RealSDE

SAMPLE — Deal Screen: “North Metro Mechanical” (composite illustration)

About this sample. This memorandum demonstrates the Deal Screen product on a composite illustrative listing constructed from published market benchmarks (BizBuySell 2025–26 HVAC class data: median asking $648,500, median revenue $1.1M, median owner earnings $242,177, median multiple 2.82x). No real business, broker, or seller is depicted. Client engagements analyze your actual deal documents under a confidentiality agreement.

RealSDE — Deal Screen, prepared for [Sample Client] · July 2026 · Product: Standard Deal Screen · Confidence tier: **P&L-supported** (CIM + 3-year P&L; no tax returns)

This Deal Screen is an independent analysis of seller-provided documents, prepared for [Sample Client]. It is not an audit, review, attestation, quality of earnings engagement, valuation, or appraisal, and it is not legal, tax, investment, or insurance advice. “Screened SDE” means seller discretionary earnings as traced to the documents provided and tested against them; it is not independently verified. Findings are limited by the documents listed in Appendix A. Provided under confidentiality; the client represents authority to share the deal materials reviewed.

1. The one-page verdict

The broker package presents $284,000 of seller discretionary earnings, which at the $675,000 asking price implies an attractive-looking 2.38x multiple. After tracing each add-back to the three years of statements provided, **$209,000 survives** — a 3.23x multiple, above the class range midpoint. At your proposed structure (10 percent down, SBA 7(a), 10 years), Screened SDE produces base-case debt service coverage of **1.19** — above the SBA SOP minimum of 1.15 but below the 1.25-and-up floor most bank credit policies apply to acquisition loans — and coverage falls to approximately 0.70 if revenue declines 10 percent. Under the same financing structure, a 1.50 coverage target is met at a price of approximately **$524,000**. *That figure is a financing-capacity calculation at your stated structure and coverage target; it is not an opinion of the fair market value of the business.*

The three findings that matter most: (1) customer concentration is higher than the package suggests, with one property management firm at approximately 24 percent of revenue on a contract that requires consent to assignment; (2) the facility lease has three years remaining against a ten-year loan; (3) the insurance expense line is roughly half of what this operation would typically carry, suggesting either coverage gaps or a repricing at closing. Tax returns, balance sheets, loss runs, and the customer contract would upgrade this screen’s confidence tier and could move the numbers in either direction.

2. Deal snapshot

Item	Value	vs class norm
Asking price	$675,000	above median ($648.5k)
Revenue (2025 P&L)	$1,150,000	near median ($1.1M)
Claimed SDE	$284,000	above median ($242k)
Screened SDE	$209,250	below median
Implied multiple (claimed)	2.38x	reads cheap vs 2.82x median
Implied multiple (screened)	3.23x	above class midpoint
Revenue trend (2023→2025)	+4% / +2%	flat in real terms
Evidence tier	CIM + 3-yr P&L	no tax returns, no balance sheets

3. SDE bridge (every line traced; the table re-adds to its total)

Line	Amount	Verdict	Reason
Reported 2025 net income (P&L)	$54,700	base	starting point for all math
+ Owner salary and payroll tax	$118,000	**ACCEPT +$118,000**	documented on P&L; market replacement wage charged in §4
+ “One-time” equipment repairs	$22,000	**REJECT +$0**	appears all three years ($18k/$25k/$22k) — recurring
+ Owner vehicle, fuel, insurance	$14,500	**HAIRCUT +$7,250**	buyer will carry a comparable service vehicle; only the personal-use share survives
+ Family member payroll	$19,000	**REJECT +$0**	the admin role is real work; a replacement hire is required, so the cost remains
+ Legal settlement (2024)	$11,000	**ACCEPT +$11,000**	single year, documented
+ Depreciation	$31,000	**ACCEPT +$31,000**	added back per convention; an $18,000 annual equipment and fleet reserve is charged once, in §4
+ Phone, subscriptions, dues	$4,800	**PARTIAL +$3,300**	$1,500 could not be traced to any statement line
+ Marketing “the buyer won’t need”	$9,000	**REJECT +$0**	revenue was acquired with this spend
− Rent normalization (omitted by broker)	—	**−$16,000**	seller-owned building at $3,400/mo vs $4,700/mo submarket comps; buyer’s lease will be market
Claimed SDE (broker)	$284,000		= $54,700 + $229,300 of add-backs
Screened SDE	$209,250		= 54,700 + 118,000 + 7,250 + 11,000 + 31,000 + 3,300 − 16,000

4. Debt service and margin of safety

Structure tested (per client): $675,000 price + $40,000 working capital + $20,000 fees = $735,000 project; 10 percent equity injection ($73,500); SBA 7(a) $661,500 at an illustrative 10.25 percent, 10-year term *(confirm current Prime plus spread before relying on this)*. Charges against Screened SDE: $65,000 market service-manager wage; $18,000 equipment/fleet reserve. Sensitivity assumes 45 percent of each lost revenue dollar reaches cash flow (stated assumption; gross margin held constant).

Case	Cash flow for debt service	Debt service	Coverage
Base (Screened SDE)	$126,250	$106,003	1.19
Revenue −10%	$74,500	$106,003	0.70
Revenue −20%	$22,750	$106,003	0.21
Bank-basis reference (no reserve)	$144,250	$106,003	1.36
Broker’s presentation (claimed SDE)	$219,000	$106,003	2.07

The gap between 2.07 and 1.19 is the difference between the brochure and the documents. Reference points: SBA SOP minimum coverage is 1.15; most bank credit policies want 1.25 or better; the bank-basis row shows how a lender spreading without a capex reserve will see it. **Price at a 1.50 coverage target:**

approximately $524,000 (financing-capacity calculation, per §1; working capital note: $40,000 against commercial receivables running 45–60 days on a book with a 24 percent property-management account is thin — see finding 7).

5. Red flags, ranked

DEAL-KILLER (resolve before LOI, or walk)

1. **Lease term.** Three years remain against a ten-year loan; SBA lenders generally require site control matching the loan term (renewal options count). Resolution: negotiate extension or options to ten years as an LOI condition. *(CIM p.9.)*

2. **License holder.** The Georgia conditioned-air license qualifying the company appears to be held personally by the seller; if so, the business may not be able to operate lawfully post-close without a qualifier — confirm with the licensing board and your attorney. Resolution path: transition qualifier agreement or licensed hire as an LOI condition. *(CIM p.4.)*

NEGOTIATE (price or terms leverage)

3. **Customer concentration.** Largest customer ≈ 24 percent of revenue; its service agreement requires consent to assignment on change of control. *(Revenue-by-customer table, CIM p.11.)*

4. **Recurring "one-time" repairs** (§3) — $22,000/year of real operating cost.

5. **Below-market related-party rent** (§3) — a $16,000/year step-up at closing.

6. **Fleet age.** Six vans averaging seven years; the $18,000 reserve is conservative; fleet inspection belongs in post-LOI diligence.

7. **Working capital.** $40,000 injection vs 45–60-day commercial receivables: model a season of payroll and materials before the PM account pays.

MONITOR (post-close plan items)

8. Technician wages ~8 percent below market per the payroll summary — a retention risk; budget the correction.

9. Flat real revenue in a growing metro — share loss; the marketing add-back the broker proposed is part of the explanation.

6. Insurance cost and risk analysis (financial diligence)

This section is risk analysis for diligence purposes and is not insurance advice or a coverage recommendation; review with a licensed insurance agent.

1. **The expense line does not fit the operation.** $14,200/year on the 2025 P&L for a six-van HVAC contractor at ~$1.15M revenue. Typical programs for this class carry general liability, commercial auto on six power units, workers' compensation for a field crew, an umbrella, and inland marine on tools; commercial auto alone frequently approaches this figure in the current market. Either coverage is thin (risk transfers to you at closing) or the seller enjoys pricing a new owner will not inherit. **Estimated repricing exposure: $8,000–18,000/year — roughly −0.08 to −0.17 of coverage against this deal's $106,000 debt service.** A real pricing lever for the negotiation.

2. **Workers' compensation experience modification.** Whether the seller's mod follows the buyer depends on deal structure and ownership-continuity rules. Request the current mod worksheet; raise the asset-vs-stock interaction with your attorney and agent.

3. **Loss runs.** Request five-year, currently valued loss runs for all lines. Frequency matters more than a single closed claim; refusal to provide them is itself a finding.

4. **Policy form.** Ask your agent whether the general liability is occurrence-form or claims-made, and what a tail would cost if any policy is claims-made — HVAC completed-operations exposure runs years past the work.

5. **Contractual requirements.** The property-management agreement (the 24 percent customer) likely mandates certificates, additional-insured status, and waiver of subrogation; the cost of compliance is an operating cost.

6. **Bonds and permits.** Permit and license bonds do not transfer; confirm day-one bonding needs for a new owner.

Questions for your insurance agent: What would you quote today for GL, commercial auto (six units), WC, and umbrella for this operation under a new owner? Does the current $14,200 line suggest gaps? How would the WC experience mod be treated in an asset purchase here? Is the GL occurrence-form, and what would a tail cost if not? What will the PM contract's insurance requirements cost to satisfy?

7. Questions for the seller

1. Please provide business tax returns and balance sheets for 2023–2025.

2. Please provide the general ledger detail behind the 2023–2025 equipment repair lines. (Finding 4)

3. Who holds the conditioned-air qualifier license, and what transition arrangement do you propose? (Finding 2)

4. Will the landlord (your affiliate) commit to a ten-year lease or options at a stated rate before LOI? (Findings 1, 5)

5. Please provide the [PM firm] service agreement, including the assignment clause and renewal date. (Finding 3)

6. What is the role and salary of [family member], and will they remain?

7. Please provide the fleet list with mileage and maintenance records.

8. Please provide five-year loss runs and the current WC experience-mod worksheet.

9. What portion of revenue is maintenance agreements vs service vs installation, for each of the last three years — and what deferred revenue exists on prepaid maintenance agreements?

10. Have any customers over 5 percent of revenue been lost in three years?

11. What marketing has been running, at what spend?

12. Are there pending or threatened claims, disputes, or warranty obligations?

8. What we could not verify

Tax-return agreement with the P&L (not provided); balance sheets (not provided — so accounts receivable quality and any maintenance-agreement deferred revenue are unexamined); the $1,500 of subscription add-backs; actual insurance coverage terms; customer contract terms; fleet condition. Each is reflected in the confidence tier and could move Screened SDE in either direction.

9. About the analyst

Rory Hutchison, RealSDE, Atlanta. Training: B.B.A. in Risk Management & Insurance (University of Georgia) and two CPCU examinations completed — the discipline of reading a business's documents for mispriced risk. Method: AI-accelerated document extraction and spreading, followed by line-by-line human judgment on every add-back and finding; the deal math runs on a tested calculation engine and is re-added independently before delivery. Every memo carries my name and my signature conclusion. I am not a CPA; work that requires one, such as a quality of earnings engagement, is referred to independent CPA firms.

Appendix A — documents reviewed

Confidential Information Memorandum (24 pp., received July 2026); P&L statements 2023–2025 (accountant-prepared, accrual); payroll summary; revenue-by-customer table (top 10, 2025); asking-price term sheet. Requested, not provided: tax returns, balance sheets, insurance schedule, customer contracts.

Prepared by Rory Hutchison, RealSDE. Fixed-fee engagement; no part of the fee is contingent on any transaction. Prepared solely for [Sample Client]; not for reliance by any third party, including lenders. Questions: rj@realsde.com · realsde.com.