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DEAL FLOW MONITOR | PE | VC

# Deal Flow Monitor: Q2 2025

## Deal-making caution persists, despite growing cross-border private equity activity and a shifting sector focus for venture capital funds

- Private equity deal activity declined in Q2, but carve-outs and spin-offs have grown their role by total deal value
- Europe's compelling valuations are drawing more interest from foreign investors as private equity cross-border deals rise
- Despite fewer VC deals in Q2, their total value edged higher, led by North America and driven by interest in AI

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The global trade uncertainty that unsettled markets in the first quarter of 2025 showed some signs of easing in the second quarter. Meanwhile, the European Central Bank (ECB) implemented another interest rate cut. Despite these supportive macroeconomic signals, deal-making activity remained subdued.

The broader private capital market contracted quarter on quarter; both the volume and aggregate value of deals fell – by 10.9% and 30.4%, respectively, according to Preqin data (Fig. 1). Private equity, VC, and infrastructure transactions were the largest contributors to aggregate deal value, but only VC showed a quarter-on-quarter improvement. The drop in deal count suggests that overall sentiment remains cautious, with deal-makers likely waiting for more definitive signs of improvement in macroeconomic and geopolitical conditions before becoming more active.

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**Fig. 1: Private capital deal-making contracts in Q2 2025**

Private capital quarterly deal value and volume, by asset class

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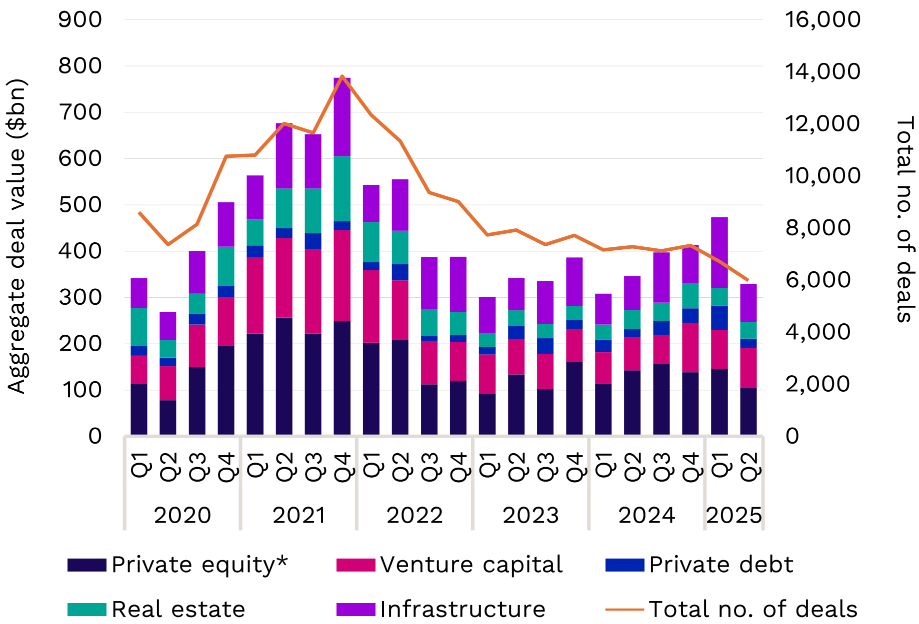


*Excludes private debt and LP-direct deals

Source: Preqin, data as of July 2025

**Strategic divestments lead to more private equity carve-outs and spin-offs**
Private equity deal activity softened quarter on quarter, with aggregate value declining by 28.8% and volume by 11.8%. Despite the slowdown, North America remains the dominant region for private equity transactions (Fig. 2).

**Fig. 2: North America remains the dominant region for private equity deals**

Private equity* deal value, by region

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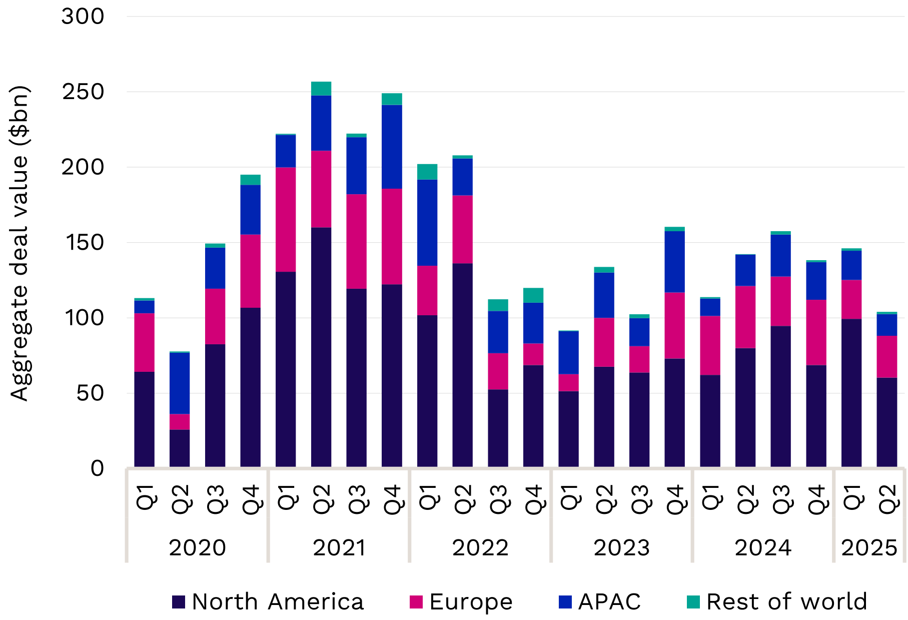


*Excludes private debt and LP-direct deals

Source: Preqin, data as of July 2025

Five of the 10 largest private equity deals (by value) tracked by Preqin in Q2 2025 were corporate carve-outs: a noticeable rise compared with the previous quarter. Carve-outs and spin-offs led the quarter in terms of aggregate deal value, surpassing public-to-private deals for the first time since Q1 2024 (Fig. 3). The total value of carve-outs and spin-offs reached $34.1bn, a large proportion of which was contributed by one large deal, valued at $10.6bn, involving the North America-based information technology arm of an aircraft manufacturer.

The proportion of private equity deals categorized as carve-outs or spin-offs has trended upwards over the past seven quarters (since Preqin's first Deal Flow Monitor), averaging 6.4% of deals by volume over this period – higher than the five-year average of 2.8% (Fig. 4). Since 2020, most of these carve-outs and spin-offs have taken place within the consumer discretionary, information technology, and industrial sectors, with activity concentrated primarily in North America and Europe. In Q2 2025, firms in the healthcare sector accounted for the greatest number of carve-outs. Companies in these sectors generally operate multiple lines of business and, requiring capital to support strategic needs and with the cost of debt still elevated, some have opted to divest non-core assets. These divestments provide much-needed liquidity, enabling companies to focus on their core operations and hopefully improve overall business performance.

**Fig. 3: Carve-outs & spin-offs are largest contributors to total deal value in Q2**

Private equity buyout deal value*, by type

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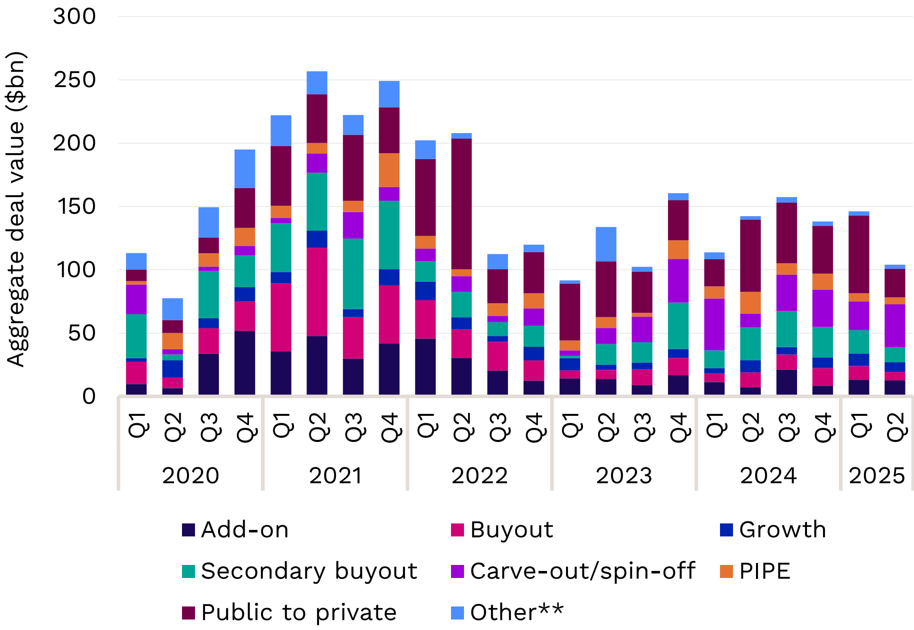


Source: Preqin, data as of July 2025

*Excludes private debt and LP-direct deals
**Other includes company formations, joint ventures, mergers, recapitalizations, and restructurings

**Fig. 4: Carve-outs & spin-offs also gain share of deal volume**

Private equity deal volume*, by type

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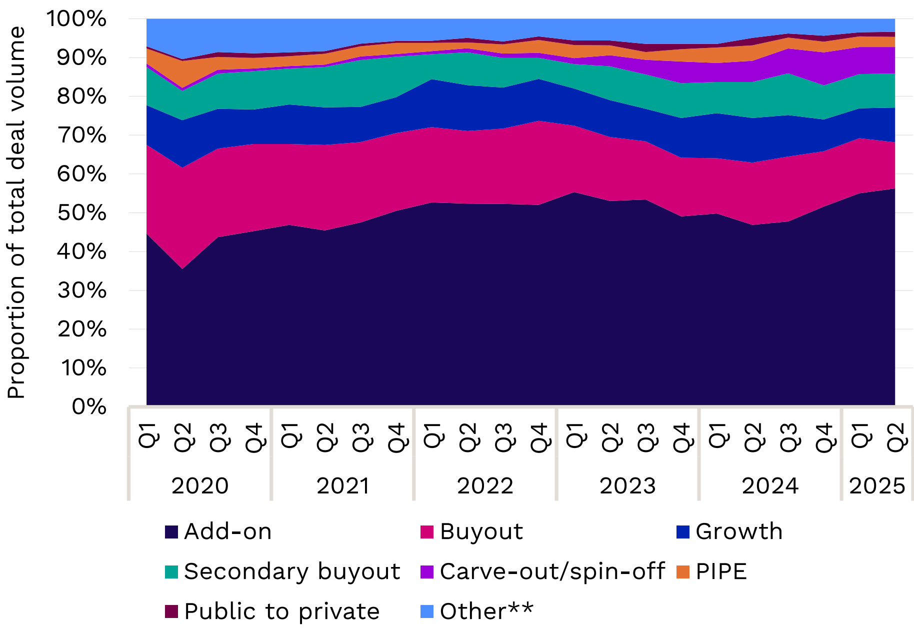


Source: Preqin, data as of July 2025

*Excludes private debt and LP-direct deals
**Other includes company formations, joint ventures, mergers, recapitalizations, and restructurings

### Valuations drive cross-border deals in Europe

Focusing on the four leading private equity markets in Europe – France, Germany, Italy, and the UK, which together represented almost 60% of the total number of buyout deals in Europe since 2020 – we can see that there has been a shift in investor dynamics. Over the past five years, the proportion of deals led by domestic investors has declined, from 62% in Q1 2020 to 48% in Q2 2025 (Fig. 5). This indicates growing European access to cross-border capital. We believe that a European valuation gap will drive interest from foreign investors, including those in the US and particularly those pursuing buy-and-build strategies; Europe, being a more fragmented market than the US, could offer opportunities for consolidation to achieve economy of scale. This trend will be further examined in our **European Private Markets in 2025** report, to be published in September.

**Fig. 5: Europe embraces foreign capital as share of cross-border deal-making grows**

Share of private equity deal volume in selected European countries*, by location of investors

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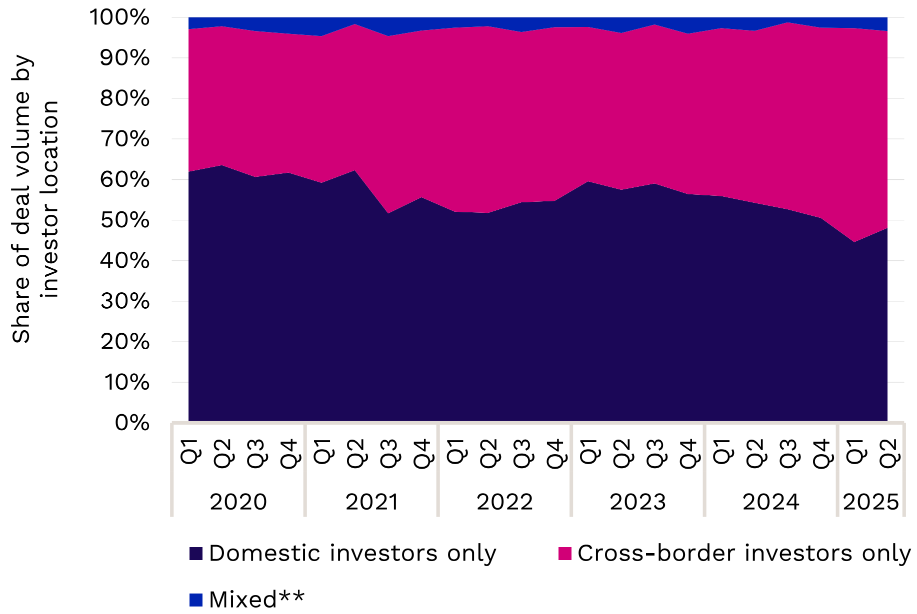


Source: Preqin, data as of July 2025

*France, Germany, Italy, and the UK
**Mixed refers to transactions involving participation from both domestic and foreign investors

Meanwhile, the global private equity exits landscape remains subdued, with trade sales the predominant exit strategy in Q2 2025. Given extended holding periods, suboptimal IPO valuations, and mounting investor liquidity pressures, we expect trade sales and secondary buyouts to remain the primary exit routes in the near term.

**Domestic venture capital activity strengthens in East Asia**
VC deal value edged higher in Q2 2025, rising by 4.9% to $87.7bn according to Preqin data (Fig. 6), despite a decline in deal volume for the second straight quarter. A significant contribution to the quarter's deal value was a sizeable transaction involving a North America-based AI company, valued at $14.3bn. This deal boosted North America's share of global VC deal value to 63.2% – its largest share in the past five years.

**Fig. 6: North America accounts for its largest share of VC deal value in at least five years**

VC deal value*, by region

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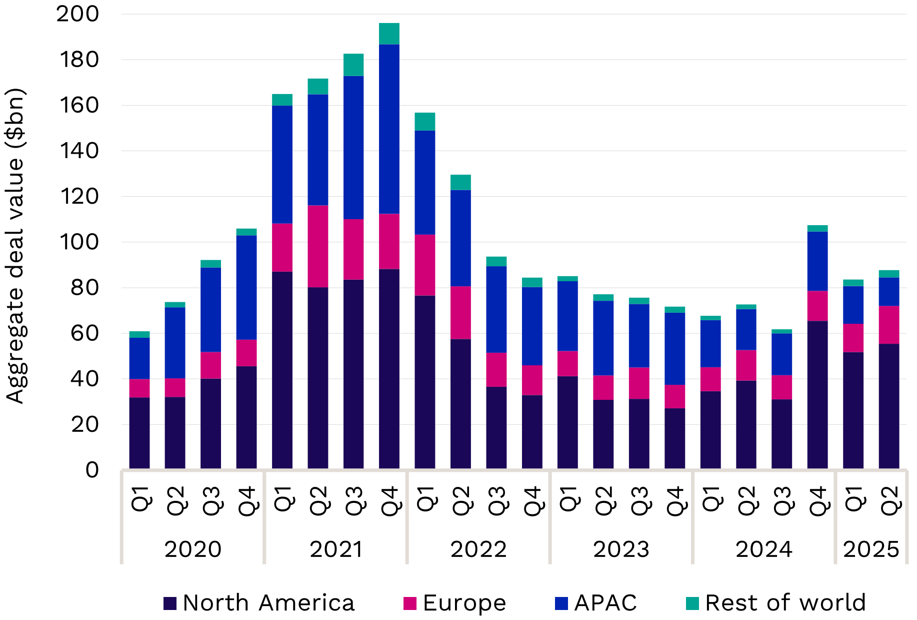


Source: Preqin, data as of July 2025

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

Globally, the IT sector (and increasingly AI) is the primary driver of VC deal activity (Fig. 7). However, dynamics are shifting in the APAC region, where deal activity is gradually moving away from the consumer discretionary sector and gaining momentum in the industrials and raw materials sectors. This trend reflects growing interest in strategic industries such as electric vehicles (EVs), semiconductors, and solar energy development, especially against a backdrop of persistent geopolitical tensions and rising protectionism.

**Fig. 7: IT sector leads amid steady growth in share attributed to industrials**

Share of VC deal volume*, by sector

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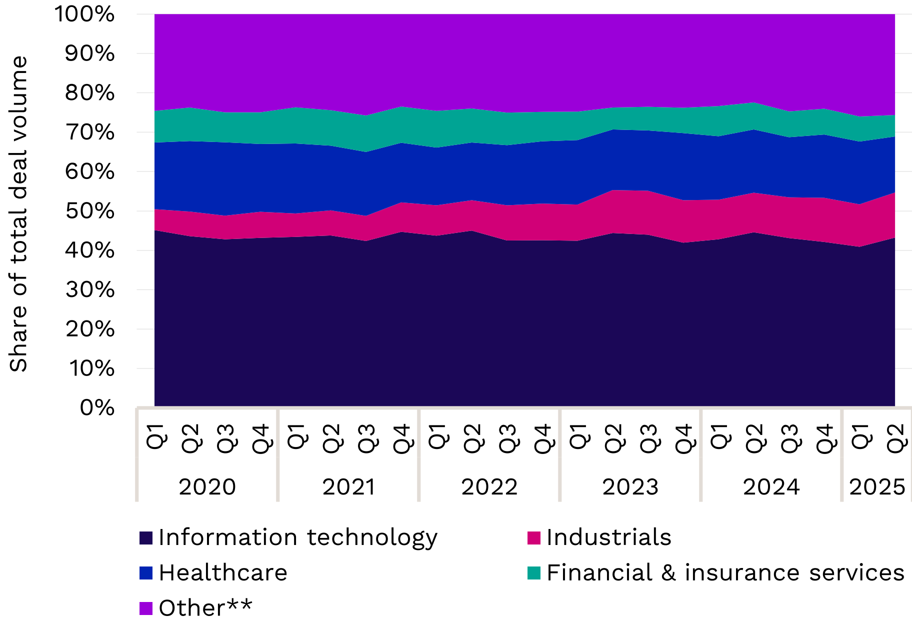



Source: Preqin, data as of July 2025

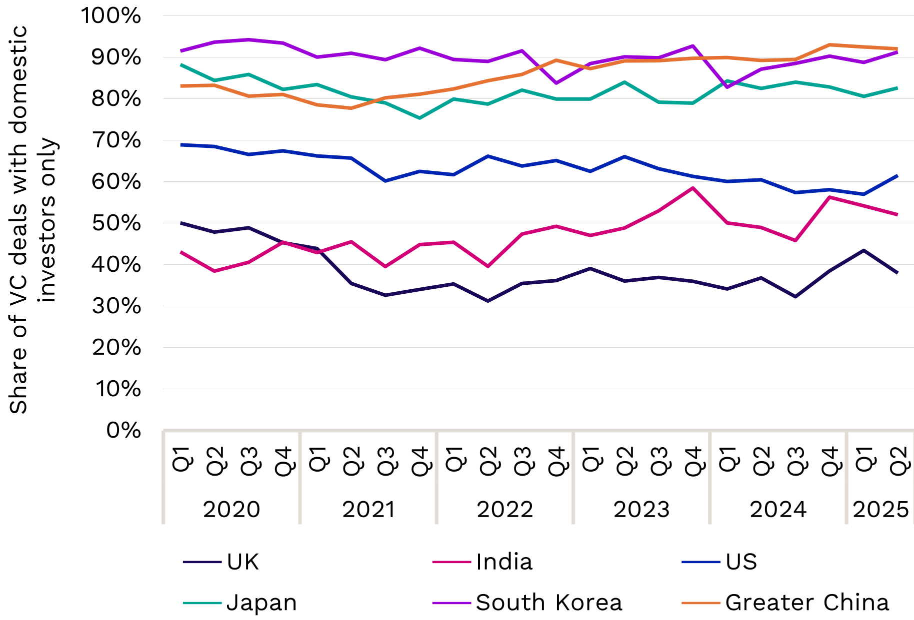
*Values exclude add-ons, mergers, grants, secondary stock purchases, and venture debt
**Other includes energy & utilities, raw materials & natural resources, real estate, and telecoms & media

Greater China, Japan, and South Korea each appear relatively insulated from cross-border interest, with VC deals exclusively involving domestic investors accounting for more than 80% of each country's total deal volume over the past five years (Fig. 8). As governments and investors prioritize investment in supply chain resilience and technological self-sufficiency, we expect VC to increasingly be directed toward sectors that support national strategic objectives.

This trend diverges when we examine other leading VC markets, however. In the US, approximately 90% of private equity deals since 2020 have involved exclusively domestic investors, but the VC landscape is more internationally integrated – only around 60% of VC deals between the start of 2020 and Q2 2025 exclusively involved domestic investors according to Preqin data. The proportion is even lower in India and the UK, where domestic-only VC deals typically comprise around 40%–50% of each country's total deal volume.

**Fig. 8: Countries in East Asia appear more insulated, with strong domestic support for local start-ups**

Proportion of VC deals involving domestic investors only, by location




Source: Preqin, data as of July 2025

A deeper look reveals that a substantial portion of VC deals in the US, UK, and India – more than 30% in each country in Q2 2025 – are classified as mixed. This means both domestic and foreign entities were involved in the same transaction. While this mixed ownership structure enhances global connectivity and capital access, it also presents some downside risk, exposing the portfolio company to increased geopolitical and trade policy risk.

**Softened fundraising sets in as private capital dry powder continues to decline**

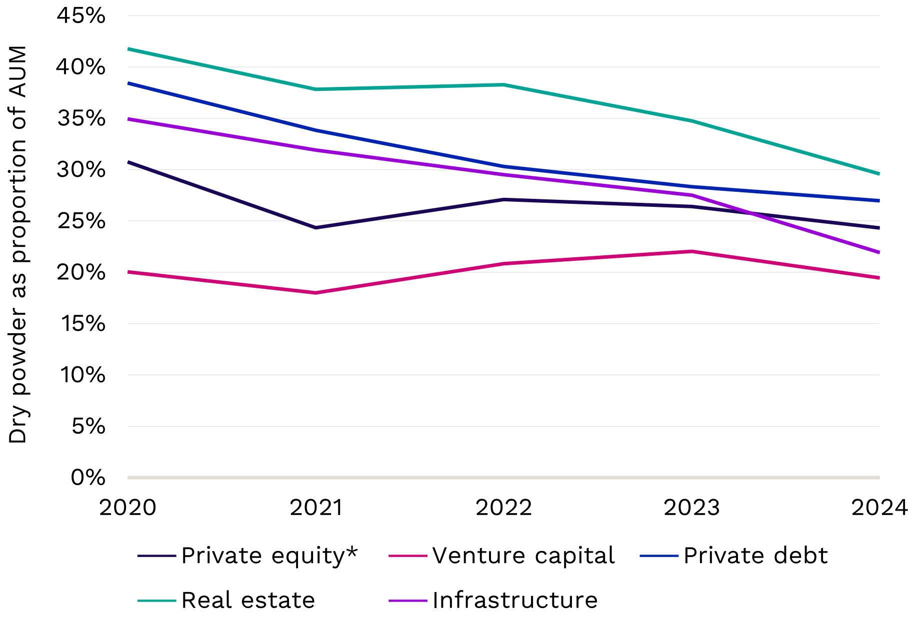
Private capital dry powder declined quarter on quarter to end 2024, reflecting a broader slowdown in the fundraising environment that may affect the pace of future deal-making activity. As of December 2024, private capital dry powder[1] totaled $3.6tn, or around 24% of total AUM, with private equity and VC together accounting for more than 60% of total dry powder (Fig. 9). We believe the dry powder–AUM ratio is still within a relatively healthy level, however, and sufficient to support deal-making, at least in the near term.

1 Excluding private equity funds of funds and secondaries

**Fig. 9: Proportion of dry powder to AUM continues to shrink**

Private capital dry powder as proportion of AUM, by asset class

View latest chart data on Preqin Pro




*Excludes funds of funds and secondaries

Source: Preqin, data as of July 2025

An analysis of dry powder as a proportion of AUM across private equity fund sizes reveals that mega funds (defined as those with fund sizes equal to or exceeding $4.5bn), have maintained a marginally higher dry powder–AUM ratio than other fund sizes since the end of 2020. However, this trend has shifted in the most recent two quarters, with the ratio for mega funds declining and converging with that of smaller funds (Fig. 10).

**Fig. 10: Dry powder to AUM ratio converges to similar levels across all fund sizes in 2024**

Global private equity dry powder as proportion of AUM*, by fund size

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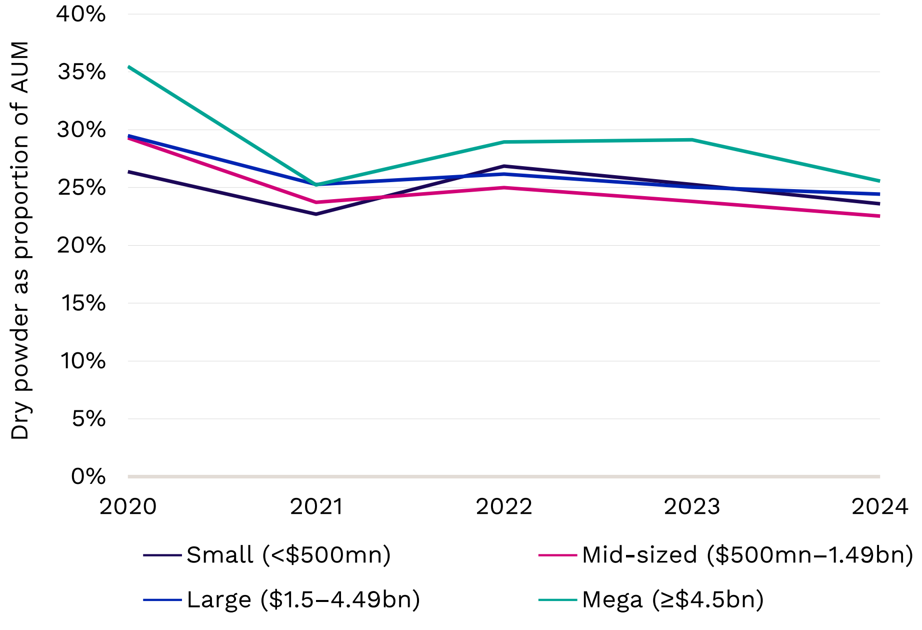


*Excludes funds of funds and secondaries

Source: Preqin, data as of July 2025

Given that fundraising is increasingly concentrated in larger funds,[2] this decline in dry powder points to mega fund managers being more active in the deals market. In general, mega funds are structured to deploy into larger deals in order to generate meaningful returns at scale, but they also have the flexibility to access smaller, high-growth opportunities (for example, bolt-on acquisitions to improve value creation) – as long as such opportunities align with the fund's long-term strategy and would benefit its portfolio companies.

In light of ongoing geopolitical and trade policy risks, we anticipate that private capital deal-making will remain flat in the short term, as market participants closely monitor macroeconomic signals – including from the Federal Reserve – for signs of optimism. Within private equity, elevated interest rates, coupled with a slower-than-expected pace of rate cuts, should sustain the momentum for bolt-on deals. Carve-outs and spin-offs, which have gained prominence in recent quarters, look set to remain relatively common, as more companies seek to streamline operations and divest non-core assets to raise capital. This environment favors larger managers with capital to deploy, connections across the industry, and experience of managing complex transactions. Meanwhile, the VC landscape is becoming more polarized, with strategic sectors driving deal activity in APAC and more stable markets, such as North America and Europe, gravitating towards AI-related investments. This latter trend is expected to continue for many quarters to come.

2 See, for example, the growing proportion of capital attributed to funds targeting ≥$1bn in our Private Equity Q2 2025 update

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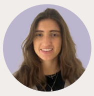

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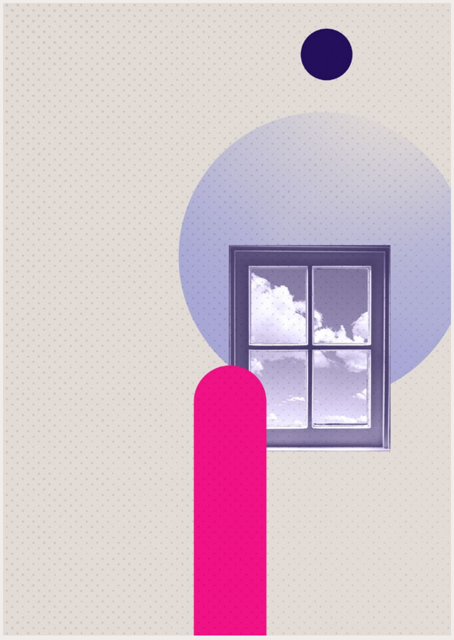

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