CIBC CAPITAL MARKETS

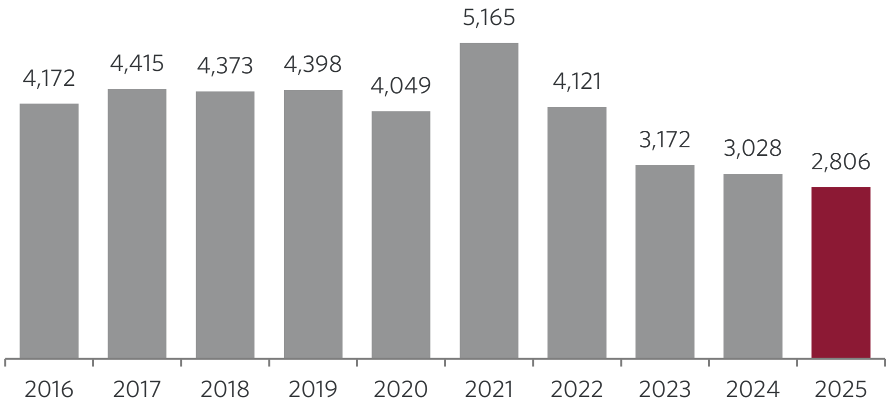
US MIDDLE MARKET MONITOR

M&A and financing update

Q1 2026

Lower middle market deal volume remains subdued

US M&A transactions under $500mm



US lower middle market deal volume continued its annual post-2021 decline in 2025 to 2,806 transactions, which remained well below the pre-pandemic average volume of approximately 4,300 transactions per year. According to Robert W. Baird & Co., US middle market transactions (under $500 million of enterprise value) declined 6% year-over-year from 2024, but overall aggregate value increased meaningfully in the broader M&A market, driven by a material increase in multi-billion dollar "mega-deal" transactions. Market commentary consistently characterizes 2025 as a year of "choppy" middle-market activity, marked by a cautious backdrop and elongated timelines rather than the broad-based recovery in volume that was anticipated at the beginning of 2025.

Tariff volatility after early-2025 "trade war" announcements, softer manufacturing data, and signs of cooling in the U.S. labor market all weighed on seller confidence and slowed process launches, particularly for smaller, more cyclical businesses. Within this environment, the lower middle market lagged the sharp rebound in large-cap and billion-dollar activity as sponsors and lenders favored scaled, higher-quality credits. Early 2026 developments—including conflict in Iran, oil-driven inflation concerns, and mixed jobs reports—have reinforced a tiered dynamic in which headline US M&A value is robust, while lower middle market volumes remain constrained but are expected to improve if financing conditions and trade policy stabilize.

Source: Robert W. Baird & Co.

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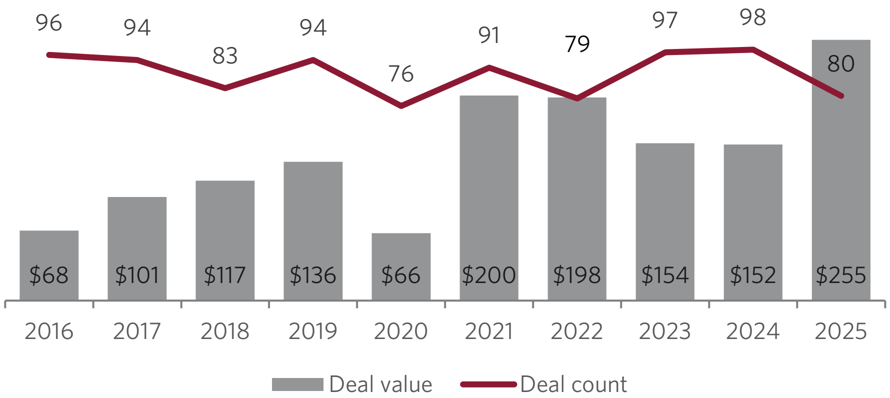
Take-private deal value surges to record levels

PE take-private deal activity ($b)



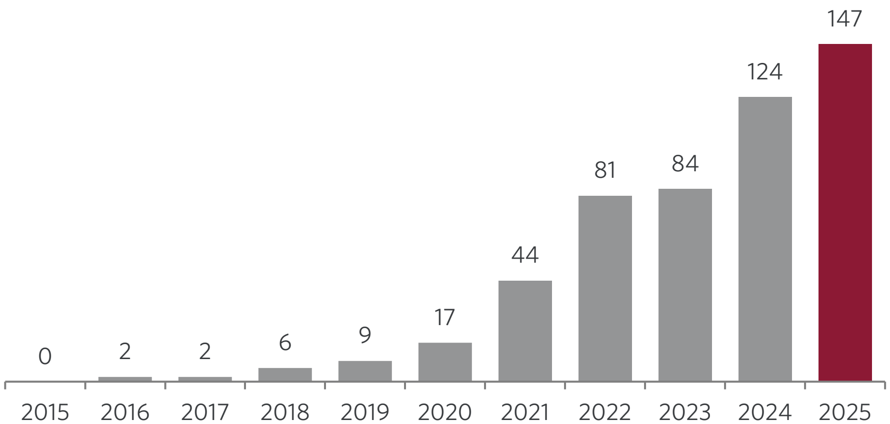
Year-to-date EBITDA multiples in the lower middle market have remained steady. Take-private aggregate value shows a clear resurgence in large-cap and mega-cap sponsor activity, with 2025 take-private deal value surging to $255 billion even as deal count declined to 80 transactions. That is a 67% increase in value year-over-year from $152 billion in 2024, and the second-highest annual take-private value on record, trailing only 2007's $381 billion. In other words, fewer companies are being taken private, but the ones that are transacting are materially larger, skewing activity toward the upper end of the market and reinforcing that sponsor appetite for sizeable public-to-private transactions is very strong.

This wave of take-privates is concentrated well above the traditional middle market, with 2025 defined by a handful of outsized deals, including the $55 billion LBO of Electronic Arts—the largest leveraged buyout ever—alongside $10 to $20 billion transactions, such as Hologic and Sealed Air. That pattern is consistent with broader 2025 M&A data showing megadeals and $1 billion-plus transactions leading the recovery, supported by ample dry powder, improving financing markets, and a risk-on backdrop in public markets. Together, the data signal that sponsor demand and financing capacity for large-cap and mega-cap take-privates are firmly "on," even as smaller public targets see comparatively less activity.

Source: PitchBook

Continuation funds become mainstream exit strategy

Continuation-fund-related exit count



Continuation-fund ("CV")-related exits reached 147 transactions in 2025, representing an increase of over 18% from the 124 CV deals completed in 2024. The growth seen in 2025 extended a multi-year upward trend that began accelerating in 2020. This illustrates a structural shift in how sponsors manage liquidity: continuation-fund exits have grown from insignificant levels before 2019 to a legitimate and accepted exit vehicle for funds, providing liquidity to limited partners. This trajectory reflects continued adoption of GP-led secondary solutions as a mainstream exit path, particularly for high-performing assets that sponsors wish to hold beyond the original fund life, while still offering distributions to interested LPs.

The sustained growth in CV activity aligns with broader secondary market trends, where GP-led deals now represent approximately half of total secondary volume with single-asset CVs accounting for the majority of the volume. Sponsors are increasingly deploying CVs as deliberate portfolio management tools—extending ownership of trophy assets, improving distribution-to-paid-in capital (DPI) ratios and bridging the gap to exit while traditional M&A and IPO windows remain selective.

Source: PitchBook

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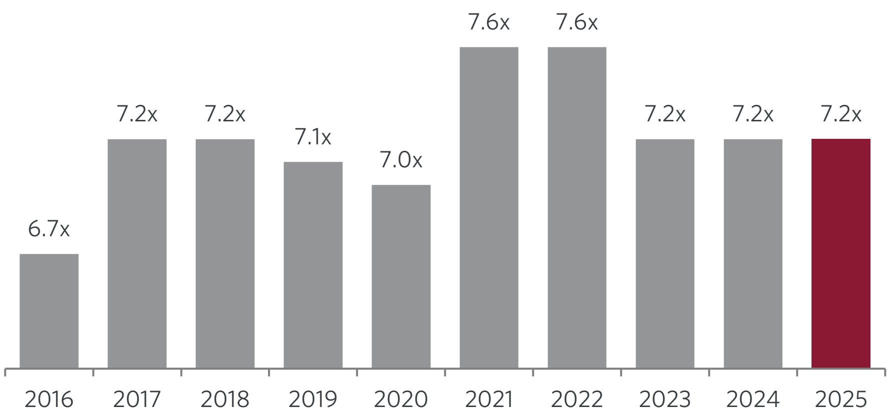
Valuation multiples hold steady

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



According to GF Data®, average valuation multiples in the lower middle market remained steady at 7.2x EBITDA in 2025. Despite a challenging deal environment and reduced transaction volume, valuation multiples have not declined; instead, EBITDA multiples in the low-volume M&A environment have normalized at 7.2x over the past three years.

The 2025 average of 7.2x EBITDA is 0.5x higher than GF Data's historical pre-COVID average of 6.7x, underscoring how both sponsor and strategic appetite for quality assets have elevated valuations even as activity cooled from the peaks seen in 2021. This trend is broadly consistent with global buyout benchmarks, where announced transaction multiples have also maintained pre-pandemic highs rather than compressing, supported by improved financing conditions and ongoing competition for resilient, cash-generative businesses.

Source: GF Data®

Sector valuations reflect quality and stability

Average EBITDA multiples for LBOs by industry

Industry	2003 – 2020	2021	2022	2023	2024	2025
Manufacturing	6.2x	7.2x	7.4x	6.5x	7.0x	6.6x
Business services	6.7x	7.3x	7.4x	7.2x	7.2x	7.4x
Healthcare services	7.4x	8.1x	8.4x	9.2x	7.7x	8.5x
Retail	7.0x	8.4x	8.0x	6.0x	7.4x	7.5x
Distribution	6.7x	7.2x	7.1x	7.1x	6.9x	6.9x
Media & Telecom	7.6x	7.0x	8.3x	7.8x	6.7x	6.9x
Technology	8.4x	10.3x	8.1x	10.2x	7.9x	6.4x

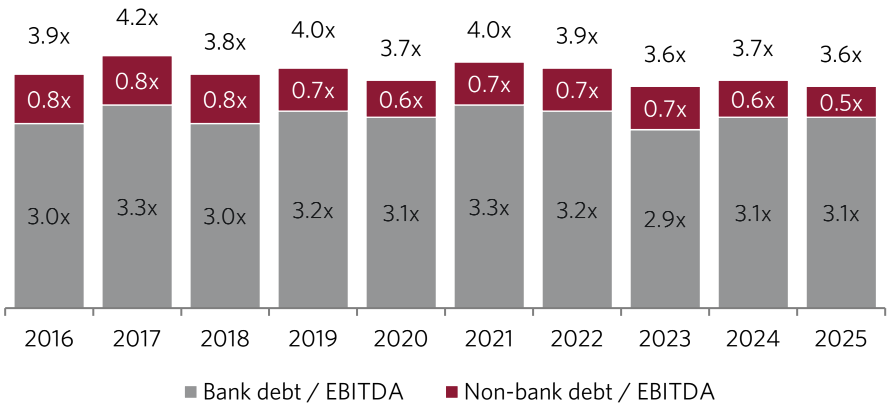
According to GF Data®, 2025 was a year of modest multiple compression in more cyclical sectors and resilience or expansion in defensible, cash-generative industries. In 2025, the average EBITDA multiple for manufacturing fell to 6.6x, down from 7.0x in 2024 as tariff-related input costs created uncertainty and softer consumer demand weighed on valuations, particularly in unbranded consumer manufacturing. In contrast, business services multiples ticked up from 7.2x to 7.4x, tying its highest level on record, and healthcare services multiples rebounded from 7.7x to 8.5x, keeping the sector at the top of the valuation stack.

These patterns align with broader market data showing investors paying premiums for asset-light, recurring-revenue models and non-discretionary demand, while applying discounts to more cyclical or trade-exposed businesses. Within GF Data's universe, business services valuation multiples are roughly 1.0x EBITDA higher than manufacturing multiples and more than 0.5x EBITDA higher than distribution multiples, underscoring sponsor preference for contracted revenue, pricing power, and lower capex burden. Healthcare services transactions' 8.5x multiple is consistent with robust sponsor appetite for scaled platforms in provider services and HCIT.

Source: GF Data®

Debt markets normalize below pandemic peaks

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



According to GF Data®, total debt utilization in the lower middle market remained steady at 3.6x EBITDA in 2025, modestly below the 3.7x EBITDA recorded in 2024 and significantly lower than the 4.0x EBITDA peak reached in 2021. This places the 2025 average leverage multiples essentially in line with the long-term historical average of 3.7x, reflecting that the market continues to favor lenders, in contrast to the borrower's market of 2021, which witnessed higher leverage with fewer covenants. The capital structure framework in 2025 has settled into a more disciplined and arguably more sustainable approach. Both lenders and sponsors are now underwriting lower total debt levels and implementing tighter structures.

This normalization of debt availability is consistent with broader middle-market and private credit trends, where leverage levels have remained more conservative when compared to 2021. Financing remains readily available and competitive, with both traditional banks and direct lenders active across the capital structure, but underwriting standards now emphasize credit quality, cash flow visibility, and operational value creation over maximizing leverage. In that context, the 3.6x total debt multiple for 2025 represents a market that is open for business but anchored on lessons learned from the prior borrower's cycle, with more modest debt levels supporting durable capital structures and room for sponsors to generate returns through business-building rather than financial engineering alone.

Source: GF Data®

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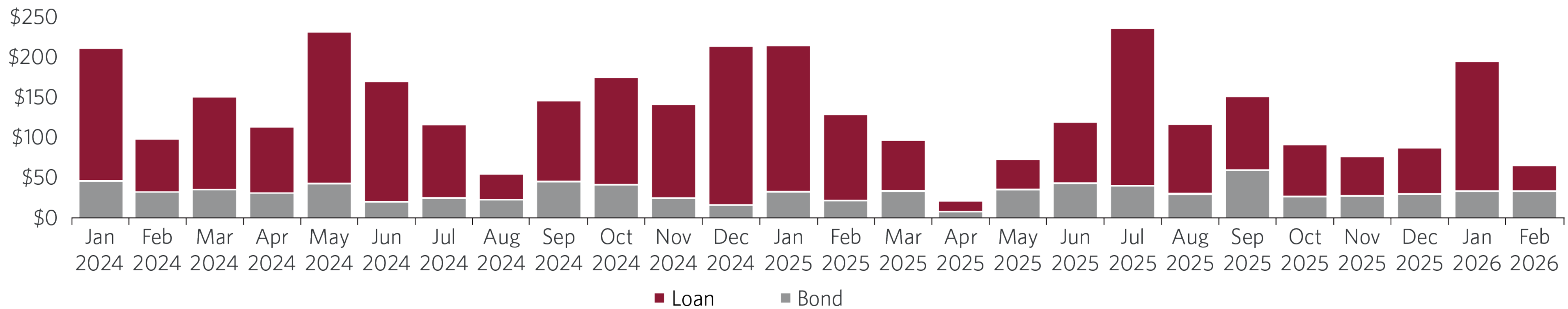
Leveraged loan market pulls back

Monthly priced volume – loan vs. bond ($b)



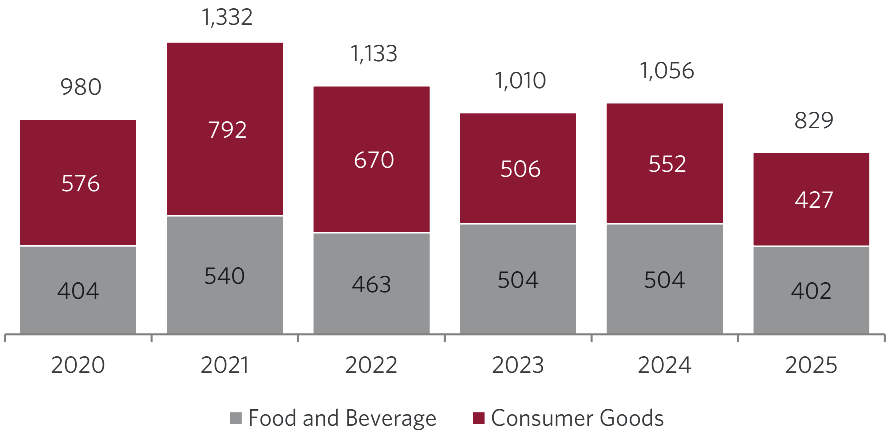
After a strong start to 2026, leveraged loan activity saw a sharp decline in February. New loan issuance dropped to its lowest level since "Liberation Day," with broadly syndicated loan volume and repricings falling dramatically from January's elevated levels, even as high yield bond issuance in February reached a five-year high for that month before moderating in March. The picture is one of a market that has temporarily shifted away from loans toward bonds, as lenders digest AI-related volatility (especially in software loans), the Iran war, and a weak jobs report.

At the same time, broader market sentiment still supports cautious optimism for the balance of 2026. Across 2024 and 2025, both loan and bond volumes in most months remained well above the trough levels seen immediately after the rate-hiking cycle, supported by strong demand for credit and active refinancing and LBO pipelines. The right credits and structures are still being well received, and upcoming mega-LBO financings will likely serve as a barometer for loan investor appetite once markets digest current macro headlines. If energy prices stabilize and the Fed's path becomes clearer, the recent dip in loan volume could prove more like a pause than a reset, with both the loan and bond markets positioned to re-open more broadly later in the year.

Source: 9fin

Consumer activity declined in 2025 amidst economic uncertainty

US consumer transaction

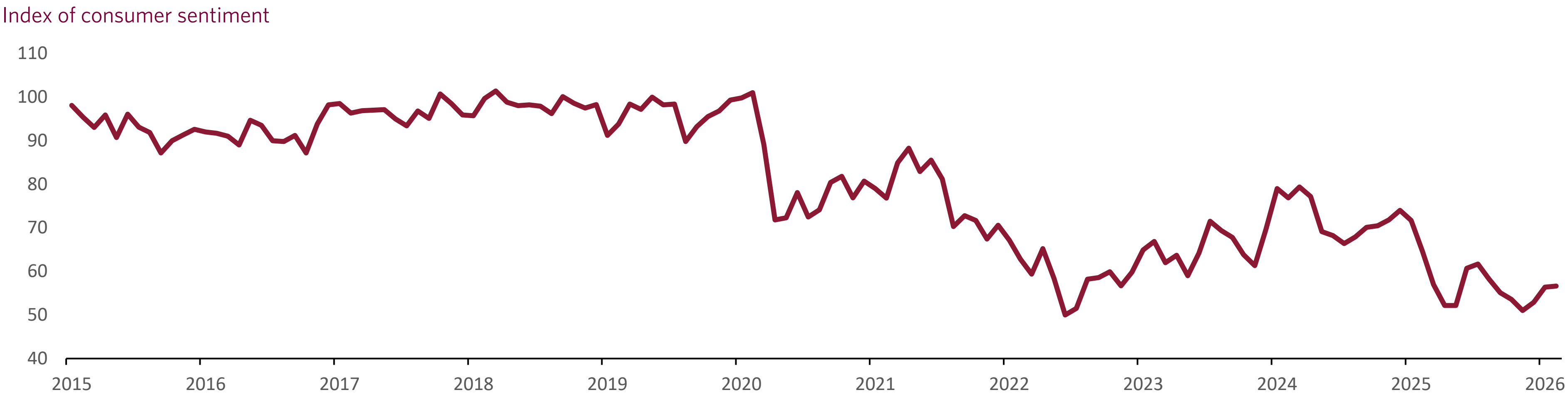


Consumer products transactions declined by 22% in 2025 compared to 2024, with the number of deals dropping from 1,056 to 829. This contraction was evident across the sector, as both food and beverage and consumer goods transactions experienced declines exceeding 20% from 2024 to 2025. The decrease was largely driven by companies absorbing a portion of tariff expenses, which negatively affected profitability and contributed to increased uncertainty in the market.

When tariffs were announced on "Liberation Day," consumer confidence dropped and remained low until Q3. Even businesses sourcing and selling domestically faced headwinds during 2025 as consumer confidence and spending declined significantly in Q2 2025. Many consumers redirected spending from domestic products to imported products that they feared would increase due to tariffs. In Q3, consumer spending improved as consumers gained confidence that inflation was under control. The two factors most likely to impact consumer deal volume in 2026 will be the war with Iran and tariff uncertainty. We anticipate consumer deal volume will increase in the second half of 2026 as the tariff-impacted Q2 2025 falls out of the LTM results and as more clarity is provided on the Iran war and go-forward tariffs. That being said, if the war in Iran continues throughout the summer and gas prices remain high, consumer deal volume will be negatively impacted.

Source: PitchBook, RSM US LLP

Consumer confidence volatile in 2025 and heading up for 2026



The consumer industry saw a significant downturn in Q2 2025, largely due to macroeconomic challenges, shifting consumer sentiment, and persistent supply chain issues. Many companies reported weaker sales during this period, especially in discretionary categories like apparel, electronics, and home goods, as ongoing inflation and elevated interest rates led households to adopt more cautious spending habits. Despite the broader slowdown, demand for essential goods such as groceries and packaged foods remained stable, with consumers increasingly opting for at-home meals rather than dining out. As the industry rebounded toward the end of 2025, the food and beverage sector benefited from renewed consumer confidence and rising spending on both premium and convenience-oriented products.

Looking ahead to 2026, continued growth in food and beverage is anticipated, underpinned by steady demand and ongoing product innovation, particularly in healthy and better-for-you offerings. Private label alternatives are expected to gain traction as consumers remain mindful of inflationary pressures. Key trends expected for 2026 include increased consumer spending on food away from home, as well as a heightened demand for greater value, including price, quality, convenience, and overall experience.

In 2026, we anticipate the M&A market will continue to favor sellers of high-performing consumer product companies, particularly those with a strong record of unit growth and demonstrated resilience through varying economic conditions and commodity price shifts. The slowdown in M&A activity over the past few years has resulted in significant cash reserves, with both strategic and financial sponsors now under pressure to put capital to work. Despite ongoing market headwinds, demand for quality assets remains robust, and we expect M&A volumes to increase throughout 2026 as buyers adapt their strategies. Additionally, many small- to medium-sized food companies are seeking private equity partners to help drive profitability and operational improvements before pursuing a sale to strategic acquirers. This trend is likely to continue as companies look to strengthen their market positions and maximize value in an evolving landscape.

Source: University of Michigan

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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

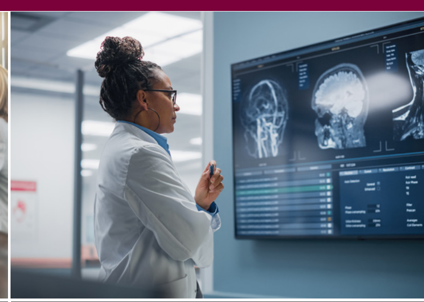
Financial Advisory

- Strategic alternative analyses
- Special situations transactions

Focus industry verticals


Consumer


Business Services


Healthcare


Industrials


Software & Technology

Recent CIBC US Middle Market transactions

Wisconsin Vision
has been acquired by
Undisclosed Buyer

PowerParts Group
has been acquired by
JLL Partners

ACME Industries
has been acquired by
ORG Owner Resource Group

Wausau Tile
has been acquired by
Two Roads Partners

Torginol
has been acquired by
GreyLion

Total Mechanical
has been acquired by
Symbiome Capital

L.B. White
Innovative Climate Solutions
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

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