M&A INDUSTRY UPDATE

MIDDLE MARKET PRIVATE EQUITY

Q4 2024

GREENWICH CAPITAL GROUP

Industry Trends

GCG has identified key trends shaping the middle-market private equity landscape in Q4 2024. With borrowing costs set to decline further, market participants are preparing for a resurgence in M&A activity in 2025, though economic uncertainties and shifting buyer priorities persist. Prolonged holding periods reflect the cautious pace of exits, creating a need for innovative strategies to unlock liquidity. The deal-making landscape is increasingly complex as Limited Partners (LPs) are further scrutinizing fund performance, given macroeconomic and policy unknowns, which is driving General Partners (GPs) to focus on assets with clear growth potential. The resultant bid-ask spread between buyers and sellers is driving longer negotiations and greater reliance on flexible deal structures. As some headwinds subside, ample dry powder and favorable monetary policy point to renewed momentum ahead.

1

Rate Cuts to Fuel M&A Momentum in 2025

Anticipated rate cuts are expected to lower borrowing costs, making it easier to finance transactions and boosting deal activity. Improved credit availability and economic stability may drive higher valuations and increased investor confidence.

2

Prolonged Hold Periods and Portfolio Turnover

Prolonged holding periods are pressuring private equity firms to find creative exit strategies, such as secondary transactions or partial exits, to manage portfolio rotation and meet return expectations.

3

Volatile Deal Market

A wide variety of factors have created a challenging deal environment. Sponsors are prioritizing assets with clear growth potential while delaying decisions on riskier opportunities.

4

Economic and Policy Uncertainty

Potential tax and tariff changes, coupled with inflationary pressures, are causing hesitation in the market. Buyers and sellers are taking a cautious approach, extending timelines for decision-making and deal execution.

5

Imbalance on Multiple Expectations

Valuation gaps and differing priorities on deal structures and synergies are prolonging negotiations. Creative solutions like earn-outs and flexible terms are increasingly needed to bridge these divides.

6

Limited Partner Hesitancy and Concern

Macroeconomic uncertainty and delayed distributions have made LPs more cautious in committing capital, creating challenges for General Partners (GPs) in fundraising and potentially leading to smaller fund sizes.

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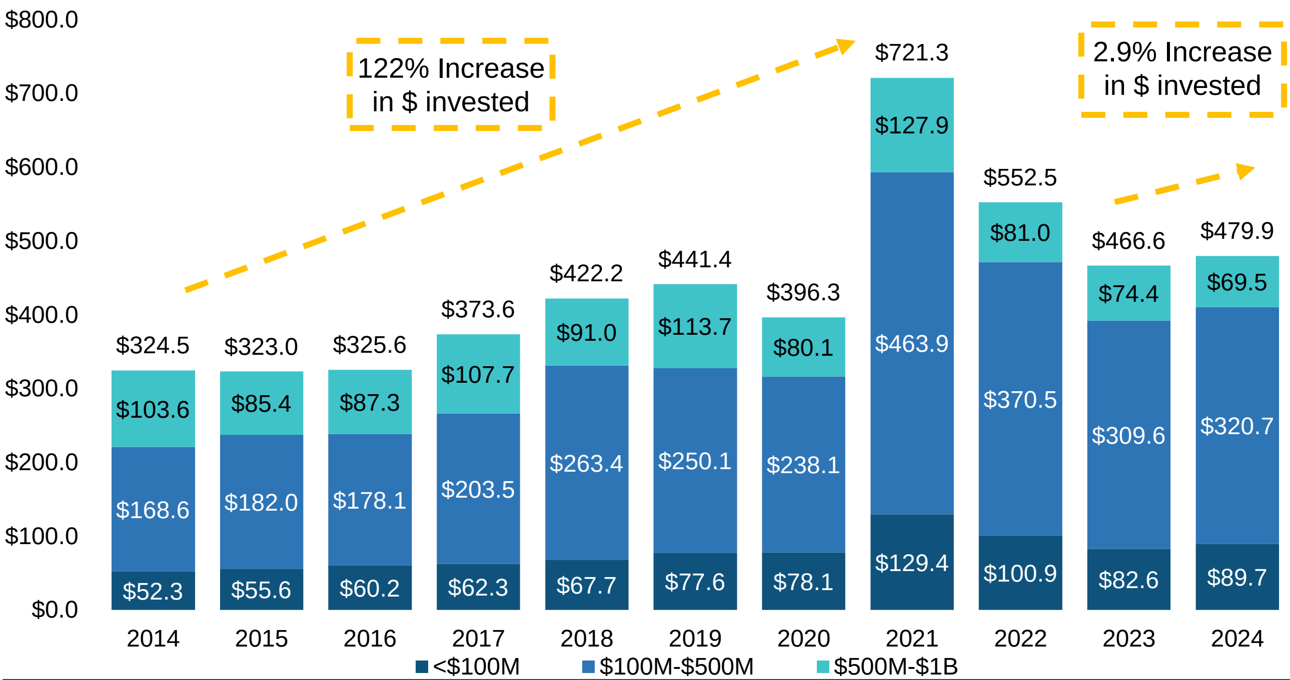
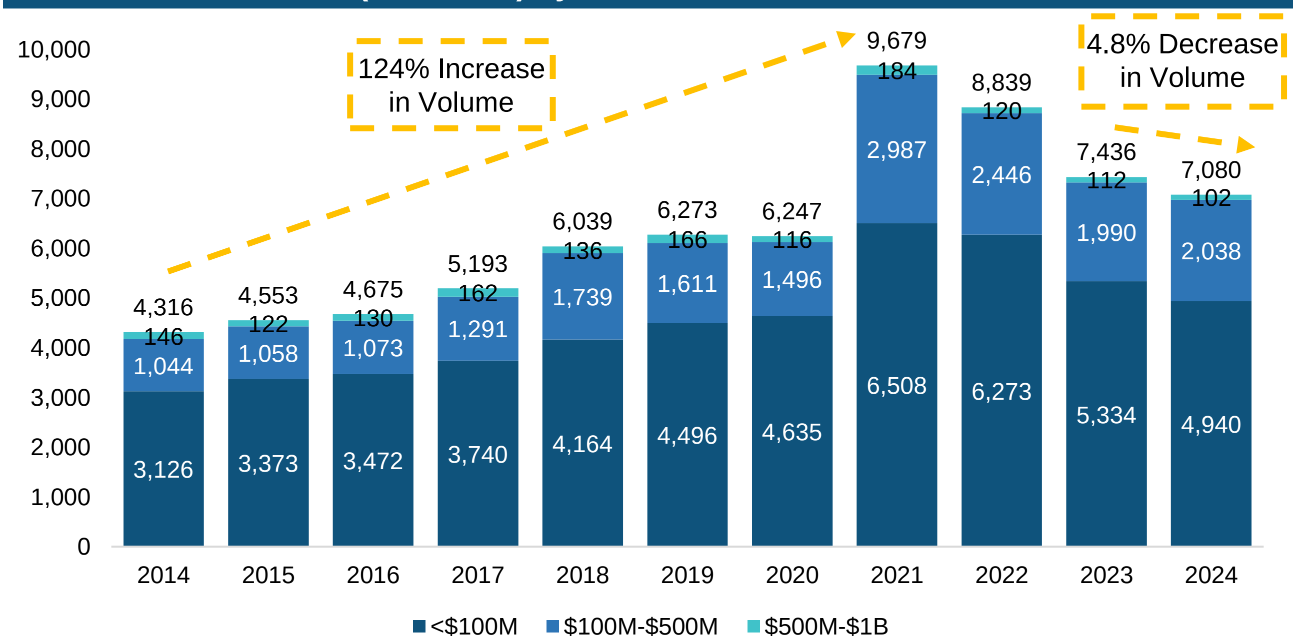
Middle Market Private Equity Deal Activity

US middle market private equity deal value increased modestly in 2024, reaching $410.4 billion, up 4.6% from $392.2 billion in 2023. This rise follows a challenging 2023 and suggests some recovery in deal-making activity. However, it remains significantly below the record $593.4 billion in 2021, indicating that the market is still navigating macroeconomic headwinds.

US MM PE Deal Activity ($Billions) by Deal Size



US MM PE Deal Flow (# of deals) by Deal Size



Source: Pitchbook

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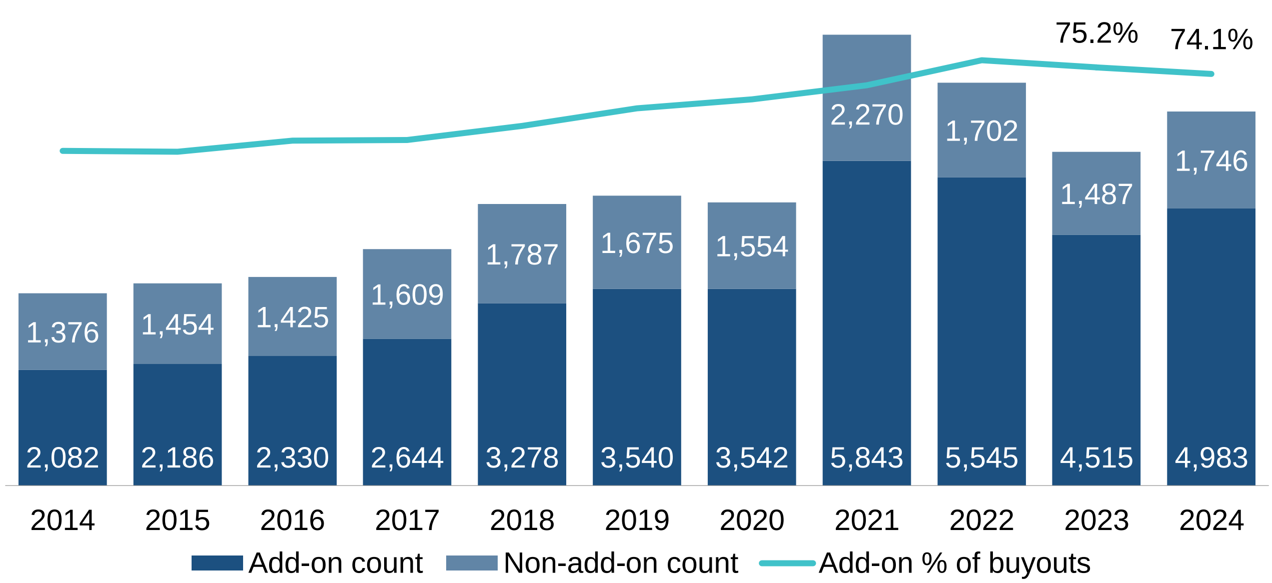
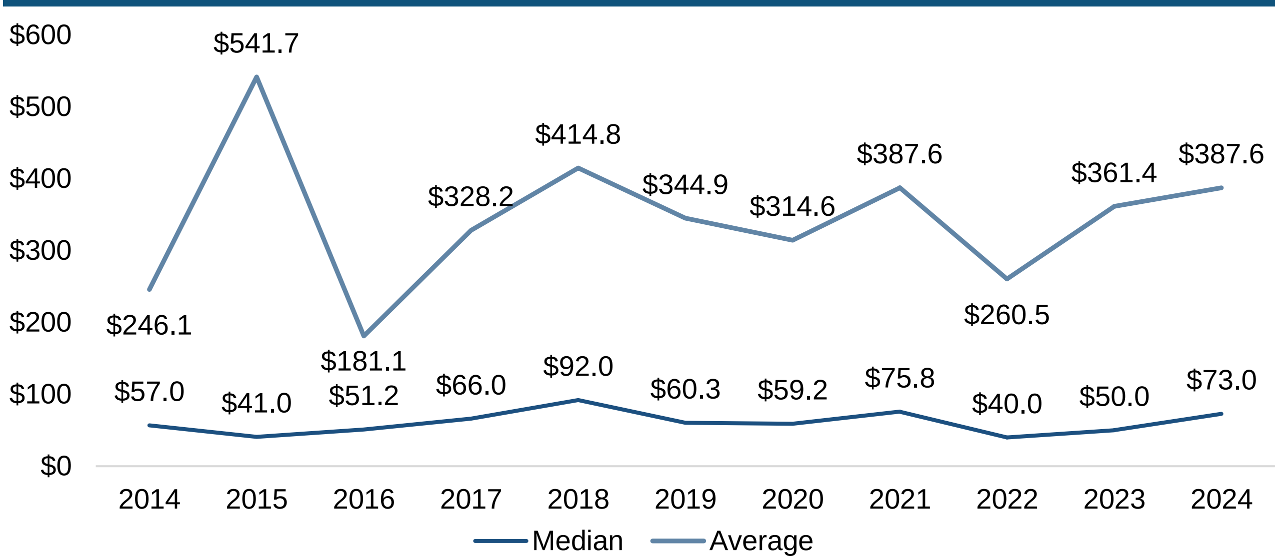
Private Equity Add-on Activity

Add-on acquisitions continue to play a bigger role in the PE playbook. Add-on acquisitions make up approximately 74% of all PE deal making. This continues a trend that started post-Covid. Prior to Covid, the percentage of add-on acquisition vs overall PE deals was much lower. Add-on acquisitions are typically smaller than platform investments. It is why add-ons account for 74.1% of US PE buyouts today, yet they only drive 53.5% of all deal value in the middle market.

Add-ons as a Share of all US Buyouts



Median and Average US Add-on Deal Value



Source: Pitchbook

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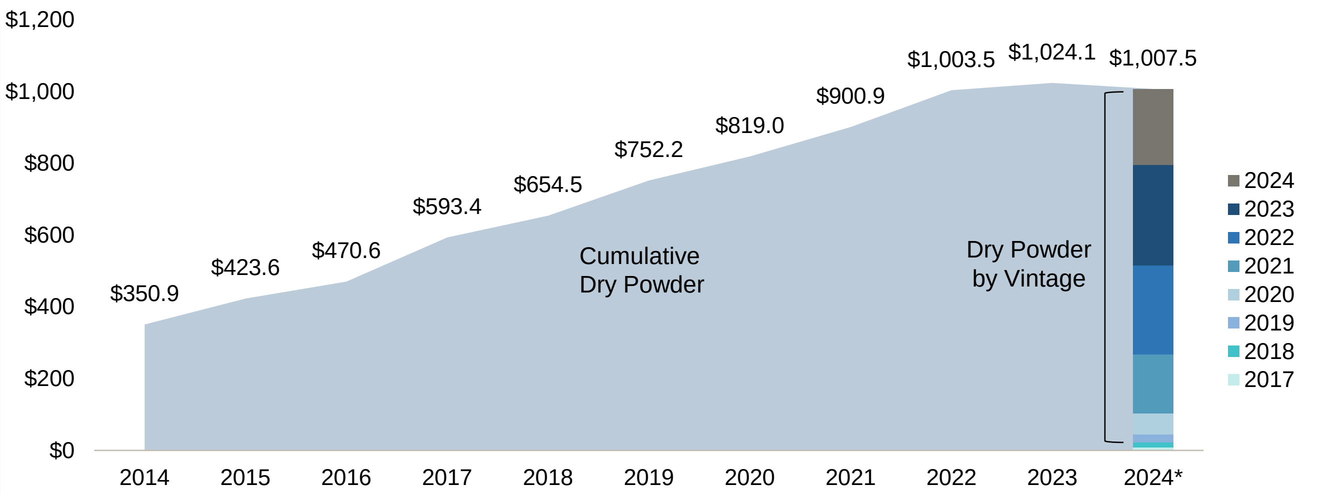
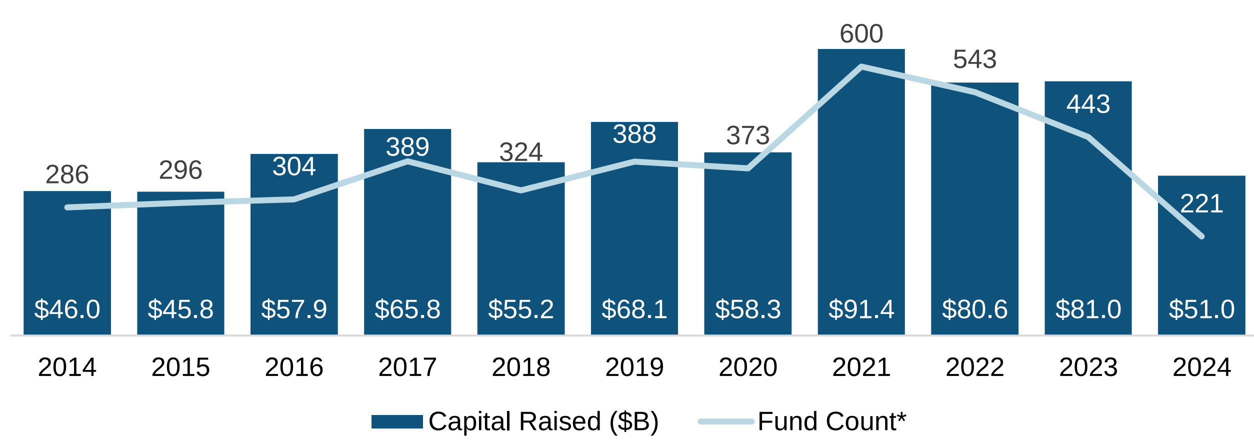
Private Equity Dry Powder

Dry powder trends tell an interesting story as we close out 2024. Dry powder is down slightly, yet deal volume was down 15% in the middle market in 2024. The last significant decline in middle market buyout dry powder was in 2021, a record year for deal-making, so one wonders if history might repeat itself. While no one is calling for a record-breaking 2025 just yet, the current decline reflects two key drivers: 1) Deal-making recovery: Deployment activity has gained momentum, with a 4.6% year over year increase in deal value (as shown on slide 3). As pipelines fill and execution improves, the market appears to be recovering to a new baseline—though not without caution. 2) Fundraising remains a lagging indicator: Fundraising markets continue to tighten, reflecting broader macroeconomic uncertainties. This dynamic is visible in the second chart below and underscores the balancing act between capital deployment and capital raising. Looking ahead to 2025, all eyes will be on whether we see more of the same: steady deal-making and constrained fundraising. If dry powder continues to decline, it could be a healthy sign of normalization—capital being deployed at a reasonable clip while avoiding excessive capital stockpiling or it could reflect LP's pullback from the PE sector.

US Private Equity Dry Powder



Middle Market Fundraising Activity

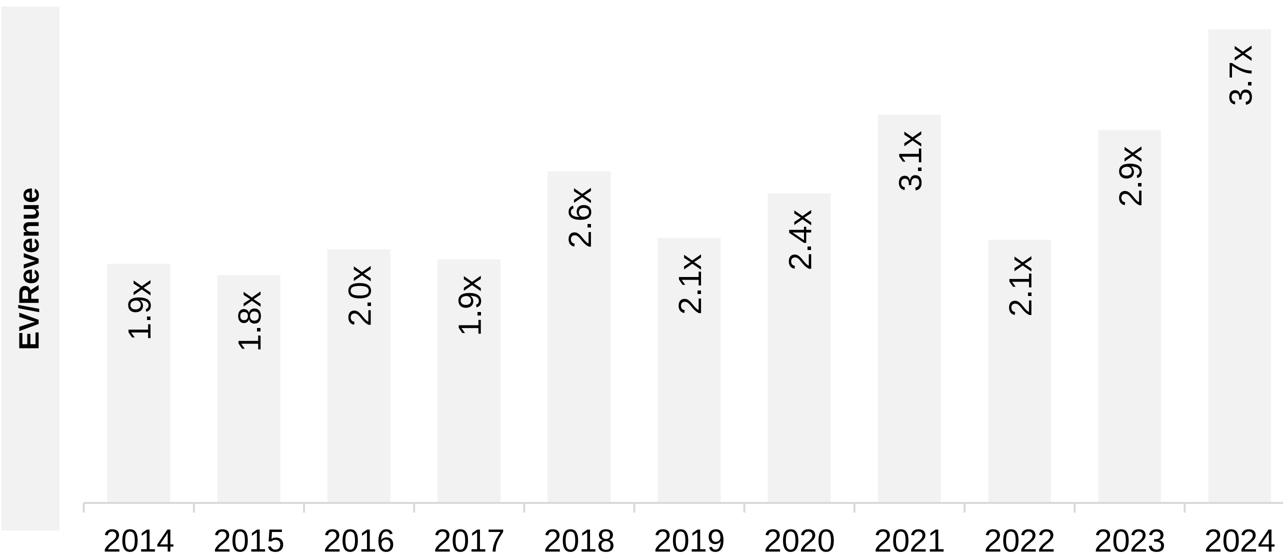


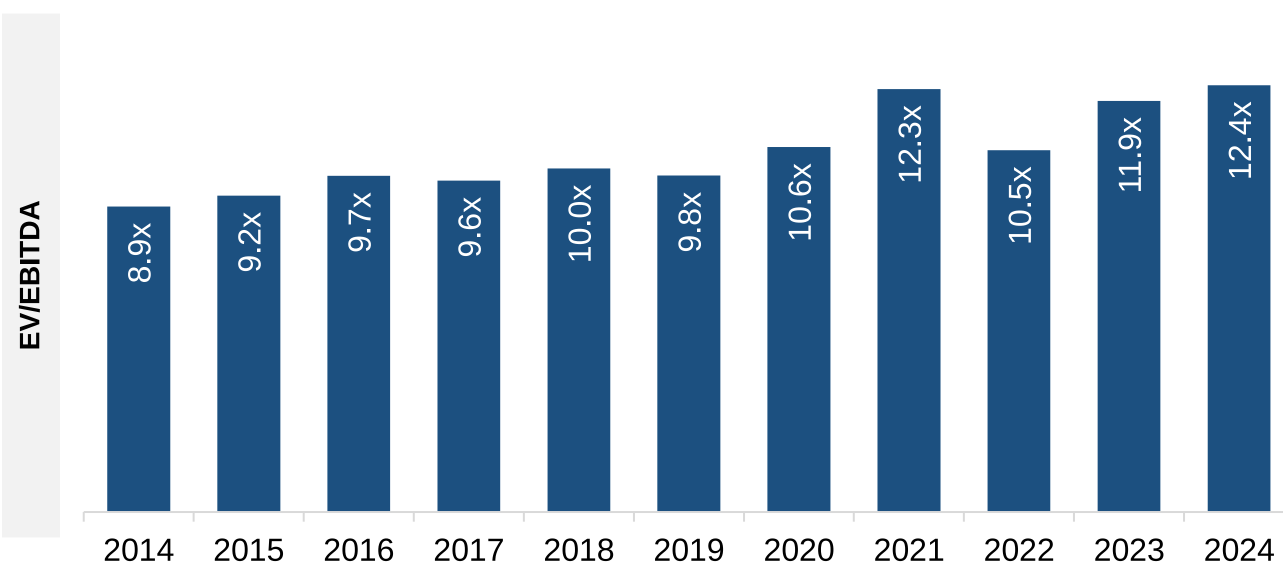
Source: Pitchbook

**Funds raising up to $1B included in Middle Market Fund Count*

MM Median PE Buyout Multiples

Private equity investors in the middle market are demonstrating a clear flight to quality, driving buyout multiples higher. EV/Revenue is projected to reach 3.7x in 2024, while EV/EBITDA is expected to hit 12.4x, maintaining elevated levels despite macroeconomic challenges. This reflects heightened competition for premium assets with strong recurring revenue, scalable models, and defensible market positions. Several factors support this trend. The Federal Reserve's recent rate cuts have eased borrowing costs, improving access to capital and sparking renewed optimism for M&A momentum into 2025. Additionally, private equity firms are well-capitalized with record levels of dry powder, positioning them to move quickly on high-value opportunities. This competitive environment underscores the emphasis on resilience and growth potential, with valuations reflecting the premium investors are willing to pay for market-leading companies. Combined with improved lending conditions and an abundance of capital, the market is poised for sustained activity focused on quality over quantity.





*Source: Pitchbook, DealEdge,*Data is an interim estimate as of August 31, 2024*

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About Greenwich Capital Group

Greenwich Capital Group is a middle-market focused investment bank offering a range of strategic and financial advisory services to privately held businesses, private equity investors and publicly traded companies. Our senior professionals have held leadership positions at large, global platforms, bringing a wealth of experience and industry insight to each of our clients.

- National Investment Banking Platform, with Six Offices throughout the United States
- Global Expertise with a Focus on the Middle-Market
- Senior-Level Investment Bankers who Specializing in:
  - Private Company Transactions
  - Family-Owned Businesses
  - Corporate Divestitures
  - ESOP Transactions
  - Capital Advisory Mandates

Mergers & Acquisitions

- Private Company Sale Transactions
- Corporate Divestitures
- Acquisitions
- Leveraged Recapitalizations
- Joint Ventures
- Distressed M&A

ESOP and Financial Advisory

- ESOP Feasibility Study
- ESOP Advisory
- Complex Financial Modeling
- Business Valuation
- Strategic Options Analysis
- Corporate Development Advisory
- Board Advisory Services

Capital Raising

- Senior Debt
- Junior Debt
- Unitranche Debt
- Minority Equity

Independent & Focused Advice | **Senior Level Attention** | **Industry Experience** | **Entrepreneurial & Collaborative**

World-Class Advisory Services to the Middle Market

Select Transactions

Miller Industries, LLC
has been recapitalized with
Tower Arch Capital

Cameron Tool Corporation
has been acquired by
Tooltech Est. 1985

Great Lakes Potato Chip Co
has been acquired by
LaSalle Capital

AMG Alpha Metalcraft Group
has been acquired by
IGP Industrial Growth Partners

Midwest Glass Fabricators
has been acquired by
Oldcastle BuildingEnvelope

VTS Venshure Test Services
has been acquired by
AB Dynamics

has been acquired by
Security101
a portfolio company of
Gemspring

WoodHarbor Custom Cabinetry
has been acquired by
WF Cabinetry
a portfolio company of
HCI Equity Partners

Axium Foods, Inc
has been acquired by
CK Snack Foods
a portfolio company of
Nexus Capital

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More about Greenwich Capital Group

Greenwich Capital Group LLC ("GCG") is a leading investment bank that advises clients including closely-held and family-owned businesses, private equity firms, and public companies. GCG's senior bankers have collectively advised on hundreds of transactions over many years of experience in mergers and acquisitions, with most having backgrounds with large U.S. and global firms. GCG is focused on advising clients in key industry verticals throughout the U.S.

GCG was founded by entrepreneurially minded investment banking professionals focused on building an organization centered around advising clients. We strive to build relationships by representing our clients' long-term interests and earning their trust. In contrast to the practice of pushing transaction responsibilities to junior resources, our philosophy is to deliver personalized, senior-level attention and experience to every GCG engagement. We are proud to offer references that will speak to a differentiated level of service and results.

For additional perspective or to discuss M&A related opportunities in the middle market, please reach out to GCG's CEO and Managing Director, Bob Coury. For more information, please visit www.greenwichgp.com

Data Sources: We have based our findings on data provided by industry recognized sources. Data and information for this publication was collated from the Pitchbook database. For more information on this or anything else related to our research, please email info@greenwichgp.com.

All transactions were completed by Senior Professionals while at GCG or with other firms prior to joining GCG