CIBC CAPITAL MARKETS

US MIDDLE MARKET MONITOR

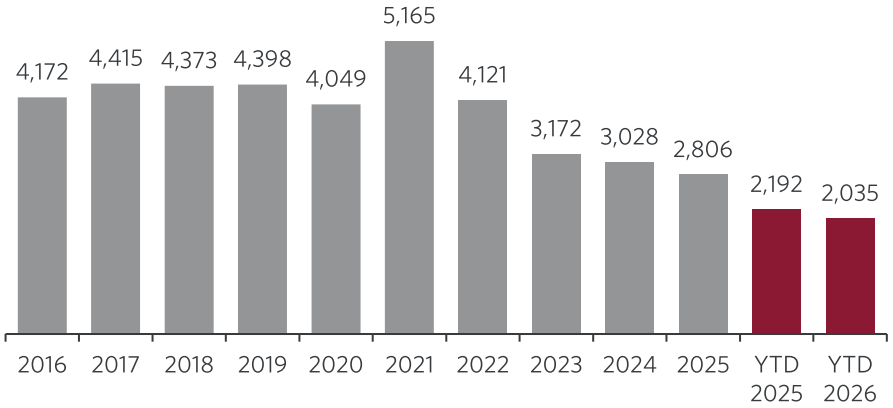
M&A and financing update

Q3 2026



Lower middle market deal volume remains subdued

US M&A transactions under $500mm



US lower middle market (transactions under $500 million of enterprise value) M&A activity remained subdued in H1 2026, continuing the trend in deal counts seen since 2021. Deal counts have struggled to rebound, with activity still uneven across sectors. Buyers and lenders continue to approach transactions carefully, with ongoing focus on financing conditions, inflation risk, geopolitical uncertainty, and AI-related disruption. Sponsor activity has remained tilted toward smaller, lower-risk, and add-on transactions, while lender appetite for new platform financings is still selective.

Industry conditions were mixed but modestly improved from last quarter. GF Data® indicates that business services volume has rebounded and manufacturing continues to recover, with manufacturing also benefiting from improved senior debt availability and renewed lender interest. By contrast, distribution, healthcare services, and software-related activity were weaker. Overall, accessible capital and continued buyer interest still support the lower middle market, and the outlook appears incrementally better as 2026 progresses, though a broader pickup in activity will likely depend on improved clarity around rates, credit markets, and geopolitical risks.

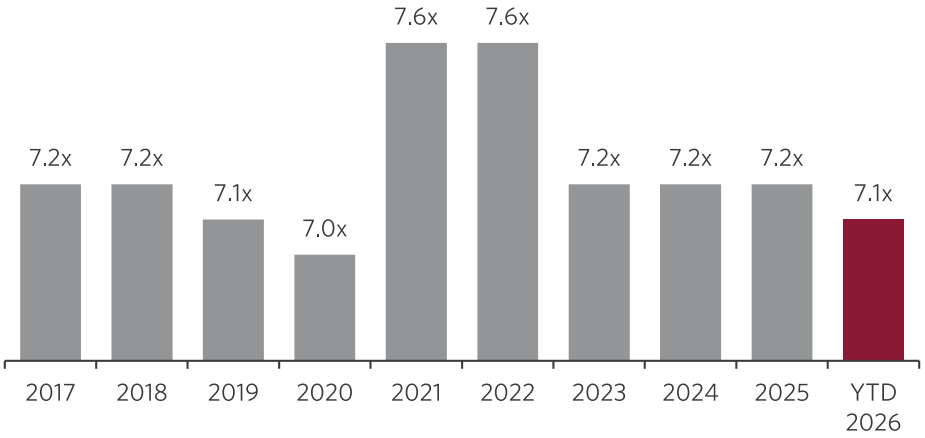
Source: CapitalIQ.

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Valuation multiples remain resilient

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

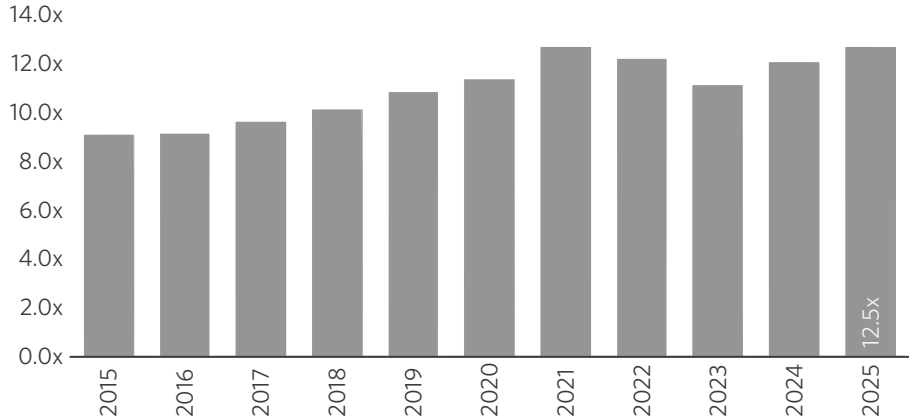


According to GF Data®, lower middle market multiples have remained resilient in the first half of 2026, with EBITDA multiples averaging 7.1x. While this is modestly below the 7.2x average in 2024 and 2025, it remains well above the 6.8x average from 2003–2021, underscoring the durability of pricing for quality assets. Although financing conditions have been uneven and deal activity has remained soft, private market valuations have stayed consistent.

Both sponsor and strategic appetite for quality assets continued to support valuations in H1 2026, despite the quarterly average declining modestly from 7.3x in Q1. The decline appears to reflect deal mix more than broad-based repricing, with lower middle market multiples continuing to hold in the low-7x range. At the vertical level, H1 2026 performance showed greater variability. In Q2, manufacturing multiples edged down from 7.2x to 7.1x; business services increased from 7.0x to 7.5x; healthcare declined from 8.5x to 7.7x; and technology rose from 5.2x to 5.7x. High-quality businesses with durable earnings, strong margins, and clean financials continued to command healthy valuations, while lower-quality assets faced greater scrutiny, fewer bids, and more conservative pricing. As a result, valuations remained more resilient than volumes, as buyers continued to compete for businesses with sustainable performance and strong fundamentals.

Source: GF Data® and PitchBook.

US PE EV/EBITDA multiples

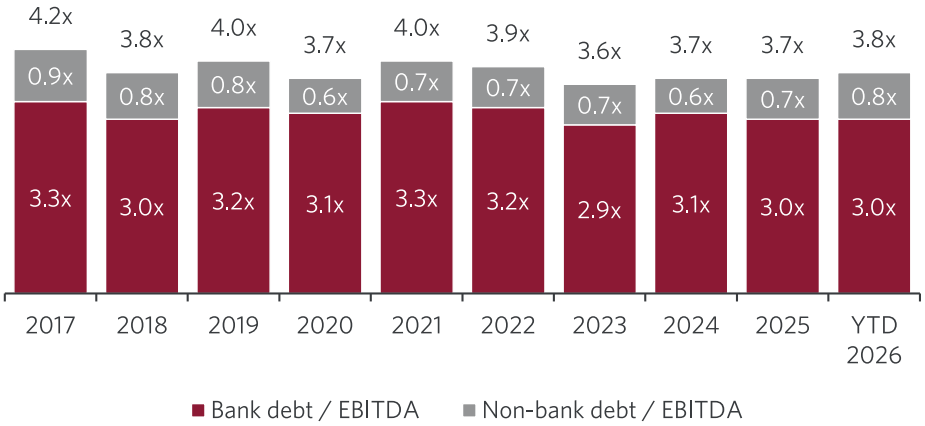


In contrast to the GF Data® lower middle market valuation data, Pitchbook's breakdown of deals up to $2.5B+ reached an average multiple of 12.5x in 2025, matching the multiple peak previously achieved in 2021 and extending the longer-term upward trend in entry multiples. Multiple expansion over the past decade has been significant when compared to the 2015 average of 9.0x EBITDA. In other words, the valuation floor in US private equity has reset meaningfully higher over time and 2025 confirmed that elevated pricing remains intact. In comparison, average publicly traded P/E multiples have also experienced expansion from 20.0x in 2015 to 28.2x in 2025.

The higher multiple environment reflects sponsors that are increasingly paying up for better businesses, with stronger margins at entry helping to justify the elevated headline multiple. 2025 was a year in which pricing held firm at historically strong valuation levels, underscoring how much sponsor demand remains concentrated around scaled, resilient, and operationally attractive businesses which remain in short supply in the market.

Debt markets remain disciplined

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



According to GF Data®, total debt utilization in the lower middle market averaged 3.8x EBITDA in H1 2026, above the 3.7x EBITDA recorded in 2025. Financing remains available for quality transactions, but lenders continue to exercise discipline, keeping leverage at healthy yet controlled levels. Capital structures reflect a balance between sponsor demand and lessons learned from prior cycles, with meaningful equity contributions and a continued focus on business quality supporting deal execution without reverting to peak-cycle risk appetite.

Financing from both traditional banks and direct lenders remains active. Out of 84 total reported deals to GF Data® last quarter, 24 used maximum leverage, while 44 deals utilized more conservative leverage levels (the remaining 16 reflected the characteristics of an acquiring platform or parent entity). This suggests lenders and sponsors are continuing to support transactions through a broader mix of financing sources while maintaining a disciplined approach to structure. As a result, leverage remains constructive and accessible, but capital formation continues to prioritize sustainability and long-term value creation over maximum short-term leverage.

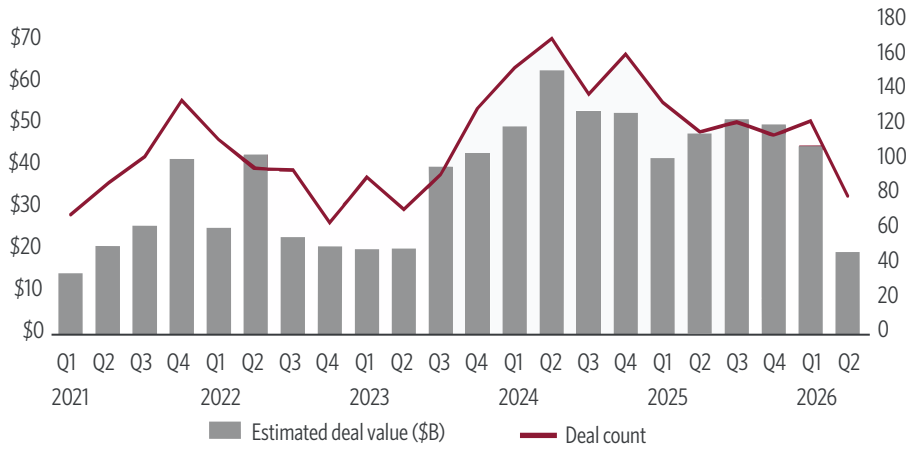
Source: GF Data®.

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Direct lending slows as underwriting tightens

Direct lending issuance



Direct lending issuance declined sharply in Q2 2026, with both estimated deal value and deal count moving lower amid a more challenging underwriting backdrop for certain industries. The slowdown was driven by renewed macro uncertainty, geopolitical conflict, wider spreads, and a broader reassessment of risk across private credit. Although activity declined broadly, software experienced the sharpest pullback with aggregate value falling 65.7% year-over-year to $10.7 billion amid continuing concerns around AI-driven disruption. Despite the pullback, the market remained active, with lenders continuing to support transactions that could withstand more conservative leverage levels and tighter credit terms.

More broadly, the quarter suggests a market recalibrating rather than retreating. Lenders continued to characterize the environment as investable, though with stronger lender protections than were typical in late 2025. At the same time, competition from the broadly syndicated loan ("BSL") market intensified, with BSLs capturing the majority of LBO financing volume this year. In that context, the decline in direct lending issuance reflects a narrower set of transactions clearing the market, not a wholesale withdrawal of capital from private credit.

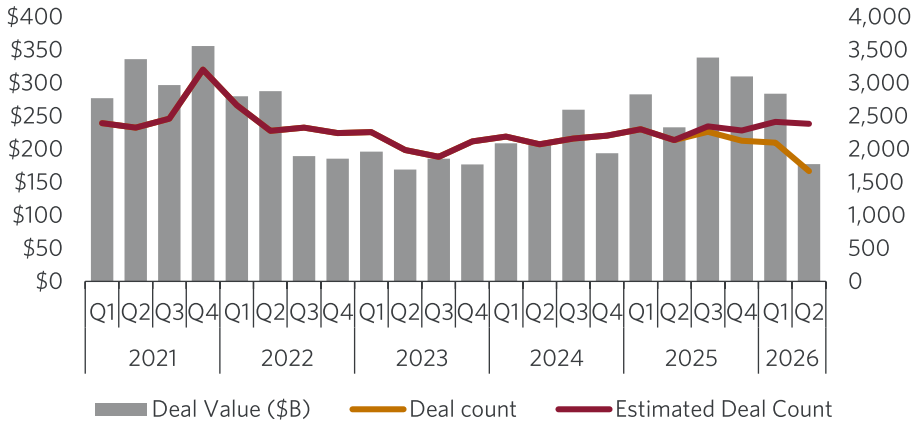
Source: PitchBook.

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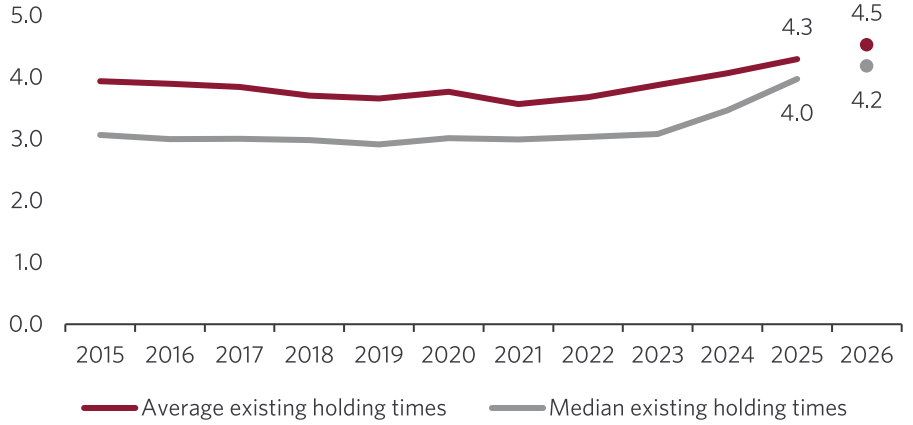


PE deal activity is down and hold periods are lengthening

PE deal activity by quarter



PE Company Holding Times (Years)



US private equity deal activity slowed materially in Q2 2026, as the momentum that supported the market through 2025 gave way to a more cautious backdrop. Aggregate deal value fell to $177.3 billion, down 37.5% from the prior quarter and 23.9% year-over-year, while overall transaction count remained relatively steady at 2,384 announced. The gap between value and volume suggests that sponsors remained active but pulled back from larger and more financing-dependent transactions. PitchBook characterized the quarter as one of the sharpest contractions in deal value in its dataset, driven by higher-for-longer rate expectations, wider direct lending spreads, renewed inflation concerns tied to the Middle East conflict, and a reassessment of software risk as AI disruption accelerates.

The market weakness was broad-based across sectors, size categories, and deal types, with software seeing the most pronounced pullback and energy proving more durable. Sponsors continued to transact, but with a clearer preference for smaller, lower-risk structures and less aggressive underwriting.

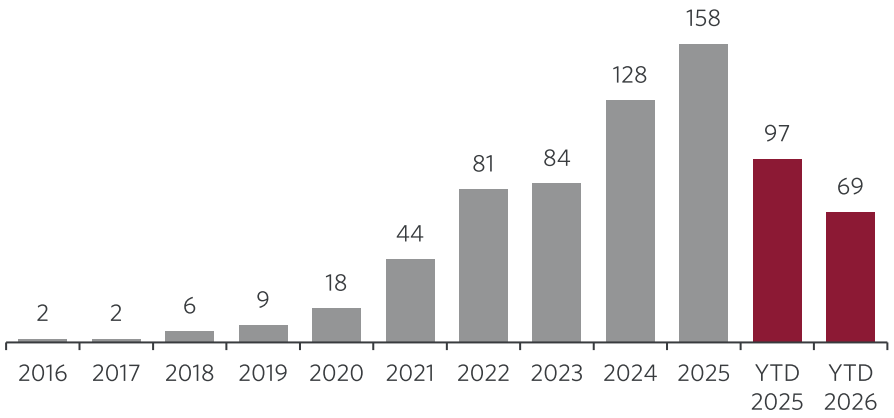
Private equity hold periods continued to lengthen in the first half of 2026, as portfolio companies continue to wait for improved performance, causing delayed exits and a growing inventory of unsold assets, constraining sponsor liquidity. The median hold period rose to approximately 4.2 years, and average hold periods reached roughly 4.5 years, signaling that sponsors are holding assets beyond historical norms as they wait for improved portfolio company performance and a more certain macroeconomic backdrop. PE-backed company inventory reached 13,509 by quarter-end, further underscoring the scale of the backlog.

The broader message is that the exit market remains active, but concentrated in a narrow group of premium assets, while the broader portfolio continues to face limited exit pathways. Higher financing costs, selective buyer appetite, and a selectively reopened IPO market have left many sponsors with few attractive monetization options, increasing the likelihood that hold periods remain elevated until market visibility and buyer conviction improve.

Source: PitchBook and Kirkland.

Continuation funds remain active but limited

Continuation fund related exit count



According to PitchBook, continuation fund-related exit count reached 69 globally through Q2 2026. While that indicates the strategy remains active, the current pace is running below the 158 exits recorded in 2025, suggesting continuation vehicles have not expanded quickly enough to offset weaker traditional exit channels. This is notable because continuation funds have increasingly been viewed as an important liquidity tool in a market defined by constrained realizations, longer hold periods, and limited sponsor-to-sponsor or strategic sale activity.

The more important takeaway is that the softer pace appears to reflect sponsor selectivity rather than a collapse in demand. Sponsors and LPs have exhibited patience and are willing to wait for portfolio company performance to rebound and a more certain macroeconomic backdrop. As a result, continuation funds remain a relevant liquidity option in 2026, but they have not yet scaled enough to materially reduce the industry's backlog of PE-owned companies or meaningfully accelerate distributions to LPs.

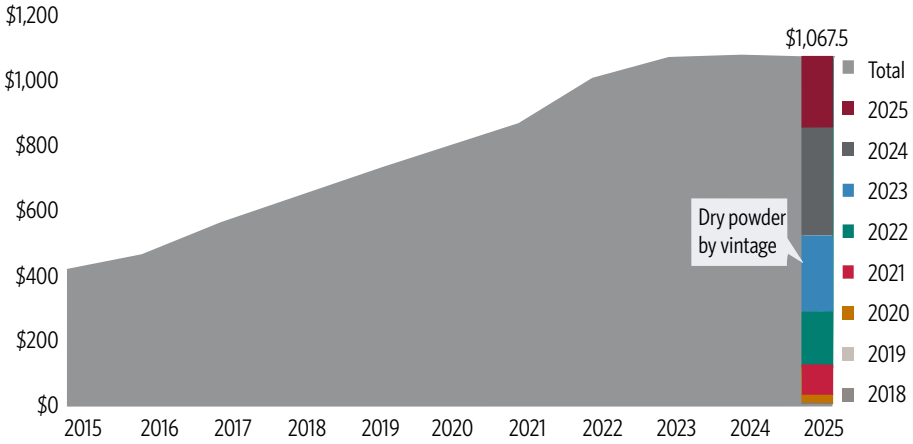
Source: PitchBook.

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Capital availability remains strong

PE Dry Powder ($B)



US PE dry powder reached $1.07 trillion in 2025, underscoring the amount of uncalled capital still available after several years of elevated deployment and fundraising activity. The industry entered 2026 with substantial investable capital, suggesting that the market's constraints were not driven by a lack of funds, but by ongoing challenges related to deal volume, quality of deals, and competition around pricing, financing, and exits. Dry powder remained concentrated across recent vintages, leaving sponsors with meaningful capacity to pursue new transactions as market conditions improve.

At the same time, the large dry powder balance highlights a broader tension in the private equity market. While fundraising has become more concentrated and liquidity remains constrained, previously raised capital continues to sit on the sidelines awaiting more actionable opportunities. As a result, sponsors remain active but selective, with significant capital available to invest but a narrower set of transactions able to clear amid exit bottlenecks, slower distributions, and a more challenging underwriting backdrop. In that context, the $1.07 trillion dry powder figure is both a source of support for future deal activity and a sign of the backlog building within the private equity system.

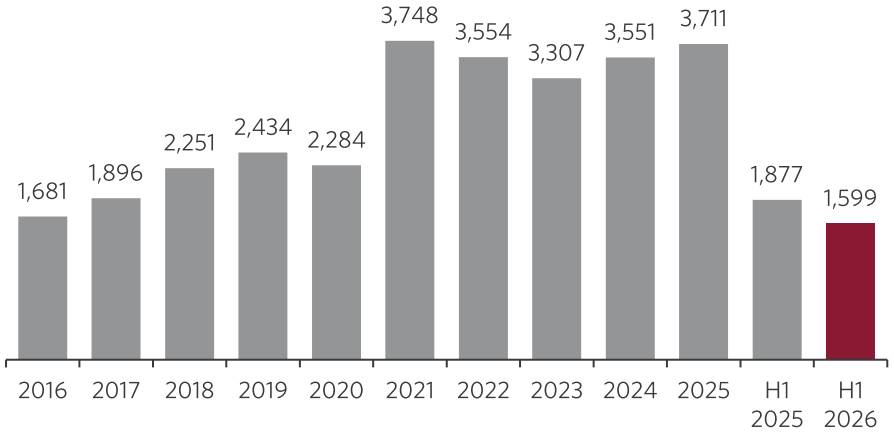
Source: GF Data®.

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US Business Services deal count falls as buyers grow more selective

US business services transactions



US business services transaction volume declined 15% in H1 2026 to 1,599 transactions, from 1,877 in the same period of 2025, according to PitchBook. The comparison is drawn against a strong full-year 2025, with 3,711 closed transactions, the second-highest count in history and within 1% of the 2021 peak.

The decline did not appear to come with price concessions, as business services multiples remained flat year-over-year. Fewer transactions clearing at similar prices is the signature of a selective market rather than a weak one. Buyers are now underwriting whether artificial intelligence enhances a target's delivery model or exposes it to pricing pressure, and PwC observed volumes declining in early 2026 across IT services, professional services, insurance brokerage and wealth management as that question was worked through.

Activity concentrated where delivery is physical, credentialed or regulated, such as route-based and field services, facility and industrial services, compliance and certification, IT managed services, and cybersecurity. For quality assets in those segments, processes remain competitive.

Source: PitchBook.

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US Business Services valuations are a mixed bag year-over-year

Average business services EBITDA multiples for $10mm - $250mm LBOs

Enterprise Value	2003–2021	2022	2023	2024	2025	YTD 2026
$10mm – $25mm	5.6x	6.6x	6.1x	6.4x	6.4x	6.3x
$25mm – $50mm	6.8x	6.7x	6.7x	7.6x	7.7x	8.0x
$50mm – $100mm	8.0x	8.6x	9.2x	8.4x	8.8x	8.7x
$100mm – $250mm	8.9x	10.4x	11.2x	8.7x	10.3x	8.4x
Total	**6.8x**	**7.4x**	**7.2x**	**7.3x**	**7.5x**	**7.5x**

Business services pricing remained consistent even as deal volume fell. According to GF Data®, the overall average multiple was 7.5x year-to-date 2026, matching the 2025 multiple and higher than the 7.3x average in 2024 and the 6.8x long-term baseline average multiple.

The more useful signal is where that premium now sits. The $25mm–$50mm enterprise value ("EV") tier reached 8.0x, its strongest reading post-COVID and more than a full turn above its long-term average. The $50mm–$100mm EV tier held at 8.7x, roughly where it has been since 2022. The $100mm–$250mm EV tier is the exception at 8.4x, down from 10.3x, consistent with more cautious underwriting at the top of the lower middle market.

Finally, multiples in the $10mm–$25mm EV tier remained consistent, at 6.3x compared to 6.4x in each of the prior two years.

For owners of $25mm–$100mm EV business services companies, this is as constructive a pricing environment as has existed for a long time. Scale still matters, but $25mm-$100mm deals are showing strength.

Source: GF Data®.

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AI due diligence takeaways

How buyers are sorting business services delivery models

Enhanced

Technology deepens a specialist delivery models

IT managed services, cybersecurity, AI implementation and data engineering, compliance, certification and testing

Insulated

Delivery is physical, routed, or credentialed

Facility and industrial services, route-based and field services, equipment maintenance, regulated and licensed services

Under scrutiny

Revenue billed by the hour, the seat, or the head

Staffing and headcount-billed models, generalist consulting, commoditized BPO, back-office administration

A 15% decline in deal count alongside a 7.5x average multiple describes buyers transacting less and paying more when they do. Paying a full multiple now depends on one question: does artificial intelligence make the company's service harder to replace, or easier? The framework above is not a judgment on business quality, but it increasingly determines process dynamics and buyer universe.

For "enhanced" or "insulated" business models, the practical effect has been marginal. For those "under scrutiny", sellers should expect the AI vulnerability question early and should answer it with contract terms, retention, and pricing data rather than narrative. Those that have moved from time-and-materials toward outcome-based pricing have an easier narrative.

CIBC's view is that the distinction is directionally right and, in places, overdrawn. Public business services valuations declined in the first half of 2026 as investors reassessed which service models AI exposes, with consulting, IT services, and staffing absorbing the steepest declines. Much of that move has since retraced on results that held up better than the sell-off implied. For sellers, the gap between perception and performance is the argument to make.

Source: PwC.

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CIBC US Middle Market Investment Banking 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 Investment Banking transactions

KOMA PRECISION
has been acquired by
COMPASS GROUP EQUITY PARTNERS

CEDAR CREST ICE CREAM
has been acquired by
Hoffmann FAMILY OF COMPANIES

Reinders
has been acquired by
SiteOne LANDSCAPE SUPPLY

ZANDER SOLUTIONS
a portfolio company of
Cornerstone CAPITAL PARTNERS | TCM TROOB CAPITAL MANAGEMENT
has been acquired by
Undisclosed Family Office

WisconsinVision
has been acquired by
TeamVision
a division of
EssilorLuxottica

POWERPARTS GROUP
a portfolio company of
MANGROVE EQUITY PARTNERS
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
a portfolio company of
MASON WELLS
has been acquired by
MODINE Engineering a Cleaner, Healthier World

AUTO-DS
has been acquired by
fiverr.

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