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DEAL FLOW MONITOR PE VC

Deal Flow Monitor: Outlook 2025

Private capital deal-making is still below the five-year average, but investors are optimistic for a recovery in 2025

- 2024's private equity deal market was larger than the previous year, driven primarily by take-private transactions
- Software, particularly AI, is expected to remain a key driver of deal flow in both private equity and venture capital
- New US policy is likely to reshape trade dynamics, potentially supporting US industrial deal-making

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PREQIN

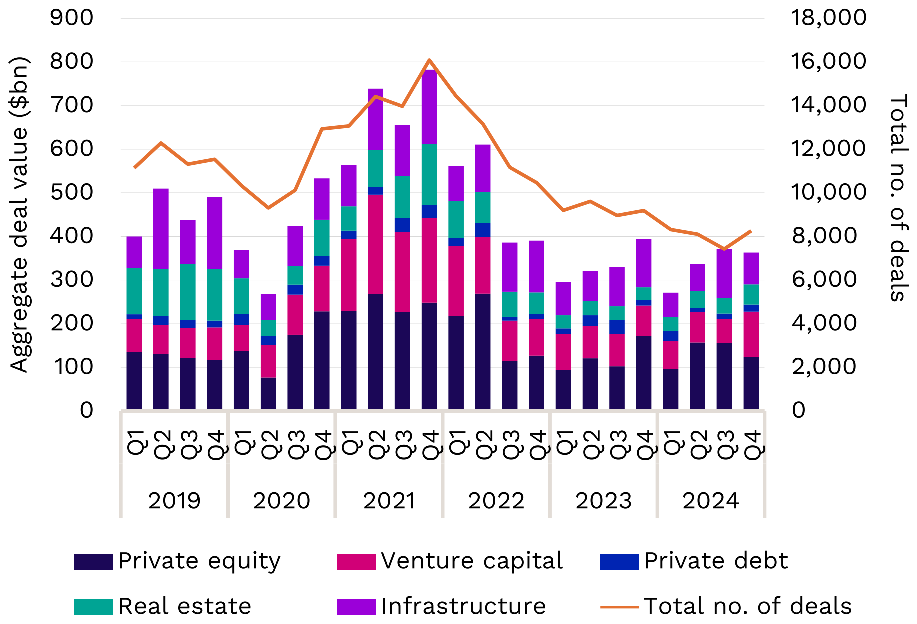
Looking back at 2024, the deal market faced another challenging year. Interest rate cuts in Europe and the US during the second half of 2024 helped alleviate some concerns surrounding deal financing but, in remaining elevated, continued to weigh on deal valuations.

Take-private transactions propped up full-year private equity deal value. Corporates looking to focus on their core business continued to shed non-strategic assets, with the number of carve-outs and spin-offs rising year-on-year. With some major global elections now behind us, US president Donald Trump's second term promises a new era of pro-business deregulation. This is driving optimism among fund managers about the future of deal-making, with particular bright spots in AI and the healthcare sector.[1]

Private capital deal value in the fourth quarter of 2024 reached $363bn, closing the year with a total deal value of $1.3tn – a modest 0.1% increase from 2023 (Fig. 1). This is within expectations of an increase in 2024, based on the forecast in our most recent Deal Flow Monitor: Q3 2024.[2] Despite year-on-year deal volumes being on a downward trend since 2021, private capital deal value appears to have stabilized below the historical five-year quarterly average of $452.7bn. As we expect macroeconomic uncertainties to potentially ease in 2025, we are cautiously optimistic about the gradual recovery of the global private capital deal market over the coming months.

Fig. 1: 2024 follows similar pattern to last year

Private capital quarterly deal value and volume by asset class



Source: Preqin Pro

Private equity deal value surpassed 2023 levels, but volume remains sluggish

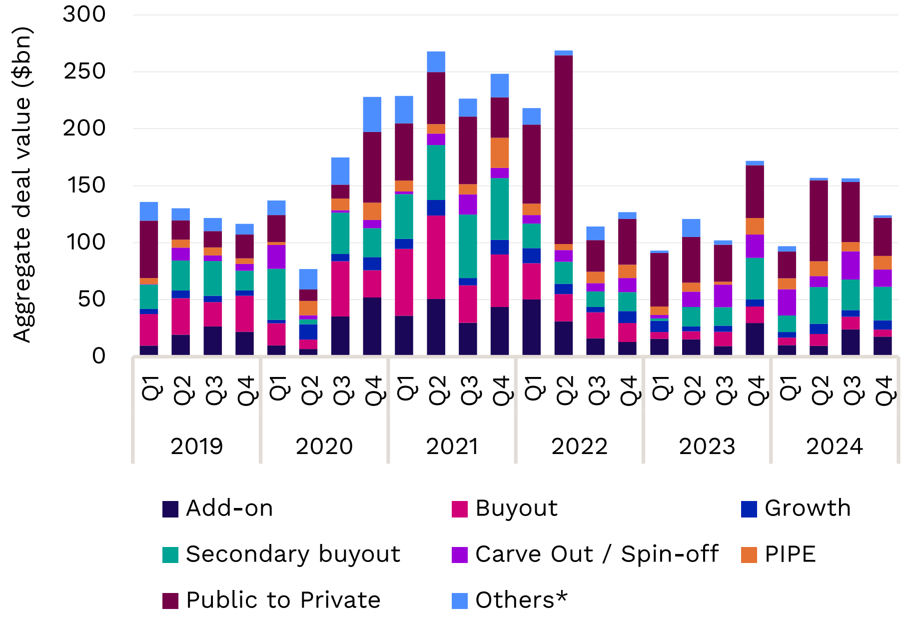
Private equity deal value declined in the fourth quarter of 2024, despite expectations of a seasonal uptick, reaching a total of $124.0bn and falling below the previous two quarters (Fig. 2). However, total deal value of $534.4bn in 2024 was 9.5% higher than that for 2023. This modest year-on-year growth reflects some optimism in the private equity deal market, driven primarily by public-to-private (take-private) deals which accounted for 33.8% of 2024's total deal value. Additionally, carve-out and spin-off deals rose in 2024, representing 4.2% of total deal volume, 5.2% (see data-pack) in the fourth quarter alone. Carve-outs and spin-offs also contributed 13.6% of 2024's total deal value, leading to both value and volume exceeding their five-year averages.

1 https://www.ey.com/en_us/insights/strategy/health-care-transformation-and-growth-2025-and-beyond

2 https://www.preqin.com/insights/research/reports/deal-flow-monitor-q3-2024

Fig. 2: Buyouts remain a small slice of the private equity deal market

Private equity deal value, by type



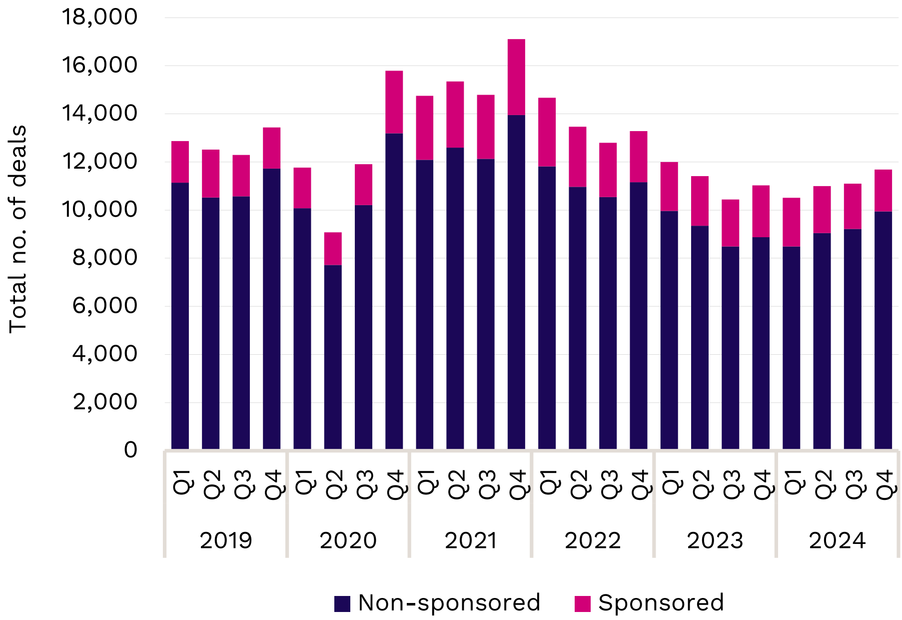
Source: Preqin Pro

*Others include company formation, joint venture, mergers, recapitalization, and restructuring

Non-sponsored deal volume appears to have rebounded from a low base in early 2024. In contrast, the lack of a clear turning point in sponsored deal activity is mainly a result of constraints faced by private equity fund managers (Fig. 3). Examples include a softer fundraising environment, which has limited the amount of new dry powder over the past two years, as well as elevated interest rates affecting deal financing.

Fig. 3: Number of non-sponsored deals rising steadily

Non-sponsored vs. sponsored deals, by volume

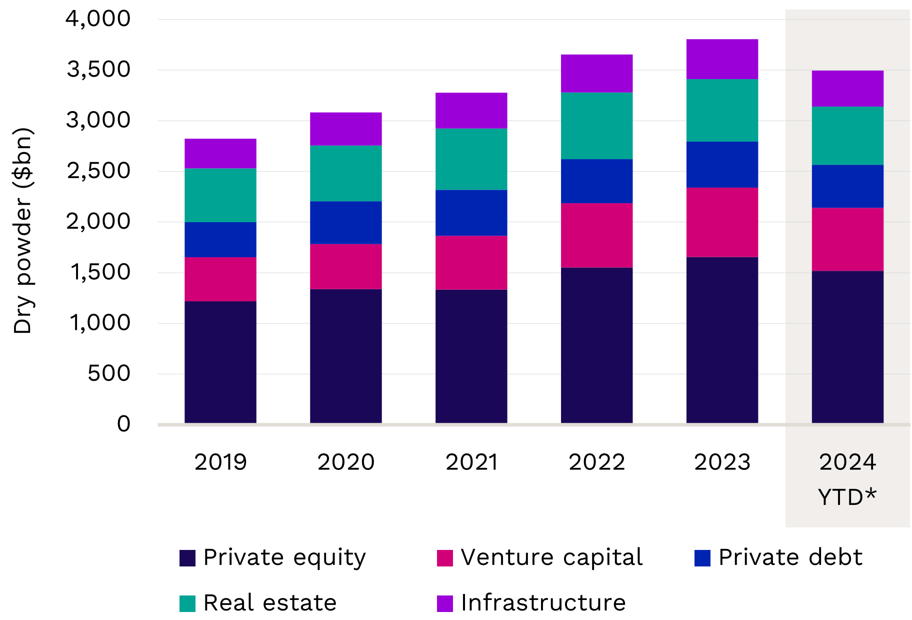


Source: Preqin Pro, S&P Cap IQ

Both could change in 2025. As of June 2024, global private equity dry powder stood at just over $1.5tn, representing 23.5% of total private equity AUM, a healthy level of capital available for deployment (Fig. 4). Our latest Preqin fund manager survey from November 2024 revealed that nearly 70% of private equity fund managers expect to deploy significantly or slightly more capital in the next 12 months, a level not seen in the past four years (Fig. 5). Easing interest rates and the prospect of a more conducive regulatory environment for acquisitions are likely to serve as catalysts for improved deal activity.

Fig. 4: Private equity dry powder falls below 2022 levels

Private capital dry powder by asset class

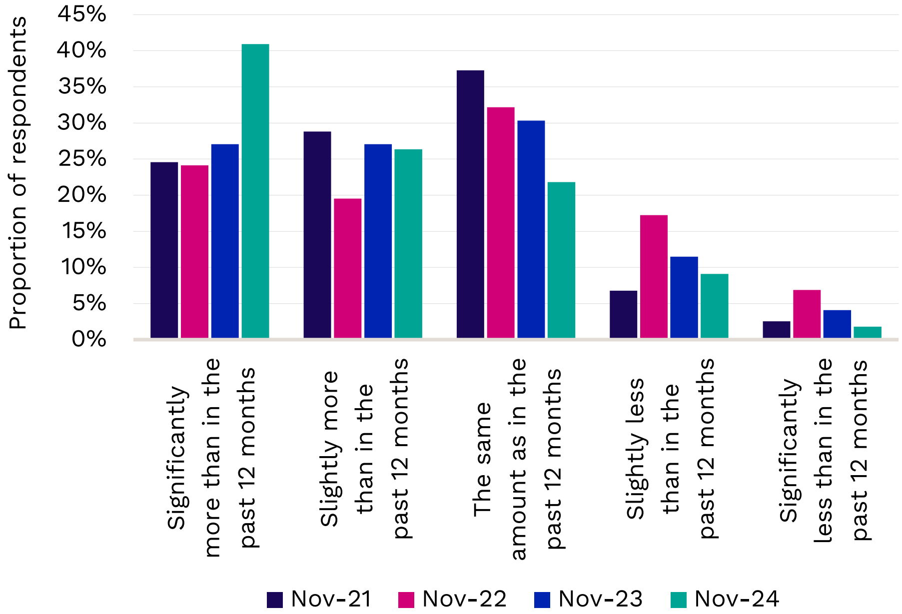


*As of June 2024

Source: Preqin Pro

Fig. 5: Capital deployment boom expected in 2025

Private equity managers were asked: “How much capital do you expect to deploy in investments in the coming 12 months?”

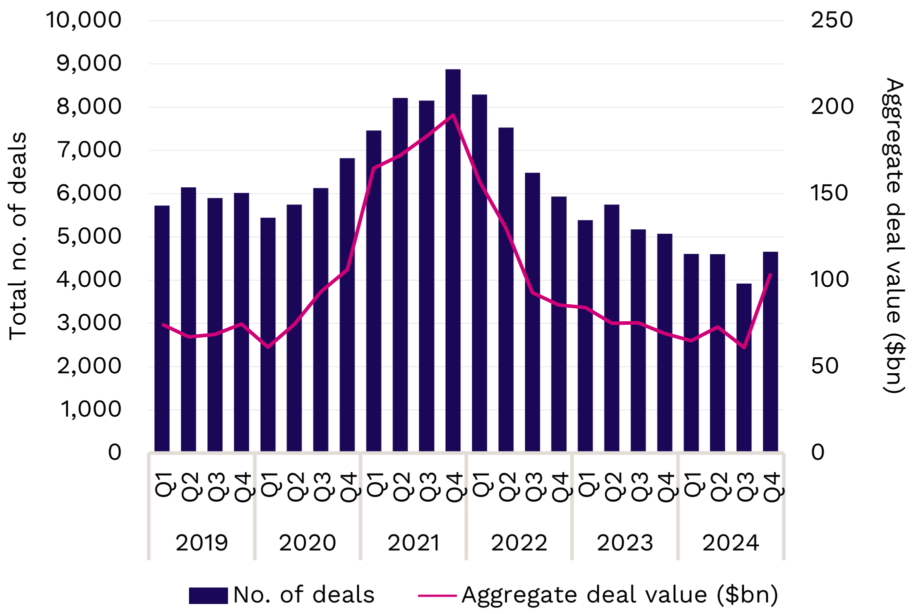


Source: Preqin Investor Surveys, November 2021–2024

The path has been different for venture capital (VC) deal-making, where 2024's deal value reached $302.7bn, almost on par with 2023 (Fig. 6) and its lowest aggregate level since 2020. According to our Venture Capital Q4 2024: Preqin Quarterly Update,[3] continued interest in AI drove large deals, meaning that North America accounted for more than half of total VC deal value in 2024. Despite improved investor and fund manager sentiment toward VC, we expect that the weak fundraising environment and declining dry powder will hinder capital deployment and limit the pace of recovery in the deal market compared to private equity. However, it is worth noting that global VC deal value was up by 70.3% quarter-on-quarter in the fourth quarter of 2024 to $103.9bn, a potentially positive signal for 2025.

Fig. 6: VC deal market sees Q4 upswing

Venture capital deal value and volume*



Source: Preqin Pro

*Figures exclude add-ons, mergers, grants, secondary stock purchases, and venture debt

Fund managers are optimistic about a rebound in exits by 2025

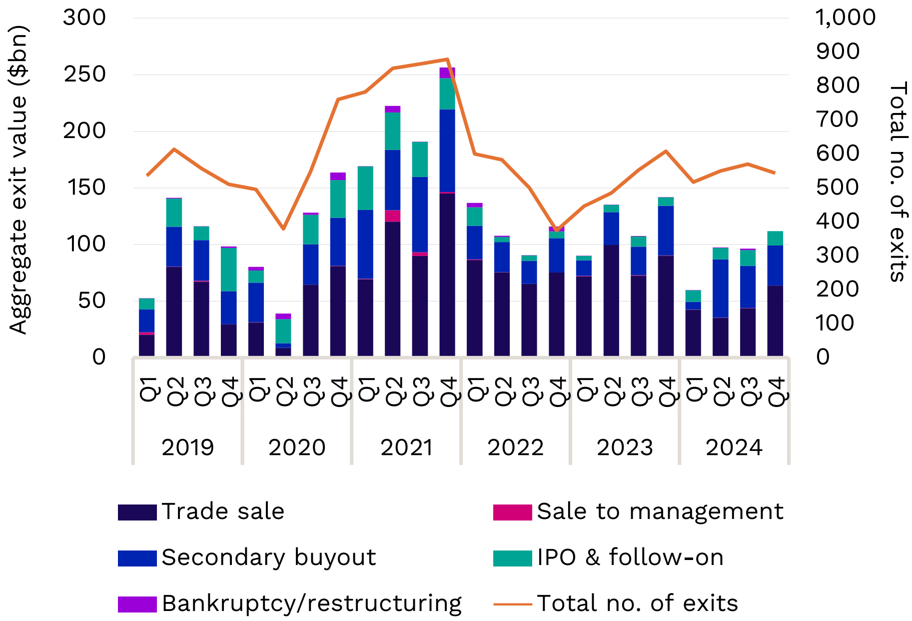
Private equity exits continued to decline in 2024, with total exit value reaching $365.4bn (Fig. 7). Trade sales remained the primary exit route, accounting for roughly half of deal value, while secondary buyouts gained market share. Meanwhile, APAC IPOs showed steady year-on-year improvement,[4] driven by domestic exits in Greater China. VC faced a similarly weak exit environment. However, optimism for 2025 is high, with more than 60% of private equity and VC fund managers expecting increased exit activity according to Preqin's November 2024 survey (Fig. 8). High interest rates over the past two years have led to lower valuations, impeding private equity exits. However, with the expectation that interest rates will decline, the gap between buyer and seller valuations is likely to narrow, creating a more supportive environment for exit activities. In addition, the expectation to return capital to investors will further drive fund managers to pursue exits.

3 https://preqin.com/insights/research/quarterly-updates/venture-capital-q4-2024-preqin-quarterly-update

4 https://preqin.com/insights/research/quarterly-updates/apac-q4-2024-preqin-quarterly-update

Fig. 7: Private equity exit volumes stable during 2024

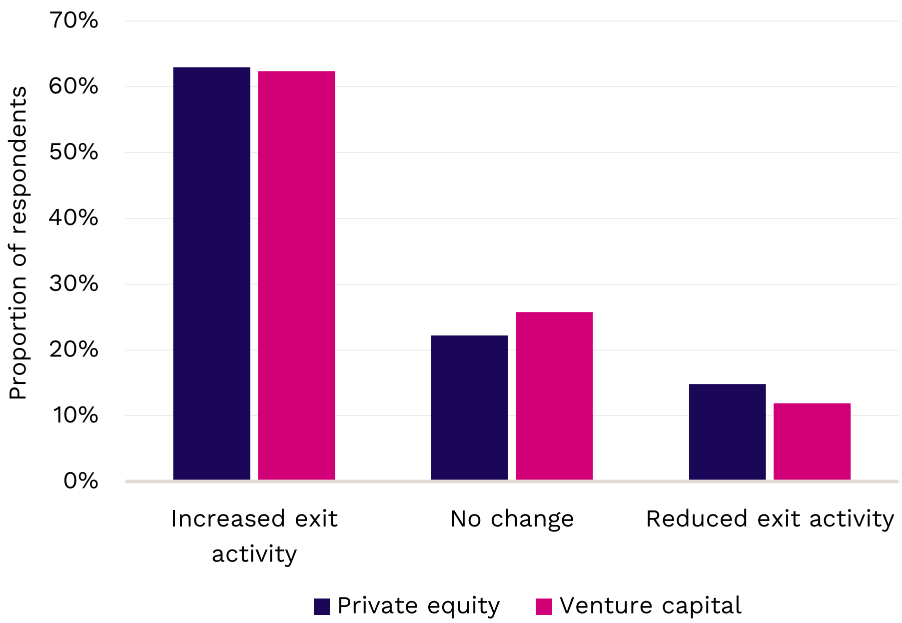
Private equity buyout exit value by type



Source: Preqin Pro

Fig. 8: More than half of fund managers expect more exits this year

Private equity and VC managers were asked: “How will exit environment change over the next 12 months?”



Source: Preqin Fund Manager Survey, November 2024

Sector assessment

Below we examine the four most active sectors by deal value for private equity and consider how they will perform through 2025 using our 2024 FY data, informed by a range of qualitative factors.

Information technology

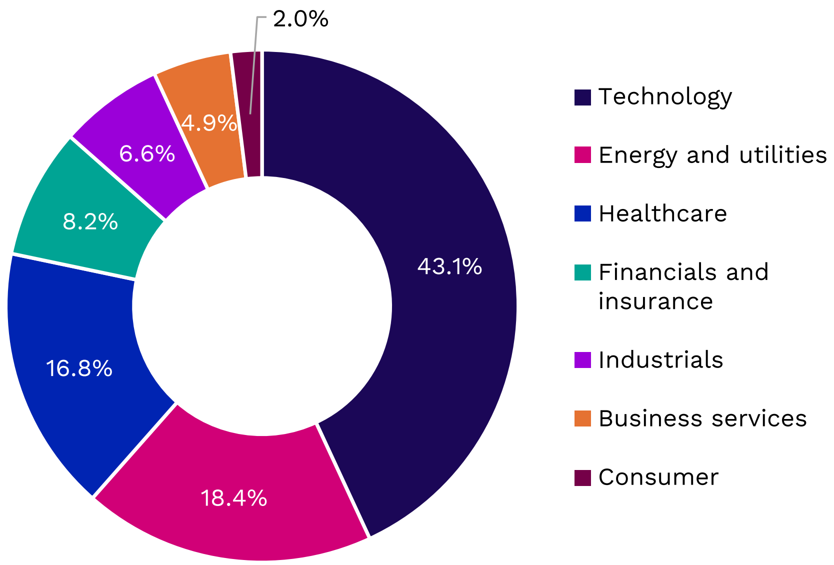
Our sector assessment: House view is given to sectors assessed to have tailwinds that are more favorable than headwinds over the next 12 months and which could mean that **deal activity trends higher** than 2024's total, in value or volume.

Private equity deal value in the IT sector has continued its upward trajectory and the sector now makes up just over a quarter of total global private equity deal value, with growth largely driven by take-private transactions, which accounted for a third of the total IT deal value in 2024. Deal volume, on the other hand, declined slightly by 1.7% year-on-year in 2024. Meanwhile, VCs have remained highly active in the sector, transacting $148.1bn in deals in 2024, 11.3% higher than in private equity and particularly in later-stage rounds where tech innovation is more developed and has a higher probability of penetrating the market.

In an industry webinar held by Preqin during January, the audience was polled on the most attractive sector for private markets investment in 2025. Almost half of respondents selected technology (Fig. 9). Additionally, Preqin's actionability signal, which predicts the most active sectors in the months ahead, shows there is significant deal-making opportunity in the software domain of the IT sector.

Fig. 9: Technology leads private market interest this year

Preqin webinar audience was asked: "Which industry or sector in private markets do you believe to be the most attractive for capital deployment in 2025?"



Source: Preqin Global 2025 Outlook webinar poll, 23 January 2025

Our view is that software will continue to lead interest in IT deal-making, particularly in areas such as software as a service (SaaS), machine learning, and AI, especially for VCs. X.AI Corp,[5] an AI company based in North America, secured approximately $11bn across two funding rounds within just six months in 2024, reflecting strong market confidence in AI and its potential.

The recent announcement by re-elected US president Donald Trump to invest in AI infrastructure[6] will further reinforce AI development but – still in its infancy – the sector is likely to face continued disruption, as demonstrated by the recent news of China's DeepSeek's lower-cost model.

Headwinds:

- Regulatory scrutiny around large-tech acquisitions outside the US and in regions such as APAC may hinder big deals, keeping small to mid-market transactions dominant in private equity.
- Uncertainty surrounding IT sector valuations in the public market and fewer opportunities are expected to slow take-private deals.

Tailwind:

- As AI becomes deeply embedded in daily life and new market entrants continue to drive disruption, its long-term growth potential remains substantial.

Healthcare

Our sector assessment: House view is given to sectors assessed to have tailwinds that are more favorable than headwinds over the next 12 months and which could mean that **deal activity trends higher** than 2024's total, in value or volume.

Private equity deal value in the healthcare sector rose in 2024, with a total deal value of $78.6bn from 819 transactions. Besides some secondary buyouts, most large deals were driven by take-private transactions, with the largest being US-based pharmaceutical firm Catalent Inc.[7] being taken private by Novo Holdings for $16.5bn. However, for venture capital, deal activity continued to decline, with both deal value and volume in healthcare reaching their lowest levels since 2020.

In 2025, we expect further interest in the biotechnology and pharmaceutical sectors. Biotechnology transactions in private equity totaled only $18.6bn in 2024, based on Preqin's data and the number of deals has been steadily increasing since 2019, reflecting the growing demand for research and development (R&D) in drug discovery and gene therapy, particularly in the post-COVID era. Given that most biotechnology firms are relatively small, deal activity is expected to be concentrated in the small to mid-market segment. In VC, biotechnology accounts for two-thirds of total healthcare deal value, highlighting the strong focus on innovation in the sector[8] for cancer, neurodegenerative and cardiovascular diseases.

Tailwinds:

- Demographic shifts and technological advancements will play a crucial role in driving the structural growth of the pharmaceutical industry. As the population ages and chronic diseases become more prevalent, demand for innovative drug development is growing. Global pharmaceutical revenue is projected to rise at an annual rate of 4.76% from 2025 to 2029,[9] with sales expected to reach $1.7tn by 2030.

5 https://pro.preqin.com/asset/611282/deals

6 https://www.cnbc.com/2025/01/21/trump-ai-openai-oracle-softbank.html

7 https://pro.preqin.com/asset/37295/deals/710753/profile

8 https://www.preqin.com/insights/research/research-notes/the-tailwinds-behind-biotech-vc

9 https://www.statista.com/outlook/hmo/pharmaceuticals/worldwide?

- Over the next few years, the industry will face a significant patent cliff,[10] as patents on blockbuster drugs expire. This is likely to drive increased deal activity, particularly in specialty pharma and generics, as companies seek to adapt to take advantage of the changing pharmaceutical market. However, given some lingering uncertainty surrounding regulatory scrutiny of private healthcare investments, fund managers may prioritize smaller buy-and-build deals or private investments in public entities (PIPEs) to drive growth in the near term.

Industrials

Our sector assessment: House view is given to sectors assessed to have tailwinds that are balanced with headwinds over the next 12 months and which could mean that **deal activity in that sector is similar** to 2024's total, in value or volume.

Private equity deal value in the industrial sector was more upbeat in 2024, with full-year deal value coming in at $48.5bn, despite a drop in total deal volume year-on-year. The number of carve-outs and spin-offs within the industrial sector has been rising in 2024. Based on Preqin's data, these transactions account for only about 5.2% of the total deal volume in the industrial sector but contribute 20.4% to the sector's total deal value in 2024.

Ongoing digital transformation, along with a global transition to electric vehicles and semiconductors, will continue to support the industrial sector, with sub-sectors including automobiles, industrial machinery, and construction benefiting over the long term. However, Trump's rhetoric on reshoring could put downward pressure on this sector's deal market.

We expect the trend for more carve-outs or spin-offs to persist in 2025, as industrial corporations drop non-strategic assets to focus on their core operations, while also selling these functions to buyers who see long-term growth potential amid the challenges the industrial sector faces.

Concerns over tariffs on imported goods following Donald Trump's re-election to the US presidency could disrupt trade in the industrial sector. Companies reliant on imports may seek cheaper sourcing options or pursue domestic acquisitions to bypass these tariffs,[11] while addressing supply chain issues, driving an increase in domestic deals. While cross-border deals will continue, they will be more strategically driven, with European firms targeting US companies for market access and US firms investing in Europe to capitalize on lower valuations.

Headwind:

- Tariffs on imported goods following Donald Trump's re-election to the US presidency could disrupt trade in the industrial sector.

10 https://www.biopharmadive.com/news/patent-cliff-pharmaceuticals-top-drugs-monopoly-expiration/715062/

11 https://www.investmentmonitor.ai/features/protectionism-likely-to-continue-rising-in-2025/

Consumer discretionary

Our sector assessment: House view is given to sectors assessed to have tailwinds that are balanced with headwinds over the next 12 months and which could mean that **deal activity in that sector is similar** to 2024's total, in value or volume.

Private equity deal activity in the consumer discretionary sector remained relatively stable over the past year. Deal value saw a slight increase of 2.5%, rising from $70.8bn in 2023 to $72.6bn in 2024, while deal volume remained largely unchanged. In contrast, VC experienced a more significant dip based on Preqin's data, with deal value declining by 9.2% and deal volume falling by 21.6% from 2023.

While deal activity has been relatively stable, we take a more cautious view on consumer discretionary for 2025, though we see some positive macro trends in food and travel & leisure. Following the COVID-19 pandemic, two key trends have emerged in the consumer sector. First, the hospitality and tourism industry has experienced a strong recovery, with hotels, restaurants, and other venues thriving as countries have reopened. Second, there has been a growing focus on health and fitness, leading to increased demand for health foods and supplements as consumers become more conscious of their well-being. Consequently, established food companies are likely to continue to seek acquisitions of health-focused brands to expand in this market, such as 1440 Food Company's $700mn acquisition of FitCrunch,[12] a US-based protein shake and supplement producer, in November 2024.

Headwind:

- Despite a resilient global labor market, over 75% of consumers expect to reduce or maintain spending in 2025,[13] particularly in the US and Europe, where essentials will take priority over discretionary items. This trend would negatively impact consumer products demand resulting in lower levels of interest in this sector.

12 https://pro.preqin.com/asset/448484/deals/760505/profile

13 https://www.alixpartners.com/media/k1th1ykq/alixpartners-2025-global-consumer-outlook.pdf

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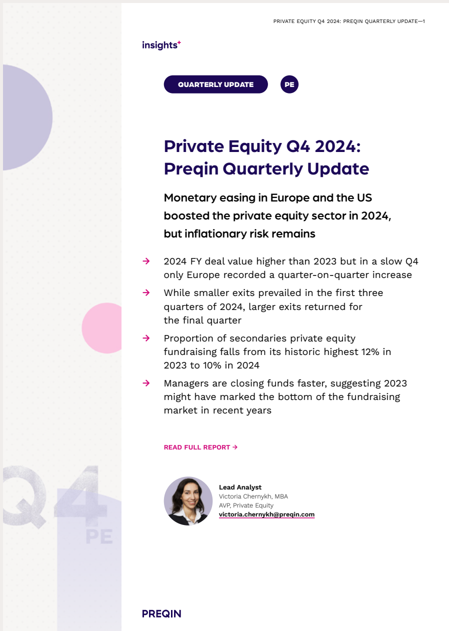
PRIVATE EQUITY Q4 2024: PREQIN QUARTERLY UPDATE—1

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Private Equity Q4 2024: Preqin Quarterly Update

Monetary easing in Europe and the US boosted the private equity sector in 2024, but inflationary risk remains

- 2024 FY deal value higher than 2023 but in a slow Q4 only Europe recorded a quarter-on-quarter increase
- While smaller exits prevailed in the first three quarters of 2024, larger exits returned for the final quarter
- Proportion of secondaries private equity fundraising falls from its historic highest 12% in 2023 to 10% in 2024
- Managers are closing funds faster, suggesting 2023 might have marked the bottom of the fundraising market in recent years

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Private Debt Q4 2024: Preqin Quarterly Update

Fundraising in 2024 has yet to recapture the momentum of 2021 after slipping again year on year, but the outlook for 2025 is positive.

- Private debt fundraising ended FY 2024 down, the third yearly decline in a row
- Many of the factors constraining fundraising over the last few years are abating, setting up the asset class for a stronger than expected 2025
- Obstacles to private debt growth are clearing due to the benign macroeconomic environment

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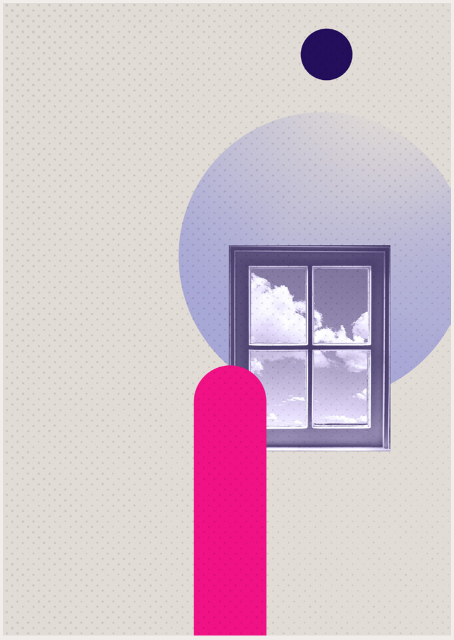

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