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M&A Update

U.S. Micro Middle Market

2H 2024

1 Executive Summary

Key Takeaways

M&A Activity

Deal activity rebounded to three-year highs, positive outlook for 2025

Valuation Multiples

Multiples remained stable compared to 2024

Sector Activity

Manufacturing and business services drove deal activity, mounting trade war poised to disrupt global supply chain

Leverage

Falling rates improved the lending environment, Fed weighing cuts amid inflation uncertainty

In this report:

Who we are:

Houlihan Capital is a boutique valuation and investment banking firm committed to delivering superior client value and thought leadership in an ever-changing landscape.

Micro Middle Market Overview:

Houlihan's Investment Banking group specializes in providing sell-side M&A advisory services to owners of privately held businesses within the Micro Middle Market ("MMM"), defined as those with total enterprise value ("TEV") below $250M.

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Data Source:

The data used in this report was primarily sourced from GF Data, using information provided by 400+ private equity firms on their recent transaction activity.

2 M&A Overview

2024 Set the Pace — 2025 Poised to Accelerate

Turning the Corner in 2024 – A Year of Steady Recovery and Selective Optimism

M&A activity in the lower middle market saw a meaningful rebound in 2024, marking a return to momentum after two years of softer volume. While the year ended on a quieter note, overall transaction activity outpaced 2022 and 2023, making 2024 one of the most active years since the post-COVID surge in 2021.

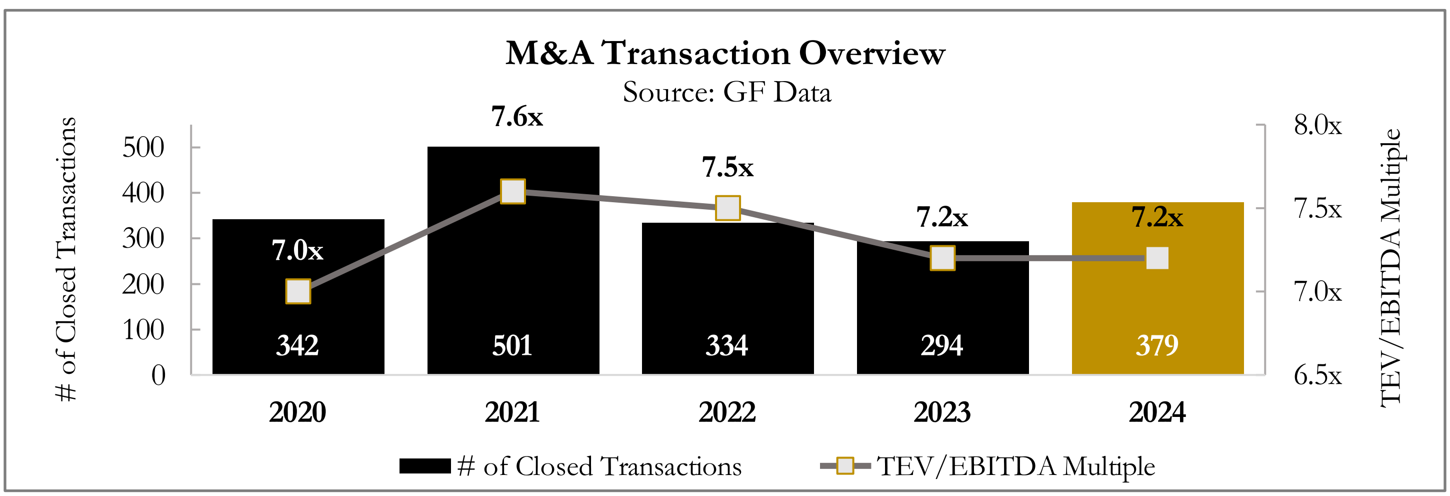
Valuations held steady with an average multiple of 7.2x TTM EBITDA, consistent with 2023 levels. While some segments—particularly deals in the $10 million to $100 million value range—saw modest increases, the broader trend reflected a stable pricing environment amid selective buyer behavior.

Part of the year's growth was fueled by a resurgence of high-performing companies coming to market. An uptick in deals involving Above-Average Financial Performance (AAFP) businesses, especially in the back half of the year, suggests that strong operators regained confidence and had successful outcomes in a still-discerning environment.

Positioned for Growth in 2025: Favorable Conditions Set the Stage for More Activity

Several trends are coming together to shape a strong M&A landscape for privately-owned businesses in 2025 and the years to come. Easing interest rates, an abundance of private equity capital, and a growing number of generational ownership transitions are driving momentum in deal activity.

While there is growing confidence in the long-term outlook for the domestic economy, the drastic shift in U.S. economic policy—from globalism to hegemony—is creating turbulence in financial markets and global supply chains. This uncertainty may pose challenges for businesses with significant international exposure, even as momentum builds in the broader M&A landscape. Even so, the micro middle market is poised for a competitive and active year.



3 Sector Breakdown

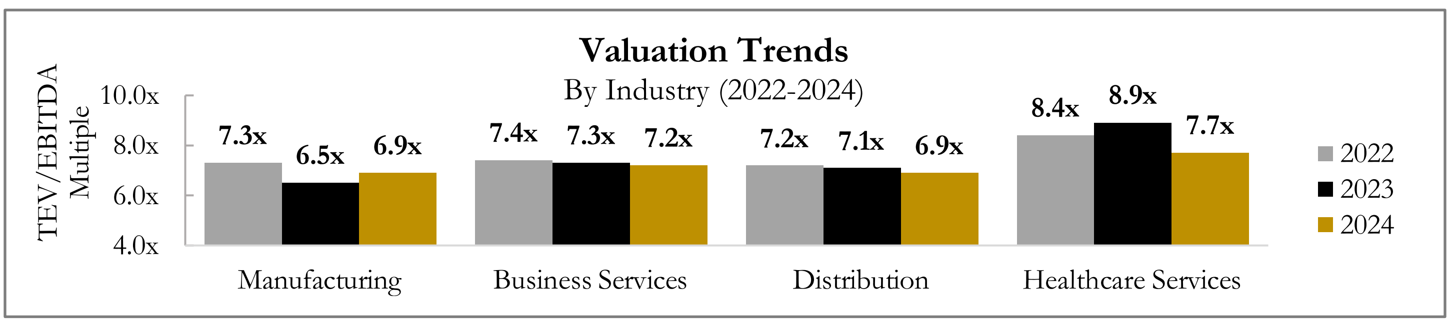
New Political Era Brings Shake-Up to Labor and Trade Sectors

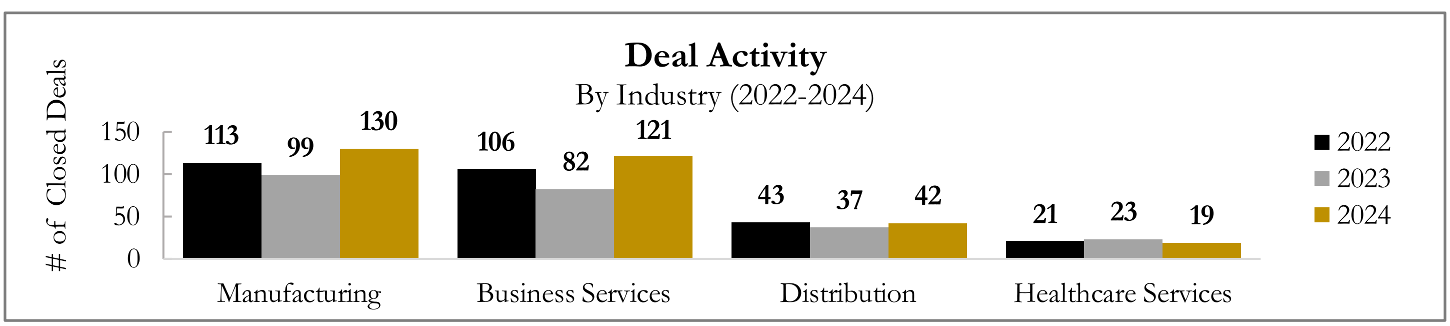
How Policy Shifts Under Trump May Impact Lower Middle Market M&A

M&A volume picked up in 2024, with manufacturing and business services surpassing deal flow from 2022 and 2023. Valuation multiples held steady across most sectors, though healthcare services saw a meaningful decline, dropping from 8.9x to 7.7x. Investors are showing renewed interest in asset-heavy businesses like manufacturing, favoring companies with tangible infrastructure and long-term stability amid continued economic uncertainty.

Looking ahead, the policy shifts under the Trump administration could have ripple effects across several lower middle market sectors. Stricter immigration enforcement and potential deportations may further tighten an already constrained labor market, especially in industries reliant on foreign-born workers. Labor-intensive sectors like agriculture, construction, and healthcare could face mounting pressure from workforce shortages, driving wage inflation and accelerating adoption of automation. For business owners, these labor dynamics may influence succession planning and M&A decisions.

At the same time, protectionist trade policies and "Liberation Day" tariffs have prompted multinationals to reevaluate supply chains. Many are ramping up long-term investment in U.S.-based production—a shift that could drive growth across the domestic manufacturing ecosystem. For lower middle market manufacturers, this may translate into rising demand, stronger fundamentals, and increased buyer interest from both strategic and financial acquirers looking to capitalize on reshoring tailwinds.



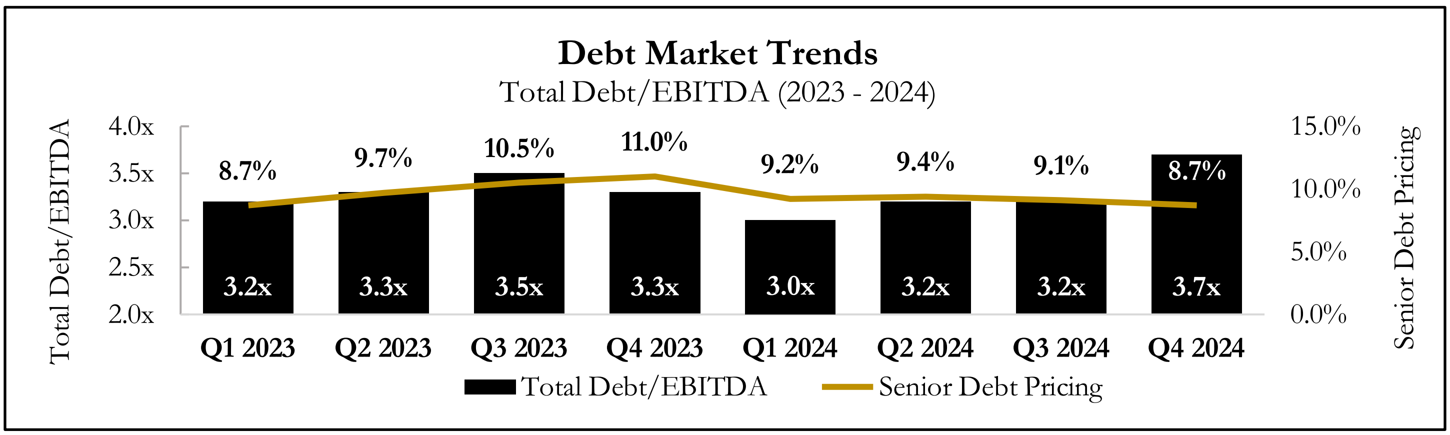


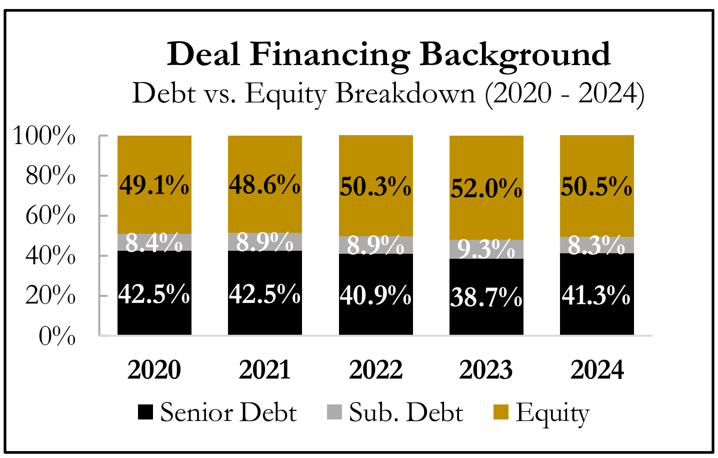
4 Debt

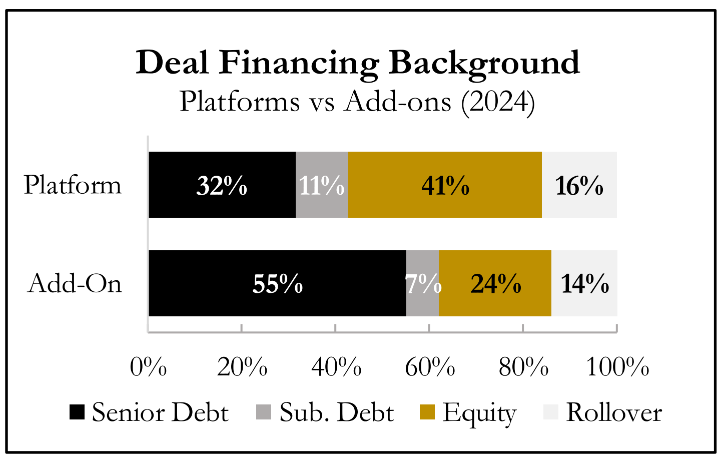
Falling Rates Strengthen Lending Environment

The debt markets strengthened throughout 2024, with improved lender appetite, declining capital costs, and more aggressive debt packages—especially for platform transactions. Total debt coverage on platform deals rose to 3.7x TTM EBITDA in Q4, the highest level in two years, while senior debt coverage ticked up to 2.7x. Although full-year averages for both remained slightly below historical norms, momentum was clearly positive. A key driver of this trend was falling senior debt pricing, which dropped to 8.7% by year-end—the lowest in nearly two years—reflecting the overall easing of credit conditions.

Both manufacturing and business services platforms experienced improvements in debt coverage, suggesting the recovery was broad-based across sectors. However, continued global economic turbulence could dampen activity for deals with significant international exposure. Domestically, expectations of Fed rate cuts—driven by cooling inflation and slowing growth—may further stimulate M&A by reducing financing costs.







5 Houlihan Capital
Investment Banking Team

Houlihan Capital's Investment Banking group offers an integrated advisory approach that draws upon our strategic and technical expertise, industry knowledge, transactional and financing experience, and expansive network of institutional and private investors to guide shareholders and management teams. We understand the time sensitivity of many of our assignments and work diligently to meet these demands while minimizing operational disruption, allowing clients to focus on their business.

Our team works with businesses across all major industries with an enterprise value greater than $5.0 million and EBITDA between $1.0 million and $20.0 million. Many businesses of this size have a unique story to tell, and we are committed to structuring a tailored approach to assist clients in achieving their strategic, financial, and risk-management objectives.

Our investment banking professionals function as an extension of our client's management team, providing specialized transaction advisory support derived from years of hands-on experience. Our clients can stay focused on running their business while Houlihan runs a successful sale process.

To find out more about how Houlihan can assist in the deal process, please contact one of the following members from our team:

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