



The barbell tips down

Capital got more expensive, a garage door company reportedly sold for twenty times earnings, and the smallest institutional deals had their busiest quarter in years. What the spread between the headline price and the typical price means for the lower middle market.

In July we described a barbell market: capital piling into megadeals at the top and into small add-ons at the bottom, with a thin, quiet middle. Three months later the shape still holds, but the weight has shifted. The upper end of the middle market, which carried the first-quarter recovery, went nearly silent in the second. The lower end, deals between \$25 million and \$100 million, the band closest to where we buy, had one of its busiest stretches in years. Higher rates are part of the reason, and we will get to what they do to a buyer's math, but the more interesting question is what the new shape means for a business like the ones we own.

Then, on September 2, Reuters reported that KKR had agreed to buy A1 Garage Door Service for around \$2 billion, and PitchBook later put that at roughly 20 times EBITDA. For a garage door company. We use that deal this month as a case study, because it shows both halves of the market at once: what scale can command when a buyer wants it, and how far the typical business sits from that number. Around it, we take stock of rates, multiples by size, and the pricing of home services, and what all of it means for an owner deciding what comes next.

What higher rates do to lower middle market deals

The headline is familiar. On September 16 the Federal Reserve raised its target a quarter point to 3.75% to 4.00%, its first increase since 2023, and the 10-year Treasury yield climbed back to about 5%, near its highest level in roughly two decades. What matters here is the effect on a deal. Private credit spreads on middle-market loans widened 25 to 50 basis points in March and held, unitranche pricing is running roughly 4.75 to 5.50 percentage points over the base rate, and PE-sponsored loan issuance fell 33% in the second quarter. Then the base rate itself went up.

All-in borrowing costs for a typical sponsored middle-market loan now sit around 9%. A buyer who pays 8.5x EBITDA, the median in the band closest to where we buy, and borrows 5x at that rate spends roughly 45% of the company's EBITDA on interest before capital spending, taxes, or principal. Add a sixth turn of leverage and it is about 54%, a business working for its lenders. Sixteen of the Fed's 19 policymakers expect at least one more hike this year, so any deal model that needed rates to fall now has a second problem.

The barbell, revisited

Start with the broad picture. PitchBook puts second-quarter US private equity deal value at \$177.3 billion, down 37.5% from the first quarter and 23.9% from a year earlier, with sponsors pointing to geopolitical uncertainty, tighter financing, and the energy spike. Globally, 34 transactions above \$5 billion still accounted for 42% of deal value, so the megadeal end of the barbell is heavy.

The bottom is where it got interesting. Sponsors closed 413 US deals valued between \$25 million and \$100 million in the second quarter, up 56.4% in count and 70.6% in value from the first quarter. PitchBook's headline for it: middle-market firms are moving down market in search of value. As one deal lawyer put it, sponsors are making smaller initial acquisitions "but they have a plan to grow the company through acquisitions."

The logic is simple. The larger the deal, the more it depends on leverage, and the more a wider spread or a higher base rate breaks the math. Smaller deals need less debt, can be built into platforms over time, and start from lower prices. When credit tightens, capital runs downhill toward the deals that still work. The weight slid to a specific band: established, profitable companies large enough for institutional capital and small enough to price sensibly. Below it, BizBuySell reports Main Street transactions down about 10% year over year.

Where multiples settled

A single "market multiple" hides more than it shows, so take them by size, starting where we buy. In the \$25 million to \$100 million deal band, PitchBook's median multiple was **8.5x** EBITDA, down from 8.8x, even as the number of deals jumped. On Main Street, BizBuySell's average cash-flow multiple held at about **2.65x** seller's discretionary earnings, a different measure but the same direction of travel. And above both sits the reported A1 print, at about **20x**.

That is a steep ladder, and the rungs are scale rather than industry. The band where capital is crowding in is not getting more expensive. It is getting slightly cheaper, which is what a buyer's market in one band looks like: rising activity without rising prices. These are medians, and a quarter's industry mix can move one on its own, but the direction is consistent across the sources we track.

A case study: a garage door company at 20 times

On September 2, Reuters reported, citing sources, that KKR had agreed to acquire A1 Garage Door Service, a national residential garage door installation and repair business, for around \$2 billion. The deal was reported rather than announced, so treat the figures as reported. PitchBook, on October 2, cited a person familiar with the matter in putting the price at approximately 20 times EBITDA on roughly \$100 million of earnings, and noted that market participants describe standard garage door businesses as trading at 2x to 6x.

It was not a one-off. PitchBook points to Guild Garage Group, which Oak Hill Capital agreed to buy earlier this year at about \$800 million, a multiple in the high teens by PitchBook's math, and counts 21 PE-backed garage door deals through September 28, worth \$4.2 billion in total.

Why would a buyer pay ten times what the typical shop gets? This part is our read, not theirs. A company at A1's scale has a national footprint, a brand, an operating system that can be repeated in a new city, and a long runway for acquisitions. That is scarce. The typical garage door business is a local, owner-run crew. Buyers are paying for the platform, not the trade, and the roll-up works by buying local operators at the low end of the range and folding them into a company that sells at a far higher multiple.

A buyer paying 20x and borrowing 6x is funding about 70% of the price with equity. At today's rates, that is a conviction trade on scale, not a leverage trade. The caution for owners: a multiple like that is a price for scarce scaled assets, not a repricing of the trade. The owner of a \$3 million EBITDA garage door company has not just become a 20x business.

Home services, in plain numbers

Home services is the roll-up's favorite trade, so here is where the typical company sits, using CT Acquisitions broker ranges updated June 2026, not an audited index. Across the sector, businesses land at 4.5x to 7.5x EBITDA, with PE platforms at 6.5x to 7.5x and add-ons at 3.5x to 5x. Size does most of the work: roughly 4.0x to 6.0x at \$1 million to \$3 million of EBITDA, 5.5x to 8.0x at \$3 million to \$10 million, and 7.0x to 10.5x at \$10 million to \$25 million, where middle-market platforms shop. By trade, HVAC runs 5x to 10x and plumbing 4x to 8x.

Where we come in: Cascata and water conditioning

We are not only reading about this trade. Cascata, founded in 2025 and based in the southeast, is our water conditioning platform. It partners with residential, commercial, and industrial water conditioning companies. We have identified several strong acquisition targets and have not yet closed the first, and we would rather say so plainly. It has the same shape as the garage door deals: a fragmented field of local, owner-run companies, many led by founders nearing retirement.

We have been here before. In 2012 we acquired Energy Systems, a Stockton, California power generation distributor founded in 1933 that sold, rented, and serviced generators and trained technicians on equipment from manufacturers including Generac. In July 2020 we sold it to Generac Power Systems. Cascata is a different trade but the same kind of company: a local, service-heavy dealer business where relationships and technicians matter more than the product on the truck.

How fragmented? There is no clean census, so we will not pretend to one. Business directories list roughly 2,600 US water treatment equipment service and supply companies, about 450 of them in water softening service (SICCODE.com, 2025). Even the household names are networks of local dealers: Culligan reports more than 600 across North America, EcoWater, a Marmon Group company under Berkshire Hathaway, counts over 250 worldwide, and Kinetico, owned by Sweden's Axel Johnson Group, also sells only through local dealers. Listings overlap, so read the counts as scale: thousands of mostly small, local operators.

On price, CT Acquisitions publishes its underwriting ranges (July 2026, a broker's ranges and not an audited index). Water treatment businesses with \$500,000 to \$1.5 million of EBITDA and a rental fleet run 4.0x to 5.5x, those with \$1.5 million to \$3 million run 5.0x to 6.5x, and commercial and industrial companies above \$3 million run 6.0x to 9.0x. It adds that dealers with 40% or more of revenue from rentals and service agreements trade one to two turns above install-led peers.

Our read on why water differs from a garage door. Nobody calls a garage door company until the door is loud, off its track, or broken. Water conditioning is different. The equipment is a purchase of a few thousand dollars, and it comes with consumables: filters to replace and salt to deliver. The dealer manages the schedule, so the homeowner never has to think about it, and a softener can be rented or rented to own, which turns a purchase into a relationship. That is recurring revenue by design.

Demand is moving too. More than 70% of US adults say they are concerned about exposure to harmful chemicals in food and drinking water (Pew Charitable Trusts and Ipsos, October 2025), and the conversation about water access, quality, and safety has rarely been louder. In our read, water services are shifting from a luxury purchase toward a necessary one. A parent working a household budget will put off the garage door long before the water.

A 20x print is a price for a scarce, scaled asset, not a forecast of what anything we build will be worth. We are buying good local operators at honest prices, with permanent capital, to own and run, and we do not need an exit multiple for the math to work.

Why this matters down here

Translate it to a real company: a \$10 million EBITDA manufacturer or distributor whose founder is ready to step back. At the 8.5x median, that is an \$85 million deal, inside the band above. First, the good news. Buyers are coming. Sponsors with more than \$1.1 trillion of US dry powder, pushed off the upper end by financing costs, are now looking in exactly this band, and the A1 headline will draw more of them into trades that look like it.

Second, the caution. Many arriving buyers are leverage-dependent, and their math just got worse, so more of the structure shifts onto the seller: earnouts, equity rollover, seller notes. Compare bids on what you actually receive, when, and with what strings, not just the multiple on the letter of intent.

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The succession wave, sized and sectored

The size. McKinsey's May 2026 study estimates that about 6 million US small and midsize businesses will change ownership over the next decade. Roughly 1 million of those are viable candidates for sale, representing as much as \$5 trillion in enterprise value. 52% of these businesses are now owned by someone within ten years of retirement, up from 35% in 2005.

The timing. A March 2026 survey of owners over 50, conducted for Zelle, found that 49% plan to exit within the next decade, yet 60% have no formal succession plan and 41% would close rather than sell if they could not find a qualified buyer.

The sectors. The viable-for-sale pool leans toward manufacturing, distribution, and industrial and business services. Home services belongs on that list too.

The pinch. On Main Street, BizBuySell finds that 90% of buyers expect some seller financing, while only 29% of owners plan to offer it. Preparation widens the field of buyers who can close: clean financials and a team that runs without the founder.

For general educational context only. Figures are drawn from third-party research and have not been independently verified.

THE WORTH LENS

Higher rates and a reported 20x garage door company look like contradictions. They are one story: capital pays up for scarce scale and gets pickier about everything else.

Entry price is the one thing we fully control, and when interest can consume half of a leveraged buyer's EBITDA, what you pay decides how much room a business has to grow. **We buy directly from owners**, a conversation about continuity and trust, and where the succession wave will actually be settled, one family business at a time. And **permanent capital removes the clock**: we don't need rates to fall to make a deal work, and we don't need a roll-up multiple to justify our price. Three quarters in, 2026 has been a reminder that the weather doesn't take requests. We'd rather be built for it.

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