	50,558	18,403	-	-	-	-	-	389,851
Cash available to shareholders and creditors	\$ 483,244	\$ 476,916	\$ 470,062	\$ 462,639	\$ 454,601	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 4,597,463
Interest Expense	(132,978)	(107,664)	(80,248)	(50,558)	(18,403)	-	-	-	-	-	(389,851)
Principle Payments	(304,992)	(330,306)	(357,722)	(387,412)	(419,567)	-	-	-	-	-	(1,800,000)
Total Debt Service	\$ (437,970)	\$ (437,970)	\$ (437,970)	\$ (437,970)	\$ (437,970)	\$ -	\$ -	\$ -	\$ -	\$ -	(2,189,851)
Cash After Debt Service	\$45,274	\$38,946	\$32,092	\$24,669	\$16,631	\$450,000	\$450,000	\$450,000	\$450,000	\$450,000	\$2,407,612
EBITDA	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	

Price vs. Terms – Deal A

EBITDA \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000 \$ 600,000

Bank Ratios

Senior Debt Service Coverage Ratio (Target 1.25)	1.37	1.37	1.37	1.37	1.37	-	-	-	-	-
Total Debt Service Coverage Ratio (Target 1.0 - 1.2)	1.37	1.37	1.37	1.37	1.37	-	-	-	-	-
EBITDA Less Unfunded Cap Ex	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Debt Service Coverage Ratio (including unfunded Cap Ex)	1.37	1.37	1.37	1.37	1.37	-	-	-	-	-

Return for LBO

Company Value Growth Rate	0%
Closing Costs %	0%
Sell Date	12/31/2035
Holding Period	10.01 Years
Sell Price	3,000,000
Discount Rate for CF	20%

	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Cash After Debt Service		45,274	38,946	32,092	24,669	16,631	450,000	450,000	450,000	450,000	450,000
Proceeds from Sale less loan balance		-	-	-	-	-	-	-	-	-	3,000,000
Cash Flows \$	\$(1,200,000)	\$ 45,274	\$ 38,946	\$ 32,092	\$ 24,669	\$ 16,631	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 3,450,000

IRR of Cash Flows 19%

Price vs. Terms – Deal B

Assumptions

12/31/2025 - Down Payment	10.0%	Down Payment	\$	375,000
12/31/2025	90.0%	Loan	\$	3,375,000
Value of Business*			\$	3,750,000
Cost of Transaction			\$	3,750,000
L/T Growth	0.0%			

Loan Terms

Interest Rate	4.46%
Loan Term	120 months
Amort. Period	120 months
I/O Period	0 Months
Balloon Payment	N/A

	Year 1 12/31/2026	Year 2 12/31/2027	Year 3 12/31/2028	Year 4 12/31/2029	Year 5 12/31/2030	Year 6 12/31/2031	Year 7 12/31/2032	Year 8 12/31/2033	Year 9 12/31/2034	Year 10 12/31/2035	Totals
Net income prior to interest expense	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 6,000,000
Total Interest Expense	(144,969)	(132,497)	(119,456)	(105,822)	(91,567)	(76,664)	(61,081)	(44,790)	(27,757)	(9,948)	(814,551)
Net income	455,031	467,503	480,544	494,178	508,433	523,336	538,919	555,210	572,243	590,052	5,185,449
Income taxes	(113,758)	(116,876)	(120,136)	(123,544)	(127,108)	(130,834)	(134,730)	(138,803)	(143,061)	(147,513)	(1,296,362)
Tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	
Projected net income	341,273	350,628	360,408	370,633	381,325	392,502	404,189	416,408	429,182	442,539	3,889,087
Cash flow adjustments											
Add:											
Interest expense	144,969	132,497	119,456	105,822	91,567	76,664	61,081	44,790	27,757	9,948	814,551
Cash available to shareholders and creditors	\$ 486,242	\$ 483,124	\$ 479,864	\$ 476,456	\$ 472,892	\$ 469,166	\$ 465,270	\$ 461,197	\$ 456,939	\$ 452,487	\$ 4,703,638
Interest Expense	(144,969)	(132,497)	(119,456)	(105,822)	(91,567)	(76,664)	(61,081)	(44,790)	(27,757)	(9,948)	(814,551)
Principle Payments	(273,986)	(286,458)	(299,499)	(313,133)	(327,388)	(342,292)	(357,874)	(374,165)	(391,198)	(409,007)	(3,375,000)
Total Debt Service	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	\$ (418,955)	(4,189,551)
Cash After Debt Service	\$67,287	\$64,169	\$60,909	\$57,500	\$53,937	\$50,211	\$46,315	\$42,242	\$37,984	\$33,532	\$514,087
EBITDA	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	

Price vs. Terms – Deal B

EBITDA	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000
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Bank Ratios

Senior Debt Service Coverage Ratio (Target 1.25)		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43
Total Debt Service Coverage Ratio (Target 1.0 - 1.2)		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43
EBITDA Less Unfunded Cap Ex	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000	\$	600,000
Debt Service Coverage Ratio (including unfunded Cap Ex)		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43		1.43

Return for LBO

Company Value Growth Rate	0%
Closing Costs %	0%
Sell Date	12/31/2035
Holding Period	10.01 Years
Sell Price	3,000,000
Discount Rate for CF	20%

	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Cash After Debt Service		67,287	64,169	60,909	57,500	53,937	50,211	46,315	42,242	37,984	33,532
Proceeds from Sale less loan balance		-	-	-	-	-	-	-	-	-	3,000,000
Cash Flows \$	(375,000)	\$ 67,287	\$ 64,169	\$ 60,909	\$ 57,500	\$ 53,937	\$ 50,211	\$ 46,315	\$ 42,242	\$ 37,984	\$ 3,033,532
IRR of Cash Flows		31%									

Price vs. Terms – Summary

- Because a higher than market level of financing was available, the financing terms were longer than market, a lower interest rate was offered, and a higher price could be paid.
- Debt service coverage ratios were met and the second deal with the higher price had a higher internal rate of return (IRR).
- However, they are not market level assumptions for a reason... they are not always available.
- The “type” of sale might be the most important “Term.”

Income Tax Considerations

How is my business structured?

- How many owners currently?
- Sole owner, Multi Member LLC, S Corp, C Corp

What does my balance sheet look like?

- Debt vs. Equity – Guaranteed debt, other debt, amount of equity
- Tax basis is different than book basis (equity)
- Assets – business and non-business. Type of Assets

Income Tax Considerations

Deal Structure

Asset vs. Stock deal

- **Asset deal – Buyer typically prefers**
 - Step up basis of assets, limited exposure to liabilities, tax deductible goodwill
- **Asset deal – Seller perspective**
 - Recognize ordinary income, recapture of depreciation
- **Stock deal – Seller typically prefers**
 - Capital gain treatment, may be simpler, installment sale treatment
- **Stock deal – Buyer perspective**
 - “Step in shoes,” indemnity and/or escrows for liabilities, no tax deductible goodwill

Income Tax Considerations

Deal Structure

- **Buyer and seller agreement**
- **Are there hot assets that would require proceeds to be recognized as ordinary income?**
- **Do you know your basis in the company?**

Income Tax Considerations

- **How do I minimize taxes and maximize cash received?**
 - **Gain considerations – depending on structure of entity and deal**
 - **Asset Type considerations**
 - **Estate plan**
- **Does my business have state nexus issues?**
- **Are there other tax issues – e.g., Sales tax, property tax, payroll tax items**

Other Considerations

- **Do I have the appropriate transition team in place?**
 - **Legal, Banking, Tax Accountant**
- **Are my corporate/organizational documents in order?**
- **How will the transaction be financed?**
 - **Can we do an installment sale?**
- **Is the current management team staying in place?**

Questions?

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