2025 Private Equity Trends Outlook

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Introduction

In 2025, the private equity landscape will be shaped by several key trends, creating a more complex deal environment for all participants. These developments include the expansion of continuation vehicles as a vital liquidity tool, heightened regulatory scrutiny and antitrust pressures introducing both challenges and opportunities, and the impact of interest rate cuts on buyer-seller risk tolerance.

Learn more about these important trends:

The Evolution of Continuation Vehicles into 2025

- Continuation vehicles (CVs) have gained prominence as a strategic option for private equity sponsors seeking liquidity for investors without having to exit high-performing assets prematurely and will continue to do so into 2025. Unlike the passing special purpose acquisition company (SPAC) trend, CVs provide a sustainable, strategic option in today's tight exit market, offering flexibility that traditional exits lack.
- Sponsors are increasingly open to reevaluating their approach to CVs, viewing them as a tool to rebalance limited partner (LP) pools, manage specific assets, and maintain growth within their portfolios. This shift includes educating on the benefits of CVs and structuring them to respect fiduciary duties and avoid unintended economic consequences.
- The flexibility CVs provide allows sponsors to retain assets that have outgrown the original fund, especially in cases where the asset continues to perform well but requires a different return profile or risk tolerance than the initial LP base demands.

Regulatory Pressure and Antitrust Scrutiny

- Increased regulatory and antitrust scrutiny, especially around big tech companies, has introduced a "chilling effect" in the transaction market. This scrutiny may reduce the participation of large strategic buyers in acquisitions, indirectly opening opportunities for private equity but also limiting exit pathways to these buyers.
- The incoming Trump administration and Republican Congress have signaled a clear focus on deregulation, which may open the door for less antitrust scrutiny and more deal activity. That said, they have also indicated an interest in particular industries and we may see increased scrutiny of transactions within their line of site.
- Overall, the expanded Federal Trade Commission (FTC) Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act) rules will introduce additional cost and inefficiency to dealmaking. These changes will increase reporting requirements, with disclosures covering deal structures, affiliate relationships, and past related transactions, resulting in higher compliance costs and slower transaction timelines. Although these regulations may not directly lead to more deal rejections, they are

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expected to impact deal volume and pace across the industry by prompting firms to adjust their strategies and approach.

Interest Rate Cuts and Market Sentiment

- Recent interest rate cuts have encouraged optimism for increased deal flow and may help narrow the gap between buyers' and sellers' pricing expectations. This shift could facilitate more middle-market deals that were previously stagnant due to high debt costs.
- Despite the higher interest rates in 2024, top-tier assets continued to sell, as strong-performing businesses justified the cost of capital, and strategic buyers leveraged their balance sheets as insulation from debt markets to outbid their PE rivals. As the market adjusts, it may also lead to greater tolerance for risk during due diligence, allowing deals with more complex risk profiles to proceed and giving private equity a more competitive platform in auction processes.
- Attention should be paid to the impact of any proposed tariffs on interest rates, as any tariffs are likely to drive up the value of the dollar, which in turn may cause a return of inflation and possibly put more pressure on the Fed's planned interest rate cuts.

Risk Tolerance Discrepancy Between Buyers and Sellers

- The increased cost of capital associated with higher interest rates has led to a widening risk tolerance gap between buyers and sellers. While sellers continue to hope for the hands-off "walkaway" deal structure common in the 2021 boom, the increased cost of capital has put pressure on buyers to preserve their margins and as a result, buyers are now demanding more stringent risk controls, particularly when potential risks emerge in due diligence.
- This shift reflects a cautious approach by buyers, who are more conservative in the current environment and less inclined to absorb all associated risks without recourse, which could create friction with sellers in closing deals — in several recent cases causing the deal to die post-exclusivity and during the diligence phase.

The "Seatbelt Sign" Has Been Turned On

- A backlog of exits, combined with a lower cost of capital, relaxed regulation, and more creative and sophisticated dealmaking structures portends a very active, and potentially bumpy year for dealmakers.
- Dealmakers are wise to buckle up, as they are likely to find transactions flowing from a variety of directions, with a comparative advantage belonging to those selling sponsors that have successfully used the recent lull in activity to shore up their platforms through thoughtful and focused asset management. On the buy-side, the advantage will go to those sponsors who are willing to compete not only on price but on execution and have prepared their teams and their platforms to navigate the new antitrust rules transparently and efficiently.

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