

Rising interest rates change the math of acquisitions. Deals that penciled at 4 percent debt now feel tight at 9. Lenders who used to nod along at pro forma add-backs now ask for hard evidence. Sellers who watched neighbor exits at heady multiples still want last year’s price, even as buyers model this year’s cost of capital. The gap between aspiration and affordability widens, which is exactly where skilled operators can create advantage. If you understand where rates bite, and where they don’t, you can still buy quality companies on fair terms and sleep at night.

I have closed acquisitions in cheap money cycles and in expensive ones. The tactics shift, but the core disciplines hold: underwrite to reality, structure downside protection, and leave enough oxygen in the deal that the business can grow without tripping covenants. What follows is practical guidance, with numbers and thresholds you can use, not just concepts.

What higher rates actually do to a deal

Rates work along three levers in most lower middle market acquisitions. They compress free cash flow after debt service, they reduce the debt capacity that senior lenders will offer, and they lower the justified purchase multiple because the buyer’s discount rate rises. Each lever reinforces the others.

Start with interest coverage. Five years ago you could borrow senior debt at 3 percent over a base rate that sat near zero. Today, all-in senior often lands between 8 and 12 percent for a small sponsorless deal. On a \$4 million senior tranche, that’s \$320,000 to \$480,000 of annual interest before principal. If the business throws off \$2 million of EBITDA and you model a 1.5x fixed charge coverage ratio, your total annual fixed charges need to sit near \$1.33 million. With higher interest, principal amortization has to be slower or the coverage breaks. If the lender insists on faster amortization, your purchase price or equity check must adjust.

Debt capacity falls next. Senior lenders who were comfortable at 3 to 3.5 times EBITDA in a benign environment now prefer 2 to 2.75 times for sponsorless buyers, occasionally 3 times with strong collateral and recurring revenue. Mezzanine capital, which can stretch total leverage to 3.5 to 4 times, remains available, but pricing floats in the mid-teens with PIK elements or warrants that dilute upside. Those terms can work, yet only if the underlying business is resilient and growth is visible.

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Finally, valuation math shifts. A stable, low-growth business that merited 6.5 to 7.5 times EBITDA at a 10 percent weighted average cost of capital might clear closer to 5.5 to 6.5 times when the cost of debt jumps and the equity risk premium expands. Sellers do not love that message. Your job is to demonstrate it with a clear walk from financing terms to sustainable free cash flow. Many owners are rational once they see where monthly payments land and how much post-tax cash they would actually receive at a stretch price.

Where deals still get done

The market did not stop. It just sorted. The franchises that continue to trade in a rising rate environment share a few traits. They have high revenue retention, good pricing power, low capex needs relative to EBITDA, and simple working capital patterns. Think niche B2B services with route density, specialized maintenance trades with recurring contracts, data and compliance services with multi-year terms, and distribution with vendor-backed inventory programs. Manufacturing can also work, especially with recurring tooling or aftermarket parts, but you must underwrite to replacement capex that is often higher than the last three-year average.

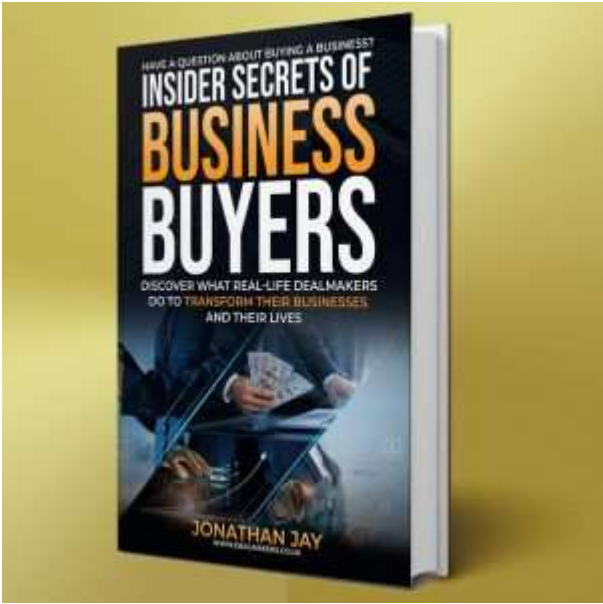
You will find deals in three places. First, long-held owner-operator companies where the founder wants a transition and is willing to stay involved for 6 to 24 months. These sellers often accept a thoughtful earnout and seller note to hit a headline price. Second, corporate carve-outs where a larger parent divests non-core product lines. Carve-outs bring complexity but also pricing power if you solve the transition services agreement cleanly. Third, brokered listings that linger. In a higher-rate cycle, many “stale” deals

are not bad businesses, they are mispriced by a single turn. Constructive buyers who do real work and present bankable structures win there.

Rethink what you call quality of earnings

Everyone orders a quality of earnings report. Fewer buyers run a quality of cash. Debt eats cash, not EBITDA. In a high-rate context, you need to interrogate cash conversion down to the week. Move past the usual add-backs. Ask whether the business bills in advance or arrears, how fast customers pay, what percentage of revenue is monthly versus milestone, and where disputes arise. In one facilities services deal I evaluated, reported EBITDA of \$3.1 million converted to barely \$1.6 million of pre-debt cash in a normal year, almost entirely due to 75-day receivables and front-loaded payroll. At 10 percent blended interest on planned leverage, the pro forma coverage would have broken the first quarter.

Ask management to show a rolling 13-week cash flow for the last two years, including seasonality spikes. If they cannot produce it, reconstruct it from bank statements and payroll journals. Pay special attention to employer tax deposits and insurance premiums, which arrive in lumpy bursts that can blow covenants. Underwrite to maintenance capex that keeps your asset base competitive, not just the accountant’s recorded average. In rising rates, regulators pressure banks on risk-weighted assets, so your lender will tighten DSCR and FCCR definitions. Do not negotiate those in a vacuum. Model them precisely based on the lender’s form documents and pro forma cash, not just EBITDA.



Capital structure that bends, not breaks

In cheap money cycles, a buyer can rely on leverage to make up for thin operating improvement. That crutch is gone. Your capital stack needs room for error and room for growth. That means less senior debt, longer amortization, and more patient junior capital or seller paper.

For small to mid-sized acquisitions, a common structure today looks like this: senior term loan at 2.25 to 2.75 times EBITDA, amortizing over five to seven years with modest monthly principal; a revolver sized to 50 to 70 percent of eligible receivables and 20 to 40 percent of inventory; then a seller note or subordinated tranche for the next half to one turn of EBITDA, with cash interest in the single digits and PIK if performance dips. Occasionally, a small earnout bridges the final price gap.

What you are trying to avoid is a stack that forces aggressive deleveraging in the first 18 months. New owners underestimate how much attention integration and people require. If you need the business to throw every spare dollar at amortization, you will miss marketing tests and operational fixes that unlock growth. I recommend modeling three cases. In the base case, the business hits budget and you carry a 1.6x fixed charge coverage ratio or better. In the downside case, revenue falls 8 to 12 percent in year one with flat gross margin. Can you still clear a 1.25x covenant cushion each quarter without vendor drama or payroll delays? In the upside case, you invest to capture share, which means you deliberately hold cash for working capital and accept slower principal payments for four to six quarters. If your structure cannot live through these paths, it is the wrong structure.

Seller paper as an asset, not a concession

Well-structured seller financing is powerful in a higher-rate market. Too many buyers treat it as a reluctant bridge. It is more than that. It accomplishes three things at once. It reduces senior leverage, it aligns the seller with post-close performance, and it keeps the seller emotionally invested during transition. I like seller notes with a base cash coupon of 6 to 8 percent, PIKable for the first year at the buyer's option, and a modest back-end step-up if the note is not refinanced after 36 months. Pair that with a two to three-year consulting or employment agreement that has clear KPIs and scheduled knowledge transfer milestones.

Earnouts deserve care. They can poison relationships if drafted as open-ended "hope certificates." Keep them simple and auditable. Tie them to gross profit dollars or revenue from specific customer cohorts that the seller claims will grow, not to EBITDA that you can influence with investment choices. Cap the earnout at 15 to 25 percent of the base price and run scenarios to confirm that the business can pay it without breaching covenants. A clean escrow can handle working capital true-ups separately so you do not mix post-close disputes with earnout triggers.

Rate-proofing through diligence: what to ask and why

In a rising rate cycle, diligence shifts from "Can I see growth?" to "Can this company carry debt through a cold snap?" The questions you ask need to surface short-cycle shocks. I keep a short, repeatable set that rarely fails:

- What is the monthly customer count, average ticket, and churn for the last 36 months, and how do these vary by segment?
- Which five customers would hurt most if they left, and what contractual teeth do we have to protect margin while serving them?
- How do price increases get communicated and tracked, and how many have succeeded in the last two years?
- What is the variance between quoted lead times and actual delivery, and how often do we pay expedite fees?
- Which line items in COGS and SG&A are tied to indexable contracts versus spot markets, and what are the pass-through lags?

Each question ties back to cash resilience, not just reported profitability. If you cannot raise price, your interest cost raises itself. If your lead times slip, WIP sits longer, which drags the revolver. If expedite fees spike, your gross margin compresses at the worst possible time. These mechanics matter more than branding and aspirational growth decks when rates are high.

Negotiating with lenders: substance over theater

You will not charm your way to looser covenants today. What works is operational specificity and fast, transparent reporting. Go to term sheets with a 13-week cash flow template already built and ready to roll weekly after close. Offer to share it via a portal the lender can view any time. Lay out your integration plan with calendar dates, budgets, and named owners for each workstream. Lenders do not fear risk so much as they fear surprises. If you reduce their surprise risk, they can accept structure that gives you running room, such as PIK toggles on junior tranches, seasonal covenant holidays, or step-down amortization that matches working capital cycles.

Negotiation also benefits from alternatives. You do not need a dozen lenders, but you do need at least two credible options and a realistic mezzanine or seller-paper path. Show each lender that the other option exists, without playing games. A one-page comparison of pricing, amortization, and covenants is enough. Senior lenders move fastest and most flexibly when they believe the deal will close with or without them.

Pricing discipline that survives the first board meeting

Overpaying in a rising rate environment is easy. You chase one more turn to win the deal and vow to make it up with synergies that never arrive. Guardrail yourself with a walk-away rule rooted in coverage, not just headline multiple. I use a simple discipline: if I cannot underwrite to a minimum 1.5x fixed charge coverage in the base case and 1.25x in the downside case using lender definitions, the price is too high or the structure is wrong. This rule has cost me deals I liked. It has also saved me from sleepless nights.

You can stretch, but earn the stretch. Examples that justify a higher multiple even with rates up include sticky recurring contracts with annual escalators already negotiated, aftermarket parts with captive installed base, and regulated niches where certification or licensing provides real barriers. What does not justify stretch are crowded markets with no pricing power, single-owner rainmakers with no bench, or customer concentration masked by cost-plus claims that buyers rarely verify.

Operating levers that beat interest cost

You cannot lower the base rate, but you can make the business move faster. Aim for levers that convert to cash within 90 days. Two stand out across industries.

First, price management. In B2B services, a 3 to 5 percent price increase across your small and mid-sized accounts can lift EBITDA by 10 to 20 percent if you hold retention. Do not fire a shotgun. Segment accounts by duration and perceived price sensitivity. Draft scripts and FAQs for the frontline. Implement a simple tracker that shows who received the notice, who escalated, and which discounts you allowed. In one portfolio company, we raised price on 1,200 accounts over six weeks with two customer success reps and an owner email. Churn was under 2 percent, and the run-rate EBITDA lift covered the annual interest increase with room to spare.

Second, working capital discipline. Shorten receivables and normalize inventory. Tactics vary by sector, but the themes rhyme. Move off paper invoicing to same-day electronic billing. Offer 1 percent 10, net 30 terms selectively, funded by a revolver, and target accounts that historically pay late but are creditworthy. For inventory, build a SKU-level view of turns and set order points that reflect lead times rather than vendor minimums. If your vendor offers early-pay discounts that beat your after-tax cost of debt, take them and lock in a price cap where possible. These are unglamorous projects. They produce cash quickly, which is exactly what a leveraged acquisition needs.

The human side: winning hearts when money is tight

Higher rates change seller expectations, which complicates the human dynamics of a deal. You [more info](#) will ask owners to take more paper and wait longer for their earnout. They will worry you will starve their people to feed the bank. Address that head-on. Share your capital stack and repayment schedule with the seller. Explain how the seller note ranks and how you plan to refinance it when performance warrants. Show a first-year budget that protects wages and benefits, and commit to practical improvements rather than broad-brush cuts.

Post-close, over-communicate. If you run into a soft quarter, call the seller before they call you. If the lender requests tighter reporting, tell your team why and how long it will last. Rising rate cycles reward steady operators who share facts early. They punish those who hide.

Business Acquisition Training that fits the cycle

Training for Buying a Business often treats financing as plug-and-play. That is a mistake when rates move fast. If you are sharpening your skills, focus on three areas.

Learn to build and run a 13-week cash flow with actual operations data, not just models. Most self-paced Business Acquisition Training programs mention it, few teach it in depth. Your ability to manage that cadence will do more to keep your deal safe than another module on negotiation scripts.

Second, practice covenant math with real lender definitions. DSCR, FCCR, leverage ratio, current ratio, and borrowing base all have quirks. They vary by bank. Pull sample loan agreements and rework your models to use their precise definitions. If your spreadsheet calculates EBITDA differently than your loan, your comfort is fake.

Third, get comfortable with creative but clean structures. Simulate deals that include seller notes with PIK toggles, earnouts tied to gross margin dollars, and mezz tranches with partial warrants. The goal is fluency. When a seller pushes for a headline price, you should be able to assemble a structure that bridges value without endangering the company. That fluency distinguishes serious buyers in a tight credit market.

A financing example with current numbers

Consider a \$12 million revenue specialty maintenance company with \$2.2 million of EBITDA, 60 percent gross margin, modest capex at \$250,000 per year, and stable retention. The seller asks for 6.75 times EBITDA, or \$14.85 million, citing a neighbor’s sale. Your model, using 9.5 percent blended debt cost and conservative amortization, supports 5.75 to 6.25 times.

You propose \$13.2 million total consideration. Structure: \$6 million senior term loan at SOFR plus 475 bps, pricing to roughly 9.5 percent all-in, seven-year amortization with 7 percent annual principal; \$1 million revolver; \$2.2 million seller note at 7 percent cash coupon with a PIK option for the first year and a 1 percent back-end step-up if not refinanced by month 36; \$1 million performance earnout tied to gross profit dollars from the top 200 accounts over the next 24 months; and \$4 million equity. Post-close, you target a base case FCCR of 1.65x and downside FCCR of 1.3x if revenue dips 10 percent.

You agree on a 12-month consulting agreement with the seller at \$12,500 per month, focused on transitioning six key accounts and two vendor relationships. You bake in a 3 percent across-the-board price increase to all accounts older than 24 months, to be implemented in the first quarter post-close, with clear scripts and opt-outs for accounts in active dispute. You also plan to move to weekly invoicing cycles and ACH-only payments for new customers.

This is not heroic. It is specific and survivable. The senior lender will engage because your coverage is real and your reporting plan is tight. The seller can meet their headline needs because the earnout is achievable and the note rate is fair. Your equity earns because you priced risk correctly and protected the first year from death by amortization.

Edge cases and judgment calls

Not every business deserves leverage in a high-rate market. Seasonal operations with lumpy cash flows can still make sense, but only if you structure for reality. A landscaping company that earns 70 percent of EBITDA from April to September should not carry level monthly principal. Ask for seasonal amortization or covenant holidays that line up with cash. If the lender resists, scale back debt and increase seller paper that PIKs in winter. You are not being clever, you are being accurate.

Customer concentration is another judgment call. A 30 percent customer can be fine if the revenue sits on a multi-year contract with switching costs and true relationship depth. It is unacceptable if the revenue is discretionary project work won on bid, even if it has repeated historically. One test I use: if I could not lose the customer without tripping covenants within two quarters, I will not do the deal unless I can restructure the stack or secure a hard minimum from the customer.

Finally, watch for rate resets in your financing that do not match your hedges. Swaps and caps sound tidy until the day they don’t. Work with a seasoned advisor who can help you right-size a cap rather than overpaying for protection you will never use. If your plan is to refinance junior tranches once performance is proven, set calendar reminders six months ahead of call [Buy a Business](#) windows so you are not held hostage by inattention.

The discipline to walk

The best tactic in a rising rate environment is the will to say no quickly and move on. Scarcity mindsets tempt buyers to overreach. The pipeline always looks emptier than it is. In practice, if you keep a steady cadence of outreach to owners, brokers, and advisors, quality opportunities keep arriving, often at random intervals. Your reputation compounds too. Lenders return your calls, brokers bring you quiet deals, and sellers who passed six months ago call back with more reasonable asks.

Do enough reps and you will sense when a deal aligns with what expensive money demands. The company is cash honest. Customers stick. The owner is realistic and collaborative. The capital structure bends with the cycle. The model withstands the

banker's red pen. Those are the ones you buy, even when rates are up, because the levers you control matter more than the base rate you don't.

A short, practical checklist you can use this week

- Build a lender-form covenant model using actual DSCR and FCCR definitions from a recent loan agreement.
- Convert the target's last 24 months of bank data into a rolling 13-week cash view to test interest and principal in calendar time.
- Draft a two-page seller financing memo that explains the note terms, earnout logic, and transition KPIs in plain language.
- Segment customers by tenure and price sensitivity, then script a 90-day price action for accounts past 24 months.
- Write a one-page integration plan with dates, owners, and a reporting cadence your lender can see every week.

Deals still work. They just require sharper pencils, clearer eyes, and structures that respect cash. If you bring those to the table, Buying a Business in a rising rate cycle stops feeling like threading a needle and starts feeling like an operator's market.