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Episode - 2025 M&A Trends: Key insights and strategies

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. Today we're talking to two partners from Deloitte Tax's M&A group, Lindsey Wietfeld and Williams Jess, and they're going to be covering insights from Deloitte's most recent M&A trend survey, and what they're seeing in the M&A market generally. Lindsay, I'll start off with you. What is the overall outlook for the 2025 market and for M&A activity?

Lindsay Wietfeld: Thanks, Carrie, thanks for having us on the podcast today. Overall, I would say the market and our clients are optimistic and certainly expecting an M&A uptick. Although I think the M&A Trends report that you referenced specifically quotes that there's cautious optimism in the market, which I certainly agree with. As you mentioned, Deloitte published a 2025 M&A Trends survey report, and what that does is interview several of our key corporate executives and private equity clients alike. The survey was conducted back in the fall of 2024, and at that time respondents definitely indicated the highest level of deal optimism that we've seen since pre-pandemic, which is great. We are seeing this in practice. We're certainly seeing our private equity clients' holding periods starting to come due, which I think will generate more assets on the market, and there continues to be a lot of cash to be deployed. However, maybe to go back to the cautious optimism that was quoted in the survey, we are seeing that play out so far in 2025. Transactions are moving at a slower pace than what was initially anticipated for 2025. I think that is really because of the continued uncertainty that we're seeing around legislation and the global political landscape. One thing in particular to your question, I think worth calling out is that the survey indicates that pivoting is a new normal in transactions. Pivoting has been a key to M&A transactions for transaction leaders as they've had to continue to adapt to pressures both from a supply chain perspective and an economic and geopolitical perspective. A couple of ways that we're seeing dealmakers pivot, that I think has an important tax perspective, is that our clients are starting to look at different types of targets that they're pursuing. This relates to a shift in the types of targets, focusing now more on technology than ever before. So that's a key M&A driver for a lot of our clients, as well as a shift in geography of interest. Certainly, there will be a lot of tax dynamics with changes in entering new markets. Another way that we're seeing dealmakers pivot in M&A times is through creative structuring to get deals done. Over a third of our survey respondents said that they anticipate what we refer to as alternatives to traditional M&A. That means our clients are looking at new ways to get deals done, which definitely comes with a lot of tax challenges and opportunities.

Carrie Falkenhayn: That was a great backdrop for our discussion today. Jess let's bring you in here. Give us some more specifics on what the latest M&A market trends are, and anything that you're seeing commonly with respect to transactions.

Williams Jess: Absolutely, thanks, Carrie. Piggy backing off of what Lindsay said, I'll hit on the cross-border M&A topic quickly. There's been a lot of inbound activity, so a lot of our member firms are reaching out for assistance with various types of M&A services for companies that are headquartered outside of the US looking to invest in the US. That has been a really popular sort of service and interest for foreign investors. This aligns, I think, with the general tone of the policies that this administration is pushing, which are supporting the domestication of investments into the US. A lot of what we're seeing in terms of pending or potential policy has to do with providing tax benefits to investments in the US, production in the US, and IP in the US. That all makes sense in terms of the market trend that we're seeing over the past 12 months. Additionally, reps and warranties and tax insurance has really been an area of focus for a lot of our clients, in particular tax insurance. It's a flavor of reps and warranties insurance, but it's specifically focused on a particular issue that might be identified in a transaction that would generally be carved out of regular reps and warranties insurance, but a buyer is still seeking some sort of coverage because it may be a non-indemnity deal, or the seller just isn't willing to cover that particular expense exposure. Clients are seeking out tax insurance in order to get coverage for issues such as S corporation risks or anything to do with a particular transaction that's expected to take place pre-closing, like settlement of some sort of intercompany matter that may have tax implications. Those types of matters that are seen as high risk can be covered with tax insurance. A lot of times that does require input from a third-party advisor, where we would do an in-depth analysis of an issue, even potentially provide an opinion on the matter, and that goes to the insurer, and they'll provide a policy to cover that particular exposure. A few years ago, tax insurance was not nearly as popular, but we're actually seeing an uptick in tax insurance in the market. Similarly to reps and warranties, it was less popular maybe four or five years ago, but now we have it on all of our deals, so it'll be interesting to see how that all plays out going forward, if tax insurance will become really prevalent on a lot of transactions. In addition, alternative financing, as Lindsay noted, pivoting is the new normal and finding creative solutions to get a deal over the finish line has really been something that we're working with our clients on, to come up with opportunities to help get a deal over the finish line in ways that maybe aren't just straight cash transactions. That could include equity financing, seller financing such as seller notes, which in COVID times we didn't see as commonly, but now they're coming back in vogue. Similarly, things like earnouts—each one of these alternative financing options has very specific and nuanced tax implications. We're helping our clients develop the path forward, but also helping them in the analysis of what it means to do something less traditional in an M&A transaction. In addition, joint ventures are becoming a lot more popular and have been in the last 12 to 24 months. This allows a buyer to reduce the amount of upfront cash required to do a transaction and potentially provides an option for a buyout in the future without committing the capital upfront. There are a lot of different implications to JVs, particularly in light of the global tax landscape, including Pillar 2. It's a very complicated area and an area where we're spending a lot of time with our clients thinking through the current and go-forward tax implications of getting into a joint venture structure. Lastly, a trend that we're seeing in this slower market is a focus on seller readiness. A lot of clients are starting to think about a sale and really putting pen to paper in terms of how to best position themselves when going to market, much earlier than they did a few years ago when transactions were closing very quickly. Now sellers are thinking about how to market attributes, how to clean up potential risk areas that they know exist from a tax perspective really early on—six to twelve months before they actually intend to go to market—and we're really seeing that pay off for our clients in terms of the value that it drives in a deal.

Carrie Falkenhayn: Interesting. Lindsay, maybe you could double click on that in terms of seller readiness. What are some of the leading practices that we are seeing sellers that want to be prepared take into account in today's market?

Lindsay Wietfeld: Absolutely, and Jess did a great job teeing up why this is important in the market. As we've both been saying, there's definitely an expectation that more assets will come to market, so this is at the forefront of a lot of our clients' minds around looking at their portfolio of assets and realigning with strategy and figuring out what assets may be right for divestiture. Seller readiness has always been a valuable workstream for sellers in an M&A transaction, but today's market puts an even greater demand on coming to the market ready, particularly around tax matters which may have been saved for later stages in previous M&A markets. When we are assisting our clients who are looking at a sale process, sometimes that's through a complete sale, or sometimes it's a carve-out divestiture. A key workstream for us to help our clients with is readiness around how best to present all of the tax facts and attributes of the target assets that will be sold. Often, just to throw out a few buzzwords, you may hear of a tax fact book, which is a deliverable that can be prepared for potential buyers, outlining all of the key important tax facts, policies, and procedures around tax compliance, history of prior M&A engagements that may have had tax implications, key tax audits or examinations and attributes, preparing that all in a summary for bidders so that you're organized going into the transaction process. There's also a secondary deliverable that can be helpful, depending on the type of transaction and divestiture that's being considered, which is called a vendor due diligence report. That's very common a lot of times from a financial statement perspective for financial diligence, and it can also be a key tax workstream. Again, depending on the type of transaction, a vendor due diligence exercise actually takes a tax fact book a step forward and outlines potential key risks and exposures that a bidder may want to consider in the transaction and helps the bidders understand what the tax risks are. For US transactions, the factbook is definitely the most popular market trend. Another key workstream in seller readiness, as Jess mentioned, is understanding the intended and most ideal deal structure from both a seller and a buyer perspective. It's really important that sellers get ahead of that early, even before they have bidders on the table, so that they are aware of sensitivities they may have around what transaction is most beneficial for them from an exit perspective, but also understanding what types of value drivers they may be offering to a buyer so that they can put those valuable deal drivers on the table as early as possible. A lot of times we see this is a great opportunity for our tax clients to really elevate the tax function as a value driver in a transaction. Structuring is very important from a sell-side perspective.

Carrie Falkenhayn: And Lindsay, for the non-tax listening audience to this podcast, what is the benefit of getting tax plugged in earlier in a transaction?

Lindsay Wietfeld: A lot of that is exactly what I just mentioned—that it's really critical to identify those value drivers. It may be through structuring and the potential of, for example, offering a buyer a significant tax basis step-up, which is something we often see buyers be willing to pay for in a transaction. Also identifying other value drivers, such as key attributes—maybe there are significant net operating losses or credits and incentives that will be passed on to a buyer—and making sure that the non-tax dealmakers in a transaction are aware of those so they can adequately market them. Other benefits of early readiness from a tax perspective include identifying whether there are any pre-transaction restructuring steps that are necessary in a transaction. For example, sometimes there needs to be a cleanup of intercompany transactions, or certain non-functioning entities to be liquidated prior to a transaction, so identifying those things early is very impactful to the sale process. Lastly, it's also really important to understand if there are any historical tax exposures that may exist that a buyer would care about, and perhaps those can be remediated prior to a transaction. It's really about putting your best foot forward in a sale process from a tax perspective, and that can go a long way, particularly if there are multiple bidders.

Williams Jess: I'll also add to that, Carrie, just the importance of the cross-functional coordination between tax and the non-tax folks within the organization, for example, treasury, corporate finance, the finance function. We've seen clients stumble into issues where tax is not plugged in early enough, and certain things have already occurred with respect to movement of cash or otherwise, and there are tax implications to all of those things. It's just a lot easier, more streamlined, cleaner, if tax is involved in all of the decisions in a transaction to avoid some of those pitfalls.

Carrie Falkenhayn: That absolutely makes sense, and Jess, maybe to close us out, what are other challenges your clients may be facing in M&A transactions, and what recommendations would you have for them?

Williams Jess: There's one that comes to mind that comes up with every conversation we're having with clients lately, and that's integration. A lot of times transactions move incredibly fast, and so integration ends up being an afterthought, especially when clients don't know from day one whether the transaction will actually go through. Things could really do a complete 180—one day it doesn't look like the deal will close, and the next day it will, and they're looking to the tax directors or the VPs of tax to figure out how to integrate this business. That's really a major pain point, especially when you're dealing with targets that are disorganized or don't have good processes in place. That tax department day-one readiness—understanding the people, the processes, technology, all of that—is incredibly important as early as possible in a transaction. What we're really helping our clients do is think about those things while they're going through the due diligence process so that they're not left flat-footed when it's time to integrate the business, and they can be proactive in that period between signing and closing because they have all the necessary information to get ready for day one. I'd also say Pillar 2 is a challenge, and a big black hole for a lot of our clients, but it is really becoming a reality, especially in 2025, when the first Pillar 2 filings will be coming due. The landscape of what due diligence will look like when Pillar 2 is going to be applicable, and there are actually filings to look at and diligence, and you'll need to really understand what the modeling is, because it's a reality versus just projections. That's definitely a challenge that clients have faced, and our most advanced or sophisticated clients are the ones that have already started doing the modeling, have already started running scenarios of what a combined structure might look like, and in particular, if Pillar 2 maybe doesn't apply on a standalone basis, what is the Pillar 2 answer going to be when you acquire this target? It's been really interesting to see all the different permutations from a Pillar 2 perspective. Those are probably the two largest challenges that we've encountered.

Lindsay Wietfeld: Yes, I completely agree. To tie those two together, I think they really do go hand in hand. In today's world, with uncertainty and the changes such as the global minimum tax Pillar 2, there's an increased focus on considering integration very early in a transaction and modeling those implications. It's important for tax leaders to be raising this shift in the market and information need with their corporate development teams and C-suite early, because oftentimes in a transaction there's pressure in the system to move as quickly as possible with as little information as you can. In today's world, you just need to request a lot more information. Otherwise, you could end up with a lot of surprises on the back end, which nobody wants—a tax surprise. I would definitely say that pushing for more information as early as possible in a transaction process is a best practice.

Carrie Falkenhayn: Thank you both so much for sharing your perspectives. You've given our audience, especially those focused on tax and M&A, a lot to think about. If our listeners would like more information, including downloading the actual survey, you can go to deloitte.com and search on 2025 M&A trend survey.

You'll be able to find it there, as well as a number of other materials. As always, thank you audience for tuning in. We hope you continue to tune in for our next episode, and in the meantime, I hope everyone continues to be well. Take care.

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