

Middle Market M&A Market Survey of Private Equity Partners for 2024-25

Why It's Time for Sellers to Get
Off the Sidelines

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INTRODUCTION

Caber Hill Advisors recently surveyed partners at private equity (PE) firms investing in the middle and lower-middle market to measure the current interest, sentiment, and outlook of the M&A market among some of its most active buyers.

As a firm that specializes in being a trusted advisor to business owners and entrepreneurs seeking an exit from a business, Caber Hill sought to quantify and aggregate the insights and opinions we regularly hear from significant contacts across our network of buyers.

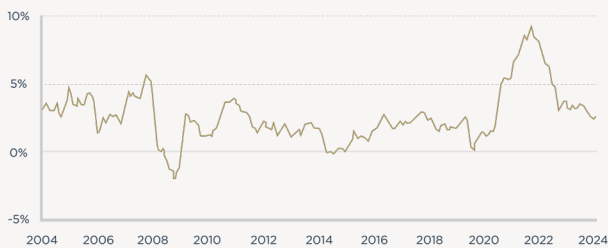
Overall, the survey strongly indicates that PE partners believe the M&A market is shaping up to be a favorable environment for business owners considering an exit. In the year ahead, investors are optimistic for increased deal volume, higher valuation multiples, and an overall stronger M&A market when compared to 2024. Falling interest rates, the certainty provided by the election season's conclusion, along with fundamentally strong market conditions point to a prime seller's market in 2025.

MARKET DATA

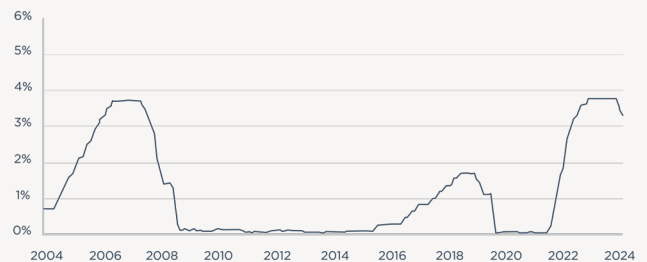
In 2024, inflation rates gradually moderated, fostering a more stable economic climate, while the Federal Reserve (at the time of the survey) initiated the first of a series of interest rate cuts. This shift contributed to increased confidence in the M&A landscape, as lower interest rates made financing acquisitions more attractive.

Additionally, the middle-market M&A activity in 2024 experienced a steady uptick, though deal volumes and valuations remained somewhat cautious in the face of fluctuating economic conditions.

Consumer Price Index



Federal Funds Effective Interest Rate



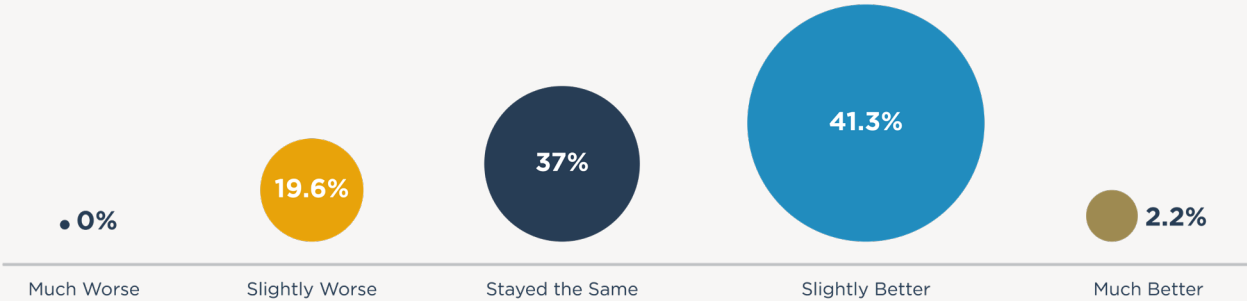
2024 RECAP

PE partners reflected positively on the overall strength of the M&A market in 2024 compared to 2023, with many noting a modest increase in deal volume. However, they also acknowledged

that valuation multiples had slightly decreased, suggesting that while deals were more frequent, they may not have achieved the same premium valuations as in previous years.

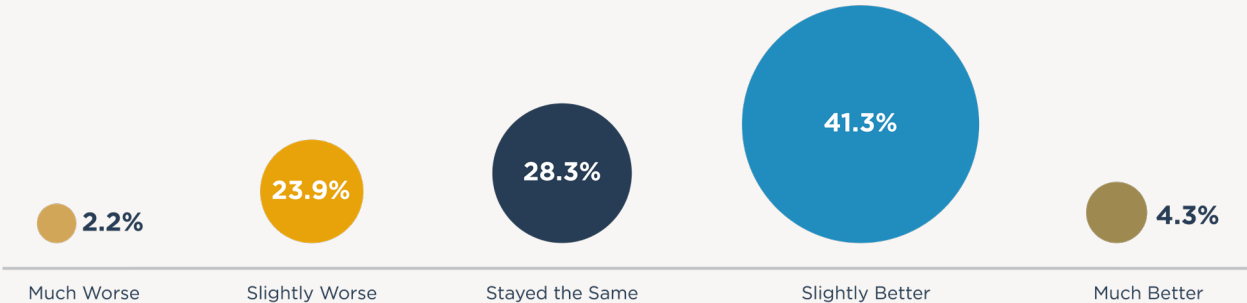
2024 Overall Market Strength

Compared to Previous Year



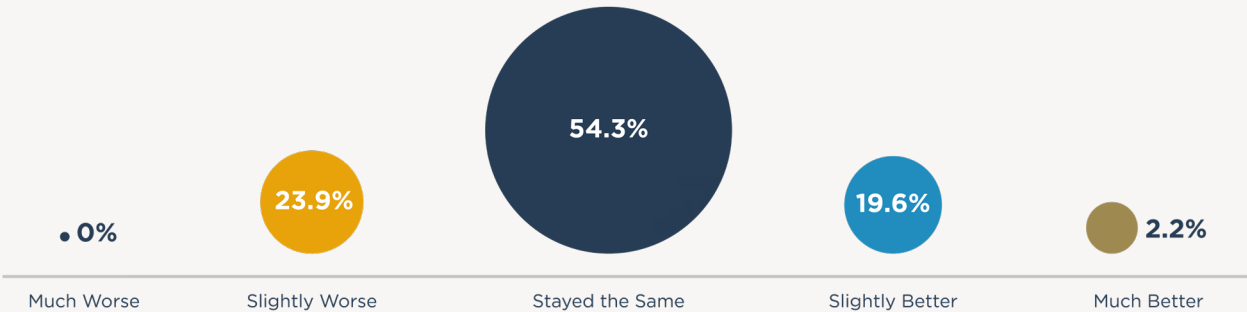
2024 Deal Volume

Compared to Previous Year



2024 Valuation Multiples

Compared to Previous Year



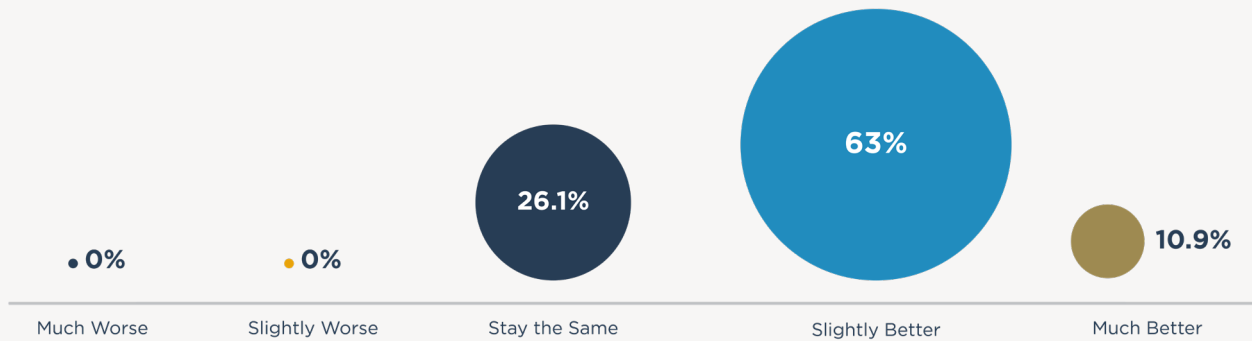
2025 FORECAST

Looking forward, PE partners overwhelmingly anticipate an improvement in both the overall market strength and deal volume for 2025.

Expectations are high that valuation multiples will also see a boost, indicating that sellers might see increased offers for their businesses.

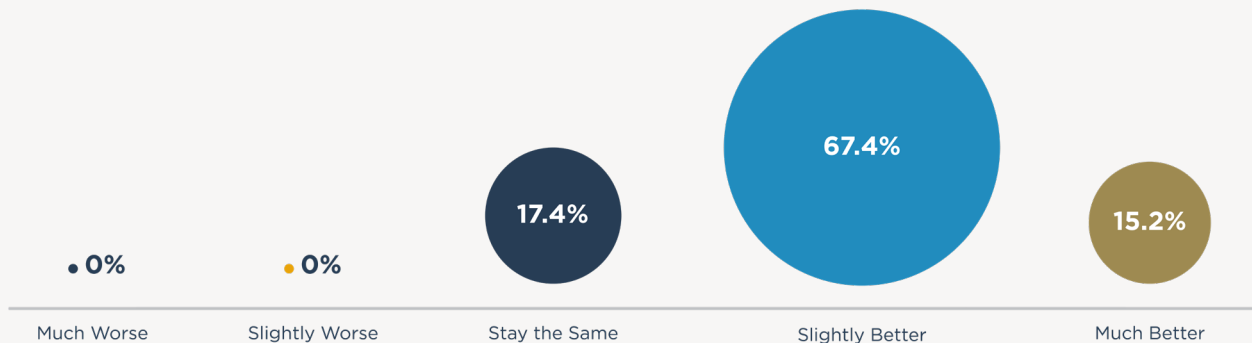
2025 Overall Market Strength

Compared to Previous Year



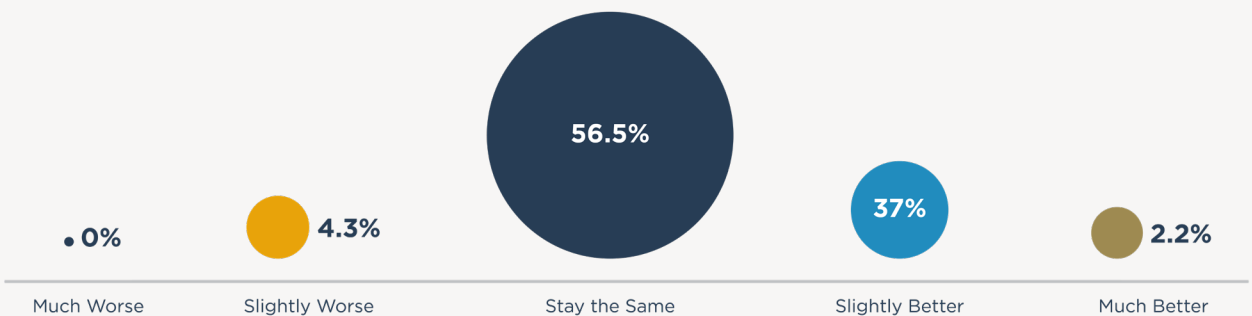
2025 Deal Volume

Compared to Previous Year



2025 Valuation Multiples

Compared to Previous Year

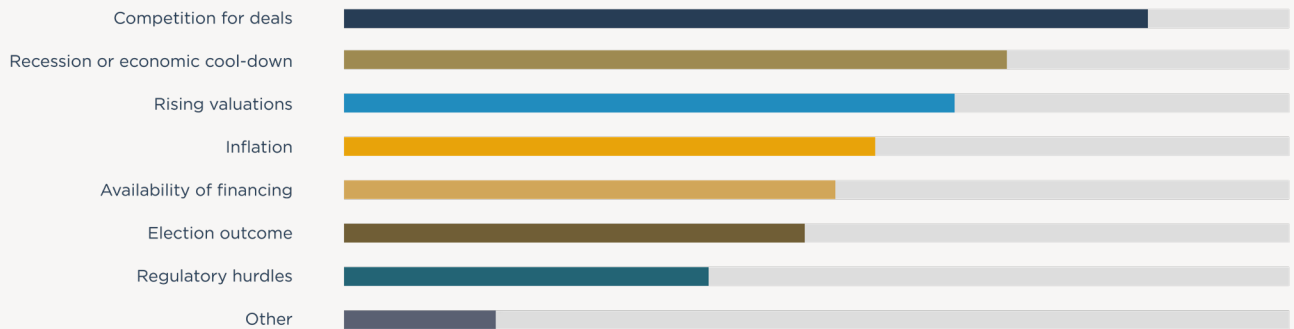


CONCERNS

Despite optimism, some potential risks loom on the horizon. PE partners expressed concerns about the intense competition for deals, a potential economic slowdown, and the possibility of rising

valuations making acquisitions less favorable for buyers. However, these factors also reinforce the importance of early positioning for sellers looking to capitalize on the market's momentum.

What is your biggest concern about the M&A market in 2025?

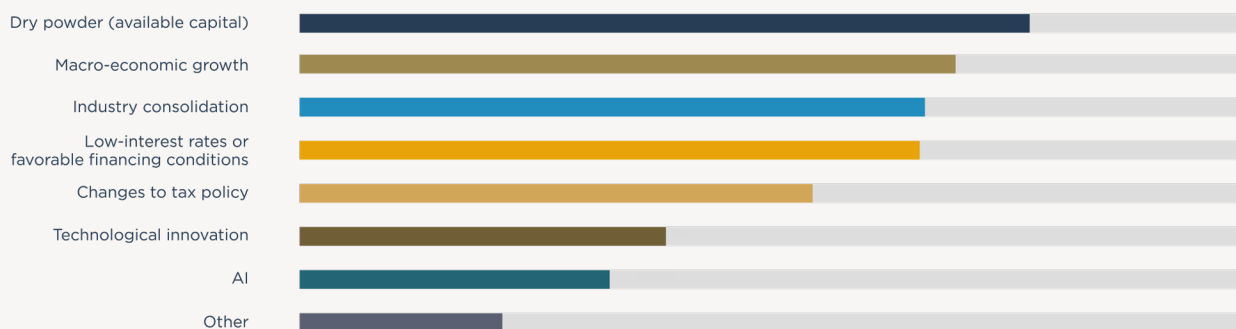


OPPORTUNITIES

Among the anticipated drivers of M&A activity in 2025, PE firms cited several favorable conditions: a substantial supply of “dry powder” (available capital), robust macroeconomic growth, ongoing

industry consolidation, and favorable financing options. These elements create a strong foundation for sellers, as PE firms remain well-funded and motivated to pursue new acquisitions.

What factors will drive the most M&A opportunities in 2025?

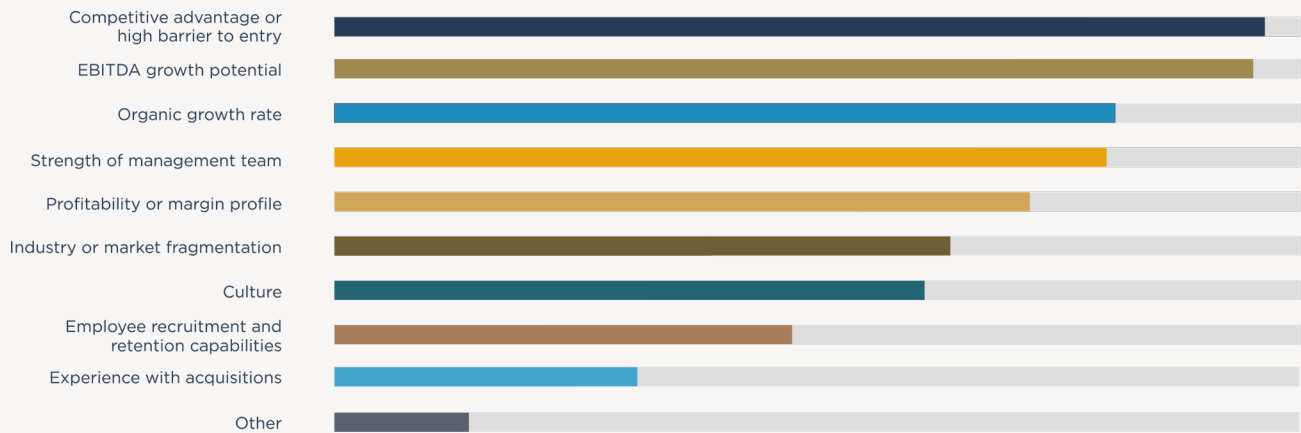


TARGET CRITERIA

When assessing acquisition targets, PE partners identified key criteria for a successful investment: companies with a strong competitive advantage,

high EBITDA growth potential, organic growth prospects, and a robust management team.

What are your most important criteria for evaluating acquisition targets in 2025?



KEY ACTIONS FOR BUYERS AND SELLERS

For sellers, the current market offers a unique opportunity to prepare for a high-demand environment. Business owners considering an exit in 2025 should evaluate their growth metrics, strengthen their management team, and build a compelling narrative around their competitive advantage. Enhancing EBITDA growth potential and showcasing a trajectory for organic growth can make a significant difference in valuation.

For buyers, the priority will be to navigate an increasingly competitive market. Differentiated investment strategies and a focus on high-potential sectors can provide a critical edge. Buyers should also prepare for increased valuations, potentially adjusting their criteria or investment horizons to align with these market dynamics.

Overall, 2025 looks to be a promising year for sellers, with private equity firms ready to capitalize on favorable conditions and a projected increase in M&A activity. Business owners contemplating a sale are well-positioned to benefit from this bullish market environment.

A NOTE ABOUT THE DATA AND THE SURVEY PROCESS

The data in this report was collected in a survey conducted between October 29 and November 8, 2024 among partners at private equity firms specializing in middle and lower-middle market investments in the U.S. The survey aimed to capture insights on current and projected trends in the M&A landscape, drawing on the expertise of seasoned investors actively engaged in the market.