POST-ELECTION LOWER MIDDLE MARKET UPDATE

M&A Insights | FALL 2024

NUMA WAYNE Capital Advisors

NUMA WAYNE CAPITAL ADVISORS
Los Angeles - New York - Atlanta
www.numawayne.com

Firm Overview

NUMA WAYNE Capital Advisors is an independent investment banking firm specializing in M&A, capital raising, corporate valuations, and related strategic advisory services. With a focus on businesses with an enterprise value between $10M and $200M, Numa Wayne leverages Wall Street experience and deep industry knowledge to deliver high-quality financial and strategic advisory services to privately held companies.

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POST-ELECTION M&A OUTLOOK

Overview

The recent U.S. election, resulting in Republican control of both the White House and Congress, is expected to positively influence M&A activity in 2025. M&A activity has already shown signs of recovery, supported by recent interest rate cuts in September and November, coupled with easing inflation. Under President-elect Donald Trump's pro-business agenda, policies are anticipated to drive corporate growth, bolster investor confidence, and fuel market optimism.

The election results have already invigorated the markets, with the S&P 500 and Dow Jones reaching new milestones the week after Trump's victory, reflecting investor enthusiasm for proposed corporate tax cuts and deregulation initiatives. Key policy shifts, including a more lenient approach to antitrust enforcement, could facilitate larger deals, particularly in regulated industries. Corporate tax cuts are expected to enhance cash flows, increasing the attractiveness of acquisitions by improving valuations. These factors collectively set the stage for a robust M&A environment in 2025, particularly for larger, high-value transactions.

Shifts in the Political Landscape

The 2024 U.S. elections have significantly reshaped the political landscape, with Donald Trump returning to the White House and Republicans securing control of both the Senate and the House of Representatives. Notable Senate flips in Montana, Ohio, and West Virginia have solidified Republican dominance, while the GOP's victory in the House provides substantial leverage over legislative and policy agendas.

This political realignment suggests a shift in economic and regulatory policies that could benefit M&A activity. A Republican-controlled government is likely to foster a more relaxed regulatory environment, easing antitrust restrictions and paving the way for larger deals across multiple sectors. Corporate tax cuts could provide companies with increased cash flow, enhancing their ability to pursue acquisitions, particularly in capital-intensive industries like healthcare and ener-

POST-ELECTION M&A OUTLOOK (cont.)

gy. Additionally, deregulation in sectors traditionally subject to heavy oversight, such as healthcare, is expected to spur consolidation and strategic acquisitions.

Key Factors Impacting M&A

Several key factors are expected to shape M&A activity under the new administration:

- Regulatory Environment: A more lenient stance on antitrust enforcement could reduce barriers for larger mergers, particularly in sectors like healthcare, where regulatory scrutiny has previously limited consolidation.
- Tax Policy: Proposed corporate tax cuts are expected to boost after-tax earnings, improving company valuations and making acquisitions more attractive. Adjustments to capital gains taxes may also influence deal structuring and timing, while incentives like R&D tax credits could encourage strategic acquisitions aligned with government priorities.
- Economic Policy: Stabilized interest rates, controlled inflation, and potentially increased government spending are expected to create a growth-oriented economy. This stability is likely to boost corporate confidence, encouraging businesses to pursue acquisitions as part of their growth strategies.

Market Sentiment and Investor Confidence

Investor confidence has surged following the election, driven by expectations of pro-business policies and economic growth under the Trump administration. Wharton professor Jeremy Siegel noted that Trump's commitment to stock market performance suggests policies aimed at fostering market growth.

This optimism has translated into significant market gains, with the S&P 500 surpassing 6,000 for the first time and the Dow Jones breaking the 44,000 mark. Proposed corporate tax cuts are expected to further enhance valuations, as lower taxes boost after-tax earnings and financial ratios. Companies with greater retained earnings can reinvest in growth, reduce debt, or return capital to shareholders, all of which positively impact stock performance.

The combination of strong market sentiment, accessible capital, and high valuations provides a solid foundation for M&A activity. Corporates and institutional investors are motivated to pursue strategic acquisitions, positioning 2025 as a promising year for deal-making.

2025 M&A Forecast

General Outlook

- Robust M&A Growth: 2025 is poised for robust M&A activity, supported by a favorable macroeconomic environment, stabilized interest rates, and the economic recovery post-pandemic. Both corporate strategics and private equity (PE) are expected to actively pursue acquisitions, driven by high levels of market confidence and substantial liquidity. Additionally, the convergence of generational shifts—aging business owners looking to retire—will lead to a wave of exits, particularly in the lower-middle market.
- VC and PE Activity: Private equity and venture capital (VC) firms are holding record numbers of companies in their portfolios that they need to exit, driven by investor demand for returns

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POST-ELECTION M&A OUTLOOK (cont.)

and the need to raise additional funds. The continued high level of "dry powder" held by PE firms, estimated at over $1 trillion, provides these firms with strong purchasing power for new acquisitions and roll-up strategies.

Outlook for Healthcare and Healthy Living

- **Healthcare**
  - → Increased Consolidation: The healthcare sector is expected to see significant consolidation as companies pursue scale and efficiency in response to anticipated regulatory relaxation. With ongoing fragmentation across mid-sized healthcare providers, service providers, and specialty care, there's a strong incentive for PE and corporate players to pursue acquisitions aimed at streamlining operations and expanding service offerings.
  - → Attractive Targets: Behavioral health, telemedicine, and outpatient care are poised as prime targets, given the growing demand for mental health services and digital health solutions. The rise in chronic illness management and outpatient care models further enhances the appeal of specialized healthcare providers. With ample dry powder available, PE firms are likely to engage in roll-up strategies, combining smaller, niche providers to create more competitive, full-service organizations.
  - → Challenges and Opportunities: Regulatory shifts, especially around pricing and reimbursement policies, may still introduce uncertainties, potentially impacting profitability. However, policy support for accessible care models like telemedicine and value-based care may create attractive entry points for investors. Companies able to innovate and adapt to digital and outpatient trends will be well-positioned to attract M&A interest.
- **Healthy Living**
  - → Growing Demand and Market Fragmentation: The healthy living sector, encompassing wellness, fitness, nutrition, and preventative health, remains highly fragmented, providing ample opportunities for M&A activity. Consumer demand for health and wellness products continues to grow, driven by increased awareness of preventative health and lifestyle management, particularly post-pandemic. PE and VC firms are likely to target niche brands and services in fitness, digital wellness, nutrition, and alternative therapies to build scalable platforms that meet evolving consumer demands.
  - → Focus on Digital Health and Fitness Tech: Within healthy living, digital health platforms and fitness technology have become especially attractive, as consumers increasingly seek convenient, personalized wellness solutions. Platforms offering virtual fitness, wearables, personalized nutrition, and mental wellness apps are likely to see continued investor interest, particularly as these companies have shown resilience through economic fluctuations and align with consumer trends.
  - → Opportunities and Risks: While healthy living is a growth sector, challenges exist, particularly around consumer retention in subscription-based wellness models and navigating regulatory requirements for health-related tech. Nevertheless, consumer-driven sectors, such as personalized nutrition and wellness apps, offer substantial opportunities for PE firms to pursue growth strategies and exit options, as these services cater to an increasingly health-conscious market.

POST-ELECTION M&A OUTLOOK (cont.)

- **Risks and Challenges**
  - → Regulatory and Economic Risks: While the current political climate favors a pro-business environment, ongoing scrutiny in sectors like tech and healthcare may still present regulatory hurdles for larger deals. Economic instability could also impact valuations, slowing deal momentum.
  - → Geopolitical Tensions and Trade Issues: Continued tensions with China, Middle Eastern volatility, and the Ukraine conflict may introduce risks for cross-border transactions, impacting supply chains and raising compliance costs. Trade restrictions or tariffs could deter international M&A or add complexity to deal structures.
  - → Labor Shortages and Rising Costs: Potential deportation policies and labor force reductions may lead to labor shortages, particularly in manufacturing and agriculture. Rising labor costs could impact profitability and valuations, influencing acquisition decisions and investor strategies.

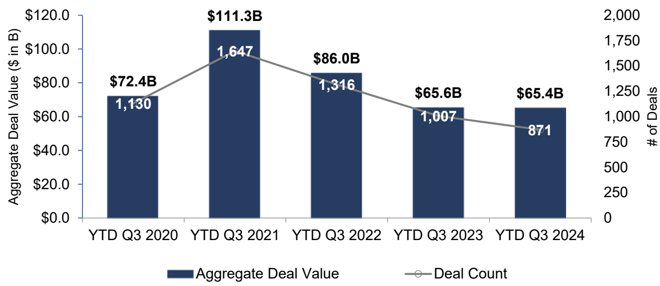
LOWER MIDDLE MARKET M&A OVERVIEW

Lower Middle Market (LMM) M&A Analysis YTD Q3 2024

- **Stabilizing Deal Activity**: Deal volume declined 14% YTD Q3 2024 compared to YTD Q3 2023, a far smaller decrease than the nearly 50% drop from 2021 levels, signaling a potential market bottom.
- **Rising Deal Value in Q3**: Q3 2024 recorded the highest deal value of the year, reflecting strong investor interest and a focus on larger or more strategic transactions.
- **Quarterly Deal Trends:**
  - → Q3 2024 deal count slightly decreased compared to Q2 2024 but exceeded Q1 2024 levels, showcasing a stabilizing trajectory.
- **Resilient Aggregate Deal Value**: Despite softer deal volume, aggregate deal value remained steady year-over-year, driven by larger transactions and high-quality opportunities.
- **Favorable Economic Tailwinds:**
  - → Recent interest rate decreases, lower inflation, and a rising stock market contribute to improved M&A conditions.
  - → An improving economy has bolstered investor confidence, creating a more favorable environment for deal-making.
- **Optimistic Outlook:** These trends indicate a market poised for recovery, with economic and transactional factors aligning to support renewed growth in deal activity.

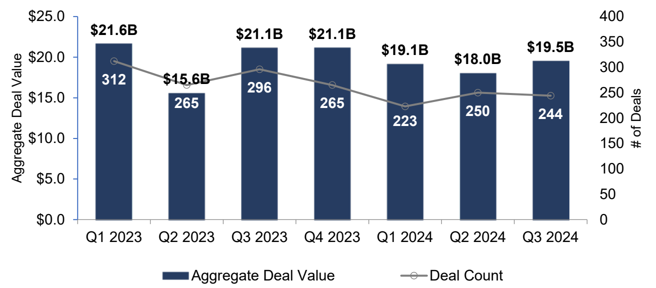
These trends signal a positive trajectory for the lower middle market (LMM) M&A landscape as we approach year-end. The steady aggregate deal value and Q3's record performance reflect strong investor focus on high-value opportunities. Combined with improving economic conditions—recent rate cuts, lower inflation, and rising equity markets—the sector appears well-positioned for a rebound. These factors set the stage for a more dynamic and confident M&A environment heading into 2025. more dynamic deal environment heading into 2025.

LMM M&A Activity (YTD 3Q 2020 - 2024)



Source: Pitchbook
Enterprise Value: $5M-$250M

LMM M&A Activity (Q/Q 2023-2024)



Source: Pitchbook
Enterprise Value: $5M-$250M

LOWER MIDDLE MARKET M&A OVERVIEW (cont.)

Lower Middle Market Valuation Multiple (2020-YTD 2024)					
Transaction Value	2020	2021	2022	2023	YTD 2024
$10M - $25M	5.9x	6.1x	6.4x	6.0x	6.4x
$25M - $50M	6.7x	7.2x	7.0x	7.0x	6.4x
$50M - $100M	8.0x	8.3x	8.5x	8.0x	8.7x
$100M - $250M	8.7x	9.3x	9.1x	9.6x	8.3x

Source: GF Data
Enterprise Value: $10M-$500M

LMM Valuation Trends (2020 - YTD 2024)

The data reveals several key trends in valuation multiples for lower middle market (LMM) transactions from 2020 through YTD 2024. Despite some fluctuation across transaction sizes, the market shows signs of selective resilience, with certain deal sizes displaying more pronounced growth or decline in multiples. Here's a summary of the major trends and observations:

1. **Stability and Modest Growth in Smaller Deals ($10M - $50M)**
   - → **$10M - $25M Range**: Valuation multiples in this range have shown slight growth, moving from 5.9x in 2020 to 6.4x in YTD 2024. This indicates a steady appreciation for smaller deals, which tend to be less sensitive to macroeconomic shifts.
   - → **$25M - $50M Range**: After peaking at 7.2x in 2021, multiples have declined to 6.4x YTD 2024, suggesting a cooling in valuation levels for this segment. This could reflect reduced buyer demand or cautiousness at this level due to recent economic uncertainty.
2. **Consistent Growth in Mid-Sized Transactions ($50M - $100M)**
   - → Valuations in the $50M - $100M range have shown steady growth from 8.0x in 2020 to 8.7x YTD 2024, marking the highest increase among all segments. This trend suggests strong buyer interest in mid-sized transactions, likely due to their balance of growth potential and moderate risk.
   - → The upward trend in this range highlights an appetite for quality assets where returns are perceived as attractive relative to risk.
3. **Fluctuation and Correction in Larger Deals ($100M - $250M)**
   - → **Peak and Decline**: The $100M - $250M segment saw the highest valuation multiples in 2023 at 9.6x, before dropping to 8.3x YTD 2024. This decline may indicate increased buyer caution or a recalibration of valuations at the higher end of the LMM as macroeconomic conditions, such as rising interest rates, impact financing costs and risk assessments.
   - → This correction could signify a shift as buyers re-evaluate deal structures, focusing on more sustainable valuations.

LOWER MIDDLE MARKET M&A OVERVIEW (cont.)

Commentary

- **Macroeconomic Influences**: The fluctuations in valuation multiples across deal sizes appear to be influenced by broader economic factors, including interest rate hikes, inflation, and market volatility. These conditions impact buyer confidence, financing availability, and overall risk tolerance, especially for larger deals.
- **Shift in Buyer Preferences**: The consistent growth in the $50M - $100M range suggests a preference for mid-sized transactions, where buyers find an attractive mix of manageable risk and growth potential. This segment seems to have weathered economic shifts better than others, as buyers prioritize quality over size.
- **Cooling in Larger Transactions**: The significant drop in the $100M - $250M valuation multiple from 9.6x in 2023 to 8.3x YTD 2024 may reflect a cautious approach by buyers. This could be due to the higher cost of capital and increased scrutiny on larger transactions, leading to a recalibration in valuation expectations.
- **Potential for Rebound in Smaller Deals**: The steady trend in the $10M - $25M range suggests resilience in smaller transactions, which could benefit from a rebound as economic conditions stabilize and more buyers seek smaller, less risky investments.

In summary, the YTD 2024 trends highlight a nuanced lower-middle-market (LMM) M&A landscape influenced by deal-specific dynamics, economic conditions, and evolving buyer priorities. The current environment reflects a cautious yet optimistic outlook, particularly for mid-sized transactions, with expectations for a potential recovery as market conditions continue to stabilize and improve.

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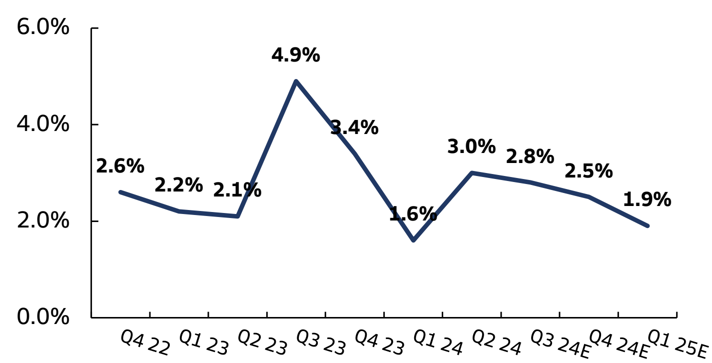
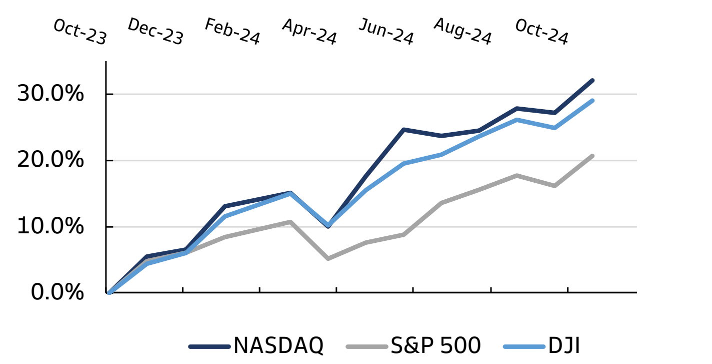
U.S. ECONOMICS STATISTICS

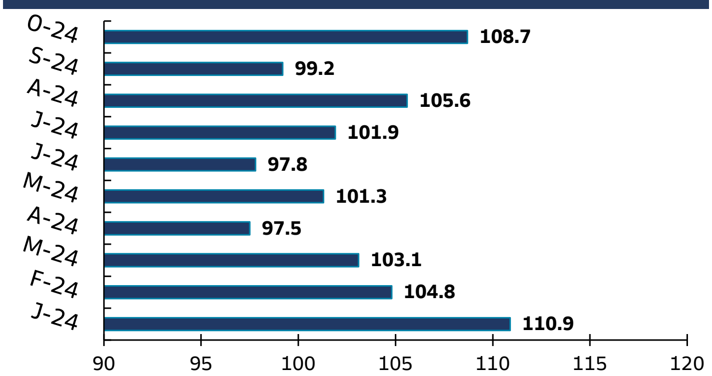
Real GDP Growth



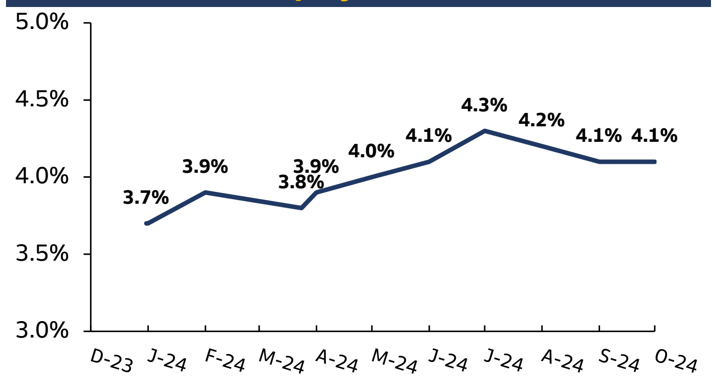
Stock Index Performance



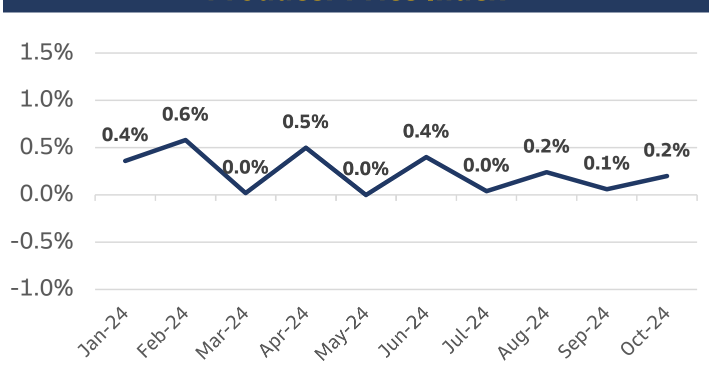
Consumer Confidence Index



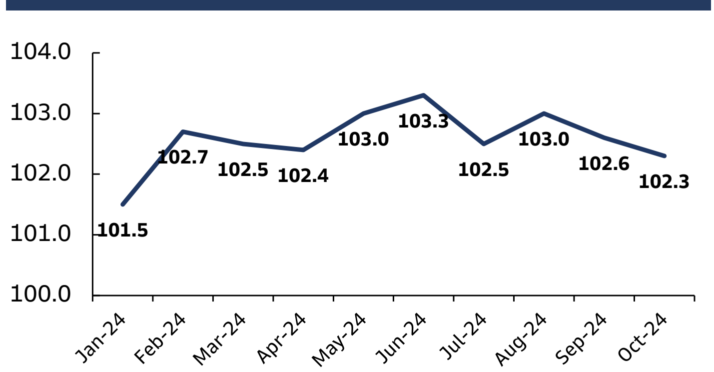
Unemployment Rate



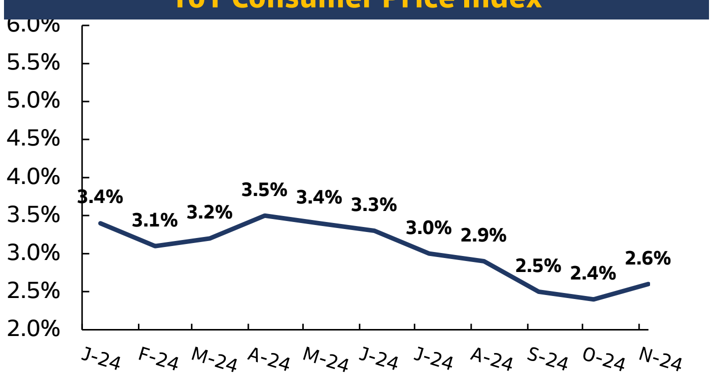
Producer Price Index



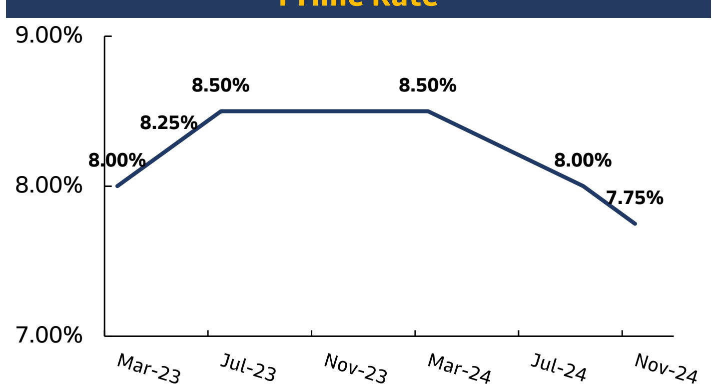
Industrial Production Index



YoY Consumer Price Index



Prime Rate



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NUMA WAYNE CAPITAL ADVISORS' TRACK RECORD

NUMA WAYNE has represented numerous companies in various industry verticals. Our advisory work has included multiple industries and involved companies of diverse specialties, many of which sell in both the public– and private-sector markets.

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FINANCIAL ADVISORY
Advisor to Company

nexersys
FINANCIAL ADVISORY
Advisor to Company

AXIOM MOBILE IMAGING
has been acquired by
Diagnostic Laboratories & Radiology
Advisor to Seller

NEOS SURGERY
VALUATION
Advisor to Company

FRONTLINE MEDICAL PRODUCTS
VALUATION
Advisor to Company

Rhyme University
has been acquired by
Taymark
Advisor to Seller

The Francis Frith Collection
has licensed certain assets to
ancestry.com
Advisor to Seller

seracare
has been acquired by
American Plasma Inc.
Advisor to Seller

Gilad&Gilad
FINANCIAL ADVISORY
Advisor to Company

AZ COUNTERTOPS INC.
has been acquired by
iSi Interior Specialists, Inc.
Advisor to Seller

AZ COUNTERTOPS INC.
has been acquired by
iSi Interior Specialists, Inc.
Advisor to Seller

GILDA MAX fitness
has been acquired by
Best Form Industries
Advisor to Seller

SPIDELL
has been acquired by
CeriFi
Advisor to Seller

TTR The Transformer Doctors
has been acquired by
RESA POWER SOLUTIONS
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has been acquired by
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