M&A Quarterly Update: 2024 Fourth Quarter

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Welcome to Colonnade Advisors' quarterly update on middle-market M&A activity. Colonnade has successfully advised on numerous middle-market deals in recent years, leveraging deep industry expertise in the financial services and business services sectors.

In this report, we examine key M&A trends from the fourth quarter of 2024, including recent transaction activity, valuation dynamics, and the factors influencing deal flow. We also provide insights into sector-specific developments—highlighting the financial services industry—and take a closer look at private equity activity.

Our analysis examines the forces shaping the middle market and provides valuable perspectives for business owners, investors, and industry leaders.

OUR QUARTERLY UPDATE COVERS:

1. Quarterly Middle-Market M&A Activity
2. Quarterly Financial Services M&A
3. Transaction Multiples
4. Private Equity Middle-Market Activity

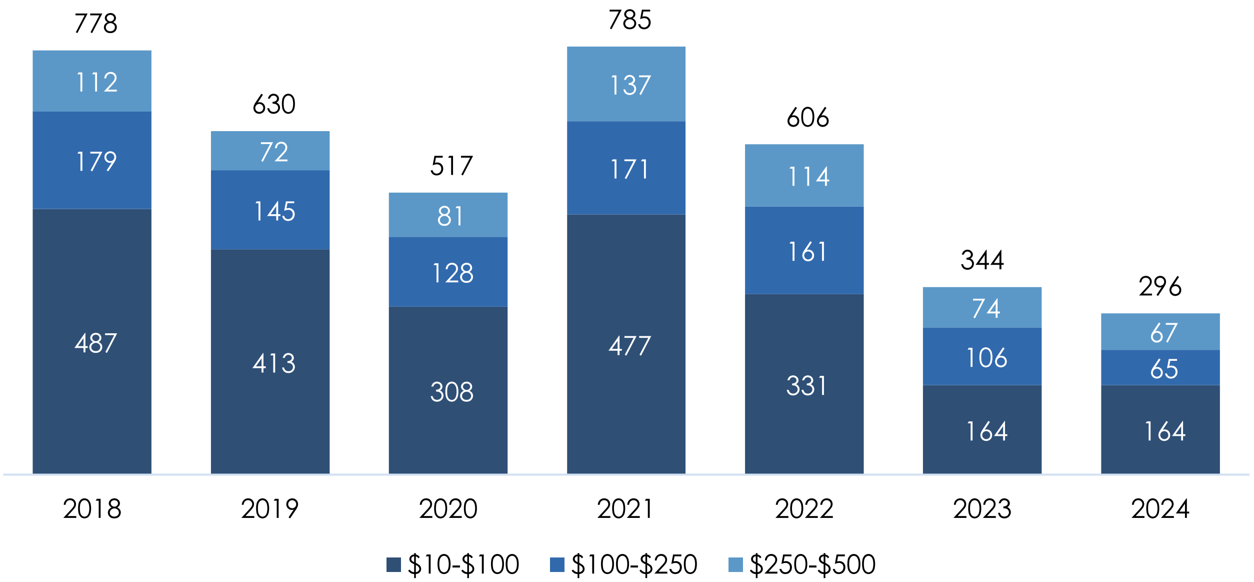
1 QUARTERLY MIDDLE-MARKET M&A ACTIVITY

North American middle-market[1] M&A activity[2] in 2024 saw a decrease of 14.0% in aggregate deal count and 20.6% in deal value compared to 2023, driven by economic uncertainty and tighter financial conditions. Increased lending costs have prompted buyers to conduct more rigorous due diligence processes, slowing deal execution.

Despite a slow year, Q4 showed signs of stabilization and modest recovery compared to Q3. The Federal Reserve's rate cuts helped ease financing constraints, contributing to a 7.4% quarter-over-quarter increase in deal count and a 1.0% increase in deal value. Year-over-year, transaction count and value are up 31.8% and 15.8% respectively in the fourth quarter—an encouraging signal that market conditions and buyer confidence are improving as we enter 2025.

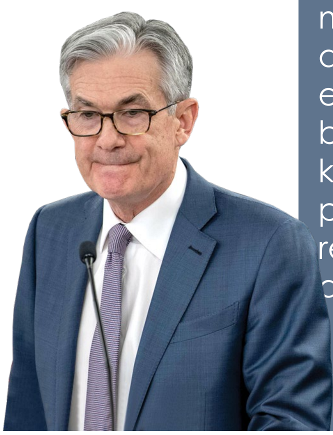
MIDDLE MARKET TRANSACTION VOLUME[1,2,3]

Number of deals in actual



[1]Colonnade defines middle-market deals as $10M-$500M in transaction value
[2]Excludes technology deals
[3]CapIQ 2024 data through Dec. 31

Inflation rose to 2.7% in Q4 2024, a 10-basis-point increase from the previous quarter. While significantly lower than its mid-2022 peak, the rate of decline slowed in 2024[1], and the elevated core figure indicates that further progress is needed for inflation to reach the Federal Reserve's 2.0% target. Amid ongoing economic uncertainty, the Fed has signaled a measured approach, aiming to balance inflation control with employment stability.[2] The Fed lowered the federal funds target rate to a range of 4.25% to 4.50% in December and is expected to make two rate cuts in 2025.[3]

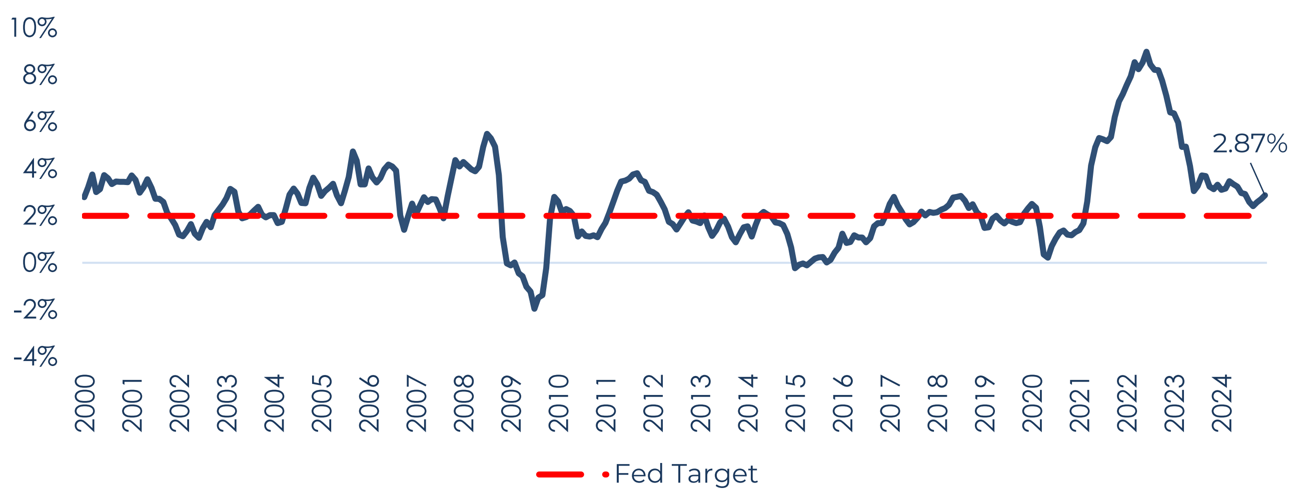


"We are confident that with an appropriate recalibration of our policy stance, strength in the economy and the labor market can be maintained, with inflation moving sustainably down to 2 percent. We see the risks to achieving our employment and inflation goals as being roughly in balance, and we are attentive to the risks to both sides. We know that reducing policy restraint too quickly could hinder progress on inflation. At the same time, reducing policy restraint too slowly could unduly weaken economic activity and employment."

-Jerome Powell, Chairman
Federal Reserve (Nov. 2024)

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX[4]



[1]US Bank, Mar. 20, 2025
[2]FOMC statement, Dec. 18, 2024
[3]US Bank, Feb. 28, 2025
[4]FRED as of Dec. 31, 2024

2 QUARTERLY FINANCIAL SERVICES M&A

In Q4 2024, middle-market M&A activity in the financial services sector demonstrated notable growth amidst macroeconomic concerns. The Federal Reserve's rate cuts contributed to increased deal flow, as did the prospect of a more accommodative regulatory environment following the presidential election.[1] Strategic priorities—such as digital transformation, operational scalability, and geographic expansion—remained central to deal rationale.

Insurance and Registered Investment Advisors (RIAs) were among the most active verticals. In the insurance sector, acquirers focused on expanding distribution capabilities, broadening product offerings, and improving operational efficiencies. The RIA space saw record transaction volume this quarter, with buyers prioritizing scale, succession planning, and platform growth. Overall, Q4 2024 marked a return to a more constructive M&A environment, positioning the financial services industry for sustained deal flow in 2025.

NOTABLE TRENDS – RIA SPACE[2]

The RIA industry saw significant growth in 2024, driven by:

- A shift toward fee-based fiduciaries over commission-based models, aligning with client demand for transparent and personalized advice
- Industry consolidation, especially by private equity firms in the wealth management space and adjacent practices
- Technological advancements, like AI-driven portfolio management

Private equity was involved in 89% of all RIA M&A transactions in 2024[2] focusing on expanding geographic footprints and broadening service portfolios through acquisitions of adjacent practices (e.g., tax, life planning) for existing holdings in the RIA space.

NOTABLE TRENDS – INSURANCE SPACE[3]

Commercial P&C insurers looked for profitability outside of premium growth as markets begin to soften. Strategies included:

- Modernizing underwriting capabilities, particularly with generative AI
- Diversifying into niche lines, like cyber or excess and surplus (E&S) insurance
- Optimizing operational efficiency to manage administration expenses

Acquirers focused on tech-forward firms for digital underwriting and analytics platforms instead of expensive, in-house solutions to improve operational efficiency.

[1]KPMG
[2]Fidelity
[3]McKinsey & Company

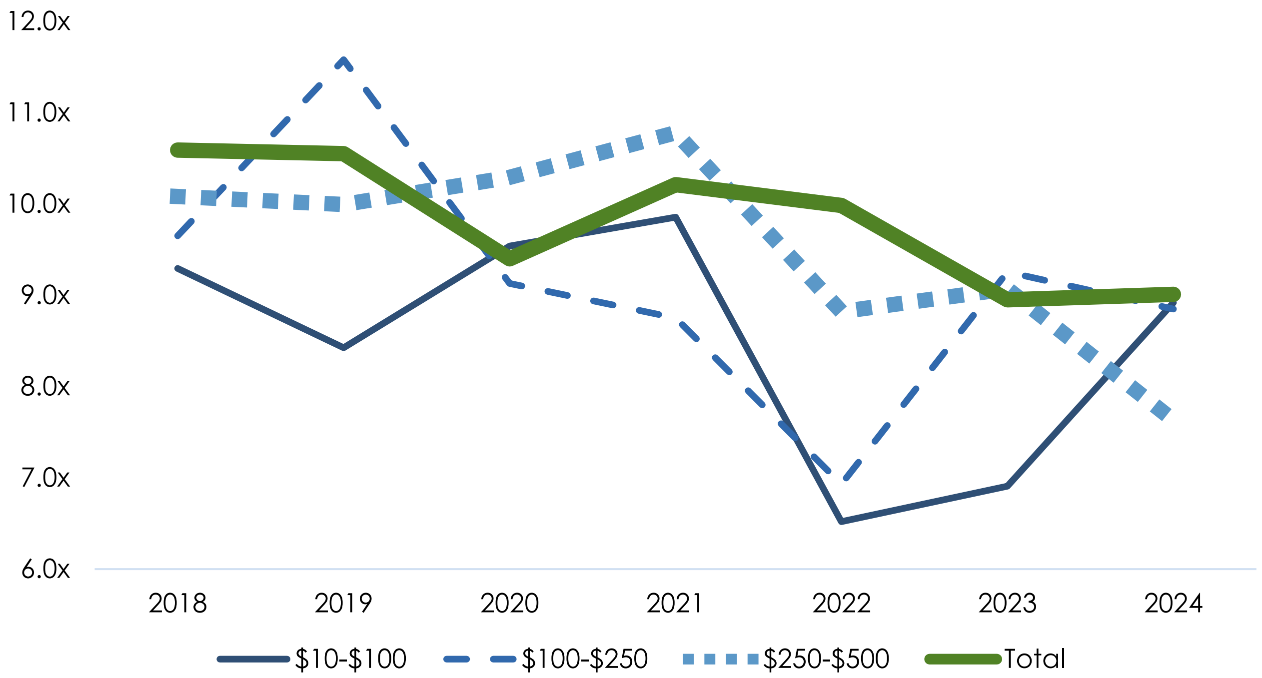
3 TRANSACTION MULTIPLES

In Q4 2024, middle-market transaction multiples remained under pressure. Elevated interest rates since mid-2022 increased the cost of debt—creating significant considerations for upper-middle-market deals that rely heavily on leverage. At the same time, lenders have become more selective, reducing allowable leverage and therefore limiting buyers' ability to pay premium prices. Exit activity from private equity sponsors remains muted as well, thinning the supply of high-profile deals and further softening pricing on the upper end.

In contrast, lower-middle-market ($10–100M enterprise value) multiples showed signs of recovery. Increased activity from independent sponsors and family offices—as well as nimble all-cash or low-leverage structures—has helped offset the impact of high borrowing costs and elevate valuations.

MIDDLE MARKET MEDIAN MULTIPLES[1,2]

Transaction Value/EBITDA (excludes technology deals)



[1]CapIQ 2024 data through Dec. 31
[2]Multiples over 25.0x excluded

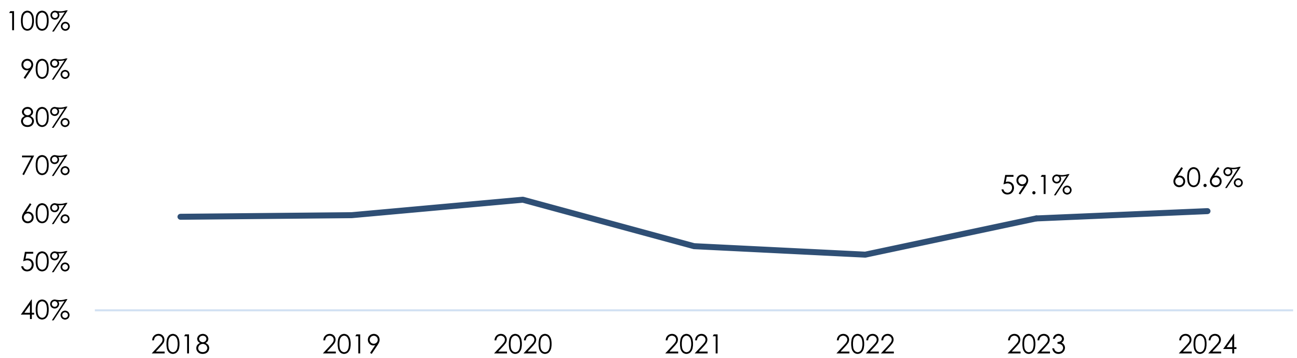
4 PRIVATE EQUITY MIDDLE-MARKET ACTIVITY

Middle-market activity accounted for 60.0% of deal count and 60.6% of deal value for all private equity buyouts in the U.S. during 2024. While PE deal value in Q4 rose 8.1% year-over-year, deal count fell 9.3%, reflecting a more selective market. Improved lending conditions, driven by banks competing with private lenders, have enhanced financing opportunities—however, most syndicated loans have been used for refinancing and recapitalization rather than new deals, signaling caution.[1]

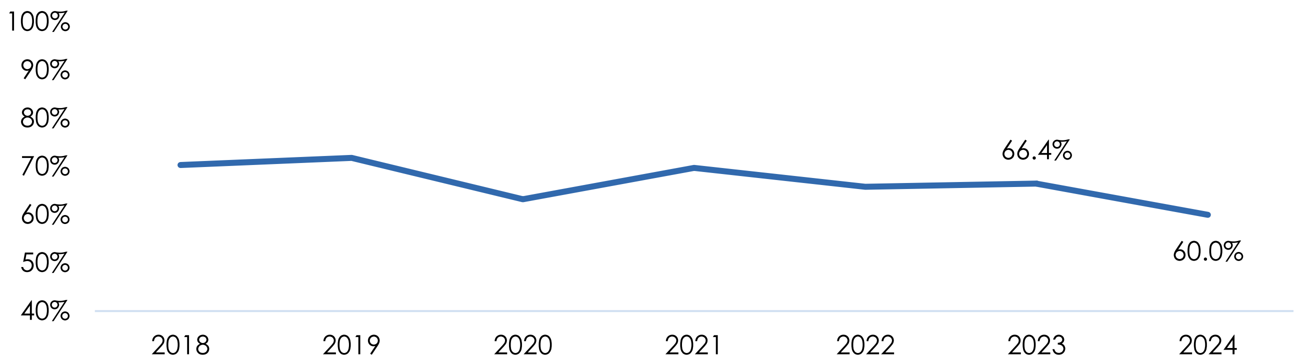
With interest rate cuts expected next year, dealmaking conditions should continue to improve. Increased access to capital and reduced risk aversion among lenders are expected to further facilitate deal flow and suggest a more active market in the months ahead.

MIDDLE-MARKET SHARE OF PRIVATE EQUITY DEALS[2]

US PE Middle Market Share of all US PE deal value



US PE MM Share of all US PE deal count



[1]Pitchbook 2024 US PE MM Report
[2]Pitchbook 2024 data through Dec 31. Pitchbook defines middle-market deals as $25M-$1B in total enterprise value

CONCLUSION

Middle-market M&A activity in North America showed meaningful signs of stabilization in Q4 2024, marking a potential turning point after a difficult period in 2022-2023. Overall deal count and value increased quarter-over-quarter, with the financial services sector and lower-middle-market transactions leading the recovery. Private equity firms began selectively re-engaging as financing conditions improved and clarity around interest rates emerged.

Although overall transaction multiples remain compressed, especially for leverage-reliant upper-middle-market deals, investor sentiment has improved. A more competitive lending environment—fueled by both banks and non-bank lenders—is helping to unlock capital for quality transactions, particularly in the lower-middle-market range.

Looking ahead, expectations of additional Federal Reserve rate cuts in 2025 are likely to support continued momentum. Middle-market participants are cautiously optimistic, and with elevated dry powder on the sidelines, we anticipate a gradual increase in deal activity as buyers and sellers realign on valuation expectations.

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This advertisement was prepared in March 2025. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: Pitchbook, FRED, US Bank, KPMG, and Colonnade research