

Buying a ~\$2M-Revenue, ~\$400K-SDE Southeastern Residential HVAC Company with SBA 7(a) Financing: Valuation, Financing Terms and HVAC- Specific Diligence (as of October 2026)

HOW THIS PAGE WAS MADE

An unedited Hyperresearch Deep report. The run finished on 4 October 2026; the text below is what it produced, with its citations and sources, and nobody has edited it. Facts in it are as of that date.

QUESTION ASKED

I am considering buying an established residential HVAC service company in the southeastern US: about \$2M in revenue, about \$400K in seller's discretionary earnings (SDE), financed with an SBA 7(a) loan. 1. What SDE multiples have comparable HVAC and home-services businesses sold for in 2024–2026, and what moves a multiple up or down? 2. What do current SBA 7(a) terms look like for a deal this size: rate, term, equity injection, seller-note rules, personal guarantee? 3. What are the diligence risks specific to HVAC: technician retention, licenses held personally by the owner, customer and builder concentration, maintenance-agreement revenue, seasonality, and the refrigerant transition away from R-410A? For each risk, which document or record verifies it? End with the 15 questions I should ask the seller before signing a letter of intent.

TIER	FINISHED	SOURCES	WORDS
Deep	4 October 2026	213	8,484

Researched by Hyperresearch

Summary

Valuation. Closed-transaction data puts small HVAC businesses at about 2.8x seller's discretionary earnings (SDE). BizBuySell's latest data tables show 123 reported HVAC sales at an average cash-flow multiple of 2.80, a median sale price of \$800,000, and sale prices averaging 93% of asking ^[24]; ^[74] shows 562 reported HVAC listings analyzed at an average earnings multiple of 2.75, a median sale price of \$750,000 (\$800,000 in 2025), and sale prices averaging 94% of asking. Its five-year average (Q3 2021–Q2 2026) is 2.83x ^[31]. Plumbing, electrical/mechanical, landscaping and pest control sit between 2.35x and 2.94x ^[24] ^[31].

Broker and advisor ranges for an owner-operated shop of this size run from about 2.5x to 4.5x SDE. The top of that range requires documented recurring maintenance revenue, low owner dependence and stable technicians ^[78] ^[80] ^[75] ^[89]. On \$400K of SDE, the realistic band is about **\$1.05M–\$1.30M (2.6x–3.25x)**. A price of **\$1.4M or more (3.5x+)** is defensible only if the agreement book, the technician bench and the add-backs all survive diligence.

SBA debt-service math independently caps the price near 3.0x if the lender or a quality-of-earnings review trims SDE by about 15%. A premium price is financeable only if SDE survives intact (calculation in Part 2).

Financing. For a business purchase by an outside buyer whose SBA loan number is issued on or after October 1, 2026, SOP 50 10 8.1 governs [156] .

- **Rate:** variable loans over \$350,000 are capped at the base rate plus 3.0% [2] . With Prime at 7.00% since September 17, 2026 [131] , the cap is 10.00% [153] . Change-of-ownership loans have priced near a median of Prime + 2.25% [150] , and plumbing/HVAC contractor loans approved in FY2026 had a median rate of 9.50% [160] .
- **Term:** 10 years, fully amortizing, no balloon, and no prepayment fee under a 15-year maturity [2] .
- **Equity injection:** 10% of total project cost for an "Initial Acquisition"; which cannot be reduced [155] [20] .
- **Seller note:** it counts toward the injection only if it is on full standby (no principal or interest) for the life of the loan, and only for up to half of the injection [155] [162] .
- **Coverage:** 1.25x debt-service coverage on historical results; projections cannot be used [20] [19] .
- **Guarantees and seller role:** unlimited personal guarantees from every owner of 20% or more [155] . No earnouts [155] . The seller may stay on only as a consultant, for a maximum of 24 months [155] [20] .
- **Fees:** upfront guaranty fee of about \$32K on a ~\$1.2M loan [167] .
- **Ownership eligibility:** 100% of owners must be U.S. citizens or nationals residing in the U.S. [134] .

HVAC diligence. The six risks you named each have a document trail:

Risk	What verifies it
Technician retention	Payroll registers and the technician roster with hire and termination dates
Personal licenses	State licensing board records and the qualifier's W-2 status
Customer/builder concentration	Revenue by customer reconciled to receivables and bank deposits
Maintenance agreements	Field-service software (FSM) agreement exports, cohort renewal data, billing-file reconciliation, and a deferred-revenue schedule
Seasonality	36 months of monthly profit and loss, deposits and working capital
Refrigerant transition	SKU-level inventory with manufacture dates, refrigerant purchase and recovery logs, technician certifications, and the price book

The most deal-critical item is licensing. Southeastern state boards treat contractor licenses as non-transferable on a change of ownership [205] [38] . SBA rules also bar the seller from staying on as an employee [155] , so a seller cannot remain a W-2 qualifying agent after closing; in partial changes of ownership, SBA rules permit the seller to remain with the business as an employee [21] .

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Part 1 — SDE multiples for comparable HVAC and home-services businesses, 2024–2026

1.1 Closed-transaction data: BizBuySell

BizBuySell is the largest sample of closed small-business transactions in the evidence. Its multiples are reported SDE ("cash flow") divided by sale price, as reported by brokers ^[31].

Building and construction subsectors, latest data tables ^[24]

Subsector	# sales	Median sale price	Median asking	Sale/ask	Median revenue	Revenue multiple	Median cash flow	Cash-flow multiple	Median days on market
HVAC	123	\$800,000	\$899,500	0.93	\$1,271,681	0.62	\$315,225	2.80	181
Electrical & mechanical contracting	57	\$845,000	\$807,498	0.96	\$1,454,872	0.59	\$375,500	2.94	250
Plumbing	61	\$837,500	\$1,000,000	0.93	\$1,044,630	0.72	\$278,498	2.62	209
Other building & construction	408	\$750,000	\$800,000	0.98	\$1,500,000	0.60	\$342,034	2.56	192
Heavy construction	65	\$1,200,000	\$1,300,000	0.93	\$2,116,844	0.70	\$469,149	2.98	202
Concrete	21	\$1,200,000	\$1,200,000	0.97	\$2,077,000	0.72	\$400,000	3.04	218

Subsector	# sales	Median sale price	Median asking	Sale/ask	Median revenue	Revenue multiple	Median cash flow	Cash-flow multiple	Median days on market
Building material & hardware stores	29	\$950,000	\$1,050,000	0.89	\$1,632,858	0.64	\$305,000	3.40	259

Five-year averages (Q3 2021–Q2 2026), home-services comparables ^[31]

Industry	Revenue multiple	Earnings (SDE) multiple	Median sale price
HVAC	0.60	2.83	\$750,000
Electrical & mechanical contracting	0.63	2.77	\$1,009,000
Plumbing	0.69	2.61	\$699,000
Landscaping & yard service	0.72	2.49	\$449,950
Pest control	1.01	2.46	\$250,000
Cleaning	0.72	2.25	\$281,500
Security businesses	0.87	2.86	\$899,500
Building & construction sector average	0.59	2.65	\$750,500
Service businesses sector average	0.83	2.61	\$350,000
All sectors	0.67	2.58	—

Market-level trend across the period

- 2025 transactions were essentially flat. The median sale price rose 2% to \$350,000, and median cash flow rose 3% to \$158,950 ^[29].
- The service sector's average cash-flow multiple rose 2% to 2.52 in 2025 ^[29].
- One broker recap of the same 2025 data reports an average SDE multiple of 2.61 (up 1%), sale-to-asking of about 94%, and a median of 170 days to close ^[4].

- Another reports a Q4 2025 *median* of 2.26x versus 2.21x in Q4 2024 ^[26]. The gap between mean and median reflects the skew of small transactions.
- In Q2 2026, transactions fell 10% year over year, but the average cash-flow multiple rose 2% to 2.7, and the median sale price was \$349,250 ^[25].
- BizBuySell characterizes the period as prices restrained by rising rates through 2023, followed by renewed growth from 2024 through 2026 ^[31].

Implications for this target

- Applying the 2.80 HVAC average to \$400K gives **\$1.12M**. Applying the 0.62 revenue multiple to \$2M gives **\$1.24M** (calculated from ^[24]). The two methods converge at about \$1.1–\$1.25M.
- The target is larger than the BizBuySell HVAC median (\$2M revenue versus \$1.27M) but less profitable on SDE. Its SDE margin is about 20%, against a median cash-flow-to-revenue ratio of 24.8% (\$315,225 / \$1,271,681). Electrical/mechanical runs about 25.8% and plumbing about 26.7% (calculated from ^[24]).
- A margin roughly five points below peers is worth explaining before an LOI. Possible causes include install-heavy mix, underpriced agreements, a high owner wage already netted out, or weak job costing.

1.2 Southeastern metros: all-industry sold multiples

BizBuySell publishes metro data across all industries, not HVAC alone. It shows where Southeastern pricing sits relative to listings. The sold-transaction table below appears in both the Full-Year 2025 report tables and the current data-table page ^[29] ^[24]. Asking multiples are from the current listings table ^[24].

Metro	# sold	Median sale price	Median cash flow	Sold cash-flow multiple	Days on market	Current listings ask/cash-flow
Atlanta, GA	252	\$250,000	\$132,000	2.33	149	2.98
Birmingham, AL	20	\$200,000	\$131,205	2.78	214	2.87
Charlotte, NC-SC	84	\$320,000	\$151,358	2.78	226	2.97
Durham, NC	20	\$430,000	\$134,262	2.89	199	2.84
Greensboro, NC	15	\$615,000	\$240,000	2.35	243	3.10
Jacksonville, FL	61	\$150,000	\$103,226	2.22	149	3.06
Memphis, TN-MS-AR	12	\$460,000	\$171,000	2.22	184	2.84
Miami-Ft. Lauderdale, FL	447	\$291,000	\$142,300	2.38	164	3.21

Metro	# sold	Median sale price	Median cash flow	Sold cash-flow multiple	Days on market	Current listings ask/cash-flow
Nashville, TN	105	\$275,000	\$136,522	2.46	209	2.64
New Orleans, LA	11	\$650,000	\$180,513	2.70	352	2.81
Orlando, FL	202	\$273,750	\$130,050	2.37	166	3.15
Raleigh, NC	55	\$280,000	\$172,495	2.54	157	2.72
Richmond, VA	45	\$602,500	\$243,061	2.64	266	3.36
Tampa, FL	556	\$700,000	\$249,681	3.19	86	3.23
Virginia Beach, VA-NC	36	\$412,500	\$185,744	2.59	262	2.58
Winston-Salem, NC	6	\$395,000	\$150,000	2.33	184	2.67

Reading the table

- Most Southeastern metros close at 2.2x–2.9x cash flow across industries. Tampa (3.19x on 556 sales, 86 days) is the exception.
- Listings in most of these metros are asked 0.3–0.9 turns above where comparable deals have closed. A seller anchoring on a listing-derived multiple is anchoring high.
- Industry-level HVAC pricing (2.8x) sits above the all-industry metro averages, consistent with HVAC trading above the small-business median ^[24].
- Regional premiums cited by advisors are framed in EBITDA turns for larger companies: Sun Belt states (TX, FL, AZ, GA, NC) at +0.5x to +1.0x, rural markets at –0.5x to –1.0x ^[78]. These figures are not transaction data. Metro location matters as much as state.

1.3 IBBA / M&A Source Market Pulse (broker survey)

The Market Pulse survey reports deals under \$2M of purchase price as multiples of SDE ^[108] ^[11]. The multiple values sit in charts that did not extract from the PDFs. The one numeric restatement in the evidence is from a secondary source quoting Q4 2024 bands ^[70]:

Deal value band	SDE multiple range (Q4 2024, as restated by ^[70])
Under \$500K	1.8x–2.3x

Deal value band	SDE multiple range (Q4 2024, as restated by ^[70])
\$500K–\$1M	2.3x–2.8x
\$1M–\$2M (this deal)	2.8x–3.5x
\$2M–\$5M	3.4x–4.5x

The same secondary source says home services cluster at 2.5x–3.2x SDE under \$1M and move to 3.5x–4.0x as recurring service revenue grows ^[70]. It mislabels the survey as run with Pepperdine, so treat its figures as an approximate cross-check.

What the primary survey documents for the \$1–2M band

- **Market sentiment:** in Q2 2026, 60% of advisors in the \$1M–\$2M band called it a seller's market (up from 57%), against 22% for deals under \$1M ^[11].
- **Cash at close:** Main Street sellers received 83%–92% of value at close in Q2 2026, and seller financing was under 10% of most deals, below trend ^[11]. In Q4 2025 the range was 76%–89%, with seller financing used to bridge valuation gaps and earnouts used sparingly ^[108].
- **Offers per deal:** the Q2 2026 chart reads as roughly 3.05 offers per \$1M–\$2M deal, versus 1.70 for deals under \$500K and about five above \$2M ^[11].
- **Buyer mix, \$1–2M band, Q2 2026:** 44% serial entrepreneurs, 38% first-time buyers, 19% strategic companies. Half were within 20 miles of the seller ^[11].
- **Timing:** Main Street deals took 6–10 months from engagement to close. In Q4 2025, roughly 3–4 months were spent in diligence after the LOI ^[11] ^[108].
- **Outlook:** advisors expect more listings but not broadly higher multiples ^[11].

1.4 HVAC-specific broker and advisor ranges

These are marketing-oriented ranges, not transaction databases. Several firms publish inconsistent numbers on different pages. They are useful for the *direction* of drivers, not as price anchors.

Source (date)	Segment closest to this target	SDE range	Notes
Acquisition Ace (Jul 2026) ^[89]	Owner-operated Main Street	~2.8x typical; 2.0x–3.5x	Install-heavy, owner lead tech: 2.0–2.3x. Balanced: 2.6–2.9x. Service-agreement-led with retained techs: 3.0–3.5x
AcquireCalc (Jul 2026) ^[72]	Under \$1M SDE	2.0x–3.0x, ~2.75x avg	Maintenance agreements add 20–30% at the same earnings

Source (date)	Segment closest to this target	SDE range	Notes
Auctus Capital (2025–26) ^[75]	\$1M–\$3M revenue	2.75x–3.5x	\$3M–\$5M revenue: 3.25x–4.5x
Exit Lab (Jul 2026) ^[78]	Under \$250K EBITDA / \$250K–\$500K EBITDA	2.5x–3.5x / 3.0x–4.5x	\$400K SDE ≈ \$250K–\$300K EBITDA after a replacement wage
CT Acquisitions multiples report (Jul 2026) ^[80]	\$1M–\$3M revenue residential	3.0x–4.5x	Sub-\$1M revenue: 2.0x–3.5x
CT Acquisitions valuation page (Jul 2026) ^[73]	\$1M–\$3M revenue owner-op	4.0x–5.5x	Inconsistent with the same firm's report ^[80]
HedgeStone (2025) ^[68]	All HVAC	2.5x–5x, 3.5x typical	Cites BizBuySell, IBBA, Pepperdine, DealStats
First Page Sage (Feb 2025) ^[79]	Residential all-purpose, \$500K–\$1M SDE	5.7x	Claims a 5.1x SDE average; outlier; First Page Sage 2025 industry average ~8x EBITDA (~5.1x SDE-equivalent), up ~20% pre-pandemic, driven by PE platforms bidding top ^[72]

Resolving the conflicts

The First Page Sage SDE table (5.1x–7.9x) is far above every closed-deal source. Its smallest band (\$500K–\$1M SDE) also excludes a \$400K business. Its methodology draws on "private equity networks" and interviews, and its text is internally stale (for example, it describes the Fed "continuing to raise interest rates" in 2025) ^[79]. It should not be used to set price.

The CT Acquisitions 4.0x–5.5x figure ^[73] conflicts with the firm's own 3.0x–4.5x report table ^[80]. The weight of evidence points to the BizBuySell 2.8x center, closed-deal data from 123 sales ^[24].

1.5 The larger-deal market and why its multiples don't transfer

- Capstone reports HVAC services M&A averaging 14.0x EBITDA in 2024–YTD 2025 (versus 10.4x in 2022–2023). Volume reached 149 deals YTD 2025, up 12.9%. Sponsor deal volume rose 42%, and add-ons were 78.9% of sponsor buyouts ^[129].
- NRG sold Airtron, a residential new-construction installer, at 8.6x 2023 adjusted EBITDA for \$500M ^[54].
- Platform-tier ranges of 8x–12x EBITDA ^[80] apply to \$10M–\$25M revenue companies with management teams and \$2M-plus of EBITDA, with 10x–14x for \$25M-plus platforms.

The gap between roughly 3x SDE at the small end and 8x+ EBITDA at platform scale is the "multiple arbitrage" consolidators exploit ^[78] ^[80]. It also means:

1. A seller who has been courted by a consolidator may anchor high.
2. A well-run \$400K-SDE shop has a credible future exit route.
3. PE platforms are competing buyers mainly above roughly \$500K–\$1M of EBITDA ^[78] ^[191].

For a \$1–2M deal, the realistic competition is other individual and SBA buyers ^[11].

1.6 What moves the multiple up or down

Driver	Pushes multiple up	Pushes multiple down	Evidenced magnitude
Recurring maintenance agreements	≥25–30% of revenue under agreements, documented renewals	Paper memberships, loss-leader pricing, high churn	+~1.0x SDE at 30%+ ^[87] ; 3.0–3.5x vs 2.6–2.9x for balanced shops ^[89] ; 20–30% premium at the same earnings ^[72] ; +0.5–1.5x EBITDA at 25%+ ^[78]
Owner dependence	Business runs 30+ days without owner; manager and dispatcher in place	Owner is lead tech, salesperson, estimator	Owner-as-lead-tech, install-heavy shops: 2.0–2.3x SDE ^[89] ; moving from SDE to EBITDA pricing is the largest step-up ^[73] ; ~52% of listed HVAC firms don't sell, mainly on owner dependence and customer attrition ^[79]
Technician retention	Turnover < 15%/yr; certified bench	Turnover > 30%; key tech near retirement	Premium below 15% vs 25–30% industry average ^[78] ; discounts above 30% turnover ^[80]
Customer/builder concentration	No customer > 10%	Single customer > 15–20%; top 5 > 40%	Discount above 15% single/40% top-5 ^[78] ; 0.5–1.0x discount at 35%+ ^[5]
Revenue mix	Replacement and service	Homebuilder new construction	New construction discounted 1–2 turns ^[73] ; homebuilder revenue 1.5–3x ^[191]
Financial quality	Clean books; documented add-backs	Undocumented add-backs; cash revenue	Documented add-backs ~90% accepted vs 60–70% ^[70] ; 0.5–1.0x difference ^[78]
Size	\$250K+ EBITDA	Under \$250K EBITDA	2.5–3.5x vs 3.0–4.5x ^[78]
Growth	15%+ annual	Declining revenue	Premium/red flag ^[78]
Brand and reviews	4.5+ stars, 200+ reviews	Weak online presence	Qualitative premium ^[78]

Driver	Pushes multiple up	Pushes multiple down	Evidenced magnitude
SBA eligibility	Bank-financeable earnings	Fails SBA underwriting	Broadens buyer pool; 78% of buyers expect to use SBA ^[25]
One-time tailwinds	—	Heat-pump installs pulled forward by expired 25C credit	Diligence vendor claims SDE overstated 12–22% where heat pumps exceeded 40% of 2024–25 revenue ^[81]

Applied to \$400K SDE

Multiple	Price	Typical profile
2.5x	\$1.00M	Install-heavy; owner-dependent
2.8x	\$1.12M	BizBuySell HVAC average
3.0x	\$1.20M	Balanced shop, clean books
3.25x	\$1.30M	Strong agreements, stable techs
3.5x	\$1.40M	Service-agreement-led; owner not in the field
4.0x	\$1.60M	Rare at this size; needs verified recurring revenue and management

(Arithmetic on the SDE figure; profiles from ^[78] ^[89] .)

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Part 2 – SBA 7(a) terms for a deal this size

2.1 Which rules apply

SOP 50 10 8 took effect June 1, 2025 [183] [100] . SOP 50 10 8.1 took effect October 1, 2026, for all applications that receive an SBA loan number on or after that date [156] [94] .

SOP 8.1 moves change-of-ownership rules into Appendix 15, which "shall govern" over any conflicting section [155] . It sorts every purchase into one of four categories [20] :

- **Initial Acquisition** (default): 10% injection, 1.25x coverage, no reduction.
- **Business Expansion**: an existing business with 2+ fiscal years under current ownership buying 100% of a same-four-digit-NAICS target. Injection can be reduced; coverage is 1.15x.
- **Owner Buyout**: 1.25x coverage.
- **ESOP/Cooperative**.

An outside buyer purchasing this company is an Initial Acquisition. Two related changes:

- 7(a) Small loans can no longer be used for any change of ownership. Every purchase goes through standard underwriting [155] [20] .
- An independent business valuation is now required for *all* changes of ownership [20] .

2.2 Loan size, guaranty and program limits

Item	Rule	Source
Maximum 7(a) loan	\$5,000,000	[10]
SBA guaranty	Up to 75% for loans over \$150,000	[2]
SBA exposure cap	\$3,750,000 per business and affiliates	[155] [157]
7(a) + 504 combined limit	\$5M each, \$10M combined, effective July 4, 2026	[156] [158]
Total debt ceiling	All debt for the purchase, including non-standby seller debt, limited to the business valuation and supported by coverage	[155] [162]
Valuation gap	Price above the valuation must be made up with equity or full-standby paper	[162]
Quality of earnings report	Lender-ordered; required for Initial Acquisitions at \$3,000,000+ purchase price excluding owner-occupied real estate	[20] [164]

A \$1.0M–\$1.6M price falls below the \$3M quality-of-earnings trigger, so the lender does not have to order one. A buyer-commissioned review is still prudent: one source reports quality-of-earnings work typically trims seller-presented SDE by 10–20% ^[70].

2.3 Interest rate

Cap. Under 13 CFR 120.214, variable rates on loans over \$350,000 may not exceed the base rate plus 3.0 percentage points. The cap is set as of the date SBA receives the application ^[2]. The base rate is Prime or the SBA Optional Peg Rate. SOFR and Treasury bases are permitted, but the ceiling is still expressed against Prime ^[155]. The spread is fixed for the life of the loan unless the borrower agrees in writing ^[155].

Current base. The Fed raised rates on September 16, 2026, taking Prime from 6.75% to 7.00% effective September 17. Sixteen of 18 FOMC participants projected at least one more increase before year-end ^[131]. The cap is therefore 10.00% today ^[153] ^[158].

Two secondary sources state a lower cap (Prime + 2.25% ^[206]; Prime + 2.75% ^[147]). Both conflict with the regulation ^[2] and should be disregarded.

What borrowers actually pay

Data set	Median rate / spread	Range / detail	Source
All 7(a), approvals Oct 2023–Jun 2026 (162,355 loans)	10.25%	IQR 9.3%–11.25%; 13.6% fixed-rate	^[158]
7(a) change-of-ownership loans, same period	9.5% (median loan \$693K)	—	^[158]
Variable 7(a) term loans >\$350K, last 18 months (16,420 loans)	Prime + 2.50%	25% at Prime + 2.75%; 16% at the cap	^[150]
Business acquisition loans, same set	Prime + 2.25%	7.5% at cap; nearly half at Prime + 2.00% or better	^[150]
NAICS 238220 (plumbing/HVAC contractors) 7(a), FY2020–FY2026	9.50% overall	120-month median term; median loan \$150,000	^[160]

NAICS 238220 median 7(a) rate by fiscal year ^[160]

FY	Loans	Total approved	Median loan	Median rate
2020	618	\$257.5M	\$150,000	6.50%

FY	Loans	Total approved	Median loan	Median rate
2021	621	\$358.3M	\$275,000	5.50%
2022	654	\$321.1M	\$150,000	6.00%
2023	921	\$362.1M	\$150,000	10.25%
2024	1,217	\$477.6M	\$150,000	11.25%
2025	1,194	\$561.4M	\$200,000	10.25%
2026 (partial, to Jun 30)	700	\$301.6M	\$200,000	9.50%

Expected rate. At Prime 7.00%, a well-underwritten ~\$1.2M acquisition loan is likely to price around **9.0%–9.75% variable** (Prime + 2.00% to 2.75%). The cap is 10.00%. This is an estimate from ^[131] ^[150].

Rate risk. The rate floats, and the FOMC's projections point upward ^[131]. Each quarter-point on a \$2M loan costs about \$270 a month ^[150]. Budget coverage at the 10% cap, not at the quote.

2.4 Term, amortization and prepayment

- Maximum maturity is 10 years unless the loan finances real estate or equipment with a longer useful life. The absolute maximum is 25 years, and balloons are not permitted ^[2].
- A business-only change of ownership amortizes over 10 years. A blended weighted-average maturity applies if real estate is included ^[20].
- The subsidy recoupment (prepayment) fee applies only to maturities of 15 years or more, at 5%/3%/1% in years 1–3, when more than 25% of the loan is prepaid in a year ^[2]. A 10-year acquisition loan carries no prepayment fee ^[153] ^[155].

2.5 Fees

Upfront guaranty fee. It is charged on the guaranteed portion and set by gross loan size. The FY2026 schedule (loans approved October 1, 2025 through September 30, 2026) ^[92] and the FY2027 schedule (loans approved October 1, 2026 through September 30, 2027) ^[158]:

Gross loan amount	Upfront fee (maturity >12 months)
≤ \$150,000	2% of guaranteed portion
\$150,001–\$700,000	3% of guaranteed portion

Gross loan amount	Upfront fee (maturity >12 months)
\$700,001–\$5,000,000	3.5% of guaranteed portion up to \$1M, plus 3.75% above \$1M

- **Worked example:** on a \$1,215,000 loan, the guaranteed portion is \$911,250 (75%). The fee is $3.5\% \times \$911,250 = \$31,894$, typically financed into the loan (calculated from ^[92]).
- The fee waivers on small loans in FY2024–FY2025 ^[154] no longer apply ^[153].
- **Annual service fee:** 0.55% of the guaranteed balance, paid by the lender and not chargeable to the borrower ^[92] ^[2].
- **Other costs:** lender packaging and legal fees; a third-party business valuation, which counts toward the injection if paid out of pocket ^[155] and runs roughly \$1,500–\$5,000 ^[153]; and any buyer-commissioned quality-of-earnings review.

2.6 Equity injection and seller notes

Injection rules for an Initial Acquisition

- 10% of total project cost (purchase price plus closing costs, working capital and other uses of proceeds). It "cannot be reduced or eliminated" ^[155] ^[20].
- Limited sources — standby debt, seller debt, and non-controlling minority equity — together may provide **no more than half** of the required injection ^[155] ^[20].
- Out-of-pocket spending on the valuation and quality-of-earnings report counts toward the injection ^[155].
- The injection must be verified before any loan proceeds are disbursed. The documentation stays in the file for the life of the loan and is reviewed if SBA is later asked to honor the guaranty ^[155]. A promissory note, gift letter or financial statement alone is not sufficient ^[179].
- Personal borrowing (for example a HELOC) is acceptable only if repaid from income outside the business ^[99] ^[164].
- Investor equity used to meet the injection may receive only tax distributions until the loan is repaid. Equity above the injection may take normal distributions ^[155]. A lender-review summary notes this sharper split was not independently confirmed in public excerpts ^[164].

Two kinds of seller note ^[162]

Seller note role	Requirements	Effect on coverage
Counts toward injection	Subordinated; full standby for the term of the 7(a) loan (no principal or interest); documented on SBA Form 155 or equivalent; capped with other limited sources at half the injection; standby lender may not take equity in the business ^[155] ^[162]	Excluded from debt service during standby; interest may accrue and amortize after the 7(a) is repaid ^[155]
Ordinary seller debt	Subordinated; may pay from day one; may be refinanced after 36 months in place and current, not on standby ^[162]	Counted in debt service; interest-only notes are tested on ≤10-year amortization ^[155] ^[162]

The 2023–May 2025 rule allowing a 24-month standby note to fund the entire down payment is obsolete ^[172] ^[63].

Market norms for seller notes (one SBA loan broker's experience): notes of 10%–15% of price at 5%–8%, often with a 24-month interest-only runway ^[162]. Sellers accept 10-year full standby in the majority of deals when presented clearly, and SBA rules cap the standby piece counting as equity at 5% ^[162] ^[67]. One survey shows 90% of buyers expect seller financing but only 29% of owners plan to offer it ^[25].

Earnouts and contingent pricing. Seller earnouts are prohibited. Performance-based buyer rebates are allowed, but proceeds must pay down the 7(a) principal ^[155]. Price can ratchet down for a defined known risk but never up with performance ^[162].

Illustrative capital stack at 3.0x (\$1.2M price)

Assumes about \$150K of working capital, the guaranty fee and closing costs; estimate built from ^[158].

Source	Amount	% of project
SBA 7(a) loan	\$1,215,000	90%
Buyer cash (unlimited source; minimum)	\$67,500	5%
Seller note on full standby (maximum)	\$67,500	5%
Total project	\$1,350,000	100%

If the seller refuses full standby, buyer cash rises to \$135,000. Lenders also expect post-close liquidity on top of the injection: roughly 10% of the loan at conservative banks, around 5% at others, and 3–6 months of personal living expenses at the most flexible ^[155].

2.7 Debt service coverage

The rule. Initial Acquisitions require 1.25:1, measured as EBITDA divided by combined post-transaction debt service. It uses the last fiscal year or the average of the last two, historical or adjusted historical. Projections cannot be used to meet the test ^{[155] [20]}. Using the two-year average helps when one year was soft ^[19]. Where a quality-of-earnings report is required, its earnings figure drives the test, so trimmed add-backs shrink the loan rather than the price ^[155].

From SDE to coverage earnings. SDE includes the owner's compensation. Lenders deduct a market owner or replacement salary, unfinanced capital spending and similar items, and work from tax-return figures ^[147].

Payment calculation. A 10-year fully amortizing payment uses $PMT = P \times r / (1 - (1+r)^{-120})$.

- At 9.5% ($r = 0.7917\%/month$), the monthly factor is 0.012940, an annual constant of 15.53% of principal.
- At 10.0%, the monthly factor is 0.013215 ^[153], an annual constant of 15.86%.

Coverage sensitivity

Assumptions: buyer/manager salary of \$100K; Case A takes \$400K SDE at face; Case B takes a 15% diligence haircut to \$340K, consistent with the 10–20% trim reported by ^[70]. Calculated from ^{[155] [153]}.

Price (multiple)	Loan (90% of price + \$150K)	Annual debt service @9.5%	DSCR Case A (\$300K)	DSCR Case B (\$240K)	DSCR Case B @10% cap
\$1.12M (2.8x)	\$1,143,000	\$177,500	1.69x	1.35x	1.32x
\$1.20M (3.0x)	\$1,215,000	\$188,700	1.59x	1.27x	1.25x
\$1.40M (3.5x)	\$1,395,000	\$216,600	1.38x	1.11x (fails)	1.08x (fails)

Implied financing ceiling at 1.25x

- **Case B:** maximum debt service is \$192K, so the maximum loan is about \$1.236M at 9.5%. That implies a project of about \$1.37M and a price of roughly **\$1.22M (≈3.05x)**.
- **Case A:** maximum debt service is \$240K, supporting a loan of about \$1.55M and a price near \$1.40M (3.5x).

The SBA test does not set the price, but it links price to how much of the seller's SDE is documented on tax returns. Any portion of a seller note not on full standby adds debt service and pushes these ceilings down ^[162].

2.8 Personal guarantee and collateral

Who guarantees

- Every owner of 20% or more gives a full, unconditional guarantee. Spouses' and minor children's interests are combined, and ownership is measured after the sale ^[155].
- At least one owner must guarantee even if no one reaches 20% ^[155].
- If the buyer borrows in their own name rather than through a new company, they are co-borrower on the note ^[155].
- In a full change of ownership, investors under 20% need not guarantee ^[213].
- A seller retaining *any* equity must guarantee the whole loan for at least two years ^{[149] [213]}. This makes rollover equity impractical ^[182].

Collateral

- The lender takes a lien on all business assets. Equipment is valued at 50% of net book value (80% with an orderly liquidation appraisal). Receivables and inventory are valued at 10% ^[155].
- Service-business acquisitions are usually under-collateralized. If there is a shortfall, the lender must take available equity in personal real estate owned by 20%+ owners. The lien can be capped at the shortfall and at 150% of the equity. Property with less than 25% equity is excluded ^[155].
- A loan may not be declined solely for inadequate collateral ^[155].
- Life insurance on the principal can be required where the business depends on that person's active participation ^[36].

2.9 Seller transition and other eligibility rules

- **Seller role:** in an Initial Acquisition the seller may not remain an officer, director, stockholder or employee. A consulting contract is allowed for up to 24 months in aggregate ^{[155] [20]}, up from 12 months under prior SOPs ^[22]. Consulting pay must reflect genuine services at market rates and must not disguise payments on a standby note ^{[35] [91]}.
- **Citizenship:** from March 1, 2026, 100% of direct and indirect owners and required guarantors must be U.S. citizens or U.S. nationals with their principal residence in the U.S. Lawful permanent residents are now ineligible. A six-month look-back applies to former owners ^[134].
- **Credit elsewhere:** lenders must document why credit is not available elsewhere, including a limited personal-resources test ^[36].
- **Credit score:** individual lenders set floors. Live Oak Banking Company is the third-largest 7(a) lender in this NAICS code with 355 loans (6.0%), behind Huntington and U.S. Bank ^{[159] [160]}.

Lender landscape and loss history (NAICS 238220)

- 559 lenders made 5,925 7(a) loans to plumbing/HVAC contractors in FY2020–FY2026. Huntington led with 11.2%, U.S. Bank 7.7%, Live Oak 6.0% ^[160].

- Pooled seasoned five-year charge-offs for the FY2010–FY2020 cohorts ran 3.40% ^[160].
- Lenders that know the trade price acquisition risk more accurately. Default risk for 7(a) loans historically peaks in the second year after origination ^[115], which argues for working-capital reserves through the first two seasons.

2.10 Timeline

- Live Oak describes roughly a week from complete package to approval and 30–45 days for SBA approval and closing ^[159].
- Market Pulse data put full Main Street processes at 6–10 months, with diligence after the LOI typically 3–4 months ^{[11] [107]}.
- State license re-issuance can be the longest pole (see Part 3).

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Part 3 — HVAC-specific diligence risks and the records that verify them

3.1 Technician retention

Why it matters. Buyers are inheriting labor capacity as much as customers. Advisors put industry technician turnover at 25%–30%, with sub-15% turnover earning premium multiples ^[78] and turnover above 30% drawing discounts ^[80].

Labor market context

- Replacement cost runs \$15,000–\$35,000 per departure once recruiting, ride-along time and lost capacity are included. The labor pool is tight, with roughly 40,100 annual openings projected by BLS and most of them replacements for retirees ^[83] (vendor article citing BLS).
- PE-acquired HVAC businesses reportedly raise technician pay about 20% in year one ^[130]. That is the wage your techs can get down the road.
- Master-licensed technicians average about \$77,000 versus \$63,264 without the license ^[130]. NATE certification carries a reported 8%–15% wage premium ^[81].
- Benchmarks for 12-month technician retention: under 60% is the discount zone, 70%–80% is market, 85%+ is premium ^[191].

Southeast/ownership-change specifics

- Customers follow technicians. Losing the tech who services a block of agreements accelerates agreement cancellations ^[84].
- Heavy 1099 use for technicians inflates apparent margins and creates misclassification exposure ^[81].

What verifies it

Question	Record
Real turnover and tenure	Payroll registers (24–36 months) and employee roster with hire/termination dates, pay rates and W-2 vs 1099 status ^[71] ^[81]
Attrition by tenure cohort; age profile	Roster reconciled to payroll; trailing-24-month attrition by cohort ^[81]
Certification depth	EPA 608 certification per tech (type), A2L training records, NATE IDs and expiration dates ^[81] ^[71]
Pay competitiveness	Compensation plans, commission/spiff structures, 3-year raise history ^[71]
Productivity by tech	FSM exports: revenue per tech per day, jobs per day, average ticket, close rate, callback rate ^[88]
Quality	Callback/rework reports: install callbacks above ~8% or service above ~5% flag quality problems ^[81]
1099 exposure	1099-NEC totals for 3 years; contractor agreements; workers' comp on subcontractors ^[81]
Restrictive covenants	Offer letters, non-compete/non-solicit agreements, employee handbook ^[71]

Productivity benchmarks (vendor figures for context): residential service/repair techs run 4–7 jobs per day. Revenue per technician averages \$110K–\$155K in residential service, with under ~\$95K at risk of not covering fully loaded cost ^[88].

A \$2M company with, for example, eight to ten field techs would sit around \$200K–\$250K per tech. Ask for the actual headcount; the evidence does not supply it.

3.2 Licenses held personally by the owner

Why it is the highest-severity item

- **The license does not move with the business.** Tennessee: "A license is not transferable to another entity" ^[205]. A change in majority ownership requires a new license application, not a revision ^[38]. "While a 'business' may be sold, the 'license'... cannot be sold or transferred" ^[38]. Stock and asset purchases both trigger the problem in Tennessee.
- **The qualifier must be a full-time employee.** In Tennessee a qualifying agent can be listed on only one license as a full-time employee, unless they hold majority ownership of a second company ^[137].
- **SBA forbids the seller from staying as an employee.** After an Initial Acquisition the seller cannot remain an employee or key employee and may serve only as a consultant ^[155] ^[20]. If the business runs on the seller's

license, "that license has to move before closing" ^[164]. An earlier legal commentary allowed brief post-closing reliance on the seller's license but urged getting licenses into the buyer's name as soon as possible ^[22].

- **Diligence-vendor claim:** a 1099 "qualifier" arrangement is the leading cause of SBA fall-through in its sample (62%) ^[81]. The figure is unverified, but the mechanism matches the rules above.

State mechanics in the evidence

State	Key points
Tennessee	New-license application on majority ownership change ^[38] . Board meets every other month; complete submissions are due by a deadline before each meeting; allow ~6 weeks ^[38] . Monetary limit is 10x the lesser of working capital and net worth, shown on a CPA-reviewed ($\leq$ \$3M limit) or audited statement in the exact licensed name; a \$1M limit requires \$100K working capital and net worth ^[38] . From July 1, 2026, a surety bond of at least 50% of the requested limit may substitute for the CPA statement ^[190] . General liability and workers' comp are required ^[38] .
South Carolina (Contractor's Licensing Board)	Each classification needs a Primary Qualifying Party who passed the technical and business/law exams and has 2 years' experience in the last 5 ^[168] . A change of federal ID or corporate structure requires a new application ^[168] . Mechanical group limits run from \$35K per job (Group 1) to unlimited (Group 5: \$200K working capital / \$300K net worth, or a bond) ^[168] . Reciprocity waives only the technical exam, for listed states including GA, TN, NC and AL ^[14] . The CLB references a separate Residential Builders Commission, whose residential HVAC rules are not in the evidence ^[168] .
Florida	Certified air conditioning contractors qualify a business entity, with separate filings to add/change a qualifying agent and to qualify a business (CILB 24, CILB 6) ^[102] .
Georgia / Alabama	Conditioned-air licensing is administered by the Georgia Construction Industry Licensing Board's Conditioned Air division and Alabama's HACR board ^[186] ^[101] . Specific change-of-ownership rules are not in the evidence; verify directly.

Other license-like items

- EPA Section 608 certifications belong to individual technicians and do not expire ^[170]. They follow the tech, not the company.
- Local business licenses, permit accounts and surety bonds may need re-issuance ^[38] ^[168] ^[81].
- OEM dealer status and distributor credit lines are often personally guaranteed or not assignable on a change of control ^[81].

What verifies it

Question	Record
Whose license is it?	State board lookup (e.g., Tennessee's online license/QA verification ^[137]); license certificates with licensee name, classification, monetary limit/group, expiration
Is the qualifier a W-2 employee?	Payroll register showing the qualifier on W-2; no recurring "consulting" payments to an outside license holder ^[81]
Where is work licensed?	Service-area map vs state licenses held ^[81] ; county/municipal licenses ^[71]
Who pulled permits?	Permit history by permit holder (local building departments)
Discipline/complaints	Board disciplinary records, cease-and-desist orders (e.g., Georgia publishes them ^[185]); pending complaints ^[71]
Financial qualification post-close	Pro forma balance sheet of the buying entity against monetary-limit tests; surety bond quote ^[38] ^[190]

Structuring response.

- Before signing the LOI, decide whether you will qualify personally (exam and experience), hire a licensed W-2 qualifier, or promote a licensed employee to qualifier.
- Make issuance of the new license, in the buyer entity's name, a closing condition.
- Time the application to the board's meeting calendar ^[38].
- Use the seller's 24-month consulting window for transition ^[155].

3.3 Customer and builder concentration

Why it matters

- A residential service book is normally granular, but concentration can hide in homebuilder relationships, property managers, home-warranty companies and a few commercial accounts.
- **Advisor thresholds:** a single customer above 15% of revenue, or a top-5 share above 40%, draws a discount ^[78]. One commercial-HVAC synthesis flags 20%+, applies a 0.5x–1.0x discount at 35%+, and calls 50%+ deal-threatening ^[5]. A broker benchmark puts a 1.0x–2.0x discount on a 40%–50% top-three share ^[5].
- **Account type matters as much as share.** Builder or project revenue on bid-by-bid terms is discounted far more than a multi-year institutional contract ^[5]. New construction is cyclical and bid-driven and is discounted 1–2 turns against service revenue ^[73]. Homebuilder-dependent revenue is discounted 1.5x–3x ^[191]. Residential new construction was expected to be flat to slightly up as of early 2024 ^[105].

- **Lender view:** concentration lowers net-profit stability and therefore the loan amount a lender will approve, which lowers what an SBA buyer can pay ^[5].
- **Academic evidence is mixed.** In 1,023 IPOs, a 10% increase in customer concentration cut next-year profitability by 3.35% ^[18]. Public-company studies find efficiency gains from concentrated customers that become positive as relationships mature ^{[40] [41]}. For a small, owner-run contractor, bargaining-power and switching risk dominate.

What verifies it

Question	Record
Share by customer	Top-20 customer revenue table for 3 years; top 1/5/10 share by year ^{[71] [81]}
Revenue is real	Customer revenue reconciled to AR and bank deposits ^[81]
Builder/property-manager terms	Builder contracts, purchase orders, pricing schedules; assignment/consent clauses ^{[71] [87]}
Relationship owner	Who quotes, invoices and is called for each top account (CRM contacts) ^[5]
Credit quality and timing	AR aging (0–30/31–60/61–90/90+), bad-debt write-offs ^[81]
Warranty tail	Warranty claim history by customer/equipment; warranty reserve methodology ^[71]
Mix	Revenue split: replacement vs repair vs agreement vs new construction vs commercial, multi-year trend ^[71]

3.4 Maintenance-agreement revenue

Why it matters. Agreements are the largest value lever (Part 1.6), and also among the most frequently overstated and post-close-fragile items.

Economics

- On a \$180/year residential plan with two visits, fully loaded labor, drive time, parts and administration produce a \$12 loss on the visits themselves. Profit comes from repair conversion on agreement customers (benchmark 82%–90% close rate) and an 18%–28% ticket premium ^[15].
- Market pricing for single-system residential plans is about \$149–\$219, and below \$149 is nearly always cash-negative ^[15]. Another guide cites \$150–\$350 ^[87].
- Agreement revenue should exceed direct service cost by 30%–40% ^[87].

Renewal benchmarks

Measure	Benchmark	Source
Annual renewal, below average / average / top quartile	< 58% / 62%–72% / 78%–88%	[15]
Renewal target	75%–85%; under 70% signals a value-delivery problem	[85]
Typical residential churn	15%–20% even in well-run shops	[87]
Agreements as % of active customers	< 12% / 15%–25% / 28%–40%	[15]

Transfer risk

- One seller's 900-agreement base lost 240 agreements within eight months of sale [84] .
- First-year post-acquisition attrition is reportedly 20%–30% typical (25%–30% with passive management) and 12%–15% with active retention, front-loaded in months 1–3 [84] .
- Commercial agreements more often require customer consent to assignment [87] [86] .
- "Paper memberships" – free agreements bundled with installs, expired but not removed, or failed card payments – are discounted heavily [191] [86] .

Accounting. Prepaid annual agreements are deferred revenue: a liability for visits the buyer will perform [85] . Cash-basis books often overstate trailing SDE as a result [81] . Buyers typically negotiate a credit for unperformed prepaid visits [86] .

Earnings normalization. Expired heat-pump tax credits (25C ended for 2026 installs under P.L. 119-21 [81] [80]) can inflate trailing install revenue. Normalize 2024–2025 against post-January-2026 run-rates [81] .

What verifies it

Question	Record
Active count and trend	FSM export (ServiceTitan, FieldEdge) of agreement status by month, 36 months [81] [87]
Durability	Quarterly cohort retention table, 24+ months; cancellation reasons [81] [87]
Cash reality	Agreement billing/ACH file reconciled to bank deposits and general ledger [81]
Pricing and profitability	Price by tier; last price increase; cost-to-serve from work orders (labor, parts, drive time) [87]
Visits actually performed	Visit-completion report vs visits owed; backlog of overdue visits [86]

Question	Record
Transferability	10+ sample contracts across vintages: assignment clause, auto-renew, cancellation terms ^[87] ^[84]
Liability	Deferred-revenue schedule: each prepaid agreement, remaining visits ^[81] ^[86]
Pull-through	Repair/replacement revenue from agreement customers vs others ^[15]
Renewals in first 6 months	List of agreements renewing post-close ^[87]

3.5 Seasonality

Why it matters

- In the Southeast, demand peaks in cooling season and softens in the shoulder months. An agreement base supplies work in those slow weeks ^[85].
- For a buyer the risks are threefold. First, a trailing-period SDE that captures a heat-pump pull-forward ^[81]. Second, a working-capital peg set at a seasonal high or low ^[191]. Third, debt service due in the trough.
- Deal practice: the working-capital peg is normally seasonality-adjusted, with a 60–90 day post-close true-up ^[191].
- Close timing matters for agreements: renewals cluster by season, and the first renewal cycle under new ownership is the main attrition point ^[84].
- SBA coverage can use a two-year average ^[19]. A lender may still look past a single hot summer if monthly data show it was one-off.

What verifies it

Question	Record
Revenue and margin by month	Monthly P&L and balance sheet for the trailing twelve months (TTM); monthly revenue and gross margin by service type ^[71]
Cash cycle	Monthly bank deposits; line-of-credit draws; monthly net working capital for 24 months ^[71]
Demand pattern	Call volume by type and month (emergency, planned, warranty, install) from dispatch ^[71]
Labor utilization by season	Payroll hours by month vs billable hours; overtime ^[88]

Question	Record
Weather/tax-credit distortion	Heat-pump unit sales by month 2023–2025; manufacturer warranty registration data ^[81]

3.6 The refrigerant transition away from R-410A

Where the rules stand (October 2026)

Item	Rule	Source
New residential/light-commercial split systems	GWP limit 700 for installation from Jan 1, 2025 (R-410A exceeds it)	^[189] ^[125]
Pre-2025 inventory	Dec 2023 interim rule allowed installation until Jan 1, 2026 if all specified components were made or imported before Jan 1, 2025	^[125]
Pre-2025 inventory (current)	May 2026 final rule removed the installation deadline for such systems; contractors may install eligible pre-2025 equipment until inventory is depleted	^[124] ^[53] ^[189]
Self-contained products (e.g., window/PTAC units)	Sale/distribution permitted until Jan 1, 2028	^[61]
Existing equipment	No requirement to stop using or repairing existing R-410A systems	^[61] ^[124]
Leak repair rules (from Jan 1, 2026)	Apply to appliances ≥15 lb charge, but exclude residential and light-commercial AC/heat pumps	^[61]
Reclaimed refrigerant (from Jan 1, 2026)	Reclaimed HFCs sold for servicing may contain no more than 15% virgin HFCs	^[61]
Technician certification	EPA 608 required for anyone servicing refrigerant circuits; certifications don't expire	^[170]

HFC supply phasedown (production/consumption cap as % of baseline) ^[8] ^[57] :

Years	Cap
2022–2023	90%
2024–2028	60%

Years	Cap
2029–2033	30%
2034–2035	20%
2036+	15%

What this means operationally

- **Service refrigerant cost.** R-410A for repairing the installed base stays legal, but supply tightens in steps. The cut from 60% to 30% in 2029 falls inside a 10-year loan term.
- **Opposing views on prices.** Industry groups (AHRI, HARDI) argue the 2026 extensions for commercial refrigeration will keep HFC demand high and raise refrigerant prices. HARDI estimates nearly \$8B in added refrigerant costs [53]. EPA expects the R-410A installed base to shrink gradually, as R-22 did [124].
- **R-454B shortage of 2025.** Contractors faced scarce service cylinders. Honeywell imposed a 42% surcharge in April 2025, and Worthington, the sole domestic cylinder maker, was caught short [120]. By August 2025 online prices were 50%–60% below June levels, and Carrier quoted two-week delivery [120]. HARDI declared "the crisis is over" in October 2025 [140]. A secondary source reports R-454B cylinders rising from about \$345 in 2021 to over \$2,000 in 2025 [80]. EPA cited the episode to justify more gradual transitions [124].
- **Market adoption.** More than 90% of new residential and light-commercial equipment uses next-generation refrigerants, per AHRI and the Alliance [53].
- **Inventory risk is lower than many buyer guides assume.** A widely circulated buyer guide estimates \$95K–\$171K of transition cost for an eight-van shop: inventory write-down, A2L training, tools and initial R-454B stock [139]. It predates the May 2026 rule and assumes R-410A splits became uninstallable on Jan 1, 2026. That is no longer correct for pre-2025-manufactured equipment [124] [53].
- **What remains real:** A2L tooling and training, the margin squeeze if refrigerant pricing has not kept pace with cost [139], and slowing sell-through of older stock.
- **Diligence vendor finding:** R-410A van and warehouse inventory was depreciating in 31% of deals reviewed, and trailing margins blended across the transition overstated forward economics [81].

What verifies it

Question	Record
Inventory value and installability	SKU-level inventory listing with manufacture/import dates, purchase cost, aging; physical count [81] [139]
Refrigerant cost vs price	3 years of refrigerant purchase invoices (\$/lb trend) vs price-book charge per pound [139]

Question	Record
Compliance	Refrigerant purchase, recovery and disposal logs; reclamation receipts; leak-rate records for any ≥50 lb commercial appliances ^[81] ^[71]
Technician readiness	EPA 608 cards by tech; A2L training certificates ^[81] ^[71]
Tools	List of A2L-rated recovery machines and leak detectors; calibration records ^[81]
Supply access	OEM dealer agreement (change-of-control terms), distributor allocation history, R-454B/R-32 supply terms ^[81] ^[139]
Installed base	Count of R-410A systems installed/serviced in the last 10–15 years (replacement pipeline) ^[139]
Local code	Jurisdiction's adoption of codes permitting A2L refrigerants (2024 IRC/IMC adoption noted federally ^[124])

3.7 Other HVAC-specific items that surface in diligence

- **OEM dealer agreements:** Carrier FAD, Trane TCS and Lennox Premier status may not be assignable on a change of control, and rebate accruals can lapse ^[81].
- **Supplier credit:** distributor credit lines from Ferguson, Johnstone, Baker and others are often personally guaranteed by the seller and may not carry over to the new owner ^[81].
- **Field-service software:** contract terms, data-export rights and continuity of customer/equipment history ^[81].
- **Sales tax:** taxability of labor, parts and agreements varies by state; review 3 years of returns ^[81].
- **Fleet, lease and facility:** van age and replacement capex at \$35K–\$55K per van ^[81]; landlord consent and related-party rent ^[81]; Phase I environmental review if real estate is included ^[81] ^[71].
- **Insurance and safety:** workers' comp experience mod and OSHA logs ^[71].

3.8 Consolidated risk-to-document matrix

Risk	Red-flag threshold	Primary verifying records
Technician retention	Turnover >30%/yr ^[80] ; retention <60% ^[191] ; key tech near retirement	Payroll registers; roster with hire/term dates; certification files; FSM tech KPIs; 1099 filings
Personal license	Qualifier is the seller or a 1099 outsider; no buyer-side qualifier	State board lookup; payroll for qualifier; permit history; board meeting calendar
Customer/builder concentration	Single account >15–20%; top-5 >40% ^[78] ^[5] ; builder/project-based terms	Top-20 by year; AR aging; contracts with assignment clauses; deposit reconciliation

Risk	Red-flag threshold	Primary verifying records
Maintenance agreements	Renewal < 60–70% ^[85] ^[15] ; plan price < \$149 ^[15] ; many recent sign-ups	FSM agreement export; cohort retention; billing-to-deposit reconciliation; deferred-revenue schedule; sample contracts
Seasonality	Trailing year > 15–20% above 2-year average; peak-month dependency	36-month monthly P&L; monthly NWC; monthly deposits; call volume
Refrigerant transition	No A2L training/tools; refrigerant markup unchanged since 2022 ^[139] ; aged R-410A stock	SKU inventory with manufacture dates; refrigerant invoices vs price book; 608/A2L certs; recovery logs; OEM agreement
Earnings quality	Undocumented add-backs; heat-pump pull-forward	Tax returns; general ledger; add-back support (invoices, W-2s, carrier statements) ^[70] ; heat-pump sales by month ^[81]

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Part 4 — Structuring implications that follow from Parts 1–3

1. **Anchor the offer on documented earnings.** Start from tax-return-supported SDE, subtract a market salary for the role you will fill, and test 1.25x coverage at the 10% rate cap. If the agreement book and technician data support it, pay up to about 3.25x–3.5x. Otherwise ~2.8x is the market center ^{[24] [31]}.
2. **Use the seller note deliberately.** A 5% full-standby note covers half the injection ^{[155] [162]}. A separate amortizing note (10%–15% at 5%–8%) can bridge a valuation gap if coverage supports it ^[162], and it cannot pay more if performance improves ^[155].

3. **Price contingent risks through the structure, not an earnout.** Earnouts are prohibited ^[155]. Use an escrow or holdback for inventory and agreement attrition ^[139] ^[191], a purchase-price credit for deferred agreement revenue ^[86], a seasonality-adjusted working-capital peg ^[191], and a note that can only ratchet down for defined known risks ^[162].
 4. **Make licensing a gating item from day one.** Identify the post-close qualifier, file with the state board on its meeting cycle, and condition closing on issuance of the license in the buying entity's name ^[138] ^[164].
 5. **Keep post-close liquidity.** Plan for 5%–10% of the loan in reserve ^[155]. Budget active agreement-retention spending: one worked example shows about \$8K of retention outreach cutting first-year attrition from 28% to 14% on a 1,200-agreement base ^[84]. Budget for A2L tooling if absent ^[139].
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Part 5 – The 15 questions to ask the seller before signing an LOI

1. **Licensing:** Whose name is on each state contractor license and each local license this business operates under? Is the qualifying agent a full-time W-2 employee who will stay after you leave? If the license is yours, who among your staff could qualify a new license, and in which classification and monetary limit or group?
2. **Earnings proof:** Can you provide three years of federal returns, the trailing-12-month monthly P&L and the general ledger, plus a line-by-line add-back schedule with a supporting document (W-2, carrier invoice, receipt) for every add-back?
3. **Your role:** What do you personally do each week – diagnose, sell replacements, estimate, dispatch, manage techs, handle key accounts? What would break if you were gone for 30 days?
4. **Technicians:** Can you share the roster with hire dates, pay, certifications (EPA 608, NATE, A2L) and W-2/1099 status, plus every departure in the last 36 months and why? Are any key techs near retirement or likely to follow you?
5. **Agreements, count and cash:** How many paid, current maintenance agreements are active today, at what prices? Can the FSM export and billing file be reconciled to bank deposits?
6. **Agreements, durability:** What were the renewal rates for each of the last three years by cohort? When did you last raise agreement prices? How many visits owed are overdue?
7. **Agreements, terms and liability:** May we see the agreement templates in use, including older versions – assignment, auto-renew and cancellation terms? What is the unperformed balance on prepaid agreements?
8. **Revenue mix:** What share of revenue comes from replacement, repair/service, agreements, new construction for builders, and commercial work, by year, for three years? What share of 2024–2025 installs were heat pumps sold on the 25C credit, and what has the 2026 install run-rate been?
9. **Concentration:** What revenue came from your top 20 customers in each of the last three years? Who owns each builder, property-manager, home-warranty or commercial relationship, and under what contract terms?
0. **Seasonality and working capital:** What are monthly revenue, gross margin and net working capital for the last 24–36 months? How do you fund the slow months – line of credit, owner injections?
1. **Refrigerant:** What R-410A equipment and bulk refrigerant is in inventory, with manufacture dates and cost? What has refrigerant cost per pound over three years versus what you charge? Do your techs and vans have A2L training and tooling?
2. **Suppliers and OEM:** What OEM dealer status and distributor credit lines do you hold? Are any personally guaranteed by you, and will they survive a change of ownership?
3. **Deal terms:** Will you carry a seller note, how much, and will you put up to 5% of project cost on full standby for the life of the SBA loan? Will you agree to no payments under the note beyond what SBA rules allow and a consulting role of defined scope?
4. **Transition:** Will you sign a consulting agreement of up to 24 months at a fixed fee, co-sign a customer letter announcing the transition, and accept non-compete and non-solicit covenants for customers and employees?

5. **Liabilities and compliance:** Are there pending or past board complaints, lawsuits, warranty disputes, OSHA citations, sales-tax assessments, or worker-classification issues? What is the status of the facility lease and landlord consent to assignment, and will any real estate be included or leased from you?

Further reading

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