

Lower-Middle-Market Exit Readiness Checklist

An ungated finance-control checklist for sponsor-backed and founder-led lower-middle-market companies preparing for a sale, recapitalization, lender diligence, or quality-of-earnings process.

Prepared for independent sponsors, search funds, family offices, LMM PE platforms, and founder-led lower-middle-market sellers.

Why The Work Starts Before The Banker Launch

Exit readiness is a finance operating discipline, not a transaction launch task. McKinsey's 2026 private equity report shows stronger deal activity, higher purchase multiples, longer holding periods, and a record inventory of buyout-backed companies held for more than four years. Those facts raise the burden on sell-side finance. A seller needs quality-of-earnings readiness, working-capital discipline, covenant visibility, and a defensible finance data room before the buyer's diligence team starts building exceptions.

The checklist below is designed as a control set. Each item should have an owner, a source system, a reconciliation standard, and a deadline inside the quarterly operating cadence.

1 Lock The TTM Financial Package

Prepare monthly P&L, balance sheet, cash flow, revenue, gross margin, and working-capital schedules that reconcile to the GL and management package.

2 Build The Normalized EBITDA Bridge

Separate GAAP EBITDA, management adjustments, owner adjustments, non-recurring items, transaction costs, and run-rate items into a defensible bridge.

3 Validate Working-Capital Methodology

Define the peg, seasonality, excluded items, cash/debt treatment, and collection assumptions before a buyer or lender imposes its own methodology.

4 Reconcile Debt-Like Items

List debt-like obligations, related-party balances, leases, accrued compensation, tax liabilities, and owner expenses with support for each treatment.

5 Clean Customer And Cohort Data

Prepare customer-level revenue, churn, retention, gross margin, backlog, and concentration schedules that reconcile to revenue recognition and billing systems.

6 Document Accounting Policies

Write the revenue recognition, cutoff, capitalization, inventory, reserve, and reconciliation policies diligence teams will test against close outputs.

7 Assemble The Finance Data Room

Organize financial statements, trial balances, bank statements, debt schedules, tax returns, payroll reports, customer files, and board/lender packages.

8 Stress-Test Covenant Reporting

Run covenant headroom, liquidity, and lender reporting under downside EBITDA, working-capital, and debt-draw scenarios before a buyer asks.

9 Prepare The Diligence Narrative

Convert the numbers into a finance narrative that explains growth, margin, cash conversion, earnings quality, and known risks without improvisation.

Minimum Data-Room Artifacts

- Monthly financial statements and trial balances for the trailing 24-36 months.
- Revenue, gross margin, backlog, customer concentration, and retention schedules.
- Normalized EBITDA bridge with source support for every add-back.
- Working-capital peg model, seasonality analysis, and AR/AP aging support.
- Debt schedule, lease schedule, accrued liabilities, tax exposures, and owner adjustments.
- Close calendar, accounting policy memo, reconciliation support, and audit/QoE history.
- Board packages, lender packages, covenant certificates, and forecast variance commentary.

Source Context

Public source context: McKinsey Global Private Equity Report 2026; KPMG Q1'26 Pulse of Private Equity; Bain Global Private Equity Report 2026; Invesco private-credit commentary; KBRA Q1 2026 Middle Market Compendium.