

# DEAL insider

## M&A and Strategic Transaction Insights

### Q2 2025 Highlights:

- Middle Market M&A activity down 14% year over year from 2024
- With the exception of tariff-impacted sectors, valuation multiples remain attractive
- M&A borrowing rates still somewhat elevated, but availability of capital from all sources still in a good place



### Pursant's Thoughts on the Near Future

- Following a soft first half, deal volume in the middle market likely to modestly rebound in H2 2025
- The traditional large-cap investors are increasingly turning to middle-market opportunities, drawn by relative insulation from volatility, lower competitive intensity, and healthier valuations
- H2 M&A sentiment will depend heavily on macro clarity (tariffs, interest rates, etc.)

### 2025 Middle Market M&A Activity Remains Slower but Steady

Q2 2025 M&A activity in the U.S. continued to show the same overall slowdown seen in Q1, with deal volume dropping 14% year-over-year, with smaller transactions declining 18%, highlighting a pullback in smaller-scale dealmaking.

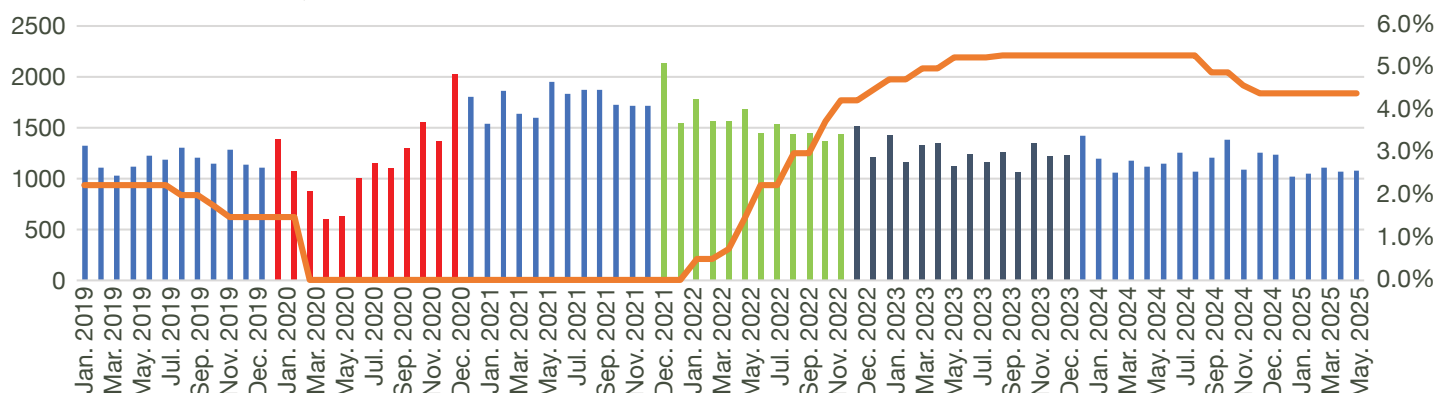
Lower middle-market Buyers gravitated toward low trade-risk sectors such as service businesses, domestic manufacturing, and insurance, areas that promise stability amid policy and tariff volatility. In contrast, sectors like industrials remained particularly active. According to Axial, industrials accounted for over 25% of deal flow on its lower middle-market platform, still a strong engine of activity thanks to its diversity and broad Buyer appeal.

Private Equity Buyers remain wary of sectors exposed to global trade friction and input cost pressures—markets like retail, auto, and pharma are seeing much less traction as financial Buyers hang back.

In a cautious landscape, Buyers are seeking industry resilience (recurring revenue, defensibility, low global exposure) to stand out. Buyers still have capital, and they're targeting the safest, most reliable targets first.

Chart #1

2019-2025 US M&A VOLUME (# OF DEALS) & FED FUNDS RATE



Source: Factset®

*The Pursant Deal Insider is a quarterly publication offering analysis of the marketplace and climate for middle market mergers, acquisitions, and strategic transactions. Our emphasis is on transactions with a total enterprise value of less than \$250M. Our goal is to arm business owners and dealmakers with the insights needed to optimize transaction outcomes.*

## Despite Muted M&A Activity, Valuations Remain Resilient

Chart 2 illustrates that in the first half of 2025, U.S. lower middle-market M&A valuations demonstrated resilience amid a broader YTD decline in deal activity, showing average middle market valuations at 7.2x.

Examining performance across sectors reveals a clear “flight to quality,” with sectors like Healthcare and Business Services commanding healthy pricing at an average of 8.3x and 7.5x respectively, while Technology companies saw their multiples compress sharply amid rising concerns over profitability and long-term return on investment. Manufacturing held steady at 6.5x, while distribution ticked higher at 7x.

Despite a more cautious deal environment, strong businesses with recurring revenue and defensible margins continue to attract respectable valuation levels. Sellers in high-demand sectors, especially healthcare and services, can still command near-premium multiples. Meanwhile, more cyclical or risk-exposed sectors, such as tech, are being priced more conservatively, reflecting Buyer skepticism.

For another perspective, see Chart 3, which shows valuation multiples on an all-industries basis by EBITDA range, rather than by deal size.

Chart #2

### TOTAL ENTERPRISE VALUE (TEV)/EBITDA - **By Deal Size**

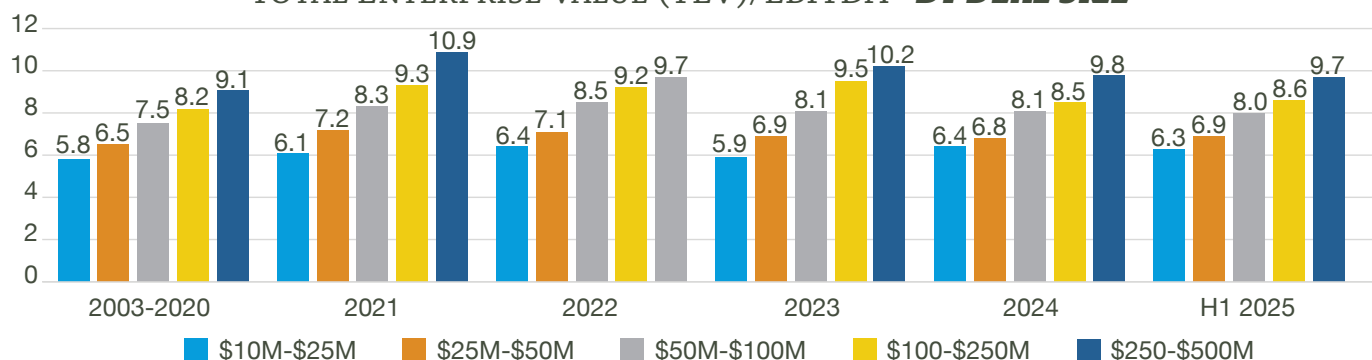
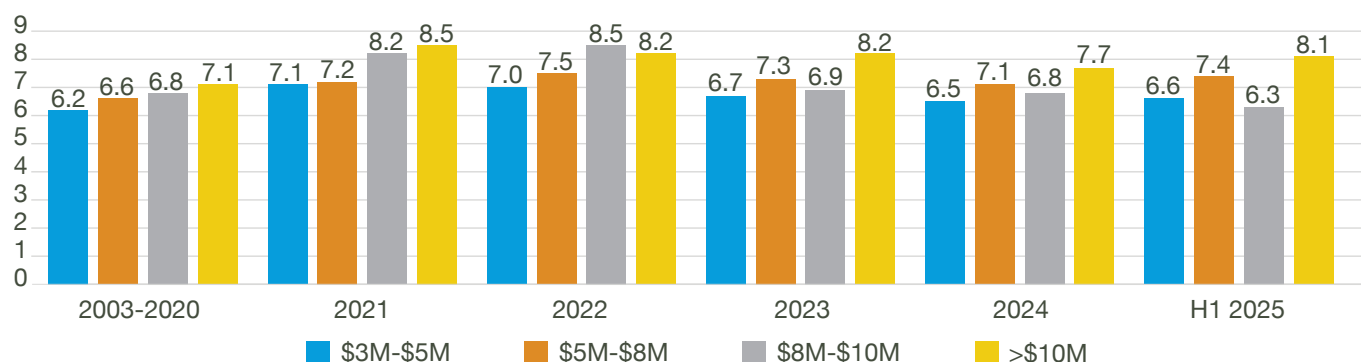


Chart #3

### TOTAL ENTERPRISE VALUE (TEV)/EBITDA - **By EBITDA Range**



Source: GF Data®

**EBITDA Defined**—For most middle-market businesses, valuation is typically expressed in the form of a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization)—a measurement of a company’s ability to generate cash flow. EBITDA figures also serve as a barometer of the company’s health and performance. Multiples of EBITDA vary greatly depending on a company’s risk profile, the markets in which it operates and the likelihood of continued returns.

## M&A Lending Shows Stable Pricing Despite Volume Slowdown

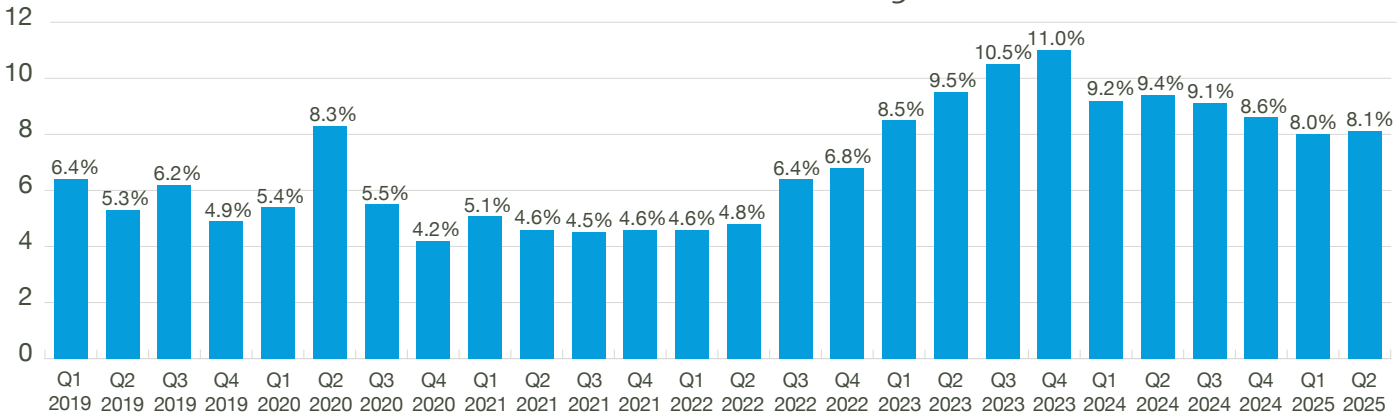
While lower middle-market M&A financing volume dipped notably in Q2 2025 due to macro and policy shifts, borrowers with healthy fundamentals continued to attract capital at favorable terms. Senior Debt financing conditions YTD in 2025 have settled in at ~8%. Average total debt across all deals YTD is at 4x TTM EBITDA, with average senior debt at 3.1x.

Subordinated debt pricing increased from the first quarter, rising to an average of 12.1% in Q2, its highest level since Q4 2024 and on par with peak pricing observed in late 2023. This uptick suggests that mezzanine providers are maintaining discipline on spread despite improvements in senior debt markets. All-in average subordinated debt pricing (including coupon, PIK interest, and warrant/fee components) came in at 15.5% for the first half of 2025, consistent with the full year 2024.

Capital structure composition varied sharply by deal size, with a unique inversion at the lower end. For platform deals within the \$10 million–\$25 million TEV tier, subordinated debt usage (25.7%) exceeded senior debt (23.1%) through the first half of 2025, a rare dynamic that was not observed in other size cohorts. This likely reflects senior lenders' continued aversion to smaller, riskier deals, forcing Financial Buyers to rely more heavily on mezzanine financing to bridge the gap. Conversely, in the \$250 million–\$500 million tier, senior debt comprised nearly half of the capital stack (49.3%), with minimal sub debt use (7.0%). This bifurcation reinforces a theme noted in Q1: Larger platform deals continue to benefit from deeper lender appetite, while smaller transactions face constrained access to traditional senior capital.

Chart #4

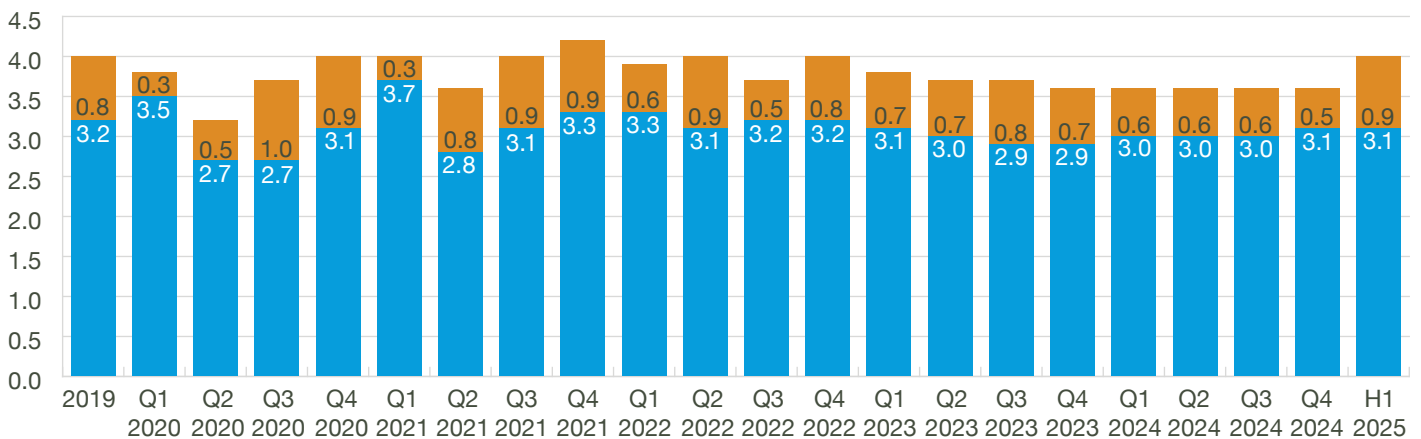
SENIOR DEBT INT. RATE \$10M - \$250M DEALS



Source: GF Data®

Chart #5

TOTAL DEBT/EBITDA - INCLUDING PLATFORM AND ADD-ON DEALS



Source: GF Data®

■ Senior Debt Multiples

■ Sub. Debt Multiples

## The US Macroeconomic Picture for Q2 2025

Pursant watches these macroeconomic indicators because the direction and performance of the greater economy gives us an indication of whether the M&A business transfer cycle is heading toward a more or less favorable phase. The performance of these four macro-indicators keeps us in a neutral to Buyer-favorable phase of the business transfer cycle, benefiting neither the Buyer nor Seller disproportionality in most cases, but in some cases in which a sector is negatively impacted by certain macroeconomic conditions, such as the cost of capital, the Buyer has the edge.

- **The US economy grew an annualized 3% in Q2 2025**—This was a rebound from a 0.5% contraction in Q1, beating expectations of a 2.4% rise. The expansion primarily reflected a 30.3% plunge in imports, following a 37.9% surge in Q1, when businesses and consumers rushed to stockpile goods ahead of expected price increases following a series of tariff announcements. Also, consumer spending rose at a faster pace (1.4% vs. 0.5% in Q1), led by goods (2.2% vs 0.1%), though it marked the tamest growth in consecutive quarters since the Covid-19 pandemic. \*
- **U.S. Inflation accelerated in Q2 2025, finishing the quarter at 2.7%**—This was the highest level since February, up from 2.4% in May. Prices rose more for food, transportation services and used cars and trucks. Energy costs and gas and fuel decreased while the price for natural gas remained elevated. Meanwhile, inflation fell slightly for shelter and new vehicles. Annual core inflation finished Q2 up 2.9%, but below forecasts of 3%. \*
- **Business Confidence ended Q2 2025 in a state of contraction, but the rate of contraction is slowing**—The ISM Manufacturing PMI edged up to 49 in June 2025 from 48.5 in May, compared to forecasts of 48.8, signaling economic activity in the manufacturing sector contracted for the fourth consecutive month. However, the rate of contraction slowed amid a rebound in production and improvements in inventories. On the other hand, new orders, employment, and backlog of orders contracted at a faster pace. Additionally, inflationary pressures increased slightly and tariff-induced price growth accelerated. Meanwhile, the Supplier Deliveries Index indicated slower deliveries but improved performance, indicating that the delays in clearing goods through ports of entry are largely complete. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. \*
- **The FOMC left the federal funds rate unchanged at 4.25%–4.50% for a fourth consecutive meeting in June 2025**— Federal Reserve Chairman Powell noted that there is no rush to lower interest rates, according to prepared remarks for his appearance before Congress. The rhetoric was consistent with previous remarks by the Chairman, as multiple FOMC members stated that it is more prudent to await a better understanding of the level of tariffs to be passed by the US government and their impact on the economy before altering key interest rates. \*

*\*Trading Economics®*

## Grab It by the Tail: Why Tail Insurance Matters in M&A

Tail insurance is one of those critical deal tools that too often gets ignored until the very end of a transaction. Yet it's a best practice that protects both Buyers and Sellers from unexpected liabilities that can surface months or even years after closing.

### What Is Tail Insurance?

Most insurance policies cover claims only while they're active. Once a policy is terminated, as often happens in a sale, claims for past incidents are no longer covered. A **tail policy** extends coverage, allowing claims to be made for events that occurred before closing but are reported afterward.

Tail policies (formally known as extended reporting period endorsements) apply to "claims-made" coverage like D&O, EPLI, E&O, and crime policies. By contrast, "occurrence" policies (general liability, auto, workers' comp) already cover claims tied to the policy period, regardless of when the claim is filed.

## Why It Matters to Sellers and Buyers

- **For Sellers:** Closing doesn't always close the book on liabilities. Former employees, customers, or shareholders could still bring claims related to pre-sale events. A tail policy shifts that burden to the insurer.
- **For Buyers:** A tail policy ensures those pre-closing liabilities don't become the Buyer's problem, reducing risk of post-closing surprises.
- **For Both Parties:** According to AIG, one of the largest tail policy carriers, even when companies invest in Rep. and Warranty (R&W) insurance, **one in five policies incurs a claim**, highlighting tail risk even in well-structured deals.

## Terms and Costs

Tails typically run **three to six years** with the term driven by risk factors determined during due diligence,

often aligning with statutes of limitation. According to AIG, at least 9% of claims are made two to three years post-policy, and 3% are filed after three years, highlighting why multi-year tail coverage is prudent. Premiums typically cost **1.5–3x the expiring annual premium of the underlying policy**, paid once at closing. Because both sides benefit, the expense is often split; however, statistically, when working Private Equity Buyers, there are more occurrences of the Seller paying 100% of the premium.

## The Bottom Line

Tail insurance isn't flashy, but it's one of the cleanest ways to achieve post-closing peace of mind. In M&A, where even small liabilities can become major distractions, a well-structured tail policy is often **money well spent**.





## The Case for Fractional CFOs for Transactional Support

Whether needing to fund an acquisition or inventory, access to capital is the lifeblood of all growing companies. While the seemingly endless variations in the types, structures, and features of the capital products available today would suggest the right product is out there for your specific needs, your finance team may not be familiar with some of the available products or may not have a clear sense of how to best position your company to be successful in its efforts to secure financing.

In today's rapidly evolving financial landscape, access to capital is no longer just about having a compelling idea; it's about precision, credibility, and execution. For startups and growth-stage companies, having strong financial leadership has become a competitive advantage. Enter the **fractional CFO**—a flexible, cost-effective alternative to full-time executive finance leadership, and one that is quickly becoming indispensable.

### What Is a Fractional CFO?

A fractional CFO is a senior finance professional who works with a company on a part-time, contract, or project basis. They bring the experience and strategic insights of a CFO without the long-term cost commitment. For early-stage companies or those in transition, this model provides access to high-level financial expertise when it's most needed—without bloating the payroll.

Fractional CFOs can handle critical responsibilities, such as financial forecasting, scenario planning, budgeting, investor relations, and capital strategy. But their value is even more pronounced in capital-raising environments.

### Why Private Companies Are Embracing the Model

With venture funding tightening over the past several years and interest rates remaining elevated, companies are under increasing pressure to be capital efficient. Investors, meanwhile, are demanding more financial rigor, transparency, and strategic thinking. That's where fractional CFOs are making their mark. They help founders build or refine investor pitch decks, validate key metrics, structure financial models, and create investor-ready data rooms. More importantly, they lend credibility during fundraising conversations—a critical edge when competing for capital.

Private capital markets—whether venture funding, private equity, or private debt funding—are complex. Choosing between equity, debt, or hybrid instruments requires not just financial know-how but also experience in market dynamics and negotiation. Fractional CFOs provide that perspective. From helping companies navigate venture debt to optimizing their capital stack, they act as strategic partners to founders, boards, and investors alike.

### Trends Driving the Demand for Fractional CFOs

Several macro trends are fueling the rise of fractional CFOs:

- **A shift toward leaner, outsourced operating models** in early and growth-stage companies.
- **Investor demands for better financial oversight**, even in pre-revenue startups.
- **Increased use of complex capital instruments**, such as revenue-based financing and convertible notes.

Together, these trends point to a new reality: companies can no longer afford to treat finance as a back-office function. It's now a front-line strategic asset.

### Looking Ahead

As private markets continue to evolve, the demand for agile, experienced financial leadership will only increase. For many companies, especially in the early and growth stages, the fractional CFO is becoming not just a stopgap, but a long-term strategy. They can be a higher-level resource than the business may be able to afford on a permanent basis and bring specific experience and knowledge currently lacking but needed in your organization. As execution matters more than ever, fractional CFOs are helping companies show up stronger, smarter, and more prepared. And in today's market, that can make all the difference.

## Q2 2025 Newsletter Sector Focus: Food & Beverage

### Shifting Gears: Health & Wellness Power M&A in Food & Beverage

The first half of 2025 has been marked by a remarkable wave of mega-deals in the food & beverage industry, but what's driving them isn't legacy soda or snack brands. It's **middle-market, wellness-oriented companies** that are rewriting the playbook. These brands are proving that growth today isn't about indulgence; it's about long-term health, functionality, and consumer trust.

The headline transactions tell the story: PepsiCo's **\$1.95 billion purchase of Poppi (that's an eye-popping 11-16x 2024 revenue)**, the prebiotic soda that started as a small local brand, shows that gut health and functional beverages are no longer niche, they are central to corporate growth strategies. Similarly, **Celsius Holdings' \$1.8 billion acquisition of Alani Nutrition (at ~3x 2024 revenue)** reflects how performance-driven, zero-sugar, vitamin-infused products are reshaping the beverage landscape. Outside of drinks, **Flowers Foods' \$795 million acquisition of Simple Mills and Global Eggs' \$1.1 billion purchase of Hillandale Farms** reinforce the same trend: clean labels, sustainable sourcing, and wellness at the core are now must-haves for growth.

#### What This Means for Middle-Market Businesses

For owners of middle-market food & beverage companies, this trend brings both **opportunity and urgency**. Buyers, from strategic investors to private equity firms, are actively seeking authentic brands that resonate with health-conscious consumers. Distributors and retailers are prioritizing wellness-aligned products that can command shelf space and build loyalty with younger demographics.

The message is clear: even if you're not planning to sell tomorrow, aligning your business with wellness expectations today creates optionality. A cleaner product line, transparent supply chain, or functional innovation not only makes you more competitive in the marketplace, but it also positions you as a more attractive acquisition candidate down the road.

#### Small Brands, Big Impact

These deals prove something critical for middle-market founders: **you don't have to be the biggest to win — you have to be the most relevant**. The companies drawing billion-dollar bids didn't start as industry giants. They grew by authentically owning a niche, building trust with health-driven consumers, and scaling smart. That's an advantage middle-market businesses can lean into and do it faster than slow-moving incumbents.

#### The Takeaway for Middle-Market Executives

If your brand doesn't have a wellness angle yet, now is the time to invest in one. Clean ingredients, sustainable sourcing, and functionality-driven products are no longer "nice to have," they are the attributes driving M&A valuations. For middle-market business owners, embracing this shift not only boosts growth and customer loyalty, it could set the stage to become the **next headline acquisition** in the food & beverage industry.

*Buyers, from strategic investors to private equity firms, are actively seeking authentic brands that resonate with health-conscious consumers.*



## Pursant's Expectations for the Near Future

### Looking Ahead: Middle-Market M&A Through the Back Half of 2025

As we head into the remainder of 2025, the middle-market M&A landscape is navigating a complex intersection of optimism and caution. The rebound that began in Q1, with deal volume up roughly 6.9% versus 2024, slowed sharply in Q2 amid tariff uncertainty and tighter financing, but the fundamentals remain noteworthy. While deal timelines have stretched with elongated due diligence and concerns around trade and inflation, strategic interest remains alive. Many mid-market Sellers, particularly aging baby boomers, continue to plan exits, supplying the deal pipeline with quality opportunities. The motivation of baby boomers and now Gen X is not halted by market pauses—rather, it's accelerating. As private companies are built and held for decades, Sellers are increasingly open to structured deals, earn-outs, and alternative financing to bridge valuation gaps.

Buyer and Seller sentiment is expected to continue improving, driven by expectations of soft policy shifts and rate stabilization. The Federal Reserve's projections suggest rates trimming toward 3.9% in 2025, down from 4.4%, which could pull prime rates below 7% by year-end. That translates to tangible savings; for example, reducing acquisition borrowing from 8% to 7% can save approximately \$ 10,000 annually per \$1 million financed.

Middle-market private equity should remain a cornerstone of deal activity. Financial Buyers are armed with record levels of dry powder at ~\$1 trillion globally, though many firms are also adjusting strategies amid exit challenges. Delays in deal flow and exits have prompted sponsors to deploy continuation vehicles (see Pursant's article on this [Pursant DEAL Insider Q2 2024](#)).

Until resolved, tariff announcements and policy uncertainty will continue to inhibit deal certainty. According to PwC, roughly 30% of potential transactions were paused or re-evaluated due to increased trade tensions. But behind the clouds, there lies underlying strength. High-quality assets remain scarce, and both strategic and financial acquirers still believe in the long-term value of these opportunities.

### Final Take: A Year of Two Halves—But Fundamentals Await

Yes, the middle-market M&A environment remains uneven. But the stages are set for a rebound. With lower interest rates, pressured exits, strategic Buyer interest, and ongoing generational transitions, the second half of 2025 may prove to be a surprise. Firms that prepare with clean financials, deal-ready processes, and flexible structuring will be best positioned to capitalize on opportunities. In the end, volatility doesn't block dealmaking—it rewards those who are ready.

Pursant is a middle market advisory firm specializing in M&A, private capital market financing, transaction advisory, financial leadership support and business value enhancement consulting. Our powerful, integrative, and customized suite of services deliver the insight and guidance parties seek to:

- **Confidently navigate strategic transactions and complex financial matters**
- **Enhance enterprise value**
- **Optimize leadership performance**

We use a deep immersion process, our expansive networks and experience as owner/operators, dealmakers and financial professionals to achieve optimal outcomes throughout the lifecycle of a company.

To learn more about how Pursant can help you, email [info@pursant.com](mailto:info@pursant.com) or visit [www.Pursant.com](http://www.Pursant.com).

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