

# Private Equity Powers Small & Mid- Market Businesses

AUGUST 2025



# A message from AIC President Will Dunham

Small businesses are the backbone of the American economy, accounting for 99.9% of all US businesses and employing nearly 60 million people, which represents 45.9% of the private workforce.<sup>1</sup> Moreover, in the past few years, there has been a record surge in entrepreneurship.<sup>2</sup>

As we navigate the complexities of the current economic landscape, it is imperative to recognize the transformative role that private equity (PE) can play in bolstering this critical sector.

As of 2025, PE firms have invested in over 21,000 businesses, with previous AIC research finding 85% of these investments directed toward companies with fewer than 500 employees.<sup>3</sup> These strategic partnerships have infused capital into local enterprises and facilitated job creation, operational enhancements, and long-term growth.

The need for such investments is underscored by recent findings from the Federal Reserve (The Fed), which indicate a tightening of lending standards for small businesses and a decline in loan originations.<sup>4</sup> This credit constriction poses significant challenges for small-business owners seeking to expand or even maintain operations. Rapidly evolving policy and trends in global trade are also critical considerations. As the US economy may experience significant structural shifts, along with the reworking of supply chains and import partners, PE firms may have a crucial role in helping provide the capital and logistical know-how for smaller to mid-sized businesses to weather any storm.

Moreover, demographic shifts present both challenges and opportunities. With baby boomers owning a substantial portion of small businesses and many approaching retirement, there is an urgent need for succession planning. Whether passing on to successive generations or selling to brand-new owners, PE firms can facilitate smooth transitions, ensuring the continuity of these enterprises and preserving jobs within communities.

■ P2 **A message from AIC President Will Dunham**

■ P3 **Trend analysis**

■ P8 **Case studies**

■ P10 **Looking forward**

■ P11 **About & methodology**

## **Will Dunham**

President & CEO,  
American Investment Council



PE is a steadfast partner for America's small businesses, offering the capital, expertise, and strategic guidance necessary to thrive in today's economy. By embracing these partnerships, the full potential of America's entrepreneurial spirit can be unlocked and ensure a prosperous future for communities across the country. In this report, we explore how the evolution of PE growth investing, middle-market buyouts, and small business (under \$25 million) dealmaking are all trending through early 2025, showcasing multiple examples of fruitful collaboration.

1: "Frequently Asked Questions About Small Business, 2024," US Small Business Administration, Office of Advocacy, July 23, 2024.

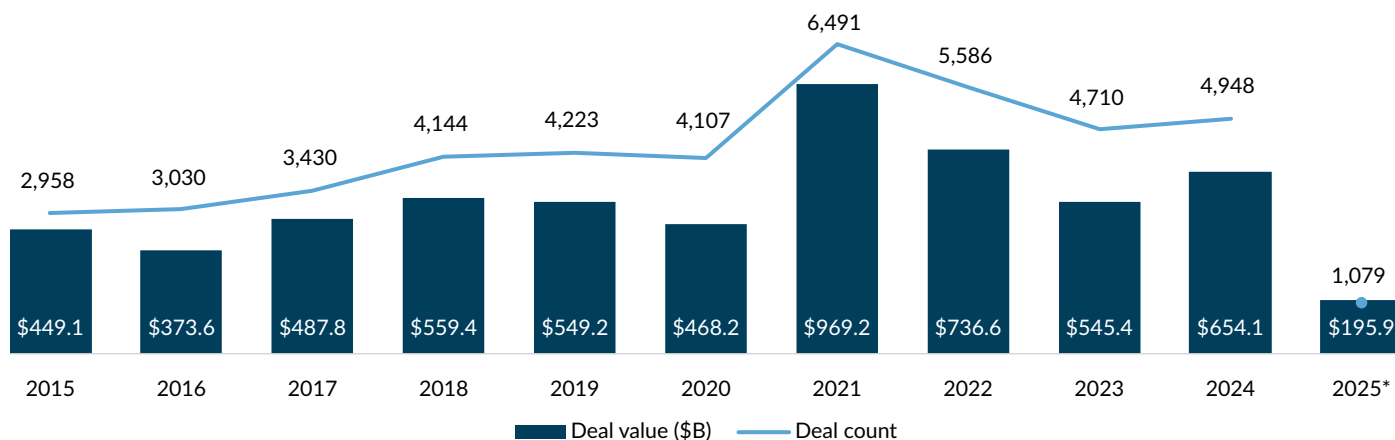
2: "SBA 2024 Capital Impact Report," US Small Business Administration, October 29, 2024.

3: "Private Equity Powers Small Businesses," American Investment Council, n.d., accessed May 1, 2025.

4: "Small Business Loan Demand Increases Despite Year-Over-Year Decreases in New Small Business Lending and Tightening Credit Standards," Federal Reserve Bank of Kansas City, Daniel Harbour and Nicholas Courtney, March 27, 2025.

# Trend analysis

## PE buyout activity

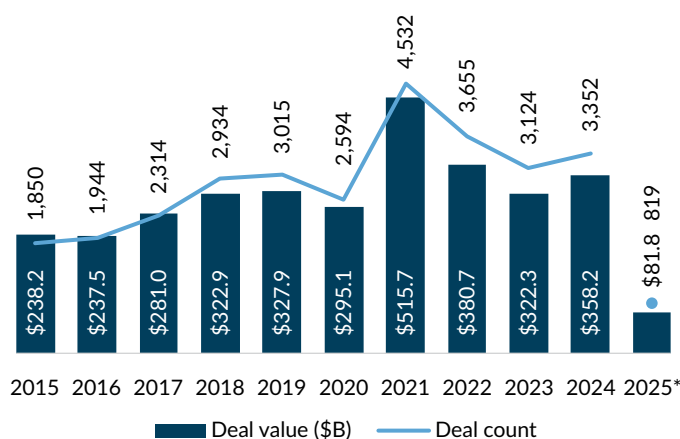


Source: PitchBook • Geography: US  
\*As of April 11, 2025

Even amid challenges like high inflation and elevated interest rates in the past few years, PE investment remained robust by historical standards. Fund managers stayed more active within the US middle market, backing thousands of businesses with capital and technological acumen to help weather uncertainties and volatility. 2024 even saw a rebound to nearly 5,000 buyouts in the US, while through early April 2025, over 1,000 buyouts were logged for an aggregate value of nearly \$196 billion. In the past 18

months, the figures reflecting PE firms' increased focus on middle-market buyouts have been striking—3,352 buyouts in the US middle market occurred in 2024, amassing \$358.2 billion in total value. It is important to note, however, that PE fund managers went even further downstream in terms of enterprise size, notching over 1,500 buyouts valued under \$25 million in 2024, for a total of \$7.9 billion—both figures among the highest on record. Through early April 2025, moreover, 234 sub-\$25 million buyouts occurred.

## Middle-market PE buyout activity



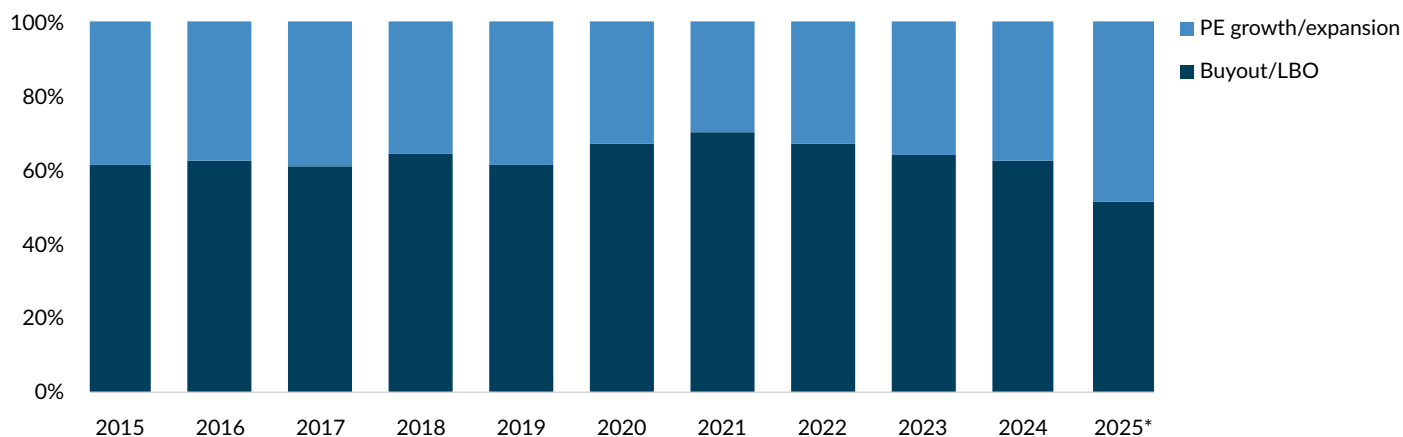
Source: PitchBook • Geography: US  
\*As of April 11, 2025

## PE buyout activity under \$25M



Source: PitchBook • Geography: US  
\*As of April 11, 2025

## Share of PE deal count under \$25M by type

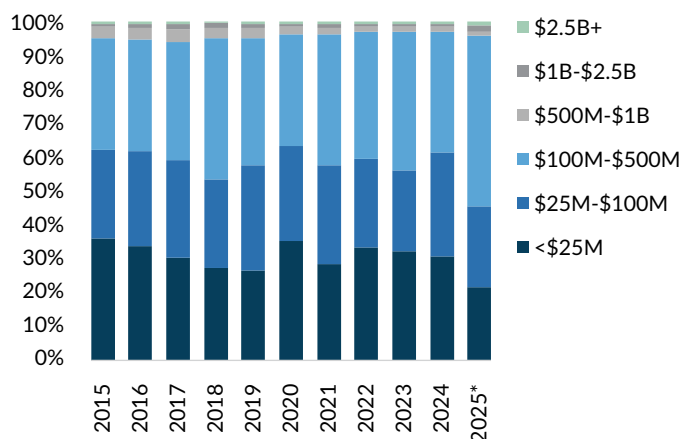


Source: PitchBook • Geography: US  
\*As of April 11, 2025

PE firms continue to court increased numbers of small to mid-sized firms. Two key channels remain growth capital investments of pure equity to help fuel significant research & development (R&D) or capital expenditures, or outright buyouts so founder-owners can retire. Assessing the full spectrum of buyouts by size ranges helps illustrate this phenomenon. For example, between 2020 and 2021, the sub-\$25 million bracket saw deal counts shift from 1,450 to 1,836; the \$25 million to \$100 million range increased from 1,154 to 1,909; and the \$100 million to \$500 million range

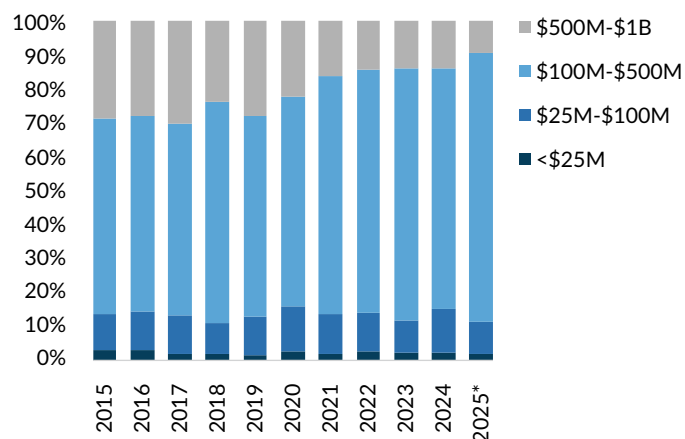
increased from 1,344 to 2,503. In short, the approximate increases were by 26%, 65%, and 86%, respectively. The increases were larger because backing by PE firms helped companies expand in size and, also at times, acquire platforms of smaller businesses to help them unify under an umbrella of efficient, revamped tech stacks and logistics, which will help them better compete in larger regional markets. Hence, larger buyouts' proportions increased. It is important to note, however, that smaller buyouts still flowed while growth investing ramped up even further.

## Share of PE buyout deal count by size bucket



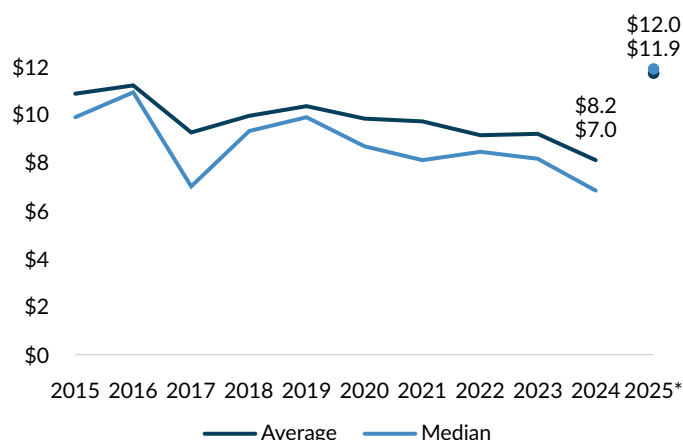
Source: PitchBook • Geography: US  
\*As of April 11, 2025

## PE buyout deal value under \$1B by size bucket



Source: PitchBook • Geography: US  
\*As of April 11, 2025

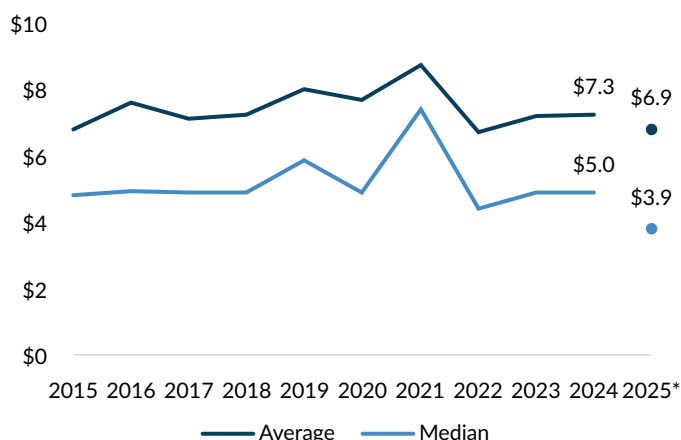
### Median and average PE buyout deal value under \$25M



Source: PitchBook • Geography: US  
\*As of April 11, 2025

Note: The 2025 figures are based on a population size of n = 7.

### Median and average PE growth deal value under \$25M



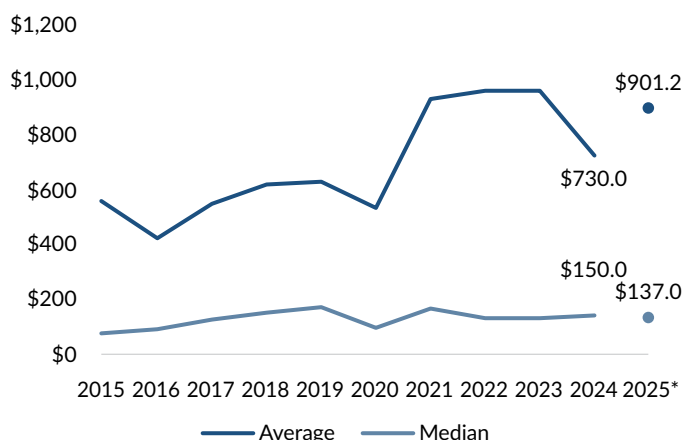
Source: PitchBook • Geography: US  
\*As of April 11, 2025

This is evidence of that continued trend, as well as PE firms' desire to still back small businesses. It is key to note the value propositions of both growth investing and buyouts that PE firms are actively utilizing in the small-business and lower-middle-market arenas. Growth investing or buyouts can be complementary, but also utilized on a case-by-case basis. For example, some companies deploy growth capital for specific facility expansions or large-scale purchases of new equipment, rather than a broad range of purposes. Meanwhile, a buyout can help fund an overhaul and growth via acquisition or a revamp of multiple processes and tech tools.

For other businesses, outright ownership transfers or a combination of two related businesses could necessitate a PE buyout. For companies coming to market in those size ranges, however, PE firms are selective in what types of transactions make more sense—hence the size ranges of median to average buyouts or growth investments in that sub-\$25 million range. Often it makes more sense to not utilize any leverage in buying such companies and instead provide an infusion of growth equity for their particular needs. Leverage costs are still sufficiently high enough that both owners and PE fund managers are exercising caution.

As noted by PitchBook research,<sup>5</sup> fund managers have had to strike a balance between the attractive features of growth potential, relatively lower prices, less overall

### Median and average PE buyout deal value (\$M)



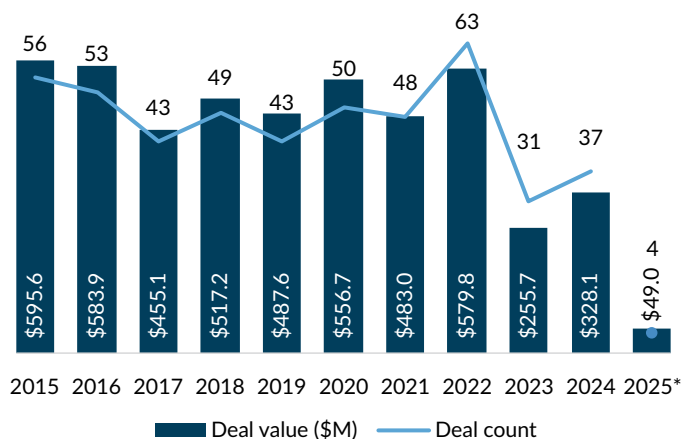
Source: PitchBook • Geography: US  
\*As of April 11, 2025

debt loads, and founder-owner transitions that help segue neatly into professionalized ownership, such as by PE operating teams. Given overall dealmaking dynamics in the past few years, the slight downward trend in median sub-\$25 million buyout sizes showcases PE firms' ongoing desire for backing companies in the lower middle market, especially when juxtaposed against the consistency in overall buyout sizes. In short, PE firms have ramped up backing even smaller companies. Thus far this year, deal

5: "Middle Market PE Offers Fertile Ground for Multiple Arbitrage," PitchBook, Madeline Shi, February 12, 2025.

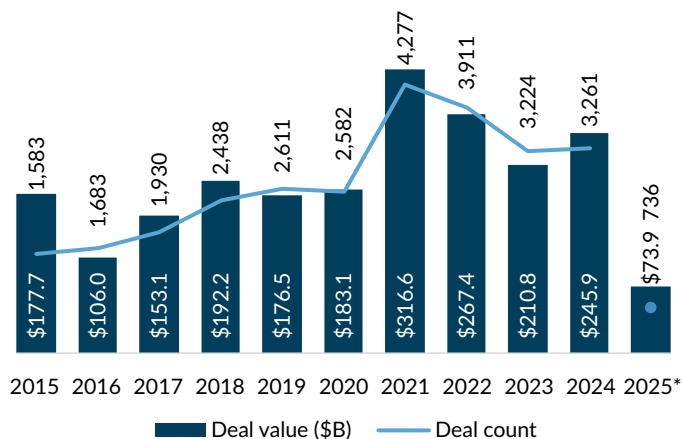


## PE add-on activity under \$25M



Source: PitchBook • Geography: US  
\*As of April 11, 2025

## PE add-on activity

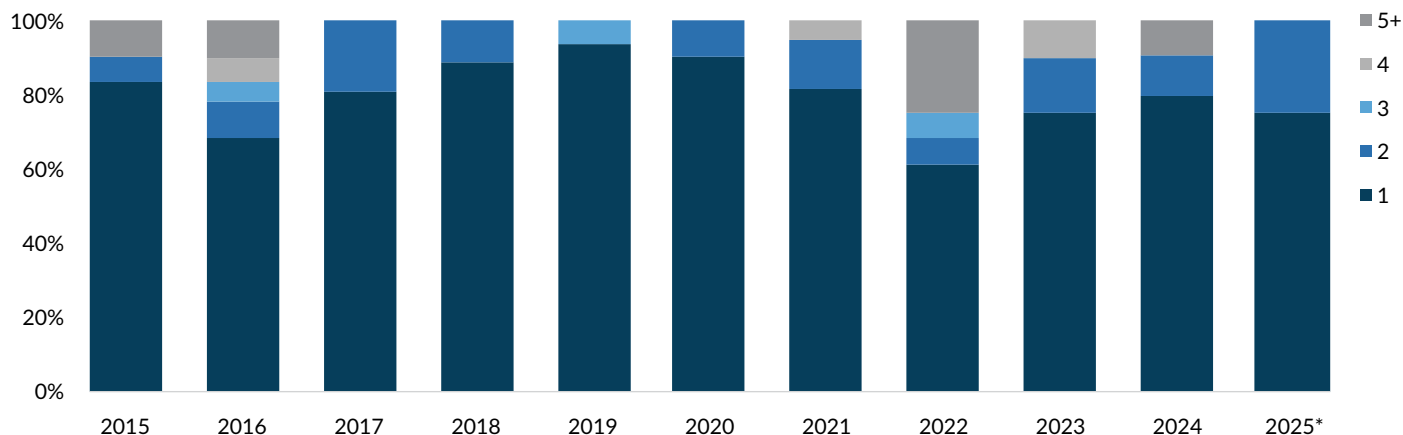


Source: PitchBook • Geography: US  
\*As of April 11, 2025

sizes are only temporarily skewed upward due to a smaller volume of deals. Since 2022, a consistent proportion of add-ons sized under \$25 million has occurred in clumps done by platforms. For example, 2023 saw four add-ons done by a sub-\$25 million platform. Thus, the decline in sub-\$25 million add-ons is because those platforms built pre-2023 are still focusing on integration and organic growth. That is also likely due to the strategic positioning for such add-ons in the first place—PE firms help companies unite to form platforms for greater scalability and give

them resources to compete against larger national chains. This can necessitate periods of acquisitions for inorganic growth, followed by a period of internal reorganization and investment. Such a trend is also reinforced by the sectoral breakout of sub-\$25 million buyout activity. Proportionally by deal count and value, B2B has steadily risen in the past few years, although IT and health care have held relatively steady. Such commercial platforms building out often first occurs with PE firms helping sponsor anywhere from a couple to several add-ons, frequently across geographic

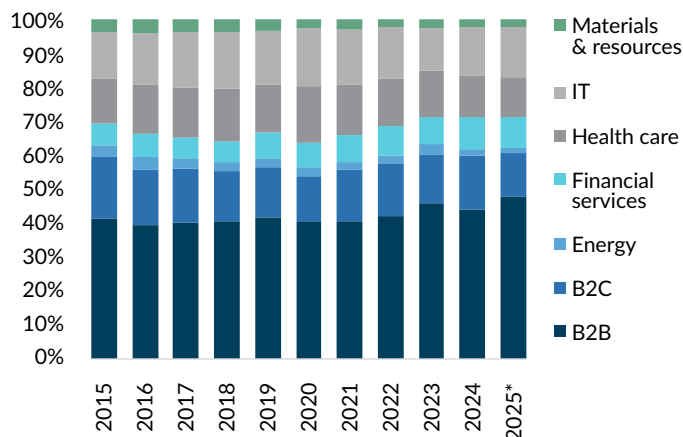
## Share of add-on count under \$25M completed by same platform by multiple add-on category



Source: PitchBook • Geography: US  
\*As of April 11, 2025

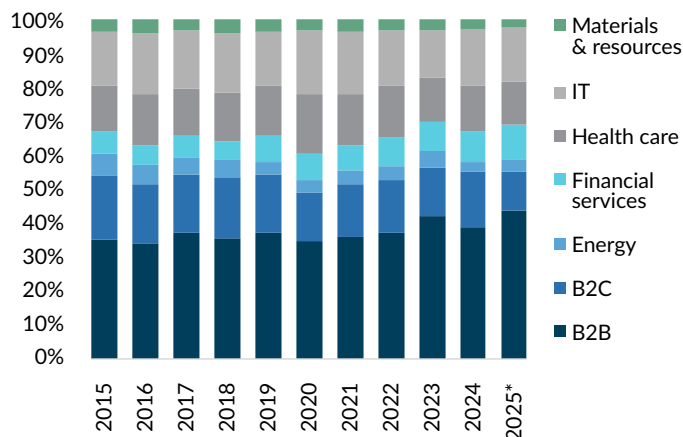
Note: Multiple add-ons in this context means that the platform performed at least "X" add-ons per year, with "X" being the range of figures in the category above.

## PE buyout deal count under \$25M by sector



Source: PitchBook • Geography: US  
\*As of April 11, 2025

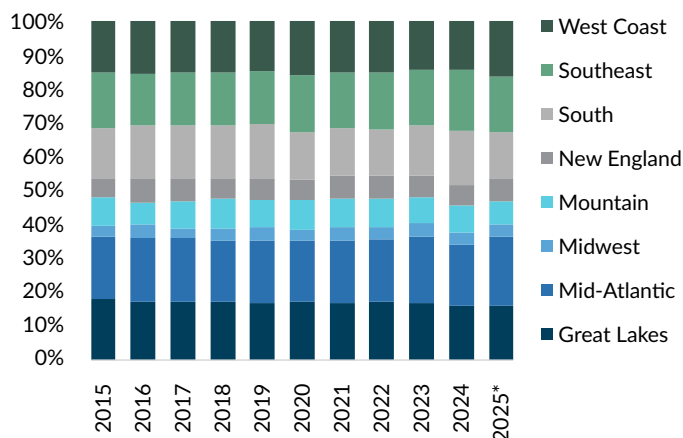
## PE buyout deal value under \$25M by sector



Source: PitchBook • Geography: US  
\*As of April 11, 2025

areas to consolidate fragmented, smaller businesses into a unified entity that can then invest in the professionalization of services and revamping of tech stacks. As a result, the early 2020s likely saw a flurry of enterprise-focused platform building. Currently, growth phases are a key focus, especially given the types of contract tenures, project complexity, and customer bases that characterize many B2B platforms. For example, Godspeed Capital, a PE firm focused on the lower middle market, recently backed InSite Engineering, a water and wastewater engineering services firm, expressly to build an infrastructure platform to service the Southeastern US.<sup>6</sup> That backing occurred after InSite spent the past 20-plus years building out a team of more than 40 experienced contractors to service municipalities across the region, helping cities and towns improve their civil services. Now, at InSite's current growth juncture, Godspeed can help fuel its further expansion.

## PE buyout deal count under \$25M by region



Source: PitchBook • Geography: US  
\*As of April 11, 2025



6: "InSite Engineering, LLC Announces Strategic Investment From Godspeed Capital," Business Wire, February 3, 2025.

# Case studies

## Finagraph

Bellevue, WA



A growing trend among middle-market buyouts has been fund managers' increased focus on purchasing mature, venture-backed businesses. Finagraph, a financial data collection and business intelligence platform, was originally backed by venture firms across three different series of financings: a 2012 Series A round of \$905,000, a Series B round of close to \$1.3 million in 2014, and a \$5 million Series C round in a deal led by Moody's in November 2016. From there, Finagraph continued to grow throughout the 2010s, refining its products like Strongbox—an automated, cloud-based system to connect standardized workbooks and accounting systems—but eventually grew to a point that a merger became an option to accelerate growth. Eight years after Finagraph's last round of VC financing, LeaseCrunch, via its financial sponsor Aquiline Capital Partners, bought the company for \$25 million in November 2024. This deal exemplifies a classic add-on strategy, as the combined company post-merger is now estimated to serve more than 750 CPA firms;<sup>7</sup> before PE backing and the union with LeaseCrunch, the still-independent Finagraph only served around 100 CPA firms. It is also a good example of the software company boom throughout the 2010s, which ultimately culminated in mergers between the best-positioned businesses to reach significant scale—a defining trend of the early- to mid-2020s thus far.

## Pharmaloz Manufacturing

Lebanon, PA



Pharmaloz Manufacturing provides contract development and manufacturing services including formulation, R&D for supplements, and packaging. For example, the company processes raw materials into lozenges, and provides wrapping, shipping, and receiving for such products. It also produces dietary supplements, refines flavors, develops new proprietary blends, and more. Previously a subsidiary of ProPhase Labs, it was acquired in a spinout through an estimated \$23.6 million buyout in January 2025 by a Houston-based PE firm. This transaction showcases the convergence of two trends: first, the uptick in the past few years of PE firms' identifying divisions of companies that could operate better in private markets as a standalone small or midsized business unit and, consequently, transacting to accomplish their divestiture and sale; and second, the pressures that some publicly traded businesses are experiencing, which can necessitate sales of divisions to PE buyers that have longer timelines and greater capital reserves. For example, the PE firm buying Pharmaloz is assuming about \$3 million of upcoming capital expenditures for the company's planned production efforts.<sup>8</sup>

7: "Finagraph Merges With Milwaukee-Based LeaseCrunch," KillerStartups, Adam Josefs, December 9, 2024.

8: "ProPhase Labs Announces Closing of \$23.6 Million Sale of Pharmaloz Manufacturing to Houston-Based Private Equity Firm," ProPhase Labs, January 22, 2025.



## Continuum Powders

Houston, TX



Another burgeoning trend over the past few years has been PE growth investors stepping in to fund more mature enterprises into greater growth instead of the outright acquisition of formerly venture-backed companies. Continuum Powders, which makes metal alloy powders intended for materials, aerospace, and construction industries, operates a recycling foundry that converts metallic scrap into the powders. From there, the powders can be used in many applications, such as the manufacturing of aerospace components via metal injection molding. It garnered several grants and rounds of venture financing up until 2022, when it received its first infusion of PE growth equity. February 2024 saw the company receive an estimated \$17.5 million more, with a reported valuation of \$105 million. These series of financings have enabled Continuum Powders to keep expanding, open a new Houston-based facility in December 2024, and partner with global players like precision engineering and additive manufacturer Renishaw, which recently announced that it plans to use Continuum Powders' products on a series of its machines.

## Epay Manager

Maryland Heights, MO

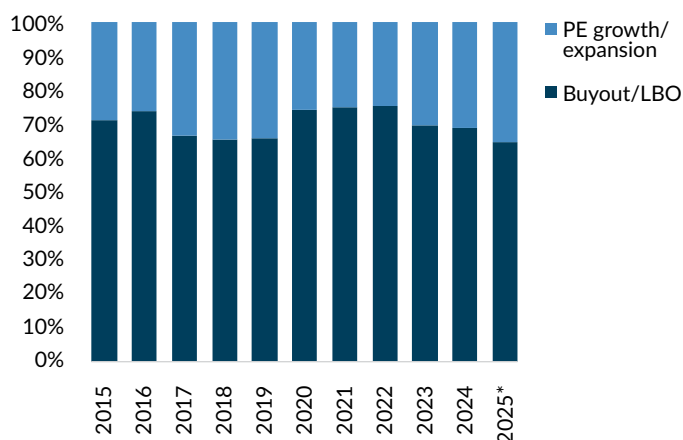


Amid current concerns around the impact of tariffs on global trade, it is often overlooked that some companies, such as logistics providers, will see a potential uptick in their lines of business. Often, however, they need an infusion of capital and strategic assistance to seize the opportunity. This is exemplified by the buyout of freight broker payment and backend platform Epay Manager, by PE-backed OTR Solutions. Founded in 1999, Epay Manager originally built solutions for back-office operations and payments to help freight brokers pay carriers more promptly, among other uses. In early 2024, it was bought by OTR Solutions, which was backed by Summit Partners and Sope Creek, to help expand further into adjacent services and capabilities. For example, post-merger, OTR's financing solutions and freight auditing can now combine with Epay's invoicing, payment-on-delivery collections, and more to reduce brokers' cost per load.



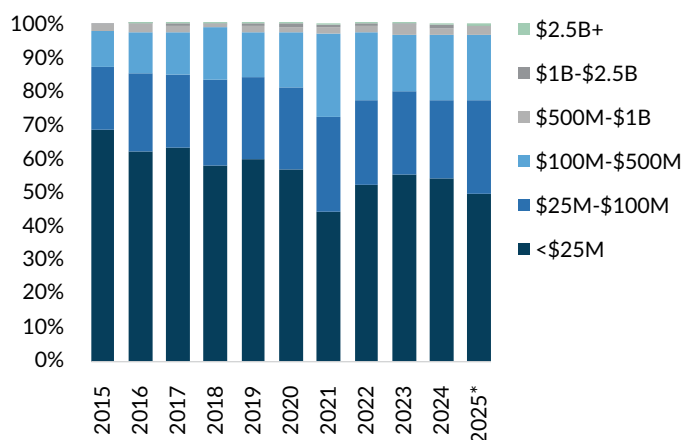
# Looking forward

Share of PE deal activity under \$25M by type



Source: PitchBook • Geography: US  
\*As of April 11, 2025

Share of PE growth deal count by size bucket



Source: PitchBook • Geography: US  
\*As of April 11, 2025

Even with some calming in the financial markets as of late, there is still uncertainty as to the pressures the US economy may be undergoing. The Fed reported that “uncertainty around international trade policy was pervasive,” even as sectors remained mixed to declining or exhibited moderate growth.<sup>9</sup> For the small-business to lower-middle-market arenas, it is instructive to look at a few remaining trends across key PE areas of activity to see how businesses and their PE backers are beginning to position themselves for any uncertainty. First, looking at the proportions of sub-\$25 million PE deal value by type, there is a gradual increase in the proportional deal count of growth capital infusions over the past 10 years, with a surge from 2017 to 2019, and then another increase since 2022. In fact, 36% of extrapolated 2025 deal value to date is PE growth deals in that sub-\$25 million range—a record percentage. A staggering 18% of 2025 PE growth activity has been in the middle market, close to double the previous record percentages.

For the small-business and lower-middle-market environments in the US, this means there is significant PE growth capital being put to work even during the current broader economic and market headwinds. US PE capital

overhang stands at just over \$1 trillion, and close to \$331 billion of that is in 2021 and 2022 vintages—in other words, funds about to hit their ramp-up in investment activity given typical fund life cycles. Especially in any period of potential turbulence in the future, patient PE capital and operating expertise could prove a boon, whether owners are looking to retire or simply weather any storm. PE firms are partnering with small to mid-sized businesses for the foreseeable future to focus primarily on certain areas. The first is digitalization, especially as customer service tools like chatbots grow more reliable and inexpensive. They are also focusing on supply chains, logistics, and sourcing, especially as businesses look to keep lean but have more optionality for further supply shocks. Additionally, training and talent sourcing are an area of interest as the job market remains complex and retaining and upskilling employees becomes even more critical.

9: “The Beige Book: Summary of Commentary on Current Economic Conditions by Federal Reserve District,” Federal Reserve System, April 2025.

# Methodology

Reports are prepared in accordance with PitchBook's methodology, which is described in detail on the PitchBook [report methodologies page](#). All industry breakouts utilize PitchBook industry codes and/or a combination of PitchBook verticals.

## About AIC

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The American Investment Council (AIC) is the leading advocacy and resource organization established to develop and provide information about the private investment industry and its contributions to the long-term growth of the US economy and the retirement security of American workers. Member firms of the AIC consist of the country's leading private equity, private credit, and growth capital firms united by their successful partnerships with limited partners and American businesses. More information about the AIC can be found at [www.investmentcouncil.org](http://www.investmentcouncil.org).