How Deal Size Determined the Timing of PE's Slowdown

Investment-to-Exit Ratios & the Financing Cascade | 2017 – 2026 YTD

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1.6x

Investment-to-Exit Ratio, 2026 YTD

All four deal-size tiers have converged to a decade low, down from a 2.3x–3.3x historical range.

Investment-to-Exit Ratio by Deal Size

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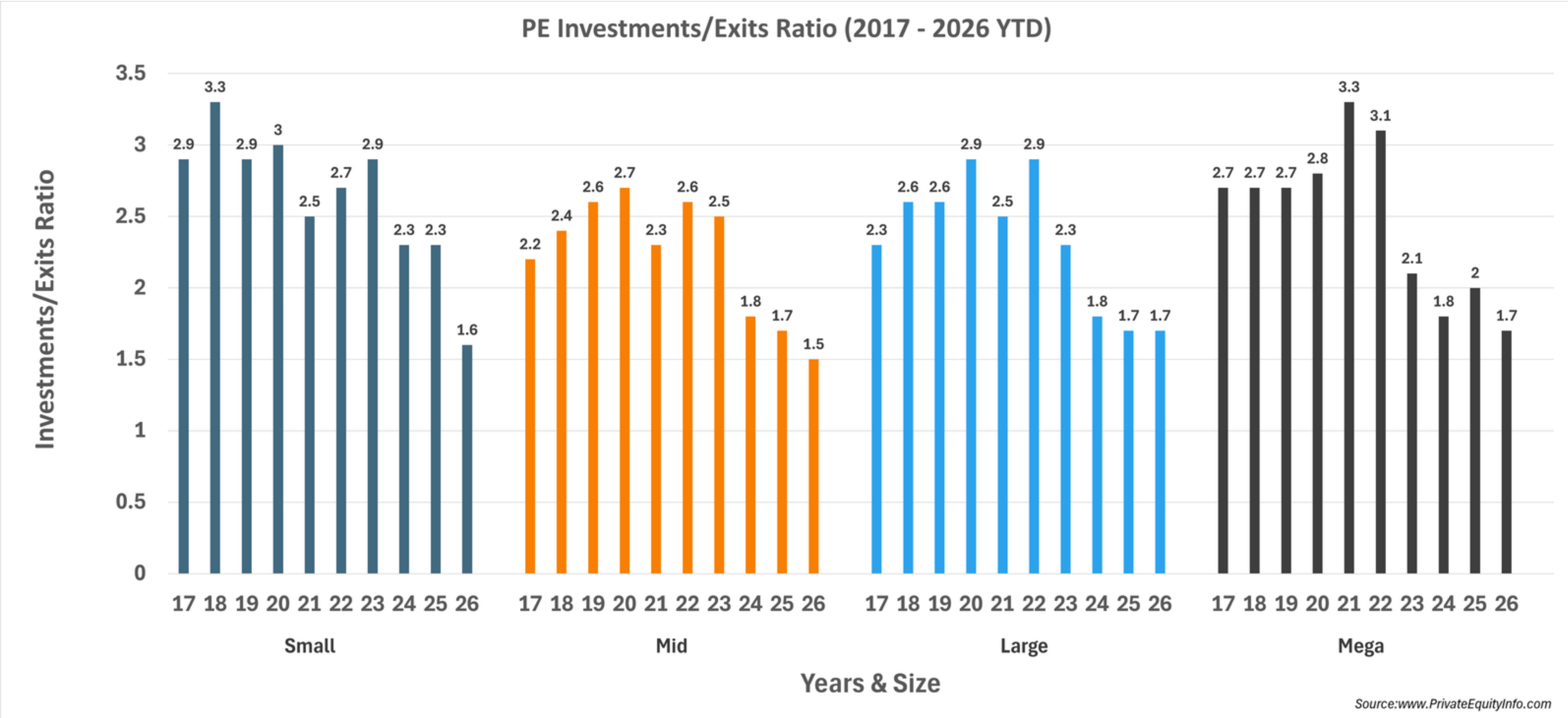
Viewed tier by tier, the breakdown in each deal-size category's investment-to-exit ratio arrives in sequence rather than all at once, the financing cascade, visible in the data.



CASCADE TIMING

When each tier's ratio broke down: Mega 2022–23 » Large 2022–24 » Mid 2023–24 » Small 2025–26. A single rate-hiking cycle propagating down-market at roughly a one-year lag per step.

Analysis & Implications

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A Financing Cascade, Not a Collapse

This isn't four unrelated slowdowns. It's a single event working through the market: the 2022 rate-hiking cycle, propagating down the size spectrum at roughly a one-year lag per step. Mega broke first (2022–23), then Large, then Mid, and finally Small in 2025–26, about three years behind Mega.

Structure Sets the Speed

The mechanism is financing structure. Mega and Large deals lean on syndicated leveraged-loan and high-yield markets that reprice to rates almost immediately. Small runs on regional-bank lending, SBA products and seller financing, which insulates it the longest.

Capital Rotated Down-Market

A second-order effect compounded the lag. As top-end deals grew harder to underwrite and exit in 2022–23, capital likely rotated down-market chasing lower entry multiples, temporarily propping up Small and Mid activity even as the top slowed.

LPs Are Pulling Exits Forward

The exit side is driven by LP pressure: distributions-to-paid-in has displaced IRR as the metric that matters. Two forces now compress the ratio: tighter debt lowering new investment, and LP exit pressure lifting exits.

Key Outlook

CURRENT RATIO
1.6x
All deal sizes, 2026 YTD

CASCADE LAG
~3 yrs
Mega to Small breakdown

MEDIAN HOLD
6.2 yrs
2026 exits

2021 VINTAGE
+50%
Above surrounding-year investment

VINTAGE CONTEXT

The 2021 vintage was a historic outlier, with platform investment running roughly 50% above surrounding years. With the median 2026 hold period at 6.2 years, companies exiting now were invested around 2019–2020, before the surge. Run it forward and the 2021 bulge may not clear until 2027, though mounting LP pressure for distributions could pull those exits earlier.

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