The Capital Stack:
What Every Acquisition Entrepreneur Needs to Know Before Signing

A practical guide to layering your acquisition financing

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When you're buying a business, the purchase price gets all the attention. But how you pay for it—the capital stack—determines whether you thrive, survive, or become what lenders quietly call a “zombie”: overleveraged, cash-strapped, and one bad quarter away from default.

I recently moderated a panel on capital stack strategy at ACQUICON 2026, alongside Scott Petty from America First Credit Union, Drew Yergensen from KeyBank, Brian Jorgenson from Capital Eleven, and Paul Bergen from Kitty Hawk Ventures. The conversation reinforced something I see constantly as a consulting CFO working with acquisition entrepreneurs: most buyers don't spend enough time thinking about the structure of their financing until they're already in the weeds of a deal.

Here's what you need to understand before you sign.

The Layers, From Bottom to Top

Think of the capital stack as a literal stack—layers of financing, each with different costs, risks, and trade-offs. The ranges below reflect what I hear consistently from lenders, borrowers, and deal professionals—including the panelists I worked with at ACQUICON.

Buyer equity sits at the bottom. This is your personal cash, savings, or retirement funds (including ROBS structures). It's your skin in the game, typically 10 to 30% of the deal. No lender will take you seriously without it.

Friends and family capital is trust-based equity. Lower return expectations, but the relationship stakes are high. Structure these properly with clear documentation—informal agreements cause problems later.

Seller financing is often the glue that makes deals close. The seller carries a note, usually subordinated to senior debt. In 40 to 50% of lower-middle-market deals, some form of seller note or rollover equity is part of the structure. It aligns incentives—the seller stays invested in a smooth transition.

SBA 7(a) lending is the primary government-backed acquisition loan program. The SBA guarantees up to 85% of loans under $150,000 and up to 75% of loans above that threshold, which makes banks willing to lend to buyers who might not qualify for conventional financing. Minimum equity injection is typically 10%—5% from the buyer and 5% from seller standby. SBA 7(a) will allow seller notes, but not earn outs. One critical distinction: SBA 7(a) is for acquisitions. SBA 504 is for real estate and equipment only. Only small deals will consider SBA financing. SBA financing requires guarantees by owners with over 20% ownership. This layer is often not used.

Commercial bank debt enters the picture for larger deals, generally when a business has $5 million or more in EBITDA. This is conventional senior lending with stricter covenants and collateral requirements, but typically better rates for qualified borrowers.

Mezzanine and private credit sit at the top—subordinated debt at 12 to 20%+ interest rates. This layer fills the gap when senior debt and equity don't cover the full purchase price. It may include warrants or equity kickers. It's the most expensive debt capital, but for larger deals, it can eliminate the need for personal guarantees.

The Trade-Off Nobody Talks About Enough

Every layer of the capital stack involves a trade-off between risk and control.

More debt means you retain more ownership—but you're taking on higher fixed obligations and personal guarantee exposure. More equity means less financial risk—but you're giving up ownership and decision-making authority.

The best operators don't default to one approach. They match capital type to business thesis. Stable, cash-flowing businesses can support more debt. Growth-stage or turnaround situations need more equity cushion.

Three Rules to Structure By

First, predictable cash flow is your best negotiating tool. Lenders underwrite the operator as much as the business. A 13-week rolling cash forecast followed by a monthly cash forecast out to two years, that you can walk a banker through, builds more confidence than any pitch deck. If you can demonstrate predictable, recurring revenue, you'll get better terms across every layer of the stack.

Second, don't let seller notes behave like senior debt. When total leverage exceeds 4x EBITDA, subordination matters. Structure seller notes with clear standby provisions so they don't compete with your senior lender for cash flow during the critical first few years of ownership.

Third, keep reserves. This is the rule that gets broken most often. Entrepreneurs stretch every dollar into the acquisition, leaving nothing for working capital, unexpected repairs, or the inevitable slow quarter. Don't become a zombie. Budget a cash cushion into your deal structure from the beginning, not as an afterthought.

The Bigger Picture

Capital structure isn't just a financing exercise—it's a strategic decision that shapes your operating flexibility for years. The right structure gives you room to invest, grow, and weather downturns. The wrong structure turns a good business into a treadmill.

Before you sign your next LOI, take the time to map out your full capital stack. Understand what each layer costs you—not just in interest rates, but in control, flexibility, and personal risk. And talk to people who've done it before, because the difference between a well-structured deal and a poorly structured one often comes down to details that don't show up in a term sheet.

Sources

U.S. Small Business Administration, 7(a) Loan Program Overview

If you're looking at an acquisition and wondering how to structure the financing, that's exactly the kind of question to bring.

Related Articles

The Capital Stack — The seller's perspective on structuring acquisition financing.

Why 80% of Businesses Never Sell — Exit readiness and the three deal-killers.

Have questions? — I'm happy to discuss your specific situation.

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If you'd rather know than guess about your financials, let's have a conversation. A conversation costs nothing. Clarity might be worth everything.

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