

**Priced by Buyers,
Not by the Fed**

Lower middle market pricing
and leverage sensitivity
across rate cycles

Q4 2026

EXECUTIVE SUMMARY:

In this report, we examined how private equity entry pricing and deal leverage have responded to Federal Reserve easing and tightening cycles since 2001, comparing large-cap buyouts with the lower middle market (LMM), and place the Arvore transaction record inside that framework.

Large-cap pricing and leverage move with the credit cycle: debt to EBITDA on large corporate LBOs fell 1.6 turns through the 2007 to 2008 easing and 1.2 turns through the 2022 to 2023 tightening, when entry multiples also fell 1.1 turns. Measured cycle by cycle against the federal funds rate, lower middle market deal terms look disconnected from policy: LMM entry multiples held in a 6.3x to 7.6x band and LMM leverage in a 3.2x to 4.1x band across policy rates from 0% to 5.3%, and the 2024 to 2025 cuts have not pushed leverage back up in either market. Measured against the 10-year Treasury yield from two years earlier, both tiers respond, but at different amplitudes: a one-point rise in the yield is followed by large-cap leverage about 0.5 turns lower and LMM leverage 0.25 turns lower, and by entry multiples about 0.25 and 0.19 turns lower. Omnigence's partner PE fund, Arvore Partners' 18 transactions since 2014 averaged 5.6x EBITDA with little relationship to the policy rate, and its fund leverage has sat at or below typical LMM levels throughout. For allocators, the key take-away is that LMM private equity carries less of the rate beta embedded in large-cap buyout returns, in both directions.

Key figures: pricing and leverage across rate cycles, lower middle market vs large-cap

2.3 to 4.0 turns

Discount of lower middle market to large-cap entry multiples, 2011 to 2025

3.2x to 4.1x

Lower middle market leverage band, 2011 to 2025, across federal funds rates of 0% to 5.3%

5.6x

Arvore average entry multiple, 18 transactions, 2014 to 2026, at policy rates from 0.1% to 5.3%

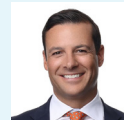
Arvore figures are unaudited.



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INTRODUCTION:

Private equity returns are usually described as the product of three levers: the entry multiple, leverage and earnings growth. Two of the three are linked to interest rates. Cheaper debt lets a buyer borrow more against the same EBITDA, and the competition that follows bids up the entry multiple, so the textbook expectation is that easing cycles raise leverage and pricing and tightening cycles lower them.

How strong that link is depends on where a deal is financed. Large-cap buyout transactions are funded in the broadly syndicated loan and private credit markets at five to seven turns of EBITDA (one turn being 1.0x EBITDA), so their pricing embeds the cost

and availability of that debt. Lower middle market transactions, companies with \$1M to \$10M of EBITDA, are funded at three to four turns by banks and non-bank lenders and are priced in a fragmented market of founder-sellers where institutional capital is scarce and competition among buyers is thin.

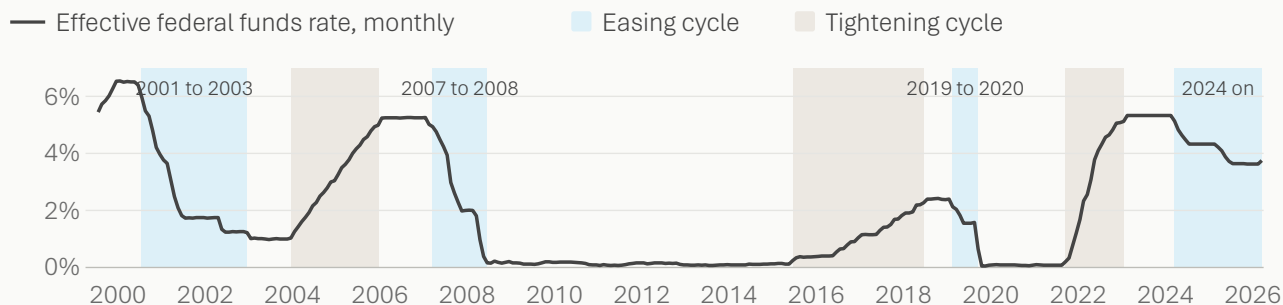
This paper asks three questions.

- The first is how entry multiples and leverage in each market tier have moved through the seven Federal Reserve cycles since 2001: four easing cycles (2001 to 2003, 2007 to 2008, 2019 to 2020 and 2024 on) and three tightening cycles (2004 to 2006, 2015 to 2018 and 2022 to 2023).
- The second is where Arvore's entry multiples and leverage sit against those series, and what that implies for the strategy's sensitivity to the rate environment.
- The third is whether the link between rates and deal terms appears once rates are measured by the 10-year Treasury yield rather than the policy rate, and allowed a lag of up to three years.

RESULTS:

The rate cycles, 2000 to 2026: Chart 1 sets out the seven cycles of the effective federal funds rate. The three largest moves, the 2001 to 2003 and 2007 to 2008 easings and the 2022 to 2023 tightening, each shifted the policy rate by about five percentage points. The 2019 to 2020 easing and the cuts since September 2024 are smaller, at 1.5 and 1.4 points, and the current cycle is still open: the rate stood at 3.75% in September 2026. Chart 4 at the end of this section summarises the change in pricing and leverage over each cycle.

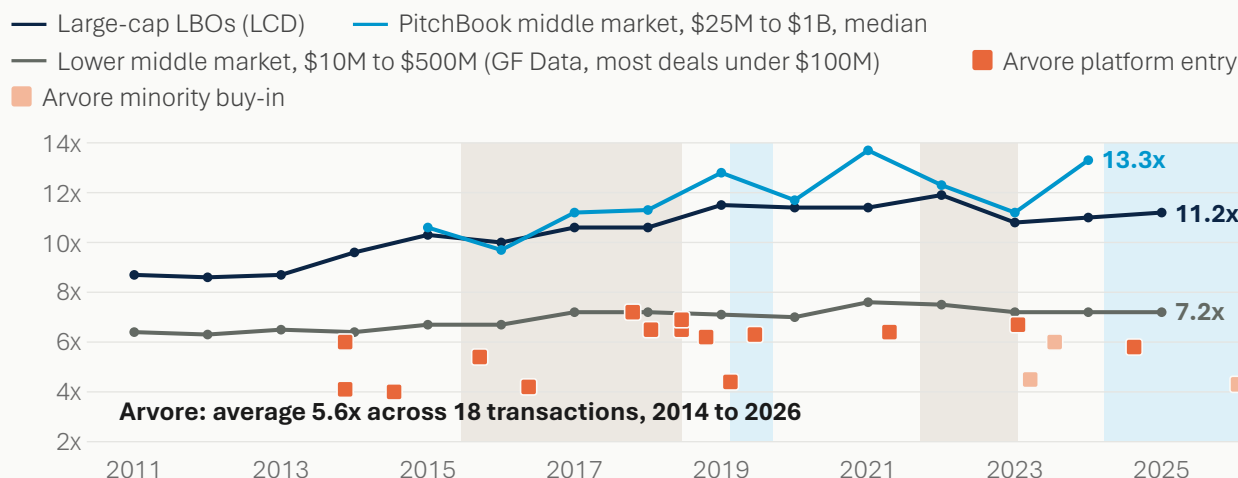
Chart 1: Federal funds rate with easing and tightening cycles, 2000 to 2026, %



Sources: Federal Reserve (FRED FEDFUNDS), monthly effective rate. Cycle windows run from the first to the last policy move in each direction; the 2024 window is open.

Pricing by market tier: Chart 2 sets large-cap, upper middle market and lower middle market entry multiples side by side from 2011, the first year for which GF Data annual averages are publicly available. The three tiers sit in distinct bands. Large-cap LBOs rose from 8.7x in 2011 to a peak of 11.9x in 2022 and stood at 11.2x in 2025; the PitchBook middle-market series (\$25M to \$1B, median) ran between 9.7x and 13.7x; the GF Data lower middle market series (\$10M to \$500M, most deals under \$100M) ran between 6.3x and 7.6x. The two ranges overlap in dollar terms; the gap between the series reflects the much smaller deals that dominate GF Data's sample. The size discount between the lower middle market and large-cap widened from about 2.3 turns in 2011 to 4.0 turns in 2025, and the LMM series moved less in every cycle. Through the 2022 to 2023 tightening, large-cap multiples fell 1.1 turns and LMM multiples 0.3 turns; through the cuts since 2024, large-cap multiples rose 0.2 turns and LMM multiples did not move. Arvore's 18 transactions, marked in orange, sit below the LMM line in most years at an average of 5.6x, with deals between 4.0x and 7.2x at policy rates from 0.1% to 5.3%.

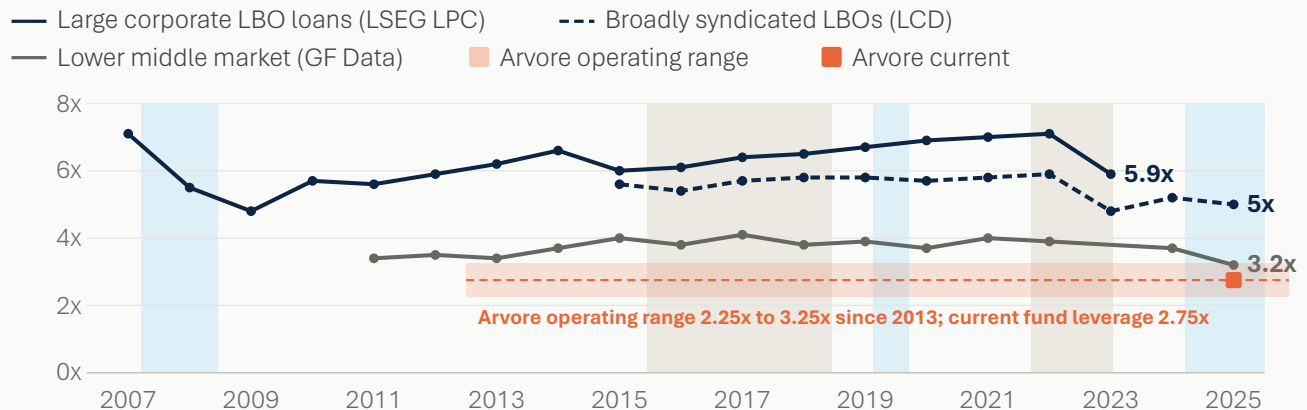
Chart 2: Entry multiples by market tier, 2011 to 2025, EV/EBITDA



Sources: PitchBook | LCD, US syndicated LBOs (2011 to 2014 from Bain Global PE Report 2024); PitchBook, median PE middle-market EV/EBITDA, North America and Europe; GF Data average EV/EBITDA (total enterprise value, including earnouts and seller notes). The two middle-market ranges overlap in dollar terms; the gap reflects the much smaller deals that dominate GF Data's sample. Arvore, valuation at closing, unaudited. Easing windows shaded. Past multiples are not indicative of future multiples.

Leverage by market tier: Chart 3 shows the same comparison for debt to EBITDA. Large corporate LBO leverage is the most rate-sensitive series. It fell from 7.1x in 2007 to 4.8x in 2009 as the syndicated loan market closed, climbed back to 7.1x by 2022 and fell 1.2 turns to 5.9x in 2023 when rates rose; on the broadly syndicated measure the fall was 1.1 turns, to 4.8x, with sponsors contributing a cycle-high 51% of deal value in equity. The cuts since 2024 have not reversed this: syndicated LBO leverage was 5.0x in 2025 and equity contributions remain above pre-pandemic norms. LMM leverage has stayed between 3.2x and 4.1x since 2011, a range of less than one turn across a policy-rate range of more than five points and has drifted down through the current easing cycle rather than up, a pattern the lag section below traces to the 2022 to 2023 rise in long yields arriving two years later. Arvore has operated within a 2.25x to 3.25x debt to EBITDA range since inception in 2013, at or below the LMM average in every year, and fund leverage stood at 2.75x in Q2 2026.

Chart 3: Deal leverage by market tier, 2007 to 2025, total debt to EBITDA

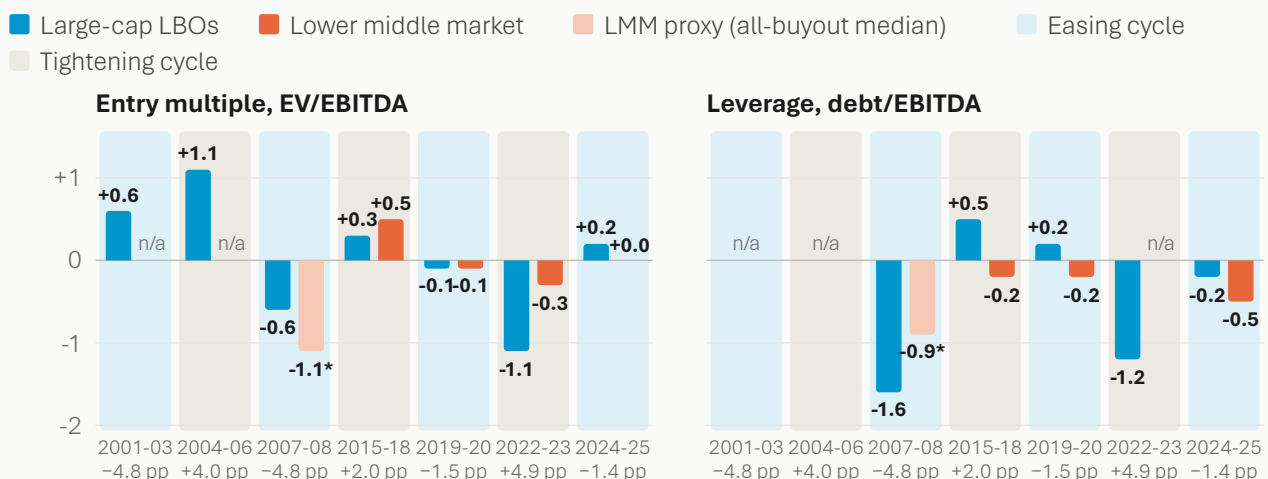


Sources: LSEG LPC, US large corporate LBO debt/EBITDA, 2007 to 2023 (Bain Global PE Report 2024); PitchBook | LCD, syndicated LBO debt/EBITDA, 2015 to 2025; GF Data average total debt/EBITDA, 2025 nine months to September, platform deals only. Arvore: operating range 2.25x to 3.25x since 2013, 2.75x at Q2 2026, unaudited. Easing windows shaded.

Cycle by cycle: Chart 4 shows the change in pricing and leverage from the first year of each cycle to the last. Three patterns stand out.

- First, large-cap leverage moves contemporaneously with credit conditions rather than with the policy rate alone: it fell most in the two cycles that coincided with a credit market shock, 2007 to 2008 and 2022 to 2023, and barely moved in the two mild easings.

Chart 4: Change in pricing and leverage over each rate cycle, turns of EBITDA



Change from the year each cycle began to the year it ended. Large-cap: LCD multiples, LSEG LPC leverage (LCD for 2024 on). LMM: GF Data from 2011; *2007 to 2008 LMM bars use the PitchBook all-buyout median as a proxy. Leverage and LMM series are not available before 2007 and 2011; LMM leverage for 2022 to 2023 not reported.

- Second, LMM pricing changed by half a turn or less in every cycle for which GF Data is available, and LMM leverage by half a turn or less.
- Third, the cuts since September 2024 have left large-cap leverage 0.2 turns lower and LMM leverage 0.5 turns lower.

The unlagged results in Chart 4 seem counterintuitive with a limited or somewhat inverted linkage to higher or lower Fed funds rates on large-cap or LMM leverage or pricing. The linkage between rates, leverage and pricing is much clearer, however, once rates are measured by the long bond and lagged, which the next section shows.

The lag: Chart 4 measures each cycle from its first year to its last, and on that measure the policy rate does not appear to be a driver of pricing or leverage levels. The connection appears once two things change.

- The first is the rate: leveraged loans and private credit are priced off term rates and credit spreads rather than the overnight rate, so the 10-year Treasury yield is the closer proxy for the cost of acquisition debt.
- The second is timing: repriced credit works through lender risk appetite, hold sizes and covenant terms over several quarters before it reaches new deals.

Chart 5 tests both. Correlating each series with the 10-year yield up to three years earlier, with trends removed, the fit for large-cap leverage rises from -0.43 at no lag to -0.63 at two years and falls back to -0.29 at three, and the fit for LMM leverage rises from -0.50 to -0.73 at two years. Large-cap entry multiples peak at the same lag but at only -0.33 once the shared 2000 to 2021 trend is removed, so pricing follows rates more loosely than leverage does. The LMM entry multiple peaks a year earlier, at -0.74 on a one-year lag, consistent with buyers' underwriting adjusting to the rate environment before lenders' terms do.

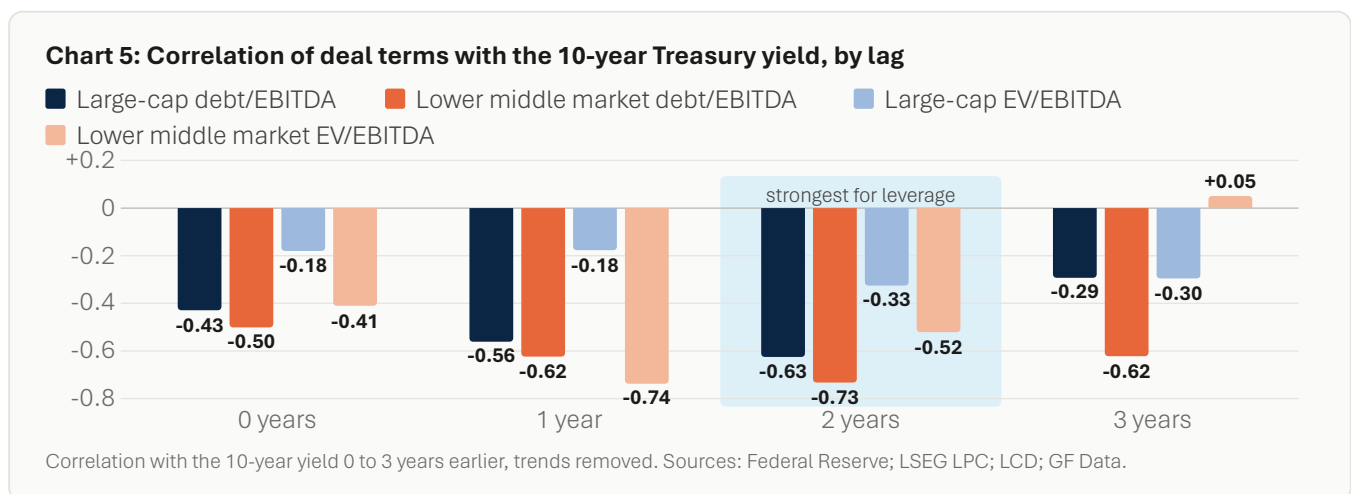


Chart 6 plots each year's leverage against the 10-year yield two years earlier, with both measured as deviations from trend, and fits a line through each tier. The LMM correlation is the higher of the two, but correlation measures timing, not magnitude.

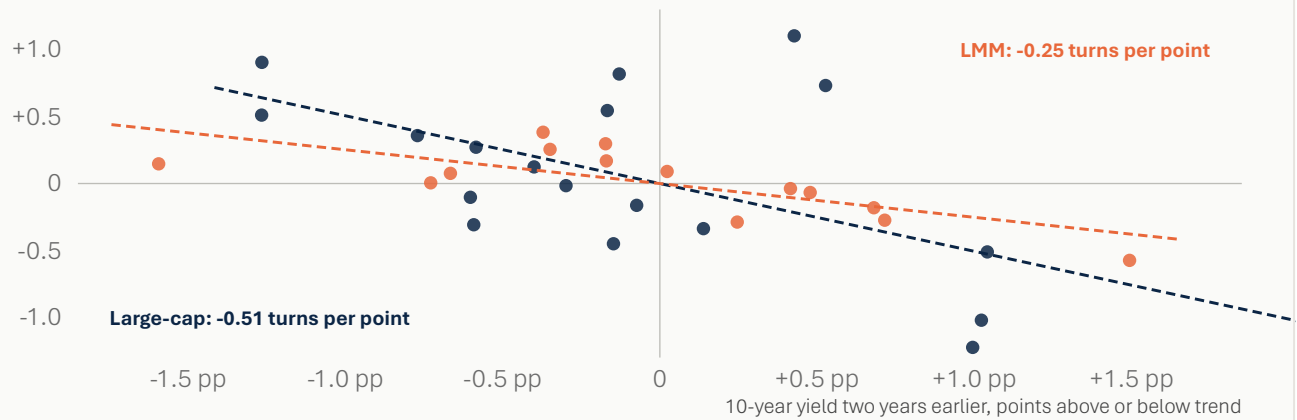
The slope measures magnitude: the large-cap line falls 0.51 turns for every percentage point of yield, the LMM line 0.25, so a one-point move in long rates has roughly twice the effect on large-cap debt packages that it has on LMM ones; in pricing, measured the same way, the slopes are closer, 0.25 turns for large-cap against 0.19 for the LMM, and the large-cap fit is looser. Both tiers follow the same timing, but the lower middle market moves at half the amplitude in leverage and about three-quarters of it in pricing.

Chart 6: Leverage against the 10-year Treasury yield two years earlier, slope by tier

■ Large-cap debt/EBITDA, 2007 to 2025

■ Lower middle market debt/EBITDA, 2011 to 2025

Leverage, turns above or below trend



Both axes are deviations from each series' linear trend. Slope of the fitted line: large-cap -0.51 turns per percentage point, LMM -0.25. Sources: Federal Reserve; LSEG LPC; LCD; GF Data.

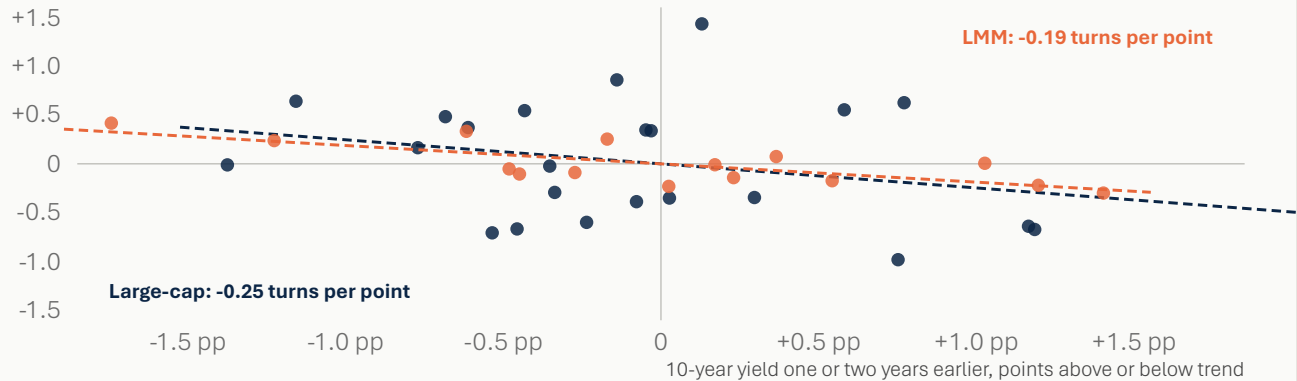
Chart 7 repeats the exercise for entry multiples, each tier at its best-fitting lag.

Chart 7: Entry multiples against the earlier 10-year Treasury yield, slope by tier

■ Large-cap EV/EBITDA, 2000 to 2025, yield two years earlier

■ Lower middle market EV/EBITDA, 2011 to 2025, yield one year earlier

Entry multiple, turns above or below trend



Both axes are deviations from each series' linear trend; each tier uses its best-fitting lag. Slope of the fitted line: large-cap -0.25 turns per percentage point, LMM -0.19. Sources: Federal Reserve; LCD; GF Data.

The worked example below applies the four slopes to a representative deal in each tier.

Worked example: the 10-year Treasury yield rises by one percentage point

Leverage, two years later		Entry multiple, two years later (LMM: one year)	
Large-cap debt/EBITDA		Large-cap EV/EBITDA	
7.0x → 6.5x	–0.5 turns	11.0x → 10.75x	–0.25 turns
Lower middle market debt/EBITDA		Lower middle market EV/EBITDA	
3.8x → 3.55x	–0.25 turns	7.0x → 6.8x	–0.2 turns

For the same move in rates, the lower middle market buyer gives up half as much leverage as the large-cap buyer, and a similar fraction of a turn in price. Slopes from Charts 6 and 7, trends removed; illustrative, not a forecast.

Why the tiers differ: We believe the difference reflects where each tier's pricing is set. Large-cap buyouts are priced in competitive auctions among sponsors whose bids are bounded by what the syndicated loan or private credit market will lend; when that market reprices, so do entry multiples and leverage, with the two-year delay shown in Chart 5.

Lower middle market businesses are priced in a fragmented market of founder-sellers, where the buyer universe is thin and the binding constraint is the buyer's own underwriting rather than the debt market. Obviously, bank lenders to the lower middle market reprice too, which is why LMM leverage follows the same two-year lag, but they move hold sizes and covenants by less because absolute and relative debt levels are lower. LMM deals are, in short, priced by buyers rather than by the Fed.

WHAT THIS MEANS FOR ALLOCATORS:

- Large-cap buyout pricing and leverage move with the credit cycle: large corporate LBO leverage fell 1.6 turns in 2007 to 2008 and 1.2 turns in 2022 to 2023, and entry multiples fell 1.1 turns through the 2022 to 2023 hikes.
- Lower middle market pricing and leverage are far less sensitive to rates and credit conditions: entry multiples held in a 6.3x to 7.6x band and leverage in a 3.2x to 4.1x band from 2011 to 2025, and where the tier does respond, to long rates two years on, it moves at half the large-cap slope in leverage and three-quarters in pricing.
- LMM private equity carries less of the rate beta embedded in large-cap buyout returns, in both directions: it gains less from an easing cycle and loses less from a tightening one, at about half the large-cap slope in leverage and three-quarters of it in pricing.
- The cuts since September 2024 have not pushed leverage back up in either market: syndicated LBO leverage was 5.0x in 2025 against 5.9x in 2022, and LMM leverage fell to 3.2x (nine months to September 2025, platform deals).
- Arvore, at the micro-cap end of the lower middle market, is less sensitive still. Its 18 transactions since 2014 averaged 5.6x EBITDA across federal funds rates of 0.1% to 5.3%, its leverage has stayed within 2.25x to 3.25x (averaging <3x and 2.75x today) through two tightening and two easing cycles, at or below the LMM series across the whole lagged relationship, and its debt is fund-level bank financing rather than deal-by-deal syndicated loans whose availability opens and closes with the credit market. The interest cost of that debt is floating, so the rate cycle still reaches cash flow; what it does not reach is entry pricing or the availability of financing. We believe that makes the strategy's returns, driven by entry price, consolidation and operations, materially more resilient to rate cycles and credit conditions than traditional private equity.



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