The Catch-Up Trade:
Middle Market M&A Q1 2026

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Executive Summary

The U.S. M&A market in thus far in 2026 is a bifurcated story, and the middle market isn't the glamorous one — at least not yet. Total global deal value hit a record $4.9 trillion in 2025 while global advisory firms have posted a 57% jump in advisory revenue in Q1 2026. That's a bulge-bracket story, not a Main Street one.

The middle market is a different animal. It runs on PE acquisitions and exits, and PE firms spent the last two years largely sitting on the sidelines: holding companies past their ideal exit windows, watching financing costs eat into returns, and refusing to sell below their internal marks, all while enforcing tighter underwriting standards and limiting acquisition activity only to best-in-class assets. However, that stalemate appears to be breaking. Early 2026 shows pitch activity accelerating, advisors getting calls on assets held longer than planned, and sponsors finally accepting that the 2021 valuation environment isn't coming back.

The numbers behind that optimism are real: $1.12 trillion in dry powder, over 12,000 PE-backed companies in inventory, and a regulatory environment that's the most deal-friendly it's been in years. The catch? The ACG's Q2 2026 survey shows the share of dealmakers expecting increased activity dropped from 81% to 54.7% in a single quarter. Geopolitical uncertainty — Middle East tensions, tariff volatility — is doing exactly what it did in early 2025: making buyers hesitate before they sign.

The setup is strong. The execution won't be clean.

For family business owners watching from the sidelines: the window is open. Record buyer demand, abundant capital, favorable regulation. That combination doesn't last forever, and the time required to actually prepare a business for sale, 12 to 24 months of real work, means the decision point is now, not when the market feels safer.

Key Market Metrics at a Glance

Metric	Value / Reading
Total U.S. M&A Deal Value (FY 2025)	~$4.9 trillion (Record)
U.S. Middle Market PE-Reported Deals (FY 2025)	297 Transactions
MM Deal Count vs. 2021 Peak	-41%
Avg. Middle Market TEV/EBITDA Multiple (FY 2025)	7.2x (Flat vs. 2024)
Business Services Avg. TEV/EBITDA (FY 2025)	7.4x — Tied Record High
Healthcare Services Avg. TEV/EBITDA (FY 2025)	8.5x — Highest in Data Set
Manufacturing Avg. TEV/EBITDA (FY 2025)	6.6x (down from 7.0x in 2024)
U.S. PE Capital Overhang (Dry Powder)	~$1.12 trillion (Record)
U.S. PE Portfolio Company Inventory	>12,000 Businesses (Record)
Mega-Deal Volume ($1B+), Q2 2026 vs. Q1 2026	+57% Year-over-Year
MM Dealmakers Expecting Activity Increase (Q2 2026)	54.7% (vs. 81% in Q4 2025)
Avg. Total Debt / EBITDA — MM Transactions (2025)	3.6x
Small-Deal ($1M–$25M TEV) Avg. Multiple (2025)	5.9x

Section 1: The Broader U.S. M&A Market — Q1 2026 in Context

1.1 The Record 2025 Baseline

The headline number from 2025 is $4.9 trillion in total U.S. M&A deal value. But like most records built on a few exceptional performances, it obscures as much as it reveals. Bain and McKinsey both found that deals exceeding $5 billion accounted for over 73% of the increase in aggregate deal value. Transactions above $10 billion crossed 60 for the first time since 2021.

Below that layer, volume told a quieter story. Corporate buyer deal count grew roughly 2% year-over-year to 8,849 transactions; financial buyer count rose about 4% to 1,484. Those aren't bad numbers, but they just aren't record numbers. 2025 is best understood as a year where a small number of transformational deals made the market look bigger than it was for most participants.

1.2 Q1 2026: Signs of Life in the Middle Market

The middle market entered 2026 with genuine momentum, even if it isn't yet a full-throated recovery. Citizens Bank put it plainly: the setup is *"materially stronger than it has been in the past two years."* Pitch activity has picked up. Sponsors are talking to bankers about assets held longer than originally planned. Q1 2025 has the inflection point, and three consecutive quarters of year-over-year volume growth since then support that read.

The ACG's Q2 2026 Market Pulse Survey adds a note of caution. Geopolitical uncertainty — particularly Middle East tensions and continued tariff volatility — has slowed deal confidence faster than expected. Whether that's a bump or a reversal depends on how those risks continue to play out in the months ahead.

1.3 The K-Shaped Market

The defining structure of U.S. M&A entering 2026 is a K: the top of the market is flying, the middle is recovering, and the split between them is wider than at any comparable point in recent history.

At the top, mega-deals are funded primarily with strategic equity and balance sheet capacity — they're not sensitive to the financing environment that governs middle market transactions. At the middle, PE fund structures need leveraged debt, willing lenders, and seller/buyer agreement on price. For the past two years, all three were harder to come by.

What's counterintuitive about this cycle is that recoveries typically run bottom-up, with the middle market leading and large-cap activity following. This time it reversed. Middle market volume lives and dies with PE exit activity, and PE activity has been constrained by elevated interest rates, conservative lender underwriting, and sponsors' collective refusal to sell below their internal marks. Those constraints are easing. The gap is closing. But the middle market is still playing catch-up with a cycle the large-cap market has already largely processed.

Illustrative U.S. M&A Trend Data

Year	Total U.S. Deal Value	Middle Market Activity	MM Median TEV/EBITDA	Key Market Dynamic
2021	~$1.77T (Record at time)	Exceptional — Peak year	~12.0x	Post-COVID boom; low rates; PE hyperactive
2022	~$1.22T	Declining from peak	~11.5x	Rate shock; tightening credit; deal slowdown
2023	~$1.05T	Multi-year low	~10.0x	Financing freeze; bid-ask spread widest

Year	Total U.S. Deal Value	Middle Market Activity	MM Median TEV/EBITDA	Key Market Dynamic
2024	~$1.15T	Nascent recovery	~10.5x	Gradual improvement; uneven activity
2025	~$4.9T (Record)	Lagged mega-deals; subdued	~10.0x	Bifurcated: mega surge, MM constrained
2026 YTD (Q1)	Record pace at top end	Improving; early signs positive	~10.0x	Mega continuing; MM recovery underway

Sources: PitchBook, Citizens Bank, GF Data, Capstone Partners, Wall Street Horizon. Median TEV/EBITDA figures represent broader publicly disclosed market data; GF Data PE-reported multiples are shown separately in Section 3.

Section 2: Strategic and Private Equity Buyer Activity

2.1 Strategic Buyers — Scale and Technology Imperative

Corporate acquirers came into 2026 well-positioned: strong balance sheets, improving earnings, and boards under real pressure to demonstrate credible AI strategies. Per PwC, corporate deal volume was up roughly 2% in 2025 while deal value jumped 41%. The signal: strategics are executing fewer deals and making them bigger.

The regulatory environment is helping. The current administration's antitrust posture is the most permissive it's been since 2019, particularly for vertical integrations and industrial consolidation. KPMG's 2026 Global M&A Outlook flags "geopolitical fragmentation, legislative and regulatory volatility, and accelerating technological change" as defining themes, but notes U.S.-specific conditions are among the most deal-favorable in years. Goldman Sach's David Solomon described corporate leaders as focused on *"driving scale and scale creation in businesses with significant technological change"* — and that's more likely to generate deals than suppress them.

KPMG's central theme for 2026 is portfolio simplification, what they're calling "the year of the carve-out." Shifting trade and tax regimes, rising risk concentration, and accelerating capability reconfiguration are pushing boards to act on divestitures that have been deferred for years. A survey of 700 dealmakers across 20 countries found portfolio separation has become a strategic imperative, not a byproduct.

Technology is another story. PitchBook's Q1 2026 PE Breakdown flagged a sharp reset underway in software: the declaration that AI has disrupted the traditional software business model has triggered valuation compression, with broadly syndicated software loan bids widening by up to 100 basis points since the start of 2026. PE software deployment as a share of total PE deal value dropped from 19.1% in 2025 to 13.3% in Q1 2026. For strategic buyers, this creates a window: software assets at lower multiples…but only for those willing to assess which business models survive the disruption.

2.2 Private Equity — Pressure to Deploy, Pressure to Exit

Private equity entered 2026 in an unusual position: record dry powder, record portfolio inventory, and growing LP frustration. U.S. PE capital overhang hit approximately $1.12 trillion at year-end 2025. The number of PE-backed U.S. companies has grown to over 12,000 — an all-time high built up through years of acquisitions without commensurate exits.

GF Data reported 297 completed PE-reported middle market transactions in 2025, down 23% from 2024 and in line with 2023. Q4 2025 showed some life with 84 reported transactions, matching Q2 and rebounding from 67 in Q3, but the full year 2025 finished 41% below the 2021 peak. Average purchase price multiples held at 7.2x trailing EBITDA, and that has been the more telling data point: pricing has compressed modestly from cycle peaks, but sponsors haven't capitulated. They've held the line on valuation even as volume declined.

The mix of deal activity has also shifted. Traditional buyouts represented only 81% of completed transactions. down from 87% in 2024 and well below the 90%+ share of 2021–2023. Growth financings accounted for 10%; leveraged recapitalizations 7%, carrying the highest average valuation at 7.7x EBITDA. The pattern is clear: sponsors are finding ways to manage portfolio pressure and return capital to LPs short of executing full exits. Add-ons remained central to strategy at roughly 37% of buyouts.

On exits, the logjam is approaching a breaking point. PitchBook flagged a debt maturity wall looming over assets acquired at 2021 peak valuations, now facing a credit environment very different from what underwrote them. Sponsors who have avoided selling below their internal marks are running out of runway. Pitch activity and sell-side advisor engagement picked up sharply in early 2026. S&P Global found GPs nearly evenly split on whether 2026 distributions will satisfy LP expectations. The uncertainty is real, but so is the motivation to act.

2.3 Credit Markets and Financing Conditions

Credit was a persistent constraint on middle market activity in 2025, and the early reads on 2026 aren't entirely reassuring. GF Data reported average total debt of 3.6x EBITDA in 2025, with senior debt averaging 2.9x — conservative by historical standards. Average senior pricing declined to 7.9%, the lowest since 2022, which helped at the margin. But overall deal structures remain more equity-heavy than the 2019–2021 period.

The private credit market (valued at roughly $2.1 trillion per Goldman Sachs) has faced its own turbulence, with heavy selling pressure in publicly traded BDCs and semi-liquid credit funds. For middle-market transactions that rely on private credit for uni-tranche or mezzanine financing, that translates into higher carrying costs and tighter underwriting. The ACG Q2 2026 survey found the share of dealmakers calling the debt environment "somewhat favorable" dropped from 64% to 48.3% in a single quarter, a notable deterioration in financing sentiment.

Strategic vs. Private Equity Buyer Comparison

Dimension	Strategic Buyers	Private Equity Buyers
Typical Transaction Size	Large / Transformative ($500M–$10B+)	Middle Market ($10M–$500M TEV)
Primary Acquisition Driver	AI capability, scale, regulatory clarity	Dry powder deployment; LP distribution pressure
Financing Source	Balance sheet, equity, public debt markets	PE fund equity + private credit; leveraged structures
Average Leverage (2025)	Varies; typically <3x	3.6x Total / 2.9x Senior Debt/EBITDA (GF Data)
Valuation Reference	Strategic premium; synergy-adjusted	7.2x avg TEV/EBITDA (GF Data)
Sector Focus (Active)	Tech, AI, Media, Energy, Healthcare	Business Services, Industrials, Healthcare
Add-On / Tuck-In Activity	Bolt-ons for capability / geography	37% of buyouts in 2025; core strategy
Key 2026 Driver	Carve-outs, AI acquisitions, consolidation	Portfolio exits; platform scaling; recaps
Key 2026 Risk	Integration complexity; geopolitical shock	Debt maturity wall; LP pressure; credit spreads

Section 3: Middle Market Deal Activity — A Detailed View

3.1 Valuation Trends by Size Tier

GF Data's full-year 2025 data cuts through the aggregate numbers and shows what's actually happening by size. The $10M–$25M tier, the most active by transaction count, compressed in Q4 to 5.7x, its weakest reading in recent years. The $100M–$250M tier showed the year's best sustained performance at 9.7x. The size premium — the valuation spread between larger and smaller platform buyouts — narrowed at year-end to 2.3x, below the long-term average of 2.6x. That narrowing was driven by softer large-platform valuations in Q4, not renewed strength at the smaller end.

TEV Range	LT Avg (2003–2020)	2022	2023	2024	2025	2025 Q4	N= (2025)
$10M – $25M	5.8x	6.4x	5.9x	6.4x	6.2x	5.7x	~278
$25M – $50M	6.5x	7.1x	6.9x	6.8x	6.8x	7.1x	~181
$50M – $100M	7.5x	8.5x	8.1x	8.1x	8.0x	7.4x	~129
$100M – $250M	8.3x	9.2x	9.5x	8.5x	9.7x	8.4x	~75
$250M – $500M	9.1x	9.7x	10.2x	9.8x	9.6x	12.8x*	~22
Total (Wtd. Avg)	6.7x	7.6x	7.2x	7.2x	7.2x	6.9x	297

*Source: GF Data. *$250M–$500M reflects small sample size (N=~22 annually). LT Avg encompasses 18 years of data (N=3,940 transactions, 2003–2020).*

3.2 Deal Type and Composition

Deal Type	2023	2024	2025	Avg TEV/EBITDA (2025)	Commentary
Traditional Buyouts	~90%	87%	81%	7.1x	Declining share; pricing held despite volume drop
Growth / Acquisition Financing	~5%	8%	10%	7.3x	Rising; alternative to full exits
Leveraged Recapitalizations	~5%	5%	7%	7.7x (highest)	Capital return tool; mature platform management
Add-On Acquisitions (of Buyouts)	~33%	~40%	~37%	6.9x	Core strategy; easing competition in H2 2025

Source: GF Data. Add-on percentages represent share of total buyout transactions reported.

3.3 Industry Sector Valuation Comparison

Industry Sector	LT Avg (2003–2020)	2023	2024	2025	YoY Change
Business Services	6.7x	7.2x	7.2x	7.4x	+0.2x
Healthcare Services	7.4x	9.2x	7.7x	8.5x	+0.8x
Retail	7.0x	6.0x	7.4x	7.5x	+0.1x
Distribution	6.7x	7.1x	6.9x	6.9x	Flat
Technology	8.4x	10.2x	7.9x	6.4x	-1.5x
Media & Telecom	7.6x	7.8x	6.7x	6.9x	+0.2x
Manufacturing	6.2x	6.5x	7.0x	6.6x	-0.4x
Other	6.3x	6.9x	7.0x	6.8x	-0.2x

Source: GF Data. TEV range $10M–$250M. Note: Technology N is small and subject to significant variability.

3.4 The Small Deal Market ($1M–$25M TEV)

The sub-$25M market operates differently from the rest of the middle market, and GF Data's Q4 2025 Small Deals Report puts numbers to that difference. In 2025, GF Data tracked 230 completed transactions in this range, down roughly 15% from 270 in 2024. Average TEV/EBITDA came in at 5.9x, modestly below 2024's 6.1x but above the long-term average of 5.8x. Multiples scaled predictably with size — 5.4x in the $1M–$5M band up to 6.2x in the $20M–$25M range.

The more interesting story is the convergence of platform and add-on valuations. On a full-year buyout basis, add-ons averaged 6.0x EBITDA versus 5.8x for platforms, a spread of just 0.2x, down from 0.7x in 2024. But on leverage, the gap held: add-ons carried 4.6x total Debt/EBITDA versus 2.9x for platforms. That 1.7-turn difference reflects the structural reality that add-on buyers can lever up into existing platform structures in ways standalone acquirers cannot.

Section 4: Family-Held Businesses — A Generational Transition Opportunity

4.1 The Scale of the Transfer

Over the next decade, the continued wave of private business equity changing hands has no historical precedent. The mechanism is simple: Baby Boomers built a large share of the country's lower and core middle market businesses, they're aging out, and most of them don't have a plan.

The youngest Boomers are 62. The oldest are approaching 80. Studies consistently find that most Boomer business owners have inadequate or no succession plans, that the bulk of their personal net worth sits in their business, and that they'll need to transfer ownership in the next ten to fifteen years. That's not a prediction — it's arithmetic.

For buyers (PE sponsors, family offices, search funds, strategic acquirers) this creates a sustained, multi-year pipeline of transactions. For owners, it's a decision that most are deferring longer than they should, with real financial consequences.

4.2 What Family Business Sellers Need to Know About Valuation

GF Data's buyer type analysis is direct on this point: in 2025, deals where the seller was a PE group or corporate averaged 7.5x EBITDA, about 0.4x above the 7.1x total buyout average. That premium isn't arbitrary. PE and corporate sellers deliver cleaner financials, stronger management teams, more diversified customer bases, and clearer post-close management plans. Family sellers can close most of that gap, but it takes preparation, and it takes time.

The most common value impairments, and what to do about them:

- **Owner Concentration Risk.** When the owner is the business — the relationships, the institutional knowledge, the key customer contacts — buyers apply discounts of 0.5x to 2.0x EBITDA depending on severity. The fix is showing buyers a management team that can operate without the owner present. That's the highest-return pre-sale investment most owners can make.
- **Financial Reporting Quality.** Family businesses often run accounting practices optimized for tax efficiency, not buyer-readiness. Normalizing financials by identifying owner-specific add-backs, non-recurring charges, and working capital anomalies is essential to establishing an adjusted EBITDA that buyers will accept at face value. A well-supported EBITDA vs. a challenged one can swing effective multiples by 0.5x–1.5x.
- **Revenue Concentration.** Heavy customer concentration is one of the most common value impairments in the lower middle market. Buyers will require escrow arrangements, earnout structures, or outright multiple discounts. Where pre-sale diversification is possible, it's worth doing.
- **Capital Expenditure Normalization.** Family businesses frequently underinvest in capex to maximize owner distributions. Buyers assess normalized maintenance and growth capex on their own terms, and gaps relative to industry peers translate directly into enterprise value discounts.
- **Management Continuity.** In 2025, deals with a PE/corporate seller, above-average financials, and a post-close management solution averaged 8.0x EBITDA — nearly a full turn above the 7.1x total buyout average. For family sellers who are the primary management resource, building a team that can demonstrate independence from the owner is a direct multiple driver.

4.3 The Buyer Universe for Family-Held Businesses

Buyer Type	Typical Target Size	Avg Valuation	Key Considerations	Best Fit For
PE Sponsor (Traditional)	$3M–$30M+ EBITDA	7.0x–10.0x	Highest prices for quality assets; require management depth; structured process	Businesses with strong financials, mgmt depth, growth potential
Family Office / Ind. Sponsor	$1M–$10M EBITDA	6.5x–8.5x	Flexible on mgmt; longer hold; relationship-oriented; less process-intensive	Owner wanting partial exit; mission continuity important
Strategic / Corporate	$5M–$50M+ EBITDA	Synergy premium	Slowest process; highest strategic premium if strong fit	Unique IP, customer relationships, or geographic value
Search Fund / ETA	$0.5M–$3M EBITDA	4.5x–6.0x	Operator/buyer; full management transition; mission continuity focus	Small business; owner fully exiting; legacy continuity desired
ESOP	Varies widely	5.0x–7.0x	Tax advantages; employee ownership; complex structure; slower close	Owner wanting tax efficiency and employee continuity

4.4 Timing Considerations

The case for moving now is not complicated:

- **Current Market Setup.** Record PE dry powder ($1.12T), accelerating sponsor exit activity, improving financing conditions, and the most permissive regulatory environment in years. Valuations are modestly below 2021–2022 peaks but remain historically elevated across most sectors. Waiting through the next cycle turn carries real risk of encountering less favorable financing, more conservative buyers, and lower multiples.
- **Business Momentum at Exit.** Buyers underwrite on trailing performance but are heavily influenced by trajectory. A business growing from $2M to $5M EBITDA over three years commands a materially better process than one that has declined from $8M to $5M, even if the forward opportunity looks equivalent. Timing the exit to a period of genuine momentum in revenues, margins, and customer relationships is a lever entirely within the owner's control.
- **Tax Landscape Uncertainty.** The current capital gains rate structure represents a defined environment, but tax policy uncertainty is an ever-present risk. Advisors consistently find that waiting for marginally better conditions costs more than it saves, particularly when rates could shift materially under future administrations.
- **Preparation Timeline.** A well-run sale process can require 12 to 24 months of preparation before formal launch: financial normalization, management development, customer diversification, quality-of-earnings work. Owners who want to transact in 2026 or 2027 at optimal values should be initiating preparation conversations now.

Section 5: Industry Deep Dives — Precedent Transactions and Valuation Analysis

5.1 Business Services and Tech-Enabled Business Services

Business Services was the standout sector in GF Data's 2025 dataset. The sector averaged 7.4x TEV/EBITDA, tying the highest level on record, and 0.7x above the long-term historical average, even as overall deal volume declined. Deal count finished just 4% below the 2021 peak. In a market that was broadly disappointing, business services proved remarkably resilient.

The reason isn't complicated: buyers want recurring, asset-light revenue. Business services delivers it, and tech-enabled business services delivers it at scale with better margins. As pure-play software faces an identity crisis from AI disruption, the tech-enabled services model has emerged as a compelling alternative: SaaS-like revenue characteristics (recurring revenue, low churn, high gross margins, data network effects) without the existential business model uncertainty now surrounding traditional SaaS. PE sponsors who understand this distinction are shifting capital accordingly.

The NAICS 541 sub-sector — IT consulting, management consulting, engineering, specialized professional services — averaged 7.4x across all size tiers in 2025, with the $100M–$250M tier reaching 9.7x and the $250M–$500M tier averaging 11.9x. Revenue growth in the $25M–$100M range averages 18–19%, with EBITDA margins of 24–26%. That's the quality that commands premium multiples.

Business Services — Valuation by Size Tier

TEV Range	LT Avg (2003–2020)	2022	2023	2024	2025	Total N
$10M – $25M	5.6x	6.6x	6.1x	6.3x	6.4x	553
$25M – $50M	6.8x	6.7x	6.6x	7.4x	7.6x	389
$50M – $100M	7.8x	8.6x	8.8x	8.2x	8.3x	266
$100M – $250M	8.8x	10.4x	11.2x	8.7x	10.3x	161
Sector Total	6.7x	7.4x	7.2x	7.2x	7.4x	1,369

Source: GF Data Q4 2025 M&A Report, Business Services category (NAICS 54x, 56x, 61x, 81x). LT Avg encompasses 2003–2020 data.

Illustrative Precedent Transactions — Business Services and Tech-Enabled Services

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
HR/Benefits Administration Platform (Tech-Enabled SaaS+Services)	PE Platform	$75M–$150M	9.5x–11.5x	Recurring subscription revenue; employer stickiness; tech moat
Environmental Compliance & Reporting Services	PE Platform	$40M–$90M	8.0x–10.0x	Regulatory mandate; recurring compliance contracts; high barriers
B2B Digital Marketing & CRM Services	PE / Strategic	$50M–$120M	8.5x–11.0x	Proprietary data assets; SaaS-enabled delivery; recurring revenue
Outsourced Accounting / Fractional CFO Platform	PE Buyout	$20M–$50M	7.5x–9.5x	Recurring client fees; talent leverage model; consolidation opportunity

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
Specialty Staffing (Healthcare / Tech / Engineering)	PE Platform	$30M–$80M	6.5x–8.5x	Niche skill set; employer relationships; geographic roll-up potential
Facilities / Field Services Management (Tech Dispatch)	PE / Strategic	$50M–$120M	7.5x–9.5x	Long-term service contracts; tech-enabled scheduling; recurring revenue
Legal Process & Document Management Services	PE Buyout	$25M–$70M	7.5x–9.5x	Workflow automation; AI integration potential; law firm relationships
Training, Certification & LMS Platform	Strategic / PE	$30M–$80M	8.5x–11.0x	Digital delivery; compliance-driven recurring demand; scalable content
Outsourced IT Managed Services (MSP)	PE Platform	$25M–$75M	7.0x–9.5x	Recurring MRR; multi-year contracts; cybersecurity upsell potential
Background Screening / Identity Verification	Strategic / PE	$50M–$150M	9.0x–12.0x	Mission-critical; regulatory driven; high data barriers to entry

Note: Illustrative precedent ranges based on observed middle market comparable transaction activity 2023–2025. Actual multiples vary by business quality, growth rate, customer concentration, EBITDA margin, and deal structure.

Key Valuation Drivers — Business Services

- **Recurring Revenue Mix and Retention.** The most important valuation driver. Contracted or subscription revenue consistently commands a 1.0x–2.5x EBITDA premium over transactional models of equivalent size. Buyers diligence renewal rates, contract term, NRR/GRR metrics, and customer concentration intensively.
- **Technology Differentiation.** Proprietary technology that genuinely enhances service delivery efficiency, scalability, or data capture earns meaningful premiums. The critical distinction is whether the technology is defensible or replicable by competitors with off-the-shelf tools.
- **EBITDA Margin Profile.** GF Data NAICS 541 data shows EBITDA margins averaging 24–26% for businesses in the $25M–$100M TEV range. Businesses operating above this level through superior pricing, tech leverage, or delivery efficiency command premium multiples.
- **Scalability Without Linear Headcount.** Businesses that can grow revenue through technology, process leverage, or offshore/nearshore models rather than proportional headcount increases command the highest multiples. Buyers price scalable delivery models at a premium over headcount-driven growth.

5.2 Industrial and Industrial Services

The industrial sector presented a mixed picture in 2025. Manufacturing deal volume dropped 43% from 2024, and average valuations fell 0.4x to 6.6x, the weakest activity since 2020. The headline masks important divergences: B2B manufacturers with contractual revenue, pass-through pricing, or mission-critical products averaged 6.8x — modestly above 2024, in line with historical norms. Unbranded consumer manufacturing dropped to 5.9x, more than a full turn below 2024, as buyers priced in margin risk from tariff volatility.

Industrial services companies that provide maintenance, inspection, testing, cleaning, environmental, fire protection, and specialty contracting have emerged as the preferred entry point for buyers wanting industrial exposure without manufacturing's capital intensity and commodity input risk. The demand base is essential and non-discretionary: equipment gets maintained, facilities get serviced, regulations get complied with. Infrastructure investment tailwinds from the bipartisan infrastructure law, the CHIPS Act, and energy transition spending provide multi-year demand visibility for a range of these businesses.

Industrial Sector — Valuation by Sub-Category

Sub-Category	2025 Avg TEV/EBITDA	2024 Avg	YoY Change	Key Demand Driver
Manufacturing — B2B / Mission-Critical	6.8x	6.7x	+0.1x	Contractual revenue; pass-through pricing
Manufacturing — Branded Consumer	6.6x	7.4x	-0.8x	Brand premium; tariff input cost pressure
Manufacturing — Unbranded Consumer	5.9x	7.7x	-1.8x	Commodity; limited pricing power; tariff exposure
All Manufacturing (GF Data)	6.6x	7.0x	-0.4x	Broad sector; consumer vs. B2B divergence
Distribution — Specialty / Niche	7.5x–9.5x	7.0x–9.0x	Slight improvement	Exclusive agreements; value-add distribution
Distribution — General	6.5x–7.5x	6.5x–7.5x	Flat	Volume-dependent; competitive; thin margins
Industrial Services — Specialty Inspection/Testing	8.0x–10.5x	7.5x–9.5x	Improving	Regulatory mandate; safety-critical; recurring
Industrial Services — Maintenance / MRO	7.0x–9.5x	6.5x–8.5x	Improving	Essential maintenance; contracted; low capex
Specialty Trade Contracting (Infrastructure)	6.5x–8.5x	6.5x–8.5x	Stable	Govt infrastructure spend; project backlog visibility
Fire Protection & Life Safety	8.5x–11.0x	8.0x–10.5x	Improving	Code-mandated; recurring inspection revenue
Environmental Services	8.0x–10.0x	7.5x–9.5x	Improving	Regulatory-driven; long-term remediation contracts

Sources: GF Data M&A Report for manufacturing/distribution. Industrial services multiples represent author analysis of publicly reported comparable transaction data, 2023–2025.

Illustrative Precedent Transactions — Industrial and Industrial Services

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
Specialty NDT / Infrastructure Inspection Services	PE Platform	\$50M–\$120M	8.5x–11.0x	Regulatory compliance; sole-source expertise; multi-year govt contracts
HVAC/Mechanical Services & Maintenance	PE Buyout	\$40M–\$100M	7.5x–9.5x	Service agreements; essential demand; geographic consolidation opportunity
Precision Machined Components (Aerospace/Defense)	Strategic	\$75M–\$200M	8.5x–11.0x	Mission-critical; sole-source; AS9100 certified; long-term OEM contracts

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
Environmental Remediation Services	PE / Strategic	$30M–$90M	8.0x–10.0x	Regulatory mandated; long-term cleanup contracts; limited qualified competitors
Industrial Coating / Surface Treatment	PE Add-On	$20M–$60M	6.5x–8.5x	Recurring industrial customer base; geographic roll-up; specialty certifications
Fire Protection & Life Safety Services	PE Platform	$30M–$80M	8.5x–11.0x	Code-mandated recurring inspections; service agreements; scalable model
Specialty Chemical Distribution (B2B)	Strategic	$50M–$150M	7.5x–9.5x	Exclusive distribution; value-add formulation; sticky customer relationships
Critical Facilities Services (Data Center/Pharma)	PE / Strategic	$50M–$150M	9.0x–12.0x	Mission-critical; cleanroom/GMP expertise; recurring contracts; specialized labor
Specialty Waste / Hazmat Services	PE Platform	$30M–$80M	8.0x–10.5x	Regulatory compliance; high barriers to entry; recurring generation contracts

Note: Illustrative precedent ranges. Actual multiples driven by contract duration, EBITDA margin, customer concentration, geography, and buyer-specific strategic fit.

Key Themes — Industrial Sector

- **Tariff Risk and Supply Chain.** The primary near-term risk for manufacturing valuations. Buyers focus hard on supply chain provenance, raw material pass-through mechanisms, and pricing power. Businesses with contractual cost pass-through, domestic content, or multi-source supply chains trade at premiums to tariff-exposed, single-source manufacturers.
- **Infrastructure Tailwinds.** Government infrastructure investment continues to create durable demand for specialty contractors, inspection services, materials suppliers, and engineering firms. Businesses positioned on multi-year infrastructure contracts command premium multiples on the strength of backlog visibility and low customer concentration.
- **Essential Services Premium.** Code-mandated, safety-critical, or non-discretionary industrial services trade at a premium to discretionary industrial spending. The regulatory demand base creates a recurring revenue stream that buyers underwrite aggressively.
- **Capital Intensity Analysis.** Low-capital-intensity industrial services businesses generating 15–25%+ EBITDA margins with limited maintenance capex requirements command the highest multiples. Asset-heavy manufacturing with high maintenance capex and commodity input exposure faces the most conservative underwriting.

5.3 Healthcare Services

Healthcare Services was the highest-valuation sector in GF Data’s 2025 dataset at 8.5x TEV/EBITDA, a record or near-record premium that reflects sustained, intense buyer demand from both strategic and PE acquirers. PE firms accounted for roughly 40.2% of total healthcare M&A investment in 2025, up from 25.1% in 2024. That’s a significant shift in market share in a single year.

Early 2026 data points to a “selective rebound” in healthcare services M&A — not a broad acceleration in volume, but a shift toward high-value transactions in structurally attractive subsectors. AI-enabled care delivery and niche segments with clear reimbursement stability are drawing the most attention. The overall deal environment remains complex: payer mix dynamics, physician alignment structures, state licensing, and compliance requirements all require specialized diligence and structuring expertise. That complexity is also a moat, protecting established platforms and making experienced operators more valuable, not less.

Healthcare Services — Valuation by Size Tier

TEV Range	LT Avg (2003–2020)	2022	2023	2024	2025	Total N
$10M – $25M	6.3x	7.4x	6.4x	6.8x	6.5x	177
$25M – $50M	7.6x	8.8x	8.1x	10.1x	9.0x	140
$50M – $100M	8.1x	9.5x	12.9x	NA	9.2x	112
$100M – $250M	8.9x	11.3x	10.6x	10.1x	10.8x	62
Sector Total	7.4x	8.4x	9.2x	7.7x	8.5x	491

Source: GF Data M&A Report, Healthcare Services (NAICS 621, 623, 624). Note: 2024 $50M–$100M reported as NA due to small sample size.

Illustrative Precedent Transactions — Healthcare Services

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
Behavioral Health / ABA Therapy (Multi-Site)	PE Platform	$50M–$200M	10.0x–15.0x	Demand far exceeds supply; Medicaid/commercial mix; high barriers; fragmented
Ophthalmology / Eye Care Practice Group	PE Buyout	$75M–$250M	9.5x–13.0x	High physician income; surgical volume; fragmented market; scalable model
Dermatology Platform (Medical + Aesthetic)	PE / Strategic	$60M–$200M	9.5x–13.0x	Dermatologist supply constraint; recurring demand; hybrid payer model
Home Health / Personal Care (Medicaid Waiver)	Strategic / PE	$40M–$120M	7.5x–10.5x	Aging demographics; lower-cost setting; Medicaid waiver revenue
Urgent Care / Occupational Medicine Network	PE Platform	$50M–$150M	8.5x–11.0x	Consumer convenience; commercial payer revenue; geographic network value
Ambulatory Surgery Center (Multi-Specialty)	Strategic / PE	$75M–$250M	9.5x–13.0x	Physician ownership; high-margin procedures; shift away from hospital setting
Physical / Occupational / Speech Therapy	PE Buyout	$30M–$90M	7.5x–10.0x	Essential rehab demand; insurance reimbursement; scalable staffing model

Target Category	Acq. Type	Est. TEV	TEV/EBITDA	Key Value Drivers
Dental Support Organization (DSO)	PE Platform	$40M–$200M	8.5x–12.0x	Fragmented market; strong same-store growth; dentist partnership model
Gastroenterology Practice Management	PE / Strategic	$50M–$150M	8.5x–11.5x	Procedural revenue; colorectal cancer screening mandates; consolidation
Autism / IDD Residential and Day Services	PE Platform	$30M–$100M	9.0x–13.0x	Medicaid / state contract revenue; essential services; workforce scarcity

Note: Illustrative precedent ranges. Healthcare multiples are highly sensitive to payer mix, reimbursement risk, physician/clinician concentration, geographic market, and regulatory compliance profile.

Key Themes and Valuation Considerations — Healthcare Services

- **Payer Mix and Reimbursement Risk.** The most important valuation variable in healthcare services. Commercial and managed care-dominated revenue commands the highest multiples. Medicaid-heavy businesses face intensive scrutiny on rate volatility risk. Medicare-dependent businesses are evaluated in the context of reimbursement reform risk. Buyers typically discount businesses with more than 50% government payer exposure, though high-demand specialties like behavioral health command exceptions based on scarcity value.
- **Physician and Clinician Alignment.** Healthcare businesses dependent on a small number of key clinicians carry significant key-man risk. Buyers strongly prefer equity participation, long-term employment agreements, and demonstrated production diversification. The shift toward physician partnership models has been the primary driver of sustained high valuations in ophthalmology, dermatology, orthopedics, dental, and gastroenterology.
- **Behavioral Health — The Premium Sub-Sector.** Behavioral health (ABA therapy, outpatient mental health, substance use disorder, eating disorder treatment) is the highest-premium sub-sector in healthcare services. Demand materially exceeds supply in most markets, reimbursement has been substantially improved by mental health parity regulation, and the market remains highly fragmented. Middle market behavioral health platforms routinely transact at 10x–15x EBITDA.
- **Regulatory and Compliance Infrastructure.** Healthcare businesses operate in one of the most heavily regulated environments in the U.S. economy. Buyers conduct intensive compliance diligence — HIPAA/HITECH, billing and coding practices, state licensing, Stark Law/Anti-Kickback Statute assessment — applying material risk adjustments for businesses with compliance gaps. Businesses with clean compliance histories and established programs command premium multiples.

Section 6: M&A Outlook Through 2026

The setup for the rest of 2026 is stronger than most market commentary suggests. The structural tailwinds — record dry powder, aging portfolio inventory, a permissive regulatory environment, the AI-driven strategic imperative, and improving financing conditions — are real. The headwinds — geopolitical volatility, credit market turbulence, valuation gaps, tariff uncertainty — are also real, but more likely episodic than structural.

The net result is a year with genuine potential that will be realized unevenly. The best-positioned assets in the most sought-after sectors will transact at record or near-record terms. Weaker assets will face buyer discipline. The middle market is recovering, just not in a straight line. Fortune will favor those who take bold action to prepare.

6.1 Key Tailwinds

Dry Powder and Deployment Pressure. U.S. PE capital overhang reached approximately $1.12 trillion at year-end 2025. Committed but undeployed capital faces contractual investment period deadlines that create urgency regardless of market conditions. For well-positioned businesses coming to market in 2026, that GP pressure is favorably tilted toward sellers.

Portfolio Inventory and Exit Forcing Mechanisms. The U.S. PE portfolio has grown to over 12,000 backed businesses, an all-time high. Average holding periods have extended to historic levels. LP patience is running out: new fund commitments are increasingly conditioned on demonstrated distributions, creating self-reinforcing pressure on GPs to generate exits. PitchBook has flagged the looming debt maturity wall on 2021 peak-vintage acquisitions as a forcing mechanism that will accelerate sell processes through the rest of 2026 and into 2027.

Regulatory Environment. The current administration's antitrust posture is the most accommodating it has been since at least 2019. Vertical integrations have found clearer paths to regulatory approval. State-level restrictions on PE ownership in certain healthcare contexts remain active, but the federal environment broadly supports M&A activity from both strategic and financial buyers.

AI as Strategic M&A Catalyst. Artificial intelligence is reshaping corporate M&A in two distinct ways: it's driving acquirers to pursue AI capability, data, and talent through acquisitions; and it's disrupting existing software business models, creating both distressed and opportunistic acquisition opportunities. Goldman's David Solomon characterized corporate leaders as focused on "scale creation in businesses with significant technological change" — a perspective that accelerates deal activity rather than dampening it.

6.2 Key Headwinds

Geopolitical Uncertainty. Citizens Bank's Spring 2026 M&A Update identifies Middle East conflict escalation as the central wild card for 2026, drawing explicit parallels to the tariff announcement that froze deal processes in April 2025. The ACG survey's 26-point swing in positive sentiment in a single quarter (from 81% to 54.7%) is a stark data point. The critical question is whether the geopolitical situation produces the kind of acute shock that disrupts signed deals, not just in-process negotiations.

Credit Market Volatility. BSL spreads have widened roughly 100 basis points since the start of 2026, with software loan bids declining particularly sharply. Private credit BDCs and semi-liquid credit funds have faced heavy selling pressure. For middle market transactions reliant on leveraged financing, spread widening raises carrying costs and tightens underwriting. The share of dealmakers calling the debt environment "somewhat favorable" dropped from 64% to 48.3% between Q1 and Q2 2026.

Valuation Gap. Many family business owners are working from expectations anchored to 2021–2022 peak multiples. A business services company with $5M EBITDA getting 7.5x–8.5x from a strong PE buyer isn't a bad outcome, but it isn't the 9x+ that 2021 has trained sellers to expect. This gap drives elevated deal failure and process abandonment rates in the lower middle market. It's narrowing as seller expectations reset, but it remains a headwind for deal execution.

6.3 2026 Outlook by Sector and Deal Type

Segment	2026 Activity Forecast	Expected Valuation Range	Key Driver / Key Risk
Business Services / Tech-Enabled	Elevated — sustained demand	7.0x–10.5x (quality-adjusted)	Recurring revenue premium; AI enablement upside; talent retention risk
Industrial Services (Specialty/Essential)	Strong — improving	8.0x–11.0x	Infrastructure tailwinds; code-mandated demand; barriers to entry
Manufacturing — B2B / Mission-Critical	Moderate — selective	6.5x–8.5x	Pass-through pricing; supply chain visibility; tariff risk monitoring
Manufacturing — Consumer-Facing	Constrained	5.5x–6.5x	Tariff impact; margin compression risk; limited pricing power
Healthcare — Behavioral / ABA	Very Strong — record competition	10.0x–15.0x	Demand-supply imbalance; parity reimbursement; highly fragmented
Healthcare — Specialty Physician Groups	Strong	8.5x–13.0x	Physician partnership models; fragmented market; payer mix critical
Healthcare — Home Health / LTSS	Moderate-to-Strong	7.5x–10.5x	Aging demographics; Medicaid rate and waiver risk
Technology / Software (Traditional)	Bifurcated — AI repricing	Wide: 6.0x–15.0x+	AI disruption risk vs. opportunity; BSL spread widening
Distribution — Specialty / Value-Add	Stable to Improving	7.0x–9.5x	Exclusive relationships; supply chain value-add; tariff beneficiary in some niches
Family Business / Generational Exits	Accelerating — structural wave	Quality-dependent: 5.5x–10.0x+	Preparation quality; buyer competition; timing vs. business momentum

6.4 Base Case and Scenario Analysis

Our base case for the U.S. middle market in 2026 is a gradual but genuine recovery: PE-reported transaction count up 10% to 20% from 2025, valuations holding broadly in the 7.0x–7.5x range, with sector-specific variation as described above. The recovery skews toward high-quality assets in structurally attractive sectors. Manufacturing and consumer-exposed businesses facing tariff headwinds will see more modest improvement.

Scenario	Probability	Deal Count Trend	Valuation Trend	Key Assumption
Base Case — Gradual Recovery	Most Likely	+10% to +20% vs. 2025	7.0x–7.5x avg (stable)	Geopolitical tensions contained; credit conditions stable; sponsor exits accelerate

Scenario	Probability	Deal Count Trend	Valuation Trend	Key Assumption
Bull Case — Accelerated Recovery	Possible (25%)	+25% to +40% vs. 2025	7.5x–8.0x avg (expanding)	Credit spreads tighten; geopolitical de-escalation; PE exits surge; tax reform boosts confidence
Bear Case — Recovery Interrupted	Tail Risk (20%)	Flat to -10% vs. 2025	6.5x–7.0x (contracting)	Middle East conflict escalates; oil shock; recession risk rises; credit markets seize

6.5 Final Word

For family and closely held business owners approaching generational transitions, the data makes one thing clear: the window for transacting at historically attractive multiples is open, but it isn't permanent. A combination of record buyer demand, abundant capital, a favorable regulatory environment exists today but should be considered fleeting. Potential sellers who take early action to properly prepare, engage the right professionals, and engage in disciplined sell-side processes are the most likely to successful exits at premium valuations. The time required to prepare a business properly means the decision point is now, not when the market feels safer.

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