Q4
2024

FIRMEX

FOCUS

Middle Market M&A Buyer Trends

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Highlights

- Middle-market merger advisors continue to see the reluctance of buyers as a constraint on the M&A market, saying that there are currently more sellers than buyers.
- Private equity and other financial players dominate the market, with three-quarters of advisors seeing them frequently. Private corporations and individuals are the next most common.
- PE-related deals—buying platform companies and then fill-in acquisitions—are the most common buyer strategies. Distressed asset purchases, which had been growing rapidly last year, are now relatively rare.
- Technology and healthcare are the industries that buyers seek most. Advisors see growth in energy and industrial deals.

Introduction

Welcome to the new Firmex Focus, part of our reimagined research project to serve middle-market M&A advisors. We've been in an ongoing conversation with the advisor community since 2017, beginning with an annual look at the structure and terms of advisory fees. In 2021, we added a quarterly monitor of deal volume based on a survey of advisors and our proprietary data on virtual data room activity. That project has grown to incorporate research into more topics of interest to the leaders of firms that serve the middle market. A vibrant community has joined us along the way, regularly contributing insights and ideas.

This year, we paused the quarterly studies briefly to explore how we could be even more helpful to advisors coping with today's complex markets. We decided to replace a single quarterly report with two more focused publications.

- **Firmex Forecast** will be a quarterly measure of the pulse of the middle market M&A world, looking at deal volume, valuations, and other market forces.
- **Firmex Focus** will be a close-up look at one topic of interest to advisory firms. For this first edition, we are looking at buyers in the market, which kinds are active, and what types of deals they are looking for.

We are excited about this new format and hope that offering two streamlined reports will be a more straightforward, useful resource in today's hectic world. We have also restructured our quarterly survey to make it faster to complete.

Please let us know what you think of our new formats and what topics you would like us to look into next. Reach out to us at content@firmex.com.

Mark Wright

GENERAL MANAGER AT FIRMEX

Overview

You can't make a deal without a willing seller and a willing buyer, and for the last several years, many of the traditional acquirers of middle-market companies have not been willing to commit. They were wary of the risks posed by economic and political instability, and their potential returns were compressed by high interest rates.

Our inaugural Firmex Focus on Buyers report confirms that the reluctance of potential buyers is still depressing deal volume. Investment bankers and business brokers who serve the middle market tell us they see signs that buyer interest will pick up in the new year.

The prospect of lower interest rates is the single biggest potential encouragement to buyers, especially the private equity funds that have driven so much deal activity over the last decade. The PE players are feeling increasing pressure to use their remaining capital and deliver returns to their investors.

Public and private corporations are looking to compensate for slowing growth through consolidation and deals that offer new geographies or product lines. They are also buying companies that bring them the technology and talent to take advantage of artificial intelligence.

Growing trade tensions are spurring deals to take advantage of the renewed investment in manufacturing capacity in the United States and Europe. Donald Trump's election in the United States signals to some an increasing interest in the traditional oil and gas sector while European companies continue to invest in renewable energy.

Expert Commentary

This quarter's Firmex Focus report highlights a key issue in the mid-market M&A landscape: constrained deal volume due to reluctant buyers. However, there are signs of optimism. Private equity firms remain dominant, particularly in platform acquisitions followed by fill-in deals. As interest rates begin to decline, we expect a significant increase in buyer activity, especially from private equity firms under pressure to deploy capital and deliver returns to investors.

The shift from distressed asset purchases is notable, signaling a more stable market outlook. This trend suggests buyers are more selective and focused on sectors with strong growth potential, like technology and healthcare. These industries, especially those involving AI, are attracting significant interest as corporations look to consolidate and expand their geographic and product reach.

The report also points to growing opportunities in energy and manufacturing, driven by trade tensions and investments in U.S. and European manufacturing capacity. These shifts, alongside a renewed focus on energy, particularly renewable energy in Europe, will likely drive M&A activity in these sectors.

The trends outlined in the survey are highly relevant for the DACH region. As interest rates decrease, private equity firms in Germany, Austria, and Switzerland, known for their strong regional presence and appetite for strategic acquisitions, will likely increase their activity. This will be particularly true in sectors like technology, healthcare, and energy, where DACH companies are positioning themselves for future growth. As these firms look to expand into new markets or acquire key technologies, we expect M&A volume to rise in line with broader European and global trends.

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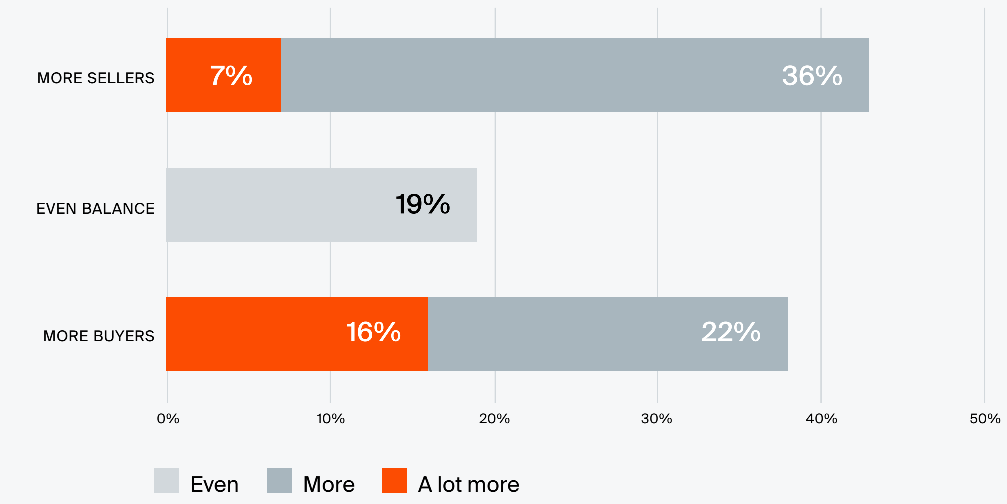
The Buyer Seller Balance

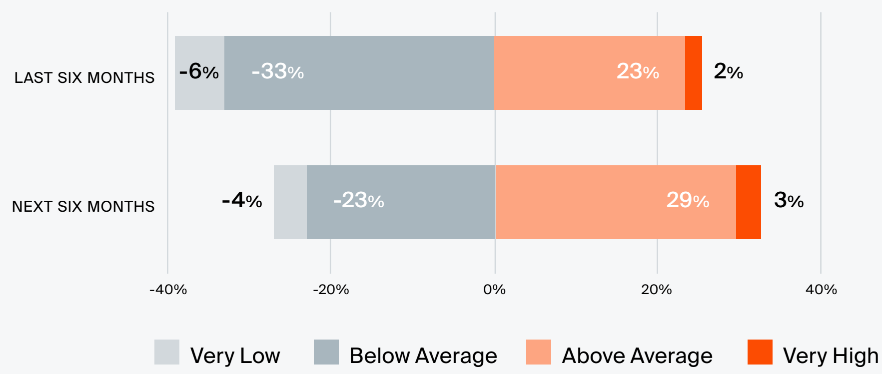
A Buyer Shortage Remains

The balance between buyers and sellers:



Are Buyers Coming Back?

The number of buyers in the market over the last six months and the following six months:



The market still has more sellers than buyers, but advisors expect more companies and funds to be actively looking for acquisitions next year.

Overall, 43% of advisors said there were more sellers in the market than buyers, compared to 38% who said there were more buyers. The global number masks a sharp geographic difference. Three-fifths of North American advisors say there are more buyers in the market, while half of those in Europe say there is a surfeit of sellers.

The Buyer Seller Balance CONTINUED

Outlook

The advisors see the buyer shortage easing up next year. In the next six months, only 27% of advisors expect the number of buyers to be below average (down from 39% in the last six months), while 32% predict there will be an above-average crop of buyers (up from 26%).

In open-ended questions, participants pointed to various forces on buyers, some encouraging more dealmaking and others leading to continued caution.

The prospect of falling rates and evolving political conditions will build confidence:

“Buyers are going to be aggressive. Funding costs are lower, and there’s no more uncertainty about the election outcome.”

Raymond Melcher, CEO, Marathon Capital Advisors, United States

“Lower interest rates and an anticipated housing and infrastructure resurgence will certainly bring more buyers to the table.”

Jim Friesen, Managing Partner, Portage M&A Advisory, Canada

“Purchase prices will continue to fall and thus stimulate buyers.”

Axel Deilmann, Diplom-Betriebswirt, Deilmann Business Consulting, Germany

Not enough suitable acquisition targets:

“We expect the mix of buyers, who are frustrated by the relative scarcity of healthy companies for acquisition, to remain about the same.”

Bryan Livingston, Managing Partner, Oaklins Capital Alliance, United States

Concern about economy:

“Corporate buyers may become more reluctant because of the uncertainty regarding the robustness of the economy.”

Alexander Weidenbach, Director, RSM, Germany

Buyers remain very selective:

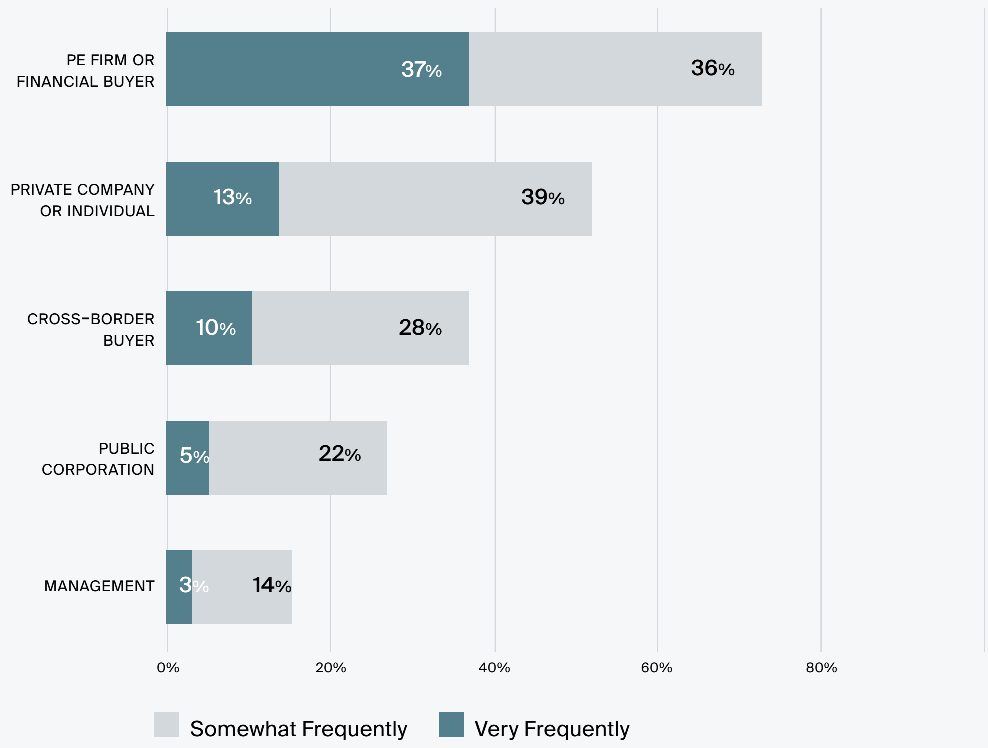
“If a deal does not hold up during diligence there is aggressive repricing taking place.”

Investment Banker, United States

Who are the Buyers?

Private Equity Dominates Again

The frequency of these types of buyers over the last six months:



Private Equity funds and other financial buyers are by far the most common type of buyers, with 73% of advisors saying they see them somewhat or very frequently.

Private companies and individuals were the second most common, with 52% of advisors seeing them frequently. Management groups were the least common. Half of the advisors say they saw bids from management rarely or never; only 17% saw them frequently.

When we last surveyed advisors about buyer trends in the summer of 2023, private equity had halted its decade-long ascent. As many advisors pointed to, this was the first time PE firm activity decreased, while distressed asset buyers grew. High interest rates and economic uncertainty had slowed all dealmaking. Advisors told us that many firms had become risk-averse and were exceptionally focused on due diligence.

42% of European advisors frequently saw cross-border deals, but only 26% of advisors in North America did.

Who are the Buyers CONTINUED

Outlook

We asked an open-ended question on the changes advisors foresee in the types of buyers over the next six months. Most commonly, they said PE firms will continue to dominate, but a significant number predicted growth in corporate strategic buyers looking to add revenue to compensate for sluggish sales.

Private equity will return to buying after they sell existing holdings:

"We expect that PE buyers will be more aggressive in 2025 once they can find some liquidity for their current portfolio."

Stephen Jakob, Managing Partner and Founder, Osprey Capital Partners Inc., Canada

Cross-border deals in Europe are being driven by private equity:

"Private equity is looking to make big platform acquisitions to further international consolidation in Europe."

Investment Banker, Austria

Falling valuations will attract strategic buyers:

"More strategic buyers will become active, as valuations will tend to fall further due to the oversupply and the deterioration in earnings. In addition, strategic buyers are more likely to have the ability to optimize companies in their sector."

Georg H. Völker, Entrepreneur, Return Management GmbH, Germany

Slowing internal growth spurs acquisitions:

"Corporate strategic deals will increase as companies look to boost their short-term profits in response to flattening of demand for their products."

Ron Klammer, President, OEM Capital, United States

Local conditions prompt specific cross-border trends:

"If the Brazilian Real continues to devaluate in relation to the U.S. dollar, the local prices for foreign buyers will become more attractive."

Jose Tardeli, CEO, Terra Boa, Brazil

"We're seeing more U.S. buyers with roll-up strategies making acquisitions in Canada."

Jim Friesen, Managing Partner, Portage M&A Advisory, Canada

Family offices get more active:

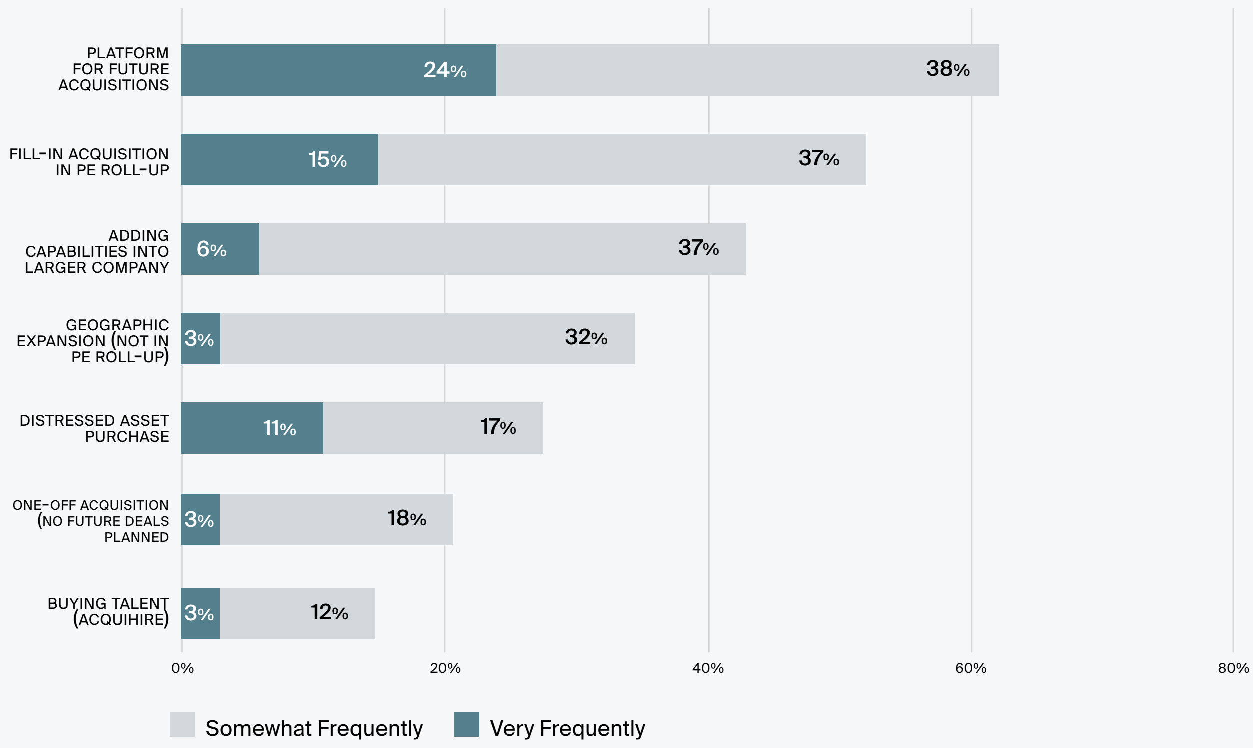
"Family offices and high-net-worth investors are stepping up in M&A, leveraging their longer-term horizons and capital flexibility to capture opportunities where others see only volatility."

Chris Raman, Founder, Managing Partner, Ventures4Growth, Belgium

What kind of deals are they looking for?

Private Equity Hunts for the Platform

The frequency of buyers looking for these types of deals over the last six months:



In a market dominated by private equity, it should be no surprise that the two most common deal types are the stock and trade of PE funds: Buying the platform company with the scale and management needed to grow and then the fill-in acquisitions meant to roll up a sector. 63% of advisors frequently saw platform deals, and 52% frequently saw fill-ins.

As for strategic buyers' strategies, 43% said they frequently saw deals to add capabilities into a larger company, and 35% often saw deals for geographic expansion not as part of a PE roll-up. Distressed asset deals, which were surging in the summer of 2023, appear to have leveled off. Only 28% of advisors saw them frequently, more commonly in Europe than in North America.

What kind of deals are they looking for? CONTINUED

Outlook

The advisors were split on which acquisition strategies will be most common in the first part of next year. One debate was about roll-up deals that add smaller companies to existing businesses. While many said these deals are attractive in the current market, some said the supply of appropriate sellers is constrained in many industries.

Funds prefer growing existing holdings rather than entering new businesses:

"We see more add-ons (with lower multiples) instead of new platform deals as investors reduce risk in their portfolios."

Fund manager, Germany

When add-ons are scarce, PE turns to buy and build:

"We're seeing more buy and build deals because fewer mid- and large-cap companies are meeting the buyers' requirements."

Kasim Music, Senior Manager, Westfalenfinanz GmbH, Germany

Corporates add capacity:

"Acquihire deals will continue to increase in relevance because companies in certain industries have difficulties making progress just with conventional hiring strategies."

Frieder Barten, Managing Director, Cendas GmbH, Germany

"Buyers are looking for vertical integration to secure their supply chain and deals that offer geopolitical and legal risk diversification."

Alexis Chevalier, Partner, Blue Reef Investment Advisors, Switzerland

Buyers find opportunity in the slowing economy:

"I expect more distressed asset buyers because many companies face financial difficulties or restructuring due to uncertain economic conditions."

Nadja La, Associate, Walter Fries Corporate Finance, Germany

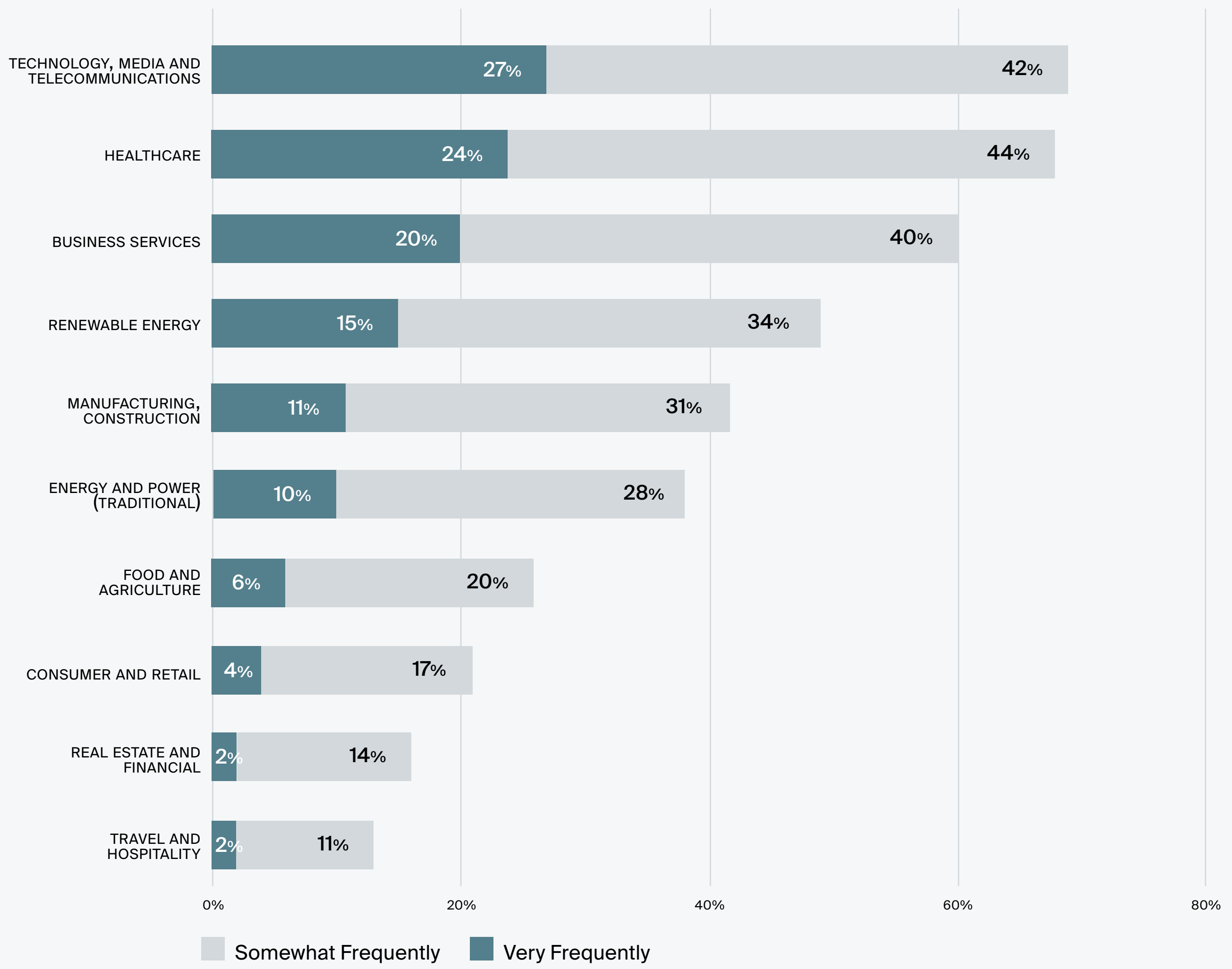
"In the future, we expect acquisitions to increasingly be triggered by company closures and insolvencies, with private equity firms and corporates dominating as investors. The main focus for investors will be on the consolidation of competition and the acquisition of add-ons."

Verena Marx & Jakob Eisenreich, Auditors, Tax Consultants, Dr. Leidel & Partner, Germany

What industries are they buying?

Tech and Healthcare Remain Hot

The frequency of buyers interested in these industries over the last six months:



Soaring valuations have not dampened interest in technology, media, and telecommunications companies, with 69% of advisors saying buyers look for them frequently. Interest in healthcare companies is nearly as high (68%), followed by business services (60%) and renewable energy (49%).

In the summer of 2023, we phrased our question on industry differently, asking how deal volume in each sector was changing. In that survey, renewable energy was most commonly cited as increasing, followed by traditional energy and power. Technology companies were in the middle of the pack.

There are significant geographic differences. North American buyers are much more interested in manufacturing, construction, and transportation and less interested in energy (both renewable and traditional) than buyers in Europe.

What industries are they buying? CONTINUED

Outlook

Many advisors highlighted manufacturing and energy companies when asked about changes in the industries buyers are looking for. Food, business services, and construction were also mentioned. Artificial intelligence and healthcare technology were the most common technology themes.

International tension is encouraging industrial deals:

"There will be more manufacturing acquisitions to increase domestic production capacity."

Advisor, Canada

"We see continued focus on blue-collar companies in fragmented industries."

Michael Vann, President, The Vann Group, United States

AI attracts corporate buyers:

"There's going to be heavy interest in AI companies by businesses that want to become more efficient and lower their headcount."

Ron Klammer, President, OEM Capital, United States

In the U.S., interest is shifting to traditional oil and gas:

"We expect less interest in mid-market construction and engineering services companies focused on the energy transition due to weak or inconsistent performance. Oil and gas services should see more interest as long-term trends are driving value in the space."

Bryan Livingston, Managing Partner, Oaklins Capital Alliance, United States

In Europe, the focus is still on renewable energy:

"As ESG commitments and public incentives drive the green transition, buyers are doubling down on renewable energy and sustainability-focused businesses, not just to future-proof their portfolios, but also to capture growth in industries that are reshaping the global economy."

Chris Raman, Founder, Managing Partner, Ventures4Growth, Belgium

Media and technology continue to have attractive returns on capital:

"Buyers are attracted to media and technology deals because of their low asset intensity and capital requirements."

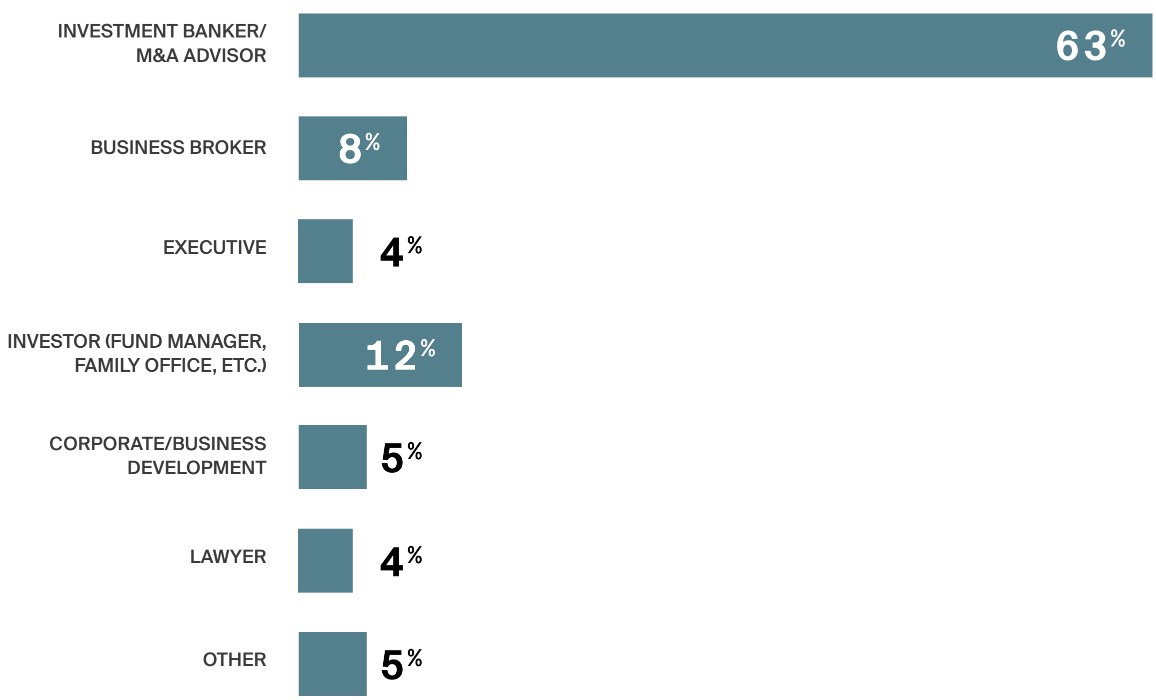
Verena Marx, Auditor, Tax Consultant, Dr. Leidel & Partner, Germany

Methodology

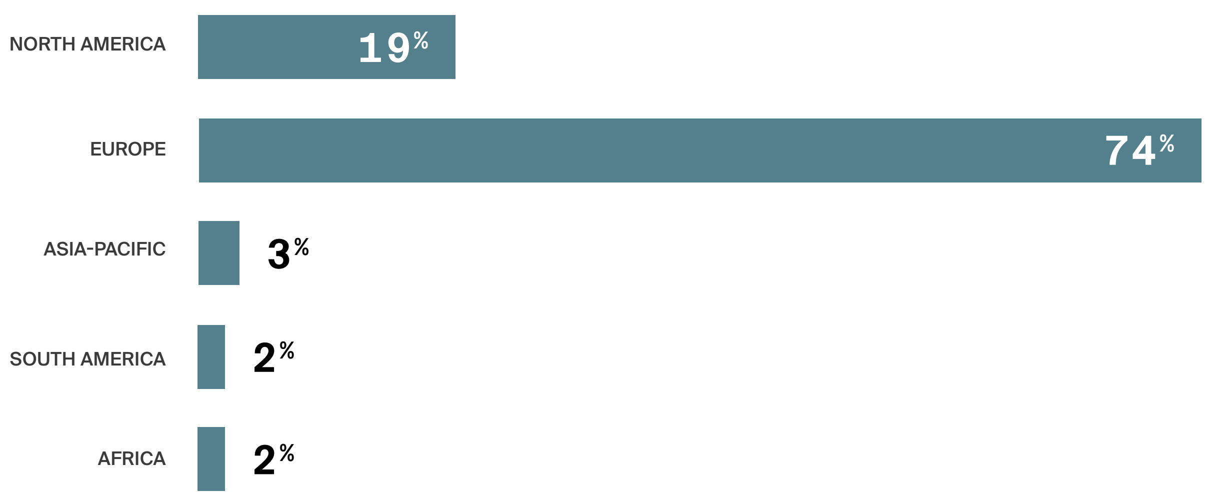
This report is based on a global online survey conducted in October 2024. The 219 respondents were investment bankers, business brokers, and other professionals involved in middle-market mergers and acquisitions. Firmex has conducted quarterly surveys with similar methodologies since 2021. The demographics of the respondents are below.

Figures in charts may not add up to 100% because of rounding.

Occupation

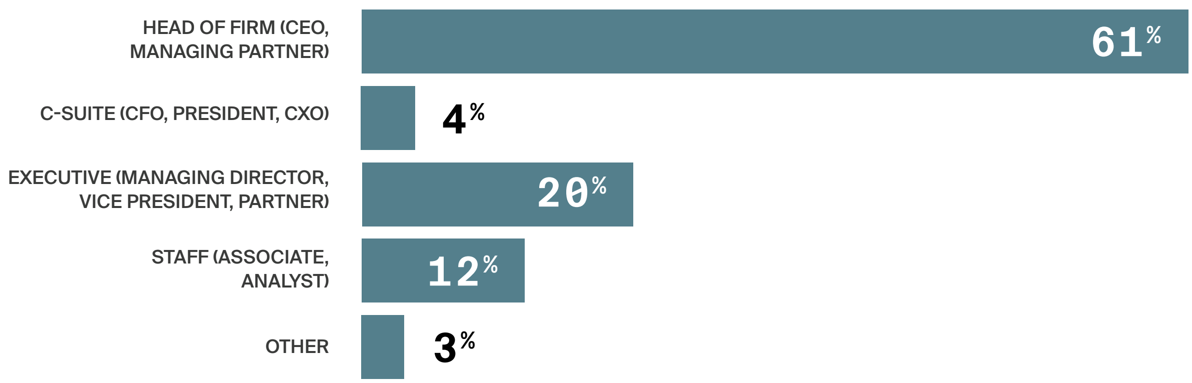


Region

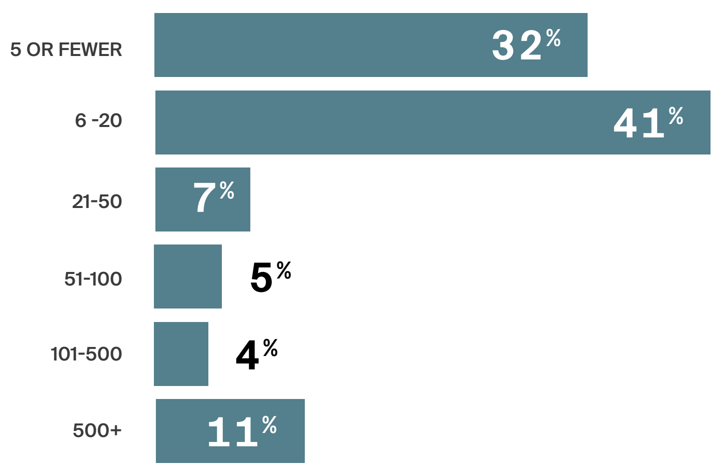


Methodology CONTINUED

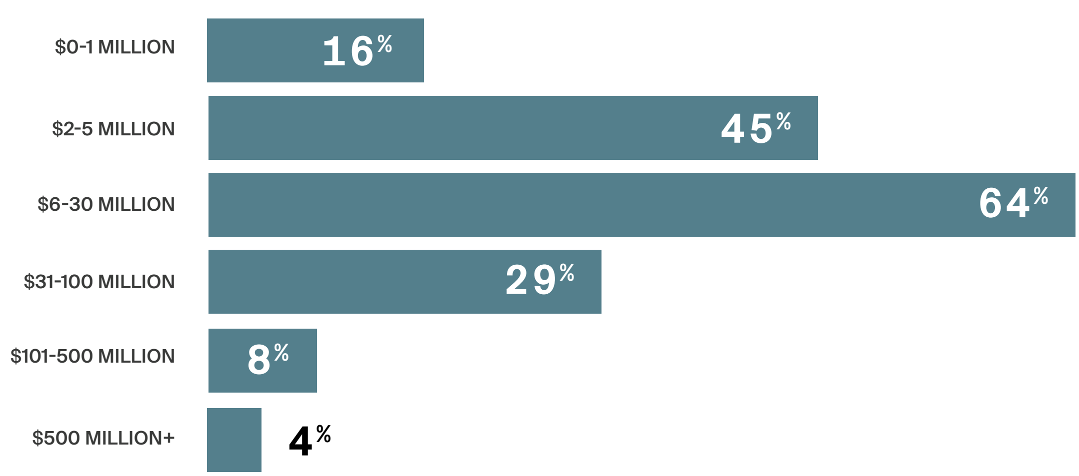
Job Title



Number of Employees in Firm



Deal Sizes Firm is Typically Involved in



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