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# Global M&A Outlook 2025: Searching for Equilibrium

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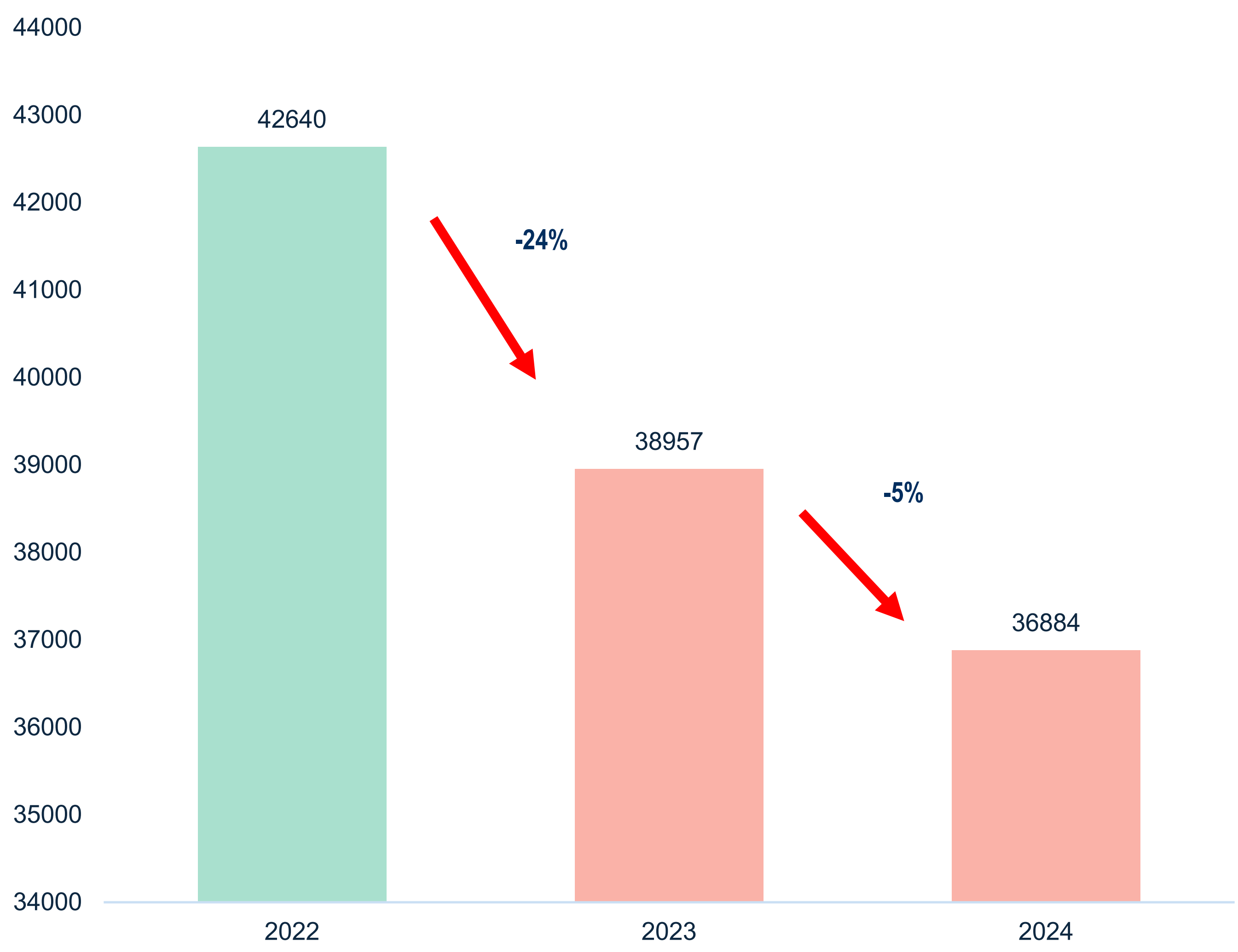
# DC Advisory's Global M&A Outlook 2025: Searching for Equilibrium

**M&A in 2024 has lacked any vitality; with deal volumes down 5% following last year's 24% decline.**

Figure 1: Global M&A deal volumes (January - November)




Source: Mergermarket (For details regarding search criteria, please see the Appendix*)

# Drivers of M&A activity

- It is remarkable that so many deals have been done at all. Political uncertainty in major markets has been prevalent in 2024, compounded by wars that have had a profound and wide-reaching impact
- Private equity, roughly one half of the market, has continued to be in hibernation
- The end of that hibernation will drive significant market activity because private equity is behind its natural divestment schedule – not by months but by years; and the capital available for investment is at unprecedented levels
- In our view, it is not a question of *if*, it is a question of *when* and how quickly the market will find its equilibrium
- In this review we attempt to predict future activity for both private equity and corporates

## 2019

**Mood:** positive, on the back of 11 years of ever increasing deal volumes
**Momentum:** strong, 11 months to November, 18,000 deals completed

## 2020

**Mood:** vacillated from deep despair to unbridled exuberance. Sense of doom in M&A 'Covid Cave' hibernation
**Momentum:** 20% decline in transaction volumes and a 13% decline in transaction value vs 2019

## 2021

**Mood:** An exuberant bounce back
**Momentum:** Record breaking levels of M&A activity – up 22% vs 2019

## 2022

**Mood:** Macroeconomic challenges arise, confidence dwindles as momentum decreases
**Momentum:** Deal volumes remain strong and increase by 28% vs 2019 but tail off sharply in H2

## 2023

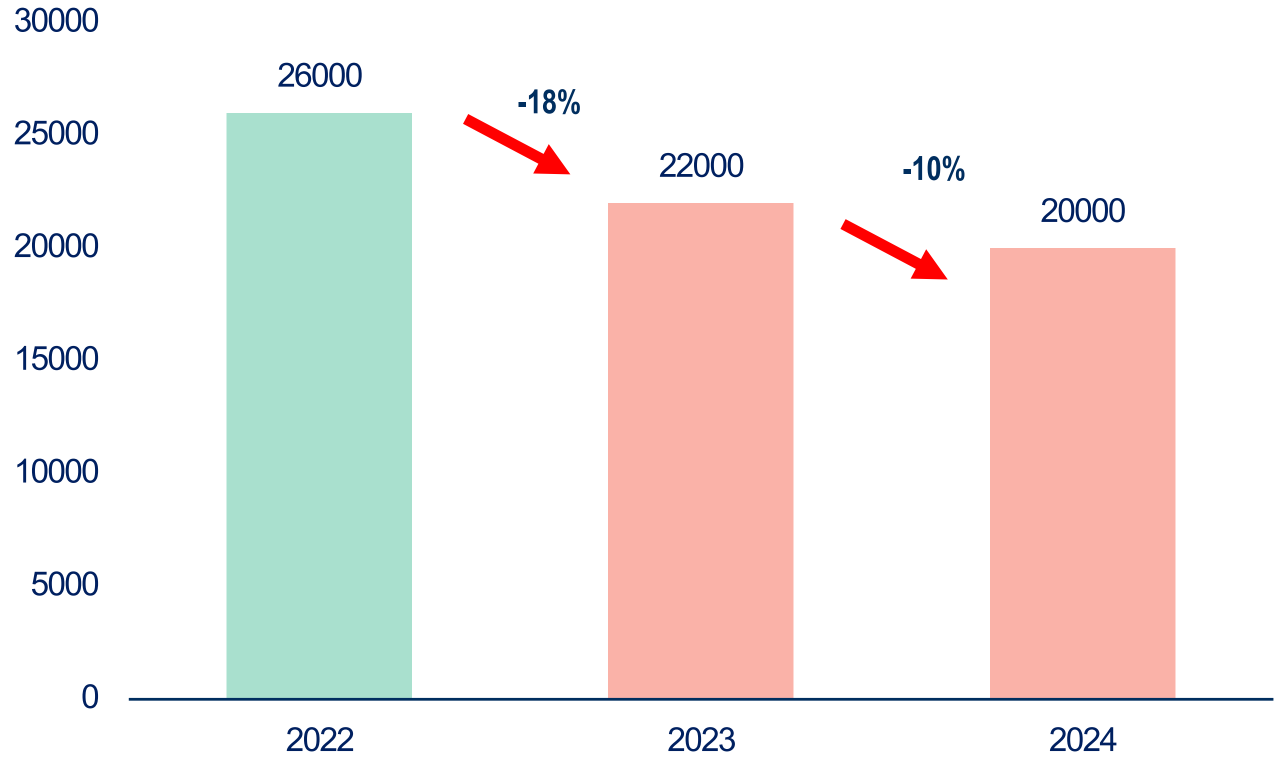
**Mood:** The market is back in the cave of hibernation that feels as deep and dark as 2008/9
**Momentum:** M&A volumes are down 24% and early signs of positive momentum are fragile

# The future

## The corporate perspective

- The macro-economic environment and a lack of attractive deals (because sellers are not selling) has led to a continued reduction in corporate activity:

Figure 2: Global trade buyer volumes (January - November)

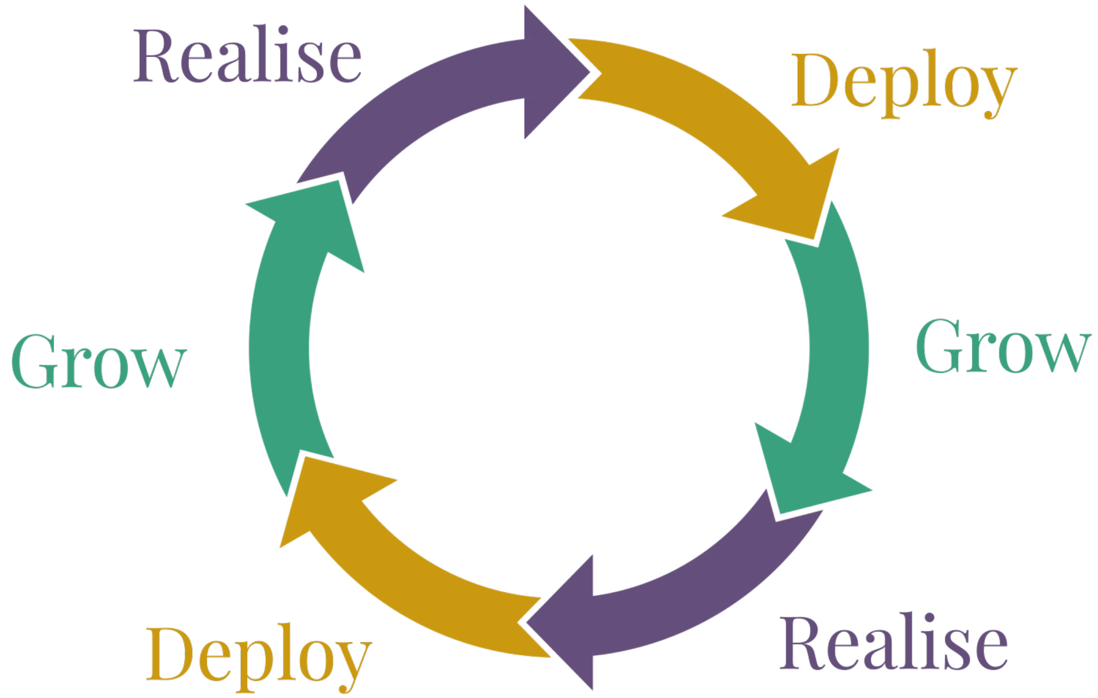



Source: Mergermarket (For details regarding search criteria, please see the Appendix*)

- Corporates never *need* to do M&A. They execute deals to focus strategy, to enter new markets, to access new products, and to deliver better returns for shareholders
- This last imperative has been a significant driver of the one major market to buck the trend – Japan, which has seen a 4% increase in deal volumes in 2024 (see Fig.8):
  - There has been a seismic shift in the attitudes of boards and investors
  - Selling a business is no longer an admission of failure – it is frequently an admission that shareholders have a right to expect focus and cohesion – and critically, a better return

## The private equity perspective

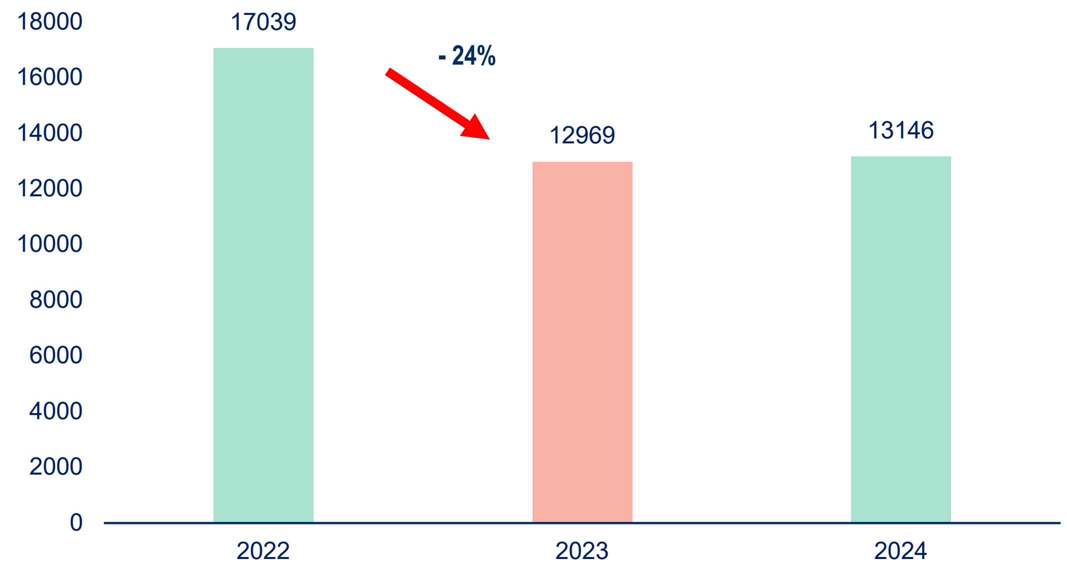
- Corporates are active out of desire but not necessity. Private equity *needs* to be active out of necessity – their model depends on it – but the desire remains weak
- The flywheel of private equity is idling round. But, given the fixed term fund dynamic, it is well short of the pace required to deliver a more active market



# Private equity activity in 2024

- Private equity volumes have remained relatively flat in 2024, following the 24% decrease in 2023

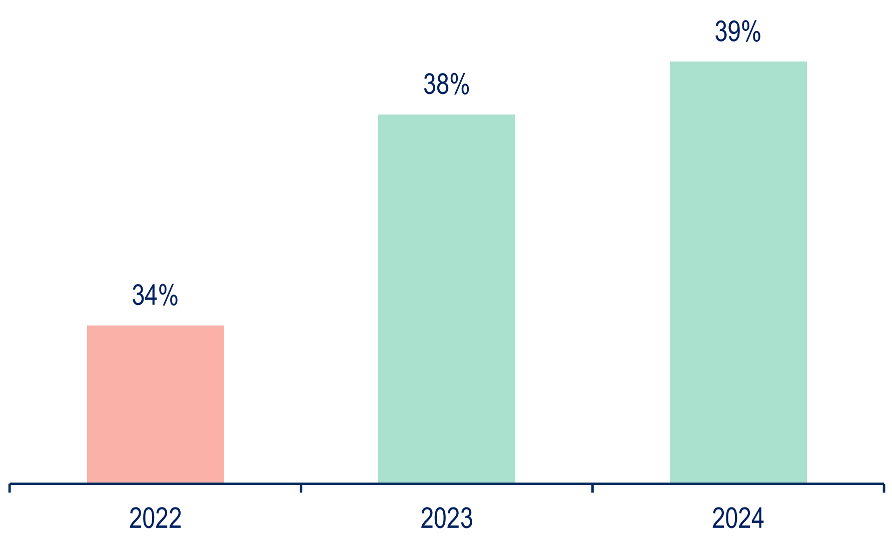
**Figure 3: Global private equity volumes (January - November)**




Source: Mergermarket (For details regarding search criteria, please see the Appendix*)

- Private equity investors lack confidence. Confidence has been drained by gruelling fundraising processes, the poor performance of some portfolio companies, and by uncertainty over valuations on both the buy and sell-side
- When confidence is drained investors become risk averse, and that risk aversion continues to outweigh the pressure to deploy
- In a market where appetite for risk remains low, fewer new platform deals have been executed, but bolt-ons, which deliver lower risk returns, have become a favorable option for many
- In 2024, we have seen a higher volume of completed private equity bolt-on acquisitions:

**Figure 4: Global private equity bolt-on acquisitions (%)**




Source: Mergermarket (For details regarding search criteria, please see the Appendix*)



# The search for equilibrium

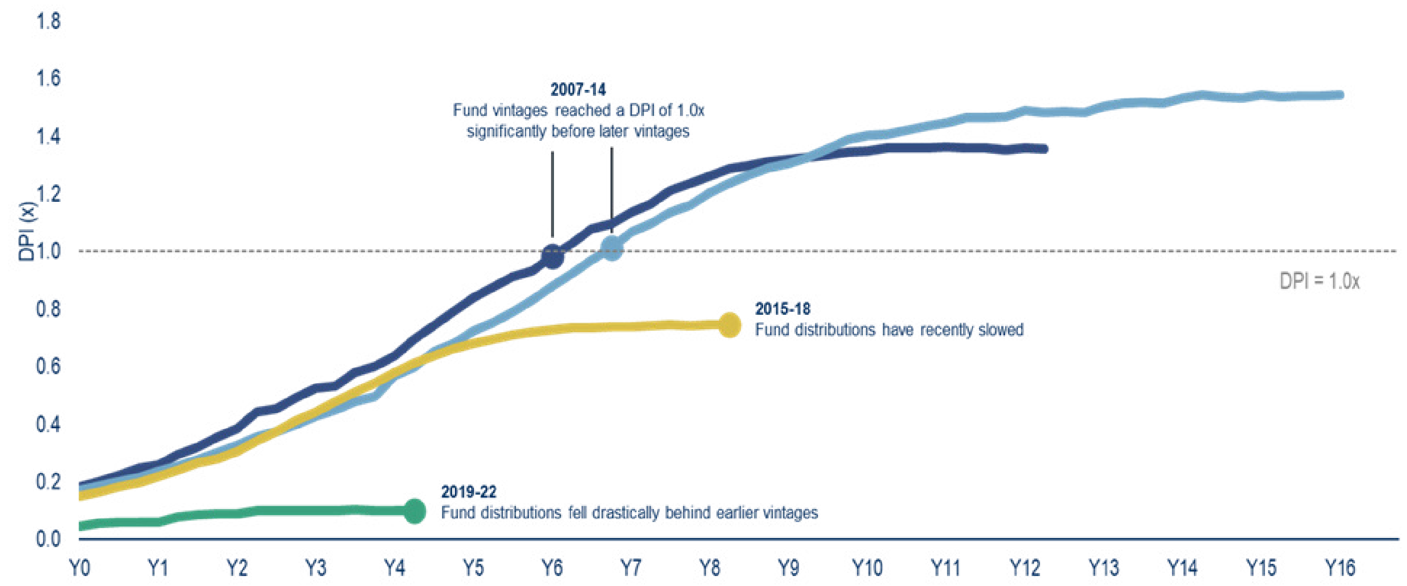
- The longer the private equity Bear remains in hibernation, the hungrier it must be when it emerges – hungry to **divest** and hungry to **invest**

- When the M&A market is operating smoothly, it enjoys a sense of equilibrium:
  - there are a balanced number of buyers and sellers sharing a common perspective on valuation and a similar view on future market conditions
  - pressure to invest and divest are roughly equivalent
- We have not experienced this equilibrium in 2024, but pressure is building…

# Divest

**Pressure to divest is increasing, as Distributions to Paid-in-Capital (DPI) is at an all-time low:**

Figure 5: Global average distributions to paid-in-capital (X)



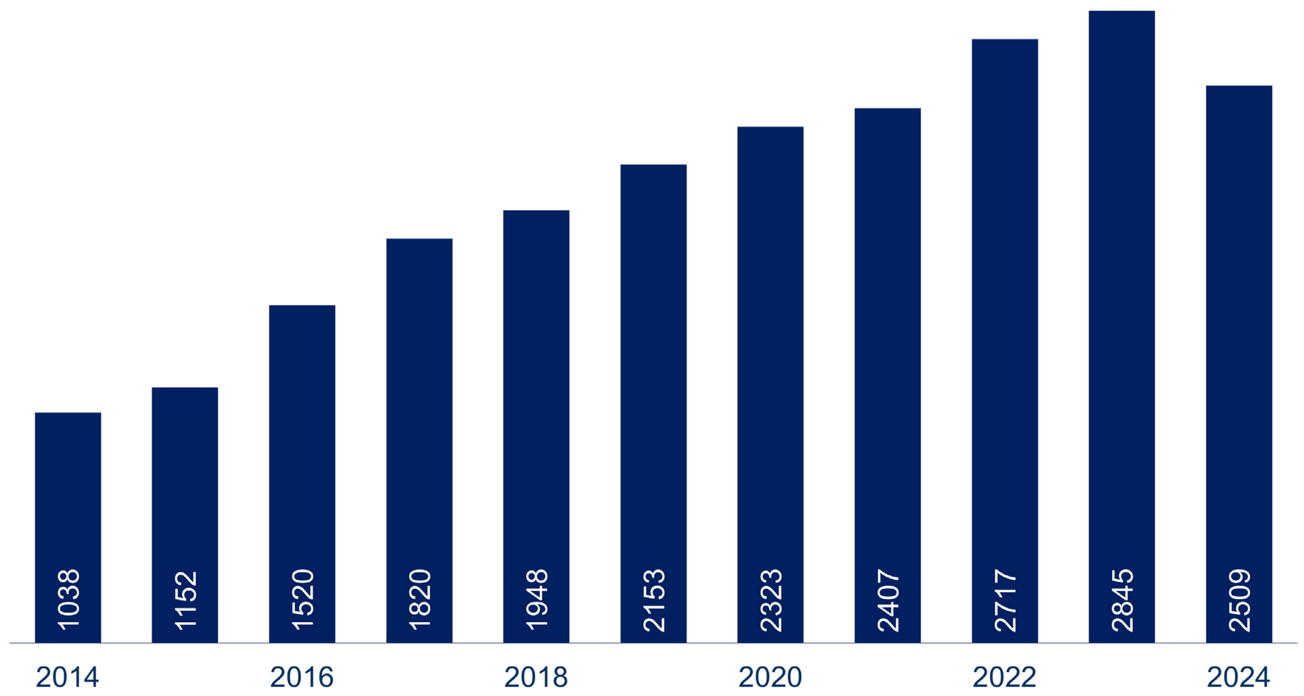

Source: Financial Times (Preqin as of Apr 3 2024, most recent reporting data available. Data analysed by Goldman Sachs)[1]

- Distributions have stalled for the 2015-18 funds and have only reached 75% of paid-in-capital after eight years, and the story is worse for more recent funds. For older vintage funds, 100% was achieved in six years. Distributions to LPs are therefore at least three years behind schedule (see Fig. 5)
- Consequently, LPs are keen to see more of their cash returned. The only brake on their desire for cash is that, with deal activity low, they are not compelled to find cash to fund existing commitments
- But this is a mitigant that only protects GPs for so long. If GPs are to preserve their relationships and protect their future fund prospects, the rate of disposals *must* increase
- We anticipate that conversations around potential transactions will accelerate in the first quarter of 2025 leading to an increased level of ‘potential’ signings after the summer
- But why only ‘potential’ signings?

# Invest

- The level of uninvested capital in private equity has reduced in 2024, as a consequence of the challenging fundraising environment, but it remains at 2.5x the level of 10 years ago (see Fig. 6)
- There are trillions of dollars of available capital in private equity:

Figure 6: Global private equity dry powder ($bn)




Source: Preqin

- Although the clock is ticking on the low investment rate, it is not a clock that ticks as loudly as the cash requirement clock. Consequently, the pressure to invest is not as keenly felt

# Not *if*, but *when*...

- When will this pressure deliver deals?
  - Selling a business takes time. In the current market it is not unusual for the process to take 9-12 months. Deals that are in the process of being completed now are the result of decisions made at the beginning of 2024
  - If our assessment of market conditions is based on deal announcements *now*, it is based on how vendors were feeling *then*
  - And so, it follows that 2025 activity will likely be driven by how sellers are feeling in the next 3-4 months which will take time to deliver deals
- On a positive note, for the short term, we are aware of sellers keen to get to market soon, to avoid the rush of deals in late 2025 and 2026

2024

9–12 months

- Not unusual for the process of selling a business

2025

3–4 months

- 2025 activity will be driven by how sellers are feeling in the next 3-4 months

# Equilibrium of

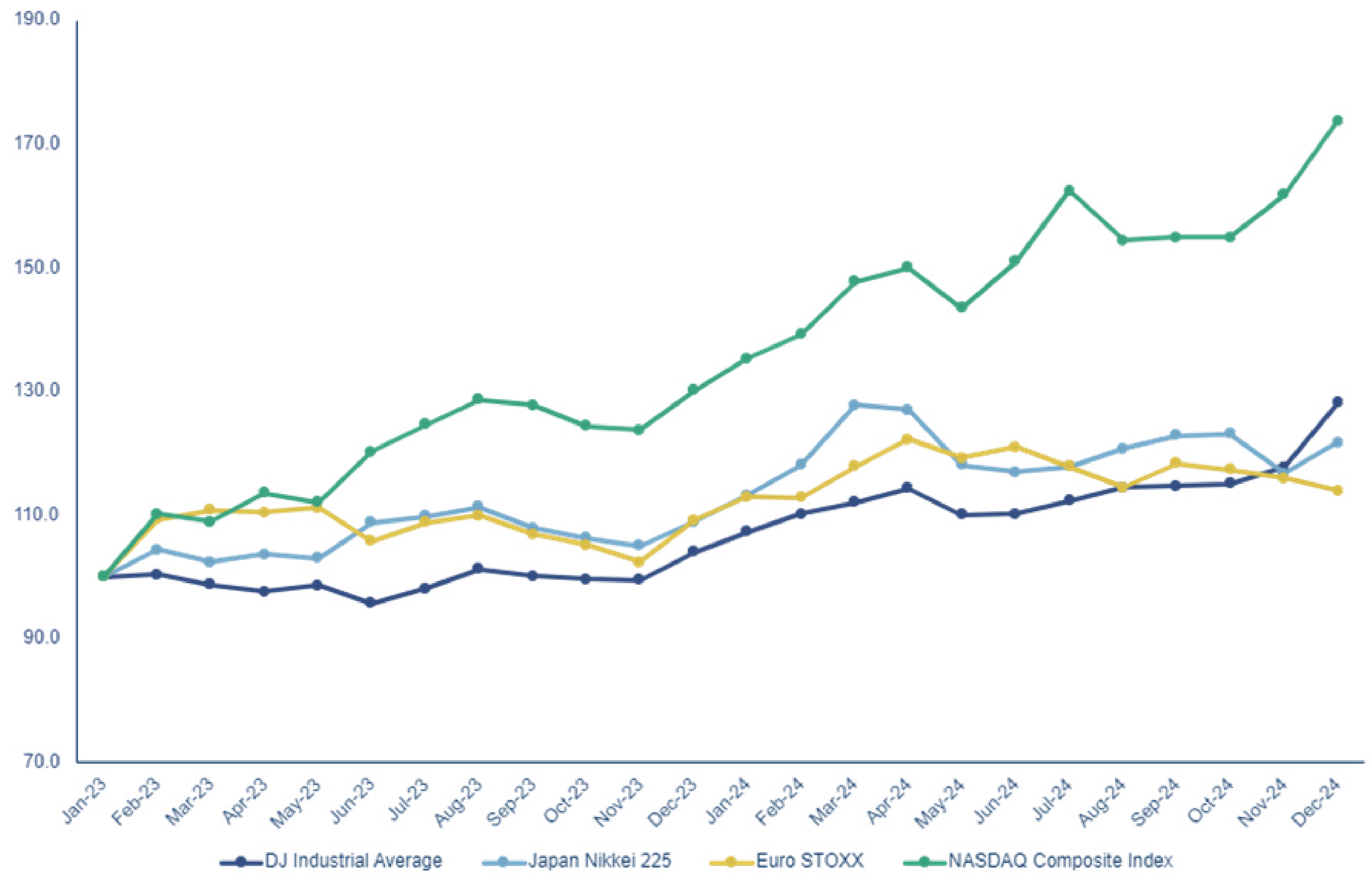
## pressure

- We are anxious that the dis-equilibrium between pressure to divest and pressure to invest will lead to a period where the supply of investment opportunity exceeds the appetite for investment from private equity - where buyers' confidence is improving but uncertainty around valuation persists

## valuation

- It has never been so hard to predict valuations. In many sale-processes the range of bids has been unprecedented. It is not unusual to witness a 30% spread
- On the positive side, public markets are at, or around, all-time highs; and debt is available at more predictable levels and pricing

**Figure 7: Public market performance – monthly price index**




Source: FactSet (price at close on the 1st of each month - Jan 2023 - Dec 2024)

- Notwithstanding the strong public markets, private equity investors remain risk averse. That risk aversion is driving strong valuations for the *best* businesses… but not yet for the *rest*…

# Investor appetite

## The Best

- In a world where confidence is low, extraordinary valuations are still achievable
- As pressure builds to deploy capital, it seems easier to pay an exceptional price for an exceptional business than a good price for a very good business. And if a business has strong growth in a strong market and a highly predictable recurring revenue business model, private equity appetite remains very strong
- But the bar is high, and the judgement of bidders is harsh if there is any hint of disappointment in the business performance or model
- In our estimation fewer than 10% of businesses meet the stringent definition of 'exceptional'

## The Rest

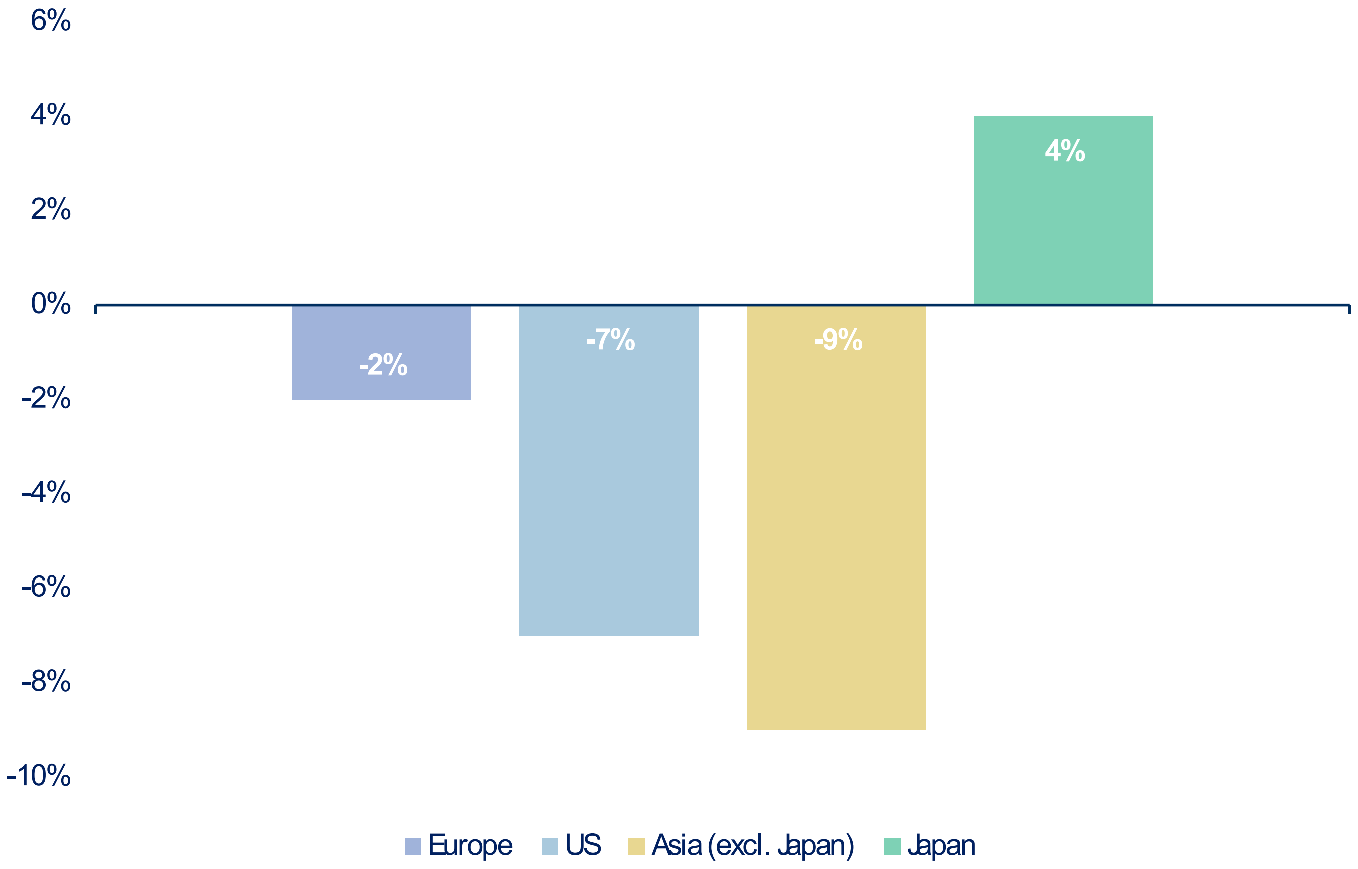
- As with any normal distribution, the vast majority of businesses that are 'due for sale' are good, but not exceptional
- As always, vendors look kindly on their own businesses and less kindly on those owned by others. This means sellers are more confident than buyers
- For good businesses, therefore, valuations are currently somewhat 'disappointing'. And in this environment, there remains a risk that the valuation expectations of sellers are not met
- Almost inevitably, this will lead to disappointment and potentially failed transactions
- Nevertheless, given the pressure on private equity, we are confident that this dis-equilibrium should be relatively short lived

## Finding equilibrium

# Geographic review

- Equilibrium has not been experienced in any of the major geographic markets, with disappointing M&A volumes throughout 2024:

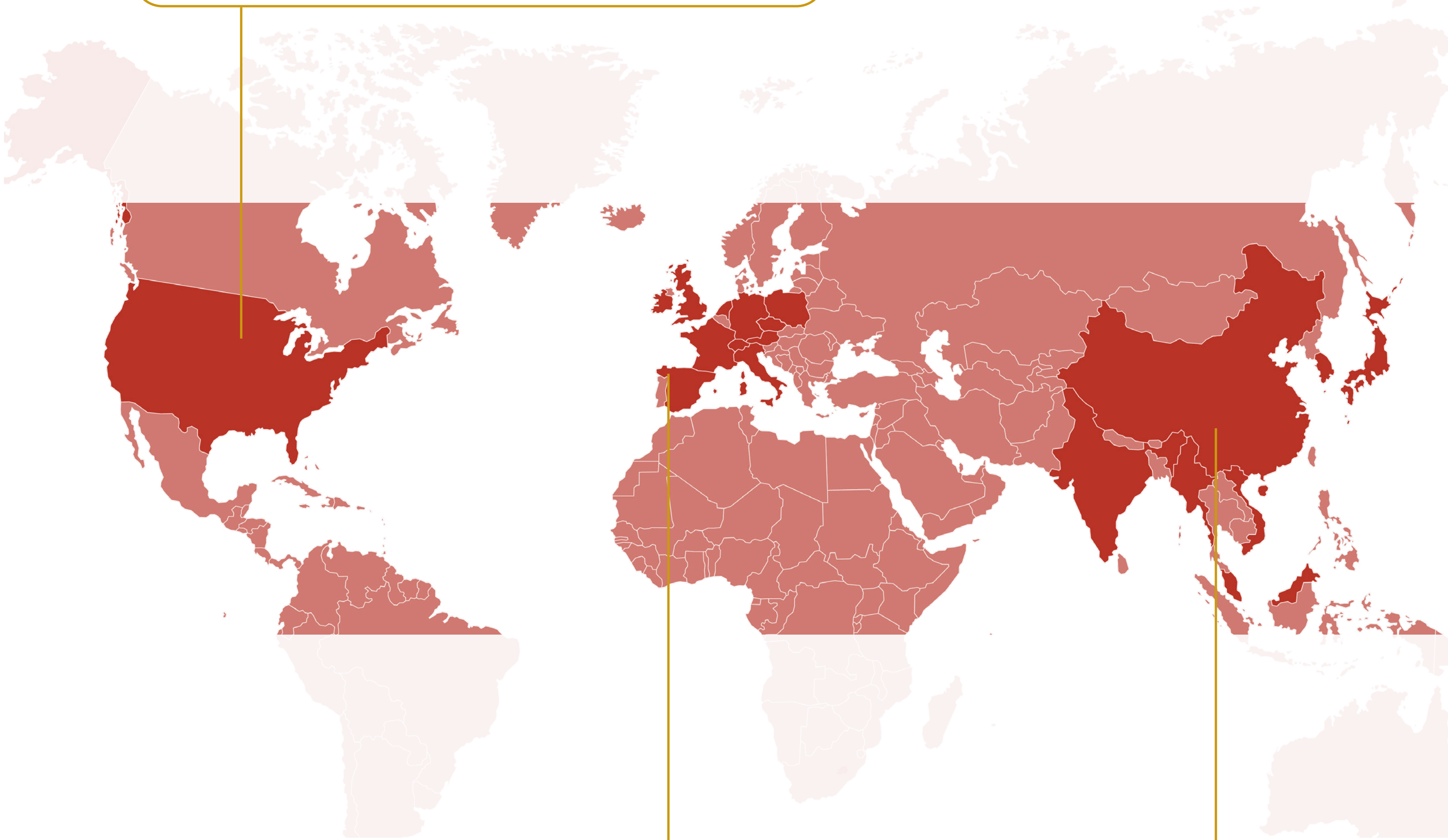
Figure 8: Global deal volume % change, by region




Source: Mergermarket (For details regarding search criteria, please see the Appendix)

- We believe we will have a two-paced recovery. One pace – 'faster' - for the US, and one pace – 'slower' – for Europe, with different parts of Asia responding to their own dynamics
- The most important determinant of that split is the national psyche. Americans move on from disappointment with greater alacrity and face the future with more positivity

- In the **US**, confidence is growing and when you add the fact that:
  - they have the strongest performing public equity markets
  - they have the deepest, richest pools of investor capital[2]; and
  - the US economy is anticipating a 'boom' following the election of Donald Trump[3]
- …it is easy to believe that the flywheel of private equity will spin sooner and faster



- In **Europe**, the pall of disappointment will hang heavier. Increasing political uncertainty and the lack of an engine for economic growth will deliver a slower recovery. The one positive note is that this could lead to faster, deeper interest rate cuts that would provide a stimulus to activity

- In **Asia,** the slowdown in China oriented deals is largely a consequence of the slowing economy and geo-political friction with the US. The pace is therefore 'slow'. But as we have mentioned momentum is growing in Japan

# Momentum & equilibrium

## Related Fund Transactions

- We believe that the equilibrium will be most easily found where the sellers and buyers are related – we call that Related Fund Transactions (RFTs) - where an older vintage fund sells to a continuation vehicle, or to a later vintage fund managed by the same GP
- This trend is well established, but we expect it to gather pace as it meets the requirement for GPs to deliver liquidity for investors and to deploy uninvested equity. Valuations will frequently be validated by external co-investors
- In a risk averse market, this strategy provides GPs with the opportunity to prolong their investment in businesses they know well and whose management and prospects are well understood

## Gathering momentum

- Elsewhere, private equity will likely find market equilibrium when living with disappointment becomes a market norm. Valuations will be disappointing, fund returns will be disappointing, IRR's will be disappointing – as will carry cheques
- But new funds, new investments and a bold outlook for the future should prevail and we anticipate higher deal volumes in 2025, as private equity begins to unwind its backlog, and volumes should reach record levels in 2026 as the flywheel gathers pace

# Questions?

## Watch our Global M&A Outlook 2025 webinar


## Register to watch live or receive the recording, here >

# *Appendix

The following table describes the search criteria used for the chart and graph data contained in this report:

| Search criteria for chart and graph data | |
|---|---|
| Figure 1: Global M&A deal volumes | All reported acquisitions with deal values less than £1bn, including those with undisclosed values, across all sectors and geographies - calculated as January to November'22, January to November'23, and January to November'24 |
| Figure 2: Global trade buyer volumes | All reported acquisitions completed by Trade equity, with deal values less than £1bn, including those with undisclosed values, across all sectors and geographies – calculated as January to November'22, January to November'23, and January to November'24 |
| Figure 3: Global private equity volumes | All reported acquisitions completed by private equity, with deal values less than £1bn, including those with undisclosed values, across all sectors and geographies – calculated as January to November'22, January to November'23, and January to November'24. All reported acquisitions completed by private equity, with deal values less than £1bn, including those with undisclosed values, across all sectors and geographies – calculated as January to November'22, January to November'23, and January to November'24 |
| Figure 4: Global private equity bolt-on acquisitions | All reported private equity bolt-on volumes with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies – calculated as January to November'22, January to November'23, and January to November '24 |
| Figure 6: Global private equity dry powder | *Year to date through 30 November '24. Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2024 |
| Figure 8: Deal volume % change by region | Volume percentage change calculated as January to November'23 vs. January to November'24 with deal values less than £1bn, including undisclosed deal values |



For other important information, please read our Insights & publications disclaimer >

# Sources

1. Financial Times, September 2024: Buyout executives say distributions are 'magic word' after exit slowdown
2. Financial Times, Apr 2023: https://www.ft.com/content/790a5990-1d25-45c4-9267-466a92c52e02
3. BBC, Dec 2024: Trump rings bell on record stock market - but will it last? - BBC News



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