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Middle-Market M&A at the Close of 2025: What Business Owners Should Expect in 2026

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As 2025 ends, the merger and acquisition (M&A) market, especially in the $5–$100M deal range, is closing out the year on firmer footing than it began. After two years defined by higher borrowing costs, valuation gaps, and cautious buyers, the middle market spent 2025 recalibrating. Today, we're seeing disciplined but real momentum.

There is better alignment between buyers and sellers, renewed lender appetite, and a more predictable rate environment that is finally allowing exit windows to open. Heading into 2026, small and mid-sized business owners should feel cautiously optimistic. Deals are getting done, but strong fundamentals matter more than ever.

Below is a year-end look at the data, the trends, and the opportunities for middle-market deals.

Deal Volume

For transactions involving PE firms, deal volume appears to be on the rise in late 2025. According to a report from EY, while deal value was down for PE deals in October, deal volume in this area was up, indicating a move to more mid-market and smaller transactions for PE firms as opposed to mega deals.

In terms of the overall picture for the M&A market, Deloitte's 2026 M&A Trends Survey signals that while total deal value rose 56% in Q3, total deal volume only jumped 1.6%. They say this could "present an opportunity for increased value realization, especially with midmarket and smaller deals."

Valuation Gaps

EY's Private Equity Pulse from Q3 of this year also points to a narrowing valuation gap between buyers and sellers. In their most recent global general partner (GP) survey, two-thirds of respondents cite a narrowing valuation gap that is allowing "buyers and sellers to find common ground and move forward with confidence."

So, what is driving this gap to close? More stable interest rates and improved credit access are two of the most significant factors, along with sellers adjusting their expectations and buyers who are willing to use structure (earnouts, seller notes, rollover equity) to bridge any gaps. Sellers entering the market prepared with reliable financials, clear forecasts, and realistic expectations are the ones securing the strongest multiples.

Financing Conditions

EY's Private Equity Pulse from Q3 also indicates significantly improving financing conditions. They say direct lenders are staying highly active and offering competitive pricing and flexible structures, while the broadly syndicated loan market has reopened for larger buyouts. Their report cites PitchBook LCD data showing that in the U.S., syndicated loan activity reached a record $404 billion in Q3, reflecting renewed confidence from both borrowers and lenders and signaling stronger overall credit availability heading into 2026.

The 25 basis point rate cuts by the Fed in September and October have been a much-needed bright spot in 2025, freeing up access to capital, and we could see one more before the end of the year. Deloitte's 2026 M&A Trends Survey says that if that next rate cut materializes, it would be a "welcome tailwind for deal activity."

Strategic Buyers

While private equity remains active, strategic buyers were the surprise strength of 2025. Solomon Partners M&A Outlook and Trends from October indicates that strategic M&A remains steady, with strategic deal volume up 21% in Q3 2025 vs 2024. They highlight elevated cash reserves and tariff-driven cost pressures as two factors that are encouraging consolidation. Strategics are also less rate-sensitive than financial buyers, giving them more room to compete on valuation.

What Small & Mid-Market Sellers Should Expect in 2026

A Healthier, but Highly Selective, Universe of Buyers
Expect a strong pipeline of buyers in 2026, but not necessarily for every business. Buyers are increasingly becoming more selective, prioritizing factors such as strong margins and stable cash flow, as well as recurring or contractual revenue. AI-enabled operations or meaningful data visibility, clean financials with audit-ready records, and a clear, demonstrable growth runway will continue to drive premium valuations. Businesses that lack these characteristics should anticipate more intensive diligence and a greater reliance on structured deal terms.

Diligence Will Be Even Tighter
Buyers will continue to push for deeper and more comprehensive diligence in 2026, making quality of earnings reports a baseline expectation and expanding operational reviews to cover technology infrastructure, cybersecurity, and AI adoption. They will scrutinize things such as inventory practices, working-capital trends, and customer concentration more closely, while also increasing their focus on data-privacy and overall regulatory compliance.

Well-Prepared Sellers Will Have the Advantage
Owners considering an exit in 2026 should begin preparing now. The most successful sellers in 2025 entered the process with 12–24 months of clean, normalized financials, a strong management team ready to support the transition, and early engagement with their legal, tax, and accounting advisors before going to market. This level of preparation consistently results in shorter diligence timelines and more secure, defensible purchase prices. While the market is improving, buyers remain disciplined, and seller-friendly terms are not guaranteed.

Overall, the outlook for 2026 is cautious optimism with real opportunity. If 2025 was defined by recalibration, 2026 is poised to be a year of execution, particularly in the lower and middle markets. For business owners considering a sale, 2026 may present the best environment we have seen since 2021, but only for those who are preparing today to seize the opportunity of tomorrow.