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PRIVATE EQUITY NEWSLETTER

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1Q26 US PE MIDDLE MARKET

Larger Deals, Capital Discipline, and Value Creation 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:

Capital Concentration Reshapes Investment Opportunities in 1Q26

The US private equity (PE) middle market delivered a strong start to 2026, but the quarter also revealed a more selective investment environment as market conditions continued to evolve. Greater concentration in larger transactions, lending discipline, evolving exit dynamics, and constrained fundraising are redefining the drivers of long-term investment performance.

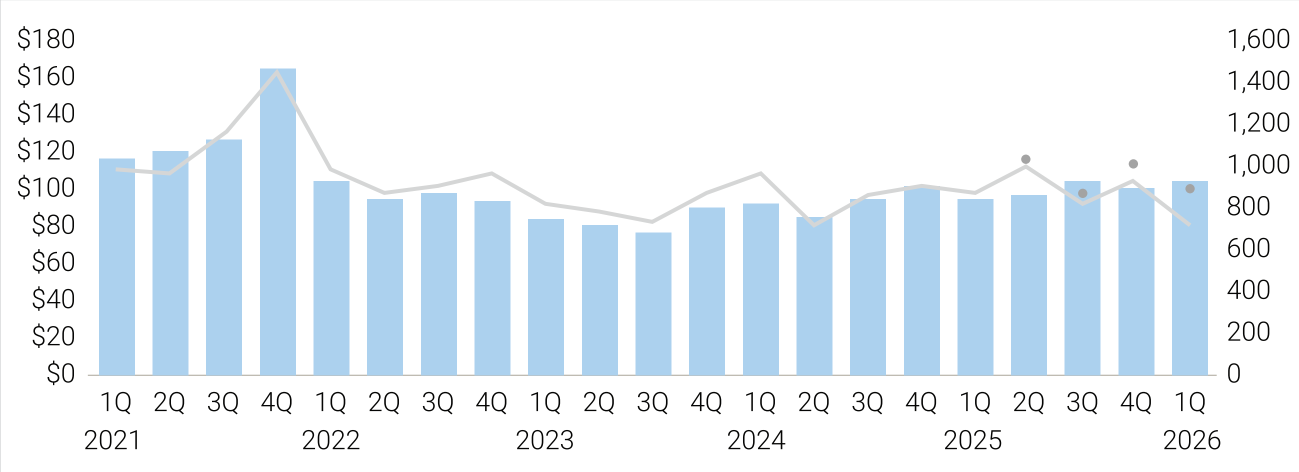
Capital concentration, valuation divergence, and disciplined financing are reshaping the US PE middle market. Sustainable returns will increasingly depend on manager selection, disciplined underwriting, and operational value creation rather than market momentum.

The US PE middle market entered 2026 with its strongest first-quarter deal value in five years. Beneath this momentum, however, significant structural changes are emerging. Investment activity is increasingly skewed toward larger transactions, valuation gaps are widening, financing conditions are becoming more selective, and fundraising remains challenging. Together, these trends suggest that future returns will depend less on favorable market conditions and more on disciplined capital allocation and operational execution.

Capital Is Becoming Increasingly Concentrated in Larger Transactions

Middle-market deal value reached $103.8 billion in 1Q26, up 10.7% YoY, reflecting the strongest first quarter in five years and demonstrating that sponsor activity has remained resilient despite a more disciplined financing environment, as per PitchBook. However, this growth masks an important structural change. The middle market accounted for only 39.9% of total US PE buyout value, its lowest share on record, indicating that industry capital continues to migrate toward increasingly larger transactions.

Figure 1: US PE Middle-Market Deal Activity



Source: PitchBook, data as of March 31, 2026

This concentration reflects more than temporary market sentiment. Median and average deal sizes both increased during the quarter, while add-on acquisitions continued to dominate deployment activity, highlighting sponsors' preference for expanding established platforms rather than pursuing new standalone investments. For investors, rising deal activity should not be interpreted as broader opportunity creation. Instead, competition is becoming concentrated around larger, more profitable platforms, making disciplined underwriting increasingly important.

Risk-Adjusted Returns Continue to Favor the Lower Middle Market

Deal-level data highlights widening valuation divergence across the middle market. Entry multiples for businesses valued between $500 million and $1 billion reached 13.4x EV/EBITDA, compared with 8.8x for companies valued between $25 million and $100 million, as per PitchBook. The valuation gap has widened materially over the past three years, demonstrating that competitive intensity and capital are increasingly concentrated at the upper end of the market.

The data also suggests that higher valuations have not translated into proportionately better outcomes. Historically, the lower middle market generated stronger pooled gross IRRs while exhibiting a comparable downside profile to larger deals. This challenges the assumption that paying premium multiples necessarily reduces investment risk. Instead, attractive returns increasingly depend on acquiring quality businesses at disciplined valuations rather than simply deploying larger amounts of capital.

Private Credit Is Transitioning Toward Greater Lending Discipline

Private credit continues to play a central role in financing middle-market buyouts, but lending conditions are gradually becoming more balanced. After several years of abundant liquidity and narrowing spreads, lenders adopted a more cautious stance during the 1Q as volatility surrounding AI-driven software valuations affected investor sentiment. Consequently, spreads have begun widening while financing terms increasingly favor lenders over borrowers.

Importantly, this does not indicate a broad withdrawal of private credit from the market. Instead, financing is becoming increasingly selective as lenders reassess sector-specific risks and demand greater compensation for uncertainty. This represents a rebalancing of lending conditions rather than a broad contraction in credit availability. Investors should therefore expect financing to remain accessible for fundamentally strong businesses, while weaker assets may face a more challenging capital-raising environment.

Sponsor-to-Sponsor Transactions Continue to Drive Exit Activity

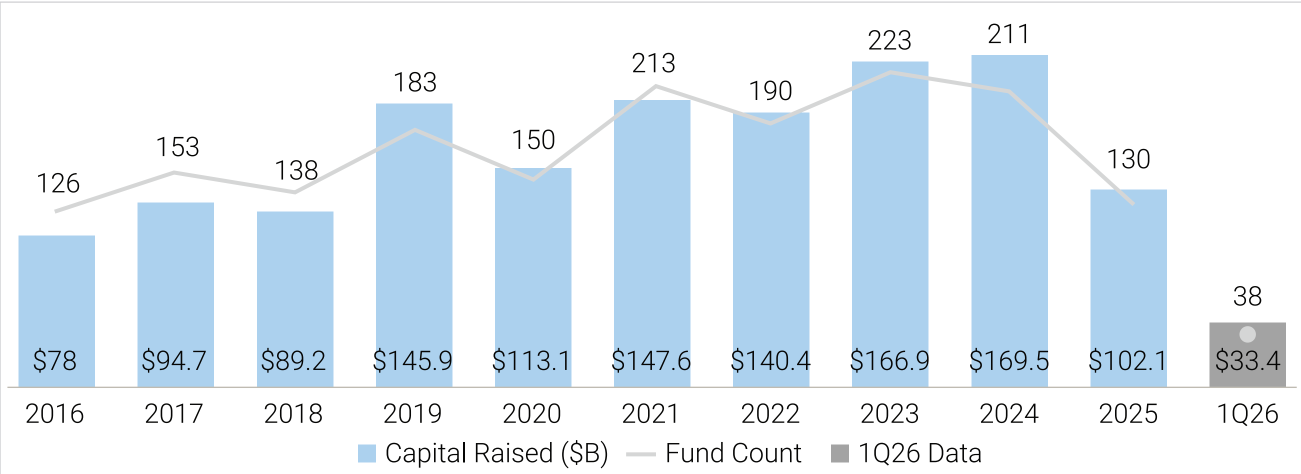
Exit activity remained resilient during the quarter, providing continued liquidity despite a challenging exit environment. Middle-market exits reached $32 billion across 218 transactions, supported primarily by sponsor-to-sponsor transactions, as per PitchBook. These deals represented nearly 70% of total exit value, while corporate acquisitions declined to their lowest share since before the pandemic. Meanwhile, the IPO market remained effectively closed, extending a trend that has persisted since 2022.

The changing exit mix illustrates how liquidity has become increasingly dependent on financial sponsors rather than public markets or strategic buyers. At the same time, exit activity shifted meaningfully toward B2B businesses while IT assets lost relative share, reflecting changing buyer preferences. As uncertainty surrounding software valuations persists, investors are increasingly prioritizing businesses with resilient operating models and less exposure to AI-driven valuation compression.

Operational Value Creation Is Emerging as a Key Driver of Returns

Fundraising conditions remain considerably more challenging than deployment activity suggests, highlighting continued caution among limited partners. $33.4 billion was raised across 38 middle-market funds during 1Q26, a pace only modestly ahead of 2025, which marked the weakest fundraising environment since 2018, as per PitchBook. Rather than supporting broad participation, limited partners are concentrating commitments among brand-name managers and specialist funds.

Figure 2: US PE Middle-Market Fundraising Activity



Source: PitchBook, data as of March 31, 2026

This environment reinforces a broader shift across PE. With leverage becoming less influential and valuation expansion increasingly constrained, manager selection has become a more significant driver of returns than market exposure alone. Operational value creation and disciplined entry pricing are likely to define performance through 2026, particularly within the lower middle market where competition remains comparatively limited, and valuation headroom appears more favorable.

Conclusion

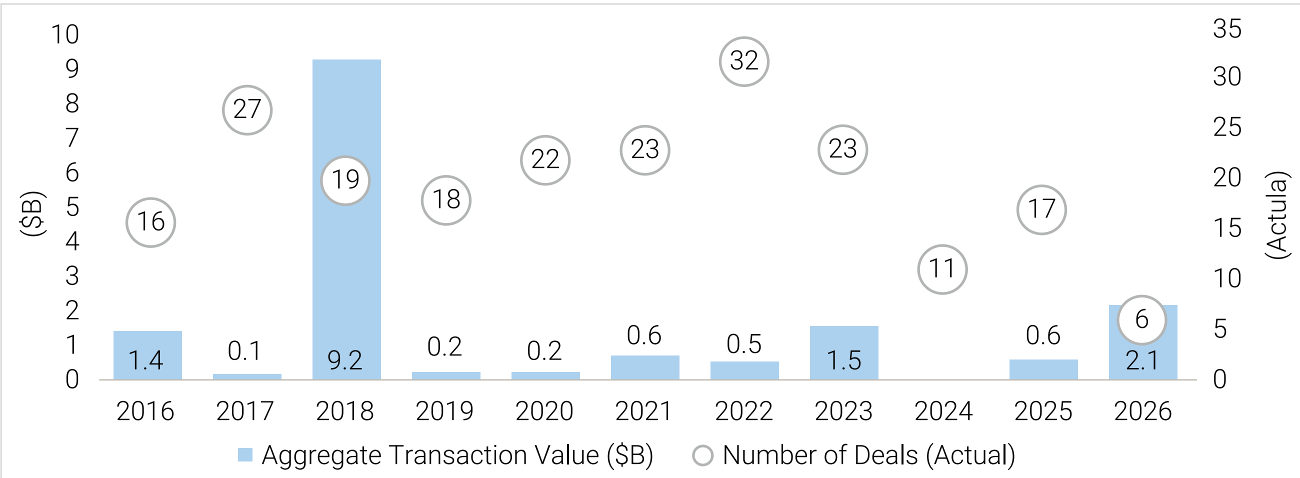
The 1Q26 highlights an evolving US PE middle market where selectivity is becoming increasingly important. While deal activity remains resilient, capital deployment, financing, exits, and fundraising are growing more disciplined. Investors should focus on manager quality, valuation discipline, and operational value creation rather than broad market exposure. In this environment, careful asset selection is likely to become the primary driver of long-term returns.

Monthly News and Analysis

PE Investment Accelerates in Amateur Sports

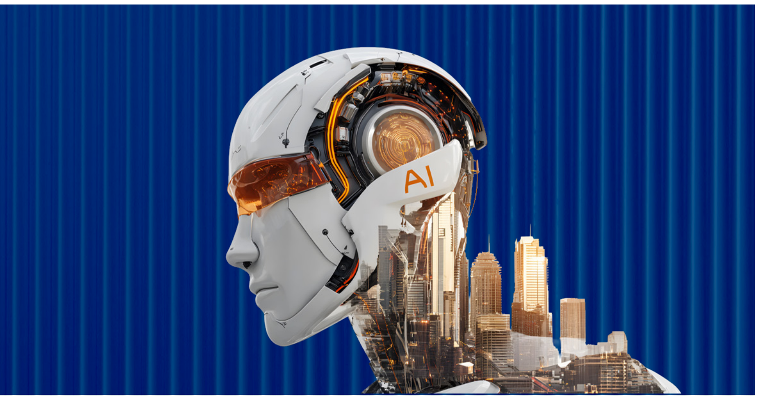
PE and venture capital (VC) investment in amateur sports reached $2.11 billion across six transactions during the first five months of 2026, surpassing the $550 million invested in all of 2025, as per S&P Global. The surge highlights growing investor interest in sports-related assets with scalable, recurring revenue models.

Figure 3: Global PE/VE Investments in Amateur Sports



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

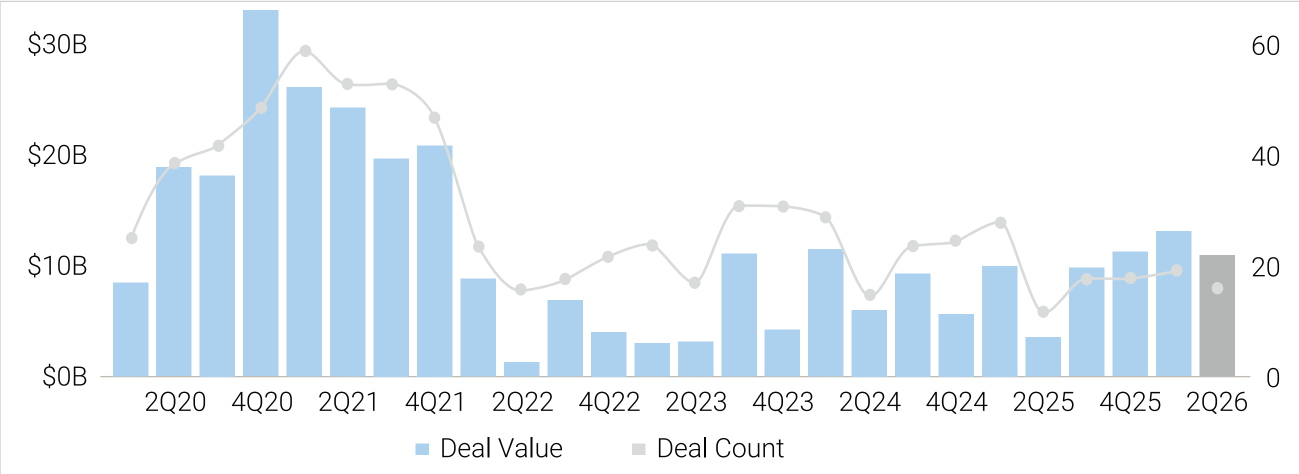
PE's growing focus on amateur sports reflects a broader shift toward resilient, fragmented sectors with long-term consolidation opportunities. TPG Capital's $2 billion acquisition of Learfield, the largest transaction in the sector in 2026, underscores increasing investor conviction in businesses supporting collegiate athletics through media, technology, and commercial services. Meanwhile, continued funding for Teamworks, including a $235 million Series F round in 2025, highlights sustained demand for software platforms that digitize athlete management, performance analytics, and operational workflows. These transactions demonstrate that investors are expanding beyond professional sports franchises into the broader sports ecosystem. The investment thesis is supported by favorable industry fundamentals. The US youth sports market is estimated at $40 billion and is growing 8%–10% annually, driven by diversified revenue streams spanning registrations, tournaments, sponsorships, media rights, merchandising, and facility operations, as per the report from law firm White & Case LLP. Despite its scale, the sector remains highly fragmented, creating opportunities for PE firms to pursue roll-up strategies, operational improvements, and platform expansion. The broader sports investment landscape also remains robust, with sports team acquisitions reaching $23.6 billion in 2025 and PE investment in sports services hitting an eight-year high, as per S&P Global. As institutional investors continue seeking recession-resistant sectors with predictable cash flows and multiple value creation levers, amateur sports is expected to remain an increasingly attractive segment within the broader sports investment ecosystem.



Investors Turn to Biotech to Diversify AI Exposure

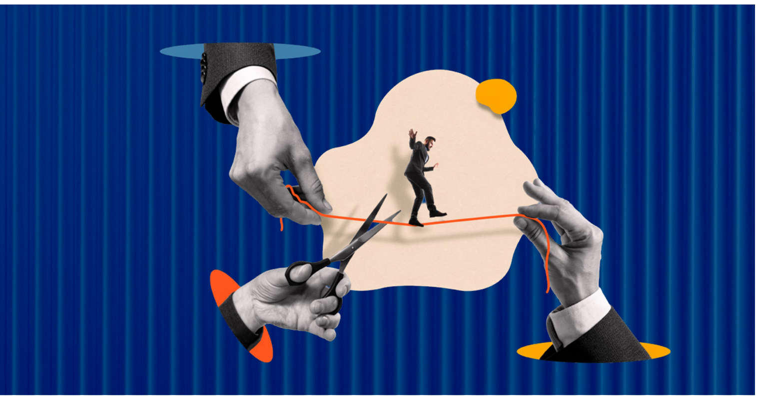
VC-backed biopharma exits are on track for their strongest trailing 12-month period since 2021, with exit value reaching $13.3 billion in 1Q26 and $11 billion recorded in 2Q26 through May 27, as per PitchBook. Improving liquidity is drawing investors back to the biotechnology sector, supporting renewed deal activity.

Figure 4: Global VC-backed Biopharma Exits



Source: PitchBook, data as of May 27, 2026

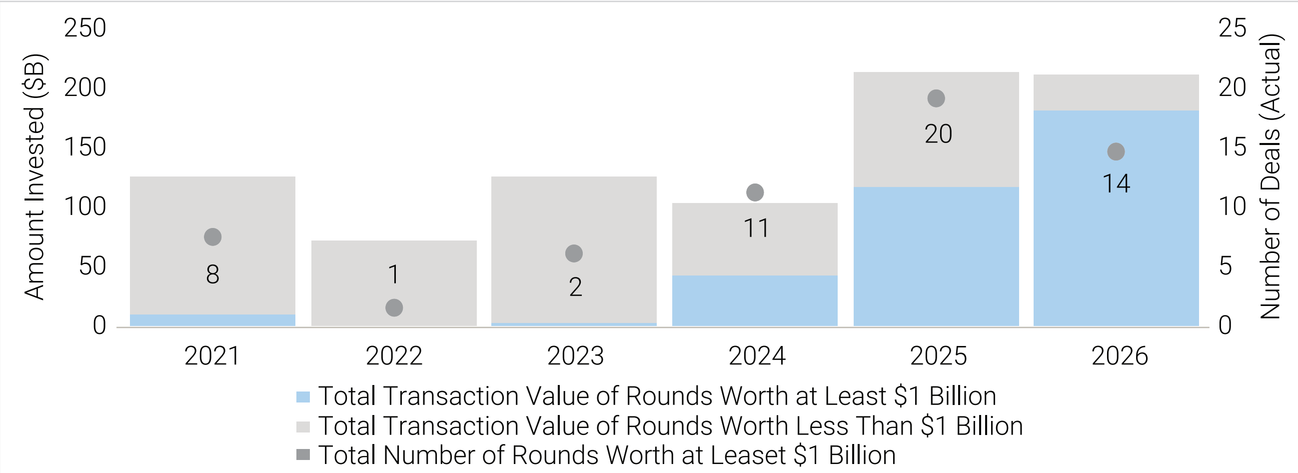
Biotechnology is re-emerging as an attractive allocation for crossover investors, hedge funds, and mutual funds seeking portfolio diversification amid soaring AI valuations. While artificial intelligence continues to dominate capital markets, investors are increasingly rotating toward biopharma companies with strong clinical pipelines and visible commercialization opportunities. The sector's improving capital markets backdrop is evident in Kailera's $625 million IPO, which exceeded its $500 million target, and Avalyn's $300 million listing, which also priced above expectations. Rising venture-growth valuations for companies with strong clinical traction and an active IPO pipeline, including upcoming listings from Kardigan and Parabilis, further reinforce renewed investor confidence in venture-backed biotechnology while improving long-term funding prospects. Strategic demand from large pharmaceutical companies is providing another catalyst for investment. Strong cash generation from blockbuster GLP-1 therapies has strengthened balance sheets, enabling pharmaceutical companies to actively pursue acquisitions to replenish drug pipelines. Eli Lilly alone has announced more than $20 billion in acquisitions during 2026, including the $7.8 billion acquisition of Centessa Pharmaceuticals and the $7 billion acquisition of Kelonia Therapeutics. This combination of improving IPO markets, rising M&A activity, and resilient healthcare demand is enhancing liquidity prospects for venture-backed biotechnology companies. Although a sharp correction in AI valuations will likely affect broader market sentiment, biotechnology's defensive characteristics and persistent demand for innovative therapies position the sector as an increasingly attractive complement to AI-focused investment portfolios.



Concentration Risk Rises as PE Expands AI Investments

PE and VC firms are increasingly concentrating AI investments into billion-dollar funding rounds. In 1Q26, unicorn rounds totaled $179.3 billion, accounting for nearly 86% of total AI funding, compared with 55% for full-year 2025, raising concerns over concentration risk for limited partners, as per S&P Global.

Figure 5: Global PE/VC Rounds of Funding In AI



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

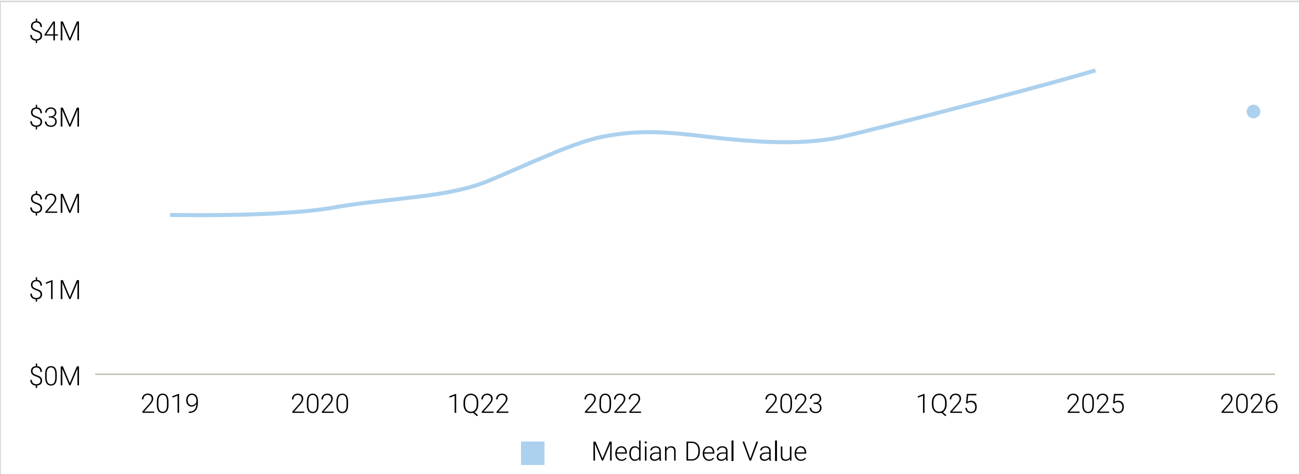
The sharp increase in capital concentration reflects investors' growing conviction that a small number of AI leaders will capture a disproportionate share of future value creation. OpenAI's $122 billion funding round and xAI's $20 billion Series E round alone accounted for much of the capital deployed through billion-dollar AI financings in 1Q26, while firms such as Andreessen Horowitz, Sequoia Capital, and Lightspeed Ventures continued backing the sector's largest companies. This demonstrates that leading investors are increasingly doubling down on established AI platforms instead of spreading capital across a wider range of startups.

However, the trend creates a structural challenge for limited partners. According to Darius Craton, director at Raymond James Private Capital Advisory, investors allocating capital across multiple PE and venture funds are likely to unknowingly build significant exposure to the same AI companies because general partners make investment decisions independently. This overlap increases concentration risk, making portfolio performance increasingly dependent on the valuation and execution of a handful of companies rather than diversified exposure across the AI ecosystem. It also raises the importance of monitoring cross-fund holdings and comparing valuation assumptions across managers. At the same time, proponents argue that concentrating capital behind category leaders increases the likelihood of successful exits through IPOs and acquisitions once market conditions improve. As AI continues attracting record levels of investment, balancing concentration with portfolio diversification will become an increasingly important consideration for institutional investors.

Mega-Seed Rounds Reshape Early-Stage Funding Dynamics

A small group of AI startups continues to secure billion-dollar seed rounds, even as the broader US venture market remains disciplined. According to PitchBook, median US seed deal value held at $3 million in 1Q26, highlighting the widening gap between exceptional AI financings and traditional early-stage fundraising.

Figure 6: Median US Seed Deal Size



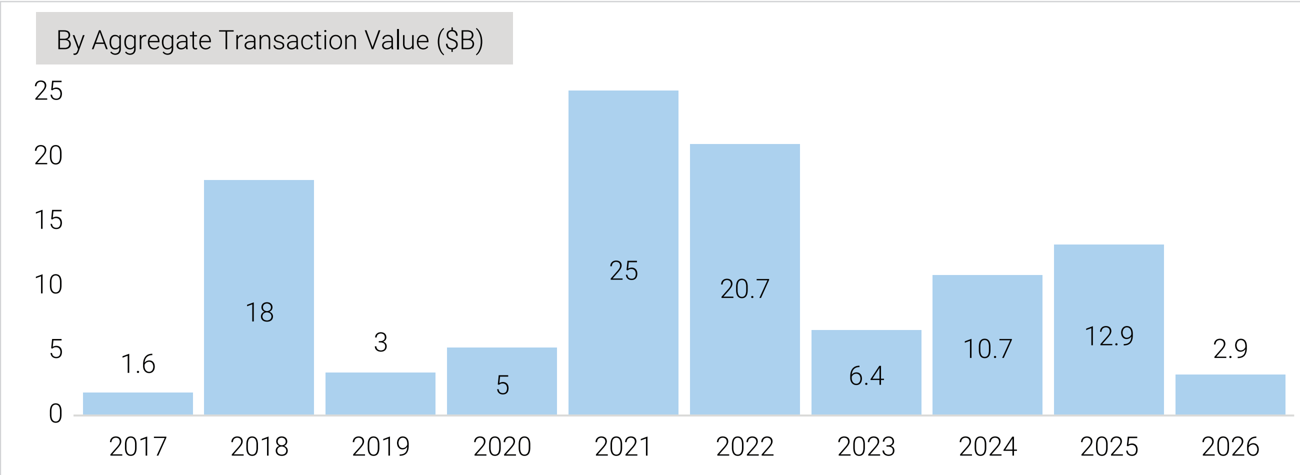
Source: PitchBook, data as of March 31, 2026

The emergence of billion-dollar seed rounds marks a significant shift in AI venture financing but also raises questions about capital efficiency and founder discipline. In 2026 alone, Advanced Machine Intelligence raised a $1.03 billion seed round, World Labs secured $1 billion, and Ineffable Intelligence announced a $1.1 billion seed financing. These unprecedented raises reflect intense investor competition to back a small group of elite AI founders with proven technical expertise. However, venture investors argue that such transactions are exceptional cases rather than a new benchmark for early-stage fundraising and should not shape expectations across the broader startup ecosystem. Industry investors caution that excessive capital at the seed stage will likely encourage premature scaling, dilute operational discipline, and reduce incentives to iterate products based on customer feedback. Early-stage capital constraints often force founders to validate product-market fit, refine business models, and build sustainable growth before accelerating expansion. While frontier AI companies developing foundation models require substantially larger capital commitments because of compute infrastructure, talent acquisition, and research costs, this funding model is unlikely to extend to most startups. Instead, VC firms are expected to remain highly selective, reserving outsized seed investments for a limited number of technically differentiated AI companies while continuing to apply disciplined investment principles across the broader early-stage ecosystem. This divergence is likely to widen the gap between frontier AI startups and conventional venture-backed companies seeking early-stage capital.

Crypto Investment Gains Amid Mega IPO Revival

PE and VC investment in cryptocurrency and blockchain totaled $2.93 billion globally through May 25, 2026, following $12.94 billion in 2025, as per S&P Global. Improving regulatory clarity and stronger exit conditions are boosting investor confidence across private markets.

Figure 7: Global PE/VC Investment in Blockchain and Cryptocurrency



Source: S&P Global, data as of May 25, 2026

A revival in IPO activity is expected to provide a much-needed catalyst for the PE industry, which has faced subdued exit activity over the past few years. The planned $75 billion SpaceX IPO, expected to be followed by listings from OpenAI and Anthropic later in 2026, has the potential to significantly improve investor sentiment and reopen the exit market for large, venture-backed technology companies. The contrast with 2025, when Medline's $6.27 billion IPO was the largest US listing, illustrates the scale of the expected rebound. Successful mega IPOs would also help establish stronger valuation benchmarks for AI companies, narrowing the buyer-seller valuation gap that has weighed on PE-backed M&A activity and encouraging sponsors to pursue larger exits after an extended period of muted dealmaking. At the same time, improving regulatory clarity and strategic acquisitions are strengthening the investment case for digital assets. Stripe's acquisition of Bridge and Mastercard's acquisition of BVNK demonstrate viable exit pathways for PE and venture investors, while the proposed Clarity Act is expected to establish a clearer regulatory framework for crypto and blockchain businesses. These developments are reducing regulatory uncertainty and will likely accelerate institutional capital deployment into the sector. Together with a strengthening IPO market, they are creating a more supportive environment for PE fundraising, investment activity, portfolio exits, and long-term capital formation across high-growth technology sectors, particularly digital assets and AI-driven businesses.

DEALS FLASH

Frazier Healthcare to Acquire MatrixCare from ResMed

Frazier Healthcare Partners, a Seattle-based PE firm, has agreed to acquire MatrixCare, a California-based electronic health records (EHR) software provider, from ResMed, a California-based respiratory care device company. Founded in 1982, MatrixCare develops cloud-based long-term post-acute care software for senior citizens. This deal will allow ResMed to align with its 2030 strategy through focused portfolio management and divest non-core assets. Further, it will enable MatrixCare to partner with Frazier Healthcare Partners to aggressively invest in product innovation and better serve post-acute care providers.

Monomoy Acquires Jiffy Lube from Shell

Monomoy Capital Partners, a New York-based PE firm, has acquired Jiffy Lube International, a Texas-based operator of a quick-lube store chain, from a wholly owned subsidiary of Shell USA, a Texas-based operator of an energy and petrochemicals company, for approximately $1.3 billion. Founded in 1979, Jiffy Lube serves 19 million annual customers across 2,000 North American service centers. This deal will allow Shell to execute a corporate carve-out. Further, it will enable Jiffy Lube to become an independent company, grow franchisees, and invest in high-quality customer service.

Wynnchurch Exits PFG to H.I.G

Wynnchurch Capital, an Illinois-based PE firm, has sold Premier Forge Group (PFG), a Portland-based supplier of aerospace and defense (A&D) components, to H.I.G. Capital, a Florida-based PE firm. Founded in 1876, PFG manufactures precision forged components for critical aerospace, defense, and industrial applications. This deal will allow H.I.G. to acquire a specialized forging business serving mission-critical applications. Further, it will enable PFG to build upon its manufacturing capabilities, leverage expanded A&D exposure, and continue operational and commercial growth.

Brightstar Acquires Erdman

Brightstar Capital Partners, a New York-based PE firm, has acquired Erdman, a Wisconsin-based architecture and engineering firm. Founded in 1951, Erdman provides healthcare and senior living strategy, design, and implementation services. This deal will allow Erdman to partner with a platform that provides strategic backing and shared capabilities to support firm growth while preserving its culture. Further, it will enable Brightstar to expand its platform using Erdman's specialized expertise, national footprint, and proprietary analytics capability to serve demand from an aging population.

TELEO Capital Acquires Modersys from Applied Materials

TELEO Capital Management, an Idaho-based PE firm, has acquired SmartFactory Rx, an Idaho-based pharmaceutical manufacturing intelligence platform, from Applied Materials, a California-based semiconductor wafer fabrication equipment manufacturer. SmartFactory has been rebranded as Modersys as part of the transaction. This deal will allow Modersys to operate as an independent company with dedicated focus, accelerating product innovation and AI capabilities for biopharmaceutical, nutritional, and life sciences sectors. Further, it will enable TELEO Capital to acquire a mission-critical software platform and expand its global market reach.

Berkshire Partners to Invest in Harbourfront Wealth

Berkshire Partners, a Boston-based PE firm, has agreed to invest in Harbourfront Wealth Group, a Vancouver-based wealth management firm, valuing the company at $1.25 billion. Harbourfront's existing sponsor, Audax Private Equity, a Boston-based PE firm, will retain a stake in the company. This deal will allow Harbourfront to reward its advisors through a partial liquidity event while continuing investments in people, technology, and capabilities. Further, it will enable Berkshire Partners to partner with the management team and capitalize on Canada's shift toward independent wealth management.

Unity Partners Invests in Meaden & Moore Advisors

Unity Partners, a Texas-based PE firm, has invested in the advisory services of Meaden & Moore Advisors, an Ohio-based international accounting firm. Founded in 1919, Meaden & Moore provides forensic services to the insurance and legal sectors, as well as accounting services to small and midsized businesses. This deal will allow Meaden & Moore to launch an Employee Purpose Plan, boost talent retention, and accelerate operational growth. Further, it will enable Unity Partners to expand its platform model, driving strategic value and shared financial success.

Platinum Equity to Acquire Tangent Technologies

Platinum Equity, a California-based PE firm, has agreed to acquire Tangent Technologies, an Illinois-based manufacturer of high-performance synthetic materials. Founded in 2003, Tangent manufactures synthetic materials for applications across outdoor living, marine, decking, fencing, infrastructure, and other industrial markets. This deal will allow Tangent to expand its core product offerings, advance its material science innovation, and achieve long-term growth objectives. Further, it will enable Platinum Equity to leverage synthetic material market opportunities and support Tangent through operational capabilities and strategic add-on acquisitions.

Harvest Partners Acquires Integra from Keystone

Harvest Partners, a New York-based PE firm, has acquired Integra Testing Services, an Ohio-based provider of commercial HVAC testing, adjusting, and balancing (TAB) services, from Keystone Capital Management, an Illinois-based PE firm. Founded in 1996, Integra provides TAB and related facility testing services for commercial HVAC systems. This deal will allow Harvest Partners to support a platform providing testing and infrastructure services across specialized end-markets. Further, it will enable Integra to expand its capabilities, service offerings, and geographic reach through organic growth and strategic acquisitions.

Arcline Investment to Acquire Avantus from Inflexion

Arcline Investment Management, a Tennessee-based PE firm, has agreed to acquire Avantus Aerospace Group, a Valencia-based manufacturer of A&D parts, from Inflexion, a PE firm based in the UK. Avantus and its subsidiaries will operate as brands of Novaria Group, an Arcline portfolio company. Founded in 2011, Avantus provides engineered shims and fasteners for the global A&D industries. This deal will allow Inflexion to monetize its platform investment, while enabling Avantus to accelerate capabilities, business growth, and product investments alongside Novaria.

TRENDS AND STATS

May Middle-Market Deal Summary

51.7%

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

71.7%

of B2B deals were in Commercial Services.

13.7%

of the deals were in IT.

56.3%

of IT deals were in Software.

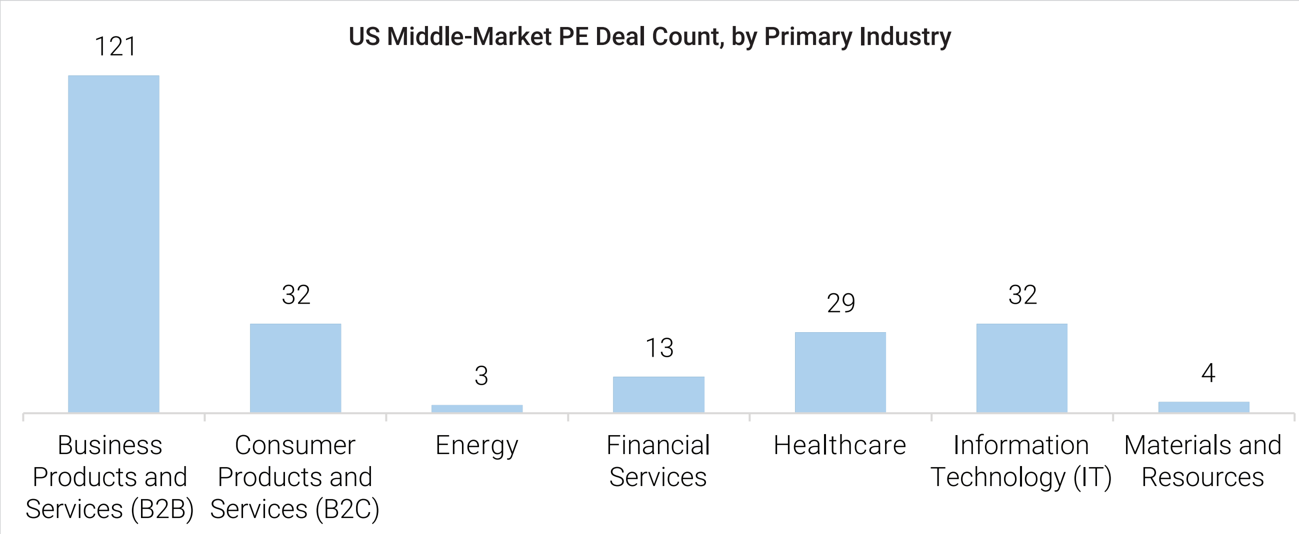
Texas

experienced the highest dealmaking activity, followed by California.

74.8%

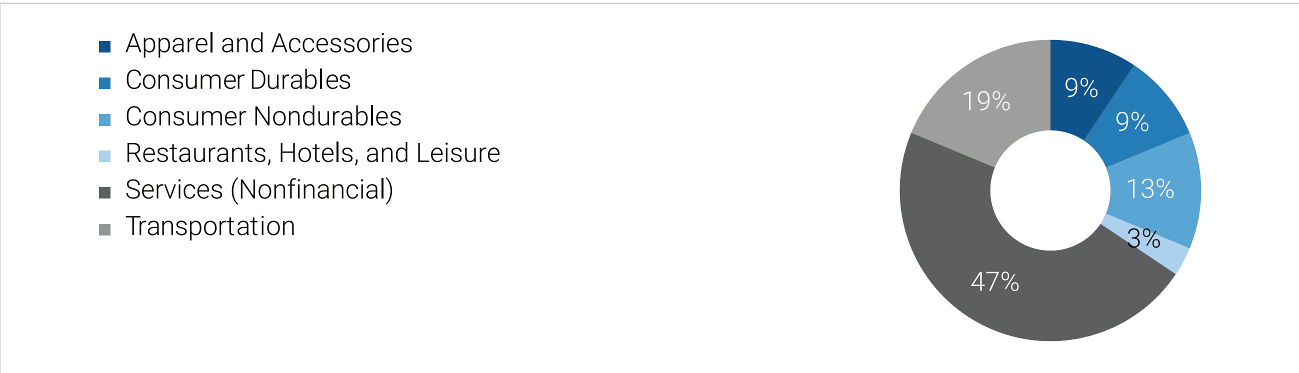
of the deals were buyouts.

Figure 8: June 2026 Middle-Market Deal Summary



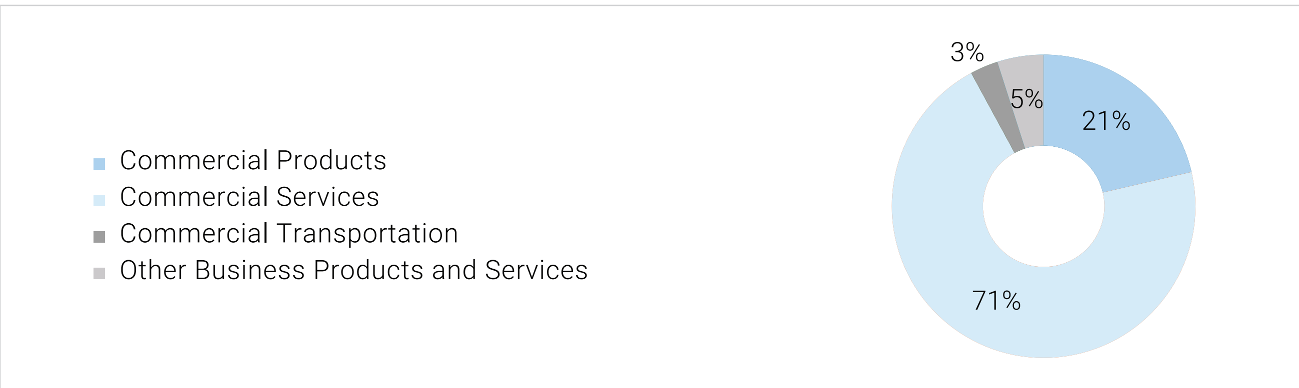
Source: SG Analytics Research

Figure 9: Share of Consumer Products and Services



Source: SG Analytics Research

Figure 10: Share of Business Products and Services

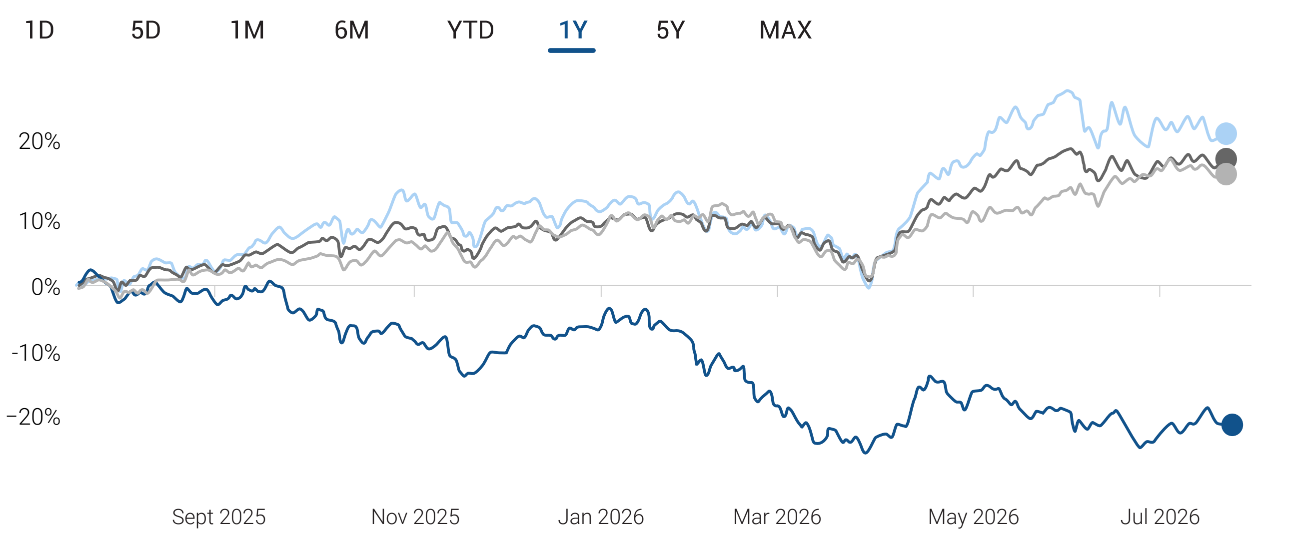


Source: SG Analytics Research

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

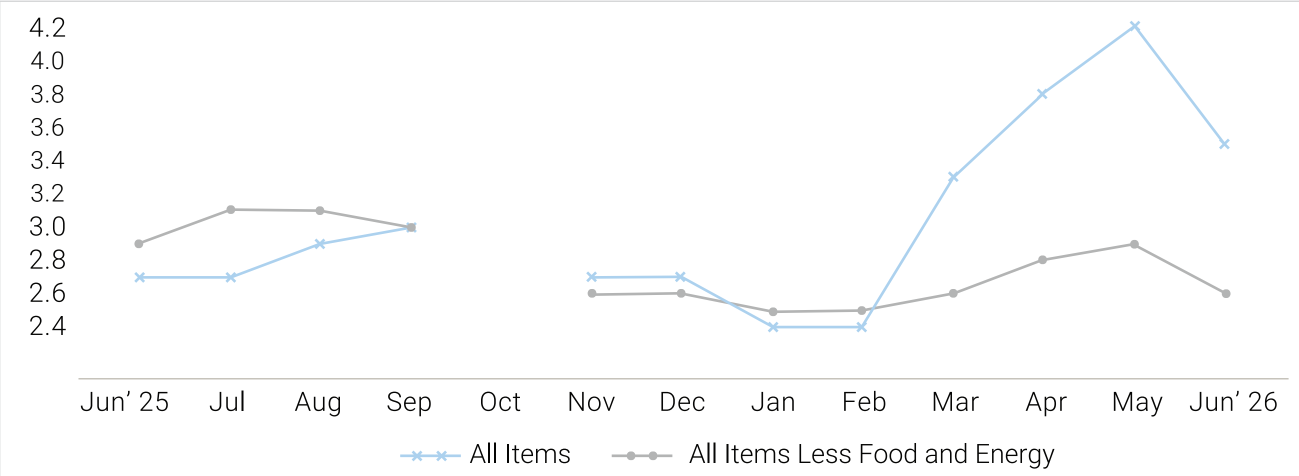


S&P-Listed Private-Equity Index	215.6	-56.4	↓ 20.7%
S&P 500	7,412	+1,022.2	↑ 16%
Nasdaq Composite	24,975.8	+3,797.2	↑ 17.9%
Dow Jones Industrial Average	51,947.3	+7,109.7	↑ 15.9%

Note: Data as of July 27, 2026

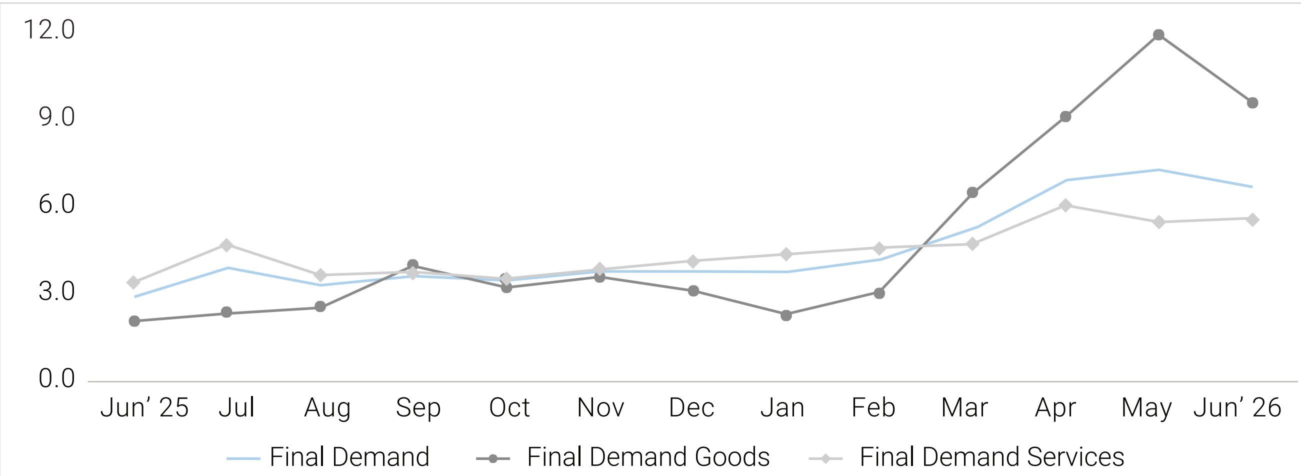
Index	Month-over-Month	YTD
Consumer Price Index (CPI)	−0.4%	3.5%
Producer Price Index (PPI)	−0.3%	5.5%

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

10th Annual Private Wealth Midwest Forum	August 13, 2026	University Club of Chicago, 76 E Monroe St, Chicago, IL
ACG NY Summer Bash	August 25, 2026	CBIZ Office, 730 3rd Avenue New York, NY
Family Office Private Wealth Legacy Summit	August 25–26, 2026	Parrish Art Museum, Water Mill, NY

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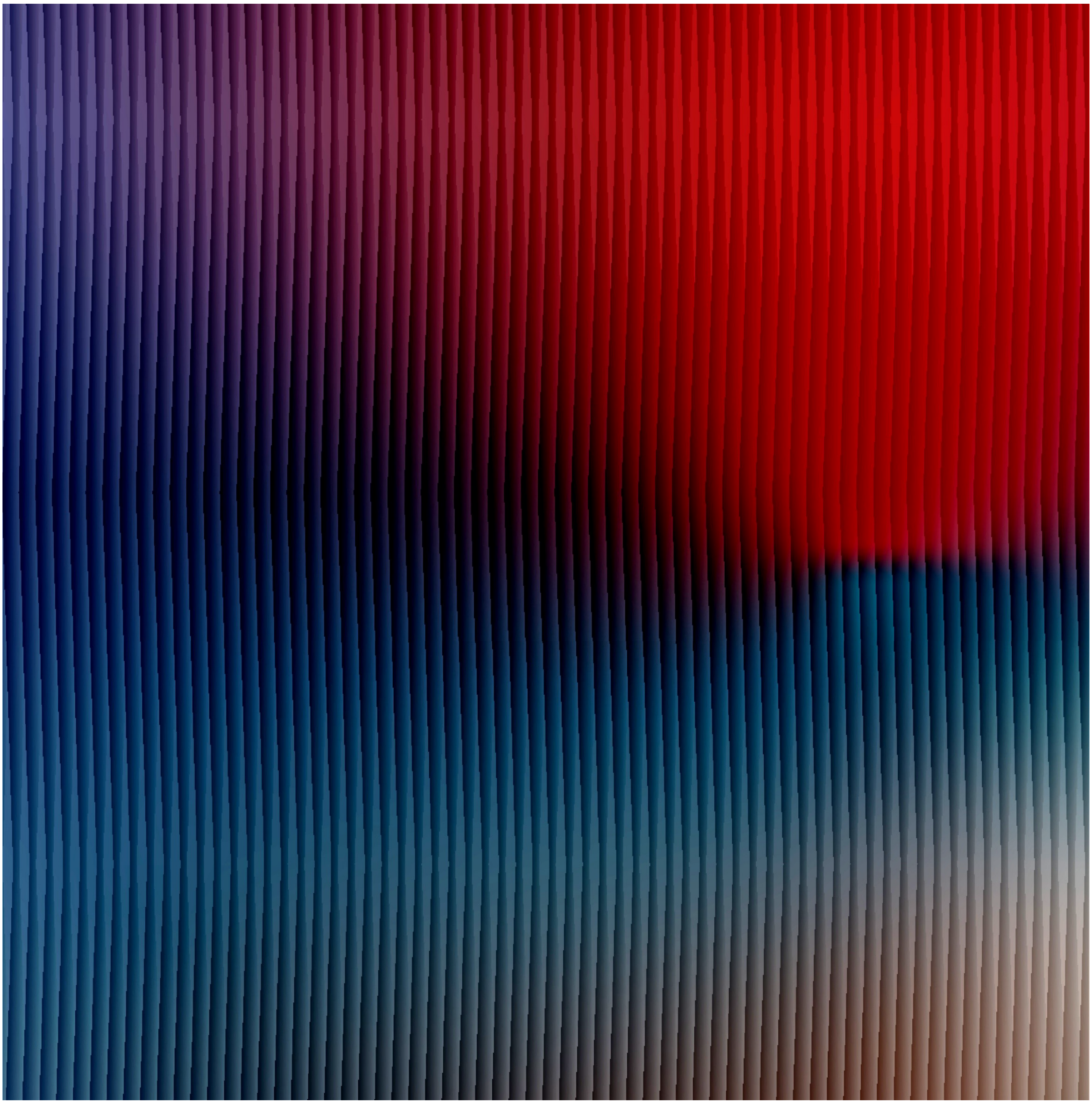

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