

## What Are Some of the Latest Lower Middle Market (LMM) and Direct Deal Trends?



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What are some of the latest lower middle market (LMM) / direct deal trends that independent sponsors face?

- **COMPETITION:** An active isponsor count is estimated to have doubled in the last five years
- **SELLER SENTIMENT:** Roughly one of five sellers is “eager” -> focused on liquidity, selling before another macro shock, and hoping to benefit from improving market terms.
- **VALUATIONS:** Very industry / target specific, but LMM EBITDA multiples ranging from 4.5x to 6.5x (average target) to 6.5x to 9.0x+ (premium).
- **ALIGNMENT:** Continued significant use of rollover equity (35% of deals); seller financing (45%); and earn-outs (60%). Deferred consideration ranges from 20% to 50%+ of overall EV.
- **HOT SPOTS:** Business services, healthcare, tech-enabled services and software, and home services and specialty trades.
- **TREND:** “Independent sponsors have emerged as one of the most significant structural shifts in LLM M&A over the past five years.” (RKJ report)

- **ISPONSOR DIFFERENTIATORS:** Specific thesis, deal sourcing edge, capital network, and value creation playbook (with management / operating partner talent to execute).
- **CAPITAL GAINS:** Sponsors are more frequently using Qualified Small Business Stock (Sect 1202) to structure deals where the sponsor, their investors, and the rolling business owner may be eligible for no / significantly reduced capital gains tax on a future exit in 3 to 5+ years.

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