2025 M&A Outlook:

Market Shake-Ups and Dealmaking Opportunities

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In an evolving and increasingly complex dealmaking environment, disciplined execution, strategic foresight and an agile, nuanced approach to value creation will be essential for capitalizing on friendlier macroeconomic conditions in 2025.

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Introduction

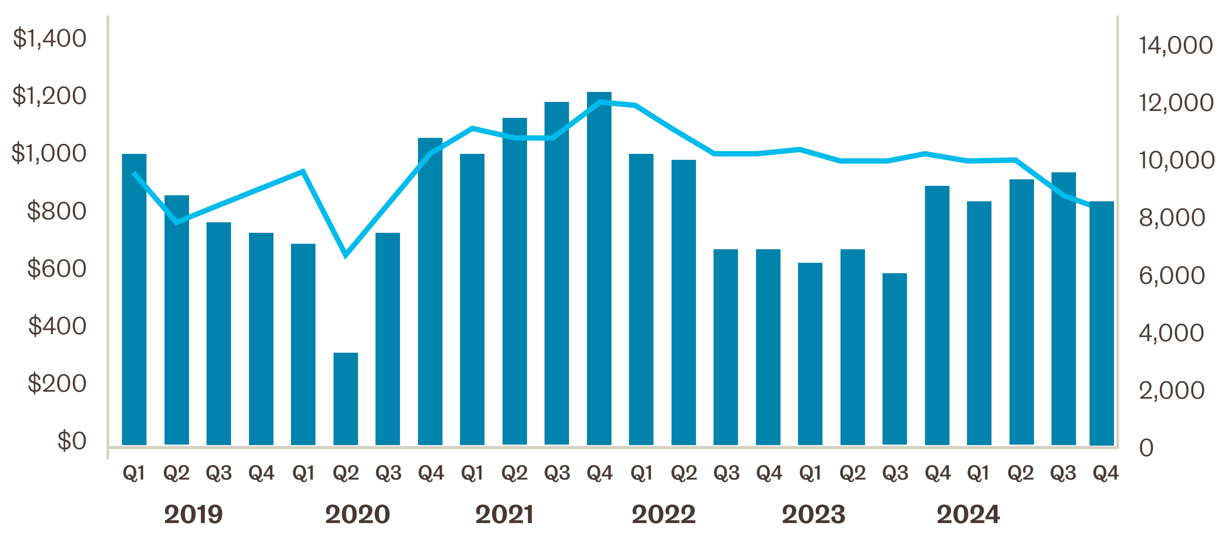
In last year's outlook, we noted that mergers and acquisitions (M&A) activity was slowed in 2023 by exogenous headwinds, with M&A practitioners and dealmakers cautiously optimistic that a more conducive macroeconomic backdrop would underpin a strong rebound in 2024. Despite substantial pent-up demand for deals, the anticipated 2024 M&A rebound did not fully materialize, as the headwinds that precipitated the 2022-2023 slowdown largely continued and a shadow of uncertainty clouded the dealmaking environment.

Financing costs remained a barrier to transactions, as interest rates stayed at relatively high levels (based on historical standards) after the long-awaited Federal Reserve rate cuts came later in the year and reflected a more cautious policy approach than expected. Dealmakers faced sticky inflation, sustained macroeconomic uncertainty, divergent valuation expectations (with many sellers still anchoring to peak M&A cycle valuations), geopolitical turmoil and heightened regulatory scrutiny. The uncertainty surrounding the U.S. presidential election in 2024 further subdued M&A activity, with October seeing a notable slowdown and a number of deals stalling briefly throughout Q4. Amid the uncertainty and persistent headwinds, we saw buyers adopt a wait-and-see approach to dealmaking as they awaited potential rate cuts, improved macroeconomic conditions and postelection policy changes.

The M&A market is steadily gaining strength, however, and there are promising indicators and catalysts poised to accelerate deal activity and build momentum in 2025. Although overall deal counts were relatively flat globally and fell in the U.S. in 2024, aggregate M&A deal value increased from 2023's 10-year low (see Figure 1) — reaching ~$3.4 trillion globally, up almost 10% — driven by a spike in larger deals (with the number of $2 billion-plus transactions increasing 20% year over year, according to Mergermarket), which may be reflective of a stronger appetite and friendlier environment for dealmaking.

A stabilized economy, moderating inflation, lower interest rates and rallying public equity markets (building on 2023's strong performance) are already setting the stage for a more favorable macroeconomic backdrop, and any resolution of ongoing geopolitical conflicts would provide an extra boost. We continue to see a healthy flow of carveouts, as corporate dealmakers prioritize portfolio simplification and optimization strategies, a trend that will continue to drive M&A and bolster the supply of assets

FIGURE 1: M&A ACTIVITY BY QUARTER



Source: PitchBook, *2024 Annual Global M&A Report*

for sale in 2025. Key impediments of monetary policy and regulatory uncertainty seemingly have been addressed — at least notionally — with the U.S. election now decided, and the pro-growth policies, corporate tax cuts and deregulation anticipated under the Trump administration will likely create a friendlier dealmaking environment.

Although lingering uncertainty in the market, particularly regarding Trump's trade and tariff policies, has the potential to slow M&A activity in the first half of the year, market conditions are generally improving and confidence is rising among management teams. Dealmakers will execute on M&A strategies to achieve transformative growth and pursue capability-enhancing deals, as the demand and need for artificial intelligence (AI), cybersecurity, and other critical emerging technology-based platforms and solutions surge to unprecedented levels.

While corporate acquirers were notably active, accounting for nine of the 10 largest deals of the year, private equity (PE) sponsor activity began to show signs of a rebound, with buy-side activity normalizing in 2024; sponsor exit activity, however, has remained notably subdued. With recent shifts in monetary policy making the cost of capital cheaper and as the debt market continues to evolve (with the advent and prevalence of private credit alternatives to traditional bank debt), PE activity is primed for an uptick amid ongoing pressure by investors for deployment and liquidity.

Adaptive Approach to Dealmaking

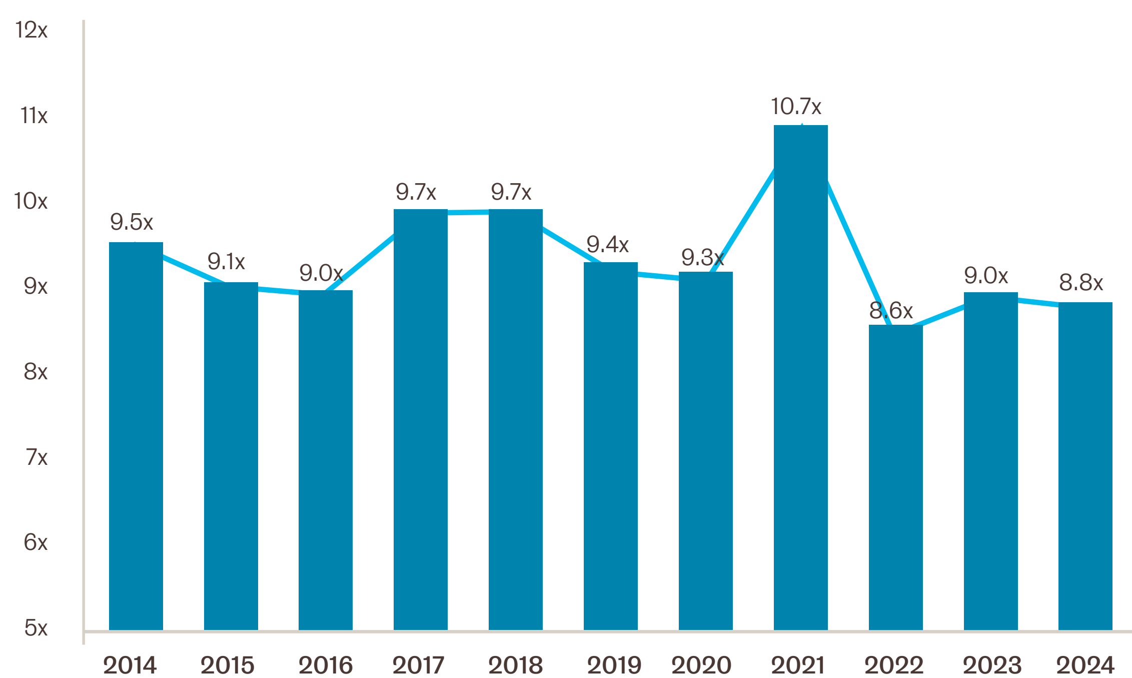
Adjusting to a more complex and dynamic business environment, dealmakers have evolved their M&A strategies and processes. Below we discuss some of the key themes, trends and developments in dealmaking over the past year, including the continued usage of creative transaction structures to bridge valuation gaps and overcome financing challenges, corporate focus on portfolio simplification and optimization, a modest uptick in larger transactions, the prevalence of capability-enhancing add-on acquisitions and innovative sponsor activity.

Creative Deal Structuring. Dealmakers continued to face financial headwinds in 2024, including elevated interest rates (which remain at relatively high levels compared to the past decade), muted revenue metrics, compressed transaction multiples and persistent valuation gaps. According to PitchBook, the median EV/EBITDA multiple for M&A transactions globally in 2024 was 8.8x, down slightly from the prior year, still 15% to 20% off the historic peak in 2021, and lower than the 2017-2020 range (see Figure 2).

While the median EV/EBITDA multiple for M&A transactions in the U.S. rose to 10.3x, up a full point from 2023, public market trading multiples on the S&P 500 sat near historic highs, creating a persistent and widening valuation gap between public and private markets. The higher valuations from prior-year cycles and the disparity between strategic M&A multiples and public equity markets may explain the reluctance of sellers to accept recently available exit multiples. Rather than face markdowns at exit, PE sponsors opted to delay exits, hold assets and leverage value-creation strategies. Corporates similarly focused on carveouts, divestitures, separations and revenue-generation strategies to optimize their portfolios.

While equity markets rallied, FactSet meanwhile reported that Q4 2024 revenue growth was lower than forecast for the S&P 500 and that companies reported revenues that were just 0.9% above expectations in the aggregate in 2024, surprisingly below the one-year average (1.0%), five-year average (2.1%) and 10-year average (1.4%). Muted revenue growth metrics may have left buyers more skeptical on price and unable to underwrite the growth trajectory that sellers were forecasting, particularly amid market volatility and uncertainty. These factors, together with the higher cost of capital, compounded bid-ask spreads and divergent valuation expectations between buyers and sellers in 2024.

FIGURE 2: MEDIAN NORTH AMERICA AND EUROPE M&A EV/EBITDA MULTIPLES



Source: PitchBook, *2024 Annual Global M&A Report*

Savvy dealmakers continued to deploy a range of creative deal-structuring mechanisms and tactics in response to persistent valuation gaps and financing constraints in 2024, including through earnouts and equity rollovers, minority stake investments, joint ventures, strategic alliances and a wide range of alternative transactions and innovative liquidity tactics pursued by sponsors.

Buyers increasingly turned to alternative financing arrangements to overcome the higher costs of capital, with greater access to nontraditional sources of direct lending. Financing is no longer a pricing bottleneck to dealmaking. In particular, the growing private credit market — which now has almost $1.7 trillion under management globally (more than three times the total from 2015) — has emerged as a major source of deal funding, proving to be a steadfast option that is highly competitive with more traditional bank financing.

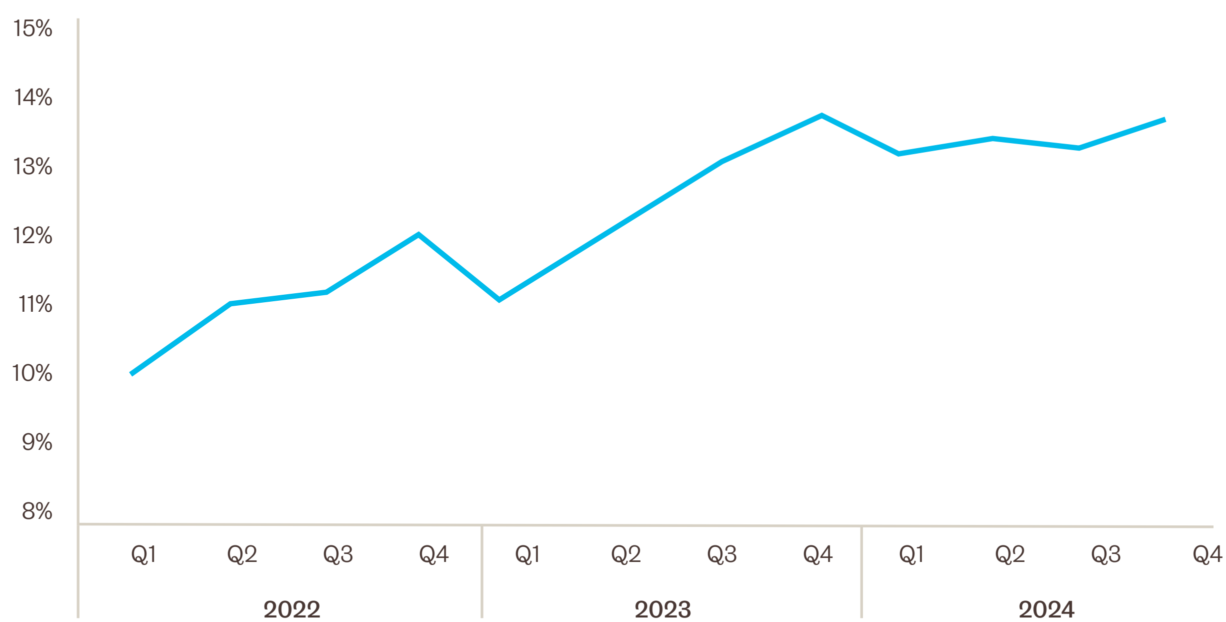
Increased competition between private credit sources and banks that are returning to the lending market has not only fueled greater capital availability in the market but also helped push down financing costs (even prior to central bank rate cuts, functioning as a stealth rate cut), loosen credit terms and lessen selectivity on the part of lenders. In larger-scale acquisitions, dealmakers are now parallel-tracking syndicated loan markets alongside private credit and direct-lending solutions, as banks increasingly offer better pricing and more favorable terms to complement the role of private credit.

Corporate Simplification. Globally, as part of a major emphasis on value creation, diversified companies are proactively reviewing their portfolios, looking to focus on their core strengths and prioritize corporate simplification strategies to align with long-term secular growth and profitability goals, unlock shareholder value and achieve capital efficiency. Through carveouts, divestitures, spin-offs and other separations, companies are strategically offloading and/or monetizing noncore assets, low-growth business lines and/or underperforming units to simplify operations, concentrate on core business lines, strengthen balance sheets, improve margins, hone revenue growth, and reduce layers of operational risk, complexity and inefficiencies. These transactions enable corporations to rebalance underperforming portfolios and generate capital that can be reinvested in core strengths, a compelling thesis for shareholders and investors.

Elevated M&A and portfolio simplification-focused shareholder activism campaigns have further promoted a strategic pursuit for these types of transactions by public corporations, with market trends demanding revenue growth. According to Goldman Sachs, 40% of spin-offs announced and closed in 2024 were led by large-cap firms ($25 billion-plus) moving away from conglomerate models, including GE's split into three public companies and Honeywell's recent announcement that it will pursue a similar strategy.

Underpinning the increased prevalence of these transactions (see Figure 3) is the more prominent role of PE firms as carveout buyers and the use of creative structuring mechanisms (including earnouts, equity rollovers and working capital adjustment collars) to enable dealmaking. Naturally, the sell-side trends toward corporate simplification and portfolio optimization will not only increase the supply of assets available on the market but also continue to present attractive opportunities to and be in high demand for buyers, especially PE sponsors seeking to deploy capital and acquire undervalued assets that may be ripe for value creation.

FIGURE 3: GLOBAL CARVEOUTS BY QUARTER AS PERCENTAGE OF M&A



Source: PitchBook, *2024 Annual Global M&A Report*

Sponsor Activity. PE sponsors have demonstrated deftness and creativity in dealing with macroeconomic and regulatory headwinds. PE buy-side activity enjoyed a rebound in 2024. Buyout volume saw an uptick from Q2 2024 onward as dealmakers anticipated and priced in rate cuts in advance and more actively deployed dry powder (which entered 2024 at record levels and, as of December 2024, is still 43% higher than pre-pandemic levels).

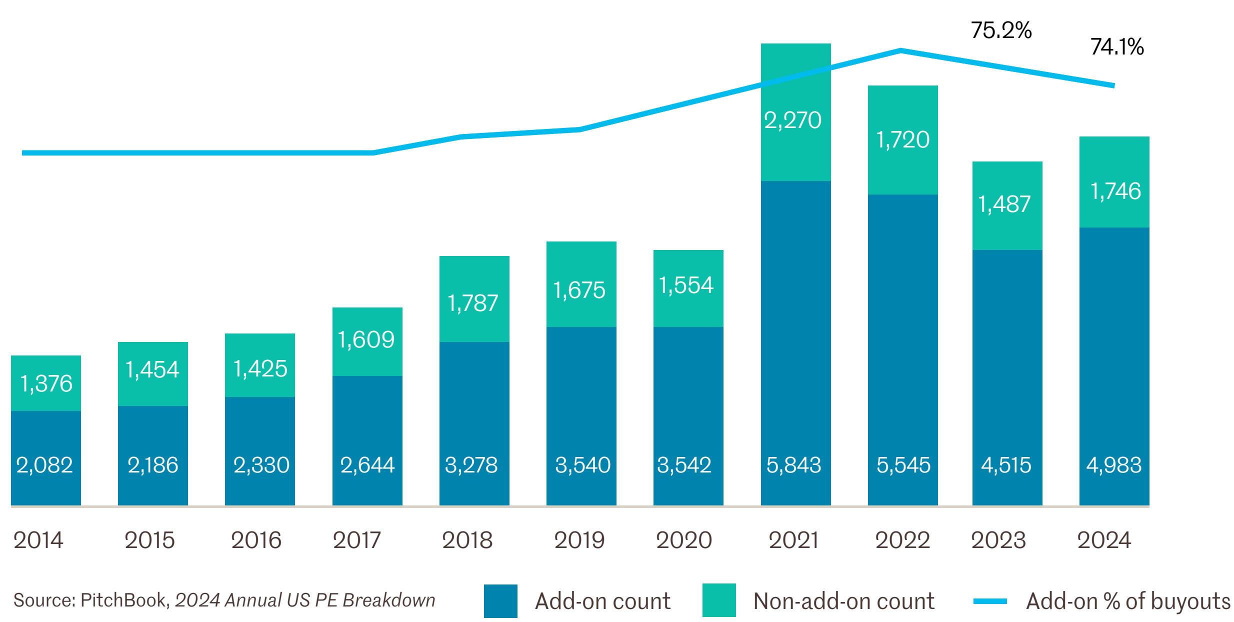
Take-private activity remained high, and a modest resurgence in larger deals (exceeding $1 billion in value) — which accounted for 36.8% of all PE-backed transactions in 2024 (up from 33.6% in 2023) — served as a key growth driver. In total, 2024 tallied the fourth-highest mark of PE-backed megadeals (transactions exceeding $5 billion in value) since 2000.

At the same time, we continued to see elevated add-on deal activity, accounting for 74.1% of all U.S. PE buyouts (see Figure 4).

The continued prevalence of add-on acquisitions relative to larger platform deals is reflective of the dealmaking headwinds PE faced. These targeted or smaller-scale bolt-on acquisitions can limit the need for significant debt financing, avoid regulatory scrutiny and be inherently easier to negotiate and overcome valuation gaps, emphasizing a more cautious approach to value creation. PE sponsors are increasingly pursuing add-on acquisitions as part of a buy-and-build strategy to scale and optimize existing portfolio companies and leverage their operational expertise, especially in light of lengthier holding periods.

These trends underscore a broader renewed emphasis on value creation. PE sponsors have adapted to macroeconomic headwinds and pressures by investors (which are mounting due to rallying public equity market benchmarks, record low distributions to paid-in capital (DPI) levels and mandates to deploy dry powder) through more proactive management of portfolio companies and execution of value-driven deals, emphasizing consolidation, synergies and operational transformation.

FIGURE 4: U.S. PE ADD-ONS

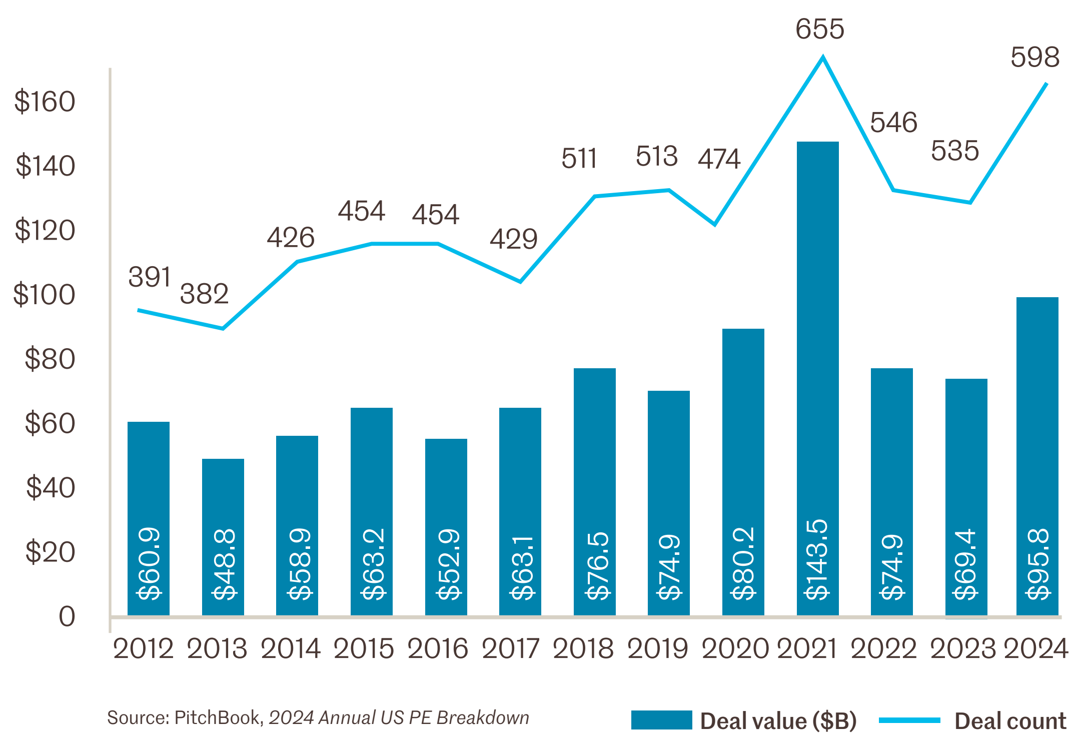


Source: PitchBook, *2024 Annual US PE Breakdown*

Carveouts were also cemented as a more prominent source of PE deals (see Figure 5), accounting for 11.8% of all U.S. PE buyouts in Q4 2024 (its highest point since Q4 2016). Sponsors often find financing for these transactions more accessible and seek to uncover hidden gems in high-quality assets that were not a strategic fit or focus of, and/or have not been managed effectively or operated efficiently by, a selling corporation, and therefore may be undervalued. These carveout acquisitions can also function as add-ons, an approach that enhances scale, creates operational synergies and allows sponsors to selectively and strategically expand and optimize portfolio performance by integrating acquired assets or businesses.

Joint ventures, clubbing deals and consortium arrangements — under which sponsors team up with other sponsors and, in some cases, strategic buyers — continued to be creative transaction structures used to alleviate financing limitations and tackle structural concerns around execution risk, investment horizon and other complexities.

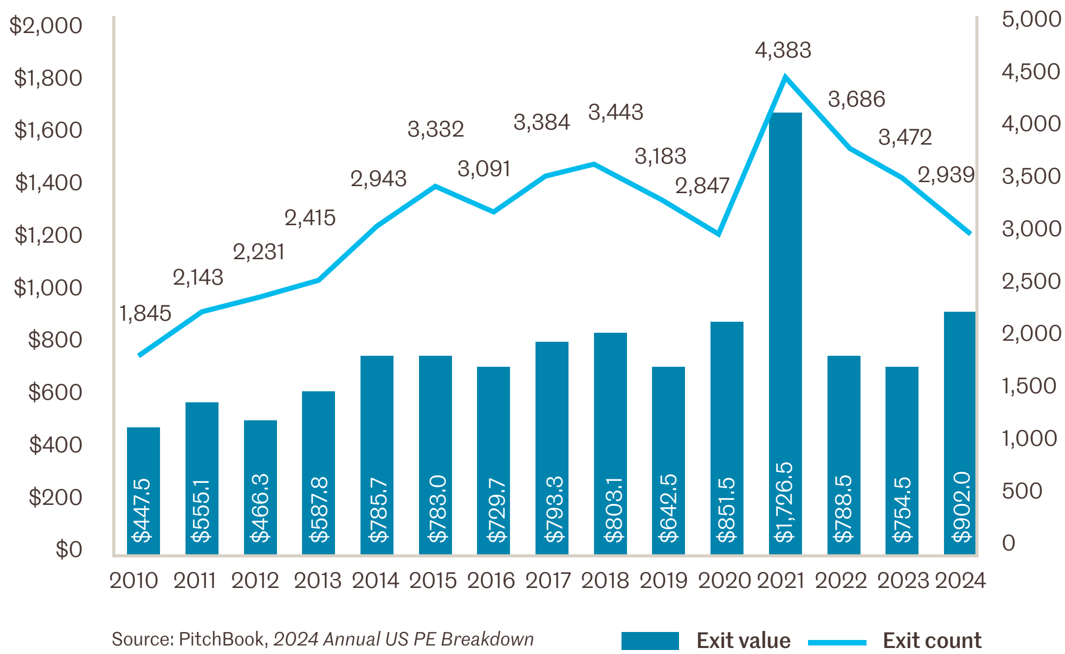
FIGURE 5: U.S. PE CARVEOUT/DIVESTITURE DEAL ACTIVITY



Source: PitchBook, *2024 Annual US PE Breakdown*

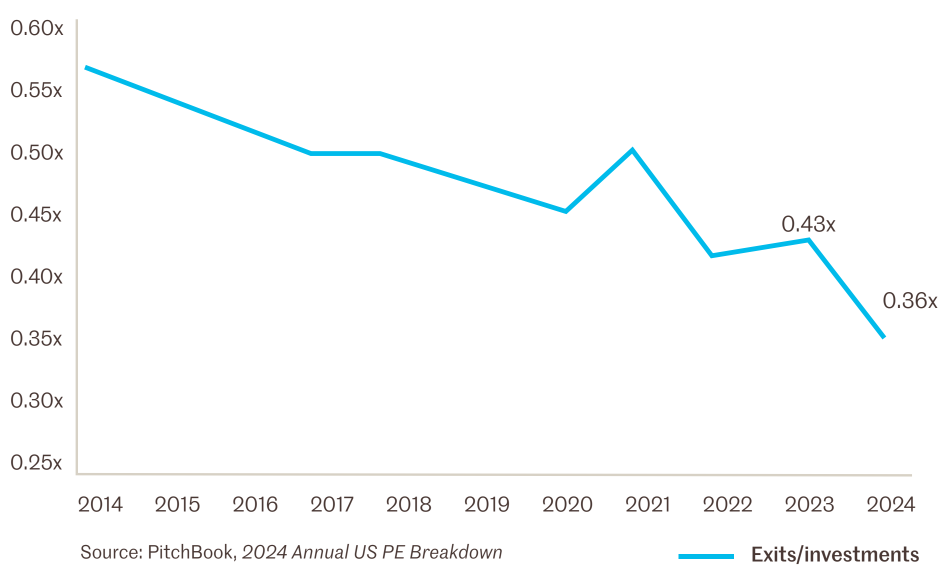
While PE buy-side activity is normalizing, there is a growing exit backlog, with PE sell-side activity notably muted again in 2024 (see Figures 6 and 7). Assets in PE funds typically have an expected life cycle that culminates in an exit, but the complex dealmaking environment and persistent valuation gaps over the past two years have resulted in a rising backlog of portfolio companies seeking exits. According to Mergermarket, sponsors had an average holding period of over five years in 2023-2024 compared to 4.2 years in 2021-2022; according to PitchBook, nearly half of the 29,400 PE-backed portfolio companies globally have been held since 2020.

FIGURE 6: GLOBAL PE EXIT ACTIVITY



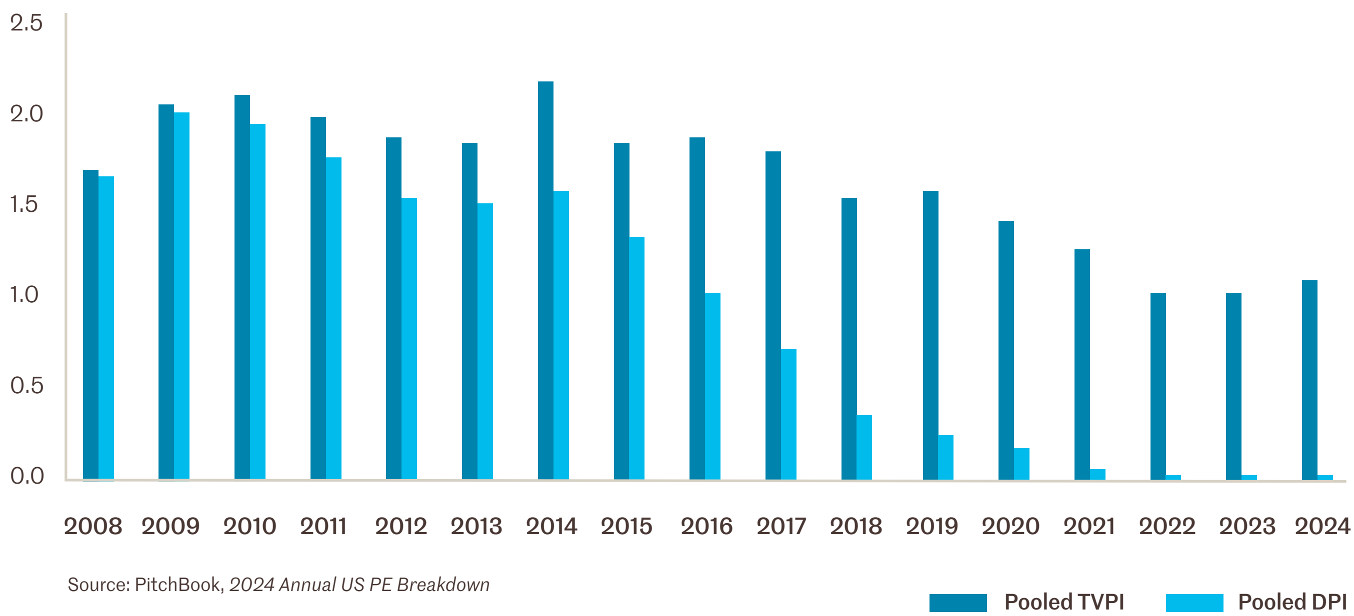
Source: PitchBook, *2024 Annual US PE Breakdown*

FIGURE 7: U.S. PE EXIT/INVESTMENT RATIO



Source: PitchBook, *2024 Annual US PE Breakdown*

FIGURE 8: TOTAL DPI RETURNS



Source: PitchBook, *2024 Annual US PE Breakdown*

Furthermore, despite investor focus on fund performance, DPI has reached its lowest level since 2008 (see Figure 8), making it a pressure point that has overshadowed the traditional focus on absolute return metrics. According to Goldman Sachs, post-2019 fund vintages have received the greatest scrutiny, returning just 0.1x DPI versus 0.6x for 2015-2018 vintages at year four.

Sponsors responded to corresponding pressures by tapping into a range of creative alternatives and strategic levers to generate liquidity — including sponsor-to-sponsor deals, cross-fund deals, co-control investments, minority stake sales, innovative continuation fund structures and other secondary market transactions — driven by high levels of dry powder primed for deployment and the continued focus on returning capital to limited partners (LPs) and investors.

The use of continuation funds has exploded, becoming a crucial tool in the repertoire of general partners (GPs) focused on diverse exit paths. Continuation funds, along with other secondary market transactions (such as LP-led sales of interests in a fund to third-party buyers and GP-led sales of individual assets in a fund), effectively allow sponsors to extend the holding period of portfolio companies while offering a liquidity opportunity for current LPs or investors who want to cash out. This resurgence of the secondary market, where investors sold a record $162 billion of PE stakes in 2024 — a 45% increase from 2023 — underscores investor desire for liquidity amid the stagnant exit environment.

Finally, underscoring the resilience and creativity sponsors have displayed in adapting to the dealmaking landscape and financing market, larger PE funds are continuing to strategically transform from buyout shops to alternative asset managers and expand their product offerings to cover the full range of asset classes, including private credit. This trend is in turn spurring its own dealmaking, as many PE firms have acquired or invested in private credit platforms to capitalize on this market's growth potential (for example, Brookfield's ~$1.5 billion strategic investment in Castlelake, an alternative asset manager specializing in asset-based private credit, in September 2024, and BlackRock's proposed acquisition of HPS Investment Partners, a firm that specializes in both private and public credit, for ~$12 billion, announced in December 2024).

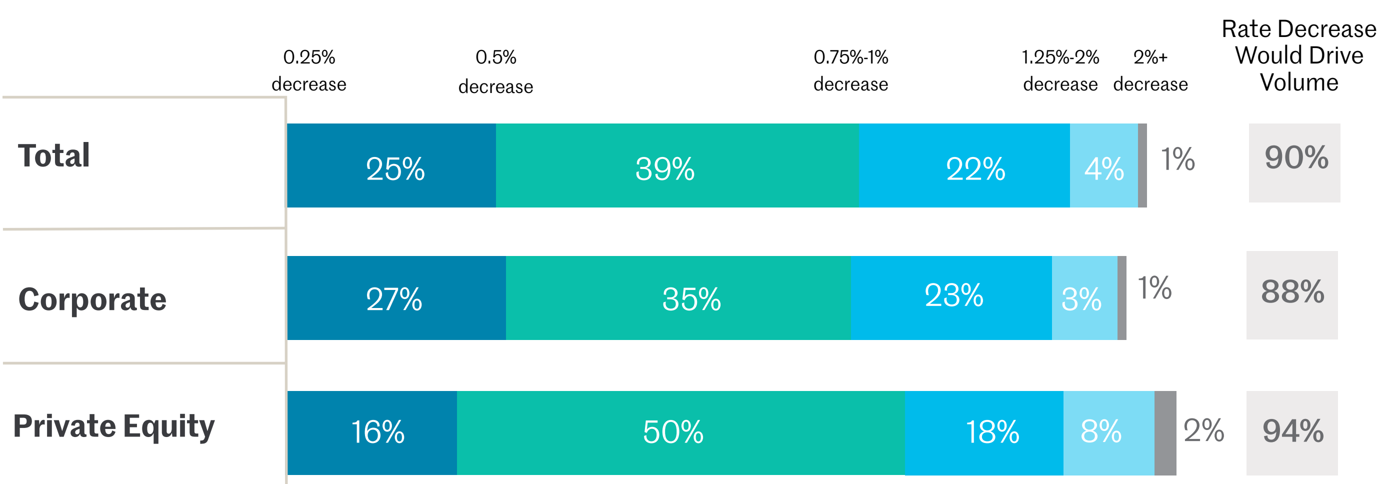
M&A Catalysts in 2025

Macroeconomics Fuel Dealmaker Optimism and Confidence. After several years of significant macroeconomic headwinds, dealmakers are experiencing a renewed sense of optimism. According to Business Roundtable's Q4 2024 CEO Economic Outlook Survey, which reflects the market expectations of over 150 CEOs, the overall index rose 12 points over the prior quarter, the highest level in over two years. This confidence signals a potential surge in M&A activity over the coming year. With respect to CEO expectations about U.S. capital spending over the next six months, the Q4 2024 index was 21.2 points higher than it was in Q4 2023, representing a 34% increase. Although this rising optimism is likely buoyed by the convergence of numerous phenomena, dealmakers should generally be encouraged by a number of improving macroeconomic conditions and trends.

The U.S. economy has displayed resilience, with GDP growth stabilizing, inflation continuing to cool significantly and equity markets soaring. With inflation finally showing signs of moderating — in December 2024, the overall inflation rate as measured by the consumer price index was 2.9%, down from the post-pandemic peak of 9.1% in June 2022 — central banks have started to ease monetary policy, setting the stage for a friendlier dealmaking environment. On December 18, 2024, the Federal Reserve lowered the borrowing rate to a target range of 4.25%-4.5%, down a full percentage point from its 2024 peak and returning to the level from December 2022. The Federal Reserve had previously indicated additional rate cuts in 2025. However, Trump's tariff policies, which could reignite inflation, are tempering expectations and fueling uncertainty about the timeline and magnitude of future interest rate cuts.

These shifts in monetary policy are poised to accelerate M&A not only by reducing borrowing costs and unlocking access to financing for buyers that have been constrained during the higher-interest-rate environment but also by narrowing problematic valuation gaps that impeded dealmaking over the past two years; buyers are more willing and able to meet sellers' asking prices with access to cheaper debt financing. In a recent KPMG survey, the vast majority of dealmakers (both corporate and PE) indicated that rate cuts would bolster upcoming deal volume (see Figure 9). The evolving debt market, with the emergence of private credit and direct lending as a competitive alternative to traditional bank financing, will further enhance capital availability and offer flexible structures, particularly for middle-market and PE-led transactions.

FIGURE 9: KPMG M&A DEAL MARKET SURVEY



Source: KPMG, Deal Market Survey

Earnings per share for publicly traded companies surged toward the end of the year. According to FactSet, the estimated year-over-year earnings growth rate for the S&P 500 was 11.8% in Q4 2024 — the highest year-over-year figure reported by the index since Q4 2021. Earnings per share among small-cap stocks, a peer group comparison for PE-backed portfolio companies, increased 4.92% in the same quarter, following six consecutive quarters of decline, a trend that is likely increasing pressure on PE sponsors to drive returns.

With public market trading valuations on the S&P 500 rallying to near-record highs and creating an even wider disparity between public and private markets, dealmakers are optimistic that this gap could trigger a bullwhip effect, potentially elevating private M&A multiples. A spike in valuations would catalyze M&A activity by attracting sellers — including PE sponsors that have been sidelined by dim valuation prospects and face mounting exit pressures — to the market and narrowing bid-ask spreads.

With strong equity markets and a bright outlook for U.S. corporate earnings, cross-border M&A activity is poised for an uptick, as cash-flush foreign buyers increasingly eye attractive U.S. targets. Indeed, European acquisitions of U.S. targets totaled nearly $200 billion in 2024, according to PitchBook, representing a 22% year-over-year increase. Additional policy shifts under the Trump administration, including a reduction in corporate tax rates, has the potential to further enhance the attractiveness of U.S. companies as acquisition targets and spur foreign investment into the U.S. by providing a favorable tax environment for cross-border M&A transactions. Valuation discrepancies between U.S. and foreign markets — in Europe, for example, M&A multiples moved in the opposite direction, declining from 8.9x to 8.3x in 2024 — have also catalyzed cross-border M&A by making foreign assets more attractive, especially for U.S. buyers given the strength of the dollar relative to foreign currencies.

Both corporate and PE buyers are sitting on near-record-high cash reserves and uncommitted capital. Bloomberg Intelligence recently reported that U.S. corporate balance sheets revealed a corporate cash stockpile totaling $3.4 trillion in Q3 2024, representing 5.5% of corporate assets, significantly higher than the long-term average of 4%. Bolstered by healthy balance sheets and pent-up demand for achieving rapid inorganic growth, strategic corporations are expected to reengage in transformational acquisitions. Rallying equity markets have enhanced the value of stock that can be used by corporate acquirers as consideration for transactions. Meanwhile, corporations with lagging stock performance will be incentivized to pursue carveouts to appease shareholders and establish a more compelling narrative for investors. Similarly, with trillions of dollars in uncommitted PE dry powder, we expect increased sponsor activity to shape dealmaking in 2025.

While far from perfect, improving macroeconomic conditions and potential policy changes give dealmakers an opportunity to leverage strong cash reserves and more flexibility to get deals done.

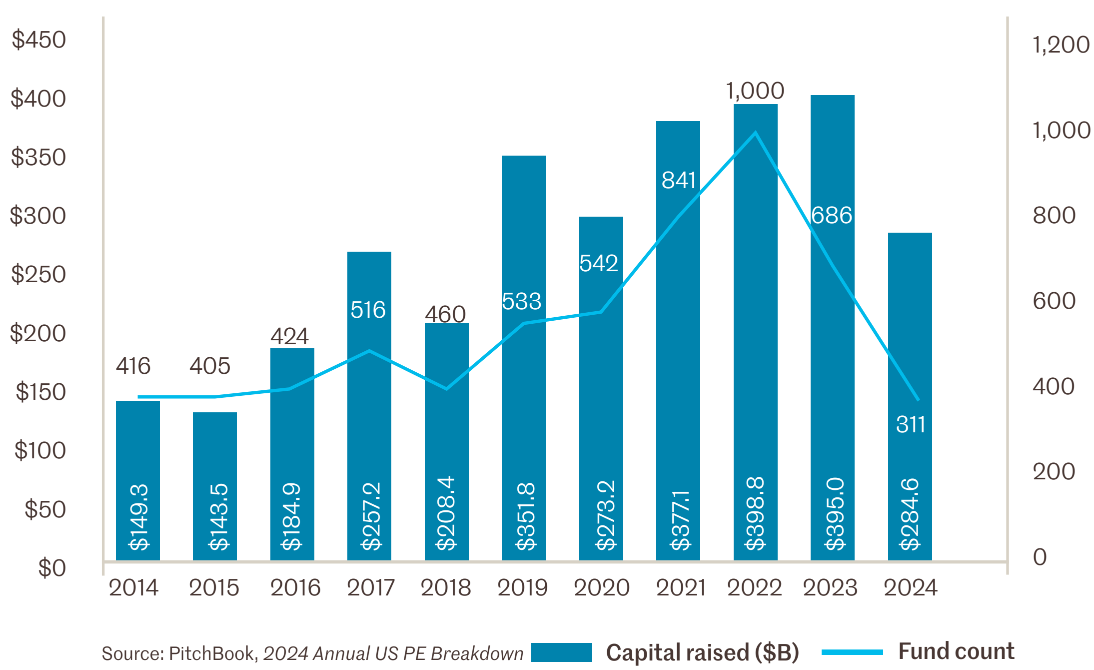
PE Exit Pressures. PE enters 2025 in an interesting liquidity position. By November 2024, U.S. PE dry powder reportedly totaled approximately $1.1 trillion (according to Preqin), down slightly from the prior two years, but remaining at extremely elevated levels historically. At the same time, PE fundraising activity slowed, totaling a muted $282.6 billion in the U.S. as of November 2024, down 27% from December 2023, according to PitchBook (see Figure 10). The slowdown in fundraising is mirrored by elongated fundraising timelines, with the median time to close a PE fund being 17.9 months in 2024, up from 10.9 months in 2022.

While sponsors face slowdowns and fierce competition for fundraising, pressure builds for liquidity events. As noted, DPI is at its lowest levels since 2008 (see Figure 8 above), driven by the dearth of PE exits and prolonged holding periods. Sponsors continuously delayed exits in the wake of higher costs of capital, lower M&A multiples and persistent valuation gaps, with U.S. PE seeing just 1,070 exit transactions in 2024, down roughly 17% year over year. Although the aggregate value of such exits was up 24% year over year to a total of $365.5 billion in 2024, exit counts remain below historical levels, even as the number of PE-backed portfolio companies (half of which are more than five years old) ripe for monetization has soared.

Furthermore, many funds are hitting natural maturity walls that may necessitate exits. The typical buyout fund has a lifespan of 10 years, and many exit their highest-performing assets after three to five years. According to PitchBook, approximately 52% of all active PE funds are at least six years old as of 2025, and 13.8% will reach their 10-year fund term over the next two years.

As PE funds face fundraising limits and competition, low distribution metrics, pent-up demand to deploy capital, and pressures to return capital, coupled with the unsustainably high supply of aging PE assets that need to be monetized, we expect LPs and investors to drive a more active PE sell-side market in 2025. Sponsors may try to continue addressing these pressures via partial exits and continuation funds, which can help extend the maturity wall for their most valuable assets while they offload the remainder of the fund. As the U.S. initial public offering (IPO) market continues its gradual recovery — raising 50% more proceeds in 2024 than in 2023 and nearly four times more than in 2022 — sponsors may also choose to pursue IPO exit strategies, particularly for certain assets. Due to

FIGURE 10: U.S. PE FUNDRAISING ACTIVITY



Source: PitchBook, *2024 Annual US PE Breakdown*

the heightened maturity of the funds that are eyeing exits, sponsors could struggle to find buyers with sufficient capital to acquire portfolio companies valued over $1 billion. According to PitchBook, recent PE-backed IPOs have produced exceptional stock performances, generating a median gain of 20.7%.

A spike in PE-backed sell-side M&A, however, is the most natural response to these conditions. While partial exits, continuation funds and other secondary market transactions will continue to be used as well-established diverse exit methods, generating substantial liquidity for investors through sales will be critical to enable sponsors to bring in new fundraising. Normalization of IPO activity could ultimately bolster M&A activity, providing greater confidence in exit timelines and renewing interest in dual-track processes.

As pressure mounts on sponsors to return money to investors, a friendlier dealmaking environment — including further rate cuts that will drive down the cost of financing and make it easier for buyers to meet asking prices — could be the spark needed to ignite PE sell-side activity.

Technological Advancements and Sector Convergence as Catalysts for M&A Activity. Technological innovation, particularly in AI, continues to be a significant driver of M&A across various industries. According to PitchBook, technology M&A surged more than 45% from 2023, accounting for ~$740 billion and nearly 21% of global deal volume by sector in 2024. The heightened deal activity reflects broad and growing interest in capability-enhancing and next-generation technologies.

Companies across virtually all industries are increasingly seeking to acquire technologies to improve their operational efficiency and market competitiveness. This trend is notably not confined to traditional technology players, with Goldman Sachs reporting that non-technology companies acquiring technology companies represented 12% of total M&A volume in 2024, well above the longer-term average of 7%.

Businesses in sectors such as energy, infrastructure and financial services are actively pursuing M&A opportunities to integrate advanced technologies into their operations. Companies are eyeing AI targets, in particular, for such purposes, with AI-related deal volume totaling upward of $40 billion last year, more than double the volume of the prior year. The proliferation of AI tools further necessitates greater investment in related digital infrastructure, such as data centers and power supply. AI tools require immense amounts of power, with one Goldman Sachs report noting that ChatGPT consumes 6x-10x the power of a traditional Google search, and data center vacancy is currently at record lows. As a result, dealmakers are looking for opportunities not only in core AI technology but also in related infrastructure, platforms and applications. According to data from Synergy Research Group, M&A activity involving data centers surged to a record-breaking $73 billion in 2024, up from $26 billion in 2023 and $52 billion in 2022, with PE accounting for 80%-90% of the value of closed deals since 2022, a trend that is likely to continue.

The surging interest in new, transformative technologies is also producing sector convergence and cross-sector dependencies. For example, to ameliorate the intensive energy consumption of AI tools and data centers, companies interested in such technologies are also exploring investments in renewable energy sources, and traditional energy companies are acquiring AI tools to improve their own operations.

This trend is especially important for PE firms with portfolio companies and investments that span multiple industries. As PE firms seek to leverage efficiencies based on new technology, they are increasingly looking for investment opportunities to support cross-sector dependencies within their portfolios. The sector convergence phenomenon, while centered on new technology and its integration within companies of all varieties, has been most closely observed among the infrastructure, healthcare, energy and traditional technology sectors. As AI M&A continues to trend, the broader M&A environment should increasingly highlight sector convergence.

Regulatory Reform

Heightened antitrust regulatory scrutiny and aggressive enforcement remained a challenge for dealmaking in 2024. The U.S. Department of Justice (DOJ) and Federal Trade Commission (FTC) under the Biden administration continued to take increasingly active and aggressive positions, press expansive interpretations of antitrust doctrine, invoke novel theories of competitive harm (including those underpinning the 2023 Merger Guidelines), and display a willingness and preference (over structural or behavioral remedies) to turn to litigation to challenge and block transactions. Doubling down on agency efforts to amplify procedural hurdles and information requirements, the FTC also announced changes to the premerger notification form and rules implementing the Hart-Scott-Rodino (HSR) Act, that went into effect on February 10, 2025, which require significantly more information, effort and lead time for making HSR filings (by the FTC's own estimate, increasing the amount of time to prepare a filing by an average of 68 hours and resulting in a fee increase of about $40,000).

The specter of heightened antitrust scrutiny continued to curtail and chill dealmaking at the highest range of the valuation spectrum, with no deals surpassing the $40 billion threshold and just four $25 billion-plus deals announced in 2024. Larger ($10 billion-plus) deals are reportedly taking nearly twice as long to close than a decade ago. In the Business Roundtable Q4 2024 CEO Economic Outlook Survey, 20% of CEO respondents selected regulatory costs as their top cost pressure, second only to labor costs, and in a survey conducted by Bain of more than 300 M&A practitioners, nearly half stated that regulatory concerns impacted the types of deals they considered in 2024.

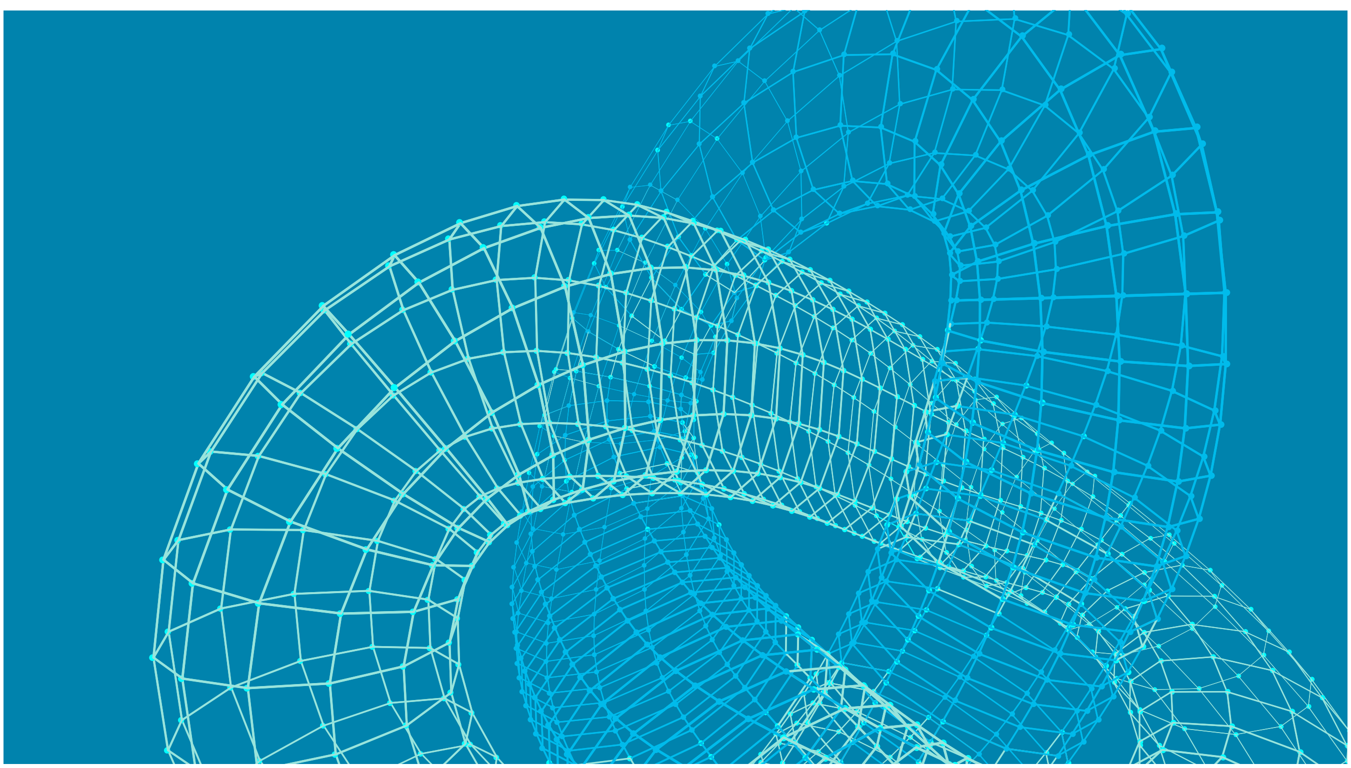
As a general matter, the new Trump administration is expected to bring a more business-friendly, deregulatory approach to policymaking, which will likely entail significant relaxation and a reduction in the overall aggressiveness of federal antitrust enforcement (including merger review). Early developments and appointments, including the selection of Andrew Ferguson to succeed Lina Khan as chair of the FTC and Gail Slater to lead the DOJ Antitrust Division, support the notion of a more restrained approach to M&A antitrust enforcement resembling that of the first Trump administration.

At a high level, we expect the agencies to be substantially more receptive to mergers than under the Biden administration, adopt a more traditional approach to merger remedies (in lieu of the policy preference for blocking mergers under the Biden administration) and return to merger reviews focused on traditional economic-based consumer welfare principles and measurable competitive impact, which could encourage deals that were sidelined and/or that parties were reluctant to pursue under the Biden administration. It remains to be seen whether the Trump administration will revoke the 2023 Merger Guidelines in their entirety, but we expect the agencies to reconsider, modify and/or revoke portions, at a minimum, perhaps reviving prior versions or initiating a process to issue new guidelines.

And while the new HSR rule changes, which had bipartisan support in their final form and fulfilled administrative law requirements, could remain in effect, the Trump administration may seek to reduce the burden on filers by directing the agencies to interpret the requirements loosely. M&A practitioners are anticipating a reduction in the "merger tax" resulting from the time and expense of prolonged antitrust reviews and welcoming the prospect of returning to a more traditional review process that yields more predictable outcomes and timelines, thereby lowering execution risk. Certain highly regulated sectors, such as oil and gas, finance, and pharmaceuticals, where antitrust oversight and overall regulation should loosen, will likely see an uptick in M&A activity. The new Trump administration has fueled strong optimism for a resurgence in bank M&A, which had suffered from an especially challenging regulatory environment under the Biden administration.

Nevertheless, active antitrust enforcement is unlikely to disappear altogether, and unpredictability regarding the new Trump administration's regulatory agenda remains a factor. Based on Trump's populist rhetoric and anti-big tech sentiment and consistent with the actions of the first Trump administration — which brought a more aggressive antitrust stance than previous Republican presidents did and included antitrust lawsuits against Google and Meta and the establishment of the Technology Task Force within the FTC — antitrust agencies will likely still be hawkish over big tech and display continued oversight of deals involving technology, data privacy, critical infrastructure and other industries of concern to the administration. The DOJ's recently announced suit to block Hewlett Packard Enterprise's $14 billion deal to acquire Juniper Networks will likely temper expectations of a lighter regulatory touch.

Similarly, scrutiny and transaction review by the Committee on Foreign Investment in the United States is expected to remain active for acquisitions of U.S. targets from rival nations, such as China, and/or investments from other countries in industries regarded as strategic to U.S. national interests or relevant to national security, especially those involving critical infrastructure, technology and data-sensitive sectors.



Furthermore, uncertainties remain about Trump's tariff policies, which could jeopardize progress made on inflation and dampen the prospect of additional interest rate cuts, and, coupled with ongoing geopolitical turmoil, could impede or complicate cross-border M&A.

On the other hand, tariff policies may spur investments in U.S. manufacturing and products and drive cross-border M&A for foreign companies seeking access to regions that are less impacted and/or supply chain diversification. U.S. trade laws also present unique opportunities to unlock value, increase market share and profitability, and improve exits for U.S. strategic and PE-backed companies. Companies can proactively review their portfolios and deploy strategies to go on the offensive by filing trade-related actions (for example, anti-dumping and countervailing duty petitions) with the U.S. government to secure duties on and combat unfairly priced imports that injure company performance.

Finally, Trump's nomination of Paul Atkins as the next chair of the U.S. Securities and Exchange Commission (SEC) may ease regulatory burdens for public companies and help spark a rebound in IPO activity. Former SEC Chair Gary Gensler was viewed by many as an impediment to the IPO market, given his broad and aggressive enforcement agenda, support for tighter disclosure rules and scrutiny of cryptocurrency companies. On the other hand, Atkins, who previously served as an SEC commissioner during the George W. Bush administration, is known for his pro-business stance and lighter-touch approach to regulation. Many practitioners are expecting that the SEC will reduce disclosure requirements and de-emphasize enforcement actions in areas such as ESG, climate change and cybersecurity; create a crypto-friendly regulatory framework; and ease burdens relating to capital formation, especially for smaller companies or offerings.

Dealmakers will ultimately be energized by the prospect of reduced regulation, but also cautious as they adopt a wait-and-see approach regarding which policies the incoming administration enacts. In navigating a period of continued uncertainty, it will be paramount for dealmakers to continue conducting comprehensive regulatory risk assessments, factoring in the prospect of burdensome regulatory reviews and prioritizing deal terms to allocate and mitigate regulatory risk. In this regard, we expect regulatory provisions in acquisition agreements to remain an area of focus in negotiations, particularly for deals in big tech and other sectors prone to heightened scrutiny.

Conclusion

Looking ahead, there are signs that the M&A rebound that did not fully materialize in 2024 is on track for 2025. More favorable macroeconomic conditions, conducive financing markets, reduced regulatory scrutiny from the new U.S. administration and the accelerating impact of technological transformation are all expected to spur dealmaking. A resurgence of PE exit activity has the potential to be a pivotal engine for M&A activity, as sponsors face unsustainable pressures to return capital to investors and prioritize liquidity events to support future fundraising. Sector convergence and cross-industry dependencies will further blur traditional boundaries, opening new avenues for strategic acquisitions and partnerships.

While optimism abounds, pockets of uncertainty remain — including with respect to ongoing geopolitical turmoil, trade policies and tariff implementations (which have the potential to spike inflation) — in an evolving and increasingly complex dealmaking environment. For dealmakers, disciplined execution, comprehensive due diligence processes, strategic foresight and an agile, nuanced approach to value creation will be essential for capitalizing on friendlier macroeconomic conditions. Those prepared to navigate the complexities and continue adapting to ongoing developments will be best positioned to seize on new opportunities.

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