



PE Middle Market Report



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Institutional Research Group



Garrett Hinds
 Senior Research Analyst,
 Private Equity
garrett.hinds@pitchbook.com



Jinny Choi
 Senior Research Analyst,
 Private Equity
jinny.choi@pitchbook.com



Kyle Walters
 Research Analyst, Private Equity
kyle.walters@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Published on March 13, 2026

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Executive summary

Russell 2000 versus S&P 500 price return



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

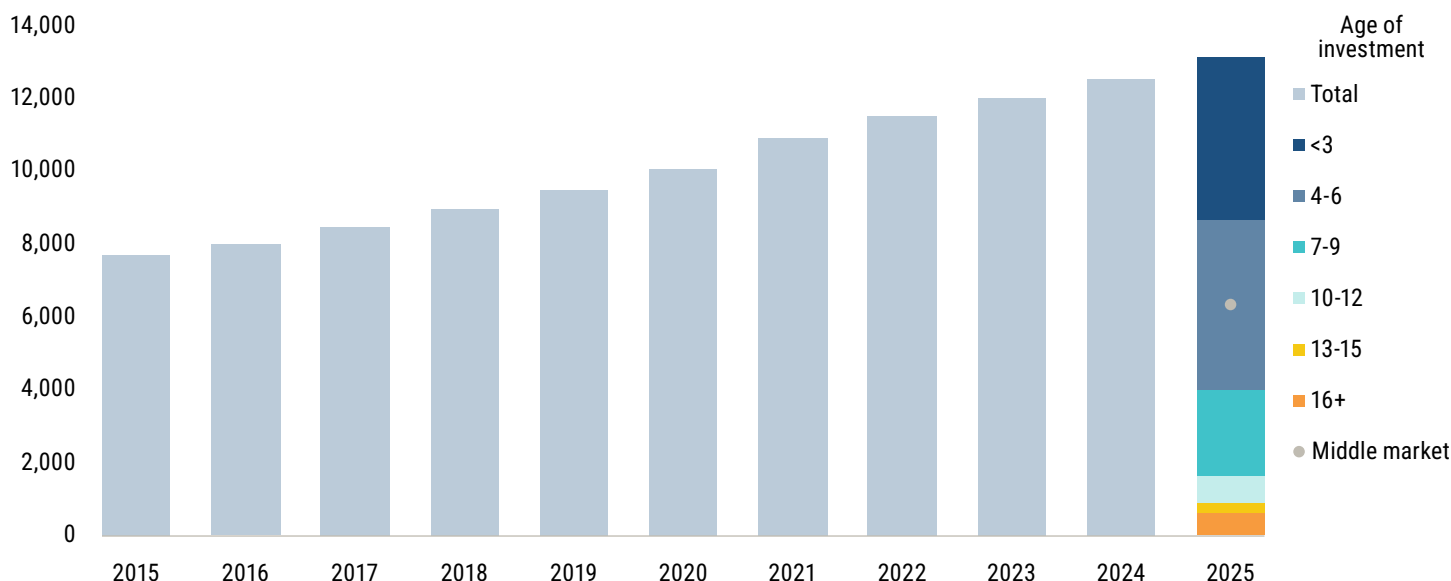
Deals

In 2025, the US PE middle market extended its recovery, with deal value rising 8.5% YoY to \$410.7 billion across an estimated 4,018 transactions, up 16% YoY, as improving sentiment and ample liquidity supported steady activity. Momentum broadened into year-end, with Q4 deal count up 22.9% YoY as the average deal size drifted lower. While megadeals dominated headlines amid tight credit spreads and a more accommodative regulatory backdrop, the middle market remained a consistent engine of PE deployment. Valuations appear broadly balanced. We expect multiples to remain flat or drift modestly lower as PE-backed middle-market companies representing more than \$1 trillion in unrealized value await an exit, including a significant cohort of longer-held and lower-margin businesses that could weigh on pricing as they come to market. By sector, activity rotated toward financial services and energy. Deal close timelines improved to an average of 8.8 weeks, down from almost 12 in 2024, with help from AI-enabled due diligence tools.

Exits

Middle-market exits extended their recovery in 2025, with an estimated 1,022 transactions generating \$140.4 billion, up 11.6% and 5.6% YoY, respectively, and surpassing pre-pandemic averages for the first time since 2021. Growth was steady throughout the year, culminating in a strong Q4, and notably driven by an improving exit count rather than a narrow set of large realizations. Unlike the broader US PE market, where mega-exits accounted for 78% of total exit value and drove a 90.1% YoY surge in value, middle-market performance reflected breadth and consistency. Sponsor-to-sponsor exits gained share, representing 61.2% of value, while exits to corporates declined meaningfully because of cautious strategic buyers. Continuation funds reached record levels globally, though we expect activity to moderate as traditional exit lanes reopen. Sector trends diverged, with healthcare building momentum while IT exits fell by around 38% YoY as buyers reassessed AI-related disruption risks. With more than 6,000 PE-backed middle-market companies still in inventory

PE-backed company count by age of investment (years)



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

and the median holding period for exits stretching to 6.4 years, exit pressure remains elevated, but improving sentiment and earnings resilience position the segment for continued normalization in 2026.

Fundraising

After four years of robust capital formation, middle-market fundraising retrenched sharply in 2025. Managers raised \$94.8 billion across 120 funds, down 43.3% and 41.5% YoY, respectively, falling below the five-year average even after accounting for typical late reporting. Capital continued to consolidate among a smaller group of large platforms. Outside of the middle market, the 10 largest PE funds captured 43% of all PE capital raised, and that concentration is expected to persist into 2026. Fund count contraction was especially pronounced, with 2025 marking the weakest year for middle-market fundraising since before the pandemic. Emerging managers faced similar pressure, raising \$21.9 billion across 52 funds, while first-time vehicles declined to

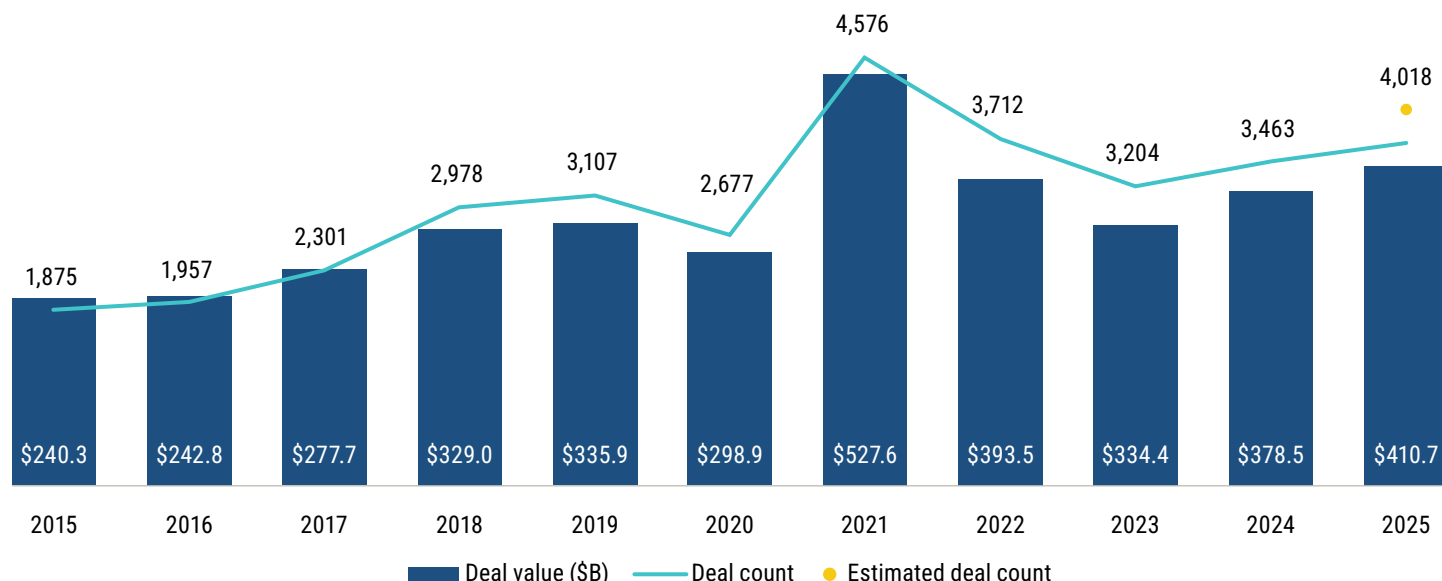
\$5.7 billion across 18 funds. Larger vehicles proved more resilient, particularly in Q4, when nine funds of \$1 billion or more accounted for nearly 80% of quarterly capital raised. A sustained recovery in exits will be critical to reviving LP allocations to the middle-market segment.

Dry powder and performance

Dry powder remained elevated at \$595.2 billion as of midyear, representing 53.1% of total US PE dry powder and 28.6% of US PE middle-market AUM. While softer fundraising and improving deployment should gradually temper balances, capital overhang remains meaningful. Performance has held steady, with a rolling one-year IRR of 7.6%, roughly in line with the Russell 2000 but trailing the S&P 500. However, distributions remain muted. For middle-market funds, 2016 is the most recent vintage with DPI above 1, and 2018 sits at just 0.68 despite healthy TVPI multiples. A sustained rebound in realizations will be necessary to convert unrealized gains into liquidity and restore full momentum to the asset class.

Deals

PE middle-market deal activity



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

Overview

The middle market delivered solid growth in 2025. Deal value reached \$410.7 billion, up 8.5% YoY, across an estimated 4,018 transactions, a 16% YoY increase. Dealmakers found both opportunity and liquidity, supported by improving sentiment around US business conditions.

Activity shifted downmarket into year-end. In Q4, deal value totaled \$104.6 billion, down 3.1% QoQ and nearly flat YoY. However, transaction count rose to an estimated 1,131 deals, up 21.5% QoQ and 22.9% YoY. The data points to smaller average deal sizes late in the year as overall participation broadened.

Within the broader PE landscape, middle-market activity remained meaningful but was overshadowed by a surge in megadeals. Large-cap transactions were in focus, fueled by ample liquidity, tighter credit spreads, and a more accommodative antitrust environment. Even so, the middle market continued to provide a consistent stream of opportunity for PE buyers.

Regional performance shifted in 2025. The South and Southeast saw softer activity, with their share of deal value declining by 200 and 110 basis points YoY, respectively. In contrast, the West Coast gained 150 basis points YoY, and the Great Lakes region rose 120 basis points YoY, reflecting relative strength in those markets.

Sector interest also shifted notably. Financial services expanded its share of total deal value by 100 basis points YoY to 9.9%, while energy increased 50 basis points to 3.5%. B2C activity softened, declining 180 basis points YoY to 14.8% of total deal value.

Execution timelines improved. The average time to close fell to 8.8 weeks in 2025, down from about 12 weeks in 2024 and below the five-year average of 10.4 weeks. Faster closings suggest improved alignment between buyers and sellers and a more efficient financing backdrop, in addition to efficiency gains from AI tools.

PE middle-market deal activity by quarter



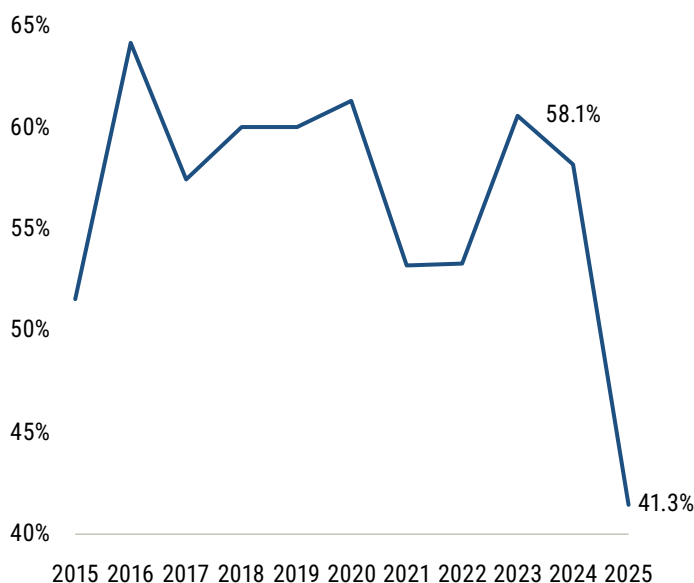
Source: PitchBook • Geography: US • As of December 31, 2025

Valuations

Valuations in the middle market showed a degree of stability in 2025 despite persistent global trade noise. Smaller companies, with less scale to absorb supply chain realignment, felt those pressures more acutely. Even so, multiples held steady. Looking ahead, we see limited room for expansion. Volatility in technology markets and valuation pressure tied to AI disruption could prompt capital rotation. That dynamic may support a relatively stronger deal and exit environment in nontech sectors such as B2B, energy, and financial services.

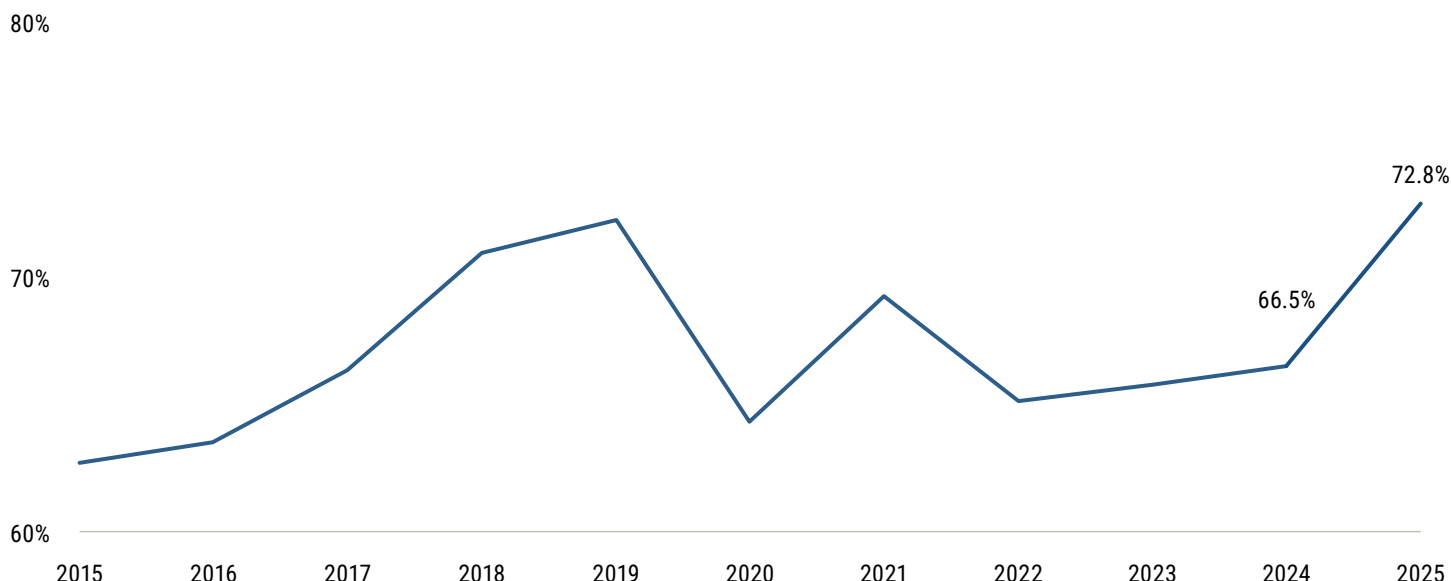
If pressed on direction, we anticipate middle-market multiples to trend flat to modestly down. Technology valuation resets and a shifting deal mix could weigh on aggregate multiples. Although exit volumes are rising and overall dealmaking is recovering, caution is warranted. More than 6,000 PE-backed middle-market companies remain unsold, and roughly one-third have been held for five years or longer. As more of these assets come to market, including a higher proportion of lower-margin businesses, multiples could face incremental pressure. This backdrop reinforces the need to rely on sector-specific metrics rather than headline averages alone.

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



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

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



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

Delving into the data, we emphasize the utility of our North American and European M&A multiples, which draw from the broadest sample set. They incorporate both PE and corporate buyers and offer stronger disclosure rates for middle-market companies. By focusing on transactions between \$25 million and \$1 billion, these metrics provide the clearest window into valuation trends.

The global trailing 12-month (TTM) enterprise value (EV)/EBITDA multiple stood at a median of 10.8x in 2025, down from 12.1x in 2024 and below the 2017-2019 average of 11.2x. This moderation reflects broader market dynamics, including a higher share of lower-margin companies coming to market, consistent with our expectations. Combined with resilient industry deal value, the data points to improving exit activity and a renewed willingness among corporates and GPs to transact despite uncertainty rather than wait for ideal conditions.

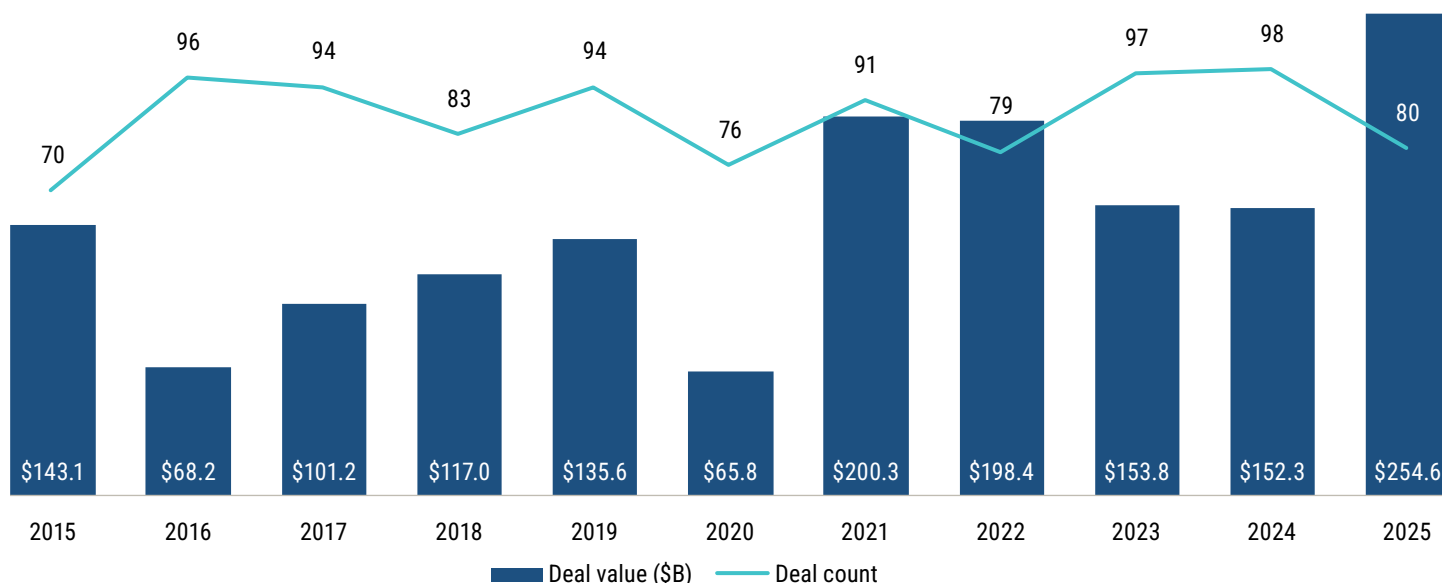
On an EV/revenue basis, the global median multiple registered 2.2x in 2025, essentially flat with 2024 and above the 1.8x-2.1x range recorded from 2017 to 2019. At the same time, it remains well below the elevated levels of 2021. The signal is

a middle market that appears balanced: neither overheated nor distressed.

Differences between EV/EBITDA and EV/revenue trends partly reflect disclosure patterns. PitchBook's dataset typically includes 1.5x to 3x as many observations for EV/revenue as it does for EV/EBITDA. Companies are often more willing to disclose revenue than margins, given the competitive sensitivity of profitability metrics. As a result, EV/revenue can provide a broader and, at times, more stable read on valuation direction.

Narrowing the lens to PE-backed middle-market deals, buyout EV/EBITDA multiples tracked at a median of 12.1x in 2025. That marks a normalization following a strong 2024, when multiples spiked to 13.9x. EV/revenue multiples stood at a median of 2.5x in 2025, flat YoY and within a historically typical range. We view EV/revenue as a particularly useful gauge when assessed alongside broader M&A multiples that include corporate acquirers, a channel where PE firms also compete. In that wider context, middle-market valuations remained stable from 2023 through 2025 and continued to sit above the 2017-2019 average of 2x.

PE take-private deal activity



Source: PitchBook • Geography: North America and Europe • As of December 31, 2025

Take-privates

In Q4 2025, middle-market take-private activity accelerated even as public equity indexes reached new highs. PE buyers announced or completed 10 deals under \$1 billion across North America and Europe. That is up from four transactions in the prior quarter, though still just below the 11 recorded in Q4 2024.

Sector concentration stood out. IT and financial services each accounted for 40% of deal activity, suggesting PE buyers see valuation gaps or operational upside in these segments despite broader market strength.

Only one transaction involved a “boomerang” company, defined as a business returning to private ownership shortly after going public. That theme was prominent in 2022 and 2023 but is now fading. Most Q4 targets were seasoned public companies, with roughly 80% listed for more than 20 years. This marks a clear shift away from the 2020-2021 IPO cohort. PE firms are selectively pursuing turnaround opportunities where size, maturity, and operational profile are better suited to private ownership. The median take-private deal size in Q4 was \$317.8 million, down 34.4% from the previous quarter, reinforcing the focus on smaller, more actionable assets.

The broader market backdrop provides context. In Q4, major indexes reached new highs following interest rate cuts. Beneath the surface, however, performance diverged. On a

TTM basis, the Russell 2000 underperformed the S&P 500 by 510 basis points, reflecting investor preference for megacap technology stocks over small caps. In the first quarter of 2026, that pattern reversed. Software volatility weighed on the S&P 500, while the Russell 2000 outperformed by 650 basis points.

This rotation points to a more complex valuation setup in the near term. If small-cap equities continue to recover, the relative appeal of middle-market take-privates could narrow, creating a potential headwind for activity.

Founder-owned businesses

In 2025, founder-owned businesses accounted for 49.8% of M&A transactions, down 80 basis points from the prior year and below the five-year average of 51.4%. The decline partly reflects a rebound in sponsor-to-sponsor exits, which regained share as PE-backed activity recovered.

Because founder-owned companies tend to transact at smaller sizes, their share of total deal value is far lower. In 2025, they represented just 16.9% of aggregate deal value, the lowest proportion in 18 years of PitchBook data. That figure was down 410 basis points from 2024 and below the five-year average of 21%. The five-year benchmark was depressed by 2021, when a wave of large PE-backed transactions dominated the market. In that year, founder-backed businesses accounted for only 17.4% of deal value, the second-lowest reading on record.

PE take-private deals under \$1 billion in Q4 2025

Company	Deal date	Acquirer(s)	Deal value (\$M)	Country
ON24	December 30	Abu Dhabi Investment Authority, AustralianSuper, Blackstone, Cvent	\$400.0	US
Imaflex	December 17	Colonial Bag, TJC	\$88.2	Canada
Diamond Hill Capital Management	December 11	First Eagle Investments, Genstar Capital	\$473.0	US
Synchronoss Technologies	December 3	Lumine Group	\$258.4	US
Denny's	November 4	Treville Capital Group, TriArtisan Capital Advisors, Yadav Enterprises	\$620.0	US
TT Electronics	October 30	Cicor Technologies	\$377.1	UK
Sotherly Hotels	October 27	Ascendant Capital Partners, KW Kingfisher	\$46.1	US
Lorne Park Capital Partners	October 17	Sagard	\$91.1	Canada
PSI Software	October 13	Warburg Pincus	\$822.9	Germany
Frenkel Topping Group	October 1	Harwood Capital Management	\$62.2	UK

Source: PitchBook • Geography: North America and Europe • As of December 31, 2025

The structural differences between founder-backed and PE-backed companies remain significant. Sponsor-backed businesses typically benefit from institutional governance, professionalized management teams, longer investment horizons, and consistent access to growth capital. Founder-led firms, by contrast, often depend on a single long-tenured leader, operate with less formal capital allocation processes, and rely on more limited financing sources such as regional banks, sometimes backed by personal guarantees. This model can work well in stable conditions but leaves less margin for error during downturns or leadership transitions.

In the lower middle market, nonbacked businesses, most of them founder owned, continue to trade at attractive entry multiples. The majority of these deals fall between \$25 million and \$100 million, with a meaningful share below \$25 million. Pricing often reflects a clear discount to larger, sponsor-backed assets. In the broader middle market, the median EV/revenue multiple is 2.9x for transactions between \$500 million and \$1 billion, compared with 0.9x for deals under \$25 million.

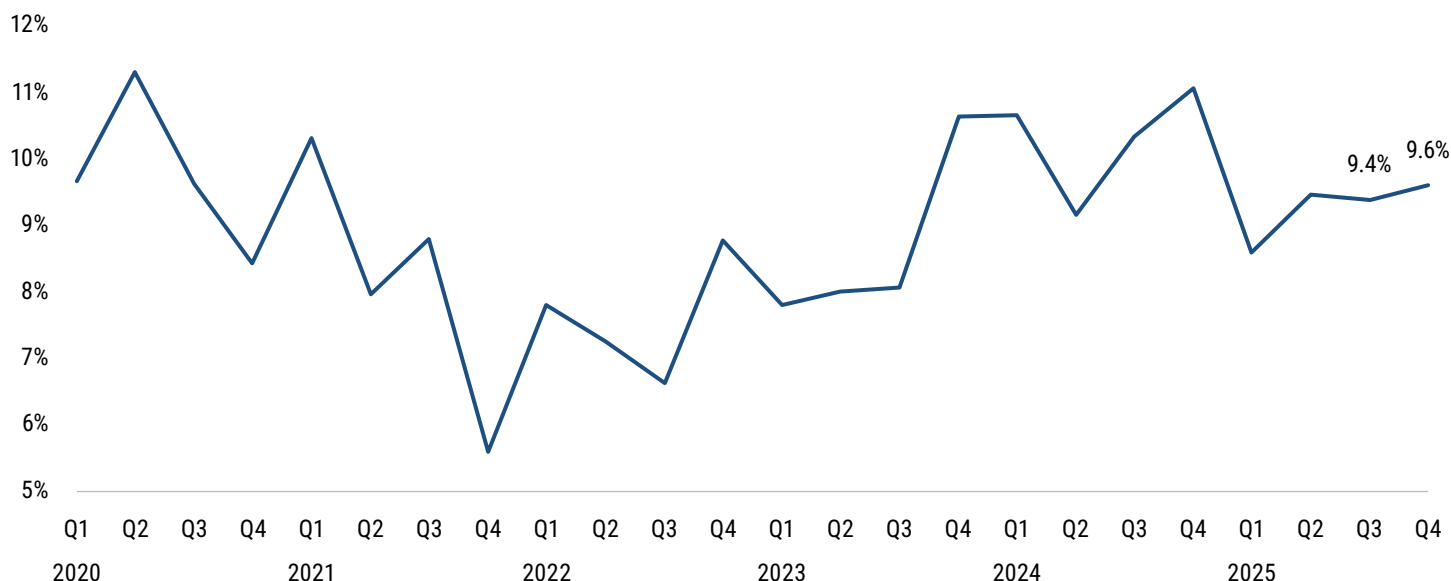
That valuation spread creates a durable opportunity set for PE buyers. Lower entry multiples provide a margin of safety, while operational gaps offer room for professionalization and efficiency gains. For firms with the resources to institutionalize these businesses, founder-owned companies remain a steady and strategically important segment of the M&A market.

Carveouts

Carveouts lost modest ground in the middle market toward year-end. In Q4, carveouts accounted for 10.4% of total deal value, down 90 basis points sequentially and 450 basis points YoY. That figure also sits just below the five-year average of 11%. On a deal-count basis, carveouts represented 9.6% of transactions, basically flat QoQ and down 150 basis points YoY.

Quarterly figures can be uneven, so annual data provides a clearer view. For the full year, carveouts represented 11% of total deal value, down 190 basis points YoY and in line with the five-year average. By count, carveouts represented 9.3% of all

Carveout/divestiture count as a share of all PE middle-market deals by quarter



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

transactions, down 100 basis points YoY but 50 basis points above the five-year average. Despite volatility in trade policy and broader macroeconomic uncertainty, corporates took advantage of favorable market conditions to divest noncore assets and sharpen their focus on core franchises.

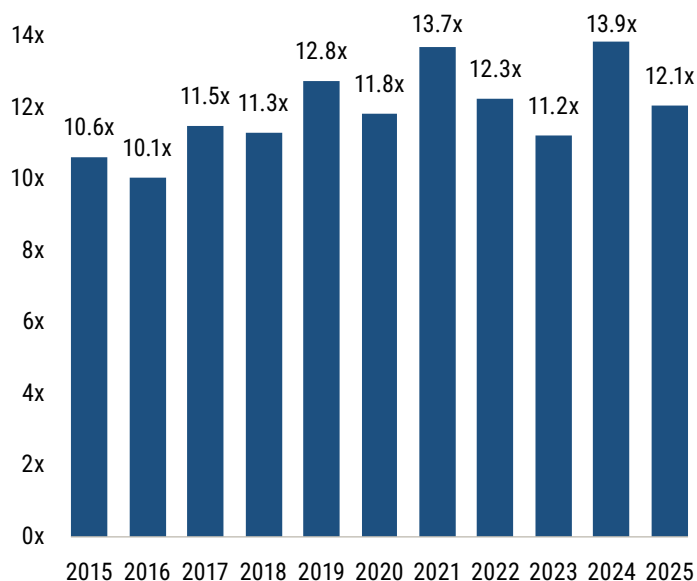
Carveouts continue to offer distinct advantages for both sides of the transaction. Sellers can use proceeds to manage maturing debt or redeploy capital into higher-growth initiatives. Buyers, in turn, gain access to established assets with documented operating histories and robust

financial disclosure, enabling more rigorous diligence. That transparency often attracts a wide pool of bidders, reinforcing carveouts as a durable feature of the deal landscape.

Following a surge in activity during 2024, some moderation in 2025 is unsurprising. As capital markets and economic conditions stabilized in the prior year, carveouts reached their highest share of annual deal value since 2015. From here, we expect relative stability in the deal mix rather than a renewed spike.

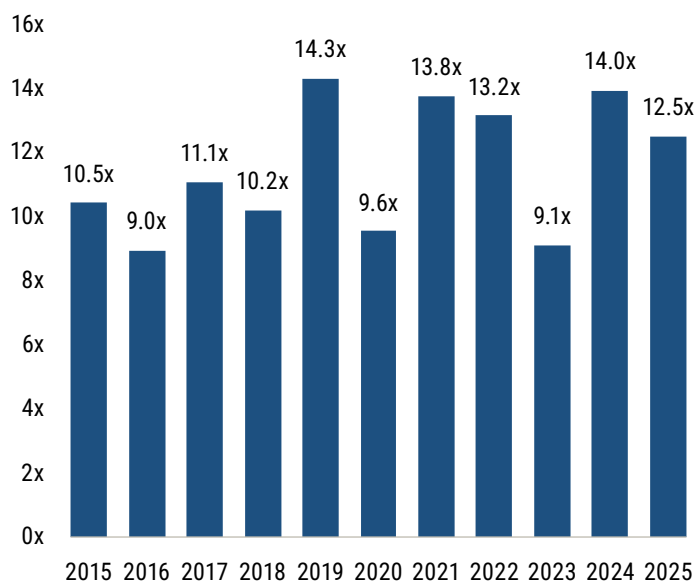
Deal valuation metrics

Median North America and Europe PE middle-market EV/EBITDA multiple



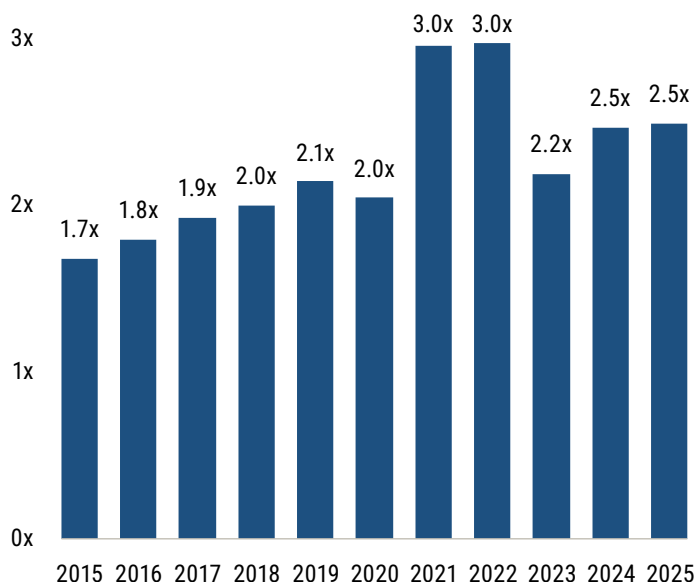
Source: PitchBook • As of December 31, 2025

Median US PE middle-market EV/EBITDA multiple



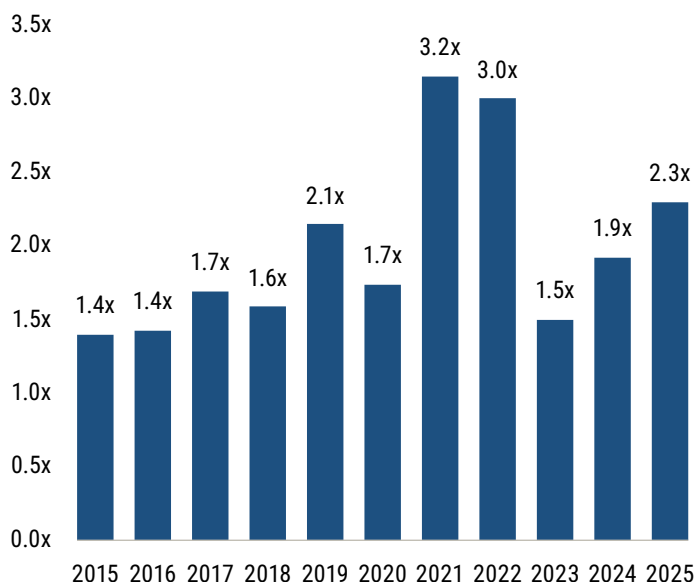
Source: PitchBook • As of December 31, 2025

Median North America and Europe PE middle-market EV/revenue multiple



Source: PitchBook • As of December 31, 2025

Median US PE middle-market EV/revenue multiple



Source: PitchBook • As of December 31, 2025

A WORD FROM PROTIVITI

Beyond the deal: Private equity's outlook for accelerating portfolio growth

Over the past 13 years, Protiviti and North Carolina State University's ERM Initiative have issued annual research reports on the top risks faced by global leaders. [The latest Executive Perspectives on Top Risks and Opportunities survey](#) contains insights from these leaders.

PE firms and their portfolio companies are shifting their playbooks for the next two to three years. Below are the drivers every PE executive should be watching and how they are reshaping value creation across the portfolio.

Where PE leaders see the most room for growth

The PE firms we surveyed anticipate strong growth opportunities across several areas over the next two to three years, driven by both organic and inorganic strategies. Revenue potential ranks highest, underscoring a focus on expanding customer wallet share through improved experiences, differentiated offerings, and innovative products. Strategic acquisitions remain central to driving revenue growth and enhancing competitive positioning.

Geographic expansion represents another critical growth lever, often achieved through cross-border M&A to diversify risk and capture emerging market opportunities. For many firms, entering new geographies is directly tied to revenue acceleration and portfolio resilience.

Partnerships and ecosystem development are also rising in importance. PE firms are building integrated networks with technology providers and service partners to drive transformation, optimize costs, and deliver differentiated customer experiences. These collaborations enable key drivers of enterprise value: scalability and operational efficiency.

According to our survey, what sets PE-owned businesses apart from other global peers is their execution model. Rather than emphasizing regulatory agility, they prioritize enhancing portfolio performance through technology enablement. AI-driven analytics, pricing optimization, and forecasting tools are becoming foundational to value creation strategies for many firms. Leaders in this space recognize that success hinges on modernizing systems and securing talent capable of deploying emerging technologies at speed while maintaining robust cybersecurity to protect sensitive data, investor trust, and intellectual property.



Rob Gould
Managing Director, Global Private Equity Leader, Protiviti

Rob Gould is the global leader of Protiviti's private equity practice. Rob brings more than 25 years of experience advising PE firms and

their portfolio companies on transformation, transaction services, and public company readiness. A CPA with deep expertise in financial accounting and business process controls, he specializes in helping PE-backed companies navigate complex operational challenges and value creation initiatives.

Contact Rob at +1.212.708.6354, rob.gould@protiviti.com

AI: The biggest accelerator and the biggest constraint

PE firms increasingly see AI as a potential game changer for portfolio performance, but the path to realizing its value is far from straightforward. For our survey respondents, two concerns are tied at the top of the list: the inability to deploy AI at a competitive pace and risks related to data and cybersecurity exposure. These issues underscore the urgency of scaling AI solutions quickly while safeguarding sensitive data, intellectual property, and deal intelligence, which are some of the most critical assets for PE firms and their portfolio companies.

The competitive-pace challenge is about more than speed; it is about deploying AI effectively to deliver a measurable return on investment. PE leaders and executives at their portfolio companies recognize that success depends on embedding AI into pricing models, forecasting, and operational workflows without disrupting business continuity. However, integration hurdles remain significant. Legacy IT systems and fragmented data environments across portfolio companies continue to slow progress, making technology modernization a prerequisite for AI adoption and scale.

Cybersecurity risk compounds these AI adoption challenges. As firms digitize operations and leverage AI-driven analytics, the attack surface

expands. Protecting proprietary algorithms, customer data, and deal intelligence is paramount, particularly in an environment where breaches can rapidly erode enterprise value and investor confidence.

Workforce readiness is another critical barrier to AI success for PE firms, with respondents to our survey highlighting the need to equip teams across both their firms and portfolio companies to realize AI's value proposition. Talent shortages in data science and AI engineering persist, and competition for skilled professionals is fierce. Without the right expertise, even well-funded AI initiatives risk underperformance.

What's keeping PE leaders up at night

PE leaders are balancing aggressive growth ambitions with persistent operational and technology-related risks. These risk themes reflect not only the operating environment of PE firms themselves but also the conditions shaping performance and value creation across their portfolio companies.

Topping the list for our survey respondents is the adoption of new and emerging technologies, which heightens the need to upskill and reskill the workforce in both PE firms and their portfolio companies. While this risk remains virtually unchanged from 2025, its persistence points to a structural challenge. Firms cannot fully capitalize on AI and advanced analytics without a talent base equipped to deploy and manage these tools within strong governance frameworks.

Cyberthreats rank second, but here the story is striking. Risk intensity has declined from 2025, suggesting that while cybersecurity remains critical, firms may feel more confident in their defenses. However, the threat landscape continues to evolve rapidly, and breaches (whether at a PE firm or within a portfolio company) can still erode enterprise value and investor trust, making vigilance essential.

Worries surrounding economic conditions, including inflationary pressures, dropped noticeably from our 2025 survey, possibly due to an easing of macroeconomic concerns. This decline points to cautious optimism, even as market volatility and interest rates continue to influence deal flow and exit timing.

Two risks stand out for their persistence: operations and legacy IT infrastructure unable to meet performance expectations, and the emergence of new risks from implementing AI. Near-flat changes from 2025 underscore enduring challenges. Legacy systems remain a hindrance to transformation, slowing modernization and complicating AI integration. Meanwhile, AI introduces governance, data integrity, and ethical risks that PE firms cannot afford to ignore as they race to embed advanced technologies.

Where PE firms plan to invest the most over the next two to three years

Leaders in the PE space are prioritizing investments that both mitigate risk and enable value creation. Consistent with our global survey findings, cybersecurity sits at the top of the list, reflecting heightened exposure as portfolio companies digitize operations and integrate AI-driven tools. This emphasis on cybersecurity aligns with the sector's recognition that technology adoption without robust security is a house of cards.

Closely linked is data privacy, driven by regulatory scrutiny and the need to safeguard customer and operational data across global jurisdictions. For PE firms, strong privacy controls are essential not only for compliance but also for maintaining trust during M&A and exit processes.

Beyond risk mitigation, firms are investing in business process improvements and infrastructure modernization to unlock efficiencies, optimize costs, and drive meaningful margin improvement. These areas directly support portfolio company performance and synergy realization in M&A scenarios. Legacy IT systems remain a persistent barrier to AI integration, making modernization a critical enabler of competitive advantage.

The 10-year view: What will shape PE performance through the next decade

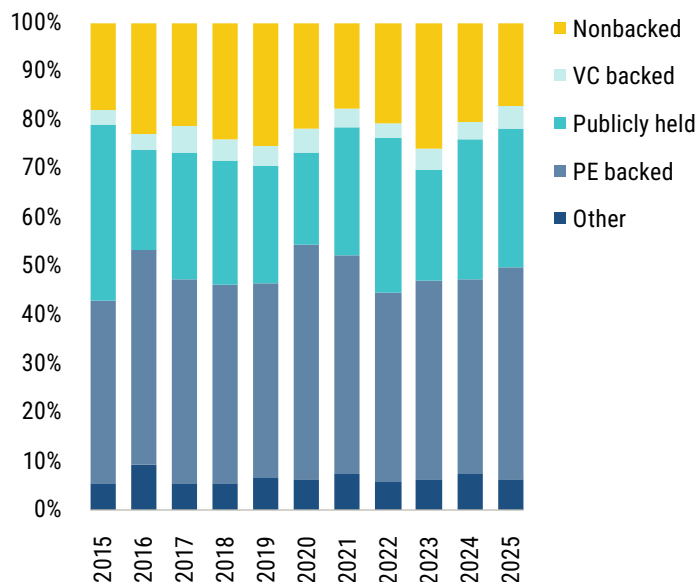
Portfolio companies in every industry must anticipate a future defined by rapid technological disruption, evolving customer expectations, and heightened security concerns. AI deployments top the list of long-term challenges, signaling both opportunity and risk. While AI promises transformative value creation, its long-term implications (such as governance, ethical use, and integration complexity) remain uncertain. Many executives recognize that success will require robust oversight frameworks, strong data foundations, and continuous innovation to avoid missteps that could erode enterprise value.

Other top challenges cited by our survey respondents are customers and competition and security and privacy, underscoring the pressures of market dynamics and digital vulnerability. As technology accelerates, customer expectations will rise, and competitive differentiation will hinge on agility and innovation. Meanwhile, expanding digital ecosystems and data-driven operations will increase exposure to cyberthreats, making security and privacy persistent priorities over the next decade.

Explore the full analysis of the top risks in PE [here](#) to benchmark your portfolio against peers.

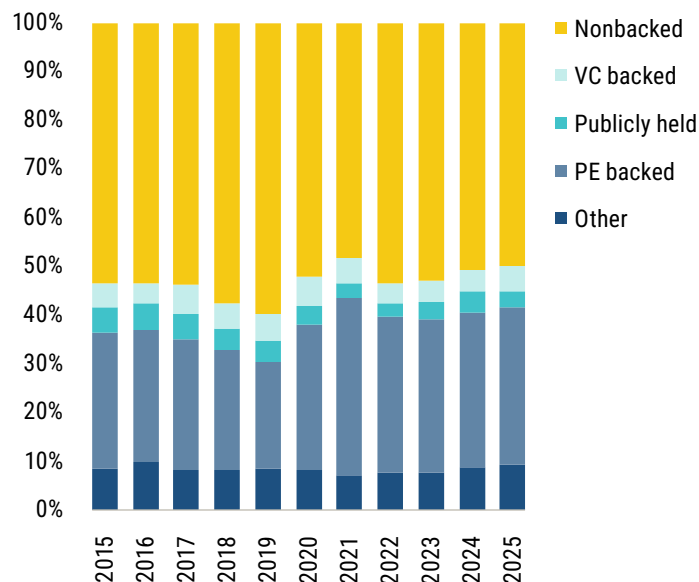
Deals by backing and sector

Share of PE middle-market deal value by backing type



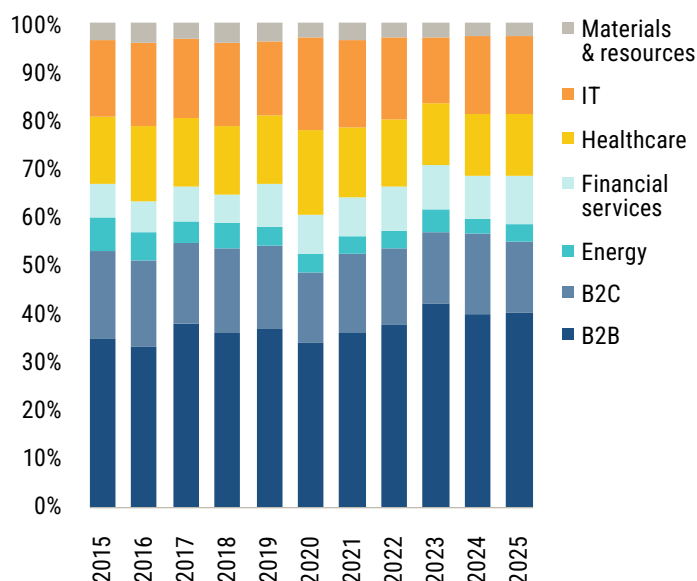
Source: PitchBook • Geography: US • As of December 31, 2025

Share of PE middle-market deal count by backing type



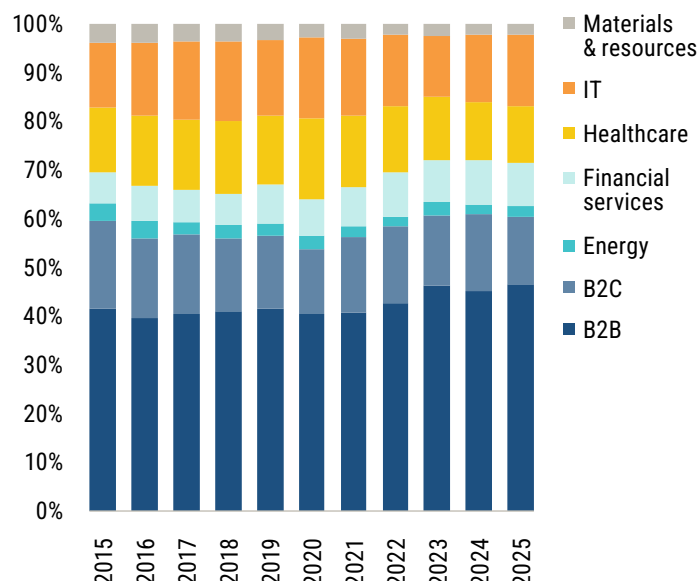
Source: PitchBook • Geography: US • As of December 31, 2025

Share of PE middle-market deal value by sector



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

Share of PE middle-market deal count by sector

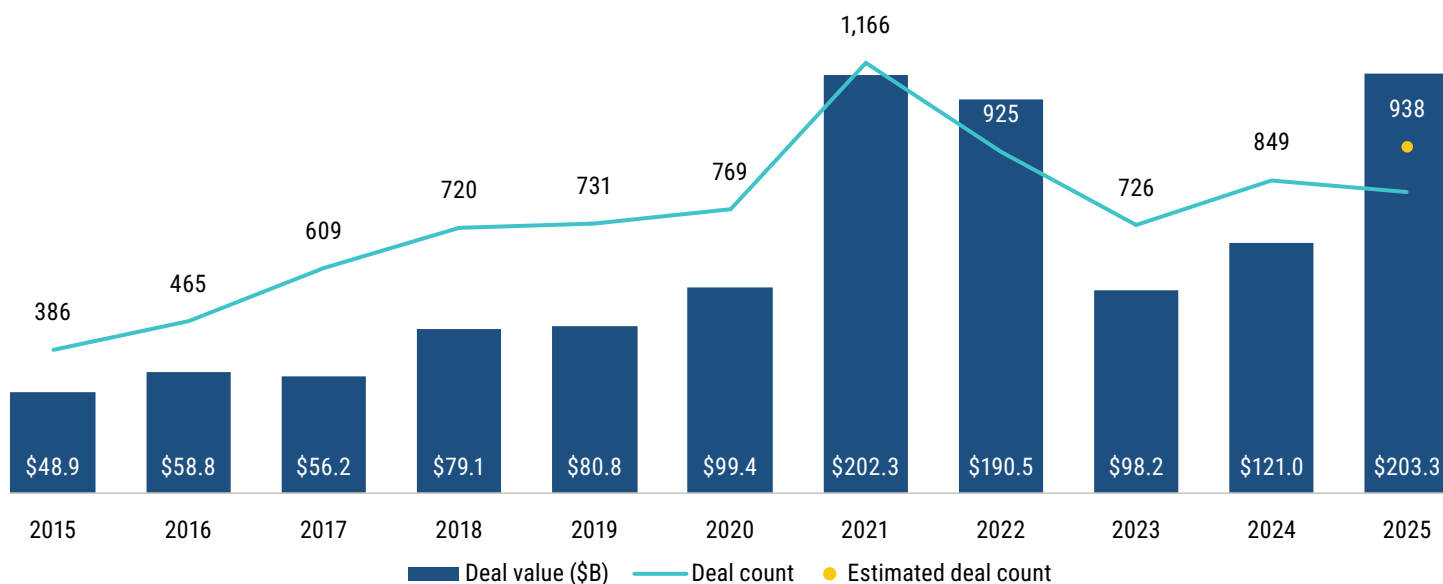


Source: PitchBook • Geography: US • As of December 31, 2025

SPOTLIGHT

Private Equity's Exposure to the Software Reckoning

Software PE deal activity



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

Note: This spotlight is abridged from our analyst note [Private Equity's Exposure to the Software Reckoning](#). Please see the full report for additional analysis on how PE is exposed to software amid the current public valuation reset in the sector.

Private equity's exposure to the software reckoning

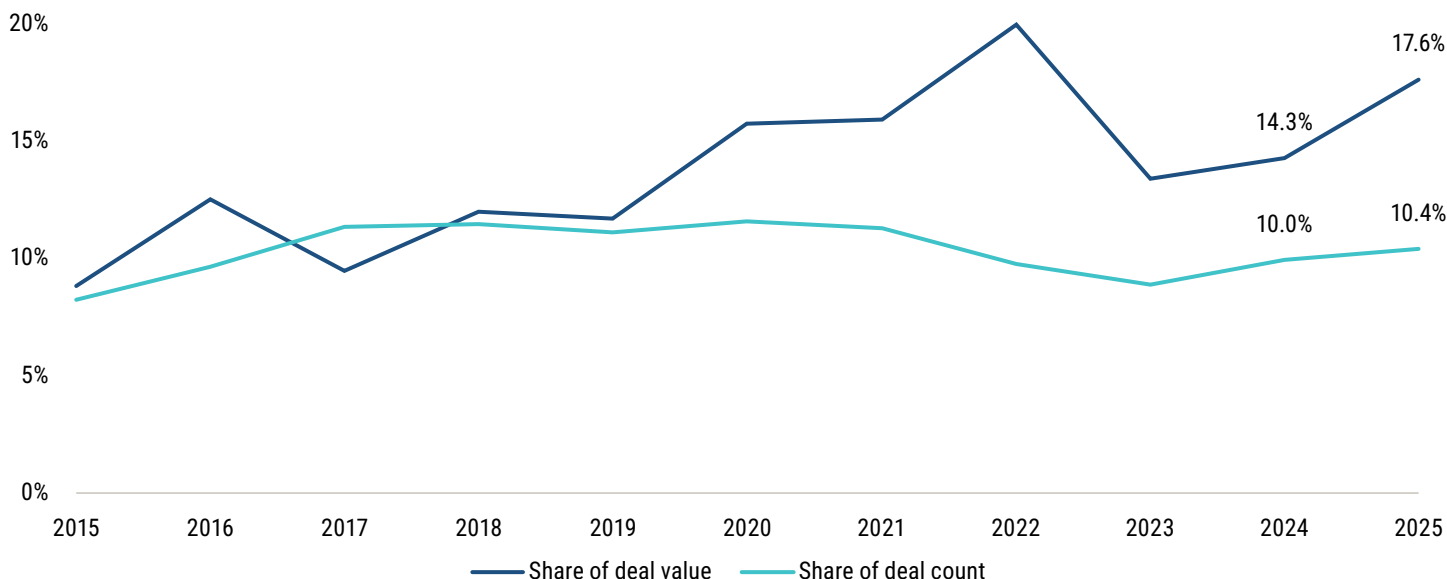
We examined US private equity's exposure to the material reset underway in public software valuations. Software has become one of the core sectors within US buyouts. Over the past decade, it has represented approximately 14% of total PE deal value and 11% of total PE deal count. In 2025, that exposure increased meaningfully, with software accounting for roughly 18% of total deal value, while its share of deal count stayed flat.

In other words, at the very moment that public valuations are resetting, private equity's capital concentration in software is elevated. Conversations with industry participants make clear that both AI-driven opportunity—through greater efficiency

and enhanced product value—and AI-related disruption risk have been central to underwriting discussions over the past two years. What feels different now is the perceived pace and magnitude of change. Technological progress has appeared faster than many anticipated, and the disruption risk seems more material than previously expected. That uncertainty has contributed to a noticeably more cautious tone among investors.

Yet focusing only on disruption risk overlooks the structural strengths embedded in many software businesses. A software company is more than its code. Free, open-source alternatives have long existed and, in many cases, offer comparable functionality. OpenOffice is one example of a free alternative to Microsoft Office. Still, enterprise and government adoption remains limited, and not just because of features. Commercial software provides integrated support, security, compliance frameworks, uptime guarantees, and accountability that large organizations depend on.

Software PE deal activity as a share of all PE deal activity



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

Incumbent platforms also benefit from deep organizational integration. Users are trained on and efficient within existing systems. Migrating to a new platform, whether open-source or AI-native, requires retraining employees, converting historical data, and rebuilding embedded workflows. Databases, custom configurations, and business logic create meaningful switching costs. Replacing core systems while maintaining business continuity is complex and risky.

With many public software names trading near five-year lows, markets appear to be pricing in an aggressive disruption scenario. For private equity investors, this environment may represent opportunity rather than existential threat. Firms willing to underwrite durable franchises and integrate AI into existing platforms may drive a new phase of growth. As PitchBook analysts argue in [SaaS Is Dead, Long Live SaaS](#), the model may be evolving rather than disappearing.

Public software valuation reset

For much of the past decade, software was viewed as the ideal private equity asset. Recurring revenue, pricing power, approximately 70% gross margins, and the potential for 30% operating margins at scale created a compelling financial profile. The capital-light model and ability to support leverage made software particularly attractive in a low-interest-rate environment.

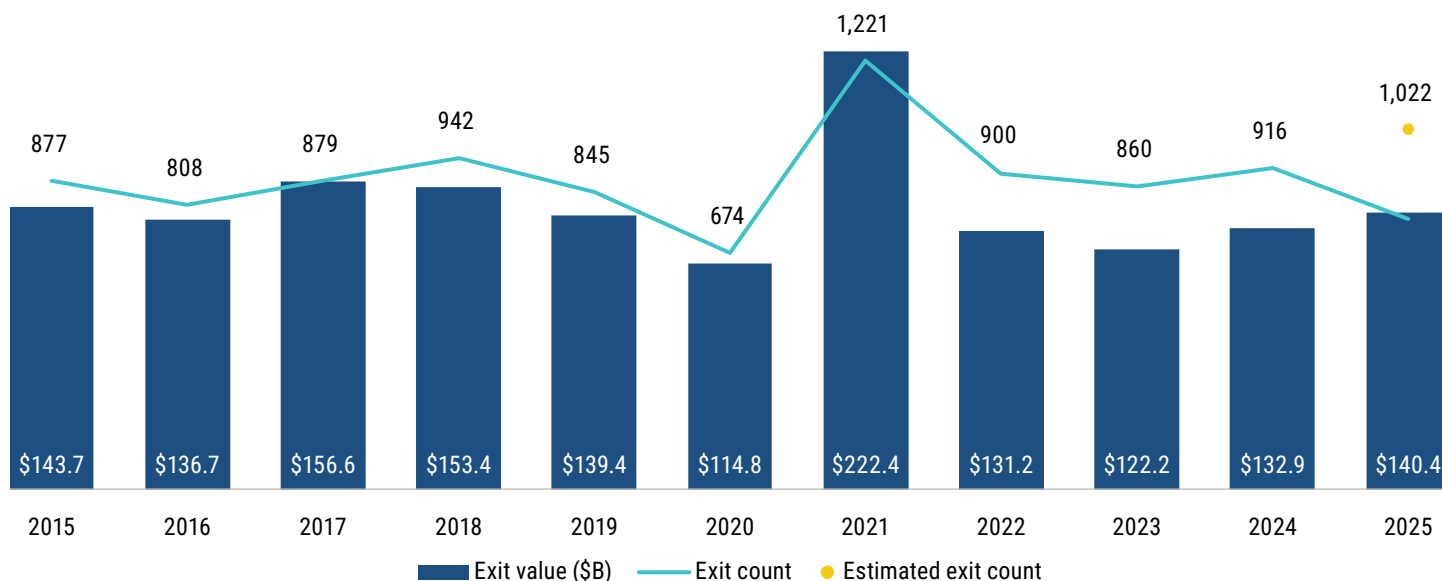
Software valuations surged in 2020 and 2021 amid aggressive monetary stimulus and rising inflation. Many investors came to view the sector as structurally resilient, even as a potential inflation hedge. Empirically, valuations displayed a clear inverse relationship with US five-year Treasury rates. As rates declined, multiples expanded; when rates rose, valuations compressed. The framework appeared stable, and many investments made in 2024 and 2025 likely incorporated the expectation that future rate cuts would support renewed multiple expansion.

Net net, the risks in software-focused private equity reflect uncertainty around AI and its implications for the software-as-a-service (SaaS) model itself. Investors are questioning whether traditional application layers can be commoditized, whether AI-native platforms will reshape established workflows, and whether pricing power will erode as functionality migrates into foundation models. For the first time in more than a decade, the central debate is not about growth rates, but about structural durability.

The idea that AI will instantly displace entire categories of software assumes away these frictions. Change will likely occur through augmentation and gradual integration rather than wholesale replacement. For now, compliance requirements, organizational inertia, and human habit remain stabilizing forces.

Exits

PE middle-market exit activity



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

Overview

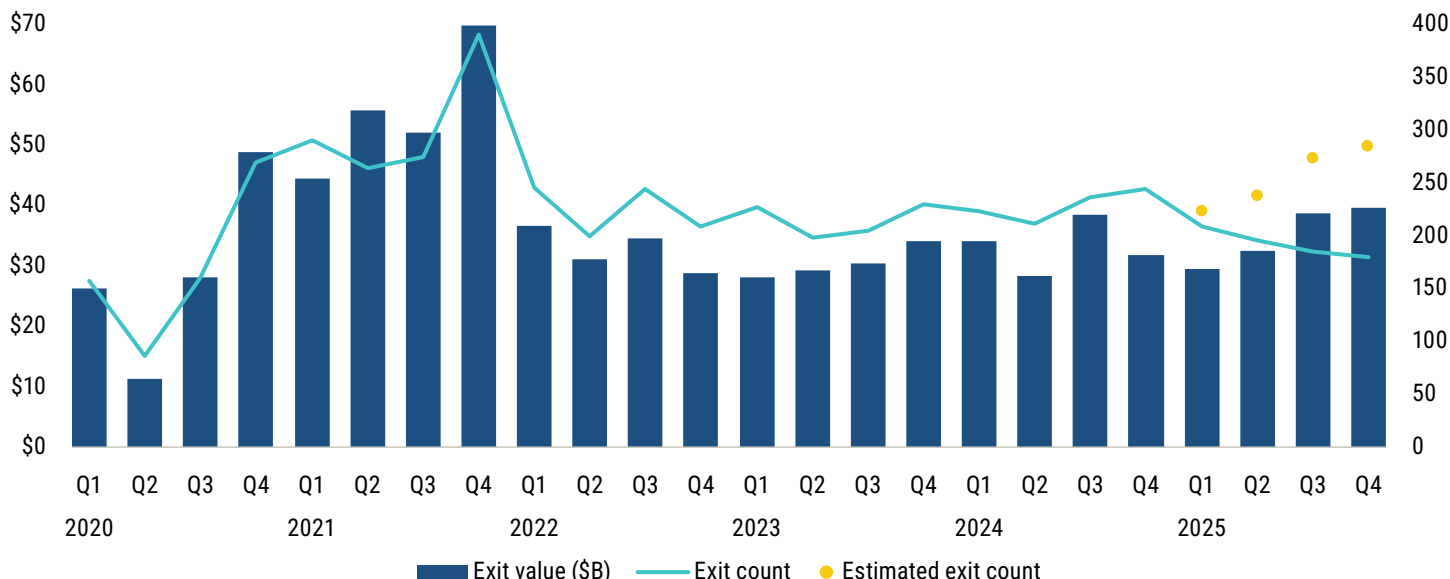
The US middle market notched another year of growth in exit activity, steadily improving from the trough of 2023. There were an estimated 1,022 exits for an aggregate of \$140.4 billion, which represented a YoY increase of 11.6% and 5.6%, respectively. Both exit count and exit value increased for the second consecutive year and surpassed the pre-pandemic averages for the first time since 2021. Looking at quarterly trends, growth was consistent, with both exit count and value rising for three straight quarters. In Q4, there were an estimated 286 exits for an aggregate of \$39.7 billion, a meaningful growth of 17.4% and 24.2%, respectively, from Q4 2024. Despite macroeconomic uncertainty and geopolitical risk during the year, the middle market pushed onward quarter after quarter to secure another year of exit recovery.

2025 marked the second-highest number of exits and crossed the thousand mark for the first time since 2021. The middle market also achieved double-digit YoY growth in exit count for the first time in the past four years. The growth in exit count is significant, as exit value had recovered faster than exit count, especially in the broader US PE market, in the recent exit slowdown. This was due to a smaller group of

high-quality assets securing attractive sale prices while most assets remained held by their PE firms as they waited for more favorable exit conditions. The number of exits in Q3 and Q4, in particular, was similar to the levels seen throughout 2021. Currently, there are 6,331 PE-backed companies in the middle market, which is 48.2% of the total US PE inventory. At the rate of exits seen in 2025, this translates to a 6.2-year inventory, which is a faster cycling of assets than the 8.1-year inventory calculated for the total US PE market. As for the median holding period for middle-market investments that exited, it increased from 5.8 years in 2024 to 6.4 years at the end of 2025. This uptick could be due to exit activity improving enough for GPs to bring lesser-quality or older assets to market.

For the middle market, the achievement in exit growth is also notable because it increased exit levels without the megasized transactions seen in the broader PE market. Middle-market exit trends lag those of the broader PE market, where exits improved by a whopping 90.1% in value and 17% by count YoY in 2025. The jump in exit value was disproportionately driven by large transactions, with mega-exits making up 78% of total US PE exit value for the year. Mega-exits also increased as a share of total US PE exit count, at 9.6% in 2025, up from a 6.1% average over the previous five years.

PE middle-market exit activity by quarter

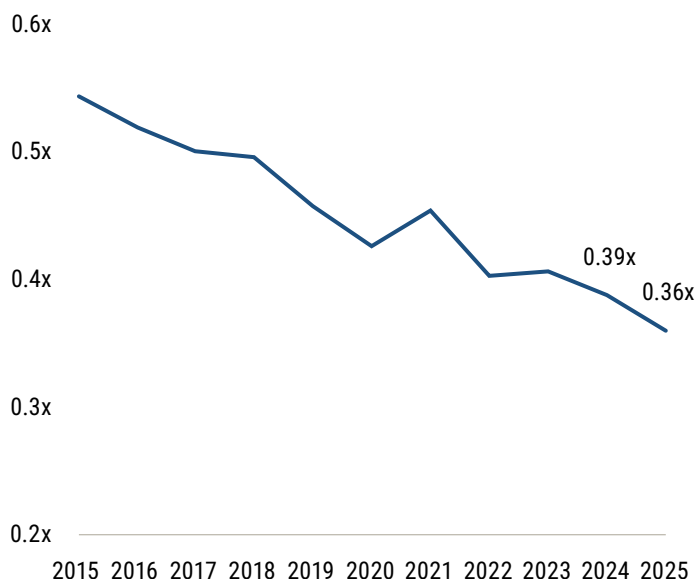


Source: PitchBook • Geography: US • As of December 31, 2025

IPOs also accrue more to the benefit of megasized PE companies than to the middle market. Only three IPOs in 2025 involved a middle-market company—Jefferson Capital Systems, American Integrity Insurance Group, and Eagle Redi-Mix Concrete—compared with 26 in the broader PE market. Although the smaller size of a typical middle-market company means IPOs are not a significant exit route for the middle market, they contributed 2% to 3% of the middle market's pre-pandemic exit activity. In 2025, public listings accounted for 0.4% of middle-market exit count and 1.1% of value, but the continued reopening of the IPO market may offer some trickle-down exit opportunities for the middle market.

The outlook for exits in the middle market remains optimistic despite the headline focus on megasized transactions. The smaller size of middle-market companies offers a wide array of exit options, such as growing under PE ownership to be platform targets for larger PE firms or staying small enough to roll into other platform companies as add-on deals. Middle-market companies can also have an easier time securing attractive exits relative to assets that were acquired at lofty valuations and with high leverage during the dealmaking heyday of 2020 and 2021. Additionally, the Golub Capital Altman Index reported 13 consecutive quarters of earnings growth among its tracked middle-market PE companies, indicating a strong pipeline of PE-backed firms poised for attractive exit opportunities as investor appetite broadens and turns to the middle market.¹

PE exit/investment ratio



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

Exits to sponsors

Sponsor-to-sponsor exits accounted for a greater share of middle-market exit activity in 2025, thanks in part to marginal YoY growth, but more due to the weakness in exits to corporates. Exit count and value for other sponsors increased by 1.5% and 1.3%, respectively, while exits to corporates

1: "Q4 2025 Golub Capital Middle Market Report," Golub Capital, January 2026.

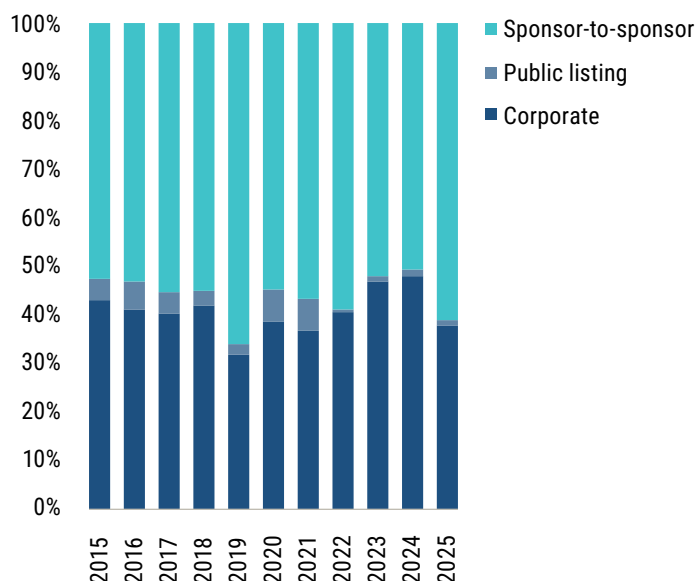
decreased by roughly 30% for both metrics. Exit count had fallen sharply in 2022 as the high-interest-rate environment and valuation gap dampened PE activity on both the deal and exit sides, and the gradual improvement in sales to other sponsors since then has been driven by the middle market's advantage in offering assets at more digestible sizes and with less leverage necessary. Sponsor-to-sponsor exit activity also showed a stronger YoY change compared with exits to corporates in the broader US PE market, demonstrating greater involvement from PE buyers across transaction sizes.

Sponsor-to-sponsor exits accounted for 51.6% of the middle market's annual exit count and 61.2% of its value. The balance between sponsor-to-sponsor exits and exits to corporates tilted in the former's favor, as exits to corporates held 56.8% of the exit count and 48% of value in 2024. Still, sponsor-to-sponsor exit activity remains 12% to 22% below pre-pandemic averages, reflecting the recovery still needed in the middle market. Sponsor-to-sponsor exit count was strongest in Q4, which is an encouraging sign that the improvement in investor sentiment seen in the second half of the year is trickling down to middle-market exit opportunities. Two of the 10 largest sponsor-to-sponsor exits in 2025 were add-on deals to expand the capabilities and market positions of the acquiring sponsors' platform companies: the \$601.2 million sale of Chef Boyardee to PE-backed Hometown Food Company, and the \$560 million sale of Rockland Capital's Texas natural-gas-generation asset to NRG Energy.

Exits to corporates

Exits to corporates faltered in 2025, both on an absolute and a relative basis. There were 370 exits to corporates for an aggregate of \$42.2 billion during the year, marking YoY decreases of 28.8% and 33.9%, respectively. Between 2024 and 2025, the gap between exits to corporates and exits to other sponsors either narrowed or closed in favor of sponsor-to-sponsor exit activity: Exits to corporates lost more than 10% of their share of total middle-market exit value, and they lost the majority share of total exit count to sponsor-to-sponsor exits. Exits to corporates decreased for the first time since 2022, underscoring the outsized caution that corporations have shown toward acquisitions. While middle-market exits to corporates weakened, corporations with greater risk-on sentiment pursued larger acquisitions, reflected by the growth of exit value to corporates in the broader PE market despite a drop in exit count. When examining US M&A activity in 2025, we see a decrease

Share of PE middle-market exit value by type



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

in transactions that would have fallen into the middle-market category, while the median deal size trended up, indicating a reduced corporate appetite for smaller deals overall.

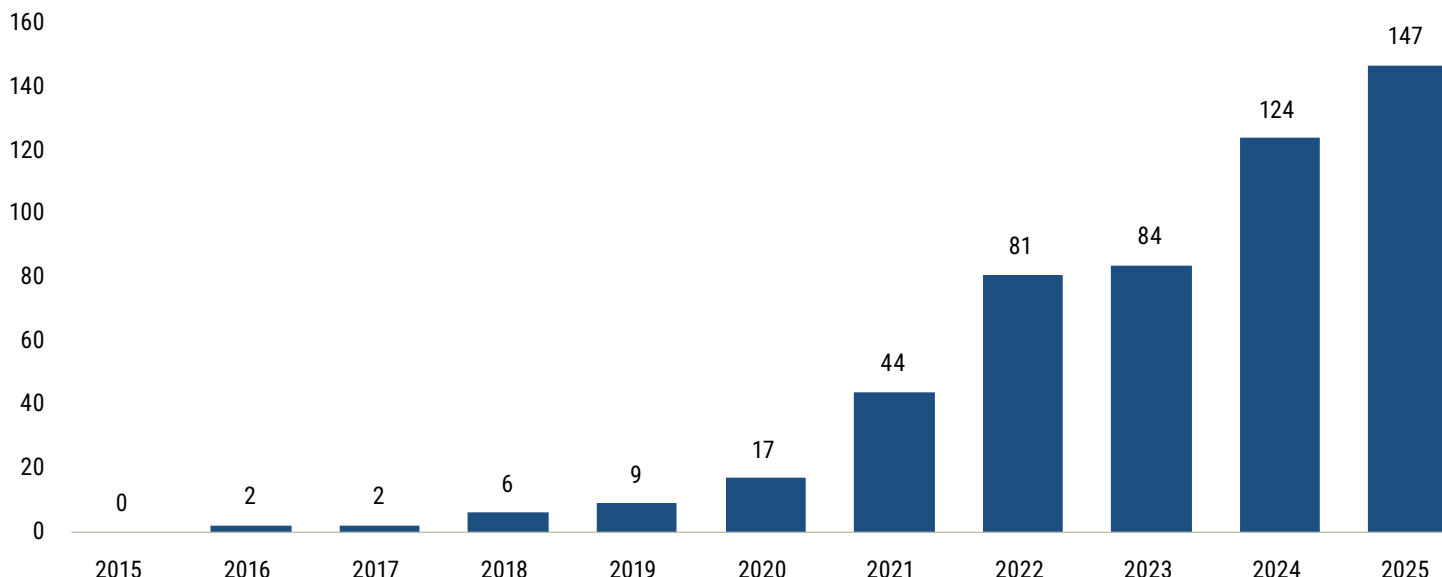
Looking ahead, the greater risk-on sentiment seen in larger transactions will likely set the stage for more active corporate dealmaking, which will hopefully translate into more sales of middle-market assets to corporate strategics. The latest EY-Parthenon CEO Outlook Survey found that 62% of US CEOs surveyed plan to pursue M&A over the next 12 months, which suggests corporate leaders are adopting a more proactive mindset in using acquisitions to advance growth and gain an advantage over competitors rather than waiting for greater market clarity before making a move.² Although the middle market's exit activity involving corporates currently lags that of the broader PE market, the middle market offers attractive acquisition targets for corporations to add new markets, adjacent capabilities, and operational synergies.

Continuation funds

Exits through continuation funds, also known as GP-led secondaries, have become a more common tool for sponsors to provide LPs with liquidity during a weak exit environment while also allowing more time to generate additional value within their portfolio companies. Continuation-fund-related exits set a new

2: "US CEOs Signal Major Rebound in Dealmaking Confidence: M&A Intent Soars to 62% in Latest EY-Parthenon Survey," EY-Parthenon, January 26, 2026.

Continuation-fund-related PE exit count

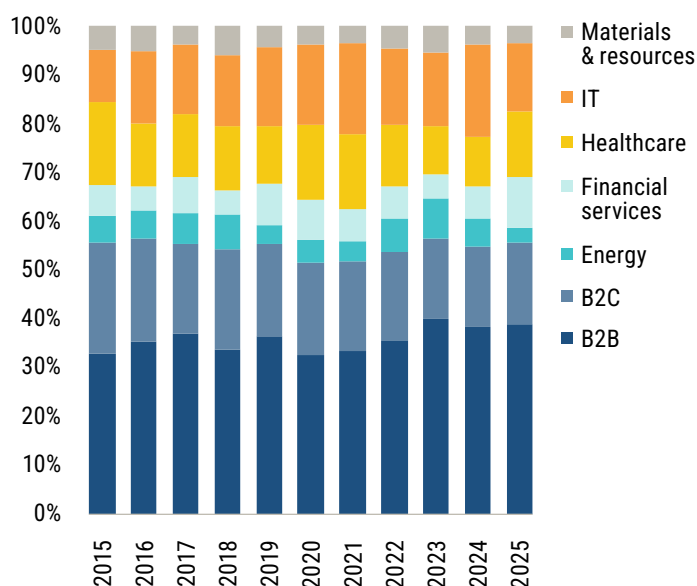


Source: PitchBook • Geography: Global • As of December 31, 2025

record in 2025 as exit activity through traditional sales paths continued to improve throughout the year. PitchBook tracked 147 exits to continuation funds globally in 2025, totaling \$95.8 billion, including estimates for nondisclosed transactions. This exceeds the previous record of 124 continuation-fund-related exits in 2024. GP-led secondaries have risen in prominence as a strategy for liquidity creation and portfolio management in the past couple of years, transitioning from a tool more commonly used for distressed assets to one adopted to extend the time needed for attractive, crown-jewel holdings. Exits through continuation funds represent a single-digit share of sponsor-to-sponsor exit activity. While fundraising in secondary strategies and the built-up pressure for LP liquidity will likely sustain activity, [we predict](#) that the number of continuation-fund-related exits has peaked and will decrease in 2026 as traditional PE exit lanes reopen at a heightened pace.

We tracked 21 additional exits to continuation funds in Q4, including six disclosed middle-market-sized rollovers. The largest was 7RIDGE's rollover of its stake in Trading Technologies International into a single-asset continuation fund for \$835 million in November. 7RIDGE initially acquired Trading Technologies in 2021 and brought on Thoma Bravo as an additional investor in November 2025. The continuation fund was anchored by Pantheon and Partners Group and plans to focus on Trading Technologies' next stage of growth, such as through accretive acquisitions.³

Share of PE middle-market exit value by sector

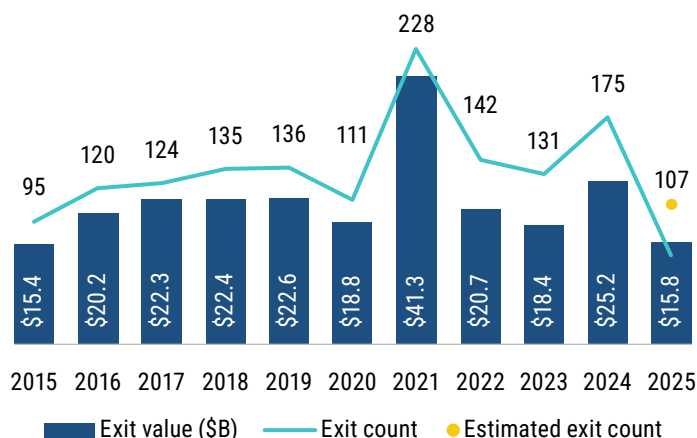


Source: PitchBook • Geography: US • As of December 31, 2025

Additionally, there is an emerging trend of sponsors rolling a portfolio company into a second continuation vehicle. This new approach has faced criticism, as some LPs remain wary of continuation funds not representing true market exits. GPs' use of multiple continuation funds instead of pursuing an exit via a sale or an IPO can further frustrate LPs that have experienced delayed exits and reduced liquidity over the past few years.

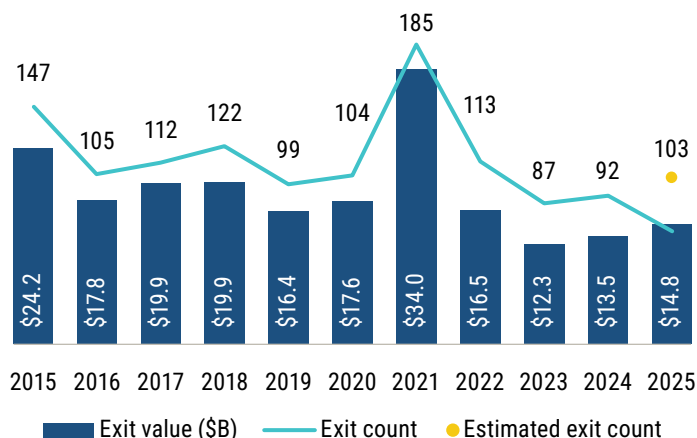
3: "Houlihan Lokey Advises 7RIDGE and Trading Technologies International," Houlihan Lokey, n.d., accessed March 2, 2026.

Technology PE middle-market exit activity



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

Healthcare PE middle-market exit activity



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

In H2 2025, Revelstoke Capital Partners reportedly abandoned plans to extend its ownership of Fast Pace Health through a second continuation fund after encountering LP pushback. While continuation funds can provide liquidity and prevent unfavorable exits, the PE industry needs more successful outcomes following these funds to avoid the perception that GPs are simply kicking the can down the road to postpone dealing with more fundamental issues.

Technology

IT exits faltered in the middle market, with exit count and value declining by around 38% YoY. With an estimated 107 exits for an aggregate of \$15.8 billion, exit activity fell below pre-pandemic averages after the healthy recovery seen in 2024. IT exits also decreased to 14.1% of total middle-market exit value from 19% the year prior, landing below the previous five-year average of 17% for the sector. AI disruption and its impact on enterprise software and IT service companies pose a meaningful hurdle for tech companies to defend their moats to potential buyers and secure attractive sales in an uncertain and fast-evolving landscape. The sector is expected to face disruption in exit timing and valuations as market dynamics continue to change, but portfolio companies with advantages in enterprise security, compliance, and switching costs are expected to achieve user retention and remain attractive targets as the industry navigates its transformation.

Trading Technologies International's exit via a continuation fund was the largest IT exit in 2025. Another continuation-fund-related

exit was among the top 10 largest IT exits of the year: Gatekeeper Systems' rollover by Graham Partners for \$450 million. In terms of subsectors, business productivity software accounted for the majority of the top 10 largest IT exits in 2025, with the largest being K1 Investment Management's sale of Subsplash to Roper Technologies for \$800 million. Subsplash is an engagement platform for churches and ministries and provides SaaS, fintech, and AI capabilities to clients in the faith market. The company is a niche market leader with deep community engagement,⁴ with plans to further advance AI capabilities and execute its long-term growth strategy with Roper Technologies.⁵

Healthcare

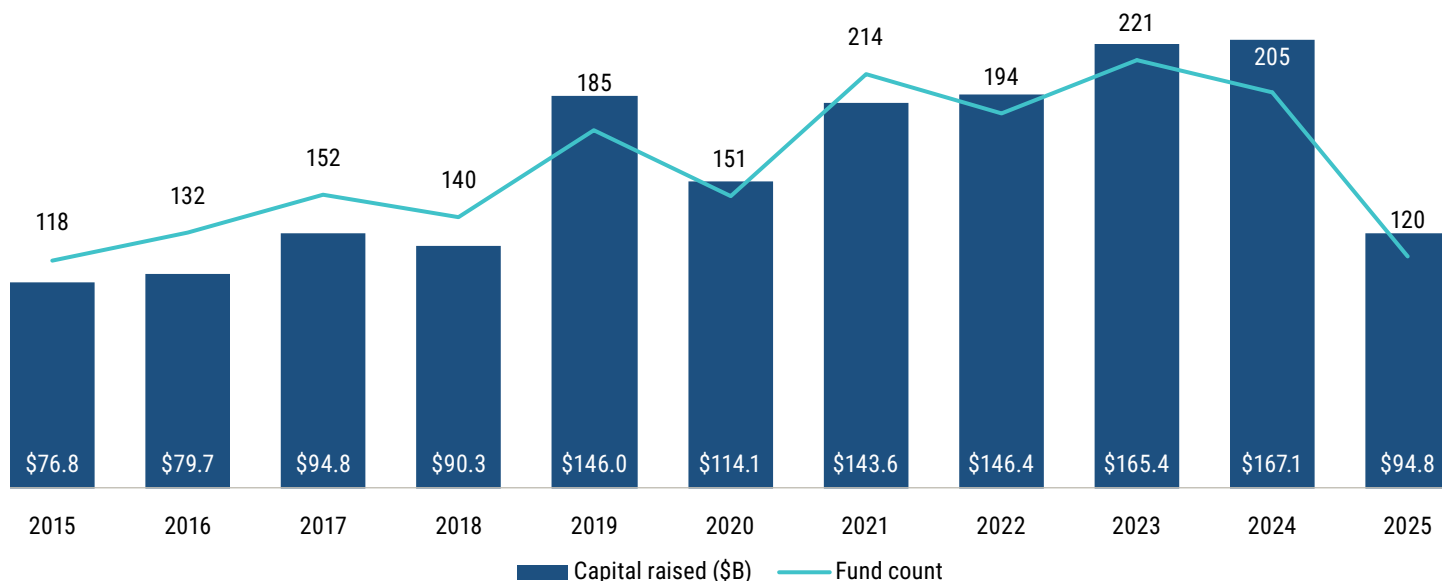
Healthcare exit activity in 2025 continued to build on the sector's slow recovery, resulting in growth for both exit count and exit value for the second consecutive year. In 2025, there were an estimated 103 exits for an aggregate of \$14.8 billion, which represented YoY growth of 12% and 10.2%, respectively. Healthcare gained share of middle-market exit activity, increasing from 10.1% of total exit count and value in 2024 to around 13% by the end of 2025. Still, healthcare exit activity is 7% to 20% below levels seen before the pandemic, when the sector saw an average of 111 transactions for over \$18 billion of exit value per year. Regulatory uncertainty stemming from the One Big Beautiful Bill Act—including anticipated Medicaid cuts, stricter eligibility rules, and the elimination of premium tax credits—has been a headwind for the sector, but we expect transactions to pick up in 2026 with further establishment of policy and more assets running up on extended holding times.

4: "Subsplash, a Premier Provider in Church Technology, Joins Roper Technologies," PR Newswire, Subsplash, July 21, 2025.

5: "Roper Technologies Announces Second Quarter Financial Results and Acquisition of Subsplash; Increasing Full Year Guidance," Roper Technologies, July 21, 2025.

Fundraising and performance

PE middle-market fundraising activity



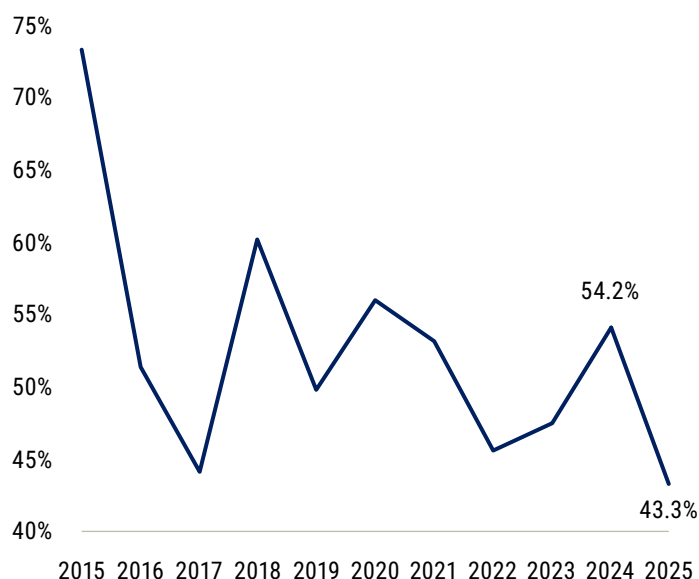
Source: PitchBook • Geography: US • As of December 31, 2025

Overview

After four years of strong capital formation, middle-market fundraising stalled in 2025 with significant YoY declines. Middle-market funds, defined as buyout funds between \$100 million and \$5 billion, ended 2025 with total inflows of \$94.8 billion across 120 funds, representing YoY declines of 43.3% and 41.5%, respectively. These totals fall below the five-year average for middle-market managers, although four of those years were record-breaking. While fundraising typically increases by an additional 25% from late-reporting funds, this addition will not be enough to keep pace with the robust inflows seen in each of the prior four years.

Reduced exits in recent years have impacted fundraising efforts. Capital is concentrating, with LPs committing to fewer, larger managers—often at the expense of middle-market firms. In 2025, the 10 largest funds across the entire US PE ecosystem accounted for 43% of all PE capital raised. Although exit activity has shown signs of improvement, the fundraising environment remains challenging, and manager consolidation will likely persist. The top 10 funds closed in 2026 are again expected to capture over [40% of PE fundraising capital](#).

Middle-market buyout capital raised as a share of all PE buyout capital raised



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

Top PE middle-market fund closings by fund size in 2025

Close date	Manager	Fund	Fund size (\$M)
March 1	Haveli Investments	Haveli Investments Software Fund I	\$4,500.0
September 25	Ridgemont Equity Partners	Ridgemont Equity Partners V	\$3,975.0
July 9	Levine Leichtman Capital Partners	Levine Leichtman Capital Partners VII	\$3,600.0
October 29	Ottawa Avenue Private Capital	OA GP Fund	\$3,425.4
June 23	Morgan Stanley Investment Management	North Haven Capital Partners VIII	\$3,200.0
January 9	Vistria Group	Vistria Fund V	\$3,000.0
October 10	Integrum	Integrum Capital Partners II	\$3,000.0
July 7	One Rock Capital Partners	One Rock Capital Partners IV	\$2,850.0
April 3	Trive Capital	Trive Capital Fund V	\$2,700.0
December 3	WindRose Health Investors	WindRose Health Investors VII	\$2,600.0

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

Capital consolidation has been especially pronounced in fund count totals. Middle-market fundraising in 2025 was just over half the 2024 fund count, marking the worst year since before the pandemic. Earlier market headwinds, particularly elevated interest rates that pushed many sponsors downmarket to deploy capital, benefited middle-market fundraising. However, those conditions have since faded, contributing to a more challenging fundraising environment coinciding with fundraising consolidation. As conditions improve and sponsors move upmarket, continued exit activity will be needed to support future middle-market allocations. While near-term headwinds will likely persist, the backdrop could begin to improve by the back half of the year.

Recent closings

As capital concentrated among fewer managers throughout the year, conditions favored those raising the largest vehicles. The first three quarters of the year each saw eight funds of \$1 billion or more close. Q4 saw nine such funds close, including two of \$3 billion or more. These nine funds raised a combined \$16.7 billion, or 79.1% of all capital raised in Q4, and 17.6% of all capital raised in 2025.

The largest fund raised in the quarter was from Ottawa Avenue Private Capital (OAPC), which closed its OA GP Fund at \$3.4 billion in October. The Michigan-based firm manages over \$20 billion in assets and invests across the B2B, IT, and financial services sectors. OAPC is an independent affiliate of RDV Corporation, the family office of the DeVos family, founded in 1991.

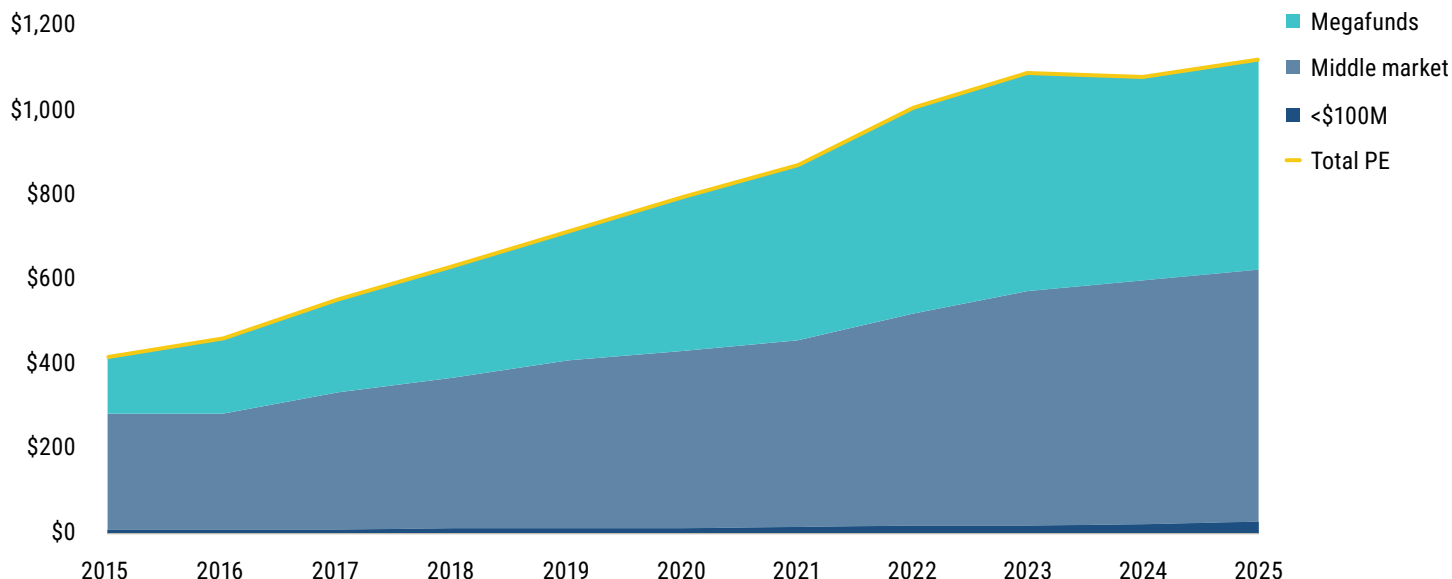
A couple of weeks prior, Integrum held the final close of its second fund, Integrum Capital Partners II, on \$3 billion. The fund raised \$2.5 billion in total outside commitments, with an additional \$500 million in GP commitments and affiliated co-investment vehicles. Integrum was founded in 2021 and now has approximately \$5 billion in AUM. Fund II will invest in tech-enabled service companies, including those in insurance services and payments. Moreover, Integrum has pledged 10% of its carried interest from Fund I and Fund II to the Integrum Charitable Foundation.

In December, WindRose Health Investors closed its Fund VII with \$2.6 billion in LP and GP commitments, well surpassing its predecessor that raised \$1.4 billion in 2023. The fund closed in just six months, with plans to make 11 to 13 investments, all in the healthcare services industry. WindRose Health Investors was founded in 1999 and now has \$7 billion in AUM.

Emerging managers

The middle market has traditionally served as the primary arena for emerging managers—defined as firms with three or fewer funds, including first-time vehicles. Reflecting broader middle-market fundraising trends, 2025 marked the weakest year for emerging-manager capital formation since 2020, with 52 funds reaching a final close and raising a combined \$21.9 billion. First-time managers were similarly affected, securing \$5.7 billion across 18 funds, down from 22 funds that raised \$8.8 billion in 2024. This puts the year in line with pre-pandemic first-time fund count averages in the high teens

PE dry powder (\$B) by fund size



Source: PitchBook • Geography: US • As of June 30, 2025

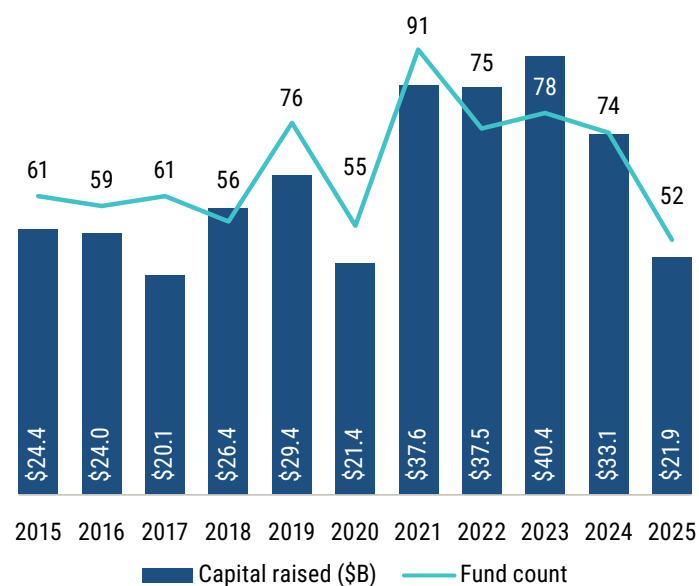
while remaining below the elevated activity seen during the pandemic. While additional late-reporting vehicles could bring the final fund count closer to last year's total, aggregate capital raised is expected to remain below 2024 levels.

Despite the more constrained fundraising environment, select emerging managers have successfully closed funds, often supported by strong track records, established pedigrees, or differentiated, niche strategies. The largest emerging-manager close in Q4 was a first-time vehicle: Great Mountain Partners' Saranac Holdings, which raised \$600 million at final close. The fund will pursue investments across the media and entertainment ecosystem, spanning music, film, television, sports, gaming, and live entertainment. In October, Insignia Capital Group held the final close of its third fund at \$500 million—nearly double the size of its predecessor. Consistent with prior vehicles, Fund III will target opportunities in the business services and consumable products sectors.

Dry powder

As of mid-2025, US middle-market PE funds held \$595.2 billion in dry powder, accounting for 53.1% of total dry powder across the US PE landscape. Reported dry powder and AUM figures reflect a six-month lag due to delayed GP and LP reporting. Dry powder remains elevated, supported by record fundraising from 2021 through 2024 and a prolonged period of muted deal

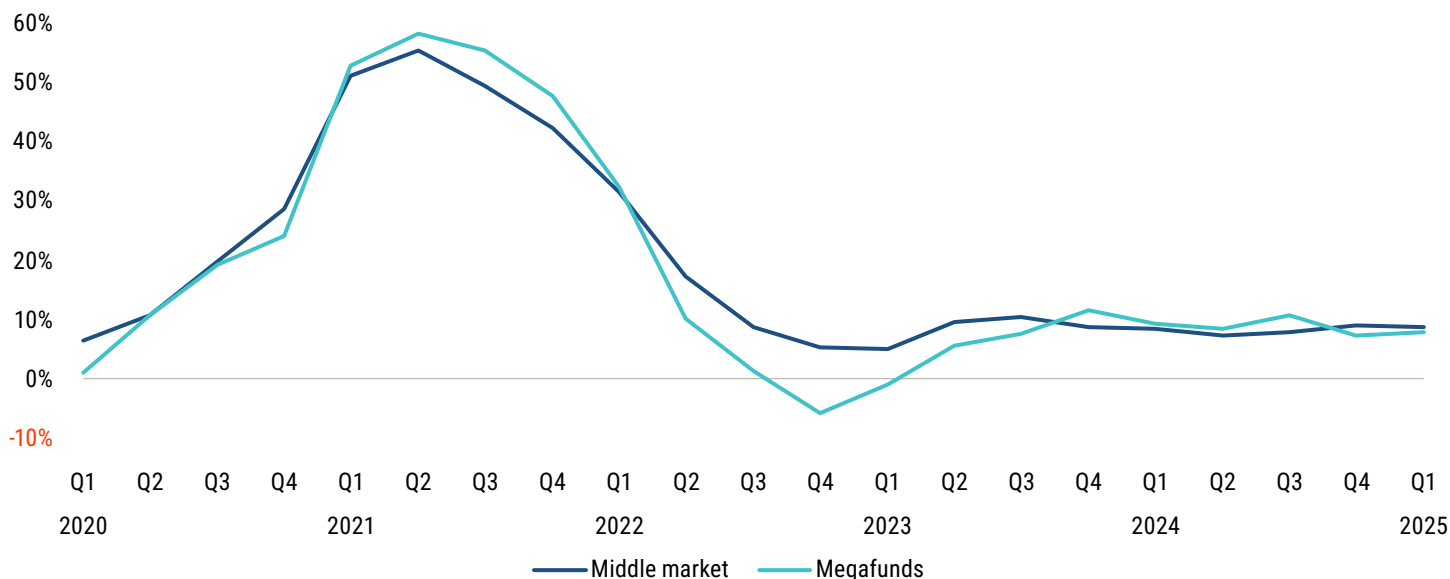
PE middle-market emerging-manager fundraising activity



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

activity, which allowed capital to accumulate. As a percentage of total middle-market AUM, dry powder is flat YoY at 28.6%. As additional data for the second half of the year becomes available, dry powder levels are expected to stabilize or decline modestly, reflecting softer fundraising conditions alongside an acceleration in capital deployment.

Quarterly rolling one-year PE fund IRR by fund size



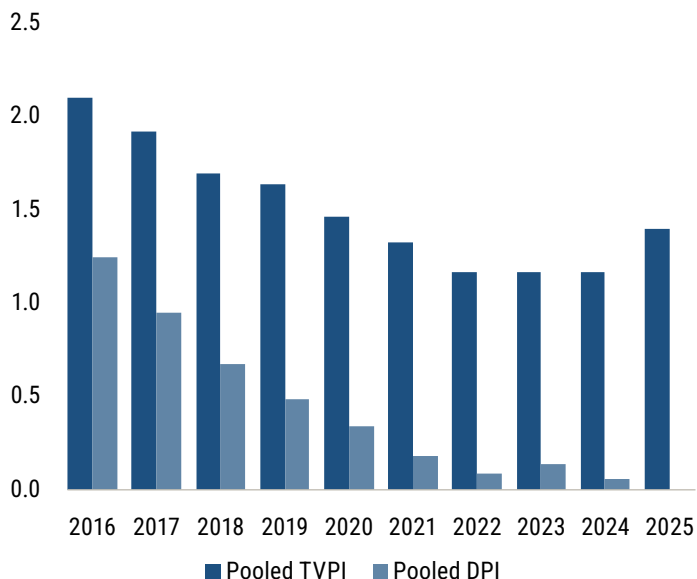
Source: PitchBook • Geography: US • As of June 30, 2025

Performance

Middle-market fund performance has remained steady, with returns holding in the high single digits. As of June 30, the rolling one-year IRR stood at 7.6%. Similar to dry powder figures, performance data is subject to a six-month lag due to delayed GP and LP reporting. Middle-market returns have hovered in this range for more than two years. By comparison, public markets have delivered stronger performances recently: The S&P 500's one-year return over the same period was more than double that of middle-market funds, while the more comparable Russell 2000 generated a 7.7% return.

Across the broader PE landscape, recent vintages have been characterized by muted DPI, a trend that is also evident in the middle market. For middle-market managers, 2016 is the most recent vintage with a DPI above 1. While the 2017 vintage is approaching that threshold, DPI declines meaningfully for subsequent vintages—most notably 2018, which, at 8 years old, has a DPI of just 0.68. Although TVPI multiples for these vintages remain healthy, unrealized value must ultimately convert into distributions. A sustained pickup in realizations, building on the pace seen in 2025, would help restore full momentum to the asset class.

PE middle-market TVPI and DPI by fund vintage



Source: PitchBook • Geography: US • As of June 30, 2025

2025 annual US PE middle-market lending league tables

Overall

Rank	Company	Deal count
1	Ares	195
2	BMO Financial Group	189
3	Churchill	151
4	Golub Capital	149
5	TPG Twin Brook	139
6	Antares Capital	136
7	Barings	127
8	Audax Private Debt	125
8	J.P. Morgan	125
10	Apogem Capital	117
11	The Goldman Sachs Group	116
12	MidCap Financial	112
13	Monroe Capital	106
14	Bank of America	100
15	Truist Financial	89
16	The Blackstone Group	82
17	Citizens Financial Group	81
18	KKR Credit	79
19	Jefferies Group	78
20	Wells Fargo	77
21	Owl Rock	75
21	RBC	75
23	Apollo Capital Management	74
24	Morgan Stanley Private Credit	71
25	Crescent Capital	66
25	Mitsubishi Financial Group	66
27	UBS	63
28	TPG Angelo Gordon	60
29	PNC	56

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

Select roles

Rank	Company	Deal count
1	TPG Twin Brook	115
2	Churchill	108
3	Antares Capital	105
3	Ares	105
5	Golub Capital	100
6	BMO Financial Group	94
7	J.P. Morgan	83
8	Truist Financial	74
9	Monroe Capital	73
10	Citizens Financial Group	72
11	Bank of America	70
12	MidCap Financial	69
13	Wells Fargo	65
14	RBC	63
15	Audax Private Debt	55
16	The Goldman Sachs Group	53
17	Mitsubishi Financial Group	51
18	Jefferies Group	50
19	UBS	48
20	Barings	46
21	Barclays	43
21	Fifth Third Bank	43
21	Morgan Stanley	43
21	PNC	43
25	Deutsche Bank	40
26	Morgan Stanley Private Credit	37
27	Citigroup	35
28	Mizuho Financial Group	34
28	Texas Capital Bank	34

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



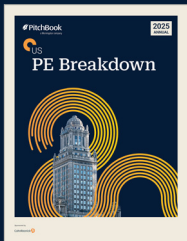
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Nizar Tarhuni

Executive Vice President of Research and Market Intelligence

Marina Lukatsky

Senior Director, Global Head of Research, Credit and US Private Equity

Steven Buibish

Director, US Private Equity

Report created by:

Garrett Hinds

Senior Research Analyst, Private Equity

Jinny Choi

Senior Research Analyst, Private Equity

Kyle Walters

Research Analyst, Private Equity

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