Lower Middle Market Private Equity: Five Keys to Success for PE and Independent Sponsors

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What are the secrets to success for PE and independent sponsors in the lower middle market (LMM)?

- **Attractive Valuations:** LMM companies often trade around 1.1x revenue vs 2.8x revenue for larger deals. Lower multiples reflect smaller scale, lower leverage, and more significant post-close lift.
- **Infrastructure:** LMM success requires building out business infrastructure (finance, leadership, technology, sales, etc) to drive revenue growth and margin expansion.
- **Fragmentation:** classic "buy and build" playbook works well with LMM fragmented industries. Vast target set at over $350,000+
- **Structure:** LMM deals require thoughtful structure - to minimize the cost of capital at close and maximize returns. Using some / all of the "holy trinity" toolkit (rollover equity, seller financing, and earn-outs) is essential. Added potential tax bonus with potential Qualified Small Business Stock.
- Based on client activity in January, we expect 2026 to be a very active LMM year (whether for smaller platforms or attractive add-ons).

John Koeppel's commentary on "Lower-Middle-Market Private Equity: Where Professionalization Meets Growth Potential" (December 16, 2025) for *CAIS Group*.