Transaction **Trends**

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.

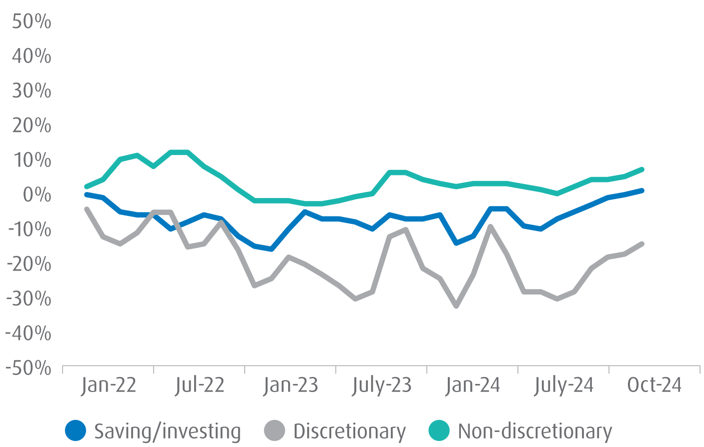
We're the experts—residential and home services: the weakening consumer

The Residential & Home Services sector is currently navigating headwinds despite robust GDP figures, falling interest rates, and stabilizing inflation as we move through 2024. Consumer financial sentiment is shifting, leading to a noticeable decrease in spending on critical home repairs and services.

Declining consumer strength

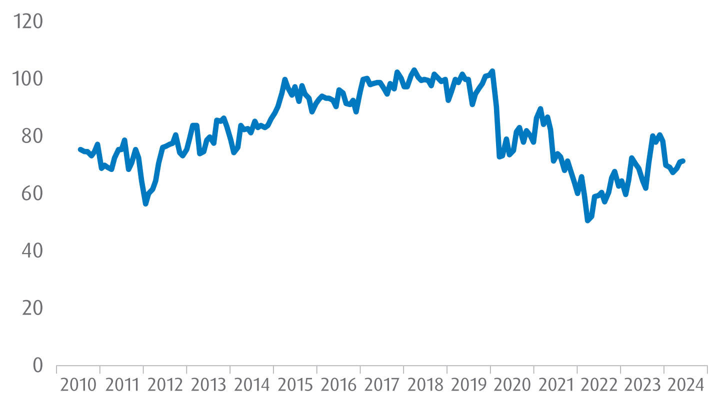
Since late 2021 and early 2022, consumer confidence has waned, primarily due to the absence of significant stimulus measures, persistent inflation fears, and sluggish wage growth. Following a brief surge in optimism post-pandemic, consumer sentiment has since stabilized at lower levels. Although there are signs of slight rebound as we head into 2025, overall spending intentions for both discretionary and non-discretionary goods/services continue to reflect caution, with similar trends in savings and investment activitiess.

Consumer Spending Intentions—Estimated Monthly Spending Amount Percentage Change



Source: Deloitte Insights Survey

University of Michigan Consumer Sentiment Index



Source: University of Michigan

We're the experts, continued

Effect on residential services

The deferred spending trends among homeowners are impacting contractors in the residential services market. Data from Jobber, which services 250,000 residential contractors, indicates a year-over-year decline in monthly new bookings since early 2023. Essential services like HVAC, plumbing, electrical work, restoration, and roofing are faring better than non-essential services such as cleaning, handyman, and landscaping.

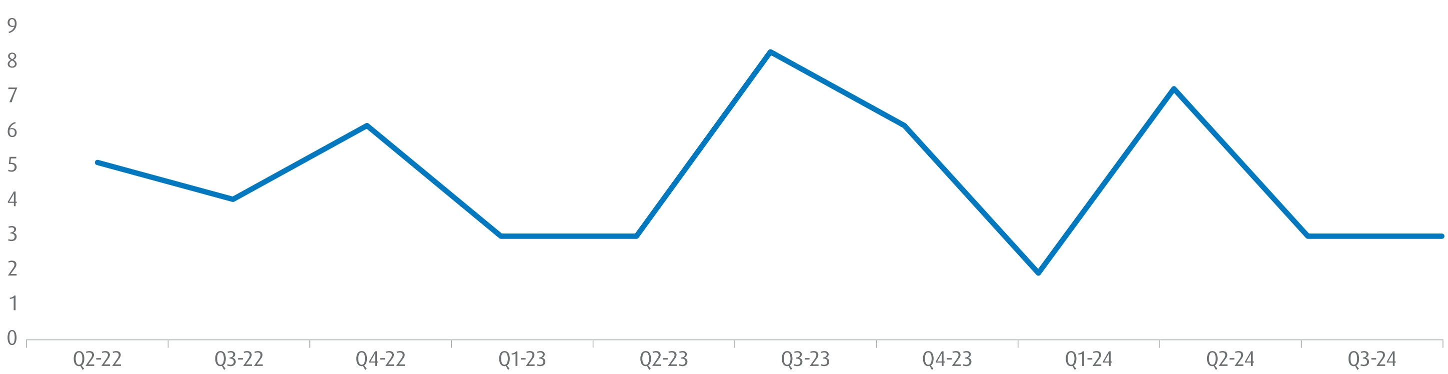
In sectors heavily invested by private equity, such as HVAC and plumbing, homeowners are increasingly opting for cost-effective patchwork repairs over more substantial retrofits or replacements. A Consumer Affairs survey from July 2024 revealed that 86% of homeowners postponed addressing critical repairs due to financial constraints, with an average wait time of over 10 months after recognizing an issue before taking action. Furthermore, many homeowners had previously made investments in these systems during the post-pandemic recovery phase, leading to decreased demand for additional services in subsequent years.

M&A and debt capital markets impact

These challenges have translated into a downturn in merger and acquisition activity within the Residential & Home Services sector. BMO Sponsor Finance reports a decrease in deal activity in the sector in 2024 compared to prior years. Notably, while sectors such as roofing and restoration have experienced a surge in new platforms due to early-stage consolidation, many founder-owned and sponsor-backed platforms are adopting a wait-and-see approach to market entry, postponing until pressures from declining topline growth and bookings abate.

Despite this contraction in activity, lenders maintain a favorable outlook on Residential & Home Services platforms, driven by their characteristics such as recurring service models, diverse customer bases, and significant barriers to entry. However, there is a heightened emphasis on the mix of mission-critical versus discretionary services, financial health (including margins, capital expenditures, and free cash flow), as well as geographical reach. These factors are crucial for mitigating risks associated with consumer weakness potentially continuing into 2025.

BMO Sponsor Finance—Residential & Home Services Deals in Auction Reviewed



Source: BMO Proprietary Data

Conclusion

As we progress into 2025, the Residential & Home Services market may face continued headwinds stemming from consumer financial strain. While some sectors display resilience, a cautious approach to spending is likely to persist. For private equity stakeholders, understanding these dynamics will be essential to navigating investments and fostering growth in a shifting economic landscape.

As a result of the above headwinds from consumer weakness in the market, BMO Sponsor Finance has seen a decline in Residential & Home Services deals in auction in 2024 compared to prior years.

BMO is consistently a leader in middle market deal volume

Recent deal activity

Better Protection — Deliberately Better
Portfolio Company of
abry partners
Senior Credit Facilities
Administrative Agent
Sole Lead Arranger
Sole Bookrunner

Syner-G BioPharma Group
sequoia Biotech Consulting
Portfolio Company of
Riverside Partners
Administrative Agent,
Joint Lead Arranger &
Joint Bookrunner

Arnott Suspension Products
Portfolio Company of
MidOcean Partners
Administrative Agent, Joint
Lead Arranger &
Joint Bookrunner

Guardian Restoration Partners
Portfolio Company of
ALPINE
Administrative Agent, Joint
Lead Arranger &
Joint Bookrunner

red nucleus
Portfolio Company of
THL
Joint Lead Arranger &
Joint Bookrunner

Prince Sterilization Services
Portfolio Company of
VANCE St. Capital
Joint Lead Arranger

Beauty by Imagination
Portfolio Company of
ACON
$225.0 million Senior
Secured Credit Facilities
Administrative Agent, Lead
Arranger & Bookrunner

Distinguished.
Portfolio Company of
AQUILINE Capital Partners LLC
Administrative Agent, Sole
Lead Arranger &
Bookrunner

FLOW Service Partners
Portfolio Company of
QUAD-C
Senior Credit Facilities
Joint Lead Arranger
Joint Bookrunner
November 2024

Charter Impact
Portfolio Company of
Red Iron Group
Administrative Agent, Sole
Lead Arranger &
Sole Bookrunner

Sparkstone Electrical Group
Portfolio Company of
GREENBRIAR
Senior Secured Credit Facilities
Administrative Agent,
Collateral Agent,
& Joint Lead Arranger

Catalyst Acoustics Group — Controlling noise in every environment
Portfolio Company of
KPS Capital Partners, LP
Senior Secured Credit Facilities
Administrative Agent,
Joint Bookrunner,
& Joint Lead Arranger

Quantum Design International
Portfolio Company of
CARLSON Private Capital Partners
Administrative Agent, Lead
Arranger, & Bookrunner

Tulkoff Food Products, Inc.
Portfolio Company of
Graham Partners
Administrative Agent
Sole Lead Arranger
Sole Bookrunner

cashco
Portfolio Company of
May River Capital
Administrative Agent, Sole
Lead Arranger & Bookrunner

ALKEME
Portfolio Company of
GCP Capital Partners
Documentation Agent

Graymar Environmental
Portfolio Company of
SSC
Administrative Agent, Lead
Arranger &
Sole Bookrunner

PROtect
Portfolio Company of
STERLING Investment Partners
Administrative Agent, Joint
Lead Arranger &
Joint Bookrunner

MKB Stormwater Innovation
Portfolio Company of
Align Capital Partners
Administrative Agent

Kilwins
Portfolio Company of
Levine Leichtman Capital Partners
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BMO spotlight

BMO provides cross-border financing to support private equity investment in existing Canadian borrower.

Axis Insurance (or the "Company"), a leading specialty insurance brokerage based in Canada, received a significant growth investment from funds managed by Lee Equity Partners, LLC ("Lee Equity") in June 2024. BMO Sponsor Finance served as Administrative Agent and Joint Lead Arranger, and arranged an attractive financing in Canadian Dollars to support the Company's continued growth. Axis was an existing borrower within BMO's Diversified Industries Group.

The transaction exemplifies BMO Sponsor Finance's ability to provide cross-border solutions, given BMO's leading footprint in Canada. In addition, BMO worked effectively across different groups to retain an existing borrower within our Commercial Bank, as the business received investment from one of our private equity clients.

Given BMO's incumbent position with Axis, as well as our extensive lending experience and investment banking sector coverage within the insurance space, we were able to move quickly to provide certainty on the financing to support Lee Equity's investment. In addition, BMO's understanding of the U.S. and Canadian markets, and strong relationships with both the Axis management and Lee Equity teams allowed us to deliver a seamless execution.

AXIS

Portfolio Company of

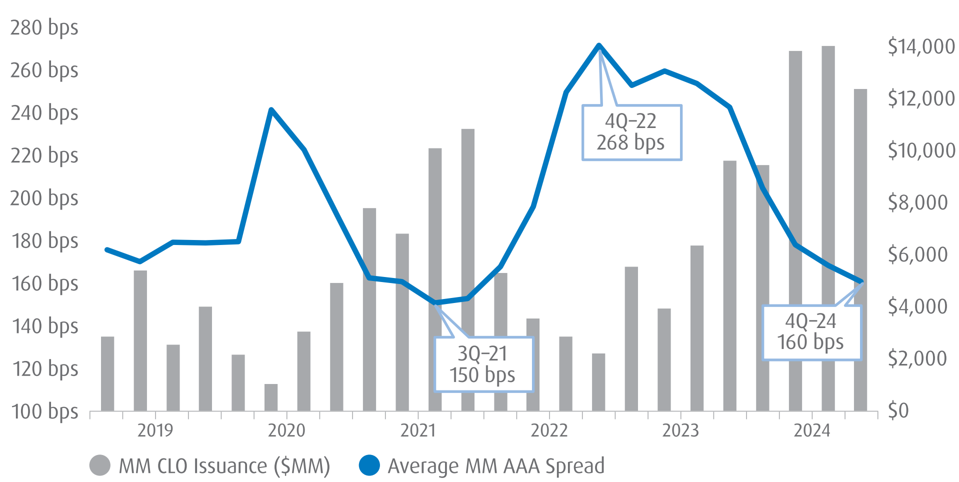
LEE EQUITY

Administrative Agent
Joint Lead Arranger

CLO demand continues to fuel middle market growth

- Collateralize Loan Obligations ("CLOs") have proven to be resilient through credit cycles attracting a diverse investor base comprising domestic and foreign banks, insurance companies, family offices, hedge funds, and sovereign wealth funds to name a few.
- The cost of CLO debt financing middle market portfolios has declined significantly in the YTD '24 period as the market has experienced meaningful spread compression across all classes of rated debt, driven by increasing demand from existing and new market participants as investors seek yield and allocate capital and resources to manage middle market CLO investments.
- While demand has been increasing, supply growth has been limited as a result of a slower, albeit increasing, pace of new LBO formations experience in 2024. These dynamics have resulted in AAA spreads, which comprise ~40% of the CLO capital stack, tightening 80bps from an average of 240bps in 4Q23 to and average of 160bps in 4Q24 to date. MM CLO AAA spreads are ~110bps tighter than peak levels realized in 4Q22 of 268bps supporting significant growth in MM CLO Issuance as highlighted in the accompanying chart.
- Despite this spread compression, middle market CLO debt remains an attractive value proposition for floating rate note investors across the capital stack driving continued interest from new and existing investors. Great Lakes CLOs target equity IRRs in excess of 15% with CLOs issued post-2020 achieving cash yields in excess of 20%.
- The Great Lakes CLO platform, which exclusively manages collateral originated and underwritten by BMO Sponsor Finance, has issued two new transactions totalling $800MM in 2024 lifting total Great Lakes CLO AUM to $2.1B. Great Lakes CLOs remain well positioned to capitalize on these market trends by leveraging the size, scale, volume, and strong track record of the BMO Sponsor Finance platform which provides a competitive advantage to Great Lakes CLO investors by enabling the construction of portfolios with significant diversity across high quality assets on a consistent basis.

Average Quarterly MM CLO AAA Spreads vs. Total MM CLO Issuance



Source: SMBC Group/smbcgroup.com

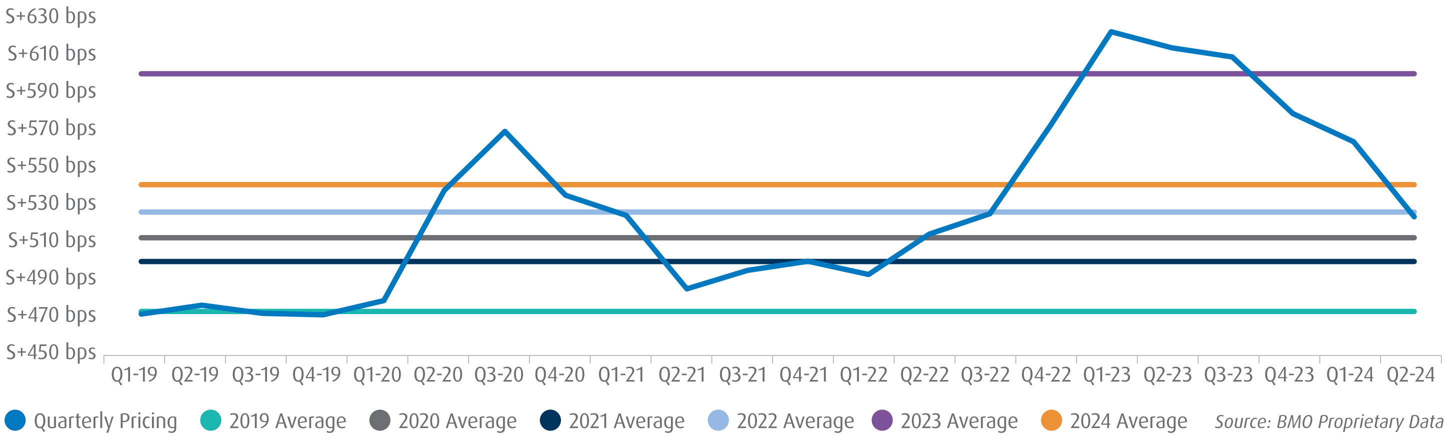
A peek behind the curtain

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

Pricing trends—all transactions

- Pricing continues to be borrower friendly with BMO experiencing a continued downward trend on spreads which started in Q1'23.
- Average new LBO pricing in the S+[475–500] bps range which represents a slight tightening from the prior quarter.
- Given the supply and demand imbalance, transactions over $30MM of EBITDA have been highly competitive with larger providers coming down market for the first time in a long time driving more favorable terms.

Quarterly Pricing and Yearly Averages

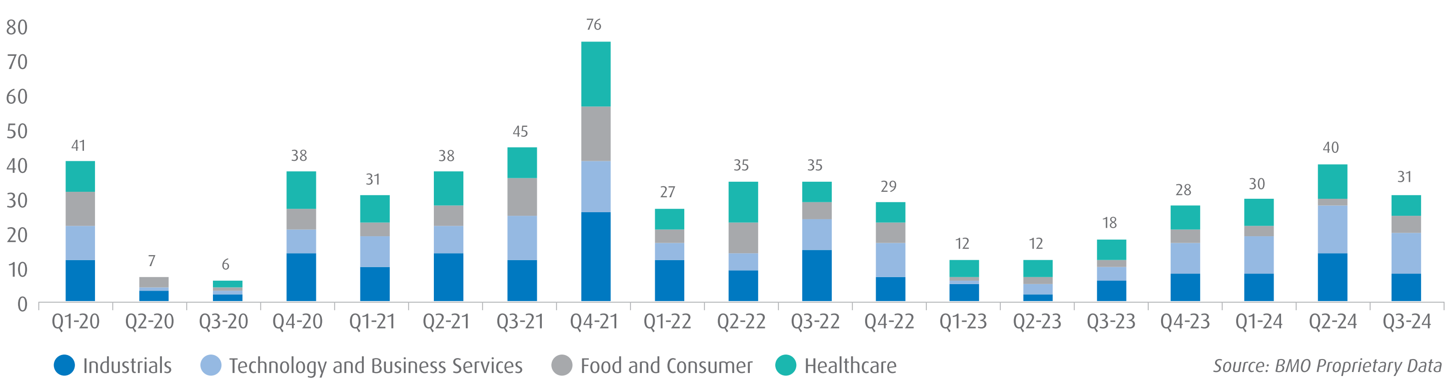


Source: BMO Proprietary Data

Quarterly transaction activity—all transactions

- Sponsors have continued to remain highly active on their existing portfolio companies through ongoing tuck-in activity. There has also been an uptick in refinancing opportunities, extension requests, and re-pricings given strong lender appetite and lower spreads than ~12–24 months ago.
- Overall new LBO deal activity and quality has been mixed based on the industry vertical (e.g. Industrials and Technology/Services sectors have been more active than Food/Consumer and Healthcare in Q3). Based on conversations with bankers, there is growing optimism of FY25 being an active year now that the presidential election is behind us and sponsors are feeling increasing pressure to both exit longer hold investments and put money to work in new platforms.

Deal Volume by Team—All Transactions



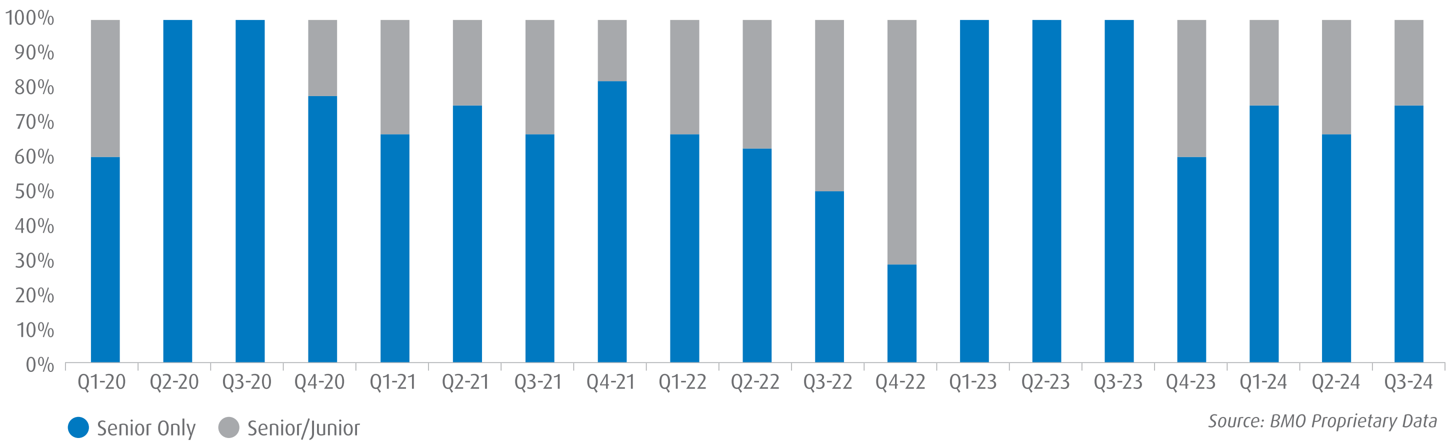
Source: BMO Proprietary Data

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 declining in recent quarters.
- 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

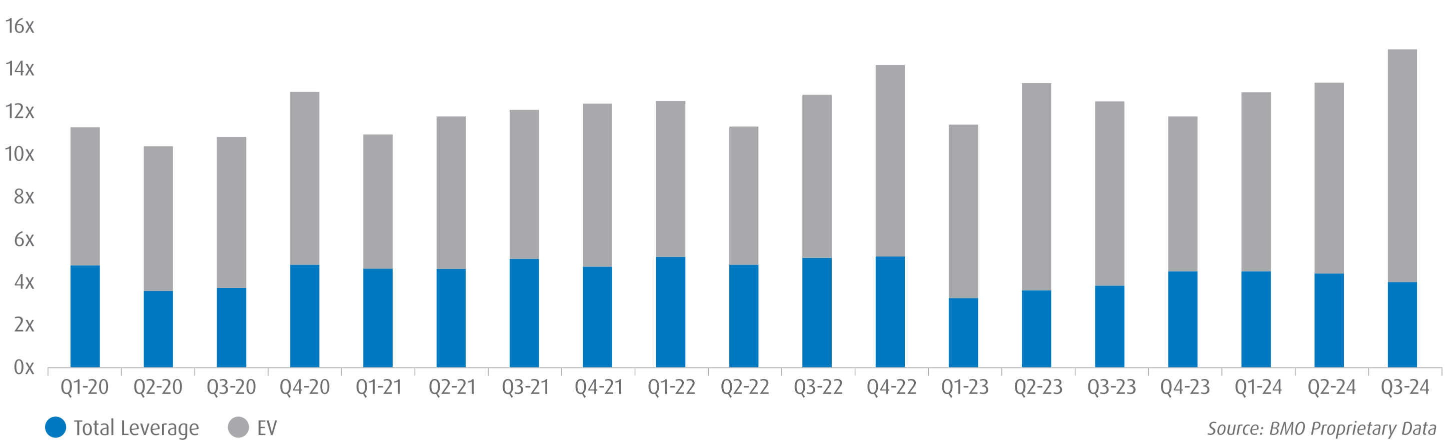


Source: BMO Proprietary Data

Average total leverage trends—new LBOs

- BMO has seen the market get modestly more aggressive in terms of the depth of leverage, particularly on high quality credit profiles as lenders are eager to put dollars to work with declines in interest providing modest tailwinds.
- For transactions being tracked and ultimately trade (as BMO has seen many processes stall out over the course of the year), BMO continues to see robust EV valuations that are in-line with multiples paid ~24–36 months ago.

Average Total Leverage and EV—New LBOs



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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