LOWER MIDDLE MARKET | EXIT STRATEGY

What Really Drives Exit Value in the Lower Middle Market

Multiples are not magic. The spread between a 5x outcome and a 10x outcome comes from a handful of operating decisions made years before the LOI — and from running a process that forces the market to compete.

Every lower-middle-market owner I meet wants the same thing: a clean exit at a number that respects what they built. The good news is that exit value in the LMM is not random. It tracks a small set of variables — size, margin and growth quality, customer mix, revenue durability, owner dependence, deal readiness, and process design — that buyers price almost mechanically. The 2025 data make the spread unmistakable.

Through the first three quarters of 2025, the average LMM transaction cleared at **7.2x TEV/EBITDA**, with platforms in the $100–500 million range pricing near 9.8x and businesses under $100 million averaging 7.0x — a 2.8-turn size premium that has held remarkably firm through a choppy rate environment[1]. Inside that average, dispersion is what matters. The same business, prepared and marketed differently, can trade for two or three turns of EBITDA more or less. On a $5 million EBITDA company, that gap is $10–15 million of enterprise value.

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Size still earns a premium

Buyers — strategics and sponsors alike — pay up for scale because scale lowers risk. Larger businesses absorb the loss of a customer or a key employee without the multiple compressing. GF Data’s 2025 size bands tell the story cleanly: $10–25M deals priced at 5.9x, $25–50M at 6.6x, $50–100M at 8.7x, and $100–250M at 10.0x. Owners stuck just below a band threshold should ask whether one more year of disciplined growth — or a tuck-in — moves the business into the next valuation tier. It is often the highest-ROI 12 months of an owner’s career.

Quality of earnings is a multiplier, not a checkbox

GF Data flags above-average financial performers — companies with both EBITDA margin and revenue growth at or above 10% (or one above 12% and the other above 8%) and tracks them

separately. In H1 2025 those AAFP businesses traded at **7.7x** versus 7.1x for everyone else. That is the published quality premium. The unpublished one is larger, because a credible quality-of-earnings report and clean working-capital schedules are the difference between a deal that closes at the LOI number and one that gets re-traded after diligence.

Axial's 2025 Dead Deal Report should be required reading for any owner thinking about a sale in the next 24 months: 25.3% of broken LOIs died in non-QoE diligence and another 21.3% collapsed because the buyer's QoE found EBITDA discrepancies — up from 10.6% in 2023. Almost half of broken deals trace back to numbers that did not survive scrutiny. Owners who invest in a sell-side QoE before going to market are not buying paperwork; they are buying price defense.

> **CALLOUT | THE 2025 BROKEN-DEAL MAP** 46% of dead LOIs in 2025 traced back to diligence findings or QoE-driven EBITDA discrepancies. Renegotiation (14.7%), seller cold feet (13.3%), and financing (10.7%) followed. Source: Axial Dead Deal Report 2025.

Customer concentration is priced quietly — and brutally

Buyers rarely walk away over concentration; they reprice it. A top-customer share above 20–25% typically triggers escrow holdbacks, earn-outs tied to retention of that account, or a quiet half-turn haircut buried in the deal model. Diversification is the most under-appreciated value-creation lever in the LMM. Two years of deliberate sales effort — adding mid-tier accounts, formalizing referral channels, and lengthening contracts — can move a company from "concentrated" to "durable" in the eyes of every buyer at the table.

Recurring revenue is worth half a turn to a turn and a half

In Industrials, recurring revenue takes the form of service contracts, parts-and-consumables programs, scheduled maintenance, and multi-year supply agreements. In Technology, it is ARR, MRR, and managed-services contracts. Either way, buyers pay a premium of **0.5 to 1.5 turns** for revenue they can underwrite versus revenue they have to win again every quarter. The work is to make the recurring portion measurable: contract terms, renewal rates, net revenue retention, and gross-margin contribution by stream. If you cannot show it on a slide, the buyer will not pay for it.

Owner dependence is the single biggest unforced error

Businesses where the founder still holds the top customer relationships, signs every quote, and lives in the inbox typically trade at a **25–35% discount** — roughly 4.5–5.5x rather than the 6–8x the same financials would otherwise command. The fix is operational, not financial: a real second-in-command, documented sales processes, customer relationships held by the team, and a 90-day stretch where the owner is genuinely unavailable. Buyers ask about it directly in management meetings; the businesses that pass that test get priced like institutions, not like jobs.

Sector matters — and the LMM premium sectors are clear

Inside the verticals I work in, 2025 multiples cluster predictably. In Industrials, manufacturing trades around 6.0x, distribution near 7.6x, and B2B services around 7.8x. In Technology, MSPs are pricing near 8.5x and SaaS businesses with healthy retention metrics near 10.5x. The implication for owners is not "pick a different sector" — it is "present yourself accurately within yours." A distribution business with strong gross margins, recurring service revenue, and route density is not priced like a commodity reseller, even if SIC code says otherwise.

Deal readiness is value, not overhead

Add-backs are where unprepared sellers leave the most money on the table. Personal expenses run through the business, one-time legal or systems costs, owner compensation above market, rent paid to a related-party real-estate entity — all are legitimate adjustments, but only if they are documented in a way that survives a buyer's QoE. A normalized EBITDA bridge built before the market sees the business is the cheapest valuation lift available. The owners who win this stage start preparing 12 to 18 months before they intend to launch.

Process is the multiplier on top of everything else

Every driver above defines what the business is worth. Process determines how much of that value the seller actually captures. A competitive auction with the right buyer universe — strategics, sponsors with relevant platforms, and family offices — typically lifts headline value by **10–25%** over a single-bidder negotiation, and produces materially better terms on rollover, escrow, and earn-out structure. The lift is not theoretical; it is the price of having a credible alternative in the room every time the lead bidder pushes back.

What this means for owners thinking about 2026

The LMM in 2025 is rewarding businesses that look institutional: clean financials, diversified customers, durable revenue, a management team that runs the day-to-day, and a process that forces buyers to compete. None of those traits are accidents, and none of them are expensive relative to the value they unlock. The owners who treat the 12–24 months before a sale as a value-creation project — not a paperwork exercise — consistently outperform the same businesses run by owners who optimize for the LOI alone.

Multiples are the headline. Preparation is the story.

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