



M&A Update

U.S. Micro Middle Market

1H 2024



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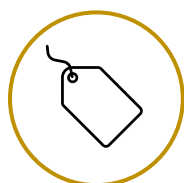
1 | Executive Summary

Key Takeaways



M&A Activity

Deal activity rebounding, on pace to exceed 2022 levels



Valuation Multiples

Multiples decline slightly compared to 2023



Sector Activity

Manufacturing and business services drive deal activity



Leverage

Lending markets remain tight, debt pricing past its peak

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Who we are:

Houlihan Capital is a boutique valuation and investment banking firm committed to delivering superior client value and thought leadership in an ever-changing landscape.

Micro Middle Market Overview:

Houlihan's Investment Banking group specializes in providing sell-side M&A advisory services to owners of privately held businesses within the Micro Middle Market ("MMM"), defined as those with total enterprise value ("TEV") below \$250M.

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Data Source:

The data used in this report was primarily sourced from GF Data, using information provided by 400+ private equity firms on their recent transaction activity.

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M&A Overview

Rebound in Deal Activity and Valuation Multiples

M&A activity in the Micro Middle Market has rebounded in the first half of 2024. Deal volume is on pace to surpass 2022 levels and valuation multiples are trending upward as interest rates stabilize.

M&A in the Early-COVID Economy (20'/21') – Navigating the Unknown

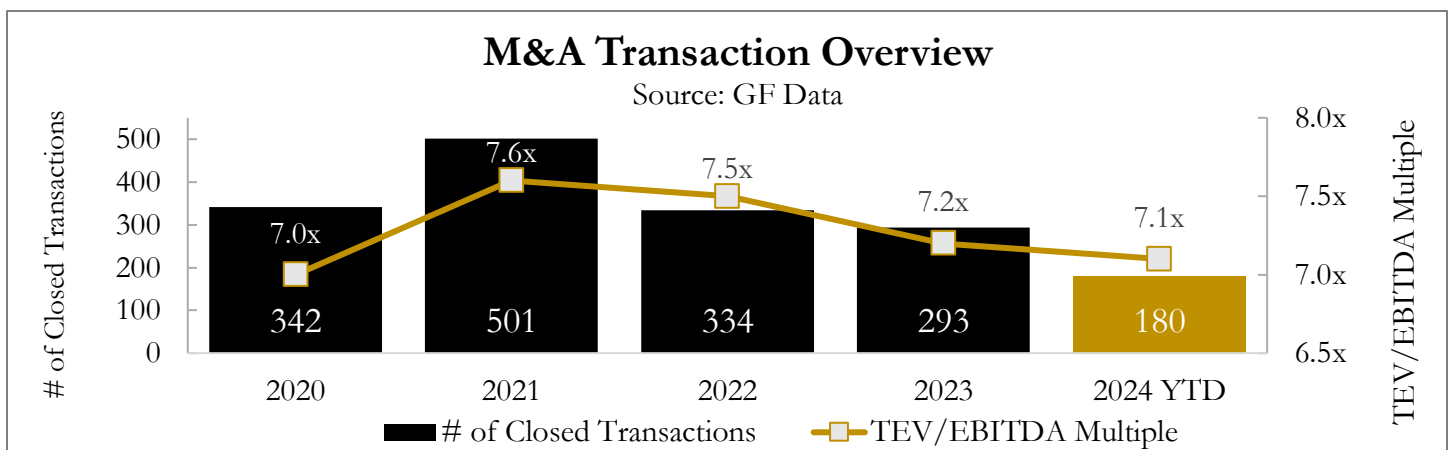
The pandemic brought M&A activity to a halt in 2020, followed by a record year in 2021 driven by low interest rates, stimulus, and pent-up demand.

Learning from Challenges Faced in '22 and '23 – Caution Prevailing in the New Year

Since 2021's peak, M&A activity has slowed, impacted by rising interest rates, inflation, and geopolitical instability. Buyers remain cautious, while many high-quality businesses are delaying market entry, waiting for more favorable valuation conditions.

Key Economic Factors Shaping 2024:

- **Interest Rates:** Higher borrowing costs continue to constrain deal activity, reducing leverage and valuation multiples. Buyers are focusing on sectors with strong cash flow and growth potential, taking a more selective approach. The 50 bps rate cut in Sep-24 signals a positive move by the Fed toward easing monetary conditions
- **Persistent Inflation:** Compressed margins and rising costs are leading to increased caution among buyers, who face uncertainty around future performance and return on investment.
- **Geopolitical Uncertainties:** Ongoing global tensions, supply chain disruptions, and regulatory changes are contributing to buyer hesitation.
- **U.S. Election:** With the 2024 election on the horizon, uncertainty around potential policy shifts adds another layer of risk to the M&A landscape.



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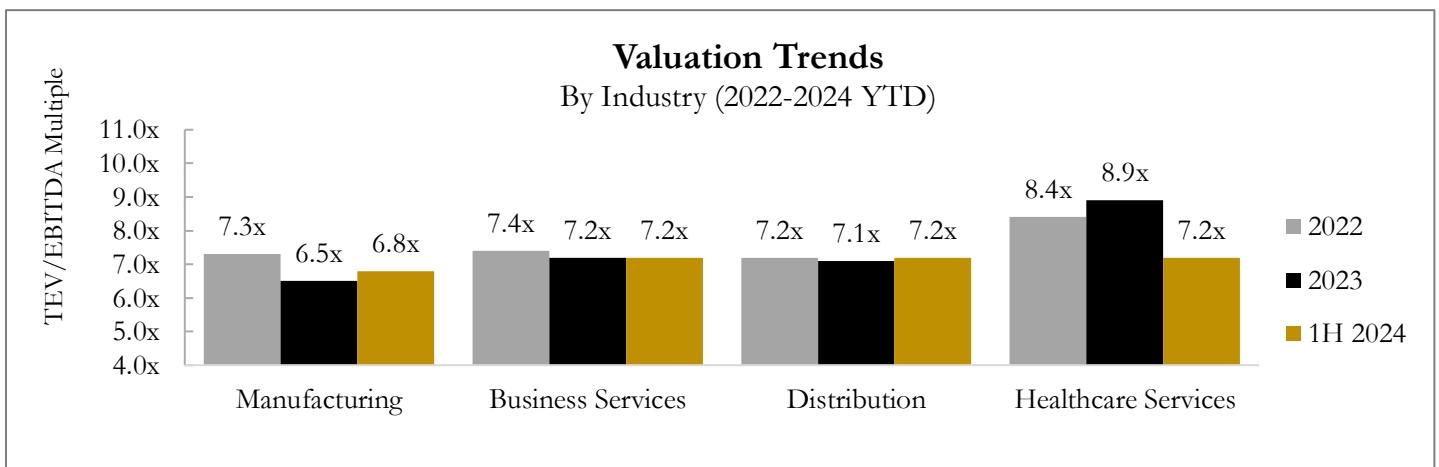
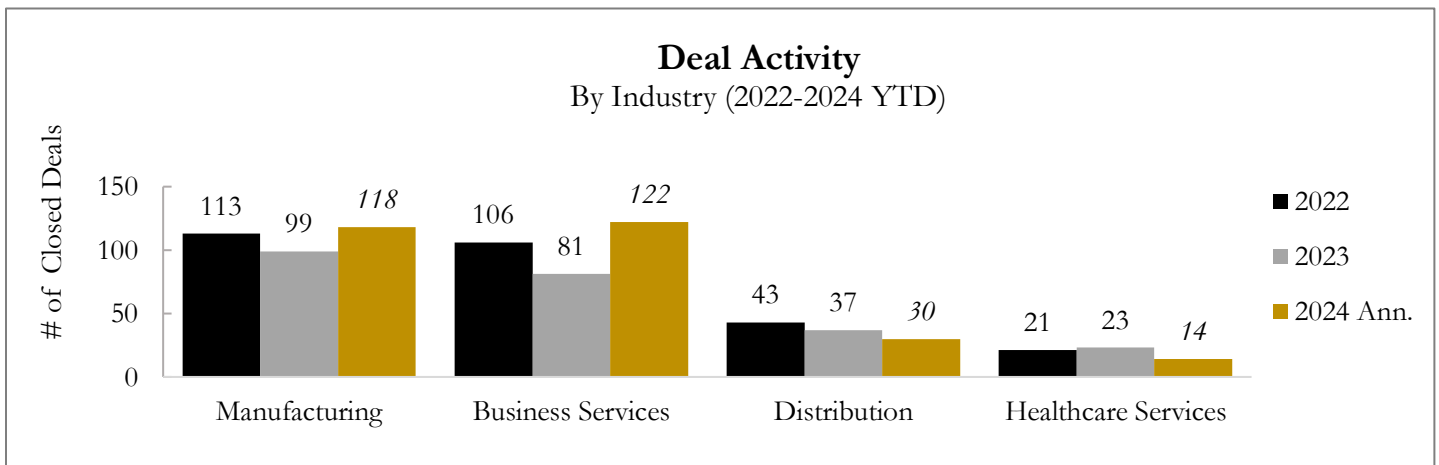
Sector Breakdown

Manufacturing and Business Services Drive Activity

M&A activity has picked up in 2024, but the trends have been mixed across sectors. Manufacturing and business services have both shown notable growth, with deal flow on track to surpass 2022 and 2023 results. Meanwhile, distribution and healthcare services have had slower starts than a sluggish 2023.

Valuation multiples have remained steady for business services and distribution, while manufacturing saw a modest rise of 0.3x. In contrast, valuations for healthcare service businesses have experienced a meaningful decline, dropping by 1.7x compared to 2023.

While asset-light service businesses led M&A markets in recent years, data shows investor sentiment shifting back to asset-heavy industries like manufacturing. This reflects a growing preference for businesses with tangible assets and established operations, as buyers weigh stability and long-term growth potential amid ongoing economic uncertainty.



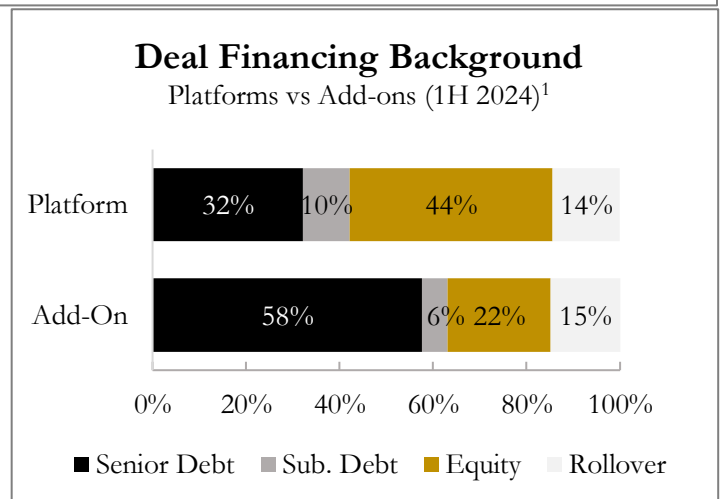
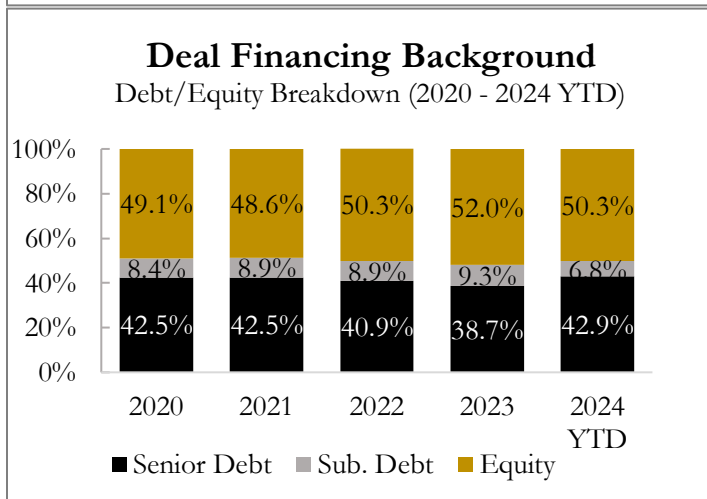
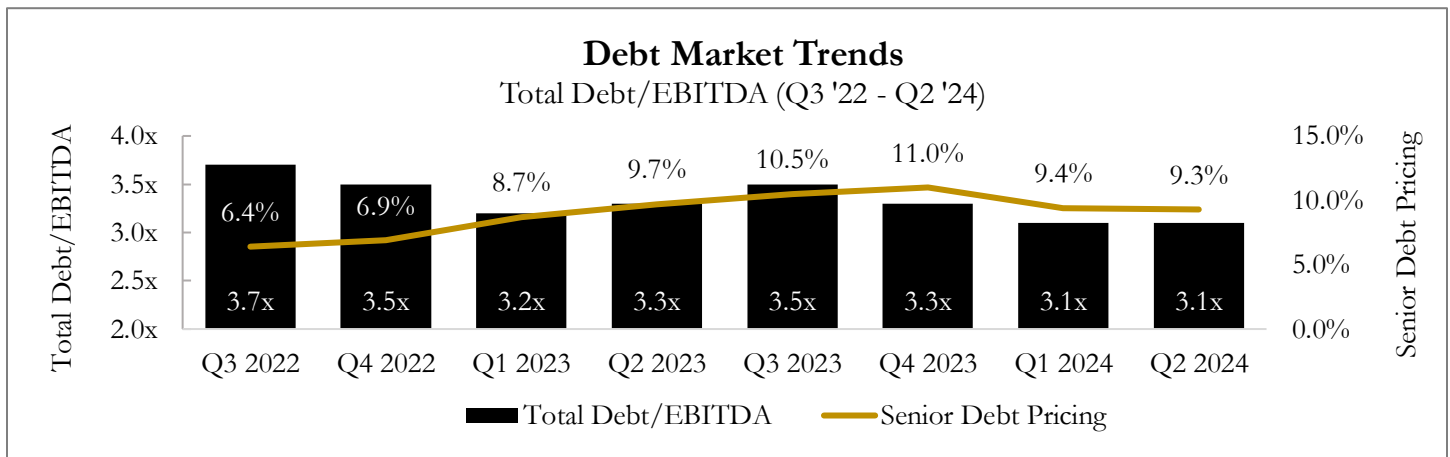
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Debt

Lending Markets Remain Tight, Debt Pricing Past its Peak

Debt markets experienced slight improvements in senior debt pricing and contributions over the past two quarters, despite the ongoing challenges of inflation and rising interest rates. Debt coverage and senior debt pricing have improved slightly, but specific sectors continue to face headwinds. Key observations:

- **Modest improvements in debt markets:** Senior debt pricing and contributions saw gradual gains over the last two quarters, showing resilience in a challenging market environment.
- **Sector-specific declines:** Manufacturing and Business Services experienced notable declines in debt coverage, with some sectors seeing drops of up to 0.7x compared to last year.
- **Shifts in capital structure:** Senior debt contributions increased while equity pulled back. On average, platform investments were funded with 32% senior debt, compared to 58% for platform deals (\$10-100M).



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Investment Banking Team

Houlihan Capital’s Investment Banking group offers an integrated advisory approach that draws upon our strategic and technical expertise, industry knowledge, transactional and financing experience, and expansive network of institutional and private investors to guide shareholders and management teams. We understand the time sensitivity of many of our assignments and work diligently to meet these demands while minimizing operational disruption, allowing clients to focus on their business.

Our team works with businesses across all major industries with an enterprise value greater than \$5.0 million and EBITDA between \$1.0 million and \$20.0 million. Many businesses of this size have a unique story to tell, and we are committed to structuring a tailored approach to assist clients in achieving their strategic, financial, and risk-management objectives.

Our investment banking professionals function as an extension of our client’s management team, providing specialized transaction advisory support derived from years of hands-on experience. Our clients can stay focused on running their business while Houlihan runs a successful sale process.

To find out more about how Houlihan can assist in the deal process, please contact one of the following members from our team:



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About Us

Houlihan Capital is a leading, employee-owned valuation, financial advisory and investment banking firm. We pride ourselves on being thought leaders in an ever-changing landscape.

Houlihan Capital is SOC-Compliant, a FINRA and SIPC member and committed to the highest levels of professional ethics and standards.

| Valuation and Financial Advisory | Investment Banking |
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