



CAPITAL MARKETS UPDATE

Middle Market M&A
Q1 2025

MARKET COMMENTARY

Wag the Dog

Do you hear that? That's the sound of billions of tiny fans cooling the microprocessors powering mankind's most profound invention: a machine super intelligence that rivals his own.

If you feel like the Opinion section of the newspaper reads more like a George Orwell novel these days, you're not alone. Reporters have been breathlessly churning out headlines in the first half of 2025 as the markets have roiled. External shocks have included the announcement and subsequent rollbacks of various tariffs, cuts to federal agencies caught in the teeth of the Department of Government Efficiency (DOGE) chainsaw, and, of course, the rise of artificial intelligence (AI). So where do the markets stand amid the increased volatility?

The truth is that while disruptive in the short term, tariffs are unlikely to drive major changes in mergers and acquisitions (M&A) in the medium term in the U.S. for one simple reason: three quarters of our gross domestic product (GDP) is generated from services. The Trump Administration endeavors to use U.S. trade policy to reorder the world economy *for goods*. It is hard to assess tariffs on services and harder still to tariff an *idea*. So, **investors focused on mercurial tariff policy and the machinations of DOGE are missing the plot.** Policy battles playing out in Washington are merely the sideshow to the main event. When the dust settles from the trade war, the reordering of the knowledge economy at the hands of generative AI will come into clear view—that is the story to follow.

Microsoft (Nasdaq:MSFT), unquestionably one of the leading players in the AI revolution, quietly laid off 3% of its workforce, about 6,000

"Investors focused on mercurial tariff policy and the machinations of DOGE are missing the plot. Policy battles playing out in Washington are merely the sideshow to the main event. When the dust settles from the trade war, the reordering of the knowledge economy at the hands of generative artificial intelligence will come into clear view."



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MARKET COMMENTARY (CONTINUED)

employees, in May. Employees of big technology firms see the writing on the wall and are buffing up their resumes. These firms simply don't need as many developers now that they have equipped teams with powerful coding technology and other generative AI.

This is just the beginning of a new phase of creative destruction that will sweep across the biggest parts of our economy. Robert Smith, the savant software investor and billionaire founder of Vista Equity, took to the stage of the [SuperReturn conference](#) in Berlin and told the vast audience, "We think that next year, 40% of the people at this conference will have an AI agent and the remaining 60% will be looking for work." His warning was stark: get on the train or get run over by it.

A Man for All Seasons

The deal volume of middle market M&A fell 2.6% in the first quarter of 2025 when compared to the prior quarter. When the books are closed on the second quarter, we expect similarly anemic activity levels as "Liberation Day" hijinks scuttled many deals scheduled to close over the following months. Naturally, companies with cross-border supply chains and contractors to the federal government are at the epicenter of the DOGE and tariff nuclear fallout. However, firms directly impacted by these policies make up a small percentage of our sell-side clients. Sponsors worry more about the secondary and tertiary effects of the tariffs and the cuts. In other words, sponsors are trying to time the market and avoid making major platform investments in case the skittish economy barrels into recession. Good luck with that.

As I put pen to paper in June 2025, the private equity prairie dogs are starting to poke their heads out of their holes and recall that **they are meant to deploy capital across all market conditions.**

Further, investors are coming to expect the unexpected from the Trump Administration. Investors simply need to underwrite to serial, fabricated "crises" as the normal state of affairs in Washington for the next three and a half years.

What a Difference a Day Month Makes

At Capstone we are behind our normal clip of sell-side dealmaking in the opening months of 2025, but remain cautiously optimistic for the second half of the year. With the imminent recession case seeming less likely by the day and the market still projecting three quarter-point reductions in 2025, we may witness a strong M&A market in the back half of the year. Private equity origination professionals have signaled improving deal flow the back half of the second quarter. Clearly, investment bankers are testing the market with new product to see if private equity demand is durable throughout this cycle.

M&A OVERVIEW & OUTLOOK

Q1 2025 TAKEAWAYS & THEMES

Middle market M&A continued to stabilize in Q1 2025, as improved financing conditions and strategic repositioning in response to trade policy shifts have driven cautious but focused deal activity.

- Q1 2025 marked the first Q1 year-over-year (YOY) growth in deal volume since Q1 2022, signaling a slow but steady return to a more active transaction environment.
- Buyers remained highly valuation-sensitive, favoring targets with pricing power, recurring revenue, and exposure to reshoring or supply chain reliance themes.
- While private equity (PE) capital deployment remained disciplined, a modest rebound in limited partner (LP) liquidity and increased pressure to return capital to LPs led to more sponsor deals on both the buy and sell sides.

M&A activity is expected to remain selective as economic volatility and geopolitical uncertainty prompt business owners to delay sales, while strategic and financial buyers focus on resilient, high-conviction opportunities.

- Recent tariff escalations have prompted corporate realignment and vertical integration, spurring cross-border and domestic deal activity.
- PE remains highly active, driven by a stronger exit environment and improved financing markets, though deal selectivity has increased in response to persistent valuation gaps.
- The Federal Reserve's cautious pivot toward interest rate cuts, paired with improving credit spreads, has unlocked capital that had been sidelined throughout much of 2023 and 2024's dislocation.

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KEY CONSIDERATIONS FOR BUSINESS OWNERS

	Current State	Takeaways for Business Owners
Dry Powder	Abundant	PE platform transactions continued to increase YOY in Q1. This trend signals a growing interest in deploying capital into new investments. Sponsors remain equipped with substantial reserves of dry powder. They are also facing increasing pressure from LPs to invest capital through platform and add-on acquisitions.
Buyer Appetite	Cautious Optimism	Strategic buyers have demonstrated optimism as they pursue transformative acquisitions. They are engaging in fewer transactions, but these deals are more capital-intensive, reflecting a careful approach to growth. PE firms have selectively targeted companies with clear exit opportunities, placing heightened emphasis on thorough due diligence processes and robust portfolio management.
Debt Market	Softening	Debt capital has remained available as the Federal Reserve holds interest rates steady in 2025. The Syndicated Loan market has remained open, and increased competition from private credit lenders continues to influence leveraged loan pricing. Spreads charged above base rates have not seen significant reductions, reflecting a cautious approach to capital accessibility.
Valuations	Favoring Profitability and Scale	The average M&A valuation in Q1 2025 was 9.0x EV/EBITDA, surpassing the prior quarter (8.7x) but still below the historical annual average of 10.6x EV/EBITDA. Buyers have continued to prioritize profitability and scale, which has allowed quality businesses to secure strong interest.

Q1 2025 BY THE NUMBERS

6.6% ↑

INCREASE IN DEAL VOLUME

M&A volume rose 6.6% YOY in Q1 2025 but fell 2.6% quarter-over-quarter (QoQ), as strategic repositioning has driven activity.

\$76.2M ↑

AVERAGE DEAL VALUE

Average deal value in Q1 2025 increased 7.1% YOY to \$76.2 million, while total deal value reached \$35.5 billion.

9.0x ↓

AVERAGE EBITDA MULTIPLE

The average EBITDA multiple for middle market deals was 9.0x in Q1 2025 compared to 10.5x in Q1 2024.

15.5% ↑

INCREASE IN PE TRANSACTIONS

PE activity increased 15.5% YOY as elevated dry powder levels provided a favorable backdrop for PE deal activity.

1.4% ↑

PUBLIC STRATEGIC VOLUME

Public strategic deals increased 1.4% YOY but fell 4.7% QoQ amid broader equity market volatility.

97.8% ↑

INCREASE IN PE EXIT VALUE

PE exit value rose 97.8% YOY despite a 17.7% decline in YOY PE exits. PE firms have seen robust returns for optimization efforts.

23.1% ↑

DEALS BY FOREIGN BUYERS

Deal activity involving a foreign buyer has increased 23.1% YOY in Q1 2025 amid economic and geopolitical uncertainty.

0.2% ⇌

PRIVATE STRATEGIC VOLUME

Acquisitions by private strategic buyers remained relatively flat, rising 0.2% YOY, totaling 1,355 transactions through Q1.

11.7x ↑

PE EBITDA MULTIPLE

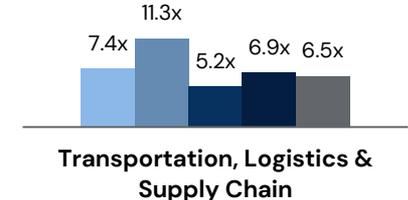
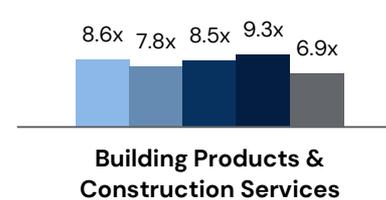
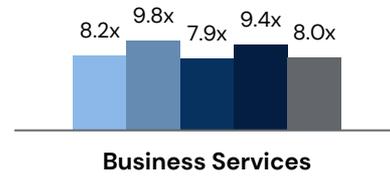
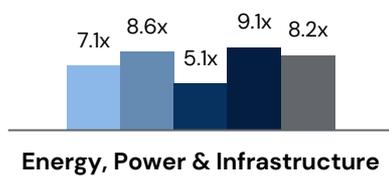
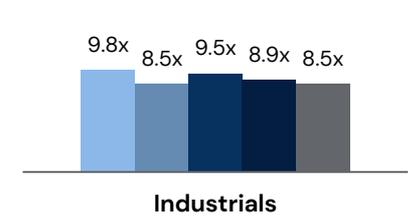
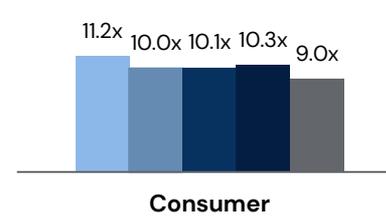
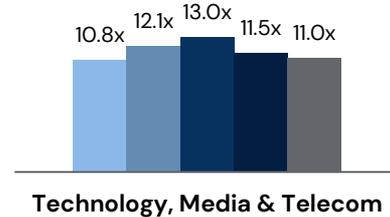
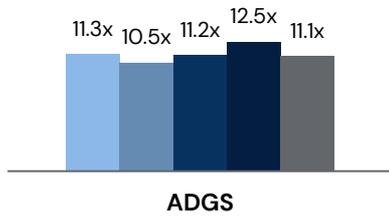
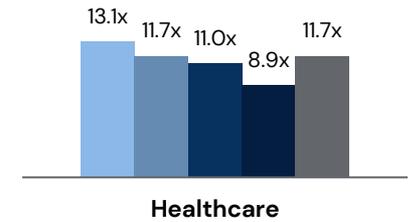
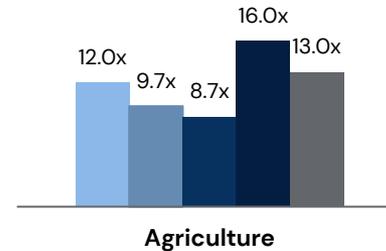
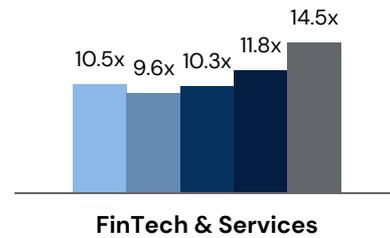
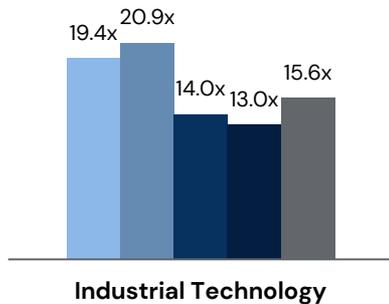
The average EBITDA multiple paid by sponsors increased more than two turns QoQ to 11.7x in Q1 2025, compared to 7.3x in Q4 2024.

CAPSTONE'S PROPRIETARY MIDDLE MARKET VALUATIONS INDEX

Middle Market M&A Valuation Takeaways

- Capstone Partners actively monitors the purchase multiples of middle market transactions through its proprietary [database](#) to provide insight and transparency into the pricing environment.
- A select few industries saw multiple expansion in the last-twelve-month (LTM) period, led by Industrial Technology with an average of 15.6x EV/EBITDA.

EV/EBITDA



CAPITAL MARKET DASHBOARD

YTD EQUITIES

S&P 500
+0.5%



Last	1Y %	P/E LTM
5,911.7	+12.0%	25.1

Dow Jones Industrial
-0.6%



Last	1Y %	P/E LTM
42,270.1	+9.3%	21.8

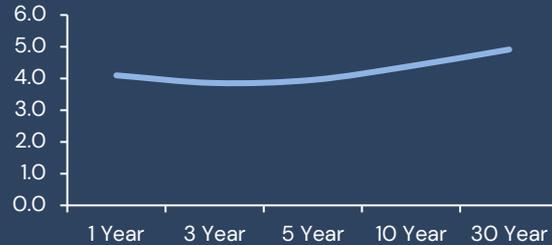
NASDAQ
-1.0%



Last	1Y %	P/E LTM
19,113.8	+14.2%	31.5

FIXED INCOME

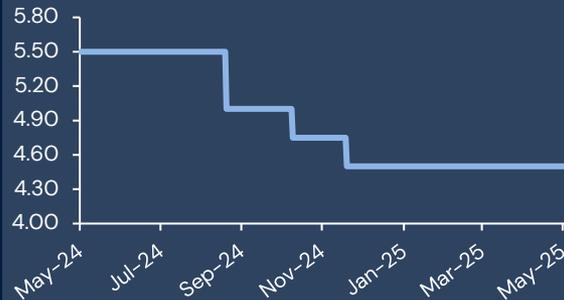
U.S. Yield Curve



1Y	3Y	5Y	10Y	30Y
4.099	3.857	3.955	4.393	4.912

POLICY RATE

Federal Funds Target Rate



M&A INDICATORS

GDP, LABOR MARKET, & INFLATION

	Last	YOY	
GDP	-0.2%	-112.5%	
Unemployment	4.2%	+7.7%	
Consumer Price Index	326.4	+2.8%	

CONFIDENCE LEVELS

	Last	YOY	
Consumer Confidence	98.0	-3.3%	
CEO Confidence	60.0	+13.2%	

FINANCING

	Last	YOY	
High Yield Bond Yield	7.6%	-6.5%	
Investment Grade Bond Yield	5.3%	-6.8%	

FOREIGN EXCHANGE

	Last	YOY	
USD Major Currencies Fed Index	112.3	-3.5%	

Source: FactSet and PitchBook LCD as of 06/02/25

GROWTH EQUITY MARKET CONDITIONS



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GROWTH CAPITAL VOLUME SET TO OUTPACE PRIOR YEAR, VALUATIONS CONTINUE STRONG REBOUND

Growth capital financing volumes have outpaced levels from prior years. In Q1 2025, growth equity investments into late-stage private companies totaled \$112 billion, the highest mark of any quarter over the last 10 years. This was impacted by Open AI's \$40 billion raise led by Softbank (March). In Q1 2025, there were twelve transactions that raised \$1 billion or more, including; Aligned Data Centers \$12 billion raise from CenterSquare, Macquarie, and PATRIZIA (January); Anthropic's \$3.5 billion raise led by Lightspeed Venture Partners (March); and Aspida Holdings \$3 billion raise from Brookside Equity Partners (February).

Valuations have continued a strong rebound into 2025. High levels of dry powder among U.S. PE firms (~\$1 trillion, according to PitchBook), competition for high quality assets, and advancements in artificial intelligence supported stronger valuations for growth companies in Q1 2025. When looking at pre-money valuations by quarter, Q1 2025 saw a step-up from Q4 2024 as median valuations increased to \$288 million from \$225 million.

North American middle market M&A (enterprise values of at least \$25 million) volume increased by 5% YOY while total deal value increased 45% YOY, according to PitchBook. Private equity firms have looked to put capital to work in a decreasing rate environment and have

Growth Capital Raised by Year



Median Pre-Money Valuations for Growth Companies



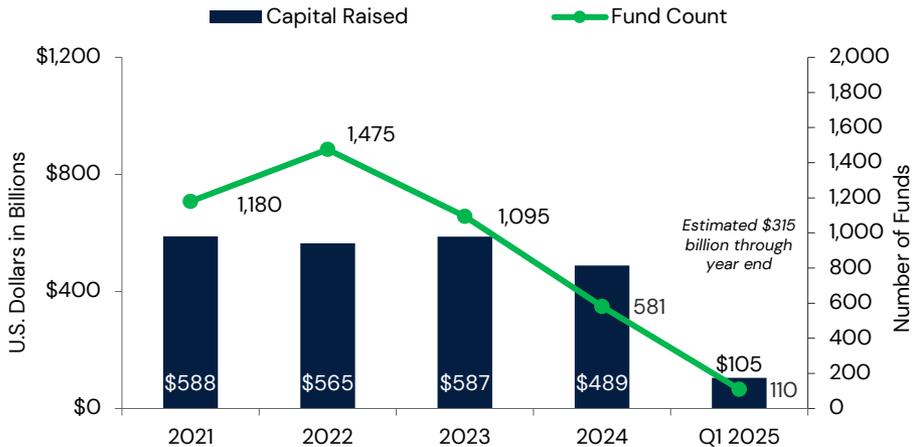
*Note: Includes all VC stages and Growth Equity transactions excluding deals <\$25 million
 Source: PitchBook and Capstone Partners*

GROWTH EQUITY MARKET CONDITIONS (CONTINUED)

been flexible in their ownership structures. As a result, many founders have considered postponing a full sale until their business matures. One solution for founders has been to sell a minority stake today to pave the way for a full sale in the future. Founders doing so could: 1) use some portion of the raise for secondary liquidity, and 2) provide growth capital to accelerate their business plan as they grow EBITDA.

Private equity fundraising volumes and fund count are on pace to reach their lowest levels in the last five years. A lack of exits and distributions to LPs slowed the fundraising environment in 2025, following significantly higher activity from 2021 to 2023. In Q1 2025, U.S. PE and growth equity funds raised \$105 billion across 110 funds. This represents a decline compared to Q1 2024, which had \$162 billion raised across 190 funds.

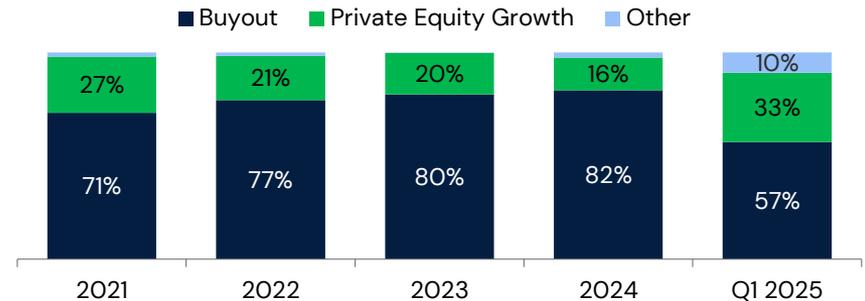
U.S. Private Equity Funds Raised by Year



Includes Capstone projections; Source: PitchBook and Capstone Partners

Compared to recent years, U.S. private equity growth funds made up a larger share of Q1 2025 sponsor fundraising. In Q1 2025, 33% of PE capital raised was for growth strategies, the highest mark over the last five years. Reflecting the broader increase in growth capital formation, the deployment of growth capital remained strong. Growth capital deals accounted for 16.3% of all PE deals in Q1 2025 by value. This is above the historical 10-year average of 10.0%. On a deal count basis, growth equity accounted for one out of every four PE deals in Q1 2025.

U.S. Private Equity Capital Raised by Type



Source: PitchBook and Capstone Partners

EQUITY CAPITAL MARKETS GROUP

The Equity Capital Markets Group focuses on raising equity capital financing for growth-oriented companies and structured equity for more mature middle market enterprises. Our team works closely with companies to secure equity capital to fund growth initiatives, recapitalize the balance sheet (often including shareholder liquidity), and to finance M&A transactions.

FINANCIAL ADVISORY SERVICES



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ENHANCING THE PE BUSINESS MODEL WITH DATA ANALYTICS

PE firms have been utilizing data analytics to optimize investment returns and drive value creation. This powerful tool can significantly enhance operational improvements, introduce new performance measurement and management tools, and have a meaningful impact on exit strategies.

We recently published an article exploring how data analytics can be leveraged to supplement the PE business model, focusing on operational improvements, performance measurement, and the potential impact on exit outcomes optimization. Together, these elements create a structured approach that aligns short-term actions with long-term goals, laying a strong foundation for sustained value creation and successful exits.

Read the [full article](#), along with other PE research on our [insights page](#).

Finding Operational Improvements Through Data Collection and Benchmarking

Investors often give management sufficient operational freedom to run their businesses. Data analytics can provide investors with information needed to help improve operations while still giving management sufficient freedom to run their business. In this structure, where one party has a hand on the steering wheel and the other primarily relies on reporting, data tools can make this process more efficient, better informed, and collaborative.

In optimizing operations, one key area of impact is working capital optimization, which has been shown to deliver the most savings in the shortest timeframe. As simple as it sounds, analyzing transaction patterns, reaching out to vendors and customers to renegotiate payment terms, accelerating collections, or deferring payments does not require new infrastructure, lengthy implementation, or substantial investments. With access to data that is already collected or requires minimal incremental effort to collect, sales, margins, and product mixes can be improved with an implementation focus on high-margin opportunities.

Beyond financial metrics, business process optimization can be achieved through benchmarking data, such as staff productivity, process costs, and efficiency, which allows businesses to compare performance against industry peers and best practices. Functional benchmarking enables businesses to assess specific operational areas—such as supply chain management, procurement, or customer service—to help them pinpoint areas for improvement. While benchmarking will not give you a precise answer, it can highlight areas where additional attention may be needed, reducing months of work looking for efficiencies that may not exist.

FINANCIAL ADVISORY SERVICES (CONTINUED)

The initial investment in data analytics is often relatively minimal. Modern ERP (Enterprise Resource Planning) systems are already capturing the data, so the information is available for analysis once the data points have been determined. With every project being unique, data analytics can sometimes deliver results in minutes, while other times it may take longer.

Case Study: Client Gets Back \$850,000 in Less Than an Hour

This is a real story of a PE-owned food manufacturing operation in Wisconsin that had just completed the acquisition of a competitor and was integrating the operations of the two businesses.

We supported the client with synergy assessment and data analytics. Within the first hour on-site, analyzing vendor transactions and payments, we identified one vendor whose payment terms were out of policy – they were paid upon receipt, the same day, for over a decade, while payment terms for others were generally congruent with the company policy—60 days. AP (Accounts Payable) days appeared good on average, but only a deeper dive into transactional data helped reveal this irregularity in a newly acquired business.

The working capital impact was significant—\$850,000, identified within the first hour of working on data. An adjustment (which the vendor was amenable to) delivered immediate cash relief and helped the PE firm reduce leverage shortly after the acquisition.

While not all results will be that immediate, we continue to see sizable benefits for clients who implement performance improvement processes using data analytics. To learn more about how we can help accelerate the value of your investments, please [contact a member of our team](#).

FINANCIAL ADVISORY SERVICES OVERVIEW

Capstone's [FAS Group](#) specializes in enterprise-wide solutions aimed at performance improvement and increased shareholder value, including:

Transaction Advisory

- Sell-Side Readiness
- Financial and Operational Due Diligence
- Quality of Earnings/Quality of Technology Review
- Integration Consulting and Post-Merger Integration

Business Advisory

- Business Performance Improvement
- IT Infrastructure and Security Advisory Services
- Data Analytics
- Financial Reporting and Accounting Support
- Valuation Services
- Fairness and Solvency Opinions

Special Situations Investment Banking

- Strategic Alternatives and Contingency Planning
- Buy- and Sell-Side Distressed M&A
- Debt & Equity Capital Markets
- Balance Sheet Restructuring

Turnaround and Restructuring Advisory

- Turnaround Advisory
- Crisis Management
- Debtor & Creditor Advisory Services
- Court-Appointed CRO Services

Bankruptcy Services

- Debtor and Creditor Representation Services
- Chapter 11 and Chapter 7 Services
- Section 363 Asset Sale



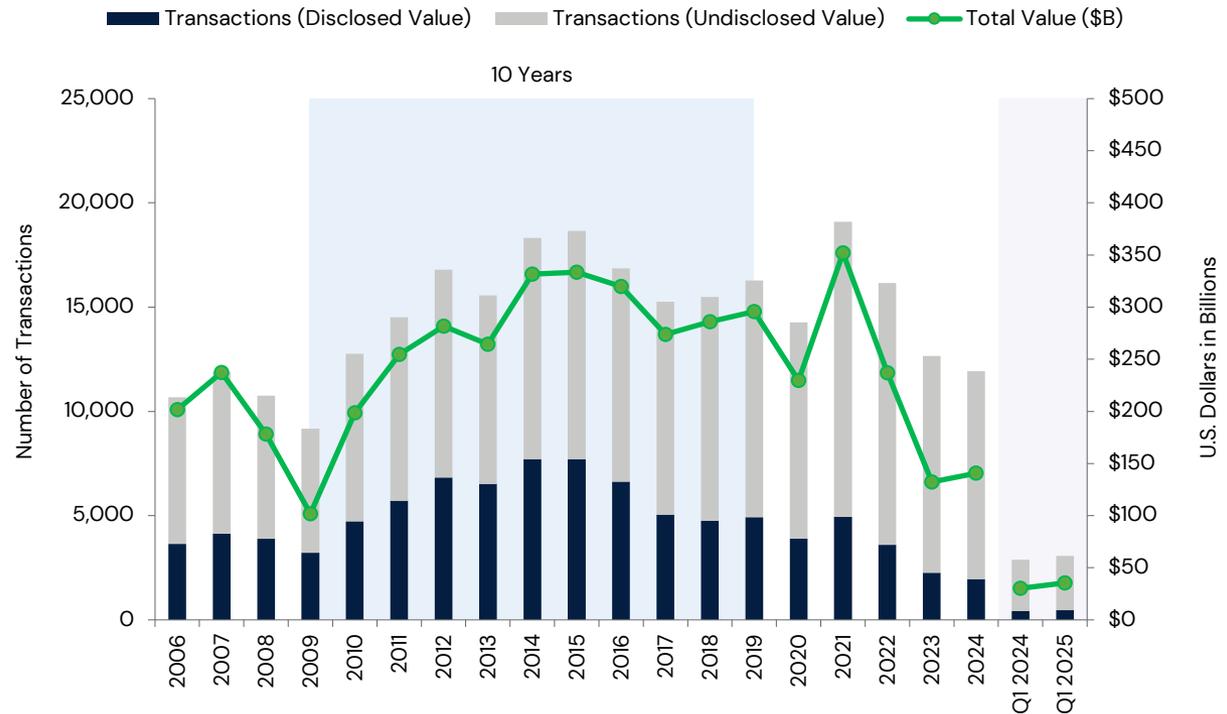
MIDDLE MARKET M&A ACTIVITY

M&A AMID ECONOMIC CYCLES

M&A ACTIVITY RECOVERS IN Q1 2025

- Middle market M&A volume rose 6.6% YOY in Q1 2025 as PE and private strategic buyers gained some reprieve from consecutive interest rate cuts in 2024.
- Middle market acquirers also moved the needle higher in middle market transaction size. In Q1 2025, the average disclosed enterprise value increased 7.1% YOY to \$76.2 million—the highest since Q4 2021.
- Total disclosed middle market M&A value jumped 17.4% YOY to \$35.5 billion in Q1 2025. This increase builds off the growth experienced in 2024, demonstrating buyers' confidence despite economic uncertainty.

Middle Market Transactions



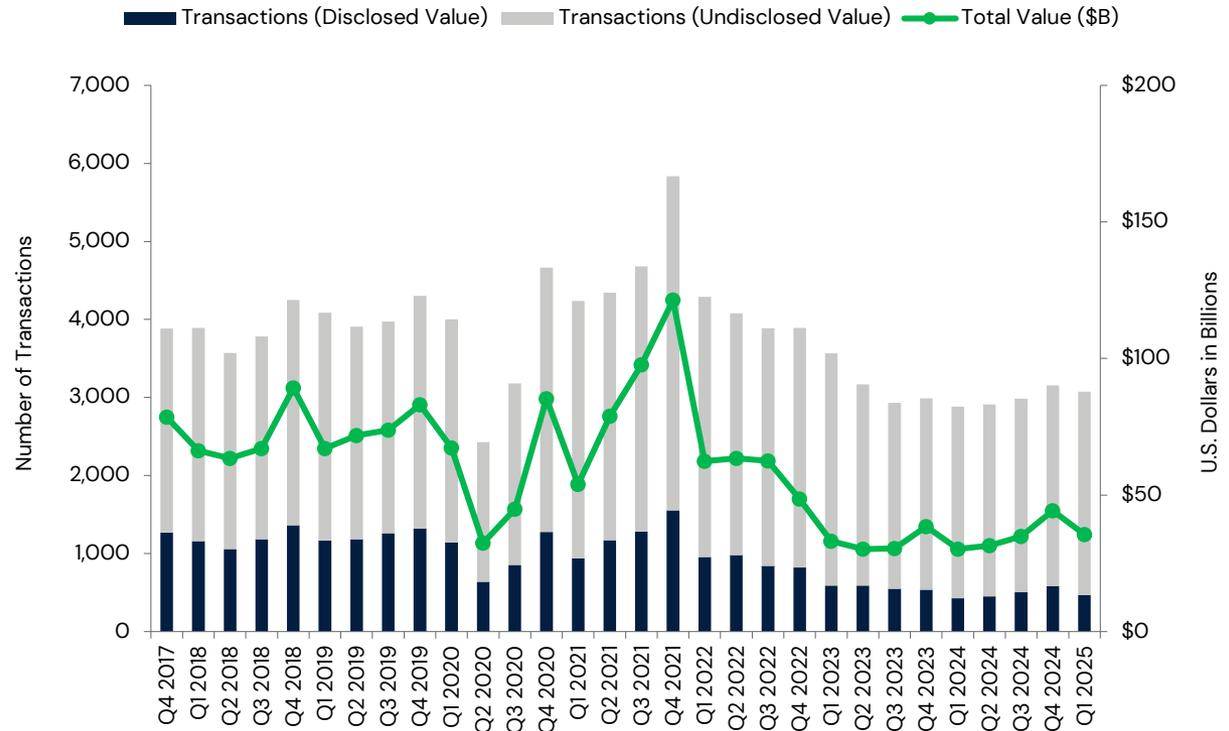
Note: New data methodology used for this report; Blue shaded areas indicate economic expansion
 Source: Capital IQ and Capstone Partners
 Enterprise Value < \$500mm

QUARTERLY M&A VOLUME

VOLUME AND VALUE SEE NORMAL HISTORIC SOFTENING

- Total closed transactions in Q1 2025 fell 2.6% QoQ, a normal observance as buyers and sellers tend to push to close engagements prior to the year-end. In fact, M&A recorded the softest decrease QoQ between Q4 versus Q1 since 2017, slowing 3.6%. Add-on transactions served as a bright spot, rising 5.6% QoQ.
- Average middle market deal value eked out a 0.2% QoQ gain to \$76.2 million. Average target size continued to increase while public and private strategic buyers recorded a 1.7% and 7.5% rise in average deal value, respectively.
- Buyers deployed \$35.5 billion in total disclosed deal value, a 19.8% decrease QoQ after Q4 2024 recorded the highest total in the past eight quarters.

Quarterly Middle Market Transactions



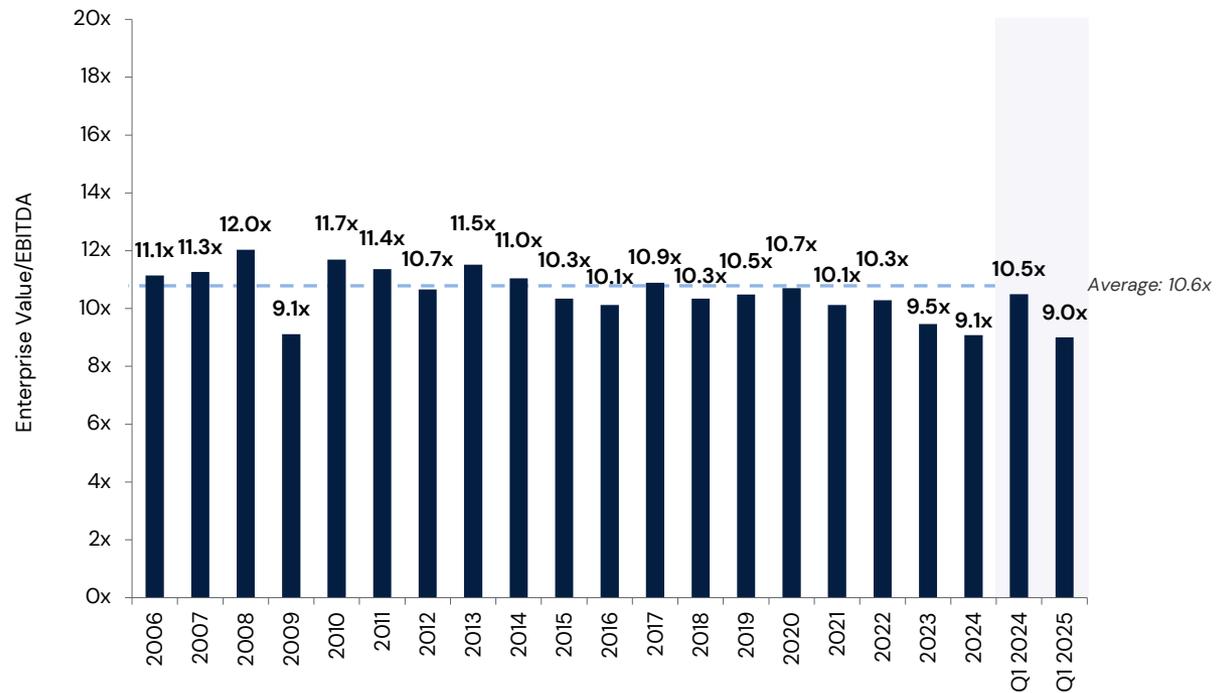
Note: New data methodology used for this report
 Source: Capital IQ and Capstone Partners
 Enterprise Value < \$500mm

PRICING TRENDS

AVERAGE PURCHASE MULTIPLES MODERATE

- The average purchase multiple fell YOY to 9.0x EV/EBITDA in Q1 2025 compared to the Q1 2024 average multiple of 10.5x. The Q1 2025 average reflects more disclosed deals for manufacturing and industrial companies that tend to garner lower multiples.
- Disclosed transactions in Q1 2025 between \$250–\$500 million and \$100–\$250 million in enterprise value rose 20.7% and 19.7% YOY, respectively, demonstrating buyers' heightened appetite for established targets with scale.
- A quarter of disclosed deals were corporate divestitures, asset purchases, or somewhat distressed, reflecting a mix of strategic portfolio pruning, pressure to raise cash, and buyers looking to capitalize on discounted or non-core assets.

Middle Market Average EBITDA Multiple



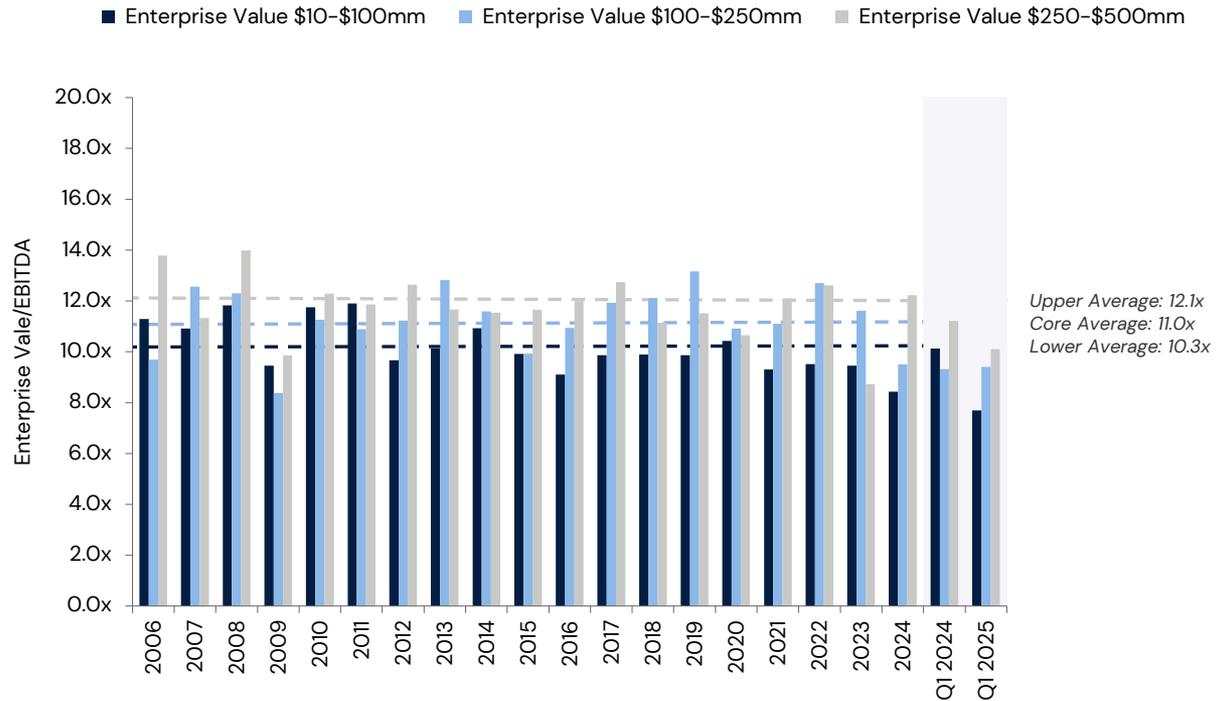
Note: New data methodology used for this report
 Source: Capital IQ and Capstone Partners
 Includes multiples 3x–30x
 Enterprise Value < \$500mm

BREAKING IT DOWN BY SIZE

CORE MIDDLE MARKET VALUATIONS RESILIENT

- The average valuation in the core middle market (\$100–\$250 million) improved YOY to 9.4x EV/EBITDA in Q1 2025—the only group to see an increase in pricing across all enterprise value ranges.
- The lower middle market (\$10–\$100 million) saw the greatest valuation compression YOY, with the average multiple falling to 7.7x EV/EBITDA. The upper middle market (\$250–\$500 million) also saw M&A pricing weaken, with the average EBITDA multiple dropping YOY to 10.1x.
- Middle market businesses have varied in response to rising input costs leading to moderated purchase multiples. Buyers are expected to take advantage of pricing and transact at these lower, more comfortable levels.

Average Enterprise Value to EBITDA Multiple



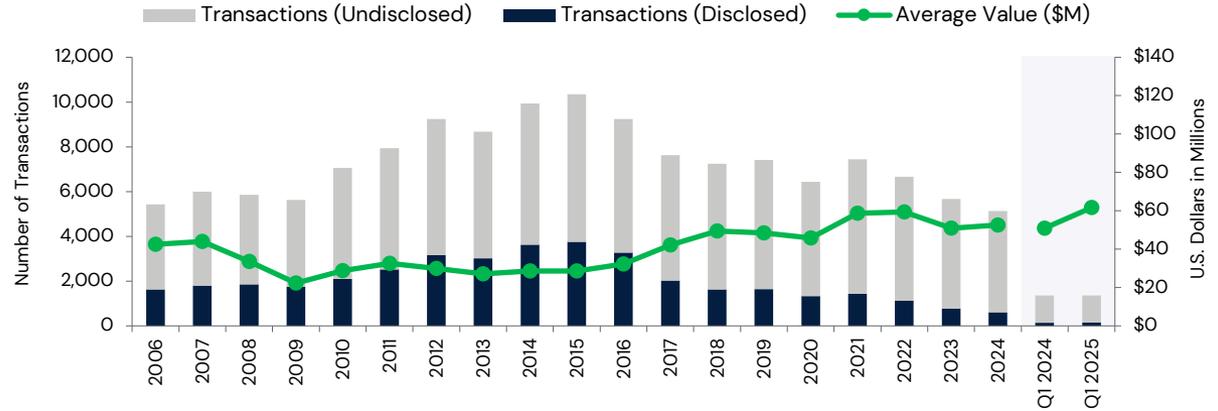
Note: New data methodology used for this report
 Source: Capital IQ and Capstone Partners
 Includes multiples 3x–30x
 Enterprise Value < \$500mm

STRATEGIC ACQUIRERS

STRATEGICS DEPLOY ROBUST M&A CAPITAL IN Q1

- Public company average deal value reached \$98.5 million in Q1 2025, surpassing the highest quarterly record. Public strategic M&A activity ticked up 1.4% YOY but only contributed 11.7% to total deal volume in Q1 2025, a slight decline from Q1 2024 (-0.6%).
- Acquisitions by private companies averaged \$61.6 million in deal value through Q1 2025, up 21.1% YOY. Private strategic volume remained relatively flat (+0.2% YOY), while total value rose 30.6% YOY.
- Strategic buyers continued to comprise the majority (55.8%) of total middle market M&A volume in Q1, led by privately-owned businesses (44.1%).

Acquisitions by Private Companies



Acquisitions by Public Companies



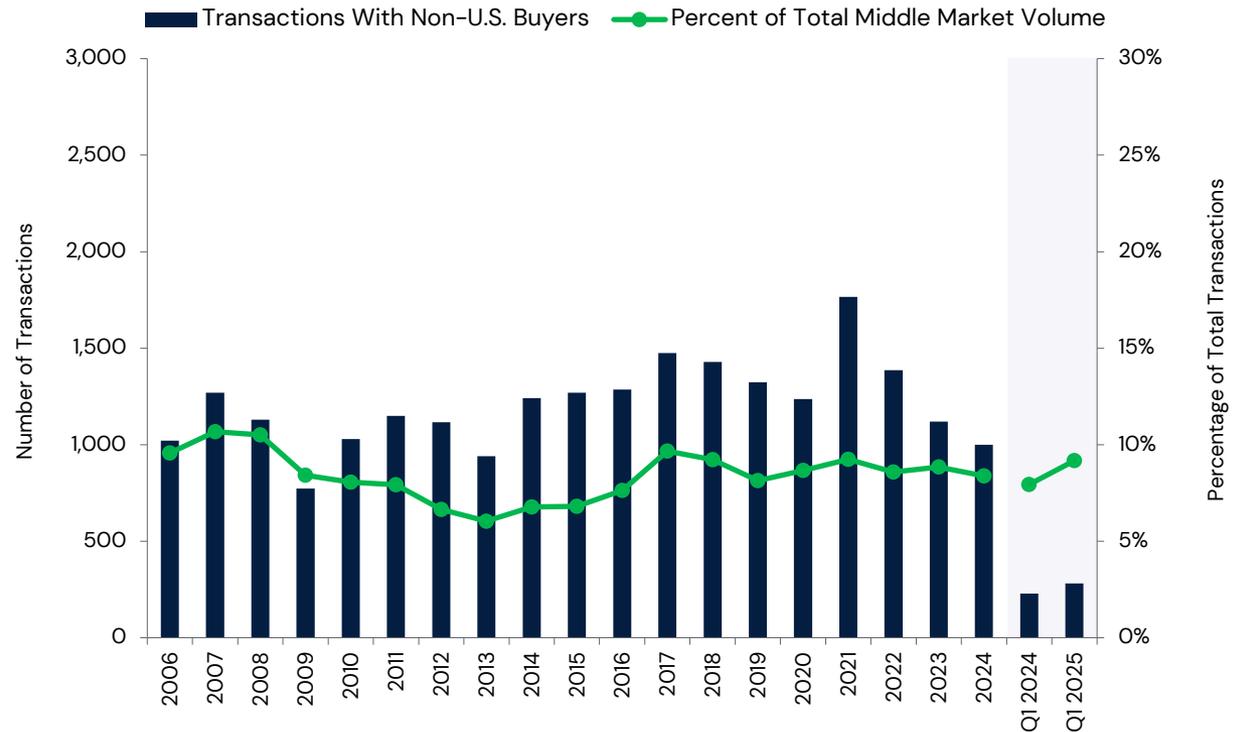
Note: New data methodology used for this report
 Source: Capital IQ and Capstone Partners
 Enterprise Value < \$500mm

FOREIGN ACQUIRERS

FOREIGN BUYER ACTIVITY IMPROVES TO START 2025

- Foreign buyer activity returned after a weakened 2024, rising 23.1% YOY in Q1. Additionally, non-U.S. buyer activity as a percent of total middle market volume rose from 7.9% in Q1 2024 to 9.2% in Q1 2025.
- Valuations paid by foreign acquirers rose YOY, averaging 7.7x EV/EBITDA in Q1 2025.
- Recent tariff escalations are likely to prompt corporate realignment and vertical integration in 2025, which could further spur cross-border M&A activity.
- Capstone maintains connections to international buyers through our partner network, [IMAP \(International M&A Partners\)](#), expanding Capstone's reach to more than 450 partners across 60+ offices in 41 countries.

Non-U.S. Buyers



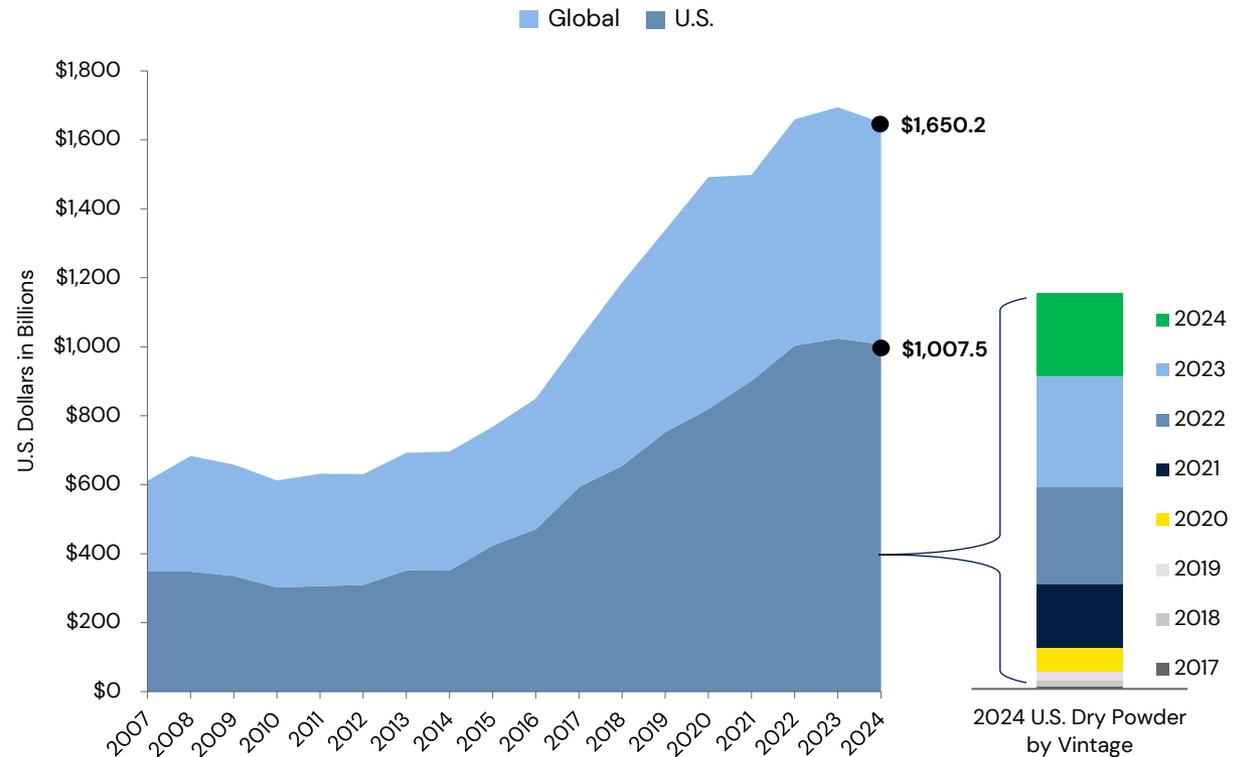
Note: New data methodology used for this report
 Source: Capital IQ and Capstone Partners
 Enterprise Value < \$500mm

PRIVATE EQUITY DRY POWDER

DRY POWDER REMAINS ROBUST, RESERVES AGE

- Approximately \$1.7 trillion in dry powder remains for PE firms to deploy. With LPs pressuring funds to generate returns in 2024, sponsors initially opted to use stop gap measures such as dividend recapitalizations to ease investors. However, sponsors have reconsidered capital allocations for new acquisitions. Notably, 51.1% of available capital has sat on the sidelines for three or more years.
- The opening of the Syndicated Loan market and competition from private credit lenders have driven down interest rate spreads charged above base rates for high yield bonds, allowing sponsors to comfortably finance transactions. However, financial buyer activity has begun 2025 tepidly as investors maintain a watchful eye on evolving economic policy.

PE Capital Overhang by Year



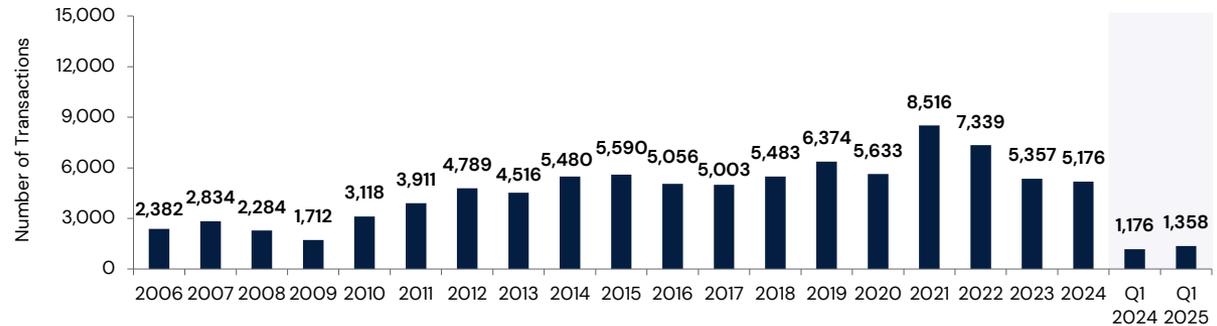
2024 dry powder figures as of June 30, 2024.
Source: PitchBook and Capstone Partners

PRIVATE EQUITY ACTIVITY

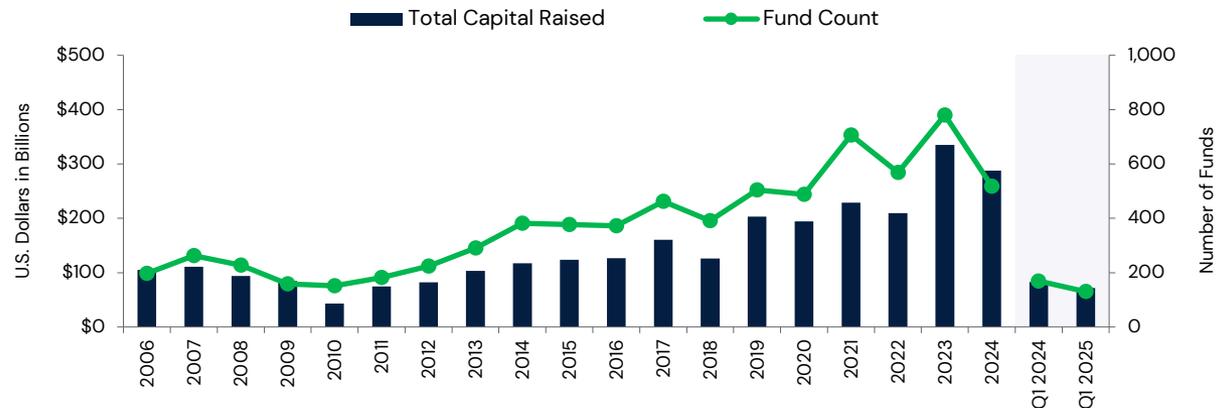
SPONSOR DEAL VOLUME RISES, FUNDRAISING DECLINES

- PE firms registered a 3.4% decline in closed transactions in 2024. However, a 15.5% YOY rebound in activity through Q1 2025 has demonstrated an early push for fund managers to tap into robust capital overhang reserves for platform investments.
- PE groups have increasingly focused on exiting current portfolio holdings and returning liquidity to LPs while delaying new fundraising efforts. Total PE capital raised dropped 13.1% YOY through Q1, while fund count declined 23.1% during the same period. Fundraising is expected to pick up as economic volatility subsides.
- PE investments have declined from peak levels as investors prioritize quickly offloading portfolio holdings over waiting to maximize valuations.

Middle Market Transactions Closed by PE Firms



Middle Market Fundraising by PE Firms



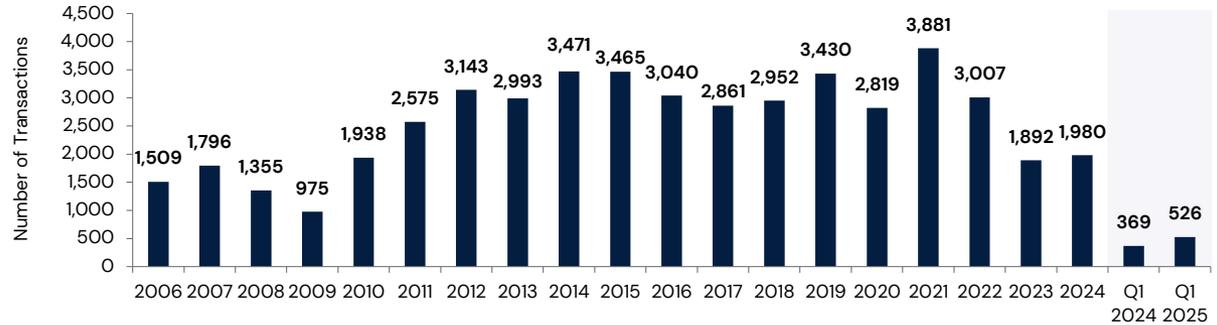
Source: Capital IQ, PitchBook, and Capstone Partners
 Note: New data methodology used for this report; Fund size < \$5B

PRIVATE EQUITY TRANSACTION TYPES

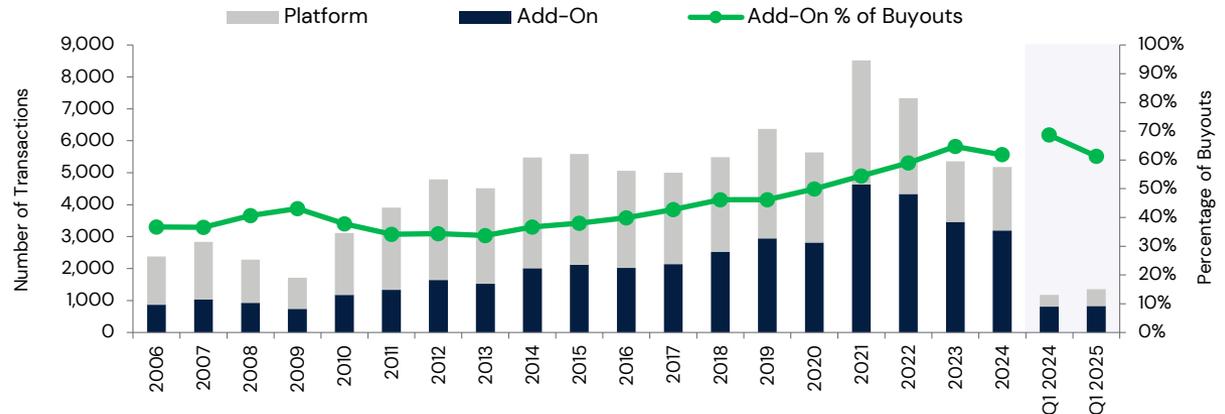
PLATFORM INVESTMENTS CONTINUE TO REBOUND

- PE platform acquisitions rose 42.5% YOY in Q1 2025—building upon a rebound in platform investments witnessed in 2024—while add-on deals recorded a 3.1% YOY rise in volume during the same period.
- Add-on activity as a percent of sponsor buyouts dropped YOY to 61.3%, extending the reversal of the 10-year trend of add-ons taking share of total PE activity. However, buy-and-build strategies remain a cornerstone of PE dealmaking.
- Softening Private Credit and Leveraged Loan markets, coupled with volatile Equity markets and a growing emphasis on recession resilient businesses, have encouraged fund managers to pursue scalable opportunities.

PE Platform Investments



PE Add-On Acquisitions



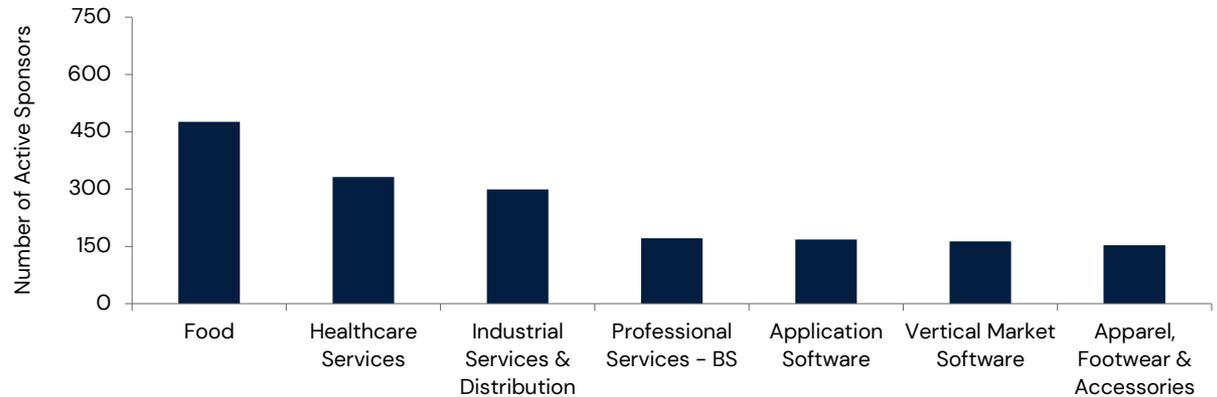
Source: Capital IQ and Capstone Partners
 Note: New data methodology used for this report; Enterprise Value < \$500mm

CAPSTONE'S PRIVATE EQUITY NETWORK PREFERENCES

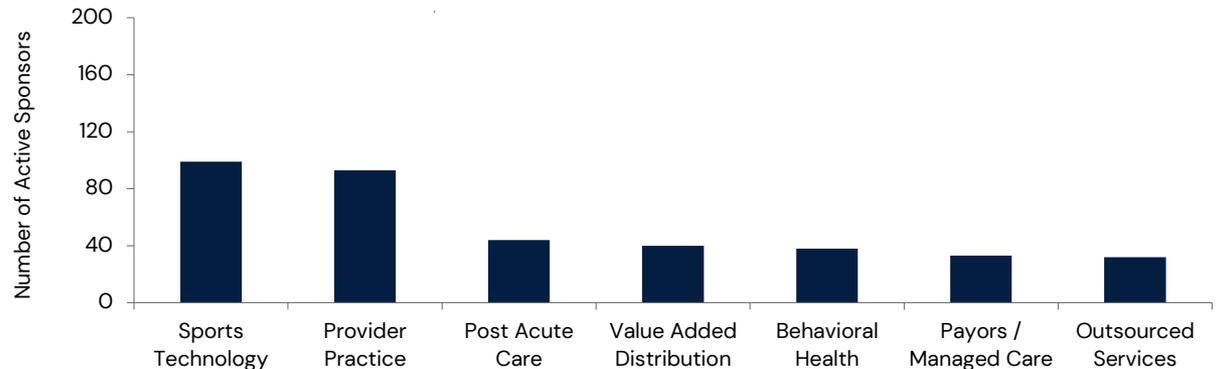
FOOD REMAINS TOP PE SECTOR PREFERENCE

- **Food** continued to be the top sector preferred by Capstone's sponsor network in Q1 2025, with the Healthcare Services and Industrial Services & Distribution sectors maintaining second and third place during the quarter.
- The Professional Services sector has remained the fourth most preferred sector by Capstone's sponsor network after passing Application Software in 2024. Application Software continued to lead the Vertical Market Software sector for the fourth quarter in a row.
- **Sports Technology** and Provider Practice remained the most preferred subsectors among Capstone's sponsor network, followed by Post Acute Care and Value-Added Distribution.

PE Sector Preferences



PE Subsector Preferences



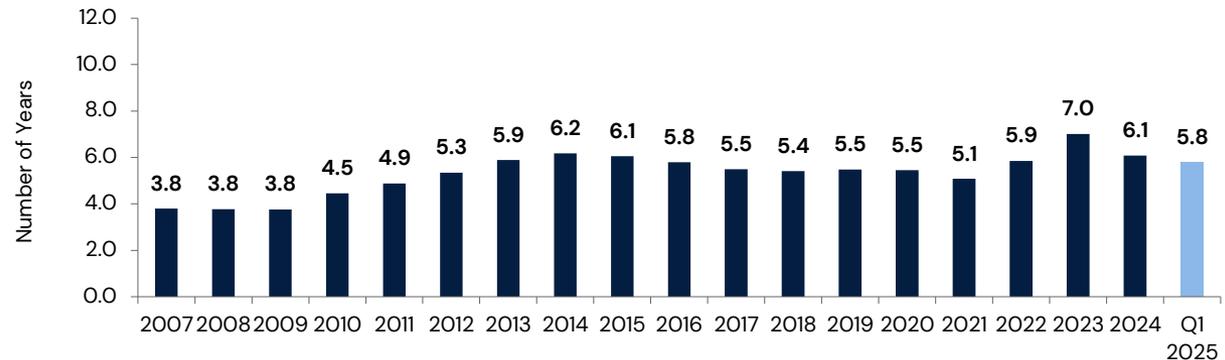
Source: Capstone proprietary data

PRIVATE EQUITY HOLDING DATA

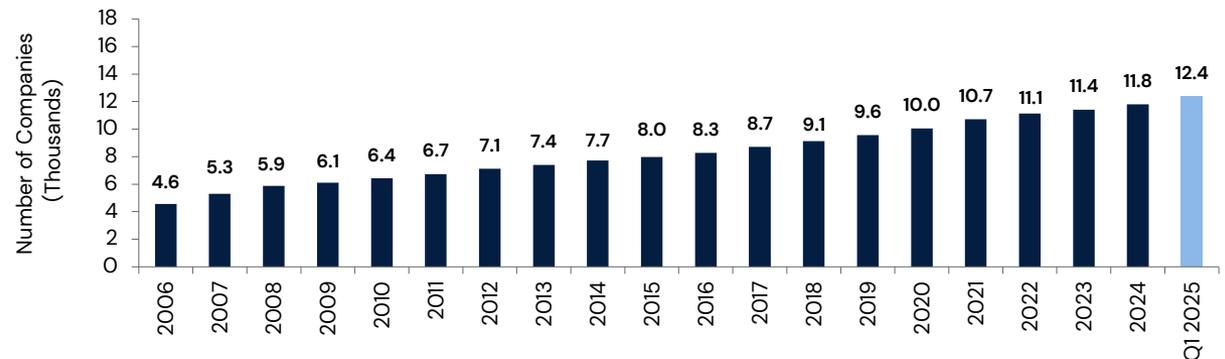
PE HOLDING PERIODS FALL, INVENTORIES RISE

- The median holding period for PE buyouts fell by 0.9 years in 2024 compared to 2023 and continued to fall to 5.8 years in Q1, revealing PE firms' desire to exit portfolio holding companies.
- PE-backed company inventory levels reached a record high of 12,379 businesses through Q1 2025. The majority (65.5%) of active PE investments in Q1 reached a maturity in less than six years. However, PE holdings of less than three years (27.3%) increased in Q1 as PE groups cashed out positions.
- The aging inventory of PE portfolios, coupled with record levels of sponsor-backed companies, has extended the expectations of an M&A market ready to break out as fund managers seek to realize long-awaited returns.

Median Holding Period for PE Buyouts



PE-Backed Company Inventory By Year



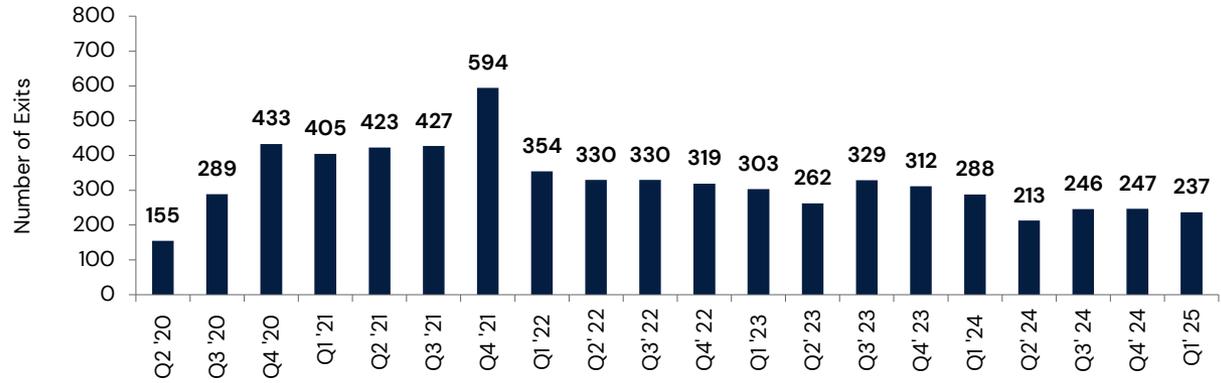
Note: New data methodology used for this report
Source: PitchBook and Capstone Partners

PRIVATE EQUITY EXIT ACTIVITY

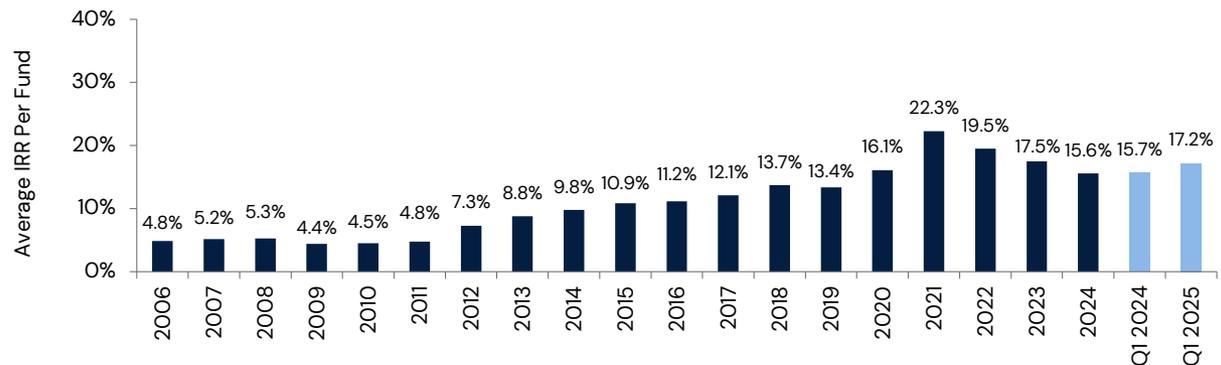
SPONSORS FOCUS ON DIVESTING TOP PERFORMERS

- PE exit activity remained depressed through Q1 2025, falling 17.7% YOY. Exit volume experienced a 4% decline as activity hovered around 230-250 exits across the past three quarters. Total exit value in Q1 2025 rebounded 97.8% YOY to \$167.9 billion, the highest exit value since Q4 2021.
- Sponsors have pursued exits in top-performing portfolio companies to provide distributions, contributing to the rise in exit value but decline in exit count.
- PE as an asset class struggled to generate the excess rates of return experienced in 2021. However, PE internal rate of return (IRR) averaged 17.2% in Q1 2025 compared to 15.7% in Q1 2024 and remained above the 10-year average of 15.2%.

U.S. PE Exit Activity



U.S. PE Internal Rate of Return



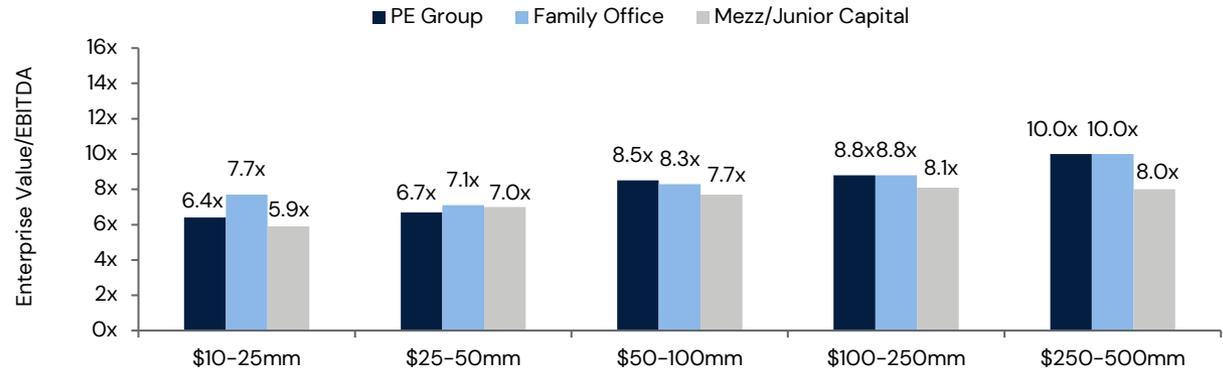
Note: Includes all U.S. PE exits
Source: PitchBook and Capstone Partners

PRIVATE EQUITY VALUATIONS

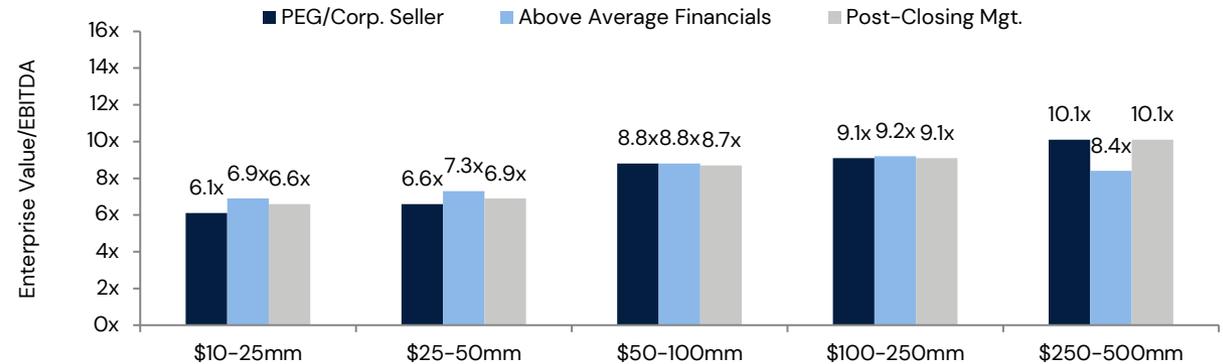
FAMILY OFFICES REWARD LOWER MIDDLE MARKET

- PE firms and family offices continued to compete closely for businesses in the top half of the market (\$100-\$500 million) and pay the highest valuations among financial buyers for businesses with scaled operations.
- Mezzanine or junior capital showed heightened interest in the \$100-\$250 million range, paying an average of 8.1x EV/EBITDA.
- Family offices were the most competitive acquirers for businesses across four out of the five value ranges.
- Companies with above average financials in the \$10-250 million ranges garnered either the highest or tied for the highest EBITDA multiples across each enterprise value range in Q1 2025.

Average Valuations by Buyer Type



Key Transaction Valuation Drivers



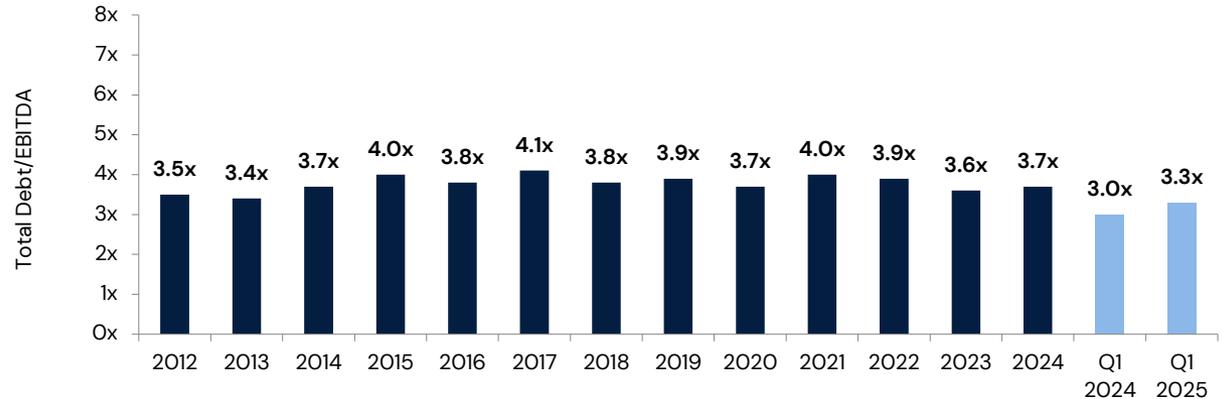
Source: GF Data® and Capstone Partners
 GF Data® defines Above Average Financial Performers as businesses with TTM EBITDA margins and revenue growth above 10%, or one above 12% and the other metric at least 8%
 Includes multiples 3x-15x; Enterprise Value \$10mm-\$500mm

PRIVATE EQUITY VALUATIONS

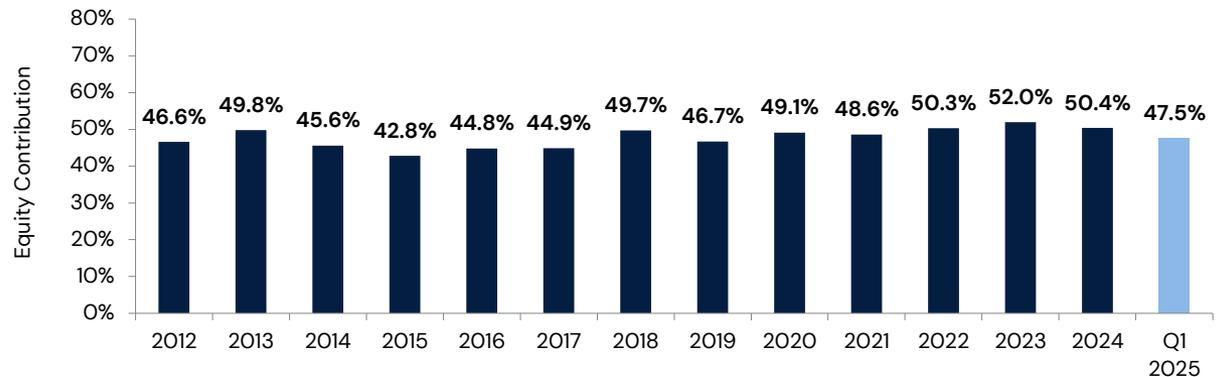
AVERAGE DEBT MULTIPLE IMPROVE IN Q1 2025

- In Q1 2025, the average debt multiple rose to 3.3x YOY. Senior debt pricing continued to improve, decreasing 60 bps QoQ in Q1.
- Businesses in the \$100-\$250 million enterprise value range saw debt multiples improve the most in the middle market during Q1 2025, increasing from 4.0x to 4.6x.
- Equity contribution declined to 47.5% while senior debt contribution increased to 42.4%, up from 41.3% in full-year 2024. Smaller add-on transactions continued to attract relatively more aggressive debt packages, supported by sponsors' ability to leverage existing credit facilities.

Average Debt Multiples of Middle Market LBO Transactions



Average Middle Market LBO Equity Contribution



Source: GF Data® and Capstone Partners
Includes multiples 3x-15x; Enterprise Value \$10mm-\$250mm



CAPSTONE BAROMETERS

CAPSTONE PARTNERS' FULLY INTEGRATED EXPERTISE

We have developed a service delivery model that can address the needs of any client situation, supported by vast internal resources. These capabilities are delivered together with deep domain expertise across 12 dedicated industry groups with an established, real-time access to the private equity community.

<h3>Mergers & Acquisitions</h3> <ul style="list-style-type: none"> • Sell-side Advisory • Buy-side Advisory • Recapitalizations • Mergers & Joint Ventures 	<h3>Capital Advisory</h3> <ul style="list-style-type: none"> • Equity Advisory • Debt Advisory • Infrastructure Finance 	<h3>Financial Advisory</h3> <ul style="list-style-type: none"> • Transaction Advisory • Interim Management • Performance Improvement • Advisory Services • Litigation Support 	<h3>Special Situations & Restructuring</h3> <ul style="list-style-type: none"> • Special Situations • Turnaround • Restructuring • Bankruptcy • Insolvency 	<h3>ESOP Advisory</h3> <ul style="list-style-type: none"> • Preliminary Analysis • Feasibility Study • ESOP Implementation • Liability Study • IRC § 1042 Design
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Industry Groups

 <p><u>Aerospace, Defense, Government & Security</u></p>	 <p><u>Building Products & Construction Services</u></p>	 <p><u>Business Services</u></p>	 <p><u>Consumer</u></p>
 <p><u>Agriculture</u></p>	 <p><u>Energy, Power, & Infrastructure</u></p>	 <p><u>FinTech & Services</u></p>	 <p><u>Healthcare</u></p>
 <p><u>Industrials</u></p>	 <p><u>Industrial Technology</u></p>	 <p><u>Technology, Media, & Telecom</u></p>	 <p><u>Transportation & Logistics</u></p>

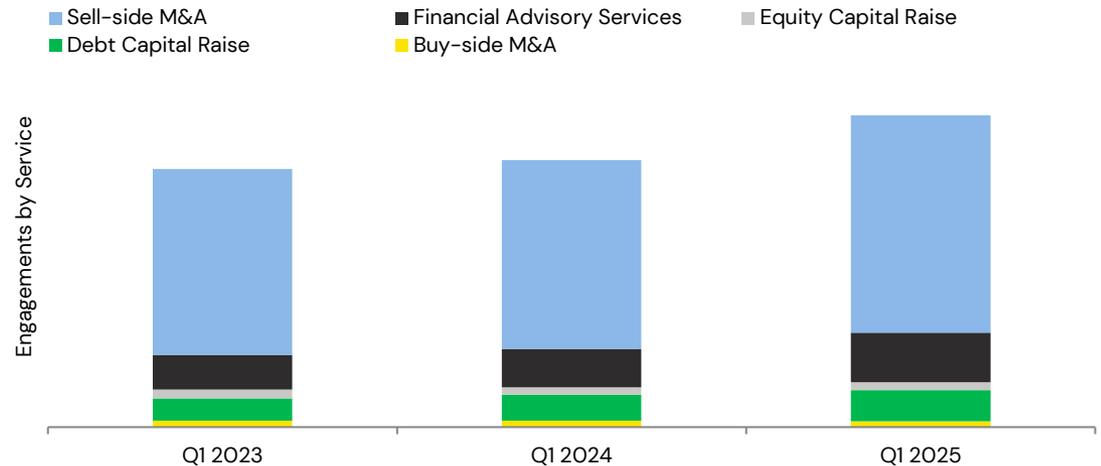
Sponsor Coverage Group

FIRM DATA

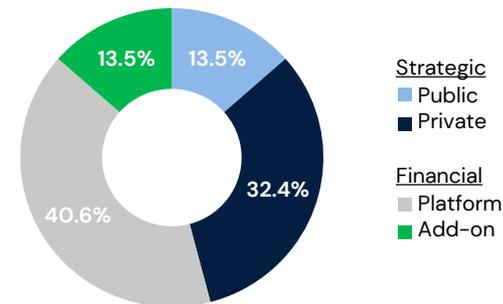
FINANCIAL BUYERS UNDERPIN MIDDLE MARKET ACTIVITY

- Sell-side M&A engagements and Capstone's Financial Advisory Group saw strong, and building, traction in mandates across sectors, as business owners look to evaluate and reposition companies amid increasing economic volatility.
- Strategic buyers accounted for 45.9% of trailing twelve-month (TTM) Q1 2025 transactions, with private businesses comprising 32.4% of acquirors.
- Financial buyers have maintained their presence in the middle market, accounting for a majority (54%) of Capstone's TTM transactions with platform investments comprising 40.5% of deals amid easing credit conditions.

Capstone Engagements By Service



Capstone TTM Buyer Breakdown



Source: Capstone proprietary data based on live engagements and closed sell-side engagements

RECENT DEAL CLOSINGS

Capstone is an active leader in middle market M&A advisory, serving many clients and their needs, despite the unprecedented disruptions to the economy. Select our recent tombstones below to read the full press release.



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FINANCIAL ADVISORY AND INSOLVENCY SERVICES



HAS BEEN ACQUIRED BY




WAS ADVISED BY CAPSTONE PARTNERS ON SECURING A \$40M SENIOR CREDIT FACILITY



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WAS ADVISED BY CAPSTONE PARTNERS ON DEBT FINANCING



HAS BEEN ACQUIRED BY

AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)



HAS RECAPITALIZED WITH




HAS BEEN ACQUIRED BY




HAS BEEN ACQUIRED BY




HAS BEEN ACQUIRED BY

AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)



HAS BEEN ACQUIRED BY




a portfolio company of Lincolnshire MANAGER

HAS BEEN ACQUIRED BY




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HAS BEEN ACQUIRED BY




HAS BEEN ACQUIRED BY




a portfolio company of SHOREVIEW

HAS SECURED AN \$83 M UNITRANCHE CREDIT FACILITY FROM



LEADERSHIP TEAM



JOHN FERRARA, FOUNDER AND PRESIDENT

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John has dedicated 30+ years to serving as a trusted advisor to privately held businesses. Representative of over 200 engagements, he has acted as investment banker, management consultant, interim executive, investor, founder and board member. John has been recognized as one of the Top 50 M&A advisors in the U.S. and honored as an M&A Advisor Hall of Fame inductee. Under his leadership, Capstone has expanded to 19 offices in the U.S., U.K., and Brazil with an international platform that spans over 450 professionals in 40 countries worldwide. John graduated from Wesleyan University with an MBA from UCLA and The London School of Economics.



OLIVIA FERRIS, COO

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Olivia Ferris has over 10 years of investment banking experience with Capstone Partners and currently serves as Chief Operating Officer on the firm's executive team. In this role, Olivia is responsible for overall firm strategy, corporate development, partnerships, strategic initiatives, and investments. She is central to communicating, executing, and sustaining Capstone's priorities and translating them into a comprehensive strategic plan. Olivia earned a BSBA in Finance from Daniels College of Business, University of Denver.



PAUL JANSON, CO-HEAD OF INVESTMENT BANKING

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With 25 years of executive experience, Paul manages all investment banking operations for the firm. On the M&A Advisory side, he is active in telecommunications services, manufacturing and infrastructure. Previously, Paul served as President & CEO of Camiant, a Packet Cable Multimedia broadband company. Paul was also CEO of Worldbridge Broadband Services Inc, a broadband and telecommunications company that was later acquired by C-Cor. Paul then became President of C-Cor's Global Services Division. He earned a BA in Business from Saint Anselm College.



KEN WASIK, CO-HEAD OF INVESTMENT BANKING

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Ken serves as Capstone's Co-Head of Investment Banking and leads the Consumer Investment Banking Group. He brings 25 years of investment banking experience including domestic and international mergers & acquisitions, initial and secondary offerings of public companies, debt raises, and private placements for his clients. He has helped raise over \$10 billion in capital for clients during his career. Ken joined Capstone Partners from Stephens Investment Bank, where he started and led the Consumer Products Group. Prior to Stevens, Ken was with Jefferies and Co. as Managing Director of Consumer Products, and spent time as Head of the Consumer, Food, and Retail Group at Houlihan, Lokey, Howard, and Zukin.

LEADERSHIP TEAM (CONTINUED)



PETER ASIAF, HEAD OF BUSINESS DEVELOPMENT

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Peter has more than 20 years of experience as a senior business development executive across the professional and financial services industries. He has been a growth-oriented leader in early-stage, middle-market and Fortune 500 enterprises, helping them to design and execute strategic expansion plans, optimize brand positioning and strengthen key market relationships. Peter is a Certified Exit Planning Advisor (CEPA) designated by the Exit Planning Institute.



BRENDAN BURKE, HEAD OF SPONSOR COVERAGE

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Brendan has 16 years in investment banking experience. He oversees the firm's outreach to private equity sponsors and recruitment of senior investment bankers. Since joining Headwaters MB (now Capstone) in 2004, he has held roles in transaction execution, business development, recruiting and marketing. In 2012, he was awarded 40 UNDER 40 by the M&A Advisor. He received a BA in Politics, Philosophy, Economics from Pomona College.



DANIEL MCBROOM, HEAD OF PRIVATE CAPITAL MARKETS

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Daniel has 15 years of private and investment banking experience and is responsible for sourcing and analyzing hundreds of companies a year introduced by the firm's institutional clients and partners. Select companies are engaged and his team will stay involved until the transaction is closed. Before his financial career, Daniel spent seven years as a pilot in the United States Air Force. He earned an MBA from the University of Notre Dame and a BS from the United States Air Force Academy.



MARK CASPER, CHIEF FINANCIAL OFFICER, SUPERVISING PRINCIPAL

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Mark joined Capstone in 2016 and currently serves as the CFO and the Supervising Principal. In that capacity, Mark manages the FPA, oversees tax, financial, and regulatory reporting, and heads the firm's corporate development. Mark works in tandem with the President and COO ensuring financial feasibility for strategic initiatives as well as current business lines. In addition, he works closely with each banker to assist them in client management, regulatory efforts, and provides guidance around finance, accounting, and taxation. Prior to his current role, Mark spent over 11 years in public accounting. During his career, he has specialized in assurance, taxation, and business valuation consulting.

LEADERSHIP TEAM (CONTINUED)



SARAH DOHERTY, DIRECTOR OF MARKET INTELLIGENCE

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Sarah has more than 10 years of professional research, writing, and data visualization experience and leads the strategic coverage and development of Capstone’s middle market insights. She manages the firm’s Market Intelligence Team, which produces 150+ reports, articles, white papers, surveys, and capital markets updates each year. Her team’s award-winning M&A commentary and analysis has been featured in more than 50 of the nation’s top news outlets. Sarah received a BA from Biola University and was recognized in 2021 with the “Emerging Leader Award” by the M&A Advisor.



BRIAN DAVIES, MANAGING PARTNER, FINANCIAL ADVISORY SERVICES GROUP

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Brian has 20+ years of experience working in the fields of corporate recovery, business reorganization and interim management services. He has provided financial advisory services to lenders, debtors, creditors’ committees, trustees and equity holders in bankruptcy matters and out-of-court restructurings. Brian has provided assistance to under-performing businesses and acquirers of distressed companies. He has worked with companies to develop cost containment and asset rationalization plans, improve liquidity, re-engineer financial and other back-office functions. He received a MS from Bentley University and MSF from The McCallum School, Bentley University.



JIM CALANDRA, HEAD OF FINANCIAL ADVISORY SERVICES GROUP

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Jim has more than 25 years of experience in turnaround management consulting, interim management, fraud and forensic accounting, mergers and acquisitions, and recapitalizations. He has advised more than 50 companies through significant strategic transitions involving both public and private middle market companies with varying situations. Jim received a BS in Accountancy from Bentley University and an MS in Accountancy from The McCallum Graduate School of Business, Bentley University.



Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle. Capstone's services include M&A advisory, debt and equity placement, corporate restructuring, special situations, valuation and fairness opinions, and financial advisory services. Headquartered in Boston, the firm has 175+ professionals in multiple offices across the U.S. With 12 dedicated industry groups, Capstone delivers sector-specific expertise through large, cross-functional teams. For more information, visit www.capstonepartners.com.

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