



# **Global Private Equity Report 2025**

# About Bain & Company's Private Equity business

Bain & Company is the leading consulting partner to the private equity (PE) industry and its stakeholders. PE consulting at Bain has grown eightfold over the past 15 years and now represents about one-third of the firm's global business. We maintain a global network of more than 2,000 experienced professionals serving PE clients. Our practice is more than triple the size of the next-largest consulting company serving PE firms.

Bain's work with PE firms spans fund types, including buyout, infrastructure, real estate, and debt. We also work with hedge funds, as well as many of the most prominent institutional investors, including sovereign wealth funds, pension funds, endowments, and family investment offices. We support our clients across a broad range of objectives:

**Deal generation.** We work alongside investors to develop the right investment thesis and enhance deal flow by profiling industries, screening targets, and devising a plan to approach targets.

**Due diligence.** We help support better deal decisions by performing integrated due diligence, assessing revenue growth and cost-reduction opportunities to determine a target's full potential, and providing a post-acquisition agenda.

**Immediate post-acquisition.** After an acquisition, we support the pursuit of rapid returns by developing strategic blueprints for acquired companies, leading workshops that align management with strategic priorities, and directing focused initiatives.

**Ongoing value addition.** During the ownership phase, we help increase the value of portfolio companies by supporting revenue enhancement and cost-reduction initiatives and refreshing their value-creation plans.

**Exit.** We help ensure that investors maximize returns by preparing for exit, identifying the optimal exit strategy, preparing the selling documents, and prequalifying buyers.

**Firm strategy and operations.** We help PE firms develop distinctive ways to achieve continued excellence by devising differentiated strategies, maximizing investment capabilities, developing sector specialization and intelligence, enhancing fund-raising, improving organizational design and decision making, and enlisting top talent.

**Institutional investor strategy.** We help institutional investors develop best-in-class investment programs across asset classes, including private equity, infrastructure, and real estate. Topics we address cover asset class allocation, portfolio construction and manager selection, governance and risk management, and organizational design and decision making. We also help institutional investors expand their participation in private equity, including through co-investment and direct investing opportunities.

## **Bain & Company, Inc.**

131 Dartmouth Street  
Boston, Massachusetts 02116 USA  
Tel: +1 617 572 2000  
[www.bain.com](http://www.bain.com)

Net Promoter®, NPS®, NPS Prism®, and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., NICE Systems, Inc., and Fred Reichheld. Net Promoter Score<sup>SM</sup> and Net Promoter System<sup>SM</sup> are service marks of Bain & Company, Inc., NICE Systems, Inc., and Fred Reichheld.

Copyright © 2025 Bain & Company, Inc. All rights reserved.

## Contents

Recovery by Degrees .....	2
Private Equity Outlook 2025: Is a Recovery Starting to Take Shape? .....	3
Investments .....	8
Exits .....	14
Liquidity .....	17
Fund-raising .....	25
Returns .....	30
Field Notes from the Generative AI Insurgency in Private Equity .....	33
Wanted: Margin Growth in Software Investing .....	40
PE-Backed Carve-Outs Used to Be Reliable Winners. So What Happened? .....	46
This Time It's Different: The Strategic Imperative in Private Equity .....	54

## Recovery by Degrees

Dear Colleague:

Through one lens, 2024 can be considered the year of the partial exhale.

Interest rates and inflation finally came down. Economic growth in many markets remained stable. In response, deal investment value increased by 37% and exit value moved 34% higher. Alas, fund-raising struck a discordant note, falling 23%. As we've mentioned before, fund-raising is a lagging indicator for deal activity.

The real culprit behind lackluster fund-raising is a persistent liquidity situation for global limited partners (LPs). While exit activity accelerated last year, distributions as a portion of net asset value sank to 11%, the lowest rate in over a decade.

Positive signs? Rates and inflation appear poised to remain stable or decrease in many markets. Dry powder is still mountainous and aging. General partners are finding new and creative ways to boost LP liquidity. More dollars should flow into the industry from sovereign wealth funds and private wealth. And most important, returns remain strong.

We will see if private equity can avoid black swans in 2025 and get firmly back on the growth track.

Best wishes,



Hugh MacArthur  
Chairman, Global Private Equity



# Private Equity Outlook 2025: Is a Recovery Starting to Take Shape?

Dealmaking rebounded in 2024, but regaining fund-raising momentum may take longer.

**By Hugh MacArthur, Rebecca Burack, Graham Rose, Alexander Schmitz, Kiki Yang, and Sebastien Lamy**

## At a Glance

- ▶ Private equity caught some traction in 2024 as investments and exits finally reversed their two-year declines.
- ▶ Fund-raising, meanwhile, lagged as limited partners kept a check on allocations in the face of prolonged asset holding periods.
- ▶ When capital finally starts flowing again, the winners will be funds with a clear, differentiated strategy and a record of consistent performance.

Few would contest that the past few years in private equity have been the industry's most challenging period since the global financial crisis. The good news: Dealmaking appears to have turned the corner.

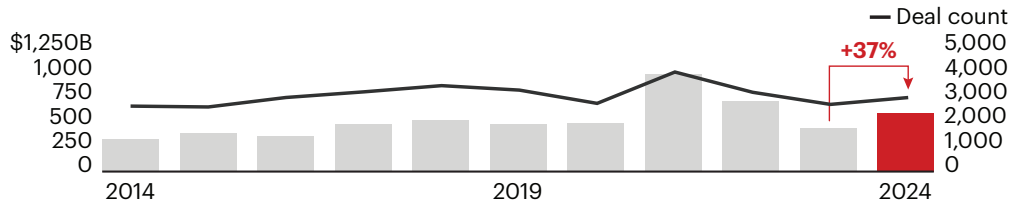
Investments and exits reversed their declines in 2024, reflecting both a strong desire among general partners (GPs) to get deals done and an improved macroeconomic environment highlighted by slowly ebbing central bank rates (see *Figures 1a and 1b*). Deal value in both cases posted stronger increases than the number of deals completed. But viewed historically (rather than in comparison to what's turned out to be an anomalous peak in 2021), the year stacked up well.



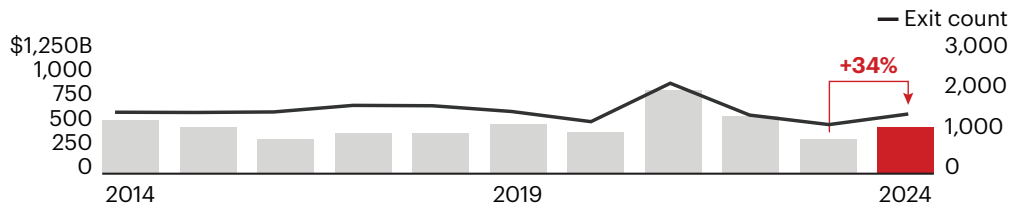
## Global Private Equity Report 2025

**Figure 1a:** Investments and exits pulled out of their two-year slide, but fund-raising reversed course**Investments**

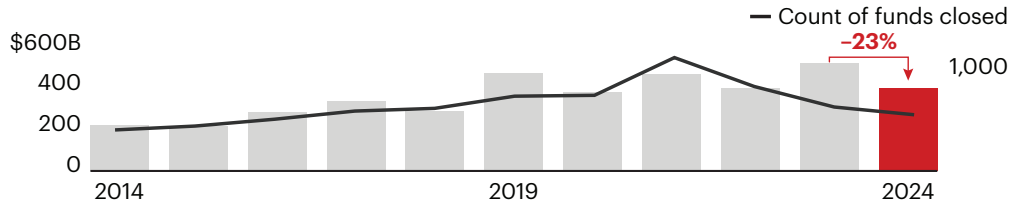
Global buyout deal value

**Exits**

Global buyout-backed exit value

**Fund-raising**

Global buyout capital raised



Notes: Investments—excludes add-ons, special-purpose acquisition companies (SPACs), loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; Exits—includes partial and full exits; excludes SPACs and bankruptcies; IPO value represents offer amount and not market value of company; Fund-raising—includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; buyout capital raised includes only those funds for which final close data is available; excludes SoftBank Vision Fund; count of buyout funds closed includes all buyout funds closed, including those for which the value of final funds raised is not available  
Sources: Dealogic; Preqin

Whether the momentum can build in 2025 will largely depend on macro conditions and policy. The industry is certainly anxious to make deals, but the year's early slowdown in M&A activity globally suggests that the dreaded U word (*uncertainty*) continues to keep markets on edge. With inflation and interest rates in the balance, investors are looking for clarity amid back-and-forth signals regarding tariffs and other macro issues.

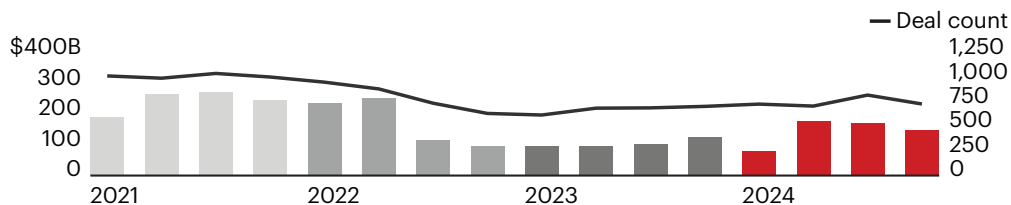
The fund-raising environment, meanwhile, bucked the upward trend. Buyout funds raised 23% less capital globally than they did in 2023. Fewer funds closed during the year, and of those that did, more than a third had been on the road for two years or more. As limited partners (LPs) continued to steer the most capital

## Global Private Equity Report 2025

**Figure 1b:** The recovery in dealmaking started in the second quarter, but fund-raising was in steady decline throughout 2024

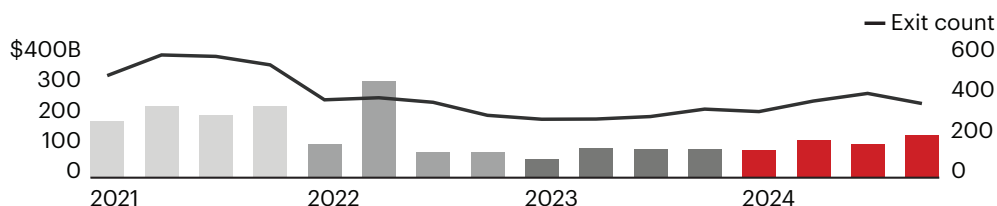
### Investments

Global buyout deal value, quarterly



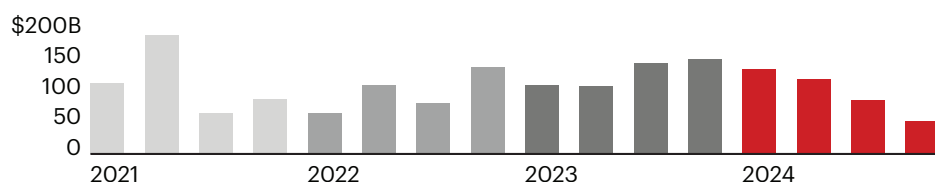
### Exits

Global buyout-backed exit value, quarterly



### Fund-raising

Global buyout capital raised, quarterly



Notes: Investments—excludes add-ons, special-purpose acquisition companies (SPACs), loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; Exits—includes partial and full exits; excludes SPACs and bankruptcies; IPO value represents offer amount and not market value of company; Fund-raising—includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; buyout capital raised includes only those funds for which final close data is available; excludes SoftBank Vision Fund  
Sources: Dealogic; Preqin

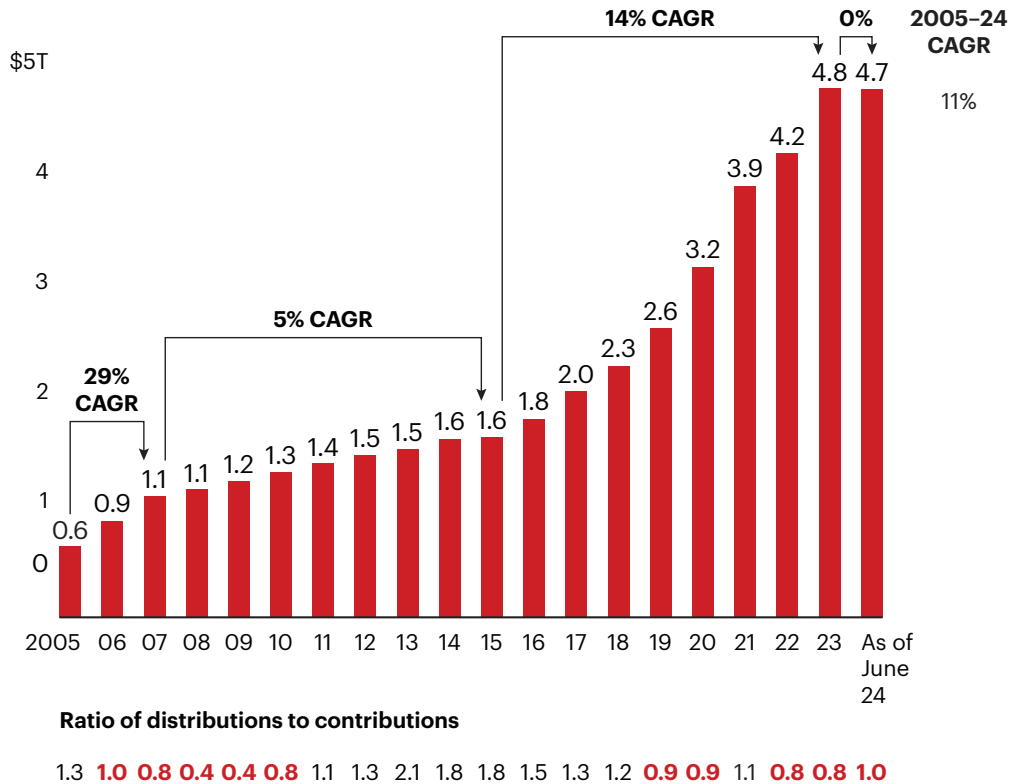
toward the largest, most experienced funds with the strongest track records, life remained hard for most other funds.

The slowdown isn't surprising. Fund-raising is a lagging indicator that responds to industry cash flows. The heavy drawdowns of capital to feed the dealmaking beast in 2021 were followed by an abrupt skid in exit activity when interest rates spiked and dealmaking slumped. The resulting slowdown in distributions caused LPs to cut back on new allocations.

This pattern is similar to what we saw after the global financial crisis (see *Figure 2*). Rapid growth in assets under management (AUM) in the run-up to the crisis was followed by a slowdown in exits similar

**Figure 2:** The buyout category has averaged a remarkable 11% annual growth rate for two decades and netted positive long-term cash flow

### Global buyout assets under management



Notes: Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; ratio of distributions to contributions through Q3 2024; discrepancies in bar heights displaying the same value are due to rounding differences  
Sources: Preqin; MSCI

to the one we've seen more recently. That produced a negative balance of distributions to contributions, which caused AUM growth to slow for eight years before picking up steam again as buyout fund-raising exploded. It appears now that growth has leveled off once more as the negative cash flow balance of the past few years comes home to roost.

Persistent sluggishness in exit volume will continue to pressure the industry to generate liquidity creatively. GPs have turned to a broad array of strategies and financial mechanisms to either return capital directly to investors in lieu of a full exit or to curtail incremental capital calls that would only widen the cash flow deficit. Incredibly, 30% of the companies currently in buyout portfolios have undergone some sort of liquidity event, with the industry raising a total of \$360 billion via minority interests, dividend recapitalizations, secondaries, and net asset value (NAV) loans.



Still, none of this will be sufficient to alleviate the hangover from the industry's two-and-a-half-year exit slowdown. An uptick in activity helped the industry break even on cash flow in 2024, but as Figure 2 shows, contributions from LPs have equaled or outweighed fund distributions in five of the last six years. Buyout distributions as a proportion of NAV have fallen to record lows.

This suggests the outsize capital flows the industry got used to before the pandemic are unlikely to resume in the near future. Capital will continue to consolidate in the hands of top performers and scale funds with the most fund-raising clout. That spells a clear mandate for GPs: If you can't offer investors a differentiated value proposition, raising your next fund is going to be a serious challenge.

Top-quartile funds have always stood out from lesser performers in fund-raising, but the gap has widened substantially in recent years. Consider that, in 2024, top-quartile fund managers increased the size of a subsequent fund by 53% while fourth-quartile managers struggled to increase fund size at all. This 53-percentage-point delta was significantly higher than the 10-point gap historically. Gaps also appear in time on the road and ability to reach target fund size (*see Figure 3*).

---

**The consensus among economists is that, absent black swans, the cyclical headwinds that have held back dealmaking since mid-2022 should continue to moderate and give dealmakers a push.**

---

Trying to predict with any certainty the future trajectory of interest rates is never a good idea—especially given ongoing trade policy uncertainty. But the consensus among economists is that, absent black swans, the cyclical headwinds that have held back dealmaking since mid-2022 should continue to moderate and give dealmakers a push. It helps that the industry is gradually emerging from the shadow produced by the unprecedented dealmaking spree in 2021, which pulled forward many deals that might otherwise have been available in subsequent years.

What we do know is this: When the recovery does accelerate (and it will eventually), it should look very different from the recoveries of the past. As we discuss in “This Time It’s Different: The Strategic Imperative in Private Equity,” the cost of generating market-beating returns is only going up, even as fees are in retreat. The industry also is undergoing a number of other structural changes that will significantly alter the basis of competition for investment opportunities and new capital in the years ahead. The future of private capital in some ways has never been brighter. But assuring a place among the top-tier performers attracting capital is only getting harder.

Here's a closer look at what happened in 2024.

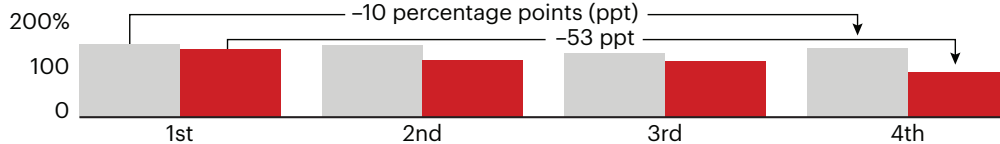
**Figure 3:** Successfully raising a follow-on fund in today's market depends on past performance more than ever

### Predecessor fund performance impacts ...

Successor's close year ■ 2014–23 ■ 2024

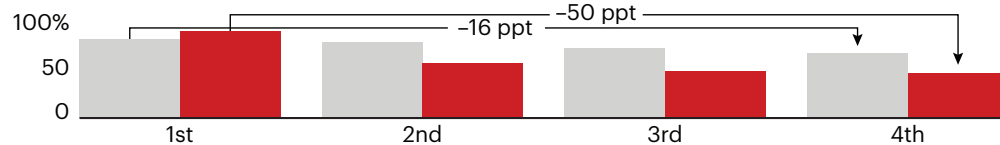
#### Successor fund size

Buyout fund size as percentage of predecessor fund size, by predecessor's quartile rank



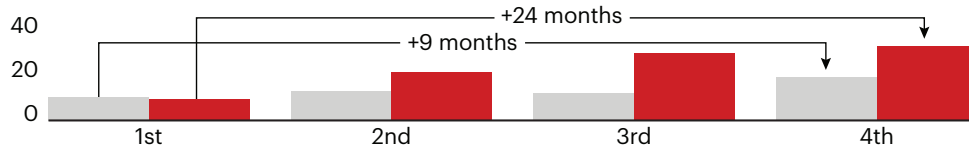
#### Successor's ability to reach target size

Share of buyout funds (count) reaching target size, by predecessor's quartile rank



#### Time to close successor

Average time to close (months) for buyout funds, by predecessor's quartile rank



Notes: Includes buyout funds with final close and represents the year in which they held their final close; time to close analysis excludes funds with time to close greater than 10 years  
Sources: Preqin; Bain analysis

## Investments

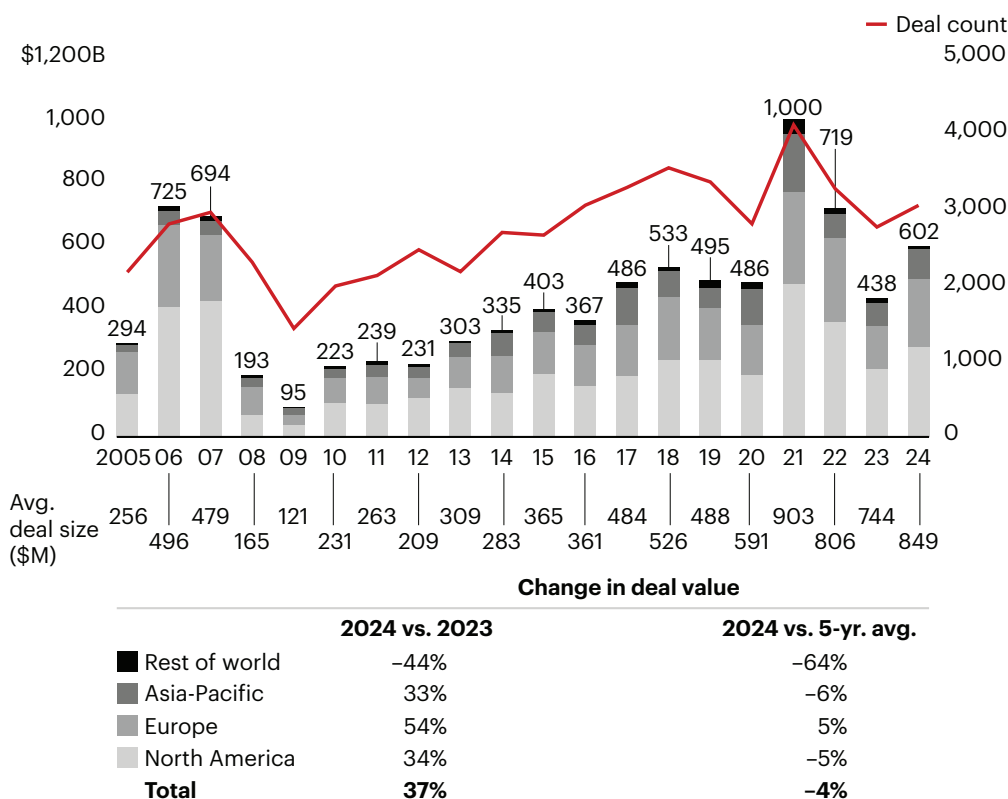
After the worst decline in dealmaking since the global financial crisis, buyout investment value took a bounce back in 2024, increasing 37% year over year to \$602 billion, excluding add-on deals (see Figure 4). Easing interest rates and greater comfort with the macro outlook were the chief factors narrowing what had been a yawning gap between buyer and seller expectations. An 83% increase in syndicated loan issuance and the ongoing growth of private credit also helped grease the skids for GPs anxious to put \$282 billion in aging dry powder to work.

While the number of deals increased 10% year over year to around 3,000, the growth in value far outstripped the growth in count as the average deal size globally jumped to \$849 million, the second-highest total historically. Deals of \$1 billion or more made up 77% of the value total.

## Global Private Equity Report 2025

**Figure 4:** Global buyout deal volume and value rebounded in 2024, following two years of sharp declines

### Global buyout deal value, by region



Notes: Excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; average deal size calculated using deals with disclosed value only  
Sources: Dealogic; Bain analysis

North American deal value grew 34% off a 9% increase in deal count, while deal value in Europe grew 54%, also on a 9% uplift in the number of transactions (see Figure 5). Deals valued between \$2.5 billion and \$10 billion continued to grow as a percentage of total value in both regions (see Figure 6). Asia-Pacific deal value grew 11% on slightly fewer deals. A number of countries in the region had double-digit growth, but that was overshadowed by slower growth in China and a decline in Japan, which suffered by comparison to a breakout year in 2023. As recently as 2020, China represented half of all Asia-Pacific deal value, but that share fell to just over 25% in 2024.

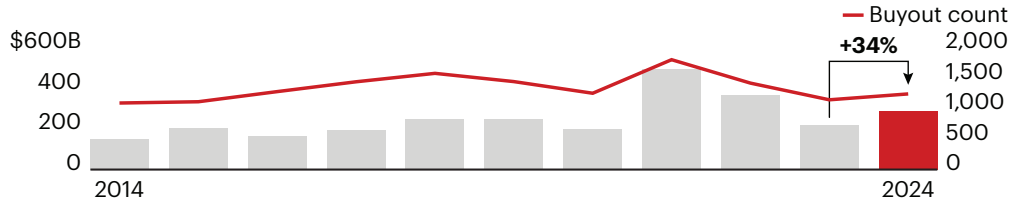
Public-to-private (P2P) deals, like the \$8.4 billion buyout of Smartsheet by Vista Equity Partners and Blackstone, continued to dominate the high end of the market. P2P deals increased to close to \$250 billion globally in 2024 and represented almost 50% of deals valued at \$5 billion or more in North America (see Figure 7). This level of take-private activity might seem counterintuitive given the run-up in the US

## Global Private Equity Report 2025

**Figure 5:** The year brought solid growth in deal value across regions, with Europe seeing the biggest bounce

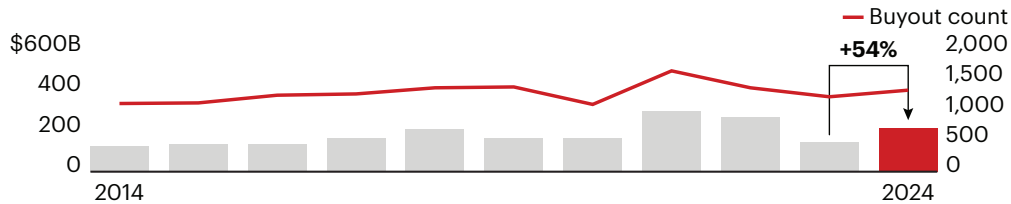
### North America

Buyout deal value



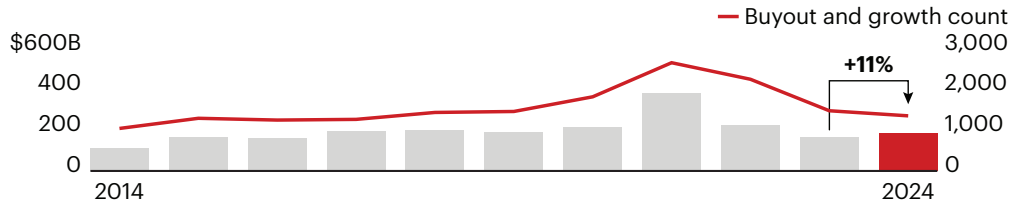
### Europe

Buyout deal value



### Asia-Pacific

Buyout and growth deal value



Notes: North America and Europe—excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; deal count includes all deals, including those with no disclosed value; Asia-Pacific—includes buyout, growth, early-stage, private investment in public equity, turnaround, and other deals; excludes add-ons and real estate; deal value excludes deals with announced value less than \$10 million; deal count excludes deals with no disclosed value; includes investments that have closed and those at agreement-in-principle or definitive agreement stage

Sources: Dealogic; AVCJ; Bain analysis

public equity markets. But specialists are clearly finding opportunities to take advantage of mispriced assets in the US, and European public markets have been much less robust.

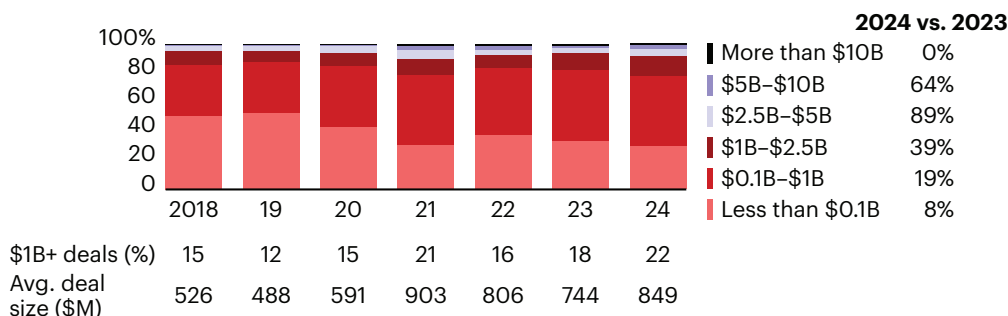
The technology sector remained private equity's staple, representing 33% of buyout deals by value and 26% by volume (see Figure 8). Activity also percolated at the intersection of tech and healthcare, including KKR's acquisition of a 50% stake in healthcare analytics company Cotiviti from Veritas Capital, which valued the company at around \$10 billion. Among other sectors, financial services deal value grew 92% year over year and industrials 81%, both bouncing back after a particularly challenging 2023. Insurance deals such as Sixth Street's \$5 billion P2P deal for Enstar stood out.

## Global Private Equity Report 2025

**Figure 6:** Deal volume and value increased for most transaction sizes, particularly those between \$2.5 billion and \$10 billion

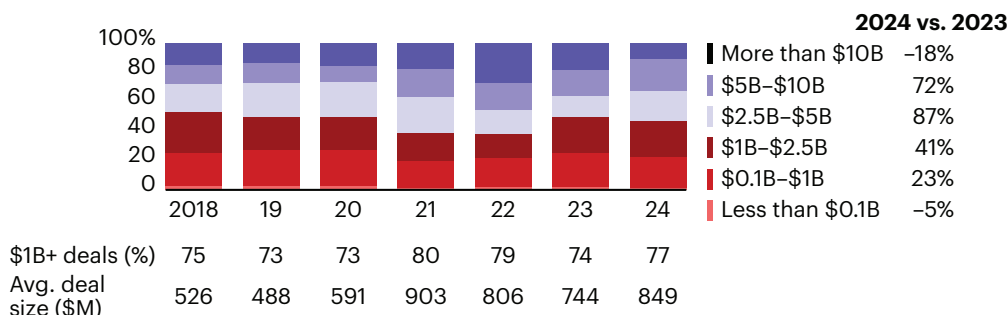
### Deal volume

Share of global buyout deal count, by deal size



### Deal value

Share of global buyout deal value, by deal size



Notes: Excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; average deal size calculated using deals with disclosed value only

Sources: Dealogic; Bain analysis

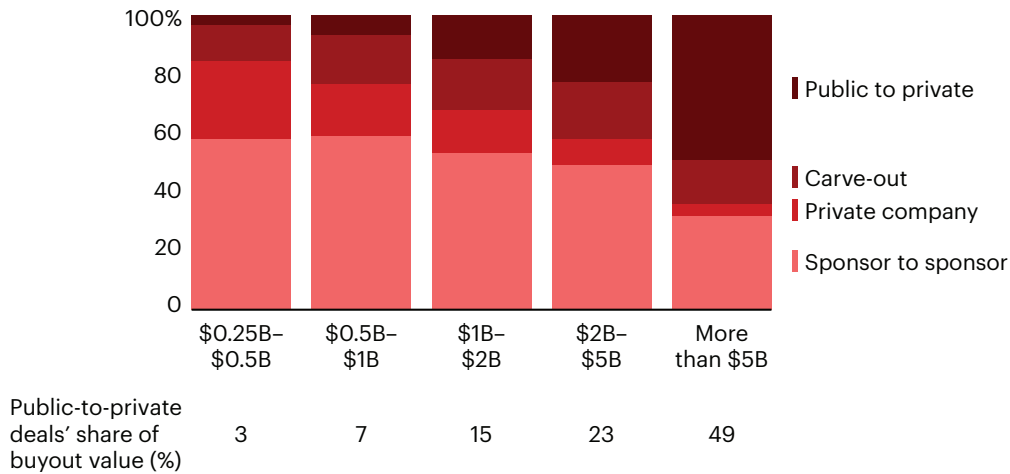
A closer look at the factors that precipitated 2024's dealmaking rebound shows that conditions improved substantially during the year despite ongoing crosscurrents.

The dry powder situation is certainly maintaining pressure on dealmakers. While the buyout industry's stockpile of unspent capital fell slightly from \$1.3 trillion to \$1.2 trillion, the value of *aging* dry powder (that held for four years or longer) ticked up to 24% of the total, from 20% in 2022. That suggests GPs are struggling to find first-rate, affordable targets (see *Figure 9*).

Macro headwinds, brought on by inflation and the subsequent spike in interest rates since 2022, have eased off, and economists are expecting central banks to keep cutting as inflation settles down (see *Figure 10*). Yet the pace of easing slowed in the US over the winter amid strong labor markets and uncertainty about the incoming administration's tariff intentions.

**Figure 7:** Public-to-private deals represented almost half of all transactions in North America valued at \$5 billion or more

**Share of North American buyout value, by deal type and size (deal entry years 2014–24)**



Notes: Includes North American transactions greater than \$250 million in value; SPS-provided median enterprise value estimate used for each deal type, year, and size range  
Sources: SPS by With Intelligence; Bain analysis

Still-high interest rates continued to take a chunk out of add-on transactions, which represented 11% of buyout deal value, vs. a peak of 40% in 2015. As financing costs took off, it became more and more difficult to make buy-and-build strategies pencil out, and bolt-on acquisitions were less affordable.

It didn't help that asset prices continued to soar. After slacking off some in 2023, the average deal multiple in North America shot back 7% to 11.9 times earnings before interest, taxes, depreciation, and amortization (EBITDA), an SPI by StepStone analysis shows. European multiples, meanwhile, jumped to a new record of 12.1 times EBITDA (see Figure 11).

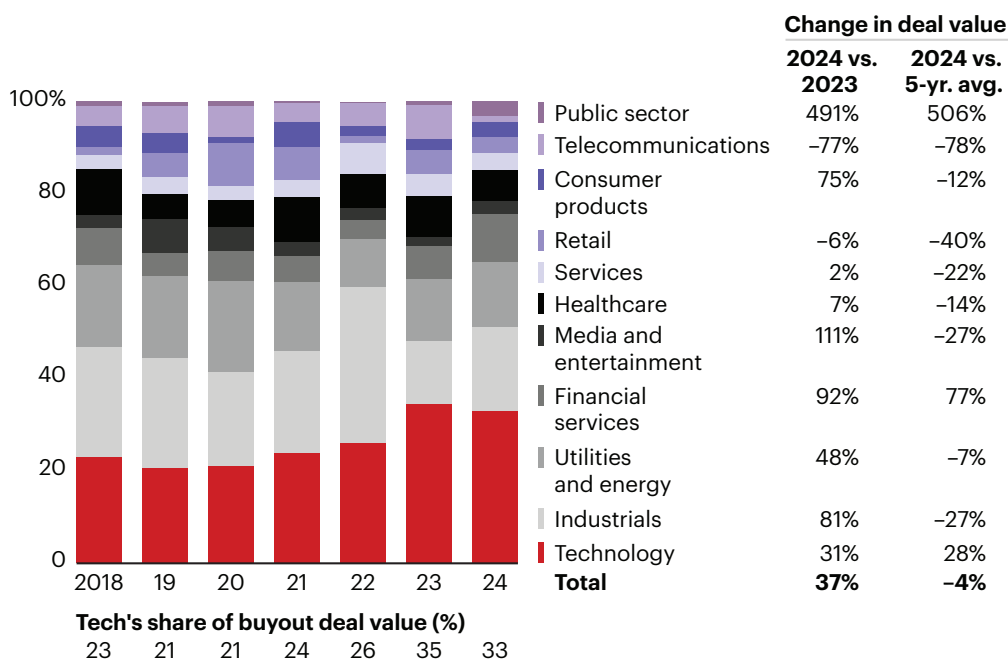
The shape-shifting in the debt market also continued. Leveraged loan yields in the US tracked down 1.4 percentage points during the year as rates softened and prices eased. But debt ratios only responded slightly, climbing to 4.9 times EBITDA, well below prepandemic levels. Syndicated loan volume grew by 83% to \$110 billion, but it too remains depressed (see Figure 12).

Traditional banks have maintained their focus on scale deals, where syndication is important and the fees make it worth their time. However, direct lenders have been more than happy to step into the other parts of the market. Over the past decade, private credit has boosted its share of middle-market loan issuance to 90% from 36% (see Figure 13). Most larger deals are still out of reach for private lenders, but that's changing too.



**Figure 8:** Technology's share of the buyout market slipped slightly in 2024, but it continued to generate more deal value than any other sector

**Share of global buyout deal value (\$B), by sector**



Notes: Excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change  
 Source: Dealogic

Faced with higher debt costs and lower leverage ratios, GPs have increasingly turned to coinvestment—the practice of offering LPs direct equity stakes in deals. A StepStone survey covering 145 GPs and 420 funds showed that coinvestment volume has risen approximately 30% since before the pandemic.

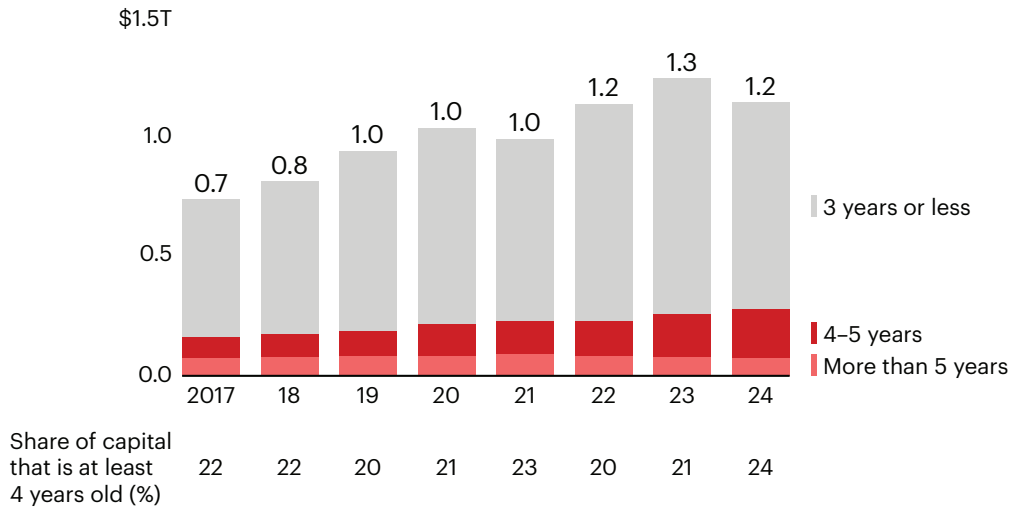
LPs are enthusiastic to get a piece of the action with more control and lower fees. Still, the demand outstrips supply. According to StepStone, only half of the LPs with an appetite for coinvestment have been able to participate.

GPs tend to prioritize the LPs they already know and those that are able to move quickly and decisively. To get up to speed, many institutional investors are building or expanding their capabilities. CalSTRS, for instance, has grown its private equity team substantially in recent years to support coinvestments. Other large institutions, including CalPERS, OCERS, and Texas Teachers, have significantly expanded the coinvestment allocation in their portfolios.

Refinancing in the US and Europe jumped almost 80% to around \$380 billion in 2024. Maturing loans spurred \$119 billion of that, but lower financing costs were a major factor, as US spreads for both direct and syndicated leveraged loans fell more than 100 basis points.

**Figure 9:** Buyout sponsors managed to pare a little off the top of their dry powder hoard in 2024, but aging dry powder kept accumulating

**Global buyout dry powder, by years since capital raised**



Notes: Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; assumes average investment period of five years; percentage split of capital in 2024 based on data through Q2 2024, forecast to year-end 2024; discrepancies in bar heights displaying the same value are due to rounding differences

Sources: Preqin; Bain analysis

Global M&A activity remained muted in 2024, growing 13% in deal value to \$3.6 trillion. As a result, buyout's share of the market grew to 19% by value, up from 16% in 2023.

## Exits

While both the value and number of global exits showed signs of life in 2024, selling enough companies to keep LPs happy remains a challenge for private equity funds.

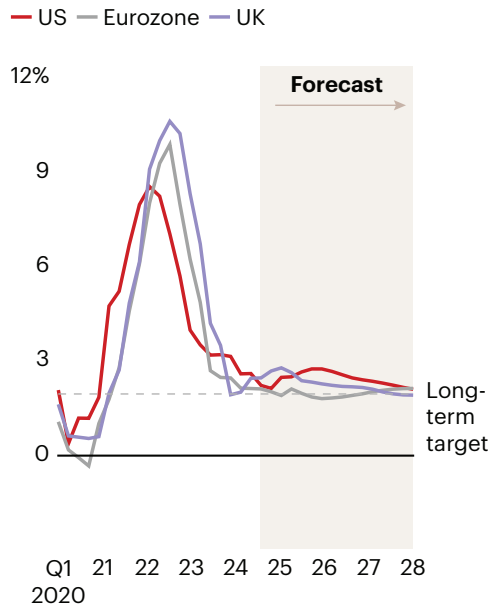
Global exit value jumped 34% year over year to \$468 billion while exit count rose 22% to 1,470 (see Figure 14). Activity was strong in both North America and Europe relative to 2023 but was broadly flat in Asia, with significant declines in China offsetting growth in other countries (see Figure 15).

Despite the green shoots of recovery, both deal value and count remained well below their five-year averages and aren't keeping up with the industry's scale. Buyout funds are holding almost twice the assets they were in 2019, but exit value is at about the same level. This explains why both LPs and GPs see the exit environment as the biggest impediment to strong returns (see Figure 16).

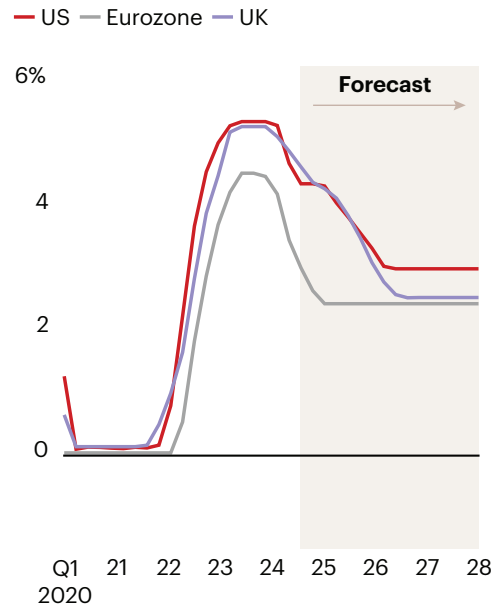
A 141% increase in deals between sponsors (from a very low base in 2023) best explains the increase in exits. Sponsor-to-sponsor exits totaled \$181 billion, helped by a 48% jump in deal size, and accounted for 6 of the 10 largest exits globally, including Blackstone's \$16 billion acquisition of AirTrunk.

**Figure 10:** Assuming inflation remains muted, analysts expect interest rates to gradually decline to a steady state of 2% to 3%

### Inflation annual growth rates (CPI) by region, quarterly



### Key central bank interest rates by region, quarterly



Notes: Forecast based on Moody's baseline scenario as of January 2025; CPI is not seasonally adjusted; interest rates are the federal funds rate (US), ECB refinancing rate (eurozone), and Bank of England base rate (UK)  
Sources: Moody's; US Bureau of Labor Statistics; European Commission; UK Office for National Statistics; US Board of Governors of the Federal Reserve System; European Central Bank; Bank of England

Strategic deals (sales to corporate buyers) were flat year over year at \$261 billion. But several sponsors managed to complete scale deals with corporate buyers, including Leonard Green and Berkshire Partners' sale of SRS Distribution to Home Depot for a little more than \$18 billion and the €4.2 billion sale of Spain's Dorna Sports to Liberty Media in a deal completed by Bridgepoint and Canadian pension fund CPPIB.

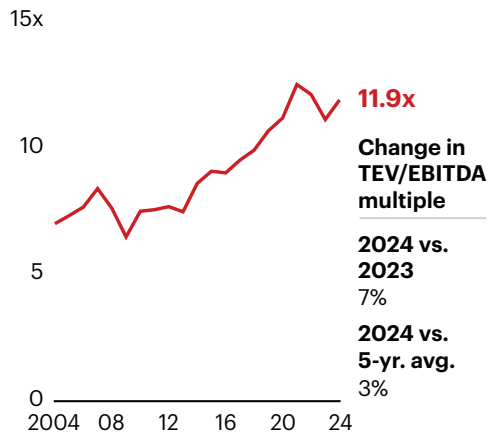
The IPO channel remained sluggish in 2024, representing just 6% of exits by value. ADIA, EQT, and GIC managed to take Swiss healthcare company Galderma Group public for \$2.6 billion. But macro and geopolitical uncertainty kept many offerings on the shelf despite the broader rally in public markets.

The outlook for 2025 is cloudy. A number of companies have filed S-1s or F-1s as of late 2024, including Vista-backed Solera, which hopes to fetch a valuation of \$10 billion to \$13 billion. Yet many private investors view IPOs as the channel of last resort, relying on it only for assets that are too big to sell otherwise. Not only are IPOs a hassle, but they extend the length of time to a full exit and risk swings in value.

**Figure 11:** Deal multiples remain at or near record levels in North America and Europe

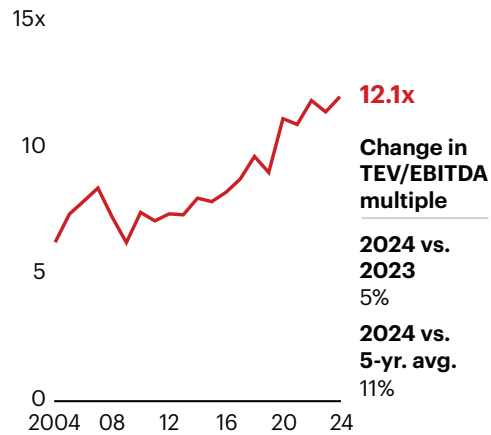
### North America

Median total enterprise value (TEV)/EBITDA multiple



### Western Europe

Median TEV/EBITDA multiple

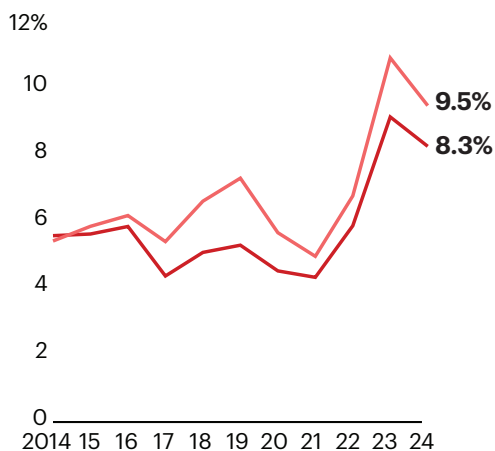


Note: Data as of September 30, 2024  
Source: SPI by StepStone

**Figure 12:** Leveraged loan yields eased off in 2024 while syndicated loan issuance rebounded

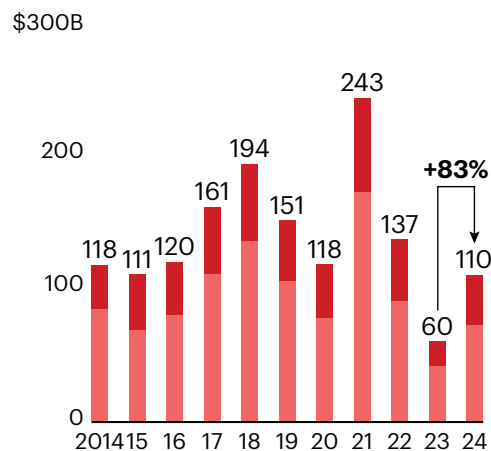
### Leveraged buyout (LBO) yield

— US large corporate — European institutional



### Syndicated LBO loan issuance

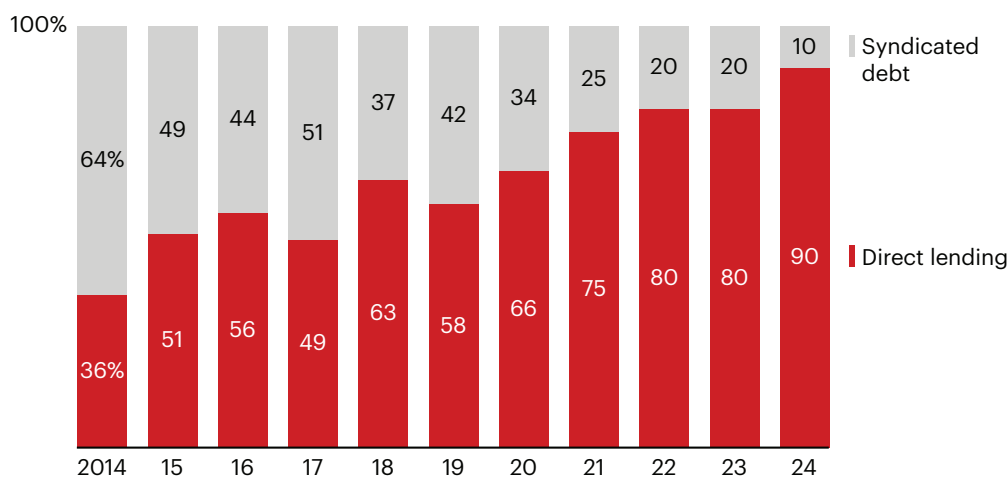
■ US ■ Europe



Notes: European institutional yield includes all tracked LBO deals, regardless of size; US large corporate defined as LBOs with more than \$50 million in EBITDA  
Sources: PitchBook LCD; LSEG

**Figure 13:** Direct lending continued its robust growth in 2024, providing 90% of middle-market buyout financing by the end of the year

**Share of US middle-market leveraged buyout loan issuance, by debt type**



Notes: Middle market includes issuers with revenues less than \$500 million and total loan package less than \$500 million; direct lending includes nonsyndicated facilities, including club lending  
Source: LSEG LPC

In lieu of better options in traditional exit channels, GPs have continued to look for other solutions. Minority stakes—deals to monetize a slice of a portfolio company either to fund growth or give investors a payout—stood at \$71 billion in 2024, or 15% of the exit total.

After two years of exit declines, 2024's uptick across channels is certainly a welcome relief. But it continues to be overshadowed by the towering \$3.6 trillion of unrealized value represented by 29,000 unsold companies (see *Figure 17*). That number leveled off in 2024.

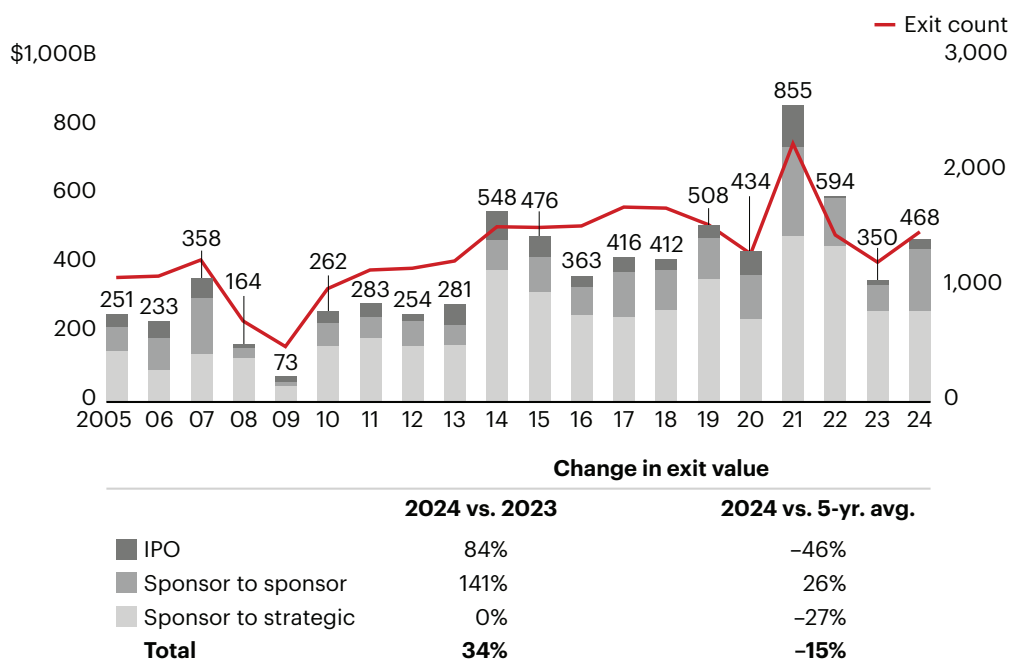
There's probably a lag in these numbers. At the moment, the abnormally large fund vintages of 2021 and 2022 are holding down the median age of these unsold companies, which might be making the situation look better than it is. Given the lofty acquisition prices at which those deals were executed, it's reasonable to ask whether the opposite effect will take hold in coming years if sponsors struggle to exit these expensive assets at reasonable returns. As we'll see in the next section, that pattern wouldn't be unprecedented.

## Liquidity

A closer look at the buyout industry's liquidity quandary goes a long way in explaining the growing pressure GPs are feeling to monetize assets.

**Figure 14:** A strong rebound in sponsor-to-sponsor deals helped pull the exit market out of its two-year slide

### Global buyout-backed exit value, by channel



Notes: Includes partial and full exits; excludes special-purpose acquisition companies and bankruptcies; IPO value represents offer amount and not market value of company  
Source: Dealogic

It starts with a simple statement: With the exception of a spike in 2021, the amount of capital returned to investors is not keeping pace with the industry's increasing scale. While global buyout AUM has tripled over the past decade, distributions as a percentage of NAV have fallen from an average of 29% from 2014 to 2017 to 11% today (see Figure 18).

What history tells us is that periods like this take time to unwind. The normal fund payback schedule follows what the industry calls a J curve—funds call pledged capital, put it to work, and pay it back, usually in around seven years.

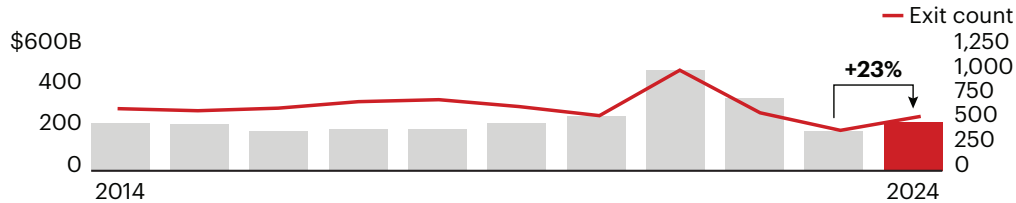
But Covid-era vintages from 2020 to 2022 saw unusually rapid initial drawdowns to feed a record level of dealmaking. That was followed by an abrupt skid in exits brought on by the postpandemic spike in interest rates. The resulting J curve so far looks a lot like the average for 2005–06 fund vintages that were launched right before the global financial crisis. Those vintages took over nine years, on average, to return capital to investors, raising fears that the capital lodged in current portfolios will take equally long, or even longer, to pay back (see Figure 19).



**Figure 15:** While North America and Europe saw increases in both exit value and count, Asia-Pacific remained broadly flat

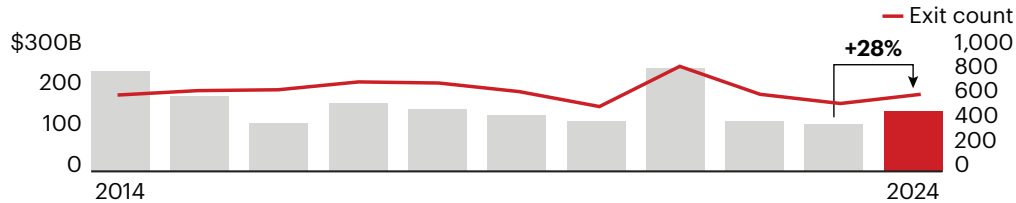
### North America

Buyout-backed exit value



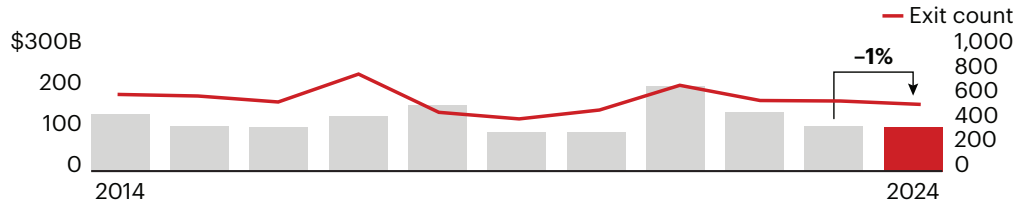
### Europe

Buyout-backed exit value



### Asia-Pacific

Buyout-backed and growth exit value



Notes: Includes IPO data; IPO value represents offer amount and not market value of company; North America and Europe—includes partial and full exits; excludes special-purpose acquisition companies and bankruptcies; Asia-Pacific—includes buyout, growth, and venture exits; excludes real estate and deals with announced value less than \$10 million; includes investments that have closed and those at agreement-in-principle or definitive agreement stage

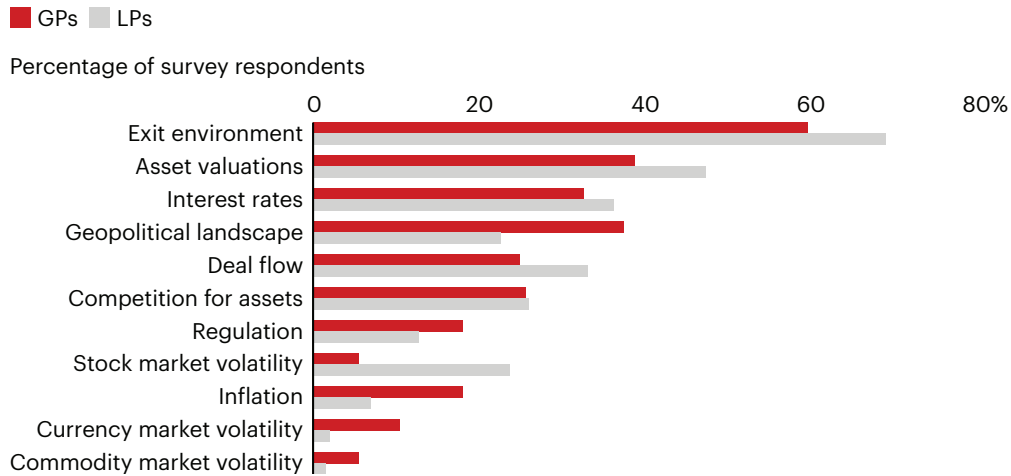
Sources: Dealogic; AVCJ; Bain analysis

One difference between then and now is the growing prevalence of liquidity mechanisms such as minority stakes, secondaries (especially continuation funds), NAV loans, and dividend recaps. These allow GPs to generate cash and keep hold of an asset until its return can ripen more fully. These financial tools aren't a replacement for exits. But in 2024, they definitely helped to improve cash flow. Combined with the uptick in exits and a slower pace of drawdowns, these liquidity mechanisms helped push the industry's cash flow balance to breakeven (see Figure 20).

The degree to which funds are using the full range of tools to generate liquidity—and how that usage has grown amid the souring exit environment—becomes clear in data from StepStone. The analysis looks at current portfolio companies purchased as far back as 2014 and that have been held for at least five years.

**Figure 16:** GPs and LPs agree that a difficult exit environment and elevated asset multiples are the biggest threats to returns

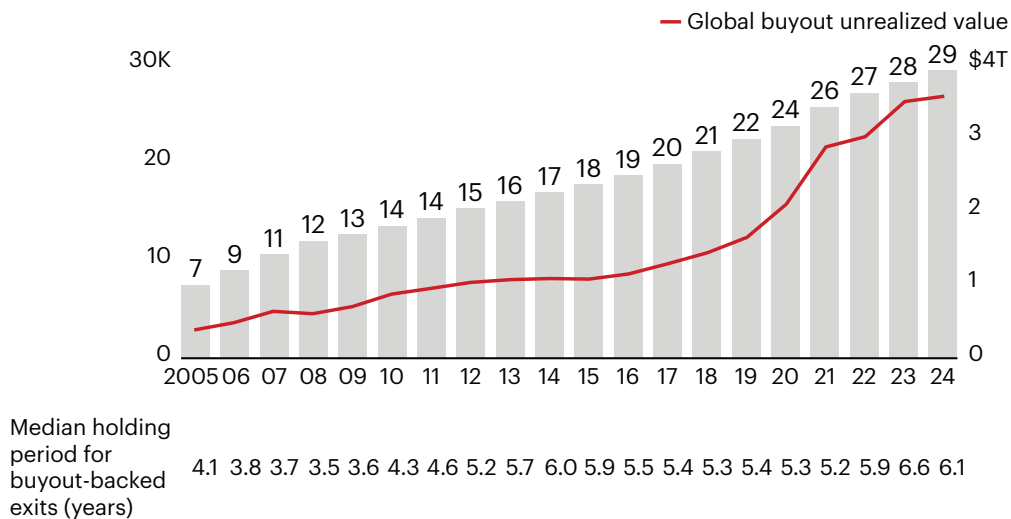
**Q: What do you see as the main challenges to return generation in the next 12 months in private equity?**



Source: Preqin Insights+ research

**Figure 17:** Unrealized value leveled off in 2024, but buyout funds still have too many aging portfolio companies

### Global active buyout-backed companies



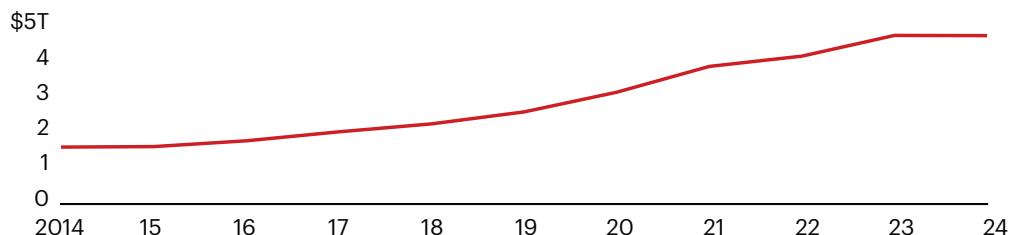
Notes: Excludes add-ons; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; global buyout unrealized value through June 2024

Sources: PitchBook; Preqin

**Figure 18:** Distributions to investors have not kept up with strong growth in assets under management

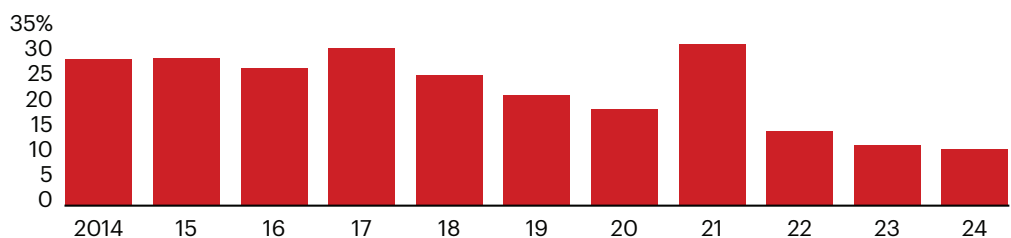
### Assets under management

Global buyout AUM



### Distributions

Global buyout distributions as a percentage of net asset value



Notes: Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; global buyout AUM through June 2024; global buyout distributions as percentage of NAV through Q3 2024, annualized

Sources: Preqin; MSCI; Bain analysis

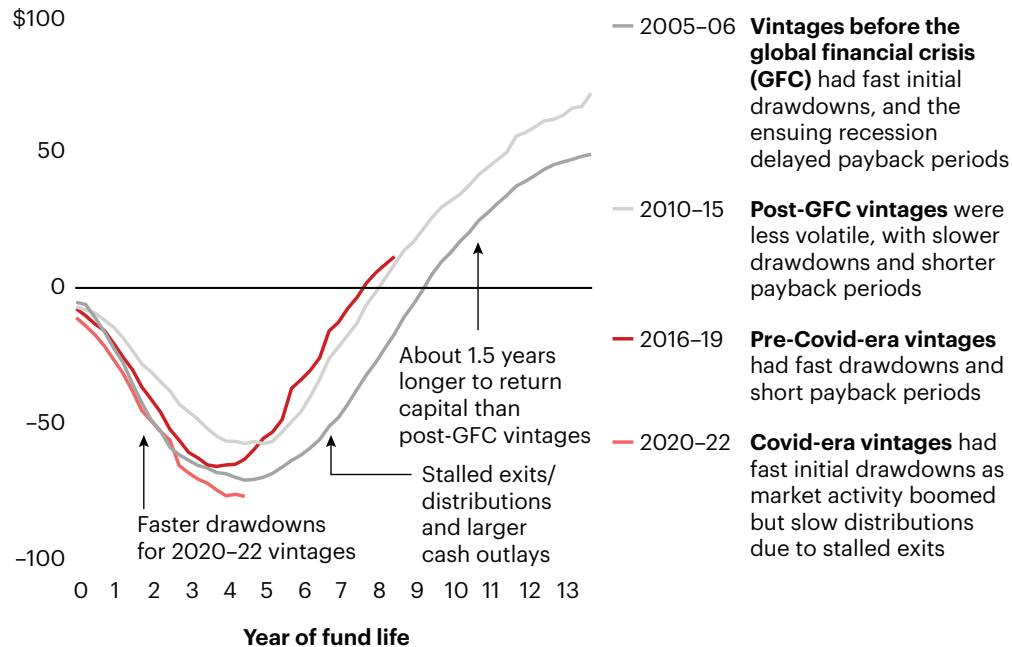
From 2014 to 2016, the fully realized portion of total portfolio company realizations averaged around 44%. But for the 2019 vintage, the last one with a five-year record, that portion had dropped closer to 20%. Most companies in 2019 matured in the middle of the exit downturn, forcing sponsors to generate liquidity through other mechanisms. The result was that partial realizations accounted for 65% of total realizations for the 2019 vintage, vs. 37% for 2014 (see Figure 21).

Overall, about 30% of companies currently held in buyout portfolios have undergone some sort of liquidity event. Not surprisingly, the likelihood of a partial realization rises with the age of the asset and how well it has performed to date (see Figure 22).

The growth of the secondaries market also reflects the demand for liquidity. These funds, designed to raise cash by moving one or more assets out of a private equity portfolio into a new vehicle, raised \$102 billion in 2024, pushing total secondaries AUM to \$601 billion (see Figure 23). GP-led secondaries are typically continuation vehicles (CVs), and over the last five years, the number of CVs has grown fourfold while total value has increased almost threefold. Firms including KSL Capital Partners and Astorg raised multibillion-dollar CVs in 2024.

**Figure 19:** Drawdowns from recent fund vintages are mirroring those from 2005–06, raising the specter of delayed payback to investors

**Global buyout net cash flow per \$100 commitment, by vintage year**



Note: Data through Q3 2024  
Sources: MSCI; Bain analysis

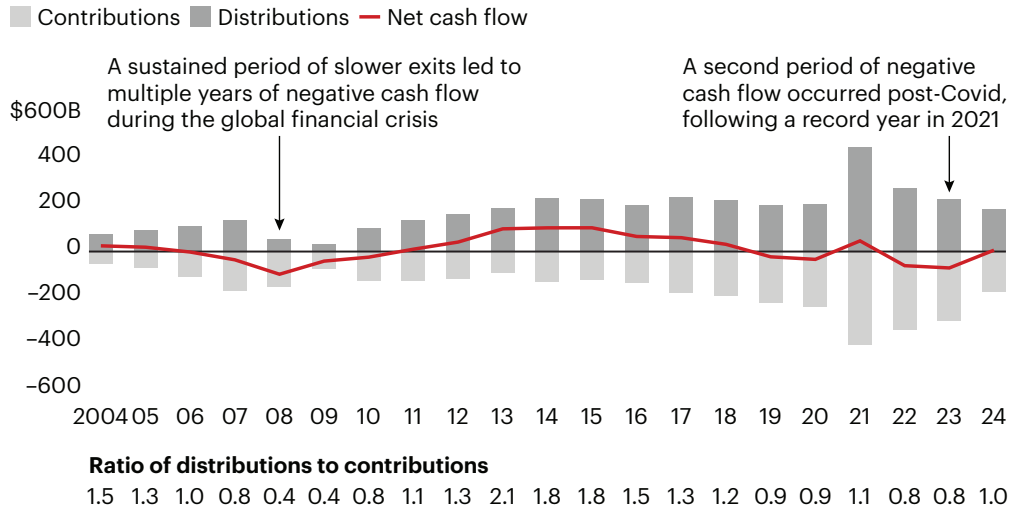
It's clear that these funds have staying power. While the current growth spurt owes much to the industry's liquidity issues, the funds are generating returns for their originators on par with the broader buyout sector, with a narrower dispersion of returns.

NAV loans have grown steadily in recent years as well, as they provide GPs with relatively efficient ways to fund growth or add-on acquisitions. Increasingly, they also offer GPs a way to invest 100% of LPs' commitments, vs. the full amount less the value of fees. Bridging that gap with a loan allows GPs to put more money to work on behalf of investors while making money on the spread between the NAV loan cost and the deal's return. According to S&P Global, market participants expect that the \$150 billion in NAV facilities currently in the market will double within the next two years.

Despite the rising popularity with GPs, LPs' perceptions of NAV financing are mixed, particularly when it is used to provide financially engineered distributions. A survey by Capstone Partners suggests that around three-quarters of LPs are neutral to positive on GP-led secondaries as a mechanism to create liquidity, while close to 40% are neutral to positive on NAV loans.

**Figure 20:** Buyout funds' net cash flow improved in the first three quarters of 2024, pushing the industry to breakeven

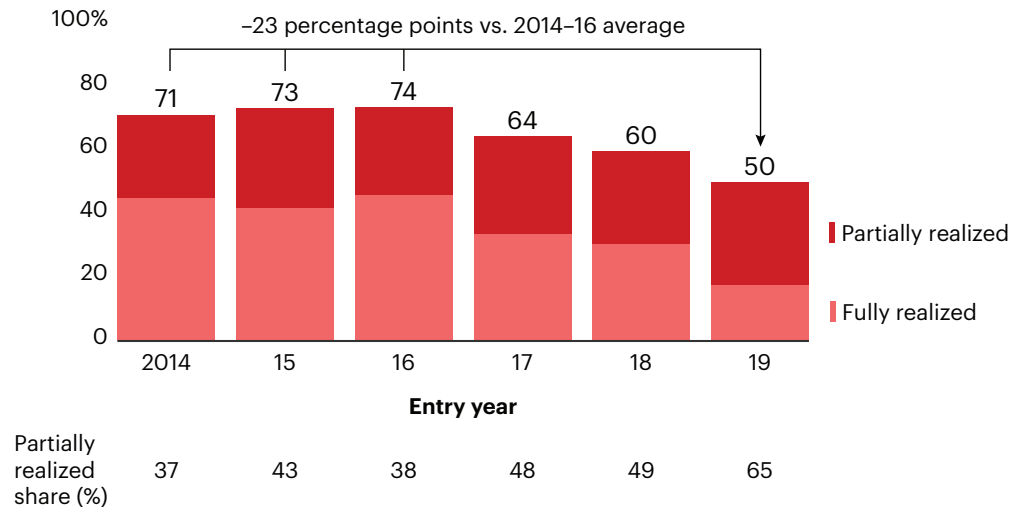
### Global buyout fund capital contributions and distributions



Note: Data through Q3 2024  
Source: MSCI

**Figure 21:** Funds have grown increasingly reliant on generating liquidity through partial realizations as asset holding periods lengthen

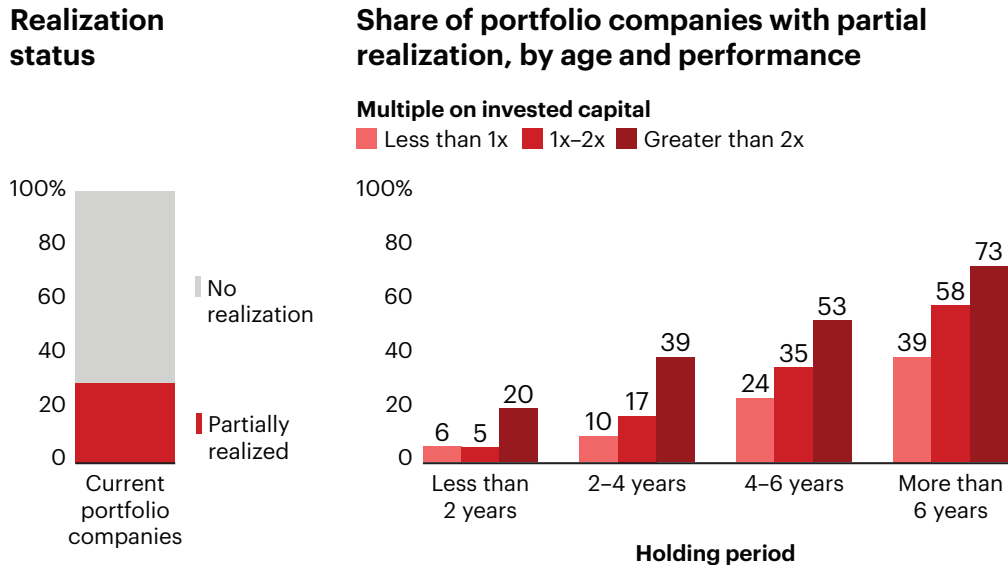
### Assets partially or fully realized at holding period of 5 years



Notes: Partially realized defined as investments with liquidity events valued between 5% and 90% of total company value; fully realized defined as investments with liquidity events valued at 90% or more of total company value  
Source: SPI by StepStone

Global Private Equity Report 2025

**Figure 22:** Around 30% of the companies currently in buyout portfolios have had a liquidity event, with the proportion rising by age and performance

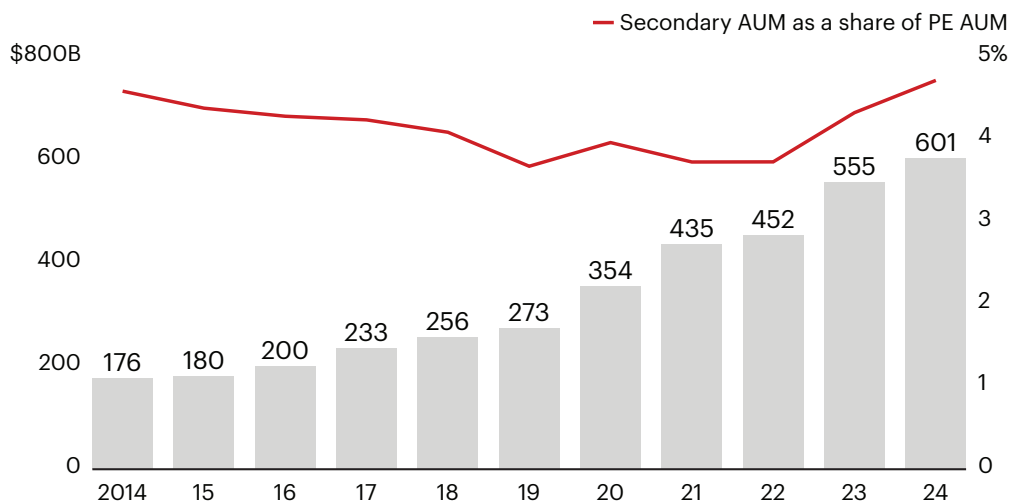


Notes: Partially realized defined as investments with liquidity events valued between 5% and 90% of total company value; fraction calculated based on the number of partially realized companies divided by the number of unrealized and partially realized companies; includes buyout deals with entry investment date between 2004 and 2024

Source: SPI by StepStone

**Figure 23:** Secondary funds continue to accumulate capital, and their steady share of industry AUM suggests there's ample room for growth

**Global secondary assets under management**



Notes: Data through June 2024; includes private equity, real estate, infrastructure, and direct secondaries

Source: Preqin



## Fund-raising

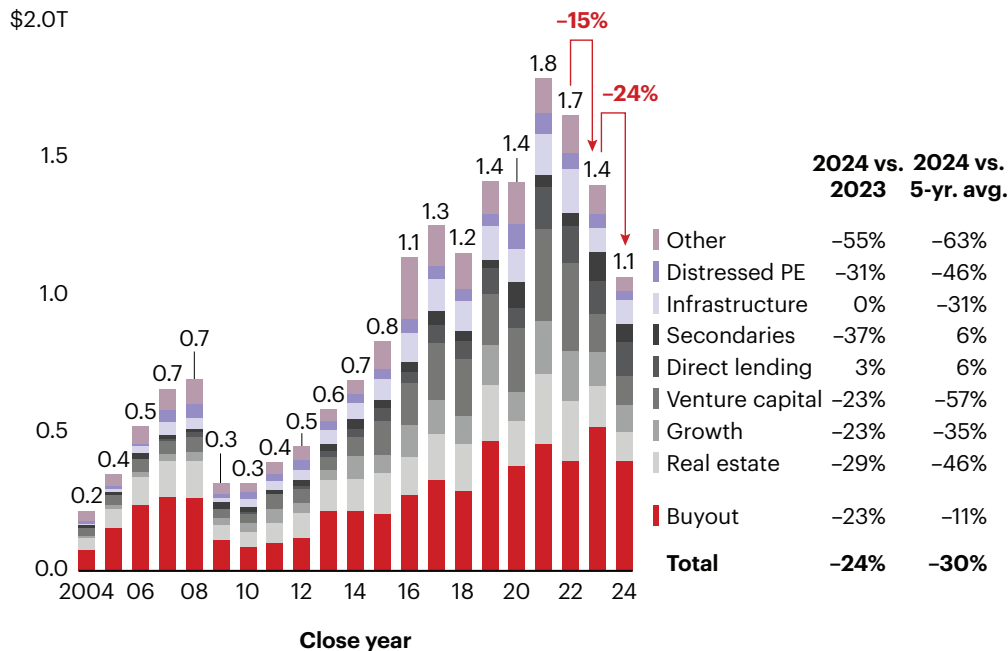
Fund-raising across private asset classes fell for the third year in a row, ending 2024 at \$1.1 trillion, down 24% year over year and 40% off the all-time peak of \$1.8 trillion in 2021 (see Figure 24). The number of funds closed dropped 28% to 3,000, which is about half the annual pace the industry was keeping before the Covid-19 pandemic.

Only two asset classes escaped declines. Infrastructure fund-raising was flat at \$89 billion, although still 31% off its five-year average. Direct lending, meanwhile, was the year's clear winner, with a 3% increase to \$123 billion, which represents a 6% hike over its five-year average. As noted earlier, direct lending funds are taking full advantage of a pullback in high-yield bank lending as well as growth in innovative deal structures.

While the industry's largest asset class—buyout—continued to capture more than a third (38%) of all private fund-raising, buyout funds raised 23% less than in 2023. The \$401 billion in hand at the end of 2024 was about 11% below buyout's five-year average. North America took the biggest hit with a 34% decline in

**Figure 24:** Global private fund-raising declined for a third straight year, with only two asset classes avoiding the slide

### Global private capital raised, by fund type

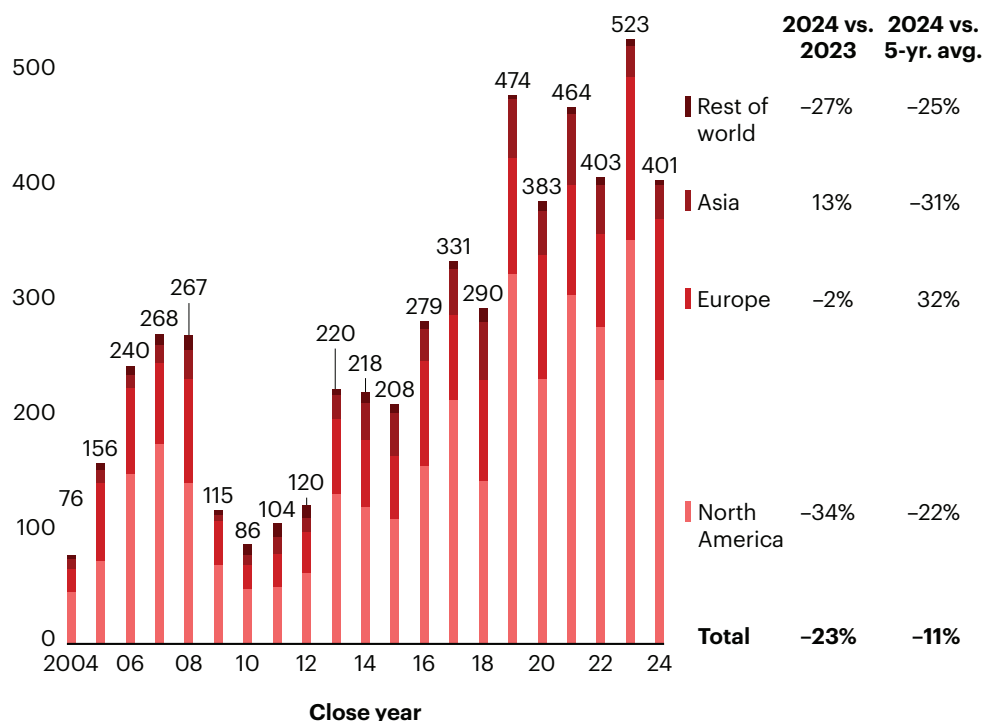


Notes: Includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; includes funds with final close and represents the year in which they held their final close; excludes SoftBank Vision Fund; other category includes fund of funds and mezzanine and excludes natural resources  
Source: Preqin

**Figure 25:** Buyout fund-raising declined in every region but Asia after a record year in 2023

### Buyout capital raised, by investment region focus

\$600B



Notes: Includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; includes funds with final close and represents the year in which they held their final close; excludes SoftBank Vision Fund  
Sources: Preqin; Bain analysis

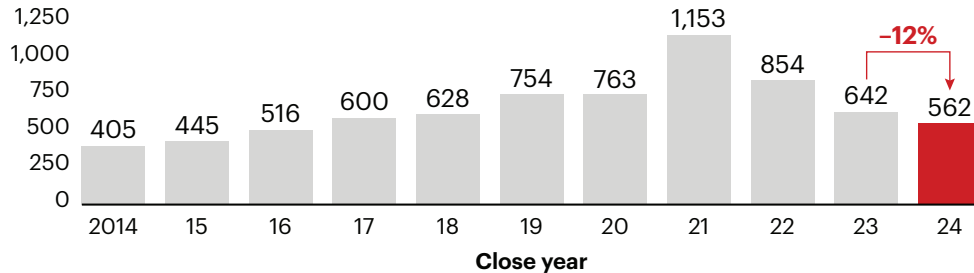
funds raised, while Europe was essentially flat and Asia-Pacific came in 13% higher (see Figure 25). The number of funds in the market declined by 12% to 562, and average fund size slipped 19% to \$843 million (see Figure 26).

While the number of buyout funds meeting or exceeding their fund-raising target in 2024 edged up to 85% from 80% in 2023, average time on the road stood at approximately 20 months, not much different than the average in 2022 and 2023, and almost double the typical pace of around 11 months seen before the pandemic. Most notable is the percentage of funds taking two years or more to close. That stood at 38% in 2024, up from 9% in 2019 (see Figure 27).

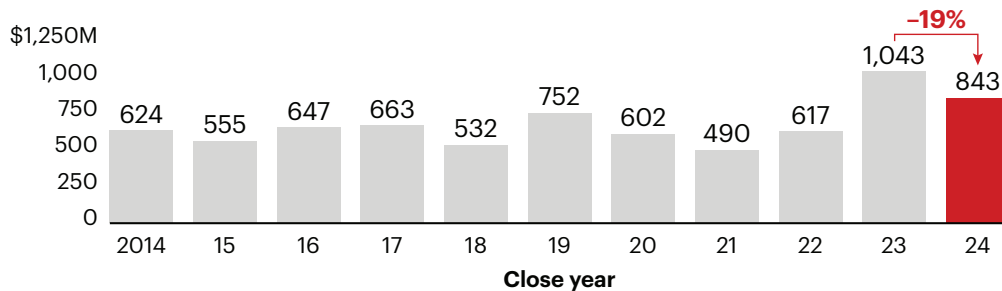
LPs in 2024 continued to funnel capital to the largest, most experienced funds. The top 10 funds in capital raised captured 36% of the pie (see Figure 28). Essentially all capital (98%) went to experienced fund managers, and 40% went to funds raising \$5 billion or more—a trend that has persisted since 2016.

**Figure 26:** The number of buyout funds closing dropped for a third straight year while average fund size pulled back from 2023's all-time record

### Count of buyout funds closed globally



### Average size of buyout funds closed globally



Notes: Includes closed-end and commingled funds only; count includes all buyout funds closed, including those for which the value of final funds raised is not available; average size is total funds raised across all buyout funds for which the value of final funds raised is available, divided by the total number of buyout funds for which the value of funds raised is known; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; excludes SoftBank Vision Fund  
Source: Preqin

Offering coinvestment is a good way to help attract capital in a highly competitive fund-raising environment. It gives LPs an opportunity to negotiate better economic terms, take a more active role in portfolio company management, and cultivate deeper relationships with GPs.

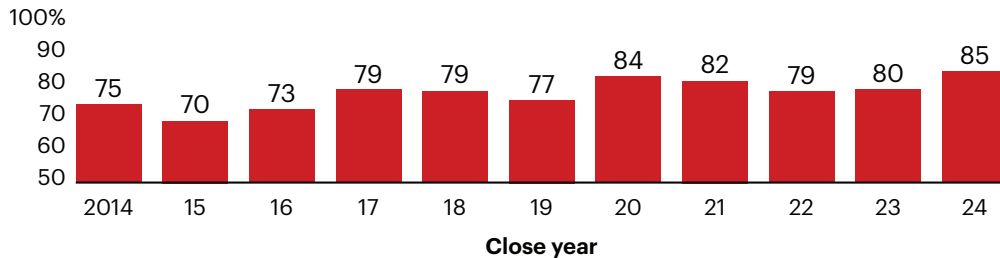
A StepStone survey of 145 GPs shows that, on average, the ratio of coinvestment capital to fund size is consistent at 1:5, or 20 cents on the dollar (see Figure 29). The number of coinvestment opportunities offered increases with fund size. An \$11 billion global buyout fund, for instance, will attract \$2 billion in coinvestment and offer six coinvestment opportunities, on average. It's important to note, however, that this number can vary widely from fund to fund.

The recent sharp drop in the number of funds on the road is a common pattern following periods of economic shock (see Figure 30). Typically, average fund size drops precipitously as well, but this time has been different. While the number of funds closing in the wake of the recent interest rate shock has dropped as usual, average fund size rose sharply until 2024. The average of \$843 million, in fact, is well

**Figure 27:** Most funds continue to close at or above their target, but it has been taking significantly longer in the post-Covid era

### Funds reaching or exceeding target

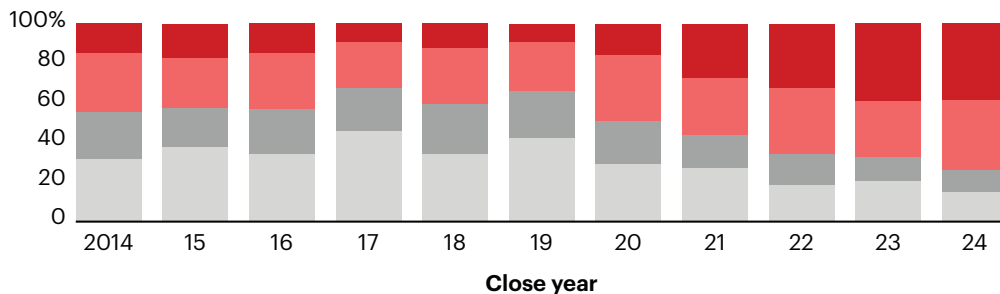
Percentage of closed buyout funds globally that reached/exceeded fund-raising target



### Time to close

Distribution of global buyout funds raised, by time to close

Less than 6 months 6 months–1 year 1–2 years More than 2 years



Notes: Percentage of funds that reached/exceeded target based on share of count; distribution of global buyout funds raised by time to close includes only those funds for which date of launch is available; includes all buyout funds that closed in the respective year for which both the fund-raising target and the value of final funds raised is known; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; excludes SoftBank Vision Fund  
Sources: Preqin; Bain analysis

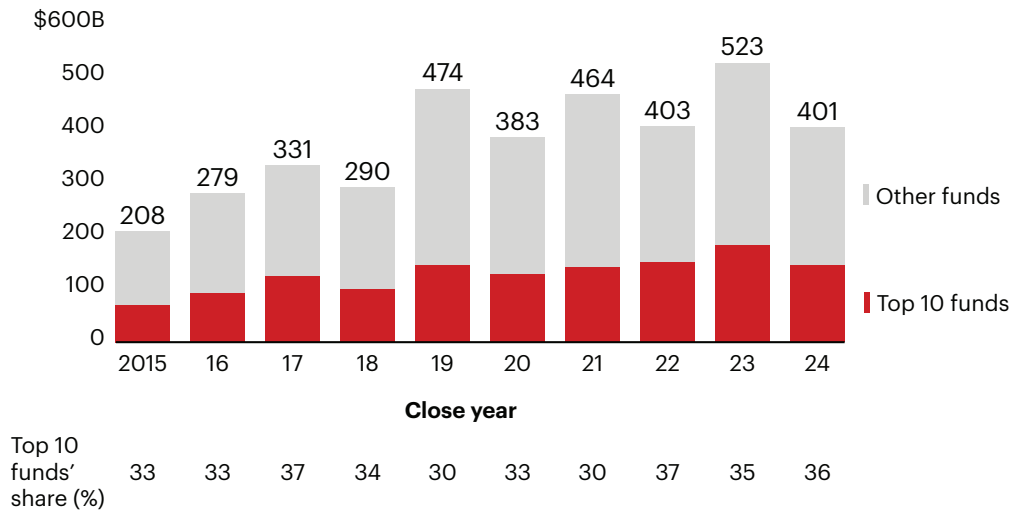
above the five-year average. The reason is clear: Investors are increasingly looking for the safe haven of large, experienced funds, especially those that offer a value proposition that stands out from the crowd.

This size/differentiation premium is also apparent in the turnover among the top 20 buyout firms over the past 15 years, measured by buyout capital raised. The incumbents tend to be scale firms with the resources and capabilities to win across multiple asset classes (e.g., Blackstone, CVC, KKR, Apollo, and TPG). Those that have joined more recently are firms with a clear focus, expertise, or capability set that enables them to consistently generate alpha—tech specialists like Thoma Bravo and Vista, for instance—or those with a particularly disciplined approach to buyout, like CD&R.

## Global Private Equity Report 2025

**Figure 28:** The top 10 funds typically account for 30% to 40% of all buyout capital raised

### Global buyout capital raised



Notes: Top 10 funds defined as the largest 10 funds raised by value in a single year, independent of other years' fund-raising levels; includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; includes only those funds with final close data; excludes SoftBank Vision Fund  
Sources: Preqin; Bain analysis

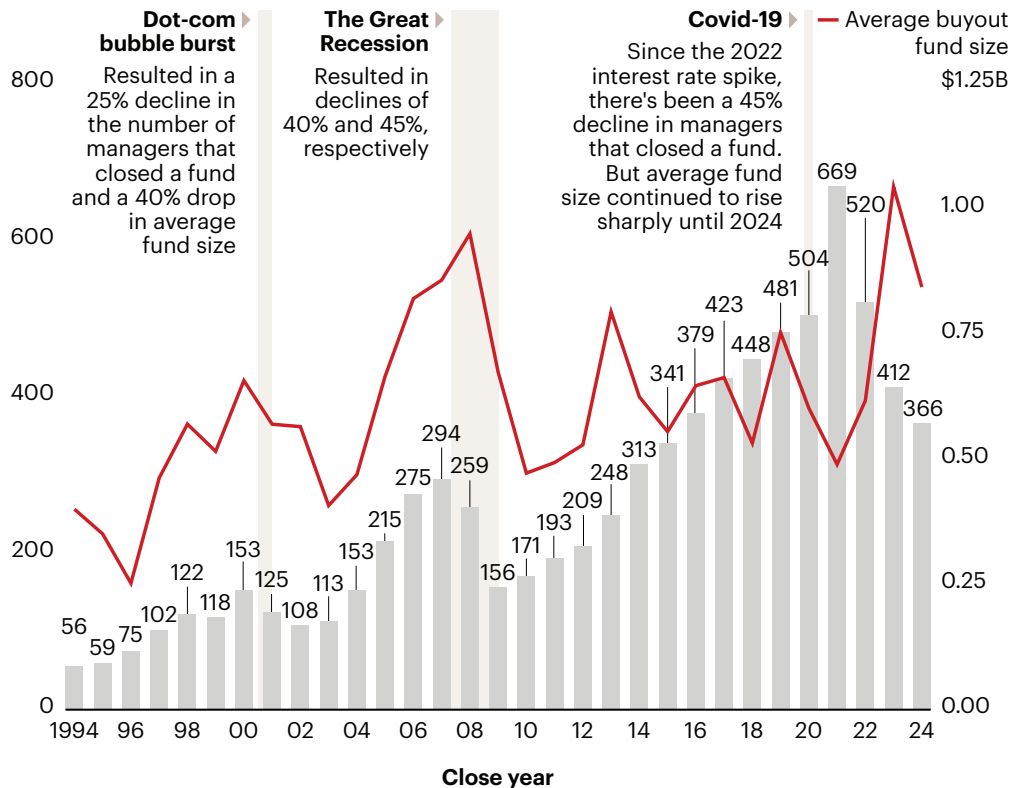
**Figure 29:** Coinvestment capital flows into funds at a consistent ratio, on average, regardless of fund size

	Small buyout	Medium to large buyout	Global buyout
Average fund size	\$650 million	\$3 billion	\$11 billion
Average total LP coinvestment per fund	\$150 million	\$750 million	\$2 billion
Average number of coinvestments offered per fund	3 of 11 ( about 27%)	4 of 15 (about 27%)	6 of 29 (about 21%)
LP coinvestment to fund size ratio	1:5	1:5	1:5

Notes: StepStone survey covered more than 1,700 private equity buyout coinvestments completed by more than 145 GPs and 420 funds; includes buyout coinvestments from 2005 to 2023 for which StepStone tracks parent fund data; portfolio companies per fund represents the average for each sector, per SPI by StepStone  
Source: StepStone Coinvestment Survey, September 2023

**Figure 30:** Economic downturns tend to reduce both the number of funds seeking capital and average fund size—until now

### Count of fund managers closing at least 1 buyout fund



Notes: Includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; includes funds with final close and represents the year in which they held their final close; average fund size based on funds for which the value of final funds raised is available and greater than zero; excludes SoftBank Vision Fund  
Sources: Preqin; Bain analysis

## Returns

Buyout funds continue to outperform public markets in all regions across time horizons longer than five years (see Figure 31). But the trend over the past three years has been slightly downward, with 10-year returns falling 3 percentage points in North America and 1.5 points in Europe.

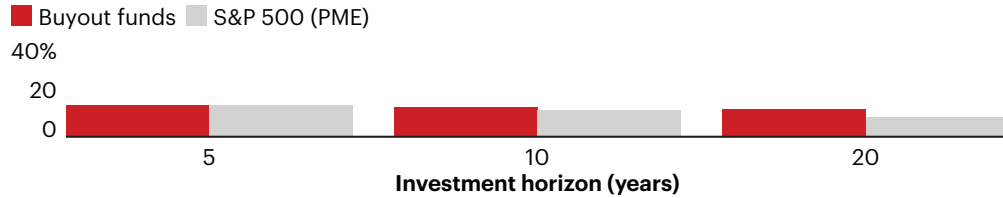
At the same time, public equities globally had a banner year in 2024, especially in the US, where a surge in tech stocks led by the Magnificent 7 drove the S&P 500 index to a 23% return. This run-up compressed the delta between average public and private 10-year returns in the US. In Europe, where public indexes are more balanced across industries, the gap in 10-year returns favoring private equity is much more consistent (see Figure 32).



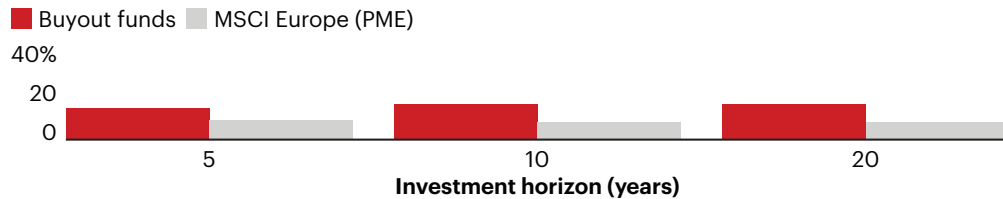
**Figure 31:** Buyout funds outperform public markets across time horizons longer than five years

**End-to-end pooled net IRR (as of Q3 2024)**

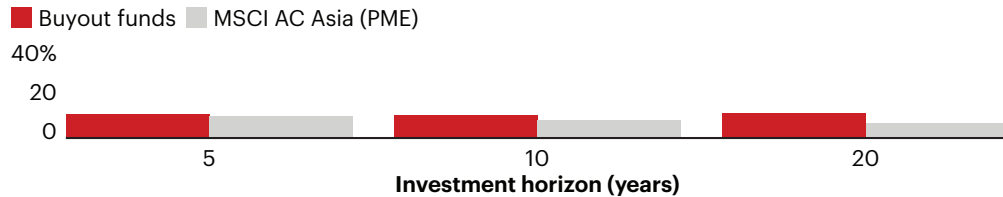
**US**



**Western Europe**



**Asia-Pacific**



Notes: Data for US and Asia-Pacific calculated in US dollars; data for Europe calculated in euros; public market equivalents calculated using the Long-Nickels index comparison method, an IRR-based methodology that makes meaningful comparisons between private capital investments and indexes; methodology assumes buying and selling the index according to the timing and size of the cash flows between the investor and the private investment; Western Europe includes 32 countries, as defined by MSCI  
Source: MSCI

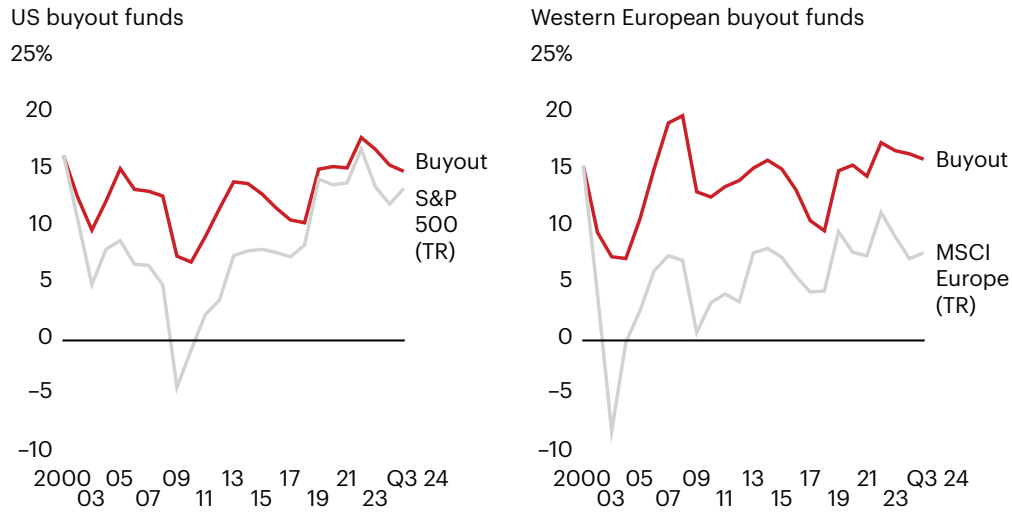
Of course, what matters most to private equity's bread-and-butter investors is the opportunity to capture top-tier results, not averages. It's also true that buyout returns overall are more balanced. The tech concentration in the S&P 500 is a turn-off for many investors. Indeed, one of the main drivers behind the growth of retail capital is that private equity funds can offer much better diversification for wealthy individuals.

Yet any fund aspiring to top-tier performance needs to understand that generating alpha has never been more challenging. Fierce competition for deals ensures multiples remain high. Elevated debt costs make it more difficult to capture value through leverage. Fees are under pressure, and costs are rising for everything from generating differentiated insights to running a world-class investor relations function.

## Global Private Equity Report 2025

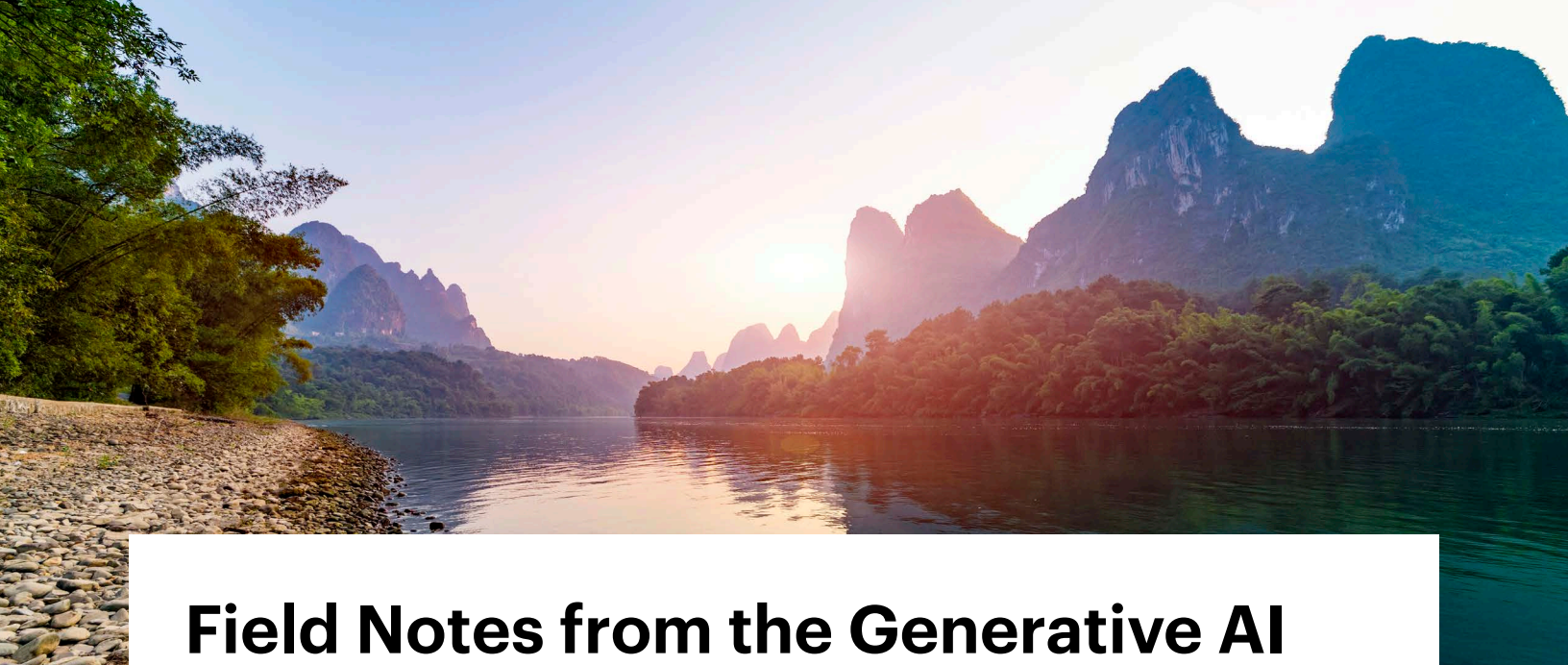
**Figure 32:** US and European buyout funds have outperformed public markets, although the gap has narrowed in the US

### 10-year horizon IRR vs. public markets



Notes: MSCI TR calculated using public market equivalents via the Long-Nickels index comparison method, an IRR-based methodology that makes meaningful comparisons between private capital investments and indexes; methodology assumes buying and selling the index according to the timing and size of the cash flows between the investor and the private investment; Western Europe includes 32 countries, as defined by MSCI  
Source: MSCI

What all this suggests is that, while the industry may be recovering from its latest shock to the system, strong performance is getting harder, not easier. Upturns inevitably present plenty of opportunities to lead. But the winners in the years ahead will be the funds that can demonstrate a consistent, differentiated model for value creation today and a clear strategy for maintaining growth and performance over the long term.



# Field Notes from the Generative AI Insurgency in Private Equity

Private equity is learning fast what works and what doesn't when applying AI to create value. Here's how firms are organizing themselves to win.

**By Gene Rapoport, Richard Lichtenstein, Richard Allinson, and Geoffroy Descamps**

## At a Glance

- ▶ The race is on among leading private equity firms to unlock meaningful value in the portfolio using generative AI tools.
- ▶ While most companies are in the test-and-learn phase, more and more are discovering tangible use cases that are producing real return on investment.
- ▶ The firms getting ahead of the game are making significant investments in capabilities, sharing what they're learning, and helping portfolio companies stay focused by applying AI to strategic priorities.

In year two of generative AI's sprint across the technology landscape, it's clear everybody in private equity is thinking hard about putting this innovation to work. Today's winners are figuring out where AI can deliver meaningful results and how to build organizational support for AI adoption.

When we surveyed private investors representing \$3.2 trillion in assets under management in September 2024, they reported that a majority of their portfolio companies were in some phase of generative AI testing and development, and nearly 20% of companies have operationalized generative AI use cases and are seeing concrete results. This is an impressive result for such a nascent technology.

It's not surprising that the preponderance of use cases remain in pilot mode—most firms report that companies are still getting up to speed with the plethora of new tools. But that's as it should be. Today's generative AI models are not well suited to every task, and firms need to figure out the right use cases through experimentation.

The firms having the most success mining value tend to share a similar outlook: They've become true believers in generative AI's potential and are committed to managing decisively through this period of change and ambiguity.

These firms recognize that they don't—and can't—know everything yet about how generative AI might deliver value across their portfolios. But they're not letting that get in the way of taking concrete action. They are investing aggressively to build firmwide expertise and helping their portfolio companies apply the power of AI to their most important strategic initiatives. And, together with their management teams, they are tackling change management challenges to overcome “organ rejection” among employees resistant to technologies that could threaten their jobs.

---

**The firms having the most success mining value tend to share a similar outlook: They've become true believers in generative AI's potential and are committed to managing decisively through this period of change and ambiguity.**

---

Working from the principle that what's not possible today may be game-changing in very short order, PE firms are organizing to innovate in several important ways:

- At the fund level, they are rapidly assessing the current strengths and weaknesses of generative AI technology while organizing themselves to learn systematically and share those insights with and between portfolio companies.
- They are investing in tech capabilities, adding AI talent, setting up governance protocols, and assembling experts and advisers to help both the firm and portfolio companies stay attuned to what's on the horizon.
- At the same time, to avoid unfocused dabbling, they are challenging portfolio company management teams to identify a short list of top business priorities and tapping every available resource to determine how AI could help push those initiatives forward. Importantly, they view AI as a tool in service of strategy, not a strategy on its own.

- Their portfolio companies are then scoring early return on investment by using AI to enhance products, boost revenue, and expand margins via operational efficiencies. They are making fast, pragmatic decisions on whether to build, buy, or partner to develop solutions, and they're moving forward buttressed by clear strategies for implementation and change management.

Learning and doing at the same time is never easy. But here are some field-level glimpses of how several firms are approaching the challenge.

## **Bringing the full-court press**

It's safe to say that software specialist Vista Equity Partners has gone all in on generative AI. Firm leaders are already convinced AI represents a paradigm shift in innovation that will ultimately create a multitrillion-dollar investment opportunity. In fact, over the next three to five years, Vista expects that AI's outsize impact on a software company's top and bottom lines will rewrite the Rule of 40—the yardstick investors have used for years to evaluate promising software-as-a-service (SaaS) companies. As AI helps the industry enhance products and cut costs, Vista believes the new standard for revenue growth plus margin will reach 50% or even 60%.

---

## **Firm leaders are already convinced AI represents a paradigm shift in innovation that will ultimately create a multitrillion-dollar investment opportunity.**

---

Armed with that conviction, Vista is marching into battle. To supercharge learning and implementation, the firm has arrayed an internal army of professionals dedicated to helping its 85-plus portfolio companies apply AI across the organization in product innovation, research and development, go-to-market, talent, and operations.

As part of its annual operational planning process, Vista is requiring each of its portfolio companies to submit goals and quantified benefits from generative AI initiatives. It regularly screens and triages its portfolio to determine where opportunities and risks lie and then partners with management teams to help them either move out of harm's way or seize on the potential to enhance value. Company executives are expected to share what they're learning at a GenAI CEO Council organized so small companies can learn from large ones and vice versa. Vista's team of experts then works hand in hand with management teams to accelerate adoption and results, defining and monitoring relevant metrics along the way.

Vista has even found a way to “gamify” AI adoption in its portfolio through hackathons, held annually in the US and India, where companies compete to develop the best use cases using large-scale, pretrained

generative AI tools accessed via industry partnerships. Hackathon projects launched just under two years ago have already become revenue-generating products at scale today.

As a software specialist, Vista has a clear need for generative AI at nearly all of its majority-owned portfolio companies—most, at a minimum, are using AI-based code-generation tools (driving up to 30% increases in coding productivity for scaled adopters). But 80% of those companies are also deploying generative AI tools internally or developing new products. A good example is Avalara, a Vista portfolio company that makes tax compliance software. It is using a generative AI tool from Drift (now part of Salesloft) to increase sales rep response time by 65%.

Another case study: LogicMonitor, which offers AI-powered data center transformation software. The company's SaaS-based monitoring platform uses generative AI to summarize complex alerts from multiple sources of data either on premises or in multi-cloud environments. It pinpoints existing problems rapidly and accurately while predicting new ones before they happen. LogicMonitor's agentic AI solution, Edwin AI, has been generating an average \$2 million annual savings per customer, leading to a meaningful uptick in recurring revenue. Vista believes that kind of performance stems from a guiding principle for AI deployment: Where AI-enabled solutions can deliver ROI for the end customer (not just the portfolio company), the odds of outpacing the market soar.

## Leadership from the center

At the heart of Apollo Global Management's mobilization around AI is a center of excellence (CoE) set up to accelerate AI adoption across the portfolio. Unlike Vista, which is leaning heavily on internal resources, Apollo has staffed its CoE with two partners and an advisory board of external AI experts. This team has, in turn, built out a broad ecosystem of AI specialists, technology partners, and service providers. The firm has determined they are best in class at what they do, be it AI strategy, product development, sales and marketing effectiveness, or procurement.

The CoE gives the diverse set of portfolio companies in Apollo funds a central resource dedicated to keeping them up to date on technology trends and working solutions. It appraises vendors, evaluates use case ROI, and generally creates an environment of continuous learning. At the same time, it serves as a go-to resource for portfolio company management teams across the funds. For companies with various levels of tech savvy, the CoE helps shape vision, set expectations, and introduce management teams to the appropriate implementation partner or partners, depending on what they need to learn or accomplish.

One of the CoE's key functions is sharing what's working across the portfolio and what has the highest potential for ROI. The CoE runs regular workshops with portfolio company management teams to demonstrate the art of the possible and lay out what's getting results. The workshops begin with tangible AI success stories generating meaningful returns and end with homework assignments for portfolio company leaders. The firm asks each company to identify three to five potential use cases aimed at near-term strategic priorities and then develop a technology roadmap. Apollo has also created a structured playbook that includes an opportunity diagnostic as well as guidance on how to set up effective pilots and devise the strongest implementation plan.

Cengage, in which Apollo holds a minority stake, is currently executing eight AI projects to improve productivity in areas like sales enablement, customer care, content production, sales automation, and new product development. Early results are strong: Costs are down 40% in select content production processes, 15% to 20% via automated lead generation, 15% in customer care, and 10% to 15% in software development. Cengage has also launched two new AI products: Infosec Skills Navigator, which creates personalized cybersecurity training plans, and Student Assistant, a generative AI-enabled tutor bot that is in beta with hundreds of users.

Apollo's Shutterfly, meanwhile, has been testing and implementing new AI capabilities across product development, software development, and customer care. The company launched a new AI auto-fill feature as part of its photo book creation path, which generated \$5 million in new revenue in its first year. AI-enabled code assist has also produced productivity gains of 22% in an important replatforming project.

## Specialization as leverage

Software specialist Hg is no less committed to using AI to generate value across the portfolio. But as David Toms, Hg's managing director in charge of research, described on a recent episode of Bain's *Dry Powder* podcast, the firm relies on the natural desire of portfolio company management teams to help each other coupled with their natural desire to compete, taking advantage of Hg's tight focus on midsize business software companies with similar characteristics and operating models.

Sharing ideas is easier at Hg because its companies tend to face the same problems; a solution that works for one of them will often work for another. Consider how the firm is using generative AI across the portfolio to "refactor" code from outdated software languages to modern ones, extending the life of popular portfolio company products. Hg is also using generative AI to help management teams mine a massive database of companies around the world for sales prospects and M&A targets with specific characteristics.

---

**Generative AI is no panacea. Like any technology, it is a tool that needs to be applied purposefully, practically, and strategically. And as with any technology, learning by doing is the key to harnessing its transformative potential.**

---

By design, Hg looks for companies that operate in high-cost labor markets, where software spending is highest. It then breaks the business software market into clusters (accounting, payroll, industry-specific ERP solutions, etc.) that stand to add significant value by improving workflows to make those highly paid



employees more efficient. This focus on efficiency serves as a bull's-eye in thinking about how generative AI might help enhance value for companies and customers.

One of Hg's accounting software companies, for instance, is using generative AI to take a significant leap forward in its customer proposition. An AI layer on top of its original software has completely transformed what the accountant sees upon opening the application every morning. Instead of providing raw numbers and a chart of accounts that need to be interpreted, the AI layer has already analyzed the data, figured out what needs to be addressed (based on historical patterns), and prioritized a clear set of actions. This gives the highly paid employee a jump-start on the day, freeing time for higher-value activities and boosting productivity.

Hg is pushing portfolio companies to innovate against their highest-value business priorities. Toms says the firm has taken a page from Silicon Valley's book on innovation and encourages its portfolio company executives to explore potential generative AI use cases without a lot of preconceptions. "Don't put an adult in the room," he says, "because the adult will start saying, 'Why don't you do this with the blocks? Why don't you try this?'"

Instead, Hg identifies common challenges and encourages portfolio teams to solve them by playing on their natural instincts to help one other. When it comes to sharing ideas, Hg has found that management teams are more receptive to each other than to a firm-level managing director. As Toms puts it, "They want to talk to other people in the arena fighting the battle."

## Taking the next step

The moral of these stories is that there's no one-size-fits-all approach to mobilization. The best model for tapping generative AI to create value depends on each firm's culture, specialization, and resources. Every firm needs to solve for speed and focus, however. Powerful technologies like agentic AI (autonomous systems capable of goal setting and decision making) and "thinking" models are moving with blinding speed. These tools promise transformative impact for firms and portfolio companies that (a) understand them deeply and (b) have marshaled the resources to rapidly apply them to the strategic imperatives where they can change the game.

Are you ready? Here are several questions firms should be asking themselves:

- Have we assessed the risks and opportunities generative AI creates for each of our portfolio companies?
- Are our companies using generative AI to tackle their most important strategic priorities, or are they still dabbling?



- Have we thought through which approach to AI mobilization best suits our firm’s culture and resources? What combination of building a partner ecosystem, creating an internal team, directly supporting portfolio companies, and helping them collaborate most closely matches our playbook?
- Do we have the right expertise to help companies not only deliver the best technical solutions but also ensure that employees realize the technology’s benefits—that is, by understanding the change required, embracing it, and altering their ways of working?

Generative AI is no panacea. Like any technology, it is a tool that needs to be applied purposefully, practically, and strategically. And as with any technology, learning by doing is the key to harnessing its transformative potential. The time to get started is now.



# Wanted: Margin Growth in Software Investing

Private equity investors have relied almost exclusively on revenue growth and multiple expansion to power software buyout returns. That was nice, but those days are over.

**By Jonny Holliday, Laila Kassis, Thibaud Chabrelié, Sid Mehra, Alexandre Warzee, and Prabhav Kashyap**

## At a Glance

- ▶ Software investors over the past decade have succeeded marvelously at creating value through revenue growth. Expanding margins? Not so much.
- ▶ It's not that they haven't baked margin improvement into their deal theses. The problem has been underwriting and execution.
- ▶ The solution is an integrated due diligence approach that combines commercial, technical, and operating intelligence in a single view of how much growth is available *and* how to capture it most efficiently.

Expanding margins is almost always a part of a software buyout deal thesis.

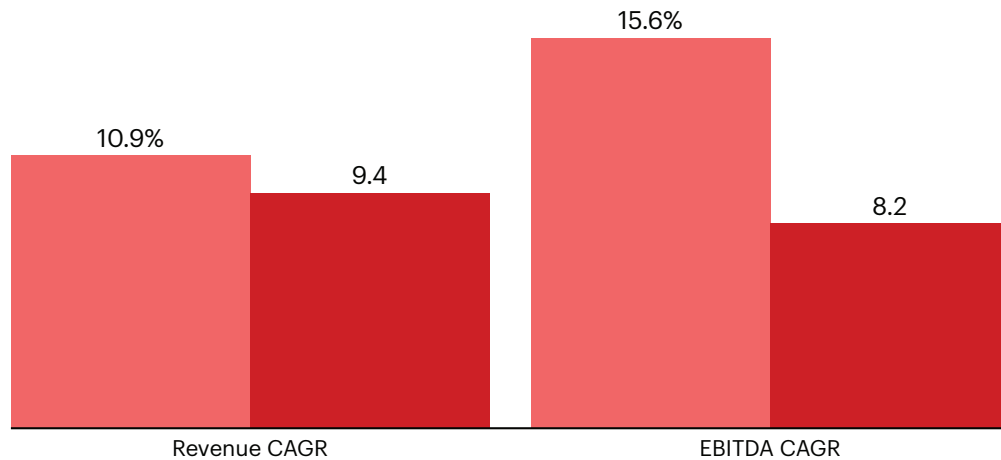
Delivering on those projections turns out to be another matter altogether.

A proprietary Bain & Company analysis of 33 software buyouts shows that 31 of them (or 94%) projected a median 560 basis points of margin improvement over a five-year holding period. Yet, on average, actual margin growth badly trailed these models after five years of ownership (*see Figure 1*).

**Figure 1:** A proprietary Bain analysis of software buyouts shows that actual margin improvement didn't come close to projections, on average

### Median 5-year compound annual growth rate (CAGR)

Projected Actual



Source: Bain & Company

That discrepancy correlates closely with data breaking down the sources of return for software deals. Over the past decade, according to CEPRES–DealEdge, revenue growth has accounted for 52% of value creation in the software subsector while multiple expansion has contributed 42%. Margin growth, meanwhile, has contributed just 6% of value, with top-quartile deals responsible for virtually all of that improvement (see Figure 2).

Why have software investors failed to deliver on this key component of value creation? The easy answer is that they haven't had to. A decade or more of steady tailwinds from heavy technology spending, cheap capital, and steadily rising sale multiples has helped the software subsector achieve among the strongest returns in private equity for 15 years running. Ensuring that a company operated more efficiently was “nice to have” but not necessarily critical. Focusing on top-line growth in most cases has delivered great results.

But relying on that formula in a much more challenging investing environment poses a real risk.

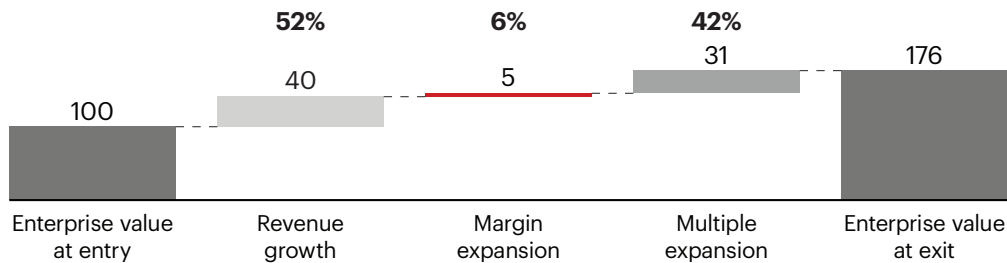
IT budgets, the key driver for software markets, have come under pressure across the economy, meaning robust growth is less certain for many software companies. At the same time, heavy competition for deals continues to keep technology valuations near all-time highs, despite elevated interest rates and financing costs (see Figure 3).

For buyers stretching to justify those rich multiples and find ways to prevail in competitive deal processes, underwriting a reliable path to earnings expansion is critical. And, in most cases, that requires a different

**Figure 2:** Margin expansion is a minor contributor to average buyout returns in software, but it helps give top-tier deals their edge

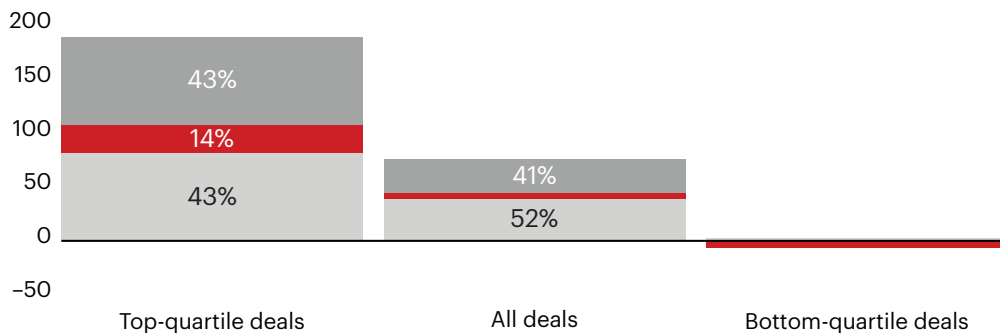
### Median indexed value-creation drivers for global software buyouts (deal entry years 2014–24)

By lever



By quartile performance

Revenue growth Margin expansion Multiple expansion



Notes: All calculations in US dollars; includes fully and partially realized global buyout deals by year of entry, with invested equity capital of \$50 million or more; excludes real estate; top and bottom quartiles based on internal rate of return and only include deals for which IRR data was available  
Sources: DealEdge powered by CEPRES data; Bain analysis

approach to due diligence, one that integrates technical, commercial, and operating considerations in a holistic view of the target.

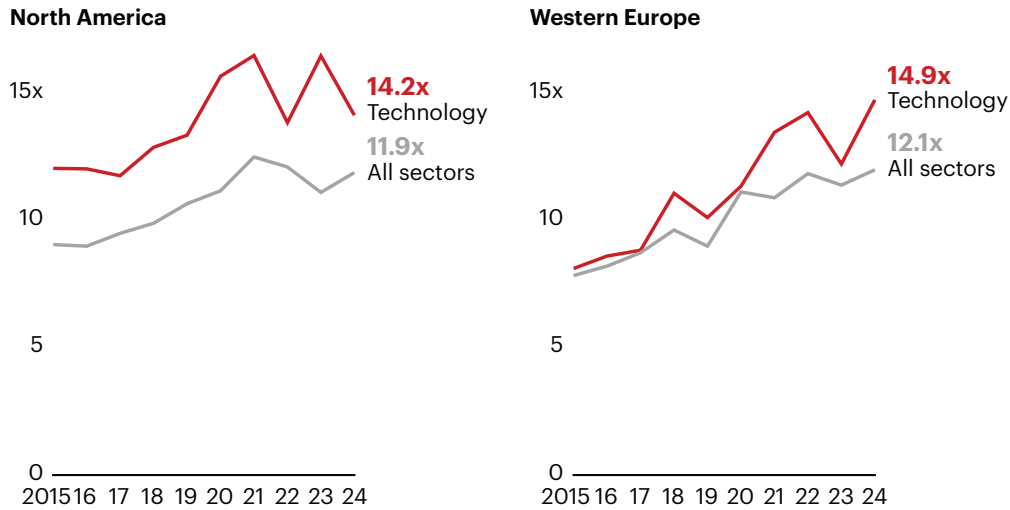
## Getting the full picture

Software investors and their advisers tend to structure diligence as a series of discrete questions. From management interactions to adviser roles, the effort is siloed, as if market prospects, product attributes, IT architecture, and go-to-market capabilities had nothing to do with each other.

Most often, the diligence effort is skewed toward an assessment of *what* a target company can achieve more than *how* the management team might achieve it. Buyers lean in on factors like market growth, white space, competitive position, product efficacy, and customer feedback—critical elements in assessing

**Figure 3:** Valuation multiples for assets in the technology sector are consistently above cross-sector multiples

### Median enterprise value/EBITDA multiples at entry



Note: Data as of September 30, 2024  
Source: SPI by StepStone

growth potential and momentum. But viewed in isolation, they offer little insight into whether a company can reasonably expect to achieve that growth while simultaneously boosting earnings. That leaves buyers guessing how much it will cost to build the capabilities needed to achieve projected growth and whether the investment is likely to pay off.

Diligence that provides a unified, 360-degree view of the company's potential addresses all the key interdependencies between strategy and operations. This changes the conversation from "What is this company's growth potential?" to "Given what we know about its product, technology setup, talent, and commercial organization, what will it take to achieve full potential, and what are we willing to pay for that?"

## Enabling profitable growth

This integrated approach was critical in late 2023 when CVC took a large minority stake in TOPdesk, an IT service-management platform headquartered in the Netherlands. TOPdesk had an especially strong leadership position in its home country, selling software that helps midsize companies optimize and simplify their IT service desks. It had good customer relationships and was gaining significant traction expanding into adjacent markets such as Germany.

What it needed was capital and operational support to enable the next phase of growth.

Commercial due diligence gave CVC confidence that TOPdesk had a large addressable market. But given elevated market multiples for software assets, the firm needed a clear assessment of what it would take to maintain momentum into the future.

While TOPdesk had already made its products more attractive to customers by migrating them to the cloud, integrated diligence found that key changes to its cloud architecture could allow for faster expansion, with greater economies of scale, especially with an important customer group: managed service providers. In addition, while existing customers were happy with the product (as suggested by a high Net Promoter Score<sup>SM</sup>), a more modern user interface (UI) could accelerate new customer acquisition. So, the diligence team assessed how updating the UI could help the sales organization capture “new logos.”

This holistic approach gave CVC the necessary data and insights to underwrite these opportunities with confidence and prioritize the right roadmap to go after them. By quantifying the investment needed, the diligence enabled CVC to strike a partnership with the company to achieve sustained growth.

## Targeting investment

The relationship between technical and commercial diligence also played an important role last year when a global firm took a majority stake in an enterprise resource planning (ERP) software company. Again, the big question in a high-multiple market was “How can we be sure this company has a promising next act?” In this case, the opportunity was catalyzing a new level of performance on the commercial side of the enterprise.

The company develops sticky, well-loved ERP solutions for businesses in a discrete set of traditional industries. Technical diligence showed that it had a well-thought-out plan for migrating products to the cloud and little “technical debt,” or required tech investment to enable its strategy. Commercial diligence confirmed that its strong position in a set of promising markets made its top-line ambitions achievable.

---

**What a company can capture at the top line is only half the story. How it gets there is the key to creating additional value through margin expansion.**

---

Yet an analysis of the go-to-market organization indicated that reaching those goals would likely require investment. The company had a strong group of long-tenured salespeople known for their hustle. But Bain’s OPEXEngine and measures from other sources showed that the organization’s productivity trailed rivals by as much as 30%. The diligence suggested that part of the issue was the company was spread too

thin—it had too many products and not enough intelligence on which were truly profitable. At the same time, the sales team lacked a full set of analytics tools to focus the right sales play at the right time on the customers with the highest potential value.

In the end, the integrated diligence showed the buyer that there was a continued path to robust growth as long as it was willing to invest in accelerating the cloud migration, rationalize the product portfolio, and elevate the go-to-market organization with the tools and capabilities needed to take productivity to the next level. The potential was there to fuel growth at expanded margins, and, critically, the buyer was confident it had an actionable value-creation plan to get there.

Given the ongoing transformative power of technology, there's no reason to believe that software growth is going anywhere but up over the long term. But valuations already reflect high expectations, competition for deals has never been hotter, and an uncertain macro environment continues to blur the shorter-term outlook. In short, investors can't afford a growth-only approach to value creation.

The data is clear: Firms seeing top-tier returns already understand that winning deals *and* executing at a market-beating level requires an integrated process that not only underwrites revenue growth but also lays out a clear plan to achieve it profitably. *What* a company can capture at the top line is only half the story. *How* it gets there is the key to creating additional value through margin expansion.





# PE-Backed Carve-Outs Used to Be Reliable Winners. So What Happened?

Top-tier deals still deliver, but the average carve-out lags. Here's how the best funds continue to win.

**By Greg Schooley, Ben Siegal, Colleen von Eckartsberg, and Lars Dingemann**

## At a Glance

- ▶ While corporate carve-outs used to routinely outperform the average private equity buyout, that spread has narrowed dramatically in recent years.
- ▶ Tough competition and elevated multiples have made it significantly harder to generate strong returns with these highly complex transactions.
- ▶ The firms getting it right aren't just expert in standing up an independent company—they also excel at using an ironclad value-creation plan to transform a hidden gem into a strong performer.

Corporate carve-outs routinely produce some of the flashiest returns in private equity, right?

Well, yes ... and no.

Before 2012, the typical deal to separate an unloved business unit from its corporate parent was a clear winner more often than not. These transactions generated an average multiple on invested capital (MOIC) of around 3.0x, well above the 1.8x average for all buyout deals.



But since then, results have been decidedly mixed. Top-quartile carve-outs continue to produce solid returns—a 2.5x MOIC vs. the 2.7x top-quartile buyout average. Yet the average carve-out deal since 2012 has earned just a 1.5x MOIC, or slightly below average buyout performance broadly (see *Figure 1*). Over that same period, the number of carve-outs has declined by around 50% to approximately 15% of the buyout total.

What's changed is that sponsors aren't delivering the operational improvements they once did. According to DealEdge, carved-out companies increased enterprise value during ownership in the pre-2012 period by boosting revenue and margins 31% and 29%, respectively. Those numbers have slipped to 17% and 2% since 2012, and multiple expansion has fallen commensurately (see *Figure 2*).

This drop-off in performance comes at a time when competition for these deals has increased sharply, pushing up sale multiples. That has clear implications: With the margin for error razor thin, carve-out sponsors need to up their game substantially if they want to join the investors generating those top-tier returns.

## Loving the unloved

The classic corporate carve-out rides on the thesis that a private equity sponsor could unlock significantly more value from a noncore business than its corporate parent could. Value flows from focusing strategy, injecting capital, operating more efficiently, or finding new ways to grow, all while freeing the business

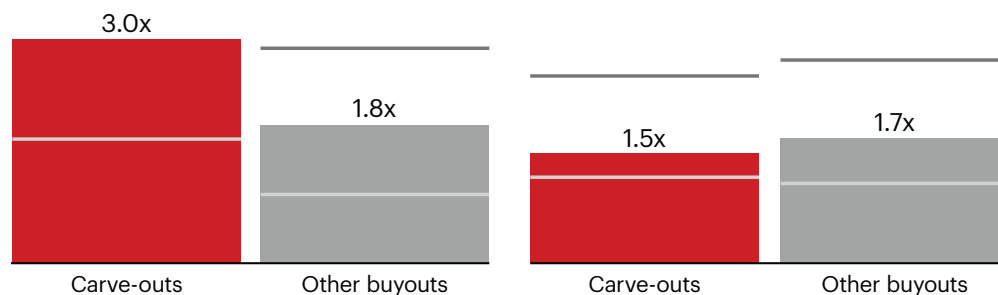
**Figure 1:** Carve-outs prior to 2012 outperformed other buyout deals by a wide margin, but returns have been on par with the broader market since then

### Gross multiple on invested capital for global buyouts

— Top quartile ■ Median — Bottom quartile

Pre-2012

2012 onward

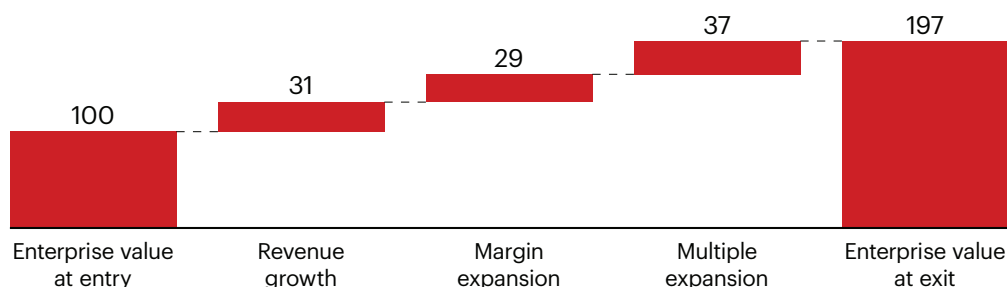


Notes: All calculations in US dollars; includes fully and partially realized global buyout deals with equity check sizes greater than \$100 million  
Source: DealEdge

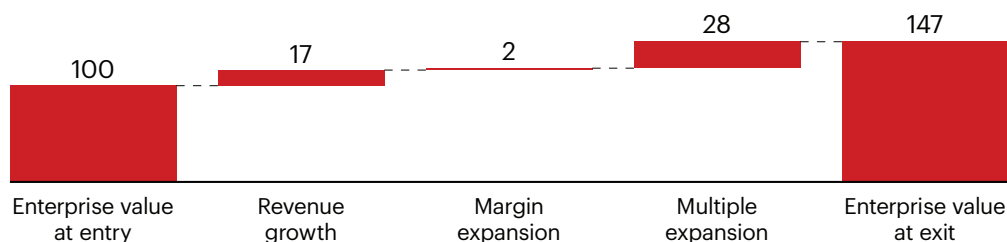
**Figure 2:** The revenue and margin improvement carve-out sponsors were producing prior to 2012 has fallen off sharply since then

### Median indexed value creation for carve-outs

#### Pre-2012



#### 2012 onward



Notes: All calculations in US dollars; includes fully and partially realized global buyout deals with equity check sizes greater than \$100 million  
Source: DealEdge

from a stifling corporate culture and slow decision making. The upside potential is why corporate sellers often retain a minority stake in the new company.

Historically, another factor has also been critical—the carve-out discount. These assets have tended to sell at a lower multiple than standalone buyouts because separating them is costly and complex, limiting the number of potential buyers. As private equity has become more competitive, however, the increased volume of firms pursuing these deals has put upward pressure on multiples, and corporate owners have become smarter about running competitive auction processes. These factors have driven up acquisition prices and turned the spotlight on a sponsor’s ability to add value—or not.

## Carving out success

To find out what separates top-tier carve-out deals from the rest, we analyzed 25 of them completed between 2013 and 2024. The common denominator was clear: Winning sponsors ensure that there is an unbreakable link between the core value-creation thesis and how the new company is set up to achieve it.

Given the complexity of separating a business from its parent, firms often “stand up” a newly independent company first and worry about fixing it second. But the best carve-out practitioners recognize that a two-step process only adds complexity to complexity. The most certain (and de-risked) path to a strong return is to underwrite a bulletproof value-creation plan (VCP) in due diligence and marry it to a separation plan, a talent strategy, and an execution blueprint specifically calibrated to the VCP’s unique requirements. Anything else will sap energy and waste time, blunting the rapid, active management needed from the day the deal is inked.

---

**The most certain (and de-risked) path to a strong return is to underwrite a bulletproof value-creation plan (VCP) in due diligence and marry it to a separation plan, a talent strategy, and an execution blueprint specifically calibrated to the VCP’s unique requirements.**

---

An integrated approach operates on several key principles.

**Separation fundamentals count, but value creation drives the agenda.** Any good buyout starts with a clear and actionable thesis for how the new owner can improve the asset. But carve-outs add an additional layer of complexity since the investor must extricate the business from its corporate parent and set it up as a fully independent enterprise. Few carve-outs have standalone financial reporting, making it difficult to develop a clear picture of how shared costs break down and how profitable the business actually is.

Seasoned carve-out sponsors know how to determine which of the business’s personnel, assets, legal entities, data, and systems are included in the deal perimeter (vs. held back by the parent). Planning must account for a spaghetti bowl of interdependencies with the parent across critical functions like finance, human resources, and IT. Separation requires amending hundreds or thousands of agreements with suppliers, service providers, and other third parties. And buyers need expertise in drafting the many transition service agreements (TSAs) that lay out the services and support the seller will extend to the new company for a defined period of time. Indeed, there’s an art to structuring the transaction so the seller views the separation process as “our problem,” not just “your problem.”

In negotiating this thicket of challenges, effective carve-out sponsors maintain their edge by never losing sight of the value-creation plan. The overarching deal rationale focuses the separation agenda to prioritize what’s critical to achieve and in what sequence. Crisp execution inevitably increases the odds of success. But if management is pulling cost levers when growth initiatives are called for, or spending two years

transferring the ERP system at the expense of building new tools to better understand customer needs, the waste of time, energy, and resources will quickly erode returns.

Consider one global medical technology company that had struggled to grow profitably as part of a much larger conglomerate. The company had a strong offering for mid-market customers looking for easy-to-use, reliable testing products. But the parent's emphasis on top-line growth led it to expand internationally into 97 countries while investing R&D dollars in a questionable point-of-care solution aimed at customers and use cases far from the company's core business.

When the potential buyers dug into due diligence, they saw that the company had no clear idea of how profitable each of those 97 markets were or whether the new product soaking up investment had a right to win with the target customer. They recognized that building a stronger commercial capability and refocusing R&D on medium-sized customers in developed markets could ignite growth at a much lower cost.

This strategic intelligence streamlined the separation plan. The company steadily scaled back those 97 foreign offices to the 10 that were most profitable (avoiding major stand-up expense) and created a new indirect model for the others. It then refocused on the much larger US market by hiring 50 new salespeople and developed playbooks to increase penetration in the midsize segment. The company halted investment on the speculative point-of-care product to fund development of a new analytical tool that its core customers really wanted. The result was a significant jump in both revenue growth and earnings before interest, taxes, depreciation, and amortization (EBITDA), ultimately producing a 2.9x MOIC at exit.

**Tough decisions can't wait.** Large, bureaucratic businesses often underperform because leaders kick sensitive or painful decisions down the road—perpetually. The list can be extensive, resulting in a willingness to fund underperforming business units, unprofitable geographies, excess management layers, inefficient marketing, subpar suppliers, and underutilized real estate portfolios.

But large corporations may also have different objectives than PE investors, not to mention a lower cost of capital and more lenient timelines. A corporate owner, for instance, might support a business with strong top-line growth but poor cash flow, simply to burnish quarterly revenue or avoid admitting defeat. PE owners rarely have that luxury.

What's essential is to hit the ground at full speed with the license to make change happen right away. That's what Platinum Equity did when it acquired Emerson Electric's Network Power business unit in 2016 and renamed it Vertiv. The business was an amalgamation of nine separately managed units that made equipment vital to the large data centers that were fast taking over cloud computing. While Platinum determined that the product and services portfolio was strong, it also saw that the company had an opportunity to refocus its energy on a much faster-growing market.

The management team of Emerson's Network Power business unit was largely focused on enterprise customers building one-off data centers, even as the world was rapidly shifting toward hyperscale cloud service providers, like AWS, Microsoft, and Google, and large colocation providers, like Equinix and Digital

Realty. Several potential bidders, in fact, quickly backed away from the deal early on, concluding it was already too late to make up lost ground with these scale customers.

Platinum, however, thought it could reshape Vertiv fast enough to compete in the larger arena. Diligence showed that it could de-risk its investment by cutting costs, selling a noncore business, and pulling the plug on an unpromising software product in development. That opened up the real opportunity, which was to zero-base and rebuild much of the operating model—from product development and the go-to-market organization to manufacturing and shared service functions like finance and HR.

The goal was to create “One Vertiv,” a customer-focused organization capable of serving the exploding world of mega data centers. The integrated operating model also made it easier to add on several companies that Platinum helped Vertiv acquire to round out the product portfolio.

Vertiv’s new CEO had successfully built a company that made data center products, but when it ultimately ended up in the hands of Schneider Electric, he got a chance to build corporate acumen as he folded it into a scale operation. That blend of skills made him a perfect fit to manage what amounted to a \$4 billion start-up with Vertiv. He moved aggressively to reshape what had been a heavily siloed organization, and by 2020, the company had gone from zero growth to almost twice the industry rate. That allowed Platinum to partially exit the investment with a blockbuster IPO just as the boom in artificial intelligence sent demand for data centers into overdrive.

**Matching leadership to mission is foundational.** The ability to solve talent issues like these quickly can often make or break a deal. Many carve-outs come with capable leaders who have grown up in a cozy, slow-moving corporate world. But PE-backed carve-outs are anything but cozy and slow moving. Managers not trained in transforming businesses may underperform when PE investors ask them to dial up the metabolism. And they might not have the skills that are mission critical to executing the new strategy.

Sponsors need to quickly identify which roles and functions are key to delivering on the deal’s ambition and what needs to be accomplished over what period of time. That provides a fact base for rapidly finding and installing executives with the right experiences, capabilities, and motivations to meet those requirements, whether they come from inside the company or are recruited externally.

When one private equity investor acquired the business unit of a multinational consumer goods company, new talent strategy was central to a transformative VCP. The unit had long been run as a low-margin, slow-growth commodity business selling to grocery stores, and an effort to upscale the brand had stalled. The new owners saw clear value in adding premium attributes at minimal cost. But funding the new strategy would require executing a major cost-out program to boost EBITDA. And it required introducing a level of marketing and product-development creativity the business unit had lost.

Success rode on installing a hard-nosed, change-oriented chief executive who was unafraid to make tough cost-cutting decisions and challenge the organization to compete effectively in the much more difficult branded world. The new company also needed a chief marketing officer capable of leading the massive rebranding challenge, someone with the disruptive mindset to reimagine the proposition and

rebuild the organization to sell it efficiently. Getting these game-ready executives in place ASAP was essential to reaching the deal's revenue objectives.

Change like this can obviously be jarring and disruptive across the organization. But it can also be liberating for a company culture long weighed down by “big company rules.” Effective change management often capitalizes on this newfound feeling of lightness.

When CVC carved out a packaging machinery asset from Bosch to create a new company called Syntegon, bringing the organization along proved to be a key element of success. Under Bosch ownership, Syntegon's operating units were acquired over time and had never been fully integrated, meaning they were not able to realize the organization's full scale benefits. Syntegon implemented a new operating model to rationalize costs and capture scale advantages—centralizing procurement and other functions, for instance—without limiting the entrepreneurial freedom of the units. The new model also offered the opportunity to build a fast-growing service organization with its own P&L, adding a resilient new revenue stream that would be accretive to earnings.

---

## **Change can be liberating for a company culture long weighed down by “big company rules.”**

---

Creating a single, simplified enterprise depended on winning hearts and minds throughout the organization. The new owners hung the change management program on the German notion of a “Mittelstand” company—a traditional, midsize family-owned business run with a clear sense of entrepreneurship, something every German recognizes as the opposite of an inefficient, slow-moving corporate enterprise. Management asked employees to reimagine Syntegon as a nimble, fast-moving Mittelstand company and take pride in the transformation process and its results. This rallying cry became an effective means of cascading the new strategy down through the organization. As a result, Syntegon significantly improved its strategic position, business quality, and financial profile.

### **Going in prepared**

What the recent drop-off in carve-out performance tells us is that it's never been harder to pull off one of these uniquely challenging transactions. Yet we've also seen that deep expertise, careful due diligence, and active management can reliably pave the way to top-tier results. The firms getting this right start with a clear, actionable VCP that serves as a bright North Star for everything from executing the right TSAs to ensuring that the right new talent is in place to deliver the needed results.

A few key questions can bring the critical up-front issues into focus:

- Do we really know how much profit this company could generate on its own and what it will cost to establish it as a freestanding business?
- Is our proposed separation plan not only realistic given our value-creation thesis but also linked to the specific objectives and sequence laid out in the VCP?
- Do we have a dashboard of those key initiatives and objectives, which will let us track our progress?
- Do we have the right carve-out capabilities and expertise in-house, or do we know where to find them?
- Do we have a systematic, analytical approach to matching the right executives and managers to the mission-critical requirements of the VCP?
- Are we prepared to make the tough decisions on what to stop doing in order to pare losses, free up capital for new investments, and de-risk the business plan?

Standing up a new company is only half the battle when it comes to carve-out success. Outperforming the averages relies on moving rapidly from Day 1 to ensure that a clear deal thesis translates into next-level performance.





# This Time It's Different: The Strategic Imperative in Private Equity

Structural changes are already altering the competitive landscape in alternatives. Do you have a plan to stay ahead over the coming decade?

**By Hugh MacArthur, Or Skolnik, Alexander De Mol, and Brenda Rainey**

## At a Glance

- ▶ Let's face it, strategy has never been front and center for most private equity firms.
- ▶ But as the industry matures, several emerging structural changes are intensifying the competition for deals and capital in ways that demand strategic attention.
- ▶ The firms poised to lead have defined a clear ambition for where they want to compete amid these changes and a bold, actionable strategy to get there.

When private equity emerged on the financial scene just four decades ago, it was a smallish collection of founder-led firms hustling to do leveraged buyouts. Firm strategy, such as it was, often boiled down to sourcing the next deal and maximizing leverage.

Then came the global financial crisis and the necessity to articulate a clear, repeatable model for delivering returns that didn't rely so heavily on financial engineering.

That focused firms on something that looked a lot like strategic planning—until the market took off again. Rock-bottom interest rates, steady economic growth, and better-than-expected liquidity from precrisis deals produced an explosion of dealmaking that demanded firms' full attention. As capital poured into the



industry and asset valuations surged, simply riding the wave became the best strategy for many general partners (GPs).

Why the history lesson? As the industry emerges from this most recent down period, it's tempting to assume the next wave of growth will look a lot like the last one: Dealmaking will accelerate, distributions will follow, limited partners (LPs) will loosen their purse strings, and the music will start all over again.

But that rosy scenario ignores a growing body of evidence suggesting that the next 10 years will look significantly different from the last 15—an era buttressed by a zero-interest-rate policy and multiple expansion. As fund managers were heads down doing deals, the industry was undergoing a series of shifts that will have major implications for how private equity firms compete for deals, raise capital, and attract talent in the future. To thrive amid these changes, firms will need a level of strategic focus and discipline that few of them are used to.

Consider several of the key disruptions every private equity firm will have to grapple with in the coming decade, in addition to a more volatile macro environment created by higher interest rates and other factors.

## **Margins have been (and will continue to be) compressed**

Although the “2 and 20” fee structure (2% management fee, 20% carry) is still the typical “rack rate” for PE funds, private markets are experiencing meaningful fee pressure. Increasingly, fierce competition for capital often results in quiet fee concessions, while the growing trend toward fee-free coinvestment exerts even more downward pressure on firm economics.

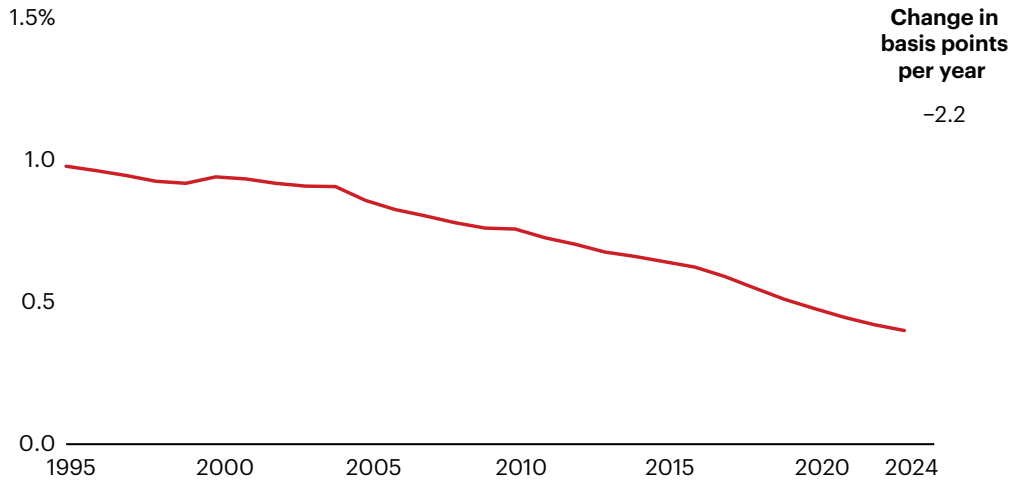
Every situation is different, but a combination of these two factors has already reduced average net management fees by as much as half since the global financial crisis, according to a Bain & Company analysis of available data. While the impact varies widely across firms and asset classes, the direction of travel is clear.

The growing convergence of private and public markets could only add to the pressure. Traditional wealth managers like Vanguard, Franklin Templeton, and Capital Group are in a race to create access to alternative investments for retail clients who seek diversification from increasingly tech-inflected public markets and better risk-adjusted returns. Alternatives players like Blackstone, StepStone, HarbourVest, and Hamilton Lane are responding with products designed to give wealthy individual investors access to private markets at reduced fees.

Convergence raises the prospect of something entirely new for private capital: the proliferation of very large firms that charge lower fees for simply tracking the market (beta) vs. trying to beat it (alpha). Traditional wealth managers set the lowest possible cost for everything, which is why fees in that space have declined more than 2 basis points per year over the past 30 years, on average, cutting open-end mutual fund and ETF fees by over half (see *Figure 1*). The question for alternatives managers is whether, or how soon, a similar pattern will emerge in private markets as retail capital pours in.

**Figure 1:** The decline in fees for public market funds hints at a more difficult future for private equity as firms scale and products become more commoditized

**Asset-weighted average fees charged to investors,  
US open-end mutual funds and ETFs**



Source: Morningstar

What we know right now is that pressure on fees is coming at a time when PE firms can least afford it. Without the benefit of low interest rates and rising valuations, generating returns comes down to actually improving the performance of portfolio companies. That can involve significant capability investments at both the fund level and within each portfolio company. Adding talent, beefing up data and analytics competencies, getting up to speed on generative AI—all of that is expensive. Firms that aren't planning for a future of tighter economics risk being caught out as the pressure increases.

## Fund-raising is hard and getting harder

While the current environment for private equity fund-raising is difficult, conditions will doubtless improve somewhat as dealmaking recovers and cash starts flowing back to investors. But as we discuss more fully in the first section of our annual report, fund-raising is turning into a game of haves and have-nots, with the preponderance of capital flowing to the largest, most established funds or those with the strongest track records.

Winning in this environment demands both a clearly articulated value proposition and a means to communicate it. Among other things, that requires a professionalized investor relations capability that looks more like a first-class B2B sales organization than the “lunch and a handshake” approach of years gone by.

At the same time, sources of new capital are very much in flux. While private equity's traditional capital base (anchored by large institutions) will continue to expand over the next decade, two large sources will

significantly outpace others: private wealth and sovereign wealth funds (SWFs). Bain estimates that these deep pools of capital will together account for approximately 60% of growth in alternative assets under management (AUM) over the next decade (*see Figure 2*). The requirements to tap that growth will likely look very different from what most GPs are doing today.

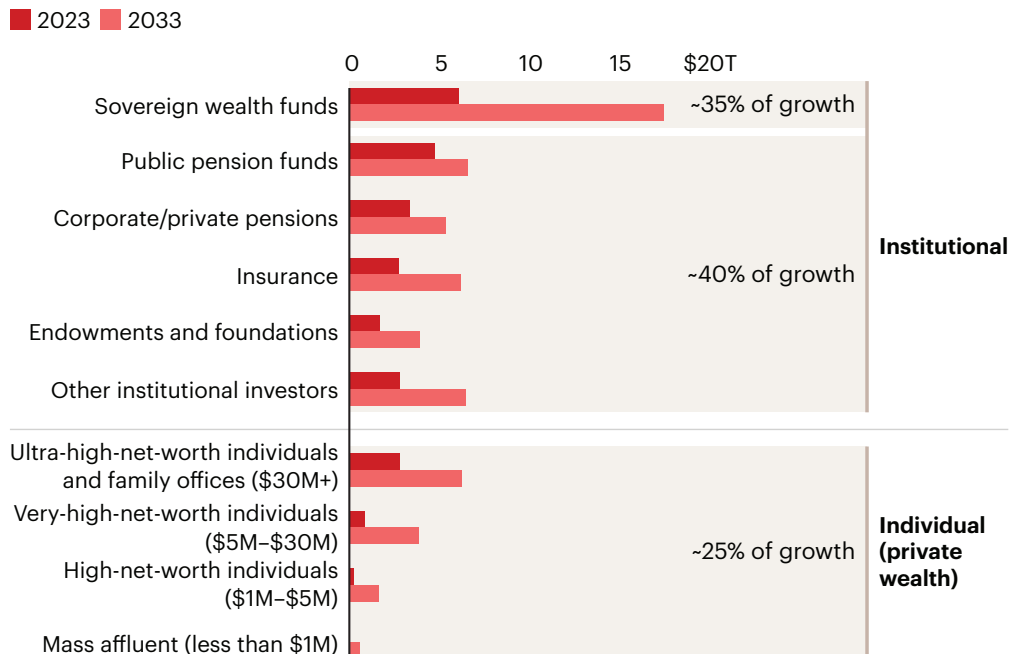
The appeal of private wealth is simple. Individual investors hold roughly 50% of global capital. Yet those same investors represent just 16% of AUM in alternative investment funds.

Alternatives firms seeking to boost that percentage are in a race to get their products on the shelves of channel partners like private banks, wirehouses, and registered investment advisers. Real estate and private credit funds have led the charge with retail-oriented products, but private equity is catching up fast with semiliquid products that have lower minimums and are aimed at investors who need more liquidity than institutional investors (*see Figure 3*). In 2024, Blackstone alone saw \$23 billion flow into its set of semiliquid products aimed at retail investors.

Firms also are investing heavily in private wealth teams to provide frontline coverage, sales support, and investor services, which is creating a war for talent. At the same time, they have struck partnerships with,

**Figure 2:** Sovereign wealth funds and individual investor wealth promise to contribute 60% of future growth in assets under management

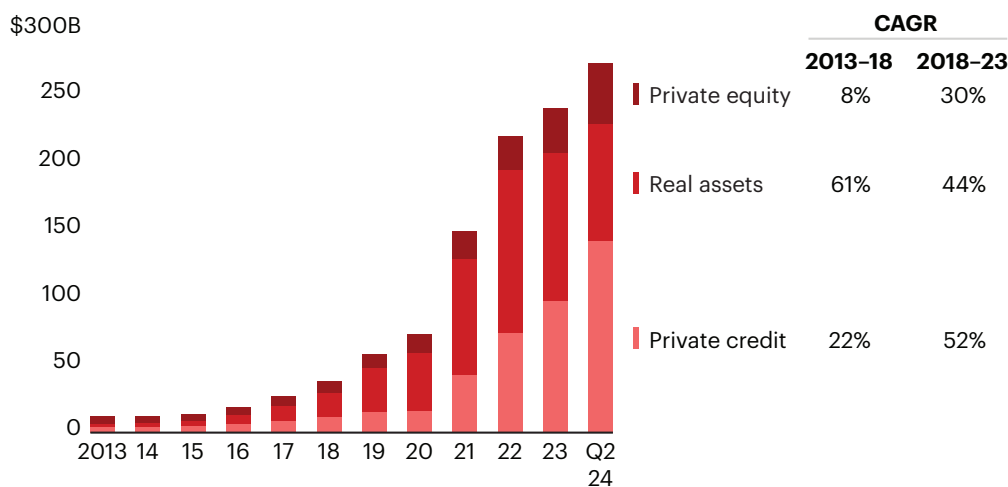
### Global alternatives AUM



Note: Other institutional investors include investment banks and various small investor groups (private equity, real assets, hedge funds, infrastructure, etc.)  
Source: Bain analysis

**Figure 3:** Semiliquid assets aimed at retail investors have shown strong growth over the past decade

**US registered private market funds net asset value (NAV), excluding leverage**



Notes: Excludes private and finite nontraded BDCs and finite nontraded REITs; NAV for BXPE and K-PEC as of Q3 2024; NAV for nontraded REITs calculated by multiplying shareholders' equity (SE) by a NAV/SE ratio of 1.35; ratio calculated using the average fraction of SE relative to NAV for two representative funds (BREIT and Starwood REIT)  
Sources: Company websites; Internal Fund Tracker; Tender Offer Funds; Bain analysis

or been acquired by, large traditional asset managers offering vast distribution. Alliances between firms like KKR and Capital Group, Apollo and State Street, or Partners Group and BlackRock are aimed at giving wealthy individuals ready access to the diversification and superior returns generated by alternative capital.

Sovereign wealth funds, meanwhile, are transforming private capital's supply side. SWFs in aggregate already control investment capital worth \$6 trillion, and Bain projects that total will grow 11% annually over the next decade to \$17 trillion. State-based institutions ADIA in Abu Dhabi and GIC in Singapore have each grown their exposure to alternatives by more than 10% annually over the past decade and have seen their alternatives programs grow to around \$360 billion and \$250 billion, respectively.

These are massive pools of capital, which means that if SWFs want to move the needle, they necessarily have to focus on partnering and coinvesting with the largest funds in the market. It's impossible to predict how the growth of SWFs will ultimately reshape the industry's capital flows. But as these giants grow in sophistication and build new capabilities, they are becoming much more than the passive investors of the past. This will present threats and opportunities across the alternatives landscape that every fund will need to think through.

## Scale is only becoming more important

For many years in private equity, a well-run, smallish firm could be just as effective as a big one at raising capital and using it to generate strong returns. Everybody could earn substantial fees; margins were strong for funds of all sizes. Today, however, that balance is shifting. As the industry matures, it is moving to a place where larger firms have measurable advantages.

We've already discussed how capital formation is turning into a scale game. But size can also offer firms advantages in how efficiently they operate, how they make investment decisions, and how they build firm assets.

---

**For many years in private equity, a well-run, smallish firm could be just as effective as a big one at raising capital and using it to generate strong returns. Everybody could earn substantial fees; margins were strong for funds of all sizes. Today, that balance is shifting.**

---

Back-office functions like accounting, finance, tax, IT, and HR all benefit from scale. Bigger firms also have more resources to build investment capabilities and deploy them across portfolios. They can assemble deeper teams of sector specialists or those devoted to creating value from AI and other new technologies. They can invest more in the data and analytics capabilities that are becoming increasingly valuable in underwriting value and gaining differentiated insights.

At the same time, size can offer something less tangible—institutional stability. Larger firms are less reliant on just one fund series, they have less key person risk, and they can more easily build a brand and reputation that resonates broadly. That attracts the best talent and builds the most staying power.

None of this is to say that scale is the be all, end all. In fact, the evidence is mixed at best that increased size translates directly into stronger returns or more efficient operations. Simply spending on AI or data science is no substitute for rigorous due diligence, for instance. Actually capturing cost benefits requires skill at streamlining processes and rationalizing the organization. It depends on proactively managing business complexity, which tends to grow exponentially with firm size and scope. The firms that get it right start with a clearly differentiated model for creating value, which in turn guides where it pays to cut costs. Then it's essential to use those savings to invest in finding and diligencing great investment opportunities and converting them into winning deals.

The myriad challenges of managing growth, in fact, are why many firms will never aspire to true scale. And indeed, there will always be room in private equity for smaller, differentiated firms that can reliably generate alpha. Capital used to be the scarcest commodity; now it's ideas. Today's winners are the firms that know where to find value that others miss and mitigate risks that others cannot, and do it in a repeatable way.

The best of these firms, however, recognize that staying smaller carries its own set of demands. It requires drawing an even sharper definition of what makes the firm stand out and doing whatever it takes at every step of the private equity value chain to generate market-beating returns. Targeted investment in the right capabilities is even more critical. So is pulling every lever, every time to ensure your funds are exceptional, since one or two average vintages will render your firm invisible next time you hit the road to raise capital.

True differentiation is a nonnegotiable for firms of any size and can make a smaller firm loom larger in the eyes of LPs. But as the industry expands beyond its roots, one thing is certain: Competing without scale benefits has never been harder.

## **Strategic M&A has arrived**

As scale becomes more and more important, so does the prospect of growing inorganically.

Merger and acquisition activity has been largely a nonstarter in private equity over the years. Most firms lacked the balance sheet to fund acquisitions that would expand their geographical footprint or add a new asset class. Those that did very often foundered on the integration complexity that arises when private partnerships try to combine.

---

## **As scale becomes more and more important, so does the prospect of growing inorganically.**

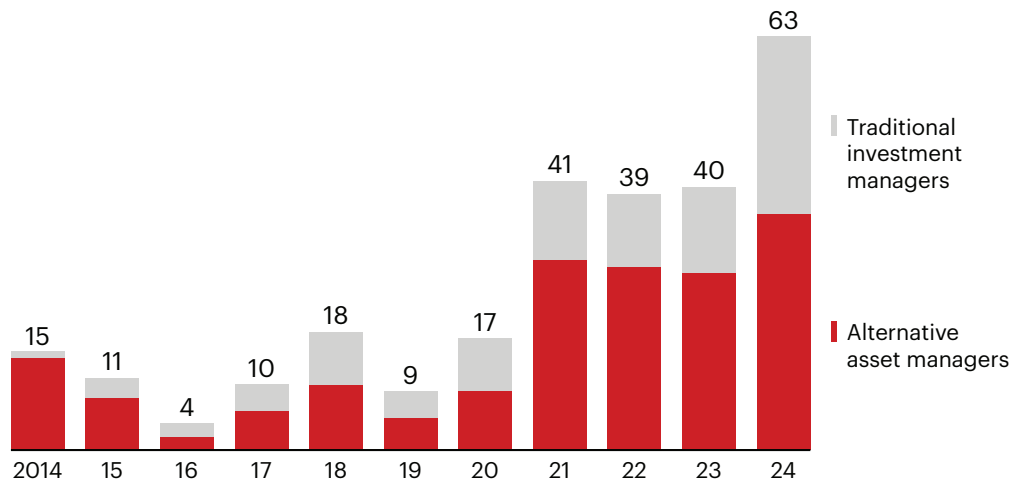
---

But that's changing fast. M&A within the alternatives industry has accelerated meaningfully in recent years, with over 180 transactions since 2021 (see *Figure 4*).

It's worth noting that M&A (at least M&A that works) isn't a thing in itself; it's a means to an end strategically. Scale has been the objective driving most of the deals shown in the chart. But geographic expansion and commercial objectives like adding new customers or securing strategic distribution also have inspired combinations.

**Figure 4:** Once relatively rare, strategic M&A involving alternatives managers has taken off since 2020

**Number of strategic acquisitions of alternative asset managers, by type of acquirer**



Notes: Includes publicly announced deals only; traditional investment managers include banks, insurers, sovereign wealth funds, and family offices; alternative asset managers include private equity, hedge funds, venture capital, real asset managers, and other alternative asset managers  
Source: Bain Strategic M&A in Alternatives Database

At the same time, traditional asset managers like T. Rowe Price, Franklin Templeton, and BlackRock have been actively chasing the outsize growth of private capital through acquisition. These firms see a vibrant opportunity in providing access to private capital through their extensive distribution networks.

Beyond the increase in deal count, the sheer scale of the acquisitions taking place in recent years is stunning. EQT's \$7.5 billion combination with Baring Private Equity Asia (BPEA) to boost its presence in that region, BlackRock's \$12 billion acquisition of HPS Investment Partners to expand in private credit and its \$12.5 billion absorption of Global Infrastructure Partners to expand in that burgeoning sector—these are all examples of truly transformative M&A for both the acquirers and anyone competing with them.

As in any maturing industry, M&A in alternatives ultimately will touch everybody in one way or another. At a minimum, it raises the risk of getting caught flat-footed or watching from the sidelines as the most successful firms “pair up” sooner rather than later. With that in mind, every firm should be asking itself several key questions: Can we stand on our own, and, if so, what would it take to be successful? Do we need to be a buyer to keep pace with the competition, find new growth vectors, or burnish our capabilities? Or do we have a target on our back and would joining with another firm be the best path forward for all of our stakeholders?

## Strategy has never been more critical

It would be a mistake to assume that the impact of these potentially tectonic shifts won't be broad based. At the end of the day, the private equity industry is like any other: Firms compete for opportunities and resources—in this case, quality investments, capital, and talent. And as the industry matures, so does the intensity of this competition.

Higher asset prices. Eroding fees. Blurred lines between traditional and alternative asset managers. The race to tap new sources of capital. Increasing costs for technology and everything else. All of these factors are pressuring private equity firms to decide how they want to define themselves in the years ahead and what will make them stand out against others.

---

**Establishing what does or can differentiate your firm, then, is table stakes when it comes to setting a strategy. The trap is to think the market views you as different simply because you've had success in the past.**

---

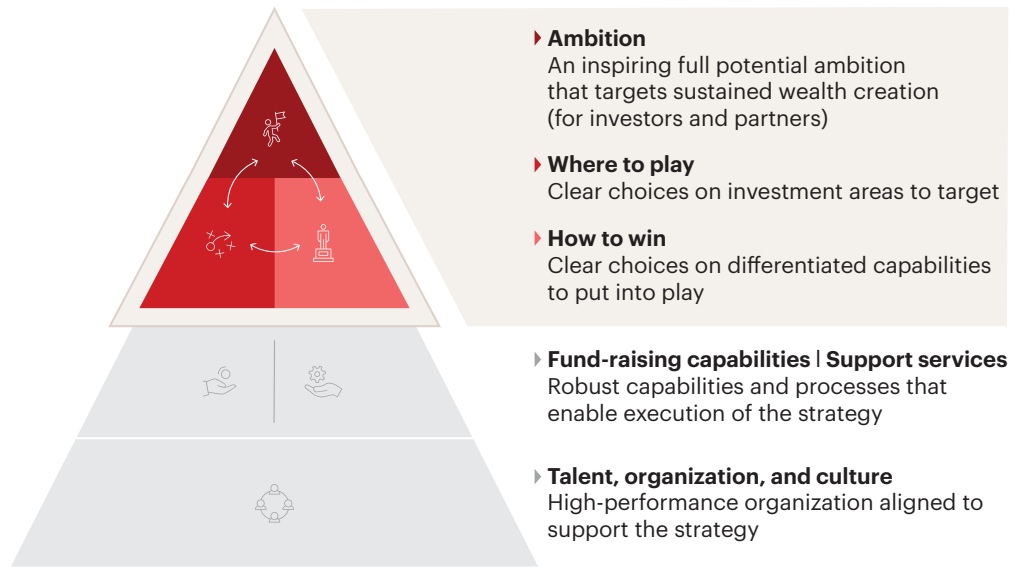
Strategy is about making choices, starting with articulating your firm's ambition (*see Figure 5*). This sounds easy, but it's not. Done right, it is only a few crisp sentences that capture the firm's distinctive mission in a way that is bold and inspiring, but also specific. You may think you are all on the same page, but getting alignment from the leadership team isn't trivial. Ask 10 different senior people from a firm to state the firm's ambition and it's not uncommon to get 10 different answers.

While scale confers advantages, achieving *maximum* scale is not the ambition for many firms, as we've discussed. Size can be a powerful advantage, but smaller firms always can compete—and win—by doing what they do best in a way that reliably generates alpha.

Growth itself, however, is nonnegotiable. Firms that aren't growing aren't expanding the pie. They aren't creating the opportunities or generating the wealth that attracts and retains the lifeblood of the firm—the next generation of talent.

Therefore, some measure of growth is almost always a part of a firm's ambition. This might show up as a specific AUM target or an aspiration to be a top five firm in a particular space. Yet setting out to gather assets absent differentiation is a losing proposition. Investors want to know that a GP has a reliable model for outperforming in a competitive market.



**Figure 5:** How Bain thinks about strategy

Source: Bain &amp; Company

Establishing what does or can differentiate your firm, then, is table stakes when it comes to setting a strategy. The trap is to think the market views you as different simply because you've had success in the past. What's often missing is a clear-eyed assessment of what makes the firm stand out or not and how that profile is resonating in the eyes of LPs, intermediaries, business owners, and prospective hires.

Once you establish an ambition and know confidently what differentiates (or will differentiate) your firm from others, the challenge is to build a strategy around that—one that gets you to full potential in your core investment strategy while selectively pursuing new avenues of growth. It's never about simply being biggest or best. The right strategy will have elements of both, and the way forward will be a specific, nuanced plan that is actionable and easy to communicate.

A precise measure of what you are getting into, however, is critical. Raising bigger funds and pursuing new products, by definition, requires change. Doing bigger deals, expanding into new subsectors or geographies, or moving into new asset classes all can accelerate growth. But setting off in new directions while trying to manage complexity and sustain differentiated performance is inevitably a high-wire act. The industry is littered with examples of firms that took on too much, too fast and lost their way. It is essential to pursue adjacencies with clear synergies and to preserve what is special about the firm.

Evolving a firm is also expensive. As complexity rises, so does cost. The investment required to generate alpha is only going up, which means PE firms need to link their ambitions to a clear plan to sustain

attractive margins by doing things better and faster. In private equity, words like “cost out” and “efficiency” are typically heard in portfolio company boardrooms, not firm-level leadership meetings. As competition continues to pressure fees, those issues are now squarely on the agenda.

The firms that take planning seriously are always asking the same questions: Do we really know where we are today competitively and what makes us stand out in the crowd? Are we clear on where we want to be in 5 to 10 years and what we need to do to get there? Private equity is in a state of change, one that may reorder winners and losers across the industry. The surest way to land in the winner’s circle is to articulate your ambition clearly and develop a practical strategy for how you plan to compete in the years ahead.

# Acknowledgments

This report was prepared by Hugh MacArthur, chairman of Bain & Company's Global Private Equity and Financial Investors practice; Mike McKay, advisory partner; Rebecca Burack, head of the Global Private Equity and Financial Investors practice; and a team led by Thomas Hood, practice director of the Global Private Equity and Financial Investors practice, with Brenda Rainey and Lynn Xue in advisory roles and day-to-day management from Justyna Nowicka.

The authors wish to thank Graham Rose, Alexander Schmitz, Kiki Yang, and Sebastien Lamy for their contributions on market trends; Alexander De Mol and Or Skolnik for their contributions on firm strategy; Gene Rapoport, Richard Lichtenstein, Richard Allinson, Geoffroy Descamps, Hubert Shen, Christian Buecker, and Richard Fleming for their contributions on generative AI; Jonny Holliday, Laila Kassis, Thibaud Chabrelié, Sid Mehra, Alexandre Warzee, Prabhav Kashyap, and Anita Cohen for their contributions on software investing; Greg Schooley, Ben Siegal, Colleen von Eckartsberg, Lars Dingemann, David Waller, and Philippe Braeunig for their contributions on carve-outs; Pat Mulligan, Sam Wallace, and Rob McCracken for their analytic support; Laura Caringella, Emily Lane, and John Peverley for their research assistance; Soraya Zahidi and Tarah Walker for their marketing support; and Michael Oneal for his editorial leadership.

The authors are grateful to AVCJ, DealEdge, Dealogic, MSCI, PitchBook, Preqin, SPS by With Intelligence, and StepStone for the valuable data they provided and for their responsiveness to special requests.

For more information, please visit their websites or contact them by email:

**AVCJ** [www.avcj.com](http://www.avcj.com); [avcj-research@avcj.com](mailto:avcj-research@avcj.com)

**DealEdge** [www.dealedge.com](http://www.dealedge.com)

**Dealogic** [www.dealogic.com](http://www.dealogic.com)

**MSCI** [www.msci.com](http://www.msci.com)

**PitchBook** [www.pitchbook.com](http://www.pitchbook.com); [info@pitchbook.com](mailto:info@pitchbook.com)

**Preqin** [www.preqin.com](http://www.preqin.com); [info@preqin.com](mailto:info@preqin.com)

**SPS by With Intelligence** [www.suttonplacestrategies.com](http://www.suttonplacestrategies.com)

**StepStone** [www.stepstonegroup.com](http://www.stepstonegroup.com)

This work is based on secondary market research, analysis of financial information available or provided to Bain & Company and a range of interviews with industry participants. Bain & Company has not independently verified any such information provided or available to Bain and makes no representation or warranty, express or implied, that such information is accurate or complete. Projected market and financial information, analyses and conclusions contained herein are based on the information described above and on Bain & Company's judgment, and should not be construed as definitive forecasts or guarantees of future performance or results. The information and analysis herein does not constitute advice of any kind, is not intended to be used for investment purposes, and neither Bain & Company nor any of its subsidiaries or their respective officers, directors, shareholders, employees or agents accept any responsibility or liability with respect to the use of or reliance on any information or analysis contained in this document. This work is copyright Bain & Company and may not be published, transmitted, broadcast, copied, reproduced or reprinted in whole or in part without the explicit written permission of Bain & Company.



## Bold ideas. Bold teams. Extraordinary results.

**Bain & Company is a global consultancy that helps the world's most ambitious change makers define the future.**

Across the globe, we work alongside our clients as one team with a shared ambition to achieve extraordinary results, outperform the competition, and redefine industries. We complement our tailored, integrated expertise with a vibrant ecosystem of digital innovators to deliver better, faster, and more enduring outcomes. Our 10-year commitment to invest more than \$1 billion in pro bono services brings our talent, expertise, and insight to organizations tackling today's urgent challenges in education, racial equity, social justice, economic development, and the environment.

## Key contacts in Bain's Global Private Equity practice

**Chairman, Global Private Equity** Hugh MacArthur ([hugh.macarthur@bain.com](mailto:hugh.macarthur@bain.com))

**Head of Global Private Equity** Rebecca Burack ([rebecca.burack@bain.com](mailto:rebecca.burack@bain.com))

**Americas** Graham Rose ([graham.rose@bain.com](mailto:graham.rose@bain.com))

**Asia-Pacific** Sebastien Lamy ([sebastien.lamy@bain.com](mailto:sebastien.lamy@bain.com)); Kiki Yang ([kiki.yang@bain.com](mailto:kiki.yang@bain.com))

**Europe, Middle East, and Africa** Alexander Schmitz ([alexander.schmitz@bain.com](mailto:alexander.schmitz@bain.com))

### Reporters and news media

Please direct requests to

Dan Pinkney

[dan.pinkney@bain.com](mailto:dan.pinkney@bain.com)

Tel: +1 646 562 8102