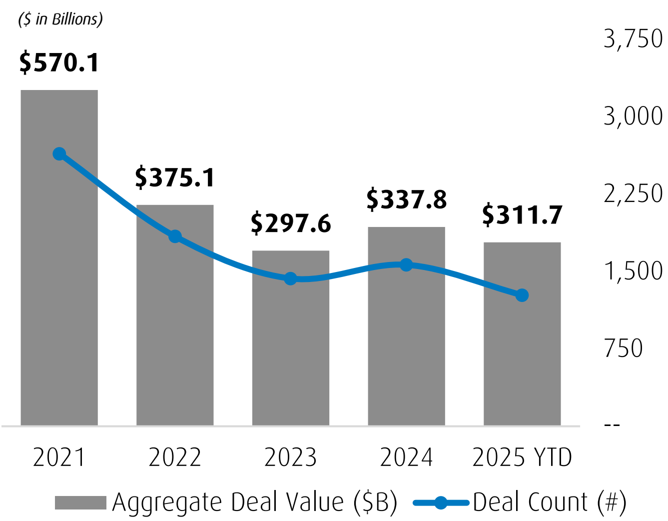
BMO Middle Market M&A update

North American Middle Market Deal Activity Remains Subdued

North American M&A activity in 2025 reflected a market in transition. As of the end of November, year-to-date ("YTD") deal value reached ~$311B, which is slightly below ~$338B in 2024 and still well below the ~$570B peak in 2021. While deal values held steady, deal count continued to decline, falling ~7.1% over the past year. Longer-term trends reinforce this cautious tone, with deal value posting a -11.6% compound annual growth rate ("CAGR") and deal count slipping at a -13.8% CAGR over the 2021 to 2025 YTD period.

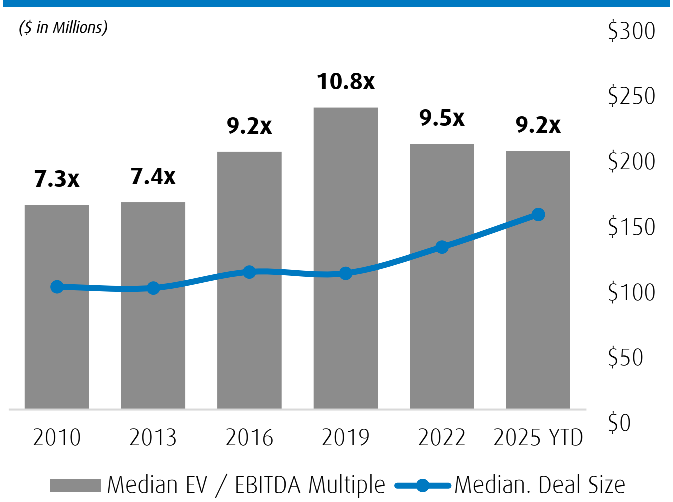
Macroeconomic conditions remain a key headwind for M&A. Elevated interest rates and tighter credit markets have increased financing costs, limiting leverage and valuations whilst slowing deal execution. Persistent inflation and uneven growth have added uncertainty, prompting sponsors to be more selective in deploying capital. At the same time, record levels of dry powder and pressure to scale are sustaining activity, particularly in sectors with defensive fundamentals or consolidation opportunities.

Aggregate Deal Value & Closed Deal Count



Competitive Buyer Dynamics Help Sustain Seller Friendly Multiples

Median EV / EBITDA Multiples & Median Transaction EVs



Multiples trended slightly better in 2025 YTD, relative to long term averages, valuations remain attractive for sellers. The 2025 YTD median EV / EBITDA multiple is 9.2x which remains in line with historical averages. Median deal size climbed to ~$160MM in 2025 YTD, up from ~$128MM in 2024. As supply chains adapted to tariffs (see following pages), sellers successfully received credit for related, credible one-time EBITDA adjustments.

Premium assets and attractive subsectors consistently achieve multiples above 10x, but buyers remain selective. Weak financial performance in the midst of a process and/or issues uncovered in diligence often results in a valuation penalty prior to close. As a result, sellers need to be increasingly focused on pre-process readiness to mitigate surprises and preserve premium pricing.

Source: Pitchbook – M&A Transactions with Enterprise Values Between $20MM–$1,000MM; YTD 2025 as of 11/30/25; Pitchbook Annual M&A Reports

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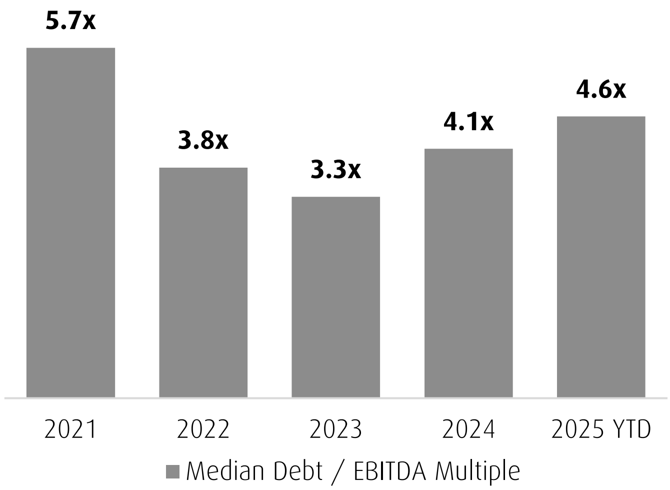
Leverage Ratios are Unchanged Ahead of Potential Interest Rate Changes

Leverage ratios have settled into a more conservative range. Median Debt / EBITDA multiples held at 4.6x in 2025 YTD, marginally higher than 2024 but well below the 5.7x peak in 2021. Lower median Debt / EBITDA multiples are indicative of tighter credit markets and stricter lending standards which push acquirors toward more cautious, defense-oriented capital structures.

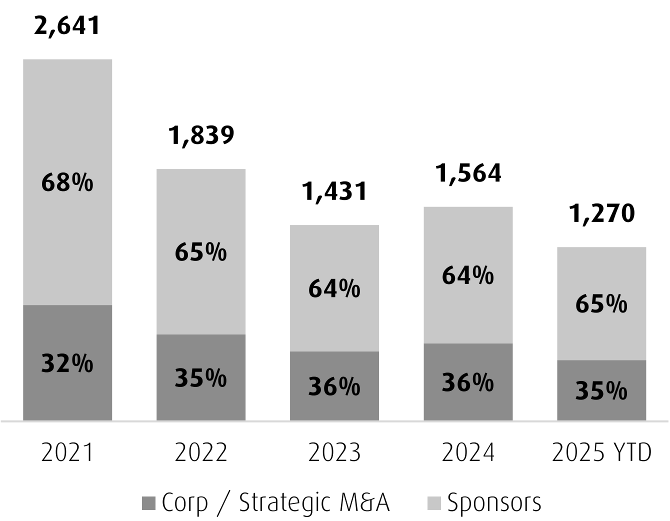
Conservative leverage persists as the market adjusts to higher borrowing costs and tighter credit standards. With less debt used to finance deals, acquirors are leaning more on equity, reducing risk in uncertain conditions. The Federal Reserve announced a rate cut in 2025 on December 10th, 2025. If this trend continues in 2026, leverage may gradually increase, but lenders are expected to maintain disciplined structures, prioritizing businesses with strong cash flow and resilient fundamentals.

Medan Debt / EBITDA Multiples



Private Equity Activity Still Leads Strategics

Transactions by Buyer Type



Sponsors continue to dominate North American M&A, accounting for ~65% of deals in 2025 YTD, while corporate and strategic buyers represented ~35%. This mix remained stable over the past three years, following a peak sponsor share of ~68% in 2021. Although overall volumes declined since 2021, sponsor engagement remains strong despite tighter financing conditions. Corporate buyers are active but selective, focusing on high-fit acquisitions rather than broad programs.

For sellers, this means processes remain competitive with strong sponsor demand, but buyers are increasingly disciplined on quality, structure, and certainty of close.

Source: Pitchbook – M&A Transactions with Enterprise Values Between $20MM–$1,000MM; YTD 2025 as of 11/30/25; Pitchbook Annual M&A Reports

Quarterly M&A Spotlight: Tariffs 2.0

Tariffs 1.0 – Beginning with the Trump Administration's proposals in February 2025 and culminating in Liberation Day that April, tariff uncertainty rippled through the economy and the M&A market. Buyers and lenders struggled to underwrite normalized EBITDA as headlines shifted daily and exposure remained unclear.

After early volatility, the administration negotiated rate reductions and declared "truces" with key trading partners. Markets rebounded, confidence returned, and buyers and sellers adapted to risk. Pent-up demand unleashed a surge in M&A activity by early summer 2025.

Tariffs 2.0 – A new wave of tariffs hit in August as the administration's "pause" expired and its 90-day truce with China ended. Sector- and country-specific duties targeted India, Brazil, and China, alongside product-level tariffs.

M&A momentum has held through Q3, and in December, further tariffs were frozen for a year with existing rates capped – providing clarity for capital providers. Ultimately, financial sponsors' need to deploy capital and strategics' push for inorganic growth, combined with a backlog of sellers, is sustaining a resilient, active M&A market.

Despite headline risk and economic headwinds, the M&A market remains constructive for sellers

Summary Timeline of 2025 Tariff Impacts

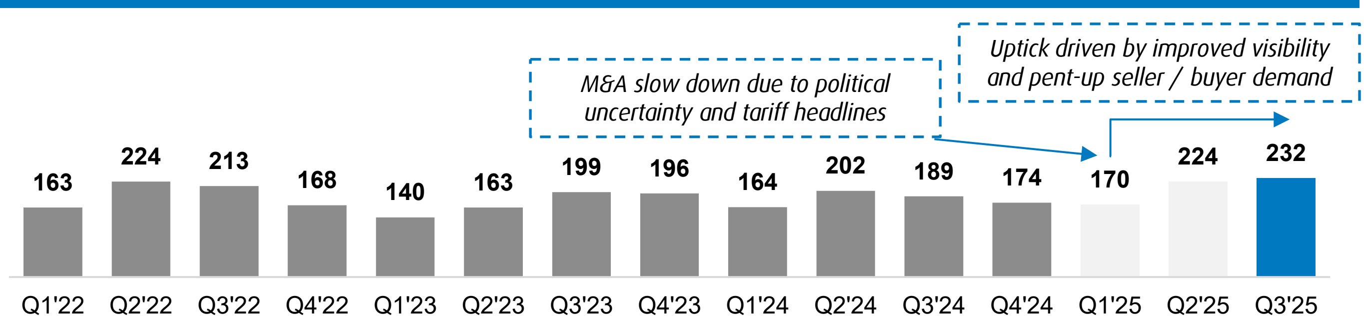
Tariffs 1.0: Trade Turbulence Begins, Pauses with Truce

- **Feb'25 U.S. Announces Initial Tariffs:** 25% tariffs on goods from Canada and Mexico, 10% on Chinese imports; China's de minimis exemption revoked
- **Mar'25 Canada and Mexico Respond:** Canada imposes 25% tariffs on US$30B of U.S. exports; Mexico tightens scrutiny on non-USMCA goods
- **Mar–Apr'25 China Tariffs Escalated:** U.S. increases China tariffs, with certain categories reaching up to 125%
- **Apr'25 "Liberation Day":** By executive order Trump imposes a 10% baseline tariff across most countries and a wide range of goods. Shortly after this, a second phase introduces country-specific reciprocal tariffs, ranging from 11% to 50%, targeting nations with significant trade imbalances
- **Apr'25 90-Day Pause on Reciprocal Tariffs:** U.S. suspends mutual tariffs for 90 days, keeping baseline at 10% for most countries; China stays at 125%
- **Apr-Jun'25 Sector Specific Tariffs:** Broad 25% duties applied to auto parts from Canada, Mexico, Europe and Asia. Additionally, section 232 tariffs were hiked to 50% globally, broadly impacting metals trade
- **May'25 U.S.–China 90-Day Truce:** Both sides agree to rollback reciprocal tariffs: U.S. from ~145% to ~30%, China to ~10%, until August 11

Tariffs 2.0: Headlines Resume, U.S. Ramps Up Global Duties

- **Jul–Aug'25 Global Pause Expires, New Escalations:** New tariffs announced for Brazil at 40%, India 25%; copper imports face 50%
- **Aug '25 Truce Extended:** Trump signs order extending U.S. – China tariff truce by 90 days through November 10; U.S. holds 30%, China 10%
- **Sep–Oct'25 New Sectors Targeted:** U.S. applies 25% tariffs on timber, lumber and heavy vehicles among others
- **Nov'25 Trade & Economic Deal Reached with China:** U.S. halves certain tariffs to 10%, freezes reciprocal increases until late 2026

Signals of Market Momentum – Sell-Side NDA Activity



Source: Ontra proprietary data. Sell-side data based on NDA volume from five U.S. based middle market investment banks for sell-side mandates.

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The Possible Roads Ahead: Navigating Tariffs in M&A in 2026

While the impact on the broader economy continues to unfold, dealmakers have adjusted to tariff uncertainty and headline risk.

Buyers are prioritizing resilient supply chains and margin stability, and services businesses that dodge tariff risk entirely are sought after. For non-services businesses, U.S. or USMCA-compliant sourcing reduces risk and supports valuation. Tariff-exposed supply chains are burdened with tighter margins, and demand for North American manufacturing and Mexico-based nearshoring should continue through 2026. For affected businesses, earnouts and tariff-related adjustments will remain common.

Potential Tariff Themes in 2026

Tariffs Continue as "Permanent" Policy: U.S. treats tariffs as structural, not tactical – raising costs and driving dual-sourcing and tighter working capital.

Focus Narrows on China: Tariffs remain high to shift trade toward Mexico and Southeast Asia; many firms will uncover deeper China exposure, increasing costs and lead times.

Focus Expands, Exposure Broadens: More countries and more sectors move into higher tariff bands per the original 2025 "Liberation Day" framework, which ties tariffs to trade deficits.

North American Trade Swings within Targeted Verticals: Most goods with Canada and Mexico stay duty-free, but select industries face unpredictable, heavy tariffs.

Evolving U.S. Trade Dynamics and the Impact on Global Supply Chains

The U.S. global trade relationship dominated news cycles in 2025, re-shaping supply chains and impacting deal flow. The administration frames its tariff strategy as a push for economic sovereignty – revitalizing U.S. manufacturing, reducing foreign reliance, and driving investment.

So far, results are mixed: tariffs have spurred investment and nearshoring but also raised costs, lengthened supply chains, and lifted prices.

+150%
Increase in U.S. tariff revenue in 2025[(1)]

+379%
Rise in the average effective tariff rate in 2025[(2)]

$4,900
Estimated cost per U.S. household related to tariff rises[(3)]

9 months
Consecutive months of U.S. manufacturing contracting[(4)]

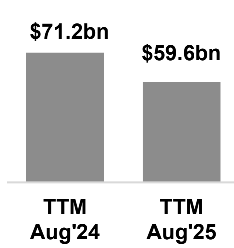
The Two-Sided Impact of U.S. Tariffs that is Observed

- ✓ **Domestic Investment and Reshoring:** $1.2tn of production capacity investment announced in 2025
- ✓ **Revenue Generation for the Federal Government:** $195bn in U.S. tariff collections in 2025; +150% YoY
- χ **Volatility and uncertainty:** Big swings in cost expectations has business uncertainty at peak levels
- χ **Input cost shock:** Steel / aluminum tariffs rising to 50% and auto / auto parts set at 25% has increased costs
- χ **Supply chain disruption:** 60% of small businesses reported being actively affected by supply disruptions

Reduced and Re-allocated U.S. Trade Balance[(5)]

Data shows tariffs have helped narrow the U.S. trade deficit and shift trade toward near-shore partners like Mexico

U.S. Trade Deficit



Trading Deficit with Key Partners

Partner	TTM Aug'24	TTM Aug'25	Δ%
China	$283.0bn	$257.4bn	(9.0%)
Mexico	$160.3bn	$190.9bn	19.1%
Canada	$64.0bn	$58.1bn	(9.2%)

1. Committee for Responsible Budget
2. Penn Wharton Budget Model
3. Yale Research
4. Institute for Supply Management
5. U.S. Joint Economic Senate Committee & U.S Census Bureau

BMO Deal Spotlight – ESOP Exit to Private Equity for Leading Landscaping Platform

Clean Scapes Landscaping

Sale to

Blue Sage Capital

BMO

Exclusive Financial Advisor
June 2025

Clean Scapes

Clean Scapes is a full-service commercial landscaping company based in Texas that specializes in providing high-quality landscaping services, including construction, maintenance and irrigation for both softscape and hardscape projects

Blue Sage Capital

Blue Sage is an Austin, Texas based private equity firm with over $1.0 billion of capital raised across four funds and focuses on growth, recapitalization, and buyouts

Company Value Drivers, BMO Positioning, & Takeaways

	Revenue Mix	Labor Dynamics	Proven M&A Platform	Scale & Margins
Clean Scapes	No notable customer concentration with balanced mix of install vs. maintenance activity	Excellent c-suite team with bullet proof hiring practices (E-Verify 10 years ahead of exit)	No M&A experience ahead of sale providing room for improvement for new ownership	Strong scale in heavily fragmented sector with margin upside
Positioning Implication	Highlighted diversification and tailwinds within key categories; similar diligence points, such as diversified customer bases and consistent demand, are common across many sectors	Provided pre-IOI access to CEO for key buyers, showcased hiring practices; Leadership and hiring practices are critical diligence considerations for any M&A process	Prioritized internal initiatives and presented M&A as an untapped opportunity; it is common for closely held businesses to have limited M&A experience	Extrapolated continued margin opportunity via financial model; Higher margins typically command stronger valuation multiples and clear improvement potential can help unlock added value

Unique Transaction Dynamics

ESOP Dynamics - Existing ESOP structure included warrants and stock appreciation rights, creating multiple sources for management rollover

A Third-party ESOP trustee and fairness opinion were required to approve the transaction, which necessitated additional negotiation of terms

Private Equity Focus – This process excluded strategics as well as any sponsors who already owned a commercial landscaping platform asset, with almost all buyers being sector greenfield sponsors who had expressed an interest in the commercial services space

Early Looks – The process provided highly qualified and interested buyers early exposure to management, as cultural fit was of paramount interest to the CEO

Is an ESOP No Longer the Right Structure for You?

Need for Additional Capital - 100% S Corp ESOPs can only have one form of stock, limiting equity sources of capital desired to meet growth and strategic objectives

Adverse Business Conditions – If a company has become unprofitable and declining values of the company's stock make it an imprudent investment

Disjointed Cultural Fit - While employee ownership can result in improved profitability, employee base buy-in to a culture of ownership isn't always successful

Burgeoning Repurchase Obligation - The cost of repurchase obligation exceeds tax savings offered by the ESOP or exceeds cash inflow for an extended period

Receipt of an Unsolicited Offer - In certain industries, there a wealth of investors that may pay a premium that enables a comprehensive solution to some of the challenges an ESOP structure may be presenting

STE MICHELLE WINE ESTATES
a portfolio company of
SYCAMORE PARTNERS
sale to
COVENTRY VALE
Exclusive Financial Advisor
December 2025

EST. 1876 SIMI
a brand of
THE WINE GROUP
has been acquired by
WARROOM CELLARS
Exclusive Financial Advisor
November 2025

WARBURG PINCUS
has been acquired by
FlavorSum
a portfolio company of
Riverside
Exclusive Financial Advisor
August 2025

COLUMBIA BASIN RAILROAD
CW
sale to
JAGUAR TRANSPORT
a portfolio company of
OPTrust
Exclusive Financial Advisor
August 2025

CUMMINGS
a portfolio company of
TABERNACLE EQUITY
sale to
IDENTITI
a portfolio company of
KEYSTONE CAPITAL
Exclusive Financial Advisor
August 2025

GONNELLA Since 1886
acquisition of
Lineage
(Select Asset)
Exclusive Financial Advisor
August 2025

BlueBin
sale to
CAPSA HEALTHCARE
a portfolio company of
LEVINE LEICHTMAN CAPITAL PARTNERS
Exclusive Financial Advisor
July 2025

swepco
an affiliate of
DALFORT CAPITAL
sale to
Lubrication Engineers
a portfolio company of
AURORA CAPITAL PARTNERS
Exclusive Financial Advisor
June 2025

ELOUAN
a brand of
COPPER CANE WINES & PROVISIONS
sale to
STOLLER WINE GROUP
Exclusive Financial Advisor
June 2025

Clean Scapes LANDSCAPING
sale to
Blue Sage Capital
Exclusive Financial Advisor
June 2025

DORAL
minority recapitalization by
MAIN ST CAPITAL CORPORATION
Exclusive Financial Advisor
May 2025

SHARE A SPLASH wine co.
sale to
GALLO
Exclusive Financial Advisor
April 2025

InnoPak
a portfolio company of
EMERALD LAKE CAPITAL MANAGEMENT / SOLAMERE CAPITAL
has been acquired by
Handgards
a portfolio company of
WYNNCHURCH CAPITAL
Financial Advisor
February 2025

tavoron
a portfolio company of
highroad CAPITAL PARTNERS
sale to
FUSION CAPITAL PARTNERS
Exclusive Financial Advisor
January 2025

KANO LABORATORIES
a portfolio company of
GRYPHON INVESTORS
has been acquired by
L2 CAPITAL PARTNERS
Financial Advisor
December 2024

outlook group PACKAGING & PRINTING SOLUTIONS
a subsidiary of
M&Q HOLDINGS
a portfolio company of
HEARTWOOD PARTNERS
has been acquired by
Aterian INVESTMENT PARTNERS
Exclusive Financial Advisor
November 2024

GALLO
(Sonoma Vineyards)
sale to
Manulife Investment Management
Exclusive Financial Advisor
October 2024

VWE VINTAGE WINE ESTATES
(Various Assets)
sale to
Various Buyers
Exclusive Financial Advisor
October 2024

GRYPHON INVESTORS
acquisition of
RAPIDAIR COMPRESSED AIR PRODUCTS
Exclusive Financial Advisor
October 2024

KAIYO
sale to
HAVENLY
Exclusive Financial Advisor
October 2024

SARIA
a portfolio company of
BEHRMAN CAPITAL
has been acquired by
ITT
Financial Advisor
September 2024

TMI TRAFFIC MANAGEMENT INCORPORATED
dividend recapitalization
Prudential Private Capital
Exclusive Financial Advisor
August 2024

PFS Predictive Food Safety
has been acquired by
SOLENIS
a portfolio company of
Platinum Equity
Exclusive Financial Advisor
July 2024

GREER
has been acquired by
Pt CAPITAL
Exclusive Financial Advisor
July 2024

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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