



PRIVATE EQUITY ADVISORY — 2026 Q3

Private Equity *Market Update*

M&A MARKET PERSPECTIVE:
Underwriting the New Normal

DEAL METRICS UPDATE:
Q3 2026 By The Numbers

Underwriting the New Normal

Q1 opened with cautious optimism, while Q2 brought a myriad of macroeconomic pressures and a sharp shift to “risk-off” as investors waited for greater clarity. Q3 tells a different story: not one of resolved uncertainty, but of a market increasingly finding ways forward amid the factors at hand. Add-ons continue to support capital deployment, mega-exits are bolstering exit results, and investors are finding justifiable ways back into software, all while higher-for-longer rates become another condition to navigate rather than one to wait out. ***Private equity is adjusting accordingly, with sponsors increasingly willing to underwrite the environment they have rather than wait for cheaper money to return.***

This quarter, we explore how that adjustment is reshaping financing economics, raising the hurdle for attractive investments and intensifying competition for quality middle-market assets.

ONE RATE ENVIRONMENT, TWO CREDIT MARKETS

A higher-for-the-foreseeable-future rate regime may be the shared backdrop, but Q3’s credit markets show that borrowers are not experiencing it equally. Nearly \$12B of direct-lending loans were refinanced in the broadly syndicated loan (“BSL”) market during Q3, exceeding the \$7.2B refinanced during the entire first half of 2024 and the \$7.5B quarterly average since the start of 2024. That migration was concentrated among higher-quality borrowers, while lower-rated borrowers continued to face wider spreads. The same rate environment is producing different financing economics depending on borrower quality.

In a transaction, those differences can flow directly into valuation and competitiveness. Greater financing flexibility gives buyers more options for how they capitalize an acquisition, while higher borrowing costs put greater pressure on purchase price and projected returns. As financing markets differentiate more sharply among borrowers, credit quality is influencing not only financing terms, but ultimately what buyers can afford to pay while preserving their return expectations.

Against that backdrop, the market looks less uniformly cautious and more selectively aggressive. Sponsors continue

to favor digestible, lower-risk transactions, while larger deals are still getting done where asset quality, economics and potential returns support them. “Proof assets” – those that are resilient to macroeconomic headwinds and capable of performing across a broad range of market conditions – continue to command a premium. Asset quality and clear paths to value creation are hardly new requirements, but higher borrowing costs have raised the hurdle. An asset must now stand out not only relative to other opportunities, but enough to make the economics work in a more expensive financing environment. Increasingly, buyers are looking to the middle market to find those opportunities.

WHEN EVERYONE WANTS THE MIDDLE MARKET

The middle market has increasingly become a destination for capital seeking smaller, more digestible transactions and a meaningful valuation discount to larger deals. Median entry multiples for transactions between \$25M and \$100M were 8.5x EV/EBITDA, compared with 13.2x for deals between \$500M and \$1B. That valuation differential, combined with lower absolute financing requirements, creates an attractive proposition in a market where borrowing costs matter more.

Those economics help explain the appeal, but the influx of capital is also changing the competitive equation. As more sponsors pursue smaller transactions, middle-market assets can draw interest from a broader pool of buyers, including larger sponsors historically concentrated further up-market. Competition for high-quality assets has intensified in a higher-cost financing environment. For sellers, a broader buyer pool

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Underwriting the New Normal

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can increase competition for desirable assets. For buyers, however, that demand adds another pressure to the pricing equation: higher financing costs can constrain what leveraged buyers are willing to pay, while greater competition for the best assets can push valuations in the opposite direction. Beyond lower entry valuations and more manageable transaction sizes, the middle market has also historically offered greater upside potential, supported by a broader opportunity set and more room for operational value creation.

Therein lies the paradox: the attributes drawing capital to the middle market can also begin to challenge the advantages investors came looking for. As competition grows, simply participating in the segment becomes less differentiating. Sourcing advantages, disciplined underwriting and clear paths to value creation matter even more when higher financing costs leave less room for error.

THE QUIET RECALIBRATION

There may be a longer-term benefit to the discipline this environment demands. An elevated cost of capital is not

stopping investment, but it is raising the threshold for what gets financed, what buyers are willing to pay and where sponsors are willing to stretch. That pressure will not in itself prevent another inventory buildup, but it may leave fewer investments dependent on leverage, multiple expansion or ideal exit conditions to make the math work. Perhaps this is less a market waiting for a reset and more so one quietly recalibrating toward something more sustainable.



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Modest Gains on Steady Ground

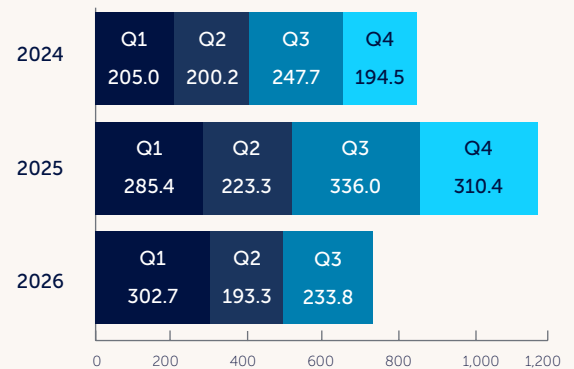
Against the recent memory of Q2, Q3 deal activity showed modest improvement. Estimated PE deal volume increased to 2,467 transactions, up nearly 6% QoQ and 8% YoY, while deal value rose almost 21% QoQ to \$233.8B – driven in large part by megadeals. Even with the upward movement, deal value remained 30% below Q3 2025 and almost 14% below 2025 levels YTD. ***Q3 deal activity reflects a market continuing to find ways to put capital to work, with sponsors remaining selective about deal size and structure.***

Despite the uptick in megadeals and their outsized impact on deal value, with 28 megadeals in Q3, up from 21 in Q2, totaling \$82.8B, add-ons remain the dominant deal approach, representing about three-quarters of all buyout activity. The preference for smaller transactions was also evident within the middle market: the latest lagging data showed activity shifting further down-market, with \$25M-\$100M deals being the only size cohort to grow in both count and value QoQ, including a more than 70% increase in deal value.

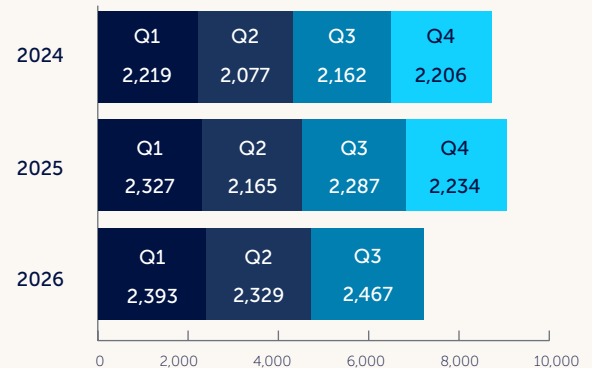
After a newsworthy H1 and the damning label of ‘SaaS-pocalypse’, software deal value rebounded 51% over Q2, even as deal count edged down 7%. In hindsight, the SaaS-pocalypse is increasingly looking like an industry repricing rather than a collapse, with activity concentrating in the business/productivity subsector, where sponsors anticipate greater insulation from AI disruption.

In isolation, Q3’s results may seem modest compared with the highs of 2025. But viewed over a longer horizon, they offer another data point in what is increasingly a steady-as-she-goes market, where adaptability continues to sustain activity.

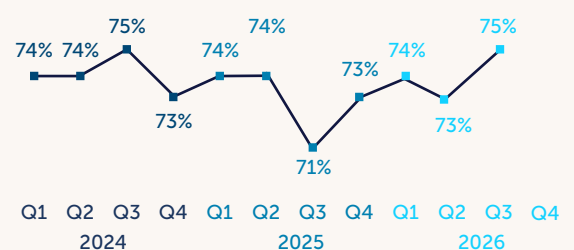
QUARTERLY PE DEAL ACTIVITY DEAL VALUE (\$B)



DEAL COUNT (#)



QUARTERLY PE ADD-ON ACTIVITY % OF DEAL COUNT



Source: Pitchbook Data, Inc., US PE Breakdown

The Liquidity Divide

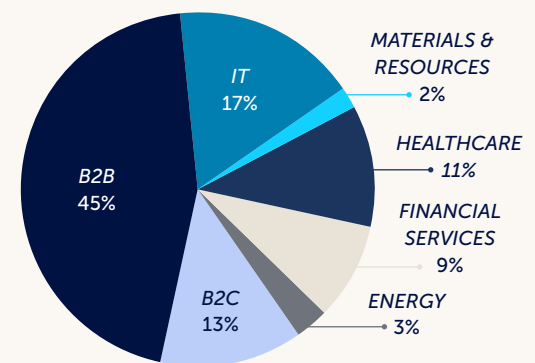
Q3 exit activity improved, but the headline results continue to be sustained by mega-exits rather than a broad-based recovery. 34 mega-exits accounted for almost 78% of Q3 exit value, helping drive total exit value to \$166B, up more than 50% QoQ and 54% YoY. Exit count also increased to 405, up 11% QoQ and 2% YoY. ***The concentration is even more pronounced YTD, with mega-exits representing nearly three-quarters of total exit value despite accounting for only about 7% of exits.***

While exit activity continues to favor larger, premium assets, the middle market faces its own set of headwinds. Elevated financing costs continued to weigh heavily on the middle market, widening the gap between buyer and seller valuation expectations and making smaller assets, particularly those below \$100M, more difficult to exit. Meanwhile, strategic acquirers leaned into larger, premium assets in Q3, accounting for more than half of exit value, up from roughly one-third in Q2, despite fewer transactions.

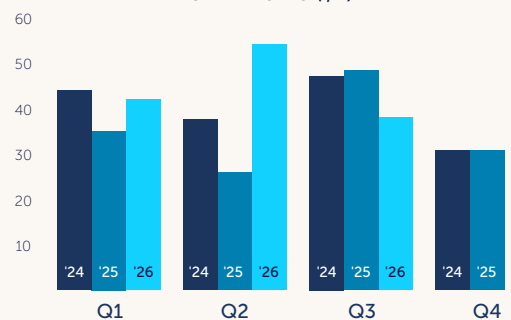
Fundraising reflects a similar divide. Through Q3, U.S. PE fundraising totaled \$222B across 348 funds and remains on pace to finish 2026 below recent years. Funds of \$1B or more captured over 83% of capital raised while representing only 15.5% of fund count, highlighting the continued concentration of LP capital. Middle-market fundraising followed the broader slowdown, declining 30% QoQ and 22% from Q3 2025. Even within the middle market, capital remained concentrated at the upper end, with the \$1B-\$5B fund-size bucket accounting for approximately 75% of Q3 fundraising. Taken together, the results point to a fundraising environment where capital remains available but continues to favor scale.

Because fundraising lags distributions, the effects of today's constrained exit liquidity will continue to weigh on capital raising even as other measures of market activity improve.

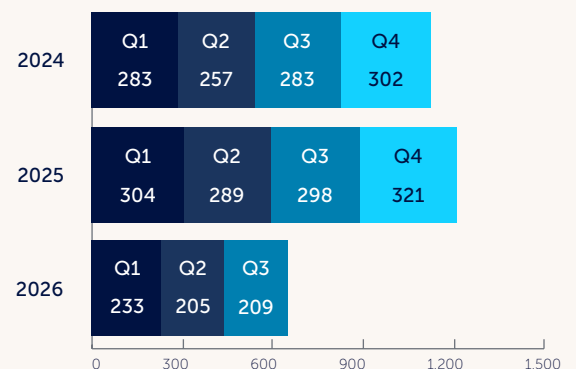
QUARTERLY PE DEALS BY SECTOR (#)



QUARTERLY PE MIDDLE MARKET ACTIVITY
MIDDLE MARKET FUNDRAISING (\$B)



MIDDLE MARKET EXITS (#)



Source: Pitchbook Data, Inc., US PE Breakdown



Private Equity Advisory **Solutions**

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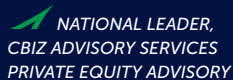
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