WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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A trillion dollars, looking for a home

The Federal Reserve held again this month at 3.50%–3.75%, its second consecutive pause of the year, and by now the holds are barely news. The more interesting story in March is not the cost of capital but the sheer *quantity* of it sitting idle — and what that overhang does to the discipline of everyone trying to put it to work.

The overhang

Private-equity dry powder — committed capital not yet deployed — sits north of $1 trillion, near record highs. That figure represents promises made to investors that the money will be invested, and those promises come with clocks. A traditional fund has a defined investment period; capital not deployed by the end of it must generally be returned, which for the people running the fund is a small professional catastrophe and a real economic one, since fees ultimately follow invested capital. The result is structural pressure to *do deals* — not necessarily good deals, but deals — as those clocks wind down.

The pressure has been amplified by a second force: the extraordinary growth of private credit, which now stands ready to finance transactions that banks might once have declined. Cheaper and more available debt, layered on top of record equity dry powder, is a recipe for competitive intensity. For sellers of desirable businesses, this is a genuine tailwind — more motivated buyers, armed with more financing, competing for the same assets, which means better prices and cleaner terms. For disciplined buyers, it is precisely the condition that inflates entry multiples past the point where the math still works.

Where the froth is — and isn't

It helps to be specific about *where* all this capital is bidding, because the answer explains our strategy. The froth concentrates where the money is thickest and most visible: at the top of the market, and in intermediated auctions for scale assets, where a banker runs a competitive process, ten firms with clocks to beat show up, and multiples above 12x EBITDA become routine. That is the market you read about. It is also a market we largely decline to participate in, because winning in it usually means being the firm most willing to overpay.

The market we actually operate in looks different. Down in the proprietary, owner-to-owner corner of the lower middle market, there is no auction setting the clearing price — just a negotiation between a buyer and the person who built the business. The dry-powder overhang is real there too, but its effect is muted, because you cannot start a bidding war for a company nobody else knows is for sale. That is the entire point of sourcing directly: it takes us out of the room where a trillion dollars is busy bidding prices up.

The discipline to say no

A firm's structure quietly determines its behavior in a market like this. We have never had a deployment deadline. There is no fund clock in the background converting patience into panic, no investment period whose expiry forces a bad decision in December. That freedom sounds abstract until you are in a live process watching the price climb past what a business is worth — and it is exactly then that it becomes the most valuable thing we own. We can watch a competitor talk himself into one more turn of EBITDA, conclude that the winning number no longer makes sense, and simply walk, with nothing lost but a deal we are glad not to have made.

It is worth saying plainly, because it cuts against the industry's instincts: the willingness to *not* deploy is, in a market like this, the scarcest and most valuable discipline a buyer can have. When everyone around you must spend, the ability to wait is a genuine edge. A record pile of capital hunting for a home is not a race we need to win. It is a race we are structurally free to sit out — and sitting it out, at the right moments, is how the returns are actually protected.

What it means if you're the one selling

For the owner on the other side of this dynamic, a market awash in capital is genuinely good news — with a caveat worth stating plainly. More buyers, armed with more money, competing for good businesses does mean stronger prices and more favorable terms than were available even eighteen months ago; a well-run company brought to market today will find real demand. But the same conditions that lift prices also raise the risk of choosing the wrong buyer. A firm racing a deployment clock has every incentive to win the deal and then, once the ink is dry, to manage the asset toward its *own* exit on its own timeline — which may have very little to do with the future the founder wanted for the company, its employees, or its customers.

This is the quiet cost of selling purely to the highest bidder in a hot market: the number is real, but so is what comes after it. An owner who cares about continuity — about the people who built the business alongside them and the customers who trusted them for decades — is buying not just a price but a steward, and the two are not always the same. In a market where capital is this abundant and this impatient, they are the same less often than usual. The right question at the closing table has never been only "how much?" It has always also been "and then what?"

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A market awash in impatient money is not a market to compete in on its own terms; it is a market to sidestep. We don't win by outbidding a fund racing its own clock. We win by being somewhere that fund isn't — across the table from an owner who cares less about extracting the last dollar than about who will take care of what they built. In a year when a trillion dollars is looking for a home, the discipline to buy only at the right price, and only where we're not bidding against the crowd, is not part of the strategy. It is the strategy.

We'll be back next month. As always, if you advise accredited clients, or you're an owner thinking about what comes next, we're glad to talk.

— The team at Worth Investment Group

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