CORNERSTONE BUSINESS SERVICES®

MARKET UPDATE

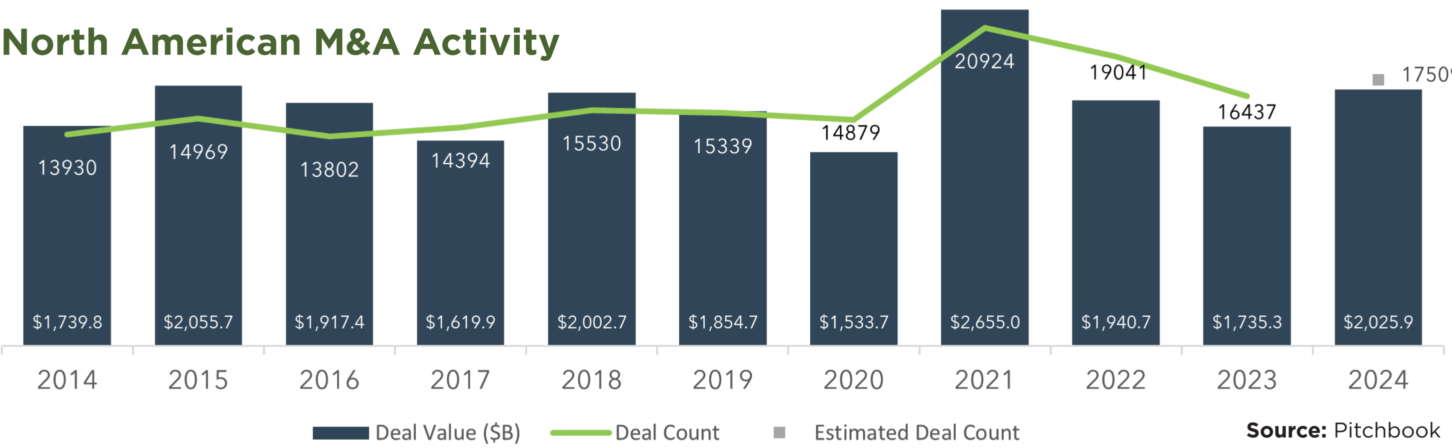
Q4 2024

LOWER MIDDLE MARKET MERGERS & ACQUISITIONS

DEALMAKING RECOVERY

M&A activity in the lower middle market remained steady, with healthy deal flow across key sectors. While financing conditions continued to improve, economic uncertainty led to a more measured approach among both buyers and sellers. Strategic acquirers remained highly engaged, focusing on industries with stable cash flows and strong growth potential. Buyers were more selective, favoring structured transactions with clear risk-mitigation strategies. Despite these factors, overall dealmaking activity demonstrated resilience, as companies pursued long-term value creation through strategic acquisitions.

North American M&A Activity



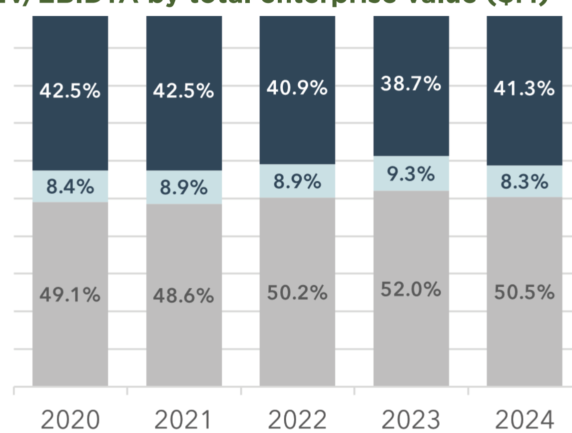
Source: Pitchbook

TEV/EBITDA MULTIPLES

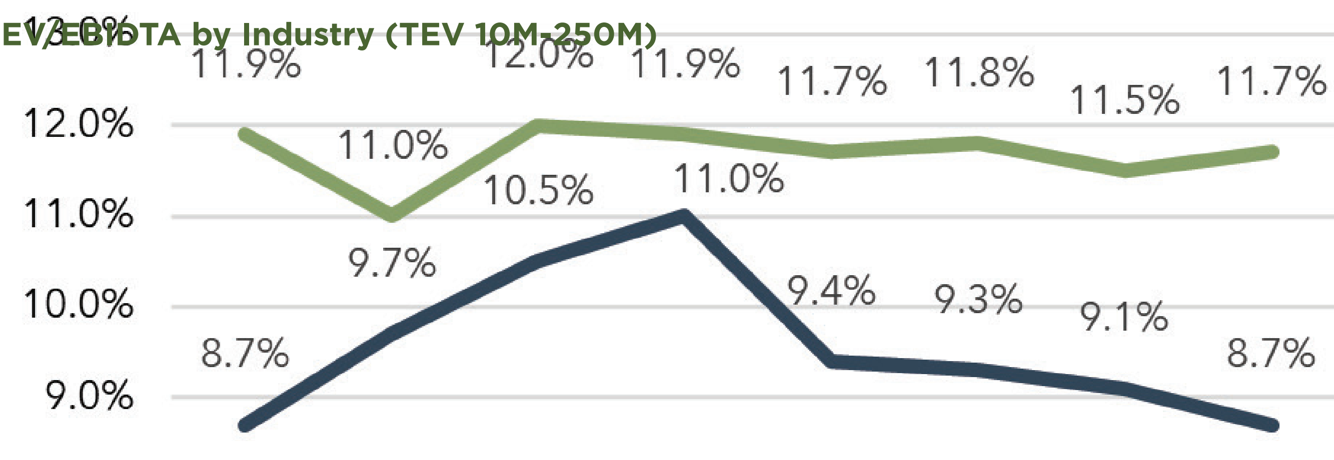
Valuations remained stable across most transaction sizes, though stronger businesses commanded higher multiples. The pricing gap between top-tier and lower-tier companies widened, as investors sought resilient, scalable assets with proven financial performance.

Larger deals continued to experience valuation pressure, reflecting investor caution around uncertain economic conditions. Meanwhile, add-on acquisitions provided greater valuation consistency, allowing buyers to optimize portfolio synergies and leverage cost efficiencies. Platform deals saw modest improvement, indicating renewed buyer confidence in standalone investments.

TEV/EBIDTA by total enterprise value ($M)



TEV/EBIDTA by Industry (TEV 10M-250M)

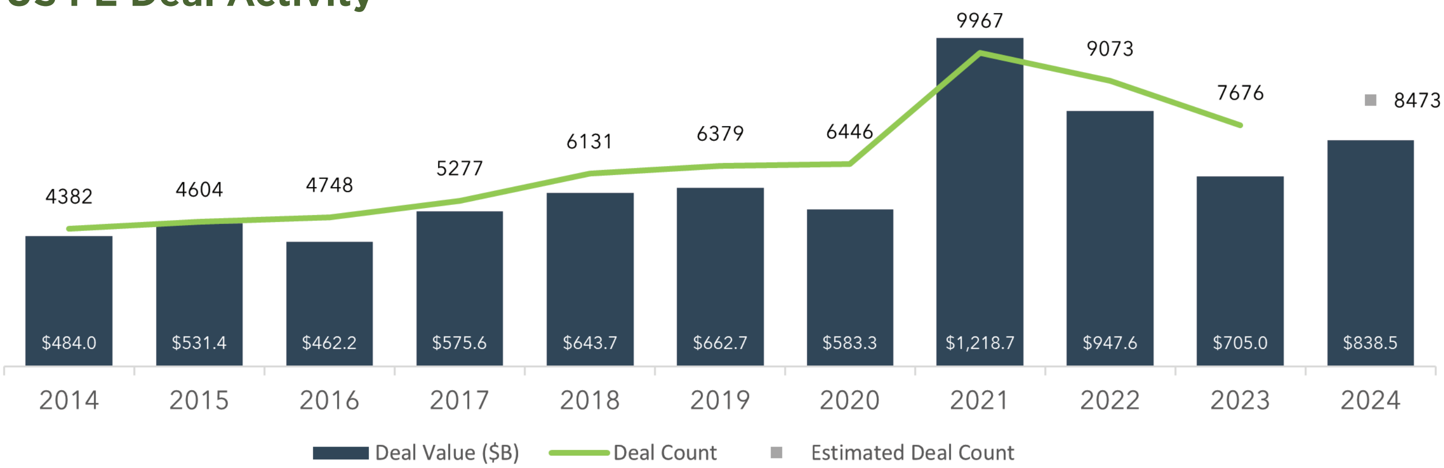


Source: GF Data® Q2 2024 Market Report

PRIVATE EQUITY ACTIVITY

Private equity dealmaking remained steady, with firms continuing to focus on targeted acquisitions rather than large-scale buyouts. Growth equity investments gained traction in select high-growth industries, while platform acquisitions saw renewed interest in sectors with long-term expansion potential. Financing conditions were increasingly favorable, allowing for greater flexibility in deal structuring. However, firms exercised greater selectivity, prioritizing transactions that aligned with their value-creation strategies. The overall environment indicated a disciplined but active approach to deal execution heading into the new year.

US PE Deal Activity

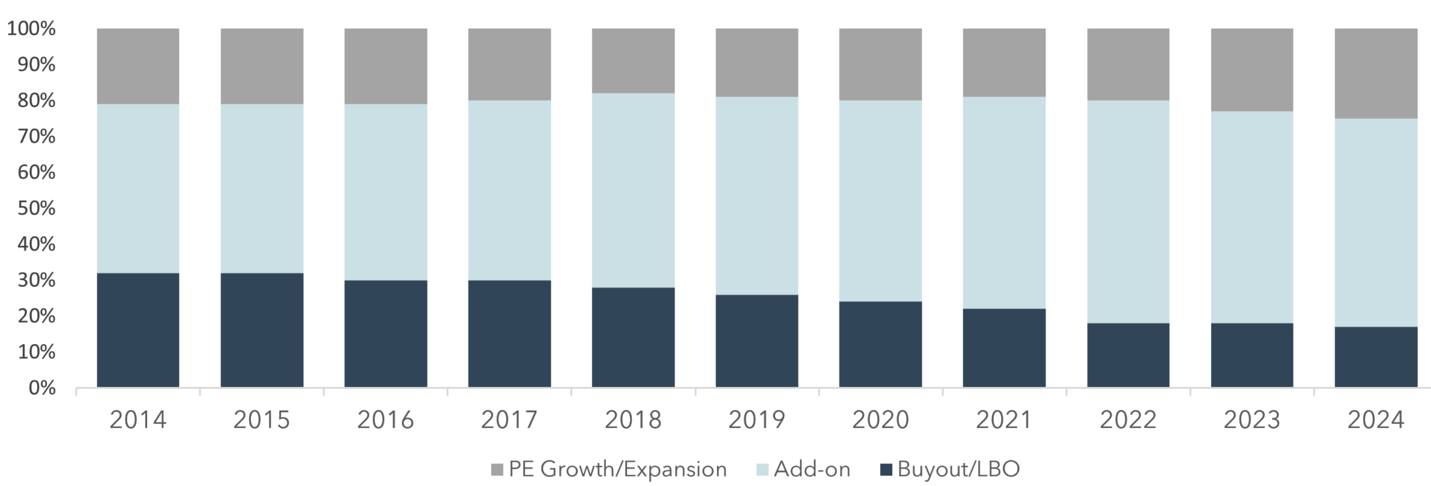


Source: Pitchbook

Add-ons

Add-ons continued to dominate private equity activity, as firms sought to strengthen existing portfolio companies through targeted acquisitions. This strategy remained more attractive than standalone platform deals, reflecting a preference for risk-managed expansion. Investors leaned into synergistic acquisitions, focusing on operational improvements and cost efficiencies rather than aggressive market expansion. While add-ons remained the preferred strategy, platform acquisitions showed early signs of increasing activity, suggesting shifting market dynamics in response to evolving economic conditions.

Share of PE Deal Count by Type



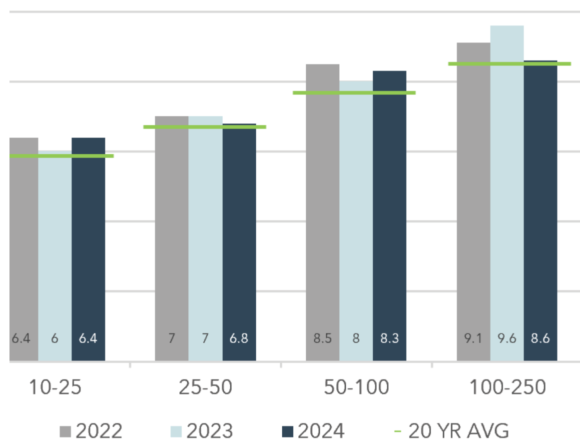
Source: Pitchbook

DEBT MARKET

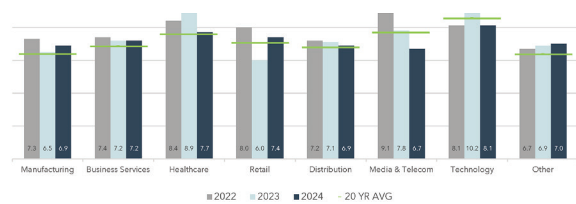
Lending conditions continued to improve, providing buyers with increased access to capital at more favorable terms. Senior debt pricing declined slightly, enhancing the appeal of debt-funded acquisitions. However, lenders remained selective, favoring industries with predictable revenue streams and lower perceived risk.

The reliance on rollover equity declined, as dealmakers increasingly utilized traditional financing structures to fund transactions. Despite improved borrowing conditions, the market remained cautious, with debt providers carefully evaluating leverage ratios and repayment capacity before committing to new deals.

Equity and Debt Contributions (TEV 10M-250M)



Debt Pricing Splits by Period (TEV 10M-250M)

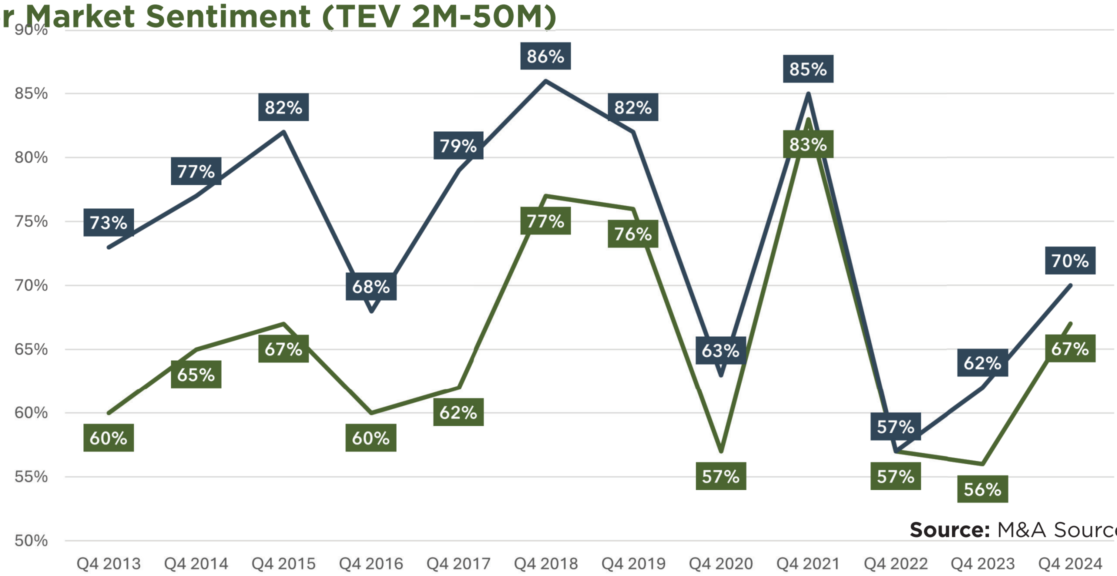


Source: GF Data® Q2 2024 Leverage Report

SELLERS OPTIMISTIC DESPITE HOLDING PATTERN

Seller sentiment for Q4 was mixed, with some owners motivated by strong valuations, while others delayed sales due to lingering uncertainty. Well-performing businesses continued to attract strong buyer interest, but investors remained disciplined in their approach. The market reflected a balance between buyer selectivity and seller expectations, creating a competitive yet measured transaction environment. Heading into 2025, M&A activity is expected to remain stable, with buyers and sellers adapting to evolving financial conditions and strategic opportunities.

Seller Market Sentiment (TEV 2M-50M)



Source: M&A Source and IBBA Market Pulse

FIRM OVERVIEW

Cornerstone Business Services is a boutique investment bank serving the lower middle market with M&A services since 2001. We're based in the Midwest but work throughout North America. We create value through acquisition searches, company sales, and valuations, with a focus on businesses with revenues of $5M-$150M and/or EBITDA of $1M-$15M.

Cornerstone uses a team approach on each transaction along with our proprietary Assurance 360™ process which typically generates multiple offers, a high likelihood to close and maximizes value. We work well with first time sellers who value an advisor's role and want to ensure the largest financial transaction of their life is done right.

As a founding member of the Cornerstone International Alliance, we are able to leverage a global network of M&A advisors focused exclusively on dealmaking in the lower middle market.

Contact us for more information on Cornerstone and our investment banking services.

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ESTIMATES OF VALUE | ACQUISITIONS | COMPANY SALES

RECENT TRANSACTIONS

Mega Rentals, Inc. TRAFFIC SAFETY

has been acquired by

Road Safety Services, Inc.

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

KIEL SAND & GRAVEL

has been acquired by

Northeast Asphalt, Inc.

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

CertificateofService.com Sealing Your Success

has been acquired by

Bristlecone Companies, LLC

Cornerstone initiated this transaction, assisted in negotiations leading to its conclusion, and acted as advisor to the seller.

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FINISH STRONG

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