



## Iron Sharpens Iron When Financing the Transaction

What does it take to close a deal where the Buyer seeks reasonable outside financing? I have found a great deal of wisdom in the words of Proverbs 27-17 “Iron sharpens iron”. It may have been written many years ago, but truths do not change. In these challenging times, this wisdom can be applied more than ever to a Seller and Buyer when they are trying to close a deal and need reasonable financing to make it all happen.

A bank is looking for a strong Buyer, a strong Seller and a strong Company. When working together, the Buyer and Seller can strengthen each other... Iron sharpening iron!

Financial Institutions have always wanted strong parties in a transaction, but the definition of “strong” has been “refined” in this recession:

- A strong buyer needs to have experience in the business industry he is buying;
- A strong buyer needs to have approximately 50% down in cash;
- A strong buyer needs to have strong collateral up and above what assets they are buying with the business;
- A strong seller needs to be ready to put in approximately 10% to 20% into the transaction;
- A strong seller needs to have a business that has tax returns that can prove a coverage ratio of much better than the old 1.2 rule of thumb;
- A strong seller needs to have future sales that can support the future cash flow of the Buyer – this is not to say that gross revenue has to be up...it can be down.

So for a deal to happen, strength is needed from both parties...”Iron sharpens Iron” and everyone wins.

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