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PE Middle Market Report



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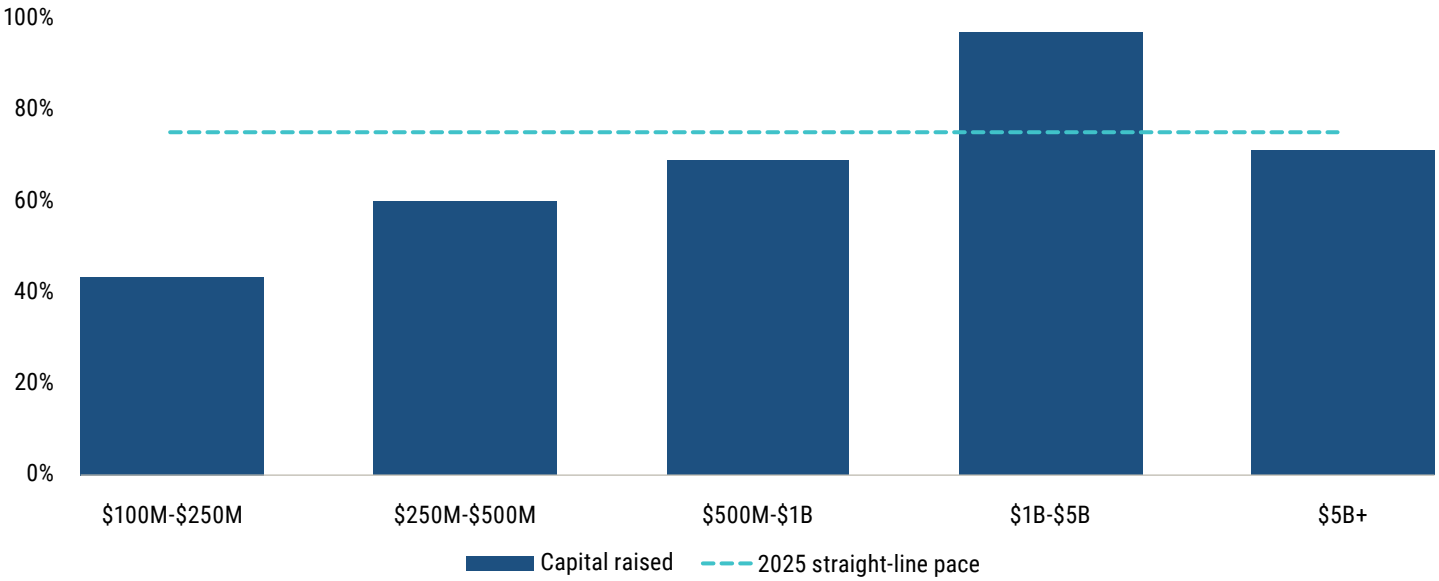
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EXECUTIVE SUMMARY

Breadth returns, liquidity lags

YTD PE capital raised as a share of 2025 total by size bucket



Source: PitchBook • Geography: US • As of September 30, 2026

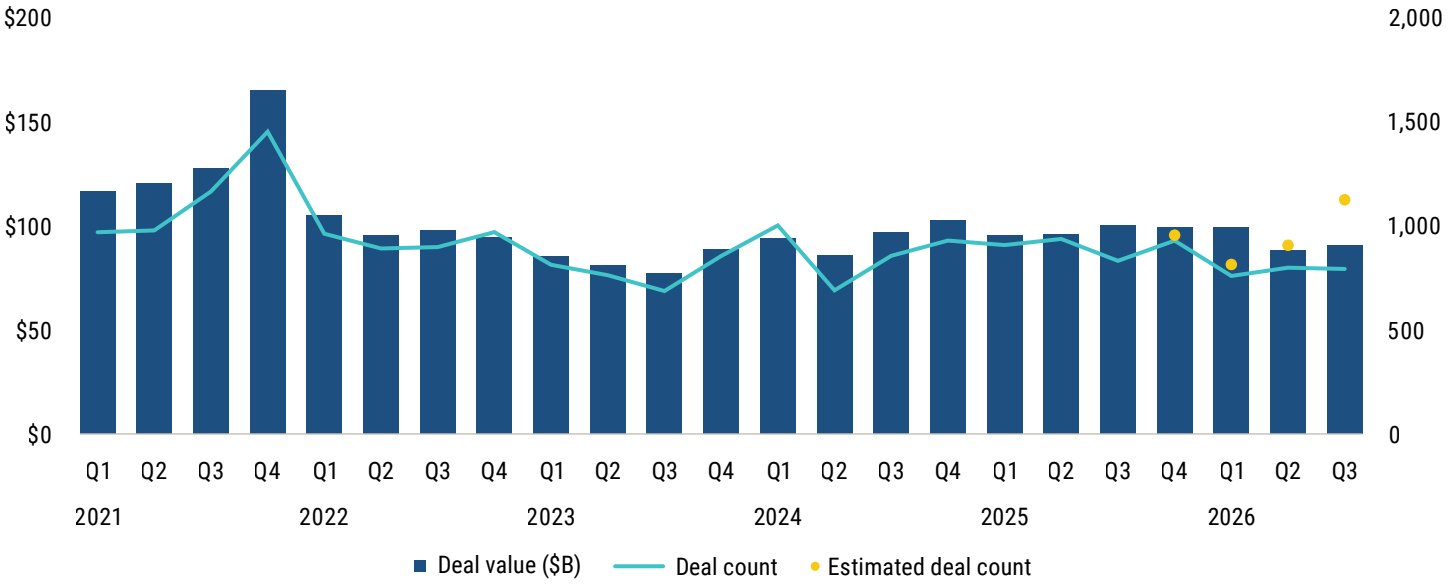
The middle market regained its footing in Q3, with the recovery led by a surge in smaller deals. Deal count jumped 24.1% QoQ to an estimated 1,124 transactions, while deal value edged up 2.5% to an estimated $90.4 billion. At the current pace, 2026 would finish with nearly 3,800 deals, second only to 2021, even as deal value tracks about 5% below the 2025 total. Sponsors are favoring smaller, more digestible transactions as the September rate hike keeps financing costs elevated.

Exits recovered from their Q2 trough but remain the weak link. An estimated 235 exits totaling $27.6 billion closed in Q3, and annual activity is pacing roughly 15% below 2025 on both count and value. Continuation funds, the focus of this quarter's spotlight, have become an established liquidity tool for GPs as realizations remain scarce.

Fundraising is the segment's strongest metric. Through Q3, middle-market funds raised $108.6 billion across 101 fund closings, already 85.1% of 2025's total, but capital is concentrating at the top: Funds of $1 billion to $5 billion captured a record 76.7% of capital raised. With fundraising outpacing deployment, middle-market buyout dry powder has climbed to a record $493.8 billion as of Q1 2026. We expect that dry powder to support activity into 2027, though the pace of exits will determine how broadly LPs recommit.

Deals

PE middle-market deal activity by quarter



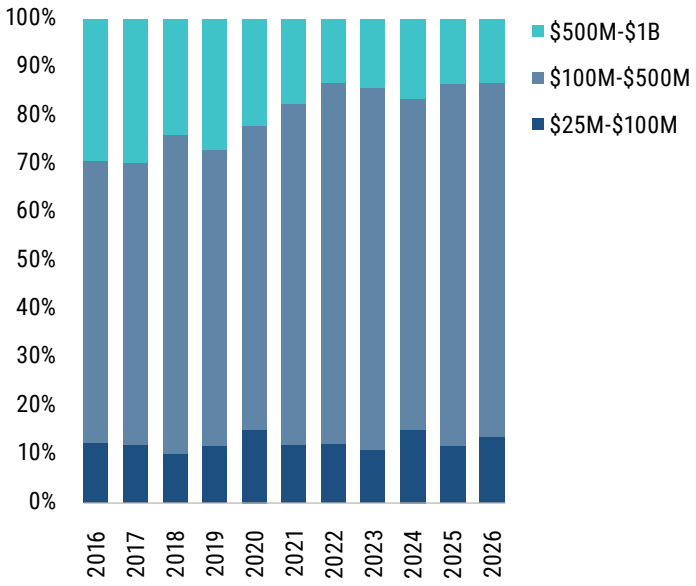
Source: PitchBook • Geography: US • As of September 30, 2026

Overview: Middle-market dealmaking gets back on track

Dealmaking improved in the third quarter following a dip in deal value in Q2, when market headwinds forced many sponsors to take a step back and reassess. Deal value increased marginally by 2.5% QoQ to an estimated $90.4 billion, while the estimated deal count accelerated by 24.1% QoQ and surpassed 1,000 deals for the first time since Q1 2024. On an annualized basis, middle-market deal activity is on pace to reach $370 billion across nearly 3,800 deals; that deal count would make 2026 the second-best year on record for the middle market, trailing only the 2021 peak. The acceleration in deal count highlights sponsors' conviction in smaller, more digestible deals across the broader PE ecosystem amid the evolving macroeconomic backdrop, which includes a cemented higher-for-longer interest rate environment.

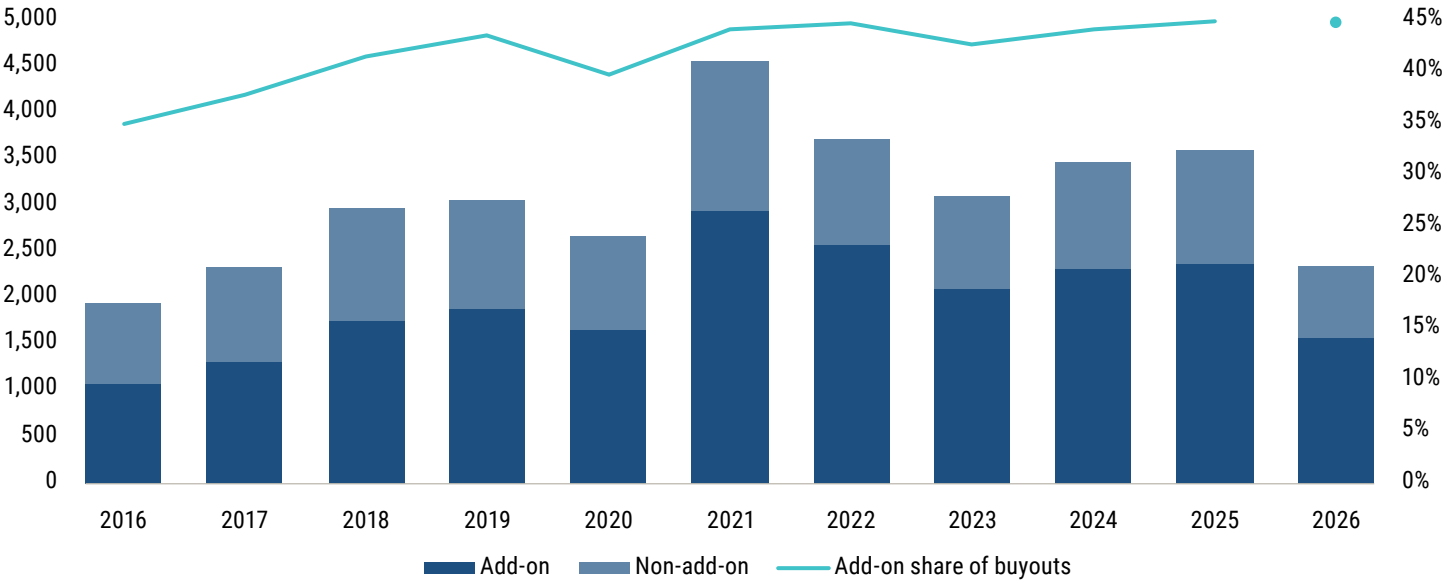
In Q2, investors retreated from the large, financing-dependent deals that had powered activity in previous quarters, but Q3 saw more of those transactions back in the mix. However, with a rate hike by the Federal Reserve toward the end of Q3 and one more expected before year-end, more dealmakers may concentrate on middle-market opportunities, looking for less financing-dependent deals where they can drive operational enhancements. This dynamic should allow the lower and core middle market to continue dominating activity across the PE ecosystem.

Share of PE middle-market deal value by size bucket



Source: PitchBook • Geography: US • As of September 30, 2026

PE middle-market add-on deal count

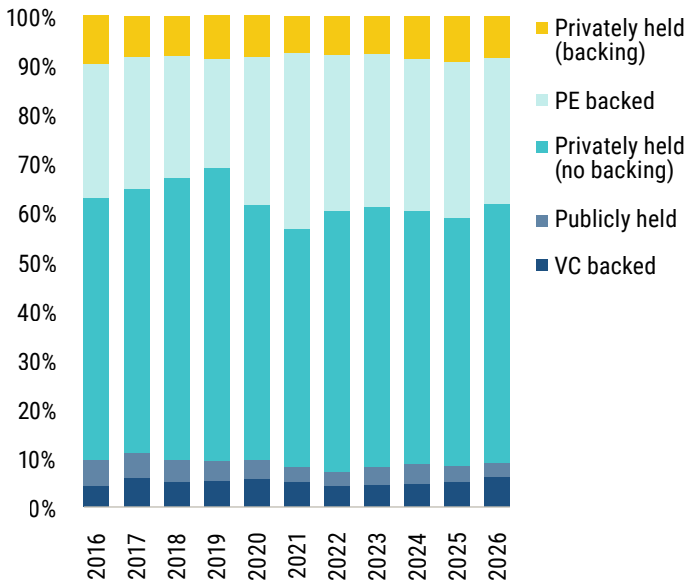


Source: PitchBook • Geography: US • As of September 30, 2026

Add-ons remain the workhorse for middle-market deployment, accounting for 67.1% of all middle-market transactions YTD, in line with activity seen in recent years. Middle-market add-ons have accounted for 44.8% of all US PE buyout transactions YTD, well above the 10-year average of 41.9%. Add-ons have also increased sequentially, inching closer to 600 in Q3. The roll-up machine continues to gain traction as sponsors home in on this deal type. As a result, add-ons' share of total buyout deal value jumped to 17.4% through the end of Q3, up from 13.3% in 2025.

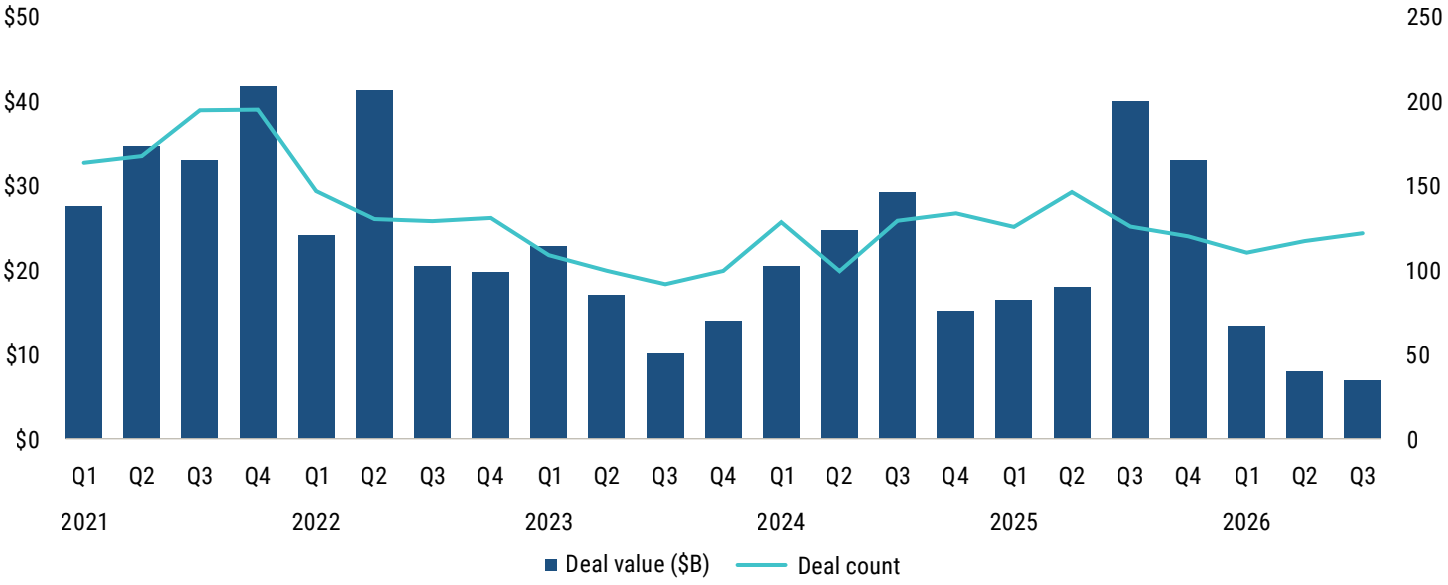
Amid the concentration of activity in the middle market, founder-owned businesses continue to be the largest source of deal activity for sponsors, accounting for 52.6% of middle-market deals YTD, the segment's highest level since 2023. The universe of founder-owned businesses in the US is massive, with a company count in the millions. Founder-owned businesses allow sponsors to pull the most growth levers and are often where sponsors default to in more tumultuous market environments. The next-largest bucket for deal activity is other PE-backed companies (sponsor-to-sponsor acquisitions), which have accounted for 29.9% of middle-market deal flow this year, right in line with historical averages.

Share of PE middle-market deal count by backing type



Source: PitchBook • Geography: US • As of September 30, 2026

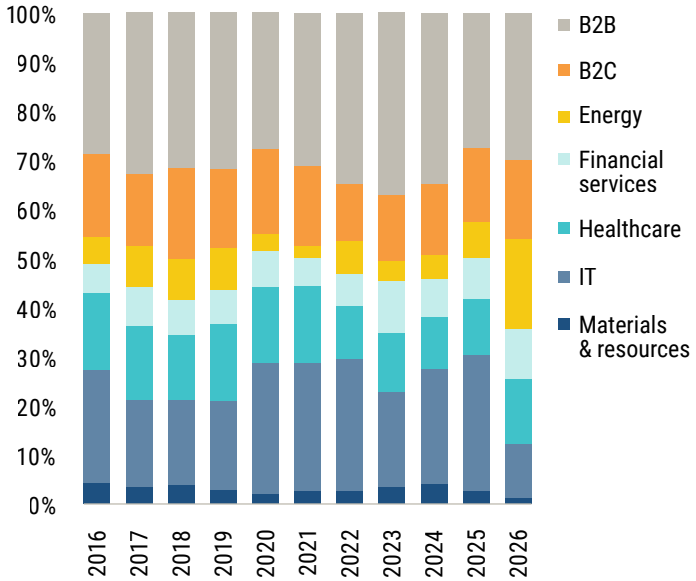
IT PE middle-market deal activity by quarter



Source: PitchBook • Geography: US • As of September 30, 2026

Sector rotation in capital deployment remains underway for the asset class. Because broader shocks in the asset class forced many sponsors downmarket, deal counts held up across sectors in Q2. Several sectors, including IT, saw increases in Q3, even as deal value told a different story. For example, deployment in IT in 2026 pales in comparison to activity in 2025 and has declined sequentially throughout the year, though the decline from $8 billion in Q2 to $7 billion in Q3 is much less severe than the near halving from $13.3 billion deployed in Q1 to $8 billion in Q2. The AI-related displacement fears driving the SaaS-pocalypse have kept many sponsors away from the sector, and that will likely continue through the remainder of 2026. Conversely, financial services has seen increasing activity throughout the year on a deal value basis, with 71 deals worth an aggregate of $10.7 billion transpiring in Q3 alone, while deal count has remained flat. Sector mix, more than overall activity, is where the market is being reshaped this year.

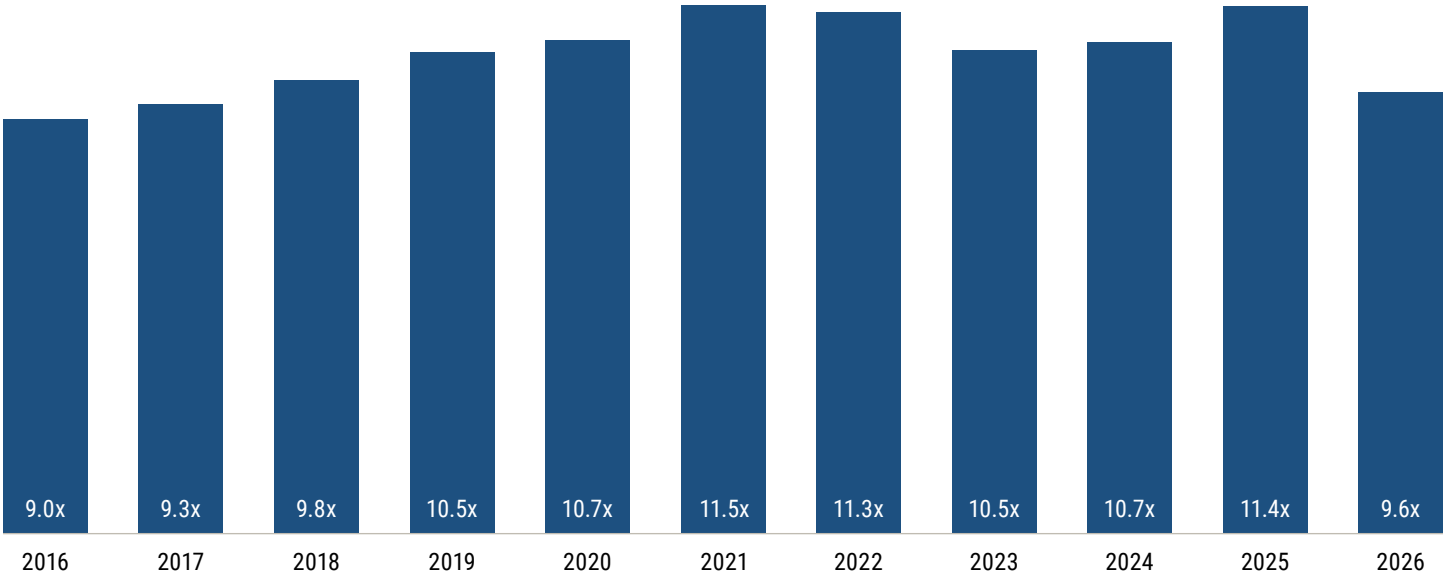
Share of PE middle-market deal value by sector



Source: PitchBook • Geography: US • As of September 30, 2026

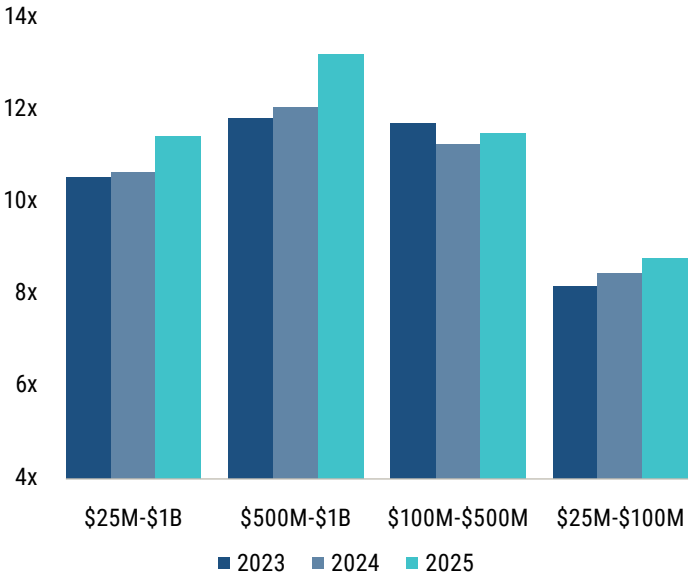
Valuations

Median PE middle-market enterprise value (EV)/EBITDA multiple



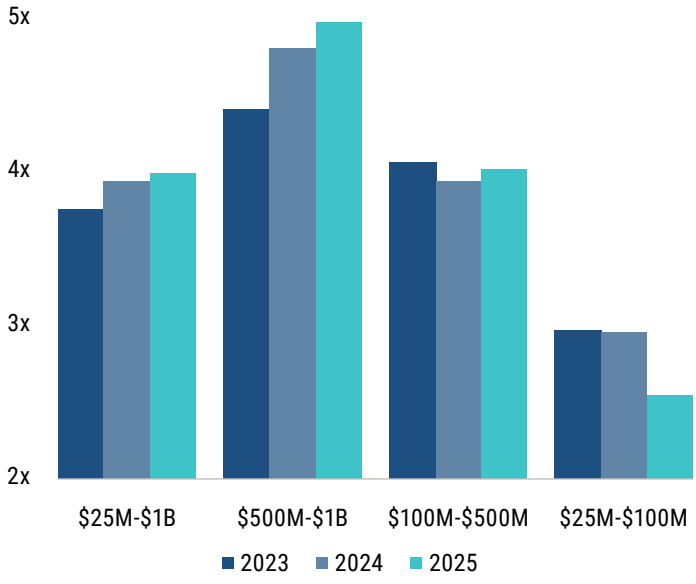
Source: SPI by StepStone • Geography: US • As of March 31, 2026

Median EV/EBITDA multiple by total enterprise value (TEV) size bucket



Source: SPI by StepStone • Geography: US • As of March 31, 2026

Median net debt/EBITDA multiple by TEV size bucket



Source: SPI by StepStone • Geography: US • As of March 31, 2026

A WORD FROM BASS, BERRY & SIMS

Navigating the new normal in middle-market private equity

Middle-market private equity is adjusting to a more demanding deal environment shaped by higher capital costs, longer holding periods, increasing regulatory complexity, and rapid advances in AI. In this Q&A, Bass, Berry & Sims attorneys Maggie Deutsch, Angela Humphreys, and Ryan Thomas discuss how sponsors and portfolio companies are responding.

What challenges are middle-market companies facing in the current deal environment?

Ryan Thomas: PE dealmakers benefited from a historically long run of cheap, accessible debt that could be leveraged to fund add-on acquisitions. Coupled with expanding exit multiples, that environment allowed many sponsors to generate returns through EBITDA and multiple arbitrage without relying heavily on operational improvements or organic growth.

The tides have turned. While some sectors are improving, longer holding periods and deal timelines, more broken or retraded deals, tepid auction demand outside of top-tier assets, AI uncertainty, and persistently higher interest rates make clear that we have a "new normal" to navigate. One of the biggest challenges for middle-market companies is creating value through organic growth and operational improvement, with less reliance on leverage and acquisitions.

Where can PE backing provide the most value to middle-market companies?

Ryan Thomas: PE sponsors can provide sophisticated operational support that many middle-market companies cannot afford or obtain independently. Many GPs have operations or consulting backgrounds, and funds are investing heavily in portfolio operations teams and operating partners. Their resources can include HR and talent acquisition, industry-specific board expertise, regulatory compliance, technology support, and portfolio-wide experience assessing and implementing AI.

This support can be particularly important in healthcare, where companies face frequent regulatory developments and increased government fraud enforcement and investigations. Compliance failures can erode equity value while generating significant legal costs, settlements, and reputational damage. A sponsor can provide expertise, connections, and oversight while setting the right tone at the top.

PE-backed companies also gain access to capital and potential exit opportunities that may be difficult to secure independently. In a challenging exit market, a sponsor's connections and advisors can help identify and execute opportunities that may not otherwise be available to a standalone company.

What deal terms or structures have become more common in the current environment, and how are buyers and sellers bridging valuation gaps to get transactions across the finish line?



Maggie Deutsch is a member of Bass, Berry & Sims' Debt Finance Practice, where she advises private equity sponsors, portfolio companies, and lenders on a broad range of financing transactions.



Angela Humphreys is chair of the Healthcare Practice Group and co-chair of the Healthcare Private Equity Team at Bass, Berry & Sims. She advises private equity sponsors, healthcare providers, and strategic investors on mergers & acquisitions, growth investments, and strategic transactions across the healthcare industry, combining deep expertise on both M&A and healthcare regulatory matters.



Ryan Thomas is chair of the Private Equity Team and co-chair of the Healthcare Private Equity Team at Bass, Berry & Sims. He advises private equity funds, founders, and management teams on mergers & acquisitions, growth investments, and strategic transactions across a variety of industries, including healthcare.

Maggie Deutsch: We are seeing more creativity around structure as buyers and sellers work through lingering valuation gaps. Rather than simply meeting in the middle on price, parties are using structure to allocate risk and preserve upside.

Rollover equity remains an important tool, particularly in founder- and management-owned businesses, allowing sellers to realize liquidity while retaining participation in future growth. Earnouts, seller notes, and other forms of deferred or contingent consideration are also used where the parties disagree about future performance. The goal is often to separate the value everyone agrees exists today from the value that still needs to be proven.

How has the middle-market financing environment changed, and what private credit trends are impacting deal execution?

Maggie Deutsch: The most notable trend is increased competition among private credit, banks, and the syndicated market. Banks have become more competitive, particularly for stronger credits, giving sponsors real alternatives and pressuring private credit to compete not only on pricing but also on leverage, certainty, and flexibility.

Within private credit, the market is much more bifurcated. High-quality borrowers still generate significant competition and negotiate aggressive terms, including greater flexibility around acquisitions, incremental debt, and delayed-draw capacity. Meanwhile, lenders are more disciplined on challenged credits, with greater scrutiny of leverage, EBITDA adjustments, payment-in-kind, and downside protection.

Private credit is also expanding beyond the traditional unitranche, offering senior and junior capital as well as asset-based and structured products that let sponsors tailor the capital structure to the business and investment thesis. For sponsors, that makes running a competitive financing process increasingly important. The best execution is often not the lowest spread, but the financing that provides enough flexibility to avoid renegotiating every time an acquisition opportunity arises.

Where are sponsors focusing their value-creation efforts today, including talent, technology, operational improvements, and AI?

Angela Humphreys: Buying well and adding leverage no longer delivers target returns on its own; value has to be created during ownership. A deal that needed approximately 5% annual EBITDA growth 10 years ago to return 2.5x over five years now needs more than double that. With longer holds and stretched resources, the edge goes to sponsors with sector specialization, operating capability, talent, and execution discipline, which is especially true in healthcare. Talent is the biggest constraint, now for technology as much as management, and in healthcare services the talent agenda also covers clinicians and leadership, with physician-group platforms testing new value-creation models as the next frontier beyond classic roll-ups. Because plans can run out of steam mid-hold, sponsors are increasingly refreshing plans mid-hold and investing in repeatable operating playbooks for underwriting and value creation.

AI, of course, has emerged as a core lever across the deal lifecycle, not just a risk or cost tool. All of the funds I work with have AI initiatives at both the portfolio company and fund levels, spanning deal selection, value creation, and exit planning. Using AI to accelerate portfolio company revenue is often a top priority, with leaders redesigning workflows, strengthening data foundations, and reshaping operating models.

Looking ahead over the next 12 to 24 months, what trends are you watching most closely, and what do you think is underappreciated, overblown, or most likely to shape the middle-market PE landscape?

Angela Humphreys: Given the length of holds on many assets, we see an uptick in sale preparation heading into Q4 and expect strong deal volume through the rest of this year and into 2027. Long holds also mean that continuation vehicles, once viewed as a possible fad, are becoming a permanent tool.

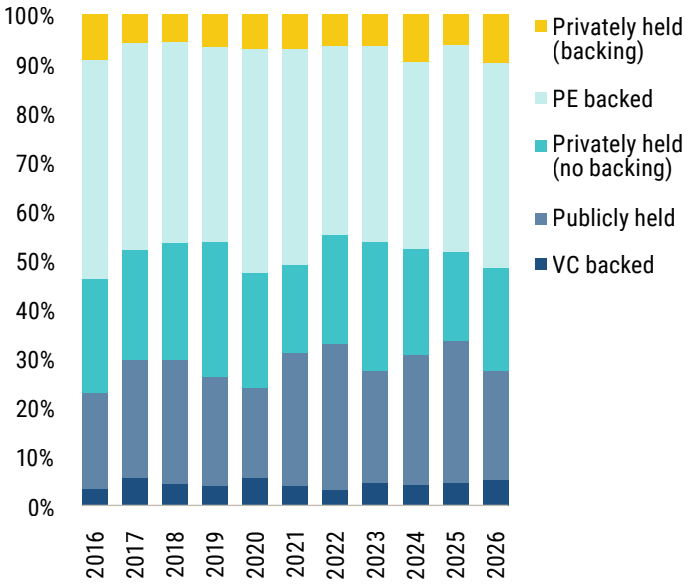
Among our healthcare PE clients, one of the most closely watched regulatory trends is the growing patchwork of state healthcare material transaction laws. Most of our transactions involve filings in one or more states, which is shaping the pace, structure, cost, and postclosing operations of these deals. Ownership reporting, five-year metrics, and limits on management services organization control will change physician practice management structures and weigh on healthcare services valuations, not just timing—an impact many in the space underappreciate.

One of the most overblown themes is that PE investment in healthcare has stalled. Despite regulatory headwinds, 2025 saw record global deal value, and 2026 activity, while moderated, remains robust. The debt markets are open despite some private credit stress, and nothing in the financial markets is fundamentally broken.

As for what will most shape the middle-market landscape, I think the key is how well sponsors build AI into diligence and portfolio operations. AI is no longer a competitive advantage; it will be key to survival and sustainability. In healthcare specifically, reimbursement changes will continue to shape where investors deploy capital and whether they double down on existing portfolio companies or shift resources to new platforms in other sectors.

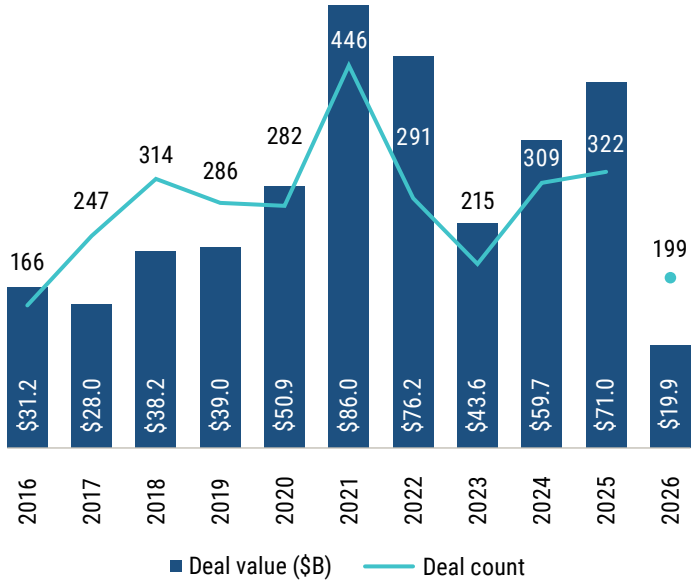
Deals by backing and sector

Share of PE middle-market deal value by backing type



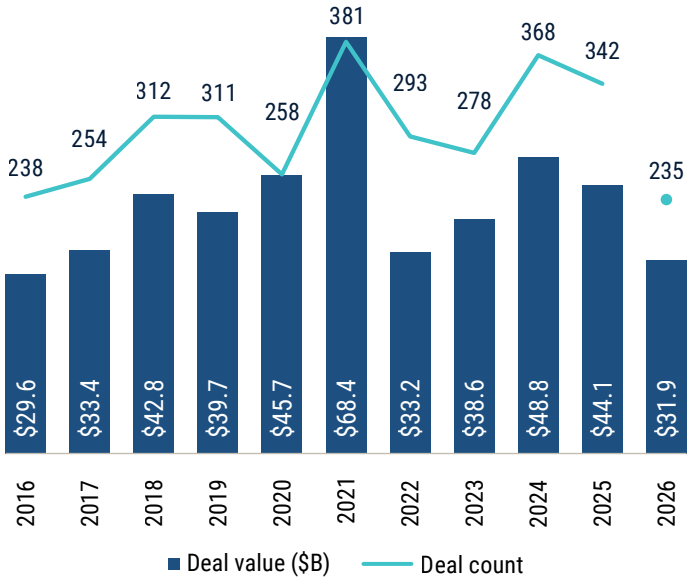
Source: PitchBook • Geography: US • As of September 30, 2026

Software PE middle-market deal activity



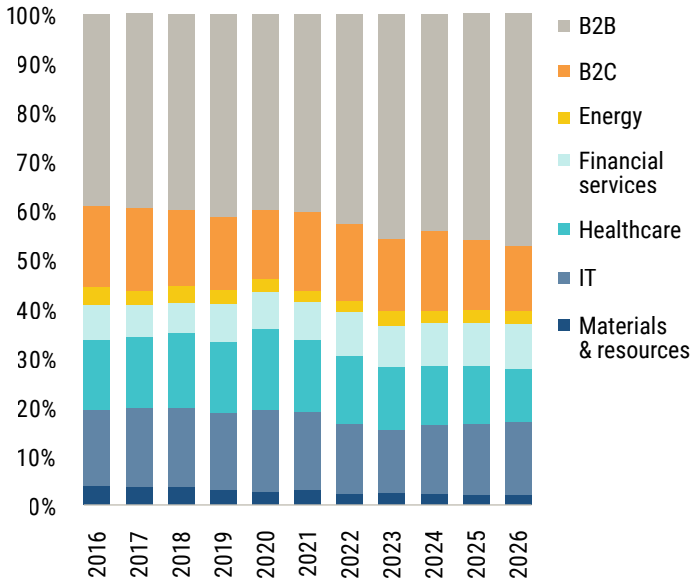
Source: PitchBook • Geography: US • As of September 30, 2026

PE middle-market carveout deal activity



Source: PitchBook • Geography: US • As of September 30, 2026

Share of PE middle-market deal count by sector



Source: PitchBook • Geography: US • As of September 30, 2026

SPOTLIGHT

The Continuation of Continuation Funds

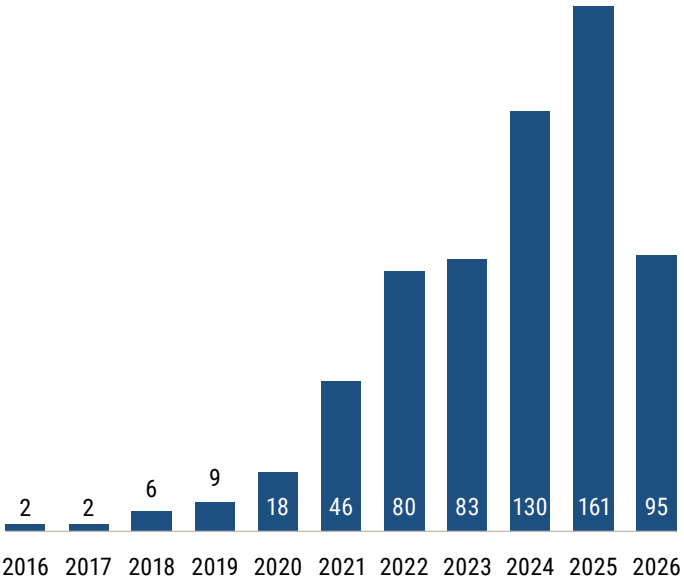
Note: This spotlight is abridged from the Q4 2026 analyst note [The Continuation of Continuation Funds](). Please see the full note for additional analysis on the evolution of continuation funds as a liquidity tool for the PE ecosystem.

Continuation-fund-related exits have evolved in recent years from being a niche, last-resort tool for winding down tail-end assets to being a more widely accepted liquidity and portfolio management strategy. The PE exit drought and subsequent liquidity pressure drove the acceleration of continuation fund usage by GPs as a "fourth exit path" alongside traditional options such as public listings, strategic sales, and sponsor-to-sponsor exits. As the usage normalized, GPs cemented continuation funds as a bigger part of the PE playbook that will outlive a single downmarket cycle. Continuation funds are here to stay and have advanced their status as a more strategic tool for releasing liquidity while extending the runway to compound value.

While continuation funds are still a small portion of total exit activity, their share has grown meaningfully in a few years. Continuation-fund-related exits increased from a sub-1% share of the total global PE exit value to 5.9% in 2022 and a peak of 7.3% in 2025.[1] As a share of global PE exit count, continuation-fund-related exits also jumped from under 1% to 3.8% over five years.

Although continuation funds were originally intended for assets nearing the end of their lifespans and requiring an extension, the current assets in these funds tend to be younger. This aligns with the evolving use of continuation funds to hold on to trophy assets whose value a GP would look to crystallize around five to seven years after the initial investment. 44.4% of continuation fund assets had been held for five to seven years before being rolled into the fund, while just 13.8% had been held for eight to 10 years and 6.3% for longer than 10 years.

PE continuation-fund-related exit count

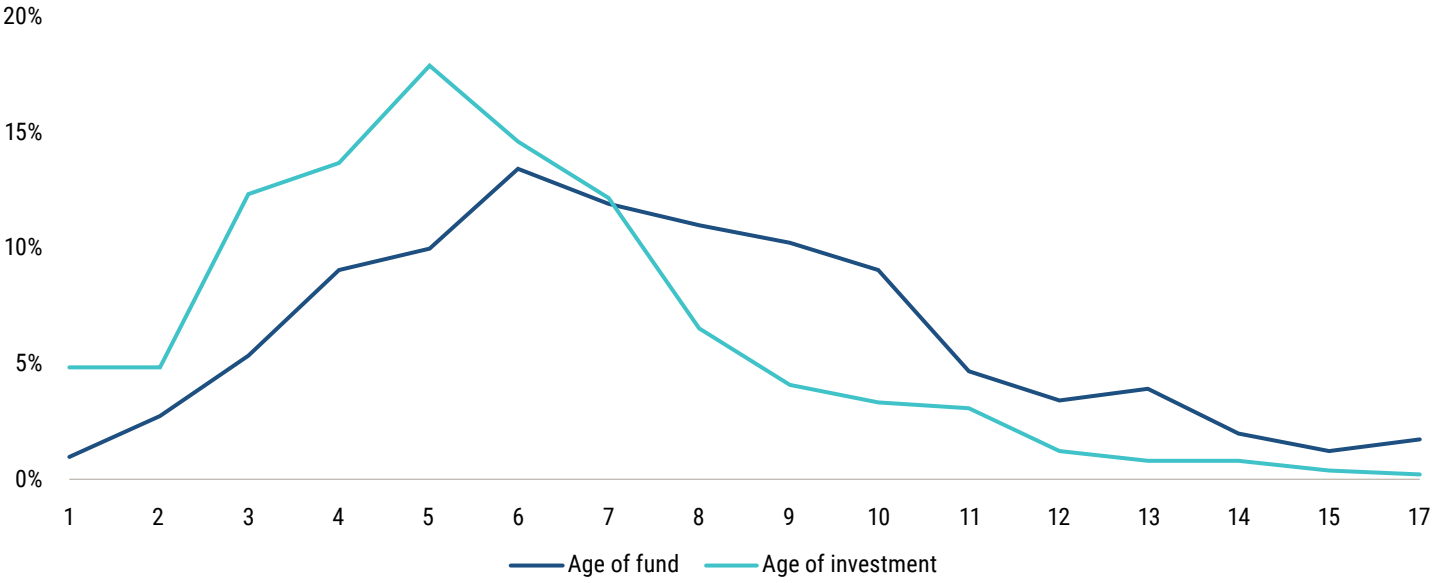


Source: PitchBook • Geography: Global • As of September 30, 2026

The remaining 35.4% are assets held for less than five years, meaning close to 80% of assets in continuation funds entered them within seven years of the initial investment. This skew toward younger assets demonstrates the increasingly proactive nature of GPs in utilizing continuation funds on high-conviction winners, rather than turning to them only under the pressure of aging assets.

When analyzing the age of the initial funds those assets came from, however, we see that the data skews older. Almost half of continuation-fund-related exits were from funds nearing or beyond the end of the standard 10-year fund term. The maturity of the initial fund can clearly drive the timing of a continuation fund, but GPs are using continuation funds to retain and recapitalize their younger, higher-conviction assets rather than as a forced sale of any remaining assets.

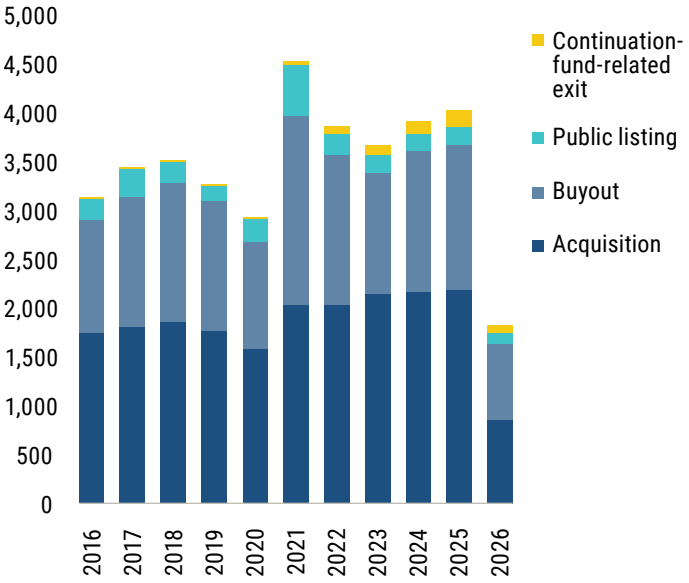
Distribution of continuation-fund-related exits by age (years)



Source: PitchBook • Geography: Global • As of September 30, 2026

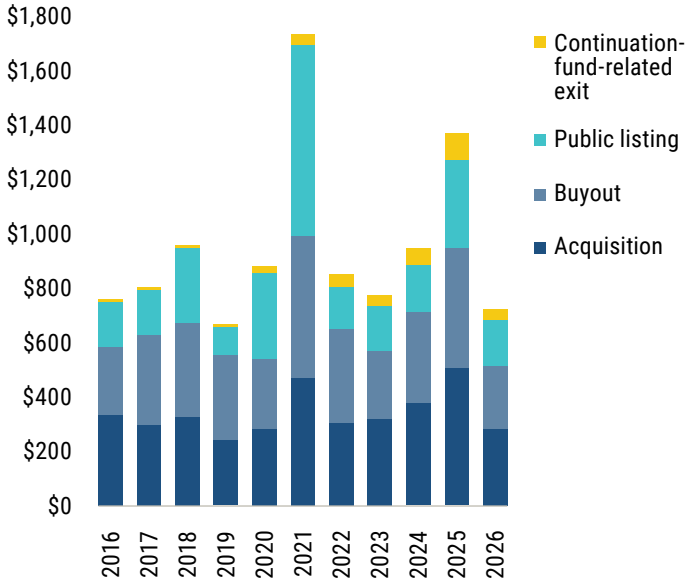
A new facet of continuation funds has emerged: sponsors rolling a portfolio company into a continuation vehicle (CV) for a second time. The "CV-squared" trend gained traction in 2025, with six transactions during the year, following the first such deal in 2024. A prolonged, sluggish exit environment is pushing more GPs to adopt a CV-squared solution as a second liquidity release valve for assets that have yet to exit through a conventional path despite having reached maturity and having been extended through a continuation vehicle already. CV-squared transactions will be a stress test of whether continuation funds are a durable and successful liquidity tool or a mechanism for GPs to defer exits and postpone dealing with more fundamental issues within their portfolios.

PE exit count by type



Source: PitchBook • Geography: Global • As of September 30, 2026

PE exit value ($B) by type



Source: PitchBook • Geography: Global • As of September 30, 2026

How you HR matters

What's missing from your value creation plan?

Deals don't create value: people do.

Performance depends on getting your workforce foundation right.

Insperity helps PE firms and portcos align leadership and manage change from day one.

When the people side of the business connects to investment goals, stronger returns follow.



FULL-SERVICE HR
EMPLOYEE BENEFITS
HR TECHNOLOGY

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A WORD FROM INSPERITY

Roll-ups, the right way

Every deal should make the next one better—for both the business and the people joining it

The day after a deal closes, the roll-up strategy feels far away. At the business you've acquired, employees want to know whether their paycheck will arrive, whether their benefits will change, and whether the manager they trust still has a say. You face a related question: How do we handle this deal better than the last one? The goal is to learn without turning integration into an assembly line.

"The process itself should become more repeatable with each acquisition," says Amy Schisler, managing director of performance services at Insperity. "But the people strategy should never become generic."

Plan for workforce growth before closing

That learning starts before the deal closes. Early workforce planning identifies the information needed for HR implementation: employee records, payroll inputs, job and pay data, tenure and PTO balances, and applicable benefits information. Gaps often involve an improvised bonus practice, missing employment documents, or a benefits cost left out of the operating plan. Found early, a gap is a question for the buyer to resolve; found the week before closing, it becomes a day 1 problem.

Chris Sloan, director of strategic sales at Insperity, sees the indication of interest stage as the ideal time to start HR planning with Insperity, and the letter of intent as the latest. A practical implementation plan connects the expected employee population with payroll setup, onboarding, benefits access, HR technology, and workforce communications. Early planning gives the buyer, portfolio company, and service providers time to coordinate responsibilities with the client's operating team and prepare employees for the transition.

For applicable clients, Insperity can support planning for HR implementation and workforce transitions while the transaction parties and their legal, tax, benefits, and financial advisors address formal transaction matters. The focus is operational: preparing for payroll setup, employee onboarding and benefits access, HR technology, and HR-related compliance support. Implementation planning may also need to consider related entities because ownership changes can affect HR and benefits considerations across a portfolio.

The implementation work plan should specify what employee information and decisions are needed before payroll setup and onboarding, how employees and managers will be informed, and what can wait until after the transition.

The work to ensure a calm day 1

"First and foremost," Schisler says, "employees want to know, 'What's happening with my pay? What's happening with my



Chris Sloan is the director of strategic sales at Insperity, where he helps business owners and investors unlock value through comprehensive human capital solutions. With more than 30 years of experience, he brings a broad business perspective to strategic growth conversations. He specializes in helping organizations navigate growth, optimize their workforce strategies, and build long-term enterprise value through people-focused solutions.



Amy Schisler is the managing director of performance services at Insperity, where she leads performance and leadership solutions that help organizations align people strategy with business outcomes. Amy and her team partner with senior leaders to drive execution, elevate leadership capability, and build scalable performance practices that support growth and organizational effectiveness.

benefits?'" Employees need enough context to understand the decision and what it means for them. Or, as Schisler puts it, "Tell me what time it is. I don't need to know how the watch was made."

Frontline managers need more context because they will answer questions that never reach the deal team or company leadership. The messaging plan should reflect that.

A short pulse survey can show what line-level employees understood and what they fear and identify any rumors that are filling the gaps. Managers provide another learning opportunity: They hear the lunchroom conversation and know the questions leadership hasn't adequately answered.

Investors and portfolio company leadership also need tailored messaging. To make that process repeatable, decide who owns each message, what that person can say, and when they'll deliver the news.

Those messages only hold up if the operational work behind them is ready to be done. Employee records, payroll, benefits elections, tenure, and PTO balances have to transition without interrupting the workforce. It's essential to get it right, which is why Insperity takes a deliberate approach. "We can look slow and clunky," Sloan says, but notes that sometimes slowing down is exactly what's required. "We gather the key information up front so that by the time we get to close, we're ready to run payroll."

The next deal starts with a postmortem

A repeatable HR integration process requires reflection on each acquisition. An employee "postmortem" captures the experience before the details fade. Insperity uses brief surveys to compare two views of an integration. Its executive-alignment survey is not anonymous; Schisler says it requires leaders to be "comfortable with being uncomfortable." Employee-experience surveys may reveal a different problem: Employees understand the benefits changes but still do not know who makes decisions.

The final review should focus on tactical work. Which information arrived late? Which managers lacked information to address employee questions? Where did the team repeat a task? Document the lessons in a playbook with both the checklist and its reasoning so that they survive when an internal leader changes roles.

Working with the same HR advisor also helps. Insperity clients that are related entities structured as a controlled group will typically work with the same Insperity account executive and service team. That team remembers the earlier decisions and the problems behind them; the written playbook makes that memory portable.

Insperity supports clients with HR-related activities across a significant number of M&A transactions each year. That experience can help internal teams question a timetable or confront a challenge they haven't encountered before.

What the org chart leaves out

At one marketing company that had combined four businesses, duplicated finance roles left employees unsure about who could make a decision. Insperity helped leadership compare what the jobs covered, centralize finance and HR, and clarify reporting lines. Only then could the team redraw the org chart and explain the choices behind it.

An 80-person services business faced a different problem: Acquired teams kept losing people. Exit and climate surveys pointed to gaps in leadership and culture, leading the company to change onboarding and communication for later acquisitions.

These issues belong in the operating plan because they slow the business in visible ways. Confused authority delays decisions. Worn-down managers struggle to carry out another change. Pay, benefits, and compliance problems pull senior leaders back into work they thought had been delegated.

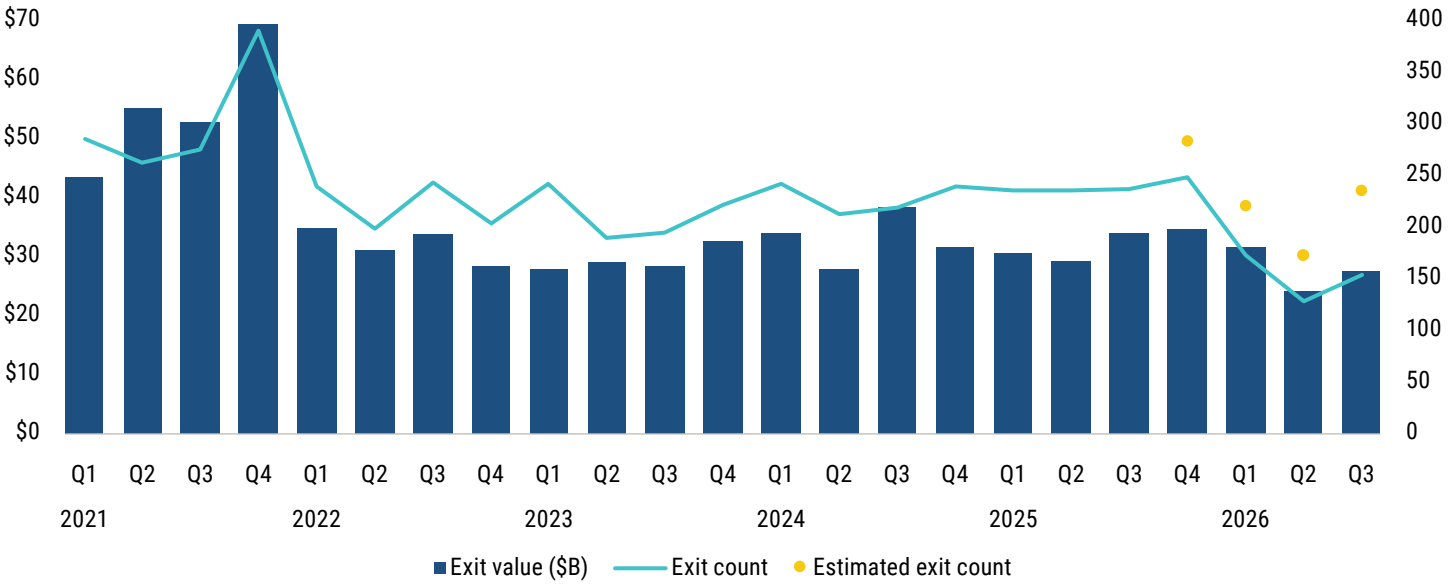
At the time of an exit, a buyer will ask whether the acquired companies operate as one business and whether the management team can handle another transition. Clean workforce data and a record of decisions will not guarantee a higher price. What they will show is that the company has learned how to absorb growth.

By the fourth acquisition, management should be able to review decisions from the third, see what employees asked, and know which timetable proved unrealistic. That helps the next deal move quicker and leaves everyone feeling positive about the future.

To learn more about Insperity, visit www.insperity.com.

Exits

PE middle-market exit activity by quarter



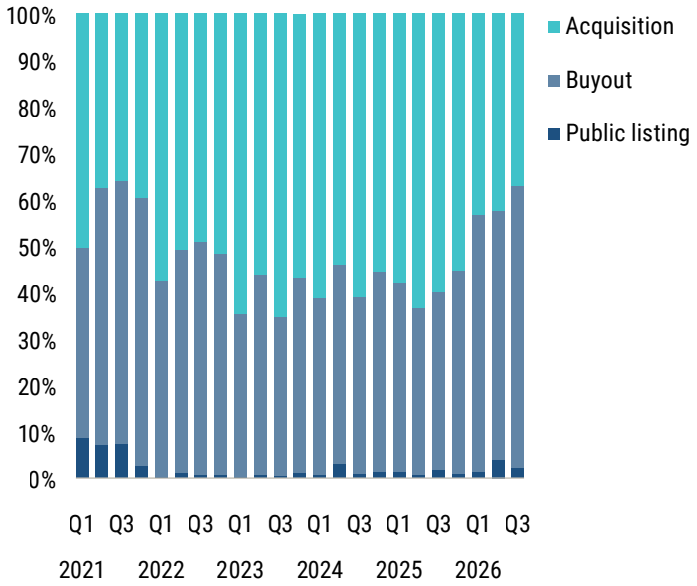
Source: PitchBook • Geography: US • As of September 30, 2026

Overview: Exits bounce back, but not high enough

US middle-market exit activity hit a bottom in Q2 but bounced back in Q3, posting 36.1% growth in count and 13.9% growth in value QoQ. With an estimated 235 exits for an aggregate value of $27.6 billion, Q3 2026 still trails Q3 2025: Exit count is just two transactions lower, and value is 18.7% lower. On an annualized basis, exit activity is also pacing around 15% below last year's level, signaling a more muted recovery than the market enjoyed in H2 2025. Q3 exit count improved to pre-pandemic quarterly averages, while exit value remained 26.5% below them.

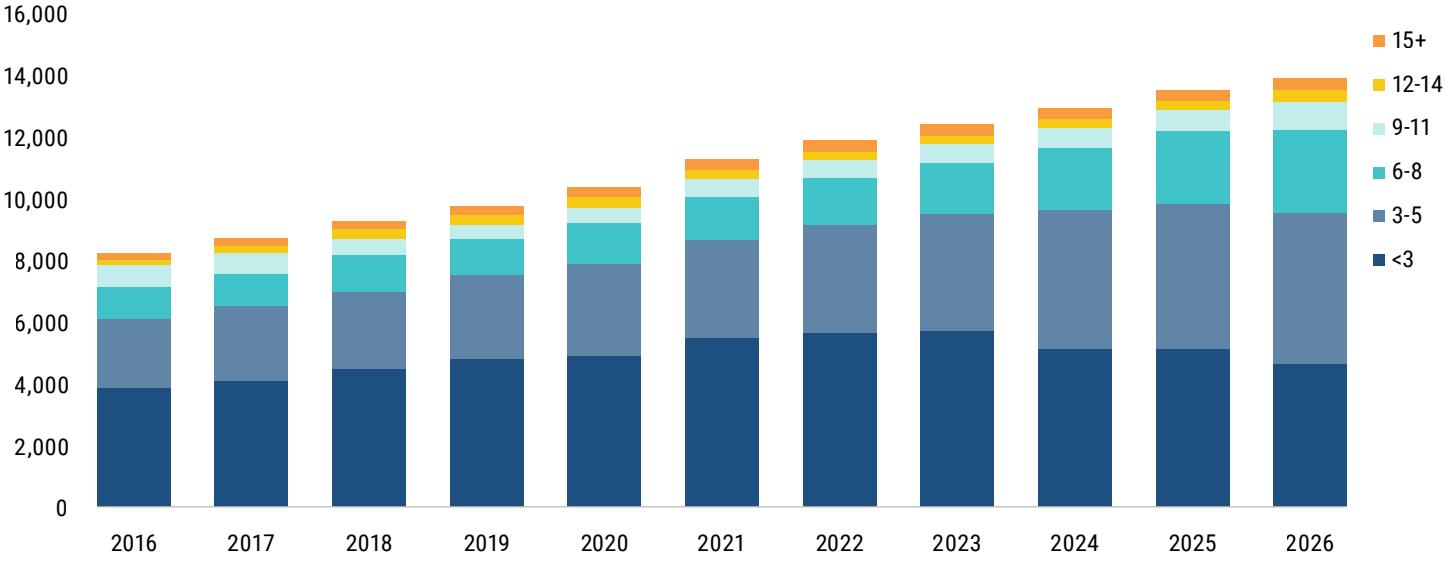
The greater improvement in exit count relative to exit value is an encouraging sign of the breadth of the middle market's exit environment, demonstrating that sales of smaller assets are supporting exit activity rather than a handful of large exits, as is the case with the mega-transactions driving the broader US PE market. At this year's annualized exit pace, the middle-market PE company inventory would take 7.8 years to clear, which is a faster cycling of assets than the 12.5-year inventory calculated for the total US PE market. Still, the growth in exit count is nascent, as the PE middle-market exit count has declined as a share of all PE exits YTD, underscoring the dominance of larger transactions in the PE market.

Quarterly share of PE middle-market exit count by type



Source: PitchBook • Geography: US • As of September 30, 2026

PE company inventory by age of investment (years)

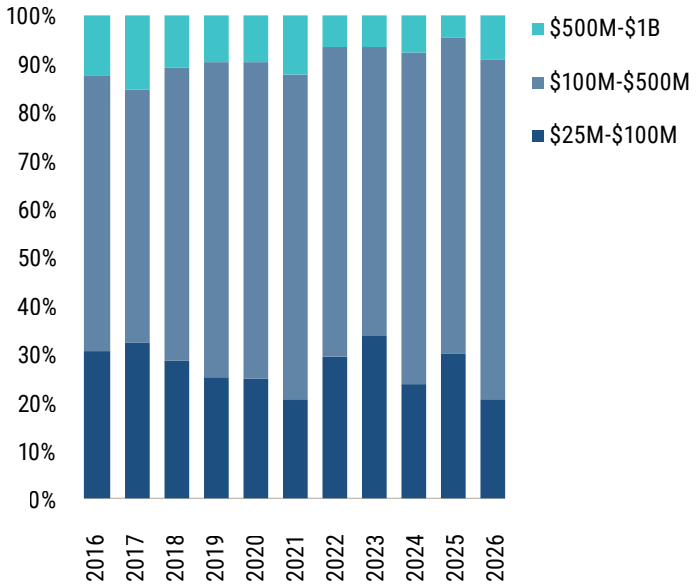


Source: PitchBook • Geography: US • As of September 30, 2026

Ahead of the final quarter of the year, it remains to be seen whether exit count can hold up and whether the recovery can continue to broaden beyond the largest, highest-quality assets. The 25-basis-point rate hike in September keeps financing costs elevated, prompting sponsors to be more disciplined on pricing. Expectations of another rate hike before year-end also point to continued elevated financing costs. Although middle-market companies are more exposed to rising interest costs given their reliance on floating-rate debt, their lower leverage relative to companies in large buyouts should provide some cushion when sponsors bring them to market.

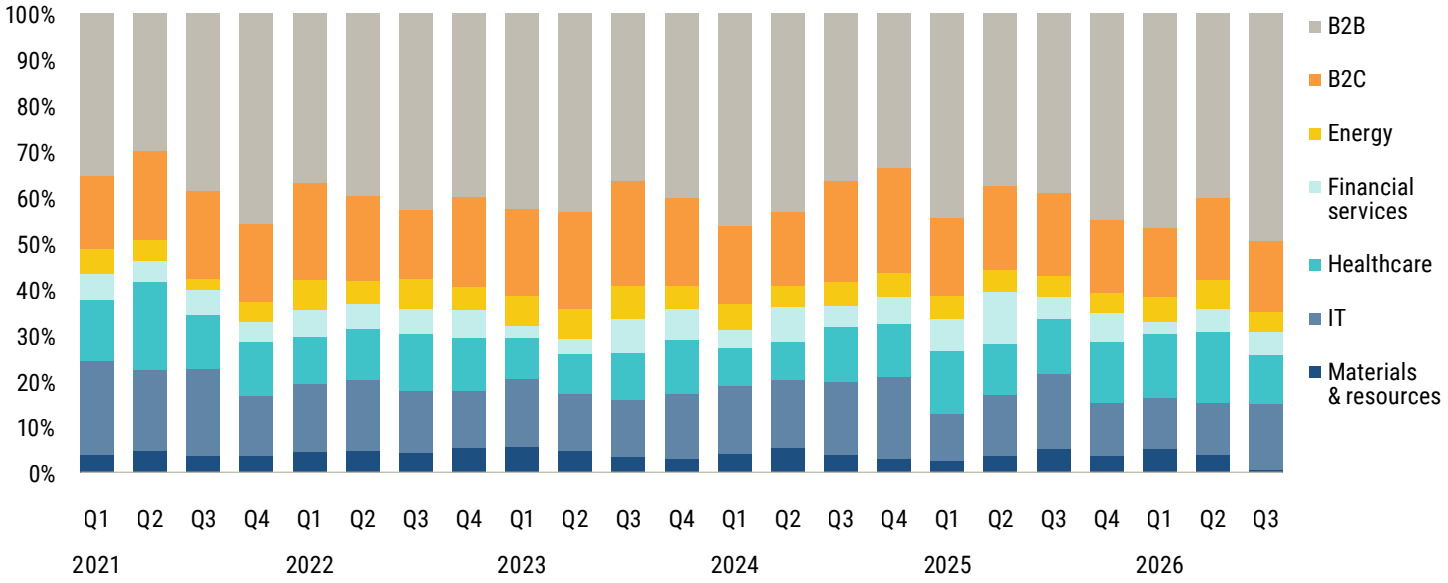
Q3 middle-market exit activity was driven by the core middle market, which was the only segment that expanded QoQ, while the upper and lower middle market remained flat and declined sharply, respectively. Companies in the $100 million to $500 million range tend to be a sweet spot for exits, as they are established enough to diligence and finance more easily. They are also large enough to be sold to another sponsor as a new platform company but small enough to be absorbed as an add-on by an existing PE-owned platform or as a new strategic acquisition by a corporate buyer. Sponsor-to-sponsor exits successfully recovered from their Q2 dip, while exits to corporates remained steady and public listings took a step back from a strong Q2.

Share of PE middle-market exit count by size bucket



Source: PitchBook • Geography: US • As of September 30, 2026

Share of PE middle-market exit count by sector



Source: PitchBook • Geography: US • As of September 30, 2026

B2B makes up nearly 50% of the quarter's exit count

B2B maintained an outsized share of middle-market exits, accounting for over 40% of YTD exit activity, above its 10-year average. B2B's share of exit value is even more elevated relative to historical levels, sitting 14 percentage points above its 10-year average, although it declined 13% QoQ in absolute terms. The largest exit of the quarter was Highlander Partners' $875.8 million sale of aerospace and defense company DZYNE Technologies to Ondas, an autonomous systems and defense tech provider. Exit opportunities within B2B remained diverse, spanning industrials, environmental services, and media subsectors.

Three healthcare exits ranked among the quarter's 10 largest exits, driven by continued strength in surgical hospital services and increased prioritization of healthcare data assets. An estimated 16 healthcare exits totaling $3.5 billion closed during the quarter, down 42.4% and 17.5%, respectively, from Q3 2025.

A WORD FROM AIG

A focused and dedicated approach from formation to exit

How has the role of insurance in private equity (PE) evolved, and what should dealmakers be thinking about differently today?

Matt Murray: The insurance conversation in PE is changing. Protecting against loss will always be fundamental, but sophisticated sponsors are increasingly looking at risk through the same lens they apply to the rest of the investment: How does this protect enterprise value, strengthen the portfolio company, and ultimately support a successful exit?

One example is the growth of portfolio insurance programs. We have seen increased adoption, particularly in Directors and Officers (D&O) and cyber insurance. These programs help protect PE firm value by providing prenegotiated pricing and coverage terms across a PE firm's portfolio, creating greater consistency, operational efficiency, and speed in transaction execution.

The opportunity is to think about insurance not simply as protection against downside risk but as part of a broader strategy for protecting and creating value throughout the investment lifecycle. That means considering risk at acquisition, throughout the holding period, and as the business prepares for an exit.

Where can PE firms look to their insurance strategy to support value creation?

Dan Bucaro: Portfolio-level strategies can create opportunities beyond traditional risk transfer. One area that remains largely untapped is trade credit insurance. Many PE firms may not realize that portfolio-level solutions, like AIG's Non-Cancelable Trade Credit Insurance (TCI) Portfolio Solution, are available to help manage receivables risk across multiple portfolio companies and can support PE firms' ability to free working capital and enhance liquidity.

That can be particularly relevant in an environment where dealmakers are focused on improving cash flow within existing portfolio companies and pursuing add-on acquisitions. A portfolio approach can also provide enterprise-level visibility into customer credit exposures, helping firms make informed decisions on time-sensitive transactions.

As PE firms continue looking for differentiated ways to unlock value and improve capital efficiency, trade credit portfolio programs represent a compelling opportunity that remains underutilized by much of the market.

Data centers and digital infrastructure remain a major area of investment. How should PE firms think about risk across the lifecycle of these assets?

Dan Bucaro: Digital infrastructure is an exciting growth area for AIG and has generated significant momentum across the marketplace. As investment in data centers and related infrastructure continues to accelerate, we are well positioned to support our PE partners throughout the entire asset lifecycle, from development and construction through operations and eventual exit.



Matt Murray
Head of Private Equity Distribution North America at AIG
Matt Murray leads AIG's Private Equity distribution team, with extensive experience supporting clients and developing strategic relationships across the North American market.



Dan Bucaro
National Private Equity Growth Markets Leader at AIG
Dan Bucaro focuses on supporting private equity sponsors and their portfolio companies through strategic insurance solutions.

That lifecycle perspective is important because the risk profile changes as the asset evolves. The needs during construction are different from those of an operating facility. A key differentiator for AIG is our ability to provide comprehensive insurance solutions across each stage of a data center's evolution, helping clients manage complex and evolving risks as these investments scale.

For PE firms, the goal should be to bring risk considerations into the investment strategy early rather than treating insurance as a point-in-time placement. That creates an opportunity to build greater continuity as the asset develops and to help protect the value being created along the way.

For additional information on our capabilities, capacity, and product offerings, please refer to the resources below:

- Data Center Playbook: proposition overview across the lifecycle.
- Data Center Capacity Guide: gross capacity guide by product across the lifecycle.

Cyber risk is receiving significant attention. How should PE sponsors think about cyber across their portfolios?

Matt Murray: Cyber is a strong example of why the conversation needs to extend beyond coverage. A cyber event can interrupt operations and create financial and liability exposures that can ultimately affect the value a sponsor is working to build. For a PE firm, that challenge exists across a portfolio of companies with different systems, controls, and levels of cyber maturity.

The cyber insurance market remains competitive, but the meaningful differentiators increasingly include the support an insurer can provide before and after a loss. That can involve analyzing a company's cybersecurity posture, applying claims insights and root-cause analysis to identify vulnerabilities, and using current threat intelligence to alert clients to weaknesses that can be proactively mitigated.

For sponsors, the question therefore shouldn't simply be whether portfolio companies have cyber coverage. It should also be whether those companies understand their vulnerabilities and have access to expertise and insights that can help them become more resilient. That is where an insurance relationship, such as with the AIG Cyber Risk Advisory team, can contribute to protecting enterprise value before a claim ever occurs.

What should PE firms and their brokers look for in an insurance partner today?

Dan Bucaro: PE operates at a different speed than many other industries. When a transaction is moving, brokers and sponsors need answers quickly, and they need partners who understand the PE model.

Breadth across the investment lifecycle matters too. The solution should be built around how PE firms operate, with the products and know-how to support them at every step in the lifecycle of the investment. That includes connecting capabilities across transaction risk, financial lines, property and casualty, cyber, and other exposures.

And the relationship should extend beyond the policy itself. The strength and global capabilities behind a PE practice matter, particularly when firms are navigating complex risks across portfolios and geographies. At AIG, our PE team is backed by global underwriting expertise, risk engineering, loss control, and claims capabilities that can help brokers and PE firms move quickly and navigate those risks with confidence.

Matt Murray: Ultimately, that's what value beyond coverage means to us. The objective isn't simply to insure a transaction or portfolio company. It's to give brokers and PE firms access to the people, expertise, and capabilities that can help move deals forward, strengthen portfolio companies, help protect the value they've built, and prepare investments for successful exits.



AIG

You're in the business of creating value.

Start with your insurer.

Private equity firms have a singular goal: acquire businesses, increase their value, and deliver strong outcomes at exit. AIG offers the products, expertise, and support needed to help protect that value from acquisition to exit. By bringing Property, Casualty, and Specialty solutions together, we deliver a broad range of capabilities across an even broader range of industries.

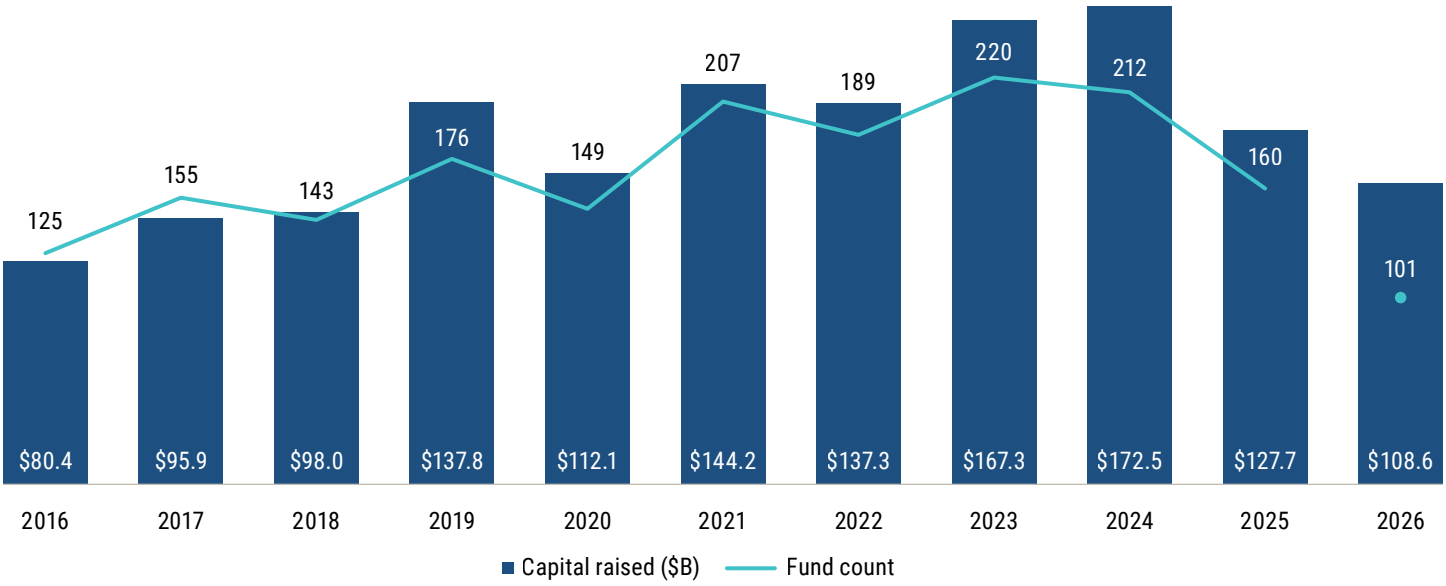
Each solution is backed by AIG's global strength and capabilities, long history of claims expertise, and financial stability. Combined with the expertise and influence of our dedicated Private Equity leadership team, AIG is a partner that helps firms navigate an evolving risk landscape and focus on creating value throughout the investment lifecycle.

AIG | Protection from Acquisition to Exit

Learn more at **aig.com**

Fundraising and performance

PE middle-market fundraising activity



Source: PitchBook • Geography: US • As of September 30, 2026

Overview: Fundraising on track for a rebound year

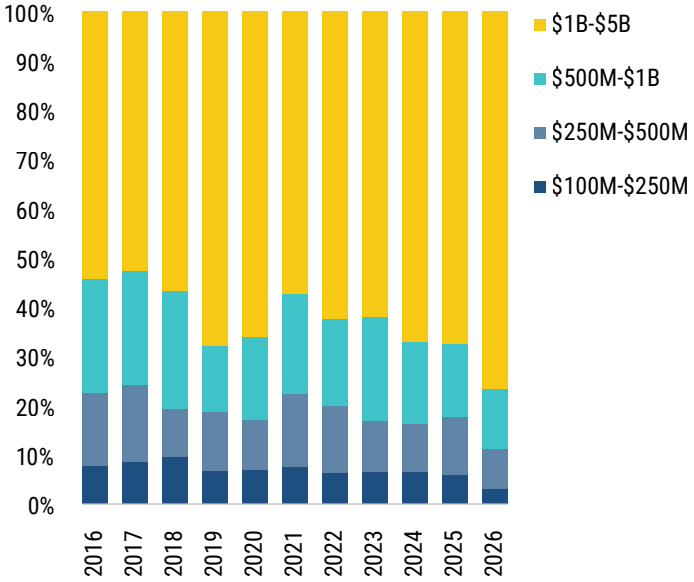
Despite negative sentiment surrounding PE's middle market, fundraising has held up surprisingly well in 2026. Through the first three quarters, middle-market funds raised $108.6 billion across 101 fund closings. If Q4 can hold the same pace, the result would be the third-best year on record for PE middle-market fundraising, trailing only 2023 and 2024.

Interestingly, the positive momentum in fundraising is coming at the same time that deal and exit activity are trending flat to down, resulting in middle-market buyout dry powder reaching a record of $493.8 billion. That dry powder should set the stage for an increasingly active middle market for the remainder of 2026 and beyond. As rising borrowing costs begin to bite in the upper end of the PE market, we believe the middle market, where deals rely on less debt, could be an area of relatively strong deal and exit activity. Beneath the totals, however, capital is concentrating in larger funds.

The share of capital raised by funds of $1 billion to $5 billion has increased substantially since 2021. In 2026, this trend has been even more pronounced, with 76.7% of capital flowing to funds in this size bucket, a record in our dataset. So far in 2026, the average fund size in the middle market is above $1 billion, up from $800 million in 2025.

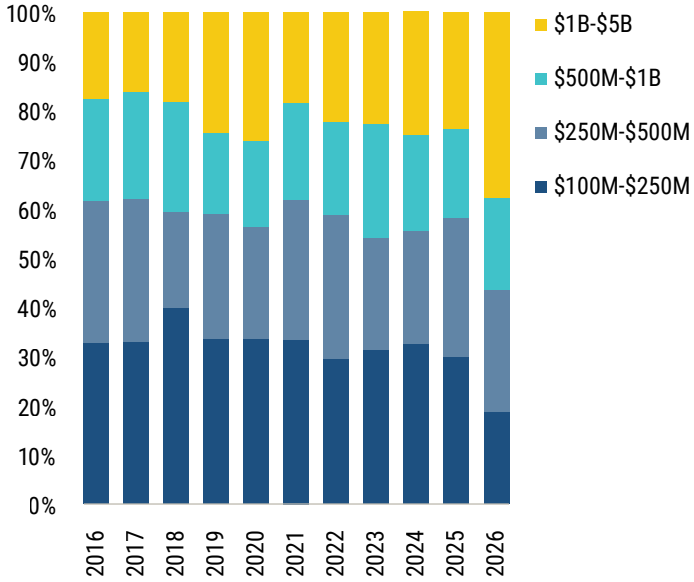
This is consistent with a trend we have discussed at length this year: the consolidation of the PE industry around fewer, larger funds. Many emerging managers have felt the sting of the growing exit backlog and the challenge of distributing capital back to their LPs, which has stalled the fundraising flywheel. Combined with the asset class's relatively lackluster performance over the past few years, this has left smaller managers, emerging managers, and first-time managers struggling to raise new funds. This trend raises concerns about the lower end of the middle market, where these managers help smaller businesses grow into targets for upper-middle-market funds and, eventually, megafunds.

Share of PE middle-market capital raised by size bucket



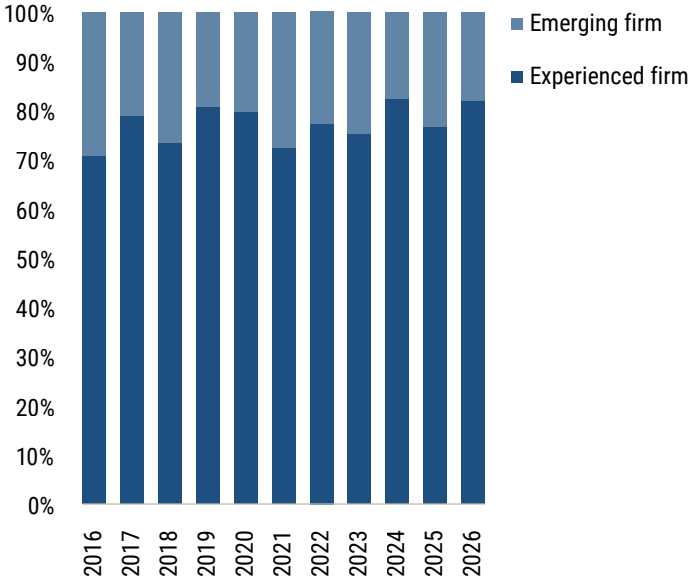
Source: PitchBook • Geography: US • As of September 30, 2026

Share of PE middle-market fund count by size bucket



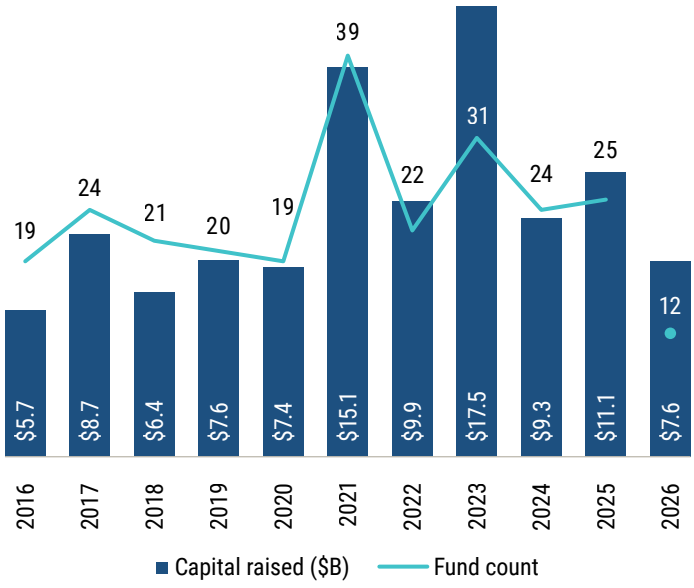
Source: PitchBook • Geography: US • As of September 30, 2026

Share of PE middle-market capital raised by manager experience



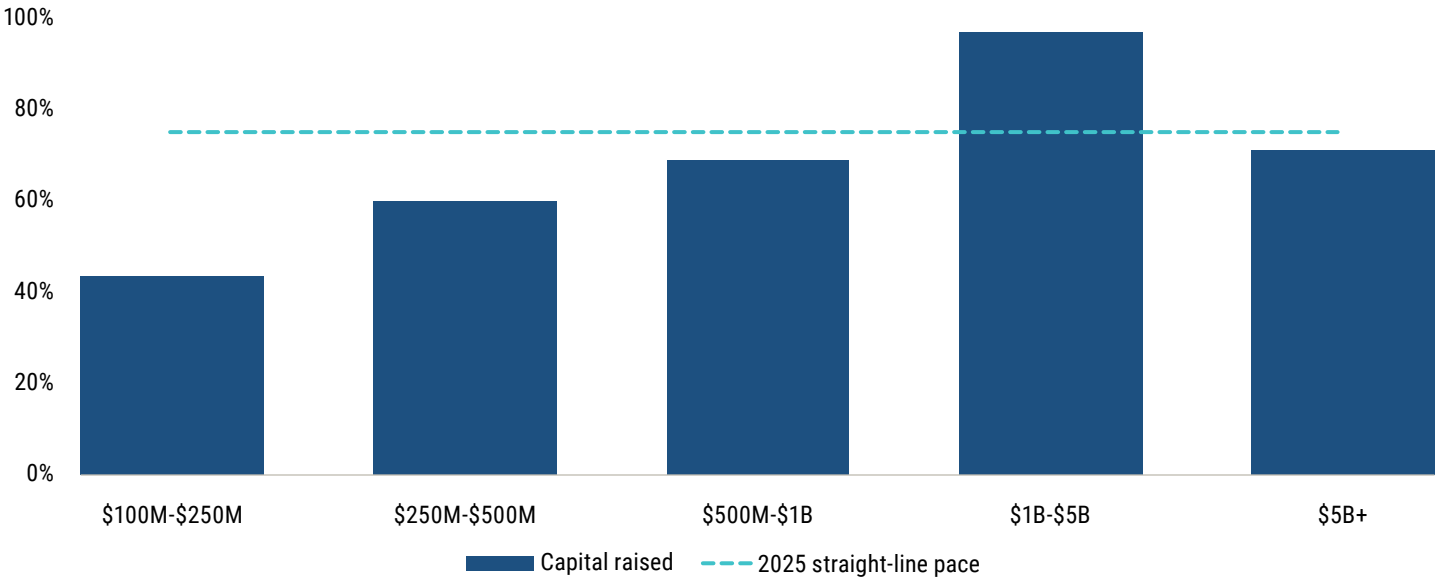
Source: PitchBook • Geography: US • As of September 30, 2026

PE middle-market first-time fundraising activity



Source: PitchBook • Geography: US • As of September 30, 2026

YTD PE capital raised as a share of 2025 total by size bucket



Source: PitchBook • Geography: US • As of September 30, 2026

The upper middle market is pulling away

Measured against 2025, funds of $1 billion to $5 billion are the clear outperformers in 2026 fundraising. With three quarters of the year complete, the $1 billion to $5 billion cohort has already raised $83.3 billion, or 97% of its 2025 total, and closed 38 funds, the same number as in all of 2025. No other size bucket, inside or outside the middle market, is ahead of the straight-line pace of capital raised.

The comparison with megafunds is the most telling. Funds of $5 billion or more have raised $95.5 billion across nine funds YTD, 70.8% of their 2025 amount, close to the straight-line pace but well behind the $1 billion to $5 billion cohort. As a result, megafunds' share of US buyout capital raised has slipped to 46.3% from 50.3% in 2025, while the $1 billion to $5 billion cohort's share has climbed to 40.4% from 32.1%.

The shift toward the $1 billion to $5 billion cohort aligns with our recent analysis in Diminishing Returns to Scale, which found that the largest managers' IRRs have consistently trailed those of their peers in recent vintages. A manager deploying $20 billion or more must compete for a finite pool of multibillion-dollar deals, often at higher multiples, while middle-market managers typically buy at lower multiples and have more room to expand margins. Across the 2000 to 2021 vintages, global managers reported net EBITDA margin contraction in nine vintages, compared with two for middle-market managers. Megafunds still offer LPs downside protection: Their funds significantly underperformed peers just 4.7% of the time, compared with 14.7% for other buyout funds.

Below $1 billion, the trend reverses. Every smaller bucket trails the straight-line pace, and the shortfall widens as fund size falls, from 68.7% of 2025 capital for funds of $500 million to $1 billion, to just 43.3% for funds of $100 million to $250 million. For the $100 million to $250 million bucket to match its 2025 fund count, it would need 29 more fund closings in Q4, more than it recorded in the first three quarters combined.

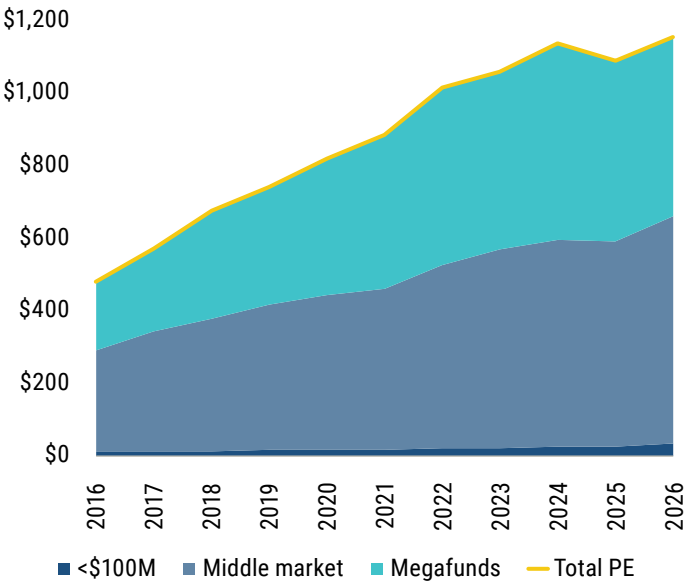
Funds of $1 billion to $5 billion offer LPs a middle ground by being large enough to absorb sizable commitments while still operating in the middle-market deal universe.

Top PE middle-market fund closes by size YTD

Fund	Close date	Fund size ($M)	Manager
Lindsay Goldberg VI	January 6	$4,900.0	Lindsay Goldberg
Francisco Partners Agility IV	July 23	$4,600.0	Francisco Partners
Patient Square Equity Partners II	May 9	$4,353.0	Patient Square Capital
Court Square Capital Partners V	April 1	$3,782.0	Court Square
Wind Point Partners Fund XI	July 29	$3,200.0	Wind Point Partners
HGGC Fund V	February 19	$3,200.0	HGGC
Kingswood Capital Opportunities Fund IV	July 30	$3,100.0	Kingswood Capital Management
Percheron Capital Fund III	April 9	$3,100.0	Percheron Capital
OceanSound Partners Fund III	April 1	$3,000.0	OceanSound Partners
Warburg Pincus Financial Sector III	January 7	$3,000.0	Warburg Pincus

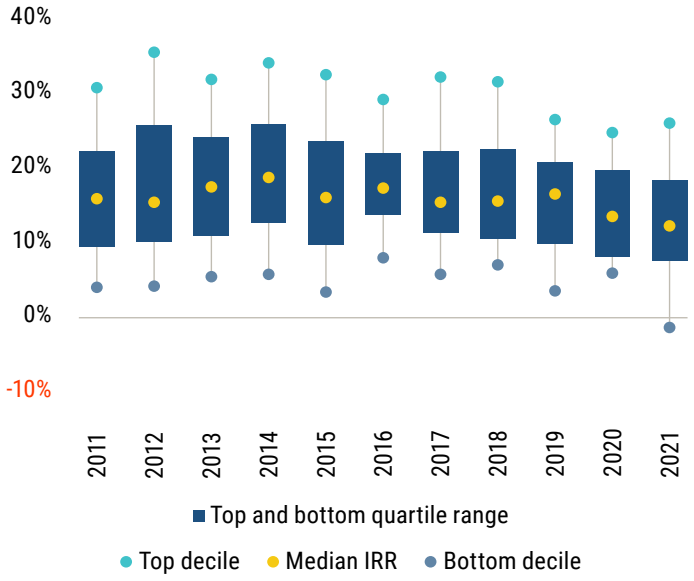
Source: PitchBook • Geography: US • As of September 30, 2026

PE dry powder ($B) by fund size



Source: PitchBook • Geography: US • As of March 31, 2026

PE middle-market buyout IRR dispersion by vintage year



Source: PitchBook • Geography: US • As of December 31, 2025

PE middle-market buyout TVPI by age and vintage year

Vintage	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2006-2014	**0.98x**	**1.06x**	**1.22x**	**1.34x**	**1.49x**	**1.61x**	**1.72x**	**1.76x**	**1.82x**
2015	1.07x	1.25x	1.36x	1.50x	1.76x	2.09x	2.07x	2.04x	2.03x
2016	1.05x	1.24x	1.35x	1.68x	2.00x	2.07x	2.10x	2.13x	2.08x
2017	1.06x	1.23x	1.41x	1.84x	1.86x	1.91x	1.92x	1.89x	
2018	1.10x	1.23x	1.60x	1.63x	1.68x	1.74x	1.78x		
2019	1.12x	1.34x	1.39x	1.50x	1.57x	1.62x			
2020	1.16x	1.26x	1.32x	1.44x	1.51x				
2021	1.12x	1.24x	1.31x	1.37x					
2022	1.01x	1.13x	1.22x						
2023	1.12x	1.27x							

Source: PitchBook • Geography: US • As of December 31, 2025

PE middle-market buyout DPI by age and vintage year

Vintage	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2006-2014	**0.09x**	**0.13x**	**0.21x**	**0.35x**	**0.52x**	**0.74x**	**0.96x**	**1.17x**	**1.33x**
2015	0.08x	0.13x	0.26x	0.43x	0.67x	1.14x	1.22x	1.30x	1.41x
2016	0.13x	0.22x	0.22x	0.41x	0.90x	1.06x	1.14x	1.31x	1.42x
2017	0.05x	0.14x	0.18x	0.47x	0.65x	0.77x	0.93x	1.03x	
2018	0.08x	0.08x	0.28x	0.40x	0.46x	0.65x	0.85x		
2019	0.05x	0.12x	0.19x	0.26x	0.40x	0.57x			
2020	0.08x	0.10x	0.12x	0.22x	0.36x				
2021	0.04x	0.12x	0.14x	0.27x					
2022	0.05x	0.08x	0.13x						
2023	0.13x	0.20x							

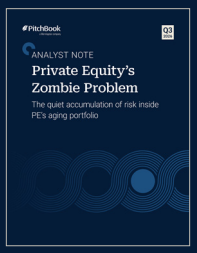
Source: PitchBook • Geography: US • As of December 31, 2025

References

1: Not all continuation fund data that we capture has a known exit value; as such, we set the unknown continuation-fund-related exit values to $500 million based on the median value of known transaction sizes.

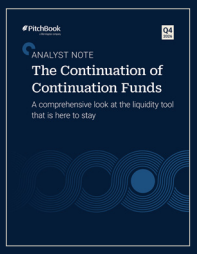
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