CIBC CAPITAL MARKETS

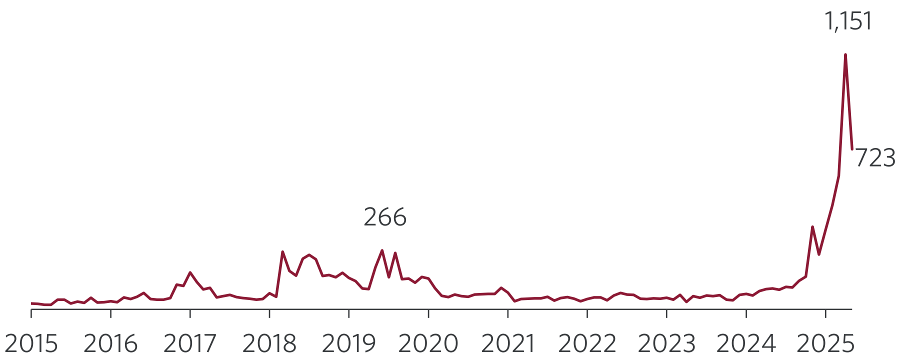
US MIDDLE MARKET MONITOR

M&A and financing update

Q2 2025

Trade policy uncertainty shaped M&A market

Trade policy uncertainty index



Trade policy uncertainty has significantly impacted M&A activity in 2025. The Trade Policy Uncertainty (TPU) Index, which measures the frequency of news coverage linking trade policy to uncertainty, has reached record highs in 2025, highlighting widespread unpredictability in global trade relations. This elevated uncertainty has made it increasingly difficult for dealmakers to confidently assess future earnings and project long-term value, leading to a significant slowdown in the number of completed M&A deals. Companies heavily reliant on international supply chains or imports have experienced valuation discounts, prolonged negotiations, and delays or cancellations of potential transactions. Until trade policy is stabilized, it will be difficult for companies subject to tariffs to transact, or deal structures will include more contingent consideration to bridge valuation gaps and mitigate the uncertainty risk.

The ripple effects of high trade policy uncertainty extend beyond M&A deal volume. Buyers who have traditionally thought about globalization are now prioritizing domestic acquisition targets and exploring vertical integration acquisition strategies to mitigate tariff exposure. This trend has benefited sellers with minimal international supply chain or sales exposure risk because buyers are willing to pay premium valuations in 2025 for these companies.

Source: TPU Index: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo.

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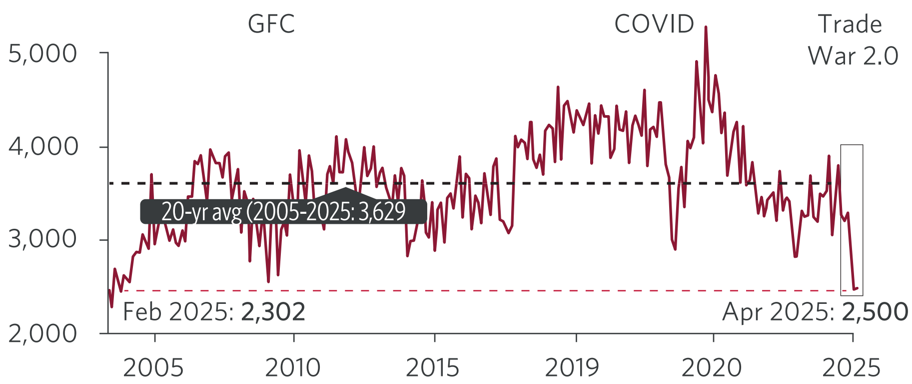
Global M&A deal count fell under "Trade War 2.0"

Global M&A deal count



The Trump administration's new tariffs in early 2025 significantly increased policy uncertainty, dampening global M&A activity and dealmaking sentiment. As companies grappled with the prospect of higher cross-border costs and shifting supply chains, many corporate boards and private equity firms delayed or cancelled planned transactions. This heightened uncertainty was directly reflected in April global M&A deal counts, which fell precipitously, with closed transactions reaching its lowest level since February 2005—a level even lower than those seen during the Global Financial Crisis or COVID.

Specifically, the number of global M&A transactions in April 2025 dropped to a 20-year low, with April recording just 2,500 transactions, or 45% below the 20-year average of 3,629 transactions per month. This dramatic decline highlights the swift impact of renewed trade tensions and protectionist measures on corporate confidence and cross-border investment appetite. The so-called "Trade War 2.0" environment fostered by the tariffs disrupted existing deal pipelines and made it significantly harder for buyers and sellers to agree on deal terms.

Source: Dealogic.

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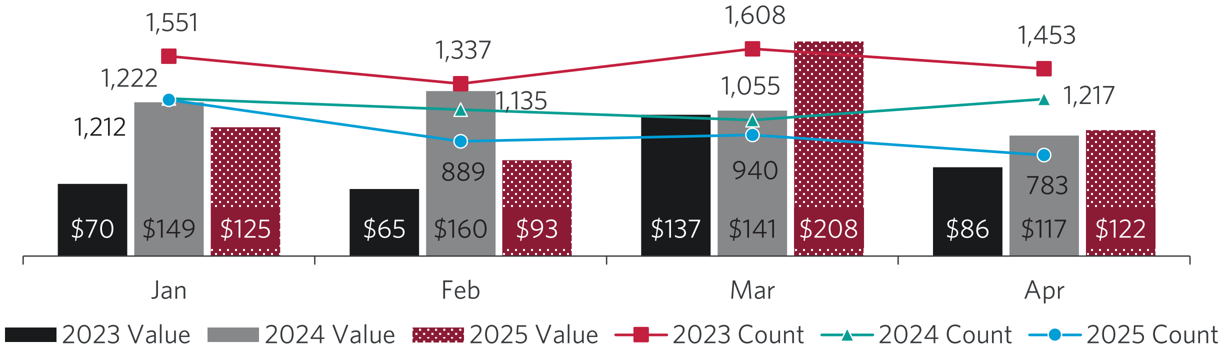
A cautious US market pursued larger deals

Year-to-date US M&A activity

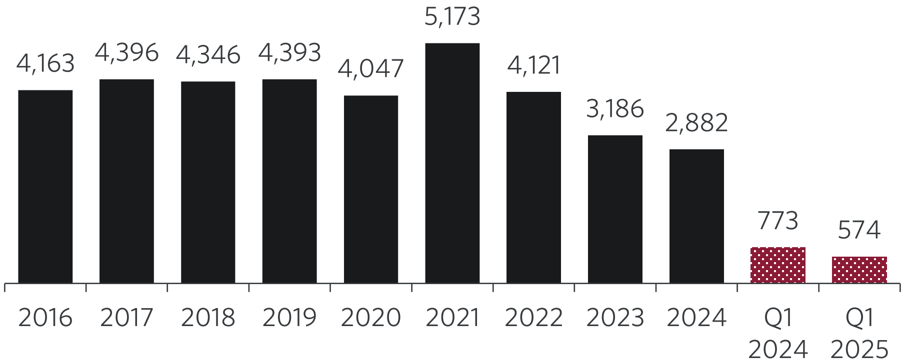


Year-to-date April 2025 US M&A deal volume shows a clear downward trend when compared to deal volume in 2023 and 2024, which represented years below historical average deal volume, according to LSEG. Between 2023 and 2025, deal volume for the four-month period decreased by 36%, from 5,949 deals to 3,824. During the same timeframe, deal value increased 53% from $358 billion to $548 billion driven by the return of mega deals (>$20 billion) in 2024. This data indicates a pronounced decoupling between the number of deals and aggregate deal value in the US M&A market. While the volume of transactions has declined notably each year, the total value of deals surged in 2024 and remained elevated in 2025. This suggests that although fewer transactions are being completed, the average deal size has been influenced by the increase in mega deals and the lack of traditional <$500MM middle market deals. The data underscores a market dynamic where activity is consolidating around larger, more strategic deals, even as overall market participation contracts, reflecting a preference for scale and resilience amid ongoing economic and policy uncertainty.

Source: LSEG.

Lower middle market deal volume declined year-over-year

US M&A transactions under $500mm



According to Robert W. Baird, the number of US lower middle market transactions (under $500 million of enterprise value) declined by 26% year-over-year, from 773 deals in Q1 2024 to 574 in Q1 2025. Deals under $100 million in enterprise value experienced a 35% decline, while those between $100 million and $500 million increased modestly by 7%. This bifurcation suggests that while smaller deals faced significant headwinds, likely due to heightened macroeconomic and policy uncertainty, buyers remained active in larger lower middle market transactions.

The overall market environment in Q1 2025 was shaped by heightened economic and policy uncertainty, including the impact of new tariffs and the threat of a trade war. These factors contributed to a more cautious stance from both buyers and lenders, especially for companies exposed to global supply chains or consumer demand volatility. Despite these challenges, private equity and corporate buyers continued to pursue select opportunities, supported by ample dry powder, a need to deploy capital, and healthy credit markets. Looking ahead into the second half of 2025, ongoing tariff negotiations and potential federal spending cuts are expected to prolong uncertainty, but there is optimism in the M&A community that a rebound in deal activity is on the horizon later this year if macroeconomic conditions stabilize and policy clarity improves.

Source: Robert W. Baird & Co.

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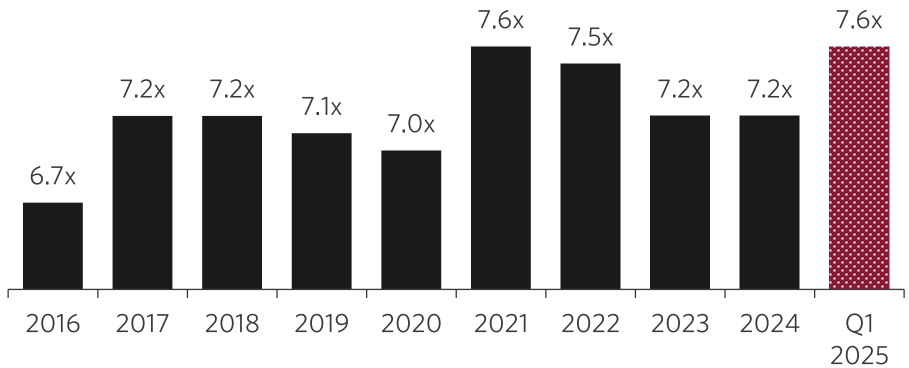
Valuation multiples jumped in Q1 2025

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



Despite declining deal volume, lower middle market M&A valuations remained robust in Q1 2025, reflecting the scarcity premium being paid to a smaller number of high-quality transactions. According to GF Data, the average EBITDA multiple across all lower middle market deals climbed to 7.6x in Q1 2025, marking the highest quarterly average since mid-2022 and a notable increase from the 7.2x average recorded in 2024. This uptick in multiples occurred despite a meaningful decline in deal volume year-over-year, underscoring a market dynamic where buyers continue to pay premiums for quality assets and lower quality assets fail to transact in the face of uncertainty.

Elevated valuation multiples highlight a divided market. Premium assets with strong financial performance that are economic and tariff resilient are commanding high multiples, while underperforming businesses and businesses impacted by tariffs or inflation face longer sale processes, multiple contraction, and risk sharing earnouts, if they transact at all. The prevalence of add-on investments—where private equity sponsors acquire smaller companies to integrate into existing platforms—remains significant. In "hot" resilient markets, these transactions are often achieving similar or slightly higher multiples compared to those paid for the original platform company. This trend highlights current market dynamics, which are notably dislocated from the standalone valuations these add-on acquisitions would otherwise command.

Source: GF Data®.

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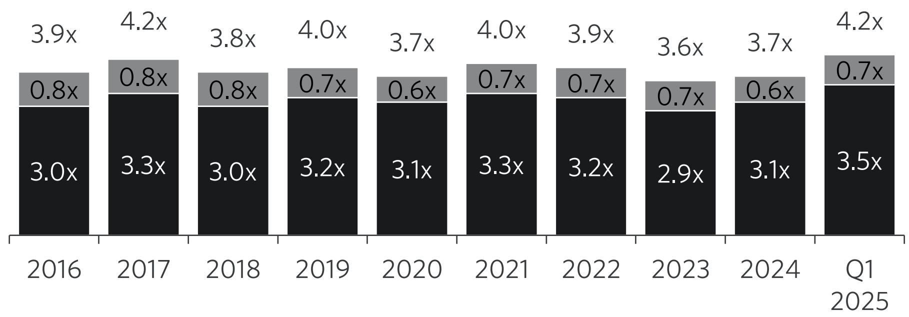
Debt availability increased before tariff-related uncertainty

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



Total debt multiples in the lower middle market experienced a meaningful uptick in Q1 2025, reaching 4.2x EBITDA, according to GF Data. This represents a notable half-turn increase from the multi-year average of approximately 3.7x EBITDA. The elevated debt levels reflect a confluence of factors including continued lender appetite for deploying capital, increased competition among both traditional banks and private credit providers, and fewer, high-quality companies commanding premium valuations in market. This rise in leverage multiples signals a marked shift from the more conservative underwriting standards that dominated the market during the interest rate hiking cycle of 2022-2023.

The increase in total debt multiples to 4.2x EBITDA also reflects broader market dynamics where debt financing became a larger component of overall deal structures in Q1 2025. Senior debt contribution averaged 42% of total deal financing, while subordinated debt usage increased to 10%, resulting in equity contributions falling to 48% compared to an average above 50% over the last three years. This shift toward greater debt utilization was facilitated by improved credit market conditions, with borrowing costs declining throughout the first quarter before volatility emerged in March due to tariff-related uncertainty.

Source: GF Data®

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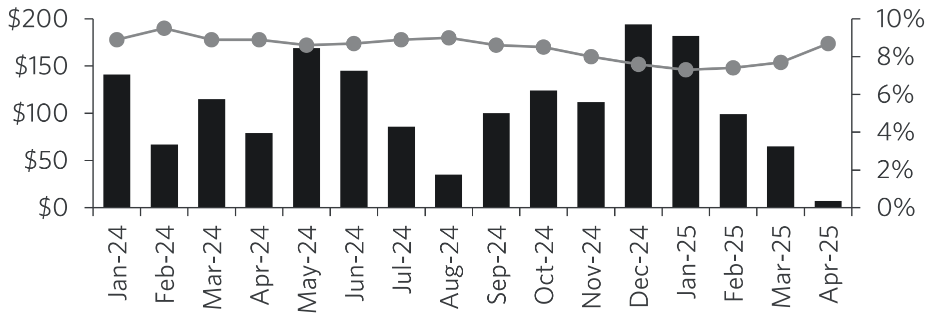
Leveraged loan market ground to a halt following tariff announcements

Syndicated leveraged loan issuance



From December 2024 to April 2025, issuance volume in the leveraged loan market experienced a dramatic contraction, marking its slowest period since the onset of the pandemic in early 2020. After peaking in December 2024, monthly syndicated leveraged loan issuance declined monthly during Q1 2025, before plummeting to just $6.4 billion in April 2025. This decline was underscored by a 19-day stretch in April without any new loan pricings, the longest such drought since March and April of 2020, reflecting a market in a state of near-paralysis. The sharp drop in activity was largely attributed to heightened volatility and uncertainty triggered by the announcement and subsequent implementation of new tariffs, which caused many deals to stall or be pulled from the market as arrangers and borrowers reassessed risk and pricing dynamics.

Source: 9fin.

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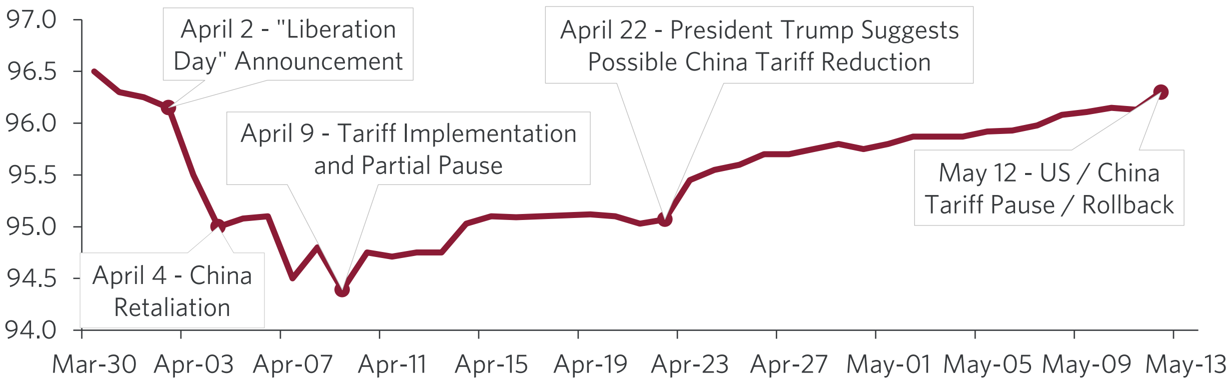
Leveraged loan market rallied back in May

Weighted average bid price of US leveraged loans



The weighted average bid price of US leveraged loans is a key indicator of lending activity, especially in the lower middle market. The bid price experienced significant volatility in the first half of 2025, largely in response to a series of tariff-related policy announcements. Notably, when the average bid price dips into the mid-90s, the leveraged loan market effectively shuts down for new issuers to enter the market, as investors find the secondary market more attractive.

In early April 2025, the "Liberation Day" tariff announcement and subsequent retaliatory measures by China triggered a sharp decline in the weighted average bid price, which fell from 96.3 at the end of March to a low of 94.1 on April 9th. This drop corresponded with a near halt in leveraged loan issuance, reflecting heightened uncertainty and a tightening of credit conditions across the market. The situation began to stabilize after policy signals indicated a potential easing of tariffs, culminating in the US/China tariff pause and rollback announcement on May 12th, which helped restore the bid price to pre-crisis levels.

The events of 2025 underscore how sensitive the leveraged loan market is to macroeconomic and geopolitical developments, especially those involving trade policy. Tariff-induced volatility not only depressed loan prices but also curtailed lending activity, particularly for smaller and mid-sized borrowers who are most dependent on stable credit markets. The rapid recovery of bid prices following positive policy announcements further highlights the market's responsiveness to changes in the economic outlook, reinforcing the role of the leveraged loan market as a leading indicator for broader lending conditions in the lower middle market.

Source: Pitchbook.

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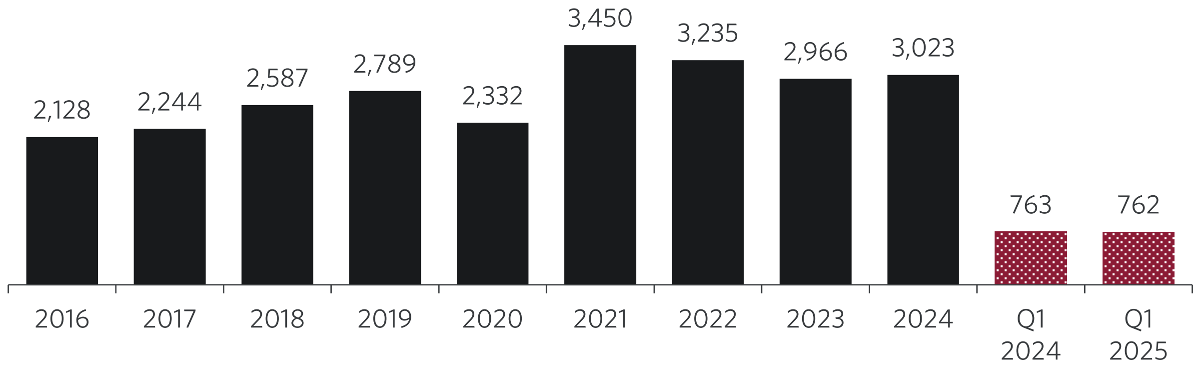
Industrial M&A continues despite tariff headwinds

US M&A industrials transactions



In today's M&A market, high-performing management teams are key drivers of outlier performance and premium valuations. Leaders who foster strong cultures and deliver excellent results—while being empowering, humble, nimble, and adaptable—are being rewarded in the M&A market. These are not traits that would have been used to describe the leader in a high performing US manufacturing company 20 years ago, but times have changed. For decades, investors and boards assessed management strength primarily during recessions or crises. Back then, great teams were defined by resilience and perseverance. Today, high-performing teams capitalize on crises to grow and expand their strategic relationships. Instead of preparing for a crisis every decade, today's US manufacturing teams must be agile enough to address disruptions annually. Since 2020, management teams have faced unprecedented challenges, including a pandemic, supply chain disruptions, labor shortages, reshoring, inflation, OEM inventory rationalizations, and tariffs. The best teams have overcome these obstacles while investing in people, processes, and equipment to enhance profitability and strengthen their position as strategic partners for customers.

Private equity investors continue to highlight a shortage of quality manufacturing deals. GF Data reported only 17 PE-backed manufacturing deals in Q1 2025—50% below the historical quarterly average. However, S&P Capital IQ data suggests industrial M&A activity remains steady, despite tariffs and global economic uncertainty. This aligns with CIBC's US Middle Market Industrial team's view of the market. Why the difference in perception? Strategic buyers remain active, targeting well-performing companies with strong management teams to drive long-term growth. In contrast, private equity firms are hesitating due to uncertainties within their typical five- to seven-year investment horizon.

Source: S&P Capital IQ.

Industrial add-on valuation multiples exceed those of platform investments

Industrial valuation drilldown for 2021 – Q1 2025

TEV (MM)	All	Buyouts Only	Platforms	Add-Ons	Individual / Family Seller	PE / Corporate Seller	Above Average	Post-Closing Management	All Three
$10 – $25	5.9x	5.9x	5.7x	6.2x	5.9x	5.3x	6.3x	6.0x	5.9x
$25 – $50	6.7x	6.7x	6.5x	7.2x	6.6x	7.0x	7.1x	6.9x	7.2x
$50 – $100	8.0x	8.2x	8.0x	9.3x	8.1x	8.4x	8.7x	8.3x	8.7x
$100 - $250	8.6x	8.7x	8.7x	8.4x	8.6x	9.0x	9.4x	8.9x	9.6x
Total	**7.0x**	**7.0x**	**6.9x**	**7.1x**	**6.8x**	**7.6x**	**7.6x**	**7.2x**	**8.3x**
Deal Count	547	502	363	137	395	96	276	376	46

While the industrial M&A market is not firing on all cylinders, several segments are performing strongly. Segments of the industrial market that continue to see activity and strong valuations are those related to the "built environment," which is broadly defined. This includes HVAC, power and utilities, infrastructure (e.g., safety, concrete and asphalt, traffic systems), aerospace & defense, and anything connected to data centers. Buyers are aggressively pursuing companies in these sectors and are willing to pay premium valuations. Due to the scarcity of "A" assets in resilient industries, GF Data has reported that private equity multiples for add-on acquisitions now exceed those for platform companies. The strategy of "buying down your multiple" is no longer viable in the "hot" sectors where private equity firms are actively transacting. We anticipate that this trend will persist through the remainder of 2025.

Looking ahead to the rest of 2025, we expect that 'hot' sectors will continue to see robust transaction activity and command premium valuations. Additionally, we anticipate an increase in the volume of private equity and private company sellers coming to market after Labor Day, as trade and economic policies stabilize.

Source: GF Data®.

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

TORGINOL
has been acquired by
GREYLION

TOTAL MECHANICAL
has been acquired by
SYMBIOME CAPITAL

L.B.WHITE
has been acquired by
MODINE

AUTO-DS
has been acquired by
fiverr.

EarthLite
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
MAIN ST CAPITAL CORPORATION

Athletica SPORT SYSTEMS
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
FRANCISCO PARTNERS

VAPOR POWER INTERNATIONAL
a portfolio company of
Stone Pointe, LLC
MIDWEST MEZZANINE FUNDS
has been acquired by
THERMON

ARMOR ANIMAL HEALTH
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

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