

# The Buyer Lane Preparation Map

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Underwriting model divergence and forecastable post-LOI  
compression in lower-middle-market transactions



FIVE BUYER LANES · ONE FOCUSED SET

KEY TAKEAWAYS

Five buyer archetypes. Five underwriting models. One forecastable gap.

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01

## The buyer universe has expanded.

Five distinct buyer archetypes are now active in the lower-middle-market segment (\$2M-\$25M EBITDA): the PE add-on, the PE platform, the strategic acquirer, the family office, and the search fund or independent sponsor. PE add-ons alone account for 72.9%+ of all sponsor activity in the band, up from a small fraction a decade ago. Most founders are operating with a buyer mental model that lags the market by years.

02

## Headline multiples mislead.

GF Data closing multiples in the \$1-25M EBITDA band run 5.5x to 6.7x — narrower than the headline figures founders frequently anchor on. The aggregate reflects buyer-archetype averages weighted across deal types. The binding ceiling for a specific transaction depends on which archetype is the buyer, not on the band average.

03

## Underwriting models do not converge.

Each archetype prices against a different model. Senior-debt service constraints for the PE add-on. Synergy realism for the strategic. Operational continuity for the family office. SBA SOP 50-10 criteria for the search fund. Generic preparation, calibrated against the average of these models, is preparation against a fictional buyer.

04

## The gap is forecastable.

When a founder's likely buyer set is mapped before preparation begins, the post-LOI compression patterns specific to that set become predictable. Calibrated preparation closes the gap. The Buyer Lane Preparation Map is the framework that produces the forecast — a five-step process that runs in the upstream window, before any buyer has been engaged.

# The Closing-Value Gap

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The transaction is signed at the letter of intent. Sixty days later, at close, the number is different.

This is not a defect of any particular transaction. It is a structural feature of the lower-middle-market deal environment. The gap between LOI value and actual closing value reflects how preparation, conducted in the months before a buyer was even identified, fits or fails to fit the underwriting model of the buyer who eventually arrives. Cordis Institute's preceding working paper documented the gap and characterized its post-LOI adjustment patterns at the aggregate level. The present paper builds on that foundation by disaggregating the gap across active buyer archetypes and presenting the framework that makes the gap forecastable upstream.

Five buyer archetypes are now active in the lower-middle-market segment, defined here as businesses with \$2M to \$25M of EBITDA. The private equity add-on dominates by deal volume; recent industry coverage places its share at 72.9% to over 80% of all PE activity in this band. The private equity platform, establishing a new investment thesis, accounts for the remainder of sponsor activity. Strategic acquirers, family offices, and search funds or independent sponsors round out the buyer universe.

*“Each of these archetypes brings a different underwriting model to the same transaction. The financial sponsor prices against debt-service capacity. The strategic prices against pro forma EBITDA inclusive of synergy realization. The family office prices against operational continuity. The search fund operates under SBA criteria.”*

A founder preparing for a sale process before a buyer is identified is preparing in the dark. Generic readiness work — clean books, a quality-of-earnings report, a customer concentration narrative, a documented management succession plan — addresses each archetype's concerns to different degrees. Two or three of those interventions are likely to be high-leverage for the buyer who actually closes. The others are likely to be generically useful but not load-bearing.

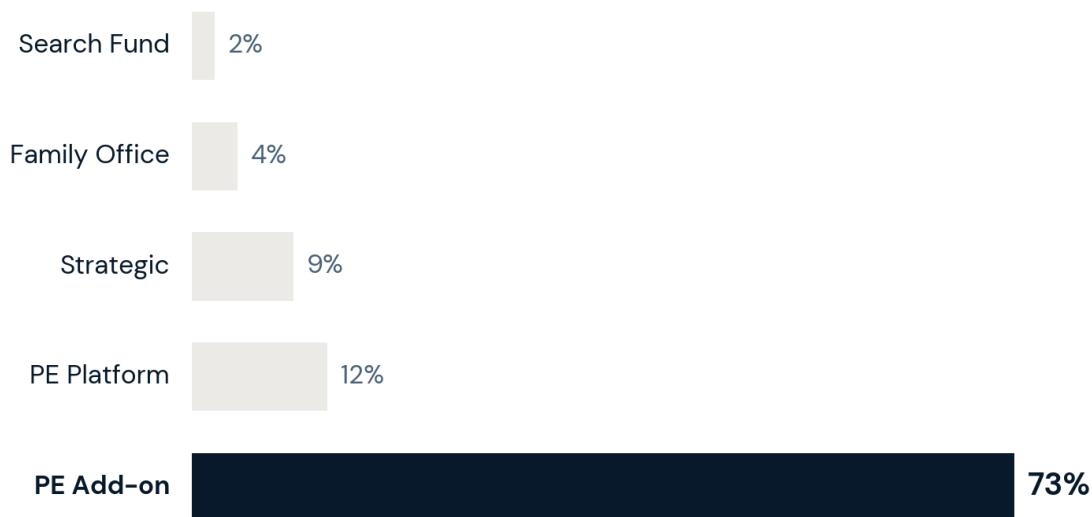
The framework presented here, the Buyer Lane Preparation Map, addresses the upstream question: which buyer archetype is most likely to compete for the specific business, and which preparation interventions specifically move close value within that archetype's underwriting model? The answer is forecastable. The forecast is what the framework produces.

SECTION 02

# The Buyer Universe in 2026

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The lower-middle-market segment of the M&A; market is large and structurally fragmented. Lower-middle-market deals — defined here as transactions with closing values at or below \$50M, consistent with the SRS Acquiom 2025 Lower Middle-Market Deals Report — accounted for more than 40% of all M&A; transactions between 2022 and 2024. Within this population, businesses generating \$2M to \$25M of EBITDA represent the operational core of the band: large enough to support institutional buyer interest, small enough to remain founder-led or family-owned, old enough to carry meaningful balance sheets.



**Figure 1.** Distribution of LMM PE deal volume across active buyer archetypes. PE add-ons dominate at 72.9%+ in the \$2M–\$25M EBITDA band. Source: CapitalPad (2026), Bain & Company (2025), Cherry Bekaert (2025).

**The dominant archetype by deal volume is the private equity add-on.** A bolt-on acquisition by an existing PE platform company, the add-on consolidates fragmented industries or expands platform footprints. Its prevalence is documented in multiple recent industry analyses. Industries undergoing active roll-up activity include residential services such as HVAC and plumbing, B2B services, healthcare adjacencies, and specialty distribution.

**Add-ons are not the only sponsor activity in the band.** Platform deals — new investments by PE firms establishing fresh portfolio companies in target industries — constitute the remainder of sponsor activity. Platforms are larger, slower-moving, more expensive in absolute terms. In the lower-middle-market, platform deals concentrate at the upper end of the band: businesses with \$15M to \$25M EBITDA are typical platform targets.

**Strategic acquirers participate across the full band.** The strategic, broadly defined, is an operating company purchasing the target as part of its core business. The acquirer prices against pro forma EBITDA inclusive of expected synergies, both revenue synergies (cross-sell, distribution leverage) and cost synergies (overhead consolidation, supply-chain integration). When synergies are real and underwriteable, strategic

buyers can pay above what financial sponsors can pay.

**Family offices have grown in the lower-middle market since 2020.** The 2024 UBS Global Family Office Report documents increasing direct-investment activity in operating companies, with hold periods substantially longer than fund-structured PE. A typical family office hold runs 10 years or more; a typical sponsor hold runs 3 to 7. Family office underwriting prioritizes operational continuity, succession quality, and tax-efficient structure over leveraged returns.

**The fifth archetype, the search fund or independent sponsor, is the smallest by deal count.** An individual or small team raises capital to acquire a single operating business, typically with SBA-backed financing in the lower end of the band and committed institutional capital at the upper end. SBA-backed transactions are governed by Standard Operating Procedure 50-10, which constrains allowable addbacks, ownership transitions, and operating-experience requirements.

SECTION 03

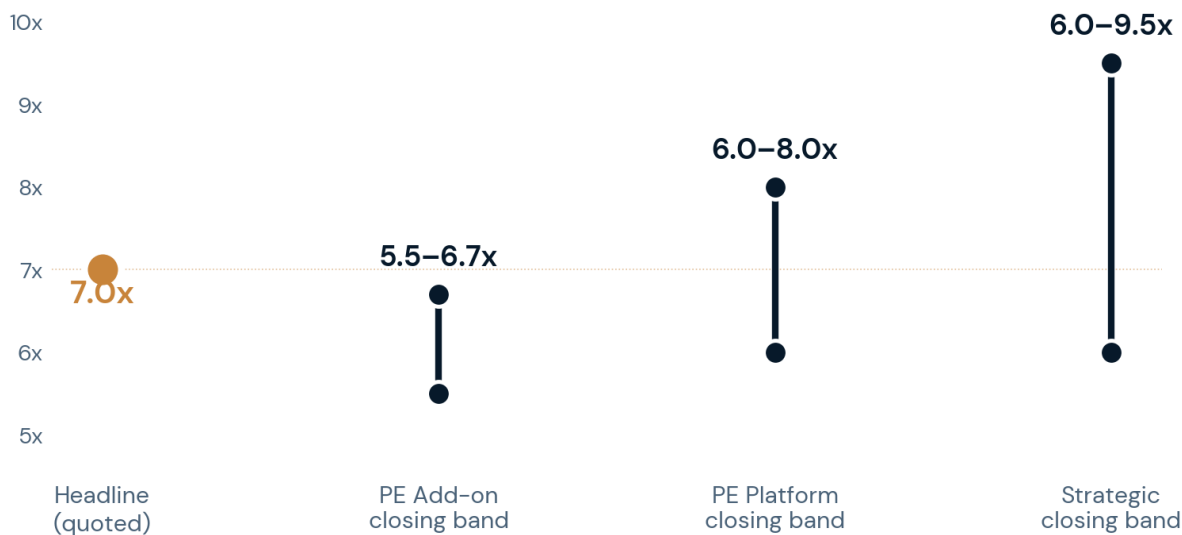
# Underwriting Model Divergence

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The five buyer archetypes share a small business as the object of underwriting. They share little else.

*“Two sellers with similar businesses, in the same band, can close at meaningfully different multiples not because of business quality differences but because of which buyer archetype underwrote the transaction.”*

A PE add-on operates under a senior-debt service constraint. The lender — typically a bank or non-bank credit fund — sets a maximum leverage ratio (often 4.0x to 5.5x EBITDA in current market conditions) with debt-service-coverage covenants that constrain how much of the EBITDA can be committed to debt service. The PE buyer’s offer is bounded above by this constraint. It cannot pay more than the senior debt plus the equity check it has been given, and the equity check is a function of expected exit multiple expansion. The debt component is the binding constraint in practice.



**Figure 2.** Closing multiple bands by buyer archetype, \$2M–\$25M EBITDA segment. The headline 7x quoted in industry coverage reflects an aggregate that does not bind any specific transaction. Source: GF Data Resources (2025), Pepperdine (2024), Capstone Partners (2025).

GF Data’s H1 2025 analysis reports closing multiples in the \$1–25M EBITDA band ranging from 5.5x to 6.7x. These closing values reflect the post-debt-service ceiling, not the upper end of what some buyers might theoretically pay in an unconstrained underwriting environment. A founder reading a “the market is at 7x”

headline is reading an aggregate that reflects buyer-archetype averages weighted across bands. The binding ceiling for a specific transaction depends on which archetype is the buyer.

**Strategic underwriting prices to synergies.** The acquirer's pro forma model includes expected revenue and cost synergies; the realized purchase price reflects the buyer's confidence in the synergies' realizability. A strategic that can credibly synergize a target's customer base into an existing distribution channel can pay above what a sponsor can pay. The same buyer, facing a target with limited operational fit, will discount for integration risk.

**Family office underwriting prices to operational continuity.** The investment thesis is multi-decade, not multi-year. Multiples paid by family offices are typically reported as comparable to PE add-on levels, with the trade-off appearing in deal terms rather than headline multiples. Family offices accept earnouts and structured consideration less frequently than sponsors.

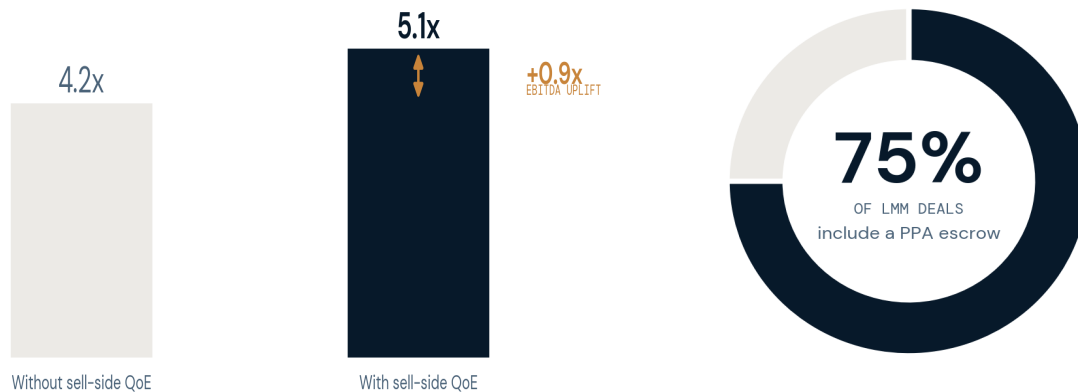
**Search fund and independent sponsor underwriting is constrained at the lower end by SBA SOP 50-10.** The procedure governs addback eligibility, ownership transition rules, and the operator's required active involvement post-close. Multiples in this archetype are typically lower than those paid by PE platforms or strategics, but the buyer's flexibility on owner-operator transition and on cultural fit is often higher.

SECTION 04

# The Misalignment Tax

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The misalignment tax is the value erosion attributable to a mismatch between the founder's preparation and the underwriting model of the buyer who eventually closes. It is a structural feature of the lower-middle-market transaction environment, not a defect of any particular deal. Several lines of evidence document the patterns through which the tax is paid.



**Figures 3 & 4.** Sell-side QoE accompanies a +0.9x EBITDA closing-multiple uplift in LMM transactions (left). Purchase-price-adjustment escrows are present in 75%+ of closed LMM transactions (right). *Source: DueDilio (2025), SRS Acquiom (2025).*

**Quality-of-earnings adjustments are concentrated in transactions where the buyer's underwriting model depends on EBITDA precision.** Among the active buyer archetypes, the PE add-on and the search fund are the most aggressive QoE consumers, because their lender requires the precision. The strategic acquirer treats QoE as one input to its pro forma model rather than as the primary input. The family office treats QoE as a check, not a determinant.

**Working capital and purchase-price adjustments are the second category through which the misalignment tax is paid.** The aggregate is not the relevant figure for a specific seller. The aggregate is the average across all archetypes, and the archetype-specific intensity varies materially. PE add-ons and platforms drive the most sophisticated PPA mechanisms because the model demands precision. Strategic acquirers absorb similar mechanisms more flexibly.

**Earnouts and deferred consideration are a third pattern.** SRS Acquiom's deal terms studies document the structure prevalence — earnouts are now common in the lower-middle market, particularly in transactions where the buyer is a financial sponsor — and the payout reality, in which average earnout payments come in materially below the maximum potential negotiated at LOI. A founder evaluating an LOI with a substantial earnout component is, in expectation, evaluating an offer worth less than its headline figure.

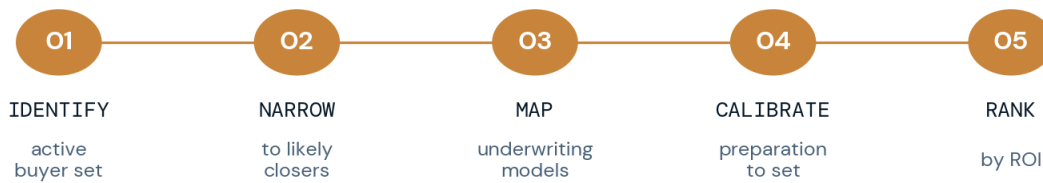
**Customer concentration discounts apply across archetypes but with different mechanisms.** In the PE add-on context, customer concentration above approximately 40% of revenue creates senior-debt covenant problems. The strategic acquirer treats customer concentration as a strategic value driver if the customer relationship is one the strategic wants, or as a deal risk if not. The family office treats concentration as a portfolio consideration rather than as a structural transaction risk.

The misalignment tax is forecastable. Each of the patterns above is buyer-archetype-specific. A founder who knows which archetype is most likely to compete for the business can forecast which patterns will apply most acutely and prepare accordingly.

SECTION 05 · THE FRAMEWORK

# The Buyer Lane Preparation Map

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The Buyer Lane Preparation Map is a five-step framework for upstream preparation in the lower-middle-market segment. Its claim is that the post-LOI value compression typical of the segment is not random but forecastable, and that the forecast is achievable in advance of buyer engagement when the founder's likely buyer set is mapped and preparation is calibrated against the underwriting models specific to that set.

**STEP 01**

**Identify the active buyer set.**

The active buyer universe for a specific business is not the full universe of PE platforms, strategics, family offices, and search funds. It is the subset of those buyers who would credibly compete for the business given its size, sector, growth profile, geographic footprint, and operational characteristics.

**STEP 02**

**Narrow to the buyers most likely to close.**

Within the active set, narrow further informed by buyer-specific behaviors: which PE platforms have closed bolt-ons in the relevant size and sector recently, which strategics have made acquisitions in the past 12 to 24 months, which family offices have declared interest in the relevant industry. The narrowed set is typically a handful of names, not a category.

### STEP 03

#### Map the underwriting models.

For each buyer in the focused set, the framework documents the underwriting model that buyer brings: a PE platform's debt-service constraints, a strategic's likely synergy realization assumptions, a family office's tax-structure preferences. The underwriting models do not converge.

### STEP 04

#### Calibrate preparation to the focused set.

Diligence package, financial-statement preparation, management-team development, working-capital position, and customer-concentration narrative are all calibrated to the focused buyer set. A founder whose set is dominated by PE add-ons prepares for debt-coverage scrutiny. A founder whose set is dominated by strategic acquirers prepares for synergy realism.

### STEP 05

#### Surface ROI-ranked interventions.

Calibration alone does not address the resource constraint: founders have finite time and capital to invest in preparation. The fifth step is to rank the preparation interventions by expected return on investment, given the focused buyer set. Highest-ROI interventions are addressed first. Unaddressed issues are positioned around in the buyer conversation rather than left silent.

The framework's defining property is that it produces a focused buyer set rather than a generic readiness checklist. The post-LOI gap is the difference between the LOI number and the close number. The gap is forecastable to the extent that the buyer's underwriting model is mapped in advance. The Buyer Lane Preparation Map is the instrument that produces the forecast.

SECTION 06

# Empirical Pattern Vignettes

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Three sectors make the framework concrete. They differ in their dominant buyer archetype, in the preparation interventions that actually move close value, and in the way calibration plays out against the focused buyer set.

**Roll-up activity in residential services.** The residential services sector — HVAC, plumbing, electrical, pest control, landscaping — has been a focal point of PE add-on activity since approximately 2020. Capstone Partners' middle-market reports document active consolidation, with multiple platforms executing 5 to 15 add-ons per year across the band. A founder of a \$3M to \$8M EBITDA residential services business in 2025-2026 is more likely to be approached by a PE platform's add-on team than by any other buyer archetype. Preparation calibrates to debt-coverage modeling, working-capital normalization, customer-cohort retention analysis, and management-team continuity post-close. Synergy-narrative preparation is less load-bearing because the buyer is not pricing on synergy in the strategic-acquirer sense.

**Strategic acquisition in B2B services.** Strategic acquisitions in B2B services frequently involve a larger industry incumbent purchasing a smaller competitor or adjacency. The acquirer's pro forma model includes synergy expectations that are explicit and underwritable: customer cross-sell, distribution-channel leverage, back-office consolidation. A founder whose focused buyer set is dominated by strategic acquirers prepares synergy-realism documentation, customer-transition risk mitigation, and integration-readiness materials. The customer-cohort retention analysis common to PE add-on processes is less central. The customer-transition narrative — what happens to specific customer relationships post-close — is more central.

**Family office direct acquisition in specialty distribution.** Family-office direct acquisitions in specialty distribution and niche manufacturing have grown since 2020. The buyer's underwriting model emphasizes operational continuity, succession quality, and tax-efficient structure. Hold periods are typically 10 years or longer, against the 3-7 year hold typical of PE. A founder whose focused set includes family-office buyers prepares succession documentation, post-close operational continuity plans, and tax-structure optionality. Diligence is typically less aggressive on EBITDA precision than in a sponsor or search-fund process and more aggressive on the long-term operational profile of the business.

The vignettes share a common pattern. The preparation that closes value at LOI is the preparation calibrated to the specific buyer archetype most likely to be the closing buyer. Generic preparation, distributed evenly across all the categories that any buyer might care about, leaves the highest-ROI interventions under-resourced and the lower-ROI interventions over-resourced.

# From Forecast to Calibration

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The post-LOI gap is the empirical signature of the misalignment tax. The aggregate gap in lower-middle-market transactions has been documented across multiple deal-terms studies and middle-market surveys. What those studies have surfaced less explicitly is that the gap is not evenly distributed across buyer archetypes.

Compression points differ buyer to buyer. Strategic acquirers compress on retention and synergy realism. With sponsor buyers, the compression sits in debt coverage and working-capital mechanics. Family offices, slower to act and more skeptical of complexity, compress on diligence depth and succession risk. Search fund buyers operate inside SBA criteria, where the compression pattern is constrained by what the lender will allow.

*“The post-LOI gap is forecastable when the founder's likely buyer set is mapped before preparation begins. The map exists. The terrain is real. The walk through it is the work that closes deals at LOI.”*

The Buyer Lane Preparation Map is the framework that produces the forecast. It does not eliminate the misalignment tax; it converts the tax from a structural surprise at close into a manageable variable in the upstream window. The variables it manages are buyer identification, archetype-specific underwriting models, preparation calibration, ROI-ranked intervention surfacing, and awareness-based positioning of unfixable issues.

The framework's primary contribution is not the discovery that buyer archetypes underwrite differently. That has been documented across decades of M&A literature. The contribution is the systematization — the explicit five-step process by which a founder, in the upstream window before any buyer has been engaged, can map the focused buyer set, calibrate preparation, and walk into the eventual transaction with informed expectation rather than headline optimism.

Future research, supported by the kinds of internal transaction data not available for the present paper, can test the framework's empirical predictions. Does calibrated preparation, applied in the The framework predicts that it does. The prediction is testable.

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