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# MID-MARKET OUTLOOK

# THE BIG PICTURE

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## THE MID-MARKET BY THE NUMBERS

**5 → 10-12%**

**Annual EBITDA growth** now needed to support target returns [1]

**~7 yrs**

**Average global holding period,** a historic high [2]

**<15%**

**of distributions to LPs** as a share of NAV for four straight years [3]

**$3.8T**

**Unrealized value held** across ~32,000 unsold portfolio companies [4]

## 4 FOUR FORCES RESHAPING PRIVATE EQUITY:

### THE RECOVERY IS REAL, BUT NARROW

Capital is moving where conviction is highest, with the lower mid-market proving more resilient than larger upmarket deals.

### LIQUIDITY IS RESHAPING WHERE CAPITAL GOES

Slower capital recycling is raising the bar for deployment, while broader exit paths give smaller businesses a liquidity advantage.

### THE RETURN FORMULA HAS BEEN REWRITTEN

With less return coming from leverage and multiples, more has to be created inside the business.

### OWNERSHIP IS THE KEY DIFFERENTIATOR

The advantage is knowing how to make a great business better, with the right operational expertise, focused value creation, and smart AI adoption.

1: Bain & Company
2: McKinsey
3: Bain & Company
4: Bain & Company

# State of the Market

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**Looking forward to 2027 and beyond, private equity is on firmer footing than many expected at the start of this year.**

**Financing markets have reopened; lenders have cautiously returned, transaction activity has strengthened, and sponsors continue to sit on significant undeployed capital.**

Yet healthier doesn't necessarily mean broader. Activity has returned, but by no means evenly. Buyers remain highly selective about where they invest, what they are willing to pay, and, perhaps most importantly, how they believe value can be created after acquisition.

For much of the last decade, low rates and rising multiples acted as cushions. Great businesses still won, but easy markets softened the cost of getting things wrong. Take the cushion away and two things become easier to see: the quality of the business, and the quality of its owner.

That shift is also changing *where* many private equity firms are looking for returns.

## THE QUALITY OF THE BUSINESS ITSELF, AND THE OWNER BEHIND IT, HAS BECOME EASIER TO DISTINGUISH

### IN THIS REPORT

This report examines the themes shaping today's private equity landscape: why capital is recycling more slowly, how underwriting standards are evolving, where AI is creating genuine competitive advantage, and **why the lower mid-market is emerging as one of the most compelling areas for value creation.**

**As financial engineering contributes less to investment outcomes, market selection matters more, and the lower mid-market offers a broader universe of businesses where ownership can materially influence value creation.**

The opportunity is rarely about finding a perfect business, but rather finding one with the potential to become significantly better under the right ownership.

# Liquidity Is Changing Behaviour



**It's easy to look at the amount of capital still sitting on the sidelines and wonder why the market hasn't bounced back more quickly. The answer isn't that the industry has stopped raising money. It's that it hasn't returned enough of it.**

Distributions to LPs as a share of NAV have remained below 15% for four consecutive years, the longest stretch on record. Firms also continue to hold roughly 32,000 unrealized portfolio companies representing an estimated US$3.8 trillion in value, while average buyout holding periods have stretched to around seven years.[5]

Those figures tell a much broader story than delayed exits. They explain why investment committees have become more selective, and why conviction now matters more than ever. As capital takes longer to return to investors, every new investment carries a higher opportunity cost. The result is a higher bar for deploying it.

### KEY TAKEAWAY

The market has been stripped of many of the easy sources of return. Paying full multiples going in, with no cheap leverage to carry the deal, puts far more pressure on driving real growth inside the business. That is the discipline this market now demands of any GP.

**We think the backlog is less binding than it looks.** Liquidity has dried up most where exits hang on a narrow set of buyers. A lower mid-market company usually has a broader buyer universe, from strategic acquirers and large sponsors moving downmarket to family offices playing a more active role in direct investing. Breadth of exit is its own kind of liquidity, and it widens the further down the size spectrum you go.

The capital piled up at the large end does not stay there. With bigger deals harder to execute and exits taking longer, sponsors are looking further downmarket for places to put capital to work. For well-built smaller companies, that creates another source of demand. As more buyers move down the size spectrum in search of deals they can actually get done, the strongest businesses benefit from a deeper pool of potential buyers, even while liquidity remains constrained elsewhere in the market.

5: Bain & Company

# 03 RETURNS AND UNDERWRITING

## The Return Equation Has Changed

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**5% → 10-12%**

**10-12% is the annual EBITDA growth now needed to hit target returns – up from ~5% when cheaper leverage and multple expansion did more of the work.**

**Higher rates haven't made private equity less attractive, but they have cut how much help the market provides.** Bain compressed the shift into the phrase: "12 is the new 5." A deal that once needed roughly 5% annual EBITDA growth to reach a target return now needs closer to 10–12%.

On paper, that's just a higher number. In practice, it changes where returns must come from. When the hurdle rises, average ideas stop making the cut – the value-creation plan that could be dropped onto almost any business no longer clears the bar. What does, is a value creation plan that's specific to that one company and meaningful enough to genuinely change its trajectory – not a generic playbook any owner could run, but an opportunity particular to this business.

**So, the fundamental question is changing. It is no longer "Is this a good business?" but "How much better can we make it, and are we the ones who can?"**

> **THE BOTTOM LINE**
>
> The market can no longer carry the return – the owner has to build it. That's what '12 is the new 5' is really about.

That answer rarely comes off investing from a checklist or with a generalist mindset. It comes from seeing what already sets the company apart and knowing how the right partnership builds it.

We think the biggest shift is that ownership itself has become easier to judge. When financing was inexpensive and markets were doing more of the work, it was often difficult to separate investment and operating skills from favourable conditions. Great investors always stood out, but supportive markets narrowed the gap. As those conditions have become less influential, the difference between buying a business and building a better one has become much clearer to see.

**The deals where committed and aligned ownership can genuinely shape the business are where this 10–12% growth can be built.**

The lower mid-market is where many of these opportunities sit, not because the companies are inherently better, but because there is more room to improve them, more of that improvement sits within an owner's reach. These smaller businesses tend to be more nimble, giving owners the ability to move quickly when opportunities emerge without losing discipline around risk.

# The Deal Is No Longer the Beginning

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**The line between the investment thesis and the value creation plan is disappearing. What a buyer used to figure out after the deal they now have to know going in.**

It didn't used to work that way. Diligence was about the business in front of you – the financials, the customers, the operations – all pointed at one question: is this worth owning? What to actually do with the company came later, cobbled together in the first hundred days once you had the access. Buying well and building well were two different jobs, and the space between them is where a lot of returns quietly went to die recently.

**This has now shifted forward. Diligence now runs straight through "is this a good business" into "what could we do with it";** the operational fixes, the pricing, the technology, the acquisitions, the things the company can't do yet but could with the right partner.

**What sets firms apart is specialized expertise in a focused set of sectors or strategies, the operating experience to know what is actually executable, use add-on acquisitions thoughtfully and change management to build a better business, not simply a larger one.**

The hard part isn't making that list, because anyone can make the list. The hard part is being honest about which items are true value-add drivers that move the business forward. Being able to tell the difference between what a business can actually take on and what merely sounds good in a memo is the real differentiator now.

**The thesis and the plan are becoming the same document.** You're not just asking what a company is worth today; you’re asking what it becomes under your ownership specifically – and you're committing to that answer before you commit a dollar.

This is what the market is asking for, and it favours owners who are built to do the work, not to wait around for the market to do it for them.

# AI and the Value That Leaks

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**AI has become a fixture in the modern investment thesis: boosting productivity, cutting costs, strengthening competitive moats, and accelerating growth.**

Those gains are worth chasing, but as AI becomes more accessible, affordable and easier to implement, creating value from AI will become easier – for everyone. Capturing that value will become harder.

The next generation of frontier AI models is unlikely to be built by mid-market companies. Many of the most valuable AI-enabled businesses, however, may be. Their smaller scale can be an advantage: fewer layers and less integration complexity makes it easier to put new tools to work quickly. Combined with proprietary data, differentiated products, specialized expertise, and unique workflows in ways competitors cannot easily replicate. That's what will separate businesses that simply use AI from those that continue to build an advantage with it.

## FOR INVESTORS, THE KEY QUESTION IS NOT WHETHER AI CREATES VALUE, BUT *WHO ULTIMATELY CAPTURES THIS VALUE.*

If target returns now require 10-12% annual EBITDA growth rather than 5%, AI may become one of the few operational levers capable of helping bridge that gap, but only where the gains are defensible and when it's paired with the right value creation strategy. **AI rarely creates a moat. More often, it strengthens - or exposes - the one that already exists.**

For mid-market investors, that reframes the diligence question entirely. The objective can no longer be to assess whether a company is adopting AI, but whether AI reinforces something competitors cannot easily copy. The outcome of an investment ultimately depends on the uniqueness of the business and strength of the partnership.

### AI CREATES VALUE IN TWO VERY DIFFERENT WAYS:

**1 EFFICIENCY**

Reducing costs, automating repetitive work, and increasing productivity. The gains are real and tangible.

**2 DIFFERENTIATION**

Reinforces proprietary assets or unique capabilities a company already has, strengthening advantages that are far harder to replicate.

**AI is best understood not as an investment thesis in its own right, but as another lens through which to evaluate competitive advantage.** The firms most likely to benefit will not be those with the largest AI budgets or most subscriptions, but those with the clearest understanding of where AI reinforces what already makes a business exceptional.

# 06 LOOKING AHEAD
## The Market Is Asking for More

**Every market asks something different from investors and rewards a different set of strengths. The last cycle rewarded access to capital, favourable financing conditions, an investor mindset, and multiple expansion. This one is asking more of investors and operators.**

Success increasingly depends on identifying businesses with enduring competitive advantages, understanding how those advantages can be strengthened and having the discipline to focus on the changes that matter most.

**This is where we believe the mid-market plays to our strengths.** At Beringer Capital, the founder-led businesses we partner with have always generated value for our investors through deep sector expertise, close customer relationships, proprietary data moats, and the ability to adapt as they scale – the kind of judgment and trust that don't get automated away. The current environment has made these qualities the ones that matter most.

The firms that outperform over the next decade are likely to be those applying a differentiated edge to every investment. The quarters ahead may not bring a dramatic return of deal activity, but they will cement a more important shift: a lasting change in where returns come from.

> ***"Value creation is moving decisively back to the durability of the business, the quality of ownership, and what an investor can do to make a company better. This is not a feature of the current cycle, but a reset in how private equity returns will be built for the years to come."***

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