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M&A Update

U.S. Micro Middle Market

1H 2025

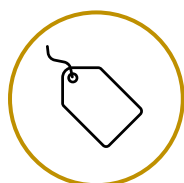
1 | Executive Summary

Key Takeaways



M&A Activity

Deal flow softened modestly but remains resilient



Valuation Multiples

Quality assets continue to command strong multiples



Sector Activity

Healthcare strength offsets broader slowdown



Leverage

Lending conditions stabilize as pricing improves

In this report:

- 1 | Executive Summary
- 2 | M&A Overview
- 3 | Sector Breakdown
- 4 | Leverage
- 5 | Buyer Sentiment
- 6 | Key Takeaways
- 7 | Houlihan Capital

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 \$150M.

Contact Info:

200 W. Madison Street, Suite 2150
Chicago, IL 60606

2400 Superior Avenue E., 1st Floor
Cleveland, OH 44114

(312) 450-8600

info@houlihancapital.com

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

Momentum Slows as the Market Finds Its Footing

Turning the Corner – A Steady but Selective Market in 2025

Micro middle market M&A activity eased slightly in early 2025 after a strong rebound last year. Year-to-date data shows roughly **142 completed deals**, tracking well below the **388 in 2024**. While volume dipped, **buyer interest and deal quality remain strong**, especially across **service-oriented and asset-light sectors**. The market continues to reward **disciplined buyers and well-prepared sellers**, with strategic fit and financial strength driving activity.

Mixed Valuation Trends – Stability Amid Slower Volume

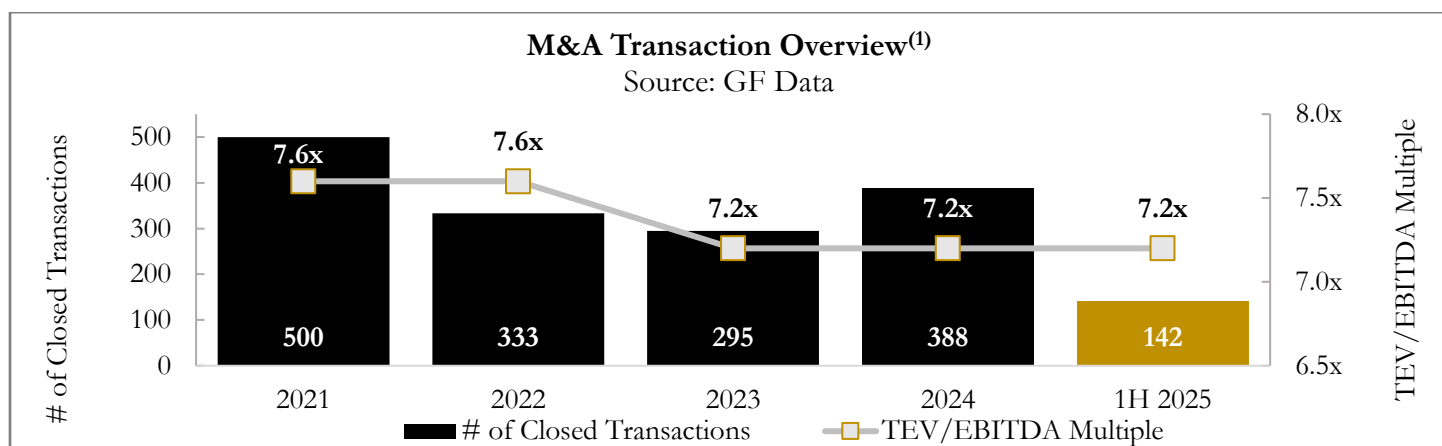
Average valuations held steady at **7.2x TEV/EBITDA**, consistent with 2023 and 2024. Despite lower deal flow, **top-performing companies in business services and healthcare** continued to command premium multiples. Buyers remain willing to pay for **scale, recurring revenue, and operational excellence**, even as diligence processes lengthen and earnings visibility becomes more scrutinized.

M&A Volume – Active but Highly Selective

The market remains **active but cautious**, defined by longer diligence timelines and tighter buyer focus. **Private equity firms** continue to target **fragmented, recession-resistant industries**, while **strategics** pursue consolidation to boost margin and share. Record **dry powder** and **steady lending appetite** are keeping deal activity resilient.

Key Economic Factors Shaping 1H 2025

- **Interest Rates:** The Fed's first rate cut in early 2025 lifted financing sentiment, though borrowing costs remain above pre-2022 levels.
- **Lending Conditions:** Private credit funds and non-bank lenders continue to play a key role, offering flexible structures that keep total leverage near **3.0x TTM EBITDA**, consistent with historical norms.
- **Tariff Uncertainty:** Trade policy shifts and tariff volatility continue to pressure companies with international exposure, pushing acquirers toward **domestically focused businesses**.



3

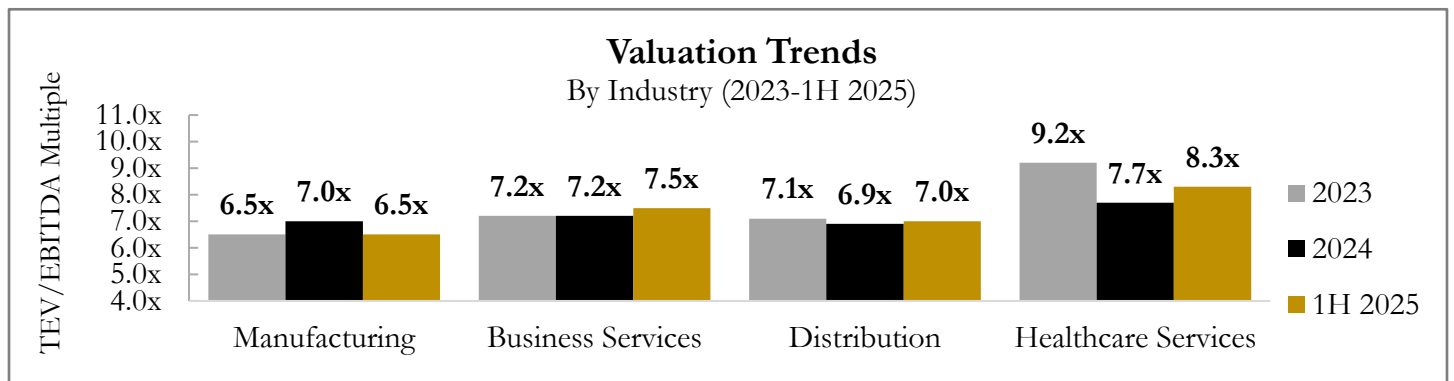
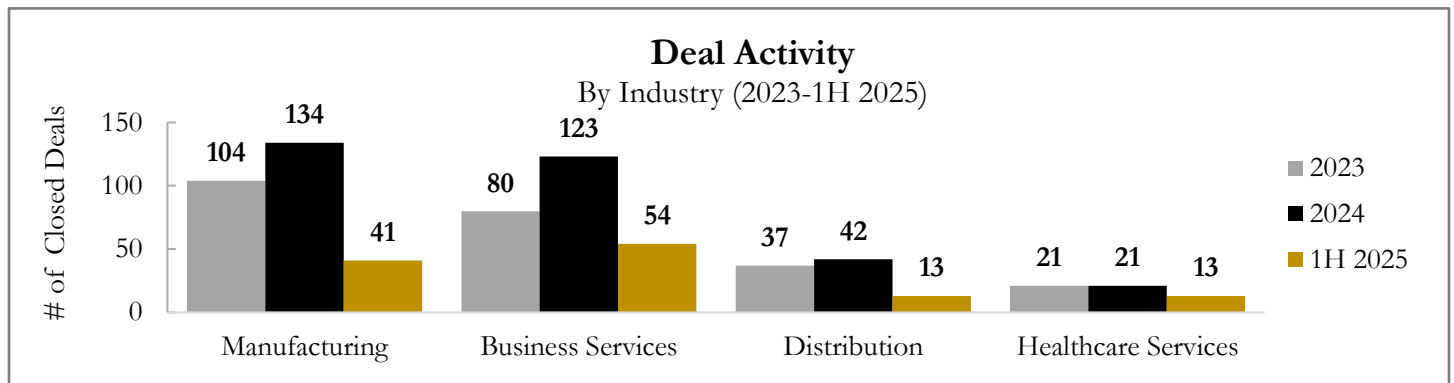
Sector Breakdown

Resilient Sectors Shine Amid a More Disciplined Market

Thus far in 2025, activity across most sectors is **tracking below 2024**, with **Healthcare Services** as the exception. Valuation trends mirror this: Healthcare's average rose to roughly **8.3× TEV/EBITDA**, up about half a turn, while **Manufacturing** slipped to **~6.5×**. **Business Services** and **Distribution** held steady.

- **Healthcare Services:** Strong buyer demand for scalable, recurring-revenue platforms continues to support higher volume and firm pricing.
- **Manufacturing:** Despite renewed reshoring interest, deal flow has slowed as buyers focus on operations, supply chains, and cash flow.
- **Business Services:** Persistent interest in asset-light, service models—but investors are selective, favoring defensible, recurring-revenue opportunities.
- **Distribution:** Fundamentals remain sound, though deal counts have eased amid buyer caution on margins, inventory, and diligence timelines.

Blue-collar trades like **facility and infrastructure services** remain active, backed by steady demand, solid cash flow, and fragmented markets ripe for consolidation. Overall, while M&A volume is softer than 2024, **high-quality, resilient companies continue to draw strong buyer attention and stable valuations**.



4

Debt

Cautious Credit Environment Favors Scale and Strength

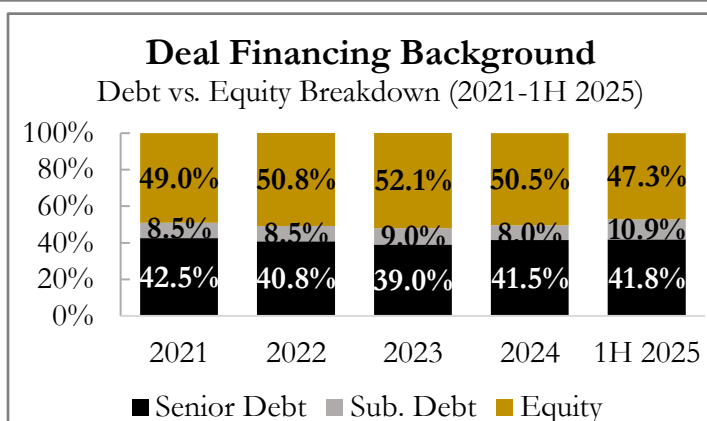
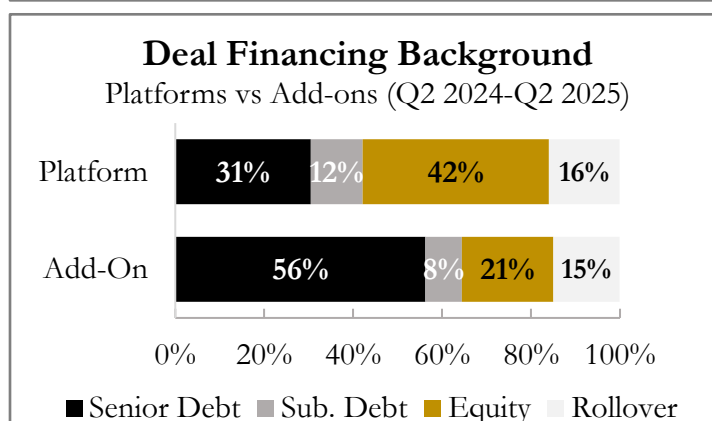
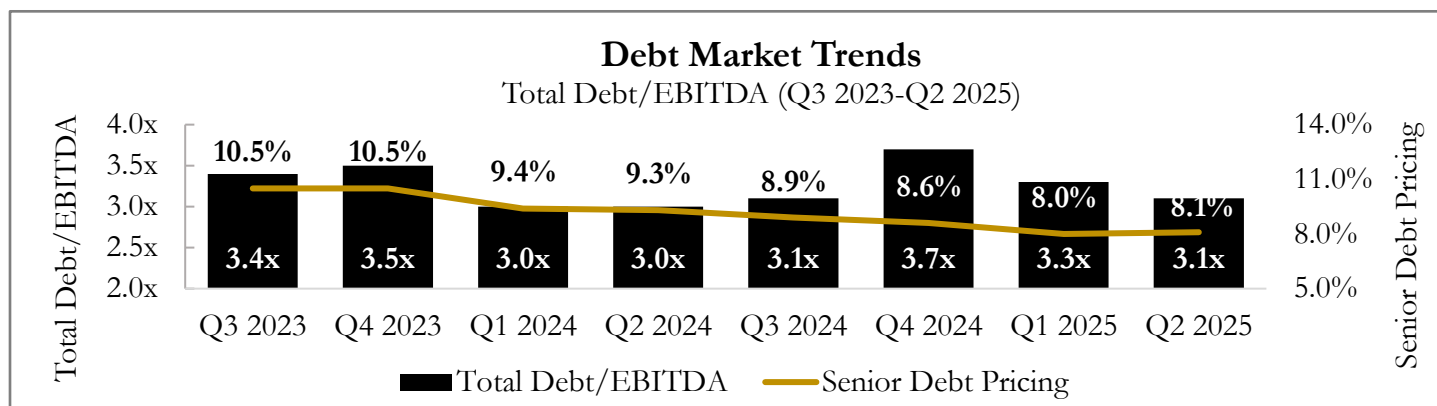
Leverage levels **stabilized in 1H 2025** as lenders returned to discipline after late-2024's surge. **Total debt utilization averaged 3.1× EBITDA, down from 3.7× in Q4 2024**, reflecting normalized credit conditions.

Senior debt coverage tightened for smaller deals, with the **\$10–25 million TEV tier at 2.7×**, the lowest in two years. Larger deals (**\$100–250 million**) rose to **3.4×**, highlighting lenders' stronger appetite for scale and sponsor-backed credits.

Debt pricing improved, with **senior rates easing to 8.1% from 8.6% in Q4 2024** as banks re-entered the market and competition among private credit funds compressed spreads. **Subordinated debt rose to 12.1%**, reflecting added risk premiums on smaller transactions.

Capital structures are **rebalancing**. Equity remains elevated at **~57% YTD**, but sponsors are **using more subordinated debt** to offset reduced senior capacity and preserve leverage.

Overall, a clear **two-speed market** has emerged: larger, sponsor-backed platforms continue to secure strong lender support and competitive pricing, while smaller transactions face **tighter leverage, higher costs, and heavier reliance on mezzanine capital**.



5

Buyer Sentiment

Insights from Middle-Market Private Equity Executives

“Deal flow continues to strengthen, with increased sell-side pitch activity and heightened engagement around sponsor-owned assets. Competitive pressure remains significant, particularly in processes involving high-quality assets.”

“M&A activity within healthcare and business services remains strong, with differentiated, service-focused businesses garnering the highest multiples and driving the most competitive processes. High-quality, proprietary assets are becoming increasingly scarce as more private equity firms and independent sponsors enter select industries such as facility services, pushing up multiples for platform-sized assets.”

“While deal flow has been down over the course of 2025, we are still seeing strong value and competitive processes for quality assets in the middle market. Pitch activity is increasing, and we are seeing more momentum suggesting a strong start to 2026.”

6

Key Takeaways

What 2025's Selective Market Means for Founders and Advisors

◆ Key Insights for Business Owners

- **Market is steady, but selective.** Buyers remain active and well-capitalized, but diligence is longer and fit matters more than ever. Well-prepared sellers still command strong outcomes.
- **Valuations hold firm.** Quality companies—particularly in asset-light and recurring-revenue sectors—continue to trade at premium multiples despite slower overall volume.
- **Preparation drives value.** Sellers who can clearly demonstrate scale, stable margins, and clean financials are best positioned as buyers focus on quality over quantity.
- **Sector spotlight: Healthcare and services lead.** Healthcare platforms and blue-collar trades (facility and infrastructure services) are seeing the most consistent buyer demand and pricing strength.
- **Debt markets reward scale.** Smaller deals face tighter leverage and higher costs, while sponsor-backed and larger transactions enjoy more favorable lending terms.

◆ Key Insights for Advisors and Investors

- **Disciplined optimism defines 2025.** Deal volume eased, but buyer appetite and capital availability remain strong; strategic and PE buyers continue pursuing consolidation plays.
- **Valuation stability amid fewer deals.** Average TEV/EBITDA multiples remain $\sim 7.2\times$, highlighting strong pricing for quality assets despite slower activity.
- **Credit normalization continues.** Leverage has reset to sustainable levels ($\sim 3.0\times$ EBITDA), with equity still elevated ($\sim 57\%$) and spreads tightening as lenders compete for scale.
- **Two-speed market emerging.** Lenders favor larger, sponsor-backed platforms with strong cash flow visibility, while smaller independent deals face tighter terms and more mezzanine capital.
- **Sector divergence widens.** Healthcare's average multiple rose to $8.3\times$ while Manufacturing softened to $6.5\times$ —illustrating the market's increasing selectivity and risk pricing.

7 | Houlihan Capital

Investment Banking Leadership

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:



Andy Smith

President

(216) 340-8011 (Cleveland)
asmith@houlihancapital.com



Rodger Howell

CEO

(708) 267-0590 (Chicago)
rhowell@houlihancapital.com



Frank Martinez, CFA

Senior Vice President

(872) 277-0185 (Chicago)
fmartinez@houlihancapital.com



Jacques Zureikat

Vice President

(872) 277-0186 (Chicago)
jzureikat@houlihancapital.com



Sam Chaffee

Vice President

(216) 273-3588 (Cleveland)
schaffee@houlihancapital.com

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