

Monroe Capital's Co-Head of Tech Finance Stewart Hanlon on deal activity in the tech sector

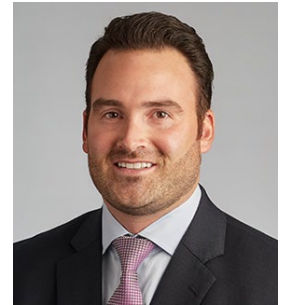
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Analysts: Andrew Hedlund, Managing Editor

LevFin Insights

LFI: What were your expectations for software M&A and new LBO activity coming into 2026?

Hanlon: Going into 2026, the expectation was that we would see more activity following a busy Q3 and Q4 2025. Valuations were relatively stable and the IPO window was open, creating a belief that there would be more liquidity across sponsor portfolios, which, in turn, would drive additional deal flow.



LFI: How has the deal volume in the software sector been this year compared to expectations?

Hanlon: January was busy, leading us to believe that 2026 would be very active; however, since the start of February, it has been quieter due to the noise around AI and its potential impact on software.

We are being cautious, but there are investible opportunities. According to sell-side advisors, the recent sell-off is viewed largely as an “indiscriminate” dislocation that is likely to cool the market for the next quarter or two.

LFI: How are you thinking about the rest of Q1 and into Q2?

Hanlon: Activity will be slower than expected. We believe the best companies will continue to trade in the lower middle market and middle market, while larger sponsors will be opportunistic around take-privates. This environment mirrors what we saw in 2022 and 2023 following the valuation reset from the 2021 highs.

If public-market software valuations remain depressed, we would expect private equity to focus on (i) managing existing portfolio companies and being opportunistic around portfolio M&A, and (ii) selectively pursuing new platforms, particularly take-privates.

LFI: Over the last several years, what had been the biggest barrier to getting deals done? Is that barrier still present?

Hanlon: In 2025, the biggest impediment for us was the increase in covenant-lite structures in businesses with less than \$50mn of EBITDA and pricing that was too thin in ARR structures. Given the recent market volatility, we expect pricing to widen and structures to become more lender friendly.

LFI: How do recent software transactions break down on a use-of-proceeds basis (i.e., new LBOs, refinancings, dividends, etc.)?

Hanlon: Over the last 14 months, most of our transactions have been either new LBOs or portfolio add-on/M&A financings.

LFI: In what subsectors of software are you seeing a particularly high amount of activity?

Hanlon: We are seeing particularly high activity in parts of infrastructure software and in vertical-specific applications tied to regulatory or compliance-driven workflows.