STRATEGIC ADVISORS
Middle Market Investment Bankers

117 VIP Drive, Suite 110, Wexford, PA 15090
Tel. 724-743-5800 www.strategicad.com

PRIVATE EQUITY & THE MIDDLE MARKET

The Boring Business Is Suddenly Hot

Why private equity is paying record prices for small, unglamorous businesses – and what the math means for the owner who just got a cold call.

If you own a heating and cooling company, accounting practice, a pest-control route, a car wash, or a veterinary clinic, among others - there is a decent chance a private equity firm has already called. The number they float is usually bigger than anything you expected for a business you have run quietly for twenty years. That is not luck. It is a strategy private equity has spent the last decade refining, and plenty of owners are running into it for the first time. The plain, dependable business that nobody used to fight over is now one of the most wanted assets in the market, and it is worth understanding why before you pick up.

Why this matters

The businesses drawing the most interest are the ones nobody used to brag about: furnace repair, root canals, mosquito spraying, monthly carwash plans. The work is steady, essential, and holds up when the economy does not. Private equity worked out that if you combine a lot of these small operators into one larger company, the combined business is worth more for every dollar of profit than the individual shops were on their own. Buying small, combining, and selling as something bigger is called multiple arbitrage, and it is the reason so many of these deals are happening.

The arbitrage in plain numbers

As an example: eight independent HVAC companies each earn $1 million a year. Sold on their own to a local buyer, each might go for five times earnings, or roughly $5 million apiece and $40 million for all eight. Now a private-equity-backed platform buys all eight and runs them as one company with one back office and one brand. That combined company still brings in $8 million in baseline earnings, but let's also assume that they are able to underwrite $2M in synergies for a total of $10M in EBITDA. Because the entity is now larger, more profitable, and more professionally run, it can trade at a higher multiple (e.g. eight times earnings or more).

	Bought as 8 shops	Sold as 1 platform
Combined annual profit (EBITDA)	$8M	$10M
Valuation multiple	~5x	~8x
Enterprise value	$40M	$80M
Value creation	**n/a**	**+$40M**

Illustrative. Entry and exit multiples reflect example scenarios. Individual deals vary widely.

That $40 million shows up before the platform raises a single price or adds a customer. Add the savings that come with continued scale, like better supplier pricing and shared overhead, and the gap widens. That is why a buyer can pay a price that feels high and still make good money: they are paying for what your business becomes inside a bigger one, not just what it is today.

The same pattern shows up almost everywhere

Once you know what to look for, you start seeing it across a lot of industries. The trade itself matters less than the shape of the business. Private equity generally looks for four things, and wherever they show up together, a roll-up usually follows:

A fragmented market: meaningful number of small owners and no dominant national brand.

Recurring revenue: contracts, memberships, or repeat visits the buyer can count on.

Room to improve: a founder-run shop that can be professionalized.

Scale advantages: costs fall and buying power grows as the platform gets bigger.

> **FINANCE LENS - A QUICK ANALOGY**
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> It works a lot like buying wholesale and selling retail, except the product never changes. Coffee is generally cheap by the sack. The same beans, bagged and branded and put on the right shelf, sell for much more. The buyer is not turning your furnace-repair or tax business into something different. It is moving the same earnings onto a shelf where the market pays a higher price.
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> In market terms it is a "re-rating." A dollar of profit that a small private company sells for $5 can be worth $12 inside a large, professionally run platform. The profit is the same. The multiple went up, and the buyer keeps the difference.

What this means if you are the seller

Getting the call is flattering, but it is also where a lot of owners give up money or peace of mind without realizing it. The same features that make these deals profitable for the buyer are the ones a seller has to read closely. As we wrote in Beyond the Headline Number, the price on the term sheet is rarely the amount that lands in your account.

The offer is almost never all cash. Cash at close usually runs about 60% to 70% of the total, with the rest split between an earnout tied to future performance and rollover equity, a stake you keep in the buyer's larger company. The mix varies by industry: CPA deals can push rollover to 25% - 50%, vet and dental buyers often require rollover plus a multi-year employment agreement, and car-wash deals lean on a sale-leaseback and a seller note. Rollover can be the best part of a deal or the riskiest, because its value depends on the platform's next sale, at a price and timeline someone else controls. In effect, you become a minority shareholder in a company you no longer run.

Strategic takeaways for owners

- ✓ **Look past the headline price.** Separate cash at close from earnout and rollover. A cleaner all-cash offer can beat a bigger number that depends on things you do not control.
- ✓ **Value the rollover carefully.** If part of your proceeds is equity in the buyer's platform, it is only worth what that platform is worth later. Ask about governance, how you get bought out, and when.
- ✓ **Sell the whole thing, not the pieces.** If you own several locations or routes, selling them together can put you in a higher multiple range and let you keep some of the arbitrage instead of handing all of it to the buyer.
- ✓ **Get more than one bidder.** A single buyer who came to you has no reason to pay top dollar. A real process with multiple interested buyers tends to improve every term, not just price.
- ✓ **Know your number and your deal-breakers.** Timing, keeping your staff, and after-tax proceeds matter as much as the gross price. Knowing what you want lets you trade small points to win the big ones.

Authors: Andrew Disque, Senior Analyst; Gerad Greco, Senior Analyst

Sources: Deal figures and multiples are drawn from public reporting and industry data, including the 2026 private equity outlooks from Bain & Company, McKinsey, and PwC; M&A outlooks from Capstone Partners and Cherry Bekaert; PitchBook (via The Wall Street Journal); PKF O'Connor Davies (HVAC); FOCUS Investment Banking and the ADA Health Policy Institute (dental); Provident, Ziegler, and AVMA data (veterinary); IFAC and CPA Trendlines (accounting); Drake Star and Aventis Advisors (IT and MSPs); Capstone Partners and First Page Sage (pest control); BrightView filings and L.E.K. Consulting (landscaping); Raymond James and Car Wash Advisory (car washes); and company, SEC, and FTC filings for the transactions named. All figures are approximate and shown for illustrative purposes only.

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