

Lower Middle Market Monthly – March 2026

Visit our Website

I'm seeing a clear shift in the 2026 M&A market, and it matters for owners of IT services, SaaS, MSPs, manufacturing, and distribution businesses considering an exit in the next few years. Merger Solution, LLC works with owners like you across the country, and this first issue is meant to cut through the noise and focus on what actually drives valuation and deal terms in today's lower-middle market.

Market Snapshot: 2026 Lower Middle Market Environment

After two choppy years, the 2026 lower-middle-market M&A environment is constructive yet disciplined. Buyers are active, capital is available, and strategic acquirers are again leaning on acquisitions to drive growth—but the bar has risen for fundamentals.

For owners, the message is simple: great businesses still command strong prices, but “story-only” growth is no longer enough. Clean financials, credible forecasts, and resilient margins now sit at the center of valuation conversations, whether you own an IT services firm, SaaS company, MSP, manufacturer, or distributor.

Where the Heat Is: IT Services, SaaS and MSPs

Technology remains one of the busiest segments of the lower-middle market. IT services and enterprise software remain highly active, and MSPs are a core focus for roll-ups by private equity platforms and strategic buyers.

MSP deal activity has been strong, with 2025 transactions up meaningfully and a healthy pipeline heading into 2026, driven by cybersecurity, cloud migration, and the rapid adoption of AI across the Microsoft and broader IT stack. For SaaS, buyers have shifted from “growth at any cost” to “durable growth with sound unit economics,” rewarding companies that show solid net retention, manageable churn, and healthy gross margins.

Metrics That Move the Needle (By Model)

Different models, different scorecards. Here's what buyers tend to underline right now.

MSP / IT Services

- High, defensible recurring revenue percentage.
- Clear vertical specialization (e.g., healthcare, financial services, industrials).
- Depth of cybersecurity offering and standardized tool stack.
- Demonstrated Microsoft / cloud / AI capabilities.
- EBITDA in at least the low seven figures, with clean, supportable add-backs.

SaaS

- ARR growth with a believable story and visibility.
- Net revenue retention and logo churn by customer cohort.
- Gross margin and services mix.
- Capital efficiency: growth relative to cash burn/funding history.
- Product and customer concentration risk.

Manufacturing & Distribution

- Margin resilience through cycles and pricing power.
- Supply-chain robustness and any reshoring/nearshoring advantages.
- Automation and digitalization of operations and inventory.
- Exposure to diversified, durable end-markets.
- Dependence on the owner for customer, vendor, or technical relationships.

If you only focused on improving one or two of these in 2026, you'd already be ahead of many peers when you go to market.

Roll-Ups and Add-Ons: How Platforms See You

Across both tech and industrial sectors, many active acquirers are platforms executing add-ons. In MSP and IT services, platforms use acquisitions to expand their geographic footprint, add vertical expertise, and bolt on advanced security or cloud capabilities. In manufacturing and distribution, strategics are using M&A to add automation, expand capacity, or secure a more resilient domestic supply.

If your business has \$2–\$10 million of EBITDA, this “platform vs. add-on” dynamic matters. Platforms care a lot about how quickly your people, systems, and customers can plug into their playbook. That affects the buyer list, how we market your business, and even how we structure management meetings during the sale process.

“Digital Trust” Meets Physical Supply Chains

On the tech side, buyers are leaning into “digital trust”: secure, reliable, compliant infrastructure that customers can depend on as they adopt AI and automation. MSPs and IT services firms that truly own more of the security stack, manage identity and compliance, and can speak clearly about governance are seeing outsized interest and, often, better terms.

On the industrial side, M&A is a way to de-risk and modernize physical supply chains. Manufacturers and distributors that invested in automation, better data visibility, and integrated systems are more attractive to buyers who need reliable capacity, shorter lead times, and better information flow from the plant or warehouse to the end customer.

Valuation Reset and Deal Structure: How Deals Are Getting Closed

Valuations for SaaS and tech-enabled services have largely drifted back toward pre-bubble ranges. Buyers are still paying up, but primarily for durable growth, profitability, and high-quality earnings. Across IT, SaaS, MSPs, manufacturing, and distribution, creative structures are now common in bridging valuation gaps. Earnouts tied to revenue or gross profit, seller notes, and meaningful rollover equity are all tools we use to reconcile different views of the future while still closing deals at attractive headline values.

Owner Playbook: 18-Month Prep by Segment

Think of the next 12–18 months as your “packaging” window, even if you don’t have a firm exit date yet. For IT Services and MSP Owners

- Lock in multi-year, preferably auto-renewing contracts where it makes sense.
- Formalize and document your cybersecurity and AI-related offerings.
- Standardize tools (PSA, RMM, ticketing) and clean up your data.
- Reduce founder dependency in sales and key client relationships.

For SaaS Founders

- Tighten data: cohorts, net retention, and unit economics should be easy to show.
- Clarify pricing and packaging, and remove unnecessary complexity.
- Build and communicate a credible path to efficient growth or profitability.
- Address technical single points of failure and strengthen your leadership bench.

For Manufacturing & Distribution Owners

- Document core processes so an outsider can understand and run them.
- Highlight and continue to invest in automation and lean improvements.
- Build out second-tier leadership in operations, finance, and sales.
- Identify and mitigate customer and supplier concentration risk.

Small, steady improvements here can translate directly into higher valuation and better terms when you do decide to sell.

One Data Point, Two Interpretations

Here’s one data point we’re watching:

Tech services and MSP deal volume increased meaningfully in 2025, while manufacturing and distribution deals are concentrating in niches tied to automation and supply-chain resiliency.

For tech and MSP owners, this signals a deep buyer universe that still rewards high-quality recurring revenue and security-rich offerings. For industrial owners, it highlights that buyers are selective yet motivated, and that your capabilities underpin more resilient, technology-enabled supply chains.

If you're considering a full or partial sale, recap, or minority investment in the next 2–3 years, Merger Solution, LLC can help you understand how buyers would view your business today—and what you can do over the next 12–18 months to improve outcomes.

If you'd like a confidential, no-obligation assessment, just reply to this email with your industry and approximate revenue range, and I'll follow up with a short list of questions.

email

Schedule a meeting

Merger Solution, LLC | 4114 Juliana Lake Dr | Auburndale, FL 33823 US

[Unsubscribe](#) | [Update Profile](#) | [Constant Contact Data Notice](#)



Try email & social marketing for free!