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M&A Annual Report

Is the wave finally arriving?

February 2025



We are delighted to share this year's edition of our report on M&A, *M&A Annual Report: Is the wave finally arriving?*

The global M&A market may not have matched every dealmaker's hopes for a dramatic recovery in 2024, even though all major regions delivered double-digit gains despite waves of uncertainty. The market's resilience, along with improving macroeconomic conditions, point to a positive outlook for M&A in 2025, especially as the year progresses.

Could fresh geopolitical or policy shifts create some rough spots in 2025? Certainly. But the swift response of equity markets, business leaders, and the media should encourage world leaders and policymakers to hold a reasonably steady course.

McKinsey is privileged to serve many of the world's leading business and financial executives as they pursue transactions that can improve or transform their organizations: M&A, separations and IPOs, and joint ventures and alliances. We work hand in hand with clients to maximize their success across the deal life cycle, from M&A strategy and deal sourcing to due diligence and integration to separation planning and execution. We bring unrivaled transaction and integration expertise, deep industry knowledge, a global network, and a focus on building institutional and executive M&A capabilities.

The perspectives we share in this report are built from this extensive experience, as well as research and analyses led by members of our global consulting team who have expertise in M&A, industry sectors, and the unique business environments in which our clients operate. We are grateful to the colleagues who have developed the articles included here, but most important, we are thankful to our clients who trust us to support them throughout their M&A journeys.

We also thank our readers. We appreciate your interest in our research and perspectives and hope that you will discover new ideas and valuable lessons to support your M&A activities in the year ahead.



Jake Henry

Senior partner, Chicago

Global coleader,
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A handwritten signature in black ink, appearing to read "Jake Henry".



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A handwritten signature in black ink, appearing to read "Mieke Van Oostende".

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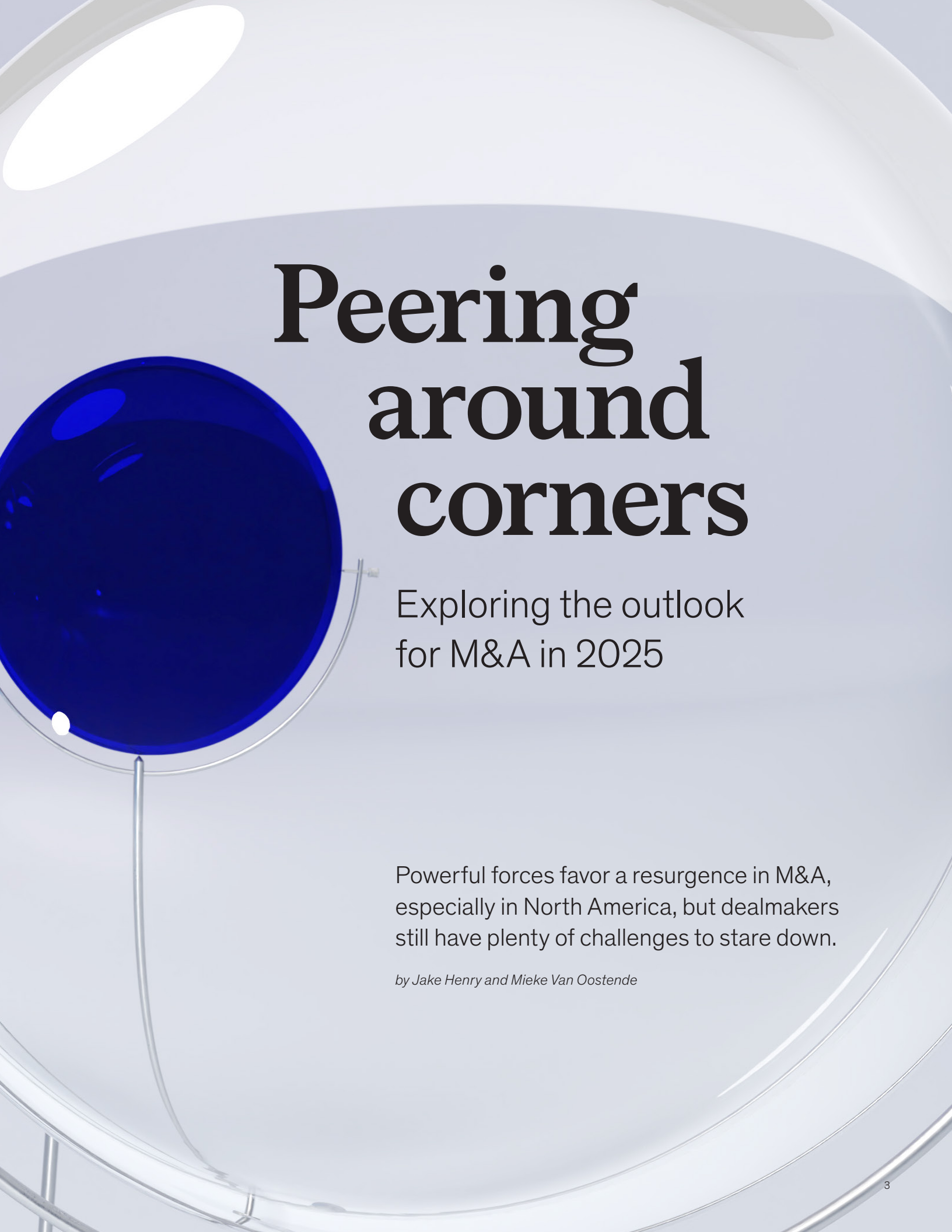
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Peering around corners

Exploring the outlook
for M&A in 2025

Powerful forces favor a resurgence in M&A, especially in North America, but dealmakers still have plenty of challenges to stare down.

by Jake Henry and Mieke Van Oostende

Global M&A markets didn't deliver the full-throttle comeback that many dealmakers had hoped for in 2024. Although performance improved (in some regions, significantly), global dealmaking was curbed by a variety of pressures and delivered moderate returns, with deal value up 12 percent to \$3.4 trillion.¹ While challenges facing dealmakers have evolved—some have dissipated, while new ones have sprung up—they remain formidable. Nonetheless, significant tailwinds are at play too. We anticipate that a strong upward pull will eventually swing the balance toward improved, and possibly sharply improved, global M&A returns in 2025.

On the surface, it may appear difficult to remain sanguine after anticipating a full market resurgence for several years. But many of the dynamics that stymied dealmaking for the past three years, including some that limited 2024 global deal value and volume to roughly the average of the past 20 years, are receding. If this pattern continues, then M&A markets could shift dramatically in the next six to 12 months, especially as the year progresses.

Could fresh geopolitical, trade, or other policy hurdles challenge this picture? Certainly—like an unseasonable frost landing on a green shoot. But if history is any guide, logic should eventually prevail.

Not all dealmakers would benefit equally. Regions, sectors, and even subsectors are likely to experience market forces quite differently. Similarly, players that are already adapting M&A strategies to the new conditions are also most likely to thrive, with M&A markets fragmenting as the year progresses and consigning dealmakers into two camps: the big winners and everyone else. In addition to benefiting from certain geographic or sector advantages, dealmakers that prevail will have a vision of their strategy in sharp relief, a clear understanding of the roles of transactions and organic growth, and the distinct internal capabilities needed to pursue M&A effectively throughout the deal cycle, from sourcing and due diligence to synergy capture and portfolio rationalization.

The case for optimism

Although a thicket of opposing forces is sure to play out in the global M&A landscape, complicating dealmaker decisions, a variety of compelling factors make it reasonable to construct an optimistic—perhaps even bullish—case for 2025.

First, macroeconomic conditions are more favorable than in previous years. On a global basis, economies have proved durable. The much-feared global recession didn't materialize, employment rates have been solid, the cost of capital has declined as restrictive monetary policies have eased, and valuations are normalizing, even in regions such as the United States, where a roaring stock market delivered a 23 percent increase in the S&P 500 last year. (The torrid climb delivered 57 record closes, and the US stock market now commands more than 60 percent of global stock market capitalization.²)

¹ For deals valued over \$25 million announced and not withdrawn.

² David Wallace-Wells, "The best government money can buy," *New York Times*, December 11, 2024; *The American economy: The envy of the world*, *Economist*, October 19, 2024.

In addition, corporations in the market for deals generally have strong balance sheets and cash positions (by some estimates, some \$7.5 trillion in cash is languishing on nonfinancial balance sheets³). There's also plenty of pent-up demand. Many companies that emphasized organic initiatives during the COVID-19 pandemic are now looking for new avenues of growth and have compelling strategic and structural reasons to leap.

For example, in industries such as banking, life sciences, oil and gas, and technology, as well as advanced industries, companies need to adjust their portfolios to capture innovations and new capabilities now essential for growth. In other industries, companies are eyeing dealmaking to assemble leadership platforms that will help them compete as business demands evolve. And always, across industries, [the most successful dealmakers pursue M&A programmatically](#) by making multiple small or medium-size acquisitions each year as part of their growth strategy. The practice allows them to outperform peers and deliver median excess TSR of 2.3 percent per annum.⁴ The approach, which includes divesting nonstrategic businesses, remains the highest performing and the least risky of the M&A program types.⁵

Moreover, following a year in which almost half of the world's population was able to vote in national elections, political transitions in some countries are likely to trigger [regulatory changes that will affect a variety of industries](#).⁶ For example, in the United States, rulings about the energy sector in recent years favoring green technologies are expected to sharply reverse in favor of fossil fuels. The US financial sector, too, could see regulations relaxed on capital requirements, consumer protections, and anti-money-laundering rules.⁷ European elections have nudged the European Parliament to the right, and three major EU sustainability regulations, long a source of business community vexation, are set to be revamped.⁸ And across many regions, the technology industry's gathering power is already boosting scrutiny, if not new regulation.

Shifts in national politics and international alliances are also upending operations in some countries. China, for example, now views India as a rising competitor as Western businesses look to derisk their supply chains through direct investment or M&A.

All these developments add powerful incentives to shift the focus of strategies and investment in the times ahead, making transactions a critical tool for adapting to new requirements quickly.

³ Andrew Sheets, "The beginning of an M&A boom?," Morgan Stanley, November 15, 2024.

⁴ Based on the top 2,000 companies by market cap from January 2013 to December 2022, excluding companies headquartered in Africa or Latin America. S&P Capital IQ, accessed January 2025; Global 2000, *Forbes*, July 2022; and Corporate Performance Analytics by McKinsey.

⁵ The other program types are selective M&A, large-deal M&A, and organic growth.

⁶ Sven Smit, Jeffrey Condon, and Krzysztof Kwiatkowski, "[Economic conditions outlook, December 2024](#)," McKinsey, December 20, 2024, and Mark John and Sumanta Sen, "How this year of elections is set to reshape global politics," Reuters, July 9, 2024.

⁷ Evan Weinberger, "Trump team set to roll back Chopra's credit card, banking rules," Bloomberg Law, November 7, 2024; Harry Swain, "Regulation slowdown expected under Trump administration," Retail Banker International, November 14, 2024; and Niket Nishant, Manya Saini, and Nupur Anand, "US banks to gain from looser capital, merger policies under Trump," Reuters, November 8, 2024.

⁸ Jon McGowan, "EU leadership plans to revamp business climate regulations," *Forbes*, November 25, 2024.

The special role of private equity

One of the most compelling forces that could boost M&A in 2025 involves private equity (PE).⁹ Financial investors, which historically served as a huge engine to power M&A, have a substantial incentive to stir from their relative torpor of recent years. Dry powder has reached extraordinary levels (estimated at more than \$2 trillion globally). Meanwhile, exits beckon as investors look for ROI vintages that have remained bottled up far longer than anyone anticipated. For example, average exit hold times reached an all-time high of 8.5 years in 2024—more than double the 4.1 years seen in 2007.¹⁰

Although sponsor-led contributions to M&A volume are beginning to match or even exceed historical levels, their current contributions are considerably lower than those seen in the M&A highwater year of 2021, suggesting that there's still room for growth. For example, PE's contribution to M&A volume in the Americas in 2024 stood at \$398 billion (22 percent of M&A activity), down from \$865 billion (28 percent of activity) in 2021. Similarly, PE's contributions in Europe, the Middle East, and Africa (EMEA) in 2024 stood at \$243 billion (29 percent of M&A activity), down from \$483 billion (32 percent of activity) in 2021. In the Asia–Pacific (APAC) region in 2024, PE's contributions stood at \$126 billion (16 percent of M&A activity), down from \$279 billion (21 percent of activity) in 2021.

Equally, the growth in the private-investment industry itself could also encourage PE to come roaring back. For example, in the United States, assets in private funds thrived on low interest rates and stock market highs from 2020 to 2023 and, by some estimates, grew 34 percent (to \$28 trillion) during that period. That amount nearly matches the money in public mutual funds, exchange-traded funds, and closed-end funds. During the same time, the number of funds multiplied rapidly to more than 100,000, from just over 63,000, an increase of nearly 60 percent.¹¹ Such fecundity sets the stage for yet more dealmaking.

And now for the rain

Of course, the challenges mentioned previously remain part of the vista for 2025, although the length of the associated shadows is unknown. Perhaps not surprisingly, some of the biggest curbs on M&A market ebullience aren't macroeconomic or even strategic in nature but are more directly human made. Geopolitical instability and changes in trade policies, along with decisions of central bankers and regulators, are some of the most obvious currents that could influence economic growth and M&A activity in the year ahead. In a McKinsey Global Survey of nearly 1,000 executives representing 86 nations and a range of industries, 35 percent of respondents called geopolitical instability the greatest risk to domestic growth, with concerns about trade policies a close second.¹²

⁹ Includes private equity players, venture capital firms, sovereign-wealth funds, and others.

¹⁰ Preqin, accessed on January 29, 2025.

¹¹ William A. Birdthistle, *New York Times*, December 3, 2024.

¹² Sven Smit, Jeffrey Condon, and Krzysztof Kwiatkowski, "[Economic conditions outlook, December 2024](#)," McKinsey, December 20, 2024.

The view of trade as a potentially disruptive force domestically is a dramatic shift from surveys in recent years. It worries executives, especially those in North America (most cited risk, chosen by 56 percent of respondents), APAC (29 percent), and Europe (28 percent) (Exhibit 1).¹³ In addition to fueling economic concerns, including effects on inflation and interest rates, the threat of tariffs could further complicate dealmaking, rendering the delicate art of valuing assets even trickier.

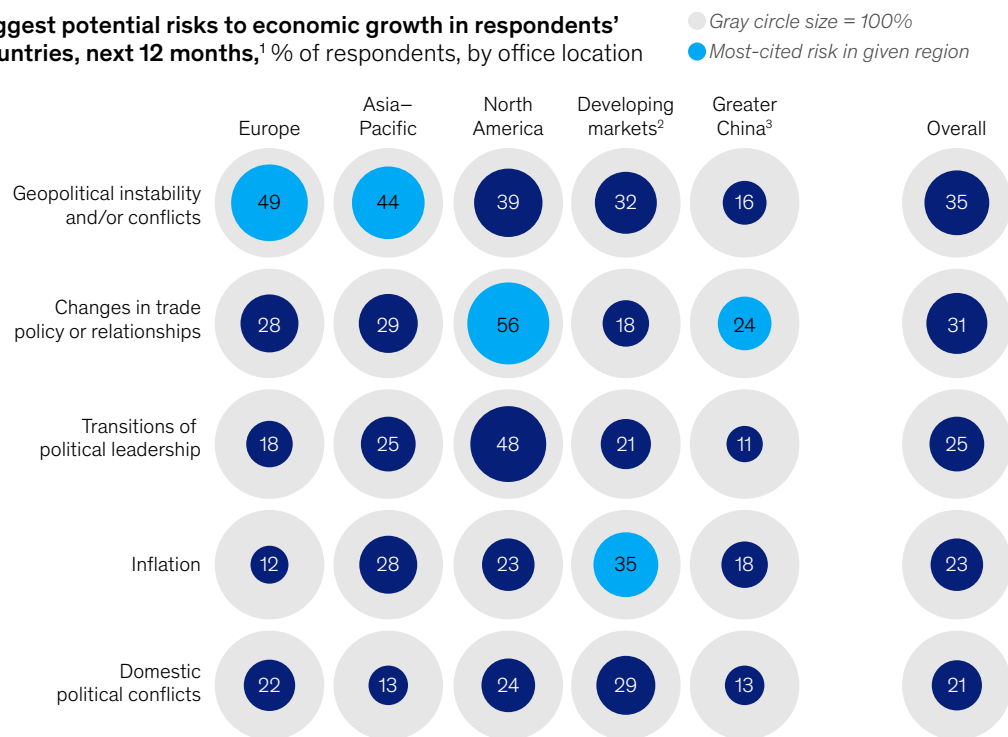
For business executives—and for dealmakers, too—there appears no greater profanity than [chaos or uncertainty](#).

Another potential drag on M&A in the year ahead involves regulatory scrutiny. While regulatory shifts in APAC and EMEA aren't expected to greatly affect the level of M&A activity in these regions, new US regulatory requirements will require more comprehensive disclosures and far

Exhibit 1

In North America and Greater China, respondents expect changes in trade policy to have the biggest effect on their countries' economies.

Biggest potential risks to economic growth in respondents' countries, next 12 months,¹ % of respondents, by office location



¹Out of 17 risks that were offered as answer choices. Total n = 912; Asia-Pacific (excludes Greater China and India), n = 89; developing markets, n = 208; Europe, n = 281; Greater China, n = 127; North America, n = 205.

²Includes Central and South America, India, Middle East, North Africa, South Asia, and sub-Saharan Africa.

³Includes Hong Kong and Taiwan.

Source: McKinsey Global Survey on economic conditions, 912 participants at all levels of the organization, Nov 27–Dec 6, 2024

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¹³ Sven Smit, Jeffrey Condon, and Krzysztof Kwiatkowski, "Economic conditions outlook, December 2024," McKinsey, December 20, 2024.

greater transparency, adding as many as 121 hours to the preparation of filings for complex deals.¹⁴ The provisions are aimed at more aggressive antitrust enforcement and necessitate providing information up front that agencies would normally only receive after opening a preliminary investigation.¹⁵ Even if these new regulations were eventually relaxed, any change would likely be protracted—encumbered by the need to unwind a thicket of procedural rules.

Looking back at 2024 global M&A returns

In anticipating how these and other developments will influence trends in M&A in the year ahead, there's still much to learn from the global market's recent performance.

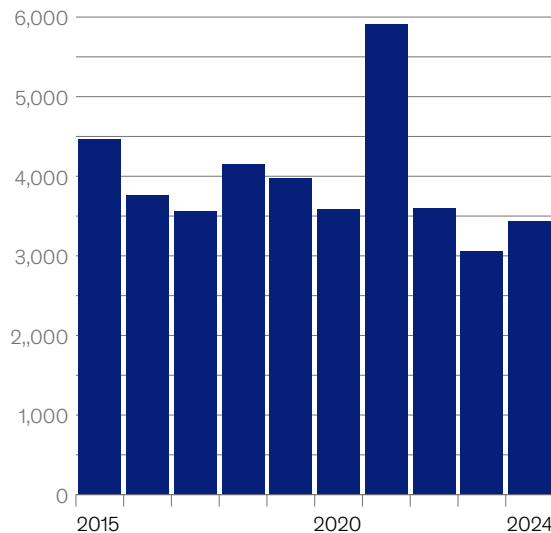
For all of 2024, the global value of deals over \$25 million rose 12 percent (to \$3.4 trillion, from \$3.1 trillion in 2023) as the number of companies changing hands increased 8 percent (to 7,784, from 7,206 in 2023) (Exhibit 2). Average global deal value rose 4 percent (to \$443 million from \$424 million in 2023) as macroeconomic conditions improved and as dealmakers—toughened by repeated rounds of volatility—grew more inured to geopolitical tensions and political transitions.

Exhibit 2

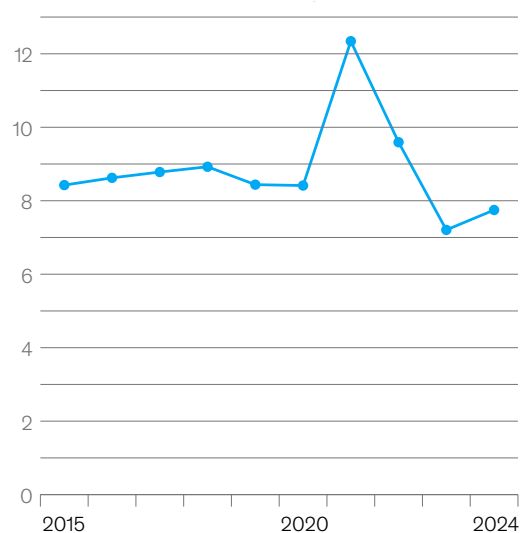
Globally, M&A activity increased 12 percent in 2024.

Announced global M&A deals, 2015–24¹

Deal value,¹ \$ billion



Deals,¹ thousand



¹Announced deals not withdrawn or canceled; deal value >\$25 million.
Source: Dealogic; McKinsey M&A Insights

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¹⁴ Anat Alon-Beck, "New FTC rules tighten the screws on private equity in mergers," *United States Law Week*, October 21, 2024.

¹⁵ Ryan Phair, Michael Murray, and Catherine Kordestani, "Dealmakers face a time-consuming filing burden under new rules," *United States Law Week*, October 24, 2024.

Still, external forces in 2024 stoked waves of caution among dealmakers. Megadeals (those over \$10 billion) declined 6 percent over the year (to \$664 billion, from \$703 billion), and the average size of large deals fell to \$18.4 billion, from \$20.1 billion. Megadeals' contribution to activity fell to 19 percent in 2024, from 23 percent in 2023, and was well shy of the contribution of behemoth deals seen before the COVID-19 pandemic. Midsize deals (those between \$1 billion and \$10 billion) remained most popular among dealmakers, accounting for 46 percent of global activity in 2024, up from 41 percent in 2023.

Corporate dealmakers accounted for most 2024 transactions around the world (78 percent, down from 81 percent in 2023) as financial investors, lured by lower interest rates, moderating valuations, and investor demand for the return of capital, began to reemerge.

Three sectors remained the busiest for dealmakers, in line with previous years. Global energy and materials; technology, media, and telecom; and financial services accounted for nearly 60 percent of the value of companies changing hands.

In line with previous years, global energy and materials; technology, media, and telecom; and financial services remained the busiest sectors for dealmakers, accounting for nearly 60 percent of the value of companies changing hands.

Looking back at 2024 regional M&A returns

In 2024, major regions each experienced a different M&A marketplace—a pattern we expect to continue in 2025.

The Americas

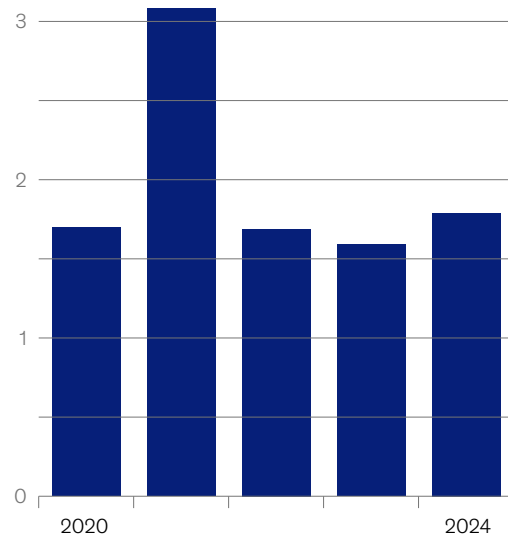
In the Americas, which generally account for just over half of global M&A market value, dealmaking activity in 2024 returned to the level seen before the COVID-19 pandemic. With economic growth in the United States increasing almost twice as fast as in other economies,¹⁶ the value of deals worth over \$25 million in the Americas grew 12 percent (to \$1.8 trillion, from \$1.6 trillion in 2023) (Exhibit 3). Deal volume increased 9 percent (to 2,763 deals, from 2,524 in 2023). Average deal size grew to \$648 million in 2024, from \$631 million in 2023.

Exhibit 3

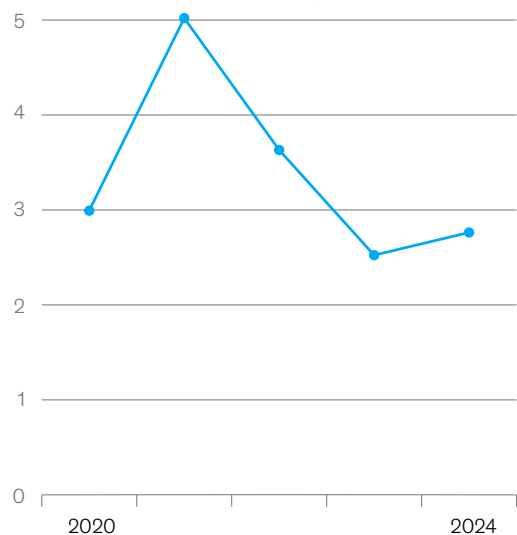
M&A activity increased 12 percent in 2024 in the Americas.

Announced M&A deals in the Americas, 2020–24¹

Deal value,¹ \$ billion



Deals,¹ thousand



¹Announced deals not withdrawn or canceled; deal value >\$25 million.
Source: Dealogic; McKinsey M&A Insights

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¹⁶ Alan Rappeport, "I.M.F says inflation fight is largely over but warns of new threats," *New York Times*, October 22, 2024.

With strong corporate profits, cooling inflation, a normalizing labor market, relatively low household debt, and other factors, the economic outlook in the Americas looks positive.

Dealmakers reveled, after years of economic turmoil and uncertainty, in what was arguably the most stable economy since the start of the pandemic. With characteristic exuberance, dealmakers in the Americas closed 14 of the world's 20 largest deals in 2024. At the same time, companies in the Americas attracted the most interest globally, with 15 of the 20 largest deals involving targets based there. With strong corporate profits, cooling inflation, a normalizing labor market, relatively low household debt, rebounding consumer sentiment, strong productivity (boosted further by momentum with AI), and two more interest rate cuts planned at the time of this writing, the economic outlook in the Americas looks positive, save for uncertainty around the new US administration's policies.

While reduced regulation could lift US profits and productivity, policy changes affecting immigration, tariffs, and taxes could lead to higher prices and bigger deficits. They could result in slower or faster growth, depending on which of the sweeping proposals are implemented. The US Federal Reserve expects the economy to grow at 2.1 percent this year, down from GDP growth of 2.5 percent in 2024. But stocks soared immediately after the US election in November, suggesting that many investors were betting that the new administration would avoid disruptive policies—a stance that would create ballast for M&A.

A variety of reports at the end of 2024 reported rising confidence among US CEOs. And history would suggest that this optimism isn't unfounded: Over the past 40 years, annual US merger volume has increased by an average of 101 percent in second-term presidencies, reflecting greater insight into the fiscal, tax, regulatory, and foreign policies that affect boardroom decisions.¹⁷ CEOs hope that this pattern will hold in nonconsecutive presidencies as well.

¹⁷ 2025 M&A outlook: *Building momentum on a global stage*, Goldman Sachs, 2024, and Dealogic, accessed on November 30, 2024.

EMEA

Unlike our M&A clients in the Americas, which were often pursuing growth and new capabilities, our clients in Europe, responding to dimmer economic prospects, spent much of 2024 looking for greater resilience through transactions that could boost scale, efficiency, or exposure to the US market. Although the European Union reined in inflation after it peaked at 10 percent in late 2022, other risks remain on the upswing, as geopolitical tensions remain inflamed and as the bloc's two largest economies—Germany and France—face fresh political turmoil. Then too, EU uncertainty around policies of a major trade partner has escalated since the US election. A higher chance of tariffs and a trade war would damage Europe's manufacturing base, including its troubled car industry.

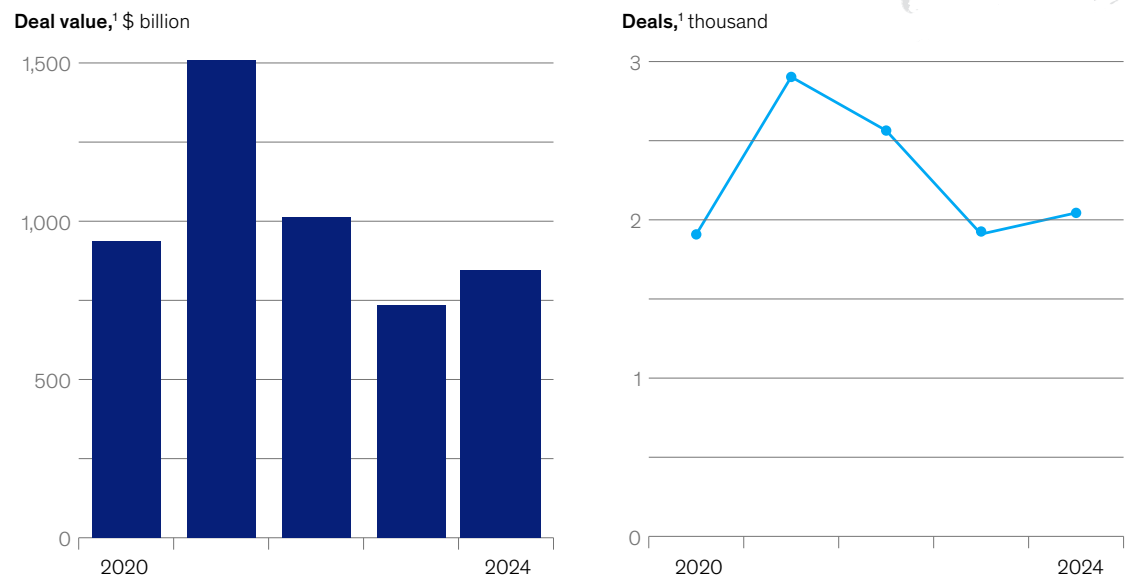
Lawmakers, economists, and other policy officials continue to fret about the eurozone's waning competitiveness and its economy losing momentum, but so far, the antidotes are unclear. Growth in the eurozone is expected to land at about 1 percent for the year, down from earlier forecasts.

Even with these pressures, the value of deals over \$25 million in EMEA jumped 15 percent in 2024 (to \$845 million, from \$733 million in 2023) as companies continued active dealmaking despite a sluggish economy (Exhibit 4). Additionally, PE firms began to reinvest, accounting for 29 percent of M&A value in the region, up from 25 percent a year earlier.

Exhibit 4

M&A activity increased 15 percent in 2024 in Europe, the Middle East, and Africa.

Announced M&A deals, 2020–24, in Europe, the Middle East, and Africa¹



¹Announced deals not withdrawn or canceled; deal value >\$25 million.
Source: Dealogic; McKinsey M&A Insights

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Average deal value also rose 8 percent in EMEA in 2024 (to \$413 million, from \$384 million in 2023). The number of announced deals increased 7 percent in 2024 (to 2,044, from 1,910 in 2023). However, even with year-over-year improvement in M&A market results, 2024 deal value trailed the 20-year average by 18 percent. Similarly, the number of companies changing hands lagged the 20-year average by 13 percent in another apparent sign of atrophy in the region. In contrast, average deal value and volume for the Americas and APAC in 2024 aligned closely with their 20-year averages.

APAC

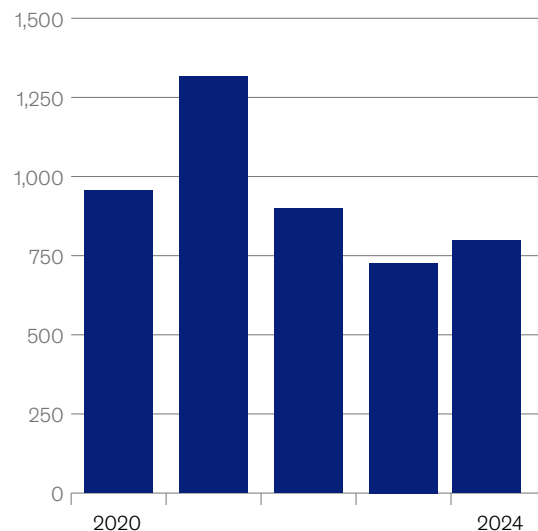
Overall deal value in the APAC region rose 10 percent in 2024 (to \$797 billion, from \$728 billion in 2023) but remained below prepandemic levels (Exhibit 5). The relatively small uptick obscures some of the fundamental shifts underway. Activity, including domestic and inbound deals, in Greater China has fallen by about 45 percent since 2020, for example. Australia and New Zealand had the largest inflows in 2024, driven mostly by a few large mining deals. Japan and Korea saw net capital outflows in dealmaking in 2024.

Exhibit 5

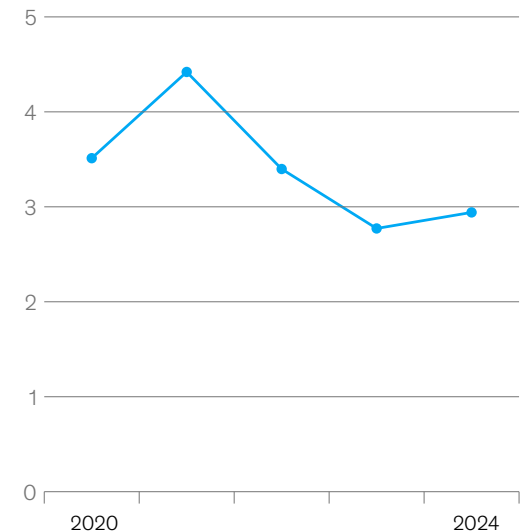
M&A activity increased 10 percent in 2024 in the Asia–Pacific region.

Announced M&A deals, 2020–24, in Asia–Pacific¹

Deal value,¹ \$ billion



Deals,¹ thousand



¹Announced deals not withdrawn or canceled; deal value >\$25 million.
Source: Dealogic; McKinsey M&A Insights

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India was the only major geography to see a decline in overall M&A activity in 2024, down about 16 percent from 2023, even though more Indian companies are now looking at M&A—and global ambitions—with stronger balance sheets, more talent, and less debt than peers in other countries.

We're cautiously optimistic about an uptick in APAC deal volume in 2025. Uncertainty remains high in China–US relations, especially given the potential for tariffs, which is driving more enterprises and investors to broaden their footprints and portfolios by making deals elsewhere in APAC.

In China, many deals are driven not by markets but by government directives, including the need to consolidate in sectors with overcapacity and to create more competitive entities in financial services and other sectors. Acquirers and investors overseas, especially in Japan, the Middle East, and the United States, are taking a keen interest in Indian firms—a trend that's likely to continue on the subcontinent with its robust economic growth, increasingly strong manufacturing sector and supplier base, climbing quality of products, expanding engineering talent, and rising consumer spending.

Meanwhile, valuations have risen for companies in Japan, buoyed by more favorable regulations and government stimulus than those seen for companies in peer countries. Japanese companies will continue to seek growth opportunities abroad, while PE firms scan Japan for promising targets.

Overall 2024 deal value in the APAC region rose 10 percent from the previous year but remained below prepandemic levels. The relatively small uptick obscures some of the fundamental shifts underway.

Looking ahead

For both serial acquirers and companies looking to resume dealmaking after a hiatus of several years, the most effective M&A practices are impervious to market cycles. Top dealmakers have been sharpening their tactics and sophistication at each step of the deal cycle. Whether M&A markets are strong in 2025 or linger under a cloud of uncertainty in some regions, some sectors, or globally, dealmakers can pursue practical steps to advance their state of play—no matter their starting position.

Given the amount of capital flowing through M&A—some \$3.4 trillion in 2024—and the decades of research showing that programmatic acquirers create more value than peers, investing in M&A capabilities makes sense. Each transaction should work better than the previous one, just as approaches in each part of the deal cycle should advance as companies gain experience. The following practices, along with others described in this report, can help dealmakers boost M&A capabilities quickly.

Reduce exposure to global risks

With talk of geopolitical conflicts and trade wars in the air, the use of M&A can help companies temper global risks while focusing on value creation. [Steps that can build resilience](#) include assessing supply chain vulnerabilities, exploring alternative sources, and anticipating shifts in both demand and market opportunities.

Add AI to deal origination tactics

Top dealmakers are eschewing traditional target lists in favor of [richer sourcing augmented by AI](#). Through advanced data analysis and predictive modeling, AI can accelerate and expand searches to surface not just peers in adjacencies but less-visible candidates, such as businesses tucked into larger organizations and those competing in a broader ecosystem. For example, McKinsey's deal-scanning tool uses proprietary databases and semantic understanding to assess and prioritize targets. Gen AI can also scan public and private databases, monitor macroeconomic conditions, benchmark performance, provide projections, and identify priorities and risks to manage immediately after deal signing.

Expand focus to include smaller deals

Thinking beyond large and medium-size deals can yield benefits. Especially in uncertain environments, smaller deals can temper transaction risks and accelerate the pace of acquisitions, allowing companies to test deal theses and board conviction while building muscle in critical M&A skills.

Create a diligence advantage

With the days of "free money" long gone, capturing full value from transactions remains as important as ever. Seasoned dealmakers are doubling down on diligence activities and using this phase to stress-test value creation drivers of investment theses, integration must-haves (such as IT compatibility and regulatory compliance), and new requirements (such as supply chain resilience, inflation pass-through strategies, and compliance with environmental, social, and governance policies). Once again, new AI capabilities can be helpful here, in addition to expediting a variety of legal tasks involved in deal negotiations, signing, and closing.

Capture full synergies

Few companies cast a wide enough net in pursuing synergies. Indeed, many focus on cost synergies to the exclusion of others, often overlooking valuable sources such as revenue and combinational synergies. In addition, some either proceed with faulty assumptions or improper validation or fail to reset synergy targets after closing, when scores of managers can get a closer look at new data and key functions.

Sharpen integration approaches

Integrations are notoriously demanding, requiring speed, care, and a Solomon-like focus balanced among integration priorities and business continuity. Rather than relegating this work to back-office domains, top dealmakers are elevating their approach. They deploy AI to create more space for nuanced problem-solving, for example, by automating key tasks or training integration leaders and their teams on M&A best practices and the organization's specific playbook. Top dealmakers are also sharpening integration blueprints to define the depth and pace of integration for individual functions and to ensure that deal rationale and value creation objectives are tightly linked to execution plans. Such blueprints are an important grounding mechanism. They allow acquirers to enlist far larger teams (from dozens to hundreds of managers) in integration activities, supporting both sound decision-making and buy-in for change. With a similar focus on precision, many dealmakers are tailoring more imaginative menus of incentives to retain critical talent during the integration and longer term.

Use transactions to forge transformations

Few events can catalyze transformations as effectively as major deals can. While transactions can succeed on any number of dimensions—for example, by delivering gains in capabilities, synergies, or talent or by improving supply chains, distribution, customer segments, or geographic reach—a [transaction can play a distinctive role in launching a broad transformation](#). In 2025, many dealmakers are likely to have an opportunity to create platform deals that can reshape market structures and reorder entire industries, as well as shuffle leadership positions.

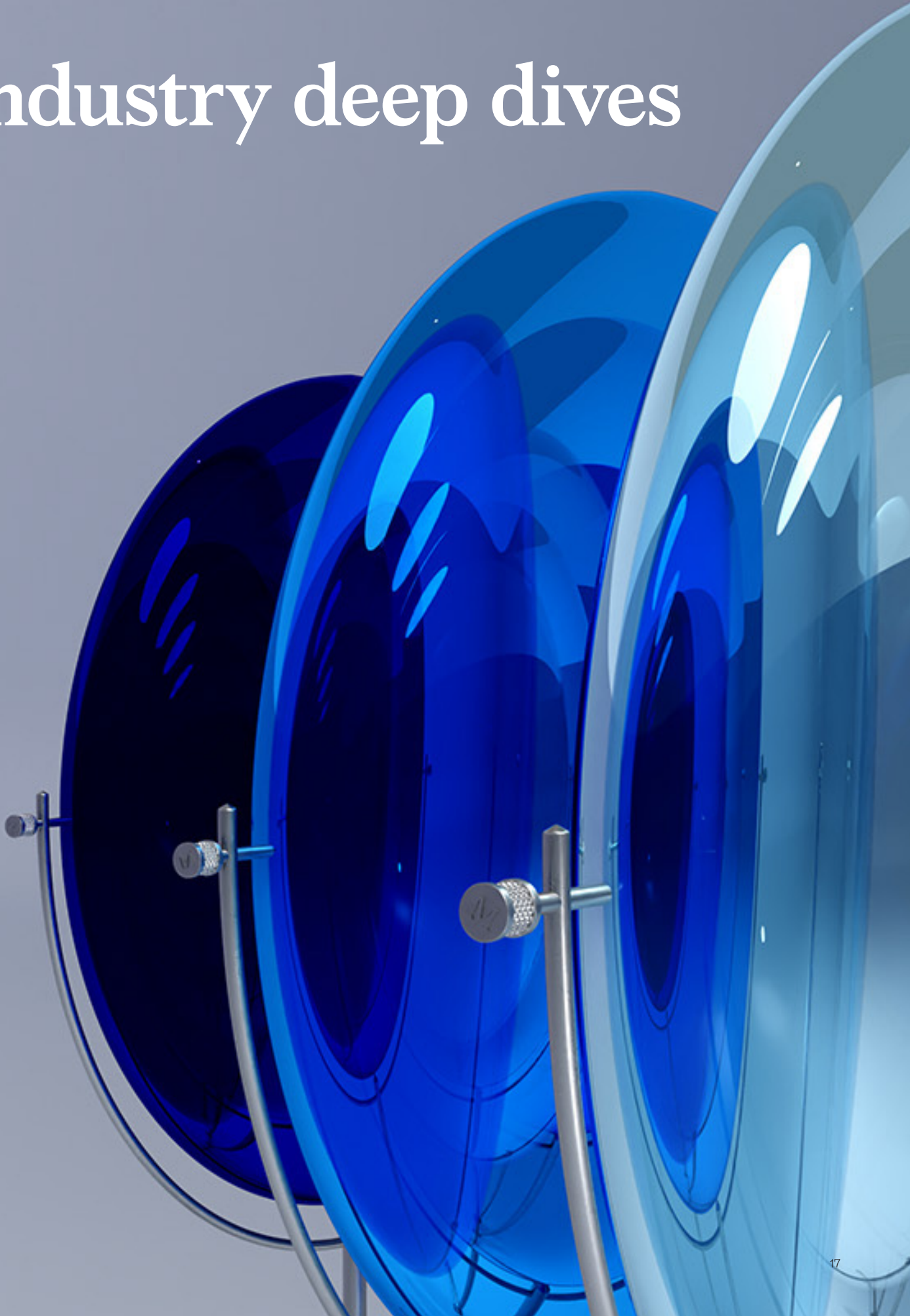
To help navigate the complexities of the global M&A environment in 2025, this report provides in-depth discussions on trends and best practices. We offer perspectives on some of the critical issues likely to influence performance in a variety of sectors, as well as insights on issues of central importance to M&A leaders.

[Jake Henry](#) is a senior partner in McKinsey's Chicago office, and [Mieke Van Oostende](#) is a senior partner in the Brussels office.

The authors wish to thank Alejandro Peña, Andrés Mena, Charlie Barthold, David Schwartz, Devina Singh, Margaret Loeb, Roberta Fusaro, and Roerich Bansal for their contributions to this article.

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Industry deep dives





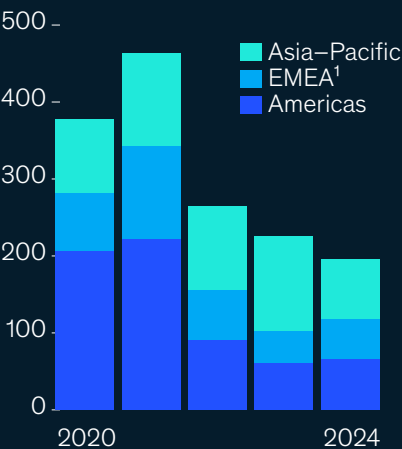
Advanced industries

New technologies and supply chain shifts are driving key portfolio and investment decisions

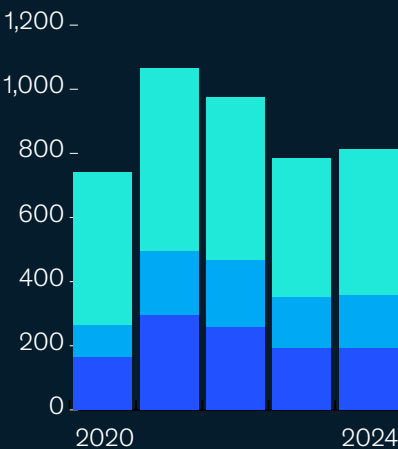
A number of trends, including reduced interest rates and the emergence of new technologies, software, and ecosystems, point to an uptick in M&A activity within advanced industries and its subsectors.

M&A in advanced industries

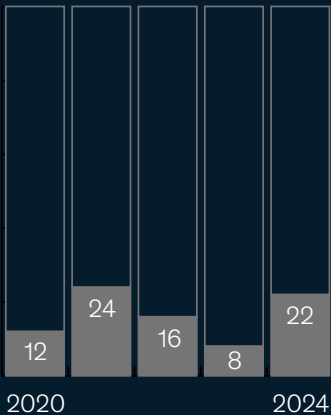
Total deal value,
by region, \$ billion



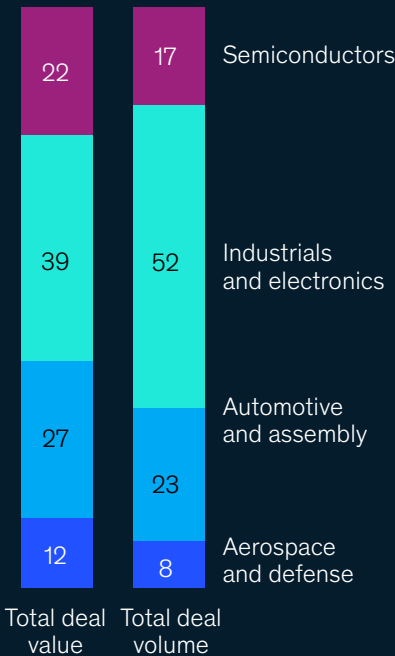
Total deal volume,
by region



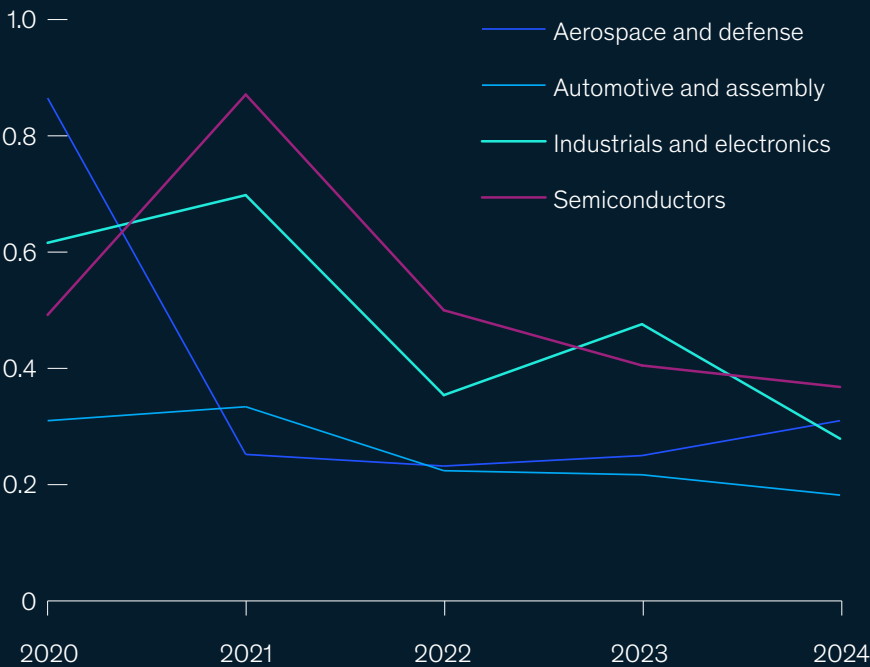
Share of private equity
activity, %

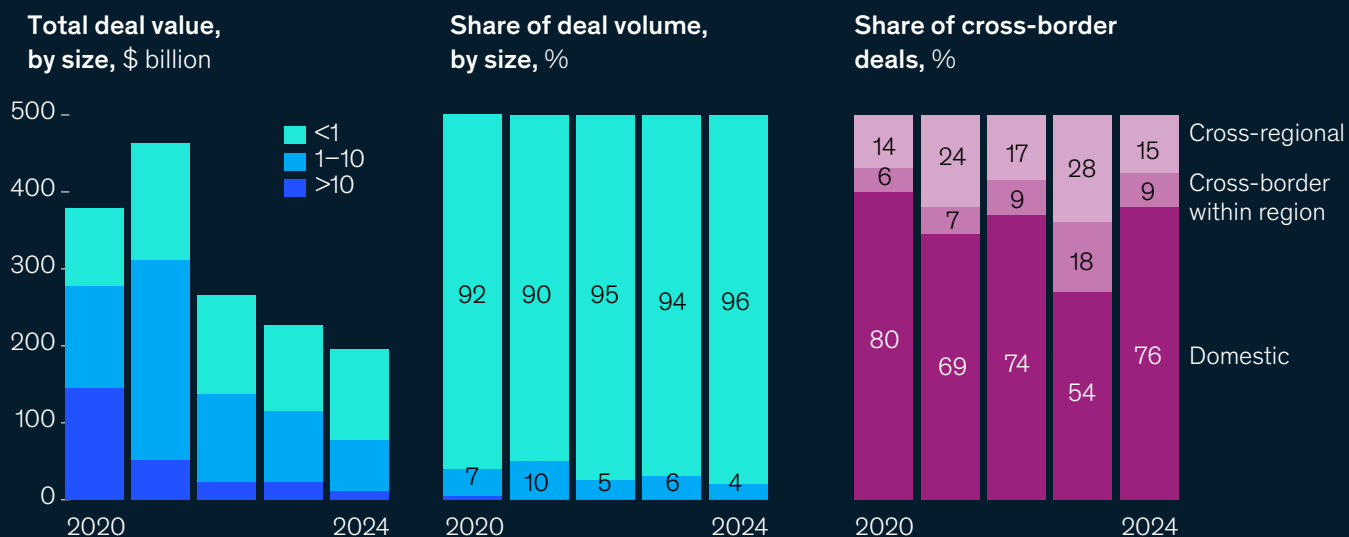


Share of activity in 2024,
by subsector, %



Average deal size,
by subsector, \$ billion





Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Apollo Global Management	US	Intel (joint venture)	US	11.0
Boeing	US	Spirit Aerosystems Holdings	US	8.6
KPS Capital Partners	Germany	Innomotics	Germany	3.8
Apollo Asset Management	US	Barnes	US	3.7
Hankook Tire	South Korea	Hanon Systems	South Korea	3.2
Beijing Yandong	China	HEHC Integrated Circuit	China	2.8
PAI Partners	UK	Audiotonix Holdings	UK	2.5
ABC Technologies	Canada	TI Fluid Systems	UK	2.3
Amphenol	US	Carlisle Interconnect	US	2.0
Terex	US	Dover environmental services segment	US	2.0

Note: Figures may not sum to total, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from the sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

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The industry overview—and opportunities for 2025 and beyond

Our research shows that M&A activity level in advanced industries in 2024 was similar to that in 2023 but only half the M&A activity levels in 2020 and 2021 (measured by total deal value). For the purposes of our analysis, the advanced industries sector includes companies in automotive, aerospace and defense, industrials and electronics, and semiconductors. In 2024, there were 812 deals announced involving these companies and \$196 billion invested overall. Compared with 2023, the total number of deals increased by about 5 percent, while the total deal value decreased by about 10 percent, driven by an increase in the number of smaller deals (those with a value of less than \$1 billion).

Most of 2024's transactions occurred in the second half of the year, suggesting deal momentum moving into 2025. In fact, a number of trends point to an uptick in M&A activity within advanced industries and among subsectors, including reduced interest rates and the emergence of new technologies, software, and ecosystems. Companies in this sector will likely continue to pursue carve-outs and joint ventures as alternatives to acquisitions to better manage corporate portfolios and risks.

Additionally, a substantial amount of capital is available among major private equity (PE) players, which may prompt further M&A activity in this sector across regions. About \$940 billion in dry powder was available in 2024, and 22 percent of advanced industries transactions were associated with PEs. About 35 percent of global PE buyout volume was deployed in advanced industries in 2024, compared with under 20 percent less than a decade ago. For these and other reasons, PE activity in advanced industries is likely to continue in 2025.

Subsector activity

Trends varied across the four subsectors we analyzed. Rapid evolution in the automotive space is presenting significant opportunities for suppliers that have robust M&A programs. M&A is becoming an attractive option for aerospace-and-defense players seeking to address geopolitical shifts, emerging technologies, and changing service models. M&A is a compelling option for industrials and electronics companies, as well, in different verticals. And a critical driver of M&A in semiconductors is accelerating growth in AI and other technologies.

Automotive and assembly

Economic uncertainty was a factor in the substantial decrease in automotive deal volume in 2023 and 2024, but the major players in this subsector have continued to explore partnerships and acquisitions focused on electric-vehicle infrastructure, connected-vehicle technologies, and autonomous-driving capabilities.

Suppliers already have the lowest profitability among all the players in the automotive value chain. On top of that, they face cost pressures from tier-two suppliers and OEMs and are experiencing disruption from shifting value pools for certain components, such as gas tanks and batteries. These dynamics and others will continue to make M&A an attractive proposition for suppliers in 2025.

As the prospects for growth in internal-combustion-engine technology continue to narrow, suppliers will be on the lookout for ways to increase efficiency, including through moves to reshape their portfolios. Additionally, given the previously mentioned cost pressures from OEMs, suppliers will need to pursue transactions that allow them to scale and limit margin erosion as they develop and adapt resilient growth platforms to support eventual zero-emission vehicles. And finally, to grow, suppliers will need to continue to differentiate themselves through vehicle software and electronics as traction increases for electrical and electronic solutions like advanced driver assistance systems.

M&A activity among OEMs has been muted recently because of market uncertainties; the few sizable deals that did occur were connected to partnerships and joint ventures—for instance, the joint venture between Rivian and Volkswagen, with an expected total deal size of \$5 billion.¹ Activity is likely to remain stable in 2025, with some OEMs selectively pursuing transactions to improve their competitiveness and transform in ways that allow them to address software and electrification trends.

For buyers, the current expansion of Asia–Pacific companies into Europe—such as the partnership between Luxshare and Leoni² and AAC Technologies' acquisition of Premium Sound Solutions—is likely to continue.³ Interest in automotives is growing, and companies have an opportunity to gain exposure to the European market while valuations remain below previous peaks. More M&A activity is likely in the Asia–Pacific region as the automotive value chain evolves.

Aerospace and defense

Over the past few years, M&A activity among aerospace-and-defense companies has been concentrated in North America—for instance, Boeing's \$8.3 billion acquisition of Spirit AeroSystems.⁴ There has been a lot of PE activity, which will continue as PE plays an important part in the roll up of smaller companies (those with less than \$1 billion in value).

There has also been a general trend of aerospace-and-defense companies moving away from their traditional structures—for instance, conglomerates divesting their business units and smaller companies rolling up to scale—and consolidating their supply chains. Looking ahead, more separations are likely as investors see more value in specialists than in conglomerates, along with more trimming of portfolios and trading of assets.

The emergence of new technologies and space-related solutions, including unmanned aerial vehicles and space sector systems, presents intriguing M&A opportunities in this sector. Geographic expansion will likely be the goal for acquirers of space-related assets—particularly deals involving Europe and the United States—given ongoing geopolitical competition between China and the United States.

¹ "Rivian and Volkswagen Group announce plans for joint venture to create industry-leading vehicle software technology and for strategic investment by Volkswagen," Rivian, June 25, 2024.

² "Luxshare's investment boosts Leoni's competitiveness," Leoni press release, September 17, 2024.

³ "Ardent Equity and VE Partners have sold Premium Sound Solutions to AAC Technologies," Lincoln International, March 19, 2024.

⁴ "Spirit AeroSystems announces acquisition by Boeing in \$8.3 billion transaction," Spirit AeroSystems, July 1, 2024.

Industrials and electronics

In 2025, companies in industrials and electronics manufacturing will likely show increased interest in acquisitions involving software, AI, sustainability and decarbonization technologies, and supply chain resilience as they continue to reposition their portfolios for growth. Such a focus may translate into more carve-outs in this sector.

Taking a closer look at various subsectors, we see that companies in the building technology ecosystem are investing more than others are in connected technologies, which presents an opportunity for those companies in the residential space to build brand loyalty and shift value capture to OEMs. Meanwhile, companies in the commercial and industrial spaces will need to focus on capabilities to secure their shares in high-growth markets. To understand why, consider Honeywell's \$4.9 billion acquisition of Carrier's Global Access Solutions business.⁵ Commercial and industrial companies will especially need to focus on adding software capabilities in enterprise access solutions, electronic lockboxes, and scheduling software.

Across all subsectors in industrials and electronics manufacturing, the rapid transition toward more sustainable and energy-efficient technology (like heat pumps and electric motors) is likely to accelerate equipment purchase cycles.

Semiconductors

The semiconductor subsector is likely to continue to experience strong demand in 2025, driven by the increasing use of AI and trends in the automotive industry. However, semiconductor companies will also likely continue to experience a shortage of talent and will need to manage implications from geopolitics. M&A will remain an attractive tool for diversifying and expanding geographically and for bolstering capabilities in areas such as AI chips and high-performance computing. In fact, the sector will likely see a steady flow of deals, even as some capital expenditures are postponed because of economic uncertainty.

Alex Liu is a partner in McKinsey's Minneapolis office, **Benjamin Houssard** is a partner in the Paris office, **Gordian Hoffmann** is a consultant in the Munich office, and **Kurt Bazarewski** is an expert associate partner in the New York office.

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⁵ "Honeywell completes acquisition of Carrier's Global Access Solutions business and updates 2024 outlook," Honeywell International, June 3, 2024.



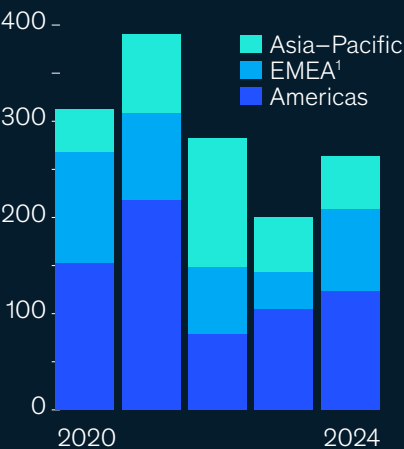
Financial services

Dealmakers adapt to a shifting landscape

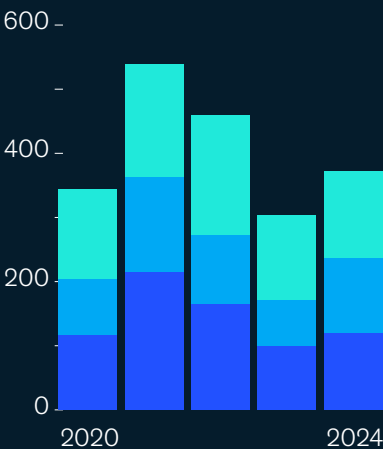
In 2024, deals mostly stayed within national borders. In 2025, banking, wealth and asset management, fintech, payments, and capital markets face challenges but also have opportunities.

M&A in financial services

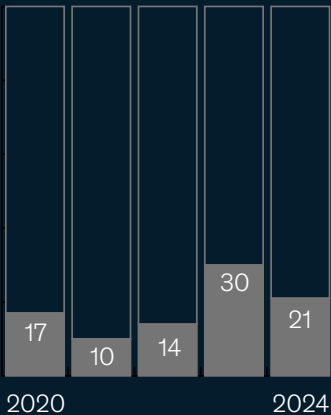
Total deal value,
by region, \$ billion



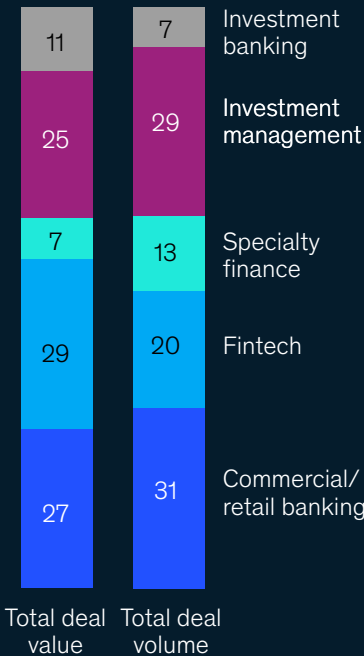
Total deal volume,
by region



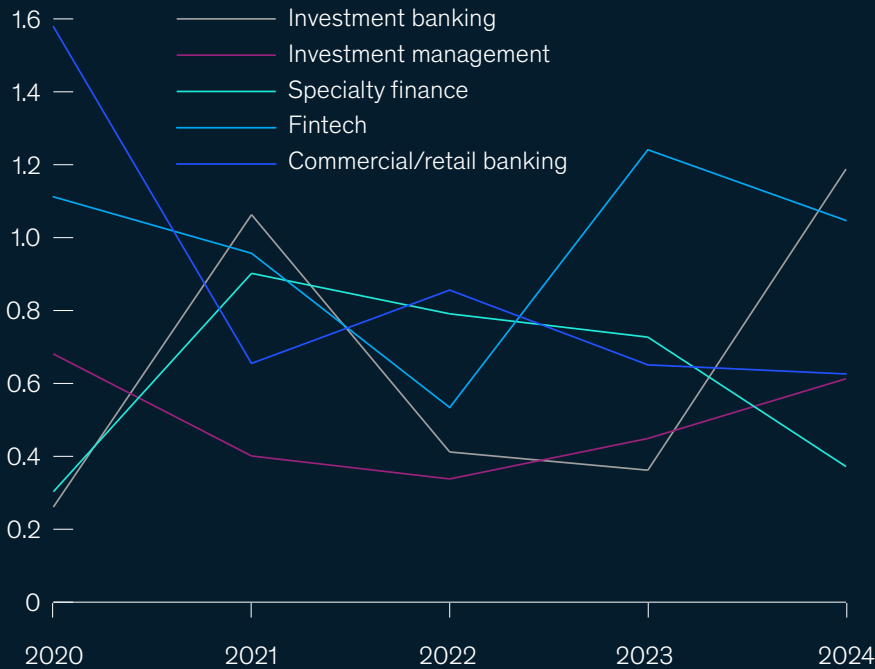
Share of private equity
activity, %

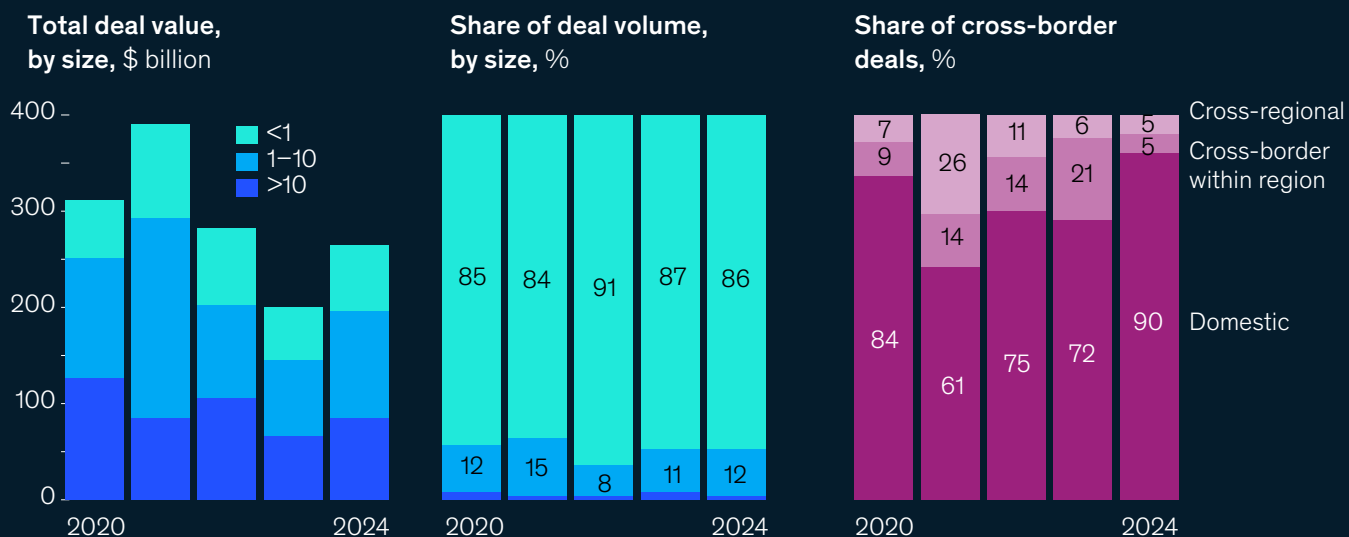


Share of activity in 2024,
by subsector, %



Average deal size,
by subsector, \$ billion





Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Capital One	US	Discover Financial Services	US	35.3
Guotai Junan Securities	China	Haitong Securities	China	13.7
BlackRock	US	Global Infrastructure Partners	US	12.5
UniCredit	Italy	Banco BPM	Italy	10.5
Mubadala Capital	Canada	CI Financial	Canada	7.3
CVC Capital Partners and others	UK	Hargreaves Lansdown	UK	6.7
Advent International	Canada	Nuvei	Canada	6.0
BNP Paribas	France	AXA Investment Managers	France	5.5
Ares Management	US	GCP International	US	5.2
Bain Capital	US	Envestnet	US	4.5

Note: Figures may not sum to totals, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

McKinsey & Company

The industry overview

M&A in the financial-services industry is recovering from the global slowdown of 2023. Monthly deal value in 2024 returned to the average monthly value of the prior five years, and total deal value for 2024 was 30 percent higher than that seen in 2023.

Nine out of ten financial-service deals in 2024 were made within national borders—up from six out of ten in 2021—reflecting global economic uncertainties and rising cross-border regulatory and geopolitical hurdles. As anticipated by McKinsey's [2024 M&A report](#), scale and capability deals proved to be the driving force in deal rationales¹ (80 percent of total industry deal value). The share of bank acquisitions in total industry deal value declined by almost half (from 44 percent in 2020 to just 28 percent in 2024), reflecting uncertainties about the quality of some bank portfolios, capital pressures from higher interest rates, and expected regulatory changes.

Dealmaking picked up in the capital-market, wealth-and-asset management, and fintech-and-payment sectors, where many dealmakers see increasing opportunities for profitable growth. Together, those three subsectors represented 66 percent of deal value in 2024, up from less than 50 percent in 2020—and the majority of the largest financial-service deals were in these sectors.

The capital-market sector is expanding into high-growth and high-margin subsectors (such as into private markets and into fintech and payments). The wealth-and-asset-management sector is focusing more on consolidation and cost reduction; each of the largest deals in that sector included plans to strengthen businesses' core models and create efficiencies with larger bases of assets under management.

Armed with an unprecedented more than \$2 trillion in dry powder, private equity firms continued to play a noteworthy role in the sector, focusing on capital-light businesses (such as capital-market technology and data-and-asset-management technology).

Opportunities for 2025—and beyond

Dealmakers are adapting to shifting dynamics across sectors. The banking, wealth-and-asset-management, fintech-and-payment, and capital-market segments each face distinct challenges and opportunities.

Deals in **commercial and retail banking** will continue to focus on sector consolidation as more countries look for “soft landings” amid lowering interest and inflation rates. In the United States, the second administration of President Trump may provide regulatory tailwinds for further consolidation of a highly fragmented market that still has over 4,000 banking institutions. While we expect that most dealmaking in the sector will continue to be driven by midsize institutions, some larger banks are also contemplating inorganic growth opportunities. Within Europe, we anticipate further cross-border banking consolidation, given a growing consensus among policymakers and executives about the need to provide European banks with opportunities to become more competitive on a global scale.

¹ Jake Henry and Mieke Van Oostende, “[Top M&A trends in 2024: Blueprint for success in the next wave of deals](#),” McKinsey, February 20, 2024.

In-market consolidation is also likely to continue in the Middle East, where half of the largest banks in key geographies have made deals in the past five years. We expect this trend to continue, with more momentum toward acquiring businesses in Islamic banking, given its robust growth (about 11 percent annually, compared with 8 percent in non-Islamic banking). In Asia, we expect deal activity to remain muted. Banks in that region are focusing more on digitalization to counter the growth of new digital players; however, we do expect to see further consolidation in markets like Indonesia and Malaysia.

Wealth-and-asset-management companies will likely continue to see dealmaking momentum. Both traditional and alternative asset managers will continue to expand into the alternatives space. Alternative asset managers will also continue to look for partnership and acquisition opportunities in insurance to tap a stable source of capital while providing higher returns. Distribution in wealth and asset management will also likely continue its trend toward greater consolidation—a push that is driven in large part by private equity funds and banks.

Many **fintech companies** struggled to secure funding in 2024, with investments continuing to trail the sector's peak in 2021. Limited cash flow across the sector is likely to lead to further consolidation, with larger, well-capitalized companies seeking to scale up by acquiring smaller players. We expect banks to remain cautious and play only limited roles in fintech acquisitions. We also expect some acquisitions in the digital-assets space as cryptocurrencies become more mainstream, with deal activity rising to help legacy companies in the sector catch up with new technological developments, especially in the United States.

In **payments**, a considerable share of the sector is already consolidated, reducing the potential for megadeals. Hence, we anticipate that acquisitions will focus on smaller capability deals. Given momentous pressures from growing regulatory scrutiny, the strains of public reporting, and expectations from public-market investors, coupled with lower market valuations, some payments companies could be driven out of the public markets.

In **capital markets**, infrastructure players are very excited about expanding into data and technology. Given that relatively few large targets remain in this space, most activity will focus on smaller deals as firms look to augment their data and technology capabilities across asset classes and the investment value chain.

Private capital firms will continue to look for opportunities to acquire fintech companies for multiple financial services, as well as to effect consolidations within the registered investment adviser space. Many funds are looking for exits, and we expect them to look for opportunities to offload some of their assets to strategic investors. Average holding periods are now exceeding six (and in some cases, approaching seven) years, depending on the region.

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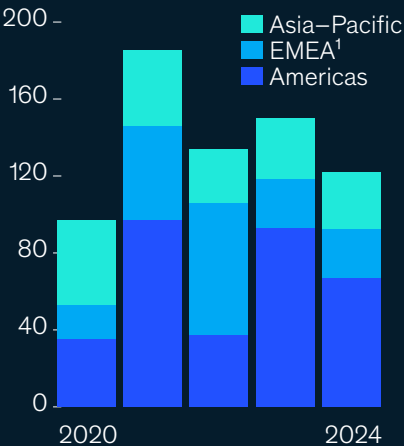
Consumer goods

Seeking market expansion and growth

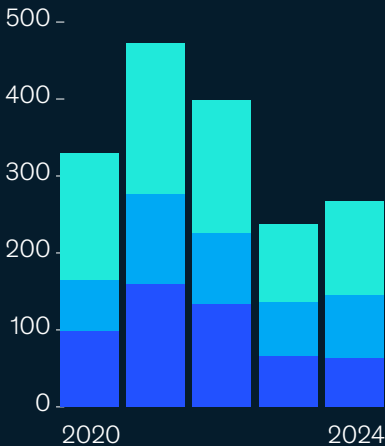
The broad downward trend of interest rates, coupled with consumer-packaged-goods companies' cash-rich balance sheets, could lead to an active year for CPG deals.

M&A in consumer goods

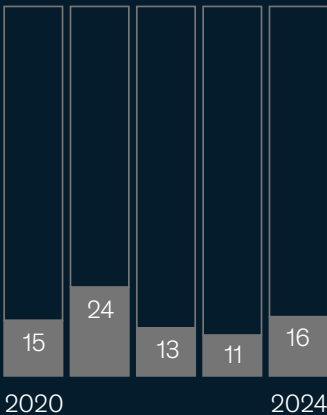
Total deal value,
by region, \$ billion



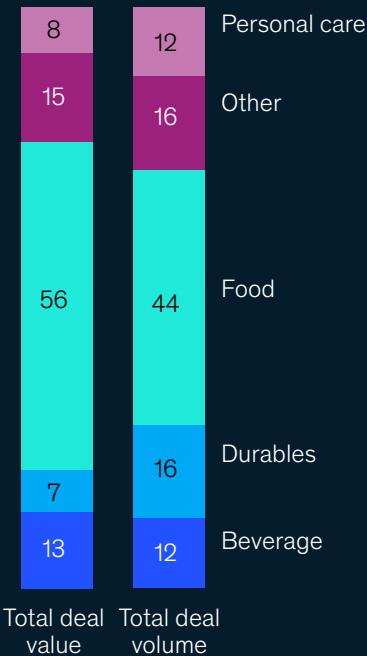
Total deal volume,
by region



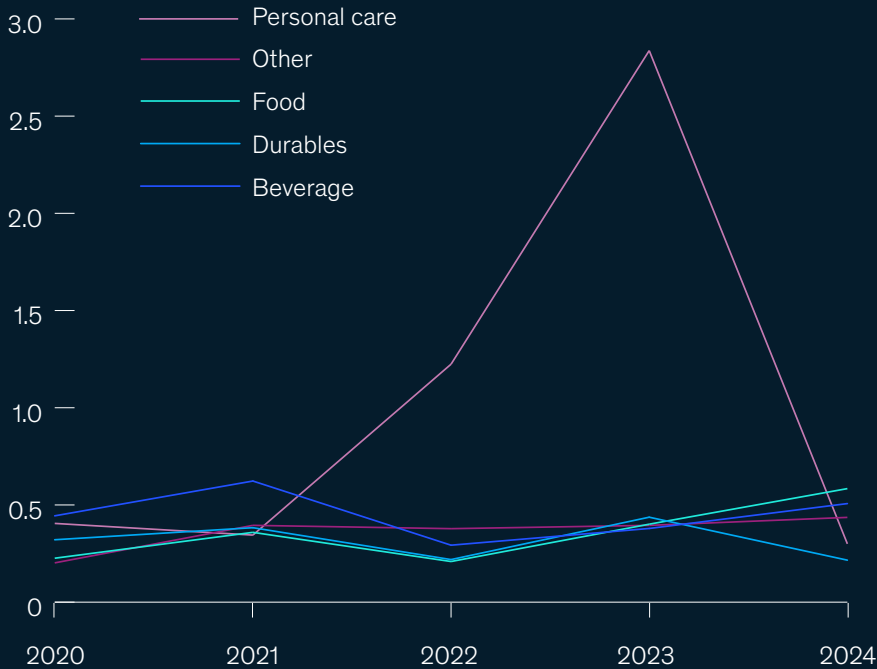
Share of private equity
activity, %



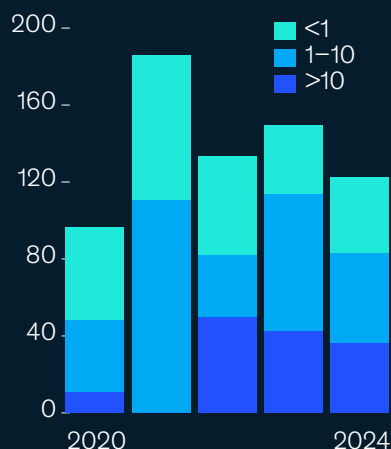
Share of activity in 2024,
by subsector, %



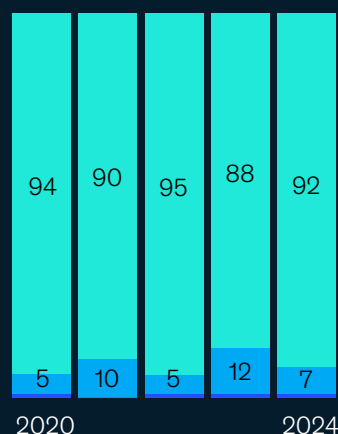
Average deal size,
by subsector, \$ billion



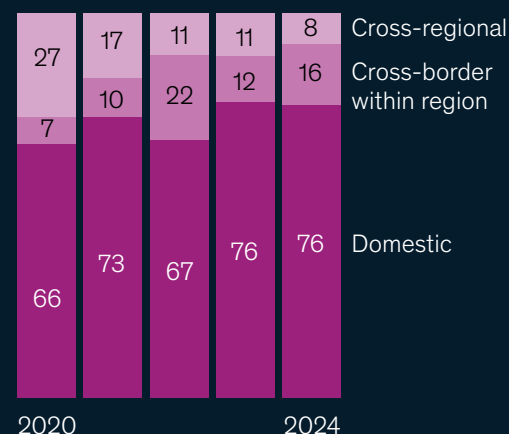
**Total deal value,
by size, \$ billion**



**Share of deal volume,
by size, %**



**Share of cross-border
deals, %**



Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Mars	US	Kellanova	US	36.1
Nadir Godrej and others	India	Godrej Consumer Products	India	7.8
Carlsberg	Denmark	Britvic	UK	5.2
BlueTriton Brands	US	Primo Water	US	5.0
JT	Japan	Vector	US	3.2
Walmart	US	VIZIO Holding	US	2.3
Thai Beverage	Thailand	Fraser and Neave	Singapore	2.3
LACTALIS	France	General Mills yogurt business	US	2.1
Performance Food	US	Cheney Brothers	US	2.1
Existing shareholders	India	Raymond	India	2.1

Note: Figures may not sum to totals, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

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The industry overview

The consumer-packaged-goods (CPG) industry has historically outperformed most other industries, thanks to high growth and consistent margins. But since 2012, the formula has broken down. Several factors, including inflation (which affects both consumer spending and corporate cost), market saturation, intense competition, changing consumer tastes and behaviors, and a fragmented consumer base, have presented challenges for growth. Additional headwinds include climate change, which affects key ingredients, including cocoa. These challenges have been persistent and have forced companies to seek new paths for value creation—and to reconsider the role that M&A, including divestitures and alternative transactions such as joint ventures and alliances, can play.

From 2013 to 2018, many CPG players chased growth inorganically, and several transformational deals helped shape the industry. Then, from 2019 to 2022, multiple CPG companies sought a more incremental approach, in particular by acquiring higher-growth *brands* and entering into adjacencies. Smaller challenger brands were snapped up at tech-style multiples, riding “better for you” tailwinds with the potential for larger companies to substantially boost their growth rates. But as multiples went up, the COVID-19 pandemic arrived, and consumers began returning to long-trusted brands—and CPG companies rethought their strategy.

With interest rates and industry multiples still high over the past several years, we have seen less deal activity. Moreover, many leading CPG companies are taking a more measured approach, focusing on midsize deals and seeking to achieve both growth and cost synergies. Companies have tried to overcome organic headwinds by pursuing inorganic strategies that not only support entry to adjacent or near-adjacent product categories (with accretive growth trajectories) but also have similar capability and operating requirements. This allows for meaningful top- and bottom-line synergies that justify high deal multiples.

This more balanced approach has been exemplified in several signature deals over the past two to three years, including Mondelez International's 2022 acquisition of Clif Bar, J.M. Smucker's 2023 acquisition of Hostess Brands, and in 2024, Mars's acquisition of US-based snack company Kellanova and Carlsberg's announced deal for the UK-based beverage company Britvic—a transaction that would not only expand product offerings but also offer synergies in supply chain and distribution. Indeed, each of these deals provides the acquirer with exposure to incremental food categories that have higher future growth rates than the products in the acquirer's core portfolio do while also providing opportunities to capture cost synergies (such as reduced expenses in direct inputs, distribution, and SG&A).

As we predicted last year, [higher-than-average interest rates and high multiples](#) foreshadowed lower deal volume and value in 2024 (especially in Europe).¹ Additionally, given the challenges faced by CPG companies in seeking organic growth and consistently creating meaningful value, the flagship deals that were announced last year were more transformational in nature, allowing for considerable opportunities to capture large synergies. Indeed, the Mars deal has led other CPG companies in North America to seriously consider potential further consolidation in other non-food-and-beverage consumer sectors that have struggled to achieve organic growth.

¹ Harris Atmar, Jeff Cooper, Stefan Rickert, and Rodrigo Sletatt, “[Consumer goods: A changing landscape for successful M&A](#),” McKinsey, February 29, 2024.

The broad downward trend of interest rates, coupled with CPG companies' strong, cash-rich balance sheets (and greater ability to take on what is now more affordable debt), could suggest increased deal activity in the near future for the sector, with a mix of three types of transactions: signature, *sector-shaping deals*; sizable *horizontal deals* that enable greater subcategory consolidation; and *targeted spin-offs* of brands and business units that have limited synergies or growth prospects with their present owner. Strategic focus led Reckitt Benckiser, for example, to carve out a portfolio of noncore home care brands and consider divesting its nutrition business and led Unilever to sell its ice cream business.

Opportunities for 2025—and beyond

Overall, we expect 2025 to be an active year for CPG deals. Strategic buyers clearly hold advantages when it comes to sector-shaping and horizontal deals, given the potential for combinational synergies. Financial buyers, for their part, are likely to be active as well—particularly given private equity (PE) funds' proven ability to improve operational performance and create meaningful value. PE funds also hold substantial dry powder.

The consumer sector, of course, is broad, and much of this analysis has focused on the food-and-beverage sector. The emphasis is intentional: While we expect to see heightened activity across CPG sectors, particularly in the personal care and beauty sectors, we also expect that the food-and-beverage sector will continue to propel the lion's share of deals.

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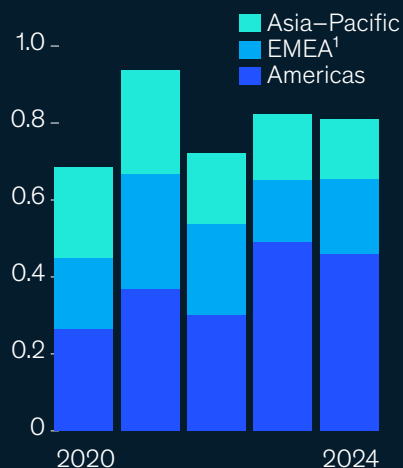
Global energy and materials

Overall deal value remains stable,
but some segments are gaining share

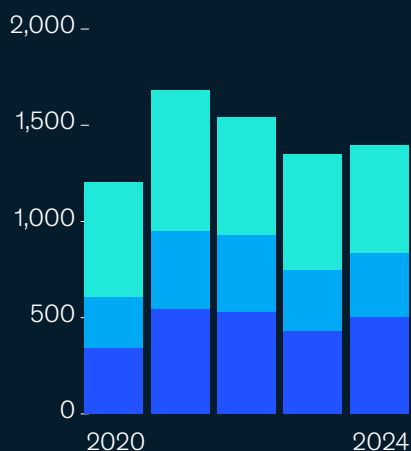
A range of factors suggests an increase in M&A activity among energy and materials companies in 2025, despite uncertainties in the sector.

M&A in global energy and materials

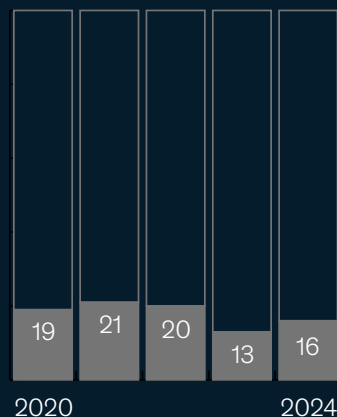
**Total deal value,
by region, \$ trillion**



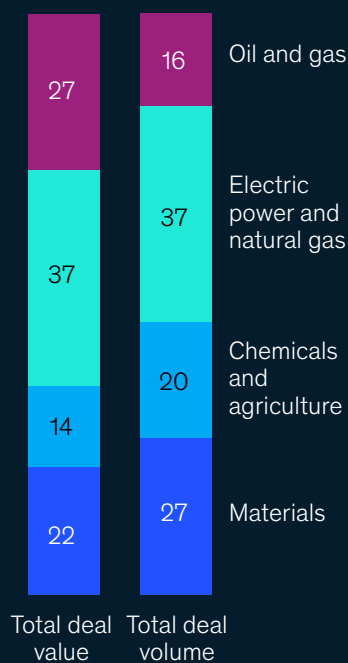
**Total deal volume,
by region**



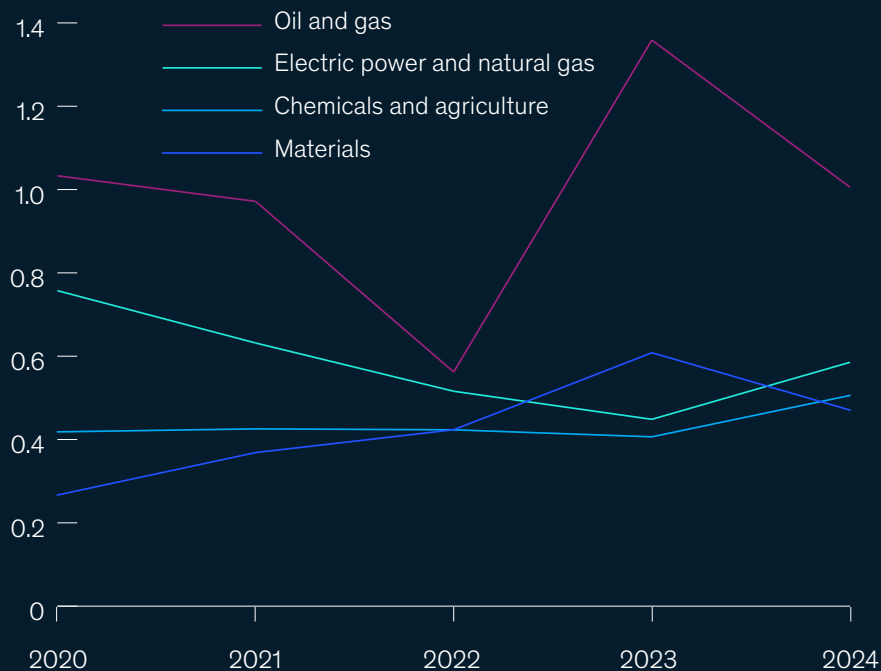
**Share of private equity
activity, %**



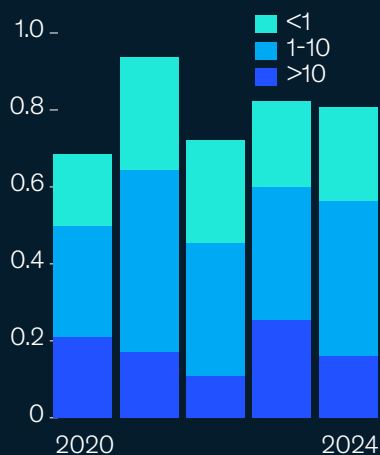
**Share of activity in 2024,
by subsector, %**



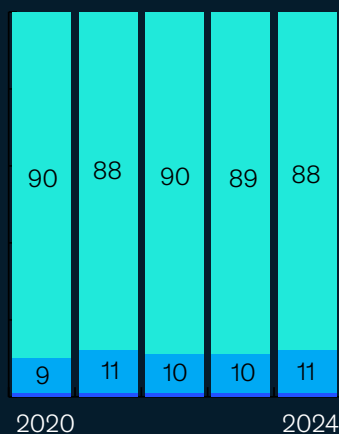
**Average deal size,
by subsector, \$ billion**



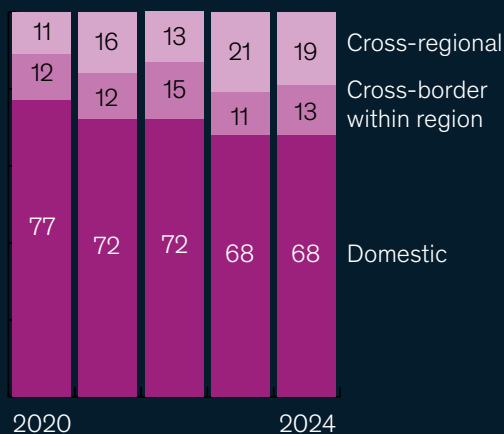
Total deal value, by size, \$ trillion



Share of deal volume, by size, %



Share of cross-border deals, %



Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Diamondback Energy	US	Endeavor Energy Resources	US	28.1
ConocoPhillips	US	Marathon Oil	US	22.0
Amcor	Switzerland	Berry Global	US	17.7
Abu Dhabi National Oil	UAE	Covestro	Germany	16.7
EQT	US	Equitrans Midstream	US	13.9
Expand Energy	US	Southwestern Energy	US	12.2
Brookfield; Temasek	Canada	Neoen	France	10.0
International Paper	US	DS Smith	UK	9.8
ONEOK	US	EnLink Midstream	US	8.9
SLB	US	ChampionX	US	8.3

Note: Figures may not sum to totals, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

McKinsey & Company

The industry overview

M&A activity in the global energy-and-materials (GEM) sector remained muted in 2024.

The number of deals increased about 12 percent, and deal value grew from \$722 billion in 2022 to \$808 billion in 2024, consistent with 2023 figures. Deal value in 2024 was still 14 percent lower than it was in 2021 (in nominal terms). The Americas region was the major driver of deal value, but Europe, the Middle East, and Africa (EMEA) gained ground, especially compared with activity in 2023. Companies are continuing to pursue smaller deals aimed at consolidation rather than large deals or other bold portfolio moves. Indeed, the watchword for energy and materials companies has been “caution,” given the run of elections around the world in 2024 and the impact of other geopolitical and macroeconomic factors.

Opportunities for 2025—and beyond

Despite ever-present uncertainties in the sector, we anticipate an increase in M&A activity among energy-and-materials companies in 2025. A range of factors suggests more deals are on the way. For instance, interest rates in Europe are expected to return to previous levels by 2027. Additionally, companies in this sector need to reshape their portfolios, and many have cash that they are seeking to invest. Also, private equity (PE) firms are continuing to accumulate substantial amounts of dry powder.

Our research shows that PE accounted for 16 percent of the total deal value in GEM in 2024, which was higher than in 2023 but still below the historical average of 20 percent between 2020 and 2022. Much of the PE activity has been focused on spinouts, suggesting that strategic players view PE funding as a catalyst for spinning out assets before they get to the point of being mature enough for a full-on acquisition.

Despite recent discussions about trade tariffs, our research shows that cross-regional deals are again becoming more important in energy and materials. In fact, they increased from 13 percent of total deal value in 2020 to 19 percent in 2024. We anticipate that companies in this sector will continue to focus on international deals in 2025, with some exceptions in specific subsectors.

Subsector activity

Across all four subsectors we analyzed—electric power and natural gas (EPNG), oil and gas, chemicals and agriculture, and materials—40 percent of the largest deals could be classified as consolidations. But the reasons for consolidation and M&A activity varied across subsectors, as did the areas of opportunity.

Deals in EPNG, for instance, shifted ownership to private investors. M&A activity in this subsector was also conservative because of the industry’s intrinsically higher input costs and lower wholesale power prices, all of which have historically served to thwart its momentum.

By contrast, transactions in the oil and gas sector were predominantly regional, with companies aiming to improve their cost positions. Chemicals and agriculture companies continued to focus on divesting noncore assets to streamline their portfolios. And in the materials sector, companies consolidated through transatlantic deals, with transactions in paper and packaging aimed at expanding into new geographies and product areas so companies could meet ever-shifting customer demands.

EPNG

Deal value in EPNG increased 40 percent in 2024 compared with 2023, with much of the M&A activity in this subsector focused on asset transfers and consolidation. There were some regional deals in the transmission and distribution segments—for example, Italgas’s acquisition of 2i Rete Gas for \$5.8 billion will allow it to cover more than half of Italy’s gas volume.¹ As noted previously, EPNG has faced several macroeconomic challenges; the uncertainty in this sector will continue because of higher input costs (capital expenditures) and lower projected wholesale power prices.

Despite the ongoing global transition to renewable energy, certain EPNG subsegments, such as offshore wind, haven’t performed as well as anticipated, prompting some smaller companies to exit the market. The risk/return profile simply wasn’t attractive enough for them to remain. However, that may change, and more may reenter the market, buoyed by delivery commitments from some of the larger EPNG companies. In 2024, the number of wind deals increased by 35 percent compared with 2023. And interest in renewables among large strategic players is expected to continue—along the lines of, for instance, Equinor’s acquisition of a minor stake in Ørsted² and BP’s offshore-wind joint venture with JERA in late 2024.³

The overall outlook for EPNG across the globe is generally positive, but the EPNG industry in Europe still may face some challenges. For instance, some forecasts suggest there will be a 15 percent decrease in energy demand in this region until 2050 because of a projected decline in the use of fossil fuels and an increase in the consumption of electricity.⁴ As a result, EPNG companies in Europe will need to explore alternative off-take options to stay competitive.

As mentioned previously, PE investors have taken on more ownership of EPNG assets over the past few years; in 2024, they demonstrated increased interest in renewable assets and related companies, such as equipment and service firms. We anticipate this interest will continue in 2025, as financial investors continue to diversify their portfolios, integrating advanced technologies and expanding their global reach through more EPNG deals. For their part, strategics will need to shape their M&A strategies—including [programmatic M&A](#)—to make the right moves in this environment.

Oil and gas

In 2024, oil and gas companies were focused on consolidating their portfolios and improving their cost positions. After heightened activity over the past several quarters, this subsector—which, in our analysis, also includes petrochemicals—has experienced a number of restructurings and closures, such as with various crackers in Europe. These and other industrial challenges have prompted some oil and gas companies to pursue deals that will allow them to move into new adjacencies and regions, with a focus on the United States (Permian Basin)—think of the recently closed upstream deal between ConocoPhillips and Marathon Oil⁵ and of Chesapeake Energy’s merger with Southwestern Energy, which allowed Chesapeake Energy to become the largest natural gas producer in the United States.⁶ M&A activity among oil and gas companies picked up in other regions as well, including in the North Sea.

¹ “Signed the sale and purchase agreement for the acquisition of 2i Rete Gas,” Italgas press release, October 2024; “Fitch affirms Italgas at ‘BBB+’/Stable on acquisition of 2i Rete Gas,” Fitch Ratings press release, October 2024.

² “Equinor acquires a 9.8% minority stake in Ørsted,” Equinor press release, October 2024.

³ “bp and JERA joining forces to create top-tier global offshore wind joint venture,” BP press release, December 2024.

⁴ “[Global Energy Perspective 2024](#),” McKinsey, September 17, 2024; *World Energy Outlook 2024*, International Energy Agency, October 2024.

⁵ ConocoPhillips completes acquisition of Marathon Oil Corporation,” ConocoPhillips press release, November 2024.

⁶ Ty Roush, “Chesapeake Energy merges with Southwestern for \$7.4 billion—becomes largest natural gas producer in U.S.,” *Forbes*, January 11, 2024.

Our analyses suggest oil and gas companies are likely to continue pursuing deals that can help them achieve sustainable growth—as was the case in ADNOC's (Abu Dhabi National Oil Company) acquisition of Covestro⁷—or create more value from waste streams and recycling technologies.

Chemicals and agriculture

In 2024, M&A deal value in the chemicals and agriculture subsector decreased by more than 25 percent compared with 2021, and the sharpest decline in acquisitions was in the Americas region (more than 50 percent). Interestingly, the locus of M&A activity shifted substantially: Most acquisitions were in the Asia–Pacific region (consistent with previous trends), and for the first time in five years, European acquirers outnumbered their American counterparts in value and volume.

Deals in this subsector were motivated by chemicals and agriculture companies' desire to optimize portfolios, and they included carve-outs—such as Lanxess selling its urethane business to UBE—as well as acquisitions of assets that were under restructuring. For instance, DuPont's announced split into three independent companies was notable in that the separation was designed to help the company achieve higher productivity and greater efficiency by remaking itself as a “diversified industrial company.”⁸

Materials

Materials companies were also focused on consolidation in 2024—in some cases, through transatlantic deals. Challenging market conditions have prompted companies in this subsector to find ways to scale so they can better serve customers. (In our analysis, materials companies comprise businesses in paper and packaging, metals, engineering and construction, building materials, and mining.)

M&A activity by materials companies has been driven, in part, by the need to succeed with insourcing and vertical integration efforts, innovate new product and service offerings, and improve general and administrative operations. Examples of recent megamergers in paper and packaging include mergers between Smurfit Kappa and WestRock, International Paper and DS Smith, and Amcor and Berry Global.

Meanwhile, engineering and construction companies have historically used M&A to expand regionally or to specialize in certain product or service areas. Going forward, however, outsize growth may become the goal for companies in this subsector. Government infrastructure programs, such as the Infrastructure Investment and Jobs Act in the United States and the European Green Deal, may prompt more investments, and thus more opportunities, for engineering and construction companies. Other trends influencing M&A activity in this subsector include considerable housing shortages in the United States, the worldwide need for critical infrastructure upgrades for utilities and data centers, a growing need for more warehouses as global supply chains are decoupled, and falling interest rates in Europe and North America, which could further help boost investments in housing and infrastructure projects.

⁷ “Covestro signs an investment agreement with ADNOC and supports ADNOC's public takeover offer to all Covestro shareholders,” Covestro press release, October 1, 2024.

⁸ “DuPont announces plan to separate into three independent, publicly traded companies,” DuPont press release, May 2024.

M&A activity among mining companies continued to trend upward, as it has since 2023, with an uptick in midsize and large deals. Chinese investors are likely to continue to show interest in mining companies, given their increased ownership in copper, lithium, and nickel mining over the past decade. And trends such as shifts to electrification and electric vehicles, as well as the energy transition, will continue to prompt even greater M&A activity in the mining segment—for example, Rio Tinto's acquisition of Arcadium Lithium was designed to boost Rio Tinto's position among providers of energy transition commodities.⁹

The story is similar in the metals segment, where companies are using M&A to optimize their footprints and cost positions—for instance, targeting deals along the value chain or fostering long-term supplier partnerships. New entrants, such as those focused on green steel production, are steering the industry toward more innovation. M&A may be an effective way for these companies to scale quickly, secure the inputs and resources they need, and optimize costs.

Clearly, companies in global energy and materials are facing inevitable headwinds, with talk of trade tariffs and geopolitical uncertainty. But even amid these clouds, some bright spots are appearing: lower interest rates, the resolution of political elections, and lots of dry powder among investors. The signs point to more deal activity in 2025, not less.

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⁹ "Rio Tinto to acquire Arcadium Lithium," Rio Tinto press release, October 2024.



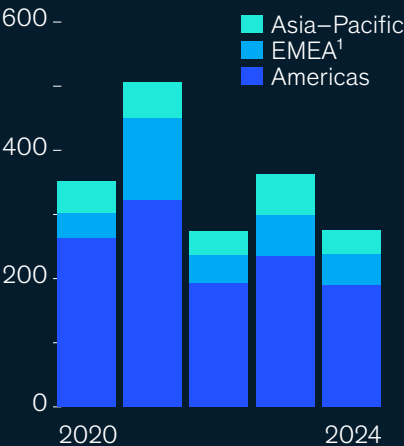
Life sciences

Primed for an increase

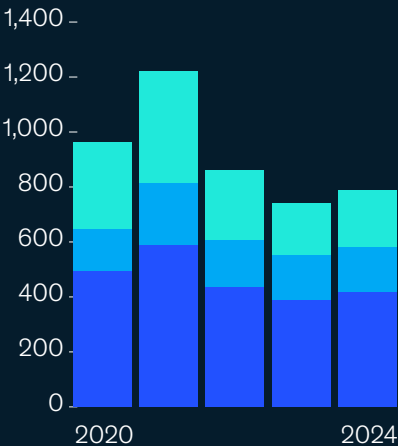
M&A activity in the life science sector fell in 2024, but several factors, including pent-up demand and the state of companies' pipelines, point to a strong rebound in dealmaking in 2025.

M&A in life sciences

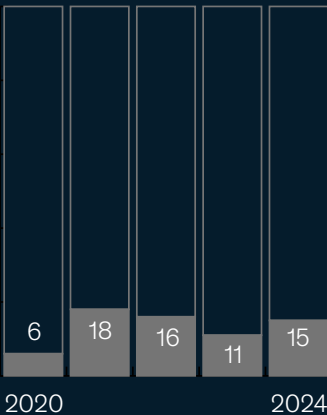
Total deal value, by region, \$ billion



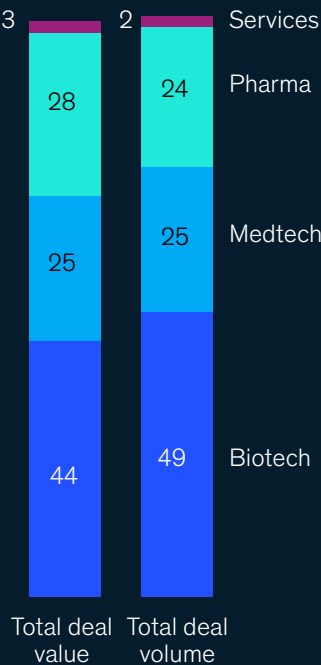
Total deal volume, by region



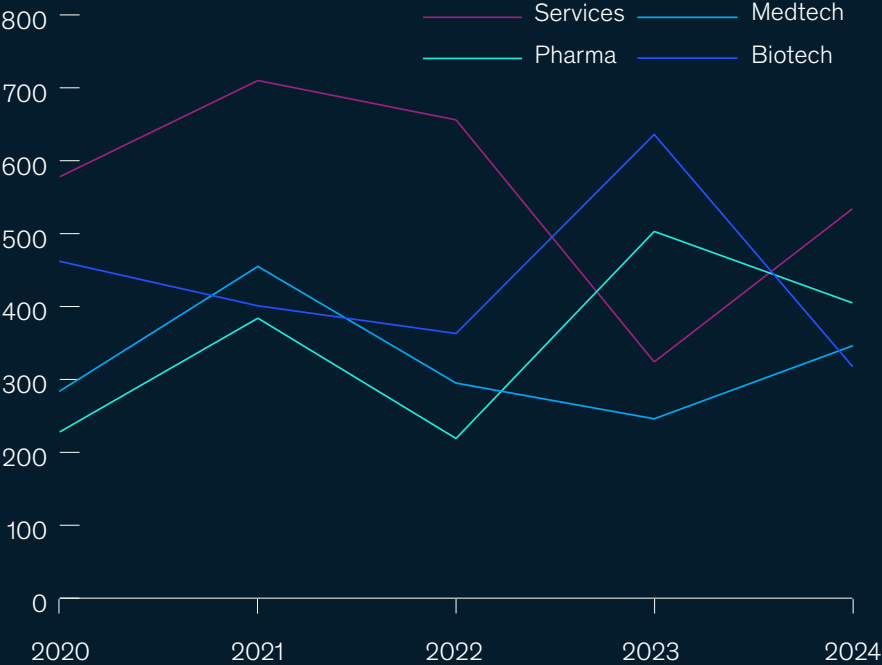
Share of private equity activity, %

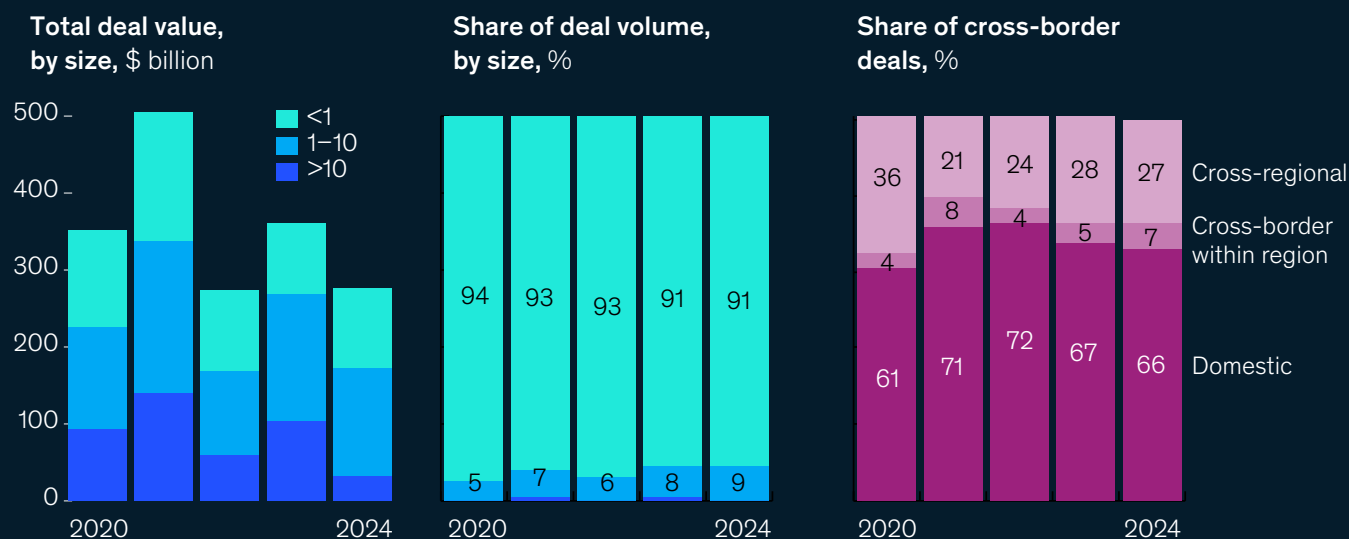


Share of activity in 2024, by subsector, %



Average deal size, by subsector, \$ million





Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Novo Holdings	Denmark	Catalent	US	17.3
Johnson & Johnson	US	Shockwave Medical	US	14.8
CD&R	US	Opella Healthcare	France	9.1
Sarepta Therapeutics	US	Arrowhead Pharmaceuticals	US	5.5
Vertex Pharmaceuticals	US	Alpine Immune Sciences	US	4.9
Gilead Sciences	US	CymaBay Therapeutics	US	4.5
BD	US	Edwards Lifesciences Critical Care product	US	4.2
Eli Lilly	US	Morphic Holding	US	4.1
Carlyle Investment Management	US	Baxter International kidney care segment	US	3.8
Boston Scientific	US	Axonics	US	3.7

Note: Figures may not sum to totals, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from the sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

McKinsey & Company

The industry overview

Life science companies are preparing for an upswing in M&A activity in 2025. Expectations for improved economic conditions, a regulatory environment more favorable than those seen recently, and companies' need to augment their pipelines suggest that there could be a strong rebound in dealmaking. Life science companies that build robust, end-to-end M&A capabilities that leverage advanced tools, comprehensive diligence, and tailored integration strategies will be best positioned to capitalize on emerging opportunities.

After an increase in deal volume in 2023—driven by a few large deals, such as Pfizer's acquisition of cancer therapy maker Seagen for \$45.7 billion—M&A activity in the life science sector fell in 2024 by roughly 24 percent, receding to 2022 levels. This reflected a cautious approach from many life science companies as they navigated a challenging economic and geopolitical landscape.

Of life science companies' deal value in 2024, 69 percent was in the Americas; 17 percent was in Europe, the Middle East, and Africa (EMEA); and 14 percent was in Asia-Pacific. Biotechnology and pharmaceutical companies remained the primary drivers of life science M&A, accounting for 44 percent and 28 percent, respectively, of industry deal volume. Private equity (PE) activity in life science dealmaking regained momentum after a year of lower activity, increasing its share of dealmaking activity from 11 percent of industry deal volume in 2023 to 15 percent in 2024.

Opportunities for 2025—and beyond

Several factors indicate a rebound in life science M&A activity in 2025. The first is pent-up demand. Life science and PE companies both have historically high levels of dry powder. The second factor is a widening performance gap. The majority of growth has been driven by top-decile performers, and there is a widening delta between leaders and laggards both in EBITA margins and in TSR. Third, and critically, is the state of company pipelines. Multiple companies hold assets with looming losses of exclusivity by 2027, which would represent a material decline in revenues.

As a result, life science companies are preparing for an M&A upswing. To start, in light of the current market environment, they are reassessing their competitive advantages in core areas to identify areas to strengthen their strategies and build appropriate M&A blueprints. Leading players are using advanced analyses to address [life cycle compression](#). In parallel, effective leaders are creating organizational conviction and enabling their teams to deploy [advanced tools](#) to ready their companies for action. Moreover, well-prepared companies are building financial and operational capabilities to finance, structure, execute, and integrate M&A transactions in a complex and constantly changing environment.

The year 2024 was marked by geopolitical instability, supply chain disruptions, and regulatory uncertainty (including, in the United States, the wake of the Inflation Reduction Act of 2022 and the proposed Medicare Most Favored Nation Model). All of these elements affected pharmaceutical pricing and market dynamics. But life science companies are adapting. Greater clarity should make for more favorable M&A activity in 2025.

Subsector activities

Biopharma companies, despite the slowdown in deal activity in 2024, are financially positioned to act decisively. Between 2020 and 2023, cash reserves across these sectors increased by 27 percent, providing remarkably high levels of dry powder to fund acquisitions. During the same period, the median holding period for PE firms extended from five and a half years to nearly seven years, signaling the likelihood of increased sell-side activity in the near and intermediate terms.

With growth-focused acquisitions between 2020 and 2024 accounting for 80 percent of deals—up from 34 percent a decade ago—the urgency to replenish pipelines remains a key incentive for dealmaking. More than half of biopharma revenues in 2023 were generated by intellectual property that is set to lose exclusivity by 2027. Companies are no longer looking solely for immediate revenue contributors; they are targeting forward-looking innovative assets and platforms that can deliver sustained value over the long term.

At the same time, industry deal premiums increased from 2020 to 2024, raising expectations for successful integrations and value creation. Despite high premiums, analyses of bolt-on transactions over the past two decades show that M&A has generated value across the industry, though most of the value is concentrated among 30 percent of acquirers.

Medtech companies experienced the industry's most active year for portfolio-shaping activity since 2017 and executed their second-highest number of acquisitions of more than \$1 billion in the past decade. While a broad programmatic approach to acquiring smaller, high-growth-adjacent businesses remains an evergreen strategy to accelerate near-term growth, add innovation, and access adjacencies, many of these companies follow certain [key strategies](#).

First, they execute **step out acquisitions** that target new patient pools or technology areas. This approach works well for companies seeking to transform their long-term growth plans. Increasingly, medtech companies are moving into treating unmet-need diseases and exploring nascent, high-potential digital solutions. Second, they practice **portfolio simplification** to divest lower-growth or dilutive assets to improve growth and margin profiles and follow through on a clear strategy. Third, they execute **transactions with other at-scale companies**, which helps acquirers reset their cost bases. In these cases, effective integration is particularly critical for success. The greater the synergy between the two companies, the higher the likelihood of achieving substantial long-term operating-margin expansion.

Life-science-service companies recently gained momentum and now represent a larger share of deal activity than they did in the previous year. Companies in this sector are looking to acquire complementary offerings to provide more integrated, end-to-end solutions to their clients and to cover all stages of the product life cycle. In addition, these companies often consolidate smaller players that provide specialized services, thereby streamlining operations and competing more effectively in globalized markets.

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Private capital

Investors' cautious stance in 2024 may give way to a more aggressive approach

Private capital firms have been active in several industries, but activity in technology, media, and telecommunications leads the way. And firms pursued fewer megadeals, opting for midsize deals more often.

The industry overview

Private capital firms have experienced notable fluctuations in global deal volumes and values over the past several years. On average, deals in this space represented about 21 percent of all M&A deals over the past six years, peaking at 26 percent in 2021, spurred by postpandemic tailwinds and increased capital flows. Thereafter, however, deal count has decreased every year through 2024—dropping by 22 percent in 2022 and by another 25 percent in 2023. Private capital firms have also experienced an increase in buy-side activities, which reached (on average) 60 percent of total deal value between 2022 and 2024.

The recent decline in deal volume suggests that investors are proceeding with caution, waiting for greater clarity on how the market will evolve in the wake of the US election outcomes, changing geopolitical dynamics, surges in demand, a potential decrease in interest rates, the opening up of IPO markets, and a range of other external forces.

A key factor to consider, however, is the growing pressure from limited partners for disinvestments in older vintages. And given the availability of dry powder among private equity (PE) companies, there is also a push to see more new investments. In this context, [the private capital market is poised for revitalization](#) in the very near future.

Sector trends: TMT was most active

Private capital firms have been active in several industries over the past few years—but activity in the technology, media, and telecommunications (TMT) sector continues to lead the way in terms of deal value and volume. Between 2019 and 2024, for instance, TMT accounted for 25 to 30 percent of deals in private capital. Other relevant sectors are global energy and materials (GEM), which had 10 percent of total deal value in 2024 (in line with 2019); financial services and insurance, which had 10 percent of total deal value in 2024 (with an increase of about nine percentage points since 2019); and advanced industries, which had 6 percent of total deal value in 2024 (at about the same level as in 2019).

Recent trends, such as the acceleration of digital, data-driven, and technological innovation, and the global energy transition, seem to have influenced the concentration of investments in these sectors.

Regional trends: High activity in the Americas

A look back at regional trends reveals that total deal value in the Americas increased in 2024, compared with 2023. The first nine months, in fact, were close to prepandemic performance. The Americas now account for 49 percent of total deal value globally, with the value of transactions in the region increasing in the past year (in both absolute and relative terms) and the volume of transactions growing, specifically in buyout deals. Europe, the Middle East, and Africa (EMEA) still are reporting significant private capital activity and account for 33 percent of total deal value worldwide.

Opportunities for 2025—and beyond

Private capital firms, under increasing pressure from their investors to deploy their reserves of dry powder, could play an even more prominent role in the M&A landscape soon.

New investment opportunities are emerging in private credit, infrastructure investments, and secondaries. In a continuation of 2024 trends, the acceleration of take-private deals may remain an attractive opportunity for private capital firms to invest their growing reserves of unallocated capital. Also, the potential for lower valuations (for instance, in the United States, compared with Europe) may promote more cross-border M&A backed by financial sponsors.

As private capital firms face more pressure from limited partners (LPs) to divest higher-vintage capitals and distribute attractive yields, they will need to explore creative methods for exiting and reimbursement. Some factors may lead to a more benign exit market—for instance, a decrease in interest rates, successful anchor deals, or sustained strength of the equity market—thereby enabling funds to reimburse high-vintage capitals and achieve the returns demanded by LPs.

And finally, new geopolitical dynamics will prompt private capital firms to redefine their roles; the call for new investments in sectors associated with innovation and competitiveness is already intensifying on both sides of the Atlantic.

In Europe, Italian economist Mario Draghi's *European competitiveness* report¹ emphasizes the importance of boosting economic competitiveness through digital technology, energy transition, defense, and breakthrough innovation. Private capital can be mobilized to support investments in all those areas. In the United States, potential regulations aimed at accelerating innovation might further pave the way for new investment opportunities for private capital firms.

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¹ Mario Draghi, *The future of European competitiveness: A competitiveness strategy for Europe*, European Commission, September 2024.



US healthcare

Navigating through the headwinds

Despite the slowdown in dealmaking in 2024, there are good reasons to expect greater M&A activity in US healthcare in 2025 and 2026 as many players seek to pursue innovation and growth.

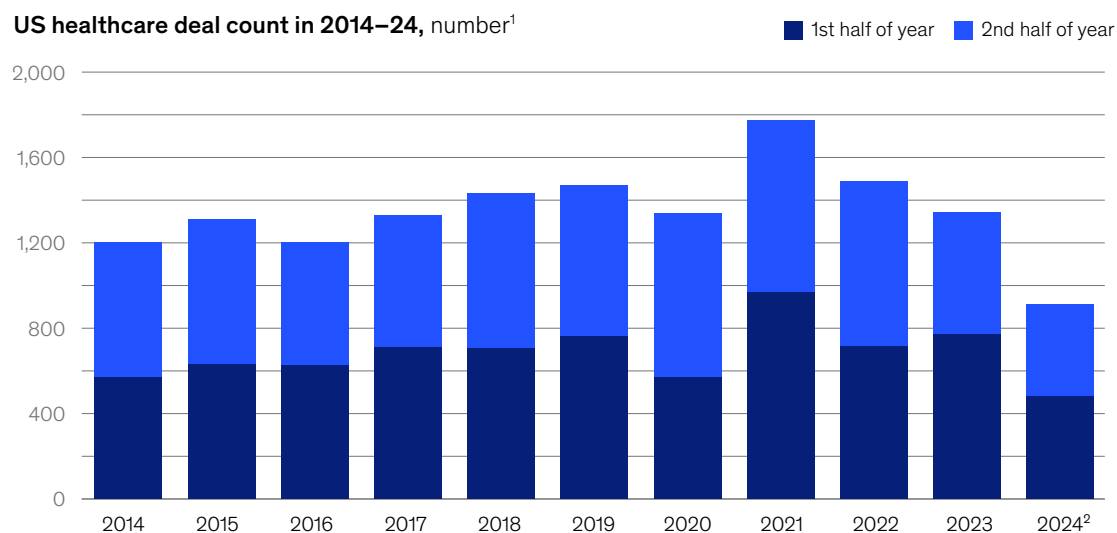
A challenging environment

When it comes to headline transactions and market-moving M&A, the healthcare industry may not immediately come to mind. But in the United States—as in many economies around the world—healthcare is a dynamo.

In 2024, US healthcare deal activity continued to slow after its peak in 2021, with total deals declining roughly 30 percent year over year. Headwinds included high multiple expectations, given prior valuations in key sectors (for example, healthcare services and technology); continued margin pressure for payers and providers, which limited the funds available for acquisitions; and regulatory uncertainty (Exhibit 1). In this article, we assess US deal activity in 2024, identify important developments since 2023, and highlight key insights across leading sectors.

Exhibit 1

The number of US healthcare deals continued to decline in 2024.



¹Includes announced and closed M&A buyouts and deals; excludes add-on deals. Excluded targets: insurance brokers, medical office buildings, and "other" category. Excluded acquirers: insurance brokers, real estate investment trusts, and "other" category (nonstrategic).

²Up to December 12, 2024.

Source: Market reports; McKinsey analysis

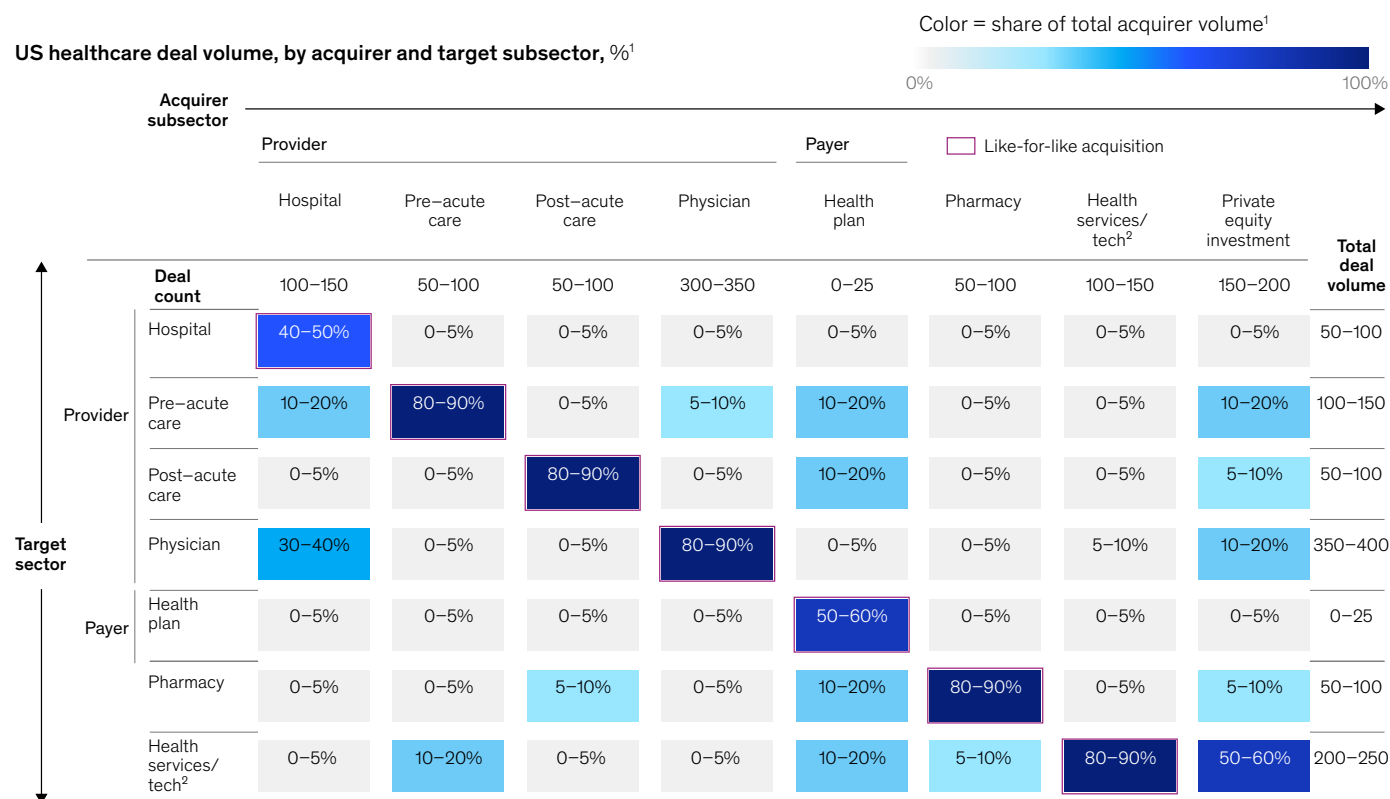
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US healthcare deal trends in 2024

When we examined 2024 deal volume by acquirer and target subsector, a clear set of trends emerged. Most prominently, some subsectors (such as pre- and post-acute care and physicians) focused on like-for-like consolidations, while others (particularly hospitals and payers) sought growth in near adjacencies (Exhibit 2).

Exhibit 2

US healthcare deal volume in 2024 varied by acquirer and target subsector.



¹Includes announced and closed M&A buyouts and deals; excludes add-on deals. Excluded targets: insurance brokers, medical office buildings, and "other" category. Excluded acquirers: insurance brokers, real estate investment trusts, and "other" category (nonstrategic).

²Includes clinical services, core administrative services, data and analytics, payment services, software, platforms and tech, and "other" category (eg, consulting, healthcare marketing).

Source: Market reports; McKinsey analysis

McKinsey & Company

Several key developments were particularly prominent:

- ***Meaningful activity from care delivery businesses.*** Smaller physician groups continued to consolidate; more than 80 percent of physician-led deal activity was composed of like-for-like transactions. Since 2019, the employment landscape for physicians has continued to evolve; as many as 70 percent of physicians are now employed by hospitals or corporate entities.¹ This trend reflects a shift away from independent practice and toward larger organizational structures.

In parallel, horizontal consolidation among pre-acute-care assets remained high, with key categories of these assets composing more than 80 percent of total pre-acute-care-led deal volume. Interest in outpatient behavioral health, for its part, notably increased, including acquisitions in demographic-specific outpatient mental health, where services tend to be tailored to meet particular needs.

Similarly, more than 80 percent of deals in post-acute care were horizontal consolidations; transactions in this area focused on home health and hospice care. These investments reflected broader trends toward at-home care models, which benefit from demographic changes, including an aging population and a growing demand for cost-effective, patient-centered care solutions.

- ***Portfolio diversification and purposeful growth for hospitals.*** Approximately 40 percent of deal activity led by hospitals was focused on non-acute segments, including pre-acute care and physician practices, as health systems aimed to diversify their portfolios and act on growth opportunities in adjacent markets. Pre-acute care composed about 15 percent of hospital-led acquisitions in 2024, driven by the expansion of outpatient clinics, ambulatory surgery centers, and urgent care. Post-acute-care acquisitions contributed a smaller share of hospital-led deals—less than 5 percent of all hospital-led deals. In recent years, physician group acquisitions have consistently made up approximately 30 percent of hospital-led deal activity. In 2024, this category of hospital-led acquisitions predominantly focused on specialty groups, as hospitals sought to formalize partnerships across key service lines, such as orthopedics, neurology, and women's health.
- ***A focused approach for financial investors.*** Private equity (PE) funds concentrated their 2024 investments primarily on healthcare services and technology businesses (over 50 percent of all PE-led deal activity). Pre-acute care (such as outpatient behavioral care) composed an additional 10 percent share, as did physician groups. Moreover, PE increasingly targeted tech-driven platforms to scale portfolio companies in add-on acquisitions—particularly those facilitating physician practices—to propel operational efficiencies, optimize economies of scale, and strengthen service capabilities in specialty areas.

¹ Alan Condon, "Nearly 80% of physicians now employed by hospitals, corporations: 5 things to know," Becker's Hospital Review, April 11, 2024.

PE increasingly targeted tech-driven platforms to scale portfolio companies in add-on acquisitions—particularly those facilitating physician practices—to propel operational efficiencies, optimize economies of scale, and strengthen service capabilities in specialty areas.

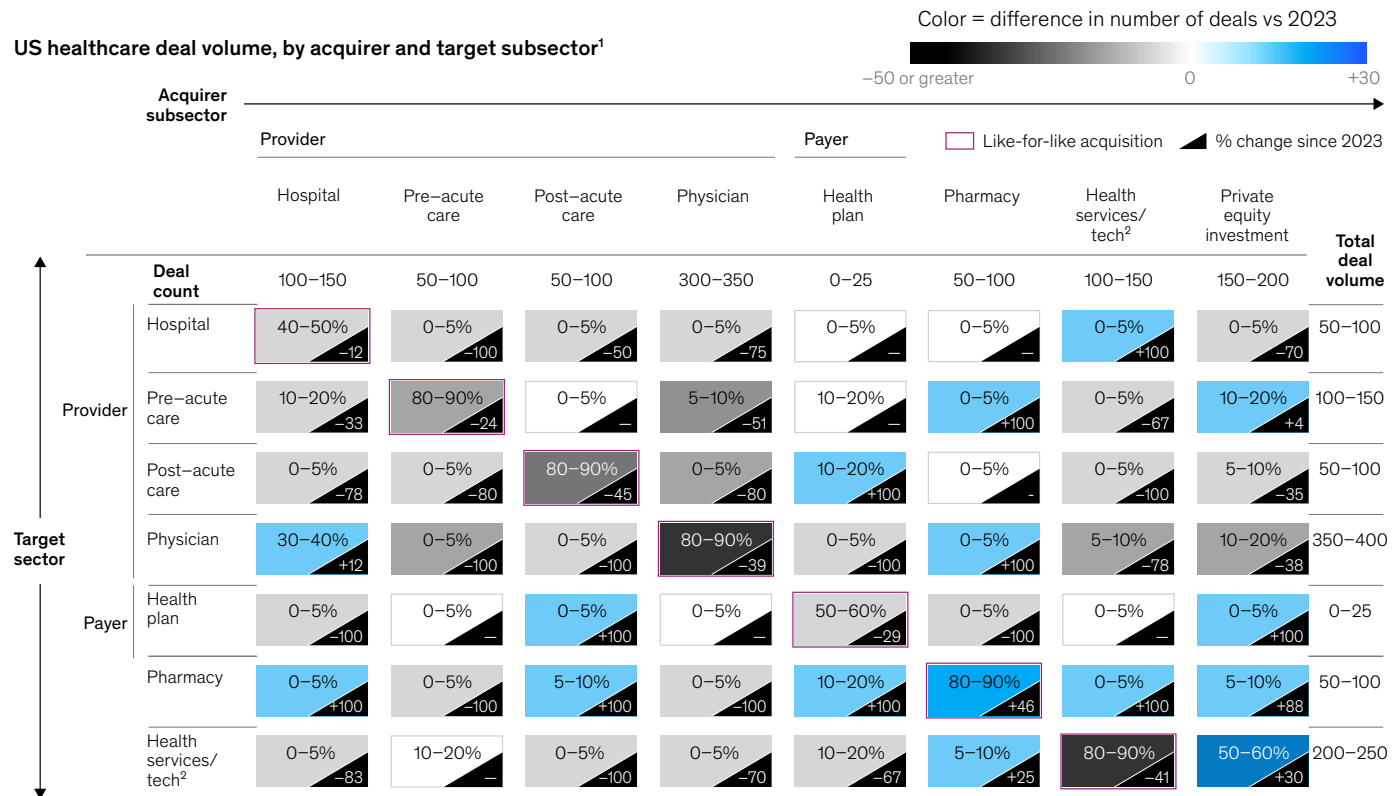
- *Consolidation for pharmacy and healthcare and technology services sectors.* Consolidations drove deal activity across transactions led by pharmacy and healthcare services and technology companies, as like-for-like deals composed between 80 and 90 percent of deal flow in these sectors. In pharmacy businesses, more than 80 percent of deal activity was focused on horizontal transactions, reflecting efforts to expand networks and streamline distribution activities. Additionally, heightened competition from mail order and online pharmacies, which cater to convenience-oriented consumers and seek to meet complex treatment needs, has pressured traditional pharmacies to innovate or consolidate. In healthcare services and technology businesses, more than 80 percent of transactions were also like-for-like deals. Players in these sectors sought to focus on integrating complementary services and innovations to enhance their value propositions and strengthen their positions in an evolving healthcare ecosystem.
- *A targeted approach by payers.* Payers adopted a targeted approach to deals in 2024. Across their lines of business, they navigated EBITDA margin compression, which limits funds available for acquisitions. While deal activity led by payers is generally lower relative to other healthcare sectors, given the lower number of players on an absolute basis, 2024 saw particularly muted activity across most sectors. More than 50 percent of payer-led transactions focused on same-sector consolidation to expand care coverage and improve operational efficiency. Additionally, some payers were active in dealmaking in pre- and post-acute-care businesses (such as home health and ambulatory surgery centers). These businesses help to reduce the costs of care through better medication pricing, utilization, and adherence management.

Key changes in 2024 deal activity compared with 2023

When compared with 2023, overall US healthcare deal activity in 2024 declined, with a sharp drop in the absolute number of like-for-like transactions across all sectors. The steepest declines were in the physician and healthcare services and technology sectors—areas that have typically seen high deal volume. When compared with 2023, PE-led activity saw meaningful shifts, marked by a continued focus on healthcare services and technology deals and a notable reduction in transactions centered on physician groups (Exhibit 3).

Exhibit 3

Close analyses reveal important shifts in US healthcare M&A in 2024 compared with 2023.



¹Includes announced and closed M&A buyouts and deals; excludes add-on deals. Excluded targets: insurance brokers, medical office buildings, and "other" category. Excluded acquirers: insurance brokers, real estate investment trusts, and "other" category (nonstrategic).

²Includes clinical services, core administrative services, data and analytics, payment services, software, platforms and tech, and "other" category (eg, consulting, healthcare marketing).

Source: Market reports; McKinsey analysis

When comparing 2024 with 2023, the most prominent insights include the following:

- ***Slowing of provider-led deal activity.*** While hospital-led deal activity continued to span the care continuum in 2024, hospital-led acquisitions across most provider segments (with the exception of physician assets) slowed. This decline likely reflected hospitals' ongoing financial pressures and an increasingly complex regulatory landscape, which has affected their approach to strategic expansions. Pre- and post-acute-care deal activity also declined. While like-for-like transactions still composed more than 80 percent of total activity in both sectors, the number of these deals fell by 24 and 45 percent, respectively, relative to 2023. Rising labor costs (driven by staffing shortages) and regulatory changes (such as, for example, Centers for Medicare & Medicaid Services payment adjustments) have pushed providers to focus on core operations. However, each segment sought to control costs in its own ways. Pre-acute-care providers increasingly invested in healthcare services and technology, while post-acute-care players focused on pharmacy services to better manage care cost and improve outcomes for aging patients. In addition, consolidation among physician groups slowed substantially, with more than 50 fewer like-for-like transactions—a drop of 39 percent from 2023. Dental consolidation stabilized but still represents a substantial share of total provider-led transaction volume. Specialties with high volumes of ambulatory procedures, such as eye care, dermatology, and orthopedics, continued to consolidate.
- ***Decline of payer-led deal activity in consolidation-focused deals.*** Compared with 2023, payer-led, consolidation-focused deals fell by 29 percent, likely due to both limited payer-to-payer transaction opportunities (that is, a limited number of potential combinations exist) and regulatory caution. Payers have increasingly shifted their M&A focus toward pharmacy businesses to address rising specialty drug costs—a major driver of healthcare spending—while enhancing pharmacy integration, improving cost efficiencies, and delivering greater value to their members. Payer-led acquisitions of post-acute-care assets reflected an additional approach to reduce costs.
- ***Substantial declines for healthcare services and technology.*** Compared with 2023, the healthcare services and technology sectors experienced substantial declines in like-for-like transactions. Indeed, these types of deals declined by approximately 40 percent, reflecting an absolute decline of more than 50 transactions compared with 2023. This decline might be attributed to a slowdown after recent years of heightened activity, as well as elevated multiples.
- ***Increases for pharmacy consolidations.*** By contrast, pharmacy consolidations increased by more than 40 percent year over year in 2024. While the magnitude is notable, it's due in part to exceptional circumstances: Pharmacy-related M&A accounts for approximately 5 percent of overall healthcare M&A volume. The small base means that the sector is more prone to fluctuations within specific subsegments.
- ***Pressure on PE.*** PE funds are holding assets for longer periods. In parallel, elevated asset valuations have created substantial gaps between buyer and seller expectations, hindering dealmaking. The hospital, physician, and post-acute-care sectors have experienced the sharpest relative declines, at 70 percent, 38 percent, and 35 percent, respectively. However, healthcare services and technology and pharmacy assets saw a meaningful increase in deal interest (30 and 88 percent, respectively, compared with 2023).

In the hospital sector, operational challenges such as staffing shortages, increased operational expenses, and financial instability drove a year-over-year decline in private equity transactions, as PE firms adopted a more selective approach to these investments. Moreover, rising scrutiny from the US Senate, culminating in a report titled *Profits over patients*, published by the Senate Budget Committee in January 2025, may have dampened excitement around PE-led activity.²

Growing interest in healthcare services and technology sectors, reflected in the opportunity to use tech-enabled platforms to improve operational efficiencies, integrate fragmented workflows, and support predictive analytics and care optimization, made these businesses attractive targets for buy-and-build strategies. Similarly, interest rose in the pharmacy sector—in that case, driven by the role these companies play in value-based care (for example, accessible preventive services and chronic-disease support) and the growth potential from specialty services, digital integration, and increasing consumer demand for localized healthcare solutions.

Outlook for 2025

Despite the slowdown in activity seen in 2024, there are good reasons to expect greater M&A activity in 2025 and 2026 as many players seek to pursue innovation and growth. Immediate and long-term trends, such as the increasing emphasis on care-at-home models, value-based contracting, and tech-driven platforms, underscore the industry's commitment to enhancing patient outcomes and operational efficiency. Although challenges such as labor shortages and margin pressures persist, they also drive the potential for creative strategies and targeted investments that can shape a more resilient and adaptive healthcare ecosystem. Looking ahead, US healthcare is expected to see continued investment in digital health solutions, AI-driven care models, and personalized medicine as stakeholders seek to unlock efficiencies and improve access to care. Additionally, the growing focus on preventive care and whole-person health signals a shift toward long-term, sustainable healthcare strategies. As organizations continue to navigate these complexities, M&A will remain an important means to enable growth and adapt to a changing healthcare landscape.

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² *Profits over patients: The harmful effects of private equity on the U.S. health care system*, US Senate Budget Committee Bipartisan Staff Report, January 2025.



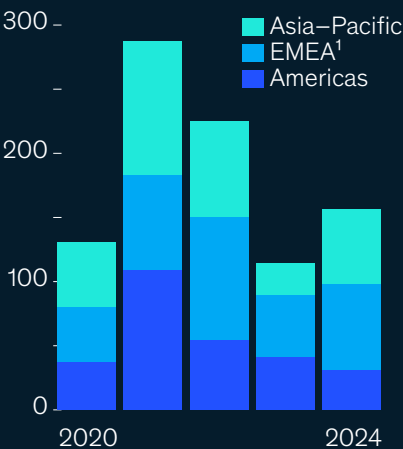
Travel, logistics, and infrastructure

Firms are finding opportunities
in technology, changing consumer
demographics, and global trade

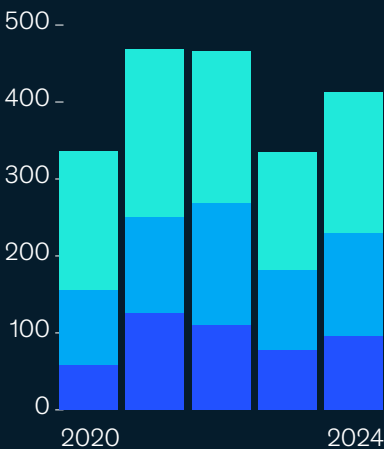
M&A among travel companies has been soft, but travel dynamics are changing, presenting growth opportunities. In logistics, technology-oriented deals may loom large in 2025 as solutions in the space improve.

M&A in travel, logistics, and infrastructure

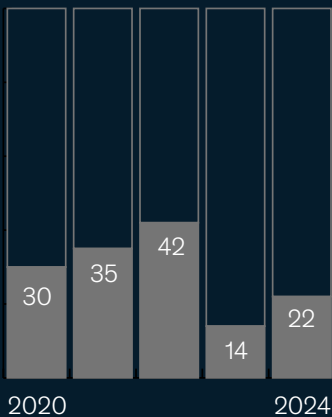
Total deal value,
by region, \$ billion



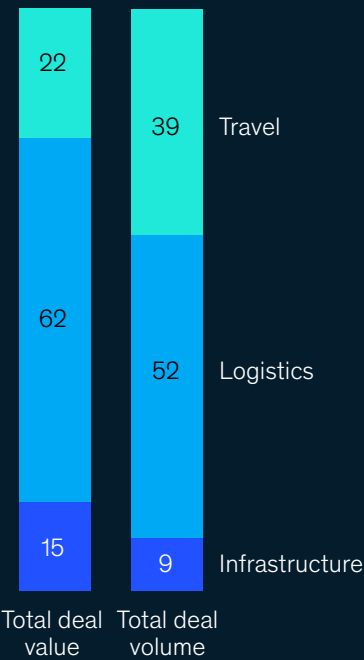
Total deal volume,
by region



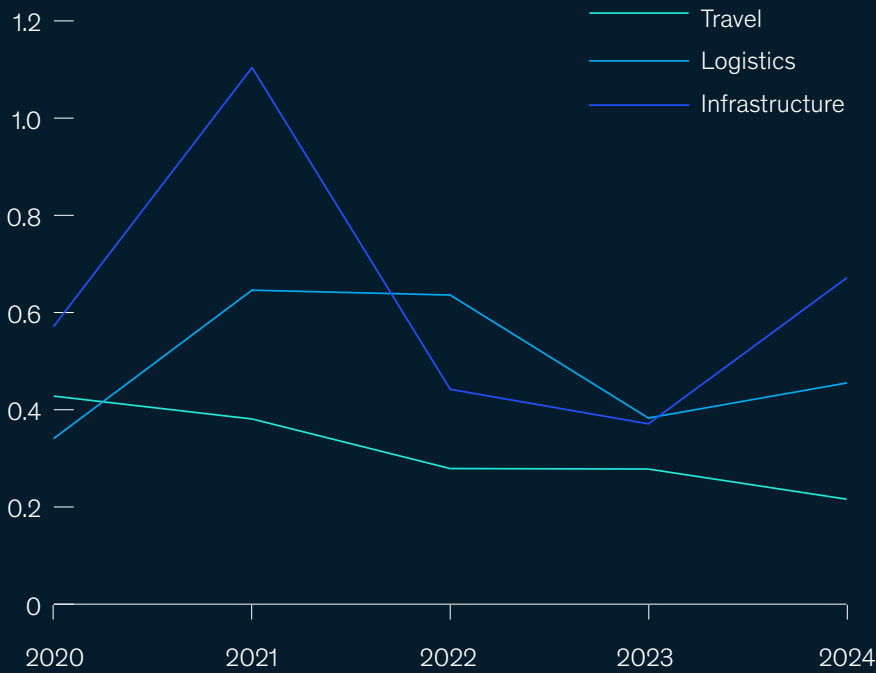
Share of private equity
activity, %

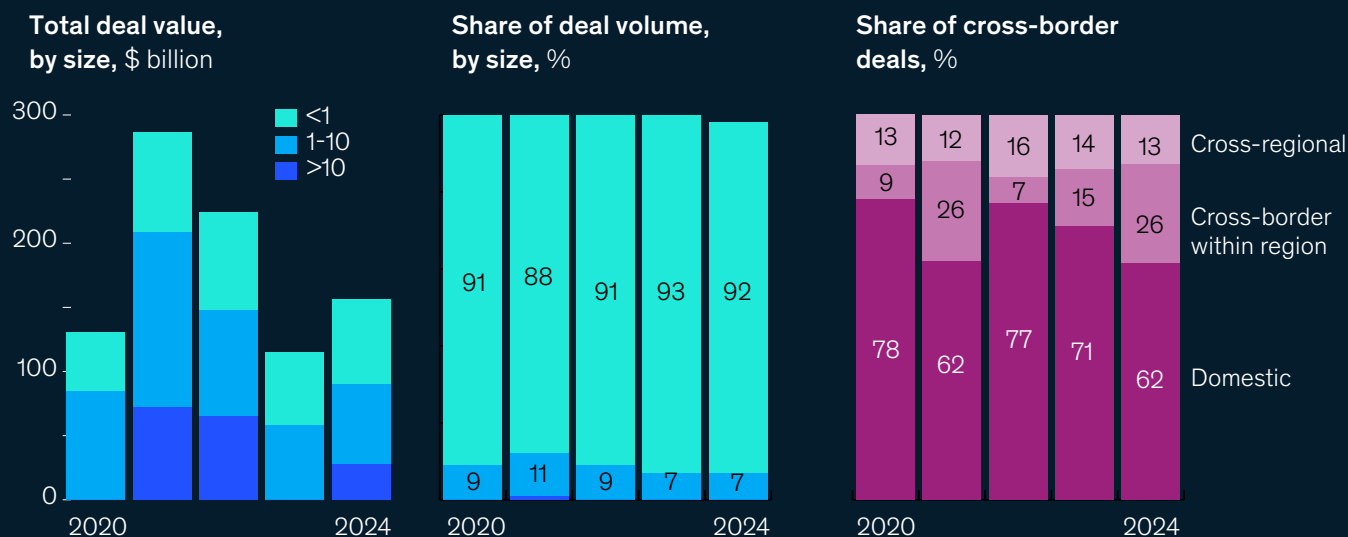


Share of activity in 2024,
by subsector, %



Average deal size,
by subsector, \$ billion





Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
DSV	Denmark	DB Schenker	Germany	15.9
Tianjin People's Government	China	Tianjin Rail Transit	China	11.8
EP Corporate Group	Czechia	International Distributions	UK	5.1
Hungarian Dev Bank and others	Hungary	Budapest Airport	Hungary	4.7
Stonepeak Partners	US	Air Transport	US	4.2
Kingdom of Denmark	Denmark	Copenhagen Airports	Denmark	3.8
Alibaba	China	Cainiao Smart Logistics Network	China	3.8
Apollo Global Management	UK	Evri	UK	3.5
CMA CGM	France	Santos Brasil Participacoes	Brazil	2.8
Global Infrastructure	Malaysia	Malaysia Airports	Malaysia	2.8

Note: Figures may not sum to totals, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

McKinsey & Company

The industry overview

Deal activity in the travel, logistics, and infrastructure sector increased markedly in 2024 compared with the previous year, with a total deal value of \$157 billion in 2024 versus \$115 billion in 2023. However, activity was still below prepandemic levels (with a total deal value of \$173 billion in 2019) and substantially below peaks in 2021 and 2022.

Similarly, the proportion of private equity (PE) deals in the sector increased—from 14 percent of all deals in 2023 to 22 percent in 2024—but PE activity was still well below that of previous years. Some PE holdings are nearing their maturity and will likely come to market in the next year or two; given the current interest rate environment, it will be interesting to see to what extent valuations will stabilize or improve.

Subsector activity and opportunities for 2025—and beyond

M&A among travel companies has been relatively soft over the past few years. The total deal value in 2024 was \$35 billion, essentially on par with the total deal value in 2023, which was \$37 billion. But both figures are still well below the total deal value of \$65 billion in 2021. That's likely because travel companies, like other businesses in this sector, have been facing high interest rates and inflation and a changing regulatory environment. Rather than seek out deals, many have been looking inward to manage costs. Our research shows that deals in the Asia–Pacific and Europe, the Middle East, and Africa (EMEA) regions account for a higher share of the total number of travel deals than those in the United States (with 34 percent, 37 percent, and 29 percent of deals in those regions, respectively). About 80 percent of all travel deals have been in the hospitality segment—albeit this includes several individual property transactions.

Travel dynamics are changing, presenting leaders with several opportunities for growth and transformation. Our research suggests deal sizes are likely to remain small. In the hotel segment, for instance, we're seeing large players (such as Hyatt and Hilton) expand into newer brands or locations through bolt-on deals. Some larger deals may still be in the offing—in the case of market or category expansion—but the regulatory environment remains uncertain, making smaller plays more attractive.

At the macroeconomic level, spending on business travel is likely to continue to recover from recent postpandemic levels, potentially surpassing \$2 trillion by 2028, according to the Global Business Travel Association.¹ This increased spending will likely spur more deal activity as companies seek to keep pace with demand. Travel management companies, for instance, may want to expand their capabilities to better serve corporate customers. And companies across the travel ecosystem will likely reconsider their investments in various products and services as travelers—particularly younger generations—[splurge more on experiences](#) and dining and look to save on flights, shopping, and lodging.

And though it's historically been an area of underinvestment, travel technology should be a core theme for PE and strategic investors—particularly given recent functional advancements in the tools and systems used to manage properties and revenue, engage in marketing and distribution, manage workforces, and so on.

¹ 2024 GBTA Business Travel Index Outlook: Annual global report and forecast, Global Business Travel Association (GBTA), July 2024.

Deal activity among logistics companies is on the upswing, with \$98 billion in total deal value reported in 2024, which is higher than in 2020 but still below the \$150 billion total deal value reported in 2021. Our research shows that 91 percent of all deals in 2024 were small ones (less than \$1 billion), with only a few mega deals announced, and the deals have covered all the major market segments.

Against this context, logistics players may be well placed to capitalize on several trends in 2025. For instance, based on M&A activity among the top 50 third-party logistics companies, there is room for consolidation—with a chance for these players to increase their scale, distribution networks, and access to customers in specific regions or countries. Similarly, there is still a fair amount of fragmentation among large logistics companies; consider that the top ten companies in areas such as truck brokerage, freight forwarding, and contract logistics represent only between 5 percent and 20 percent of their respective segments. There are opportunities, then, for companies to consolidate and capture a range of advantages in procurement, operations, and commercialization.

Another trend that bears watching is logistics companies' pursuit of select bolt-on acquisitions, with the idea of adding capabilities such as cold-chain storage and digital order fulfillment. Indeed, large providers now see select acquisitions as a way to leapfrog into high-margin segments (such as healthcare and life sciences) that have traditionally been served by niche companies.

Technology-oriented deals will likely also loom large in 2025 as solutions in the transportation and logistics space improve significantly and as more and more start-ups develop and launch tools and platforms aimed at managing specific elements of the logistics value chain. Private investors will likely restart their acquisition engines—to a greater degree than they did in 2022 and 2023—and take advantage of rate corrections and adjusted valuations of medium-size logistics providers. In particular, they are already showing strong interest in assets that provide them with a sound competitive position and rate stability—think specialized logistics services or contract logistics.

Technology-oriented deals will likely loom large in 2025 as solutions in the transportation and logistics space improve significantly and as more and more start-ups develop and launch tools and platforms.

And finally, transportation infrastructure deal activity dipped to \$24 billion in 2024, down significantly from the previous two years. Airports accounted for about half of all transportation deals (18) and 78 percent of the value (\$19 billion) of deal activity in this segment. A range of other transportation services accounted for the other 50 percent of all transportation deals and represented 22 percent of deal value in the segment.

Even as activity dropped, the average size of deals in this industry segment is normalizing to about \$670 million. The surge in deal size has been almost exclusively driven by activity in Asia-Pacific and EMEA countries; by contrast, deal size in North America and South America has remained small and stable—about \$2 billion to \$13 billion per year. Overall, however, infrastructure deals remain a domestic game, with 73 percent of all infrastructure M&A happening within a country's borders.

What's more, in 2024, we observed PE investors getting involved in a larger share of infrastructure deals than they did previously (47 percent), although that figure reflects only six large deals—for instance, deals involving Budapest Airport, Malaysia Airport Holdings, Star Leasing, and Transmashholding.

As PE investors consider prospects for 2025, a few trends are emerging that bode well for them: Alliances are reshuffling, trade flows have been reconfigured—and are continuing to shift—and transportation lines continue to have excess funds, which means there could be significant opportunities to invest in strategic ports and terminals. Indeed, investors can continue to leverage infrastructure investments to stabilize their portfolios and cash flow positions.

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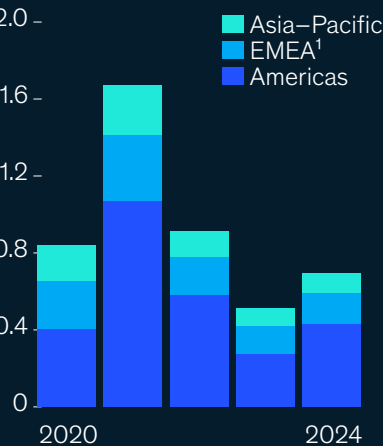
Technology, media, and telecommunications

Software deals and creative partnerships will carry the day

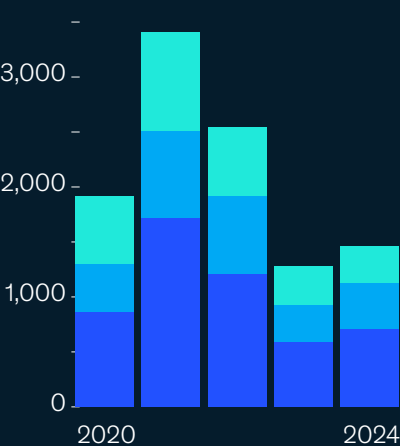
Multiple trends will likely fuel M&A growth across technology, media, and telecommunications in 2025, with an increase in carve-outs as organizations look to simplify and reshape their corporate portfolios.

M&A in technology, media, and telecommunications

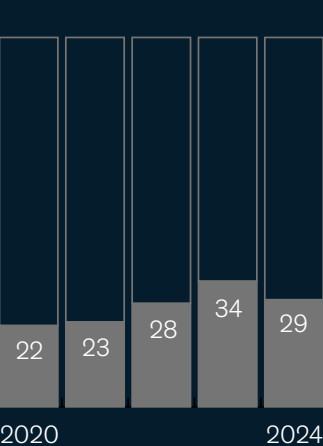
Total deal value, by region, \$ trillion



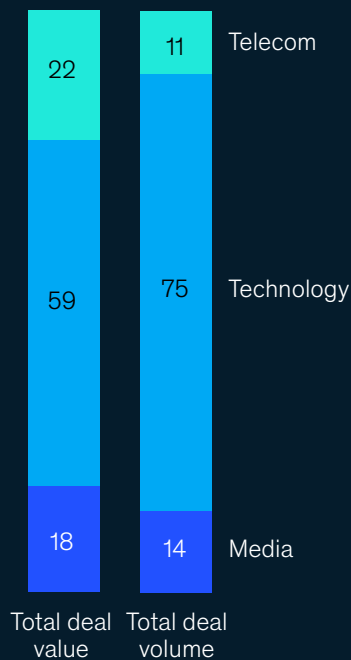
Total deal volume, by region



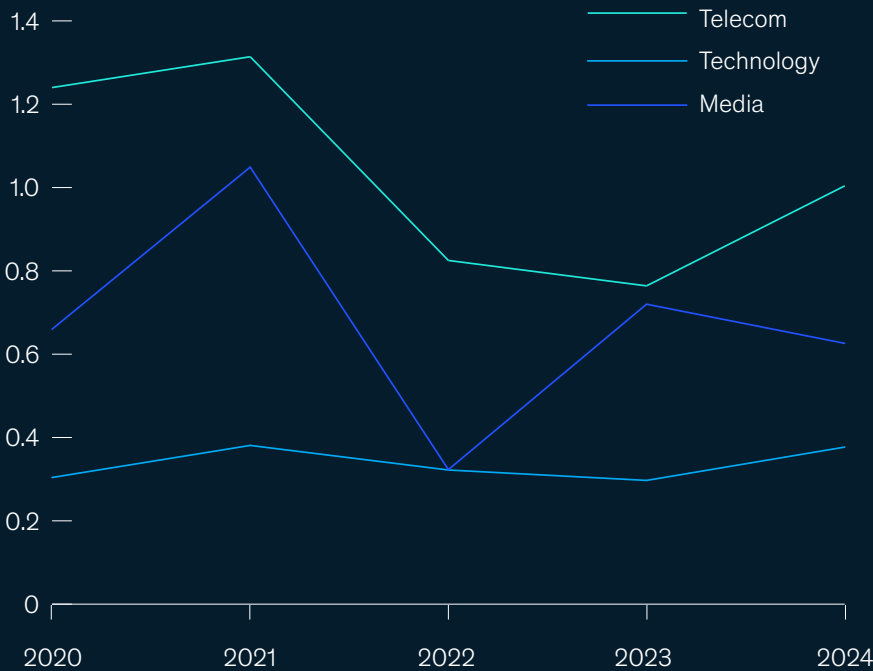
Share of private equity activity, %



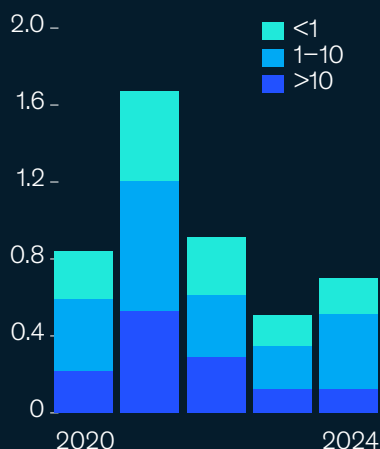
Share of activity in 2024, by subsector, %



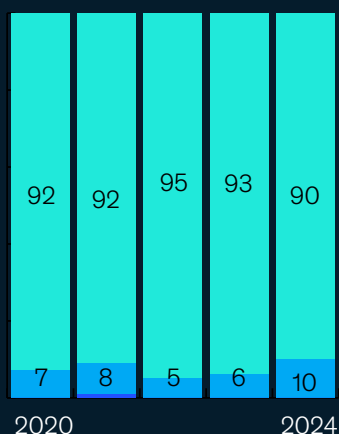
Average deal size, by subsector, \$ billion



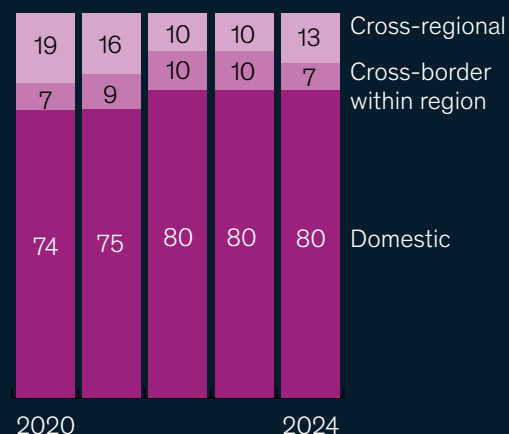
Total deal value, by size, \$ trillion



Share of deal volume, by size, %



Share of cross-border deals, %



Top 10 global deals, by deal value, \$ billion

Acquirer	Country	Target	Country	Deal Value (\$ billion)
Synopsys	US	Ansys	US	33.6
Verizon Communications	US	Frontier Communications	US	20.3
Charter Communications	US	Liberty Broadband	US	16.6
Blackstone and others	US	AirTrunk Operating	US	16.1
Hewlett Packard Enterprise	US	Juniper Networks	US	14.3
Siemens	Germany	Altair Engineering	US	11.1
Silver Lake	US	Endeavor	US	10.2
Existing shareholders	Switzerland	Sunrise	Switzerland	9.3
DigitalBridge and Silver Lake	US	Vantage Data Centers	US	9.2
Swisscom	Switzerland	Vodafone Italia	Italy	8.7

Note: Figures may not sum to total, because of rounding. Data includes deals valued >\$25 million. Deals in which acquirers were existing shareholders were removed from the sample.

¹Europe, Middle East, and Africa.

Source: Dealogic; McKinsey analysis

McKinsey & Company

The industry overview

There was a significant amount of M&A activity in the technology, media, and telecommunications (TMT) sector in 2024. Companies invested \$698 billion in just over 1,460 TMT deals, with about 60 percent of those deals (by value) occurring in North and South America. Large deals—or those greater than \$10 billion in value—accounted for about one-third of all TMT deals. And, amid the challenges of a rapidly evolving geopolitical landscape, domestic deals accounted for 80 percent of all TMT mergers and acquisitions (by value).

Most of the deals in TMT—75 percent by volume and 59 percent by value—were focused on technology, although the average size of a technology deal in 2024 (\$377 million) was smaller than that of the average media and telecommunications deals (\$626 million and \$1 billion, respectively).

Software was the prime focus in most technology deals, and most of the deals above \$1 billion in value involved private equity (PE). By contrast, infrastructure was a key theme for acquisitions in the telecommunications subsector, and 75 percent of the deals above \$500 million in the media subsector were focused on visual media and on sports media rights and gaming.

Opportunities for 2025 and beyond

Multiple trends, including increased cost pressures, the emergence of new technologies, and a dramatic change in the regulatory environment for deals, will likely fuel M&A growth across all subsectors in 2025. We also anticipate an increase in the share of carve-outs as organizations seek to simplify and reshape their corporate portfolios. PE players' already strong interest in M&A opportunities is likely to continue—mostly in deals involving technology and software companies and investments in telecommunications infrastructure, but also in new-media assets emerging in 2025.

Subsector activity: Technology

Our research shows that the technology subsector will continue to propel most deals in 2025, by both volume and value. Specifically, we expect companies and investors to focus on the following:

- ***Doubling down on market leadership.*** Acquisitions of \$5 billion in value or greater are likely to continue as companies build out their portfolios and double down on investments in select product categories to ensure that they are among the top three or four players in those categories. The savviest organizations will also consider divestments as a means to reshape portfolios and free up funds to pursue additional M&A.
- ***Pursuing capital-expenditure-fueled growth.*** Capital expenditures are now helping to drive growth across the technology sector, in a shift away from traditional R&D-driven strategies. This trend is particularly evident among hyperscalers that are prioritizing increased computing capacity over the launch of new products. In some cases, technology companies are even investing in power assets to support the expansion of their data centers, underscoring a move toward deeper vertical integration. Collectively, these developments are expected to continue to drive M&A activity in 2025.

- ***An inflection point in AI investments.*** Spending related to AI has been mostly centered on the development of infrastructure—for example, investments in data centers and the extensive hardware required for AI training and inference. By contrast, investments in the software that allows organizations to monetize their AI infrastructure have continued to lag—until now. Companies have reached an inflection point; as organizations reimagine their AI strategies and shift their spending from pure infrastructure toward software, we anticipate their use of M&A to acquire essential capabilities.
- ***Acquiring bolt-on capabilities.*** The acquisition of software products, intellectual property, and other capabilities—particularly the acquisition of AI expertise, coveted by large platform companies—will continue to account for a substantial share of M&A activity in the TMT sector in 2025. M&A activity will likely also rise in IT services as companies seek to acquire the specialized skills and domain expertise that will allow them to stay competitive and deliver better solutions to clients. Many of these acquisitions may be considered bolt-on deals, given their size. Still, the potential for growth through these smaller, focused acquisitions will continue to influence valuations and M&A activity across the subsector.
- ***Rising presence of PE in tech.*** We expect another year of increased PE investments in the technology sector, fueled by ample dry powder and a more favorable interest rate environment. Our research suggests PE will stay active at the top end of M&A in the sector, in line with the 2024 figure, where PE was involved in three of the top ten deals (by size). PE will also continue to be an important player at the lower end of the deal spectrum, bolstered by a large backlog of aging PE-owned assets that are poised for exit.

Subsector activity: Media

Several factors will likely continue to drive deal activity in the media subsector in 2025—including increased top- and bottom-line cost pressures and changes in consumption patterns among customers. Some major deals emerged in 2024, including Skydance Media's \$8 billion acquisition of Paramount Global.¹ Apart from the blockbusters, M&A activity among smaller media companies points to three emerging trends:

- ***Separations are the new black.*** Several media conglomerates, including Axel Springer, Comcast, Schibsted, and Vivendi, have signaled their intentions to carve out digital assets or legacy media to increase the stand-alone value of their portfolios or to protect those future-proof assets within declining portfolios. PE may be a potential outlet for some of the assets being carved out.
- ***Consolidation will accelerate among traditional media.*** Traditional media is facing significant cost pressures. Since the first quarter of 2021, for instance, wages in European media have increased 15 percent, the cost of paper has increased 50 percent, and the cost of energy is up 100 percent. Pair those numbers with the previously mentioned changes in media consumption patterns and ever-increasing competitive pressures from digital players, and the result is more consolidation in newspaper publishing and TV broadcasting—and it's happening quickly.

¹ Lucas Manfredi, "Done deal: Paramount Global sells to Skydance Media in \$8 billion acquisition," Yahoo Finance, July 7, 2024.

- **More companies will pursue creative partnerships.** The emergence of streaming content and aggregated digital services poses a significant challenge for media companies. Some are pursuing creative partnerships to address—and potentially avoid—issues with fragmentation. RTL Deutschland and Sky Deutschland, for instance, entered a two-year partnership in which the free-TV player and the pay-TV broadcaster agreed to exchange rights to air various sports events, including German Bundesliga matches and Formula 1 races.² More deals along these lines are likely to emerge as media companies seek to increase the value of their offerings while avoiding contractual commitments.

Subsector activity: Telecommunications

Changes in the regulatory environment—in Belgium, Italy, Spain, and the United Kingdom, for instance—are putting some limits on consolidation among traditional telecommunications operators; still, there will likely continue to be some focus on consolidation along with other critical M&A drivers, including the following:

- **Moving closer together.** Where there is still space for consolidation, traditional operators will continue to pursue fixed–mobile and mobile–mobile deals across markets, so they can share the cost of network build-outs and expand their share of customer wallet. Regulators, for their part, are likely to impose remedies designed to maintain healthy competition among operators—for instance, pursuing specific commitments related to network build-outs or seeking divestitures of spectrum or specific assets.
- **Hunting for new revenue sources.** Traditional operators will likely continue to pursue small-scale diversification—in areas such as security, healthcare, IT consulting, and AI—as they experience decreasing revenues per customer and search elsewhere for higher returns to supplement their core businesses.
- **Emphasizing the core.** More and more operators are selling off or shutting down noncore assets, or exiting noncore locations, as they seek to address revenue challenges and simplify their business structures.

In the telecommunications infrastructure subsector, M&A activity has been high—not surprising, given the rising interest in 5G technology and data centers. In fact, deals involving data centers, fiber networks, and mobile towers account for most of the deal value in this subsector. PE and sovereign-wealth funds have been important players in these deals.

In 2025, more consolidation in this subsector is likely as competition increases and infrastructure players struggle to maintain the large capital outlays they need to grow. Partnerships and PE joint ventures will play a central role here, too, in providing the up-front investments these capital-intensive businesses need.

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² “RTL Deutschland and Sky Deutschland announce strategic partnership in the content sector,” Sky, December 19, 2023.

M&A insights



Uncertainty in M&A: Postcards from the new normal

Unprecedented shocks are affecting M&A activity and dealmaker behavior. Different analyses help bring uncertainty into focus—and suggest a range of outcomes.

*by Jake Henry, Mieke Van Oostende, and Tobias Lundberg
with Matteo Camera*

Uncertainty in M&A has become the new normal. Under conditions of multiple, significant, and global macroeconomic shocks, companies and investors are becoming more purposeful about their deals. While there is still meaningful deal volume (approximately 80 to 90 percent of levels experienced a decade ago), we see a higher bar for ensuring value creation and a greater willingness to engage in alternative deal types, such as joint ventures (JVs) and alliances. The era of “opportunistic” deals has passed, as interest rates no longer hover near zero, disruptions have become constant, and uncertainties are profound and multifaceted.

Indeed, neither the scope nor the depth of uncertainties in M&A can be captured by a single, simple depiction. Instead, they can best be understood by examining them through multiple lenses that offer different and, in the aggregate, complementary snapshots—or what we call *postcards*—of the new normal (see sidebar, “Six postcards, six takeaways”). Taken together, these postcards offer insight into the shifts of the past few years and the challenges that dealmakers now confront. They also suggest a range of outcomes going forward, both for defense-minded strategies and potentially bolder moves.

Postcards across dimensions

There are numerous lenses through which one can examine M&A dynamics. Among the most revealing, we found, are (1) historical macroeconomic comparisons; (2) analyses of key financial metrics, including deal counts, valuations, cost of funding, and numbers of IPOs; (3) geographical differences (including, importantly, M&A across borders and continents); (4) size of deal synergies; (5) frequency of alternative transactions (such as alliances and JVs); and (6) developments specific to private investors, particularly private equity (PE) funds.

Six postcards, six takeaways

Assessing M&A uncertainty across different perspectives requires a wide range of analyses—and risks not only losing the forest for the trees but falling deep into the undergrowth. To keep a clear sight line of the six postcards and their primary takeaways, we can summarize them as follows:

- **Historical macroeconomic comparisons.** The year 2024 followed a pattern similar to that of other periods of recovery and likely reflected uncertainties related to the US presidential election year.
- **Deal synergies.** Announced synergies in 2024 were well above historical averages.
- **Alternative deal types.** Structures such as joint ventures and alliances are back in vogue.
- **Deal metrics.** Deal multiples are down more than seven turns amid the current uncertainties, far exceeding multiple compression during prior downturns.
- **Private equity.** Private equity remained largely on the sidelines in 2024, but conditions are ripening for more dealmaking.
- **Cross-border M&A.** Companies pivoted to gain access to the Americas, expecting growth exposure, and paid a premium for this access.

Historical macroeconomic comparisons

Our first snapshot is a historical macroeconomic comparison—that is, a look at what’s different and what’s similar between present macroeconomic developments and previous ones (Exhibit 1).

The key takeaway from this postcard? The year 2024 followed a pattern similar to many other macroshock periods of recovery and, though deal prices on a real basis have been broadly declining for about a decade, likely also reflected uncertainties related to the US presidential election year (Exhibit 2).

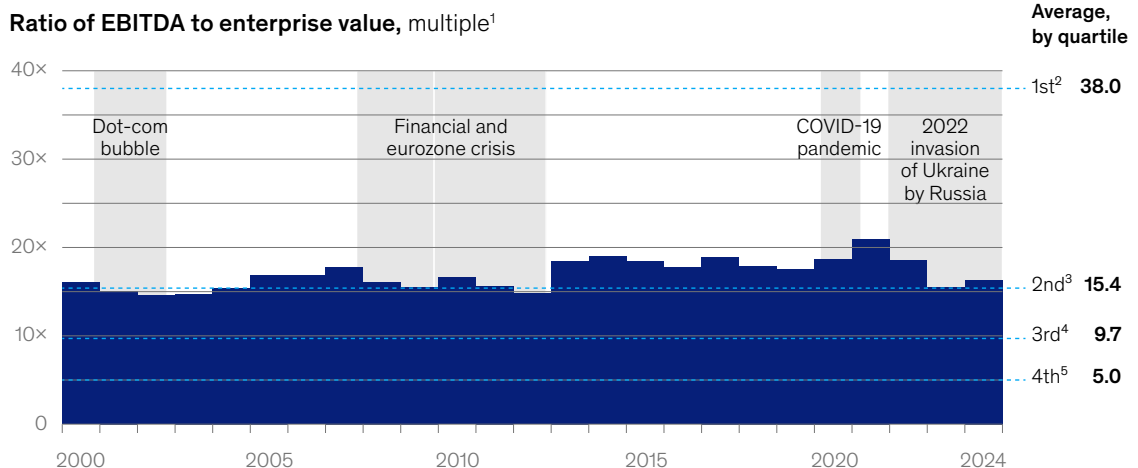
It’s tempting to call the past few years a “perfect storm.” But doing so suggests that the recent past represented a one-off happenstance that is now behind us and that more stable, predictable times are ahead. In fact, and more likely, a combination of forces and shocks is likely to endure through the foreseeable future.

M&A activity has always varied to some extent, of course, and downturns aren’t new; though each decline has been different, they share important commonalities. What’s similar about current developments compared with prior developments? Most prominently, the decreases in dealmaking we see today remind us of the oil shocks of the early 1970s—a combination of events and forces (an energy crisis, a severe strain on supply, the resurgence of inflation, rising geopolitical tensions, and a deceleration in productivity in developed markets) that wasn’t contained within a single or few industries and geographies.

That’s unusual. While most of the other past downturns (such as the Asian financial crisis in 1997, the dot-com bubble in 2000, and the global financial crisis from 2007 to 2009) were largely contained *within* specific regions or sectors, the pandemic and postpandemic shocks that

Exhibit 1

There are clear similarities—and some differences—when comparing historical downturns in M&A activity.

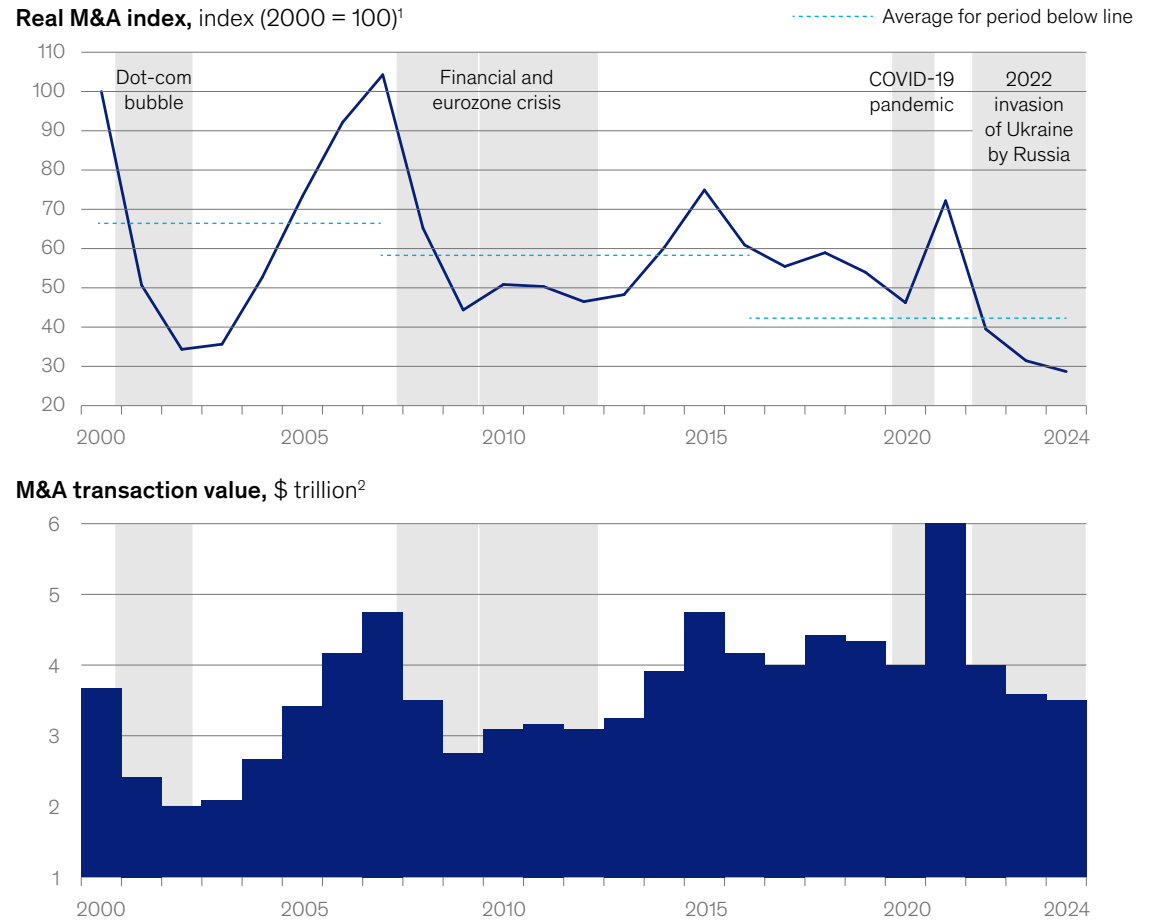


¹Deals >\$25 million, ordered by announcement date, excl outliers (multiples >100). ²Average of top 25% of observations, in descending order. ³Average of 2nd 25% of observations, in descending order. ⁴Average of 3rd 25% of observations, in descending order. ⁵Average of bottom 25% of observations, in descending order.
Source: Dealogic; McKinsey analysis

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Exhibit 2

M&A activity typically lags behind economic downturns, reflecting heightened uncertainty.



¹M&A transaction values discounted for inflation and indexed to 100.

²Deals >\$25 million, ordered by announcement date.

Source: Dealogic; Federal Reserve Bank of St. Louis; S&P Capital IQ; McKinsey analysis

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dealmakers now confront reverberate *across* sectors and geographies. Moreover, today's uncertainties are marked by a combination of changes happening at approximately the same time—even if those shifts don't dominate the headlines.

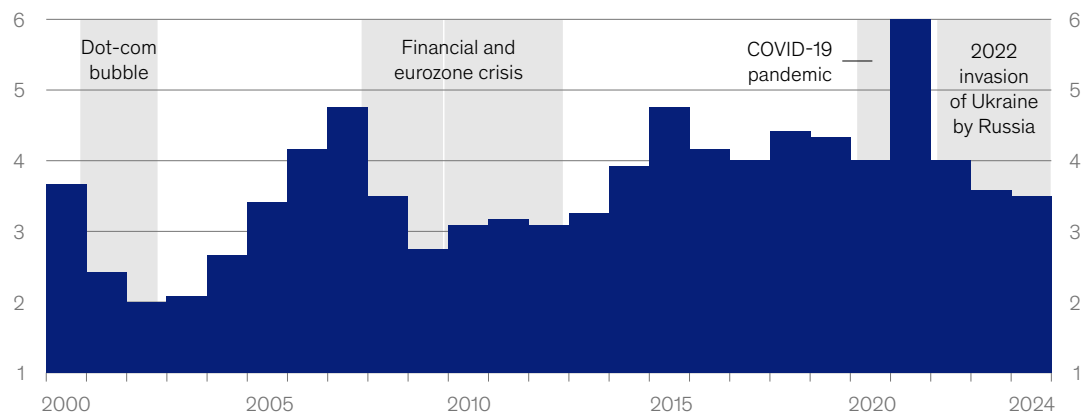
Consider regulation: The rules that govern M&A within and across regions are undergoing some of their most consequential changes in decades. To take one prominent example, the United States experienced a dramatic spike in regulatory challenges to transactions, and new rules are going into effect that will substantially alter filing requirements—though whether those rules will endure is itself uncertain, since the nature and extent of changes between the Biden and second Trump administrations are yet to be determined.

Or consider capital flows: In Europe, foreign direct investment is declining substantially in some of the region's largest economies. Now, [changes to tariff policy](#) threaten to upset global markets even further. Nor, of course, are these dynamics the only sources of uncertainty. Strains on [global supply chains](#) are pronounced, [geopolitical tensions](#) are rising, and [carbon constraints](#) are becoming more urgent. The shocks are far more varied and, in some respects, much more intense than in previous crises (Exhibit 3).

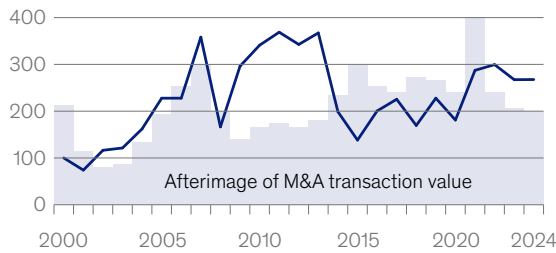
Exhibit 3

Uncertainty affects M&A across multiple dimensions.

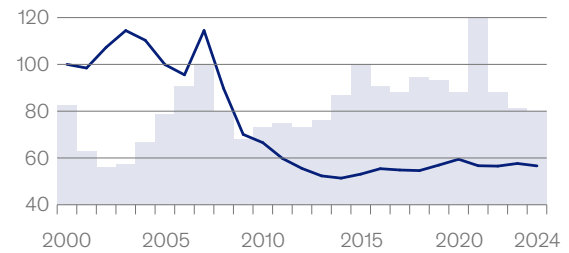
M&A transaction value, \$ trillion¹



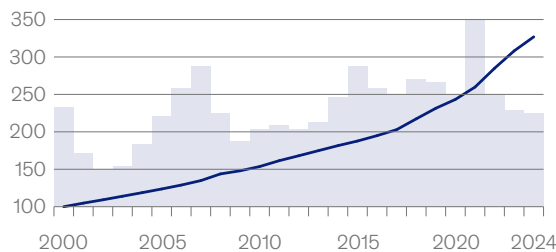
Oil price, index (2000 = 100)²



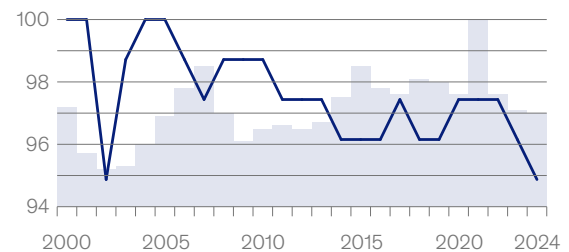
Leverage ratio, index (2000 = 100)³



Inflation, index (2000 = 100)⁴



Political stability, index (2000 = 100)⁵



¹Deals >25 million, ordered by announcement date. ²Price per barrel of crude oil in US indexed at 2000 = 100. ³Leverage ratio of S&P 500 indexed at 2000 = 100. ⁴World Consumer Price Index indexed at 2000 = 100. ⁵World political stability from Economist Intelligence Unit indexed at 2000 = 100. Source: Dealogic; Economist Intelligence Unit; Federal Reserve Bank of St. Louis; S&P Capital IQ; McKinsey analysis

Deal metrics

Historical comparisons, while helpful, reveal only part of the story. Another critical lens is financial and deal metrics. Start with deal volume: The number of deals in recent years has decreased in the aggregate, but aggregate decline in deal flow is largely a function of deal counts, which are falling amid uncertainty.

The key takeaway from this postcard? Deal multiples are down more than seven turns amid the current uncertainties, far exceeding multiple compression during prior downturns. While overall deal multiples and top-quartile multiples are currently within historical averages, the decline in the past few years is stark—and perhaps a reflection on the frothy median deal multiples seen early in the COVID-19 pandemic.

Deal multiples from 2021 to 2024 were slightly above the average of the second quartile of the past 25 years and slightly higher than multiples in prior, recent crises. But the data are not sufficient to identify a clear trajectory. A closer analysis reveals that M&A activity typically falls over time in the wake of economic shocks. Deals that had already been in the pipeline typically are completed, but new deal flow is constrained—hence the lag. Moreover, macroeconomic challenges are persisting. Customer sentiment is the lowest it has been in decades. In addition, the days of cheap funding that had marked economies before the COVID-19 pandemic are over, at least for the foreseeable future. For most of the 2020s, the cost of funding has been fluctuating, sometimes wildly, and the volatility is presenting a significant challenge to M&A. Finally—and not surprisingly, amid roiling uncertainty and shocks to capital markets worldwide—the number of IPOs has decreased sharply (Exhibit 4).

As of mid-November 2024, P/E multiples reached 35 times compared with less than 25 times in early 2022, and multiples of EBITDA to enterprise value climbed about 10 percent since the start of 2023. It's important to note that these observations represent a global aggregate; different industries reflect varied dynamics, as do different geographies (and cross-border transactions) and categories of dealmakers (that is, financial versus corporate). These analyses, among others, are presented in more detail below.

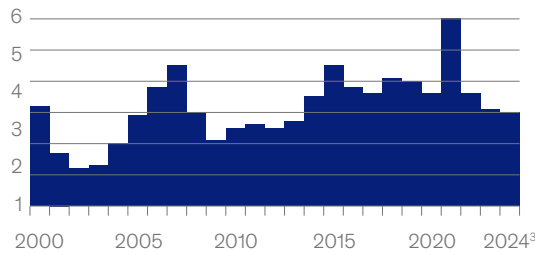
The number of deals in recent years has decreased in the aggregate, but aggregate decline in deal flow is largely a function of deal counts, which are falling amid uncertainty.

Exhibit 4

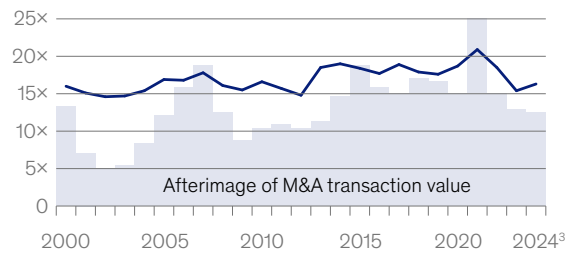
While some M&A data points, such as reduced IPO proceeds, are stark, trend lines across other important metrics are not as clear.

Key 2000–24 M&A metrics

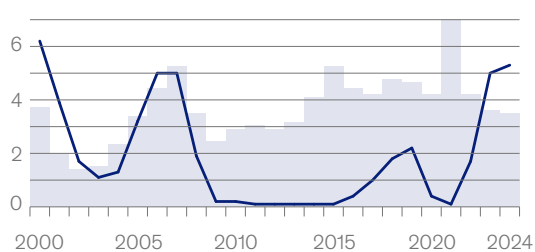
M&A transaction value, \$ trillion¹



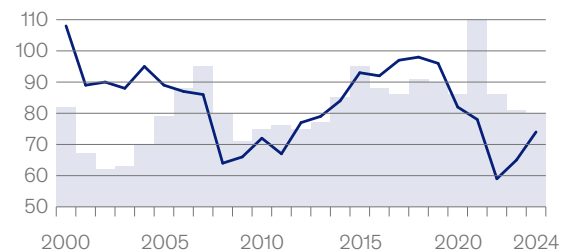
Ratio of enterprise value to EBITDA, multiple²



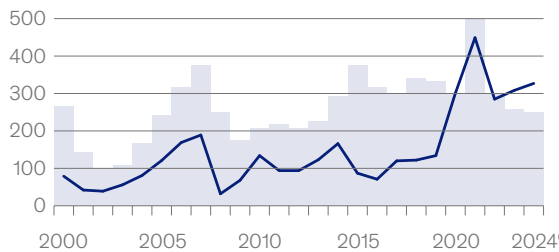
Federal funds rate, %



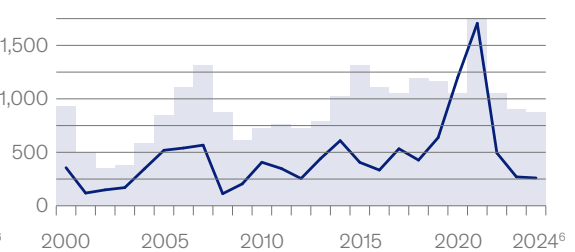
Customer sentiment, index (1996 = 100)⁴



IPO net proceeds, \$ billion⁵



IPO, number annually



¹Deals >\$25 million, ordered by announcement date. ²Only available for selected public transactions and for deals >\$25 million; excl outliers (multiples > 100).

³As of November 15, 2024. ⁴Normalized with consumer sentiment, with 1996 = 100. ⁵Deals >\$25 million. ⁶Annualized based on H1 2024.

Source: Dealogic; Federal Reserve Bank of St. Louis; S&P Capital IQ; McKinsey analysis

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Cross-border M&A

The key takeaway from this postcard? Companies pivoted hard to gain access to the Americas, expecting growth exposure, and paid a premium for this access.

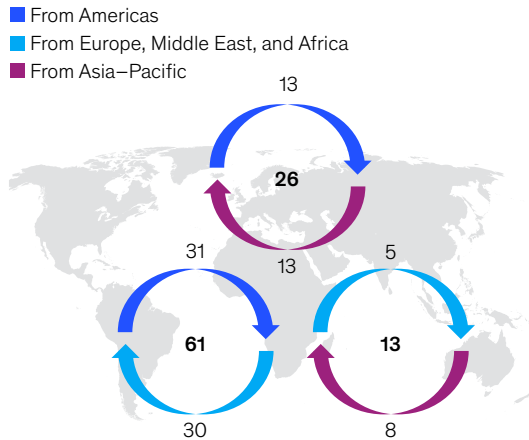
It would be reasonable to expect that uncertainty has had a similar, downward effect on deals across borders. Yet surprisingly, that's not the case (Exhibit 5).

We define cross-border M&A in two ways: deals across borders but within the same continent (for example, a company based in France acquiring a target in Germany) and deals that span continents (such as a US company acquiring a Netherlands-based business). With respect to both categories, cross-border M&A has remained steady despite global uncertainty, with roughly

Exhibit 5

The Americas powered global deal flow in 2024, but key differences existed across sectors.

Intercontinental M&A activity, by region of origin and destination, 2020–24, % of deal value¹

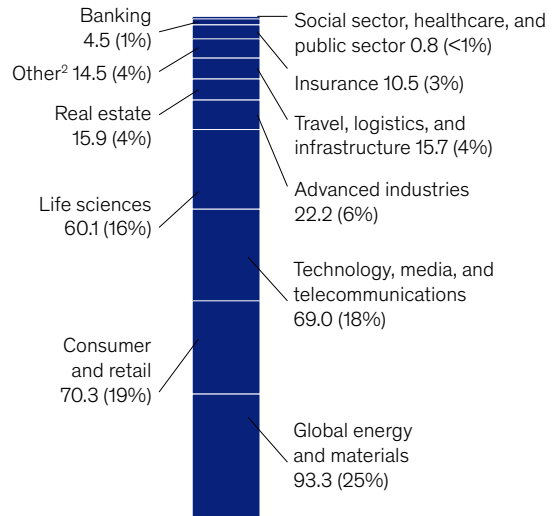


¹As of November 15, 2024.

²Includes professional services and government spending.

Source: Dealogic; McKinsey analysis

Intercontinental M&A activity value, \$ billion¹



McKinsey & Company

25 percent of deal value being cross-border. Indeed, valuations for individual cross-border deals are *increasing*. The reasons are largely case-specific; for example, some companies have an immediate need to reposition their supply chains and secure beachheads in markets (especially with pending supply chain or tariff barriers), while others continually track to where the growth is—including new businesses and markets.

Drilling down further, we found that approximately 60 percent of intercontinental deal volume for deals larger than \$500 million came from transactions between EMEA (Europe, the Middle East, and Africa) and the Americas, with the buyers and sellers almost evenly distributed between the two regions. That's nearly double the size of the next largest category, Asia-Pacific (APAC) and Americas deals, which, at 26 percent, also split evenly between those two regions in terms of where the funds were flowing. The smallest category, APAC–EMEA deals (13 percent), was half the size of APAC–Americas deals; in that case, APAC initiated the larger share of intercontinental funding (8 percent versus 5 percent), though both are growing rapidly.

To recognize today's new normal, it's important to remember the key, counterintuitive nuance: Cross-border M&A is trending up, and cross-border deals are bringing higher valuations. These dynamics run decidedly counter to declining or flat trend lines within most individual countries and regions.

Deal synergies

The takeaway from this postcard? Announced synergies in 2024 were well above historical averages. This reflects bullishness on cost, capital, and revenue, but also likely a need to justify premiums in an uncertain environment.

One might expect that massive uncertainties would have a negative effect on the size of deal synergies. After all, forces in flux could (and, one would expect, *should*) present a headwind for capturing postclosing value. Yet here again, closer analyses reveal surprises. Following the COVID-19 pandemic, the percentage of M&A transactions announcing cost or revenue synergies (or both) decreased, particularly for revenues. But for transactions that did announce synergies, on either or both the revenue and cost sides, the size of synergies *increased* significantly as a percentage of transaction value (Exhibit 6). We observe, moreover, that realized synergies are often considerably higher than what has been announced and consider not only combinational cost synergies but also sales and capital synergies.

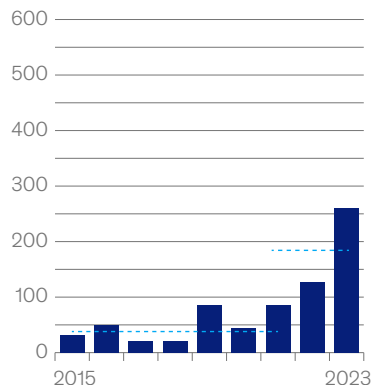
Today, cost synergies are nearly double 2015 levels, and revenue synergies have, remarkably, risen eightfold over the same period. These clear, positive trends are hardly the indication of a decidedly down market. Instead, this postcard presents a more nuanced perspective of the current, uncertain new normal, with several forces at work. For example, because of pervasive uncertainty, many boards require more convincing for M&A and green-light only those deals that have more significant synergy potential or are less likely to involve prolonged and potentially costly legal review. It also indicates more proficient corporate acquirers, able to commit to

Exhibit 6

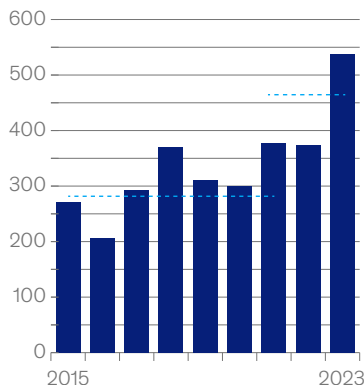
Announced synergies are considerably increasing.

Announced revenue and cost synergies and US federal funds rate

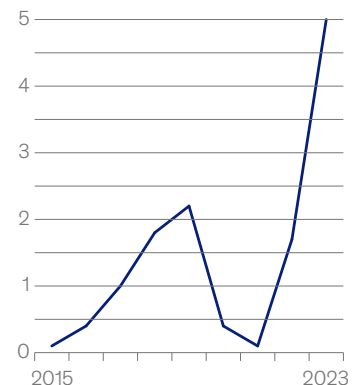
Revenue synergy as share of transaction value, basis points



Cost synergy as share of transaction value, basis points



US federal funds rate, %



Source: McKinsey Global Capabilities Survey; McKinsey analysis

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larger value creation targets as they size a deal. In addition, with a higher cost of funding, a larger value creation envelope will be needed to meet the internal rate of return requirements of acquirers. No single or simple explanation fits every case; complexities leave open a fan of outcomes for deals to succeed, fail, or (for now) stay in neutral.

Alternative deal types

The takeaway from this postcard? Alternative deal structures, particularly JVs and alliances, are back in vogue, reflecting earlier-stage acquisitions and a desire to access functional capabilities in developing areas such as artificial intelligence (Exhibit 7).

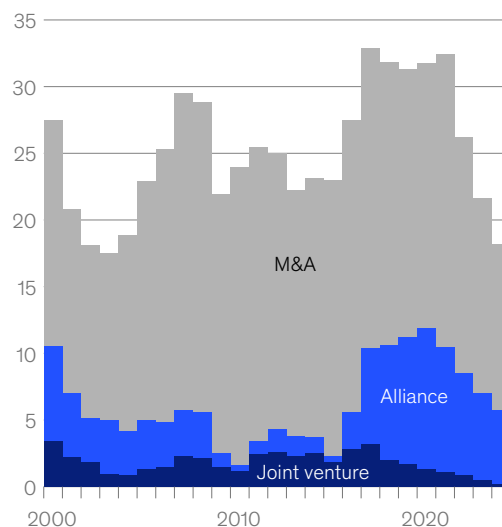
The current M&A environment also reflects a new normal in alternative deal types. The share of JVs and alliances has settled at a higher percentage compared with the period between 2004 and 2017. The rationale for alternative deal types can be particularly compelling in uncertain times; these structures allow dealmakers to potentially reduce dependencies on interest rate fluctuations and ride out a funding crunch until interest rates subside and then stabilize. Moreover, the share of minority investments has increased following recent shocks (for example, in 2020, 2022, and 2023). That dynamic, too, is consistent with uncertainty, as acquirers seek to adjust for funding gaps, decrease risk, and address potential regulatory concerns.

Exhibit 7

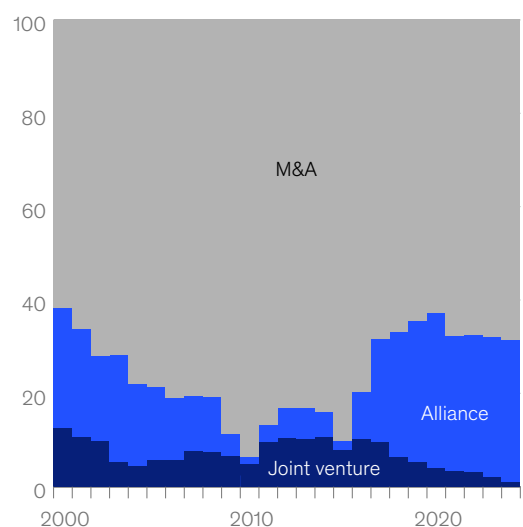
Alternative transactions, such as joint ventures and alliances, have come to represent a substantial share of deals in recent years.

Deals, by type of buyer, 2000–24¹

Deals, \$ billion



Deals, %



¹As of November 15, 2024.
Source: Dealogic; SDC Platinum

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Private equity

The takeaway from this postcard? Private equity (PE) remained largely on the sidelines in 2024. But as the length of time that financial buyers are holding businesses is reaching historical highs, PE funds are holding substantial levels of dry powder—and their share of deals is below historical highs (Exhibit 8). Those dynamics suggest increased pressure on PE firms to engage in more dealmaking.

Because M&A is driven by strategic and *financial* dealmakers, it's helpful to disaggregate the two. Turning the lens on private investors reveals that they currently have an abundance of dry powder. Multiple PE funds face a defined timetable, an increasing pressure to exit, and an urgent imperative to deliver higher investor returns. After the share of PE transactions peaked in 2021 (27 percent of total deal volume), investors have been pushing for deals, even when that could lead to potential “must sell” situations.

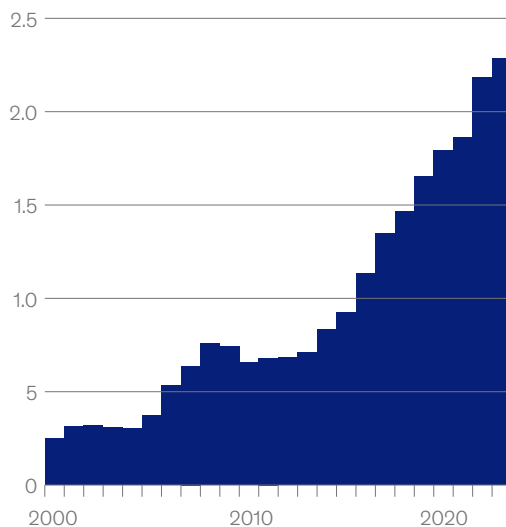
For more than two decades, private investors' share of all M&A deals has run between 12 and 22 percent of total deal volume, and because that percentage is a function not just of their own dealmaking activity but also those of corporate dealmakers as well, it's uncertain whether the recent trajectory since 2014 will plateau at the lower end of that range, return to the higher end, or perhaps set new highs (or even lows). PE's overall share of M&A activity nudged slightly upward in 2024 compared with 2023 (15 percent of deals worldwide in excess of \$25 million, one percentage point higher than 2023, and two percentage points lower than 2022). These levels, too, are a postcard from today's uncertainty.

Exhibit 8

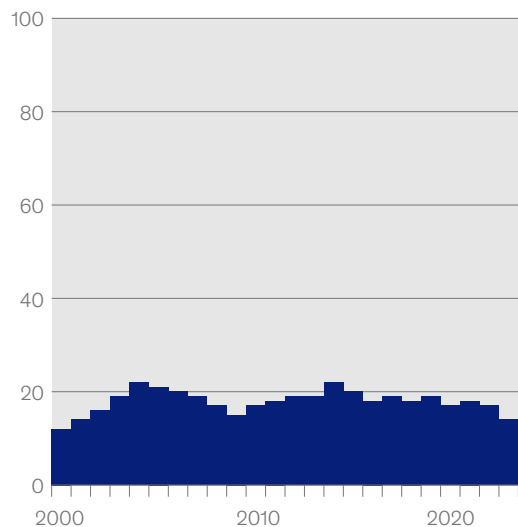
Private equity funds are holding more dry powder, and their share of deals is below historical highs.

Private equity (PE) and private investors' dry powder,¹ 2000–23

Dry powder value, \$ trillion



Share of PE M&A deals, % of volume



¹Includes all PE (buyout, growth, venture capital, and “other” category).
Source: Dealogic; Preqin; McKinsey analysis

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Assessing a range of outcomes

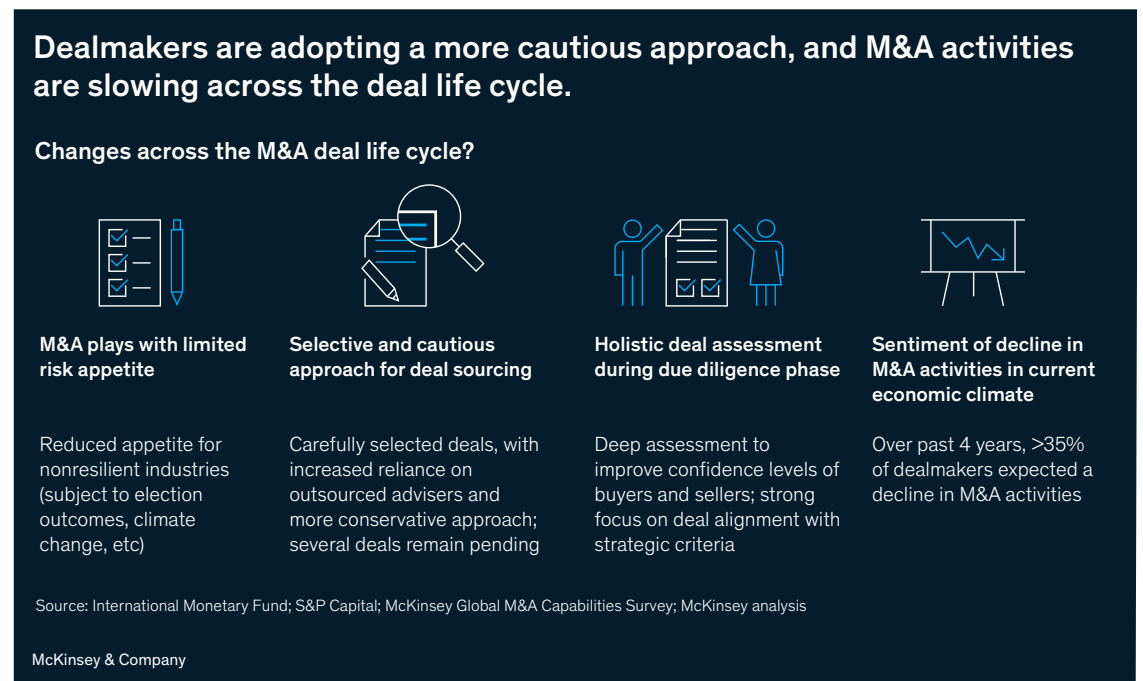
Dealmakers, confronted with this new normal, can pursue a range of outcomes. We observe that many companies are taking more defense-minded actions for M&A. That approach is certainly understandable, given considerable unpredictability. Yet uncertainty also presents unique opportunities, and a more offense-minded approach could be highly attractive for those who dare.

Purpose, not opportunism

Companies and private investors are adopting more cautious strategies to protect capital and are slowing down M&A activities across the deal life cycle. Several key themes are particularly evident.

First, we're seeing a more limited appetite for risk. This is particularly (but not solely) the case for industries that are more exposed to exogenous factors such as election outcomes and climate change. Second, most dealmakers are taking a selective and cautious approach. While [programmatic acquirers](#) have maintained their acquisition pace—and demonstrated the resilience that allows them to better source deals, optimize organizational structures in integrations, and demonstrate greater success in retaining key talent—a large majority of acquirers are pumping the brakes on the number of deals they initiate and scrutinizing those under current consideration. Opportunistic dealmaking of the last decade has decreased, and more purposeful deals (with rationales that seek to ensure a clear fit with a defined strategy) now mark the M&A landscape (Exhibit 9).

Exhibit 9



Dealmakers are seeking to make more holistic deal assessments, particularly during the due diligence phase. They are conducting rigorous analyses to improve the confidence level of sellers and buyers alike and are committing to ensuring that each deal meets clearly defined strategic criteria. They're also seeking to maintain their focus through the integration phase to capture synergies more quickly, particularly on the cost side, amid rising uncertainty.

The implications of their more deliberate approach are reflected in expectations of future M&A activity. The dealmakers we survey express that they expect to do fewer deals.

Opportunities amid uncertainty

It's understandable that intense uncertainty would lead dealmakers to adopt a more defensive posture. Yet the new normal offers new opportunities for those who adopt a bolder approach. A less active deal market allows them to take advantage of richer pipelines; buyers that maintain their commitment to M&A will have fewer contenders for targets and can achieve more value-accretive deals. In particular, they can be more proactive about potential deals with private investors facing pressure to sell assets held for longer holding times—and those on the lookout to *buy* as their dry powder increases. Dealmakers can also take advantage of new realities in creative deal structuring, using JVs and alliances to enable transactions in a context where more attractive funding may not be imminent. Ideally, too, they can capture higher synergy values as they put their customized playbooks into action.

Finally, it's worth noting that, historically, companies that take a [programmatic approach](#) to deals are more likely in the aggregate to [create value](#) than companies that practice selective dealmaking, pursue [large deals](#), or primarily pursue [organic growth](#). Indeed, their success across several metrics has been particularly evident amid recent uncertainty. For one, they've demonstrated greater resilience, besting competitors by about ten percentage points in 2023 in aligning or even exceeding the number of deals articulated in their yearly strategic plan. Moreover, programmatic acquirers are winning across the deal cycle. Compared with 2021, dealmakers reported that they were markedly more likely in 2023 to hew to M&A playbooks for deal sourcing and due diligence, leverage integration to optimize organizational structures, and retain talent critical for sustaining a competitive advantage.

Uncertainty in M&A has indeed become the new normal. With interest rates no longer near zero, an array of macroeconomic shocks reverberating worldwide, and extraordinary unpredictability in regulations, geopolitics, and other key dimensions, dealmakers have become more purposeful and less opportunistic. There is a higher bar for delivering value creation, and an increased willingness to engage in more complex deal structuring. Yet purposeful M&A pays off, with higher excess TSR compared with other approaches. There are also no-regret actions that both offense-minded and cautious acquirers are deploying to create more value. Here, too, a full appreciation of the challenges and opportunities requires nuance, perspective, and a varied range of insights.

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What it takes to make separations a competitive difference-maker

Companies that are effective at separations can significantly outperform their peers. Our latest survey highlights the opportunities, and complexities, of achieving a successful separation.

*by Andy West, Anna Mattsson, and Jamie Koenig
with Anika Becker*

Every business has a best owner, which may—or may not—be your company. But recognizing that it's time for a separation (which we define as spin-offs, split-offs, carve-outs, and other sales of businesses in a company's portfolio) and actually *executing* separations effectively are very different propositions. Successful companies not only understand the separation imperative, but they also anticipate the challenges involved and take practical steps to meet them. As a result, they tend to create more value for a broader range of stakeholders.

How do they do it?

To learn more, we surveyed a broad range of experienced leaders and practitioners across a range of industries, geographies, and company sizes. We asked hard questions and received frank, thoughtful answers. To a large extent, the responses confirmed many long-held principles about separations.¹ But they also revealed a few surprises. In this article, we'll share the most compelling lessons.

The key findings

The survey found critical differences between programmatic dealmakers and companies that take different approaches to M&A. It also highlighted how important speed can be to an effective separation. In addition, the survey revealed that separations can be a lot more difficult to execute than they may initially appear—even for sellers that are determined to just “sell and forget,” intending to let the buyer sort details out.

Successful companies not only understand the separation imperative, but they also anticipate the challenges involved and take practical steps to meet them. As a result, they tend to create more value for a broader range of stakeholders.

¹ We interviewed a diverse set of 83 separation experts comprising C-suite leaders as well as functional and project leaders from various industries. The survey was conducted in May 2024.

Active management wins

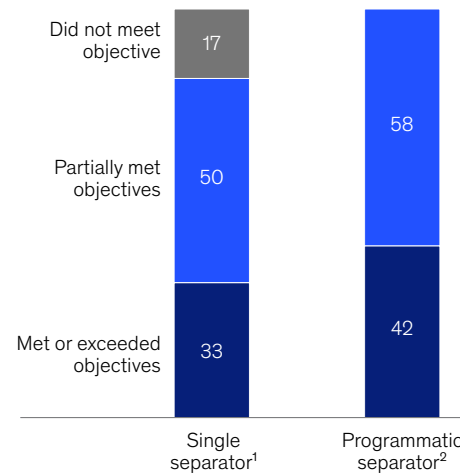
Companies that regularly refresh their business portfolio, our survey found, reported better outcomes compared with those that undertook only a single separation. This underscores the value of accumulated experience and is [consistent with our historical research](#). Moreover, respondents whose companies took a [programmatic approach](#) to deals managed to achieve at least partial success in their separation objectives, whereas 17 percent of nonprogrammatic dealmakers did not meet their goals. Active dealmakers reported that they maintained better control over resource limits. This indicates that these companies are more adept at balancing speed and value creation, as well as accurately gauging the resources needed for successful separations (Exhibit 1).

Interestingly, survey respondents from companies that conducted only one separation during the past three years reported that their companies are less likely to engage in further separations in the next few years (Exhibit 2). However, this excludes external factors potentially fueling separations, such as an activist campaign.

Exhibit 1

Companies that take a programmatic approach to separations achieve the best success rates.

Value objective achieved, by separator type, %



All programmatic separators achieved their separation objectives at least partially, compared with 17% of single separators that failed to achieve their objectives . . .

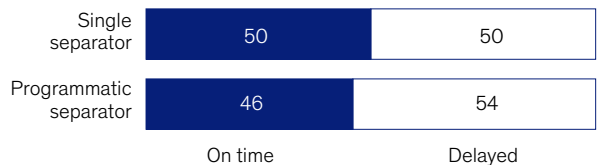
¹Only 1 separation in 3 years.

²More than 5 separations in 3 years.

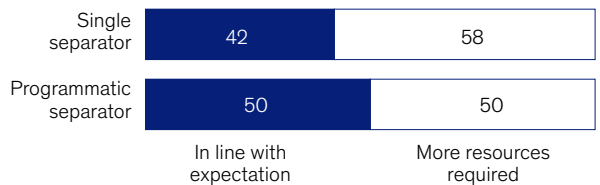
Source: McKinsey Separation Survey 2024

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Delays, by separator type,¹ %



Resources required, by separator type,¹ %

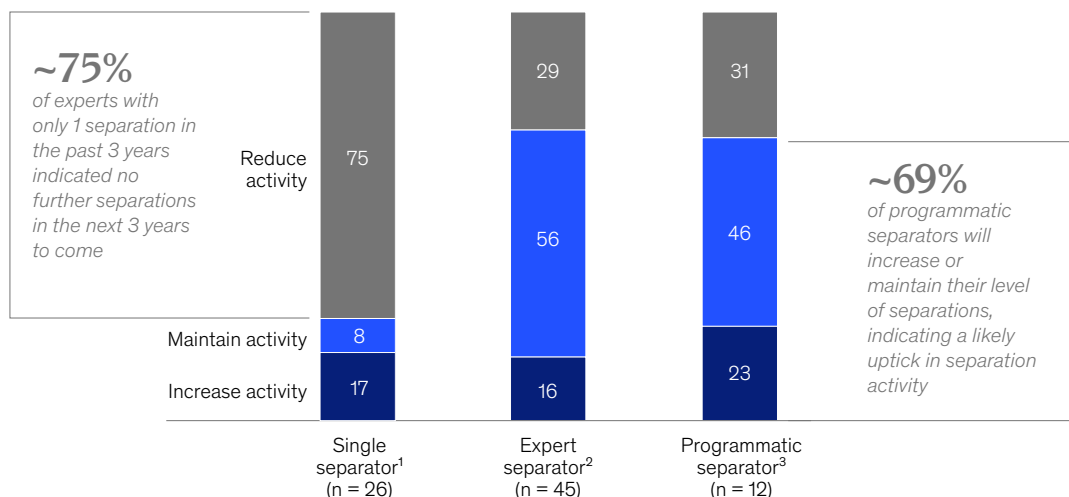


. . . despite programmatic separators not outperforming single separators in avoiding delays, but keeping resources in check

Exhibit 2

Programmatic separators plan to continue separations.

Plans for future separation activity, by separator type, %



¹Only 1 separation in 3 years.

²2 to 5 separations in 3 years. Figures do not sum to 100%, because of rounding.

³More than 5 separations in 3 years.

Source: McKinsey Separation Survey 2024

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Speed matters

Speed matters for the success of a separation. Prior analysis of spin-offs, for example, shows that companies that closed within seven months of a spin-off announcement had a combined positive three-year median excess TSR of 1.8 percent, while companies that took 19 months or longer to close generated excess TSRs of -19.1 percent. Companies that closed within eight to 12 months and 13 to 18 months of the separation announcement had excess TSRs of -0.8 percent and -4.3 percent, respectively.

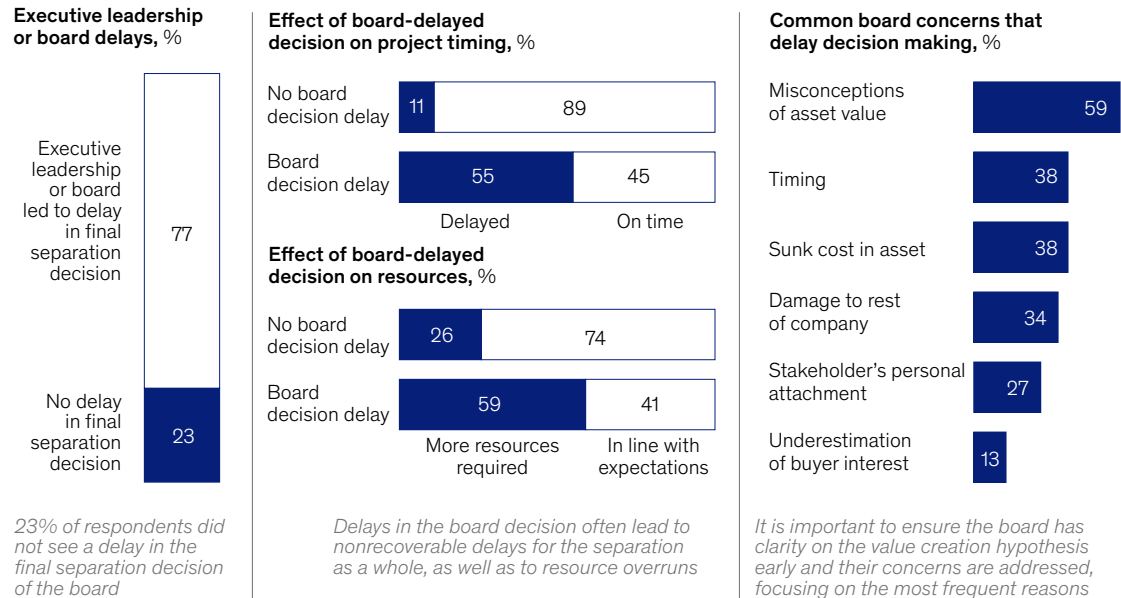
Board deliberations can be a critical source of delay across separation categories. Our survey showed that only 23 percent of separations occurred without board-related delays. Delays in board decisions are strongly correlated with broader project setbacks. Survey participants shared that when board decisions are delayed, 55 percent of separations wind up being delayed as well, compared with just 11 percent when board decisions are timely. Strikingly, board-induced delays often lead to resource overruns; 59 percent of survey respondents reported cost overruns, compared with 26 percent who reported overruns when there were no board delays (Exhibit 3). These findings underscore the importance of early board clarity for successful separations.

A closer examination of board hesitation reveals several key concerns. The most frequently mentioned issues include valuation concerns of the involved assets, followed by the timing of the separation in relation to market conditions, sunk costs in the assets to be separated, and potential negative impact on the remainder of the company. These diverse concerns highlight the complexity of both internal and external perspectives that the board must consider. To ensure a

Exhibit 3

Board concerns should be addressed early to avoid delays and resource overruns.

Source and effect of separation delays



Source: McKinsey Separation Survey 2024

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successful separation, these issues should be addressed early and directly, with clear, data-driven arguments and thorough planning. Only then can the board make an informed decision.

Consider the case of a European chemical company, ChemCo, which attempted to separate its commodity and specialty businesses. Although the executive board quickly supported the move, the supervisory board hesitated due to concerns about high “dis-synergy” costs and potential effects on employees. It was only after presenting detailed analyses and directly addressing the supervisory board’s concerns that the company could proceed with the separation. However, this process delayed the separation by several months, ultimately resulting in the withdrawal of interest by a potential buyer. As a result, ChemCo in its entirety became the target of a hostile takeover, as opposed to a strategically managed separation with ChemCo in control.

Transitions can be harder than they first appear

For many sellers, it’s tempting to approach separations as “sell and forget.” Yet that approach often fails to maximize value creation, for seller and target alike. It’s hardly a given that *both* NewCo and RemainCo will outperform their peers.² Separations are complex, and success often hinges on the effectiveness of preclose activities in laying a solid foundation for both companies. Navigating the often-opposing interests of both sides is crucial for a smooth transition. It may even be said that separations are like amicable divorces—at least until sticking points materialize.

² See Jan Krause, Anthony Luu, Robert Uhlener, and Andy West, “Achieving win-win spin-offs,” McKinsey, October 11, 2021; and Obi Ezekoye and Jannick Thomsen, “Going, going, gone: A quicker way to divest assets,” McKinsey, August 6, 2018.

Understanding the sticking points between RemainCo and NewCo is essential for leaders to manage these transitions effectively and avoid common pitfalls.

Our recent survey highlights the pressing issues companies face during separations, and the most frequent sticking points. Notably, 42 percent of survey participants reported that they struggled with the duration and pricing of transitional service agreements (TSAs). This includes a lack of clarity on which TSAs are needed due to the separation not being far enough along, service levels not being clearly defined, or differing views on the cost of services in the newly transactional relationship.

However, TSAs were not the only reported sticking point in transactions (Exhibit 4). Significant numbers of respondents also faced challenges with talent allocation, technology architecture, and target forecasts and business plans. The wide range of issues underscores the challenging discussions between RemainCo and NewCo, which often must be proactively managed for a successful transition.

Exhibit 4

Separations are complex, and there are many sticking points that leaders commonly underestimate.

Separation sticking points, by type and perspective

RemainCo perspective	Typical sticking points	NewCo perspective	Frequency seen, ¹ %
"Shorter-duration TSAs ² and penalties drive lower costs and allow better planning"	TSA duration and pricing	"Flexible TSAs and no penalties allow more agility and flexibility"	42
"All relevant team members should go with the asset"	Talent allocation	"Want only best players and 'A-team'"	37
"Stick with existing architecture to reduce risk and shorten TSAs"	Technology architecture	"Optimize the technology platform during the change"	35
"Optimistic is better, so acquirer and investor interest is robust"	NewCo forecasts/ business plan	"Conservative is better, so higher likelihood to outperform"	34
"Leverage where appropriate existing design, setup, and people to limit stand-up costs"	Operating model setup	"Apply a cleansheet design; invest pre-spin to be best in class"	28
"Stranded costs should be avoided by all means necessary"	RemainCo stranded costs	"RemainCo stranded costs are none of our concern"	23
"Continue to control all joint customer accounts"	Customer accounts	"Manage key accounts to build relationships, especially for top customers"	22
"Larger debt loading drives larger RemainCo proceeds"	Debt loading and liabilities	"Lower debt loading enables more flexibility"; "Protection from liabilities"	19
"Retain best assets"	Asset boundary	"Want only assets that fit nicely into a cohesive strategy"	14

TSAs are duration and pricing, talent allocation, and technology architecture are biggest sticking points between NewCo and RemainCo

¹Experts were given a list of typical sticking points and asked to select up to 3.

²Transitional service agreements.

Source: McKinsey Separation Survey 2024

A deeper dive into the two biggest sticking points—TSAs and talent allocation—provides more color.

Separation-related agreements. TSAs and long-term agreements (LTAs) are often essential for ensuring business continuity and facilitating a smooth separation for both RemainCo and NewCo during transitions. TSAs can provide additional flexibility, especially when the transaction outcome is uncertain or when there isn't enough time to fully establish the target's new operating model.

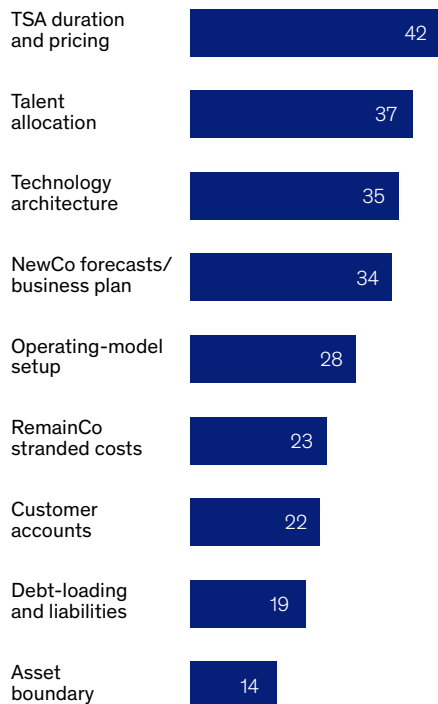
The separation survey highlights that one of the most prevalent challenges between RemainCo and NewCo is negotiating TSAs, with 42 percent of survey respondents identifying it as a top three issue (Exhibit 5). This difficulty stems from the newly transactional nature of the relationship, making it complex to negotiate the scope, pricing, and governance of TSAs—issues encountered by four out of five survey respondents in their last separation.

Exhibit 5

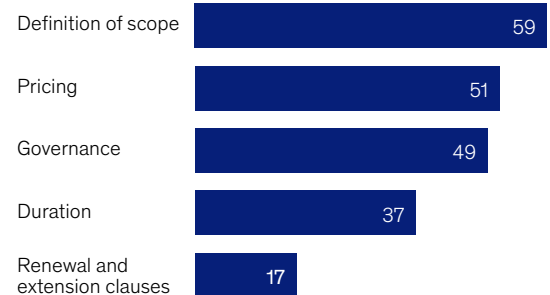
Transitional service agreements are a major sticking point in separations.

Significant sticking points in service agreements

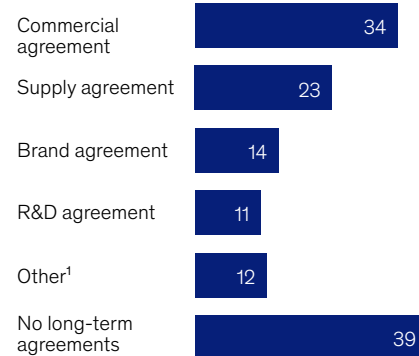
Sticking points between RemainCo and NewCo, %



Challenges in finalizing transitional service agreements (TSAs) and long-term agreements (LTAs), %



LTAs used beyond the TSA, %



¹Including manufacturing service agreements, intellectual property agreements, HR agreements, etc.
Source: McKinsey Separation Survey 2024

In divestitures, some employees might feel underappreciated. Effective leaders credibly frame the separation as a chance for new opportunities for all employees, not just those rated in the top 5 percent of performance.

The challenge intensifies when LTAs need to be negotiated, as they bind the separated companies together for a longer period. Despite this complexity, LTAs are frequently used, particularly in the form of commercial agreements (34 percent) and supply agreements (23 percent). Only 39 percent of experts reported not using any LTAs in their last separation. Given that these agreements are long-lasting and will be established between two soon-to-be independent entities, it is crucial to negotiate them with the same rigor as one would with any other third-party agreement.

While TSAs and LTAs can be critical for maintaining business continuity, they often present significant negotiation challenges and may impede the full potential of transformation. Ideally, reliance on these agreements should be minimized. However, if they are unavoidable, it is imperative to negotiate them at arm's length to ensure fairness and efficacy.

Talent allocation. Talent matters—even if it is leaving. Both the seller and acquirer want “A-team” employees to ensure that they are set up for success. However, as soon as talented personnel have been identified and allocated between RemainCo and NewCo, the question is how to retain and even excite high-potential employees during the separation. Our survey suggests that NewCos benefit from talent retention mechanisms; half of NewCos with such mechanisms in place reported that they met or exceeded their objectives, compared with just one-quarter of those without such mechanisms. From our experience, this is often the case in divestitures, where some employees might feel underappreciated. Effective leaders credibly frame the separation as a chance for new opportunities [for all employees](#), not just those rated in the top 5 percent of performance.

The survey highlights just how central talent is to a deal's success. More than 80 percent of respondents indicated they had at least one form of talent retention in place, though with greater emphasis on NewCo than on RemainCo. The most common levers for talent were monetary

incentives (such as retention and performance bonuses) and career development, including opportunities for a greater leadership role. Survey responses were similar for both RemainCo and NewCo in this regard, except for acknowledgment for the separation effort and salary reviews (Exhibit 6).

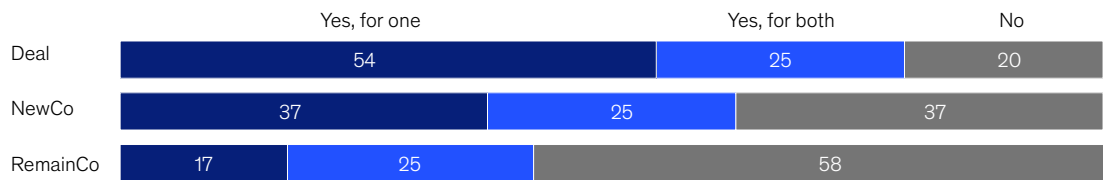
Survey responses also strongly suggest that talent retention programs can significantly increase the chance of NewCo meeting or exceeding its objectives. RemainCo is clearly affected, too, though the effect appears to be more limited.

Exhibit 6

Talent matters in separations—for both NewCo and RemainCo.

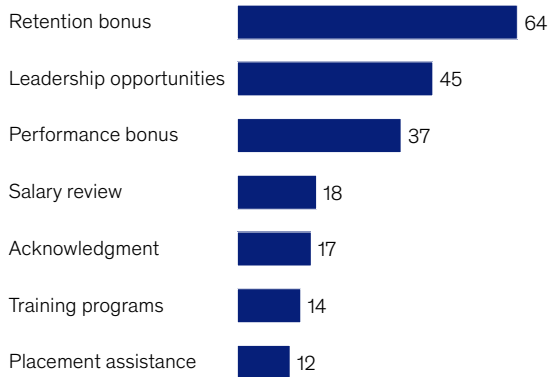
Talent challenges during a separation

In-place talent retention, by separation level,¹ %



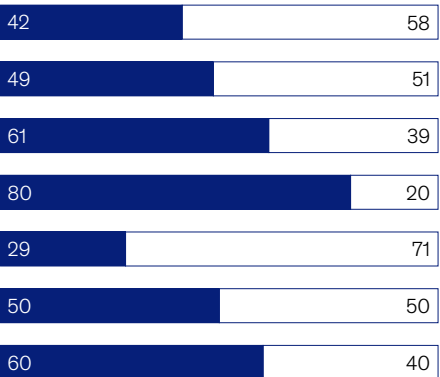
Most separations have some form of talent retention in place with a higher emphasis in NewCo

Common retention levers in place, %



Retention bonus and additional leadership opportunities are the most common talent retention levers

Distribution of common retention levers, %



The use of levers is fairly equal between NewCo and RemainCo except for acknowledgment and salary review

¹Figures may not sum to 100%, because of rounding.
Source: McKinsey Separation Survey 2024

Achieving operational excellence

Taken together, survey responses support our own broader observations—separations should be part of a well-considered strategy, but creating value from separations takes work. Companies that adopt a programmatic approach to M&A tend to outperform their counterparts, achieving higher excess TSR and demonstrating the value of accumulated experience. The survey underscores the importance of timely board decisions, as delays often lead to broader project setbacks and resource overruns. Addressing board concerns early with data-driven arguments is crucial for a successful separation. As one survey respondent shared, “We wished we would have moved faster.”

The complexities identified by survey respondents highlight several critical insights for companies that seek to achieve a successful separation:

- *Proactive management is essential.* The potential for conflict among the parties is real, even when separations begin amicably. Without careful and strategic oversight, these negotiations can quickly become contentious, jeopardizing the success of the separation.
- *Strategic use of TSAs.* Companies often rely on TSAs to ensure that operations are not interrupted after a deal has closed. However, these agreements should be used as tools, not crutches. Minimizing TSAs with built-in time limits can help address stranded costs and promote self-sufficiency. Moreover, since TSAs are more likely to be needed in cases with greater entanglements, the likelihood of stranded costs is also likely to be higher. Although TSAs are not the reason for these costs, they can delay the timely addressing of stranded costs.
- *Comprehensive planning and execution.* Effective separation management requires a detailed road map, rigorous planning, and clear communication. This includes addressing talent allocation, technology architecture, and business forecasts to ensure both RemainCo and NewCo can operate independently and successfully from day one.

Delays often lead to broader project setbacks and resource overruns. Addressing board concerns early with data-driven arguments is crucial for a successful separation.

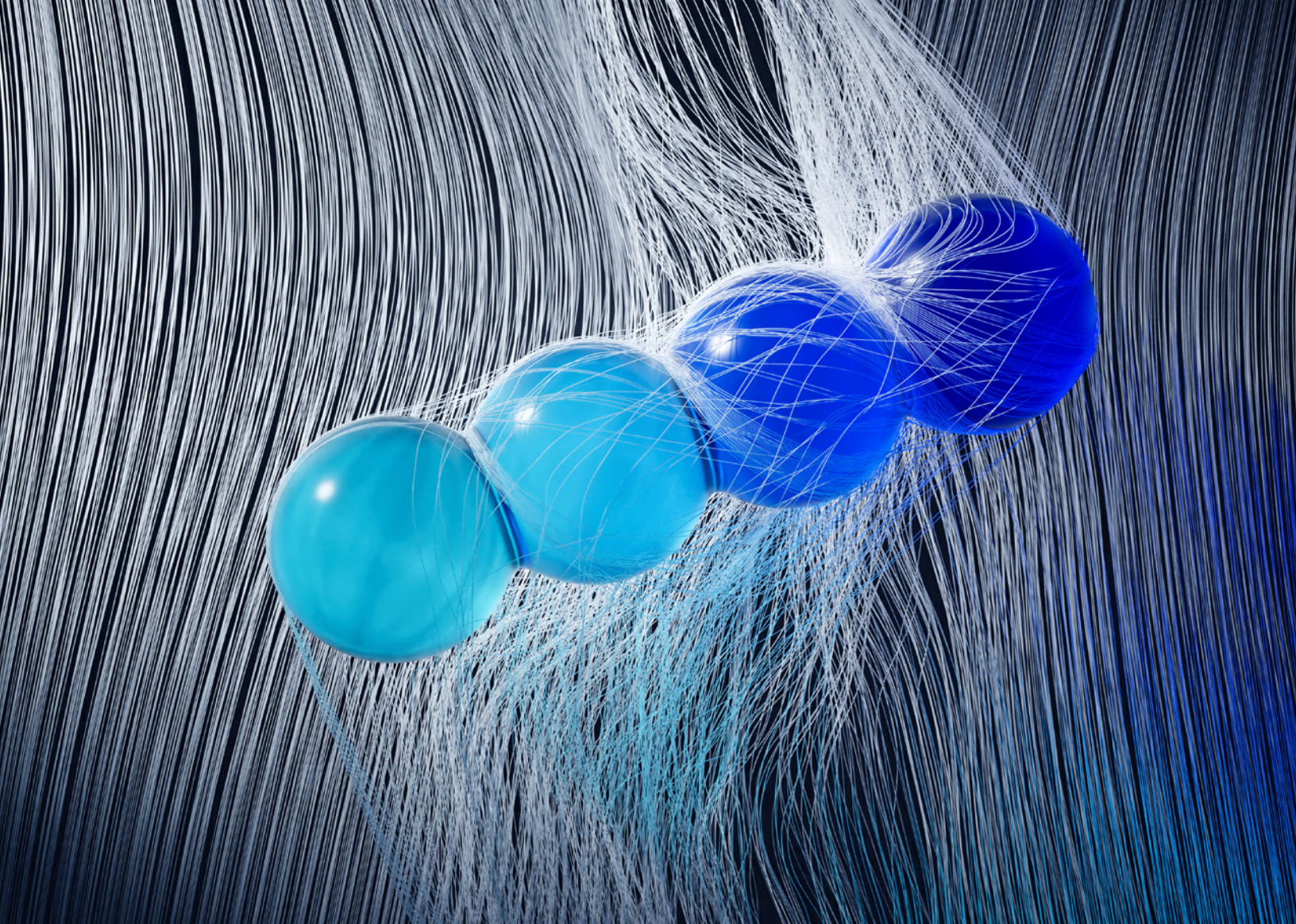
- ***Proactive risk management to secure valuation.*** Judicious forethought and proactive management can create conditions that add up to a higher valuation and propel better business outcomes. Identifying potential disruptions and mitigating risks, such as operational disruptions and technology disentanglement, are crucial for maintaining transaction value.
 - ***Leadership and orchestration.*** Successful separation programs require engagement and orchestration across multiple workstreams. A steering committee provides strategic direction, while the separation management office orchestrates and drives separation design, planning, and implementation across workstreams. This structured approach ensures that all aspects of the separation are meticulously planned and executed with a value creation mindset.
-

Successful separations don't happen by chance. Our recent survey demonstrates that thoughtful companies not only make hard strategic choices to commit to separations; they also then follow through on execution—addressing potential disruptions, mitigating risks through detailed planning and coordination, and creating conditions that encourage better outcomes. As economic conditions continue to rapidly change, value-creating separations should be more important than ever.

Andy West is a senior partner in McKinsey's Boston office; **Anna Mattsson** is a partner in the Zurich office, where **Anika Becker** is a consultant; and **Jamie Koenig** is a partner in the New York office.

The authors wish to thank Dominik Schildknecht, Ivan Vuckovic, and Marc Silberstein for their contributions to this article.

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Dealmaking through challenges: Lessons from the automotive industry

Sometimes, M&A can pose particularly difficult challenges. The automotive industry offers creative examples of how deals can still get done.

*by Paul Küderli and Russell Hensley
with Fabian Hofmann*

There has always been an elemental symmetry to M&A: A seller concludes that a business or asset does not fit its enterprise portfolio, and a natural buyer recognizes that the same target is a strategic match. Put simply, there’s a buyer for every seller, or so the logic goes.

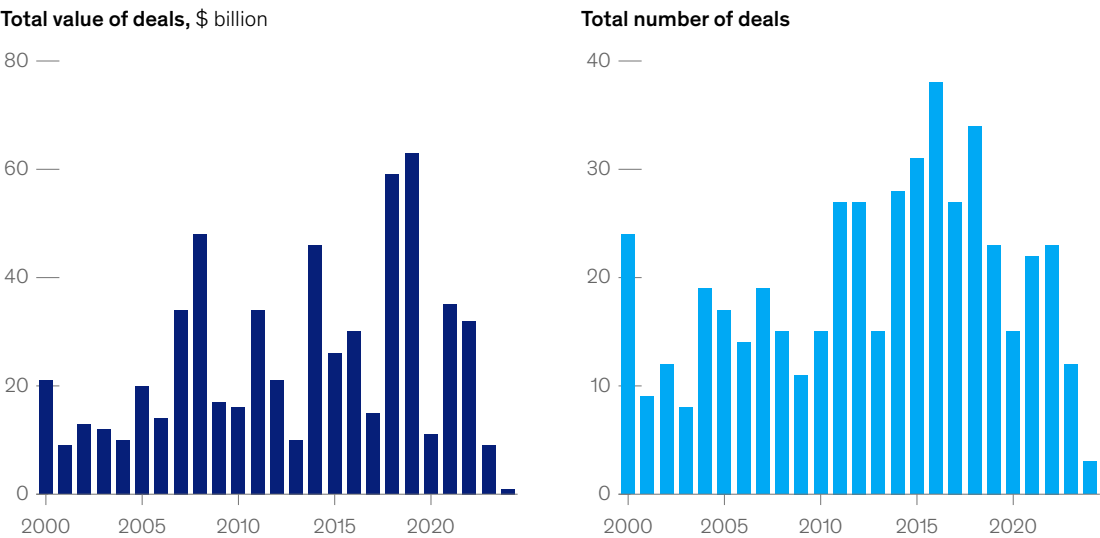
However, the ideal does not always meet the reality. Despite a recent increase in M&A activity across many sectors during 2024 (including a first-half increase in deal value that was 22 percent higher than the corresponding first six months of 2023), some industries face challenges that can’t be addressed by a traditional, straightforward pairing of a seller with an obvious buyer—or, it may seem, with any acquirer at all. This is particularly so in the following cases: in highly competitive, low-margin market segments; when competition is highly cyclical and cash intense; when a sector may be exposed to “sunset” technologies; or when business lines have limited product differentiation. Companies may also be compelled to sell under suboptimal circumstances, such as complying with regulatory conditions to close a deal, which may result in a reduced price.

Many of these challenges are confronted by sectors globally. They are particularly evident in the automotive industry. Not surprisingly, automotive M&A activity hit a 20-year low in 2023—and hasn’t meaningfully bounced back (Exhibit 1). Looking at advanced industries more broadly, the sector’s share in global M&A deal value decreased from a peak of 12 percent in 2020 to only 5 percent in the first half of 2024. This low activity level is fueled in particular by tectonic change in the sector, not least the rise of Chinese OEMs and the global transition to battery electric vehicles (BEVs).

Exhibit 1

M&A activity in the automotive sector faces a challenging environment.

M&A activity in the global automotive sector¹



¹Deals >\$250 million in the automotive sector at date of announcement. Data as of Sept 30, 2024.
Source: S&P Capital IQ

The longer a company waits to move forward on a deal, the more difficult the transaction might be or the smaller the window of opportunity may become.

And yet, for all the headwinds, deals and business combinations still do get done in the automotive industry—often in highly creative ways. In many cases, the solutions offer valuable lessons to nonautomotive companies across sectors and regions. They demonstrate, too, that it's best to act sooner; the longer a company waits to move forward on a deal, the more difficult a transaction might be or the smaller the window of opportunity may become. In this article, we explore the dynamics of doing a deal under challenging circumstances and highlight innovative approaches that dealmakers in the automotive ecosystem—and beyond—are taking.

Automotive uncertainty: A template for challenging M&A conditions

For more than a century, the automotive industry has been a dynamo for local and global economies. That's still the case today, and the mobility ecosystem will remain essential in the decades ahead.

Yet beneath the surface, the automotive industry is experiencing tectonic change. Some shifts are so evident that they're already redefining how humans think about and interact with automobiles. Consider, among other examples, the disruptions brought about in recent years by ride-hailing applications, the decline of licensed drivers in some major economies, and the massive digitization of automobiles: In fact, a decade ago, the number of lines of software code in the average high-end car surpassed the number in a jumbo jet—by a [factor of seven](#).¹

Another major shift is the rise of electric vehicles (EVs), a development that augurs both opportunity and uncertainty. Part of the unpredictability stems from shifting regulations, including but not limited to positions on BEV subsidies, internal combustion engine (ICE) phaseouts, and evolving emissions rules. A related dynamic is geopolitical: Automakers from regions such as North America have been losing about one point of market share per year to OEMs from overseas over the past two decades. Tariff and trade rules may also be in for significant turbulence.

¹ Rajat Dhawan, Russell Hensley, Asutosh Padhi, and Andreas Tschiesner, "Mobility's second great inflection point," *McKinsey Quarterly*, February 23, 2019.

Challenging dynamics are reflected in low valuation multiples. Today, many automotive companies also have high exposure to sunset assets—products and technologies with a limited lifetime and a negative growth outlook. Indeed, while the median 12-month forward price-to-earnings multiple for global top 5,000 companies recently reached a factor of 17 times earnings (Exhibit 2), multiples are approximately eight times earnings for those automotive companies with a portfolio focused on ICE-related components.

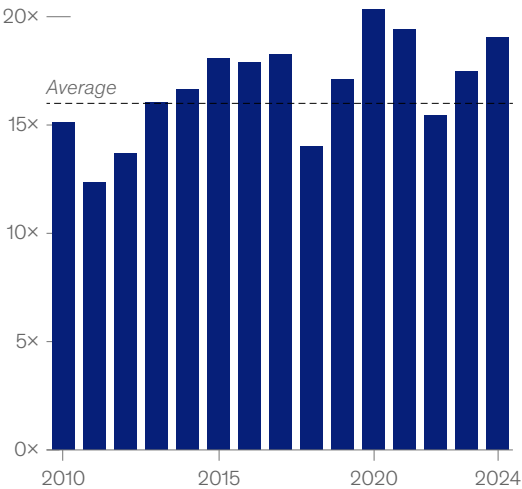
It's not surprising, therefore, that traditional corporate buyers in automotive are expressing a limited appetite for acquisitions, given their own needs for transformation. Cash reserves for many of these players, even beyond incumbent OEMs, are relatively lower, and challenges in operating performance make targets less attractive. Financial investors, such as private equity funds, are also dialing back their interest in automotive acquisitions, with the exception of a small number of funds that are focused on restructurings; this decline is evident not only with respect to ICE-related assets but also for assets focused on EVs.

Exhibit 2

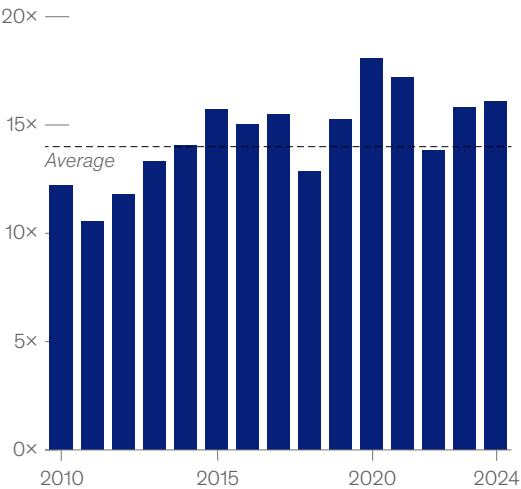
In contrast to more challenged segments in automotive, valuation multiples in the overall market are robust.

Median global-forward (FY + 1) market multiples¹

Price-to-earnings ratio, multiple



EV²/EBITA,³ multiple



¹Median multiples of the top global 5,000 companies in each year by market capitalization. Data as of Sept 30, 2024.
²Enterprise value.
³Excluding financial institutions.
Source: S&P Global Market Intelligence; Value Intelligence by McKinsey

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Getting creative about dealmaking

For the many automotive companies that seek to divest businesses or assets to strengthen their balance sheets, improve financial performance going forward, and reduce exposure to certain segments, dealmaking has proved particularly challenging. Sellers need buyers, but at present, in the automotive sector, the former outstrips the latter. Yet deals are still getting done, and not just by reducing prices. Effective dealmakers are getting creative by taking key practical steps.

Expand the universe of potential buyers

It's understandable that sellers would envision that a potential buyer would come from a pool of current competitors—and not without reason, as these players could more easily capture efficiencies and instantly boost market share. But when competitors aren't buying, dealmakers can expand the universe of potential acquirers beyond the usual suspects. For example, automotive companies in Europe and the United States are looking beyond their home geographies or near neighbors toward potential buyers in India, the Middle East, and Greater China. They can also expand beyond traditional industry players to identify deal partners with complementary capabilities, which can result in substantial synergies. For instance, one Europe-based automotive supplier recently sold a 50 percent stake in one of its assembly businesses to an Asia-based electronics manufacturer. The new venture is designed to take advantage of expansion opportunities for a global market.

Of course, not every pairing will fit so fortuitously, particularly if the seller wishes to set the target price within a recent historical range. If (as a thought example) the target price were \$1, the universe of potential buyers would obviously be much larger. Clearly, sellers should not seek to slash asking prices just for the sake of expanding the number of potential buyers. Instead, they should be thoughtful about what a target's intrinsic value actually is. Because of a shift in competitive dynamics and technologies, the target may be a “melting ice cube” or what academics might term a “cash cow”—a declining business, asset, or product that continues to produce positive cash flow but is unmistakably trending down and which the buyer should manage for

When competitors aren't buying, dealmakers can expand the universe of potential acquirers beyond traditional industry players to identify deal partners with complementary capabilities, which can result in substantial synergies.

decline. When sellers are frank in that assessment, they can be more thoughtful in identifying financial buyers whose value proposition is to better manage the decline—even if that means, to continue the analogy, simply that the ice cube would melt more slowly.

Transform before transacting

Another potential path is transformation. Changes should go beyond surface-level touch-ups. A transformation can unlock the potential for significant value creation, enhancing a business's competitive edge by integrating new technologies and reimagining business strategies when the target becomes part of a different organization. This approach not only maximizes growth opportunities but also significantly improves core operations and talent development. The initiative can lead to improved efficiency, better customer experiences, and stronger financial performance—a more attractive target.

In the automotive ecosystem, effective dealmakers generate clear proof points and establish track records of improved positioning and operating performance to showcase the target's potential. For example, suppliers use full or focused transformations to strengthen their connections with OEMs that are considered “winners of the future.” Other players, including OEMs, can achieve tangible results by optimizing their manufacturing footprint, reducing capital expenditures needed, and improving net working capital efficiency.

Tell a more tailored story

Sometimes, obstacles go beyond target performance and are fundamentally a challenge of communication. Not every deal story resonates with every buyer. Different buyers have different needs and strategies; a one-size-fits-all approach doesn't work as a general matter. When it comes to sunset technologies or competitively challenged markets specifically, the need for a highly tailored story becomes even more acute.

For example, for European or US players, a narrative for Indian or Chinese buyers may resonate more if it focuses on market entry. A universe of buyers, including financial acquirers, may be particularly drawn to a seller's connections with winners of the future, cash conversion, and growth credibility for financial investors. For strategic investors, a more compelling deal story would highlight customer and portfolio complementarity and technology advancement. And as discussed, yet other buyers may actively seek out businesses that are in decline; these buyers have a mandate to seek out those very targets.

Ultimately, a deal thesis comes down to value maximization. Across sectors, sellers that develop a transparent and compelling narrative clearly explain how value drivers link to cash flow. This calls for providing detailed insights into a target's strategy, competitive advantages, and operating skills. Companies that effectively manage their business portfolios rightly treat prospective buyers as sophisticated thought partners and are transparent about both successes and challenges. Depending upon the buyer audience, incorporating environmental, social, and governance factors beyond just carbon emissions can also be compelling.

Get proactive on alternative financing

Sellers can further expand the number of potential buyers by utilizing alternative financing methods such as earn outs, seller financing, and stock swaps. These methods help mitigate valuation volatility and liquidity challenges, making transactions more feasible for a broader range of buyers.

Sellers can expand the number of potential buyers by utilizing alternative financing methods such as earn outs, seller financing, and stock swaps.

Earn outs allow part of the purchase price to be contingent on the future performance of the acquired business, reducing up-front costs and providing upside potential for sellers while offering downside protection for buyers; while its limits have come under closer scrutiny in recent months, particularly in the United States, clear contractual language can still make this option a powerful enabler. *Seller financing* involves the seller providing a loan to the buyer to cover part of the purchase price, easing immediate financial burdens and making the deal more accessible to buyers with limited capital. And *stock swaps* enable buyers to use their own equity as currency, preserving cash and ideally aligning interests between the parties—a tool that can be particularly powerful under challenging market conditions.

For example, one large automotive-equipment manufacturer purchased a controlling stake in a company with a prominent set of products in energy management, such as sensors and actuators for electric motors. The acquisition was financed by bridge facilities that included both a substantial bridge loan and buyer cash, including the proceeds of prefinancing transactions. Taking an innovative approach allowed the two companies to create one of the largest worldwide automotive suppliers. In another transaction, a leading supplier in the automotive-aftermarket industry acquired an adjacent business for cash at closing, plus an earn out of up to an additional 20 percent in the near-term quarters following closing.

Consider alternative transaction structures

Finally, players in the automotive ecosystem are considering alternative transaction structures beyond traditional 100 percent stock or asset sales; alternative transactions such as spin-offs and joint ventures can not only reduce the acquirer's financial commitment and risks but also help build conviction going forward.

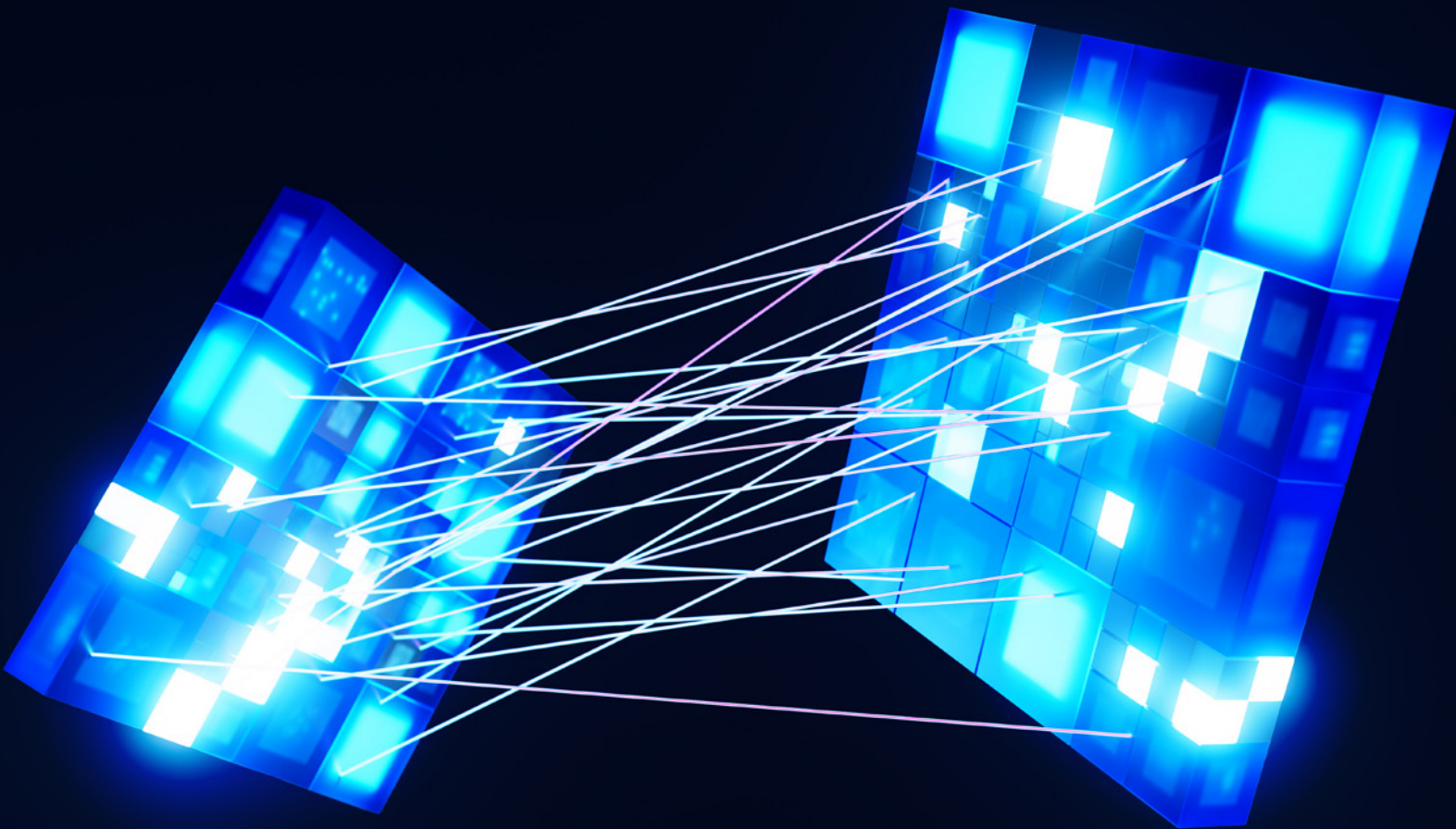
Spin-offs can significantly advance automotive dealmaking by allowing companies to focus on their core competencies and streamline operations, which can lead to improved efficiency and profitability. By creating independent entities, companies can attract targeted investments and enhance strategic flexibility, fostering innovation and competitiveness in the market. Like other forms of [separation activities](#) (such as carve-outs and split-offs), they can also help both the parent company and the new entity build distinct cultures and adopt new structures, enhancing their ability to innovate. Additionally, spin-offs and other separations can diagnose and correct areas of inefficiency, highlight new ways of working, and improve overall market performance by freeing up significant capital and resources. For example, one global automaker spun off a niche product line, which proceeded to enter into individual partnerships with digital natives more suited to its business and customers.

In fact, multiple players across the automotive ecosystem are achieving strategic combinations through partnerships and joint ventures for collaborations that can bolster innovation, enable market expansion, and optimize resources. For example, some OEMs are partnering to build electric cars and developing internet-connected vehicles in Greater China, leveraging local distribution networks and regional expertise to broaden access to the other company's product offerings. Two major companies in the broader automotive ecosystem, to take another example, have agreed to the joint development, production, and sale of a new fuel cell stack for automotive applications; one partner has the exclusive right to produce and sell the improved version, while the other commercializes it for other applications. And two European companies have partnered to focus on battery recycling, as both seek to enhance sustainability and resource efficiency in the automotive sector.

Deals don't always have an obvious buyer, particularly when an industry's technologies are beginning to sunset and sectors are experiencing tectonic change. But as the automotive industry demonstrates, proactive dealmakers can still find creative solutions for M&A challenges, getting deals done despite profound challenges and creating value for sellers and buyers—even when finding the *right* buyer requires a more imaginative approach.

Paul Küderli is a partner in McKinsey's Frankfurt office, **Russell Hensley** is a partner in the Detroit office, and **Fabian Hofmann** is an associate partner in the Berlin office.

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Gen AI: Opportunities in M&A

Generative AI is already making its way into the day-to-day world of M&A, and more use cases are emerging. How should companies approach the opportunity?

*by Ben Ellencweig, Mieke Van Oostende, and Rui Silva
with Julia Berbel*

Generative AI (gen AI) is making its mark across a gamut of industries and functions. Yet as companies seek to capture the [immense economic potential](#) from gen AI and traditional AI, they're finding that it will take time to identify and prioritize the most impactful and economically sound use cases, understand what is and isn't—yet—achievable, and train employees for a broad range of applications and initiatives.

M&A is no exception. There are significant opportunities for gen AI across the end-to-end M&A process, from defining an M&A strategy to conducting due diligence to executing integrations or separations. Delivering successful transactions and building an effective M&A program is a resource-intensive process with numerous pain points, and it's clear that new technologies can help. In fact, gen AI solutions are already being successfully applied.

The goal of this article is not to reel off big numbers; suffice to say, the potential is enormous. As dealmakers prepare for what's to come, we want to share our real-time perspective. We'll explore some potential M&A use cases, provide examples of solutions that are already being deployed, and offer practical steps on how organizations can use gen AI to enhance their M&A capabilities.

How gen AI is gaining traction in M&A

[For years, our research](#) has shown that taking a [programmatic approach](#) to M&A in the long term can significantly boost an organization's performance compared with its peers. Yet M&A execution is a very labor-intensive activity, requiring thoughtful allocation of resources and a balanced focus between integration activities and core business continuity. It is inherent to the nature of M&A that any deal, small or large, requires real work and real people capacity to successfully execute it. Gen AI, like many other technologies, exists to help leaders do more with less, make better decisions, and ultimately help their organizations create value in the long term. More specifically, four categories of use cases for gen AI can materially improve the M&A process: faster and better-quality sourcing of potential targets; expediting the diligence and negotiation process; executing the integration or separation with excellence; and strengthening in-house M&A capabilities.

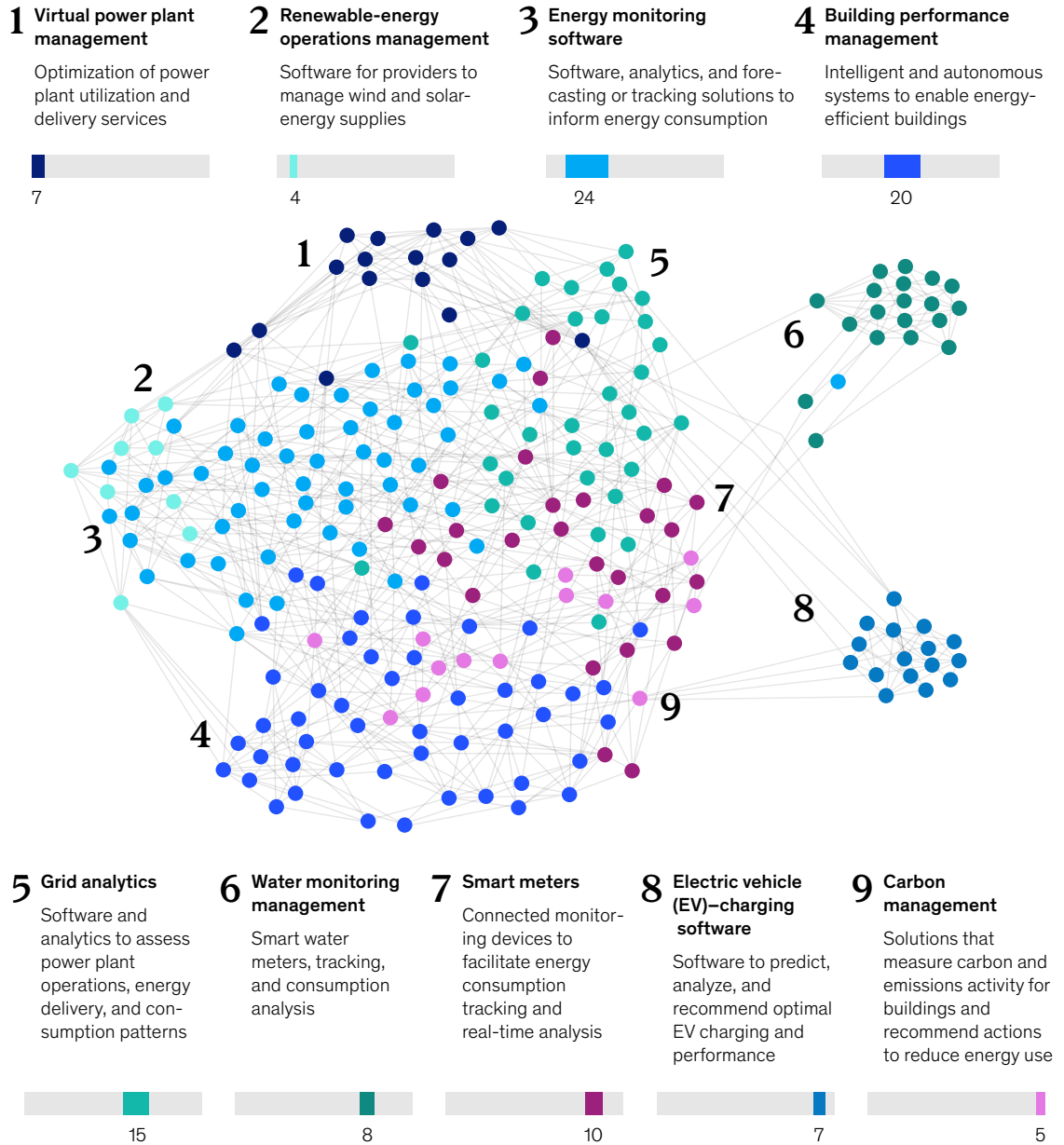
Faster and better-quality sourcing of targets

There is a surfeit of potential companies to acquire, sell to, or partner with. A huge amount of data about these companies is obtainable. In fact, there's so much information that organizations' M&A teams can get bogged down sorting through and processing it all. The most successful M&A programs look beyond their core business into adjacencies and potential step-outs, and this is where gen AI can be most impactful. Companies are in a race because their competitors are searching for targets, too. They also have to be thorough: target assessment needs to encompass several dimensions to identify the highest-value potential targets with the right strategic and cultural fit. Deal scanning is a prominent, proven use case for traditional AI, but when coupled with gen AI it can go further to find and interpret broader sets of structured and unstructured data, synthesize results to answer quantitative and qualitative prompts, and highlight key elements of strategic, financial, and cultural fit of all potential targets. With gen AI, companies can identify and pursue targets they wouldn't otherwise have on their radar (exhibit).

Exhibit

Generative AI not only creates clusters of potential M&A targets but can also present visual representations of subindustries with specific sets of keywords.

Energy industry subindustry clusters, % share



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For example, a North America–based company in the consumer-packaged-goods industry used McKinsey's proprietary tool DealScan.AI to search and evaluate potential investments. First, the tool identified approximately 1,600 viable targets according to initial prompts. Then it applied bespoke quantitative and qualitative prioritization criteria, including whether there was a direct-to-consumer operating model, information about subscription-based product assortments, and details about recent fundings. This led to the prioritization of 40 targets—most of which the company had not considered before—that matched all requirements.

Expediting the diligence and negotiation process

Gen AI can expedite the diligence and negotiation process. For example, it can summarize key diligence documents, surface risks, draft initial memoranda based on a deal's specific parameters, source applicable statutes and regulations, identify helpful case law to ease friction in the negotiations phase, and generate other highly accurate outputs (such as first drafts of the deal announcement and regulatory filings). As one can imagine, these use cases can save a significant portion of the time currently required to perform the different legal tasks involved in deal negotiations, signing, and closing.

Executing the integration or separation with excellence

Seasoned dealmakers know that [deal synergies](#) need to be [captured quickly](#)—and that sometimes, by taking too long, companies can squander [significant value](#). Organizations going through sizable M&A events are particularly likely to get diverted and see organic momentum decline, with an average decrease in excess revenue growth of seven percentage points compared with peers.¹ Sluggish integrations can frustrate customers, demotivate employees, and sometimes cause organizations to stall.

Tools powered by gen AI can do a lot of the heavy lifting. In fact, a wide range of time- and resource-consuming tasks can be accelerated and, in some cases, almost fully automated. One striking use case is to have a gen AI “coach,” trained on M&A best practices and on the organization's specific M&A playbook, that delivers fast and smart answers to questions from integration and separation leaders and team members. Applications are rapidly evolving, including McKinsey's myIMO, which is powered by gen AI to help improve team capabilities and efficiency. For example, a team could ask the tool, *“What are the right steps to integrate the acquired company's brand with our own, and what is the best timing to do that?”* Or a team could give it the following prompt: *“Draft a memo about upcoming changes in employee benefits considering the following changes.”* The application is trained on a vast repository of M&A playbooks and best practices to help companies make well-informed decisions about their integrations or separations. Other uses being developed include post-day-one value creation recommendations, such as identifying real-time synergy opportunities based on a company's available data; automated summaries and comparisons of internal policies that need to be harmonized between the two organizations; the quick comparison and harmonization of job title and hierarchy structures, cost center, and general ledger definitions; and the automation of change management activities. The list goes on.

¹ Based on the 1,000 largest companies in McKinsey's annual Global 2,000 analysis. For more on the methodology of the Global 2,000, see [“The seven habits of programmatic acquirers,”](#) August 24, 2023.

Senior leaders need to frankly assess their current level of M&A capabilities and consider where in the M&A process technology can be used to materially improve the M&A engine.

Strengthening in-house M&A capabilities

Gen AI can strengthen a company's internal capabilities by drawing on companies' proprietary data from past deals to assess performance patterns and find insights about untapped opportunities. For example, it could assess a company's portfolio of acquisitions and calculate the impact brought by each deal. It could also generate postmortem insight about how deals affect the business (for example, how and when the company's organic revenue growth is typically affected after closing a deal). It could update the company's proprietary playbook with recipes, nuances, and lessons learned (for example, *"Deals of up to \$1 billion typically require an integration team of five people, focused on the following tasks"*). It could even generate personalized training programs in line with the specific function of an integration team member, as well as with the acquisition type and the deal timing (based on the following prompt, for example: *"I am new to the team. I will be leading the HR integration for our acquisition of X company. What do I need to know? Where do I start?"*).

How to get started

Gen AI will not fix a broken approach to M&A; it might even exacerbate it. The first step for senior leaders is to frankly assess their current level of M&A capabilities and to consider where in the M&A process technology can be used to materially improve the M&A engine.

The next steps are just as foundational:

- ***Prioritize the gen AI use cases that create the most value.*** If your M&A strategy is focused on acquiring dozens of very small players, gen AI will have the greatest impact on opportunity scanning and assessment. Conversely, if you do one to two larger deals a year, gen AI may also help you streamline and accelerate the execution processes.
- ***Drill down on whether to develop or to adopt.*** There is a full spectrum of choices for how a company can bring its prioritized use cases to life, and off-the-shelf solutions have recently been brought to market—with more expected over the next one to two years. As with any decision to either use in-house resources or outsource, leaders should consider their team's

existing expertise, the size of the required investment, the extent of the potential return (including how sustainable any competitive advantage would be), and the actions that the company's peers are or could be taking.

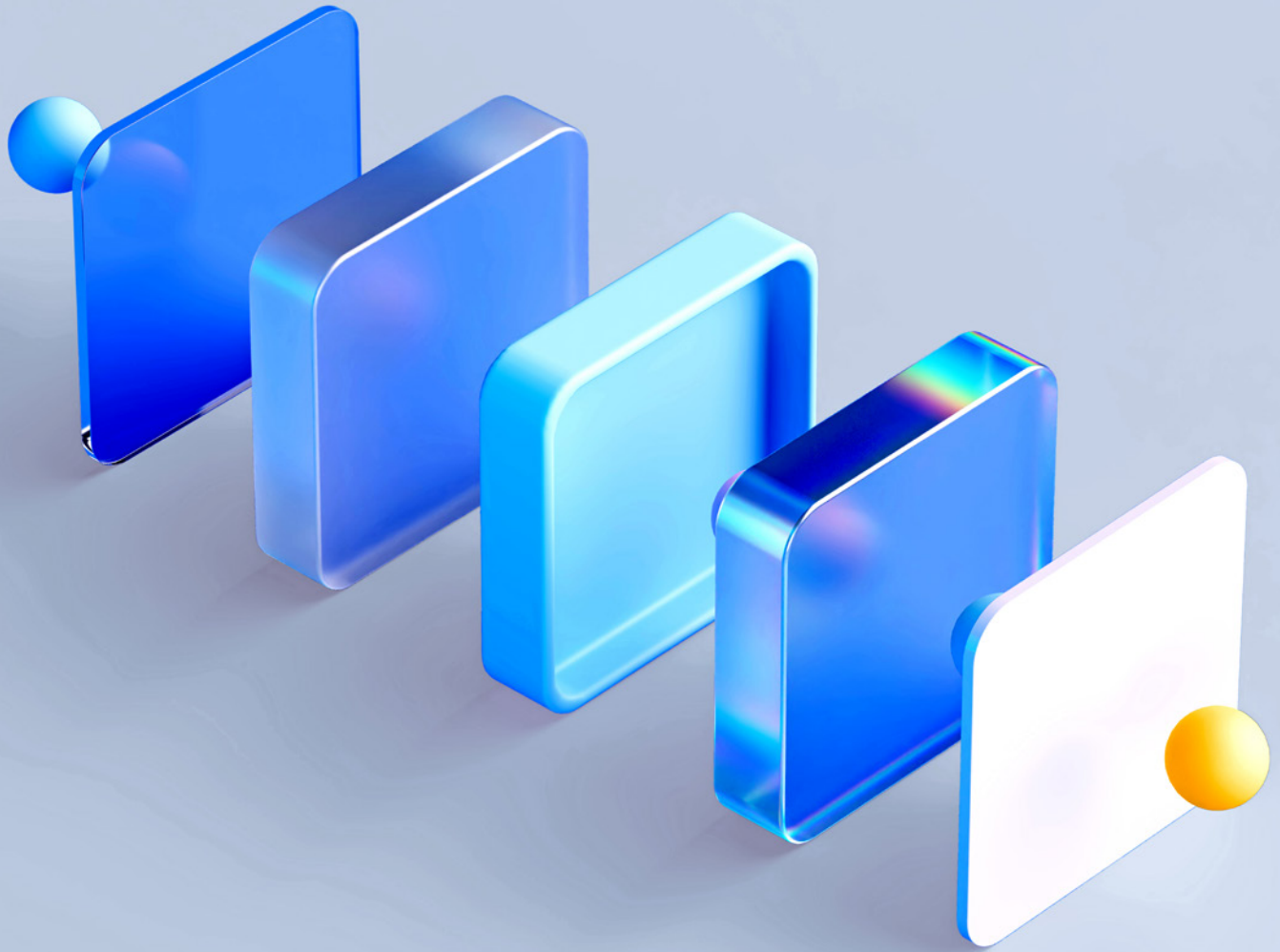
- ***Ensure that the right guardrails are in place.*** Gen AI is distinct from most existing technologies because it *heightens* certain risks—for example, security breaches, given its ease of access; reputational risks from quality control missteps; and potential intellectual property infringement. Legal and regulatory developments are fast moving, even as gen AI races forward. And the better the AI models are, the greater the potential risk that humans will simply disengage and not catch issues until it's too late. It's essential that organizations keep human beings at the forefront of the work, proactively identify and mitigate risks in partnership with their legal and technology teams, and maintain rigorous ethical standards.

Gen AI is a [predictive language model](#), not a human being. As companies navigate the gen AI transition, they should consider how to use their newly freed-up time to focus on more strategic, high-value activities such as relationship building and eureka-moment problem solving, which technology cannot (yet) replace.

Commercial applications of gen AI in M&A are already gaining traction and will almost certainly accelerate in the next few years. The greatest question is not *whether* gen AI will affect dealmaking—it already is—but to what degree, how quickly, and to what consequence. We'll be monitoring these developments in real time as they proceed.

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CEOs in M&A: Five actions only the chief executive can take

McKinsey research and interviews with global leaders reveal the activities and discussions that CEOs should be directly involved in to ensure success before, during, and after M&A transactions.

by Anna Mattsson and Mieke Van Oostende

The CEO's agenda is chock full of urgent global business concerns—and is only getting more so. Apart from overseeing the day-to-day blocking and tackling of the business, the chief executive must mobilize everyone in the organization to react quickly to evolving technologies, changing capital and talent markets, emerging geopolitical concerns, and a raft of other challenges to the business.

Through it all, the CEO must find ways to capture value-creating opportunities and grow the company. M&A ([alongside portfolio momentum and market share performance](#)) remains an important lever for doing just that—particularly as deal activity begins to recover from a decline in 2023. “It’s always part of the toolbox,” says the CEO of one global consumer-packaged-goods company. “It’s a twofold strategy: You have to be good at what you do, but you also have to look around corners and think about the next three to five years.”

But when exactly does it make the most sense for CEOs to engage in M&A? How can they help their organizations pursue strategic dealmaking while ensuring business continuity? To find out, we conducted a series of interviews with ten CEOs who’ve had substantial experience in M&A. We supplemented their insights with findings from decades of McKinsey research on the mindsets and best practices that [distinguish the best CEOs from their peers](#), as well as previous McKinsey research on best practices in corporate transactions.

The evidence points to five things that *only* the CEO can do before, during, and after an M&A transaction to increase the odds of deal success. Specifically, CEOs should train their focus on questions related to strategy; deal size; stakeholder management; the conviction, capacity, and capabilities associated with M&A; and culture. In this article, we’ll examine each of these five areas and help clarify which M&A tasks are “must dos” versus “must delegates” for global CEOs. The discussion may be particularly useful to newer CEOs, who are more likely than longer-tenured CEOs to pursue M&A and other bold moves in their first 100 days or so—both to accelerate their strategies and to ensure that they have time to see targeted transformations through to completion.

The five aspects of M&A transactions that we’ve identified as must-dos for the CEO may seem intuitive, but surprisingly few CEOs take the time to consider M&A priorities against corporate strategy, for instance, or think about how to communicate differently with the board about a proposed deal. CEOs can have the greatest influence and impact in the following areas.

Define M&A priorities as you define the overall long-term corporate strategy

Experienced CEOs take the time to consider how M&A priorities fit within the long-term corporate strategy. When M&A priorities are clearly communicated, the business can quickly identify deal opportunities when they emerge and mount a strategic response. The CEO needs to work with business unit leaders, other C-suite leaders, and the board to establish their M&A strategy and priorities early on—for instance, devising [an M&A blueprint](#) that outlines deal themes and deal criteria, including what types of deals the business is seeking to target or determining whether [a programmatic approach](#) to dealmaking is warranted.

An M&A blueprint involves conducting an internal assessment, a market assessment, and a review of boundary conditions, all of which can help executives determine why and where they will look for growth and transformation opportunities that, in many cases, cannot be achieved organically. The M&A blueprint prompts executives to come up with a plan for how they will seize and capture the most value from those opportunities (by delineating the high-level business case and preliminary integration plans). In this way, leaders can tell a compelling story (inside and outside the company) about the company's dealmaking strategy and vision for the future.¹

One CEO of a global food company told us his nature was to get involved very early on in setting M&A priorities in line with corporate strategy—but also noted that the main role of the CEO should be to focus on the strategic considerations of a deal and leave the valuation, detailed integration planning, and other details associated with executing the transaction to specialists. "It's really about holding everyone accountable on the value point," he said.

Spearhead large, transformational deals—delegate the rest

Size and strategic scope matter when it comes to the CEO's role in M&A. Early on, one travel company CEO reminded us, a lot of people are sharing information about a lot of deal opportunities with the CEO: "It's better for the CEO to engage with a short list of opportunities—and even then, the CEO should not be the lead negotiator. The CEO should be a coach." Additionally, it's critical that this short list reflects the corporate and M&A strategy—not just the opportunities that happen to be available.

For truly transformative large deals—think of a consumer company moving into the health and wellness space—the CEO should stay directly involved, serving as deal champion. This will mean leaning in at all phases—for instance, helping to convince the target company to enter the deal, defining the integration strategy and the pace and degree of change, and taking any other steps required to get the deal over the line. As the CEO of one large conglomerate explained, when large-scale transformation was the goal, he and the board would engage the whole way through, starting with the negotiation phases.

**For truly transformative large deals,
the CEO should stay directly involved,
leaning in at all phases.**

¹ Sophie Clarke, Robert Uhlman, and Liz Wol, "A blueprint for M&A success," McKinsey, April 16, 2020.

For smaller add-on or tuck-in deals, the business units, often led by a top-notch integration leader, are likely best positioned to drive the transaction. The CEO will still need to stay involved in these less-transformative deals but in a targeted way. Their primary role here will be to ensure strategic alignment and full value creation; this is where the core work of setting a precise M&A strategy and aligning it with long-term corporate strategy really pays off. In these smaller deals, the CEO should reiterate the M&A priorities, set permission structures, and create mechanisms for measuring progress against integration goals—but they should let deal teams and other leaders bring their own dealmaking skills to bear.

The CEO can obviously step in when substantial roadblocks emerge or when other issues arise. One pharmaceutical company CEO we spoke with noted his continued involvement in a bolt-on deal in which there was a lot of value at stake and intense scrutiny from investors and analysts. He helped shape the due diligence process, was directly involved in getting board approval, and stayed close to the integration planning discussions throughout to ensure swift decision-making and progress.

Be the ‘chief stakeholder officer’

Perhaps the most important of all the tasks outlined here is that of convenor—or as one CEO termed it in our conversations, serving as the “chief stakeholder officer.” This is not a new role for CEOs; decades of McKinsey research on [CEO excellence](#) have found that the best chief executives pay close attention to stakeholder relationships, building a case for change and focusing on the “why.” This crucial task is magnified tenfold when considering the consensus building required to get large transactions over the finish line and bring two organizations together as one. The CEO must carefully and continually manage expectations about deals among leaders and employees in both the parent and target company. The chief executive should also encourage trust-based communications with the board, investors, suppliers, regulators, and other business partners.

Managing expectations with the target CEO

It’s important for the CEO of the acquiring company to spend time with the CEO of the target company so they can understand each other’s position, key challenges, and corporate cultures. The CEO of one multinational organization pointed to the central role he played in the negotiations for several strategically important deals: in one case, scheduling private meetings with owners to align on details, and in another large deal—one involving a family-owned business—engaging with family members. Personal networks matter quite a lot in these situations. M&A transactions are about dollars and cents and synergies, but they are also about emotions, one CEO told us. “It might mean jumping on a plane to talk to the other CEO and get their conviction.” This cannot be delegated. For their part, the CEO of the target company can play a critical role as translator—for instance, giving the CEO of the acquiring company an overview of how the target company works, how it creates value, and who its key stakeholders are (see sidebar, “CEOs in M&A: What about the target company CEO?”).

Managing expectations with the board of directors

Of course, the board of directors is among the most important stakeholders in the M&A process. Some board members may favor organic growth over M&A, so bringing them along is important for ensuring a smooth integration and full value capture, particularly at a time when boards are more risk averse than ever.

CEOs in M&A: What about the target company CEO?

We've discussed the role of the CEO in the parent company involved in an M&A deal—but what about the CEO of the target company?

They face the same time, financial, and board pressures as the CEO of the acquiring company, so how can they structure their time and tasks to positively affect an acquisition?

A lot depends on the deal type (whether a private equity deal or a strategic transaction), but the reality is that the target CEO may be replaced because of the acquisition. Still, they play an important role not just in optimizing the price and handing over the keys once the deal closes but

also in helping the CEO of the acquiring company understand how the organization works.

The target company CEO can describe which strategies have worked (and not worked) in the target company, what the culture is like, and so on. With this information—and by leaving ego at the door—the target company CEO can help the combined company get off to the best possible start.

Whether they stay or go, they will have done their duty for shareholders.

The CEO's work in this regard should start early—as soon as the initial discussions about M&A strategy, the M&A blueprint, and M&A priorities. The CEOs we spoke with pointed to the need for clear and frequent communications with the board. They have regular dialogues with the board and provide early indications of potential deals. Some CEOs offer quarterly updates on potential targets; companies that treat M&A as a capability tend to keep a running short list that they track and refresh regularly. Others conduct weekly check-ins with the board about aspects of transformative deals that are already underway. These CEOs don't just show up in front of the board looking for deal approval; they continually pressure-test the business case for transactions with the board—in some cases even relying on board directors to help make introductions and connections.

One CEO we spoke with noted that to foster trust and transparency around the company's dealmaking strategy, he would take 15 to 20 minutes at every board meeting to update directors on the status of the team's efforts to cultivate potential targets. Another CEO said he scheduled regular one-on-one discussions about the deal pipeline with the board chair. In fact, the CEO's trust in the board and vice versa was mentioned repeatedly as a key factor in deal success—especially in large deals affecting multiple business lines.

Managing the expectations of other stakeholders

CEOs should also keep other key stakeholders, including critical customers, regulators, authorities, media, and shareholders, on speed dial. In the case of customers, for instance, it's incumbent upon the CEO to help explain how a deal will result in, say, more product or service options or other value-adding advantages for them. In the case of regulators, for instance, it may be helpful for the CEO to stay engaged in discussions about antitrust approvals, particularly in the case of larger deals that, because of regulatory requirements, tend to have a [higher risk of being rejected](#).²

² Dariush Bahreini, Roerich Bansal, Gerd Finck, and Marjan Firouzgar, "[Done deal? Why many large transactions fail to cross the finish line](#)," McKinsey, August 5, 2019.

Secure the three C's: Conviction, capacity, and capabilities to execute on M&A

A deal won't achieve its full potential—or may not even see the light of day—if critical stakeholders inside the organization and the board of directors are not convinced the deal is worth pursuing. The responsibility for securing this organizational conviction from employees, managers, and board directors falls squarely on the CEO. “I wanted all the facts,” the CEO of a multinational organization told us when asked about his conviction about M&A. “I wanted to develop the rationale, but more important, I wanted everyone in the organization to *understand* the rationale.” He also understood that he could not tell a compelling M&A story to prospective targets, investors, the market, and others without that data.

A technology company CEO offered a cautionary tale about what can happen when conviction is lacking: He initiated an acquisition but left the company shortly after the deal was announced. The CEO had thought the board was committed—and initially, it was—but after he left, the board's priorities changed, the deal was criticized by some shareholders, high-end talent jumped ship, and one board member went public with his negative opinion of the deal. The new CEO could not turn it around without this commitment from the board, and the deal faltered.

The CEO should also focus on two other C's: building a management team with the *capacity* and *capabilities* to support the execution of the deal. A company's ability to execute its strategy often comes down to whether it has enough financial, talent, and organizational capacity, plus clear processes and playbooks for all phases of M&A. One large financial organization was able to act quickly on deals, even during the shaky times of the 2008 credit crisis, because the CEO had built up conviction among key stakeholders to pursue deals that matched the company's priorities. The CEO and senior-leadership team had also established a strong capability-building program to ensure they had the right negotiation, due diligence, and integration talent in place when opportunities emerged. In our experience, establishing an integration office, led by a chief integration officer, can be a critical success factor—regardless of the size or scope of the deal.

As many of the leaders we spoke with noted, if the CEO is not committed and cannot support the conditions required to increase capacity and capabilities, it's probably better not to pursue the deal at all.

Be a culture champion

Culture goes beyond ideas about how to act or what to wear; McKinsey's [research on organizational health](#) points to several critical cultural attributes in high-performing organizations—including talent attraction and retention, role clarity, performance management, customer focus, and decision-making.³ Separate McKinsey research highlights the [financial advantages of building and maintaining healthy organizational cultures](#)—namely, a 5 percent increase in excess total shareholder returns (TSR) two years after deal closing in companies with healthy cultures, compared with a 17 percent decrease in excess TSR in companies with unhealthy cultures.⁴

³ Jocelyn Chao, Rebecca Kaetzler, Kameron Kordestani, and Emily O'Loughlin, “[The culture compass: Using early insights to guide integration planning](#),” McKinsey, February 29, 2024.

⁴ “[The seven habits of programmatic acquirers](#),” McKinsey, August 24, 2023.

In any size deal, the CEO must play a significant role in working with HR, business unit leaders, and others to assess the culture of both the parent company and target and to determine which aspects would work best in the combined organization. As one technology CEO told us, to set the right cultural foundation for the combined company, the organization needs “a really good understanding of its own DNA as well as that of the acquired asset”—a learning process that should start during due diligence.

The CEO can work with other business leaders to take inventory of the skills and capabilities required, identifying gaps and reassigning people to the most valuable roles. A multinational company CEO noted that he spent significant time with the CEO of the target organization to assess cultural compatibility, build relationships, and find alignment. He used surveys and gathered feedback from employees to help inform the culture and ensure buy-in. His advice? Build a new culture for the combined company based on the existing context and reshape where needed. Another CEO added, “Don’t be afraid to back away if you sense a cultural divide.”

Although senior HR leaders [will need to assist in this fact-finding process](#), the dedicated time spent by CEOs—at both the parent and target organizations—reconciling the organizational missions and values and communicating the vision for the combined company’s culture (through town halls and other forums) can pay off over time. As one CEO concluded, “You can’t overinvest in culture.”

With a focus on these five M&A actions, CEOs can directly influence the direction and success of deals—and preserve their own time and energy as well. They can set the strategy and nurture the stakeholders but delegate the rest to a crack team that can execute the diligence, find the targets, manage the negotiations, and run the day-to-day integration. According to the CEOs we spoke with, the most important task is to establish the guardrails—for the team and for yourself. “Find a mirror, look into it, and ask yourself if you really feel this deal is the best for the company and for yourself. If there is a little bit of doubt, you need to buy more time.”

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The authors wish to thank Anika Becker, Eric Sherman, Ivan Vuckovic, and Judith Kähler for their contributions to this article.

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Why managing culture is critical for value creation in M&A

Executives can take three important actions to integrate parent and target company cultures more smoothly and generate the intended value from a deal more quickly.

*by Emily O'Loughlin, Kameron Kordestani, and Rebecca Kaetzler
with Evelyn De Blieck*

An organization's culture—or the common set of behaviors, mindsets, and beliefs that shape how people work and interact—is a driving force for its success. In companies with strong cultures, employees at all levels understand the business's mission and purpose, how decisions are made, how performance is measured, and individuals' roles in achieving critical organizational objectives.

It's always surprising, then, when culture is overlooked in discussions about M&A. Typically, the focus is, primarily and understandably, on the mechanics of the transaction rather than the potential for cultural transformation. Considering both in parallel is critical, however—and, as our research demonstrates, actively managing cultural factors is important for protecting the value of a deal.

Indeed, according to a [2023 McKinsey Global Survey on M&A capabilities](#), lack of cultural fit and friction between the acquiring company and the target is the most common reason why integrations don't meet expectations for value creation.¹ Roles may be conflated, processes may become confusing, top talent may exit as a result, performance may suffer, and the intended value from M&A may be at risk (value may even be destroyed).

When merging organizations get the culture piece right, however, they are more than 40 percent more likely than their peers to meet or surpass cost synergy targets, and up to 70 percent more likely to meet or surpass revenue targets.² Separate McKinsey research points to [organizational health as a critical factor](#) in the success of large acquisitions.³ In particular, three behaviors that are typically found in healthy organizations are also strongly correlated with the creation of deal value: talent management, external (customer) focus, and internal discipline. All three can serve as deal accelerators rather than integration obstacles.

Based on our decades of work helping companies in a range of industries and geographies manage their dealmaking, [we've identified three important actions executives can take](#) to ensure that they don't treat culture as a "second day" factor—that is, they should take the time to systematically diagnose potential cultural issues, set cultural priorities, and establish and communicate a clear cultural transformation plan.⁴

We've outlined these findings in previous articles, but as markets begin to see an increase in M&A, it may be helpful for executives to revisit these principles. Here, we do just that and suggest a few ways that business leaders can actively integrate culture into their M&A conversations.

First, let's set our terms: Different leaders may have different definitions of what culture is. We define it as the outcome of the vision or mission that propels a company, the values that guide the behavior of its people, and the management practices, working norms, and mindsets that characterize how work gets done. A company's vision and values are almost always clearly defined well before a merger or acquisition. Less clear, however, are the ways in which work gets done every day and what spurs those behaviors. Misunderstandings and friction among teams can occur as a result and end up jeopardizing deal success.

¹ "The seven habits of programmatic acquirers," McKinsey, August 24, 2023.

² "The seven habits of programmatic acquirers," McKinsey, August 24, 2023.

³ Becky Kaetzler, Kameron Kordestani, and Andy MacLean, "The secret ingredient of successful big deals: Organizational health," *McKinsey Quarterly*, July 9, 2019.

⁴ Oliver Engert, Becky Kaetzler, Kameron Kordestani, and Andy MacLean, "Organizational culture in mergers: Addressing the unseen forces," McKinsey, March 26, 2019.

Leaders can take three steps to actively consider aspects of culture in their M&A discussions: diagnosing how work gets done, setting cultural priorities, and hard-wiring and supporting cultural change.

McKinsey research points to three important steps leaders can take to help ensure that they are actively considering aspects of culture in their M&A discussions: diagnosing how work gets done, setting cultural priorities, and hard-wiring and supporting cultural change.

It's important for leaders to take these actions early in the process—well before close, if possible—and the discussions must involve key stakeholders from across the parent and target companies (employees, human resources, the top team, the board of directors, and so on). Culture is everyone's business, and getting full commitment from across the organizations involved in the deal is the only way to achieve sustained value creation and [transformation through M&A](#).

Diagnose how the work gets done

Right at the outset of the merger process—as early as the due diligence phase—it's critical for leaders to understand how work gets done in both the acquiring and target companies. How do people make decisions, for instance? How does the organization motivate people, and what systems do they have in place to hold people accountable?

To answer these questions, leaders shouldn't rely on gut instinct. Instead, they can deploy a range of diagnostics aimed at collecting perspectives from employees in both organizations—including employee surveys, management interviews, and employee focus groups. Each of these diagnostics has its advantages and disadvantages, so the best approach is for leaders to use a combination of all three, keeping in mind that the terminology used across these tools must be consistent. In this way, leaders can gain a clear picture of cultural similarities, potential points of friction, and opportunities to build common norms and a common language about the way that people work.

Other sources of critical information that leaders can gather even before a deal is signed include interactions between deal teams and with the target company's leaders, as well as conversations with customers and suppliers of the target company. Recently, [leaders have been using generative AI](#) and other technologies to collect public data about workforce sizes, employee satisfaction scores, and so on and to build up their understanding of the cultural aspects of each of the organizations involved in a deal.

Again, the most important point in all this fact finding, according to executives we've spoken with, is to establish an objective set of cultural criteria at the very start of the planning process: Doing so "would have eliminated some of the misperceptions about both company cultures," one airline executive explained, "and we could have had conversations based on facts rather than just anecdotes or beliefs."⁵

Set cultural priorities

With data about existing company cultures in hand, leaders can take the next step and set cultural priorities related to the transaction. Specifically, they will need to develop a point of view on how various aspects of culture can help them maximize value and, relatedly, a perspective on how to manage differences in ways of working. McKinsey research suggests common points of friction can include decision-making and communication styles, approaches to innovation and collaboration, management of customer relationships, and differences in operational and financial management.

Some key questions for leadership in both the acquiring company and the target company are: Which of these cultural elements are part of our special sauce? What behaviors or management practices are needed for the new company to succeed? And what "from-to" shifts are required? Based on the answers to those questions, leaders may need to redefine roles and performance targets. They may want to reinforce behavioral changes by introducing new cultural artifacts—for instance, new brand colors, a reframed business mission, or a new statement of values for the merged entity. The top team will need to serve as a role model for behavioral changes. And, to sustain employee engagement in any change efforts, senior leaders will need to tell a compelling and consistent change story, personalizing it with their own experiences.

More tactically, once leaders have identified desired behaviors, they can develop change plans that are structured around cultural themes, translated into concrete initiatives, and supported by key performance indicators (KPIs). If a company wants to build an agile and collaborative sales force, for instance, leaders might set several cultural themes: cross-selling, working together, making decisions quickly, and managing performance. For each of these themes, leaders could launch initiatives devoted to, say, clarifying decision rights, training salespeople about the escalation process for bids, and refining certain governance and operating processes. Similarly, leaders could establish metrics by which to mark and monitor performance: time to respond to bids, customer satisfaction scores, employee satisfaction scores, and so on.

The top team will need to serve as a role model for behavioral changes.

⁵ Oliver Engert, Becky Kaetzler, Kameron Kordestani, and Andy MacLean, "Organizational culture in mergers: Addressing the unseen forces," McKinsey, March 26, 2019.

Taken together, these themes and their constituent initiatives and KPIs can encourage the desired behaviors and promote the overall goals of the merger.

Hard-wire and support cultural change

Once leaders have identified key cultural themes and initiatives, they can take steps to hard-wire these elements of culture into the new company's operating model and daily practices. If leaders aim to "create a culture of respect," for instance, that point must be reflected in company policies and value statements. "Evidence of respectful behavior" may be part of the criteria for individual performance reviews and compensation calculations. And at the end of every governance meeting, participants might openly reflect on how respected they felt by others during the conversation. Cascading and reinforcing the desired cultural changes in this way can help companies quickly establish the new normal.

Signature initiatives involving the top team—for instance, changing the company dress code to match that of the acquired company—can help underline its commitment and create a sense of shared endeavor.

Of course, formal communication structures are not always the best way to influence an organization. As part of the change effort, the top team should identify and empower change agents and influencers across the acquiring and target companies, giving them the training and skills they need to be effective in the role.

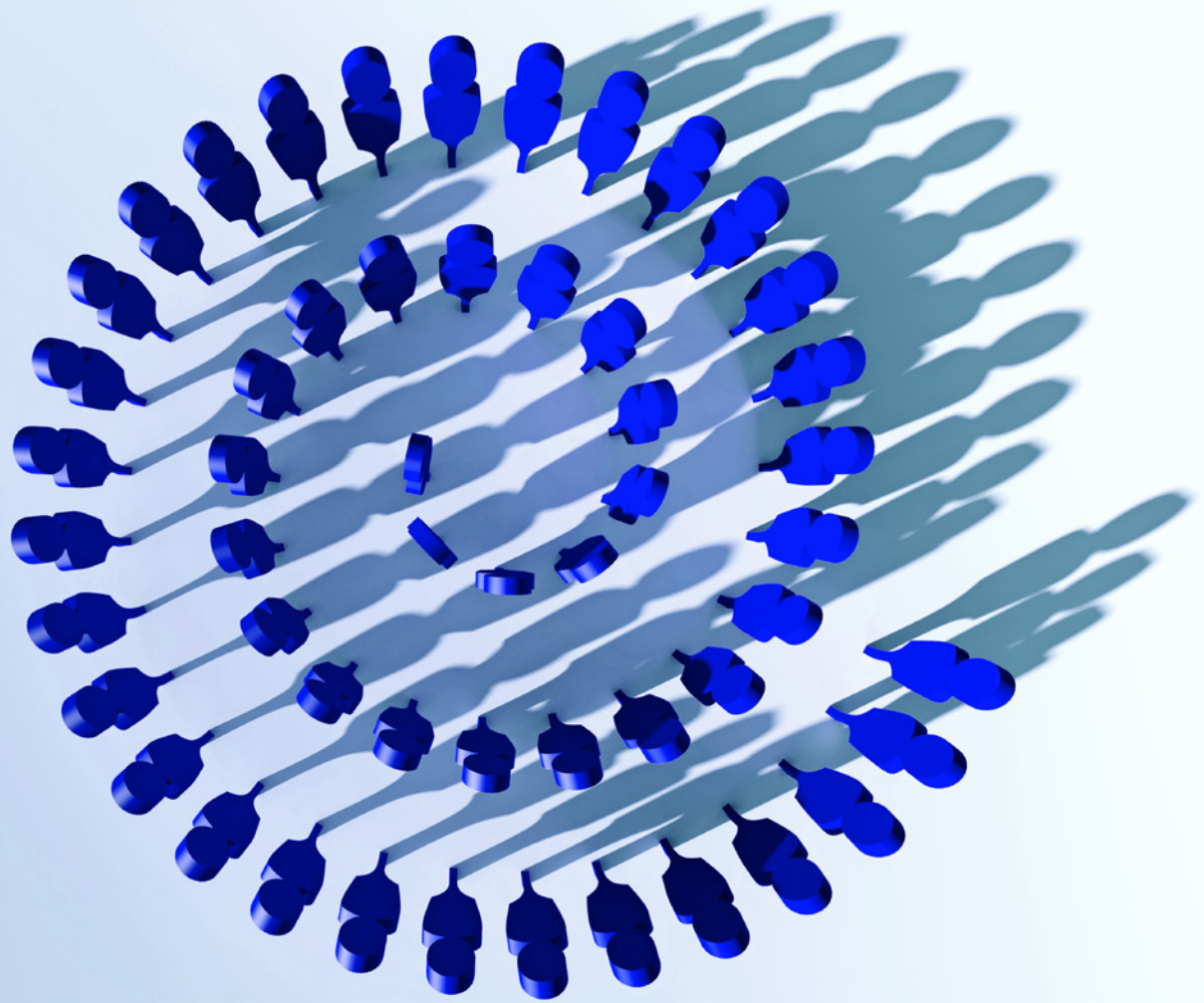
Senior leaders should also track the implementation of themes and initiatives with the same rigor they use for financial targets. That means developing clear milestones, monitoring them centrally, tracking them closely, and taking corrective action quickly when needed.

As our research and experience suggest, culture is a critical (if underestimated) factor in the success of any merger or acquisition. It must be a central topic on any agenda in which deals are being discussed, whether leaders are talking about proposed transactions or active integrations and transformation through M&A. Otherwise, as the numbers demonstrate, organizations risk leaving significant opportunities for value creation and growth on the table.

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The authors wish to thank Andy MacLean and Oliver Engert, coauthors of "[Organizational culture in mergers: Addressing the unseen forces](#)." This article is adapted from their original writing, insights, and research.

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Retain, integrate, thrive: A strategy for managing talent during M&A transactions

Keeping top talent in the fold and engaged before, during, and after a large deal closes is critical for creating value from transactions. Here's how to address their needs throughout the M&A phases.

*by Emily O'Loughlin and John Chartier
with Alex Hambrock*

There is a paradox built into some M&A transactions that, when left unaddressed, can delay value creation or even demolish an otherwise solid deal thesis: Sometimes the very talent that an acquirer needs—the people and skill sets that perhaps attracted the acquirer to the target company in the first place—may not want to stay, given the timing or nature of the deal.

Departures of top talent can raise operational risks, weaken morale, or create other negative effects on an M&A integration. In the case of one serial acquirer, for instance, the near loss of an individual contributor turned out to be significant: This person was the only one at the target company who knew how to run an important process. The acquiring company managed to retain this individual at the eleventh hour, but the situation highlighted for the acquiring company a major gap in how their leaders identified critical talent.

In today's tight labor market, we've observed headhunters reaching out to some of the most talented people—mostly client-facing and revenue-generating staff and experts with specialized skill sets—at both target *and* acquiring companies on the very day a deal is announced. These high-performing employees are typically presented with more exit opportunities and are thus more likely than lower-performing employees to bolt when a deal is announced—and, in our experience, are still likely to do so in the two to three years after the deal closes. Meanwhile, research has shown that replacing an employee can cost up to three or four times the annual salary for the role¹; in a high-stakes M&A integration, the costs of productivity loss and delayed value creation could be far higher.

Not every deal is centered on acquiring talent, of course, and some departures are inevitable in nearly every integration. But given the costs and opportunities at stake, senior leadership teams should think early and often about the actions they can take to keep people in the fold [before, during, and after integrations](#).

Our decades of research and experience working with [global organizations on M&A integrations](#) reveal three steps leaders can take to retain top talent during all phases of dealmaking:

- Prepare the ground for integration ahead of the deal announcement by actively identifying high-potential performers, or “high potentials,” across roles and revisiting incentives.
- Keep employees focused during integration and ahead of the deal close by communicating effectively, empowering frontline managers, and identifying key performance metrics.
- Sustain postclose changes by establishing onboarding and development programs and revisiting the employee value proposition (EVP).

Most important, these steps should be discussed and built into integration plans long before a deal is announced. In this way, acquiring companies can identify top talent, match them to mission-critical, value-creating roles, help them adapt to new workplace realities, and limit any disruption to day-to-day operations.

¹ Katie Navarra, “The real costs of recruitment,” SHRM, April 11, 2022.

Before a deal is announced: Prepare the ground

In any organization, there are typically four crucial employee groups: the 2 percent who are high potentials and future leaders, the value creators and those who own important business initiatives and deliver on the deal synergies, the influencers and other people with deep social capital who can make change happen, and a broader group of mission-critical people who keep the company humming—for instance, a top salesperson or technology manager (exhibit).

Typically, when it comes to the talent component of a deal, an acquirer's first action is to identify which employees fit into each of these four groups within the target company—a reasonable reaction. To get a more complete picture, however, they should also extend this exercise to categorize the people in their own organization. And when looking at talent in both the parent and target companies, they should [consider employees at all levels](#), not just in the first few management layers. After all, we all know people who play vital organizational roles without lofty titles or dozens of direct reports.

As part of this assessment, acquirers should also review existing incentives and consider whether they would still be fit for purpose after integration. [McKinsey research reveals](#) that in the post-COVID-19 talent market, nonfinancial incentives, such as public praise from managers, leadership attention, and leadership development opportunities, are just as critical as financial ones.

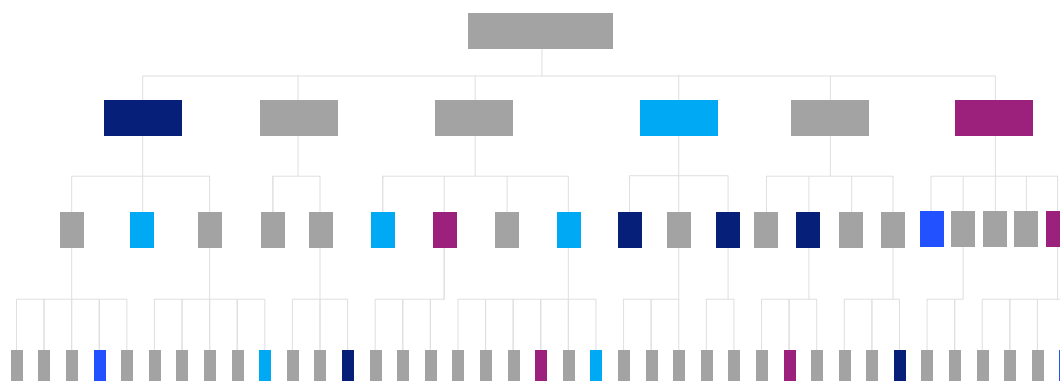
With these data about talent and incentives in hand, the top team can solidify its retention plans and, most important, actively shape the messaging on this topic. In our experience, when senior leaders convey their plans for change with empathy, consistency, and a sense that employees' skills, insights, and contributions matter, top talent will be more likely to stay in the wake of M&A.

Exhibit

Critical talent can be found at all levels of the parent and target companies.

4 crucial types of employees within an organization's structure (illustrative)

- 1** Mission-critical performers maintain business continuity
- 2** High-potential performers are critical to future success
- 3** Value creators own initiatives and deliver deal synergies
- 4** Influencers motivate and inspire others



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One financial-services provider, for example, embarked on a major acquisition that it hoped would help the organization maintain its core business while still seizing the potential for growth in new product and service areas. Senior leaders knew they would need a comprehensive understanding of the talent needed not only to deliver services to customers day to day but also to support the future state that served as the rationale for the deal. Rather than rely only on performance ratings to identify this critical talent, senior leaders in the financial institution tapped into the insights of its people managers (across both the acquiring and target companies) to identify the high potentials, employees in business-critical roles, and so on.

After identifying the specific people deemed essential, leaders in both the acquiring and target companies worked together to build and deploy a retention communications strategy tailored to a dozen talent archetypes, which helped them retain nearly all the most critical employees.

Between the deal announcement and close: Maintain stability and focus

The period between the deal announcement and close can be filled with uncertainty, creating anxiety and disengagement across both organizations and often spurring high performers to consider their options—especially with headhunters on the prowl.² It's important, therefore, for senior leaders to act quickly to reassure and engage top talent.

Communication skills have become more important than ever in an era in which people spend less time in an office and engagement may be low. But leaders should understand that a stirring memo or town hall meeting about an impending deal won't be enough; employees generally pay less attention to what leaders say and more attention to what they do, including which employees they recognize and reward, which meetings they attend, and how receptive they are to innovative ideas.

Maintaining employees' engagement during a transaction requires a steady hum of two-way communication and support for change. Acquiring companies should establish a dedicated team to manage talent-related issues, address concerns promptly, identify and squelch myths and untruths, and focus on business objectives. This team should invite top talent into integration activities when possible, including in conversations with executives and the board, to ensure that their perspectives are reflected throughout the integration.

Acquirers should also remember the role their frontline managers can play in retaining talent through integration periods and equip them with the right information, tools, and training. Research shows that, across industries and functions, most employees trust their direct supervisors more than anyone else in the organization. In the case of M&A integrations, frontline managers can use their regular one-on-one meetings with top performers to discuss their concerns about integration and aspirations for the new organization and to generally make them feel heard and valued. Frontline managers can send these insights up the chain of command to help senior leaders track attitude changes by department, function, business, and region.

² Jocelyn Chao, Becky Kaetzler, Natashya Lalani, and Laura Lynch, "[Talent retention and selection in M&A](#)," McKinsey, October 12, 2020.

Metrics are always central to effective performance management, but monitoring and measuring the outcome of retention programs are especially important in times of transition.

Metrics are always central to effective performance management, but monitoring and measuring the outcome of retention programs are especially important in times of transition. With that in mind, senior integration leaders should identify the most critical metrics to monitor across each of the four categories of talent. They should regularly discuss progress and shortfalls to make timely course corrections and intervene as needed. A thoughtful approach to exit interviews can also help the organization react quickly to any trends described by departing employees.

In the case of a transaction involving a large North American bank, the executive team built and deployed a robust “manager’s tool kit” to maintain consistent communications about integration and to set frontline leaders up for success in high-stakes interactions. The tool kit included speaking notes and detailed answers to frequently asked questions.

The bank’s communications team also built and deployed a quantitative dashboard to track which messages about integration and change resonated in each part of the organization, as well as in the target company, and where they needed to launch interventions or nudge managers to improve communications. The effort led to significantly lower attrition than expected across top performers and value-creating roles—both keen areas of focus in this integration.

After the deal closes: Solidify engagement and retention

Acquirers can identify key talent at the outset of deal discussions and take steps to keep top performers on board during the integration—but the work doesn’t stop there. Leaders must combat the change fatigue that often sets in during integrations and find ways to engage their high performers, even after the deal closes.

Indeed, the most effective engagement and retention programs typically begin immediately at close and are keenly focused on creating a sense of unity and purpose among employees from both organizations as they begin to execute the new company’s strategies. A comprehensive onboarding program for the merged entity is critical. Each step in the onboarding process, from getting access to new tools and technologies to being physically set up in a new location, can make or break the integrated organization’s relationship with its top performers. It may be helpful, then, to include these high potentials in meetings with senior leadership and involve them directly in discussions about the integration and the new company’s strategic direction, which can reinforce their importance to the company.

The postclose period can also be a good moment to roll out a redesigned, best-in-class EVP to align with the direction of the new company that includes, for instance, new development and skill-building opportunities, geographic and functional rotations, and better work–life balance. By the new, merged entity showing rather than simply telling employees how much it values their contributions, it can bring its values to life, strengthen culture and engagement, and improve the long-term retention of high performers.

A B2B electronic-materials player, for example, embarked on a large-scale organizational transformation in the wake of a significant acquisition. That effort required the organization to seek different kinds of talent beyond the types of candidates it had traditionally attracted. Clearly, this would require a new approach to talent attraction and retention and a revised EVP.

Recognizing this, talent and business unit leaders crafted a new EVP and launched communications and change management programs to help other leaders across the organization understand it. They asked managers and employees to help integrate the five core elements of this EVP—impact on society, impact on customers, impact on the company, impact on the team, and impact on personal success—into their conversations, processes, and day-to-day work.

They then identified and enlisted “cultivation leaders,” who were paired with job candidates to convey the company’s unique value proposition and to create a personal connection to demonstrate that this organization was different. Some top performers did depart, but senior leaders believed the efforts persuaded many highly valued people to stay.

While not every transaction requires a focus on talent, talent is a critical element in most deal theses. By identifying essential talent early, at all levels, and crafting a fit-for-purpose retention strategy, organizations will keep more of the people they need to deliver value and set up the new company for sustained success.

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