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The Evolving Landscape of Middle-Market M&A

Tariffs—how they are actually defined in the real world—as well as AI and market uncertainty loom over 2025.

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Mr. Mufson has almost 30 years experience as an investment banker to middle market companies. Prior to the founding of Mufson Howe Hunter in 2004, he served as the founder and head of equity capital markets for Commerce Bancorp (now TD Bank). His prior role as managing director and head of investment banking for Janney Montgomery Scott LLC oversaw the growth and development of investment banking from a few professionals to a significant regional investment banking group. Mr. Mufson was a founding partner of the Philadelphia investment bank Foley Mufson Howe & Company, acquired by Janney Montgomery Scott in 1994.

As we enter 2025, tariff concerns have overtaken antitrust enforcement as the dominant issue shaping middle-market M&A. With the new administration shifting leadership at the FTC, tariffs are now a much greater concern, impacting businesses more directly than antitrust regulation. Tariffs function as an indirect tax on American businesses importing foreign goods, as companies—not exporting nations—are responsible for covering these costs. These additional expenses are inevitably passed on to consumers in the form of higher prices. Over time, tariffs alter purchasing behavior, forcing businesses and consumers to seek less expensive alternatives. This disrupts traditional trade relationships and global supply chains, leading to higher costs, suppressed economic activity, and inflationary pressures.

Furthermore, retaliatory tariffs from affected countries make U.S. goods more expensive abroad, weakening American exporters and creating a ripple effect that slows GDP growth, pressures labor markets, and fuels economic uncertainty. This volatility generates investor anxiety and challenges M&A markets, particularly for private equity (PE) sponsors and strategic buyers.

Increased uncertainty often results in cautious investment strategies, leading to downward pressure on valuations. A similar trend was evident in the latter stages of the COVID-19 pandemic when supply chain disruptions and tariff-driven price fluctuations diminished deal activity. Until there is clarity on future tariff policies, PE sponsors will likely prioritize domestic investments with minimal exposure to international supply chain risks.

AI's Expanding Role in Middle-Market M&A

The adoption of Artificial Intelligence (AI) in middle-market M&A is still in its early stages, but its disruptive potential is undeniable. While large-scale AI investments remain concentrated among top-tier firms and high-AUM private equity funds, broader adoption in middle-market transactions require standardized tools and practical applications. Such tools are starting to gain traction in the market.

Currently, AI-driven solutions are increasingly being integrated into high-frequency legal and due diligence tasks. Many PE sponsors now use AI-powered legal services to expedite NDA reviews in sell side processes, a trend that has gained significant momentum just over the past few months. Additionally, AI is enhancing data aggregation, market analysis, and investor targeting, improving precision in deal sourcing.

A recent development that caught the market's attention was the emergence of DeepSeek, a Chinese AI startup that made claims that it built a competitive AI platform at a fraction of the cost of existing leading models. If this technology proves commercially viable, AI's role in M&A could expand rapidly, revolutionizing financial modeling, valuation analysis, and strategic decision-making. As AI advances and becomes more cost-effective, wider adoption in middle-market M&A is inevitable, increasing efficiency and enhancing deal execution.

2025 Market Outlook: A Mixed Bag of Optimism and Risk

Despite certain risks, M&A practitioners remain cautiously optimistic about 2025. However, concerns that were less pressing at the end of 2024—such as interest rates remaining at current levels and the potential impact of tariffs to U.S. companies—have gained prominence.

The middle-market M&A sector (defined as transactions below $250 million in enterprise value) experienced its peak in 2021, with 2,788 transactions totaling $123 billion in enterprise value. Since then, middle-market transaction volume has declined 31% in 2022, 25% in 2023 and 9% in 2024. Given these trends, a rational assessment suggests that M&A activity is poised for a resurgence. U.S. private equity sponsors are sitting on over $1 trillion in dry powder, complemented by $500 billion in private credit funds, creating a strong foundation for deal-making. Additionally, the ongoing wave of Baby Boomer business owners seeking retirement-driven exits—often referred to as the "silver tsunami"—continues to drive deal flow.

While 2024's M&A activity remains significantly below its 2021 peak, indicators point toward a potential rebound. If tariff policies stabilize and economic confidence strengthens, an upward M&A cycle could emerge. However, market confidence remains a crucial determinant of transaction volume in 2025.

Should tariff concerns ease and investor sentiment improve, 2025 could mark the beginning of a new growth cycle for M&A. However, uncertainty remains the key variable, and market conditions must align favorably for a true resurgence.

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