

Middle Market M&A Market Survey of Private Equity Partners for 2025–26

Optimism Returns to the
Middle Market

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INTRODUCTION

After a period of calibration, the middle market has found its footing. Our survey of Private Equity partners for the 2025-26 period reveals a clear shift in sentiment: the hesitation of the past two years is giving way to a renewed appetite for deal-making. While 2025 was a year of stabilization, the data suggests 2026 is poised for acceleration.

With interest rates normalizing and “dry powder” levels remaining near record highs, buyers are eager to deploy capital. However, the rules of engagement have changed. Creativity in structuring deals is now key to bridging valuation gaps, and new macroeconomic headwinds (2025 saw tariffs and a government shutdown added to our list of challenges) have risen to the forefront of diligence discussions.

This report outlines the state of the market, the forecasts for the year ahead, and the strategic adjustments buyers and sellers must make to capitalize on the reopening window.



2025 RECAP: A YEAR OF STABILIZATION

The story of 2025 was one of resilience. Following an uncertain 2024, the market steadied. A combined 40% of respondents viewed overall market strength as “better” than the prior year, while a third (34%) felt it held steady.



Deal volume followed a similar trajectory, with 52% seeing improvements in activity. Crucially, valuation multiples—often the stickiest point in negotiations—largely plateaued, with 52% of investors reporting they stayed the “same.” This stability provided a necessary foundation, allowing buyers and sellers to find common ground.



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2025 Valuation Multiples

Compared to Previous Year



2026 FORECAST: THE BULL CASE RETURNS

If 2025 was about stability, 2026 is about growth. The sentiment for the year ahead is overwhelmingly positive. A staggering 82% of partners expect overall market strength to improve, with 74% predicting it will be “slightly better” and 8% “much better.”



This optimism extends to deal volume, where 86% of respondents forecast an uptick. However, sellers hoping for a spike in multiples may need to temper expectations, as the majority of investors (58%) believe valuation multiples will remain flat. The market is recovering volume, not necessarily inflating asset prices, meaning the “froth” of 2021 may not return, but liquidity certainly might.



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2026 Valuation Multiples

Compared to Previous Year



DEAL STRUCTURES: BRIDGING THE GAP

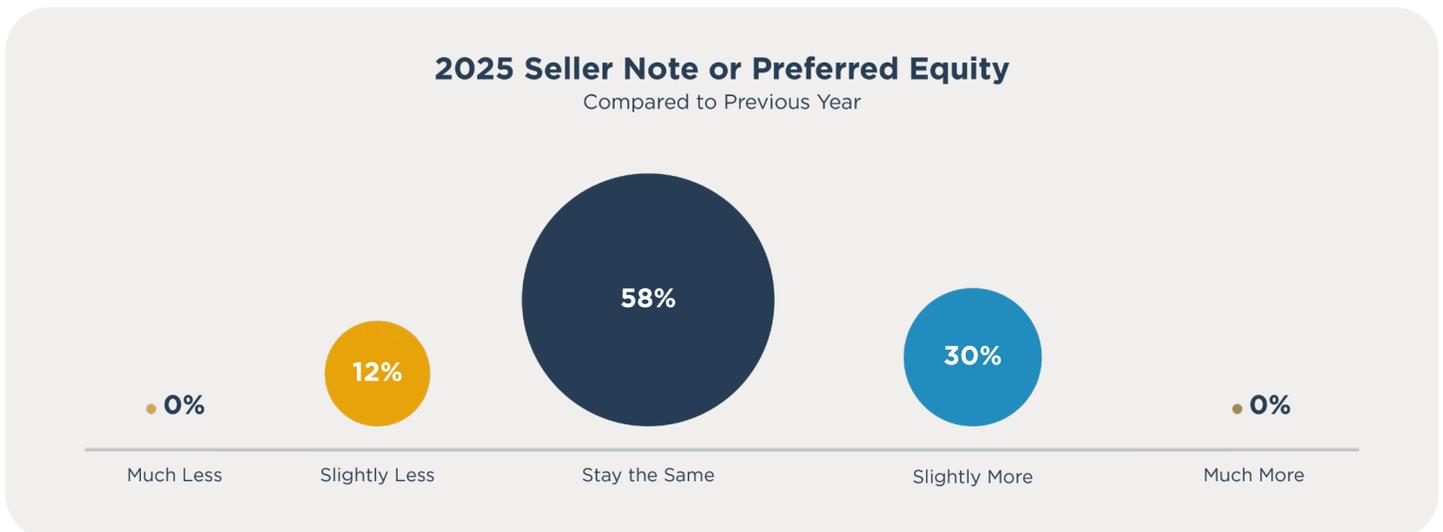
With valuations holding steady, deal structure has become the primary lever for getting transactions across the finish line. The days of “cash at close” dominance are being tempered by risk-sharing mechanisms:



Earnouts are Essential: Nearly half of all respondents (48%) are using earnouts “slightly more” than last year. This allows buyers to pay for future performance while mitigating risk.



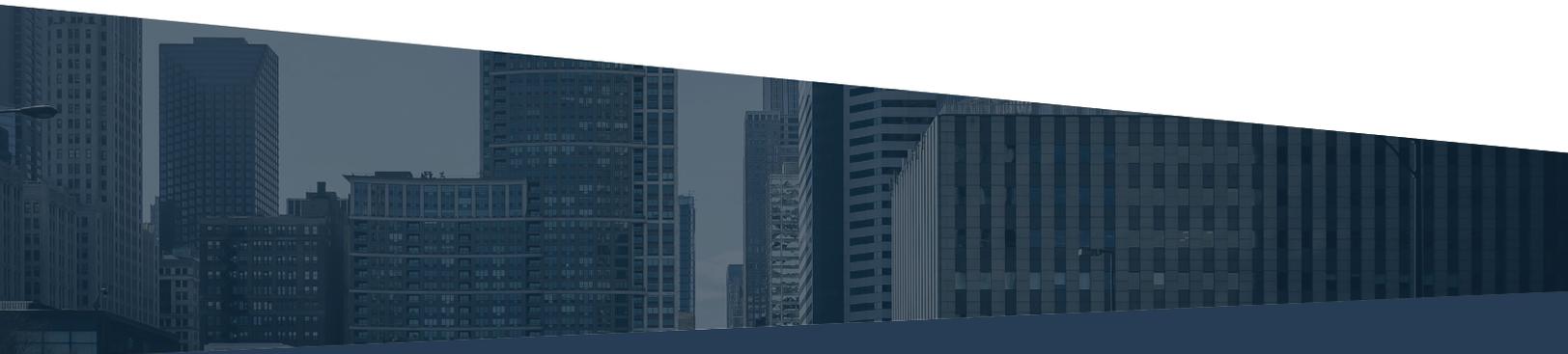
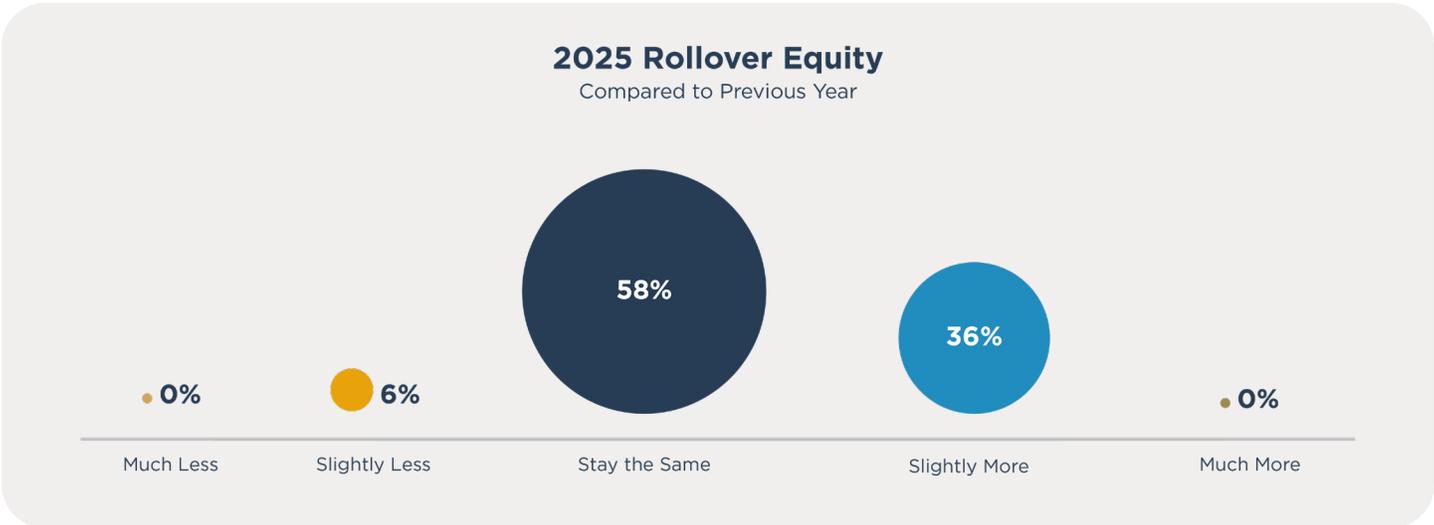
Seller Notes on the Rise: Similarly, 30% of partners reported an increase in the use of seller notes or preferred equity.



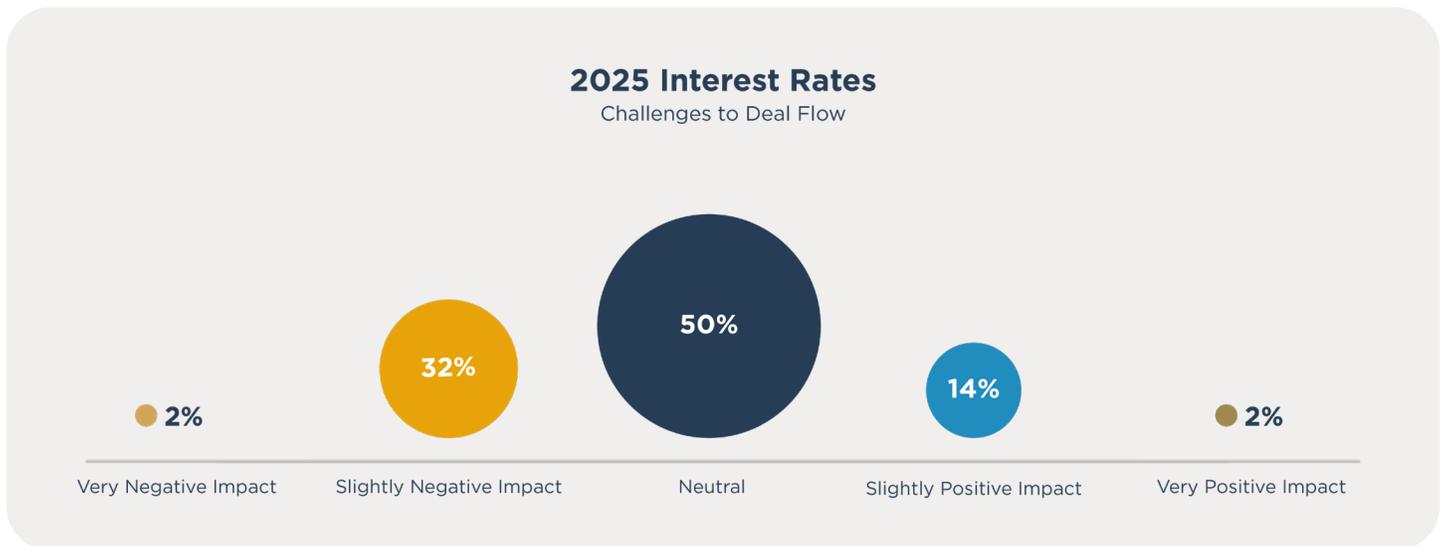
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Cash at Close: Remained largely unchanged (62%) or decreased (18%), reinforcing that today's sellers must be willing to share in the post-close risk to achieve their headline price targets.



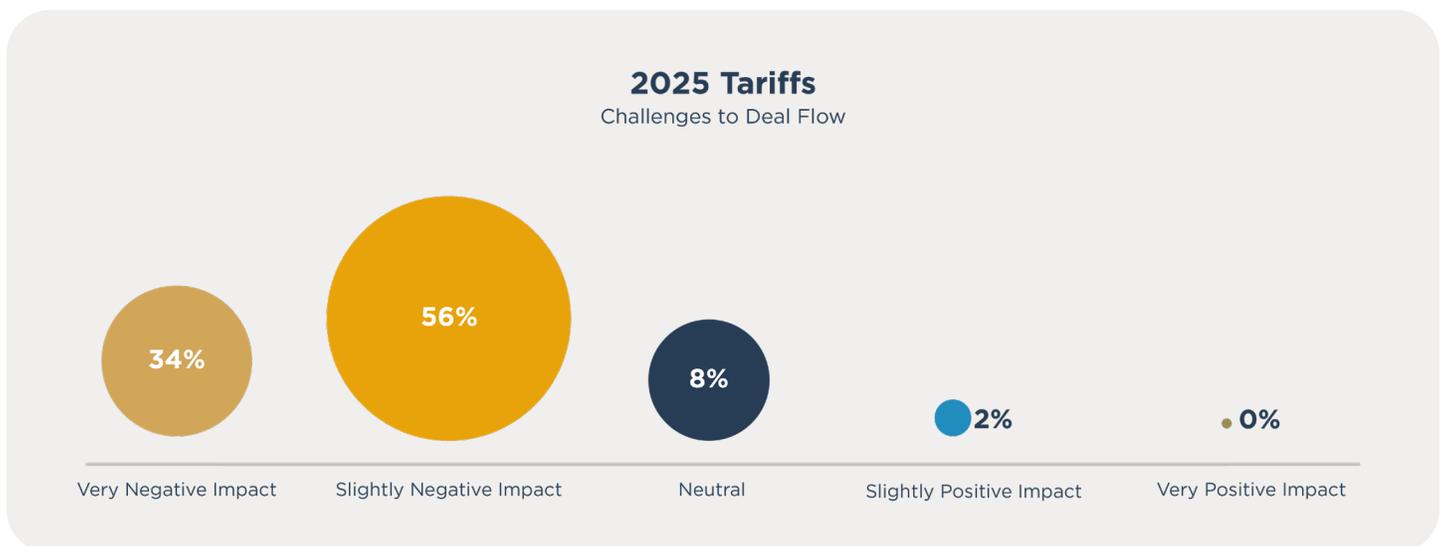
CONCERNS: THE TARIFF FACTOR



While interest rates have faded as a primary deal-killer (rated “neutral” by 50% of respondents), a new challenge has emerged: Tariffs.

An even 90% of partners cited tariffs as having a negative impact on deal flow (34% “very negative,” 56% “slightly negative”).

This concern trickles down to investors’ portfolio companies, where 62% of respondents see tariffs negatively impacting performance.

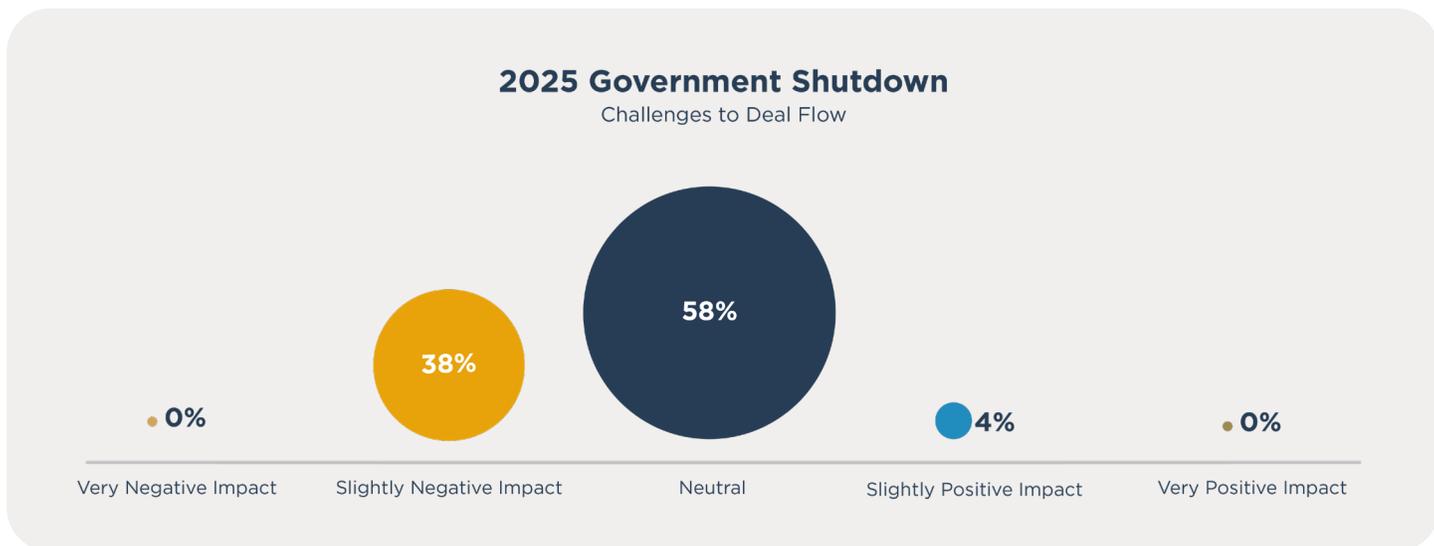


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“Seller Expectations” remains a persistent friction point, with 62% of partners citing it as a negative factor.



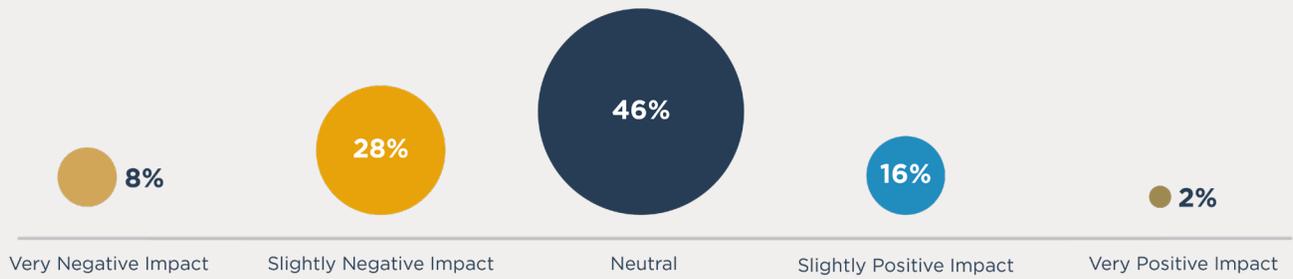
Interestingly, the impact of the 43-day government shutdown was largely dismissed, with 58% viewing it as neutral.



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2025 Exit Opportunities

Challenges to Deal Flow



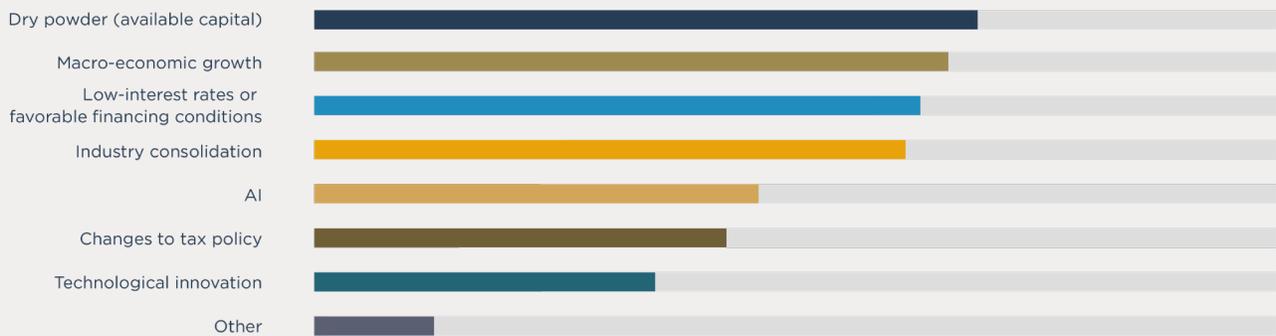
OPPORTUNITIES: WHAT WILL DRIVE M&A IN 2026?

Private equity partners are overwhelmingly optimistic that market fundamentals will be the primary engine for M&A activity in 2026. The most significant factor identified is the abundance of dry powder (available capital) in the market, ranking as the number one driver. As we saw in last year’s report, this suggests that firms have capital ready to deploy and are eager to close deals.

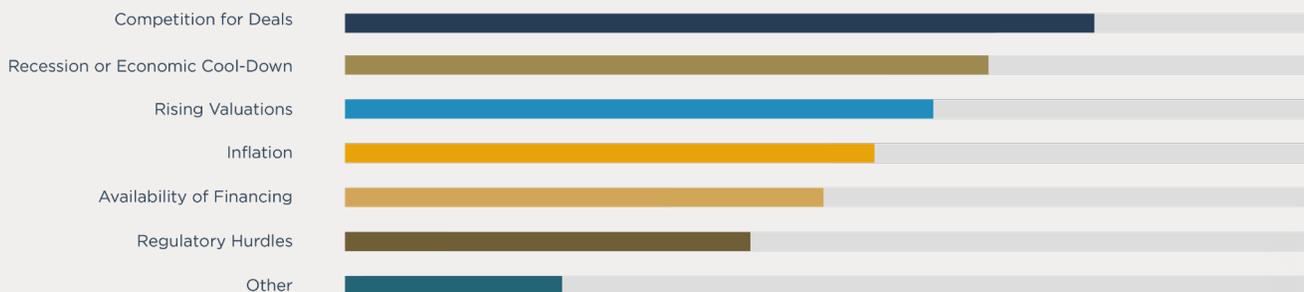
Following closely are broader economic factors, with macro-economic growth and low-interest rates or favorable financing conditions rounding out the top three. This confidence in the economic landscape indicates a belief that favorable conditions for borrowing and overall business health will support deal-making.

Other factors, industry consolidation and AI, also ranked highly, showing that firms are looking for platform investments that offer scale and leverage new technologies.

What factors will drive the most M&A opportunities in 2026?

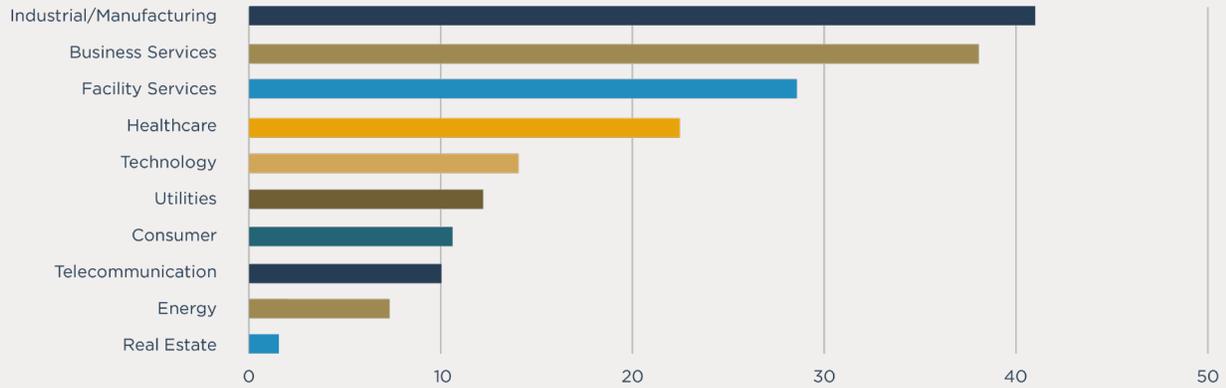


What is your biggest concern about the M&A market in 2026?

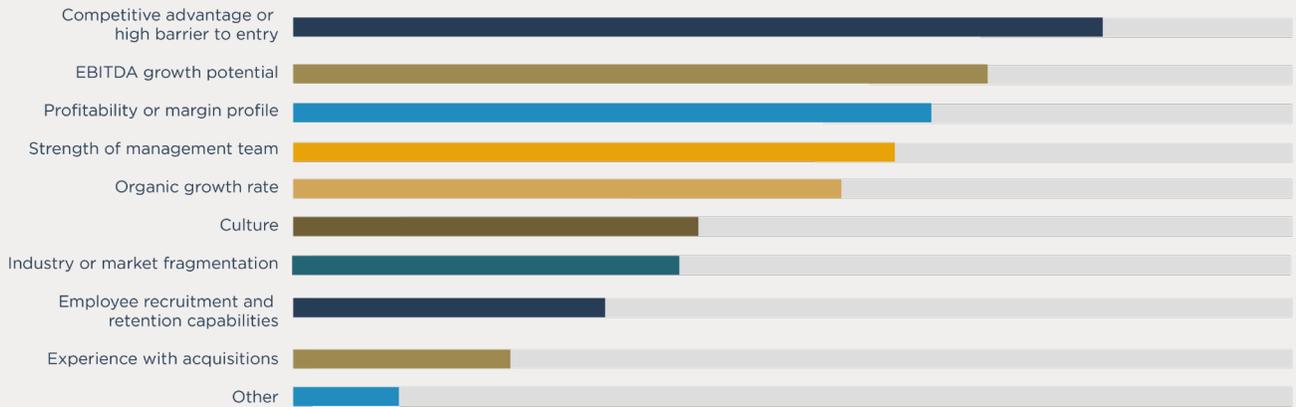


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What sectors does your firm anticipate targeting in 2026?



What are your most important criteria for evaluating acquisition targets in 2026?



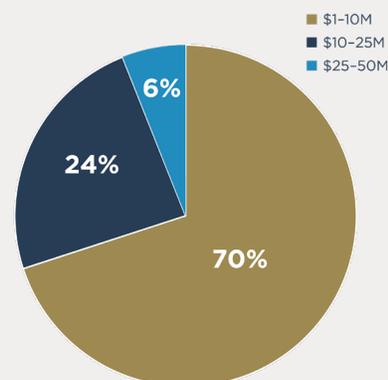
TARGET CRITERIA: PRIORITIZING QUALITY AND GROWTH

When evaluating acquisition targets for 2026, private equity firms are focusing on sustainable value and growth potential rather than just size or historical performance. The clear top priority for firms is the target's competitive advantage or high barrier to entry, indicating a preference for businesses with defensible market positions.

The subsequent criteria all speak to a focus on financial quality and leadership:

- EBITDA growth potential and profitability or margin profile rank as the second and third most important factors, respectively.
- The strength of the management team is also a top-tier consideration, ranking fourth, underscoring the belief that strong leadership is key to executing value creation plans.
- Other important considerations include organic growth rate and the often-overlooked factor of culture.

For platform targets, what were the company sizes in terms of EBITDA?



KEY ACTIONS: A ROADMAP FOR 2026

The survey results point to an M&A landscape in 2026 that is poised for activity, driven primarily by available capital and positive macro-economic forecasts.

Sellers should use the favorable market forecast as a window to optimize their financial profile, emphasizing a defensible competitive advantage and clear EBITDA growth potential. Given the buyer focus on quality and our network's target sectors, firms in Industrial and Business Services should prepare for high demand.

A NOTE ABOUT THE DATA AND THE SURVEY PROCESS

The data in this report was collected in a survey conducted between October 29 and November 8, 2025 among partners at private equity firms specializing in middle and lower-middle market investments in the U.S. The survey aimed to capture insights on current and projected trends in the M&A landscape, drawing on the expertise of seasoned investors actively engaged in the market.

