Transferable Enterprise Value for Dallas-Fort Worth Business Owners

The structural work that determines what a buyer will actually pay, and why that runway is measured in years, not months.

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An unsolicited indication of interest lands on a Fort Worth owner's desk for a company generating roughly $22 million in revenue. Ninety days into due diligence, the offer is intact, but the discussion has shifted: what happens the day the founder stops answering the phone.

At Palmer Wealth Group™, we work with Dallas–Fort Worth owners three to seven years from a transition. A strong revenue line does not, by itself, make a business transferable. Moving relationships, decisions, and knowledge off the founder is what determines whether an outside party will pay full price.

The Transition Wave Hitting Dallas-Fort Worth Owners

The Demographic Math Behind the Wave

The McKinsey Institute for Economic Mobility projects that by 2035, approximately six million U.S. privately held companies will face ownership transitions as baby boomers retire, representing an estimated $5 trillion in enterprise value (McKinsey 2026). Census Bureau data show approximately 51% of U.S. employer-business owners are age 55 or older, and the SBA reports self-employed persons aged 65+ rose from 13.0% (2013) to 16.3% (2023).

What the DFW Picture Looks Like

Texas is the country's second-largest small-business state. The SBA's Texas 2025 Small Business Profile reports 3.5 million small businesses statewide (99.8% of Texas businesses) employing 5.1 million people. Between March 2023 and March 2024, Texas saw 86,385 openings and 78,648 closings.

Why Survival ≠ Transferability

Surviving is not the same as being sellable. BLS research shows five-year business survival rates of approximately 50% to 57% across recent cohorts (BLS Spotlight, January 2024). Owners who clear year five have proven the model works; most have not proven it works without them. Building Institutions that Outlast their Founders takes up the theme in Luke Palmer's voice.

> "A strong revenue line does not, by itself, make a business transferrable."

Transferable Enterprise Value: What Dallas–Fort Worth Business Owners Miss

Transferable enterprise value is the portion of a business's worth that survives the owner's departure. Getting the concept right requires understanding how sophisticated buyers price privately held companies.

How Buyers Actually Price a Closely-Held Business

The IRS's anchor framework is more than six decades old. Revenue Ruling 59-60 requires appraisers to consider eight factors when establishing fair market value: nature and history, earning capacity, book value, goodwill, and comparable public-company prices among them. The ruling rejects rigid rules of thumb and flags dependence on key people as a factor that can impair value.

Appraisers apply three valuation methods to those factors: the market approach (comparing the business to prices paid for comparable transactions), the income approach (projecting future cash flows and applying a discounted cash flow calculation), and asset-based approaches (summing the fair market value of underlying assets and liabilities). For operating businesses, buyers weight the market and income approaches, converting reported net income into normalized earnings before applying a market multiple. Unlike public companies valued by market capitalization, privately held companies derive value from that multiple applied to normalized earnings.

The Pepperdine 2025 Private Capital Markets Report, published by Craig Everett of the Graziadio Business School, found private equity valuations averaged approximately 5.5x EBITDA (earnings before interest, taxes, depreciation, and amortization) for companies with roughly $10 million in earnings. GF Data reported comparable figures for $10 to $25 million total enterprise value deals through Q3 2025.

Owner-operated businesses under $1 to $2 million in earnings are priced on Seller's Discretionary Earnings, or SDE (which adds back the owner's compensation and discretionary expenses), at two to four times. Above that scale, buyers shift to EBITDA, which assumes a market-rate manager replaces the owner. We take up the mechanics of an exit process in Maximizing Business Exit Value: Strategies for Successful Transition Planning.

The Size Premium: Why Crossing $10M EBITDA Changes the Math

GF Data's 2025 dataset shows $100 to $250 million enterprise value deals averaged approximately 10.0x EBITDA, well above the 5.9x average for $10 to $25 million deals; a company producing $5 million of adjusted EBITDA averaged approximately 7.4x through Q3 2025. The Pepperdine 2025 report documents a "capital-access cliff" at roughly $10 million of EBITDA, below which senior debt financing becomes materially harder to arrange.

> "Buyers price the business a founder walks away from, not the one that requires him to be in the room"

What Value Builder Data Tells Us About the Top of the Range

The Value Builder System, developed by John Warrillow, has scored more than 40,000 businesses on eight value drivers. The average score is 59 out of 100. Businesses scoring 80 or above received offers averaging roughly 71% higher than the mean; companies scoring 90 or above received offers averaging approximately 7.1 times the mean (Value Builder System). These figures describe outcomes across a large dataset, not promises about any individual business.

Reducing Owner-Dependency and Building the Second Line

The single most consequential dimension of transferable enterprise value is owner-dependency. A buyer who concludes the enterprise cannot function without the founder is buying a job, not a business.

The Hub-and-Spoke Problem in Owner-Run Businesses

Warrillow's framework identifies "hub and spoke" as one of eight drivers buyers underwrite: how much decisions, relationships, and knowledge sit with the owner rather than the enterprise. Adjacent is the "Switzerland structure," measuring whether the business is overly dependent on any single customer, supplier, or employee.

The Exit Planning Institute's 2023 National State of Owner Readiness Report, based on more than 1,100 privately held businesses, found approximately 45% of owners rated themselves best-in-class on readiness, even though 80% of the average owner's net worth was concentrated in the business (EPI 2023). We use the same diagnostic buyers use: what stalls, what frays, and what breaks if the owner disappears for 90 days.

> "The diagnostic we begin with is the one buyers use: what stalls, what frays, and what breaks if the owner disappears for 90 days."

Building and Keeping a Second-Line Management Bench

Buyers in the middle market pay premiums for management depth. Advisor consensus across BDO, the M&A Source, and Chesapeake Corporate Advisors is that two businesses with identical revenue can diverge sharply based on second-line strength. A general manager, a chief operating officer with real authority, or a sales leader who owns customer relationships: these are the roles buyers evaluate as substitutes for the founder.

De-risking owner-dependency typically requires 12 to 24 months; retention matters as much as recruiting. Key Employee Retention Plans: A Fort Worth Owner's Guide covers the compensation architectures we use; When to Hire a CEO as Founder – Or Become One Instead takes up whether the second seat should be the founder's replacement.

When Professionalization Goes Too Far

A Harvard Business Review article on professionalizing a startup framed the tension: relying on heroics eventually becomes chaotic, but process for its own sake can smother what made the business special (HBR 2016). Infrastructure built for a sale that never materializes is a sunk cost. Structural readiness is a set of decisions made over years, compatible with the culture that produced early success.

Financial Reporting Readiness and Concentration Risk

If owner-dependency is the first thing a buyer diagnoses, financial statement quality and revenue concentration are the second and third. Both can be improved with lead time; neither in the 90 days before a letter of intent arrives.

Three to Five Years of Clean, Consistent Financials

Sophisticated buyers apply the valuation multiple to a defensible, normalized EBITDA, not the seller's headline number. Normalization typically requires three to five years of financial statements and tax reporting prepared under consistent accounting standards, including ASC 606 (revenue recognition) and ASC 842 (leases).

A sell-side Quality of Earnings (QoE) report, typically $25,000 to $100,000, is standard practice. Advisor firms including Icon Business Advisors have reported that pre-transaction QoE work can support an additional 0.5x to 1.0x of EBITDA by insulating the seller from renegotiation. Outcomes vary with book quality.

Customer and Vendor Concentration: The Diligence Killer

Customer concentration is one of the most common issues we see erode value in DFW transactions. FOCUS Investment Banking reported in July 2025 that a single customer above 20% of revenue triggers detailed buyer review, and concentration above 30% can reduce valuation by 20% to 35%. Diversifying revenue meaningfully takes 12 to 24 months at minimum; if key customer relationships live in the founder's personal network rather than in contracts and an institutional CRM, buyers discount heavily or structure earnouts.

Why the Value Drivers Weight Differently in Services, Manufacturing, and Distribution

Not every driver matters equally. Recurring revenue and net revenue retention command higher premiums in services, software, and property management than in specialized manufacturing, where premiums attach to proprietary process, technical documentation, and consistent lead times. Distribution faces scrutiny around vendor relationships and inventory. For DFW owners across professional services, manufacturing, distribution, healthcare, and construction, the readiness plan must be industry-specific.

The 3–7 Year Structural Window

Preparation is a multi-year process, and its most consequential decisions must be made years before a transaction closes.

Why the Runway Is 3–7 Years, Not 12 Months

The Exit Planning Institute's Value Acceleration Methodology, developed by Christopher Snider in Walking to Destiny, organizes readiness across three dimensions (business, personal, financial) through three gates: Discover, Prepare, and Decide.

EPI's 2023 State of Owner Readiness Report found 78% of owners lacked a formal transition team, 32% had a documented exit plan, and 22% had aligned business, personal, and financial goals. Raymond James's 2025 Business Owner Report, a survey of 540 owners, found 56% planned to exit within five years and 88% within ten; 44% said the business was more than half of their personal wealth.

EPI research further indicates 70% to 80% of listed businesses never close, and roughly half of exits are involuntary, driven by the five D's: death, disability, divorce, disagreement, and distress. BizBuySell's 2025 Insight Report tallied 9,586 closed transactions at a median $350,000 and 94% of asking. The IBBA and M&A Source Market Pulse Q4 2025 survey found a majority of 350 brokers expecting 2026 to match or exceed 2021, though those expectations remain forward-looking.

Entity and QSBS Decisions That Must Be Made Now

Structural work years before a sale is where tax planning creates or forecloses future options. Section 1202 of the Internal Revenue Code (Qualified Small Business Stock exclusion) was materially expanded by the One Big Beautiful Bill Act, signed July 4, 2025. For QSBS acquired after that date, the exclusion is tiered: 50% at three years, 75% at four, and 100% at five. The per-issuer cap rose from $10 million to $15 million (inflation-indexed after 2026); the aggregate gross-asset threshold rose from $50 million to $75 million. Stock acquired on or before July 4, 2025 retains the prior rules.

QSBS requires C-corporation status and excludes many professional-service businesses. Our companion analysis, Why Your Practice Exit Won't Qualify for the New QSBS Tax Exclusion – And What to Do Instead, walks through entity and industry limits. Palmer Wealth Group™ does not provide legal or tax advice; every QSBS analysis must be coordinated with the client's tax counsel.

When the Goal Is Family Succession, Not an Outside Sale

Not every DFW owner is selling to an outside buyer. PwC's 2023 US Family Business Survey found 72% of family businesses want to keep the business in the family, though only 34% had a documented, communicated succession plan. The Family Business Institute puts second-generation survival at roughly 30% and third-generation at approximately 12%.

Transferability matters in a family transition. An enterprise that requires its founder cannot survive a handoff to the next generation any more than to an outside sponsor. For what happens after the transaction closes, Financial Planning After Selling a Business: The First 12 Months takes up the personal-planning arc that begins the day the wire arrives.

Frequently Asked Questions

Q: How Much Is My Small Business Really Worth to a Buyer?

A buyer pays for the transferable cash flow that remains after the owner departs, not for the effort or retirement need the owner attaches to the business. For lower middle-market companies, the Pepperdine 2025 report put private equity valuations at approximately 5.5x EBITDA at $10 million in earnings; GF Data reported comparable figures through 2025. Value shifts with size, industry, management depth, revenue concentration, and financial-statement quality. Buyer perception sets the price.

Q: What Is the Difference Between SDE and EBITDA in Business Valuation?

Seller's Discretionary Earnings (SDE) and EBITDA are two frames applied to different sizes of business. SDE adds back the owner's compensation and discretionary expenses; it is used for owner-operated businesses under roughly $1 to $2 million in earnings, at multiples of two to four times. EBITDA assumes a market-rate manager replaces the owner and applies to larger businesses at roughly 5 to 8 times in the lower middle market (Pepperdine 2025; GF Data 2025).

Q: How Long Does It Take to Prepare a Business for Sale?

The consensus among middle-market advisors and exit planners is three to seven years for meaningful structural preparation, with 12 to 24 months as the minimum to de-risk any single major issue like customer concentration or owner-dependency. The Exit Planning Institute's Value Acceleration Methodology organizes readiness across business, personal, and financial dimensions, and EPI research indicates 70% to 80% of listed businesses never close. A 12-month runway runs a sale process, not the build of value.

Q: Why Does Customer Concentration Lower Business Value?

Customer concentration lowers value because it concentrates the risk of revenue loss the buyer will inherit. FOCUS Investment Banking reported in July 2025 that a single customer above 20% of revenue triggers detailed scrutiny, and concentration above 30% can reduce valuation by 20% to 35% relative to a diversified peer. Diversifying revenue and formalizing customer relationships typically requires 12 to 24 months of deliberate work.

Q: Will a Strategic Buyer Pay a Premium for My Business?

A strategic buyer may pay a premium in the right circumstances, but that premium is buyer-specific, not a universal market phenomenon. Strategic buyers pay for synergies particular to their platform, and a high initial indication of interest can be renegotiated downward when diligence surfaces weak documentation, thin management, or customer concentration. Value Builder data shows top-tier scoring companies received offers meaningfully above average, driven by transferability characteristics the buyer could underwrite.

Prepare Before the Offer

If a transition sits on your three-to-seven-year horizon, the work that determines the outcome starts now. A short conversation with our team can clarify which structural decisions deserve immediate attention. There is no cost and no obligation.

About Palmer Wealth Group™

Palmer Wealth Group™ is a boutique wealth management practice operating as an Integrated Wealth Alliance — a coordinated team of specialists dedicated to business owners, corporate executives, professional practice owners, and multi-generational families navigating the financial complexities that accompany significant wealth. Led by Luke A. Palmer, CFP®, AAMS®, CRPS®, AWMA®, the practice delivers the institutional-quality strategies and coordinated oversight that clients who have outgrown conventional advisory models require. Learn more at palmerwealthgroup.com.

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Regulatory References. *Regulatory thresholds, contribution limits, tax rates, and statutory provisions referenced in this article — including IRC §1202 and the One Big Beautiful Bill Act provisions — are current as of August 2026 and are subject to change. Readers should confirm current figures with the IRS or a qualified tax professional before relying on them for planning decisions.*

Forward-Looking Statements. *Certain statements in this article reference market projections, industry expectations, and third-party research forecasts (including the McKinsey Institute for Economic Mobility 2035 ownership-transition projection and the IBBA / M&A Source Market Pulse Q4 2025 outlook). Forward-looking statements are inherently uncertain, are not guarantees of future results, and actual outcomes may differ materially.*

Third-Party Data. *Valuation multiples, benchmark data, and industry statistics cited in this article are drawn from third-party sources (including the Pepperdine Private Capital Markets Report, GF Data, the Exit Planning Institute, Value Builder System, BizBuySell, FOCUS Investment Banking, and Raymond James) and are believed to be reliable, but their accuracy and completeness are not guaranteed. Past outcomes and historical benchmarks do not guarantee future results in any specific transaction.*

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Federal Legislation

1. One Big Beautiful Bill Act, signed July 4, 2025 — Modifications to IRC §1202, including tiered QSBS exclusion (50% at 3 years, 75% at 4 years, 100% at 5 years), per-issuer cap increase from $10M to $15M (inflation-indexed after 2026), and aggregate gross-asset threshold increase from $50M to $75M.
2. Accounting Standards Codification (ASC) 606 — Revenue from Contracts with Customers.
3. Accounting Standards Codification (ASC) 842 — Leases.

Research Methodology: *This article was prepared with the assistance of AI tools that supported research synthesis and initial drafting. AI tools do not exercise professional judgment and may have gaps in current regulatory or market information. All content was independently reviewed by qualified Palmer Wealth Group™ professionals. The analysis and guidance expressed here represent the professional judgment of Palmer Wealth Group™, not AI outputs. Palmer Wealth Group™ assumes full editorial and compliance responsibility for this content.*