BMO Middle Market M&A update

Trump's Planned Tariffs: Impact on M&A Across Key Sectors

The M&A market could potentially see a meaningful impact from the recent election victory of President Donald Trump due to his plans to reinstate or escalate several initiatives centered around deregulation, tax cuts, tariffs, and trade policies. While President Trump elected not to increase tariffs on day one of his presidency, he instead called for a study of U.S. trade relations with China, Canada, and Mexico and indicated that tariffs are still on the table for Canadian and Mexican goods starting February 1st. Potential tariff increases will be closely monitored due to their impact on global supply chains, as well as the uncertainty they create for business owners. While tariffs, once enacted, are expected to be negative for the broader economy, their impact on M&A will be more nuanced and targeted.

Estimated Impact of President-Elect Trump's Proposed Tariffs[1]

(0.4)% *GDP*   ***(0.3)%*** *Capital Stock*   ***0.0%*** *Pre-Tax Wages*   ***(344.9K)*** *Full-Time Equivalent (FTE) Jobs*

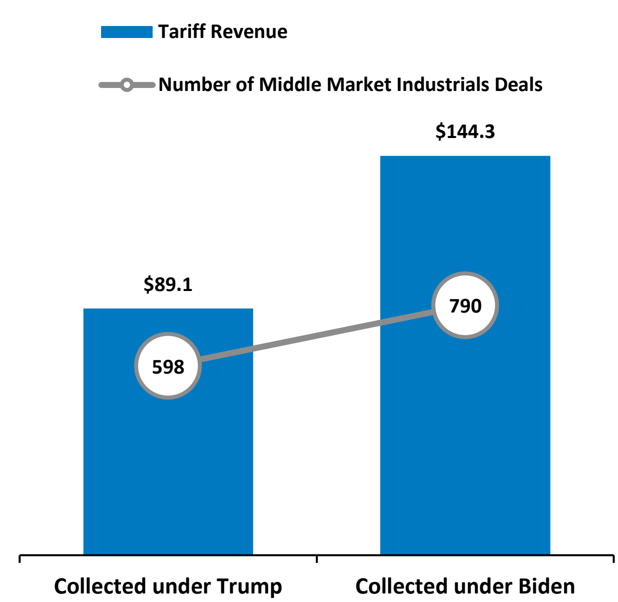
Potential Impact on the Industrials Industry

During the first Trump presidency, tariffs were placed on both completed items, such as washing machines and solar panels, as well as essential production inputs, like steel and aluminum. The Biden administration largely upheld and expanded the Trump tariffs. Notwithstanding the expansion of tariffs, the industrials M&A market remained strong with the total number of middle market industrial transactions increasing during the Biden presidency.

Looking forward, the higher operating costs and margin compression from tariffs could lead businesses and investors to continue evaluating onshoring opportunities. This phenomenon will drive interest in U.S. businesses that are able to swiftly scale up domestic production or have significant U.S. manufacturing footprints. The change may also hasten consolidation in the industrial manufacturing sector as larger companies look to buy smaller companies to increase domestic production. On the other hand, tariff uncertainty will likely weigh on investor interest for companies with significant offshore operations or exposure to imported goods. Such companies should evaluate whether their transaction goals will benefit from waiting for greater certainty.

Tariff Collections and Industrials Transactions under Trump & Biden

($Billions)



Sources: **White & Case** – "M&A Explorer"
1. **Tax Foundation** – "Tracking the Economic Impact of the Trump Tariffs"

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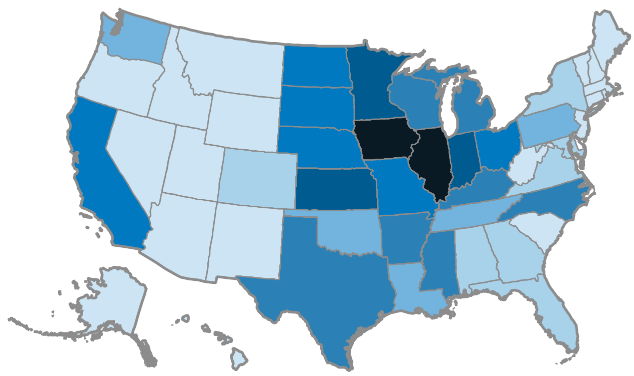
Trump's Planned Tariffs: Impact on M&A Across Key Sectors (cont'd)

Potential Impact on the Food, Agriculture, Consumer & Retail Industry

Although tariffs may incentivize on-shore production in the U.S., many consumer sub-sectors could be negatively impacted. For example, tariffs resulted in approximately $27 billion in lost exports for U.S. agricultural producers between 2018 and 2019. The further escalation of retaliatory tariffs could lead to additional export losses for the U.S. agriculture industry, adding to recent industry pressure and weighing on valuation multiples.

While the tariffs would hurt select food and consumer companies, there could also be winners. Companies with production and revenue generated domestically could see positive tailwinds due to a preference for U.S. products, as well as their products becoming more competitive. This is expected to provide an attractive opportunity for select U.S. focused food and consumer companies interested in exploring M&A options.

Estimated Annualized Agricultural Losses from 2018 Retaliatory Tariffs[2]



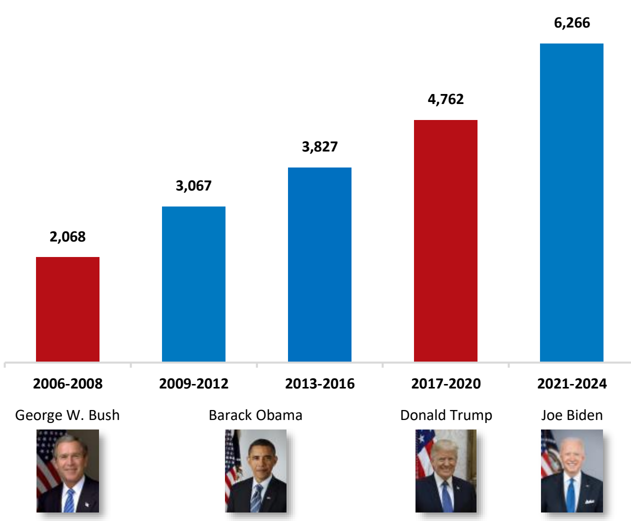
Estimated trade losses, U.S. dollars (million): 0-50 | 50-100 | 100-250 | 250-500 | 500-750 | 750-1,000 | 1,000-1,250 | 1,250+

Potential Impact on the Technology & Business Services Industry

The second Trump administration is expected to bring about major changes to the U.S. technology industry. Namely, tariffs levied on semiconductors from Taiwan would have a significant impact on the market. These higher input costs would inevitably be passed down and could reduce the demand for semiconductor related business services. Companies potentially impacted by the tariffs should evaluate waiting to see if Taiwan is excluded from the blanket tariffs being proposed.

Deregulation is another significant topic within the new administration. Trump has been an advocate for deregulation, specifically seeking to repeal Biden's AI executive order and allowing states to propose their own laws surrounding AI and technology. This could help perpetuate the rise of AI and make the industry more attractive for investors. Overall, the continued momentum and interest in technology & business services M&A is expected to remain strong.

Completed U.S. Middle Market Technology & Business Services Deals



Sources: S&P Global – "Tech M&A outlook mixed under new Trump administration"
U.S. Department of Agriculture – "The Economic Impacts of Retaliatory Tariffs on U.S. Agriculture"
White & Case – "M&A Explorer"

2. Estimates reflect annualized losses calculated using data from mid-2018 through the end of calendar year 2019. Totals calculated over the following commodities: soybean, sorghum, cotton, wheat, corn, tobacco, rice and other oil-seeds and products

Trump's Planned Tariffs: Impact on M&A Across Key Sectors (cont'd)

Potential Impact on the Healthcare Industry

We anticipate that the threat of potential tariffs, coupled with the promise of deregulation, will create a mixed outlook for the healthcare industry. Due to a reliance on offshore manufacturing of medical devices and technology, approximately 75% of U.S-marketed devices could be affected by proposed tariffs. This may force companies to raise prices to compensate for losses, potentially increasing costs for healthcare providers and consumers. As a result, medtech companies might look to establish facilities onshore, which could be an area of opportunity for acquisitions. Tariffs could also encourage foreign companies to acquire U.S. facilities for domestic manufacturing.

Medical service providers are less likely to be impacted by tariffs and could benefit from decreased regulation and reduced M&A antitrust scrutiny. While some states are taking a harder stance on private equity involvement in healthcare, medical services' insulation from tariffs and a friendlier federal environment could drive increased interest in the sub-sector.

Potential Impact on the Private Equity Industry

Proposed tariffs may impact the velocity of exits in 2025. Given the uncertainty surrounding potential tariffs, private equity firms will likely postpone the marketing of assets that are perceived to have significant tariff exposure. On the other hand, select firms may look to rotate out of portfolio companies that have high international exposure, despite potential discounts to their valuation. The ultimate path for such firms will depend on their comfort level with the potential risk versus the expected discount required to transact.

When looking to acquire new platforms, private equity firms will then prioritize companies based in the U.S. with strong domestic supply chains. This provides an attractive opportunity for U.S. focused businesses with limited international exposure. U.S. business owners that are considering an exit should evaluate whether the anticipated private equity rotation creates an environment where the time is right to explore a sale.

Let's connect

Whether you're expanding through acquisition or ready to transition ownership of the business, our middle-market M&A experts are ready to help you take your company to the next phase.

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