



M&A Brokers | Lower Middle Market Investment Bank

THE CURRENT M&A MARKET 2024 REVIEW & 2025 LOOK AHEAD

Date: January 23, 2025



Exit
Planning
Institute™

ABOUT



SCOTT MASHUDA

Founding Partner, REAG

- Lead the firm's growth and strategic vision with 20+ years in M&A and business valuation.
- Faculty at The Exit Planning Institute, teaching M&A processes since 2020.
- Chair of M&A Source in 2023. Board of Governors member since 2017.
- Recognized as a top M&A service provider in "40 Under 40" by The M&A Advisor (2013).
- Active in Cleveland's Association for Corporate Growth; former adjunct professor at Duquesne University.
- Co-founded REAG in 2004; previously a senior valuation analyst at Ernst & Young.

REAG: A Focus On The Lower Middle Market



About REAG

- REAG specializes in Mergers & Acquisitions (M&A) and Private Capital Market Advisory, exclusively in the Lower Middle Market.
- With over two decades of experience, we are committed to meaningful engagement and long-term collaboration with our clients.

Our Mission

- Helping leadership teams, private equity groups, and family offices navigate complex transactions.
- Providing strategic guidance to optimize cash flow, maximize value, and ensure a seamless ownership transition.
- Overcoming financial and operational challenges to drive sustainable growth and success.

About the LMM

- Closely held private companies with \$10M - \$250M in Enterprise Value.
- Companies attractive to strategic acquirers and first-time institutional capital.
- Serviced by a highly fragmented advisor community.
- Inefficient market which get more efficient every year.
- Best source of data is active professionals in the space.

A LOOK BACK: 2024 Predictions

How 2024 Started:

- Global economic and political uncertainty.
- Election year in the U.S.
- Started the year with heightened fears of a recession.
- Rising interest rates by central banks to tackle inflation.
- Dramatic decrease in M&A transactions from 2022 to 2023.
- Market largely bifurcated in 2023 with a race towards quality.
- Market is driven by strategic acquirers and add-on acquisitions.

Our View: January 2024

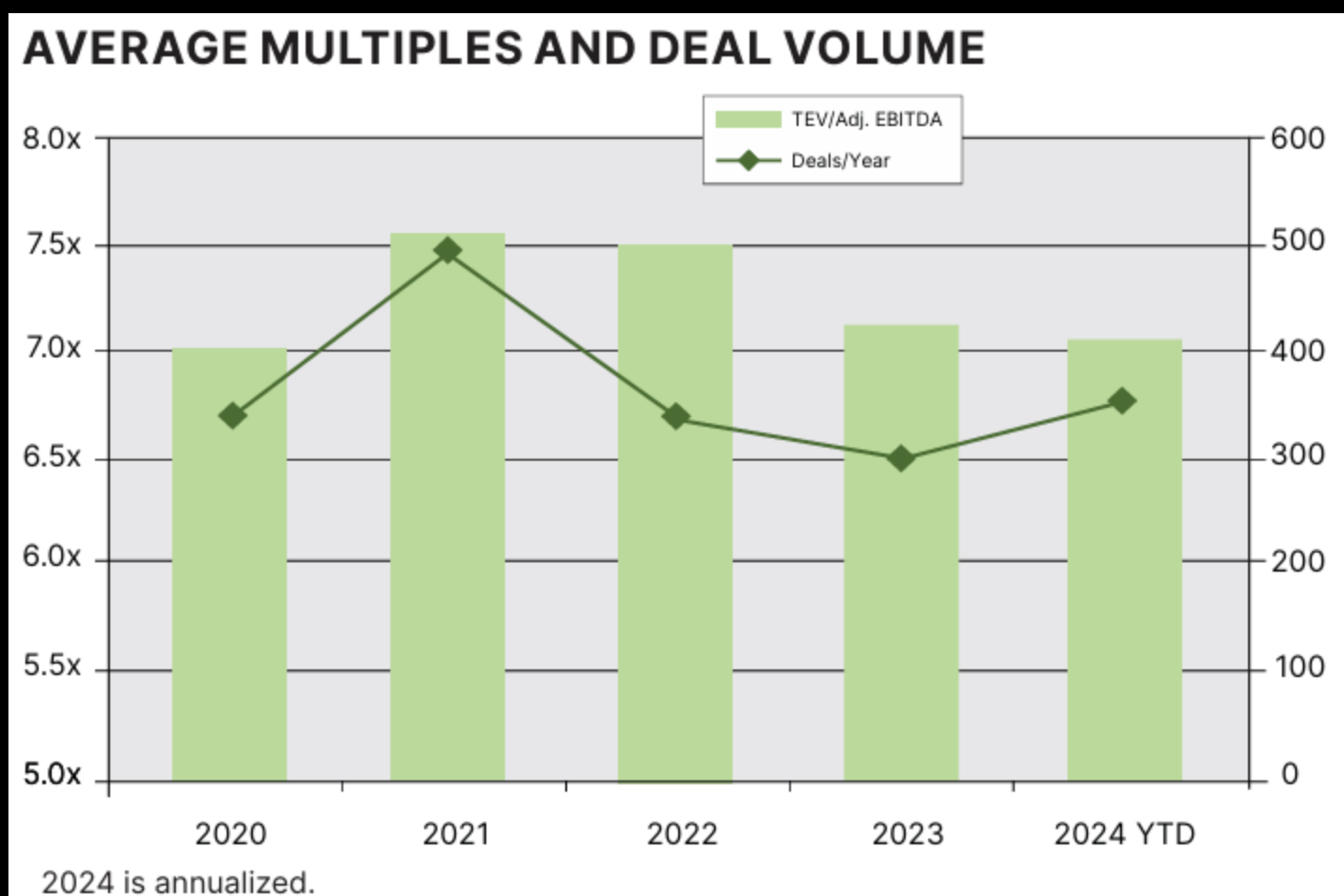
- In spite of the down year in M&A in 2023 I was very bullish on 2024.
- I hypothesized that like 2023, 2024 would continue to be fueled by add-on acquisitions.
- I anticipated the market would continue to be bifurcated with a race to quality due to continued rising rates and inflation.

Our View: January 2024

- I projected a return of cross-border M&A in anticipation of a potential Trump win.
- I anticipated a return in M&A volume levels from 2023 to 2022 levels and more importantly, a rebound in valuations to 2022 due to the laws of supply and demand with demand outstripping supply in 2024.
 - Lack of quality sell-side opportunities.
 - Abundance of dry powder on the sidelines.

How Did We Do:
A LOOK BACK

Average Annual Multiples and Deal Volume



TOTAL ENTERPRISE VALUE (TEV)/EBITDA

TEV	2003-2019	2020	2021	2022	2023	YTD 2024	Total	N =
10-25	5.8	5.9	6.1	6.4	6.0	6.4	5.9	2028
25-50	6.5	6.7	7.2	7.0	7.0	6.7	6.7	1567
50-100	7.5	8.0	8.3	8.5	8.0	8.5	7.7	1067
100-250	8.2	8.7	9.3	9.1	9.6	8.2	8.5	600
250 - 500	9.0	10.4	10.9	10.1	10.7	9.5	9.9	89
Total	6.6	7.0	7.6	7.5	7.2	7.1	6.9	
N =	3611	342	501	334	294	269		5351

Please note that N for 2003-19 encompasses 17 years of activity.

Quarterly M&A Volume & Debt Ratios

	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024
Deals	82	89	67	63	75	97	102	70
TEV/ EBITDA	6.9x	7.6x	6.8x	7.3x	7.3x	6.8x	7.4x	7.1x
Total Debt/ EBITDA*	3.9x	3.8x	3.7x	3.7x	3.6x	3.6x	3.7x	3.7x
Sr Debt/ EBITDA*	3.2x	3.1x	3.0x	2.9x	2.9x	3.0x	3.1x	3.1x

Quarterly Valuation Metrics by Size

TEV/EBITDA—QUARTERLY SPLITS

TEV	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	N =
10-25	6.1	6.4	5.4	5.9	6.2	6.3	6.5	6.4	255
25-50	6.9	7.2	6.9	6.8	7.1	6.0	7.1	7.0	182
50-100	7.6	7.9	8.0	8.7	7.6	7.9	8.7	8.8	108
100-250	7.5	9.5	8.5	10.0	9.9	8.8	7.9	7.5	79
250-500	11.8	12.2	9.0	14.8	9.6	8.7	10.8	8.7	21
Total	6.9	7.6	6.8	7.3	7.3	6.8	7.4	7.1	
N =	82	89	67	63	75	97	102	70	645

Industry M&A Metrics

TEV/EBITDA—BY INDUSTRY (\$10-250M TEV)

INDUSTRY	2003 -2019	2020	2021	2022	2023	YTD 2024	Total	N =
Manufacturing	6.2	6.7	7.1	7.3	6.5	6.8	6.4	2103
Business services	6.7	7.1	7.3	7.4	7.3	7.1	6.9	1219
Health care services	7.4	7.6	8.1	8.4	8.9	8.9	7.6	463
Retail	7.0	6.5	8.3	8.0	6.0	6.1	7.0	145
Distribution	6.6	7.5	7.2	7.2	7.1	7.1	6.8	571
Media & Telecom	7.6	8.3	7.0	9.1	7.8	7.3	7.6	81
Technology	8.5	7.6	10.3	8.1	10.2	8.2	8.6	182
Other	6.3	6.2	7.3	6.7	6.9	7.0	6.4	498
N=								5262

Please note that N for 2003-19 encompasses 17 years of activity..

REAG's Expectations: 2025 LMM M&A

REAG ON 2025 LMM M&A

- We believe that buyers and sellers are on fairly even footing to start 2025.
- We're seeing an increase in January M&A activity relative to Q4 2024.
- We expect that increase to continue through Q1 and possibly into Q2.
- In Q3 and Q4, we anticipate an even more significant surge in deal volume.

REAG ON 2025 LMM M&A

- Overall sentiment is that of optimism and increased market confidence.
- We anticipate volume to increase over 2024.
- We anticipate a very balanced market.
- Valuations to remain stable.

REAG ON 2025 LMM M&A

- There remains an estimated \$2 trillion of PE dry powder raised and sitting on the sidelines.
- Anticipating the velocity of that money to increase as the year progresses.
- Project that strategic acquisitions will continue to carry the market in the first half.

REAG ON 2025 LMM M&A

- Expect market dynamics to shift about halfway through the year with private equity driving the market in the second half of the year.
- We anticipate this shift in dynamic from strategics to private equity to also lead to an increase in the size of the deals being completed.
- The shift will represent a move from the add-on strategy that has driven the market over the past several years back to a platform strategy.

REAG ON 2025 LMM M&A

- We are projected the continued stabilization of interest rates.
- We are not as bullish on interest rate cuts as the overall market but we don't believe that additional cuts are a required input for robust LMM M&A volume in 2025.
- The 2025 M&A market will be driven by the private equity investment cycle which has been elongated in recent years.

REAG ON 2025 LMM M&A

- Private equity sell-sides will increase drastically in 2025 over the prior 24 months.
- We don't anticipate this happening until the 2nd half of 2025, but it will be the primary driver of activity from that point forward.
- Projecting increased international or cross-border M&A as foreign companies continue to adapt to the Trump White House and the need for a domestic presence.

Interesting Industries

Hot Industries

- Anticipating increased activity in manufacturing and industrials driven primarily by international acquirers' desire for a U.S. footprint.
- Private equity has recently been enamored with blue-collar residential, commercial, and industrial service companies. We anticipate that trend to contribute significantly to the market in 2025.
 - Continued value enhancement strategy.
 - Completion of fund cycle dynamics.
- Expect strong M&A in healthcare and IT.

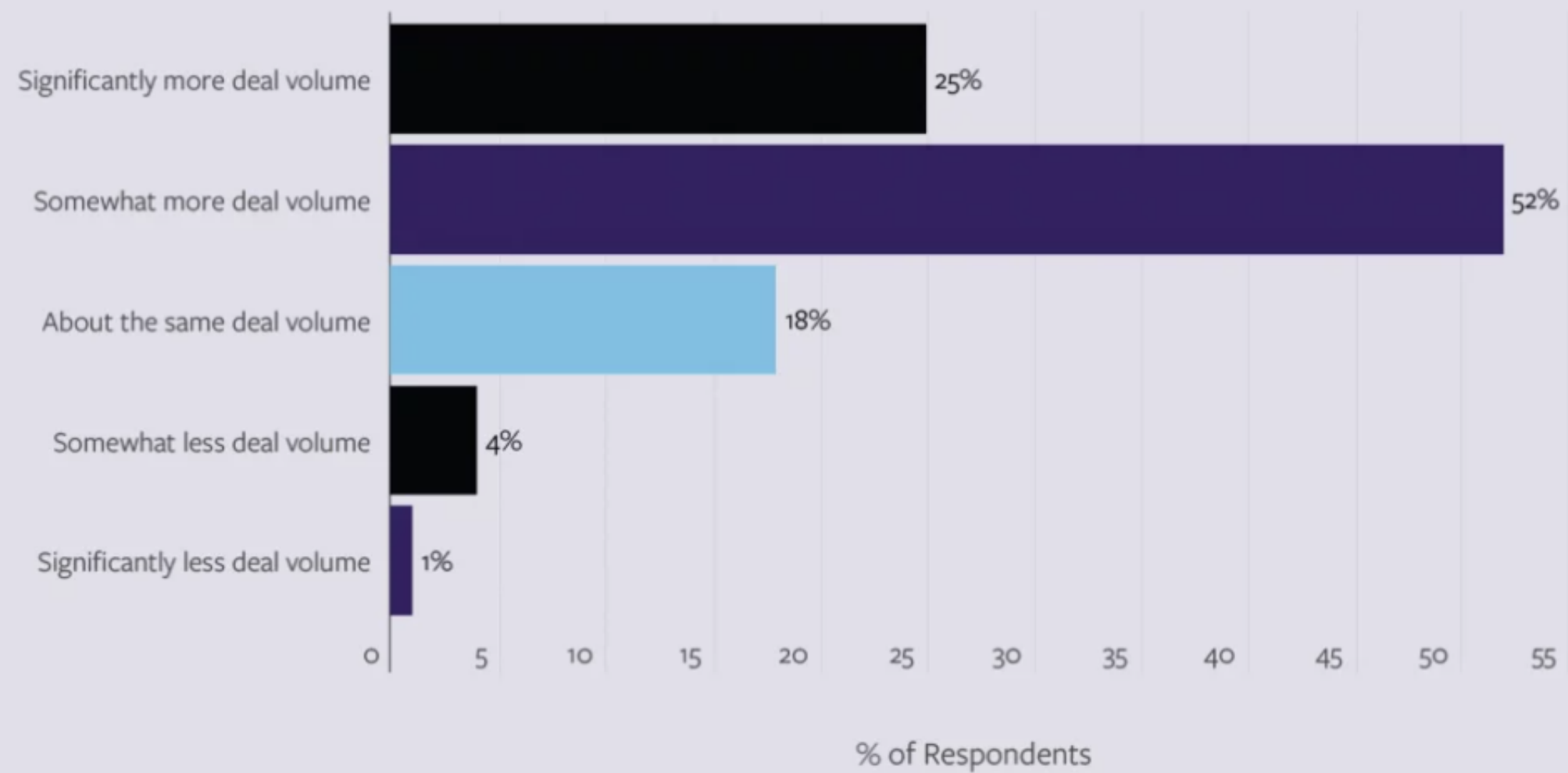
WHAT OTHER LMM
PARTICIPANTS ARE SAYING

INSIGHT SOURCES

- **Association for Corporate Growth's (ACG) 2025 Middle-Market M&A Outlook Survey.**
 - **Conducted between August 19, 2024 and September 27, 2024.**
 - **191 respondents.**
 - **Included broad range of M&A professionals including accountants, attorneys, corporate strategic acquirers, family offices, investment bankers, lenders, limited partners, private equity firms, and advisors.**

ACG 2025 M&A Market Survey

Middle-Market M&A Volume Expectations: 2025 vs. 2024

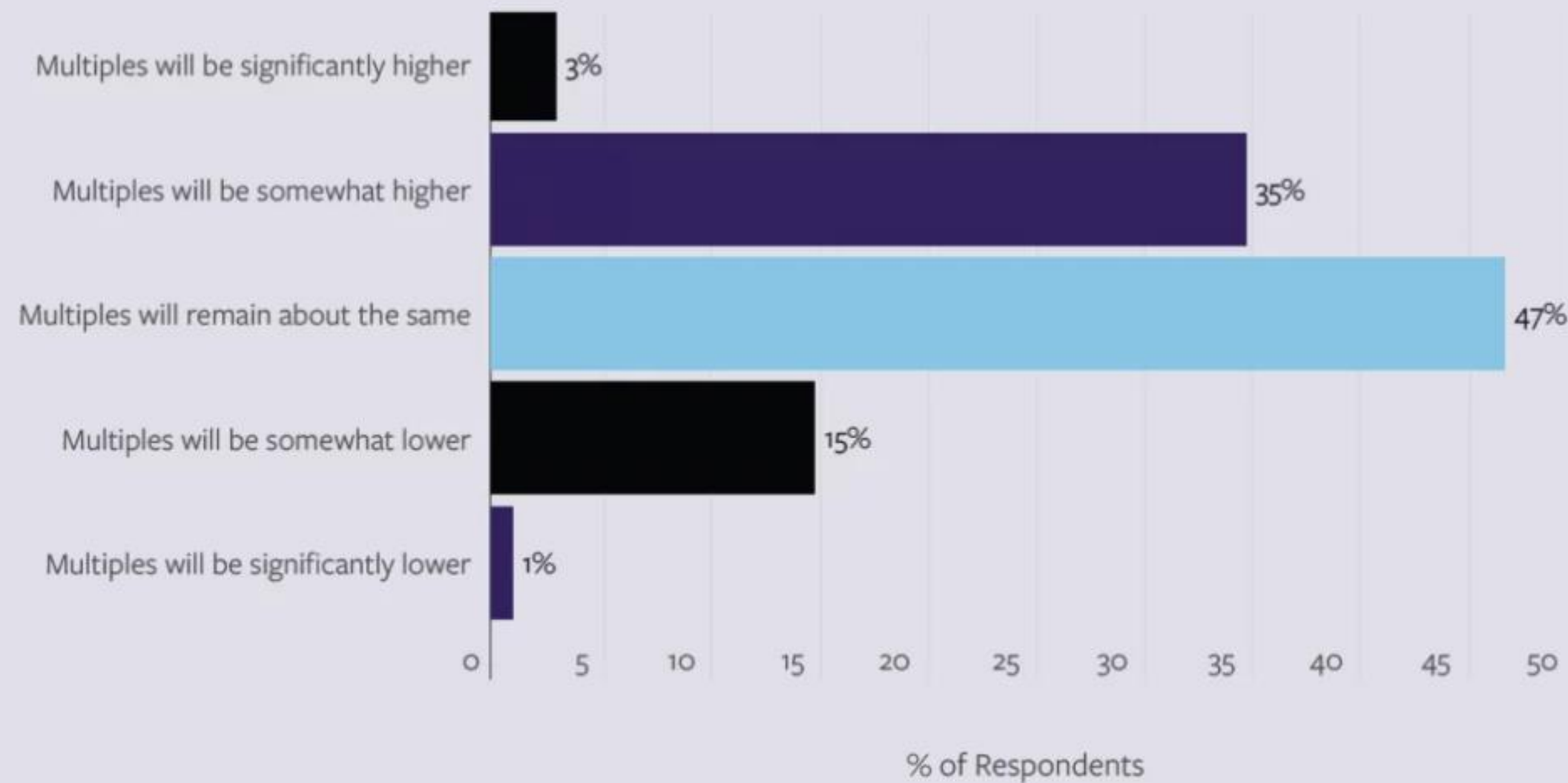


Source: ACG's 2025 Middle-Market M&A Outlook Survey

Source: ACG - Middle Market
Growth

ACG 2025 M&A Market Survey

Middle-Market Valuation Multiple Expectations: 2025 vs. 2024

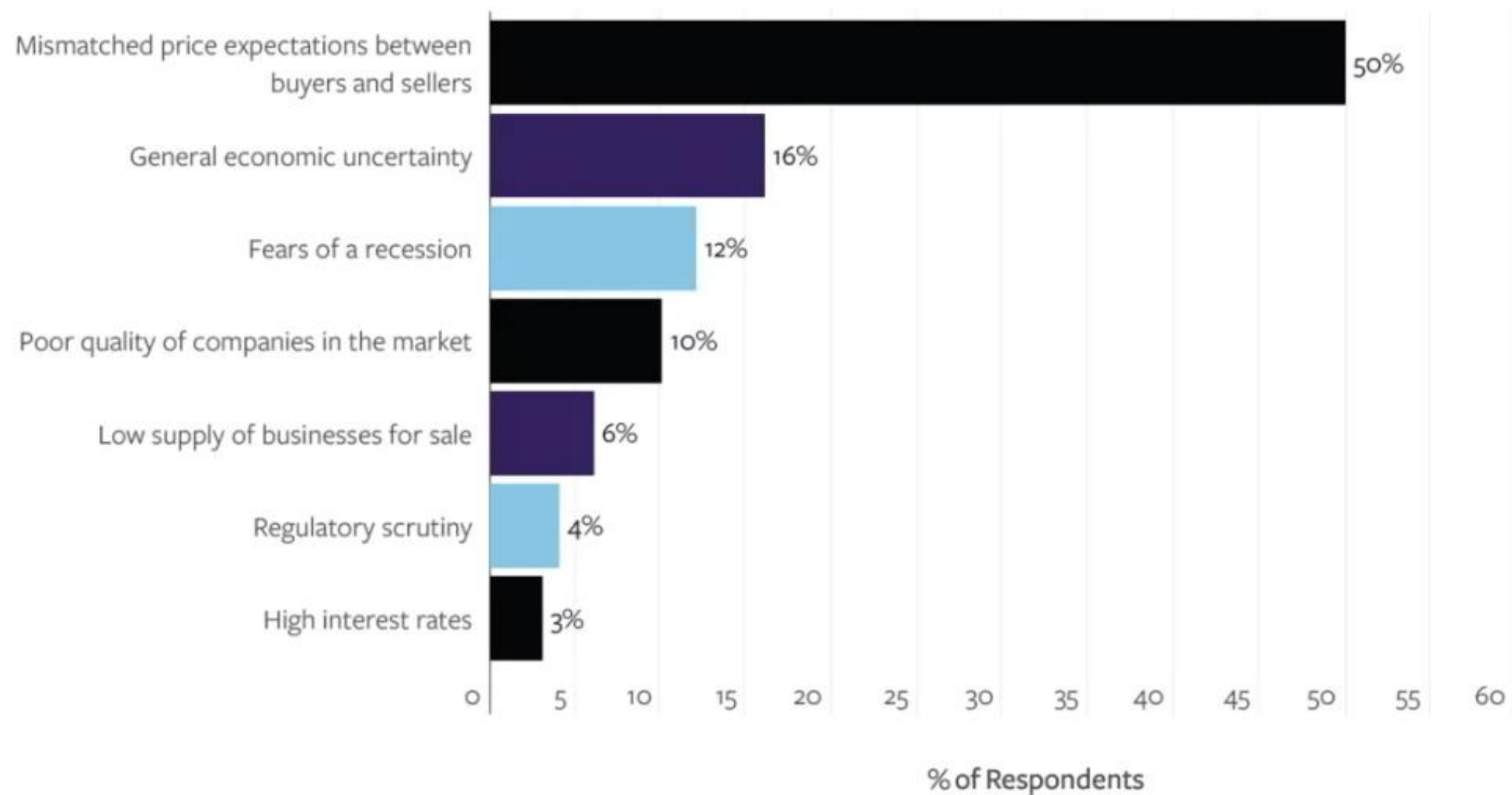


Source: ACG's 2025 Middle-Market M&A Outlook Survey

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ACG 2025 M&A Market Survey

The Biggest Impediment to Dealmaking Anticipated for 2025



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DISCLAIMER: KNOW THY DATA

- These are market generalizations.
- Represent various levels of private equity.
- Don't capture private, non-PE, strategic data well.
- Best used to recognize trends.
- Actual market insight requires taking a much deeper dive.
- Best source of market data is M&A Intermediaries