

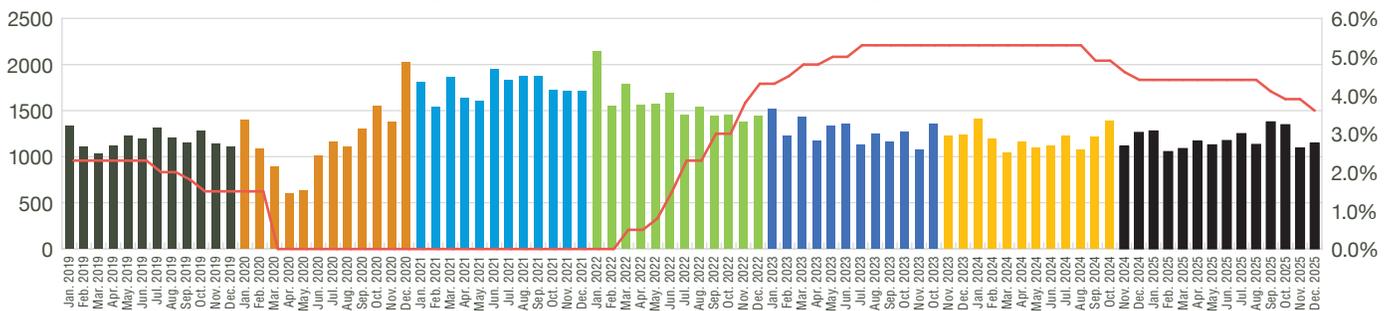


Year-End 2025 Deal Insider

Welcome to our year-end issue of the Pursant Deal Insider where we focus on key strategic transaction metrics, largely related to lower middle market mergers and acquisitions (M&A), transactions with enterprise value of \$10M to \$500M.

In 2025, the middle market M&A landscape showed signs of renewed momentum following the cautious conditions of the prior two years. While interest rates remained elevated relative to the ultra-low environment of the late 2020-2021, greater clarity around the Federal Reserve’s policy direction helped stabilize financing markets and improve buyer confidence. That said, valuation expectations between buyers and sellers continued to require careful alignment, and many processes took longer to complete as buyers remain disciplined in underwriting growth and profitability. Counterbalancing these dynamics was a resilient U.S. economy, strong corporate balance sheets, and private equity firms still holding significant levels of undeployed capital. As a result, transaction activity gradually strengthened in many sectors, with valuations generally stabilizing and, in certain industries, beginning to recover from the softness seen in 2023 and 2024.

US M&A VOLUME & FED FUNDS RATE



Source: Factset[®]

DEC. 2025 LTM MIDDLE MARKET M&A VOLUME (# OF DEALS) VS. DEC. 2024

- Deals \$250M-\$500M **+0.4 %**
- Deals \$50M-\$100M **+6.3%**
- Deals \$10M-\$25M **-3.7%**
- Deals \$100M-\$250M **+13.8 %**
- Deals \$25M-\$50M **-14.1%**
- Deals under \$10M **-4.9%**

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 other parties with insight to help prepare for such transactions in order to optimize transaction outcomes.

A largely healthy broader economy helped reduce the Impact of other M&A headwinds.

Pursant looks at a number of macroeconomic indicators that may impact deals in order to gain insight into M&A and strategic transaction trends. What happens at the macro-economic level eventually impacts the Middle Market and Main Street.

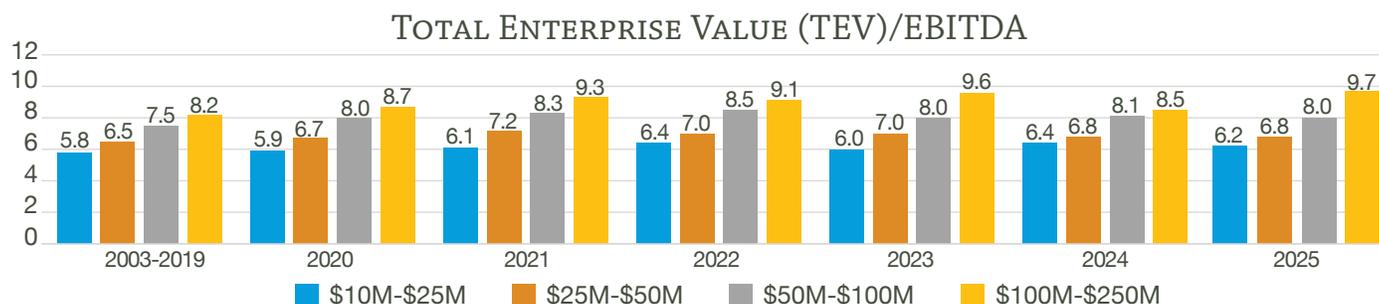
The 2025 U.S. economy was characterized by steady resilience following the higher-interest-rate environment of the prior two years. While inflation moderated and economic growth remained stable across several sectors, including technology, healthcare, and business services, the overall pace of expansion remained measured rather than rapid. Interest rates, though showing signs of gradual easing, continued to influence borrowing costs and investment decisions, leading both consumers and businesses to remain thoughtful and disciplined in their spending and capital allocation. As a result, the broader economic environment in 2025 can best be described as stable but cautious, with continued strength in key industries offset by ongoing sensitivity to financing costs and global economic uncertainty.

Some notable deal-impacting macroeconomic conditions we watch:

- 1. GDP – The US economy expanded an annualized 0.7% in Q4 2025, the weakest performance since Q1 2025.** Consumer spending slowed, as purchases of both goods and services cooled. Exports declined at a faster pace of 3.3%, compared with the initial estimate of a 0.9% drop, marking the largest contraction since Q2 2023. Imports also fell. Meanwhile, government spending and investment contracted sharply due to the government shutdown. **For 2025, the US economy expanded by 2.1%, down from 2.8% in 2024.**
- 2. Inflation** – The annual inflation rate in the US remained at 2.7% in December 2025, the same as in November and in line with market expectations. Price pressures eased notably in the energy sector, driven by a decline in gasoline prices and a moderation in fuel oil inflation. Prices also increased at a slower rate for used cars and trucks. By contrast, price gains accelerated for food and shelter. Meanwhile, the annual core inflation rate remained unchanged at 2.6%, the lowest level since 2021, below expectations for a rise to 2.7%.
- 3. Interest Rates** – Minutes from the Fed's December meeting noted that most of the FOMC judged that rate cuts are likely to be appropriate next year if inflation eases over time. Still, policymakers were divided in their assessment of risks between higher inflation and unemployment, with a part of the FOMC displaying greater concern that inflation becoming entrenched may require higher borrowing costs, while others preferred a greater magnitude of rate cuts to curb signs of a softening labor market. **The December meeting saw a reduction in the federal funds rate by 25bps to a range of 3.5%–3.75%.**
- 4. ISM Purchasing Managers Index (PMI)** – The ISM Manufacturing PMI for the US fell for a third consecutive month to 47.9 in December 2025, the lowest level since October 2024, compared to 48.2 in November. The reading showed the US manufacturing activity contracted at a faster rate, led by pullbacks in production and inventories. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining.

Overall 2025 Middle Market valuation multiples remained at healthy levels

Full-year 2025 valuations held steady at approximately 7.2x EBITDA, consistent with the prior two years and reinforcing a recurring theme that emerged in 2024: pricing stability has largely persisted despite materially lower deal volume. While transaction activity across the lower middle market remained somewhat subdued, 2025 increasingly took on the character of a tale of two markets. At the upper end of the market, a relatively small number of multi-billion-dollar transactions helped drive aggregate M&A value to elevated levels. Within the lower middle market, however, deal volume remained constrained and buyers maintained pricing discipline, highlighting a clear divergence between headline M&A activity and the conditions facing most privately held middle-market businesses.

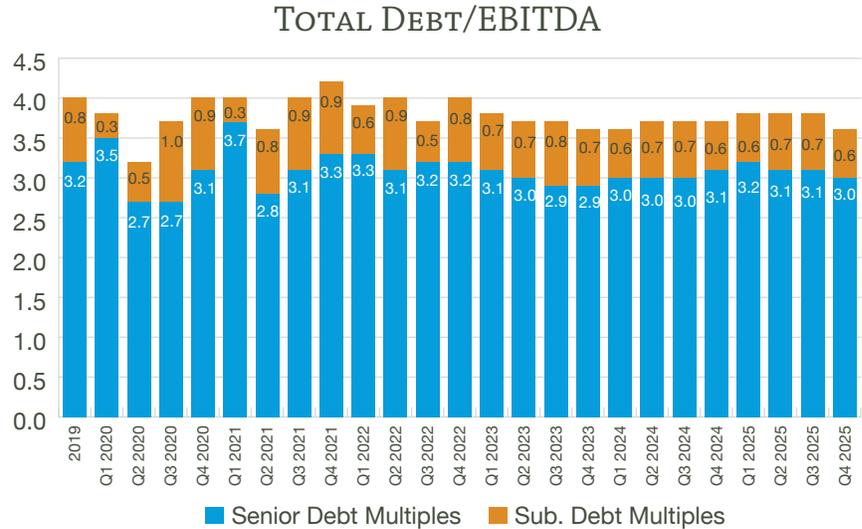


Source: GF Data

Lenders still showing an appetite for M&A deals in 2025

The chart to the right depicts the turns (multiples) of EBITDA Senior and Mezzanine lenders will lend on average in lower middle market M&A transactions with enterprise value ranging from \$10M - \$500M in enterprise value.

- Total Debt (Senior and Subordinated) borrowing for M&A stable at 3.6x EBITDA.
- Senior Debt availability by EBITDA
 - › 1.5x for \$1M EBITDA
 - › 2 x for \$5M EBITDA
 - › 3x for \$10M EBITDA
- Top 5 Reasons for Declined Loans
 - #1 QoE/cash flow
 - #2 Too much Buyer debt
 - #3 Insufficient collateral
 - #4 Customer concentration
 - #5 Company too small

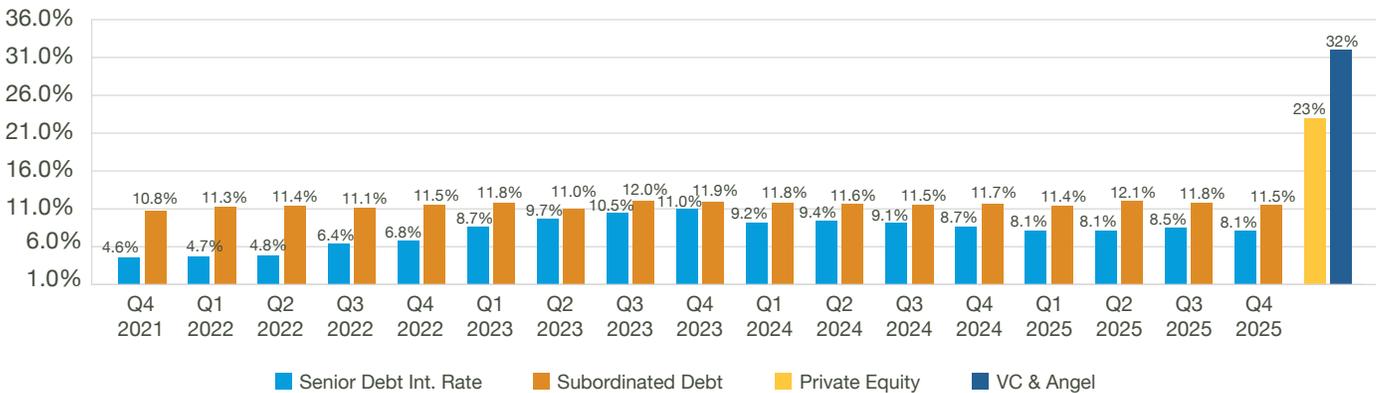


Source: GF Data®

Borrowing costs still somewhat elevated but affordable compared to equity

The Federal Reserve provided the markets with modestly more affordable capital through incremental rate reductions; however, the magnitude of those decreases was not sufficient to meaningfully shift M&A activity or valuation levels. Even at these relatively elevated borrowing costs, debt remains significantly less expensive than equity capital. Private equity, venture capital, and angel investors typically target returns in the 23%–32% range, making debt financing comparatively attractive for buyers seeking to enhance returns through leverage.

INTEREST/RETURN RATES BY INVESTOR TYPE

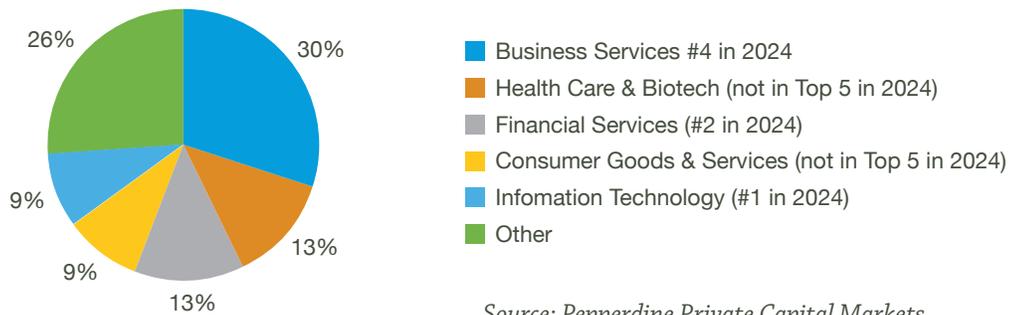


Source: GF Data & Pepperdine Private Capital Markets

What Sectors Are Buyers Attracted To?

Investor preferences for acquisition targets continue to evolve as buyers balance growth potential with risk in an uncertain capital markets environment. Business Services emerged as the most attractive sector in 2025, capturing roughly 30% of investor preference, up from the #4 position in 2024. The sector's strong showing reflects investors' continued appetite for asset-light, recurring revenue business models with predictable cash flows. Healthcare & Biotech and Financial Services each represented approximately 13% of investor interest, signaling steady demand for sectors with strong long-term fundamentals and regulatory barriers to entry. Meanwhile, Information Technology and Consumer Goods & Services each accounted for about 9%. Overall, the data points to a clear shift toward stable, service-oriented businesses with recurring revenue and durable margins, as investors prioritize predictable cash flows and operational resilience in today's higher-cost-of-capital environment.

SECTORS WITH BEST RISK/REWARD TRADE-OFF

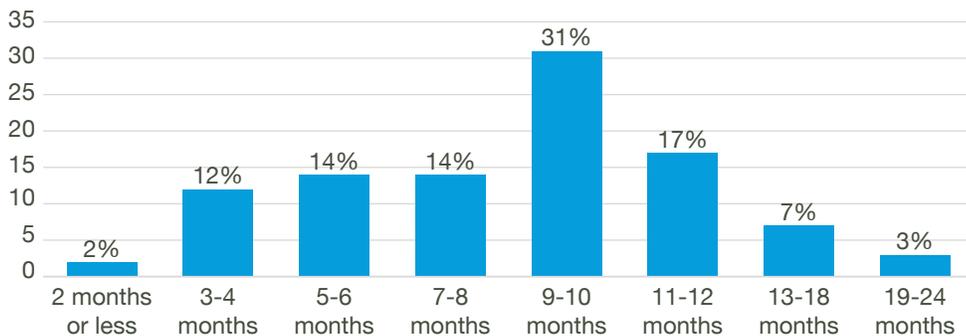


Source: Pepperdine Private Capital Markets

How Long to Close a Deal?

The combination of longer preparation and marketing timelines and the increased rigor being put into due diligence and documentation, are making for longer M&A processes than parties would like.

NUMBER OF MONTHS TO CLOSE A DEAL



Source: Pepperdine Private Capital Markets

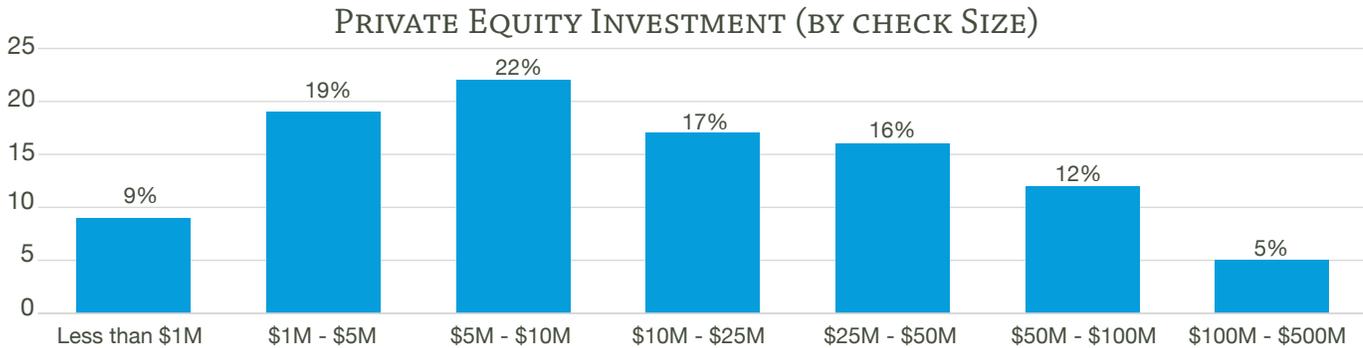
Why So Long?

- 2-3 Months Material Prep.
- 2-3 Months Marketing
- 1 Month Final Negotiations
- 3-4 Months Due Diligence and Documentation



With a higher cost of capital, private equity has been targeting smaller investments

The chart below shows how private equity was willing to be diverse with the size of checks they were willing to write, but the most common size range was in the \$1M - \$25M size range.



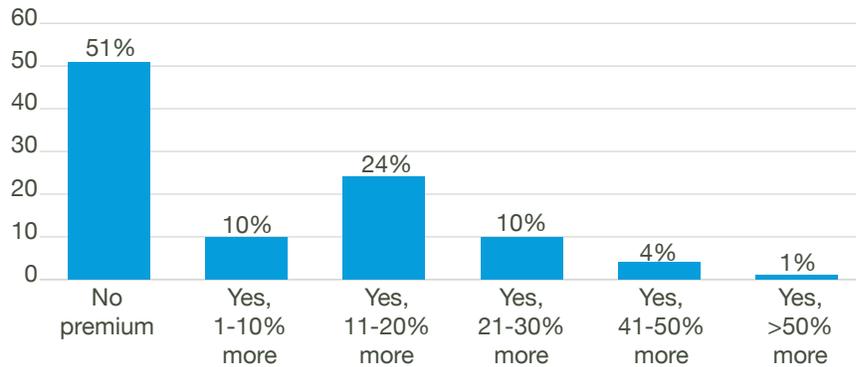
Source: Pepperdine Private Capital Markets

Who is Paying More, Strategic or Financial Buyers?

Strategic buyers statistically tend to pay more than financial buyers, but not always. Strategics often justify higher valuations because they can unlock synergies, leverage industry expertise, and apply operational efficiencies that improve their pro forma returns. Where financial buyers often have an advantage is the ability to offer sellers the proverbial “second bite of the apple.” By allowing sellers to retain an equity stake, private equity buyers create the opportunity for a second liquidity event, which can significantly increase the seller’s total realized value. In other words: Strategics may offer the higher price today, but financial buyers can sometimes deliver the greater total value over time

PREMIUM PAID BY STRATEGIC BUYERS VS. FINANCIAL BUYERS

- 55% of deals involved Financial Buyers (growing)
- 49% of Strategic Buyers paid a premium
- 34% of Strategic Buyers paid a premium of between 1% and 20%
- 15% of Strategic Buyers paid a premium of 21% or more
- “Second bite of the apple” puts Financial Buyers into a position to potentially pay more over time

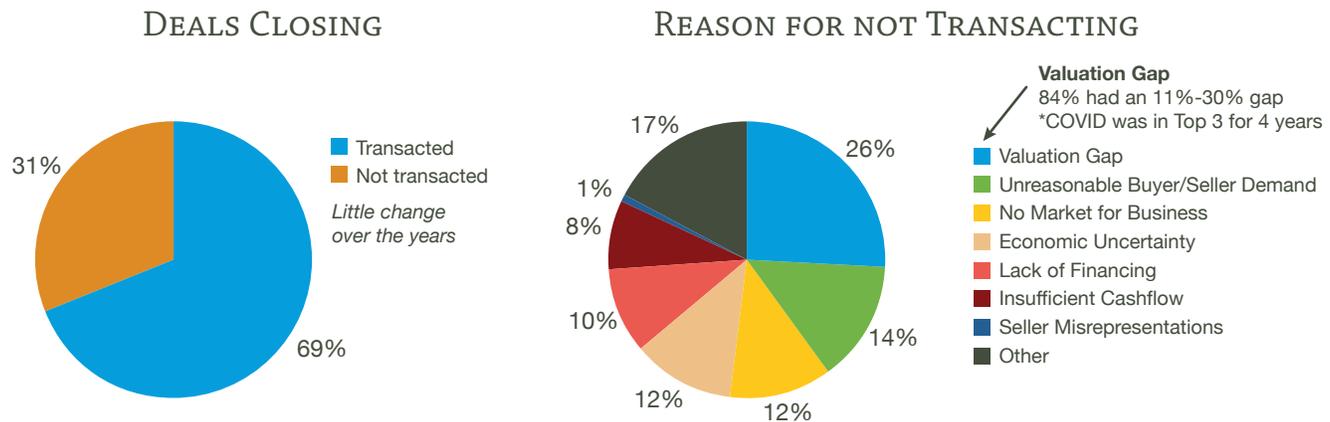


Source: Pepperdine Private Capital Markets



Will the deal close?

While market conditions can influence transaction activity, the majority of sell-side processes ultimately result in a successful closing. In 2025, approximately 69% of initiated sale processes resulted in a completed transaction, a figure that has remained relatively consistent over time. For deals that did not transact, the most common obstacle was a valuation gap between buyers and sellers, accounting for roughly 26% of failed processes, with most gaps falling in the 11%–30% range. Other factors contributing to deals not closing included misaligned expectations between buyers and sellers, economic uncertainty, lack of financing, and insufficient cash flow performance. The data reinforces that while macroeconomic conditions may influence deal pacing, valuation alignment and realistic expectations remain the most critical factors in successfully completing a transaction.



Source: Pepperdine Private Capital Markets

Where Are We in the Business Transfer Cycle?

- For decades, the **cost of capital—primarily interest rates, has played a central role in shaping the business transfer cycle**, influencing whether markets favor sellers, buyers, or remain relatively balanced, and driving the rise and fall of valuation multiples.
- While the cost of capital declined modestly in 2025, it has not fallen enough to meaningfully shift the market dynamic. Most would characterize the current environment as **largely neutral, favoring neither buyers nor sellers**.
- At the same time, the **strength of the U.S. economy, corporate balance sheets, and the continued availability of capital** have helped offset the impact of higher borrowing costs, supporting steady transaction activity despite a more expensive financing environment.

PHASES OF THE BUSINESS TRANSFER CYCLE

Deal Recession (Buyer's Market)	Prime Selling Time (Seller's Market)	Uncertainty (Neutral Market)
1980 – 1983	1983 – 1988	1988 – 1990
1990 – 1993	1993 – 1998	1998 – 2000
2000 – 2003	2003 – 2008	2008 – 2010
2010 – 2013	2013 – 2021	2022 – 2025

Source: Rob Slee - Private Capital Markets

2026 M&A Expectations

Liftoff! More Volume. Same Discipline.

- Volume Re-Accelerating With Confidence Improving
- A Two-Tier Market Persists, Smaller Deals Offer the Best “Value Realization”
- Valuation Gaps Keep Narrowing, Structure Stays a Core Deal Tool
- PE Capital Deployment Stays Active and With More Exits
- Rates Matter Again, Each Cut Expands the Buyer Pool
- Corporates Leaning In
- Financing Available but Underwritten Hard, Leverage Remains a Constraint





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Pursant is an investment banking, financial and management consulting firm that supports and executes middle market M&A related initiatives and helps business owners grow enterprise value.

Our Investment Banking practice helps business owners monetize their business, manage acquisition initiatives and source the capital needed to fund strategic transactions.

Our Financial Consulting practice delivers the strategy, skills and brainpower needed, in the form of advisory or interim financial professionals, to support and augment finance teams with needs often related to strategic transactions.

Our Management Consulting practice provides customized solutions designed to re-shape conventional thinking about leadership performance, profitability and growing enterprise value.

We use a deep immersion process, our expansive networks and experience as owner/operators, dealmakers and sector experts to effectively deliver on these critical initiatives for which most companies do not have the time, manpower or expertise.

To learn more about how Pursant can help you, email info@pursant.com or visit www.Pursant.com.

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