OMNIGENCE
ASSET MANAGEMENT

Measuring Capital Availability in the Lower-Middle-Market

Examining how thin institutional demand contributes to the North American small company return advantage

June 2026

EXECUTIVE SUMMARY:

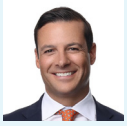
The availability of institutional capital in the various segments of the PE universe varies dramatically – with the well-developed, traditional large company market being pursued by managers representing trillions in AUM. We have analyzed the degree to which institutional capital availability is materially less in the lower-middle-market ("LMM") – companies with roughly $1–10 million of EBITDA – than in the markets above it, on the view that thin demand, rather than a risk premium, drives LMM valuations at the margin.

Band	US	Canada
LMM	3.4¢	0.3¢
Above-LMM	17.3¢	9.0¢

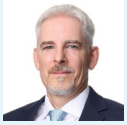
In the US lower-middle-market there is only ~ 3.4 cents of institutional capital per dollar of investable enterprise value, against ~17.3 cents for the middle-market above it. Canadian lower-middle-market levels are even lower, with only ~0.3 cents of institutional capital per dollar of investable enterprise value, versus ~9.0 cents for middle-market above it.

Put another way, dedicated, domestic institutional capital reaches only approximately 1 in 30 investable US lower-middle-market companies and less than 1 in 300 investable Canadian LMM companies.

Stephen Johnston
Director
sjohnston@omnigenceam.com



Matt Barr
Director
mbarr@omnigenceam.com



Barclay Laughland
Director
blaughland@omnigenceam.com

THE HYPOTHESIS:

It is a statement of the obvious that smaller companies change hands at lower earnings multiples than larger ones. The pattern has been stable for decades: LMM businesses transact in the region of 6 to 8 times EBITDA, while the median buyout multiple sits near 12 times and deals above $500 million average closer to 16 times. Conventional wisdom treats the difference as the result of a large risk premium. We believe the appropriate risk premium is likely far smaller than is commonly assumed. Once idiosyncratic risk is diversified, a portfolio of lower-middle-market companies can exhibit broadly similar earnings volatility, growth characteristics, cost of capital and resilience to a portfolio of much larger entities. The better hypothesis is that a discount of the same sign and rough magnitude as is seen in the LMM segment would arise if institutional demand for small companies were simply thinner – if fewer buyers, holding less capital, competed for each investable asset.

MEASURING CAPITAL AVAILABILITY:

To measure capital availability, we created a simple financialization ratio for each segment (band) of the PE universe:

Financialization ratio = Institutional PE (equity capital) targeting the band ÷ Investable enterprise value of the band

Capital availability is therefore simply equity-capital available per dollar of investable enterprise value – a direct measure of whether a particular segment is more densely covered by institutional capital than another. A low ratio is consistent with less competition for assets.

Our bands are defined by company EBITDA, with a $1 million floor on the lower-middle-market:

Band	EBITDA range	Label
Band 1	$1–10 million	Lower-middle-market (LMM)
Band 2	$10–50 million	Middle-market
Band 3	$50–250 million	Upper-middle-market
Band 4	$250 million +	Large

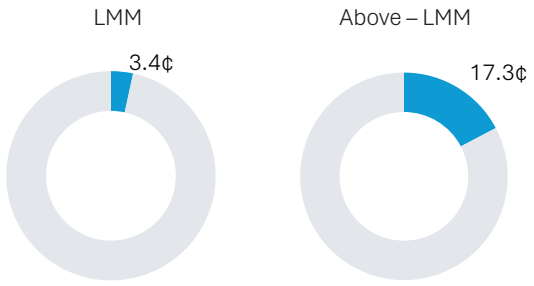
Band 4 is dominated by large, predominantly public companies that are not realistically transactable by private buyers. We report it for completeness but exclude it from the headline two-band comparison.

RESULTS:

The data was in line with the hypothesis that there is capital scarcity in the LMM space versus its much larger peers.

United States:

Segment	PE Capital ($B)	Investable EV ($B)	Ratio (¢ / $)
LMM (Band 1)	150	4,431	3.4
Above-LMM (ex. large)	2,900	16,783	17.3

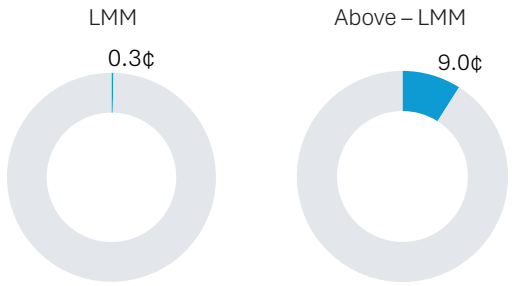


Cents of institutional capital per $1.00 of investable enterprise value

Result: The US lower-middle-market is roughly one-fifth as well funded with institutional capital as the middle-market immediately above it.

Canada:

Segment	PE Capital (C$B)	Investable EV (C$B)	Ratio (¢ / $)
LMM (Band 1)	5	1,580	0.3
Above-LMM (ex. large)	48	531	9.0

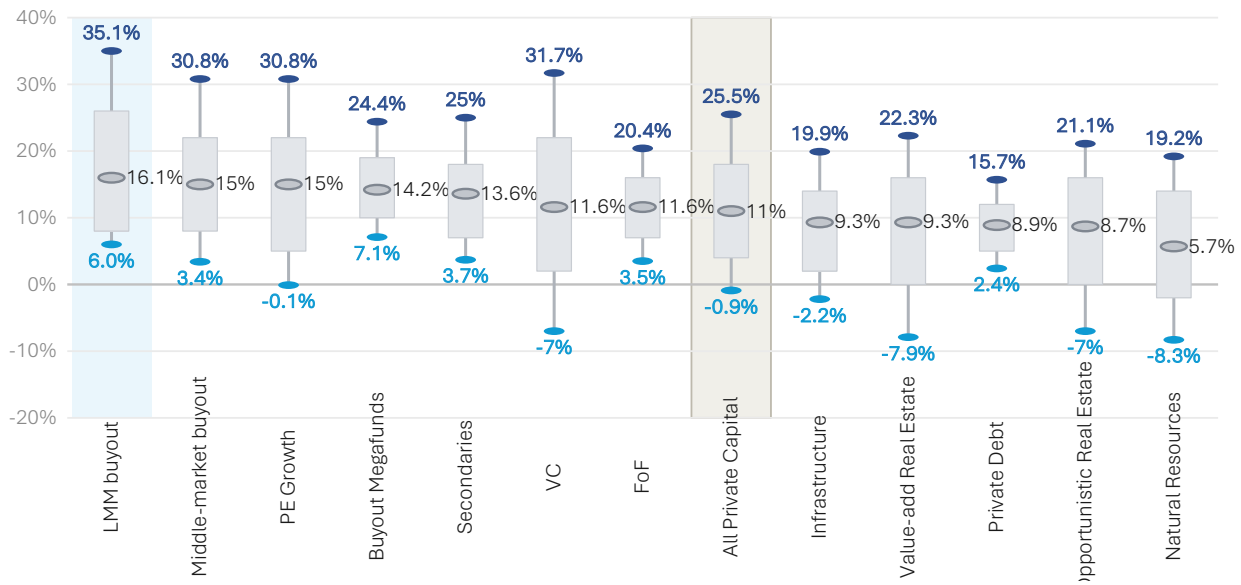


Cents of institutional capital per $1.00 of investable enterprise value

Result: The Canadian lower-middle-market is roughly one-thirtieth as well funded with institutional capital as the middle-market immediately above it. This is consistent with the structure of Canadian institutional capital, in which a small number of very large investors deploy most of their private equity globally and at scale, leaving comparatively little domestic capital aimed at the lower-middle-market.

Given what we believe to be the far lower than perceived risk premium warranted in LMM, the capital scarcity in the segment should support persistent excess return potential via lower pricing than traditional large company PE for managers with the capabilities to source, underwrite, professionalize, and exit smaller companies. This conclusion is consistent with, and we believe explains the long-term relative outperformance of funds in the LMM space.

Top decile / median / bottom decile net IRR, with interquartile range



Source: PitchBook, 2002–2019 vintages

The driver is simple – LMM managers have the advantage of operating in a market where institutional capital has not yet reached the same density (financialization is lower and fragmentation is higher) as it has in the middle and upper-middle-market (financialization is higher and fragmentation is lower) and therefore LMM managers acquire where it is not competitive (LMM) and exit (MM) where it is competitive.

CONCLUSION:

The lower-middle-market is not simply a smaller version of the institutional buyout market above it. It is structurally far less penetrated by institutional private equity capital. That lower level of capital availability matters because it changes the competitive environment in which companies are bought. Price formation in this segment is shaped by this limited buyer coverage, more fragmented sourcing, fewer scaled intermediaries, and less concentrated sponsor capital. The resulting entry-multiple discounts are therefore not merely a company-size risk premium; they are also a market structure phenomenon which provides excess returns to competent managers.

APPENDIX A – PRINCIPAL SOURCES

- U.S. Census Bureau, Statistics of U.S. Businesses (SUSB), 2022 release
- Innovation, Science and Economic Development Canada, Key Small Business Statistics 2025
- Statistics Canada, Canadian Business Counts.
- McKinsey & Company, Global Private Markets Report 2026
- National Center for the Middle Market, Middle Market Indicator

APPENDIX B – METHODOLOGY:

The financialization ratio formula:

Financialization ratio = Institutional PE (equity capital) targeting the band ÷ Investable enterprise value of the band

The denominator is built bottom-up from firm-level data; the numerator is a total capital figure allocated to each band.

- **Numerator – institutional PE capital by band:** Institutional capital is defined as buyout-oriented institutional PE. The U.S. total is approximately $5.0 trillion of buyout-oriented PE. We allocate this across bands using cohort shares that map fund size to company size: 3% to Band 1, 25% to Band 2, 33% to Band 3, and 39% to Band 4. Band 4 is set at 39 percent rather than the roughly 35 percent attributable to funds over $5 billion alone, because large companies are also acquired by the upper end of the $2 to $5 billion fund cohort. This produces $150B for Band 1 and $2.9T for Bands 2–3 combined. Canada is built bottom-up rather than from a single national total. Dedicated domestic lower-middle-market funds sum to roughly C$5 billion of Band 1 capital, and domestic middle-market managers to roughly C$48 billion above it – about C$53 billion of domestic PE capital in total. The globally deployed capital of the large Canadian institutions is excluded, as it does not target the domestic lower-middle-market. The allocations across the bands mapped fund size to company size – the recognition that a $300 million fund operates in the lower-middle-market while a $10 billion fund operates among large companies. The shares are anchored to the published fund-size distribution of capital: funds below $500 million account for roughly 13 percent of recent buyout and growth fundraising, while funds above $5 billion account for roughly 35 percent.
- **Denominator – investable enterprise value by band:** For each band we build investable enterprise value in four steps: 1) Aggregate the revenue of firms in the band, from primary firm-count-and-receipts data. 2) Convert revenue to EBITDA using a base case margin. 3) Convert EBITDA to enterprise value using a band-specific EV/EBITDA multiple. 4) Apply an investability haircut to remove the portion of the band that is not realistically transactable. In addition, firms below roughly $10 million of revenue – below about $1 million of EBITDA at the base case margin – fall beneath the lower-middle-market floor and are excluded. In the United States, the Census publishes firm counts and aggregate receipts by revenue-size class, so the calculation is a single step: revenue to EBITDA via the base case margin, with band revenue ranges set so that, at the assumed EBITDA margin, they correspond to the stated EBITDA bands. In Canada, Statistics Canada and ISED publish counts by employment size rather than revenue size, so the calculation requires an additional step – employment to revenue via a revenue-per-employee assumption – before the revenue-to-EBITDA conversion.

Input	Source/Data
Firm counts and receipts by size (US)	Census SUSB 2022
Firm counts by size (Canada)	ISED KSBS 2025 / StatsCan
EV/EBITDA multiples by band	8.4x / 10.8x / 13.8x / 16.8x
EBITDA margin	13%
Investability haircuts by band	40% / 15% / 8% / 5%
Total US PE Capital	~$5.0 trillion
Total Canadian PE Capital	~C$53 billion
Cohort allocation (Bands 1–4)	3% / 25% / 33% / 39%

Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

Montréal Office:
3 Place Ville Marie, Suite 3190
Montréal, QC H3B 2E3

www.omnigenceam.com