

PLAY #7

Framing the Future

Partner for Equity

Equity Partner Playbook
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Key Insights

Before diving into the full transcript, here are the most important takeaways from this play:

The Catch-22 framework transforms un-buyable businesses into equity partnership opportunities.

"I only work with businesses I own or am a partner in" - this phrase changes conversations.

Blame the bank, not the owner - this preserves the relationship while stating reality.

Position partnership as the logical solution to transfer of value issues.

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Place 7. Leveraging Transfer of Value Issues to Secure Equity Deals. The Catch-22 Talk Track that Turns Unviable Businesses Into Equity Partnerships. Now that you understand the transfer of value issues that prevent traditional acquisitions, let's focus on the critical skill that transforms these obstacles into opportunities, the Catch-22 Talk Track. This powerful conversational framework helps business owners see why traditional exits aren't viable for them right now, and why partnering with you is their best, or only, path forward. When executed properly, this approach positions you as the solution, rather than just another buyer who can't make the deal work. The Transition. From Rejection to Partnership. Most business owners react defensively when told their business isn't suitable for acquisition. They've invested years in building their company and naturally resist hearing about its flaws. The Catch-22 Talk Track navigates this emotional minefield by reframing the conversation from rejection to opportunity. The core concept is simple, but powerful. The bank won't finance this deal because of these issues, but I could actually fix these problems if I was inside the business. This creates a logical paradox, hence, Catch-22, that makes partnership the obvious solution. The business can't be sold until certain problems are fixed, but those problems can only be fixed by someone working inside the business. Let's break down how to execute this conversation effectively. The Magic Phrase, Setting the Partnership Context. Before diving into specific transfer-of-value issues, many successful equity partners establish their partnership orientation up front with what I call the magic phrase. This simple statement creates the right context for everything that follows. I only work with businesses I own or am a partner in. This powerful phrase, when delivered at the right time, accomplishes several critical objectives. It positions you as selective rather than desperate, it establishes partnership as your standard operating procedure, it eliminates the hired-gun, consultant dynamic, it plants the seed of equity partnership before discussing specific issues. Timing is essential with this statement. Say it too early and it can seem presumptuous. The ideal moment is when the business owner has already expressed interest in working with you, when they've recognized your expertise and are exploring how you might help them. When they say something like, I'd love to pick your brain sometime, or, we should talk about how you might help us with issue, you can respond, I'm flattered you'd consider working with me. Before we go further, I should mention that I only work with businesses I own or am a partner in. I no longer take on clients or consulting projects. I found I'm most effective and committed when I have skin in the game through ownership. When delivered at the right moment, this statement often receives an immediate positive response. Many business owners have already considered the possibility of bringing on a partner but weren't sure how to broach the subject. Your statement gives them permission to explore this option. Even if they're not immediately receptive, you've established an important boundary that positions any future discussions in the partnership context rather than a service provider relationship. The Catch-22 Talk Track Step-by-Step. With the partnership context established, you can address specific transfer of value issues using the

Catch-22 Talk Track. This typically unfolds in five stages. 1. Reaffirm their goal. Start by acknowledging their desired outcome and show you understand their perspective. I know selling your business is your top priority and I understand you'd ideally like to get most of your money up front so you can move on to what's next. This demonstrates empathy and ensures they know you're not dismissing their goals. 2. Set the expectation. Next, establish the reality of how business acquisitions work. Just like when buying a property, a business acquisition is typically funded by a bank or investor, and just like with a home, lenders will only finance a business based on what they determine it's worth, not what a seller hopes it's worth. This creates a framework they understand and introduces the concept of external validation. 3. Blame the bank, not the owner. Now, address the specific transfer of value issues without making it about the owner's shortcomings. Based on our due diligence, traditional lenders simply won't finance this deal at your asking price, and it's important to understand that this isn't just an issue with me, any potential buyer will run into the same challenges. The specific concerns include your customer concentration with those three major clients representing 70% of revenue, the fact that you personally handle all sales and key client relationships, the inconsistent financial performance over the past three years. By blaming external factors rather than criticizing their business, you avoid triggering defensiveness while still addressing reality. 4. The hard truth. Make it clear that the obstacle isn't your unwillingness, but rather, objective factors. Even if I wanted to, I couldn't acquire this business through traditional financing given these issues, the funding simply isn't available due to these specific concerns. This establishes that the obstacle isn't your unwillingness, but rather objective factors beyond either party's immediate control. 5. The pivot to partnering for equity. Finally, offer the solution, a partnership that addresses these issues. That said, I genuinely like your business and see tremendous potential here. Under the right circumstances, I'd be open to rolling up my sleeves and actually working with you to address these issues so we can eventually get to a place where a traditional exit makes sense, I could partner with you, help optimize the business, and then either help you exit to a third party, or potentially buy you out when the operation becomes financeable. Would that approach be worth exploring further? This transforms what would have been a rejection into a potential path forward. You're not just identifying problems, you're offering solutions. 6. The compelling logic. Why this approach works. The Catch-22. TalkTrack works because it creates an undeniable logical sequence. 1. The business owner wants to sell. 2. Banks won't finance the acquisition due to specific issues. 3. These issues can only be fixed by someone working inside the business. 4. Therefore, a partnership that addresses these issues is the only viable path to the owner's desired exit. When presented this way, the partnership isn't you asking for a favor or a piece of their business, it's you offering the only logical solution to their problem. Real world example. The Catch-22 in action.

Let me share a real example of how this played out with a service business I worked with. The owner had built a successful operation generating about \$2.2 million in revenue with healthy margins. He was ready to retire and wanted a clean exit with most of the purchase price up front. During discovery, I identified several significant transfer of value issues.

1. The owner generated 85% of the new business through personal relationships. 2. There were no documented systems or processes for service delivery. 3. Three customers represented 45% of annual revenue. After completing due diligence, I used the Catch-22 talk track. John, I understand your goal is to sell the business and enjoy retirement. Ideally, you'd like to get most of the purchase price up front, so you can move on to that next chapter. The challenge we're facing is that lenders simply won't finance this acquisition, given the current structure of the business. The main concerns are your personal role in generating almost all new business, the lack of documented systems, and the high concentration of revenue among just three customers. Even if I wanted to buy the business outright, which I do, I couldn't get traditional financing approved. And it's not just me, any buyer would face these same obstacles. That said, I really like what you've built here, and I see tremendous potential. What if, instead of a traditional sale, we considered a partnership where I come in and help address these specific issues?
2. Solve a bleeding problem in their business. The most straightforward approach is to identify their biggest pain point and focus exclusively on solving it. Based on what we've discussed, your most pressing issue is the customer concentration risk. I propose focusing on diversifying your customer base by implementing the systematic business development process I've used successfully in similar companies. A reasonable structure would be a monthly retainer plus 20% equity that vests as we reduce your top 3 customers from 45% to less than 25% of total revenue. 2. Flip your current deal flow. When you've been pursuing traditional acquisition but discovered transfer of value issues, you can pivot to a partnership with an eye toward eventual purchase. While I can't acquire the business outright today, I believe we could structure a partnership where I come in, implement the necessary systems, and prepare the business for an eventual acquisition, either by me or a third party. This gives you the opportunity to start stepping back while still participating in the growth and improved valuation we create together. 3. Help business owners exit and get paid when they sell. For owners focused on exiting, position yourself as the bridge to that outcome. What if we structured a partnership where my primary focus is making this business saleable?
3. Help businesses grow through acquisition. If the business has growth potential through acquiring competitors, offer to lead that strategy. Given your market position, acquiring smaller competitors could accelerate growth dramatically. I propose a structure where I lead an acquisition strategy to expand into new territories. I would receive 10% equity in the core business plus 5% additional equity for each successful acquisition I facilitate, capped at 25% total. 5. Consulting for equity roll-ups. When you see an opportunity to solve similar problems across multiple businesses in the same sector, propose a roll-up strategy. I've developed a proven system for adding new profit centers to businesses in your industry. I'm currently implementing this in several similar companies with the goal of eventually creating a group that can exit at a higher multiple than any individual business could achieve alone. Would you be interested in being part of this strategy?
4. Take over a business for a retiring owner. For owners seeking to retire without an immediate exit, offer a gradual transition plan. What if instead of an immediate sale, we structured a five-year transition plan?

Before moving to the next play, make sure you 1. Practice the Catch-22 talk track until you can deliver it confidently and conversationally. 2. Memorize the magic phrase about only working with businesses you own or partner in. 3. Identify which of the eight partnership structures best aligns with your specific skills and the transfer of value issues you're most equipped to solve. 4. Prepare responses to common objections you might encounter when proposing equity partnerships. Remember, the transition from acquisition discussions to equity partnerships is a delicate conversation that requires both logical persuasion and emotional intelligence. Master this skill and you'll transform unbuyable businesses into your most valuable partnership opportunities. In the next play, we'll explore how to frame the future for business owners, helping them envision a better path forward through partnership than they could achieve on their own.

Action Items Checklist

Use this checklist to implement what you've learned from Play 7:

- ☐ Practice the Catch-22 five-step talk track
 - ☐ Role-play the "blame the bank" conversation
 - ☐ Rehearse the pivot to partnership phrase
 - ☐ Prepare responses to common objections
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Ready for the next step?

Continue to Play 8 to build on these concepts and move closer to closing your first equity partnership deal.