

Healthcare M&A in 2025

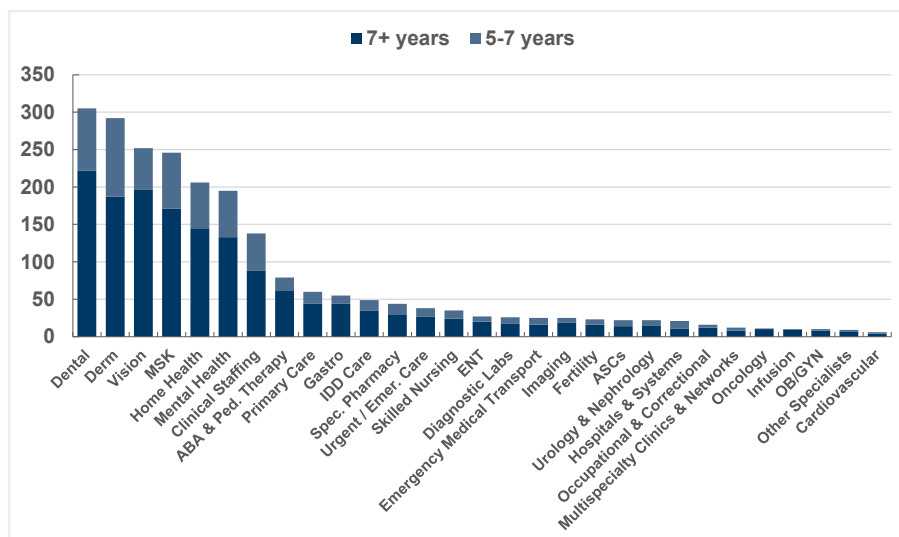
From Anticipated Surge to Strategic Reset



As 2024 came to a close, optimism surged across the M&A landscape, both broadly and within the healthcare industry. Strategics, financial sponsors, operators, dealmakers, integration specialists, and pundits alike anticipated a breakthrough year in 2025. After nearly 24 months of tepid activity and hesitation driven by elevated interest rates, stubborn inflation, and a tighter regulatory environment, a series of macro-level signals suggested that opportunities may be on the horizon:

- A new administration would assume office with stated aims of regulatory simplification and capital facilitation
- Market participants expected The Federal Reserve to begin easing monetary policy by the middle portion of the year, offering relief from the tighter capital conditions that had upended valuations and kept dealmakers on the sidelines

Across financial sponsors, an estimated \$850 billion+ in capital commitments (colloquially referred to as “dry powder”) sits ready for deployment across healthcare-aligned funds, with cash stockpiles growing and funds favoring “bolt-on” deals over costlier, more transformative acquisitions. Looking ahead, we’re continuing to see similar trends since 2024. There is a surplus of pending transactions waiting to be unleashed. While deal flow has opened up to a trickle with moderating volatility through Q2 and Q3 of 2025, the prospect of reduced interest rates, the hoard of dry powder, and the lengthening holds of operating companies in PE portfolios all point to a forthcoming tide of deal-making.



Source: Pitchbook

Setting the Stage

Investor decks, analyst briefings, and industry outlooks published in H2 2024 echoed a common theme: the levy will break in 2025, and healthcare M&A would go gangbusters. From carve-outs to cross-sector rollups to transformative acquisitions, consolidation (and monetization for our sponsor friends) was expected to accelerate, especially in profitable, fragmented segments like physician groups, behavioral health, and ambulatory care.

And the year kicked off in a promising way. Anecdotally, the industry had a busy Q1, with corporate and investment bankers across the country mobilizing for their clients and prospects, putting term sheets together, and greasing the skids in anticipation of the flood gates opening.

Then the industry was thrown a curve ball.

On April 2, 2025, President Trump announced tariffs imposed upon all U.S. trading partners, in excess of what the market had been expecting. This pushed investors back to the sidelines and sent public equities down for a couple of weeks before the Administration instituted a moratorium, ultimately extended to August 1, in order to create more time for bilateral trade deal negotiations.

Since April 2, equity markets have staged a full recovery and then some, though the US economy finds itself on less sure footing nearing the end of Q3. While final trade deals and their ultimate impacts have yet to reveal themselves, inflation has largely abated from the highs of the past few years, and the consumer seems to remain resilient. However, despite these tailwinds, the most recent employment data suggest a pointed softening in the labor market. Overall, the country

finds itself in a relatively strong and stable economic position, provided tariff-driven inflation doesn't sideline the American consumer and/or drive the unemployment rate higher.

On the platform of that relative stability, and utilizing the budget reconciliation process, Congress and the Administration were able to advance more of their stated legislative priorities through H.R. 1, the "One Big Beautiful Bill" Act, signed into law on July 4, 2025. The bill was touted as a reform package designed to refine spending and energize American industries—including healthcare.

However, and as with all legislation coming out of DC, a more complicated reality began to emerge.

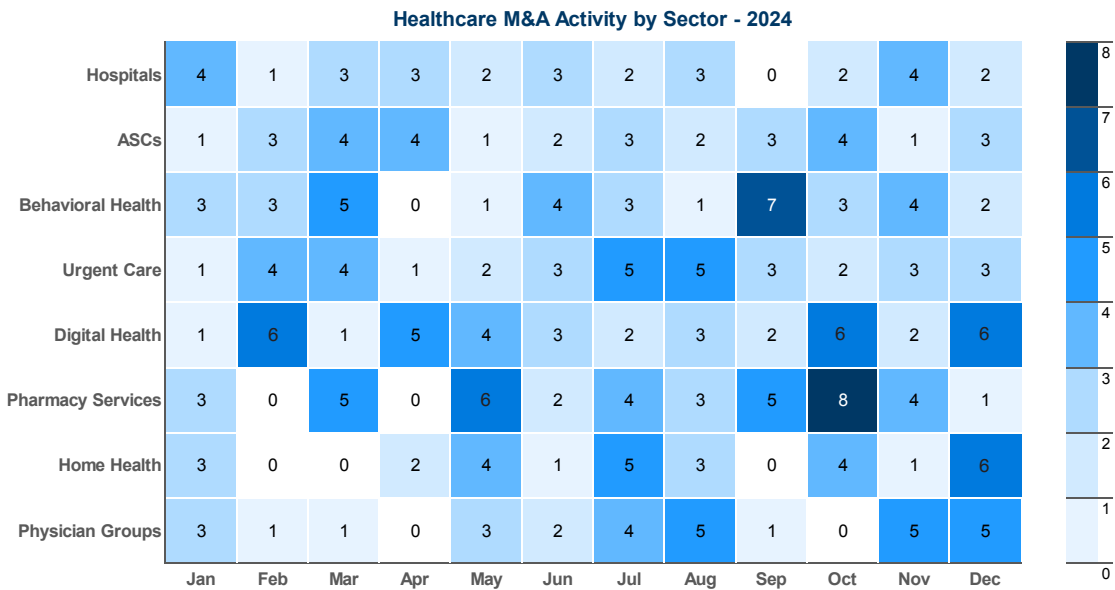
Objective

This article aims to unpack the expectations, the divergences, and the realities of healthcare M&A activity in 2025. Drawing on proprietary insights from PNC Healthcare, internal perspectives from colleagues across the nation, and external perspectives from our partners in all corners of the industry, we examine:

- **What was expected** among market participants and why
- **What occurred**, and how tariffs and H.R. 1 altered the playing field
- **What comes next** for strategics, sponsors, and policymakers alike

In a year so far defined as much by its unfulfilled expectations around transaction volume as by the new Administration's big policy goals, we seek to offer a grounded and actionable outlook on the state of dealmaking in healthcare.

What Happened



Source: Healthcare Dive

As 2024 ended, deal activity in the healthcare M&A sector had remained slow—but sentiment was markedly bullish. With a new administration on the horizon, a looser FTC-antitrust posture anticipated, and the expectation of Fed rate cuts, strategics and private equity (PE) sponsors were primed to unleash capital. Across the board, forecasts from EY, McKinsey, Deloitte, and PitchBook (as well as PNC Healthcare) underscored optimism for an impending deal boom:

- “Dry powder is poised for deployment” became a refrain from financial sponsors.
- Kaufman Hall, Bain, and LSEG estimated record pent-up demand translating into accelerating deal volume in early 2025.

Entering 2025, every corner of the financial services stratosphere echoed similar sentiments:

- Deloitte highlighted multi-year optimism, pointing to pricing normalization as rates eased.
- PwC’s mid-year outlook in H1 2025 saw behavioral health surging (+35% YoY) and an enthusiastic rebound in autism and addiction platforms.
- FTI Consulting noted that while interest rates remained a drag, the backlog of deals and tech-driven efficiency goals kept momentum intact.
- In Q1, U.S. hospital and health system merger volume plummeted to five announced deals, the lowest since the COVID-19 trough in mid-2021. As for Q2, activity picked up marginally with 8 announced deals, bringing the yearly total of hospital-to-hospital M&A to 13 (Kaufman Hall). Consistent with our own observations, much of the activity was driven by divestitures as part of systems’ service area refinement. On the other hand, however, providers of all stripes continue to invest deeply in outpatient sites of care, recognizing the need to supplement operations within the four walls of the hospital with leaner, more profitable outpatient care. Ascension’s announced purchase of AMSURG is emblematic of this sort of activity.

Tariff Talk & Macroeconomic Uncertainty

By contrast, early 2025 was characterized by escalating tariff rhetoric—particularly targeting pharmaceutical, biotech, and device imports. According to PwC, tariffs that once added \$0.5 billion in annual costs to the sector rose as high as estimates of \$63 billion in theoretical scenarios.

- **Result:** cross-border and deal-by-deal evaluation slowed as companies reassessed operations, forecasts, and target valuations in light of tariff announcements.

Tariff Talk & Macroeconomic Uncertainty

The Federal Reserve finds itself in a bit of a tug-of-war. Prior years’ rate hikes served their purpose, slowed the economy a bit, and helped curb inflation, bringing it closer to the Fed’s 2% target rate. However, tariffs have begun pushing costs up further, stoking the dying embers of prior years’ inflation. For its part, The Fed has remained patient for the bulk of the year, waiting to see how new import sales taxes will affect the economy further.

The most recent economic data available point to a softening in employment, and the market is expecting the Fed to cut 25 basis points at its next meeting. At the time of this writing, PNC forecasts one 25 basis point Fed Funds rate cut at the September meeting, with additional rate action being left for 2026 when the economic effects of changing policy are made clear.

While buyers and sellers would welcome lower cost of capital and increased valuations, stimulating the economy through looser monetary policy runs the risk of powering tariff-induced inflation further, all at a time when the consumer, impacted by prior inflation, may pull back on spending. This is what we refer to as “stagflation,” or rising prices during times of economic weakness. While healthcare spending is often viewed as “non-discretionary,” consumers who feel a decline in their purchasing power may change behaviors as a result (e.g., delaying or foregoing care, foregoing insurance, etc.).

H.R. 1 (“One Big Beautiful Bill”): Catalyst for Stability or Dose of Uncertainty?

- The **Congressional Budget Office** projects **\$1 trillion in reductions** to federal healthcare spending over ten years.
- The bill embeds **deep Medicaid cost-sharing** and work requirements for able-bodied Medicaid recipients, ages 19-64, without dependent children. It also shrinks provider

tax measures and is expected to reduce coverage for **~10 million Americans** in the coming years (CBO).

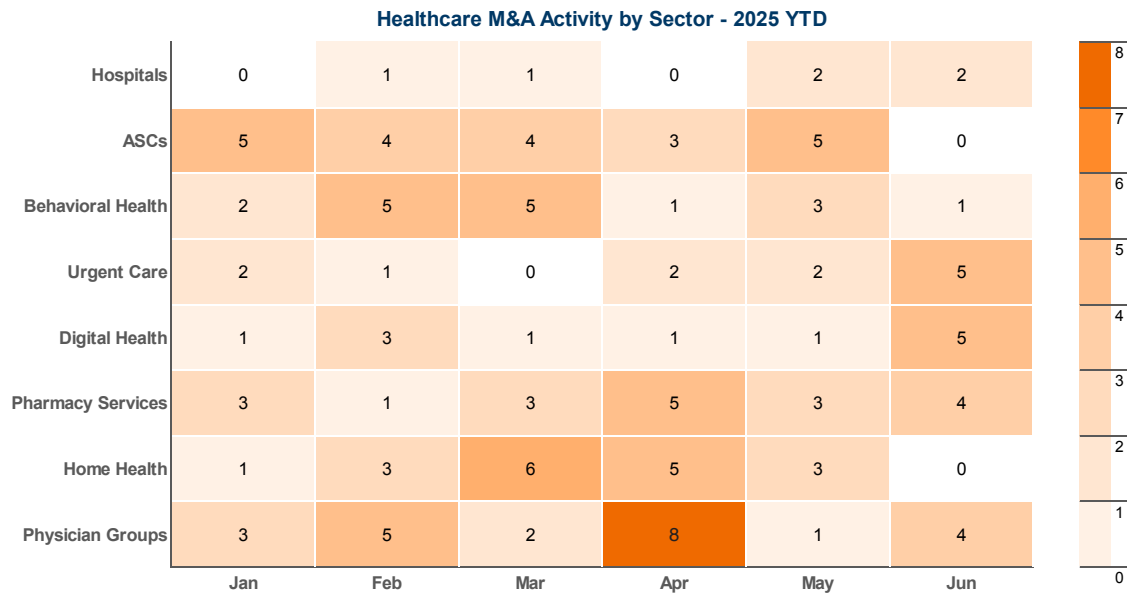
- For providers, this may mean a shift in payor mix from government reimbursement to self-pay, which often ultimately becomes uncompensated care.
- For healthcare payors—especially Medicaid managed care organizations and ACA Marketplace plans—this means **revenue contraction, membership churn, and tighter margins**.
- Speculation aside, the Bill’s effects on providers and payors will be driven by Americans’ responses to more frequent eligibility checks, work requirements, and higher premiums for exchange plans. If healthier enrollees decide to forego insurance altogether, the ecosystem will be left to care for sicker patients on average, hampering predictive capabilities, cutting providers’ already thin operating margins, and driving up Medical Loss Ratios.
- Concurrently, American workers and employers can expect their health insurance premiums to increase further to pass margin compression onto customers

Public insurers like **UnitedHealth** and **Centene** are already reporting earnings pressure due to reduced subsidy flow. The cumulative impact on provider balance sheets—especially rural hospitals and health systems—has made potential acquirers cautious. With reimbursement uncertainty rising, **valuations have become less concrete**.

Summary: 2025 to Date	
Headwind	Impact
Tariffs & trade volatility	Increased valuation uncertainty; stalled global deals; supply chain evaluation
Fed ambiguity	Projected rate cuts tempered by tariff-induced inflation risk, though labor market softness has bolstered the case for at least 25 bps of cuts through 2025
H.R. 1 spending reductions	Provider/payor stress; risk of coverage loss for millions

In Summary

Despite the early optimistic backdrop, the reality for healthcare M&A in 2025 has been slow. Deal volumes are down, investor sentiment cautious, and H.R. 1 has brought fresh uncertainty for many. The path forward will depend less on policy and more on stabilization: clarity around **tariff policy and trade deals, Fed rate-path visibility, and healthcare financing certainty.**



Source: Healthcare Dive

External Perspectives: What the Market is Saying

Across the broader healthcare ecosystem—investment banks, strategy firms, legal advisors, and valuation consultants—a common thread has emerged: deal appetite remains strong, but execution is selective.

Many of these firms predicted a more aggressive M&A resurgence, but the combined effects of tariff uncertainty, rate policy ambiguity, and new regulations to contend with have forced recalibrations. While some sectors remain hot, and high-quality assets are always in demand, the story externally is one of valuation discipline, integration focus, and platform fatigue.

Tom O’Toole, Senior Partner at Chartis, a healthcare consulting firm serving providers and sponsors alike, recently offered PNC some feedback across constituent groups:

“While growth is a critical imperative for health systems nationwide, scale, alone, won’t go far enough in securing a sustainable future for many organizations—especially in light of recent legislative headwinds. As such, providers

are focusing intensely on operating model and expense optimization while pursuing a broader range of “non-traditional” partnerships and M&A activity to build new competencies, accelerate new business line / market entry, and ultimately diversify revenue and margin streams. I expect that we’ll see health systems and other providers pursuing a broader portfolio of partnerships that span provider, payer, health tech, and even life sciences ecosystems.

For our sponsor clients, attention throughout the year has leaned heavily in favor of technology and tech-enabled services companies—especially those that seek to solve critical, sustained pain points for provider, payer, and life sciences organizations. While some provider / services sub-sectors have remained active (e.g. behavioral health, home care / hospice, infusion), some sponsors are avoiding direct reimbursement risk altogether. For sponsors with scaled PPMs, we have seen a modest resurgence in tuck-in activity

and a more dedicated focus on operational performance and capabilities expansion—namely, reignited VBC efforts.

Certainly, the impact of AI has become a threshold question in all diligence efforts for all of technology, service, and traditional provider businesses. For some businesses, AI represents an incredible opportunity to transform operations and efficiency. For others, AI poses an existential risk to legacy business and revenue models. Companies without a clear vision of their AI strategy invite greater scrutiny.”

Common External Themes

- **Deloitte:** Slower deal velocity, especially in physician groups. Many buyers are holding until labor stability improves.

Internal Perspectives: Commentary from PNC Healthcare

Confidence Meets Caution

From inside the walls of major financial institutions, 2025 was expected to be the “return to fundamentals” year for healthcare M&A. But into the second half of the year, internal strategy decks and banker-client discussions reflect a different reality—one shaped by fragile capital flows, selective sector interest, and a recalibration of growth assumptions.

Teams responsible for both credit origination and sponsor coverage have shifted their posture. The early signals of a vibrant M&A season have been tempered by internal mandates for more rigorous risk assessment, greater cash flow predictability, and defensible EBITDA baselines.

Current Themes from the Banking Lens:

- **Flight to Quality:** Financial institutions have become a bit more selective in credit deployment—prioritizing companies with recurring revenue, strong cash flow generation, physician alignment, and multi-site scalability (e.g., RCM platforms, specialty networks, outpatient diagnostics).
- **Valuation Rationalization:** While some segments like behavioral health are holding premium valuations, internal models are incorporating 3–4x EBITDA discounts vs. 2021–2022 peaks.
- **Reimbursement Risk Repricing:** In light of H.R. 1’s Medicaid work requirements and anticipated coverage reductions, internal credit committees are flagging Medicaid-heavy operators as high-risk unless diversified by payor mix and/or revenue streams.

- **ECG:** Regulatory and legal strategy now a must-have in every deal team. Transactions are stalling without pre-clearance confidence.
- **VMG Health:** Valuation gaps are impeding closures; some sellers are still anchored to 2021 multiples.
- **Bain & Co.:** Platform fatigue is real. Add-ons are favored, especially when tech enablement is part of the thesis.
- **Kaufman Hall:** Health systems are slowing or pausing transactions entirely to reevaluate post-H.R. 1 reimbursement impacts.

- **Capital Deployment Metrics:**
 - Broader leverage multiples have come down at the high end, from up to 6.0x in 2021 to 4.25–4.5x through Q2 2025. Per S&P and looking at medians from Q1 to Q2 of 2025, Debt-to-EBITDA ratios actually increased from 2.28x to 2.46x for investment grade borrowers and decreased from 3.94x to 3.64x for speculative grade borrowers, possibly demonstrative of “risk-on” appetite among stronger credits.
 - Interest coverage ratio thresholds are rising in underwriting decisions
 - Higher focus is placed on balance sheet strength and feasibility as secondary repayment source in distressed situations

In Summary	
Metric/Theme	Mid-Year 2025 View
Sector Hotspots	Outpatient surgery, care coordination tech, RCM
“Watch Zones”	Medicaid MCOs, post-acute, telehealth, rollups
Deal Structure Preferences	Solid balance sheets, positive EBITDA / cash flow generation, tech-enabled, scalable
Client Sentiment (Sponsors & Strategics)	Cautious optimism, but fewer outbound mandates; internal focus on operating efficiency, rather than inorganic growth
Biggest Internal Red Flags	Policy unpredictability and labor pressure in delivery

Perspective Across PNC

Discussing trends across not-for-profit hospitals and health systems and their access to the capital markets, PNC Healthcare's National Strategy Group Head, Betty Hamilton, offers the following commentary:

"Access to the capital markets remains robust with year-over-year increases in bond issuance. Through the second quarter of 2025, healthcare supply increased by 10% over a record year in 2024. Almost 80% of the issuances constituted "new money," as borrowers accessed the market ahead of H.R.1. Non-M&A driven refundings have taken a back as interest rates and spreads remain elevated.

Further, healthcare borrowers that have accessed the capital markets have stayed relatively short on the yield curve, versus the more traditional 30-year fixed rate amortizing structure. The benchmark MMD yield curve has steepened over the last year, driven by lower rates on the front end and higher rates at the 10-year point and beyond. Credit spreads have remained relatively flat from the beginning of the year although could widen going forward, especially for some of the lower-rated single site health care providers. Investors continue to invest in healthcare paper and are asking management to articulate contingency plans to address any negative impact that may come out of H.R.1 provisions and other regulatory uncertainty."

On the equity front, our colleague John Haynor, Managing Director at Solebury Capital, a leading Equity Capital Markets Advisory Firm and wholly-owned subsidiary of PNC, had this to say:

"As of September 2025, the U.S. IPO market is showing strong signs of recovery. Despite a pause in activity in April & May, year-to-date IPO volume stands at 46 transactions for \$23 billion in proceeds, in-line with the same period in 2024. Key sectors driving growth include AI, Fintech, and Blockchain, with select issuance out of the Healthcare sector, specifically HCIT and MedTech. Aftermarket returns have provided outsized alpha for investors with the average U.S. IPO trading up 22% through end of August. Healthcare IPOs have outperformed the broader IPO cohort providing positive returns of 26% on average. With this momentum there has been a noticeable shift to issuers accelerating and reaccelerating IPO processes with an eye on accessing the market later this year or in 2026, while closely

monitoring geopolitical tensions, regulatory changes, and market volatility.

U.S. Healthcare stocks are trading at their lowest valuations in 30 years. Factors such as regulatory uncertainties, including potential Medicare price negotiations and most favored nation (MFN) drug pricing, alongside tariffs, have contributed to investor caution. However, some investors view the current undervaluation as a buying opportunity, anticipating a rebound as the sector's fundamentals remain strong.

Looking ahead to 2026, expectations for continued recovery of the U.S. IPO market will hinge on a stable economic backdrop, favorable interest rates and sustained low-volatility environment. We expect non-Biotech, Healthcare IPO activity to increase in 2026, especially in the HCIT, Services, Tools & Diagnostic and MedTech sectors given a focus on companies that have strong growth, cash flow and profitability metrics."

Bottom Line from the Inside

Internally, healthcare commercial and investment bankers are walking a tightrope. On one hand, interest in the sector remains high—especially in cost-saving and value-based adjacencies. On the other hand, capital deployment is under scrutiny. Risk underwriting has returned to pre-pandemic discipline, and some clients are being advised to:

- Prioritize *bolt-ons over platforms*
- Secure *payor diversification*
- Demonstrate *clear value creation within 12–24 months*

While 2025 may not be a breakout year, it is shaping up to be a foundational one—where disciplined execution and regulatory navigation will separate the "deal-ready" from the "deal-waiting."

Where Do We Go From Here? Mid-Year Reflection, Forward-Looking Resolve

Through Q3 of 2025, the question across boardrooms, lender calls, and private equity firm meetings is simple: “If not now, when?”

Every player—from operators to acquirers—expected a rebound in M&A. But instead of a flood, the market got a trickle. Instead of bold moves, it saw deliberate positioning. Still, despite the slower-than-expected start, there are signs that Q4 2025 into 2026 could mark a turning point—if the right catalysts materialize.

What Could Unleash M&A Momentum?

Trigger	Why It Matters
Tariff Clarification	Removes import cost uncertainty for pharma/device deals; taxes less punitive than originally announced
Fed Rate Stability	Easier to price risk and model DCFs when cost of capital is clear; cheaper money incentivizes buyers and bolsters valuation for sellers
Post-HR.1 Regulatory Guidance	Helps buyers understand Medicaid, 340B, and site-neutral impacts, as well as other regulatory changes potentially coming down the pike
MA Audit Resolutions	Reduces risk for Medicare Advantage-dependent assets
Valuation Adjustments	Sellers are still semi-anchored to immediate post-Covid, “zero rate” valuation expectations

Catalyst #1: Policy Impacts on Healthcare

Some elements of H.R. 1—the “One Big Beautiful Bill”—have yielded new considerations for the industry. But both within its provisions and outside the Resolution itself lie potential long-term accelerants in the current Administration’s approach to healthcare:

- **Work requirements in Medicaid** could force margin reassessments for MCOs but may drive innovation in coverage retention models (included in H.R. 1).
- **Site-neutral payment reforms** could level the playing field between hospitals and ambulatory providers, making ASCs, imaging centers, and urgent care chains even more attractive to sponsors (not a provision of specific H.R. 1).

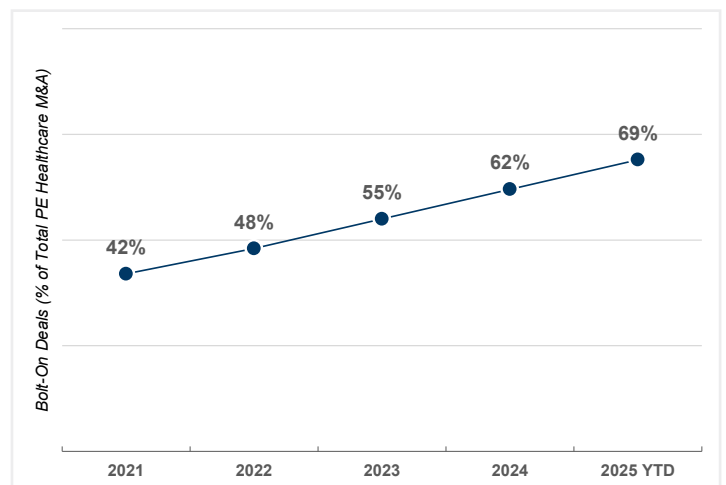
- **340B adjustments** may consolidate purchasing power among hospital networks, leading to platform M&A or GPO realignments (not a specific provision of H.R. 1).

Interpretation: Strategic buyers with the ability to forecast around policy will move faster, while unsophisticated sellers may struggle to attract top bids.

Catalyst #2: Platform Fatigue = Add-On Acceleration

Private equity firms are increasingly shifting toward bolt-ons over new platforms, especially in physician practice management, behavioral health, and outpatient diagnostics.

- **Sponsor quotes confirm:** “We’re looking to scale what we already know, not launch what we don’t.”
- Smaller acquisitions with faster integration timelines are seen as **lower-risk, near-term return boosters in a market with few buyers**
- Many GPs are instructing deal teams to prioritize **buy-and-build vs. new-platform underwriting**.
- *When in doubt, wait it out* – with valuation mismatches and aging platforms, PEs continue to grow assets, creatively return capital to LPs, better operate the businesses, and bide their time until rate cuts help stimulate interest in the platform market again



Source: Healthcare Dive

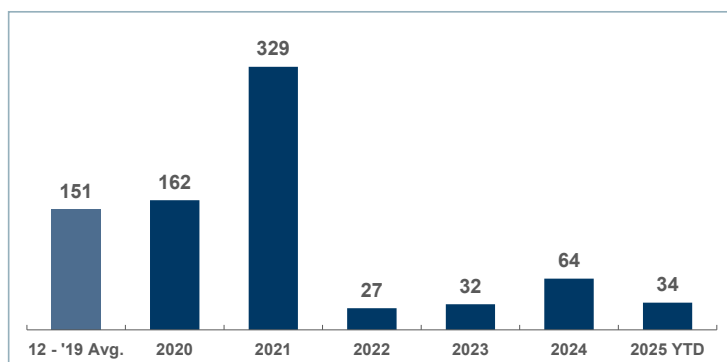
Sector-by-Sector Prognosis (YE 2025 into 2026)

Sector	Outlook	Drivers/Challenges
ASCs	Bullish	Site-neutral pay, cost savings, PE-backed consolidators, Hospital/Health System investment
Behavioral Health	Positive	High demand, reimbursement durability, under-served market
Physician Groups	Mixed	Staffing pressure, declining valuations, over-investment during Covid-era ZIRP from unsophisticated buyers
Hospitals/Systems	Flat	Waiting on H.R. 1 clarifications, rural challenges, top-heavy consolidation
Medicaid MCOs	Cautious	Coverage volatility, margin squeeze
Home Health/Hospice	Opportunistic	Fragmentation + value-based care enablement
Digital Health	Selective	Valuation corrections, AI/automation integration and scalability

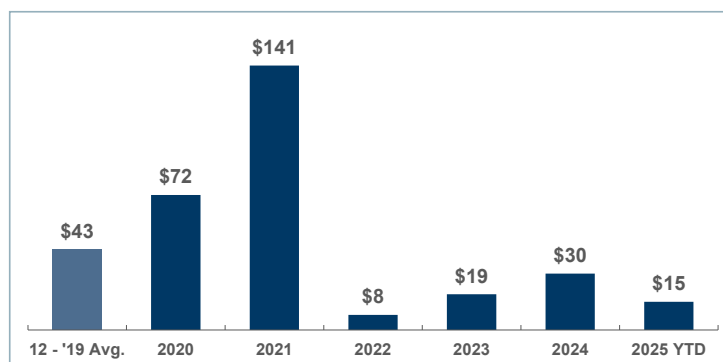
Capital Markets Outlook

- **Debt markets** are loosening—credit spreads are tightening across bond and loan markets and investors are hunting for yield.
- **Leverage multiples** are creeping back up, especially among investment grade borrowers, but not near 2021 highs.
- **Cross-border deals** are still muted due to geopolitical risks and trade pressures.
- **IPOs** seem currently more viable with some offerings being executed and broader metrics approaching pre-pandemic averages

US IPO Listings (Left) and Proceeds (Right) by Year (\$ billions)



Source: Stephens



Bottom Line: Rationality Rules

The M&A market may not be roaring—but it's resetting with discipline. The remainder of 2025 into 2026 will test who is nimble, who is well-capitalized, and who can read the policy tea leaves. Those who are and who can, will win.

To speak with any of the PNC Team Members highlighted in the article, please reach out via the contact information below:

PNC Healthcare Select Team Members and Contact Information				
Name	Title	Firm	Focus	Email
General Inquiries and Information:				
Gyasi Chisley	Managing Director, Group Head	PNC Healthcare	Healthcare Advisory	<i>gyasi.chisley@pnc.com</i>
Chris Ditta, CFA	Vice President	PNC Healthcare	Healthcare Advisory	<i>christopher.ditta@pnc.com</i>
Healthcare Municipal Capital Markets:				
Betty Hamilton	Managing Director, Group Head	PNC Healthcare	NFP Healthcare Capital Markets	<i>betty.hamilton@pnc.com</i>
Equity Capital Markets & IPOs:				
John Haynor	Managing Director	Solebury Capital	Equity Capital Markets & IPOs	<i>jwh@solecap.com</i>

Brilliantly Boring Since 1865 is a service mark of The PNC Financial Services Group, Inc
©2025 The PNC Financial Services Group, Inc. All rights reserved.
CIB HC IMC 1025-026-2758604