

HOULIHAN CAPITAL

Valuation & Financial Advisory | Investment Banking

M&A UPDATE
U.S. MICRO MIDDLE MARKET
Q1 2026

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1 EXECUTIVE SUMMARY:

Key Takeaway

M&A Activity

Volume and Pricing Improve Together

Valuation Multiples

Valuation Multiples

Sector Activity

Manufacturing Rebounds, Business Services Cools

Leverage

Senior Pricing Hits Lowest Level Since 202

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Who we are:

HOULIHAN CAPITAL is a boutique valuation and investment banking firm committed to delivering superior client value and thought leadership in an ever-changing landscape.

Micro Middle Market Overview:

Houlihan's Investment Banking group specializes in providing sell-side M&A advisory services to owners of privately held businesses within the Micro Middle Market ("MMM"), defined as those with total enterprise value ("TEV") below $150M.

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Data Source:

The data used in this report was primarily sourced from GF Data, using information provided by 400+ private equity firms on their recent transaction activity.



2 M&A OVERVIEW

Momentum Slows as the Market Finds Its Footing

Turning the Corner: Volume and Pricing Align in Q1 2026

Micro middle market M&A entered 2026 on firm footing. GF Data contributors reported 80 completed transactions over the course of Q1 at an average of 7.3x TTM EBITDA, marking the first quarter in five where deal volume and pricing moved simultaneously. While activity remains below the 2024 pace, the improvement shows a meaningful shift in financing conditions rather than a sudden increase in deal flow.

Mixed Valuation Trends: A Two Market Tale

Average valuations edged up to 7.3x TEV/EBITDA, above the 7.1x full-year 2025 average. However, platform pricing rose to 7.6x while add-on multiples declined to 6.5x, the largest spread observed over the past five years. Buyers continue to pay for scale and margin durability, while lower-quality and smaller assets face softer bid intensity.

M&A Volume: Recovering Slowly

Traditional buyouts reclaimed 86% of activity as leveraged recapitalizations slowed, returning control transactions to the center of price discovery. PE firms are pursuing platform acquisitions with favorable financing terms, while add-on activity rebounded in volume, but not in pricing. The two-speed dynamic is the defining feature of the current market.

Key Economic Factors Shaping Q1 2026

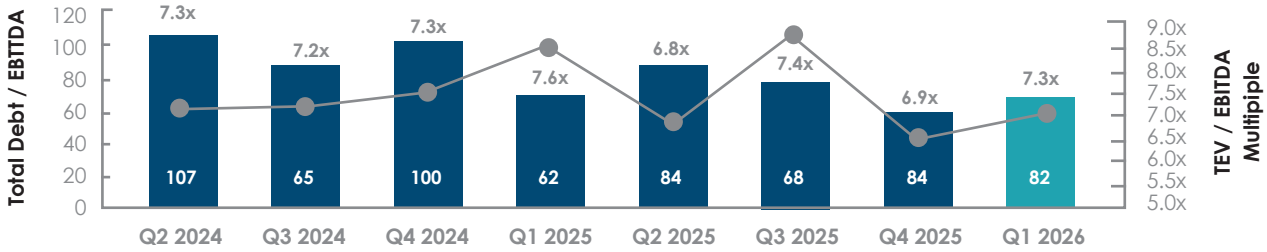
- Interest Rates: Financing sentiment has improved as senior debt pricing fell to 7.3%, the lowest since 2022, driven by renewed bank and BDC competition for deal flow.
- Lending Conditions: Platform leverage rose to 3.5x TTM EBITDA while smaller transactions continue to rely on Mezzanine capital.
- Tariff Uncertainty: Trade Policy volatility persists, though manufacturing activity rebounded sharply in Q1, suggesting acquirers are selectively re-engaging with industrial businesses at home.C





M & A TRANSATION OVERVIEW (1)

Source: GF Data



3 SECTOR BREAKDOWN

Resilient Sectors Shines a More Disciplined Market

Q1 2026 brought a meaningful reversal of the trends that defined 2025. Manufacturing led all major sectors on both volume and pricing, while Businesses Services cooled for the first time in three years. Valuation trends mirror this shift as Manufacturing rebounded to 7.2x, Businesses Services eased to 7.0x, Distribution slipped to 6.7x, and Healthcare held firm at 8.5x.

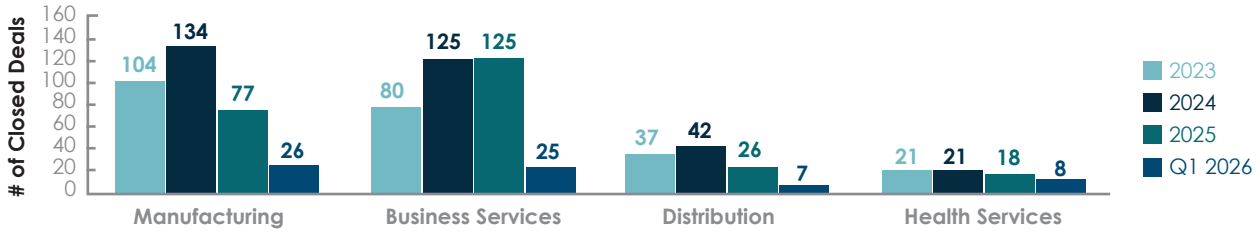
- **Healthcare Services:** Demand for scalable, recurring revenue platforms remains the strongest and most consistent across all sectors.
- **Manufacturing:** After being the most-avoided sector through 2025 under tariff and overall macro pressure, manufacturing is drawing interest from both sides of the table.
- **Business Services:** Larger, platform-grade business services assets continue to attract strong demand. Though, the softness reflects add-on pricing dynamics rather than a sector shift.
- **Distribution:** Buyer caution around margins, inventory, and diligence timelines continues to temper activity and deal counts.

Blue-collar trades like **facility and infrastructure services** remain active, backed by steady demand, solid cash flow, and fragmented markets ripe for consolidation. Overall, while sector leadership has rotated, high-quality, resilient companies across industries continue to draw strong buyer attention and stable valuations.



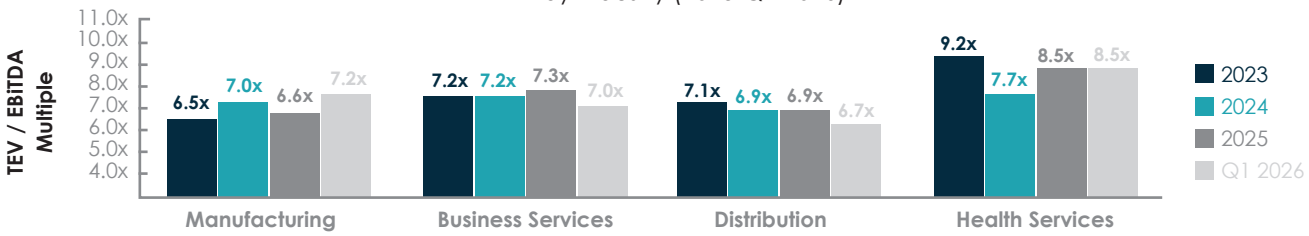
DEAL ACTIVITY

by Industry (2023-Q1 2026)



VALUATION TRENDS

by Industry (2023-Q1 2026)



4 DEBT

Cautious Credit Environment Favors Scale and Strength

Debt levels stepped up meaningfully in Q1 2026 as lenders re-engaged after two years of conservative underwriting. Total debt utilization on platform buyouts rose to 3.5x EBITDA, back to historical norms and up from 3.2x for full year 2025, while senior debt coverage on platforms climbed to 2.5x, the quickest jump in nearly two years.

Senior debt pricing fell sharply, averaging 7.3% across all deal sizes in Q1, down 80 basis points from Q4 2025 and the lowest since 2022. The decline was widespread, driven by competition among banks and BDCs seeking to deploy capital after a constrained 2025. Subordinated debt pricing ticked modestly higher to just under 12%.

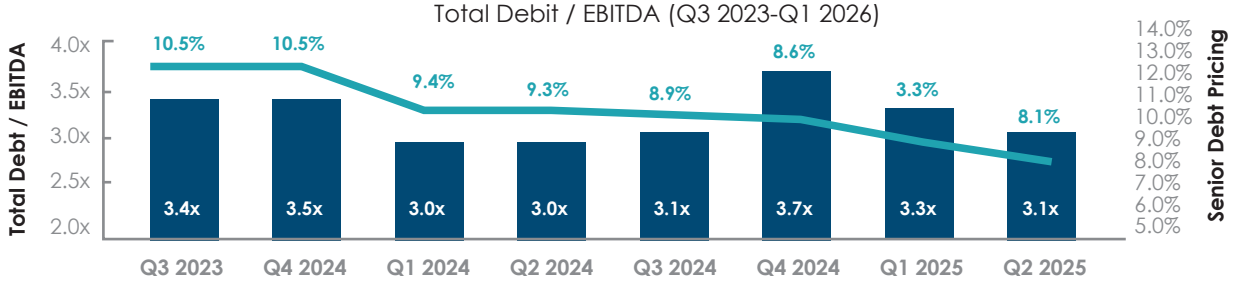
Capital structures are rebalancing toward debt for the first time in several years as equity contribution declined 3%, from 51.1% to 48.1% in 2025. Senior debt contribution rose to 43%, its highest level since 2021. On platform deals specifically, equity declined to 54.7% after a record high, with senior debt usage rising from a record low to 33.2%.

Overall, the two-speed market remains intact with larger, sponsor-backed platforms capturing the bulk of the improving financing environment while smaller transactions continue to face tighter senior capacity, higher relative costs, and heavier reliance on Mezzanine capital.



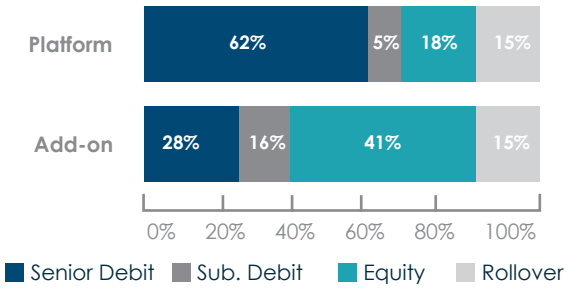
DEBIT MARKET TRENDS

Total Debt / EBITDA (Q3 2023-Q1 2026)



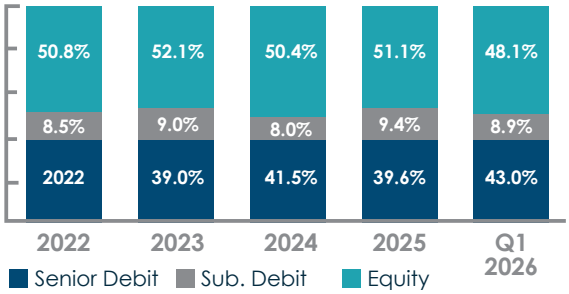
DEAL FINANCING BACKGROUND

Platform vs. Add-ons (2022-Q1 2026)



DEAL FINANCING BACKGROUND

Debit vs. Equity Breakdown (2022-Q1 2026)



5 BUYER SENTIMENT

Insights from Middle-Market Private Equity Executives

"Deal flow continues to strengthen, with increased sell-side pitch activity and heightened engagement around sponsor-owned assets. Competitive pressure remains significant, particularly in processes involving high-quality assets."

"M&A activity within healthcare and business services remains strong, with differentiated, service-focused businesses garnering the highest multiples and driving the most competitive processes. High-quality, proprietary assets are becoming increasingly scarce as more private equity firms and independent sponsors enter select industries such as facility services, pushing up multiples for platform-sized assets."

"While deal flow has been down over the course of 2025, we are still seeing strong value and competitive processes for quality assets in the middle market. Pitch activity is increasing, and we are seeing more momentum suggesting a strong start to 2026."



6 KEY TAKEAWAYS

What Q1 2026's Market Shift Means for Founders and Advisors

KEY INSIGHTS FOR BUSINESS OWNERS

- **Market is gaining momentum but remains selective.** Buyers are active and well-capitalized, with financing conditions improving and deal flow strengthening.
- **Valuations hold firm and are climbing.** Average multiples edged up to 7.3x TEV/EBITDA in Q1 2026, with platform-grade assets in defensible, recurring-revenue sectors trading at true premiums.
- **Preparation drives value.** Sellers who can clearly demonstrate scale, stable margins, and clean financials are best positioned as buyers focus on quality over quantity.
- **Sector spotlight: Manufacturing rebounds, Healthcare leads.** Manufacturing returned to favor in Q1 with the highest deal count in five quarters, while Healthcare platforms continue to command the strongest and most consistent pricing across all sectors.
- **Debt markets reward scale.** Smaller deals still face tighter leverage and higher costs, while sponsor-backed and larger transactions enjoy more favorable lending terms.

KEY INSIGHTS FOR ADVISORS AND INVESTORS

- **Disciplined optimism defines Q1 2026.** Volume and pricing rose together for the first time in five quarters, signaling a stronger deal environment.
- **Valuation recovery is real but unsteady.** Average TEV/EBITDA multiples moved to 7.3x, but the platform-to-add-on spread widened to 1.1x, the largest in recent memory, emphasizing the importance of transaction type and size.
- **Credit normalization is accelerating.** Senior pricing hit its lowest levels since 2022, platform leverage returned to historical norms at 3.5x, and equity contribution declined for the first time in several years.
- **Two-speed market remains the defining dynamic.** Lenders favor larger, sponsor-backed platforms with strong cash flow visibility, while smaller independent deals face tighter terms and more mezzanine capital.
- **Sector rotation begins.** Manufacturing led all sectors with a rebound to 7.2x while Business Services cooled to 7.0x, opposite of 2025's narrative and a clear signal that sector positioning matters more than ever.



7 HOULIHAN CAPITAL

Investment Banking Leadership

Houlihan Capital's Investment Banking group offers an integrated advisory approach that draws upon our strategic and technical expertise, industry knowledge, transactional and financing experience, and expansive network of institutional and private investors to guide shareholders and management teams. We understand the time sensitivity of many of our assignments and work diligently to meet these demands while minimizing operational disruption, allowing clients to focus on their business.

Our team works with businesses across all major industries with an enterprise value greater than $5.0 million and EBITDA between $1.0 million and $20.0 million. Many businesses of this size have a unique story to tell, and we are committed to structuring a tailored approach to assist clients in achieving their strategic, financial, and risk-management objectives.

Our investment banking professionals function as an extension of our client's management team, providing specialized transaction advisory support derived from years of hands-on experience. Our clients can stay focused on running their business while Houlihan runs a successful sale process.

To find out more about how Houlihan can assist in the deal process, please contact one of the following members from our team:



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