

The LMM Owner's Guide to AI-Adjusted Valuations & Continuity

2026-2027 EDITION

A working guide for lower middle market service owners

Buyers are asking how automation could affect the work, where essential knowledge lives, and whether the business can keep performing through a transition. This guide turns those themes into questions owners can investigate and evidence they can organize.

Use the guide to

- Map workforce automation exposure without assuming every task can be automated.
- Identify customer, data, relationship, and operating advantages that may endure.
- Reduce founder and key-person concentration through tested knowledge transfer.
- Sequence continuity and transaction preparation across a 12-24 month runway.

This is a discussion framework. The right priorities depend on the company's operating model, buyer set, timing, and professional advice.

01 / The buyer lens

A buyer may connect AI-related questions to the durability of earnings and the work required to sustain them. Start with operating evidence, not broad claims about technology.

Workforce automation exposure

List the recurring tasks behind service delivery, sales support, administration, and reporting. For each, note the judgment required, the systems involved, the customer impact of an error, and where automation might change time or staffing. Validate the map with the people who do the work.

Knowledge concentration

Identify customer relationships, pricing decisions, exceptions, and process know-how that sit with the founder or a small number of employees. Record how work is handed off today and where coverage has been tested rather than assumed.

Model and vendor dependency

Inventory tools and external providers used in important workflows. Capture the business purpose, data handled, access owner, renewal or change process, and a practical alternative if availability or terms change.

Resilience and opportunity

Look for capabilities that can make the business more reliable: physical service delivery, trusted customer access, regulated know-how, proprietary operating context, and high switching costs. Then ask what evidence shows those strengths are repeatable.

Keep the financial connection visible

Where an initiative affects cost, capacity, quality, retention, or risk, document the baseline and the method used to evaluate the change. Label estimates clearly and keep assumptions separate from realized results.

02 / Build evidence before the process

A clear evidence room can help management answer questions consistently. Organize what already exists first, then assign owners to meaningful gaps.

Service workflows

Current process notes, handoffs, quality checks, and exception paths for core services.

Customer durability

Retention and renewal context, customer concentration, relationship ownership, and service dependencies.

People and coverage

Role clarity, backup coverage, decision rights, training paths, and key-person exposure.

Systems and data

A current tool inventory, data ownership, access controls, provider dependencies, and change procedures.

Operating measures

Definitions and sources for capacity, backlog, service levels, rework, and other relevant measures.

AI initiatives

A list of pilots or deployed tools, the business purpose, review owner, assumptions, and observed outcomes.

Continuity arrangements

Documented succession decisions, key-person planning, and buy-sell funding conversations with licensed advisers.

A simple evidence standard

For each important claim, record the owner, source, date, and any limits. Separate policies from observed practice, plans from completed work, and forecasts from historical results. Keep confidential materials in an appropriately controlled environment.

03 / A practical preparation window

The timeline is a planning aid, not a fixed sale schedule. Owners can adjust it to their objectives, readiness, and market conditions.

12-24 MONTHS OUT

Baseline and prioritize

Assess value drivers, automation exposure, knowledge concentration, and continuity needs. Choose a small set of workstreams with clear owners and practical measures.

6-12 MONTHS OUT

Transfer and validate

Capture critical knowledge, test backup coverage, review important vendor dependencies, and organize evidence. Revisit assumptions as operating changes are tested.

0-6 MONTHS OUT

Prepare for diligence

Refresh the operating narrative, identify unresolved questions, assemble materials, and align transaction steps with the owner's transition objectives.

Questions to bring to your advisers

Which risks are material to this company? What information supports the valuation narrative? Who should review insurance, legal, tax, and transaction decisions? What needs to be true before the owner tests the market?

This guide is educational and does not provide a valuation, investment, legal, tax, or insurance recommendation. Consult appropriately licensed and qualified advisers for decisions specific to your business.