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Q1 2026

US PE Middle Market Report

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2025 MIDDLE MARKET DEAL EXPERIENCE

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TRANSACTIONS	TRANSACTION VALUE	FUND CLIENTS	PORTCOS SERVED	INDUSTRY PROFESSIONALS

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Cherry Bekaert
Your Guide Forward

Executive summary

A strong start, a record-low share. Middle-market deal value reached $103.8 billion in Q1, up 10.7% YoY and the highest first-quarter total in five years. Yet the segment's share of all US PE buyout value fell to 39.9%, the lowest on record, as deployment continues to concentrate in larger transactions.

The middle market is bifurcating. New SPI by StepStone deal-level data shows the median entry multiple for the $500 million to $1 billion total enterprise value (TEV) band closed 2025 at 13.4x TEV/EBITDA, against 8.8x for the $25 million to $100 million band—a spread of roughly 4.6 turns, up from about 3.4 turns in 2023. The upper middle market increasingly resembles megadeal territory; the lower middle market does not.

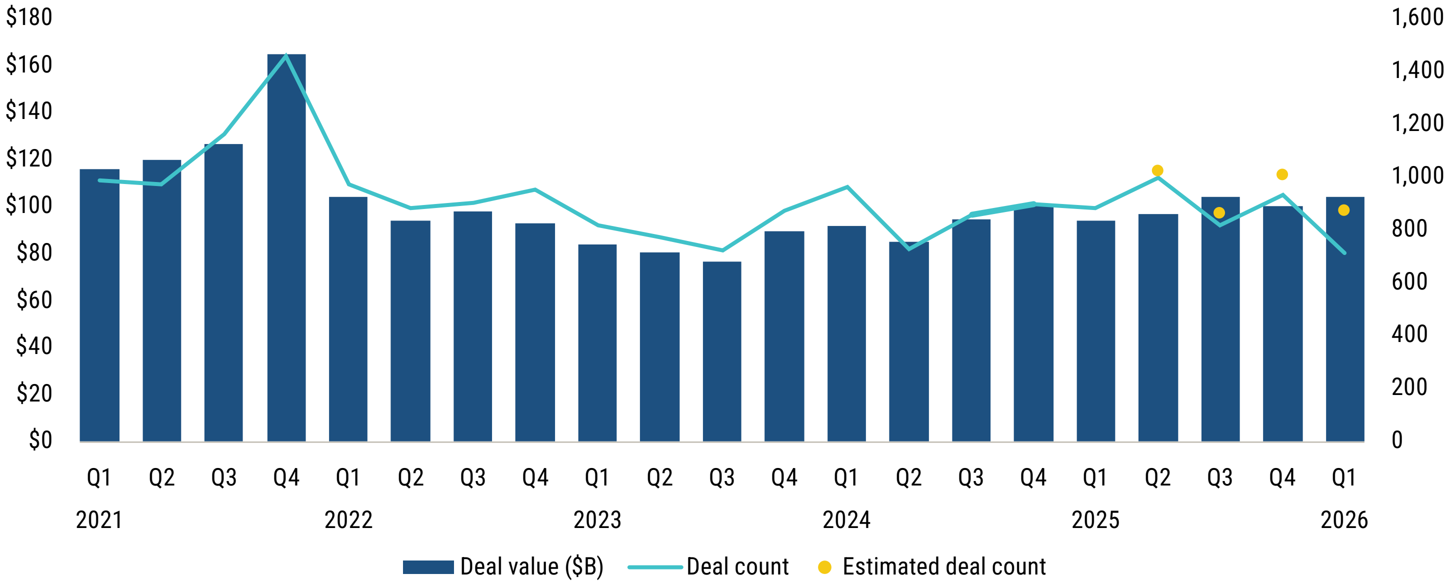
Smaller checks have paid more—but with the same risk? SPI realized-deal data since 2009 shows the $25 million to $100 million TEV band returned a pooled 39% gross IRR, ahead of every larger band, and with fewer negative outcomes: 39% of invested capital sat in deals clearing more than a 35% IRR, compared with 30% for the largest band, while both groups had almost identical left-tails. Larger checks bought less upside without cushioning the downside.

Exits held up; the mix rotated hard. Q1 exit value reached $32 billion across 218 transactions, up 14% YoY. Sponsor-to-sponsor deals captured 69.5% of value as corporates retreated to a post-pandemic low, and B2B surged to 52.9% of exit value at the expense of IT—buyers and sellers were converging on businesses more insulated from AI-driven software compression. The IPO channel stayed shut, with zero middle-market listings.

Fundraising stayed squeezed. Q1 raised $33.4 billion across 38 funds, tracking only modestly ahead of 2025's weakest pace since 2018, as LPs concentrate commitments with brand-name managers and specialists. With leverage and multiple expansion no longer doing the work, we expect returns to hinge on manager selection and operational value creation—and we see the lower middle market, with less competition and cheaper entry, as the segment best positioned for upside through 2026.

Deals

PE middle-market deal activity by quarter

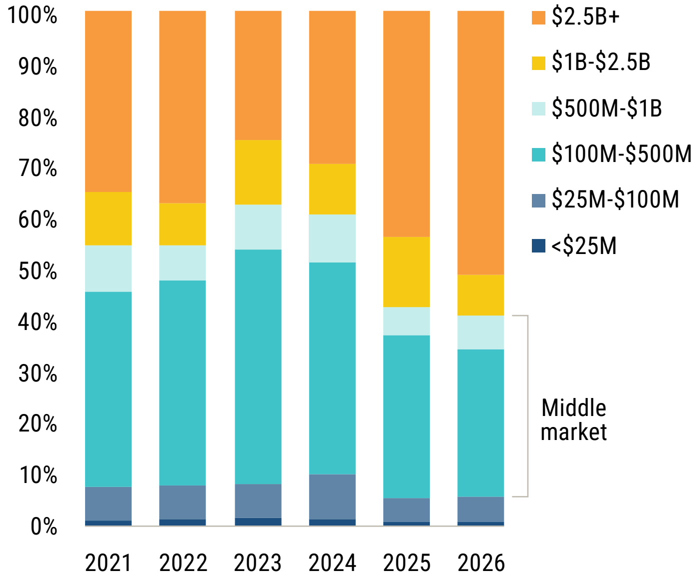


Source: PitchBook • Geography: US • As of March 31, 2026

Overview: The middle market continues to lose ground to megafunds

The middle market got off to its strongest start since 2021, even as its share of PE deal value dropped to the lowest level on record. These two signals demonstrate both the industry's continued resilience and the increasing levels of concentration that concern those in the middle market. Including estimates for late-reporting transactions, deal value reached $103.8 billion, up 10.7% YoY. Q1 2026 marks the highest first-quarter deal value in five years and is 11% above the previous four-year Q1 average of $93.2 billion. And QoQ, value rose 4.1% from Q4 2025, while count pulled back 13.6% from a Q4 spike of more than 1,000 transactions.

Share of PE deal value by size bucket



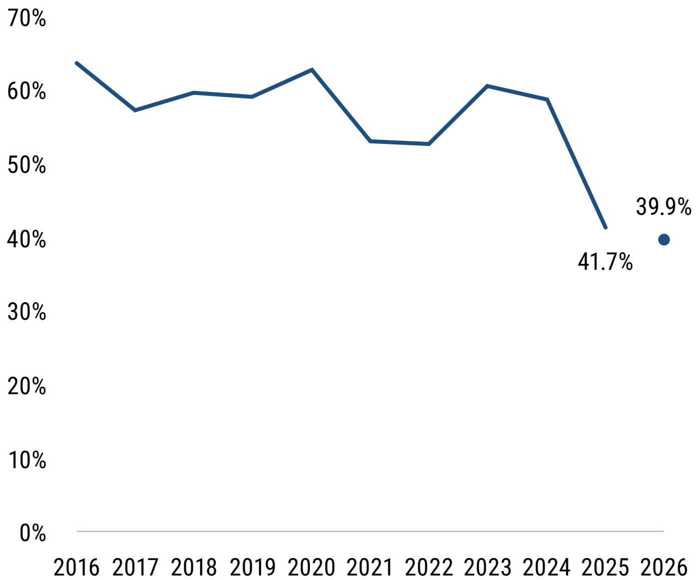
Source: PitchBook • Geography: US • As of March 31, 2026

Median deal size reached a record $193.1 million in Q1, up 9.4% YoY and roughly 49% above the 2024 median of $130 million. Average deal size moved in parallel, rising to $304 million from $260 million in 2025. Capital is concentrating on larger targets rather than broadening the participation set—consistent with the pattern seen over the past three years.

Furthermore, the middle market's share of US PE buyout value sits at 39.9% in Q1, the lowest reading on record and 180 basis points below the 41.7% full-year 2025 figure. By count, share fell to 61.3% from 70.5% in 2025—a meaningful step-down but still the majority of US PE deal activity. The middle market is no longer the engine of US PE deployment by value, even if it still captures most deals by count.

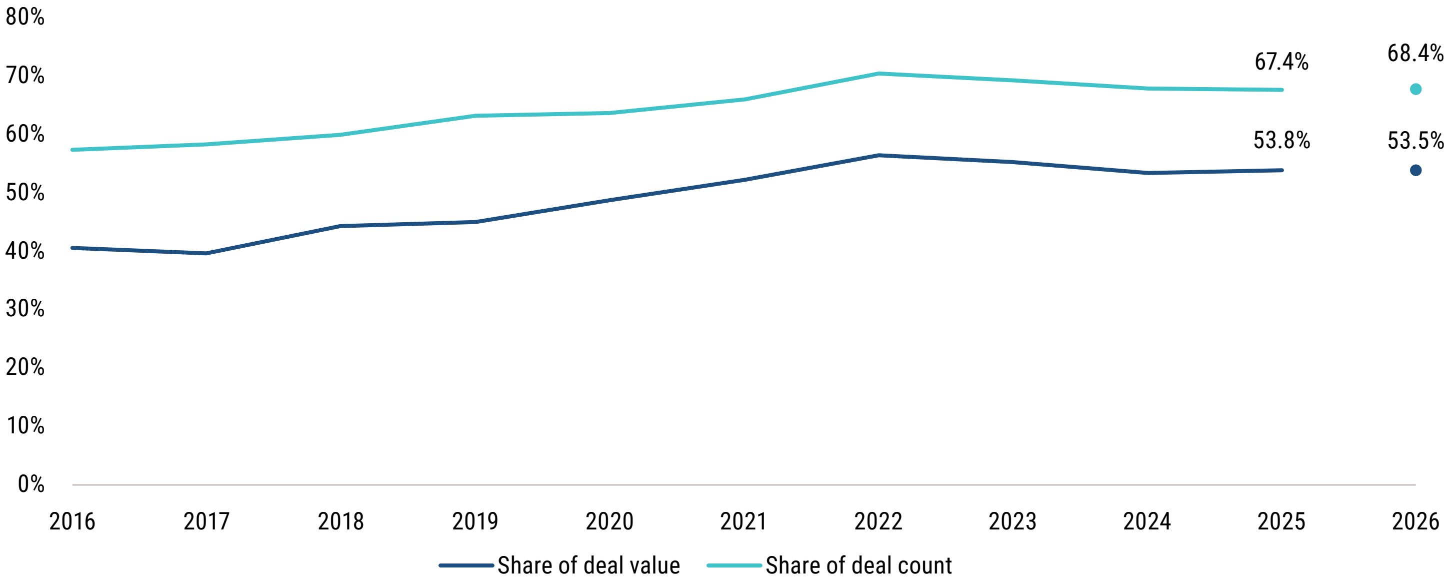
The strength of the platform model is a bright spot; add-ons accounted for 68.4% of all middle-market deal count and 53.5% of value in Q1, consistent with full-year 2025 at 67.4% and 53.8%, respectively, and marking the beginning of the sixth consecutive year above 65% by count. Strong, scaled platforms resulted in some of the middle market's more successful exits in Q1, as discussed in the "Exits" section, and provide a blueprint for capital deployment going forward.

PE middle-market buyout value as a share of all PE buyout value



Source: PitchBook • Geography: US • As of March 31, 2026

Add-on activity as a share of all PE middle-market deal activity



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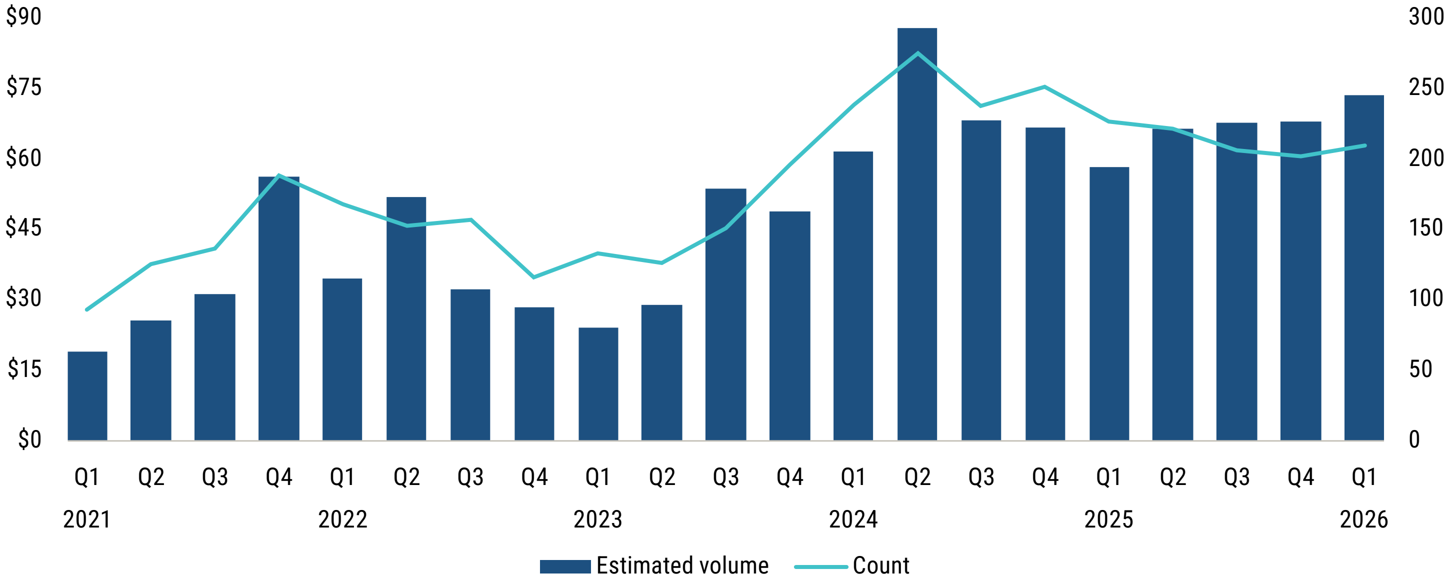
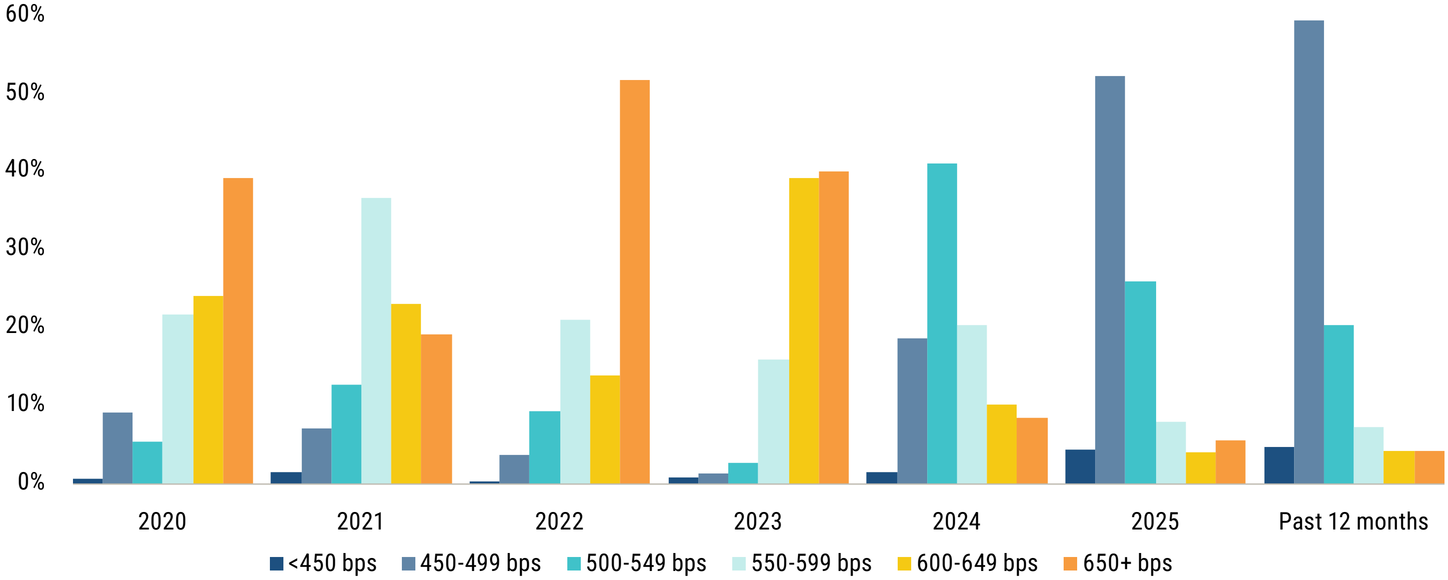
Direct lending deal count and estimated volume of deals financing LBOs ($B)



Source: PitchBook | LCD • Geography: US • As of March 31, 2026
Note: Direct lending analysis is based on transactions covered by LCD News.

New-issue spread distribution of LBOs financed in the direct lending market



Source: PitchBook | LCD • Geography: US • As of March 31, 2026

One variable moving against the middle market is the turbulence in private credit, a reliable source of financing for middle-market PE companies. Spreads in private credit have narrowed considerably over the past two years as more investors piled into the private credit trade, providing cheap financing to PE-backed LBOs—including the middle market.

However, that tailwind now seems at risk. Amid the AI-fueled volatility in Q1, we have seen lenders move into a more risk-off posture, as those that were recently flush with liquidity now must contend with heightened redemptions in their business development companies (BDCs). Though we do expect lending in the middle market to continue despite these bumps, spreads have started to widen, and terms are becoming more lender friendly as the market reaches a better balance of supply and demand.

Valuations: A tale of two "middle markets"

This quarter marks our integration of SPI by StepStone as a new source for middle-market valuation metrics. SPI's unparalleled depth of deal-level benchmarking data—aggregated and anonymized—enhances our ability to investigate trends by specific sector, region, or size with increased conviction.

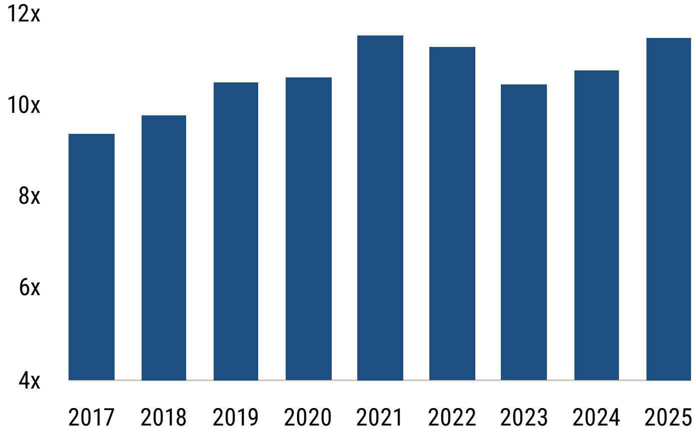
For example, the depth of the SPI dataset lets us decompose the headline multiple by TEV, and the cut points to a clear pattern: The firmness in 2025 multiples is concentrated at the larger end of the middle market, not broad-based.[1]

Larger deals carry richer multiples. Median entry TEV/EBITDA for deals in the $500 million to $1 billion TEV band closed 2025 at 13.4x, against 8.8x for the $25 million to $100 million band—a spread of roughly 4.6 turns, compared with a spread of about 3.4 turns in 2023.

Leverage scaled in parallel: Median net debt/EBITDA reached 5.2x for the $500 million to $1 billion band versus 2.5x for the smallest band. Similar to the gap in purchase multiples, the spread between the smaller and larger end of the middle market has widened materially over three years. The pattern is consistent with competition concentrating at the upper end of the middle market, where larger assets command higher entry prices and are using increasing amounts of leverage to generate returns.

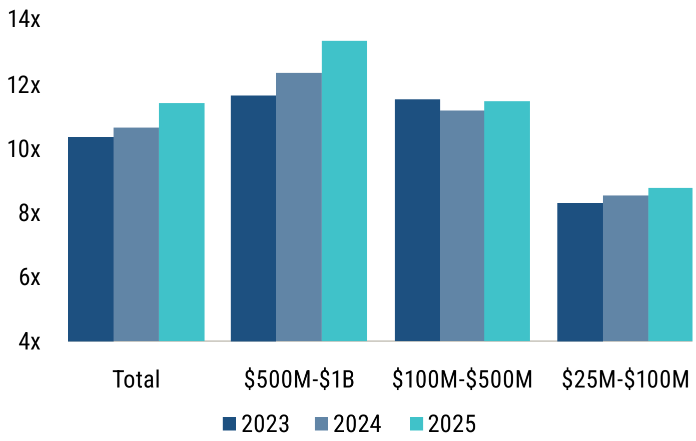
We are clearly seeing the bifurcation of the middle market, with the upper middle market looking increasingly like megadeals with elevated multiples and ample amounts of leverage. However, with the blended multiple resting near the 2021-2022 peak and the underlying expansion concentrating in the largest checks, there is room for continued multiple expansion primarily in the lower middle market.

PE middle-market EV/EBITDA multiples



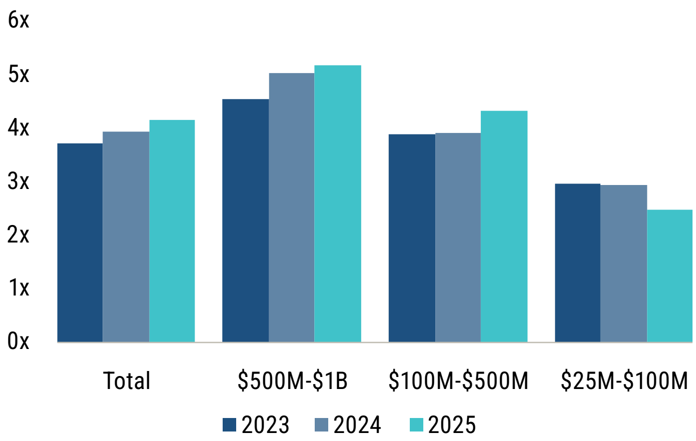
Source: SPI by StepStone • Geography: US • As of December 31, 2025

Median EV/EBITDA multiple by TEV size bucket



Source: SPI by StepStone • Geography: US • As of December 31, 2025

Median net debt/EBITDA multiple by TEV size bucket



Source: SPI by StepStone • Geography: US • As of December 31, 2025

A WORD FROM CHERRY BEKAERT

Dealmaking in a pressurized market: Why PE needs data-driven quality of earnings

Despite abundant dry powder, PE dealmaking remains fiercely competitive as capital sits idle while processes grow crowded and valuations remain elevated. This leaves little room for underwriting errors, forcing buyers to abandon traditional diligence tactics in favor of precision execution.

Investment committees increasingly demand a direct link between deal models and defensible, data-backed proof points capable of withstanding diligence, lender scrutiny, and post-close performance realities.

How are macro headwinds impacting PE funds and portfolio companies?

Record levels of dry powder colliding with near-historic-high aggregate deal prices have pushed entry multiples higher and intensified competition, raising the bar for underwriting rigor and performance results.

Buyers face tighter timelines, less tolerance for adjustments, and greater pressure to quantitatively demonstrate why a target clears the return hurdle. Deal teams are expected to show conviction around run-rate earnings, working-capital needs, and downside resilience, and to do so in a way that is grounded in reliable empirical evidence. That means fewer "plug" adjustments, more sensitivity-tested assumptions grounded in the target's actual data, and a clearer articulation of the post-close value creation plan with required resources to execute.

The market is effectively forcing operational maturity sooner. While many middle-market companies have real data, their disparate systems often lack the ability to effectively access, analyze, and convert it into decision-grade insights.

As a result, sponsors often inherit a "Day 0" gap: systems may not be fit-for-purpose, KPIs may not reconcile cleanly, and the organization may not be prepared for the cadence of board reporting or lender requirements. Closing that gap becomes a value creation workstream rather than a back-office clean-up.

Matt Copeland
Partner, Deal Advisory Services
With more than 20 years of experience, Matt advises private equity and corporate clients on financial due diligence and transaction-related matters, including buy-side and sell-side mandates, quality of earnings, working capital analysis, and other post-closing services.

Sidney Glick
Partner, Deal Advisory Services
Sidney has spent over 20 years providing financial due diligence, quality of earnings, and other advisory services to private equity funds, senior and mezzanine lenders, and strategic firms. He has worked on more than 200 middle-market M&A deals across numerous industries.

Brandon Zibell
Managing Director, Private Equity Growth
Brandon has spent more than 15 years as a client partner to private equity sponsors across buy-side diligence, sell-side preparation, and post-close value creation. His foundation is a leadership career in Big Four transaction advisory, surrounding sponsors with trusted advisors and data-driven insights they need at deal speed.

Why is a "plain vanilla" quality of earnings not enough in today's market?

Traditional quality of earnings (QoE) remains foundational. It focuses on normalizing EBITDA by assessing accounting quality, identifying non-recurring and non-cash items, and evaluating pro forma impacts from structural changes. But in a high-multiple environment, that baseline is table stakes.

Sponsors need more than a "check-the-box" adjusted EBITDA bridge that satisfies lenders and reps-and-warranty underwriting. To show that earnings streams are sustainable, deeper, data-driven evidence is needed. This data-driven QoE can also show that unit economics behave as the model assumes, and the levers in the investment thesis are measurable and executable post-close.

What does a more detailed, data-driven QoE analysis look like in practice?

It expands the lens from caption-level financial statements to "transaction-level truth," supported by automated, real-time data application, which we can think of as "QoE 2.0." Instead of analyzing the business from the penthouse, QoE 2.0 reconstructs historical financial performance from the basement—often using large volumes of order, invoice, stock-keeping unit (SKU), customer and pricing data. That enables a deeper assessment of margins, revenue, product, geography, channel, cohort, or contract type.

Additionally, a data-driven QoE helps validate whether performance is concentrated, volatile, or sensitive to specific variables.

The result is a run-rate EBITDA view that is normalized, explainable, and supported by granular drivers tied directly to the investment thesis and operating model.

How does QoE 2.0 improve underwriting and support the investment thesis?

Transaction-level analytics convert narrative into evidence by surfacing subterranean trends, such as margin compression isolated to certain customers or SKUs, price-volume mix shifts, customer concentration risk, churn masked by aggregate growth, and working-capital drag tied to specific terms.

Just as importantly, these insights identify actionable value creation opportunities, such as pricing harmonization and product rationalization. Channel-mix optimization and procurement, or manufacturing yield improvements, are additional opportunities often supported by QoE 2.0.

When these findings are mapped to the model, sponsors gain tighter sensitivities, clearer KPI definitions, and more confidence that the post-close plan is measurable because the necessary data has already been identified and tested during diligence.

Why does QoE 2.0 increasingly intersect with IT diligence and management reporting?

The best diligence insights are only valuable if the business can reproduce and monitor them post-close. Many diligence analyses prove that the data exists, while also revealing that management does not have a repeatable reporting engine to deliver those metrics in real time.

This raises questions about the scalability of enterprise resource planning and financial systems and the consistency of data definitions. Without reliable reporting, companies may lack the data to support board cadence, covenant compliance, and eventual exit requirements.

Sponsors increasingly need confidence, pre-sign, that the systems roadmap goes beyond merely meeting compliance minimums and can fully support the value creation plan.

Why is "value creation beyond financial engineering" such a critical theme right now?

When entry valuations are higher and capital structures are more constrained, it becomes harder to manufacture returns through leverage and multiple expansion alone. That places more emphasis on operational alpha: revenue quality, pricing power, margin durability, working-capital discipline, and scalable infrastructure.

Pairing QoE with data analytics and systems readiness helps sponsors establish Day 0 conviction around where value can be created, what must be fixed, and how quickly the business can be professionalized to support growth and eventual exit.

Beyond earnings, what other Day 0 issues should sponsors pressure-test?

In many middle-market deals, earnings normalization is only part of the story. Sponsors should also assess working capital mechanics, tax exposures, audit and close-process maturity, and the broader governance and compliance stack—all of which can directly affect the exit multiple, buyer universe, and sale process timing. Diligence should identify what needs remediating during the hold so the business is exit-ready, not just close-ready.

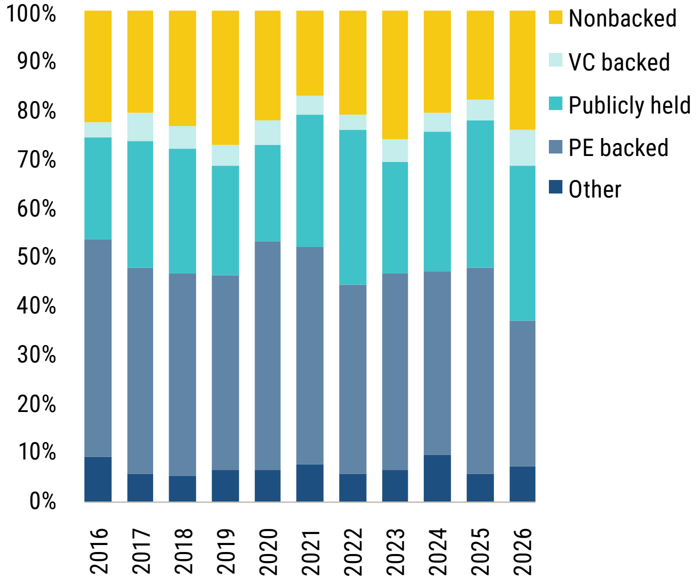
What should PE stakeholders do differently to realize maximum value?

PE stakeholders should treat diligence as the first value creation workstream, rather than a precautionary exercise. They should anchor each value driver to transaction-level data tied back to the model and board-ready KPIs. Then, stakeholders should elevate QoE beyond an adjusted EBITDA bridge to a driver-based view of earnings sustainability—pressure-testing concentration, cohort behavior, price-volume-mix, and margin durability under downside scenarios.

In parallel, they should confirm the target can operationalize insights post-close by establishing data definitions, reporting cadence, and a systems roadmap to measure execution from Day 0. Finally, PE stakeholders bake "exit readiness" into underwriting early by identifying tax, close-process, and controls upgrades required to expand the buyer universe and protect exit multiple.

Deals by backing and sector

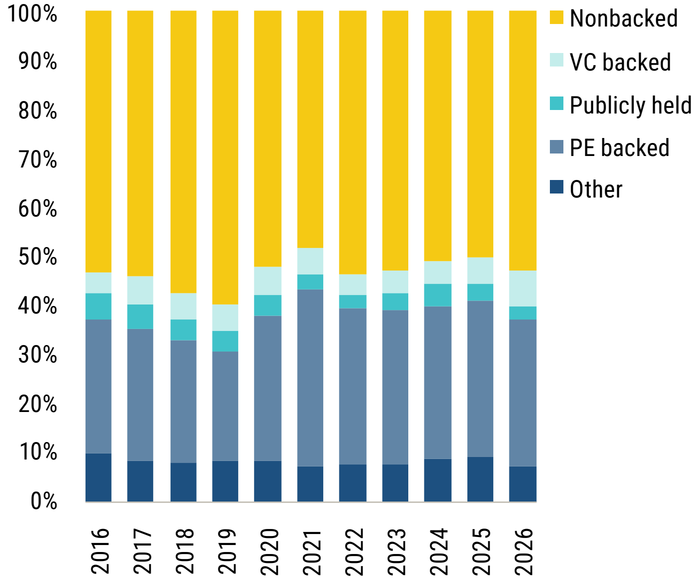
Share of PE middle-market deal value by backing type



Source: PitchBook • Geography: US • As of March 31, 2026

Note: Other Includes pre-seed and angel-backed companies, and companies for which backing status is not disclosed.

Share of PE middle-market deal count by backing type



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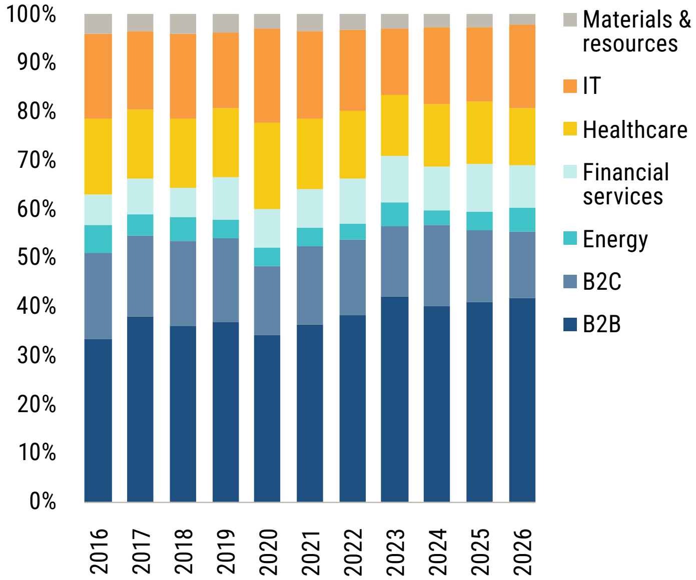

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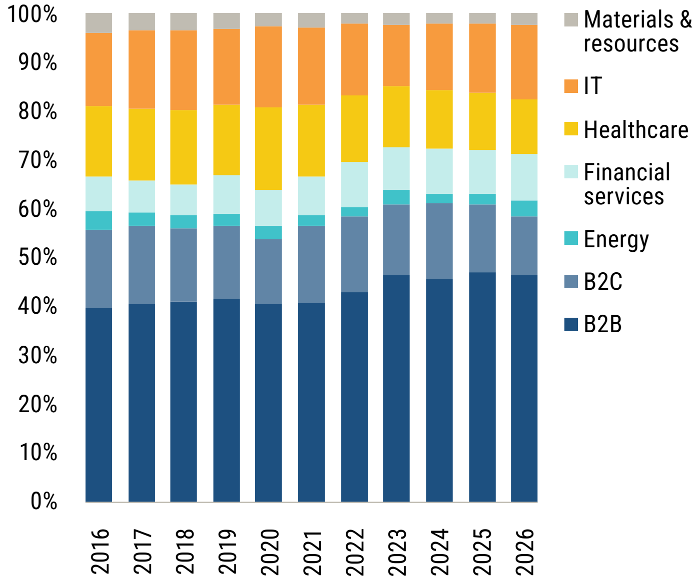
Share of PE middle-market deal count by sector



Source: PitchBook • Geography: US • As of March 31, 2026

SPOTLIGHT

Q1 2026 US Private Credit and Middle Market Quarterly Wrap

Note: This spotlight is abridged from our report [Q1 2026 US Private Credit and Middle Market Quarterly Wrap]. *Please see the full report for additional analysis on the financing side of the equation for middle-market companies and sponsors.*

Private credit lenders focus on software, ARR loans as mood shifts

AI-induced worries about software ushered in a profound change for private credit in the first quarter.

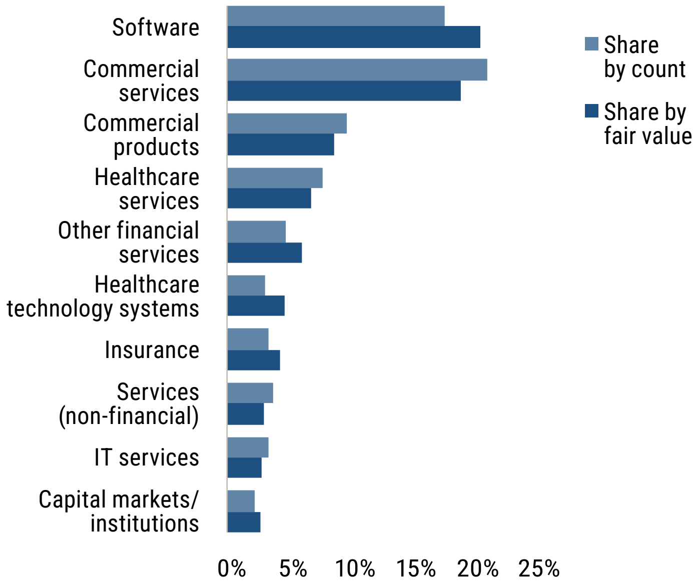
In February, the launch of Anthropic's Claude Cowork fueled a global sell-off of publicly traded software and IT companies. The news ignited investor fears that new AI tools will lead to the creation of bespoke software solutions and the end of costly subscriptions that had driven revenue for software-as-a-service (SaaS) companies. Shares of Salesforce, Oracle, Intuit, Adobe, and Workday were among those punished, as were the shares of lenders to highly leveraged software and tech companies.

The sell-off forced management at BDCs to hone messaging about their exposure to software. Annual recurring revenue (ARR) loans to software providers—a sign of frothy market conditions—were front of mind for uneasy investors. Lenders have been laser-focused on the issue and on investor anxieties about the sector: During the earnings call for Ares Capital on February 4, the word "software" was used 75 times. Private credit providers have adjusted to the new market in a variety of ways, including loan sales, valuation markdowns, and pushing some investments closer to restructuring.

Holders of publicly traded BDCs unloaded shares amid the negative sentiment, extending a run of BDC share losses from last year. Investors in nontraded entities also tested exits, finding mixed results. These negative headlines came at a bad time for the industry, which had been preparing to woo investor capital into 401(k) accounts.

Market developments in the first quarter of 2026 point to three trends for private credit: 1) accelerated development of a secondary market for private credit loans; 2) new obstacles in the industry's quest to attract retail investors to private credit; and 3) higher spreads as lenders demand greater compensation for risk.

Share of BDC holdings by top-10 sector



Source: PitchBook | LCD • Geography: US • As of December 31, 2025

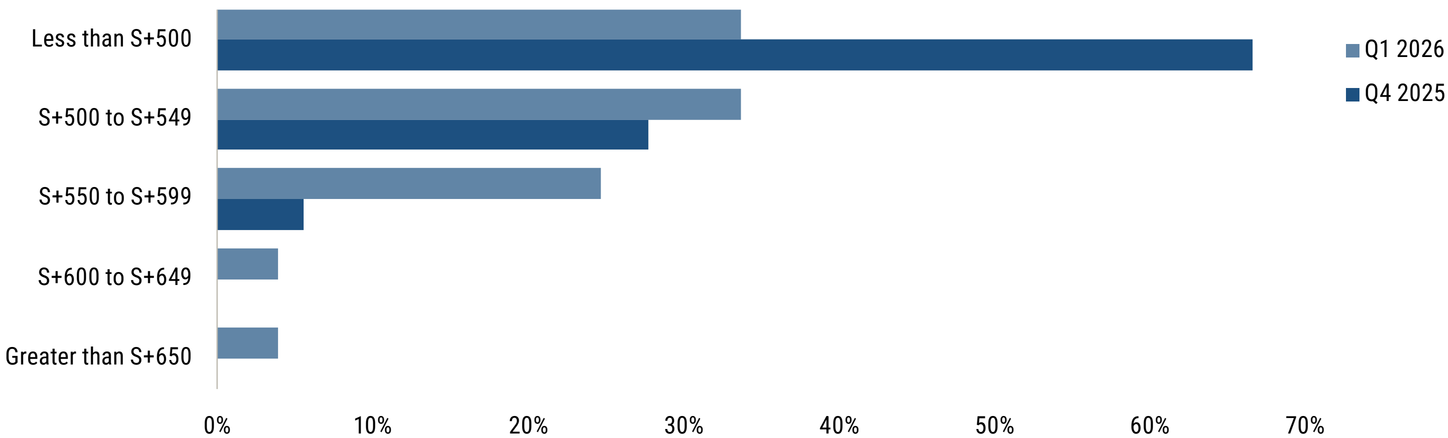
How did we get here?

Private equity exits increased in 2025, and many were hopeful about the recovery of M&A and buyout activity in 2026. Instead, hopes were dashed early in the year as attention turned toward the impact of AI on the software sector.

Central to anxiety about software business models are legacy SaaS companies with seat-based pricing models. Investors now believe these SaaS software businesses are susceptible to AI replacement. Moreover, AI advancements may make staffing and consulting businesses prone to a reduction in billable hours. At the very least, trends point to slowing revenue growth and diminished prospects for raising pricing.

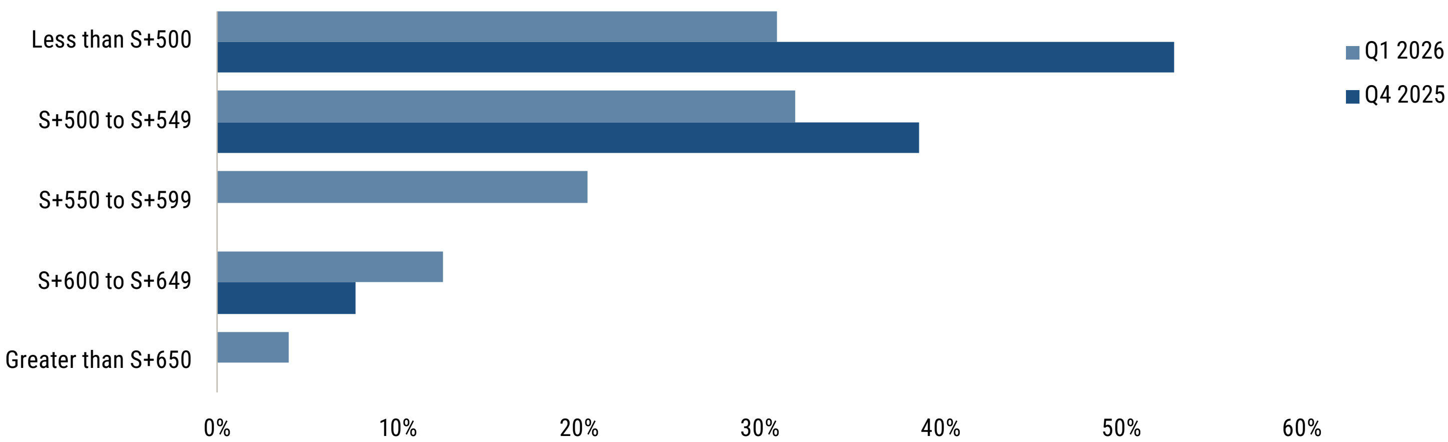
Not long ago, software was the darling of the private credit market, with lenders competing aggressively for deals.

Where could a $50M EBITDA business in a noncyclical industry price a unitranche loan (40% LTV) today?



Source: PitchBook | LCD • Geography: US • As of March 11, 2026

In six months, where could a $50M EBITDA business in a noncyclical industry price a private credit loan (40% LTV)?



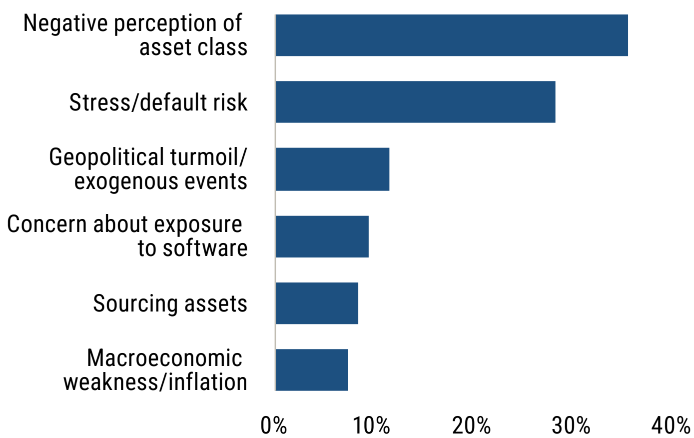
Source: PitchBook | LCD • Geography: US • As of March 11, 2026

Those lenders liked the segment's reliable revenue streams due to subscription-based, enterprise accounts, with high switching costs keeping customers coming back. Software and tech investments looked especially appealing during the COVID-19 pandemic, when the world turned to remote working and education. Investors are now reassessing these businesses, both rightly and wrongly so, analysts say.

What happens next

Meanwhile, newfound investor skepticism for the sector has ushered in long-awaited spread widening. The trend is expected to hold, according to the most recent PitchBook LCD private credit survey.

Which of the following will present the strongest headwinds to private credit market participants in the next six months?



Source: PitchBook | LCD • Geography: US • As of March 11, 2026

A WORD FROM CIL STRATEGY CONSULTANTS

The new rules of buy & build

Axel Leichum

Partner

Axel Leichum is a partner at CIL and leads the firm's North America practice. With extensive experience in market studies and value creation, he works with private equity investors to identify growth levers and maximize post-deal impact. Axel is passionate about helping firms transition from deal validation to realization, ensuring that market studies drive long-term value.

Buy & build remains one of private equity's best-proven playbooks, but the bar has risen. Executing deals and adding bolt-ons—multiple arbitrage with a few synergies on top—no longer commands the valuations it once did. Competition for assets is intense, market headroom is tighter, and buyers want evidence behind the value creation story, rather than a narrative.

The leading consolidators have responded by building what is best described as a value creation engine: a repeatable way to improve the businesses they acquire and a way to demonstrate that improvement to the next owner. It is no longer enough to grow by buying; platforms must prove each business is stronger for being part of the group.

Multiple arbitrage still matters, but it has become insufficient on its own. The best bolt-ons command a premium themselves, obvious synergies are either priced in or quickly competed away, and investors must assume that competition for targets will rise during the holding period as rival roll-ups emerge. The payout at exit is no longer for the growth a platform has achieved but for the growth a buyer believes is still to come.

A working value creation engine has three parts: select, build, and evidence. In each case, the bar is higher than the versions most platforms typically run.

Select

The best platforms treat acquisition as a system rather than a sequence of opportunistic deals. They keep a structured pipeline of targets that fit the strategy, standardize screening, and apply consistent deal principles. The benefit is speed and consistency, both of which matter when several consolidators are pursuing the same assets.

Build

The temptation is to apply a single integration template to every acquisition. The platforms that do this well resist that temptation. They are explicit about where each acquisition sits on the spectrum from full integration to a federated model, and they choose based on where value lives in the underlying business.

Where value resides in individual talent—in judgment, client relationships, or creative work bought for its authorship—federation protects the asset. WPP, in its earlier growth phase, bought marketing services agencies and kept their brands and the leadership that clients had hired in the first place. The center took on what creative shops are typically poor at: finance, HR, technology, and procurement. Cost synergies were real but secondary, as the larger benefit was access. A small standalone agency typically struggles to satisfy large-client procurement, indemnity, continuity, and scale requirements; the holding company solved that gating problem while protecting the talent that was the asset in the first place.

Where value lives in the process, integration becomes the asset. In US wealth management, the larger consolidators rebrand the firms they buy, harmonize systems, place advisors onto a common client-service model, and segment delivery only by client scale. In a regulated business, that uniformity is what the buyer is paying for: Errors-and-omissions premiums, supervisory overhead, and the cost of remediation when something goes wrong all turn on how consistently the firm behaves across its acquisitions.

Neither model comes free. A strict integration model narrows the acquisition pipeline, because some vendors do not want their business absorbed into someone else's machine. The targets that do come across fit cleanly, and that makes the engine easier to run and easier to evidence. A federated model has a wider funnel but lives with the constant risk of centralizing past the point at which the center stops adding value to the businesses it acquired and starts adding cost. Most platforms cannot tell whether they have crossed that point, because they have not measured the center's contribution clearly enough to begin with.

The major US wealth platforms have made this trade-off visible. Several now run two models in parallel—a tightly integrated core platform for most acquisitions, and a federated channel for advisor teams that will not accept full integration but remain attractive to recruits. This supports growth in assets under advice but raises the following questions: Does the second channel enhance or dilute revenue quality and profit sustainability? Is scale more valuable than quality?

Mixed models can work. There are examples in industrial holding companies and in diversified financial services groups of tightly integrated and federated divisions thriving under one roof. But the choice is not made once. It is made continuously, deal-by-deal, and a platform that drifts between models without deciding why tends to end up paying for the indecision.

There is a deeper trade-off behind the integration question. Roll-ups assembled at speed can outpace the cultural and operational foundations needed to absorb them. Decades-old industrial groups have developed oversight structures and institutional memory that keep variance under control across business units. A platform that has gone from millions to billions of dollars in revenue in five years has had no such time. The systems are newer, the playbooks less tested, and the people more recent. This is not a failure; it is the predictable consequence of rapid scale. But it raises a question that buyers are starting to ask: Has integration capacity kept up with acquisition pace, or is standardization more uniform on paper than in practice?

Evidence

The case for a value creation engine collapses without proof that it works, and this is where most platforms are weakest. The buyer's test at exit is simple: What was the baseline for each business at acquisition, what platform actions changed it, and how does that change add up across the portfolio? Most reported metrics answer easier questions—that the platform is large, growing, and retaining customers—but those are only proxies for whether each acquired business is stronger inside the group.

Again, US wealth management makes the gap visible. The most acquisitive consolidators lead their public reporting with retention rates in the high nineties, total AUM, and improving industry rankings. What is usually missing is per-acquisition baseline-and-uplift attribution. If platforms could show that each book they bought was performing measurably better inside the group, they would say so. The absence of that proof is itself a signal.

The gap between what companies report and what a buyer would test in diligence is wide enough to matter. Part of it is cultural: The data needed to run a business day-to-day is not always the data that proves value to a future owner. Part of it is technical: System migrations often discard the very baselines that would later support the proof. Part of it is commercial: The people who could build the reporting are usually closing the next deal.

The strongest platforms capture a baseline for each acquisition in a form that survives migration. They tag subsequent change to specific levers, so EBITDA growth can be attributed to platform action rather than market movement. Then they aggregate the results, so the model can be shown to repeat.

Buy & build remains one of the most effective routes to value creation in private equity, but the rules have changed. A successful exit now depends on whether the platform can show, with data the management team trusts, that each business is better for being part of the group, and which specific platform actions made it so. Most platforms cannot. In a market where doubt leads to discount, the ability to evidence the engine is now what separates average platforms from premium exits.

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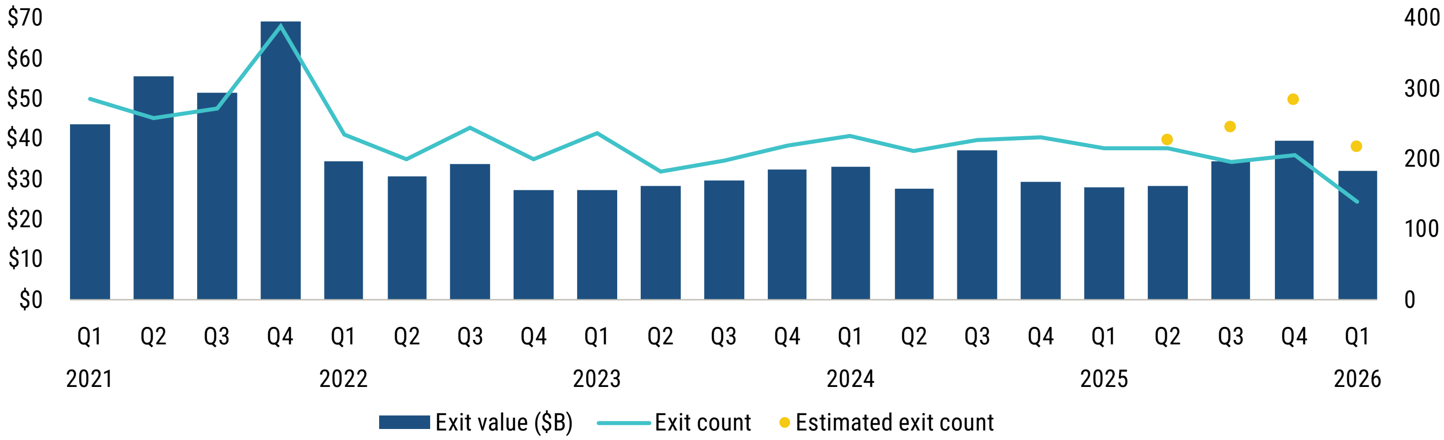
Exits

PE middle-market exit activity by quarter



Source: PitchBook • Geography: US • As of March 31, 2026

Overview: Exits to sponsors dominate as corporates retreat and the IPO window remains closed

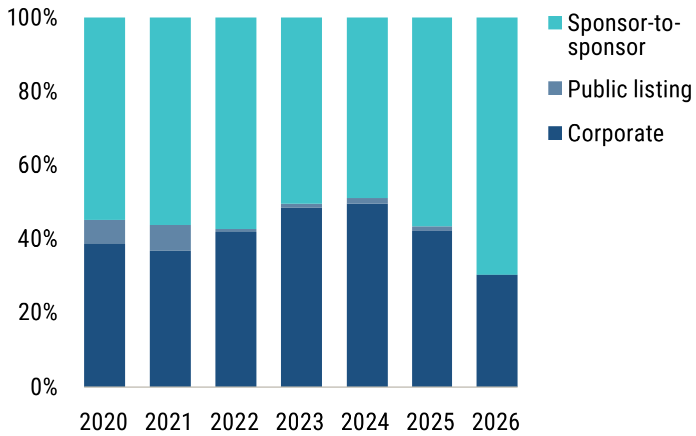
Middle-market exit activity carried through into 2026, with a Q1 total exit value of $32 billion across 218 transactions, up 14% and 1.5% YoY, respectively. QoQ, value fell 19% and count fell 22.9% from a strong Q4 2025, but the comparison is against a quarterly peak; the Q1 reading sits in line with the levels seen in the past four years.

The composition of the exit mix, however, shifted meaningfully. Sponsor-to-sponsor transactions accounted for 69.5% of Q1 exit value and 60% of count, both dramatic shifts from the composition in 2023 and 2024. Exits to corporates retreated to 30.5% of value—the lowest share since before the pandemic. While corporate buyers stepped back once more in Q1, two forces are reinforcing the sponsor-to-sponsor channel.

First, the deal-side dynamics we flagged in the "Deals" section—sponsors paying up for larger, more profitable platforms—create the buy-side demand that absorbs middle-market exits. We have seen this play out in transactions such as Stonepeak's acquisition of Southern Marinas from KSL Capital Partners and Blackstone's acquisition of Champions Group from Odyssey Investment Partners.

Second, the corporate-buyer pullback in Q1 reflects the same caution noted in the annual report: Strategic buyers remained selective on smaller targets even as their appetite for larger acquisitions remained firm. In the broader US PE market, exits

Share of PE middle-market exit value by type

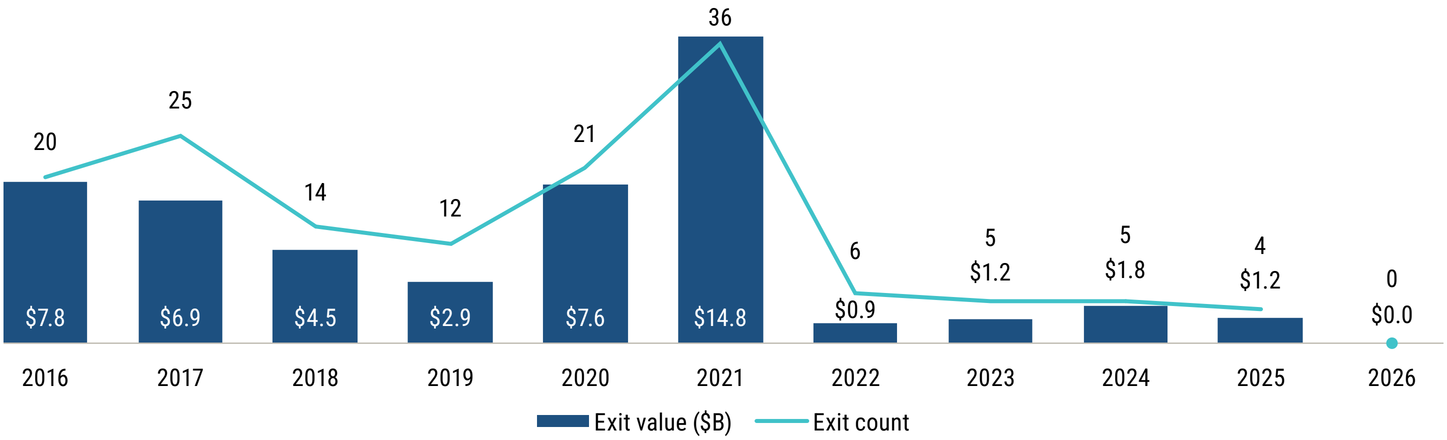


Source: PitchBook • Geography: US • As of March 31, 2026

to corporates accounted for 58.4% of total exit value in Q1. In the middle market, exit value to corporates dipped below pre-pandemic averages, demonstrating corporates' current disproportionate focus on larger acquisition targets.

The IPO channel remains closed for middle-market exits, with zero Q1 listings extending a dry spell that began in 2022. The IPO market would need to broaden out for the middle-market channel to reopen, and the high-profile late-stage pipeline of SpaceX, Anthropic, and OpenAI is likely to absorb most of the available investor attention through Q2 and Q3. Even if the IPO window technically reopens, little oxygen remains for the smaller listings that drive middle-market exits.

PE middle-market IPO activity



Source: PitchBook • Geography: US • As of March 31, 2026

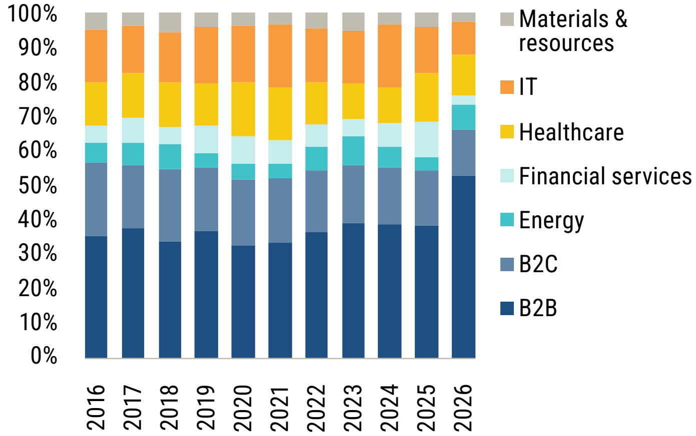
IT continues to lose steam as AI fears drive a recomposition of exit activity

Sector composition tilted hard toward B2B in Q1. B2B accounted for 52.9% of middle-market exit value, up from 38.2% in full-year 2025, representing one of the largest single-quarter shifts seen. Energy was another strong performer, nearly doubling its share of exit value YoY as demand for power-related assets increases due to the ongoing secular trends of datacenter construction and electrification. For more on this topic, read our Q1 2026 launch report on oil & gas.

The other side of that rotation was IT (9.4% of value, down from 13.2%) and financial services (2.8% of value, down from 10.3%). The B2B surge and the IT pullback are reading the same signal from opposite sides. Buyers and sellers are converging on businesses whose unit economics do not depend on a software stack that AI could compress. We expect this composition to persist until tech valuations stabilize, which would suppress deal activity until the sector finds its footing.

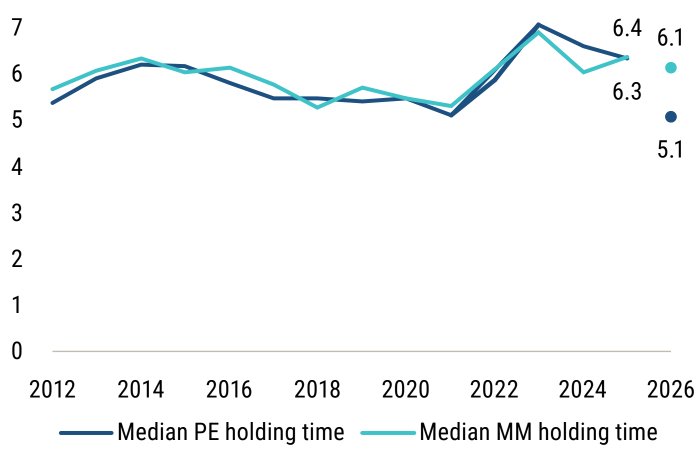
Just as notable, holding periods compressed—a positive sign as the industry looks to clear its backlog. Across all US PE exits, median holding time fell to 5.1 years in Q1 from 6.3 years for full-year 2025, the lowest reading since 2021. The middle-market subset moderated less sharply at 6.1 years versus 6.4 years in 2025, but the broader trend is supportive.

Share of PE middle-market exit value by sector



Source: PitchBook • Geography: US • As of March 31, 2026

Median PE and middle-market holding time (years)



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A WORD FROM INSPERITY

From strategy to execution: Transforming talent and operations in private equity

With increasing focus on operational enhancement as a value driver for the longer term, what challenges are you working on with clients related to talent recruitment for operational improvement?

Amy Schisler is the managing director of performance services at Insperity, where she leads performance and leadership solutions that help organizations align people strategy with business outcomes. Amy and her team partner with senior leaders to drive execution, elevate leadership capability, and build scalable performance practices that support growth and organizational effectiveness.

Amy Schisler: The biggest challenge is often not recruiting itself. It is role design. When roles are not redesigned to match a company's new operating model, hiring becomes much harder than it needs to be. In many cases, difficulty recruiting is simply a symptom of unclear future-state work. We see this often after an investment. There is a gap between how a role is defined and what the business actually needs in order to execute its strategy. Once that gap is addressed and success profiles are reset to fit the operating model, recruiting improves quickly.

For example, we worked with a real estate services and property management client to redefine success profiles and hiring scorecards. Instead of narrowing the search to candidates with traditional industry backgrounds, the roles were structured around execution capability. That opened the talent pool and improved hiring outcomes. We saw something similar with a banking client. By aligning organizational structure and job titles with actual operational needs, the company was able to target external hires for key transformation roles across business development, sales, operations, and strategy.

Operational improvement starts with clarity on how work gets done. When role design reflects that reality, recruiting becomes far more effective.

How is that shaping the state of affairs for operating partners?

Schisler: Operating partners are becoming stewards of execution discipline. Strategy still matters, but what increasingly determines outcomes is whether daily work is structured in a consistent, scalable way. That is why operating partners are getting more involved in organizational design, standard operating procedures, onboarding, and leadership capability. What may look like missed targets or slow progress often comes back to unclear ownership, decision bottlenecks, or leadership teams that have not aligned on how work should happen.

We worked with an apparel company to build clearer career pathing frameworks and employee development programs. That gave the business a stronger foundation for attracting and retaining the people needed to move the company forward. We have also seen this with banking and lending clients. These teams had strong intent, but execution lagged. Leadership alignment sessions helped establish clearer norms and explicit decision rights. Once ownership was defined, execution improved materially.

For operating partners, the lesson is straightforward: Strong execution depends on operational foundations, not just strategic direction.

What are the most overlooked risks in assessing talent and employee bases at prospective portfolio companies?

Schisler: The biggest risks usually are not in the C-suite. They are often one or two levels below it. That is where we tend to find gaps in bench strength, decision-making discipline, accountability, and change capacity.

One example was a software company going through an organizational restructuring. The business underestimated how much change fatigue already existed within the team. Leaders were drained by the process, and ultimately the company lost 25% of its executive team. The issue was not just structure. It was organizational readiness.

Three risks come up repeatedly. First, bench depth below the CEO. Mid-level leaders often carry a significant operational load. If those individuals leave or cannot scale, execution slows quickly. Second, how decisions really get made. On paper, an org chart may look sound. In practice, decisions may rely on informal influence, back channeling, or constant escalation. That does not scale well during transformation. Third, change capacity. Many teams are already stretched managing the day-to-day business. Add a merger, rapid growth plan, or operating transformation, and performance often slips.

Assessing talent risk requires looking beyond résumés to understand how the team performs under pressure and how the organization actually functions.

Which tactics have helped drive the best outcomes for post-merger performance from a workforce perspective in recent months?

Schisler: The best outcomes usually begin with early operational clarity. That means defining standard operating procedures, decision rights, and ownership from the start, then reinforcing those choices through strong leadership alignment.

A recent example is a marketing company that integrated four different businesses. The organization had duplicated roles across entities, especially in finance, which created confusion around authority and accountability. We helped centralize finance and HR, clarify reporting structures, and align the business to one operating model. That removed uncertainty and helped the team execute more effectively.

Leadership alignment is also critical. When leaders agree on how decisions will be made day to day, teams move faster without adding layers of management. The other piece is communication. What leadership sees as operational efficiency can feel to employees like a headcount reduction exercise. If that gap is not addressed, morale drops and integration slows. Clear, consistent messaging helps people understand the direction of the business and their place in it.

What is the technical frontier today for the software suite you maintain with clients? Where are the hardest innovation challenges?

Schisler: The frontier is no longer collecting more data. Most organizations already have more information than they can use. The challenge now is turning that information into insights leaders can act on with less manual effort. That puts the focus on integration, usability, and search. It is not enough to have sophisticated HR technology. The real question is whether the tech stack supports the business at its current stage of growth and whether it helps leaders make better decisions.

A detailed dashboard has limited value if it does not change behavior or improve execution. The goal should be to make the software serve the operating strategy, not create more noise. The hardest part of innovation is often not access to technology. It is making sure the tools in place are actually practical, connected, and useful to the people running the business.

As holding periods lengthen and underwriting depends more on execution than leverage, how are PE firms rethinking leadership bench depth and succession planning?

Schisler: Succession planning is becoming much more practical. It is no longer just about naming a CEO backup. Firms are looking deeper into the organization and treating leadership continuity as a form of value protection. That means focusing on multiple layers of leadership and building a real pipeline, not a theoretical one. It also means prioritizing change leadership, communication, and people management, not just technical skill.

We worked with a banking client on this issue by linking leadership continuity directly to execution risk. That shifted succession planning from a standard talent exercise to a business-critical priority.

To strengthen bench depth, firms are asking sharper questions: Which roles would immediately slow execution if they were vacant tomorrow? Where is leadership already stretched too thin? What talent gaps could create risk over the next 12 to 24 months? That approach helps firms build resilience across the portfolio and protect value over longer hold periods.

How are PE-backed companies using outsourced HR and workforce infrastructure to free up management time and accelerate execution?

Schisler: One of the most practical benefits is protecting leadership capacity. During critical growth or transformation periods, management teams cannot afford to spend large amounts of time on payroll, compliance, benefits administration, and related HR tasks.

A co-employment or outsourced HR model can help companies delay adding internal HR headcount while still gaining stronger compliance support, better benefits administration, and more visibility into people analytics. It gives leaders access to the support of a more developed HR function without taking focus away from the business. This can also fit well with a shared-services model across a portfolio. When firms want consistency in backend support, outsourced HR infrastructure can provide a reliable foundation while on-the-ground leaders stay focused on operations and execution.

Are there any final points private equity firms should keep in mind?

Schisler: One of the most overlooked factors is consistency in leadership communication over long execution cycles. Even with strong talent in place, shifting priorities or uneven messaging can stall progress. Change management and workplace culture also deserve more attention than they often get during integration. They play a major role in whether an acquisition reaches its potential. More broadly, firms should resist the idea that operational improvement is mainly a systems issue. In practice, sustainable improvement usually comes back to three basics: clear roles, clear decisions, and leaders who can execute under pressure. Technology and talent matter, but they deliver the most value only after those fundamentals are in place.

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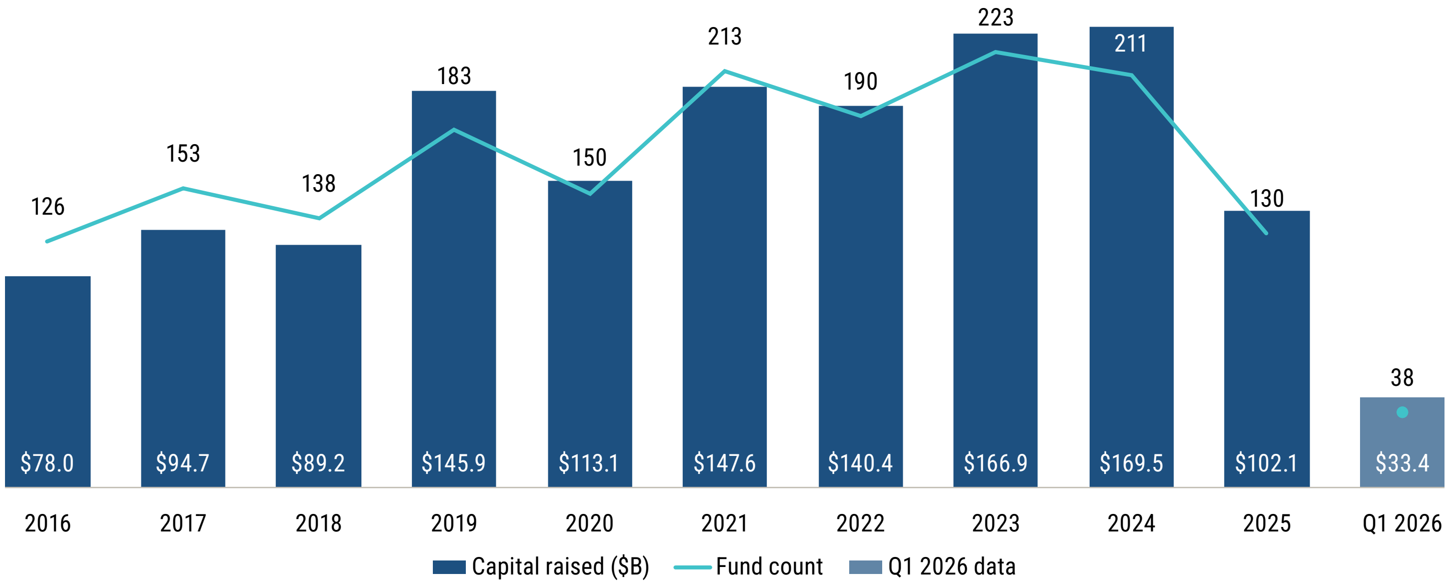
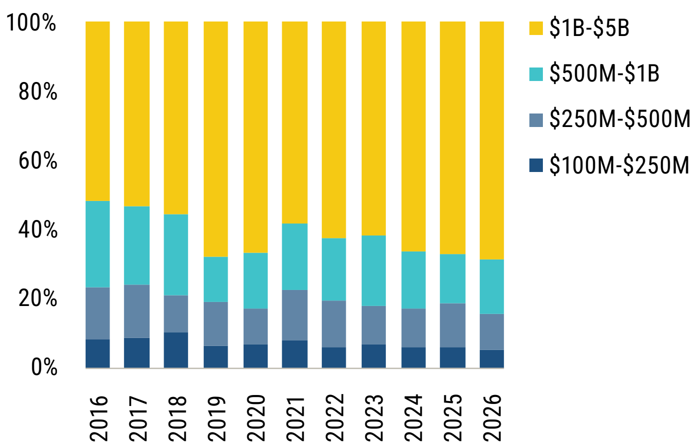
Fundraising and performance

PE middle-market fundraising activity



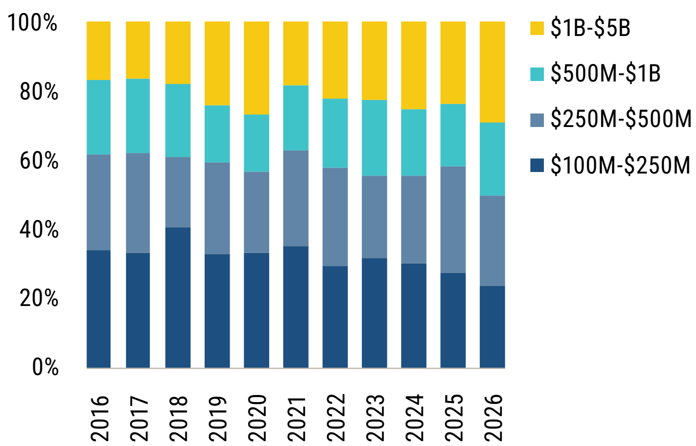
Source: PitchBook • Geography: US • As of March 31, 2026

Share of PE middle-market capital raised by size bucket



Source: PitchBook • Geography: US • As of March 31, 2026

Share of PE middle-market fund count by size bucket

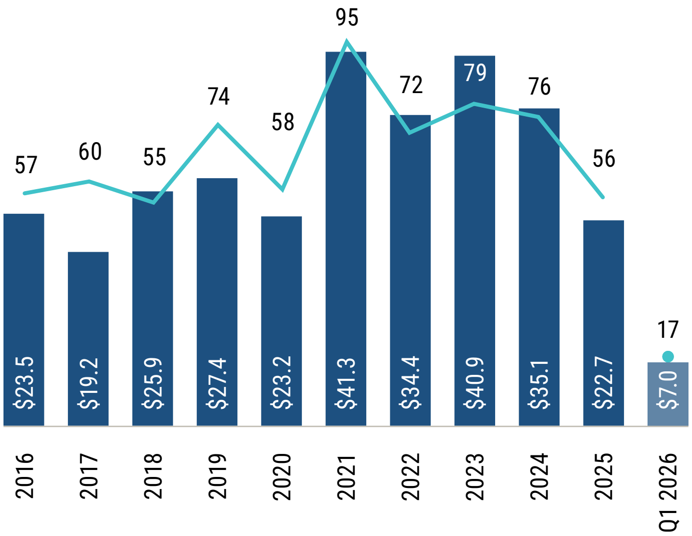


Source: PitchBook • Geography: US • As of March 31, 2026

Overview: Middle-market fundraising is being squeezed as capital concentrates at the top

The middle-market fundraising squeeze that defined 2025 carried into the new year. Q1 brought $33.4 billion across 38 funds, putting the annualized 2026 pace only slightly above the $102.1 billion, 130-fund total set last year—which was the weakest middle-market fundraising year since 2018—and much lower than the pace seen in 2023 and 2024. The contraction is not a quarterly anomaly. It is the continuation of the structural reset that we laid out in US Private Equity's New Fundraising Reality: LPs facing constrained distributions are concentrating commitments with a shorter list of established, brand-name managers, leaving many middle-market GPs squeezed between LPs allocating to megafunds and specialist managers that win on niche differentiation.

PE middle-market emerging-manager fundraising activity



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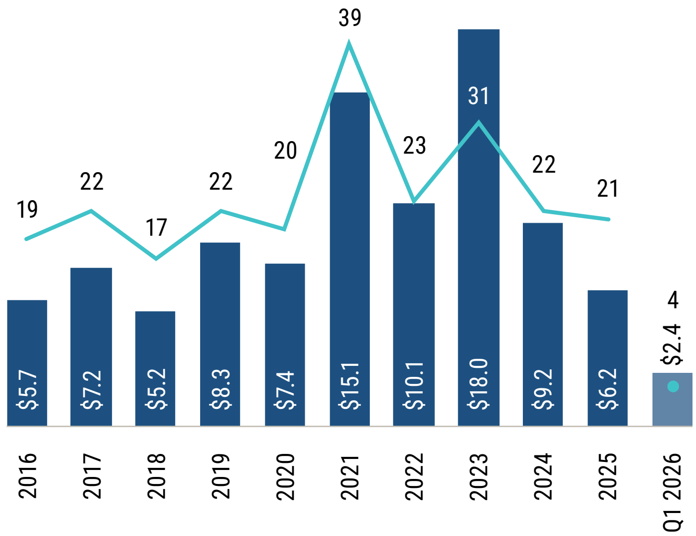
PE middle-market first-time fundraising activity



Source: PitchBook • Geography: US • As of March 31, 2026

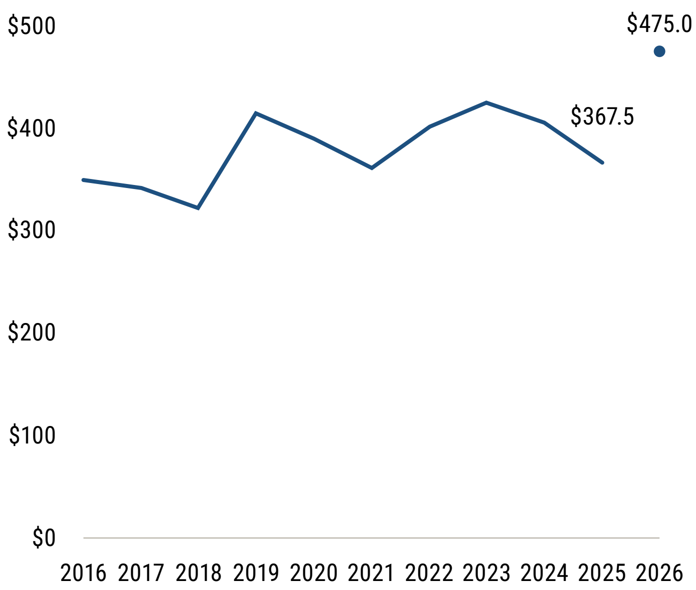
The capital-concentration story shows clearly in the size-bucket data. Funds in the $1 billion to $5 billion range captured 68.6% of middle-market capital raised in Q1, the highest share since the global financial crisis and a continuation of the multiyear tilt toward the upper end of the middle market. The sub-$500 million cohort has lost share in every recent year. $100 million to $250 million funds drew 5.1% of capital in Q1 (down from 6.2% in 2024), and $500 million to $1 billion funds drew 15.6% (down from 16.9%). Capital concentration within the middle market mirrors the capital-concentration story we documented at the broad industry level, where the 10 largest funds captured 61.1% of total US fundraising through mid-April.

Emerging managers

Underneath the headline, the structural indicators corroborate the squeeze. Emerging managers—defined as firms with three or fewer funds, including first-time vehicles—raised $7 billion across 17 funds in Q1, including $2.4 billion across four vehicles from first-time managers, which is directionally consistent with the broader emerging-manager pullback. While the small Q1 sample warrants caution, early signs are consistent with these trends continuing or moderating, with few signs of reversing any time soon.

The bright spot remains the well-established managers that clear the bar. Median middle-market fund size jumped to $475 million in Q1 from $368 million in 2025, albeit on a small sample size,

Median PE middle-market fund size ($M)



Source: PitchBook • Geography: US • As of March 31, 2026

and the metric for share of funds greater than their predecessor ran at 100% on the same small sample. Both readings reinforce the framing of a barbell market: The managers that do raise are raising bigger, faster, and with strong LP conviction, while the rest face an extended slog or no fund at all. Arcline Investment Management's $6 billion Fund IV close and OceanSound Partners' Fund III are strong examples of a winning formula—established sector specialists with multifund track records.

Recent closings

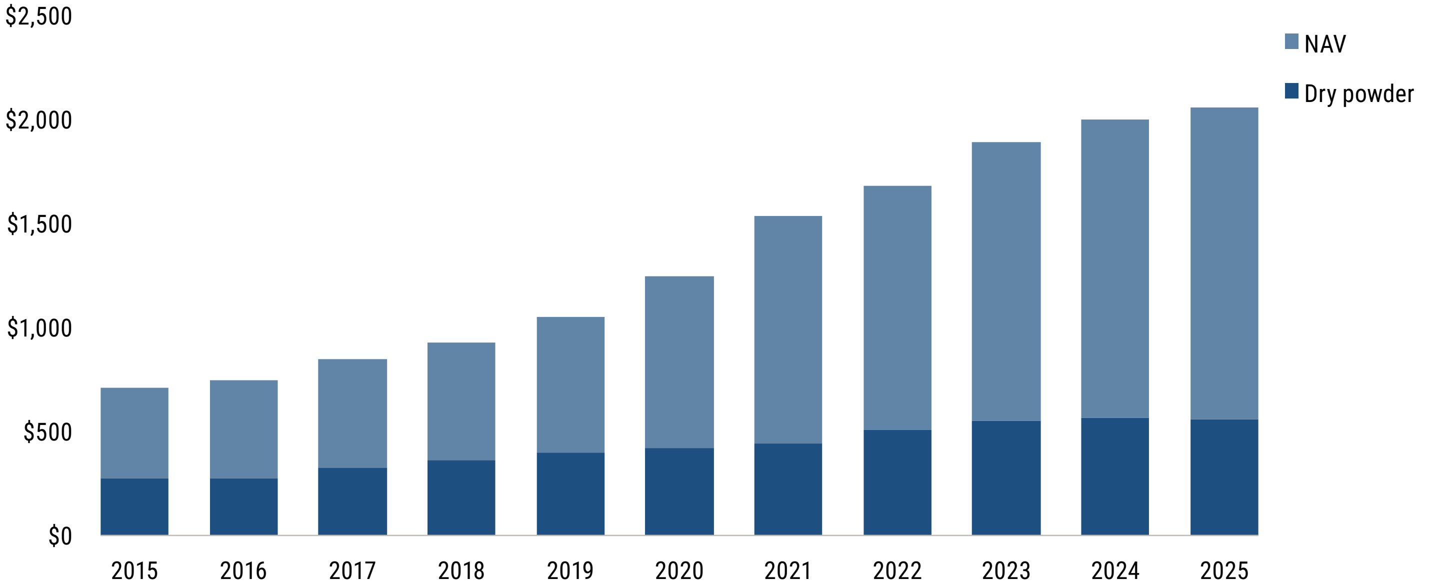
Top PE middle-market fund closings by capital raised in 2026

Fund	Close date	Fund size ($M)	Manager
Lindsay Goldberg VI	January 6	$4,900.0	Lindsay Goldberg
HGGC Fund V	February 19	$3,200.0	HGGC
Warburg Pincus Financial Sector III	January 7	$3,000.0	Warburg Pincus
BV Investment Partners Fund XII	January 6	$2,465.0	BV Investment Partners
Truelink Capital Fund II	March 9	$2,000.0	Truelink Capital
Bain Capital Double Impact Fund III	March 2	$1,455.5	Bain Capital
JLL Partners Fund IX	January 21	$1,400.0	JLL Partners
STG Allegro II	March 4	$1,300.0	STG Partners
Otro Capital Fund I	February 3	$1,200.0	Otro Capital
Eir Partners III	January 8	$1,000.0	Eir Partners

Source: PitchBook • Geography: US • As of March 31, 2026

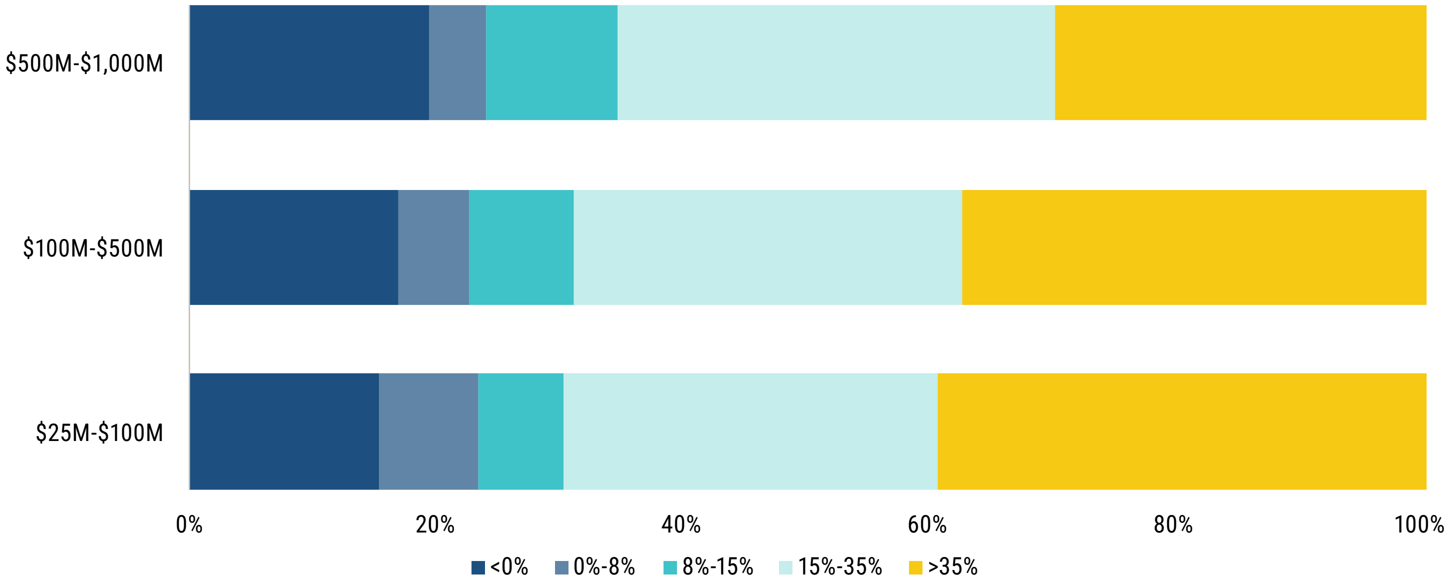
Dry powder

PE AUM ($B)



Source: PitchBook • Geography: US • As of September 30, 2025

Share of PE IRR distribution by TEV size bucket (weighted by invested capital)



Source: SPI by StepStone • Geography: US • As of December 31, 2025

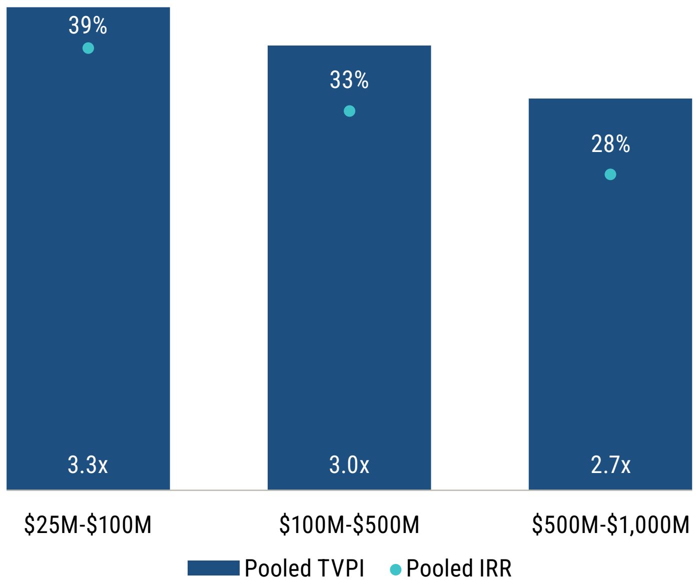
Performance

Performance data, which lags by two quarters, told the same consistency-over-upside story that we have framed at the asset-class level. Pooled IRRs for recent middle-market vintages have compressed alongside the broader cycle. The 2021 vintage stands at 13% pooled and the 2022 vintage at 11.5%. Long-run middle-market returns remain compelling—10- and 20-year IRRs sit above the megafund equivalents in every comparable vintage band—but the near-term picture is one of broad-based moderation, not a middle-market premium.

The deal-level SPI data, when analyzing US middle-market deals fully or substantially realized (greater than 25%) since 2009, allows us to look under the hood and reframe the size-and-returns question that fund-level reporting alone does not show. Two findings stand out: Smaller checks have delivered higher total returns, and, surprisingly, have done so with less downside.

While the return premium in the lower middle market comes with a wider range of outcomes, there is little difference in the left tail by band. Sorting these realized and partially realized deals by IRR, weighted by invested capital, the $25 million to $100 million TEV band shows the fattest right tail: 39% of capital sat in deals returning a gross deal-level IRR greater than 35%, while 23% landed in deals with a return below 8%. The larger $500 million to $1 billion band paints a different picture—fewer home runs (30% above 35% IRR), with returns clustering in the middle.[2]

PE middle-market pooled IRR and TVPI by TEV size bucket

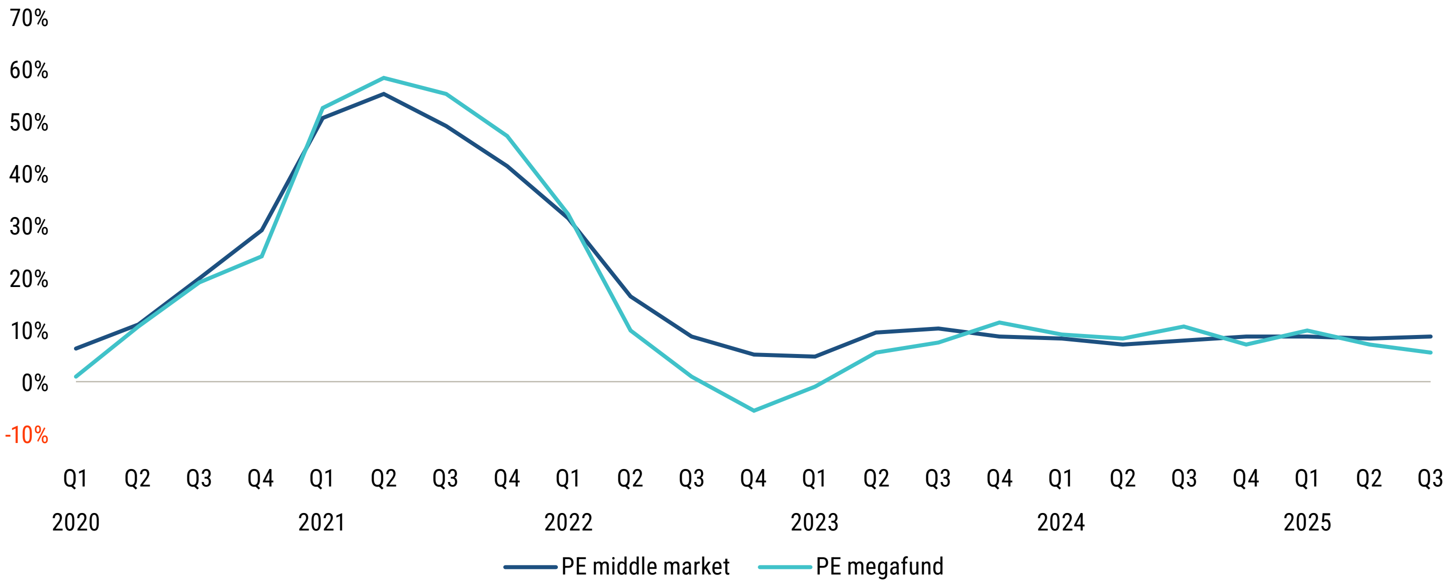


Source: SPI by StepStone • Geography: US • As of December 31, 2025

The takeaway for allocators and GPs is clear: The lower end of the middle market has generated better returns on average and does not come with significantly more left-tail risk. While larger checks have bought a tighter, more predictable band of outcomes, higher entry multiples and debt levels contribute to a higher loss ratio and less upside.

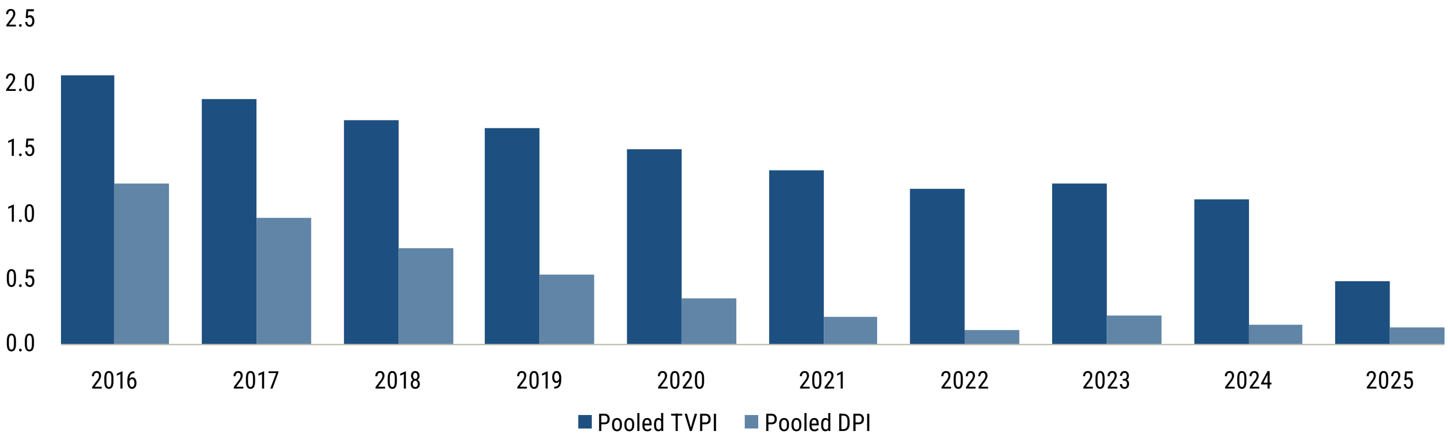
For the middle market specifically, that places a higher premium on manager selection, especially in an environment where leverage and multiple expansion cannot be relied upon to generate returns. Going forward, we expect that returns will be driven by disciplined buying and operational value creation, rather than the macroeconomic tailwinds that did much of the work in the 2010s cycle. Altogether, the lower middle market stands out as an opportunity today: less competition, lower multiples, lower leverage, and higher historical returns point to significant upside potential in this segment of the market.

Quarterly rolling one-year PE fund IRR by fund size



Source: PitchBook • Geography: US • As of September 30, 2025

PE middle-market TVPI and DPI by fund vintage



Source: PitchBook • Geography: US • As of September 30, 2025

Q1 2026 US PE middle-market lending league tables

Overall

Rank	Company	Deal count
1	BMO Financial Group	49
2	Churchill	45
3	J.P. Morgan	32
4	Ares	29
4	Audax Private Debt	29
4	TPG Twin Brook	29
7	Bank of America	28
7	The Goldman Sachs Group	28
9	Antares Capital	27
9	Barings	27
11	Golub Capital	26
12	Jefferies Group	22
13	Monroe Capital	21
13	Wells Fargo	21
15	Apogem Capital	18
16	Man Direct Lending	17
16	MidCap Financial	17
18	Barclays	16
18	Deutsche Bank	16
18	RBC	16
21	Morgan Stanley	14
21	StepStone Group	14
23	Apollo Capital Management	13
23	Crescent Capital	13
23	UBS	13

Source: PitchBook • Geography: US • As of March 31, 2026

Select roles

Rank	Company	Deal count
1	Churchill	32
2	Bank of America	20
2	BMO Financial Group	20
4	Antares Capital	19
5	J.P. Morgan	17
6	The Goldman Sachs Group	16
7	Wells Fargo	15
8	Golub Capital	13
8	RBC	13
10	Audax Private Debt	12
10	Jefferies Group	12
12	Ares	11
12	Truist Financial	11
14	Barings	10
14	Monroe Capital	10
14	UBS	10
17	Citizens Financial Group	9
17	Mitsubishi Financial Group	9
17	Morgan Stanley Private Credit	9
20	BNP Paribas	8
20	Deutsche Bank	8
20	Fifth Third Bank	8
20	Morgan Stanley	8
20	TPG Twin Brook	8
25	Barclays	7
25	Benefit Street Partners	7
25	Jefferies Credit Partners	7

Source: PitchBook • Geography: US • As of March 31, 2026

References

1: Deal-size bands for SPI data are defined by TEV at entry. For control buyouts, we treat TEV as comparable to PitchBook's deal size, since the sponsor acquires the entire capital structure and TEV reflects full transaction value rather than the equity check alone.

2: Deal-size bands for SPI data are defined by TEV at entry. For control buyouts, we treat TEV as comparable to PitchBook's deal size, since the sponsor acquires the entire capital structure and TEV reflects full transaction value rather than the equity check alone.

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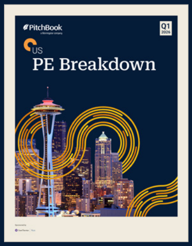

Q1 2026 US PE Breakdown

Download the report here

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