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M&A in 2025: Market Trends and How Businesses Can Best Prepare

As 2025 approaches, the mergers and acquisitions (M&A) market is expected to see significant opportunity. M&A was generally down in 2024 with bright spots of activity throughout the year depending on location and industry. The November 2024 *EY-Parthenon Macroeconomic* outlook predicts that M&A activity is expected to rise by 10% in 2025 with an anticipated 16% rise in transactions backed by private equity. Understanding developing trends and preparing accordingly will be crucial for businesses looking to sell, acquire, or position themselves in the market.

2025 Trends in M&A

1. *Federal Deregulation*. A changing United States federal administration is expected to bring with it a wave of deregulation and regulatory change. Sectors subject to antitrust or other intense regulatory scrutiny, such as energy, fossil fuels, finance, healthcare and pharmaceuticals, may see an uptick in M&A activity if the government reduces regulatory hurdles.

2. *Increase in AI and Tech-Driven M&A*. Although there is uncertainty as to whether artificial intelligence (AI) will face more or less regulatory scrutiny at the federal level in 2025, it is anticipated that technology, particularly AI and software, will be among the most active areas for M&A activity in early 2025. Tech sectors, particularly those that have invested heavily in AI and Web3, are experiencing significant growth, innovation, and market disruption, making them attractive targets for the growing base of tech-savvy, strategic acquirers.

3. *Economic Stabilization*. Economic conditions are showing early signs of stabilization after a challenging few years marked by high interest rates and inflation. Steadied interest rates and market appetite on the buy-side are expected to be key drivers of M&A activity in 2025.

4. *Creative Structuring*. Prevalent in deal-making in the last few years due to the lending crunch, otherwise unlikely buyers and sellers will continue to come together in 2025 due to creative and longer-term legal solutions such as performance based milestones, equity incentives, i.e., rollovers, and earn-out provisions, which can offer innovative solutions tailored to the specific needs of buyer and/or seller, while managing risk.

5. *Private Equity Backed Transactions*. Sellers should expect that the boom of private equity-backed transactions felt on and off for the last few years will uptick in 2025.

6. *Cybersecurity Due Diligence*. For M&A transactions across all industries, cybersecurity due diligence will become an even more central component of the M&A process and AI will continue to weave itself into the process.

How to Prepare for M&A in 2025

- Engagement with legal, accounting, tax and regulatory advisors early in the deal process is essential. Strategic advisors can help sellers effectively market to potential buyers and can help buyers source interested sellers, draft the requisite documents (from non-disclosure agreements through the transaction document set) and shape the transaction with the company's best interests in mind.

- Companies considering a sale or acquisition should regularly assess their asset portfolio and in doing so, identify which parts of their business are key to long-term growth and which may be candidates for divestment. Companies looking to sell will need to ensure that their core assets are attractive to potential buyers, particularly private equity firms.

- Companies should routinely update and organize their corporate documentation. As seller, you can expect that your prospective buyer(s) will conduct diligence with a lookback period of anywhere from three (3) to five (5) years. To prepare for due diligence review, sellers should ensure that key agreements are in effect, financial records accurately reflect the business of the company and that key intellectual property is protected by agreement and/or registration. In recent years, there has been a rise in sellers conducting limited, reverse diligence on buyers to ensure that their prospective buyer(s) *actually* have the financial and other resources to close the deal. Whether buyer or seller, advanced preparation and organization will ease transaction-related due diligence burdens.

- Companies considering a sale or acquisition should work with their advisors to proactively identify the key strengths and weaknesses of their business – both in terms of administration, human support, technology and market placement. This will allow sellers to remedy and/or anticipate areas where buyers may push back or revisit deal terms, which in turn allows sellers to minimize surprises and deal-breakers later in the M&A process.

- Companies considering a sale or acquisition should ensure that necessary cybersecurity protections are in place and that their digital infrastructure is adaptable to AI-driven analysis and integration. For sellers, having the right tools in place will enhance operational efficiency and increase the attractiveness of their business to potential buyers. For buyers, AI capabilities will be a driver in identifying targets. However, before proceeding, buyers should understand the long-term value of the target's business and determine if an acquisition target is at risk of becoming obsolete due to rapidly evolving AI, cybersecurity concerns or other tech-related factors.

To best position your business for success in 2025, it is essential to stay informed about emerging trends and prepare strategically and in advance for the opportunities that may lie ahead. Whether you are looking to acquire, sell or position your business for a more long-term opportunity, we can assist in achieving your goals. For more information, please contact:

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