

# DEAL insider

## M&A and Strategic Transaction Insights



### Q1 2026 Highlights:

- Middle-Market M&A Activity Stabilizes as Financing Conditions Improve
- Premium Valuations Continue for High-Quality Assets
- Private Equity Pressure to Deploy Capital and Exit Aging Investments Accelerates Market Momentum

### Pursant's Thoughts on the Near Future

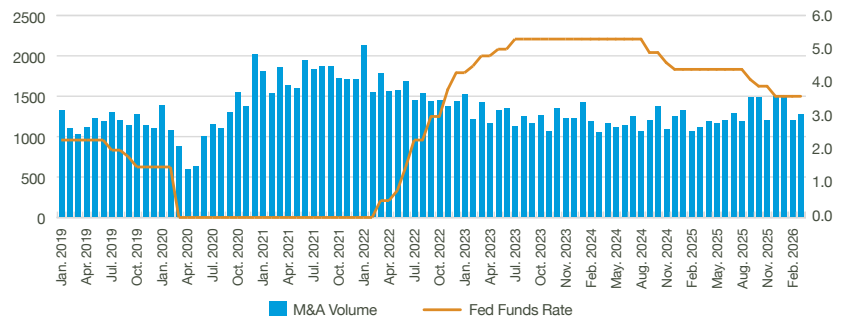
- Deal Activity Expected to Gradually Accelerate Through the balance of 2026
- Valuation Gaps Likely to Persist Between Premium and Average Assets
- Process, Preparation and Execution Will Remain Critical Differentiators

### 2026 Middle Market M&A Healthier, But Not Dramatically More Active

Compared to 2025, the M&A market in 2026 is healthier, but not dramatically more active. Transaction volume remains well below the 2021 peak despite multiple Fed rate cuts and improving financing conditions. Chart 1 shows that while the Fed Funds Rate has fallen from over 5% to approximately 4%, deal activity has only modestly improved. This reinforces what many dealmakers experienced in 2025: lower rates alone were not enough to fully bridge valuation gaps or overcome buyer caution. Buyers remain disciplined, lenders remain selective, and quality continues to matter more than ever. The good news is that activity appears stable and trending upward rather than contracting. The market is functioning, but it is not euphoric. In many respects, 2026 feels more like a return to normal than a return to the extraordinary conditions of 2021.

Chart #1

2019-2026 US M&A VOLUME (# OF DEALS) & FED FUNDS RATE



Source: Factset®

The Pursant Deal Insider is a quarterly publication offering analysis of the marketplace and climate for middle market mergers, acquisitions, and strategic transactions. Our emphasis is on transactions with a total enterprise value of less than \$500M. Our goal is to arm business owners and dealmakers with the insights needed to optimize transaction outcomes.

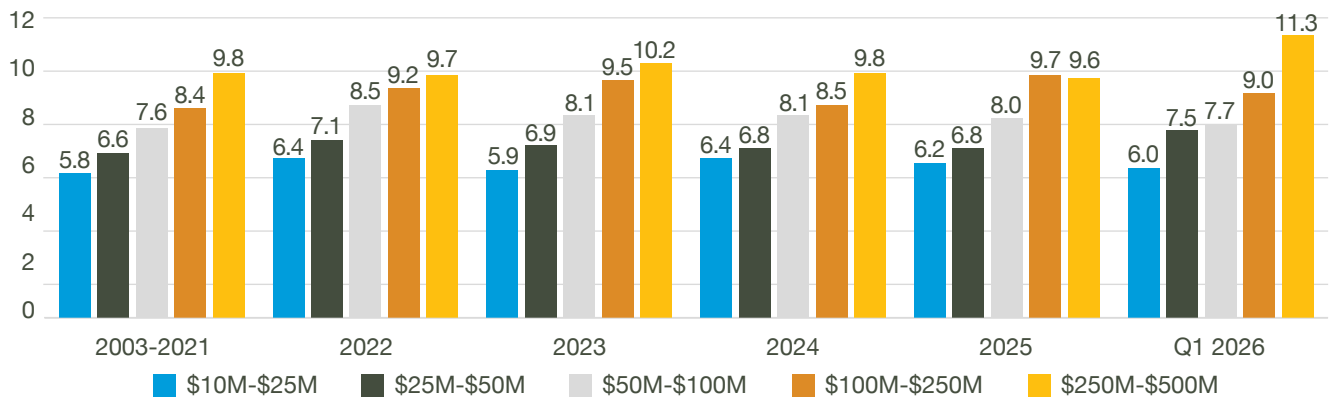
## Valuation Multiples Proving Resilient

Valuation data shows that EBITDA multiples have generally expanded from 2025 to YTD 2026, particularly for businesses generating more than \$10 million of EBITDA, where average multiples have increased from approximately 8.1x to 8.8x. Similarly, larger transaction sizes continue to command premium valuations, with deals between \$250 million and \$500 million reaching an average of 11.3x EBITDA in 2026.

The message is clear: capital remains abundant, but it is being directed toward higher-quality assets. Buyers are willing to pay premium prices for businesses with strong management teams, recurring revenue, defensible market positions, and proven growth profiles, while average or challenged businesses continue to face greater scrutiny.

Chart #2

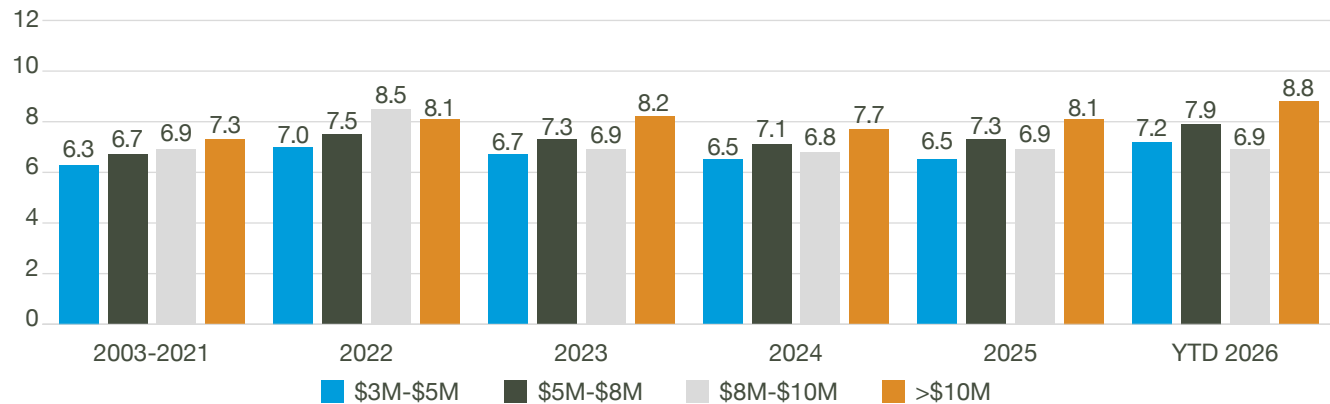
VALUATION MULTIPLES - ALL INDUSTRIES - BY DEAL SIZE



Source: GF Data®

Chart #3

VALUATION MULTIPLES - ALL INDUSTRIES - BY EBITDA SIZE



Source: GF Data®

**EBITDA Defined** – For most middle-market businesses, valuation is typically expressed in the form of a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization)—a measurement of a company’s ability to generate cash flow. EBITDA figures also serve as a barometer of the company’s health and performance. Multiples of EBITDA vary greatly depending on a company’s risk profile, the markets in which it operates and the likelihood of continued returns.

## M&A Lending Shows an Improving Environment

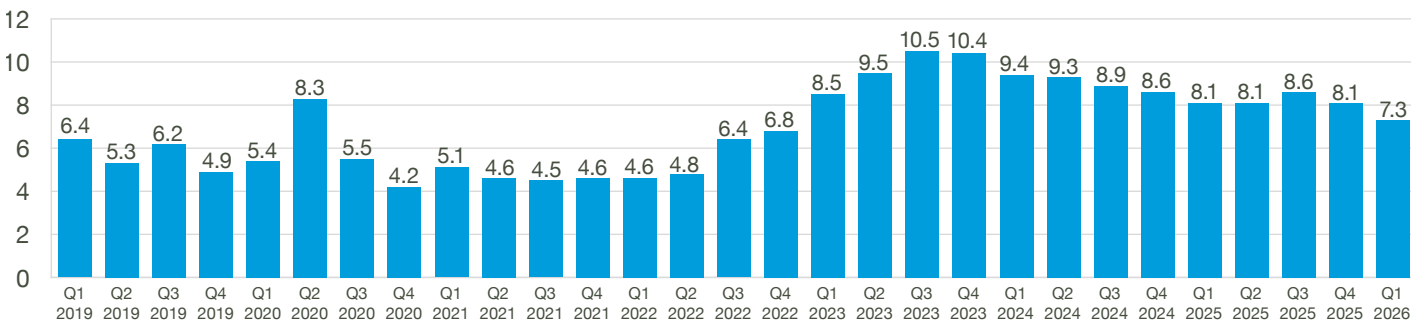
The financing environment for middle-market M&A has improved materially from where it stood 12-18 months ago, even though it remains well above the ultra-low borrowing costs buyers enjoyed during 2020 and 2021. As Chart 4 shows, senior debt pricing peaked at approximately 10.5% in Q3 2023 and has steadily declined to approximately 7.3% in Q1 2026, representing a reduction of more than 300 basis points. While today's rates remain elevated relative to the pre-rate-hike era when senior debt could often be obtained in the 4% to 5% range, the decline has significantly improved transaction economics and debt service coverage. As a result, lenders have become increasingly active and competitive, particularly for businesses with strong cash flow, recurring revenue, and proven management teams. The result is a financing market that is no longer a headwind to M&A activity but has yet to become the tailwind many anticipated when rates first began to decline.

remarkably resilient throughout the cycle. As we see in Chart 5, total debt multiples for middle-market transactions have recovered from roughly 3.5x EBITDA during the uncertainty of 2023-2024 to approximately 3.9x EBITDA in Q1 2026, driven primarily by increased availability of senior debt. Senior leverage has expanded from approximately 2.9x EBITDA in late 2023 to 3.3x EBITDA today, while subordinated debt remains relatively stable around 0.6x EBITDA. This is an important development because buyers are now able to finance a larger portion of acquisitions with debt, reducing the amount of expensive equity required to complete transactions. Combined with declining borrowing costs, this has improved buyer returns and supported valuation multiples despite the higher-rate environment.

At the same time, leverage availability has remained

Chart #4

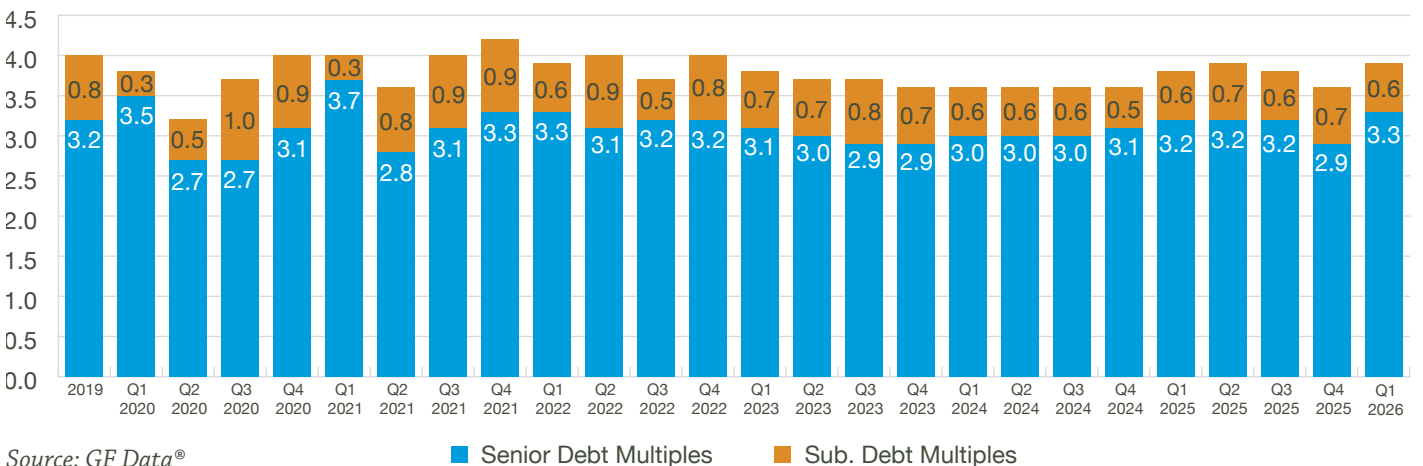
SENIOR DEBT INTEREST RATE \$10M - \$250M DEALS



Source: GF Data®

Chart #5

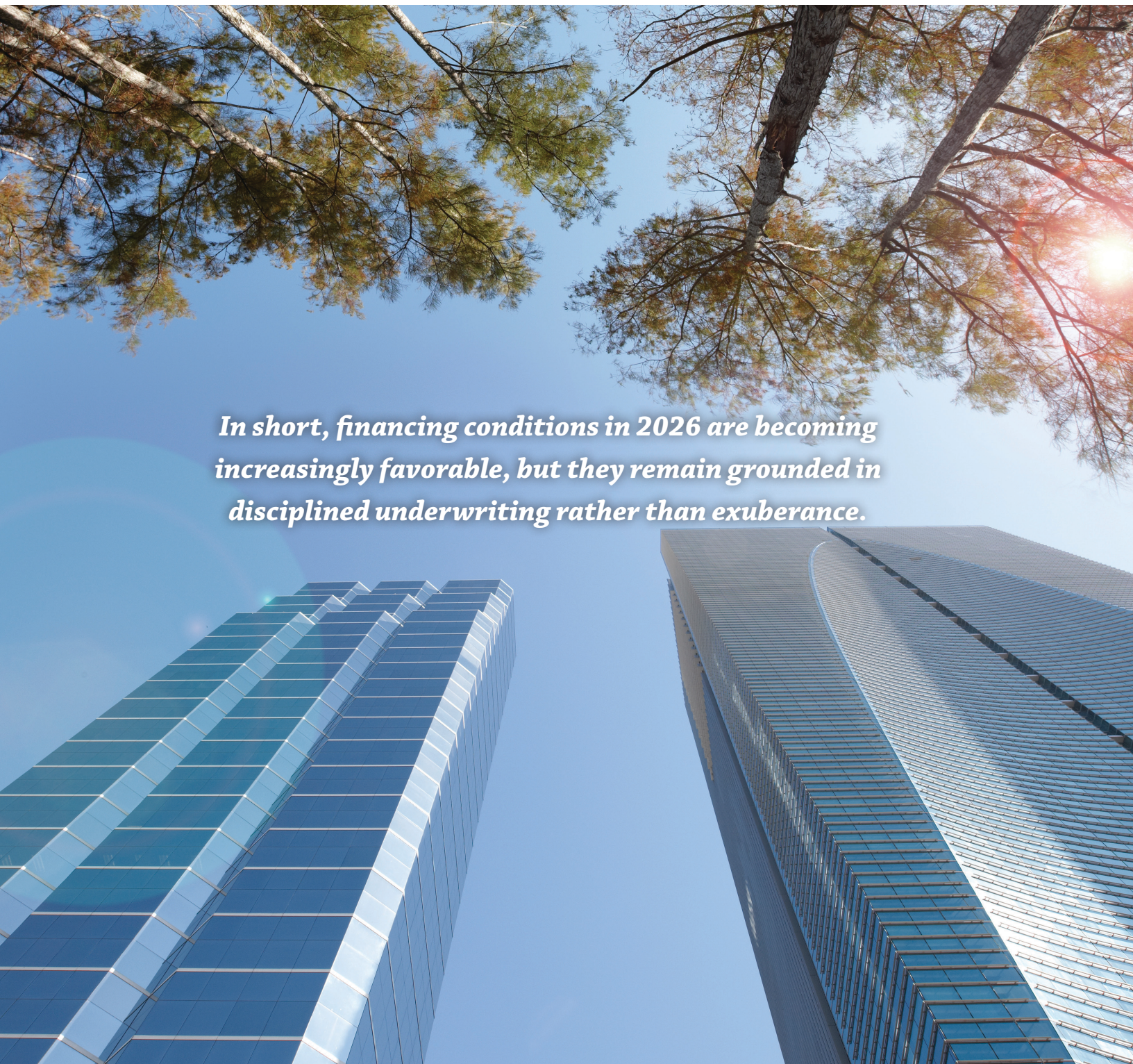
TOTAL DEBT/EBITDA - INCLUDING PLATFORM AND ADD-ON DEALS



Source: GF Data®

■ Senior Debt Multiples    ■ Sub. Debt Multiples

Looking ahead to the balance of 2026, we expect both trends to continue. Assuming inflation remains contained and economic growth avoids a significant slowdown, senior debt pricing could move modestly lower while leverage availability continues to expand incrementally. However, lenders remain disciplined and are unlikely to return to the aggressive structures seen in 2021. The most likely outcome is a financing market characterized by greater availability of capital, slightly lower borrowing costs, and continued preference for high-quality borrowers. For middle-market business owners contemplating a sale, that should translate into a larger universe of qualified buyers, stronger financing certainty, and continued support for valuations, particularly for businesses with predictable cash flow and strong growth prospects. In short, financing conditions in 2026 are becoming increasingly favorable, but they remain grounded in disciplined underwriting rather than exuberance.



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## The US Macroeconomic Picture for Q1 2026

Pursant watches these macroeconomic indicators because the direction and performance of the greater economy give us an indication of whether the M&A business transfer cycle is heading toward a more or less favorable phase. The performance of these four macro-indicators keeps us in a neutral to Buyer-favorable phase of the business transfer cycle, benefiting neither the Buyer nor Seller disproportionality in most cases, but in some cases in which a sector is negatively impacted by certain macroeconomic conditions, such as the cost of capital, the Buyer has the edge.

- **The U.S. economy grew at an annualized rate of approximately 2.1% in Q1 2026**, reflecting a slower but still resilient economic environment. While growth moderated from the stronger post-pandemic expansion years, the economy continued to demonstrate underlying stability despite elevated interest rates, persistent inflationary pressures, and geopolitical uncertainty. Consumer spending remained positive, labor markets stayed relatively healthy, and business investment activity showed signs of improvement entering 2026. The broader takeaway: the economy continues to expand, though at a more measured pace as businesses and consumers adjust to a higher-cost and more disciplined operating environment.\*
- **U.S. inflation remained elevated but continued its gradual moderation during Q1 2026.** As of March 2026, headline inflation (CPI) was approximately 2.8% year-over-year, while core inflation remained near 2.9%. Although inflation has moved meaningfully lower from peak levels experienced in prior years, several categories including shelter, insurance, labor, and energy continue to create pricing pressure across the economy. At the same time, certain goods categories and supply-chain-sensitive sectors have stabilized considerably. In short: inflation is no longer accelerating, but it also has not fully normalized to the Federal Reserve's long-term target. Businesses

and consumers continue to operate in a higher-cost environment, which remains an important consideration in valuation expectations, transaction structuring, and middle-market M&A activity.\*

- **Business confidence improved modestly entering 2026**, though portions of the industrial economy continued to experience softness. The ISM U.S. Manufacturing PMI finished Q1 2026 at approximately 50, reflecting an economy that is stabilizing after an extended period of contraction. While manufacturing activity remains uneven across sectors, improving financing conditions, easing supply-chain pressures, and greater visibility into monetary policy have contributed to a more constructive outlook among many operators and investors. A PMI reading above 50 indicates expansion in the manufacturing economy, while a reading below 50 indicates contraction. The current environment suggests a market transitioning from caution toward cautious optimism.\*
- **The FOMC maintained the federal funds rate at approximately 3.75% – 4.00% at the end of Q1 2026** following multiple rate cuts over the prior six months. The decline in benchmark interest rates has materially improved financing conditions across the M&A and private equity landscape. Lower borrowing costs have increased lender activity, improved debt availability, and enhanced acquisition economics for both strategic and financial buyers. While financing conditions remain more disciplined than the highly aggressive lending environment experienced in 2021, the overall cost of capital environment has become increasingly supportive of middle-market transaction activity. As a result, private equity firms, family offices, and strategic acquirers have become increasingly active entering 2026, particularly for high-quality businesses with strong cash flow, recurring revenue, and scalable operating models.

## IOI vs. LOI – What’s the Difference?

In the world of mergers and acquisitions, the terms “IOI” (Indication of Interest) and “LOI” (Letter of Intent) are frequently used and oftentimes interchangeably. In smaller and/or less competitive deals, oftentimes there is no difference between the IOI and LOI, and only one offer is submitted before a selection to move forward is made. The distinction between IOIs and LOIs tends to be more pronounced in broadly marketed or private equity-backed sale processes, where advisors use staged bidding to manage competitive tension. In these situations, there are meaningful differences between the two, and understanding those differences demonstrates your deal acumen and experience.

To start, both documents serve as important milestones in a transaction process. It is the stage of the process, combined with the level of buyer conviction, diligence, and negotiation, which dictates the use of the IOI or the LOI. Specifically, an IOI is generally an earlier-stage, less detailed preliminary expression of interest, whereas an LOI reflects a more advanced level of diligence, underwriting, and transaction alignment, as well as laying out the key deal terms along with certain legally binding conditions. In both cases, the objective is to determine whether the parties are sufficiently aligned to proceed.

The following provides a more in-depth explanation of each.

### IOIs

Parties submitting an IOI typically have formed an initial investment thesis, but have not performed in-depth diligence or developed a fully underwritten view of the opportunity. Rather, they have reviewed various materials allowing them to become familiar with the business and operations, including the history, ownership structure, ownership’s rationale for pursuing a transaction, financial profile, product/service offerings, customer portfolio (names redacted), key vendor relationships, personnel organizational structure (names redacted), industry information, go-to-market strategy, and growth opportunities.

In addition to reviewing materials, buyers and sellers will also have some level of engagement and interaction, allowing buyers to hear “firsthand” from the seller about the business and the seller’s motivations, while also allowing the seller to better understand the buyer’s intentions and interest. It also serves to help both the buyer and seller preliminarily evaluate cultural alignment, chemistry, and overall fit.

With the benefit of all this information and access to the sellers, buyers are well positioned to provide an IOI, which effectively outlines their framework and vision for a deal.

IOIs serve as a filtering mechanism, allowing parties to determine if they are even “playing in the same sandbox.” IOIs are non-binding and, given the limited information available, are intentionally broad. Typically, they do not require legal support or consultation, but rather provide insight into and address key deal and economic considerations such as, but not limited to: (i) valuation — most often expressed as a range given the limited information available up to that point, (ii) deal structure — cash at close vs. rollover investment expectations vs. deferred purchase price mechanisms, (iii) financing sources, (iv) timeline, and (v) diligence process.

The overarching objective for submitting an IOI is to get invited to the “next round,” where further evaluation will be permitted and facilitated by additional information and access to the business, oftentimes including an in-person meeting, facility tour, and even an outing such as a meal to allow for more casual conversation.

## LOIs

At the LOI stage, the seller is no longer selecting participants — they are focused on selecting a partner with whom to transact. The overarching objective of an LOI is to establish sufficient alignment on the principal terms of a transaction such that the parties can proceed into exclusive confirmatory diligence and definitive documentation with a shared understanding of the path toward a successful closing. Once a buyer's LOI is selected, buyers are willing to commit the significant internal and external resources necessary to execute their diligence, negotiate the legal documents, and march the deal toward closing.

Parties submitting an LOI have typically advanced beyond an initial investment thesis and completed a more substantive evaluation of the opportunity. This is facilitated by the additional information and access mentioned in the final paragraph of the IOI section. In connection with submitting an LOI, buyers have developed a more fully underwritten view of the business and transaction.

Unlike an IOI, which is intentionally broad and primarily serves as a screening tool, an LOI reflects a significantly higher level of conviction from the buyer and greater detail regarding the deal. While LOIs are still largely non-binding, they typically articulate the principal economic and structural terms of the proposed transaction, including: (i) valuation — often expressed as a specific purchase price rather than a range, (ii) purchase price payment structure — including cash at close, rollover equity, earnouts, or other deferred consideration mechanisms, (iii) legal deal structure, which is either the purchase of the company's assets or stock, (iv) financing sources, (v) proposed diligence requirements and confirmatory workstreams, (vi) management and employee considerations, (vii) exclusivity expectations, and (viii) an anticipated timeline to signing and closing.

Despite being largely non-binding, LOIs also include several binding provisions, most notably related to exclusivity, confidentiality, and certain expense provisions. Given these binding provisions, LOIs are legal documents and, therefore, legal counsel becomes involved.

**Ultimately, understanding the distinction between an IOI and an LOI is about more than terminology — it reflects an understanding of how sophisticated transaction processes evolve. As buyers progress from initial interest to fully underwritten conviction, the level of diligence, alignment, and commitment increases significantly. Knowing where each document fits within the process not only improves communication and expectations among the parties, but also helps position transactions for a more efficient and successful outcome.**



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## Do You Need an M&A Advisor When You Exit?

For many business owners, the sale or acquisition of a company is one of the most important financial events of their lives. Yet despite the significance of the transaction, many owners attempt to navigate the process without experienced M&A representation. While avoiding advisory fees may appear attractive on the surface, the reality is that experienced M&A advisors often create substantially more value than the cost of their engagement through improved valuation outcomes, stronger deal structures, broader buyer access, and reduced transaction risk.

The following are several key benefits of having an experienced M&A advisor involved in a transaction process:

### **Access to a Larger and More Qualified Buyer Universe**

Most business owners only know a small fraction of the potential buyers that may have interest in their company. Experienced M&A advisors maintain relationships with:

- strategic buyers
- private equity firms
- family offices
- independent sponsors
- lenders
- industry executives

This broader network creates competitive tension and increases the likelihood of finding the best strategic and financial fit for a transaction.

According to GF Data and PitchBook, broadly marketed sale processes with multiple bidders often result in stronger valuation outcomes and more favorable deal structures compared to limited or proprietary negotiations.

### **Increased Valuation Through Competitive Tension**

One of the primary roles of an M&A advisor is creating and managing competitive tension among buyers. Buyers rarely submit their best offer initially. A professionally managed process encourages buyers to sharpen both valuation and terms in order to remain competitive.

Research published by the International Business Brokers Association (IBBA) suggests professionally represented businesses often sell at materially higher valuation multiples than owner-led transactions, particularly in lower-middle-market deals.

### **Improved Deal Structure and Risk Allocation**

The highest purchase price does not always equal the best deal. Experienced advisors help evaluate:

- cash at close
- earnouts
- rollover equity
- escrows
- seller financing
- working capital adjustments
- indemnification provisions

Without experienced guidance, sellers often focus too



*Advisors provide objectivity during negotiations and help owners avoid emotionally driven decisions that can derail value or kill transactions altogether.*

heavily on headline valuation while overlooking structural provisions that materially impact actual proceeds and post-closing risk.

### **Better Preparation Leads to Better Outcomes**

Sophisticated buyers conduct extensive financial, legal, operational, and commercial diligence. Businesses that are poorly prepared often experience:

- valuation reductions
- prolonged diligence
- buyer retrades
- increased legal costs
- failed transactions

Experienced advisors help prepare:

- financial materials
- quality of earnings support
- management presentations
- data rooms
- buyer messaging
- transaction positioning

This preparation often increases buyer confidence and transaction certainty.

### **Allowing Management to Continue Running the Business**

Transactions are highly time-consuming and distracting. Without advisor support, owners are often forced to simultaneously:

- manage buyer outreach
- respond to diligence requests
- negotiate terms
- coordinate advisors
- and continue operating the business

This creates operational distraction at precisely the wrong time. M&A advisors help manage the transaction process, allowing management teams to remain focused on business performance during a critical period.

### **Increased Probability of Closing**

Statistically, many transactions never close due to:

- poor preparation
- valuation gaps
- financing issues
- inadequate diligence
- emotional decision-making
- or failed negotiations

Experienced advisors help navigate these issues while maintaining momentum and alignment between the parties. According to Bain & Company and Deloitte M&A studies, advisor-led transactions generally demonstrate higher completion rates and more efficient timelines than non-advised deals.

### **Emotional Objectivity During a High-Stakes Process**

For many owners, a transaction is deeply personal. Their business often represents decades of sacrifice, identity, and emotional investment. Advisors provide objectivity during negotiations and help owners avoid emotionally driven decisions that can derail value or kill transactions altogether.

Ultimately, a successful M&A transaction involves far more than simply “finding a buyer.” It requires positioning, preparation, negotiation, process management, financial analysis, and strategic judgment. Experienced M&A advisors help business owners maximize value, reduce risk, improve transaction certainty, and navigate one of the most important financial and personal decisions of their lives.

***The question is not whether an advisor guarantees a successful outcome. The question is whether business owners want to navigate one of the most important financial events of their lives with a professional who has completed dozens or hundreds of transactions before. Most owners sell one company. Experienced M&A advisors sell businesses for a living.***

## Do You Need an M&A Advisor When You Are a Buyer?

Acquisitions can be one of the fastest and most effective ways for a company to accelerate growth, enter new markets, acquire talent, expand capabilities, diversify customers, or create scale. Yet despite the strategic importance of acquisitions, many companies underestimate the complexity, time commitment, and risk associated with identifying, evaluating, negotiating, and successfully closing transactions.

Whether pursuing a single acquisition or executing a broader roll-up strategy, experienced buy-side M&A advisors can materially improve both the efficiency and success rate of acquisition initiatives. While many buyers initially focus on the cost of retaining an advisor, sophisticated acquirers often recognize that the right advisor can create significantly more value than the cost of engagement through improved sourcing, better process management, stronger negotiation outcomes, and reduced execution risk.

The following are several important benefits of having a buy-side M&A advisor involved in an acquisition initiative:

### **Expanded Access to Proprietary Opportunities**

Many of the best acquisition opportunities never formally come to market. Experienced buy-side advisors maintain extensive industry relationships and proactively approach potential targets on behalf of clients, often creating opportunities before sellers actively begin a sale process.

This proactive sourcing allows buyers to:

- access off-market opportunities
- reduce competitive bidding situations
- improve valuation dynamics
- and identify targets that may not otherwise be visible

According to PitchBook and Bain & Company M&A research, proprietary and limited-process transactions often provide buyers with improved transaction economics and greater flexibility compared to highly competitive auction environments.

### **More Efficient and Focused Target Identification**

Many acquisition initiatives fail because buyers pursue too many targets without a disciplined strategy. Experienced advisors help buyers clearly define:

- acquisition criteria
- industry focus
- size parameters
- geography
- customer profiles
- strategic objectives
- and financial characteristics

This targeted approach improves efficiency and increases the likelihood of identifying businesses that align with the buyer's long-term strategic objectives.

### **Increased Credibility with Sellers**

Professional representation can significantly improve a buyer's credibility in the marketplace. Sellers are often more responsive to inquiries originating from experienced M&A advisors because advisors:

- understand transaction processes
- communicate professionally
- protect confidentiality
- and demonstrate seriousness of intent

This is particularly important when approaching founder-owned businesses, where trust and professionalism heavily influence seller receptiveness.

### **Better Valuation Discipline and Deal Structuring**

Acquisitions involve far more than simply agreeing on a purchase price. Experienced buy-side advisors help buyers evaluate:

- valuation benchmarks
- normalized EBITDA
- working capital requirements
- earnouts
- rollover equity
- seller financing
- escrows
- and transaction risk allocation

Without experienced guidance, buyers can overpay, underestimate integration risk, or agree to unfavorable

terms that impair future returns.

### **Improved Transaction Management and Execution**

Acquisition processes are time-intensive and involve coordination among:

- management teams
- lenders
- accountants
- attorneys
- quality of earnings providers
- and other third-party advisors

Buy-side M&A advisors help manage:

- timelines
- communications
- diligence workflows
- negotiation processes
- and transaction momentum

This allows buyers and management teams to remain focused on operating their business while the transaction process advances efficiently.

### **Reduced Risk Through Experienced Diligence Coordination**

Many acquisitions fail to deliver expected returns due to issues discovered too late in the process or after closing. Experienced advisors help buyers identify and coordinate diligence around:

- customer concentration
- margin sustainability
- employee risks
- working capital trends
- operational weaknesses
- legal exposure
- and integration concerns

While no advisor can eliminate transaction risk entirely, experienced guidance can significantly improve

decision-making and reduce avoidable mistakes.

### **Increased Probability of Successful Acquisitions**

Studies by Bain & Company and McKinsey consistently show that acquisitions are difficult to execute successfully, with many failing to achieve anticipated strategic or financial objectives. Experienced buy-side advisors help improve outcomes through disciplined sourcing, structured evaluation, experienced negotiation, and process management.

Perhaps most importantly, experienced advisors help buyers avoid pursuing the wrong opportunities altogether.

Ultimately, successful acquisitions require far more than simply finding a company to buy. They require strategy, discipline, financial analysis, market intelligence, negotiation expertise, diligence coordination, and execution experience. Whether pursuing a transformative acquisition or a long-term acquisition strategy, experienced buy-side M&A advisors help companies improve efficiency, reduce risk, and increase the likelihood of achieving successful transaction outcomes.

## Pursant's Expectations for the Near Future

**There is growing pressure on private equity firms to transact in 2026.** Years of elevated interest rates and difficult exit markets have created a substantial backlog of aging portfolio companies. Many sponsors are now holding investments well beyond their original timelines, while simultaneously sitting on enormous amounts of undeployed capital. Industry estimates place global private equity dry powder between \$2 trillion and \$4 trillion, creating significant pressure to both exit existing investments and deploy capital into new opportunities. This dynamic is becoming a powerful catalyst for middle-market deal activity and should continue to support valuations for attractive businesses.

**We expect deal volume to improve modestly while valuations remain relatively stable.** The most likely scenario is not a dramatic surge in transaction activity but rather a broader recovery characterized by increased participation from private equity sponsors, family offices, and strategic buyers. High-quality companies should continue to attract multiple bidders and premium valuations, while businesses with customer concentration, margin pressure, operational challenges, or inconsistent growth may continue to experience valuation pressure.

The bifurcation that emerged in 2024 and 2025 is likely to remain a defining characteristic of the market. Buyers are not paying for potential; they are paying for demonstrated resilience and predictable cash flow.

**Our outlook for the remainder of 2026 is cautiously optimistic.** We expect transaction volume to finish higher than 2025, valuations to remain near current levels, and competitive tension to increase around premium assets. The biggest surprise for many business owners may be that lower interest rates do not automatically translate into higher valuations. Instead, valuation premiums will continue to accrue to companies that are well-prepared, professionally managed, and positioned to scale. In that environment, preparation, quality of earnings, management depth, and strategic positioning will matter more than macroeconomic headlines. For sellers, the market is becoming increasingly receptive. For buyers, discipline remains essential. And for advisors, the lesson remains unchanged: process quality and preparation continue to be the most reliable drivers of successful outcomes.

Pursant is a middle market advisory firm specializing in M&A, private capital market financing, transaction advisory, financial leadership support and business value enhancement consulting. Our powerful, integrative, and customized suite of services deliver the insight and guidance parties seek to:

- Confidently navigate strategic transactions and complex financial matters
- Enhance enterprise value
- Optimize leadership performance

We use a deep immersion process, our expansive networks and experience as owner/operators, dealmakers and financial professionals to achieve optimal outcomes throughout the lifecycle of a company.

**To learn more about how Pursant can help you, email [info@pursant.com](mailto:info@pursant.com) or visit [www.Pursant.com](http://www.Pursant.com).**

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