MERCER CAPITAL

Middle Market Transaction Update

Summer 2025

In This Issue

MERCER CAPITAL

BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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Summer 2025 M&A Update

Middle market M&A activity remained muted in the first quarter of 2025, with political and economic uncertainty weighing heavily on the market. The U.S. economy experienced a contraction in the first quarter of 2025, with real GDP decreasing at an annualized rate of 0.3%; this represents the first quarterly decline in GDP since the first quarter of 2022. In the prior quarter's **newsletter**, we highlighted tariffs as a potential obstruction to deal and overall economic activity, as the GDP decline seen in the first quarter was partly attributed to a surge in imports ahead of these potential tariffs. Additionally, cautiousness regarding rate cuts persists, as President Trump and Chair of the Federal Reserve, Jerome Powell, remain at odds with one another over the path of future rate cuts. This uncertainty stemming from potential tariffs and interest rate decisions, if unresolved, could suppress deal activity through the balance of the year, as it likely did in the first quarter of 2025.

GF Data® compiles private equity transaction data on deals with total enterprise values between $10 million and $500 million submitted by approximately 350 private equity firms in the United States. While we acknowledge that the data does not capture all private equity deal activity in the U.S., we believe it provides a representative sample sufficient to offer broad commentary on the state of middle market PE activity. GF Data® reported 59 submitted deals in the first quarter of 2025, a decrease of 40% from the fourth quarter. 2024 marked improvement related to overall deal activity, as the 379 completed private equity transactions submitted to GF Data® surpassed the 324 and 294 completed transactions submitted in 2022 and 2023, respectively. 2025 got off to a slow start, with only 59 completed transactions in the first quarter (compared to 98 deals in 4Q24).

Despite the lower deal count, average purchase price multiples rose to 7.6x. The increased purchase price multiples combined with the decline in total deals submitted in the first quarter points to the fact that buyers continue to be willing to "pay up" for quality assets in the current scarce market environment. GF Data® contributors reported elevated activity in small, add-on transactions – particularly under $10 million in enterprise value – that fall outside of GF Data's ® TEV range.

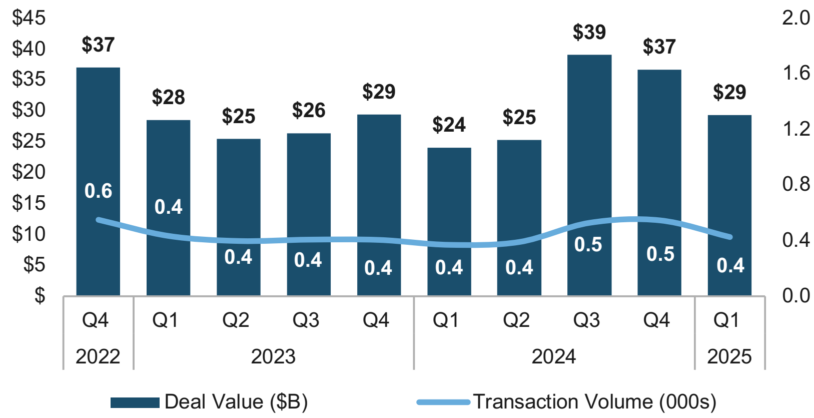
As shown in the chart on the next page, overall U.S. middle market deal activity (enterprise value under $500 million, inclusive of strategic deals), as compiled by *Capital IQ*, in the first quarter of 2025 decreased from the increased levels observed in the fourth quarter of 2024. Deal value and transaction volume fell 20% and 22%, respectively, quarter-over-quarter per the *Capital IQ* data. Still, these metrics are up 22% and 15%, respectively, from the first quarter of 2024.

Lower middle market activity (defined as enterprise values of $10 million to $500 million) as compiled by GF Data® provides several notable observations regarding PE-backed transactions:

- The average EBITDA multiple for all sub-groups increased to 7.6x in the first quarter compared to 7.3x in the prior quarter and 6.8x in the first quarter of 2024, potentially highlighting the scarcity of quality assets coming to market;
- The average EBITDA multiple for the trailing 12 months on a rolling quarterly basis increased to 7.4x from 7.2x for the trailing twelve months in the prior quarter. The multiple is higher than any rolling twelve month period over the last eight quarters;
- The average EBITDA multiple for the trailing 12 months by sub-group ranged from 6.5x for deals with an enterprise value of $10-$25 million to 10.0x for deals in the $250-$500 million range;
- The year-to-date average multiples by industry ranged from 5.7x for technology to 9.0x for health care services; and,
- Buyer transaction costs that are excluded from the multiples cited above add about 0.3x to all-in costs.

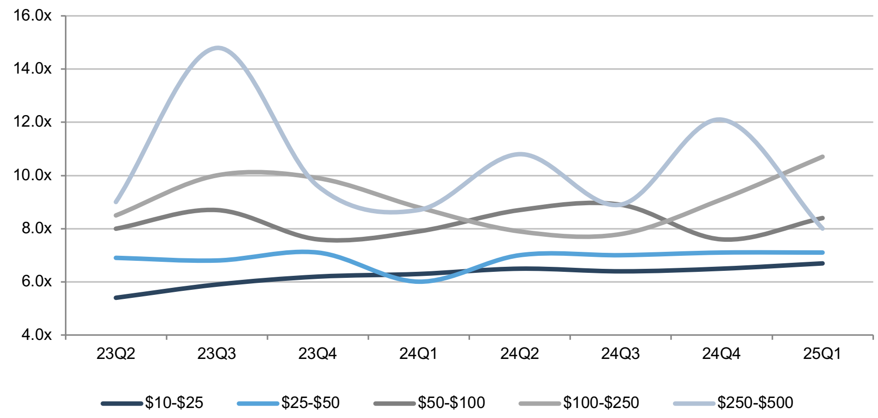
Deal volumes in both strategic and financial deals during the first quarter present a similar picture. The chart on the next page, highlights overall deal value and volume, including strategic deals. The first quarter of 2025 represents an uptick in deal value (21%) and volume (15%) year-over-year. Deal value decreased 20% while transaction volume decreased 22% quarter-over-quarter.

U.S. Deal Value & Volume
Q4-2022 to Q1-2025



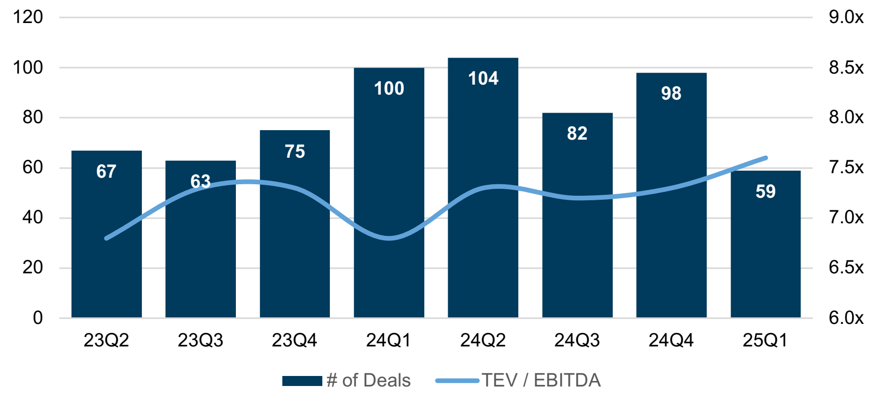
Source: Capital IQ

TEV/EBITDA Multiples
Financial Buyers | Last 8 Quarters

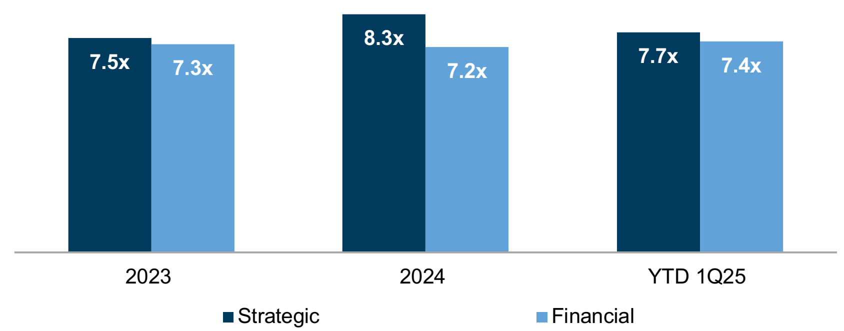


Source: GF Data®

Number of Deals and Average EBITDA Multiples
Lower Middle Market Financial Buyers | Last 8 Quarters



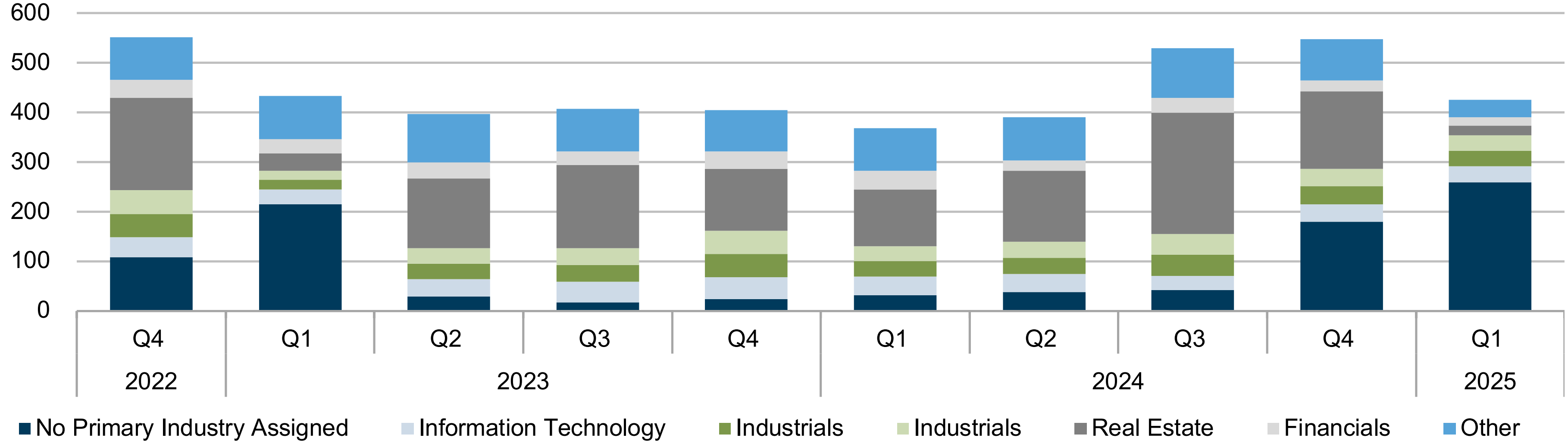
EBITDA Multiples by Buyer Type
2023 to 1Q25



Source: Capital IQ (strategic) and GF Data (financial)
Strategic multiples exclude outliers (defined as EBITDA multiple > 18x)

U.S. Deal Volume by Industry

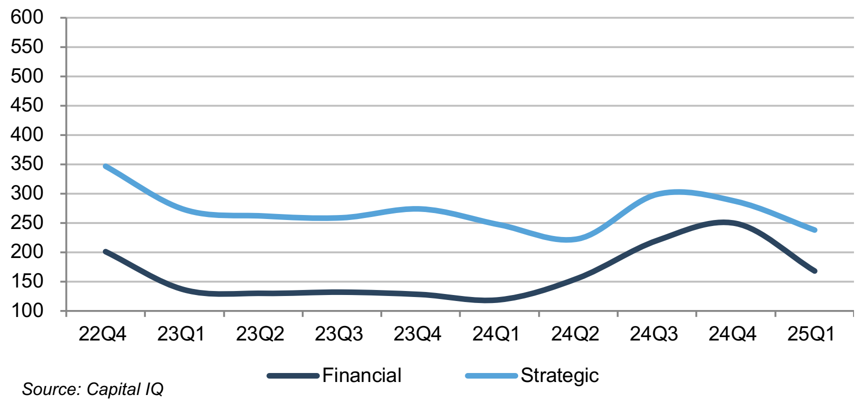
Q4-2022 to Q1-2025



Source: Capital IQ

Number of Deals by Buyer Type

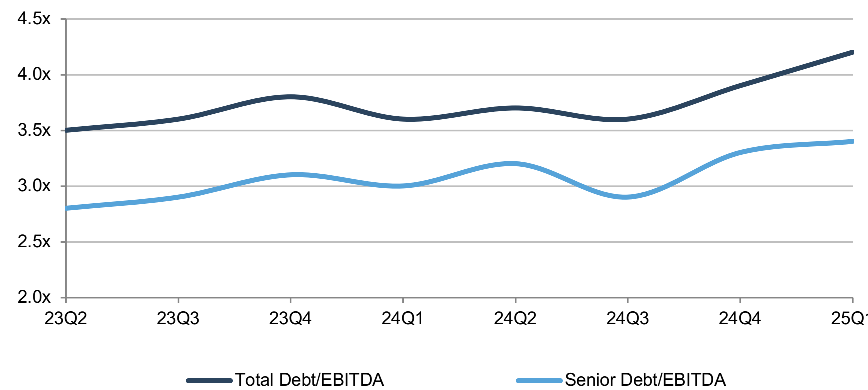
Q4-2022 to Q1-2025



Source: Capital IQ

Debt Multiples

Financial Buyers | Last 8 Quarters



Source: GF Data®

FEATURE ARTICLE

Financial vs. Strategic Buyers

The terms "financial buyer" and/or "strategic buyer" frequently arise in discussions about investment banking activities, particularly when discussing the sale of a business. This article describes some of the characteristics of each type of buyer and briefly discusses potential situations in which one might be more appropriate than the other.

FINANCIAL BUYERS

Financial buyers can generally be classified as investors interested in the return they can achieve by buying a business. They are interested in the cash flow generated by a business and the future exit opportunities from the business. They are typically individuals or companies with money to invest, who are willing to look at many different types of businesses or industries. Their goals may include growing cash flow through revenue enhancement, expense reductions, or creating economies of scale by acquiring other similar companies. Their exit plans may include an IPO (initial public offering), where the business is "taken public" (hopefully at a higher multiple of earnings than paid at acquisition), or selling the company at a future date.

Financial buyers will carefully scrutinize the financial statements of the company. Most are looking for a well-managed company with a history of consistent earnings, and preferably, earnings growth. The transactions of financial buyers are often leveraged. It is common to see financial buyers use as much as 80% or more debt to finance an acquisition. By using high leverage, the financial buyer is effectively partnering with someone who is willing to accept a level of return (a lending rate, perhaps augmented by "kickers" to augment returns) that is generally lower than that required by financial buyers.

In layman's terms, financial buyers are buying exactly what the company has to offer. They are buying the expected future earnings of the company as they are perceived to exist at the time of the acquisition. While financial buyers may see the potential for expanding cash flow beyond what the company has achieved on its own, they are generally not willing to pay for that potential. They are much more likely to keep the current personnel in place than strategic buyers. However, if their intent is to grow the business and eventually sell to a strategic buyer, the retention of personnel may be temporary.

STRATEGIC BUYERS

Strategic buyers are interested in a company's fit into their own long-term business plans. Their interest in acquiring a company may include vertical expansion (toward the customer or supplier), horizontal expansion (into new geographic markets or product lines), eliminating competition, or enhancing some of its own key weaknesses (technology, marketing, distribution, research and development, etc.).

Strategic buyers are often willing and able to pay more for a company than financial buyers. There are two main reasons for this. First, strategic buyers may be able to realize synergistic benefits almost immediately due to economies of scale that may exist through the combined purchasing power of the new entity and the elimination of duplicate functions. The better the fit (i.e., the more realizable the synergies are), the more they will want the business and the greater the premium they will pay. Second, strategic buyers are generally larger companies with better access to capital. They often have another currency available to them in the form of stock. Strategic buyers often offer stock, cash, or a combination of the two in payment of the purchase price.

In short, the strategic buyer is buying the company in light of how it will enhance their existing operations. They are often willing to pay for readily realizable synergies, and many times will pay for speculative synergies, particularly if the target company is being marketed to other competitors (through some type of "auction"). Strategic buyers are much less likely to retain all of the current personnel.

WHICH IS RIGHT?

Believe it, or not, the answer to the question "which is right?" is not always as cut and dry as it might seem. Whether a strategic buyer or a financial buyer is right for a specific company depends largely on the seller's goals in selling the business. Listed below are different scenarios discussing the seller's goal and the type of buyer most appropriate.

The Seller Wants the Highest Price Possible

If the only goal in the sale is achieving the highest price possible, regardless of what happens to the plant or employees, the open auction process is the best way to drive the price upward. And obviously, with highest price being the only goal, the strategic buyers will most likely be the best fit. That is not to say that financial buyers should not be considered in the process.

The Seller Wants a High Price, but Has Other Concerns

If the seller's goal is a high price (not to be confused with "highest" price), but the seller wants to protect employees, a strategic buyer is still probably the most appropriate. However, the seller needs to realize that there will need to be concessions made from the highest price in order for the acquisition to work for the buyer.

The Seller Wants to Cash Out, But Would Like to Remain for a Few Years

In this situation, a financial buyer is probably most appropriate. The owner/manager is often times the most readily realizable synergy for a financial buyer. Strategic buyers generally have the expertise necessary to operate the business, and can eliminate the money that is being paid to top-level management. While a financial buyer may have the means to purchase a company, they do not necessarily have the expertise to run the business. As such, financial buyers will usually welcome management to stay and manage the business, and often they will require it as a component of the deal. More and more deals are being structured where part of the consideration paid is tied to an "earn-out" where the seller will receive additional money if certain, predetermined goals are achieved in the first few years following the sale.

This brief discussion is in no way intended to try to address all of the circumstances that may need to be considered in the prospective sale of a business. Since 1982, Mercer Capital has offered M&A advisory services to a diverse range of public and private companies, leveraging extensive valuation and investment banking experience to guide clients through complex transactions. While our team provides objective advice, we also advocate for our clients while navigating the competitive marketplace of private equity groups, family offices, and strategic buyers. We facilitate informed decision-making with a tailored, multi-phased approach to planning and executing transactions. For confidential consultation on your transaction-related needs, contact us today.

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Mercer Capital's Recent Transactions

First Missouri Bancshares, Inc.

VERIMORE BANK

Brookfield, Missouri

has agreed to acquire

CCSB Financial Corp.

Clay County Savings Bank

Liberty, Missouri

Mercer Capital served as financial advisor to First Missouri and rendered a fairness opinion

– **January 2025** –

innovations FINANCIAL CREDIT UNION

Panama City, FL

has acquired

FIRST NATIONAL BANK NORTHWEST FLORIDA

Panama City, FL

Mercer Capital provided valuation and advisory services to Innovations

– **August 2024** –

ASPIRANT

Louisville, KY

has partnered with

point·c

Chicago, IL

Mercer Capital served as financial advisor to Aspirant

– **May 2024** –

U.S. Based Manufacturer of Flow Control and Process Equipment

Mercer Capital rendered a solvency opinion for the manufacturer related to payment of a $200 million dividend following the sale of a business unit

– **June 2024** –

Specialty Construction Materials Dealer / Distributor

Mercer Capital served as financial advisor to the seller in connection with an $81 million transaction

– **May 2024** –

The Neverleak Company LP ROOF FLASHINGS SINCE 1943

Olive Branch, MS

sold the majority of its assets to

NPG NORTH PARK GROUP

Chicago, IL

Mercer Capital served as financial advisor to The Neverleak Company LP

– **April 2024** –

Levo Credit Union

Sioux Falls, SD

has announced its intent to acquire a bank branch in Sioux City, Iowa from

HERITAGE BANK N.A. Employee Owned

Spicer, MN

Mercer Capital served as financial advisor to Levo

– **April 2024** –

HOSE of South Texas, Inc. www.hose-etc.com

Corpus Christi, Texas

has formed a partnership with

TIPCO TECHNOLOGIES Focused Flexible Solutions

Owings Mills, Maryland

Mercer Capital served as financial advisor to Hose of South Texas

– **April 2024** –

Mercer Capital provides investment banking, transaction advisory, and restructuring services to a broad range of public and private companies and financial institutions. **>> View All Transactions <<**

Other Resources

WHITEPAPER

Quality of Earnings

What Buyers and Sellers Need to Know About Quality of Earnings Reports

For buyers and sellers, the stakes in a transaction are high. You only get one chance to do it right. Commissioning a quality of earnings report is an essential step in getting the transaction right.

In this whitepaper, we illustrate how buyers and sellers benefit from a quality of earnings report that extracts a company's sustainable earning power from the thicket of historical GAAP earnings. We review the most common earnings adjustments applied in QofE analyses and review the role of working capital and capital expenditures as the links between EBITDA and cash flow available to buyers.

DOWNLOAD PDF

WHITEPAPER

Selling Your Business

Practical Steps Business Owners Can Take to Ready Their Businesses for the Best Transaction Outcome

Selling your business is a daunting exercise that requires careful preparation and real-time vigilance. In this whitepaper, we define some practical steps business owners can take to ready their businesses for the best transaction outcome. These steps include identifying the right kind of buyer and transaction design, setting expectations for the timeline to consummate a transaction, hiring an advisor, understanding the various advisory fee structures that best suit each transaction scenario, as well as a few considerations every owner should contemplate before bringing their business to market.

DOWNLOAD PDF

WHITEPAPER

Buy-Side Considerations

Middle Market Companies Looking to Enter the Acquisition Market

Many observers predict that the market is rife for an unprecedented period of M&A activity, as the aging of the current generation of senior leadership and ownership pushes many middle market companies to seek an outright sale or some other form of liquidity. Obviously, not all companies are in this position. For those positioned for continued ownership, an acquisition strategy could be a key component of long-term growth.

In this whitepaper, we cover buy-side topics from the perspective of middle market companies looking to enter the acquisition market.

DOWNLOAD PDF

Transaction Advisory Services

In addition to our corporate valuation services, Mercer Capital provides investment banking and transaction advisory services to a broad range of public and private companies and financial institutions.

Mercer Capital has been successfully executing mergers & acquisitions for a broad spectrum of middle-market companies since the mid-1980s.

We specialize in providing merger & acquisition services to sellers or buyers of private businesses or public companies divesting divisions and subsidiaries. In addition, Mercer Capital assists clients in industry consolidations, roll-ups, and refinancings.

Mercer Capital leverages its historical valuation and investment banking experience to help clients navigate a critical transaction, providing timely, accurate and reliable results. We have significant experience advising boards of directors, management, trustees, and other fiduciaries of middle market public and private companies in a wide range of industries. Our independent advice withstands scrutiny from shareholders, bondholders, the SEC, IRS, and other interested parties to a transaction, and we are well-versed in the new industry standards.

The professionals of Mercer Capital guide you through the uncharted waters of selling your business, acquiring another business or division, mergers, valuations, fairness opinions, and other transaction advisory needs. Rely on the experience, independence, and transaction know-how of Mercer Capital.

Transaction Advisory Services

- M&A Representation
- ESOP Installation, Termination, and Transactions
- Squeeze-Out Transactions
- Fairness and Solvency Opinions
- Minority Shareholder Stock Repurchases
- Corporate or Partnership Recapitalizations

Advantages We Offer

- Maximize Net Proceeds
- Negotiate the Best Possible Terms
- Speed Up the Deal Process
- Ensure Transaction Closure
- Help Ensure Confidentiality
- Minimize Burden on the Ownership


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