

ARGONAS Market Outlook

2025:

Don't stop
believing...!?

**4 x 4 Views on the Economy &
Transaction Market**

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1

Negative Trends & Challenges that will remain



1.1 Negative Trends & Challenges

- **Key pillar industries** of the German economy, in particular Automotive with its broad supplier ecosystem but also large parts of the further manufacturing industry, **will realistically not recover to their historical strength and size again¹**

¹ Why?

→ See page 23 for further background explanations



1.2 Negative Trends & Challenges

- **Inferior digital and analog infrastructure** will continue to be a limiting factor to many economic development prospects



1.3 Negative Trends & Challenges

- **Bureaucracy and regulation** will continue to limit global competitiveness and entrepreneurial drive to innovate and transform



1.4 Negative Trends & Challenges

- Transformation has a price tag, takes time and faces limits - it's unlikely that **required trade-offs** in relation to costs and benefits as well as short-term vs. long-term effects **can be agreed** any time soon ²

² Why?

→ See page 23 for further background explanations





2

**(Geo-) Political
Uncertainties
with critical
impact**



2.1 (Geo-) Political Uncertainties

- The impact of **German elections** as well as the actions of the new **Trump legislation** are still unclear with a broad range of potential outcomes regarding further challenges or opportunities



2.2 (Geo-) Political Uncertainties

- **China's exact geopolitical strategy**, in particular its further approach to Taiwan as well as its positioning against US and European trade policies, are **still unclear** with a huge potential impact on supply chains and export markets



2.3 (Geo-) Political Uncertainties

- The further developments of the **Russia-Ukraine** war as well as the situation in the **middle east** are **still very unclear** with high uncertainty regarding geopolitical stability as well as migration trends or potential angles to start rebuilding those countries



2.4 (Geo-) Political Uncertainties

- The overall balance of effects from (increased) **protectionism trends across the globe** (and from countermeasures) on all economies affected is far from clear at this point





3

**Positive
Perspectives
2025 and going
forward**



3.1 Positive Perspectives

- Framework parameters should at least **gradually start improving** based on some of the hard lessons learnt by now



3.2 Positive Perspectives

- **Germany's core industries won't disappear** but will soon need to define a **new normal**



3.3 Positive Perspectives

- **Entrepreneurial spirit** in Germany is **not dead** – challenges may drive innovation and new opportunities



3.4 Positive Perspectives

- **Relevance of Sectors with more favourable growth dynamics** and at least less dependence on critical factors (i.e. energy, labor cost, etc.) - **like Software, IT- & Other Business Services, Pharma & MedTech as well as Automation and Advanced Industrial Products & Services - will further increase** ³

³ What other sectors may play a role in the transformation?

→ See page 24 for further background explanations



4

What does this
mean for the
**Transaction
Market?**

4.1 Transaction Market Outlook

- In consideration of the negative trends, challenges and uncertainties outlined, **the transaction market will remain selective**, with a high focus on the clear growth segments and a minimum appetite for those sectors under pressure or with uncertain outlook



4.2 Transaction Market Outlook

- Activity will nevertheless pick up beyond software and other clear growth sectors – while we expect even more distressed deals in the critical sectors, we also expect activity to pick up for deals involving solid businesses without stellar growth perspectives, which are offering a fair balance of valuation and risk / return potential⁴

⁴ Why?

→ See page 24 for further background explanations



4.3 Transaction Market Outlook

- **Debt and hybrid capital financing will also remain selective** with clear differentiation across sectors, with a further increase of the contribution of debt funds (mostly for larger mid-market companies) and other non-bank lenders (especially asset-backed solutions for smaller companies)



4.4 Transaction Market Outlook

- Overall, **transaction processes will continue to take longer**, require an optimal preparation and execution strategy and might need to be flexibly adjusted along the way



Get in Touch



Christian Berkhoff

Managing Partner / Co-Founder

+49 (172) 99 05 977

c.berkhoff@argonas.de



Sascha Männel

Managing Director / Co-Founder

+49 (173) 39 38 216

s.maennel@argonas.de

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Further Background (1/2)

¹ Why will traditional key pillar industries not bounce back?

Too much of their **historical technological edge and brand value has been lost** against a highly innovative and forceful competition from abroad, particularly from Asia; **costs are just far too high** across all major cost components (with energy and direct labor costs as well as labor productivity being at the core of the problems) and last but not least: the **competitive universe has changed** and there are just more capable competitors fighting for a global cake that is not growing proportionally – it's unlikely that those effects can be substantially reversed

² Why will we keep struggling with transformation?

Across politics and the broader society, we keep lacking an honest assessment of costs and sacrifices that would be needed to move into a new competitive economic and social model - it's unlikely that required trade-offs in relation to costs and benefits as well as short-term vs. long-term effects can be agreed and accepted any time soon



Further Background (2/2)

³ What other sectors may play a bigger role in the transformation of the German economy?

Critical infrastructure and (affordable) housing could prospectively be sectors supporting and benefiting from a labor market transformation away from traditional manufacturing into those areas where work needs to be done and retraining as well as incentives could actually generate value (if and to the extent that such transformation is pushed)

⁴ Why do we expect an increase in deal activity even beyond the clear growth sectors?

More alignment between buyer and seller expectations is both a general expectation as well as a specific expectation for the private equity segment: Many investors will just have to transact more actively in 2025, driven by **increasing exit pressures and in the case of PE the need to show track record and deal activity** to support the next fundraising

