fieldfisher



PATIENCE AND PROCESS

A template for middle-market PE success

PRIVATE EQUITY WIRE®

KEY TAKEAWAYS

Relationships take precedence in the middle market

Founder buy-in and negotiation terms are the key sticking points

A strong strategic fit with a platform is a must for a middle-market bolt-on

Long heralded as the final frontier for private-equity value creation, the middle market is now also a capital draw for protection against macro instability, bringing in a wider group of investors. It provides access to non-cyclical industries, less exposed to the AI disruption and energy shocks that are upending the global economy.

The question remains whether global, institutional demand will create some level of structure. This research explores the guidelines that firms can follow for pre- and post-deal success. Definitions for this market segment can vary to include businesses with an enterprise value of anywhere from $50m to $500m, but the underlying principles remain the same. The segment is known for its bespoke, relationship-driven approach to dealmaking.

Respondents to Private Equity Wire®'s Q3 2026 survey of over 100 GPs cited relationship-building (72%) and due diligence discipline (70%) as the most important factors to get a deal over the line, signalling that people and process run in tandem. Effectively, firms are expected to maintain deep local knowledge and cultivate personal relationships to source deals, while having the operational capacity to manage an institutionalised process.

Information access is at a premium in this space, which makes formalised diligence processes paramount for evaluating opportunities and risks. Some of that insight can come through expertise on the ground, cited by 58% of respondents.

Still, sourcing the opportunity is very much the first step. Securing buy-in from the founders and management teams has historically been the biggest challenge in the middle market, cited by 58% as a major blocker to dealmaking. The strong emotional ties to a business's origins among founders translate into stronger preferences regarding its future direction, making cultural/regional idiosyncrasies a significant barrier for 40% of respondents. This can vary by region. Europe's strong tradition of family-run businesses means that more than half of firms (52%) in the region pick this as a key challenge, compared to a third (32%) in North America.

At the same time, a range of factors, from succession needs to financing requirements amid economic stress, have made founders more receptive to attractive deal terms. Indeed, management incentive and ownership schemes were cited by 49% as critical for success, while terms and purchase agreement negotiations are among the top challenges too, cited by 42%.

Miguel Vaz, Partner and Co-head of the European Financial Services Group at Fieldfisher, says: "In our experience, the most effective approach to middle-market transactions is to identify at an early stage the legal and regulatory issues that can genuinely affect valuation, execution certainty or the investment thesis. This is particularly important in founder-led businesses, where management retention, incentive arrangements, governance and the allocation of risk under the acquisition documents are often closely interconnected."

Tim Bird, Partner, Corporate, at Fieldfisher, adds: "For PE sponsors, this is increasingly about prioritisation. We have seen the best outcomes are achieved where diligence findings feed directly into deal structuring and negotiation strategy. Issues identified through legal, regulatory or compliance diligence should not simply appear in a diligence report. They should inform pricing mechanics, warranty and indemnity (W&I) protection, conditionality, management arrangements and, where relevant, the scope of W&I insurance. In cross-border transactions, early assessment of merger control, foreign direct investment (FDI) and sector-specific approvals is also increasingly important to determining transaction timetables and execution risk.

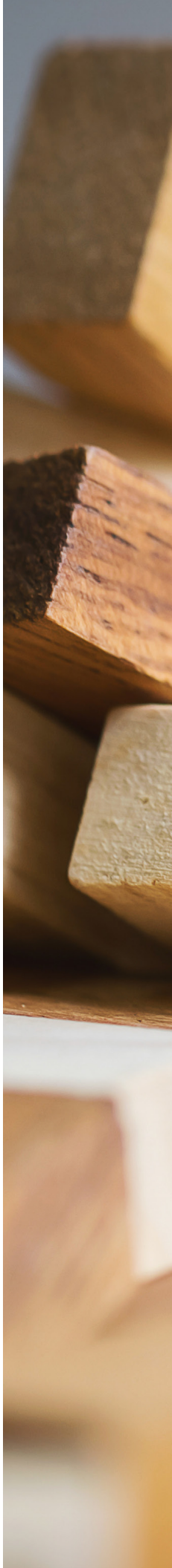
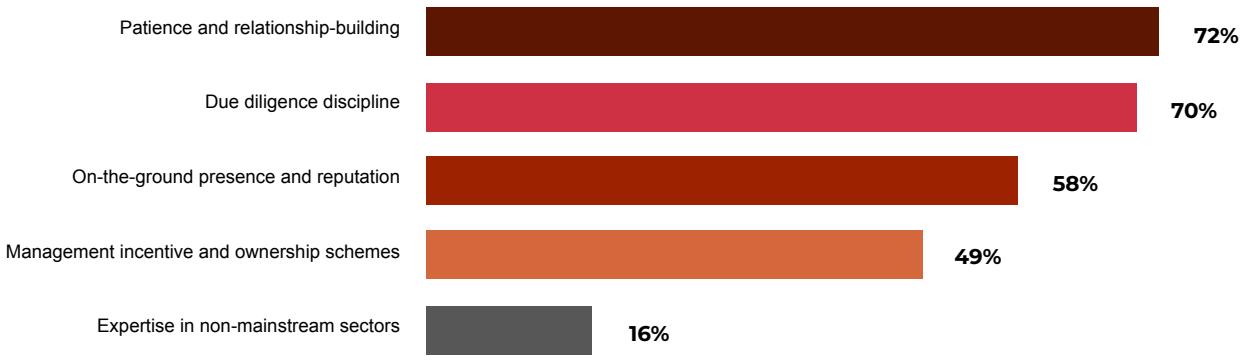


Figure 1 Factors influencing PE middle-market deals



Multi-select question

"In founder-led transactions, however, contractual protection is only part of the answer. A successful structure also needs to recognise the founder's continuing relationship with the business, particularly where there is rollover equity or an ongoing management role. Governance rights, management incentives, leaver provisions and the route to a future exit should therefore be considered together, rather than negotiated as separate workstreams. Getting that alignment right can be just as important to long-term value as negotiating the headline price."

Vaz says: "The best acquisition documents do not merely protect against identified risks; they create a workable framework within which the sponsor, founders and management team can deliver the investment plan together."

INGREDIENTS FOR SUCCESS

Once a deal is over the line, firms with a long-term plan stand to gain the most from a middle-market acquisition, particularly when it comes to bolt-on transactions. A strong strategic fit with the platform was cited by 50% as a priority, while 45% chose disciplined valuation and deal structuring. One thing is for certain, deals in this space can't be rushed, with speed of execution cited by only 10% as a precursor to success.

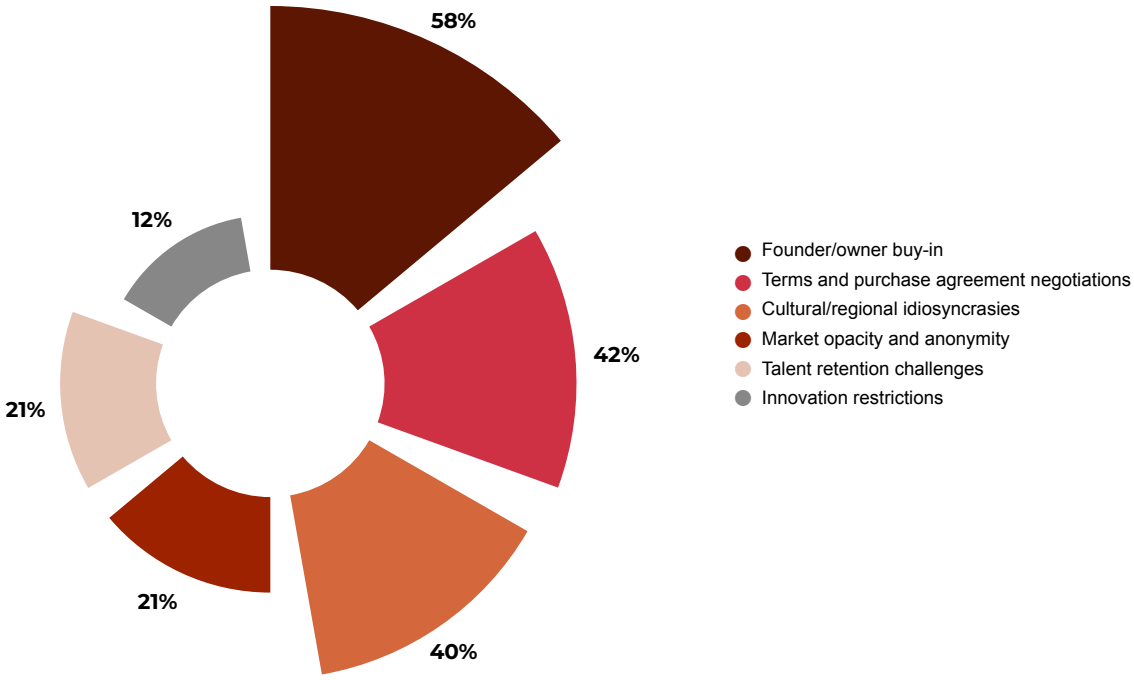
For middle-market PE, completion should be viewed as the beginning of the value-creation process rather than the end of the transaction. The first priority is to translate the investment thesis into a practical integration plan without undermining the entrepreneurial qualities that made the business attractive in the first place. In many middle-market transactions, one of the most sensitive challenges is defining the founder's future role. Sponsors need sufficient control and reporting discipline, while preserving the relationships, sector knowledge and entrepreneurial momentum that underpin the business's success.

Clear decision-making rights, management incentives and an agreed transition plan can help strike that balance. With this in mind, the importance of establishing a strong relationship with management early in the process cannot be over-emphasised. This will often give the edge to local investors who make more effort to spend time with management over higher financial offers from better-financed, larger sponsors.

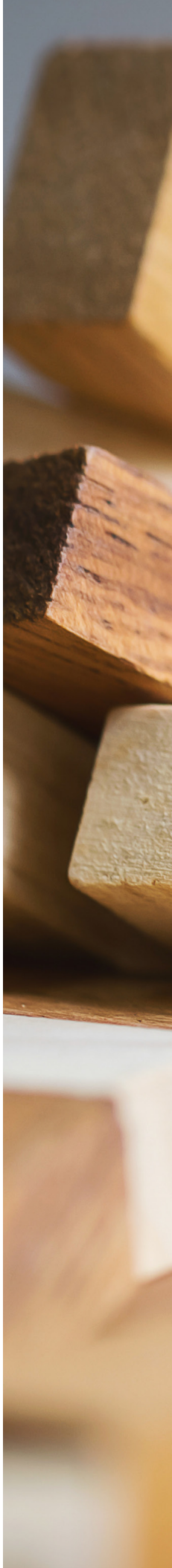
"Post-merger integration planning should form part of the acquisition process, and then keep going post completion, so that target value is preserved after the contracts have been signed. Too often we see well-executed acquisitions ultimately failing to deliver value over the PE life cycle because of a lack of integration planning. This is particularly important in buy-and-build strategies. As a platform crosses borders or enters new markets, issues such as governance, regulatory approvals and compliance increasingly become part of the growth strategy itself. Sponsors that anticipate those requirements early can execute bolt-ons more efficiently and avoid regulatory friction becoming a constraint on expansion," says Vaz.

For buy-and-build strategies, the legal architecture should ideally be capable of being replicated. A platform with clear governance, delegated authorities, compliance standards and an established approach to management equity will generally be better placed to execute and integrate subsequent acquisitions. This matters particularly in cross-border strategies, where employment, regulatory, foreign

Figure 2 Blockers to middle-market dealmaking



Multi-select question



investment and data requirements can differ materially between jurisdictions. At this stage, the institutionalisation of the middle market becomes clear. Despite being crucial for sourcing deals, local knowledge is of limited value when it comes to execution (7%). Instead, it is a firm's ability to evaluate an opportunity and successfully integrate it which is the key driver of success.

Once a partnership has been formed, firms can rely more on the management team to provide that local knowledge: alignment with that team is a clear priority for success, cited by 36%. Interestingly, this does not appear to be about key person value. Although retention of individual talent was selected by only 14% of respondents, this should not be taken to mean that management continuity is unimportant. Rather, the findings may indicate that sponsors place greater emphasis on building institutional capability and aligning the wider management team than on depending upon a single key individual. The result is a process where relationships and rigour carry different levels of weight throughout. While local knowledge sits alongside process during the scoping stage, it is quickly overtaken in importance when it comes to agreements and integration.

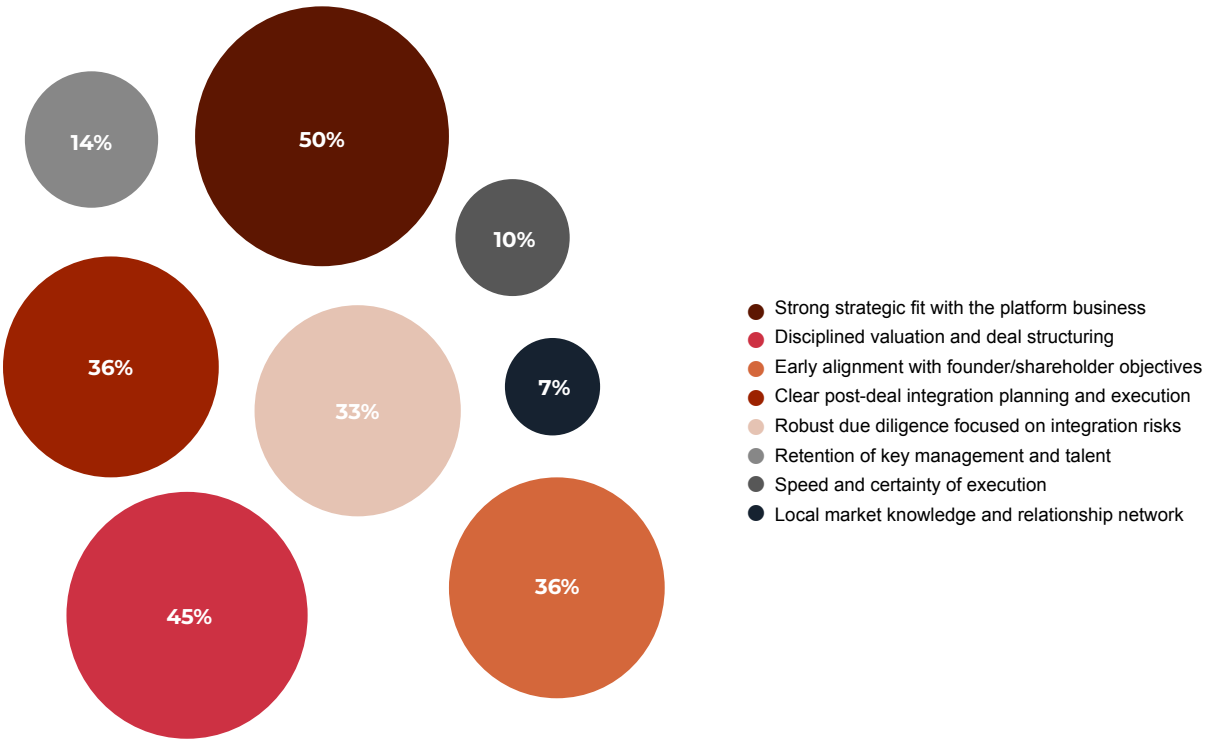
Bird says: "During periods of economic instability, the outperformance of the middle market is significant. To achieve that, firms need to combine the founder-driven culture of venture capital with the rigorous structure of buyouts. By cultivating deep sector relationships alongside an organised process, investors can enjoy some of the middle market's returns.

"The attraction of the middle market is that there remains enormous scope for active value creation, but unlocking it requires patience and discipline. Successful middle-market investing increasingly requires the legal and regulatory strategy to be considered as part of the investment thesis, rather than as a separate execution workstream. This is particularly true for sponsors pursuing cross-border or buy-and-build strategies, where the regulatory profile of a business can change materially as the platform grows in scale, enters new jurisdictions or expands into adjacent activities."

Vaz concludes: "Patience should not be confused with inactivity. Longer deal processes can be used productively to deepen management alignment, test the investment thesis and put in place the governance and regulatory foundations for growth. Conversely, pursuing speed without resolving those issues can leave a sponsor addressing avoidable friction after completion.

"From our experience advising PE investors across Europe, the strongest sponsors anticipate that evolution. They think early about acquisition structure, management incentives, financing, governance, regulatory approvals and the architecture for future bolt-ons. This approach not only reduces execution risk on the initial transaction, it creates a platform that is easier to scale, finance and integrate through further acquisitions, and ultimately better prepared for a successful exit."

Figure 3 Success factors for middle-market bolt-ons



Multi-select question

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