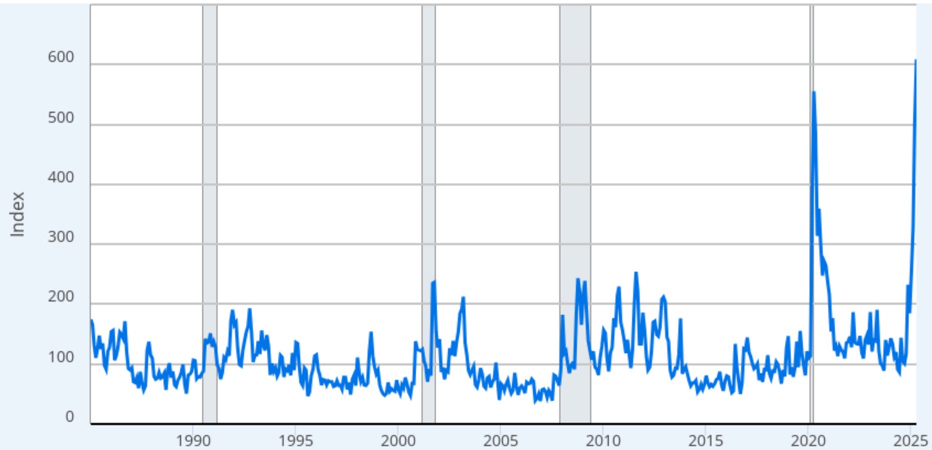
North American M&A Market Update

May 2025

CASCADE PARTNERS

Acquisitions | Divestitures | Financings | Restructurings

Economic Policy Uncertainty Index



Sources: Baker, Scott R.; Bloom, Nick; Davis, Stephen J. via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1ImFw

Uncertainty continues to weigh heavily on markets, the economy, business leaders, and consumers.

Trade policy—along with broader global economic and geopolitical dynamics—remains a key influence on the long-term outlook.

Factors Driving the Surge in Uncertainty

1. **Trade Policy Volatility**: In early April, the U.S. announced sweeping tariffs on imports from major trading partners, including Canada, Mexico, and China. The abruptness and breadth of these tariffs led to significant market turmoil and heightened uncertainty.[1]

2. **Stock Market Turbulence**: The announcement of new tariffs triggered a stock market crash between April 2 and April 10, marking the most substantial global market decline since the COVID-19 pandemic in 2020.[2]

3. **Fiscal Concerns**: Moody's downgraded the U.S. credit rating from Aaa to Aa1 in May, citing rising federal debt and persistent fiscal deficits now amounting to $36 trillion. This downgrade contributed to increased investor anxiety and further elevated the EPU index.[3]

4. **Federal Reserve Uncertainty**: Speculation about potential changes in Federal Reserve leadership and policy direction under the current administration added to the economic policy uncertainty.[4]

Sources: 1) Investopedia; 2) Wikipedia; 3) The Guardian; 4) The Washington Post

Inflation Outlook

Inflation in the U.S. declined steadily throughout 2024, with the annual average falling to 3.4%, down from 6.5% in 2023. This downward trend extended into early 2025, with March's inflation rate reaching 2.6%, approaching the Federal Reserve's target of 2% according to the U.S. Inflation Calculator.

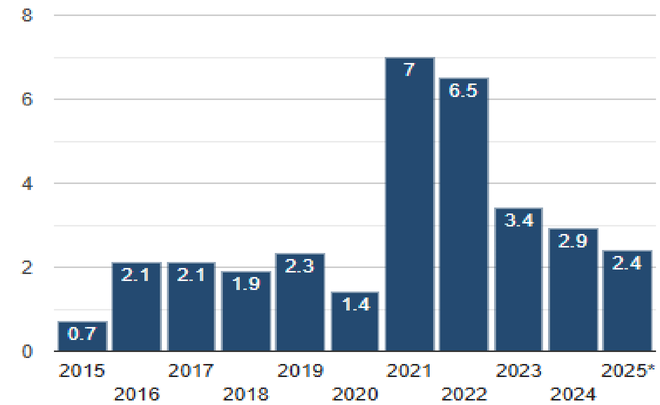
Despite recent progress, forward-looking indicators suggest renewed pressure. Proposed tariff policies are contributing to higher inflation forecasts, with the IMF projecting inflation to rise to 3% in 2025.

Consumer expectations are also shifting. According to the University of Michigan's consumer survey:

- Long-run inflation expectations rose from 4.1% in March to 4.4% in April
- One-year inflation expectations jumped to 6.7% –the highest level since November 1981– up from 5% in March

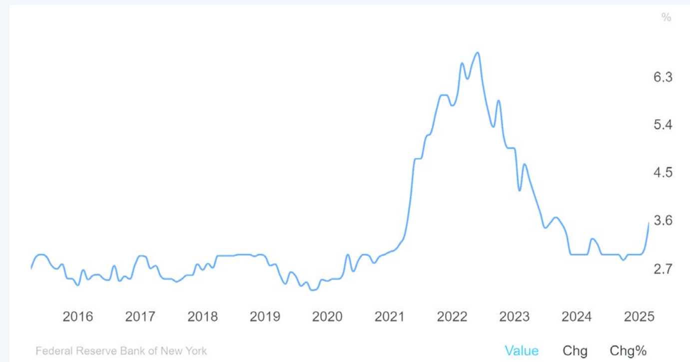
Together, these signals highlight a complex and evolving inflation landscape as policymakers and markets navigate competing pressures.

US Annual Inflation Rates (2015 – 2025)



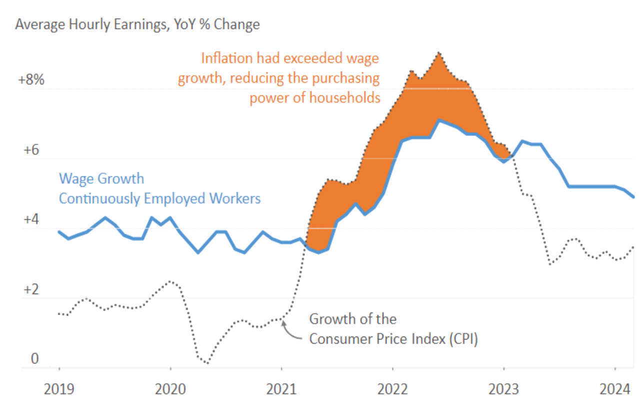
Source: US Inflation Calculator

Consumer Inflation Expectations



Source: Federal Reserve Bank of New York

Falling Inflation Moves Real Wage Growth Rate



Source: US Bureau of Labor Statistics; Atlanta Fed's Wage Growth Tracker

Job Market Outlook

While recent employment figures have positively surprised the market, underlying signs of softening are emerging. Unemployment held steady at 4.2%, but employee wage growth and overall earnings are beginning to ease. At the same time, job vacancies and average hours worked per week have continued to decline.

In March 2025, wages in the U.S. rose 3.26% year-over-year—moderate compared to the historical average of 6.16% since 1960. Notably, wage growth peaked at 15.42% in April 2021 and hit a record low of -6.01% in April 2020.[1]

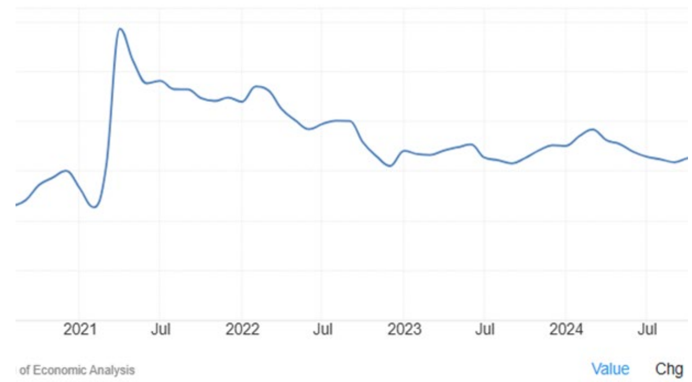
Average hourly earnings on private nonfarm payrolls increased by 3.8% in April 2025, consistent with March's rate but slightly below market expectations of 3.9%. Historically, average hourly earnings have grown at a rate of 3.11% since 2007, with a high of 8.1% in April 2020 and a low of 0.6% in April 2021.[2]

Workweek metrics also reflect moderation. The average workweek for all private nonfarm employees remained unchanged at 34.3 hours in April 2025, slightly above estimates of 34.2 hours. In manufacturing, the average declined by 0.2 hour to 40.0 hours, with overtime stable at 2.9 hours. For production and nonsupervisory employees, hours held steady at 33.8.[2]

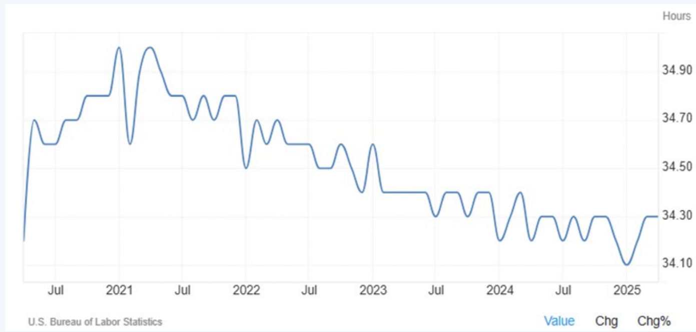
Together, these indicators suggest a labor market that remains resilient on the surface but is gradually cooling beneath headline employment numbers.

Sources: 1) U.S. Bureau of Economic Analysis; 2) U.S. Bureau of Labor Statistics

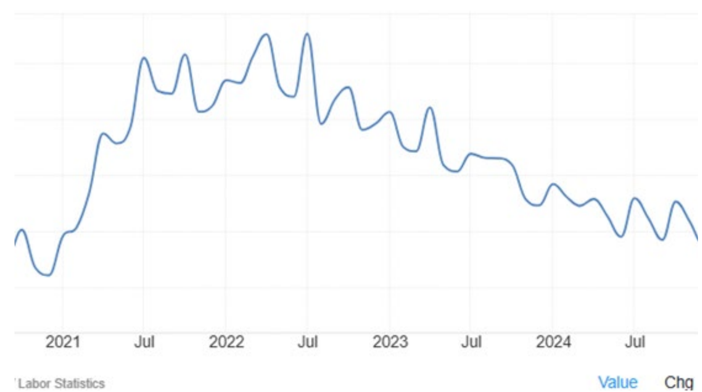
Wages and Salaries Growth



Average Weekly Hours



U.S. Job Vacancies



Consumers are On Edge

Consumer sentiment continues to deteriorate, with April marking the fifth consecutive monthly decline. Confidence has now fallen to its lowest level since the onset of the COVID-19 pandemic—and the second-lowest reading since 1952—driven by waning expectations around future business conditions, employment prospects, and income growth.[1,2]

Despite the decline in sentiment, consumer spending has shown signs of resilience. Retail sales rose 1.4% in March 2025, and Bank of America reported a 3.1% increase in total card spending, reflecting steady activity despite growing uncertainty.[3]

However, momentum is slowing. Consumer spending grew by 1.8% in Q1 2025, a notable drop from 4.0% in Q4 2024. Spending on goods, in particular, cooled sharply—rising just 0.5% in Q1 compared to 6.0% the previous quarter.[1]

Overall, while consumers are still spending, the combination of eroding confidence and slowing growth suggests a more cautious outlook may be taking hold.[1]

Source: 1) University of Michigan Survey of Consumers; 2) GCG Conference Board; 3) Wall Street Journal; Graphic: Matt Stiles, CNN

Tale of Two Consumers

The Wealth Gap in Spending

Spending patterns in the U.S. are becoming increasingly polarized. While the top 10% of earners—those making $250,000 or more annually—are driving a surge in luxury spending, working- and middle-class households are pulling back. High-income consumers are now responsible for 49.7% of all U.S. spending, up from just 36% in 1989, according to Moody's Analytics—representing nearly one-third of GDP.[1]

This divergence is fueled by wealth gains concentrated among the affluent. Since the end of 2019, the net worth of the top 20% has risen by over $35 trillion (a 45% increase), driven by appreciation in stocks, real estate, and other assets. While net worth has also increased for the bottom 80%, the dollar value of those gains—$14 trillion—has been significantly smaller, limiting their impact on spending power.

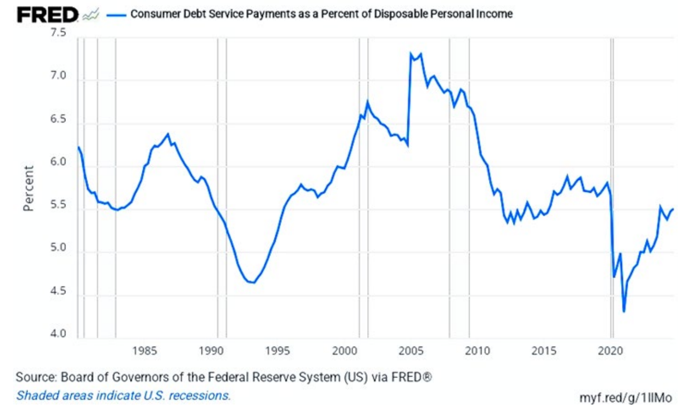
As a result, affluent households are splurging on high-end goods, travel, and experiences, while lower-income consumers have cut back, constrained by inflation and slower wage growth.

Consumer Debt Trends

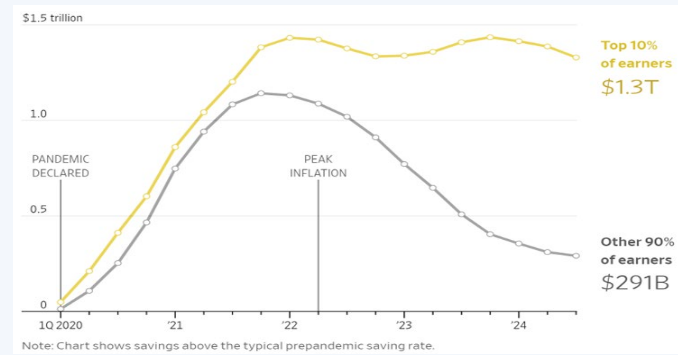
Despite these disparities, consumer debt service payments remained relatively stable in 2024. The Consumer Debt Service Payments (CDSP) ratio held at 5.51% in Q4 2024, indicating that debt obligations as a share of disposable income remained consistent. However, rising credit card balances and economic uncertainty are raising concerns about the sustainability of debt levels, particularly for more vulnerable households.

Source: 1) Wall Street Journal

Consumer Debt Service Payments as a Percent of Disposable Personal Income

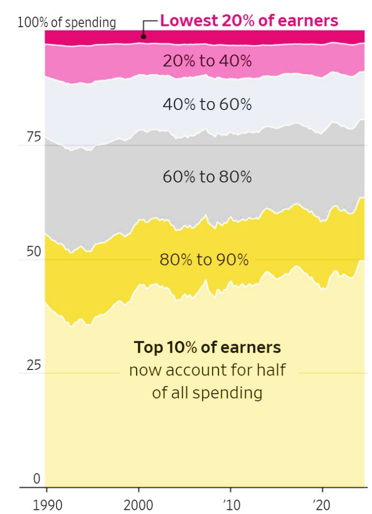


Cumulative excessive savings, by income



Source: Moody's Analytics

Share of Spending by Income Group

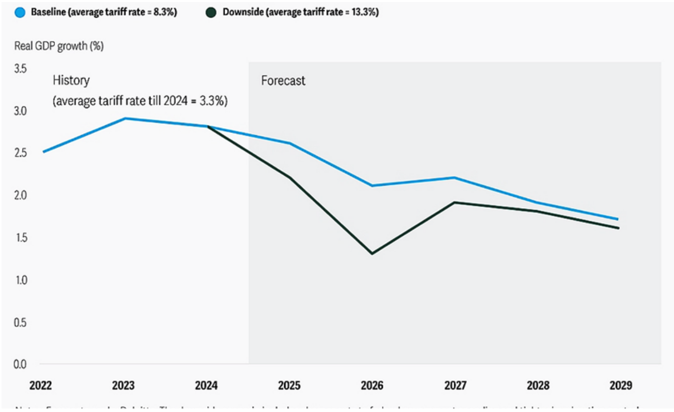


Shifting Spending Patterns and Weakening Sentiment Signal Slower GDP Growth

The U.S. economy contracted by 0.3% in Q1 2025, reflecting mounting pressure from shifting consumer behavior, weakening sentiment, and persistent policy headwinds. As high-income households continue to drive luxury spending, broader consumer cutbacks—especially among working- and middle-class earners—are beginning to weigh on overall demand.[1]

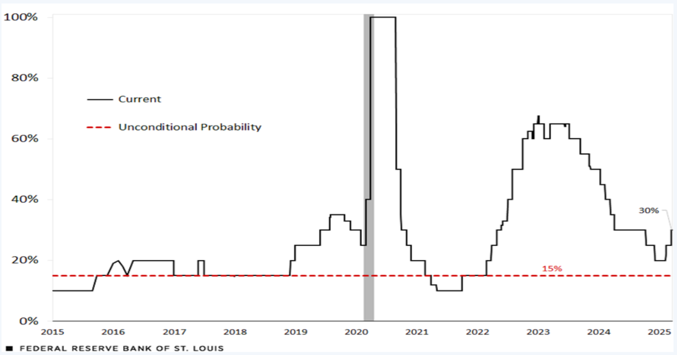
Ongoing uncertainty, coupled with sustained tariff pressures, is dampening confidence across both consumers and businesses. This environment is expected to constrain spending and investment, raising the likelihood of continued softness in GDP growth in the coming quarters.[1]

GDP Forecast



Source: Bureau of Economic Analysis; Deloitte

Expectation of a Recession



Source: 1) GCG Independent Survey

Counter Trend: Reshoring/Near Shoring

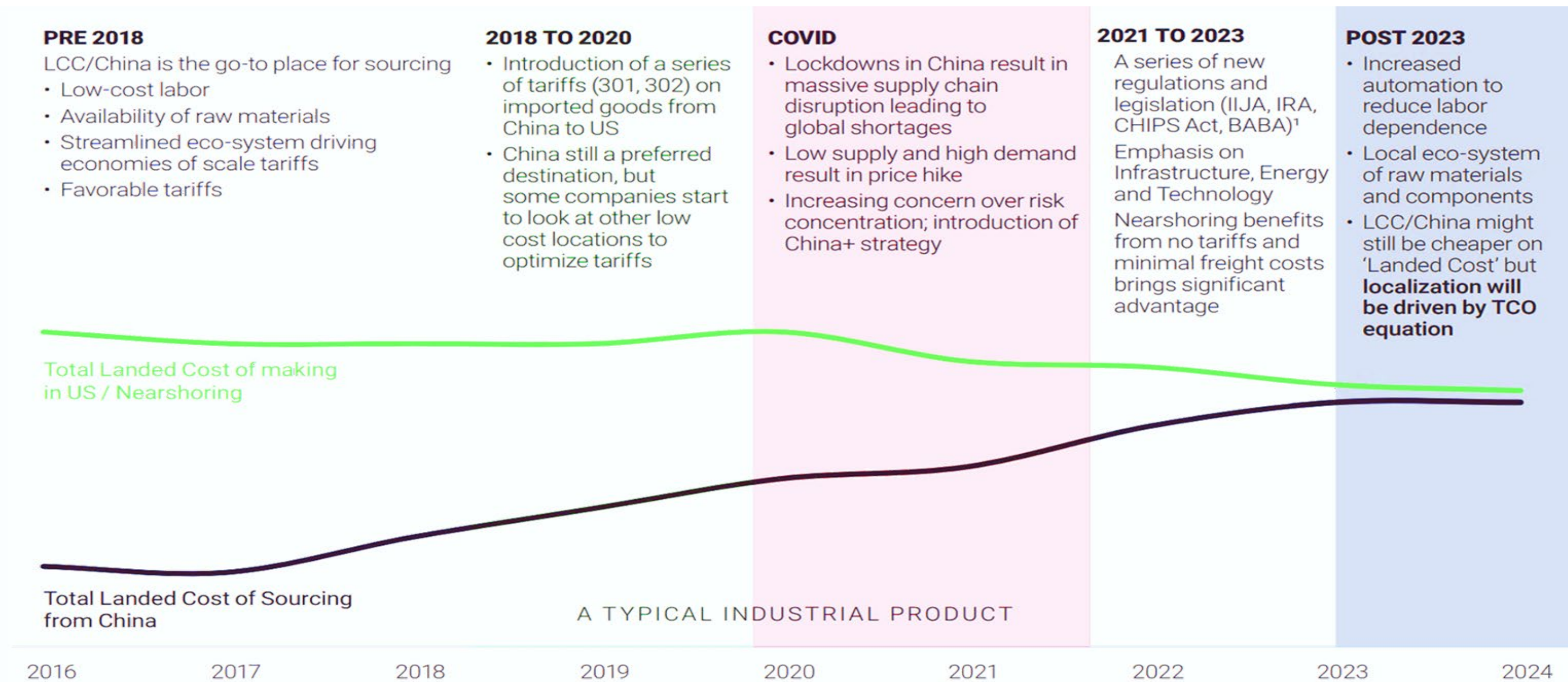
Global Pressures and Policy Shifts Accelerate U.S. Reshoring Momentum

Rising wages in China, increased automation in the U.S., and persistent supply chain disruptions are prompting a broad reassessment of global manufacturing and sourcing strategies. Coupled with shifting trade and economic policies, these pressures have significantly narrowed the cost gap between offshore production and U.S.-based operations—making reshoring a more viable and attractive option.

In the first half of 2023 alone, announced reshoring and foreign direct investment (FDI) jobs outpaced 2022's record-setting pace of 340,000 jobs annually. Since 2010, approximately two million jobs have been announced through reshoring efforts—recovering an estimated 40% of the roles lost to offshoring over the past four decades.

Sustained geopolitical risk and logistics challenges continue to expose vulnerabilities in global supply chains. In response, companies are increasingly using Total Cost of Ownership (TCO) analysis to evaluate the full economic impact of offshore production. Findings suggest that reshoring is now economically feasible in roughly 25% of cases.

Automotive manufacturing is leading the shift—not out of a push for "Made in America," but because the evolving economics and risk environment make domestic production strategically sound.

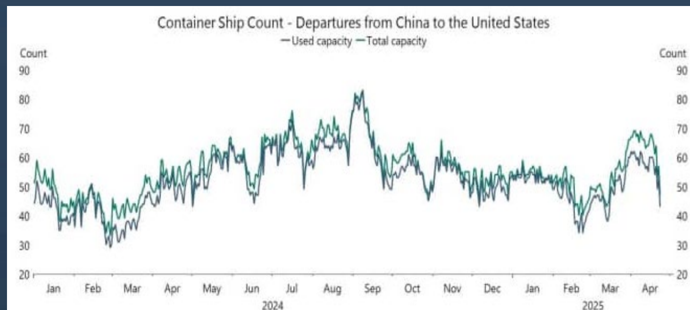


1. IIJA - Infrastructure Investment and Job Act; IRA - Inflation Reduction Act; CHIPS & Science - Creating Helpful Incentives to Produce Semiconductors and Science Act; BABA - Build America, Buy America

Source: AlixPartners analysis, press search

Mixed Data, but Sentiment is Weakening

Port of LA sees 35% volume drop in May



Personal consumption index up 0.7% in March

McDonald's worst quarter since COVID. Revenue down 3.6%

Private domestic investment surged 21.9%

US adds 177k jobs in April. Exceeds estimates

FIB Small Business Optimism Index dropped to 97.4 below its long-term average

Consumers reported their plans to decrease discretionary spending

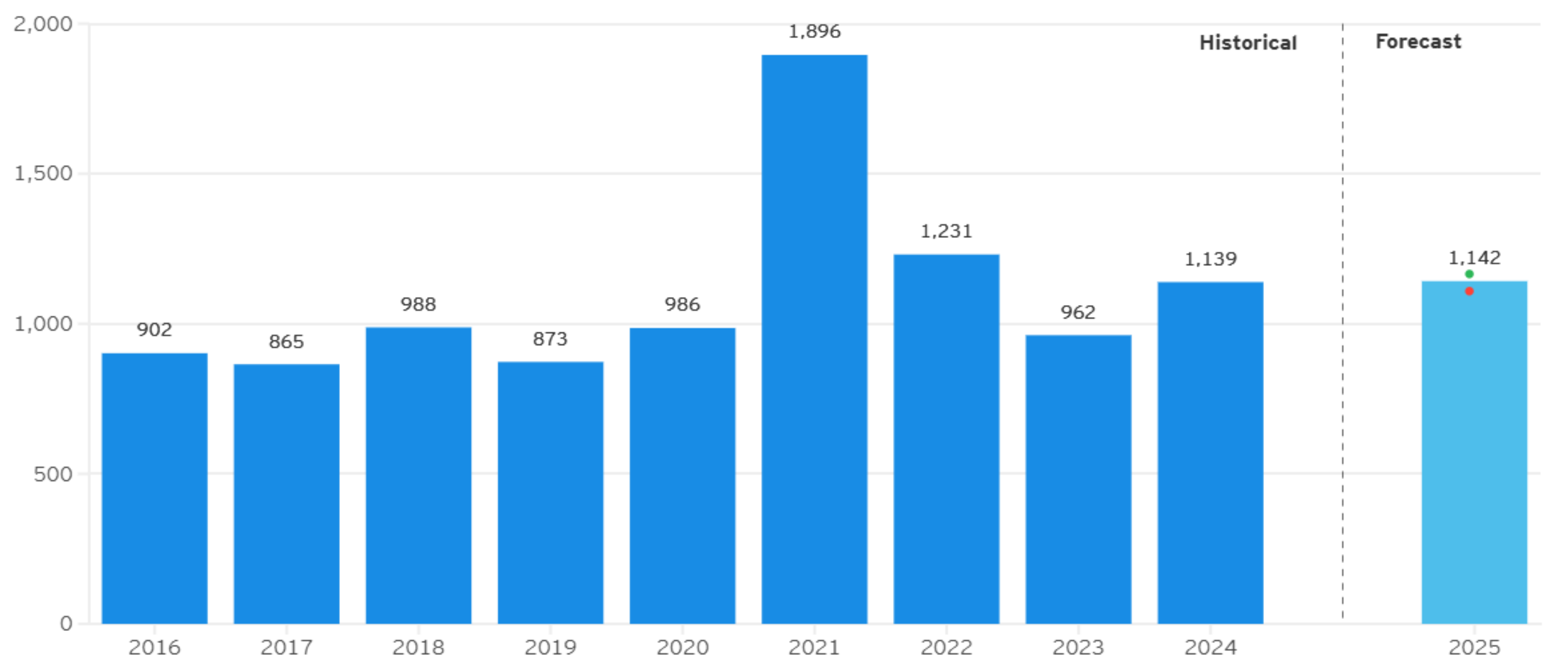
M&A Update

M&A Volume Expected to Remain Flat in 2025 Following Strong Deal Flow in 2024

According to the latest *EY Private Equity Pulse* survey, roughly 25% of general partners report that tariff concerns have caused deals within their portfolios to be withdrawn or delayed. Even more pressing, 43% express concern about assembling financing packages as widening spreads in the leveraged finance markets create additional headwinds.

Meanwhile, acquisitions of U.S. companies by non-U.S. buyers totaled $201 billion in transaction volume, representing 6.3% of global M&A activity and 19.6% of all cross-border deals in 2024. Acquirers from Japan, Canada, the United Kingdom, Denmark, and Switzerland together accounted for 56.7% of this cross-border volume, while buyers from China, India, and other emerging markets contributed just 5.2%.

US Corporate M&A Deal Volume (Deals > $100M)



Source: EY Parthenon

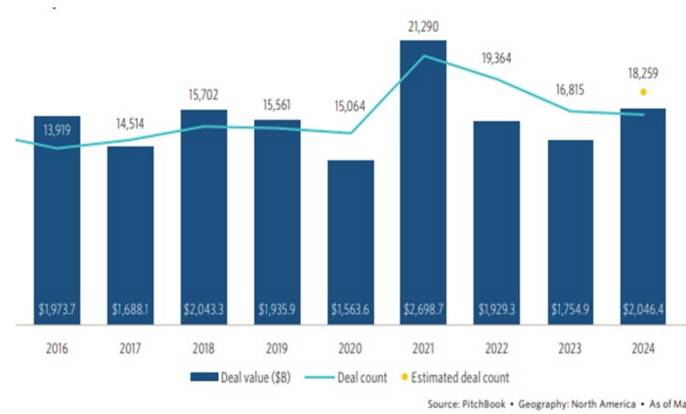
M&A Deal Activity

North American M&A activity showed strong momentum in Q1 2025, with total deal value reaching $613.8 billion across 4,934 announced or closed transactions—including estimates for late-reported and undisclosed deals. This marked a 28.3% increase quarter-over-quarter and a 10.3% gain year-over-year, driven largely by a wave of large-scale transactions.

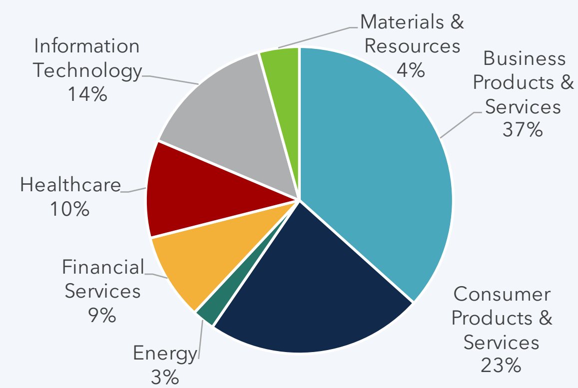
While deal value surged, volume dipped slightly by 1.9% compared to the previous quarter but still climbed 19.8% year-over-year, with the IT sector leading the way. The quarter began with optimistic market sentiment, supported by expectations for continued growth. However, that tone shifted mid-quarter as concerns around tariffs and a potential recession introduced a wave of caution.

If these economic headwinds persist or intensify, Q1 may stand as the high point for M&A activity this year. On the other hand, a more stable macroeconomic environment could reignite momentum and extend the strong start into the remainder of 2025.

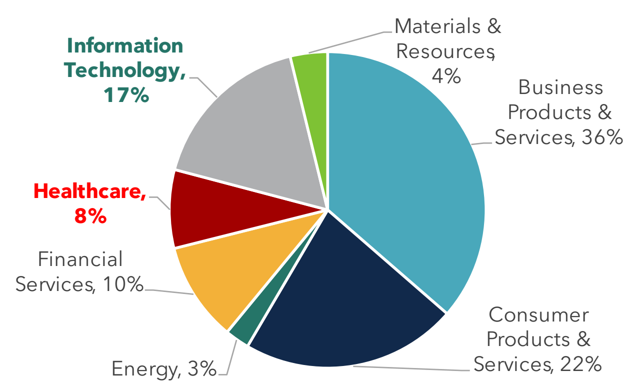
M&A Activity



M&A Deal Volume by Industry Q!: 2024



M&A Deal Volume by Industry Q!: 2025



Valuations in U.S. Market

Valuations have remained relatively stable over the past several years and are expected to hold steady through 2025, reflecting resilience in pricing despite broader macroeconomic uncertainty.

Looking ahead, increased deal activity is anticipated in 2025. Private equity firms continue to hold substantial dry powder and are facing a growing pipeline of potential divestitures, as many portfolio companies approach the end of their holding periods.

Supporting this momentum, financing conditions have shown signs of loosening. Average debt multiples for large corporate LBOs increased from 4.54x in 2023 to 4.76x by year-end 2024, according to Matrix, suggesting a modest expansion in lenders' risk appetite.

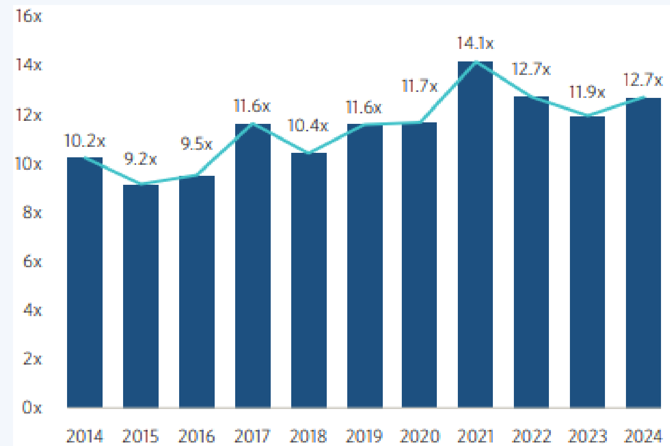
Together, these factors position the market for a potentially active year ahead—assuming macroeconomic conditions remain supportive.

Total Enterprise Value (TEV)/EBITDA

TEV	2003 -2019	2020	2021	2022	2023	2024	Total	N =
10-25	5.8	5.9	6.1	6.4	6.0	6.4	5.9	2076
25-50	6.5	6.7	7.2	7.0	7.0	6.8	6.7	1592
50-100	7.5	8.0	8.3	8.5	8.0	8.3	7.7	1087
100-250	8.2	8.7	9.3	9.1	9.6	8.6	8.5	615
250-500	9.0	10.4	10.9	10.1	10.7	9.7	9.9	91
Total	6.6	7.0	7.6	7.5	7.2	7.2	6.9	

Source: GFDate

EV/EBITDA



Source: PitchBook

EV/Revenue

Source: PitchBook

U.S. Private Equity

Private equity fundraising in North America declined for the third consecutive year, falling 29% to $589 billion in 2024. Despite this pullback, the U.S. private equity overhang remains significant at $1.1 trillion, signaling that firms still have ample dry powder to deploy.

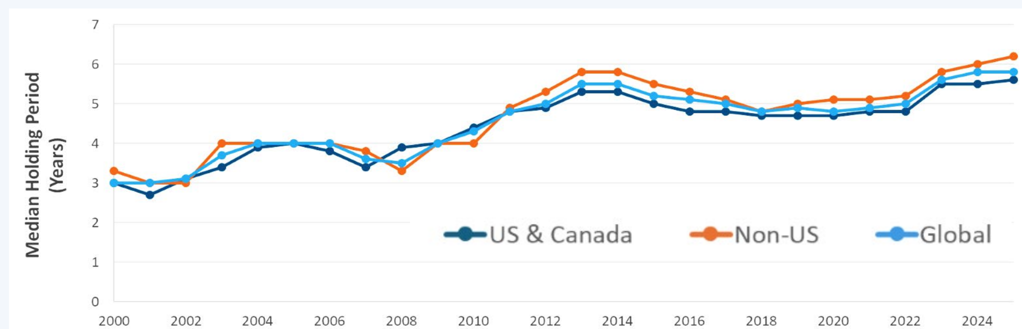
Looking ahead, deal activity is expected to accelerate in 2025. Many funds are nearing the end of their holding periods, leading to a growing pipeline of potential divestitures. U.S. leveraged buyout (LBO) transaction volume reflects this momentum, rising to $162 billion in 2024–up from $134 billion in 2023, though still below the levels seen in 2022 ($186 billion) and 2021 ($363 billion), according to PitchBook.

Financing conditions have also begun to shift. Average debt multiples for large corporate LBOs increased from 4.54x in 2023 to 4.76x by the end of 2024, according to Matrix, indicating greater lender confidence and improved access to leverage.

Together, these dynamics suggest the stage is set for a more active M&A environment in 2025.

Ratio of Unspent PE Cash to Value in Unsold Companies

Private Equity Holding Periods



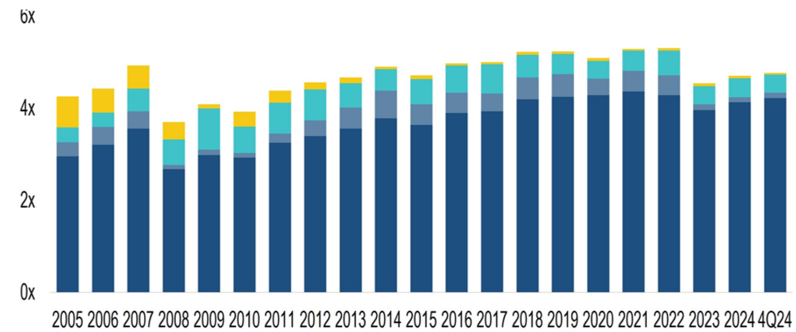
Debt Markets

Debt markets remained favorable for M&A in 2024, providing a supportive backdrop for continued dealmaking. Average debt multiples for corporate LBOs increased from 4.54x in 2023 to 4.76x by year-end, reflecting improved access to leverage.

Syndicated lending activity surged, with total U.S. volume reaching $3.6 trillion in 2024—up 46% year-over-year. This growth was fueled by a borrower-friendly environment, as evidenced by the William Blair Leveraged Lending Index, which held steady at 3.9 out of 5. Notably, 77% of lenders made unusually borrower-favorable concessions—such as reduced interest rates and looser covenants—in order to secure deals.

Leverage ratios also continued to rise, reaching last-twelve-month (LTM) highs by the end of the year, further underscoring lenders' growing risk appetite and the strong financing conditions supporting M&A activity.

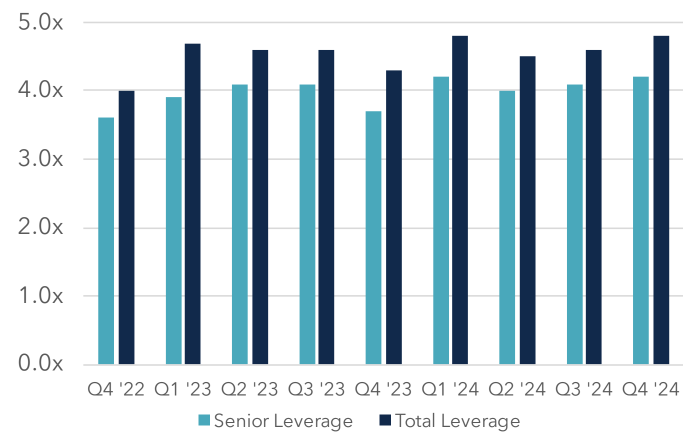
Avg. Debt Multiples Corporate Loans



Borrower-Friendliness Index; Scale 1-5

Source: William Blair Leveraged Finance Survey

Leveraged Loan Multiples



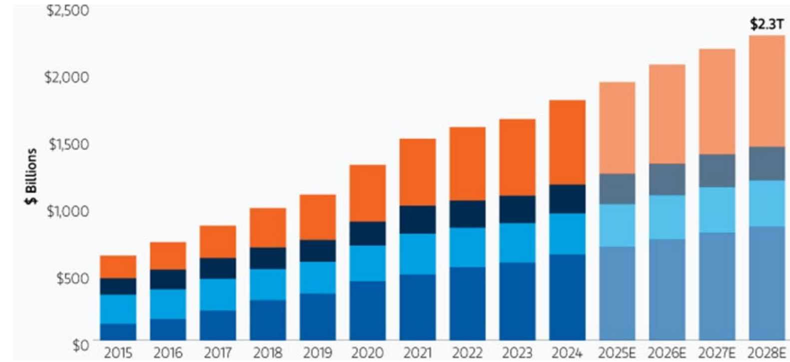
Debt Markets (cont.)

Private credit continued its rapid expansion in 2024, reaching $1.5 trillion in assets under management. Direct lending has emerged as the dominant strategy within the asset class, growing from just 9% to 36% of total private credit assets under management.

Direct lenders continue to offer compelling economics, with yields remaining 200 to 250 basis points higher than those of broadly syndicated loans. This has supported the strategy's growth while providing borrowers with flexible, competitive financing options.

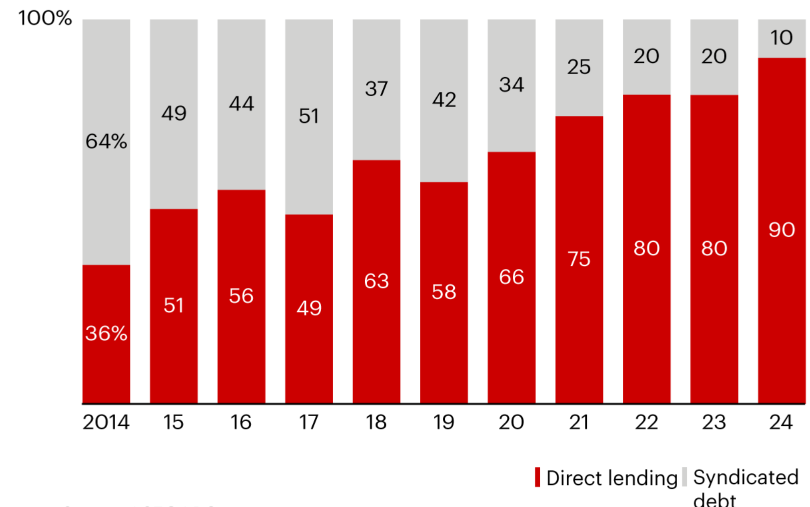
The broader lending environment also remained favorable. The William Blair Leveraged Lending Index held steady at 3.9 out of 5, reflecting sustained borrower-friendly conditions. In fact, 77% of lenders made meaningful concessions—such as reduced rates and fewer covenants—to secure deals.

Private Credit Market

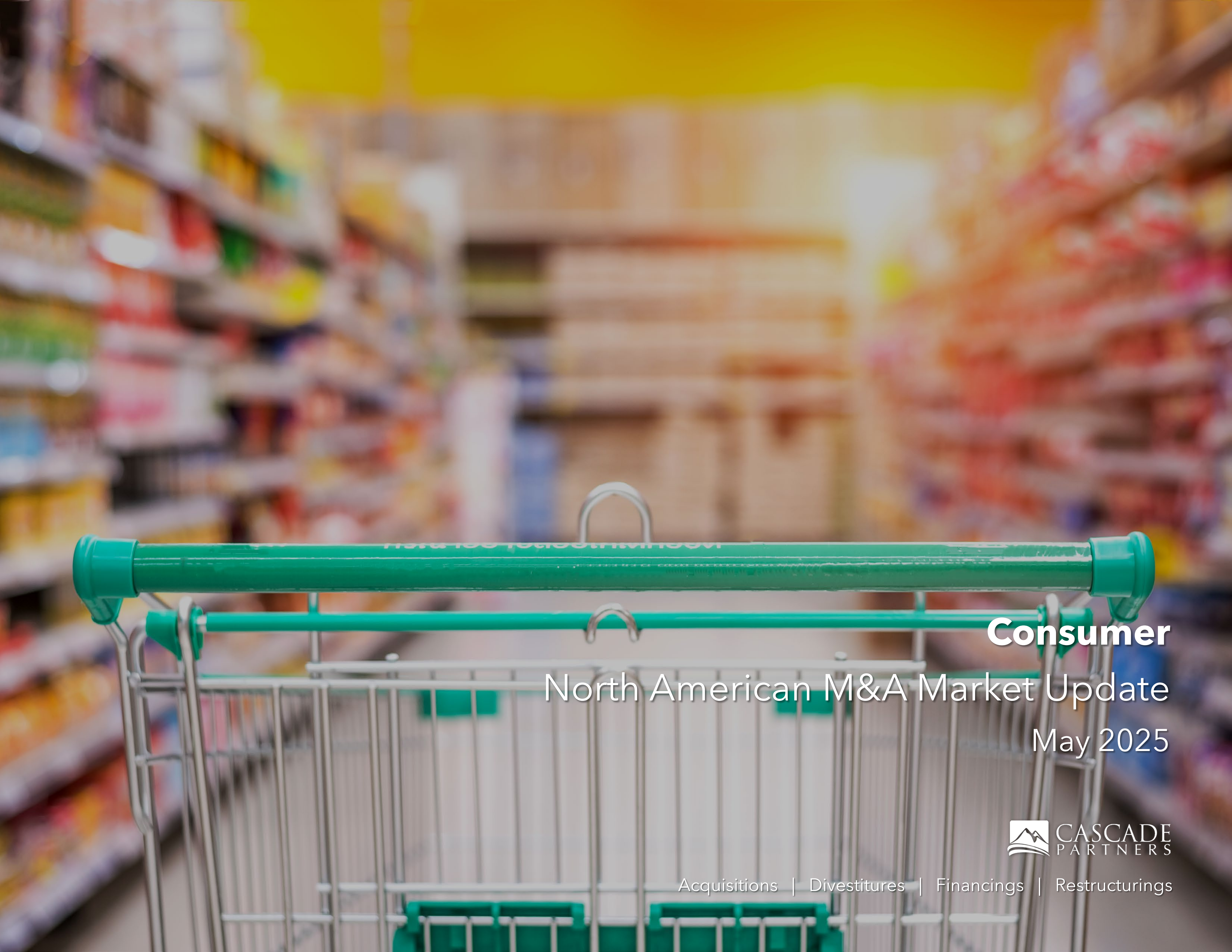


Source: PitchBook

Share of U.S. LBO Debt by Type



Source: LSEG LPC



Consumer

North American M&A Market Update

May 2025

CASCADE PARTNERS

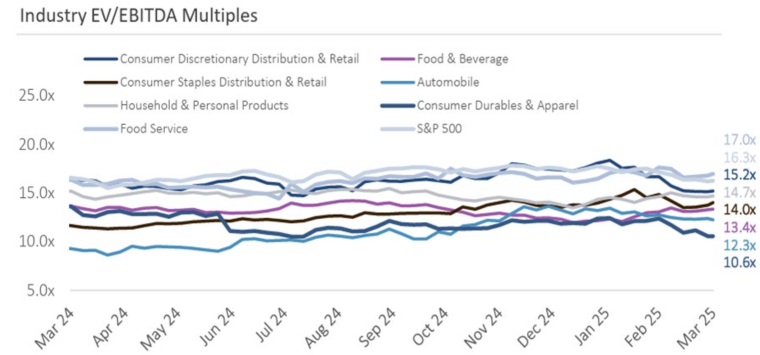
Acquisitions | Divestitures | Financings | Restructurings

Consumer M&A

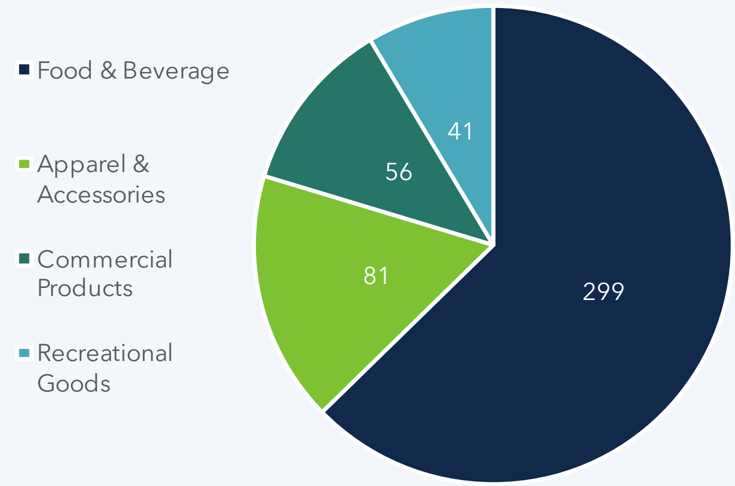
Consumer-related M\&A activity remained relatively stable compared to Q4 2024 but declined 14% year-over-year, reflecting a cautious deal environment amid ongoing economic uncertainty. Within the sector, retail transactions experienced a more pronounced slowdown, with volumes falling 17% quarter-over-quarter and 16% year-over-year.

Valuation trends have also diverged within the consumer space. Consumer staples deals have seen only modest declines in valuations, as investors continue to favor essential goods with stable demand. In contrast, consumer discretionary transactions are experiencing significantly lower valuations, reflecting heightened price sensitivity and reduced confidence in non-essential spending.

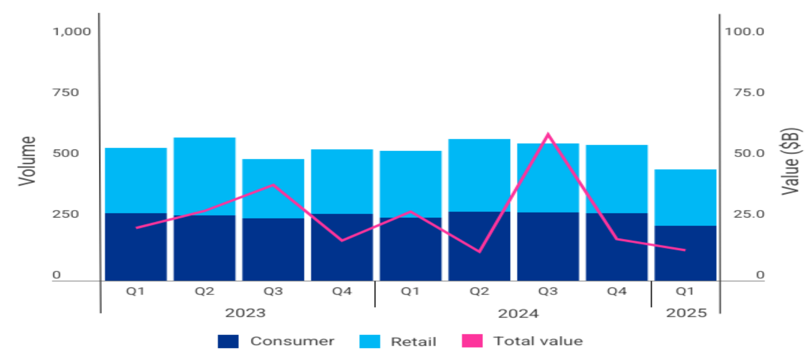
Valuation Trends



Global Deals by Subsector



Consumer Deal Activity



**Q3'24 was an outlier as a result of the $35.9 billion acquisition of Kellanova by Mars Inc.*

Sources: Dinan Capital Advisors, R.L. Hulett

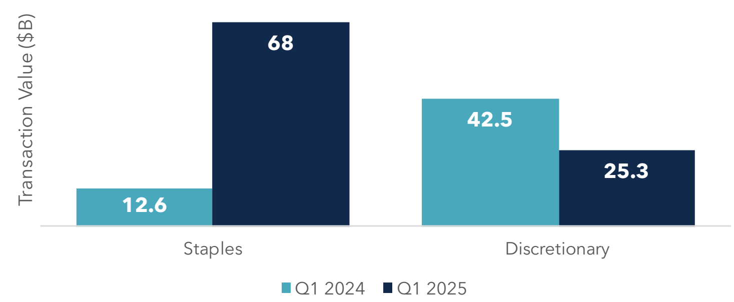
Consumer Market Trends

Consumer spending in 2025 has shown a mixed pattern. While essentials and services remain resilient, discretionary categories continue to face pressure as inflation drives greater price sensitivity among consumers. Households are prioritizing necessary goods and services, pulling back on non-essential purchases in response to ongoing economic uncertainty.

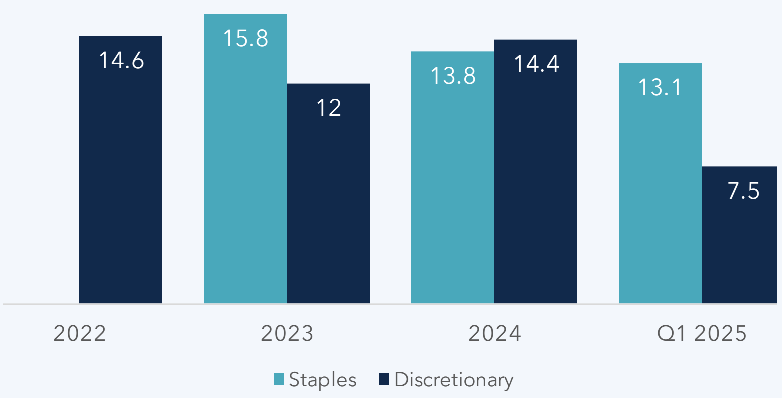
On the operational side, supply chain conditions have improved significantly, easing some of the challenges businesses faced in recent years. However, persistently high labor costs continue to be a concern. In response, many companies are accelerating investments in automation and artificial intelligence to enhance efficiency and manage long-term expenses.

Against this backdrop, consumer staples have emerged as a relative bright spot, outperforming by nearly 7% in 2025. Investors have increasingly turned to essential goods as a haven amid economic headwinds and global trade concerns. Still, analysts caution that valuations in the sector are nearing historic highs and warn against overexposure as recession risks remain elevated.

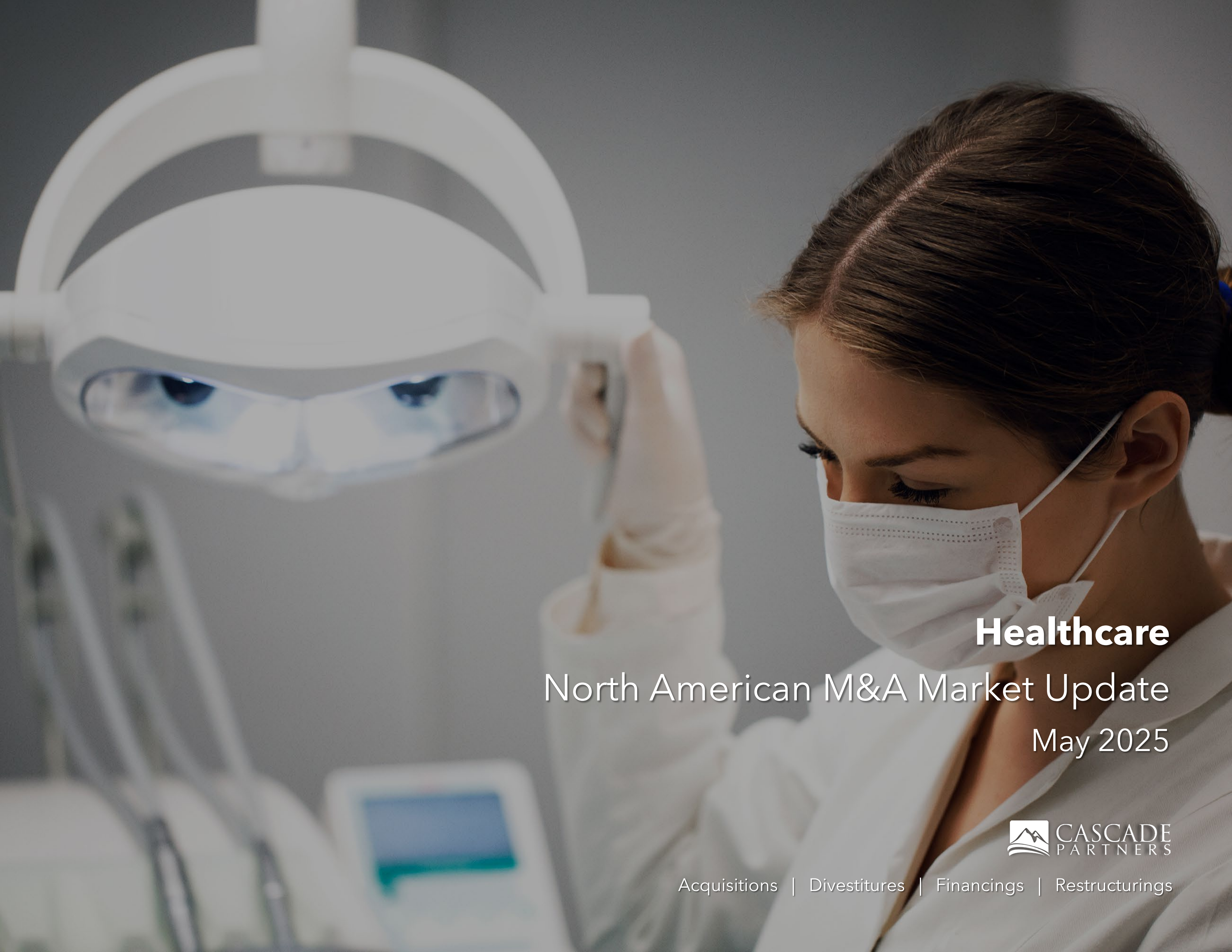
Deal Interest has Shift to Staples



Valuations Continue to Fall



Sources: S&P 500, Trading View



Healthcare

North American M&A Market Update

May 2025

CASCADE PARTNERS

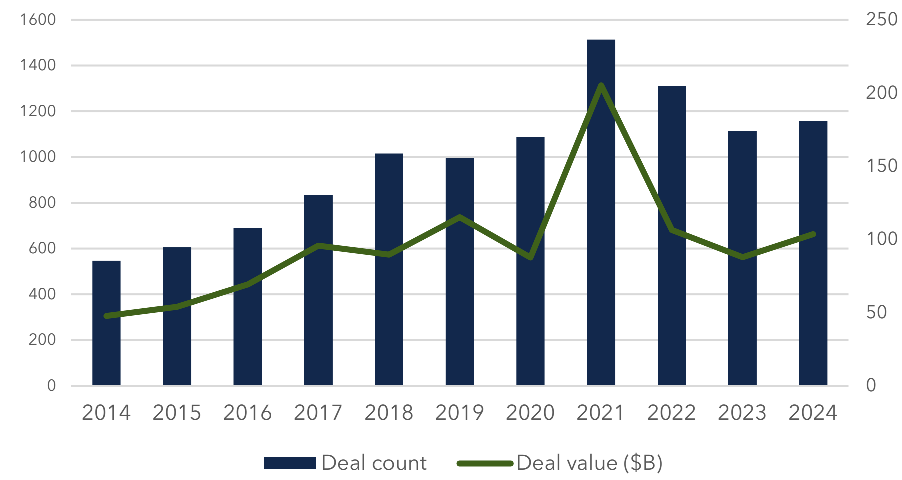
Acquisitions | Divestitures | Financings | Restructurings

U.S. Healthcare M&A

Key Observations

- **Increased Regulation:** Significant uptick in state-level efforts to regulate provider consolidation, particularly focusing on private equity involvement.
- **Private Equity Overhang:** Substantial capital to deploy (>$1 trillion) and an expanding pipeline of potential divestitures as many funds approach the end of their holding periods.
- **Physician Practices**: Acquisitions of physician practices have declined, partly due to increased regulatory oversight and concerns about market consolidation leading to reduced competition. Health services deal volumes declined by 9% compared to 2023 levels.
- **Traditional Acute Care Hospitals**: M&A activity in the traditional hospital sector has slowed due to financial challenges, regulatory scrutiny, and a shift toward outpatient and non-acute care setting. 15 transactions were announced in the hospital sector, a 29% decrease from the 21 deals in Q3 2024, and down from 18 deals in Q4 2023.

Healthcare Private Equity Deal Activity



Hot in the Market

Digital Innovation: Demand for digital health solutions is driving acquisitions of companies specializing in AI, data analytics, remote monitoring, and telehealth platforms.

GLP-1s: The booming market for GLP-1 receptor agonists used in diabetes and obesity treatment is attracting heavy investment and acquisition interest from big pharma.

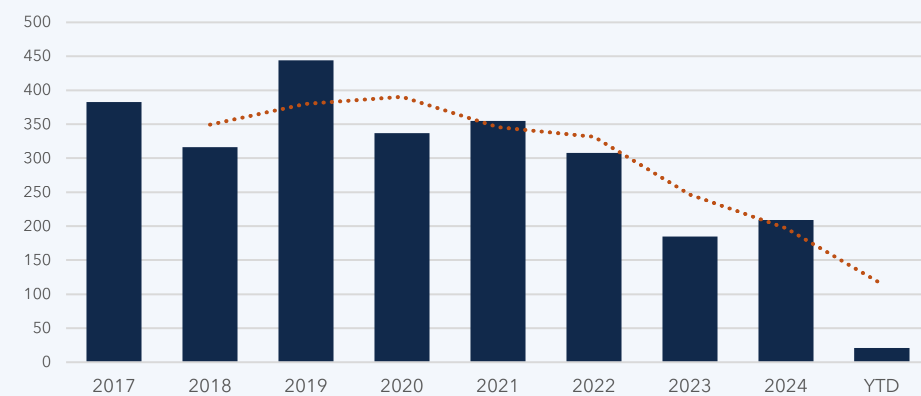
Value-Based Care: Healthcare is shifting from fee-for-service to models that reward better outcomes and lower costs. With CMS aiming for all Medicare payments to be value-based by 2030, investors are aggressively targeting companies that enable care coordination, risk management, and patient engagement.

Cold in the Market

Physician Practices: Deal activity has slowed as heightened regulatory scrutiny and consolidation concerns dampen investor appetite. Overall, health services deal volume is down 9% compared to 2023.

Traditional Acute Care Hospitals: M&A in the hospital sector continues to cool, driven by financial headwinds, increased oversight, and a shift toward outpatient and non-acute care models. Only 15 deals were announced–down 29% from Q3 2024 and 17% from Q4 2023.

M&A Transactions of Physician Practices and Hospitals Continues to Fall



Source: PitchBook

U.S. Healthcare M&A Overview

- Across all TEV ranges, TEV/EBITDA multiples increased over time from the 2003–2019 baseline through 2023 but fell by 13.5% in 2024.
- A strong pipeline of PE-owned consumer health businesses is anticipated to come to market in 2025.
- Activity was mixed in Q1 2025, with Private Equity deals seeing a slight increase to 140 transactions.
- Hospital and Health Systems saw one of the worst quarters, with only 5 announced transactions.

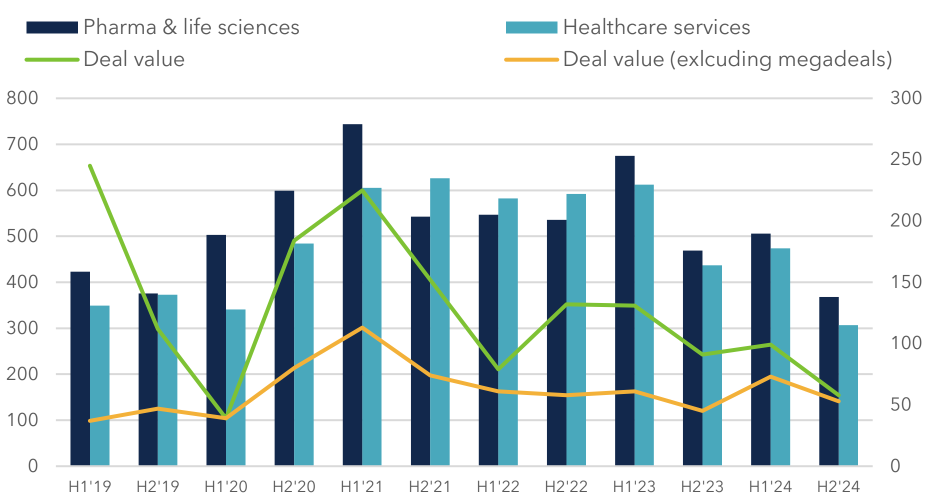
Life sciences M&A declined in 2024, but high dry powder levels, pipeline needs, and looming patent expirations for assets losing exclusivity by 2027 point to a strong rebound in 2025. While some firms filed IPO paperwork in late 2024, market volatility may delay those plans. Still, active acquirers continued to build positions in high-growth segments.

In pharma, AI is reshaping drug discovery and diagnostics, prompting companies to treat AI platforms as strategic M&A targets. GLP-1s for diabetes and obesity drove heightened activity, with leaders expected to scale and diversify. Large pharma firms are divesting non-core, low-growth assets and acquiring late-stage biotech innovators to fuel growth.

Behavioral health remained active, led by ABA therapy for autism. Five deals were announced in Q1 2025—up from zero a year prior—driven by rising diagnosis rates, strong outcomes, and bolt-on consolidation by mature platforms.

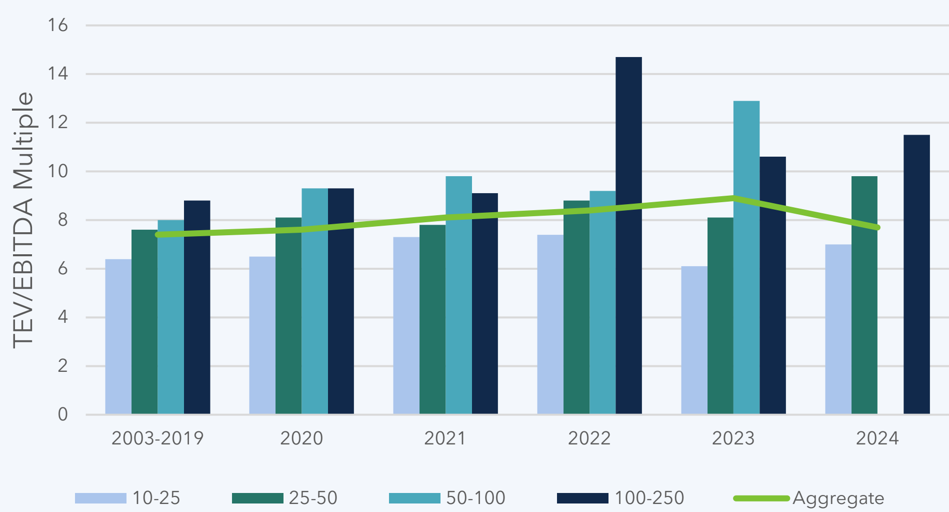
In MedTech, M&A continues to target AI applications in personalized medicine, robotics, diagnostics, and care delivery. Diabetes remains a top profit area, but the rise of GLP-1s is forcing companies to reassess portfolio strategies.

Deal Count & Value Falls in 2024



Source: LSEG & PwC

Healthcare TEV/EBITDA Multiples, Split by TEV Range



Source: GF Data

Healthcare M&A Drivers

The resiliency of the healthcare market to significant economic swings was again recognized by investors with strong activity in Q1 2025, with activity up 19% over Q4 2024. This served as a sharp contrast to many other sectors.

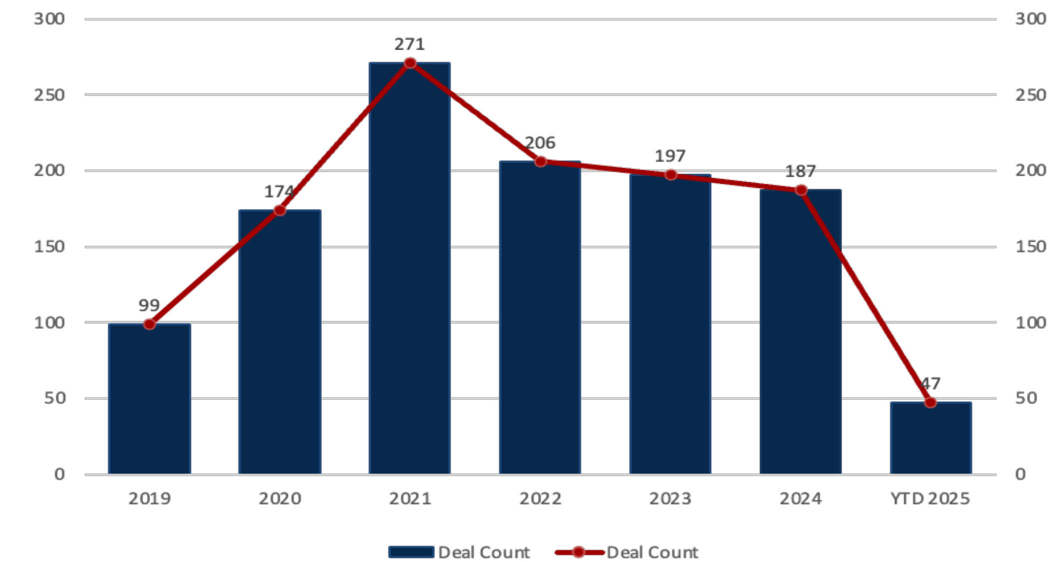
» **Economic Uncertainty:** A combination of economic and regulatory uncertainty is impacting segments of the healthcare market vastly differently. Sustainability of healthcare spending is positively impacting home health, long-term care, etc., while regulation is challenging hospital and physician practice M&A.

» **Favorable Credit Markets**: Interest rates stabilization and increased credit availability are creating a conducive environment for financing acquisitions, encouraging increased M&A activity.

» **Technological Advancements**: Rapid adoption of digital health technologies, including artificial intelligence and data analytics, is prompting companies to acquire firms that can enhance their technological capabilities and improve patient care.

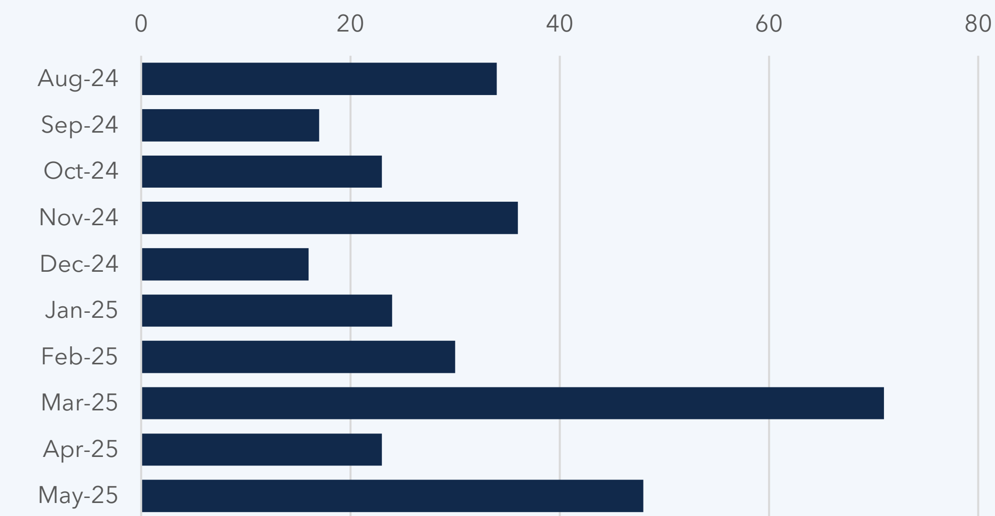
» **Pharmaceutical Patent Expirations**: Imminent patent cliffs for major drugs are driving pharmaceutical companies to seek acquisitions of smaller biotech firms with promising pipelines to replenish their portfolios.

Digital Health Technologies Transactions



Source: PitchBook

Pharma Patents Expiring in 2025 Exceeds 2024 levels



Source: DrugPatentWatch

Healthcare M&A Recent Trends

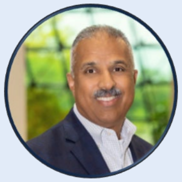
» **Favorable Macroeconomic Conditions**: Interest rates stabilization and business optimism are creating a conducive environment for financing acquisitions, encouraging increased M&A activity.

» **Technological Advancements**: Rapid adoption of digital health technologies, including artificial intelligence and data analytics, is prompting companies to acquire firms that can enhance their technological capabilities and improve patient care.

» **Pharmaceutical Patent Expirations**: Imminent patent cliffs for major drugs are driving pharmaceutical companies to seek acquisitions of smaller biotech firms with promising pipelines to replenish their portfolios.

» **Valuations Reset:** Across all TEV ranges, TEV/EBITDA multiples increased over time from the 2003–2019 baseline through 2023 but fell by 13.5% in 2024.

CONTACT



Rajesh U. Kothari, CFA
Managing Director
248.430.7723
RajK@Cascade-Partners.com

Eric Green
Managing Director
415.994.2594
EricG@Cascade-Partners.com

Ron Reed
Managing Director
248.419.1466
RonR@Cascade-Partners.com

Arjun Murthy
Managing Director
248.430.4850
ArjunM@Cascade-Partners.com

CASCADE PARTNERS

DETROIT	CLEVELAND	GRAND RAPIDS
248.430.6266	216.404.7560	616.327.2359

Cascade-Partners.com