

US MIDDLE MARKET MONITOR

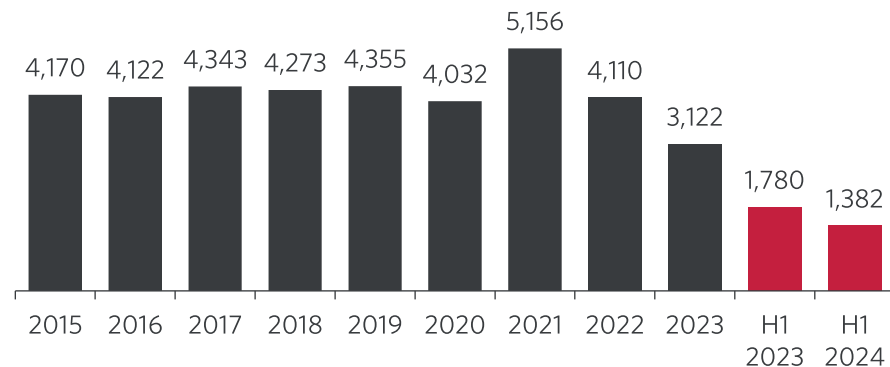
M&A and financing update

Q3 2024



Deal volume under \$100 million decline, while deals greater than \$100 million increase

US M&A transactions under \$500M

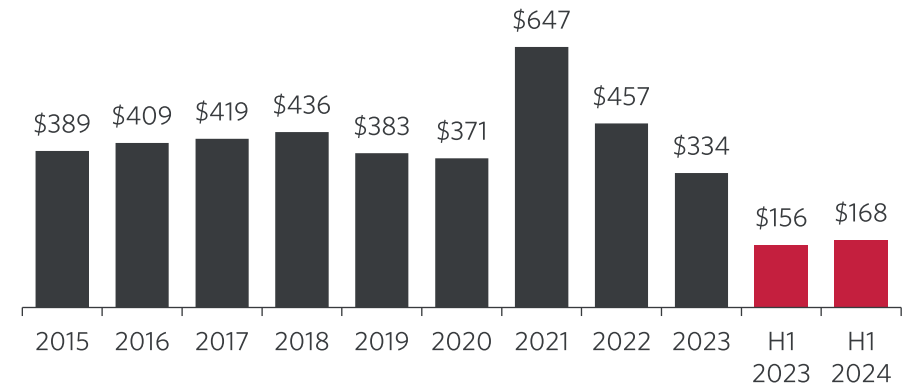


In H1 2024, the U.S. lower middle market experienced a decline in deal volume compared to the same period in 2023. According to Robert W. Baird & Co., the number of deals decreased by 22.4%, with 1,382 transactions in H1 2024 compared to 1,780 in H1 2023. Interestingly, the primary contributor for the year-over-year decline was transactions under \$100 million. Transactions between \$100 million and \$1 billion have experienced a year-over-year increase of 6.2%, due to greater debt availability and competition among buyers and senior lenders to deploy capital for higher quality credits amidst limited deal volume.

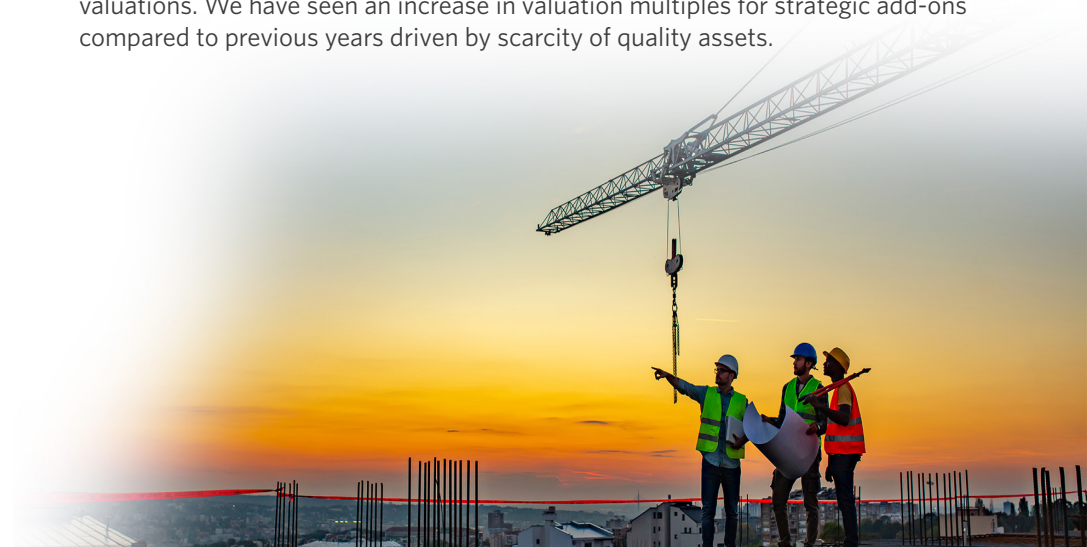
Based on our experience, increased deal volume for transactions above \$500 million bodes well for future activity in \$100 million to \$500 million transactions. If the past is any indication of future performance, CIBC expects the outlook for transaction volumes to be positive for the remainder of 2024 and into 2025.

Source: Robert W. Baird & Co.

US M&A deal value

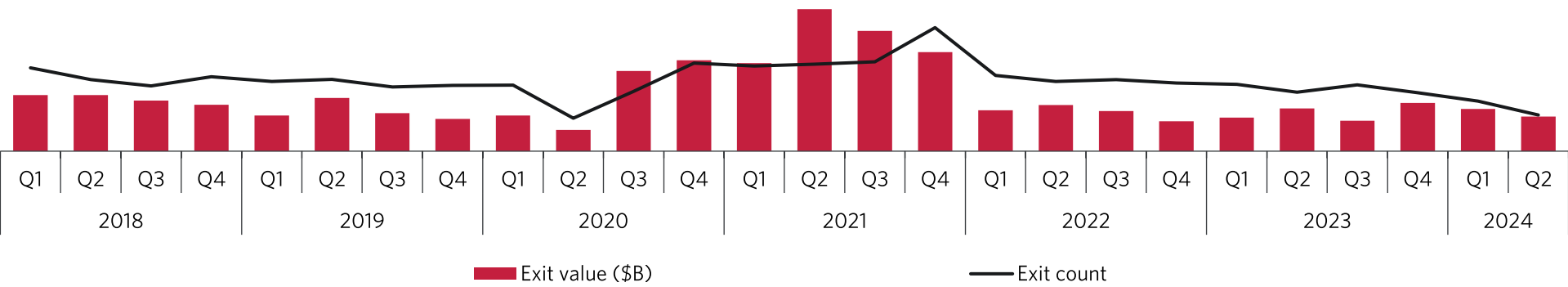


Despite the decrease in the total number of deals, the total deal value increased 7.7% in H1 2024 compared to the previous year. According to Robert W. Baird & Co., this was primarily driven by transactions between \$100 million and \$1 billion, which saw deal value increase by 11% in Q2 2024. This increase suggests that while fewer transactions occurred, the deals that did close received premium valuations. We have seen an increase in valuation multiples for strategic add-ons compared to previous years driven by scarcity of quality assets.



PE exit activity remains tepid

PE exit activity by quarter



H1 2024 PE-backed exits essentially remained flat compared to the same period in 2023, but below pre-COVID levels. In addition, many of the exits in 2024 have not been full exits, with sellers rolling meaningful equity to align with a PE buyer to share risk on high-growth companies being sold after short hold periods. This trend indicates a cautious approach by both buyers and sellers, as they navigate a market that is still recovering from the disruptions caused by the pandemic and resulting fallout.

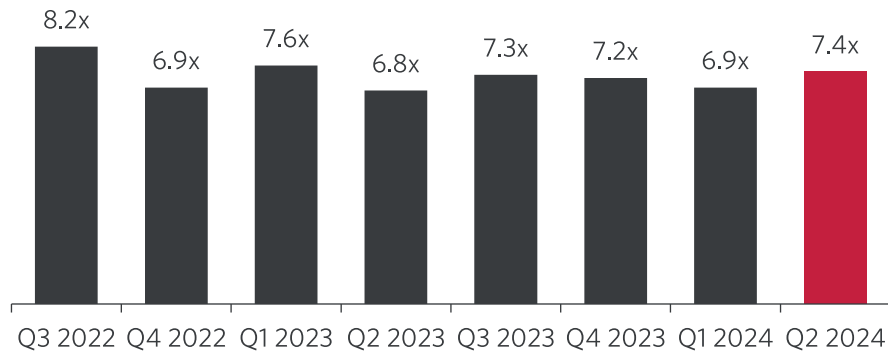
The exit environment has been supported by improving lending conditions, which have facilitated larger acquisitions. According to Pitchbook, in H1 2024, the disclosed deal value of sponsor acquisitions rose by 34%, even though the overall deal count declined by 14%. This reflects larger transactions (\$100 million to \$1 billion) trading at higher multiples, as PE firms seek to optimize returns amidst a competitive and evolving market landscape.

Source: Pitchbook.



Valuations remain at premium levels

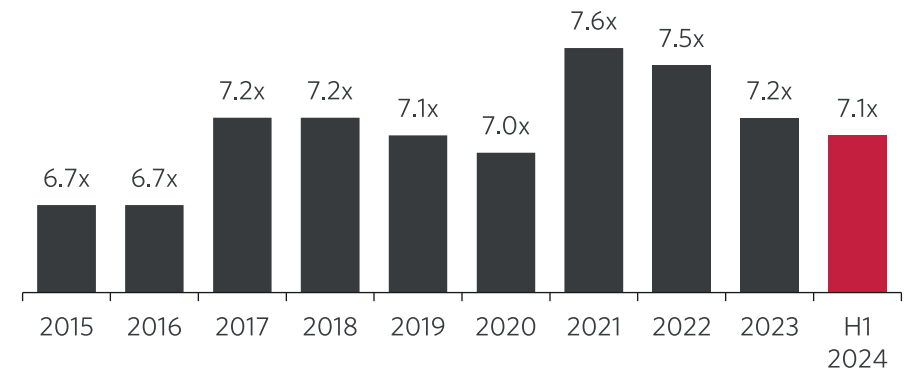
Quarterly average EBITDA multiples for \$10mm - \$500mm LBOs



Valuations in the U.S. lower middle market remain at premium levels in Q2 2024, following a period of reset after the 2021 and early 2022 “feeding frenzy.” According to GF Data®, the average valuation multiple for sponsor-backed lower middle market leveraged buyout transactions (“LBOs”) in Q2 2024 was approximately 7.4x EBITDA, which is slightly higher than the 7.2x EBITDA observed in the second half of 2023. This increase suggests buyers are becoming more confident in their assessments of company forecasts, although the market remains cautious regarding the economy.

There has been a narrowing of the valuation gap between buyers and sellers. Another interesting observation is the improved maturity and normalization of market valuations, resulting in tighter ranges of indications of interest received. GF Data® notes that the spread between the average high and low multiples for LBOs has decreased, indicating a more aligned view on valuation multiples among market participants. As a result, final buyer selection often comes down to industry expertise, operating partner relationships, committed capital, and ability to close quickly.

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



LBO valuations in the lower middle market remain at a premium compared to pre-2018 to pre-pandemic levels. The current environment is characterized by a more disciplined approach to pricing, with buyers focusing on the quality and resilience of target companies. As the market volume continues to recover, we expect valuations to remain stable, with a potential for gradual multiple expansion as confidence in the economy and target performance increases.

“As a result, final buyer selection often comes down to industry expertise, operating partner relationships, committed capital, and ability to close quickly.”

Source: GF Data®

Valuation multiples continue to show volatility

Average EBITDA multiples for LBOs by industry

Industry	2003 - 2019	2020	2021	2022	2023	H1 2024
Manufacturing	6.2x	6.7x	7.1x	7.3x	6.5x	6.8x
Business services	6.7x	7.1x	7.3x	7.4x	7.2x	7.2x
Healthcare services	7.4x	7.6x	8.1x	8.4x	8.9x	7.2x
Retail	7.0x	6.5x	8.3x	8.0x	6.0x	6.4x
Distribution	6.6x	7.5x	7.2x	7.2x	7.1x	7.2x
Media & Telecom	7.6x	8.3x	7.0x	9.1x	7.8x	7.3x
Technology	8.5x	7.6x	10.3x	8.1x	10.2x	7.2x

The manufacturing sector, a meaningful component of the lower middle market, saw valuations improve in H1 2024. However, manufacturing multiples have reset after the supply chain and reshoring premiums paid to high-growth winners that capitalized on those trends and sold in 2021 and 2022. Manufacturing multiple expansion was particularly notable in smaller deals, which recorded a 0.6x increase in average valuation compared to 2023. Deals valued between \$50 million and \$100 million experienced an even more substantial valuation rebound, with average multiples increasing 3.0x EBITDA from 7.0x to 10.0x.

Conversely, the business services sector maintained a stable average multiple of 7.2x, consistent with post-COVID averages, indicating a steady demand for what are perceived as recession-resilient businesses against a backdrop of broader economic challenges.

There was a decline in average EBITDA multiples for companies in the healthcare industry, dropping from 8.9x in 2023 to 7.2x in 2024. This decrease reflects elevated interest rates increasing the real expenses of facility-based healthcare, as well as potential regulatory changes impacting future enterprise values. Despite these challenges, the sector remains attractive due to its essential nature and steady performance.

Source: GF Data®

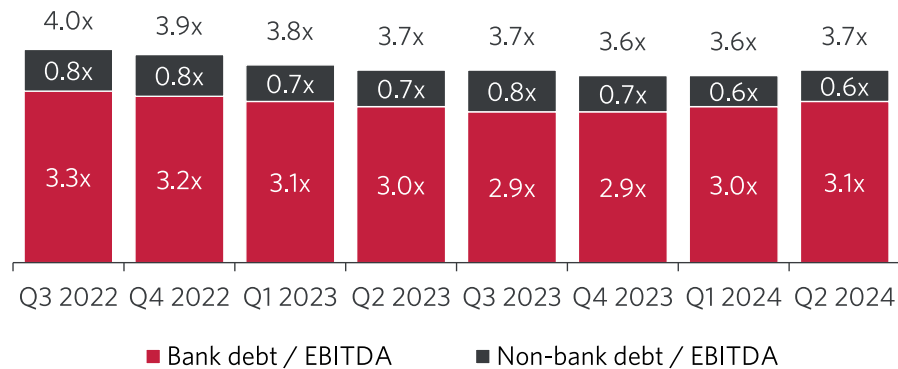
Average manufacturing EBITDA multiples for \$10mm - \$250mm LBOs

Enterprise value	2003 - 2019	2020	2021	2022	2023	H1 2024
\$10mm - \$25mm	5.6x	5.9x	6.0x	6.2x	5.4x	6.0x
\$25mm - \$50mm	6.1x	6.6x	6.8x	7.2x	6.5x	6.2x
\$50mm - \$100mm	6.9x	7.7x	8.0x	8.3x	7.0x	10.0x
\$100mm - \$250mm	7.7x	7.4x	8.5x	9.0x	8.6x	7.6x
Total	6.2x	6.7x	7.1x	7.3x	6.5x	6.8x



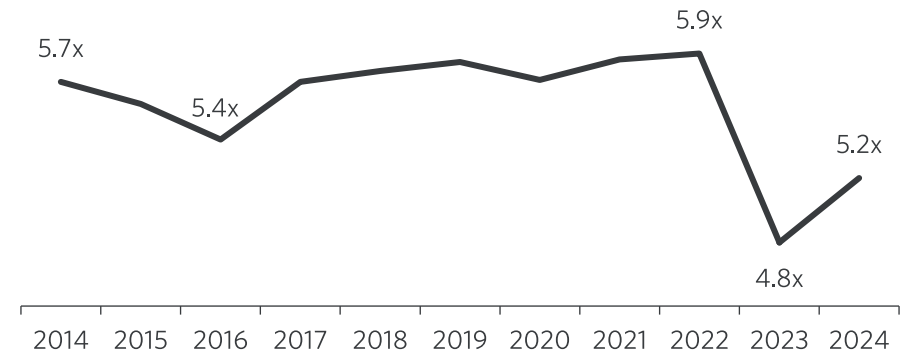
Debt Markets

Rolling quarterly average LBO debt multiples for \$10mm - \$500mm LBOs



According to GF Data®, average total debt for deals improved slightly, averaging 3.7x EBITDA in H1 2024, up from 3.6x in 2023. Senior debt leverage also saw a modest increase, reaching an average of 3.2x EBITDA compared to 2.9x the previous year. The improvement in leverage indicates a slight easing in the credit markets.

Debt/EBITDA multiples on all PE BSL-funded deals



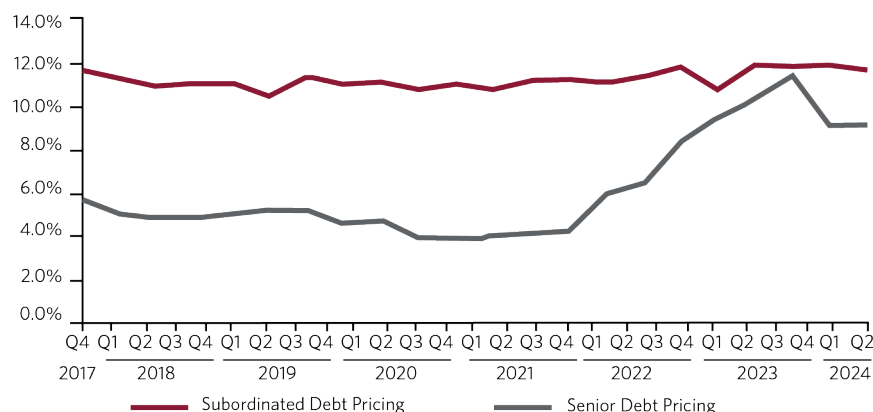
In the first half of 2024, Debt/EBITDA multiples for all PE broadly syndicated loan (“BSL”) deals have shown some improvement, reflecting a cautiously optimistic outlook in the leveraged finance market. According to Pitchbook, the debt/EBITDA ratio for BSL-funded deals increased to 5.2x in Q2 2024, up from 4.8x in the previous year. This increase suggests a gradual easing of credit conditions and the reemergence of regional banks, allowing for slightly higher leverage in H1 2024 compared to the tighter conditions observed throughout 2023.



Sources: GF Data®, Pitchbook

Senior debt pricing declines

Senior and subordinated debt pricing



In 2024, debt pricing in the U.S. lower middle market has been influenced by several factors, including interest rate trends and the availability of capital. According to GF Data®, senior debt pricing has seen a modest decline, with the average senior debt coupon dropping to 9.3% in Q2 2024 from 9.4% in Q1 2024, a significant decrease from the 11% average recorded in Q4 2023. This decline reflects the tightening of spreads and competition from traditional lenders, which has lowered pricing from direct lenders.

All-in debt pricing

Enterprise value	Coupon	PIK	Total
\$10mm - \$25mm	11.4%	4.2%	15.6%
\$25mm - \$50mm	12.0%	2.2%	14.2%
\$50mm - \$100mm	11.4%	2.6%	14.0%
\$100mm - \$250mm	11.7%	2.8%	14.5%
Total	11.7%	2.7%	14.4%

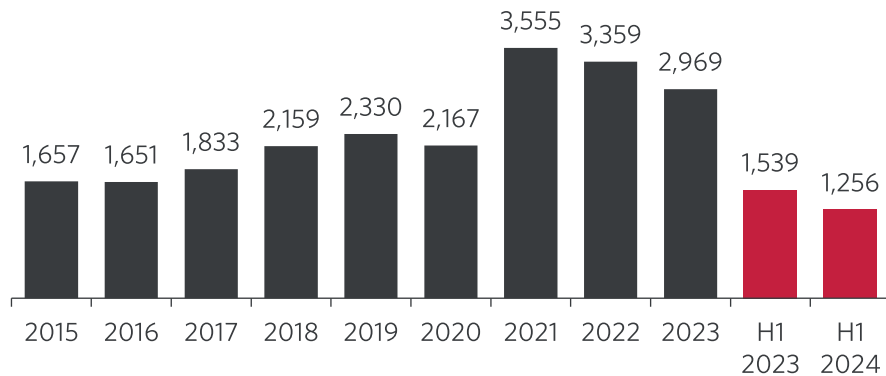
Despite the decrease in senior debt pricing, the overall cost of debt remains relatively high compared to historical averages. Subordinated debt has experienced a slight increase in average coupon rates, rising to 11.8% in Q2 2024 from 11.7% in Q1 2024. This increase is driven by associated fees and, to a lesser extent, by payment-in-kind (PIK) notes, which have contributed to an all-in average subordinated debt pricing of 14.4% in the first half of the year. These trends indicate that while there is some relief in senior debt pricing, the cost of subordinated debt remains elevated, reflecting ongoing caution in the credit markets.



Sources: GF Data®

Business services transaction volume declines, but remains an attractive sector

US business services M&A transactions



In H1 2024, business services deal volumes declined by 18.4% compared to the same period in 2023, according to Pitchbook. This decline reflects a challenging dealmaking environment, including elevated interest rates and the lack of quality assets transacting. Despite the overall year-over-year decrease, the annualized number of transactions in H1 2024 continues to exceed pre-COVID peaks.

Buyers continue to be attracted to business services companies due to several factors. The digital transformation in business services has heightened interest, as companies seek to optimize operations and remain competitive. Companies are increasingly outsourcing non-core activities to specialized service providers to focus on their core competencies. Business services companies provide their customers with external expertise, reduced costs and improved efficiency; making them recession-resilient. Once an activity is outsourced, it becomes difficult to bring back in-house, which creates sticky customer relationships.

Source: Pitchbook



Business services valuations remain steady overall

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

Enterprise value	2003 - 2019	2020	2021	2022	2023	2024
\$10mm - \$25mm	5.6x	5.8x	6.0x	6.6x	6.1x	6.7x
\$25mm - \$50mm	6.7x	7.0x	7.2x	6.9x	7.0x	6.7x
\$50mm - \$100mm	7.9x	7.6x	8.5x	8.6x	8.2x	8.1x
\$100mm - \$250mm	8.5x	10.0x	9.1x	9.8x	11.2x	9.1x
Total	6.7x	7.1x	7.3x	7.4x	7.2x	7.2x

According to GF Data®, valuations for lower middle market business services transactions showed some interesting trends in H1 2024 compared to the same period in 2023. The overall average multiple remained steady at 7.2x EBITDA in H1 2024, matching the average for full-year 2023. However, there was notable variability across different size tiers within this range. There was also a limited data set for transactions in H1 2024.

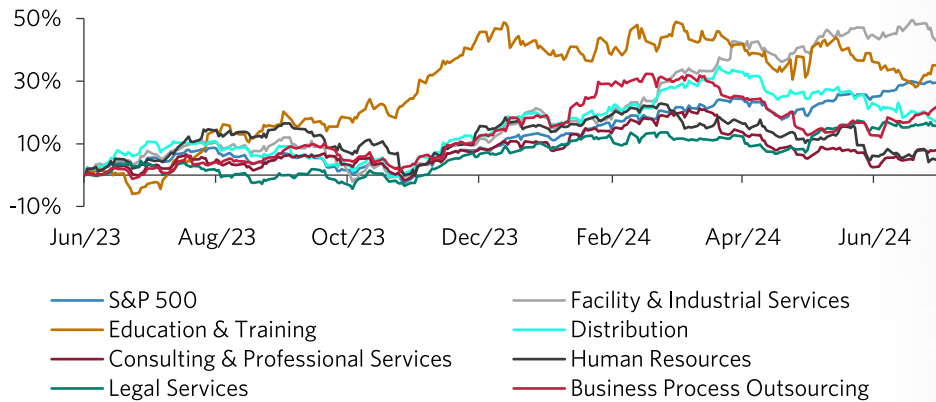
The smallest deals, valued between \$10-25 million, saw an increase in average multiples from 6.1x in 2023 to 6.7x in H1 2024. Interestingly, larger transactions in the \$50-100 million range saw a slight decrease from 8.2x to 8.1x, while the \$100-250 million segment experienced a significant drop from 11.2x in 2023 to 9.1x in H1 2024. This variability across size tiers reflects differing market dynamics, with smaller deals potentially benefiting from increased competition among buyers looking to deploy capital, while larger transactions may have faced more scrutiny and conservative valuations due to economic uncertainties and tighter financing conditions.

Source: GF Data®



Public business services companies have generated mixed returns

Business services segments vs S&P 500



Publicly traded facility and industrial services, as well as education and training companies, outperformed the S&P 500 during the trailing 12-month period ended June 30, 2024, while other business services segments have underperformed. Facility and industrial services have continued to benefit from outsourcing trends and organizations looking to focus on core operations. Education and training have benefited from the growth in online learning and demand for private educational services following disruption during COVID.

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

Recent CIBC US Middle Market transactions

AUTO-DS-

has been acquired by

fiverr.

EarthLite
WORLD'S #1 BRAND IN MESSAGE

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

MAINST
CAPITAL CORPORATION

Athletica
SPORT SYSTEMS
Safety through innovation

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 REZANINE
FUNDS

has been acquired by

THERMON

ARMOR
ANIMAL HEALTH
DETECT. DEFEND. DELIVER.

a portfolio company of

GOLDNERHAWN

has been acquired by

VSI

UFS
BANK TECHNOLOGY OUTFITTER

has been acquired by

bv INVESTMENT PARTNERS
SINCE 1989

Merlot Vango
TARPING SOLUTIONS

a portfolio company of

Continuum
EQUITY PARTNERS

has been acquired by

SAFE FLEET

a portfolio company of

OAK HILL CAPITAL

IDENTITI

has partnered with

KEYSTONE
CAPITAL

pfi:InStore

a portfolio company of

CFB

KVCI

DIAMOND STATE
TEXTILES

Mid States Capital L.P.

NORTHCREEK

has been acquired by

ONWARD | CAPITAL

and

MERIT CAPITAL PARTNERS

Contacts



Ronald Miller
Managing Director and Head,
CIBC US Middle Market
414 291-4528
ronald.miller@cibc.com



Patrick Bremmer
Managing Director
414 291-4548
patrick.bremmer@cibc.com



Ryan Chimenti
Managing Director
414 291-4531
ryan.chimenti@cibc.com



Ryan Olsta
Managing Director
414 291-4555
ryan.olsta@cibc.com



John Peterson
Managing Director
414 291-4551
john.peterson@cibc.com



Eric Reuther
Managing Director
312 564-2786
eric.reuther@cibc.com



Allison Reinke
Executive Director / Sponsor
Coverage
872-329-6123
allison.reinke@cibc.com



Christopher Larsen
Executive Director
414 291-4547
christopher.larsen@cibc.com



James Olson
Executive Director
414 291-4552
james.olson@cibc.com



Alex Eskra
Director
414 291-4533
alexander.eskra@cibc.com



Brian Howley
Director
414-291-4537
brian.howley@cibc.com



Michael Boedeker
Director
414 291-4544
michael.boedeker@cibc.com



Daniel Riley
Director
414 291-3867
daniel.riley@cibc.com

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