

Transaction Trends

Transaction Trends provides private equity sponsors and investors with middle-market transaction information and insights compiled by the BMO Sponsor Finance group—information that helps sponsors and investors better understand the current financing climate in the middle market.

Market conditions improve, though challenges remain

In reading the headlines over the course of the first half of 2026, cautious optimism at the start of the year appeared to quickly shift to yet another cloud of uncertainty given the developments in the conflict in the Middle East. At first glance, the sentiment on M&A activity appeared unchanged—shorter deal pipelines, continued gaps in valuation expectations between sellers and buyers, and subdued levels of closed transactions. However, by taking a closer look across the BMO Sponsor Finance team and with our Middle Market M&A colleagues, deal activity has been steadily building over the last several months, which should help generate continued momentum during the remainder of 2026 and into 2027.

We talked with **Cameron Hewes, Head of BMO's Middle Market M&A group**, which has a team of 80 investment bankers across the Industrials, Technology & Business Services, Food, Consumer & Retail, Healthcare and Real Estate industries.

How does your pipeline and mandate activity compare to prior years?

- Active mandates reached an all-time high in June 2026, up roughly 25% from a year ago. Our closed mandate volume is up roughly 50% from all last year.
- While overall activity remains elevated, the market continues to reward high-quality assets and avoid processes with valuation gaps or company-specific execution concerns. Transaction timelines remain elevated relative to historical norms.
- Sponsor-backed clients now represent approximately one-third of active mandates, compared to approximately 20% a year ago. This reflects growing pressure on private equity firms to generate realizations after an extended period of below-trend exit activity and longer-than-historical hold periods.

What are you seeing from a pitch activity standpoint?

- We are increasingly seeing sellers position themselves 6 to 12 months ahead of a formal launch process. That level of preparation is typically a leading indicator of future transaction activity and suggests confidence in a more active market backdrop heading into 2027.
- Sponsor-owned opportunities continue to represent an increasing share of the pipeline. Sponsor-backed opportunities accounted for approximately 50% of new mandate opportunities during year-to-date 2026, which has grown from roughly 30–35% during 2025 and 2024.
- The increase in sponsor activity reflects a combination of aging portfolio companies, pressure to return capital to limited partners, and improving confidence that financing conditions can support execution at acceptable valuation levels.
- While total opportunity volume has grown modestly, the quality of conversations has improved meaningfully. More sellers appear willing to actively evaluate a transaction rather than simply monitor market conditions.

Market conditions improve, though challenges remain

What are buyers and sellers telling you about the market and the outlook for the back half of the year?

Buyers

- Buyers are consistently reporting an increase in deal flow in year-to-date 2026 relative to the prior 12 to 18 months.
- Financial sponsors remain disciplined but are actively pursuing quality opportunities that demonstrate durable earnings, defensible competitive positioning, and clear avenues for value creation.
- Financing markets have largely normalized, shifting buyer focus away from capital availability and toward underwriting external risks.
- Buyers are spending more time on tariff exposure, supply chain resilience, customer purchasing behavior, labor availability, and the ability of companies to offset rising input costs via pricing actions and surcharges. Due diligence intensity continues to increase across all buyer types.

Sellers

- Sellers remain optimistic regarding transaction activity despite continued scrutiny around valuations and growth assumptions.
- Seller sentiment has improved relative to the uncertainty experienced over the last several years, but activity remains uneven across ownership groups. The most notable increase in activity comes from sponsor-backed sellers, as private equity firms continue to seek liquidity and return capital following an extended period of muted exit activity.

Outlook

- The prevailing message from both buyers and sellers is that activity should continue to improve during the second half of 2026.
- The discussion has shifted from “Is this the right market?” to “How do we position the business to execute successfully?” We view market sentiment as generally a healthy sign for future transaction activity.
- Assuming a stable macro environment, we expect both launch activity and completed transaction volume to increase through year-end 2026 and into 2027.

Are there any sectors where activity or interest has picked up and vice versa?

Industrials

- Industrials remains one of the most resilient sectors and opportunity volume remains strong, with year-to-date opportunities already reaching approximately 80% of the prior year.

Food, Consumer & Retail

- Consumer-oriented sectors have generally faced a more challenging backdrop due to inflation volatility, changing consumer spending patterns, and heightened buyer diligence.
- That said, new opportunity generation has improved materially in terms of quantity and quality, suggesting owners increasingly believe conditions are becoming more favorable.

Technology & Business Services

- Technology and tech-enabled services activity moderated after the strong environment experienced in 2024 as valuation expectations reset across portions of the software ecosystem.
- Buyers remain interested in the services side of the sector and are prioritizing profitability, retention, recurring revenue quality, and customer diversification. Not surprisingly, defensibility and resilience to AI have become a priority diligence area as buyers evaluate the sustainability of business models over the next investment period.
- Within Sponsor Finance, sub-sectors with the highest levels of activity include IT services, accounting services, wealth management and education and professional training.
- Sponsor Finance also continues to see strong activity across commercial services, including utility & infrastructure and environmental services. Sponsor interest in architecture, engineering & consulting, electrical, and wastewater services has remained high given the demand tailwinds from continued investment in aging infrastructure and data center buildouts.

Healthcare

- Healthcare activity has strengthened recently as investors continue to gravitate toward sectors offering defensive growth characteristics and favorable long-term demand drivers.
- We continue to see strong interest across healthcare services, outsourced services, and niche platform opportunities that offer opportunities for consolidation and operational improvement.

We're the experts

Community Capital Solutions—a strategic capital partner for community growth

The Community Capital Solutions investment team was established in 2007 and has been led by **Carl Jenkins** since its inception.

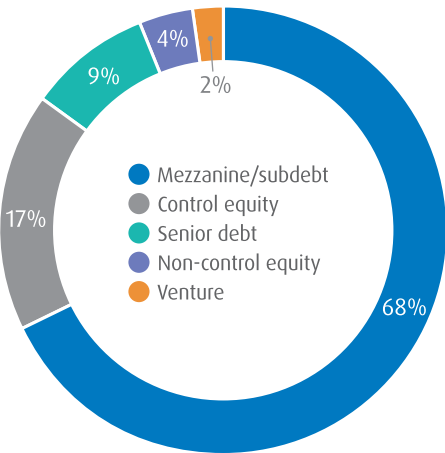
The group manages investments that support BMO's objectives under the Community Reinvestment Act. As a provider of capital and financial expertise across BMO's banking markets, the team plays an important role in advancing community development initiatives and supporting small business growth.

The Community Capital Solutions portfolio spans several asset classes including Low Income Housing Tax Credit Funds, Conventional Real Estate Equity Funds, Direct Conventional Real Estate Equity,

Community Development Financial Institutions and Private Equity and Credit Funds (SBICs)—the area most relevant to the Sponsor Finance market. Sponsor Finance and BMO seek opportunities to provide capital alongside these funds whenever possible.

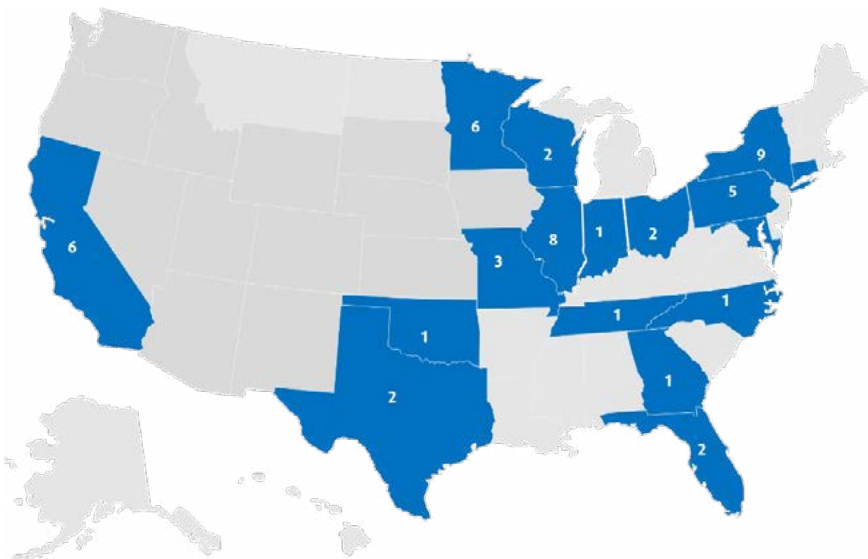
As of April 2026, Community Capital Solutions portfolio totaled approximately \$2.5 billion. BMO's exposure to private equity and credit funds investing within the SBIC program is just over \$700mm and is diversified across 121 fund investments. Individual commitments range from \$1-25mm with an average commitment size of \$6.2mm.

Private equity exposure allocation by strategy as of 12/31/25



Source: BMO Proprietary Data

Investment Manager locations



Deal spotlight

BMO brings broad capabilities to offer seamless, coordinated execution for Nügredient.

The founders of Nügredient turned to BMO to help them navigate a complex, multi-faceted set of transactions that culminated in a successful partnership with Guardian Capital Partners. This transaction highlights the breadth of expertise BMO can bring to middle-market businesses seeking strategic growth and ownership transition solutions.

Why BMO?

- **Founder-to-sponsor continuity.** BMO supported both the founders and the incoming sponsor, providing continuity through a complex ownership transition and positioning the company for its next phase of growth.
- **Confidence in BMO execution.** Years of engagement with the company and the management team provided Guardian with the confidence that BMO had a deep understanding of business and industry dynamics and could deliver an efficient underwriting and execution—helping to de-risk the transaction and provide certainty throughout the process.
- **Breadth of capabilities.** BMO delivered lending, capital markets advisory, treasury management and wealth management to inform strategy and give the Company confidence as management explored strategic alternatives.
- **Deep industry expertise.** BMO's Food & Consumer expertise across both its commercial and investment banking teams allowed Nügredient to work with a single financial institution that could provide informed advice and execution across the full BMO platform.
- **Lifecycle coverage.** BMO supported Nügredient through multiple stages of growth, culminating in its successful transition from founder to private equity ownership.

Confidence for clients, certainty for sponsors

Through industry expertise and a fully integrated financial services platform, BMO helps business owners evaluate strategic opportunities with confidence while giving sponsors the certainty of closing that comes from a lending partner that understands the transaction, the company and the industry and moves with conviction.

About Nügredient

Nügredient is a leading supplier of value-added nut-based and plant-based ingredient solutions to food manufacturers, distributors, retailers and foodservice operators.

The company specializes in customized ingredient processing and formulation, serving customers across a wide range of end markets.



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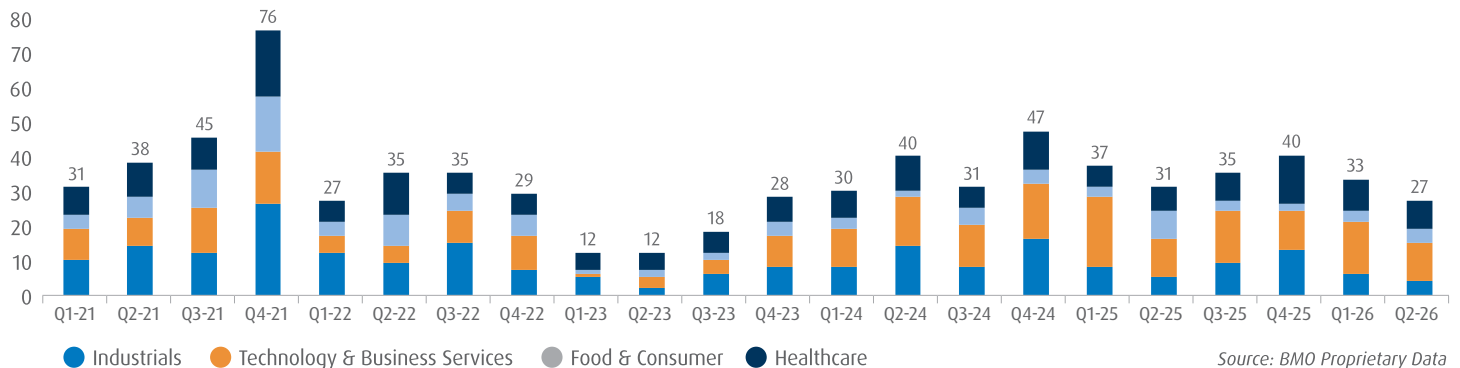
A peek behind the curtain

A snapshot of BMO's proprietary portfolio and transaction data.

Quarterly transaction activity — all transactions

- Overall transaction activity remained strong through the first half of 2026, with new LBO platform formation reaching its highest level in several years. The increase in new LBO activity could be further evidence that the long-anticipated recovery in M&A markets is beginning to gain traction, though similar signals have emerged before. Record-high M&A pipelines within BMO Capital Markets could also point to a more sustainable transaction environment than we have seen in several years and may suggest continued momentum through the second half of 2026.
- Healthcare and Technology & Business Services remained among the most active sectors for new investment activity. The concentration of sponsor interest in these sectors reflects demand for businesses with recurring revenue, sector tailwinds and significant runway for value creation. As a result, these companies command premium valuations and attract intense competition from both sponsors and lenders.

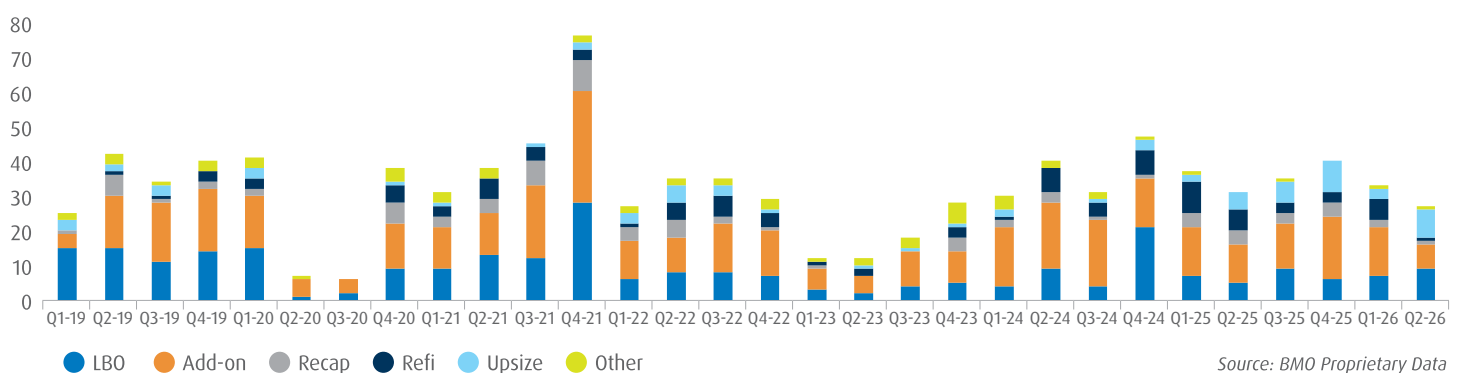
Deal Volume by Team—All Transactions



Upsize transactions remained a significant contributor to overall activity during the period, highlighting sponsor conviction in existing portfolio companies. Amid fierce competition for larger platform investments, Sponsors are finding opportunities in lower-middle-market add-ons, benefiting from synergy value and multiple arbitrage.

Competition for premium assets remains intense. High-quality businesses are attracting broad sponsor and lender participation, premium valuations and aggressive deal terms. Companies with less differentiated business models or weaker performance are generating limited financing interest, greater value dispersion and/or postponed sale processes.

Deal Volume by Transaction Type

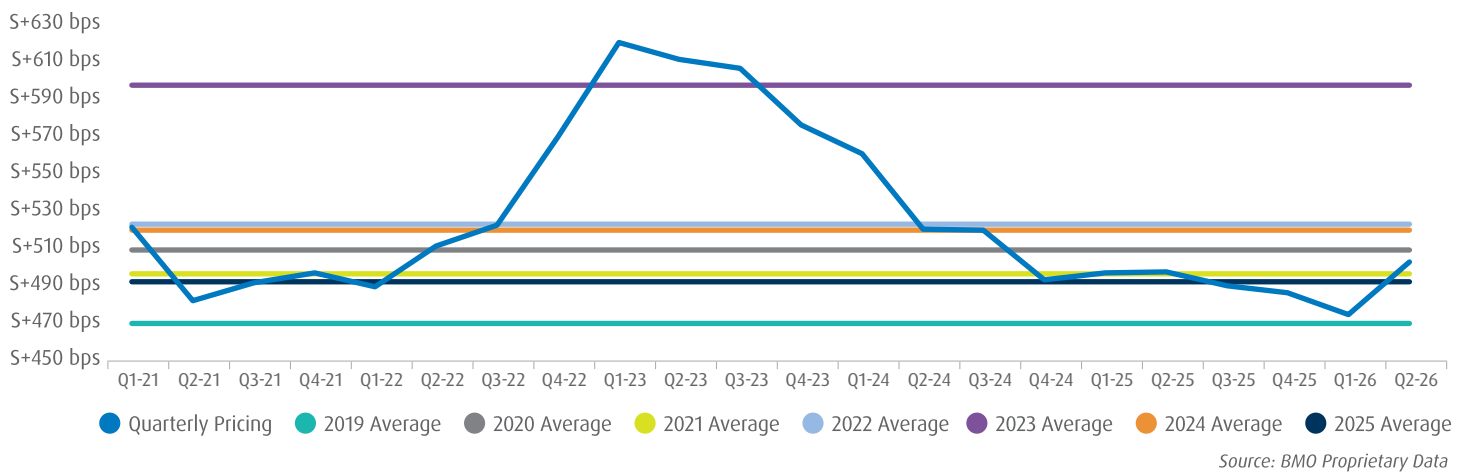


A peek behind the curtain, continued

Pricing trends—all transactions

- Pricing remained competitive through the first half of 2026 but stabilized near long-term historical averages following a period of spread compression. Average spreads increased 25bps–50bps from recent lows, suggesting lenders may be regaining some pricing discipline as market conditions normalize.
- Spread compression has reversed despite brisk lender competition. Capital remains abundant, but lenders have become increasingly reluctant to concede additional economics and terms in the face of increasing transaction activity as some lenders contend with broader industry concerns related to retail redemptions and software deals.

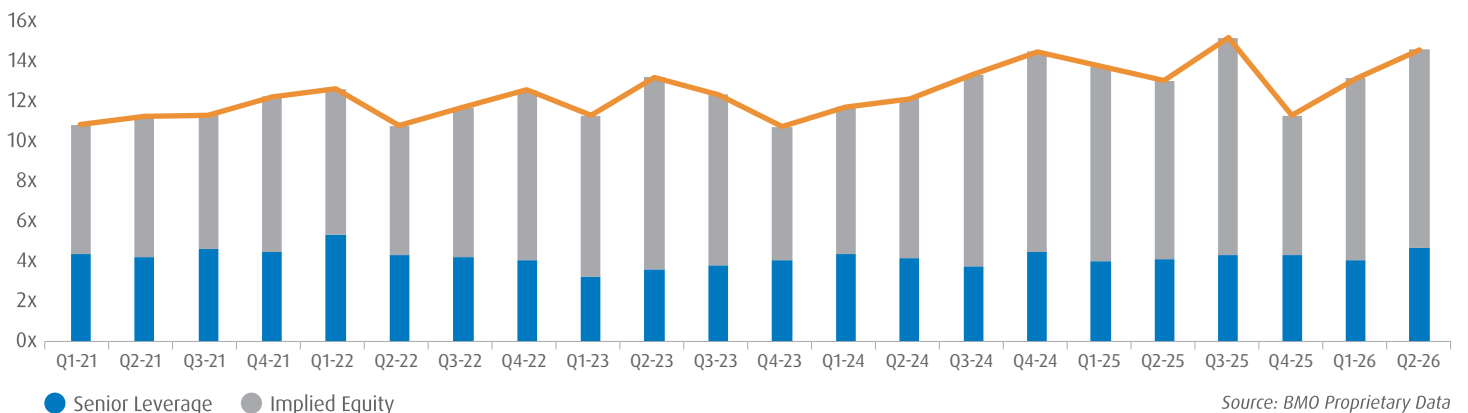
Quarterly Pricing and Yearly Averages



Leverage trends

- Despite continued expansion in purchase price multiples, leverage levels on new platform investments have remained disciplined and largely consistent with historical norms. Sponsors have generally supported higher valuations with additional equity rather than increased debt levels.
- Purchase price multiple trends reflect aggressive competition for the highest-quality assets and sponsor conviction in the potential for these investments. The expansion in PPMs may also reflect greater transaction activity within Healthcare and Technology & Business Services sectors that have historically commanded premium valuations.

Leverage Trends



BMO Sponsor Finance

Consistency, speed and surety of close are crucial when it comes to serving the needs of middle-market private equity firms. Whether it's providing capital for mergers and acquisitions, leveraged buyouts, recapitalizations or growth capital, BMO Sponsor Finance group works with you from initial review to ongoing portfolio management for reliable execution and follow-through with no handoffs.

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