

Quarterly Newsletter



FALL 2026

From the CEO

As we move into the final stretch of 2026, the M&A market has continued to improve with positive momentum in large-cap activity, including robust megadeals in the first half of 2026, trickling down to the middle market. In August, we saw a record month for new pitches at Cascadia.

The deal market has continued thawing after the start of the U.S.-Iran conflict in February froze activity through early summer, generating a more volatile and risk-off environment. Restrictions on the Strait of Hormuz traffic created a historic energy shock, pushing up energy prices and lifting U.S. and global headline inflation while producing a slight drag on global GDP. This has put pressure on market participants and consumers, driven by gas prices and uncertainty around how large and lasting the ripple effects of the war will be. Fed Chair Kevin Warsh's much-anticipated Jackson Hole speech in late August suggested interest rates may need to move higher to curb inflation; in September, the FOMC raised its benchmark rate by 25 basis points to a target range of 3.75%-4%, its first increase since 2023.

Rising Treasury yields have been an increasing focus, with 10- and 30-year yields at very high levels, shifting back to long-term norms after a decade of unusually cheap capital. This is a painful transition for younger generations, who have only experienced the era of "free money." We are watching yields closely given their ties to the national debt, now north of \$40 trillion. The annual interest bill of around \$1 trillion will keep climbing as that debt is refinanced at today's higher rates.

Top themes for the rest of 2026

- Despite the ongoing U.S.-Iran conflict, market activity is accelerating with expectations of a resolution by the midterm elections.
- While the underlying U.S. economy is fairly strong, we are watching long-term Treasury yields tied to the record national debt.
- Secular shifts continue to transform private equity, with the rise of single-asset investing that offers greater transparency and alignment.
- Staying vigilant and nimble should be a top priority for business owners in a fast-changing landscape.

Pressing the play button again

Despite persistent inflation and geopolitical turbulence, the market upcycle that finally kicked off last year is still chugging forward due to the underlying strength of the U.S. economy. Real GDP has been rising, consumers are still spending and investing, and the unemployment rate is low by historical standards. After a prolonged down cycle where business owners were not able to sell, impatience has won out over inertia and many businesses have decided it is time to go to market. We are now seeing B+ deals getting done and will be watching how receptive the market is to more challenging deal profiles as more B or even C+ deals go to market this autumn.

The approaching midterm elections in November have been another key catalyst for action in M&A markets. Deal activity is accelerating as buyers and investors are pricing in the assumption that the Trump administration will reach a resolution with Iran ahead of the election, in turn triggering a drop in oil prices and the curbing of inflation. If the conflict is not over by then, we would expect a reversion to more cautionary postures. As a result, the election is a big milestone we will be watching that will impact risk levels and overall market activity through the end of the year and into 2027.

Beyond that, the only political discussions we are hearing relate to how policies are affecting the business operating environment in specific markets. This is a massive topic of interest, with regulations sparking a business migration to business-friendly states. Texas and Florida are booming, shifting the traditional center of gravity away from hubs like New York and Los Angeles. We will continue to watch how these business migration patterns develop.

Back to the future in PE

Tectonic shifts continue in the private equity (PE) landscape. This year, capital flows have been impacted out of the Middle East—money that was the marginal capital for many PE funds and alternative asset managers—which could force more liquidity events and be another factor driving a widespread cleansing of the PE sector, which we have written about over the last few years. PE funds are also lacking clarity on AI's impact, freezing their dealmaking

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because of the related risk. Many do not know where to place their bets with no consensus on if and how AI will transform individual sectors. We have seen software-focused funds shift lanes to invest in blue-collar services with recurring revenue models that are not impacted by AI. A large amount of capital is now pursuing those deals. In contrast, newer and smaller funds are more risk-on and aggressive in pursuit of higher-quality deals, without the same pressures and diminished marks of established players.

Beyond these short-term dynamics, a secular transformation is happening in PE that we believe is here to stay. We expect primary direct investing, the secondary markets, and continuation vehicles will continue to be the fastest-growing areas of the market for the foreseeable future. The rapid rise of single-asset investing marks a return to the original PE model, fueled by widespread LP disillusionment with opaque fund models. In a higher interest rate environment where capital is not as plentiful, there is growing investor demand for transparency and discipline. We do not think traditional PE funds will be fully replaced—big name, top-quartile firms will keep dominating the space—but new, more nimble investment approaches will continue to take market share.

As part of Cascadia's commitment to staying ahead of the changing market landscape, we launched a new Equity Capital Solutions practice last December, focused on deal-by-deal capital formation and advisory, giving investors more visibility and closer access to private markets opportunities and asset-level participation. [Managing Directors Simeon Ketchum and Peter Purcell joined us to co-lead the practice](#); on page 5 they share more insights on why direct investing has tremendous appeal amidst the disruption of PE.

Sectors to watch: The make-or-break effects of AI

At a sector level, investor appetite continues to vary depending on industry-specific dynamics and outlook. Across the board, interest in sectors hinges on whether AI will have a make-or-break influence. We are seeing investors flocking to **white collar service sectors**—including legal, accounting, and consulting firms—where AI can be overlaid to enhance the business. Conversely, marketing services and customer-facing services like call centers are suffering as investors are loath to purchase a business that could be imminently replaced by AI. A similar bifurcation is happening in software: There is huge demand for **agentic AI companies**, but interest in traditional software has declined.

Residential and commercial facility services companies continue to attract strong buyer interest and premium valuations, with huge roll-up opportunities given the widespread fragmentation of the industry. These are areas where humans will not be replaced but AI can offer enhancements. Manufacturing and industrials are also positioned well, benefitting from the tailwinds of the national reshoring initiative, bringing more businesses back to the U.S. The COVID pandemic exposed the vulnerabilities caused by prolonged offshoring and the economic imperative to bring domestic production back, making it more cost competitive by using robotics and AI on the factory floor. These technologies are now hitting their stride across all areas of manufacturing.

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The **healthcare industry** is a mixed picture, with some particularly bright areas where inefficiencies can be transformed by technology. AI and quantum computing will revolutionize drug discovery at a molecular level as well as the entire pharmaceutical development and manufacturing process. With healthcare spending accounting for 18% of U.S. GDP, the sector is not immune but faces less economic pressure than other industries as consumers cannot put off their health. Hot sub-sectors include concierge medicine and longevity and wellness for wealthier consumers, the latter of which is benefiting from HHS Secretary Robert F. Kennedy Jr. loosening the regulations of the peptides industry along with an overall shift to focusing on preventing disease instead of merely treating it. To help our clients capitalize on this incredible growth and momentum, we are excited to expand Cascadia's Healthcare investment banking practice with [the recent addition of two new Managing Directors](#), Josh Mastracci and John Dean.

At the same time, the deal market has shut down for areas of healthcare with reimbursement risk, including providers with earnings concentrated in Medicare, Medicaid, and Medicare Advantage. Buyers will not commit to a price as Medicaid funding is being cut, Medicare enrollment for some services is frozen, and government payment rates are shifting. A lot of capital that would have gone into certain areas of healthcare as well as traditional software needs to find a new home and will provide a lift in other sectors.

Top guidance for the rest of 2026

While the Iran conflict was a curve ball many market participants did not expect this year, there is continued pressure for PE funds to sell, and we are seeing growing appetite to do deals again with the expectation the war will be resolved. Here are four pieces of advice for business owners to maximize your company's value and appeal for buyers for the rest of 2026:

1. **Contemplate selling as risk appetite has revived.**

Despite mixed macro conditions, M&A markets are open with buyers looking beyond the highest-quality companies. If you are thinking about selling, you should do your prep work now and be ready to move to capitalize on this window.

2. **Stay nimble.** Business leaders need to be exceptionally alert to the environment and have their head on a swivel given the speed of change. One cannot afford to have a dogmatic opinion on any topic; continually reading the market and analyzing real-time inputs are essential to understand the current conditions.

3. **Laser focus on the input cost of products,** including current and potential future costs, which could be going up across sectors—in particular food, beverage, and agriculture. Your customers' price elasticity, and knowing whether you can pass costs onto them, is crucial. Buyers are also very sensitive about customer concentration. Do everything in your power to diversify your customer base.

4. **Explore and evaluate AI for your business.** Investors and buyers are asking every company: How are you using AI? You do not need to have definitive solutions, but they want to see you have analyzed different products and are evaluating potential areas of use for efficiency gains.

The Cascadia team is working closely with our clients to pursue opportunities as market activity continues to ramp up. We expect the upcycle will persist through the disruptions, underpinned by solid economic fundamentals, and look forward to keeping you posted with our latest perspectives on the middle market.

Best regards,

A handwritten signature in black ink that reads "Michael Butler".

Michael Butler
CEO, Cascadia Capital



In Focus: Private equity returns to its roots as the popularity of deal-by-deal investing continues to grow

Seismic shifts are underway in private equity (PE) as the industry comes full circle, away from blind pool funds and back toward single asset deal-by-deal investing—the original PE investment model that originated in the 1970s. The “founding fathers” of contemporary PE (David Bonderman, Thomas Lee, Henry Kravis, Stanley Golder, Carl Thoma, etc.) used a deal-by-deal approach before the advent of the fund structure in the early 1980s. Funds came about almost by necessity to facilitate the high velocity of capital deployed by pensions, endowments, foundations, and other institutional allocators.

As PE funds have recently struggled to return capital and produce DPI (Distributed to Paid-In Capital) for limited partners (LPs) over the last half decade, investor confidence in PE funds has eroded, alternative approaches are gaining traction, and the middle market PE landscape is looking increasingly like it did 50 years ago. Independent sponsors—general partners (GPs) that raise capital on a deal-by-deal basis to acquire pre-identified companies—are now a significant force in lower mid-market PE, offering LPs greater visibility into underlying assets, more flexible holding periods, and the ability to build sponsor relationships through individual transactions.

What is driving the surge of investor interest in single-asset investing?

- Eliminating blind pool risk associated with PE funds.
- More transparency and understanding of underlying asset(s).
- Better GP/LP alignment through tiered carry structures based on MOIC and/or IRR hurdles.
- No fund-related timing constraints (five-year investment periods) that force sponsors to deploy committed capital in suboptimal markets.
- No misaligned selling and cross-collateralized carried interest.
- Discounted economics versus 2 & 20 for funds, paying fees on invested capital only.
- Generating alpha in a potentially quicker time frame with more flexible holding periods.
- Get to know a sponsor in a single deal ahead of a potential fund.

Private investing goes granular

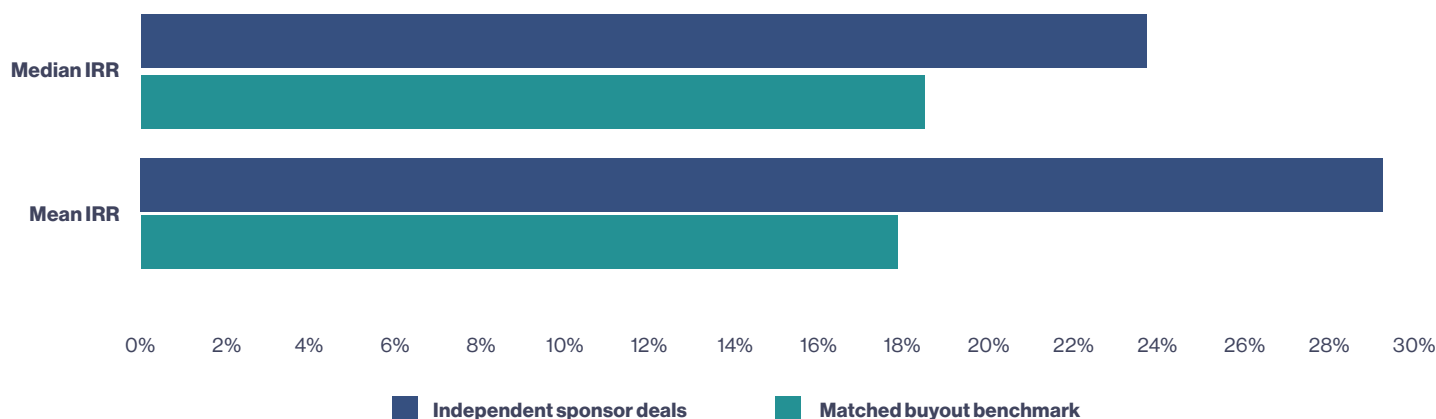
Changing dynamics on both sides of the investing equation have been driving this shift. First, fund fatigue has set in with LPs. They have a laundry list of grievances with the risk and terms of blind pools: limited transparency, 2 & 20 fee structures, 10-year lockup periods plus extensions, forced deployment during an investment period, forced selling during a harvest period, and other features leading to misalignment. In an uncertain macro environment, there is fast-growing LP appetite to invest directly in pre-identified businesses that they can see and touch. These LPs still need to rely on a sponsor to identify the asset, run due diligence, execute the value creation plan, and exit successfully.

With this single-asset approach, an investor's primary focus is on the company and the merits of the deal itself. Investors want to understand the business, its management team, the fairness of the valuation, and the achievability of the projected base case return. And yes, LPs also want to understand the experience of the independent sponsor and its ability to execute on the value creation plan. For this reason, it can be a challenge to get LPs comfortable with first-time deals with new sponsors; however, if a target company is outstanding with an exceptional management team, LPs are more likely to accept an unproven sponsor profile.

Returns are reinforcing the LP migration to deal-by-deal investing: recent data shows independent sponsors are outperforming traditional blind pool funds.

Returns are reinforcing the migration to deal-by-deal investing: recent data shows independent sponsors are outperforming traditional blind pool funds. [A June 2026 study](#) by the Institute for Private Capital at the University of North Carolina's Kenan-Flagler Business School reported that independent sponsor deals generated a median equity IRR of 23.8% versus 18.5% for comparable investments made by U.S. buyouts. In addition, Citrin Cooperman released its [2026 Independent Sponsor Report](#) in September, revealing that the percentage of independent sponsor respondents returning 3x or more to investors has risen significantly, from 57% in 2023 to 84% this year, with 34% returning 5x or more to investors this year.

Independent sponsor deals vs. matched buyouts



Source: Institute for Private Capital — as of Summer 2026.

Independent sponsors: from fringe to mainstream

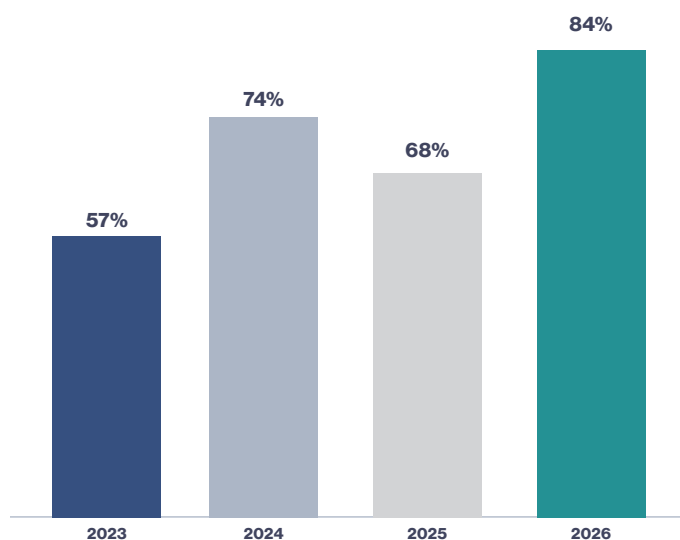
On the investor side, family offices have been investing deal-by-deal for years, building carefully selected portfolios of single asset investments. The number of institutional investors adopting the approach is now also growing exponentially, decreasing their dependency on fund managers to provide a co-investment that often comes with very limited time frames to make an investment decision. Investor frustrations have also compounded as fund managers raise successively bigger and bigger commingled funds. From the investor's perspective they see GPs playing for bigger management fee pools as, for example, a PE platform evolves from a \$250M Fund I, a \$500M Fund II, then a \$1B+ Fund III. Now focused on asset aggregation, those managers often drift away from the original investment strategy and the firm's core competency.

Fifteen years ago, "fundless sponsor" was a derogatory term, signaling a manager's inability to raise a fund. Today, managers are making conscious decisions to not raise funds in a highly saturated PE fundraising market. Across sectors, many funds are not hitting targets and even the most established funds with a history of strong returns and cash distributions are taking longer than expected to hit final close.

Deal-by-deal investing can strengthen the position of a sponsor, giving them better deal selection and removing the pressure to deploy "use it or lose it" committed capital. Their incentives are matched to individual deals versus a commingled fund. At Cascadia, [our Equity Capital Solutions \(ECS\) practice](#) takes the capital formation workstream off a sponsor's plate so they can focus on deal execution.

Cascadia also works extensively with traditional PE funds that seek supplemental equity for larger deals. The fund may have hit a percentage of portfolio concentration limit on the deal's equity check, LPs may have already maxed out their no-fee co-investment allocation, or a manager may be in between funds and wanting to do a single-asset special purpose vehicle (SPV). Investors who are not fund LPs are eager to see the best deals and participate alongside

Independent sponsor returns of 3x or more have risen significantly over the last four years



Source: Citrin Cooperman, 2026 Independent Sponsor Report (September 2026).

renowned fund managers in a single asset, without a 10-year fund commitment and full 2 & 20 fees. In other cases, a fund may need third-party equity to close a large add-on for an existing portfolio company in which case Cascadia ECS raises that capital in a single-deal SPV alongside the fund. We also help funds find creative solutions when they have fallen short of fundraising targets and advise on securing additional non-fund capital around deals, on which they can earn economics, versus offering it at zero cost.

The emerging PE barbell

Given the insatiable LP appetite for deal-by-deal investing, we believe it will continue to increase in popularity. We expect the market to evolve towards a barbell dynamic: mega-cap funds will continue to raise successfully because pensions, endowments, and other allocators will need funds for high-quantum, high-velocity PE deployment, while single-asset investing will increasingly dominate the lower middle market.

As these shifts reshape how capital is raised and deployed across the middle market, Cascadia's independence and flexibility as an employee-owned firm enable us to be

nimble and creative in crafting and implementing solutions for clients across capital and transaction types. This is underpinned by our proprietary investor network.

As one recent example, in Q2 2026 a sole practitioner independent sponsor spun out of a blue-chip PE firm with exclusivity on a founder-family-owned aerospace business requiring a circa \$110 million equity check. Cascadia ECS focused on a short (8-10 week) timeline and executed the capital formation process to align with deal-closing parameters. For such decidedly compelling, proprietary deals the process can indeed take a matter of weeks versus raising a blind pool fund, which can take 12-24 months or longer. The swift timelines involved in single-asset investing are another appealing attribute for both LPs and GPs.

Five priorities for independent sponsors competing for capital

To maximize effectiveness in a competitive deal-by-deal market, we recommend independent sponsors keep the following guidance top of mind:

- 1. Get Cascadia involved early in the conversation,** long before you have signed a letter of intent / exclusivity. Being ready to approach investors immediately after you have exclusivity on a deal is paramount given the aim to complete the capital closing process in line with the exclusivity period on the business. Too many sponsors underestimate the time and attention that the capital formation workstream requires and start investor conversations too late.
- 2. Develop a crystal-clear transaction rationale** to stand out amidst the over-supply of direct deals in the market. Investors want proprietary deals with market-leading businesses in geographies with favorable competitive dynamics. Given macro uncertainty, LPs are seeking protected margins that can weather a downturn, with revenue that is ideally a non-discretionary spend item for the end market.
- 3. Be prepared to talk about your unrealized and realized track record** and your value creation plan for the company. While the company and deal profile are the focus in direct investing, LPs will evaluate the deal team

responsible for underwriting and managing the asset, preferring hands-on strategic value-add and sector specialists.

- 4. Make sure your diligence is airtight.** Investors will primarily reference your due diligence work when determining the attractiveness of the investment, with your investment memo and underwriting model as the most critical data points for their analysis complemented by third-party buyer commissioned due diligence reports (including quality of earnings, market study, tax, legal, etc.). Seller-produced vendor due diligence will be discounted.
- 5. Be flexible on capital type, fee structures, and governance.** Investors will typically negotiate a tiered carried interest structure to incentivize the GP to maximize value creation over the hold period and to align interests with the investors, while certain strategic co-investors will have strong off-market preferences. The direct market involves a wide spectrum of governance “asks” and negative control rights, as well as fee structure flexibility depending on deal-specific market feedback.

We are in a new, dynamic era for private capital markets, with a multitude of ways to transact in the lower-middle market and increasing options for sellers.

To discuss how Cascadia's Equity Capital Solutions team can help you achieve your objectives through direct investing, contact us:



Sim Ketchum,
Managing Director
Co-Head of Equity Capital Solutions

[CONTACT](#)



Peter Purcell,
Managing Director
Co-Head of Equity Capital Solutions

[CONTACT](#)



Michael Kahn,
Director
Equity Capital Solutions

[CONTACT](#)

2026 Transactions

Please see some of the recent clients Cascadia has supported below. Our goal is to be a trusted advisor to founders, entrepreneurs, family business owners, and private equity firms, assisting them to realize their goals of growing and maximizing the value of the companies they have spent years, a lifetime, or generations building.

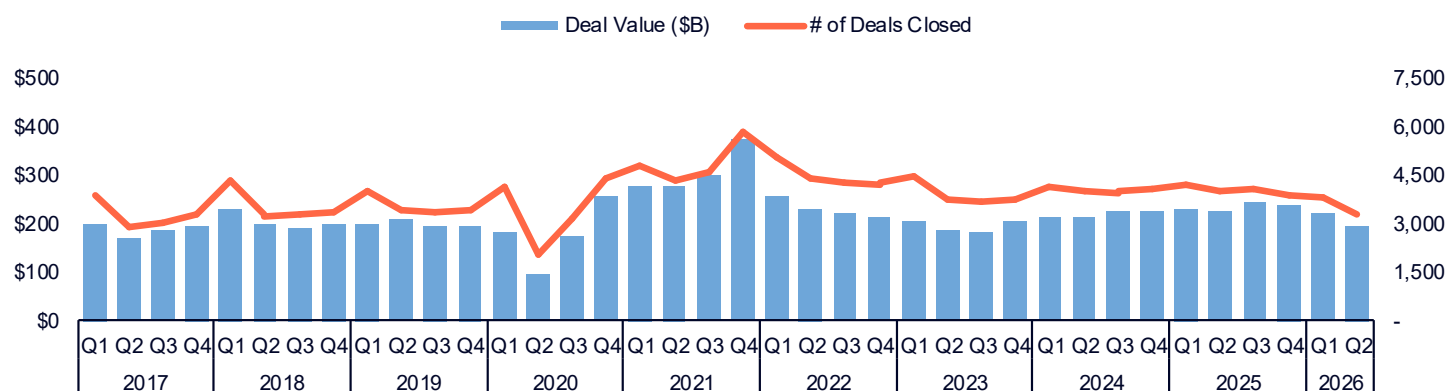
 has been acquired by  a subsidiary of  SEPTEMBER 2026	 a portfolio company of  has been acquired by  a portfolio company of  SEPTEMBER 2026	 a portfolio company of  has received debt financing from  SEPTEMBER 2026	<i>Diamond Art Club</i> has been acquired by  AUGUST 2026	Frontenac has acquired  a portfolio company of  JULY 2026
 has acquired  JULY 2026	 a portfolio company of  has received debt financing from  JULY 2026	 a portfolio company of  has been acquired by  MAY 2026	BLACK BOX has acquired  MAY 2026	 has been acquired by  MAY 2026
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 has received an investment from  FEBRUARY 2026	 has partnered with  FEBRUARY 2026	   were combined to form  FEBRUARY 2026	 has been acquired by  FEBRUARY 2026	 has been acquired by  a subsidiary of  FEBRUARY 2026

Capital Markets Data

The following market data is sourced from PitchBook and reflects middle-market activity, defined as transactions less than \$1 billion value. Data as of Q2 2026.



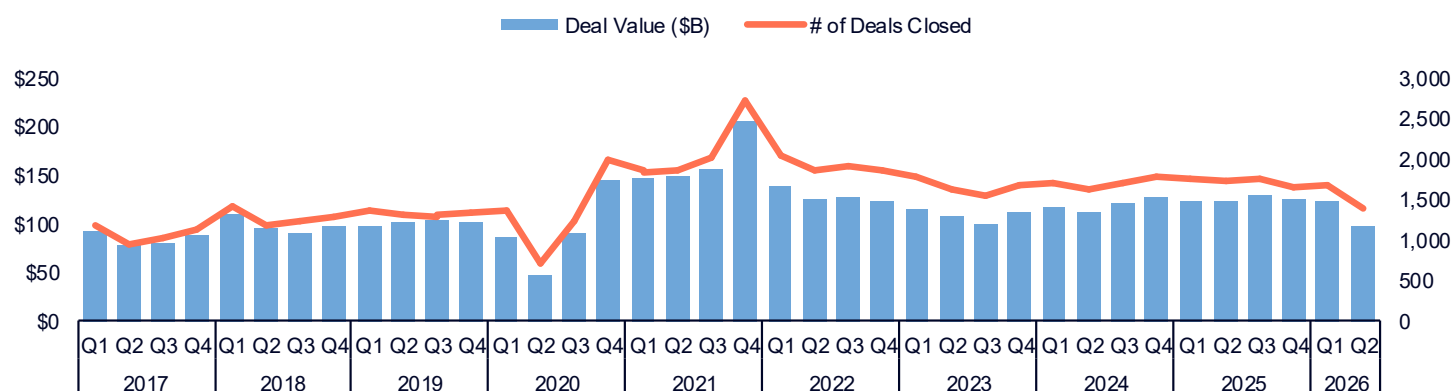
U.S. M&A Activity by Quarter



In LTM Q2 2026, deal value fell 1%, while deal count decreased by approximately 8%.

Source: PitchBook

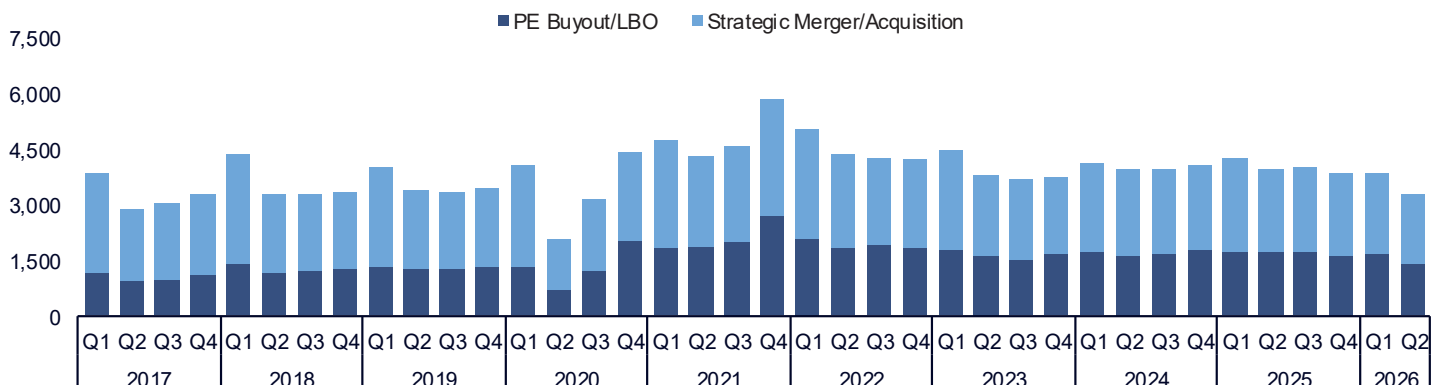
U.S. Private Equity Activity by Quarter



In LTM Q2 2026, private equity deal value fell around 4% year over year, while deal count dropped by roughly 7%.

Source: PitchBook

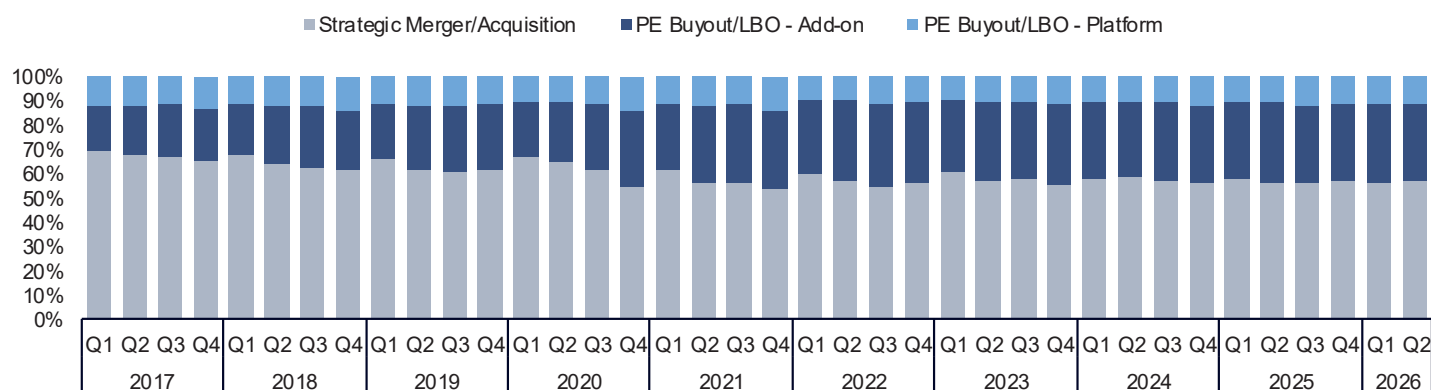
U.S. Private Equity vs. Overall M&A Activity



PE activity as a percentage of overall M&A count increased from LTM Q2 2025 to LTM Q2 2026.

Source: PitchBook

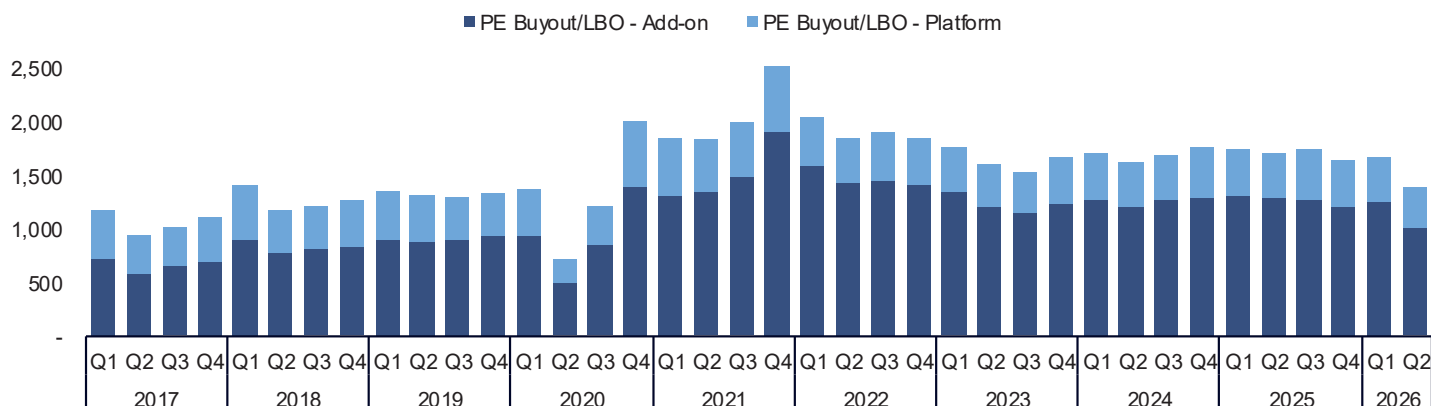
Portion of U.S. Private Equity vs. Overall M&A Activity



From LTM Q2 2025 to LTM Q2 2026, platform acquisitions and add-on acquisitions increased slightly as a percentage of total M&A deal count.

Source: PitchBook

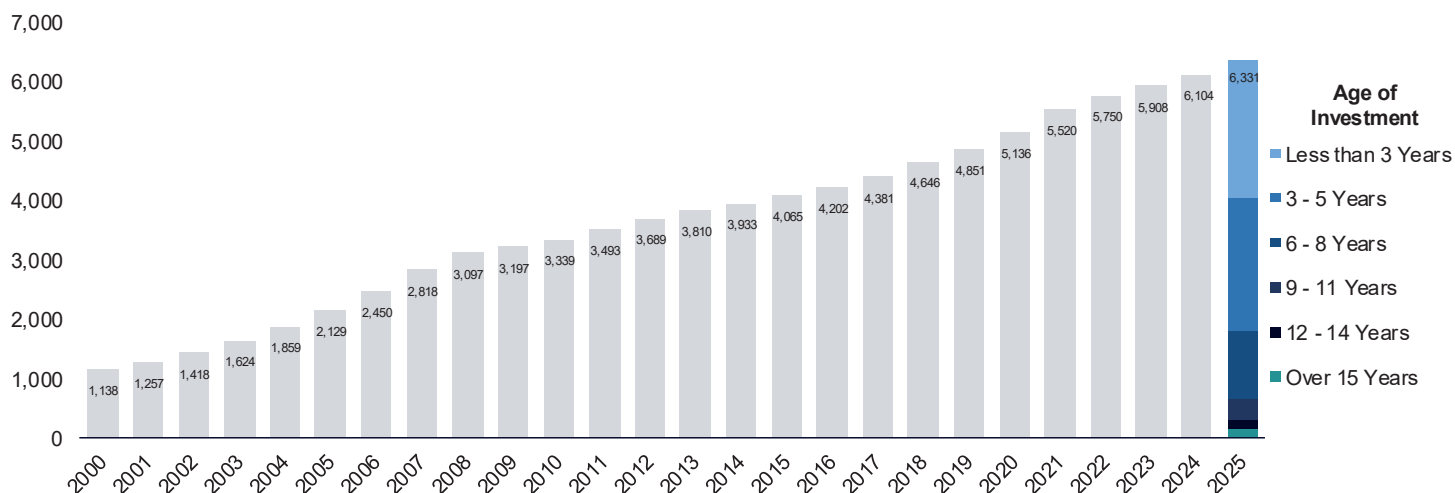
U.S. Private Equity Deal Type by Quarter



From LTM Q2 2025 to LTM Q2 2026, platform acquisitions increased marginally as a percentage of total private equity activity.

Source: PitchBook

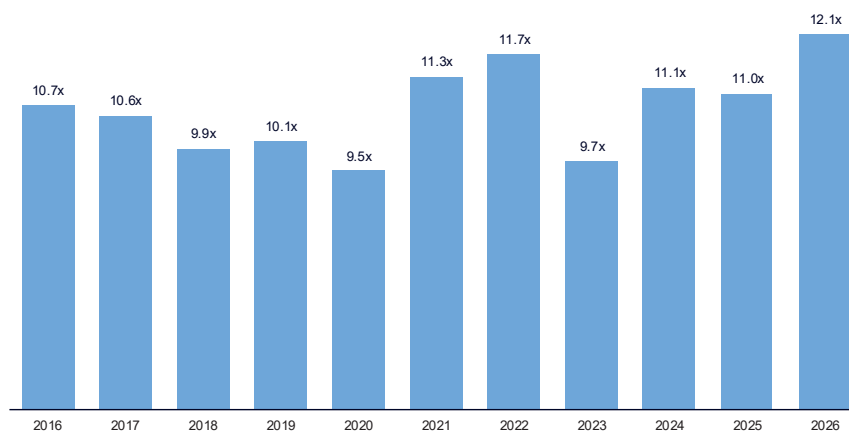
U.S. Private Equity Sub \$1B Company Inventory



Overall private equity portfolio inventory has continued to grow.

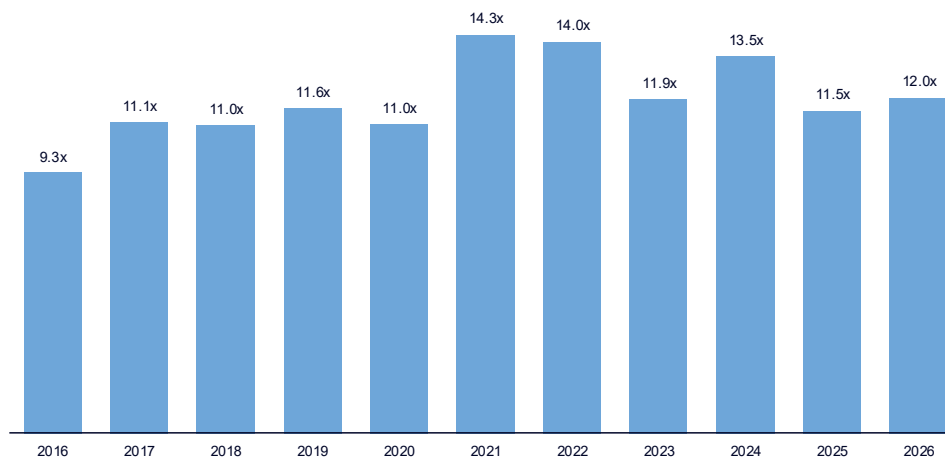
Source: PitchBook — as of 6/30/26

U.S. M&A Median EV / EBITDA Multiples



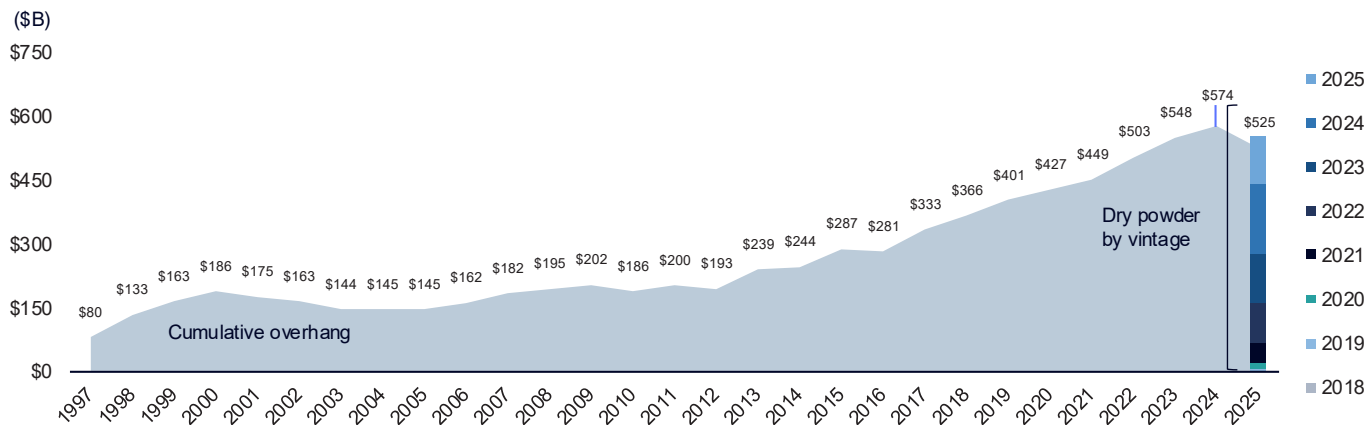
Source: PitchBook — as of 6/30/26

U.S. Private Equity Median EV / EBITDA Multiples



Source: PitchBook — as of 6/30/26

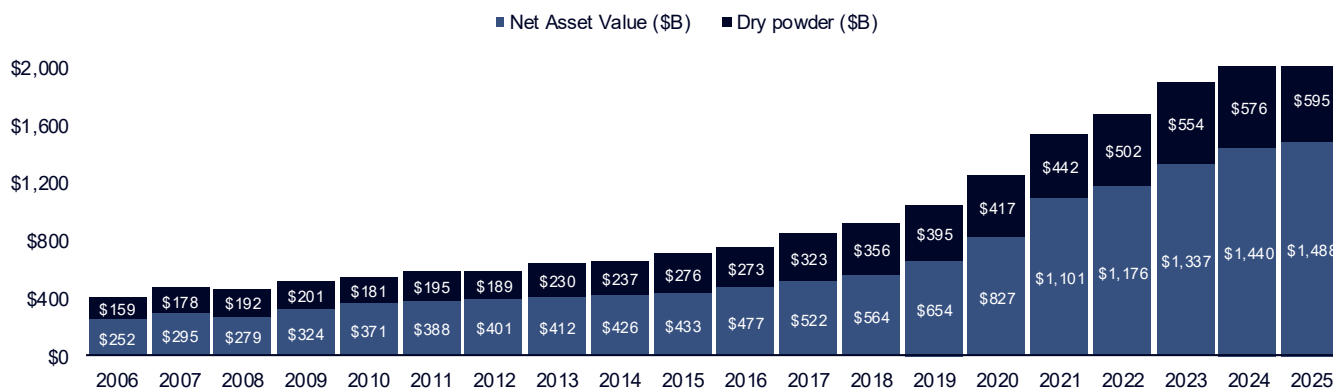
U.S. MM PE Capital Overhang



PE capital overhang slightly decreased but remains elevated.

Source: PitchBook —as of 12/31/25

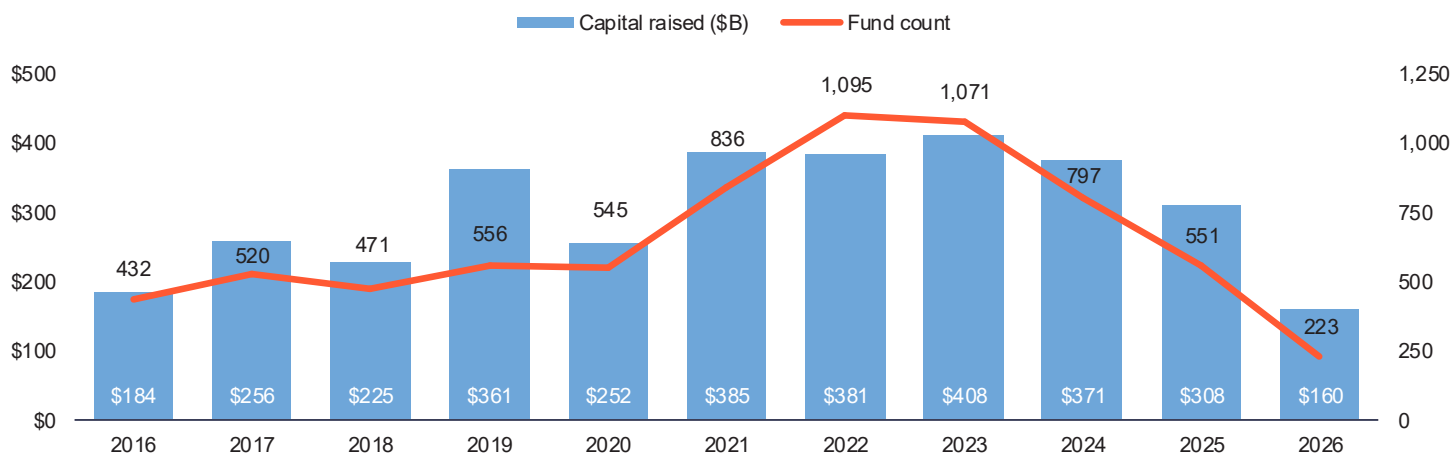
U.S. MM PE Assets Under Management



Total PE AUM increased slightly from 2024 to 2025.

Source: PitchBook —as of 12/31/25

Total U.S. PE Fundraising



2026 continues the trend of fewer funds raising capital compared to 2022 highs.

Source: PitchBook —as of 6/30/26

Why Cascadia.

**Your
Business**



**Our
Expertise**



Results

Cascadia Capital is an independent investment bank providing middle-market entrepreneurs, family-owned businesses, and private equity firms with merger and acquisition advice, capital raising, and strategic advisory services. For over 20 years, the firm has strived to deliver the best outcomes for its clients by leveraging its extensive transaction experience, deep domain expertise, and commitment to building long-term relationships. Cascadia is a pure advisory firm and is not conflicted by trading, lending, research, or cross-selling business.

cascadiacapital.com

Office Locations



Austin

811 Barton Springs Road, Suite 400
Austin, Texas 78704



Los Angeles

4551 Glencoe Avenue, Suite 320
Marina del Rey, CA 90292



Menlo Park

3000 Sandhill Rd, Bldg 3, Suite 170
Menlo Park, CA 94025



Minneapolis

350 N 5th Street, Suite 925
Minneapolis, MN 55401



Nashville

1033 Demonbreun St, Suite 300
Nashville, TN 37203



New York

477 Madison Ave, 18th Floor
New York, NY 10022



Seattle

920 5th Avenue, Suite 1500
Seattle, WA 98104



CASCADIA

811 Barton Springs Road, Suite 400
Austin, Texas 78704

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CASCADIA

811 Barton Springs Road, Suite 400
Austin, Texas 78704



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