City National Rochdale
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Business Owner Advisory

M&A: 2024 Recap and 2025 Outlook

Measured Resilience, Renewed Optimism

2024 was likely a pivotal year for the mergers and acquisitions (M&A) market. Marked by resilience and gradual recovery, this year offered a glimpse of how market dynamics are adapting to changing economic conditions. Although activity in the early months was subdued due to prior lingering concerns over macroeconomic volatility, the second half of the year brought renewed optimism as several favorable trends appear to have emerged.

A SLOW START BUT MOMENTUM BUILDS

The first few months of 2024 saw dealmaking constrained by persistent inflation and high interest rates. Many potential buyers adopted a cautious approach, waiting for clearer signals from the Federal Reserve and broader economic indicators. Additionally, geopolitical uncertainties continued to weigh on investor sentiment, further suppressing deal activity.

However, the tide began to turn by midyear as inflation showed sustained signs of decline. The Federal Reserve's decision to pause interest rate hikes, followed by rate cuts in 2024, bolstered confidence among buyers and sellers alike. With corporate balance sheets remaining robust and private equity firms flush with dry powder, some would-be buyers revisited acquisition targets previously set aside during the more turbulent months.

Overall, the M&A market showed signs of life in 2024 with $3.2 trillion in value transacted globally (+10% YoY). Despite the uptick in value, the number of transactions continued to slide (-14% YoY), marking an eight-year low. The U.S. continued to dominate M&A scorecards, accounting for 45% of all activity, although cross-border activity significantly improved with $1.1 trillion in value transacted (+12% YoY). Private Equity (PE) activity was a standout this year, accounting for 22% of overall M&A activity ($706 billion), achieving the third largest annual period for PE-backed M&A activity since 1980[1].

KEY TRENDS IN 2024

1.MEGA-DEALS REIGN SUPREME

The mega-deal (>$1B) segment saw signifcant activity relative to the middle- (<$250MM) and lower- (<$50MM) segments in 2024. Several high-profile transactions dominated headlines and underscored what appears to be a renewed appetite for transformational deals. While this is not the typical pattern of recovery, which frequently begins in the lower end of the spectrum, it helped provide some, albeit limited, confidence in deals getting done, which was markedly absent in 2023.

2.VALUATION SPREADS AND DEAL CREATIVITY

Valuation multiples continued to hold their retraced position from the highs of 2021, however, dealmakers specifically noted an above-average widening of the spread in their sale processes, sometimes ranging between 20%-30%.

Despite elevated levels of ready-to-deploy capital, along with strong interest in seeing deal flow, buyers have for the most part maintained their discipline in valuing companies for sale and continued to favor (and pay a premium for) high-quality businesses with strong margin profiles and what are perceived to be sustainable growth paths.

2024 also saw continued deal creativity in the form of many deal structures with contingent payouts, including earnout provisions, equity rollovers, and seller financing. While this creativity was useful for buyers to construct deal terms that allowed for more transactions to take place, these deal structures have been overwhelmingly seen as buyer-friendly. As M&A activity and valuations improve, deal creativity is expected to persist, but as competitive tensions between buyers accelerate, many could begin to favor the simplicity of an all-cash deal, which is the typical preference of sellers.

3.WAIT-AND-SEE METHODOLOGY

As uncertain market conditions persisted, many high-quality and potentially exit-ready companies chose to adopt a cautious approach, delaying their go-to-market strategy. Rather than rushing into a less-than-optimal M&A environment, these businesses focused on strengthening their financial health, enhancing operational efficiencies, and addressing any vulnerabilities.

Similarly, private equity firms also demonstrated a measured response, despite facing mounting pressures. Limited partner (LP) investors continue to grow increasingly vocal about the need to monetize long-held investments, as aging portfolio companies strained timelines and capital returns.

At the same time, PE funds are sitting on significant levels of dry powder, facing expectations to deploy this capital efficiently. Nonetheless, many PE firms have continued to bide their time and wait for a more optimal M&A environment.

Ultimately, 2024's M&A landscape was defined by mega deals, rather than a broad-based resurgence across all market segments. While deal professionals had projected a stronger rebound in the lower and middle markets by year-end, these predictions fell short of expectations. However, this holding pattern is unlikely to persist indefinitely as market participants have already taken note of improving indicators.

SPOTLIGHT: GLOBAL SMALL-CAP SEGMENT TOP THREE SECTORS[2]

(DEALS<$50MM)

Technology was the greatest industry for dealmaking in 2024, accounting for 25% of activity with $42.5 billion in value transacted.

Industrials took runner-up, accounting for 14% of overall activity ($23.2 billion).

Healthcare rounded out the top three, accounting for 10% of overall activity ($16.2 billion).

These three sectors encompassed 66% of all PE-backed M&A in 2024.

PROSPECTIVE OUTLOOK FOR 2025

1.FAVORABLE CONDITIONS FOR REALIGNMENT

Improving economic indicators, accommodative monetary policy, and overal market confidence could certainly provide a tailwind to deal activity in 2025. If the Federal Reserve continues to cut interest rates, borrowing costs are expected to decline, making debt capital more accessible and boosting the appeal of leveraged deals.

The combination of improving macroeconomic stability, moderated inflation, and a potentially more predictable interest rate environment is expected to reduce uncertainty and bolster confidence in business performance forecasts. With greater visibility into future cash flows and growth trajectories, buyers may feel more assured in their valuations, while sellers could gain confidence that they can potentially achieve fair pricing in the M&A market. This clarity should help narrow the valuation and deal term gaps that have stymied transactions in recent years.

2.PRIVATE EQUITY'S DUALITY

The dual role of PE firms as both buyers and sellers creates a dynamic feedback loop within the M&A ecosystem. As sellers, PE firms release high-quality assets into the marketplace, further attracting interest from competing PE firms as well as strategic acquirers. As buyers, they continue to invest in well-positioned companies, setting the pace for deal activity and valuation trends. This unique duality positions private equity as a critical driver of M&A activity. Armed with significant dry powder and facing mounting pressure from limited partners, PE firms are well-positioned to act decisively in 2025.

3. CYCLES AND DEMAND

M&A cycles typically last 12 to 24 months, reflecting the natural ebb and flow of economic conditions, market sentiment, and deal activity. However, with the M&A market now three years into a downturn—beyond the typical cycle length—it suggests a pent-up demand for transactions.

With that in mind, one of the key factors contributing to optimism among dealmakers in 2025 is the current pipeline of business owners who have increasingly engaged in discussions and begun to pursue sell-side mandates. Given a typical sale process spans approximately 9 to 12 months, many transactions slated for completion in the first half of 2025 are already in motion.

CLOSING THOUGHTS

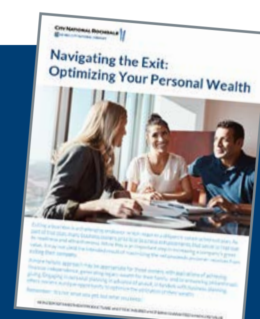
2025 has the potential to mark a turning point for deal activity. While uncertainties remain—ranging from geopolitical tensions and tariffs to shifts in capital markets and a new administration—2024 has established a solid foundation for a more active deal-making environment in the year ahead. Current trends suggest that the M&A market may enter a period of renewed momentum, however, the first few months of 2025 will be critical in gauging market sentiment and setting the tone for the latter half of the year.

For business owners who have successfully navigated the challenges of recent years, 2025 could represent an opportune moment to exit. Buyers are increasingly focused on clarity and stability, which means sellers who are adequately prepared stand to benefit. Preparation involves not only optimizing the business itself but also ensuring personal and business planning are aligned to achieve the best outcomes. Those who take the time now to solidify their strategies, assemble the right advisory team, and position their companies effectively will be better equipped to capitalize on any opportunities ahead.

While the current state of M&A activity, valuation multiples, and deal terms are key considerations for many business owners considering an exit, they are not the sole barometers for which an owner should decide whether to hold and grow their enterprise or ultimately exit. There are a multitude of factors that entrepreneurs should consider ahead of exiting, both business and personal.

An essential step for entrepreneurs contemplating an exit is to conduct an analysis of their wealth gap. Delivered by your experienced team at City National Rochdale and City National Bank, this assessment provides a clear representation of the financial resources required to achieve their utilization goals and long-term aspirations. Understanding this wealth gap enables business owners to align their exit strategy with their personal financial objectives, ensuring a well-planned transition as well as a way to pre-experience post-transition life.

To learn more about wealth utilization and the four places your money can go, refer to Navigating the Exit: Optimizing Your Personal Wealth at www.cnr.com, or email us at citynationalrochdale@cnr.com.



[1] "Global Mergers & Acquisitions Review", LSEG, Full Year 2024, page 1.

[2] "Global M&A Small Cap Advisory", LSEG, Full Year 2024, pages 1 – 2.

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