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CIBC CAPITAL MARKETS

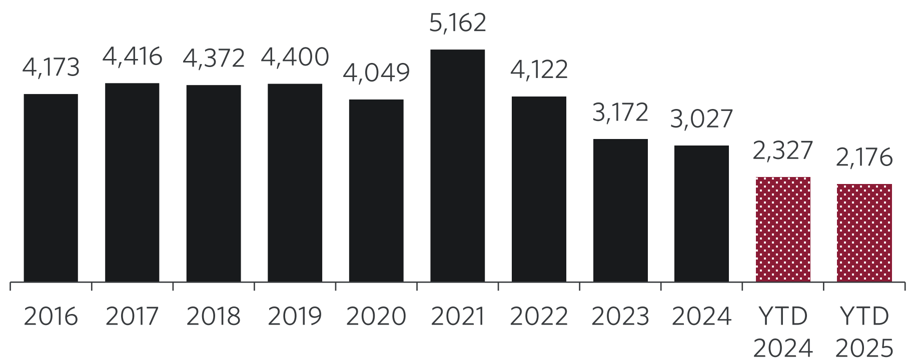
US MIDDLE MARKET MONITOR

M&A and financing update

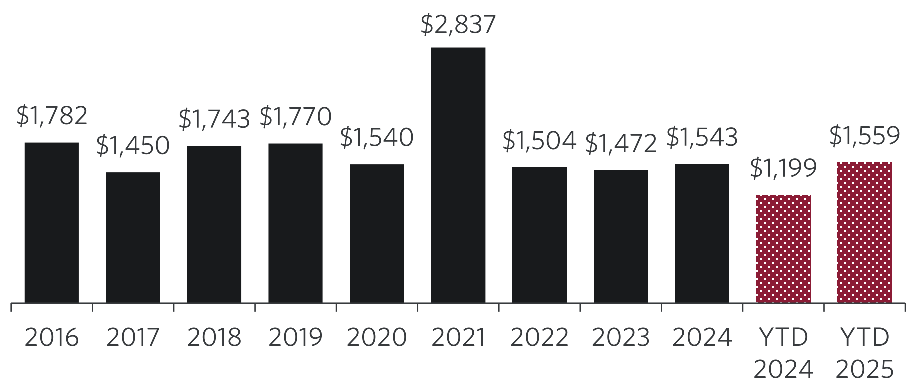
Q4 2025

Lower middle market deal volume suppressed, but optimistic

US M&A transactions under $500mm



US M&A deal value ($mm)



US lower middle market deal activity remained subdued in Q3 2025, continuing the downward trend observed in the first half of the year as macroeconomic headwinds and policy uncertainty weighed on transaction volume. According to Robert W. Baird & Co., year-to-date US middle market transactions (under $500 million in enterprise value) declined by 6.5% year-over-year, falling from 2,327 deals in 2024 to 2,176 deals in 2025.

Market participants cite persistent friction from the “Trade War 2.0” as a key driver of sellers’ hesitation to go to market, with tariff volatility causing buyers to scrutinize supply chains and delay closings. While large-cap M&A saw a resurgence—deal value for transactions over $1 billion surged 100% year-over-year in Q3—this momentum has not cascaded down to the lower middle market, where buyers remain more sensitive to financing costs and operational risks. However, industry sentiment in late 2025 suggests a potential turning point. Robert W. Baird & Co. notes that pitch activity and sell-side mandates reached multi-quarter highs in Q3 2025, and PitchBook data indicates that private equity firms, sitting on record dry powder, are increasingly pressured to deploy capital. If policy clarity improves in Q4 2025, this pent-up supply of ready-to-market assets could trigger a robust rebound in lower middle market activity in 2026.

Source: Robert W. Baird & Co.

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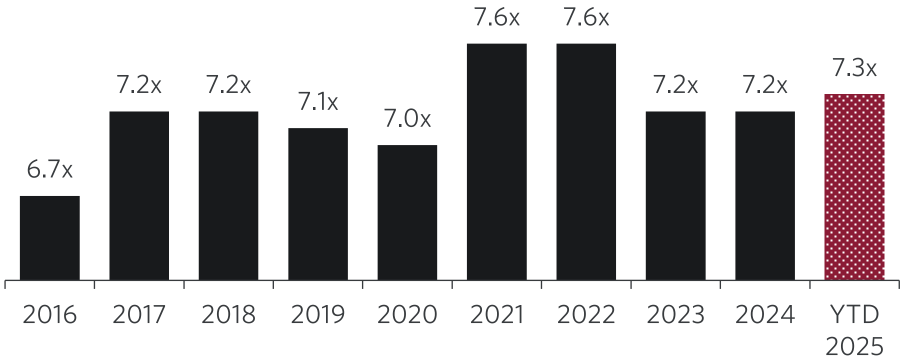
Valuation multiples remain consistent

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



Year-to-date EBITDA multiples in the lower middle market have remained remarkably consistent with valuations from the prior two years at 7.3x and meaningfully above the long-term historical average of 6.7x (2003-2020). Current valuation multiples suggest that the market has successfully established a durable valuation floor above pre-2021 levels for quality assets. Even as deal volume remains constrained relative to prior years, the consistency of pricing at approximately 7.3x demonstrates that buyers and sellers have reached an equilibrium on what constitutes fair value for quality lower middle market assets.

This "new equilibrium" reflects a market in which primarily higher-quality companies are trading in sale processes, skewing observed valuation multiples upward. As transaction activity broadens and more average and lower-quality assets begin to trade, overall middle-market valuation multiples may compress from current levels in the low-to-mid 7x range, even if underlying fundamentals remain unchanged.

Source: GF Data®

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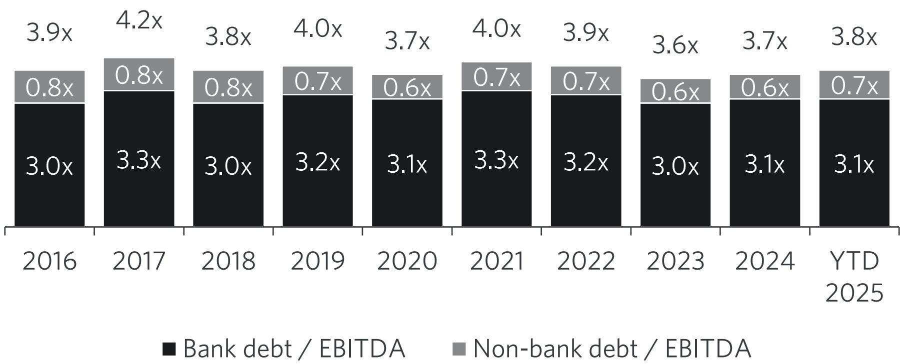
Debt markets are open and ready for business

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



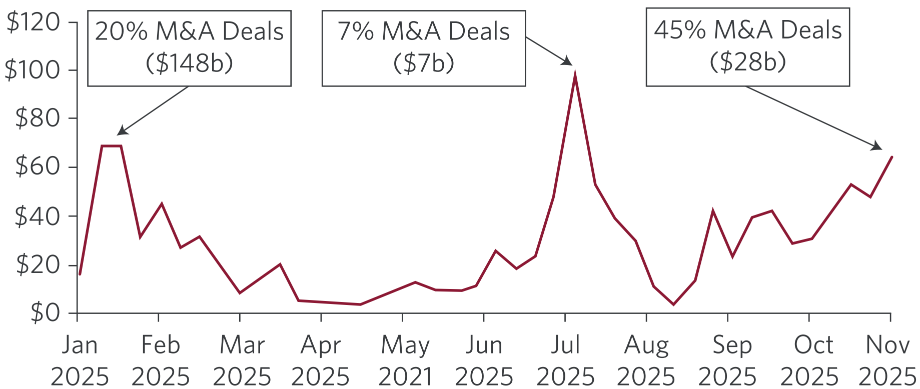
According to GF Data®, total debt multiples for lower middle market transactions averaged 3.8x EBITDA for the first three quarters of 2025, reflecting a modest contraction in leverage utilization compared to the 4.0x recorded in 2021 during a "frothy" market. This 3.8x figure aligns closely with the long-term historical average of 3.7x (2003–2020), indicating that while leverage is slightly below its post-pandemic peak, it has remained stable. The market has since settled into a normalized, more disciplined credit environment. Lenders remain active but selective, prioritizing credit quality and favoring borrowers with strong cash flows to support debt service.

The stability of the 3.8x multiple also masks a shift in capital structure composition. As senior lenders have pulled back slightly—senior debt coverage averaged 2.9x YTD compared to 3.3x in 2021—sponsors have increasingly turned to larger equity checks to bridge valuation gaps.

Source: GF Data®

Institutional loan pipeline hints at 2026 rebound

Institutional loan pipeline ($b)



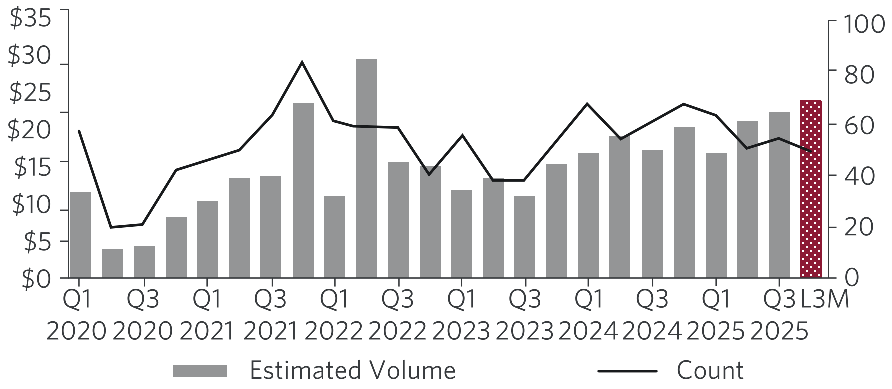
The institutional loan pipeline presents a compelling picture of dealmaking activity poised to accelerate through Q1 2026, reflecting significant downstream financing support for announced and planned transactions. According to LSEG LPC, the pipeline exceeds $60 billion in total institutional loan volume, nearly recovering to the same level of market demand as was seen pre-Liberation Day in early 2025. However, in late 2025, 45% of the volume now relates to M&A compared to only 20% in Q1 2025.

As a result, market participants are expressing optimism about a robust M&A pipeline heading into 2026, driven by improving financing conditions, the OCC and FDIC withdrawal of their 2013 leveraged lending guidelines, and tighter LBO spreads across both syndicated and private credit markets. The pipeline data itself serves as a forward-looking indicator that sponsors and corporate acquirers are actively positioning for a strong Q4 2025 and Q1 2026.

Source: LSEG LPC

Direct lending continues to provide fuel for LBOs

Direct lending estimated volume ($b)



Direct lending has solidified its dominance as a primary financing source for leveraged buyout (LBO) financing, with activity in late 2025 rebounding to levels not seen since the market's peak. In Q3 2025 alone, direct lenders financed nearly 60 LBOs, or 20% of total LBOs, and deployed over $60 billion of capital. This resurgence brought deal volumes for the three months ending in November to their highest point since Q2 2022, signaling renewed confidence and aggressive capital deployment from private credit funds in support of new platforms.

Private equity sponsors have increasingly turned to direct lenders for the speed, certainty, low amortization, and the covenant-lite terms they provide, which is particularly valuable in a choppy macroeconomic environment. With a robust pipeline of deals expected to launch in Q1 2026, the strong performance of the direct lending market in late 2025 positions it as a critical facilitator of M&A activity for the year ahead.

Source: PitchBook

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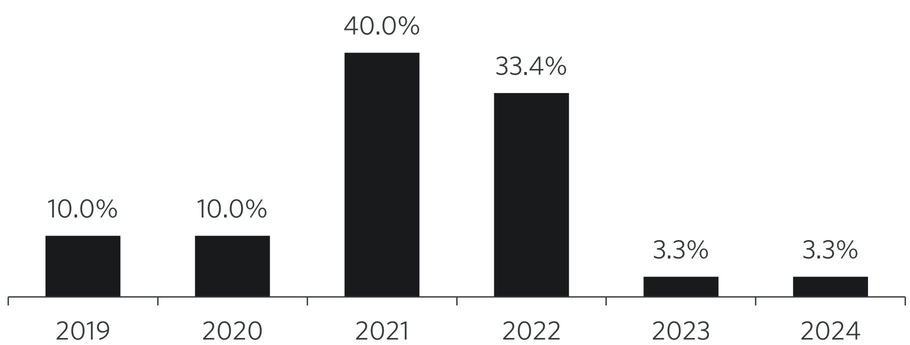
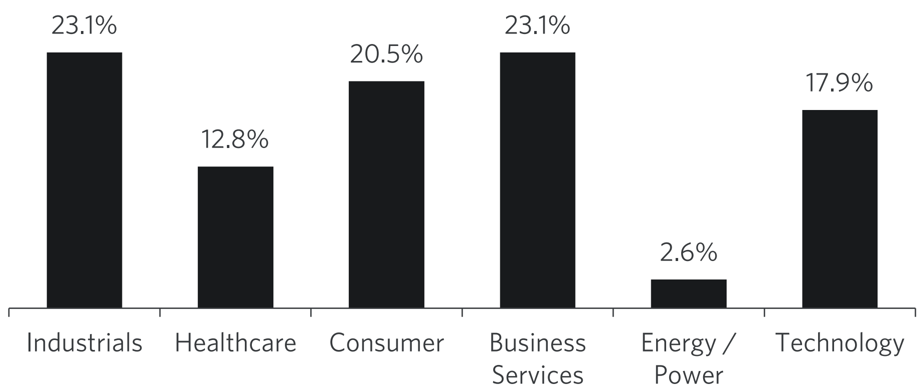
Debt foreclosures paint a less rosy picture

Debt foreclosed in 2025 by vintage



Debt foreclosed in 2025 by industry



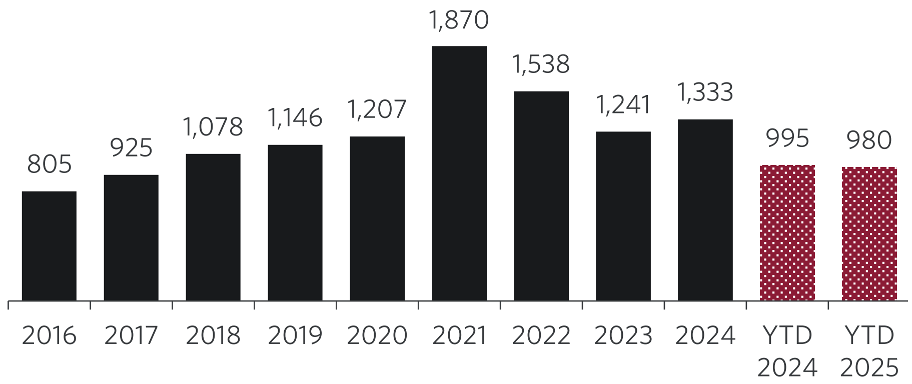
Private credit lenders have continued to take control of distressed assets in 2025, with foreclosures reaching historic highs. According to Lincoln International, private credit lenders took control of PE portfolio companies that represented nearly $21 billion in principal year-to-date in 2025—a figure that exceeds the combined volume of foreclosures from 2019 through 2024. This surge in lender takeovers is heavily concentrated in specific deal vintages, with over 70% of 2025 foreclosures stemming from loans originated in 2021 and 2022, with industrials and business services constituting the largest sectors. Specifically, 40% of foreclosed debt originated in 2021, and 33.3% came from 2022. In contrast, older vintages like 2019 and 2020 accounted for just 10% each, while newer loans from 2023 and 2024 represented a minimal 3.3% share each.

This concentration highlights the vulnerability of deals struck during the peak valuation and leverage environment of 2021–2022, which were subsequently exposed to rising interest rates and slowing growth. Deals during this timeframe were notoriously covenant-lite and often didn't have the triggering mechanisms in place to quickly flag and restructure struggling assets. By the time any covenants were tripped, these businesses were already in distress. The data suggests a "clearing of the decks" for private credit portfolios, where the most troubled assets from the post-pandemic boom are being restructured or taken over. This wave of foreclosures also serves as a cautionary tale for the current vintage of deals, underscoring the long-term risks of aggressive underwriting during periods of high market liquidity and "frenzy-like" investing.

Source: Kirkland & Ellis, Lincoln International

Software and technology deal volumes hold steady with 2024

US software and technology transactions



US software and technology transaction volumes held essentially flat through Q3 2025 versus the prior year, with YTD 2025 deals totaling 980 compared to 995 over the same period in 2024, according to PitchBook. This stability comes after several years of normalization from the 2021 peak, when software and technology deal volume reached 1,870 transactions, followed by a steady slowdown in 2022 and 2023 as higher rates, valuation resets, and tighter financing conditions pressured activity.

Activity in early 2025 was constrained by tariff uncertainty and financing volatility, with sponsors and strategics slow to launch new processes, particularly in Q2. By contrast, Q3 marked a notable pickup, with PMCF reporting a 12% quarter-over-quarter increase in software volume. This late-cycle acceleration means software and technology volumes are now tracking in line with or slightly ahead of pre-2021 historical norms, even if they remain below the 2021 peak. Kroll notes that global software M&A deal volume by Q3 2025 had already matched full-year 2024 levels, underscoring how software-led activity is outpacing broader M&A volume trends. The rebound is concentrated in application software, SaaS, and tech-enabled services, where private equity add-ons and programmatic strategic acquisitions have remained active despite macro noise.

Source: PitchBook

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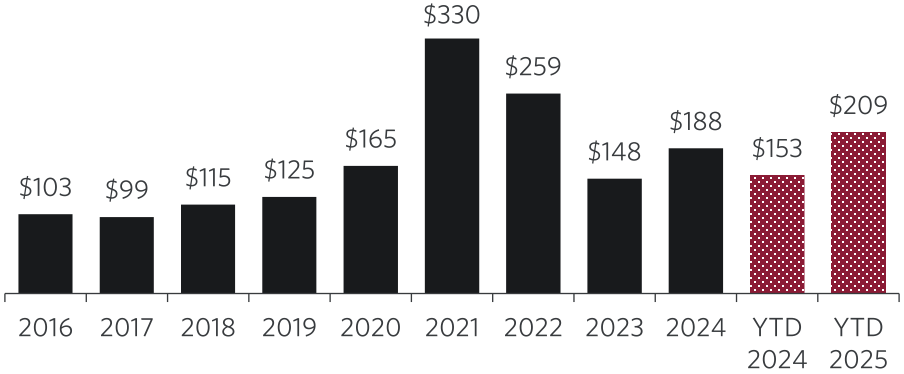
Software and technology deal values improve year-over-year

US software and technology deal value ($b)



US software and technology deal value accelerated meaningfully through Q3 2025, even as transaction volumes stayed roughly flat year-over-year. Deal value through Q3 2025 reached $209 billion, up from $153 billion over the same period in 2024, and above $187 billion for the entirety of 2024, implying a robust rebound in capital deployed into the sector. This follows a reset from the 2021 peak of $330 billion and the subsequent pullback in 2022 and 2023, highlighting how 2025 marks a clear re-rating in value, while outpacing relatively flat transaction volumes.

Several factors underpinned this surge in deal values, including the return of larger platform and take-private transactions, stronger sponsor appetite for scaled SaaS and AI-enabled businesses, and improved financing conditions in Q3 2025. Additionally, the software and technology sector accounted for a rising share of overall PE deployment in 2025, as investors leaned into resilient, recurring-revenue models and were willing to write larger equity checks to close valuation gaps.

Source: PitchBook

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

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Recent CIBC US Middle Market transactions

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

BestRx PHARMACY SOFTWARE
has been acquired by
RedSail TECHNOLOGIES
a portfolio company of
FP FRANCISCO PARTNERS

VAPOR POWER INTERNATIONAL
a portfolio company of
Stone Pointe, LLC
MIDWEST MEZZANINE FUNDS
has been acquired by
THERMON

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