

DOCUMENT #27

The Blueprint System™ - Partnership Series

Partner Buyout Guide

Navigate partnership splits and create 7-figure opportunities

Why Partner Buyouts = Gold

- 50% of partnerships fail within 5 years
- Emotional sellers = better prices
- Inside knowledge reduces risk
- Financing often built-in
- No broker fees or competition

Finding Partner Discord

The 10 Signs Partners Will Split

1. **Vision mismatch:** Growth vs. lifestyle
2. **Effort imbalance:** One works harder
3. **Money disputes:** Compensation or distributions
4. **Family pressure:** Spouse wants out
5. **Life changes:** Divorce, health, kids
6. **Risk tolerance:** Aggressive vs. conservative
7. **Exit timeline:** Different retirement plans

8. **Nepotism issues:** Hiring family
9. **Decision deadlock:** Can't agree on anything
10. **Outside interests:** New ventures pulling focus

Approach Strategies

Strategy 1: The Direct Approach

When to use: You have relationship with one partner

The script:

"I've been watching your business for a while. If you or your partner ever want to exit, I'd be interested in buying. I can be flexible on terms and make it easy for whoever wants out."

Follow-up questions:

- "How aligned are you two on the future?"
- "What's your 5-year plan?"
- "Ever think about doing your own thing?"

Strategy 2: The Mediator Play

When to use: Partners are fighting

Position yourself as solution:

- Offer to buy out either partner
- Let them decide who stays/goes

- Create competition between them
- Be the "neutral" solution

Result: Lower price as both want quick resolution

Valuation in Partnership Situations

Traditional Business Valuation

Business Value = EBITDA × Multiple
 $\$500k \text{ EBITDA} \times 4x = \$2M \text{ value}$
 50% stake = \$1M

Partnership Discount Reality

Start: \$1M (50% of \$2M) – Minority discount: 20% (\$200k) – Lack of control: 10% (\$100k) – Emotional exit: 15% (\$150k) = Actual price: \$550k
You pay: 55% of fair value!

Deal Structure Options

Structure	Best When	Benefits	Risks
Buy 50%, become partner	Other partner is good operator	Lower capital needed	Still have partner
Buy 50%, then buy rest	Need time to raise capital	Staged risk	Second price negotiation
Buy 100% from both	Both want out	Full control immediately	Most capital needed

Three-way partnership	Can't afford buyout	Minimal capital	Complex dynamics
-----------------------	---------------------	-----------------	------------------

Financing Partner Buyouts

Creative Financing Strategies

1. The Company Buyback

- Company buys shares, not you
- Use company cash flow
- Tax advantages for seller
- You buy remaining 50% later

2. Earnout Structure

- Pay 30-50% upfront
- Rest based on performance
- Seller stays on temporarily
- Protects against downturn

3. Cross-Purchase Agreement

- Life insurance on each partner
- Death triggers buyout
- Disability riders included
- Pre-negotiated price

Legal Considerations

Critical Legal Issues

Review These Documents First:

- Operating/Partnership Agreement
- Buy-sell provisions
- Right of first refusal
- Transfer restrictions
- Valuation formulas

Common Restrictions:

- Must offer to partner first
- Predetermined price formula
- Approval rights on buyer
- Non-compete clauses

Negotiation Tactics

Psychological Leverage Points

For the "Tired" Partner:

- "You've built something great, time to enjoy life"
- "Let me handle the stress while you cash out"
- "Your family deserves more of your time"

For the "Ambitious" Partner:

- "This is holding you back from bigger things"
- "Take this capital and build your vision"
- "Why split profits when you could have 100%?"

For Fighting Partners:

- "This conflict is destroying value"
- "Better to split now than lose it all"
- "I can close in 30 days, end this stress"

Case Study: Plumbing Partnership Split

From Discord to \$800k Profit

Situation:

- Two partners, 50/50 plumbing business
- \$3M revenue, \$450k EBITDA
- One wanted growth, one wanted lifestyle
- Fighting was affecting employees

Approach:

- Met "growth" partner at trade show
- Learned about partnership friction
- Offered to buy either partner out
- Let them fight over who stays

Deal Structure:

- Bought "lifestyle" partner for \$400k
- Terms: \$100k down, \$300k over 4 years
- Worked with "growth" partner 18 months
- Grew to \$5M revenue, \$750k EBITDA
- Bought remaining 50% for \$1.2M
- Total invested: \$1.6M
- Sold business for \$3M one year later

Profit: \$1.4M in 30 months

The Partnership Agreement Audit

What to Look For

Provision	Good for Buyer	Bad for Buyer
Valuation method	Book value or fixed formula	Fair market value
Payment terms	Extended payout allowed	Cash only requirement
Transfer rights	Free transferability	Unanimous consent needed
Compete clause	None or limited	Broad restrictions
Trigger events	Many (death, disability, etc)	Few or none

Post-Buyout Integration

First 90 Days With Remaining Partner

Week 1-2: Establish New Dynamic

- Define roles clearly
- Document decision rights
- Set communication cadence
- Address employee concerns

Month 1: Quick Wins

- Implement stalled initiatives
- Show value you bring
- Build trust with actions
- Celebrate early successes

Month 2-3: Plan Future

- Align on growth strategy
- Discuss eventual exit
- Set buyout timeline
- Document new agreement

Common Pitfalls to Avoid

Don't Make These Mistakes

1. **Picking sides too early:** Stay neutral until deal done
2. **Overpaying first partner:** Save capital for second buyout
3. **No written agreement:** Document everything immediately
4. **Ignoring employees:** They'll pick sides, manage carefully
5. **Moving too slow:** Partnership disputes escalate fast
6. **Assuming rationality:** Emotions drive these deals

Advanced Partnership Strategies

The "Squeeze Play"

Buy minority stake, then force buyout:

1. Buy 25-49% from one partner
2. Create deadlock situations
3. Make remaining partner miserable
4. Force them to sell at discount

Aggressive but effective with weak agreements

The "White Knight"

Save business from partnership destruction:

1. Wait for major fight/lawsuit
2. Approach both partners
3. Offer quick, clean exit
4. Buy entire business at discount

Partnership Buyout Checklist

Complete Due Diligence List

Legal Review:

- ☐ Partnership/operating agreement
- ☐ Buy-sell provisions
- ☐ Corporate minutes
- ☐ Existing lawsuits
- ☐ Employment agreements

Financial Analysis:

- ☐ Each partner's contributions
- ☐ Distribution history
- ☐ Hidden personal expenses
- ☐ Off-balance sheet items
- ☐ Related party transactions

Operational Assessment:

- ☐ Who does what daily
- ☐ Key relationships owned by whom
- ☐ Employee loyalties
- ☐ Customer preferences
- ☐ Vendor relationships

© The Blueprint System™ - Partner Buyout Guide
Part of the Complete Blueprint System (Document #27 of 32)