

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

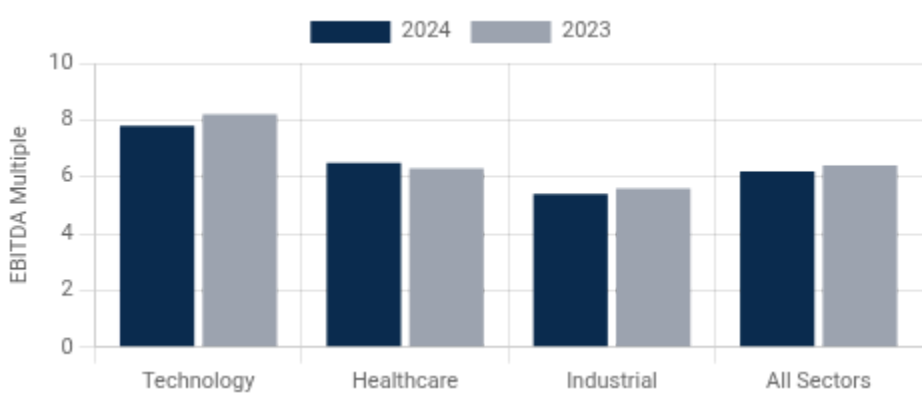
Private Equity

- 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

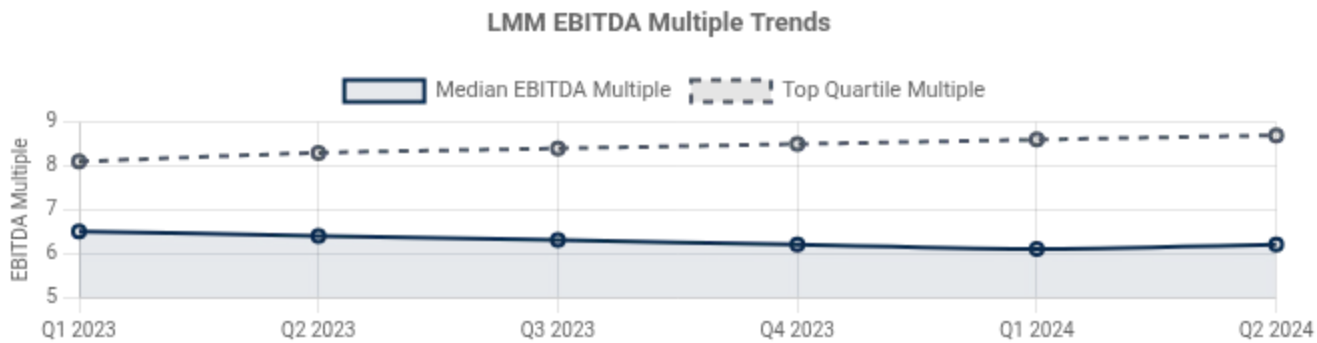
Discount Factors:

- 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 6.2x vs 6.4x in 2023	Deal Volume -18% Year-over-Year	Time to Close 7.4 mo +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

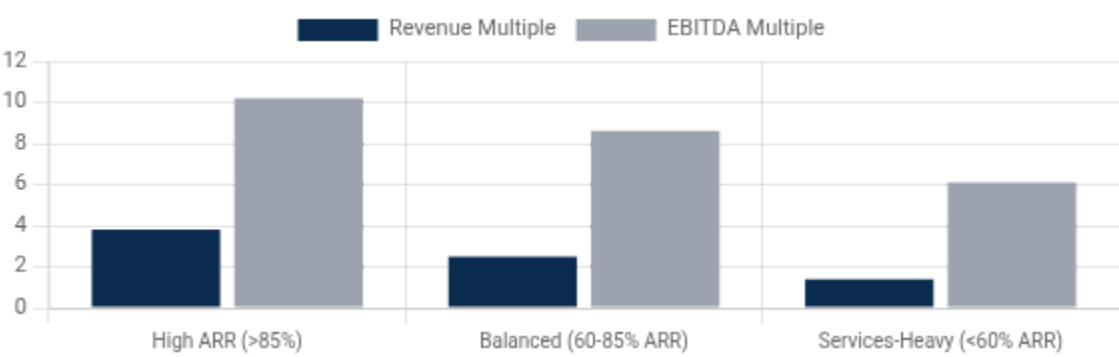
SaaS		IT Services	
Revenue Multiple	EBITDA Multiple	Revenue Multiple	EBITDA Multiple
3.2x	9.5x	1.6x	6.3x

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



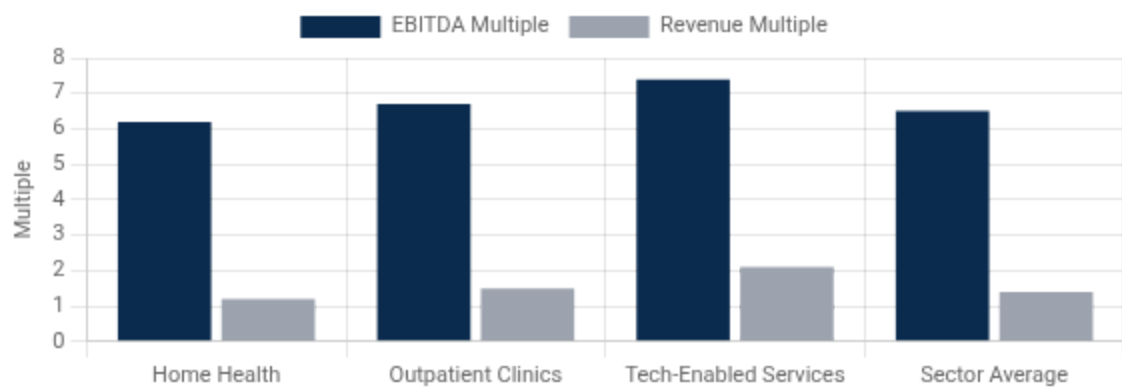
AI Verticalization Trends

- 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

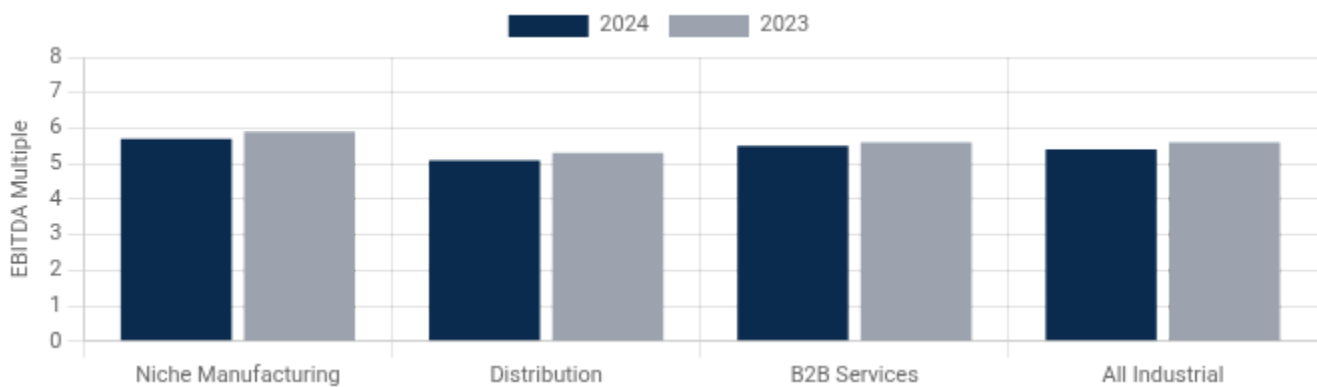
- 42% increase in add-on acquisitions YoY
- Geographic expansion driving 65% of deals
- Service line diversification increasingly prioritized
- Regional platforms seeking 3-5 targets annually

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.

Contact & Disclaimer

Windsor Drake

A boutique lower middle market M&A advisory firm focused on delivering exceptional outcomes for business owners, investors, and acquirers.

 windsordrake.com

 info@windsordrake.com

 375 Park Avenue New York, New York 10152

© 2025 Windsor Drake. All rights reserved.

Legal Disclaimer

This presentation contains information that has been prepared by Windsor Drake for informational purposes only. It does not constitute an offer to sell or a solicitation of an offer to buy any securities.

The information contained herein has been obtained from sources believed to be reliable, but Windsor Drake does not represent or warrant that the information is accurate or complete. The views expressed herein are subject to change without notice.

This presentation includes forward-looking statements and market observations that involve risks and uncertainties. Forward-looking statements are statements that are not historical facts and are subject to a number of risks and uncertainties which could cause actual results to differ materially from those described herein.

Windsor Drake does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction.