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Links' List of Multiples

March 2026



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Q4 2025 Private Equity Valuation Multiples

A More Complex Economic Backdrop

Canada entered the final quarter of 2025 with softer momentum. GDP contracted by 0.6% in Q4, reinforcing that domestic growth has slowed. For Canadian business owners, that translates into more cautious customer spending and reduced visibility in certain sectors.

In the United States, the dynamic is different but still relevant. Recent wholesale inflation readings came in above expectations, suggesting that pricing pressures remain. A significant portion of tariff costs appears to be flowing through to consumers, and job growth has moderated compared to earlier in the cycle. These factors influence interest rate expectations and broader capital market conditions.

Trade policy continues to introduce variability. Although the Supreme Court struck down the initial tariff framework, broader policy direction remains fluid. What has changed is the response. Buyers and lenders are no longer pausing in reaction to headlines. They are incorporating flexibility into forecasts and transaction structures. Uncertainty is now assumed rather than treated as an exception.

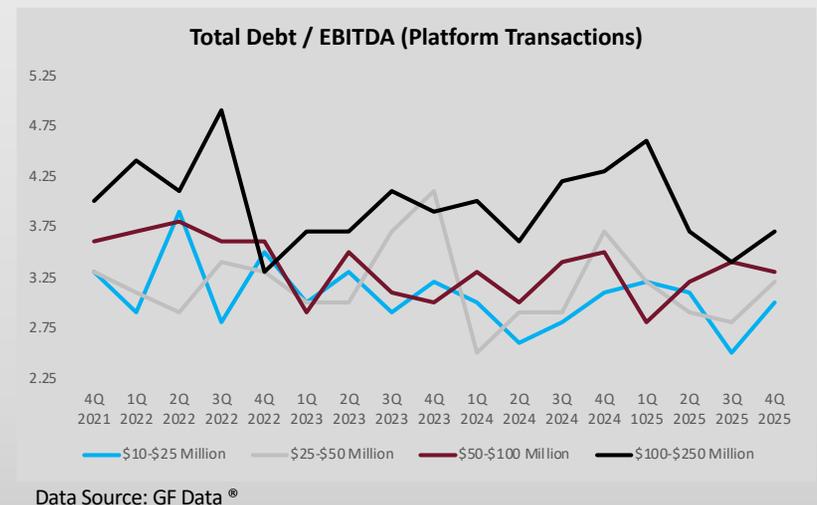
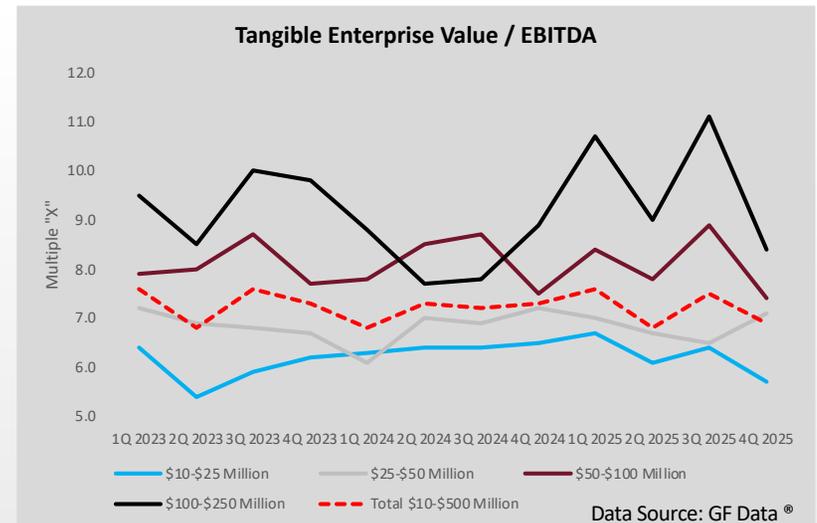
Valuations and Financing: Increasing Dispersion

Valuations were generally stable through much of 2025, but Q4 showed greater selectivity. Multiples declined across most enterprise value ranges, particularly in the \$50–\$250 million segments. The \$25–\$50 million range was the primary exception and held relatively steady.

Slower Canadian growth, persistent U.S. inflation, and tariff-related cost pressures reduce confidence in future margins. Buyers respond by tightening assumptions and narrowing valuation ranges.

AI is adding another important variable. Public markets have experienced meaningful drawdowns in parts of the software sector, certain commercial real estate-related businesses, and segments of wealth management as investors reassess the durability of long-term earnings. These sectors are visible examples of how quickly sentiment can shift when technological change alters expectations.

They are not the only industries affected. AI adoption is influencing sectors ranging from manufacturing and logistics to healthcare and professional services.



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Buyers are evaluating how automation and data tools may reshape cost structures, staffing needs, pricing power, and long-term demand.

In some businesses, AI creates efficiency and margin opportunities. In others, it introduces uncertainty around revenue stability or competitive positioning. That uncertainty contributes to wider dispersion in transaction outcomes.

On the financing side, leverage dipped earlier in the year and increased modestly in Q4 from 3.0x to 3.2x. Lenders remain active participants. Debt levels are below earlier peak ranges but continue to support well-structured deals. Equity represents just over half of total capitalization, slightly below the peak observed in 2023.

The market has not retreated. It has become more analytical. Strong companies with stable earnings and clear positioning continue to transact well. Businesses exposed to cost volatility, consumer pressure, or technological disruption face greater scrutiny.

Record Investment, Capital Concentration, and Sponsor Divergence

In our last newsletter at the end of 2025, we referenced the strong pace of private equity investment reported through Q3 by the CVCA. Full-year data confirmed record dollars deployed across Canada in 2025.

However, much of that capital was concentrated in a limited number of very large transactions. A small group of billion-dollar deals accounted for a significant share of total investment. When those transactions are removed from the aggregate figures, middle-market activity appears steady rather than exceptional. This reflects concentration rather than weakness. Large institutions continue to execute transformational transactions, while middle market buyers remain disciplined and selective.

Within private equity, divergence is becoming more visible. Funds raised during the most aggressive years of the cycle were structured around stronger leverage and quicker exits. With leverage more moderate and holding periods extending, some managers are focused on stabilizing and refinancing existing portfolio companies rather than launching new platforms.

These are often described as zombie funds. They are not distressed, but they are constrained. Capital remains invested, distributions are slower, and flexibility for new acquisitions is reduced. At the same time, well-capitalized firms with available dry powder remain highly active. We continue to see meaningful inbound interest from buyers seeking durable, well-run businesses. For business owners, the message is clear. The market remains active, but expectations are higher. Slower domestic growth, inflation pressures, tariff impacts, and technological change are shaping buyer decisions. Capital is available, but it is being deployed more carefully than during the post-COVID expansion.

Preparation, earnings visibility, and strategic clarity continue to drive outcomes.

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