Lower Middle Market M&A

Market Update Q1 2026

Insights on deal activity, valuations, financing, and buyer behavior.

CORNERSTONE® BUSINESS SERVICES
2001 – 2026

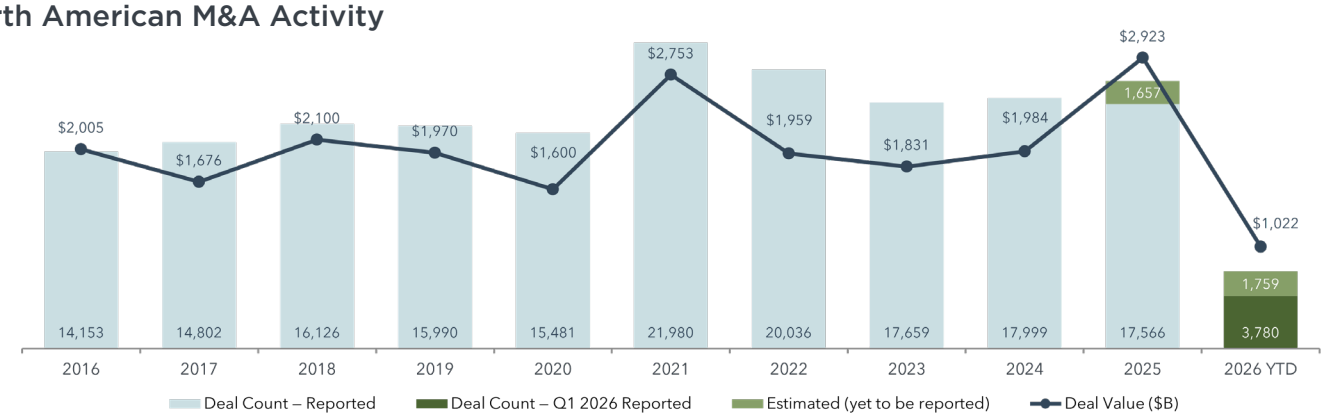
COMPANY SALES | REAL MARKET ANALYSIS | ACQUISITION SEARCHES

Dealmaking Recovery

North American M&A opened 2026 with record activity. Deal value reached $1.022 trillion across an estimated 5,539 transactions, up 22.8% quarter over quarter and 60.2% year over year. One $250 billion transaction lifted the headline number, but activity remained strong even excluding that deal.

The lower middle market followed the same pattern: active, but selective. Buyers moved quickly on quality companies with durable cash flow, clean financials, and a clear growth story. Companies with uneven earnings or weak reporting are seeing longer diligence and more structure. The market is open, but buyers are still disciplined.

North American M&A Activity



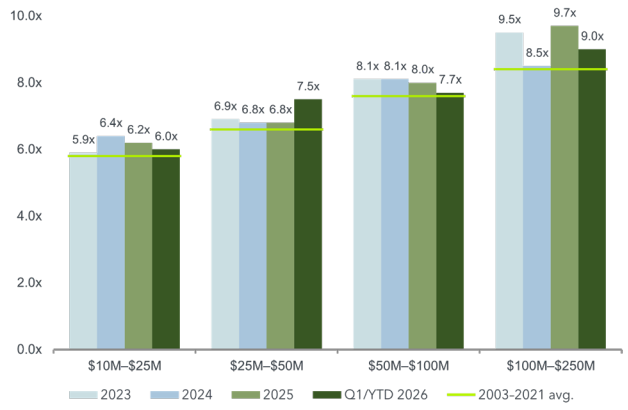
Source: PitchBook • Geography: North America • As of March 31, 2026

TEV/EBITDA Multiples

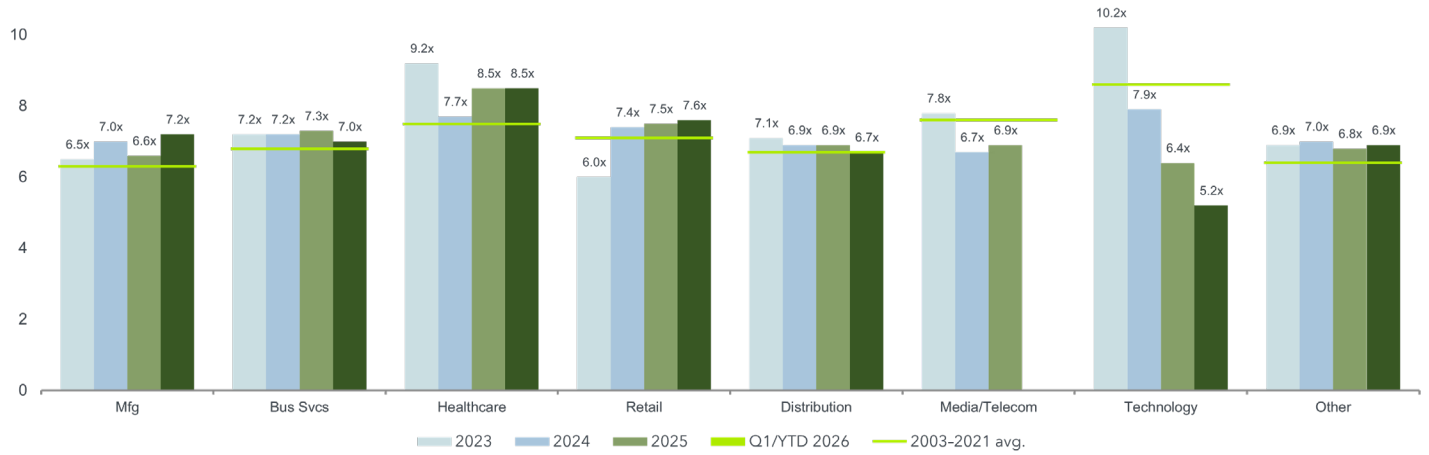
Lower middle market valuations improved in Q1. GF Data contributors reported 80 completed transactions at an average 7.3x trailing 12-month adjusted EBITDA, up from 6.9x in Q4 2025 and above the full-year 2025 average.

Size continued to matter. Deals in the $25M–$50M range rose to 7.5x, while the $100M–$250M range averaged 9.0x. By industry, healthcare held its lead at 8.5x and manufacturing rebounded to 7.2x. Technology fell to 5.2x as buyers reassessed disruption risk. The takeaway: quality still gets rewarded, but buyers are differentiating more aggressively by scale, sector, and earnings durability.

TEV/EBITDA by total enterprise value ($M)



TEV/EBITDA by Industry (TEV 10M-250M)



Source: GF Data® Q1 2026 M&A Report

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Private Equity Activity

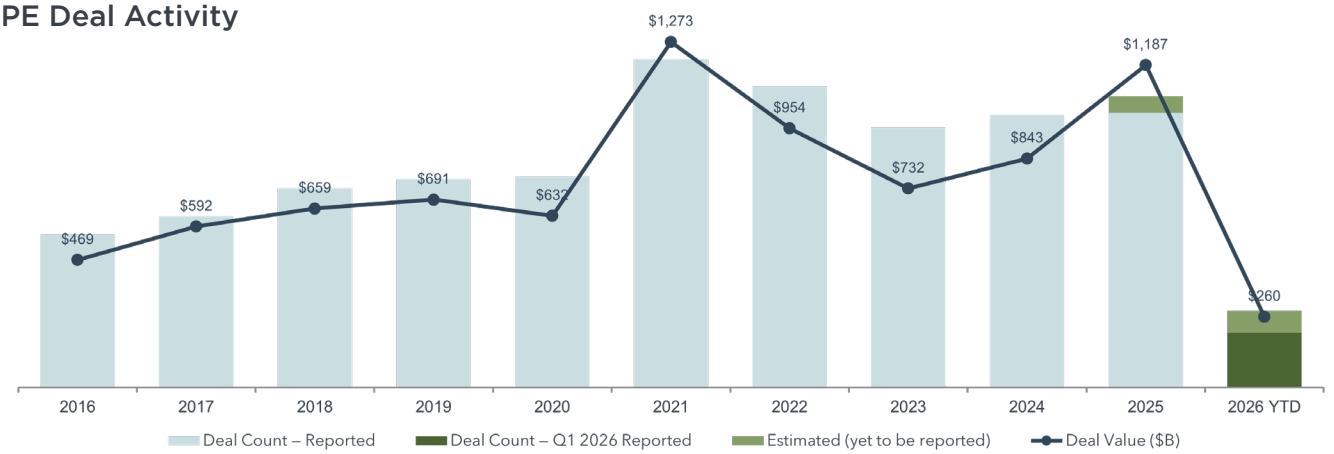
Private equity started 2026 with more transactions but less capital deployed. US PE closed Q1 with 2,415 announced and estimated transactions, up 4.8% quarter over quarter and 6.2% year over year. Deal value declined to $260.2 billion, down 18.3% quarter over quarter.

Sponsors shifted down-market, spreading capital across more targeted opportunities rather than concentrating it in larger transactions. Capital is available, but conviction matters. Sponsors are prioritizing businesses where they can clearly underwrite value creation, downside protection, and strategic fit.

AI is also shaping diligence. Buyers are asking how companies use AI to improve margin, scalability, and defensibility, but for now fundamentals still carry the deal: **67% of advisors reported no material AI impact on valuations.**

Text Sources: PitchBook Q1 2026 US PE Breakdown; GF Data® Q1 2026 M&A Report; M&A Source and IBBA Market Pulse Q1 2026.

US PE Deal Activity



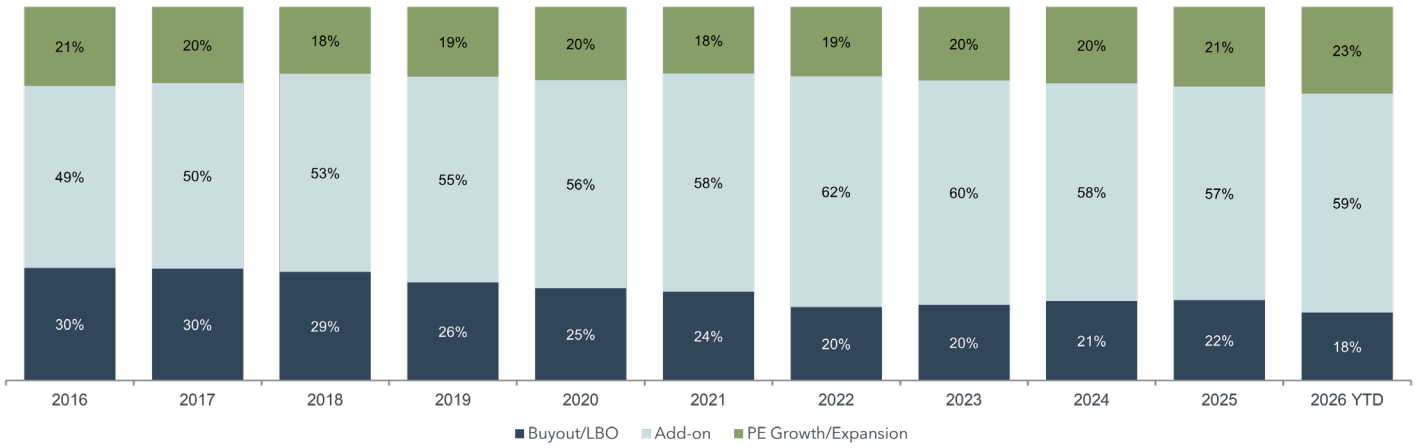
Source: PitchBook • Geography: US • As of March 31, 2026

Private Add-on Acquisitions

Add-ons remained the dominant PE strategy in Q1. PitchBook tracked 1,422 add-on transactions versus 442 non-add-on buyouts, making add-ons 76.3% of all PE buyouts. Across total PE deal count, add-ons represented 58.6%, while buyouts/LBOs accounted for 18.2% and growth equity 23.2%.

For owners, this creates opportunity when a company fits a platform's strategy. Sponsors are seeking acquisitions that expand geography, add customers, deepen services, or improve margin. Pricing is selective, though. GF Data shows platform pricing rose to 7.6x EBITDA, while add-ons declined to 6.5x.

Share of PE Deal Count by Type



Source: PitchBook • Geography: US • As of March 31, 2026

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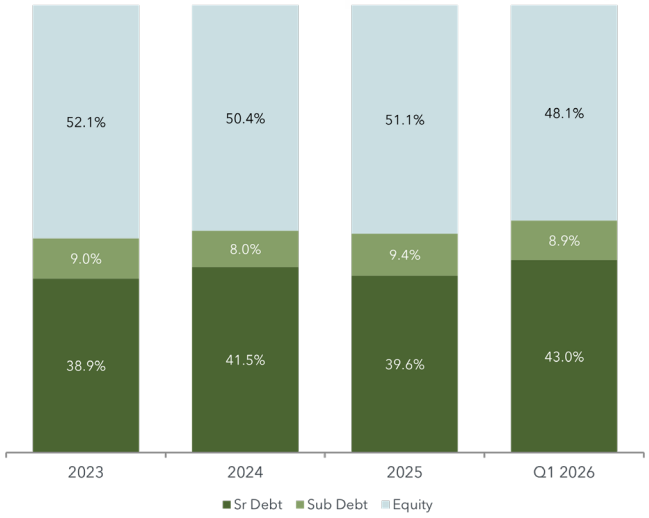
Debt Market

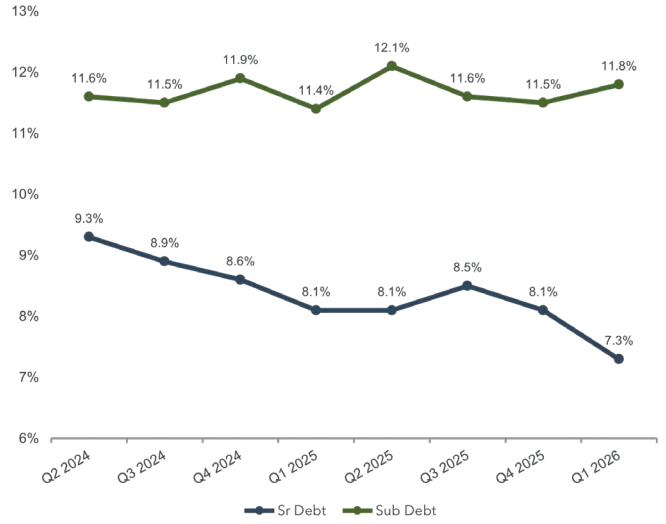
Financing improved in Q1 after a cautious 2025. Average senior debt pricing fell to 7.3%, down from 8.1% in Q4 2025 and the lowest reading since 2022. Subordinated debt pricing moved to 11.8% on a limited sample.

Lower borrowing costs helped debt move back into the capital stack. Senior debt contribution rose to 43.0%, the highest level since 2021, while equity contribution declined to 48.1% from 51.1% in 2025. Lenders are re-entering the market for quality credits, but discipline remains. Strong cash flow and clean reporting are still required to earn favorable structures.

Equity and Debt Contributions
(TEV $10M-$250M)



Debt Pricing Splits by Period
(TEV $10M-$250M)



Source: GF Data® Q1 2026 Leverage Report

Buyer Profiles in the Lower Middle Market

The buyer pool broadened in Q1 2026. In the $5M–$50M segment, private equity buyers represented 32% of completed transactions, down from 59% in Q1 2025, while strategic buyers accounted for 21%. This does not mean PE disappeared; it shows sponsors were more selective and other buyer types played a larger role.

Horizontal add-ons remained the top buyer motivation at 42%, and 68% of buyers were located more than 100 miles from the seller. For owners, the right buyer may not be local or obvious. A strong process should reach strategic acquirers, PE platforms, family offices, independent sponsors, and qualified operators.

PE vs Strategic Buyers (TEV 5M-50M)

Source: M&A Source and IBBA Market Pulse Q1 2026

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About Us

Cornerstone Business Services is an investment bank that has served the lower middle market since 2001. We're based in the Midwest but work throughout North America. We create value through acquisition searches, company sales, and valuations, with a focus on individual and family owned businesses.

Cornerstone uses a team approach on each transaction along with our proprietary Assurance 360™ process which typically generates multiple offers, a high likelihood to close and maximizes value. We work well with first time sellers who value an advisor's role and want to ensure the largest financial transaction of their life is done right. If you're considering a sale in the next few years, now is the time to understand your current market value. Contact us for a confidential Real Market Analysis.

As a founding member of the Cornerstone International Alliance, we are able to leverage a global network of M&A advisors focused exclusively on dealmaking in the lower middle market.

Contact us for more information on Cornerstone and our investment banking services.

What We Deliver

Multiple qualified offers create competitive tension that drives premiums above market benchmarks and higher certainty to close.*

	Confidentiality Agreements Average number signed per opportunity	**Indications of Interest (IOIs)** Average number received per opportunity	**Premium** Average price increase above benchmark	**Closing Ratio** Successfully closed LMM opportunities
2025	**56**	**8**	**24%**	**80%**
2024	**45**	**10**	**26%**	**88%**
2023	**40**	**4**	**10%**	**80%**

* Based on Cornerstone's core sell-side M&A transactions in the lower middle market ($5M–$250M revenue).

Contact Us

Scott Bushkie
Managing Partner, Founder
sbushkie@cornerstone-business.com

Jason Salisbury
Managing Director
jsalisbury@cornerstone-business.com

Cameron Karlen
Managing Director - Valuations
ckarlen@cornerstone-business.com

Megan Turkow
Executive Assistant
mturkow@cornerstone-business.com

Brian Cose
Sr. Business Development Manager
bcose@cornerstone-business.com

Dan Hansher
Associate & Marketing Manager
dhansher@cornerstone-business.com

CORNERSTONE BUSINESS SERVICES
2001 - 2026

200 S. WASHINGTON ST I SUITE 401 I GREEN BAY, WI 54301

P: 920.436.9890 I E: info@cornerstone-business.com I WWW.CORNERSTONE-BUSINESS.COM

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Recent Transactions

Ward WASTE SOLUTIONS

has been acquired by
Republic Services, Inc

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

Luisier Drilling, Incorporated 1-800-662-0940

has been acquired by
Drill Baby Drill, LLC

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

ac energy systems, inc.

has been acquired by
Castle Capital

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

Mega Rentals, Inc. TRAFFIC SAFETY

has been acquired by
Road Safety Services, Inc.

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

FOXLAND INCORPORATED

has been acquired by
Schneider Resources Holding

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

Yo Gusto®

has been acquired by
Marquez Brothers International

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

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920.436.9890
info@cornerstone-business.com
www.cornerstone-business.com