

# MIDDLE MARKET M&A INSIGHTS

A Comprehensive Guide to Valuation,  
Buyers, and Exit Preparation

## Contents

- Executive Summary – Page 2
- Who Is This Guide For? – Page 3
- Understanding Valuations and Multiples – Page 3
- Types of Buyers in the Middle Market – Page 6
- Key Challenges of Selling a Family Business – Page 7
- Preparing Your Business for Sale – Page 9
- About Western – Page 13



# Executive Summary

The Western Commerce Group Middle Market M&A Insights Report provides a practical roadmap for founder- and family-owned businesses preparing for sale in today's evolving environment. Drawing upon decades of advisory experience and a proprietary review of current market data, the report distills key lessons on valuation, buyer behavior, and exit readiness for companies valued between \$20M and \$500M.

## Understanding Valuation in Today's Market

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Valuation remains the cornerstone of every transaction. Middle market buyers typically rely on EBITDA-based multiples informed by discounted cash flow models and precedent transactions. In 2025, **multiples across most sectors have stabilized** following credit tightening in 2023–2024, with quality companies continuing to command premium valuations. Multiples vary by industry, business quality, and buyer type, with strong management teams, recurring revenues, and diversified customers consistently driving higher pricing.

## Who's Buying and Why

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Middle market acquirers fall into three broad groups:

- Strategic buyers seek synergies and market expansion opportunities.
- Private equity firms focus on scaling operations and delivering strong financial returns over 3–7 years.
- Family offices prioritize stewardship and continuity, often offering flexible terms and longer holding periods.

Understanding these motivations helps sellers select partners aligned with their legacy and long-term goals.

## Challenges Unique to Family Businesses

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Family-owned and founder-led companies face challenges that can complicate the sale process:

- Overreliance on the owner or key relationships.
- Informal financial and operational systems.
- Unresolved family dynamics and ownership disputes.
- Limited documentation of contracts, IP, or compliance records.

Proactively addressing these issues can raise valuations, shorten deal timelines, and build buyer confidence.

## Preparing for a Successful Exit

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Successful exits are built, not announced. The report recommends **18–24 months of preparation**, including:

- Normalizing financials and upgrading accounting systems.
- Formalizing customer, vendor, and employment agreements.
- Building an independent management team.
- Establishing data rooms and compliance documentation early.
- Aligning family and personal goals prior to marketing the business.



# Who Is This Guide For?

This guide is written for multi-generational or founder-owned businesses that have never sold before. It is not meant to be a technical valuation manual, but a practical roadmap for leaders balancing legacy, people, and long-term outcomes. Additionally, the valuation and M&A advice is intended for companies valued between \$20M and \$500M, generally considered to be the “Middle Market.” In our experience advising companies like these, we’ve found that owners usually begin the process of selling with a financial question but end up focused on making decisions driven more by identity, timing, and people.



## Understanding Valuations and Multiples

When considering a sale of your business, valuation is often the most pressing concern. Understanding how buyers think about value, and what your business might command in the current market, is essential to making informed decisions.

### How Companies Are Valued

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In the middle market, it is often thought that buyers primarily use EBITDA multiples (Earnings Before Interest, Taxes, Depreciation, and Amortization) to determine purchase price. The formula this involves is straightforward:

Enterprise Value = EBITDA x Multiple

However, the reality is that multiples should be considered more of an output than an input. Most buyers will use a combination of valuation models and precedent transactions to arrive at that multiple.

### Valuation Models

The most common valuation model is the DCF (discounted cash flow) model that estimates a company’s value by projecting the cash it is expected to generate in the future and converting those future dollars into today’s value. The model begins with a detailed forecast of free cash flow – over five to ten years – based on assumptions about revenue growth, operating margins, capital expenditures, and working capital needs. Those projected cash flows are then discounted back to present value using a **discount rate** that reflects the company’s risk profile and cost of capital. A terminal value is then calculated to capture the value of cash flows beyond the explicit forecast period.

The sum of the present value of the annual cash flows and the present value of the terminal value is a figure that can be used as a good approximation of company’s intrinsic value. A multiple can then be derived by dividing the intrinsic value figure by the most recent year’s EBITDA.

### Precedent Transactions

Precedent transactions ground the valuation in **what buyers have actually paid** for similar companies in recent deals.

- Buyers identify completed transactions in the same industry and size range, then extract the headline valuation metrics (EV/EBITDA, EV/Revenue, etc.).
- They adjust these multiples for differences in size, profitability, growth, customer concentration, and synergies to the specific buyer, often tightening the range produced by broader market data.

Precedents are especially persuasive in negotiations because they demonstrate that similar businesses have traded at comparable levels, helping justify a target range to boards, lenders, and investment committees.

Note that neither approach generates a single, end-all number that is used in a transaction proposal. Instead, the final purchase price is usually set somewhere between where the two methods overlapped and is then refined based on various surrounding circumstances: risk, management depth, deal structure, and strategic fit.

## **What Drives Valuation Multiples?**

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Not all businesses in the same EBITDA range command the same valuation. The quality of the business significantly impacts the ultimate purchase price that buyers are willing to pay. We often see founders assume valuation is determined solely by financial performance, but most deals are won or lost because of concentration risk, leadership uncertainty, and a lack of transition planning.

### **Premium Drivers:**

- Recession-resistant, recurring revenue (especially if subscription or contract driven).
- Demonstrated margin expansion and consistent profit growth.
- Proprietary technology or intellectual property that competitors cannot easily replicate.
- Strong, independent management team in place.
- Diversified customer base with no customer concentration risk.
- Long-term contracts with high renewal rates.
- Attractive industry dynamics with tailwinds rather than headwinds.

### **Discount Drivers:**

- Revenue concentration (few large customers representing most income).
- Owner-dependent business with limited management team.
- Declining margins or unpredictable profitability.
- Commoditized offerings with limited differentiation.
- Challenging industry trends or market saturation.
- Significant customer or vendor concentration risk.
- Deferred maintenance or aging infrastructure.

## **A Quick Comment on Public Comps**

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Often, the trading multiples of comparable public companies (“public comps”) are used to gauge the value of a private, family-owned business. While this approach appears logical, public multiples commonly overstate value because public companies benefit from far greater liquidity, as well as larger scale, greater diversification, and more professional management, all of which reduce perceived risk relative to a closely held business. Simply “plugging in” public multiples therefore ignores meaningful differences in size, risk, and performance. In practice, public comps are best treated as a ceiling or starting point, then adjusted to reflect the specific characteristics and circumstances of the family business being analyzed.

## **Timing Considerations**

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Market conditions fluctuate. Across much of the middle market, rising rates and tighter credit continued to pressure valuations in 2024. However, as we enter 2026, certain sectors have now seen renewed buyer interest, particularly involving family companies with strong fundamentals. If your business has strong fundamentals, the current environment offers reasonable valuations without the frothy conditions that existed before 2022. Note that valuations and credit conditions continue to evolve, and sellers should discuss current market conditions with an advisor before relying on potentially outdated expectations.

## Illustrative Middle Market EBITDA Multiples By Industry (2025)

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Industry	Illustrative Range*
Manufacturing	6.0x – 7.0x
Distribution	6.5x – 7.5x
Business Services (B2B)	7.0x – 8.0x
Healthcare Services	5.5x – 8.5x
Technology / Software	5.5x – 9.5x
Consumer / Retail	7.5x – 8.0x
Transportation / Logistics	6.0x – 7.5x
Construction Services	6.5x – 8.5x
Power	7.5x – 10.0x

\* Ranges shown reflect Western's synthesis of multiple private middle-market datasets, proprietary deal experience, market observations, and public deal announcements for transactions generally between \$20M and \$500M as of 2024-2025.

**Note:** These multiples are meant to be illustrative only and do not constitute a valuation opinion for any specific business or situation. Actual valuation outcomes will vary based on company-specific factors such as size, growth, margins, customer concentration, cyclicalities, and deal structure; readers should treat this chart as a starting point and seek a tailored valuation for their particular situation. Additionally, companies below \$5M EBITDA often transact at a discount to the ranges quoted above.

## Case Study – Specialty Retail

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In 2024, a multi-generational company in the retail space received 2 highly compelling offers to acquire a majority position in their business. One of the offers was from a financial buyer who offered 7.0x TTM EBITDA, while the other came from a family office who offered 6.0x TTM EBITDA. Ultimately, the sellers chose to partner with the family office despite the lower valuation due to the promise of greater continuity and stability, plus the investing family's experience in retail.



# Types of Buyers in the Middle Market

Understanding buyer motivations is crucial because different buyer types have different priorities, valuation approaches, and post-acquisition visions for your business. There are three primary categories we see most often when advising family businesses:

	Strategics	Financial Buyers (Private Equity)	Family Offices
What they are	Competitors, suppliers, customers, etc., looking to expand existing operations.	Investment firms that acquire businesses using institutional capital. Seek to implement operational improvements and exit 3-7 years later.	Private investment entities deploying the capital of one or several families. They generally hold a long-term outlook.
Motivations	Seek to realize synergies: eliminate costs, cross-sell products, acquire technology or customers, or vertically integrate.	Motivated by financial returns. Evaluate businesses based on standalone performance and value-creation levers.	Motivated by capital preservation, wealth compounding, and balancing financial returns with qualitative goals such as stewardship and family alignment.
Implications for you	Strategics often see value beyond numbers. They may pay a premium if your business has some quality they can't replicate. No defined exit timeline.	PE may be able to pay a premium through access to institutional capital and leverage. Can often bring operational and scaling expertise necessary to accelerate growth.	Family offices often position themselves as patient, partner-oriented owners. May offer flexible structures, brand preservation, and seller involvement opportunities.
Valuation impact	Don't always pay the highest price since they tend to fund acquisitions using existing balance sheet. However, may pay premium for compelling synergies.	PE focuses on EBITDA, growth trajectory, management strength, and margin expansion. Less concerned with synergies.	Typically, more conservative on price and leverage but can be competitive for high-quality assets. Can win on terms, structure, and continuity.
Example	A regional plumbing company acquires a complementary HVAC contractor.	A PE firm acquires a business services company as a platform for executing a broader roll-up strategy.	A family office backed by an industrial family's prior exit acquires a niche manufacturing business and keeps current management in place.



# Key Challenges of Selling a Family Business

## Emotional and Legacy Considerations

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Unlike transactions involving a public corporation or PE holding, selling a family business often involves emotional attachments spanning decades or generations. Owners worry about:

- The company's future direction under new ownership.
- Preservation of company culture and employee welfare.
- Family legacy and reputation in the community.
- Psychological identity tied to the business.
- Unequal family member interests in proceeding with a sale.

Buyers understand this emotional dimension and may try to exploit it in negotiations. Successful family businesses should consider working with an advisor who can help separate emotional concerns from financial reality, allowing more objective decision making.

## Lack of Professional Management Depth

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Many family businesses are built around the founder or one key family member. Unlike large public companies with deep management benches, family businesses often lack:

- A professional CEO separate from the founder/owner.
- Documented processes and standard operating procedures.
- Multi-layer management hierarchy.
- Contingency plans for key person loss.
- Independent board oversight.

Buyers view this as significant risk. They worry about what happens if the retiring founder leaves and key relationships or institutional knowledge walk out the door. This depresses valuations.

## Informality in Financial and Operational Records

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Public companies operate under intense SEC scrutiny. Every expense is categorized, revenue is verified, inventory is audited, and financial statements are unambiguous. Family businesses often operate with more informality:

- Owner's discretionary expenses are mixed with legitimate business expenses.
- Incomplete documentation of customer contracts and relationships.
- Informal IT systems without proper cybersecurity or data backup.
- Tax strategies that may look aggressive on audit.
- Handshake agreements with key suppliers or customers.

During due diligence, buyers will comb through years of records. Unexplained expenses, undocumented customer relationships, or informal agreements create friction and uncertainty, often resulting in purchase price adjustments.

## Customer and Supplier Concentration Risk

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Many family businesses are built on the founder's personal relationships. A buyer inheriting the business may worry:

- Will the founder's best customers leave if personal relationships end?
- Can the business retain supplier relationships or will terms change?
- Is revenue truly tied to the business or is it due to the founder's personal goodwill?

This is particularly acute if a few customers represent 30%+ of revenue.

## Complex Ownership Structures and Family Dynamics

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Public companies have clear ownership – i.e., the shareholders. Family businesses may have:

- Multiple family members with different objectives.
- Deceased shareholders' heirs with fractional ownership interests.
- Spousal ownership complicated by divorce or estate considerations.
- Trusts or estates complicated decision authority.
- Fundamental disagreements about business strategy or sale terms.

Buyers will want certainty that all owners will agree and sign off.

## Less Rigorous Due Diligence Preparation

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Large public companies maintain extensive documentation because they expect to be scrutinized. Family businesses often haven't invested in:

- Environmental compliance audits.
- Cybersecurity and data privacy assessments.
- Complete regulatory compliance reviews.
- Intellectual property documentation.
- Employee handbook and HR compliance.
- Insurance adequacy assessment.

During buyer due diligence, gaps in these areas trigger "reps and warranties" insurance costs, purchase price holdbacks, or other special deal conditions.

## The Valuation Impact

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The challenges inherent in selling a family business don't necessarily mean a deal can't get done or that the deal will carry a lower valuation. However, these issues certainly create friction and uncertainty that:

- Lengthen the sales process by several months.
- Increase transaction costs.
- Reduce buyer comfort with aggressive pricing.
- Create purchase price holdbacks or escrow requirements.
- Result in more onerous non-compete and post-closing consulting arrangements.

Sellers who proactively address these challenges often achieve valuations at the premium end of the range.



# Preparing Your Business For Sale

The sale of your business is one of the most significant financial and personal decisions you'll make. Success depends on preparation. Here are the key steps to maximize value and smooth the process.

## Financial Preparation

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### Normalize and Demonstrate Earnings

Buyers want to understand sustainable, normalized earnings; not a one-time spike or unusual year. Work with your CFO or accountant to:

- Add back owner discretionary expenses (country club dues, personal vehicles, excessive travel) to calculate a normalized EBITDA figure.
- Document recurring revenue and customer contracts.
- Demonstrate margin trends: are margins expanding or contracting? Why?
- Explain any anomalies: did a large customer leave? How will you replace that revenue?

### Audit Revenue Quality

Segment your customers by:

- Customer concentration: Ideally, no customer represents >15% of revenue.
- Contract duration: Calculate average customer lifetime value; demonstrate why those figures are stable.
- Revenue predictability: Are sales recurring or one-off?
- Customer profitability: Identify unprofitable customers and eliminate them before sale.

This analysis helps you (a) identify legitimate concerns a buyer will raise and (b) fix concentration risk before sale.

### Invest in Financial Infrastructure

Install or upgrade:

- Accounting systems with clean, reconciled accounts. If you have to ask whether you've outgrown QuickBooks, you probably have.
- Forecasting tools showing year-to-date and projected annual performance.
- Customer relationship management (CRM) systems documenting customer interactions and contracts.
- Project accounting or job costing (for service and construction businesses).

Professional financial systems aren't just to improve accounting; they signal to buyers that you operate a professionally managed business.

## Operational Preparation

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### Build an Independent Management Team

When family businesses are involved, often the single largest determinant of post-acquisition success is whether the business can operate without you. If you're the only person who knows:

- How to land major customers.
- How to manage key operations.
- Where institutional knowledge lives.
- How to solve critical problems.

...then the buyer is buying you, not a scalable business. And your valuation will reflect that risk.

In the years leading up to a sale, look to:

- Define your management team gaps.
- Hire or develop a general manager/operations leader.
- Develop a COO or CFO to own financial and operational oversight.
- Create clear roles and reporting structures.
- Find ways to incentivize key team members to stay post-acquisition (i.e., retention agreements).

## **Systematize and Document Operations**

Replace informal, founder-dependent processes with documented systems. Create:

- Standard operating procedures (SOPs) for all critical processes.
- Customer onboarding and delivery workflows.
- Quality assurance and compliance checkpoints.
- IT system documentation and security protocols.
- Vendor management agreements.
- Decision-making authorities by role.

When a buyer sees documented, systematized operations, they gain confidence that growth can continue post-acquisition without founder involvement.

## **Strengthen Technology**

Many family businesses operate on outdated or patched-together systems. Audit your:

- Enterprise software (accounting, CRM, ERP systems).
- IT security and data backup protocols.
- Cloud vs. on-premises infrastructure.
- Cybersecurity compliance with data protection regulations.
- Disaster recovery and business continuity plans.

Upgrading technology 18 months before a sale costs money upfront but eliminates a major due diligence risk.

## **Legal and Compliance Preparation**

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### **Formalize Customer and Supplier Relationships**

Replace handshake agreements with written contracts. Ensure:

- Major customers have written service agreements or purchase orders.
- Key suppliers have formal vendor agreements.
- Long-term relationships are documented in writing.
- Renewal dates and terms are clear.

Buyers want to see that customer relationships are contractual, not dependent on personal relationships.

## **Audit Regulatory Compliance**

Engage compliance specialists to review:

- Industry-specific regulations (healthcare, financial services, environmental, etc.).
- Employment law compliance (wage and hour, benefits, classifications).
- Data privacy and cybersecurity.
- Environmental compliance and permits.
- Licensing and certifications.

Proactively fix compliance gaps before a buyer's due diligence team finds them; they might use these gaps to retrade the deal (i.e., lower the purchase price).

## **Intellectual Property Documentation**

Document and protect:

- Trademarks, patents, copyrights, and trade secrets.
- Domain names and digital assets.
- Proprietary software or processes.
- Customer lists and pricing (to the extent protectable).

## **Environmental and Facility Assessments**

If you operate facilities, obtain:

- Phase I Environmental Site Assessment.
- Building and equipment condition assessments.
- Landlord consent letters (if leased).
- Utility system documentation and efficiency audits.

Identifying environmental or facility issues proactively and remediating them is far cheaper than having a buyer uncover them and try to renegotiate or walk away from the deal.

## **Strategic Preparation**

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### **Engage Advisors Early**

Work with a team:

- M&A advisor: Develop a transaction strategy, create marketing materials, and manage buyer outreach. They bring market knowledge and buyer relationships.
- Tax advisor: Structure the deal to understand and minimize potential tax liability.
- Legal counsel: Negotiate purchase agreements and manage closing documentation.
- Accounting firm: Support due diligence, prepare financial materials, and validate EBITDA calculations.

The cost of advisors is almost always offset by their ability to find the right buyer at the right valuation while reducing the workload you have to shoulder as the seller.

### **Develop a Realistic Business Plan for the Next 2 Years**

Buyers evaluate your business based on forward-looking expectations, not just historical results. Develop:

- Detailed revenue projections by customer segment or product line.
- Gross margin assumptions.

- Operating expense projections
- Capital expenditure requirements.
- Key performance indicators (KPIs) and growth drivers.

Much of this information will be used to drive the DCF calculations mentioned above.

## Create a Data Room

Centralize all documentation in a secure, organized data room. Organize by:

- Financial statements and tax returns (3-5 years).
- Customer contracts and revenue documentation.
- Employee agreements and organizational documentation.
- Vendor and supplier agreements.
- IT systems and cybersecurity documentation.
- Facility and environmental documentation.
- Regulatory compliance documentation.
- Intellectual property and trademark registrations.
- Insurance policies and coverage.

## Personal Preparation

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### Clarify Your Own Objectives

Before approaching buyers, be clear about:

- Minimum acceptable price.
- Desired terms (cash at close vs. stock vs. earn-out based compensation).
- Ideal buyer profile (strategic vs. PE vs. family office; industry fit).
- Post sale involvement (do you want to stay on for 2-3 years? Exit completely?).
- Personal financial goals (retirement, philanthropy, next venture).

### Plan for Transition

Selling your business can create a psychological void. Before close, establish:

- A retirement plan or next career move.
- A consulting or part-time advisory role.
- Next activities or investments to occupy your time.
- Family involvement in the transition.

Many founder-owners struggle post sale. Planning ahead for this transition reduces regret and ensures you make a rational, not emotion-driven, decision.

### Manage Family Expectations

If family members are shareholders, ensure they understand:

- Timeline to sale.
- Expected valuation range and how it was calculated.
- Tax implications and net proceeds to each family member.
- Who will make decisions.



## Key Takeaways

Selling a family business is complex but achievable with proper preparation. The most successful sellers:

- Understand how buyers view valuation and the key drivers of value for their company and industry.
- Know the different buyer types and their motivations.
- Proactively address the specific challenges that family business sales present.
- Invest 18-24 months in financial, operational, and legal preparation.
- Engage experienced advisors to navigate the process.

Family-owned businesses are an attractive target for many buyers. If your business is well-prepared, operated with a strong management team, and demonstrates sustainable earnings, you'll attract a variety of competitive offers and can choose the one that best suits your company and needs.

Ultimately, however, remember that selling is more than a transaction, it's a personal legacy decision. The goal should always be to secure an outcome that preserves what matters most: people, culture, and identity.



## About Western

### About

Western Commerce Group is an M&A and strategic advisory firm that focuses on family-owned and privately held businesses. Since its founding in 1998, the firm has completed transactions totaling over \$13 billion and has advised 160+ clients across more than 30 U.S. states, as well as Canada and Mexico. The firm emphasizes long-term client relationships, providing trusted advisory support that aligns with clients' strategic goals and preserves the legacy of their businesses.

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