

# Revealing the Secrets of Investment Capital and Mergers & Acquisitions for Small and Mid-sized Businesses

2025 Investment Capital and Mergers  
& Acquisitions Guide for Small,  
Mid-sized, and Family Businesses

Helping Small and Mid-sized Business  
Buyers and Sellers **Achieve More**



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# Foreward

This guide is written for business owners and stakeholders in businesses between \$1M and \$50 million in revenue. So many business owners are heads down running their businesses, with every minute of their day consumed, and most of the headspace in their minds occupied at night. As a result, they miss opportunities to take some of that pain away, by getting back time through the strategic use of the capital markets.

And most small and mid-sized business owners don't know that there are major investment firms interested in their businesses, either through growth capital, or mergers and acquisitions. Most local businesses have an idea on how they could expand their business and win the market, or other businesses they would acquire if and only if they "had the money".

We've helped 11 small and mid-sized businesses navigate the capital markets and mergers and acquisition landscape - firms ranging from just over \$1M in revenue to those over \$100M. We've seen all of the dirty tricks and games so common in the industry as we've evaluated over 600 acquisitions.

The bottom line is that you have a range of solutions available to you, much more than you may realize. We're here to help you understand those options and why they may or may not be the right fit for your situation.

Helping Small and Mid-sized Business  
Buyers and Sellers **Achieve More**



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# Revealing the Secrets of M&A for Small Business

**2025** Mergers, Acquisitions and Investment Capital Guide for Small, Midsized, and Family Businesses

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## Chapter 1 The Hideaway Key

*It's not secret – you and your business can access the M&A and capital markets. What does that mean?*



The capital markets and mergers and acquisitions and are probably one of the last things on your mind as a small business owner. Just the words conjure up images of investment bankers in suits, tall office buildings, armies of consultants and lawyers, heavy costs, and Wall Street – not Main Street.

Even if you wanted to explore getting investment capital, merging with another firm in your industry, or being acquired by a venture or private equity company, you've got payroll, cash flow, taxes, customer problems, recruiting and labor issues, employee problems, rising healthcare coverage and insurance premiums to worry about. That's the real business of your business, or is it?

Most small and mid-sized businesses owners are not aware of the potential of the capital markets and mergers and acquisitions to solve many of these heavy topics that race through a business owner's mind every single night. Many business owners are even unaware that what they've built is worth *so much more* than the money in the retained earnings account and their annual profit and loss.

The capital markets (M&A and investment capital) provide business owners the opportunity to tap into this unrealized value, and are arguably the greatest source of income potential for a business owner and its shareholders. Sadly, most small and mid-sized business owners never explore the capital markets, and some even shut their doors or sell for pennies on the dollar without realizing that what they had built could have fetched them 3 to 10 times their annual profit!

Ignore the capital markets at your own risk. Many do, because they incorrectly believe that the capital markets are accessible only through Ivy League connections, expensive investment banks, or large corporations. They're just flat out wrong.

## **What Are the Capital Markets?**

To a small or mid-sized business, the capital markets refer to the resources a small or mid-sized business can use get investment to growth, stabilize cash flow, or exit their business by merging with a strategic buyer, or being acquired by financial buyers.

There are several types of capital. Growth capital is specifically sought to build and scale a business. Venture capital is money at risk to start a new venture or build upon a successful early stage or mid stage concept. Venture capitalists offer growth capital, but use different lending instruments to make these investments.

Debt financing is available through traditional lenders as well as private equity and venture capital firms. Equity financing can be attained through the Mergers and Acquisitions market. A small or mid-sized business can sell a majority stake or a minority stake in the business. Stakes in the business can be less than 1% all the way through 100% full controlling ownership.

Many small businesses are aware of traditional lenders and traditional lending solutions. For example, a revolving line of credit to support regular payroll and operational activities is a traditional debt lending solution available through community banks, large banking institutions, and credit unions.

Many small businesses either aren't aware, or are intimidated by non-bank capital market solutions. A local landscaping company may not be aware that there are numerous private equity buyers who are in the market for purchasing both minority and majority stakes in their business, or purchasing the business outright.

A local electrician, or HVAC company owner, or waste removal and management business owner might not believe that the guys in suits in the skyscrapers in Boston would ever have interest in their line of business. They couldn't be more wrong. In fact...

...the majority of private equity firms aren't in Boston or New York, they're dotted throughout the country in cities and small towns, and they're often made up of former owners of businesses like theirs!

Business owners can use the graphic below to understand the financing and growth solutions available to them beyond traditional lending.

## The Range of Financial Solutions Available to Small and Mid-sized Business Owners



Data from the US Small Business Administration in 2022 suggests that over 77% of small business owners will seriously consider only personal savings as their source of business finance. However, private equity has increased its stake from 2% of business ownership at its inception in 1982 to over 21% of US business ownership in 2024, and is on pace to eclipse 40% of US business ownership by 2035! Private Equity alone is a major strategic asset to small business owners - even though they've largely been *"in the shadows"* (a metaphor we love, by-the-way)



## **So What? I Need Capital Now, and I Don't Have Time to Waste Chasing Private Equity and Venture Firms**

Your business bank has no doubt spent time in building a relationship with you, offering free consultations on lending solutions, more attractive money market rates, and working capital solutions. You get texts, email, and old fashioned direct mail in your mailbox every day offering you large business loan sizes at favorable APRs. If you ask for a \$100,000 loan, ChatGPT will even point you to national lenders SoFi, LightStream, Wells Fargo, OnDeck, BlueVine, and the Small Business Administration.

Finding debt lenders is easy, convenient, and solutions like the ones mentioned above are fast - way faster than community-based lenders. But if you can wait, community lenders have their own solutions for you.

What do all of these have in common? Interest expense that will hurt your EBITDA or earnings before interest, taxes, depreciation, and amortization (net margin). And of course, debt that will reduce the value of your stake in the business.

## **Advantages of Considering Capital Market Solutions**

Exploring a range of capital market options can give you much more flexibility than sticking to traditional lending solutions. For example, are you growing or expanding into a new market? Do you have a key competitor that you'd just love to eliminate? Do you know what your business is really worth, and how it's valued by different buyer types?

Do you know that your business, even if it grows its revenue and profitability next year, might be worth less on the market than it is now? Do you want to minimize the risk to your personal savings of a new investment? Could you use the connections, experience, and power of a major industry specialist behind you to aid in sales, new market growth, and maximizing your business value? You can get all of this and more if you think beyond traditional lending solutions.





## **Private Equity for my Flower Shop or Local Plumbing Business? Yeah right...**

A lot of business owners associate mergers and acquisitions with publicly-traded firms, Wall Street investment banks, and Silicon Valley high tech companies. They believe that a business broker is the key to selling a business like theirs, largely to a regional or local buyer. This again, is a wrong assumption.

Ernst and Young concluded that 85% of private equity investments by 2023 were small businesses. Further illustrating just how involved private equity is in the small and mid-sized arena, a 4Q 2024 survey of 81 private equity firms performed by FractionalTalent.io, a workforce and operational improvement company focused on PE and Venture-backed firms in the lower mid market asked three questions:

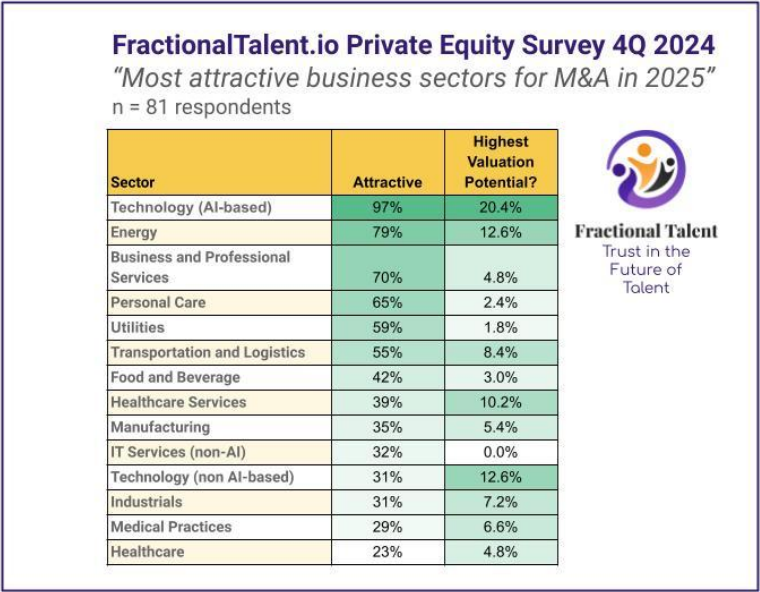
1. In what sectors will you be investing in 2025
2. What sectors offer the highest valuation potential in 2025?
3. Any sectors you will de-emphasize in 2025?

The answers are summarized on the next page and may surprise you. There are several reasons that these businesses and sectors are attractive in 2025.

**Reason 1: The interest rate environment over the past two years has rewarded transparent and reliable free-cash flow and penalized risky technology-focused product companies.**

As a result, main street businesses - local business services, local logistics, beauty and personal care, and healthcare practices were cited as highly attractive in 2025 by the majority of survey respondents.

That's the first reason. There are two other reasons, which we'll discuss after you take a look at 2025's most attractive sectors to private equity.



**An Emphasis on Business and Professional Services, Personal Care, Transportation and Logistics, Food and Beverage and Healthcare Services in 2025...**

These sectors are dominated by businesses under \$50M in revenue, and in many cases, under \$25M in revenue, exhibiting low industry concentration and higher than average “industry fragmentation”. That means that no firm owns greater than 25% of the market, and that local and regional players make up the broader national market. Remember those two other reasons we were going to discuss as to why these businesses are hyper-attractive to private equity? This is one of those reasons.

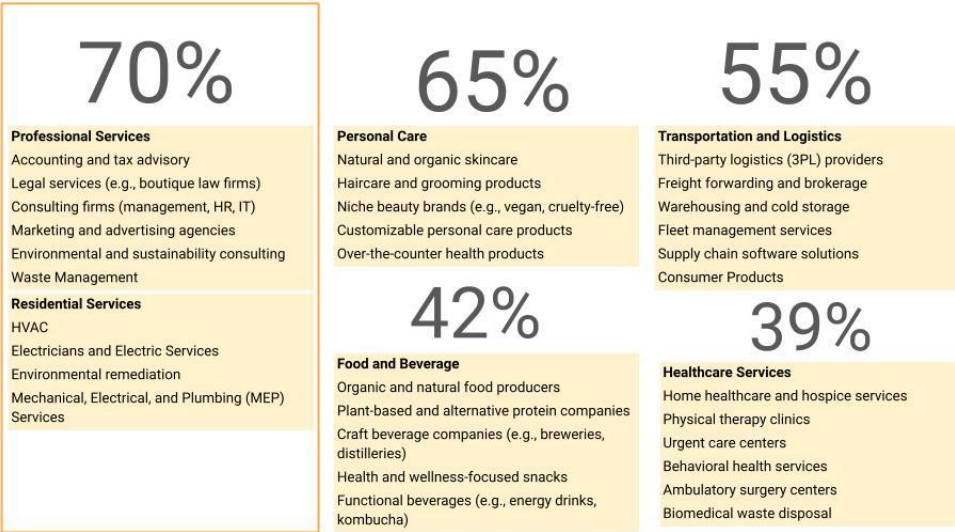
**Reason 2: The Rise of the Platform**

Fragmented markets offer private equity the ability to purchase a core business, known as a “platform”, usually at a very healthy premium, and “roll” additional acquisitions into the platform over time. With the fuel of private equity money behind a platform, a PE firm can gobble up entire regional markets quickly.

That means that they can maximize the value of the platform company through acquisitions, while returning strong cash flows back to Private Equity funds annually.

Take a look at the sub-sectors associated with Business and Professional Services, Personal Care, Transportation and Logistics, Food and Beverage and Healthcare Services:

**Most Attractive Private Equity Sectors and Subsectors 2025 by % of Firms Referencing the Sector**



Source: FractionalTalent.io 4Q 2024 Private Equity Survey (81 respondents)

Many of these sectors are made up of businesses that employ fewer than 10 personnel, that have a focus on strong customer service and satisfaction and maintaining their brand promise to their local markets - because that is all that they serve. These businesses are the heart and soul of American small towns, rural areas, suburbs, and urban districts. And they're very much in demand from the private equity community. Private equity is looking for platforms, and companies to fold into the platform.

### **Reason #3: Search Funds are Back**

The capital markets have seen a resurgence in a concept known as a “search fund”. A search fund sets aside an 18-24 month salary for an individual, usually fresh from a top 5 MBA program, who is tasked with finding an appropriate platform company from which to build into an aggressive acquirer of complementary businesses. It was pioneered by Stanford University alumni in the early 1980’s. While the number of search funds had declined in the early part of the 2010’s, this concept is back again, with strong adoption from several leading PE-firms.

Search funds are now identified as their own asset class, and several funds have outperformed the broader PE market, drawing interest once again in what was once dismissed as an academic solution with practical challenges in the real world.

This means that a host of small, midsized, and large private equity firms have employed individuals whose sole job it is to identify businesses like yours, engage you, vet your business, and determine if it is appropriate to make a capital offer. Search funds typically have wide latitude in terms of the types of businesses they add to their pipeline, the industries they consider, and their definition of “potential”. This is great news for small and mid-sized businesses looking to explore capital solutions.

### **Your Small or Mid-sized Business Has an Audience with Capital Solutions Beyond your Bank**

As you can see from the data, investment firms are looking toward promising business sectors in residential services, consumer services, food, beverage, and hospitality, and local logistics. You have an audience with them, should you choose to explore it. In a later chapter, we help you understand how to research the right potential firms, how to get an introduction in the proper way, and how you can explore the market without getting hounded by circling sharks who’d be more than interested in leading you into the world of private equity and venture capital under their terms...

## **The Bottom Line**

This chapter serves as the foundation for the rest of the guide by providing small and mid-sized businesses an overview of the capital markets — consider it a “hideaway key”. It set out to define the capital markets as an accessible alternative for growth capital and exit solutions for small and mid-sized companies. It provided an overview of types of capital available for small and mid-sized companies, and then aimed to illustrate how equity firms are very much interested in their businesses, contrary to most owners’ popular beliefs.

At the end of this chapter, we provide a guide of the common tools known as “financial instruments” or “financial vehicles” used to invest into small and mid-sized businesses.

Small and mid-sized business owners, defined for the purposes of this guide, as those running enterprises between \$1M and \$50M in revenue, should strongly consider alternatives to debt financing from the local bank. With very little time and some expert guidance, they’re likely to find a favorable range of options to help them grow, defeat competitive threats, and maximize the value of their businesses on the road to an exit path.

See the guide to equity, debt, and hybrid financing instruments / vehicles on the next page.

## The Range of Financial Solutions and Instruments Available to Small and Mid-sized Business Owners and their Sources



**Equity Instruments**

**Common Stock:** Investors purchase regular shares of the company, usually at later stages of development.

**Preferred Stock:** Most common in VC deals, it provides certain rights and protections over common stock, such as:

- Dividend preference.
- Liquidation preference (returning capital before common shareholders in a sale or liquidation).
- Anti-dilution provisions.

**SAFE (Simple Agreement for Future Equity):** A streamlined alternative to convertible notes. No interest or maturity date. Converts into equity at a discount or with a valuation cap during the next equity financing.

**Warrants/Options:** Contractual agreements to award equity based on specified conditions, timeframes, and incentive structures/milestones.



**Debt Instruments**

**Venture Debt:** A loan provided to startups, typically alongside or after equity funding. May include warrants or equity kickers to provide upside potential for the lender. Allows companies to extend runway without immediate equity dilution.

**Revenue-Based Loans:** Repayments are tied to a percentage of the company's revenue rather than fixed payments. Lower risk for startups with predictable cash flows.

**Fixed-term loans:** Traditional fixed term, fixed or variable rate, scheduled repayment.

**Collateralized loan:** In exchange for a lower rate, loan is securitized against assets

**Short-term credit:** Highly liquid, high rate credit extended to borrower at high APR.



**Hybrid Instruments**

**Convertible Instruments:** These instruments start as debt or a simpler agreement but convert into equity under certain conditions.

**Convertible Notes / Mezzanine:** Initially structured as debt with an interest rate and maturity date. Converts into equity at a discount or with a valuation cap during a subsequent financing round.

**KISS (Keep It Simple Security):** A hybrid between SAFE and convertible notes. Developed by Y Combinator as a more standardized option.



### Private Equity

#### Private Equity Firms, Active Capital Advisors

Take minority and majority stakes with goal of returning capital at above market returns to their investors on a specified timeline with specific return targets.

- Exit, full controlling equity stake with change-of-control
- Minority stakes
- Fixed exit timelines
- LBO's

### Venture Capital

#### Independent VCs, Affiliated VCs, Corporate (CVC), Impact Investors, Family Offices

Offer funding in exchange for ownership, and usually seeking high risk/reward premiums. Sometimes offer expertise to mold the investment to boost returns and influence exit timing.

- Common or Preferred Stock
- Convertible Notes
- SAFE (Simple Agreement for Future Equity)
- KISS (Keep It Simple Security)
- Debt Instruments
- Warrants/Options/Rev-Based
- Hybrid Instruments

### Traditional Lending

#### Community Banks, Credit Unions, Large Banking Institutions

Offer debt financing solutions at a premium to the prime lending rate, based on their assessment of the lender's ability to repay, risk and industry

- Revolving lines of credit
- Collateralized loans
- Non-collateralized loans
- Business credit cards
- Receivables factoring

### Alternative Investment

#### Family Offices, Angel Networks, Trusts Accelerators/ Incubators, Impact Investment Funds

Convert saved capital into risk capital, often for less aggressive terms and less specific exit goals. Wide range.

- Range of solutions from 0 interest loans to custom repayment terms with built-in return rates
- Offer high level of flexibility
- Can mimic venture/PE



## Chapter 2

### How to Swim with Sharks:

*If you Dive Into M&A and the capital markets, what can you expect?*



Maybe the mention of investment capital has you thinking about staring down someone like Kevin O’Leary or Sam Altman while he cleverly tries to think of every angle to outsmart you and wring your hard earned profit out of your business into his pocket.

Or maybe you think about young MBA’s in suits making way too much money in some cold tower in Boston or New York turning up their nose from your business category, and your business. “There’s no way those types will work with Main Street - *and they sure as hell don’t understand me or my customers!*” Right?

I’m not here to tell you that you’re entirely wrong. ShadowHornet Advisors has faced off with these types of people (and worse) , who’ve employed dirty tricks and tactics to secure the best possible deal, treating investment capital like a zero sum game. We’ve also faced the snobs of the investment capital community, who *only* look for carbon copies of the “sexiest” tech businesses in the market, which by-the-way, lose money hand over fist and consistently fail to achieve any profit whatsoever.

I am here to tell you that the majority of capital market service providers consist of firms that focus on businesses like yours, and are made of of former entrepreneurs and business leaders who want to make a difference in the lives of their communities and others through investing. Don’t they want to get rich? They sure as hell do! But don’t mistake these type of players in the market for the cut-throat sharks who would bill their own mothers for their own births.

These players are motivated by achieving more. They set a higher bar than most, and they aim to be rewarded for scaling that bar. The challenge to a small business owner is to find these “good guys” in the crowded and fiercely competitive capital market landscape – a task that’s virtually impossible without a guide.





## Shark Bait?

Let's say you're on a beautiful beach in the Caribbean, staring at clear aquamarine water at an island only 200 feet ahead, with a yellow cantina under sweeping palm trees. There's a hammock there, and clean white beach chairs set up over milk white sand on the edge of the shade. That's where you want to be, and right now, you'd give a lot to get there.

What if the lifeguard of the beach you're on says, "it's a pretty easy swim. There's a sandbar midway for a rest, and it's barely more than 4 feet deep throughout."

Sounds even better, doesn't it?

"Only problem is that there's a lot of sharks out there. Last year three swimmers were bitten, two of them didn't make it. There's out there. Ya never know when they're coming."

You testing those odds? Maybe you want a boat. Some still might forge on. But it's about to get worse. Let's say as you take a step forward towards the water, you cut your foot on a shell, and start bleeding. How have the odds of a shark attack changed?

That's the reality of the capital markets, the sharks are out there. And many business owners who research independently and enter their capital journey alone end up "cutting their feet" before they dive in by making common blunders and mistakes, attracting the sharks right to them.

What's the first stop for business owners looking for scale up capital? Google, Bing, or maybe even ChatGPT. Well, the second you press the search button, you've done the equivalent of cutting your foot on a shell. The most aggressive PE and lenders in the market [pay a substantial premium to access your search data](#). You're instantaneously categorized into an interest group, and your keywords trigger ad direction and identify you on prospect lists. These are not the firms you want to consider.



Now, as you take your first swimming strokes towards that beautiful island paradise, the sharks are honing in on your location.

They're using AI-based tools to tailor their approach to you to be the most effective possible. Once you've been identified as a member of an interest group (e.g. M&A), these firms or their marketing consultants will employ platforms that comb accessible data to determine the revenue and employee size of your firm, whether you've had key funding events in the past (available via Pitchbook), key employees and their tenure with the firm as well as their home location and interests (LinkedIn), and key financial profile data from consumer and business data sources like Experian.

With this data, AI can immediately categorize your business (and you personally) by net worth, credit status, key financial events and milestones, and even age or projected health of your parents. Ultra aggressive firms have proprietary algorithms to combine all types of data - and whatever data they want is out there for a price.

Some sharks will hope to key in on businesses facing financial strife, downturns, or distress. Their AI approach will aim to yield owners who have had negative credit events, or businesses with collections activity or payables issues. They will aim to identify family-owned businesses where a son or daughter has recently taken the CEO role, and the most aggressive will project whether health issues are likely to impact prior CEOs, or other business owners.

It's important to note for a small business owner that whatever data firms want to compile their algorithms, it's out there, reasonably affordable, and low-cost AI can gives them the power to combine this data to find you and your business. They clearly have an agenda, and through their past experience have already planned the approach - which is focused on addressing your

most critical vulnerabilities with a too good to be true solution, initially, and then pulling the rug out and changing the terms in their favor late in the process.

This is not to say that all firms in the market do this. In fact, most do not. All capital market players serving the small and mid-sized business arena (known as the lower middle market), have to find businesses looking for growth finance, cash flow remediation, or exit opportunities.

Some are using tools like LinkedIn, some are using business intelligence platforms like DataAxle, which offer detailed information on businesses. But they're not yet using AI solutions to apply their investment philosophy. They're basically using these tools like a phone book, and tapping a junior analyst to make 50-100+ calls per day in some cases.

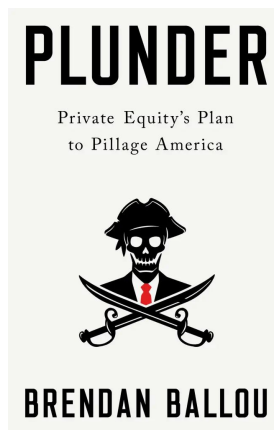
It's the firms that are using AI to apply their philosophy that you need to worry about. And their pitches to you are going to look different. Rather than a simple message indicating that they'd like to talk to you as a business owner, you might find the message highly personalized, perhaps with some information that you're surprised they know – something that shows you they're a little bit different.

These types of firms are dangerous, because first off, they've targeted you in a predatory manner. Second off, they have the sophistication and capabilities to "outplay" you throughout this process. And third, because they have an arguably predatory process that has proven to work time and time again, giving them the advantage, and enabling them to capture the majority of the value from the business that *you* created!

Nothing, to me is more crushing than seeing a predatory venture or private equity firm taint the trust that owners have worked so tirelessly to establish over time – trust with employees, with customers, with communities. And many owners, even

sophisticated and experienced owners, are consistently tricked by false promises and narratives, and intentional reframing of conversations focused on dodging and concealing venture capital or private equity's true motives. That's because it's all by design - a reliable strategy by these players to enrich themselves and their shareholders at your expense. And not just financial expense – the expense of your good name, your honor, the work you've performed to build something great.

There are [several articles and books that give names and examples](#), detail the tactics and strategies that these predatory players use. Brendan Ballou's 2023 book *Plunder* is one of the first to open the dirty toolbox to the public.

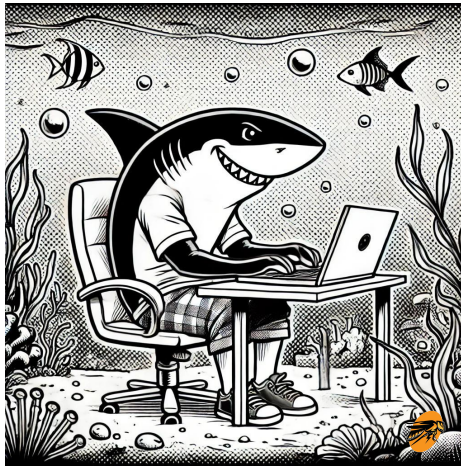


While these books and articles do serve a noble purpose, they shade the entire industry with a reputation that many firms do not deserve. Several venture and private equity firms consist of good, ethical people looking to make a positive impact in specific regions or interest areas. Unfortunately, these won't be the first firms to reach out to you, especially after you begin your research efforts using search engines and AI platforms.

To have success navigating capital market solutions, you need to understand the right way to assess, analyze, and engage your range of solutions.

## What Does A Shark Email Look Like?

The easiest way to identify a shark email, is to compare the sender's firm to a list of predatory firms. We'd love to do this for you, but since venture and private equity legal budgets are huge, their lawyers are hungry, and publishing a name of a firm under this section title would inevitably lead to a libel claim, we can only furnish our opinions of certain firms, when under NDA.



*I wanted to write an aggressive cold marketing email but for some reason my Macbook won't turn on.*

What we can do is let you know what to look for, what tactics the sharks are using, and what a shark email looks like.

Cold Outreach is a firm that focuses on guiding its customers to more effective marketing email approaches. One of its focal areas is private equity emails. Now, emailing unknown business owners is a necessity for nearly every private equity firm.



And platforms like Cold Outreach can help private equity and venture firms write more effective emails. But this article, [Private Equity Cold Email Template: Tips & Strategies for Effective Outreach - Coldoutreach.com](#), gives you a pretty good outline of how firms can use these principles to train AI-based platforms to mass customize and distribute emails based on the data they've collected.

It can be hard to distinguish between a personalized email authentically written by a genuinely interested representative of a reputable firm, and a shark's email, and it's only getting harder. AI-based email customization platforms offer the ability to mash up massive amounts of data and use AI capabilities to use the most statistically probabilistic phrases and data to maximize your chance of responding to an email. [Check it out, courtesy of EmailAnalytics, the best platforms for mass email personalization](#) and distribution.

In 2025 and beyond, reputations will rule, and as a business owner you will not be able to trust whether or not an email is authentically written by a human. That has extra gravity, when you realize that your behavior within the inbox and especially after you click a link or respond to an email is instantaneously fed back to the AI software platform to compare your behavior against other successful conversions and gauge your sentiment and likelihood of interest in engaging with the shark.

To make matters worse for you, your engagement (or lack of engagement) will automatically be placed in a sales funnel for follow up at statistically probable intervals to maximize the effectiveness of follow up. Some firms are using platforms where an AI avatar and persona will do the outreach, trying to facilitate a chat, in which you're not at any point interacting with a person. Several fintech firms have deployed [this technology](#), which is in use in late 2024, and will quickly accelerate in performance and effectiveness upon the release of NVIDIA's Blackwell AI processing infrastructure in Q1 2025.



## **In 2025 and beyond, reputations will rule**

There is no escape from this reality. From now on, you're not just swimming with sharks, you're swimming with AI equipped cyborg ubersharks looking to maximize their odds of success, which means that the field is substantially tilted against you.

Your greatest defense against swimming with sharks is understand the players, the game, and dictate the engagement to the extent you can, even using your own AI, or a partner who can be your trusted guide.

Finding trust and "trusting in trust" are your only solutions in a market where everyone's motives are to be questioned. Fortunately many private equity firms still believe in honest approaches, transparency, collaboration, and fairness. Amidst the 4,000 - 5,000 firms that exist globally, finding these jewels can be exceedingly difficult.

## **The Bottom Line: Still Swimming to Paradise Island?**

Now you understand a little about the players, the tactics and strategies they use to selectively target you and your business. You understand there are both sharks and non-sharks in the industry. You realize that you have a wide range of solutions in the capital markets and beyond to help grow, strengthen your operational foundation, support your acquisition interests, and potentially exit your business.

But are those the right solutions for you, your business and its stakeholders? In the next chapter, we discuss how to assess whether approaching the capital markets makes sense for your situation.

## Chapter 3

### **Amirite?** *Determining if M&A and the capital markets are right for you and your stakeholders*



This chapter aims to give you some tools to help frame, assess, and make decisions about whether exploring the capital markets is the right decision for your situation.

The unfamiliar never creates a sense of comfort, and as you learn about capital market solutions, it would be surprising if you're not a little confused, cynical, or just flat out uncomfortable.

Would my bakery really link up with a private equity firm to acquire the other bakery down the street? Can I trust that a private equity firm making a minority investment won't try to screw me out of the business I've built and sacrificed for?

Aren't all venture capitalists and private equity firms just vampires or wolves in sheep's clothing?

The point of this guide is to outline the range of solutions available for strategically achieving a businesses' goals —, many solutions that are often not considered by small and mid-sized businesses. It's not to tell you that private equity, venture capital, or alternative lending are the right solutions for you and your stakeholders. The only one(s) who can make the right decision(s) are the owners of the business. And every single business situation is different.

Take for example, the family business. Different family members have different needs, expectations, goals, and challenges that conflict more often than not. Pursuing private equity is going to leave many of these stakeholders dissatisfied.

Another common situation is when a business is led by executives from different generations. A common scenario is a chief executive who is substantially younger than the members



of the firm's board of directors, or executive leadership team.

43% of US **small business CEOs were between 35 years old and 54**, detailed in the US Census Bureau's 2023 survey of US small business.

Influencing older professionals within your firm to investigate a concept that might be radically different from what they've considered the right path can be exceedingly difficult. If that concept is the capital markets, scale up financing, and strategic M&A, you're likely to get loud and aggressive opinions. And most likely, not many are going to agree.

The truth is, businesses in today's environment need to consistently grow just to maintain their competitive standing in the market. If you're not growing, you're being eclipsed. However, growth comes with personal trade offs that have nothing to do with your business.

I recall the husband/wife owners of a \$25M staffing and workforce company in Raleigh, North Carolina, who wanted to explore M&A as a potential exit. Their firm had grown tremendously over 10 years, and scaled quickly over the prior 2 years. When I asked about their motivations, the answer had nothing to do with EBITDA, revenue, competitive market share. It was as simple as the following:

"We just want to have a vacation with our kids without having to take conference calls, or be stressed out while playing with them in the pool. Just *one* day would be good, but we want more before they're too old."

So many business owners, in our experience, share this in common. Their motivations for what they want to do with their business have nothing to do with the stuff learned in MBA programs. Nothing at all. Their decisions revolve around concepts like control over personal time, resolving consistent anxiety, repairing family relationships, moving the family beyond



the business that has dominated their dinner and holiday conversations for 20 years, the impact of their legacy on a community, or the pride they've personally experienced in building and creating.

To these business owners, considering strategic finance through capital markets can be a threat to everything they consider sacred. Or it can be a golden ticket that propels them towards the life they sought by starting a business – before it consumed the majority of their day-to-day and their mindscape.

Assessing capital market solutions is just that - an assessment of all of the available tools for a business owner to accomplish their goals. However, most businesses do not have the luxury of following a single owner's whims. Most businesses are led by a variety of stakeholders, usually with differing opinions and values. That's why we recommend a careful and transparent approach to introducing capital market solutions into any business leadership conversation.

## **It Starts With Strategic Analysis and a Stakeholder Map**

The first step in determining whether capital solutions make sense for a business situation is to understand where that business currently stands in the context of its industry and its key markets, on multiple dimensions.

Some of this will be achieved through standard business benchmarking (e.g. financial ratios compared to industry segments, financial and operational performance comparisons). Some of this, in my opinion, the more important factors will come from introspection from the firm's leadership.

For example, how competitive is our personnel today? Based on what we foresee, how competitive will that personnel be under increasing threats of AI, globalization, and whatever disruptions are happening in the industry. "Disruptions" might sound a little crazy for a small business to consider, but a disruption can mean

something like the new construction of a commercial plaza three blocks away. Or a new road that may change traffic patterns. Or a new mega-franchise locating 20 miles away that may siphon traffic away from a business. What are the key future factors and scenarios that the business critically needs to consider?

Once you have a view of as many of these factors as your and your team can think of, how well positioned is the firm to address them:

- Financially?
- Operationally?
- Through Its Human Resources?
- Through Its Products and Services?
- Does its Leadership Have the Necessary Experience and Perspective to Guide and Lead through these changes?

What are likely competitive threats to the business? Is a key competitor considering capital solutions to bolster their position against you?

A lot of high-priced enterprise consultants will charge you \$500+ an hour to walk you through “strategic analysis frameworks”, “Porter’s 5 Forces Analysis”, “SWOT+ approaches”, and sometimes they do great work. But the truth is, most small business owners don’t need sophisticated and expensive models and consultants, *but they do need to devote a week of time* considering these factors before exploring the full range of potential solutions available to them.

Even a lightweight whiteboarding exercise that forces owners to consider likely threats and outside factors can help them make a better, more complete decision into what types of strategies are most likely to achieve their owners’ goals.



## **But My Leadership Team or Board Can't Agree On Anything, Let Alone Strategic Vision!**

Getting a leadership team to agree on small things can be a difficult task, so asking them to align on their vision for a future 2, 3, 5 years down the road can seem daunting!

There are a few options available to you, to gauge your stakeholders opinions. This will be the beginning to your stakeholder analysis, and between the strategic landscape assessment and this stakeholder analysis, you'll be in a good position to compare and assess capital market solutions.

### **Stakeholder Analysis**

Who are the stakeholders in your business? Some might jump right out there and say, that's easy, it's the ones with equity or an ownership stake in my business. This might mean investors, executives, and/or members of the board of directors. While it's right to identify these groups, it's vital that an owner that wants to consider capital solutions factor in ALL stakeholders around the business. This means a number of parties that you might not typically consider.

## **Consider the Full Range of Stakeholders *Or Else...***

The full range of stakeholders includes everyone you “care about” who will be impacted by the business.

Obviously this should incorporate your direct family members – those that you live with, those that depend on you, and those on whom you depend.

Then, you have to look at what a lot of owners do not consider. Where does your source of pride around your business come from? Is it the trust that you’ve built with customers over a decade or more? Is it the reputation you’ve built in your community? Is it the partnerships you have with other regional businesses, local government, or other institutions? Is it that your business and its name will persist beyond you or your lifetime?

Perhaps you take pride in cultivating a leadership team that will succeed you in taking the reins of the business. Others may be inspired by the charitable giving the business has been able to endeavor. And others are completely different in that their source of pride is the financial engine they’ve been able to create, and nothing more.

This is a step most commonly skipped in most consultant’s analyses of businesses. It’s also the source of the greatest pain, regrets, and “what if’s” that business owners face. By skipping this step, which is a very hard thing to do and requires some pretty bold honesty within oneself, owners consistently make the wrong strategic decisions. They end up achieving their financial goals, and destroying their psyche. They end up missing out on opportunities that they only learn about after-the-fact, after they’ve signed away their business entirely, or sold it through a broker not understanding that they could have had an outcome that not only achieved their financial goals, but also honestly achieved and protected their source of pride around the business. These powerful motivations are often very different for



the multiple stakeholders surrounding a business. Many stakeholders are not always 100% honest or transparent about their motivations surrounding the business. Nearly 100% of the time, other stakeholders beyond the founder/owner will have less powerful psychic motivations and more powerful financial motivations around their stake in the business.

For a financial stakeholder, even one who has grown up in the business, the business is ultimately a financial instrument that will help them become wealthier. For a business founder and owner, the business is in many cases their entire identity. Aligning these two categories of stakeholders can be extremely difficult and extremely time consuming. To the founder/owner, the mention of private equity or external investors is likely to elicit a strong negative response, almost as if the words themselves threaten them.



*This is what many small business owners think of hearing the words "private equity". And without taking the proper steps in stakeholder analysis, they could be right...*

## Generational Differences

Just as the mention of a new capital solution like private equity may conjure up dark images in an owner/founder's mind, the terms can seem downright foreign to members of an ownership team over 60 years old. Why?

Private equity is a relatively new concept in business finance, explored in the mid 1900's, and **professionalized in the early 1980's**. In 1982, private equity firms owned only 2% of all American companies. By **2023, private equity owned 19%** of all US companies. The sector's growth has been **astonishing, as it now claims over \$6.1 Trillion in assets under management**.

But for those who were starting their careers in the early to mid 1980's, it was unlikely that they'd ever cross paths with a private equity firm. PE firms were focused on massive Leveraged Buy Out (LBO's) prizes, and not the small and mid-sized business sector. Over the next 40 years, private equity expanded and evolved into investments in small and mid-sized businesses, where today, as we enter 2025, **small and mid-sized businesses make up 85% of private equity's total investments**.

So if a business leader is over 60 years old, the majority of the success in their career most likely came without the involvement of private equity. In that generation in business, private equity is unnecessary, not applicable, and reserved exclusively for Wall Street raiders. In our experience, this is the most likely opinion from business leaders of that generation, even though times have changed significantly.

It's much more common for business leaders in their 40's and 50's to have experience or at least some knowledge of venture capital and private equity, though with only 1 of 5 businesses owned, these capital solutions providers are still relatively unknown by the broader business community.

By 2035, private equity is projected to own over 40% of American businesses!

## Using Facts (and maybe AI) to Help Frame the Conversation

Businesses need to consider the widest range of potential solutions to help them achieve their goals. This includes private equity and venture capital investments. But how can you assess new solutions if members of your leadership team just want to dismiss them right away? If saying “hey, I learned that private equity is making investments in businesses like ours, and I think we should learn more”, sounds more like a ticket to getting laughed at or shouted out of the room, or dismissed as a clown, then how do you get the topic on the table?

We have found that this research paper, which we have already referenced, can be very powerful in getting leaders to understand the pivotal role of private equity.

The [economic contribution of the US private equity sector in 2022](#) was prepared for the American Investment Council and presented in April 2023 by Ernst and Young. It demonstrates with substantial data, just how active private equity is in the small business community. It further demonstrates just how vital the employment supported by private equity is to state economies and the national economy as a whole. Ignoring private equity involvement in the sector is a foolish strategic move, given its involvement.

In any strategic planning session, the topic can be introduced to the leadership team in the context of, “private equity is becoming more of a factor and a threat, especially if our competitors are tapping PE to get an advantage. We should set aside some time to discuss this.”

Even tapping ChatGPT can help you get the topic to the table. Try this query: **What are the most disruptive factors to small businesses that I should consider in strategic planning?**





## ChatGPT

When considering strategic planning for small businesses, several disruptive factors can significantly impact operations, profitability, and long-term sustainability. Some of the most important factors to consider are:

1. **Economic Uncertainty:** Economic downturns, inflation, or shifts in interest rates can create an unstable environment for small businesses. This can affect consumer spending, **access to capital**, and operational costs.
2. **Technological Advancements:** Technology is evolving rapidly, and small businesses need to stay current to remain competitive. This includes everything from automation, artificial intelligence, and data analytics to the adoption of new platforms and software tools that streamline operations.
3. **Regulatory Changes:** Changes in local, state, and federal regulations can impact taxes, labor laws, environmental policies, and compliance standards. Small businesses must be prepared for evolving regulations.
4. **Supply Chain Disruptions:** Global and local supply chains can be fragile, particularly when events like pandemics, natural disasters, or geopolitical tensions occur.
5. **Labor Shortages and Talent Retention:** The ongoing difficulty in finding and retaining skilled employees is a growing challenge for many small businesses.
6. **Competition and Market Saturation:** Competition from both local players and larger corporations (or even international businesses) can disrupt small businesses. Small businesses must continuously monitor market trends, consumer preferences, and competitive landscapes to stay relevant.
7. **Cybersecurity Threats:** As businesses increasingly rely on digital platforms, the risk of cyberattacks and data breaches grows. Small businesses need to invest in robust cybersecurity measures to protect sensitive information and maintain trust with customers.
8. **Climate Change and Environmental Concerns:** Consumers and regulators alike are becoming more concerned with environmental impact. Small businesses should consider sustainability practices, reducing waste, and preparing for climate-related disruptions.
9. **Shifting Consumer Preferences:** Consumer expectations can change rapidly, influenced by trends, social movements, or external events (e.g., a global pandemic). Businesses must be adaptable, investing in market research and adjusting their offerings to meet evolving demands.
10. **Access to Capital: Small businesses often face challenges in accessing financing**, especially during times of economic uncertainty. The ability to secure funding for growth, operational costs, or emergencies is a critical factor in long-term sustainability.

Incorporating flexibility into your business model, continuously monitoring these factors, and developing strategies to mitigate risks can help small businesses not only survive but thrive in disruptive environments.





Run this exercise with your leadership team. Project your screen, navigate to ChatGPT and type in the question, “what is our capital risk mitigation plan?” The answer, coming from a neutral party should be enough to give you an opportunity to safely ask the group about capital market finance and whether the firm should seriously consider it.

### **Great, we’ve talked about everything but how to determine if the capital markets are right for my businesses’ situation!**

Oh, *but we have*. Hopefully this chapter is illustrating that your business is so much more than *your business*. Businesses are combinations of multiple stakeholders and their own, often diverging interests. In order to assess the appropriateness of capital market solutions, a business leader has to understand that these differences need to be identified in two ways.

First, is the businesses strategic market fit and context. Second, is the stakeholder map.

One of the most shocking parts of this chapter is that not all stakeholders matter, and some much less to than others to certain business owners. And that’s OK. Some founders may not care what a 5% equity owner of the business has to say when it comes down to it. Some founders may not really care about the businesses’ reputation in the community, if they can exchange that for a profitable exit.

Knowing these things now is the key to helping to finding the right capital solutions, and preventing the kinds of conflicts that literally tear stakeholders and especially families apart, which we cover in our next chapter.

Before you can determine if a 25% minority investment for scale up capital and remediated lines of credit is appropriate for your situation, you need to understand where that equity will come from, and what you’re willing to exchange. Most business owners and consultants skip this process, to dire consequences...



## **Win Before You Take the Field!**

In strategic finance decisions, you win by understanding what battles you're likely to face, who you're going to be fighting against, and being prepared to face those challenges well before they face you.

As you assess whether the capital markets are the right solution for your business, you need to understand the exchanges and tradeoffs that you'll make in using specific solutions. This is why the stakeholder map is so vital.

If you pursue venture solutions that require the exchange of non-controlling equity in the business (<49%), that equity is either allocated from the existing ownership team's pockets in a "dilutive" agreement, meaning that your percentage of ownership is reduced to accommodate the new investor(s) stake .

### **Non Dilutive Agreement Dynamics**

If it is a "non dilutive" agreement, your new investor is going to buy shares in the business from an existing investor. If this is the route you take, the new investor(s) voice and advocacy will replace the former stakeholder's.

The majority owner needs to understand these dynamics so that they can plan accordingly, and influence their ownership team.

For example, even in a dilutive agreement, in which a minority stake in the company is being exchanged for capital, does the majority shareholder want to maintain a dominant position? This is important in cases where the largest shareholder owns less than a 51% stake in the business.

If the largest shareholder owns, say 30%, and the business is seeking an investment in the business equivalent to 40%, a single investor may not get "controlling interest" in the business, but, because of an ownership stake that eclipses the largest shareholder, the investor will become a de facto leader in the

business, and their voice will be respected and sometimes seen as equal or more important than the current leader! We see this happen all the time. The ownership dynamics influence the way the entire team interacts and the firm's leadership culture.

### **Dirty Non Dilutive Tricks Used By Sharks**

Some venture and private equity sharks are well aware of this, and use a minority investment as a trojan horse to attain a controlling stake in the business over the short to intermediate term. In fact, the savviest sharks have researched your ownership structure and team, and knows their strengths and vulnerabilities prior to even closing the investment! Their goal is to exploit that knowledge to get a larger stake of your business.

Early in my career, I was in a due diligence management meeting for a client, in a boardroom, and I was sitting next to a lead analyst from one of the most respected names in private equity. The private equity firm had asked the client's leadership team to give a presentation on their customer base, and top customers. They were asking specific questions to the client about the customer's total revenue, who they interacted with on the customer side, geographic markets in which the customer did business, and recent news about the customers.

As they went through this line of questioning, and my client answered to the best of their ability, I glanced at the analyst's screen next to me. He had a detailed spreadsheet with each of my client's customer's logos, with all of the information depicted right there. The firm knew the answers to the questions they were asking, the whole line of questioning was essentially what's known in the industry as a "shit test" – a gauge on how well the client's leadership team knew their own industry, how influential their client relationships are, or just "knows their shit".

*One of the most powerful themes of this guide is that data is power, and it's widely available, especially to the private equity and venture community. In strategic finance, always assume that the person across the table has access and knowledge of more data than you do.*





## Dilutive Challenges

Just like inflation, diluting ownership to account for a new investor, robs business owners of their financial leverage and buying power. Most consultants will tell you that. But something leadership teams need to consider that goes beyond the financial aspect of dilutive financing is the change in influence and change in leadership culture that the new investor will bring to the table.

It's never an easy scenario to ask owners of a business to reduce their ownership stake, so the appeal an majority owner has to make to their peers has to be powerful.

Most owners, in our experience, base their appeal to their ownership team on "we'll make more money and improve our financial situation" through investment. Predictably, that appeal doesn't work for all stakeholders in the business, first because



not every shareholder generates their source of pride from financial results. Second, not every stakeholder is honest and transparent about their true motives regarding ownership, until someone reveals a path to “cashing in” that ownership. People’s true colors emerge in both the worst of times, and when “an offer is on the table”.

I’m going to reiterate it again. Measuring whether dilutive equity solutions are appropriate for your business ownership team and your situation requires you understanding the strategic context of your business, AND a much deeper understanding of your stakeholders.

## **The Difficulty of Exit and Majority Ownership Solutions**

I could write another whole guide on how to assess the appropriateness of selling a majority stake in the business and ceding control to a private equity firm. As complicated as that decision is, and how varied it is by industry and business situation, the same rules that we outlined in this chapter are the answer.

1. Understand the strategic context of your business and
2. Understand your stakeholders and their motivations. This alone will put you in a good position to evaluate whether a majority ownership position may be worth considering.

On the next page you’ll find a “secret list” of dynamics to consider in determining whether majority ownership may make sense for your business stakeholders.

**A quick warning, you may be accused of being an ultra cold-hearted, calculating bastard or witch for using this tool.** But it forces you to understand motivations well beyond the naive “financial only” mentality that tears business ownership teams and families apart as they navigate capital market solutions.





## Guide to Attain Influencing Leverage Within a Business Ownership Group in Capital Markets Strategic Assessments

Variable to Consider	Why It's Important
Age of Each Individual Owner	Younger owners are typically motivated by the power and respect that ownership provides, with an eye on using it to springboard to a position of more influence. Middle age owners are trying to balance personal time with their career demands, and older owners are concerned about rounding out their financial position and leaving a life or career legacy.
Parental Status of Each Owner	Owners with young children are typically securing a financial foundation. An early exit can secure this foundation and provide great access to opportunity like elite schooling. Owners with children approaching college age can be concerned about footing \$100K or more annually for college for their children. Owners with children in their 30's and beyond may be most concerned about bequeathing inheritance to their children and grandchildren. Owners with no children do not have any of these considerations, but may have "bucket list" aspirations only accessible through an exit scenario.
Tenure With Company	Less tenure with a company means less attachment to the firm, but potentially more ambition to advance by leveraging their position. Exiting can be a threat, growth capital a big opportunity. The longest tenured owners are typically looking for investment liquidity as a payoff for the investment of their life they've made in the business. Less tenured owners as a rule are easier to influence than most mid and long-tenured owners. Mid-tenured owners want to protect their positions and influence, and may be skeptical of growth capital and exit capital alike.
Lifecycle of their Career	Early careerists can ride growth capital into more connections with VC/PE and within the ownership group. Mid-careerists may be concerned about age-ism in pursuing a next role. Late careerists are concerned about both financial security and a legacy – something they can be proud of.
Their Further Leadership Aspirations	Growth capital is a ticket to achieving leadership aspirations, whereas exit capital may be either a platform for growth or a career dead end/ticket out of the business. Those with no further leadership aspirations beyond their ownership role may be seen as more neutral, however, they are much more subject to be governed by their other wants and needs (below).
Connections With Community in Which the Business Serves (including employees of the firm)	Owners with strong connections to the community, which can refer to the local business scene, or the group of employees that execute the affairs of the business are often very vocal about representing the needs of the community in strategic finance decisions. They can naturally be averse to anything that threatens the community, particularly exit finance. Owners who demonstrate low connection to the community tend to be influenced to the greatest degree by financial terms (e.g. "what's in it for me?"). Clever leaders can use approaches aimed at gauging an individual's connection to the community to try to determine their true motives.
Connections With the Businesses Clients	Owners that have a strong connection to business clients will be put in an awkward position as the company negotiates scale up finance or exit. These owners gain significant leverage in the process through their relationships with key customers and can often jeopardize negotiations and exit/scale up deals by leaking confidential information.
Connections With Other Owners (e.g. factions)	Leaders assessing capital market solutions must determine the "factions" of stakeholders by analyzing relationships. If certain shareholders are tightly aligned, they can and will use their influence to steer the discussions towards favorable outcomes for their faction. Conversely, weak associations between stakeholders can be exploited by strategic financiers looking to advance their interests against a loose coalition of owners.
Alluded to Major Financial Needs/Wants	Have certain owners experienced a financial hardship (e.g. complex medical situation, debts of parents, etc.). Have owners made comments about a dream house (lake house), luxury car (e.g. Ferrari), or international extended vacation? These desires can be achieved through strategic finance and are leverage.





## The Bottom Line: Strategic Fit + Stakeholder Analysis are the Critical Keys to Assessing Capital Market Solutions

This chapter is simply summarized by the following points:

1. You need to understand where your business stands, where it wants to go, and what obstacles are in its way before you consider capital market solutions.
2. You need to acknowledge that your business is not just *your business*. It is rather a collection of stakeholders who exist inside and outside of the business (e.g. family, charities, etc.), as well as those who own a financial stake in the business.
3. All of these stakeholders have motivations and agendas, which most of the time conflict with each other. Many shareholders keep their true motivations hidden, even going as far as publicly advocating for one position, while they angle and influence towards the opposite position.
4. Generational differences between business leaders can make considering capital market (and other innovative solutions) more difficult.
5. Any business leader trying to assess the fit of capital market solutions needs to introduce the topic in the right way to their ownership group.
6. There are several tactics to influencing an ownership group, leveraging their motivations and generational differences.
7. Capital market solutions can be both dilutive and non-dilutive, both which require different strategies to consider.
8. Many capital market “sharks” use trojan horse tactics and advanced business intelligence to advance their ownership and financial interests.



## Chapter 4

### **Did I Do That?** *Family Matters: Business Issues Commonly Encountered in Family Business M&A Efforts*



A \$20M family software business in Louisville, Kentucky had grown over 17 consecutive years into a well respected national brand with business on three continents, employing over 120 personnel, and providing over \$1M annually in charitable giving to local causes. Its CEO, Henry Smith, 71, had presumably done everything right as well in devising an effective succession strategy.

He had been preparing his son to take over the business for over a decade now. The elite schooling he provided had translated into an Cornell undergraduate degree in economics, and a Wharton MBA. Starting his son at a role as a sales executive at the firm had given him a “from-the-ground” perspective into the business, and forced him to prove his mettle amongst the firm’s employees.

Three of the four members of the family were employed in the business, and the fourth remained closely advised by the family wealth advisor who facilitated monthly family meetings to keep the entire family on the same page. He also facilitated quarterly board meetings, with a board of directors that consisted of the family and trusted advisors.

Working with the advisor, Henry had structured a phased ownership transition plan, which would rotate Henry out of the leadership and operations of the business over 5 years into a passive minority owner. This plan would ensure that the family would continue to control the equity and benefit from the businesses’ returns, while the CEO’s son took the helm with a reasonable equity stake, to lead the business to exit by selling it.

Three years after the successful execution of this plan, and a strategic exit, Henry found his family in strife, two sons who wouldn’t talk to one another, and the other in a power struggle





with the new employer that would ultimately have Henry's entire family out of the business Henry created by the end of the year.

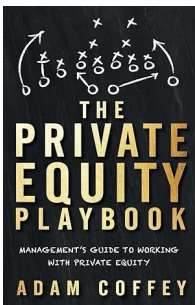
How could a perfect plan, executed perfectly as well end up in achieving the opposite of what Henry had intended for the business, his family, and his life?

## **The Destructive Power of Choosing the Wrong Investor or Buyer**

Henry, his sons, and his board of directors failed to understand the sophistication, deception, and power of the buyer they chose. All private equity is not created equal. The wrong firm, with the "right offer" can destroy a family business, reputation, and the family itself with unbelievable speed, even if the owners have conscientiously and meticulously planned for wealth inheritance succession and lifestyle transition.

Choosing the wrong equity investor can destroy decades of perfect planning and a happy family environment in as little as 6-12 months. When the wrong investor applies their dirty toolbox of tricks, the toxic aftermath can be enough to corrode even the most healthy families. The impact of this decision transcends business and finances. It impacts generations.

## **Bad PE: The Wrong Investor's Dirty Toolbox**



Author Adam Coffey details the private equity landscape in his book, *The Private Equity Handbook* (Lioncrest, 2019). He describes how several of the most successful private equity firms (and their copycats) use a "playbook-based" approach to manage every company that they purchase. In other words, they take a "one-size-fits-all" approach, applying the same rules, processes, and



practices to every business they purchase, regardless of the industry, the types of employees, the unique culture of the firm, etc.

In Chapter 6, “Bad PE - The Dirty Toolbox”, we’ll discuss some of the tactics and strategies that the most aggressive sharks in PE use to strip your business of value and reallocate the gains to their own pockets. Even the most prepared, cohesive, and strongest family bonds *most often* stand no chance against Bad PE’s Dirty Toolbox.

We’ve seen many families suffer great wounds at the hands of disingenuous buyers and investors who used this toolbox to prey upon the good nature and good intentions of small business owners.

### **What are the Most Common Issues That Family Businesses Face in Making Strategic Finance Decisions?**

Family businesses have a unique challenge. Common family conflicts and issues can substantially impact the businesses’ performance, its culture, other non-family employees, and customers.

There are many factors that we have seen influence the likelihood of a family business entering into the right capital market/strategic finance solution. Two of these factors rise above the others. The first is the maturity and professionalism of the executive leadership team and the family business’ board of directors. The second is professional structure to support the family in taking a holistic view of not just the business, but topics surrounding the interests of the family.

A third factor, family cohesion comes close (the degree to which a family functions well and authentically cares about its members well-being as a whole).

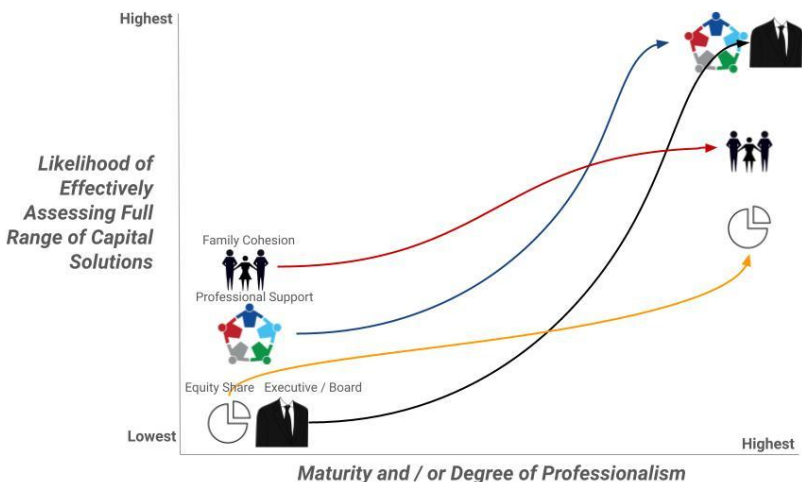
A fourth factor is the degree of family versus non-family



ownership stake and composition of family ownership.

Within minutes, we can usually determine a family businesses' likelihood of effectively assessing capital market and strategic finance solutions for their situation.

### **Four Most Important Variables In Effectively Assessing Capital Solutions for a Family Business**



In our work with family businesses we've seen these factors most commonly impacting outcomes. Most family firms have no chance at effectively assessing the range of capital solutions available to them without a professional in the leadership of the business. The more professional a firm's functioning leadership structure, the higher the chance that the firm can make the right decisions about scaling, M&A, and exiting the business.

The more professional support a business has, the higher its likelihood of success - and this is a consistently positive factor. On the next page, we discuss how these factors relate to a firm's success in evaluating capital solutions.

## Four Important Factors for Family Businesses in Assessing Capital Solutions



Professional Support

Professional support includes advisors that may include wealth planners, outside consultants, tax advisors, management advisors, counselors, and family advisors. "Professional" can refer to a paid professional, to someone unpaid whom the family consistently and unequivocally relies upon to furnish unbiased opinions and objective points of view.

It's definitely not always "more is better". What is important here is that the members of the family business have access to consistent outside support when issues arise, AND that objective third parties are continuously bringing in new perspectives and information to inform the family and mitigate conflicts, or dispel "groupthink" or bad decision patterns.



Family Cohesion

Family cohesion can range from "our family can't get along and genuinely dislike one another", to "our family has each other's backs through anything, solidified by our faith." In the former, family conflicts play out in highly public settings - having negative impacts on the business.

While low-cohesion/high conflict families can still assess capital solutions together, the degree of difficulty is much higher, and these discussions are less efficient and take longer. High-cohesion families are undergirded by trust that the family is making good decisions.



Executive / Board

"Executive" refers to management and leadership of the business, while a board simply means a regular meeting of the stakeholders of the business. The more experienced and diverse the executive team is, the higher the likelihood of good, objective assessments. However, incentive structure has to be considered as well - it can work for or against goals.

A family business can effectively scale and make good capital decisions if they have a single professional owner. But odds of success are increased tremendously with a mix of executive leaders and a formal/semi-formal board structure comprised of both family and non-family members.



Equity Share

Equity can be formally distributed in a capitalization table, or can be understood "handshake" or whispered agreements. Both can still have a good outcome.

Many assume that cleaner formal equity agreements lead to better outcomes. This is not consistently true. Equity is the messiest factor.

Each of these factors stands above others, in our experience, in determining if a family business can effectively assess capital solutions for its situation.

Many books have been written on family businesses, and our intent here is not to dive into the specific types and dynamics of these businesses. Rather, our intent is to stress the importance of being honest about your businesses' level of maturity in each of these areas to help you assess what needs to be done before you start your capital markets journey. As a family business, if you take premature steps without this assessment, you're likely to invite powerful conflict-causing issues into your life, not just your business.

If you begin evaluating capital solutions seriously, without considering these factors, you're most likely letting sharks into your pool. They will use their early discussions with you to probe for the weaknesses you could have revealed through this exercise, so that they can use that information against you.



We discuss why maturity exhibited in each of these four factors consistently leads to better outcomes in scaling and exiting a business through capital solutions.



## Professional Support

We've worked with family-owned businesses that carefully cultivate and manage a network of advisors and guides to aid the business, its owners, and its family members. We've also worked with single owners, and husband/wife ownership teams that manage the affairs of the business with little to no outside support. And we've worked with combinations of the above – single owners with a network of support, and family businesses with little to no support.

Through this experience, we can authoritatively say that owners with more of a willingness to trust or at the very least consult with an outside perspective end up with better capital market outcomes than those without advisory.

That's likely because pursuing capital solutions for your business means naturally inviting interested third parties into your business - period. For single owners, used to a "my way or the highway" approach, having an investor with an opinion and a point-of-view can feel very uncomfortable, and may at times seem like a direct challenge to the owner's authority.

In our experience, most business owners, be it a \$200K business, or a \$40M business, are skeptical, and maybe even a little cynical by nature. It takes a long time to earn their trust – largely because they've likely seen it all in their time as owners. They've likely had a number of people, mis-



lead them intentionally, attempt to scam them, sell them or “finesse them”, or attempt to pick up equity from the business that they created! These owners are the ones who have sacrificed to build something greater than themselves, so it makes sense that they are defensive and perhaps suspicious of the motives of anyone who stands to benefit from their sacrifice.

Business owners that recognize their own skeptical nature, and take steps to bring in an outside perspective to help them better objectively assess situations tend to significantly outperform those who employ a “my way or the highway” approach.

Some might say, “I don’t want to spend the money”, or this is just an advertisement for advisory services. The truth is, an external perspective can mean a trusted friend who consults for free, a spiritual or religious advisor, or a member of the family non-affiliated with the business. While this certainly can refer to wealth planners, lawyers on retainer and consultants, the value comes from acknowledging that a single perspective is limiting, and a third party’s objective opinion improves decision quality.

Owners that understand both the benefit and their own limitations have tended to achieve better outcomes in strategic finance than those who don’t. This factor, more so than any other, predicts better outcomes in our experience.



### **Executive / Board**

Executive / Board

A Board / Executive team can involve complicated governance, or it can refer to a team of trusted advisors who regularly meet, with structure and a goal of advancing the interests of the business. Ideally, incentives are aligned to reward the executive team and board for achieving goals.



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