



How Middle-Market Manufacturers Increase Enterprise Value Before a Sale



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The middle-market manufacturing sector is entering a period of growing divergence. Well-positioned companies with diverse customers, scalable operations, and professional leadership teams continue to draw strong interest from private equity firms and strategic buyers. Meanwhile, many founder-led manufacturers face margin pressure due to rising input costs, workforce shortages, and supply chain volatility.

As a result, the valuation gap between well-prepared companies and average businesses has widened. Manufacturers that show operational discipline and earnings growth tend to have higher valuations than peers with concentrated customer bases, weak systems, or a reliance on a founder.

For manufacturing CEOs thinking about a future exit or strategic partnership, the main question is straightforward: What should you be doing today to increase the value of your company tomorrow?

Most investors evaluate manufacturing businesses across five core value drivers.

- 1. Revenue Quality:** Buyers prefer companies with stable and diversified revenue streams. Relying heavily on a few customers or markets increases risk and lowers valuation. Companies that show consistent revenue growth and diverse demand attract higher valuations. Manufacturing leaders should ask:
 - » Do we provide unique products or specialized capabilities that customers value?
 - » Is revenue concentrated among a few customers or industries?
 - » Do we have a defined sales process and a strong pipeline?
 - » Can we expand into new markets, distributors or partnerships?
- 2. Leadership Depth:** Many middle-market manufacturers still rely heavily on their founders. Investors favor businesses with leadership teams capable of maintaining growth even after the owner. A strong management team indicates scalability and lowers risk for buyers. Key considerations include:
 - » Is the company overly dependent on the founder?
 - » Do we have experienced leaders in operations, finance and sales?
 - » Is there a succession plan for critical roles?
 - » Are incentive structures in place to retain key talent?
- 3. Operational Scalability:** Operational infrastructure is crucial for valuation. Buyers seek confidence that production can expand without significant disruption or excessive capital spending. Manufacturers with efficient and scalable operations are much more appealing to investors. Important questions include:
 - » Do we have sufficient production capacity and modern equipment?
 - » Are ERP systems in place for inventory, production and financial reporting?
 - » Are supply chains diversified and resilient?
 - » What capital investments may be needed to support growth?

- 4. Financial & Compliance Discipline:** Institutional buyers perform thorough due diligence. Companies with accurate financial reporting and regulatory compliance streamline transactions. These aspects boost buyer confidence and lower transaction risk. Manufacturers should ensure:
- » Financial statements are accurate and aligned with GAAP.
 - » Management reporting supports decision-making.
 - » OSHA, environmental and industry standards are fully met.
 - » Quality certifications such as ISO 9001 or AS9100 are in place where relevant.
- 5. Transaction Readiness:** Legal and ownership structures need to be in place for a sale. Companies that prepare these elements in advance face fewer delays and achieve better outcomes. This includes:
- » A clean capitalization table.
 - » Proper corporate governance records.
 - » Protection of intellectual property.
 - » Assignable customer and supplier contracts.
 - » A quality of earnings, "Q of E" report.

For many manufacturing owners, the optimal time to start preparing for a future sale is 3 to 5 years in advance. Companies that focus on strengthening leadership, operations, and financial discipline during this time often reach significantly higher enterprise values.

SD Capital collaborates with manufacturing leaders to identify key value drivers and develop structured plans that position companies for sustainable growth and successful transactions.

About SD Capital

SD Capital is a premier, full-service, value advisory and investment banking practice that assists middle-market companies in creating and maximizing business value. We provide strategic evaluation and execution of various downstream sales and monetization pathways. With decades of combined executive experience running, owning and advising private companies our team is uniquely positioned to guide owners through the complex process of growing and selling their companies. Learn more at www.sdcapital.com.

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