



**Structural Alpha  
in Lower Middle  
Market PE:**

Public versus Private EV/  
EBITDA Pricing

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## INTRODUCTION:

An allocator considering a commitment to lower middle market (“LMM”) private equity is, in part, making a bet on the entry and terminal price of EBITDA. In public markets, investors pay on average 17x trailing EBITDA for a share of index earnings, depending on sector. In the lower middle market, PE-sponsored transactions clear at 6-9x EBITDA – smaller transactions at even lower valuations. The spread between these two prices is a structural source of alpha that makes the asset class compelling.

LMM EV/EBITDA	Average <b>7.2x</b>	Range <b>6-9x</b>	LMM - SP 500 EV/EBITDA spread <b>4-15x</b>
SP 500 EV/EBITDA	Average <b>17.3x</b>	Range <b>10-23x</b>	



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We calculated an implied EV/EBITDA for the S&P 500 by sector, on a trailing twelve-month basis, working from the published P/E ratio to the EV/EBITDA equivalent. We then compared those public market multiples to actual PE-sponsored transaction data from across both industry verticals and deal size tiers. The result is a sector-by-sector map of the cost advantage available to LMM PE managers, and by extension, to the allocators who back them. Critically, a diversified portfolio of LMM companies does not carry materially more earnings volatility than the S&P 500 index itself, meaning the spread represents genuine alpha, not a risk premium.

## METHODOLOGY:

The formula for converting public market P/E data into EV/EBITDA data is straightforward. Enterprise value differs from equity value by net debt, and EBITDA differs from net income (“NI”) by tax, interest, and depreciation and amortization. Combining the two:

$$EV / EBITDA = (P / E) \times (EV / Market Cap) \times (NI / EBITDA)^1$$

For the S&P 500 ex-Financials in aggregate, the trailing P/E is approximately 30x (backed out from the 28x index-level number and the 17x Financials multiple weighted at roughly 18% of earnings), an EV/Market Cap multiplier of 1.07 (aggregate net debt is 6-8% of market cap, held down by mega-cap cash positions in Technology), and an NI/EBITDA ratio of 0.54 (effective tax rate of approximately 19%, interest expense around 8% of EBIT, and D&A approximately 40% of EBIT).

The trailing S&P 500 EV/EBITDA, ex-Financials is ~17 times. This is the price an allocator pays for a unit of EBITDA in public equities. In the lower middle market, PE-sponsored transactions are reported clearing at 6-9x depending on industry and deal size. The spread of eight to eleven turns is the structural alpha embedded in LMM PE - and it has widened, not narrowed, as public market valuations have expanded while LMM transaction pricing has remained disciplined at a flat 7.2x all-sector average.

## S&P 500 VERSUS LMM PE SECTOR-LEVEL RESULTS:

Sector dispersion ranges from approximately 10x in Energy to 23x in Information Technology in the base-case, with each sector’s multiple driven by a different combination of growth premium, leverage profile, and capital intensity. Low and high

<sup>1</sup> Each multiplier is observable at the index or sector level. PE ratios are published. The second term is the leverage adjustment, which equals one plus aggregate net debt divided by aggregate market cap. The third term is the earnings-to-EBITDA conversion, itself a product of three sub-factors: one minus the effective tax rate, the ratio of pretax income to EBIT (which captures interest expense), and the ratio of EBIT to EBITDA (which captures D&A intensity).

estimates flex two assumptions: D&A intensity (whether current capex ratios persist or normalize) and effective tax rate (plus or minus 200 basis points). Financials are excluded because EBITDA is not economically meaningful for banks and insurers, where debt is operating capital rather than financing.

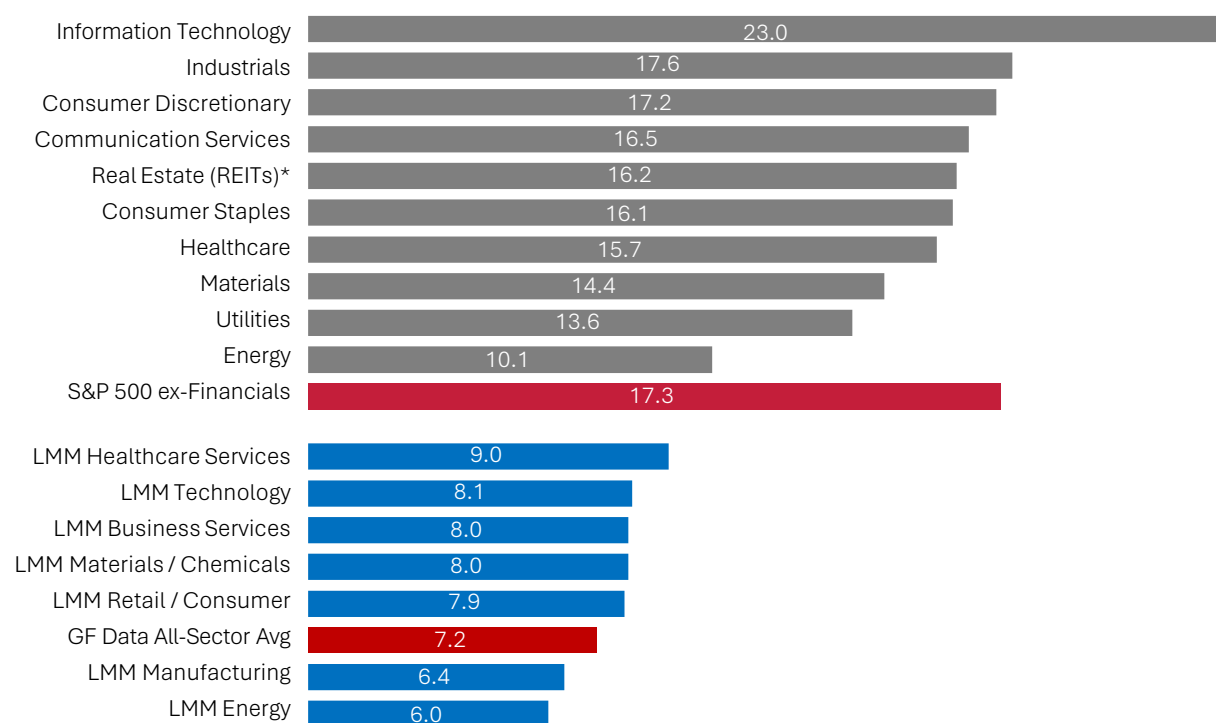
**Table 1. Implied S&P 500 EV/EBITDA by Sector, Trailing Twelve Months**

Sector	TTM P/E	EV / Mkt Cap	NI / EBITDA	Low	Base	High
Information Technology	~36	0.97	0.66	21.0	<b>23.0</b>	25.1
Consumer Discretionary	~31	1.07	0.52	15.3	<b>17.2</b>	19.2
Industrials	~30	1.17	0.50	15.4	<b>17.6</b>	19.7
Communication Services	~25	1.05	0.63	15.0	<b>16.5</b>	18.1
Real Estate (REITs)*	~32	1.45	0.35	13.5	<b>16.2</b>	19.0
Consumer Staples	~26	1.17	0.53	14.3	<b>16.1</b>	17.9
Health Care	~25	1.10	0.57	14.0	<b>15.7</b>	17.3
Materials	~26	1.18	0.47	12.6	<b>14.4</b>	16.3
Utilities	~22	1.55	0.40	11.6	<b>13.6</b>	15.7
Energy	~23	1.13	0.39	8.6	<b>10.1</b>	11.7
<b>S&amp;P 500 ex-Financials</b>	<b>~30</b>	<b>1.07</b>	<b>0.54</b>	<b>15.7</b>	<b>17.3</b>	<b>18.9</b>

Sources: FactSet Earnings Insight (April 2026), worldperatio.com (sector ETF trailing P/E, April 24 2026), Sibilis Research, S&P Dow Jones Indices, company filings; Omnigence analysis. \*REITs: see narrative for caveats. Trailing P/E cross-referenced against sector ETF data; conversion factors estimated from aggregate balance sheet and income statement ratios.

The next step was to compare the public EV/EBITDA numbers by sector to data from the LMM PE market:

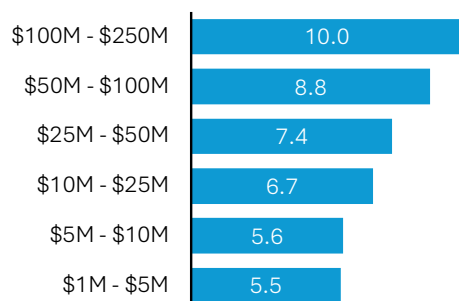
**Figure 2. EV/EBITDA Across the Valuation Spectrum – S&P 500 (grey) to LMM (blue) – averages in red**



Sources: FactSet Earnings Insight (April 2026), worldperatio.com, GF Data Q1-Q3 2025 via Calder Capital / Taureau Group / Forvis Mazars / ACG; Omnigence analysis. \*REITs: P/FFO is more meaningful. LMM multiples reflect PE-sponsored transaction data (\$10M-\$500M TEV).

The sector multiples cited above reflect PE-sponsored transactions across an enterprise value range of \$10M to \$500M TEV. However, the return opportunity deepens even further at the lower end of the market, where smaller deal sizes create additional pricing advantages. GF Data's expanded dataset, which tracks transactions from \$1M TEV, reveals a pronounced and consistent size discount that compounds the public-private spread into what is, for allocators, the most compelling cost-of-EBITDA differential in the investable universe.

**Figure 3. The Size Premium: Average EV/EBITDA Transaction Multiples by Enterprise Value**



Source: GF Data H1-Q3 2025 via Calder Capital, Taureau Group, Forvis Mazars, ACG Middle Market Growth.

A fund acquiring in the \$5M to \$25M TEV range is buying earnings at roughly one-third the cost of an S&P 500 index allocation. A diversified portfolio of such positions should not carry materially more earnings volatility than the index itself, after adjusting for sector mix and vintage diversification, because idiosyncratic company risk diversifies away at portfolio level while the EBITDA acquired is fundamentally the same economic unit: pre-interest, pre-tax operating cash flow generated by North American businesses.

The LMM PE structural alpha is quantifiable. An allocator deploying capital into a diversified LMM PE fund acquires EBITDA at 6-7x. The same EBITDA costs 14-17x in the S&P 500 ex-Financials. The eight-to-eleven turn spread is not a risk premium - it is a market structure discount that persists because of information asymmetry, transaction costs, and the illiquidity that institutional capital is uniquely positioned to harvest.

## CONCLUSION:

The analysis in this paper demonstrates three things.

- First, public equity investors are paying historically elevated prices for EBITDA. The S&P 500 ex-Financials trades at approximately 17x trailing EV/EBITDA, with sector multiples ranging from 10x in Energy to 23x in Information Technology.
- Second, the cost of the same EBITDA in lower middle market private transactions is materially lower. PE-sponsored deals clear at 6-9x by industry, with the all-sector average flat at 7.2x through 2025. At the smaller end of the market (\$5M to \$25M TEV), where information asymmetry is greatest and institutional competition is thinnest, the cost drops further to 5.6-6.7x. This spread has been structurally present for decades and has widened in the current cycle as public valuations expanded while LMM pricing remained disciplined.
- Third, and critically, the spread is not explained by risk. A diversified portfolio of LMM companies, acquired across multiple sectors and vintages, should not exhibit materially higher earnings volatility than the S&P 500 index. Idiosyncratic business risk diversifies away at portfolio level. What remains is the same underlying economic exposure - EBITDA generated by North American operating businesses - purchased at a fraction of the public market price. The spread is genuine alpha, not a risk premium.

For institutional allocators evaluating their private equity allocation, the implications are straightforward. LMM PE offers a structural cost advantage in acquiring EBITDA that is unavailable at any other point in the capital markets and this advantage persists across market cycles.

## APPENDIX A: SECTOR NARRATIVES

The table below provides sector-by-sector detail on the conversion assumptions, comparable LMM transaction multiples, and key caveats underlying the implied EV/EBITDA estimates in Table 1. Conversion factors vary by sector based on leverage profile, capital intensity, and tax position. The resulting public-private spread ranges from four turns in Energy to fifteen turns in Information Technology.

Table 2. Sector Narrative Summary					
Sector	Base	Conversion Assumptions	LMM Range	Spread	Key Caveats
<b>Information Technology</b>	<b>23.0</b>	EV/MktCap 0.97 (sector carries net cash: AAPL, MSFT, NVDA, GOOGL). NI/EBITDA 0.66 (effective tax ~16% from foreign income/IP structures, minimal interest, D&A ~25% of EBIT but rising rapidly with AI infrastructure capex).	8.1x	15	D&A rising fast as hyperscaler capex flows through. High case assumes continued AI capex expansion. GF Data Technology multiple fell 21% (10.2x to 8.1x) in 2024.
<b>Consumer Discretionary</b>	<b>17.2</b>	EV/MktCap 1.07 (AMZN modest leverage, auto OEMs heavier). NI/EBITDA 0.52 (moderate D&A, blended tax ~20%, growth weighting of AMZN/TSLA inflates trailing P/E).	7.9x	9	Dominated by AMZN/TSLA. Long tail of retail, autos, leisure at lower multiples. GF Data Retail rose from 6.0x to 7.9x in 2024.
<b>Industrials</b>	<b>17.6</b>	EV/MktCap 1.17 (meaningful debt across rail, airlines, equipment finance). NI/EBITDA 0.50 (heavy D&A, moderate interest, tax ~22%).	6.1-6.6x	11	Largest public-private gap for LMM roll-up underwriting. GF Data Manufacturing at 6.1-6.6x (2024-2025). Defense/aerospace weight inflates public multiple vs typical LMM targets.
<b>Communication Services</b>	<b>16.5</b>	EV/MktCap 1.05 (platforms net cash offset by telecom debt). NI/EBITDA 0.63 (sector 70%+ GOOGL/META with NI/EBITDA ~0.70; telecoms much lower at ~0.35).	8-12x	5-9	Extreme intra-sector dispersion: GOOGL at 21x and META at 17x vs telecoms at 7x. Aggregate obscures this. ETF-weighted P/E differs sharply from market-cap-weighted.
<b>Real Estate (REITs)*</b>	<b>16.2</b>	EV/MktCap 1.45 (40-60% net debt/MktCap is structural for REITs). NI/EBITDA 0.35 (extreme D&A depresses GAAP NI; EBITDA similarly distorted).	N/A	N/A	EV/EBITDA is methodologically poor for REITs. P/FFO of 17-19x. Use cap rates for private comparison.
<b>Consumer Staples</b>	<b>16.1</b>	EV/MktCap 1.17 (steady leverage: PG, KO, PEP). NI/EBITDA 0.53 (moderate D&A, ~21% tax, meaningful interest).	7.9x	8	Narrower spread than Industrials. GF Data Retail at 7.9x (2024). Comparable growth profiles between public and private staples businesses.
<b>Health Care</b>	<b>15.7</b>	EV/MktCap 1.10 (big pharma leverage varies, devices moderate). NI/EBITDA 0.57 (low D&A given service-heavy mix, ~17% tax from foreign income).	9.0x	7	GF Data Healthcare ranges from 5.8x (Calder) to 9.0x (Taureau) in Q1 2025 depending on TEV range. Drug pricing/policy risk depresses public multiples.
<b>Materials</b>	<b>14.4</b>	EV/MktCap 1.18 (chemicals, mining, packaging all leveraged). NI/EBITDA 0.47 (very heavy D&A, ~22% tax). Capital intensity is defining feature.	7-9x	5-7	Cyclicality distorts trailing P/E. Specialty chemicals trade differently from commodity chemicals. Private spreads narrower than Industrials.

Sector	Base	Conversion Assumptions	LMM Range	Spread	Key Caveats
<b>Utilities</b>	<b>13.6</b>	EV/MktCap 1.55 (highest leverage in index: 50-70% net debt/MktCap). NI/EBITDA 0.40 (heavy D&A, substantial interest, ~20% effective tax).	11-14x	0-3	Near parity with private markets. One of few sectors with no meaningful public premium. Reflects comparable risk/cash flow profiles.
<b>Energy</b>	<b>10.1</b>	EV/MktCap 1.13 (cleaned-up balance sheets post-2020). NI/EBITDA 0.39 (extreme DD&A on reserves, 25%+ effective tax, meaningful interest at E&P level).	6x (est.)	4	Only sector where public markets trade near LMM PE multiples. Trailing P/E inflated by Q1 2026 earnings decline (XOM guidance cut). GF Data does not break out Energy separately.
<b>Financials</b>	<b>N/A</b>	Excluded. Debt is operating capital, not financing. EBITDA is not economically meaningful for banks and insurers.	N/A	N/A	Use P/Book (1.5-1.7x) and P/E (~17x trailing). Forward P/E 14.8x per FactSet.

Sources: FactSet, GF Data, PitchBook, company filings; Omnigence analysis. LMM ranges reflect sub-\$15M EBITDA transaction data (GF Data Q1 2025, PitchBook 2024-2025 vintages). Spread = base public EV/EBITDA minus LMM midpoint.

## APPENDIX B: METHODOLOGY CAVEATS

Several simplifying assumptions are used in this analysis. Trailing P/E data is sourced from both FactSet aggregate methodology and sector ETF readings (worldperatio.com), which can diverge for concentrated sectors due to ETF weighting caps. Communication Services is the most affected: the XLC ETF caps Alphabet and Meta at approximately 25% each, over-weighting telecom relative to true market capitalization. The conversion factors (NI/EBITDA, EV/Market Cap) are estimated from aggregate balance sheet and income statement ratios and have not been validated at the constituent level.

Trailing earnings include one-time items that distort sector multiples. The conversion calculation does not measure within-sector dispersion that can be substantial: software trades very differently from IT services within Technology, and pipelines trade very differently from E&Ps within Energy. For a more granular analysis, constituent-level aggregation (sum of EV divided by sum of EBITDA) with explicit treatment of negative-EBITDA names and sector-level FFO normalization for REITs could be conducted. The approach in this paper is used for demonstrating the structural EBITDA differential between public and private markets, and for understanding which sectors carry the widest spreads.





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