

Lower Middle Market Monthly – December 2025

[Visit our Website](#)

Year-end 2025 M&A activity in the lower middle market. What's hot and what's not.

Lower middle market M&A is closing the year with cautious momentum: deal counts are off peak levels, but high-quality, cash-flowing businesses in resilient sectors are still commanding strong interest and solid multiples. Strategics and add-on buyers are driving much of the activity, while new platform deals and cyclical or capital-intensive sectors remain comparatively soft.

Market temperature check

- Overall middle-market deal activity slowed in early 2025 but rebounded through Q3, with U.S. middle market volume up modestly quarter-over-quarter and small deals gaining share.
- In the lower middle market, buyers remain selective but aggressive for “A-quality” founder-owned businesses, especially those with recurring revenue and defensible niches.
- Private equity deal counts are still below pre-2022 levels, but sponsors are leaning into the low end of the middle market and add-ons as financing and valuation dynamics are more favorable there.

What's hot

- Tech-enabled and business services: Business-to-business services account for about 40% of lower middle market transaction volume, with particularly strong demand for tech-enabled services and contracted, recurring revenue models.
- AI, software, and data-rich assets: Across M&A and private markets, anything tied to AI adoption and automation is drawing outsized interest and capital, helping drive higher deal values in technology.
- Essential services and infrastructure-like businesses: Cash-flow businesses such as contractor and facilities services (HVAC, roofing, building services) and other recurring service models are in favor as buyers prioritize resilience and predictability.
- Add-ons and roll-ups: Sponsors are prioritizing smaller tuck-ins at lower valuations over new platforms, using roll-up strategies in fragmented niches to create scale and multiple expansion.

What's not (or less) hot

- Cyclical, rate-sensitive sectors: Discretionary consumer, capital-intensive industrials, and heavily tariff-exposed exporters are seeing more valuation pressure and slower processes as buyers underwrite more conservatively.
- Story deals and turnarounds: With plenty of high-quality assets in the queue, buyers have less tolerance for underperforming or complex turnaround situations in the lower middle market.
- Large, highly leveraged platforms: Sponsors are hesitant to stretch leverage or pricing on new platforms while financing markets are still recalibrating, leading to fewer big-ticket buyouts relative to add-ons.

Valuations and structure

- Valuations: Small lower middle market deals (roughly million TEV) are trading in the mid-5x EBITDA range on average, with a size premium pushing multiples into the low- to mid-6x range for million TEV deals.

- Structure: To bridge bid-ask gaps, earn-outs, seller notes, and rollover equity remain common, especially in sectors where near-term growth or margin resilience is uncertain.
- Quality spread: Top-quartile assets with recurring revenue, strong management, and clear growth levers still achieve premium multiples and lighter structure, while average assets face heavier contingencies and slower processes.

Takeaways for year-end positioning

- Sellers: Founder-owners in resilient, recurring-revenue sectors are well-positioned to run a process now, while those in cyclical or discretionary categories may need to demonstrate durable cash flow and de-risked forecasts before marketing.
- Buyers: The best opportunities are in fragmented niches where add-ons can be executed at reasonable multiples, especially in tech-enabled services, essential services, and AI-adjacent workflows.

All parties: With interest rates easing from recent peaks and strategic buyers holding record cash, competition for quality deals is likely to remain intense into early 2026, even if overall headline volume stays below prior cycle highs.

Hot sectors vs. cooling sectors

Segment / Theme	Status at Year-End 2025	Notes
Tech-enabled business services	Hot	Strong demand for recurring revenue, “sticky” B2B relationships.
AI / automation / data-driven	Hot	Over half of recent deal volume in private markets tied to AI themes.
Essential facilities / contractor services	Hot	Buyers seeking cash-flow stability and service contracts.
Healthcare services (non-reimb. heavy)	Warm	Still active where regulatory/reimbursement risk is contained.
Consumer recurring services	Warm	Demand for recurring, non-discretionary consumer services.
Discretionary consumer / retail	Not hot	More rate- and sentiment-sensitive; buyers more cautious.
Capital-intensive industrials	Not hot	Higher capex and tariff exposure weighing on deal appetite.
New PE platforms (vs. add-ons)	Not hot	Platform formation lags as sponsors focus on bolt-ons.
Mega-deals (vs. mid/low market)	Not hot	Global megadeals have slowed; preference has shifted to mid-market and below.

email

Schedule a meeting

Merger Solution, LLC | 4114 Juliana Lake Dr | Auburndale, FL 33823 US

[Unsubscribe](#) | [Update Profile](#) | [Constant Contact Data Notice](#)



Try email & social marketing for free!