



CIBC CAPITAL
MARKETS

US MIDDLE MARKET MONITOR

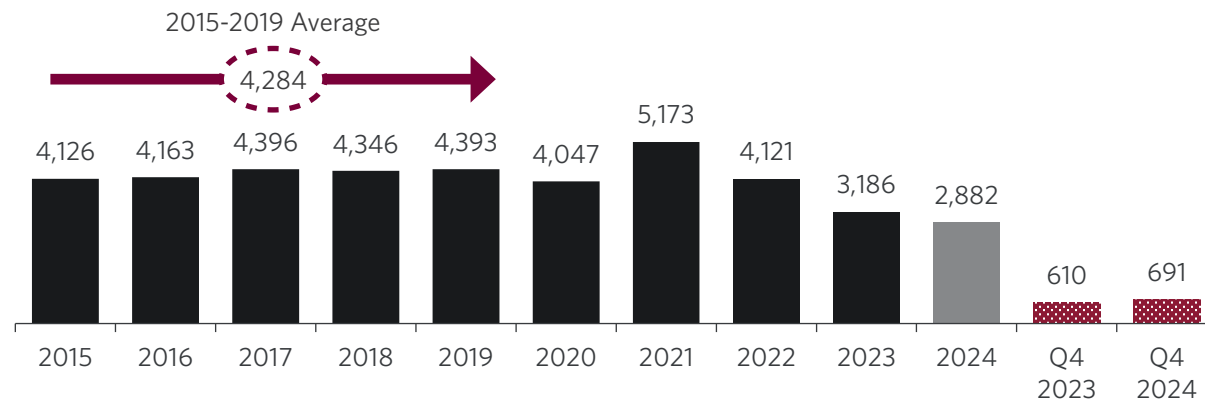
M&A and financing update

Q1 2025



Deal volume declines year-over-year, but shows signs of rebound

US M&A transactions under \$500M



The US lower middle market experienced mixed results in 2024, with transaction volume showing resilience despite challenging market conditions. According to Robert W. Baird, the total number of lower middle market transactions (under \$500 million of enterprise value) decreased by 9.5% for the full year 2024 compared to 2023 and volume remained 33% below the pre-COVID five-year average of 4,284 transactions. However, Q4 2024 showed improvement in the lower middle market, with the transaction count increasing 13% year-over-year to 691 deals, compared to 610 in Q4 2023.

Looking ahead to 2025, several factors suggest the markets should experience improvement in lower middle market activity. The factors indicating a rebound in deal volume are: 1) financial sponsors have over \$1 trillion of dry powder which needs to be deployed, according to Robert W. Baird; 2) lending markets are supportive; 3) the markets are anticipating an easing of the M&A regulatory environment under the new administration, which could stimulate deal activity, particularly for strategic buyers considering consolidation plays; and 4) many private equity funds are nearing the end of their lifecycle with a significant backlog of portfolio companies awaiting exit.

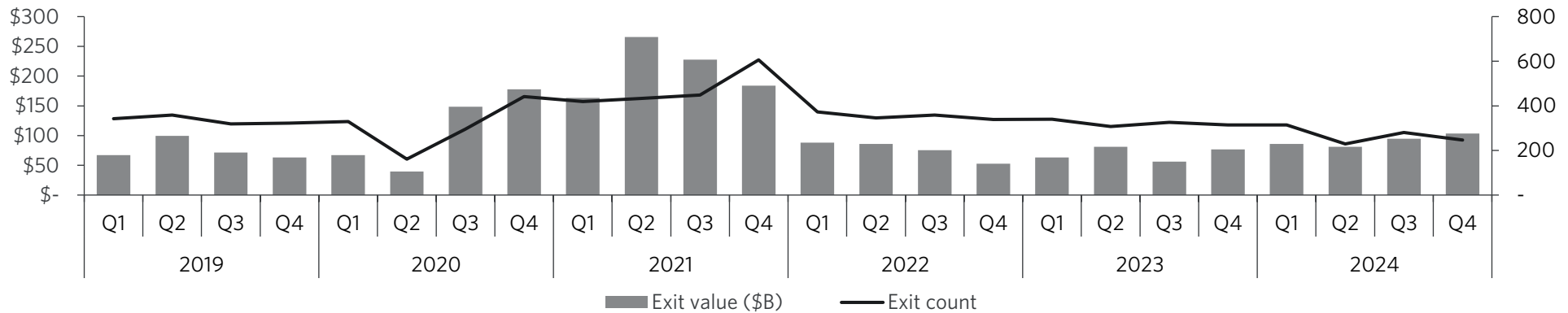
Despite all the positive tailwinds supporting a pick-up in transaction activity in 2025, there are several headwinds in early 2025 that have the potential to dampen M&A activity because of the heightened uncertainty these factors represent. The headwinds include geopolitical turmoil, government personnel and funding cuts, and weekly changes to global trade wars and tariffs.

Source: Robert W. Baird & Co.



PE exit activity shows signs of improvement

US PE exit activity



PE exit activity in the US lower middle market showed signs of recovery in 2024 after a challenging couple of years. According to Pitchbook, PE exits began to rebound more noticeably in Q3 2024, driven by improved market sentiment and gradually stabilizing macroeconomic conditions. Despite this positive momentum, the cumulative impact of prior periods of uncertainty created a significant inventory of portfolio companies awaiting exit, contributing to a growing backlog of funds nearing the end of their lifecycle and requiring liquidity events.

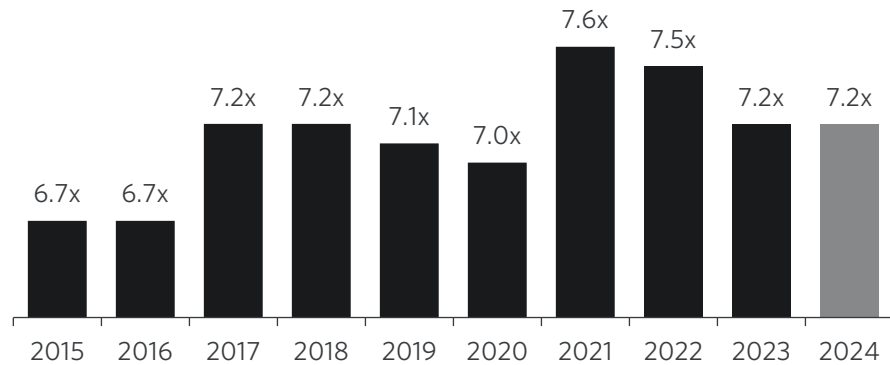
In Q4 2024 specifically, exit volume continued to recover but at a measured pace, reflecting lingering caution among buyers and sellers primarily due to valuation gaps. As a result, we saw an increasing number of private equity firms turn toward continuation funds (“CVs”) to provide LP liquidity as an alternative to traditional exits. The use of CVs was particularly elevated for high-quality assets that were being undervalued by the market. The emergence of CVs is viewed as providing a vehicle to maximize shareholder value in the future and provide near-term liquidity to LPs. Continuation-fund exits reached a record level in 2024, underscoring this product’s growing importance as a strategic tool for PE firms navigating liquidity pressures and market volatility.

The 2025 outlook for lower middle market PE exits appears cautiously optimistic. Healthy public market valuations and easing interest rates could accelerate exit activity. Ultimately, while deal volume recovery is expected to continue throughout 2025, the pace and scale of this recovery will depend heavily on broader economic trends and investor confidence. The recent volatility in the markets, due to imposed and threatened tariffs, has the potential to destabilize or pause M&A activity in certain industries. Furthermore, consumers continue to feel inflation pressure which is creating growing fears of a recession and declining consumer confidence, which typically dampens M&A activity.

Source: Pitchbook.

Valuation multiples flat year-over-year

Annual average EBITDA multiples for \$10mm - \$500mm LBOs



Lower middle market valuation multiples were resilient in 2024, with the average EBITDA multiple holding steady at 7.2x. Valuation stability persisted despite challenging market conditions, higher interest rates, and economic uncertainties. Several factors contributed to the stability of lower middle market valuations in 2024:

- The persistent shift towards high-quality assets, smaller deals and add-on acquisitions.
- Both direct lenders and commercial banks were eager to allocate capital, especially in sectors like manufacturing, where valuations improved by nearly half a turn compared to 2023.

Declining interest rates and improving credit capacity could provide a catalyst for increased deal activity and possibly some upward pressure on valuations, particularly for high-quality assets.

Source: GF Data®.



Valuation multiples vary across sectors

Average EBITDA multiples for LBOs by industry

Industry	2003 – 2019	2020	2021	2022	2023	2024
Manufacturing	6.2x	6.7x	7.1x	7.3x	6.5x	6.9x
Business services	6.7x	7.1x	7.3x	7.4x	7.3x	7.2x
Healthcare services	7.4x	7.6x	8.1x	8.4x	8.9x	7.7x
Retail	7.0x	6.5x	8.3x	8.0x	6.0x	7.4x
Distribution	6.6x	7.5x	7.2x	7.2x	7.1x	6.9x
Media & Telecom	7.6x	8.3x	7.0x	9.1x	7.8x	6.7x
Technology	8.5x	7.6x	10.3x	8.1x	10.2x	8.1x

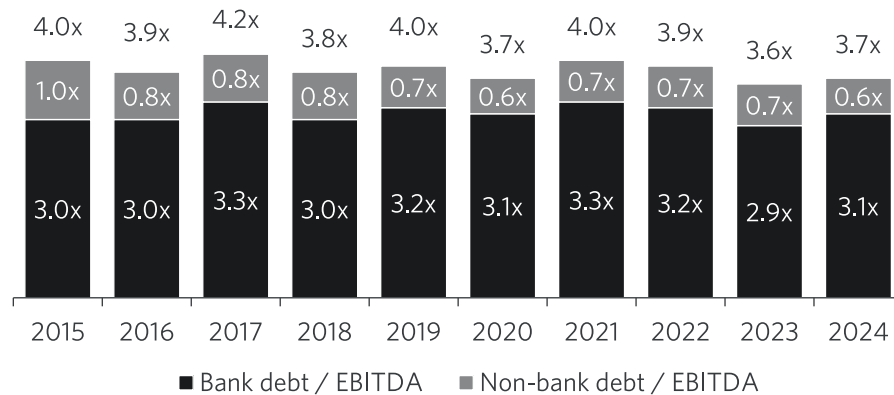
According to GF Data, EBITDA multiples vary significantly across industries in the lower middle market for transactions with an enterprise value between \$10 million and \$250 million. In 2024, the average EBITDA multiple for manufacturing transactions was 6.9x, up from 6.5x in 2023. Valuations within business services remained consistent at 7.2x compared to 7.3x in 2023. Healthcare services averaged 7.7x EBITDA in 2024 but was down considerably from 8.9x in 2023. The decrease in healthcare services multiples can be attributed to increased regulatory scrutiny, evolving reimbursement models, and concerns about the impact of healthcare reform on profitability. Furthermore, the boom in telehealth and digital health solutions during the pandemic cooled off, leading to more tempered valuations. Technology EBITDA multiples were 8.1x in 2024 compared to 10.2x in the prior year. The decline in technology multiples can be explained by a broader market correction in tech sector valuations and continued uncertainty surrounding emerging technologies.

Source: GF Data®.



Debt availability remains stable

Annual average LBO debt multiples for \$10mm - \$500mm LBOs



According to GF Data, 2024 total debt multiples averaged 3.7x EBITDA for LBOs under \$500 million in enterprise value, slightly higher than the 3.6x EBITDA recorded in 2023, and equal to the historical average. Two key reasons debt availability stabilized were the moderation of inflation and a pause in aggressive interest rate hikes by the Federal Reserve, which eased upward pressure on borrowing costs. Additionally, refinancing and repricing activities in the leveraged loan market contributed to a further tightening in spreads as commercial banks and direct lenders competed for outstandings.

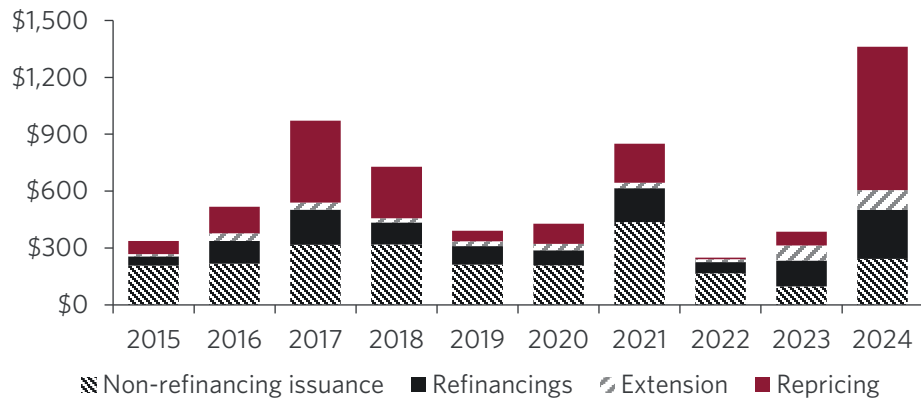
Economic uncertainty and disciplined lending practices also played a role in maintaining stable debt multiples. Rising interest rates throughout 2023 led to lower leverage multiples. In 2024, slightly lower interest rates and aggressive direct lenders led to the slight increase in leverage.

Source: GF Data®.



Loan activity surged in 2024

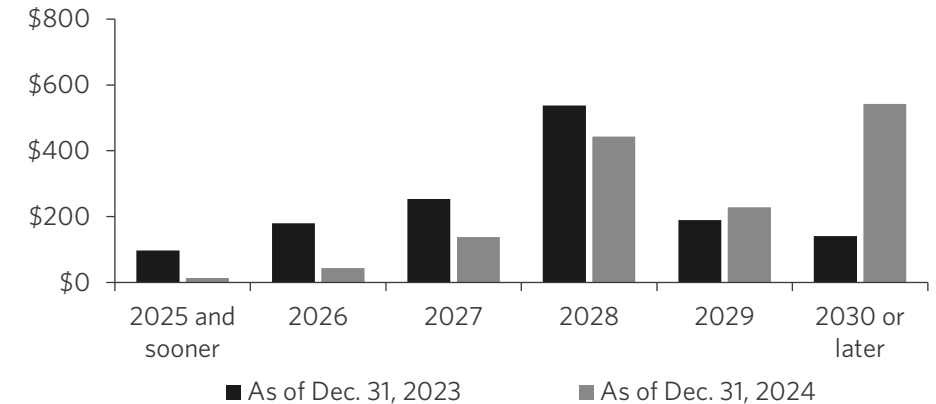
US institutional loan activity



US institutional loan activity experienced a banner year in 2024, marked by robust issuance and significant refinancing activity. The total volume of institutional loans reached nearly \$1.4 billion, a substantial 253% increase from 2023. This surge was fueled by a combination of factors, including strong investor demand, improved credit conditions, and a push by borrowers to lower their interest costs and extend their maturities.

A significant portion of the institutional loan activity was driven by repricing and refinancing. Repricing activity reached a record \$757 billion in 2024, exceeding the previous high of \$432 billion in 2017. This repricing wave was fueled by exceptionally strong demand from CLOs and retail investors, set against a persistent supply drought. In December alone, speculative-grade borrowers launched \$153 billion worth of amendments to lower the spreads on existing term loans, the busiest month for such activity on record. According to Pitchbook, the average borrower shaved 99 basis points off their borrowing spreads.

US leveraged loan maturity wall



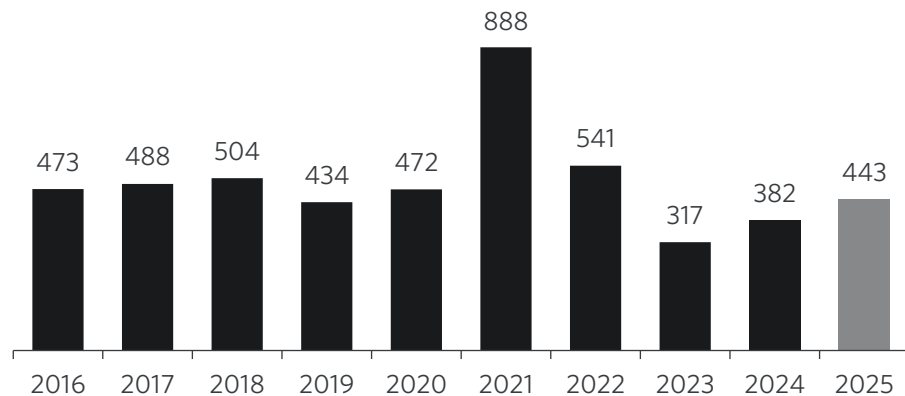
Refinancing was a major contributor to the leveraged loan market in 2024, with \$259 billion issued for this purpose, up 89% from the previous year. This refinancing wave was particularly beneficial for B-minus rated borrowers, who accounted for a record \$96 billion (37%) of the refinancing volume. The increased risk appetite among investors allowed these borrowers to address near-term maturities and reduce borrowing costs. In addition to refinancing, institutional loan activity also saw significant contributions from LBOs (\$60 billion) and M&A (\$131 billion), reflecting a broader recovery in dealmaking activity.

Strong 2024 activity led to a shrinking maturity wall and a decrease in new-issue spreads. The total amount of pre-2026 loan maturities was significantly reduced, and new-issue spreads for single B borrowers reached post-financial crisis lows. Moreover, dividend recaps flourished, with speculative-grade borrowers raising \$81 billion for this purpose, highlighting the improved credit conditions and increased investor appetite for risk. This record of activity demonstrates that 2024 was a banner year for institutional loan activity.

Source: Pitchbook.

2025 outlook

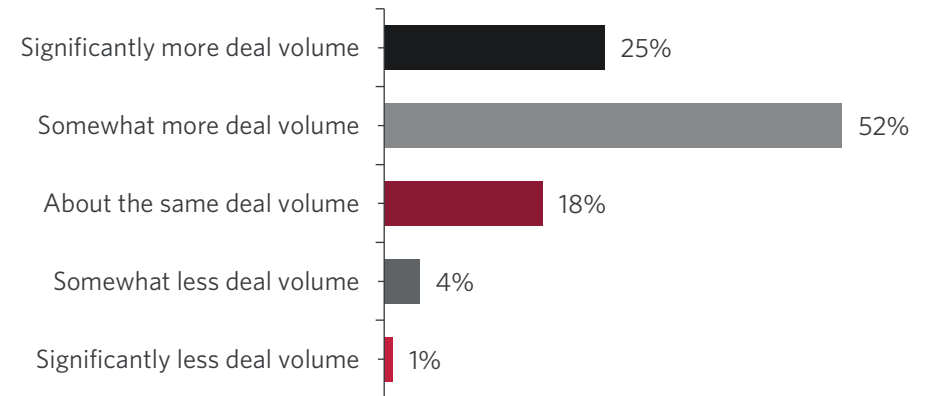
US PE deal volume for \$100M+ transactions



The outlook for \$100+ million M&A activity in 2025 appears cautiously optimistic, with several indicators pointing towards a potential uptick in deal-making. EY-Parthenon's Deal Barometer forecasts a 10% rise in US deal volume for 2025, building on a 13% advance in 2024. This growth is expected to be driven by sustained economic activity, stable interest rates, pent-up demand, and reduced valuation gaps. The private equity sector is particularly bullish, with EY predicting a 16% increase in PE exits for 2025. This optimism is further supported by EY's CEO survey, with 58% of US CEOs anticipating an increase in M&A activity, suggesting a growing belief in a market rebound.

The Association for Corporate Growth's ("ACG") survey for middle-market M&A in 2025 aligns with this positive sentiment, with 77% of respondents expecting more M&A activity. This optimism is fueled by improving capital conditions and investor confidence. The survey also notes that high-quality businesses are still commanding premium valuations, although finding such opportunities is becoming more challenging. However, please note that the surveys were conducted before the recent public market volatility.

Middle market M&A activity outlook

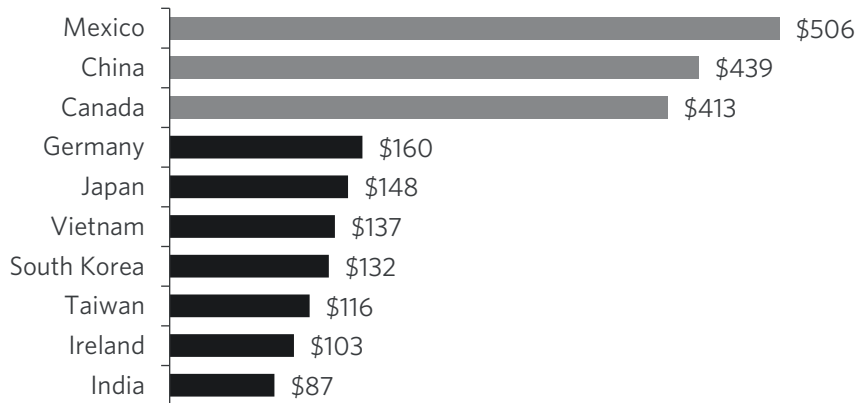


Despite the overall positive outlook from EY and ACG, there are some potential challenges for M&A activity in 2025. EY's economic outlook projects a slowdown in GDP growth from 2.8% in 2024 to 2.2% in 2025, which could impact dealmaking in end markets experiencing declining growth. Additionally, regulatory uncertainty is putting due diligence processes at the forefront of closing deals, with timelines to close materially increasing. According to ACG, many business owners are focusing on stabilizing operations and navigating the evolving economic landscape rather than pursuing sale processes, which may contribute to the perception of fewer high-quality businesses being available. Based on recent conversations with our PE partners, many have indicated that Q1 2025 is off to a slower than expected start, with deal volume down 25% to 30% year-over-year.

Source: EY Parthenon, Pitchbook, Association for Corporate Growth.

Tariff uncertainty

Top 10 trading partners of the US in 2024

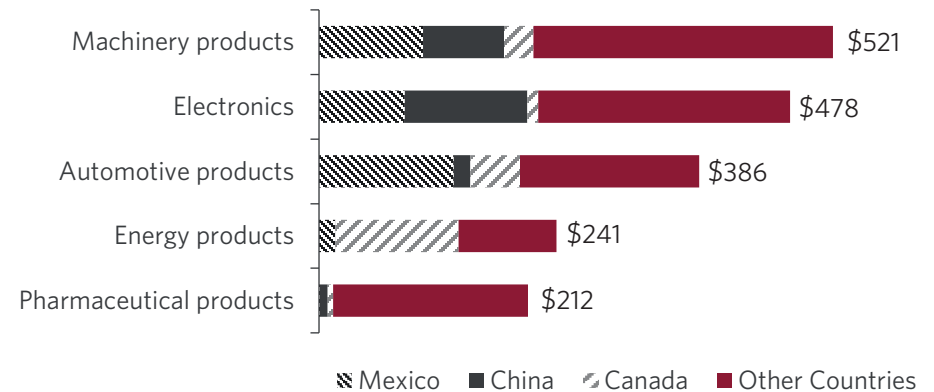


The 2025 Trump Administration tariffs have introduced significant economic uncertainty, creating an M&A pause in markets where a meaningful portion of raw material or finished goods purchases or sales are cross-border. With tariffs on Chinese imports set at 10% and rates as high as 25% to 50% on goods and materials from Canada, Mexico, and the EU, industries reliant on global supply chains – such as automotive, beverage, electronics, and agriculture – are grappling with increased costs. The Tax Foundation estimates these tariffs could reduce US GDP by up to 0.2% per targeted region and lead to the loss of over 114,000 jobs in the China tariff scenario alone. This economic strain has compounded inflationary pressures, forcing companies to absorb higher input costs or pass them on to consumers.

The uncertainty surrounding tariffs has dampened US M&A activity, particularly cross-border transactions. According to EY, tariff-related cost volatility has extended due diligence periods for over 60% of dealmakers and led to renegotiations in over 40% of transactions. Industries heavily affected by tariffs – such as automotive and manufacturing – are seeing stalled deals as companies reassess their exposure to rising costs.

Source: US Census Bureau.

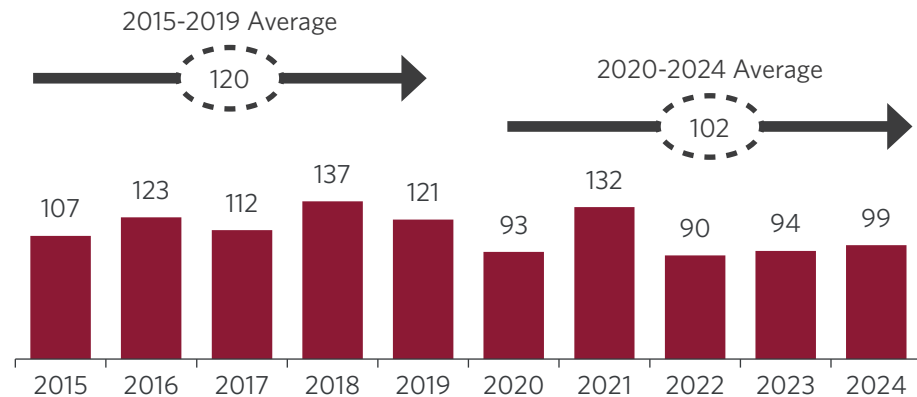
Top five goods imported by the US worldwide in 2024



Domestically focused M&A may fare better in the short term, but cross-border deals face persistent headwinds. The long-term impacts on US M&A are unclear and will depend on how durable these tariffs prove to be and whether retaliatory measures emerge. Furthermore, if tariffs prove effective in reshoring manufacturing, this trend could bode well for M&A activity for domestic manufacturers. While some sectors like energy and semiconductors may see consolidation as firms seek exemptions or scale to absorb costs, broader dealmaking remains constrained by political and geopolitical volatility.

Consumer sector shows signs of hope and caution

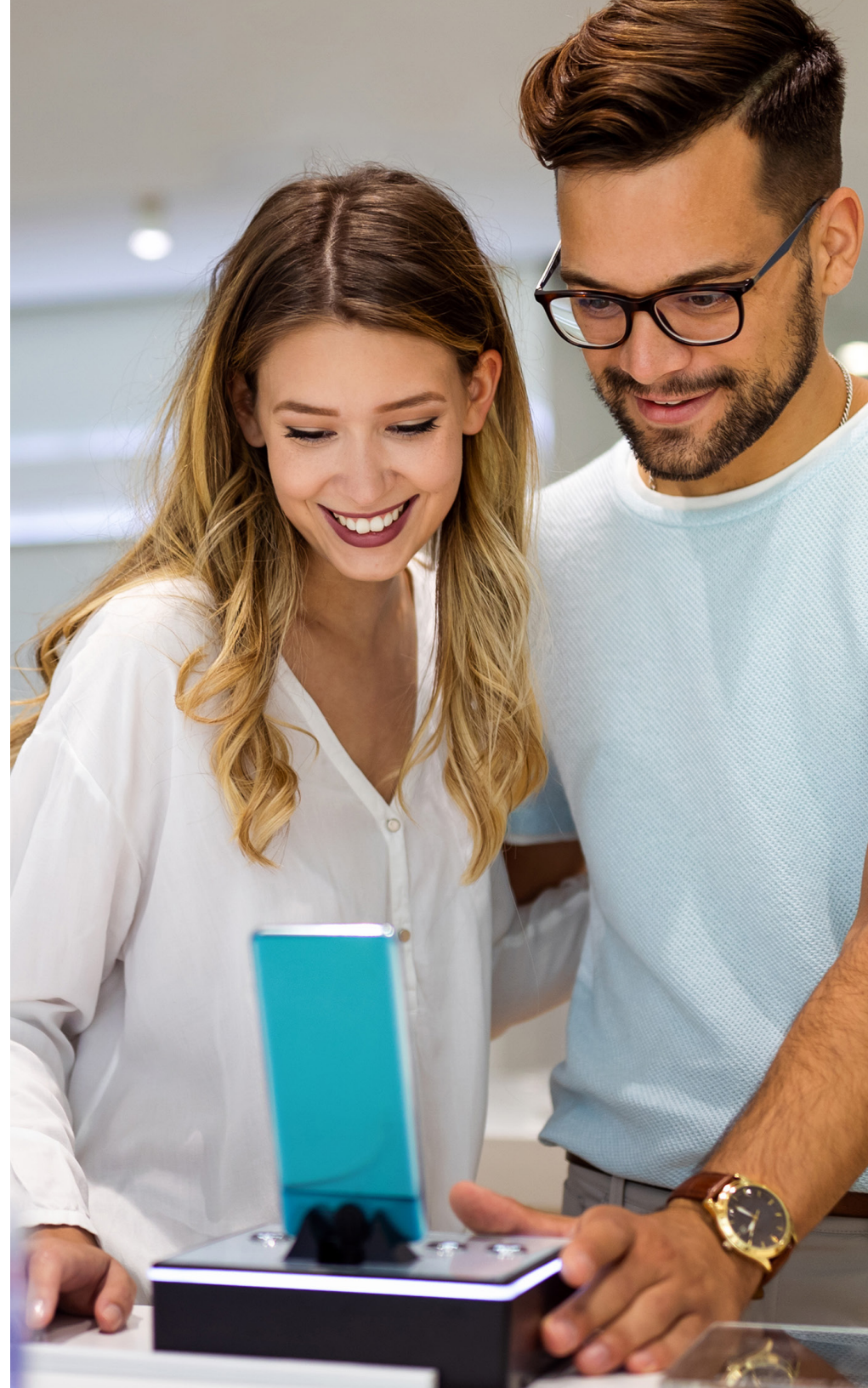
US M&A consumer products transactions



According to Robert W. Baird, transaction volume in the consumer products sector increased by 5% in 2024 compared to 2023 but remained 18% below the 2015 to 2019 average.

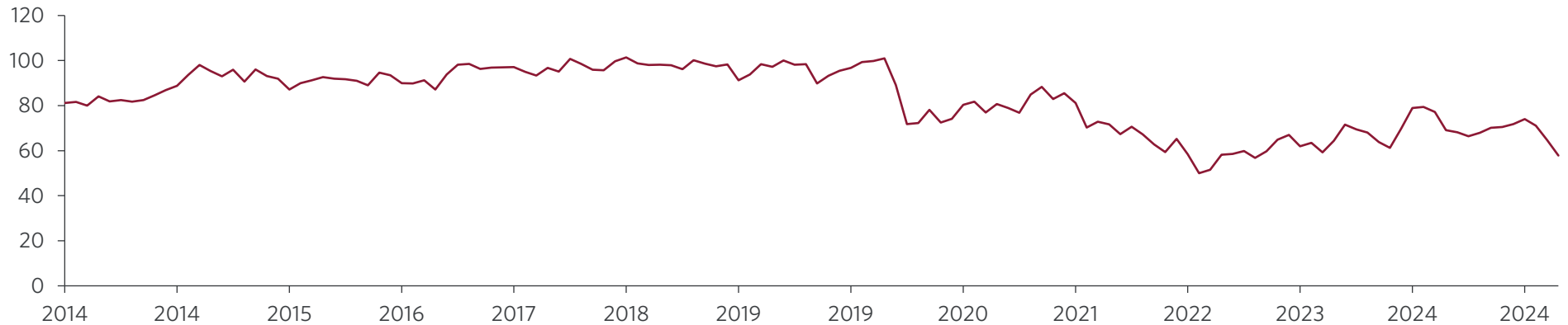
The major factors in 2024 impacting deal volume were the election, interest rates, and inflation. Those concerns have been superseded in early 2025 by tariffs. Tariffs create material levels of uncertainty about prices for consumers and consumer product companies because the amounts, timing, and countries impacted change weekly. There is optimism in the market that the tariff uncertainty will get clarified by mid-year and the 2024 year-end optimism created by declining interest rates, moderating inflation, and growing consumer confidence will return. We anticipate that consumer products deal volume will increase in the second half of 2025 with "normal" tariff activity which will bring a level of certainty back to prices and the ability to transact.

Source: Robert W. Baird & Co.



Consumer confidence sounds alarms of concern

Index of consumer sentiment



Retail sales in December 2024 grew 3.9% compared to December 2023, creating hope that higher retail-related spending would drive the economy in 2025. Similarly, the Consumer Sentiment Index increased to 74.0 in December, a level not seen since before the pandemic.

This optimism quickly soured in the first quarter of 2025. March represented the largest monthly decline in consumer confidence since August 2021 and the third consecutive month of decline. The decline primarily reflects uncertainty around tariffs and the potential impact to discretionary income if inflation returns. Average 12-month inflation expectations increased from 3.3% in January to 4.3% in February, led by year-over-year price increases in categories like auto insurance, airfare, and prescription drugs as well as some specific key household staples that are at or near all-time highs like eggs, chicken, and flour.

Tariff uncertainty is causing consumers to rethink how they allocate their discretionary spending budgets. Some consumers are deferring big ticket items or trading down in an attempt to make their discretionary income go further.

There are also small pockets of positive news as consumers stock up on internationally sourced consumer products and pull ahead big-ticket purchases for things like appliances, electronics, and automobiles due to fears of higher prices and limited future supplies. Consumer product companies manufacturing in the US and selling domestically are positioned to outperform foreign competitors but could also be impacted by potential commodity price fluctuations for material inputs like steel, lumber, plastic, and energy.

In 2025, we believe the M&A markets will continue to support the sellers of top-performing consumer product companies that have a track record of unit growth, have proven resilient regardless of economic conditions, and are tariff resilient. For the companies with these characteristics, we believe 2025 could represent a good time to go to market.

Source: University of Michigan.

CIBC US Middle Market at-a-glance

Highlights



Nationally recognized middle market investment banking team with global reach.



Experienced and talented team has completed hundreds of transactions representing billions in transaction value.



Clients include **private companies, private equity funds, and corporations.**



Differentiated approach to achieving client goals through disciplined and transparent transaction processes.

Investment banking services



M&A Advisory

- Execute transactions up to \$500 million in enterprise value
- Specialize in sell-side transactions
- Conduct targeted buy-side advisory services



Capital Placement

- Raise up to \$250 million in debt and/or equity
- Provide capital structure advice for management buyouts and recapitalizations



Financial Advisory

- Strategic alternative analyses
- Special situations transactions

Focus industry verticals



Consumer



Business Services



Healthcare



Industrials



Software & Technology



Recent CIBC US Middle Market transactions

AUTO-DS

has been acquired by

fiverr.

EarthLite
WORLD'S #1 BRAND IN MASSAGE

a portfolio company of



BRANFORD CASTLE PARTNERS
has been acquired by

VALESCO
INDUSTRIES

NELLO
CORPORATION

a portfolio company of

BECKNER CLEVY
PARTNERS

has been acquired by
management and

MAINST
CAPITAL CORPORATION

Athletica
SPORT SYSTEMS
Safety through Innovation

a portfolio company of

FULCRUM
CAPITAL PARTNERS

has been acquired by
REICHMANN SEGAL
CAPITAL PARTNERS

**STAINLESS FOUNDRY
& ENGINEERING, INC.**

a portfolio company of

Guard Hill Holdings

has been acquired by

ASHLAND
CAPITAL PARTNERS

BestRx
PHARMACY SOFTWARE

has been acquired by

RedSail
TECHNOLOGIES

a portfolio company of

FP
FRANCISCO
PARTNERS

VAPOR POWER INTERNATIONAL

a portfolio company of

Stone Pointe, LLC

M
MIDWEST REZANINE
FUNDS

has been acquired by

THERMON

ARMOR
ANIMAL HEALTH
DETECT. DEFEND. DELIVER.

a portfolio company of

GOLDNERHAWN

has been acquired by

VSI

Merlot Vango
TARPING SOLUTIONS

a portfolio company of

Continuum
EQUITY PARTNERS

has been acquired by

SAFE FLEET

OAK HILL CAPITAL

IDENTITI

has partnered with

KEYSTONE
CAPITAL

pfi:InStore

a portfolio company of

CFB
CAPITAL PARTNERS

KVCI

THOMAS STONE
TEXTILES

Mid States Capital L.P.

NORTHCREEK

has been acquired by

ONWARD | CAPITAL

and

MERIT CAPITAL PARTNERS

MUTHIG
INDUSTRIES, INC.

has been acquired by

LFMcapital

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