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HEALTHCARE M&A MARKET STUDY

# The Healthcare Lower Middle Market *in 2026*

An analysis of M&A activity, valuation, and deal dynamics across behavioral health, home health, and FDA contract manufacturing — and what they mean for founders, sponsors, and acquirers heading into 2026.

AUTHORED BY

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— FROM THE DESK OF SAM FUHRER

## A Note on the Market

*Where the healthcare lower middle market stands, and why this study exists.*

**T**he healthcare lower middle market has changed materially over the past 24 months. Buyer diligence cycles have lengthened, regulatory scrutiny has intensified across every subsector we cover, and even sub-\$25 million transactions now routinely involve the full diligence treatment — quality-of-earnings audits, payer-by-payer reconciliations, and clinical and compliance reviews — that were once reserved for platform deals. The bar to close has risen, and sellers who arrive at market unprepared are paying for it in cycle time, in valuation, or in both.

American Healthcare Capital occupies a meaningful share of the lower middle market in behavioral health, home health, and FDA contract manufacturing. We see, in real time, which letters of intent are being accepted, which are being walked away from, and what is killing deals between LOI and close. Public-market comparables tell you what large transactions cleared at. Our vantage point is different. We negotiate the private deals that never make a press release, and we have a granular view of the multiples, structures, earnouts, holdbacks, rollover equity, and seller-financing arrangements that define how transactions are actually getting done.

This study was built to give that view to the people who need it most. Whether you are a founder-led operator weighing an exit, a search-fund principal pursuing a first acquisition, or a private equity sponsor sourcing add-ons for an existing platform, the pages that follow pair current third-party deal data with what we are seeing on the ground in 2026.

I am reachable directly at the contact information in this study, and I respond to founder and buyer inquiries within 24 hours.

### Sam Fuhrer

MANAGING DIRECTOR · AMERICAN HEALTHCARE CAPITAL

## EXECUTIVE SUMMARY

01

# Seven Findings That Define the Market

The headlines a founder or sponsor should carry into a 2026 process.

## \$191<sub>B</sub>

**Capital came back, concentrated in quality.** Global healthcare private equity set a record in 2025, surpassing the prior 2021 peak, even as U.S. healthcare deal count fell 16% to roughly 1,106 transactions.

Bain & Company · FOCUS Investment Banking

## 86%

**Strategics now drive the market.** Strategic acquirers, including PE-backed platforms, led 86% of 2025 healthcare deals. Founders increasingly sell into a platform, not to a first-time buyer.

FOCUS Investment Banking

## Split

**Behavioral health bifurcated.** Mental health and IDD set volume records in 2025 (80+ and 31 deals), while substance-use disorder fell to 12 deals amid Medicaid uncertainty.

The Braff Group

## -1.3%

**Home health took a fourth straight rate cut, yet drew premium bids.** Despite the CY2026 Medicare reduction, UnitedHealth bought Amedisys (\$3.3B) and Enhabit sold to Kinderhook at 10.2× EBITDA.

CMS · Mertz Taggart

## \$24.9<sub>B</sub>

**CDMO reshoring accelerated.** Disclosed CDMO investment reached \$24.86B in 2025 with 74% landing in the U.S., reset by the December 2025 enactment of the BIOSECURE Act.

PharmaSource · NDAA §851

## 1/3

**Deal structures tightened.** Escrows grew, earnout use rebounded to roughly one-third of private-target deals, and seller-friendly “walk-away” constructs fell by nearly half.

SRS Acquiom 2026 Deal Terms Study

## AHC

**Readiness is the deciding variable.** Clean financials, payer-mix transparency, and EVV / billing integrity increasingly determine which deals close at full value and which stall in diligence. The data rewards the prepared seller.

American Healthcare Capital — deal experience

## — METHODOLOGY &amp; SCOPE

02

# How to Read This Study

*Scope, definitions, sources, and limitations.*

## SCOPE & MARKET DEFINITION

This study focuses on the **lower middle market** — healthcare services and contract-manufacturing businesses generally valued between **\$5 million and \$100 million** in enterprise value, with larger transactions referenced where they signal pricing or strategic direction. The analysis covers calendar years **2020 through 2025**, with forward commentary on 2026.

## SECTORS COVERED

- **Behavioral health** — mental health and outpatient psychiatry, substance-use disorder (SUD) treatment, autism / ABA therapy, IDD services, and eating-disorder treatment.
- **Home health & home care** — Medicare-certified home health, non-medical / private-duty home care, and hospice.
- **FDA contract manufacturing** — pharmaceutical CDMOs and CMOs, sterile fill-finish, and API manufacturing.

## SOURCES

**Market & PE activity:** Bain & Company; PwC Health Industries; Kaufman Hall; FOCUS Investment Banking. **Behavioral health:** The Braff Group; Mertz Taggart; Scope Research; ION Analytics. **Home health:** CMS; JAMA Health Forum; Mertz Taggart; Home Health Care News. **CDMO:** PharmaSource; ION Analytics; Bourne Partners. **Deal terms:** SRS Acquiom 2026 Deal Terms Study. **Regulatory:** Federal Reserve; CMS; NDAA / BIOSECURE Act. **Proprietary perspective:** American Healthcare Capital engagement experience.

## LIMITATIONS

- The majority of private-target deals are not required to be disclosed; transaction **count** is often a more reliable indicator of activity than reported value.
- Reported multiples are **indicative ranges**, not appraisals. Any single business is valued on its own facts.
- Third-party figures are attributed to their publishers; AHC commentary is identified as such.

### A NOTE ON VALUATION

Why two identical-looking businesses can clear at very different multiples.

Within every sector in this study, the gap between a platform-quality asset and a single-site operator is wide and widening. Scale, payer mix, contract assignability, accreditation, clinical or regulatory track record, management depth, and the cleanliness of the financial record each move a multiple. The ranges on the following pages describe the market; preparation determines where inside the range a given business lands.

## MARKET SNAPSHOT

03

# A Record Year, Unevenly Felt

Healthcare dealmaking rebounded in 2025 — but the recovery favored quality and scale.

2025 was a record year for healthcare private equity by value, even as the broader deal count contracted. According to Bain & Company, global healthcare PE reached an estimated **\$191 billion** in deal value, surpassing the 2021 peak, on roughly **445 buyouts** — the second-highest annual total on record.

The headline masks a more selective market underneath. FOCUS Investment Banking counted roughly **1,106 U.S. healthcare transactions** over the trailing year, down about **16%** from 1,320 the year prior. Large, high-conviction deals carried the value; smaller and weaker assets sat. Kaufman Hall reported that a record **43% of 2025 transactions** involved a financially distressed party.

Two forces explain the resurgence: substantial accumulated dry powder, and a maturing wave of sponsor-owned assets reaching the end of their fund lives — which drove exit value back to roughly **\$156 billion**, up sharply from \$54 billion in 2024 as sponsor-to-sponsor activity returned.

The backdrop into 2026 is a rate plateau. The Federal Reserve has held its policy rate at 3.50%–3.75% through the first half of the year, with markets pricing little further movement — keeping financing costs, and therefore leverage math, disciplined.

## GLOBAL HEALTHCARE PE — DEAL VALUE

Estimated, US\$ billions

~\$190B



2021  
prior peak

\$191B



2025  
record

Source: Bain & Company, Global Healthcare PE Report 2026.

## EXIT VALUE REBOUND

Estimated, US\$ billions

\$54B



2024

\$156B



2025

Source: Bain & Company.

445

2025 BUYOUTS — 2ND MOST ON RECORD

–16%

YOY DECLINE IN U.S. HEALTHCARE DEAL COUNT

43%

2025 DEALS INVOLVING A DISTRESSED PARTY

## BUYER LANDSCAPE

04

# Who Is Buying — and What They Pay For

*The composition of demand has shifted toward platforms and disciplined sponsors.*

## SHARE OF 2025 HEALTHCARE DEALS BY ACQUIRER TYPE

Strategic acquirers include private-equity-backed platforms

Strategic & PE-backed platforms — 86%

Other 14%

Source: FOCUS Investment Banking, Healthcare EBITDA Dashboard 2026.

The defining feature of the 2025 market was the dominance of strategic and platform buyers. Per FOCUS Investment Banking, strategic acquirers — including PE-backed platforms — led roughly **86%** of healthcare deals. For a founder, this means the likeliest buyer is no longer a first-time entrant but an operator already running a consolidation playbook.

Private equity itself has recalibrated. Bain notes sponsors shifting toward **smaller mid-market platforms** where operational improvement, not financial engineering, drives multiple expansion. Sponsor-to-sponsor activity rebounded, and even distributors have emerged as active acquirers. Healthcare IT now accounts for roughly **20%** of healthcare transaction volume, up from 15% in 2021.

BUYER ARCHETYPE	WHAT MOVES THEIR BID
<b>PE platform</b>	Scale, management depth, a “buy-and-build” runway
<b>PE add-on</b>	Geographic density, contract assignability, fast integration
<b>Strategic</b>	Multi-service footprint, payer & referral synergy
<b>Independent sponsor</b>	A clean, well-documented asset they can finance
<b>Search fund</b>	Owner-transition readiness; durable, simple cash flow

### ◆ AHC PERSPECTIVE

#### Match the story to the buyer.

The same business is worth different amounts to different buyers. A platform pays for scale and runway; an add-on pays for density and assignable contracts; a strategic pays for synergy. Knowing which buyer you are built for — before you go to market — is the difference between one bid and a competitive process.

— SECTOR DEEP DIVE — I

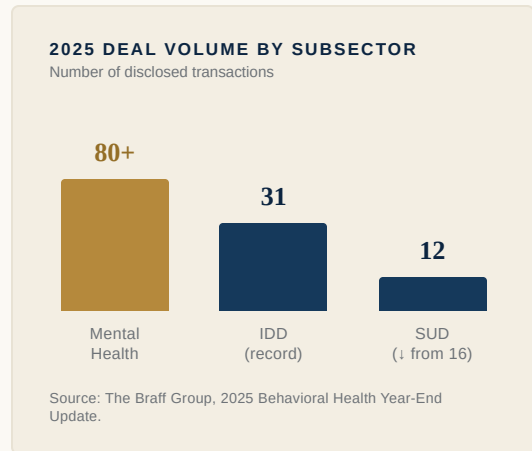
# Behavioral Health

*A single label, several markets — moving in opposite directions.*

Behavioral health is no longer one market. In 2025, mental health and IDD set transaction-volume records while substance-use disorder contracted — a bifurcation driven by reimbursement stability and Medicaid exposure.

Per The Braff Group, **mental health** recorded 80+ deals (up from roughly 70 in 2024) and **IDD** reached a record 31 deals. Autism / ABA roared back as private equity re-entered the space, with deal activity up sharply early in the year. By contrast, **SUD** fell to 12 deals from 16 — buyers paused as Medicaid uncertainty under the OBBBA, with most provisions not effective until 2027, cast a shadow over the most Medicaid-dependent subsector.

Two structural shifts are worth noting: a buyer pivot toward interventional psychiatry (TMS, ketamine therapy), and intensifying FTC / DOJ scrutiny of private-equity “roll-ups,” which has lengthened timelines and made some acquirers quieter about announcements.



SUBSECTOR	INDICATIVE EBITDA MULTIPLE
Premium autism / ABA platforms	mid–high teens
ABA (typical, w/ commercial contracts)	6–8×
In-network SUD & mental health	6×+
Out-of-network SUD treatment	4–6×

Indicative ranges: Scope Research, Mertz Taggart, ION Analytics / The Braff Group. Platform assets command the top of each range.

## Records

MENTAL HEALTH & IDD VOLUME IN 2025

## 2027

WHEN OBBBA MEDICAID IMPACT COMES INTO FOCUS

◆ AHC PERSPECTIVE

### Two businesses, same EBITDA, different multiple

In behavioral health we see two businesses with identical EBITDA sell for very different multiples, and the difference usually traces back to payer mix. A seller describes a strong in-network book, and diligence reveals it is mostly out of network, concentrated in one or two commercial payers, with rates that can be repriced at the next contract cycle. Buyers do not pay for revenue they cannot count on. The same pattern hides in owner-occupied real estate, where rent run through the operating company quietly props up EBITDA. Know your real payer mix and separate your real estate before a buyer does it for you. Buyers retrade on uncertainty. Preparation removes it.

— SECTOR DEEP DIVE — II

# Home Health & Home Care

*Reimbursement pressure on one side; strategic conviction on the other.*

Home health entered 2026 absorbing its fourth consecutive year of Medicare payment cuts — and still drew some of the year's most decisive strategic bids. The tension between policy headwinds and buyer appetite defines the sector.

CMS finalized a **1.3% aggregate Medicare reduction** for CY2026 (a \$220M cut), a meaningful walk-back from the 6.4% originally proposed, but the fourth straight year of permanent cuts. The 30-day episode base rate settled at **\$2,038.22**. Medicare Advantage continues to compress margins through lower contracted rates and aggressive utilization management — though MA enrollment growth shows early signs of plateauing.

Strategic conviction was undimmed. UnitedHealth closed its **\$3.3B** acquisition of Amedisys; Enhabit sold to Kinderhook for **\$1.1B at 10.2× EBITDA** (a 24% premium); and Ares, alongside DaVita, took a strategic position in Elara Caring. Consolidation runs deep: a JAMA Health Forum study found that of 749 home-health agencies tracked from 2006–2024, **520 were acquired by mid-market PE** and 143 by megafunds.

**-1.3%**  
CY2026 AGGREGATE MEDICARE CUT — 4TH STRAIGHT YEAR

**HEADLINE 2025–26 TRANSACTIONS**  
Selected home-based care deals

<b>UnitedHealth / Amedisys</b>	<b>\$3.3B</b>
<b>Kinderhook / Enhabit</b>	<b>10.2×</b>
<b>Ares + DaVita / Elara</b>	<b>Strategic</b>

Source: Mertz Taggart Q1 2026 Home-Based Care Report; SEC filings.

**520**  
OF 749 AGENCIES ACQUIRED BY MID-MARKET PE, '06–'24

**24%**  
PREMIUM IN THE ENHABIT TAKE-PRIVATE

◆ **AHC PERSPECTIVE**

## When you can't build, you buy

In May 2026 CMS froze new Medicare enrollment for home health and hospice for six months, a blunt swing at fraud that quietly rewired the M&A math. When a buyer cannot stand up a new agency or add a branch, the only way to grow a certified footprint is to acquire one that already exists. That makes an established, clean, Medicare-certified agency a scarcer asset than it was a year ago. The premium still has to be earned. Buyers pay up for diversified payer mix, durable margins under Medicare Advantage pressure, low caregiver turnover, and a compliance record that survives the scrutiny now defining the sector. Scarcity raises the floor. Quality sets the ceiling.

# FDA Contract Manufacturing

*A reshoring tailwind that is not pricing in slowly.*

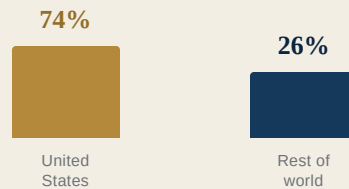
The CDMO and contract-manufacturing landscape has been reset by policy. After a 2022–2024 valuation trough, dealmakers describe entering 2026 with momentum not seen in years — and a clear shift toward specialized, higher-value capabilities.

The catalyst is the **BIOSECURE Act**, signed into law in December 2025 as Section 851 of the FY2026 NDAA, which bars federal contracting tied to designated “biotechnology companies of concern.” A multi-year transition has pushed sponsors to qualify non-Chinese capacity, repositioning U.S. FDA-inspected facilities as scarce assets.

The capital response was immediate. PharmaSource tracked **\$24.86 billion** of disclosed CDMO investment in 2025, with **74%** flowing to the United States. One advisor described entering 2026 “with twice the value and volume of activity” versus the prior year. The next cycle favors **specialization** — sterile injectables, radiopharmaceuticals, and complex biologics — over the “do-everything” CDMO of the last peak. Recent activity includes Teleflex’s \$1.5B Medical OEM carve-out to Montagu and Kohlberg, and a \$1.3B U.S. supply win by Samsung Biologics.

## 2025 DISCLOSED CDMO INVESTMENT

Geographic concentration of capital



Of \$24.86B total disclosed. Source: PharmaSource, 2025.

## 2×

ACTIVITY ENTERING 2026 VS. 2025, PER SECTOR ADVISORS (BOURNE PARTNERS)

Lower-middle-market CDMO data is thinner and more fragmented than the provider sectors; AHC’s transaction perspective carries proportionally more weight here.

### ◆ AHC PERSPECTIVE

#### Where the valuation gets cut

In contract manufacturing the markdown almost always comes from the same place: the distance between the story in the offering materials and the trailing financials underneath them. We have reviewed books that presented EBITDA at a multiple of what the trailing twelve months actually supported, built on projected volume that had not yet arrived. The moment a buyer maps the pipeline to historical results, the number resets. Customer concentration is the second cut, usually understated until diligence drags it into the open. Both are survivable. Neither survives as a surprise. Present a defensible trailing record and own your concentration before a buyer raises it, and you keep control of the multiple.

## — HOW DEALS GET DONE

08

## Deal Structure Trends

*Buyers came back to the table in 2025 — and brought more protection with them.*

The SRS Acquiom 2026 Deal Terms Study analyzed more than 2,300 private-target acquisitions worth \$569 billion that closed from 2020–2025. The throughline for 2025: volumes recovered, but buyers stayed cautious about valuation and post-closing risk. For a lower-middle-market founder, that caution shows up directly in the term sheet.

### 42%

OF 2024 DEALS CARRIED REPS & WARRANTIES INSURANCE

### 1/3

OF PRIVATE-TARGET DEALS NOW INCLUDE AN EARNOUT

### 18 → 11%

"NO-SURVIVAL" (NON-RWI) DEALS — BUYERS LESS WILLING TO WALK RISK

**Escrows grew.** Both median and average escrow size increased from 2024 to 2025 across nearly all deal categories — a direct signal of buyer caution on post-closing exposure.

**Earnouts rebounded.** After cooling from the 2023 peak, earnout use returned to roughly one-third of deals as buyers and sellers bridged valuation gaps with contingent consideration rather than headline price.

**Diligence deepened.** A sharp rise in deals omitting cybersecurity representations (from 5% to 22% year-over-year) reflects how quickly emerging risk — including AI — now enters negotiation.

**The small end thinned.** Deals valued at \$100M or below declined roughly 20%, concentrating activity and rewarding the sellers who could clear a higher diligence bar.

### ◆ AHC PERSPECTIVE

#### Price is one term. Structure is the deal.

In today's market, a founder should expect a full quality-of-earnings review, payer and billing reconciliations, and a structure that blends cash at close with rollover equity and an earnout. The sellers who clear cleanly are the ones who reconciled their own numbers before the buyer's CFO ever opened the data room.

# 2026 Outlook

*Five themes we expect to shape healthcare M&A in the lower middle market.*

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## *i* **The rate plateau remains the binding constraint**

With the Fed holding at 3.50%–3.75% and markets pricing little further movement, financing costs stay disciplined. Sellers with clean financials and recurring revenue will still run competitive processes; the bid-ask spread on weaker assets will not close until cuts arrive.

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## *ii* **Behavioral health keeps bifurcating**

Scaled, multi-state platforms with diversified payers and accreditation will hold double-digit multiples; single-site groups will face pressure. Autism and IDD momentum continues, while SUD stays cautious until the Medicaid picture clarifies — likely not before mid-2027.

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## *iii* **Home health rewards margin resilience**

A fourth straight Medicare cut and Medicare Advantage pressure make payer-mix transparency and billing integrity decisive. Operators who can prove margin durability under an MA-heavy book will command a premium to peers who cannot.

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## *iv* **CDMO reshoring intensifies**

The BIOSECURE Act's transition window keeps U.S. FDA-inspected capacity scarce. Expect continued multiple expansion for operators who can document capacity utilization, customer diversification, and a defensible regulatory track record.

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## *v* **Founder readiness decides outcomes**

Deals are more complex than ever — meaningful rollover, multi-year earnouts, continued involvement. Founders take chips off the table and often see a second upside at the next recap; the ones who close have made peace with the trade-off, and prepared their financials, before entering a process.



— ABOUT THE AUTHOR

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Sam Fuhrer is a Managing Director at American Healthcare Capital, a sell-side M&A advisory firm specializing in the healthcare lower middle market. He advises founder-led businesses across **behavioral health, home health, and FDA contract manufacturing**, guiding owners from valuation and preparation through diligence to close. Based in West Palm Beach, Florida, he works with first-generation owners, search-fund principals, and private equity sponsors building platforms in healthcare services.

*“If you are weighing a sale, or sourcing acquisitions in healthcare services, I would welcome a confidential conversation.”*

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