PRIVATE EQUITY ADVISORY – 2025 Q2

Private Equity *Market Update*

M&A MARKET PERSPECTIVE:
Private Equity's Next Move is Loading

DEAL METRICS UPDATE:
Q2 2025 By The Numbers

WHAT'S TRENDING:
Gen AI in Private Equity: A Defining Moment for Strategy, Skillsets, and Scale

EST. DEALS CLOSED (#): 2,158 (QoQ ↘ 5%) | EST. DEALS CLOSED VALUE: $227.7B (QoQ ↘ 18%) | PE FUNDRAISING: $92.3B (TTM ↗ 5%)

Private Equity's Next Move is Loading

Private equity entered 2025 with cautious optimism, buoyed by signs of strength at the end of 2024. Last year brought declining inflation, favorable credit markets, and healthy year-end exits. However, by early 2025, macroeconomic turbulence – particularly tariffs and general policy instability – cast a shadow over dealmaking. Through Q2 2025, strategic buyers remained cautious, financial sponsors picky, and IPO markets choppy. There's a growing consensus that we're in a holding pattern, waiting for clarity on trade policy and regulatory direction. By nature, uncertainty coupled with a five-year leverage model is a difficult combination. ***Nevertheless, private equity drives forward to do what it does best: acclimating to challenging terrain and working toward a free flowing deal cycle.***

We believe that once the market instability subsides, exits and platform deals will ramp up swiftly. In the meantime, emphasis lies in what managers are doing to remain effective, capitalize on market opportunities and dislocations, and prepare for a bounce back.

WAITING BY THE FLOOD GATES:
Unlike previous market downturns, this time is different. Today, the market benefits from tremendous dry powder and available credit; we are not dealing with the aftermath of burst asset bubbles, nor is the economy in recession. This time, the issue is not a lack of capital but a lack of clarity. GPs are waiting for stability – regardless of the outcome on tariffs, interest rates, or other macro factors – as stability alone will bolster confidence and set the PE flywheel spinning toward a rapid rebound. Until then, the challenge lies in keeping assets competitive and well-positioned for when momentum returns.

OPERATIONAL FOCUS AND EARNINGS GROWTH:
With valuations holding steady and exit multiples under pressure, private equity firms are increasingly turning to operational value creation as the key to generating returns. Unlike in recent years – when financial engineering played a dominant role – today's environment demands real business transformation. This is especially true for companies exposed to shifting cost structures and supply chain disruptions driven by evolving tariff policy. Success now hinges on the ability to strengthen both top-line performance and profitability – differentiating assets in an otherwise challenging exit environment.

WHAT PRIVATE EQUITY FIRMS SHOULD DO NOW:
To remain competitive and drive returns during this period of transition, firms should:

- **Accelerate and prioritize exits:** Assess which portfolio assets can be exited, when, and through which channels. Even if it means accepting lower multiples, consider strategic sales that return capital and minimize the drag of extended hold periods.
- **Plan for deals:** Those investors who have a strategy in place for when deal flow resumes will have the advantage. Which assets do you want to own? Are you ready to move when the right opportunities emerge?

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Private Equity's Next Move is Loading

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- **Strengthen execution capabilities**: Enhance supply chain resilience through supplier diversification and better use of data for inventory and logistics. Leverage AI and advanced analytics to streamline decision-making and challenge where improved access to data, in less time, could unlock value in a more financially constrained environment.
- **Target undervalued assets:** Identify targets undervalued by short-term market dislocations and develop clear, forward-looking strategies to scale or transform them post-acquisition.

LOOKING AHEAD:
Our outlook for the second half of 2025 remains cautiously optimistic. Once macroeconomic conditions stabilize, particularly regarding tariffs and inflation, the market could experience a rapid recovery in dealmaking. Firms that stay disciplined, proactive, and adaptable now will be in the best position to capitalize on this resurgence. The next 6-12 months will favor GPs who cut through the noise and take bold proactive steps – sourcing deals, accelerating value creation and driving true operational transformation.

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PRIVATE EQUITY INDUSTRY

Sources:
Pitchbook Q2 2025 US PE Breakdown
Bain & Company: Dry Powder: Bain's 2025 Midyear Private Equity Report: Executive Summary
Pitchbook: As Q1 uncertainty simmered, Big PE went shopping

The Deal Wheel Moves Slowly Forward

Q2 2025 was marked by recession anxiety, yet deal activity still beat 2024 results. Deal count finished down 5% QoQ but up over 6% YoY. Deal value, the less meaningful indicator, dropped over 18% QoQ, but is up almost 11% YoY. ***While April and May activity were lackluster as the market navigated tariff policy whiplash, June saw a rebound, signaling potential strength headed into Q3, as PE continues to find opportunities amidst an evolving landscape.***

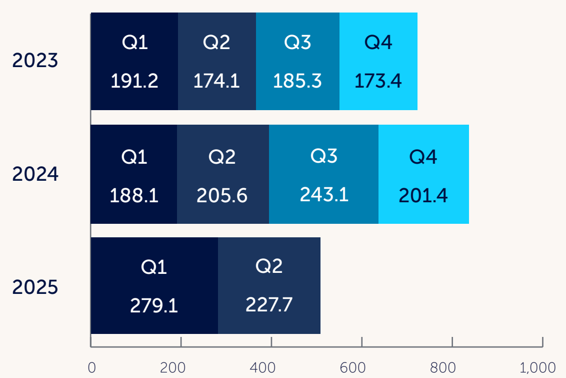
Valuations in Q2 mostly rose, aligning with pre-pandemic norms of the late 2010s. The most recent metrics reflect an alignment between buyers and sellers, reflecting better credit access, reduced uncertainty around rates and inflation, and higher quality companies entering the market.

In Q2 2025, add-ons accounted for almost 76% of all PE buyouts. While smaller, tuck-in acquisitions might have been expected amid heightened risk perception, Q2 marked a shift toward larger, more strategic acquisitions. Many PE sponsors shifted focus to mega add-ons that could enhance operational efficiency, strengthen margins, and amplify strategic positioning.

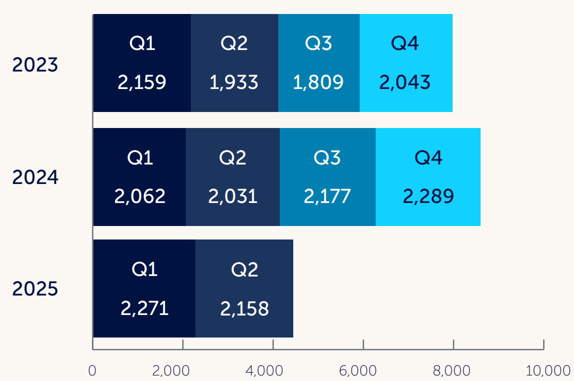
While Q2 activity surpassed 2024 levels, significant uncertainty remains, particularly regarding which industries will learn how to thrive or be stuck struggling in response to sector-specific performance and evolving trade policies. Additionally, rising business and consumer loan delinquencies pose a growing challenge – especially for sectors heavily reliant on consumer spending. As we move into the second half of the year, successfully navigating these complexities will be critical for private equity firms – both to manage existing portfolios and to pursue new deal opportunities.

QUARTERLY PE DEAL ACTIVITY

DEAL VALUE ($B)

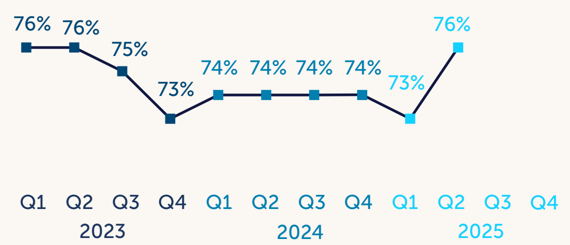


DEAL COUNT (#)



QUARTERLY PE ADD-ON ACTIVITY

% OF DEAL COUNT



Source: Pitchbook Data, Inc, US PE Breakdown

Pressure Building for a Market Turn?

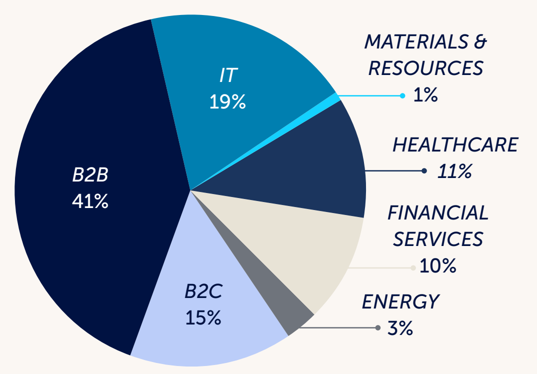
Despite mounting pressure to return capital to LPs, exit activity remains sluggish. In Q2 2025, the number of exits hit a 12-month low – and, excluding Q2 2024, the weakest level since the onset of the pandemic in 2020. Exit count fell nearly 25% quarter-over-quarter, while exit value declined 27%, even after adjusting for a standout IPO in Q1. ***That said, exit volume is still up over 18% year-over-year, fueled by the burst of Q1 activity carried over from late-2024 momentum.***

Unfortunately, Q2 did little to chip away at aging U.S. PE portfolio inventories, which stood at over 12,500 companies as of Q2 2025. At mid-year 2025's exit pace, this represents 8.5 years of inventory. Despite PE's creative use of alternative exit strategies, only a broad-based recovery in traditional M&A will be sufficient to clear this unprecedented backlog.

Through Q2 capital deployment continues to outpace fundraising. In the middle market fundraising fell 26% QoQ and 32% YoY. While recent trends saw fundraising dollars shift toward the middle market to support add-ons and roll-up strategies amid challenging conditions, Q2 saw middle market managers capture just 40% of total fundraising – nearly 15 percentage points below the five-year average.

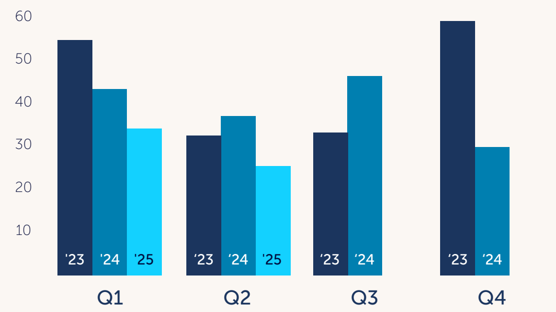
The historic buildup of dry powder – expected to stay above $1 trillion through 2025 – continues to fuel dealmaking despite sluggish exit activity. However, as a percentage of total AUM, dry powder sits at an all-time low of 28%, pressured by rising NAV driven by expanding PE portfolios. In response to limited exits and fundraising challenges, private equity firms are adapting by deploying dry powder into opportunistic investments. The key hurdle remains accelerating exits while effectively managing an increasingly large inventory.

QUARTERLY PE DEALS BY SECTOR (#)

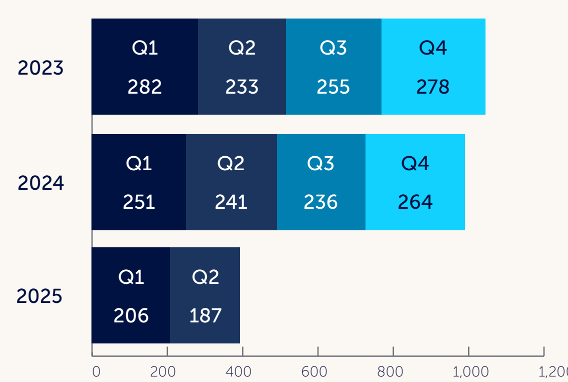


QUARTERLY PE MIDDLE MARKET ACTIVITY

MIDDLE MARKET FUNDRAISING ($B)



MIDDLE MARKET EXITS (#)



Source: Pitchbook Data, Inc, US PE Breakdown

Gen AI in Private Equity: A Defining Moment for Strategy, Skillsets, and Scale

Generative AI is not just another wave of innovation – it is a systemic shift that is reshaping industries, operating models, and the future of work. Unlike previous technology disruptions, where many firms moved too slowly, businesses today are leaning into AI with unprecedented urgency. Nearly 90 percent of enterprises report active AI transformation efforts. However, according to research conducted by McKinsey & Company, only 5 percent of adopters said they have succeeded in transforming even a single business domain to achieve a measurable bottom-line impact. ***For private equity firms, this marks both an inflection point and an imperative: adapt now or risk falling behind.***

FRONTS OF DISRUPTION IN PRIVATE EQUITY

AI IMPACT ON ACCELERATING SECTOR LEVEL CHANGE

AI is transforming value chains differently across sectors. In some industries, automation is rapidly streamlining operations, improving decision making, and reducing labor needs for routine tasks. In others, AI is unlocking new business models, from predictive services to dynamic pricing. For investors, the challenge is to identify which sectors are ripe for disruption and how that disruption will shift competitive dynamics, cost structures, and margins. Understanding the pace, potential, and magnitude of AI's impact on a sector or business is becoming essential to underwriting.

THE EVOLUTION OF DEAL ORIGINATION AND UNDERWRITING

Change is not just being affected at an industry level, the investment process itself is being reshaped. AI tools are helping firms identify less conspicuous investment opportunities by mining proprietary and market data sources to surface early signals of potential targets well before they come to market. During diligence, AI is being used to improve the data analysis processes by accelerating data room reviews and flagging inconsistencies. The wider-reaching and faster-processing capabilities of AI are enabling faster, more confident decision making by PE managers. These tools and approaches give firms the ability to move the quickest from data to insight to conviction, gaining an edge in competitive processes.

THE PE FIRM AS AN AI ENABLED ENTERPRISE

Internally, private equity firms are applying AI to scale operations more efficiently. Functions like finance, investor relations, legal, and IT are increasingly being augmented by AI agents, allowing teams to focus on higher value strategic work. As firms grow in size and complexity, the ability to maintain margins and operating leverage will depend on how effectively they embed AI into core processes. But to lean into these efficiencies, Firms must have team buy-in. According to the 2025 AI & Data Leadership Executive Benchmark Survey, referenced by Harvard Business Review, over 90% of respondents believe that culture and people are the barriers to establishing AI-related change, not the technology.

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Gen AI in Private Equity: A Defining Moment for Strategy, Skillsets, and Scale

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TALENT TRANSFORMATION IN THE AGE OF AI

AI adoption will not eliminate related jobs entirely, but it will significantly reshape them. Repetitive, manual tasks – especially in diligence, reporting, and support functions are rapidly being automated. This shift elevates the importance of skills like critical thinking, communication, cross functional judgment, and relationship building. For junior professionals in particular, success will depend on the ability to work alongside AI, asking the right strategic questions, interpreting outputs, and applying business context. These shifts should also reshape hiring patterns in the short term, until university programs evolve their curriculum. Firms will need to invest not just in tools, but in talent development and training programs that reflect this new reality.

KEY TAKEAWAYS FOR PE FIRMS

- **Develop a roadmap:** With new AI tools and capabilities flooding the market, it's important to focus internally - create a roadmap and develop specific use cases and then find the right tools to support the end goals.
- **Proactively assess sector risks and opportunities:** Identify where AI creates new value, opportunities, threats or tailwinds in portfolio and pipeline companies.
- **Experiment with urgency:** Test AI tools in deal sourcing, diligence, and operations with measurable outcomes.
- **Reskill the workforce:** Equip teams with the business judgment and technical fluency to collaborate with AI.
- **Redesign for scale:** Use AI to optimize back-office functions and maintain efficiency as the firm grows.
- **Measure business impact:** AI initiatives should be tied to specific productivity gains, revenue lifts, or cost savings.

The firms that succeed in this next chapter will not just adopt AI—they will reimagine how they invest, operate, and build talent in a world where intelligence is no longer solely human.

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Sources:
Bain & Company: Dry powder - Gen AI in PE: Game Changer or Work in Progress
Financial Times: AI is promoted from back-office duties to investment decisions
Financial Times: AI in finance is like 'moving from typewriters to word processors
WSJ: Why Companies Are Already All-In on AI After Arriving Late to Everything Else
Harvard Business Review: How Private Equity Firms Are Creating Value with AI
2025 AI & Data Leadership Executive Benchmark Survey

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Private Equity Advisory ***Solutions***

Deal Advisory

- Transaction Due Diligence
- Tax Due Diligence
- Tax Planning & Structuring
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- Preparation for Exit

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Performance Enhancement

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Professionals