

Q3 2025 Middle Market M&A Update: Selective But Strong Amid Continued Uncertainty



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EXECUTIVE SUMMARY

U.S. mergers and acquisitions (M&A) activity through the third quarter of 2025 paints a remarkably complex and dynamic picture, defined by the interplay between major headline deals and the enduring resilience of the middle and lower middle markets

A Market of Contrasts: Surging Values, Selective Volumes

The backdrop to 2025's deal environment is one of contrasts. In general terms, M&A deal values in the U.S. remain historically elevated, driven by a resurgence in corporate confidence, abundant private capital, and the pursuit of transformational deals. Large-cap strategic acquisitions and private equity (PE) buyouts have seen robust dollar volumes, with megadeals accounting for a growing share of total deal value.

However, overall deal counts have remained subdued. The volume of transactions, especially at the lower end of the value spectrum, has not kept pace with the high multiple announced over recent years, reflecting the caution imposed by uncertain macroeconomic conditions and an elevated interest rate environment.

In the second half of 2025, investors have viewed the middle market and lower middle market M&A opportunities with cautious optimism characterized by selectivity, strategic discipline, and moderate confidence. The sectors garnering the highest interest from investors – business services and technology – have maintained stable recurring revenues, disciplined margins, and scalable growth opportunities. Businesses that meet this criteria have continued to command premium valuations

Headline Deals Shape the Large M&A Landscape

Despite the softer aggregate volumes at the higher-end of the value range, several large deals illustrate the appetite for strategic repositioning and transformation among U.S. corporations. Noteworthy examples throughout the year include megadeals across energy, healthcare, and technology; these sectors continue to attract capital to build scale and increase digital capability.

Corporate Acquirers and large Financial Buyers are actively engaging in mega-deals to acquire scale, enter new markets, or dominate niche sectors. Persistently high public equities markets have provided financing flexibility through 2025 and fueled deal values through the use of equity currency to fund acquisitions

Depository & Bank M&A has surged to the highest levels since 2021, while industrials sector have likewise seen significant transactions as large manufacturers reposition portfolios, prioritize supply chain resilience, and double-down on automation and energy transition. Although these deals are focused on in headlines, they mask a quieter trend in the lower tiers: the persistent value and competitive intensity of the middle and lower middle markets, where the real texture of U.S. M&A in 2025 emerges and is expected to continue into 2026.

VALUATIONS IMPROVE - BUYERS EXERCISE DISCRETION

The middle market (deals from \$10 million to \$1 billion) has demonstrated surprising strength and resilience in 2025, even amidst a volatile and uncertain economic context. Total transaction volume through August 2025 has trended approximately 8% above its five-year average¹, signaling continued buyer appetite for quality assets. It is in this segment that the gap between “best-in-class” and merely average companies continues to widen: buyers have been highly selective, gravitating toward businesses with recurring revenues, documented margin expansion, and strategic differentiation.

Valuations for premium assets have stayed strong, with median EBITDA multiples of 6.4x observed in the \$5M–\$100M range, and even higher multiples for businesses exhibiting clear growth pipelines and high recurring revenues. The bifurcation between premium and non-core assets is increasingly pronounced, pressing sellers to prioritize operational excellence and strategic positioning in order to maximize exit values. From a PE buyer’s perspective, financial engineering is no longer enough to guarantee returns as cheap debt is no longer an option; operating experts have been tasked with increasing revenues and streamlining operations of portfolio companies to define value creation.²

Private Equity has remained a dominant and aggressive force in mid and lower mid-market M&A space, accounting for 63% of deals in 2025 year-to-date, up from 58% last year. For PE sponsors, platform consolidation strategies accelerated: 72% of deals took the form of add-ons, as firms sought to expand existing holdings and leverage synergies through bolt-on acquisitions and roll-up strategies.³ Capital deployment patterns shifted, with higher average equity contributions and more disciplined debt usage, a response to still-cautious, but improving, credit markets. Strategic buyers grew more selective, but when committed competed aggressively for high-fit assets and accretive acquisitions.

The M&A story of 2025 thus far is one of selectivity and strategic focus: while the number of transactions lags historic highs, value creation and dealmaking momentum are concentrated in segments where preparation, discipline, and vision meet a market hungry for transformation and growth. Sellers with well-prepared businesses, strong operational track records, and strategic differentiation will continue to see attractive offers and successful outcomes as they seek exits.

“M&A and capital markets have been remarkably resilient in the face of significant macroeconomic, geopolitical, and policy volatility. Consistent, profitable growth at scale has been rewarded with premium valuations, driving companies to continue to pursue M&A.”

- J.P. Morgan Global Head of Advisory and Mergers & Acquisitions

¹ Boxwood Partners: “Thinking of Selling Your Business in 2025?” – August 2025

² Brookfield: “Driving Private Equity Returns with Operational Know-How” – March 2025

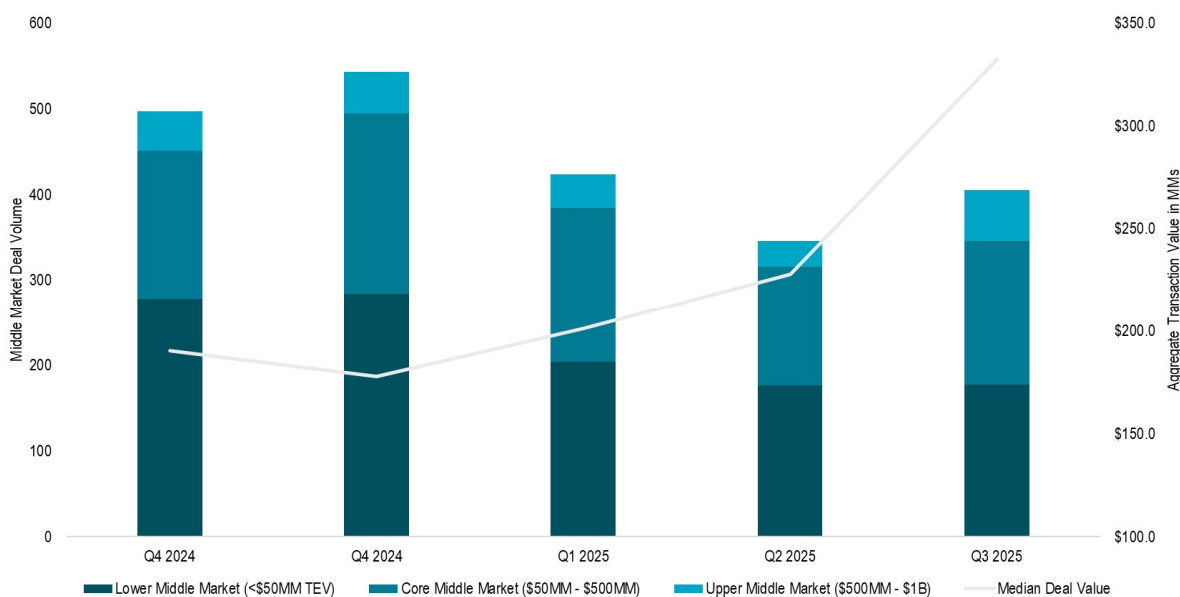
³ Pitchbook

QUALITY OVER QUANTITY

Rather than focusing on volume, PE managers are targeting assets with resilient margins, scalable growth, and recurring revenue, especially in sectors such as technology, healthcare, and industrials where fundamentals align with longer-term strategic objectives. The rising trend of public-to-private transactions is a direct outcome of PE's appetite for high-quality assets at attractive valuations, with nearly \$85 billion in take-private deals in the US this year⁴, despite a decline in overall deal count.

Strategic buyers, meanwhile, are driving deal value through bold acquisitions designed to accelerate digital transformation, consolidate supply chains, and achieve scale in high-growth verticals. With corporate balance sheets strengthened by improved profitability and buoyant capital markets, strategic acquirers are selectively pursuing targets that offer clear synergies or leadership positions in core areas. This focused approach has led to increased competition for a shrinking pool of best-in-class assets, often resulting in higher multiples for companies able to demonstrate robust revenue streams, talent depth, or proprietary technologies.

This is driving a bifurcation in market activity: while the number of deals remains below pre-pandemic highs, aggregate deal value has surged, propelled by transformational buyouts and cross-sector consolidation. Dealmakers are shifting toward maximizing operational and financial value with rigorous due diligence and a laser focus on businesses that can weather cyclical and structural change. This environment is expected to persist 2026, supported by narrowing valuation gaps and resurgence in strategic expansion efforts from both PE and corporates. The premium for high-quality assets remains strong, and dealmakers with sector expertise and a disciplined approach are best positioned to capitalize on the “flight to quality” that defines this year’s most impactful M&A trends.



⁴ White & Case: “US Public-to-Private PE Deals Flourish” – August 2025

PRIVATE EQUITY RE-ENTERS THE MARKET

As private deal activity has increased quarter-over quarter (3.7%) and year-over-year (11.7%), private buyers are actively seeking as they put capital to work in response to the recent rate cuts and in anticipation of additional cuts before year end. Although the macroeconomic environment remains mixed, promising signs around have helped to push public markets to all-time highs, reinforcing the risk-on attitude of traders. Private Equity firms are expected to remain disciplined in their approach to deal sourcing. The positive outlook for the remainder of 2025 is highly sector dependent, with consumer company valuations dependent on mounting consumer pressure while B2B businesses benefit from easing supply chain constraints and less uncertainty around the rapidly shifting and volatile US tariff policy.

Add-on investments have led private dealmaking through the year, accounting for 74% of all PE deal volume⁵ and on pace to reach \$355 billion in transaction value in 2025. Growth/expansion capital and buyout/LBO deals will make up the balance of deals for the year. Larger entities bolstered by add-on deals greatly benefit by leveraging greater pricing power in order to support consistent margins. Growth equity, take-private, and care-outs make up the remainder of PE buyout activity, led by Thoma Bravo's \$12.3 billion take-private of Dayforce and DuPont's sale of its Aramids business to Arclin (a TJC portfolio company) for \$1.8 billion. Although these mega-deals make headlines and drive the valuation multiple, middle market deals continue to make up more than half of all PE deal volume, in line with the preceding decade.

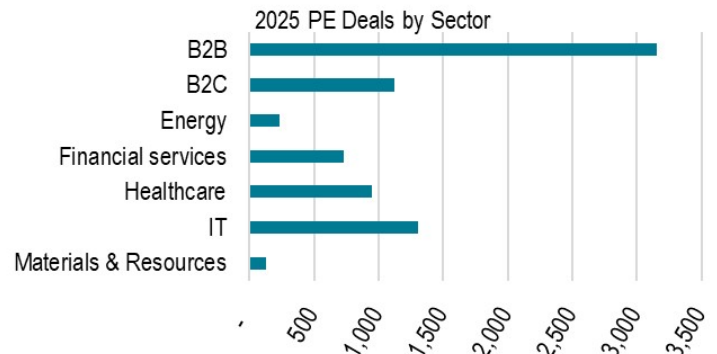
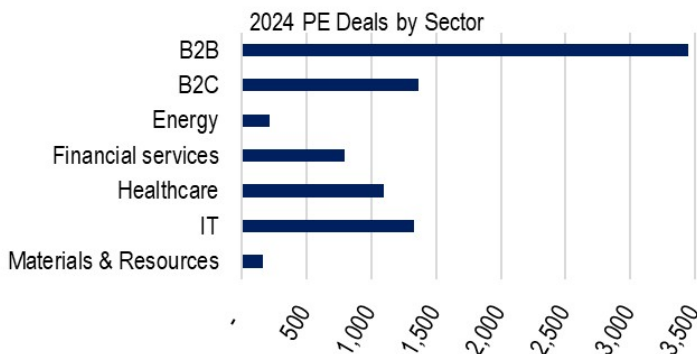
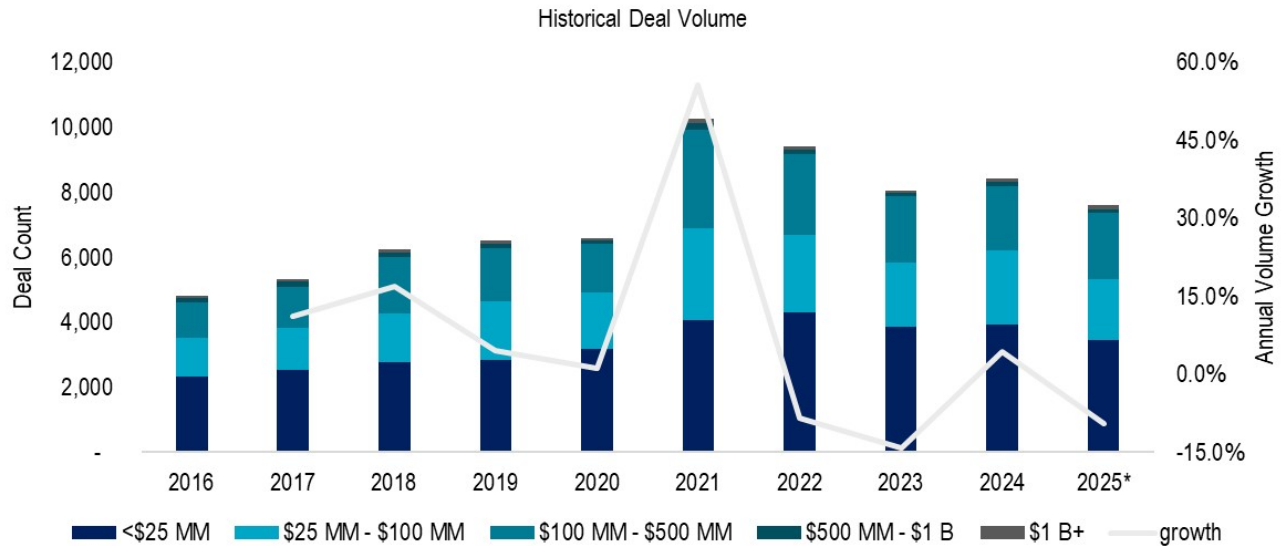
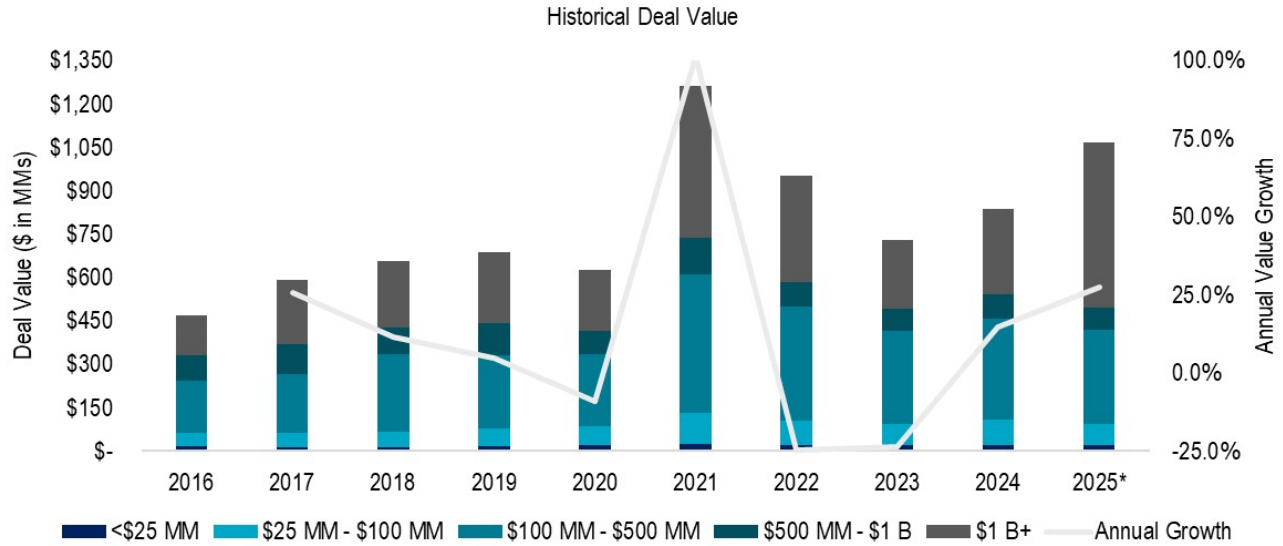
Although PE fundraising activity has slowed due to longer portfolio holding periods and muted exit activity, 244 new funds closed for a total of \$214.4 billion of new capital⁶. Even with the slight decline as compared to the first 3 quarters of 2024, of the funds that were successfully closed, more than three-quarters of the funds raised YTD have exceeded predecessor funds. Median fund size through Q3 2025 reached a record of \$183 million while fund performance continues to climb back toward double-digit returns. Should PE exits accelerate in Q4 2025, private equity returns could close the gap with the public markets and restore the flywheel distributions, fundraising activity, and investment that sustains the private markets.

KEY TAKEAWAYS:

- Driven by a stabilizing rate environment and renewed appetite for returns, middle market private equity deals are approaching their 2021 high-water mark
- PE exits have exceeded 1,000 transaction through the first three quarters of 2025, led by PE-to-PE transactions and strategic acquisitions
- Healthcare, Industrials, and Business Services have seen the largest increase in middle market deal flow, indicating a potential renewed velocity in overall dealmaking

⁵ Pitchbook US Private Equity Breakdown – October 2025

PRIVATE DEALS BY SIZE AND SECTOR



* YTD announced and closed deals through September 30, 2025, annualized for comparison purposes.

2026 OUTLOOK

The outlook for U.S. middle market M&A activity in 2026 is overwhelmingly optimistic, driven by the convergence of abundant private equity capital, improving financing conditions, and strategic refocus by corporations. After two years of macroeconomic headwinds and elevated interest rates, a rebound is poised to accelerate in the mid-market segment—particularly for deals valued between \$50 million and \$500 million. These transactions remain attractive due to their easier financing, quicker integration timelines, and reduced regulatory hurdles compared to megadeals, which remain subject to ongoing antitrust scrutiny in sectors like technology and pharma.

Private equity firms, flush with over \$1 trillion in undeployed dry powder⁶, are expected to be the most aggressive buyers in 2026. As inflation moderates and the Federal Reserve signals potential rate cuts, PE funds will deploy capital with greater confidence, seeking out high-quality targets with resilient revenue, scalable operations, and defensible margins. Industrials, technology, healthcare, and business services top the list of favored sectors⁷, especially those benefitting from demographic tailwinds, digital transformation, and the ongoing reshoring of supply chains. Competitive intensity for quality assets will continue to increase, and sellers will need strong documentation, operational performance, and growth narratives to maximize valuations.

The industrial sector, in particular, is forecasted to see sharper deal activity as companies use M&A to sharpen their focus on core capabilities, accelerate tech adoption, and optimize supply chain resilience. Business services will continue to attract robust interest, with strategic and PE buyers prioritizing areas such as legal services, engineering, and IT consultancy—industries where recurring revenues and technology-led integration provide durable advantages in a changing marketplace. Environmental, Social, and Governance (ESG) objectives are also expected to factor more heavily into M&A strategy, as shareholder activists push for sustainability and risk mitigation alongside financial performance.

While market uncertainty and due diligence capacity remain concerns for some sellers, the overall sentiment in the middle market is encouraged by stabilized deal multiples and improving access to debt financing. The competitive landscape will favor firms with clear growth strategies, technological integration, and proactive succession planning, opening a unique window of opportunity as 2026 unfolds.⁸ As deal volume improves, the market will continue to reward those who are prepared: buyers with sector specialization and sellers with operational excellence and documented growth platforms.

⁶ Lehigh Valley Business: “U.S. M&A Market Set For Major Rebound in 2026” – September 2025

⁷ Ogier: “Comparing M&A In The UK & US” – September 2025

⁸ KeyBank: “M&A Strategies Through 2027: How Middle Market Companies Plan For Growth & Exit” – August 2025

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We are trusted investment banking advisors to business owners and entrepreneurs.

Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. We offer an independent perspective on the U.S. private capital markets, backed by superb execution and a deep commitment to client success.

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