February 2026

M&A in 2026

What's Next After 2025's Roller-Coaster Ride

After navigating a turbulent 2025 marked by geopolitical uncertainty, tariff tensions, and shifting economic policies, the M&A landscape enters 2026 with new momentum and continued dealmaker optimism.

While mega-deals (>$1B) dominated headlines and drove record transaction values in the latter half of 2025, the middle-market (<$1B) remained comparatively quiet.

For business owners contemplating an exit transaction, 2026 may present an opportune window as favorable conditions that fueled dealmaking begin to filter into the broader market.

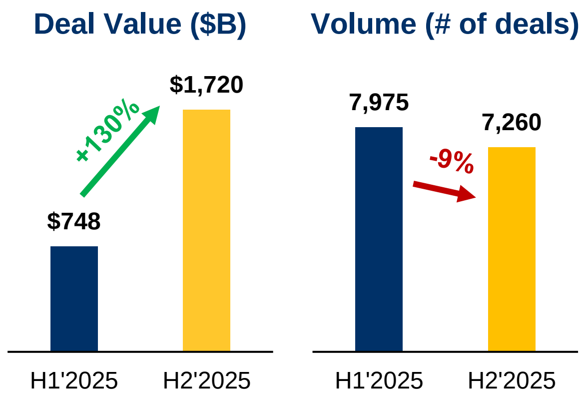
2025: A Year of Sharp Turns

The 2025 M&A market unfolded as a story of resilience through uncertainty. The year began with strong optimism as favorable capital markets and robust investor sentiment drove first-quarter dealmaking. However, sentiment shifted dramatically in the second quarter after the "Liberation Day" tariff announcements in early April, triggering significant volatility. This uncertainty caused deal activity to stagnate as buyers and sellers struggled to predict the future.

As businesses adjusted to the new trade landscape and policy uncertainty began to stabilize, dealmaking rebounded forcefully in the second half. The third and fourth quarters witnessed a blockbuster resurgence, particularly in the largest mega-deals exceeding $10 billion, with 10 deals accounting for $600 billion in transaction value.

By year-end, the U.S. M&A market achieved a record-breaking $2.5 trillion in transaction value; a remarkable 115% year-over-year increase. However, this growth was driven by a concentration in mega-deals, as the total number of deals declined to ~15,000 (-7% YoY).

2025 Deal Activity – 1H vs 2H[1]



Key Trends in 2025

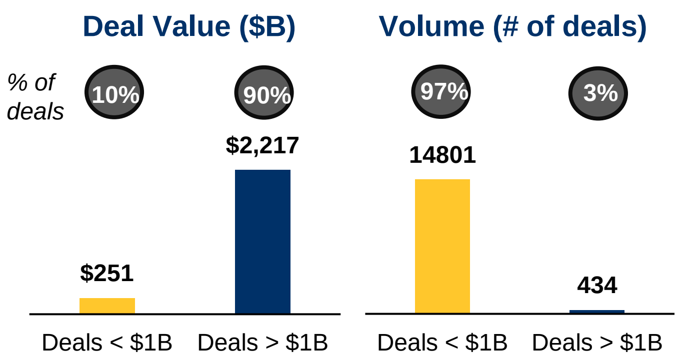
1. A Bifurcated Market

Perhaps the most significant trend of 2025 was the decisive shift toward larger transactions. While deal value surged dramatically in 2025, deal volume told a different story. This divergence illustrates a “two-market” phenomenon where large, transformative deals dominated while the middle-market remained relatively subdued.

This mega-deal surge reflected several factors: the pursuit of scale to achieve competitive advantages, anticipation of a more favorable regulatory environment, and controlled inflation allowing boards to make bold, long-term investments.

This bifurcation could suggest pent-up demand exists in the middle-market that could be released as favorable conditions continue.

2025 Deal Activity by Size[1]



M&A SPOTLIGHT: The AI & Tech Dealmaking Wave

Investor appetite for disruptive technology and AI-related assets drove outsized deal activity in 2025, with acquirers pursuing targets that could enhance their digital capabilities and competitive positioning. This momentum wasn't confined to pure-play tech companies—AI and machine learning attracted significant capital across sectors, from early-stage ventures to mature strategic acquisitions.

The surge reflects a broader recognition that transformative technologies are reshaping business models across industries. Venture investors focused heavily on the expanding AI ecosystem, while strategic buyers sought acquisitions to accelerate their own technology roadmaps.

This trend shows no signs of slowing in 2026, as continued investment in AI infrastructure and applications fuels ongoing dealmaking interest.

For business owners: As AI and emerging technologies evolve rapidly, owners considering a transaction should assess how their own technology strategy—or lack thereof—may influence valuation and buyer interest. Demonstrating a clear approach to leveraging new technologies can be a meaningful differentiator in today's market.

2. Macroeconomic Crosswinds

Two powerful and opposing forces defined the landscape: trade policy uncertainty that disrupted business planning, and monetary easing that improved transaction economics.

The tariff announcements in April 2025 rattled the markets, with the S&P 500 falling 5% in a single session. Supply chain disruptions, rising input costs, and pricing volatility weighed on business confidence across sectors. Yet, this same uncertainty prompted some owners to accelerate their exit timelines rather than delay them. For businesses with strong margins and limited tariff exposure, these dynamics created opportunities to differentiate themselves in competitive sale processes.

Meanwhile, the Federal Reserve's shift to rate cuts provided a tailwind. The 25-basis-point reduction in September 2025, followed by another cut in December, meaningfully supported deal activity and overall business conditions. Lower borrowing costs enhance deal economics for leveraged transactions and bolstered buyer confidence in pursuing acquisitions.

Overall, the net effect was a market where well-prepared sellers could capitalize on improved financing conditions, while buyers remained selective, favoring targets with demonstrated resilience to trade-related headwinds.

3. STRATEGIC ACQUIRERS

The resurgence in deal activity witnessed in the second half of 2025 can largely be attributed to strategic acquirers. Bolstered by robust balance sheets and easing financing conditions, strategics drove more than 70% of overall activity in 2025, as measured by transaction value. While enthusiasm around artificial intelligence energized activity in the Information Technology sector (28% of total transaction value), activity was broad-based with landmark transactions across several sectors. Ultimately, the success of these larger deals signals broader confidence in the economic outlook, which has the potential to extend to the middle-market as sentiment further improves.

LEGISLATIVE SPOTLIGHT: Revisiting OBBBA

The One Big Beautiful Bill Act (OBBBA) introduced several provisions with meaningful business & dealmaking implications:

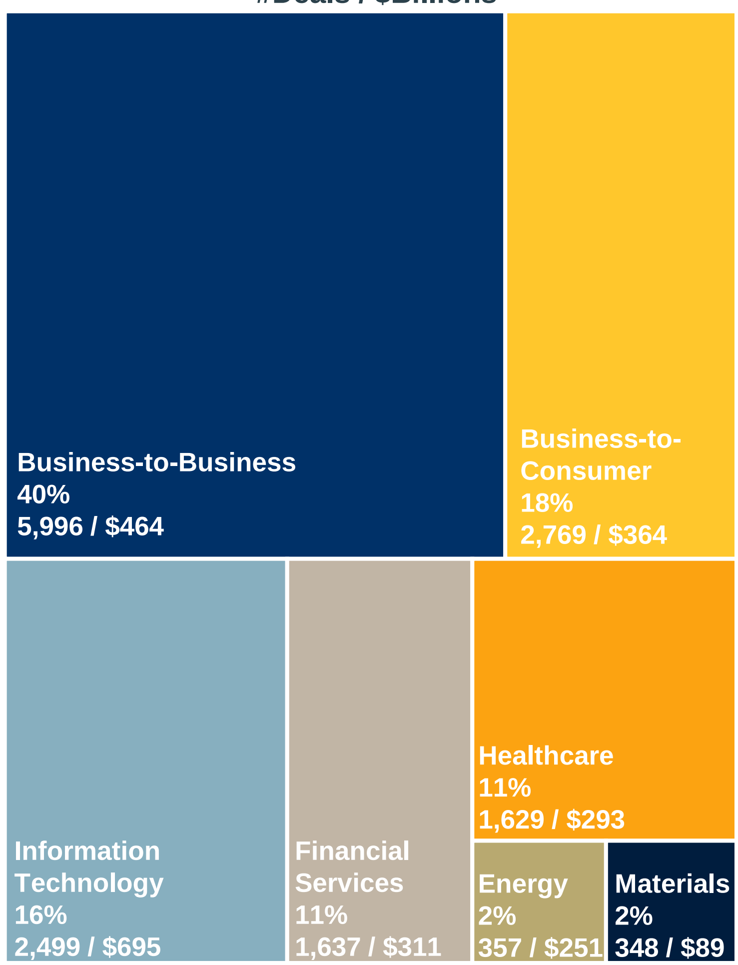
Full Bonus Depreciation: Buyers can now expense 100% of qualified property through 2030, improving post-acquisition cash flow for capital-intensive deals.

Expanded Interest Deductibility: The shift from EBIT to EBITDA-based thresholds (retroactive to early 2025) gives leveraged transactions more breathing room on debt service.

Enhanced Qualified Small Business Stock (QSBS) Benefits: Higher exclusion limits ($15MM per shareholder), shorter qualifying periods, and broader asset thresholds make tax-efficient exits more accessible for founders & early investors of qualifying C corporations.

Sector Breakdown: 2025 M&A Activity (% of Total deal Count)[1]

#Deals / $Billions



Prospectives for 2026

1. Middle-market's Comeback?

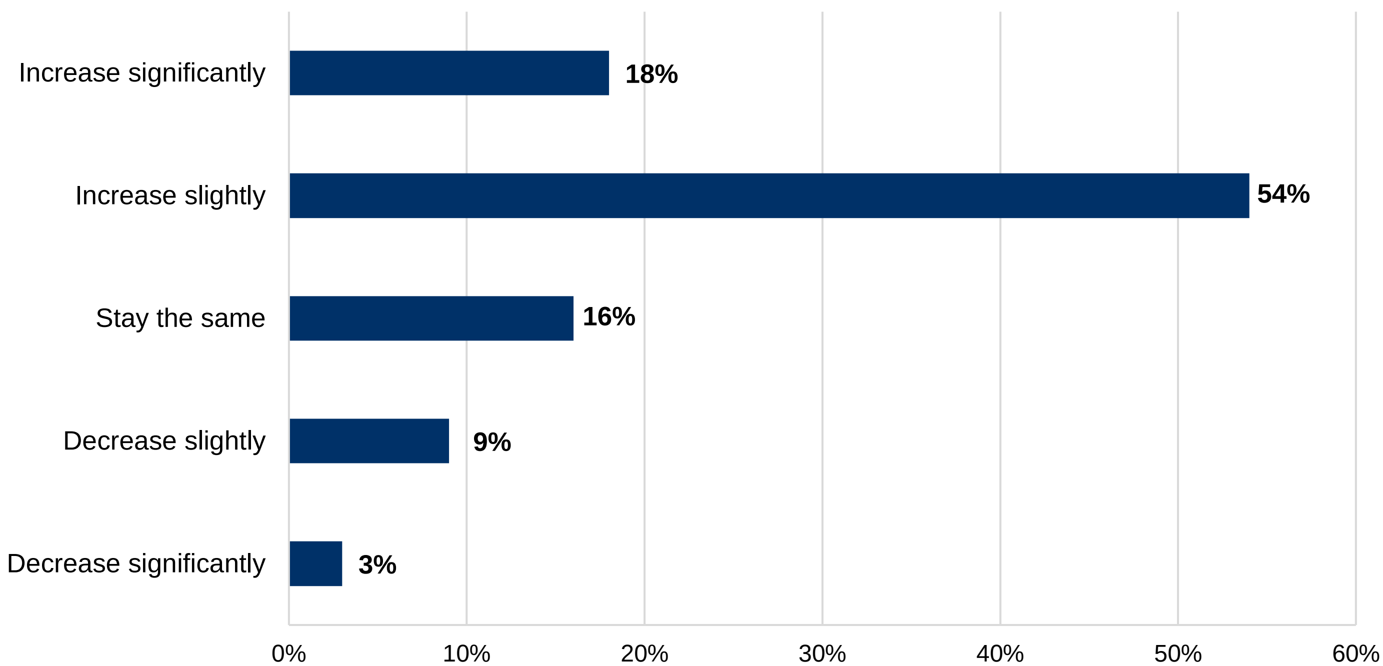
For deal volumes to reverse their multi-year compression, the middle-market must spearhead the recovery in 2026. Volatile trade policies created uncertainty for mid-sized firms, complicating plans for revenue growth and threatening margin stability as many businesses had to rethink supply chains — making forecasting an idle venture and prompting buyers to adopt a wait-and-see approach. The recent stabilization in trade policy has begun to restore executive confidence, creating a more conducive environment for M&A activity. Multiple indicators suggest the momentum from mega-deals may extend into the middle-market in 2026, as such deals often serve as leading indicators for the rest of the M&A market.

Competition for high-quality middle-market companies is expected to intensify. Dealmakers are anecdotally reporting that the number of companies identifying as potential sellers has increased markedly compared to prior years, with valuations cited as the top reason for coming to market. This increased supply of quality businesses, combined with motivated buyers, suggests healthy transaction activity across the middle-market.

MIDDLE–MARKET SPOTLIGHT – Private Equity (PE)

The potential middle-market swing factor for 2026 is the role of private equity buyouts and exits. PE firms hold over $1 trillion in uncommitted capital ("dry powder"), positioning them to deploy significant funds if market conditions remain favorable.

Outlook for Middle-Market M&A Activity: How deal activity is expected to evolve in early 2026[2]



2. Valuation & Deal Creativity

Valuation expectations are generally positive heading into 2026, though they vary significantly by sector. In addition, the valuation gap between buyers and sellers is expected to narrow, which is a typical dynamic during upswings in dealmaking.

This convergence will likely be accompanied by continued deal complexity, including contingent payouts such as earnouts, rollover equity, and seller financing. While deal creativity is expected to persist, intensifying buyer competition may drive a shift toward simpler, all-cash transactions, which remain the preferred choice for most sellers.

PRIVATE EQUITY SPOTLIGHT: Rollover Equity

A defining feature of current Private Equity dealmaking is Rollover Equity, where selling owners retain a meaningful ownership stake in the post-transaction company, has become increasingly prevalent.

This structure attempts to align interests between buyers and sellers, allowing business owners to participate in future value creation.

For sellers comfortable with continued operational involvement, rollover equity can provide a "second bite at the apple" while achieving meaningful upfront liquidity.

Average Rollover Equity: % of Enterprise Value (EV)[3]

EV Range ($MM)	2003 – 2020	2021	2022	2023	2024	Q1 – Q3 2025	Total
$10 – 25	15.8%	15.1%	16.5%	11.1%	14.7%	14.0%	14.9%
$25 – 50	14.1%	13.4%	14.1%	17.1%	14.1%	17.6%	14.5%
$50 – 100	13.4%	15.5%	14.2%	17.7%	18.7%	21.2%	15.7%
$100 – 150	13.0%	12.1%	12.8%	13.1%	14.2%	17.4%	13.2%
$250 – 500	7.5%	10.6%	13.9%	17.3%	18.1%	24.0%	14.3%
Total	**14.3%**	**14.0%**	**14.7%**	**14.6%**	**15.3%**	**16.9%**	**14.7%**

3. CONSIDERATIONS FOR BUSINESS OWNERS

For business owners contemplating a sale or strategic transaction in 2026 or early 2027, the current environment presents both opportunity and complexity. The following considerations may help frame your planning:

- **Timing may favor action.** The conditions supporting dealmaking — motivated buyers, available financing, narrowing valuation gaps, and PE exit pressure — are currently aligned. While these conditions may persist, macroeconomic uncertainty (inflation trends, tariff policy evolution, and the Federal Reserve's direction) introduces risk. Business owners who feel prepared should consider moving forward while conditions remain favorable rather than waiting for a "perfect" market that may not materialize.
- **Preparation is paramount.** Companies that can speak confidently about recent performance and future forecasts are best positioned to begin the sale process. Now is the time to ensure that financial statements are clean, quality of earnings analyses are defensible, and management presentations are polished. The competition for quality companies remains significant.
- **Understand your buyer universe.** Strategic acquirers and Private Equity firms each bring different value propositions, valuation approaches, and deal structures. Understanding which buyer types are most active in your sector and what they value can help optimize positioning and process design.
- **Consider flexible structures.** Rollover equity, earnouts, and other creative structures can bridge valuation gaps and align interests. Owners willing to participate in these arrangements often achieve more favorable total consideration while sharing in future upside. Discuss with your advisors which structures might fit your situation.
- **Address vulnerability proactively.** Tariff exposure, customer concentration, key-person dependencies, and other business risks will receive heightened scrutiny in due diligence. Addressing these issues proactively, or at least understanding how to discuss them, can strengthen your negotiating position.
- **Assemble your advisory team early.** Quality M&A advisors, transaction counsel, and tax specialists remain in high demand. Engaging your team early ensures access to preferred advisors and allows adequate time for preparation, positioning, and planning.
- **Know your number.** Before entering any transaction, it's essential to understand your personal **Wealth Gap**, the difference between your current liquid net worth and the after-tax proceeds you will need to fund your post-exit life. Too often, business owners focus on headline valuation without fully modeling the impact of transaction costs, taxes, lifestyle cash flow needs, philanthropic goals, and generational legacy plans. Defining what success looks like for you and your family, and translating that into a concrete, after-tax target, provides clarity that strengthens decision-making throughout the process. Engage your RBC Rochdale team early to help quantify this number; their integrated approach to wealth planning can stress-test assumptions, identify gaps, and ensure when a deal crosses your desk, you'll know whether it truly meets your objectives or falls short.

The Climb Ahead

M&A activity is cyclical, reflecting the natural ebb and flow of economic conditions. The last major cycle for dealmaking occurred in 2021 as the economy emerged from the pandemic, supported by trillions in government stimulus coupled with near-record low interest rates, creating a perfect storm for Buyers and Sellers alike. That uplift started in the first quarter of the year and expanded in each of the following three quarters, culminating in a spike in deal volume as activity accelerated across all segments.

While history does not repeat, it does often rhyme. After two quarters of blockbuster M&A activity in the second half of 2025, the market enters 2026 with meaningful momentum and definite optimism. Sustained enthusiasm for dealmaking has the potential to persist throughout the year, so as long as financing conditions and overall economic outlook remain favorable.

For middle-market business owners, 2026 may present a particularly attractive exit window as favorable conditions that drove large-cap dealmaking begin to filter in to broader market segments. However, meaningful uncertainties remain. Tariff and trade policy evolution, inflation trends, and macroeconomic conditions will bear watching. Business owners who have considered an exit should evaluate whether current conditions align with their transition objectives, personal timeline, and business trajectory rather than waiting for perfect clarity that rarely arrives. As always, thorough preparation, realistic expectations, and experienced advisors remain the foundation for a successful transaction.

Like the slow climb of a roller-coaster before the ride accelerates, the dealmaking environment appears poised to reward those who are ready. However, every rider knows—enjoy the thrill while it lasts, because even the best runs eventually come to an end.

Sources

[1] Pitchbook. Data as of 1.2.2026

[2] ACG Middle-Market Growth - 2026 Outlook Report, page 8. Data as of 1.6.2026

[3] ACG Middle-Market Growth - 2026 Outlook Report, page 37. Data as of 1.6.2026