

The Seller's Deal Structure Decoder

Cash at Close, Seller Notes, Earnouts, Equity Rollovers — Explained in Plain English

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Most sellers know they want money for their business. What they don't always know is that how you receive that money matters as much as how much you receive.

When a buyer submits a Letter of Intent, the total purchase price is only one number. The deal structure — how and when you receive that money — determines your actual outcome. A \$1.2M deal paid in the right structure can be worth more than a \$1.4M deal structured poorly.

Here is a plain-English breakdown of every component you may encounter in your deal.

Component 1: Cash at Close

This is the cleanest part of any deal — money wired to you on closing day. No conditions, no contingencies, no waiting.

- Pros: Certain, immediate, no future risk
- Cons: Buyers using SBA financing typically can't put more than 80–90% at close
- Typical range: 70–100% of total deal value

Rule of thumb: Maximize your cash-at-close percentage whenever possible. It is the only component with zero risk.

Component 2: Seller Note (Seller Financing)

A seller note is a loan you extend to the buyer. Instead of receiving that portion at close, you receive monthly payments — principal plus interest — over an agreed term.

- Typical terms: 5–7 years at 6–8% interest
- Typical size: 5–15% of total deal value (sometimes up to 30%)
- SBA requirement: SBA lenders often require sellers to carry a note on standby for 24 months

Pros: Creates an ongoing income stream. May allow you to negotiate a higher total price. Can provide favorable tax treatment via installment sale.

Cons: You are now a lender. If the buyer defaults, you may need to pursue collections or take the business back. Secure the note against business assets.

Component 3: Earnout

An earnout is a future payment contingent on the business hitting specific performance targets after you leave.

- Example: '\$200K additional payment if revenue exceeds \$1.5M in Year 1 post-close'
- Common in deals where buyer and seller can't agree on current value

Pros: Can bridge a valuation gap and get a deal done when both parties disagree on the future.

Cons: You no longer control the business. Your earnout depends on the buyer executing. These are frequently disputed. Negotiate earnout terms carefully — and be skeptical of large earnouts.

Component 4: Equity Rollover

An equity rollover means you retain a minority ownership stake in the business post-close — typically 10–20%. You are effectively 'rolling' a portion of your equity into the new ownership structure.

- Common in private equity-backed acquisitions
- Allows you to participate in future upside if the buyer grows the business

Pros: Potential 'second bite of the apple' — if the buyer grows the business significantly and resells, your retained equity could appreciate.

Cons: You are now a minority partner with limited control. Your return depends entirely on the buyer's performance and future exit plans.

Deal Structure Comparison

| COMPONENT | RISK LEVEL | CERTAINTY | BEST USED WHEN |
|---------------|--------------|-----------------|---|
| Cash at Close | None | 100% | Always — maximize this first |
| Seller Note | Low–Moderate | High if secured | Buyer needs SBA financing, or to bridge valuation gap |
| Earnout | High | Variable | Buyer/seller can't agree on value; use sparingly |

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|-----------------|----------|--------------|--|
| Equity Rollover | Moderate | Low–Moderate | PE buyer with credible growth plan and clear exit timeline |
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**Need help structuring your deal? Book a free Discovery Call at
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