



CAPITAL MARKETS UPDATE

Middle Market M&A
Q2 2025

MARKET COMMENTARY

Industry Spotlight: Aerospace, Defense, Government & Security

While broader middle market merger and acquisition (M&A) volume increased 2.6% year-over-year (YOY) through Q2, the Aerospace, Defense, Government & Security (ADGS) industry notched a remarkable 19.6% YOY increase. In this Q2 report, Capstone Partners' Head of ADGS, Managing Director Tess Oxenstierna, provides insight into trends and drivers behind the industry's outsized growth. Capstone prides itself on having industry specialists who understand Air, Land, Sea & Space (ALSS) Systems; Command, Control, Communications, Computers, Intelligence, Surveillance & Reconnaissance (C4ISR); Commercial Aerospace & Aviation; Government Services; Physical & Cybersecurity; and Training & Simulation (T&S); and recently released its 2025 ADGS Annual Report & M&A Outlook. Our ADGS team is experienced in translating government contracting to capital providers, and we partner with investors and large-to-small cap companies to optimize value in a competitive market.

Defense Spending Protects High-Priority Investments such as Border Security, Nuclear Modernization, and Buoys Deal Demand

Aerospace & Defense M&A activity rose 15% in 2024, on a par with pre-pandemic levels, and is slated for continued strength amid modernization and defense needs around the globe. Fiscal year (FY) 2025 saw the passage of a full year Continuing Resolution (CR) of \$855 billion, driven by the Trump Administration election year transition and lack of a National Defense Authorization Act budget passed in 2024. This marked the first time in history that the U.S. government operated under a CR for an entire year. In the Department of Defense (~50% of federal discretionary spending) Secretary of Defense Pete Hegseth tasked military departments and defense agencies with identifying lower-priority activities and cutting

"The U.S. Government and private sector continue to invest in Air, Land, Sea & Space Systems, consolidating a fragmented and M&A-target rich subsector. Government contractors are actively seeking to shore up key suppliers to ensure surety of supply for critical systems, within the backdrop of an unprecedented full year Continuing Resolution."



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MARKET COMMENTARY (CONTINUED)

8% (~\$365 billion) of their projected annual budgets from 2026 to 2030. Additionally, the Secretary identified 17 high-priority areas (e.g., southwest border funding, nuclear modernization, homeland missile defense) to be excluded from the lists and protected from any funding reductions.

In early May 2025, a “skinny” President’s Budget Request was submitted to Congress, underscoring significant structural reforms that the President proposed for domestic and international affairs programs. This included eliminating the Department of Education and U.S. Agency for International Development (USAID), substantially reorganizing the Department of Health & Human Services (HHS) and the Environmental Protection Agency, and the “trillion dollar” budget, which the Administration is seeking for national security.

President Trump pushed for a permanent extension of the 2017 Trump tax cuts, increases in spending for defense, border security, and energy, significant cuts in mandatory spending, and a \$4-5 trillion debt limit increase. In combination with \$113 billion in mandatory funding, the defense budget increased spending by 13% and prioritized investments to: strengthen the safety, security, and sovereignty of the homeland; deter Chinese aggression in the Indo-Pacific; and revitalize the U.S. defense industrial base. The increased defense spending and re-prioritizations are slated to benefit deal activity in many ADGS sectors including T&S and ALSS.

While DOGE Targets Federal “Waste, Fraud, and Abuse,” State & Local Government Demands, Modernization, Drives Activity

The Trump Administration’s Department of Government Efficiency (DOGE), formerly led by SpaceX founder Elon Musk, commanded headline news for setting objectives to slash \$2 trillion from the federal government and to root out waste, fraud, and abuse. The most

targeted government agencies comprised the USAID, HHS, and General Services Administration. DOGE claimed \$32 billion in federal contract cancellations and renegotiations, with cancellations most affecting federal contractors with NAICS codes in Computer Systems Design Services, Other Computer Related Services, Customer Computer Programming Services, and Administrative Management & General Management Consulting. Despite federal cuts, state, local, and education government information technology (IT) software has seen growth and M&A activity amid decaying homegrown IT systems. Many of these systems were developed decades ago and are no longer supported, driving a shift by agencies to adopt cloud-based Software-as-a-Service (SaaS) models. This, combined with a fragmented base of IT vendors, multi-billion-dollar IT budgets, and strong client retention has led to continued interest in the [Government IT Services](#) sector from private equity (PE) acquirers.

Border and Homeland Security in Focus as Ukraine Aid Winds Down, Drone Demand Grows

The Russia-Ukraine conflict has continued into its fourth year, supported by U.S. aid packages since tensions escalated in February 2022. Specifically, the U.S. has provided \$70.6 billion in weapons, equipment, and other military support to Ukraine over the period, according to the [Council on Foreign Relations](#). Aid packages have created healthy demand for [Tactical Products](#) sector participants offering ammunition and other tactical gear to Military end markets. However, the Trump administration continues to work towards a cease-fire and peace agreement in Ukraine and managing domestic production of depleted domestic stockpiles. Tactical products demand will likely remain relatively stable as the U.S. aims to re-stock its own supply of firearms, ammunition, and other tactical gear.

Concurrently, recent global conflicts—including those in Ukraine and the

MARKET COMMENTARY (CONTINUED)

Middle East—have showcased the significant offensive advantages drones possess, where militaries can detect enemy movement and launch kinetic attacks quickly. Unmanned drone technology has particularly emerged as a high-growth tactical products category. First person view (FPV) drone strikes deployed by both Ukrainian and Russian forces skyrocketed 1,734% over a six-month period at the end of 2023, exemplifying the rapid evolution of the technology in military engagements, according to [Tochnyi.info](#). Moreover, drones have become less expensive than the munitions required to shoot them down, making the technology an equally effective and financially attractive solution for defensive military use cases. “Dedrone has sold a lot of stuff in Ukraine, but the far bigger picture is what happened in Ukraine has put drones on everybody’s roadmap. Every military in the world is thinking about how do you detect these small drones that traditional military systems are not designed to detect. How do you defend against them,” noted Patrick Smith, CEO of Axon Enterprises (Nasdaq:AXON), on the company’s [Q4 2024 earnings call](#). Demand for drone technology has been a prominent driver of M&A activity within the ALSS Systems sector and is expected to remain a lucrative segment for prime contractors going forward.



M&A OVERVIEW & OUTLOOK

Q2 2025 TAKEAWAYS & THEMES

Middle market M&A contracted in Q2 2025, as improved financing conditions and strategic repositioning failed to offset cautious investor sentiment amid trade policy shifts, which materialized in more selective capital deployment.

- The momentum from Q1 2025 slowed in Q2 as M&A volume fell 6.6% quarter-over-quarter (QoQ), demonstrating the early fall-out from trade policy shifts.
- Buyers remained highly valuation-sensitive, favoring targets with pricing power, recurring revenue, and exposure to reshoring or supply chain resilience themes.
- While PE dealmaking improved YOY, Q2 2025 activity declined QoQ amid a broad pull-back in M&A across buyer cohorts. Exits and fundraising remained depressed as market volatility muddled an already uncertain outlook for the asset class.

M&A activity is expected to remain selective, at least until buyers and sellers alike see economic and geopolitical uncertainty subside.

- Recent tariff escalations have prompted corporate realignment, vertical integration, and divestiture activity. Deals with trade partners are expected to give buyers and sellers much awaited relief and re-open the M&A market.
- PE acquirers will likely remain fastidious amid the choppy macroeconomic backdrop and muted exit environment.
- The Federal Reserve's (Fed) potential for interest rate cuts, coupled with improving credit spreads, is expected to unlock capital.

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KEY CONSIDERATIONS FOR BUSINESS OWNERS

	Current State	Takeaways for Business Owners
Dry Powder	Abundant	PE platform transactions fell QoQ, despite sponsors remaining equipped with substantial reserves of dry powder. Limited partner (LP) pressure to invest this capital through platform and add-on acquisitions has quieted, as they too have adopted a tepid approach to markets following Liberation Day tariff announcements.
Buyer Appetite	Transitory Pause	Cautious optimism demonstrated by strategic buyers in Q1 2025 has slowly faded into a wait-and-see environment as buyers and sellers monitor geopolitical news and an evolving macroeconomic environment. Buyers of all types have engaged in fewer transactions, placing heightened emphasis on thorough due diligence processes and robust portfolio management.
Debt Market	Softening	Debt capital has remained available as the Fed holds interest rates steady in 2025. The Broadly Syndicated Loan (BSL) market has stayed open, and increased competition from private credit (PC) lenders continues to influence leveraged loan pricing. Spreads charged above base rates have seen meaningful reductions, reflecting a moderated approach to capital accessibility.
Valuations	Favoring Profitability and Scale	The average M&A multiple in Q2 2025 was 11.5x EV/EBITDA, surpassing the prior quarter (9.0x) and the historical average of 10.8x EV/EBITDA. Domestic buyers have continued to prioritize profitability and scale, allowing quality businesses to secure strong interest. Meanwhile, foreign buyers have begun paying premium multiples to enter the U.S. market and gain reprieve from tariff uncertainty.

Q2 2025 BY THE NUMBERS

6.6% ↓

DECREASE IN DEAL VOLUME

M&A volume declined 6.6% QoQ in Q2 2025 as deals stalled amid growing geopolitical turbulence.

\$32.9B ↓

TOTAL DEAL VALUE

Total deal value in Q2 2025 fell 7.2% QoQ to \$32.9 billion as buyers remained cautious in deploying capital.

11.5x ↑

AVERAGE EBITDA MULTIPLE

The average EBITDA multiple for middle market deals jumped one and a half turns QoQ to 11.5x.

5.0% ↓

DECREASE IN PE TRANSACTIONS

PE activity decreased 5% QoQ amid broader market volatility in Q2 despite cheaper acquisition financing.

\$12.7B ⇨

TOTAL PE DEAL VALUE

Total PE deal value inched higher QoQ, rising 0.6% to \$12.7 billion. However, deal value remained below Q3 and Q4 2024.

13.1x ↑

PE EBITDA MULTIPLE

The average EBITDA multiple paid by sponsors increased by more than a turn QoQ to 13.1x in Q2 2025, compared to 11.7x in Q1 2025.

8.0% ↓

PRIVATE STRATEGIC DEAL VOLUME

Acquisitions by private strategic buyers fell 8% QoQ in Q2 as buyers questioned future operating metrics amid tariff uncertainty.

\$63.5M ↑

AVERAGE VALUE PAID BY PRIVATES

Private strategic buyers paid an average enterprise value of \$63.5 million, representing a 3.1% QoQ increase.

7.5% ↓

PUBLIC STRATEGIC DEAL VOLUME

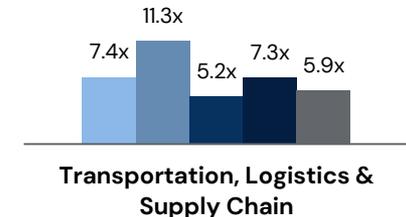
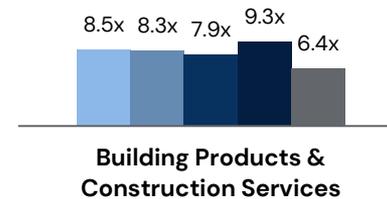
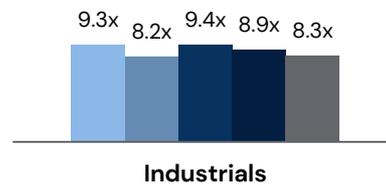
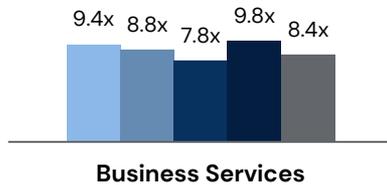
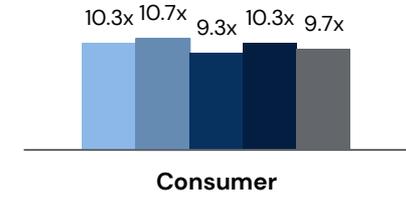
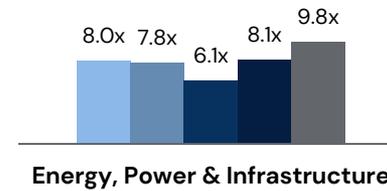
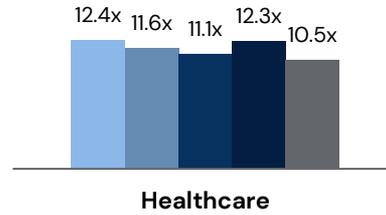
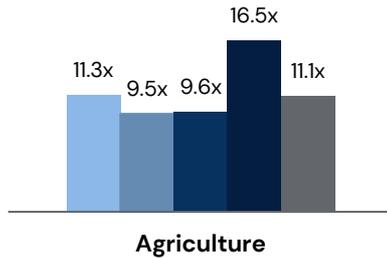
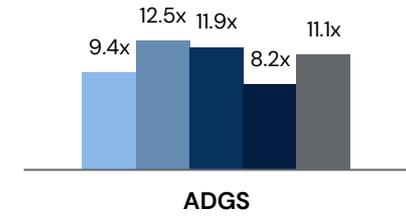
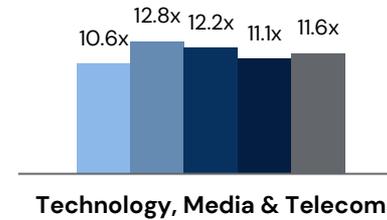
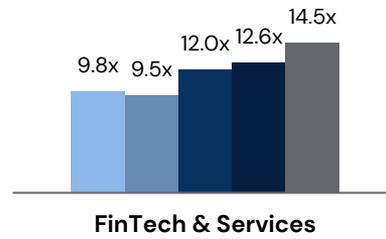
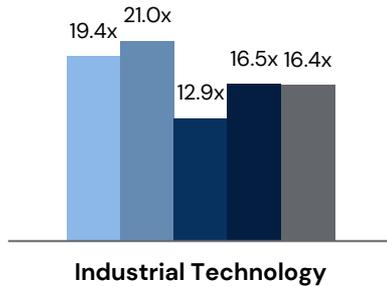
Public strategic deal volume declined 7.5% QoQ as many acquirers digested tariff developments and focused internally.

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.
- Five industries saw multiple expansion in the last twelve-month (LTM) period, led by Industrial Technology with an average of 16.4x EV/EBITDA.

EV/EBITDA



CAPITAL MARKET DASHBOARD

YTD EQUITIES

S&P 500
+6.1%



Last	1Y %	P/E LTM
5,238.0	+13.0%	26.5

Dow Jones Industrial
+2.5%



Last	1Y %	P/E LTM
43,588.6	+6.7%	22.8

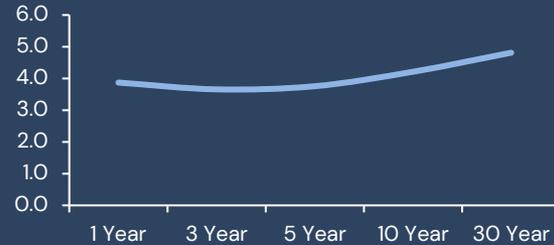
NASDAQ
+6.9%



Last	1Y %	P/E LTM
20,650.1	+17.3%	31.7

FIXED INCOME

U.S. Yield Curve



1Y	3Y	5Y	10Y	30Y
3.871	3.657	3.756	4.212	4.811

POLICY RATE

Federal Funds Target Rate



M&A INDICATORS

GDP, LABOR MARKET, & INFLATION

	Last	YOY	
GDP	3.0%	0.0%	
Unemployment	4.2%	0.0%	
Consumer Price Index	327.6	+2.9%	

CONFIDENCE LEVELS

Consumer Confidence	97.2	-4.6%	
CEO Confidence	34.0	-37.0%	

FINANCING

High Yield Bond Yield	7.6%	-5.2%	
Investment Grade Bond Yield	5.0%	-6.8%	

FOREIGN EXCHANGE

USD Major Currencies Fed Index	113.1	-1.9%	
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Source: FactSet and PitchBook LCD as of 08/04/25

GROWTH EQUITY MARKET CONDITIONS



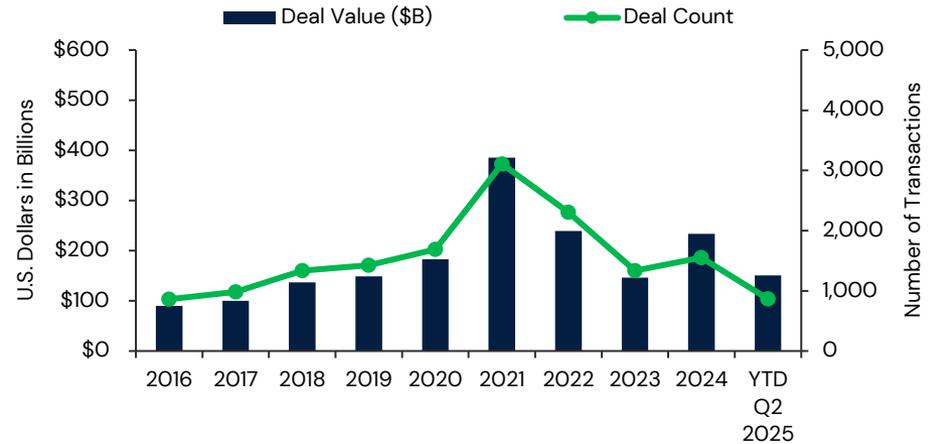
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GROWTH CAPITAL VOLUME SET TO OUTPACE PRIOR YEAR, VALUATIONS CONTINUE STRONG REBOUND

At the current pace, 2025 is on track to be the strongest year for growth equity deployment since 2021. Through Q2, growth capital investments in late-stage private companies reached \$151 billion, surpassing levels seen in recent years. This momentum has been fueled in part by a wave of large-scale financings. In Q2 alone there were 10 transactions that raised \$1 billion or more, including Scale AI's \$14.3 billion raise led by Meta (Nasdaq:META) in June; Acrisure's \$3.9 billion raise led by Bain Capital (May); and Anduril Industries \$2.5 billion raise led by Founders Fund (June).

Valuations remained elevated in Q2 2025, signaling continued investor optimism and a stable late-stage funding environment. While the pace of growth moderated, median pre-money valuations held steady at \$256 million in Q2, up slightly from \$255 million in Q1. This resilience reflects sustained capital availability, improving Public market comparables, and ongoing demand for high-growth opportunities in innovative sectors. Of note, median valuations through Q2 2025 were higher than the full-year figure for 2021, although much of that uptick is driven by hypergrowth artificial intelligence (AI) companies.

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

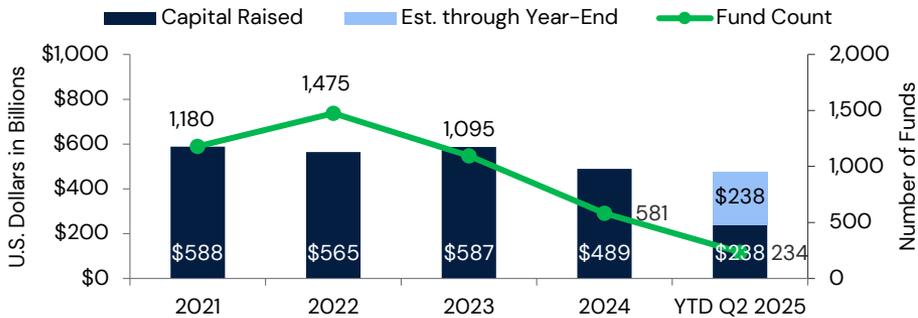
GROWTH EQUITY MARKET CONDITIONS (CONTINUED)

North American middle market M&A (enterprise values of at least \$25 million) volume increased by 6% YOY while total deal value increased 32% YOY, according to PitchBook. PE firms have remained active in deploying capital amid a stable but potentially easing rate environment, increasingly embracing flexible deal structures to align with founder and company objectives. As a result, many founders have considered postponing a full sale until their businesses reach greater scale. 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.

PE fundraising volumes and fund count are on pace for their lowest levels in the past five years. The slowdown in 2025 has been driven largely by a lack of exits and limited distributions to LPs, which has constrained capital recycling into new funds. This marks a shift from the elevated fundraising activity seen between 2021 and 2023. In Q2 2025, U.S. PE and growth equity funds raised \$101 billion across 115 vehicles—down from \$130 billion across 114 funds in Q2 2024.

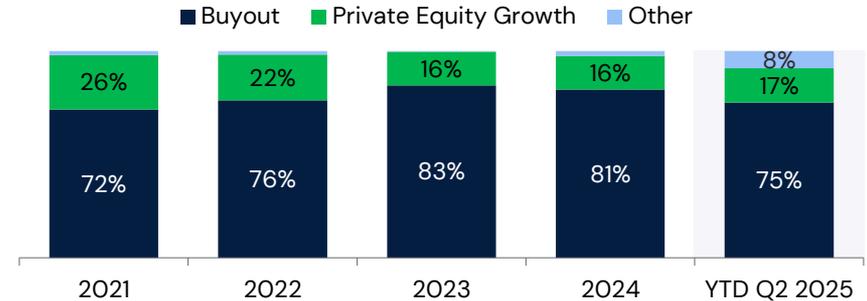
U.S. PE growth funds held steady in 2025, accounting for 17% of U.S. PE capital raised through Q2—a modest uptick from the prior year and the highest level since 2022. This stability reflects sustained investor appetite for growth-oriented opportunities despite a broader fundraising slowdown. Growth capital also remained active on the deployment side, representing 13.1% of total private equity deal value—above the 10-year average of 10.6%. On a deal count basis, growth equity accounted for one out of every five PE deals through Q2 2025.

U.S. Private Equity Funds Raised by Year



Includes Capstone projections; Source: PitchBook and Capstone Partners

U.S. Private Equity Capital Raised by Type



Note: Other includes restructuring and all other diversified PE funds
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.

CREDIT MARKET CONDITIONS



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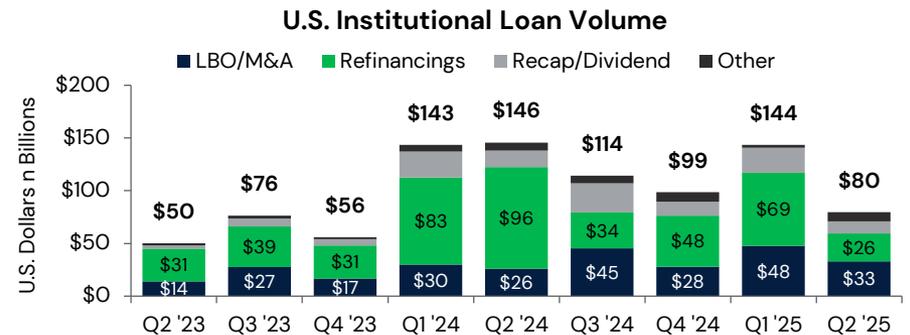
BORROWER-FRIENDLY MARKET CONTINUES THROUGH THE FIRST HALF OF 2025

2025 First Half Overview. The U.S. Debt market has not only remained in “borrower-friendly” territory, but the underlying fundamentals have continued to move further in favor of borrowers through the first half of 2025. Leveraged loan activity in the first half of 2025 was marked by institutional lenders competing heavily to win loan mandates—a trend that has continued from 2024. Many of the key fundamentals that have improved for borrowers are anticipated to hold steady throughout the remainder of 2025, providing a favorable backdrop for activity in the U.S. long-term leveraged loan markets.

Loan Volumes. Institutional loan volume (excluding repricing and extensions) during the first six months of 2025 fell precipitously from 2024’s volumes, according to PitchBook LCD. Loan volume in Q1 2025 did post a healthy ~\$144 billion, slightly outperforming the amount in Q1 2024 (~\$143 billion). However, Q2 2025’s loan volume of ~\$80 billion was significantly below both Q1 2025 and the prior year’s comparable Q2 volume of ~\$146 billion. Of note, Q2 2025’s result was ~20% lower than the lowest quarterly result posted during all of 2024 (Q4, ~\$99 billion). The main culprit for Q2 2025’s loan volume fall-off was largely the business/economic headlines that prevailed most of the quarter beginning with the “Liberation Day” tariff announcements on April 2. These headlines caused supply chain and export revenue uncertainty for companies with significant exposure to international trade, which

effectively took these businesses out of leveraged loan markets as prospective issuers for most of Q2. The only notable impact of the trade uncertainty on the leveraged loan markets thus far has been the precipitous decline in loan volumes during Q2. While trade uncertainty for some prospective borrowers has continued into Q3—uncertainty that will likely keep these companies out of the loan markets until their specific tariff exposure situation is resolved—the macroeconomic environment for borrowers has generally remained quite favorable as far as loan costs and terms.

M&A Activity. The M&A market is the core engine that drives leveraged loan volume. While middle market M&A financing volume did grow YOY in 2024, M&A activity for 2024 remained well below 2021’s peak levels. Heading into 2025, there was a great deal of optimism that the M&A markets would build on and exceed 2024’s rebound year results; this initial optimism for increased M&A volume from 2024’s levels was anchored by three themes: a more friendly M&A environment from a regulatory perspective, PE exits, and easing leveraged buyout (LBO) financing conditions. What was not factored into 2025’s M&A expectations was the uncertainty caused



Source: PitchBook LCD and Capstone Partners

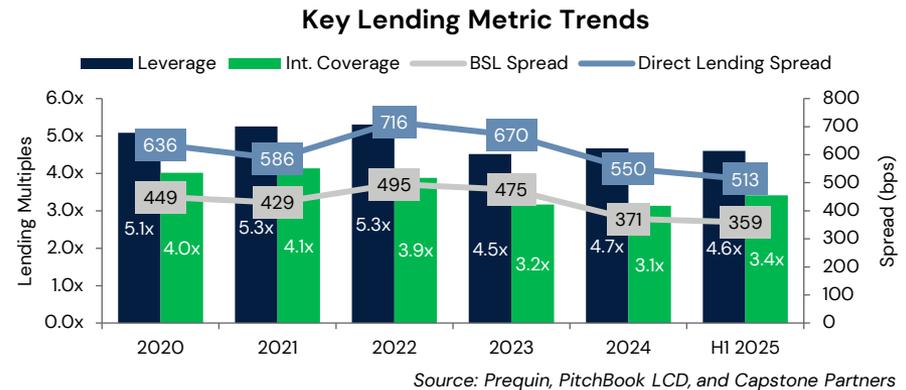
CREDIT MARKET CONDITIONS (CONTINUED)

the April 2 tariff announcement, which has largely kept the first two points in check (for now). The third theme has remained intact but by itself is not enough to induce PE firms to bring portfolio companies to the market. With M&A volume in the first half of 2025 (particularly Q2's result) being underwhelming at best, there simply has not been enough new LBO deal volume to satiate the private credit market's appetite to put money to work, thereby continuing a supply-side deficit with not enough new deal volume to meet the actual demand for new loans.

Private Credit Dry Powder. Private credit dry powder is the best measure of overall demand for new loans as it is literally the amount of debt capital that private credit lenders seek to invest. This dry powder amount not only remained at record levels as of the end of 2024, but it has showed no signs of abating thus far into 2025 as private credit lenders remain active on the fundraising front. Private credit's consistent and reliable cash flow feature for return of capital, combined with the relatively attractive risk-adjusted returns that private credit funds have produced over the past five years, has made them the darling of the private capital fundraising market and allowed the asset class to raise record amounts of capital. This ever-growing amount of private credit dry powder ("loan demand"), combined with the lack of new LBO deals from the M&A market ("loan supply"), has caused the supply/demand equation to be very much out of balance and in the favor of borrowers with no signs of abating thus far in 2025.

Pricing & Leverage. Private credit senior/unitranche loan borrowing rates have continued to decline through the first half of 2025 with additional spread compression of ~35 basis points (bps) on top of 2024's significant spread compression of ~120 bps, according to Pitchbook LCD. When combined with 2024's SOFR reduction of ~120 bps to ~4.3% currently from its peak in 2023 of ~5.5%, all-in rates for leveraged borrowers at the end of Q2 2025 have declined by ~275 bps from the 2023 peak—a fairly material move in favor of borrowers.

While further significant loan spread compression is unlikely in the remainder of 2025 given the material compression that has already occurred, there does not seem to be any known catalyst on the horizon that would reverse these recent reductions to loan spreads. There is, however, some loan cost "upside" for borrowers in that the current SOFR forward yield curve is suggesting that SOFR could drop by 25–50 bps by the end of 2025. All-in borrowing costs would very likely drop commensurately if SOFR falls 25–50 bps, assuming loan spreads remain flat from today's levels. Similarly, Capstone does not expect any material changes to average leverage ratio levels in the middle market for the remainder of 2025.



DEBT ADVISORY GROUP

The [Debt Advisory Group](#) helps privately-owned and sponsor-backed companies secure debt capital or leveraged finance for organic growth, acquisitions, dividend recapitalizations, and refinancings. The team works closely with clients to optimize their debt structures and secure the best long-term institutional partners for the business.

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MAKING DUE DILIGENCE A KEY PART OF A PE M&A STRATEGY

Typically, PE acquisition investment theses assume the maintenance or acceleration of profitable growth and often include the realization of synergies and efficiencies to increase enterprise value. These assumptions are dependent upon the ability of the target's IT architecture, systems, support services, and personnel, all of which are needed to navigate IT risks and support profitable growth. If not identified and addressed as part of diligence, deficiency in the ability of the target's IT function to support growth initiatives leads to a potential loss of momentum and significant erosion of value through unexpected costs and unrealized synergies.

The IT resources of a target are typically not validated in conventional Quality of Earning (QofE) and financial diligence, so conducting a robust IT due diligence review as part of the M&A process is becoming an integral element of deal diligence. Like a QofE assessment, this IT diligence review—or Quality of Technology (QofT) analysis—provides investors with the data and insights necessary to evaluate the target's

current IT resources and assess its ability to meet the expectations of the buyer. The QofT often includes preparing projections of the estimated cost to overcome any identified deficiencies and the potential value of future technology projects.

The selection of the right service provider, with the appropriate approach and a tailored scope, can drastically impact the quality of information and long-term planning.

Three Key Areas of Risk Addressed by a QofT Analysis

A QofT starts with an in-depth assessment of a range of technology-based risk factors including cybersecurity challenges, functionality of existing infrastructure, scalability, and organizational talent and expertise. The goal of a QofT is to create a comprehensive picture of the technology landscape so that there are no unknown factors that will emerge later to delay or derail the transaction or sap the value of the acquisition by requiring extensive post-close remediation. Due to limited scale and varied lifecycle stages, there are several IT risks that are often amplified with mid-sized target companies.

First, lower levels of IT sophistication and maturity often result in inadequate cybersecurity and data privacy practices. Examples include inadequate testing, backup and recovery, controls, training, and insurance coverage. These issues expose the buyer to the costs of regulatory penalties, business disruption, ransom payments, remediation efforts, and reputational damage.

Second, mid-sized companies have often reached an inflection point in their growth trajectory where information systems that are adequate (maybe even well-suited) to their current volume of business will not scale to support additional volume and/or don't

FINANCIAL ADVISORY SERVICES (CONTINUED)

have the functionality to support transformational practices necessary to drive additional growth. The deployment of enterprise class systems required to reach the next level of growth often represents a level of complexity beyond the capabilities of current management. If these issues are not identified in diligence, buyers must make unexpected post-close investments to support the growth they forecast in their financial models.

Third, owners and management teams anticipating a sale of the company often limit IT expenditures during the period leading up to the transaction to enhance financial statements. If not identified through a QofT assessment during diligence, buyers overpay on EBITDA that does not reflect a realistic IT spend run rate and also unknowingly assume technical debt passed on by the seller.

Conclusion

Information technology is one of the most complex, and fastest changing areas of business operations. Many middle market businesses are burdened with obsolete systems, software, and hardware; outdated cybersecurity protocols; and bare-bones staffing levels that were sufficient for operations, but which will not allow investors to scale the business satisfactorily and realize the full potential of the acquisition. Building in a plan to upgrade technology in the most efficient and cost-effective manner possible and sets the stage for rapid value enhancement post transaction.

Capstone's Financial Advisory Services (FAS) professionals have deep experience advising clients across a variety of industries on how to maximize the technology infrastructure of their middle market businesses. If you would like to learn more about how our performance improvement team can support your buy-side due diligence processes, please [contact us](#).

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



LGQ032251

WASHINGTON, D.C.



MIDDLE MARKET M&A ACTIVITY

SERIES
2006

Henry M. A...

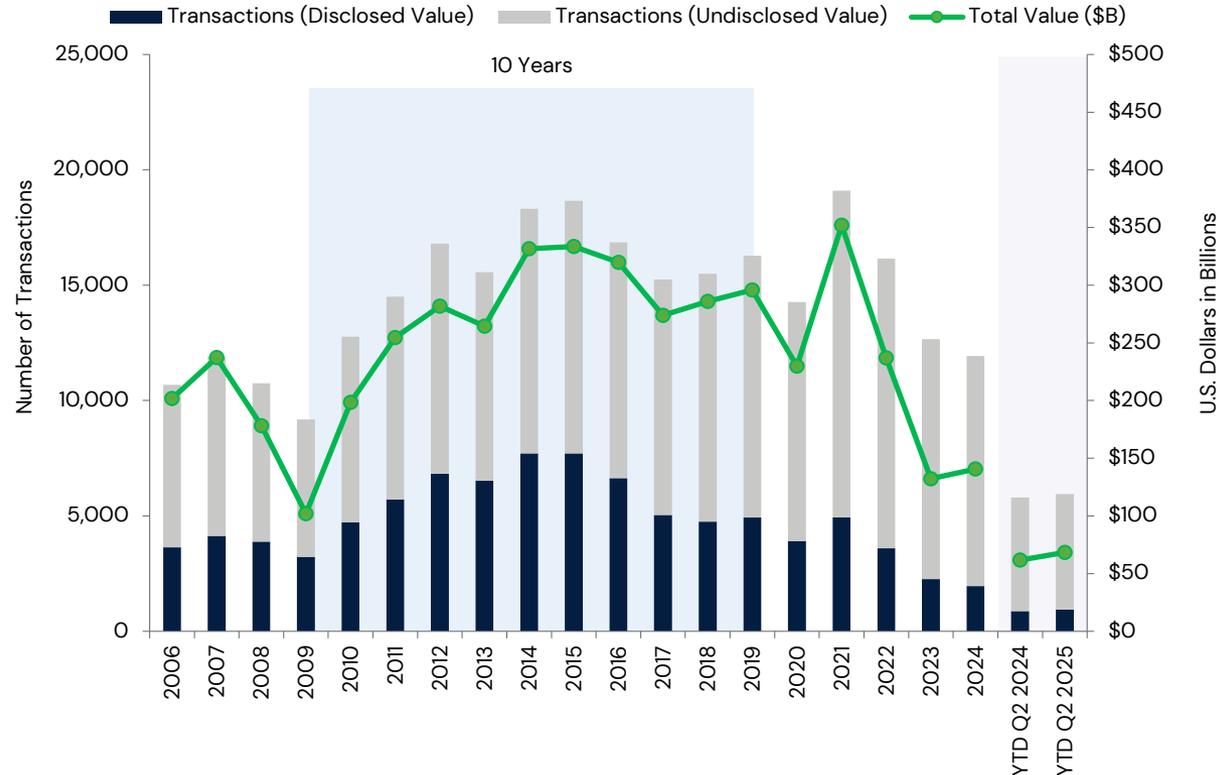
Secretary of the

M&A AMID ECONOMIC CYCLES

M&A ACTIVITY EKES OUT GAINS THROUGH Q2 2025

- Middle market M&A volume increased 2.6% YOY in year-to-date (YTD) Q2 2025 despite market uncertainty related to trade policy developments in Q2. A dramatic influx of asset and real estate sales heavily influenced the deal volume gains. These transactions rose from 180 in YTD Q2 2024 to 1,813 in YTD Q2 2025.
- Average disclosed enterprise value continued to tick higher, rising 3.7% YOY to \$73.1 million through Q2. Buyers have remained disciplined, opting to pursue larger targets with a high-conviction to realize synergies or an exit.
- Total disclosed middle market M&A value jumped to \$68.4 billion through Q2, \$6.8 billion more in total M&A value than the prior year period.

Middle Market Transactions



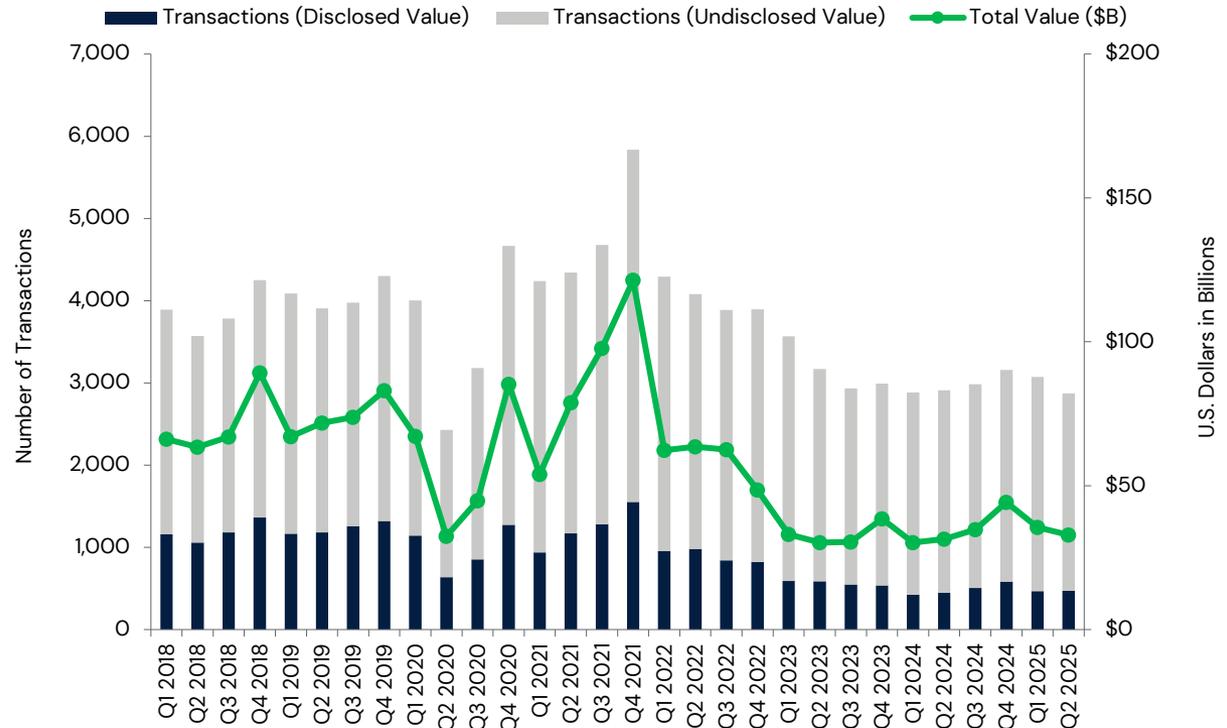
Enterprise Value < \$500mm; Blue shaded areas indicate economic expansion
Source: Capital IQ and Capstone Partners

QUARTERLY M&A VOLUME

QUARTERLY VOLUME AND VALUE SOFTEN FURTHER

- Total closed transactions in Q2 2025 fell 6.6% QoQ, continuing a 2.6% decrease seen in Q1 2025 and recording the lowest level of volume since Q2 2020. Both strategic and financial acquirers saw reductions in activity.
- Average middle market deal value dropped 8% QoQ to \$70.1 million. Public strategics recorded the largest decrease in average deal value, dropping 19.1% QoQ to \$79.6 million, while private strategic average deal value increased 3.1%.
- Buyers deployed \$32.9 billion in total disclosed deal value in Q2 2025. While this marked a 7.2% decrease QoQ, the total deal value remained in-line with the post-COVID M&A market downturn from Q1 2023 to Q2 2025 which saw a quarterly average of \$34.1 billion.

Quarterly Middle Market Transactions



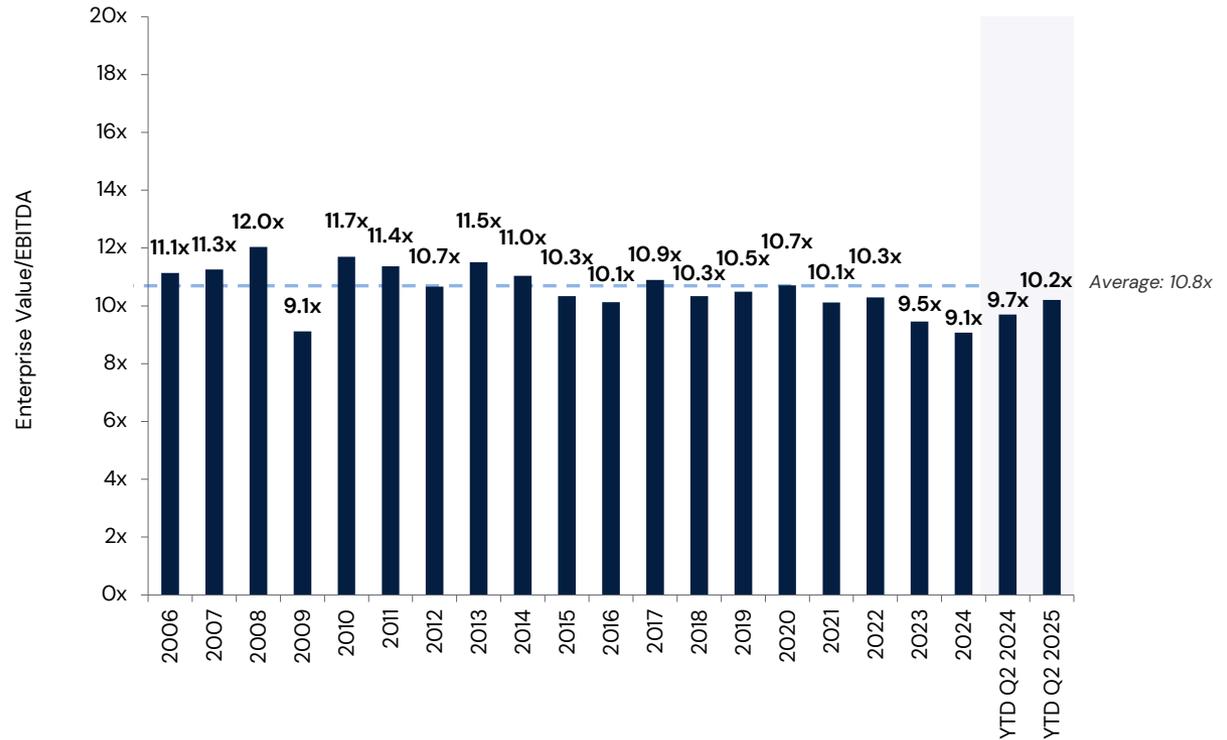
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

PRICING TRENDS

AVERAGE PURCHASE MULTIPLES TICK HIGHER

- The average middle market purchase multiple increased to 10.2x EV/EBITDA through Q2 2025, compared to the YTD Q2 2024 average multiple of 9.7x.
- On a quarterly basis, the average EBITDA multiple paid for middle market businesses rose to 11.5x in Q2, up from 9.1x in Q2 2024, and remained well above the historic average of 10.8x.
- PE firms paid an average multiple of 13.1x EV/EBITDA for middle market businesses in Q2, hinting that sponsors have begun moving up market for businesses they believe will provide stronger returns on an eventual exit.

Middle Market Average EBITDA Multiple



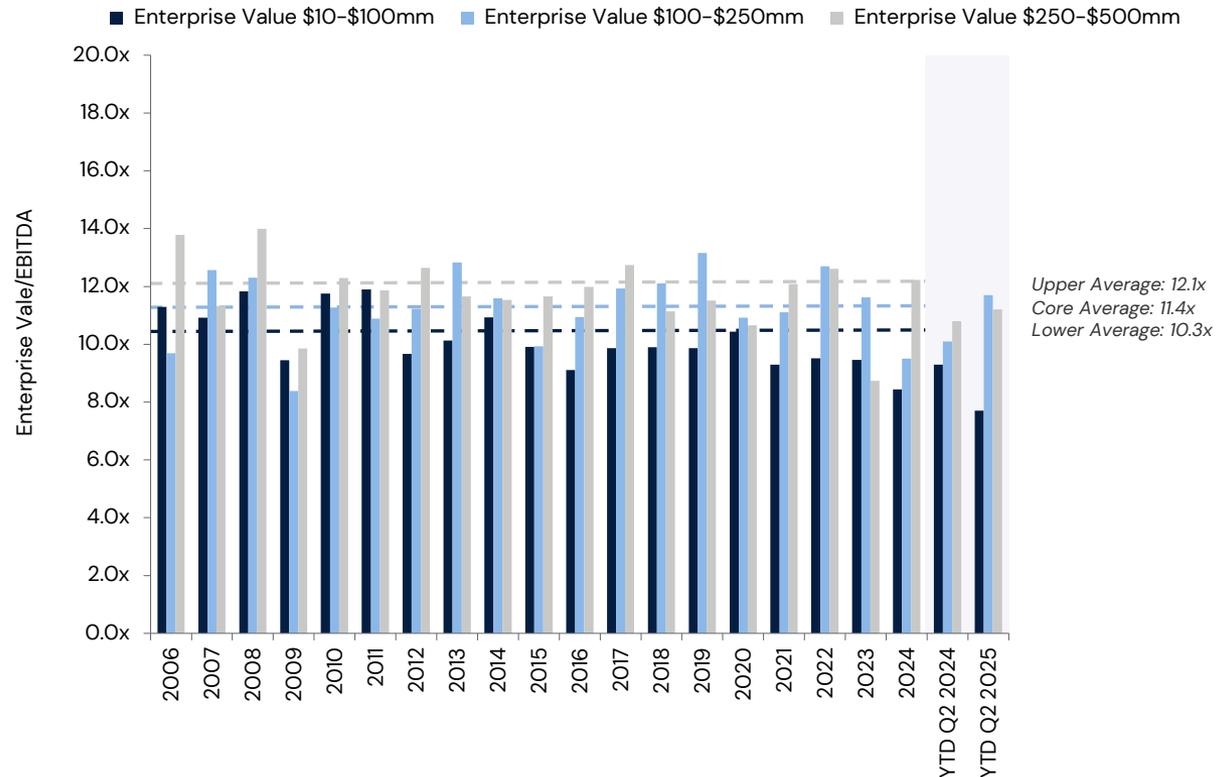
Enterprise Value < \$500mm; Includes multiples 3x-30x
Source: Capital IQ and Capstone Partners

BREAKING IT DOWN BY SIZE

CORE MIDDLE MARKET VALUATIONS OUTPERFORM

- In Q2 2025, core (\$100–\$250 million) and upper (\$250–\$500 million) middle market assets traded at higher multiples (16.7x and 13.4x, respectively) as buyers competed for high-quality businesses with stable cash flows amid the market uncertainty.
- The average valuation in the core middle market improved YOY to 11.7x EV/EBITDA through Q2 2025. The upper middle market also saw EBITDA multiple expansion YOY, averaging 11.2x.
- The lower middle market (\$10–\$100 million) saw valuation compression with the average multiple falling to 7.7x EV/EBITDA from 9.3x in the prior year period. The YTD Q2 figure landed well below the historical average in the lower middle market (10.3x).

Average Enterprise Value to EBITDA Multiple



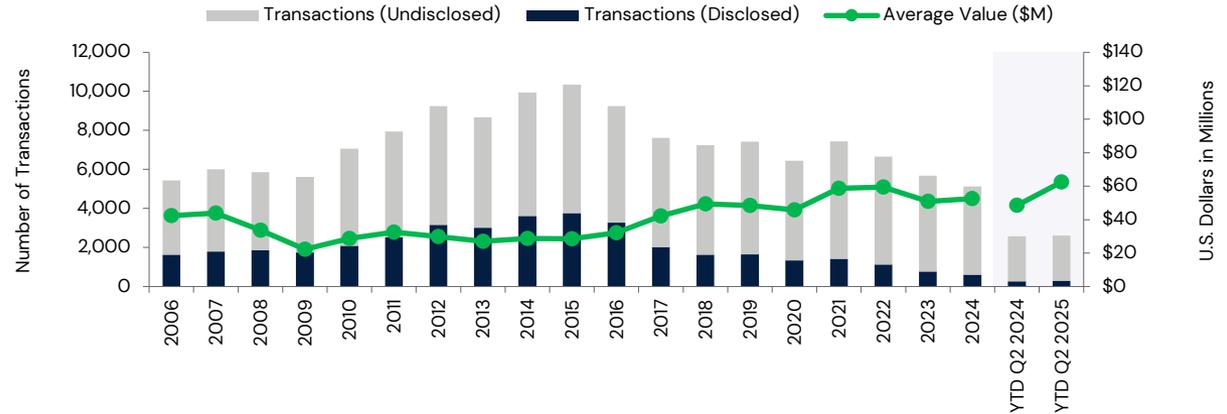
Enterprise Value < \$500mm; Includes multiples 3x–30x
 Source: Capital IQ and Capstone Partners

STRATEGIC ACQUIRERS

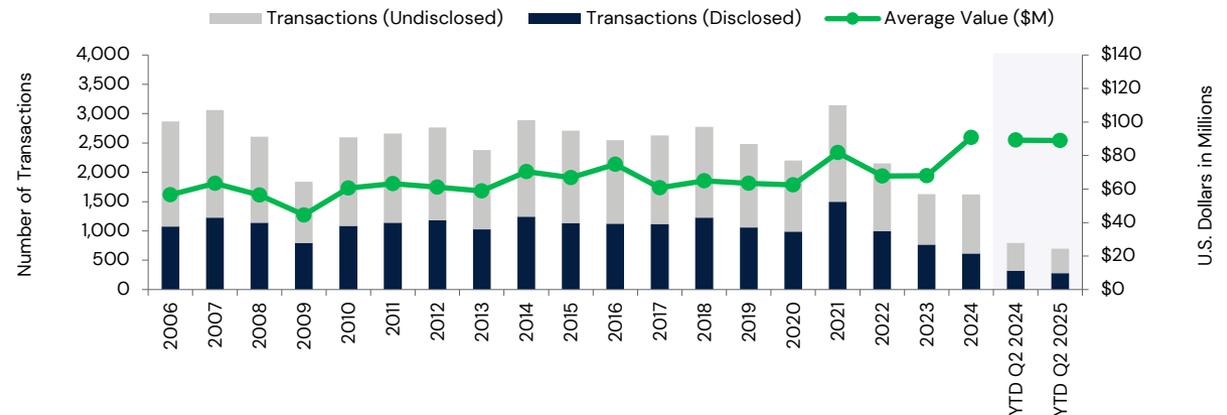
PRIVATE AND PUBLIC BUYER ACTIVITY RETREATS

- Strategic buyers wavered in Q2 as public strategic activity decreased 7.5% QoQ and 12% YOY through YTD Q2. Private strategic deal volume demonstrated greater resilience, rising 0.7% YOY through Q2, buoyed by a strong Q1.
- Private strategics continued to move up market in their acquisition pursuits, paying an average of \$62.5 million for middle market businesses through YTD Q2—a 28.9% increase YOY. Total value also rose 43.6% YOY through YTD Q2 to \$18.3 billion, underscoring this cohort’s flock to quality assets.
- Private and public strategics comprised 43.8% and 11.7% of middle market transactions to date, respectively.

Acquisitions by Private Companies



Acquisitions by Public Companies



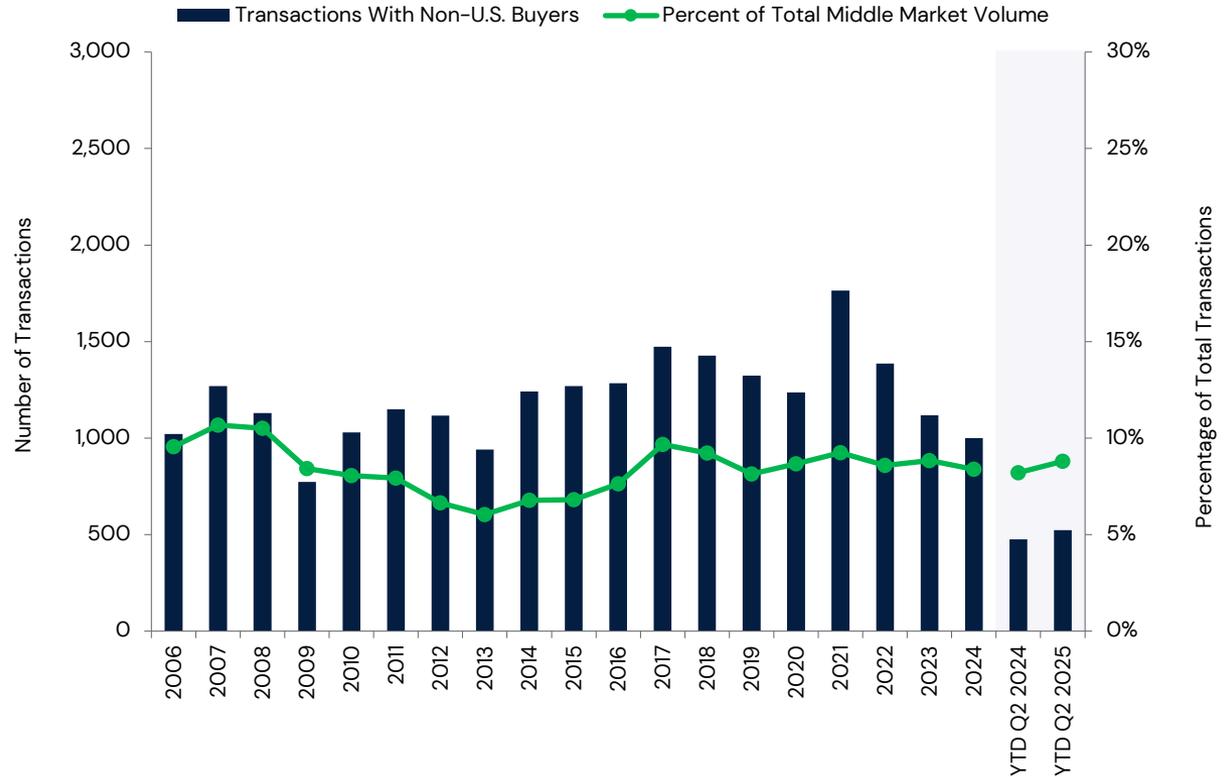
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

FOREIGN ACQUIRERS

FOREIGN BUYER ACTIVITY A BRIGHT SPOT

- Foreign buyers acquired U.S. companies at a faster rate through Q2 2025 to sidestep rising tariff threats, driving a new wave of cross-border M&A. Non-U.S. buyer activity rose 9.9% YOY in YTD Q2 2025.
- Valuations paid by foreign acquirers averaged 15.2x EV/EBITDA in Q2 2025, notably higher than the Q2 2024 average of 8.2x. This indicates a premium foreign buyers have placed to enter the U.S. market and curb tariff escalations.
- 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 51 countries.

Non-U.S. Buyers



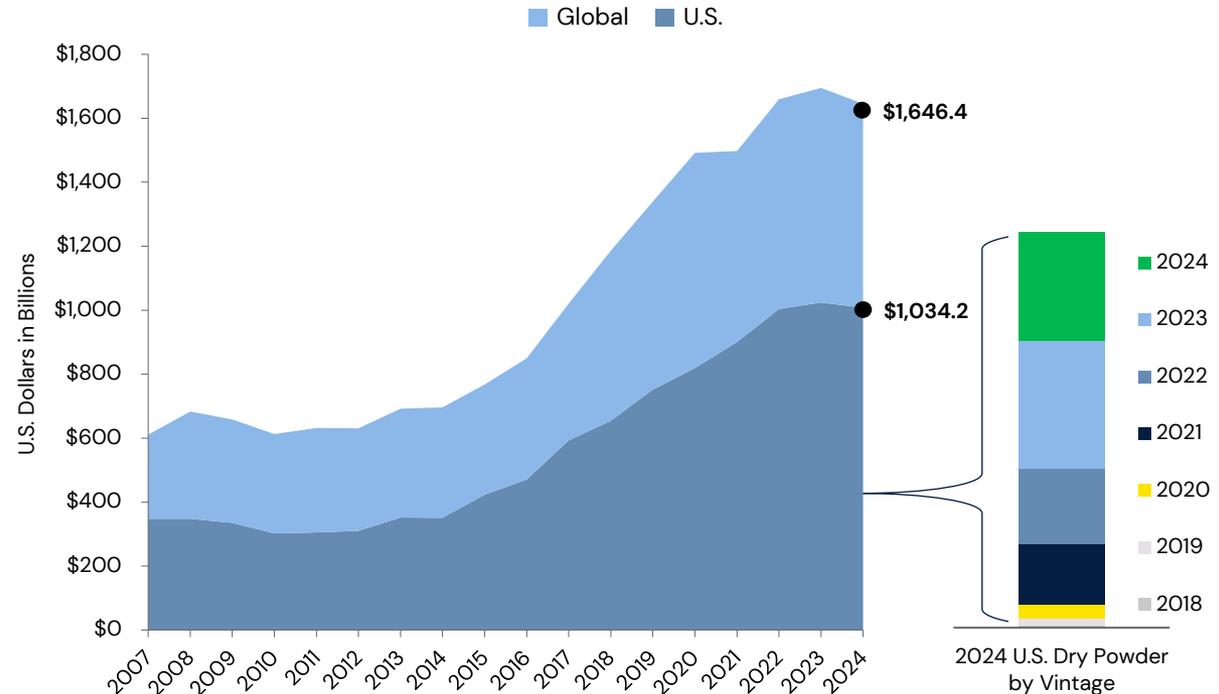
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

PRIVATE EQUITY DRY POWDER

DRY POWDER ELEVATED AMID TEPID CAPITAL DEPLOYMENT

- Approximately \$1.6 trillion in dry powder remains for PE firms to deploy. As LPs increasingly pressured funds to generate returns in 2024, sponsors initially opted to use stop gap measures such as dividend recapitalizations to ease investors. However, macroeconomic uncertainty has prompted financial sponsors to reconsider capital allocations for new acquisitions.
- Favorable underlying BSL market conditions and growing competition from PC lenders have driven down interest rate spreads charged above base rates for high yield bonds, allowing sponsors to finance transactions more comfortably. However, sponsor 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 September 30, 2024
Source: PitchBook and Capstone Partners

PRIVATE EQUITY LOAN ISSUANCE

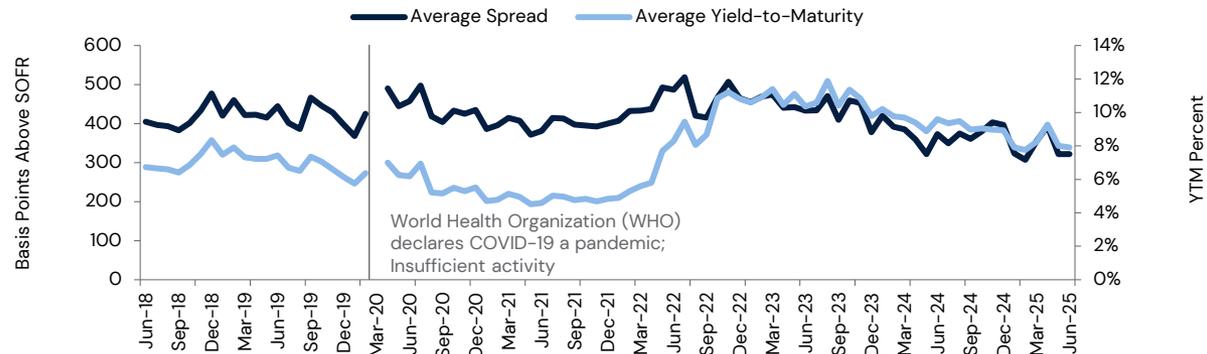
QUARTERLY LOAN VALUE SLIDES, SPREADS COMPRESS

- Total M&A-related loan issuance value in the BSL market dropped 30.8% QoQ in Q2 2025 to \$33.1 billion. PE firms raised \$16 billion for LBOs and \$8.3 billion for add-ons, together a 30.9% QoQ decline.
- PE M&A-related loan issuance increased 17.1% YOY in Q2, indicative of a more accessible acquisition financing environment following the Fed's three interest rate cuts in 2024. However, PE M&A-related loan issuance in Q2 stands 26.3% below the average quarterly value (\$33 billion) over the past 30 quarters.
- Average M&A loan spreads tightened as June 2025 landed at 322 basis points (bps) compared to 373 bps in June 2024. Fed rate cuts have lowered new-issue yield-to-maturity (YTM) on M&A loans.

M&A-Related Loan Volume



M&A-Related Loan Spreads and Yield-to-Maturity



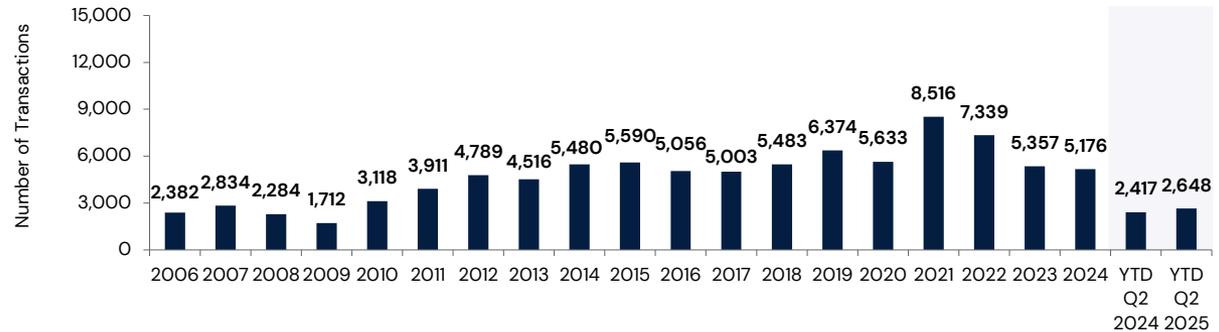
Note: Average spread and YTM data unavailable for March 2020.
Source: PitchBook and Capstone Partners.

PRIVATE EQUITY ACTIVITY

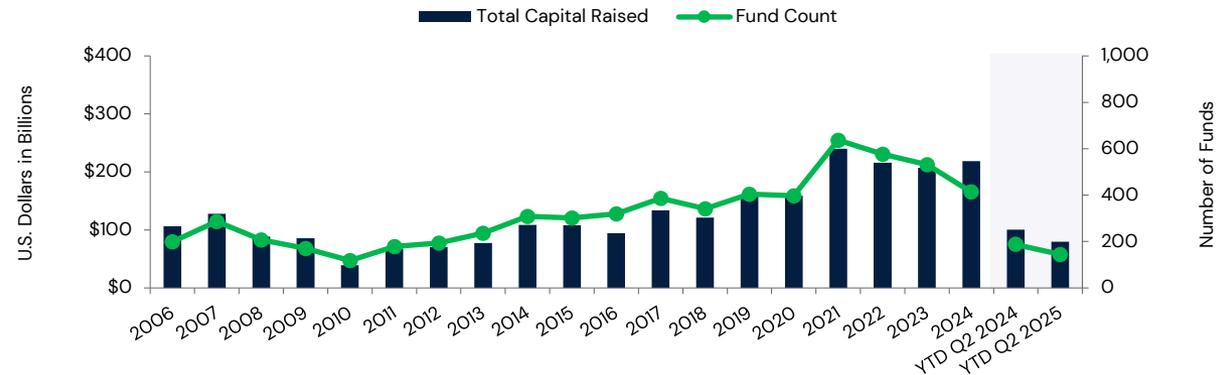
PE DEAL VOLUME RISES, FUNDRAISING SLUMPS

- PE activity continued to gain momentum through YTD Q2 2025 compared to 2024. PE deals rose 9.6% YOY through Q2 though activity has remained subdued as 2024 saw the lowest level of sponsor dealmaking since 2017. Macroeconomic volatility tempered a PE acquisition rebound, evidenced by a 5% QoQ decline in financial buyer activity in Q2 2025.
- The fundraising environment continued to cool in YTD Q2 2025 with total PE capital raised falling 20.6% YOY and fund count dropping 23% YOY.
- PE capital raises are expected to remain slow until exit visibility improves and the market gains clarity around key market headwinds, such as tariffs, inflation, and policy changes.

Middle Market Transactions Closed by PE Firms



Middle Market Fundraising by PE Firms



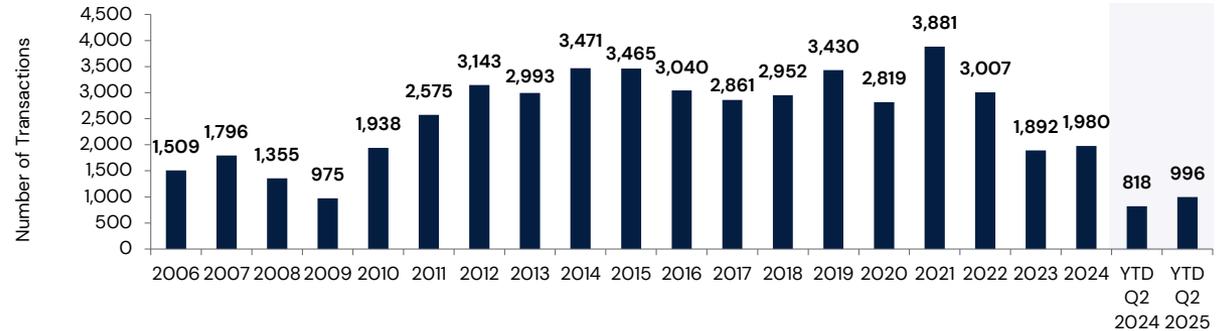
Enterprise Value < \$500mm; Fund size < \$5B; New data methodology for PE fundraising
Source: Capital IQ, PitchBook, and Capstone Partners

PRIVATE EQUITY TRANSACTION TYPES

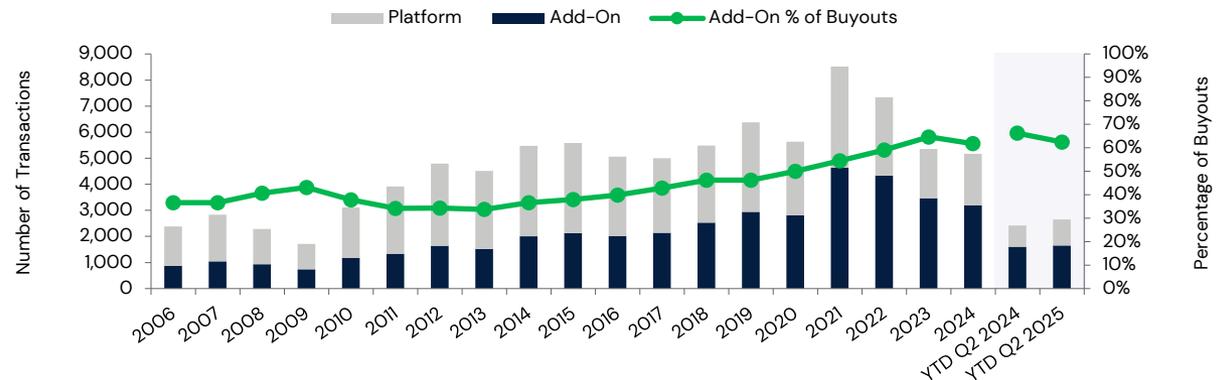
PLATFORM INVESTMENT GROWTH DECELERATES

- PE platform acquisitions rose 4.7% YOY in Q2 2025, marking a growth deceleration compared to the prior three quarters which all saw double-digit jumps in platform deals. Meanwhile, add-on deals increased 3.5% YOY in Q2.
- Both platforms and add-ons slowed QoQ seeing declines of 10.6% and 1.4%, respectively. Macroeconomic turbulence impacted new platform investments more than add-ons as fund managers elected to add scale, drive purchasing power, and solve supply chain bottlenecks through tuck-ins for existing holdings amid unsettled global trade policies.

PE Platform Investments



PE Add-On Acquisitions



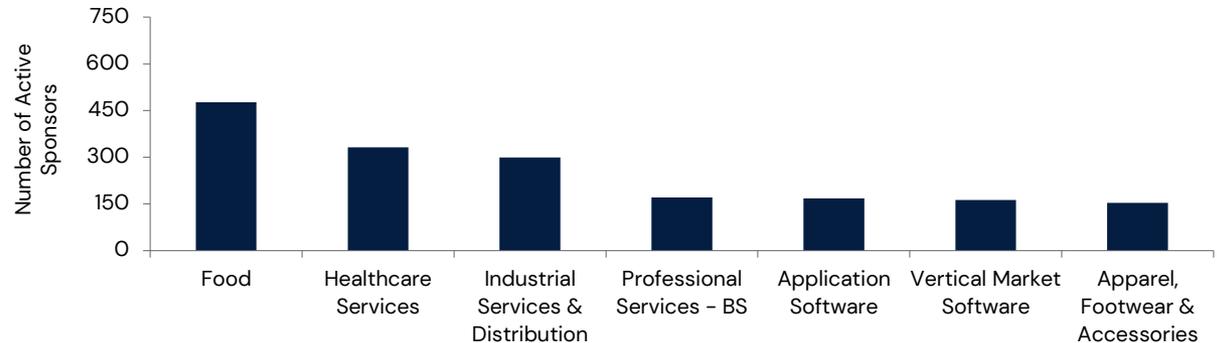
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

CAPSTONE'S PRIVATE EQUITY NETWORK PREFERENCES

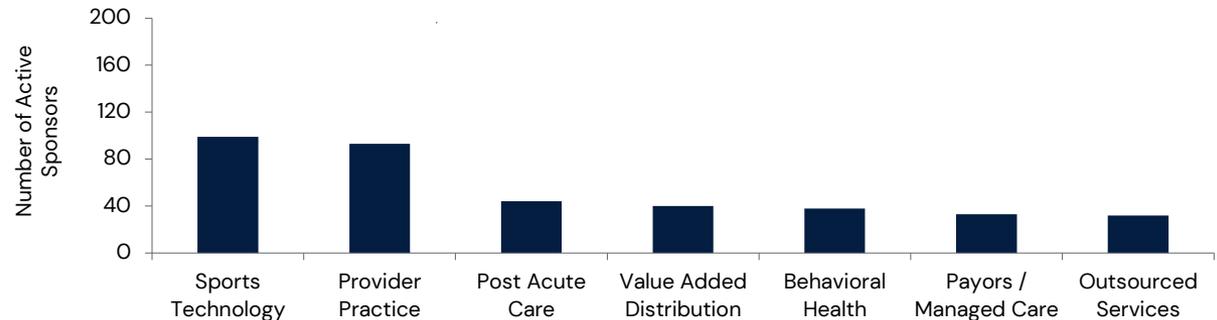
FOOD REMAINS TOP PE SECTOR PREFERENCE

- **Food** continued to be the top sector preferred by Capstone's sponsor network in Q2 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 fifth 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 Partners proprietary data

PRIVATE EQUITY HOLDING DATA

PE HOLDING PERIODS STABLE, INVENTORIES GROW

- The median holding period for PE buyouts held steady through Q2 at six years as exits remained relatively limited. The median holding period has fallen from a peak of seven years in 2023, though still above historical norms.
- PE-backed company inventory levels reached a new record of 12,552 businesses in YTD Q2 2025. Portfolio companies in prime harvest years (vested for four or five years) comprised 28.3% of PE-backed company inventory while newer platforms (aged one to three years) accounted for 30.1%.
- Holding periods for PE buyouts and PE-backed company inventory will likely return to normalized levels when exits from lesser-quality assets begin materializing.

Median Holding Period for PE Buyouts



PE-Backed Company Inventory By Year



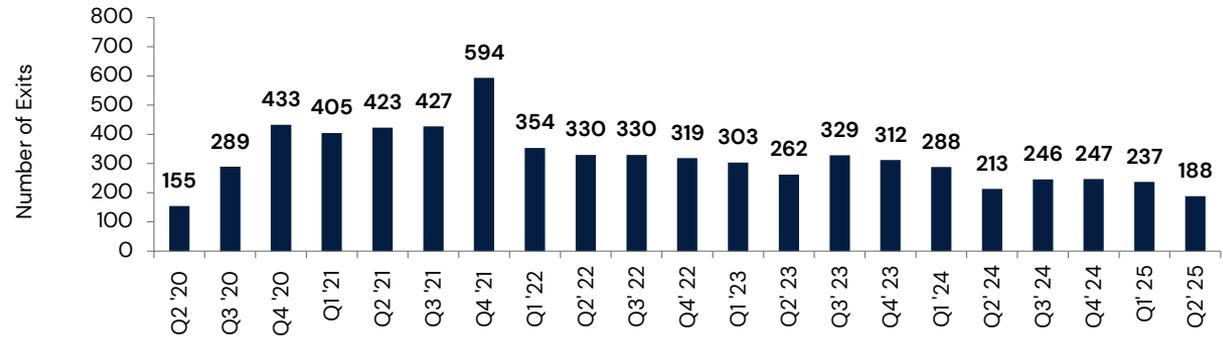
Source: PitchBook and Capstone Partners

PRIVATE EQUITY EXIT ACTIVITY

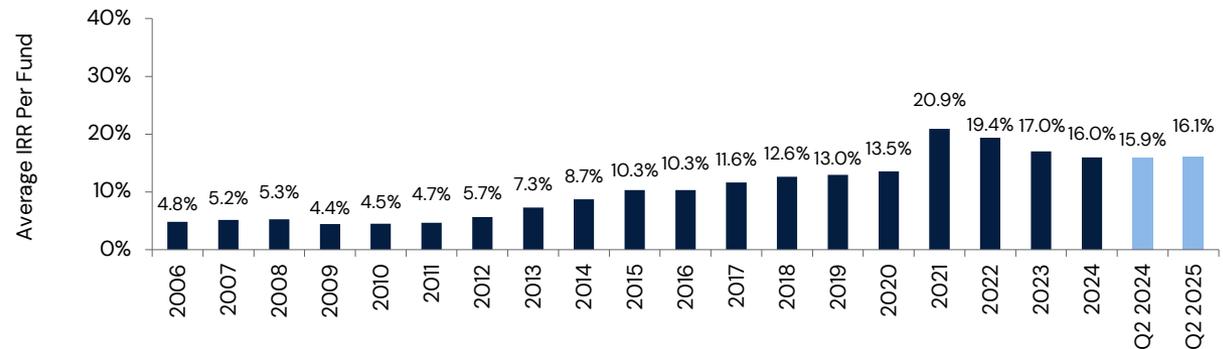
SPONSORS RETAIN HOLDINGS, IRR SWELLS

- PE exit volume dropped meaningfully in Q2 2025, falling 20.7% QoQ and recording the lowest number of exits since Q2 2020. Similarly, total exit value declined 37.8% QoQ in Q2. Notably, total exit value increased 9% YOY while exit count dropped 11.7% YOY, indicating sales of a fewer, larger platforms in Q2 2025.
- High quality portfolio companies remained the core component to sponsor exit activity in Q2 2025 with these assets the most likely to attract buyers and garner a competitive sale process in the current M&A environment.
- PE internal rate of return (IRR) averaged 16.1% in Q2 2025 as fund managers primarily exited best-in-class portfolio companies amid the market volatility.

U.S. PE Exit Activity



U.S. PE Internal Rate of Return



Note: Includes all U.S. PE exits; New data methodology for IRR
Source: PitchBook and Capstone Partners



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>

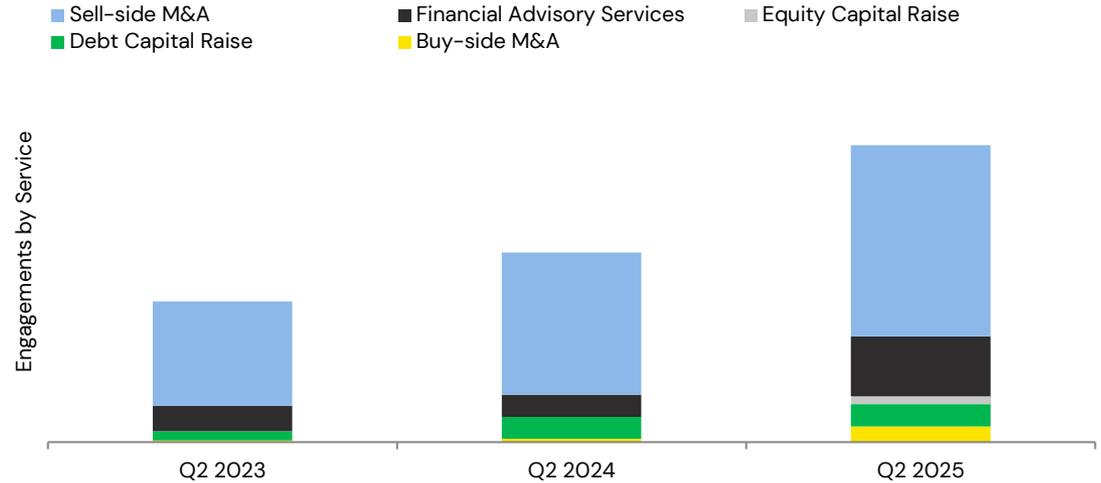
Sponsor Coverage Group

FIRM DATA

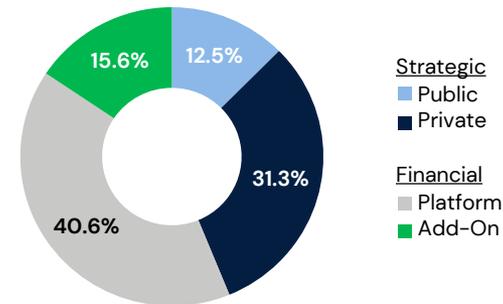
FINANCIAL BUYERS UNDERPIN MIDDLE MARKET ACTIVITY

- Capstone buy-side M&A and FAS engagements saw strong, and building traction across sectors as sell-side M&A ticked higher. Business owners have continued to leverage an array of advisory services to address market volatility.
- Strategic buyers accounted for 43.8% of trailing twelve-month (TTM) Q2 2025 transactions, with private businesses comprising 31.3% of acquirors.
- Financial buyers have maintained their presence in the middle market, accounting for a majority (56.2%) of Capstone's TTM transactions with platform investments comprising 40.6% of deals amid easing credit conditions.

Capstone Engagements By Service



Capstone Trailing Twelve-Month 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.



EXTRA DUTY SOLUTIONS

HAS RECEIVED A GROWTH EQUITY INVESTMENT FROM




P/Npoint

HAS BEEN RECAPITALIZED VIA AN ESOP BY




ICKLER ELECTRIC CORPORATION

HAS BEEN RECAPITALIZED VIA AN ESOP BY




AllAccem

HAS BEEN ACQUIRED BY




allied
PAYMENT NETWORK

HAS BEEN ACQUIRED BY




EEIGLOBAL

FINANCIAL ADVISORY AND INSOLVENCY SERVICES



FREEDMAN
SEATING COMPANY

HAS BEEN ACQUIRED BY




ADC HOLDINGS

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



BIGTOP
FABRIC STRUCTURES

HAS BEEN ACQUIRED BY




CENTURY EQUITY PARTNERS

VSS

HAVE RECAPITALIZED




STATE ELECTRIC CORPORATION
Power Experience. Powerful Performance.

HAS BEEN ACQUIRED BY




A MANUFACTURER OF BRANDED CONSUMER GOODS

WAS ADVISED BY CAPSTONE PARTNERS ON DEBT FINANCING



STEWART TRANSPORT

HAS BEEN ACQUIRED BY

AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)



UNITED SERVICES GROUP
SERVICES GROUP

HAS RECAPITALIZED WITH




CDI Engineering Solutions
a portfolio company of

ae Industrial Partners

HAS BEEN ACQUIRED BY




LightMart

HAS BEEN ACQUIRED BY




CARR COMPANY

HAS BEEN ACQUIRED BY

AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)



HORIZON BEVERAGE

HAS BEEN ACQUIRED BY




LATITE ROOFING
a portfolio company of

Lincolnshire
ROOFING

HAS BEEN ACQUIRED BY




Delta Solutions & Strategies

HAS BEEN ACQUIRED BY




allsite
STRUCTURE RENTALS
ADVANCE, ANY SIZE, ANY TIME

HAS BEEN ACQUIRED BY



LEADERSHIP TEAM



JOHN FERRARA, FOUNDER AND PRESIDENT

jferrara@capstonepartners.com | 617-619-3325

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

oferris@capstonepartners.com | 303-962-5772

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, HEAD OF M&A

pjanson@capstonepartners.com | 303-887-0174

Paul brings over 25 years of executive experience to Capstone Partners' management team. As Head of M&A, he oversees all mergers and acquisitions advisory activity across the firm, from deal origination to execution and closing. As an active investment banker himself, he maintains a specialized focus in the Telecommunications Services, Manufacturing, and Infrastructure sectors. 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.



KEN WASIK, HEAD OF INVESTMENT BANKING

kwasik@capstonepartners.com | 917-434-6124

Ken serves as Capstone's 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

pasiaf@capstonepartners.com | 617-619-3368

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

bburke@capstonepartners.com | 303-531-4603

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

dmcbroom@capstonepartners.com | 303-951-7128

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

mcasper@capstonepartners.com | 303-531-4604

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.



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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.



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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.



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