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PRIVATE EQUITY NEWSLETTER

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2Q26 US PE MIDDLE MARKET

Smaller Deals, Subdued Exits, and Operational Execution Shape Returns



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Fundraising Challenges | Expected Dealmaking Revival | IPO Exit Opportunities

Feature Article



US PE MIDDLE MARKET

Smaller Deals Drive Dealmaking Resilience in 2Q26

In 2Q26, the US private equity (PE) middle market demonstrated resilience as transaction activity increasingly concentrated among smaller deals. Against a backdrop of subdued realizations, investment outcomes became more dependent on disciplined capital deployment and portfolio-level performance.

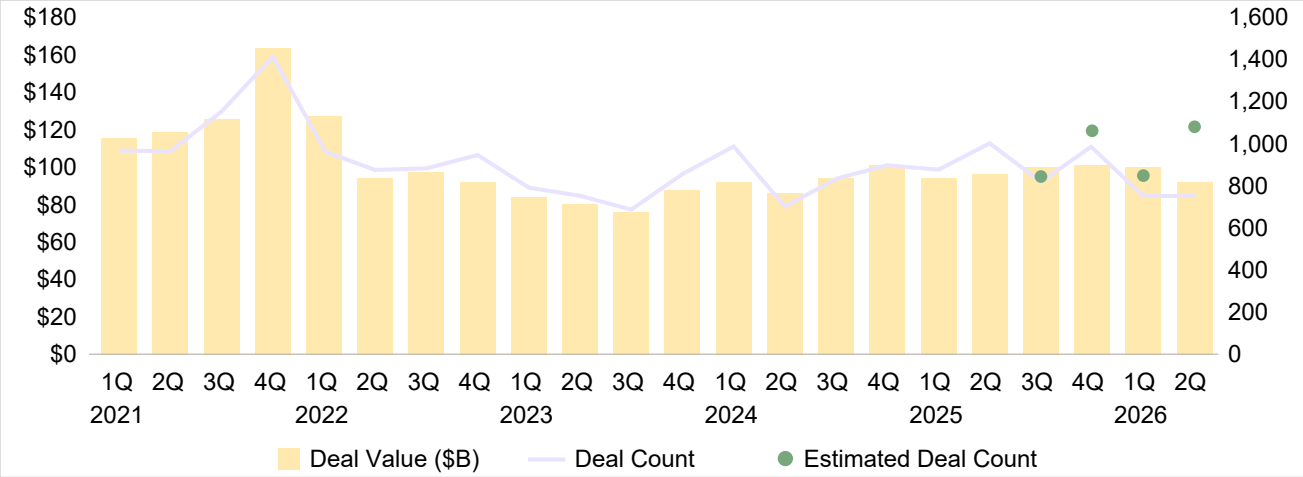
US middle-market PE is recalibrating as smaller deals gain momentum and fundraising remains resilient. Yet constrained exits and aging portfolios are shifting returns toward disciplined deployment and operational value creation.

2Q26 marked a pullback in middle-market PE activity after momentum strengthened through late 2025 and 1Q26. Tariff uncertainty, higher-for-longer interest rates, and AI-related disruption weighed on activity, particularly across software. However, deal and exit counts remained healthy by historical standards, while sponsors retained ample dry powder. The emerging environment is increasingly selective, placing greater emphasis on disciplined pricing, realizations, and portfolio performance.

Smaller Transactions Anchor Activity Amid Macro Uncertainty

Middle market dealmaking softened in value but remained resilient in volume during 2Q26. Estimated deal value declined 8.7% QoQ to $92.4 billion, while deal count increased 25.7% to 1,090 transactions, as per PitchBook. Activity also shifted toward smaller deals, with the $25 million to $100 million segment the only size category to record QoQ growth in both deal value and deal count. This demonstrates continued investor and sponsor appetite despite a more uncertain investment environment.

Figure 1: US PE Middle-market Deal Activity by Quarter



Source: PitchBook, data as of June 30, 2026

The divergence between deal value and volume signals a change in deployment strategy rather than a broad retreat from investing. Sponsors are favoring smaller opportunities as macroeconomic uncertainty weighs more heavily on large, financing-dependent transactions. This resilience broadens the opportunity set beyond premium assets, making sourcing and disciplined underwriting increasingly important as investors pursue deployment opportunities while managing transaction and valuation risks.

Software Deal Value Retreats as AI Activity Accelerates

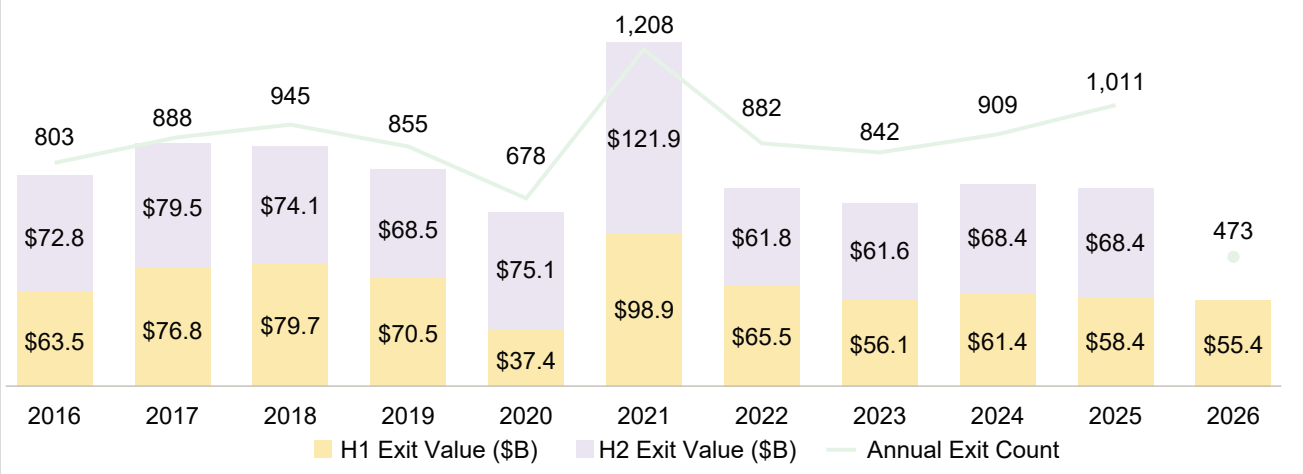
Middle market IT deal activity weakened in 2Q26, with deal value falling to $9.2 billion from $13.2 billion in 1Q and nearly halving from 2Q25, as per PitchBook. Deal count proved more resilient, increasing 3.6% QoQ despite remaining 26.8% below the prior year. The divergence indicates that sponsors continued investing in technology companies, but at lower prices and on a smaller scale, reflecting a more selective environment for technology transactions during the quarter.

Within technology, investment activity increasingly reflected AI disruption. AI deal count climbed to a peak of 28 transactions during 2Q, suggesting capital is shifting away from traditional seat-based software toward newer technology capabilities and services. For investors, this changing mix highlights how technology exposure is evolving, as sponsors become more selective about where capital is deployed across the technology landscape.

Exit Constraints Keep Capital Recycling Under Pressure

Exit activity remained the principal constraint on middle market liquidity during 2Q. An estimated 239 exits generated $24.7 billion in aggregate exit value, representing a 19.5% QoQ decline and the lowest quarterly exit value since 2Q20, as per PitchBook. 1H26 exit value consequently reached $55.4 billion, down 5.2% YoY, even as exit count increased, indicating that sponsors continued completing transactions but generated materially lower aggregate proceeds from realizations during this period.

Figure 2: US PE Middle-market Exit Activity



Source: PitchBook, data as of June 30, 2026

The resilience of exit count is encouraging, but weakness in value means the liquidity challenge remains unresolved. Sponsors need realizations to return capital that LPs will likely recycle into future commitments. Until exit values recover meaningfully, pressure will persist across the PE ecosystem. For investors, distributions remain an important indicator of whether improving transaction activity is translating into broader normalization in liquidity and capital recycling.

Fundraising Resilience Masks Growing LP Concentration

Fundraising remained comparatively resilient during 1H26 after remaining muted through much of the preceding two years. Activity was pacing toward modest growth, indicating that allocator interest in middle market PE has remained intact despite constrained distributions. However, commitments are increasingly consolidating into fewer and larger funds, creating a more competitive fundraising environment in which established managers and those demonstrating stronger performance are positioned to capture available capital.

Fundraising resilience should not be interpreted as an equally supportive environment for every manager. Limited exit activity has left many LPs with less capital available for newer vintages, increasing selectivity around commitments. Performance, monetization, and differentiation therefore carry greater weight. For investors, this consolidation reinforces the importance of manager selection as fundraising momentum masks widening differences between sponsors in their ability to attract capital.

Aging Portfolios Shift Returns Toward Operational Execution

The prolonged exit slowdown has created a growing inventory of aging PE-backed businesses. The US market contained 13,509 active portfolio companies as of June 30, 2026, while GPs held more than $860 billion of NAV in buyout funds older than seven years, as per PitchBook. Additionally, 3,905 PE- backed companies, representing 28.9% of the portfolio company universe, had been held for more than five years, intensifying pressure to create viable realization pathways.

Longer holding periods reinforce the importance of operational value creation. Multiple expansion has become less available as a return driver, shifting greater responsibility toward revenue growth and EBITDA margin expansion. Extending ownership periods cannot resolve liquidity challenges without stronger underlying performance. Investors should therefore focus on sponsors' ability to strengthen businesses operationally and build credible exit propositions capable of converting accumulated NAV into realizations.

Conclusion

US middle market PE is undergoing recalibration rather than a broad retreat. Deployment is shifting toward smaller transactions, technology activity is becoming more selective, and fundraising remains comparatively resilient despite constrained distributions. Yet weak exits and aging portfolios continue to pressure liquidity. For investors, the environment favors selective capital deployment, strong manager selection, and operational execution, as sustainable earnings growth and credible realization pathways become important foundations for generating attractive returns.

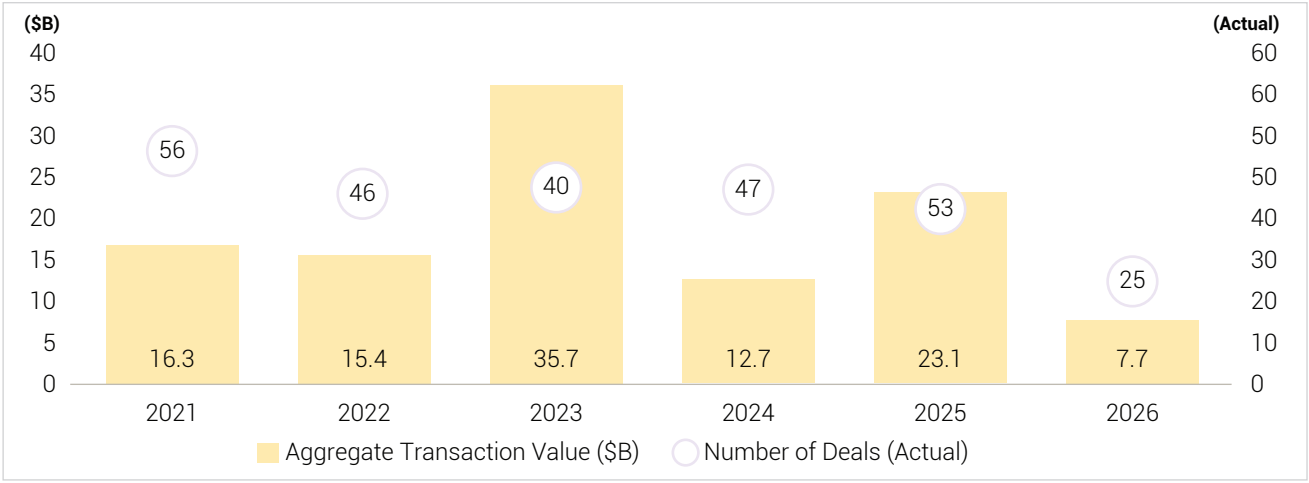
Monthly News and Analysis



Fossil Fuel PE Exits Slow as Price Volatility Shrinks Buyer Pool

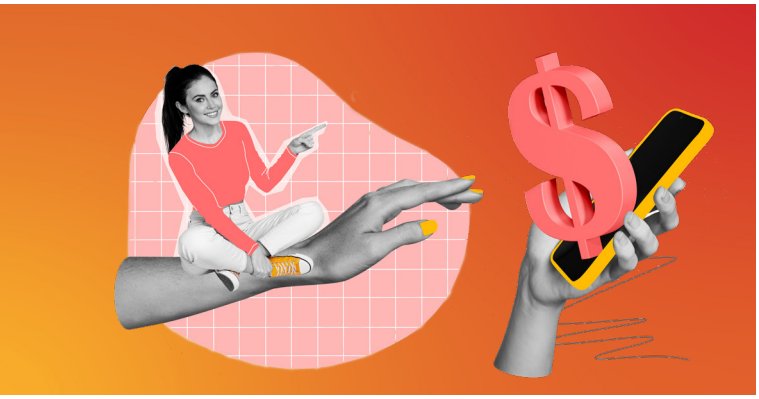
Global PE and venture capital (VC) exits in oil, gas, and coal declined 24.2% YoY to 25 transactions through August 2026, while exit value fell 64.1% to $7.7 billion, as per S&P Global. The slowdown reflects commodity price volatility and consolidation among public oil and gas companies, reducing the pool of traditional buyers for PE-backed assets.

Figure 3: PE/VC Exits in Oil, Gas and Coal Sector



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

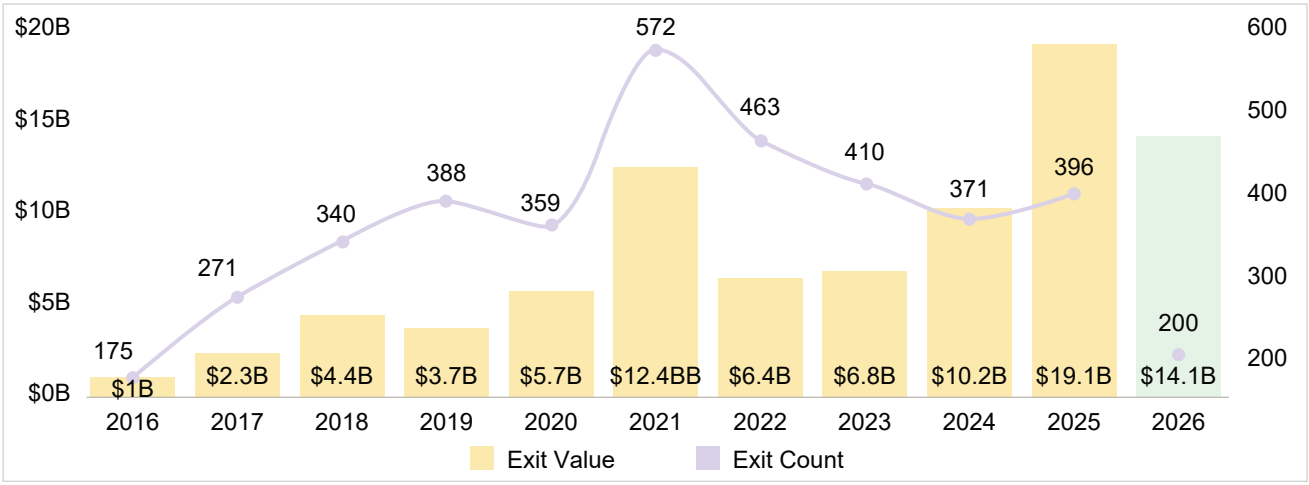
Fossil fuel exits face a challenging environment as commodity price uncertainty and structural changes in the buyer landscape make transactions harder to execute. Consolidation among public oil and gas exploration and production companies has reduced the pool of strategic acquirers for PE-backed assets. Remaining public companies are seeking larger acquisition targets that are expected to meaningfully increase production or reserves, while consolidation across core shale regions has reduced the availability of assets at sufficient scale. Commodity volatility is adding another constraint by widening valuation expectations between buyers and sellers, particularly in oil. At the same time, elevated oil prices have enabled PE firms to generate strong returns, reducing pressure to exit, while persistently low natural gas prices have encouraged some sellers to postpone sale processes. Regional trends reinforce these challenges, with the US and Canada accounting for 72% of exits through August, while Europe experienced a sharper decline amid longer-term uncertainty around fossil fuel demand, as per S&P Global. Europe's natural gas demand between August 2022 and January 2026 remained approximately 19% below the 2017–2021 average, potentially weighing on investor appetite, as per the European Commission. Despite slower activity, sizable exits remain possible, as demonstrated by EnCap Flatrock Midstream's $5.5 billion sale of Momentum Midstream. A sustained recovery in exits will likely depend on greater commodity price stability, which could narrow valuation gaps and improve confidence among buyers and sellers.



AI Semiconductor Funding Accelerates as Hardware Defensibility Draws VC Capital

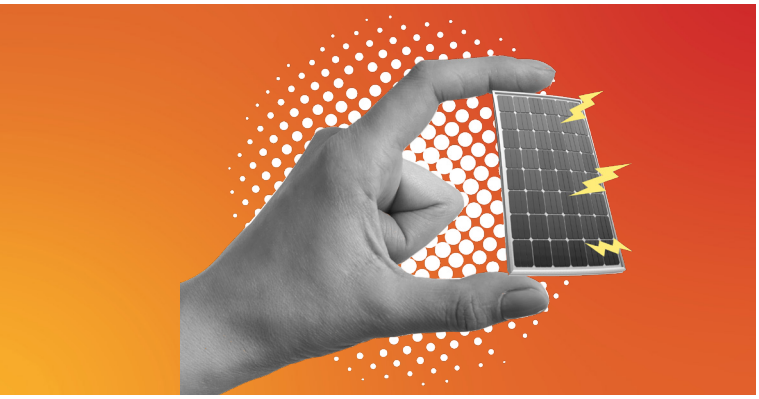
Global VC funding for AI and machine learning semiconductors reached $14.1 billion in 1H26, putting investment on track to surpass the 2025 annual total by nearly 50%, as per PitchBook. 1Q and 2Q26 were the two highest quarters on record for investment, with deal count also projected to exceed last year's level.

Figure 4: Global VC Funding for AI And Machine Learning



Source: PitchBook, data as of June 30, 2026

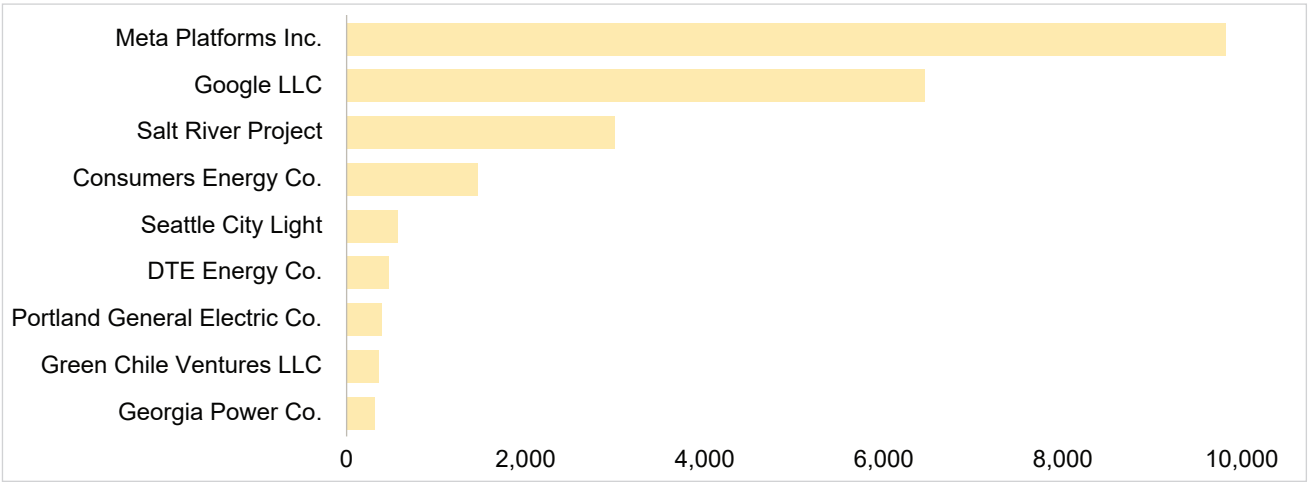
VC investment in AI semiconductors is accelerating as infrastructure constraints and stronger intellectual property protection make hardware increasingly attractive relative to the application layer. AI development faces bottlenecks spanning processors, memory, networking, and power, creating opportunities for startups addressing specific infrastructure constraints. This is reflected in sizable funding rounds, including Ayar Labs' $500 million Series E, Olix's $312 million Series B, and XCENA's $135 million Series B, targeting faster chip connectivity and reduced data bottlenecks. Chips are attracting the largest share of semiconductor investment, with $12.8 billion in trailing 12-month funding as of June 30 and deal value increasing 84.4% YoY, as per PitchBook. While Nvidia remains dominant, competition is encouraging startups to differentiate through lower energy consumption, faster processing, and workload-specific architectures rather than replicating general-purpose chips. Etched, valued at $10.3 billion following its latest funding round, is pursuing specialized prefill and decode chips, while Taalas develops chips with hardwired AI models to accelerate inference. Lower production barriers, including greater use of multi-wafer projects, are also enabling startups to manufacture samples at lower cost. For VCs, hardware offers defensibility through proprietary IP and higher switching costs once products are adopted, reducing the displacement risk faced by application-layer companies as AI models evolve. As AI expands beyond LLMs into robotics and world models, semiconductor infrastructure should remain foundational, supporting continued VC interest in differentiated technologies that alleviate computing constraints.



Solar Power Leads US Clean Energy Contracting as Power Demand Accelerates

US offtakers signed 96 clean energy contracts totaling 28.1 GW in 1H26, up from approximately 22.4 GW in 1H25, as per S&P Global. Solar emerged as the preferred source in 2Q, with 46 solar-only deals totaling over 10 GW signed during the first half, alongside growing solar-plus-battery activity.

Figure 5: Hyperscalers Lead US Clean Energy Offtake in 1H26



Source: S&P Global, data as of June 30, 2026

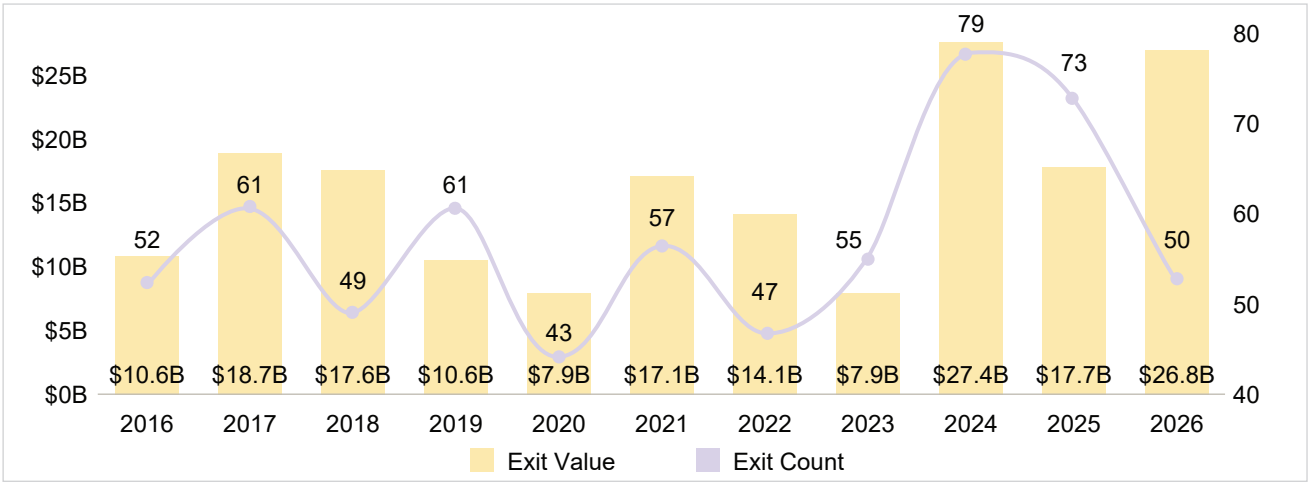
Solar's dominance in clean energy contracting reflects its role in meeting near-term power requirements as utilities and corporations face rising electricity demand. Large commitments are underpinning this activity, led by Salt River Project's 3 GW agreement with NextEra Energy Resources, adding 500 MW of solar capacity annually in Arizona between 2029 and 2034. Corporate demand is also significant, with Google signing agreements for 650 MW with Clearway Energy's Swan Solar and 1 GW of solar capacity with TotalEnergies, highlighting data center expansion as a driver of new capacity procurement. Hyperscalers Meta and Google were the two largest clean energy offtakers in 1H26, accounting for more than half of contracted volume, as AI-focused data centers increase power requirements. Their investment-grade creditworthiness also makes them attractive counterparties for developers, supporting financing of new energy infrastructure. Nuclear is emerging as a complementary source of firm power, with seven offtake agreements totaling approximately 7.5 GW, as hyperscalers explore solutions capable of providing round-the-clock electricity. However, nuclear projects, including SMRs, face 10- to 15-year development timelines, reinforcing the importance of technologies capable of adding capacity sooner. Utilities are contributing to demand, with Consumers Energy signing seven solar contracts totaling almost 1.5 GW to support renewable portfolio requirements. As electricity demand increasingly outpaces available supply, solar's scalability alongside firm power sources positions it as a key component of the US power buildout required to support data centers and broader load growth.



Aerospace and Defense PE Exits Approach Decade-High as IPO Activity Rebounds

Aerospace and defense (A&D) PE-backed exit value reached $26.8 billion in 1H26, surpassing the $17.7 billion recorded in full-year 2025 and nearing the decade-high annual total of $27.4 billion in 2024, as per PitchBook. The resurgence was supported by five major public listings, signaling a reopening of the sector's IPO exit window.

Figure 6: Global A&D PE-backed Exit Activity



Source: PitchBook, data as of June 30, 2026

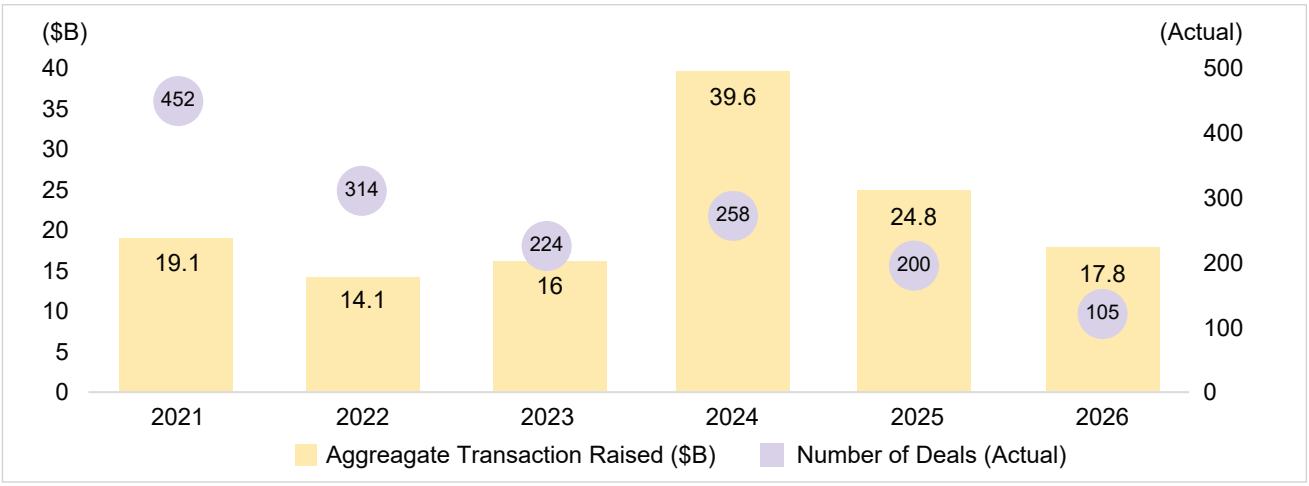
The reopening of public markets is creating a stronger liquidity environment for aerospace and defense PE sponsors as the broader asset class faces pressure from aging portfolios. Five major public listings drove the sector's exit momentum, including DPC Holdings at a $4.9 billion valuation, Global Medical Response at approximately $3.4 billion, and Applied Aerospace & Defense at approximately $3.5 billion, highlighting IPOs as a viable exit route for larger PE-backed companies. Exit activity is also broadening, with 27 PE-backed exits in 2Q26, up 17.4% QoQ and 22.7% YoY, as per PitchBook. Moreover, leveraged buyouts accounted for the largest share of exit count. Commercial aerospace remains a key driver, representing 40% of quarterly exit value, as Boeing and Airbus balance increasing aircraft production with the maintenance requirements of aging fleets. This supports recurring demand across replacement parts, repair services, and the broader aftermarket supply chain, where specialized businesses remain accessible to PE investors. Deal activity is also shifting toward smaller assets, with deal count increasing despite aggregate deal value declining, as large-scale aerospace and defense companies remain concentrated among publicly traded strategic players. This leaves tier two, three, and four suppliers as key areas of PE investment activity. A sustained reopening of exit channels could ultimately improve capital recycling while creating greater capacity for fresh PE deployment across the A&D value chain.



Large Pharma Transaction Pushes PE Deal Value Higher Despite Lower Volume

According to S&P Global, PE and VC pharmaceutical transaction value reached $17.8 billion through July 2026, supported by CVC Capital Partners and Groupe Bruxelles Lambert's proposed $8.9 billion privatization of Recordati. July transaction value reached $3.7 billion, exceeding the $3.2 billion recorded across 2Q, while deal volume declined 11% YoY.

Figure 7: Global PE/VC Investments in Pharmaceuticals



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

Pharmaceutical investment is becoming increasingly concentrated in larger, differentiated assets as investors prioritize clearer clinical pathways and identifiable strategic buyers. Large drugmakers are seeking late-stage clinical assets to replenish pipelines ahead of patent expirations, providing PE and VC investors with potential strategic exit routes. This dynamic is supporting investment despite lower deal volumes, as capital shifts toward fewer opportunities where patient safety and feasibility data will likely reduce scientific and technical uncertainty. Oncology remains a key target area, while metabolic drugs continue attracting capital following the commercial success of GLP-1 treatments, although increasing saturation could raise selectivity. AI is also becoming part of the investment thesis, particularly where technologies will likely improve R&D productivity, drug-target identification, development timelines, and commercialization efficiency. Geographically, Europe has emerged as the largest destination for capital, attracting $12.7B, or more than 70% of sector deal value, supported by manufacturing capabilities and comparatively affordable pharmaceutical assets, as per S&P Global. However, fragmented pricing and reimbursement frameworks and potential cross-border review delays remain investment considerations. The US and Canada accounted for six of the ten largest transactions, including ArchiMed's up to $1.1 billion acquisition of Esperion Therapeutics, while Asia-Pacific led by deal count. As pharma companies seek differentiated assets to address upcoming patent expirations, investment activity is likely to remain selective, favoring clinically validated businesses with clear commercial potential and credible strategic exit pathways.



DEALS FLASH

Platinum Equity to Exit De Wave Group

Platinum Equity, a Beverly Hills-based PE firm, has agreed to sell De Wave Group, an Italy-based provider of integrated marine outfitting solutions. Founded in 2014, De Wave provides design, manufacturing, installation, and maintenance services for cruise ships and yachts. This deal will allow De Wave to enter its next growth phase under new ownership, building on expanded capabilities and international operations. Further, it will enable Platinum Equity to exit following a transformation that more than doubled revenue and EBITDA during its ownership.

Yellow Wood to Acquire Holistic Health's Platform from Nestlé

Yellow Wood Partners, a Boston-based PE firm, has agreed to acquire Holistic Health, a provider of vitamins and nutritional supplements, from Nestlé, a Switzerland-based food and beverage manufacturer, for $1 billion. The platform includes Nature's Bounty, Nuun, Osteo Bi-Flex, and Gard, addressing wellness, hydration, and other health needs. This deal will allow Holistic Health to operate independently, accelerate brand innovation, and strengthen relationships with consumers and retailers. Further, it will enable Yellow Wood to apply its Consumer Operating DNA model to accelerate organic growth across the platform.

Kinderhook Exits Kingwire to OmniCable

Kinderhook Industries, a New York-based PE firm, has sold Kingwire, a North Chicago-based provider of electrical wire and cable, to OmniCable, a Dot Family Holdings company. Founded in 2003, Kingwire supplies electrical distributors through eight warehouses, offering aluminum products, stock programs, and customized cable preparation services. This deal will allow Kingwire to broaden product availability and warehouse reach while retaining its brand and locations. Further, it will enable Kinderhook to exit its investment through a strategic combination serving growing demand across utility, infrastructure, industrial, and data center markets nationwide.

Sverica Capital Backs Atrium

Sverica Capital Management, a San Francisco-based PE firm, has made a growth investment in Atrium, a Bozeman-based provider of AI and data consulting. Founded in 2018, Atrium provides data engineering, analytics, implementation, and managed services across Salesforce and Snowflake environments. This deal will allow Atrium to support enterprise AI adoption, strengthen customer outcomes, and advance its growth ambitions. Further, it will enable Sverica to extend its investment experience in cloud services and work with management to scale a consultancy positioned across two major enterprise technology ecosystems.

Sound Growth Invests in Diamond Art Club

Sound Growth Partners, a Seattle-based PE firm, has invested in Diamond Art Club, a Florida-based provider of premium diamond painting kits. Founded in 2018, Diamond Art Club provides painting kits featuring patented tools and licensed artwork from over 500 artists. This deal will allow Diamond Art Club to expand its team and product catalog while further improving product quality. Further, it will enable Sound Growth to partner with the co-founders, who retain significant equity, and support continued development of a consumer brand with a dedicated and enthusiastic international customer community.

Vistria Agrees to Invest in Curi Capital

The Vistria Group, a Chicago-based PE firm, has agreed to a majority investment in Curi Capital, a Chicago-based provider of wealth and investment advisory. Founded in 2005, Curi Capital provides financial planning, investment management, and family office services. This deal will allow Curi Capital to invest in technology, recruit talent, improve client services, and acquire complementary advisory firms. Further, it will enable Vistria to partner with employee owners and existing shareholders to scale a national platform overseeing more than $14 billion in assets under advisement across client segments.

Windjammer to Exit IPS Group for $350 Million

Windjammer Capital, a California-based PE firm, has agreed to sell IPS Group, a San Diego-based provider of integrated smart parking infrastructure, to Nayax, an Israel-based end-to-end retail technology platform, for $350 million. Founded in 2000, IPS provides parking meters, payments, enforcement, permitting, and analytics for municipalities, universities, and operators. This deal will allow IPS to enter its next ownership phase with an expanded technology platform and recurring revenue base. Further, it will enable Windjammer to exit after accelerating investments in new products, organizational infrastructure, and senior leadership.

Flexpoint Exits ArtesRx to Linden Capital

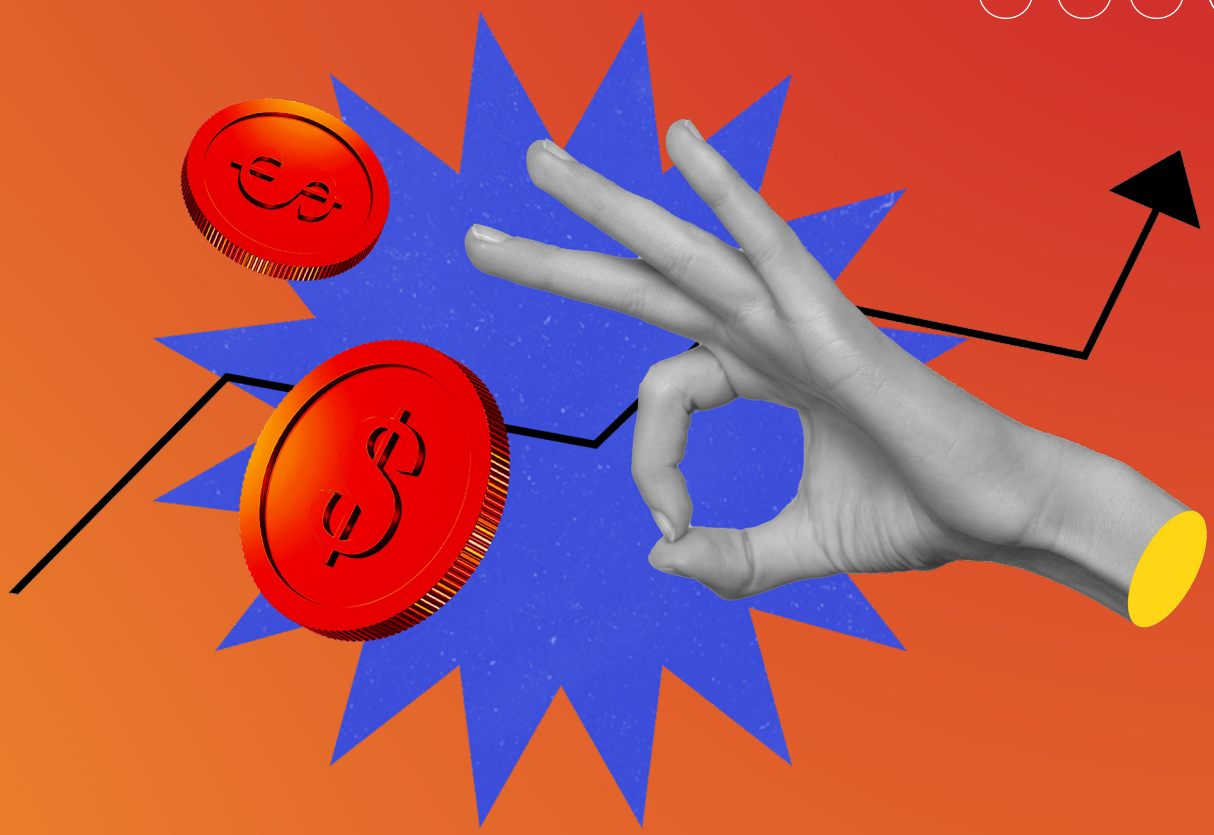
Flexpoint Ford, a Chicago-based PE firm, has sold ArtesRx, a Florida-based provider of specialized behavioral health pharmacy services, to Linden Capital Partners, a Chicago-based PE firm. Founded in 2023, ArtesRx provides medication support for patients with serious mental illness, substance use disorders, and developmental disabilities. This deal will allow ArtesRx to enter its next growth phase under Linden's ownership, building on its pharmacy network and community relationships. Further, it will enable Flexpoint to exit after helping expand the platform from three pharmacies primarily serving one state to 16 pharmacies serving 15 states.

Genstar Agrees to Sell First Eagle to Victory Capital

Genstar Capital, a San Francisco-based PE firm, has agreed to sell First Eagle Investments, a New York-based provider of diversified investment management services, to Victory Capital, a Texas-based diversified global asset management firm. Founded in 1864, First Eagle provides equity, fixed income, alternative credit, and multi-asset investment strategies. This deal will allow First Eagle to access broader distribution while retaining its brand, investment autonomy, and processes. Further, it will enable Genstar to partner with Victory Capital and support First Eagle in building on its success as a market-leading investment firm.

Thoma Bravo Backs Tanda

Thoma Bravo, a San Francisco-based PE firm, has made a growth investment in Tanda, an Australia-based provider of workforce management software solutions. Founded in 2012, Tanda provides payroll, HR, scheduling, and compliance software for employers managing shift-based workforces. This deal will allow Tanda to advance its AI roadmap, accelerate product development, and expand into international markets. Further, it will enable Thoma Bravo to partner with Tanda's founders and apply its software investment expertise to scale an integrated platform serving frontline employers across multiple industries globally.



TRENDS AND STATS

August Middle-Market Deal Summary

53.1%
of the deals were made in the Business Products and Services (B2B) sector.

70.8%
of B2B deals were in Commercial Services.

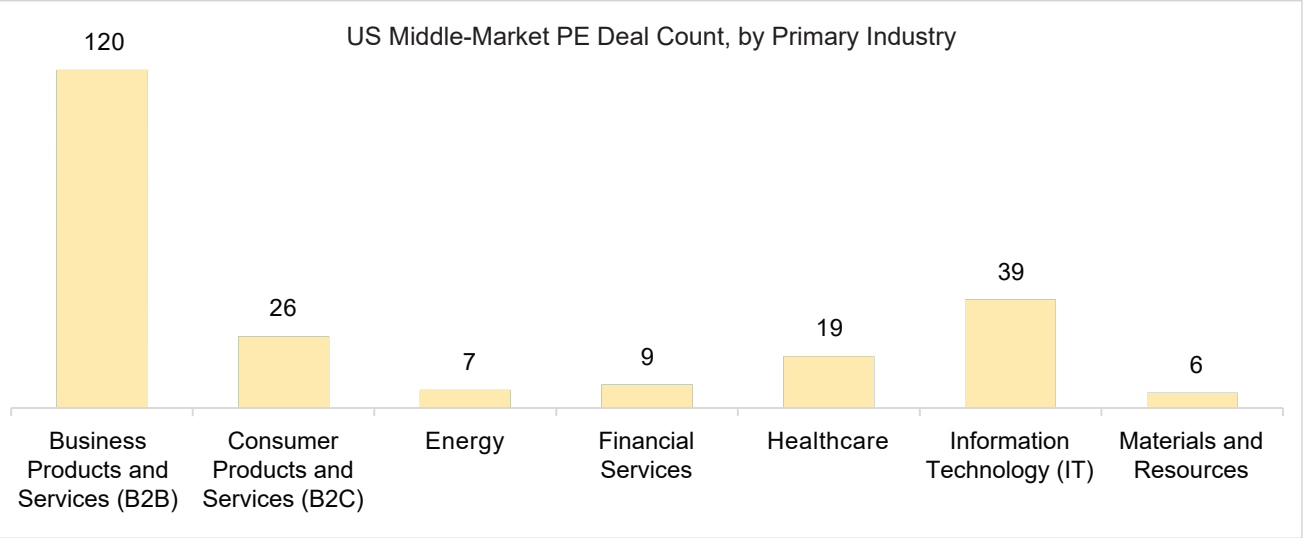
17.3%
of the deals were in IT.

53.8%
of IT deals were in Software.

California
experienced the highest dealmaking activity, followed by Florida.

75.7%
of the deals were buyouts.

Figure 8: August 2026 Middle-Market Deal Summary



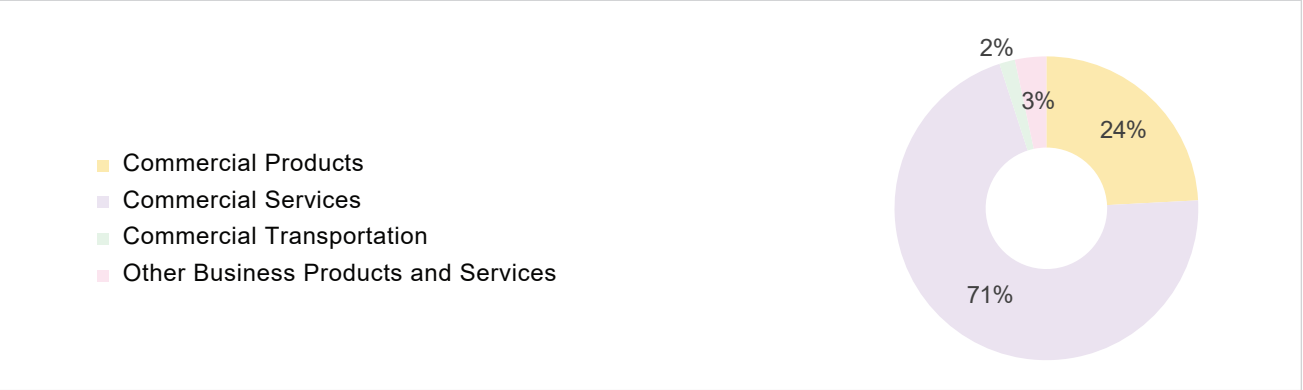
Source: SG Analytics Research

Figure 9: Share of Consumer Products and Services



Source: SG Analytics Research

Figure 10: Share of Business Products and Services

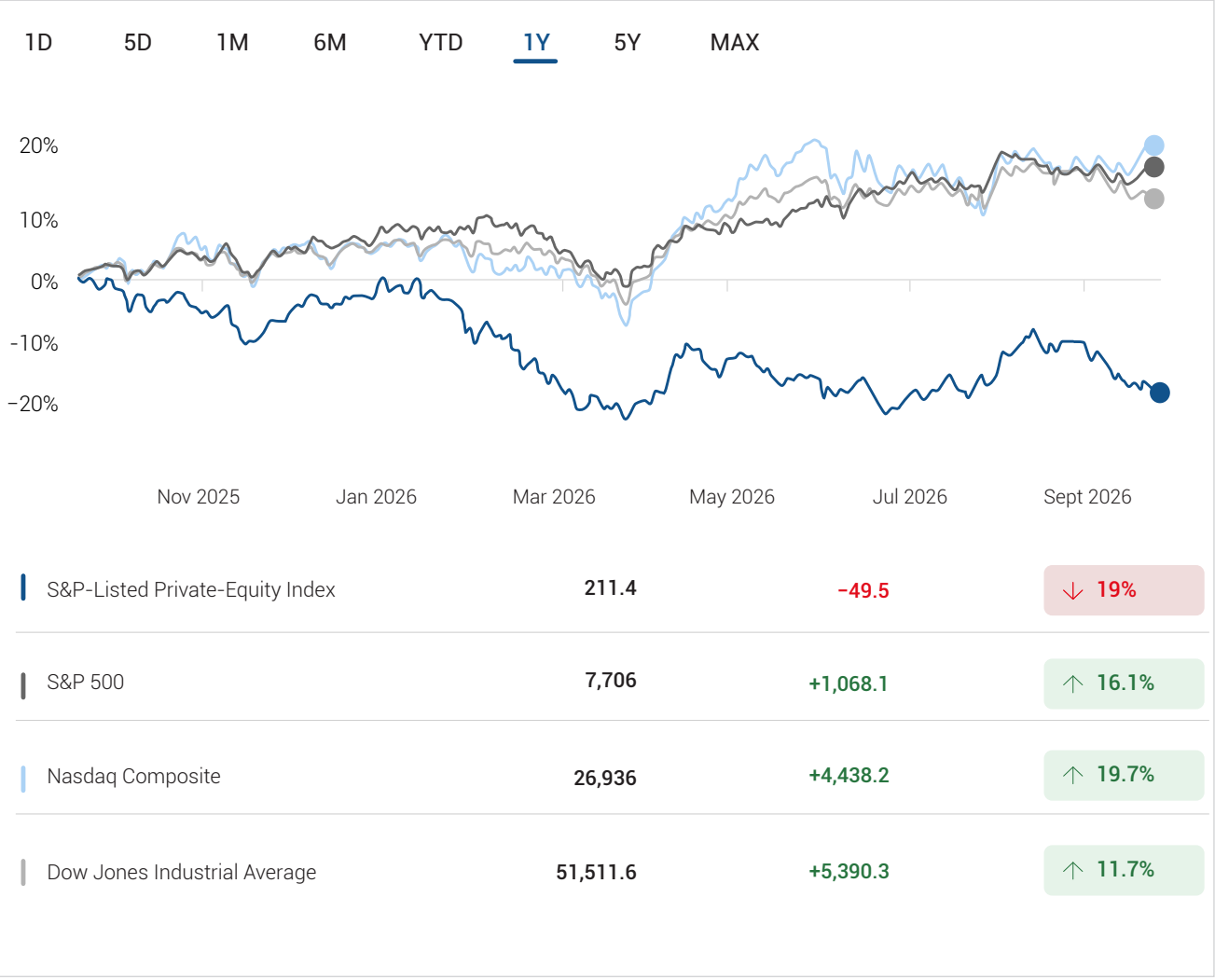


Source: SG Analytics Research

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

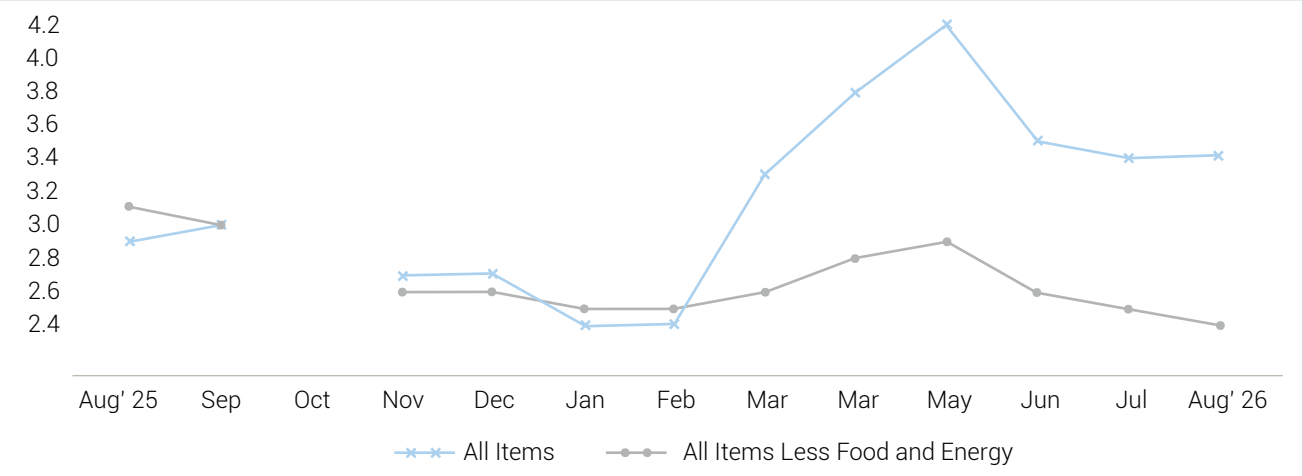
Figure 11: S&P-Listed Private-Equity Index



Note: Data as of September 24, 2026

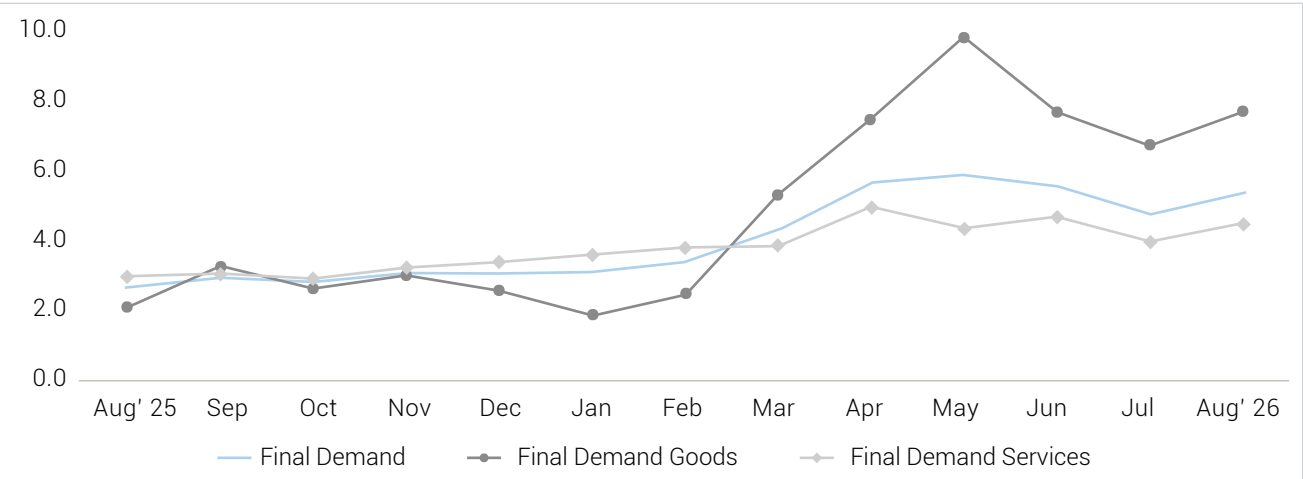
Index	Month-over-Month	YTD
Consumer Price Index (CPI)	0.4%	3.4%
Producer Price Index (PPI)	0.4%	5.4%

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

New York PrivateCapital Summit	October 14, 2026	BWell& by Durst and Nasdaq MarketSite, NY
Kayo 2026 New York Private Equity Forum	October 15, 2026	Bank of America Tower, New York, NY
Operating Partners Forum New York 2026	October 19–21, 2026	Convene Brookfield Place, 225 Liberty Street, NY

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