M&A Quarterly Update: 2025 First 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 first quarter of 2025, 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

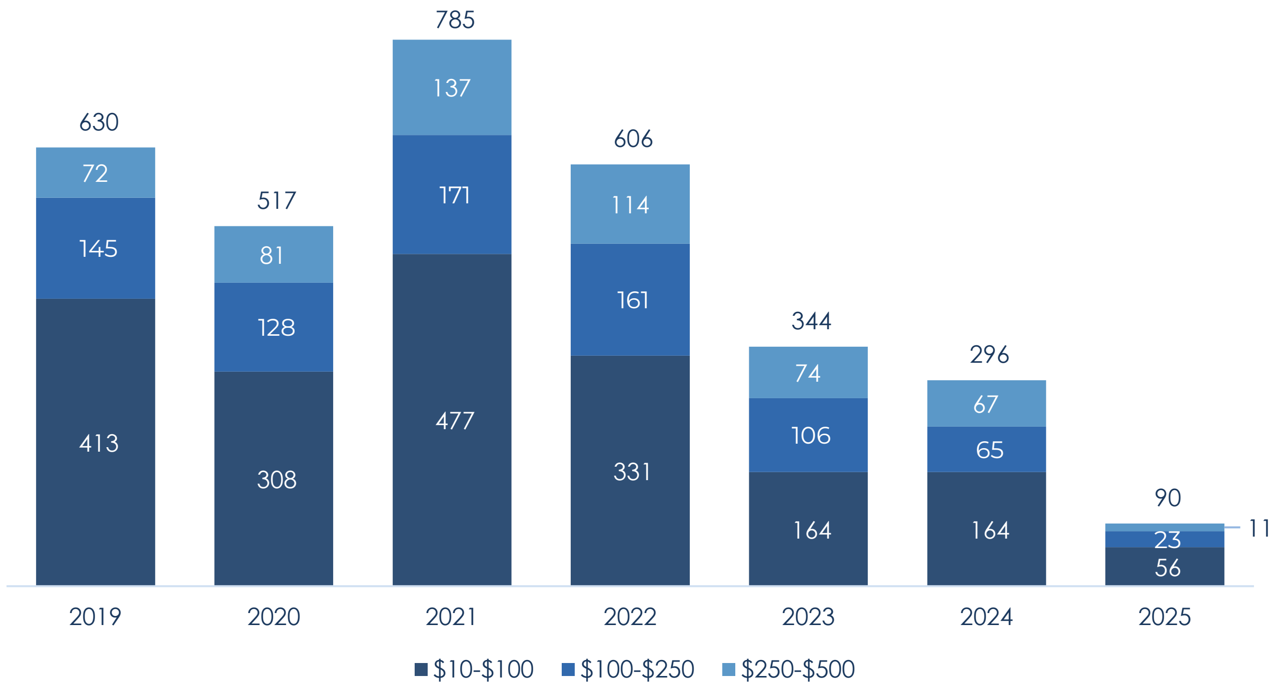
1 QUARTERLY MIDDLE-MARKET M&A ACTIVITY

North American middle-market M&A activity[1] surged in the beginning Q1 2025, with the number of closed deals up 210% compared to the subdued levels seen in Q4 2024. Early in the year, elevated market sentiment due to the expectations of economic growth and favorable regulatory conditions made buyers more confident, releasing some pent-up deal demand following the cautious close to 2024. However, uncertainty regarding the current Administration's tariff policy and its potential effects on global trade, GDP growth, and inflation slowed deal activity considerably in the second half of the quarter.

As a result, despite the early jump in activity, overall deal volume in Q1 2025 was down 6.3% year-over-year. Similarly, while aggregate deal value was up 98% quarter-over-quarter, it declined 6.5% year-over-year.

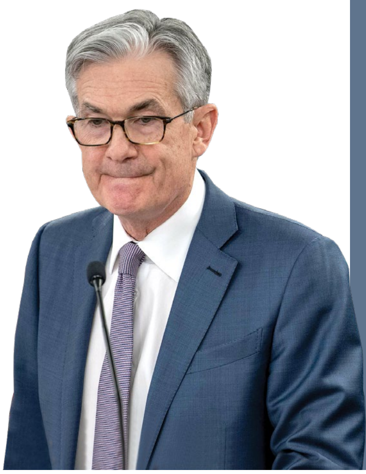
MIDDLE-MARKET TRANSACTION VOLUME[1,2]

Number of deals in actual



[1]$10M-$500M in transaction value, excludes technology deals
[2]CapIQ 2025 data through Mar. 31

Inflation remained elevated at 2.7% on average in Q1 2025. In response, the Federal Reserve maintained the federal funds rate within the 4.25% to 4.50% target range during its March 2025 meeting. This decision reflects a cautious approach amid ongoing economic uncertainties, particularly concerning the potential inflationary effects of recent tariff implementations and other policy changes.[1] Chairman Powell outlined the need for restraint in his speech:

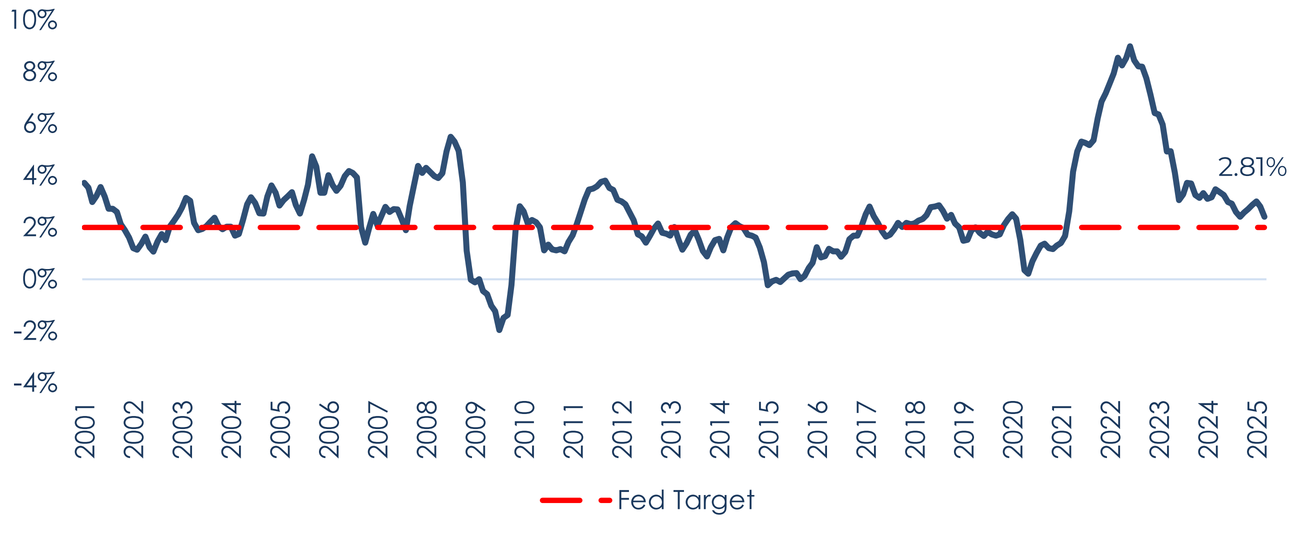


"Looking ahead, the new Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. It is the net effect of these policy changes that will matter for the economy and for the path of monetary policy. While there have been recent developments in some of these areas, especially trade policy, uncertainty around the changes and their likely effects remains high. As we parse the incoming information, we are focused on separating the signal from the noise as the outlook evolves. We do not need to be in a hurry, and are well positioned to wait for greater clarity."

-Jerome Powell, Chairman
Federal Reserve (Mar. 2025)

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX[2]



[1]FOMC statement, Mar. 7, 2025
[2]FRED as of Mar. 31, 2025

2 QUARTERLY FINANCIAL SERVICES M&A

M&A activity across the broader financial services sector began slowly in 2025, reflecting heightened caution amid ongoing macroeconomic uncertainty. However, insurance and Registered Investment Advisor (RIA) segments remained comparatively resilient, continuing to draw interest from both strategic and financial buyers. The appeal of these verticals lies in predictable cash flows, scalable business models, and strong consolidation dynamics, which have helped sustain deal activity even as other parts of the sector showed signs of slowing.

NOTABLE TRENDS – INSURANCE SPACE

Although M&A activity across the broader financial services sector slowed in Q1 2025 relative to 2024, the insurance industry remained comparatively active.

- **Consolidation Trends**: Strategic consolidation continues to drive activity across the sector. Nine out of ten insurers plan to close more deals in 2025 than in 2024, citing motivations such as portfolio optimization, risk diversification, and balance sheet realignment.[1] Geographic and product-line expansion remain key priorities in acquisition strategy
- **Macroeconomic Impact**: The insurance sector has proven resilient in the face of macroeconomic volatility and trade policy uncertainty. Property and casualty lines in particular showed solid underlying growth in Q1 2025, supported by steady demand despite inflation and rising replacement costs.[2] This performance highlights the counter-cyclical nature of many insurance subsectors, which remain essential regardless of broader economic conditions

NOTABLE TRENDS – RIA SPACE

RIA M&A activity accelerated in Q1 2025, supported by sustained buyer demand and favorable structural dynamics. The quarter ranks among the most active first quarters on record.

- **Continued Rollups**: Private equity-backed platforms continued to pursue aggressive rollup strategies. PE buyers accounted for 87% of all RIA transactions in Q1, underscoring their focus on scale, platform growth, and geographic reach[3]
- **Attractive Cash Flow Profiles**: RIAs remain highly sought-after due to their fee-based, recurring revenue models and durable client relationships. These attributes are particularly valued in a market environment that prioritizes stability and downside protection. Strong valuations and continued industry fragmentation have further fueled interest from both strategic and financial acquirers[3]

[1]Deloitte, Insurance M&A Outlook 2025
[2]Triple-I, Insurance Economics Outlook: Monetary Policy, Trade, and P&C, Q1 2025
[3]Fidelity, Quarterly M&A Review, Q1 2025

3 TRANSACTION MULTIPLES

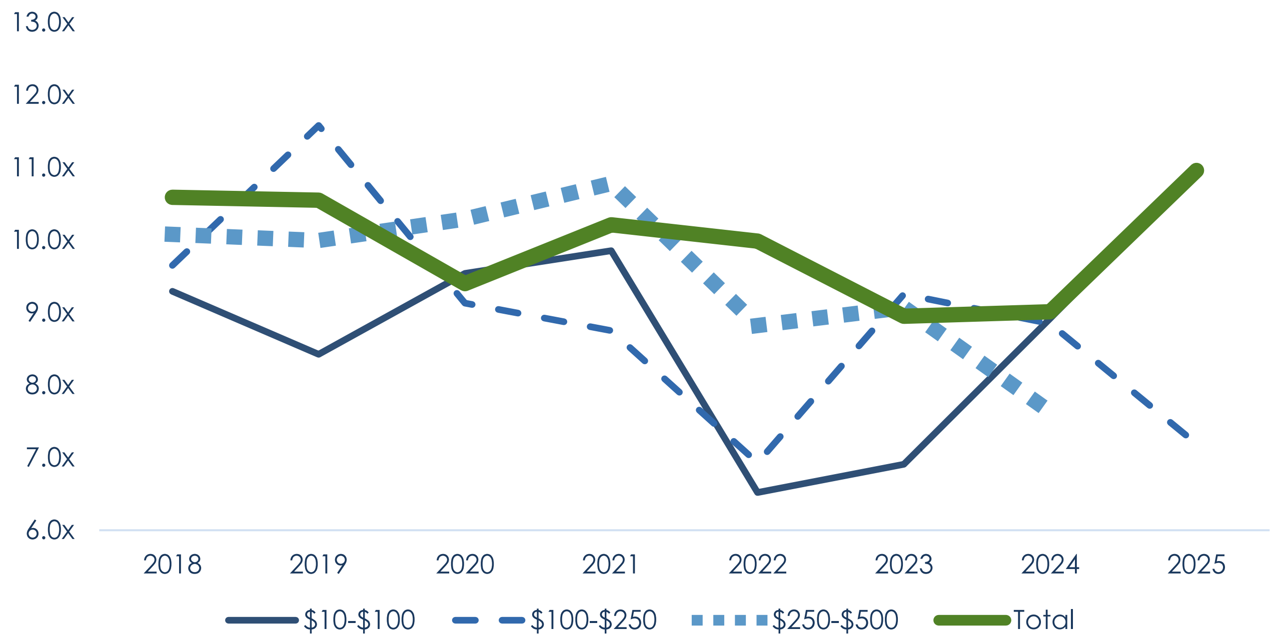
Transaction multiples for the middle market, particularly the lower middle market ($10-100M enterprise value), rebounded in Q1 2025 with a median of 11x, in line with pre-pandemic valuations. Amid an uncertain macroeconomic climate, lower-middle-market transactions provided an outlet for dry powder deployment with reduced reliance on expensive debt.

Additionally, selectivity in the market has contributed to elevated transaction multiples, as buyers and sellers focus on high-quality assets in resilient sectors such as healthcare and IT—segments that typically command valuation premiums. As deal flow expands over the course of the year to include a broader range of companies, reported multiples may normalize, offering a more representative view of overall middle-market pricing.

Due to the limited availability of reported transaction multiples, data for deals with enterprise values between $250 million and $500 million was not included in the analysis for Q1 2025.

MIDDLE MARKET MEDIAN MULTIPLES[1,2]

Transaction Value/EBITDA (excludes technology deals)



[1]CapIQ 2025 data through Mar. 31
[2]Multiples over 25.0x excluded

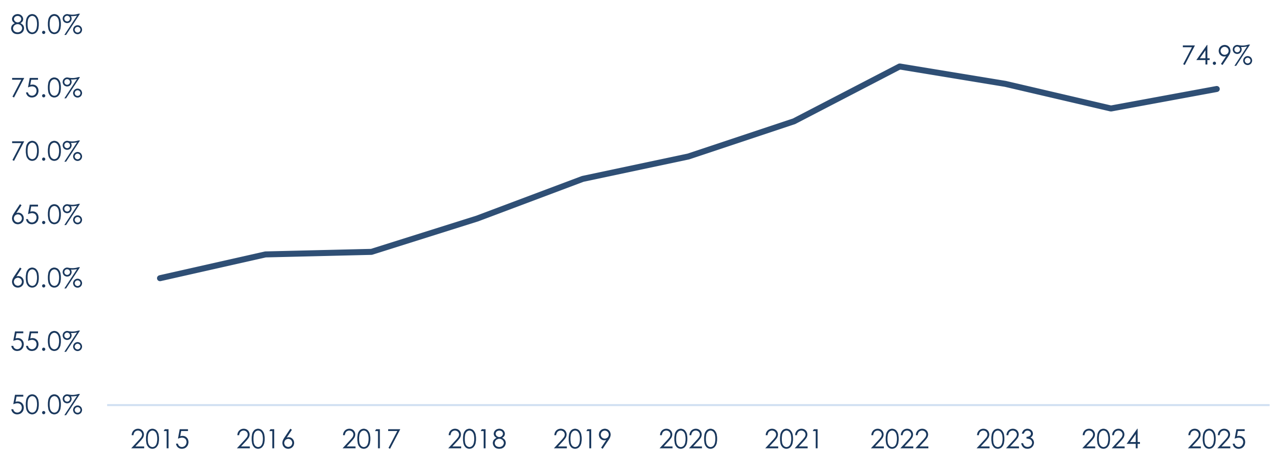
4 PRIVATE EQUITY MIDDLE-MARKET ACTIVITY

Private equity activity in the middle market remained steady in Q1 2025, with the lower middle market accounting for a significant share of volume. Broader uncertainty around interest rates and global trade policy weighed on large-cap transactions, while middle-market sponsors remained active, employing add-on acquisitions and growth equity as low-leverage strategies.

Add-ons represented nearly 75% of all PE buyouts during the quarter, consistent with a continued emphasis on building scale within existing portfolio companies rather than pursuing new platforms. Growth equity also accounted for a notable portion of deal activity, comprising 24.5% of total private equity deal volume in Q1 2025—notably higher than the five-year average of 19.2%.[1]

Both strategies reflect a broader adjustment to prevailing credit conditions. Add-ons allow sponsors to capture growth through smaller, more targeted acquisitions that can be completed with limited incremental leverage. Growth equity, often structured without debt, provides expansion capital to businesses without burdening them with interest obligations. In a higher-rate environment, these approaches offer practical paths to deploy capital while managing risk and preserving valuation discipline.

ADD-ONS AS A SHARE OF PRIVATE EQUITY BUYOUTS[1]



[1]Pitchbook Q1 2025 US PE Breakdown

CONCLUSION

M&A activity in Q1 2025 offered a mixed portrait of a middle market landscape in transition. The quarter began with a rebound in deal volume, fueled by optimistic expectations around economic growth and a release of pent-up demand. However, this early momentum was tempered by renewed uncertainty in the back half of the quarter, particularly around inflationary pressures and shifting trade policy. While quarter-over-quarter comparisons highlight a recovery from the soft close to 2024, year-over-year figures show a modest contraction in both deal volume and value, underscoring the fragility of market sentiment in a volatile macroeconomic environment.

Certain segments of the market displayed notable resilience. Insurance and RIA dealmaking continued to gain momentum, driven by consolidation, steady cash flow profiles, and strong interest from private equity sponsors. Similarly, the lower middle market stood out as a pocket of relative strength, benefiting from heightened selectivity and limited reliance on leverage. Valuation multiples in this segment returned to pre-pandemic levels, supported by demand for high-quality assets in defensive sectors like healthcare and IT. Private equity activity in the middle market also remained robust, with a clear shift toward capital-efficient strategies such as add-ons and growth equity. As the year unfolds, the trajectory of M&A will hinge on the resolution of policy uncertainty and the stability of credit markets—factors that will ultimately determine whether Q1's momentum can be sustained throughout the rest of 2025.

If you would like to discuss M&A market conditions with Colonnade, please contact:

Jeff
Guylay
Managing Director
847.452.8315
jguylay@coladv.com

Gina
Cocking
Managing Director
312.953.2658
gcocking@coladv.com

Matt
Magee
Sr. Account Executive
312.870.6204
mmagee@coladv.com

Greg
Makoid
Associate
312.870.6205
gmakoid@coladv.com

Austin
Cambas
Analyst
813.454.6964
acambas@coladv.com

Colonnade Advisors LLC • 600 Cleveland Street • Suite 272
Clearwater, FL • 33755
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This advertisement was prepared in May 2025. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: Pitchbook, CapIQ, FOMC, FRED, Deloitte, Triple-I, Fidelity and company presentations