Transaction **Trends**

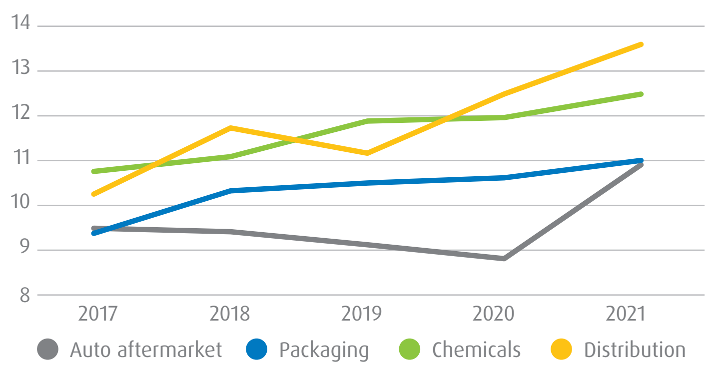
Transaction Trends provides private equity sponsors with middle-market transaction information and insights compiled by the BMO Sponsor Finance group—information that helps sponsors better understand the current financing climate in the middle market.

Multiple perspectives

Analysis on the trends in purchase multiples across Industrial subsectors.

- While certain industrials subsectors have seen periodic headwinds, purchase multiples across the market have trended upward in recent years overall.
- Specific factors have affected the industrials sector broadly (e.g., federal tax reform in 2018 impacting exit timing, trade tariffs, rising rate environment in 2018-2019, the COVID-19 pandemic and ensuing supply chain constraints, inflationary inputs, etc.); however, on the whole, each of the four subsectors highlighted below exhibited ~1.5x (or more) of purchase multiple expansion from the beginning of 2017 to the end of 2021.
- Of particular note from the comp set, the distribution subsector saw lower average transaction size (i.e., smaller deals) in 2019 relative to the other years in the sample, likely playing a factor in the modest multiple contraction evident during that year.
- The auto aftermarket subsector has arguably faced the most headwinds during the sample period with each of the factors above playing a role, and notably, key inputs for many of these businesses (such as steel and aluminum imports) bared much of the brunt from trade tariffs.
- Conversely, the packaging and chemicals subsectors have both exhibited consistent multiple expansion in recent years. Based on the comp set, chemicals activity saw double digit year-over-year increases in average transaction value (i.e., larger deals) each year excluding the COVID-19 impacted 2020, while packaging businesses have generally proven to be resilient growers with less volatility in performance over economic cycles (although ultimately depending on the end markets served), similar to the trend evident in purchase multiples.
- Looking forward, in the face of a rising rate environment in an effort to combat inflation, coupled with concerns of a recession looming, there are notable headwinds in the near-term. While it's too early to draw conclusions on the potential impact to purchase multiples, private equity dry powder remains near all-time highs and sponsors are likely to remain active in deploying capital, yielding optimism that any downward pressure could be somewhat short lived.

Purchase Multiples by Industrials Subsector



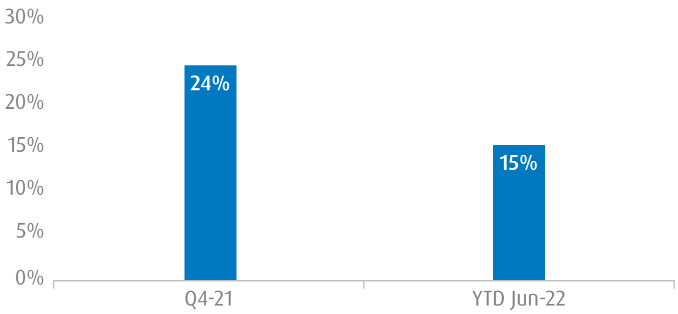
Source: BMO Proprietary Data

Trickling down

Comparing EBITDA adjustment trends as challenges throughout 2022 grow.

- The well documented geopolitical and macro environment has impacted deal flow in 2022; as activity has slowed from the blistering Q4 '21 pace to a more stable, albeit lower level throughout 2022. And while market chatter suggests a number of lenders are pulling back, BMO SF continues to be active and deploy capital across all industries.

Average Adjustments as Percentage of Adjusted EBITDA Through YTD Jun-22



Source: BMO Proprietary Data

- Given the challenges throughout 2022, including supply chain issues, inflation, and tight labor markets, among others, we reviewed certain key terms, including percentage of EBITDA Adjustments at close, to determine if there have been any meaningful changes from Q4 '21 vs the YTD period.
- We reviewed more than 60 new platforms closed during this period to review how EBITDA Adjustments have trended:
  - Interestingly, average adjustments at close (excluding transaction costs and fees) across all industries declined from ~24% in Q4 '21 to ~15% in the YTD period. We would expect this trend to hold true for much of 2022.
  - A review of industry sectors shows Food and Consumer and Business Services had the lowest percentage of adjustments at close (~17%) while Healthcare had the highest (~34%). Reviewing detail behind the data show the adjustments were largely tied to COVID normalization in the Healthcare sector while supply chain, labor, and inflation were primary drivers behind other sectors.

BMO spotlight

BMO leverages its FX capabilities to support international M&A.

- In October 2021, Ares announced the acquisition of The Lockwood Group ("Lockwood"), a leading provider of scientific-based medical communications for pharmaceutical, biotech, and medical device companies. BMO Sponsor Finance acted as the Administrative Agent.
- This investment was the platform for a broader pharmaceutical services thesis including international expansion. In May 2022, Lockwood secured exclusivity to acquire Random42, a global leader in 3D medical animation solutions based in London. As the Company's trusted, sole lending partner; the private equity firm and Lockwood turned to BMO to quickly raise incremental financing as well as provide a USD/GBP Forward Trade to streamline the execution.
- Due to the unique, cross-border dynamics of the transaction BMO Sponsor Finance and BMO's Global Fixed Income, Currencies, and Commodities ("FICC") team established FX lines to facilitate the funding and conversion at close as well as distribute proceeds to stakeholders.
- BMO's comprehensive suite of banking products continues to be a key differentiating factor. The success of this transaction reflects BMO's ability to collaborate with product partners and ensure our private equity clients an efficient, reliable international closing experience.

Lockwood
Portfolio company of
ARES
Senior Credit Facilities

Sole Book Runner
Sole Lead Arranger
Administrative Agent

We are the experts

Insights and analysis on the attractive Car Wash sector.

- BMO Sponsor Finance has deep experience within the car wash sector, which has become an increasingly active area of private equity interest over the past few years. The car wash sector (particularly express wash models) is considered to be a highly attractive sector given the recession resistant and re-occurring nature of services, paired with the quick ramping of new sites to positive EBITDA and accretive multiples for acquisitions in the highly fragmented market.
- While the sector has historically been highly fragmented, we continue to see more private equity backed platforms expanding and building out select geographic areas to create a strong regional network of sites. Many platforms have also shifted towards a de-novo heavy strategy given the increased focus on express car washes (versus full-service) which there are fewer of within some geographies. Such build outs require strict discipline in site selection to successfully develop strong brand awareness and density in each market, which in turn can lead to higher mix of reoccurring monthly membership revenue streams (a significant focus within the industry).
- While some roll-ups look to grow via sale-leasebacks, companies that own real estate are viewed favorably by lenders and typically receive higher leverage, especially for smaller operators.
- While each profile varies and is typically able to support leverage, businesses with scale that demonstrated strong ramp curves (reaching mature performance in < 3 years), strong membership programs (40%+ of revenue from subscriptions), low maintenance capex (<0.5% of sales), and strong market density often receive 5.50x+ total leverage with additional leverage capacity available thru a delayed draw term loan governor. Given the strong emphasis on M&A/de-novo models, platforms typically require significant DDTL capacity in order to execute on their development and M&A pipelines.
- For perspective on what a strong car wash site looks like, BMO Sponsor Finance reviewed individual mature sites (i.e. those > 2 years old) across a wide set of car wash platforms and have found that top quartile performers generally see sites ramp to over $1.2MM of EBITDAR within the first 2-3 years of opening. Top performers generally have a couple key themes in common, including (i) superior site selection and (ii) strong monthly membership conversions.

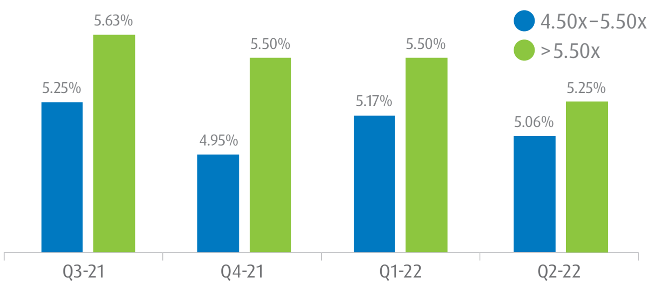
($000's)	Mature Site LTM Adj. EBITDAR
Maximum:	~$3,000
Top Quartile:	~$1,200
Median:	~$800
Bottom Quartile:	~$500
Minimum:	~$60

Source: BMO Proprietary Data

A peek behind the curtain

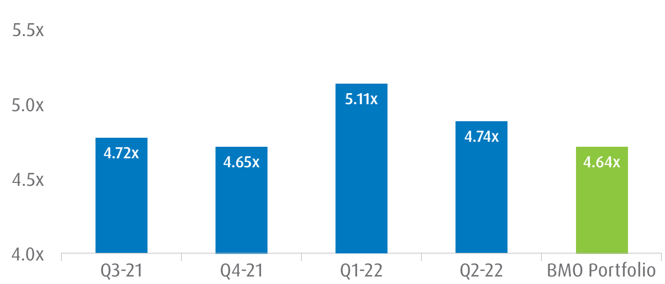
A snapshot of BMO's proprietary portfolio and transaction data including average new LBO pricing by closing leverage, average new LBO total leverage, tranche structures and EBITDA size for new LBOs.

Average New LBO Pricing by Closing Leverage



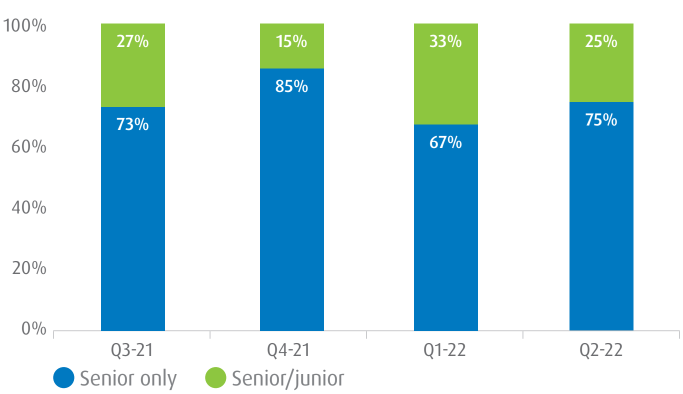
- Q2'22 will likely prove to be the trough in recent pricing trends (at least in the near term) within the middle market. Despite disruption in the broadly syndicated market that began in Q1'22, pricing continued to remain firm/tightened slightly within the middle market. Such trend also demonstrates the rates deals were committed to in Q1'22 and early Q2, that closed within the quarter.
- Since June, BMO has seen middle market pricing and OID swing higher from recent norms. Spreads have widened ~50-75 bps (more in some cases) while OID on new money is now being quoted at 200-300 bps (versus the historical norm of ~200 bps).

Average New LBO Total Leverage



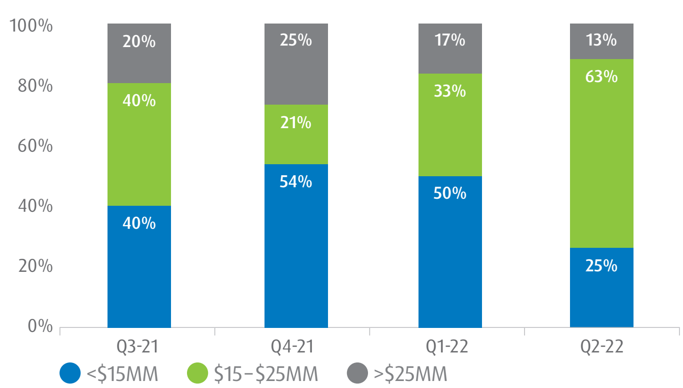
- Closing leverage of new LBOs has largely remained steady relative to prior quarters. As previously alluded to, sponsors have increasingly taken less than max leverage at close in order to preserve debt capacity for ongoing M&A.
- While pricing/fees have increased for new transaction since June, BMO has not seen a noticeable downtick in the leverage quantum lenders are willing to support. Rather, lenders have increased their sensitivity in the quality of assets they pursue as well as the funded to unfunded mix with delayed draw term loan facility requests.
- As a result of continued M&A/add-on activity post-close, leverage across the BMO portfolio remains in-line with recent closings despite the continued scaling in EBITDA.

Mix of New LBOs Funded by All-Senior vs. Senior/Junior Structures



- Single tranche structures continue to remain prevalent given the simplicity of execution and ability to sign with one lender; relationships often dictate spreading capital to a small handful of lenders.
- BMO has seen hold levels among market lenders scale back within the quarter, which will likely lead to increasing usage of clubbed transactions among a group of relationship lenders.

EBITDA Size Mix of New LBOs



- New LBO leverage over the last 12 months has skewed towards transactions with < $25MM of EBITDA as sponsors have increasingly started small on platforms with aggressive roll-up strategies given the multiple arbitrage that can be achieved through added scale.
- Within Q2'22, new LBOs within the portfolio did skew more towards the larger end relative to prior quarters given less pure-play roll-ups.

A word from our Middle Market M&A colleagues

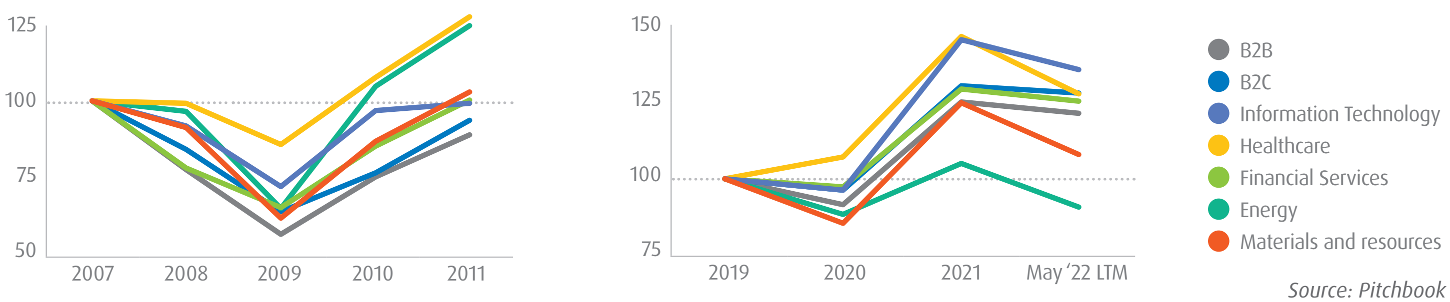
M&A optimism remains robust despite overall global and economic uncertainty.

- Despite ongoing concerns with rising inflation, increasing interest rates, and overall global and economic uncertainty, there are still several reasons that M&A optimism remains robust. Investors continue to have robust reserves of capital available to be deployed and are eager to invest in high-quality assets with industry-leading management teams.
- Following the record levels of investment in 2021, global private equity dry powder ended the year at $2.3 trillion, 14% higher than the start of 2021. The increased level of dry powder can continue to create strong competition for quality assets, with the potential to maintain higher valuation levels for sellers.
- Despite the early trend in 2022, we expect many buyers are focusing on integrating acquisitions completed in 2021 and preparing to deploy capital, while others are preparing to enter the market later in the year, and/or trying to get ahead of additional rate hikes later in 2022.
- Although 2022 M&A activity may not break any records, we believe that buyers will continue to seek high-quality assets across industries and will be willing to participate at strong valuation levels for the right opportunities.

M&A Deal Activity During Inflationary Markets by Industry

M&A deal volume impact before and after inflationary period
Years 2007–2011 indexed at 2007

M&A deal volume impact through May 2022
Years 2019 – May 2022 indexed at 2019



Source: Pitchbook

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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