

# The Capital Stack

Layers of Acquisition Financing — A practical reference for buyers structuring their next ...

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A capital stack is the combination of financing sources used to fund an acquisition. The layers below run from highest risk and most control (your own equity) to lowest risk and least control (senior debt). The right mix depends on deal size, business type, your experience, and your thesis.

This guide accompanies the Capital Stack Strategy panel at ACQUICON, March 6, 2026 in Salt Lake City.

## The Six Layers

### Layer 1: Buyer Equity

Your personal cash, savings, or retirement funds (ROBS). Typically 10–30% of deal value. More equity means better terms, more control, and less leverage risk.

### Layer 2: Friends & Family / Angel Equity

Equity from people who trust you. Lower expectations than institutional investors, but relationships are at stake.

### Layer 3: Seller Financing

Seller carries a portion of the purchase price as a loan, typically subordinate to bank debt. Often the only way a deal gets done.

### Layer 4: SBA Lending (7a)

Government-guaranteed loans (50–90% guarantee) through banks and credit unions. The 7(a) program is the primary tool for business acquisitions. The 504 program is for real estate and heavy equipment only.

## Layer 5: Commercial Bank Debt

Traditional bank loans without government guarantee. Banks underwrite on business strength, borrower experience, and collateral. Most commercial lenders require approximately \$5M+ EBITDA for acquisition financing.

## Layer 6: Mezzanine / Private Credit / SBIC

Subordinated debt between senior debt and equity. Higher cost (12–20%+) but fills the gap when other sources aren't enough. May include warrants or equity kickers. Common in deals \$10M+.

## Five Principles for Structuring Your Stack

### 1. Match your capital to your thesis

Predictable cash flows and hard assets support debt-heavy structures. Growth-dependent plays need more equity. Don't force a lending solution onto an equity problem.

### 2. Understand what you're trading

Every layer has a cost beyond interest rate. Debt costs cash flow. Equity costs ownership and control. Seller financing costs flexibility. Know the real tradeoff.

### 3. Asset-heavy and service businesses are different worlds

Tangible collateral (equipment, real estate) gets more favorable terms. Service businesses rely on cash flow and goodwill—harder to collateralize. Most assets should be valued at liquidation value, not book value.

### 4. Shop your lender

Different lenders have wildly different terms, covenants, industry preferences, and appetites. The first offer you get may not be the best. Talk to multiple banks, credit unions, and alternative lenders.

### 5. Keep reserves

The biggest first-time buyer mistake: putting every dollar into the down payment with nothing left for working capital. Being overleveraged with no cushion creates a "zombie company"—alive but unable to grow, sell, or breathe.

If you're thinking about how to finance your next phase of growth — or whether your current capital structure is working for you — that's worth discussing.

## Related Resources

SBA 7(a) Lending for Business Acquisitions — Eligibility, viability, and advantages of SBA-backed acquisition financing.

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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