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2025 Outlook for Middle Market M&A: America's Exceptional Economy

Mergers & Acquisitions in the middle market has been strong and active in 2024, following a subdued 2023. With the Presidential Election behind us and a number of positive economic indicators, we see 2025 as a great time to buy or sell a business. The M&A business cycle is cyclical, driven by many factors, but lower interest rates and high stock market valuations are two key drivers that give us a positive tail wind going into 2025.

Factors at play now: the possibility of high tariffs on imports and a strong US dollar. The potential for high tariffs is already driving demand for US production facilities. At DAK we were recently approached by an Indian company seeking to acquire a US based precision machining company. They need a US production base to supply their customers currently supplied from India and want to be proactive before tariffs go into effect. A strong US dollar gives Americans traveling abroad strong purchasing power, but it also makes US company earnings more attractive to foreign investors.

With a new administration in Washington and the global pandemic behind us it is a good time to reflect on American exceptionalism, why our markets are the most vibrant in the world and why the American middle-market businesses remain a desirable place to invest for both domestic and international buyers.

DAK has been providing business owners with strategic advice for over 40 years. We've seen many business cycles and actively track business valuations. For some owners now maybe the time they should invest in their company's growth with acquisitions to broaden their

reach or keep competitive. For others, in certain industries, their companies may be in high demand with the value near its peak, and now is the best opportunity to sell at a maximum value.

While interest rates and markets fluctuate, America has several things in our favor that set us apart from the rest of the world. I call these things "factor endowments" - key resources and characteristics that give the US a comparative advantage and keep our businesses attractive to domestic and foreign investors. These advantages are:

1. Largest Economy:

The US boasts the largest GDP globally, with per capita income levels far exceeding those of most developed nations. At \$76,000 per person, the US outpaces countries like China, whose per capita GDP stands at just \$12,500. This economic strength is reflected in higher market valuations, robust corporate earnings, and a business-friendly environment free from excessive government intervention.

2. Abundant Natural Resources:

America's vast natural resource base supports a diverse range of industries. The US is a leader in agricultural exports, mineral production, and energy output. With advancements in recovery technologies like fracking, the US has become the world's largest producer of crude oil and natural gas. This energy independence has allowed the country to maintain low energy costs, a stark contrast to nations like Germany, which has faced significant economic challenges due to energy disruptions.

3. Skilled Workforce:

The US workforce is one of the most educated and productive in the world. American workers generate an average annual economic output of \$171,000 per person—far higher than in Europe, Japan, or other developed regions. Historically, immigration has been a key driver of this productivity, with the economy continuing to absorb new talent. .

4. Geography and Market Access:

Geographically, the US benefits from its vast, integrated market. The North American continent, regulated by NAFTA, provides seamless trade access to over 500 million consumers. This combination of developed and developing markets ensures strong demand for goods and services.

5. Financial Capital and Investment:

America's stock market accounts for 61% of global market capitalization, underscoring its dominance in financial markets. The US offers unmatched ease of access to capital, whether through public markets or private equity. Contrast this with regions like Europe or China, where regulatory hurdles and restricted capital flows limit investment opportunities.

6. Productivity and Output:

On a per-person basis, US economic output is 40–60% higher than that of other developed economies, including Western Europe, Canada, and Japan. This productivity advantage has widened over the past three decades, supported by innovation, technology, and efficient capital deployment.

America is the leading economy in the world. America's growth has been best-in-class for over a century, and our strengths today give us grounds for optimism about our Country's economic power and potential. Middle market businesses are ripe for both Buy Side M&A for owners to grow and Sell Side M&A for them to cash out, or a partial sale which provides other options. International businesses are clamoring to buy American companies, Private Equity has record amounts of "dry powder" cash ready to invest and strategic buyers are looking to expand their operations.

American businesses are in a good position relative to their counterparties abroad. Now is a great time to take advantage of the strong dollar and active M&A market. Business owners should take some time and learn what their options are. Often, owners are unaware that there are many M&A options available to them



Please reach out directly to Mike with any questions about this article, M&A, or your own business.

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