

Navigating the M&A Landscape – A Banker's Perspective on 2025



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The mergers and acquisitions market stands at a pivotal juncture as we approach 2025. The turbulence of recent years, driven by inflationary pressures, rising interest rates, and geopolitical uncertainty, is giving way to a period of cautious optimism. For sellers, the upcoming year presents compelling opportunities, but success will require strategic foresight and a nuanced understanding of evolving market dynamics. While the recovery is unlikely to replicate the fervor of 2021, the foundation for a rebound is undeniably taking shape. Here's our perspective on the 2025 M&A outlook and how we at [Dean Dorton's M&A Advisory Group](#) are prepared to guide our clients through it.

Key Developments in the M&A Market

2024: A Stabilizing Economy

The second half of 2024 marked a turning point for the global economy. As inflation moderated, unemployment held steady, and consumer spending remained resilient, central banks began signaling potential rate cuts, which in turn led to more stable capital markets. These developments, coupled with improving corporate confidence, are setting the stage for a more active M&A market in 2025. As we turn the calendar from 2024, several key themes are underpinning the M&A market:

- **Strong Buyer Appetite**

Buyer interest in strategic acquisitions remains robust, driven by a combination of abundant capital and a renewed focus on growth through acquisitions. Across most sectors, heightened competition underscores the eagerness of both corporate and private equity buyers to seize strategic opportunities that will accelerate their market position. Companies are leveraging acquisitions not just to consolidate markets but also to secure transformative capabilities, while private equity firms, equipped with record levels of dry powder, are actively pursuing deals to enhance portfolio value and achieve higher returns. But at the same time, they are being very careful in selecting which deals they pursue and paying premium valuations for those companies with tangible growth levers.

- **Valuations: Steady but Selective**

Valuations, which recalibrated during the post-pandemic economic slowdown, have remained steady throughout 2024. Despite a strong appetite for deal flow, buyers are maintaining disciplined pricing, prioritizing profitability and sustainable growth over speculative opportunities. For high-quality assets, competition among buyers will

generate premium valuations. In the year ahead, sellers should anticipate a competitive bidding environment, perhaps not reaching the exuberance of 2021, but robust, nonetheless.

- **Lower Borrowing Costs**

Borrowing rates in the U.S. have decreased from their 2023 peaks, easing financing constraints for leveraged buyouts. After reaching a peak of 11.0% in mid-2023, the all-in rate on leveraged loans for non-investment grade issuers fell to 9.7% by September 2024. These dynamics created a shadow rate-cut cycle even before the U.S. Federal Reserve began cutting its target rate later that month. The lower borrowing costs have benefited deal-making through the course of 2024, particularly amongst private equity buyers who rely on debt as an important financing source.

- **Thawing Credit Markets**

Commercial loan growth has remained stagnant for much of 2024, but it isn't for lack of available credit. Commercial banks have noticeably relaxed lending standards over the course of 2024. According to data from the Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices, commercial banks, in aggregate, tightened standards throughout 2023, but in Q1 of 2024, began loosening standards for Commercial and Industrial loans, thus making loans easier to obtain and less costly. This trend has continued throughout 2024 and could reasonably be expected to extend into coming quarters while the U.S. economy remains on stable footing.

- **Rebound in Private Equity (PE) Activity**

Private equity firms, which adapted to macroeconomic uncertainties over the prior years by focusing on smaller deals and add-ons, are now gearing up for larger "platform" transactions. This has begun to take hold in 2024, with YTD private equity volumes up by 24% through the end of the third quarter compared to the same period in 2023. With record levels of dry powder and improving credit markets, financial buyers are expected to aggressively pursue deals in 2025.

2025: A Potential Turning Point

Four overarching trends suggest that 2025 could mark the beginning of a new M&A cycle:

1. **Market Cycles and Pent-Up Demand**

Historical trends indicate that M&A cycles typically last 12-24 months. Three years into a downturn, the market is overdue for a rebound. With \$1 trillion of dry powder translating into \$2 trillion of purchasing power with leverage, PE firms are under mounting pressure to deploy capital. Simultaneously, demographic factors—such as aging business owners—are pushing more sellers to market.

2. **Macroeconomic Shifts**

The Federal Reserve's recent rate cuts have reduced the cost of capital, addressing a significant hurdle to deal-making. Stabilizing inflation and resilient consumer spending also boost confidence among buyers and sellers alike.

3. **Strategic Growth Needs**

Companies are increasingly using M&A to acquire capabilities, talent, and technology in response to transformative trends such as artificial intelligence and digitization. Inorganic strategies remain vital for driving growth in a low-growth economy.

4. **Favorable credit markets**

An extension of the trends observed in the credit markets over 2024, primarily lower costs and relaxed lending standards, would have an overwhelmingly positive impact on the M&A market. Lending is the lifeblood of M&A, and current market dynamics could sustain a significant uptick in M&A.

While the outlook is positive, challenges persist:

- **Valuation Gaps:** Buyers and sellers continue to diverge on pricing expectations, with sellers often anchored to inflated valuations driven by enthusiasm that has played out in the public equity markets.
- **Regulatory Scrutiny:** Heightened regulatory oversight, particularly in sectors like technology and healthcare, remains a significant obstacle. Nearly 80% of dealmakers report facing increased regulatory hurdles.

- **Geopolitical Risks:** Global tensions and domestic election-related uncertainties could dampen market confidence. Both foreign affairs, such as the expansion of the wars in Ukraine and the Middle East, and domestic policy shifts, such as broadening tariffs, have the potential to disrupt markets.

What Potential Sellers Should Focus on in 2025

The M&A market in 2025 offers immense potential, but it also requires sellers to approach the process with a clear strategy and adaptability. Here's how to navigate the landscape effectively:

1. Enter the Market Strategically

Sellers entering the market in 2025 will need to carefully consider both macroeconomic and industry-specific trends. Many market participants opined that the lack of activity in 2024 stemmed from a lack of quality deals to pursue. Understanding how your company fills a need in the market and knowing which buyers will most aggressively pursue a purchase will be key to developing a sale strategy. Sellers will also want to consider the qualitative factors that are important to them in a sale process, e.g., company legacy, employee retention, etc. There is an ample number of willing buyers scouring the market, and having a clear strategy on how to approach the market will lead to the best outcomes.

2. Craft a Compelling Growth Narrative

Buyers in 2025 are likely to maintain rigorous due diligence standards, particularly after a period of heightened scrutiny in 2023 and 2024. Sellers should work with their advisors to be suitably prepared before entering the market with a focus on presenting a clear and compelling narrative by addressing key areas:

- Financial Integrity: Clear, audited financials demonstrating consistent growth and strong margins.
- Operational Efficiency: Streamlined operations with minimal legal or regulatory risks.
- Growth Trajectory: A clear path to achieving growth objectives under various economic scenarios.

Beyond presenting financials, sellers need to articulate a clear narrative that highlights their competitive advantages and prospects.

3. Building a Strong Advisory Team

Navigating the complexities of deal-making requires expert guidance. Investment bankers, legal advisors, and tax professionals will be instrumental in helping sellers achieve optimal outcomes. Wealth management advisors, too, play a pivotal role in helping business owners prepare for an exit and allocating proceeds post-close.

Conclusion: A Year of Optimism

The M&A landscape in 2025 holds significant promise for well-prepared sellers. As economic conditions stabilize and buyers enter the market with renewed confidence and capital, the environment is ripe for strategic transactions. However, success will depend on careful timing, rigorous preparation, and alignment with the right partners.

For those ready to seize the moment, 2025 promises to be a year of opportunity. With the right advisory team, sellers can unlock substantial value and position themselves for success.