

THE ANATOMY OF A DEAL

Maximum Leverage, Minimal Equity in a Distribution Acquisition

BY DARREN PALESTINE

This anatomy of a deal breaks down a highly leveraged acquisition financing that required creativity, speed and cooperation among all parties. From restructuring the capital stack mid-process to resolving a complicated seller note negotiation, the deal illustrates how flexibility, communication and disciplined structuring can keep a complex transaction moving toward a successful close.

Some deals are straightforward. This was not one of them. In the spring of 2026, the sponsor approached Commercial Finance Partners about acquiring a Northeast-based fasteners and connectors distributor with a clear goal from the first conversation: maximum leverage, minimum cash out of pocket. The target was a strategic complement to the sponsor's existing portfolio of fastener and connector manufacturers, and the transaction included both the operating business and the real estate it occupies. The purchase price ultimately landed at \$19,500,000, negotiated down from a \$20,000,000 letter of intent.

Financing 94% of a lower-middle-market acquisition is not a conventional ask, and getting there required a capital stack that changed shape more than once between term sheet and funding. This is the anatomy of how it came together.

The Original Structure

The initial structure paired a \$15,000,000 conventional senior term loan through a national non-bank lender's conventional (non-SBA) program with an asset-based revolver from a second lender, secured by accounts receivable and inventory. The ABL was designed to do double duty: fund a portion of the acquisition at closing and then serve as the company's ongoing working capital facility, with advance rates of 85% on eligible receivables and 50% on eligible inventory. A \$1,500,000 subordinated seller note and a modest cash injection from the sponsor rounded out the sources.

On paper, it worked. In practice, two facilities from two lenders closing simultaneously means two underwriting processes, two legal teams, and an intercreditor agreement — all racing the same deadline. The senior lender put a firm end-of-quarter close on the transaction, the buyer and seller

were both committed to that date, and the deadline became the organizing force of the entire deal.

Twist One: The Clock

As the closing date approached, it became clear the ABL facility simply was not going to be ready to fund on the same day as the senior loan. Nothing was wrong with the deal — the diligence workstreams were just running on different timelines, and the hard deadline left no room to wait. That meant the revolver could no longer be counted on as day-one acquisition capital, and roughly \$3,000,000 of the sources had to come from somewhere else.



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Twist Two: Restructuring the Stack Mid-Flight

Rather than let the timeline slip, we went back to the senior lender and restructured. The roughly \$3,000,000 of acquisition funding originally slotted to come from the revolver moved into the senior facility, taking the conventional term debt from \$15,000,000 to \$18,000,000. The ABL was repositioned as a pure post-closing working capital line of approximately \$3,000,000, funding a few weeks behind the acquisition on its own timeline. The result was a cleaner close and a better long-term structure: term debt sized to the transaction, and a revolver sized to the working capital cycle rather than stretched to cover both.

The senior approval itself was negotiated hard. Over two rounds, the lender reduced the spread meaningfully from the original approval, cut the prepayment penalty to a three-year 5-3-1 step-down, and — while a \$525,000 payment reserve stayed in the structure — agreed to language committing its investment committee to consider releasing the reserve after 18 consecutive on-time payments. On a leverage profile this aggressive, every one of those concessions mattered to the sponsor's cash position.

Twist Three: The Seller Note

The \$1,500,000 seller note nearly took the deal down a week before the deadline. Seller's counsel proposed a structure with compounding interest, a balloon at the 15-month mark, and penny warrants — a 5% warrant in the buyer at a one-cent strike if the balloon wasn't paid, and a second 5% warrant on any default during amortization. For a note representing less than 8% of the purchase price, on a deal where the seller was receiving roughly \$18,000,000 in cash at closing — about 92% of the total consideration — the complexity was out of proportion to the risk.

The resolution came from keeping the economics simple and the credit support strong. The sponsor offered a personal guarantee on the note, ongoing personal liquidity reporting, an interest rate step-up at month 15, and a repayment schedule of 15 months interest-only followed by 24 months of straight-line amortization — the note fully repaid within 39 months of closing. That package, backed by the senior lender's own subordination requirements, got everyone to signature without warrants and without a balloon.

The Close

With the seller note resolved days before quarter end, the transaction dry-closed into escrow to hit the deadline, with funding following in the first days of July. Even then, the deal delivered one final scare: closing costs produced a six-figure shortfall at the closing table that was worked out in the last 24 hours. The working capital facility followed on schedule, giving the company committed liquidity for the receivables and inventory cycle from day one of the sponsor's ownership.

The Takeaway

The final capital stack: \$18,000,000 in conventional senior term debt, a \$3,000,000 asset-based revolver for ongoing working capital, a \$1,500,000 fully subordinated seller note, and a sponsor cash injection of roughly \$1,250,000 — about 6% of the purchase price. The sponsor achieved the leverage objective set in the first phone call, and the seller walked away with over 90% of the consideration in cash at closing.

The lesson for anyone advising on transactions like this: the structure you sign a term sheet on is rarely the structure you fund. What closed this deal wasn't the original design — it was the willingness of two lenders to re-cut the stack mid-process, a seller note negotiation that traded complexity for credit support, and a hard deadline that forced every party to prioritize. Deals with this much leverage don't survive on optimism. They survive on structure, communication, and lenders who pick up the phone. 📞

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