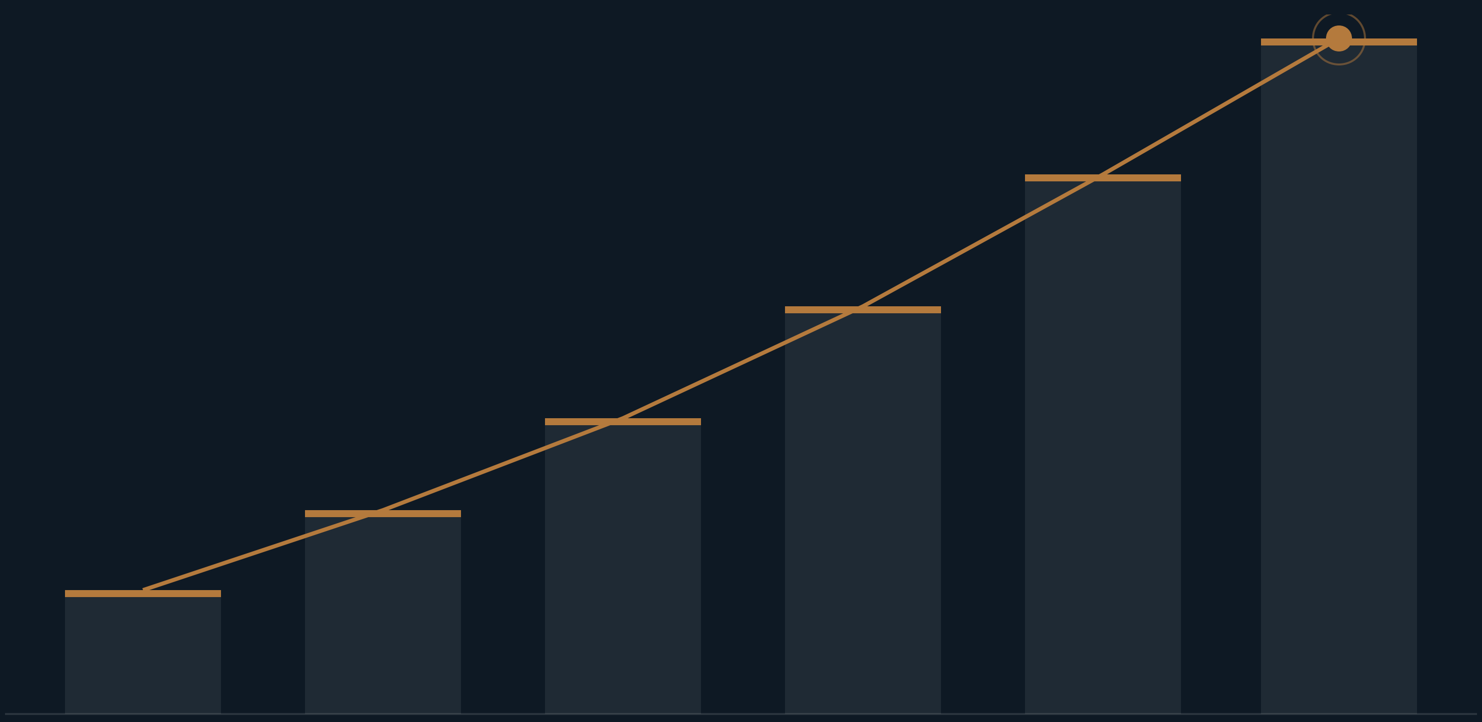
TOPICAL SERIES · THE CONVERSION TEST

Buy Before You Sell

When a pre-exit acquisition is worth it, and how to tell



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THE FINDING

The move stands on three legs and holds only when all three do: fit, execution, and timing. Miss any one and the deal fails, which is much of why most do. The value is not the idea. It is knowing whether you are the owner it fits, and doing it right.

3	70-90%	~73%	1.6-1.7x
THE THREE LEGS	M&A FAILURE RANGE	ADD-ONS SHARE	INTEGRATION EDGE
Fit, execution, and timing. All must hold; miss one and the deal fails.	Corporate mergers that disappoint, by common definitions. Christensen, HBR.	Share of buyouts that are add-ons, the marginal buyer above the threshold. PitchBook 2025.	More likely to beat synergy targets with the right integration capability. McKinsey.

ABSTRACT

The argument in brief.

Owners preparing to sell a lower-middle-market business think about making it better. A smaller number think about making it bigger. Almost none think about buying something first. For the owner it fits, that overlooked move can be a game-changer. By acquiring a smaller same-lane competitor several years before an exit, converting it into a genuinely larger and deeper business, and arriving at the market above a size threshold, an owner can lift the whole business into a higher multiple, a deeper pool of buyers, and a materially better exit. This is not a marginal tactic. In the right hands it can change the character of the sale. What it is not is a move for everyone, or a move to make casually. The same evidence that shows the prize also shows how often acquisitions destroy value, and the difference between the two outcomes rests on three conditions that must all hold at once: fit, buying the right convertible same-lane business; execution, integrating it into one clean company and retiring the debt; and timing, leaving runway to season the result and selling into a market that still pays for size. Miss any one and the deal fails, which is much of why most do. This paper quantifies the prize, measures it honestly on equity rather than enterprise value, provides the Conversion Test that checks all three legs, and is direct that assembling them is rarely something a first-time acquirer can do alone, which is where experienced guidance becomes the real leverage.

KEYWORDS mergers and acquisitions, lower middle market, buy-and-build, add-on acquisitions, exit planning, roll-up, multiple arbitrage, equity value

JEL G34, G32, G11, L25

KEY TAKEAWAYS

Four takeaways.

01 A forgotten move that can transform an exit.

Buying a smaller same-lane competitor a few years before selling, converting it into a larger and deeper business, and crossing a size threshold can lift the whole business into a higher multiple and a deeper pool of buyers. For the owner it fits, this is not a marginal tactic.

02 It stands on three legs, and only strong fit clears them all.

Fit, execution, and timing must hold together. The payoff swings from value-destroying in a poor fit, to roughly a wash in a decent one, to transformative in a strong fit. The difference is not luck. It is the target chosen, the integration, the deleveraging, and the timing.

03 Measured on equity, not enterprise value.

On enterprise value every version looks good. On equity, after the debt, the friction, and the opportunity cost of the capital, only the well-executed version beats growing organically and clears the concentration-adjusted hurdle from the companion paper.

04 The Conversion Test tells an owner which case he is in.

Six gates across the three legs identify the strong-fit owner and screen most deals out. Because the outcome turns on execution, and experienced guidance changes the odds on exactly those decisions, this is not a go-it-alone move. The default is not to transact.

SECTION 01

Introduction.

The owner five years from the door can still change what he is selling, and almost none of them do.

As an exit nears, the standard advice is to tighten. Clean the books, reduce owner dependence, lift margins, write down the systems. It is good advice, and it treats the scale of the business as fixed, a thing to polish rather than grow. A smaller group pushes for organic growth. Almost no one considers the move this paper is about, which is to buy a competitor before selling and to reach the market as a larger and deeper business than the one that exists now. For the owner it fits, that is not a small optimization. It is the difference between selling the business he has and selling a bigger, more valuable, more sought-after one.

The move is rare for two reasons, and only one of them is good. The good reason is that most acquisitions disappoint. The failure rate cited for corporate mergers runs from seventy to ninety percent depending on the definition (Christensen and colleagues, 2011), and the recent consulting evidence is no kinder, with Bain (2025) reporting that only about thirty percent of strategic deals meet their objectives. An owner who has never bought a company, weighing the largest purchase of his career at the worst possible moment to get it wrong, is right to be careful. The bad reason is that even where the idea surfaces, almost no owner is helped to do the two things that would let him capture it: to judge honestly whether he is the rare fit, and to execute the move with the discipline it demands. The idea alone changes nothing. The pairing of fit and execution is the whole of the value, and it is what this paper is built to help an owner find.

Both facts are true at once, and holding them together is the whole point. The evidence of failure is not evidence that the move does not work. It is evidence that the move is hard, and that its outcome is decided by execution: which business you buy, how completely you fold it in, how much debt you retire before you sell, and how much time you leave for the result to season. Done well, those choices produce the transformative case. Done poorly, they produce the failures the base rates describe. This paper takes the case apart on both sides. It quantifies the mechanism that makes the prize real, measures the outcome honestly on equity, provides the Conversion Test that tells an owner which side of that line he is on, and is candid that a strategy this rewarding and this unforgiving is not one to run alone.

SECTION 02

Data and Methodology.

This is an analytical paper built on public sources, and its dollar figures are illustrative.

Three bodies of evidence carry the argument. Transaction data on how private-business multiples scale with size comes from GF Data for the sponsored lower-middle-market band, checked against the BVR DealStats Value Index, whose broader and smaller population sits at lower multiples and serves as a directional cross-reference rather than a blended input. Financing and buyer-composition evidence comes from the Small Business Administration, whose 2026 rule change reset the ceiling on individually financed acquisitions, and from PitchBook, whose data on the add-on share of buyouts identifies the marginal buyer above that ceiling. Value-creation and failure evidence comes from McKinsey's work on programmatic acquisition and from the HBR, KPMG, and Bain literature on why most mergers disappoint, all of it drawn from large public companies and transferred to the lower middle market with stated caution.

Two cautions govern the numbers. The size-threshold argument rests partly on a 2026 financing rule and on where the market sits several years out, so it is framed as a direction rather than a fixed dollar line. The scenario figures are invented at a single acquirer scale so the difference between a good deal and a bad one is visible, and they describe no real business.

SECTION 03

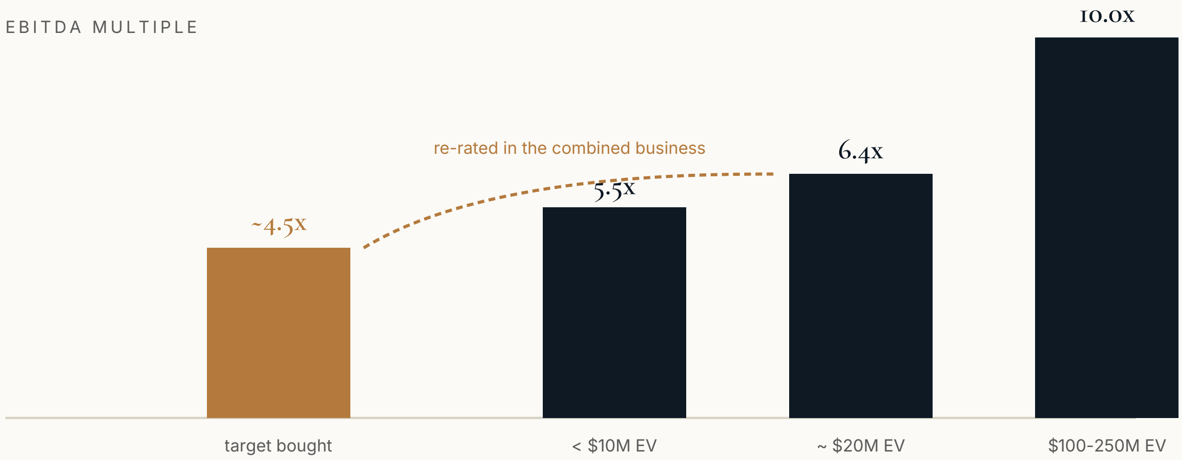
The Engine: Multiples Step Up, and the Buyer Pool Widens.

The reason the prize is real, and not a story, is a fact about how private businesses are priced: larger ones trade at higher multiples of earnings, and the difference is not small. GF Data's 2025 figures show sponsored lower-middle-market businesses moving from roughly five and a half times earnings below ten million dollars of enterprise value to roughly six and a half times near twenty million, with the ladder continuing into double digits in the hundreds of millions. Across the full range that is about four turns of multiple, and size rather than industry is the main driver. The BVR DealStats data, from a broader and smaller population, sits at lower absolute multiples, a reminder that these are sponsored-market figures and that the re-rate is earned rather than automatic.

The second part of the engine is who can buy you, and it changes as the business grows. Below roughly ten million dollars, an individual using SBA-backed financing can compete, and the 2026 rule change widened that band by decoupling the two loan programs, so a buyer can now stack a 7(a) loan and a 504 loan to a combined ceiling of ten million dollars where the cumulative limit had been five. Above that line the marginal buyer changes character. The dominant acquirer at that scale is a private equity platform adding on, and add-ons now run around seventy-three percent of buyouts (PitchBook, 2025). A platform underwrites differently from an individual. It pays for fit inside a portfolio, carries more leverage, and competes against other platforms for scarce targets. Growing past the threshold does not simply raise the multiple. It changes who is bidding for you, and how they think about price.

Put the two together and the size of the opportunity comes into view. An owner buys a smaller competitor at a low multiple, folds it into a business that trades at a higher one, and, if the combination is real, sees the acquired earnings repriced upward, the whole business cross into a deeper pool of buyers, and the exit re-rate on a larger base. That is a genuinely different sale than the one he would have had. The rest of the paper is about the condition attached to every word of that sentence, which is that the combination has to be real.

Exhibit 1 Multiples step up with size, so a competitor bought low can re-rate inside the larger business.

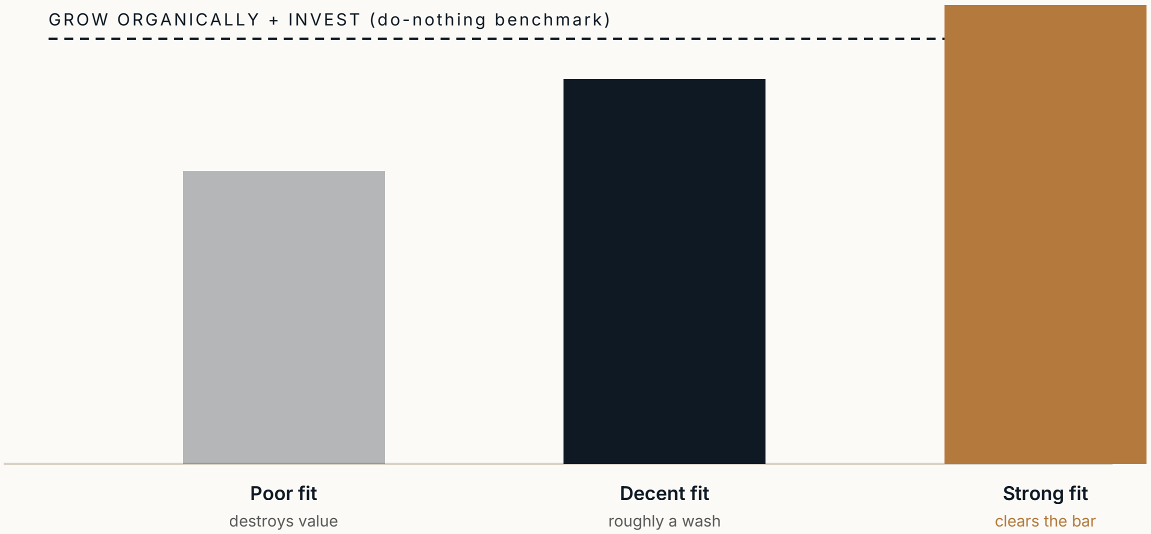


Source · GF Data 2025 (sponsored lower-middle-market band); DealStats population caveat. Multiples illustrative; the re-rate is conditional on genuine conversion.

SECTION 04

Why Fit and Execution Decide Everything.

Exhibit 2 On equity, only the strong-fit case beats doing nothing; the dollars are one scale, the pattern is what travels.



Source · Cordis Institute illustration at one representative acquirer scale (real, on equity, net of debt, friction, and opportunity cost). Absolute figures scale with company size.

On enterprise value every version of this deal looks good. On equity, after the debt and the disruption and the cost of doing two transactions instead of one, only the well-executed version survives. The gap between the transformative outcome and the value-destroying one is not luck. It is fit and execution, and it is worth seeing in numbers.

The comparison has to be run on equity, the money the owner actually walks away with, not on enterprise value, which flatters every acquisition. Exit equity is the combined earnings times the combined multiple, less the debt still outstanding, less the cost of financing and integrating, less the friction of the deal itself, less tax. The benchmark is not zero. It is what the same business would be worth grown organically, plus what the acquisition capital would have earned in a diversified portfolio.

To make that arithmetic legible, the three cases below are worked at a single representative scale: an acquirer with about two million dollars of earnings and roughly twelve million dollars of enterprise value. The dollar figures are illustrative of that one business and nothing more. A five-million-dollar company and a forty-million-dollar company would produce entirely different absolute numbers, larger or smaller in proportion to their size. What travels across the lower middle market is not the dollars but the pattern: the direction of each case, the fact that the downside runs several times the upside, and the step-up in multiple and buyer pool that the strong-fit case buys. Read the figures as one illustration of a shape, not as a result that applies to any particular business.

The poor-fit case is the failure the base rates describe. The owner buys owner-dependent revenue in an adjacent lane at a narrow discount, never truly integrates it, carries debt to the finish, and meets a buyer who marks the freshly assembled combination down rather than up. The combined business exits near twelve million dollars of equity against a roughly seventeen million dollar benchmark of organic value plus diversified proceeds, so the deal destroys on the order of a quarter to a third of the owner's equity relative to having done nothing. Nothing about the mechanism failed here. The execution did: the wrong target, no real integration, no deleveraging, no time to season.

The decent-fit case is the honest middle. With a moderate multiple gap, partial integration, and adequate runway, the combined business exits near fifteen and a half million dollars once the friction is charged, a little below the benchmark. It is the most common outcome, and it is a reason not to do the deal unless the owner has strong grounds to expect better. A wash that costs years of attention and adds leverage is not a wash worth having. Most deals live here, which is exactly why the strategy is not a default.

The strong-fit case is where the move earns its name. The owner buys a same-lane competitor at a wide discount he can genuinely absorb, adding a second location, management depth, and customer diversification. He retires the acquisition debt before going to market and presents one clean, larger business that re-rates instead of getting marked down. Held to the paper's own size ladder, that business exits above the do-nothing benchmark on equity, and the acquisition capital clears the concentration-adjusted hurdle of the companion paper. The equity premium over a strong organic path, on this example, is real but not enormous, and stating it as a single dollar figure would mislead, because it scales with the size of the business and it understates what actually happened. The delta is measured against an already-strong baseline, and the prize is not the delta. The larger truth is that the owner arrives at the exit with a different asset: bigger, deeper, less dependent on him, priced at a higher multiple, and visible to a class of buyers who would not have looked at the smaller company. That is the transformation, and it is the reason the move is worth knowing about at all.

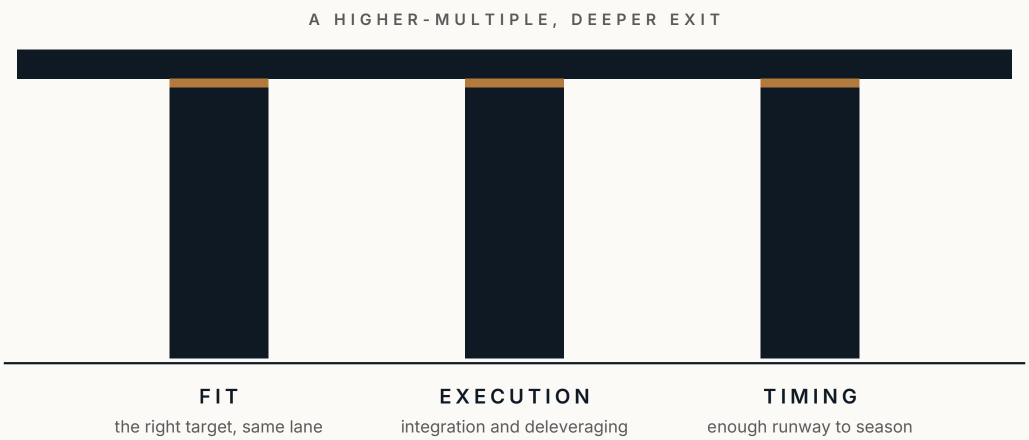
Two disciplines decide which case an owner lands in. Time is the first, and it cuts both ways. Five to seven years of runway is what makes the strong case possible, because a buyer prices the trailing two-to-three-year record and a fresh acquisition has to be absorbed and shown as one seasoned business. Those same years lengthen the owner's exposure to the multiple cycle, to slippage in the acquired business, and to his own clock, so runway is a requirement to use well, not a cushion. The evidence on repeat acquirers is the second. McKinsey's study of a thousand companies from 2007 to 2017 found that programmatic acquirers, who build a repeatable capability across many deals, earned the highest median excess shareholder return, while selective and one-off acquirers lost ground. A single pre-exit tuck-in is, by definition, the selective case, which is the bar it has to clear, and the strong-fit scenario is the closest a one-time buyer comes to the disciplined model the evidence rewards. That closeness is not luck either. It is what disciplined selection, integration, and timing buy.

On enterprise value every version looks good. On equity, after the debt and the friction, only the well-executed version survives.

SECTION 05

The Conversion Test.

Exhibit 3 The move stands on three supports and holds only when all three do.



Remove any one and the exit collapses to an ordinary sale.

Source · Cordis Institute framework. The base rates are consistent with three independently hard conditions holding at once, not a measured decomposition.

The move stands on three legs, and it stands only when all three hold: fit, the right owner and the right convertible target; execution, the sourcing, equity underwriting, deleveraging, and integration that turn a purchase into one clean business; and timing, the runway to season the result and a market that still pays for size at exit. Those three are the strategy. The Conversion Test is how an owner checks each leg before he commits capital he cannot easily get back. It is not a checklist for saying yes, and it is not a gate built to say no. It is the instrument that tells him which of the three cases he is walking into.

Six gates, grouped by the leg each one tests. Fit is tested by three: conversion rather than accretion, so the deal produces a genuinely larger and deeper business rather than more earnings bolted on; same lane, a business the owner already understands, where integration is a known problem; and buying a capability, a customer base, or a margin, not merely cheap earnings. Execution is tested by one that carries the most weight: integration capacity, the ability to absorb the target without starving the pre-sale tightening the business also needs. Timing is tested by two: seasoning runway, enough years for the combination to be shown as one business across the record a buyer will price, and deleveraging before exit, so the owner sells equity rather than a balance sheet. A leg with a failed gate is a leg that will not hold.

Clear all six with room to spare and the owner is likely in the strong-fit case, and the move is worth serious work. Clear them narrowly and he is in the decent-fit middle, where the answer is probably to grow organically or sell and diversify instead. Miss two and he is in the poor-fit case, and the honest answer is not this deal. The test does not ask whether an owner can buy earnings cheaply. Anyone can. It asks whether, three years on, a buyer will meet a larger and deeper business or a small one wearing a larger one's clothes. That question is answered in the doing, which is why the next section is blunt about how the move should be run.

SECTION 06

When It Is Worth It, How It Squares With Holding, and Why Execution Is the Whole Game.

The move is worth it for a specific and identifiable owner: the capable, same-lane operator with five to seven years of runway who can genuinely absorb what he buys, retire the debt before he sells, and whose acquisition capital, measured on equity, beats both standing pat and the diversified alternative. For that owner it is not a marginal play. It is one of the few moves available late in a company's life that can change what the company is worth at sale. For most other owners the honest answer is the one the companion paper reaches, which is to tighten and grow the business or to sell it and diversify, and to keep the balance sheet clean.

The reconciliation with that companion paper is exact, because the two can look as if they pull opposite ways. The paper on the cost of waiting argues that an owner should pull capital out of a concentrated, illiquid business unless it clears a hurdle equal to the diversified after-tax return plus a concentration premium, which for a typical owner lands in the low-to-mid teens in real terms. This paper argues that a specific owner should put more capital in. The two agree, because the acquisition has to clear the same hurdle, and only the strong-fit case does. There is a subtlety that strengthens the strong-fit case rather than weakening it: a genuine conversion that adds customers and management depth improves the diversification of the combined business, steadies its cash flows, and lowers the concentration premium the owner pays going forward, so a well-executed deal bends its own hurdle down. A deal worth doing passes both the Conversion Test and the Frontier hurdle. A deal that fails either is one to walk away from.

That everything turns on execution is not a throwaway. It is the finding. The same mechanism produces a value-destroying loss or a transformed exit depending on the target chosen, the completeness of the integration, the discipline of the deleveraging, and the timing of the sale. The failure literature that makes owners cautious is, read closely, an execution story: deals fail because the wrong businesses are bought and badly combined, not because size does not command a higher multiple. This has a plain implication. A move with this much upside and this little margin for error is not a go-it-alone project for a first-time acquirer running his own company at the same time.

The evidence points to where guidance matters most, and it is not only the deal. Survey work across global M&A practitioners finds that advisers do raise the odds of success, on the order of a few percent, that the effect is largest when advisers are engaged regularly rather than once, and, tellingly, that strategy consultants add more than financial advisers do, with the benefit running through the standardization of the deal process rather than the transaction alone (Hein and Sievers, 2020, on perceived success from an expert survey). Other work supplies the caution: advisers add less, or can subtract, when incentives are misaligned, as when a buyer's managers are personally connected to their adviser (Jandik and colleagues, 2025). The stronger and more consistent evidence sits on the part owners tend to under-resource, which is integration. McKinsey finds that organizations with the right integration capabilities are roughly 1.6 and 1.7 times more likely to exceed their cost and revenue synergy targets, and reports that executives themselves name integration leadership among the capabilities most in need of improvement. Peer-reviewed work on absorption acquisitions reaches the same place, tying integration-team staffing and clear goal-setting to integration performance. As one veteran acquirer quoted in that work observes, integration demands capabilities a company is unlikely to already have in-house. The lesson for the pre-exit owner is direct. The highest-value use of outside help is not merely to source and close the deal. It is to bring in the strategic and integration capability that repeat acquirers build through repetition, and to staff the integration deliberately, rather than treat it as something the existing team will absorb in its spare time.

This also answers the objection the McKinsey bar raises, that a one-off acquirer is the selective type that underperforms. Much of what makes programmatic acquirers win is exactly this integration capability, built through repetition and dedicated staffing. A single-deal owner cannot manufacture years of repetition, but he can import the capability, engaging experienced guidance for the selection, the equity underwriting, and the timing, and staffing the integration with dedicated leadership rather than leaving it to chance. Doing so does not guarantee the outcome, and the evidence is drawn from larger companies and transfers to the lower middle market as a direction rather than a promise. But it moves a one-off owner materially closer to the disciplined model the evidence rewards, on two of the three legs and, with a real integration leader, on part of the third. The author's firm advises on both acquisitions and sales and therefore has an interest in this conclusion, which is disclosed plainly here and is the reason the paper's default is not to transact and its central instrument is a test most deals fail.

SECTION 07

Limitations and Further Research.

The limits are real and worth stating without softening. The value-creation and failure evidence is drawn from large public companies, and its transfer to a same-lane lower-middle-market tuck-in is a reasoned assumption rather than a measured fact, since a small same-lane integration may run cleaner than a mega-merger or may not. No public panel of realized lower-middle-market pre-exit acquisitions exists to fix the magnitudes, so the scenario figures are illustrative and their spread, not their precise levels, is the point. The size-threshold argument rests on a 2026 financing rule and on where the market sits years from now, and it is framed directionally. The re-rate is conditional on genuine conversion and is capped in the scenarios at the paper's own size ladder rather than assumed richer.

The strategy is falsifiable. If it is real, same-lane lower-middle-market tuck-ins that are genuinely converted and held for five or more years should exit at higher equity multiples than matched standalone businesses of the same eventual size, after controlling for organic growth. If they do not, the re-rate is illusory. Building that panel, with disclosed size and method, is the research this paper points toward. None of this is investment advice, and a decision of this size should be tested with qualified advisors.

SECTION 08

Conclusion.

Buying before selling is a real strategy, a transformative one for the owner it fits, and one that almost no one captures. In the right hands, with real runway, a genuine conversion, and the discipline to retire the debt and season the result, it can lift a business into a higher multiple and a deeper pool of buyers and change the outcome of an exit. That is the case for taking it seriously. The case for caution sits right beside it and does not cancel it: the move is unforgiving, most attempts land in the middle or worse, and the difference is made entirely in the selection, the integration, and the timing.

The scarce thing here was never the idea. Any owner can read it on this page. What is scarce is that the move stands on three legs, and it stands only when all three hold. The first is fit: the right owner buying the right same-lane target, one that genuinely converts into a larger and deeper business. The second is execution: sourcing that target, underwriting it on equity rather than headline earnings, retiring the debt before the sale, and integrating it into one clean company. The third is timing, which is where patience and the market both sit: enough runway to season the combination, and an exit that lands in a market still willing to pay for size.

Miss any one leg and the stool falls. A perfect target executed poorly fails. A flawless integration of the wrong business fails. The best deal, well run, can still be undone by too little runway or a soft market at exit. This is the most honest reading of why the base rates are what they are. The published evidence does not decompose failure neatly into these three causes, and this paper does not claim it does. But it does show that most acquisitions disappoint and that the winners are the disciplined few, which is exactly what one would expect if success requires three independently hard conditions to hold at once and most attempts are standing on one or two.

That is also why the real leverage in this strategy is not knowing about it. It is assembling all three legs and knowing honestly when one is missing. Fit, execution, and timing are each demanding on their own, and holding them together is not something most operators, running their own company and buying their first, can reliably do alone. It is the work of experienced guidance. The waste is not that too few owners attempt the move. Given the base rates, restraint is mostly correct. The waste is that the owner who could stand on all three legs rarely gets the two things that would let him prove it and capture it: an honest read on whether the legs are there, and a disciplined hand to keep the stool from tipping while he builds it.

NAMED INSTRUMENT

Named Instrument.

A pre-exit acquisition stands on three legs and holds only when all three are sound: fit, the right owner and a genuinely convertible same-lane target; execution, the sourcing, equity underwriting, deleveraging, and integration that make one clean business; and timing, the runway to season the result and a market that still pays for size at exit. The Conversion Test is the six-gate rule that checks those legs, conversion over accretion, same lane, and buying a durable capability testing fit, integration capacity testing execution, and seasoning runway and deleveraging before exit testing timing. It tells an owner which of three cases a pre-exit acquisition will land in: transformative in a strong fit, a wash in a decent one, and value-destroying when a leg is missing. Because the same mechanism produces all three depending on whether the legs hold, the test is an instrument for identifying the right owner and guiding the doing, not a gate for refusing the move. A deal that passes it must still clear the concentration-adjusted hurdle from the companion paper, though a genuine conversion can lower that hurdle by improving the combined business's diversification. Passing both is the condition for acting, and executing both is where the outcome is decided.

DISCLOSURE

Disclosure.

The author of record is affiliated with Cordis, an advisory firm active in lower-middle-market mergers and acquisitions, which advises on both acquisitions and sales and therefore has a two-sided interest in this subject, including in the paper's conclusion that execution and experienced guidance are decisive. The paper's default posture is not to transact, and the six-gate test is built to screen most readers out rather than in, which is the discipline by which the reader should weigh it. The analysis rests on public sources and stated, illustrative assumptions.

DATA AVAILABILITY

Data Availability.

All data referenced are drawn from publicly available secondary sources cited below. No proprietary or confidential engagement data were used, and the numerical examples are illustrative and invented.

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