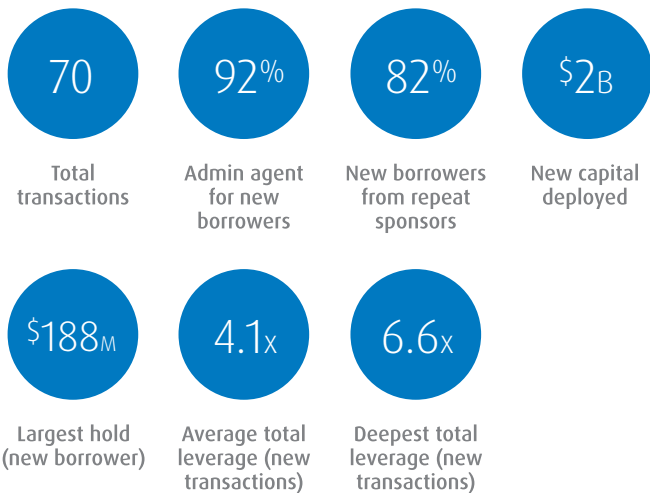


Transaction Trends

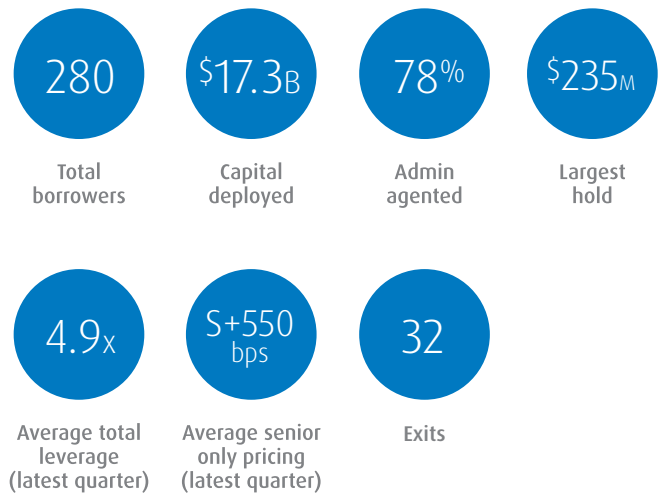
2023 Year in review

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.

2023 Transactions year-end review (fiscal year-end)



2023 Current portfolio snapshot








Marquee transactions

Healthcare

 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>
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Food and consumer

 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>
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Industrials

 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>
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Outsourced services and distribution

 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger Sole Bookrunner</p>
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Software, technology, and professional services

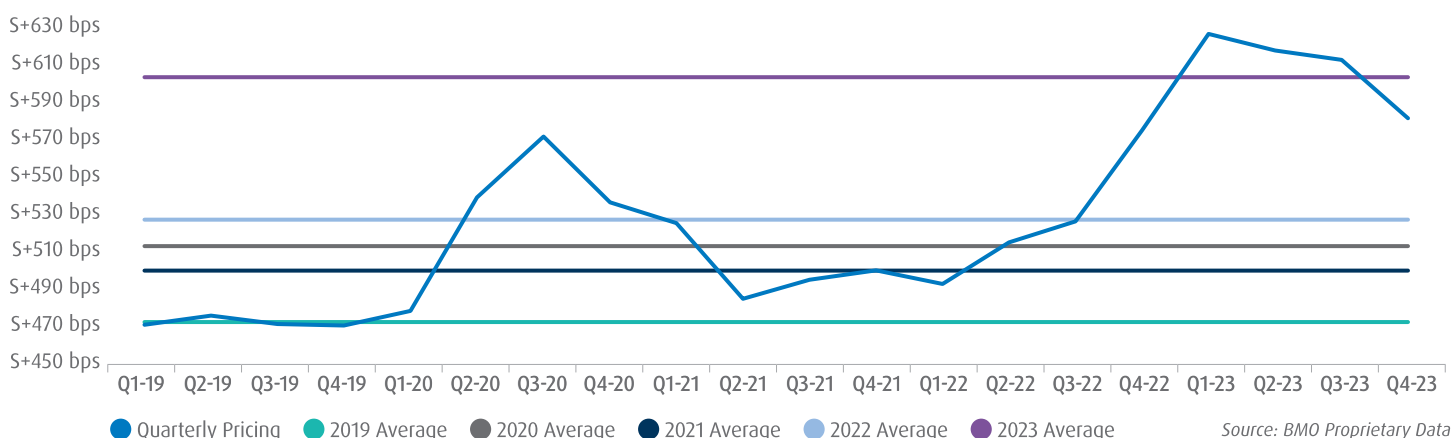
 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Sole Lead Arranger</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>	 <p>Portfolio company of</p>  <p>Administrative Agent Joint Lead Arranger Joint Bookrunner</p>
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New transaction activity

Pricing trends—all transactions

- As illustrated in the chart below, spreads on new transactions (inclusive of LBOs, refinances, add-ons) peaked in Q1'23 and have seen downward movement since, as Fed tightening has eased and the general macroeconomic outlook has improved, leading to increased appetite and competitiveness within the lending markets.
- Downward pressure on spreads and closing fees were particularly experienced in Q4'23 and heading into 2024. While a year prior most deals were getting priced in the S+[600-650] bps range, most deals today are getting opening spreads in the S+[525-550] bps range.

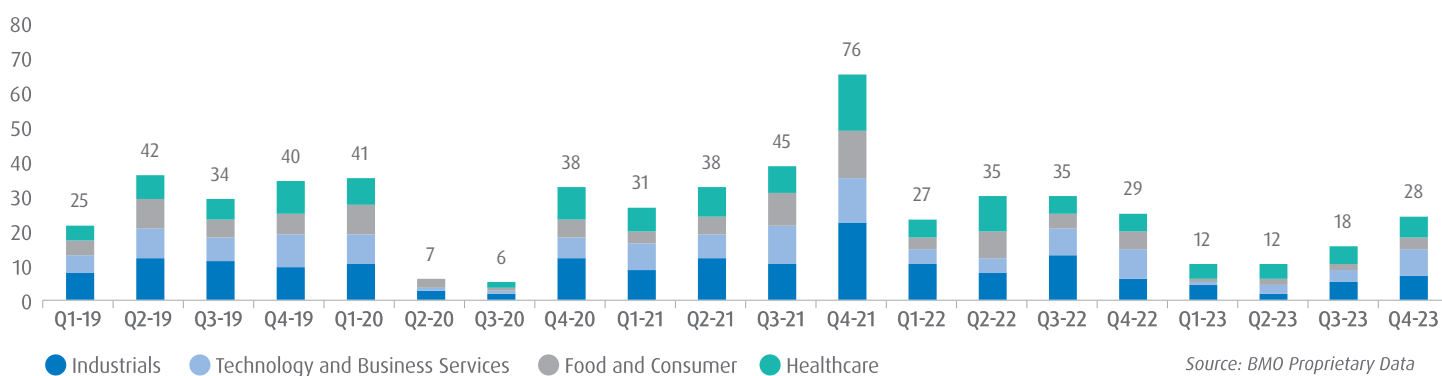
Quarterly Pricing and Yearly Averages



Quarterly transaction activity—all transactions

- Despite healthy M&A banking pipelines, new deal activity in 1H'23 was slow given dislocations in bid / ask valuations between buyers and sellers and disruptions in the financing markets (e.g. increasing rates, lower lending appetite given uncertainty, and increased lender focus on funded to unfunded mix in raising debt facilities). As a result, high quality auction activity in 1H'23 was limited, with many of the processes that were launched ultimately not trading.
- While new platform trades were limited in 1H'23, Sponsors continued to remain highly active on their existing portfolio companies through ongoing tuck-in activity.
- New deal activity and deal quality improved across most industry verticals post-Labor Day. This was further supported by easing within financing markets through increased lender appetite and the lowering of spreads and fees.
- Heading into Q1'24, BMO has experienced steady deal flow with the expectation for a much more favorable new deal environment in 2024 relative to 2023. However, the overhang of the upcoming presidential election could potentially impact activity in 2H'24.

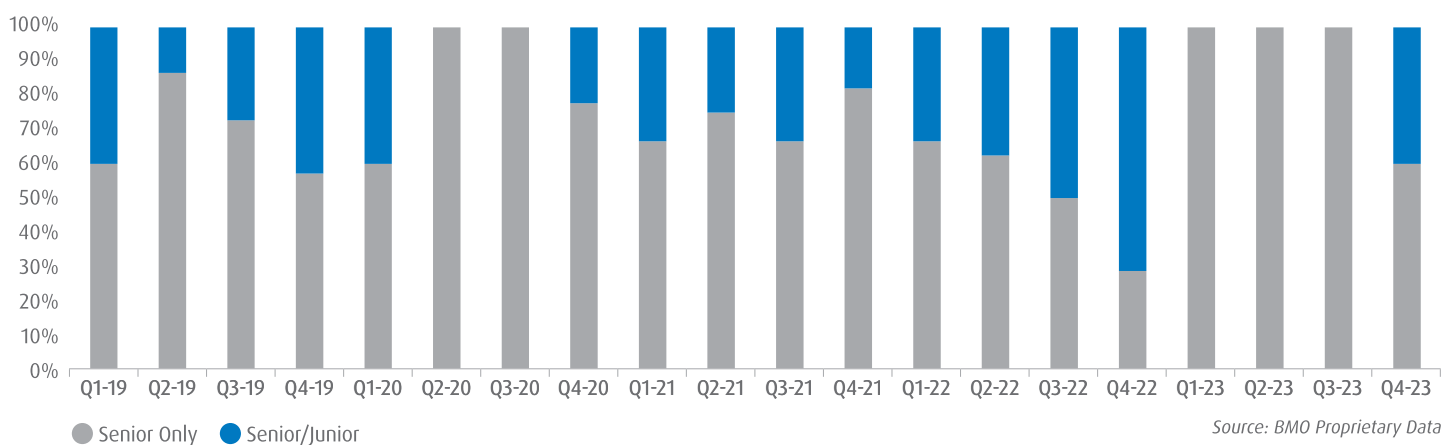
Deal Volume by Team—All Transactions



Capital structure type—new LBOs

- While single tranche structures have been favored in recent years given large lender holds and efficiency of execution, BMO saw increased usage of senior/junior structures in 2H'22.
- This was driven by a number of factors, including (i) pull-back in unitranche lender appetite and hold capabilities (or lack thereof), (ii) spiking SOFR and spreads on senior floating rate debt had made fixed mezzanine paper more attractive, and (iii) increasing willingness by mezzanine lenders to PIK a higher proportion of their yield, which improved cash flow dynamics.
- As financing markets and appetite improved throughout 2023, BMO saw a reversion back to Sponsor preferences for single tranche solutions.
- Furthermore, while funded to unfunded mix remains a key focus area for lenders, delayed draw term loan appetite improved in 2H'23 relative to prior periods.

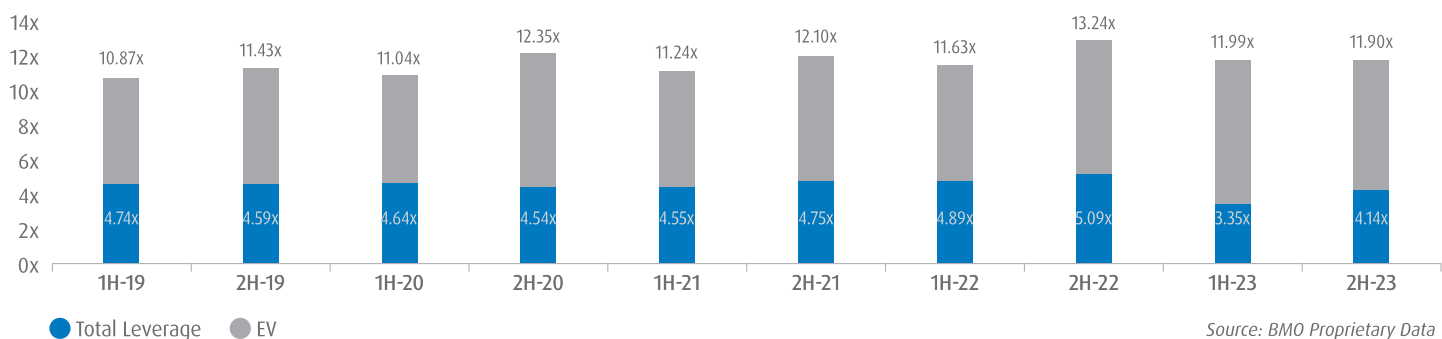
Transactions by Type—New LBOs



Average total leverage trends—new LBOs

- Over the past 12 months there has been a flight to quality by Sponsors and lenders where highly attractive and non-cyclical assets continue to command strong lender interest with similar leverage profiles as in past quarters.
- Some of the challenges in evaluating businesses (e.g. COVID normalizations, supply chain disruptions, de-stocking, inflationary pressure impacts, quantum of adjustments to EBITDA) in 2022 and early 2023 have eased as the broader macroenvironment and perceived outlook for a potential soft landing has improved.
- The limited new deal activity and types of transactions that closed in 1H'23 skewed leverage levels relative to historical norms. Given the continued increase in SOFR and spreads that have impacted cash flows, leverage indications have been governed by ensuring satisfactory fixed charge coverage ratios exist.
- From a lender perspective, despite higher interest rates BMO has not seen a material deviation in EV multiples for businesses that are ultimately trading compared to prior years.

Average Total Leverage and EV—New LBOs

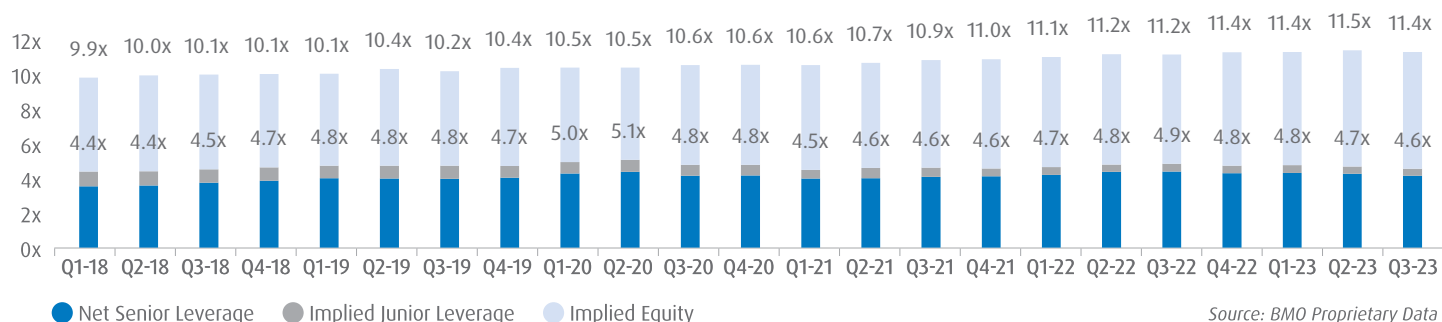


Portfolio trends

Average total leverage trends—portfolio

- BMO's aggregate portfolio remains healthy, with quarterly leverage levels remaining within a relative 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).
- Common challenges many borrowers experienced in 2023 were related to the de-stocking/bullwhip effect within the supply chain and inflationary pressures, both of which improved in the later part of 2023.

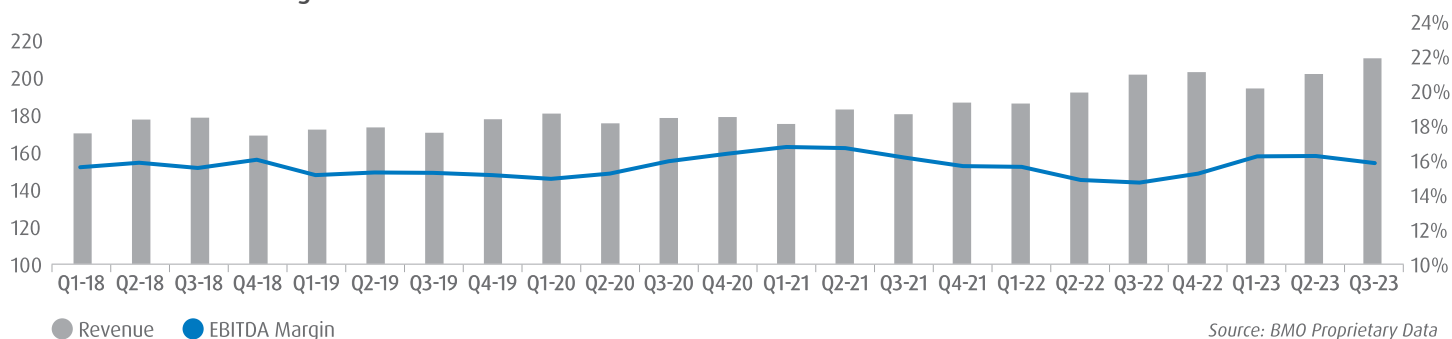
BMO Sponsor Finance Portfolio—Historical EV and Leverage Trends



Quarterly LTM average revenue and EBITDA margin trends

- Despite significant inflationary pressures, borrowers have continued to demonstrate pricing power by passing through pricing increases that have led to record revenues. However, a common phrase among many of our borrowers in 2023 was “revenue is up but volumes are flat.”
- As a result of pricing actions taken, EBITDA margins across the portfolio have continued to remain relatively stable relative to pre-2022 levels. In some cases, pricing actions were delayed due to notice periods required to provide customers prior to implementation (i.e. ~1-3 months is most typical), which partially drove the dip in 2022 when inflation was surging.

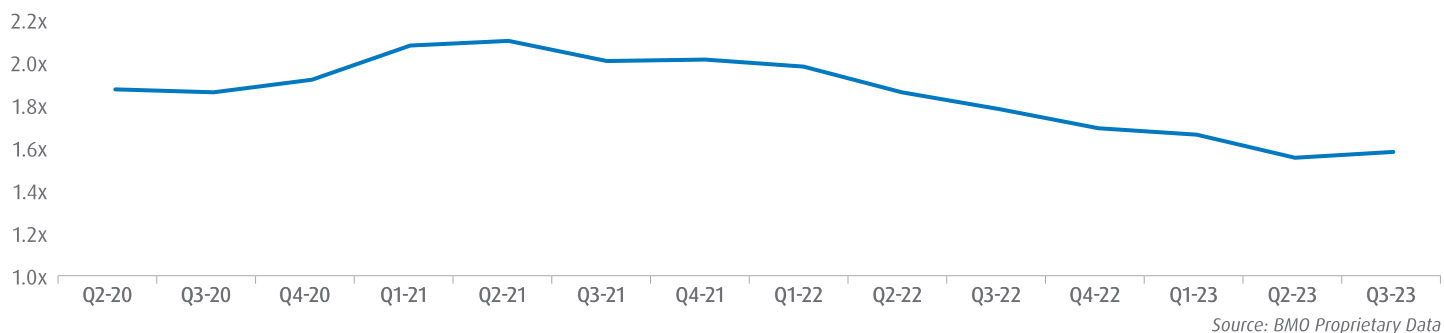
Revenue and EBITDA Margin



Fixed charge coverage trends—BMO portfolio

- While aggregate fixed charge coverage ratios across the overall portfolio remains healthy, we have seen ratios compress modestly throughout 2022 and 2023 as a full 12+ months of higher interest rates (both SOFR and spreads) flowed through P&Ls.
- Borrowers have proven to be resilient in effectively managing cash flows in light of rising rates, and BMO has seen less liquidity issues on higher levered structures than anticipated ~12 months ago.
- Given the tightening of spreads in 4Q'23 as well as the outlook for decreases in SOFR in the coming year, fixed charge coverage ratios within the portfolio may have troughed in 2H'23.

Fixed Charge Coverage—BMO Portfolio



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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