

**OWNER-OPERATED BUSINESS | CAPITAL & EXIT READINESS**

# The Owner-Operator Playbook: What the Capital Market Expects Before You Raise or Exit

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Owner-operators have typically built something remarkable — a business that reflects decades of personal commitment, deep customer relationships, and operating judgment that no organizational chart can fully capture. The same qualities that made that business successful are precisely what institutional investors and acquirers study most carefully when evaluating a transaction. The question they are asking is not whether the business has been well-run. It is whether the business will remain well-run when its most important person transitions out of the operating seat.

Most owner-operators who enter a transaction process — whether to raise growth capital or to pursue a divestiture — discover that they are not as prepared as they believed. The financial statements need normalization. Customer relationships are too closely held by the founder. Key processes live in people's heads rather than in operating systems. The management team has depth in execution but limited experience presenting to institutional audiences. These are not disqualifying conditions. But they are conditions that, left unaddressed, will either reduce the transaction value significantly or prevent the transaction from closing at all.

GrowthSpaces® has worked alongside owner-operators across manufacturing, distribution, business services, technology-enabled services, and specialty healthcare. We know what the market is looking for because we have been on both sides of the transaction — as operating executives who have run businesses through successful capital raises and exits, and as advisors who have helped owner-operators systematically build the organizational strength that commands the best outcomes. This article describes what that preparation looks like, why it matters, and how to approach it as a deliberate operating discipline rather than a last-minute scramble.

## The Owner-Operator Paradox: Built to Run, Not Yet Built to Sell

The owner-operator model is one of the most efficient organizational structures that exists. Decision-making is fast because it flows through one person who has complete context. Customer relationships are strong because they are personal. Operating costs are lean because there is no organizational overhead driving unnecessary complexity. These efficiencies are real, and they often produce genuinely exceptional financial results relative to the capital invested.

But the same organizational model that produces those results also creates a structural risk that every outside capital provider and acquirer will evaluate explicitly: key-person dependency. When the most important customer relationships, operating decisions, and institutional knowledge are concentrated in one person, the business faces a material continuity risk the moment that person steps back. Buyers and investors are not paying for a

business that requires its current owner to function. They are paying for an enterprise — a set of relationships, systems, capabilities, and people — that will perform independently of any single individual.

PwC's 2024 Private Company Transactions Survey found that 63 percent of M&A deals involving owner-operated businesses were either renegotiated at lower valuations or failed to close entirely, with key-person dependency and management succession cited among the top three due diligence concerns. This is not a market inefficiency. It is a rational pricing of risk — and it is the most consistent lever available to an owner-operator who wants to command a premium outcome.

The paradox resolves when owner-operators understand that the goal is not to make themselves invisible in the business — it is to build an organization that demonstrates it can execute without depending on any one person. That distinction changes everything about how preparation work is sequenced and prioritized.

## What the Market Is Actually Looking For

The evaluation criteria that sophisticated buyers and growth capital investors apply to owner-operated businesses are consistent across transaction types and sectors. Understanding them in advance — and building toward them deliberately — is the single most valuable thing an owner-operator can do to improve transaction outcomes.

### Management Team Depth and Bench Strength

Investors and acquirers are not buying a business in isolation. They are buying the management team that will run it after the transaction closes. In a PE-backed growth scenario, the fund will be counting on that team to execute a value creation plan across a five-year holding period. In a strategic acquisition, the buyer needs confidence that the business will continue to perform through the integration process. In either case, the question is the same: what does the leadership team look like when the founder is no longer making the day-to-day calls?

EY's 2024 Private Capital Confidence Barometer found that 74 percent of lower middle market investors cited management team depth below the founder level as a top-three due diligence concern in owner-operated business transactions. The concern is not that owner-operators have done a poor job of developing their teams — it is that the organizational structure has rarely required that depth to be formalized, visible, or independently tested.

The preparation work here is specific and sequenced. **Identify the functions that are currently bottlenecked through the founder.** Map the decisions that flow upward unnecessarily. Hire into the gaps with people who have direct accountability and the authority to exercise it. Then give the management team the runway — 12 to 18 months before any transaction process — to demonstrate that they can operate independently.

### Financial Quality and Reporting Transparency

Owner-operated businesses frequently manage their finances in ways that are entirely rational for tax optimization and cash management but create significant friction in a due diligence process. Personal vehicle expenses, owner compensation above or below market, family payroll, real estate owned personally and leased to the business, discretionary owner benefits — all of these are legitimate and common. But they need to be identified, documented, and normalized before any buyer or investor can calculate the earnings the business actually produces.

Normalized EBITDA is the financial figure that drives valuation multiples in private company transactions. Kroll's 2024 Valuation Handbook and supporting transaction data indicate that lower middle market companies with three or more years of clean, consistently prepared financial statements — ideally audited, at minimum reviewed — command valuation multiples 1.5 to 2.0 times higher than comparable businesses with compiled or owner-prepared financials. The quality of the financial statements is not just an administrative matter. It is a direct driver of transaction value.

The preparation objective is straightforward: **three years of clean financials, a written and supported normalized EBITDA calculation, and a monthly management reporting package** that demonstrates the owner-operator has real-time visibility into how the business is performing against its own plan. The last element — management reporting discipline — signals operational sophistication that most owner-operated businesses have not yet formalized, and that most buyers and investors will notice immediately.

### Revenue Quality and Customer Concentration

Revenue quantity matters. Revenue quality matters more. A business generating \$12 million in annual revenue from three large customers presents a fundamentally different risk profile — and commands a fundamentally different valuation — than a business generating the same revenue from 120 customers across diversified segments. Buyers and investors price customer concentration risk explicitly, and they price it heavily.

Industry research across lower middle market private company transactions consistently demonstrates that any single customer representing more than 15 to 20 percent of total revenue triggers meaningful valuation discounts, typically in the range of 0.5 to 1.0 turn of EBITDA. Any customer above 25 percent begins to affect deal structure — earnouts, escrows, and holdbacks that extend the owner-operator's exposure and reduce net proceeds at closing. The discount compounds when the concentrated customer relationship is primarily personal, residing with the founder rather than with the organization.

The preparation work on revenue quality is two-dimensional: **diversify the customer base where the business model permits, and institutionalize the existing customer relationships** through formal contracts with appropriate terms, multiple organizational points of contact on each account, and service delivery infrastructure that operates independently of the founder's personal involvement.

### Scalable Systems and Operating Infrastructure

The systems, processes, and operating infrastructure of an owner-operated business are often implicit — built around the way the founder makes decisions rather than documented in a way that any competent operator could follow. This is efficient when the business is small. It becomes a liability in a transaction, where buyers and investors need confidence that the operating model is repeatable and scalable without the founder's daily involvement.

Operating infrastructure encompasses financial reporting systems, CRM and customer data management, production or service delivery processes, HR and compensation frameworks, and supplier and vendor relationships. The preparation objective is not to implement a new ERP system in 90 days. It is to document the critical operating decisions that currently live in people's heads, formalize the processes that drive the highest-value activities, and demonstrate that the business runs on systems — not on institutional memory alone.

## **The Two Paths — and What Separates Them**

The preparation work for raising growth capital and the preparation work for a divestiture share a common foundation — management team depth, financial quality, revenue diversification, operating infrastructure — but the emphasis and sequencing differ based on what the capital market is actually evaluating.

### **Raising Growth Capital**

When the goal is to bring in a growth capital partner — whether a PE fund, a family office, or a strategic co-investor — the owner-operator is making a forward-looking argument: the business has demonstrated the ability to create value, and with additional capital and an institutional partner, it can create significantly more. The capital provider's evaluation is centered on that growth thesis, and on whether the current management team and operating infrastructure are capable of executing it at the pace the thesis requires.

Growth capital investors typically evaluate three things alongside the financial performance: a demonstrable and defensible growth vector (organic expansion, M&A capacity, new market entry), an operating team with the depth and experience to absorb and deploy capital without being overwhelmed by it, and a financial reporting system that provides the real-time visibility a growth capital partner needs to monitor performance and make timely resource allocation decisions.

The most important preparation lever for a growth capital raise is often the management team itself — specifically, hiring a strong CFO or VP of Finance who can implement institutional-quality financial reporting and serve as the primary financial interface with any incoming capital partner. This single hire frequently has more impact on transaction terms than any other preparation step, because it demonstrates in the most direct way possible that the business is ready to operate at an institutional level.

### **Preparing for a Divestiture**

The divestiture path has a different geometry. Here, the owner-operator is asking a buyer to pay for what has already been built — the earnings the business produces today, the competitive position it holds in its market, and the organizational capability that will sustain

those earnings through a transition of ownership. The buyer's analysis shifts accordingly: less emphasis on the growth thesis, more emphasis on the quality and defensibility of the existing earnings stream and the depth of the organization that produces it.

The critical preparation work for a divestiture is in many ways backward-looking: normalizing the historical financial statements, eliminating or documenting the owner-specific expenses that reduce reported earnings, systematizing the processes that currently live in the founder's head, building organizational redundancy in every function that matters to operating continuity, and transferring the customer relationships from the founder personally to the organization structurally.

Deloitte's 2024 M&A Market Outlook found that privately held companies that engaged in 18 to 24 months of pre-process preparation achieved transaction multiples averaging 1.8 to 2.3 times higher than comparable companies that entered the market without deliberate preparation. The preparation window matters not just because it produces better financial statements — it produces a better story. A business that has been intentionally built toward a transition tells a fundamentally different narrative than one that was put on the market reactively.

## The 18-to-24-Month Preparation Window

The most consistent mistake owner-operators make is waiting too long to begin preparing for a transaction. The work of positioning a business — building the management team, cleaning the financials, systematizing the processes, reducing customer concentration — cannot be credibly accomplished in 90 days. Buyers and investors have seen enough rushed preparation to know the difference between organizational depth that has been built over time and organizational depth that has been assembled to satisfy a due diligence checklist.

The preparation window of 18 to 24 months is not arbitrary. It reflects the time required to hire and develop a management team that can demonstrate independent operating capability. It reflects the minimum period of clean financial reporting history that most institutional buyers and investors require to have confidence in normalized earnings. It reflects the runway needed to reduce customer concentration, formalize operating processes, and build the data room infrastructure that supports a well-run transaction process.

### Phase 1: Organizational Assessment and Gap Identification

The preparation process begins with an honest assessment of where the business stands against the standards the market will apply. This means evaluating the management team against the depth and capability that would be expected in a comparable institutionally owned business. It means reviewing the financial statements for the add-backs and normalization adjustments that will need to be supported and documented. It means mapping the customer concentration and identifying which relationships are organizational versus personal. And it means identifying the operating processes and systems that need to be formalized before any buyer or investor conducts due diligence.

This assessment is most valuable when it is done with the same critical lens that a sophisticated buyer or PE firm would bring — not as an internal review that confirms what the

owner-operator already knows, but as an outside evaluation that surfaces the gaps that are easiest to miss from the inside.

### **Phase 2: Building the Team and the Infrastructure**

With the gaps identified, the preparation work proceeds in a deliberate sequence. The management team hires come first — beginning with the function that is most concentrated in the founder and most visible to any outside evaluator. For most owner-operated businesses, this is the CFO or senior finance role: the organizational signal that financial reporting is being managed at an institutional level.

Operating infrastructure follows: formal documentation of the processes that drive the highest-value activities, CRM implementation or upgrade, supplier and vendor contract formalization, and HR and compensation framework review. The goal is not to implement everything simultaneously — it is to sequence the infrastructure work in the order that produces the greatest visible impact on organizational resilience.

### **Phase 3: Financial Normalization and Data Room Preparation**

The financial preparation work runs in parallel with the organizational work and accelerates in the 6 to 12 months immediately before any transaction process. This includes the preparation of three to five years of normalized financial statements, the documentation and support for every EBITDA add-back, the development of a detailed working capital analysis, and the construction of the data room infrastructure that will allow any buyer or investor to conduct diligent, efficient due diligence.

A well-organized data room is not just an administrative convenience. It signals to every buyer and investor who enters it that the business has been run with discipline and that the management team is prepared to support a professional transaction process. Disorganized, incomplete, or inconsistent data rooms are among the most common causes of deal delay and failure — not because the underlying business is flawed, but because the process friction raises doubt about organizational capability.

## **Building Bench Strength: The GrowthSpaces® Collaborative Approach**

GrowthSpaces® approaches owner-operated business preparation as a genuine collaborative partnership. We are not outside consultants who evaluate and recommend from a distance. We are experienced operators who have built and run businesses of comparable scale — who have sat in the ownership seat, managed transitions to institutional partnership, and understood from the inside what the market expects to see and what it will pay to own.

Our engagement model for owner-operated business preparation is built on three core operating principles:

**We know what the market is looking for** because we have been on both sides of the transaction. We have run PE-backed portfolio companies through successful exits, advised on growth capital raises across multiple sectors, and participated in due diligence processes as both buyer-side and seller-side operating advisors. That experience informs every recommendation we make.

**We build capability, not dependency.** Every GrowthSpaces® engagement is structured to leave the owner-operator's organization stronger and more self-sufficient than we found it — with internal leadership capable of sustaining the improvements we build together and presenting them credibly to any outside party. We are not interested in creating ongoing reliance on our presence.

**We work at the pace of the business.** Preparation timelines are calibrated to the realistic capacity of the owner-operator and the management team. The sequence of priorities is designed so that the highest-value preparation work is completed first, and so that progress is visible and measurable at every stage.

GrowthSpaces® brings a specific form of market intelligence to this work: we know what investors and acquirers are asking in management presentations, what they focus on in data room reviews, and what separates a business that closes at a premium from one that closes at a discount or does not close at all. That intelligence is not theoretical — it is drawn from direct operating experience across the full transaction lifecycle.

### **The Bench Strength Framework**

Building organizational bench strength is not a single event. It is a systematic process of identifying the critical functions currently bottlenecked through the founder, sequencing the hires and process investments that address those bottlenecks in priority order, and providing the new leadership team with the runway to demonstrate independent capability before any transaction process begins.

The GrowthSpaces® bench strength framework evaluates six organizational dimensions that buyers and investors consistently examine: financial leadership and reporting quality, operational management independence, sales and customer relationship institutionalization, human resources and talent infrastructure, technology systems and data management, and legal, compliance, and contract management. Each dimension is assessed against the standard that a well-run institutionally owned business of comparable size would be expected to meet — and preparation priorities are set accordingly.

### **The GrowthSpaces® Perspective: Preparation as a Competitive Advantage**

The owner-operators who achieve the best transaction outcomes — whether in a growth capital raise or a divestiture — share a common quality: they began preparing earlier than felt necessary, with a clear-eyed view of what the market expected to see and the discipline to build toward that standard systematically. They did not treat preparation as a transaction expense. They treated it as an operating investment that improved the business independent of any transaction — and that paid compounding returns when the transaction process began.

The most powerful thing a GrowthSpaces® engagement does for an owner-operator preparing for a transition is give them an honest, market-calibrated view of where they stand — and a structured, sequenced plan for getting to where they need to be. Not where we think they should be. Where the market will evaluate them, and where the best outcomes are available.

We have seen what a well-prepared owner-operated business looks like when it enters a transaction process: a management team that presents confidently and independently,

financial statements that invite no ambiguity, customer relationships that are contractually formalized and organizationally distributed, and operating processes that are documented and demonstrably running without the founder's daily involvement. That business does not just attract more interest. It commands stronger terms, moves through diligence faster, and closes at a higher multiple — because the risk premium that buyers and investors assign to owner-operated businesses has been systematically removed.

The GrowthSpaces® model is explicit about what we bring to this work: operating experience earned in the chair, market knowledge drawn from direct transaction participation, and a genuine investment in the owner-operator's success. We know what the next chapter can look like. Our job is to help you build the organization that makes it possible.

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### **About the Author**

Terry H. O'Neal is the Founder & Managing Partner of GrowthSpaces® Consulting. He brings three decades of CEO and President-level operating experience to client engagements — including board service across PE-backed and family-office portfolios, five executive tenures at global technology and energy companies, and 19 years at Schneider Electric. He has lived and worked over 15 years in Singapore, France, Hong Kong, Canada, and Malaysia. His most recent operating role was President & COO of SACO Technologies, where he led the design and manufacture of the LED technology platform behind The Sphere in Las Vegas. He is currently serving as President & COO of Good Earth Minerals, LLC, headquartered in Denver, Colorado.

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