



LSL

WEBINAR

**Riding the Next Wave: M&A Outlook for
Business Owners & Sellers in 2026**

Thur, Dec 11
10:00AM PST

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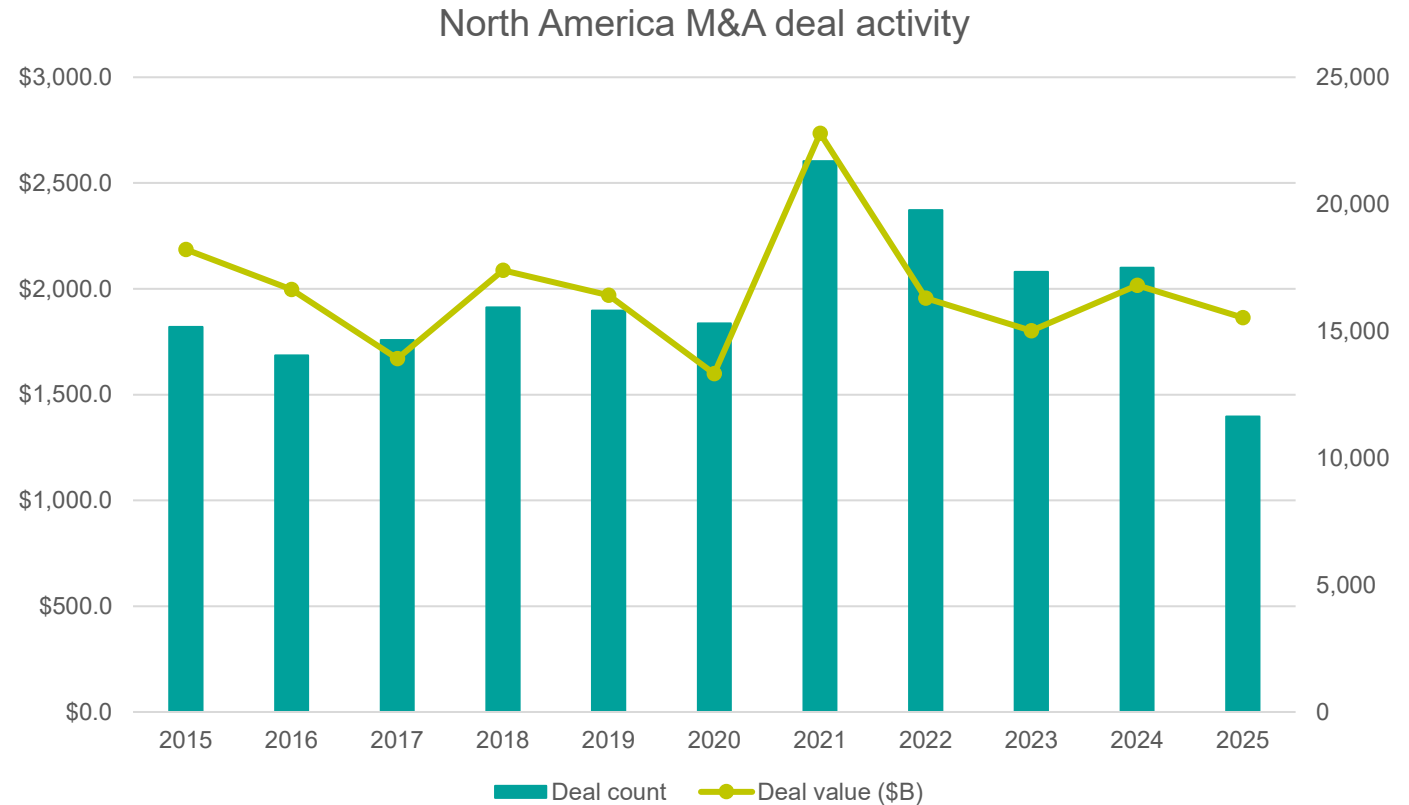
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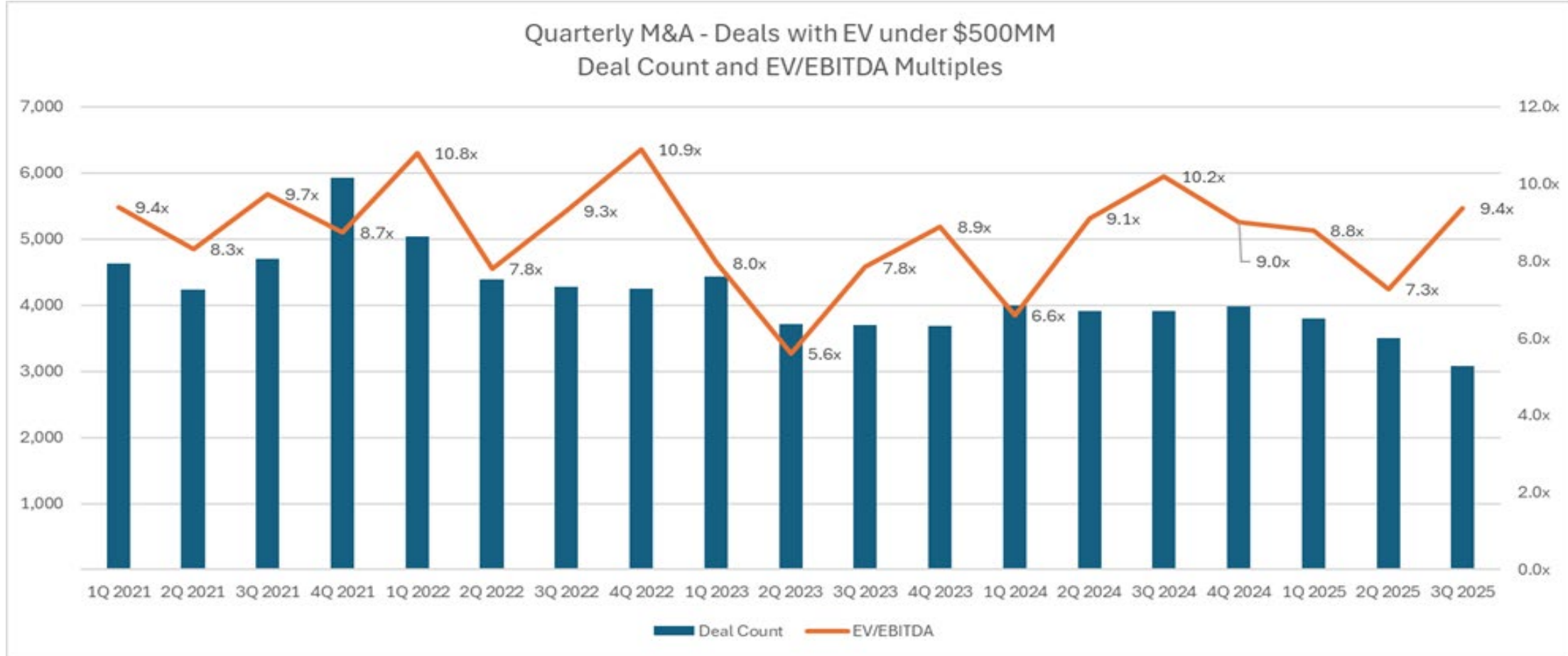
M&A Activity: 2025 Review

Beginning of the recovery:

- Mixed 2025 M&A activity from stable 2024
- Tariff Concerns & Instability:
- US: Fed Reserve (2 rate cuts so far in 2025)
 - 2-3 Cuts projected for next year
- Trump Administration causing waves
 - Tariffs On/Off
- Growth or Recession?

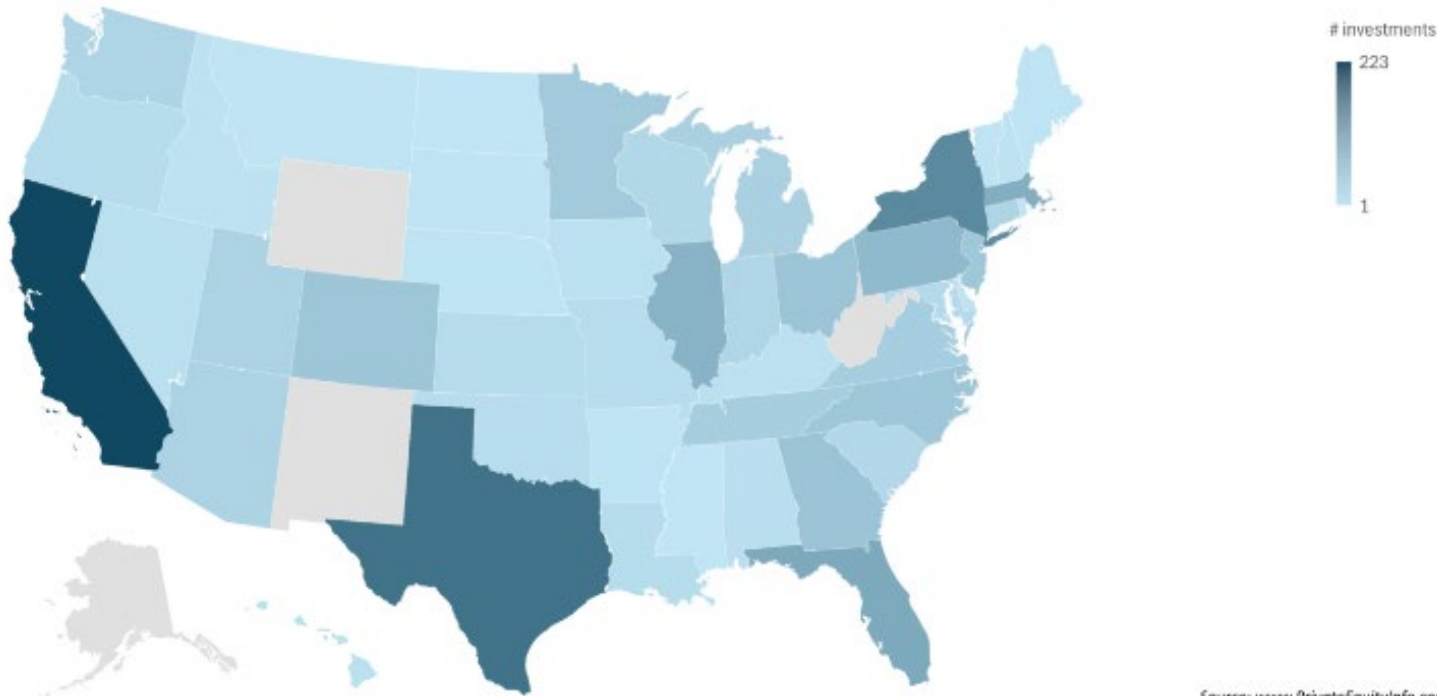


M&A Activity: Deal Review – Quarterly Basis



M&A Activity: U.S. Platform Investments

U.S. Platform Investments - 12 Months Activity



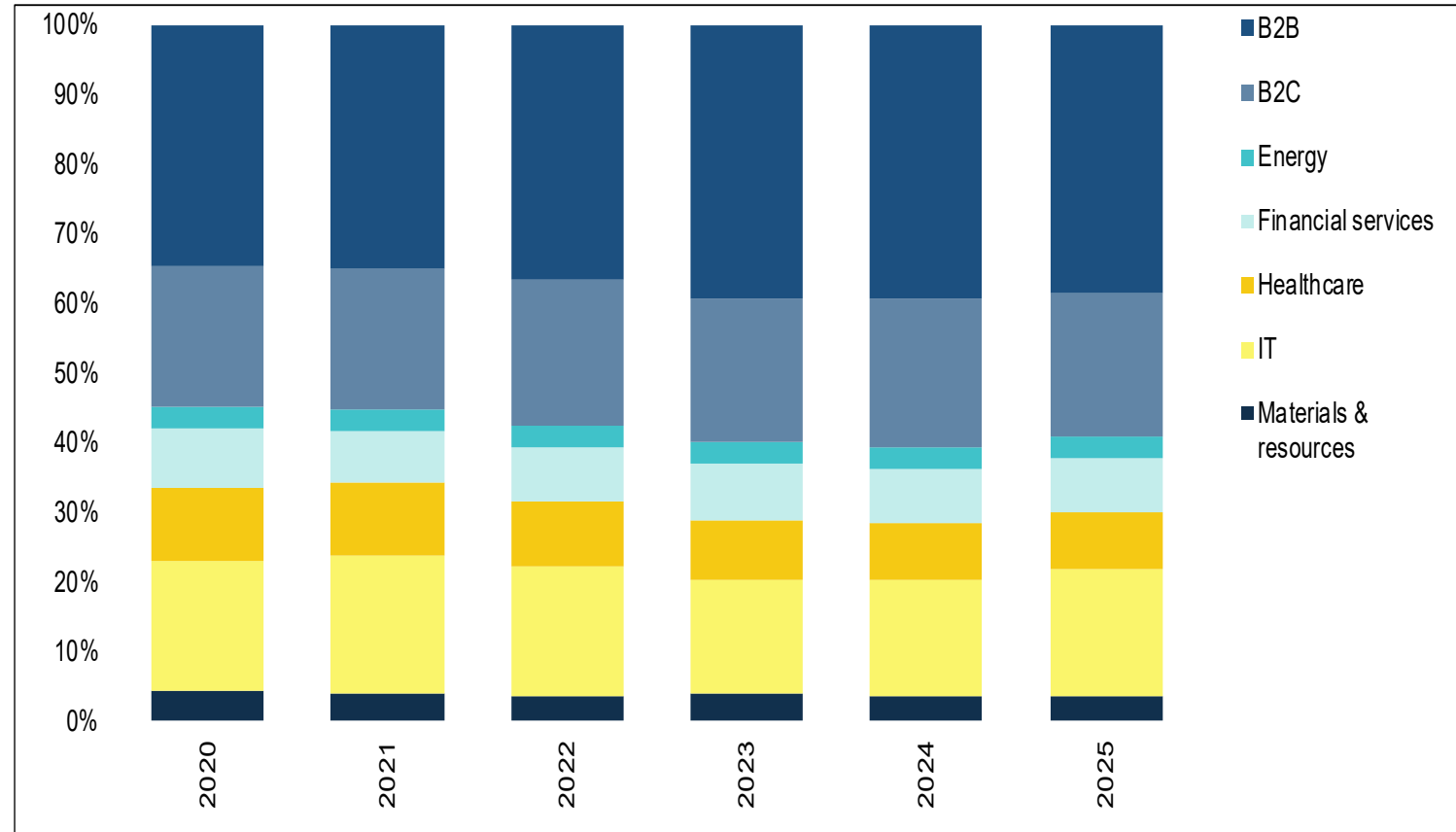
Source: www.PrivateEquityInfo.com

- California (15%), Texas (11%), and New York (9%) lead overall U.S. investments, reflecting their scale, population, and diverse industry bases.
- California (14%), Texas (9%), and New York (8%) dominate overall add-on investments.
- The Southeast, particularly Florida and Georgia, is emerging as a growth corridor, shaped by new capital flows.

M&A Activity: Share and Volume Trends

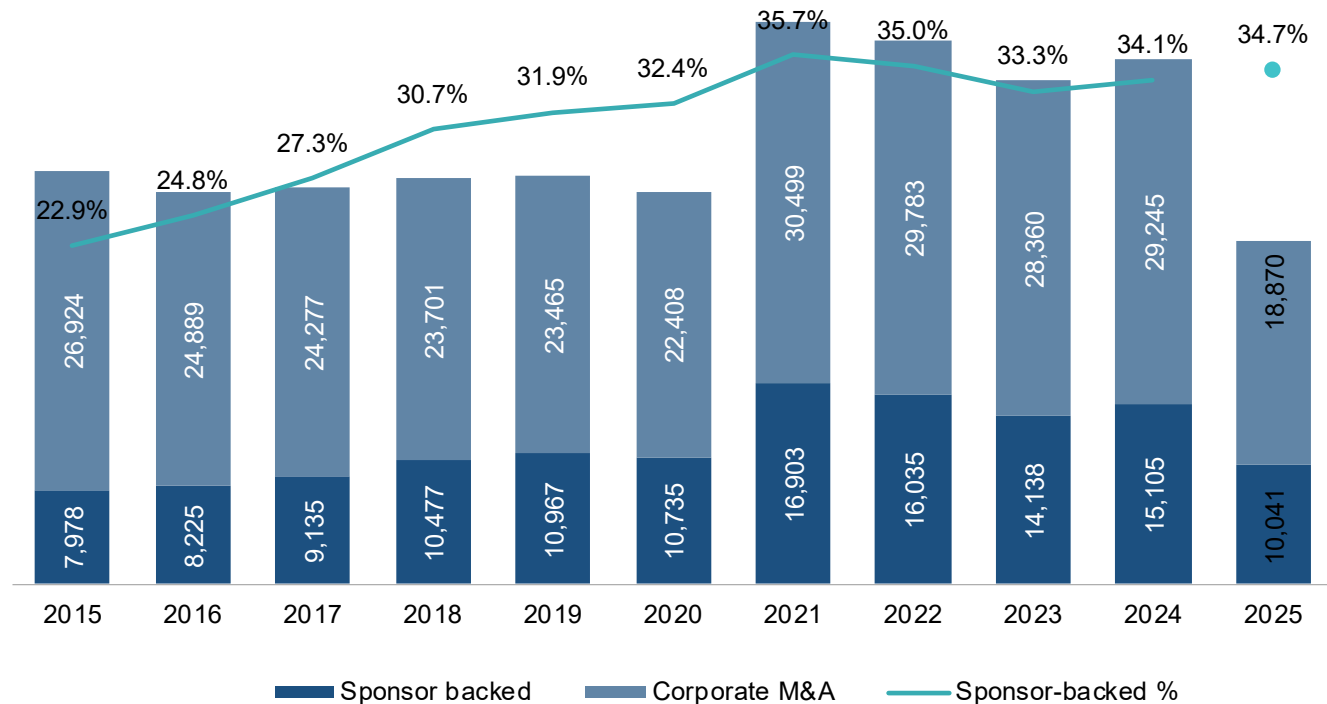
Top Trending Sectors:

- B2B: products & services (39%)
 - 27% of total deal value
- B2C: direct to consumers (20%)
 - 15% of total deal value
- Technology: software & internet (18%)
 - 23% of total deal value
- Healthcare: pharma / biotech (8%)
 - 11% of total deal value
- Financial Services: (8%)
 - 12% of total deal value
- Energy: oil and gas (3%)
 - 7% of total deal value
- Infrastructure: (4%)
 - 5% of total deal value



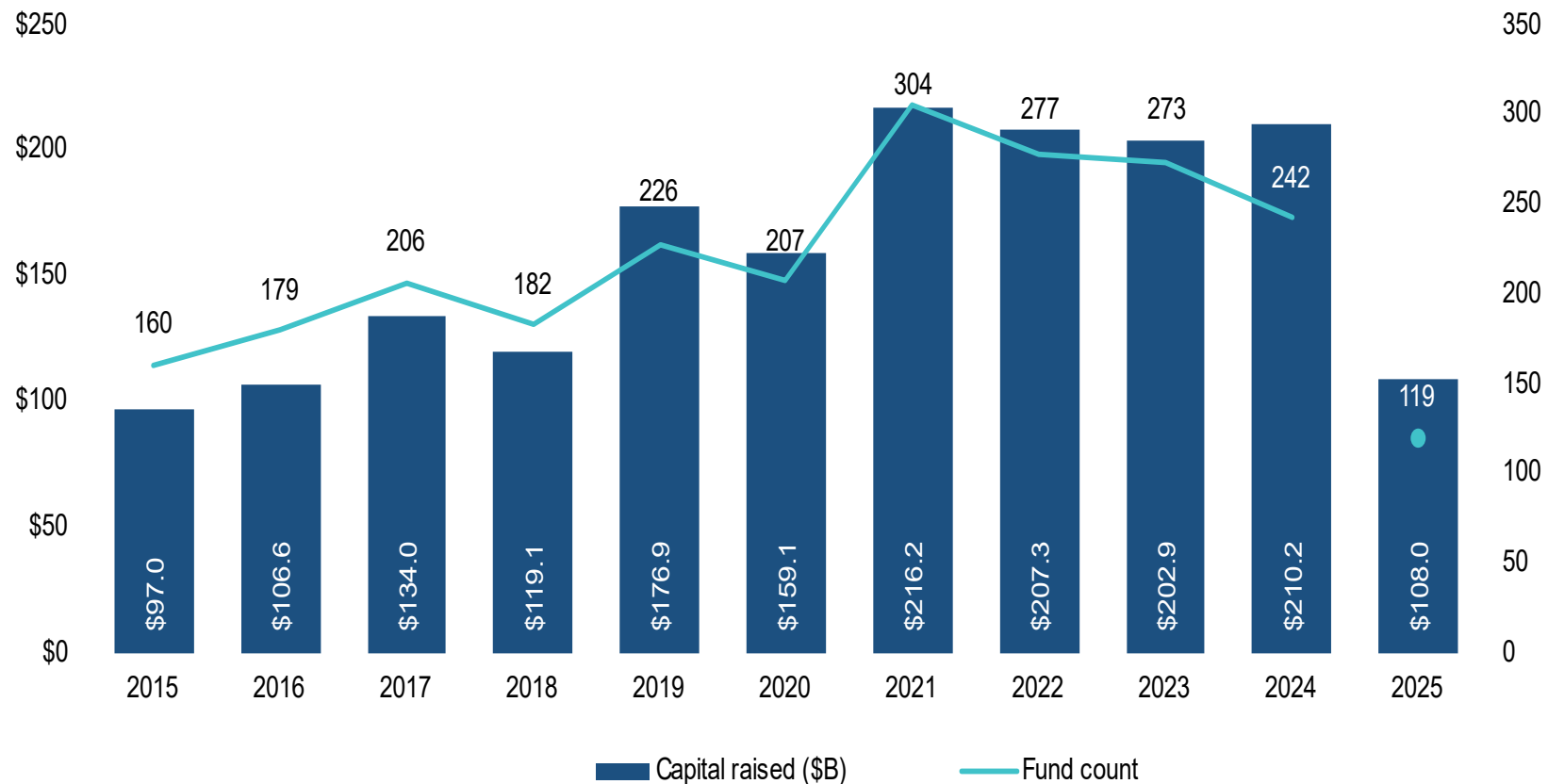
M&A Activity: Strategic vs Private Equity

- Private Equity represents ~35% of total completed deals
- Invest across all deal sizes (main street to large cap)
 - Younger, “1st Gen” PE are more flexible on their minimums
 - Some PE will spinoff a sister division for main street
- Most PE platforms will make multiple add-on acquisitions
 - Complimentary, new products, new markets
- Massive dry powder have helped to increase their position



M&A Activity: Private Equity

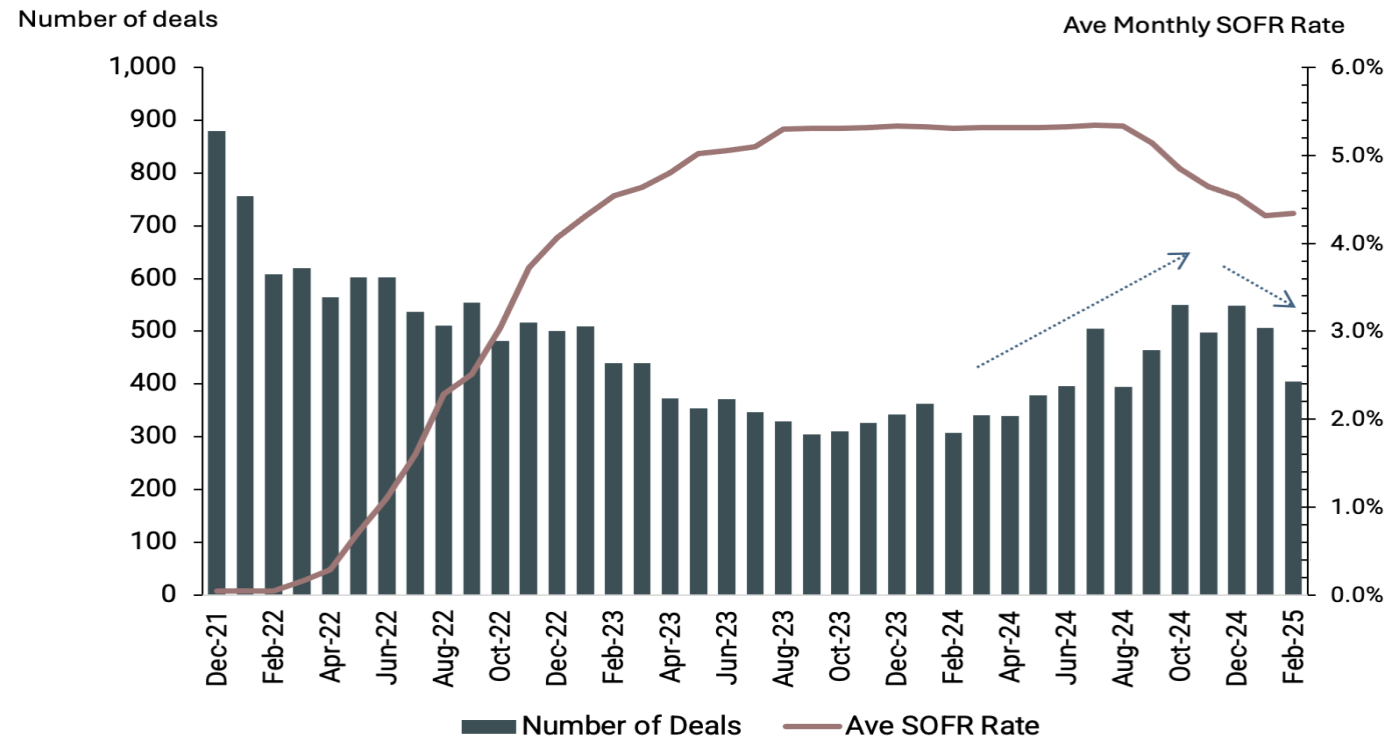
- \$1.2 trillion of dry powder vs \$3.6 trillion in 2024



M&A Outlook: Interest Rate & Annual Deal Volume

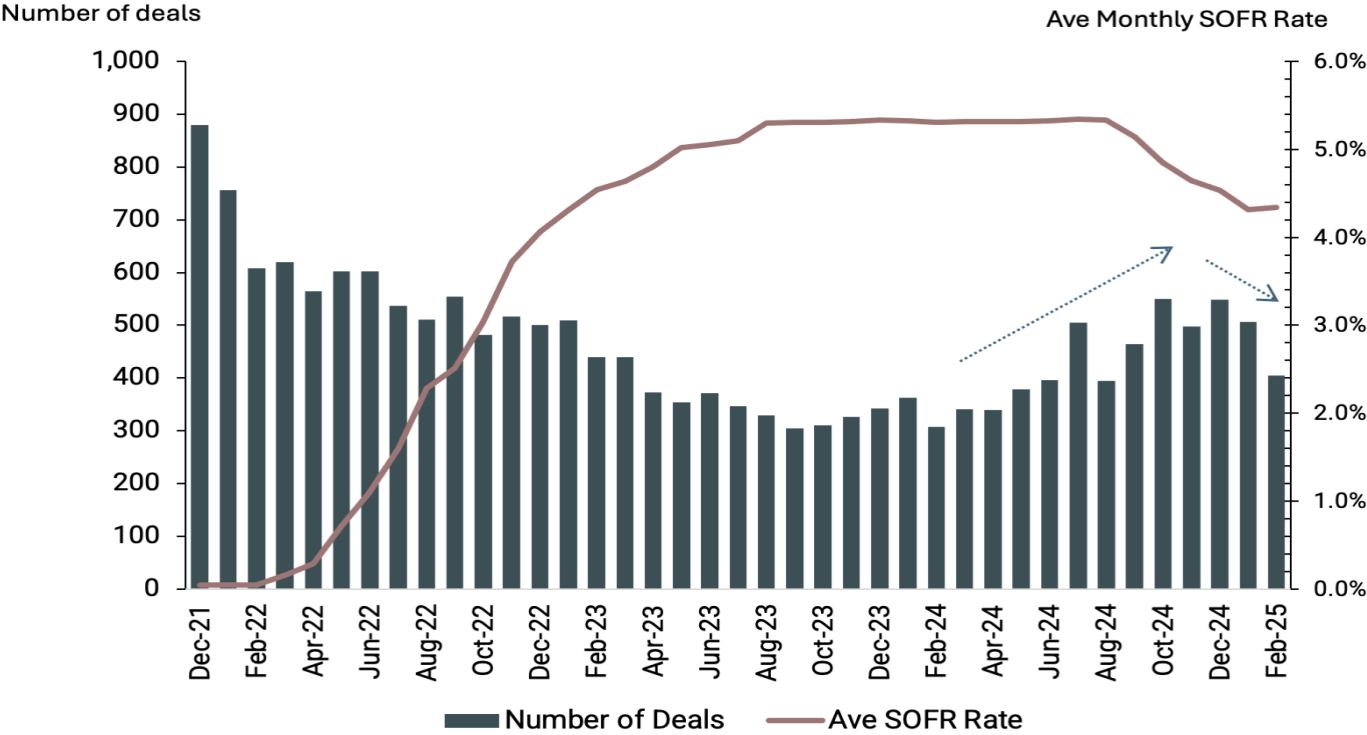
- Keys to look for:
 - Declining Interest Rates
 - New Tariffs | Trade Deals
- Both Strategics & PEGs going into 2025 with cautious optimism.
- PE firms are still faced with a higher cost of capital for leveraged buyouts (LBOs).
- Level or reduced interest rates will sustain higher PEGs activity.
- Tariffs to play a big part.

Number of M&A Deals by Financial Investors

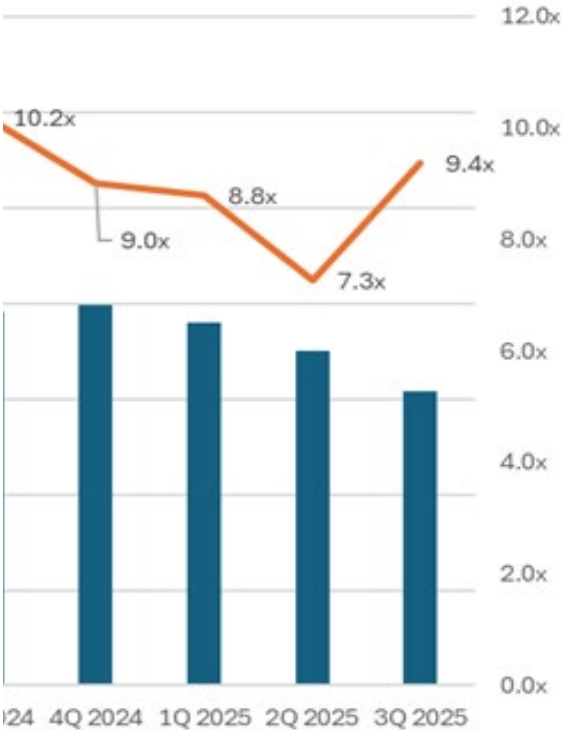


M&A Outlook: Interest Rate & Annual Deal Volume

Number of M&A Deals by Financial Investors



2025 Deal Volume Under \$500 Million



M&A: Mitigating Future Risks

- **Tariffs: Undisclosed Price Increases**
- **Inventory Issues** (quality of systems & supply chain challenges)
- **Accounts Receivable** (slow pay customers)
- **Cyber Security** (advanced security systems)
- **Third Party Claims** (compliance & systems)
- **ESG Advantage** (Environmental, Social, Governance)
- **Rep & Warranty Insurance** (supporting smaller transactions)

Reps & Warranty Insurance Trends

- **What:** Purchased in connection with a M&A transaction
- **When:** At time of letter of intent with Buyer (more leverage to negotiate)
- **Who:** Most often paid by Buyer
- **Why:** Average escrow amount reduced from 12.3% to 2.3%
- **Goal:** To minimize exposure

Reps & Warranty Insurance Trends

- **Typical Terms:**

- Limits: **10%** of company value; Premium: **2-3%** of limits
- Retention: **.05-2%** of company value
- Exclusions are common (known breaches, employee payroll & retirement account issues)

- **TRENDS:**

- Policy sizes decreasing (<\$50M): more available for most transactions
- \$10-\$20M deal size not uncommon

Feature	Example Terms
Transaction Value	\$15M
Coverage Limit	\$1.5M (10%)
Retention	\$100K (~0.67%)
Premium	\$37.5K (2.5% of limit)
Coverage Scope	Unknown breaches of reps/warranties
Exclusions	Known liabilities, diligence-discovered items, covenants, forward-looking
Survival Period	3 yrs (Non-Fundamental), 6 yrs (Fundamental)

2026 Outlook: Trends and Themes

- Slow and cautious going into the new year
 - 2026 Review of USMCA Trade deal
 - Trade war with China or Europe?
- Disruptive technology & Data Analytics
 - Artificial Intelligence
 - Big Data
- Deal values looking to recover alongside rate cuts
- Continue to expect detailed supply chain diligence
 - Diversification of your supply chain
- Strategics continue take a higher % of deal share (less leverage needed)
- Tariffs continued effects on business owners and valuations

M&A Outlook: Company Value Drivers

- Resilient supply chains
- Technology-enabled operations
- Recurring / contract revenue
- Healthy margin profile
- Strong management team
- Disciplined growth strategy

Effective Tax Planning in Preparation for an M&A Transaction

- **Plan for how the sale will be taxed:**
 - Will it be taxed as capital gain or ordinary income? Or a combination?
 - Sellers generally prefer to sell stock or partnership interests.
 - Buyers typically want to buy tangible & intangible assets which can be depreciated and amortized.
 - Consider your business restructuring options early as it may reduce total tax liability related to a sale. It may even affect sale price and the buyer's willingness to close a purchase.

Effective Tax Planning in Preparation for an M&A Transaction

- **Structuring Options**
 - Be sure to plan ahead!
 - How is the company currently structured?

Partnership or LLC?

- ✓ Sale of a partnership interest is a capital asset transaction
- ✓ In an asset sale, the sales price can be grossed up to cover tax costs associated with the asset sale

C or S Corporation?

- ✓ Some sales are considered stock sales for legal purposes but are treated as asset sales for tax purposes only
- ✓ Various tax elections are available to please everyone including IRC §338(h)(10), §336(e) and §368(a)(1)(F)

Effective Tax Planning in Preparation for an M&A Transaction

- **Purchase Price Allocation**

- This allocation should be discussed early in a deal negotiation. Both sides must agree on the allocation.
- This gives an opportunity to depreciate asset purchases depending on the sales price allocation.

- **Tax Projections**

- Expect for your accountant to work hand in hand with the M&A firm and/or tax attorneys to make sure the deal is as expected.
- Numerous tax projections should be run; pre-close, at closing and post closing. These can span many months even after the deal closing.

Effective Tax Planning in Preparation for an M&A Transaction

- **Fees for the Overall Transaction**
 - Depending on the size of the transaction, fees can be significant
 - Like any large transaction you need the right advisors in place to protect your interests

How has the OBBBA Impacted M&A Transactions

- The One Big Beautiful Bill Act was signed on July 4, 2025
- There are parts of the act that will affect asset sales
 - Depreciation
 - Permanent Bonus Depreciation is back to 100%
 - Section 179 Deductions with more types of qualifying property for commercial real property
- Pass-through deduction made permanent
- R&D Expensing is back

How has the OBBBA Impacted M&A Transactions?

- Sales of Qualified Small Business Stock
 - Shorter holding periods with tiered exclusions
 - 3 years – 50% exclusion
 - 4 years – 75% exclusion
 - 5 years – 100% exclusion
 - Higher capital gain limits (\$10 million to \$15 million)
 - Higher asset threshold (\$50 million to \$75 million)

How has the OBBBA Impacted M&A Transactions?

- **The SALT limitation**

- The deduction for state and local taxes has been limited to \$10,000 since the Tax Cuts and Jobs Act of 2017.
- We had a work around for this since 2020.
- CA introduced AB150.
- The OBBBA has now increased the limit to \$40,000 for tax years 2025 to 2029.
- Phase out starts at \$500,000 MAGI for MFJ and is fully phased out at \$600,000 MAGI.
- We might see more AMT with higher SALT limits (same with high amounts of capital gains).

How has the OBBBA Impacted M&A Transactions?

- **Qualified Opportunity Zones**
 - TCJA established the Qualified Opportunity Zones
 - Deferral and exclusion of gains
 - Now permanent under OBBBA

Questions?

Contact Your Presenters



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Thank you!