

Valuation Multiples: Sector Analysis

Lower Middle Market (\$5M–\$100M Enterprise Value)

Executive Summary

Key Market Insights

- Lower middle market valuations remain robust despite macroeconomic headwinds, with median EBITDA multiples holding at 6.2x
- Significant divergence between sectors: Technology (7.8x) commands premium over Industrial (5.4x) and Healthcare (6.5x)
- Recurring revenue models seeing 1.5-2.0x multiple premium over transaction-based businesses
- Adjusted EBITDA margins above 25% correlate strongly with premium valuations across all sectors

Buyer Sentiment Analysis

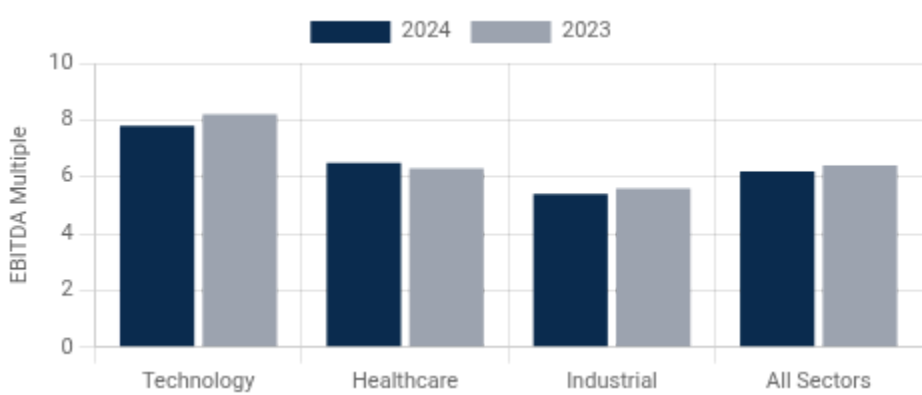
Private Equity

- Increased selectivity with 23% decline in deal volume YoY
- Focus shifting to platform investments with clear add-on strategy
- Prioritizing high-margin, recurring revenue businesses
- Enhanced diligence on forward revenue visibility

Strategic Buyers

- Actively pursuing vertical integration opportunities
- Willingness to pay premium for core adjacencies
- Increased focus on tech-enabled service providers
- Geographic expansion remains key acquisition driver

Median EBITDA Multiples



Quality of Earnings Impact

Revenue composition and earnings quality increasingly driving valuation differentiation:

Premium Drivers:

- Recurring revenue (70%+)
- Low customer concentration
- Stable gross margins

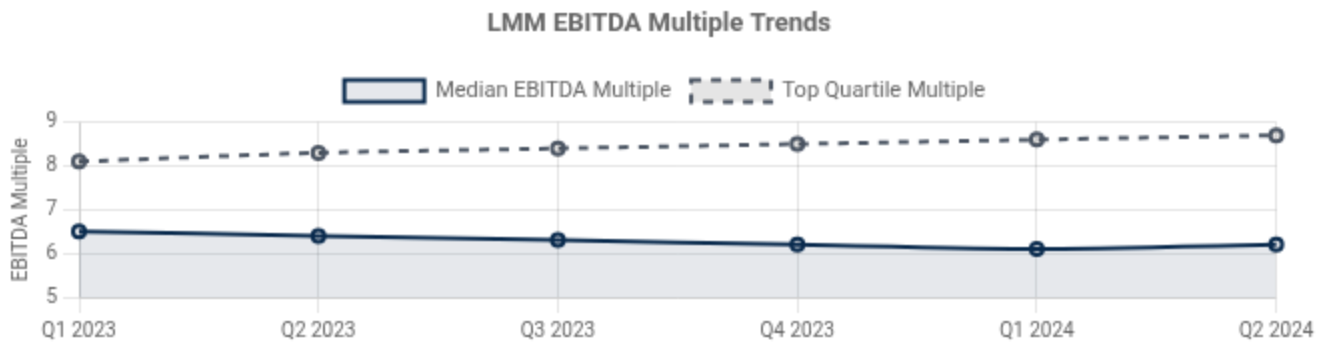
Discount Factors:

- Project-based revenue
- Customers >15% of revenue
- Margin volatility >5%

Market-Wide Valuation Trends & Buyer Sentiment

Market Overview

- Lower middle market transaction volume down 18% YoY, but valuations holding relatively stable
- Quality premium widening: top-quartile businesses commanding 2.5x+ multiple premium over median
- Valuation bifurcation continues between recurring revenue models (stable/increasing) and cyclical businesses (compression)



Median EBITDA Multiple	Deal Volume	Time to Close
6.2x	-18%	7.4 mo
vs 6.4x in 2023	Year-over-Year	+1.2 mo from 2023

Buyer Sentiment

Private Equity Dynamics

- \$880B+ in dry powder driving continued interest despite selective approach
- Preference for platform investments with clear add-on strategy
- Enhanced focus on balance sheet strength and cash flow conversion
- Increasingly conservative growth projections in underwriting

Strategic Acquirer Trends

- More active than PE in deals <\$25M enterprise value
- Willing to pay premium (avg. +1.2x EBITDA) for proven synergies
- Focus on talent acquisition and technology capabilities
- Less sensitive to near-term profitability for strategic assets

Debt Market Impact

- Senior debt multiples stabilized at 2.8-3.2x EBITDA
- Rising cost of capital reflected in higher equity requirements
- Lender scrutiny increasing on cyclical businesses
- Alternative financing options filling traditional bank gaps

Technology Sector Multiples

SaaS & IT Services Valuation

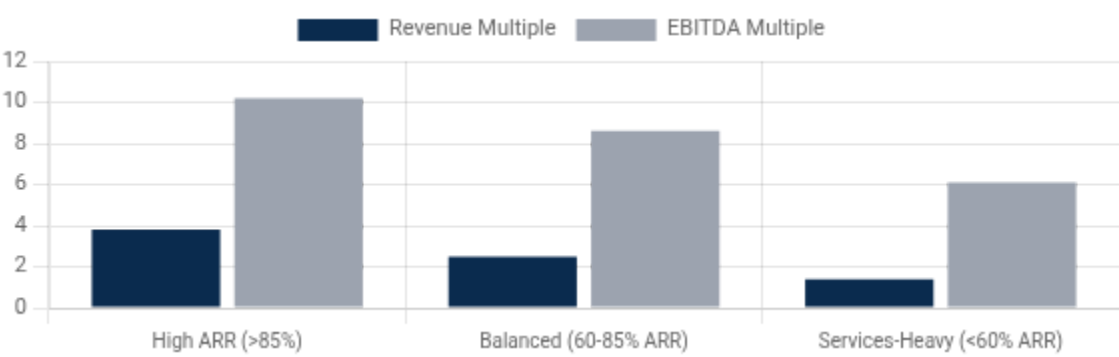
SaaS		IT Services	
Revenue Multiple	EBITDA Multiple	Revenue Multiple	EBITDA Multiple
3.2x	9.5x	1.6x	6.3x

ARR vs Service-Heavy Models

- Pure-play SaaS (>85% ARR): Commanding 1.8x premium over service-heavy peers; high gross margins (>75%) driving heightened buyer interest
- Service-heavy models (>40% services): Multiple compression of 20-30% observed vs prior years; reflects reduced scalability perceptions
- Implementation-to-SaaS conversion: Buyers increasingly scrutinizing implementation-to-license revenue ratios; prefer <1:3

Churn Impact on Valuation		
Low Churn (<5%)	Mid Churn (5-15%)	High Churn (>15%)
10.5-11.5x EBITDA	8.0-9.5x EBITDA	5.5-7.0x EBITDA

Revenue Composition Impact



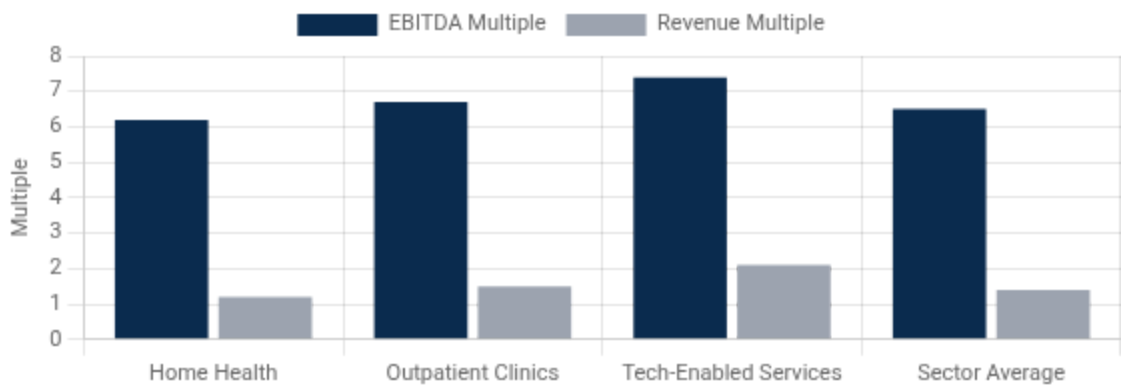
AI Verticalization Trends

- Industry-specific AI solutions: Attracting 1.5-2.0x premium over horizontal platforms; market recognizing enhanced stickiness
- AI integration maturity: Businesses with embedded AI workflows seeing 25-40% valuation uplift vs "AI roadmap only" peers

Key Growth Factors	Value Detractors
• Net revenue retention >110% • YoY customer growth >20% • Expanding ARPU/customer • Organic customer acquisition (low CAC)	• Customer concentration >15% • Declining gross margins • Implementation backlog growth • Rising customer acquisition costs

Healthcare Sector Multiples

Median Multiples by Subsector



Subsector Performance Highlights

Revenue Multiples:

- Home Health: 1.2x
- Outpatient Clinics: 1.5x
- Tech-Enabled Services: 2.1x

EBITDA Multiples:

- Home Health: 6.2x
- Outpatient Clinics: 6.7x
- Tech-Enabled Services: 7.4x

Market Commentary

- **Home Health:** Resilient demand despite reimbursement pressures; buyers value regional density and operational efficiency; Medicare-certified agencies command 0.5x premium
- **Outpatient Clinics:** Multi-specialty models outperforming single-specialty; value-based care readiness driving premium valuations; geographic density remains key
- **Tech-Enabled Services:** Leading valuations with 7.4x EBITDA multiple; telehealth and remote monitoring solutions particularly sought after; interoperability capabilities driving premium

Platform Rollup Activity

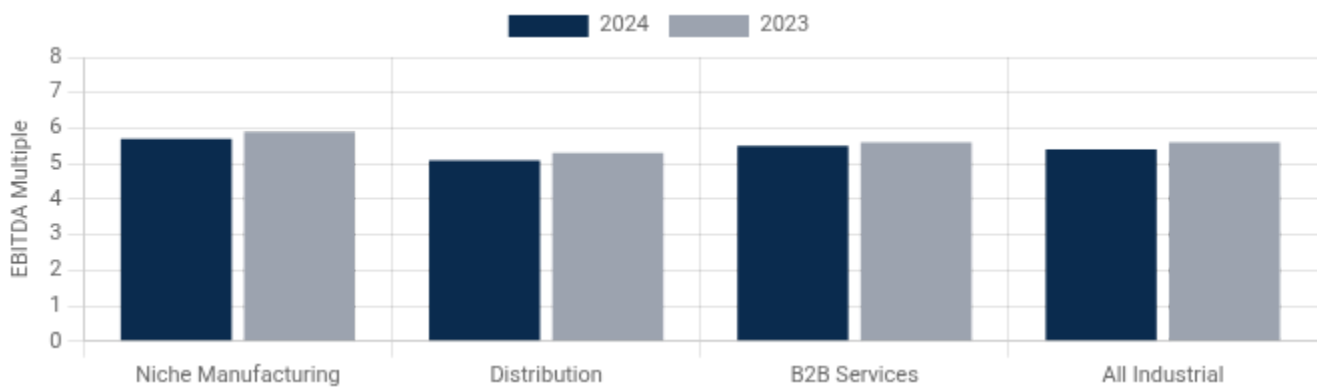
- 42% increase in add-on acquisitions YoY
- Geographic expansion driving 65% of deals
- Service line diversification increasingly prioritized
- Regional platforms seeking 3-5 targets annually

PE Buyer Appetite

- Focus on value-based care enablement
- Preference for multi-location platforms
- Enhanced scrutiny of compliance infrastructure
- \$5-25M EBITDA "sweet spot" for platforms

Industrial Sector Multiples

Segment Performance



Key Value Drivers

Margin Dynamics

- Companies with EBITDA margins >20% command 1.5x premium
- Gross margin stability correlates with multiple expansion
- Material cost volatility continues to pressure valuations

Recurring Revenue Impact

- Service contracts drive 30-40% valuation premium
- Consumables/aftermarket represent 70% of profit for leaders
- Subscription-based models gaining traction (6.8x vs 5.4x)

Subsector Analysis

Niche Manufacturing

EBITDA Multiple: **5.7x** (vs 5.9x in 2023)
Specialized manufacturers with proprietary products maintaining premium valuations despite broader sector contraction.

Distribution

EBITDA Multiple: **5.1x** (vs 5.3x in 2023)
Value-added distributors outperforming commodity players; tech enablement and exclusive supplier relationships driving premiums.

B2B Services

EBITDA Multiple: **5.5x** (vs 5.6x in 2023)
Maintenance and technical services providers with long-term contracts commanding higher multiples than project-based firms.

Market Headwinds

Labor Sensitivity

- Workforce constraints impacting scalability
- Automation investments driving premium valuations
- Skilled labor retention a key due diligence focus

Supply Chain Resilience

- Near-shoring strategies boosting company appeal
- Inventory management sophistication under scrutiny
- Dual-sourcing capabilities enhancing valuations

Cross-Sector Benchmark Multiples

Sector	Revenue Multiple			EBITDA Multiple		
	2024	2023	YoY Δ	2024	2023	YoY Δ
Technology	2.8x	3.1x	-0.3x ↓	7.8x	8.2x	-0.4x ↓
Healthcare	1.4x	1.3x	+0.1x ↑	6.5x	6.3x	+0.2x ↑
Industrial	0.9x	1.0x	-0.1x ↓	5.4x	5.6x	-0.2x ↓
All Sectors	1.6x	1.7x	-0.1x ↓	6.2x	6.4x	-0.2x ↓

Revenue Multiple Insights

Technology: SaaS businesses with >80% ARR continue to command premium at 3.5-4.0x despite overall sector decline

Healthcare: Home health and tech-enabled services driving sector-wide improvement to 1.4x

Industrial: Downward pressure on revenue multiples reflects broader market contraction and margin concerns

EBITDA Multiple Insights

Technology: Enhanced buyer scrutiny on earnings quality contributing to compression from 8.2x to 7.8x

Healthcare: Only sector showing valuation improvement YoY, driven by stabilizing regulatory environment

Industrial: Supply chain normalization and labor cost pressures weighing on valuations

Key Factors Driving Valuation Premium

Sector-Agnostic Attributes

- Predictable, recurring revenue (≥65%)
- EBITDA margin stability & expansion
- Diverse customer base (no >10% clients)

Positive Sector-Specific Attributes

- **Tech:** Verticalized solutions, IP moat
- **Healthcare:** Multi-location, value-based care
- **Industrial:** Proprietary products, scalability

Premium Valuation Catalysts

- Proven scalability with strong unit economics
- Demonstrable competitive advantages
- Clear path to continued organic growth

Key Takeaways for Sellers

Premium Valuation Drivers

Recurring Revenue

- Subscription-based models (75%+ of revenue)
- Long-term contracts (2+ year terms)
- High renewal rates (>90% dollar retention)
- Predictable revenue forecasts with low volatility

Proven Scalability

- Demonstrated operating leverage (20%+ margins)
- Technology-enabled processes
- Low capital expenditure requirements
- Ability to expand without proportional cost increase

Clean Financials

- Reviewed/audited financial statements
- Clear add-backs with proper documentation
- Transparent customer and vendor contracts
- Accrual accounting with proper revenue recognition

2025 Preparation Roadmap

12-18 Months Pre-Transaction

Financial Preparation

- Initiate financial review/audit process
- Normalize EBITDA with documented add-backs
- Implement advanced KPI tracking

Operational Optimization

- Reduce customer concentration risk
- Document key processes and workflows
- Strengthen management team depth

6-12 Months Pre-Transaction

Strategic Positioning

- Define growth narrative with evidence
- Identify strategic buyer landscape
- Conduct competitive analysis

Transaction Readiness

- Prepare data room documentation
- Address legal/compliance issues
- Create management presentation

2025 Market Optimization Strategies

■ Enhance Recurring Revenue Contracts

With tight market conditions, buyers increasingly value contractual revenue certainty. Consider transitioning transactional customers to subscription or retainer models prior to sale.

■ Demonstrate Technology Leverage

Implement technology solutions that demonstrate scalability and efficiency. Document ROI on technology investments to highlight operational improvements and margin expansion potential.

■ Formalize Quality of Earnings Early

Consider pre-transaction QofE to identify and address financial reporting issues before buyer due diligence. This proactive approach typically yields 0.5-1.0x EBITDA multiple premium.

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