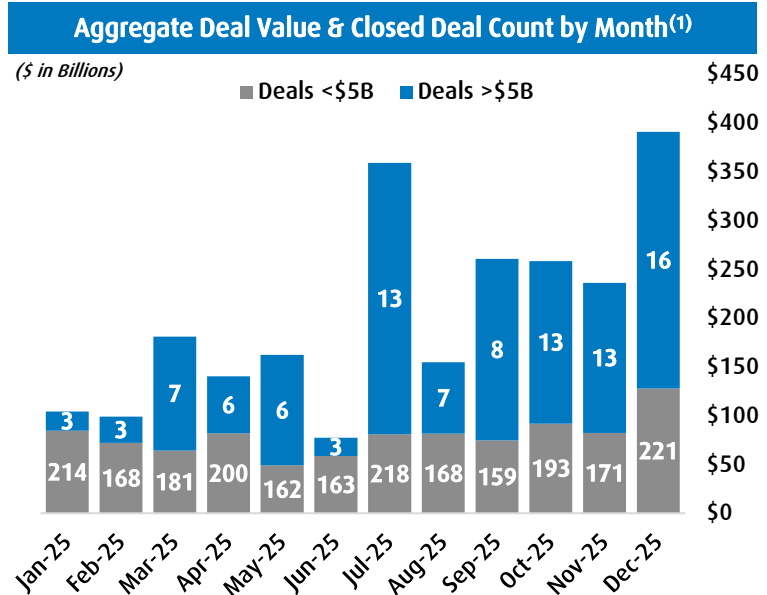


BMO Middle Market M&A update

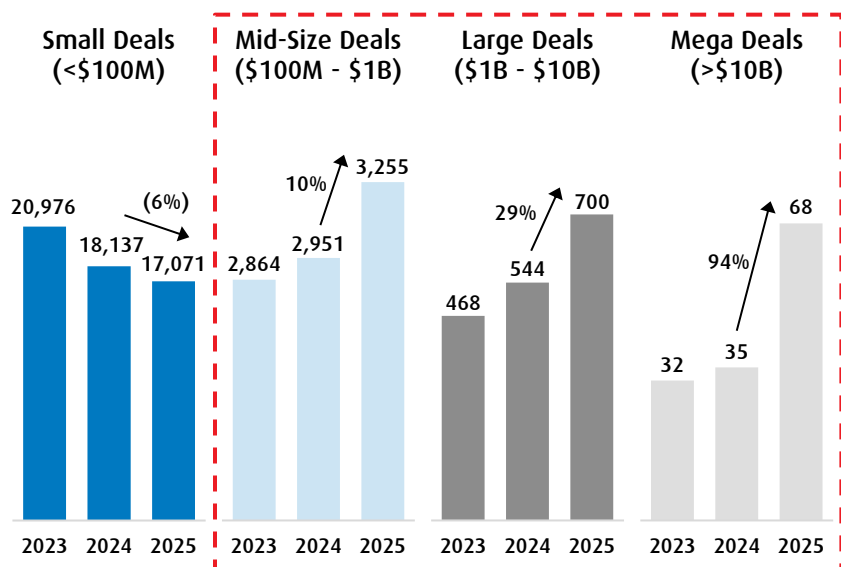
Strong Large Cap Environment Buoy 2026 Middle Market Outlook

Deal value is expected to remain elevated in 2026, building on improving M&A conditions throughout 2025. This momentum is being driven by the continued rise of transactions exceeding \$5B, which now represent an increasingly large share of overall market activity. In 2025, deals above \$5B increased more than 23% YoY and generated roughly \$1.5T in value, accounting for over half of global M&A. While middle market deal counts have remained stable, the surge in large-cap activity is creating positive spillover effects by strengthening buyer confidence, improving financing conditions, and drawing investors back into the market. As a result, the robust performance of megadeals is effectively buoying the broader M&A landscape, creating a healthy environment for middle market transactions even without a rise in overall deal count.



2026 Poised for a Rebound in Small- and Mid-Market Transaction Activity⁽²⁾

(Deal Count by Year)



Mega- and large-cap transactions historically move first, absorbing macro risk with stronger balance sheets and sophisticated underwriting, proving that deals can clear and resetting market risk appetite. As those headline transactions pay early-cycle premiums, they establish visible reference prices that close the bid-ask gap and prompt sub-\$1B companies to recalibrate expectations. With pricing re-anchored and credit channels reopened, private equity's dry powder and deferred exits are expected to release on a lag, setting the stage for small- and mid-market deal flow into 2026.

1. Pitchbook - M&A Transactions in Calendar year 2025 (Enterprise Values; >\$5,000MM; <\$5,000MM)
 2. Kirkland & Ellis, *The Bring Down: Market Update for Investment Bankers*, January 2026.

Quarterly M&A Spotlight: Middle Market Impacts of AI in 2026

State of AI – A widening gap is emerging between organizations that fully integrate AI and those that only use it at a surface level. While AI is beginning to demonstrate efficiency gains, only a minority of companies are transforming products, processes, and business models in ways that drive sustainable growth and long-term competitive advantage. Firms that fail to integrate AI in a meaningful way risk falling further behind leaders whose ability to innovate and scale continues to accelerate.

Companies are rapidly shifting from the "AI testing" phase to full-scale integration. More than half of organizations expect to move at least 40% of their pilots into production within the next three to six months, signaling a fast-scaling trajectory. As AI becomes embedded in core workflows and decision-making, firms are moving beyond experimentation toward enterprise-wide impact. This divergence is increasingly visible in M&A markets, where buyers are placing a premium on targets with proven AI integration and undervaluing those that remain stuck in pilot mode.

Reality of AI Tailwinds – Artificial intelligence is driving an unprecedented data center buildout as operators race to deliver higher-density, power-intensive facilities. Global capacity is set to expand significantly as capital flows into AI-ready infrastructure. The surge in AI workloads is also driving sustained growth for utilities, as power and water providers scale generation, transmission, and cooling capacity to support continuous compute demand and rapid data center development. In parallel, AI adoption across industries is fueling strong demand for business services such as systems integration, analytics, and implementation support. Companies are increasingly relying on external expertise to modernize operations and unlock new value through AI-enabled workflows. So much investment is now flowing into AI infrastructure, utilities, and technology buildout that it is temporarily diverting capital away from traditional M&A, though this is expected to reverse as AI ultimately drives a new wave of corporate transformation and deal activity.

Broad Investment in AI – Chip manufacturers such as TSMC, which plans to invest between \$52B and \$56B in 2026, and Intel, which is steadily ramping its multiyear buildout, are deploying massive amounts of capital to expand advanced semiconductor capacity for the AI era. At the same time, hyperscalers including Alphabet, Google, Meta, and Amazon are driving an unprecedented infrastructure surge, with combined 2026 spending reaching roughly \$650B to \$700B as they build next-generation AI systems. These systems require massive quantities of high-performance chips, increasingly large and sophisticated data center complexes, and the advanced networking equipment to operate and scale effectively. AI's rapid buildout is helping drive an uptick in AI-related M&A as buyers target infrastructure-aligned assets. This private-sector acceleration is reinforced by major public funding streams such as the IIJA, the CHIPS Act, and clean-energy and electrification measures rooted in BBB, all of which are strengthening the power systems, manufacturing base, and national infrastructure required to support AI's continued expansion.

AI Impact Timeline

- **Pre-AI Era (Before ~2020):** Middle market companies relied on manual processes and legacy systems, resulting in slow decisions and limited analytics maturity
- **Early Adoption AI Phase (2021 – 2023):** Companies began experimenting with augmentation tools and basic analytics, improving operational visibility and generating the foundational data needed for future AI enablement
- **AI Implementation Phase (2023 – 2025):** AI became embedded across key functions such as forecasting, pricing, and reporting, improving customer response, automating workflows, and beginning to result in margin expansion
- **AI Driven Value Creation (2025 – 2026):** AI is evolving into a core operating engine, enabling faster scaling with smaller teams, strengthening competitive advantages through automation, and materially improving margin profiles
- **Outlook → AI-First Middle Market Landscape (2026 and Beyond):** Companies are expected to integrate AI across nearly every major function, relying on real-time data and autonomous systems to run operations and widening the competitive gap with early adopters

Source(s): Deloitte, JLL, PwC, Harvard, CNBC, ConstructionBids.AI

How is AI Affecting the Middle Market M&A Landscape?

Buyers Looking to Find Unique Ways to "Play AI"

Market participants are increasingly classifying assets along an "AI-advantaged versus non-AI-advantaged" spectrum, a sorting mechanism that is materially affecting buyer engagement, perceived growth durability, valuation expectations, and overall deal competitiveness.

Sectors Poised to Benefit from AI Buildout

Near-Term

Medium- to Long-Term

-  Semiconductors & Electronic Hardware
-  Cooling / HVAC Equipment & Services
-  Raw Material Supply Chain
-  Utility Services & Equipment
-  Industrial Engineering & Construction

-  Healthcare & Life Sciences
-  Financial Services
-  Industrial Automation & Robotics
-  Transportation & Logistics
-  Education & Workforce Enablement

Early Enthusiasm Tempering as Investors Seek to Understand the Potential Downside Risk

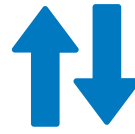
Outsized enthusiasm around the AI buildout is beginning to wane as investors enter 2026 with a more measured outlook and a growing focus on understanding potential downside risks in the market.



Advances in AI efficiency could reduce long-term infrastructure needs, raising the possibility that today's aggressive datacenter buildout could lead to oversupply



Investors are increasingly wary of locking up capital too early, as capital is being committed years before datacenters are delivered, extending exposure and amplifying project-timing risk



Rapid swings in public and private AI-related valuations are signaling that sentiment can reverse quickly, making the market more volatile than early enthusiasm suggested



Near-term revenue visibility remains limited, prompting investors to question how quickly AI-driven demand will translate into sustained revenue and margin enhancement able to justify current investment levels

Balancing AI and Data Center Ambition with Prudent Capital Allocation

Under-Exposure

Companies that under-invest risk missing AI-driven productivity gains, falling behind peers, and losing out on growth as markets increasingly reward AI-ready capabilities

Optimal Investment

The optimal position is investing enough to capture AI-driven upside while maintaining strong ROI, backed by real use cases and scalable infrastructure

Over-Exposure

Over-investing too early creates downside risk if technology evolves faster than expected, potentially leaving companies with underutilized assets and mismatched returns

Source(s): Accenture, DCByte, Finalis, Mayer Brown

BMO Deal Spotlight – Sale of HSC, a Leading Industrial Services Platform, to HKW



HSC

HSC is a leading provider of engineering, design, manufacturing, installation and related services for heavy duty material handling systems. The Company offers overhead cranes, hoist and conveyor solutions, as well as inspection and maintenance services

HKW

HKW is a private equity firm based in Indianapolis, Indiana with offices in New York and Dallas that focuses on investing in middle market companies across the United States and Canada with a focus on business services, manufacturing, and distribution sectors

TRANSACTION HIGHLIGHTS AND DYNAMICS

Continued Company Outperformance

HSC continuously outperformed expectations throughout the transaction, achieving both record earnings and backlog during buyer diligence, supporting a favorable negotiating position

Forward Looking Succession Planning

BMO worked with HSC management throughout the process to proactively address concerns around the CEO and CFO's desire to step away from the business post-sale

Detailed Negotiations Support

The management team's focus on cash at close necessitated early discussions around equity roll and earnout structure to achieve a successful transaction

Process Designed for Outcome Flexibility

BMO navigated a highly competitive, broad process that maximized tension and drew substantial interest from both financial and strategic buyers to drive optimal value for HSC

Fuel for Future Growth

HKW's investment marks the first institutional capital provided to HSC, providing a catalyst for future growth and business optimization

BMO'S TRANSACTION VALUE-ADD

Industry Expertise & Middle Market Execution Leadership

BMO applied its deep industrial services expertise and proven middle market M&A execution capabilities to anticipate buyer priorities and position HSC for an efficient, value-maximizing process

Strong Buyer Connectivity

BMO's proactive and ongoing dialogue with various financial sponsors and strategic counterparties resulted in strong buyer engagement and a highly competitive process

Analytical Support to the End

Financial modeling, valuation analysis, and financial diligence support enabled transparent buyer feedback and seller education of strategic alternatives







Thoughtful Positioning of the Opportunity

BMO marketed HSC as a premium, differentiated material handling platform with durable recurring revenue, leading technical capabilities, and actionable growth levers

Negotiation of Favorable Indebtedness Treatment

Successful negotiation of aggregate over / under billing status to be treated as net working capital – and not indebtedness – ensuring that maximum proceeds were paid to the owners

HSC Company Value Drivers

 Customer Relationships	 Mission Critical Services	 Scale & Project Based Sales	 Labor Dynamics	 POC Financial Accounting	 Underlying Demand
<ul style="list-style-type: none"> • Long-term relationships and embedded technicians with blue-chip customers resulting in sticky revenues • Project-based nature of business made healthy customer relationships strong highlights 	<ul style="list-style-type: none"> • Strong demand for break-fix services with significant downtime cost resulting in must-make purchases • Regulatory inspections and other required services provided recurring and reoccurring views of the business 	<ul style="list-style-type: none"> • Episodic material handling jobs incited variable top-line and backlog values over time • As existing customers grew, they returned to HSC • Some "embedded" employees fully dedicated to singular clients 	<ul style="list-style-type: none"> • Strong retention and promotion activity with zero union exposure • Concerns surround CEO succession, but mitigated through deep bench of remaining management • Largely specialized fabrication shop 	<ul style="list-style-type: none"> • Percentage of completion accounting on fixed-bid pricing for most jobs, enabling discretion over revenue timing and project profitability reporting • Over/Under billing adjustments to the balance sheet 	<ul style="list-style-type: none"> • Exceptional sector diversification across industrial manufacturing, A&D, engineering and construction, transportation, and municipal sectors • New construction exposure from material handling line of business

<p>OVATION HOLDINGS, INC. LEADING WITH SERVICE</p> <p>Portfolio Company of</p> <p>WARREN EQUITY PARTNERS</p> <p>Acquisition of</p> <p>PHOENIX PUMPS, INC.</p> <p>Exclusive Financial Advisor February 2026</p>	<p>HSC</p> <p>sale to</p> <p>hkw</p> <p>Exclusive Financial Advisor February 2026</p>	<p>The Willamette Valley Company a portfolio company of</p> <p>ENDEAVOUR</p> <p>sale to</p> <p>ARCLIN</p> <p>a portfolio company of</p> <p>TJC</p> <p>Exclusive Financial Advisor February 2026</p>	<p>ASI Group</p> <p>sale to</p> <p>WITHROW PARK GROWTH</p> <p>Exclusive Financial Advisor December 2025</p>	<p>PRIME ELECTRIC</p> <p>a portfolio company of</p> <p>WESTVIEW CAPITAL PARTNERS</p> <p>acquisition of</p> <p>TRUOLINK CAPITAL</p> <p>Financial Advisor December 2025</p>	<p>KEY POLYMER</p> <p>a portfolio company of</p> <p>DALFORT CAPITAL</p> <p>sale to</p> <p>SEATEX</p> <p>a portfolio company of</p> <p>Riverside</p> <p>Exclusive Financial Advisor December 2025</p>
<p>melett a subsidiary of</p> <p>Wabtec CORPORATION</p> <p>sale to</p> <p>BMTS</p> <p>a portfolio company of</p> <p>FountainVest</p> <p>Exclusive Financial Advisor December 2025</p>	<p>STE MICHELLE WINE SECTORS</p> <p>a portfolio company of</p> <p>SYCAMORE PARTNERS</p> <p>sale to</p> <p>COVENTRY VALE</p> <p>Exclusive Financial Advisor December 2025</p>	<p>EST. 1876</p> <p>SIMI</p> <p>a brand of</p> <p>THE WINE GROUP</p> <p>has been acquired by</p> <p>WARROOM CELLARS</p> <p>Exclusive Financial Advisor November 2025</p>	<p>WARBURG PINCUS</p> <p>acquisition of</p> <p>FlavorSum</p> <p>Exclusive Financial Advisor August 2025</p>	<p>COLUMBIA BASIN RAILROAD</p> <p>sale to</p> <p>JAGUAR TRANSPORT</p> <p>a portfolio company of</p> <p>OPTrust</p> <p>Exclusive Financial Advisor August 2025</p>	<p>CUMMINGS</p> <p>a portfolio company of</p> <p>TABERNAACLE EQUITY</p> <p>sale to</p> <p>IDENTITI</p> <p>a portfolio company of</p> <p>KEYSTONE CAPITAL</p> <p>Exclusive Financial Advisor August 2025</p>
<p>GONNELLA Since 1886</p> <p>acquisition of</p> <p>Lineage* (Select Asset)</p> <p>Exclusive Financial Advisor August 2025</p>	<p>BlueBin</p> <p>sale to</p> <p>CAPSA HEALTHCARE</p> <p>a portfolio company of</p> <p>LEVINE LEICHTMAN CAPITAL PARTNERS</p> <p>Exclusive Financial Advisor July 2025</p>	<p>Sweepool</p> <p>an affiliate of</p> <p>DALFORT CAPITAL</p> <p>sale to</p> <p>LUBRICATION ENGINEERS</p> <p>a portfolio company of</p> <p>AURORA CAPITAL PARTNERS</p> <p>Exclusive Financial Advisor June 2025</p>	<p>ELOUAN</p> <p>a brand of</p> <p>COPPER CANE WINES & PROVISIONS</p> <p>sale to</p> <p>STOLLER WINE GROUP</p> <p>Exclusive Financial Advisor June 2025</p>	<p>CleanScapes LANDSCAPING</p> <p>sale to</p> <p>Blue Sage Capital</p> <p>Exclusive Financial Advisor June 2025</p>	<p>DORAL</p> <p>minority recapitalization by</p> <p>MAINST CAPITAL CORPORATION</p> <p>Exclusive Financial Advisor May 2025</p>
<p>SHARE A SPLASH WINE CO.</p> <p>sale to</p> <p>GALLO</p> <p>Exclusive Financial Advisor April 2025</p>	<p>InnoPak</p> <p>a portfolio company of</p> <p>EMERALD LAKE CAPITAL MANAGEMENT / SOLAMERE CAPITAL</p> <p>has been acquired by</p> <p>Handguards*</p> <p>a portfolio company of</p> <p>WYNNCHURCH CAPITAL</p> <p>Exclusive Financial Advisor February 2025</p>	<p>tavoron</p> <p>a portfolio company of</p> <p>highroad CAPITAL PARTNERS</p> <p>sale to</p> <p>FUSION CAPITAL PARTNERS</p> <p>Exclusive Financial Advisor January 2025</p>	<p>KANO LABORATORIES</p> <p>a portfolio company of</p> <p>GRYPHON INVESTORS</p> <p>has been acquired by</p> <p>L CAPITAL PARTNERS</p> <p>Financial Advisor December 2024</p>	<p>OUTLOOK GROUP PACKAGING & PRINTING SOLUTIONS</p> <p>a subsidiary of</p> <p>M&Q</p> <p>a portfolio company of</p> <p>HEARTWOOD PLANTERS</p> <p>has been acquired by</p> <p>Aterian</p> <p>Exclusive Financial Advisor November 2024</p>	<p>GALLO (Sonoma Vineyards)</p> <p>sale to</p> <p>Manulife Investment Management</p> <p>Exclusive Financial Advisor October 2024</p>

Let's connect

Whether you're expanding through acquisition or ready to transition ownership of the business, our middle-market M&A experts are ready to help you take your company to the next phase.



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