

June 13, 2025

Global Credit Weekly:

The signals from M&A

BlackRock

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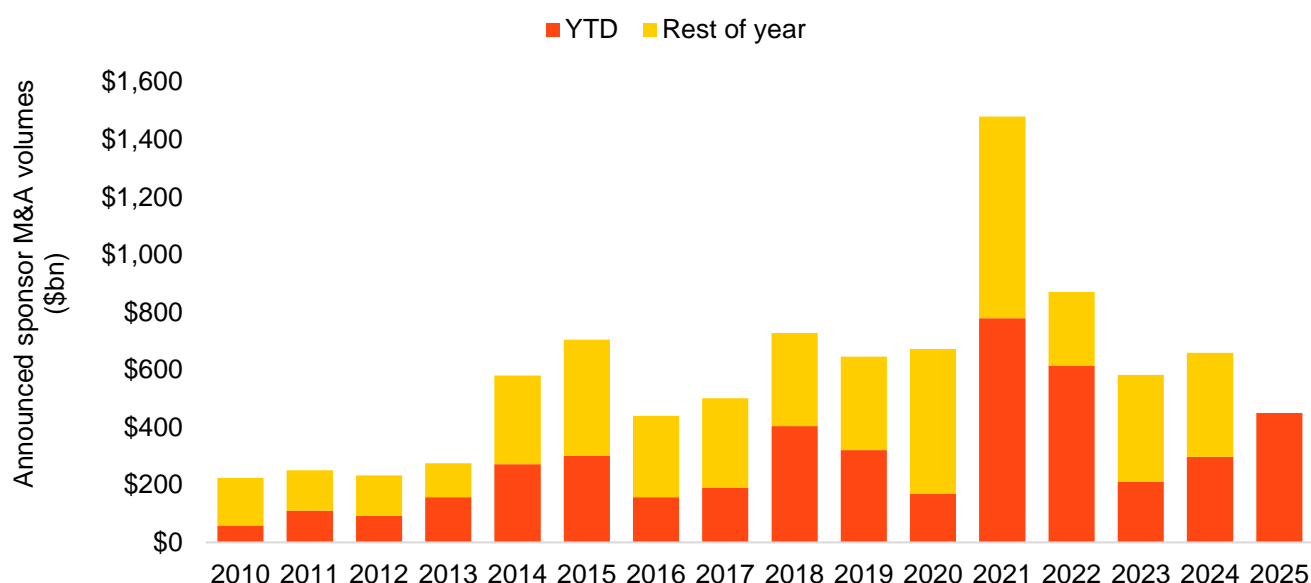
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Key takeaways

- Against a dynamic investing backdrop, the tone from corporate management teams has been closely followed by a wide range of market participants and policymakers (as outlined in the Federal Reserve's most recent Beige Book). Beyond the well telegraphed link between profit margins and labor market conditions, firms' appetite for M&A activity can be interpreted as another barometer of corporate confidence.
- At the start of 2025, there was considerable optimism related to a potential acceleration in mergers and acquisition (M&A) activity, as well as broader capital markets transactions such as IPOs. This has since given way to a more negative tone in recent months, with many citing policy and macroeconomic uncertainty as a reason to expect subdued M&A volumes.
- In this *Global Credit Weekly*, we take stock of the granular M&A data from a range of sources that we track – for both strategic and sponsor-related transactions. In general, we find a somewhat more constructive backdrop in terms of recent deal volumes vs. what headlines might suggest – similar to the theme we last flagged in [March](#).
- That said, a few notable themes from year-to-date activity are visible from the granular data. First, strategic acquisitions from European acquirers are running well above the historical trend – boosted by Financials and Healthcare (among other sectors). Second, the financing mix for strategic M&A has not been friendly for bondholders, with an elevated share of cash/debt funded deals. Third, private equity (PE) exit volumes are showing signs of a recovery, but this has been driven by the largest deals and hasn't yet broadened. Fourth, vintage level dispersion in sponsor-related transactions persists.

Exhibit 1: Year-to-date sponsor-related M&A volumes are tracking above 2023 and 2024

Announced sponsor-related M&A volumes (\$ in billions), by acquirers based in North America or Europe. Captures deals valued at \$1 billion or more, at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics). Historical year-to-date periods are as of June 12 in each calendar year. As of June 12, 2025. A sponsor related transaction is one that involves a financial sponsor as a buyer or a seller.

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M&A: a granular look

Against a dynamic investing backdrop, the tone from corporates has been closely followed by a wide range of market participants and policymakers (as outlined in the Federal Reserve's most recent [Beige Book](#)). Beyond the well telegraphed link between margins and labor market conditions, firms' appetite for M&A activity can be interpreted as another barometer of corporate confidence.

At the start of 2025, there was considerable optimism related to a potential acceleration in mergers and acquisition (M&A) activity, as well as broader capital markets transactions such as IPOs. This has since given way to a more negative tone in recent months, with many citing policy and macroeconomic [uncertainty](#) as a reason to expect subdued M&A volumes.

In this *Global Credit Weekly*, we take stock of the granular M&A data from Dealogic and find a somewhat more constructive backdrop related to recent activity – similar to the theme we last flagged in [March](#).

In aggregate, 1Q2025 M&A activity was resilient, reaching its highest quarterly volume since 4Q2023 (Exhibit 2). And despite the volatility that ensued in the second quarter, aggregate M&A volumes quarter-to-date (QTD, as of June 12, 2025) have been considerably strong, already surpassing the *full quarter's* worth of volumes in 2Q2024.

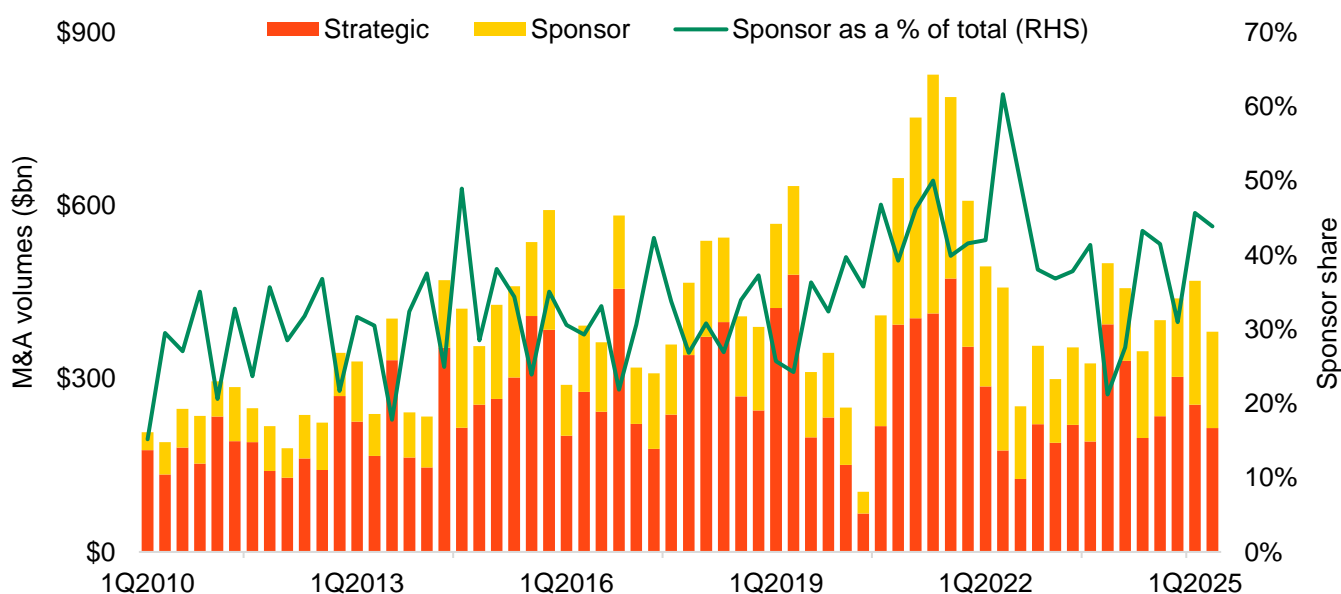
That said, these aggregate figures capture two distinct types of M&A activity – strategic and sponsor-related deals – which can often be influenced by different factors.

For example, strategic M&A refers to transactions between corporates and excludes deals where a private equity (PE) sponsor is involved as a buyer or seller. These transaction decisions are often related to longer-term business goals (for example: diversification, entering a new market, reaching a new customer, or acquiring new capabilities). Because these acquirers are looking to make persistent changes to their business, this leaves near term considerations (policy uncertainty, funding costs) as somewhat less important compared to their strategic business objectives.

By contrast, sponsor-related M&A, which means private equity sponsors are involved on either side of the deal (as a buyer or seller), is often more transaction-oriented with a potential 'exit' to the investment in mind. It tends to place more weight on certain financial metrics, such as the multiple on invested capital (MOIC), to quantify value created. As such, considerations such as entry valuation, the macro backdrop, and financing costs are often key inputs to underwriting.

Exhibit 2: M&A activity shows some consistency, despite uncertainty

Announced sponsor and strategic M&A deals in North America, and sponsored volume as a share of the total (RHS). Captures deals valued at \$100 million or more, at announcement. Excludes canceled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2Q2025 as of June 12, 2025. Sponsor-related transactions are those that include a financial sponsor on either side (as buyer or seller).

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Strategic M&A: steady volumes, with dispersion

As we've discussed previously, strategic M&A has been reasonably active in recent quarters, despite what headlines might suggest. Indeed, aggregate volumes across North America and Europe were modestly above the four-year quarterly average in 1Q2025 (Exhibit 3).

Exhibit 4 (next page) demonstrates deal activity across sectors in the two regions. 'Technology / Telecommunications' has been the most active sector for strategic M&A during 2025, representing 32% of total deal volume. Importantly, this share is somewhat skewed by one large technology transaction during the first quarter, which represents 6% of total strategic M&A volume this year. Financials have also represented a meaningful share of strategic M&A volume in 2025 to date - 21% of total (again, Exhibit 4, next page).

That said, the underlying data reveals a divergence across regions, with Europe proving to be more active, relative to recent history, than North America. For context, strategic M&A volume in Europe outpaced the four-year quarterly average by 23% during 1Q2025, whereas North America volumes fell by 7%. Still, North America's strategic M&A volume outpaced Europe's in absolute terms.

Financials were among the most active sectors for strategic M&A activity in Europe, alongside Healthcare and Energy. Notably, some supervisory members of the ECB have recently recommended relaxing rules on cross-border bank M&A in Europe.

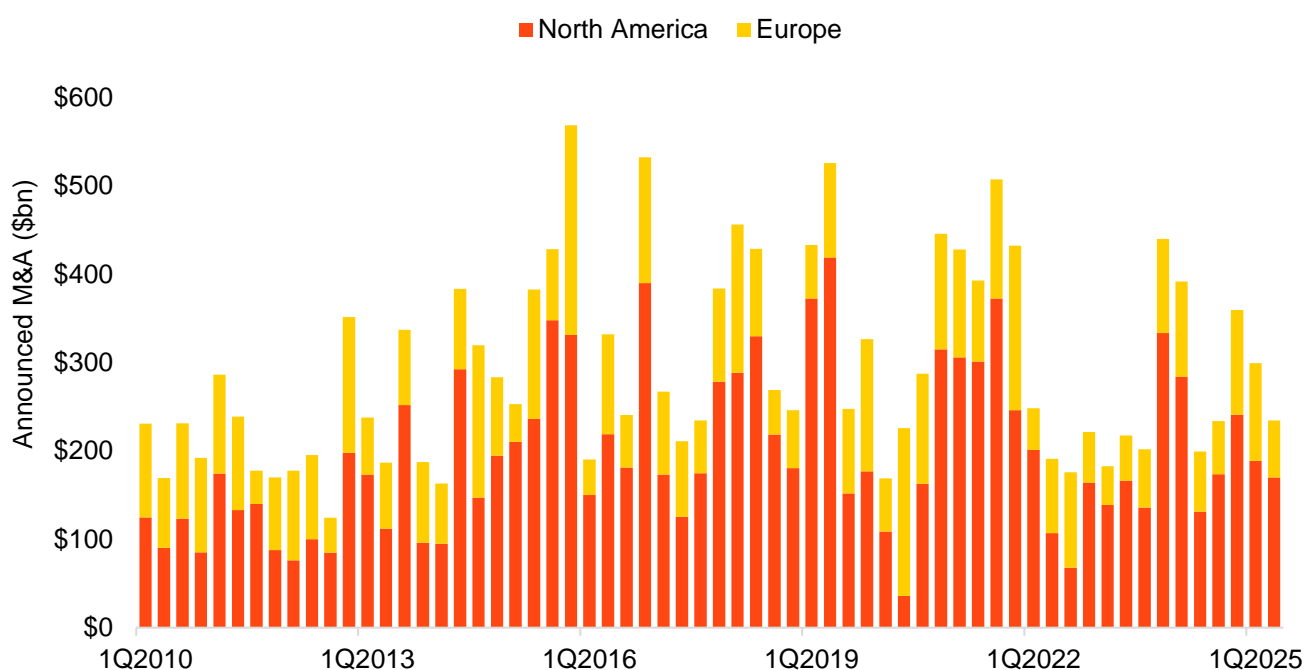
Over the longer term, Europe's M&A landscape could be supported by recent fiscal policy proposals and moderating interest rate levels.

The role of 'mega forces'

While uncertainty may cloud some business decisions in the near term, certain macro drivers continue to inform longer-term strategic decision-making. Our colleagues at the *BlackRock Investment Institute* have detailed five mega forces that they expect to shape the investing landscape over the coming years. One of these trends, digital disruption and artificial intelligence (AI), is likely to be an important driver of strategic M&A activity in the coming years, in our view, in the Technology sector and adjacent industries.

Exhibit 3: Strategic M&A volumes are in line with recent history

Announced strategic M&A volumes (\$ in billions), by acquirers based in North America and Europe, by quarter. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2Q2025 is as of June 12, 2025.

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A less favorable funding mix for bondholders

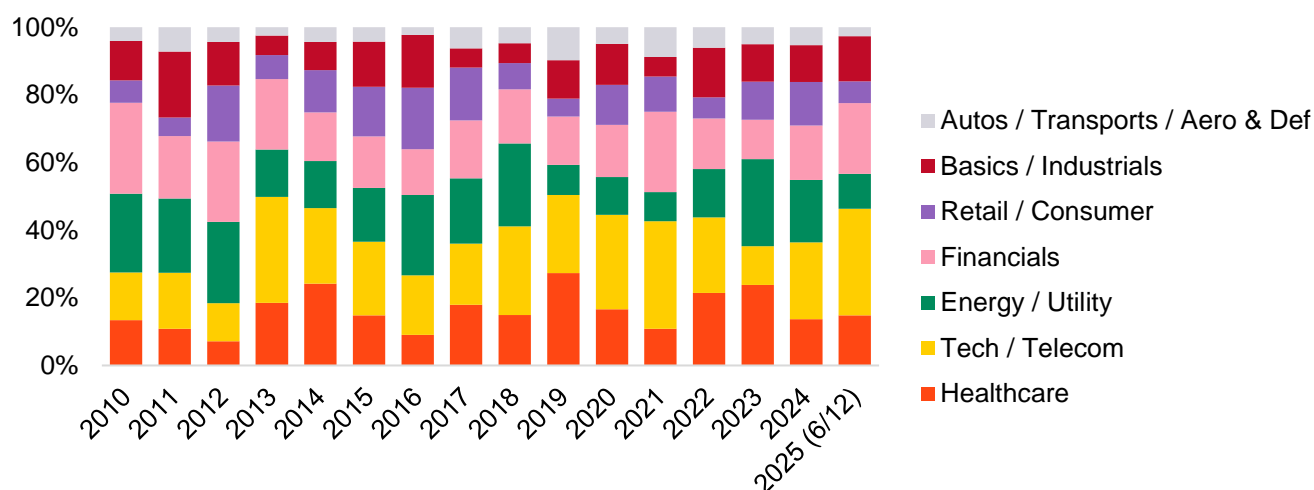
For corporate credit investors, the funding mix (i.e., debt vs. equity) of large transactions can significantly impact credit fundamentals for the acquirers and targets. Thus far in 2025, over 60% of strategic M&A has been funded with cash (Exhibit 5). (Note: even in the example of ‘cash-funded’ M&A transactions, we often find that cash utilized for deal-making ultimately gets ‘replaced’ with a new debt issue, based on anecdotal experiences over a longer-term history).

For corporates engaging in cash- or debt-funded M&A, such deals can meaningfully reduce existing liquidity cushions. Furthermore, transactions that require additional debt typically result in a new bond offering at a spread ‘concession’ to existing debt in the secondary market. And while ‘stock only’ deals are often favorable for bondholders, these have represented only 24% of strategic M&A volume this year, below the 32% average of the last ten years.

We see two notable takeaways from the year-to-date funding mix. First, the skew towards cash financing suggests that cash-rich sectors and firms have driven a large portion of year-to-date M&A – highlighting the optionality associated with balance sheet flexibility. And where debt was issued, higher interest rates have not appeared to deter management teams from moving forward with their strategic plans. Second, the more limited share of equity financing suggests that volatility in equity markets may have deterred such transactions.

Exhibit 4: Tech / Telecom represents the largest sector for strategic M&A so far this year

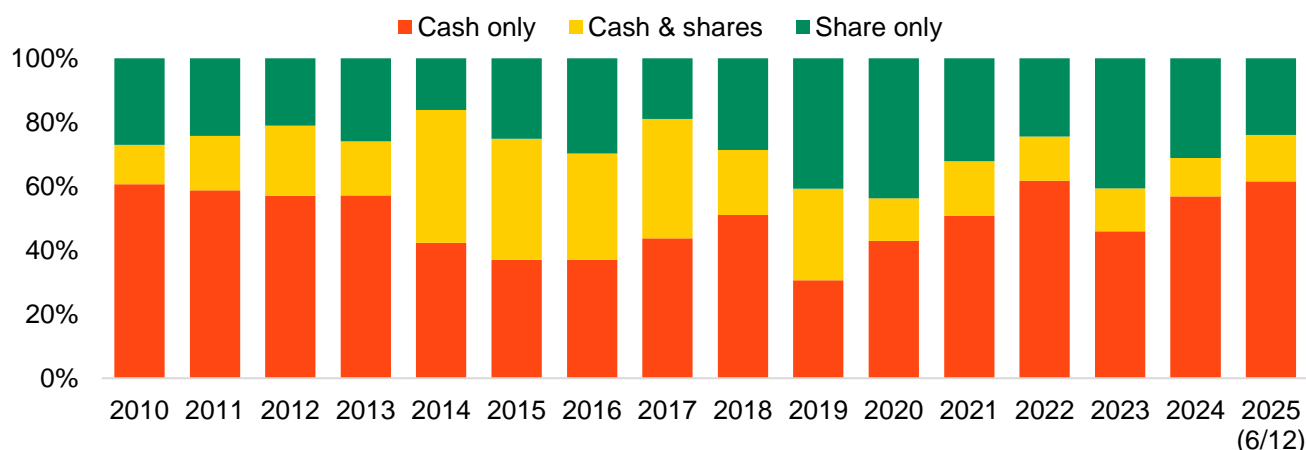
Sector mix of announced strategic M&A by North American and European acquirers. Captures deals valued at \$1 billion or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. As of June 12, 2025.

Exhibit 5: The funding mix has skewed toward ‘cash only’ deals

Funding mix of announced strategic M&A by North American and European acquirers. Captures deals valued at \$1 billion or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2025 is as of June 12, 2025.

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Sponsor-related deals: some progress

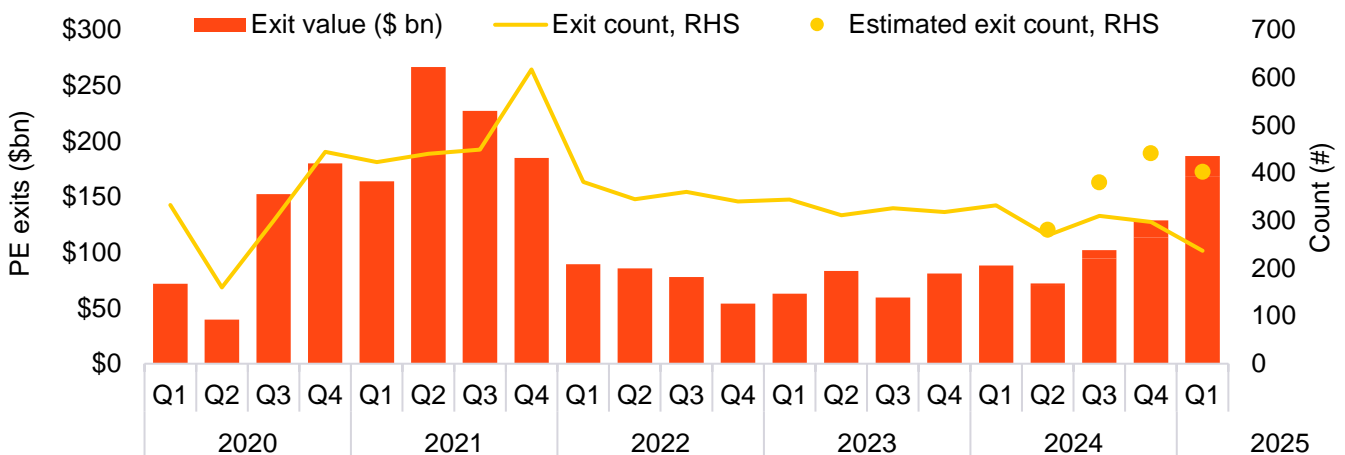
On the sponsor-related side, year-to-date volumes are tracking above 2023 and 2024 (Exhibit 1). That said, a more detailed look into transaction activity reveals that sponsored M&A volume was boosted by three large deals, representing 34% of total volume, according to data by Dealogic.

Data from Pitchbook LCD demonstrates a similar trend of elevated activity, with U.S. PE exit volumes growing 45% QoQ (Exhibit 6). Notably, the average estimated exit value (calculated as actual and expected exit value / actual and expected exit count) reveals that exits skewed more heavily toward larger businesses than in previous quarters. This is consistent with our belief that PE general partners are likely prioritizing ‘exiting’ their largest and highest-quality assets, given the market volatility. That said, these large-scale deals can often serve as a signal to broader investor appetite.

Coming into 2025, market participants were hopeful that PE exit activity would begin to accelerate. And while 1Q2025 delivered some relief in the form of exits for some assets, this has not yet broadened. That said, anecdotally, a broader increase in PE exit activity is expected by some market participants in the near term. Investor commentary suggests that both PE investors, and private credit lenders are motivated to understand what opportunities exist to access liquidity from PE owned-businesses – whether it be via an exit or a partial monetization opportunity. We continue to expect that the aging of PE inventory could act as a tailwind to PE exit activity ahead, especially as PE investors come under pressure to return capital to limited partners (Exhibit 7). And of course, incremental clarity on the macroeconomic and policy fronts may help align buyer and seller expectations.

Exhibit 6: U.S. PE exit activity increased in the first quarter

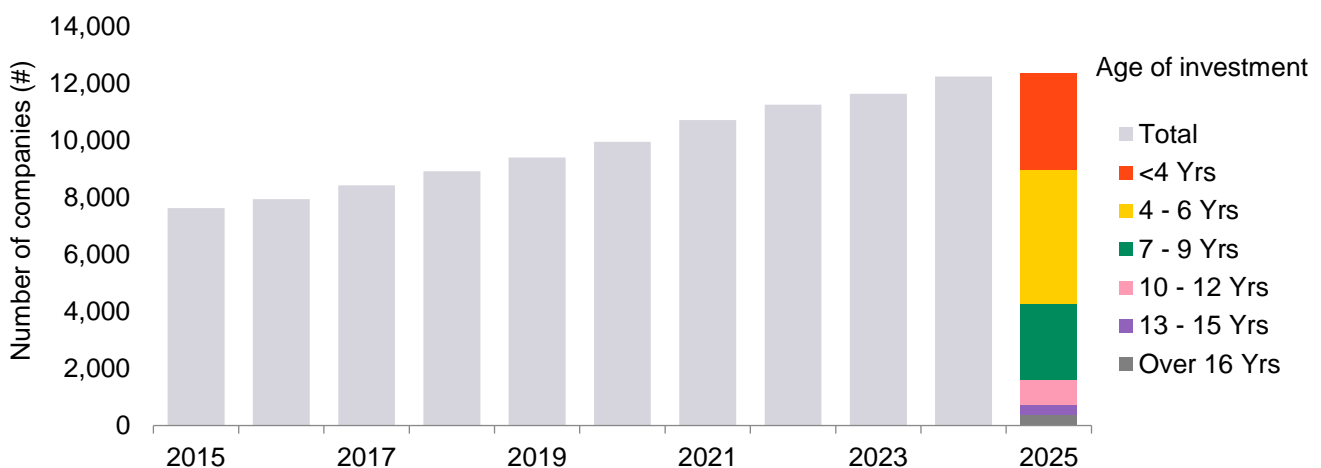
Quarterly U.S. PE exit activity, in billions and by count, RHS. Includes actual and estimated values.



Source: Pitchbook LCD, BlackRock. As of 1Q2025.

Exhibit 7: The median existing holding time for U.S. PE companies was 3.5 years in 1Q2025

U.S. PE-backed company inventory count by deal year



Source: Pitchbook, BlackRock. As of 1Q2025.

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Focusing on incremental improvements

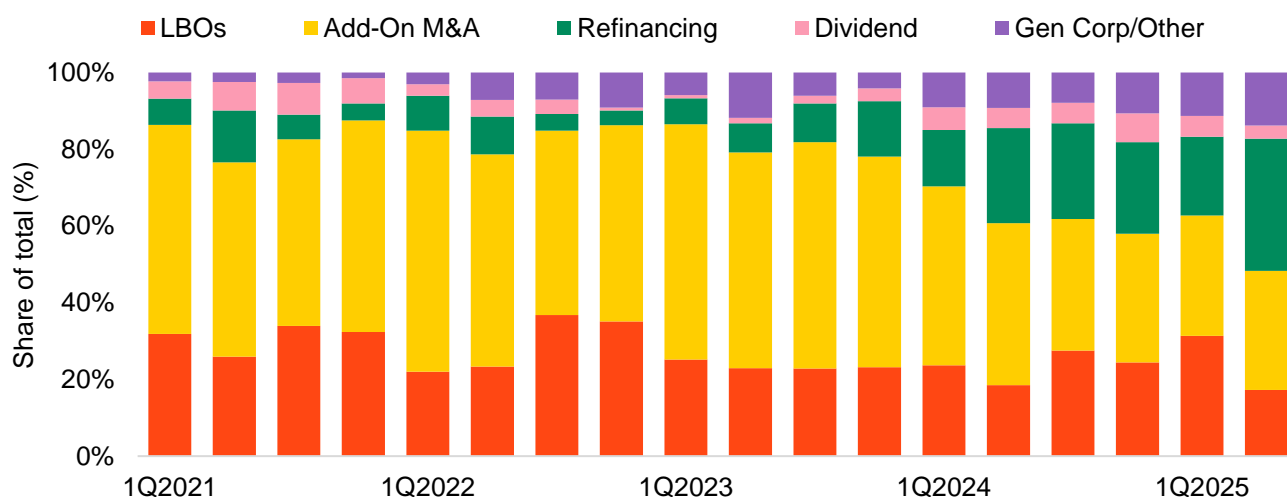
While managers await a more sustained improvement in the exit environment, they are focused on building value in their existing portfolios, including by focusing on opportunities for growth, operational synergies, and improved financing terms.

Exhibit 8 uses data from KBRA DLD to demonstrate the share of sponsored direct lending transactions each quarter, by transaction type. (For context, KBRA DLD's private debt dataset captures an aggregate value of \$787 billion in outstanding loans to PE-backed companies). In recent quarters, refinancing activity has grown as a share of total activity, while the share of LBOs and add-on M&A has fallen. We generally expect this trend of heightened refinancing activity to continue in the near term, as sponsors seek incremental clarity on the macro backdrop, before taking decisive entry or exit actions.

Exhibit 9 isolates PE buyout activity, separating add-on and non-add-on activity. Add-on activity continues to represent a meaningful share of total PE buyout activity (70%+), by deal count. (Note that Exhibit 9 includes transactions across the PE universe, including those that accessed financing in the syndicated loan market). The perceived 'unfavorable' exit environment continues to make add-on transactions, especially those with potential for synergies, a potentially attractive way to grow and diversify existing portfolio companies.

Exhibit 8: Refinancing gains traction

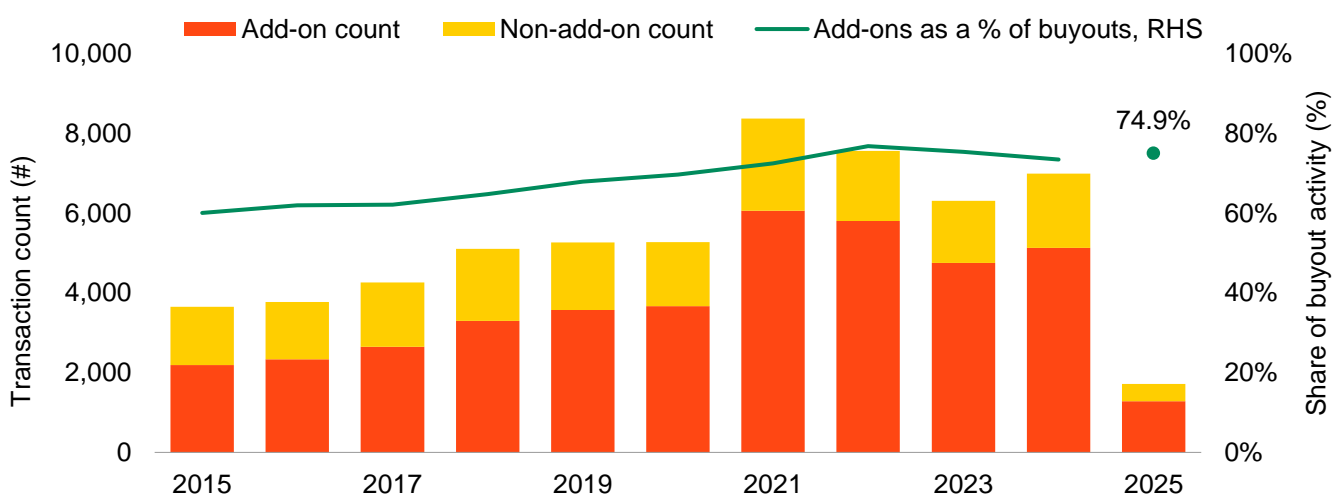
Share of total U.S. direct lending transaction count, by type



Source: KBRA DLD, BlackRock. 2Q2025 as of April 2025. KBRA DLD notes that most deals completed in April were already structured and approved in March.

Exhibit 9: Add-ons remain a key focus area for PE sponsors

U.S. PE buyout activity (segmented as add-ons and non-add-ons), by count and as a share of all U.S. PE buyout activity, RHS



Source: Pitchbook LCD, BlackRock. 2025 as of 1Q2025.

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Sponsors are increasing active ownership to build value

Like add-ons, active ownership represents another way sponsors can increase value in their existing portfolio companies.

The higher interest rate environment makes multiple expansion more challenging (relative to the lower interest rate regime), underscoring the importance of value creation.

A January 2025 McKinsey [survey](#) of 333 private equity operating groups found that the average operating group across all fund sizes has more than doubled in the past three years. This underscores sponsors continued, and growing, participation in value creation, via portfolio operations teams.

Looking ahead, our expectation of a structurally higher interest rate backdrop suggests that the PE industry will look to utilize active ownership as a tool for increasing valuations. We expect that continued value creation and aging of PE inventory may act as tailwinds to PE transaction activity in the future, as sponsors seek to exit/monetize positions and distribute capital to investors.

Vintage-level dispersion persists

Related to this, and touching on the theme of dispersion that we discussed [last week](#), Exhibit 10 demonstrates EBITDA growth across deal vintages. There are two notable takeaways, in our view. First, the average LTM adjusted EBITDA compound annual growth rate (CAGR) varies each vintage year, underscoring the importance of vintage diversification in investing.

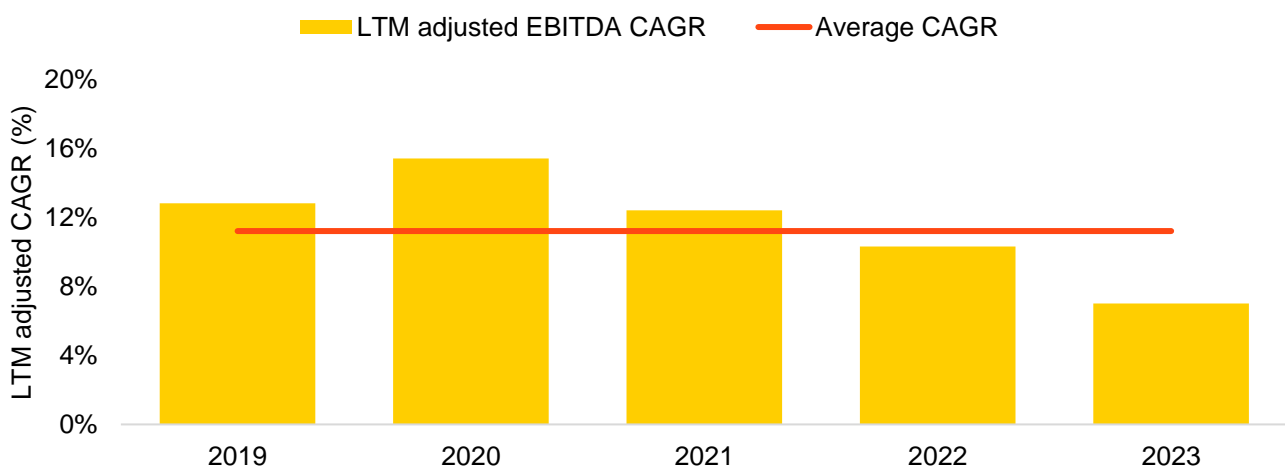
Second, growth for the 2019 – 2021 vintage deals has exceeded the average CAGR of 11.2%. In many cases, sponsors will change operational elements of a business during ownership, and the impact of such changes takes time to be realized. As such, we expect this outperformance of earlier funds may be due to a combination of drivers, *including* hold times.

Vintage-level dispersion is also observable through other performance elements. For example, industry commentary notes that a majority of stress in PE portfolios is related to vintages underwritten in a more benign rate environment (e.g., 2021, 2022). Data from Lincoln International reflects this, with 2021 and 2022 vintage deals representing nearly 50% of total amendment activity completed in 1Q2025 (Exhibit 11).

That said, an important caveat: more than 50% of active PE portfolio companies in the Lincoln International database were purchased in 2021 and 2022, as of 1Q2025. As such, while these vintages contribute considerably to amendment activity, they also represent the largest segment of active portfolio companies. The same is true for 2023 vintage deals, which represent 19% of active companies in the database.

Exhibit 10: EBITDA growth varies across deal vintages

Last-twelve-month (LTM) adjusted EBITDA CAGR between initial deal closing and 1Q2025, by vintage year and average

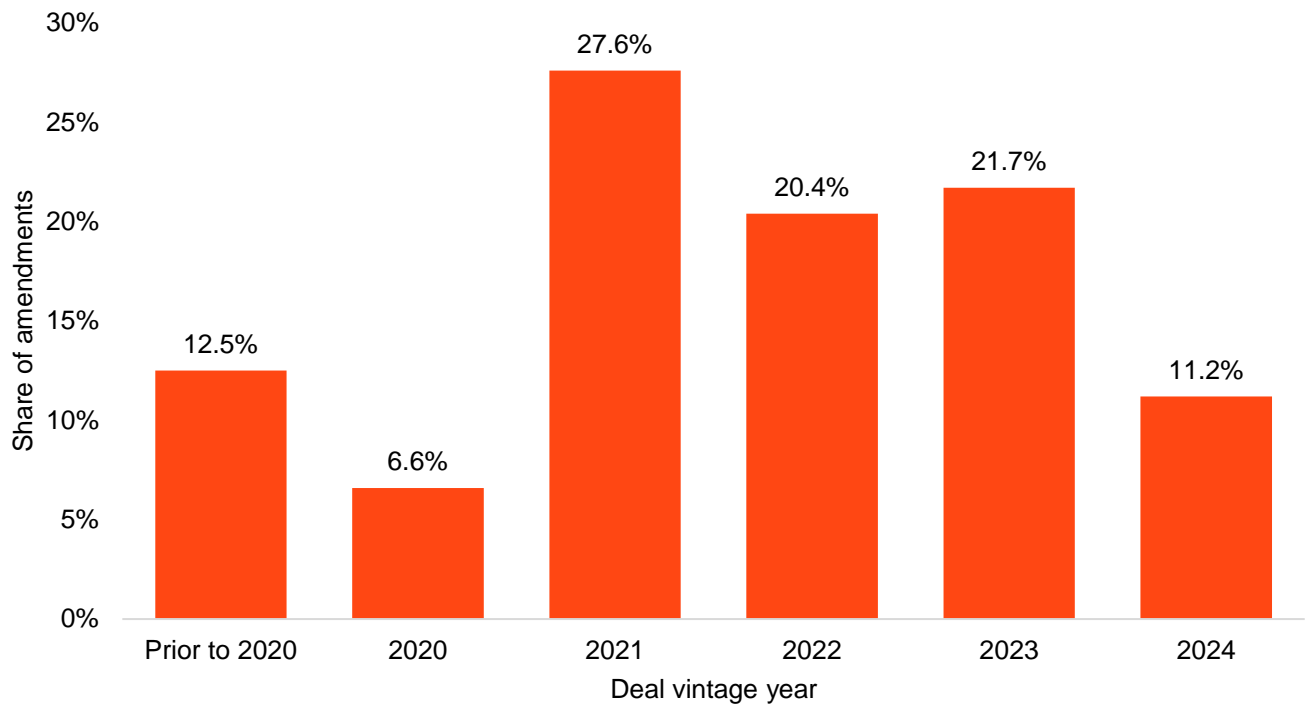


Source: Lincoln International, BlackRock. As of 1Q2025. Note: Adjusted EBITDA includes all adjustments as defined by the credit agreement and includes organic and inorganic growth. Analysis may be biased to survivorship bias. Average CAGR is across all unique portfolio companies. The following is the average EBITDA at close for each vintage year: \$52mm (2019), \$79mm (2020), \$59mm (2021), \$69mm (2022), \$144mm (2023).

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Exhibit 11: Nearly 70% of amendment activity in 1Q2025 was for 2021–2023 vintage deals

Share of amendments in 1Q2025, by deal vintage year



Source: Lincoln VOG Proprietary Private Market Database, BlackRock. As of 1Q2025. © 2023 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third party use is at user's own risk.

Unless otherwise stated, all reference to \$ are in USD.

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