Private Equity Trend Report 2025

PwC

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Preface

The year 2024 has proven to be a defining period for the European private equity (PE) industry, characterised by a dynamic interplay of challenges and opportunities that have significantly shaped the market's trajectory for the year ahead. As we take stock of the past 12 months, it becomes increasingly evident that the industry has demonstrated extraordinary resilience and adaptability amid economic volatility and geopolitical uncertainty.

One of the most notable developments of the year has been the easing of inflationary pressures, which, in turn, prompted central banks to implement long-awaited interest rate cuts. These shifts have provided much-needed relief for PE firms, empowering them to navigate the complexities of an evolving market with renewed confidence. As a result, improved deal-making conditions have facilitated larger transactions and an uptick in exit activity, signalling a favourable change in market sentiment.

Looking ahead to 2025, we anticipate a continued acceleration in global mergers and acquisitions (M&A) activity involving private capital. This anticipated growth will be driven by a confluence of factors, including declining capital costs, an increasing supply of deployable funds, the revitalisation of initial public offering (IPO) markets, and a substantial backlog of PE portfolio companies seeking exits. Additionally, we observe a gap between buyers' and sellers' price expectations, which is currently causing deal processes to stall or sellers to fail to secure a buyer. However, we expect this gap to narrow in 2025, leading to a higher rate of successful transactions. The interplay between the rising volume of available private capital and the considerable pipeline of pending portfolio divestitures will create a robust supply-and-demand dynamic, further fuelling deal-making activity in the year to come.

In parallel, digital transformation and environmental, social, and governance (ESG) considerations have remained at the heart of value creation strategies. The continued integration of cutting-edge technologies – such as artificial intelligence and advanced data analytics – has enhanced operational efficiency while providing firms with deeper insights into risk management and investment opportunities. At the same time, ESG considerations have become deeply embedded within investment processes, with PE firms increasingly recognising the long-term strategic and financial advantages of prioritising sustainability and responsible investing.

Against this backdrop, one of the most prominent themes for 2025 will be the heightened focus on value creation within existing portfolios. As investors face mounting pressure to divest portfolio companies that have been held for extended periods due to previously unfavourable economic conditions, and with exit multiples remaining below their peak levels, PE firms will place an even greater emphasis on driving operational improvements. In a market where valuations remain high and interest rate reductions are slowing, investors will adopt a more disciplined approach, ensuring that operational transformations justify past entry valuations while still delivering strong returns.

Another significant emerging trend is the increasing convergence of industries in M&A transactions. We are witnessing a growing number of cross-sector investments led by private capital players in companies and projects that span multiple industries – particularly in areas such as infrastructure, energy, and technology. This shift is being propelled by the transformative impact of artificial intelligence, which is blurring the lines between traditionally distinct sectors. Key areas of investor interest, such as energy generation, data centres, and digital infrastructure, are now at the forefront of this convergence, reflecting the broader technological evolution shaping the investment landscape.

Despite the optimism surrounding 2025, the industry is not without its hurdles. Fundraising remains a persistent challenge, with many general partners preparing for a more difficult capital-raising environment in the months ahead. Additionally, geopolitical instability continues to pose risks, while the potential for disruptions to existing business models remains a pressing concern. However, the PE industry has consistently demonstrated an ability to turn adversity into opportunity, a testament to its resilience, strategic foresight, and adaptability.

As we look toward 2025, the outlook for the European PE sector is one of cautious optimism. The industry's key priorities will centre on harnessing the power of digital transformation, driving market consolidation, and pursuing operational enhancements to unlock value. Moreover, the commitment to responsible investing and environmental, social and governance (ESG) principles will remain an essential pillar of investment decision-making, shaping strategies that are both financially rewarding and sustainable in the long run.

As we embark on this journey into the new year, I would like to extend my sincere appreciation to all those who contributed to this year's survey and shared their invaluable insights. Your perspectives are instrumental in helping us navigate the evolving landscape of PE, equipping us with the knowledge and foresight to capitalise on emerging opportunities.

Here's to another year of collaboration, innovation, and growth – driving meaningful economic transformation in 2025 and beyond!

Steve Roberts

Private Equity Leader, Germany & EMEA

Introduction

After a difficult two years, European private equity (PE) firms were able to draw breath in 2024 as inflation waned and central banks cut interest rates, easing pressure on portfolio company debt servicing requirements and opening up more new deal opportunities.

The conditions helped European PE firms to execute larger transactions than had been the case in 2023, with aggregate value up year on year, but deal volumes falling marginally. Firms also took the opportunity to exit more of their portfolio companies than the previous year, with a rise in both volume and value in 2024 and an increase in appetite for sponsor-to-sponsor deals. With many limited partners (LPs) facing liquidity pressures resulting from the slower exit environment of previous years, higher realisation figures are a welcome development across the industry.

European PE is looking forward to further improvements as we move through 2025, with many dealmakers expecting to take advantage of a better environment for new transactions and to build value and resilience in portfolio companies. The key risks of geopolitical conflict, political uncertainty and the potential for existing business models to be disrupted have not receded. However, our survey shows that PE is focusing on transforming and future-proofing portfolios by investing in digital technologies so they can pivot towards new opportunities and identify risks more effectively. Consolidation and buy-and-build acquisitions are taking centre stage as firms seek out synergies and the chance to create market-leading businesses.

Our survey also points to higher returns than some respondents had expected last year and a further improvement for the coming period. With interest rates projected to remain higher than many had become accustomed to in the decade to 2022, it is clear that PE has adjusted to the new normal and is doubling down on the capacity to create value that stems from the industry's hands-on ownership model. There will be challenges ahead, but PE continues to demonstrate that it is more than capable of turning adversity into opportunity.

Key findings

Key findings

1. Deal-making conditions to improve

After a challenging few years of geopolitical conflict and elevated interest rates, respondents are optimistic about the deal-making environment in 2025. Over half (56%) expect this to improve, including 9% who believe it will be significantly better. Just 16% expect conditions to worsen.

2. Exits on the rise

After a year that saw exits increase in both volume and value terms, firms are focused on realising returns for investors. While 52% are expecting to complete the same number of exits in 2025 as in 2024, a substantial minority (40%) plan to pick up the pace. As pressure mounts for PE to distribute capital to LPs, this will help the industry make measured progress on exiting its backlog of ageing portfolio companies.

3. More new deals on the horizon

Nearly half of respondents (46%) expect to make more new investments in 2025 than they did last year, with most of the rest (44%) anticipating a similar investment pace to last year. This follows on from a year when 45% of respondents say their deal-making increased in 2024, with the same proportion saying global conflicts, political uncertainty and protectionism supported their increased activity. European PE is clearly taking action to identify opportunity in dislocation for existing portfolio companies and in new deals.

4. M&A strategies take centre stage

PE is pursuing an M&A playbook over the coming year. When asked about the kinds of strategies that will increase equity value most in their portfolios, market consolidation is the top response, with 64% mentioning this. Coming in second is buy and build, which garners 62% of responses, including 30% who rank this as the single most transformational strategy for their portfolio.

5. Fundraising challenges ahead

European PE fundraising has held up well over the past few years, but European general partners (GPs) are bracing themselves for more difficult times. Over two-fifths (41%) say fundraising will be the biggest challenge for their firm in 2025 and over half (53%) say it will be so for the next five years.

6. Portfolio companies faced more stress than anticipated…

While nearly half of respondents (49%) say they are satisfied with how their portfolio companies developed in 2024, a third say that more than 20% of their investments breached debt covenants or had to renegotiate with lenders in 2024, much higher than the 6% who predicted this in our survey last year. This likely reflects the prevailing view in late 2023 that interest rates would fall faster than they did in 2024.

7. …but returns surprised on the upside

In last year's survey, just 5% reported that the returns on their investments made over the previous five to seven years had exceeded their expectations, but this year, 19% say this, with a further 44% saying their returns matched their expectations. Respondents believe that returns will improve over the next few years: 54% say returns on investments made over the past year will be higher than those from investments made five to seven years ago.

8. Digital technologies transforming PE firms and their portfolios

The digital transformation of portfolio companies has become absolutely vital for exit outcomes and generating returns, with 83% saying this is important. Nearly three-quarters (71%) invested in digitally transforming their own firm or portfolio company business models in 2024, with artificial intelligence (AI) the main focus for 67% of those that invested. In PE firms, 88% used data analytics and/or generative AI for company valuations; next year, 80% expect to use them for due diligence (up from 65% in 2024).

9. ESG contributing to PE returns

Nearly all respondents view environmental, social and governance (ESG) levers as a core part of their value creation story in most cases when assessing buy-side opportunities, including 72% who believe this in all cases. The same proportion also believe that the return on investment to improve ESG credentials and practice in portfolio companies exceeds the cost.

10. Germany remains attractive

Of our respondents, 58% currently have investments in Germany. Among these, almost all (98%) are planning to make future investments in Germany in the next five years, up from 91% in last year's survey, with 39% expecting to increase the assets they allocate there to increase.

Methodology

Methodology

In Q4 2024, Ion Community/Mergermarket spoke to 250 PE principals on behalf of PwC. Job titles included partner and managing director. 17% of these funds are based in the UK, 13% in Germany and France, and the remaining 70% have offices based elsewhere in Europe and the US. Responses were anonymised and aggregated. All PE firms of respondents had a minimum of €250 million of assets under management.

Fig. 1 Can you please tell me in which country your organisation's headquarters are based?

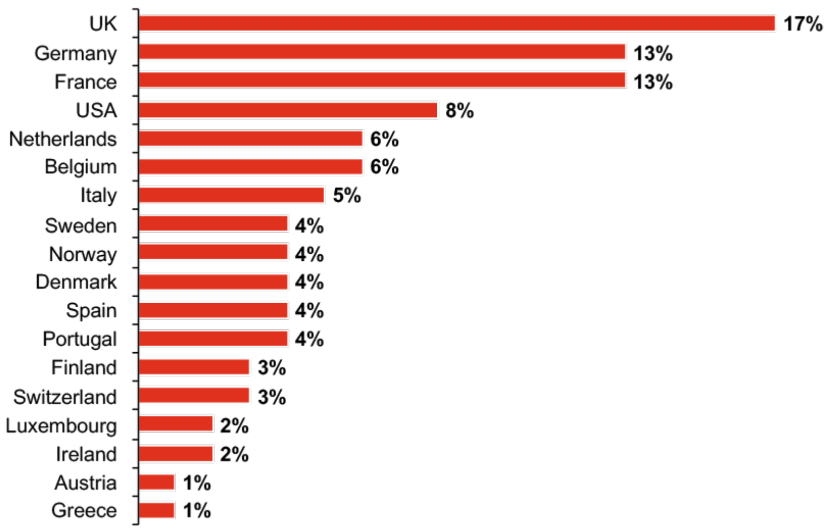
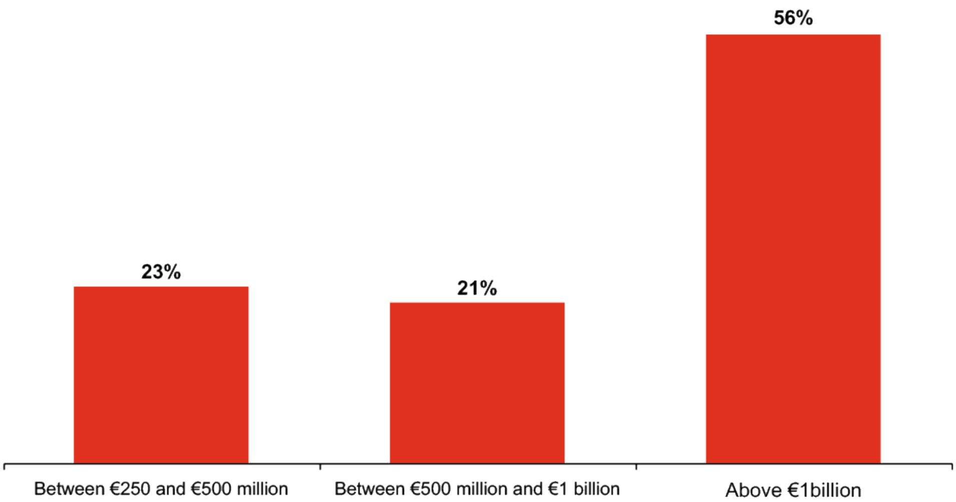


Fig. 2 Please could you tell me which of the following best describes your firm's current total global fund volume (i.e. capital under management)?



Market commentary

Market commentary

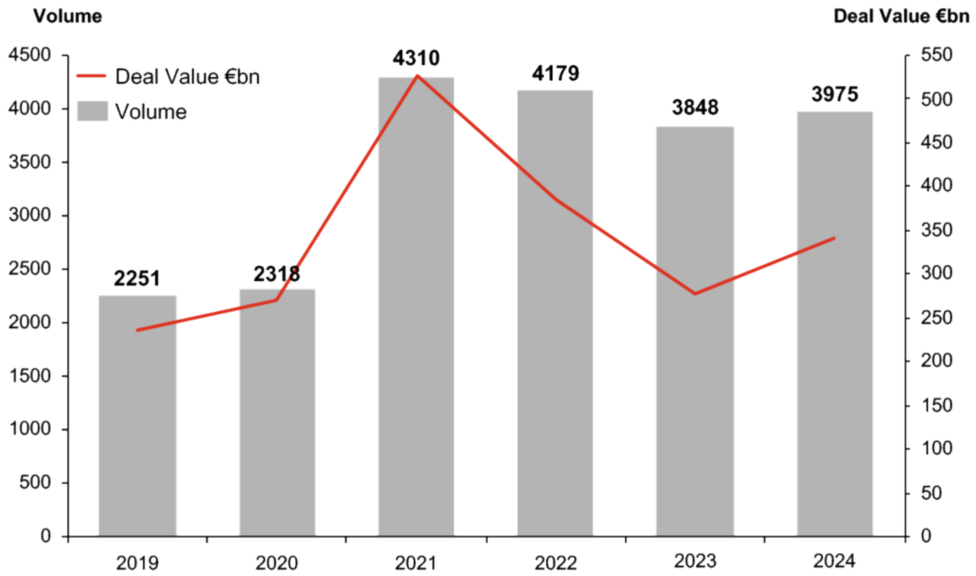
Private equity in Europe

European PE went through a period of untold volatility between 2020-23, marked by the pandemic, geopolitical strife and inflation-linked economic turmoil. However, conditions stabilised somewhat in 2024 as firms found their footing.

While 2021 and 2022 were exceptional years for PE deal activity, the dips in transaction activity that followed are starting to reverse. European PE deal volumes were, to all intents and purposes, flat in 2024. Compared to the previous year, the number of announced transactions increased by just 3.3% to 3,975, while the total value of transactions increased by 23% to €342bn. Both figures are well above pre-pandemic totals.

Through 2024, headline inflation started to come under control – standing at 2.4% for the euro area[1] and 2.6% for the UK[2] in December – and interest rate cuts from the European Central Bank (ECB) and the Bank of England (BoE) began to filter through to financing markets. As a result, 2024 saw dealmaking confidence returning as the shock of peak interest rates receded. In contrast to 2023, when PE firms focused their attention on lower value deals, their appetite for larger transactions increased last year. The average European PE deal value rose from €72m in 2023 to €86m in 2024.

Fig. 3 European PE Trends

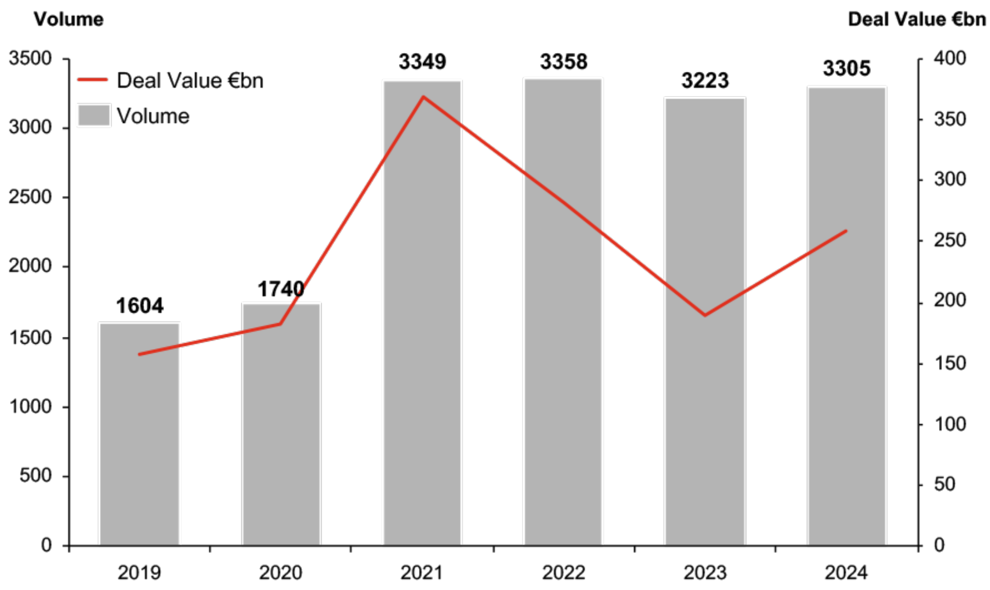


[1] *Annual inflation up to 2.4% in the euro area* (2025). Eurostat. https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-17012025-ap
[2] *Consumer price inflation, UK: December 2024* (2025). Office for National Statistics. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2024

Buyout trends

There was a similar pattern in PE's buyouts segment. Volume increased by 3% year on year in 2024, to 3,305 deals, while aggregate value was up nearly 36%, rising from €190.2bn in 2023 to €257.9bn last year.

Fig. 4 European Buyout Trends



The more cautious sentiment that had been driving PE firms towards the mid-market gave way to a more bullish outlook as interest rates started to fall: the volume of megadeals (>€1bn) increased by 77% to 53 transactions announced in 2024, while the number of large deals (€501m-€1bn) registered a slight increase from 46 in 2023 to 51 in 2024. This step up in deal size also reflects an increased appetite from US PE houses, many of which have raised larger funds than their European counterparts. Seven of the 10 largest buyouts targeting European assets were led by US-headquartered PE firms.

In fact, each of the three biggest European buyouts of 2024 featured a US bidder. At the top of the list was NB Private Equity Partners' €13.4bn acquisition of UK-based private schools group Nord Anglia Education, followed by Apollo Global Management's €10.1bn purchase of a 49% stake in Ireland-based semiconductor factory IntelCorp. Coming in third place was Clayton Dubilier & Rice €8.3bn acquisition of 52% of French Opella Healthcare Group with seller Sanofi remaining a significant shareholder.

Part of Europe's attraction for US buyers is the lower value of the continent's assets relative to US companies, especially in the context of a strong dollar, although pricing is trending upwards. Average European PE enterprise value to

EBITDA multiples in 2024 were 12.2x, according to PitchBook,[3] up from 10.5x in 2023; in the US, multiples were 12.7x last year.[4]

Top buyout deals

Fig. 5 Top Buyout Deals

Announced date	Target company	Target Dominant Sector	Target Country/ Territory	Bidder company	Bidder Dominant Country/Territory	Deal value €bn
10/21/2024	Nord Anglia Education Ltd (100% Stake)	Services (other)	United Kingdom	NB Private Equity Partners Ltd; Canada Pension Plan Investment Board; EQT Partners Hong Kong Ltd	USA	13.4
6/4/2024	Intel Corp (Fab 34) (49% Stake)	Computer: Semiconductors	Ireland (Republic)	Apollo Global Management Inc	USA	10.1
10/11/2024	Opella Healthcare Group SAS (52% Stake)	Medical: Pharmaceuticals	France	Clayton Dubilier & Rice LLC; Bpifrance SA	USA	8.3
5/28/2024	Atlantica Sustainable Infrastructure plc (100% Stake)	Energy	United Kingdom	Energy Capital Partners LLC	USA	7.1
10/1/2024	Techem GmbH (100% Stake)	Services (other)	Germany	TPG Capital LP; GIC Pte Ltd	Singapore	6.7
5/22/2024	Hargreaves Lansdown plc (100% Stake)	Financial Services	United Kingdom	CVC Advisers Ltd; Nordic Capital AB; Abu Dhabi Investment Authority Ltd-ADIA; Harp Bidco Ltd	United Kingdom	6.2
4/26/2024	Darktrace plc (100% Stake)	Computer software	United Kingdom	Thoma Bravo LP	USA	5.0
12/2/2024	Calisen Group (Holdings) Ltd (66% Stake)	Energy	United Kingdom	GIC Pte Ltd; EQT AB	Singapore	4.8
3/14/2024	Encavis AG (100% Stake)	Energy	Germany	KKR & Co Inc; Viessmann Generations Group GmbH & Co KG	USA	4.2
6/24/2024	Aareon AG (100% Stake)	Computer software	Germany	TPG Capital LP; Caisse de Depot et Placement du Quebec	USA	3.9

Exit trends

According to Bain & Co analysis, global buyout firms are sitting on $2.9tn of unsold assets, and 53% of companies in their portfolios represent investments made four or more years ago.[5] The pressure to exit portfolio companies and return capital to LPs has been intense over the past two years.

This has led to the rapid growth of the PE secondaries market, where LPs can sell their positions in funds. More recently, GPs have also been tapping secondaries capital. They are extending their holds on what are often their best portfolio companies by rolling them over into continuation vehicles funded by new and existing investors, while offering LPs the option to realise their investment. Indeed, 2024 looks set to have been a record year for secondaries transactions,

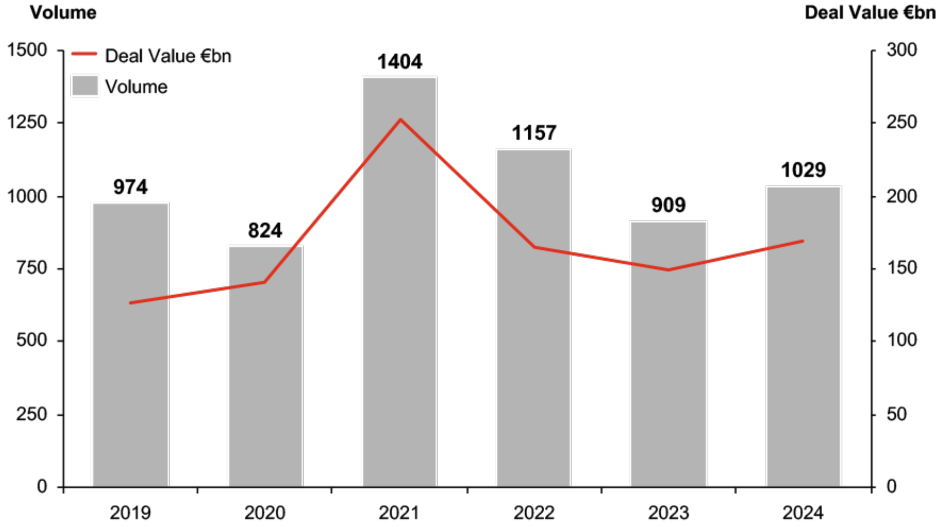
[3] *European PE Breakdown* (2024). PitchBook. https://files.pitchbook.com/website/files/pdf/2024_Annual_European_PE_Breakdown.pdf
[4] *US PE Breakdown* (2024). PitchBook. https://files.pitchbook.com/website/files/pdf/2024_Annual_US_PE_Breakdown.pdf
[5] *Is Your Portfolio Company Ready to Run through the Finish Line?* (2024). Bain & Company. https://www.bain.com/insights/is-your-portfolio-company-ready-to-run-through-the-finish-line

with figures from Evercore suggesting that volume hit $160bn, up 19% on the previous high of $134bn in 2021.[6]

A recent poll conducted by Bain & Co demonstrates the degree to which continuation vehicles and alternative liquidity mechanisms have become a feature of the market: 44% of buyout funds surveyed said that less than half of their distributions in H1 2024 came from outright sales.[7] However, while the secondaries market is clearly stepping in to provide LPs with much-needed liquidity amid challenging M&A conditions, many will be expecting their GPs to use more conventional exit routes as conditions improve.

There are signs that this is beginning to happen. After sharp falls in exit activity the year prior, 2024 marked what may prove to be the start of a recovery in European exit totals. In volume terms, exits increased by 13% year on year to reach 1,029 in 2024, while aggregate value rose by 14% to €169.6bn.

Fig. 6 European Exit Trends



[6] *Secondaries Volume Hits Record High of $160bn – Evercore* (2025). Secondaries Investor. https://www.secondariesinvestor.com/secondaries-volume-hits-record-high-of-160bn-evercore

[7] *Is Your Portfolio Company Ready to Run through the Finish Line?* (2024). Bain & Company. https://www.bain.com/insights/is-your-portfolio-company-ready-to-run-through-the-finish-line

Top exit deals

Fig. 7 Top Exit Deals

Announced date	Target company	Target Dominant Sector	Target Country/ Territory	Bidder company	Bidder Dominant Country/Territory	Deal value €bn
10/1/2024	Techem GmbH (100% Stake)	Services (other)	Germany	TPG Capital LP; GIC Pte Ltd	Singapore	6.7
10/5/2024	2i Rete Gas SpA (100% Stake)	Utilities (other)	Italy	Italgas SpA	Italy	5.3
4/26/2024	Darktrace plc (100% Stake)	Computer software	United Kingdom	Thoma Bravo LP	USA	5.0
12/2/2024	Calisen Group (Holdings) Ltd (66% Stake)	Energy	United Kingdom	GIC Pte Ltd; EQT AB	Singapore	4.8
6/24/2024	Aareon AG (100% Stake)	Computer software	Germany	TPG Capital LP; Caisse de Depot et Placement du Quebec	USA	3.9
4/1/2024	Dorna Sports SL (86% Stake)	Leisure	Spain	Liberty Media Corp	USA	3.7
6/24/2024	Eviosys Packaging Switzerland GmbH (100% Stake)	Manufacturing (other)	Switzerland	Sonoco Products Co	USA	3.6
7/25/2024	Evri Ltd (100% Stake)	Transportation	United Kingdom	Apollo Global Management Inc	USA	3.2
6/28/2024	Idealista SA (100% Stake)	Computer software	Spain	Cinven Ltd; Existing Management	United Kingdom	2.9
5/29/2024	Eyebiotech Ltd (100% Stake)	Biotechnology	United Kingdom	Merck & Co Inc	USA	2.8

Geography of European deals

Following the long-term trend, the UK and Ireland was again Europe's largest buyout market for 2023 to 2024, accounting for 1,611 deal announcements (25% of the regional total) worth a combined €152.5bn (34% of total deal value, up from a 21% share in the previous period). The high value proportion reflects some large deals in the UK and Ireland – six of 2024's ten biggest buyouts targeted companies in these markets.

One reason for the UK and Ireland's rising share of deal activity stems from the structural issues that played out at the London Stock Exchange in 2024. These led to several delistings and opened opportunities for PE buyers. A total of 88 companies exited the market in 2024,[8] a figure that includes two of European PE's largest deals – the €5bn take-private of cybersecurity company Darktrace and the €6.2bn delisting of financial services business Hargreaves Lansdown.

Other markets remained some way behind. France was the second busiest in volume terms, accounting for 17% of all transactions, but only 11% of total value, the fourth largest share. The Nordics generated 15% of deals (the third largest share of volume) and 11% of total value. Germany came in fourth in terms of deal volume, accounting for 11% of total, however, second in terms of buyout value with 15% share of total. German assets were targeted in four of

[8] *London's Shrinking Stock Market* (2024). Financial Times. https://www.ft.com/content/ac733942-6abd-4951-b478-8f921f66f13e

Europe's ten biggest buyouts, including TPG Capital and GIC's €6.7bn acquisition of energy metering company Techem.

Fig. 8 European Buyout Volume

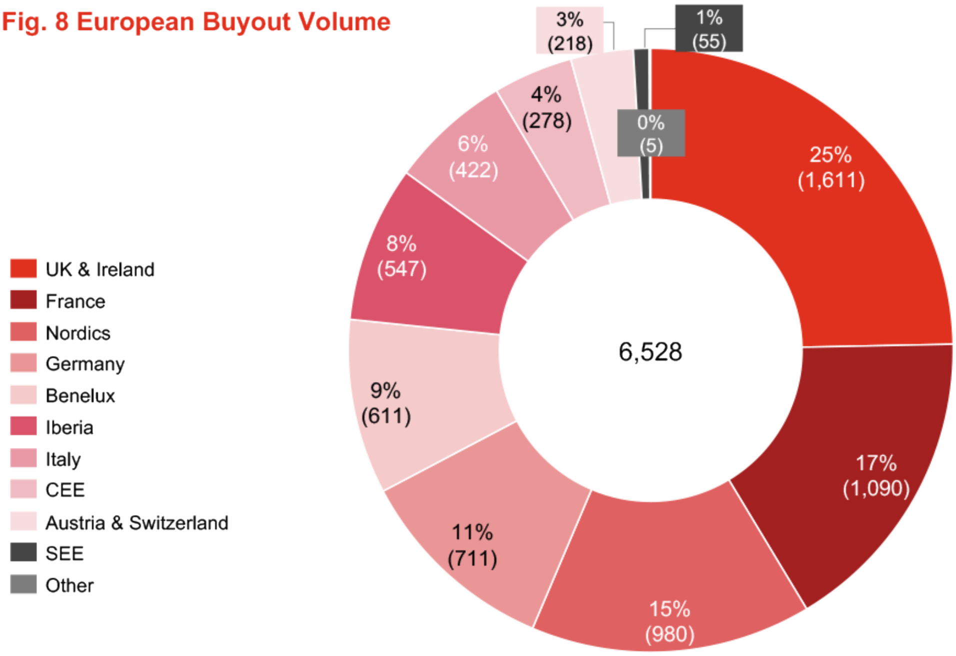
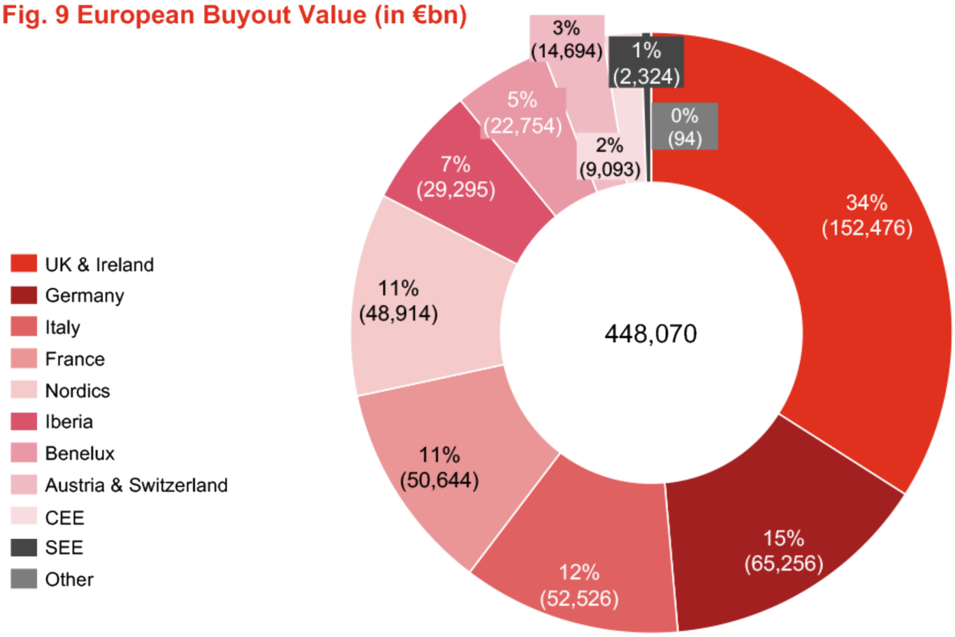


Fig. 9 European Buyout Value (in €bn)

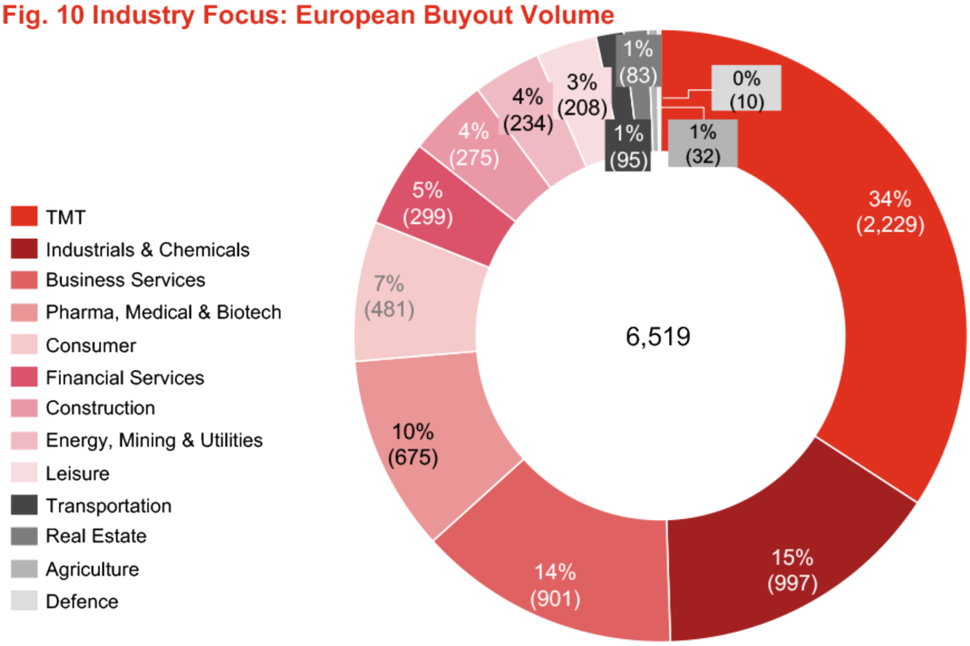


Industry focus

PE firms continue to see significant opportunity in TMT sector as digitalisation and automation continues apace. Software-as-a-Service (SaaS) businesses retain their allure for buyout firms as technology companies integrate AI features into these services. As in 2022 to 2023, the TMT sector generated the highest shares of deal volume (34%) and total deal value (34%) in Europe by a considerable margin in the 2023-24 period.

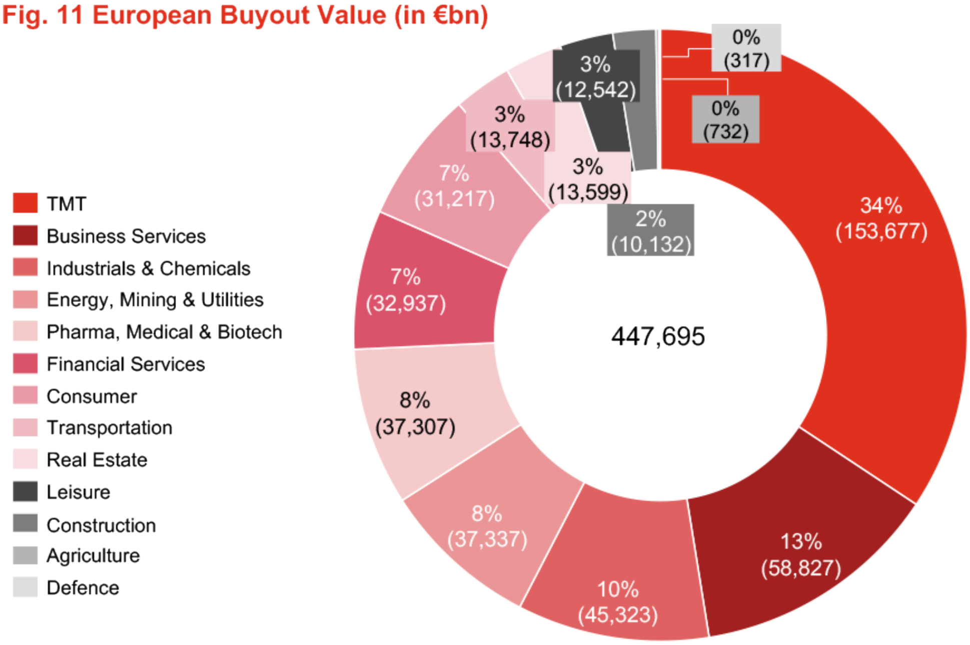
Many of the largest TMT deals were sponsor-to-sponsor transactions, including Advent International's €3.9bn sale of property SaaS business Aareon to TPG and CDPQ, and EQT's €2.9bn sale of a 70% stake in Iberian real estate platform Idealista to Cinven, in a deal that also saw Apax Partners and Oakley Capital exiting their investments. Thoma Bravo's €5bn delisting of Darktrace points to another subsector trend in buyouts and M&A more generally – a resurgence in appetite for cybersecurity assets. Cybersecurity M&A activity to-date has risen by 13.6% YOY versus the full-year YOY in 2023, according to Capstone Partners.[9]

Fig. 10 Industry Focus: European Buyout Volume



[9] *Cybersecurity M&A Update* (2024). Capstone Partners. https://www.capstonepartners.com/insights/article-cybersecurity-ma-update

Fig. 11 European Buyout Value (in €bn)



Deep dive: DACH spotlight

PE activity in the DACH sub-region of Germany, Austria and Switzerland in 2024 did not follow the wider European trend of largely flat volumes but increased values. Rather, it saw PE deal count decline, falling by 6% year on year to 549 transaction announcements. Aggregate deal values slightly increased, by 0.2% year on year to €56.9bn.

However, DACH's buyout segment activity in 2024 was more in line with the broader European pattern, albeit with a decline in volume, with the sub-region's 447 deals representing a 7% decline from 2023. The 23% increase in total deal value, with buyouts totalling €44bn, combined with the drop in volume points to larger transactions in the sub-region and likely reflects Germany's strong showing among 2024's top-ten deals. This is despite a difficult economic backdrop in the DACH sub-region's largest economy – German GDP shrank for the second year in a row in 2024, contracting by 0.2%[10] as the country's industrial base adjusted to higher energy prices and grappled with supply-chain challenges. PE houses may well be eyeing German companies and carve-out opportunities as strong targets for value creation.

Moreover, exits proved harder to achieve in 2024 in the DACH sub-region than the previous year. The number of realisations fell from 147 in 2023 to 136 in 2024, while the total value declined slightly year on year, from €32.7bn to €27.9bn. The political uncertainty and consequent loss of majority in parliament of Germany's "traffic light coalition" led to more political uncertainty, with sponsors pushing any prepared exits to after elections and once a new

[10] *The Bundesbank's Forecast for Germany: economy struggling with persistent headwinds*. (2024). Deutsche Bundesbank. https://bundesbank.de/en/press/press-releases/the-bundesbank-s-forecast-for-germany-economy-struggling-with-persistent-headwinds-947562

government is in place giving all parties a better view into the future course of business and investment.

Fig. 12 DACH PE Trends

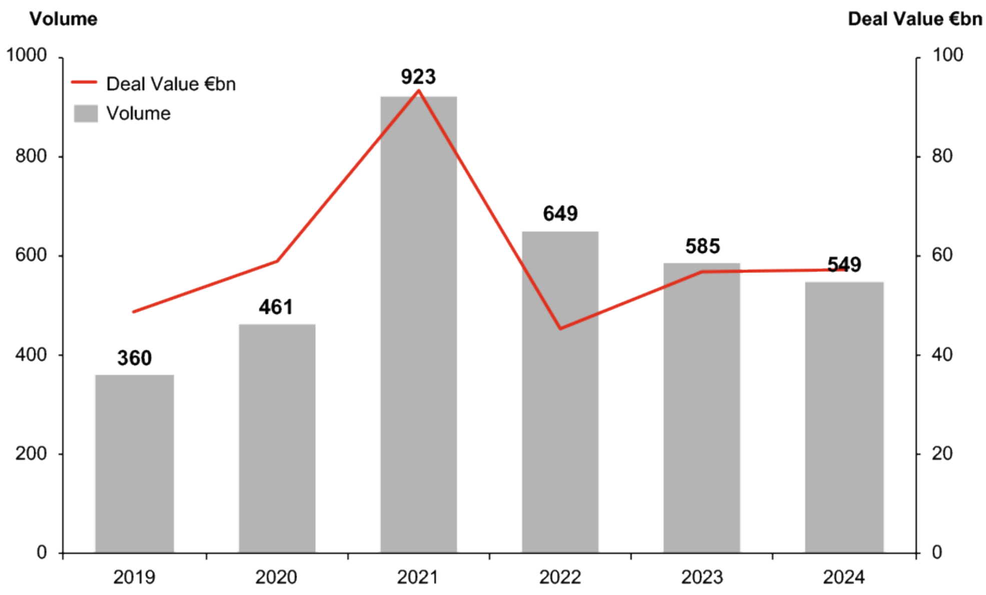


Fig. 13 DACH Buyout trends

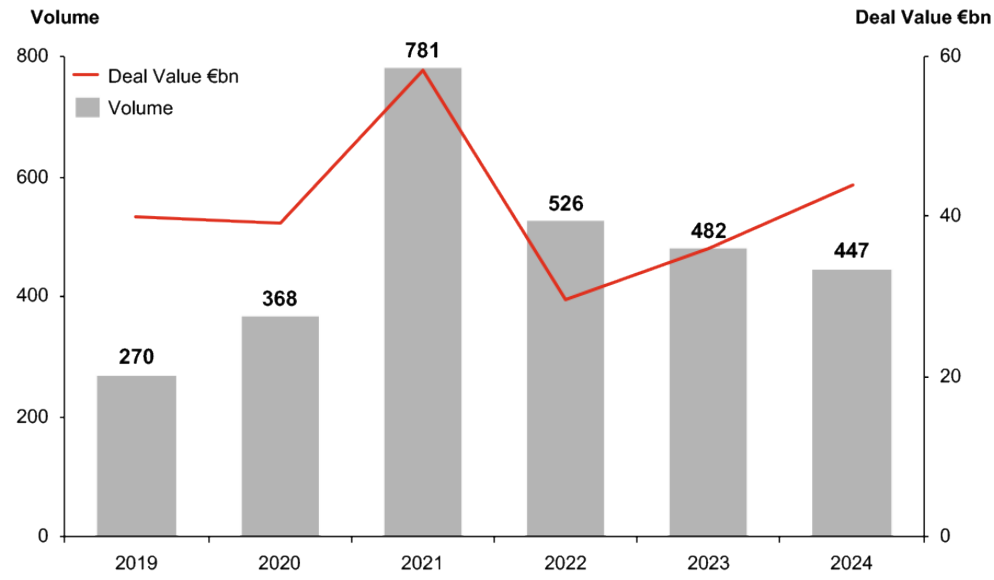


Fig. 14 DACH Buyouts Split

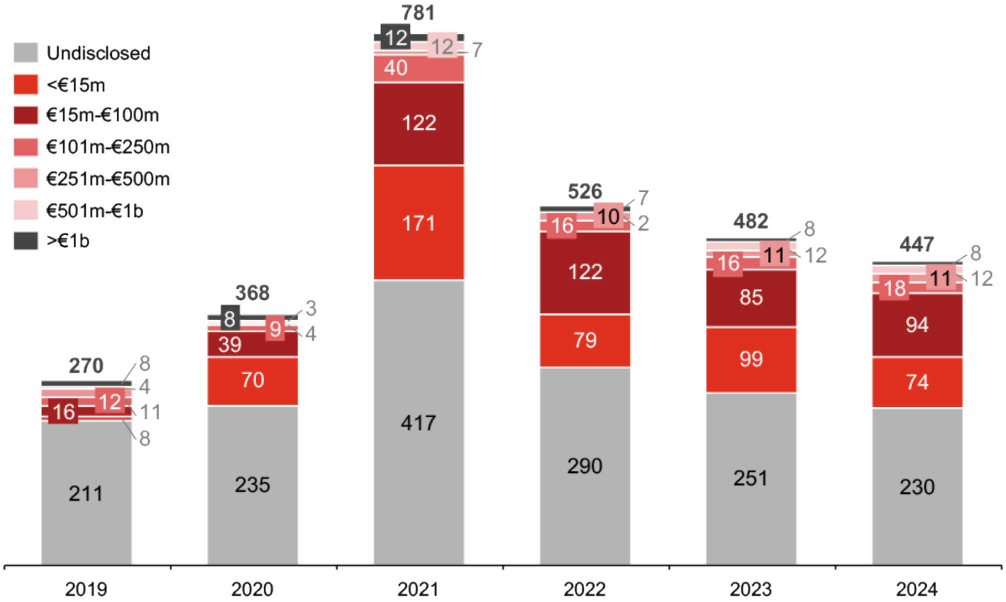
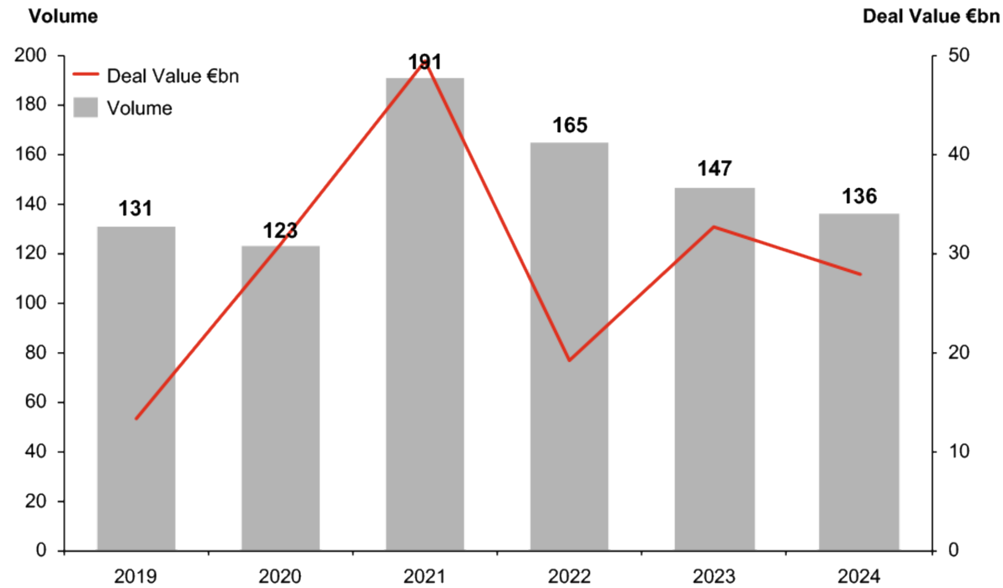


Fig. 15 DACH exit trends



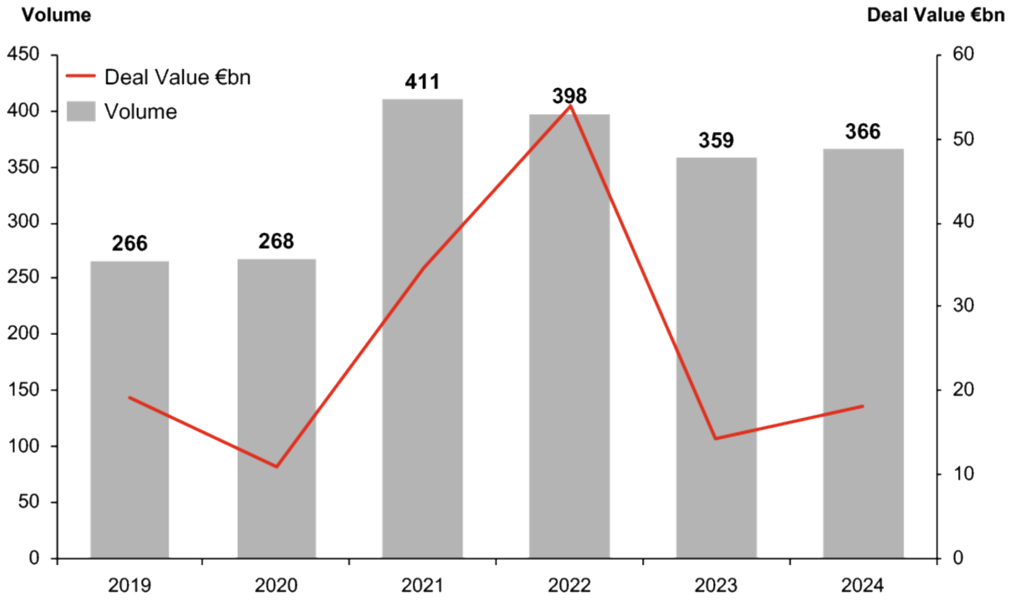
Deep dive: Benelux spotlight

PE activity through 2024 in the Benelux sub-region focused more on larger deals than the previous year. Deal count rose marginally, growing 2% year-on-year to 366 transaction announcements, but aggregate value rose by 28% over the same period to €18.2bn.

In the buyout space specifically, there was a larger dip in volume – down 2% year on year to 303 deals – but a rise of 28% in value terms, reaching a total of €12.7bn, partially reversing the dramatic decline of 77% recorded in 2023. PE's renewed focus on larger deals may well reflect improving confidence in Benelux economies. The Netherlands was projected to record GDP growth of 0.8% in 2024,[11] Belgium 1.1%[12] and Luxembourg 1.2%,[13] with all three countries expected to pick up the pace through 2025 and 2026.

In line with this increasingly optimistic outlook, PE firms took the opportunity to exit more of their portfolio companies in 2024, following a sharp decline in 2023. There were 109 exits in 2024, up from 84 the year prior. The aggregate value of these exits also registered a pronounced year-on-year increase, rising by 19% from €9.8bn in 2023 to €11.7bn in 2024.

Fig. 16 Benelux PE trends



[11] *Economic forecast for Netherlands* (2024). European Commission. https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/netherlands/economic-forecast-netherlands_en
[12] *Economic forecast for Belgium* (2024). European Commission. https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/belgium/economic-forecast-belgium_en
[13] *Economic forecast for Luxembourg* (2024). European Commission. https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/luxembourg/economic-forecast-luxembourg_en

Fig. 17 Benelux Buyout Trends

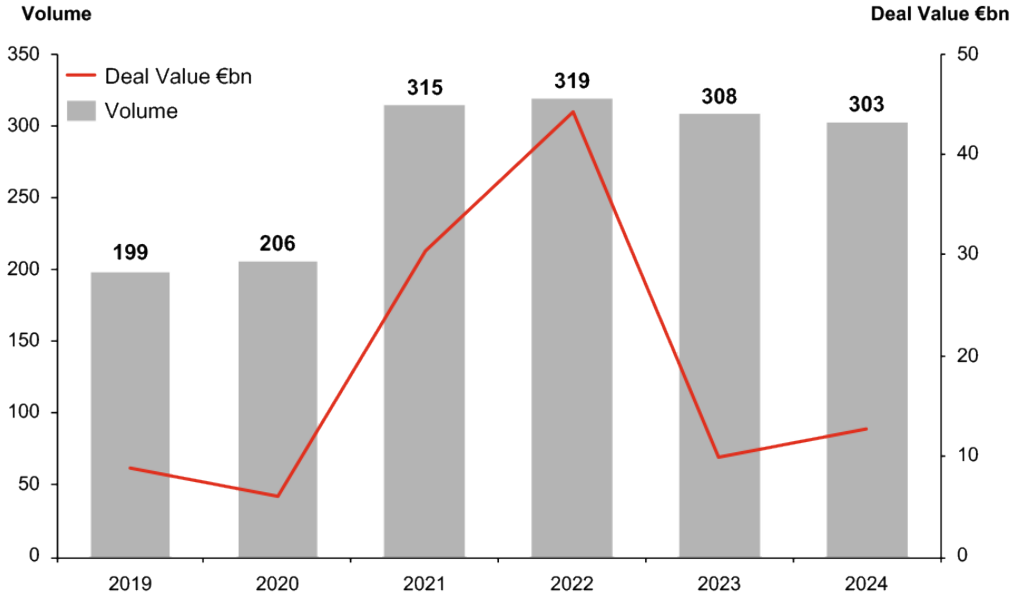
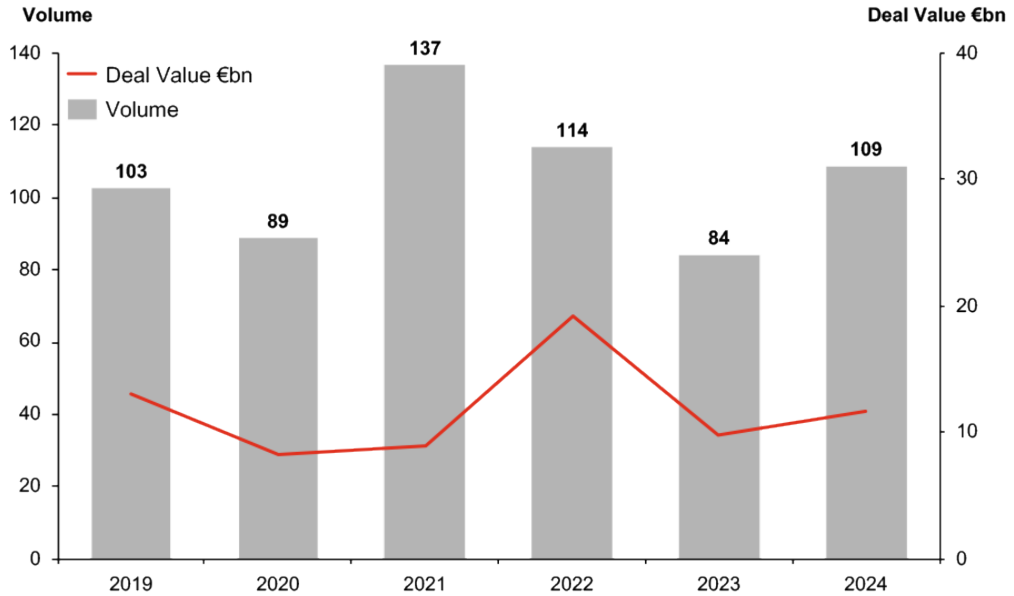


Fig. 18 Benelux Exit Trends



Chapter 1:
2024 in review

2024 in review

More market opportunities

Even as the number of European buyout deals declined marginally in 2024, PE houses remained busy scoping out potential deals. In our survey, nearly half of respondents (45%) reviewed more transactions in 2024 than in 2023. This includes a tenth of respondents who screened significantly more deals last year than the previous 12 months.

This led to increased activity for a similar number of respondents. Overall, 45% of respondent organisations increased the number of new investments they made in 2024 compared with 2023, including 8% who saw a significant increase in deals completed. However, this is down from the 61% of respondent organisations that increased the number of new deals they made in 2023 compared with 2022. In line with this, more than a third of respondents (36%) report completing fewer deals in 2024 than in 2023

Fig. 19 Firstly, compared to 2023, has the number of potential transactions which you have reviewed in an average month this year.....?

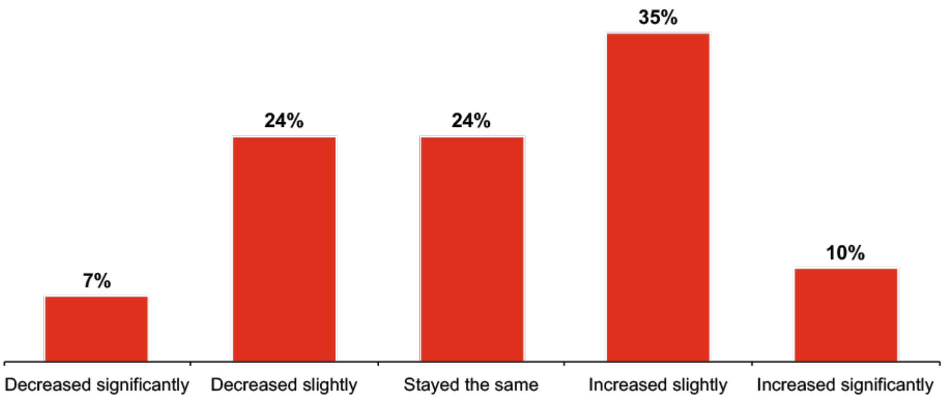
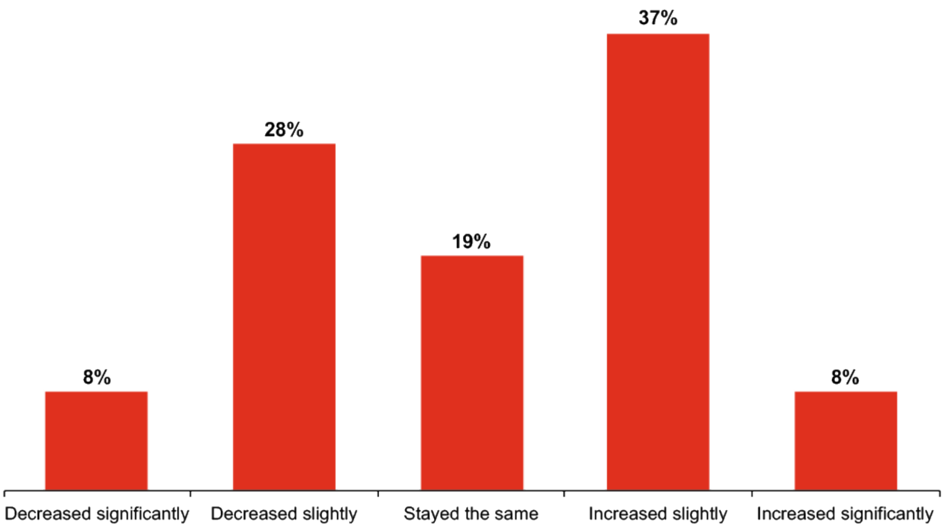


Fig. 20 Compared to 2023, has the number of new investments made by your organisation this year....?



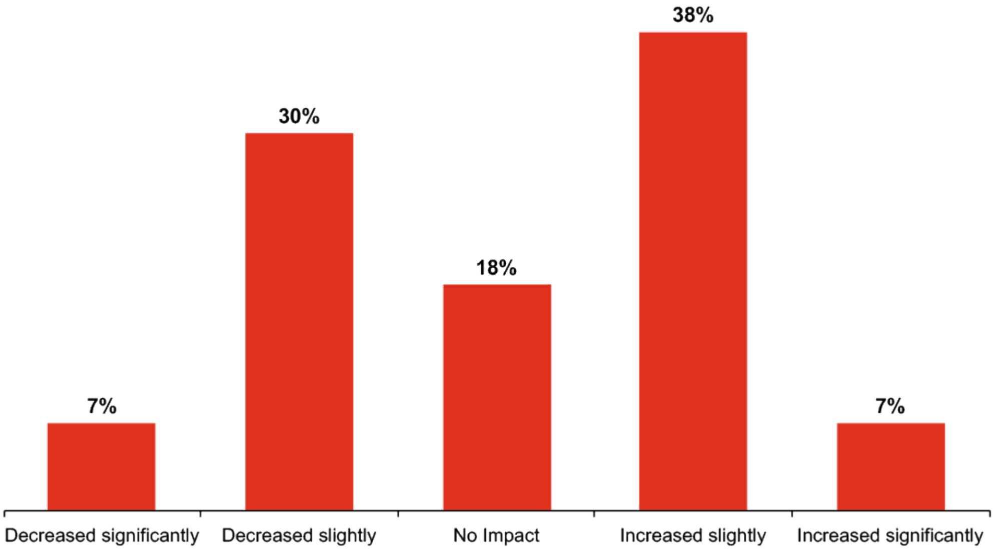
Geopolitical tensions continued to loom large in 2024 as the conflicts in Ukraine and Gaza raged on. Germany and France also faced significant political uncertainty as fragile coalitions in both countries came under pressure, leading to snap elections.

Yet as a change agent, PE can often support portfolio companies through shocks and help them take advantage of the opportunities that stem from dislocations. PE’s supporting role is evident in our survey results. Nearly half of respondents (45%) say that global conflicts, political uncertainty and protectionism helped support an increase in the number of investments made by their organisation in 2024, including 7% who say these factors increased their deal-making significantly. One respondent, a managing director in Belgium, says: “Protectionism and political uncertainty have led us to increase deals because they call for additional planning and strengthening of the portfolio within a short period of time.”

For many others, lower valuations stemming from the more challenging backdrop were a major attraction following a period of elevated pricing. “The valuations in several sectors have been promising during this time,” comments an Ireland-based investment director. “More realistic valuations have led to more deals for our firm.” A Switzerland-based investment director echoes this sentiment: “There were good investment opportunities. The company valuations have dropped amid these uncertainties. It’s a good time to make more medium- and long-term investments.”

However, the proportion of respondents who say these factors have impeded deal-making increased in 2024 compared to our 2023 study, perhaps reflecting the political situation in France and Germany over the past 12 months. In our most recent poll, 37% say global conflicts and political uncertainty reduced the number of deals they completed, up from just 14% the year prior. Among these, a France-based investment director told us: “Considering the excessive risks in the market environment, deals were decreased slightly. The political scenario at home was also not good enough to pursue deals with confidence.”

Fig. 21 How have global conflicts, political uncertainty and protectionism impacted the number of new investments of your organisation?



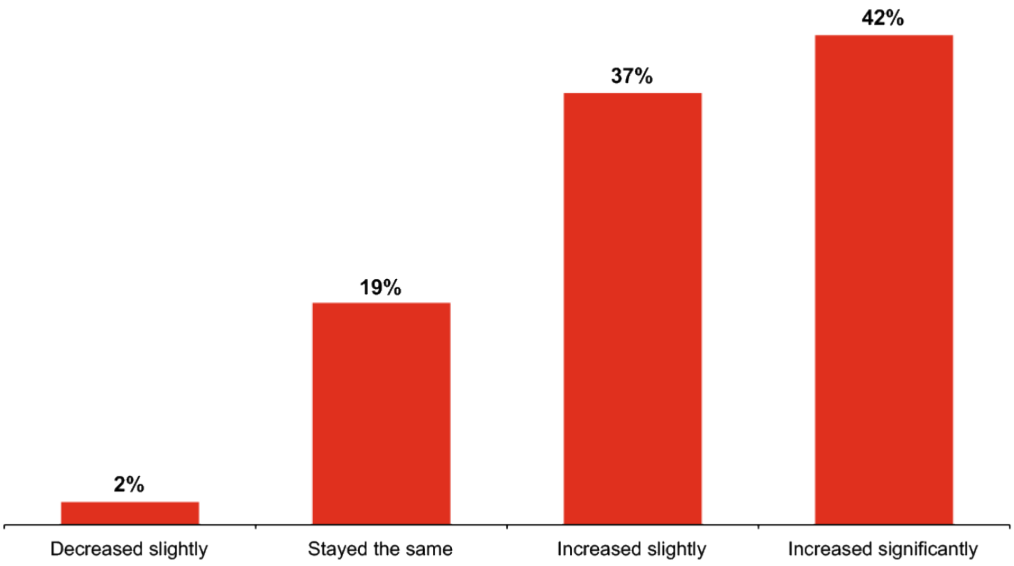
Competitive dynamics

With so much capital raised in the past four years, many European PE firms have plenty of firepower. Even as PE fundraising has slowed globally since the liquidity crunch began in 2022, European funds have continued to attract investor capital. Despite challenging conditions, 2024 saw the third highest amount raised by European PE funds on record, at €122.3bn, not far behind the €126bn peak recorded in 2021, according to PitchBook figures.[14]

With so much dry powder residing with Europe's PE houses and the renewed interest among US buyers for European assets, it is hardly surprising that our respondents noted a sharp increase in competition for deals in 2024. Nearly eight in ten (79%) say that competition among PE firms increased, including a substantial 42% who say it increased significantly. This is higher than in our 2023 survey, when 71% said competition for assets between PE houses had risen, of whom 20% said it had done so significantly.

[14] *European PE Breakdown* (2024). PitchBook.
https://files.pitchbook.com/website/files/pdf/2024_Annual_European_PE_Breakdown.pdf

Fig. 22 Compared to 2023, would you say that competition for investments among private equity firms has…?



Exits recovering

A lacklustre M&A market and higher financing costs over the past few years have created a backlog of companies in PE portfolios. In 2021, the median holding period for PE portfolio companies was 5.2 years, but this has extended in the intervening years as exits have become harder to execute and GPs wait for better conditions. By the end of 2024, the median time from investment to exit stood at 6.1 years, according to PitchBook data.[15]

Yet 2024 did see some progress as PE began to realise more investments, as our headline figures showed a 7% rise in the number of companies exited and a 16% increase in value. This is reflected in our survey responses. Nearly half (46%) say their firms completed more exits in 2024 than in 2023, including 6% who say they completed significantly more.

Some of this rise is likely attributable to an increased deal-making appetite among PE houses, with sponsor-to-sponsor activity providing a strong exit path for firms. More than half of European exits were via secondary buyout, according to PitchBook, a meaningful rise on the ten-year average of around 41%.[16] In line with our finding that geopolitical issues and political uncertainty increased new deal opportunities last year for some respondents, 47% say these factors supported an increase in exits.

[15] *European PE Breakdown* (2024). PitchBook. https://files.pitchbook.com/website/files/pdf/2024_Annual_European_PE_Breakdown.pdf
[16] *European PE Breakdown* (2024). PitchBook. https://files.pitchbook.com/website/files/pdf/2024_Annual_European_PE_Breakdown.pdf

Fig. 23 Compared to 2023 has the number of exits made by your organizations this year….?

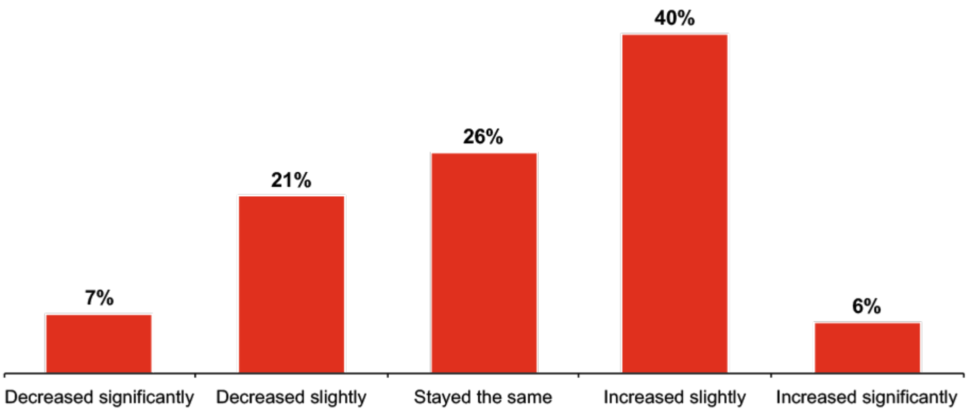
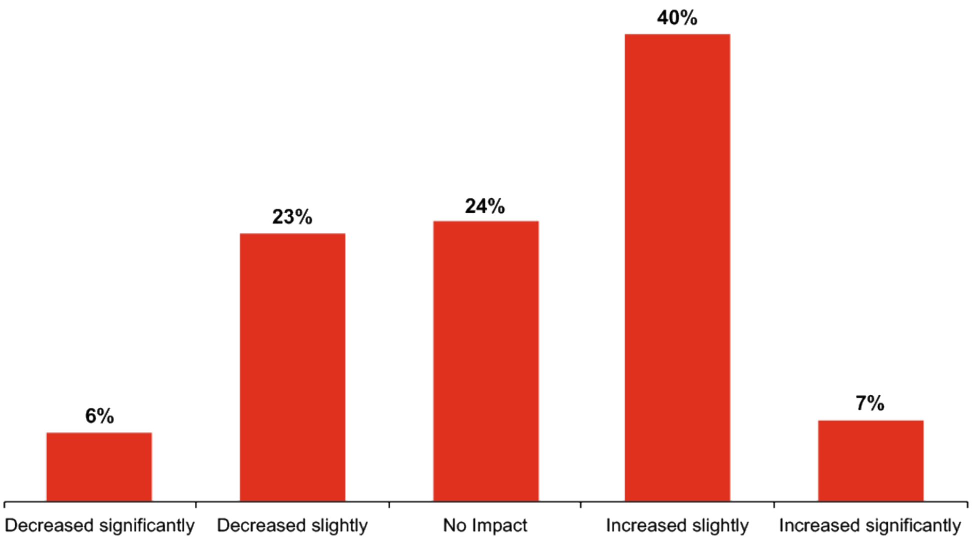


Fig. 24 How have global conflicts, political uncertainty and protectionism impacted the number of exits of your portfolio companies?



Portfolio performance remains resilient

Over the past few years, European PE portfolio companies have had to contend with a range of challenges. Having come through the unprecedented restrictions imposed on them during the pandemic, they then faced supply-chain disruptions, an energy crisis, double-digit inflation and the resultant sharp rise in interest rates. Though inflation has moderated and interest rates are lower than a year ago, ongoing geopolitical conflicts and political uncertainty in some countries continue to pose major challenges to business operations.

Yet despite this sense of permacrisis, around half of PE respondents (49%) say they are satisfied with how their portfolio companies developed in 2024, including 10% who say they are very satisfied. The past year has seen an increase in the proportion who say they are dissatisfied, from 18% in our previous survey to 35% in this most recent study but, given the headwinds that have buffeted companies in recent times, this is still relatively low. PE's capacity to build resilience in portfolio companies is clearly resulting in more positive than disappointing results.

Among the biggest challenges for PE in 2024 were increased financing costs (40%), reflecting higher interest rates over the past two years, more difficulty in securing financing (37%), and the disruption of established business models (also 37%).

While interest rates are unlikely to revert to pre-2022 levels, they have reduced somewhat over the past 12 months and could fall a little further through 2025. This should ease some of the pressure portfolio companies currently feel and potentially free up cash to invest in growth. Meanwhile, PE's active ownership style can bring agility to portfolio companies, making them more adept at staying ahead of disruption. While established business models may be experiencing pain currently, PE owners should, with the right investment and strategy, be able to help these companies pivot towards the opportunities that market and technology shifts will bring.

Fig. 25 How satisfied or dissatisfied are you with the development of your portfolio companies in 2024? Would you say you are ....?

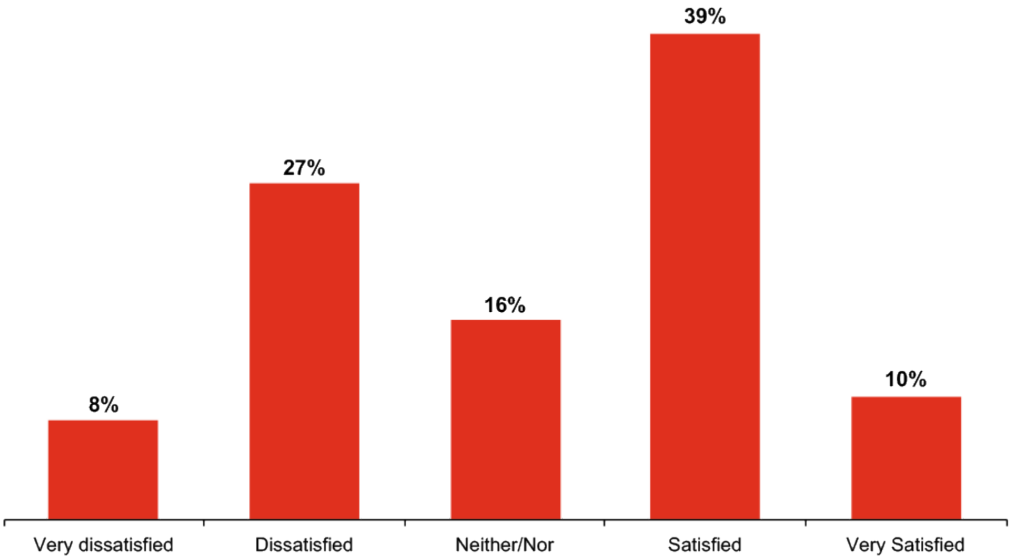
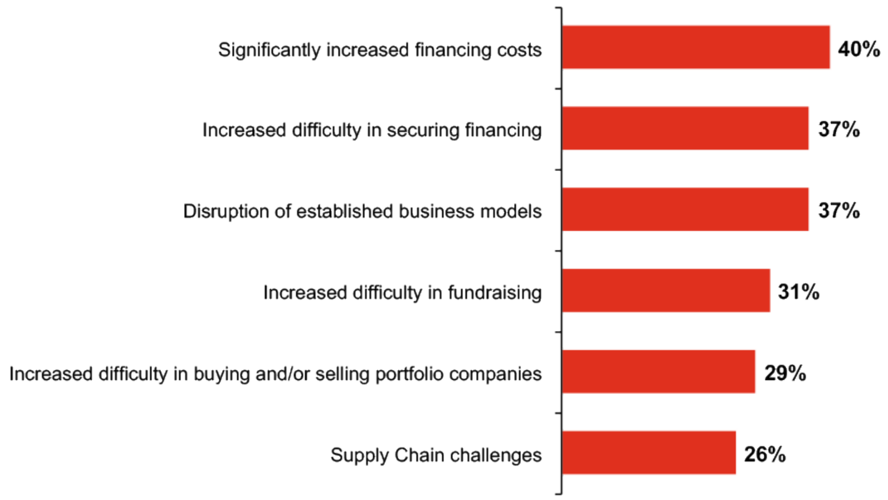


Fig. 26 Looking back at 2024 and the increasing economic and geopolitical uncertainties, e.g. inflation, the conflicts in Ukraine and Israel, US/ China trade war, political instability etc., which of the following have had the strongest impact on your firm as well as your portfolio:



Debt-to-equity ratios

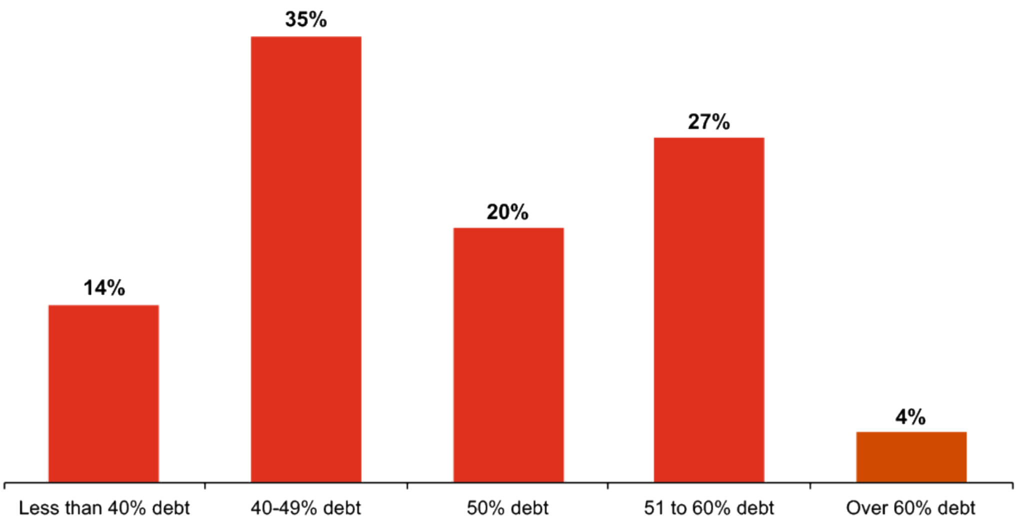
As financing costs eased slightly over the past year – 2024 saw 100 basis points of interest rate cuts from the ECB[17] and 50 basis points from the BoE[18] – the range of debt to equity ratios in new investments widened.

In our 2023 study, no respondents reported using an average of more than 60% debt to finance new deals, yet 4% of respondents in our most recent survey say they did so in 2024. At the other end of the spectrum, just 11% of respondents in 2023 said they used less than 40% debt on average, a share that rises to 14% in our latest survey.

In the middle ranges, 35% say they used an average of between 40% and 49% debt in 2024 deals, down from 45% who said this in 2023. The 50% to 59% average debt proportion remained relatively stable, with 47% saying this in 2024 (versus 44% in 2023). Overall, these shifts suggest a growing divergence of views among PE houses on sustainable portfolio company debt levels in the new somewhat higher for longer interest rate environment.

[17] *Monetary policy decisions* (2024). European Central Bank. www.ecb.europa.eu/press/pr/date/2024/html/ecb.mp241212~2acab6e51e.en.html
[18] *Official Bank Rate History* (2025). Bank of England. www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

Fig. 27 What was the average debt to equity ratio used by your organisation on new investments made in 2024?



LP perspectives

LPs may be passive partners in a PE fund when it comes to investment decisions, but their role as precious clients who finance GPs' activities means they have influence in how their capital in managed. GPs tend to take notice when LPs request information or that strategies follow responsible investment guidelines, especially when fundraising conditions are challenging.

And while Europe has not seen the fall-off in fundraising totals that other regions have experienced in recent years, the number of funds raised has declined sharply. In 2021, 316 European funds raised capital – in 2024, just 127 closed a fund.[19] This points to LPs becoming more selective in the funds they back.

Consistent with this trend, LPs are making their voices heard when interacting with their GPs. Nearly half of respondents (46%) say their LPs' expectations and requirements have increased in the past three years, including 26% who say they have increased significantly. Just 17% say they have decreased.

Among those who report an increase, greater disclosure requirements represented the biggest change, cited by 79% as a top-three concern. A close second overall is increased expectations relating to ESG topics, which accrues 69% of top-three votes, including the largest share of first-choice votes (36%).

This finding likely reflects the growing number of European institutions that have made their own ESG commitments and which view issues such as climate change as a threat to their portfolios. Despite the recent backlash in some quarters against investors considering ESG factors when allocating capital, 46%

[19] *European PE Breakdown* (2024). PitchBook.
https://files.pitchbook.com/website/files/pdf/2024_Annual_European_PE_Breakdown.pdf

of LP respondents in a recent survey by Private Equity International said that climate risk affects their investment decisions.[20]

Perhaps surprisingly, given the slower pace of exits in recent years, fewer than a third of respondents (29%) reporting an increase in LP expectations say their investors have upped the pressure to return capital.

Fig. 28 Have expectations and requirements of your Limited Partners (LPs) changed during the prior three years?

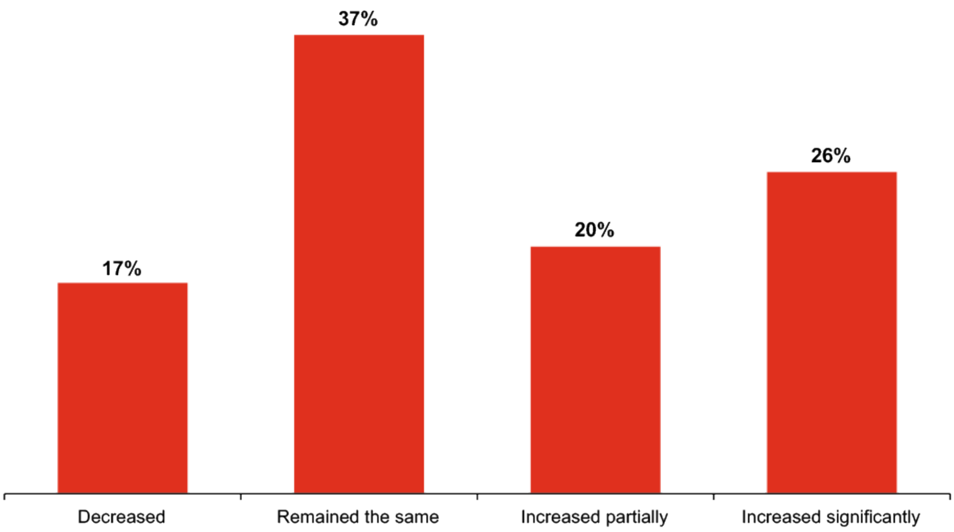
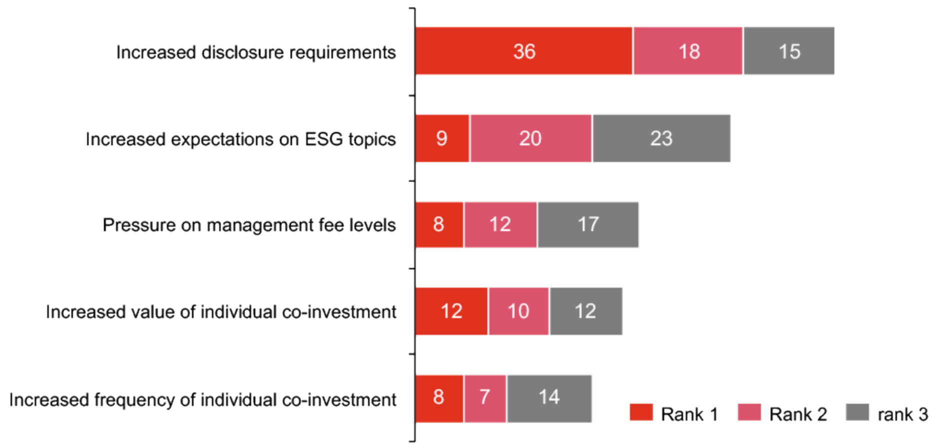


Fig. 29 Which of the following best describe the changes in expectations and requirements from your Limited Partners….? (Rank 1 is the biggest change):



[20] *LPs raise the bar on ESG reporting* (2024). Private Equity International. www.privateequityinternational.com/lps-raise-the-bar-on-esg-reporting

Chapter 2: The year ahead

The year ahead

A brightening outlook, but clouds loom on the horizon

With most European economies projected to grow in 2025, the European Commission is forecasting GDP growth of 1.5% for the EU over the coming 12 months and 1.8% for 2026, up from just 0.9% in 2024. While still fragile, Europe appears to be making some progress towards economic recovery after what has been an intensely challenging period. EU business confidence, however, is taking longer to reach a more stable path – it fell by 4.6% year on year in December 2024, a sharp drop from the 1.9% decline a month earlier.[21]

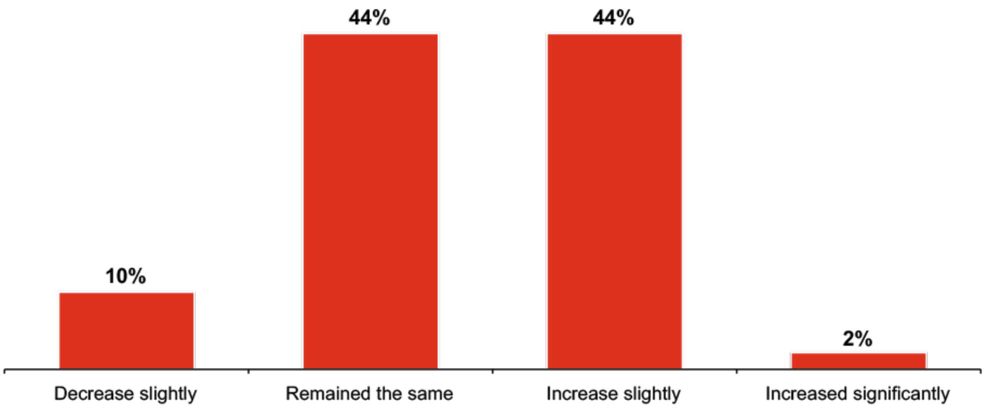
Yet GPs are apparently more optimistic than their corporate peers. Just 10% of respondents are expecting to make slightly fewer new investments in 2025 than in 2024, 44% expect the pace of investment to stay the same, and 46% are anticipating an increase.

In a nod to our earlier findings about disruption to existing business models, investment in modernising companies through technology will drive some of the increased investment pace. A UK-based managing director explains: “The number of investments will increase slightly. We will make more investments to support our technology transformation plans.” Meanwhile, a partner in Norway comments: “Our priorities are shifting as more digitalisation and other add-on requirements have come to light. So, we need to plan and increase investments accordingly.”

Supply-chain improvement is another theme our respondents pick up as a reason for more investment. “We expect to increase our deals in the mid-market,” says a managing director based in Belgium. “We will focus on improving the potential of our companies’ supply chains, for which we will source new deals.” Other motivations our respondents cite for picking up their investment pace include the potential for synergies, a better fundraising environment and an improved global economic outlook for 2025.

[21] *European Union Business Confidence Growth* (2025). CEIC. https://www.ceicdata.com/en/indicator/european-union/business-confidence-growth#:~:text=European%20Union%20Business%20Confidence%20dropped,averaged%20rate%20of%20%2D0.1%20%25

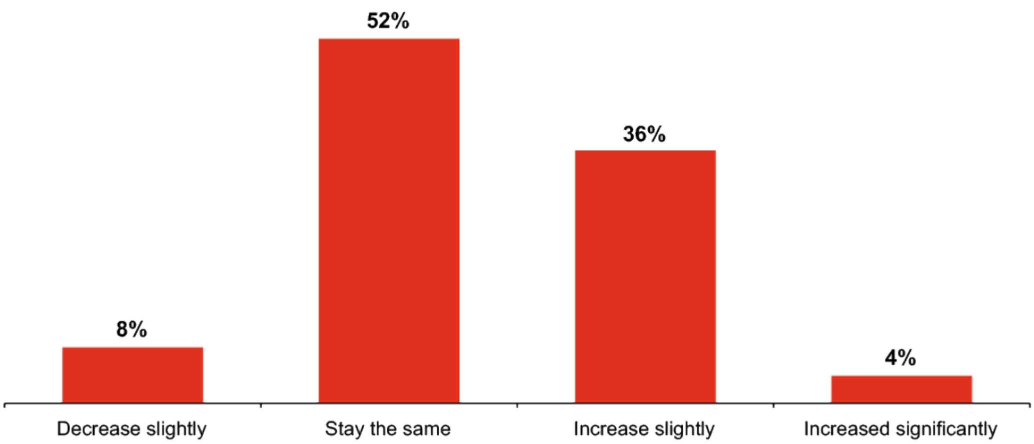
Fig. 30 Compared to 2024, do you expect the number of new investments made by your organisation in 2025 to....?



As noted previously, there is pressure on GPs to return capital to their LPs, with exits via the more traditional routes of trade sales, acquisitions by other financial sponsors and IPOs often the preferred means of achieving this.

Over the coming year, GPs look set to make measured progress on exiting portfolio companies. Our survey finds that 52% expect to complete the same number of exits in 2025 as last year and just 8% are expecting a decrease in realisations. A large minority (40%), meanwhile, are anticipating that their firm will pick up the pace on exits.

Fig. 31 Compared to 2024, do you expect the number of exits made by your organisation in 2025 to.....?



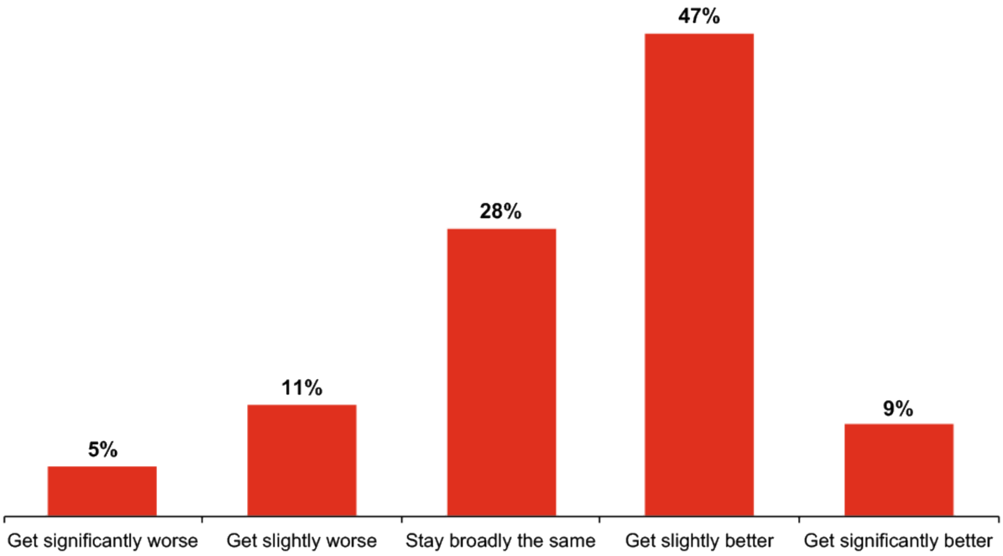
When asked about the overall European market's prospects in 2025, respondents are generally upbeat. Over half (56%) are expecting the deal environment to improve, including 9% who believe conditions will be significantly better. More than a quarter (28%) say the deal market will remain the same as in 2024, and just 16% say it will worsen.

Among the more pessimistic respondents is a Germany-based managing partner, who says: "Conditions will be worse going forward. The political uncertainty and the conflicts in Europe remain major disturbing factors when considering new deals and secondary market deals."

Yet views such as these are in the minority, with most respondents pointing to an improving environment. "The conditions will be better," says a partner in Norway. "I see positive signs in the deal market already, and deal numbers will pick up within the next year. It will also deliver more promising growth opportunities for portfolio companies."

Another respondent points to the prospect of lower interest rates and a recalibration of PE expectations as we move through 2025 as causes for optimism. "As monetary policies normalise and PE firms get more accustomed to the market conditions, deal activity is bound to pick up. Secondary deal activity will be higher," says a partner in Austria. Further reasons to be cheerful about 2025 include the push towards digitalisation and globalisation as well as improving company performance.

Fig. 32 How do you expect the European deal market for private equity to develop in 2025? Do you think it will…?



Risk ahead

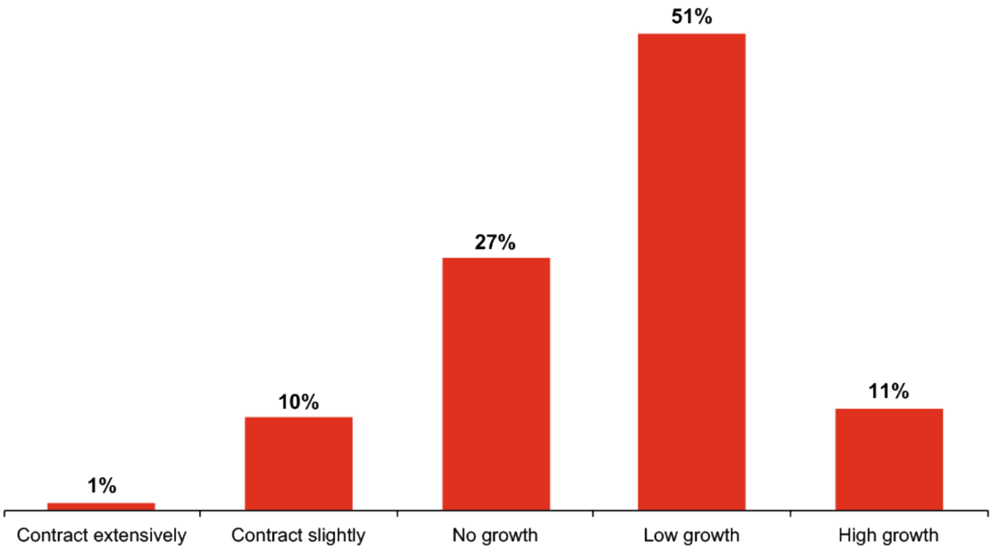
Recent estimates for global GDP growth from the International Monetary Fund (IMF) sit at 3.3% for 2025 and 2026, lower than the historical average of 3.7% between 2000-19, but higher than the 2024 figure of 3.2%.[22] Key among the risks to global growth are the prospect of a new wave of tariffs that could exacerbate trade tensions, lower investment and bring further disruption to supply chains.

Our survey responses reflect this outlook, with 51% saying they expect world economic growth to be low and 27% anticipating no growth. This compares with 68% who said growth would be low in the previous edition of this survey and 18%

[22] *Global Growth: Divergent and Uncertain* (2025). International Monetary Fund. https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025#:~:text=Global%20growth%20is%20projected%20at,19)%20average%20of%203.7%20percent

who expected no growth. Moreover, the proportion of respondents forecasting high growth has increased, rising to 11% from 7% in our last study.

Fig. 33 How do you expect the world economic situation to develop in 2025?



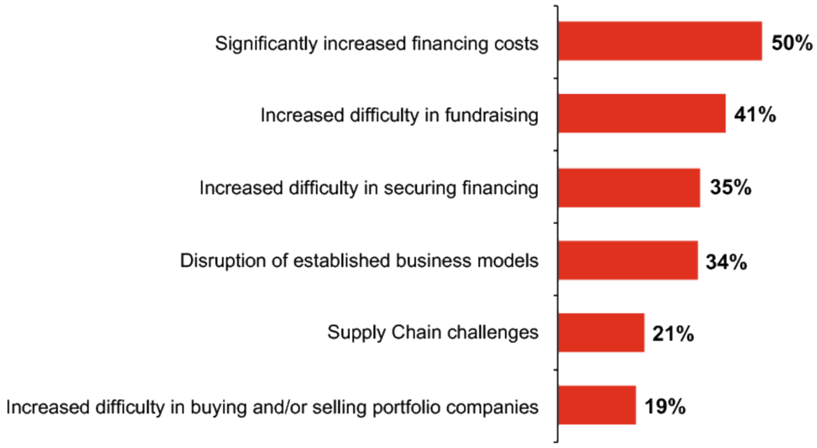
The still-uncertain geopolitical environment is also weighing on European GPs' minds. The greatest challenges that respondents expect to face in this regard in 2025 are increasing difficulty in fundraising (cited by 41%), followed by difficulty securing financing (35%).

While European fundraising totals have remained steady, especially when compared with the declines seen in the US, GPs are bracing themselves for more difficult times ahead. LPs have faced a distributions drought for some time now, with MSCI data suggesting that the rate at which capital is being returned to investors has fallen far below historical averages. Its analysis points to buyout distribution rates for mature assets halving and more recent vintages falling even further.[23]

When significant LP capital remains stuck in buyout portfolios, investing in new funds becomes a challenge since many programmes are designed to be self-funding – investors need capital back to reinvest it in the asset class. A recent survey of LPs by Coller Capital highlights the issue, with 79% saying they have declined to reinvest with any of their current GPs in 2024. Of those LPs, 29% cited their institution's capital availability as the reason they rejected these re-ups, second only to GP performance-related factors.[24]

[23] *Private Capital in Focus: 2025 Trends to Watch* (2025). MSCI. https://www.msci.com/www/blog-posts/private-capital-in-focus-2025/05274349366
[24] *Global Private Capital Barometer* (2024). Coller Capital. https://www.collercapital.com/wp-content/uploads/2024/12/Global-Private-Equity-Barometer-Winter-2024-25.pdf

Fig. 34 Looking forward to 2025 and the increasing geopolitical uncertainties, e.g. inflation, the conflicts in Ukraine and Israel, US/ China trade war, political uncertainty etc., which of the following do you expect will have the strongest impact on your firm as well as your portfolio:



GPs do not expect these issues to be resolved quickly. Challenging fundraising conditions also rank as the biggest issue facing our respondents over the next five years – more than half (53%) say this, including 20% who rank it as the single biggest issue. Given the need to demonstrate a strong track record to potential LPs when fundraising, the third biggest challenge, declining portfolio valuations (40% of total responses) is related to these concerns, as a managing partner in Germany points out: "Portfolio valuations may decline if the economic conditions do not support the industries in which we invest. Fundraising conditions will be challenging as investors will be sceptical about the returns we can deliver."

Regulatory change is another hot topic for PE firms as they look to the next five years, with 44% of respondents citing this as a top-three issue. The EU has a full regulatory schedule ahead, including proposed revisions to foreign direct investment regimes,[25] a review of the Sustainable Finance Disclosure Regulation (SFDR) underway[26] and the implementation of the Corporate Sustainability Due Diligence Directive (CSDDD), which will require larger and listed businesses to assess their supply chains for environmental and social risks and remedy issues where they arise.

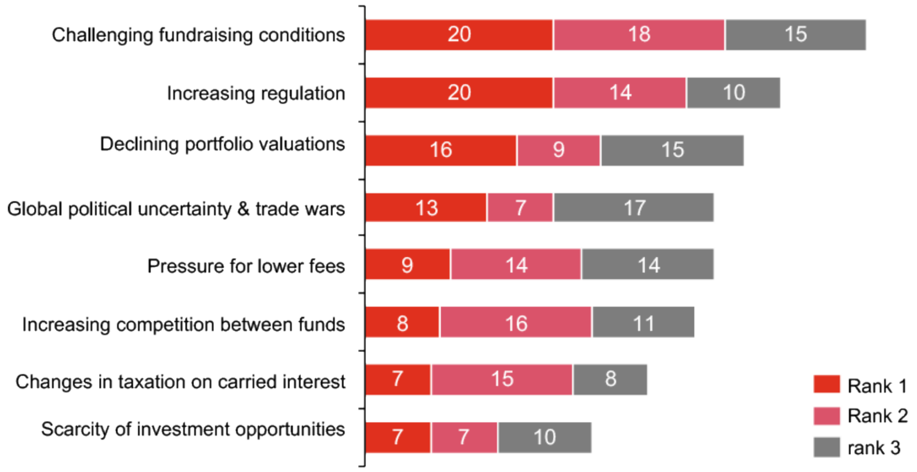
"One of the key issues is increased regulation," confirms a Luxembourg-based managing director. "This threatens to decrease the value of portfolio companies. Their value on the market may decline rapidly, and we need to be very certain about the impact of potential regulations when investing in companies."

[25] *Revision of the EU Foreign Direct Investment Screening Regulation* (2024). European Parliament. https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2024)762844#:~:text=The%20proposal%20for%20a%20revised,but%20controlled%20by%20foreign%20investors

[26] *ESAs propose improvements to the sustainable finance disclosure regulation* (2024). EIOPA. https://www.eiopa.europa.eu/esas-propose-improvements-sustainable-finance-disclosure-regulation-2024-06-18_en

Another respondent suggests that a lack of visibility on the shape of future regulations makes it difficult for their firm to manage investments effectively. “Increasing regulation is a stressful topic, especially when we want to make long-term investments,” says the managing partner in Portugal. “Changing regulations can limit viable exit options.”

Fig. 35 Again looking ahead, what are the key issues which the private equity industry in Europe will face in the next 5 years? (Rank 1 is the most important issue):



Consolidation strategies take centre stage

Europe’s business landscape is highly fragmented when compared with markets such as the US. This provides PE houses with significant value creation opportunities by using M&A as a strategic tool. Against an uncertain backdrop, creating larger companies by consolidating industries and segments or building market share through acquisitions can shield companies from volatility and raise valuation multiples.

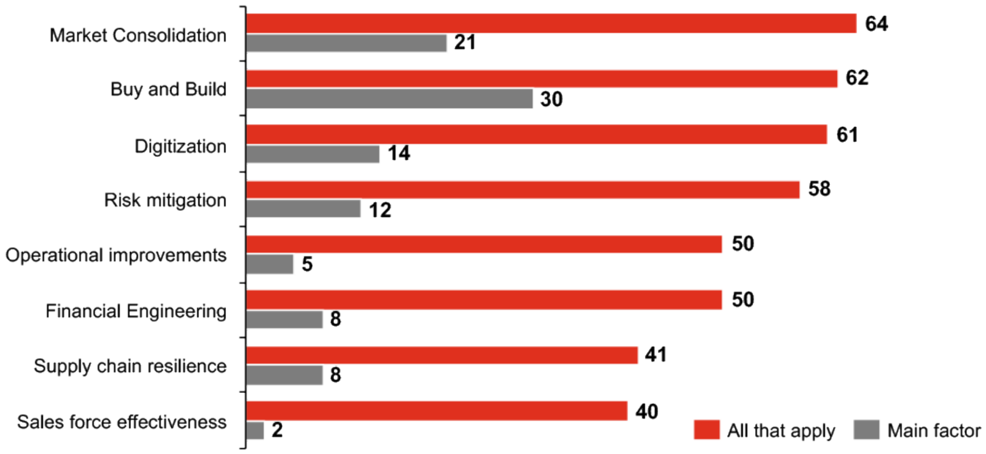
PE is clearly looking to adopt an M&A playbook in 2025. When asked about the kinds of strategies that will most increase equity value in their portfolios, market consolidation is the top response, with 64% mentioning this. Coming in second is buy and build, also an M&A strategy, which garners 62% of responses, including 30% who rank this as the single most transformational strategy for their portfolio.

Other important strategies include digitalisation (61%), risk mitigation (58%) and operational improvements and financial engineering (both 50%). As our respondents note, however, PE houses have a variety of tools at hand to transform businesses and increase equity value, meaning a company’s equity story is likely to be influenced by several of these strategies. “Buy and build will be very transformational,” says a partner in Norway. “We can increase company profits by making effective operational changes.”

An investment director in the Netherlands also notes: “Buy and build should become an important aspect of the equity story. It increases investors’ confidence in our ability to mitigate risks and increase the potential of companies.”

Meanwhile, a Germany-based managing partner comments: “Operational improvements can really separate us from the rest of the firms when we present an equity story. These showcase opportunities we’ve created over time. Supply-chain resilience also sets us apart from competition.”

Fig. 36 Looking forward to 2025, which of these factors do you consider will influence equity stories and be most transformational on acquisitions for your organisation?



New deal sources

The coming year will see PE target a range of new deal opportunities, from growth and expansion capital prospects (76%) and succession-related transactions (76%) to corporate carve-outs (57%) and distressed businesses (40%). And, reflecting our findings above about buy-and-build strategies, add-on acquisitions also make a strong showing in the responses, with 61% saying they will be a source of new deal opportunities in 2025.

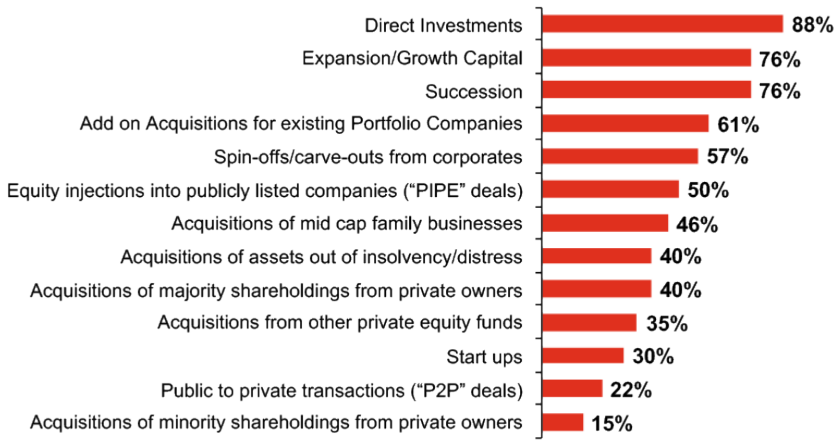
As a Spain-based investment director notes: “In 2025, we will prioritise add-on acquisitions. This is mainly because some portfolio companies are not performing stably. Vertical acquisitions and other add-ons will provide them with support.”

Other qualitative responses to our survey highlight the broad scope of new deal opportunities that GPs expect to be in the market through the year. An investment director in Norway, for example, tells us: “We will target growth capital and add-on acquisitions mainly. Growth capital is a good new investment because it has an attractive risk profile. Assets are already well established in markets but need additional funds for new growth initiatives.”

This is echoed by a partner, also in Norway, who says: “Growth capital and add-on deals will be considered more. Our portfolio companies are facing competition challenges, so add-ons would help. Growth capital investments are less risky.”

Another respondent, a managing partner in Portugal, will be looking for businesses in distress to secure deals at attractive prices. “The opportunity for distressed assets cannot be missed. Valuations are not overrated in these cases. We can move ahead cautiously after studying the core capabilities of these companies.”

Fig. 37 In your opinion, which, if any, of these will be sources of new deal opportunities for your organisation in 2025?



Sectors on the move

Consumer confidence in the EU has fallen dramatically since Russia’s full-scale invasion of Ukraine, when it reached its lowest point in over a decade, according to European Commission data. Yet, while it remains in negative territory and lower than the long-term average, it has improved over the past few months and stabilised at −13.3 in January 2025.[27]

Our survey results reflect this somewhat brighter outlook – PE clearly sees more potential in the consumer sector today than was the case in the previous edition of this study. Indeed, the consumer sector tops the chart for industries in which respondents’ are most likely to invest in the next two to three years, with 41% saying this. In last year’s survey, the consumer sector came in third, with just 30% mentioning it.

This has knocked industrial production and manufacturing from the top spot, but it remains a popular sector for PE. It comes in second, with 37% of respondents

[27] *Flash Consumer Confidence for the EU and Euro Area* (2025). European Commission. https://economy-finance.ec.europa.eu/document/download/a236a059-43b9-4e15-8075-7d77d8a2ca83_en?filename=Flash_consumer_2025_01_en.pdf

saying they are likely to invest here in the next two to three years, followed by business services (33%) and information technology and software (30%).

These four sectors are also where PE sees most transformation in the future, suggesting that respondents are expecting to create value creation by supporting portfolio companies as their markets and business models shift. Industrial production and manufacturing is the sector most cited by respondents as likely to undergo transformation (14% say this), reflecting the need to modernise and digitise industrial processes in markets such as Germany. Information technology and software comes in a close second (13%) as AI and automation become embedded in products and services.

Further down the list, cyber risk management and technology (8%) garners several qualitative responses, with many respondents alluding to growing threats in this domain. Among them is a managing director in Luxembourg, who says: “Cyber risks are on the rise. As many banking, company and personal activities are managed online, hacking, phishing and other cyber threats have increased. This calls for better cyber risk management techniques.”

“Cyber risk management is a thriving industry already,” adds an investment director in Finland. “Companies actively subscribe to cyber risk detection and prevention services. Cyber risk management on personal devices is another popular segment, which is only poised to grow.”

Respondents also point to transformation stemming from the growing demand for sustainable products and services across sectors. An investment director in France, for example, tells us: “The consumer industry is changing constantly, according to consumer demands. Now, the latest trends in sustainability will also drive transformation in the industry.”

Naturally, this will also affect energy supplies, in particular from renewable sources, as a Germany-based managing partner says: “Renewable energy will undergo transformation. This has become a very important topic to ensure climate sustainability. Renewable energy projects will be invested in heavily in the coming years.”

Fig. 38 In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years?

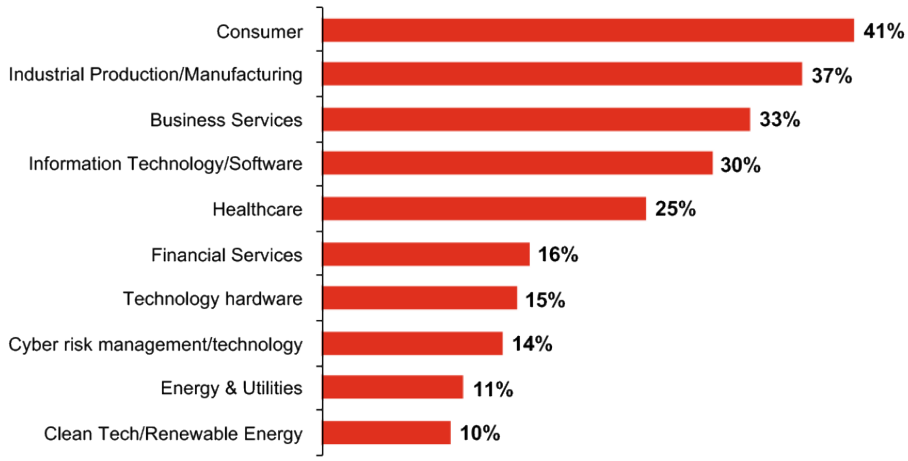
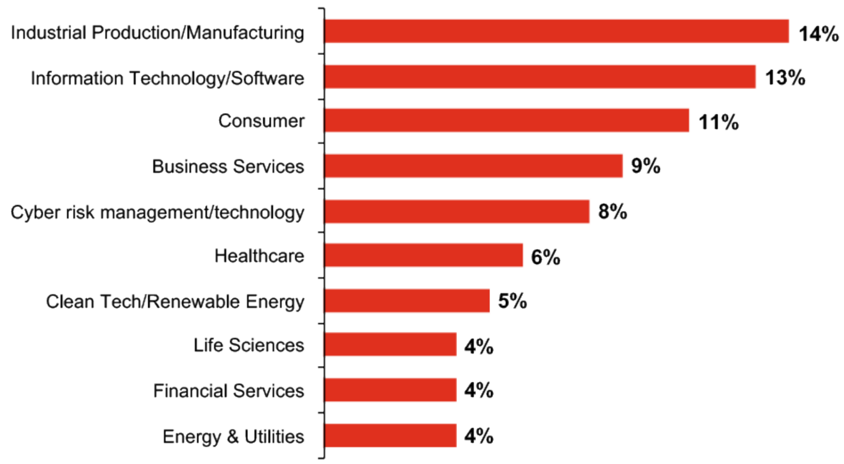


Fig. 39 And which of these industries do you expect to undergo the most transformation?



Companies in difficulty

Interest rates may have fallen over the past 12 months, but they still remain high by post-financial crisis standards. PE firms are monitoring their portfolio companies closely for signs of difficulty meeting debt repayment schedules. In the previous edition of this study, 54% of respondents expected less than 10% of their portfolio companies to breach one or more debt covenants or face the need to renegotiate with lenders during 2024, 34% said 10 to 20% were at risk and 6% said more than a fifth could be in this position.

These predictions turned out to be on the optimistic side and perhaps reflected the prevailing view at the time that interest rates would fall more quickly than they did in 2024. In fact, there turned out to be more covenant breaches or renegotiations than our respondents expected. In this latest study, just 19% of respondents say that under a tenth of their portfolio companies got into trouble with their lenders last year, 48% say that 10% to 20% faced the same fate, while 33% say more than two-fifths of their portfolio companies breached a debt covenant or had to renegotiate.

However, respondents are hoping for a better, or at least a less eventful, 2025. More than a third (36%) expect less than 10% of their portfolio companies will breach a debt covenant or need to renegotiate, while 42% are expect between 10% and 20% of their investee companies to be in this situation and 22% are anticipating a higher rate of stress.

Fig. 40 During 2024, what percentage of your portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers? Would you say…?

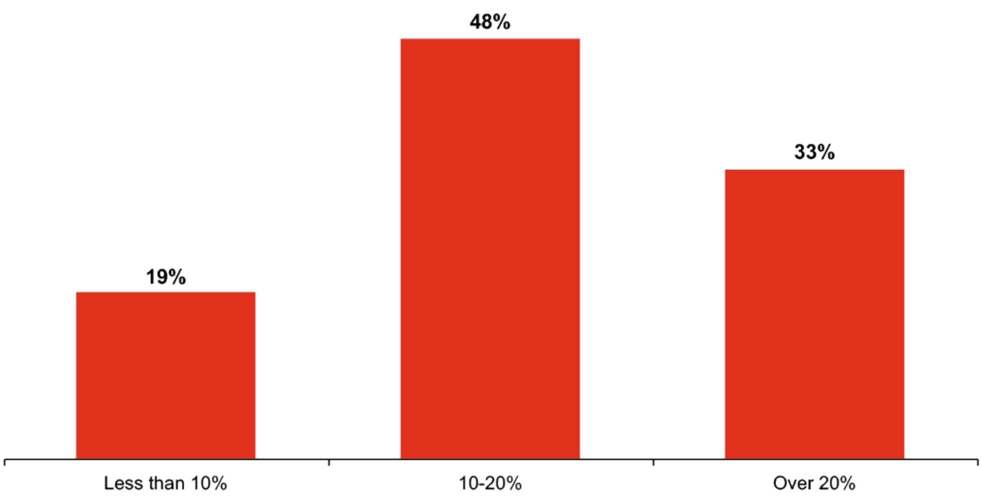
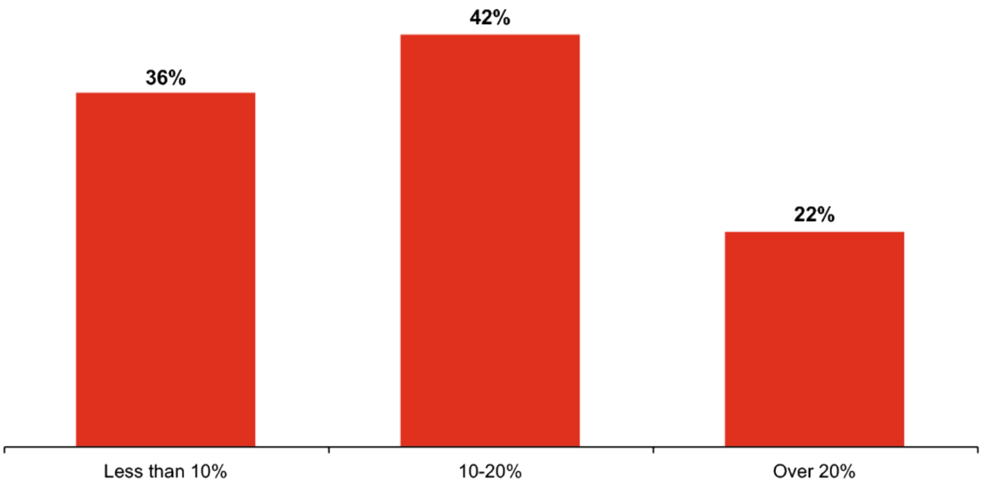


Fig. 41 Looking forward to 2025, what percentage of your portfolio companies do you expect will break one or more bank covenants, or otherwise need to enter negotiations with their financing providers? Would you say…?



Chapter 3: Return on investment, operational improvements and value creation

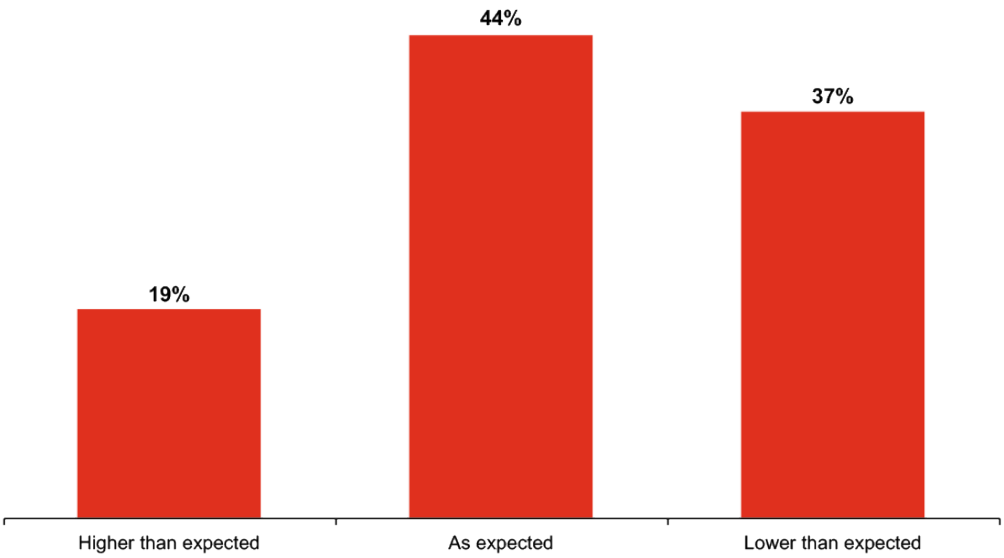
Return on investment, operational improvements and value creation

Surprise on the upside

While far from a stellar year for economic growth in Europe, 2024 did at least offer some stability as investors recalibrated their expectations on interest rates and valuation gaps between buyers and sellers began to narrow. These shifts provided the necessary conditions for the rise in exit activity observed last year.

This is perhaps why respondents are now in a more upbeat mood about the returns they have achieved over recent times or are expecting from their portfolios. In our previous edition of this survey just 5% respondents reported that the returns on their investments made over the previous five to seven years had exceeded expectations – this time around, the proportion saying this has jumped to 19%. More than two-fifths (44%) say returns matched their expectations, while 37% say they are lower than expected.

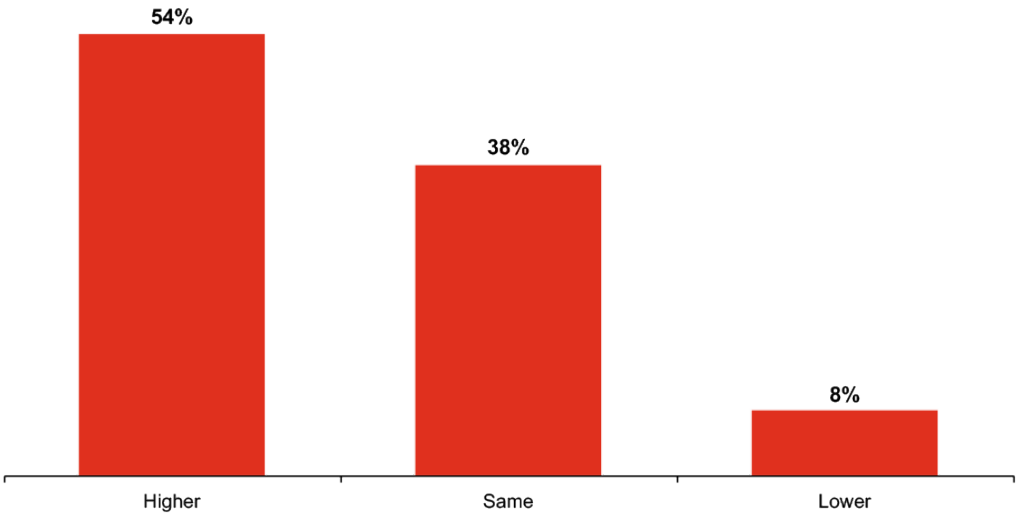
Fig. 42 Looking back on the returns on investments you made during the past five to seven years have they been / are they expected to be:



Respondents are also confident about the prospects for their recent investments, which will have been made in a different environment from much of their current portfolio – valuations are likely to have been lower in many cases and investment theses may well have taken more account of downside risks. Overall, PE firms have had to take a more conservative approach to evaluating investment opportunities than might have been the case pre-pandemic.

More than half of respondents (54%) expect returns on investments made in the past year to exceed those from investments made five to seven years ago, while just over a third (38%) expect returns to stay the same. Just 8% are predicting lower returns from recent investments than past vintages, down from the 14% share who said the same in the previous edition of this study.

Fig. 43 Looking forward towards the expected returns on investments made during the past year, how do these compare to the returns on investments made five to seven years ago. Do you expect these to be:

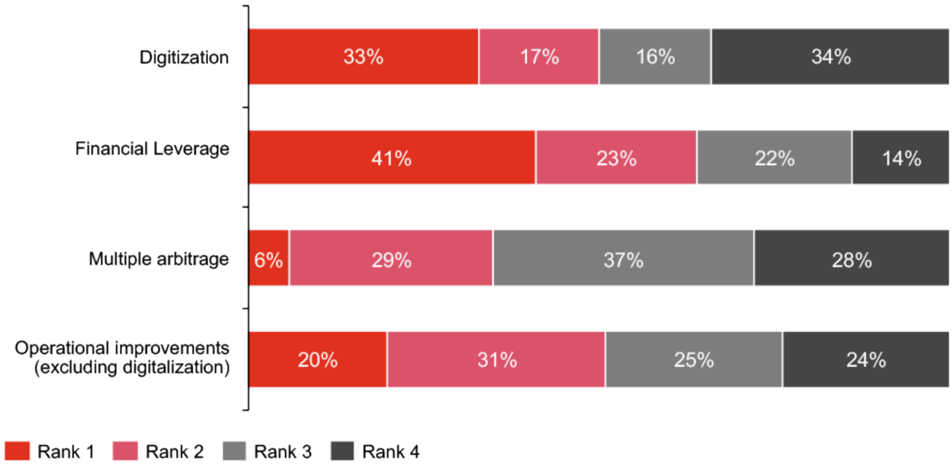


With the low-interest-rate environment that fuelled deal-making between 2020 and 2022 now long gone, PE's use of debt to finance acquisitions is having an effect on returns. In the past, this may have been mostly positive – widely-available, cheap debt reduced the amount of equity required to buy a business. But today, leverage's influence on returns is more likely to be negative as companies face higher interest costs than had been expected at the time of the deal. We saw this effect in our earlier findings about higher-than-expected rates of debt covenant breaches and renegotiations.

Against this backdrop, our finding that financial leverage tops the list of factors affecting our respondents' returns (41% rank this as first) strongly suggests that the influence is negative – higher debt costs than anticipated are likely to be a drag on returns.

However, digitalisation, the next most popular answer option, with 33% ranking this as the top influence, is more likely to reflect the positive changes that respondents are making in portfolio companies to modernise their processes and offer new products and services to their customers. Last year, just 22% said this was the most important influencing factor relating to returns. Meanwhile, multiple arbitrage, which was a major driver of returns when low interest rates were inflating asset prices, is now ranked as most influential by just 6% of respondents, less than half of the 15% who said this in our previous study.

Fig. 44 Please rank the following in terms of importance, regarding their influence on your return on investment. (Rate from 1 to 4, rank 1 is the most important and 4 is the least important):



The importance of financial leverage and digitalisation are also evident when respondents are asked about whether their impact on returns has increased, decreased or remained the same over the past three years. The effect of financial leverage has increased the most, garnering 76% of responses, followed by digitalisation with 66%. Operational improvements excluding digitalisation have also had more of an impact on returns over the past few years on balance, with 64% of respondents citing this, although this is down from 73% in the previous edition of this research, when it secured the top spot.

The impact on returns of financial leverage and digitalisation are also expected increase further in the future, albeit by a lower margin. More than half of respondents (59%) say financial leverage will have a greater impact on returns looking ahead and a similar proportion (58%) say the same about digitalisation.

Fig. 45 During the past three years has the impact of operational improvements (excluding digitization), multiple arbitrage, financial leverage and digitization on your return on investment increased, decreased or stayed the same?

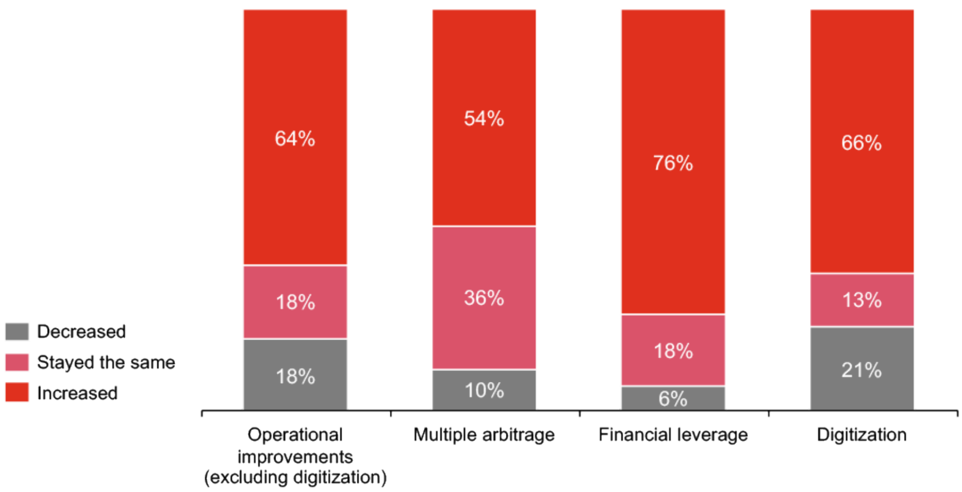
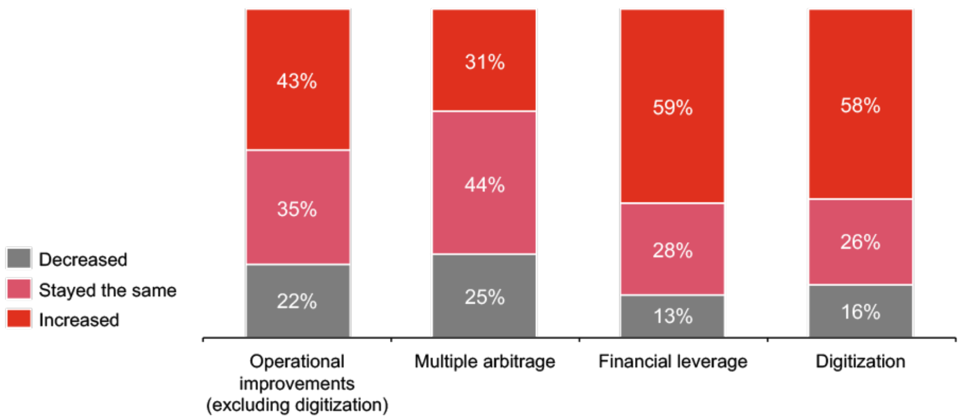


Fig. 46 Looking forward, do you expect the impact of operational improvements (excluding digitization), multiple arbitrage, financial leverage and digitization on your return on investment to increase, decrease or stay the same?



Value creation levers

With multiple arbitrage and financial leverage taking a back seat in generating PE returns, levers of value creation are coming to the fore. In the previous edition of this research, operational cost reduction and cash flow optimisation were the most important levers of value creation, with 59% and 51% of respondents, respectively, placing these in the top two categories, reflecting the focus on managing costs and cash during a time of elevated interest rates. But, as financing costs have eased slightly, cash flow optimisation has reduced in significance, with operational cost reduction falling into third place.

However, portfolio companies are not yet in the clear. In this year's survey, crisis management (including supply chain and cyber risk management) is the most important lever for PE to create value, as firms seek to build resilience in their portfolio companies by managing risks effectively. Nearly two-thirds (65%) rank this as extremely important (a score of 9 or 10, where 1 is least important and 10 most important.) Among them is an investment director in Norway, who says: "The major value creation lever is crisis management. There are a lot of unexpected threats in the market today, and being more prepared to manage these unexpected events is vital."

An investment director in Finland also sees crisis management as important, in addition to second-place digitalisation, which accrues 59% of 9 and 10 scores: "Within the equity story, I would say that risk management and digitalisation can add most value. They remove any doubt about being able to future-proof organisations."

Indeed, many of our respondents expand on their responses to comment on digitalisation and how this lever can create a clear path to value creation through growth and cost reduction potential. "Digitalisation is important," says an investment director in the Netherlands. "Many companies have advanced strongly based on their digital investments and enhanced the value of their business in an accelerated manner."

A Swiss investment director makes a similar statement, saying: "Digitalisation reduces the company's spend and accelerates future growth potential. Looking at digitalisation prospects and past success in equity stories would make it more attractive."

Many PE firms are also looking to innovation to build value in their portfolio companies. Research and development (R&D) effectiveness is the fourth most important lever, with 41% giving a score of 9 or 10. "Effectiveness of R&D choices is important to the investment story," an investment director in Spain tells us. "It shows how much importance is given to R&D and how well funds have been used to increase the company's growth potential."

Fig. 47 Which levers are most important to value creation within the equity / investment story? (rate from 1 to 10, 1 is the least important and 10 the most important):

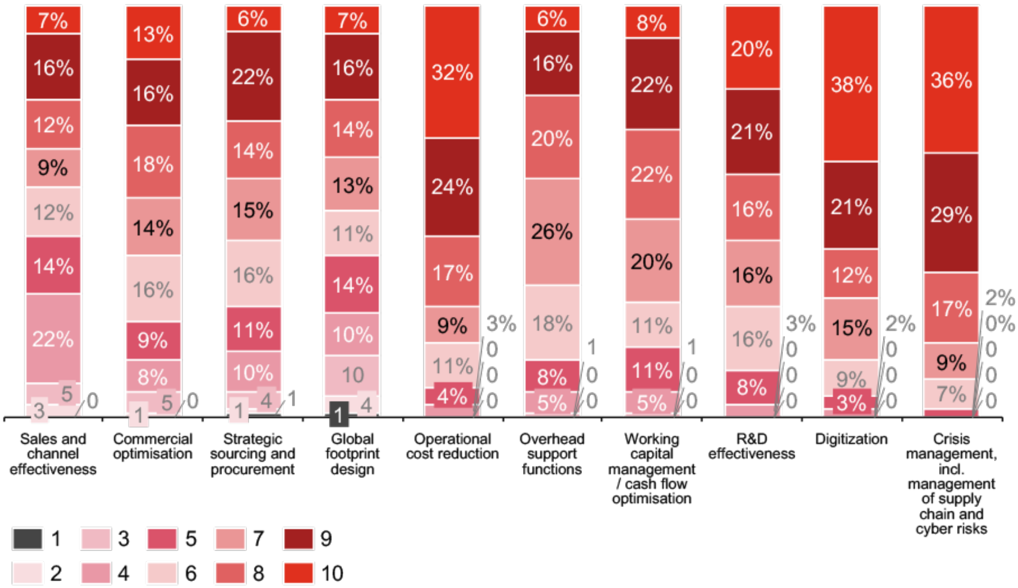
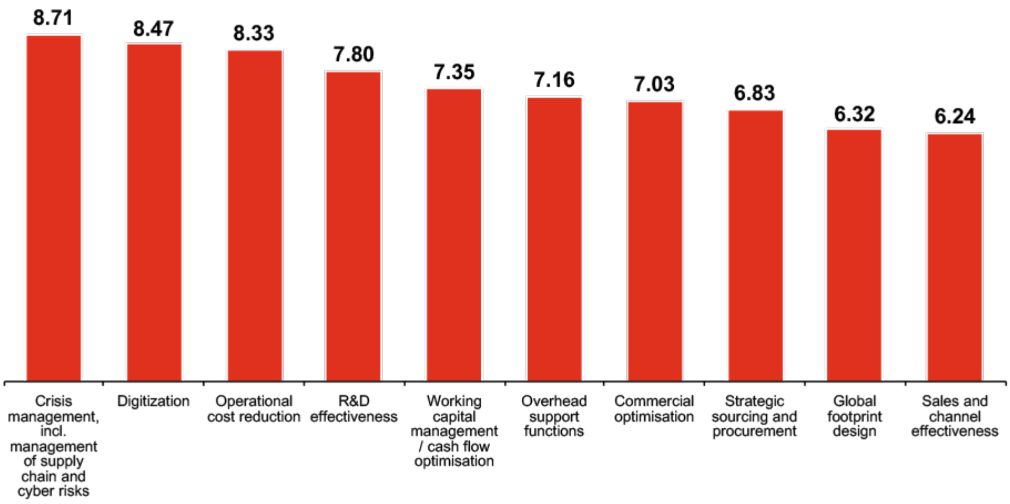


Fig. 48 Which levers are most important to value creation within the equity / investment story? (Rate from 1 to 10, 1 is the least important and 10 the most important):



These shifts in the way PE firms are expecting to create value in the companies they already own is also having an impact on pre-investment processes and thinking. More than three-quarters of respondents (76%) say the importance of value creation levers has changed the way they look at new investments and model their equity stories during due diligence or as they invest. This includes 23% who say this has changed to a great extent.

And further changes are on the horizon – 78% say they expect value creation to become a more important driver of returns, including 25% who expect it to become significantly more so. Evidently, PE houses are set for more detailed and comprehensive due diligence that sets out a framework for building operational resilience and identifying growth opportunities in the companies they back.

Fig. 49 Has the importance of value creation levers changed the way you look at new investments and do you model it into your equity story already at entry / during the due diligence phase?

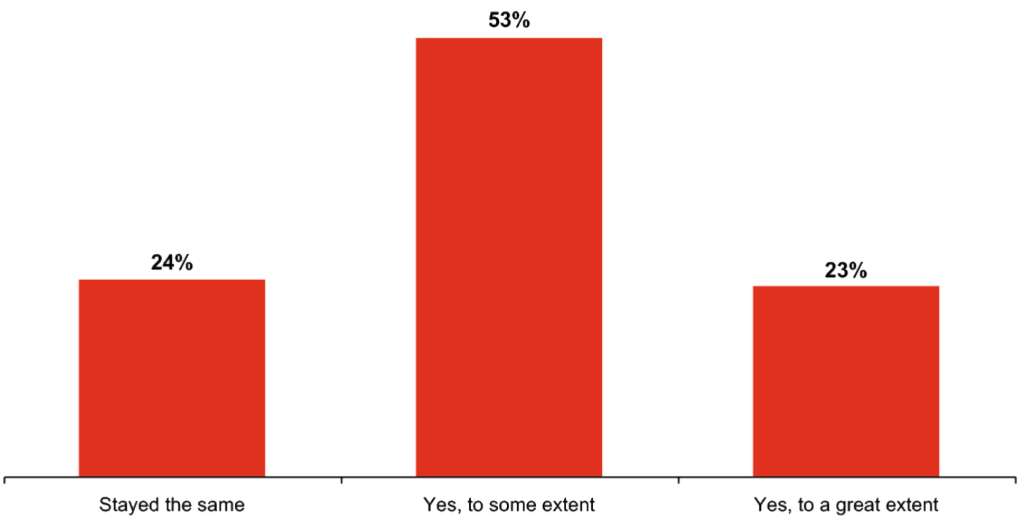
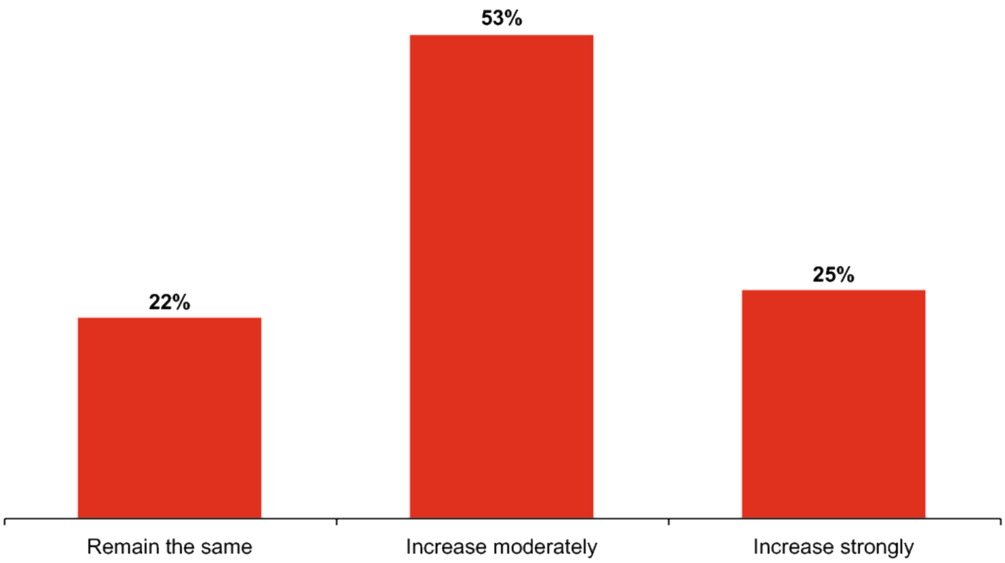


Fig. 50 How do you expect the importance of value creation to develop in the future:



Chapter 4: Digital transformation

Digital transformation

Digital adoption picking up

Our survey has already highlighted how important digital transformation is becoming to PE firms' value creation plans and to generating the returns that investors expect. While this has been a significant lever for reducing cost and improving efficiency in PE portfolios for some years now, the pace of development in areas such as AI and automation has accelerated over the past 24 months. This is opening up new avenues for value creation – our 2024 AI Jobs Barometer, for example, found that sectors with the highest AI penetration are seeing nearly five times the productivity growth of sectors with low AI penetration.[28] – while also presenting threats for companies that struggle to keep up.

PE firms themselves are also now adopting many of these technologies to improve processes, such as due diligence, company valuations, portfolio company monitoring and investor reporting. The industry has been slow to adopt new technologies in the past, but it is catching up fast. Firms are turning to technology to navigate a more complex landscape as the regulatory tide rises, as they manage more vehicles and expand into new strategies, as investor requests become ever-more detailed and as portfolio company data becomes increasingly granular.

Our survey results reflect these trends. When asked about digital transformation's impact on elements of their company business models, risk management rises to the top for our respondents, with 65% giving this an impact rating or either 9 or 10 out of 10. The next most popular response is marketing, sales and customer service, with 54% giving an impact score of 9 or 10.

PE is also now recognising the power of digital transformation to accelerate innovation as technologies such as AI demonstrate the capacity to spot patterns in vast amounts of data. R&D and innovation now comes out as the third most impactful area when it comes to digital transformation, with 38% ranking it as a 9 or 10 out of 10 – in our previous edition of this survey, R&D and innovation ranked last.

For most PE firms, the digital transformation of portfolio companies has become crucial to exit outcomes and generating returns. Among our respondents, 83% say the level of digital transformation is important to the future exits of current portfolios and returns, including 17% who see it as very important.

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[28] *PwC's 2024 AI Jobs Barometer: How will AI affect jobs, skills, wages and productivity?* (2024). PwC. https://www.pwc.com/gx/en/issues/artificial-intelligence/job-barometer/report.pdf

Fig. 51 How would you rate the level of impact from digital transformation on the following elements of your company business model? (rate from 1 to 10, 1 impacted least and 10 impacted most):

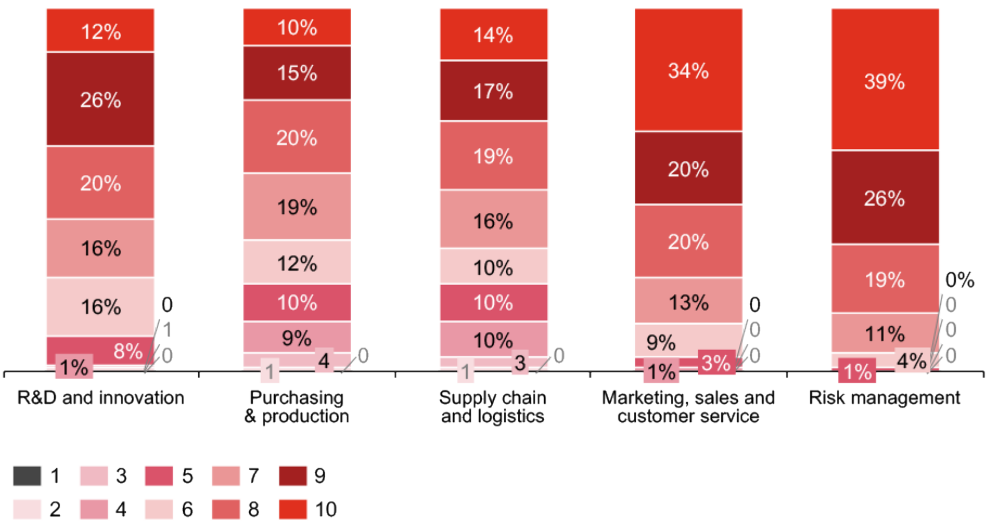
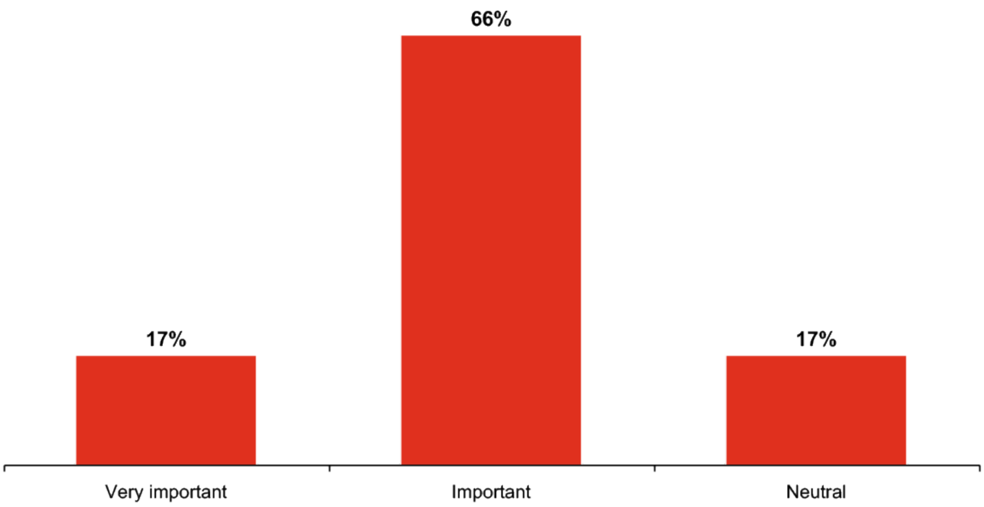


Fig. 52 To what extent do you believe that the level of digital transformation is important to the future exits from your current portfolio companies and the subsequent return to be achieved?



Given these trends, it is unsurprising that 71% of respondents invested in digitally transforming their own firm or portfolio company business models in the past year. Among those that invested, AI was the main focus for 67%. This is the top response, up from just 45% in the previous edition of this research, reflecting just how quickly AI is developing and being adopted. The Internet of Things (IoT) comes in second (61%), followed by cybersecurity (56%).

Fig. 53 Have you made investments in digitally transforming your own firm or portfolio company business models in the past year?

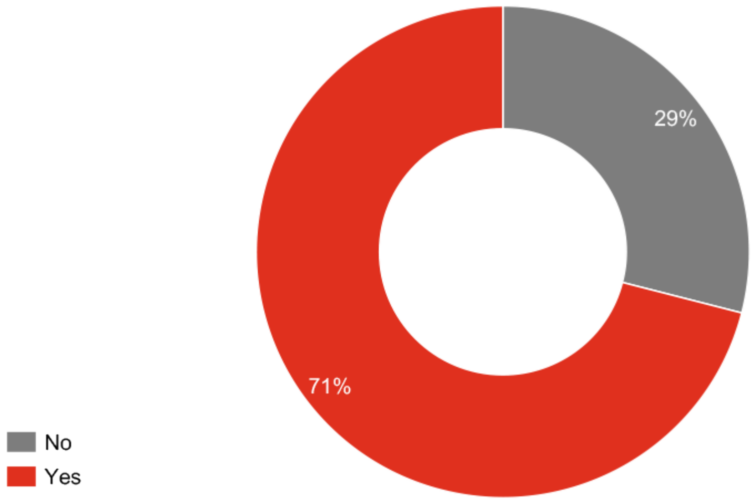
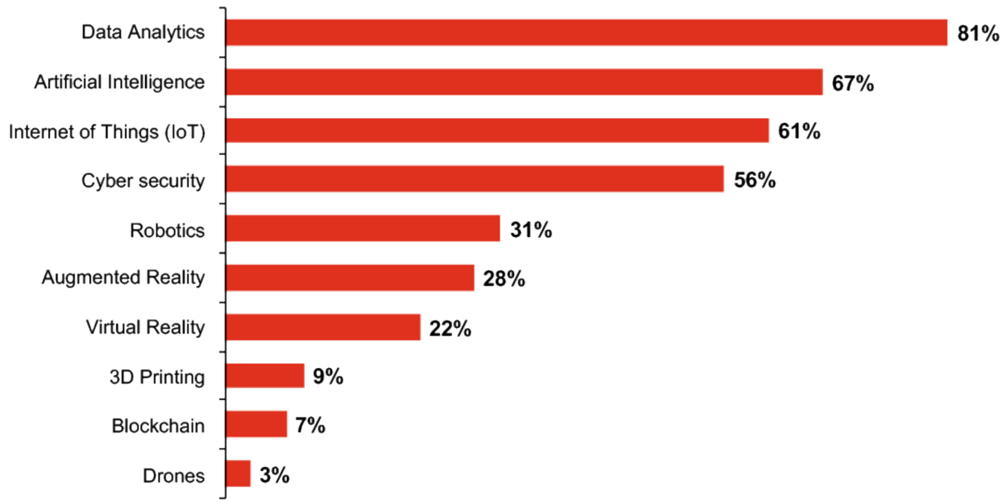


Fig. 54 If yes, in which of the following areas of digital transformation have you focused your investment in:



Transforming PE operations

Having operated largely from spreadsheet-based models for much of its history, PE is adopting new technologies at pace across a variety of applications. A large majority of respondents (88%) used data analytics and/or generative AI (GenAI) in 2024 for company valuations and 68% used these to help origination teams identify potential target companies. Their use in due diligence, however, appears to be more important to firms, with 28% citing this as the top use case, the largest share.

Many respondents emphasise the power of these technologies to aid decision-making and sift through large amounts of data to identify risk and opportunity. A partner in Denmark, for example, says: “We identified potential targets by analysing information effectively. Data analytics can really transform data and provide visualisations that assist decision-makers.”

Meanwhile, a managing partner in Greece told us: “Using data analytics in aggregation of portfolio company KPIs has been important to track progress regularly. Dashboards are refreshed frequently, providing a clear view about progress and problem areas.”

Respondents also appreciate GenAI’s speed, with many experimenting with and adopting the technology when faced with time pressures and too much information to process manually. A France-based investment director explains: “Analytics tools and GenAI in due diligence increased the speed of contract management and paperwork reviews overall. Automation in these processes really saved a lot of time.”

“The scale of the due diligence process prompted us to adopt GenAI,” adds a partner in Austria. “We also found how effective GenAI was in valuing target companies. Arriving at fair market valuations was done in an unbiased manner.”

Future plans

Over the coming year, more respondents expect to use data analytics and GenAI in more of their firms’ processes. Valuation remains the most prevalent use case (cited by 89%), followed by due diligence (80%, up from 65% who said they deployed the technology for this function in 2024) and identifying potential target companies (71%).

PE firms have a clear focus on the efficiency gains that these technologies can bring. A UK-based managing partner is among those planning to adopt GenAI in 2025, explaining: “Our target would be to use GenAI for due diligence. Teams are working on this. We want to use it to reduce the workload that is caused by a lot of paperwork.”

“Potential target companies could be compared seamlessly,” adds an investment director in France. “The financial, ESG and commercial aspects could be evaluated as desired. It would be easier to make a decision about the best choices for us.”

Meanwhile, others are looking to these technologies to manage and mitigate portfolio company risk “The potential business risks could be identified by using data analytics,” says a Germany-based managing partner. “As long as we have good volumes of data to assess business risks, we can estimate risks and reaction of the company based on historic reports.”

This focus on risk is also reflected in our finding about how PE firms are currently using AI technologies. Most respondents (83%) use AI for risk intelligence, which is also cited as the most important application by 36% of survey participants.

Fig. 55 In which of the following areas of the investment cycle has your organisation used data analytics / GEN AI in 2024?

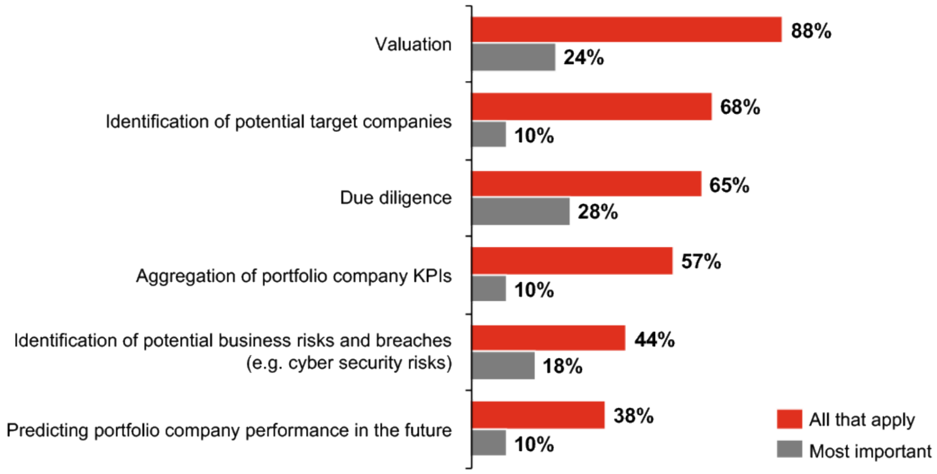


Fig. 56 In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics / GEAN AI in 2025?

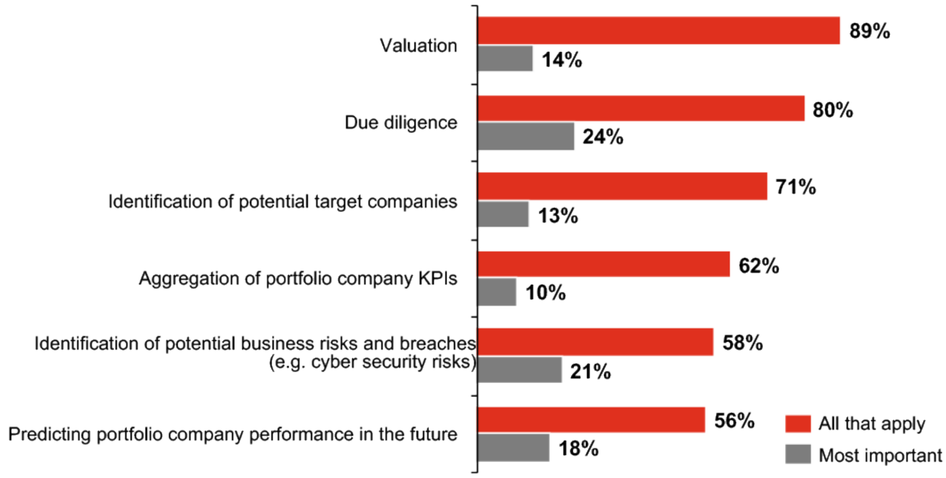
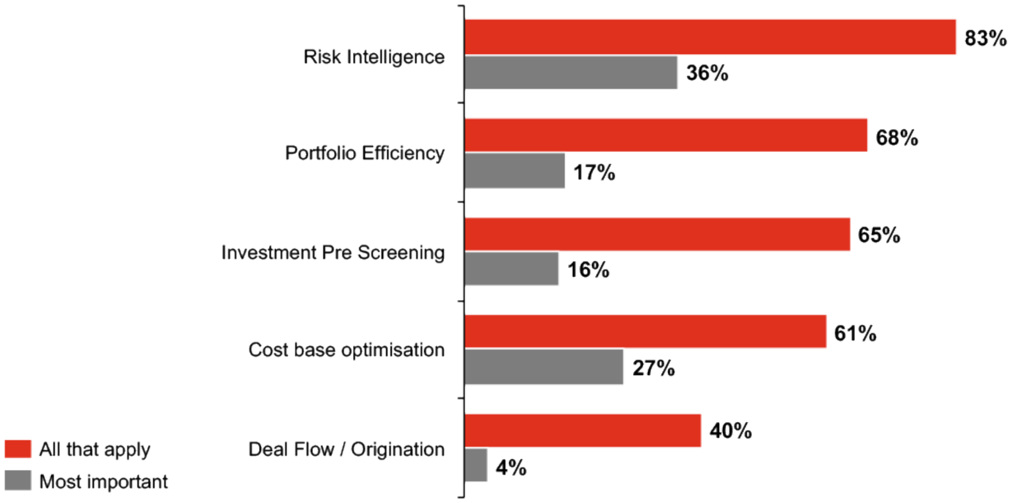


Fig. 57 For which purposes do you use AI?



As PE expands the range of applications that incorporate digital tools, firms are expanding their investment plans. Nearly three-quarters of respondents (72%) say they will be investing in digitalisation in 2025, up from 62% who said the same in the previous edition of this research.

Their budgets will be focused on data analytics, in which 89% say they plan to invest, including 27% who identify this as the most important area. The IoT will also continue to receive investment, with 75% expecting to invest here, while AI will be a focus for 62% of respondents, just ahead of cybersecurity with 58%.

Fig. 58 Will you be investing in digitisation over the next year?

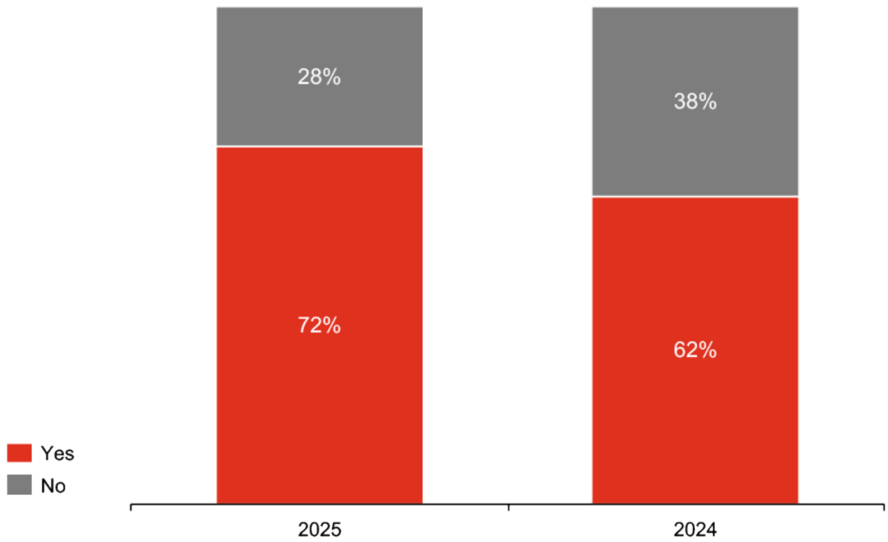
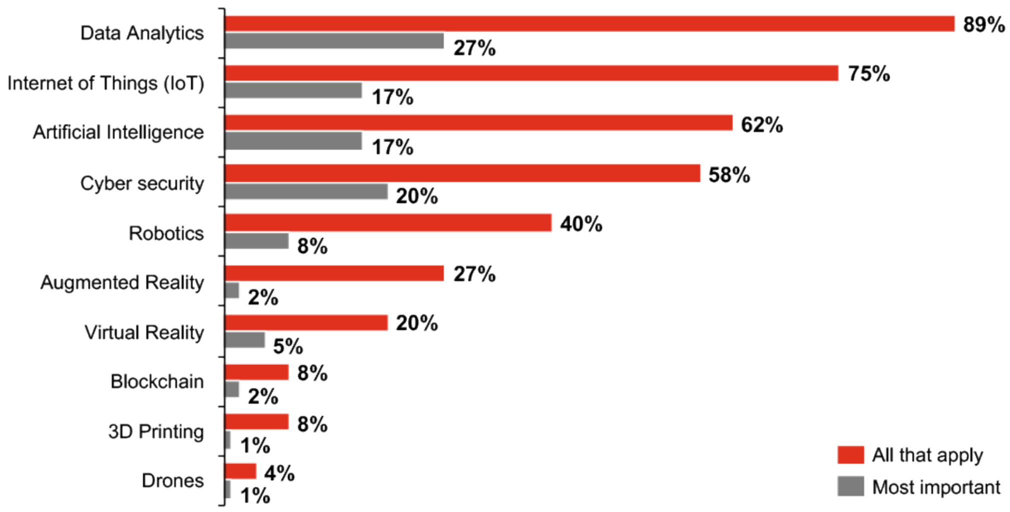


Fig. 59 Which of the following areas will you be investing in?



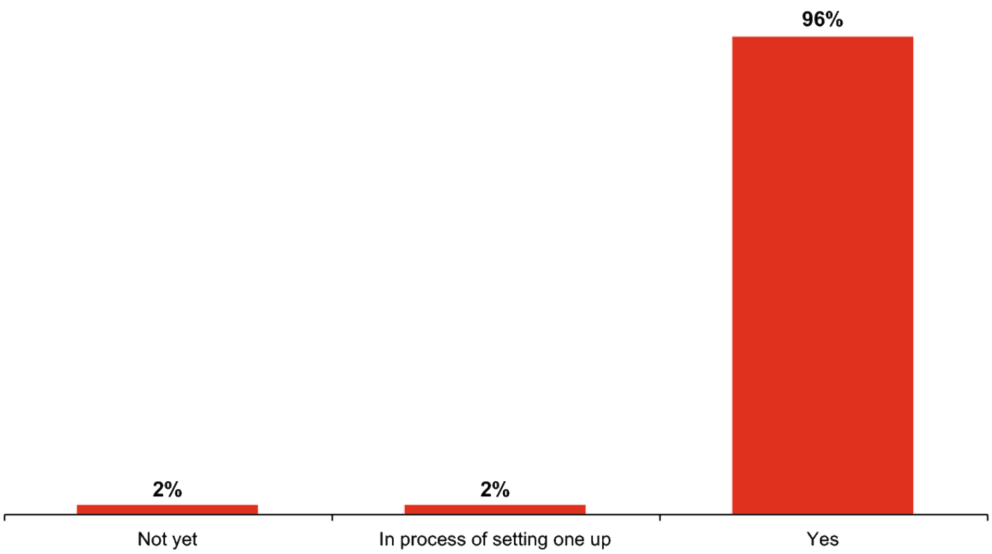
Chapter 5: ESG and responsible investing

ESG and responsible investing

Though ESG policies have faced some headwinds recently, our survey paints a different picture, at least in Europe. Earlier findings in our survey demonstrate that LP expectations on responsible investing practices are growing, and it is clear that GPs are listening. There is a near-universal adoption of responsible investing or ESG policies and the tools to implement them in the firms we surveyed, with 96% having already established these and 2% in the process of setting them up.

But LPs' expectations are not the whole story here. Regulatory initiatives have pushed these items up the agenda in Europe. The SFDR, for example, requires PE firms to consider and disclose sustainability risks and impacts. Meanwhile, other regulatory developments that target larger and listed companies, including the CSDDD and Corporate Sustainability Reporting Directive, are prompting PE to direct more attention to ESG in their portfolios as a means to build value and attract more buyers at exit. Larger or listed trade buyers, for example, may be bound by these regulations themselves, while an IPO would require companies to comply with sustainability directives.

Fig. 60 Does your firm have a responsible investing or ESG policy and the tools to implement it?



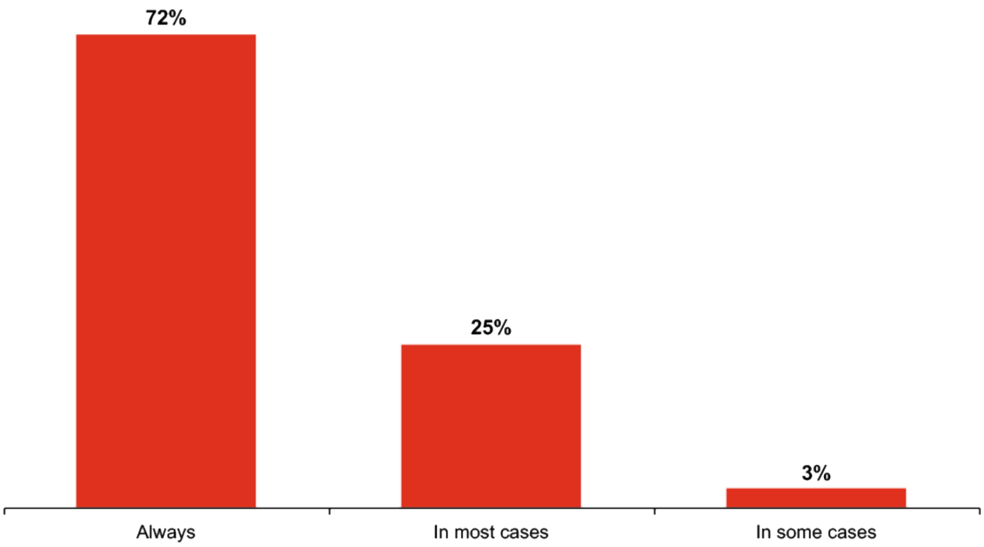
Moreover, PE firms increasingly recognise that building more sustainable operations translates directly into building more valuable portfolio companies. Nearly three-quarters of respondents (72%) say that ESG levers are always a core part of their value creation story when assessing potential new deals, up from 65% in the previous edition of this research. A further 25% say they are core in most cases.

A UK managing director, for example, comments: “ESG value levers are always a part of our evaluations when assessing buy-side opportunities. They have the potential to increase sales numbers in the future, even though they may require more funding in the short term.”

Pointing to societal shifts, another respondent, a partner in Norway, says: “It is always a part of value building. It can create greater scope for long-term growth. The demands of consumers are also based on the ESG factors associated with brands.”

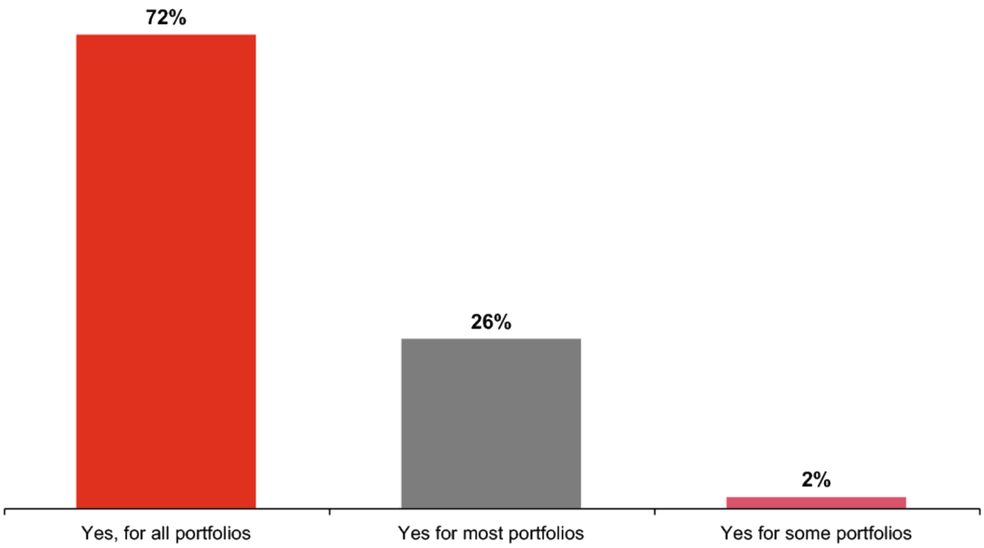
Some firms also now perceive poor ESG management as too high-risk when analysing potential deals. “During our assessment of buy-side opportunities, ESG is a major part of our decision-making,” says a managing director in Belgium. “We cannot invest in companies that have a poor ESG ranking or have missed ESG compliances.”

Fig. 61 Are ESG value levers a core part of your value creation story when assessing buy-side opportunities?



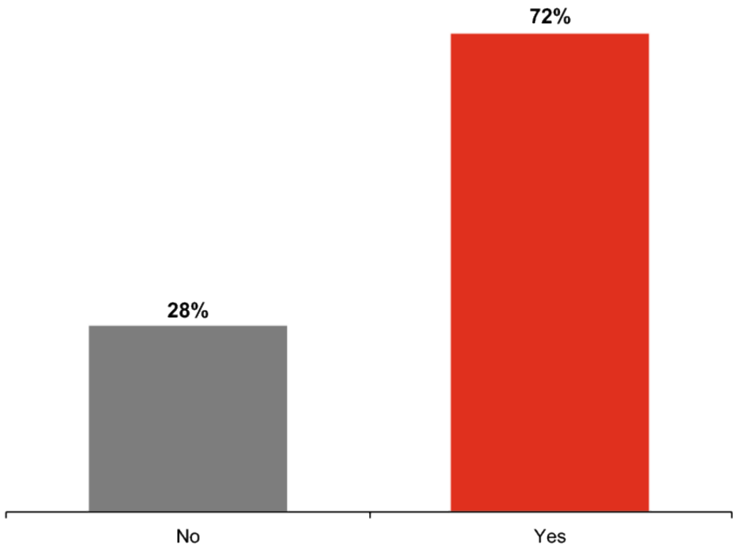
Just as PE houses measure KPIs in businesses functions to bring about operational improvements and cost reductions, they take the same approach to creating value using ESG levers. Nearly three-quarters (72%) say they set ESG-specific KPIs in all their portfolio companies and monitor them on a regular basis. That is an increase from the previous edition of this research, when 63% said they did this.

Fig. 62 Do you set ESG specific KPIs for your portfolio companies and monitor these on a regular basis?



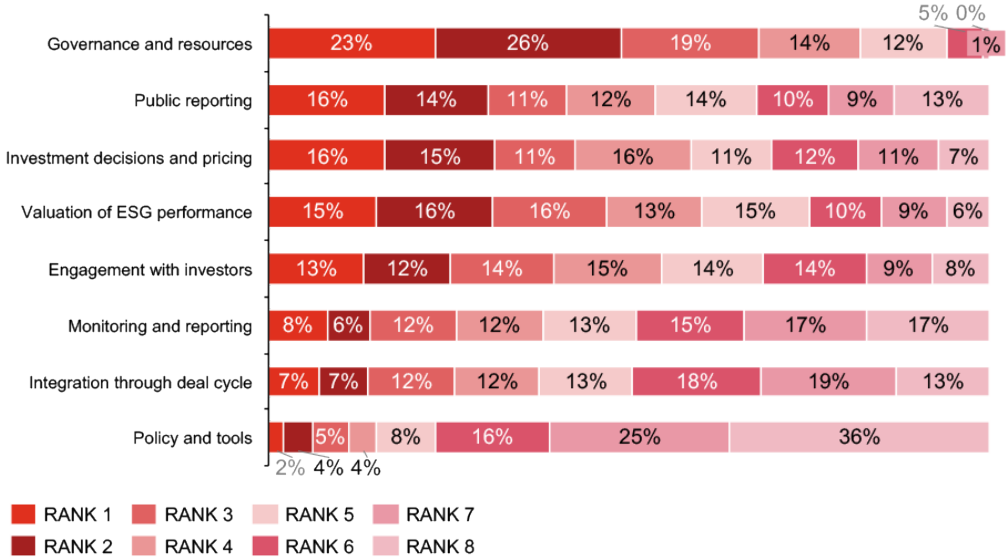
As the comments above suggest, improving a company's ESG credentials is far more than a regulatory compliance item. Building a well-run business that manages ESG risks, while also taking advantage of the opportunities more sustainable practices can bring, bears financial results. Nearly three quarters of our respondents (72%) believe that the returns on ESG investment exceed the cost. This suggests that, in most cases, there should be no trade-off between financial and sustainable performance.

Fig. 63 Do you believe the return on ESG investment exceed the cost?



Setting KPIs is only part of the answer to making ESG improvements. PE firms clearly need to ensure there are adequate mechanisms and skilled, dedicated personnel in place to ensure change happens. So it is unsurprising that our respondents rank governance and resources as the top priority for investing responsibly (23% of first-choice votes and 26% of second-choice votes, both the largest such shares). Public reporting, investment decisions and pricing and valuation of ESG performance are the next most popular answer options, with each accruing similar shares of first-choice and second-choice votes (around 30% combined).

Fig. 64 Please rank the following aspects of implementation of responsible investing in their importance to you from 1 (most important) to 8 (least important):



It is clear that ESG considerations have become deeply embedded in European PE processes, with most firms viewing improvements here as drivers of financial performance and value at exit. Yet, as our survey demonstrates, environmental issues have been the main focus for the industry, with 55% saying this. Governance comes in second place, with 25% saying they focus mainly on this area, while social factors are in third place, at 20%.

However, social issues are moving up the regulatory agenda and European PE will need to turn more of its attention here in future. While European regulations have so far tended to emphasise environmental concerns, the EU is currently working on a social taxonomy[29] to sit alongside its existing, more environmentally-focused, taxonomy for sustainable activities. Further, the CSDDD is aimed not just at promoting more environmentally sustainable supply chains, but it also requires large and listed companies to screen for and remedy human rights issues across suppliers.

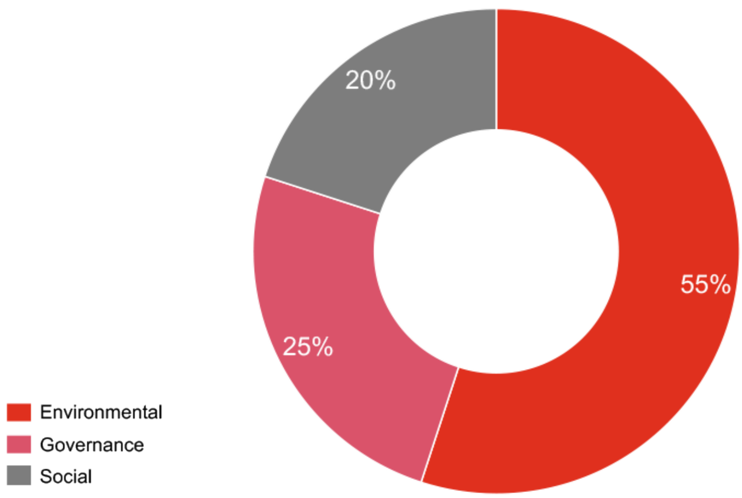
LPs are also focusing on this area, with some making human rights a focus area, alongside environmental considerations, when making investment decisions and engaging with GPs.[30] The UN Principles for Responsible Investment network has recently set out guidance specifically for private markets firms on how they

[29] *Final Report on Social Taxonomy* (2022). European Commission. https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf
[30] *Responsible Investment: Sustainability* (2023). AP6. www.ap6.se/en/sustainability/

should approach human rights due diligence,[31] which may help provide PE with a framework for incorporating more social issues into their processes.

However, the ‘S’ of ESG is becoming more complex. It covers the more obvious areas of preventing modern slavery and having robust health and safety practices in companies, but it is extending to ethical issues in the deployment of technologies, such as AI, both for employees and for users of services. This is a nascent area for European PE, but it is likely to develop quickly in the years to come.

Fig. 65 Which one of the following is in the main focus of your investments and portfolios:



[31] *Human rights due diligence for private markets investors: a technical guide* (2023). Principles for Responsible Investment (PRI). https://www.unpri.org/infrastructure-and-other-real-assets/human-rights-due-diligence-for-private-markets-investors-a-technical-guide/11383.article

Chapter 6: Zooming in on Germany

Zooming in on Germany

Economic challenges belie strong PE opportunities

Germany's recent economic performance has been a cause for serious concern. With 2024 marking the second consecutive year of GDP contraction,[32] economic pressures rippled through the country's political landscape. Following disagreements about whether to abandon Germany's limits on government borrowing under the *Schuldenbremse* (debt brake) policy, the coalition government collapsed in November 2024, with a snap election set for February 2025.

Faced with competition from cheaper Chinese manufacturers and higher energy costs as the country weaned itself off Russian gas following the full-scale invasion of Ukraine, Germany's industrial base has come under intense pressure to modernise. Meanwhile, medium-sized enterprises, which have long been the backbone of Germany's economic success, have struggled to invest in the face of higher costs.

Yet adversity often presents opportunities for PE, which is adept at spotting relative value and building growth in the businesses it backs. This appears to be the case for firms looking at German investments, although mainly for those in the know. Of our respondents, 58% currently have investments in Germany – among these, almost all (98%) are planning to make future investments in Germany over the next five years, up from 91% in the previous edition of this research.

Further, nearly two-fifths (39%) of those planning to make an investment in Germany in the next five years expect the assets they allocate there to increase, versus just 7% who intend to decrease their exposure to the German market. It is clear that the vast majority of those already familiar with Germany see opportunities on the ground, despite the negative headlines.

However, those with no existing exposure to Germany are more downbeat about their likelihood of investing there in in the future – nine in ten of these respondents do not plan to invest in Germany in the next five years.

Overall, more than half of respondents (54%) consider Germany to be an attractive destination for PE investment in comparison to international markets, including 12% who say it is a very good location. Yet here, too, Germany has slid a little in PE's estimation. In the previous edition of this research, 58% of respondents said Germany was quite attractive relative to other markets and 26% described it as very attractive.

Despite slipping down the attractiveness scale for investments today, Germany offers longer-term PE potential, according to our respondents. When asked which countries or regions will become more attractive for PE investments in the

[32] *Economic forecast for Germany* (2024). European Commission. https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/germany/economic-forecast-germany_en

next five years, Germany secures second place (55%), just behind top-scoring Belgium (57%).

Fig. 66 Does your firm currently have any investments such as portfolio companies in Germany?

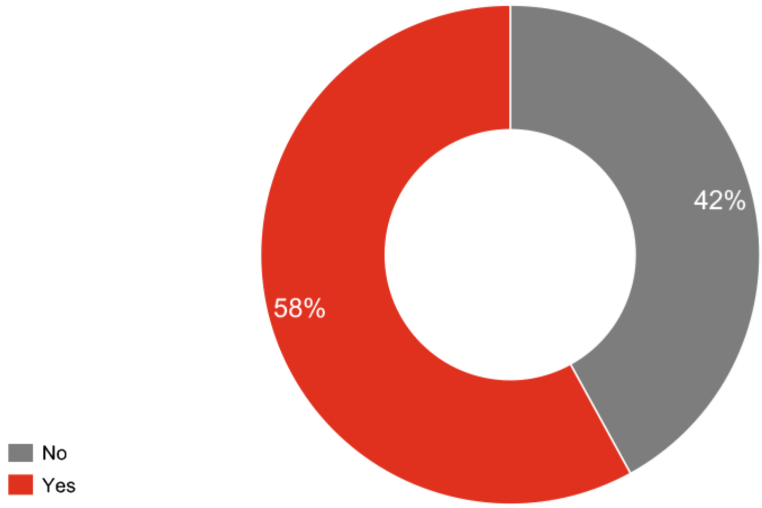


Fig. 67 Do you plan to continue making investments in Germany over the next five years? (Asked only to those who have any investments in Germany)

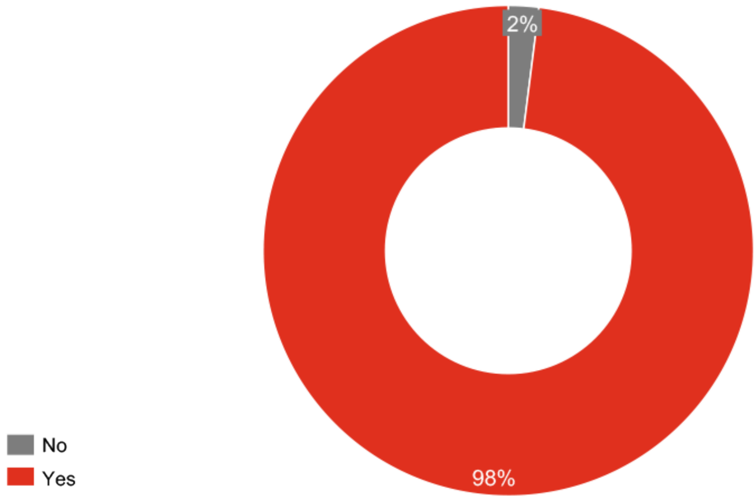


Fig. 68 Do you think that the assets that you allocate to Germany over the next five years will: (Asked only to those who plan to continue making investments in Germany over the next five years)

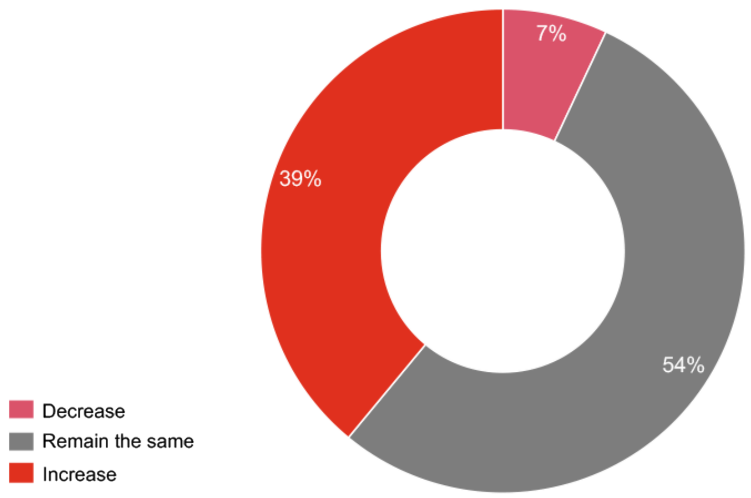


Fig. 69 Do you plan to make any investments in Germany over the next five years? (Asked only to those who have any investments in Germany)

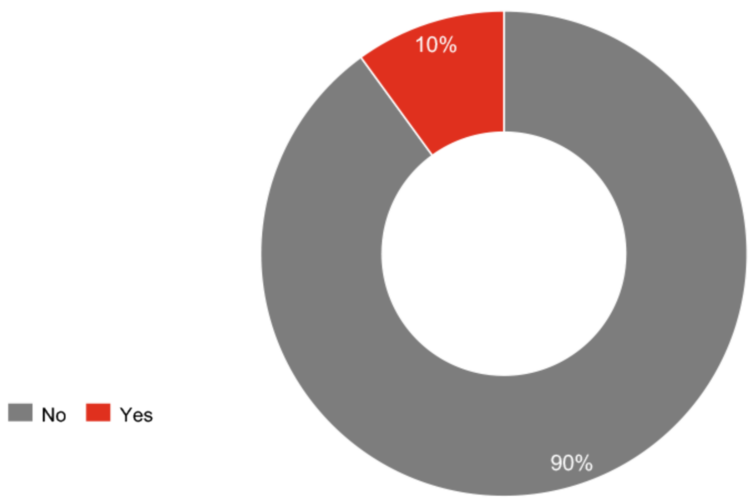


Fig. 70 In an international comparison with other countries, how would you assess the attractiveness of Germany as a location for private equity investment?

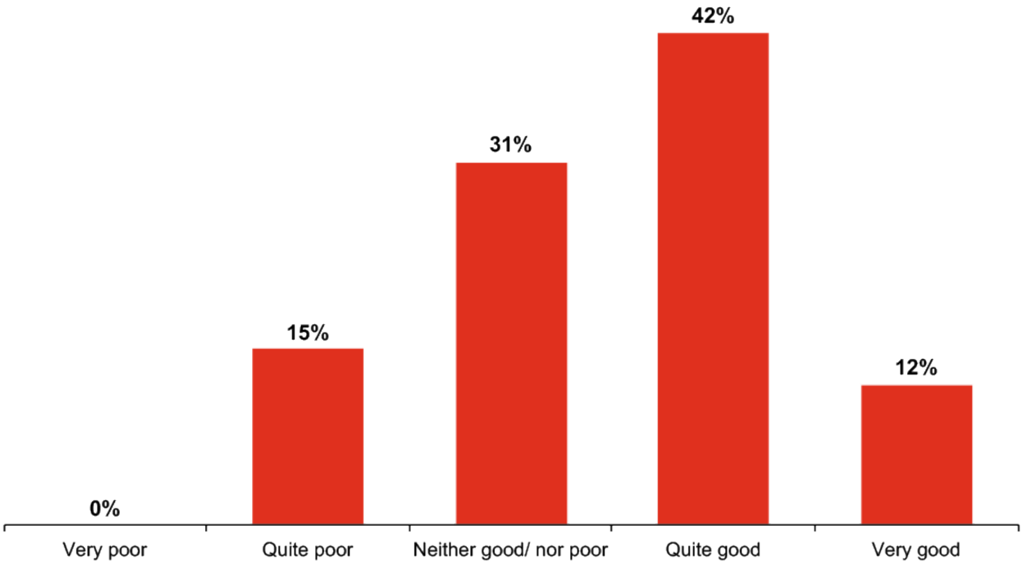
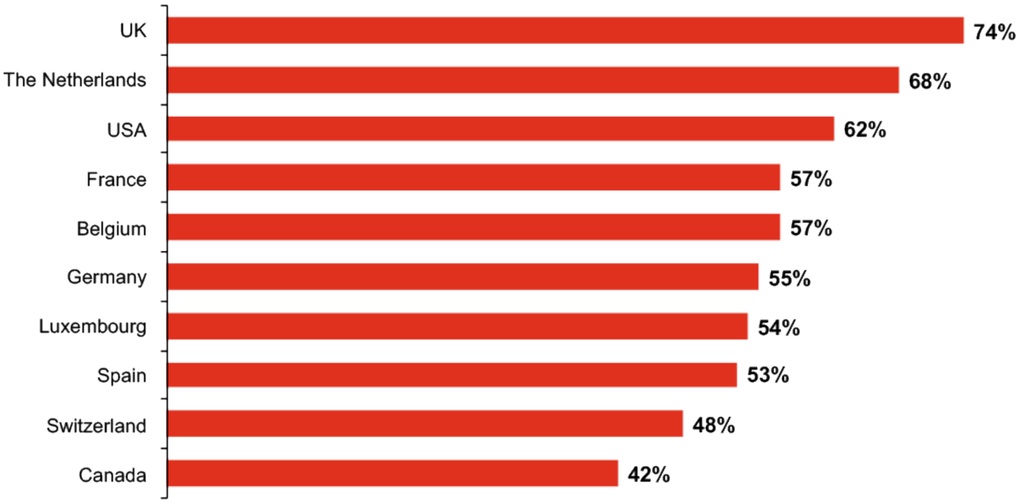


Fig. 71 In your opinion, which countries or regions will become more attractive for private equity investments over the next five years? – Top 10



Appendix

Appendix

Fig. 3 European PE Trends

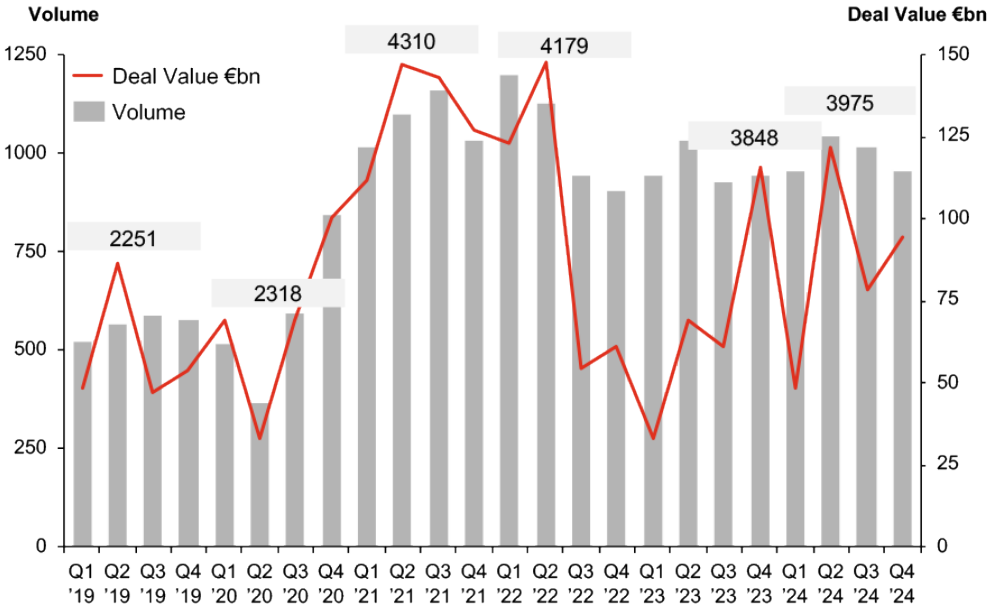


Fig. 4 European Buyout Trends

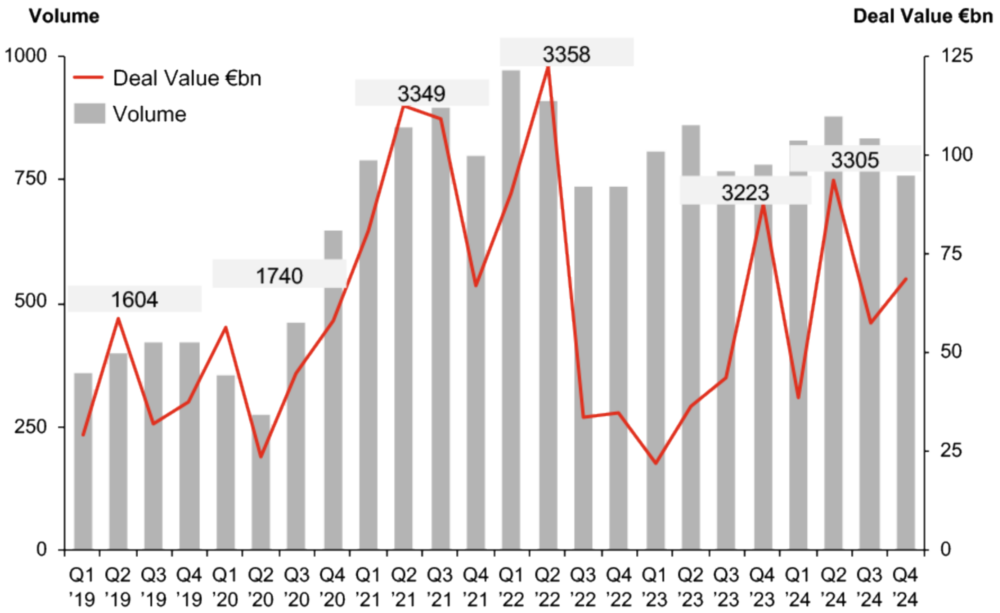


Fig. 4.1 European Buyouts, Split by Deal Size

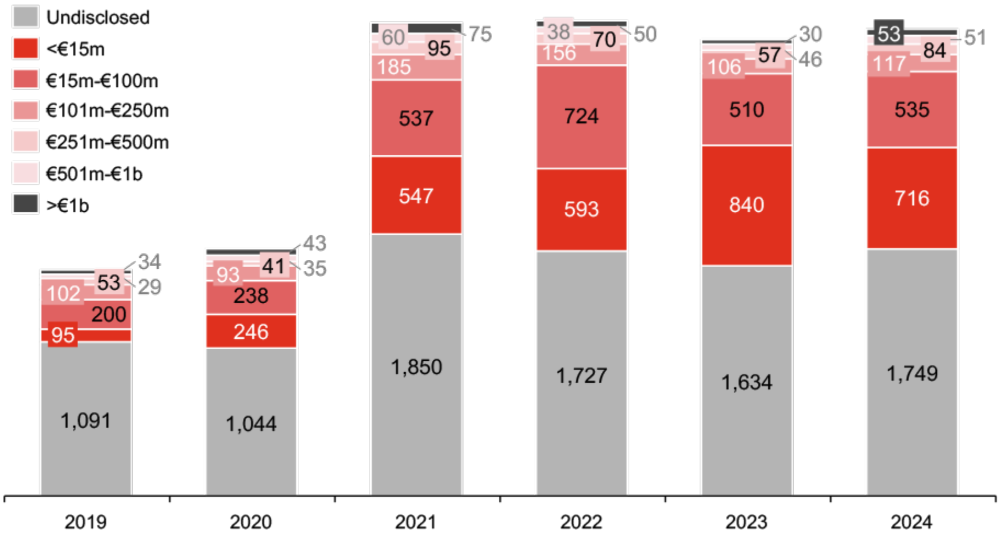


Fig. 6 European Exit Trends

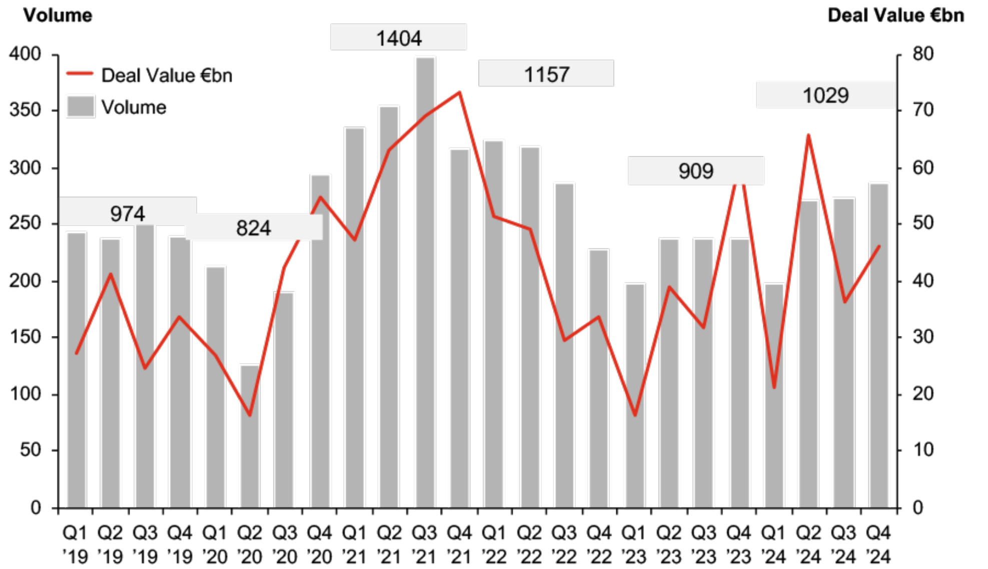


Fig. 12 DACH PE Trends

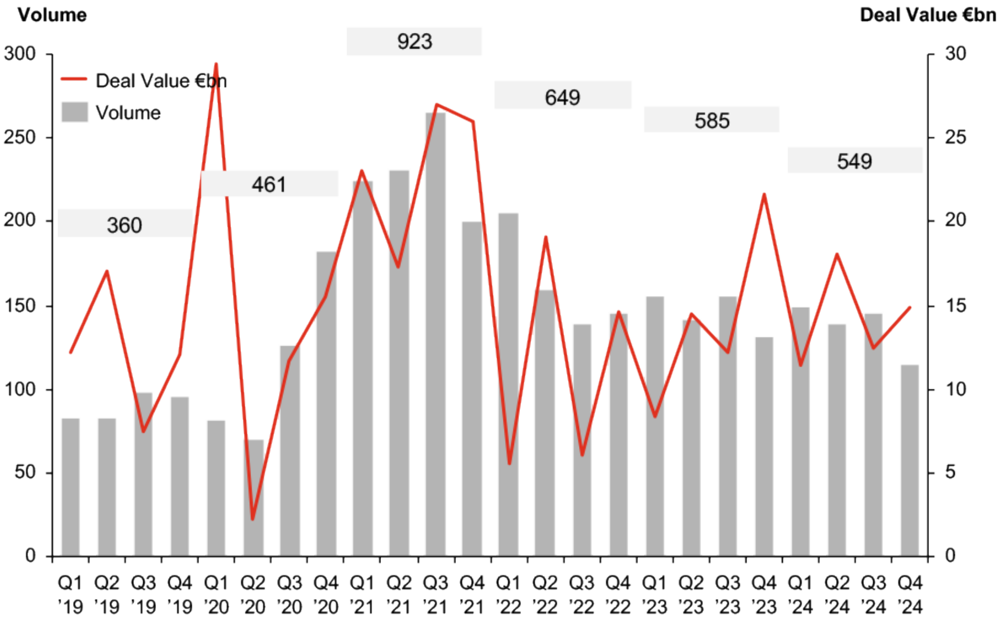


Fig. 13 DACH Buyout trends

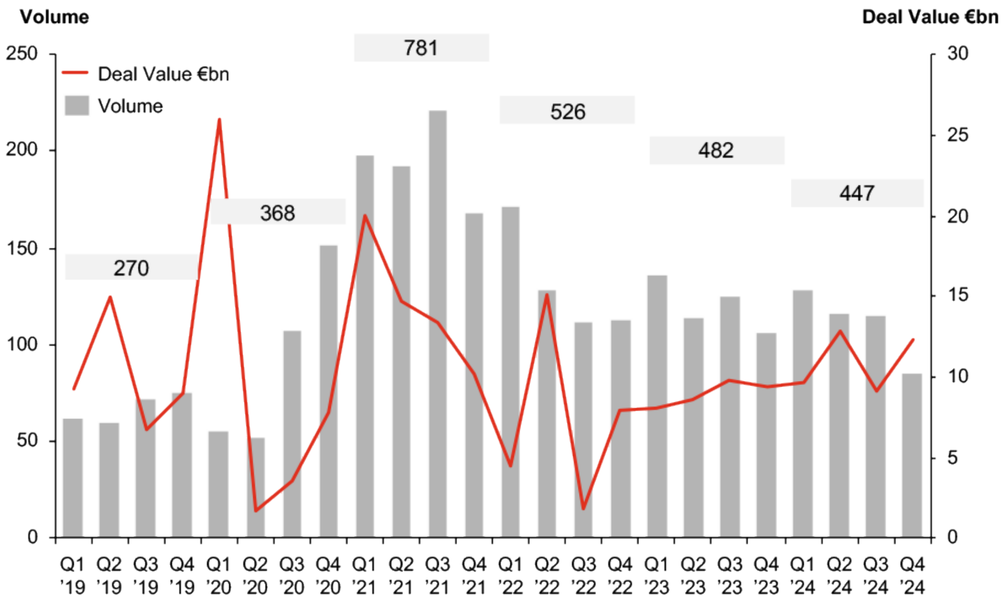


Fig. 15 DACH exit trends

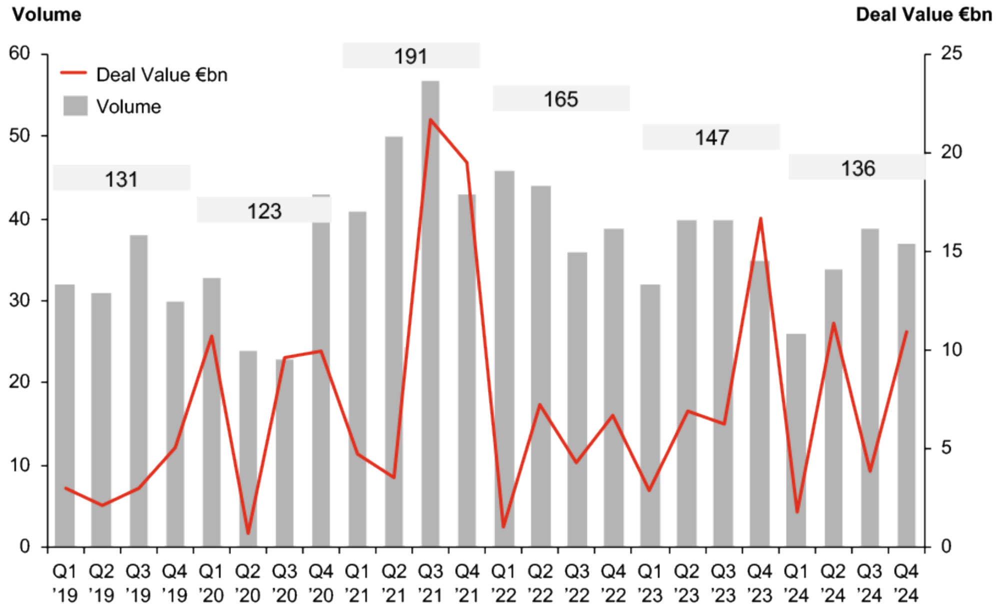


Fig. 16 Benelux PE trends

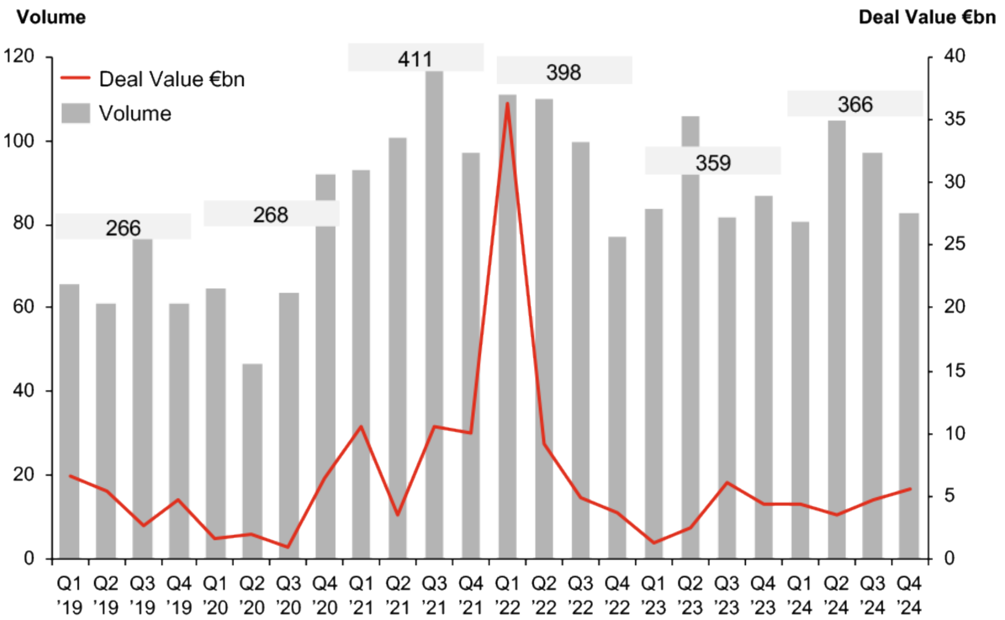


Fig. 17 Benelux Buyout Trends

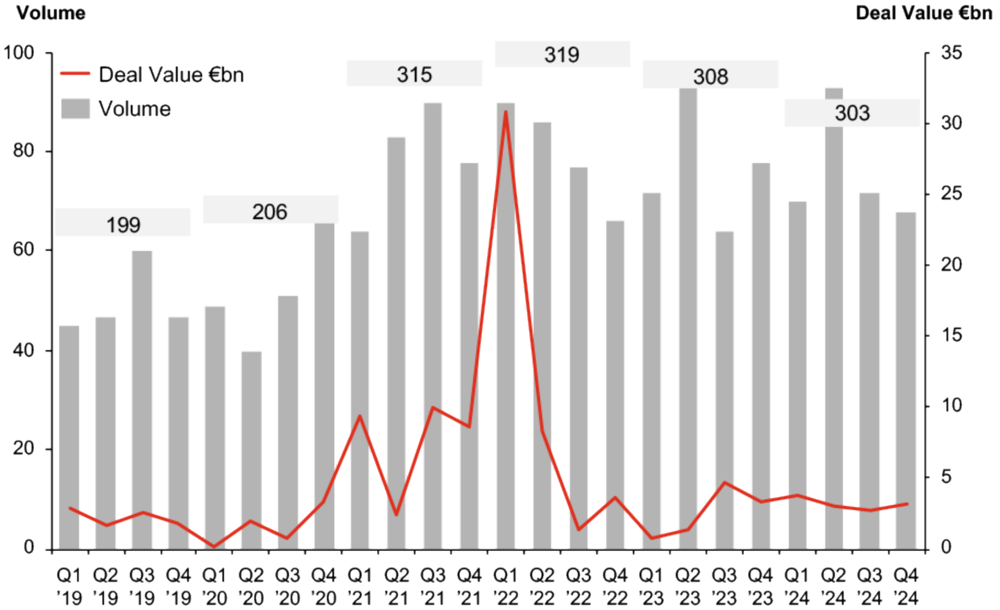


Fig. 18 Benelux Exit Trends

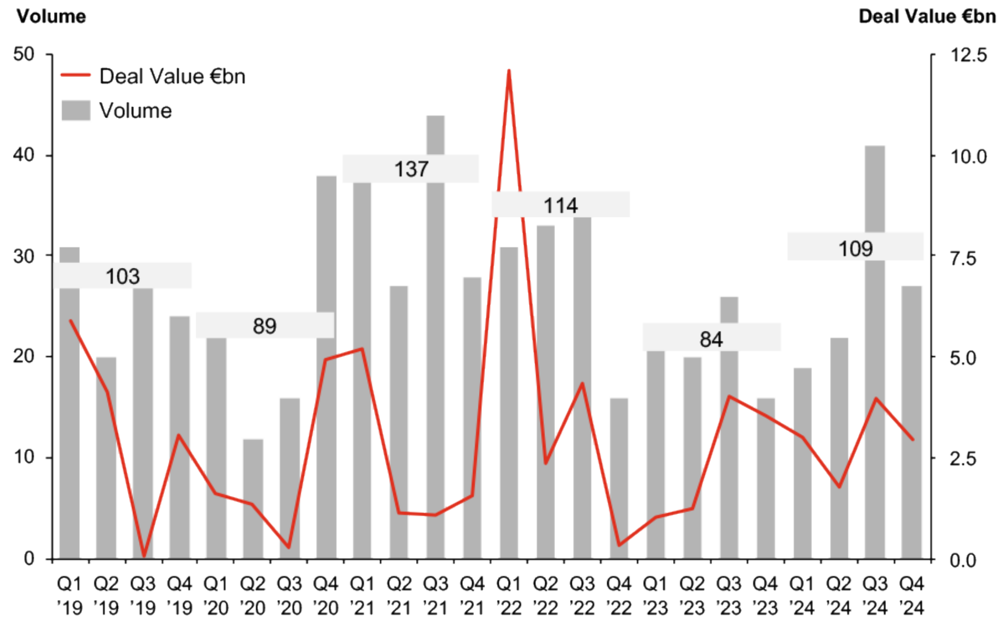


Fig. 38 In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years?

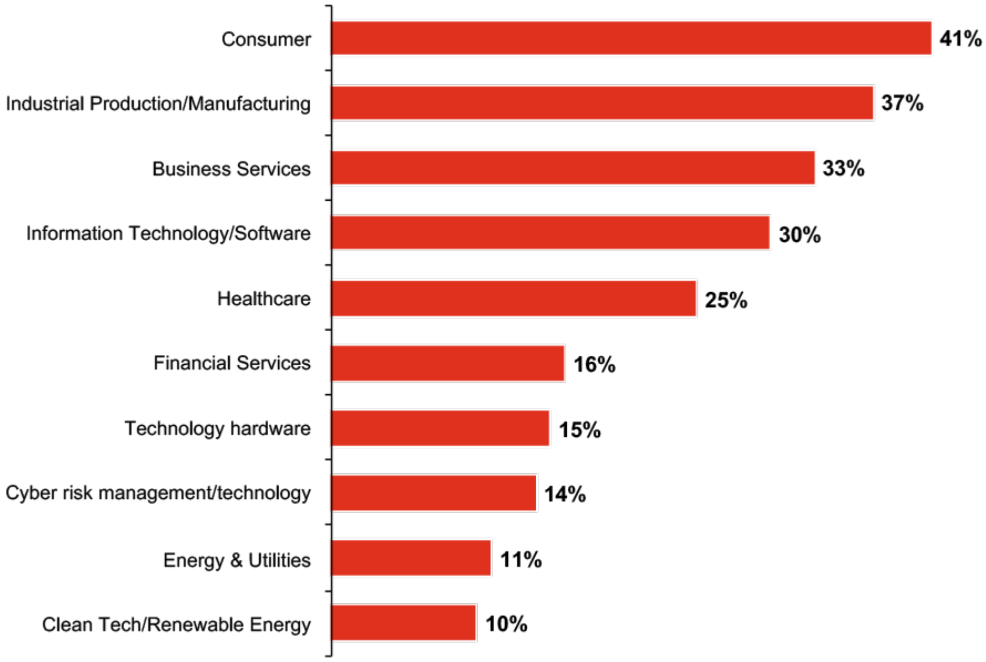


Fig. 39 And which of these industries do you expect to undergo the most transformation?

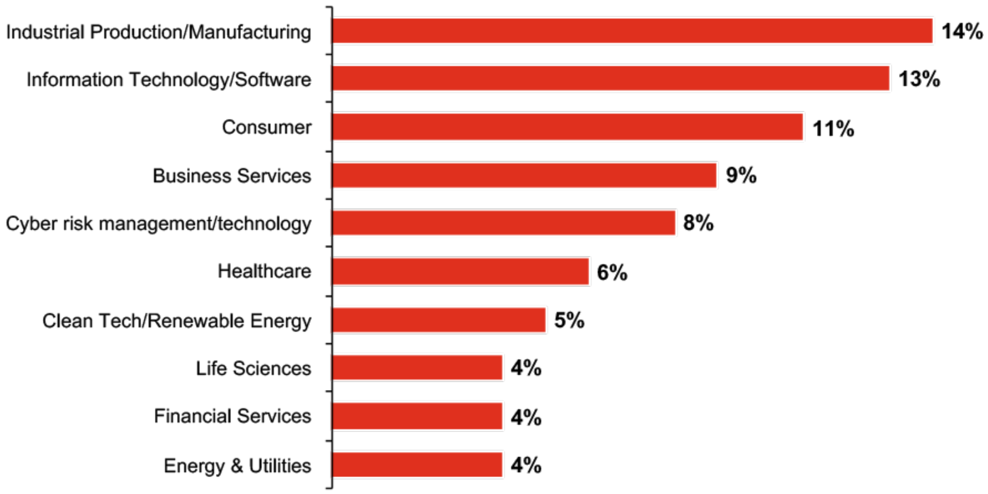


Fig. 51 How would you rate the level of impact from digital transformation on the following elements of your company business model? (rate from 1 to 10, 1 impacted least, 10 impacted most):

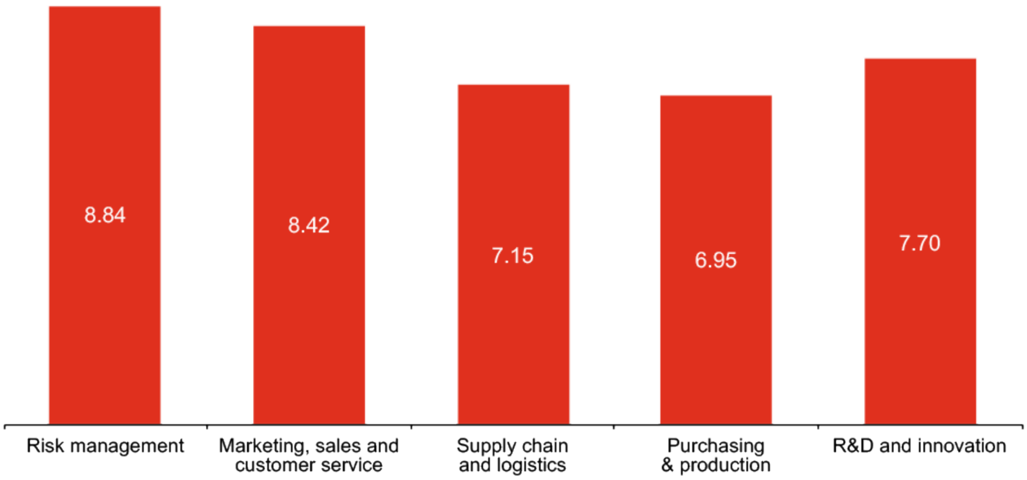
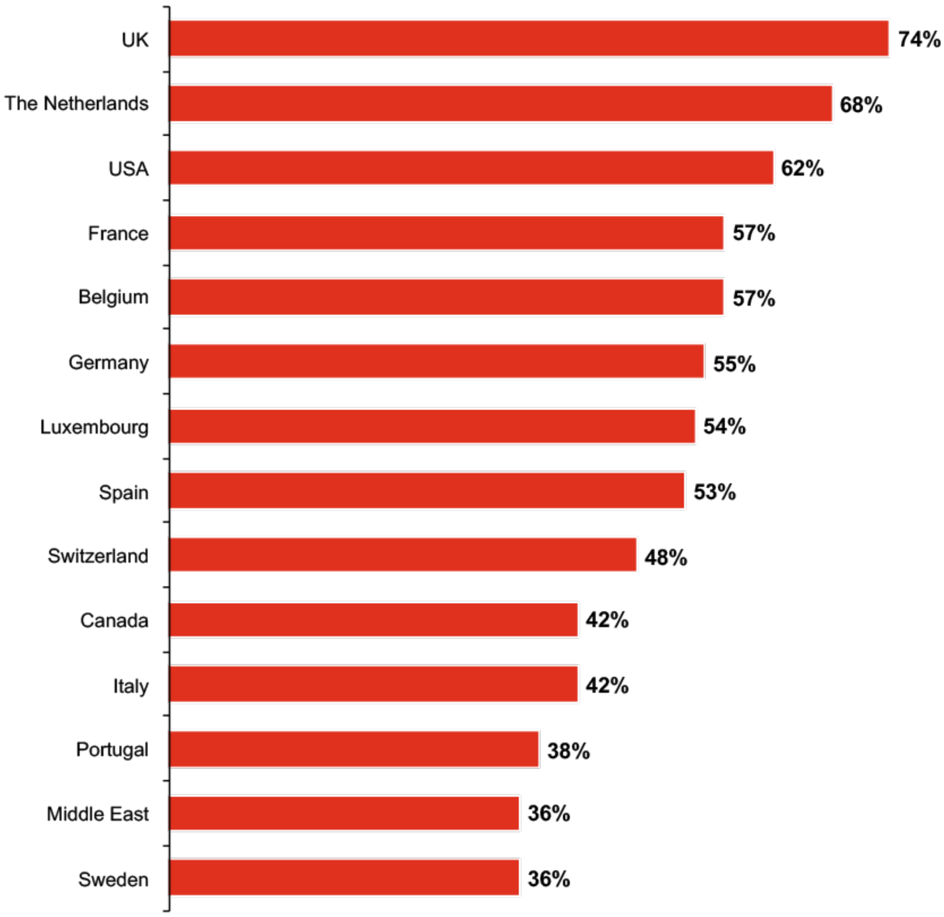


Fig. 71 In your opinion, which countries or regions will become more attractive for private equity investments over the next five years?



Thank you!