

Play #6: Transfer of Value

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Play 6. Transfer of Value. Why businesses can't be acquired traditionally, and why that creates partner for equity opportunities. When you're looking to buy a business, one of the most critical skills you can develop is the ability to quickly identify transfer of value issues. These are the fundamental problems that prevent businesses from being acquired through traditional means, and they're the exact issues that create perfect opportunities for equity partnerships. You need to know these issues by heart and be actively looking for them from your very first conversation with a business owner. Unlike unsophisticated buyers, who rely on lengthy due diligence processes to uncover these problems months into a deal, savvy equity partners spot them immediately during initial discovery sessions. This early identification gives you a tremendous advantage in pivoting the conversation toward partnership rather than acquisition. Understanding Transfer of Value, the core concept. Transfer of Value is fundamentally about whether the actual value of the business would transfer to you or any buyer upon acquisition. This concept goes far beyond standard financial valuation. It's about how a bank investor or any rational buyer would assess the business as an acquisition target. If the operation has significant red flags that make it a risky investment, traditional financing becomes difficult or impossible, and that's precisely where your opportunity lies. When banks won't finance an acquisition and other buyers can't make the numbers work, the seller finds themselves stuck, often with no viable path to exit. This is the perfect moment to pivot from acquisition discussions to partnering for equity. Instead of walking away from the deal entirely, you position yourself as the solution that can help them achieve their goals through a different structure. The fundamental question that changes everything. When evaluating a business with significant transfer of value issues, ask yourself this simple but powerful question. If the bank won't finance this business in its current state, why should I risk my own capital? This isn't about being negative or dismissive, it's about acknowledging reality. A reality the seller often doesn't want to face but needs to understand. Instead of arguing with the seller about valuation or nitpicking problems, you simply make it clear that no buyer can get this deal financed in its current condition. And that's exactly why they should consider a partnership structure that addresses these fundamental issues. This realization sets the stage for a pivotal conversation. I won't be acquiring your business today under traditional terms, but there's a way for us to work together that could help you achieve the exit you ultimately want. Common transfer of value issues, the deal killers. Let's explore the most common issues that prevent traditional financing and create opportunities for creative partnerships. Each of these should be on

your radar from the moment you begin speaking with a business owner. One, customer concentration risk. This is perhaps the most common transfer of value problem in small and mid-sized businesses. When a single customer or small group of customers represents a disproportionate percentage of revenue typically more than 15 to 20% lenders get nervous. The logic is simple. If that major customer leaves after acquisition, the entire business could collapse. Banks and traditional buyers see this as an unacceptable risk. Karl's story time, the one customer manufacturing business. When evaluating potential deals, I'll never forget walking into a precision engineering shop in the industrial heartland of England. The owner had built an impressive operation over 25 years with gleaming machinery, skilled technicians and a spotless shop floor. The business was generating about 3 million pounds in annual EBITDA, with healthy profit margins that would make most manufacturers envious. On top of that, they had nearly 4 million pounds in cash reserves sitting in the bank. The owner was confidently asking for a 30 million pound valuation, which his accountant had suggested was reasonable at 10 times EBITDA plus the cash reserves. Is that the deal he asked with assurance after showing me around? After digging deeper into their customer base, I discovered the fatal flaw. Nearly 99% of their business came from one automotive client. They manufactured a single specialized component, a chrome light panel used in high-end vehicles and had only one customer relationship. Your business isn't worth 30 million pounds, I told him. It's worth 3 million pounds. His confidence evaporated instantly. How can you say that? We've got consistent profits and millions in the bank. The truth was harsh, but necessary. You don't have a business. You have a contractual relationship with one client and that relationship hinges on a personal connection that's about to disappear. What the owner hadn't volunteered during our initial conversations was that his brother-in-law's wife's brother was the purchasing director at the automotive company and that person was leaving for a competitor the following month. Even more concerning, the auto manufacturer was undergoing financial difficulties and planning to completely restructure their supply chain. This is why the owner was suddenly interested in selling. He knew the foundation of his business was about to collapse but hoped to cash out before potential buyers discovered this reality. This wasn't just a traditional customer concentration issue. It was an extreme case where the business had essentially built its entire existence around a single relationship. No traditional buyer or lender would touch this deal under these circumstances. I offered to help him diversify both his product line and customer base through a consulting for equity arrangement but manufacturing wasn't my area of expertise. So I connected him with someone better suited to help with that specific challenge. The lesson remains powerful for any deal maker, no matter how impressive the profit margins or balance sheet might appear, a business dependent on a single customer represents an unacceptable risk for traditional acquisition. But these same businesses create perfect opportunities for partnering arrangements where you can help solve that concentration issue before pursuing a traditional exit. Two, owner dependency. Many small businesses essentially are the owner. They handle sales, operations, key relationships, and strategic decisions. If they leave, what remains often has questionable value. Banks understand this reality. They won't finance the acquisition of a business that's really just a job dependent on the departing owner's skills, relationships, and daily

involvement. Real-world example. As someone who has been buying and selling businesses for quite some time, I've encountered numerous owner dependent operations that are essentially jobs rather than transferable businesses. One particularly illuminating example was a marketing agency I evaluated. Based on the impressive revenue figures and profitability metrics, I initially assumed the owner had built a structured organization with middle management and scalable systems for their paid traffic and advertising services. After just two conversations with the seller, the reality became clear. The owner was the business. He personally handled all project management, account management, and sales. While he had created a solid lead generation funnel through advertising, he hadn't developed the operational infrastructure needed for a true business. The root issue became apparent quickly. Despite intentions to build a team, his control issues prevented him from effectively delegating. He couldn't retain employees because he struggled to train people properly and wouldn't allow them the autonomy to perform their roles. I ultimately passed on this opportunity entirely. Despite the attractive financials, the business wasn't acquirable in its current state, and I didn't see the owner as someone willing to address these fundamental issues. However, this scenario represents a perfect opportunity for the right equity partner. Through a consulting for equity arrangement, you could gradually transfer the owner's responsibilities, relationships, and knowledge to systems and team members before pursuing a traditional exit. Assuming the owner is ready to relinquish some control and truly build something transferable.

Three, inconsistent financials. Banks and investors require clear, documented evidence of financial performance. Businesses with erratic revenue, inconsistent profit margins, or poorly maintained financial records present too much uncertainty for traditional financing. Many small business owners run personal expenses through the business, maintain inadequate records, or have experienced dramatic fluctuations in performance. While they might understand the real profitability, lenders need clean, consistent documentation, not explanations and adjustments. Karl's story time, the tax-efficient landscaping company. One of the most common transfer of value issues I encounter involves businesses with inconsistent financials, particularly those where owners run substantial personal expenses through the company. A student in our deal-maker program was evaluating a landscaping business that appeared promising on the surface. The company had grown to approximately \$2.1 million in annual revenue with a solid customer base and good reputation in their market. However, during the red light, green light analysis, our deal evaluation process, we discovered a significant issue. The business's tax returns showed barely break-even performance, yet the seller was claiming the adjusted EBITDA was around \$1 million. Nearly 50% of revenue, which would be extraordinary for this industry, the gap between reported and claimed profitability raised immediate red flags. During deeper financial review, we found the owner had been running substantial personal expenses through the business for years. Multiple vehicles for family members. Travel expenses unrelated to business operations, cell phones and service plans for the entire extended family, home renovations disguised as office improvements, personal mortgage payments justified as a home office expense. While these practices had saved the owner's significant personal income taxes over the years, they created a serious obstacle for selling the business. No bank would finance an acquisition based on the owner's verbal assurances about

the real profitability. They needed documented financial performance. The seller wanted a five times multiple of his claimed \$1 million EBITDA, but without clean financials, no traditional buyer could secure financing at anywhere near that valuation. The business was essentially unfundable as it stood. This created a perfect opportunity for a consulting for equity arrangement. Rather than walking away entirely, our student proposed helping the owner clean up the financials, separate personal and business expenses, and created a documented track record of true profitability over an 18-month period. The arrangement included a modest monthly retainer plus 20% equity with the explicit understanding that they would prepare the business for sale once the financials showed the true performance. This approach, one, gave the owner a path to eventually realize the value he believed existed in his business, two, created an opportunity for our student to gain equity without upfront capital, three, address the fundamental issue preventing traditional acquisition. After 18 months of proper financial management and documentation, the business was eventually sold at a valuation much closer to what the owner had initially wanted, but now supported by clean financial statements rather than verbal explanations. This story illustrates why understanding transfer of value issues isn't just theoretical knowledge. It's a practical skill that helps you identify opportunities others miss. When a business can't be funded through traditional means due to issues like inconsistent financials, creative partnership structures can create win-win solutions.

4. Declining Profits A few things scare potential buyers more than downward trends. If revenue and profit margins have been shrinking, why would anyone believe that trend will magically reverse after acquisition? Even if the owner has explanations for the decline, we lost a big client but were replacing them, or we invested a new equipment that will pay off soon, lenders typically want to see the reversal documented before approving financing. Karl's story time, the technology transition challenge. Few things make lenders more nervous than declining financial performance. Even when there's a logical explanation for the downturn, banks typically want to see the reversal documented before approving acquisition financing. I evaluated a technology services company that perfectly illustrated this challenge. The business had been generating solid results for years, with revenue peaking at \$3.8 million. However, by the time I reviewed it, revenue had declined to \$2.9 million, over a two-year period, a nearly 25% drop that would send most buyers running. The owner had a compelling explanation. The company was transitioning from providing legacy on-premises technology systems to cloud-based solutions. This strategic pivot required retraining staff developing new service offerings and gradually transitioning clients to new platforms. While the explanation made perfect sense and the long-term prospects look promising, the financial statements told a different story. One of consistent decline that no traditional lender would finance. I understand why revenue has dropped, I told the owner, but banks don't lend on explanations and future projections. They lend on documented historical performance. This presented a classic transfer of value problem. The business couldn't be sold at a reasonable valuation until the turnaround was complete and documented, but the owner wanted to exit before going through the entire transition process. Rather than walking away, I saw an opportunity for an equity partnership. I proposed a structure where I would, one, help accelerate the cloud transition by implementing proven migration strategies. Two, develop marketing specifically for

the new cloud services. Three, create case studies documenting successful client transitions. Four, establish a documented growth trajectory over 12 to 18 months. In exchange, I would receive a modest monthly retainer plus 30% equity with clearly defined performance metrics tied to revenue recovery and growth. Once we achieved specific financial targets, we would position the business for sale to a strategic buyer. The arrangement benefited both parties. The owner got expert help completing the difficult transition while maintaining significant ownership. I secured a substantial equity position in a business that could potentially return to and exceed its previous performance. After 14 months, we had successfully shifted the business model, stabilized revenue and begun showing consistent growth again. The documented turnaround made the business attractive to acquires and we ultimately sold to a larger technology services provider at a multiple that seemed impossible when we started. This experience reinforced a key insight. The very issues that make a business unsellable through traditional means often create the perfect opportunities for equity partnerships. By addressing the fundamental transfer of value problem, in this case, declining profits, we transformed an unfundable business into an attractive acquisition target.

5. Owner-dependent sales process If the owner is the primary or only rainmaker, the business faces fundamental challenges that make acquisition risky. When owners sell their own services, they bring a unique, often irreplaceable confidence that resonates with prospective customers. This natural authority reduces sales resistance and creates comfort for buyers, a dynamic that rarely transfers easily to new sales personnel. I witnessed this challenge firsthand with a business carlin I acquired last year, a specialized sales management, recruiting and training company that serve businesses like our own deal maker wealth society. Since they already handled sales management for several of our brands, acquiring them seemed like a natural extension of our relationship. Eager to grow, we decided to expand their services into new industries. Initially, things looked promising. The company quickly landed two new clients in the marketing agency space, and we were excited about the potential. What we hadn't properly understood, however, was how deeply these marketing agencies depended on their owners as salespeople. Though we recognized upfront that the owners had been handling all sales personally, we underestimated how difficult it would be to replicate their success rates with our team. Surprisingly, our veteran sales representatives, despite having far more formal training and experience than these business owners, couldn't achieve comparable results. The personal connection and implicit authority the owners brought to sales conversations proved impossible to duplicate through traditional sales techniques. Recognizing the pattern, I connected one of these agencies with a colleague who specializes in developing sales systems for marketing firms. He structured a consulting for equity arrangement with the owner to document and enhance their sales process, then helped them hire and train an internal sales representative to gradually replace the owner. Now, my colleague is on track to fully acquire the business within a few years, once the sales dependency has been properly addressed. This scenario demonstrates how owner-dependent sales processes create perfect opportunities for equity partnerships, where you can systematically transfer client relationships and build replicable sales systems before pursuing a traditional exit.

Six. Week or unpredictable customer acquisition. Related to sales dependency but distinct, many businesses lack

systematic ways to generate customers. They rely on referrals, the owner's personal outreach, or sporadic marketing efforts without clear ROI tracking. Banks view these businesses as inherently risky because the new owner has no proven system to rely on for generating revenue, implementing effective, measurable customer acquisition processes creates significant value and addresses a major transfer of value concern. Real-world example. I evaluated a profitable electrical contracting business with consistent revenue around \$1.8 million annually. However, they had no systematic approach to generating new customers. They relied entirely on word-of-mouth and the owner's personal network developed over 25 years in the industry. When asked about their marketing strategy, the owner proudly stated, we've never had to advertise. While this sounded positive on the surface, to a buyer, it represented a significant risk. Without the owner's reputation and relationships, what would drive new business? This situation created a perfect equity partnership opportunity. By implementing a systematic lead generation process, targeting property managers and general contractors, establishing referral systems with complementary trades, and creating case studies of past projects, we transformed an owner-dependent business into one with predictable customer acquisition that any new owner could continue.

7. Lack of documented systems and processes. If the entire business runs on the owner's intuition and undocumented processes, it's extremely difficult to transfer operations to new leadership. Without standard operating procedures, training materials, and documented workflows, the business becomes a collection of tribal knowledge that walks out the door when the owner leaves. Real-world example, a specialty manufacturing company I worked with, had been built entirely around the owner's technical expertise. Despite generating \$3.2 million in revenue with strong margins, they had virtually no documented processes. Production methods, quality control, supplier relationships, and customer specifications all existed primarily in the owner's head. When employees needed guidance, they asked the owner directly. When problems arose, the owner personally solved them. The business was profitable but completely dependent on his daily presence and problem-solving abilities. This presented a tremendous opportunity for an equity partner to systematize the operation, creating process manuals, training programs, and clear workflows that would allow for smooth transition to new leadership. By documenting the owner's knowledge and building systems around it, we transformed an owner-dependent job into a transferable business that could ultimately be sold.

8. Financial constraints. Businesses that are barely breaking even have significant debt obligations or struggle with cash flow present obvious challenges for acquisition financing. Banks want to see that debt service on acquisition loans can be comfortably covered by existing operations. Carl's Story Time. From thin margins to bankable business, financial constraints present obvious challenges for acquisition financing. Banks want to see that debt service on acquisition loans can be comfortably covered by existing operations, which means businesses with thin margins often struggle to find buyers who can secure traditional financing. I remember a value rating a retail business that illustrated this challenge perfectly. On the surface, the operation appeared successful, generating approximately \$2.7 million in annual revenue with a loyal customer base and prime location. However, digging into the financials revealed an EBITDA margin of barely 4%, far below what lenders typically require for financing approval. The thin profitability stemmed

from several operational issues, inefficient inventory management resulting in excess stock and frequent stockouts. Poor supplier terms compared to industry standards, suboptimal pricing strategy that left money on the table, excessive shrinkage and waste throughout the operation. When I discuss these issues with the owner, he acknowledged the problems but lacked the expertise to address them effectively. He had built the business based on product knowledge and customer relationships, not operational efficiency or financial optimization. No lender will finance this acquisition at your asking price with these margins. I explained. The business simply doesn't generate enough cash flow to service the debt that would be required. Rather than walking away, I saw an opportunity to create value through an equity partnership. I proposed a structure where I would. One, implement inventory management systems to reduce carrying costs and stockouts. Two, renegotiate supplier agreements to improve terms and reduce cost of good soul. Three, optimize pricing strategy based on customer segmentation and competitive analysis. Four, implement loss prevention measures to reduce shrinkage. In exchange, I would receive a monthly consulting fee plus 25% equity with the explicit goal of preparing the business for sale within 18 to 24 months. Within the first year, we increased EBITDA margins from 4% to 11%, nearly tripling the business's profitability without significant revenue growth. This improvement transformed an unfundable business into an attractive acquisition target. The story illustrates how financial constraints that prevent traditional acquisitions can create perfect opportunities for equity partnerships. By addressing the fundamental issues affecting profitability, we significantly increased the business's value while creating a viable path to exit. When the business eventually sold, both the original owner and I benefited substantially from the improved valuation. What had been an unlikely candidate for acquisition became a sought after opportunity once the financial performance supported traditional lending requirements? Nine, absence of succession planning. If the owner has no plan for transitioning leadership and customer relationships, the business represents a significant risk for buyers. Without a structured approach to transferring knowledge, responsibilities, and relationships, the likelihood of post acquisition diminishes dramatically. Real-world example. I spoke with the owner of a specialized consulting firm who wanted to retire within two years. Despite having a team of capable consultants, he had made no preparations for leadership transition. He personally managed all key client relationships, handled all business development, and made all strategic decisions. When asked about who might take over, he had no answer. This absence of succession planning made the business essentially unsalable through traditional means. Who would buy a business that had no leadership pipeline and was completely dependent on the departing owner? This scenario created a perfect opportunity for a partner to implement a thoughtful succession plan, gradually assume leadership responsibilities, and create a smooth transition that preserved business value. Why these issues create partner for equity opportunities? Here's the critical insight that changes everything, the very issues that make a business unbiabie through traditional means create perfect opportunities for consulting for equity partnerships. These problems are generally fixable. They're just not fixable by someone outside the business. You can't clean up messy financials, implement sales systems, or reduce customer concentration as an external buyer, but you can address all these issues as a partner working inside

the business. This is why 95% of small businesses that list for sale never actually sell, and why you should be looking for businesses with these specific issues if you want to land equity partnerships. While most buyers walk away from businesses with transfer of value issues, informed dealmakers recognize them as openings for creative structures that provide solutions to the seller's problems, equity for the partner without upfront capital, a path to eventual exit or acquisition. The importance of knowing these issues cold. Understanding transfer of value issues isn't just theoretical knowledge. It's a practical skill that transforms how you evaluate businesses. By keeping these issues top of mind during every conversation with business owners, you'll, one, identify partnership opportunities that others miss, you'll spot the signs of these issues during initial discovery, not months into due diligence, two, avoid wasting time on deals that can't close, you'll quickly recognize which businesses can be acquired traditionally and which are better suited for equity partnerships. Three, position yourself as an expert. When you can clearly articulate why traditional financing won't work and offer alternatives, you demonstrate sophisticated understanding that builds trust. Four, create leverage in negotiations. When the seller realizes their business isn't bankable as is, your partnership proposal becomes much more attractive. Successful equity partners don't stumble upon these issues accidentally. They proactively look for them in every business conversation. Make these transfer of value concepts second nature and you'll start seeing partnership opportunities everywhere you look.

Deal maker checkpoint. Before moving to the next play, make sure you, one, can identify each of the major transfer of value issues without referring to notes. Two, begin actively looking for these issues in your very next conversation with a business owner. Three, research any industry specific transfer of value issues that might be relevant to your target market. Four, consider which of these issues aligns best with your specific expertise and capabilities. Remember, the businesses most buyers reject often represent your greatest opportunities for equity partnerships. Look for problems you can solve, not perfect businesses you can buy outright. In the next play, we'll explore how to leverage these transfer of value issues to create compelling partnership proposals through the Catch 22 Talk Track that makes equity deals irresistible to business owners.