



2026 M&A Deal Terms Study Special Report

Lower Middle-Market Deals

Deals with upfront transaction values of \$50 million or less

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Overview

Lower middle-market (LMM) private-target M&A deals—those with closing payments of \$50 million or less—continue to make up more than 40% of total deal volume. These transactions remain immensely important to the overall M&A market and can be as complex as upmarket deals. Based on an in-depth analysis of the SRS Acquiom proprietary database of more than 4,400 transactions with the latest data from deals closed in 2025, this report provides a curated overview of key deal term trends, including where LMM deals diverge from the greater M&A market.

Key Findings

- Private equity continues to show more interest in LMM targets, even below \$25 million ([page 3 ▶](#))
- Use of earnouts remains heightened, and the amount of contingent consideration is up significantly ([page 5 ▶](#))
- Indemnification provisions skewed toward buyers, as thorough due diligence and, to a lesser but growing extent, insurance underwriting drive bespoke terms ([page 6 ▶](#) and [10–12 ▶](#))

About SRS Acquiom

SRS Acquiom delivers the smartest way to run a deal™ with solutions that reduce the administrative burden in complex transactions. Our M&A services include paying and escrow agent services, online document solicitation and reporting, and professional shareholder representation. For loan and credit transactions, we provide independent Administrative Agent, Collateral Agent, Sub-Agent, and Successor Agent services. Since 2007, we have helped sophisticated deal parties get deals done more efficiently, enabling them to focus on building great businesses and maximizing value.

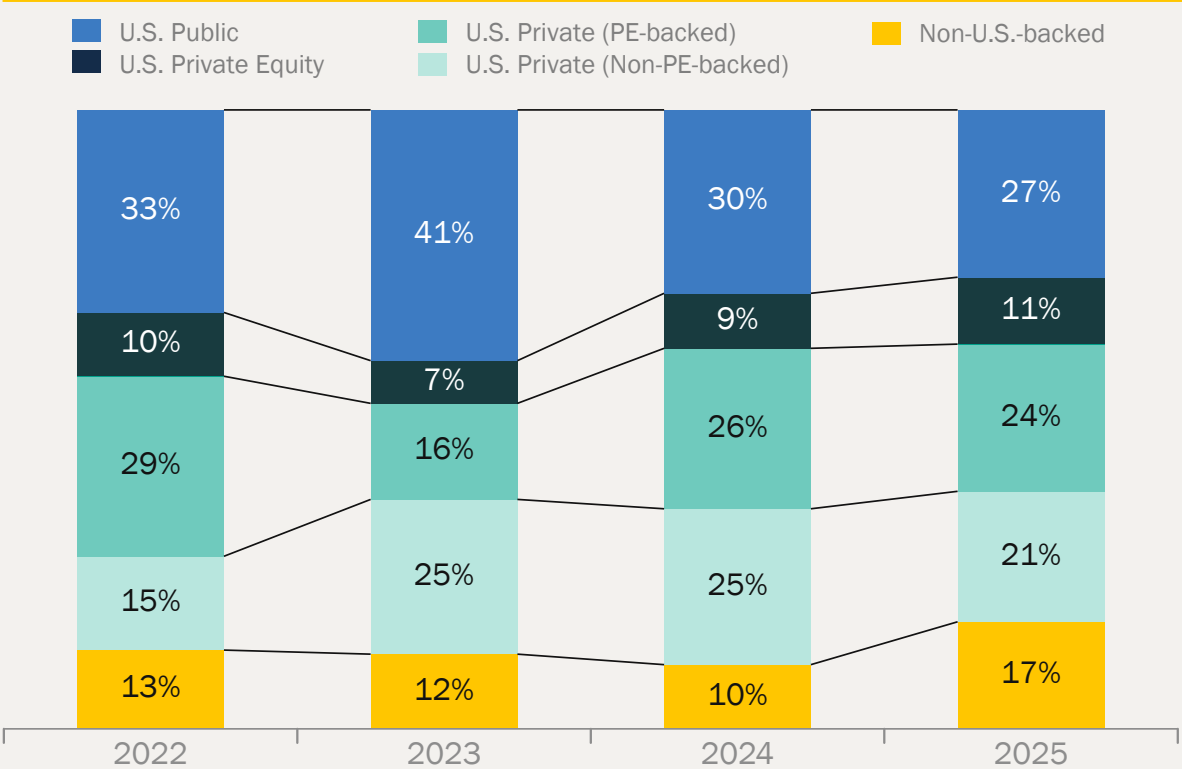
Shifting Attention from Buyer Types Driving Deal Term Trends

Private equity (PE) continued to pay more attention to LMM targets in 2025, with PE buyers directly involved on 11% of LMM deals in the SRS Acquiom LMM dataset. Notably, PE buyers also accounted for about 10% of the smallest LMM deals (with \$25 million or less upfront). That is up from 4–5% over the last several years. PE portfolio companies were the buyers on another 21% of these transactions. Strategic buyers maintain a strong position in LMM acquisitions, with the number of deals in the SRS Acquiom dataset up slightly year over year.

A note about the SRS Acquiom dataset: the increase in non-U.S.-based buyers is likely a bias driven by SRS Acquiom expansion. Historically, LMM deals had more U.S.-based buyers compared to upmarket deals. However, as there does appear to be a rise in competition among buyers for the most attractive targets, perhaps driven somewhat by more active buyers outside of the U.S., in addition to the increased attention from U.S. PE, and a steady pace from U.S. strategics.

Subset: Lower middle-market deals (2022–2025)

DEAL BUYER TYPES*



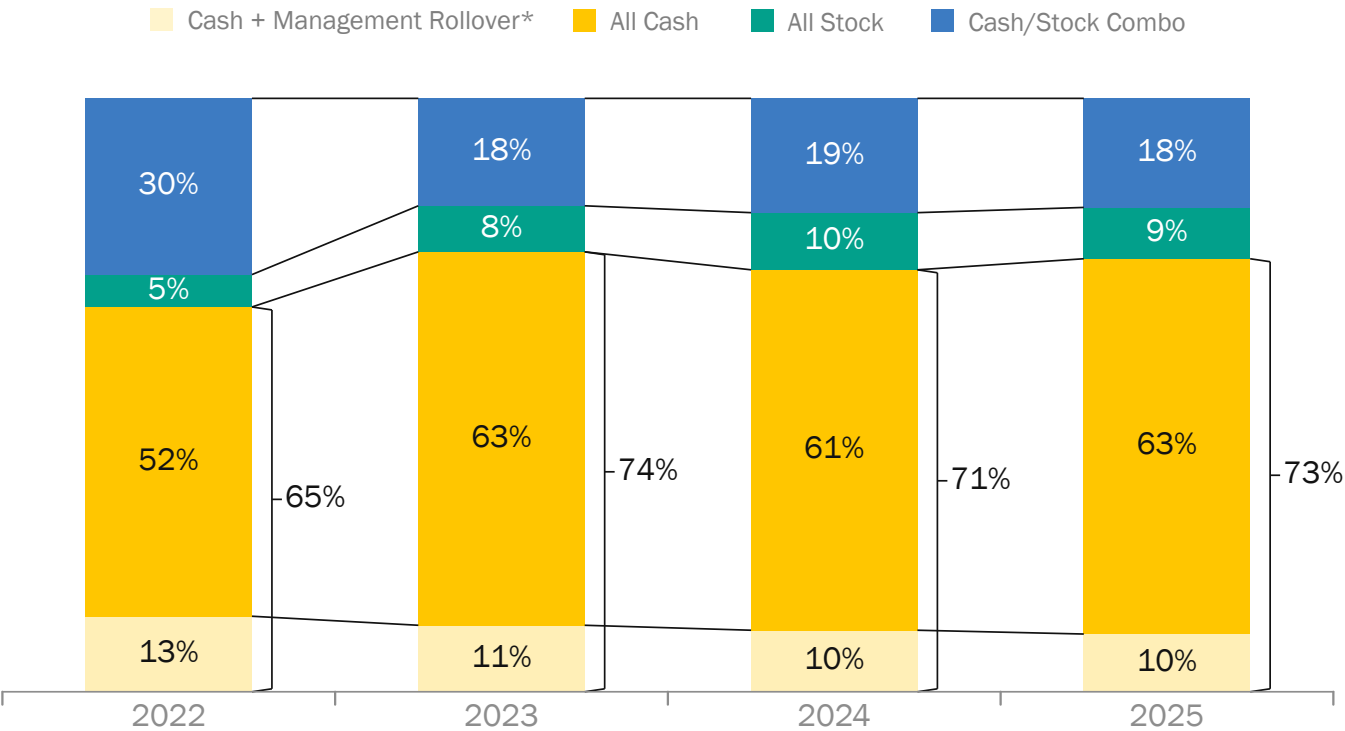
* Beginning with deals closed in 2022, SRS Acquiom now distinguishes between U.S. private buyers that are backed by private equity (e.g., portcos) and those that are independent.

A Relatively Steady Flow of All-Cash Deals

In a year when the Dow and NASDAQ hit multiple records despite higher-than-expected interest rates—conditions that might favor greater use of buyer equity on deals—LMM deals saw a small increase in cash deals year over year. While increased PE buyer activity could help explain this trend, the steady rate of management rollovers in LMM deals—more common in private equity-backed transactions—suggests buyer type is only part of the story. **LMM saw a small increase in all-cash deals, while larger deals saw a slightly bigger increase.**

Subset: Lower middle-market deals (2022–2025)

CONSIDERATION TYPE



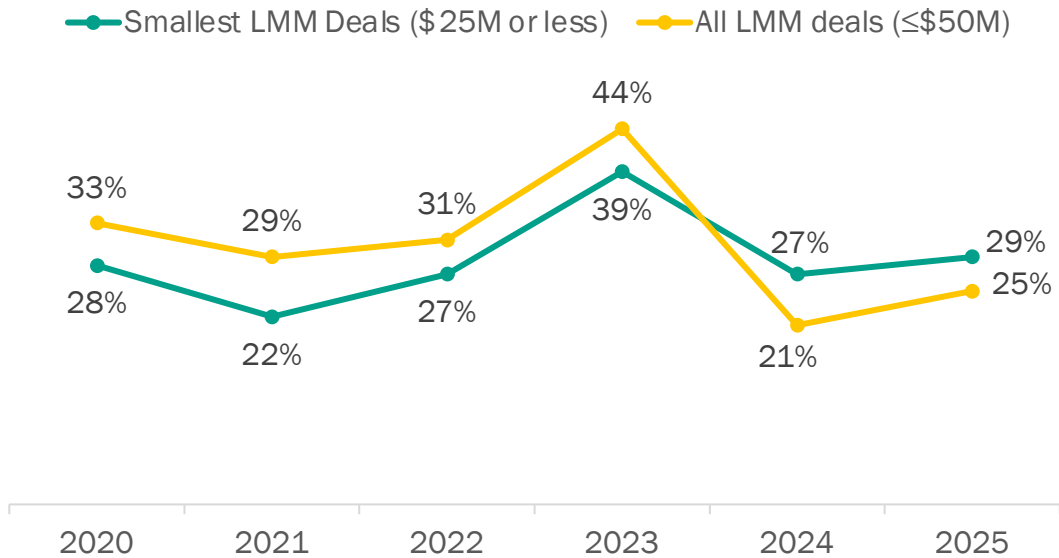
* Beginning with deals closed in 2022, SRS Acquiom now tracks when a cash transaction includes a management-rollover component.

Earnouts (non-Life Sciences deals)

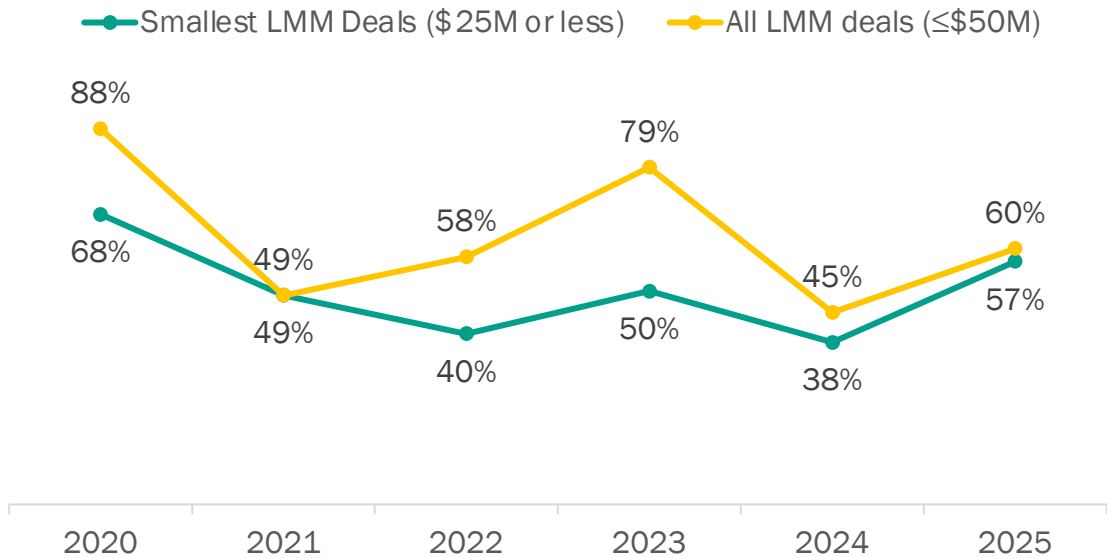
Lots of Deal Value on the Line

Putting aside Life Sciences deals, where earnouts are prevalent, earnouts remain more common in LMM deals than in upmarket transactions. The notable change in 2025 is the significant amount of dollars at play. As a percentage of the closing payment, the median earnout potential was 57% in LMM deals (excluding Life Sciences deals), compared to 34% across all deal sizes. The smallest LMM deals saw a higher prevalence of earnouts, which were also slightly larger on a median basis, compared to all LMM deals.

EARNOUT INCLUDED (NON-LIFE SCIENCES DEALS)



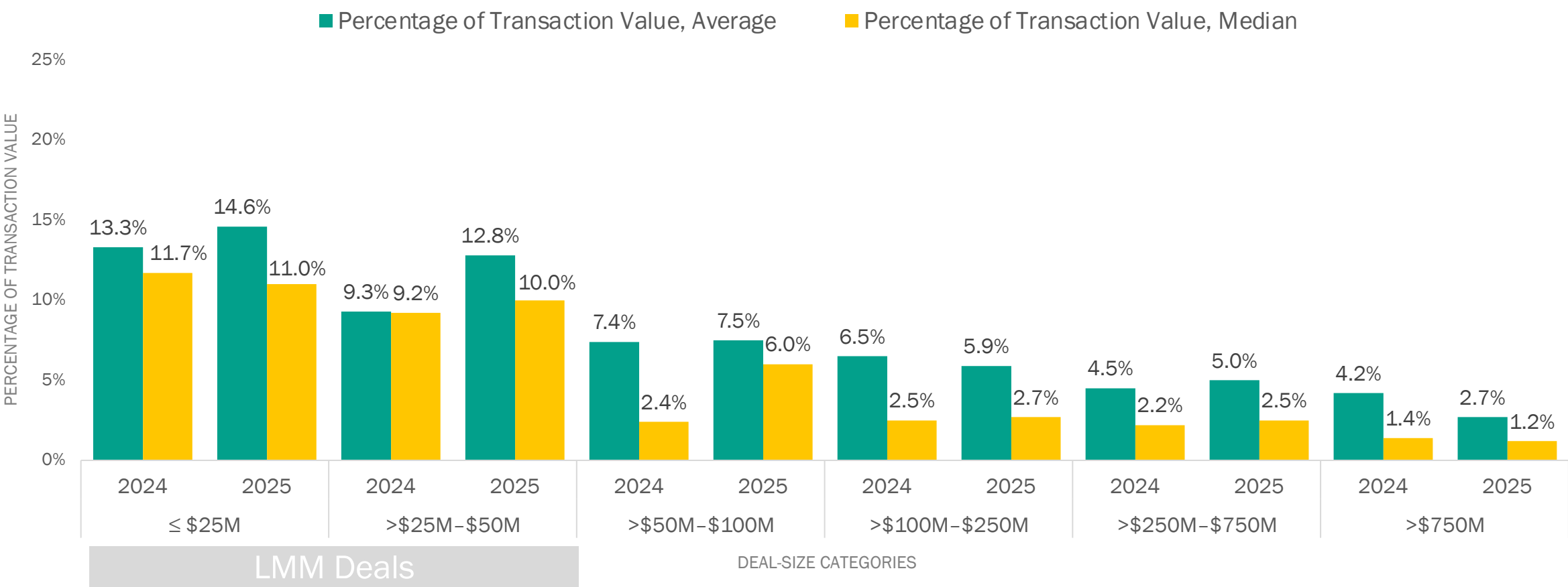
MEDIAN EARNOUT POTENTIAL AS A PERCENTAGE OF CLOSING PAYMENT*



* Calculated as the sum of potential earnout payments over the amount paid at closing (including escrowed amounts).

More Escrowed Consideration

TOTAL ESCROWED CONSIDERATION AS A PERCENTAGE OF TRANSACTION VALUE*



* The presence of RWI can have an impact on escrow sizes. See [page 11](#) for the differing prevalence of RWI across these deal-size categories (i.e., LMM deals are less likely to include RWI).

More Escrowed Consideration (continued)

Minimizing Risk and Providing Security in LMM Deals

10% Like all private-target M&A, the median traditional indemnification escrow is 10% of transaction value for LMM deals. 61% of LMM deals included a general-purpose indemnification escrow, up from 57% in 2024.

1 in 5 22% of LMM deals include a special escrow, sometimes in addition to the general indemnity escrow and escrows for the working capital purchase price adjustment, which is included on a majority of LMM deals with a PPA.

43% 43% of LMM deals have multiple escrows, which is even more common in upmarket deals.

15 months The median survival period for LMM deals, at 15 months, is slightly longer than across all deals (12-month median).

3x Deals with a 24-month (especially long) survival period, tripled compared to a few years ago, coming in at 9% of LMM deals and 6% of all deal sizes.

Post-Closing Expense Funds

Most private-target M&A deals include an expense fund, a pool of money—not an escrow account—that sellers set aside at closing to fund any post-closing expenses.

Expense funds are typically \$250,000–\$350,000 in private-target transactions, although LMM deals often have smaller averages, which can sometimes be a major disadvantage.

LMM deals can have just as complicated and lengthy claims as jumbo-sized deals, prompting sellers to seek protections accordingly. As many as one in 50 LMM deals set the expense fund at a million dollars or more.

Subset: 2025 deals

POST-CLOSING EXPENSE FUND SIZES, BY DEAL SIZE CATEGORY

Transaction Value	Expense Fund Included	Expense Fund Size	
		Average	Median
≤ \$25M	96%	\$96,000	\$75,000
> \$25M–\$50M	100%	\$166,000	\$100,000
> \$50M–\$100M	99%	\$207,000	\$150,000
> \$100M–\$250M	98%	\$230,000	\$250,000
> \$250M–\$750M	100%	\$451,000	\$250,000
> \$750M	100%	\$1,537,000	\$500,000

Highlighted sections are lower middle-market deals

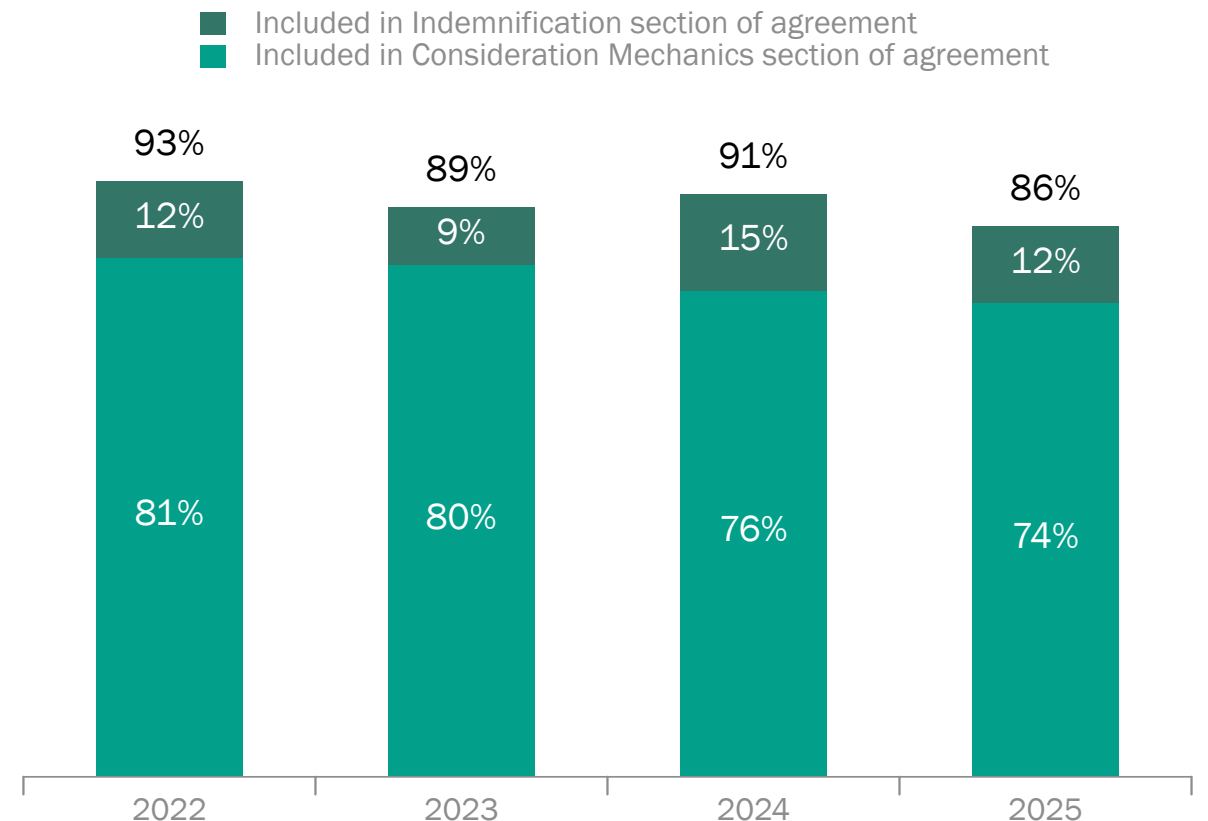
Common and Just as Complicated

Working capital PPAs are just as relevant on LMM deals as they are across the entire M&A market (virtually all deals with a PE buyer include a PPA). PPAs on LMM deals can be **just as complicated when it comes to GAAP accounting and dispute resolutions times** even if the nominal adjustment amounts are typically small.

- **Generally, nine out of 10 LMM deals include a PPA**; the dip in 2025 is likely attributable to the increase in non-U.S.-based buyers in the SRS Acquiom dataset.
- **Median PPA escrow size for LMM deals was 1.12% of transaction value**, a slight decrease year over year, which also occurred across all deal sizes in 2025.
- **LMM deals lag on the latest trends in PPA calculations, with only 28% using the “worksheet approach”** (specific calculation methodology or schedule) compared to nearly 40% of all deals with a PPA.

Subset: Lower middle-market deals (2022–2025)

ADJUSTMENT PROVISION INCLUDED



Thorough Due Diligence Continues to Drive Indemnification Terms

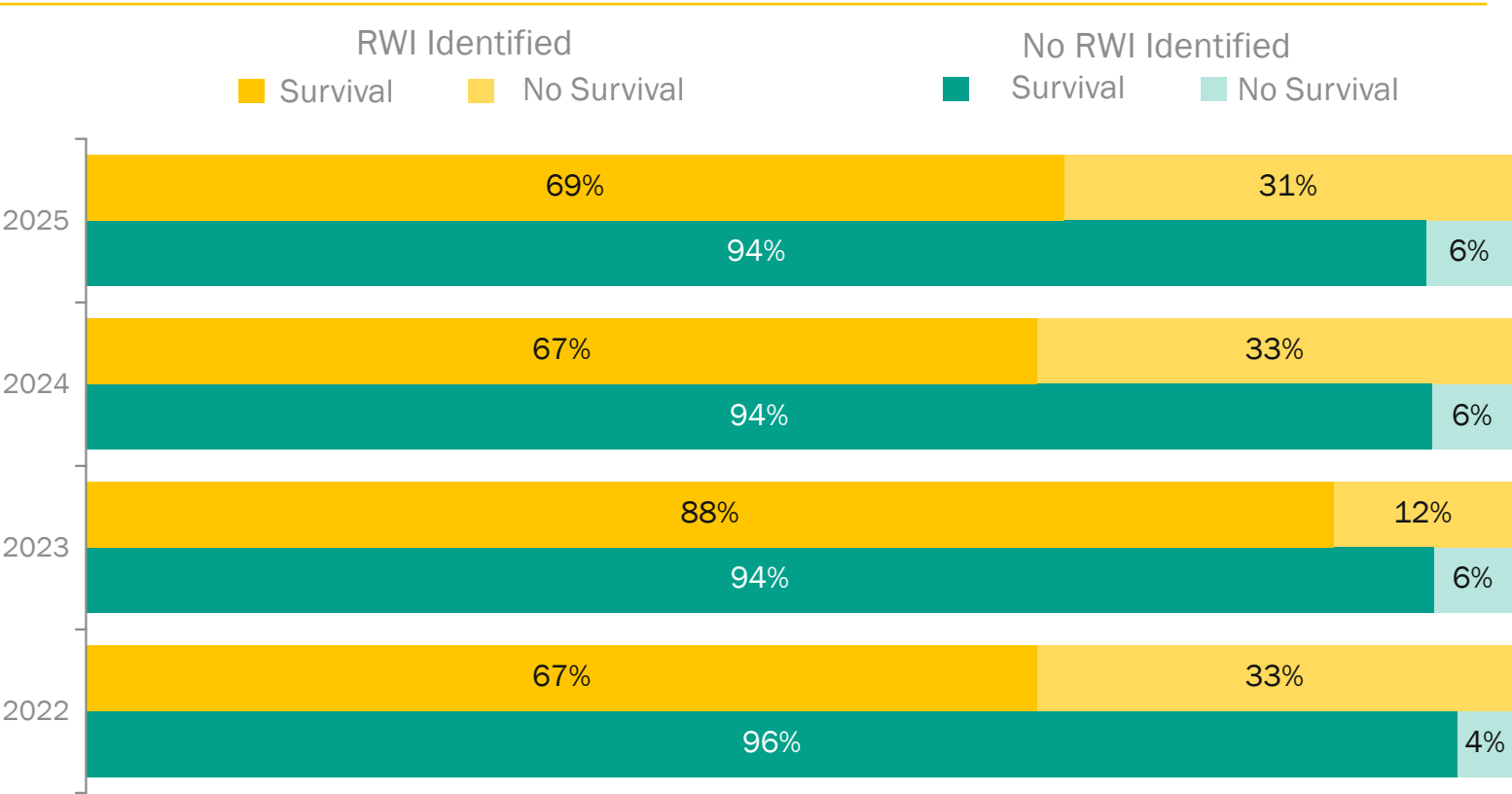
Thorough due diligence, driven by buyer favorable conditions and, in some cases, insurance brokers and underwriters, continues to drive customized indemnification terms on deals of all sizes with sellers’ general reps surviving in nearly all uninsured LMM deals and a healthy majority of LMM deals with RWI.

In addition to the general reps surviving, some LMM deals see extended survival periods. 9% of 2025 LMM deals had a 24-month survival period, compared to 6% of all deals, and the median survival period was 15 months.

Subset: Lower middle-market deals (2022–2025)

Survival (or not) of Seller’s General Representations and Warranties

INFLUENCE OF REPS AND WARRANTIES INSURANCE



Buyers’ Focus and Insurance Are Compelling More Diligence

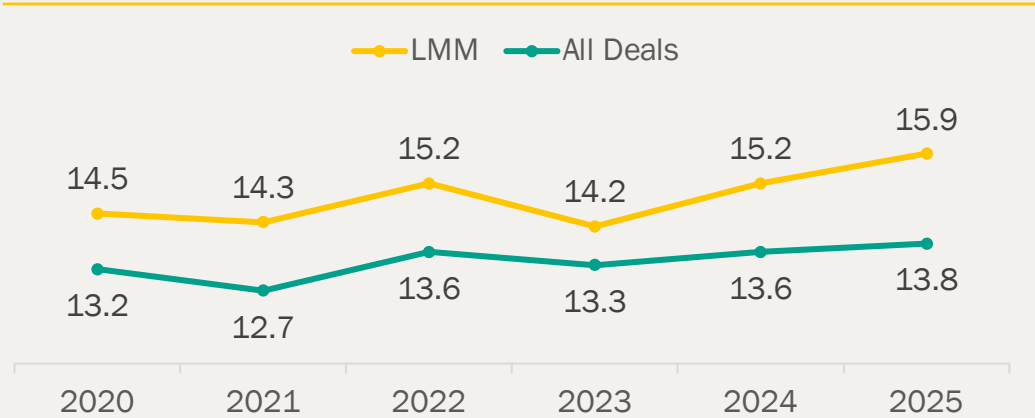
With RWI used in one in five of the smallest LMM deals and two in five of other LMM deals (\$25 million to \$50 million upfront), understanding its nuanced interplay with indemnification terms in the acquisition agreement is especially important. LMM deals, as a category, tend to either surface more issues during due diligence or see buyers feeling less confident in the completeness and accuracy of the data room and, as a result, generally feature longer survival periods and larger escrows.

INCLUSION OF REPS AND WARRANTIES INSURANCE, BY TRANSACTION VALUE:

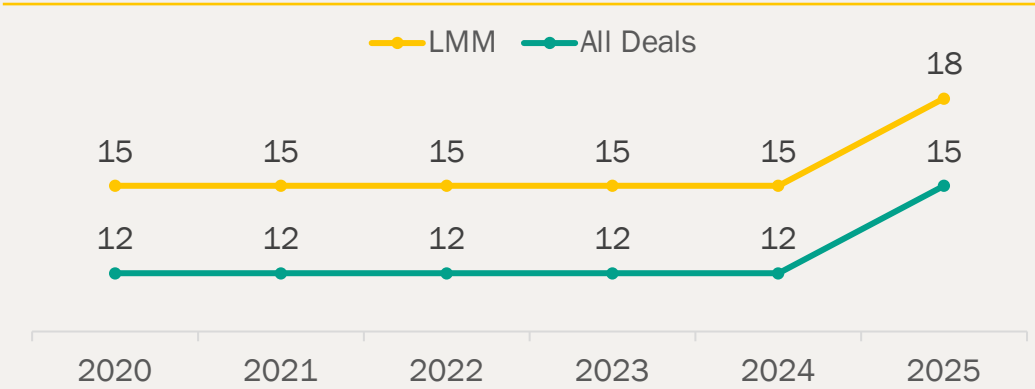
RWI Identified:	2023 Deals	2024 Deals	2025 Deals
All Deals	38%	42%	46%
Up to \$25M (LMM)	10%	10%	21%
\$25M–\$50M (LMM)	33%	34%	40%

Highlighted sections are lower middle-market deals

GENERAL SURVIVAL PERIOD/TIME TO ASSERT CLAIMS (2020–2025): AVERAGE



GENERAL SURVIVAL PERIOD/TIME TO ASSERT CLAIMS (2020–2025): MEDIAN



More and Bigger Special Escrows

The special escrow continues to gain traction as an indemnification tool with slightly more LMM deals in 2025 using one. 43% of LMM deals in 2025 had multiple escrows.

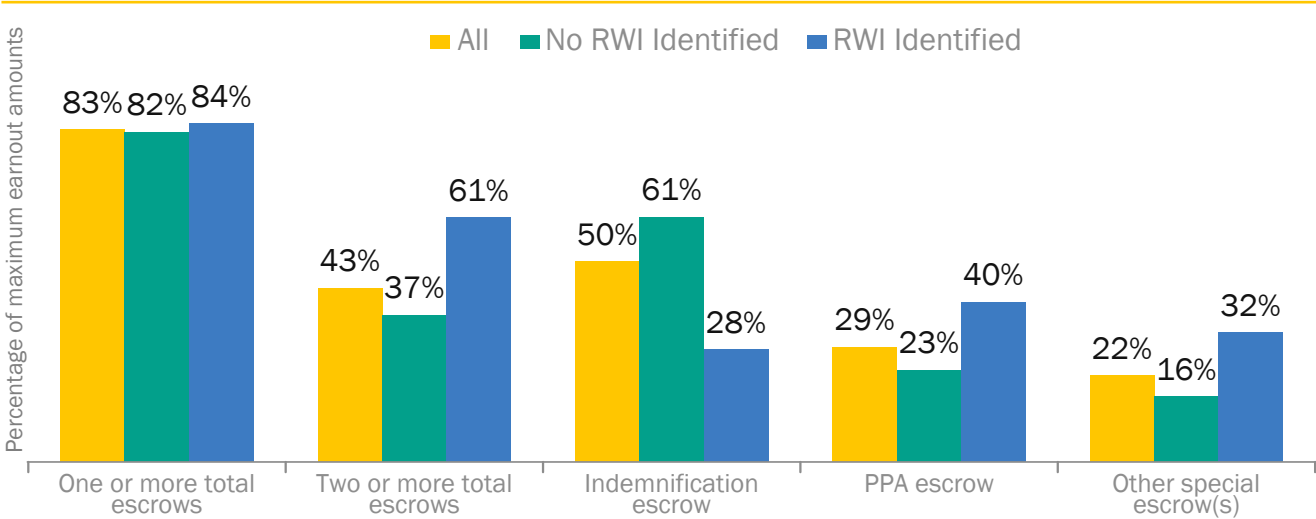
- Average and median escrow sizes on LMM deals are up in every category.

The data to the right combines escrows and holdbacks together, but it is important to note that holdbacks in practice can function differently, providing additional leverage on post-closing claims to the party holding such funds.

- Sellers on LMM deals had to agree to a holdback slightly more often (31% of LMM deals versus 21% across all 2025 deals).

Subset: Lower middle-market deals (2025)

DEAL ESCROWS*



ESCROWS* AS A PERCENTAGE OF TRANSACTION VALUE

	AVERAGE		MEDIAN	
	LMM Deals	All Deals	LLM Deals	All Deals
All Deals	12.1%	13.8%	10.0%	10.4%
Deals with no RWI Identified	14.7%	16.0%	11.1%	12.3%
Deals with RWI Identified	5.1%	7.8%	2.8%	3.7%

*Includes holdbacks; percentages in the table represent aggregated escrowed amounts.

LMM Deals: Key Considerations

Many factors can affect a seller's negotiating leverage:

- LMM deals carry certain risks and considerations compared to the larger market, which, even for the cleanest targets, can impact relative negotiating leverage among the parties and resulting deal terms.
- Additionally, these LMM targets may lack the controls and sophistication of larger sellers which can create more diligence challenges.
- Thus, LMM deal structures and outcomes can be just as, if not more, complicated than larger deals—featuring more earnouts, larger escrows, and longer indemnification periods.

LMM deals, even with less capital on the line, can be just as complicated and result in complex post-closing mechanics such as:

- Multiple releases to selling securityholders
- Earnout achievement tracking and dispute resolution
- More buyer-favorable climate for indemnification claims

About the Author and Additional Resources



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Kip is a senior director leading the SRS Acquiom thought leadership practice, the mission of which is to share resourceful content built from SRS Acquiom expertise and proprietary data. In addition to facilitating scores of interactive presentations at M&A conferences and law firms, Kip authors a plethora of articles and data studies regularly used by the market.

Previously, Kip was a part of the SRS Acquiom Transactional Group, where he collaborated with clients and counsel to negotiate M&A documents, including purchase, escrow, payments, and other transactional agreements. Before joining SRS Acquiom, he was an attorney with a Denver-based boutique business law firm working on middle-market M&A deals.

Kip holds J.D. and M.S. (Econometrics) degrees and is a member of the Colorado bar.

2026 SRS ACQUIOM M&A DEAL TERMS STUDY →

- Essential companion to understanding this report
- Includes important disclosures about our data

SRS ACQUIOM MARKETSTANDARD® →

- Online data analytics tool with free registration for access
- Designed to help deal parties determine “what’s market”
- Further refine the data with filters for buyer types, target industries, and more

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