

700 DAYS: How to Stay Out of the “Earn Out Trap” and Reclaim Control of Your Company’s Growth Plan

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Executive Summary

For the founder of a lower-middle-market company, the decision to sell is the culmination of a lifetime of labor. However, the traditional exit path is often fraught with a structural trap: the two-year earn-out.

This paper explores the “700-day” journey—a period that occurs either post-transaction, under a buyer’s control, or pre-transaction under the founder’s direction. We analyze why the standard two-year earn-out is a primary driver of post-close litigation and propose a new paradigm.

By implementing a 700-day roadmap prior to sale—using the Birthing of Giants two-year curriculum, the Buffett Benchmark (made famous by Warren Buffett), and Strategy Stacking—owners can systematically increase profits, reduce founder dependency, and command higher multiples, securing a “clean” exit with maximum liquidity and reducing post-sale interference.

As Seen In **Forbes**

The Business Owners Longevity Dividend (BOLD)

*A Strategic Framework for Decoupling
Personal Wealth from Operational Risk*

After 700 days, your company will be significantly more valuable than it was at the beginning of this journey. Now you face a new “success dilemma.” Most of your net worth is concentrated within a single, illiquid, and high-risk operating asset.

This concentration often creates a psychological “cage,” forcing founders to prematurely consider a full exit (M&A) to achieve personal liquidity, despite a strong desire to continue leading and growing the enterprise.

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I. The 700-Day Standard: The Anatomy of an “Earn-Out”

In the U.S. lower-middle market (typically companies with sales between \$5 million and \$500 million), the “two-year (or more) earn-out” has moved from a niche structural tool to a fundamental component of deal architecture encompassing 80% of all deals closed. An earn-out is a contractual arrangement in which a portion of the purchase price is deferred and contingent upon the business achieving specific financial or operational milestones post-closing [1].

The Rationale for Two Years or “700 Days”

The selection of a two-year window is not arbitrary. It represents a negotiated equilibrium between two conflicting forces:

- 1. Buyer Caution:** Investors in the Lower Middle Market are acutely aware of “founder dependency.” They fear that once the founder receives a massive check, the “secret sauce” or key customer relationships will evaporate. A two-year window is deemed sufficient to institutionalize these relationships and prove the durability of margins [1].
- 2. The Operational Cycle:** Most Lower-Middle-Market companies operate on annual cycles. A one-year earn-out is often dismissed by buyers as susceptible to “channel stuffing” or temporary performance spikes. Conversely, sellers resist a five-year earn-out as an unreasonable “vendor lock-in.” Two years (roughly 700 days) is the market-accepted “Goldilocks” period [2].

The “Valuation Bridge”

Earn-outs are primarily used to bridge the “valuation gap” — the difference between what a seller believes the business is worth based on future potential and what a buyer is willing to pay based on historical certainty. In today’s high-interest-rate environment, buyers use earn-outs to de-risk acquisitions, shifting the burden of proof for “growth stories” onto the seller’s shoulders [4].

II. The Litigation Magnet: Why Earn-Outs Often Fail

While earn-outs look good on a spreadsheet, M&A attorneys frequently referred to them as “litigation magnets” [3]. The transition from being an autonomous founder to a “divisional manager” under a

private equity (PE) firm or strategic buyer is a psychological and operational shock that often ends in the courtroom.

The Loss of Operational Control

The moment a deal closes, the seller loses the absolute right to steer the ship. This creates a fundamental misalignment of incentives. For example, a buyer may decide to invest heavily in R&D or hire a high-priced executive team to prepare the company for a future sale. While these are sound long-term moves for the buyer, they may depress short-term EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), which the seller's earn-out is calculated [3].

Accounting and Metric Disputes

Disagreements over “what counts” as profit are rampant. Common flashpoints include:

- **Intercompany Charges:** Buyers often saddle the acquired company with “management fees” or shared corporate overhead, eroding the earn-out base.
- **Revenue Recognition:** Shifts in how contracts are accounted for under the buyer's GAAP (Generally Accepted Accounting Principles) standards can lead to significant payout variances [2].
- **The Integration Paradox:** Buyers want to integrate the company to achieve synergies, but the more integrated a company is, the harder it becomes to track its standalone performance for earn-out purposes [4].

Recent data suggest that while earn-outs are ubiquitous, they are rarely paid out in full. In many Lower-Middle-Market segments, actual payouts represent only a fraction of their negotiated potential, leading to a sense of betrayal for the founder [2].

III. Flipping the Timeline: The Pre-Sale 700-Day Roadmap

The core thesis of this new paradigm is simple: Do the 700 days of work before you go to market, not after. By implementing a rigorous growth roadmap while still in total control, the founder can present a “capital-friendly” business that commands an all-cash or non-contingent offer, thereby avoiding the earn-out trap entirely [12].

The Birthing of Giants Two-Year Curriculum

The Birthing of Giants roadmap provides a structured system for this pre-sale transformation. When combined with traditional “operating systems” like EOS (Entrepreneurial Operating System), which focus primarily on human capital and the P&L statement, Birthing of Giants’s 6 Steps to a Bigger business manage strategy and impact the balance sheet, creating a clear link between operational decisions and their financial impact.

The roadmap is divided into two distinct phases:

Year 1: Market Fit and Scalable Revenues

For the first half of year 1, the focus is on “Value Proposition Transformation.”

- **Identifying the Niche:** Founders often pursue broad markets, which dilutes margins. The roadmap forces a focus on the specific customers and problems the company can dominate. This “narrowing” paradoxically leads to faster traction and greater pricing power [65].
- **Leadership Team and Second Brain Development:** This involves turning “founder know-how” into proprietary systems, data, and workflows as well as a leadership team that will transfer to the new owner. When a buyer sees that a company’s edge is protected by team and process rather than just the founder’s brain, the risk—and the need for an earn-out—plummets [65].

For the second half of year 1, the focus is on making the growth predictable.

- **The Scalable Revenue Engine:** Shifting from “founder-led sales” to a replicable system where CAC (Customer Acquisition Cost) is a known lever.
- **Reducing Founder Dependency:** The ultimate goal is a business that runs without the owner. The Birthing of Giants curriculum guides owners through the transition from “Founder Mode” to “Manager Mode,” building a high-caliber team that a buyer can trust to run the business on Day 1 post-close [65].



Year 2: Ownership and Wealth Creation

For the first half of year 2, the focus is on “Reducing Founder-Dependency.”

- **Financial Systems and Strategy:** Financial frameworks, capital markets, and institutional structures integrate with corporate decision-making to optimize long-term value creation
- **Ownership Mindset and Culture Creation:** strategies for empowering your leadership team to drive long-term success.

For the second half of year 2, the focus is on “Shifting to the Owner’s Mentality.”

- **Bold Advanced Wealth Creation Systems:** sophisticated strategies to maximize wealth and preserve long-term capital.
- **Ownership Seat and Exit Strategy:** Founders and business owners can strategically position themselves within the corporate structure to maximize enterprise value while planning and executing a successful transition or sale.

IV. Increasing the Multiple: The Buffett Benchmark and Strategy Stacking

Preparation is not just about avoiding an earn-out; it is about “Multiple Expansion”—the process of increasing the valuation multiple (e.g., from 5x EBITDA to 8x EBITDA) before the sale occurs [40].

The Buffett Benchmark

To attract “founder-friendly” capital, a business must speak the language of professional investors. The “Buffett Benchmark” adopts Warren Buffett’s philosophy that the goal of a business is to increase its intrinsic value over time, which is best tracked by changes in book value [22]. By documenting the company’s historical growth through this lens, the owner provides a “paper trail” of value creation that replaces a buyer’s skepticism with statistical confidence.

Strategy Stacking

Strategy Stacking is a productivity hack for visionaries. It involves layering 12-month strategic wins—focused on labor, technology, and cash—on top of each other [22].

1. **Labor:** Building a management layer that reduces founder-dependency and increases the role of both the management team and the owner’s “second brain” development [23]
2. **Technology:** The “technique” and/or technology we use to operate and produce our product or service.
3. **Cash:** The way we manage our cash conversion cycle for optimum profit.

When these Strategy Stacks are documented over a two-year period, the “story” the owner tells at the closing table is no longer a projection—it is a proven historical fact.

V. Conclusion: The Power of Control

The choice for the Lower-Middle-Market business owner is stark. They can enter the market today, likely accept a deal structured with a two-year earn-out, and spend the next 700 days fighting a buyer for control and a “phantom” payout. Or, they can commit to a 700-day journey before they sell.

By using the Birthing of Giants roadmap, owners can:

- **Increase Profits and Revenues:** Through disciplined niche focus and scalable systems.
- **Reduce Founder Dependency:** Creating a “turnkey” asset for the buyer.
- **Command Higher Multiples:** Proving the business is “Investment Grade”, rather than a founder-dependent firm.

Ultimately, the best approach is to do the hard work of transformation while you still own the keys. This allows you to walk away from the closing table with a check in your hand and your legacy intact, rather than a lawsuit in your future.

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BOLD: The Business Owners Longevity Dividend

The Business Owners Longevity Dividend (BOLD) is a proprietary strategy that provides a necessary “third way,” allowing a business owner to orchestrate a partial, highly tax-efficient liquidity event—the “first bite”—while retaining near-total control and the vast majority of future upside.

BOLD is based on genuinely “founder-friendly” terms that mitigate the personal financial pressure, thus enabling the clarity and capital required to achieve an optimal post-growth assistance EBITDA multiple at a future, strategically chosen exit.

You might think you have a binary choice: the “full exit” or “let it ride,” which maintains the extreme risk concentration. Both options fail to serve the sophisticated founder who seeks personal financial de-risking without forfeiting control or future value creation.

BOLD: A Structural Path to Founder-Friendly Liquidity

The Business Owners Longevity Dividend (BOLD) is a structural inversion of a private equity technique, executed to provide the business owner with terms that prioritize their continued role and financial safety.

BOLD is achieved through a simultaneous two-part strategy: a Debt Play and an Equity Play.

Part 1: The Debt Play and Non-Recourse Liquidity

The foundational element of BOLD is the Debt Play, which secures immediate liquidity without introducing personal balance sheet risk. Unlike a traditional bank loan, which mandates a personal guarantee—thereby placing the owner’s personal assets and entire net worth on the line—the BOLD strategy uses equity value to mimic a debt instrument but without the regular interest payment. This market is leveraged to structure a large, one-time lump sum dividend to the owner, collateralized by the company’s future cash flow, not the founder’s personal net worth.

The elimination of the personal guarantee is the definitive founder-friendly term of the debt play, offering a clean de-risking of the family’s financial future.

Part 2: The Equity Play

The Equity Play addresses the risk of asset concentration by providing immediate diversification. The founder exchanges a minority stake of their company—typically 10% to 20%—for a lump sum cash payout that they can use to invest back into their company, diversify or for personal use.

This exchange is critical: the founder retains the engine of their wealth, keeping approximately 90% of the equity and, critically, maintaining operational control.

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The Economics of a BOLD Move

Here is the math that the bean counters don't want you to see.

Feature	Scenario A: Early Full Sale	Scenario B: BOLD + Future Sale
Immediate Cash Out (First Bite)	\$6.5M (after taxes/fees)	\$1.0M ¹ (The "BOLD" Dividend)
Retained Ownership in Your Company	0%	90%
Future Growth Impact	None	E.G. Double EBITDA to \$2M ²
Final Exit Value (Second Bite)	\$0	\$11M (after debt, taxes, and fees)
Total Wealth Created	\$6.5 Million ³	\$12 Million ³

¹ Assumes a \$10M Revs/\$1M EBITDA business sold at 10X Multiple

² Based on improvements to the company and organic growth over time

³ Assumes a 10X multiple at time of exit

Imagine your business (\$10M Sales / \$1M Profit) is valued at a 10x multiple (\$10M Enterprise Value). Most owners think they have to sell today to get paid. The BOLD strategy allows you to orchestrate a “first bite” now while retaining total control and keeping the engine running for a “second bite” later

Decoupling Wealth and Achieving the Post-Growth Multiple

The ultimate financial benefit of BOLD is its ability to facilitate a dramatically higher **Total Wealth Created** metric than a conventional early full sale.

- **Scenario A (Early Full Sale):** A \$10M-valued business, for example, might yield \$6.5M after all transaction costs. The upside is immediately capped at this number, and the owner's active role ceases.

- **Scenario B (BOLD + Future Sale):** The BOLD strategy allows the owner to take a substantial “first bite” dividend (e.g., \$1.0M) now, and crucially, removes the financial pressure that constricts growth. The founder uses the subsequent time, clarity, and strategic fuel (the liquid capital) to aggressively grow the company (e.g., doubling EBITDA). This leads to a substantially higher Future Exit Value (e.g., \$12M).

The BOLD strategy provides “Longevity”—the time and mental clarity required to maximize the business’s potential without the crushing weight of financial insecurity, ultimately delivering the optimal balance of control and cash.

Source Footnotes

[1] *Lower Middle Market Earn-Outs: A Deep Dive*, Tab 1: “The Paradox of Performance.”

[2] *Earnouts in Middle-Market M&A: Structure, Metrics, and Risk*, Auxo Capital Advisors.

[3] *The Trouble with Earnouts*, David Goldenberg, VLP Law Group.

[4] *The Art and Science of Earn-Outs in M&A*, Harvard Law School Forum on Corporate Governance.

[12] 8 Deal Points Every Business Owner Should Know, Birthing of Giants Research Report.

[22] *Forbes: The Cure For Shiny Object Syndrome? Try ‘Strategy Stacking.’*

[23] *Forbes: Welcome To The Year Of The...Centaur?*

[40] *The Case for Small Buyouts - Pt 2*, RCP Advisors.

[65] 2 Year Birthing of Giants Regional Cohort Program Curriculum

About the Authors

Lewis Schiff: Lewis is an entrepreneur, author, and educator specializing in business growth. As Chairman of Birthing of Giants, he leads a network of entrepreneurs focused on expanding their businesses. Schiff successfully sold two businesses, Armchair Millionaire and MainStreet.com, to publicly traded companies. His acclaimed books include *Business Brilliant*, *The Armchair Millionaire*, *The Middle-Class Millionaire*, and *The First Habit*. He also manages the Birthing of Giants Co-Investment Program and co-founded Aegis Response Team. Schiff is dedicated to philanthropy, supporting education, and economic empowerment.

CJ DuBé: CJ is a lifelong entrepreneur with 25+ years of experience spanning sales, operations, HR, and contract placement. In 2006, she co-founded Oberon, a professional contract placement firm. After discovering Gino Wickman's Traction, CJ became a passionate EOS Implementer. Since 2010, she has helped over 110 companies clarify, simplify, and achieve their vision. An award-winning entrepreneur and sought-after speaker, CJ currently serves as Global Community Leader at EOS Worldwide.

Mathias Ihlenfeld: As Founder and former CEO of woom bikes USA, Mathias Ihlenfeld scaled the brand into a \$100MM global leader, earning multiple Inc. 5000 honors. Now a mentor, investor, and certified life coach, he leverages his experience as an EY Entrepreneur of the Year finalist to help founders scale with integrity. Mathias combines strategic insight with a focus on conscious leadership to empower entrepreneurs in building purpose-driven, high-growth businesses.

Dan Mallin: Dan is a serial entrepreneur with 20+ years of experience, having completed five successful startup-to-exit cycles — including Magnet 360 and Lucy. His work has earned honors such as E&Y Entrepreneur of the Year and Inc 500 recognition, while spanning partnerships with over 25% of the Fortune 500. Dan co-founded the Minnesota Cup, the largest statewide business plan competition in the U.S., and has advised companies generating over \$2.5B in combined capital and exits.

About Birthing of Giants

Birthing of Giants is a nationwide entrepreneurial growth program designed for owners and operators of fast-growing, privately-held companies with revenues between \$5 million and \$500 million. CEO participants work directly with post-exit entrepreneurs, gaining a strategic roadmap for sustained growth and access to a peer network of top emerging business leaders. The curriculum is built around four levers — Money, Model, Market, and Management — drawing on the wisdom of over 1,100 successful entrepreneurs.

The Birthing of Giants Regional Cohort Program extends that experience locally, pairing business owners with a Certified Partner for a multi-year journey of quarterly, day-long sessions covering topics like salesforce design, culture design, and financial model design. Current regional cohorts are available in Arizona, Central Texas, Minneapolis, New Jersey, New York, and the Carolinas.



Ready to make your company smoother running, more profitable, and ultimately the most valuable it can be?

Schedule your complimentary P.R.E.P. Diagnostic Call — a focused conversation around your Profits, Revenues, and Exit Price — and walk away with a clear picture of where you stand and what it takes to get there.

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