

PLAY #9

Structuring the Deal Paperwork

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:

5 effective structures: hybrid retainer, revenue share, milestone-based, sweat equity, performance buyout.

Work with a qualified M&A attorney - verbal agreements lead to disputes.

Solve for your win first - balance immediate cash flow with long-term equity.

Revenue share can be simpler and equally effective as equity in many situations.

Structuring the Deal Paperwork

Play 9. Structuring the deal's paperwork and choosing the right path. How to legally secure your equity stake and align your compensation for maximum upside. At this point, you and the business owner agree in principle that a partnering for equity deal makes sense, but until the deal is legally structured, it's not real. Before we dive into specific structures, I want to clarify something important. Consulting for equity is a loose term that we use as shorthand for what's really value for upside.

This approach isn't limited to traditional consulting services. It encompasses any situation where you provide value, expertise, connections, systems, strategies, in exchange for potential upside, equity, revenue share, exit bonuses. The key is designing an arrangement that works for your specific situation while giving you the compensation and protection you deserve. The biggest mistake new equity partners make? Assuming a handshake deal is enough. As David Giroux, one of the top M&A attorneys I work with, frequently says, if you think it's expensive to hire an attorney, try not hiring an attorney. Those words have saved me and my clients millions of dollars over the years. Verbal agreements invariably lead to misunderstandings, missed payments, and ownership disputes. A properly structured deal ensures everyone is aligned, protected, and incentivized for long-term success. This step ensures your equity stake, revenue share, and compensation are clearly defined and legally enforceable.

Solve for your win first. Before we explore specific structures, I need to emphasize a principle that will save you years of frustration.

Solve for your win first. Too many aspiring equity partners get so excited about the possibility of a deal that they accept terms that don't actually serve their needs. They're so focused on making the business owner happy that they forget to ensure the arrangement works for themselves. Ask yourself these fundamental questions. Does this deal structure fulfill my current financial needs? Does it provide the right balance of immediate compensation and long-term upside? Do I have sufficient control over the factors that determine my compensation? Is this deal worth my time relative to other opportunities? If you can't answer yes to these questions, you need to rethink the structure, regardless of how promising the business seems or how enthusiastic the owner is. Remember, a deal that doesn't work for you ultimately won't work for anyone because you'll eventually become resentful, disengaged, or forced to walk away.

Immediate cash versus future equity. Finding the right balance. One of the most crucial decisions in structuring your deal is determining the balance between immediate cash compensation and long-term equity upside—the reality that most equity partners don't want to acknowledge. Even with the best intentions, many businesses never reach the ambitious goals they project. The exit that seems certain today may never materialize. The valuation increase that appears inevitable might not happen. This isn't cynicism, it's pragmatism born from experience. For those bridging from employment to deal-making. If you're currently leaving a job and looking to replace your income while building your deal-making career, I strongly recommend focusing more heavily on upfront cash flow rather than long-term equity. If you're in a position where you're rather than long-term equity. A structure that provides a substantial monthly retainer with modest equity upside will serve you better than one that promises a large equity stake but minimal immediate compensation. Consider this approach. Monthly retainer that meets your basic income needs. Performance-based bonuses tied to specific, measurable achievements. Modest equity position—10-15% that vests over time. Clear exit mechanisms if the arrangement doesn't work out. This structure ensures you can sustain yourself financially while building equity positions across multiple businesses. For those with financial stability seeking maximum upside. If you're already financially stable and don't need immediate income, your strategy might look different. You might prioritize getting as many horses in the race as possible through equity-heavy arrangements with companies likely to exit. With this approach, you recognize that not every company will succeed, but the ones that do could provide substantial returns. Your structure might look like minimal or no monthly retainer. Larger equity positions—15-30%. Performance triggers tied to specific milestones. Clearly defined rights in acquisition scenarios. While this approach offers greater potential upside, it also carries significantly more risk. Only pursue this strategy if you have the financial runway to sustain yourself through the inevitable ups and downs.

The five most effective deal structures. There are almost infinite ways to structure partnering for equity deals. The key is understanding what you want the deal to do for you and designing a structure that achieves those goals while protecting your interests. Here are five proven structures I've found most effective across different situations. 1. Hybrid Retainer plus Equity Model. This balanced approach combines immediate cash flow with long-term ownership—how it works. You receive a monthly retainer for your ongoing services. You also receive equity that vests based on specific performance milestones. The retainer ensures you can meet immediate financial needs. The equity provides long-term upside if the business grows or exits. Best for. Those who need some immediate income but also want ownership upside. Example. A marketing expert partners with a service business generating \$2 million in revenue. She receives \$5,000 monthly plus 2% equity vesting. Each quarter

she achieves agreed growth targets—up to 20% total over 2.5 years. Pro tip. Ensure the retainer is sufficient to justify your time investment even if the equity never becomes valuable. This protects you from becoming dependent on uncertain future outcomes.

2. Revenue Share plus Exit Bonus. This structure focuses on directly measurable financial contributions rather than traditional equity. How it works. You receive a percentage of revenue that your efforts directly generate. You also receive a predetermined percentage of proceeds if the business sells. Our compensation is tied directly to measurable results. You avoid complications of formal ownership while maintaining upside potential. Best for. Those who want clear alignment between their efforts and compensation with less emphasis on governance or control. Example. A business development expert partners with a software company to expand into new markets. He receives 20% of revenue from clients he brings in for the first two years, scaling to 10% for years 3 to 5 plus 7% of any acquisition price if the company sells within 5 years. Pro tip. Clearly define how revenue attribution works to avoid disputes. Specify which revenue streams you'll receive a share of and how long that share continues.

3. Milestone Based Equity Vesting. This performance-focused structure ties equity directly to specific achievements. How it works. You receive no equity up front. Predetermined equity percentages vest when you hit specific measurable milestones. The business owner only gives up ownership as tangible value is created. You receive equity proportional to your proven contributions. Best for. Situations where the path to value creation is clear and can be broken into discrete milestones. Example. An operations expert partners with a manufacturing business. She receives 25% equity up front, plus the option to buy the remaining 75% at 3.5 times the trailing 12 months EBITDA once annual revenue exceeds \$3 million and EBITDA margins reach 20%. Pro tip. Ensure milestones are objectively measurable and within your ability to influence. Avoid milestones that depend heavily on factors outside your control.

4. Sweat Equity with Founder Shares. This structure provides equity in exchange for your work without cash compensation. How it works. You receive founder class shares or membership units up front. These shares come with specific rights, voting, distributions, liquidation preferences. You contribute agreed upon services rather than capital. Your equity is treated similarly to that of a founding partner. Best for. Early stage businesses with significant growth potential but limited cash flow where you can afford to work without immediate compensation. Example. A CFO joins a promising startup with \$500k revenue but limited cash. Instead of a salary, he receives 15% founder shares with full voting rights and pro rata participation in all future funding rounds in exchange for 15 hours weekly of financial management. Pro tip. Since this structure provides no immediate cash flow, it should only be used when.

1. You have other income sources.
2. The business has exceptional potential.
3. You have strong conviction about its future success.

5. Performance Based Buyout Option. This structure creates a path to full ownership based on business performance. How it works. You receive minority equity initially, typically 20-30%. You gain the right to purchase the remaining equity at a predetermined formula if specific performance targets are met. The formula typically rewards both parties for business improvement. You create a clear path to full ownership without upfront capital. Best for. Situations where you ultimately want to own the business outright but can't finance a traditional acquisition immediately. Example. A digital marketing expert partners with an agency owner approaching retirement. She receives 25% equity upfront plus the option to buy the remaining 75%. At 3.5x, the trailing 12-months EBITDA once annual revenue exceeds 3 milliliters and EBITDA margins reach 20%. Pro tip. Include clear timelines for exercising purchase options and consider securing financing commitments in advance so you're ready

when performance targets are achieved. Control Matters. Be Cautious of Profit Share Arrangements. One structure I specifically caution against is the simple profit share without appropriate controls. Here's why. Profit can be easily manipulated. Unlike revenue, which is relatively straightforward to track, profit can be significantly affected by expense decisions, hiring, capital investments, owner compensation, discretionary spending, etc. Without control over these decisions, you're tying your compensation to factors you can't influence. This creates a fundamental misalignment that often leads to frustration and conflict. I've seen countless scenarios where a business owner promises a percentage of profits, then proceeds to invest heavily in growth initiatives, increase their own compensation, or make discretionary purchases that eliminate profits entirely, leaving their partner with nothing despite significant value creation. If you're considering a profit-based arrangement, ensure you have clear definitions of how profit is calculated, veto rights over major expense decisions, caps on owner compensation and benefits, transparency into all financial decisions, regular financial reporting, and audit rights. Without these protections, I'd strongly recommend a revenue share arrangement instead. Revenue is easier to track, harder to manipulate, and provides clearer alignment between your efforts and compensation. As I often tell my students, if you can't control it, don't tie your compensation to it. The legal agreement that protects your stake. Once you've selected the appropriate structure, you need legally binding documentation to formalize the arrangement. This is where professional legal help becomes essential. Working with the right attorney. Not all attorneys are created equal when it comes to equity partnerships. You need someone with specific experience in the business entity type you're dealing with, LLC, S-corp, C-corp. Equity compensation structures. Shareholder or operating agreements. Your specific industry, if it has unique regulatory considerations. A good attorney won't just document what you've already agreed to. They'll identify potential issues you haven't considered and suggest protective provisions that serve your long-term interests. The few thousand dollars you might spend on proper legal documentation can protect millions in future value. I've seen too many equity partners lose significant value because they relied on handshake deals, template agreements, or inadequate documentation. Key legal documents you may need. Depending on your chosen structure, you'll need some combination of equity agreement defines ownership percentage, vesting schedule, voting rights, and exit provisions. Operating agreement amendment for LLCs modifies the existing operating agreement to include your ownership and rights. Shareholder agreement for corporations establishes your ownership, voting rights, and relationship with other Shareholders. Revenue or profit share agreement specifies how revenue or profit is calculated when payments occur and reporting requirements. Service agreement defines your specific responsibilities, time commitment, and performance expectations. Buy-sell agreement establishes terms for potential future ownership changes, including exit scenarios. Right of first refusal gives you the right to purchase additional ownership before outside parties. Non-compete and confidentiality provisions protects the business from competitive activities if the partnership ends. The terms that align incentives and avoid future conflict. Even with the right structure and proper documentation, equity partnerships can fail if the incentives aren't properly aligned. The best agreements create ongoing motivation for both parties to support the partnership's success. Critical elements to include. Performance-based triggers. Clearly define when your compensation or equity begins to vest. Revenue or profit thresholds that must be reached. Specific milestones that trigger equity tranches. Time-based vesting with performance accelerators. Reporting and transparency requirements. Establish how you'll verify that calculations are

being made correctly. Access to financial statements and backup documentation. Regular reporting cadence. Monthly, quarterly, etc. Right to audit or request independent verification. Specific metrics that must be tracked and reported. Dispute resolution clause. Define in advance how disagreements will be handled. Initial attempt at direct resolution within a specified time frame. Mediation requirements before litigation. Arbitration provisions. Binding or non-binding. Selection process for neutral third parties. Action steps finalizing your deal structure. To complete this phase of the process, choose the right structure. Select the approach that best aligns with your value contribution, current financial needs, and the business owner's comfort level with various forms of partnership. Get proper legal agreements in place. Work with a qualified attorney to draft comprehensive documentation that protects your interests and clearly defines all aspects of the arrangement. Structure for long-term success. Include provisions that maintain alignment through performance triggers, transparency requirements, and dispute resolution mechanisms. A word about timing. Don't rush this phase of the process. It's better to spend an extra week getting the documentation right than to move forward with inadequate protection. However, don't let the paperwork stage drag on indefinitely either. Maintain momentum by setting clear timelines for document drafting, review, and signature. If the business owner seems to be stalling at this stage, it might indicate hesitation about the partnership that should be addressed directly. I typically aim to complete documentation within two to three weeks of reaching agreement on general terms. This provides sufficient time for thoughtful drafting and review without losing the enthusiasm generated during earlier conversations. Key takeaways. As you structure the legal aspects of your deal, document everything. Verbal agreements and handshakes are recipes for future disputes. Get everything in writing, no matter how strong the relationship seems. Balance immediate needs with long-term upside. Structure your deal to provide the cash flow you need today while maintaining appropriate equity upside for tomorrow. Ensure you can control what affects your compensation. Avoid tying your rewards to factors you can't influence or control. Invest in professional legal help. The right legal advice is an investment in your future security, not an unnecessary expense.

Solve for your win first. If the deal doesn't work for you, it ultimately won't work for anyone. With a carefully structured agreement in place, you've laid the foundation for a successful equity partnership that can generate significant value for years to come. In the final play, we'll explore how to close the deal officially, get signatures on your agreements, and set expectations for the first 90 days of your partnership.

Action Items Checklist

Use this checklist to implement what you've learned from Play 9:

- ☐ Research M&A attorneys in your area
 - ☐ Create deal structure templates for each of the 5 models
 - ☐ Define your minimum acceptable terms for each structure
 - ☐ Prepare a cash flow vs equity analysis framework
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Ready for the next step?

Continue to Play 10 to build on these concepts and move closer to closing your first equity partnership deal.