JK Research

MARKET INTELLIGENCE REPORT

The Lower Middle Market M&A Landscape for Professional Services

H1 2026 Retrospective & H2 2026 Outlook

PREPARED FOR

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Inside This Report

ABOUT THIS REPORT

An operator's read on where value is being created — and destroyed — across professional-services M&A in the U.S. lower middle market ($5M–$50M enterprise value). Built for founders and boards weighing an exit, and for the sponsors underwriting them.

SECTION 01

Executive Summary & Macro Context

The first half of 2026 established a new paradigm in the U.S. lower middle market. After a period of aggressive monetary tightening and a wide buyer–seller valuation gap through 2023–24, the market has entered a phase of **disciplined optimism**. For professional services — accounting, wealth management, IT services, consulting, and marketing — H1 2026 was defined by intense private-equity consolidation, a severe bifurcation of asset quality, and the arrival of AI as both a value driver and a diligence filter.

The macro backdrop was supportive. The Federal Reserve held the funds rate at **3.50–3.75%** after cutting through late 2024 and early 2025, taking roughly **175 basis points** out of sponsor-backed loan pricing versus the cycle peak. With the 10-year Treasury near 4.4% by end of June, buyers could underwrite with renewed conviction.

175	$1.6T+	13.7%	~60%
bps cut from loan pricing	global PE dry powder deployed	of NY LMM deals are pro-services	of dealmakers see higher H2 flow

The recovery, though, was **K-shaped**. The lower middle market did not see a broad explosion in volume; activity was defined by extreme selectivity. Well-capitalized buyers aggressively pursued scale, resilience, and transformation — channeling record dry powder into premium assets while systematically avoiding structurally weak businesses. Professional services emerged as a premier destination for that capital: in bellwether hubs like New York, it was the third-largest vertical by deal count.

SECTION 02

Cross-Sector Valuation Drivers

The criteria buyers use to value professional-services firms have been permanently recalibrated. The era of financial engineering — cheap debt and multiple expansion — has concluded. Value now tracks operational execution, revenue durability, and technological defensibility. A uniform set of diligence levers decides whether a firm transacts at the premium ceiling or the discounted floor of its range.

Recurring Revenue Is the Single Biggest Lever

Buyers sharply distinguish project and time-and-materials revenue from contractually recurring streams. Firms under **30% recurring** are treated as lifestyle practices, typically capped at 2.0x–4.5x EBITDA with heavy earnouts. Cross the **40% threshold** and multiples expand non-linearly; a firm at **70%+ recurring** routinely commands a 1.5x–3.0x EBITDA premium over a generalist peer of similar size.

Concentration & Key-Person Risk Break Deals

The 2026 benchmark: no single client above **10–15%** of revenue, and the top five below 30%. A client past 20–25% triggers a 1.0x–2.0x multiple discount or gets carved into an earnout. Key-person risk is cited in nearly **three-quarters** of failed LOIs — buyers penalize "eat-what-you-kill" comp models and reward institutionalized IP and a real middle-management tier.

KEY INSIGHT — QUALITY OF EARNINGS

The sell-side QoE is now a de facto requirement above $1–2M EBITDA. Unprepared founders relying on cash-basis returns routinely see adjusted EBITDA cut **15–50% lower** in buy-side diligence. A QoE commissioned 12–24 months early validates add-backs and shortens the eventual diligence window by 30–50%.

AI: From Buzzword to Underwriting Metric

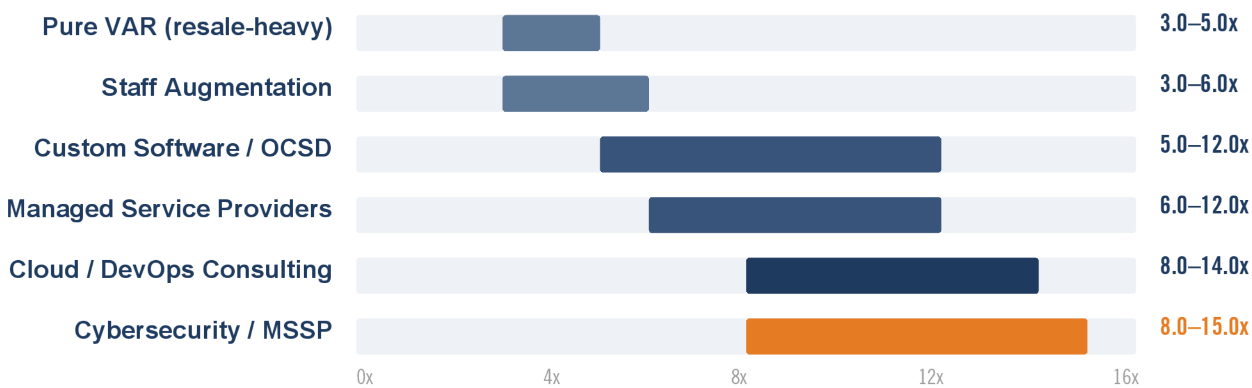
Acquirers no longer pay a premium for firms that merely claim to "use AI." They demand commercially proven use cases embedded in recurring workflows. AI is a dual-edged sword for the sector — it commoditizes junior analytical work and flattens the leverage pyramid, but firms with proprietary data that use AI to expand margins are commanding unprecedented premiums.

SECTION 03

IT Services, MSPs & Cybersecurity

IT services is one of the most active consolidation arenas in the 2026 lower middle market, fueled by over $1.6T in global dry powder and relentless demand for infrastructure modernization. Valuation is driven almost entirely by **recurring-revenue share** and service-delivery model.

2026 EBITDA MULTIPLE RANGE BY SUB-SEGMENT



Value-Added Resellers, dependent on low-margin hardware resale, suffer a structural discount (3.0x–5.0x). Managed Service Providers command a premium on sticky monthly recurring revenue — infrastructure contracts are the last expense clients cut. A dominant 2026 play is **"VAR-to-MSP conversion arbitrage":** buy resale-heavy VARs cheap, migrate the base onto managed contracts, and re-rate the entity at a premium MSP multiple.

CYBERSECURITY PREMIUM

MSSPs sit at the top of the IT-services spectrum, insulated by escalating threats, chronic talent shortages, and mandates like CMMC 2.0 and NIS2. Non-cyber strategics increasingly treat security as core infrastructure — buying platforms to cross-sell compliance-as-a-service and intensifying competition for LMM cyber assets.

SECTION 04

Accounting & CPA Firm Consolidation

The CPA sector is undergoing radical structural change, driven by an influx of private-equity capital and a boomer-owner succession crisis. A once-fragmented, partner-owned industry has become a highly institutionalized M&A arena.

The Alternative Practice Structure (APS)

Because state boards bar non-CPAs from majority ownership of attest practices, sponsors universally use the APS. The firm is bifurcated: the **attest practice** stays CPA-owned and licensed, while the high-margin **non-attest functions** — tax, advisory, wealth, outsourced accounting — are acquired by the sponsor. A long-term Administrative Services Agreement links the two at arm's length, capturing the economics while preserving professional independence.

CPA BUYER LANDSCAPE & MULTIPLES (H1 2026)

BUYER TIER	POSITIONING & KEY CONSOLIDATORS	EBITDA MULTIPLE
Tier 1 — Mega-Platforms	Multi-billion scale: Citrin Cooperman (Blackstone), EisnerAmper (TowerBrook), Baker Tilly, Grant Thornton, Aprio, Cherry Bekaert, Wipfli.	10.0–14.0x+
Tier 2 — LMM Roll-Ups	Purpose-built platforms for sub-$100M EV firms: Sorren (DFW), Springline (Trinity Hunt), Ascend (Alpine), Prosperity Partners.	8.0–11.5x
Tier 3 — Strategic CPA	Top-100 firms seeking geographic or service-line expansion: CBIZ, Withum, HBK, LBMC.	7.0–10.0x
Tier 4 — Specialty Tax	Niche technical services: Source Advisors, Align, Schellman.	10.0–14.0x

Buyers pay up for differentiated, high-margin advisory lines — wealth, digital modernization, outsourced CFO — over commoditized seasonal tax and audit. The sector's appetite for scale was underscored by CBIZ's **$2.3B** acquisition of Marcum's non-attest business, creating the seventh-largest U.S. accounting provider at ~$2.8B combined revenue.

SECTION 05

Wealth Management & Insurance

RIAs and independent insurance brokerages remain the most heavily consolidated, highest-multiple segment of the market. The driver is supreme revenue stability — client retention typically runs **92–98%** annually, giving investors unusual downside protection.

The RIA market stayed blistering, led by mega-aggregators (Mercer, Mariner, Creative Planning, Wealth Enhancement, Hightower) running aggressive tuck-in strategies. Sub-$100M AUM founder books clear 2.0x–3.5x recurring revenue; at scale, platform RIAs on fee-only UHNW clients push 12.0x–15.5x EBITDA. In insurance, the single most critical metric is book retention — 90%+ unlocks premium pricing, while sub-80% triggers heavy earnouts and multiple compression.

FINANCIAL SERVICES MULTIPLES (H1 2026)

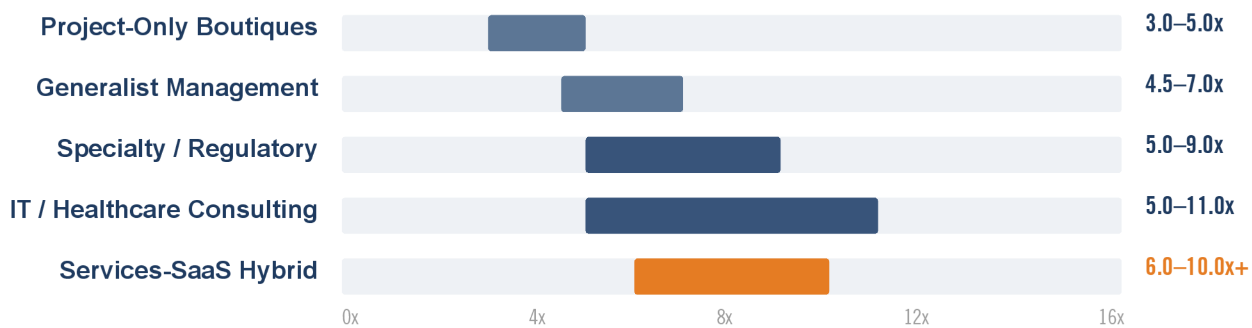
SUB-VERTICAL	EARNINGS SCALE	2026 RANGE	KEY DRIVERS
RIA (sub-$100M AUM)	<$1M SDE	**2.5–3.5x Rev**	Client age, AUM retention, fee-only structure
RIA (mid-market)	$3–10M EBITDA	**9.0–12.5x**	HNW concentration, advisor non-competes, organic growth
Insurance (personal)	<$1M EBITDA	**5.0–7.0x**	Carrier diversification, loss ratios, market density
Insurance (commercial)	$2–15M EBITDA	**7.0–10.0x**	90%+ retention, commercial mix, producer comp

SECTION 06

Management & Specialty Consulting

Consulting shows the **widest multiple dispersion** of any professional-services vertical — from ~3.0x for sub-scale, founder-dependent shops to 15.0x+ for tech-enabled specialists. Capital is pivoting hard from generalist strategy work, which AI is commoditizing, toward deep vertical specialization.

2026 EBITDA MULTIPLE RANGE BY SUB-VERTICAL



The traditional leverage pyramid is flattening. Acquirers are freezing graduate intakes and buying senior, domain-specific expertise that can translate AI output into trusted executive strategy. Specialty firms in regulated environments carry a structural 2.0x–5.0x premium — life-sciences consulting hit record volumes and median private valuations near 14.5x EV/EBITDA.

THE SERVICES-SAAS HYBRID

Firms that productize their IP — embedding software, benchmarking data, or compliance tools alongside advisory hours — transcend typical services valuations. At 30%+ subscription revenue, they enjoy expanded margins and near-zero marginal delivery cost, earning **6.0x–10.0x+ EBITDA** with multi-year client lock-in.

SECTION 07

Marketing, Digital & the Creator Economy

Marketing and digital agencies had a volatile but active H1. The sector is acutely exposed to AI, which threatens lower-tier content and design work — so buyers (WPP, Omnicom, Publicis, Stagwell, plus PE platforms like Tinuiti and Power Digital) have recalibrated entirely around **recurring revenue and technical defensibility**.

Valuations span a wide band by revenue quality. Project-only shops under 30% recurring cap at 2.0x–4.0x; mixed retainer models (30–60%) trade 4.0x–6.0x; retainer-heavy generalists at 60%+ with strong SOW renewals reach 6.0x–9.0x. Specialty agencies in B2B SaaS, healthcare, or performance marketing with transparent ROAS command **7.0x–12.0x**. A $3M agency at 80% recurring will consistently out-value a $5M agency at 40% — buyers price the durability of gross profit, not raw top line.

70

creator-economy deals in H1 2026 — up 23% year-over-year

$500M

Accenture Song's acquisition of creator agency Whalar

Strategics now recognize the maturation of the ~$235B creator ecosystem and are executing large acquisitions to own the channel.

SECTION 08

Deal Mechanics & the 36-Month Playbook

With premium multiples elevated, buyers lean on structure to manage risk and retain talent. All-cash deals diminished in favor of contingent consideration. **Earnouts** now run 15–30% of headline value, tied to leading indicators — gross margin, key-client retention at 12/24 months, SOW renewals — not manipulable top-line revenue. **Rollover equity** of 15–35% is virtually non-negotiable, aligning founders toward a "second bite of the apple."

The 36-Month PE-Buyer Playbook

MONTHS 1–12

Tighten the Operating Story

Optimize retainer mix and vertical concentration. Sacrifice low-margin project work to build the recurring revenue sponsors underwrite most rigorously.

MONTHS 13–24

Fix Diligence Gaps

Drive utilization toward 75%, build a middle-management tier, and commission a sell-side QoE to validate adjusted EBITDA and accrual accounting.

MONTHS 25–36

Create Competition

Engage advisors to run a quiet, sequential process. Clean financials compress timelines and a multi-buyer auction yields a 0.5x–1.5x EBITDA premium.

Following the fragmentation of the FTC non-compete ban, enforceability reverted to a state-by-state patchwork. Because a firm's value lives in its partners' relationships, buyers treat restrictive covenants as a primary diligence item — linking large portions of the payout to multi-year retention that functions as economic handcuffs.

SECTION 09

Strategic Outlook for H2 2026

The fundamentals for professional-services M&A remain exceptionally robust. Stabilized financing costs, over a trillion dollars of aging dry powder, and mounting transformation pressure point to accelerating deal closures. Nearly **60% of dealmakers** expect higher flow in H2 as the cautious first-half pipeline converts.

The defining feature is the **"winner's paradox":** capital is abundant, yet underwriting filters are extraordinarily rigorous. The market rewards operational preparedness and penalizes structural opacity — with buyers now running AI-driven analytics across target financials and client portfolios at unprecedented speed. H2 2026 will be one of the most lucrative liquidity windows in recent memory for firms that have **productized their expertise, locked in recurring revenue, and documented their durability.**

Dario Priolo · Founding Partner, JK Research · jkresearch.com · 25 M&A transactions, 300+ client engagements