

The Owner's Edge

The Field Guide — Free Sample

Chapter 1: The Owner Comes Before the Deal

This sample contains 8 pages from the full workbook.

Source PDF pages 16–23; complete Chapter 1, including worksheets 1 and 2.

Use the fillable fields to try the work with your own numbers.

The complete workbook contains 39 worksheets and is sold separately.

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The Owner Comes Before the Deal

Chapter 1 of the book. Before anyone asks what a target is worth, the owners put in writing what the next five years must produce, what they will risk for it, the most they will ever pay and whether they are buying at all. Instruments: worksheets 1 and 2.

These are the two cheapest pages in any deal, and the two most owners never write. Worksheet 1 is the mandate, a single page every owner signs. It states the result the owners want and the year they want it by, the money limits they won't cross, what has to stay as it is, and the formula that caps the price of any company you will ever look at. Worksheet 2 is the posture page. It says whether the company is looking to buy (Active, Passive or Off), what would have to be true to change that, and the one person allowed to change it.

Skip them and the first banker who calls writes your purpose for you. His deadline becomes yours, his asking price becomes the number everyone argues from, and the question in the room shifts from what a company is for to what it's worth. The owners' disagreements don't disappear either. They wait, and they surface in the data room (the secure website where a seller posts his files for buyers to read), where they cost a deal instead of an evening.

I'd rather you spend an evening on these pages than a quarter on a company you never decided to look at. Neither page needs a target, and neither should have one. A mandate written with a company already in view gets written around that company.

WHAT IT LOOKS LIKE WHEN IT IS MISSING

- The five-year goal reads "grow," with no number and no year beside it.
- The debt limit is whatever the bank will lend this year.
- A co-owner learns what the deal would ask of him from the banker's model, the week the offer is due.
- The most the company will pay gets decided in the room, by the people who have worked hardest to get the deal done.
- A banker's book (the seller's portrait of his company, written by his banker) arrives every month, and each one gets "a quick look" that takes a quarter.
- Ask three leaders whether the company is buying and you get three answers, one of them "we'll see."

The tell is an owner who can quote a target's asking multiple and can't find the page where her co-owners agreed what the next five years are for.

IN THE BOOK

Chapter 1 argues that a deal can only be judged against a purpose the owners have written down and signed. The purpose comes from one question, put to the owner, to her co-owners and to the company: what should the next five years produce? The answer is a number and a year, for the company's EBITDA and for what the owners' stake is worth. (EBITDA means earnings before interest, taxes, depreciation and amortization. Every buyer multiplies it.) The instrument is the mandate, one page in four parts. The objective and the money limits come first, then what must not change, and last the walk-away rule, a formula that limits what you'll pay for whatever company comes along. The posture sits on the same page with the conditions that move it and the one person who holds the pen. The rule is to write both before any target exists and to get every owner's signature. Nora Corrigan wrote hers on Tuesday 3 January 2023, her brother Kevin signed it that evening, and nine days later the posture went to Active.

Its Do This list, as a checklist:

- ☐ Write the mandate this month on a single page: targets for EBITDA and for the owners' stake, the money limits, what stays as it is, the walk-away rule
- ☐ Collect every owner's signature before anyone calls a banker back
- ☐ Express the walk-away rule as arithmetic: normalized earnings times a multiple, plus a fixed slice of what your own improvements are worth, and never as a dollar figure
- ☐ Set the posture, the written conditions that raise or lower it, and the one person who may move it
- ☐ Name the integration leader, and the deputy who takes over her job, before the posture reads Active

WORKED EXAMPLE

Corrigan Instrument Services calibrates and repairs measuring instruments from Greensboro, North Carolina. Its 2022 revenue was \$62.0 million, and its EBITDA \$9.0 million. Nora Corrigan, fifty-two, the second generation to run it, wrote the mandate on Tuesday 3 January 2023, and the objective carried two numbers. The company would earn EBITDA of \$14.0 million in 2025, \$5.0 million more than in 2022. And the family's stake would be worth \$100 million or more by 2026, with a sale allowed from 2026 and never required. Nora valued the stake the way she would value anyone else's company. Take \$9.0 million of EBITDA at 7.5 times and you have \$67.5 million. Corrigan had \$7.0 million in the bank and owed \$6.0 million, so net cash added \$1.0 million, for about \$68.5 million that January.

The money limits came next. Debt, all of it, was capped at 2.5 times EBITDA, and the cash floor was \$1.5 million. Neither owner would give a personal guarantee (an owner's private pledge to cover the company's loan). A loan qualified only if, in the bank's stress case (the lender's version of a bad year, not Corrigan's), the cash available covered the debt service, a year's interest and principal, at least 1.75 times: \$1.75 of cash behind every \$1.00 due. Two things could not change under any deal: the Corrigan name and the head office in Greensboro. Last came the walk-away rule. Corrigan would pay at most 7.5 times a company's own normalized earnings (what survives a quality-of-earnings review, an accounting firm's test of which profits will recur), and on top of that no more than one quarter of the value Corrigan's own improvements would add, at the same multiple. In dollars, a target's own dollar of earnings could fetch up to \$7.50. A dollar Corrigan's people would have to create was worth \$7.50 too, but the seller could be paid about \$1.88 of it, because he wouldn't be there to do the work.

Kevin held the other 25 percent. A high-school teacher in Raleigh with no role at the company, he asked for two things: his share paid out someday, and nothing at the bank with his name on it. The sale option and the guarantee line already said both, and he signed at Nora's kitchen table. The posture went from Off to Active on Thursday 12 January, and each of its four conditions was a fact somebody else could check. The Right to Grow ratio (what's left of revenue after materials, divided by the full cost of the payroll) had to be over 2.0 and climbing, and Corrigan's had been 2.02 in 2021 and was 2.10 in 2022. An integration leader, the person who will merge the two companies' work after a close, had to be named with her own job covered. Ines Calloway, who ran operations, agreed to lead, and Reggie Pham, her deputy, stepped into her operations job with the authority to decide in it. There had to be room to borrow, and \$6.0 million of debt divided by \$9.0 million of EBITDA is 0.67 times, a long way under the 2.5 ceiling. And a target profile, the page describing the company Corrigan wanted, had to be written or dated. It was due by mid-February.

The rule produced its first signed number that summer, for Haskett Metrology, the Atlanta-area lab Corrigan went on to buy. On Thursday 27 July 2023 it set the walk-away number at \$27.7 million. Haskett had reported \$3.40 million of earnings, and seven and a half times that is \$25.50 million. A quarter of \$1.15 million of improvements, at the same multiple, adds \$2.16 million, for \$27.66 million. Nora signed it and read it to Kevin and the bank. On Friday 13 October the review found \$3.10 million, and the same rule cut the number to \$25.4 million that day. One rule, written once, gave two dated numbers (Chapter 8 and Worksheet 16).

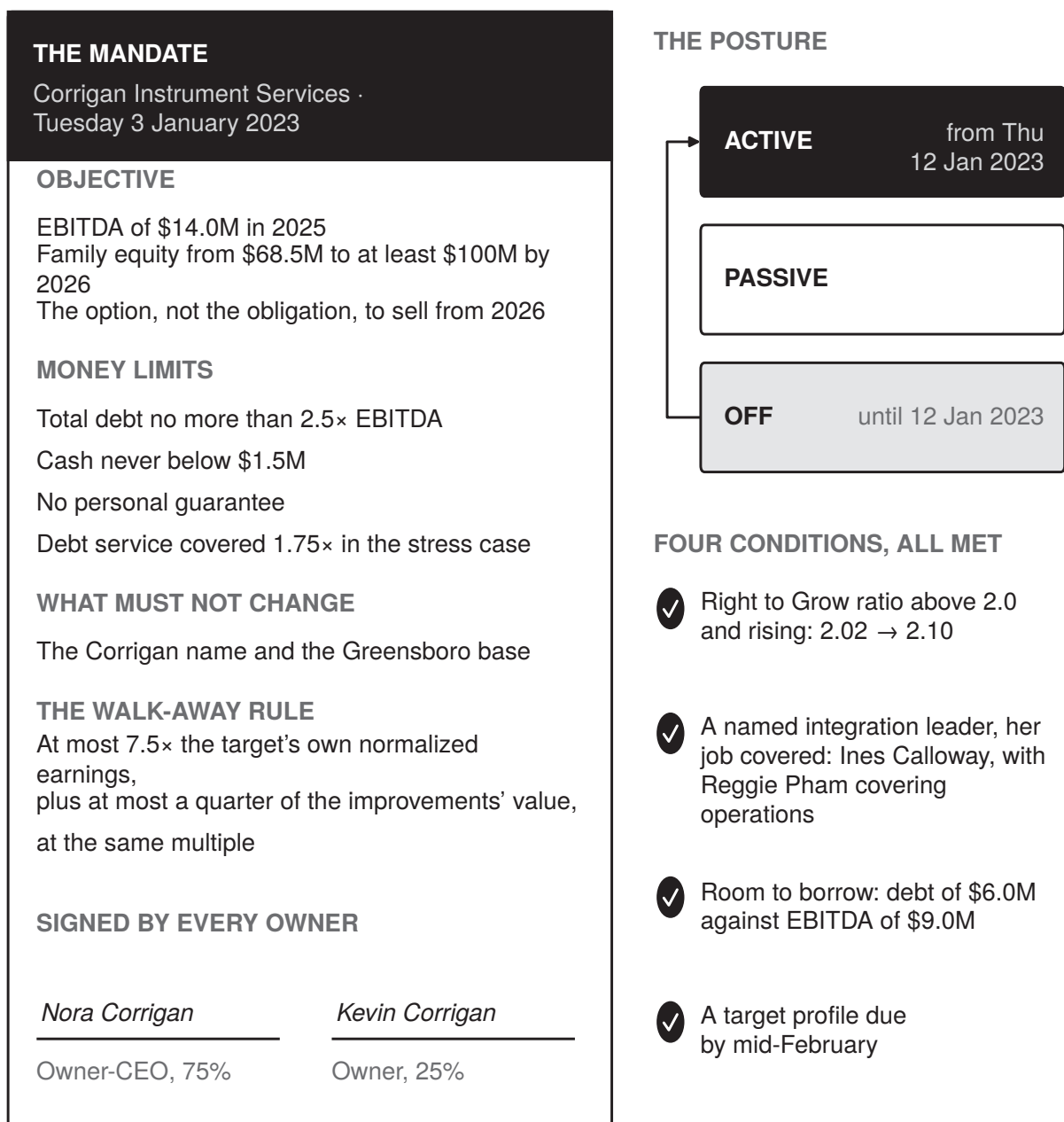


Fig. 01-01: Corrigan’s mandate on one page, written 3 January 2023 and signed by both owners, with the posture moved to Active on 12 January once its four written conditions were met.

WORKSHEETS

Two worksheets carry this chapter: the mandate first, then the posture that rides on it.

WORKSHEET 1

The owner's mandate

One page in four parts that fixes the owners' purpose and limits before any target has a name. The owner-CEO drafts it, the CFO checks every number, and every owner signs it.

Company	Date written	Written by

The objective. A number and a year for the company, and a number and a year for the owners' stake.

EBITDA the company will earn, and by when	The owners' equity today: EBITDA × a multiple, plus cash, less debt
What that equity should be worth, and by when	Choices that stay open at the end: keep, sell, hand on

By hand or with the tools you have — tie the totals to the statements.

The money limits. Write each one so a lender could test it.

Total debt, at most this many times EBITDA	Cash floor, never below
Personal guarantee: yes or no	Coverage in the lender's stress case (cash available ÷ debt service), at least

What must not change. Only what you would turn down a good price to keep.

The name, the base, control, the people you have promised to keep

The walk-away rule. A formula, never a dollar figure, and no target named anywhere on the page.

Multiple of a target's own normalized earnings, at most	Share of our own improvements we will pay for, at that multiple, at most

The rule in one sentence

Signatures. Every owner signs, whatever the size of the share.

Owner	Share	What they want	Signed and dated

Worksheet 1 · The owner's mandate — worked example

Corrigan's version

Written on Tuesday 3 January 2023 and signed that evening by both owners, Nora with 75 percent and Kevin with 25. The objective was EBITDA of \$14.0 million in 2025, \$5.0 million above 2022, and a stake of \$100 million or more by 2026 against about \$68.5 million that January, with a sale allowed from 2026 and never required. Kevin's two wants, cash for his share someday and no risk at the bank now, were already on the page as the sale option and the line on guarantees. No company is named anywhere on the page.

Part	Corrigan's line	The check
Objective	EBITDA of \$14.0M in 2025	\$9.0M in 2022, so \$5.0M more
Owners' stake	About \$68.5M now, \$100M or more by 2026	$7.5 \times \$9.0M = \$67.5M$, plus \$7.0M cash, less \$6.0M debt
Debt ceiling	Total debt at most $2.5\times$ EBITDA	Today $\$6.0M \div \$9.0M = 0.67\times$
Cash floor	Never below \$1.5M	\$7.0M in the bank today
Personal guarantee	None	Neither owner signs one
Stress test	Debt service covered $1.75\times$ in the bank's case	\$1.75 of cash for every \$1.00 due
Must not change	The Corrigan name and Greensboro as the base	Two items, nothing else
Walk-away rule	$7.5\times$ own normalized earnings, plus a quarter of the improvements at $7.5\times$	\$1.00 the target earns: up to \$7.50. \$1.00 we improve: \$7.50, the seller's share at most about \$1.88

WORKSHEET 2

The posture page

Whether the company is buying, the written conditions that move that answer either way, and the one person allowed to move it. The owner-CEO writes it with the mandate, and the owners sign the conditions.

Posture today: Active, Passive or Off

Set on, and by

Who holds the pen

Date the owners read this page again

Up to Active. Each condition is a fact someone other than the pen holder can check. A target profile counts when it is written or has a date.

Condition	Evidence	Checked by	Date met

Back down. What would send the company to Passive or Off, and how you would know.

Trigger	How we'd know	Moves to

Passive, in this company. The bar an unsolicited company must clear before anyone takes a meeting. Set it higher than Active's, because a company that found you on its own found other buyers the same way.

Our Passive bar

- ☐ The integration leader is named, and her own job covered, before this page says Active
- ☐ Every condition can be checked without asking the pen holder
- ☐ Nobody has written "we'll see," because it means Off

Worksheet 2 · The posture page — worked example

Corrigan's version

Off until Thursday 12 January 2023, then Active, with Nora holding the pen. Both owners had signed the four conditions on 3 January, so the move needed no meeting, only the evidence below, checked by someone other than Nora. Its Passive bar, written with the conditions, allowed a meeting only for a company that fit the walk-away rule at its asking price and that the integration leader had a free calendar to integrate. Read backward, the conditions are the way down. On Monday 3 February 2025, with no second integration leader hired, Nora set the posture to Passive until one was hired and the Haskett handover signed (Chapter 14).

Condition	Evidence	Checked by	Date met
Ratio over 2.0, and climbing	2.02 in 2021, 2.10 in 2022	Darnell Whitcomb	12 Jan 2023
An integration leader, her job covered	Ines Calloway, with Reggie Pham running operations	Darnell Whitcomb	12 Jan 2023
Room to borrow inside the mandate	Debt \$6.0M ÷ EBITDA \$9.0M = 0.67×, ceiling 2.5×	Darnell Whitcomb	12 Jan 2023
A target profile, written or dated	Due by mid-February, signed Tue 14 Feb 2023	Darnell Whitcomb	12 Jan 2023, date set

RUNNING IT WITH THE TEAM

Hold it as one sitting of about two hours, at a table, with the owners and nobody who is selling anything: the owner-CEO, every co-owner in person (not on a call), and the CFO with last year's EBITDA, today's cash and debt, and the owners' equity at a multiple they'd accept for someone else's company. A company with one owner brings one person who will hold her to the page later, such as an outside director, a spouse or the lender who knows the company. No adviser drafts it. The owners write.

Take the page in its own order. The objective comes first, because every limit below it is a limit on reaching it. Then the money limits, with the CFO reading each one against today's balance sheet. Then what must not change, which always comes out shorter than the first draft (cross out anything you would trade for a good price). The walk-away rule comes last, because by then the owners have argued about money once and the formula goes quickly. Write the posture and its conditions before anyone signs, so the signatures cover them too.

As owner-CEO, open with one sentence: we are not discussing any company today, only what we want and what we won't risk. If someone brings up a company for sale, write its name on a separate sheet and turn it face down. Close by signing, every owner, with the date, and by saying out loud who holds the pen and the day the owners will read the page again.

The CFO, who will probably be the deal lead (the person who runs a deal day to day, and not the CEO), checks every number against the statements as it goes on the page. Then the CFO reads the money limits back the way a lender would. Could the bank test each one? A limit nobody could test, such as "sensible debt," goes back for a number.

What goes wrong the first time? Somebody writes a price instead of a formula, usually the price of the company he already has in mind. Strike it. The objective comes out as "grow," so ask for the number and the year until you have both. A co-owner who isn't in the business signs without reading, and that is how a personal guarantee turns up at the bank a year later, so read every line aloud first. And the posture comes out as "we'll see." Write Off, and write what would change it.

THREE QUESTIONS FOR MONDAY

1. What must the next five years produce for you, for your co-owners and for the company, written as a number and a year?

2. If a banker called this afternoon about a company earning \$1.0 million a year, what is the most you would pay, and where is the formula written down?

3. Which of your posture's conditions is true today, and who besides you could prove it?

BEFORE YOU MOVE ON

You should now have, on paper:

- ☐ Worksheet 1 — the mandate on one page, with a number and a year for the company and for the owners' stake
- ☐ The money limits: the debt ceiling, the cash floor, the line on personal guarantees and the stress coverage
- ☐ The walk-away rule written as a formula, with no company named anywhere on the page
- ☐ Every owner's signature, with the date
- ☐ Worksheet 2 — the posture, the conditions that move it each way, the pen holder and the next review date
- ☐ An integration leader named, and the deputy who takes over her job