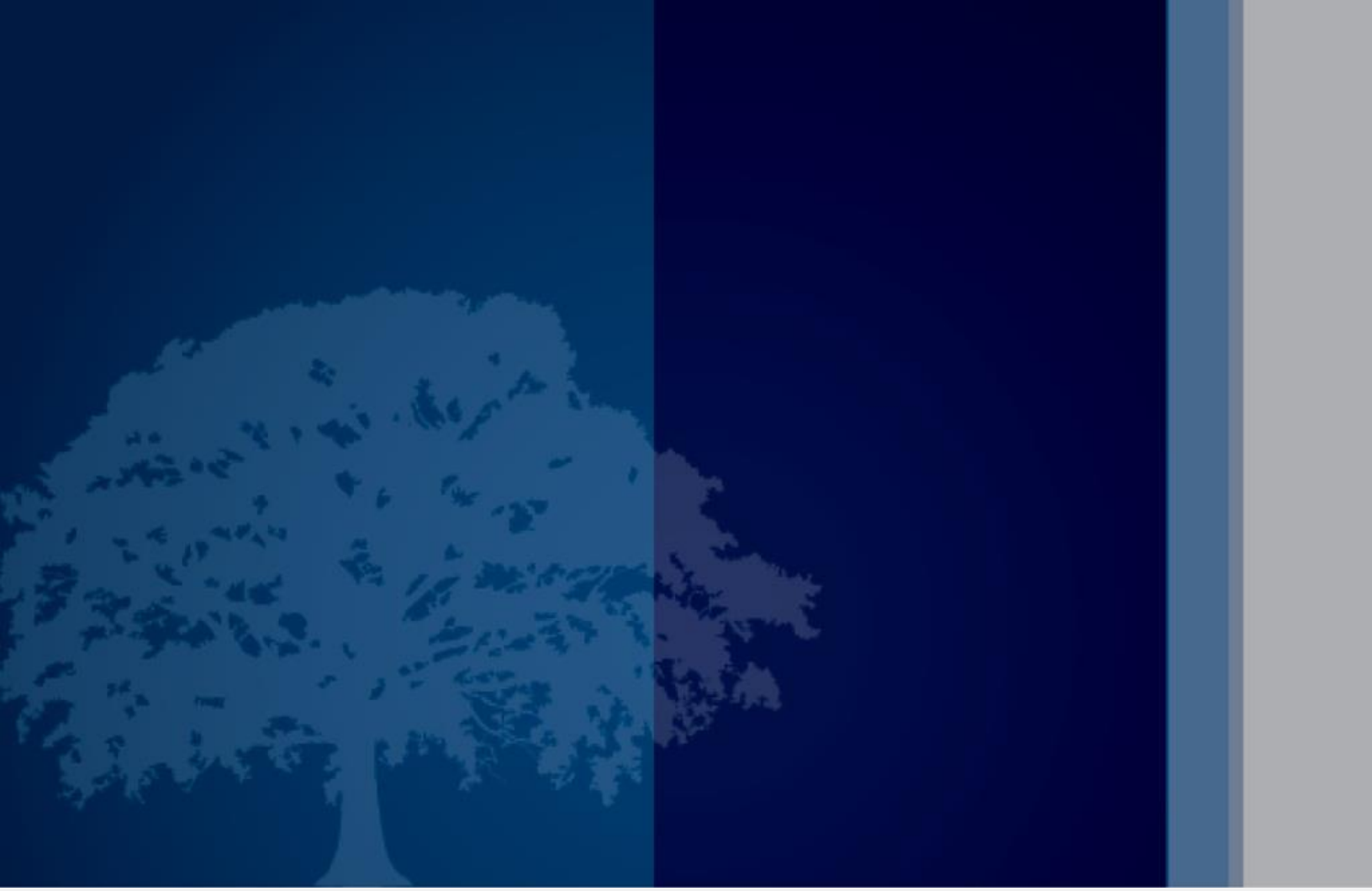

# M&A and Private Debt Market Observations

## Recap 2024 and Outlook for 2025

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www.BravaldoCapitalAdvisors.com

BRAVALDO
CAPITAL ADVISORS

## Firm Overview

- Focus on underserved lower-middle-market companies with sales of $10M-$300M
- Main lines of service:
  - **Seller Advisory and Execution Services** – Advising private business owners regarding the sale, recapitalization, or divestiture of businesses
  - **Buyer Advisory and Execution Services** – Advising client companies regarding acquisition searches, valuation, structuring, negotiations, and raising capital to affect acquisitions
  - **Placements of Debt** – Assisting client companies in recapitalizing/raising senior and mezzanine/subordinated debt capital
  - **Other Advisory Services** – ESOP exit advisory, strategic exit planning consulting, management buyouts, acquisition or divestiture of specific purpose commercial real estate, distressed sale process - bankruptcy and non-bankruptcy

## Our Team

The Bravaldo Capital Advisors team is a senior deal team with extensive knowledge and insight into the full life cycle of M&A and corporate finance efforts. This depth of skill and expertise across industries, when combined with a client-focused approach, offers our clients unparalleled service during the engagement.

| | | | | |
|---|---|---|---|---|
| **Don Bravaldo, CPA**<br>*President* | | | **Mark Heyman**<br>*Senior Vice President* | |
| **Mark Robbins**<br>*Associate* | **Spencer Shippel**<br>*Analyst* | **Alec Bornhorst**<br>*Analyst* | **Charles Goulu**<br>*Analyst* | **David Dorsch**<br>*Analyst - Intern* |
| **Elizabeth Kunetz**<br>*Executive Assistant* | **Kelly Van Nort**<br>*Director of Operations* | **Cayce Carter**<br>*Executive Assistant* | **Mariana Lopez**<br>*Marketing Associate* | **JP Jobin**<br>*Business Development Associate* |
| **George MacConell**<br>*Board Advisor* | **Bob Thomas**<br>*Board Advisor* | **Jeff Cohen**<br>*Board Advisor* | **Bret Sperling**<br>*Board Advisor* | **Rick Higdon**<br>*Board Advisor* |
| **Paul Carmody**<br>*Board Advisor* | **Eric Jacobs**<br>*Board Advisor* | **Oliver Dunatov**<br>*Board Advisor* | **Bob Laws**<br>*Board Advisor* | **Mike Monaghan**<br>*Board Advisor* |

# Bravaldo Capital Advisors

*A Boutique M&A and Corporate Finance Advisory Firm*

## Transaction Experience

| | | | |
|---|---|---|---|
| Acquired by:<br>Rogers Group<br>*Advised Seller*<br>**Mining** | Acquired by:<br>Acquired by Guardian Access Solutions/ CenterOak Partners<br>*Advised Seller*<br>**Security Systems** | Acquired by:<br>Axcel Learning/ Alpine Investors<br>*Advised Seller*<br>**IT Services** | Acquired by:<br>Enviva, Inc.<br>*Advised Seller*<br>**Manufacturing** |
| Acquired by:<br>Private Investment Group<br>*Advised Seller*<br>**E-Commerce** | Acquired by:<br>Central Garden & Pet<br>*Advised Seller*<br>**E-Commerce** | Senior Debt Refinancing<br>*Corporate Finance Advisory*<br>**Managed IT Services** | Acquired by:<br>Fire & Life Safety America/Blue Point Capital Partners<br>*Advised Seller*<br>**Business Services** |
| Acquired by:<br>Accellerated Communication & Construction<br>*Advised Seller*<br>**Telecom** | Acquired by :<br>Lion Equity Partners<br>*Advised Seller in Carve-out*<br>**Textiles** | Acquired by:<br>Mindmarker Holdings LLC<br>*Advised Seller*<br>**Technology/SaaS** | Refinanced with Senior and Subordinated Debt<br>*Corporate Finance Advisory*<br>**Manufacturing** |
| Completed a Shareholder Buyout and Recapitalization<br>*Corporate Finance Advisory*<br>**Healthcare** | Has Been Refinanced<br>*Corporate Finance Advisory*<br>**Retail** | Acquired by:<br>Comsys LLC<br>*Advised Seller*<br>**Staff Augmentation** | Completed a Shareholder Buyout<br>*Corporate Finance Advisory*<br>**Horticulture** |
| Acquired by:<br>The Garland Company and its subsidiary IMETCO<br>*Advised Seller*<br>**Metal Fabricators** | Acquired by:<br>A Private Management Team<br>*Advised Seller*<br>**Transportation** | Acquired<br>Electra Therm<br>*Advised Buyer*<br>**Clean Tech** | Acquired by:<br>Accella Performance Materials<br>*Advised Seller*<br>**Specialty Chemicals** |

1. **Strong Start in Q1 2025 M&A Activity:** Q1 2025 M&A activity reached $613.8 billion across 4,934 transactions, up 28.3% QoQ and 10.3% YoY, driven by large deals. While volume dipped 1.9% QoQ, it grew 19.8% YoY. Transaction multiples maintained a steady trajectory, continuing the stable recovery seen throughout 2024. Early optimism was tempered mid-quarter by escalating tariff tensions and recession fears, raising uncertainty about future deal flow.

2. **Private Equity Outlook 2025:** PE dealmaking entered 2025 on a strong note. With ample credit availability and a substantial reservoir of dry powder, dealmakers stayed active, building on momentum from last year. Still, early signals suggest the macroeconomic landscape is shifting. Clearly, PE will also be impacted by these new policies, but the ecosystem is expected to be relatively well positioned to navigate this uncertain period.

3. **Trade Policy Disruption & Tariff Volatility:** The U.S. introduced sweeping tariffs under the "Liberation Day" initiative, including a 10% baseline tariff on all imports and tiered retaliatory tariffs up to 50% (and 145% on Chinese goods). This has triggered market sell-offs and uncertainty, prompting many M&A deals to pause during a 90-day tariff moratorium, while simultaneously boosting interest in domestic manufacturing and professional services.

4. **Carried Interest Tax Reform Impact:** Proposed legislation to tax carried interest as ordinary income could significantly reduce private equity and venture capital activity. A federal tax rate increase from 23.8% to 40.8% may lower net returns, discourage long-term investment strategies, and drive talent and capital away from the U.S. private funds ecosystem. Swenson's analysis forecasts job losses of 1.23 million and $12.84B in annual lost tax revenue due to reduced business formation and investment.

5. **2025 LMM Sector Highlights:** The data center services and repair & maintenance sectors have experienced a significant increase in lower-middle market M&A activity. These sectors remain highly fragmented, with numerous businesses offering diverse services and driving rapid innovation in data center infrastructure. This fragmentation, along with a large pool of specialized firms and a projected doubling of data center capacity, creates substantial opportunities for consolidation through M&A and the acquisition of specialized capabilities.

6. **The Great Wealth Transfer is Happening:** Baby Boomers hold 51% of the privately held businesses (3 million businesses) in the US, valued at $10 trillion. Estimates state that 10,000 baby boomers retire daily, with projections indicating that 12 million privately held businesses will change hands over the next 10 to 15 years. This influx may lead to an oversaturation of the M&A market, pushing down valuations and making a competitive buying process even more critical.

# 2024 M&A Market Recap

*Summary*

**M&A Market**

In 2024, global M&A activity saw substantial growth, driven by improved macroeconomic stability and historically high valuations. North America emerged as a key contributor, with deal volume surpassing 17,500 transactions and deal value exceeding $2 trillion, which equate to annual increases of 9.8% and 16.4%, respectively. U.S. valuation multiples increased over 2023, bolstered by strong domestic market demand. Meanwhile, the lower-middle-market (LMM) remained a focal point for investors, as these smaller enterprises often require less leverage and represent accessible opportunities with high growth potential. Overall, 2024 served as a year of realignment and rebound for the global M&A landscape, with steady cross-regional and cross-sector dealmaking paving the way for potentially strong momentum in the years ahead.

**Private Equity**

U.S. private equity rebounded in 2024, with buy-side activity and deal value rising by double digits year-over-year. Lower interest rates and improved financing conditions contributed to higher deal activity. Industrials, technology, and healthcare remain the most active sectors for PE buyers. Exit activity was especially strong, with deal count up 16.6% and value up 49%, driven by corporate buyers and PE-backed IPOs. GPs increasingly prioritized distributions (DPI) to meet LP demands for faster capital returns. Despite improving returns and a more optimistic outlook for 2025, fundraising fell to $284.6 billion and dry powder declined.

**Themes / Sector Highlights**

In 2024, consolidation acquisition strategies accelerated in the middle market. These companies were increasingly absorbed into larger platforms through deals led by strategic buyers backed by private equity firms. Industries with recurring revenues or ties to high-growth industries like data centers drew heightened interest from both strategic and PE investors. The lower-middle-market also saw a notable uptick in M&A activity across business services, industrial services, and maintenance especially in sectors insulated from tariff uncertainties and market volatility. As a consolidation strategy matures, strategic roll-up acquisitions focus on scaling capabilities, securing niche expertise, and enhancing operational efficiency reflecting a broader trend toward diversification and value creation through integration.

**Cross-Border Activity**

Cross-border M&A activity in 2024 remained slightly tilted in favor of Europe, with European targets attracting $44.1 billion in deals from North American acquirers. While this marked a modest increase from 2023, it was still significantly below the 2022 peak of $169.3 billion. For the eighth consecutive year, North American buyers outpaced European buyers in cross-border deal volume, largely driven by the continued strength of the US dollar against the euro and pound, as well as declining purchase price multiples in Europe. These factors made European assets more appealing to US investors. However, as economic conditions in the US began to stabilize toward the end of the year, some capital began shifting back toward domestic transactions, slowing the outflow of North American M&A investment abroad.

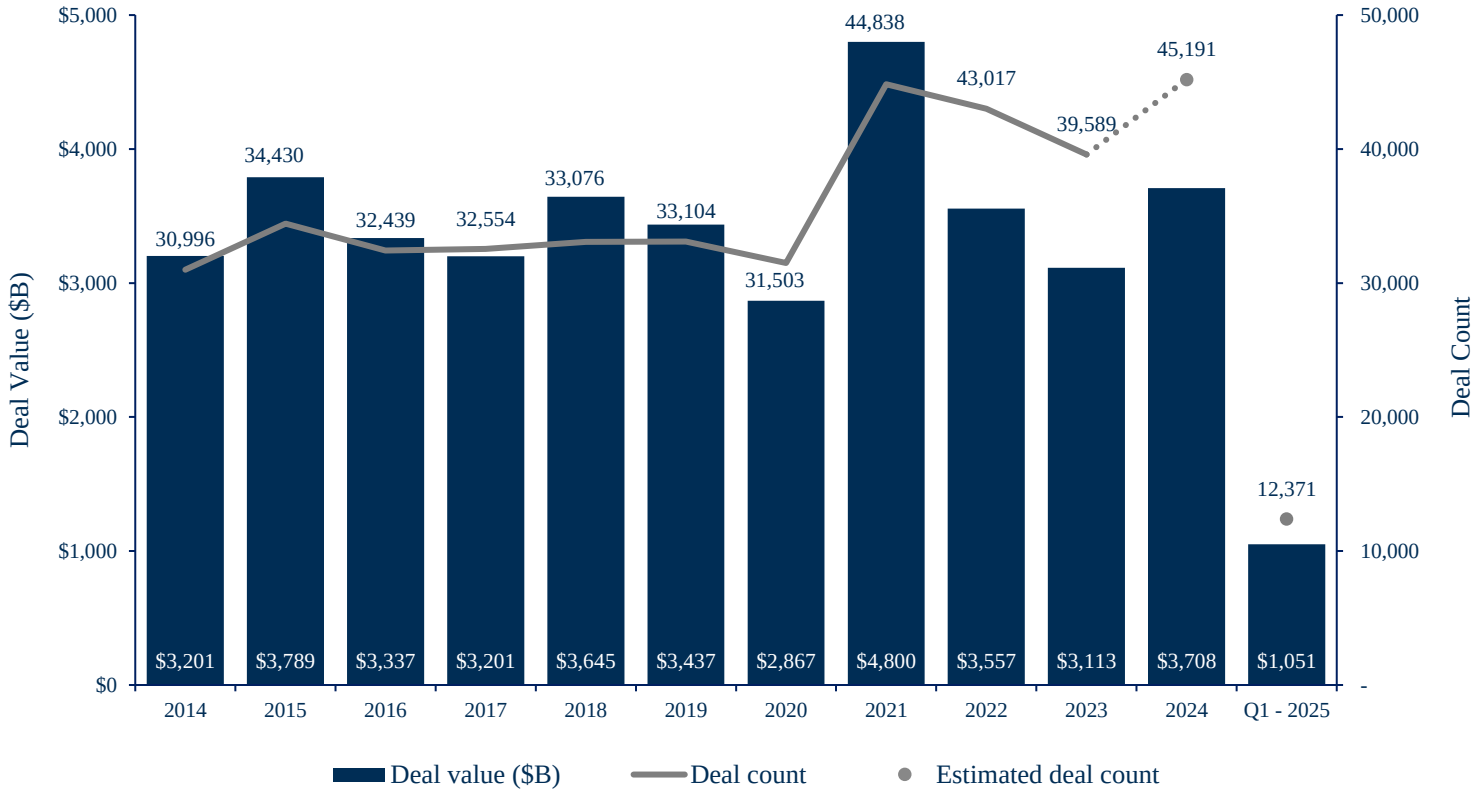
**Economic Uncertainties**

The U.S. economy was stable in 2024, with annualized GDP growth of 2.5%, and reflected steady consumer spending, strong labor market conditions, and declining inflation. However, the U.S. Bureau of Economic Analysis recently released Q1 2025 GDP and the U.S. economy contracted by 0.3% in the first quarter of 2025, markings its first decline since early 2022. This unexpected slowdown was primarily driven by a surge in imports as businesses and consumers rushed to purchase foreign goods ahead of new trade tariffs. Federal Reserve Chair Jerome Powell addressed these developments, highlighting concerns that the tariffs could contribute to prolonged inflation, which might postpone expected interest rate cuts. He reiterated the Fed's commitment to closely monitoring economic indicators before making any policy adjustments.

# 2024 Global M&A Market

*2024 Global M&A Snapshot + Q1-2025*

## Global M&A Deal Value




Global M&A activity achieved robust growth in 2024, fueled by more supportive macroeconomic conditions and stabilizing valuations. In North America, deal value surpassed $2 trillion across 17,509 deals, marking a 16.4% YoY increase in value and a 9.8% jump in count. Global M&A activity in Q1 2025 demonstrated continued momentum from 2024, with $1.05 trillion in deal value across 12,371 transactions.

The outflow of M&A capital to Europe grew modestly, even as US investors found renewed reasons to strike deals at home, as the US dollar's continued strength combined with relatively lower valuations in Europe supported steady cross-border flows to that region. We are encouraged to see a broad-based recovery in dealmaking across geographies as well as a favorable setup for continued growth into 2025. Europe staged a full recovery from its 2022 slowdown, posting a 29.2% YoY jump in deal value and a 17.5% rise in deal count. Lower valuations (median EV/EBITDA of 8.3x vs. the U.S.'s 10.3x) attracted foreign buyers, particularly from North America. After a sharp correction in 2022, global valuations stabilized near midcycle levels in 2024. The median EV/EBITDA multiple settled at 8.8x, slightly below 2023's 9x EBITDA multiple, but 15–20% lower than 2021's historic peak of 10.7x. U.S. multiples rose (EV/EBITDA: 10.3x; EV/revenue: 1.8x) amid strong domestic demand. Europe saw declines (EV/EBITDA: 8.3x; EV/revenue: 1.4x), amplifying its appeal to cross-border investors.

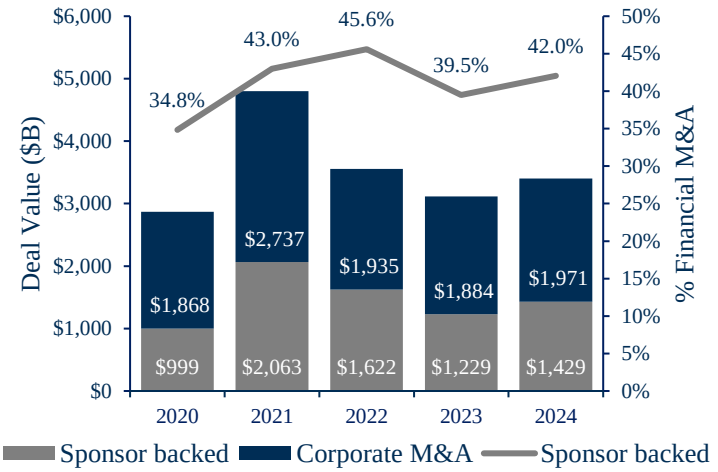
2024 was a year of recalibration and recovery for global M&A, with resilient activity across regions and sectors laying the groundwork for sustained growth. In Q1 2025 Global M&A activity achieved robust growth, as larger deals pushed total deal value to $1,050.8 billion across 12,371 transactions, including estimates for undisclosed values and late-reported deals. North America dominated the top 10 leaderboard, securing 80% of deals, with additional notable transactions in Asia and Central America, including the geopolitically significant Panama Ports deal. Nonetheless, considerable uncertainty remains regarding the outlook for the remainder of the year, given persistent recession risks and ongoing volatility in global trade relations.

Source: PitchBook; 2024 Annual Global M&A Report, 2025 Q1 Global M&A Report

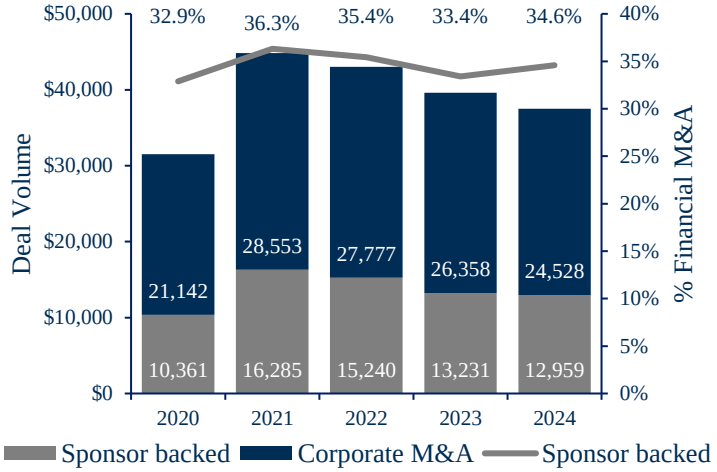
# 2024 Global M&A Market

*M&A Snapshot*

## Strategic vs. Financial M&A Value



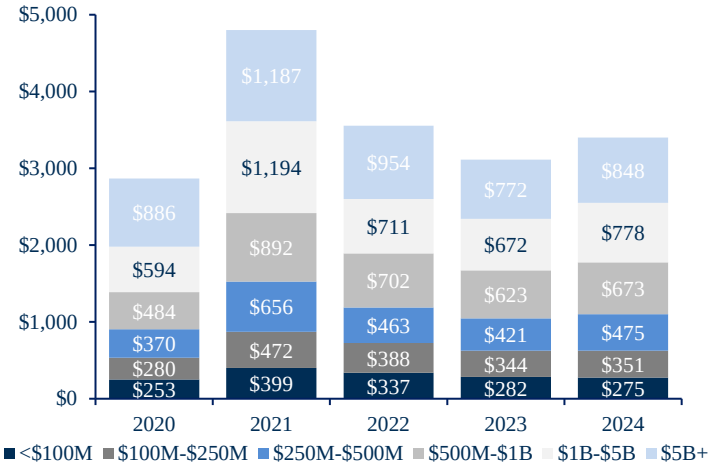

## Strategic vs. Financial M&A Volume



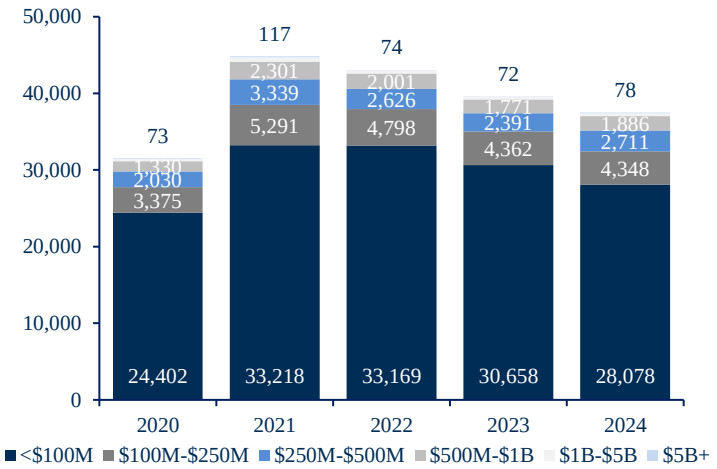

Historically, strategic buyers have outpaced financial sponsors in M&A deal volume, executing nearly twice as many transactions, although at 33% lower aggregate value. While financial sponsors represented 34.8% of total global M&A value in 2020, their influence expanded significantly, peaking at 42.0% in 2024. However, elevated borrowing costs later in the year curtailed large leveraged buyouts (LBOs), moderating their participation and reducing their share to 34.6% by year-end 2024 still slightly higher than 2023 levels. Despite financial sponsors' growing role over the past five years, strategic buyers retained dominance in 2024, leveraging stabilized valuation multiples and improved corporate acquisition conditions to drive activity. This underscores their enduring advantage in executing transactions aligned with long-term operational synergies, even amid shifting market dynamics.

Source: PitchBook 2024 Annual Global M&A Report.

## M&A Value by Transaction Size




## M&A Volume by Transaction Size




From a deal size perspective, M&A transactions less than $250M represented 87.5% of global M&A transaction volume for 2020 through 2024, while sub-$250M transactions were 19.1% of total M&A deal value during the same five-year period. Conversely, transactions greater than $5B, commonly known as mega-deals, comprised 0.2% of total deal volume for 2020-2024 but totaled 26.2% of global M&A deal value.

Heading into 2025, M&A activity in the LMM (transactions below $250 million) was projected to remain a focal point. Amid elevated interest rates and persistent market uncertainties, smaller and mid-sized deals are increasingly seen as pragmatic and feasible, requiring less reliance on debt financing. This trend aligns with the growing emphasis among buyers, both corporate and financial, on disciplined capital allocation and sustainable growth strategies, which is reflected in the pursuit of deal opportunities that balance risk and opportunity amid a cautious economic climate.

Source: PitchBook 2024 Annual Global M&A Report

# 2024 North American M&A Market

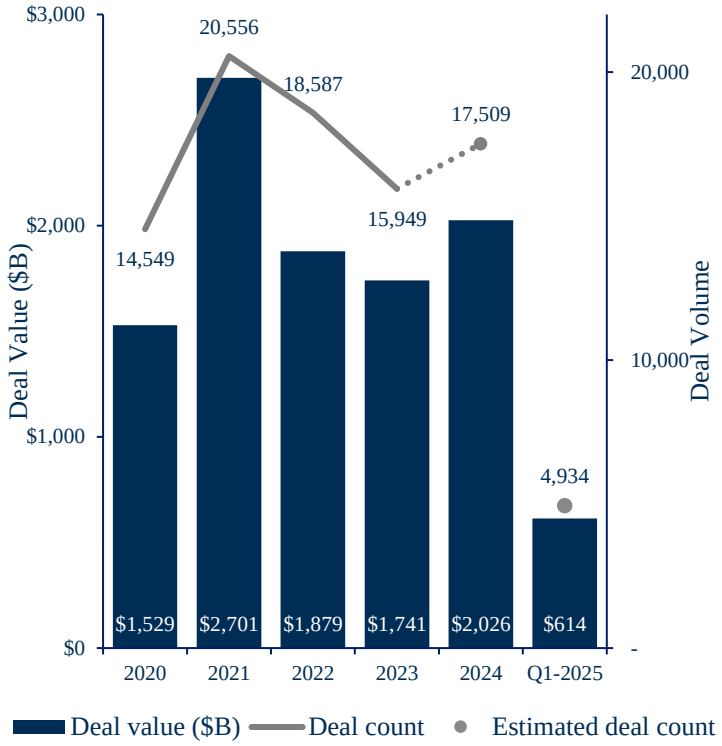
*YE M&A Snapshot*

## 2024 Annual North American M&A Snapshot + Q1 2025

North American M&A activity topped $2 trillion across 17,509 transactions in 2024, which marked a 16.4% year-over-year increase fueled by easing inflation and declining interest rates. Activity peaked in Q3 but declined in Q4; however, NA deal market saw a rebound in Q1 2025. Total deal value rising to $613.8 billion across 4,934 transactions; a 28.3% increase from Q4 and a 10.3% gain year-over-year despite a slight 1.9% dip in deal volume. While early-quarter optimism faded amid renewed macroeconomic concerns, including rising tariffs and recession risks, Q1 could stand as the peak for 2025 unless economic conditions stabilize.

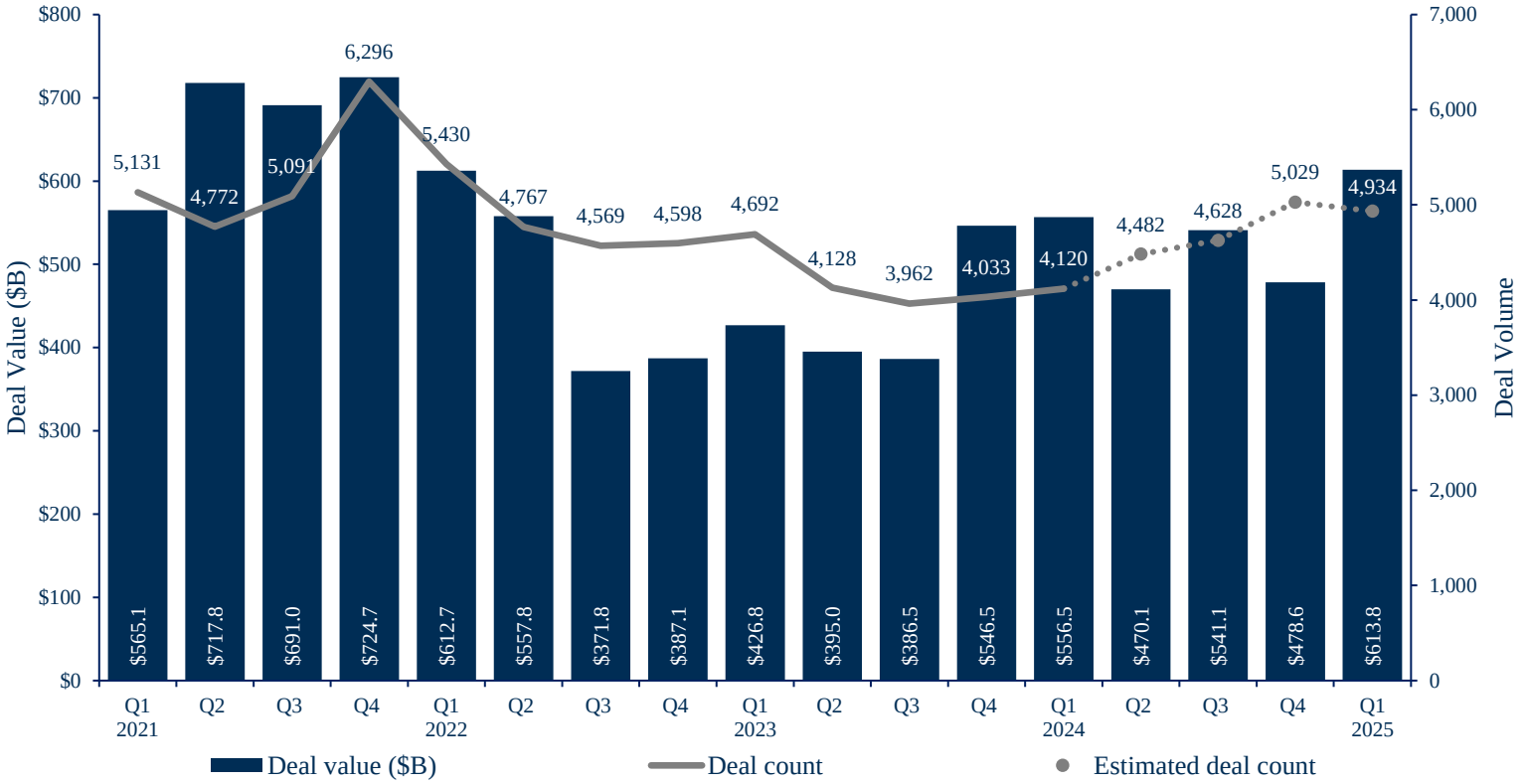
Notable Q1 transactions included the $33 billion all-stock merger between X and xAI, and Alphabet's $32 billion acquisition of cloud security firm Wiz to enhance its AI-powered cybersecurity offerings.

Looking ahead, the outlook for 2025 M&A will depend heavily on several factors, such as the macroeconomic environment and resolution of uncertain trade tariffs, sector-specific drivers, regulatory factors, and valuation expectations.




Source: PitchBook Q1 2025 Global M&A Report

## North America M&A activity by quarter




Source: PitchBook Q1 2025 Global M&A Report

# 2024 North American M&A Market

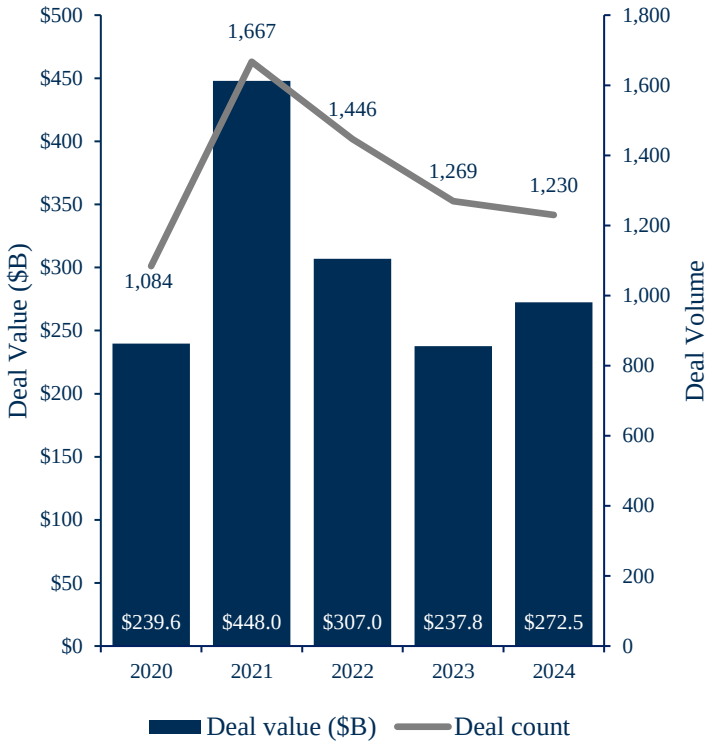
*YE M&A Snapshot*

## 2024 North American M&A activity with non-North American acquirers

During 2024, North American M&A activity involving non-North American acquirers experienced growth in deal value, reaching $272.5 billion compared to $ $237.8 billion in 2023, and a slight decline in deal volume.

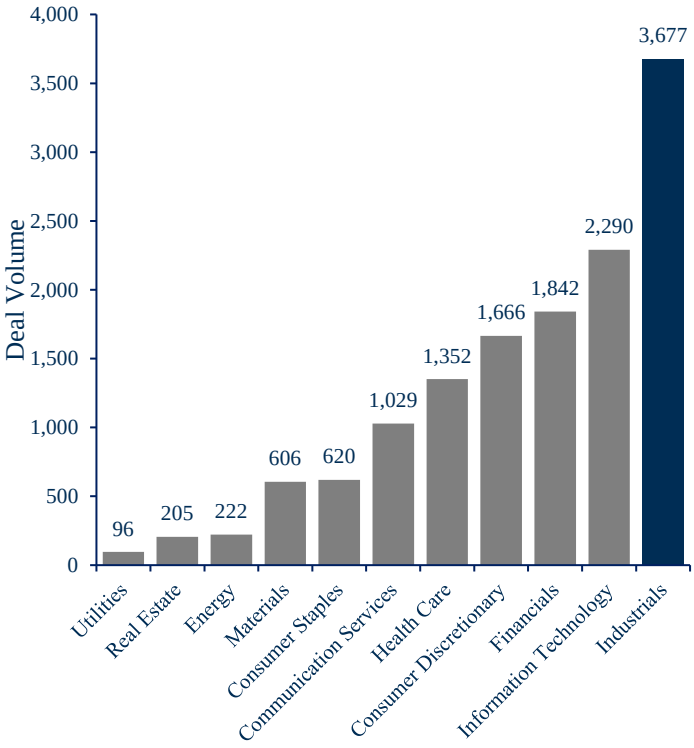
The total deal count was 1,230 compared to 1,269 in the previous year, indicating stable cross-border deal flow. Non-North American acquirers accounted for 8.4% of the total M&A activity, a modest rise from 8.0% in 2023. The increased North American M&A activity by non-North American acquirers reflects continued foreign interest in North American assets, despite global uncertainties and a strong U.S. dollar, and highlights the enduring role of international players in the region's M&A market.

The top 10 North American deals in Q1 2025, which totaled $182.6 billion, underscored diverse sector participation, with technology prominently featured in the two largest deals. PE-backed transactions accounted for 50% of these top deals.




Source: PitchBook 2024 Annual Global M&A Report, Q1 2025 Global M&A Report

## Hot Sectors for North American M&A




In 2024, North American M&A activity mirrored 2023 sector trends, with the industrial sector leading the charge at 3,677 deals (announced or closed), of which 2,259 focused on industrial services. The IT sector followed closely with 2,290 transactions, reaffirming its prominence in the dealmaking landscape.

Market drivers from 2023 persisted into 2024, particularly in the industrial space, where services-focused deals dominated. This reflects a strategic shift toward building resilient, sustainable supply chains and diversifying portfolios to navigate global disruptions.

A standout development in 2024 was the resurgence of industrial manufacturing, fueled by fragmented markets offering consolidation opportunities and companies' drive to adopt and integrate advanced technologies.

This momentum underscores a broader push to enhance operational efficiency and innovation in response to evolving market demands.

Source: S&P Global Market Intelligence: M&A by the Numbers, 2024

## Emerging Themes: Tariffs & Taxes on Carried Interest

As 2025 unfolds, M&A activity continues to be shaped by persistent macroeconomic uncertainty, with investors increasingly prioritizing companies offering predictable cash flows, customer diversification, and essential services insulated from global disruptions. This emphasis has only grown more acute following the re-escalation of U.S. protectionist trade policies and proposed changes to investment taxation frameworks, both of which are beginning to significantly influence capital deployment and transaction strategies across sectors.

In early April, the government introduced a sweeping set of tariffs under the banner of "Liberation Day," marking a major shift in U.S. trade policy. The initiative implemented a baseline 10% tariff on all imports, regardless of origin, while simultaneously launching a tiered system of country-specific "reciprocal tariffs" that range from 11% to as high as 50% on targeted nations, including longstanding trade partners in Asia and Europe. Chinese goods in particular have been hit with cumulative effective tariff rates lastly reaching 145%, provoking a retaliatory response of up to 125% on U.S. exports to China. At the beginning of April 2024, a 90-day pause on tariffs was announced. This decision came after significant backlash from international partners and volatility in global markets.

Amid this volatility, investor confidence may begin to erode. Although tariffs have led to an initial sharp decline in the market, with significant sells offs since their announcement, interest rates have remained unchanged. These effects, of a weaking economy, coupled with the inflationary effect of tariffs are likely counteracting each other keeping interest rates up and keeping the cost of borrowing high. This combined with the market volatility could lead to a slow down in deal volume, with firms waiting out the 90-day tariff pause to proceed or close on deals. Conversely, tariffs may lead to stronger demand in certain industries, such as domestic production and manufacturing, and business and professional services, as companies push to move these businesses to the US.

Concurrently with the proposed trade reforms, a renewed legislative effort to tax carried interest as ordinary income has emerged, drawing considerable attention from the investment community. As detailed in Professor Charles Swenson's 2025 report[1], the recharacterization of carried interest would raise the federal tax rate on general partners from the current long-term capital gains rate of 23.8% to the top ordinary income rate of 40.8%. While this policy aims to close what critics label the "carried interest loophole," Swenson's analysis indicates the economic cost would be significant. His estimates suggest that, over a ten-year horizon, the policy could reduce total U.S. employment by as much as 1.23 million jobs and lead to a net federal tax revenue loss of $12.84 billion per year, due to decreased investment activity and business formation.

The disincentive effects of the reform are especially pronounced in the private funds industry, where carried interest functions as a reward for long-term, risk-adjusted performance. By weakening the alignment between general partners and long-horizon investment strategies, the change may prompt a shift toward shorter holding periods, reduced risk appetite, and even a migration of talent out of the sector. Smaller PE and VC funds, in particular, may struggle to retain skilled managers or attract capital if expected net returns diminish. Moreover, public pension funds, which have increasingly allocated capital to private equity due to its superior long-term performance, stand to lose up to $520 million annually in aggregate returns as they reallocate to lower-yielding alternatives. The potential ripple effects extend to innovation-driven sectors as well: early-stage technology and biotech ventures typically reliant on venture capital may face funding gaps as risk premiums rise and GPs grow more selective or conservative in their investment theses.

Taken together, the tariff surge and proposed tax reforms represent a decisive shift in U.S. economic strategy: one that seeks to realign trade, investment, and tax policy around domestic industrial revitalization and revenue neutrality. Yet, from an M&A and private capital perspective, these measures risk dampening investor sentiment, compressing valuation multiples, and suppressing growth in sectors critical to innovation, infrastructure, and the clean energy transition. For dealmakers, the landscape is becoming more complex requiring heightened scrutiny of supply chain exposure, regulatory policy, and tax structure resilience in evaluating both targets and transaction timing.

[1]Economic Impact on the Private Funds and Real Estate Industries Due to Potential Increases in Tax on Carried Interest, Charles Swenson, PhD CPA
Source: United States International Trade Commission, Harmonized Tariff Schedule

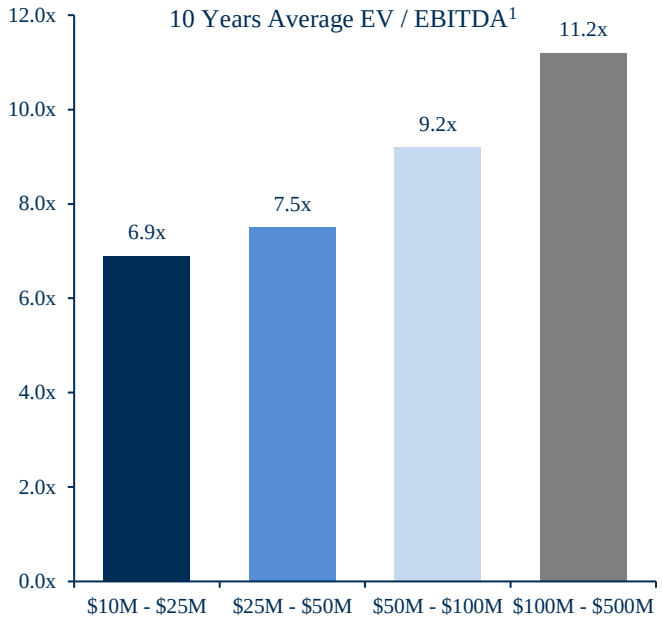
## Accounting Services

Lower middle market M&A activity in the accounting services sector continues to attract interest from both financial sponsors and large accounting firms actively pursuing acquisitions to broaden their service offerings and industry expertise.

As client demands evolve beyond traditional tax and audit functions, established firms are acquiring smaller practices with capabilities in outsourced CFO services, advisory, valuation, and technology-driven solutions.

These acquisitions provide access to niche expertise, regional client bases, and specialized talent, which can elevate the buyer's competitive position.

The sector's stable recurring revenue and strong client relationships make these targets particularly appealing, while continued market fragmentation supports long-term consolidation strategies.



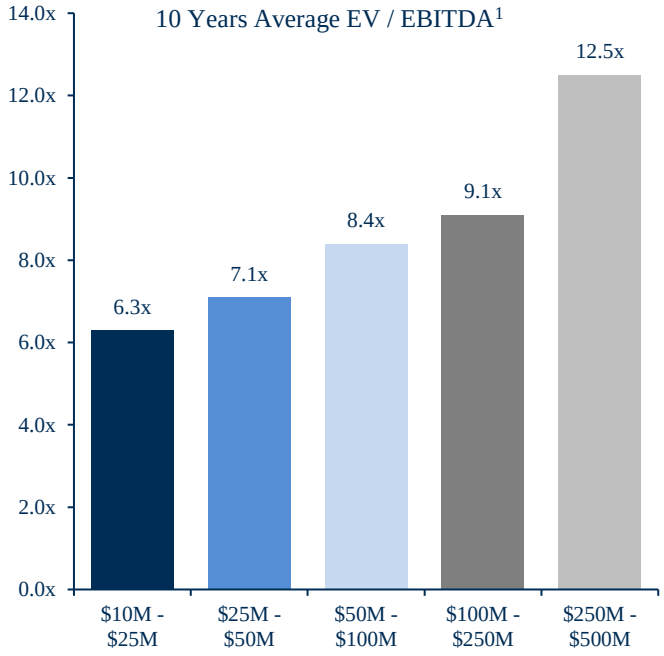

Source: GF Data, as of April 2025

## Industrial Services

M&A activity in the LMM industrial services sector remains resilient, supported by sustained demand for specialized, recurring maintenance solutions across critical infrastructure, utilities, and industrial facilities.

Strategic acquirers and private equity firms are actively pursuing targets with skilled labor, long-term service agreements and strong safety performance. The sector's mission critical nature and relative insulation from economic volatility continue to underpin investor interest.

Valuations remain attractive, especially for businesses offering niche technical capabilities. Additionally, the sector's fragmentation presents significant consolidation opportunities for buyers seeking to establish or expand platform investments.

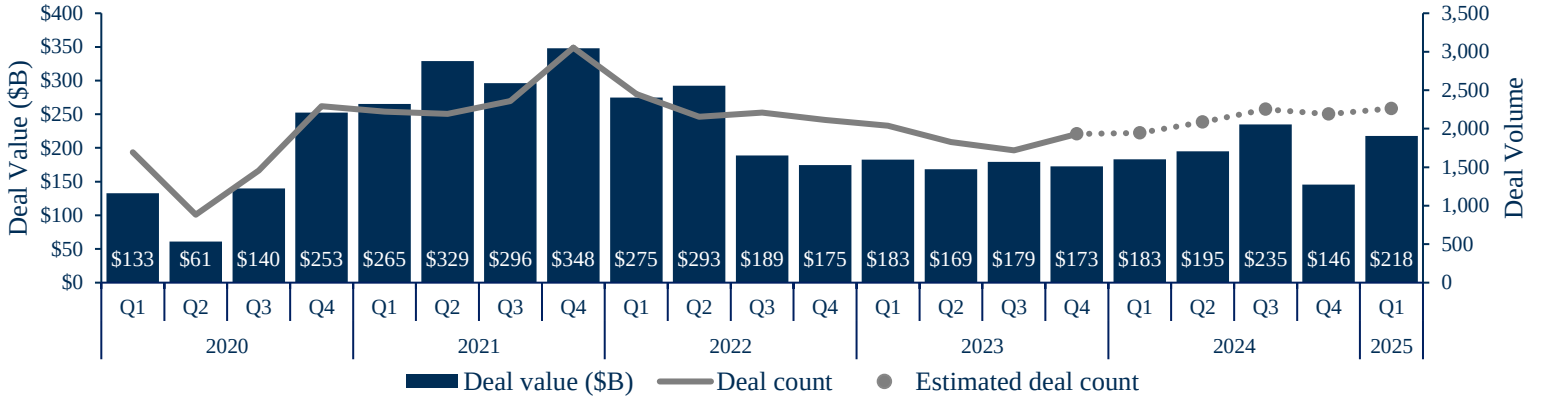



[1]The 10-year average EV/EBITDA multiple reported by GF Data provides a general benchmark of multiples from deals closed by financial sponsors in the lower middle market (LMM). In practice, valuation multiples may vary significantly from deal to deal based on company-specific factors.
Source: GF Data, as of April 2025

# 2024 Private Equity Market

*Private Equity YE Activity*

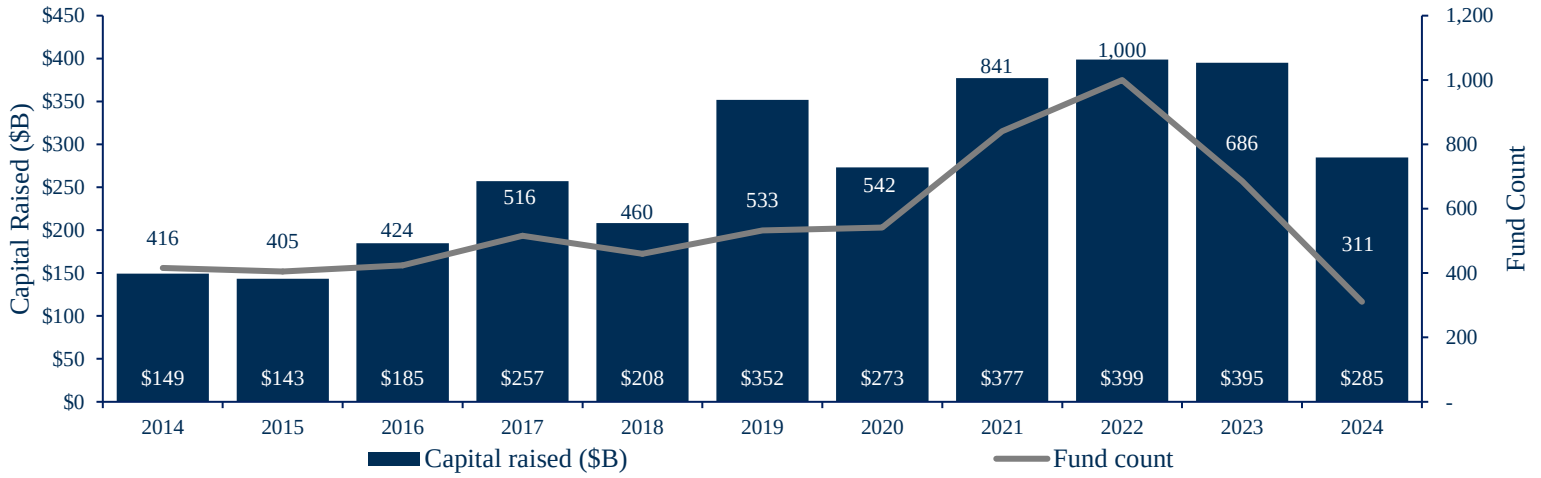
## Quarterly U.S. PE Deal Value and Volume




After bottoming out in Q3 2023, US PE activity saw a strong recovery in 2024, with deal value increasing 19.3% YoY to reach $838.5 billion, supported by lower interest rates and improved credit availability. Large deals exceeding $1 billion played a key role in the resurgence, accounting for 36.8% of all PE-backed transactions, up from 33.6% in 2023. However, despite this progress, Q4 2024 showed signs of tapering activity, with a slowdown in take-private transactions as public market valuations reached new highs. Financial sponsors remain cautious, as sponsor-to-sponsor exits were sluggish, growing by only 6.3% in value and 1.4% in volume year-over-year, reflecting continued valuation gaps and financing constraints. While exit activity increased 49% YoY, the overall pace of exits still lags the historical average relative to assets under management, with continuation funds playing a larger role in liquidity strategies. Although 2025 started with highest deal activity in the first quarter since 2022, there are still a number of unknowns in the macroeconomic outlook; with the implementation of new tariffs, rising loan delinquencies and substantial federal spending cuts the outlook for 2025 is cautiously optimistic.

Source: PitchBook 2024 Annual US PE Breakdown

## U.S. PE Middle-Market Fundraising Activity



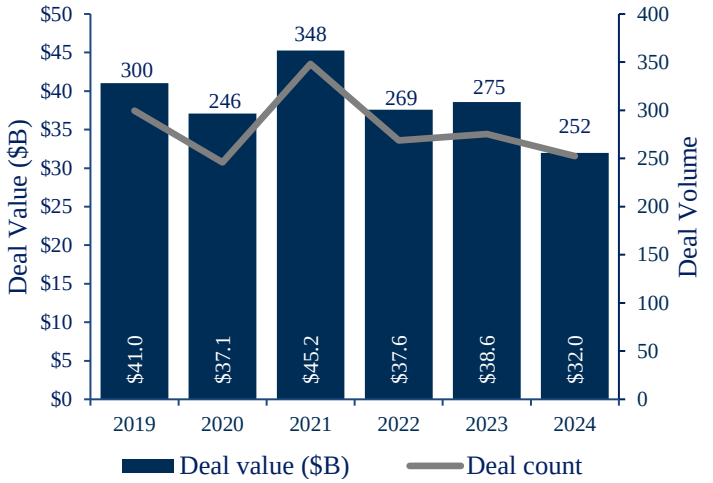

Looking at 2024, fundraising will fall short of the 2023 mark. Even when adjusting for expected data lag, which typically adds 20%, last year's total funds will cap out around $311B. The fourth quarter in 2024 represents the weakest quarter of the year, following the trend of fundraising timelines expanding. Financing challenges for larger transactions encouraged a focus on smaller deals with more manageable capital structures, making middle-market funds an attractive investment vehicle. The second half of 2024 saw more competition from larger funds, suggesting that middle-market fundraising in 2025 may face additional hurdles. Through the first half of 2024, middle-market funds continued to capture strong investor interest, though fundraising momentum slowed as market conditions stabilized. With the Federal Reserve's conservative stance on rate cuts, waiting to see how policy changes impact the macroeconomic environment, rates of borrowing will remain high. The uncertainty of tariff policy has led to delays in deal execution, slowing capital deployment.

Source: PitchBook 2024 Annual US PE Breakdown

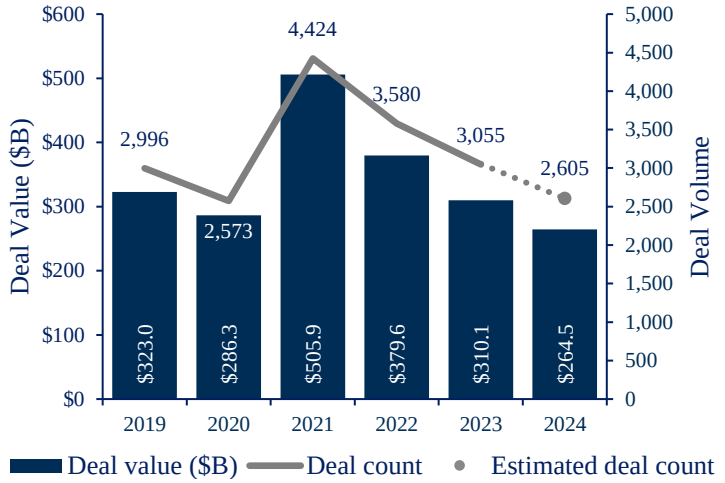
# 2024 Private Equity Market

*2024 Deal Making and Leverage Trends*

## U.S. PE MM* Carveouts




## U.S. PE MM* Deal Value and Volume




Middle-market private equity deal activity peaked in 2021, and declining deal activity trends have continued for the last three years. For 2024, deal volume declined by 14.7% and deal value declined by 12.2%.This trend reflects continued caution among financial sponsors, who have favored lower-risk, add-on acquisitions amid lingering economic uncertainties. U.S. corporate carveouts and divestitures have accounted for a growing percentage of PE middle market deal activity over the past four years, as larger companies have continued restructuring efforts to focus on core operations. For 2024, PE middle market carveouts have increased to 9.7% of PE middle market deal volume and 12.1% of deal activity compared to 7.9% and 8.9% in 2021, respectively. Given the gradual easing of financing constraints, 2025 could see a shift back toward larger platform deals, though the middle-market focus on capital efficiency and operational value creation is expected to persist.

Source: PitchBook 2024 Annual US PE Breakdown, *PitchBook defines the "Middle Market" as companies with enterprise values between $25M and $1B.

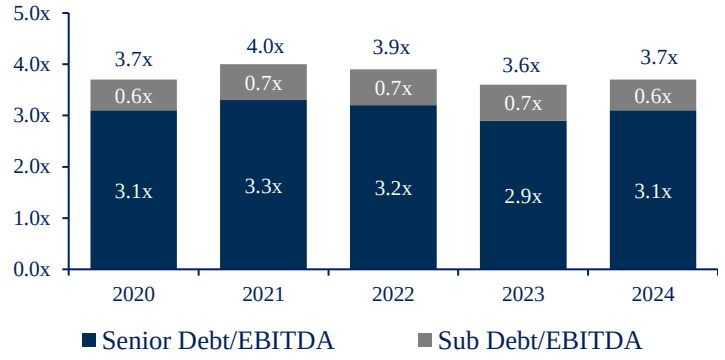
## 2024 Leverage Trends

By the end of 2024, the total debt/EBITDA ratio rose to 3.7x (up from 3.6x in 2023), hitting a two-year high, as private debt funds ramped up lending particularly for LMM deals. Smaller platform transactions ($10M–$25M) maintained robust debt coverage at 3.9x, while larger deals faced tighter financing. Platform buyouts saw flat total debt coverage at 3.3x for the year, below the historical average of 3.5x, reflecting lenders' ongoing caution.

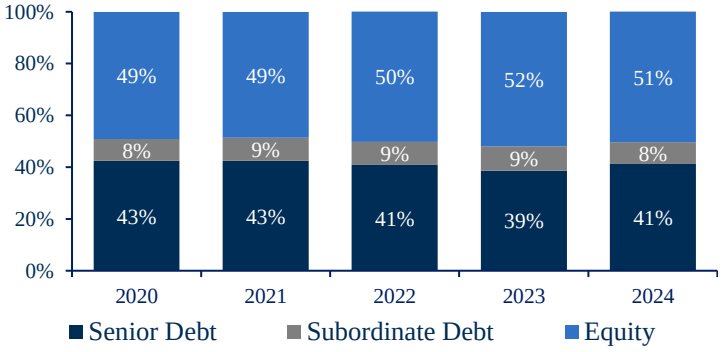
Senior debt coverage inched up to 3.1x (vs. 2.9x in 2023) but remained below the norm. Capital structures shifted toward higher senior debt usage, which climbed to 41.3% of financing (from 38.7% in 2023), while equity contributions dipped to 50.5% (from 52.0%). Rollover equity utilization also softened, appearing in 63.6% of deals (down from 65.0%).

Despite a decline in senior debt costs, borrowing rates stayed elevated compared to pre-2022 levels. These trends highlight lenders' cautious optimism in deploying capital, paired with equity investors' focus on refining capital structures amid evolving economic pressures.

## Leverage Multiples




## Composition of Financing

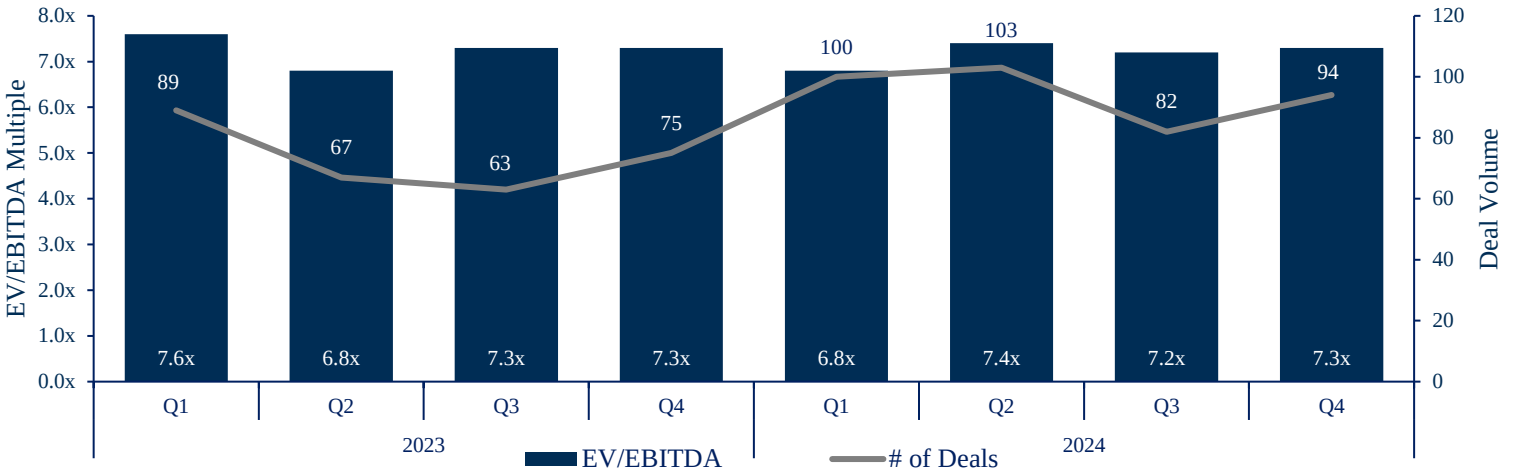



Source: GF Data® February 2025 Leverage Report

# 2024 Private Equity Market

*2024 Lower-Middle-Market EBITDA Multiples*

## LMM Quarterly EBITDA Multiples – PEG Transactions with EV of $10M-$500M

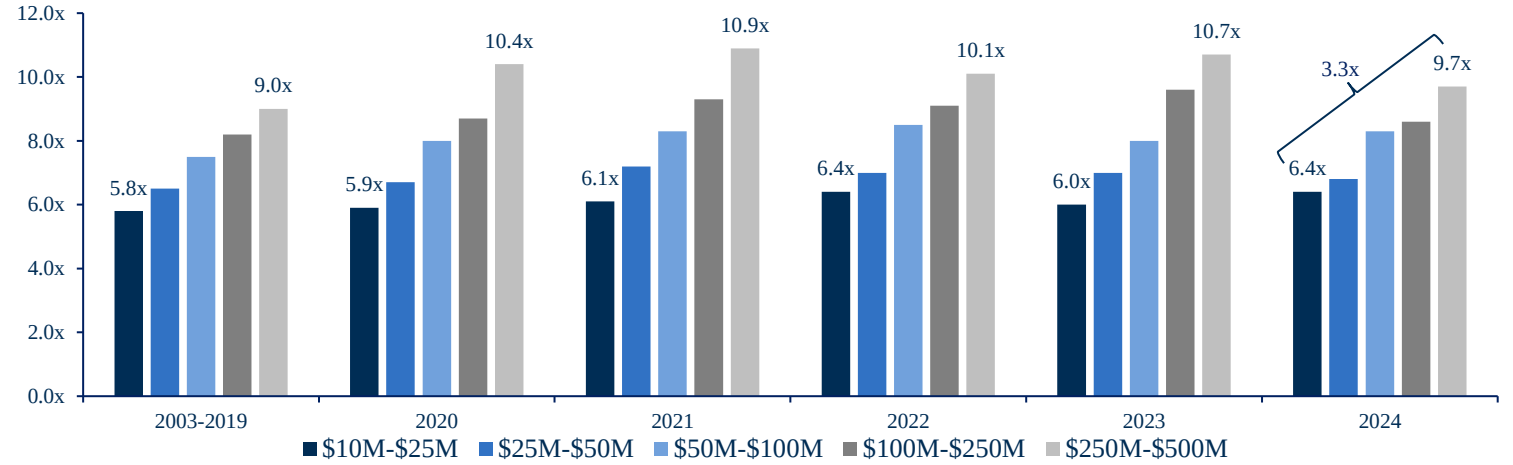



Valuations for LMM PE deals ($10M to $25M) showed resilience despite fluctuations, stabilizing at 7.3x EV/EBITDA by Q4 2024 after dipping to 6.8x in Q1 2024. Deal volume mirrored this recovery, declining from 89 transactions in Q1 2023 to a low of 63 in Q3 before climbing to 94 by Q4 2024.

While short-term volatility persists, the broader trajectory signals a gradual recovery in activity, with valuations holding steady near mid-cycle levels and transaction counts reflecting renewed buyer confidence. This stability underscores the market's adaptability to shifting capital costs and investor focus on scalable, cash-flow generating assets.

Source: GF Data, 2024 M&A Report

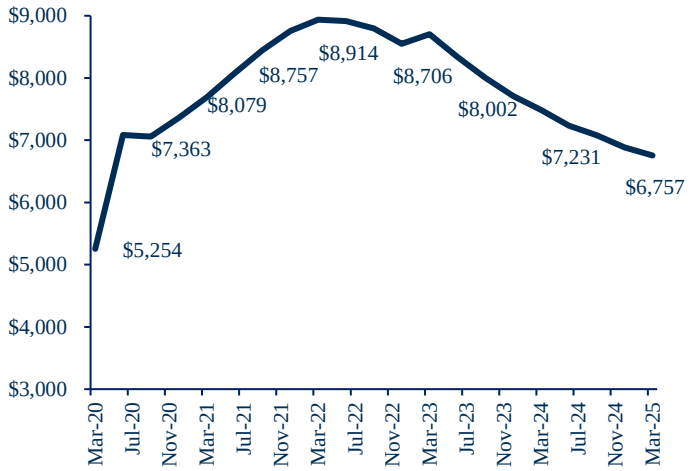
## EV/EBITDA Multiples – Companies with EV of $10M-$500M



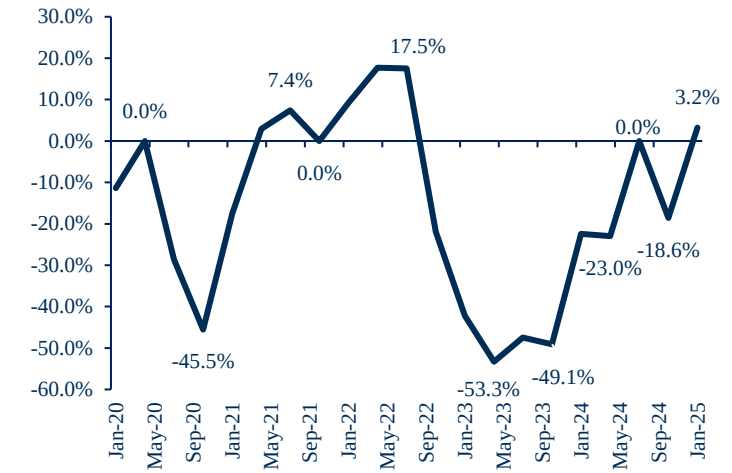

During 2024, valuations for lower-middle-market PE M&A transactions between $10M and $25M transactions were at the high-end of the 20-year range included above at 6.4x EV/EBITDA. In contrast, larger deals ($250M to $500M) experienced a valuation compression of 1.0x, reflecting tighter pricing discipline at the upper market tier as the cost of capital increased. This compression underscores heightened selectivity among investors amid rising financing pressures, particularly for higher-value transactions. Despite these diverging trends, the size premium remains prevalent between the low-end and high-end of the LMM the market, as transactions between $250 and $500M were completed at valuations of 3.3x turns of EBITDA higher compared to transactions between $10M and $25M. Private equity firms continue to prioritize larger platform acquisitions at premium multiples, banking on lower-cost add-on deals to dilute blended multiples and enhance returns over time. This strategy underscores the sector's focus on scalability and operational synergies, even amid shifting valuation dynamics.

Source: GF Data, 2024 M&A Report

## Fed's Total Assets ($B)



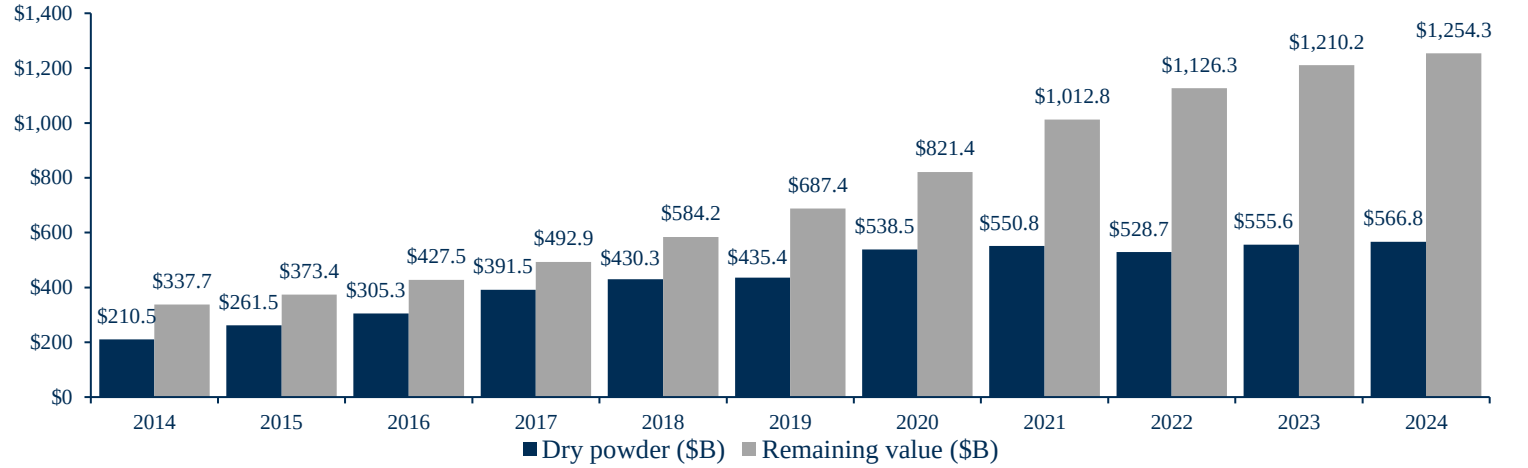

## C&I Loan Demand from Small Businesses




In the third quarter of 2024, U.S. banks reported a decline in demand for commercial and industrial (C&I) loans across businesses of all sizes. Specifically, a net 21.3% of banks observed reduced demand from large and middle-market firms, while an 18.6% net decrease was noted among small businesses. Concurrently, the Federal Reserve continued its balance sheet reduction, with total assets decreasing from $7.568 trillion in 2023 to $6.757 trillion in 2024. This quantitative tightening reflects the Fed's efforts to normalize monetary policy post-pandemic.This contraction in traditional bank lending has created a 'capital vacuum' in the lower middle market, prompting businesses to seek alternative financing sources, such as private credit. Consequently, private credit markets have experienced increased activity, as they step in to fill the funding gap left by traditional lenders.

Source: Board of Governors of the Federal Reserve System "Total Assets" & "Loan Demand", Muzinich & Co.

## Private Debt – Fundraising and Dry Powder




In 2024, private debt markets raised $197.1 billion in committed capital through traditional drawdown funds, surpassing venture capital fundraising for the second consecutive year and solidifying its position as the second-largest private capital strategy behind private equity. Adjustments for late-reporting funds are expected to push commitments to $200 billion, continuing a five-year streak above this mark. Direct lending dominated, capturing 60.7% of all capital raised, while mezzanine fundraising declined due to cheaper capital availability.

Institutional AUM surpassed $1.8 trillion, with dry powder at a record $566.8 billion (31.1% of total AUM). Private equity firms increasingly rely on private debt for flexible financing, as banks cautiously re-enter LBO lending. Growing partnerships between banks and private credit firms, alongside perpetual life vehicles from insurance and wealth channels, are expected to drive further market growth and liquidity.

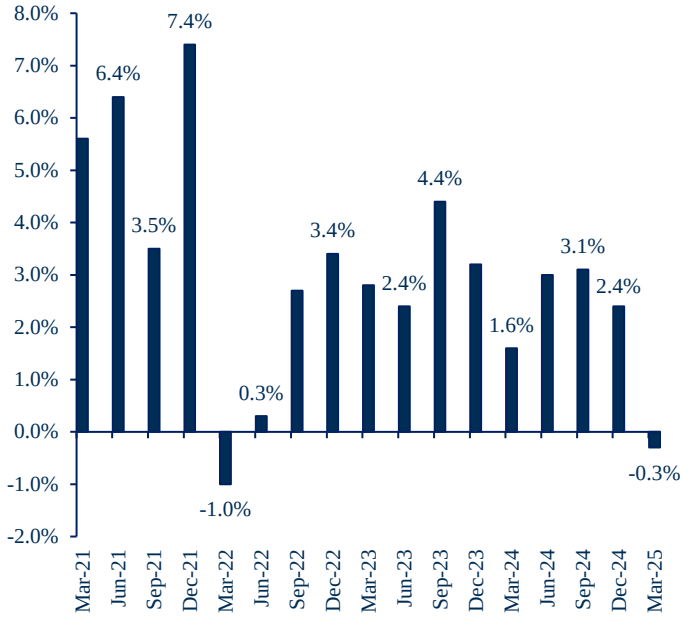
Source: PitchBook 2024 Global Annual Private Debt Report

## Current Economic Conditions

The U.S. has shown steady growth since coming out of COVID; however, growth has paused in the first quarter of 2025 due to tight monetary policy, high interest rates, and geopolitical uncertainty impacting global trade and investment flows. GDP measurement in Q1 was more complex due to an influx of imports as many companies began increasing inventory in anticipation of higher tariffs under the new administration. Increased imports coupled with decreased government spending pushed GDP to reflect lower values than actual economic health.

The newly implemented tariffs have put upward pressure on prices, leading to lower consumer confidence while unemployment remains stable. With upward pricing pressure and an unchanged labor market the Federal Reserve has pulled back on plans for near-term cuts. Jerome Powell stated in the Federal Reserve's meeting on May 7th, that due to elevated uncertainty, updates to the policy will be on a "wait and see" basis as new economic data becomes available.

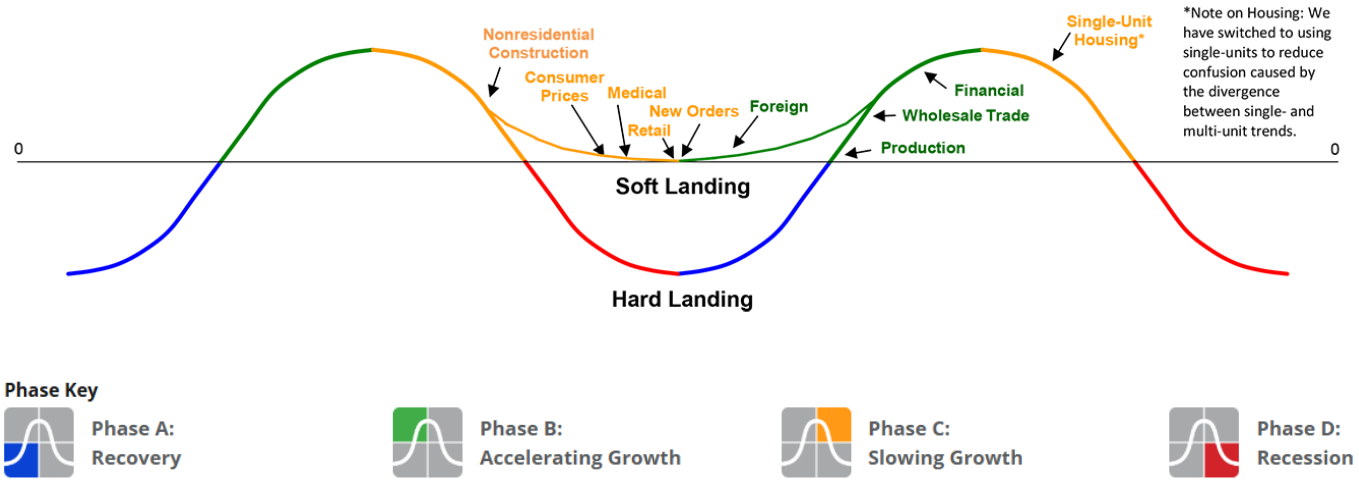
## U.S. GDP Quarterly % Change




Source: US. Bureau of Economic Analysis March 2025

## Where Am I in the Cycle?

The trends shown below were created by one of our favorite economic forecasting firms, the Institute of Trends Research ("ITR"). The graph provides a visualization of a dynamic look at the economy. Each major segment of the economy is shown in terms of where it is in the business cycle. The graph also provides a view of the economy that is like a train, with sectors in the front facing peaks or valleys first while sectors in the back having more time to react to what is coming.



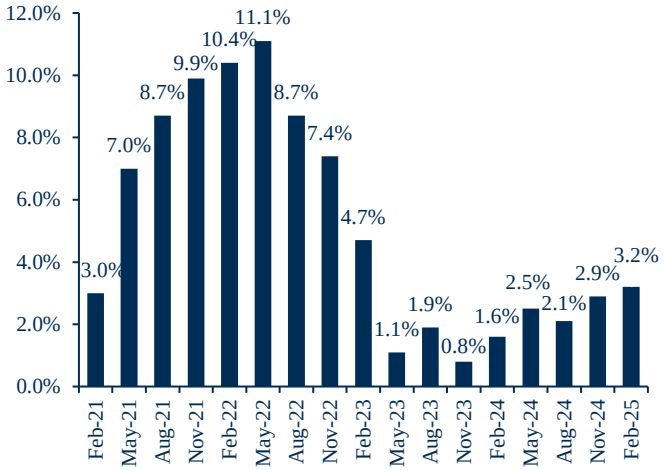

For example, all segments in the graph above are experiencing muted growth in the near term, with downside pressures still present. However, 2025 is expected to be a year of growth, with generally higher growth rates anticipated in the second half of the year and into 2026. Leading indicator signals remain mixed, reflecting varying positions of industries within the economic cycle. Valuations are often highest when businesses are sold as their industries enter Phase B of accelerating growth; therefore, timing a business owner's exit to coincide with a boom period often leads to maximization of value.

Source: ITR Economics – Insider US Economy April 2025

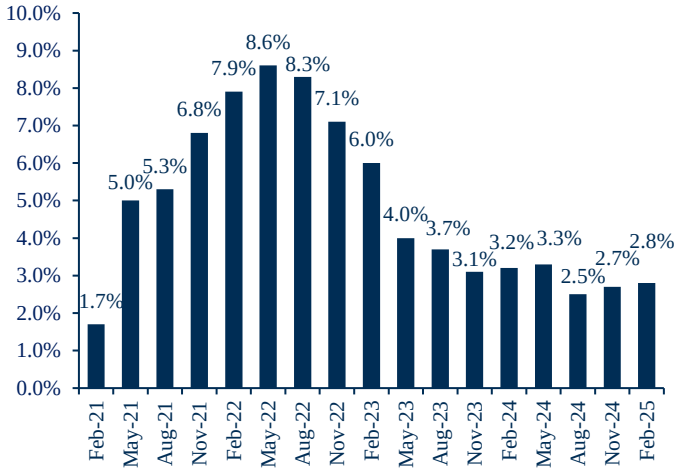
# 2025 Outlook

*Economic Activity – Inflation and Interest Rates*

## 12-Month % Change in PPI




## 12-Month % Change in CPI

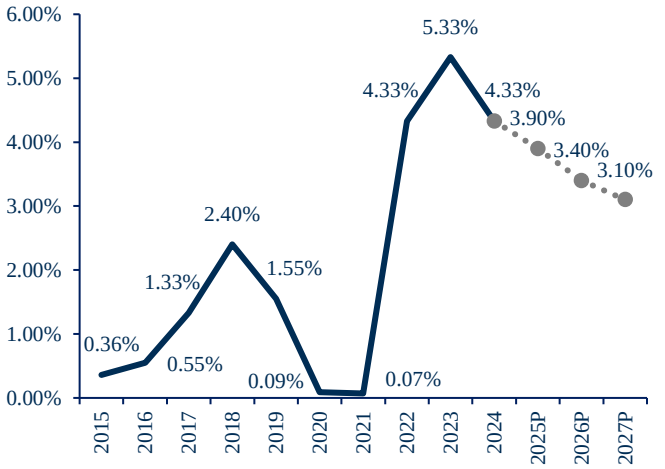



From March 2021, one year into COVID-19, through March 2022, the U.S. economy experienced rapid increases in inflation affecting both businesses and consumers. According to the Federal Reserve, direct fiscal support in the form of government stimulus implemented to support the U.S. economy during COVID-19 contributed to the rapid rise in U.S. inflation. Higher wages, energy costs, housing prices and a strong stock market have also led to high inflation.

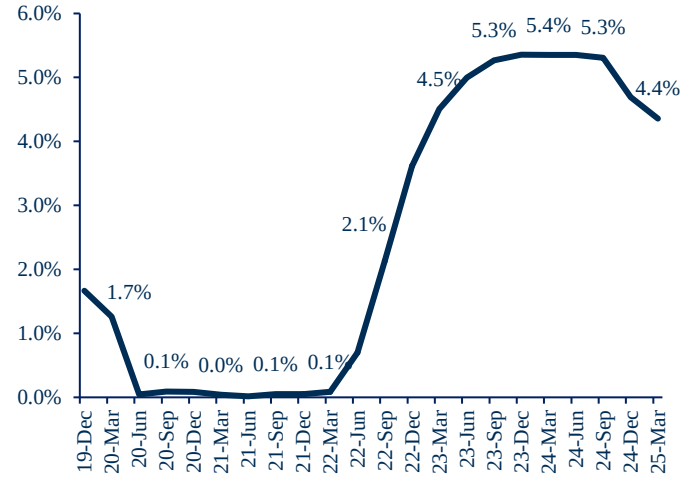
As of February 2025, recent tariff announcements have significantly impacted inflation expectations. Traders anticipating consumer prices to increase by 3.6% over the next 12 months. Federal Reserve officials have expressed concerns that the inflation resulting from these tariffs may not be entirely transitory.

Source: Bureau of Labor Statistics, PPI and CPI February 2025 releases

## Effective Federal Funds Rate & Projections




## 90-Day Average SOFR




As of April 2025, the Federal Reserve has kept the federal funds rate steady at 4.25%–4.50%, following three rate cuts in 2024 from a peak of 5.25%–5.50%. This pause reflects the Fed's cautious approach amid lingering inflation, softening consumer spending, and heightened global trade tensions.

At its March 19 meeting, the FOMC maintained its outlook for two potential cuts later this year but emphasized data dependency, especially given the economic drag from recent tariffs. Chair Jerome Powell reaffirmed the Fed's 2% inflation target, noting that while inflation has eased, it remains above target. He stressed the need for a balanced, patient policy stance to support growth without reigniting inflation.

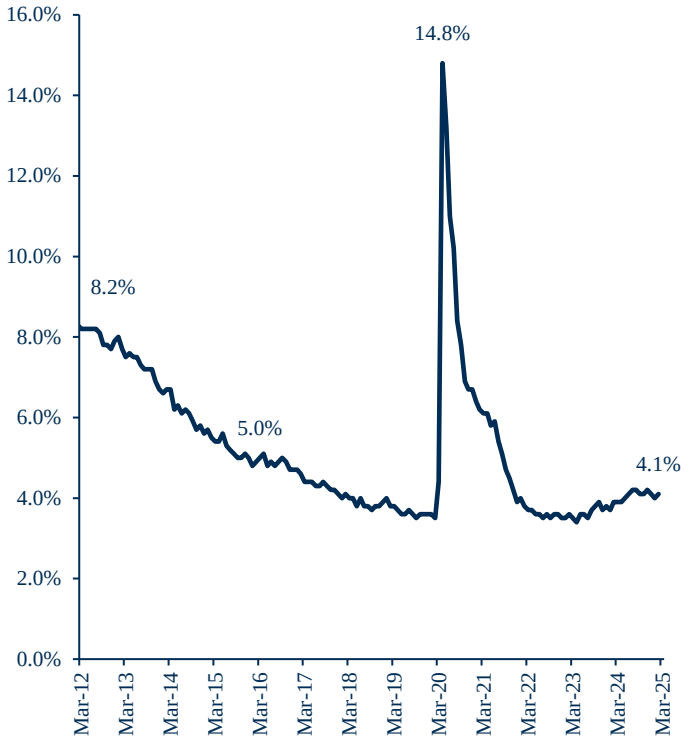
Source: FOMC, "Summary of Economic Projections", March 2025

## Labor Market

In 2025, interest rates are expected to stay elevated, with gradual easing likely mid-year. Despite projected rate cuts, core PCE inflation is forecasted to rise to 3.5%, driven in part by increased tariffs that are raising import costs and putting upward pressure on consumer prices. As a result, monetary policy will remain moderately restrictive. Prolonged high rates could weigh on the economy, especially as the labor market shows signs of softening. February's job growth of 151,000 and an unemployment rate increase to 4.1% may signal early signs of strain, potentially prompting investors to shift toward mid- and long-term Treasury notes.

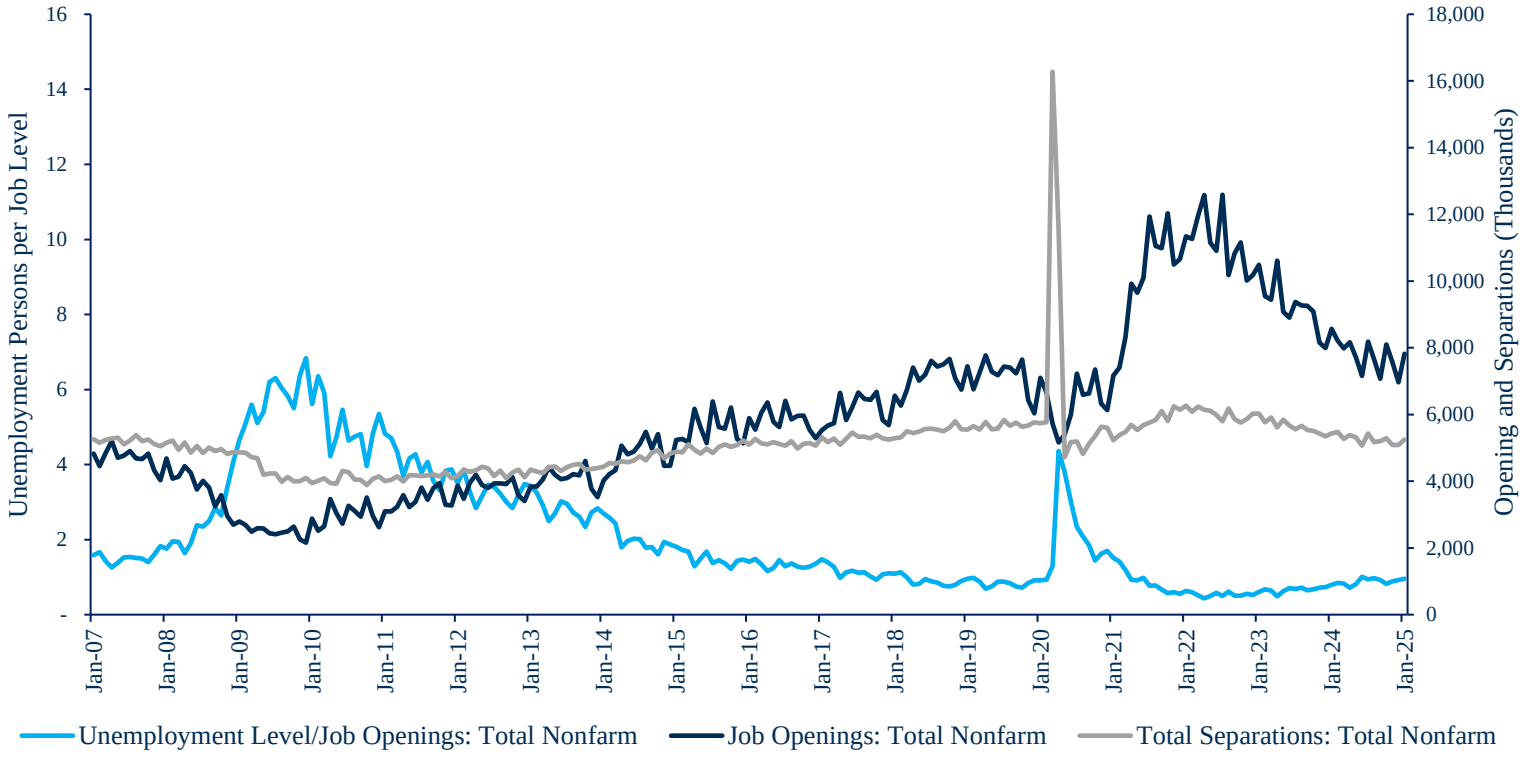
Labor market concerns persist, with participation dropping to 62.4%; the lowest since early 2023. These pressures continue to drive corporate and financial buyers to pursue automation and tech-enabled businesses to reduce dependence on labor and boost productivity.

## U.S. Unemployment Rate




Source: Bureau of Labor Statistics, March 2025 "Unemployment Situation"

## Number of Private Sector Job Openings and Separations




Source: Bureau of Labor Statistics, March 2025 "Job Openings and Labor Turnover Summary"

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