PitchBook

Q2 2025

US

PE Middle Market Report

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Executive summary

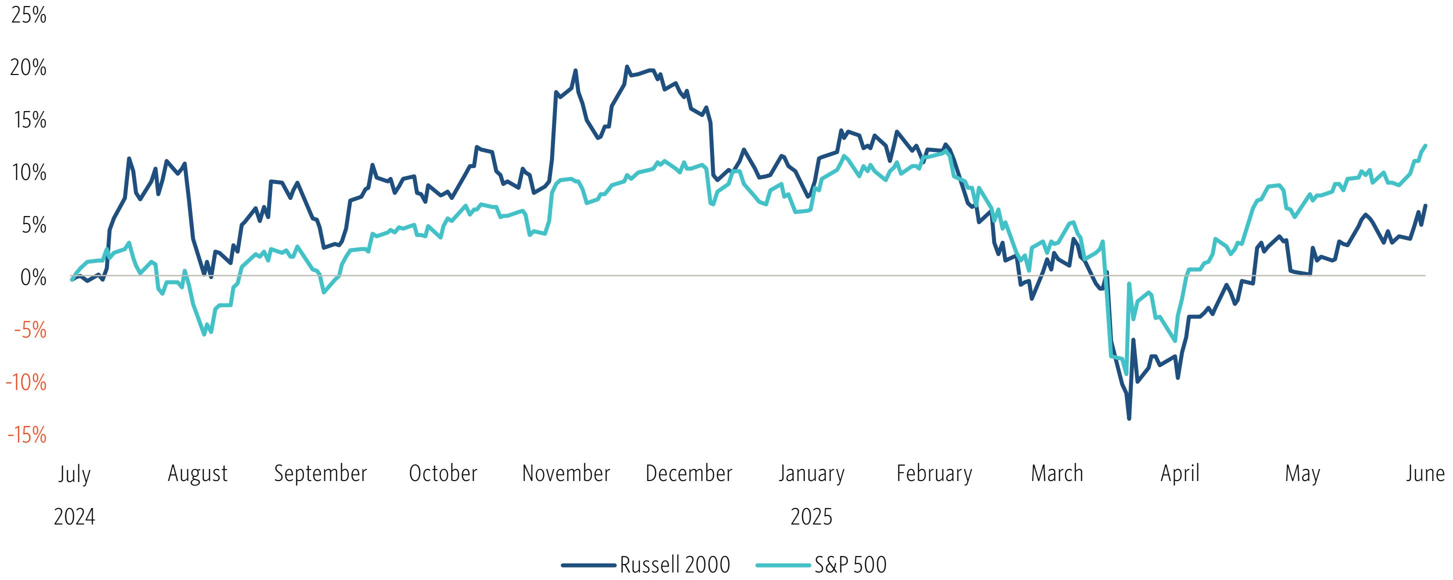
The first half of 2025 underscored the resilience of the US middle market, which continues to distinguish itself from the broader PE landscape. Middle-market deal activity managed to defy the broader market deceleration, posting sequential growth in value and volume at $97.2 billion in Q2—a 4.9% gain QoQ and an 18.1% rise YoY. The tally of 978 closed or announced deals marks expansions of 6.1% QoQ and 39.1% YoY. Extrapolating these figures, the year is on track for $383 billion in total deal value and 3,829 transactions, an 11.8% YoY increase that potentially positions 2025 as the second-best year on record, trailing only 2021. The persistence of activity in the face of volatility suggests that GPs are treating policy uncertainty and trade realignment as passing storms, charting their course with confidence that calmer waters and steadier policy winds will set the stage for renewed economic expansion in the years ahead. In addition, credit remains plentiful, with direct lenders actively competing for mandates—driving spreads tighter and lowering the cost of debt.

Exit activity, by contrast, remained constrained. The second quarter produced 211 exits totaling $28.4 billion, a 5.3% drop in value and a 7% decline in count from Q1. Exit value also lagged Q2 2024 levels, down 3.6% YoY. Yet, while the aggregate value continues to trail pre-pandemic benchmarks, exit count has held consistently higher than its historical averages for eight consecutive quarters. This divergence from the broader PE market—where exits skew toward fewer, larger deals—illustrates the middle market's differentiated rhythm. Smaller companies, less reliant on global exposure, remain attractive to strategic buyers seeking bolt-ons and niche capabilities. The IPO window also cracked open, with two offerings in Q2 worth a combined $1.2 billion, a small but symbolically important signal of improving sentiment. However, the inventory of unsold companies continues to mount, now totaling over 5,214 portfolio firms, creating a multiyear backlog that presses GPs to find creative liquidity solutions. Continuation funds, pacing ahead of last year's record-setting activity, are increasingly the mechanism of choice, providing both liquidity to LPs and extended time horizons for GPs determined to capture residual value.

Fundraising has proven more challenging. Through the first half of the year, 59 middle-market funds closed with $41.6 billion in aggregate commitments. This compares unfavorably with the 67 funds and $65 billion raised in the same period of 2024, highlighting the difficulties of capital formation amid sluggish exit markets. The slowdown follows four consecutive record-setting years of inflows, and the contrast is stark. With LPs facing reduced distributions, many are consolidating commitments toward larger or historically successful managers, leaving fewer slots for newer entrants. Even so, emerging managers—those with three or fewer funds—accounted for 38.3% of capital raised YTD, an encouraging sign of ongoing innovation. Notably, 86.7% of funds that closed did so at a larger size than their predecessor, with a median step-up of 57.7%, indicating that those who succeed in fundraising are rewarded handsomely. Yet the overall trend is unmistakable: Without stronger exit activity, fundraising momentum will remain capped.

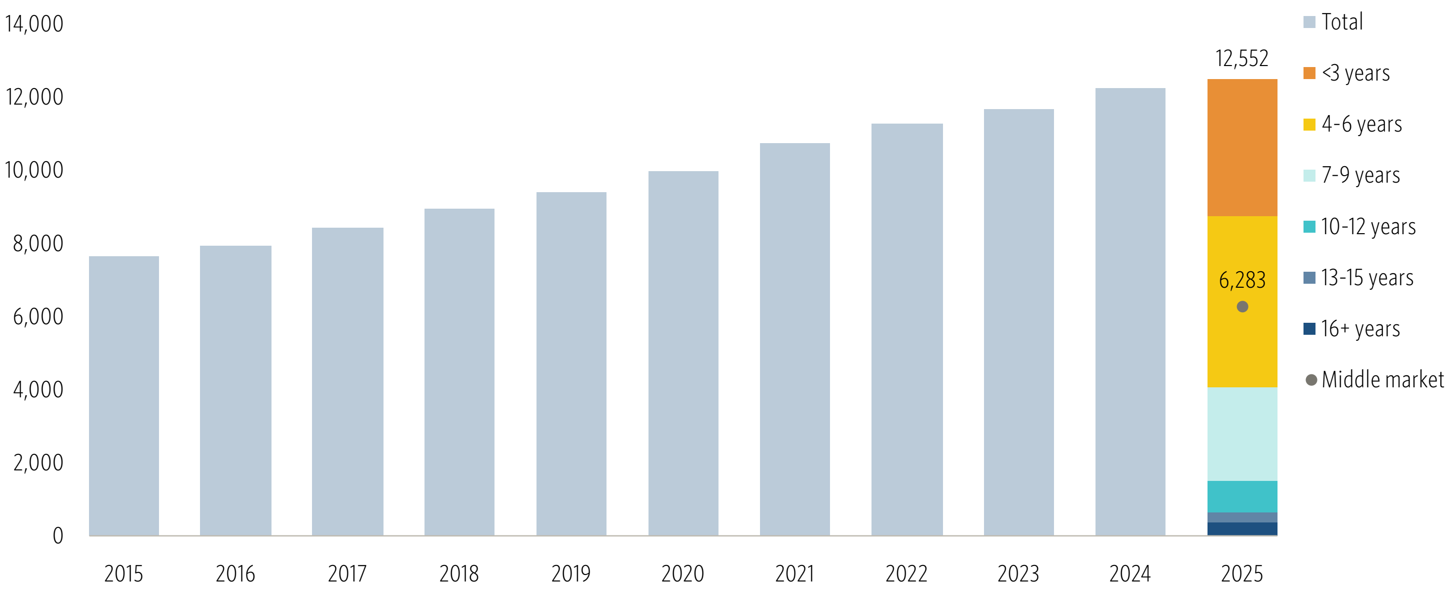
Valuation metrics round out the picture and have stabilized at levels consistent with pre-pandemic norms. The global middle-market M&A EV/EBITDA median multiple is now 11.3x—comfortably within the 2017-2019 range—and EV/revenue is at 2x. For PE buyouts specifically, enterprise value multiples are somewhat higher at 12.9x EBITDA and 2.3x revenue, reflecting a tilt toward technology-driven transactions and improved credit availability. These figures suggest a market that is neither overheated nor depressed, but recalibrated. Financing costs have moderated since the 2022 reset, lenders are once again active, and buyers and sellers appear to be meeting in the middle. Against a backdrop of policy shifts and macroeconomic noise, the middle market demonstrates its enduring ability to find equilibrium. The result is a sector that continues to transact, raise capital selectively, and lay the groundwork for stronger exits ahead.

Russell 2000 versus S&P 500 price return



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

PE-backed company inventory by age of investment



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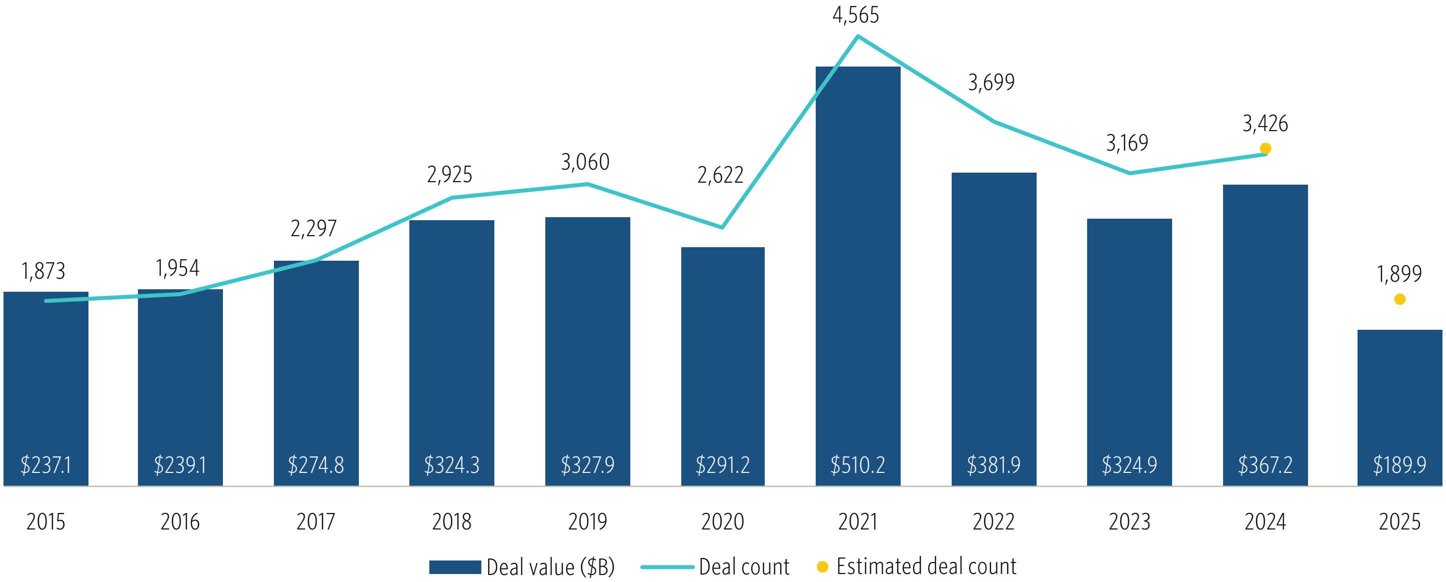
Deals

PE middle-market deal activity



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

Overview

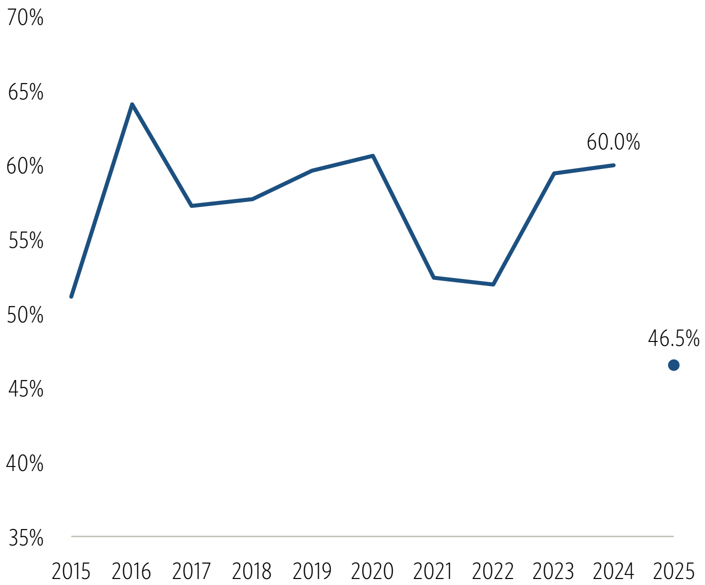
The US PE middle market closed the first half of 2025 on solid footing. In terms of deal activity, it outpaced the broader market, which contracted sequentially. In Q2 2025, including estimates for late-reported transactions and deals with undisclosed values, US PE middle-market deal value reached $97.2 billion. That marks growth of 4.9% QoQ and 18.1% YoY—a strong signal of GPs' confidence as they stepped in to underwrite middle-market deals amid policy uncertainty and market volatility. A total of 978 deals were closed or announced in the quarter, representing 6.1% growth QoQ and a 39.1% jump YoY. Extrapolating the pace of dealmaking from the first half of the year, 2025 is tracking toward $383 billion in total deal value, an increase of 4.3% YoY, and 3,829 deals, up 11.8% YoY. Taken together, this trajectory sets 2025 on course to be the second-best year ever for deal activity, trailing only 2021. With rates expected to fall in H2 2025, and recession odds lower heading into the end of the year, we expect activity to increase in H2.

Regional distribution in H1 2025 closely followed decadelong patterns with modest shifts. The mid-Atlantic accounted for 20.7% of value, 170 basis points above its 10-year average. The South came in softer at 14.1%, or 150 basis points below

PE middle-market deal activity by quarter

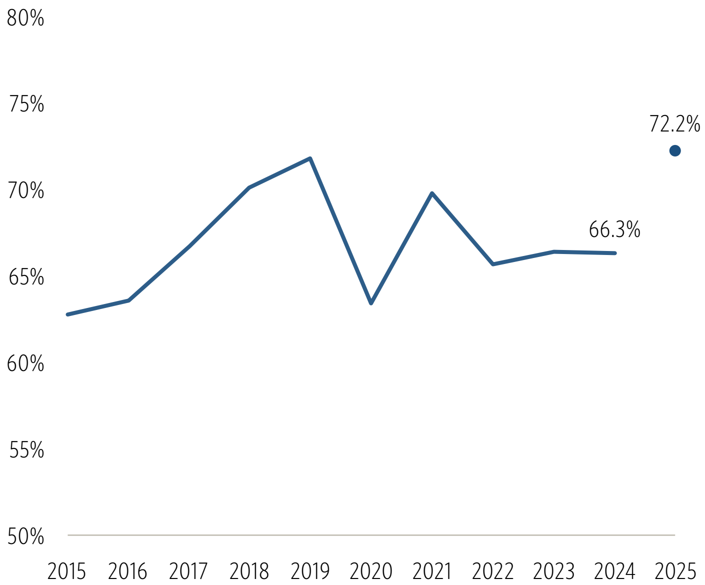
Source: PitchBook • Geography: US • As of June 30, 2025

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



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

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



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

its norm. New England represented 5.9% of deal count, 80 basis points under its historical share. These figures suggest continuity, punctuated by regional divergences that reflect shifting capital flows and sectoral emphasis.

While overall PE activity declined sequentially in Q2 2025—both in value and in count—the middle market expanded on both measures. This divergence reflects the nature of middle-market companies: With less scale, they are more inclined to seek liquidity, partnerships, and capital infusions from PE buyers in uncertain environments. If trade and tariff policy stabilize, the opportunity set widens considerably. Looking ahead, clarity is likely to emerge in the coming year, but it will arrive alongside the heavy lifting of realigning supply chains to the radically revised trade rules of the Trump administration. That transition brings opportunity for those able to adapt swiftly—and real risk for those caught flat-footed as competitors move ahead.

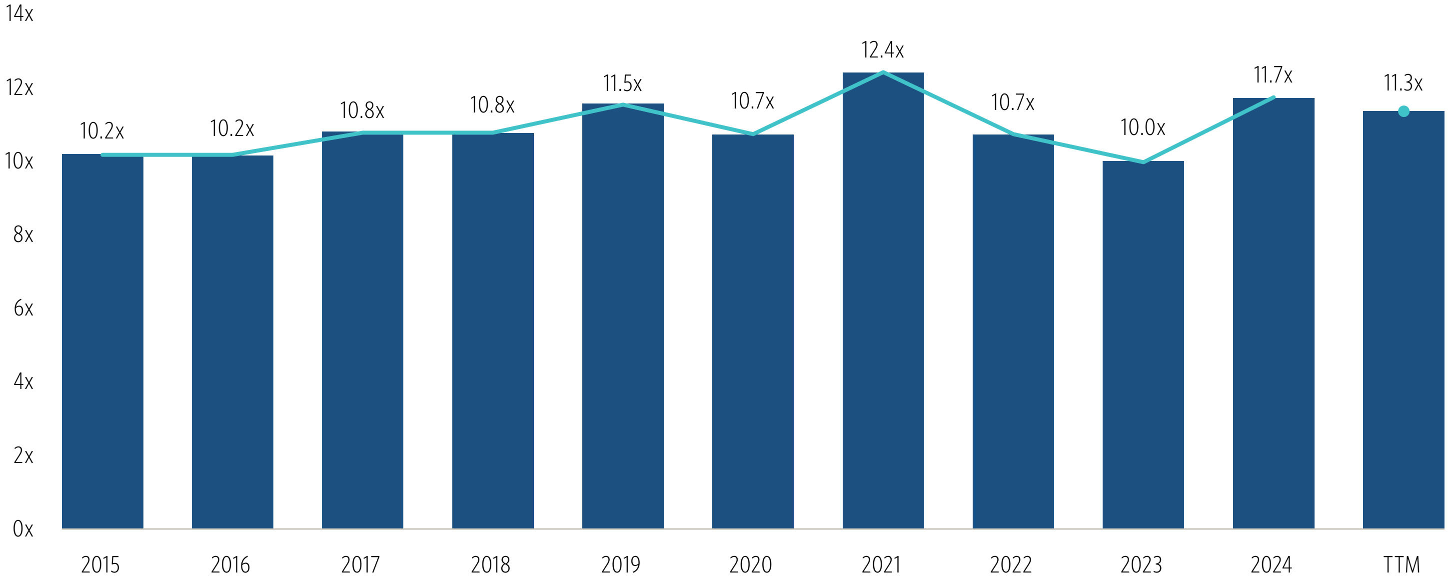
Valuations

Middle-market valuation multiples are pointing to an increasingly liquid M&A market with valuation expectations broadly aligned with the 2017-2019 range, setting aside the distortions of the pandemic era. As of Q2, both the 2024 and trailing-12-month (TTM) figures are encouraging. Deal activity is improving, lender liquidity is ample, and financing costs are moderating after the reset in 2022.

We emphasize the importance of our global M&A multiples, which draw from the broadest sample size, incorporating both PE and corporate buyers and offering stronger disclosure rates for middle-market companies. These metrics focus on transactions between $25 million and $1 billion, providing the clearest window into valuation trends. The global TTM EV/EBITDA multiple stands at 11.3x—slightly below that of 2024 but comfortably above the 10x recorded in 2023 and squarely within the 2017-2019 norm. This consistency underscores that dealmakers are reverting to pre-pandemic valuation benchmarks to get transactions across the finish line. Paired with resilient deal value, the pattern points to a renewed willingness among both corporates and GPs to step into uncertainty rather than wait indefinitely for better conditions. Turning to EV/revenue, the global multiple registers 2x in the TTM period, a modest decline from 2.1x in 2024 and right in line with the 1.8x-2.1x range from 2017-2019. In contrast, it sits well below the peak levels of 2021-2022, suggesting today's middle market is balanced—neither overheated nor undervalued.

Zooming in on middle-market PE buyouts specifically, we find similar trends. The TTM EV/EBITDA multiple for PE buyouts closed at 12.9x in Q2 2025, up meaningfully from 11.2x in 2023 yet easing from 13.3x in 2024. Relative to the 2017-2019 range of 11.2x to 12.8x, the current level sits modestly higher, reflecting improving credit availability and fading macroeconomic headwinds. On the EV/revenue side, the

M&A EV/EBITDA multiple for deals between $25 million and $1 billion



Source: PitchBook • Geography: North America and Europe • As of June 30, 2025

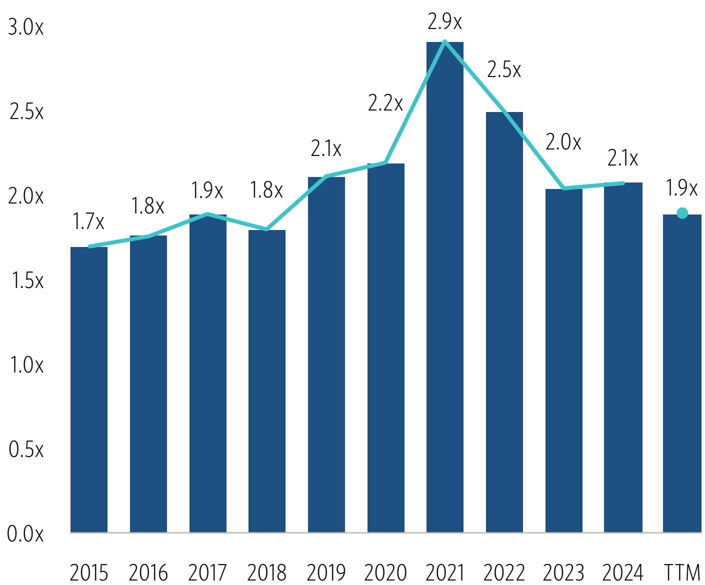
TTM multiple for PE buyouts rests at 2.3x, rising from 2.1x in 2023 and holding steady against 2024. This figure exceeds the 2017-2019 range of 2.0x-2.2x, a signal of the sector's tilt toward technology-driven deals and a buyer outlook that places a premium on long-term growth potential.

Looking ahead, the prospect of lower interest rates, coupled with valuations at or slightly above pre-pandemic norms, suggests that the current environment is not one of excess. Rather, it reflects buyers and sellers finding common ground and recalibrating portfolios to capture opportunities in the years ahead.

Take-privates

In Q2 2025, middle-market take-private activity held steady as PE buyers underwrote 10 announced or completed deals under $1 billion across North America and Europe. That figure edged up from seven in the prior quarter but trailed the 17 recorded in Q2 2024. The median deal size of $180.2 million represented a 45.4% decline from Q1 and a 44.4% drop YoY. Viewed against the backdrop of elevated uncertainty—recession odds averaged 49% across the first two months of the quarter according to prediction markets—this level of activity appears relatively robust.[1] It suggests that GPs were willing to step in where conviction was strong yet measured enough to avoid overcommitting in the face of

M&A EV/revenue multiple for deals between $25 million and $1 billion



Source: PitchBook • Geography: North America and Europe • As of June 30, 2025

1: "US Recession in 2025?" Polymarket, n.d., accessed September 2, 2025.

PE take-private deals under $1 billion in Q2 2025

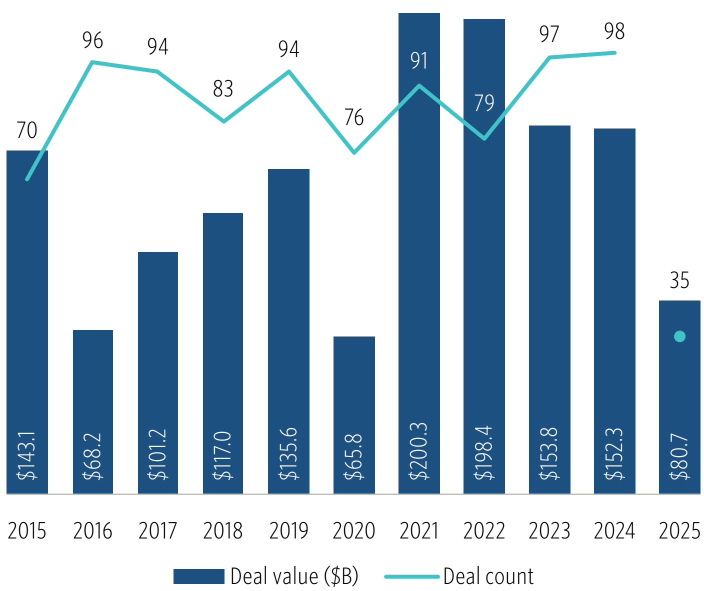
Company	Announced date	Acquirer(s)	Deal value ($M)	Country
Cantaloupe	June 16	Blue Star Innovation Partners, McCarthy Capital, Providence Equity Partners	$848.0	US
Renold	June 13	MPE Partners, Webster Industries	$251.5	UK
Renewi	June 6	British Columbia Investment Management, Macquarie Asset Management	$939.6	UK
Bluebird Bio	June 2	SK Capital Partners, Carlyle	$95.7	US
Streamline Health Solutions	May 29	Bregal Sagemount, Primus Capital	$45.8	US
Inspired	May 27	HGGC	$173.5	UK
Sigmatron International	May 21	Transom Capital Group	$83.0	US
Kinovo	May 14	Cap10 Partners, Sureserve Group	$74.8	UK
PHX Minerals	May 8	WhiteHawk Energy	$187.0	US
Datagroup	April 15	KKR	$508.3	Germany

Source: PitchBook • Geography: North America and Europe • As of June 30, 2025

potential turbulence. With public markets carrying the risk of a near-term reset, buyers appeared to be keeping some powder dry, ready to capitalize should valuations become even more compelling.

Public market volatility was pronounced through much of 2025, with the Chicago Board Options Exchange's Volatility Index peaking at 51.3 on April 8. Since then, conditions have stabilized, with the index averaging 15.6 in August as recession concerns receded. This calmer backdrop is opening the door for private equity to pursue opportunities among public companies valued below $1 billion. On a TTM basis, the Russell 2000 Index underperformed the S&P 500 by 460 basis points as of September 8, marking a sharp reversal from its relative strength in 2024. The shift underscores a more favorable environment for middle-market take-private transactions and could set the stage for increased deal activity heading into late 2025.

PE take-private deal activity



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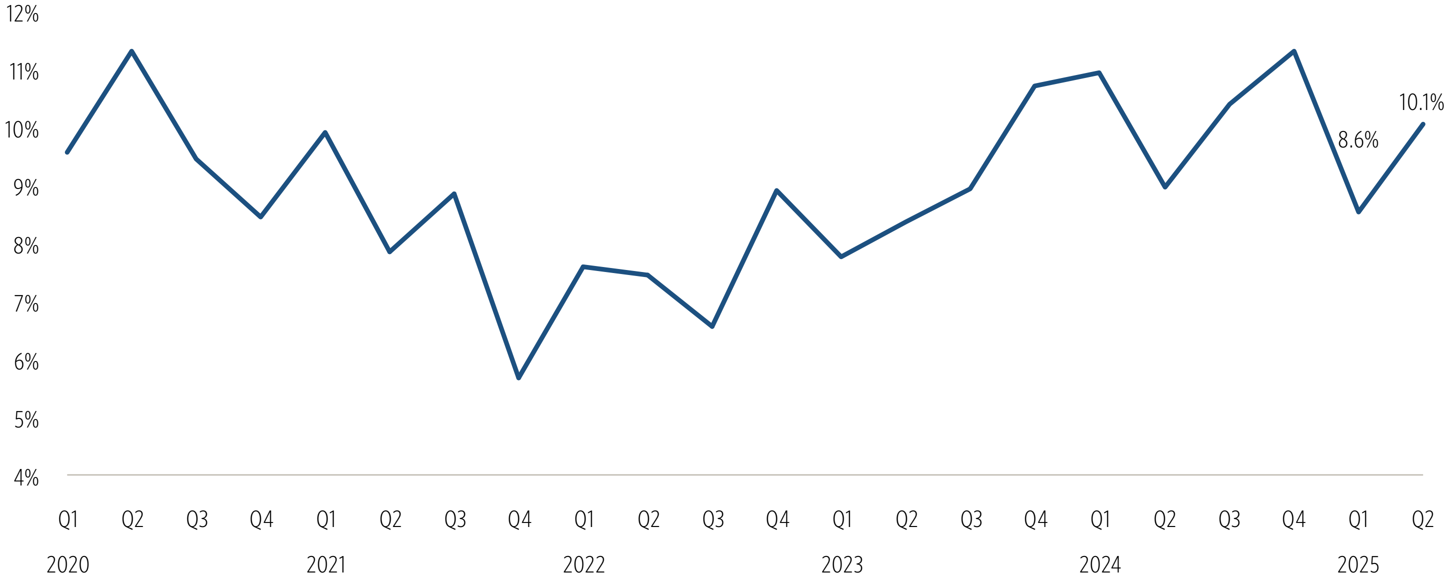
Founder-owned businesses

In the first half of 2025, founder-owned businesses represented 50.6% of middle-market transactions, slightly below the five-year average of 51.4%. Given their smaller scale, they accounted for just 19.2% of total deal value compared with a five-year average of 20.9%. Unlike PE-backed companies, which benefit from seasoned management teams, longer investment horizons, and reliable access to growth capital, founder-led businesses often rely on a single lifelong leader without a clear successor, operate with less sophisticated capital allocation practices, and face more limited financing options frequently tied to regional banks and sometimes requiring personal guarantees. These structural constraints generally leave founder-backed firms less resilient during periods of volatility.

In the lower middle market, nonsponsored businesses—typically founder-owned—continue to offer attractive entry valuations. Most transactions in this segment are valued

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



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below $100 million, with many under $25 million, and they often trade at a discount to larger sponsor-backed deals. For instance, in the global middle market, the median EV/revenue multiple for M&A transactions between $500 million and $1 billion was 2.8x, compared with just 1.1x for deals under $100 million.

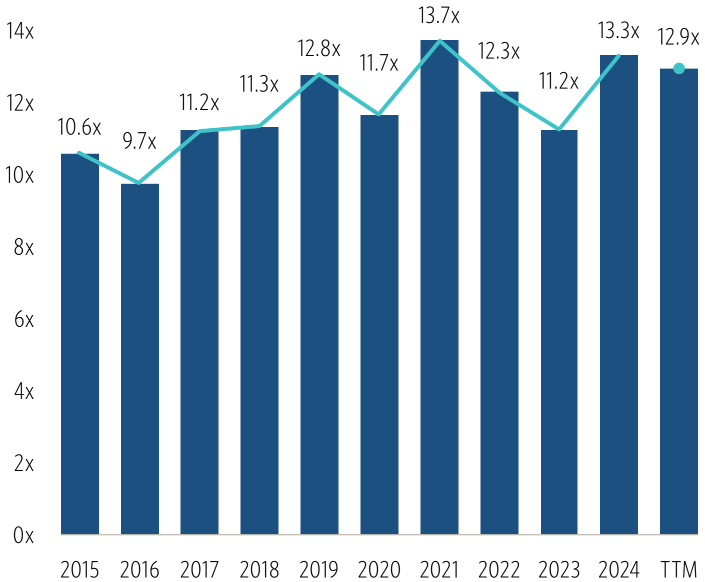
Carveouts

Carveouts remained a consistent feature of middle-market deal activity in Q2 2025. They accounted for 11.1% of deal value during the quarter, up from 10.9% in Q1 and broadly in line with the five-year annual average of 11.4%. On a transaction basis, carveouts represented 10.1% of deals, compared with 8.6% in the prior quarter and above the five-year annual average of 8.9%. While quarterly figures can fluctuate, annual trends provide a clearer benchmark. Industry participants note that many large companies are postponing spin-off activity until later in the year, awaiting greater policy clarity and more stable markets. These factors could drive stronger carveout activity in the second half of 2025.

Carveouts provide compelling advantages for both buyers and sellers. For sellers, proceeds can be used to address maturing debt obligations or reinvest in higher-growth initiatives. For buyers, carveouts often involve established assets with robust financial histories, enabling more reliable due diligence. This transparency tends to attract a wider pool of bidders, reinforcing the appeal of carveouts in today's dealmaking environment.

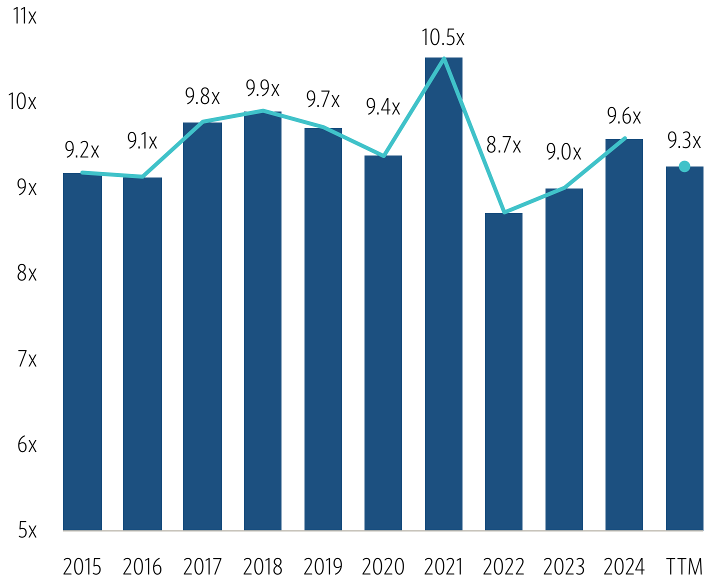
Deal valuation metrics

Median PE middle-market EV/EBITDA multiple



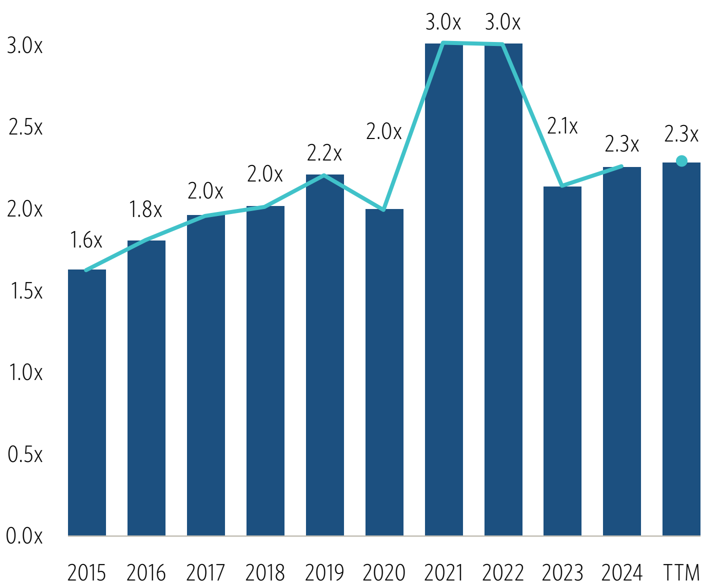
Source: PitchBook • Geography: North America and Europe • As of June 30, 2025

Median M&A EV/EBITDA multiple



Source: PitchBook • Geography: North America and Europe • As of June 30, 2025

Median PE middle-market EV/revenue multiple



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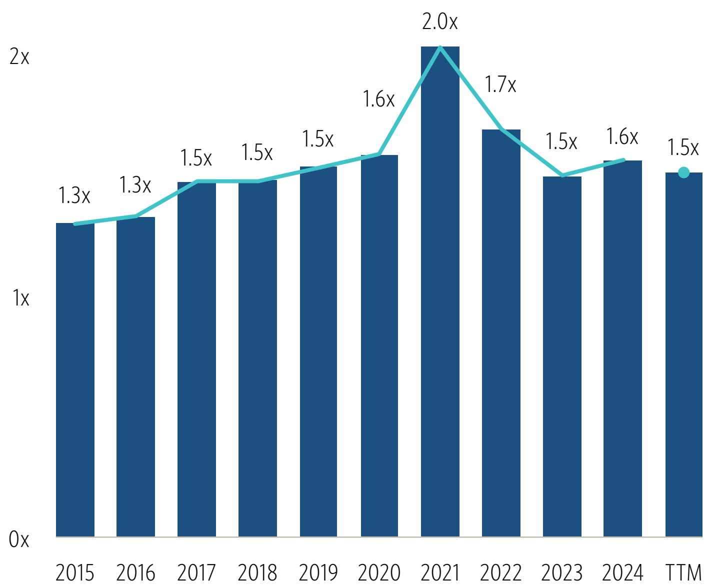
Median M&A EV/revenue multiple



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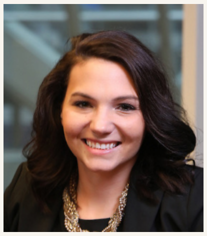
A WORD FROM CLIFTONLARSONALLEN

Private equity: US middle-market outlook

Craig Arends

Managing Principal

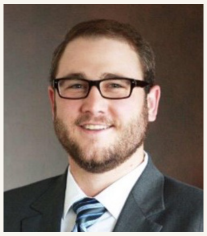
Craig Arends is managing principal of CLA's PE practice, helping PE businesses support funds and their portfolios in deploying capital, refining exit strategies, and creating stakeholder value. He has extensive experience across retail, consumer products, distribution, manufacturing, technology, and business service sectors and has worked on more than 300 transactions with valuations in excess of $10 billion.



Katelyn Kerfeld

Managing Principal

Katelyn Kerfeld is a managing principal of service with extensive experience in due diligence, including buy- and sell-side quality of earnings, working capital, and EBITDA analysis. She assesses financial risks, GAAP compliance, and transaction terms, and analyzes carve-out costs, balance sheets, and industry-specific financials to support valuation and deal decisions.



Keegan Wiens

Principal

Keegan Wiens, a principal at CLA, leads the transaction tax services practice, advising and supporting clients on M&A transactions, including buy-side and sell-side due diligence, structuring, modeling, and compliance. His team helps clients enhance tax positions and navigate federal, state, and local regulations across corporate, partnership, and PE transactions.

As we cross the midpoint of 2025, the US private equity middle market continues to evolve in response to shifting macroeconomic conditions, regulatory developments, and sector-specific dynamics.

While headlines often spotlight broad economic indicators and geopolitical tensions, many consequential risks and opportunities lie beneath the surface.

Underdiscussed risks in the private equity middle market

While inflation, interest rates, and geopolitical instability dominate public discourse, several quieter but equally impactful risks are emerging. Chief among these is operational fragility due to talent gaps.

Many middle-market firms are struggling to attract and retain skilled workers, particularly in finance, compliance, and technology roles. This talent shortage is not just a human resources issue; it is a strategic risk affecting scalability, innovation, and regulatory readiness.

Another underappreciated risk is cybersecurity exposure in M&A transactions. As deal activity picks up, especially in tech-enabled services and healthcare, insufficient diligence in digital infrastructure has led to increased vulnerability. Cyber risk assessments are often rushed or overlooked, leaving acquiring workers exposed to legacy system flaws and data breaches.

Bridging strategy and execution

These risks are not abstract; they are deeply intertwined with the challenges PE firms face.

In manufacturing and distribution, businesses are grappling with supply chain recalibration. The shift from global to regional sourcing has introduced complexity in logistics, vendor management, and cost structures. Companies are redesigning supply chains not just for efficiency, but for resilience.

In professional services and healthcare, margin compression is a recurring theme. Rising labor costs, regulatory compliance burdens, and technology investments are squeezing profitability. Organizations are collaborating closely with their advisors to enhance cost structures, explore automation, and rethink pricing strategies.

Surprising concerns in 2025

One of the most unexpected themes this year has been the increased scrutiny on environmental, social & governance (ESG) metrics—not from regulators, but from limited partners and strategic buyers.

Middle-market firms are being asked to quantify and report ESG performance in ways previously reserved for large-cap companies. This shift is catching many firms off guard, especially those without dedicated sustainability teams or reporting frameworks.

Another surprising concern is the impact of AI on workforce dynamics. PE firms are not just asking how to implement AI—they are asking how to manage the cultural and ethical implications. Questions about job displacement, algorithm bias, and governance of AI tools are becoming central to boardroom discussions.

Regulatory, tax, and audit concerns

From a regulatory standpoint, beneficial ownership reporting under the Corporate Transparency Act remains a critical issue. Many middle-market firms are unaware of their obligations or are underestimating the complexity of compliance. The penalties for noncompliance are steep, and the reporting requirements are more expensive than anticipated.

On the tax front, state-level tax policy shifts are creating planning challenges. Several states have introduced or expanded pass-through entity taxes, and the interplay with federal, state, and local tax-cap workarounds is creating confusion. Firms should revisit their entity structures and tax strategies to avoid unintended consequences.

Regarding audits, internal control weaknesses in fast-growing firms are a growing concern. As companies scale through acquisitions or organic growth, their control environments often lag. This can lead to audit findings impacting valuations, investor confidence, and even deal viability.

Overblown fears in the media

While caution is warranted, some fears are overstated. The narrative around a looming recession has been particularly pervasive, yet middle-market fundamentals remain strong. Revenue growth, while uneven, is holding up in key sectors like healthcare, technology, and niche manufacturing. Credit markets, though tighter, are still accessible for well-positioned firms.

Similarly, concerns about PE dry powder leading to reckless dealmaking may be exaggerated. Deal discipline has increased. Valuations are being scrutinized more rigorously, and firms are more selective about targets. The result is a healthier deal environment, not a frothy one.

Pockets of optimism across sectors

Despite the challenges, there are bright spots. In the technology-enabled services sector, demand for automation, data analytics, and cybersecurity solutions is driving growth.

In healthcare, particularly behavioral health and outpatient services, demographic trends and reimbursement stability are fueling expansion. Clients are exploring roll-up strategies and platform investments with confidence.

Construction and real estate services are also seeing renewed momentum, especially in regions benefiting from infrastructure spending and reshoring initiatives. Firms aligned with public-private partnerships or green building trends are well positioned.

Strategic imperatives for middle-market leaders

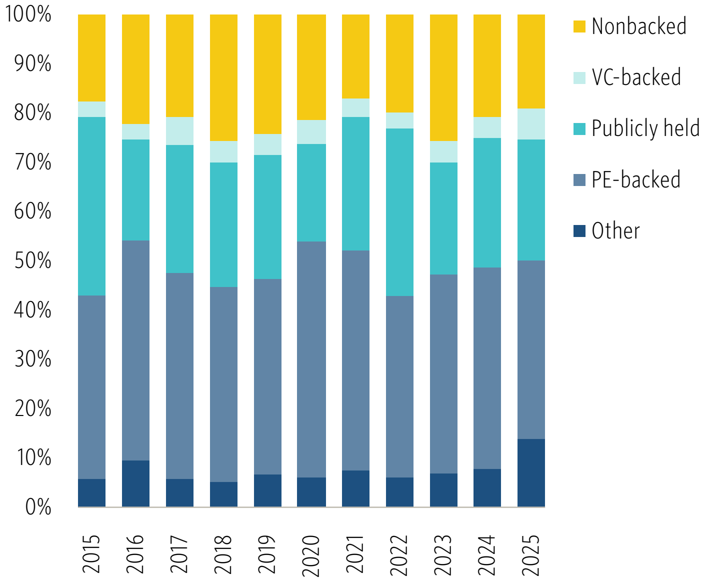
As we move into the second half of 2025, middle-market leaders must balance vigilance with vision. Work with your trusted advisors to address these key imperatives:

- Strengthening governance and compliance frameworks, especially considering evolving regulatory expectations.
- Investing in talent and culture, not just technology, to enable sustainable growth.
- Reevaluating deal strategies to align with sector-specific dynamics and valuation realities.
- Building resilience into operations, from supply chains to cybersecurity.

For more information on the current state of private equity, contact Craig Arends at craig.arends@CLAconnect.com.

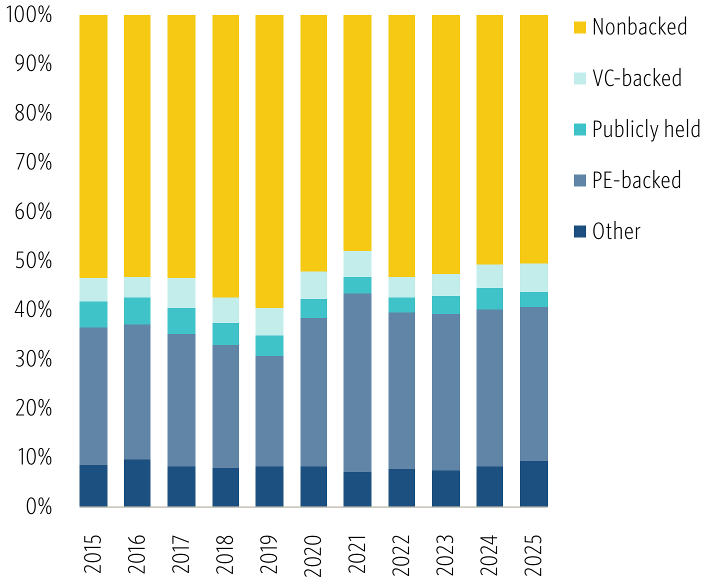
Deals by backing and sector

Share of PE middle-market deal value by backing type



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

Share of PE middle-market deal count by backing type



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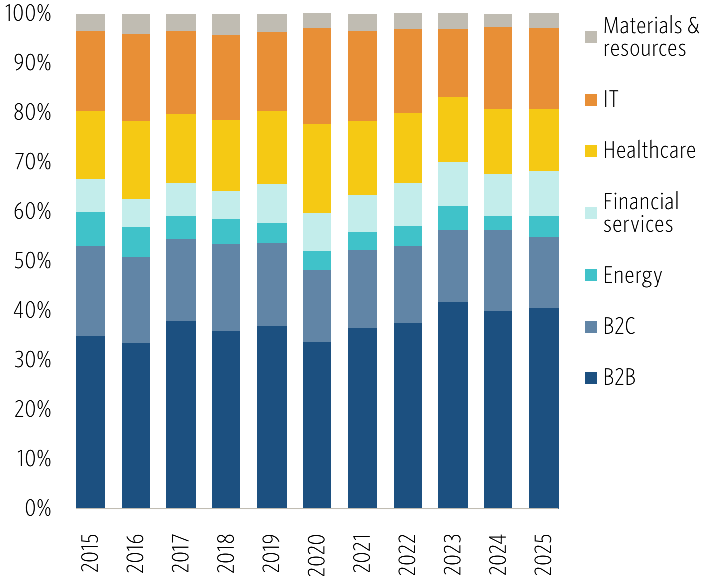
Share of PE middle-market deal value by sector



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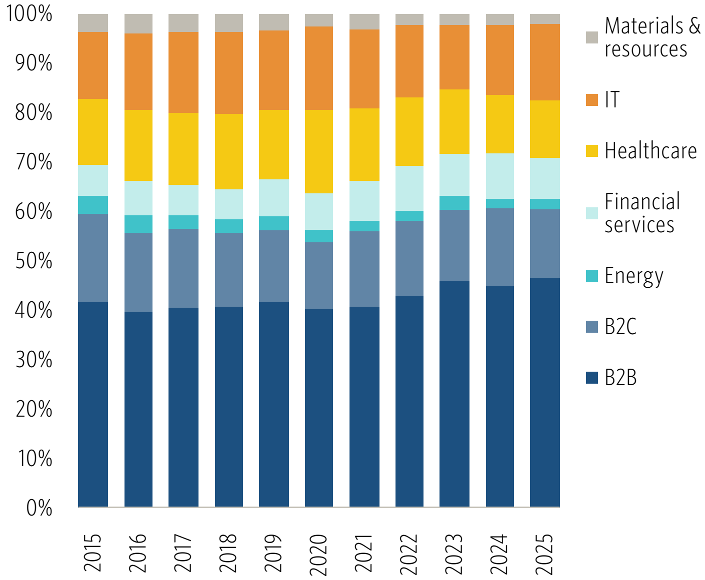

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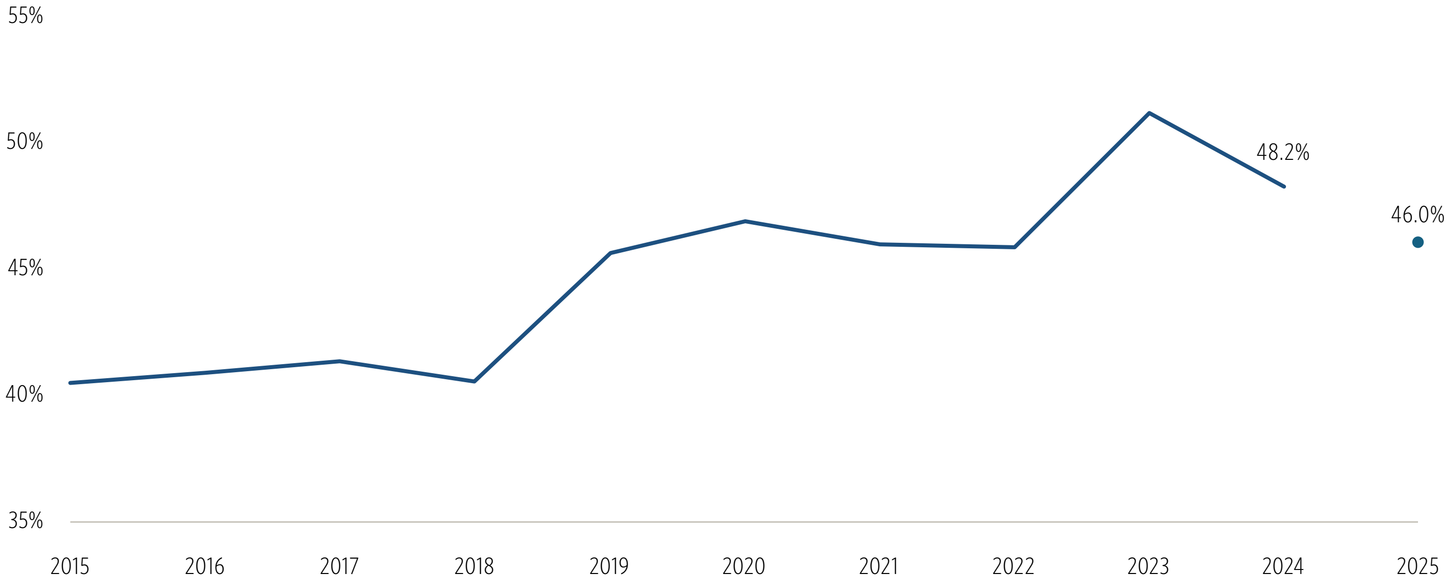
SPOTLIGHT

From Peak to Pivot: Sponsor Equity Eases as Lenders Loosen Up

Average equity contribution to BSL-financed LBOs



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This spotlight is abridged from our analyst note From Peak to Pivot: Sponsor Equity Eases as Lenders Loosen Up. *Please see the full report for additional analysis on equity contributions trends in the broadly syndicated loan market.*

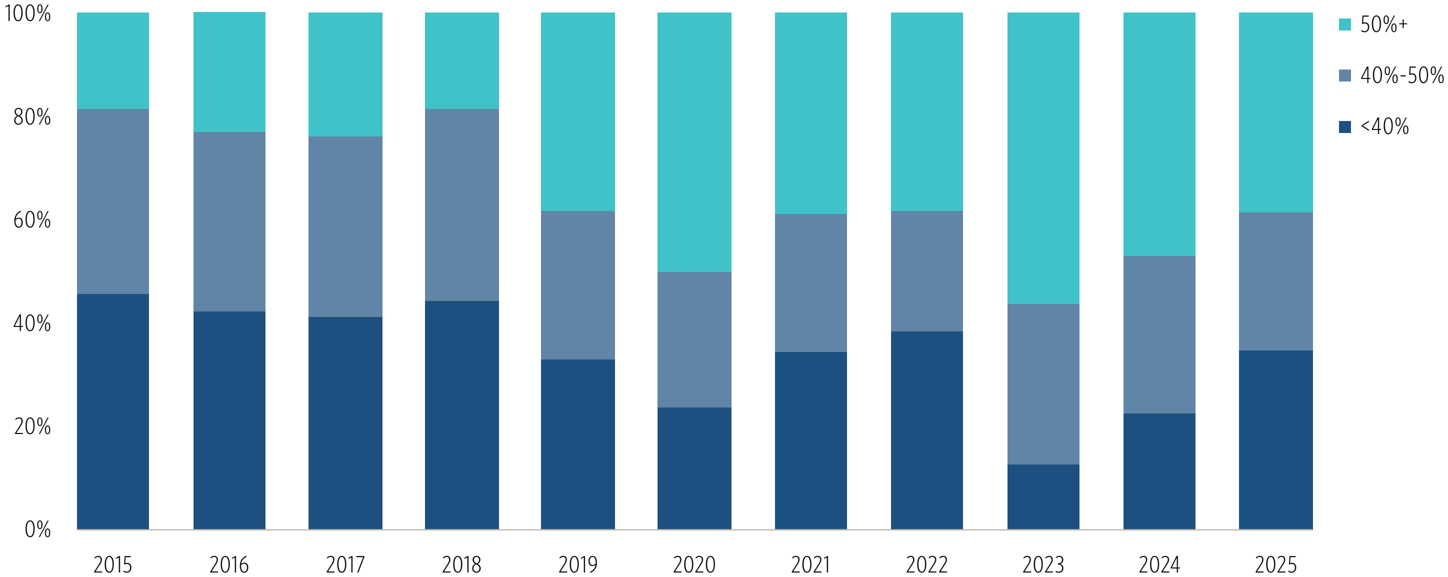
Introduction

While US buyout activity has yet to rebound to the heights seen before interest rates surged, trends in sponsor equity contributions are pointing to a more stable market. After hitting a cycle high of 51.1% in 2023—amid the most aggressive rate hikes in a generation—the average equity contribution has eased back to 46% of deal value so far in 2025. This level is consistent with the 2019-2022 period, based on deals financed through the broadly syndicated loan (BSL) market, and suggests that dealmakers are regaining confidence regarding leverage, even if overall volumes remain muted.

As valuations have soared over the past decade, sponsors have had to put more skin in the game. In the years following the global financial crisis (GFC), equity contributions hovered in the high-30% range before shifting into low-40% territory from 2015 through 2018. This gradual climb coincided with a marked rise in purchase price multiples for buyouts funded in the BSL market, which peaked at 11.9x EBITDA in 2022—more than three full turns higher than a decade earlier.

At the same time, the BSL market has steadily shifted toward financing larger companies—and that shift has accelerated in recent years. The growing prevalence of private credit and the tendency for companies to remain private longer have pushed more sizable deals into the syndicated loan space. This is evident in the rising scale of buyouts: Until 2019, both average and median deal sizes remained below $2 billion. But by 2022, both metrics surpassed that mark. Even as overall deal activity has slowed in the high-rate environment of the

Share of BSL-financed LBO count by equity contribution



Source: PitchBook | LCD • Geography: US • As of July 31, 2025

past three years, deal sizes have continued to climb, with the median buyout size reaching $3.3 billion in the year to date.

Since rate hikes began in 2022, buyouts under $1 billion have virtually disappeared from the BSL market. These smaller deals made up nearly 30% of the BSL-financed LBO deal count a decade ago—and still accounted for 12% as recently as 2019—but now they represent only a negligible share. This decline underscores the migration of smaller borrowers toward private credit. When the private credit market started to take off around eight years ago, these lenders looked first to smaller borrowers for opportunities. Fund sizes were smaller, as were the buy-and-hold sizes of private credit lenders. As fund sizes increased, private credit lenders began to use their ability to provide ever-larger loans as a selling point to PE firms and their borrower companies.

The new normal?

In assessing the trajectory of leverage, we examined trends across the past 25 years, focusing on how PE investors frame deals through the lens of debt/EBITDA ratios. For the broadest scope, we analyzed PE-backed majority buyout deals exceeding $25 million in the US, Canada, and Europe; this produced 1,255 deals with reported pro forma leverage data and a median leverage of 5x over this period. Narrowing the scope to US-only transactions reduced the sample to 644 deals, with the median leverage ticking up to 5.3x.

This is largely in line with the leverage levels seen in BSL-financed buyouts.

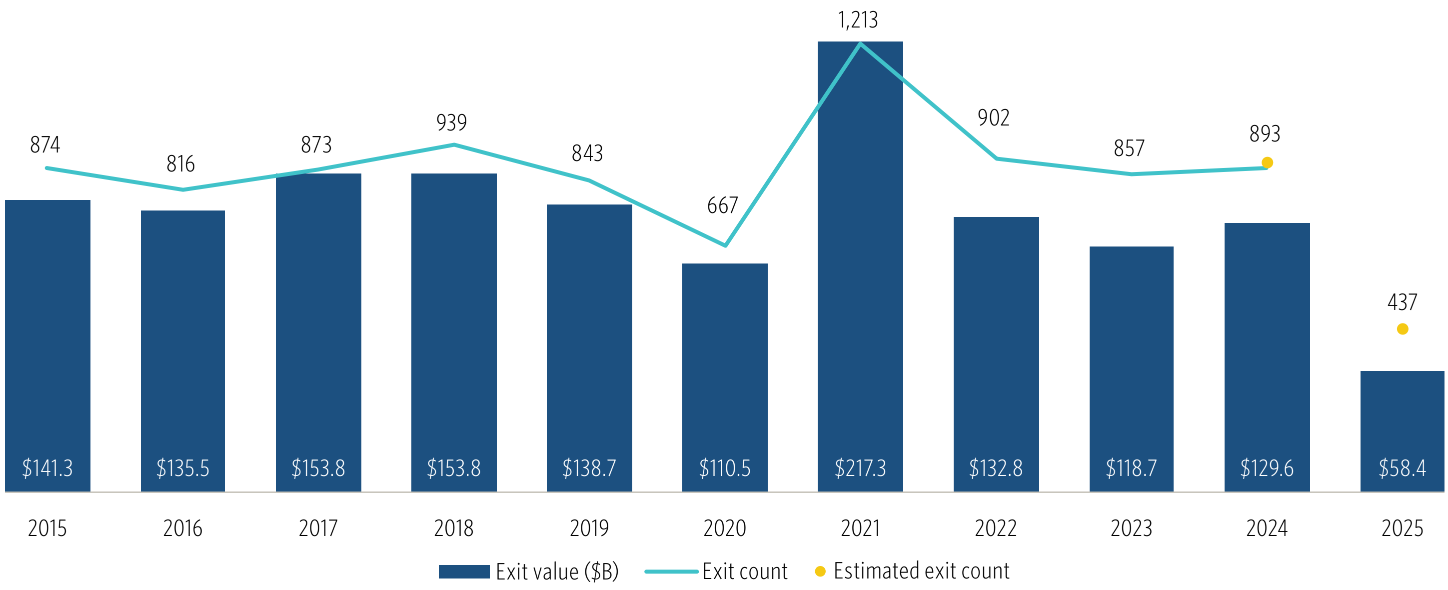
The sharp rise in borrowing costs in the past three years has shifted the balance of deal financing away from debt as PE firms grew more cautious about leverage and, at times between 2022 and 2023, faced difficulty accessing debt markets altogether. Elevated rates have not only reduced leverage but also compelled sponsors to rely more heavily on equity contributions, redirecting their focus toward operational value creation rather than financial engineering—a marked shift from the patterns of the past decade. This heightened reliance on equity has unfolded alongside a pickup in deal activity, supported by more than $1 trillion in US dry powder and purchase prices that have settled below their 2021 peak.

In the near term, we expect equity contributions to remain above pre-pandemic norms until market clarity improves on tariff-related uncertainties and the Federal Reserve's rate path. Once the rate-cut cycle resumes—markets are pricing in at least 50 basis points of cuts in 2025 and a cumulative 125 basis points of cuts by the end of 2026—contributions could gradually revert toward their pre-pandemic average of around 40%.[2] Should rates fall as anticipated, there could be not only a mean reversion in equity contributions but also a renewed appetite for refinancing fixed-rate deals and increasing leverage through more aggressive capital structures.

2: "FedWatch," CME Group, n.d., accessed September 2, 2025.

Exits

PE middle-market exit activity



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

PE middle-market exit activity by quarter

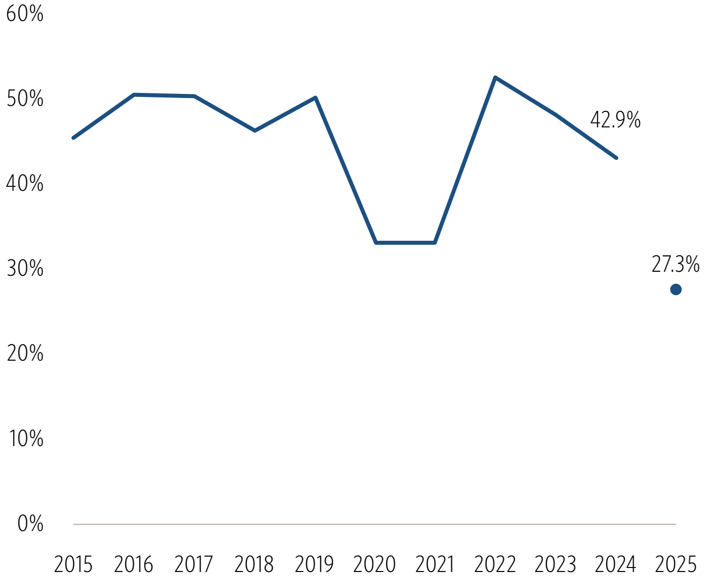
Source: PitchBook • Geography: US • As of June 30, 2025

Overview

Exit activity in the US middle market continued its steady, albeit slow pace, producing another slight down quarter in Q2 2025. There were an estimated 211 exits for an aggregate of $28.4 billion, which was a QoQ decline of 5.3% in exit value and 7% in exit count. Q2 2025 exit value was also 3.6% below that of Q2 2024, and Q1 2025 exit value was lower than that of Q1 2024, demonstrating the challenges that persist in the exit market despite the encouraging rebound in 2024. Exit value still sits below pre-pandemic averages, but exit count has consistently been above pre-pandemic averages for the past eight quarters. This trend in the middle market is opposite of the one seen in the broader US PE market, where exit count continues to trail behind exit value as few high-quality assets secure attractive sales while the larger swath of PE portfolios lags. The middle market's share of the overall US PE exit value dropped from 42.9% in 2024 to 27.3% in H1 2025, as larger transactions continued to drive PE exits.

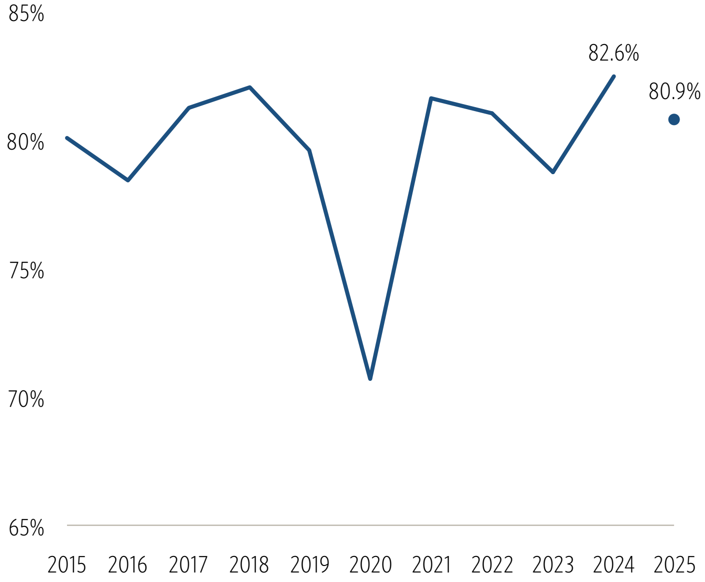
Recent macroeconomic uncertainty has also proven to be a drag on middle-market exit activity. On an annualized basis, middle-market exit activity is projected to fall short of last year's levels. Still, we expect exits to pick up as market conditions stabilize—both US middle-market PE deal activity

Middle-market exit value as a share of total PE exit value



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

Middle-market exit count as a share of total PE exit count



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

and global M&A activity have pressed ahead in Q2 2025, and the uptick in transactions is likely to translate into sales of existing portfolio companies. Moreover, smaller companies are attractive targets for strategic acquisitions to strengthen business capabilities and add scale. Middle-market companies also tend to be less global, focusing instead on local or niche markets, which can reduce international trade and tariff risks as well as provide strong, differentiated plays during market stress.

Although public listings are not a meaningful exit path for middle-market companies given their smaller size, there were two IPOs in Q2 for an aggregate value of $1.2 billion. In May, PE-backed residential property insurance provider American Integrity Insurance Group raised $110 million in its initial offering, marking the first middle-market IPO of the year. The company was valued at $213.3 million before its IPO. In June, Jefferson Capital, a manager of charged-off consumer debt and bankruptcy receivables, was publicly listed after being initially acquired by J.C. Flowers in 2018. The company raised $150 million in its initial offering at a pre-money valuation of $960.9 million.

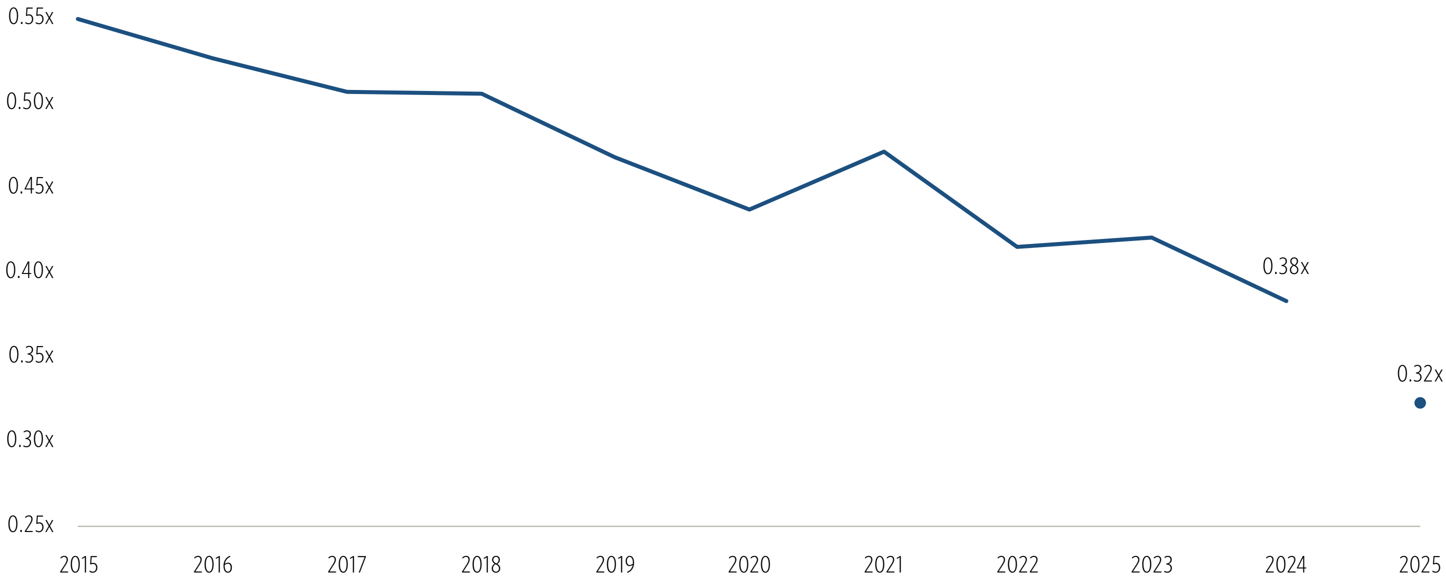
The trickling down of new IPO activity to middle-market companies is a positive sign of improving investor sentiment, which is especially needed in a still-slow exit environment.

The US middle-market company inventory continues to pile up, reaching 6,283 companies as of Q2 2025. This translates to a 7.0-year inventory at the observed pace of exits in 2024, or a 7.1-year inventory at the annualized pace of exits in H1 2025. As investors recover from the initial shocks of macroeconomic uncertainty brought forth by the current US presidential administration, deal activity must be broadened to pick up PE-backed companies so that the middle market can effectively wind down its inventory of assets and alleviate the increasing pressure to return capital to LPs.

Continuation funds

Continuation funds are one way sponsors are addressing LPs' need for liquidity in a slower exit market. Also known as GP-led secondaries, continuation funds provide liquidity to LPs that choose to cash out while also giving GPs more time to work with assets they believe have additional upside. GPs increasingly turned to the continuation toolkit starting in 2022, and 2024 marked an all-time high of 127 exits through continuation funds globally. Continuation fund activity is currently pacing slightly ahead of the record activity seen last year. Should the current dearth of exits persist in the second half of the year, more continuation fund activity could follow and cement 2025 as a new record year.

PE exit/investment ratio



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

In the second quarter, middle-market investors closed several multi-asset continuation funds. One firm, Banner Capital, rolled eight prefund portfolio companies into a continuation fund valued at $400 million. The fund was created to provide additional time and capital to the portfolio companies while offering interim liquidity to prefund investors. In April, Hidden Harbor Capital Partners rolled four portfolio companies into a continuation fund, valuing the transaction at $850 million. The assets include lower-middle-market companies, such as automotive, fire safety, HVAC, and plastic surgery platform businesses.[3]

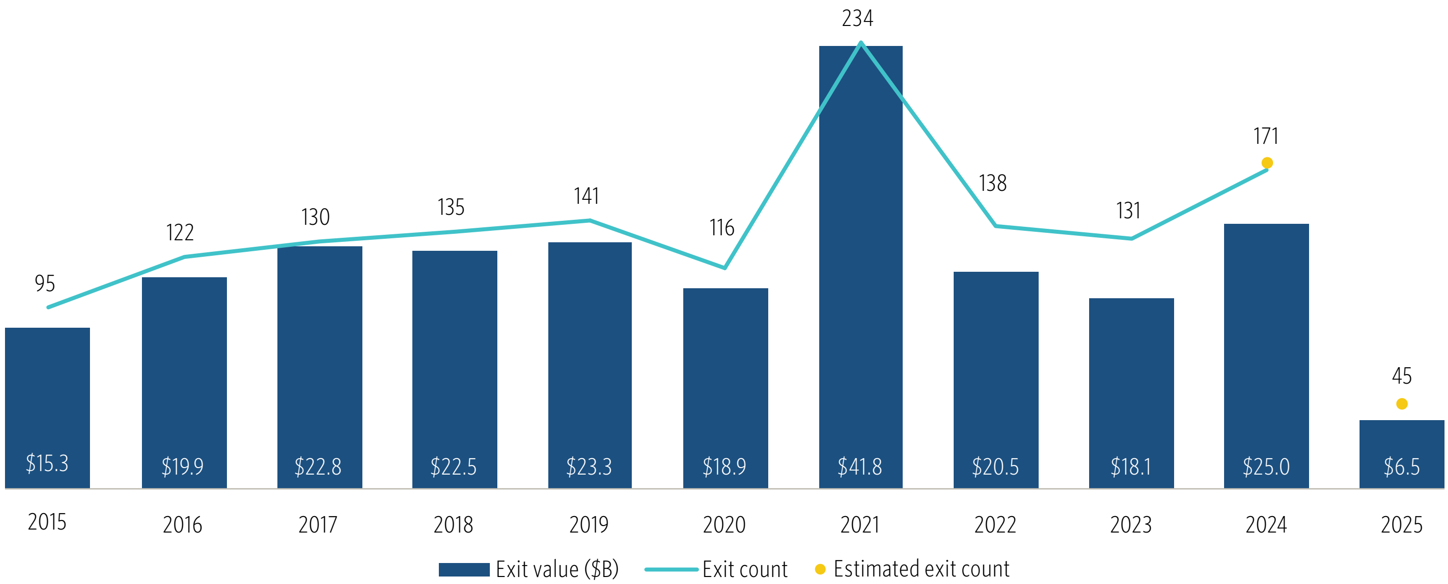
Additionally, more GPs are launching funds to invest in continuation funds, reflecting the expanding GP-led secondaries space and the opportunities to extract returns from it. TPG, for example, launched TPG GP Solutions in 2022 and raised $1.9 billion in response to growth in the secondary PE market. The firm is currently raising its second fund and has already had a first close of $1.3 billion in Q2 2025. Additional public alternatives managers, such as Ares and Blue Owl, are debuting GP-led strategy funds to meet the rising liquidity needs of GP clients. In another example, Leonard Green & Partners launched Sage Equity Investors to invest in the leading assets of other GPs through single-asset continuation fund structures. The fund has already surpassed its target of $1.5 billion and is currently active: Sage Equity Investors was the sole lead investor in Fullscript, a healthcare platform that was rolled into a continuation fund by HGGC and Snapdragon Capital Partners in May.

Exits to sponsors

Sponsor-to-sponsor exit activity dipped on an absolute basis in Q2, along with the moderate decrease in total quarterly exits, but maintained its majority share of middle-market exit activity. Exits to other sponsors have been relatively stronger than exits to corporates for the third consecutive quarter, as PE dealmaking recovered starting in H2 2024 and corporate buyers were active in larger transactions. There were 75 sponsor-to-sponsor exits for an aggregate of $12.8 billion in Q2, a QoQ decline of 15.7% by exit count and 11.5% by exit value. Sponsor-to-sponsor exit activity accounted for 55.6% of the quarter's exit count and 64.2% of its exit value. While the sponsor-to-sponsor share of middle-market exit activity increased QoQ, the overall dampening of exits demonstrates the headwinds from macroeconomic uncertainty.

3: "Leonard Green's Debut GP-Led Fund Tops Target, as Secondaries Investing Surges," Buyouts Insider, Obey Martin Manayiti, August 20, 2025.

Technology PE exit activity



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

Exits moved further from the pre-pandemic quarterly averages seen between 2017 and 2019, dropping to 33%-40% below the "old normal."

The largest sponsor-to-sponsor exit in Q2 was Stone Point Capital's estimated $500 million sale of ARC Excess & Surplus to PE-backed CRC Insurance Services. ARC is a wholesale insurance distributor and is expected to add meaningful scale to CRC's platform as CRC continues to expand its specialty capabilities.[4] The transaction reflects a larger consolidation wave in the financial services sector as companies seek to gain competitive scale in a changing market. In May, Carousel Capital exited Landscape Workshop to Ares for an estimated $465 million after an initial investment in 2020. Landscape Workshop provides commercial landscape services across the southeast US and plans on expanding in new and existing regions in partnership with Ares.[5]

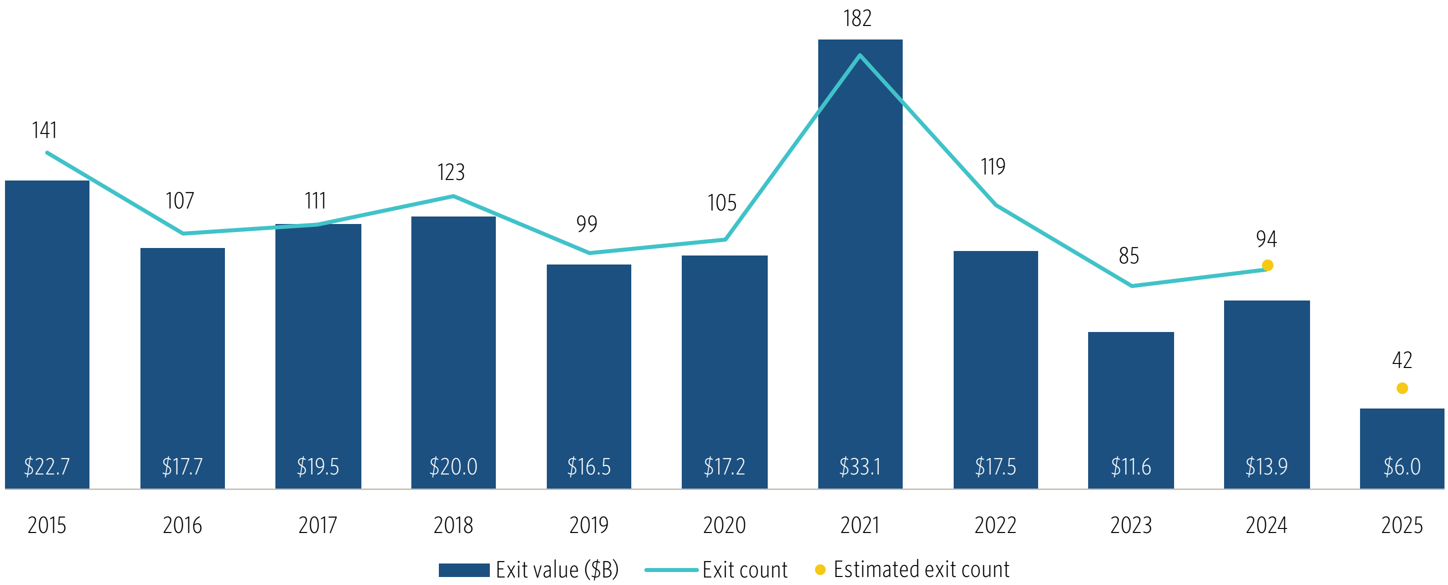
Exits to corporates

Exits to corporates faltered in Q2, both on an absolute basis and as a share of middle-market exit activity, as public listings took an incremental share of already diminished quarterly exits. There were 58 exits for an aggregate of $5.9 billion, which marked QoQ declines of 19.4% and 30.2%, respectively. Exits to corporates made up a little less than one-third of the quarter's total exit value, which is a drastic difference from exit activity in the broader US PE market, where exits to corporates made up an impressive 61.1% of Q2 exit value. GPs have had less success in exiting smaller portfolio companies to corporates than in exiting them to other sponsors that can roll them into an existing platform company or grow them with a new round of investment. Corporations are likely being more cautious about M&A broadly, while the select few with the appetite for acquisitions and the robust balance sheets to pursue them are doing so at larger check sizes.

The three largest exits to corporates were in the B2B sector. The largest was Tinicum's $540 million exit of Continental Disc Corporation, a provider of industrial pressure-management solutions, to Baker Hughes in June. The sale will support Baker Hughes' portfolio optimization through more durable earnings and cash flow. Also in June, PE firm Mason Wells announced the sale of Structural Concepts to Hoshizaki America for $430 million. Structural Concepts manufactures temperature-controlled food and beverage display cases and has grown with Mason Wells' investments in manufacturing, facility, and automation improvements. In May, WindRose Health Investors sold Workplace Options to TELUS Health for $425 million. The employee wellbeing solutions provider was previously acquired by WindRose Health Investors through an LBO in 2021.[6]

4: "CRC Group Acquires ARC Excess & Surplus," CRC Group, May 1, 2025.
5: "Landscape Workshop Acquired by Ares Management," Business Wire, Landscape Workshop, May 19, 2025.
6: "Mason Wells Announces Sale of Structural Concepts," Mason Wells, August 5, 2025.

Healthcare PE exit activity



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

Technology

Technology exits remained lackluster in Q2, with an estimated 30 exits for an aggregate of $3.9 billion. The sector remains around 200 basis points below its five-year average share of total middle-market exit activity, accounting for 15% of YTD exit activity. The underperformance is partly highlighted by its strong showing in 2024, when it accounted for 19.5% of exit activity. Still, technology remains the second-largest portion of middle-market exits, second only to B2B, showing relative strength against other sectors in both normal and subdued exit environments. While recent market uncertainty appears to have subdued tech exits, we expect activity to continue to move forward as buyers search for assets that can add new capabilities around AI and datacenters, supply chain management, and vertical market software. For example, Astra Capital Management sold datacenter solutions provider DartPoints to NOVA Infrastructure, an infrastructure investment firm, for an estimated $250 million in April. NOVA plans to scale DartPoints through additional investments to meet the growing demand for data infrastructure.[7] The middle market is likely to offer attractive targets for smaller deals that are positioned for further growth in market share and can provide additional technology differentiation.

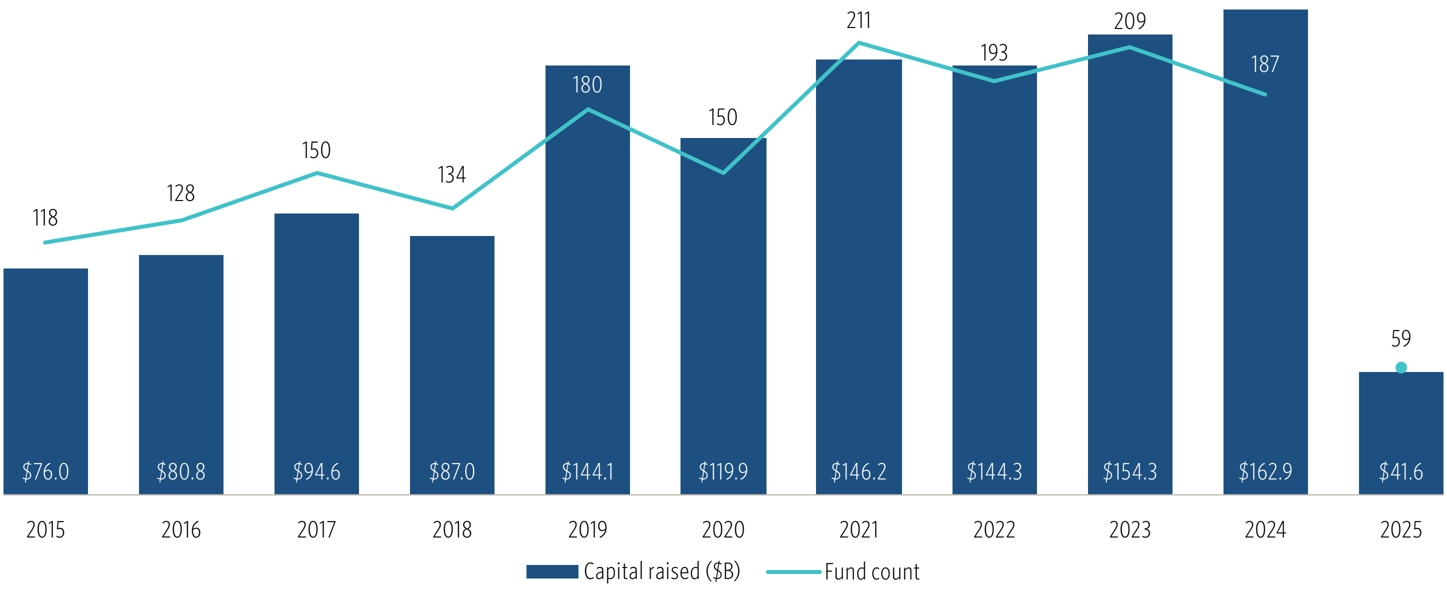
Healthcare

PE exit activity in healthcare did not sustain its momentum, falling to an estimated 17 exits for an aggregate of $1.9 billion in Q2, which is a decrease of more than 50% from last quarter's levels. Healthcare accounts for 14% of total middle-market exit activity YTD, and this figure is expected to continue to smooth out throughout H2 2025, as it remains higher than the five-year average. Healthcare exits, while still finding a steady pace, can benefit from the sector's noncyclical demand and limited exposure to tariff risks compared with more commodity-driven industries. Challenges will come instead from elevated medical costs and regulatory changes such as Medicaid funding cuts and the rollback of federal subsidies under the current US presidential administration. Healthcare exit activity is currently pacing to come close to last year's levels, which marked the end of a three-year decline but still fell short of pre-pandemic averages. Exits in Q2 ranged from companies in healthcare enterprise systems, practice management, and clinics, such as PE-backed ScionHealth's announced sale of Clinton Memorial Hospital to TriHealth.

7: "NOVA Infrastructure Invests in DartPoints to Accelerate Growth and Expand Strategic Infrastructure," PR Newswire, DataPoints, April 30, 2025.

Fundraising and performance

PE middle-market fundraising activity



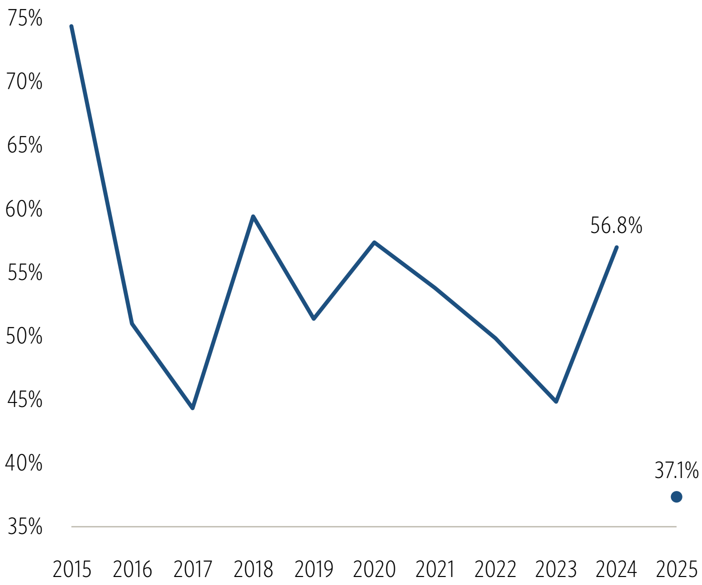
Source: PitchBook • Geography: US • As of June 30, 2025

Overview

Middle-market fundraising—capital raised for funds that raise between $100 million and $5 billion—has seen sluggish activity halfway through 2025, with 59 funds achieving final closes for an aggregate value of $41.6 billion. And while 2024 proved to be a record year in terms of capital raised and was robust in fund count, the fundraising activity in H1 2024 was much healthier, with 67 funds closing on a total of $65 billion even before factoring in late-reporting funds. Moreover, middle-market fundraising heading into 2025 was coming off the asset class's four best years of fundraising ever recorded, meaning that the shifting fundraising environment comes at a time when the asset class has become accustomed to robust inflows.

Like in the broader PE ecosystem, the persistent slowdown in middle-market exit activity has limited most firms' ability to raise capital across timelines similar to those of recent years. This means that many firms are taking longer to reach final closes if they reach final closes at all. Exits are the flywheel that keeps the asset class rolling. With increased exit activity comes increased distributions to LPs, which are then typically recycled into new fund vintages. So, fundraising activity will

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



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

Top PE middle-market fund closings by capital raised in 2025

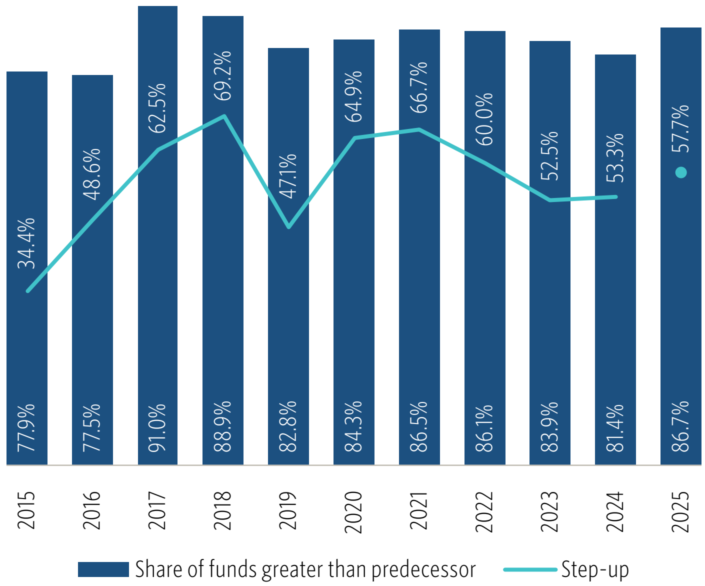
Close date	Manager	Fund	Fund size ($M)
March 1	Haveli Investments	Haveli Investments Software Fund I	$4,500.0
June 23	Morgan Stanley Investment Management	North Haven Capital Partners VIII	$3,200.0
January 9	Vistria Group	Vistria Fund V	$3,000.0
April 3	Trive Capital	Trive Capital Fund V	$2,700.0
March 19	Turn/River Capital	Turn/River Capital VI	$2,500.0
March 10	Pamlico Capital	Pamlico Capital VI	$1,750.0
March 25	Falfurrias Management Partners	Falfurrias Capital Partners VI	$1,350.0
April 30	Arbor Investments	Arbor Investments VI	$1,225.0
March 3	Garnett Station Partners	GSP 5.0 Fund	$1,200.0
June 23	Greenbelt Capital Management	Greenbelt Capital Partners III	$1,000.0

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

likely remain slower until exit activity gains momentum, which is difficult to ascertain given the current market uncertainty.

Moreover, with less capital available to allocate, many LPs are consolidating the number of managers they commit capital to, often siding with managers they have longer-standing relationships with, which tends to be larger megafund managers or a select few in the middle market. This has resulted in additional slowing of middle-market fundraising activity, with middle-market managers that are having fundraising success in the current environment likely owing it to factors such as strong past performance, healthy distributions back to LPs, a differentiated strategy, or a pedigreed background, potentially having spun out of a larger manager. The few managers that have had success are exemplified by the fact that 86.7% of middle-market funds that have closed YTD have done so with a raise greater than that of their predecessor fund, with a median step-up of 57.7%.

Median step-up from previous PE middle-market fund in fund family



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

Recent closings

Nearly matching the first quarter, Q2 saw only five funds that closed on $1 billion or more in committed capital, including two funds over $2 billion. This sum falls well below the quarterly average over the past three years of approximately 12 funds closed on $1 billion or more, once again highlighting the more challenging fundraising environment. In a trend that further exemplifies how the handful of "winners" in the current market are leading activity, the 11 middle-market funds that have closed on over $1 billion YTD have accounted for 56.3% of total capital raised.

The largest fund raised in the quarter belonged to Morgan Stanley Capital Partners, the middle-market PE buyout team within Morgan Stanley Investment Management, which closed its North Haven Capital Partners VIII with total capital commitments of $3.2 billion. The fund held its final close in just 12 months at a 60% step-up from its predecessor, which closed on $2 billion in 2021. Consistent with previous vintages in the fund family, the fund will invest in service business models across the consumer, business, healthcare, and industrials sectors.

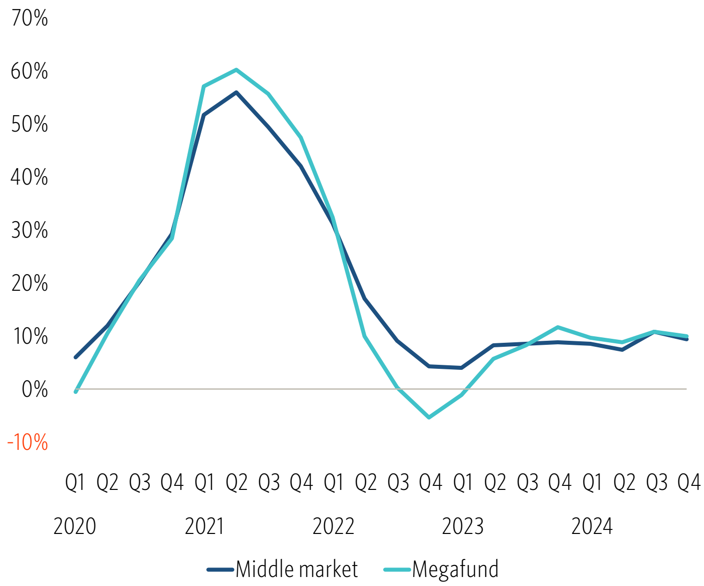
In April, Trive Capital closed its Fund V on $2.7 billion, a sizable step-up from its predecessor, which closed on $2 billion in April 2022. Fund V has already made seven investments to date, focusing on Trive's mandate of middle-market companies that are sector-agnostic but allow Trive to create value through a hands-on operational approach. The Dallas-based buyout firm, founded in 2012, now has $8 billion in AUM.

At the end of April, Arbor Investments held the final close of its sixth fund on $1.2 billion. Arbor Investments was founded in 1999. It has $4 billion in AUM and invests in the food and beverage industry. The fund held its final close in just over 12 months. Still, it held its final close at a value below its predecessor, which closed on $1.5 billion in 2020, once again highlighting the more challenging fundraising environment. Concurrent with the closing of Fund VI, Arbor is recapitalizing Rubix Foods, a culinary and food-science-focused provider of flavor and ingredients to restaurants and food manufacturers. Rubix has been owned by Arbor since 2019. It was part of Fund IV and will sell its ownership interest to Fund VI.

Emerging managers

The middle market is a breeding ground for emerging managers, which we define as managers with three or fewer funds, including first-time managers. Through Q2, emerging managers represented 38.3% of all middle-market capital raised, the highest share for the group since 2014. This uptick was primarily driven by the closes of the largest emerging-manager funds ever raised. The top fund is Haveli Investments' first software buyout fund, which closed on $4.5 billion in March. Haveli Investments was founded by Brian Sheth, a co-founder of Vista Equity Partners, one of the world's largest software-focused PE firms with more than $100 billion in AUM. A similar trend is true on the fund-count side, where emerging managers accounted for more than half

Quarterly rolling one-year PE fund IRR by fund size



Source: PitchBook • Geography: US • As of December 31, 2024

of all middle-market funds that held a final close in the first quarter. First-time managers are seeing similar activity levels to those seen in 2024. YTD, 11 first-time managers held final closes worth $3.5 billion, on pace to match or exceed the 21 first-time managers that held final closes in 2024; however, activity will likely fall below the pace seen in 2021-2023.

The first six months of 2025 saw 32 emerging managers hold final closes. 18 funds closed in the first quarter and another 14 closed in Q2. When accounting for late-reporting funds, Q2 may match the first quarter's activity. Notable emerging managers that closed funds in Q2 include Greenbelt Capital Partners, which closed the largest fund of the quarter. Its Fund III closed on $1 billion and will focus on investing in middle-market companies, driving the transition of the energy and power industries to a more resilient, carbon-competitive, and electrified future. BharCap Partners closed its second fund on $652 million in late May. The fund will focus on the financial services sector. BharCap Partners raised over $1.1 billion of committed equity capital through Fund II and affiliated co-investment vehicles.

Performance

After jumping back into double-digit territory with rolling one-year returns of 10.7% through Q3 2024, middle-market managers saw a decline in Q4, with one-year returns sitting slightly below the 10% benchmark at 9.3%. The decline also saw middle-market managers cede the top spot back to megafund managers, which posted a one-year rolling return of 10%. The crisscrossing of returns from the two sides has been common over the past three years as headwinds and changing market conditions have propelled the two manager classes ahead of each other. Moreover, the recent returns for middle-market managers remain below those of the broader US PE ecosystem, which posted a one-year return of 9.7%.

However, while returns dipped slightly at the end of 2024, fast-forwarding to the present day, markets are getting better clarity around market uncertainties, including tariffs and interest rates. While it may still take some time to fully play out, this increased clarity has the potential to position the middle market for the prospect of once again reaching double-digit returns, as greater clarity should lead to an increase in exit activity and distributions back to LPs, in turn improving future returns for many managers. While returns currently hover around 10%, they have done so in a much tougher environment, showcasing the asset class's resilience and ability to see stabilizing returns even with limited exit activity. There are more tailwinds for middle-market managers today than in years past, which should help returns for PE expand.

Additional research

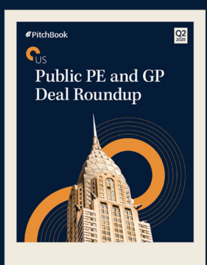
Private markets

Q2 2025 US PE Breakdown

Download the report here

Q2 2025 Global Private Market Fundraising Report

Download the report here



Q2 2025 US Public PE and GP Deal Roundup

Download the report here

Q4 2024 Global Fund Performance Report (with preliminary Q1 2025 data)

Download the report here

Q2 2025 Global M&A Report

Download the report here

Q1 2025 US PE Middle Market Report

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