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PRIVATE EQUITY NEWSLETTER

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2025 US PE MIDDLE MARKET

Broadening Activity, Exit Overhang, and Execution Shape Returns

Contents

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry.

Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

Fundraising Challenges | Expected Dealmaking Revival | IPO Exit Opportunities

Feature Article

US PE MIDDLE MARKET:

Stability Masked Structural Shifts in 2025

The US PE middle market reflects stable activity, with dealmaking broadening and exits improving through greater participation, even as backlog continues to temper the pace of full recovery. Moreover, returns are increasingly shaped by execution and the ability to navigate a more selective and uneven market environment.

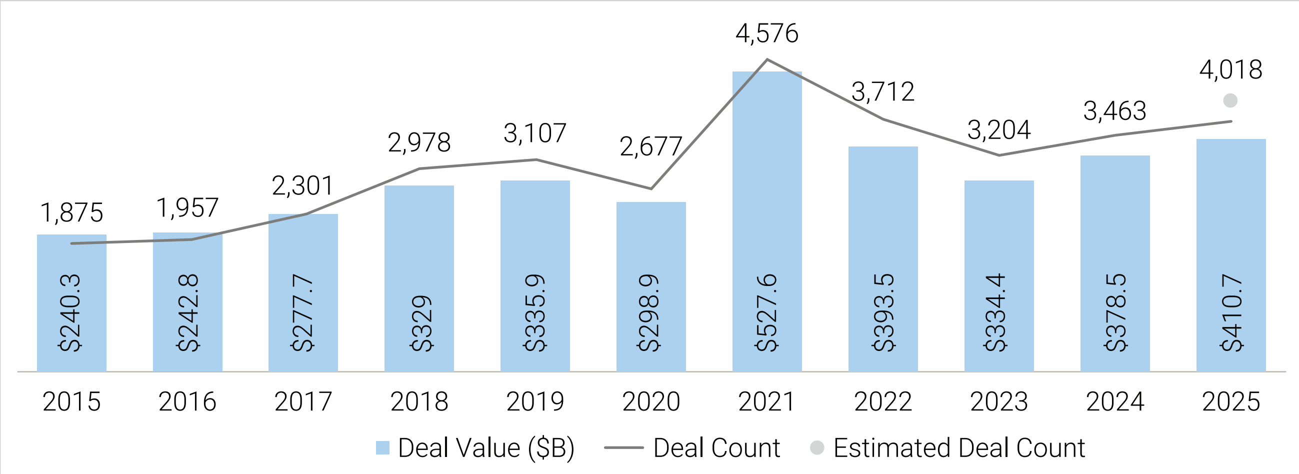
The US PE middle market has moved past recovery into a structural reset, where stability masks shifts in capital access and return drivers. For investors, outcomes will depend on manager capability and asset selection rather than market tailwinds.

The US PE middle market entered 2025 with improving momentum, supported by stronger deal activity and improving financing conditions. At a headline level, the market appears stable after disruption. Transaction volumes increased, and valuations settled into a balanced range. However, this is not a return to prior cycles. Beneath stable aggregates, shifts in deal composition and value creation strategies are reshaping the market, reflecting increasing divergence in outcomes.

Deal Activity Broadens Amid Downmarket Shift

The middle market extended its recovery in 2025, with deal value rising to $410.7 billion and transaction count reaching an estimated 4,018 deals, reflecting 16% YoY increase, as per PitchBook. Activity strengthened through the year, supported by improving sentiment and liquidity, with closing timelines becoming more efficient. These trends indicate a market that has regained momentum and is capable of sustaining deal flow.

Figure 1: US PE Middle Market Activity



Source: PitchBook, data as of December 31, 2025

Yet the composition of that activity reveals a shift in momentum. Growth has been driven by an increase in smaller transactions rather than expansion in average deal size, pointing to a broader but less concentrated deployment environment. Participation is rising, but capital is spreading across opportunities. This dynamic suggests a market that is active but increasingly selective, where scale and conviction are not evenly distributed.

Exit Recovery Strengthens, Inventory Overhang Persists

Exit activity in the middle market showed improvement in 2025, with approximately 1,022 transactions generating $140.4 billion in value, as per PitchBook. This recovery was driven by an increase in exit count rather than reliance on a limited number of large transactions, indicating a reopening of liquidity channels. Sponsor-to-sponsor transactions accounted for a majority share of exit value, reflecting continued engagement from financial buyers as strategic participation remained cautious.

Despite this progress, the exit environment remains constrained by structural overhang. More than 6,000 PE-backed companies are still held in portfolios, with median holding periods extending to 6.4 years. This backlog continues to limit distributions, keeping realized returns below expectations. While the direction is positive, the current level of exit activity is insufficient to normalize liquidity, maintaining pressure on fund performance and capital recycling.

Valuations Stabilize Amid Shifting Supply Dynamics

Valuations across the middle market demonstrated stability in 2025, with global trailing 12-month median EV/EBITDA multiples moderating to 10.8x, down from elevated levels seen earlier, as per PitchBook. This normalization reflects a recalibration in pricing expectations, as buyers maintain price discipline while sellers adjust to a less aggressive valuation environment. The result is a market that appears balanced, with no signs of overheating or distress.

However, this stability is underpinned by shifting supply dynamics. A large cohort of longer-held and lower-margin assets is expected to come to market, increasing pressure on pricing. At the same time, sector-level differences are becoming more pronounced, with capital rotating toward resilient areas. As a result, headline valuation metrics provide only a partial view, with pricing outcomes tied to asset quality and positioning rather than broad trends.

Financing Conditions Drive Segment-Level Divergence

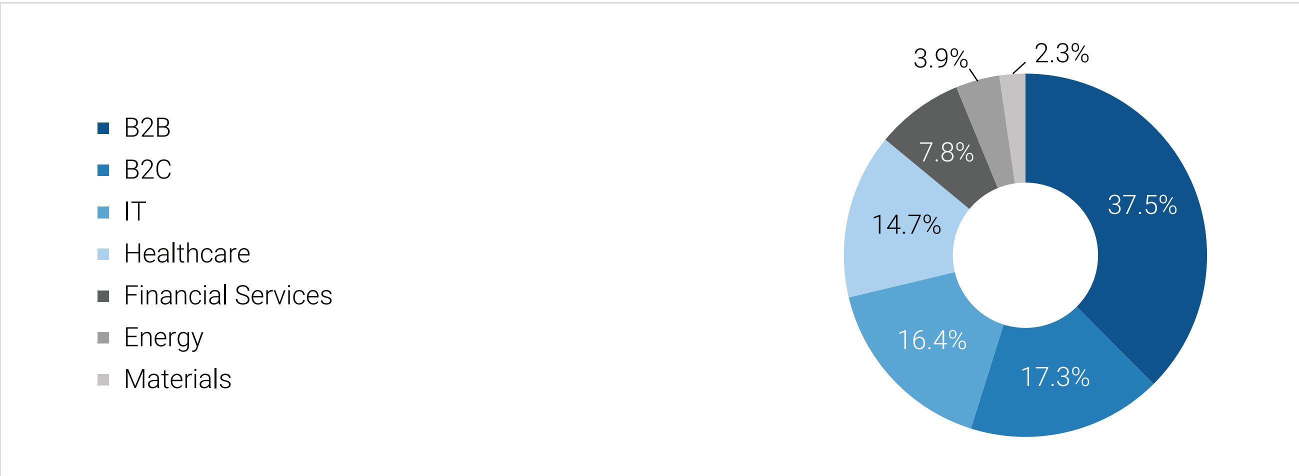
Financing conditions improved over 2025, with greater availability of credit and competitive lending environments supporting deal execution, particularly for larger transactions. According to E78 Partners, the spread between broadly syndicated loans and direct lending compressed to 145 basis points, while a growing share of loans cleared at tighter pricing. This shift enabled assets to secure capital efficiently and supported activity at the upper end.

At the same time, these conditions introduced a divide across deal segments. Transactions in the $100 million to $250 million range declined, highlighting pressure on mid-tier assets that struggled to compete for capital. Positioned between smaller add-on deals and larger transactions with preferential financing access, this segment reflects an uneven market. Capital is increasingly concentrated around scale and credit quality.

Operational Execution Becomes The Primary Return Driver

As valuation expansion moderates and financing advantages narrow, PE firms are placing greater emphasis on operational value creation. This shift is evident in sector dynamics, where B2B services accounted for 37.5% of total deal activity and remained the most active segment, supported by recurring revenue models and margin resilience, as per E78 Partners. Investors are prioritizing assets with defensible cash flows and clear pathways to improvement.

Figure 2: PE Middle-Market Deals by Sector



Source: E78 Partners, data as of December 31, 2025

Technology-driven transformation is becoming central to this approach, particularly in areas such as AI integration, cybersecurity, and data-led efficiency improvements. In the IT sector alone, 561 deals were recorded, reflecting investor focus on scalable, technology-enabled platforms. This evolution underscores a broader shift in the middle-market playbook, where returns are driven more by execution.

Conclusion

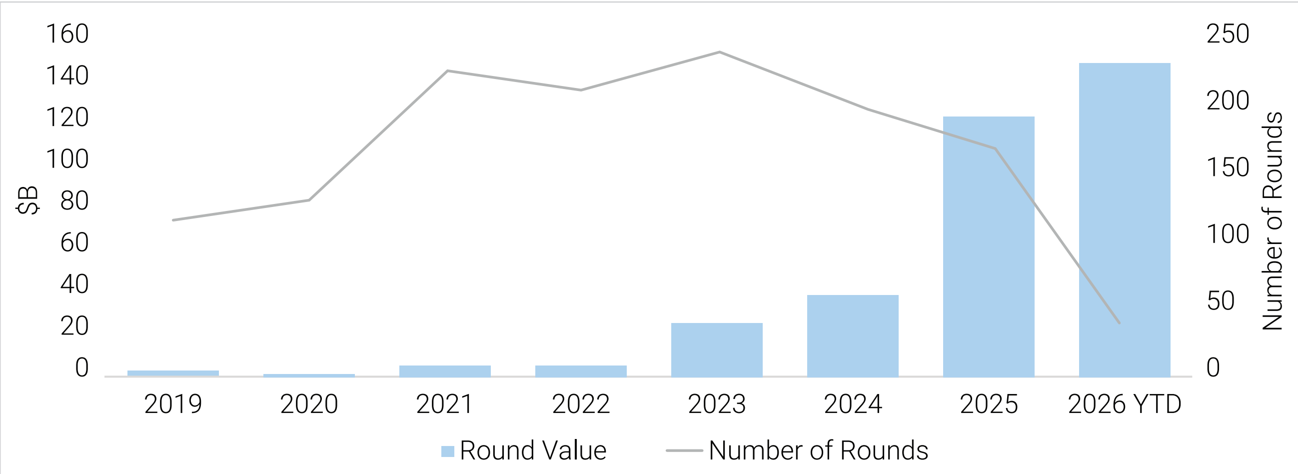
The US PE middle market is no longer defined by recovery but by transition. While activity levels, exits, and valuations point to a stable environment, the underlying structure of the market has evolved, with capital becoming more selective and execution playing a larger role in outcomes. For investors, this shift places greater emphasis on manager selection and asset quality, as broad market exposure alone is unlikely to deliver consistent returns.

Monthly News and Analysis

GenAI Funding Surges to Record Levels in 1Q26

Generative AI (GenAI) startups attracted a record $145 billion in VC funding in 1Q26. The surge marks the strongest quarter on record globally, reflecting sustained investor focus on AI infrastructure and platform-layer innovation, as per S&P Global Market.

Figure 3: GenAI Application Fundraising Over the Years



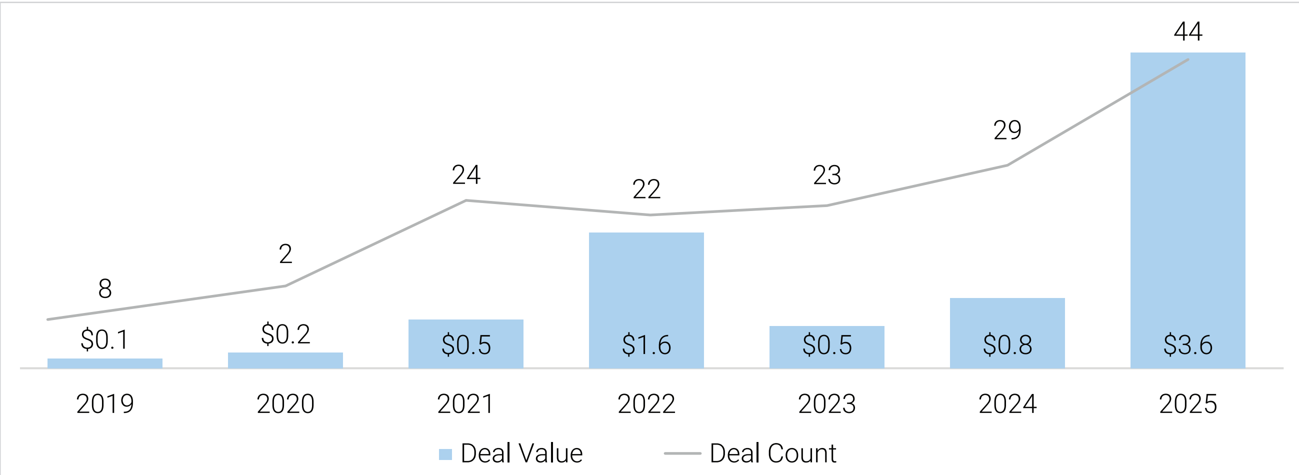
Source: S&P Global, data as of March 31, 2026

The scale and concentration of GenAI funding signal a structural shift in VC allocation toward platform-defining opportunities. OpenAI's $122 billion round and xAI's $20 billion raise together account for nearly the entire capital deployed in the quarter, representing close to 98% of total funding and underscoring how capital is consolidating around a handful of dominant players, as per PitchBook. Investors are increasingly prioritizing foundation model developers with the potential to control core AI infrastructure, rather than spreading capital across a broader set of startups. The dominance of these mega-rounds reflects the capital intensity required to build competitive models and the growing importance of compute, proprietary data, and ecosystem partnerships as barriers to entry. This dynamic is also distorting venture signals, where overall funding trends appear volatile due to the outsized impact of a few transactions, making QoQ comparisons less reflective of underlying activity. At the same time, newer entrants are finding it harder to differentiate against scaled incumbents, reinforcing a highly concentrated market structure. As leading GenAI players move closer to commercialization and potential public listings, capital is expected to remain concentrated around a limited set of scaled platforms with strong enterprise adoption and monetization visibility. For investors, the opportunity set in AI is becoming narrower but deeper, with returns increasingly tied to backing category leaders early rather than pursuing fragmented exposure across emerging applications and less proven, capital-constrained startups.

Nuclear Fission VC Deals Surge on AI-Driven Energy Demand

VC investment in nuclear fission startups reached a record $3.6 billion in 2025, more than double its 2022 peak, driven by accelerating US power demand and hyperscaler-led data center expansion. Median pre-money valuations rose sharply to $106 million from $36.9 million in 2024, as per PitchBook.

Figure 4: Global Nuclear Fission Tech VC Deal Activity



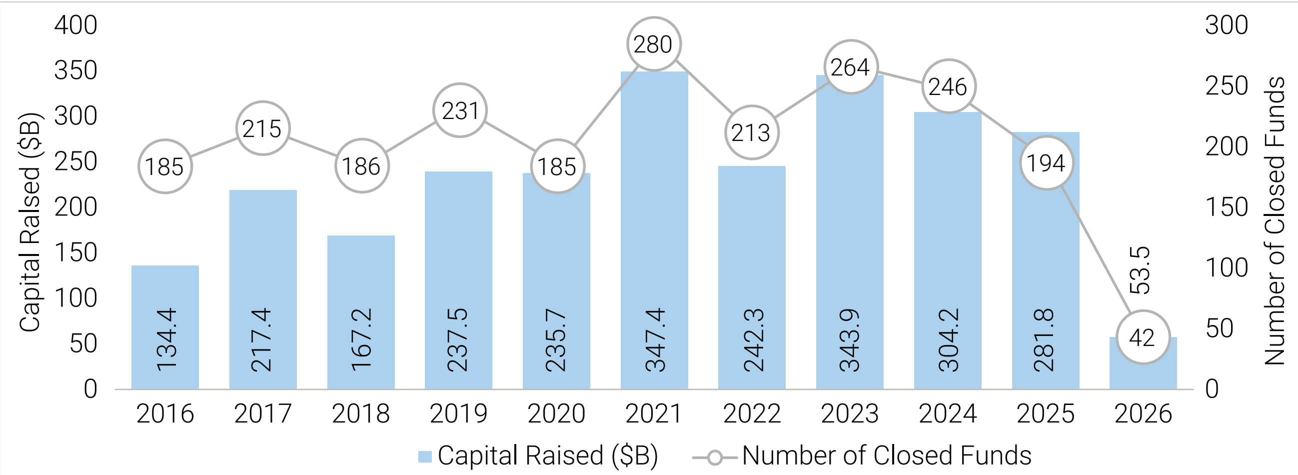
Source: PitchBook, data as of December 31, 2025

The sharp rise in nuclear fission investment reflects a structural shift in how investors are underwriting energy infrastructure in an AI-led demand cycle. No longer passive consumers, hyperscalers are now actively securing long-duration, reliable energy sources to support data center buildouts. This has elevated nuclear, particularly small modular reactors (SMRs), from a niche climate tech segment to a strategic energy solution. Compared to other next-generation energy technologies, SMRs offer a clearer commercialization pathway, with expected deployment timelines in the early 2030s and modular scalability aligning well with phased data center expansion. This visibility is translating into higher valuations and concentrated capital allocation, as seen in large rounds such as X-energy's $700 million Series D and Radiant Nuclear's $465 million funding to scale production. The divergence within nuclear is equally telling. While fusion remains capital-intensive with long-dated and uncertain outcomes, fission is attracting near- to mid-term capital due to its execution feasibility. Policy support is further reinforcing this trend, with the US government backing for reactor development and uranium supply chains reducing regulatory and input risks. For investors, nuclear fission is increasingly being positioned alongside grid infrastructure and energy storage as a critical enabler of AI-driven economic expansion, rather than a purely climate-focused bet, with growing institutional participation and strategic partnerships further reinforcing long-term capital commitment to the segment.

Global Middle-Market PE Fundraising Declines as Exit Pressure Persists

Global middle-market PE fundraising declined for a second consecutive year in 2025, with total capital raised falling 7% to $281.8 billion and fund count dropping to 194 from 246 in 2024, as per With Intelligence data. The slowdown reflects continued pressure from a weak exit environment despite a modest rise in deal count.

Figure 5: Global Middle Market PE Fundraising Trends



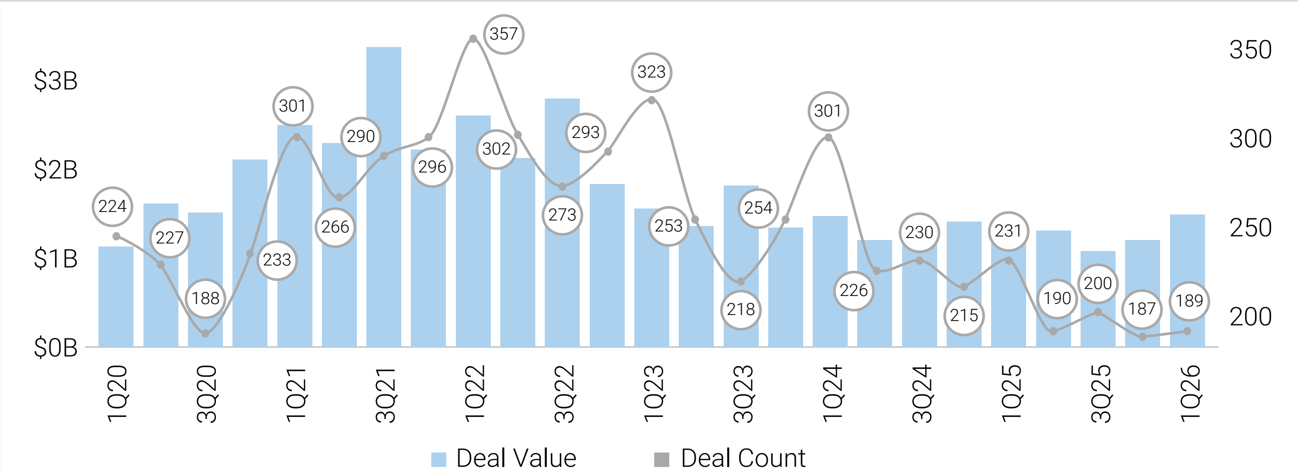
Source: S&P Global, data as of March 17, 2026

The decline in middle-market fundraising highlights a deeper liquidity constraint shaping PE markets. While exit volumes showed a marginal increase, the sharp drop in exit value signals continued valuation resets, limiting distributions back to LPs and restricting their ability to recommit capital. This has shifted LP behavior toward larger, established managers with consistent realization track records, leaving middle-market funds competing for a smaller pool of available capital. The concentration of capital in fewer, larger vehicles reinforces this trend, as seen with Veritas Capital's $14.4 billion fundraise and Thoma Bravo's continued dominance in software-focused buyouts, alongside Great Hill Partners securing $7 billion for its latest growth-oriented vehicle. At the same time, middle-market strategies remain fundamentally attractive due to operational value creation and sector specialization, particularly in software, healthcare, and business services. However, the current cycle is exposing dispersion within the segment, where only top-quartile managers are able to raise capital efficiently. The expected recovery in exits through IPOs and sponsor-to-sponsor transactions will gradually ease liquidity constraints. However, the pace of recovery is likely to remain measured rather than broad-based across regions and sectors, with timelines still extending for many aging portfolio companies. As a result, 2026 is set to act as a filtering cycle, where underperforming managers struggle to raise successive funds while capital continues to consolidate around scaled platforms with proven execution.

Agtech VC Investment Rebounds on Dual-Use Tech and Robotics Demand

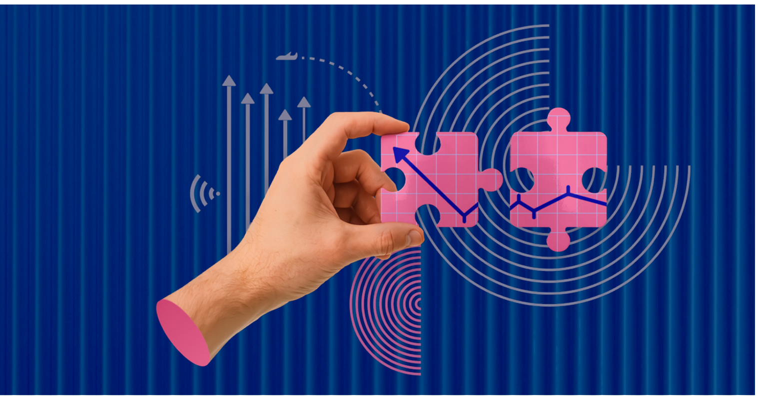
Global VC investment in agricultural technology (agtech) reached $1.5 billion in 1Q26, marking the second consecutive quarterly increase and a 25% rise from 4Q25, as per PitchBook. The uptick reflects a gradual recovery after a sharp decline from the sector's 2021 peak of $10.2 billion.

Figure 6: Global VC Investment In Agtech Startups



Source: PitchBook, data as of April 1, 2026

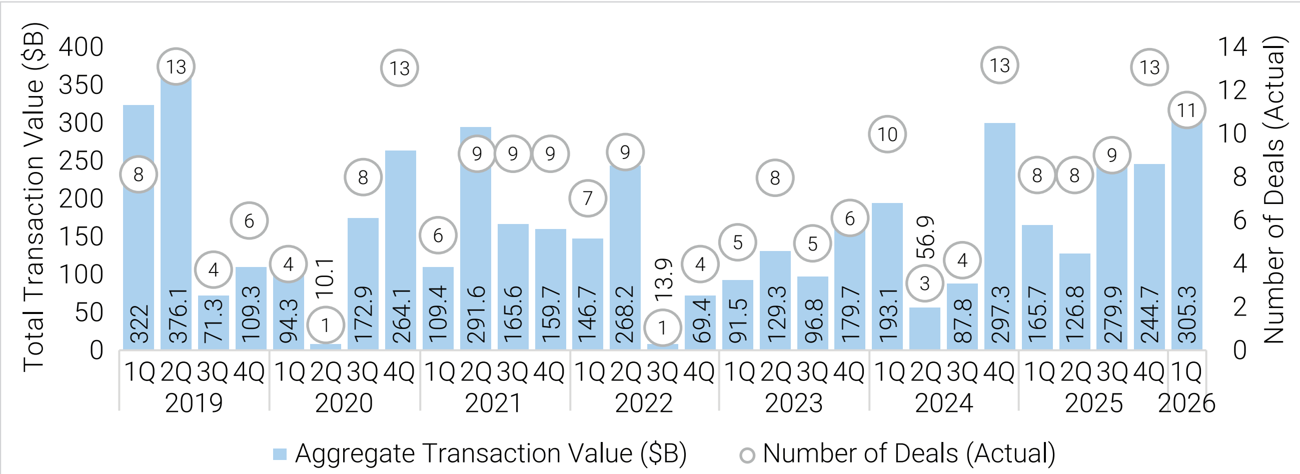
The recovery in agtech investment reflects a repositioning of the sector within broader strategic and industrial priorities rather than a full cyclical rebound. Capital is increasingly flowing toward dual-use technologies that straddle agriculture and defense, expanding addressable markets and improving commercial viability. Companies such as Quantum Systems and ICEYE demonstrate how capabilities in drones and satellite imaging will likely serve both military intelligence and agricultural optimization, allowing investors to underwrite growth beyond traditional farming use cases while benefiting from diversified revenue streams and stronger demand visibility. This dual applicability is particularly relevant as food security becomes more tightly linked with national security and supply chain resilience. At the same time, structural labor shortages and an aging farmer base across developed markets are accelerating demand for automation, driving investment into robotics and autonomous farming solutions that reduce dependence on manual labor and improve productivity. This is reinforcing agtech's alignment with broader industrial automation trends seen across manufacturing and logistics. AI is further strengthening the investment case, with applications ranging from weather analytics to precision agriculture, improving yield predictability and cost efficiency while enabling data-driven decision-making across farming operations. Regional capital flows are also shifting, with Europe gaining share as local funds scale deployment into the sector. For investors, agtech is evolving from a niche climate-focused category into a multi-theme investment opportunity spanning defense, automation, and AI, supporting a more durable and diversified capital inflow trajectory.



Large-Cap Deals Drive M&A Value to Multi-Year High in 1Q

Global M&A activity saw a surge in large transactions in 1Q, with 11 deals exceeding $10 billion and total transaction value reaching $305.3 billion, the highest since 2Q19, as per S&P Global Market. March alone accounted for four mega-deals worth nearly $99 billion.

Figure 7: Large-Cap Deals Announced Over the Years



Source: S&P Global, data as of March 31, 2026

The spike in transaction value reflects a near-term acceleration in the large-cap dealmaking rather than a broad-based recovery in M&A activity. Strategic and financial buyers are selectively pursuing scale-driven transactions in sectors tied to long-term demand visibility, particularly energy, infrastructure, and insurance. The proposed acquisition of AES Corp by a BlackRock-backed investor group underscores how power assets are emerging as critical infrastructure in an AI-driven economy, where data center expansion is directly influencing capital allocation decisions and driving urgency around securing a reliable energy supply. Similarly, Zurich Insurance's acquisition of Beazley highlights continued consolidation within insurance, as firms seek underwriting scale and product diversification to navigate evolving risk environments and improve capital efficiency. The clustering of large transactions within a single month signals improving boardroom confidence, but also reflects a backlog of delayed deals now coming to market as valuation expectations stabilize and financing markets show early signs of easing. Large strategic combinations such as Sysco's planned acquisition of Jetro Restaurant Depot further highlight consolidation across supply chains and distribution platforms. At the same time, deal activity remains uneven beneath the surface, with mid-market and sponsor-led transactions still constrained by financing costs and exit uncertainty, limiting broader participation across deal segments. For investors, the current M&A environment is increasingly bifurcated, where capital is flowing toward high-conviction, sector-specific opportunities while broader deal activity continues to lag, reinforcing a selective recovery rather than a full-cycle rebound.

ECP to Acquire Energy Solutions from TriArtisan Capital Advisors

Energy Capital Partners (ECP), a New Jersey-based PE firm, will acquire Energy Solutions, a Utah-based nuclear energy solutions provider, from TriArtisan Capital Advisors, a New York-based PE firm. Founded in 1987, Energy Solutions provides nuclear waste management services, including safe transportation, processing, recycling, and disposal of radiological material. This deal will allow Energy Solutions to accelerate its long-term strategy, build on its nuclear-sector offerings, and continue investing in its people and capabilities. Further, it will enable ECP to support a platform with deep expertise in nuclear lifecycle services amid rising demand for reliable baseload power.

Gamut Capital to Acquire Acousti Engineering from Ardian

Gamut Capital Management, a New York-based PE firm, has acquired Acousti Engineering Company, a Florida-based specialty interiors contractor, from Ardian, a France-based PE firm. Founded in 1946, Acousti provides ceiling, drywall, and flooring solutions for institutional and commercial customers. This deal will allow Acousti to expand into new geographies, execute a disciplined acquisition strategy, and strengthen customer and supplier relationships as it enters its next phase of growth. Further, it will enable Gamut Capital to support organic growth and targeted M&A to expand Acousti's geographic footprint and service capabilities.

Northern Shore Acquires Majority Stake in TCP

Northern Shore Capital, a Michigan-based PE firm, has acquired a majority stake in Texas Coffee Partners (TCP), a Texas-based franchisee of 7 Brew. TCP produces roasted beverage products and operates in 15 locations across Houston, San Antonio, and Austin. This deal will allow TCP to accelerate expansion across Texas through new store openings and same-store growth, leveraging operational expertise and real estate capabilities effectively. Further, it will enable Northern Shore to invest in and scale a high-growth consumer platform aligned with its sector-focused strategy.

TruArc Acquires Matrix Adhesives from Goldner Hawn

TruArc Partners, a New York-based PE firm, has acquired Matrix Adhesives Group, an Ohio-based manufacturer of adhesive and sealant products, from Goldner Hawn, a Minnesota-based PE firm. Founded in 2021, Matrix Adhesives offers a broad range of products for solutions for renovation and construction, industrial, commercial, and specialty applications. This deal will allow Matrix Adhesives to expand product offerings, end markets, and customers while strengthening capabilities, driving innovation, and pursuing strategic acquisitions. Further, it will enable TruArc to accelerate growth by leveraging its specialty manufacturing investment experience and partnerships.

Chimney Rock Equity Acquires UEC from Albion River

Chimney Rock Equity Partners, an Austin-based PE firm, has acquired United Electronics Company (UEC), a South Carolina-based electronics design and manufacturing company, from Albion River, a New York-based PE investment firm. Founded in 1995, UEC provides mission-critical products across the defense, aerospace, and other industrial end markets. This deal will allow UEC to scale through expanded customer relationships, strategic acquisitions, and further investment in capabilities, people, and technical expertise. Further, it will enable Chimney Rock Equity to build a high-reliability, engineering-driven platform delivering enhanced value.

Southfield Capital Takes Majority Stake in Metric

Southfield Capital, a Connecticut-based PE firm, has made a majority investment in Metric Search, a New York-based specialist executive search and talent solutions firm. Founded in 2019, Metric provides talent solutions and human capital placement services for niche markets, including Medtech, life sciences, engineering, and data centers. This deal will allow Metric to continue executing its ambitious growth strategy, expand its service offerings, and capitalize on emerging labor-market imbalances. Further, it will enable Southfield Capital to support organic and inorganic growth and help scale Metric's specialist executive search platform globally.

One Equity Partners Acquires Kitwave

One Equity Partners, a New York-based PE firm, has acquired Kitwave Group, a UK-based distributor of food and beverage wholesale products. Founded in 1987, Kitwave distributes food, drinks, and other consumables to foodservice and retail customers in the UK. This deal will allow Kitwave to continue developing its platform, investing in its business, and building on the service it delivers to customers nationwide. Further, it will enable One Equity to partner with management, support future M&A-driven growth, and create long-term value across Kitwave's wholesale distribution platform.

CORE Industrial Exits PrecisionX to Windjammer

CORE Industrial Partners, an Illinois-based PE firm, has sold PrecisionX Group, a Connecticut-based provider of precision metal components, to Windjammer Capital, a California-based PE firm. Founded in 1950, PrecisionX provides high-precision metal components for critical use applications in aerospace and defense, medical devices, and satellite and space. This deal will allow PrecisionX to continue its track record of growth as a scaled provider of highly engineered precision components. Further, it will enable CORE Industrial to validate its thesis-driven industrial approach and support families and entrepreneurs through strategic focus.

TA Associates Invests in iBase-t

TA Associates, a Massachusetts-based PE firm, has invested in iBase-t, a California-based provider of manufacturing operations management software. Founded in 1986, iBase-t provides cloud software for the aerospace and defense manufacturers. This deal will allow iBase-t to accelerate innovation, expand its AI capabilities, and embed intelligent automation across workflows to help customers meet digital manufacturing and compliance requirements. Further, it will enable TA to support product development, commercial effectiveness, and iBase-t's leadership in digital manufacturing and sustainment solutions across the aerospace and defense industry.

Sterling Investment Acquires Cyber Advisors

Sterling Investment Partners, a Connecticut-based PE firm, has acquired Cyber Advisors, a Minnesota-based provider of cybersecurity and managed IT services. Founded in 1997, Cyber Advisors provides managed security services, cybersecurity consulting, and technology solutions to SMB, mid-market, and enterprise clients across industries. This deal will allow Cyber Advisors to further strengthen its scale, capabilities, and product offerings so it can continue delivering high-quality IT and cybersecurity solutions. Further, it will enable Sterling Investments to leverage its resources and industry expertise to support the company's next phase of growth.

TRENDS AND STATS

March Middle-Market Deal Summary

49.1%

of the deals were made in the Business Products and Services (B2B) sector.

70.4%

of B2B deals were in Commercial Services.

18.6%

of the deals were in IT.

68.3%

of IT deals were in Software.

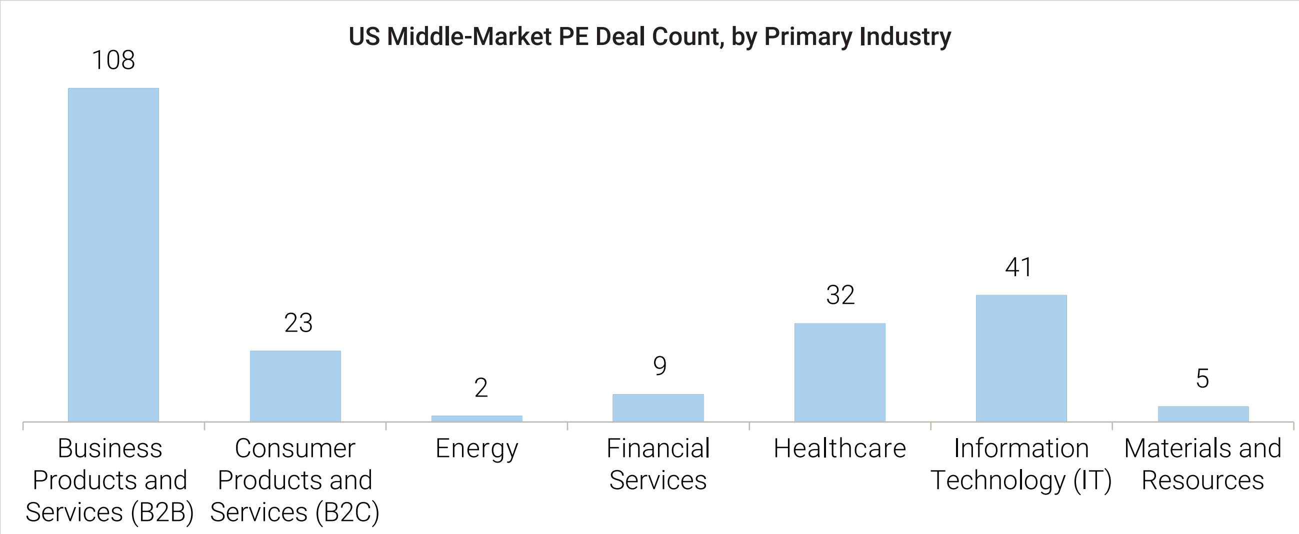
Texas

experienced the highest dealmaking activity, followed by California.

73.3%

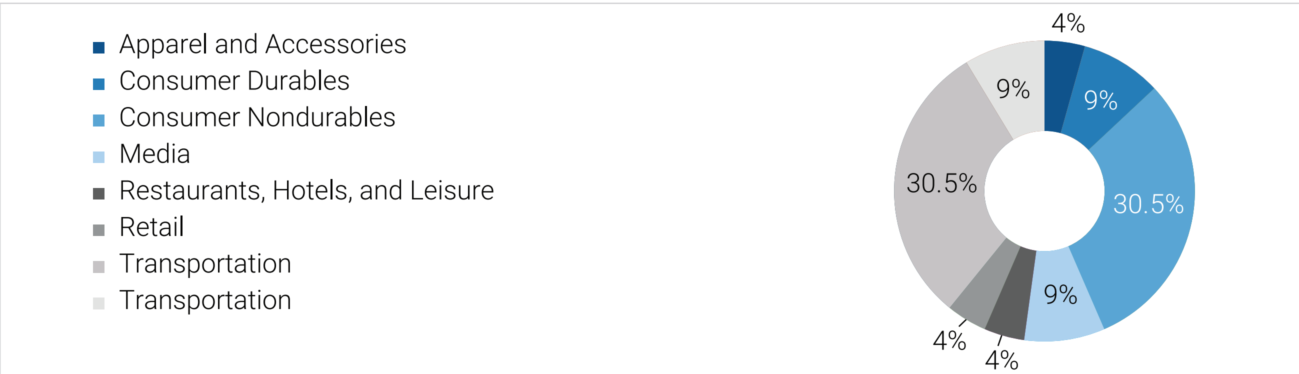
of the deals were buyouts.

Figure 8: March 2026 Middle-Market Deal Summary



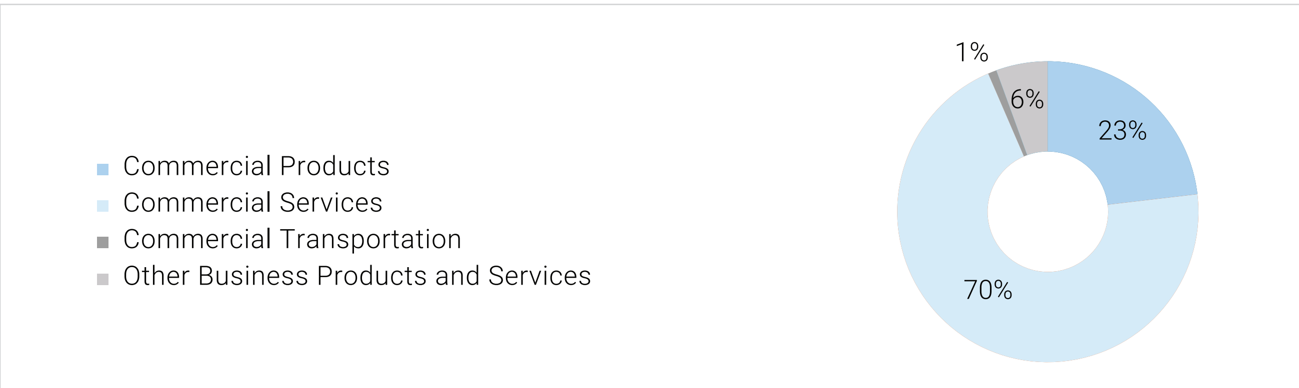
Source: SG Analytics Research

Figure 9: Share of Consumer Products and Services



Source: SG Analytics Research

Figure 10: Share of Business Products and Services

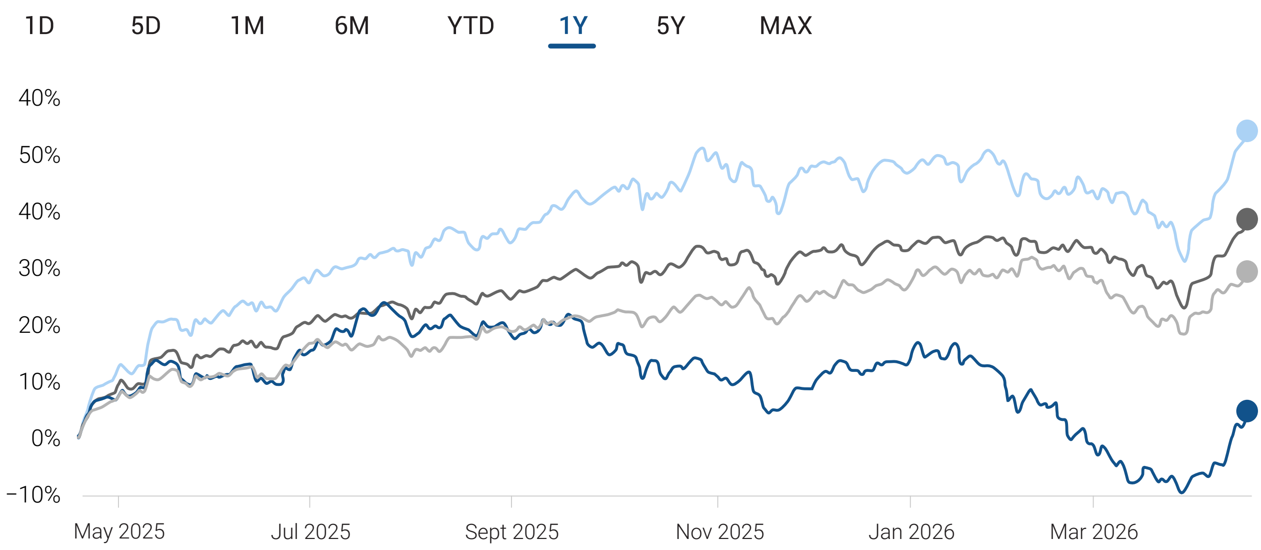


Source: SG Analytics Research

Note: This dataset specifically targets investor fund preferences within the $2–8 million EBITDA range. It is important to note that the summary focuses solely on these investor preferences and does not include details related to deal sizes.

S&P-Listed Private-Equity Index

Figure 11: S&P-Listed Private-Equity Index

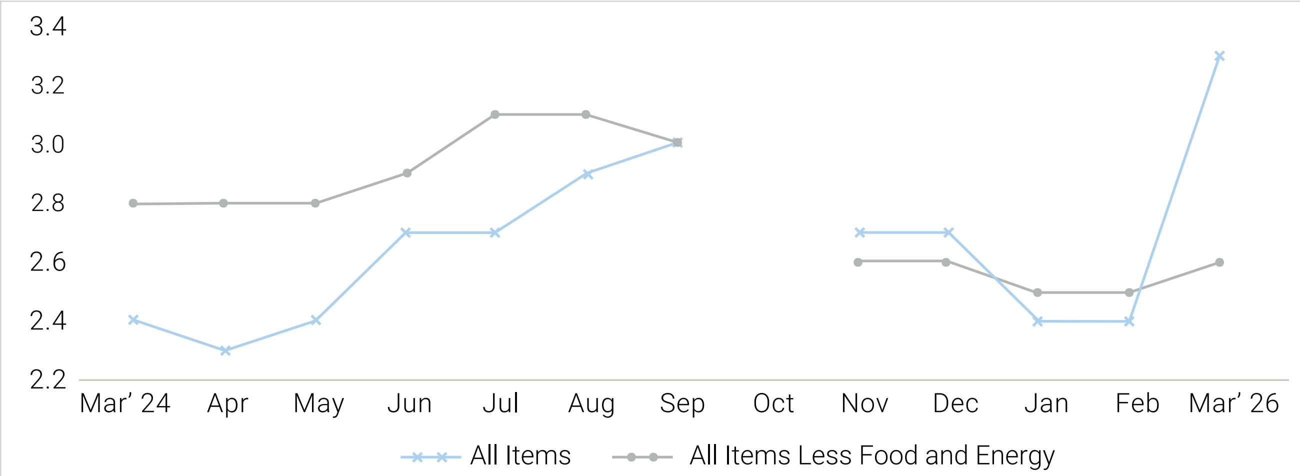


S&P–Listed Private–Equity Index	232.9	+9.7	↑ 4.4%
S&P 500	7,126.1	+1,967.9	↑ 38.2%
Nasdaq Composite	24,468.5	+8,597.6	↑ 54.2%
Dow Jones Industrial Average	49,447.4	+11,277	↑ 29.5%

Note: Data as of April 17, 2026

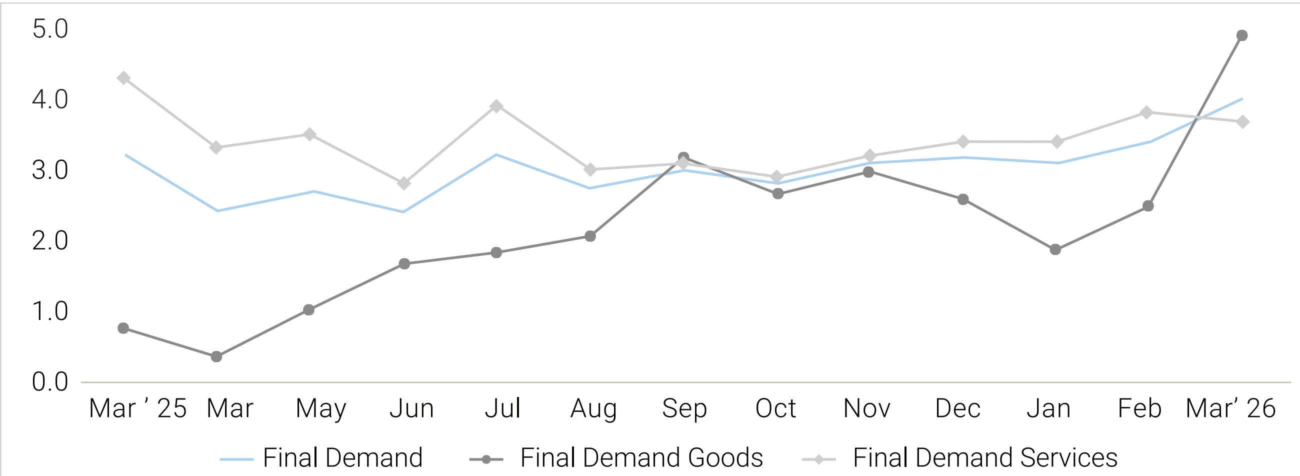
Index	Month-over-Month	YTD
Consumer Price Index (CPI)	0.9%	3.3%
Producer Price Index (PPI)	0.5%	4%

Figure 12: 12-Month Percent Change in CPI for All Urban Consumers (Not Seasonally Adjusted)



Source: US Bureau of Labor Statistics

Figure 13: 12-Month Percent Change in Selected PPI Final Demand Price Indexes (Not Seasonally Adjusted)



Source: US Bureau of Labor Statistics

Upcoming Events

14th Private Equity New York Forum	May 13, 2026	225 Liberty Street New York, NY, 10281
Alpha Edge North America	May 13–14, 2026	The Ritz-Carlton, Fort Lauderdale, FL 33304
M&A West 2026	May 27–29, 2026	Meritage Resort & Spa, 875 Bordeaux Way, Napa, CA 94558

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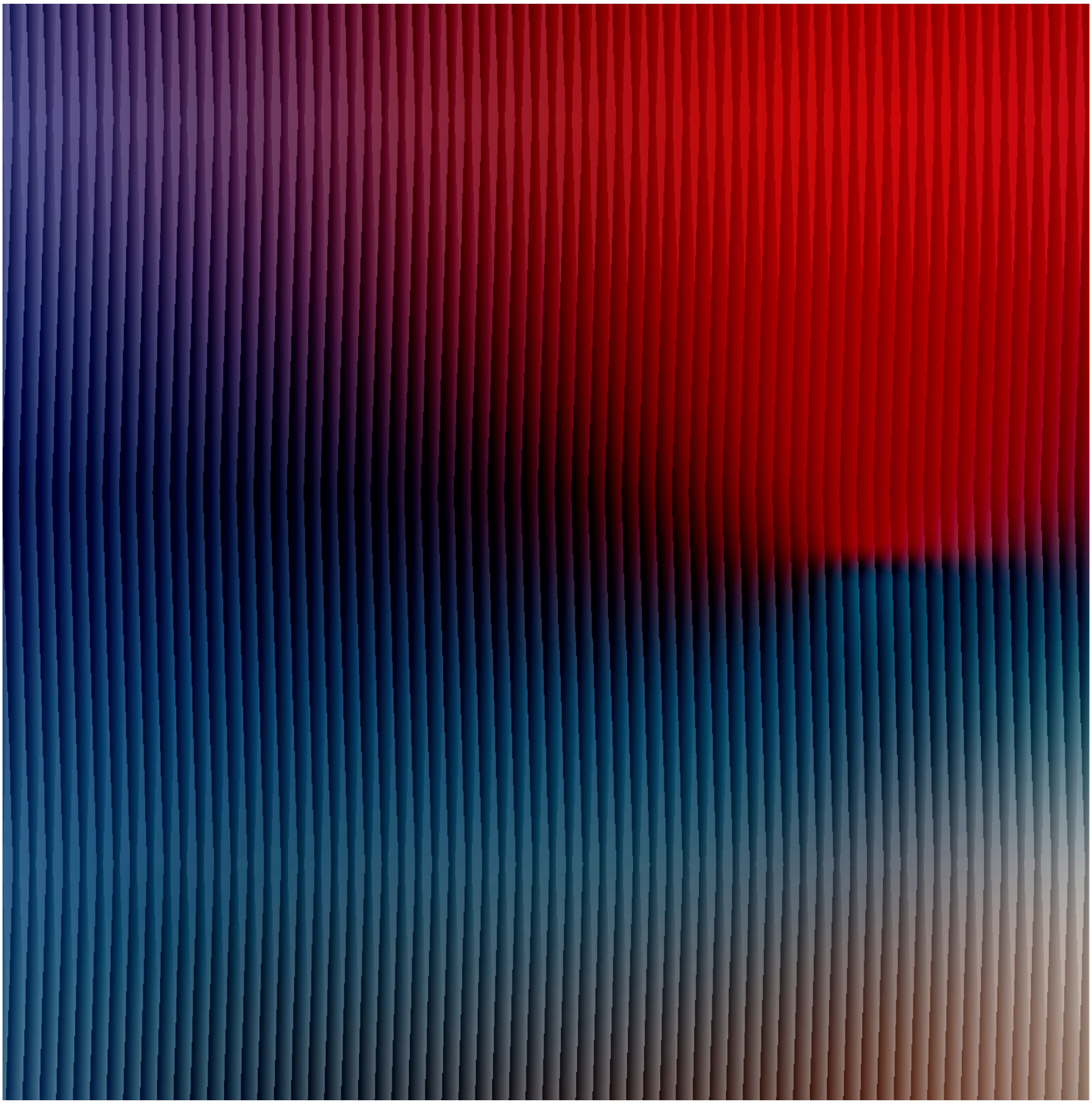

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