



**Lower Middle Market
Private Equity – 101**

Q2 2026

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EXECUTIVE SUMMARY

This paper provides a comprehensive analysis of the LMM PE opportunity, Arvore's operational model, and the portfolio construction case for institutional allocators. It is intended as a reference for advisors evaluating a potential allocation.

Lower middle market private equity (LMM PE) targets operating companies up to \$15M in EBITDA – a segment that we believe is under-financialized, and as a result structurally mispriced. These businesses generate reliable cashflow and underpin the majority of the real economy, yet they trade at 4-8x EBITDA at a time when the S&P 500 price-to-earnings ratio exceed 20x. The reason for this dislocation is straightforward: institutional capital largely ignores deals below \$25M in enterprise value, leaving a fragmented market served primarily by regional brokers and individual buyers.

The demographic tailwind reinforces the opportunity. Approximately 6 million baby-boomer-owned businesses are expected to transition by 2035, representing an estimated \$5 trillion in enterprise value. Of these, 58% have no succession plan and 92% will close or wind down rather than sell – transferring productive assets that patient, operationally capable capital can acquire at compelling valuations.

Among all private equity strategies, middle-market buyout delivers the strongest risk-adjusted return profile: a 30.8% top decile net IRR, a 15% median, and a positive 3.4% floor according to PitchBook data across 2002-2019 vintages. This performance reflects the availability of operational alpha in the LMM segment, where continuous improvement programs, data systems, and professional management can create transformative EBITDA growth in businesses that have historically operated without these tools.



Arvore Partners is Omnigence's LMM PE strategy, pursuing a consolidation model that targets companies in the ~\$2M-\$10M EBITDA range, seeking to enter at ~6x EBITDA and targeting exit at ~8x with \$15M or more in platform EBITDA. Arvore's proprietary EquiONE platform provides real-time operational intelligence across the portfolio through more than 5,000 key performance indicators driving a data repository of over 5 billion records and has tracked more than 4,000 Kaizen improvement projects generating millions in earnings growth to date.

KEY FINDINGS:

- Middle-market buyout delivers the strongest risk-adjusted IRR profile of any private strategy: 30.8% top decile, 15% median, and a positive 3.4% floor (PitchBook, 2002-2019 vintages)
- Operational improvements now account for ~50% of PE value creation, up from 36% in the 1984-2000 period – and we believe the LMM segment offers the greatest improvement runway
- 6 million boomer-owned businesses will hit the market by 2035, representing ~\$5 trillion in enterprise value, with 58% lacking a succession plan
- LMM PE in positive stock/bond correlation regimes improves 60/40 portfolio returns and Sharpe ratios – specifically adding 10% LMM PE to a 60/40 portfolio improved returns by up to 100bps in normal conditions and turned negative real returns positive in stagflation.
- Arvore has a proprietary integration, monitoring and continuous improvement platform, EquiONE, driving 5,000+ KPIs and reducing acquisition-to-integration time to less than 8 weeks



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THE CASE FOR LOWER MIDDLE MARKET PRIVATE EQUITY

Valuation Advantage:

The starting point for LMM PE returns is the purchase price. Acquiring cashflow at 4-8x EBITDA creates an immediate margin of safety that larger-cap PE strategies cannot replicate. Low entry multiples also reduce dependence on favorable exit market conditions. Evergreen LMM PE structures – targeting entry at approximately 6x and exit at approximately 8x – require only modest multiple expansion to achieve strong returns and the market for selling \$15M+ pools of earnings at ~8x is consistently open. In addition to entry value, another value creation lever is EBITDA growth through operational improvement and material amounts of distributable operating cashflow, not financial engineering. This makes the overall return profile more durable across market cycles and less sensitive to the timing of capital markets conditions at exit.

A Superior Risk-Adjusted Return Profile:

Among all private equity strategies, middle-market buyout delivers the most compelling combination of return and downside protection. PitchBook data covering 2002-2019 vintages reveals that middle-market buyout produced a 30.8% top decile net IRR, a 15% median, and a positive 3.4% floor – the strongest median of any strategy tracked and one of the only strategies where even the worst managers generated positive returns over the period. This contrasts sharply with venture capital (top decile 31.7%, median 11.6%, bottom decile -7%), natural resources (top decile 19.2%, median 5.7%, bottom decile -8.3%), and opportunistic real estate (top decile 21.1%, median 8.7%, bottom decile -7%).

The tight dispersion with a positive floor reflects the structural characteristics of the LMM segment: businesses with genuine cashflow, acquired at modest multiples, improved through operational discipline rather than leverage and financial engineering. The best managers generate outsized returns through operational alpha; the worst still own productive businesses at 6x earnings.

Strategy	Top Decile	Median IRR	Bottom Decile	Spread (Top-Bottom)
Middle-market Buyout	30.8%	15.0%	3.4%	27.4pp
PE Growth	30.8%	15.0%	-0.1%	30.9pp
Buyout Megafunds	24.4%	14.2%	7.1%	17.3pp
Secondaries	25.0%	13.6%	3.7%	21.3pp
Venture Capital	31.7%	11.6%	-7.0%	38.7pp
Private Debt	15.7%	8.9%	2.4%	13.3pp
Value-add Real Estate	22.3%	9.3%	-7.9%	30.2pp
Natural Resources	19.2%	5.7%	-8.3%	27.5pp

Source: PitchBook, 31 December 2024, 2002-2019 vintages.

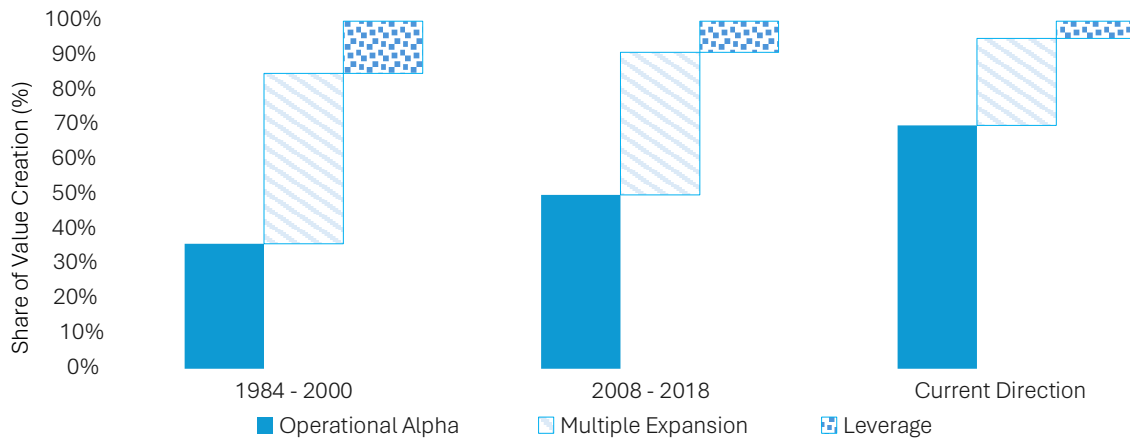
From Financial Engineering to Operational Alpha:

Private equity has undergone a fundamental transformation in how it creates value. For decades, the dominant playbook was to acquire companies with leverage, engage in aggressive cost reduction, and sell at greatly expanded multiples. This approach worked when purchase multiples averaged 6-7x EBITDA and interest rates remained low. Today, quality middle market companies often trade at 10-14x EBITDA, interest rates have normalized above 5%, and the required multiple expansion is unreliable.

The response from leading PE firms has been an attempt to shift toward operational value creation. Vanguard's analysis documents this shift clearly: from 1984 to 2000, approximately 36% of PE value creation came from operational improvements, with 49% from multiple expansion and 15% from leverage. By the 2008-2018 period, operational improvements had risen to approximately 50% of total value creation while leverage's contribution had fallen below 10%. Recent research confirms the acceleration: approximately 70% of PE firms now view operational improvements as their primary value driver, with approximately 65% highlighting it explicitly in discussions about value creation.

The LMM segment is uniquely positioned to benefit from this shift. Companies with \$10-\$100M in revenue typically lack the sophisticated data systems, formal continuous improvement programs, and analytical capabilities that larger enterprises have already deployed. The gap between where these businesses operate and where they could operate is largest precisely where institutional capital has historically been most absent.

PE Value Creation: Operational Alpha vs. Financial Engineering (%)



Source: Omnigence analysis; Vanguard research

The Operational Alpha Advantage:

Companies with \$10-\$100M in revenue represent the segment with the largest operational improvement runway and the smallest base of existing institutional operational infrastructure. Most are founder-operated or family-owned, without formal continuous improvement programs, sophisticated ERP systems, or data-driven management practices. When operational excellence programs are deployed in this segment, the impact on EBITDA is typically material.

Kaizen culture-building programs can deliver as much as 15-25% productivity gains over 2-3 years through compounding incremental improvements. Six Sigma projects can generate \$3-5M of EBITDA improvement for a \$100M revenue company, translating to \$18-30M of enterprise value at typical multiples. Lean transformations can produce 25-45% cumulative productivity gains, more than 50% working capital improvement, and capacity to absorb 30-50% revenue growth with minimal incremental fixed cost. Across all methodologies, operational excellence programs in PE portfolios deliver 3:1 to as high as 15:1 ROI within hold periods.

Manager Selection and Dispersion:

The dispersion data from PitchBook reinforces a critical point for allocators: in middle-market buyout, manager selection is rewarded. The 27.4 percentage point spread between top and bottom decile managers creates meaningful alpha for those who select well. But unlike venture capital – where the 38.7 percentage point spread reflects a winner-take-most dynamic and the median manager produces 11.6% – the LMM segment offers a positive floor. Even bottom-decile managers generated 3.4% net IRR over the 2002-2019 measurement period. This profile is attractive for institutional allocators who need to demonstrate both upside potential and downside protection.

Lean transformations can produce 25-45% cumulative productivity gains and the capacity to absorb 30-50% revenue growth with minimal incremental fixed cost.

Portfolio companies with embedded operational excellence – with documented continuous improvement infrastructure, real-time data systems, and trained management teams – also command better valuations at exit as buyers price in sustainable competitive advantages. This creates a compounding effect: operational investment during the hold period generates both EBITDA growth (which directly increases value at any given multiple) and multiple expansion (as buyers recognize the embedded infrastructure).

Evergreen Structure vs. Traditional Closed-End PE:

The structural characteristics of an evergreen LMM PE vehicle differ materially from traditional closed-end PE in ways that favor allocators in uncertain environments. Traditional buy-and-hold PE relies on long-term equity optionality, often involving extended holds of ten or more years and a J-curve effect that locks up capital in unrealized gains until a single terminal exit. This creates sensitivity to timing, macroeconomic shifts, and the availability of an exit window – risks that are amplified in volatile conditions.

Evergreen LMM PE, by contrast, generates yield alongside equity upside, enables shorter hold durations, and allows for continuous capital recycling. Higher distributions to paid-in capital (DPI) via lower entry multiples which allow the creation of strong yield structures reduce dependence on terminal multiple expansion for performance. The flexibility to adjust portfolio composition continuously – adding bolt-on acquisitions, divesting underperformers, and recycling capital from exits into new platforms – allows for ongoing de-risking of market timing without sacrificing long-term compounding.

The DPI Advantage: Cash Returns in a Distribution Drought:

The private equity industry is experiencing a liquidity reckoning that has become the dominant concern on LP desks globally. McKinsey’s 2026 Global Private Equity Report found that five-year rolling DPI as a share of AUM for buyout funds hit its lowest recorded level in 2025, with distributions declining to approximately 6% of AUM – eight percentage points below the ten-year average of 14%. More than 16,000 companies globally are held in PE portfolios for more than four years, the highest backlog ever recorded, and the typical GP is now holding portfolio companies for more than six and a half years. Bain has confirmed that no buyout vintage newer than 2016 has achieved DPI above 1.0x, meaning the majority of capital deployed over the past decade has not yet been returned in cash.

Against this backdrop, the LMM segment demonstrates a superior distribution profile. PGIM research found that the lower middle market has consistently generated higher distribution activity than larger-cap PE across multiple vintage cohorts – 2003-2008, 2009-2017, and 2018-2021 – in both periods of market uncertainty and stability. The reasons are clear: lower entry multiples (approximately 6x vs. 10-14x for upper-market and megafund transactions) reduce debt service burden and allow EBITDA growth to flow directly to recurring distributions; operational improvement cycles generate realizable value earlier in the hold period; and the large buyer universe for LMM assets means exits can be executed through strategic trade sales, sponsor-to-sponsor transactions, and management buyouts without dependence on the IPO windows or credit market conditions that periodically shut for larger transactions.

The LMM segment has consistently generated higher DPI than larger-cap PE across every measured vintage cohort - a structural advantage rooted in lower entry multiples, earlier value realization, and exit paths that do not require public market windows.

For the LP allocating today, this distinction is not theoretical. In an environment where institutional investors face negative net cash flows from their existing PE portfolios – constraining their ability to make new commitments – a manager that generates real cash distributions rather than paper NAV marks is a strategic priority. DPI is now tied with MOIC as the second-most important metric shaping LP allocation decisions behind IRR, according to McKinsey’s survey of 300 leading LPs globally. The evergreen LMM PE structure is positioned to deliver on both: interim cash returns through earlier exit cycles and ongoing distributions from operating income, combined with reinvestment of realized gains into new acquisitions that sustain compounding over the full investment horizon.

STRUCTURAL TAILWINDS

The Great Ownership Transfer:

An estimated 6 million baby-boomer-owned businesses will come onto the market by 2035, representing approximately \$5 trillion in enterprise value and an estimated 665,000 exits per year. This is the largest inter-generational transfer of business ownership in history, and it is occurring against a backdrop of mismatches: too few qualified buyers, too little institutional capital at the relevant deal sizes, and too many owners without viable succession plans.

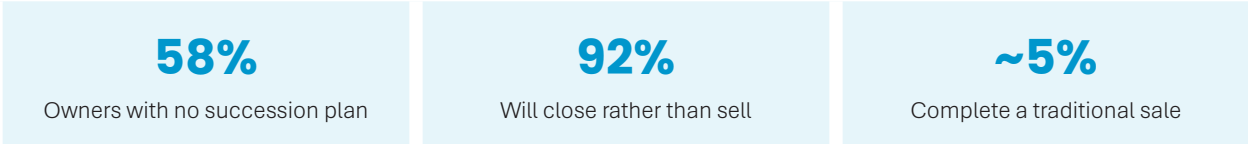
6 million boomer-owned businesses will transition by 2035, representing \$5 trillion in enterprise value - with 92% expected to close rather than sell.

Of the approximately 6 million businesses expected to transition, 58% of owners have no succession plan in place. More fundamentally, 92% of business owners will close or wind down their businesses rather than sell – not because the businesses lack value, but because the process of finding a qualified buyer, structuring a transaction, and achieving a fair price is prohibitively complex for most operators. Only approximately 5% will complete a traditional sale.

~6M
Boomer businesses transitioning by 2035

~\$5T
Enterprise value at stake

665K+
Expected exits per year by 2035



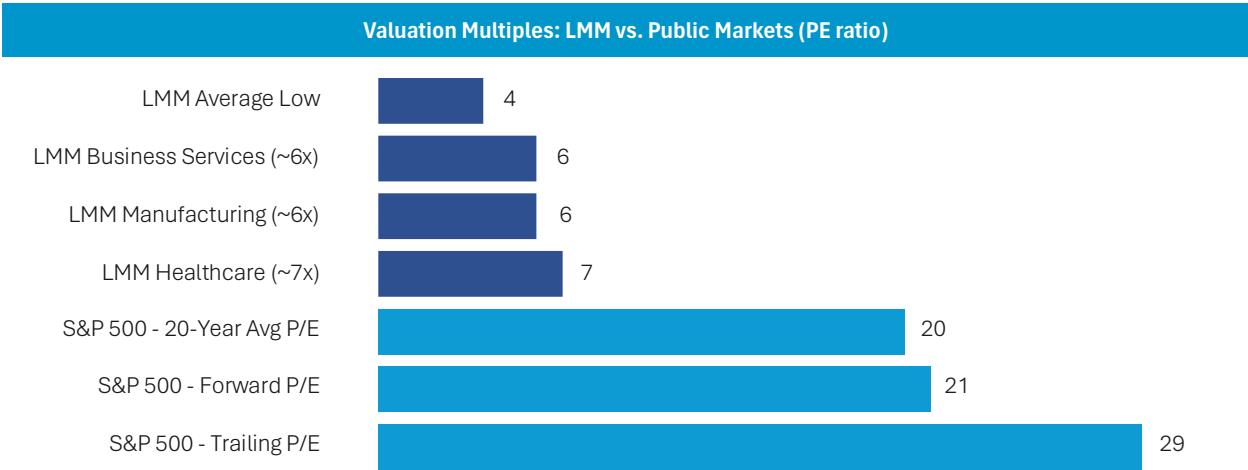
Source: McKinsey Institute for Economic Mobility, 'The Great Ownership Transfer' (February 2026); Guidant Financial; SBA Office of Advocacy.

The LMM Market – Scale, Depth, and Pricing:

The lower middle market is one of the largest and least efficiently priced segments of the private capital universe. Annual deal volume in the hundreds of billions of dollars flows through this market, targeting an addressable universe of operating companies estimated to be in the trillions. Yet institutional capital participation remains dramatically below the levels seen in larger private equity, infrastructure, and real estate. The result is a structurally mispriced market where patient, operationally capable capital can consistently acquire productive cashflow businesses at valuations that bear no relationship to how equivalent earnings are priced in public markets.

The fragmentation of the LMM market is its defining characteristic and its most durable source of opportunity. Hundreds of thousands of transactions occur annually across dozens of industries – business services, healthcare services, light manufacturing, specialty distribution, professional services – in geographic markets where a single well-capitalized consolidator can build a regional or vertical leadership position without competing against the institutional capital flows that crowd every large-cap PE transaction. This fragmentation is the product of market structure: deals of this size do not generate investment banking fees large enough to attract bulge-bracket coverage, do not meet the minimum deployment thresholds of most institutional PE funds, and require operational, integration and continuous improvement infrastructure that most buyers at this market segment do not possess.

The value proposition created by this fragmentation is clear: businesses in key sectors that typically trade at 4-8x EBITDA – business services at approximately 6x, manufacturing at approximately 6x, healthcare at approximately 7x. The S&P 500, by comparison, currently trades at well above 20x trailing earnings. An allocator in the LMM segment is acquiring a productive, cashflow-generating enterprise at a 3-4x valuation discount to the equivalent dollar of earnings priced in public markets – not because these businesses are inferior, but because the market that prices them is illiquid, fragmented, and systematically under-served by institutional capital.



Source: S&P 500 P/E ratios from us500.com and GuruFocus (March 2026); LMM multiples from GF Data Q1 2025 via Calder Capital.

Institutional Capital Gap:

The LMM segment remains dramatically under-owned by institutional capital relative to larger private equity, real estate, and infrastructure. Firms with dedicated LMM capabilities represent a small fraction of the total alternative asset management industry, which has grown to more than \$13 trillion globally. Most institutional PE capital is concentrated in funds targeting

deals above \$25M in enterprise value, leaving the vast majority of the LMM opportunity set – with its hundreds of thousands of annual transactions – served by a fragmented landscape of family offices, search funds, and individual buyers operating without institutional-grade tools or capital.

The complexity of sourcing, underwriting, and integrating small businesses at scale requires purpose-built capabilities – data platforms, operational teams, and repeatable playbooks – that individual buyers cannot assemble. Firms that have built these capabilities occupy a structurally advantaged position: access to proprietary deal-flow, the ability to underwrite operational improvement with confidence, and the infrastructure to manage multiple portfolio companies simultaneously without proportional cost increases.

THE ROLE OF LMM PE IN MIXED-ASSET INSTITUTIONAL PORTFOLIOS

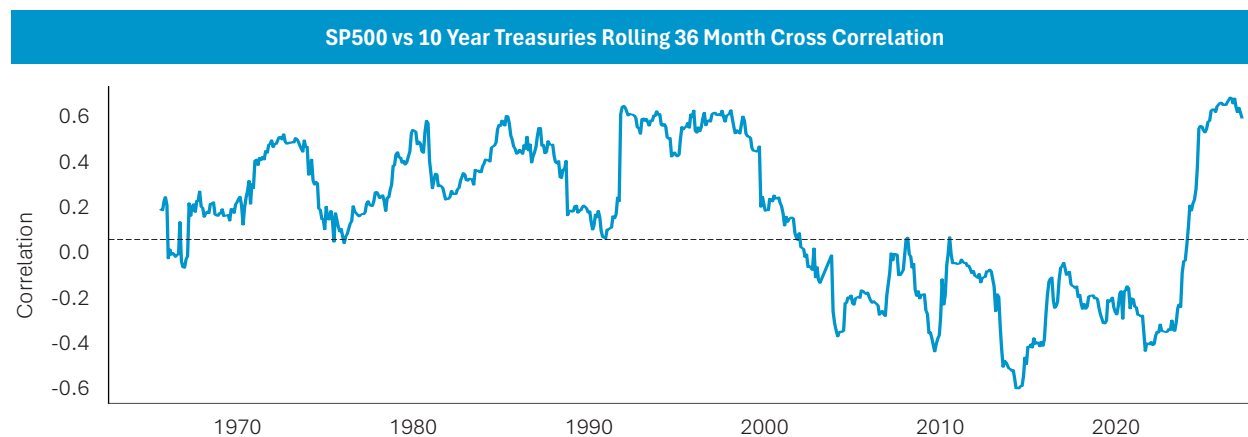
We believe lower middle market private equity represents a useful diversifying asset for institutional allocators. LMM PE produces return patterns that differ meaningfully from traditional assets such as public equities and fixed income. This section evaluates LMM PE's contribution to institutional portfolios across two distinct scenarios: a stable scenario, characterized by low inflation and negative stock-bond correlation, representing the environment most favourable to the traditional 60/40 portfolio; and a stagflation scenario, representing elevated inflation, slowing growth, and positive stock-bond correlation, the environment in which traditional diversification fails most severely. The result is that adding 10% LMM PE to a 60/40 portfolio improved returns by as much as 100bps in normal conditions and turned negative real returns positive in stagflation.

The Stock-Bond Correlation Challenge:

The Stable scenario (characterized by low inflation below 3%, on-trend economic growth, and a negative stock-bond correlation) represents an environment that has underpinned the 60/40 portfolio since roughly 1998. Under these conditions, equities and bonds maintain their negative correlation: bonds provide protection during equity drawdowns while equities compensate for the lower long-term return of fixed income. This is the best-case environment for a traditional balanced portfolio, and the one in which the diversification benefits of 60/40 are most fully realized.

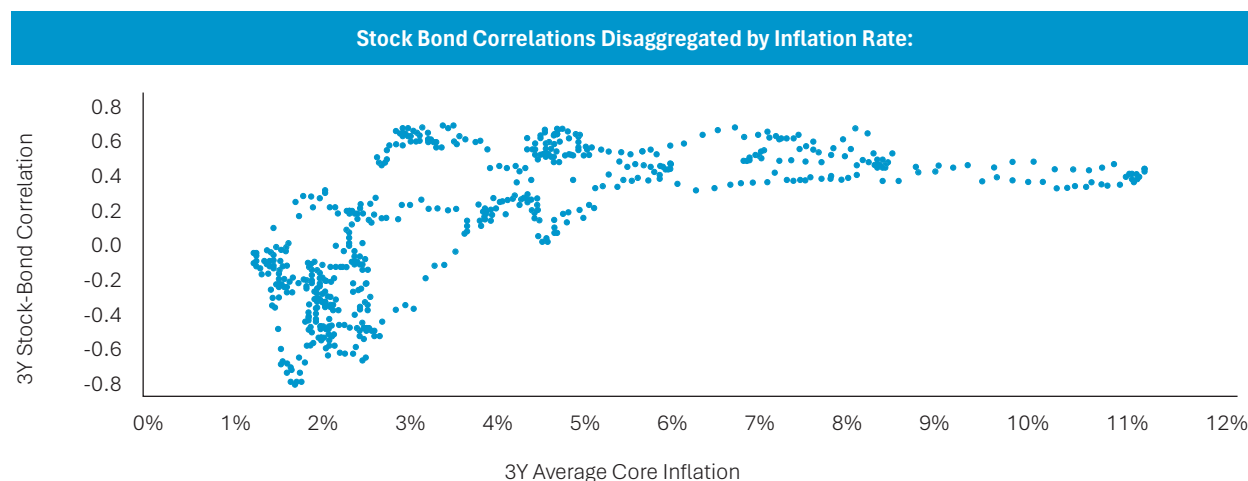
The bottom line: adding 10% LMM PE to a 60/40 portfolio improved returns by 100bps in normal conditions and turned negative real returns positive in stagflation - functioning as a portfolio repair mechanism in the environment where traditional diversification fails most completely.

The possibility of an extended breakdown in this negative stock-bond correlation cannot be overestimated. As the charts below demonstrate, this relationship has been positive more often than negative across the full sweep of financial history. Above 3-4% core inflation it turns sharply positive – as both charts make clear. The scatter plot shows that virtually all observations above 4% inflation are associated with positive stock-bond correlations. The rolling 36-month correlation line confirms that the negative correlation regime of roughly 1998-2021 was a historical anomaly driven by the unique combination of declining inflation and central bank credibility, not a structural feature of capital markets.



Sources: GS10/*TNX pre 2002, IEF post 2002

In environments where the stock-bond correlation turns sharply positive – such as the 2022 episode when US equities and the Bloomberg Aggregate fell simultaneously – LMM PE’s return premium becomes a material portfolio driver rather than a complement to existing diversification. Positive stock/bond correlation is not merely a theoretical concern: above 4-5% inflation, the historical record shows stock-bond correlations clustering almost uniformly above zero.



Source: Omnigence analysis. Rolling 36-month correlation of S&P 500 vs. US 10Y Treasuries. GS10/*TNX pre-2002, IEF post 2002. 3Y average core CPI paired with concurrent stock-bond correlation observations, 1970-2025.

LMM PE Across Macro Climates:

An assumed portfolio of 55% equity, 35% bonds, and 10% LMM PE is evaluated against a baseline 60/40 portfolio under both scenarios. A 5% risk-free rate is used in the Stagflation scenario and 3% in the Stable scenario.

		55/35/10 Portfolio	60/40 Portfolio
Stagflation	Return	5.38%	3.88%
	Volatility	13.61%	12.34%
	Sharpe	0.028	-0.091
Stable	Return	7.65%	6.65%
	Volatility	8.61%	7.23%
	Sharpe	0.540	0.505

Source: Omnigence analysis. Stagflation: 5% risk-free rate. Stable: 3% risk-free rate.

In the Stable scenario, a 10% LMM PE allocation improves the portfolio’s annualized return from 6.65% to 7.65% – a 100 basis point improvement – while increasing volatility only modestly from 7.23% to 8.61%. The Sharpe ratio improves from 0.505 to 0.540, reflecting that the return premium from LMM PE more than compensates for the additional volatility introduced.

In the Stagflation scenario the case for LMM PE becomes even more compelling. The 60/40 portfolio produces a return of only 3.88% against a 5% risk-free rate, resulting in a negative Sharpe ratio of -0.091: the portfolio fails to compensate for inflation risk. A 10% LMM PE allocation improves the return to 5.38% and the Sharpe ratio to 0.028 – moving from real return destruction to real return generation. This is the environment in which LMM PE functions not merely as a return enhancer but as a portfolio repair mechanism.

Correlation, Return, and Volatility Assumptions:

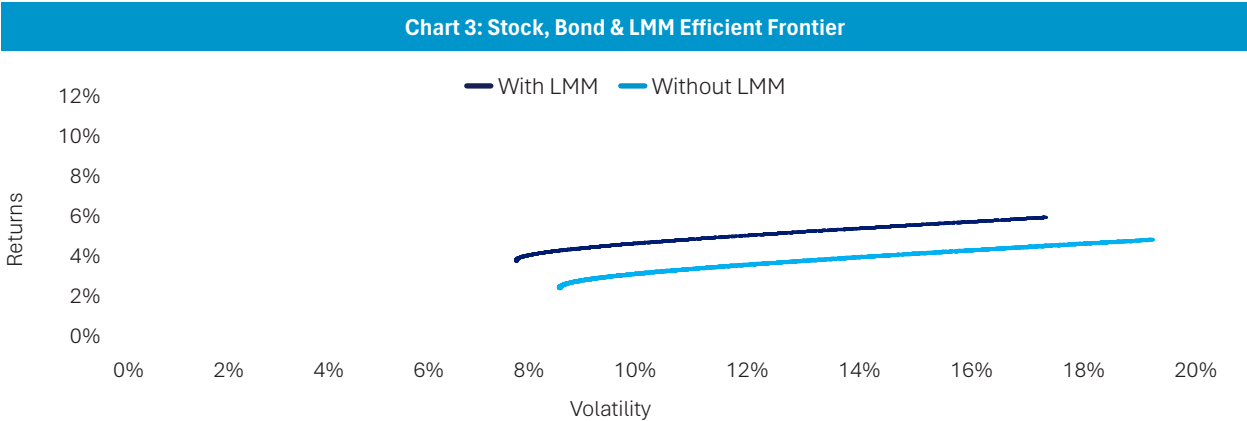
The return, correlation, and volatility assumptions used in the efficient frontier analysis reflect the characteristics of LMM PE in each scenario. LMM PE’s correlation to public equities (0.65 in Stable, 0.75 in Stagflation) is meaningful but not perfect.

	Stable Return	Stable Volatility	Stagflation Return	Stagflation Volatility
Stocks	8.0%	14.0%	5.0%	19.0%
Bonds	5.0%	5.0%	2.5%	8.0%
LMM PE	15.0%	17.5%	17.5%	22.5%

The correlation structure differs materially between scenarios: in the Stable scenario, bonds retain their negative correlation to stocks (-0.35) providing portfolio protection; in the Stagflation scenario, this is assumed to invert to +0.40, eliminating the diversification benefit of fixed income at precisely the wrong moment.

Correlation	Stable	Stagflation
Stocks / Bonds	-0.35	+0.40
Stocks / LMM PE	+0.65	+0.75
Bonds / LMM PE	+0.10	+0.35

Source: Omnigence analysis. SB = Stable (2000-2019 analogue, rf=3%). Stagflation rf=5%. LMM PE assumptions based on PitchBook middle-market buyout data and Arvore target parameters.



Source: Omnigence analysis. Efficient frontiers computed from proprietary LMM PE model. Stagflation risk-free rate 5%; Stable risk-free rate 3%.

Implications for Institutional Allocators:

Across both scenarios, LMM PE systematically strengthens portfolio efficiency. In the Stable scenario, the combination of LMM PE’s return premium and modest correlations adds value through return enhancement and Sharpe ratio improvement. In the Stagflation scenario, LMM PE shifts the portfolio from negative real returns to positive real returns – functioning not merely as a return enhancer but as a portfolio stabilizer at the moment when the traditional 60/40 framework fails most completely.

Arvore targets entry at approximately 6x EBITDA and exit at approximately 8x with \$15M+ in platform EBITDA - with the primary value creation lever being operational improvement and monthly non-discretionary cash distributions from operating incomes, not multiple expansion.

These attributes underscore why LMM PE is best viewed as a strategic allocation rather than a tactical or satellite position. The case for LMM PE does not depend on any single macro regime – it can improve outcomes in the best environment for 60/40 and provides critical return support in the worst. For institutional allocators navigating macro uncertainty, this all-weather characteristic is among the most important features of the asset class.

PROGRAM OVERVIEW: ARVORE PARTNERS

Arvore Partners is Omnigence’s lower middle market private equity strategy, representing a program with over a decade of continuous LMM capital deployment since 2013 – through multiple credit cycles, rate regimes, and macro environments – and one completed platform cycle with a national consolidation exit demonstrating the full Arvore model from anchor acquisition

through tuck-in program, CI transformation, and institutional sale. Arvore operates alongside Veripath (farmland, seven-fund track record since 2007) and Genivent (GP stakes and secondaries) within Omnigence’s \$1B+ alternative investment platform. Arvore pursues LMM consolidation in a focused, operationally intensive model designed to acquire, integrate, improve, and grow platform companies in the \$2M-\$15M EBITDA segment. The strategy is supported by EquiONE, Arvore’s proprietary technology platform, and by Omnigence’s broader data science and continuous improvement capabilities.

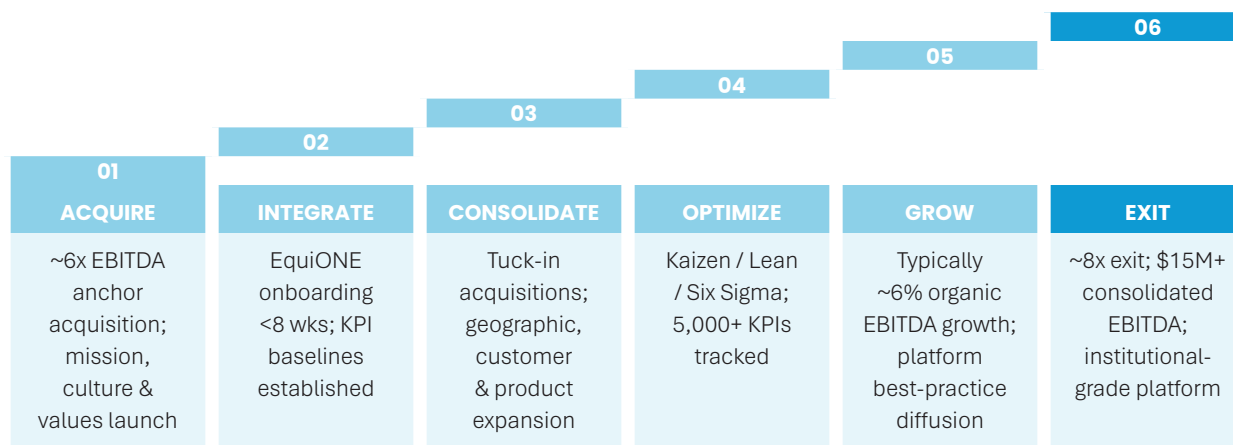
Investment Philosophy and Mandate:

Arvore’s investment mandate is built around a straightforward thesis: acquire earnings inexpensively, produce a non-volatile monthly distribution from cash-flow (~12%+ pa paid monthly) via operating company diversification, improve operations systematically, and exit at modestly higher multiples with materially larger EBITDA. The typical Arvore platform company enters the portfolio with \$2M-\$7M in EBITDA and an enterprise value consistent with a purchase multiple of approximately 6x. The target exit profile is a business with \$15M or more in EBITDA exiting at approximately 8x, representing multiple expansion layered on top of organic EBITDA growth.

The consolidation model is central to achieving these targets. Rather than relying on organic improvement alone, Arvore also builds platforms through a combination of a well-chosen anchor acquisition and a structured tuck-in program – which is expected to take 4-5 years from platform acquisitions to exit. Each tuck-in is evaluated for its ability to expand geographic reach, broaden the product or service offering, add customer relationships, or improve operational scale. EquiONE enables rapid onboarding of each new acquisition – typically in under eight weeks – so that integration costs and disruption are minimized and the operational improvement program can begin immediately.

The Arvore Consolidation Assembly Line:

Arvore operates what can be described as an evergreen consolidation assembly line across multiple industry verticals simultaneously. The process is a structured six-phase plan to integrate, consolidate, optimize, and grow each platform. This assembly line model creates repeatable value creation across multiple portfolio companies simultaneously and is supported by EquiONE’s real-time data infrastructure at every stage.



The EquiONE Operational Intelligence Platform:

EquiONE is built specifically to manage LMM PE portfolios. The platform aggregates operational and financial data in real time from hundreds of source systems – including ERP, POS, CRM, accounting, and manufacturing platforms – enabling fund managers and operating teams to make informed decisions quickly and consistently across a growing portfolio.

As of Q1 2026, EquiONE maintains more than 5,000 key performance indicators and has over 5 billion records in its central repository. The platform supports rapid onboarding of newly acquired companies in under eight weeks – in an industry where 100+ days is more the norm. Every layer of each operating business has assigned KPIs with clear ownership, threshold-based automated alerts, and deviation reporting that triggers accountability at the appropriate level of management.

Function	Capability	Impact
Rapid Onboarding	Integrates acquisitions in under eight weeks with immediate data aggregation	Reduces time from acquisition to operational alignment from 100 days to under two weeks
Scalable KPIs	Tracks 5,000+ operational and financial metrics; every management layer has assigned KPIs	Real-time performance accountability across the entire portfolio
Real-Time Reporting	Automated alerts flag deviations from forecast; accountability assigned to correct individual	Faster issue identification and resolution; reduced earnings surprises
CI Tracking	Tracks Kaizen projects with documented savings attribution	Millions in portfolio savings to date; compounding improvement as culture embeds
LP Reporting	Investors access the same real-time intelligence as the investment team	Unmatched transparency and timeliness; no information asymmetry between GP and LP
Predictive Analytics	Machine learning for anomaly detection and demand forecasting	Earlier identification of operational risk; improved forecasting accuracy

PROGRAM PERFORMANCE AND VALUE CREATION

The Compounding Operational Improvement Model:

Arvore's value creation model generates compounding returns as CI culture embeds across the portfolio. Operational programs typically progress from quick wins and leadership alignment in Year 1, through core systems deployment in Year 2, to self-sustaining continuous improvement by Years 4-5 – at which point the organization identifies and captures improvement opportunities independently, without operating partner involvement. The Shaw Group case study below illustrates how this progression unfolds in practice.

Operational Excellence:

The financial evidence for the operational improvement programs deployed by Arvore and supported by EquiONE is compelling and well-documented. Across Lean, Six Sigma, and Kaizen methodologies, the returns on investment in operational programs far exceed the cost of deployment within typical hold periods.

Methodology	Financial Outcome	Timeline
Kaizen (Culture-Building)	15-25% productivity gains; 30-50% defect reduction; 20-30% employee retention improvement	2-3 years for compounding impact to fully embed
Six Sigma (Precision Projects)	\$3-5M EBITDA improvement per \$100M revenue; \$18-30M enterprise value created at typical multiples; 3:1 to 5:1 project ROI	First wave results within 6-12 months; full benefit within 18-36 months
Lean (Process Transformation)	25-45% cumulative productivity gains; 50%+ working capital improvement; capacity to absorb 30-50% revenue growth with minimal incremental fixed cost	Phase 1 results within 6 months; full transformation over 18-36 months
Overall OpEx Programs	3:1 to as high as 15:1 ROI within hold periods	Ongoing; accelerates as culture matures

Source: Omnigence analysis; Operational Excellence in PE (Omnigence, February 2026).

CASE STUDY: Canadian Dental Labs

The dental laboratory industry is a textbook LMM consolidation target: highly fragmented, with thousands of independent owner-operated labs serving dental practices across North America; significant operational underdevelopment relative to the quality demanded by the clinical market; and a structural shift toward digital dentistry and CAD/CAM fabrication that independent operators lack the capital and expertise to navigate. Shaw Group was acquired as a platform company with a solid existing customer base, a founder-operated culture with genuine technical capability, and clear improvement opportunities in production throughput, revenue cycle management, and technology infrastructure.

Canadian Dental Labs LP | Dental Laboratory Consolidation | Shaw Group Anchor Acquired December 2018
 | 5 Clinics | Entry EBITDA: \$2.5M | Vertical EBITDA: \$15M+

5	\$2.5M	\$15M+	+60%
Dental Clinic Acquisitions	Entry EBITDA (Anchor Acquisition)	Platform EBITDA (Exit Target)	EBITDA / Employee (\$15K → \$28K+)

At entry, the platform acquisition, Shaw Dental Labs, operated with EBITDA of \$2.5 million and EBITDA per employee of approximately \$15,000 – a productivity metric that, while not unusual for a founder-operated dental lab, represented significant headroom relative to the operational benchmarks EquiONE had established across comparable service businesses. Management reporting was manual, production scheduling was informal, customer pricing was inconsistent across the lab’s account base, and there was no formal continuous improvement framework in place. EquiONE was deployed within the standard eight-week onboarding window, establishing baseline KPIs across production, revenue cycle, customer retention, and people metrics within weeks of close.

- **Phase 1 – Institutional Infrastructure (Months 1-12).** The first year focused on building the institutional foundation that would underpin subsequent improvement. This included upgrading the management team with hires in operations and finance who brought professional service business experience; implementing EquiONE’s real-time production and financial dashboards across the lab; standardizing customer pricing to eliminate below-market accounts that were diluting margin; and deploying 3D printing and digital scanning infrastructure that reduced production cycle times and expanded the lab’s service capability into higher-margin restorative categories. Kaizen events in the production workflow identified and eliminated recurring bottlenecks in the crown and bridge fabrication process. By month twelve, EquiONE was tracking deviations from forecast in near real time, enabling the management team to course-correct within days rather than quarters.
- **Phase 2 – Operational Transformation and Tuck-In Acquisitions (Months 12-36).** With the operational foundation in place, the platform turned to accelerated growth. A structured tuck-in acquisition program identified and acquired complementary dental labs in adjacent geographies, each onboarded into EquiONE within the standard eight-week window and immediately integrated into the platform’s production network, pricing framework, and CI culture. Each acquisition arrived with its own operational inefficiencies – the pattern recognition that EquiONE and the operating team had developed at Shaw itself dramatically reduced the time required to identify and capture improvement opportunities at each new addition. Centralized production scheduling across the platform allowed work to be routed to the most efficient lab location, improving both capacity utilization and customer turnaround times. The Kaizen program expanded from the original Shaw facility to each acquired location, creating a portfolio-wide CI culture with documented improvement tracking across all sites.
- **Results.** By the 2023 forecast period, Shaw Group’s platform had achieved an EBITDA CAGR of 14.4%, growing from \$2.5M at anchor acquisition to \$4.8M at midpoint – with consolidated platform EBITDA of \$15M+ across all acquired labs, representing a 6x increase from entry. EBITDA per employee increased 60%, from approximately \$15,000 to more than \$28,000, reflecting the compound effect of technology investment, pricing discipline, process improvement, and talent upgrading. The improvement was not concentrated in any single initiative: EquiONE’s Kaizen tracking captured the distributed contribution of thousands of incremental improvements across the platform, from production workflow redesign to invoice cycle reduction to supply chain rationalization. The platform demonstrated the central thesis of Arvore’s model – that patient operational capital, supported by real-time data infrastructure, can systematically transform a fragmented service industry into a scaled, professionally managed business that commands a material valuation premium at exit relative to its entry price.
- **Exit.** In the expected timeline of 4-6 years, Canadian Dental Labs was grown from the acquisition of a single regional company (Shaw Group) to a national Canadian footprint with strong market position via organic growth, CI and 4 tuck-in acquisitions. The sale process generated interest from strategics and institutional buyers with

multiples in line with Arvore base-case assumptions. The majority of investor returns were generated by monthly distributions, with organic growth and multiple expansion being the minority. Overall, a clear validation of the model – timing, growth, consolidation, return composition, and total return potential.

KEY PROGRAM DIFFERENTIATORS

Return Composition:

Arvore's return profile is structurally different from most private equity strategies, and that difference matters for how allocators should think about the strategy within a portfolio context. The target return of approximately 20% IRR decomposes into three distinct streams, each with different timing, certainty, and correlation to market conditions.

The largest component – and the most distinctive – is current income. Low acquisition multiples of approximately 6x generate high free cashflow yields from day one of ownership. Arvore sweeps operating income monthly on a non-discretionary basis: these are not discretionary dividend decisions but systematic distributions of monthly cashflow that the business generates regardless of exit market conditions. High cash conversion businesses, acquired at modest multiples, produce yields that most PE strategies cannot generate because they pay too much at entry to leave room for current income. The current distribution rate is ~12%+ per annum, paid monthly, making Arvore's DPI profile materially stronger than typical closed-end PE where capital is locked until a terminal exit.

The second component is organic EBITDA growth through CI methodologies. Consistent application of Kaizen, Lean, and Six Sigma across portfolio companies generates compounding improvements in operating margins, working capital efficiency, and revenue per employee – independent of macroeconomic conditions and not reliant on multiple expansion to create value. This stream contributes approximately 20-30% of total returns over a typical hold period, with the contribution accelerating as CI culture embeds and compounds across acquired sites.

The third and final component is multiple expansion – but moderate, earned, and structural rather than speculative. By building an integrated platform with \$15M or more in consolidated EBITDA, Arvore moves each vertical from the SMB market – where buyers are typically individual operators paying 4-6x – into the lower middle market, where institutional buyers and strategic acquirers pay 8-10x for a scaled, professionally managed, EquiONE-instrumented business. This market reclassification generates approximately 20% of total returns at exit. This additional equity upside is delivered through recurring special distributions when verticals are exited, providing LPs with liquidity events throughout the hold period rather than a single terminal cash event.

Arvore targets approximately 20% IRR with 60%+ of that return paid via monthly (12% PA) non-discretionary sweeps from operating cashflow, compounding CI-driven EBITDA growth, and exit multiple expansion earned by building institutional-grade platforms from founder-operated businesses – a return composition with materially higher DPI and lower reliance on exit market timing than traditional PE.

EquiONE as a Proprietary Operational Moat:

EquiONE represents a genuine competitive moat that individual LMM buyers and traditional PE firms would find time consuming and costly to replicate. The platform's ability to aggregate data from hundreds of source systems, monitor KPIs (currently 5,000+) in real time, automate improvement tracking across Kaizen projects, and deliver high quality reporting to both operators and investors is the product of significant proprietary development. The platform has reduced average integration time from 100 days to under eight weeks – a compressing of the J-curve that directly improves DPI relative to competitors operating with standard integration timelines.

For allocators conducting GP due diligence, EquiONE provides the kind of operational evidence – CFO-validated project savings, real-time performance data, documented before/after metrics across multiple portfolio companies – that best-in-class institutional LPs now require. This infrastructure is not an add-on; it is the execution engine for Arvore's investment strategy.

Pattern Recognition Across the Portfolio:

A PE firm with multiple portfolio companies across industry verticals encounters the same operational problems repeatedly: inefficient warehouse layouts, excessive changeover times, poor forecasting accuracy, manual processes ripe for automation,

and inadequate KPI visibility at the management layer. This pattern recognition dramatically reduces execution risk. Operating partners who have successfully implemented Lean transformations, Six Sigma programs, and Kaizen cultures dozens of times across multiple industries can accurately forecast timelines, resource requirements, and expected returns with a precision that an independent company attempting its first transformation cannot match.

This accumulated knowledge is institutionalized in Arvore’s playbooks, implementation guides, and the EquiONE knowledge repository. As the portfolio grows, the pattern recognition compounds – each new acquisition benefits from the lessons of every prior integration, and best practices disseminate rapidly through the portfolio’s shared operational infrastructure.

Access to Operational Talent:

Arvore can recruit and retain operating partners and CI specialists that individual LMM companies could never attract or afford independently. A \$35M revenue manufacturer cannot justify a \$300,000 head of continuous improvement. But when this expert can rotate across multiple portfolio companies – spending four to six months intensively working with a company to install systems and train internal teams before rotating to the next – the economics work for everyone. Portfolio companies receive world-class operational expertise at a fraction of the cost of permanent hires, and the operating partner develops pattern recognition that compounds with each engagement.

Governance, Accountability, and LP Transparency:

PE oversight creates forcing mechanisms for operational discipline that family-owned or publicly traded competitors often lack. Monthly operating reviews with specific improvement metrics, quarterly value creation scorecards, and compensation tied to operational KPIs drive execution velocity. The combination of supportive capital for investments with rigorous accountability for results creates ideal conditions for transformation that independent ownership structures rarely replicate.

EquiONE’s LP portal extends this transparency to investors. LPs have real-time access to the same operational and financial intelligence as the investment team – not periodic quarterly reports, but live dashboards covering revenue trends, EBITDA performance, KPI compliance, and improvement project tracking. This level of transparency is rare in the LMM segment and represents a structural advantage in LP relations and fundraising.

Buy-and-Build as a Value Creation Multiplier:

Operational excellence creates platform advantages that extend beyond individual company improvement. A leaned-out platform with EquiONE’s data infrastructure can efficiently absorb bolt-on acquisitions without proportional overhead increases. Standard work documentation and documented processes enable faster integration and value capture from each acquired company. Geographic expansion, product adjacencies, and customer set diversification can be executed at scale because the platform already has the management infrastructure, reporting systems, and continuous improvement capability to handle complexity.

RISKS AND POTENTIAL MITIGANTS

LMM PE carries a distinct risk profile. The table below summarizes several key categories and the structural mitigants Arvore applies to each.

Risk	Description	Mitigant
Illiquidity	Interests are not publicly traded; exit timelines are subject to market conditions.	No NAV, \$1 par structures, all operating income and gains on sales swept to investors on non-discretionary basis, assets held at book (~6x EBITDA)
Operational Execution	Value creation depends on successful post-acquisition improvement programs. Integration failures can impair returns.	Documented continuous improvement, integration and monitoring processes reduce execution risk.
Key Person	Loss of operating partners with CI expertise could impair value creation.	EquiONE institutionalizes operational knowledge. Playbooks and knowledge repositories mean programs continue across personnel changes.

Concentration	Fewer, larger-weight positions than diversified structures; a single platform failure has meaningful impact.	Buy-and-build diversifies revenue across multiple companies per platform. Multi-industry, multi-geographic deployment at fund level.
Leverage	Debt service obligations must be met regardless of performance. Rate increases can stress coverage ratios.	Entry at ~6x with moderate leverage (~3x) – well below what is typical of larger transactions.
Market Cycle	A recession could compress EBITDA across the portfolio simultaneously.	Sector exposure can be modified over time by divesting verticals so the portfolio is more responsive to macroeconomic conditions over time than a traditional PE fund. Operational improvement can sustain EBITDA even in revenue contractions.

CONCLUSION

Lower middle market private equity represents a useful combination of high distributable operating income and growth potential, driven by a structural valuation discount unavailable in public markets, a demographic tailwind of historic scale, and an operational improvement opportunity that is largest precisely where institutional capital has historically been most absent.

The performance data confirms this thesis: middle-market buyout delivers the strongest risk-adjusted return profile across all private equity strategies, with a positive floor even among the worst managers. Across high/low inflation/growth climates, a 10% LMM PE allocation improved Sharpe ratios even in the environment most favourable to 60/40. In stagflation, it can convert a negative real return portfolio expectation into a positive one – when traditional diversification fails most completely.

Arvore Partners' consolidation model, supported by EquiONE's proprietary operational intelligence platform, translates these structural advantages into systematic value creation. For institutional allocators navigating an era of macroeconomic uncertainty and disappointing IRRs and DPI from traditional PE allocations, LMM PE via Arvore's platform enhances portfolio efficiency, may provide return uplifts in the regimes where traditional diversification fails, and offers exposure to a compounding operational improvement model with a demonstrated track record.



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