

# Transaction Trends—Year in Review

*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.

## Strong performance in a challenging M&A market

Despite a sluggish M&A market in 2024, BMO Sponsor Finance delivered a strong year.








































- While market conditions remained challenging, our team successfully executed a diverse range of transactions with nearly half of new borrowers being LBOs. Additionally, our portfolio of over 300 borrowers provided opportunities for new deals through dividend recaps and refinancings.
- With lenders actively deploying capital, the market became increasingly issuer-friendly. We observed a slight increase in leverage on new deals (0.2x), while pricing pressure was more pronounced. This shift resulted in a decrease in upfront fees and overall pricing momentum.
- Our portfolio activity reflected broader market trends with 32 exits among our over 300 borrowers; however, in a more normalized environment we would expect this to be three times higher. This supported BMO Sponsor Finance's 14% growth in AUM over 2023.

While market conditions presented headwinds, our disciplined approach and strong borrower relationships enabled us to navigate these challenges effectively. We remain well-positioned to capitalize on future opportunities as market velocity improves.

## 2024 transactions year-end review (fiscal year-end)



## Marquee transactions from 2024

| Healthcare  | Food & Consumer  | Software, Tech,<br>Professional Services  | Outsourced Services<br>and Distribution  | Industrials   |
|---|--|---|--|---|
|  <p>Portfolio Company of</p>  <p>Administrative Agent<br/>Lead Arranger<br/>Sole Book Runner</p>            |  <p>Portfolio Company of</p>  <p>Administrative Agent<br/>Lead Arranger<br/>Sole Book Runner</p>     |  <p>Portfolio Company of</p>  <p>Administrative Agent<br/>Joint Lead Arranger<br/>Joint Book Runner</p> |  <p>Portfolio Company of</p>  <p>Administrative Agent<br/>Lead Arranger<br/>Sole Book Runner</p>     |  <p>Portfolio Company of</p>  <p>Administrative Agent<br/>Joint Lead Arranger</p>                           |
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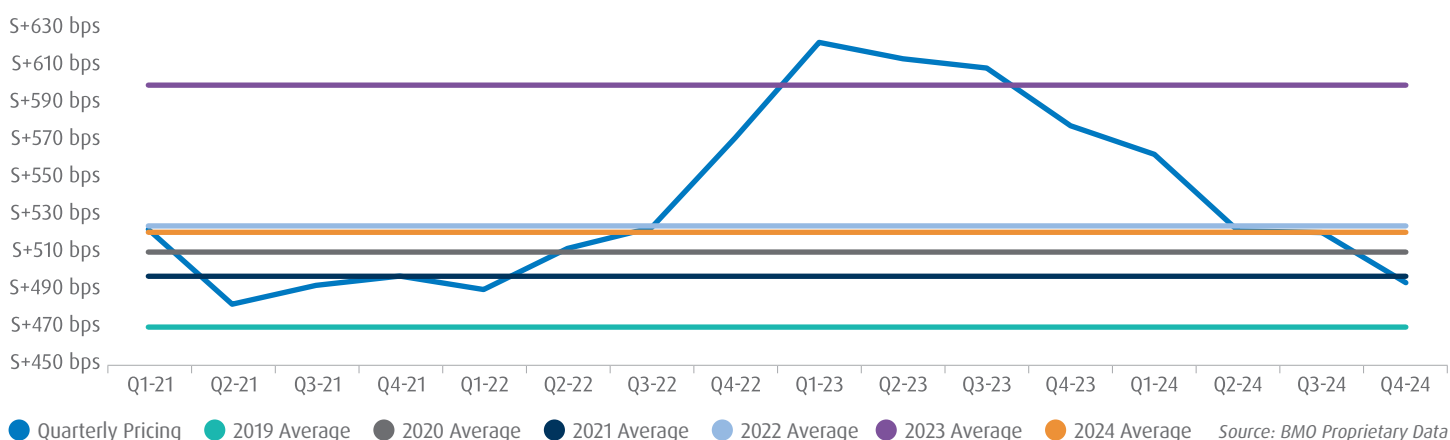
## A peek behind the curtain

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

### Pricing trends—all transactions

- As illustrated in the chart below, spreads on new transactions (inclusive of LBOs, refinances and add-ons) peaked in Q1'23 and have been on a downward trajectory as lender demand to put dollars to work in quality credits has exceeded the supply of opportunities.
- As a result, average new LBO pricing is currently in the S+475 bps +/- range while closing fees have also continued to compress throughout the year.
- Given the supply and demand imbalance, transactions over \$30 million of EBITDA have been particularly competitive as larger providers have come down market, driving more favorable terms. In some cases, providers are offering cov-lite options for high quality borrowers at lower than typical thresholds.
- Based on the start of new deal activity in 2025, we expect these fundamentals to remain in place at least through the 1H'25. However, the tariff backdrop will continue to create some uncertainty in the market.

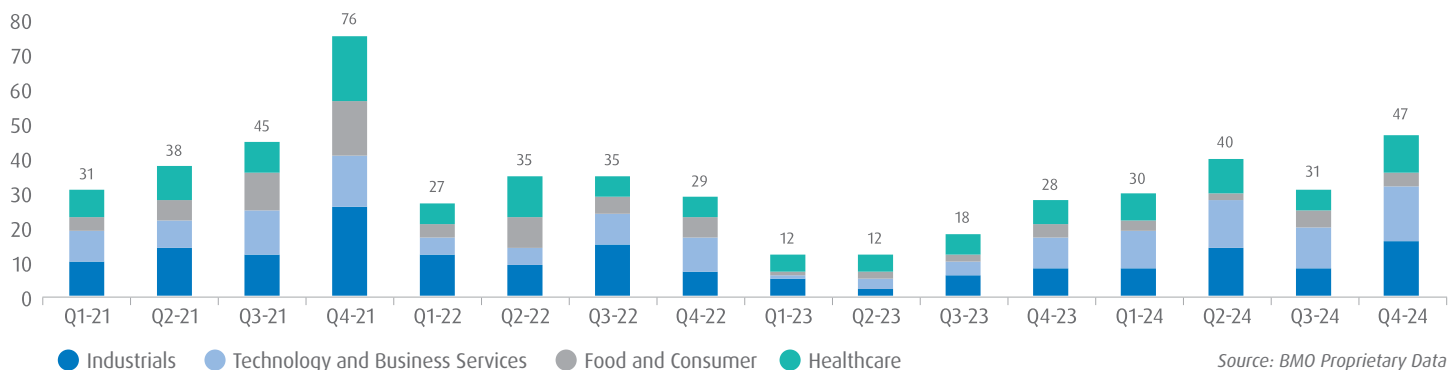
### Quarterly Pricing and Yearly Averages



### Quarterly transaction activity—all transactions

- Despite communicated healthy M&A banking pipelines, new LBO activity in 2024 did not ultimately transpire to the levels anticipated to start the year given continued dislocations in bid/ask valuations between buyers and sellers resulted in a number of stalled processes.
- Given pricing actions taken in recent years, we've seen buyers taking a more pragmatic approach to diligence in proving out the volume growth outlook and margin sustainability.
- While new platform trade activity was more limited relative to expectations, overall transaction activity was relatively healthy (particularly compared to 2023) as sponsors remained active on their portfolios through ongoing tuck-in activity, pursuing refinancings/re-pricings at lower market rates, and extending existing deals as many lost 1-2 years on their investment thesis as a result of the COVID environment.

### Deal Volume by Team—All Transactions

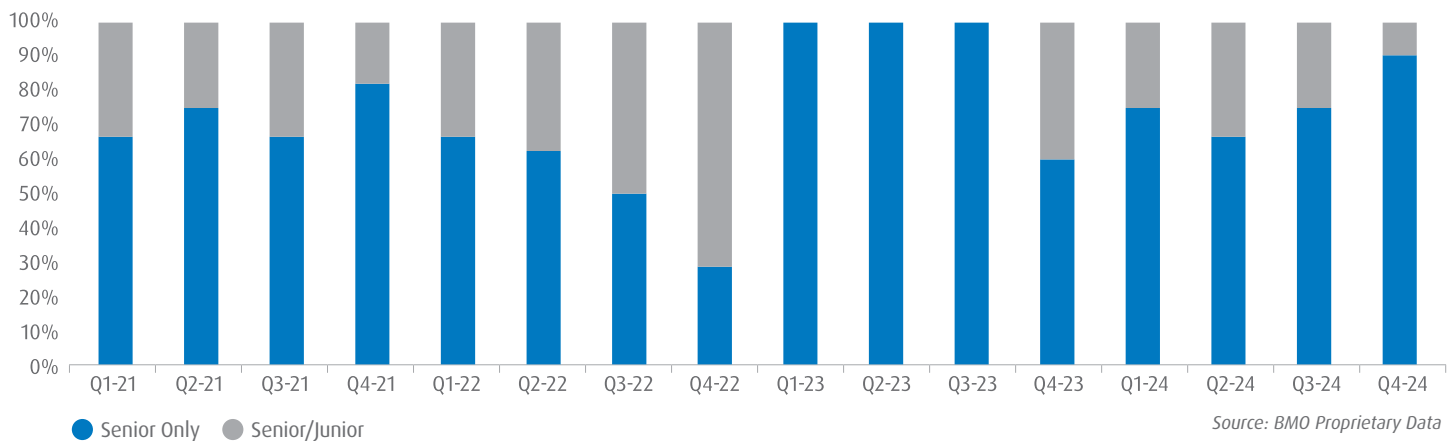


## A peek behind the curtain, continued

### Capital structure type—new LBOs

- While there was a reversion in 2022 with sponsors being more open to senior/junior structures, sponsors continue to prefer single tranche solutions (and in many cases just working with a single lender) given the ease in execution. This has been particularly evident with both floating rate SOFR and spreads continuing to decline in recent quarters and overall lender appetite increasing.
- All-senior structures continue to abide by at least 50% minimum equity in the capital structure. Furthermore, lenders appetite for delayed draw term loans has returned, particularly for businesses that have demonstrated quick usage of the facilities.

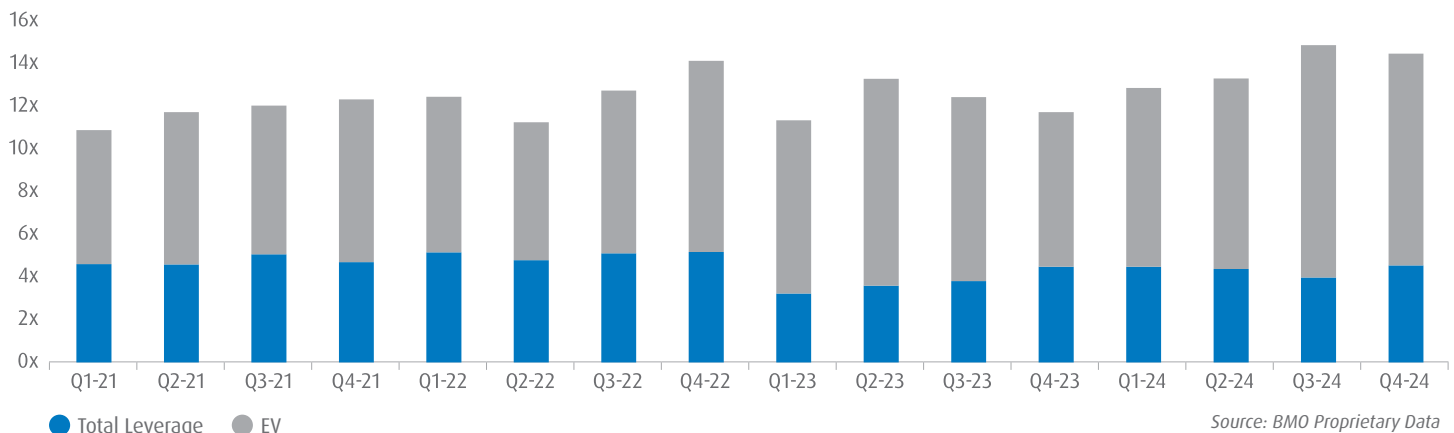
### Transactions by Type—New LBOs



### Average total leverage trends—new LBOs

- BMO has seen the market get more aggressive in terms of the depth of leverage in 2H'24, particularly on high quality credit profiles. Declining SOFR rates and spreads have also provided modest tailwinds in being able to support these deeper profiles.
- Based on transactions that BMO has tracked and seen ultimately trade, BMO continues to observe strong EV valuations that are in-line with multiples paid ~24-36 months ago. However, there seems to be an element of “haves and have nots” as many of the stalled-out processes are a direct result of valuation expectations not being met.

### Average Total Leverage and EV—New LBOs

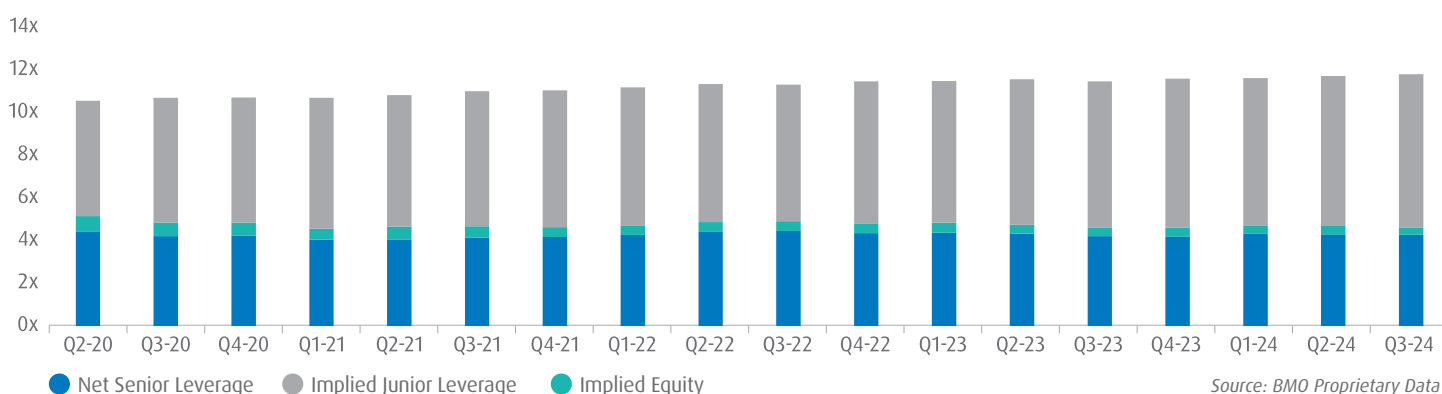


## Portfolio trends

### Average total leverage trends—BMO Portfolio

- BMO's aggregate portfolio remains healthy, with quarterly leverage levels remaining within a relatively tight band to past quarters. Aggregate portfolio leverage levels remain similar to new LBO leverage levels given sponsors continued focus on M&A strategies, resulting in leverage near incurrence tests.
- Most of the supply chain, de-stocking/bullwhip effects, and inflationary dynamics of the past have been adequately mitigated by borrowers during 2024 as the year proved to be a more stabilized operating environment for most borrowers.
- Where there are challenged borrowers within the portfolio, most of these are driven by self-inflicted wounds versus a macroeconomic event, and in the vast majority of situations sponsors are stepping up to support their businesses.

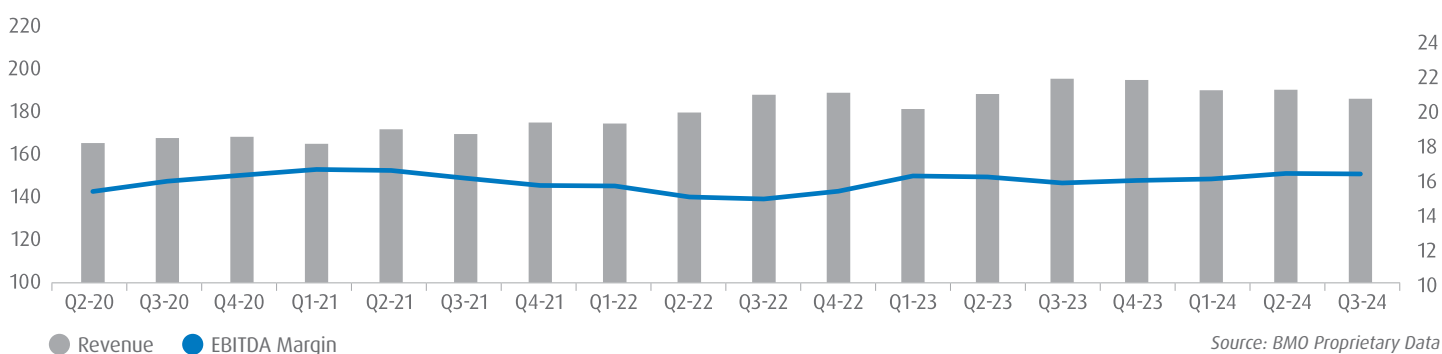
### Historical EV and Leverage Trends



### Quarterly LTM average revenue and EBITDA margin trends

- As a result of pricing actions taken to offset 2022 inflation, EBITDA margins across the portfolio have remained relatively steady in 2024 to pre-2022 levels.
- In more consumer-focused industries, we've seen pricing actions in 2024 become more limited given the reduction in the rate of inflation and increasing consumer sensitivities.
- Given the latest tariff environment under the new administration, borrowers are dusting off their playbooks and lessons learned from President Trump's first administration on how to best navigate the potential tariff impact with both customers and suppliers.

### Revenue and EBITDA Margin

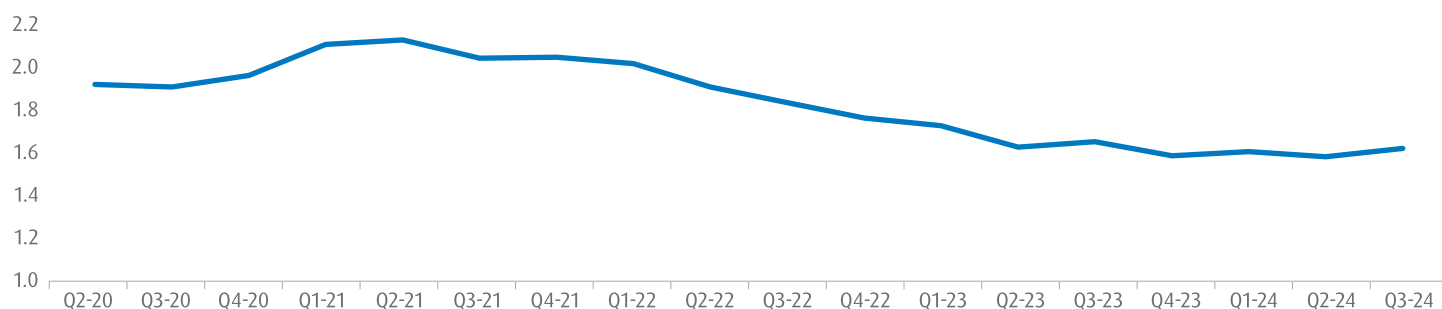


## Portfolio trends, continued

### Fixed charge coverage trends—BMO Portfolio

- While aggregate fixed charge coverage ratios across the portfolio remains healthy, ratios compressed in 2022 and 2023 as a result of the increasing rate environment (both SOFR and spreads) flowed through P&Ls.
- Ultimately, borrowers proved to be more resilient than anticipated in effectively managing cash flows in light of the rising rate environment (particularly for levered capital structures) with BMO seeing less liquidity issues than originally assumed.
- As both SOFR and spreads have declined throughout 2024, and borrowers continued to perform, we've seen a troughing of fixed charge coverages within the portfolio.

#### Fixed Charge Coverage



Source: BMO Proprietary Data

## 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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