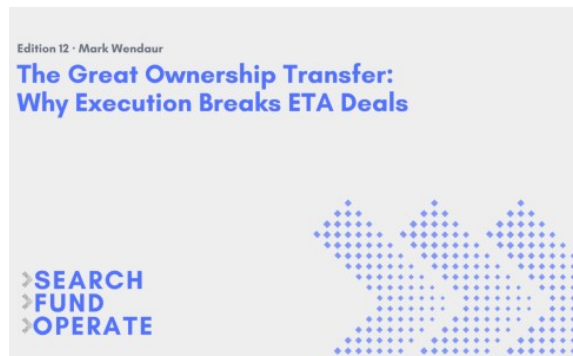


The Great Ownership Transfer: Why Execution Breaks Search Fund & ETA Deals

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Most commentary on the “Great Ownership Transfer” or the “Silver Tsunami” focuses on sellers. It is right there in the name. Aging owners. Lack of succession planning. Uncertainty around exit. That framing is incomplete. This is not just a supply story; it is a **buyer capacity problem**. Particularly for search fund entrepreneurs, independent sponsors, and others pursuing entrepreneurship through acquisition

McKinsey estimates that ~6 million SMBs will face ownership transitions by 2035, representing up to \$5 trillion in enterprise value. Yet roughly 92% of exits are likely to occur through closure, not sale. [McKinsey Report: The Great Ownership Transfer](#).

If you are acquiring businesses in the \$500K–\$25M range, your primary competition is often not another buyer. It is the business quietly shutting down.

This Is Not a Deal Flow Problem - It Is a Buyer Execution Problem in Search Funds and ETA

There is no shortage of businesses to buy in the lower middle market. The challenge for search funds, independent sponsors, and ETA buyers is execution. It is likely that for some of these businesses, the rational step is closure, but there will remain a significant number of profitable businesses in search of a buyer during this economic event.

The problem exists in the shortage of buyers who can:

- Source effectively
- Underwrite accurately
- Finance reliably
- Transition successfully

The gap between going under LOI for a “viable business” and closing is where most deals fail. That gap is also where the opportunities and risks live.

The Buyer Capabilities Stack

In practice, buyer success in this market comes down to the four capabilities identified above.

Sourcing: The Best Deals Are Not in Market

Because closure dominates exit paths, many viable businesses never run a formal sell process. They speak with a CPA, a

broker, or a peer about selling, and when friction appears, the process stops. Running a sell process is not without its hurdles, which is why the rewards are greater for those who do it.

If your sourcing strategy depends solely on brokered deals, you are competing in the most efficient (and crowded) segment of the market.

If a buyer wants to improve their odds at winning, they need to:

- Build referral channels with accountants, attorneys, and advisors
- Focus on specific industries to accelerate underwriting
- Embrace cold outreach
- Engage sellers before a formal process exists

The winning edge is not price. It is access to top tier deals that are found through hard work and diligence.

Seller Readiness: Most Deals Fail Before Diligence

Another recurring issue in lower middle-market transactions is not business quality, but transferability. Common issues that cause buyers to avoid deals include:

- Incomplete or inconsistent financials
- Owner-dependent relationships
- Undocumented processes
- Unclear working capital needs

The better initial question is not: “Is this a good business?”

It is: “Can this business be transferred and financed cleanly?”

Buyers can use a simple readiness screen when examining prospective companies to purchase by examining for:

- 24 months of monthly financials and tax returns
- Customer concentration and contract review
- Identification of key personnel dependencies
- Basic operational systems (billing, quoting, payroll)
- Working capital dynamics post-close

Deals that fail this screen rarely improve during diligence. I recently posted about broken LOIs and the reasons why buyers walk away: [Broken Executed LOIs By Reason](#). **Over 45% of the reasons for failure can be categorized within the items listed above.**

Financing: The Constraint Most Buyers Underestimate

Financing is not a closing step. It is a very serious pre-LOI workstream. That may seem like an obvious statement, but many failed deals share a common pattern: The buyer underwrites one version of EBITDA, and the lender underwrites another. That gap kills deals.

Particularly in SBA-driven transactions common in search funds and small business acquisitions:

- Equity requirements and guarantees are real constraints
- Underwriting timelines introduce friction
- Smaller deals are treated as bespoke, not standardized

Disciplined buyers:

- Underwrite to debt service, not seller-adjusted earnings
- Normalize add-backs conservatively
- Identify working capital needs early
- Seriously consider the structure pre-LOI (seller notes, holdbacks, transition-linked payments)

The deal is not real until the capital stack is real. Nothing happens without financing.

Post-Close Execution: The First 100 Days Decide the Outcome

The most underappreciated risk in these transactions is not closing. It is transition. I believe buyers should familiarize themselves with at least some turnaround management practices during the search process because buyers inherit:

- Informal systems
- Relationship-driven revenue
- Limited reporting infrastructure
- Outdated systems

Without a clear transition plan, value can erode immediately. It is not simply a digital transformation play (digital advertising, industry specific project management Saas, etc.).

Effective buyers plan for:

- Defined transition services from the seller
- Retention of key employees
- Structured customer handoffs
- Weekly cash and operations cadence post-close

This is not operational detail. It is downside protection and risk mitigation. It is also some of the hardest work because it cannot be brute forced - it requires soft skills, attention to detail, and time-consuming review of information.

What This Means for Investors Backing Buyers

For family offices, independent sponsor investors, and capital partners backing search funds and ETA buyers, the underwriting focus needs to shift.

Similar to what we discussed above, the question is not: "Is this a good business?"

It is: "*Can this buyer execute this **transition**?*"

Key diligence questions for investors to ask should include:

- Does the buyer have a repeatable sourcing strategy?
- Is there a defined readiness filter?
- Is financing aligned with lender reality?
- Is a post-close execution plan in place?

Most deals in this segment fail due to execution gaps, not thesis failures.

The Structural Inefficiency Creates Opportunity

The inefficiency in this market is not hidden. It is structural: fragmented deal flow, inconsistent advisor quality, limited financing standardization, and minimal post-close support. These are not isolated issues - they are systemic frictions that sit between a viable business and a closed transaction.

Prepared buyers can benefit from this inefficiency because it creates:

- Less competition in off-market deals
- Pricing inefficiencies
- The ability to win through structure and not just valuation

But those advantages are only available to buyers who can execute. This is not a market where capital alone wins. It is a market where taking a business from “viable” to “financeable” to “transferable” is necessary and may require a longer pre-LOI/pre-close relationship with the seller.

If pre-screening raises concerns around financial quality, customer concentration, or post-close execution, the question is not just whether the deal is attractive. It is whether those risks can be mitigated *before* committing to an LOI.

Most deals don't fail because the business is bad. They fail because the buyer underestimated what it would take to close and operate it. Spending time with the seller (sometimes weeks or even months) before fully committing can be one of the most effective ways to de-risk a transaction *before* signing an LOI and set up a smoother, more profitable transition.

The Real Takeaway

The Great Ownership Transfer is often framed as a wave of supply. The data suggests the real issue is execution. This is especially true for those pursuing entrepreneurship through acquisition, where execution risk concentrates in a single asset.

The challenge is not finding viable businesses. It is getting them across the finish line after turning viable businesses into successful buyer transitions, not closures.

For buyers, the edge is not just identifying a good business. It is building the capability to move a deal from: **possible** → **financeable** → **transferable** → **stable**

The market does not reward intent. It rewards execution.

Buyers who can deliver that consistently will capture disproportionate value.