



# Market Trends Report, Q1 2026

Current market conditions, valuation multiples, and what is driving deals in today's environment

Prepared by Prevail Transaction Partners  
As of January 2026, Q1 Update

## Welcome

This report is designed to give business owners a clear, practical overview of the current M&A environment. It is not meant to predict the future or suggest that you should sell now. Instead, it provides context on what we are seeing in the market, what buyers are prioritizing, and how to interpret valuation headlines.

If you are early in your journey, this report will help you understand how conditions may affect timing, price, and deal structure. If you are closer to selling, it can help you set realistic expectations and focus on the factors that create leverage.

## Executive Summary

This Q1 2026 update summarizes the most relevant signals business owners should understand when thinking about timing, valuation expectations, and buyer behavior.

Because Q1 is still in progress, the most recent fully reported data points in this report generally reflect late 2025 results and 2026 outlooks from major market sources. In practical terms, this means we can see the direction of the market and buyer sentiment clearly, even if some finalized quarter-end statistics will lag.

The headline takeaway remains consistent.

Premium outcomes are being earned, not assumed. Buyers are active, but selective. The businesses commanding stronger pricing and cleaner deal structures are those with credible financials, transferable operations, durable revenue, and a disciplined risk profile.

## What Is Driving Deals in Q1 2026

### **1. Improved confidence and a growing pipeline**

Multiple indicators point to rising optimism heading into 2026, including surveys of dealmakers and lenders that suggest increased activity and financing support for announced and planned transactions.

### **2. Private equity pressure to deploy and exit**

Private equity has significant capital to deploy and also faces ongoing pressure to create liquidity through exits. That combination can support continued deal activity, especially for businesses that fit clear investment themes and have strong fundamentals.

### **3. Financing conditions are more disciplined, but open**

Debt markets appear active but selective. Lenders are prioritizing cash flow durability and credit quality, and sponsors are often bridging valuation gaps with larger equity contributions.

### **4. Sector-specific themes**

Technology and AI-related themes have influenced dealmaking at the top end of the market, and the middle market continues to see buyer interest where there is recurring revenue, strong margins, and operational transferability.

# Valuation Multiples and What They Really Mean

Valuation multiples are real, but they are often misunderstood.

A multiple is not a universal number that applies evenly across all businesses. It is a reflection of perceived risk, durability of cash flow, and confidence in future performance. Two businesses in the same industry can trade at very different multiples based on fundamentals, structure, and readiness.

## Financing conditions and leverage

Financing conditions play a meaningful role in valuation and deal structure, particularly in the small and middle market.

According to the **CIBC US Middle Market Monitor**, citing **GF Data**, lower middle market transactions during the first three quarters of 2025 reflected **average total debt multiples of approximately 3.8x EBITDA**. Lenders remained active, but underwriting standards were more disciplined than in prior peak years. As a result, many deals required **larger equity contributions** from buyers to bridge valuation expectations.

For business owners, this means that financing is available for quality deals, but buyers and lenders are placing greater emphasis on:

- Cash flow durability
- Margin stability
- Clear downside protection
- Transferable operations

Businesses that demonstrate these characteristics are more likely to command stronger pricing and cleaner structures even in a selective lending environment.

## Why reported multiples can feel high

Market data can skew upward when the businesses that successfully transact are disproportionately high quality. In more selective environments, average or lower-quality businesses may struggle to clear the market, while premium assets still trade at strong multiples.

## What buyers pay a premium for

Buyers consistently pay more when they believe the business will produce reliable cash flow after the owner exits. They reward:

- Clean, consistent financial reporting
- Durable revenue, repeat customers, contracted work
- Low customer concentration
- Reduced owner dependence with strong management and key employee retention
- Documented systems and processes
- Lower perceived legal, regulatory, and operational risk

## What causes discounts

Businesses commonly face valuation pressure when they have:

- Unclear financials or aggressive add-backs
- High customer concentration
- Owner as primary salesperson or operator
- Thin management depth
- Margin compression without a clear plan
- Unresolved liabilities or compliance risk

## Small Business and Main Street Conditions

Conditions in the small business marketplace improved through 2025, even as cost pressures affected margins for many operators.

According to **BizBuySell's Insight Report**, **2,599 small businesses closed in Q3 2025**, representing an **8 percent increase year over year**. Total enterprise value of completed transactions reached **\$2.13 billion** during the quarter.

At the same time, the **median sale price declined to \$320,044**, reflecting higher operating costs, margin compression, and more disciplined buyer underwriting.

This combination of higher transaction volume and softer median pricing highlights an important reality for owners. Buyers are active, but pricing increasingly reflects business quality, preparedness, and risk profile rather than broad market momentum.

For owners, the takeaway is clear. Businesses that are well organized, transparent, and positioned with a credible story around risk and upside continue to transact, while those with unresolved issues face more negotiation pressure.

# What This Means for Business Owners Considering a Sale in 2026

## If you are considering selling within the next 12 months

Focus on reducing friction:

- Ensure financials are current and consistent
- Document add backs and normalize earnings
- Reduce owner dependence where possible
- Prepare a clear narrative that explains recent performance and future opportunity
- Anticipate diligence, organize contracts, leases, licenses, insurance, and employee details

## If you are considering selling in 1 to 3 years

Focus on value creation:

- Strengthen the top two or three value drivers that most influence premium pricing
- Improve revenue quality, reduce concentration, build recurring work
- Build management depth and retention plans
- Document processes so the business is transferable

## If you are not sure you want to sell

Focus on optionality:

- The same preparation that improves sale outcomes often improves quality of life as an owner and increases resilience.

## Continue the Conversation

If you would like to understand how current market conditions apply to your business, we invite you to start a conversation.

You can also begin with:

- Exit Readiness Assessment
- Value Driver Analysis
- Business Value Tool

Visit [www.prevailprtnrs.com](http://www.prevailprtnrs.com) to explore next steps.

