

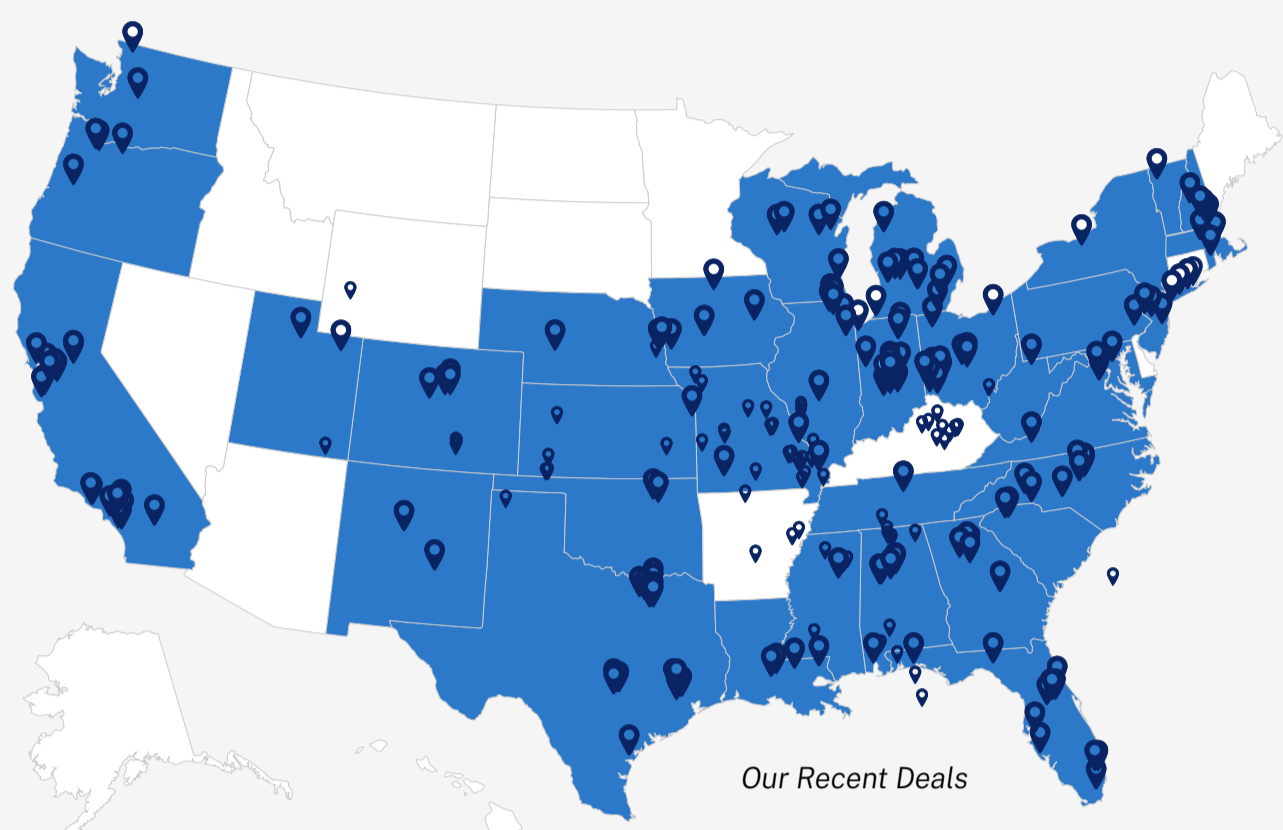
Deal Environment

In 2024, the U.S. M&A market demonstrated resilience, with increases in both deal volume and value despite economic uncertainties. Private equity deal count increased nearly 13%, and deal value climbed 19%, according to Pitchbook data. Persistent inflation, fluctuating interest rates, and geopolitical uncertainty tested dealmakers, but sectors such as industrials, value-added manufacturing and distribution, business services, and technology emerged as key drivers of activity.

The market gained momentum in the latter half of the year as financing conditions eased, bolstered by private equity's focus on add-on strategies and sector-specific growth trends. In the lower middle-market, private equity drove deal volumes by consolidating fragmented markets, targeting family-owned and founder-led businesses as owners neared retirement. Strategic buyers also capitalized on opportunities, with strategic acquisition volumes surpassing prior years.

Despite market challenges, KSM's Transaction Advisory Services Group continued its rapid growth, advising on 175 deals with a total transaction value of \$3 billion. Since 2022, the group has capitalized on market opportunities, achieving growth that has outpaced the market; annual deal volume has increased by 82%, and total transaction value has increased by 108%.

KSM by the Numbers



175
Annual Deal Volume

10+
Unique Industries Served

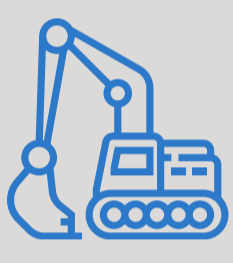
\$2M-20M
Average EBITDA Range

Up to \$500M
Deal Range

30+
Experienced Transactions Professionals

Deal Environment

Industrial



Leveraging our deep expertise in the industrial sector, our transaction advisory team successfully completed over 65 industrial deals in 2024. This activity was largely driven by add-on transactions in commodities, precision manufacturing, and utilities. Companies specializing in highly advanced manufacturing or automation commanded premium valuations, which was consistent with 2023 levels.

Industrial deals often require heightened diligence around revenue recognition, particularly due to the prevalence of long-duration projects and customer contract accounting. Companies using the percentage-of-completion (POC) accounting method estimate revenue and expenses for projects, which can result in unexpected fluctuations in earnings and net working capital during the historical period. KSM's transaction advisory team has extensive experience assessing the impact of POC accounting, ensuring its accurate reflection in deal dynamics for both buyers and sellers.

Manufacturing & Distribution



KSM experienced a 42% increase in manufacturing and distribution deals in 2024 compared to the prior year. Purchase price multiples in the manufacturing sector showed positive momentum, although traditional manufacturing and distribution multiples trailed those of specialized manufacturing and automation.

Amid growing geopolitical and economic uncertainties with the incoming presidential administration, investors have shifted their focus toward domestic manufacturing companies with strong logistics networks to minimize reliance on global suppliers.

Consumer

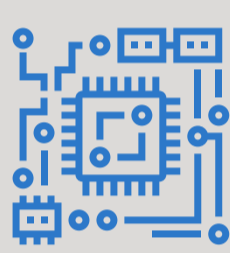


Deal volume in the consumer sector remained steady in 2024, with notable activity in the fresh produce and niche food markets. As recession fears eased, discretionary consumer spending increased slightly compared to 2023, boosting confidence in the sector. However, valuation gaps between buyers and sellers continued to pose challenges to deal closures.

The consumer sector is expected to remain strong in 2025, driven by brands

emphasizing health and wellness and those leveraging a strong digital presence. With consumer spending continuing to shift toward online marketplaces, e-commerce is poised to play a pivotal role.

Technology



The technology sector experienced a strong year in 2024, fueled by the rise of artificial intelligence (AI) and growing demand for automation. Software as a service (SaaS) companies remained highly attractive to investors, particularly those with strong annual recurring revenue, high customer retention, and scalable solutions.

The KSM team worked on nearly twice as many technology deals in 2024 compared to 2023, with significant activity in industrial technology, healthcare technology, and security. While valuation gaps between buyers and sellers persisted, the sector's growth potential and demand for innovation are expected to sustain robust deal activity through 2025 and beyond.

Transportation & Logistics



The freight sector experienced a rebound in 2024, though activity and valuations have yet to reach the highs of the post-pandemic recovery period. Increased activity in brokerage, factoring, and trucking was largely driven by a stabilized rate market. After the boom from 2020 to 2021 and the downturn from 2022 to 2023, the freight M&A market appears poised for a return to more normalized levels.

Final-mile companies are expected to garner greater interest, driven by the growth of e-commerce, along with firms adopting advanced technology and AI. KSM's transportation consulting team, KSM Transport Advisors, specializes in helping transportation businesses navigate these trends to increase profitability, offering tailored strategies to optimize operations and capitalize on emerging opportunities in the market.

As businesses continue to navigate tariffs and other geopolitical economic challenges, the domestic supply chain is anticipated to create significant opportunities for U.S.-based providers. With KSM's deep expertise in transportation and logistics, we are well-positioned to guide providers through this dynamic and promising time.

2025 Outlook

Private equity firms will remain a significant force in shaping M&A activity, with deal volumes expected to rise in 2025 as firms deploy their reserves of dry powder. Lower interest rates will help ease financing costs, enabling private equity firms to capitalize on undervalued opportunities, particularly in fragmented industries.

Heightened competition in the middle and upper middle-market M&A landscape is likely to push some players downstream into the lower middle-market, making it an attractive segment for deals in the year ahead, especially with a surge of owner-operated businesses seeking exits as baby boomer entrepreneurs are retiring. The easing of interest rates presents a chance for buyers to secure high-quality businesses at reasonable multiples, especially in the lower middle-market, and sellers can benefit from stabilizing valuations in 2025, which may create more opportunities for favorable outcomes.

Whether you are a buyer seeking to expand strategically or a seller preparing for an exit, the stage is set for a dynamic and rewarding year for dealmakers. KSM's transaction advisory services team has seen robust deal flow heading into 2025, and we are expecting another year of robust lower middle-market M&A activity.