

Business Owner Advisory

Mid-Year 2025 M&A Activity Update

Optimism to Uncertainty to Recalibration



The first half of 2025 did not deliver the broad-based revitalization many dealmakers had anticipated. Despite promising indicators that emerged in late 2024 — moderating inflation, interest rate cuts, narrowing bid-ask spreads and increasing interest among sellers and buyers — actual M&A execution remained uneven and largely concentrated in the upper end of the market. In the U.S., deal volume retraced 7% (totaling ~7300, deals) while deal value surged 73% (~\$945B)¹.

1H 2025 OBSERVATIONS

DIVERGENCE PERSISTENCE:

The defining characteristic of the current M&A cycle is the continued bifurcation between mega-deals (>\$1B) and middle-market transactions (<\$1B). Mega-deals have significantly outperformed, driven by corporate buyers with strong balance sheets and strategic clarity. Several landmark transactions across energy, industrials and technology lifted overall deal value, even as aggregate deal count remains below historical averages.

In contrast, middle-market activity continues to lag. Buyers remain selective and sellers are still mostly reluctant to accept the somewhat recent valuation reset. This dynamic runs counter to the typical pattern of an M&A cycle, where smaller deals typically lead the way. In 2025, activity has been top-heavy and meaningful mid-market acceleration will likely require further easing in capital markets.

TARIFF TANTRUMS:

Unexpected policy volatility re-emerged as a material drag on M&A. Trade tensions and tariff-related headlines reintroduced risk into diligence, cost modeling and integration planning. This impacted numerous sectors such as manufacturing, industrials and hardware technology, where global supply chains are integral. Even the possibility of retaliatory measures has prompted deal teams to take a more conservative approach to valuation and post-close forecasting. While deals haven't disappeared, active deal timelines have become stretched, due diligence has become more complex, and valuations and deal structures have been renegotiated.

PRIVATE EQUITY'S POSITION:

Private equity (PE) remains active and opportunistic on both the buy-side and sell-side, though its approach has remained selective amid ongoing market constraints.

On the exit front, activity in 1H 2025 reached approximately ~\$305B², representing a 105%² increase year-over-year. A standout trend has been the resurgence of PE-backed initial public offerings (IPOs), which accounted for 56%³ of all U.S. listings — a 25-year high. This reflects not only improving public market conditions but also mounting pressure on PE firms to realize investments. Today, nearly 55%³ of active global PE funds are six years or older, meaning that a majority are entering the back half of their fund lives. While continuation vehicles and secondary solutions have grown more prevalent, PE firms still face mounting urgency to execute traditional exits and return capital to limited partners in line with fund mandates.

On the acquisition side, private equity has remained highly disciplined, with continued emphasis on add-on acquisitions to existing portfolio platforms. Dry powder remains near record levels, but fundraising has begun to show signs of strain as limited partners prioritize distributions over new commitments. As a result, PE firms are navigating a dual challenge: pressure to deploy capital effectively while simultaneously returning capital from maturing funds.

Looking ahead, private equity is expected to continue to play a central role in driving M&A activity in the second half of 2025.

M&A SPOTLIGHT: H1 2025 SIZE DIVERGENCE

■ Deals <\$1B ■ Deals >\$1B ● % of Deals

Value (\$B)

\$110

12%

\$835

88%

Volume (# of deals)

7,138

97%

200

3%

LEGISLATIVE SPOTLIGHT: FUTURE M&A IMPACT OF ONE BIG BEAUTIFUL BILL ACT

BONUS DEPRECIATION: A BOOST FOR ASSET-HEAVY TARGETS

The recently enacted One Big Beautiful Bill Act (OBBB) reinstates 100% bonus depreciation through 2030 for qualified property placed in service. For M&A, this gives buyers — especially those acquiring manufacturing, logistics, or capital-intensive companies — the ability to immediately write off acquisition-related capital expenditures. That translates into stronger post-close cash flow and makes asset deals more attractive in 2H 2025 and beyond.

DEBT-FRIENDLY DEALS GET A TAILWIND

Retroactive to the beginning of 2025, the OBBB allows buyers to deduct interest expenses based on 30% of EBITDA (instead of EBIT). This is particularly favorable for leveraged buyouts. For business owners exploring a sale to private equity or other debt-backed buyers, this change could mean more flexibility in deal financing and potentially stronger valuations, especially for companies with high depreciation but consistent cash flow.

QSBS ENHANCEMENTS CREATE TAX-SAVVY EXIT POTENTIAL

The new Qualified Small Business Stock (QSBS) provisions increase the capital gain exclusion to \$15MM per shareholder, allow partial exclusions at 3- and 4-year holds, and expand eligibility to companies with up to \$75MM in assets. For founders and early investors (of C corporations), this creates a strong incentive to issue new QSBS-eligible shares and begin planning for future, tax-advantaged exits.

2H 2025 CONSIDERATIONS

INTEREST RATE CUTS:

The Federal Reserve's rate cuts in late 2024 helped spark optimism. But its pause through 1H 2025 has weighed on momentum, particularly middle-market activity, which relies more heavily on acquisition financing. However, expectations are rising for further cuts in late 2025 into 2026. In June, the Federal Reserve's latest "dot plot" — a reflection of interest rate projections by voting members of the Fed — showed a median forecast of two rate cuts for the remainder of 2025 followed by another cut in 2026.

Once rate cuts resume, it should provide meaningful relief to private equity buyers and likely re-ignite transaction volume across the mid-market. Even modest rate reductions would materially improve deal math for many buyers. With just three meetings left for the remainder of 2025, dealmakers will be closely watching the Federal Reserve's next meeting in September for further clarity on the path for interest rates.

DEAL CREATIVITY:

Creative deal structuring is likely to remain a core feature of successful transactions — particularly in the middle market — where valuation gaps and financing limitations still challenge traditional all-cash deals. Buyers are continuing to use tools such as earnouts, seller equity rollovers and other contingent payments to bridge valuation differences and manage downside risk.

These structures allow buyers to preserve capital, reduce upfront exposure and tie a portion of the purchase price to future acquisition performance, especially in cases where trailing financials may not fully reflect normalized or forward-looking earnings. For sellers, while these deal structures are not necessarily ideal, they can provide opportunities to transact now, rather than waiting for perfect market conditions — provided sellers are comfortable with some degree of post-close performance risk.

As deal volume in the middle market looks to rebound in the second half, the ability to negotiate and customize deal structure will likely continue to be a key lever for getting deals over the finish line.

DISRUPTION MAY BE THE NEW NORM:

The past five years have forced dealmakers and business owners to adapt to wave after wave of macroeconomic disruption — COVID, inflation, rising interest rates and now renewed trade tensions. Meanwhile, rapid transformational disruptions, such as generative AI and other new technologies, continue to reshape the business landscape, both creating opportunity and uncertainty.

Going forward, dealmakers and business owners may need to embrace a new baseline: Disruption isn’t an exception — it’s the environment. These disruptions have not only begun to accelerate the typical business life cycle, they also may redefine the M&A cycle as well. For business owners, this means adaptability and preparation are more critical than ever to ensure their enterprises remain profitable. Readiness to execute on a sale opportunity is now a necessity for all private business owners.

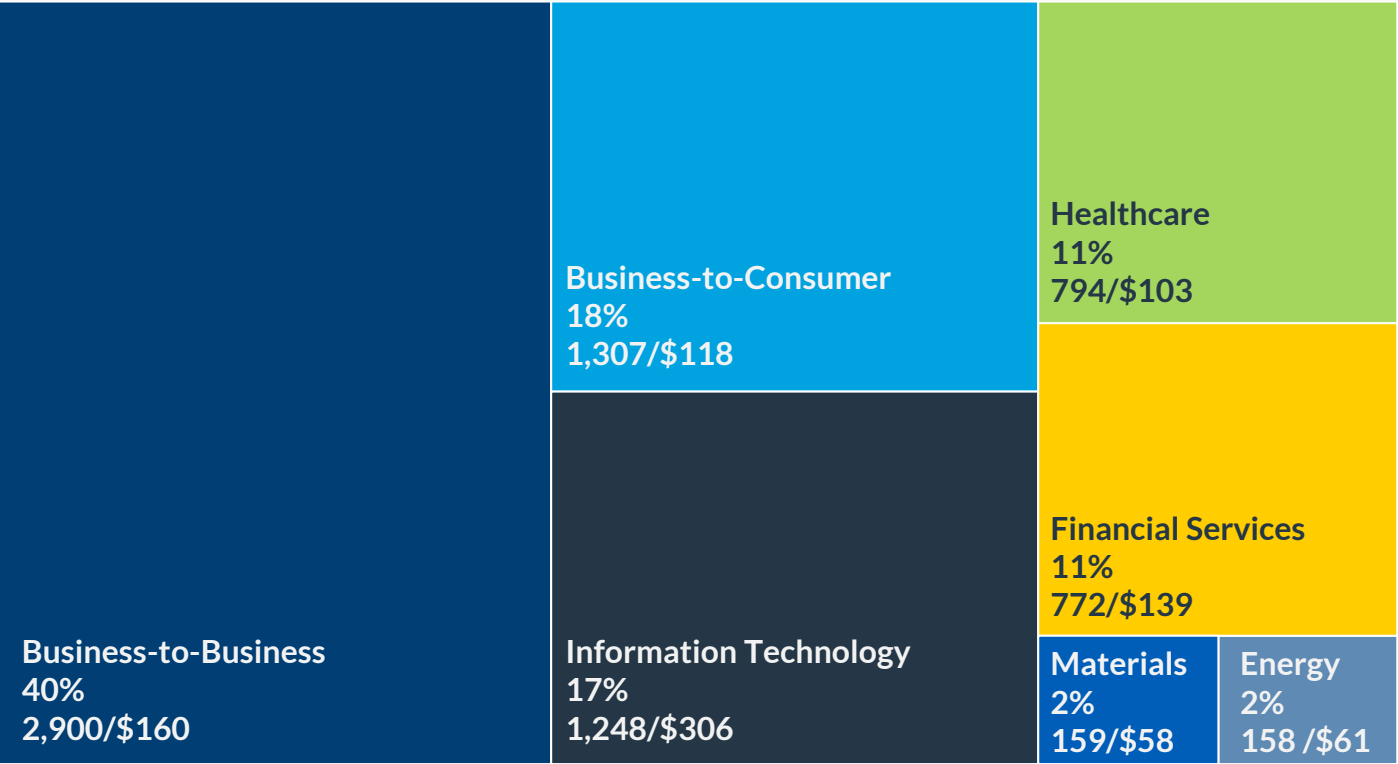
THE WRAP

Dealmakers entered 2025 with renewed optimism — but the mood across the dealmaking landscape has shifted to measured rationality. While macro fundamentals are improving, the M&A market continues to search for alignment, particularly in the middle-market where credit constraints and valuation friction remain obstacles.

Still, overall M&A momentum is continuing. With potential rate cuts on the horizon, greater seller readiness and preparedness, and capital waiting on the sidelines, late 2025 could mark the beginning of the highly sought-after broad-based revival.

For business owners, now is the time to prepare. Whether a potential sale is 6 months or 2 years away, proactive planning, both business and personal, is key. Those who are prepared will be best positioned to seize the opportunity when it arises.

SECTOR SPOTLIGHT: H1 2025 M&A ACTIVITY (% of TOTAL DEAL COUNT)¹
#Deals / \$Billions



¹ Pitchbook, 1H 2025 data as of 07/30/2025.

² "Q2 2025 US PE Breakdown," PitchBook, page 18.

³ "2025 US Private Equity Outlook: Midyear Update," PitchBook, page 6.

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