

Lower Middle Market Valuation Trends: EBITDA Multiples and Earnout Structure for Independent Sponsors



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What Are the Valuation Trends for Independent Sponsors/Buyers Acquiring Lower Middle Market Companies?

- Valuations continue to scale with size: the [median earnings before interest, taxes, depreciation, and amortization](#) (EBITDA) multiple is 5.7x adjusted EBITDA for companies with \$10 million to \$25 million in enterprise value (EV), 7.6x for \$25 million to \$50 million, and 9.4x for \$50 million to \$200 million.
- Buyers commonly cite a "scarcity of quality targets" in the lower middle market.
- Price gains are concentrating in stronger, higher-margin companies rather than spreading evenly across the market.
 - Targets with above-industry-average profit margins can command almost one full EBITDA multiple more than targets with below-average margins.
- To address the valuation gap between buyers and sellers, "earnouts are functioning less as a concession and more as a core structuring tool in today's market."

- In today's earnout structure, earnouts average 16.5% of enterprise value and run a median of 24 months.
- Other investment bankers report that lower middle market buyers are holding back more cash at close and, in addition to rollover equity, using more [earnouts and seller financing](#) for business acquisitions (some with contingent payment structures).

[John J. Koeppel](#), leader of Lippes Mathias' [independent sponsor](#) and [private equity](#) practice teams, comments on add-on acquisition pricing in "[Private Equity Buyers Pay Up for Small Add-Ons as Middle-Market Multiples Climb to 6.9x](#)," Private Equity Professional, August 27, 2026.

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