THE LEAD
https://theleadpc.com/why-private-equity-matters-part-six/

Why Private Equity Matters (Part Six)

THE LEAD | February 18, 2026

When private equity makes the news, its typically large buyout firms. They buy mega companies, so unsurprisingly make for better headline material. But bigger funds are just the tip of the iceberg. Below the surface is a scaled and matured middle market.

Purchasing dynamics favor the middle market (MM). Large US buyout funds (defined as more than $2 billion fund size) manage $775 billion of dry power. That capital is chasing 4,500 large companies with greater than $500 million revenue. US buyout funds under $2 billion manage $300 billion of dry powder, and target *33 million* companies with less than $500 million revenue. Standalone, the US MM is the third largest economy in the world.

With so many targets, the MM can buy at lower purchase multiples. MM buyers can also invest in more interesting, niche submarkets whose competitive dynamics have not reached scale. The large cap fund opportunities are limited to mature, lower growth industries, some with more cycle risk such as energy, construction, and retail.

Alignment and incentives in the MM are arguably more favorable. Nearly all private equity firms are compensated with a management fee (as a percent of AUM) and a performance fee ("carry"). A $5 billion fund manager earns much larger annual fees than a $500 million fund. To succeed financially, smaller fund managers depend on carry, which is performance-driven.

As we noted last week, MM PE funds target smaller companies which often lack experienced professional leadership. This provides more low hanging fruit for value creation, both organically and through acquisitions. Operational improvements can move the needle. In the upper market, value creation levers have already been pulled, or are too small to matter. Improving Ebitda by $5 million in a $20 million Ebitda company is transformational; in a $200 million Ebitda company, it's a rounding error.

Finally, a point on risk. Many investors associate scale with safety. According to Burgiss, mid-sized US funds ($750 million – $2 billion) outperformed large funds during 2007-2009 by nearly 400 basis points. MM businesses still operate with material scale while maintaining more flexibility in challenging environments. Strategic decisions can be made more quickly and efficiently by a smaller board and with less bureaucracy. Larger deals typically employ higher leverage, which elevates the borrower's risk profile.

Middle market private equity combines relationship-driven sourcing, active ownership, and long-term alignment in ways that are difficult to replicate at large scales. By focusing on improving good businesses in niche industries rather than competing in a zero-sum deployment game, it offers investors a practical and disciplined path to long-term value creation and an excellent balance of risk and return.