

Deal Flow Thawing: Is the M&A Market Finally Finding Its Footing?

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After a rocky past six months, there is cautious optimism that merger and acquisition (M&A) activity is beginning to unfreeze. For much of the past year, there have been mismatched expectations around valuations and limited access to capital that have caused activity to stall. According to a recent report by [PwC Global](#), “lending rates have long been one of the two key factors influencing M&A activity, the other being valuations.” So, while buyers were eager and sellers were hopeful, the numbers rarely lined up. But things could now start to change.

The Valuation Tug-of-War

One of the biggest barriers to getting deals across the finish line has been price. Many sellers have been holding onto lofty valuations based on pre-2022 market highs that simply aren't realistic today. Meanwhile, buyers, who have been dealing with tighter credit markets and greater scrutiny from lenders, have been laser-focused on the fundamentals.

All of this has resulted in a frustrating standoff where deals collapse not due to a lack of interest, but because no one can agree on what the business is truly worth. In fact, earlier this year, [Arrowpoint Advisory](#) noted a 26% decline in deal volume in North America, due in large part to “valuation mismatches between buyers and sellers.”

We're now seeing a slow realignment. Valuation expectations are coming back to earth, with PwC noting that in today's uncertain environment, it is important to not overreach on valuations. Deal structures are also evolving to bridge the remaining gaps, with earnouts, seller financing, and rollover equity becoming more common. It is this kind of flexibility that is helping to get deals done.

A Shift in Diligence Dynamics

Another notable change has been the quality of earnings (QoE) process. Two years ago, it was often a buyer-driven analysis, completed after signing a letter of intent (LOI). Now, many sellers are proactively conducting QoE studies *before* going to market. It's a smart move to arm themselves with clean, vetted financials that can help to accelerate buyer confidence and reduce the risk of retrading.

But there is a catch. Even with a proactive QoE, once a deal goes under LOI, buyers are digging deeper than ever. Diligence is intense, and the time from LOI to closing can stretch longer than expected. [KPMG's 2025 Deal Market Study](#) points to heightened diligence and risk assessment as top challenges for 52% of corporates and 42% of private equity sponsors in the current economic landscape. And 47% of corporates also pointed to prolonged deal closing timelines as an issue, highlighting the link between deeper diligence and slower transactions.

So, by the time due diligence wraps, earnings may have shifted, or market conditions may have changed, sometimes to the

point where the lender's original terms no longer match the reality of the deal.

The Capital Crunch is Real, But Not Fatal

Banks are still lending, but there is an increased level of caution and a decreased appetite for risk. We've seen situations where buyers get a term sheet for, say, \$8 million in debt financing, only to find that after diligence or revised financials, the deal no longer pencils out, or the loan size is cut. That kind of late-stage shift can derail even the most promising transaction.

That's why it's more important than ever to stress-test the deal early. Build in buffers, anticipate lender concerns, and don't underestimate the importance of aligning everyone (seller, buyer, and lender) on realistic numbers from the start.

The M&A market may not be booming, but the ice is cracking as valuations find firmer footing, buyers adapt to longer timelines, and sellers are more prepared. If you're contemplating a transaction on either side, now is the time to get your house in order. Quality of earnings, capital access, transparency, and flexibility will be the make-or-break factors in the deals that get done in the second half of 2025.