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US

PE Middle Market Report

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Executive summary: The middle market bottoms out

Middle-market PE deal activity overview

	Activity			Growth metrics		
	YTD	Q2 2026	Pacing	YTD 2025	QoQ	Q2 YoY
Deal value	$193.6B	$92.4B	$387.2B	1.2%	-8.7%	-4.4%
Deal count	1,958	1,090	3,915	3.1%	25.7%	7.5%
Exit value	$55.4B	$24.7B	$110.8B	-5.2%	-19.5%	-14.2%
Exit count	473	239	946	3.3%	2.0%	3.4%

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

The second quarter delivered the pullback we had expected, capping off the first half of 2026 at or slightly below the comparable period in 2025, when the ecosystem absorbed a similar round of macro shocks. Both deal and exit count remained relatively healthy by historical standards, while deal and exit value saw sharper declines QoQ, indicating that sponsors focused downmarket as they typically do when macro uncertainty rears its head. This year's reversal feels more pronounced, and so, too, do the market risks at play. The back half of 2025 and most of Q1 2026 carried genuine momentum, with activity nearing levels not seen since the 2021 peak, and for a moment, it looked as though 2026 was shaping up to be another year of growth.

Despite the Q2 decline, there is a case for optimism heading into H2. Early Q3 signals point to the same gradual recovery pattern seen in the back half of 2025. However, with more headwinds in play this time, and stickier ones, the recovery is unlikely to carry the same force it did last year. The headwinds that reared their head in Q2 include the re-emergence of tariff-related uncertainty, a cemented higher-for-longer rate backdrop, and the "SaaSpocalypse" stemming from AI-related uncertainty, primarily in the software sector. However, middle-market sponsors are sitting on ample dry powder, and an improving backdrop should allow deal activity to pick back up. That improvement matters most on the realizations front: Exits had been tracking toward normalcy before Q2's reversal, and their absence is the direct constraint on capital recycling, which has slowed enough in recent years to reshape the broader PE fundraising environment.

Muted for much of the past two years, fundraising emerged as one of the segment's few bright spots through the first half of the year, with activity pacing toward modest growth. Even so, allocators continue to consolidate capital into fewer, larger funds, which sharpens the pain of limited exits for sponsors currently out on the fundraising trail. Fund performance remains one of the clearest differentiators that middle-market managers can offer: Returns have recently run in the mid- to high single digits, below the segment's historical pace, but the multitude of growth levers available to middle-market sponsors has kept it the better-performing cohort over time. That track record helps attract LP capital—and, in a market consolidating around fewer relationships, performance is one of the key levers that still move the needle for managers competing to stay in the mix.

Deals

PE middle-market deal activity by quarter

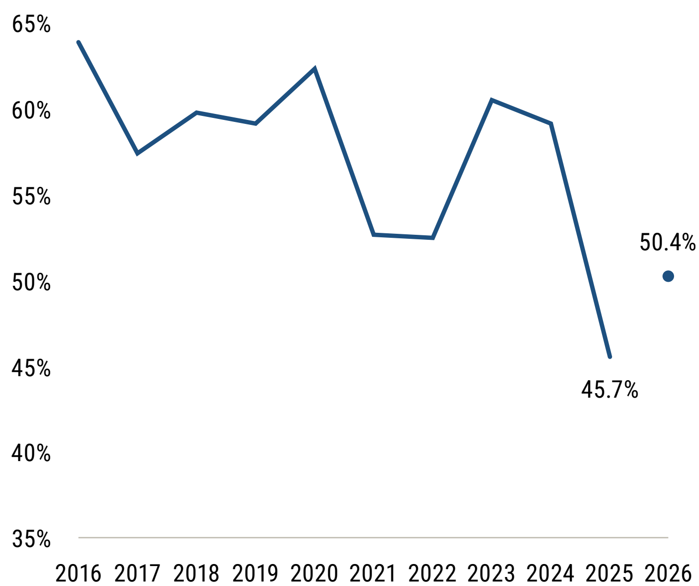
Source: PitchBook • Geography: US • As of June 30, 2026

Overview: Smaller deals win out in Q2

Q2 2026 middle-market deal activity shrank in value while holding on to deal count. Including estimates for late-reported transactions and deals with undisclosed values, the US PE middle-market deal value fell to $92.4 billion across 1,090 deals in Q2, representing quarterly changes of -8.7% and 25.7%, respectively. This brings H1 2026 deal activity to an estimated 1,958 deals worth an aggregate value of $193.6 billion, which is relatively flat when compared with H1 2025 deal value and count. The growth in deal count suggests that the concerning concentration in the middle market has not continued at a dramatic pace, as smaller transactions continue to show resilience. In fact, the median deal value in the middle market has declined from $179 million in 2025 to $151.9 million for deals in H1 2026.

The distribution of deals moved downmarket within the middle market. Transactions between $25 million and $100 million generated $16 billion in middle-market value in the quarter, up 70.6% QoQ, while other middle-market size categories declined in deal value. The $25 million to $100 million band was the only one that also grew in deal count QoQ.

PE middle-market buyout value as a share of all PE buyout value



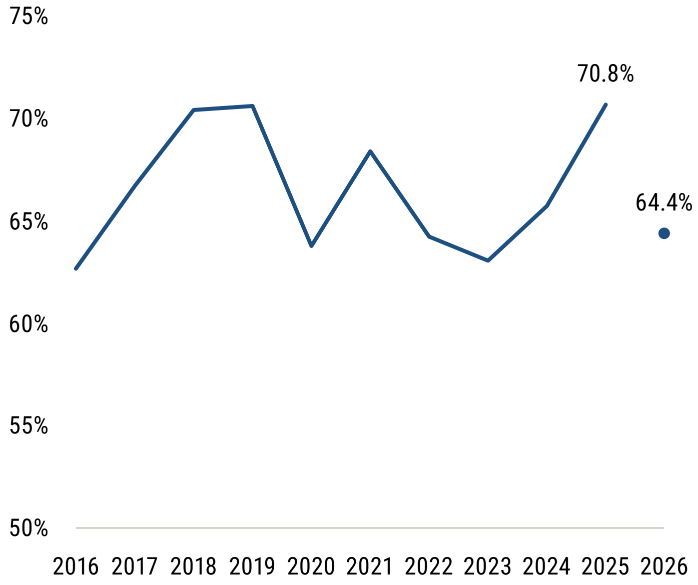
Source: PitchBook • Geography: US • As of June 30, 2026

A similar trend is evident in its share of total US PE buyout activity. Middle-market transactions accounted for 61.9% of all US buyout value in Q2, up from 54.8% one year earlier, because megadeals fell 43.5% YoY, while the middle market gave up less ground with a 21.8% decline. In Q2, investors retreated from the large, financing-dependent deals that had powered previous quarters as they assessed macro volatility, but activity in the middle market remained relatively steadier. As for deal count, the middle market accounted for 67.8% of total buyout count in Q2, down from the elevated 77.5% share it held in Q2 2025, when middle-market deal activity was gaining momentum and before investors pushed into megadeals with renewed fervor.

The composition of transaction types shifted with size. Platform investments, which had been the weaker of the two buyout categories through 2025, generated $48.4 billion of middle-market value on 269 transactions, with count rising 6.4% QoQ as value fell 25.6%. Add-on acquisitions, the middle market's structural workhorse, contracted more sharply, with deal count down 2.1% and value down 13.2%. YoY, the decline was around 28%. Add-ons still accounted for 64.8% of middle-market deal count, but that share slipped from 67.7% one year earlier, suggesting that the roll-up machine is running more slowly rather than compensating for weak platform formation.

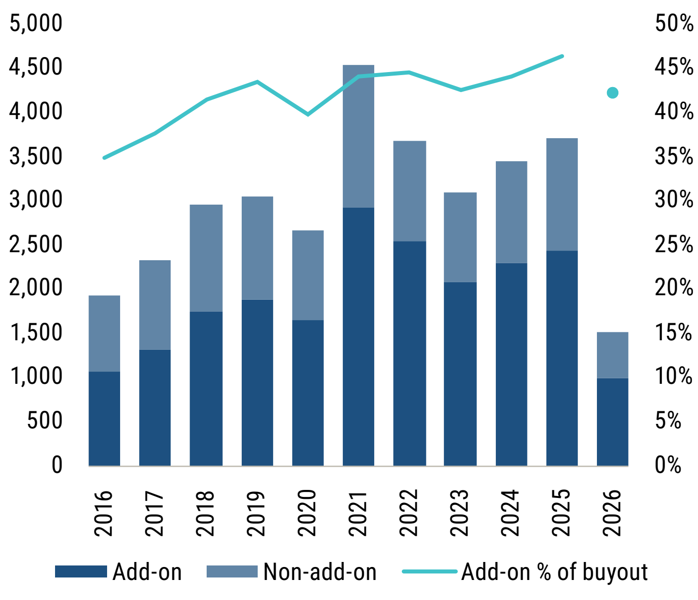
Founder-owned businesses drove a growing portion of middle-market deal activity, generating $23.2 billion of value, 48.3% above Q1 2026 and 8% above Q2 2025. It was the only backing category to grow, while publicly held targets produced just $7 billion in Q2, representing a whopping 77.3% QoQ decline and 82.7% below the 2022 peak. With just 18 take-private deals in Q2, far below the previous five-year average of 31 per quarter, take-private activity dwindled as a meaningful contributor to middle-market deployment as PE buyers continued to favor lower-risk and lower-priced assets.

PE middle-market buyout count as a share of all PE buyout count



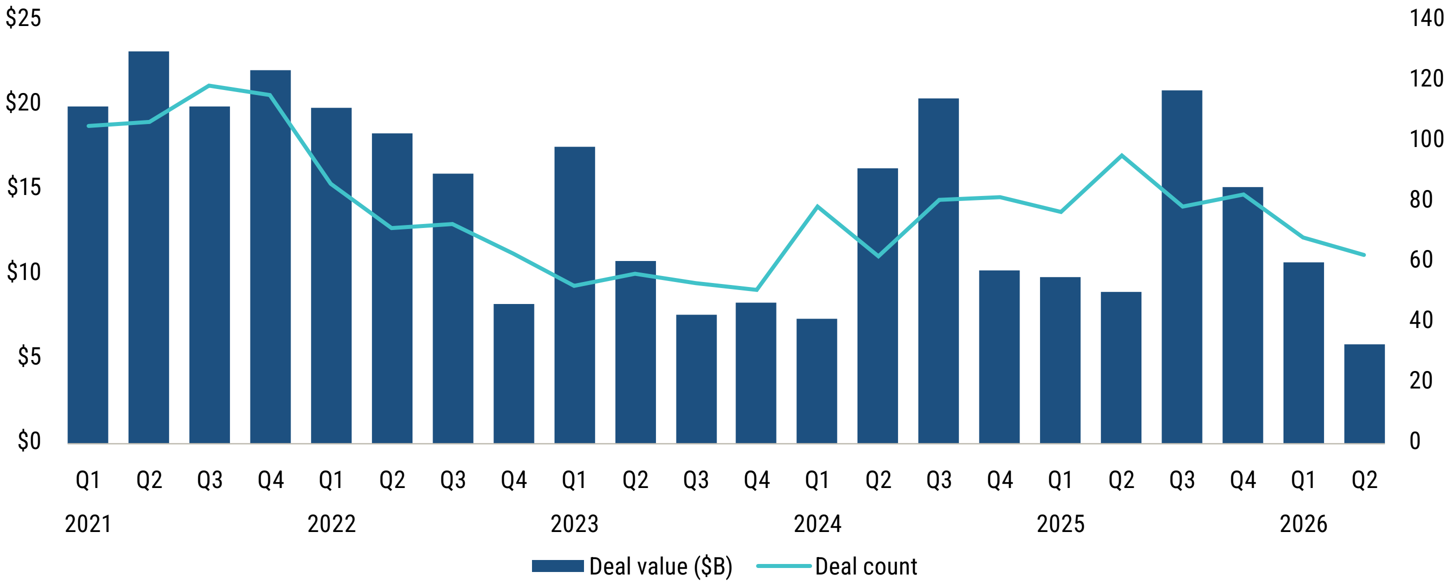
Source: PitchBook • Geography: US • As of June 30, 2026

PE middle-market add-on deal count



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

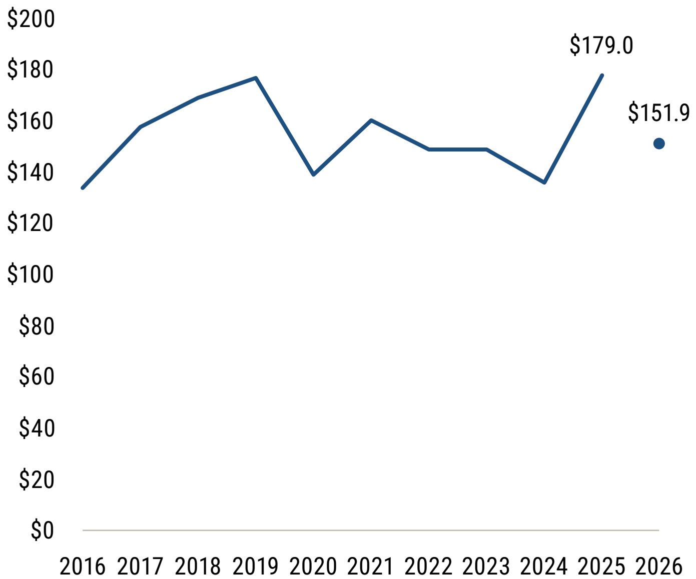
Software PE middle-market deal activity by quarter



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

As for sectors, middle-market IT deal value contracted further, dropping to $9.2 billion in Q2 from $13.2 billion in Q1. The sector's deal value was nearly halved from Q2 2025. IT deal count fared better, rising 3.6% QoQ and declining 26.8% YoY, indicating that sponsors are still transacting in tech companies but at lower prices and on a smaller scale. AI deal count climbed to a peak of 28 transactions in the quarter, suggesting capital is shifting away from seat-based software and into new tech capabilities and services in the middle market.

Median PE middle-market deal value ($M)



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

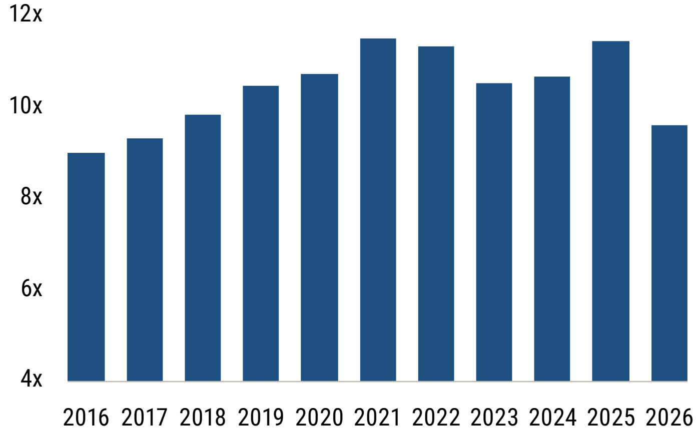
Valuations: Back to single digits for the time being

With Q1 2026 valuation data now in, we can see that the climb in multiples has been disrupted. The median US middle-market entry enterprise value (EV)/EBITDA multiple fell to 9.6x in Q1 2026, marking a shift from a seven-year streak of double-digit multiples. During that time, even the middle market saw rising valuations, with investors favoring higher-quality, often larger assets, as evidenced by rising median middle-market deal sizes. But that trend appears to have lost momentum, mostly due to investors' greater valuation discipline for smaller acquisitions.

Examining middle-market valuations by deal size buckets reveals an important distinction: Valuations for upper-middle-market deals increased in Q1 2026, while those for the core and lower middle market adjusted downward. For Q1, PE deals with an EV of $500 million to $1 billion were closed with a median EV/EBITDA multiple of 13.2x, a steady increase from 12.1x in 2025 and 11.8x in 2024. Net debt/EBITDA also grew in step with the upper middle market, increasing from 4.4x in 2024 to 5x in 2026. Even in the middle market, heightened concentration in larger transactions is pushing up entry prices and the leverage used to fund them. Q1 middle-market deal value was resilient relative to deal count, mirroring the rise in valuations during the same period.

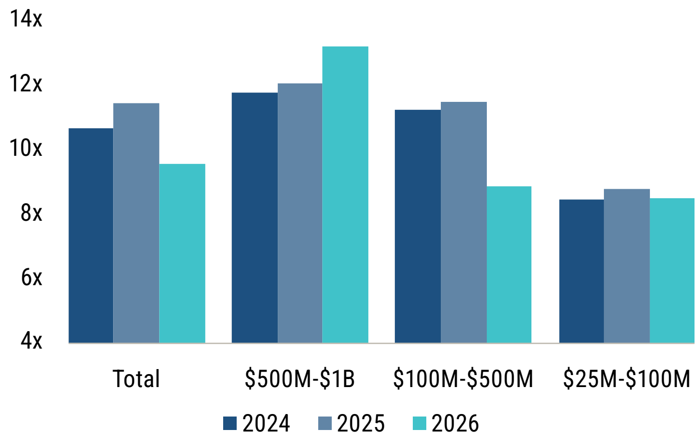
At the same time, the spread between the larger and smaller ends of the middle market has widened further. The median valuation for deals between $100 million and $500 million experienced the greatest change out of the middle market, decreasing from 11.5x in 2025 to 8.9x in Q1 2026. The lower middle market's median EV/EBITDA multiple also declined slightly, from 8.8x in 2025 to 8.5x in Q1 2026. This downward shift in multiples suggests greater valuation discipline amid a quarter marked by macroeconomic volatility. While investors still pushed into large deals at higher multiples, they also pursued small deals at lower entry multiples and with room for multiple expansion going forward. The debt multiple did not decrease in the core middle market, indicating that investors are still using increasing amounts of leverage to generate returns. Valuations could adjust further if deal activity broadens to include more value-oriented deals at lower multiples, or if PE sellers can offload their backlog of aged holdings.

PE middle-market EV/EBITDA multiple



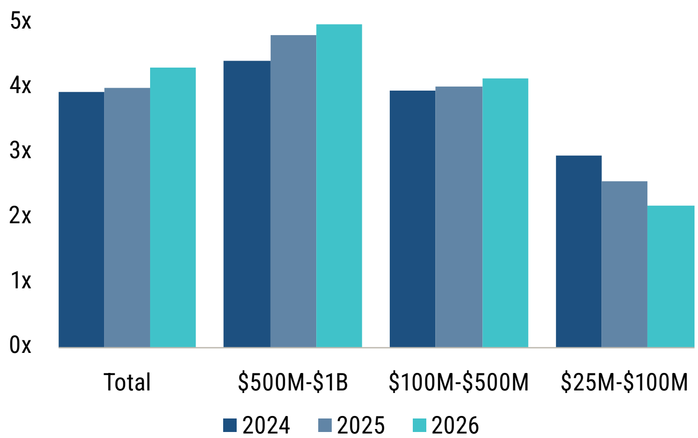
Source: SPI by StepStone • Geography: US • As of March 31, 2026

Median EV/EBITDA multiple by 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 GRANT THORNTON | STAX

The future of diligence is not integration. It is conviction.

Paul Edwards
Global Practice Lead, Grant Thornton | Stax

Paul Edwards leads commercial due diligence at Grant Thornton | Stax, delivering high-impact engagements to PE clients around the world.

Over the past two decades, Paul has become a trusted advisor to many of the world's top dealmakers. He built Stax's PE practice into a global powerhouse, which now supports more than 300 engagements annually and guides successful investments across five continents.

Diligence redefined

The differentiator used to be data. Finding it, creating it, and accessing it were how investors and the firms that served them differentiated.

Today, due diligence has never produced more information. Investors have access to extraordinary amounts of data across markets, customers, competitors, financials, technology, and operations, supplemented by internal data, proprietary datasets, and increasingly powerful AI tools.

At the same time, a different generation of assets is working its way through private equity. Stretched hold periods have left a significant inventory of longer-held businesses ready to be brought to market. Many were bought when leverage and multiple expansion were powerful contributors to returns and financing was cheaper. In most cases, the next stage of ownership will need to find another, potentially harder, turn of value.

Both issues land at the investment committee (ICs).

ICs have not changed their mandate, but the questions required to reach conviction are changing. One investor recently described the old model simply: "We always had to present the same six slides in our IC submission, regardless of the asset." The same metrics and questions would be applied relatively consistently from one investment to the next.

With vast information ecosystems, ICs are tailoring core questions to the asset and its value-creation thesis.

Conviction comes when the evidence around the critical questions is strong enough for an IC to decide on price, risk, and expected return.

Across deals, conviction is increasingly returning to three fundamental questions:

- How much value can we create during our ownership?
- How will we create this value?
- What will the next buyer need to believe to pay us more than we paid today?

Diligence may involve hundreds of questions, thousands of slides, and countless data points. But today, only a handful of findings materially change the investment decision and set priorities for the ownership that follows.

The return of the operational investor

The first of those questions has become harder to answer.

Historically, approximately 30% of investments were sold by year four. Of acquisitions made during 2021, only 19% had been sold by 2025. More than 16,000 buyout-backed companies have now been held for over four years, representing over half of the buyout-backed inventory.[1]

As those assets return to market, the next owner needs a different playbook. With multiple expansion becoming less available as an underwriting lever, and buy-and-build alone less valued today, the diligence focus becomes more specific: the durability of the recent growth algorithm, the growth catalysts particular to the asset, and the risks of delivering them. A business may have performed well for current owners while offering insufficient untapped value to generate the next owner's required return.

The result becomes an operational underwriting question. The next owner needs a credible path from "good to great," with diligence identifying where the next turn of value will come from, how much it could be worth, and what needs to go right.

The questions are straightforward but demanding: How much value remains? Where will it come from?

Turning information into evidence

Getting to those answers starts with knowing the right questions.

Across diligence disciplines, traditional scope objectives tend to be relatively consistent: Frame the business as it exists today and then assess how it is likely to evolve. That work remains important, but conviction now depends on identifying the issues that really matter and the evidence needed to resolve them, even when the evidence crosses traditional solution lines or sits between them.

Experience, pattern recognition, and judgment become critical when identifying the handful of questions worth spending time on and where the evidence to answer them is likely to sit. Gathering data is getting easier, but pinpointing what to test is becoming increasingly asset-specific. More data and stronger technology can improve the evidence; they cannot provide judgment.

Consider an investment in a company where the thesis depends on the target successfully expanding from enterprise to small and medium-size business (SMB) customers. Customer interviews may say SMB buyers like the product. Win/loss data may suggest the value proposition is not landing. Module uptake data may point to product gaps, while pricing work suggests the assumed economics are aggressive.

While these findings may be true, the job is to determine what the evidence collectively says about the thesis and what it means for the ownership plan.

Answering these questions often crosses traditional diligence boundaries and draws on evidence from multiple sources. Commercial, financial, technological, and operational diligence all remain essential, but the work is most valuable when the key issues are not forced into solution-specific frameworks and outputs but are allowed to bubble across disciplines.

Every investment thesis needs an AI thesis

AI adds another layer of complexity to diligence. It can strengthen or weaken the product, change willingness to pay, or alter the customer profile. It can also take real cost out of the business, require significant investment, or reshape the competitive landscape. And the impact will differ for each asset, further eroding the value of "one-size-fits-all" diligence.

In tandem, AI is changing diligence too. Firms can process more data and test more hypotheses faster. But faster analysis does not strengthen weak evidence, and an informed answer to the wrong question is not useful.

Underwriting today's acquisition and tomorrow's exit

The next question looks further ahead: What will the next buyer need to believe?

Sponsors are increasingly looking beyond their immediate ownership period, asking what business they will ultimately sell. Perhaps it needs more recurring revenue, better margins, less customer concentration, a proven runway into new markets, or a real AI advantage. Diligence must establish whether the business can realistically get there and what it will take.

A sponsor is effectively underwriting two transactions. Validating the second transaction requires questions around future value that do not fall neatly within traditional diligence workstreams.

Conviction is the product

These changes are shaping how we approach diligence at Grant Thornton | Stax. Starting with investment questions rather than traditional solutions makes for seamless work across disciplines while following the strongest evidence.

Judgment is the key differentiator in identifying what really matters, what is unknown, and which hypotheses are worth testing. And it makes sense of the evidence, particularly when it sits between solutions.

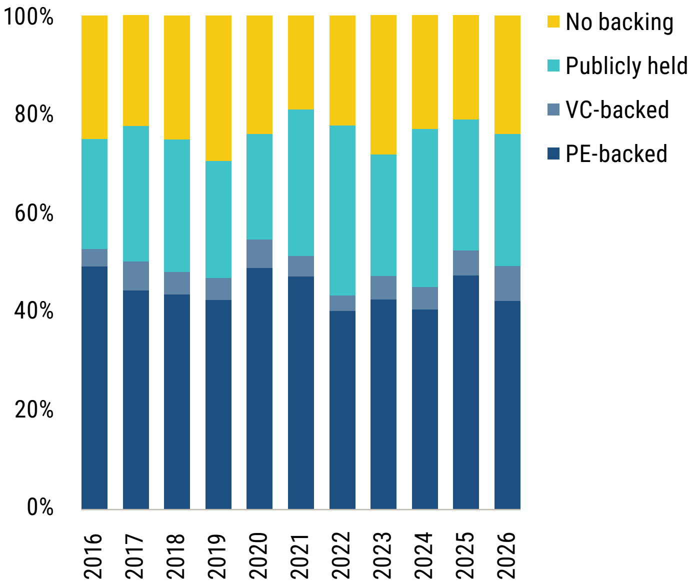
This is closer to what we mean by conviction. It is not certainty. It is knowing what matters, what to believe, where uncertainty remains, and whether the ownership plan can realistically deliver the return.

Sometimes, this means doing the deal. Sometimes, it changes the price or the plan. And sometimes, the right answer is to walk away.

That is conviction.

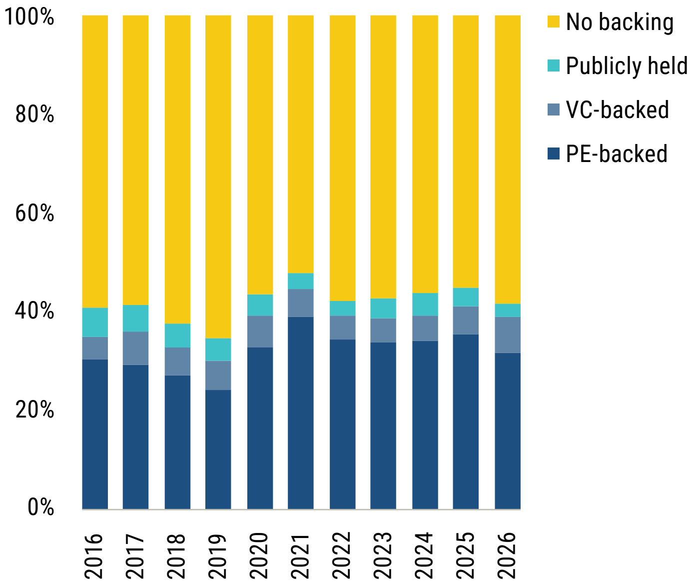
Deals by backing and sector

Quarterly share of PE middle-market deal value by backing type



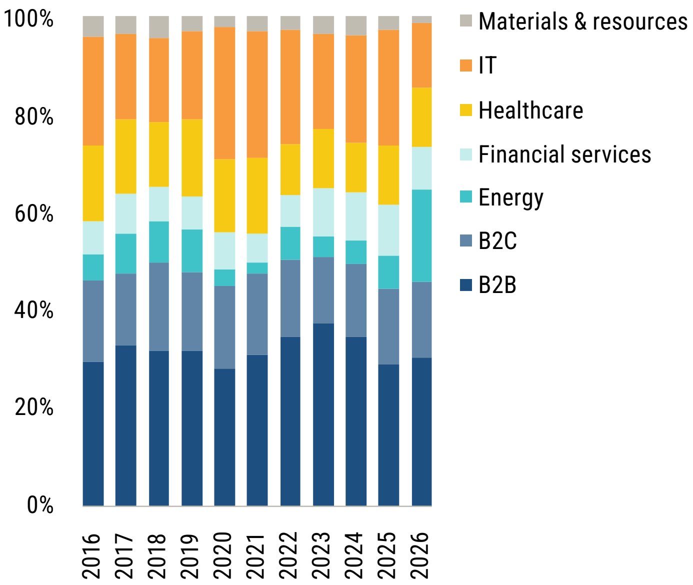
Source: PitchBook • Geography: US • As of June 30, 2026

Share of PE middle-market deal count by backing type



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

Share of PE middle-market deal value by sector



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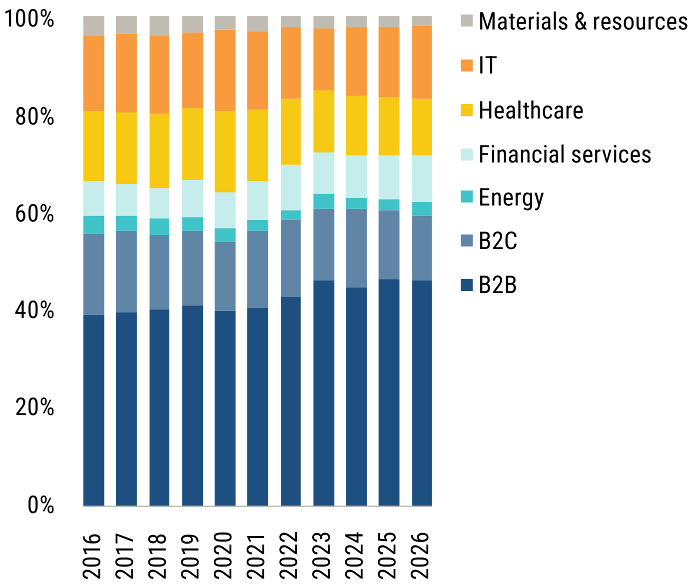
Share of PE middle-market deal count by sector

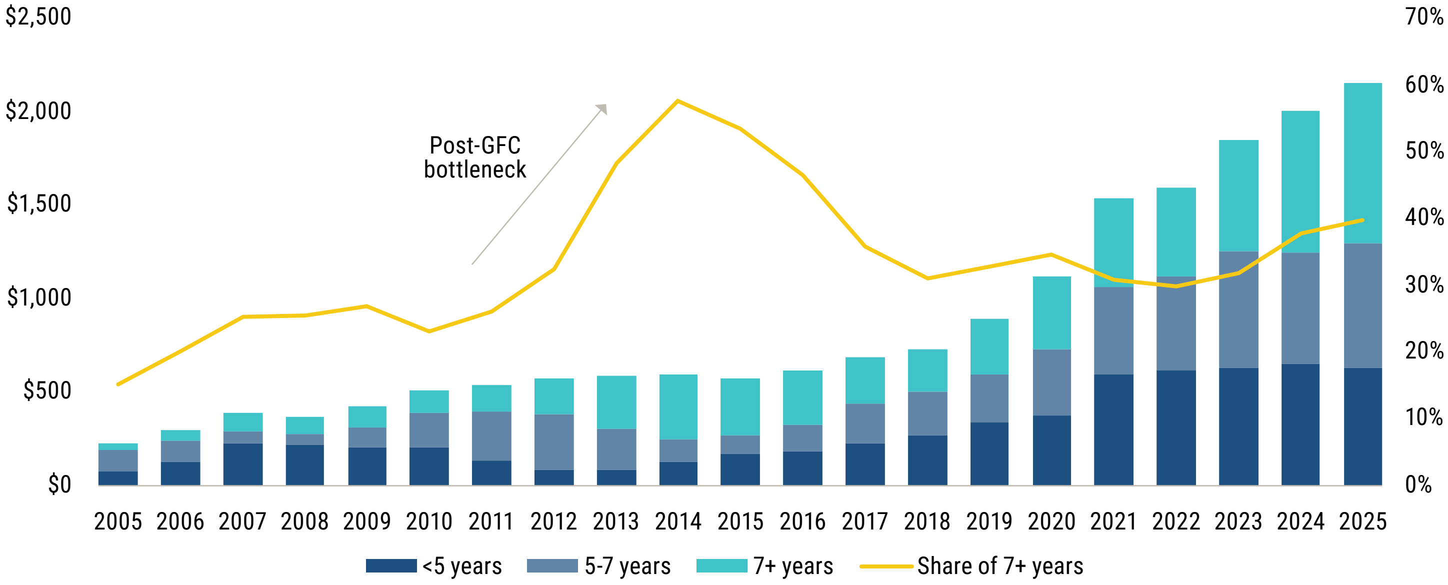


Source: PitchBook • Geography: US • As of June 30, 2026

SPOTLIGHT

Private Equity's Zombie Problem

Buyout NAV ($B) by fund age



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

Note: This spotlight is abridged from our [Private Equity's Zombie Problem] *report. Please see the full report for additional analysis on PE's growing backlog of zombie companies.*

Private equity has more than tripled in size over the past decade, reaching $3.8 trillion in AUM in the US alone through the end of 2025. Unsurprisingly, the population of PE-backed companies has expanded alongside it, with 13,509 active portfolio companies in the US as of June 30, 2026. Yet in recent years, that growth has coincided with a prolonged slowdown in exit activity, disrupting the natural balance between capital deployment and realizations. Although exits have begun to recover modestly, the industry is now contending with a sizable backlog of aging assets—many held for five years or longer, and some well beyond their typical holding periods—with no clear path to an attractive exit. The scale of that backlog is significant, with GPs in the US alone sitting on more than $860 billion in net asset value (NAV) across buyout funds more than 7 years old. This gradual "zombification" of a portion of the portfolio universe is emerging as a meaningful challenge for sponsors and their investors alike, weighing on liquidity, returns, and fundraising momentum.

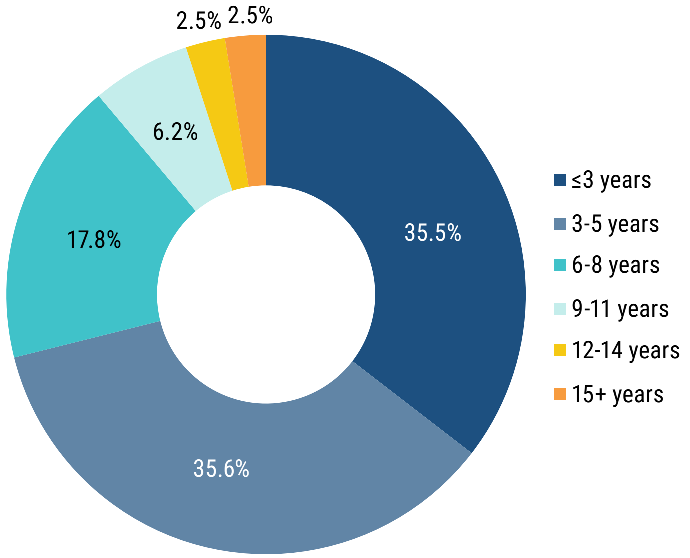
A PE zombie refers to a portfolio company that remains operational and solvent but lacks a credible path to achieving its targeted return or a timely exit. Typically characterized by extended holding periods, stalled earnings growth, elevated leverage, and limited buyer interest, these companies continue to absorb capital and management attention without realizing meaningful value. While not necessarily distressed or insolvent, zombie companies effectively trap capital, delaying distributions to investors and reducing the overall efficiency of capital recycling within the PE ecosystem.

3,905 PE-backed companies in the US—28.9% of the total universe—have been held for more than five years, and many of them exhibit zombielike characteristics. We consider the risk more acute once holding periods exceed seven years. By that measure, 2,536 US portfolio companies are now at or beyond the traditional five-to-seven-year exit window for PE. To be clear, not every company held for seven-plus years is a zombie. Some are high-quality assets that sponsors intentionally retain to capture additional growth. However, a substantial subset of this cohort reflects characteristics such as stalled earnings momentum, elevated leverage, or limited buyer interest—conditions that make a near-term, value-accretive exit increasingly difficult.

There have always been zombies in PE. It is the nature of the business that, from time to time, a company or two underperforms. Historically, these middling assets are manageable within a portfolio of 10 to 15 companies and do not derail overall fund performance or impair a sponsor's ability to raise the next vehicle. However, this trend became more pronounced in recent years, especially as financing conditions tightened, and sponsors could no longer rely on financial engineering or multiple expansion alone to generate returns. Older vintages benefited significantly from multiple expansion. That tailwind has since reversed for more recent vintages. Revenue growth and EBITDA margin expansion have emerged as the primary drivers, placing greater emphasis on operational performance now when many portfolio companies are finding it hardest to deliver.

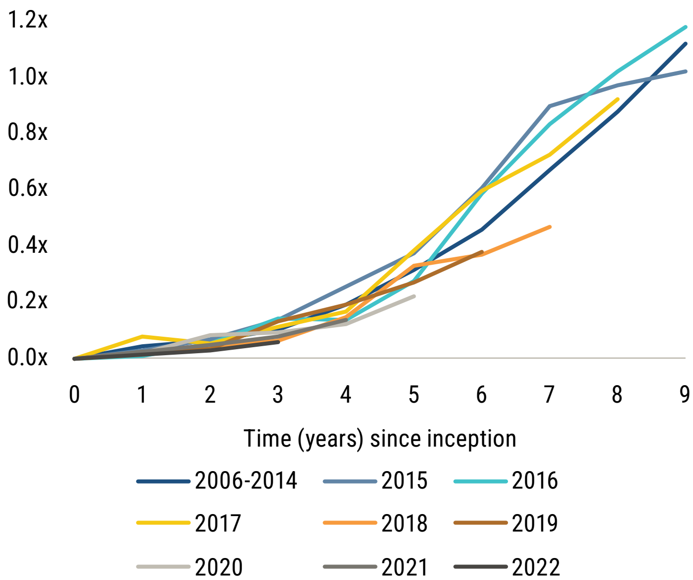
While not yet zombies, many assets acquired in late 2020 and throughout 2021 were underwritten in what, in hindsight, proved to be near-ideal conditions. Ultralow borrowing costs, abundant credit availability, and unprecedented fiscal and monetary stimulus fueled record levels of liquidity flowing into both public and private markets simultaneously. The result was a surge in dealmaking that, in 2021 alone, produced over 10,000 transactions worth nearly $1.3 trillion—a volume not matched since. Not every company in that cohort was acquired at peak multiples with flawed underwriting assumptions, but the sheer volume of deals means that even a modest fraction facing those conditions translates into a significant number of companies now confronting challenges that were neither visible nor anticipated at the time of acquisition. Sponsors did not know they were buying at the peak, and some are now unable to sell as a result.

Share of PE-backed company inventory by deal year



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

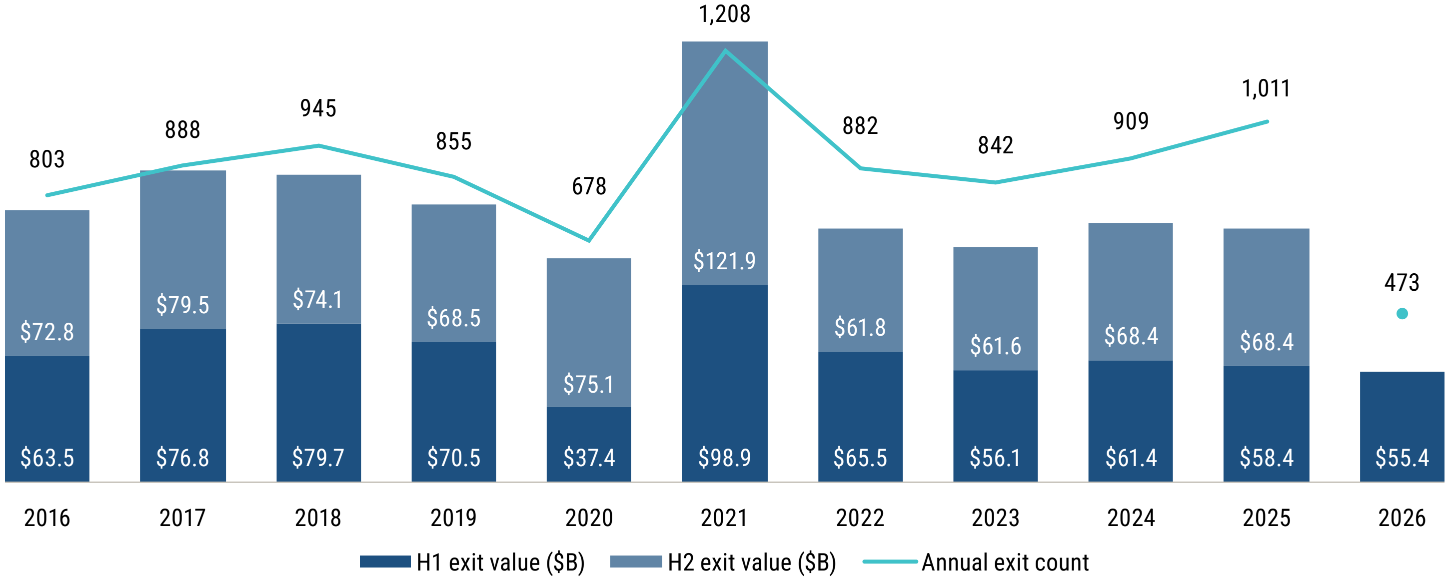
Buyout DPI by vintage and time since inception



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

Exits

PE middle-market exit activity by half year



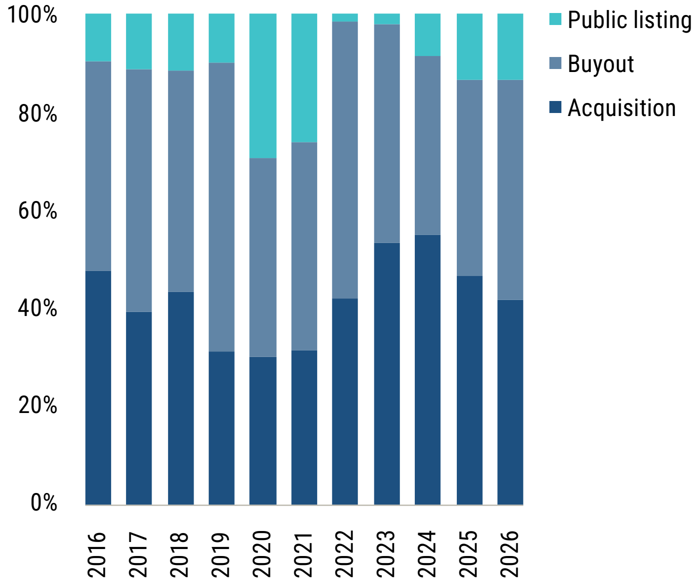
Source: PitchBook • Geography: US • As of June 30, 2026

Overview: Exits slow once again, but one bright spot remains

The US middle market tightened further, with exit activity declining for the third consecutive quarter. An estimated 239 exits reached an aggregate value of $24.7 billion, representing a QoQ decline of 19.5% in exit value and a 14.2% decline compared with Q2 2025, the previous macroeconomic trough. The exit value was the lowest since Q2 2020, underscoring the severity of the liquidity constraint in the US middle market. Q2 exit count increased by 2% QoQ and remained above pre-pandemic averages, suggesting that GPs were able to offload assets, albeit at lower prices.

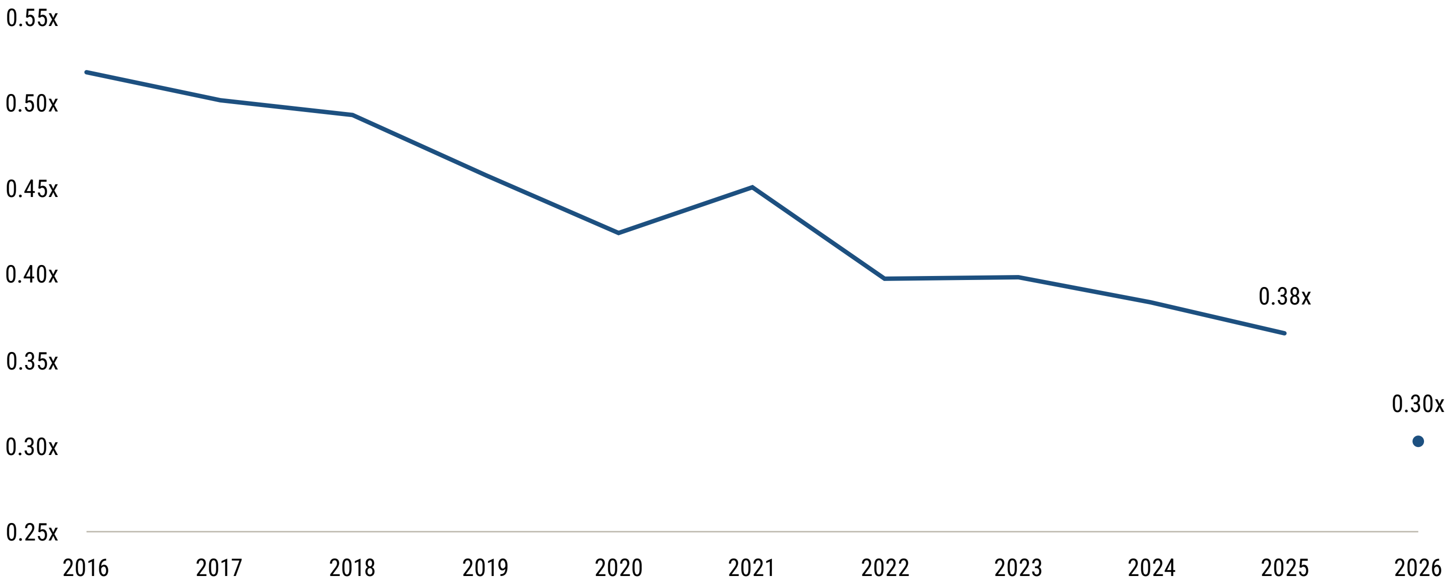
Over the first half of the year, the picture was rather consistent. The H1 2026 exit value of $55.4 billion compares with $58.4 billion in H1 2025, a decline of 5.2%, while the exit count of 473, compared with 458, improved slightly. It is only when comparing H1 2026 with H2 2025 that we see a trend of fewer exits, each somewhat larger, which is aligned with the trend in the broader PE landscape, with few quality assets securing high sale prices while most assets remain held by their PE firms to wait for more favorable exit conditions. The relative resilience of Q2 exit count despite a greater dip in exit value is a positive sign for the middle market's ability to bring lower-quality or smaller assets to market, even as mega-exits continue to anchor exit activity in the broader US PE market. In the current macroeconomic backdrop, it remains to be seen if exit count can be maintained and recover beyond its growth in 2025.

Share of PE middle-market exit value by type



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

PE exit/investment ratio



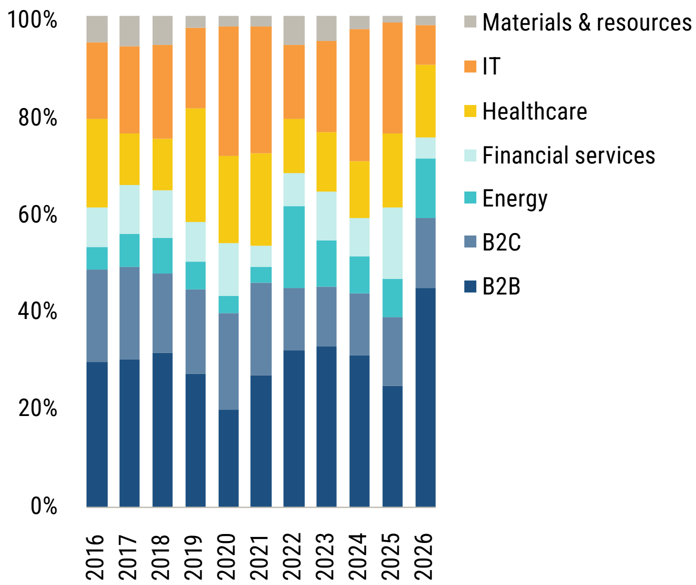
Source: PitchBook • Geography: US • As of June 30, 2026

Public listings were the one exit type that expanded in Q2, despite IPOs not being a significant exit option for middle-market-sized portfolio companies. There were five IPOs in Q2 for a total value of $4.3 billion, the highest number of IPOs in the middle market in one quarter since Q2 2024. The slow reopening of the IPO market is beginning to provide trickle-down exit opportunities for the middle market, which had previously accrued 2% to 3% of its pre-pandemic exit count from IPOs.

Tech sales regain composure, while B2B still struggles

After a plunge in exit activity in Q1 due to AI disruption and its impact on enterprise software and IT service companies, IT exit activity saw a small improvement in Q2 as investors continued to navigate the sector's evolution to discern assets with moats and secure sales in an uncertain landscape. With 20 exits for an aggregate value of $3.4 billion, the Q2 IT exit count increased 20.8% but remained 36.7% below the level in Q2 2025, whereas the IT exit value jumped 401.3% from an abysmal Q1 but remained 49% below that of Q2 2025. While the improvement in IT exit activity is more of a recovery from the drastic decline in Q1, the rather quick turnaround demonstrates that assets with advantages in enterprise security, compliance, and switching costs will likely remain competitive during the AI evolution.

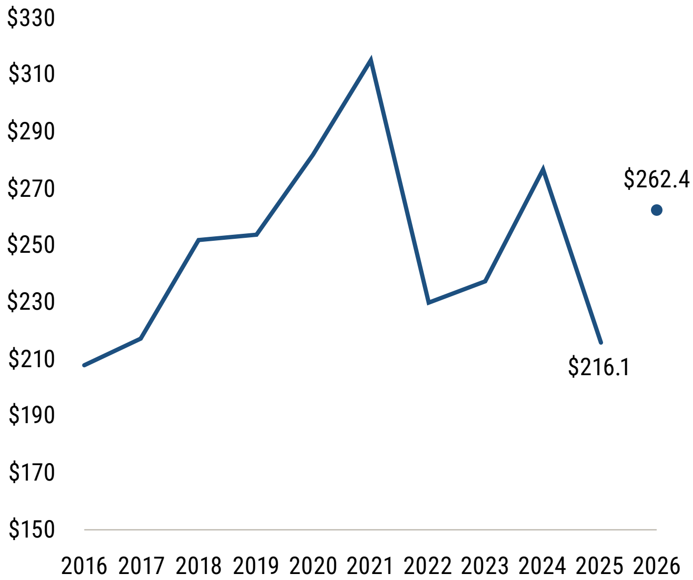
Share of PE middle-market exit value by sector



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

B2B, the largest exit category by count, fell 27.3% to 61 exits, marking a second consecutive quarter of decline. In terms of exit value, B2B dropped 61.3% to $6.3 billion from an impressive $16.4 billion in Q1 that was driven by a surge in opportunities whose economics were not impacted by AI. For example, the largest B2B exit in Q1 was the $950 million sale of industrial manufacturer MW Components, followed by the $820 million sale of another manufacturing company, Facet Filtration Group. The downward adjustment in B2B exit activity and the growth in IT exits convey a similar trend: Sector demand remains volatile, and PE players are adapting quickly but have yet to establish stability.

Median PE middle-market exit value ($M)



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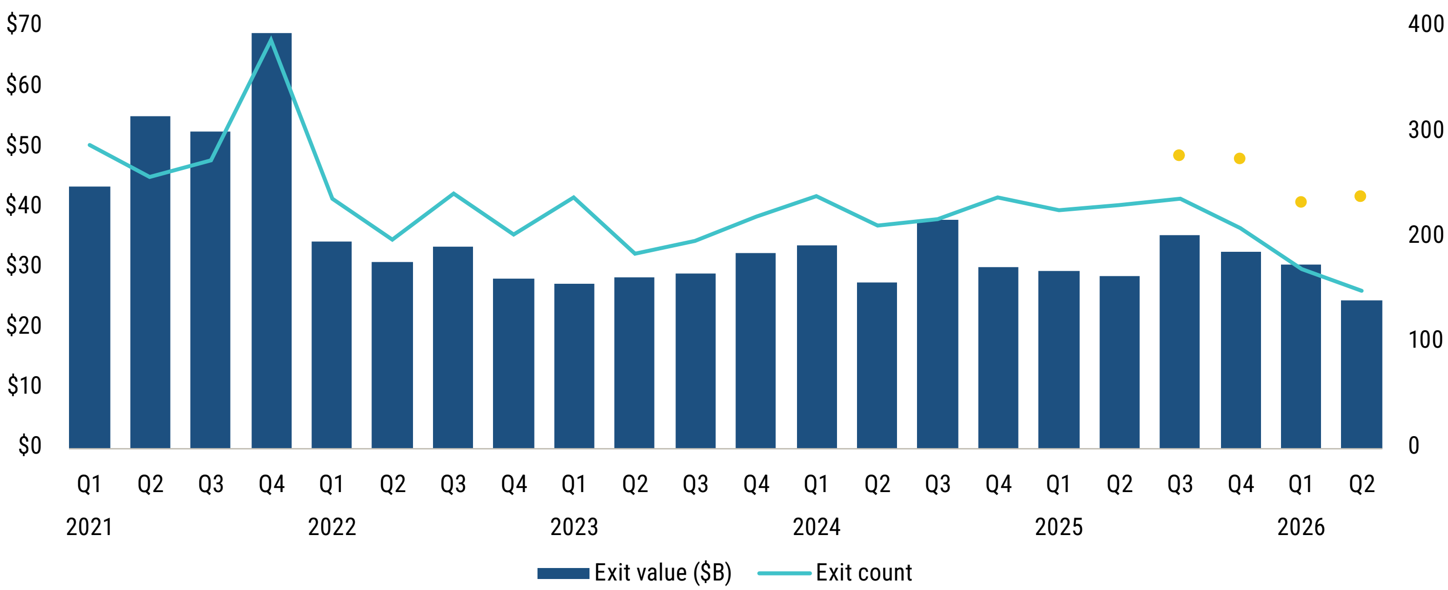
PE middle-market exit activity by quarter



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A WORD FROM INSPERITY

Carveout? Do not make this mistake with a deal’s most important asset

Every PE deal professional knows that the carveout business is booming, but what they may not understand is how frequently a deal’s most important asset—the people working for the new standalone company—is treated as an afterthought.

Make that mistake and even the best 100-day plan will be sunk by day one.

Carveouts are booming, and so is employee anxiety

The persistently slow exit market has made carveouts an attractive option to both deploy investor capital and return cash to impatient LPs. The math is clear: According to CapitalPad, average buyout holding periods stretched to 6.4 years, an industry record,[2] and MSCI research finds that distributions have run below 15% of net asset value for four consecutive years.[3] Meanwhile, PitchBook’s data shows that since 2021, the share of carveouts among buyout transactions has more than doubled.[4]

Almost every carveout transaction means that the newly divested business unit needs to stand up all the core business functions that a parent company typically provides—finance, IT, and, most importantly, the processes, communications, and foundational business culture that support a thriving workforce.

Getting it right can be the difference between an engaged, focused workforce and one that stumbles at a critical inflection point. To get it right, it is critical to understand that employees do not experience a carveout as a strategic realignment. They experience it as a set of questions with deadlines attached: Is my paycheck right? Is my family still covered? Whom do I call? What is the vision for the future?

“Employees start to hear rumors, and they will make their own connections—they will write their own narrative in the gap of information,” says Amy Schisler, managing director of Performance Services at Insperity. “And typically, it’s not a good narrative.”

A company that has a clearly articulated plan, one that is executed cleanly and requires the least of its employees, is the one that has the best chance of launching the new business with employees who worry about growth, not about their livelihoods.

Chris Sloan is 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 spanning manufacturing, entrepreneurship, startups, e-commerce, international trade, M&A, PE, and enterprise tech implementations, he brings a broad business perspective to strategic growth conversations. Chris is passionate about supporting small, emerging, and middle-market companies, believing that strong businesses create stronger communities. 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.

A choice that can make or break a value-creation plan

For the people side of the business, the easy answer is the so-called transition services agreement, or TSA. Under a TSA, the new standalone business pays the parent company to continue to run payroll, benefits, and HR for a fixed period.

The other, often better choice, is teaming with a strategic HR firm with the capabilities to stand up a new HR function in a matter of weeks—or to work alongside the TSA on the people plan that the agreement does not cover.

The problem with a TSA on its own is that it comes with two costs. First, the considerable premium paid to the parent company is a direct hit to EBITDA. When the global medtech company Baxter International sold Vantive Kidney Care to The Carlyle Group in 2025, it reported $206 million in income related primarily to the TSA entered into for the divested business.[5]

The second? The considerable burden it places on the employees.

"That's where you really lose people," Schisler says. "It's: 'I just got over this one change, I've just evened out, and now you're going to have me change again? Can I really trust what's happening here?' When there's that undercurrent of uneasiness in your workforce, it creates risk. That's when you see turnover, oftentimes in key talent and positions, because somebody can go elsewhere and get that certainty."

An MIT study of more than 4,000 acquisitions found that one-third of acquired employees voluntarily left within one year of the deal, compared with 12% for other firms.[6] The reason is directly relevant to a carveout—the employees left largely because they did not have the option to choose their new "owner" and felt a mismatch with a company that was rapidly changing around them.[7] And the actual trigger that gets them to look elsewhere is often small and specific. In one recent study, 64% of employees said they have experienced financial stress due to paycheck errors or delays, and 53% said they would consider leaving if payroll problems continued.[8]

Thus, with a TSA and no partner on the people side, PE teams are often maximizing both financial costs and the more intangible cost of employee morale and focus.

"PE firms have done a great job of operational, financial, and administrative engineering," says Chris Sloan, who leads Insperity's private capital markets group. "What they're just now starting to figure out is that without the people engineering in place, they're not going to have success in that 100-day period."

Finding the right partner

To be clear, the TSA itself is not the mistake. It is a workhorse of deal execution, and the transformation teams that run them are good at getting transactions across the line. The mistake is treating the TSA as the people plan. The agreement keeps the systems running; it was never designed to answer the questions employees are actually asking.

In any case, whether foregoing a TSA, running one alongside a partner, or getting off one quickly, the work requires standing up an entire HR function within weeks. That raises many risks of its own and makes partner selection critical.

The most urgent tasks related to employees in any carveout are the seamless transition of core functions, like payroll and benefits administration, and a communications plan that addresses employees' key concerns.

The efficient transfer of payroll and benefits comes down to technical infrastructure and a team of consultants who can support both the technical and people sides of the transition. They also need to do it all accurately and quickly.

The large payroll and HR providers all claim to be fast. "Their definition of fast in this space is 90 days," Sloan says.

For its part, Insperity moves at what it calls "deal speed" while taking the pressure off the PE owner.

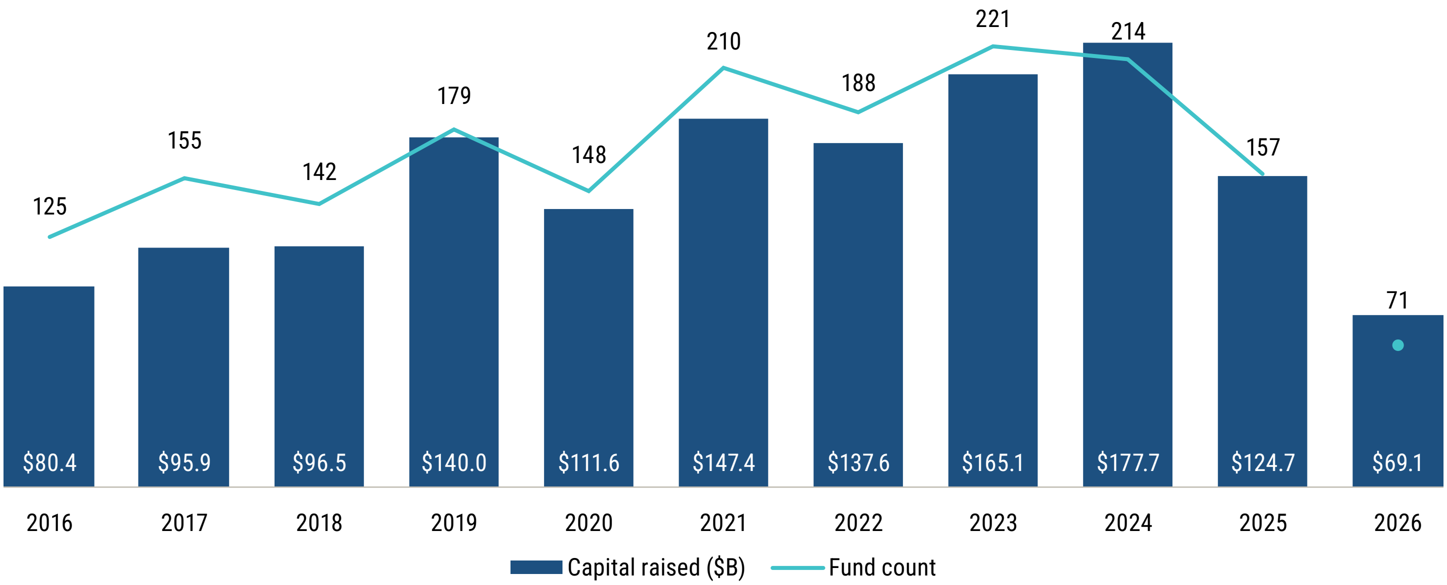
"It's not uncommon for us to bring organizations of varying sizes onto the Insperity HR360 solution and have them operational in a matter of weeks when circumstances require it," Sloan says. "And with confidence that the payroll run is going to be right, we live in a world of 99.6% accuracy on the first payroll run. Our process may look a little laborious up front, but the throughput is accurate. We invest time up front to understand your workforce, benefits, and operational requirements so we can provide a clear and comprehensive proposal, minimizing surprises later in the process."

With that part of the transition safely in hand, the team can focus on the bigger, more important things, like employee satisfaction and retention.

"When people have understanding, they'll get on board and go along for the journey with you," Schisler says.

Fundraising and performance

PE middle-market fundraising activity



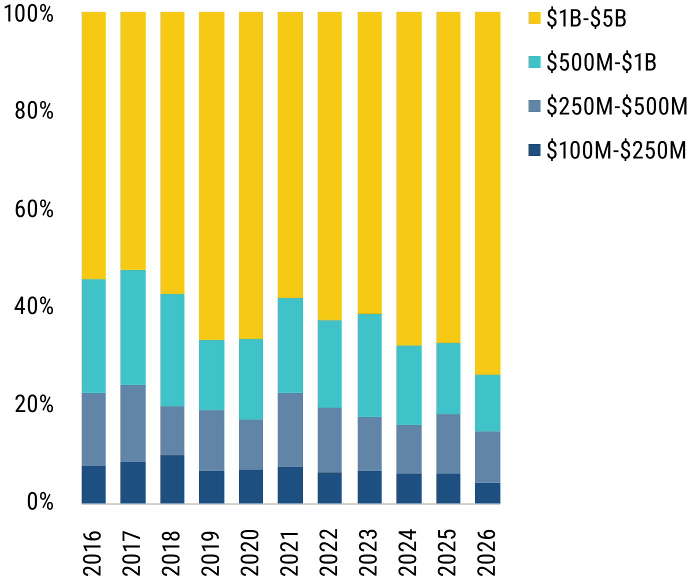
Source: PitchBook • Geography: US • As of June 30, 2026

Overview: Capital concentration has not hampered the middle market

Despite a more pronounced dip in deal and exit activity in the middle-market ecosystem, fundraising remains relatively healthy and is pacing slightly better than in 2025. YTD, middle-market managers have held final closes on 71 funds with an aggregate value of $69.1 billion. The annualized pace for 2026 middle-market fundraising stands at approximately $140 billion, a modest double-digit increase from 2025's full-year total of $124.7 billion. However, the fund count is trending toward a third consecutive year of decline. This decline would ensure that the new landscape for PE fundraising, especially in the middle markets, will be leaner, with fewer managers getting slices of the pie. As in the broader PE ecosystem, more stunted exit activity in recent years has left many LPs with less capital to allocate to newer vintages, and commitments are increasingly funneling to managers that have maintained strong performance and stable monetization activity, while a broader cohort of recent vintages has struggled in this area. Sponsors are unable to deploy capital into new deals at the same pace as in prior cycles, reducing the urgency for new fundraises. Fundraising velocity is likely to remain sluggish through 2026 unless exit activity rebounds materially.

While fundraising over the last 18 months has fallen below historical standards, this likely reflects the future reality. However, bright spots remain for the segment. The median middle-market fund step-up was 1.5x through H1 2026. The median step-up remained flat YoY, indicating that managers able to achieve final closes are still doing so successfully and raising more capital than their predecessors. Conversely, this means that more funds remain open and in market, seeking to raise additional capital from a limited pool, in hopes of

Share of PE middle-market capital raised by size bucket



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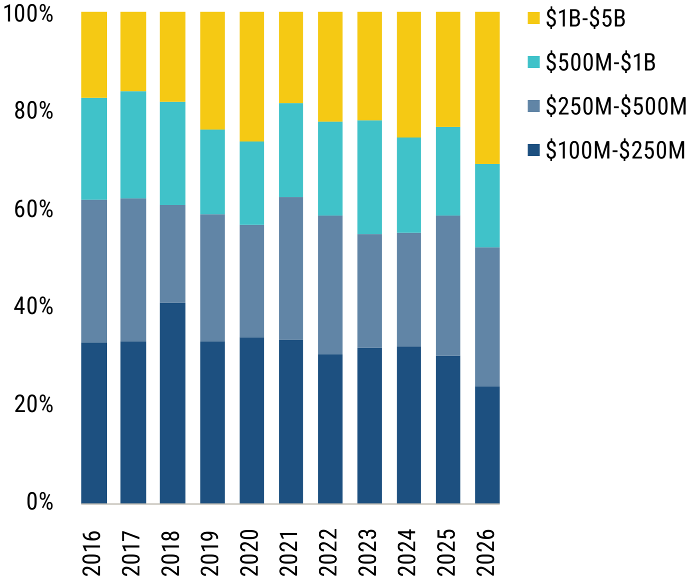
Share of PE middle-market fund count by size bucket



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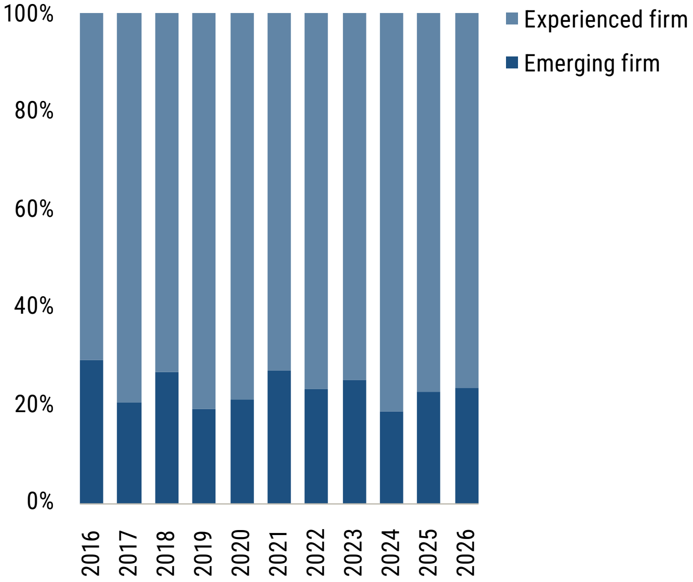
achieving a final close. Thus, while some have crossed the finish line, many face an uphill battle. Of the 10 largest funds that have closed across the US PE ecosystem through the end of June, this cohort has raised a combined $78 billion, representing 49.6% of the asset class's total capital. This proves that even if macro conditions and exit activity improve, it does not guarantee future fundraises will be easier. Middle-market managers must continue to differentiate, whether through strong past performance, a niche they operate in, or healthy distribution activity.

Emerging managers: An uphill battle for many sponsors

Emerging-manager capital raising remains subdued. Emerging managers, those that have raised funds one through three, including first-time managers, raised $16.3 billion in H1, with the potential to surpass the $28.3 billion raised by emerging managers in 2025. Moreover, the emerging manager fund count is 29 YTD, in line with the pace in 2025, when this cohort ended the year with 61 funds holding final closes. This downward pressure on emerging managers indicates that LPs are in manager consolidation mode, making commitments to new or emerging managers scarcer. Few first-time funds have reached final close in this more concentrated fundraising market. Experienced managers, those that have raised four or more funds, raised $52.7 billion in H1 2026, putting the cohort on pace to surpass the $96.5 billion raised in 2025. However, the 42 funds closed by experienced managers fell short of last year's pace, underscoring that fewer firms are crossing the finish line, while more capital is concentrating among those able to close. This consolidation of capital is one of the defining structural shifts in PE in 2026. This trend will likely persist through 2026, with potentially permanent consequences for emerging manager access to capital. We discuss this trend in more detail in Private Equity's New Fundraising Reality. The shift in the fundraising landscape is likely here to stay and will require many managers to adapt to maintain continued capital commitments. Importantly, managers must prove they are differentiated and deserving of LP capital. LPs are back in the driver's seat when it comes to fundraising.

Share of PE middle-market capital raised by manager experience



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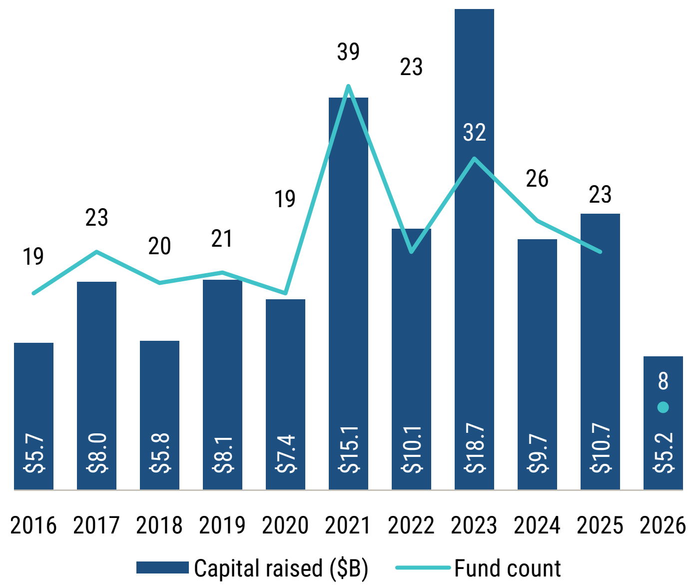
PE middle-market first-time fundraising activity



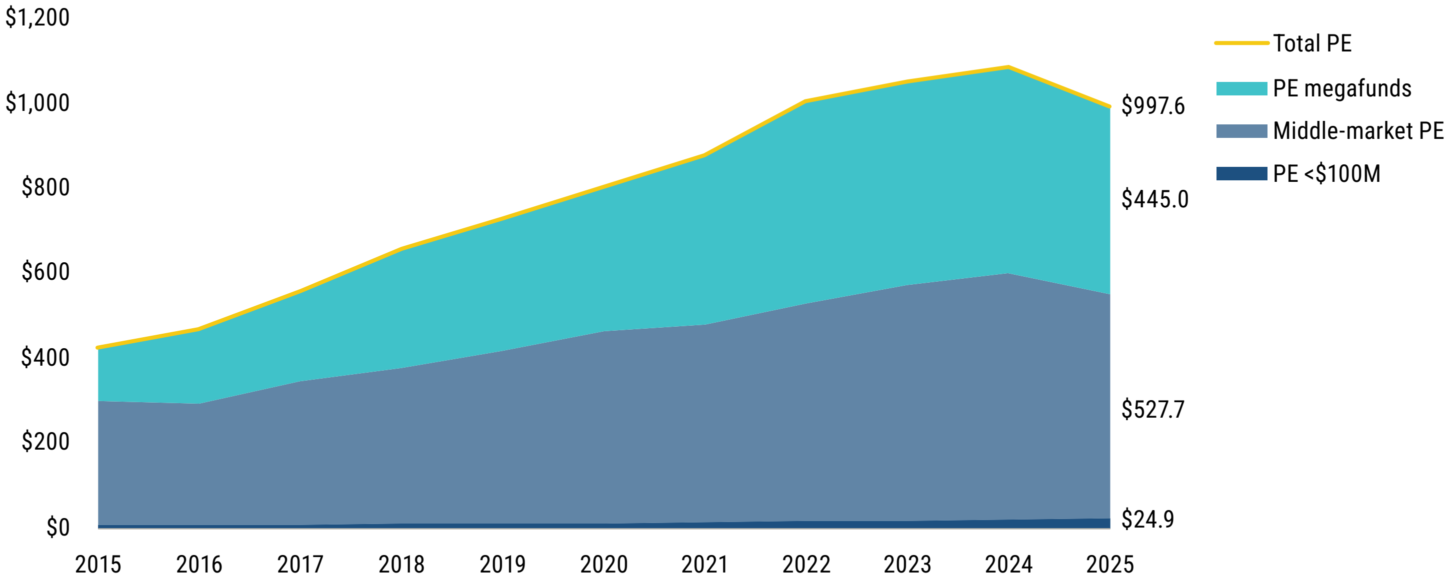
Source: PitchBook • Geography: US • As of June 30, 2026

Top PE middle-market fund closings by capital raised in 2026

Close date	Manager	Fund	Capital raised ($M)
January 6	Lindsay Goldberg	Lindsay Goldberg VI	$4,900.0
May 8	Patient Square Capital	Patient Square Equity Partners II	$4,353.0
April 8	Court Square	Court Square Capital Partners V	$3,800.0
February 18	HGGC	HGGC Fund V	$3,200.0
April 8	Percheron Capital	Percheron Capital Fund III	$3,100.0
March 31	OceanSound Partners	OceanSound Partners Fund III	$3,000.0
January 6	Warburg Pincus	Warburg Pincus Financial Sector III	$3,000.0
April 13	Lightyear Capital	Lightyear Fund VI	$2,493.5
January 5	BV Investment Partners	BV Investment Partners Fund XII	$2,465.0
March 30	Stellex Capital Management	Stellex Capital Partners III	$2,410.0

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

PE dry powder ($B) by fund size

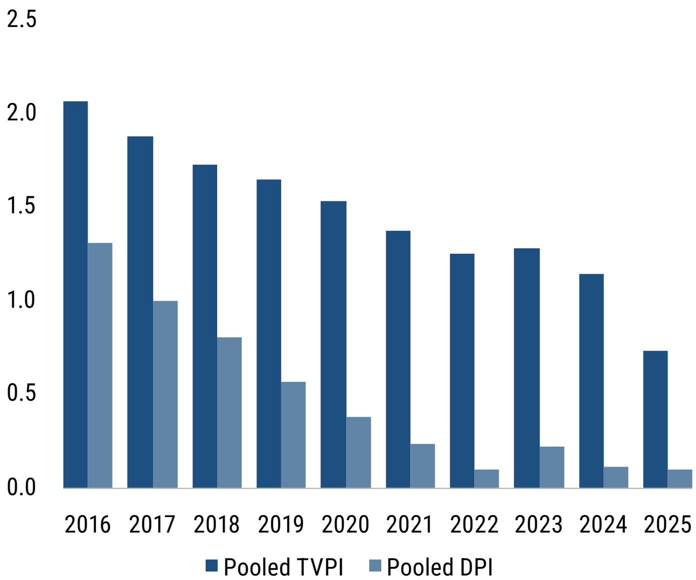


Source: PitchBook • Geography: US • As of December 31, 2025

Dry powder: Elevated dry powder will help combat slowed inflows

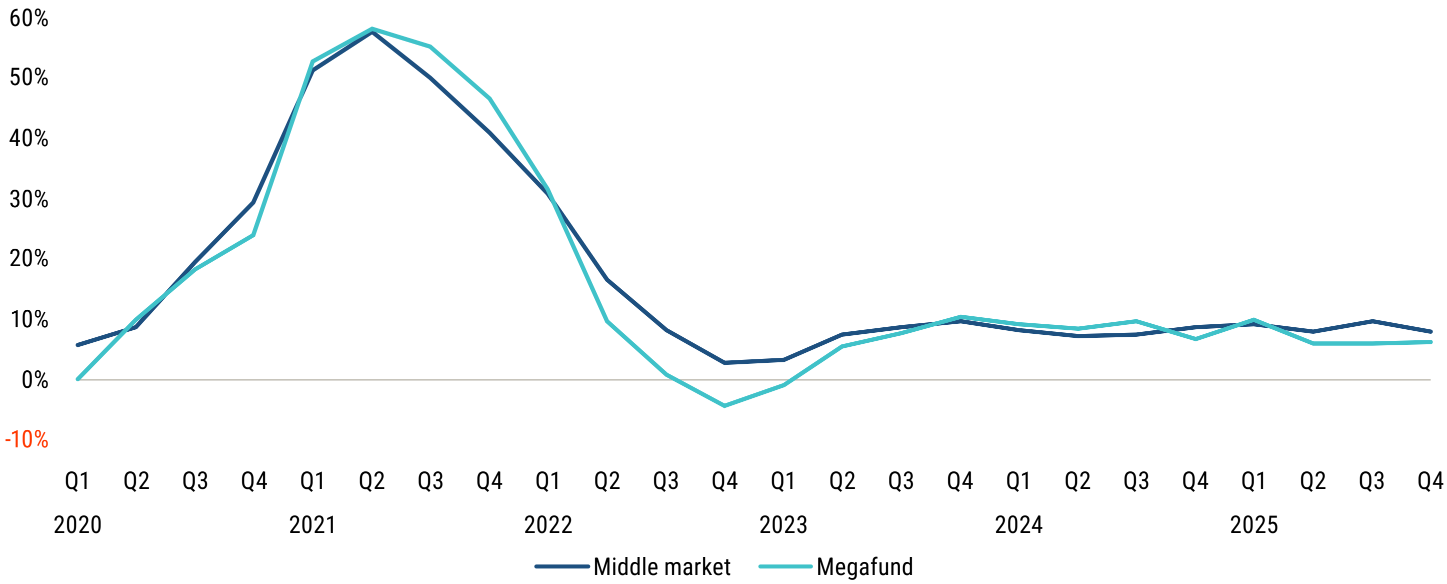
As of the end of 2025, US middle-market PE funds held $527.7 billion in dry powder, accounting for 52.9% of total dry powder across the US PE landscape. Dry powder figures show a natural lag due to delayed GP and LP reporting, but even accounting for that lag, the capital stockpile for middle-market managers remains elevated. The slight dip in 2025 dry powder was due to robust deployment in H2. However, fundraising has slowed, and these GPs still have substantial capital raised and ready for deployment. That capital has not been deployed at the pace that the end of 2025 and start of 2026 seemed to promise. Deal activity accelerated late in 2025, but the slowdown in Q2 2026 has left dry powder levels elevated. With a gradual improvement in deal activity in H2, this figure will likely remain flat unless deployment accelerates, causing a decline in the months ahead. Fundraising offers no near-term relief valve either, with a meaningful recovery not taking shape until 2027 at the earliest.

PE middle-market TVPI and DPI by vintage



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

Quarterly rolling one-year PE fund IRR by fund size



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Performance: Outperformance is the middle market's best friend

Even in a challenging environment, a significant advantage that middle-market managers have in securing capital commitments is their ability to outperform other segments of the asset class, including megafunds and growth equity. The dispersion of returns is significant, with middle-market funds historically having a much higher ceiling but ultimately a lower floor. Middle-market deals have many more exit channels and growth levers to pull than those of a company within a megafund's portfolio. Moreover, deploying $20 billion or more requires writing large checks. A manager of that size cannot meaningfully move the needle by investing $50 million or $100 million per deal. This pushes them toward transactions in the billions, a universe that is finite, well covered, and competitive. For middle-market managers, a $1 billion fund writing $75 million to $150 million equity checks has access to a vastly larger opportunity set, where sourcing advantages and value-additive management can consistently be found. Because of this, these middle-market funds have more room for operational growth and, subsequently, higher returns. At the same time, a higher-for-longer rate environment will increase pressure on highly leveraged companies and squeeze smaller funds. While performance for the two sides ebbs and flows, the potential for outperformance and portfolio diversification within alternative assets keeps this cohort attractive to LPs, even if they are forced to allocate to fewer of these managers going forward.

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