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MERGERS & ACQUISITIONS

True North M&A Market Update:

Spring 2025

About True North M&A

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True North Mergers & Acquisitions (TNMA), headquartered in Minneapolis, is a lower middle market national sell-side and buy-side advisory firm servicing clients with $10 - $150 million in revenue. TNMA spun out of Sunbelt Business Advisors in September 2021. TNMA's senior professionals have built, operated, and sold successful companies, allowing the firm to perform transactions across all industry sectors. When you choose TNMA, you're not just hiring another investment banker; you're gaining passionate advocates for your business who have been in your shoes before. TNMA's dedication goes beyond the transaction to help founders and family business owners leave a legacy they can be proud of as they move forward, free to start the next chapter of their lives.

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Contents

M&A Outlook 2025: A More Promising Environment

Optimism is tempered but growing, with several factors expected to shape the M&A landscape.

By Kirill Graminschi, Vice President

At a Glance

- The sluggish performance of recent years appears to be giving way to renewed optimism, as favorable conditions ahead align to potentially create increased transaction volumes.
- The new administration's use of tariffs is creating uncertainty in the market as businesses are reassessing supply chains and shifting toward domestic sourcing and manufacturing.
- PE dry powder and increased competition: Financial sponsors continue to hold record levels of investment capital, and as credit conditions stabilize, competition for quality lower middle market targets intensifies.

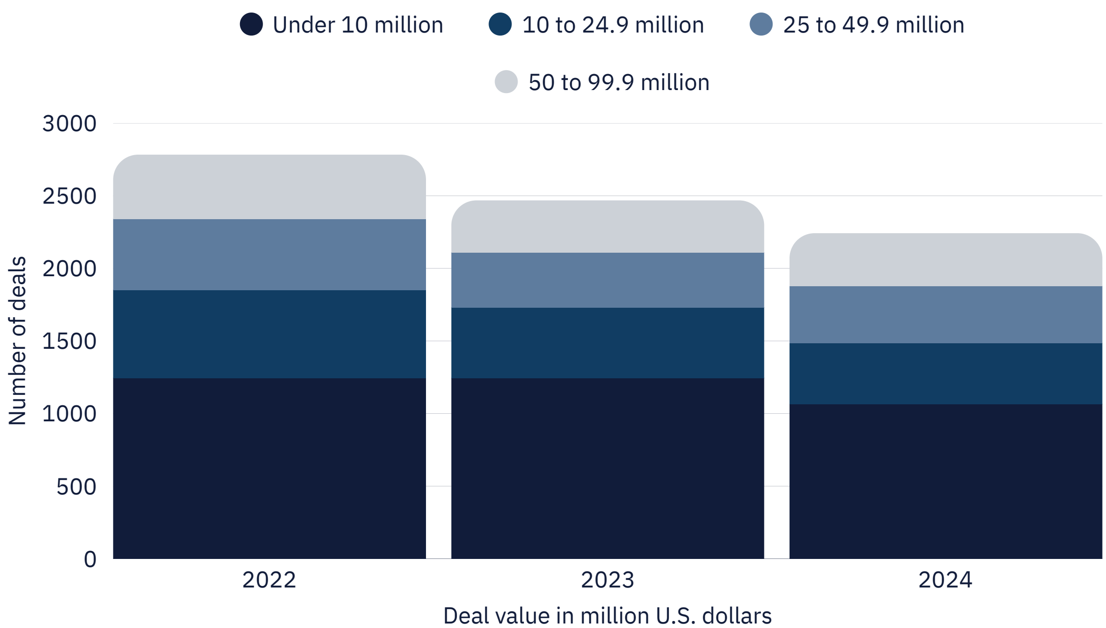
Many would agree that 2023 and 2024 were years of slowdown in the world of mergers and acquisitions. Following two years of tepid deal flow, the market is entering a new phase in 2025 - characterized by the need for private capital deployment and strategic selectivity amid improving macroeconomic conditions.

As investment pipelines regain momentum from their decline and contraction in recent years, 2025 signals a rebound that could indicate a bull run for private companies in the market with dealmaking frameworks prioritizing quality over quantity.

In 2024, transaction activity was driven by private equity's prioritization of quality lower middle market opportunities, strategic buyers seeking synergistic acquisitions, and more realistic seller expectations after the post-pandemic M&A boom. Also, high borrowing costs led to alternative transaction structures and increased scrutiny in due diligence.

Figure 1: M&A transaction values have seen a slowdown in recent years.

2022-2024 Number of M&A transactions in U.S. by deal value



Sources: Statisca - Number of merger and acquisition transactions in the United States from 2022 to 2024, by deal value," 2025

With transaction activity's decline in recent years (See Figure 1.), M&A deal flow has improved across various industries, particularly in healthcare, business services, IT, and specialized manufacturing, while cyclical sectors such as construction and consumer products with significant retail exposure saw more volatility. The market's slow recovery is an uneven road for some with 2024's rising interest rates, inflation, and stricter banking lending policies with tighter debt/equity leverage ratios impacted buyout financing.

However, this sluggish performance of recent years appears to be giving way to renewed optimism, as favorable conditions ahead align to potentially create increased transaction volumes. Amid industry consolidation and challenges in large transactions/IPOs, private equity firms are targeting lower middle market A-class companies for their reasonable valuations and growth potential. Strategic buyers are increasingly focusing on bolt-on acquisitions to achieve synergies, operational efficiencies, and niche market access.

The 2025 Outlook for M&A Activity Hinges on Macro Conditions and Policy

Key drivers of the M&A activity in 2025 include:

- **Potential interest rate easing could unlock transaction flow:** The Federal Reserve's projected 50-basis-point rate reduction in later 2025 may make financing more accessible and increase transaction velocity as lower rates stimulate capital redeployment.

- **New tariffs are creating uncertainty:** The April 5th implementation of Trump's 10% universal tariff are expected to increase costs for certain products, potentially impacting transaction activity in those sectors. Businesses are reassessing supply chains, shifting toward domestic sourcing and manufacturing.

- **PE dry powder and increased competition:** Financial sponsors continue to hold record levels of dry powder - capital they need to deploy and invest . As credit conditions stabilize, this abundance of capital is likely to intensify the competition for quality lower middle market targets. With more players chasing fewer top-tier opportunities, we expect more creative transaction structures, such as minority recaps and structured equity solutions, allowing companies to address financing constraints while still achieving their goals.

- **More sellers are entering the market:** Many Baby Boomer business owners who delayed exits due to market uncertainty may finally pursue transactions in 2025, leading to a greater supply of class A businesses on the market. As economic clarity improves, valuation expectations may normalize, fostering a healthier buyer-seller dynamic.

- **Exit planning and value creation taking center stage:** With buyers prioritizing high-quality, well-prepared businesses, lower middle market sellers must focus on financial transparency, operational efficiencies, and strategic growth initiatives. Companies with strong revenue visibility, minimal customer concentration, and strong EBITDA margins pose less buyer risk and will therefore command premium valuations.

EBITDA Multiples and Total Enterprise Value

Lower middle market companies, which generate $10-$150 million in revenue, consistently command higher EBITDA multiples in the market due to their lower risk profiles, greater financial stability, and more substantial growth potential. These companies benefit from economies of scale, better access to capital, and institutional buyer interest, making them more attractive investments.

Lower middle market companies' established management teams, diversified revenue streams, and competitive advantages justify premium valuations. Both strategic and financial buyers are willing to pay more (see Figures 2a and 2b) for businesses with scalable operations, strong exit potential, and the ability to weather economic fluctuations.

However, there is an exception in the $8-$10 million EBITDA category with outliers in 2023 and 2024 driven by then-existing market conditions.

Figure 2a: Companies with higher levels of EBITDA pose less investment risk and command high multiples due to greater financial stability, and more substantial growth potential.

Total Enterprise Value (TEV)/EBITDA Multiple by EBITDA size - All Industries

EBITDA	2003-2019	2020	2021	2022	2023	2024	Total
3-5 million	6.1	6.4	7.1	6.9	6.7	6.5	6.3
5-8 million	6.6	7.1	7.3	7.7	7.3	7.1	6.8
8-10 million	6.7	7.4	8.3	8.3	7.2	6.9	7
>10 million	7	7.8	8.5	8.2	8.2	7.6	7.4
Total	6.6	7.1	7.7	7.6	7.3	7	6.8
N=	2893	280	413	272	230	284	N/A

Sources: Source: GF Data Q4 2024 Report

Deal Multiples with a Quality Premium

In 2024, research indicates buyers paid 15% more for Class A companies with above-average financial performance. Higher interest rates affected not only the premium percentage but also the number of companies obtaining a premium. If inflation and interest rates continue to decline 50 basis points, as expected, premiums in 2025 should more closely follow historical numbers.

Figure 2b: Higher interest rates affected not only the premium percentage but also the number of companies obtaining a premium.

Quality Premium

EBITDA	2003-2019	2020	2021	2022	2023	2024	Total
Above average financials	6.8	7.7	8.2	7.9	8.2	7.7	7.2
Other buyouts	6.2	6.2	6.4	6.5	6.4	6.7	6.3
Premium/(discount)	110%	124%	127%	122%	128%	115%	115%
Incidence	55%	55%	63%	66%	47%	40%	55%

Sources: Source: GF Data Q4 2024 Report

After navigating a cautious 2024 marked by delayed exits and macroeconomic uncertainty, the 2025 M&A outlook shows renewed promise, particularly with anticipated interest rates cuts and potentially easing lending conditions. The market continues to address the lingering effects of the prolonged dealmaking slowdown, though risks remain from unpredictable disruptions. Sellers who invest in exit readiness and buyers who maintain a disciplined, strategic approach will be best positioned to capitalize on what could be a strong year for lower-middle-market transactions.

Healthcare Sector: Consolidation = Favorable M&A Activity

Continued consolidation due to rising compliance costs, labor shortages, and economies of scale spurs M&A Activity and provides favorable conditions for sellers in the industry.

By Randy Krivo, Managing Director

At a Glance

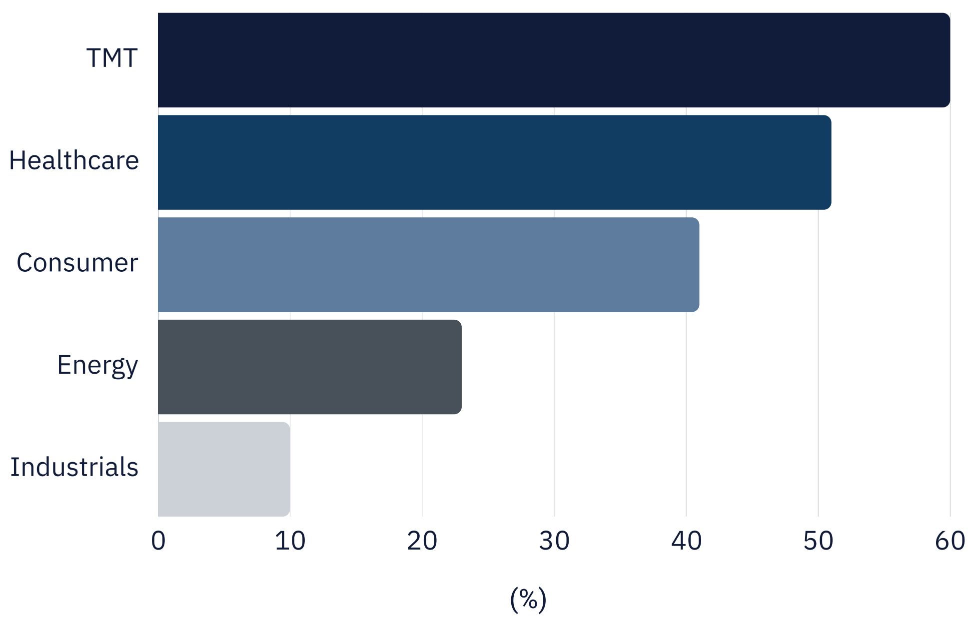
- Industry consolidation continues to drive M&A transaction activity despite 2023 and 2024 slowdown.
- Following the presidential election and a new administration taking a pro-business stance, healthcare deals have increase significantly year over year.
- PE firms and strategic acquirors are prioritizing acquiring healthcare core platforms, class A companies with high operational capacity, and companies that allow them to expand their geographical reach.

Activity in the healthcare sector in the lower-middle-market during Q1 2025 saw continued consolidation due to rising compliance costs and labor shortages. With economies of scale benefitting many, M&A activity in the sector remains prime for those looking to sell or grow through acquisition. Favorable conditions for sellers in the industry, particularly for those leading the way in behavioral health, home health, med spa, and women's health subsectors, to come to light as the industry wraps up Q1 of 2025 and some beliefs point to dynamic growth in M&A activity this year. These subsectors are coming out on top due to their alignment with demographic shifts, changing consumer preferences, and industry fragmentation.

The uptick in deals in this space correlates closely with the recent presidential election. With the election behind us, many business owners believe the new administration has adopted a pro-business stance. Two weeks following the presidential election, healthcare deal kickoffs soared 51% year-over-year on Datasite (see Figure 3). This presidential change has healthcare practice owners anticipating that there will be reduced red tape, and a shift to a more predictable antitrust review process, boosting activity with clearer outcomes and timelines.

Figure 3: Two weeks following the presidential election, healthcare deal kickoffs soared 51% year-over-year on Datasite.

Deal Kickoffs Nov. 6-20 2024 vs Nov. 6-20 2023



Sources: Datasite "Post-election deal data: Week 2," 2024

With healthcare organizations turning their attention to strategic consolidation, more regional health systems are likely to pursue financial synergy through scale. A recent EY CEO Outlook Pulse Survey showed 98% of surveyed health CEOs expect to pursue M&A, divestitures, JVs, or strategic alliances in the next 12 months, and 86% of healthcare industries CEOs who made significant acquisitions in the past three years plan to make one or more acquisitions in the next three years. The move towards strategic consolidation highlights the prioritization of acquiring core platforms, class A companies with high operational capacity, and companies that allow them to expand their geographical reach.

The combination of confidence in the current business landscape, readily available capital, favorable macro trends, strong investor appetite, and growth through acquisition strategies all point to increased M&A healthcare activity in 2025.

Information and Technology Sector: Resilience Amid Uncertainty

Strong growth potential amid uncertainty in market as businesses invest in AI, automation, and digital transformation for increasing data volumes.

By Manuel Santana, M&A Advisor

At a Glance

- The information and technology sector's activity has persisted amid the 2023 and 2024 slowdown in M&A dealmaking.
- Data volumes significantly increased with the rapid adoption of AI and digital transformation, presenting a data volume challenge for all sectors across the industry.
- Scrutiny of significant tech acquisitions has led to regulatory delays, forcing companies to adopt a wait-and-see approach while reconfiguring supply chains and cost structures.

Despite a cautious macro M&A landscape, the information and technology sector demonstrates resilience in the lower middle market during Q1 2025, comprising about 13% of deals on platforms like Axial over the past year. Activity in the technology sector persisted amid the slowest start to deal-making for the broader market in a decade, particularly marked by low activity in January and February. Nevertheless, the technology vertical consistently ranked in the top three sectors for pursuit rate, claiming the number one spot for half of 2024, indicating strong investor interest despite market headwinds.

Data management emerged as a key challenge and as the definitive Achilles' heel for the sector this year, as data volumes significantly increased especially with the rapid adoption of AI and digital transformations.

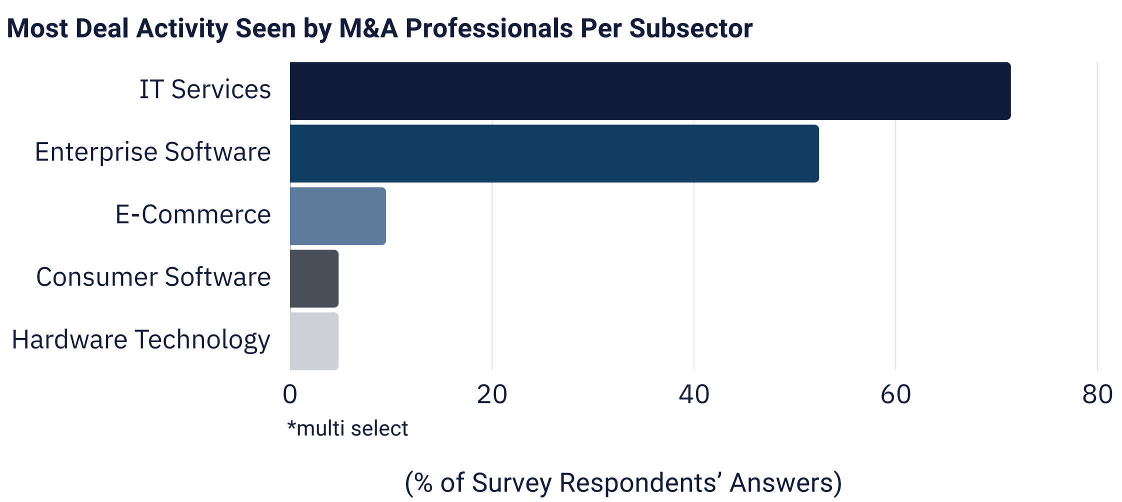
The projected surge in data volumes to 175 zettabytes by 2025 creates integration hurdles for companies seeking to leverage AI and advanced analytics for competitive advantage, compounded by the prevalence of hybrid multi-cloud environments, that complicate data access and integration costs.

These data management and security challenges create significant friction in technology acquisitions, as buyers must carefully evaluate hidden integration costs and cybersecurity exposures.

Market uncertainty has been exacerbated by shifting policies under the new presidential administration, particularly concerning technology regulation and international trade. Scrutiny of significant tech acquisitions has led to regulatory delays, forcing companies to adopt a wait-and-see approach while reconfiguring supply chains and cost structures. However, favorable conditions—such as moderating interest rates, tighter credit spreads, abundant private equity capital, and a more permissive regulatory environment—suggest a potential break in the current logjam in M&A transaction activity later in 2025 as the strategic importance of technology capabilities drives interest and policy uncertainties resolve.

Despite the challenges and uncertainty in the marketplace, deal activity has remained high in certain subsectors. As shown in Figure 4a, IT services, enterprise software, e-commerce, consumer software, and hardware technology are where dealmakers are seeing the most deal activity. These subsectors are less affected by regulatory scrutiny, allowing them to attract those seeking lower middle market acquisitions that avoid the delays faced by larger mergers.

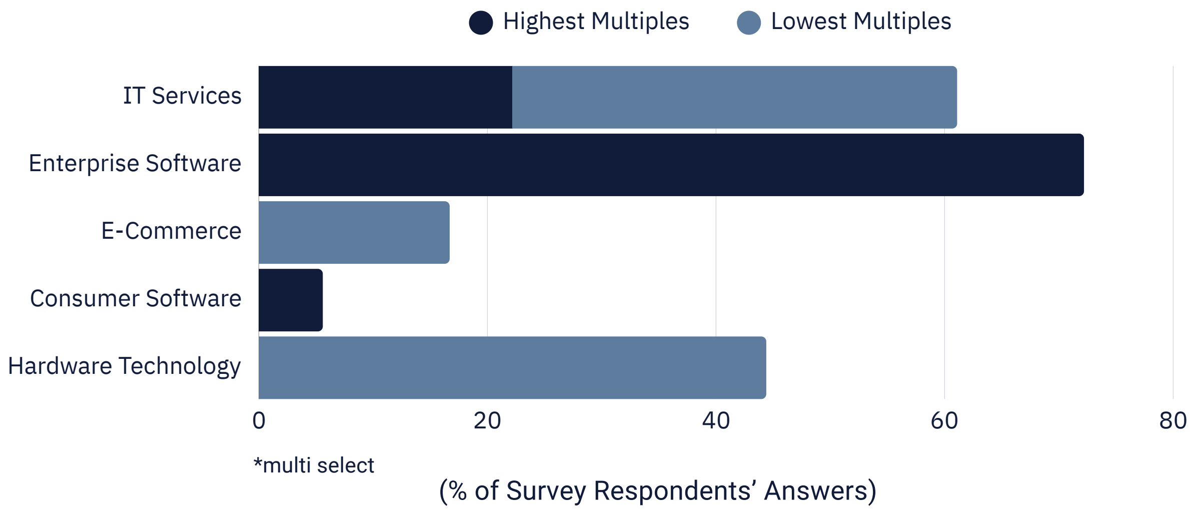
Figure 4a: Where Deal Professionals Have Seen Deal Activity in the Technology Industry.



Sources: 2025 Axial Technology Top 50 Member Survey

Figure 4b: Where Deal Professionals Have Seen Deal Activity in the Technology Industry.

Highest and Lowest Multiples Per Subsector



Sources: 2025 Axial Technology Top 50 Member Survey

The higher valuation multiples in these subsectors, as seen in Figure 4b, reflect two key drivers. First, there is a significant amount of private equity capital available, which is being invested in platforms with AI capabilities and cloud-native infrastructure. Second, strategic buyers are acquiring specific technologies to address post-pandemic digital transformation needs. This is particularly evident in IT services and cybersecurity, where consolidation is accelerating due to the need for AI-driven solutions and regulatory compliance.

Enterprise software continues to dominate deal value, as companies acquire AI-capable assets. Meanwhile, IT services are emerging as a growth area through partnerships with major cloud providers and deals related to computing capacity. This dual focus on software value and services volume growth, visualized in both figures, suggests that 2025 could be a pivotal year for M&A activity as regulatory clarity meets pent-up demand for integration.

Industrial Manufacturing and Distribution Sector: Tariff Turbulence

Supply chain diversification and reshoring trends may drive strategic acquisitions.

By Brent Engelbrekt, Managing Director

At a Glance

- The recent commitment of $5 trillion towards building manufacturing capacity in the U.S. and newly implemented tariffs are a significant development; it signals a potential shift towards revitalizing the nation's industrial foundation and bringing jobs back to its shores.
- If current trends continue, the increase of costs and potential supply chain instability might lead to a rise in M&A activity, as strategic acquirers in the U.S., such as large original equipment manufacturers (OEMs) and private equity-backed platforms, seek to scale operations.

There is a new tariff in town, and nobody knows what to do. For every brilliant economist telling us that this latest round of tariffs is going to send our economy into a deep recession that will take years to recover from, there is another equally brilliant economist telling us that tariffs will quickly turn this country's economic woes around and bring on a new round of economic prosperity. How can so many of the greatest economic minds of our time be so opposed regarding this issue?

The tariff dilemma has not only divided economists but also the nation, as citizens weigh the potential benefits against the risks. Supporters of tariffs—often those who have witnessed the decline of domestic manufacturing and the loss of blue-collar jobs—argue that bold action is needed to correct the imbalance caused by unfavorable trade agreements. Conversely, tariff opposers are concerned about higher prices and reduced spending power, which pose significant challenges for those already struggling to make ends meet.

As exposed in the pandemic-era logistics, manufacturing and distribution companies have seen labor shortages and vulnerabilities in globalized models now further exposed by the new administration's push to re-shore production. The recent commitment of $5 trillion towards building manufacturing capacity in the U.S. and newly implemented tariffs are a significant development; it signals a potential shift towards revitalizing the nation's industrial foundation and bringing jobs back to its shores. This influx of investment could be the catalyst needed to tilt the scales toward economic prosperity, helping to rebuild the middle class and restore the country's manufacturing strength.

The change in potential supply chain instability may lead to a slight rise in M&A, activity as strategic acquirors such as large OEMs, and PE-backed platforms are looking to scale.

If current trends continue, the potential supply chain instability might lead to a rise in M&A activity, as strategic acquirers in the U.S., such as large original equipment manufacturers (OEMs) and private equity-backed platforms, seek to scale operations. This strategy allows them to quickly acquire necessary production capabilities, technological advancements, expertise, and capital equipment, thereby minimizing risks and avoiding the need to build operations from the ground up. Vertical integration may prove to be key for companies in this sector as they look for suppliers that can help them absorb the turbulence that may be on the horizon.

Contributors:

Read more about the team who contributed to gathering the information and insights comprised in this quarter's M&A update:

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As research analyst at True North M&A, Grace applies her analytical expertise to support the firm's strategic initiatives and M&A projects through a comprehensive understanding of market dynamics and solid strategic-thinking skills.

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As a past business owner, Brent comes with a key understanding of the business sales process with knowledge acquired firsthand as a principal in several successful business and real estate transactions. He knows what it takes to properly present a business for sale.

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KG leads transaction origination and execution at True North, playing a pivotal role in transaction origination, structuring, financial analysis, and market positioning, ensuring his clients achieve both their financial and personal objectives.

Michael Hubsmith | President

Michael has over three decades of hands-on executive experience, leading and operating six national middle and lower-middle-market companies and founding two start-ups as an entrepreneur. During that time, he assisted with ownership transition issues with each company.

Randy Krivo | Managing Director

Randy has over 35 years of experience in business ownership, business management, sales and marketing management, and business consulting. He brings unique insight to buying and selling a business, as he is a former business owner of several small to midsize privately held companies.

Manuel Santana | M&A Advisor

Manuel Santana is a highly accomplished advisor with over 15 years of experience guiding business owners through successful transitions. His expertise spans various industries, including digital businesses, B2B and B2C services and distribution.

Matt Silasiri | Vice President, Business Development

Meet Matt Silasiri, our esteemed Vice President of Business Development at Sunbelt Business Advisors and True North Mergers & Acquisitions. Matt joined our dynamic team in 2021, initially taking on the responsibilities of a Business Development Executive and later excelling as the Business Development Team Lead, and Marketing and Business Development Manager.

Kevin Szozda | Director, Strategic Relations

In his current role as Director of Strategic Relations at True North, Kevin specializes in identifying opportunities for business growth, with a focus on Sunbelt and True North M&A strategic partnerships and relations.

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