

Rollover equity: the checklist

The seven steps, and the seven questions an underwriter asks, exactly as they appeared in the session. Keep this on the desk while you build the stack.

The checklist

- 1 Break the purchase price into layers, cheapest money first: senior, asset-based, seller note, rollover, mezzanine or preferred, common.
- 2 Ask the seller to roll: part of his price in ownership of the holding company, not cash.
- 3 Push the rollover percentage. 20 to 30 moved \$260,000 off the closing table.
- 4 Use the seller note for timing (standby, subordinated) and the rollover for price.
- 5 Interest only in year one. A real standby: three years, not one.
- 6 Underwrite coverage: \$112.50 of cash flow for every \$100 of debt service, at the rate you are actually quoted.
- 7 The gap is the last number you calculate, not the first.

The lender question list

What an underwriter asks before it decides.

Whose equity is in, and how much?

Proof of funds?

Net worth against the loan ask?

Does the seller stay in, and on what paper?

What carries a rate, and what is on standby?

Does it cover the debt service at the quoted rate?

Who runs it after the seller walks out?

Why the rate makes rollover worth more, not less

\$112.50

of cash flow the business must throw off for every \$100 of debt service, at a 1.25 coverage ratio.

About \$20,000 a year

of cash flow consumed by every \$100,000 borrowed at 15 to 16 percent, before any of it reaches you.

\$798,000 at 0%

the rollover on Cody's deal. It carries no rate and no payment, which is why a higher rate environment makes this layer more valuable rather than less.

The deal it came from

- A \$2.66M acquisition. The rollover was sketched at 20 percent and pushed to 30, which moved \$260,000 off the closing table.
- It closed with under \$20,000 of the buyer's own cash in the deal, and a \$3.4 million senior facility.
- 25 capital providers saw it. 24 said no. One funded it. Nothing about the business changed between the 24th no and the yes.

Every figure here is one stated in the recorded session. Rollover equity is cheap in cash and expensive in documents: it lives under the operating agreement, so your own lawyer and accountant confirm it for your structure.