

## Lower Middle Market M&A Outlook 2026: Predictions for Private Equity and Independent Sponsors



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2026 Lower Middle Market (LMM) M&A Predictions for Private Equity and Independent Sponsors:

- **ADD ON ACQUISITIONS:** Will continue to represent the majority of deal-making (continued key will be valuations and fit).
- **CREDIT CONDITIONS:** Slowly improving, but underwriting stays tight. In certain scenarios (i.e., small LMM deals), some clients will close with all equity and add leverage when the platform has some scale/systems to support it.
- **VALUATIONS:** As with any M&A, pricing discipline will remain crucial. LMM is still somewhat inefficient and offers opportunities for attractive purchase prices and further multiple arbitrages.
- **CREATIVE DEAL STRUCTURES:** Expect continued significant use of deferred consideration in 2026 to win and

close deals. We expect to see many deals with at least 2 elements (and sometimes all 3 elements) -> rollover equity, seller financing, and earn-outs. Also, the enhanced capital gains tax benefits under "QSBS 2.0" will be a key component of many deals.

- **COMPETITION:** To minimize competition, many of our clients will continue to focus on proprietary / semi-proprietary deals, which can offer better valuations and often a more thoughtful (although lengthier) process to close. (See attached CLA accounting firm article for their commentary.)

John Koepfel's commentary on "[Lower Middle Market M&A: 5 Predictions for Private Equity Buyers in 2026](#)" (December 22, 2025) for *CliftonLarsonAllen LLP*.

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