Sector Outlook

2025

The outlook for dealmaking in 2025 has accelerated in the last month of this year with whispers of activism, LBOs, spin outs and takeovers.

Driving this activity is the expectation of a pro-business and pro-growth incoming Trump administration, including the prospects of de-regulation and lower taxes. Although geopolitical risks and uncertainty of potential policy impacts remain, corporates and private equity alike are seeking opportunities to deploy capital, grow, expand and diversify organically and through M&A.

We asked our industry Group Heads for their outlook on the driving forces impacting each of their sectors, here is what they said:

Consumer & Retail

If December is an indication, this sector is primed for a flock of merger activity in 2025. In the span of a week, the financial press reported that activist investors pushed retail giant Macy's to spin out its real estate assets, Mondelez made a takeover offer for Hershey and Walgreens was in talks with private equity firm Sycamore Partners to potentially sell itself.

Regulators blocked the union between grocery store chains Albertsons and Kroger but expectations for a more friendly stance towards merger activity from the incoming administration could see other transactions revisited next year. Large retailers with proprietary consumer data are steps ahead of peers in terms of incorporating next gen technologies (such as AI, personalization and automation) into their strategies, delivering value and making their customer base stickier. This will add pressure on smaller players who may be more receptive to transact. The largest players are also entering other key areas such as healthcare to have additional consumer touchpoints and this is likely to continue over time.

In the food & beverage arena the new administration's promise of tariffs could impact supply chains for everything from grains and seeds to meats. Tariff policy could lead to domestic surpluses and deflationary impacts on some key food commodities including corn, soybeans and animal proteins, where the U.S. is a net exporter. On the demand side, increasing use of GLP-1 weight loss drugs is altering consumption patterns in both grocery and restaurant channels. Though adoption is still in early stages, CPG companies have already introduced GLP-1 friendly claims. Categories like protein-centric snacks, beverages and meal solutions should experience further tailwinds while some ingredients' players will benefit from reformulation initiatives.

Scale, omni-channel reach and technology capabilities are increasingly table stakes across consumer & retail sub-sectors.

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Financial Institutions

Technology has hastened the pace of financial institution disintermediation and will likely drive convergence and consolidation in financial services. All roads point to a linking of asset-light specialty finance, alternative asset managers (private credit funds) and insurance players who, along with non-bank lending platforms, will continue to encroach on big bank market share. However, the outlook for lighter-touch regulation also means smaller regional banks will be able to consolidate to enhance scale and profitability to remain competitive in this evolving landscape. A transparent and relaxed regulatory regime could promote an acceptance of crypto at big banks which can streamline efficiencies while also facilitating M&A transactions in the sector.

Financial Sponsors

Expectations for increased dealmaking are elevated for 2025 and beyond and the private equity industry will benefit from those tailwinds. With the incoming administration's open stance on dialing back anti-trust related matters in M&A, coupled with robust valuations and an open financing environment, private equity will finally be able to access equity capital markets and M&A after a high cost-of-funding period and pronounced reduction of distributed to paid-in capital (DPI) for LPs.

We expect the strategic and corporate bid for private equity assets to increase and face more competition from overseas strategics including entrants from Japan, Mizuho's home market. The offset to this will be any inflation-related risks given the incoming administration's stance on tariffs and trade. Rates could remain higher-for-longer and pose barriers in sponsor-to-sponsor activity which has historically represented a considerable portion of M&A volume.

Structured financing solutions including net asset value (NAV) lending and continuation vehicles will serve as near and medium-term bridges as sponsors seek a more permanent solution for the build-up of exits in their portfolios. Minority stakes with partners can also bring synergies to enable outsized growth for these sponsor-owned portfolio companies in the meantime.

Healthcare

We expect healthcare services M&A volume to increase in 2025, with provider, provider services and healthcare information technology companies being particularly active. The number of ongoing sale processes is currently at one of the highest levels in the past six years, as financial sponsors are attempting to monetize investments, return capital to limited partners and raise new funds. Conditions in the debt markets are conducive to funding acquisitions. In addition, the regulatory environment under the Trump administration may be more favorable to M&A activity and encourage the pursuit of larger transactions.

The valuation gap between buyers and sellers that has existed for the past two years has shown signs of narrowing which should increase the completion rates of sale processes. We have seen strategic and financial sponsor buyers bid aggressively for top quality assets. Financial sponsor sellers have increasingly demonstrated a willingness to moderate valuation expectations for portfolio companies that have been owned past the standard hold period. While top tier assets will continue to attract interested buyers at premium valuations, the buyer universe for lower quality companies will be much smaller and will be extremely price sensitive.

Within the pharmaceutical and biopharma sectors, M&A will continue to be driven by patent cliffs and technology innovations that address unmet disease states and open up blockbuster new markets. Obesity and Alzheimer's disease were new markets for pharma in the past few years, and what comes next is an exciting mix of technologies that have the potential to be customized and directed to increase efficacy and reduce side effects. Funding for biotech companies is much more robust in a declining or stable rate environment and has been directed to those companies demonstrating strong clinical data or wide technology moats.

Increased tariff activity, particularly with China, will most likely affect the medical technology and life science tools space the most within the healthcare sector by raising input prices and reducing the opportunity for revenue growth.

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Industrials

The industrial sector is expected to benefit from the strong economy; however, sub-sector dynamics are subject to a range of external factors. The general manufacturing and capital goods sectors should benefit from infrastructure investments and reshoring trends. However, supply chain tightening and the impact of potential tariff schemes (affecting both Asian and North American trade partners), while aimed at reviving U.S. manufacturing, could, in the near-term, erode U.S. export market share and upend global trade. Businesses that rely on imports are looking for ways to circumnavigate increasing margin pressure due to higher costs for raw materials.

An increase in geopolitical tensions along with the ongoing recovery of commercial aviation are expected to support increased spending in the Aerospace & Defense industries. Investments in the defense industry will likely flow towards the rise of AI integration, advanced air mobility and unmanned vehicles for defense applications. The building products sector and home building in general are impacted by interest rates, which need to continue to moderate to revive that sector. Excessive deficit spending could thwart these plans since it would risk an uptick in inflation and raise flags at the Fed.

Overall, the outlook suggests robust M&A activity with a much-improved regulatory environment as companies look to strengthen their competitive positioning by adding product categories, expanding into new markets and/or seek cost savings through consolidation.

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Power & Utilities

The utility sector is laser-focused on meeting demand for anticipated record levels of load growth driven, in part, by data center electricity requirements. With an incoming Trump administration, government-backed support for power sources such as nuclear and gas-fired generation is expected to find tailwinds, notwithstanding the need for fuel diversification to guarantee baseload power.

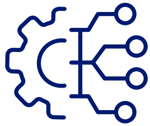
Utility capex budgets continue to increase on the back of forecasted demand, stressing already tight credit metrics and increasing the need for more equity content across common equity, mandatory convertible preferred, hybrid capital and, potentially, asset sale proceeds. While the prevailing view is that the Fed will continue to ease rates which has contributed to the sector's outperformance in 2024, the Trump administration's approach to deficit spending may keep rates higher-for-longer to curb inflation resulting in moderate equity performance in 2025. The upshot is similar-sized corporates who recognize the benefits of combining strengths and scaling up may seek out stock-for-stock transactions in a move towards sector consolidation.

Energy

Emboldened by the incoming presidential administration's prioritization of domestic energy production, global LNG markets have refocused on the U.S. as a viable source of long-term global natural gas supply. Within the U.S., expected electricity demand for AI is crafting the narrative around natural gas-driven solutions. This will push the industry harder to efficiently develop and deliver gas resources to fulfill both foreign and domestic demand and could drive further asset consolidation across the entire energy ecosystem. From the investor side, natural gas equities have been an attractively priced way to play the AI derivative trade, providing a window of opportunity for producers to test the IPO market. Investors are also examining inventory duration of high-producing energy basins and long-term yield durability as drivers for consolidation in analyzing M&A opportunities.

Real Estate

Competing economic forces are at play in the commercial real estate sector. If the Fed continues its rate easing cycle and inflation continues to moderate, it will boost operating income and property values. There's more debt liquidity than there is supply which is causing spreads to narrow as investors negotiate asset values. Looking forward, AI and the demand for data centers will continue to touch every aspect of the real estate sector. Technological efficiencies will likely reduce the need for human capital which could limit demand for office space and revolutionize property management. Recent challenges by hyperscalers to secure electric power generation as well as limited water availability underscore the constraints of data center growth. The incoming presidential administration, depending on which policies are implemented, will impact spending and economic growth with new health care facilities and lifestyle initiatives influencing trends in buildouts.



Technology, Media & Telecom

While the incoming administration's focus is on deregulation, which is a positive for technology M&A, the bias against Big Tech remains party agnostic, a negative factor. Scrutiny could come in the way of a push to break up Google's dominance in search, Amazon's retail dominance or Facebook's influence on social media - and the fate of TikTok also remains in limbo. H1B visas continue to be an important source of reliable tech engineering talent and any change to immigration policy could put the U.S. at a talent disadvantage. Likewise, tariff policies could interrupt global supply chains and will change the dynamic with China. Still, the trajectory of tech innovation continues unabated as cybersecurity and data privacy needs increase with elevated geopolitical tensions which in turn heightens the needs across industries and governments. Media companies grappling with how to house streaming services and legacy cable operations under one roof will also likely be prime targets for dealmaking such as we saw in December with Warner Bros. Discovery.

Putting it together, we remain optimistic about the dealmaking and financing environments in 2025 and expect a stepped-up rate of change.

Macro and geopolitical outlooks aside, companies can still focus on the nuts-and-bolts of fundamentals and future proof their businesses.

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