NEWS & INSIGHTS / BLOG

# Valuation in a Shifting Market: Why Owners Can’t Wait for the Sale

AUTHOR
Wade Horst, CFA

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OPENING PERSPECTIVE

# Why owners cannot afford to wait

Most business owners think about valuation only when a sale is on the table. By then, it is usually too late to influence it.

In a market where PE-sponsored middle-market deals cleared at an average 7.2x trailing 12-month adjusted EBITDA in 2025[1] — where global buyout funds are sitting on roughly $1.3 trillion in dry powder[2] and buyers are underwriting against materially higher financing costs than prior to rates increasing in early 2022 — valuation is no longer a back-of-envelope exercise. It is the most important decision-making lens an owner can use, well before any process begins.

> **By then, it is usually too late to influence it. Valuation works best as a strategic lens long before a transaction process begins.**

A current valuation tells an owner three things at once: what the business is worth today, what is driving (or limiting) that value, and how exposed it is to conditions outside the owner's control. In a stable market, owners could rely on rough rules of thumb. In this one, rules of thumb are how value gets left on the table.

A CURRENT VALUATION ANSWERS THREE QUESTIONS AT ONCE

**01**

### What is the business worth today?

A defensible view grounded in current market conditions, not a stale rule of thumb.

**02**

### What is driving or limiting that value?

A clear view of earnings quality, risk, growth, and transferability.

**03**

### How exposed is it?

An understanding of how rates, inflation, sector dynamics, and buyer scrutiny can change the outcome.

| 7.2x[1] | $1.3T[2] | 12–24 mo. |
|---|---|---|
| AVERAGE 2025 PE-SPONSORED MIDDLE-MARKET ADJUSTED EBITDA MULTIPLE | APPROXIMATE GLOBAL BUYOUT DRY POWDER | TYPICAL RUNWAY FOR VALUE-ENHANCING ACTIONS TO IMPROVE POSITIONING |

# What the current market is actually pricing

Headline multiples tell only part of the story. The 2026 market is increasingly divided: high-quality assets and resilient sectors are pricing well, while everything else is being scrutinized harder than it has been in years.

Bain & Company's 2026 M&A Report estimates global deal value rose ~40% in 2025 to $4.9 trillion, and 80% of 300+ M&A executives expect to sustain or increase activity in 2026.[3] The headline figures, however, mask meaningful variation — activity is concentrated in higher-quality assets, while weaker businesses face tighter pricing.

Sector dispersion has also widened. Environmental services, for example, saw median multiples for strategic transactions expand from roughly 15.0x to 20.9x between 2024 and 2025, driven by environmental mandates and regulatory compliance tailwinds, while more cyclical or capital-intensive sectors have faced compression.[4]

### The market is increasingly divided

Resilient / high-quality | Average-quality | Higher-risk / weaker

The headline market can look healthy while pricing becomes more selective underneath.

**~40%** — Estimated rise in global deal value during 2025

**$4.9T** — Estimated global deal value in 2025

**80%** — M&A executives expecting activity to hold or increase in 2026

A high-quality $5M–$25M EBITDA business may still command a strong valuation in this market, but the spread between a top-quartile and average-quality outcome has widened. Positioning matters more than market timing. Owners who wait until a buyer's diligence team is on the other side of the table have already forfeited the runway to act on what a valuation would have revealed.

### What the market rewards

- Resilient demand and durable cash flow
- Credible growth and pricing power
- Management depth and transferability

### What receives more scrutiny

- Cyclicality and capital intensity
- Concentration and weak conversion
- Forecasts unsupported by evidence

**Positioning > Timing**

Owners who wait for diligence have already forfeited the runway to act. The valuation process can reveal the gap between a top-quartile result and an average outcome while there is still time to change it.

TIMING AND PREPARATION

# The real cost of waiting

Valuation is shaped not only by historical earnings but by how buyers and investors view future cash flow, risk, growth, and transferability. Each of those is moving.

Higher discount rates flow directly into income-based valuations, compressing them even when operating performance is unchanged. Inflation pressures margins. Industry slowdowns compress comparable multiples. Even high-quality businesses can see valuation move materially while their financials look identical year over year.

That is why a quick EBITDA multiple is rarely a serious answer. A directional multiple may set expectations, but real buyers price cash flow conversion, growth durability, management depth, and strategic fit. The further a number sits from those drivers, the less defensible it becomes once diligence begins.

Most value-enhancing actions take 12–24 months to translate into improved positioning. An owner who runs a formal valuation three years before a likely exit has time to act on what it reveals. One who runs it six months before a process does not.

WHAT REAL BUYERS PRICE

- Cash flow conversion
- Growth durability
- Management depth
- Strategic fit
- Risk and transferability

STRATEGIC APPLICATIONS

# Valuation is not just an exit tool

Sales are the most visible use case, but they are not the most common. Owners increasingly need a current valuation for:

M&A
**Mergers, acquisitions, and roll-up strategies**

PARTNER TRANSITIONS
**Partner buy-ins and buy-outs**

SUCCESSION
**Succession planning and ownership transitions**

RECAPITALIZATIONS
**Recapitalizations and ESOP formation**

ESTATE PLANNING
**Estate, gifting, and intergenerational planning**

DISPUTES
**Litigation, divorce, or shareholder disputes**

Each of these has its own definition of value — fair market value, fair value, investment value, or liquidation value — and the right approach depends on the purpose. Owners who treat valuation as a one-time, sale-driven exercise often find themselves negotiating from someone else's framework rather than their own.

In a fluctuating market, that broader perspective matters even more. A current valuation gives owners optionality: to sell, wait, reinvest, restructure, or pursue a different path entirely — with a defensible view of what each route is worth.

- **Sell**
- **Wait**
- **Reinvest**
- **Restructure**
- **Pursue a different path**

ENTERPRISE VALUE

# The drivers that actually move the number

Valuation methods establish the framework. The drivers below establish the result — and they are the same drivers the buyer's diligence team will be evaluating from the other side of the table.

### 1 Earnings quality

EBITDA is the common reference point, but normalized earnings, cash flow conversion, and the credibility of projections matter more. Over-adjusted EBITDA — particularly when add-backs first appear during a sale process — invites discount, not premium.

### 2 Margin durability

Growth helps, but buyers want to know whether margins can hold under current input costs, pricing pressure, and competitive conditions. Pricing power is now a central underwriting question.

### 3 Customer concentration

Single-customer dependency remains the most common multiple compressor in lower-middle-market deals. Diversification is one of the few drivers an owner can materially influence in a 12- to 24-month window.

### 4 Management depth

Businesses heavily dependent on the owner face a transferability discount almost regardless of performance. Buyers price the risk that the business cannot operate the same way once the founder steps back.

### 5 Intangibles

Brand, intellectual property, contracted revenue, and customer relationships often drive a meaningful share of enterprise value but are systematically under-reflected in simple multiple-based exercises.

At Harney Capital, we use a Return on Value Drivers (RVD) framework to help owners prioritize which operational initiatives are most likely to translate into enterprise value improvement. The framework maps each driver against its estimated impact on enterprise value and the time and capital required to move it. In most lower-middle-market businesses, one or two drivers account for the majority of the value gap — running this analysis 18–24 months in advance helps owners prioritize the initiatives most likely to move the number before a process begins.

VALUATION METHODOLOGY

# The three primary approaches — and how they behave today

Most professional valuations rely on three approaches: income, market, and asset-based. No single method captures business value perfectly across every context. In practice, sophisticated valuations triangulate across two or three methods rather than relying on any one — producing a more defensible range than any single estimate can provide.

01 / FUTURE EARNINGS

### Income approach

Typically DCF or capitalization of cash flow — values a business on expected future earnings. It is the dominant framework for businesses with predictable cash generation, and the most sensitive to assumptions: when discount rates rise, present values fall sharply, even for unchanged operating performance.

02 / OBSERVABLE BEHAVIOR

### Market approach

Values a business against comparable transactions or trading multiples, anchoring valuation in observable buyer behavior. Its greatest risk is the comparables themselves. Current multiples should be contextualized by sector, deal size, growth profile, and recency — not lifted in isolation.

03 / NET ASSETS

### Asset-based approach

Values a business as net assets — useful for asset-heavy, distressed, or liquidation scenarios. For most businesses operating in the lower middle market, it serves as a floor or reference point rather than the primary answer.

OWNER READINESS

# Common mistakes owners make

### 1 Treating valuation as a formula

A generic industry multiple applied to EBITDA ignores growth, risk, concentration, and transferability — the exact drivers buyers underwrite.

### 2 Anchoring to peak comps

Multiples paid in 2021 are not the relevant benchmark for a 2026 transaction. Stale comps create unrealistic expectations and stalled processes.

### 3 Waiting too long

Most value-enhancing actions take 12–24 months to translate into multiples. Owners who get their first valuation inside a sale process have already foregone the time to act on what it reveals.

### 4 Over-adjusting EBITDA

Aggressive add-backs reduce credibility. Buyers prefer a smaller number they trust over a larger one they don't.

**Conclusion: Valuation is a strategy, not a sale-day number**

In a shifting market, valuation is not a measure of what a business has done. It is a measure of how its future earnings, risks, and strategic position are likely to be viewed under current buyer conditions.

A well-timed valuation does not just measure value. It helps owners manage it — deliberately, and on their own timeline rather than a buyer's.

At Harney Capital, we work with business owners to evaluate value through a practical, transaction-minded lens — translating current market realities into clear, defensible inputs for long-term strategic decisions. In a market where multiples are stable but selective and where buyer scrutiny is rising, the owners who fare best are the ones who started measuring value before anyone else asked them to.

If you're considering a transaction, ownership transition, or strategic reinvestment in the next 12–24 months, reach out for a complimentary conversation on where your business stands — and what it would take to move the number.

## Sources


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ABOUT THE AUTHOR

## Wade Horst, CFA

**Director**

Wade is a detail-driven finance professional with experience across corporate finance, investment analysis, and hedge fund operations and compliance. In his role supporting client engagements, Wade performs comprehensive financial and accounting analyses, develops company projections and forecasts, and creates integrated financial models.

He plays a critical role in partnering with clients to leverage data across the organization to maximize the success of every engagement.

linkedin.com/in/wadehorst   wade@harneycapital.com   (402) 570-2297