April 10th, 2025

Dear Partner,

The past several weeks have been marked by heightened uncertainty and volatility. In moments like these, a thoughtful, disciplined approach doesn't just matter—it stands apart. At GVC Americas, investing in non-discretionary, recession-resilient businesses has always been a cornerstone of our philosophy. In today's environment, that focus is creating opportunity. We wanted to take a moment to share how we're navigating the current landscape—and why we remain confident in our strategy and its ability to deliver enduring value.

Navigating an Uncertain Economy with a Steady Hand

While current macroeconomic conditions may seem daunting, they are not without precedent. The U.S. middle market is currently operating in a materially tighter environment versus the prior few decades: benchmark interest rates remain at a 23-year high, private credit spreads are up ~150 bps since early 2022, and deal debt financing is down nearly 30% year-over-year[1]. Coupled with inflationary pressure, the landscape is challenging, but also clarifying. In times like these, business models that rely on frothy multiples, unsustainable growth assumptions, or discretionary consumer behavior are exposed.

Our strategy has always been to invest in B2B businesses delivering meaningful non-discretionary services to recession-resilient sectors—end markets that retain demand through the cycle and deliver enduring value. Whether it's in healthcare services or business services, these companies share core attributes: sticky customer relationships, predictable revenue, high switching costs, and strong unit economics.

Why Tariffs and Policy Instability Don't Change the Fundamentals

While geopolitical tensions and presidential policy decisions, such as tariff escalation, make headlines and stir short-term market reactions, they rarely change the underlying demand drivers in the sectors we target. Since 2018, despite ongoing tariff fluctuations and trade friction, domestic B2B services have grown at a CAGR of 5.8%, outpacing consumer discretionary sectors by nearly 2x[2]. Our portfolio companies are not reliant on low-margin global supply chains or speculative consumer sentiment. Instead, they serve domestic markets with structurally embedded demand.

In fact, policy friction often creates tailwinds for businesses operating in regulatory-heavy environments. Complexity breeds demand for expertise that exists beyond the organization, increased automation, and service providers who can help customers navigate shifting requirements.

Dislocation Is Our Opportunity

We view the current dislocation not as a deterrent but as an inflection point. Many business owners are tired. Capital is harder to come by. Valuation expectations may begin to normalize. In a recent survey, over 70% of lower middle market business owners cited succession fatigue or burnout as a primary reason for considering a sale in 2024—up from 57% in 2021. Meanwhile, 65% noted that access to growth capital has become more challenging post-2022[3]. This is fertile ground for long-term investors

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[1] Federal Reserve, Lincoln International Q1 2024 Mid-Market Update, PitchBook
[2] U.S. Bureau of Economic Analysis
[3] Citizens Middle Market M&A Outlook 2024

willing to step into complexity with clarity and conviction to deliver tangible support in building an enduring business.

Through Q1 2024, lower middle market deal volume is down 17% year-over-year, but valuation multiples have continued to compress—particularly in founder-owned, sub-$10M EBITDA businesses, where average entry multiples have declined by ~1.3x EBITDA since early 2022[4].

We're seeing high-quality companies with strong fundamentals—but which may be undercapitalized or undermanaged—come to market. These are the types of opportunities that allow us to do what we do best: partner with business owners to bring operational discipline, capital stewardship, and strategic focus to unlock the next chapter of value creation.

A Strategy Rooted in Value, Not Hype

According to Bain Global's 2024 PE report, more than 60% of 2021–2022 growth equity deals in tech are now trading below their original entry valuation. Meanwhile, businesses with recurring, non-cyclical revenue models have shown more stable performance and multiple durability[5].

We are not chasing fads. We are not betting on short-term cycles. We are building a portfolio of businesses that matter—companies that provide real solutions to essential problems, in sectors where performance, not perception, drives enterprise value.

Our capital is patient. Our approach is hands-on. Our belief is that now is the time to lean in—not retreat.

Conclusion

Uncertainty separates the speculative from the strategic. For capital allocators seeking exposure to durable, value-generating businesses that are built to weather the storm, we believe this is one of the most attractive moments to deploy capital in recent memory.

At GVC Americas, we're not waiting for the tide to turn. We're investing now—into what endures. If you're interested in learning more about how our current portfolio companies Encore MDR, Hawkes Learning, and SxanPro are positioned for growth in any environment, please reach out as this is a topic we enjoy discussing. As always, we appreciate your trust and partnership.

Regards,

Elias P. Boufis
Managing Partner
GVC Americas

[4] PitchBook U.S. PE Breakdown Q1 2024, GF Data
[5] Bain Global PE Report 2024