AXIA

Private Equity Newsletter

SG Analytics
Life's Possible

Issue 12 / January 2025

Contents

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry. Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

Private Equity in 2025: What Lies Ahead for US Investors

Private equity (PE) enters 2025 at a crossroads, balancing a sharp decline in fundraising with opportunities for initial public offering (IPO) exits and transformative trends, such as artificial intelligence (AI) and infrastructure investments.

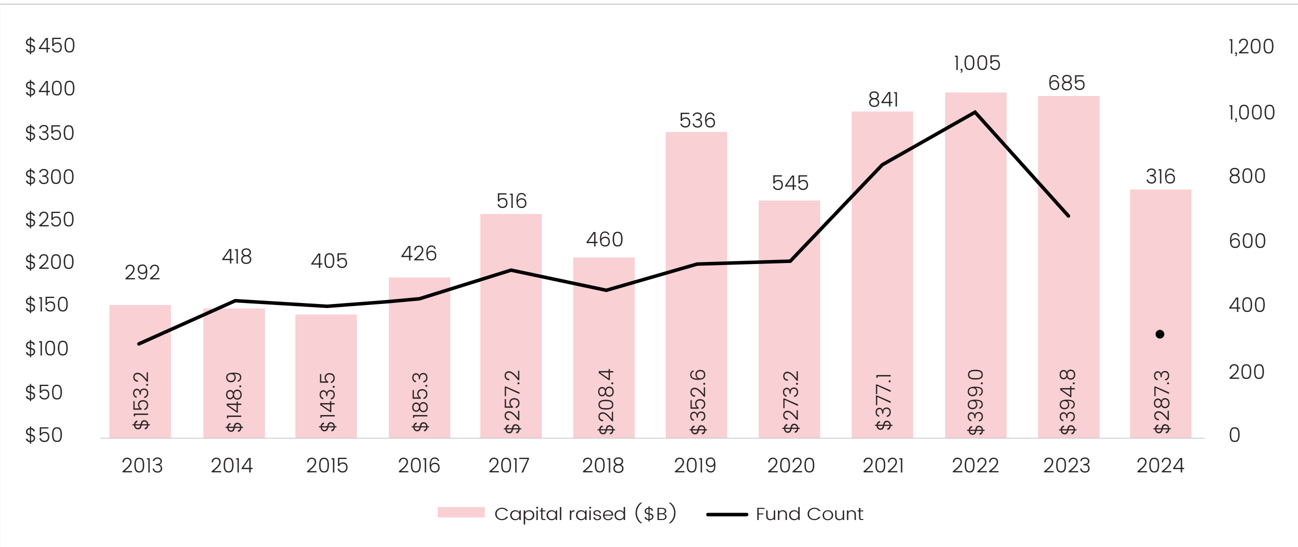
After a comeback last year, PE dealmaking is poised for a revival in 2025, driven by the Federal Reserve's expected interest rate cuts, Trump's pro-business policies, and improving investor confidence.

Expected Decline in Fund-raising

After years of resilience against challenges such as declining dealmaking and exit activity, PE fundraising is set to face a turning point in 2025. Following stable performance in 2024, fundraising is projected to decrease significantly, marking the first downturn in five years. A key factor driving this trend is the prolonged timelines for closing funds, which averaged 16.7 months as of November 2024 – the longest since 2010, as per PitchBook. This delay limits the number of funds closing annually, reducing the overall capital raised.

A slowdown in mega-fund activity further supports the anticipated dip in fundraising. According to Pitchbook, as of December 17, 2024, the top 10 open mega-funds, collectively targeting $129.6 billion, have raised only 36.2% of their goals, significantly lower than 2023 levels. With fewer mega-funds likely to close in 2025, fundraising levels are poised to fall. While a rebound in dealmaking would ironically coincide with this decline, factors like prolonged fund closings and reduced commitments indicate that 2025 will be a challenging year for PE fundraising.

Figure 1: US PE Fundraising Activity

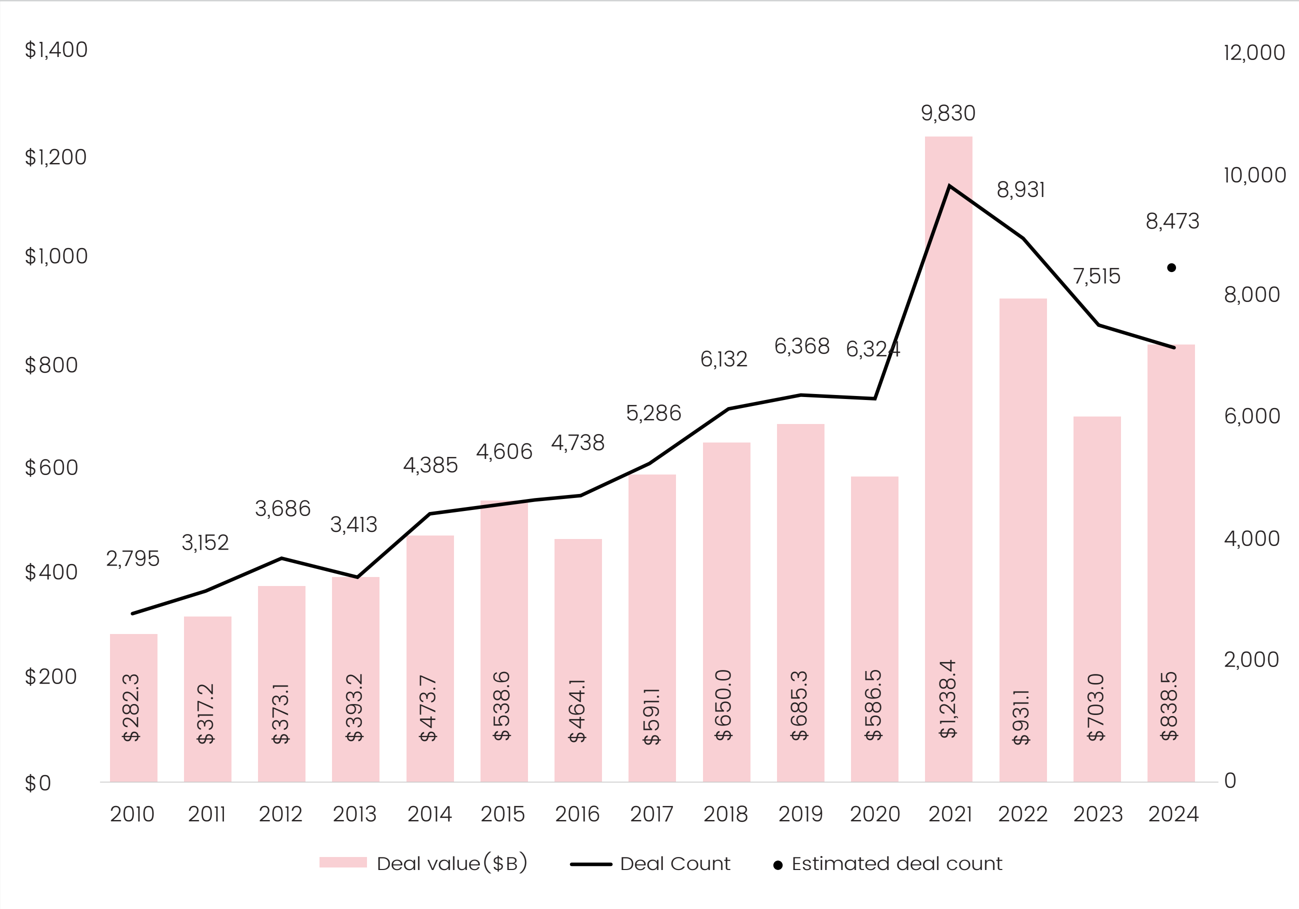


Source: PitchBook, as of December 31, 2024

Dealmaking to Rebound

According to Pitchbook estimates, there were 8,473 deals worth $838.5 billion in 2024. Both volume and value were up compared to 2023. While last year marked a comeback, it did not fully return to pre-slowdown levels. In 2025, PE dealmaking is set for a revival, driven by the Federal Reserve's expected interest rate cuts, Trump's friendlier business policies, and improving investor confidence. Trump's proposal to extend the Tax Cuts & Jobs Act (TCJA) and lower the corporate tax rate to 15% would further fuel exits. With its predictable recurring revenue, the software sector remains a focal point, while rising consumer spending and real incomes are expected to boost activity in retail and consumer markets.

Figure 2: US PE Deals



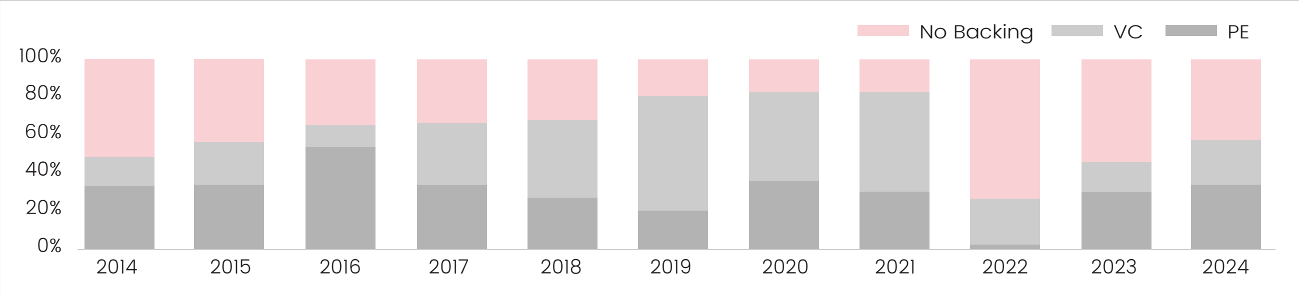
Source: Pitchbook, as of December 31, 2024

PE dry powder continued to set new records, with Preqin projecting global PE dry powder to exceed $1.6 trillion by the end of 2024. The below-average investment pace in 2023 and 2024 has left firms with substantial capital that must be deployed, creating a strong foundation for dealmaking in 2025. This pool of capital is expected to support valuations, emphasizing the importance of value creation in driving returns. Leading firms will focus on operational improvements to maximize portfolio performance and stand out in a competitive market.

PE Exits Through IPOs to Increase

According to Pitchbook, PE-backed companies are expected to account for 40% of IPO capital on major US exchanges in 2025, a sharp rise from the decade average of 30.6%. Investor confidence in PE-backed IPOs stems from their stability and profitability, making them less speculative than their venture capital (VC)-backed counterparts. Recent data supports this trend. As of December 1, 2024, PE-backed IPOs delivered median gains of 20.7% to investors, compared to a 6.8% median loss for VC-backed IPOs, as per PitchBook. This performance further solidifies PE's reputation for delivering predictable returns.

Figure 3: Share of IPO Raised by Backing Type in the US



Source: PitchBook, data as of October 31, 2024

Favorable conditions for IPOs are expected, driven by reduced capital costs and a maturing pipeline of investments from the 2021 vintage. As these companies approach four years since deployment, those demonstrating robust performance are well-positioned for public offerings, bolstering the outlook for increased PE exit activity through IPOs. The IPO market will enable PE firms to capitalize on improved financing conditions and a rebound in mergers and acquisitions (M&A) activity. With interest rates declining and public markets recovering, PE firms can leverage these conditions to deliver substantial returns to limited partners (LPs) through IPO exits.

Key Trends in PE to Look for in 2025

PE firms are doubling down on infrastructure investments, particularly in the energy and digital sectors, as demand for data centers surges.

According to PitchBook, in 2024, general partners (GPs) invested $108.1 billion in companies operating in data centers and related markets – more than three times the amount invested the previous year. These data centers support AI-driven growth and address rising global electricity usage. Opportunities span the value chain, from software and hardware vendors to renewable energy sources. Blackstone's acquisition of AirTrunk in 2024 is one of the largest PE deals in this market.

In 2025, PE's approach to AI is shifting from exploratory discussions to actionable use cases. PE firms are leveraging AI-driven tools to enhance productivity, reduce transaction processing costs by up to 70%, and optimize portfolio management. AI is amplifying employee efficiency by prioritizing tasks and streamlining processes. This refined focus enables firms to make quicker decisions and unlock value during every phase of the investment lifecycle, positioning AI as a key driver of PE's operational success.

Conclusion

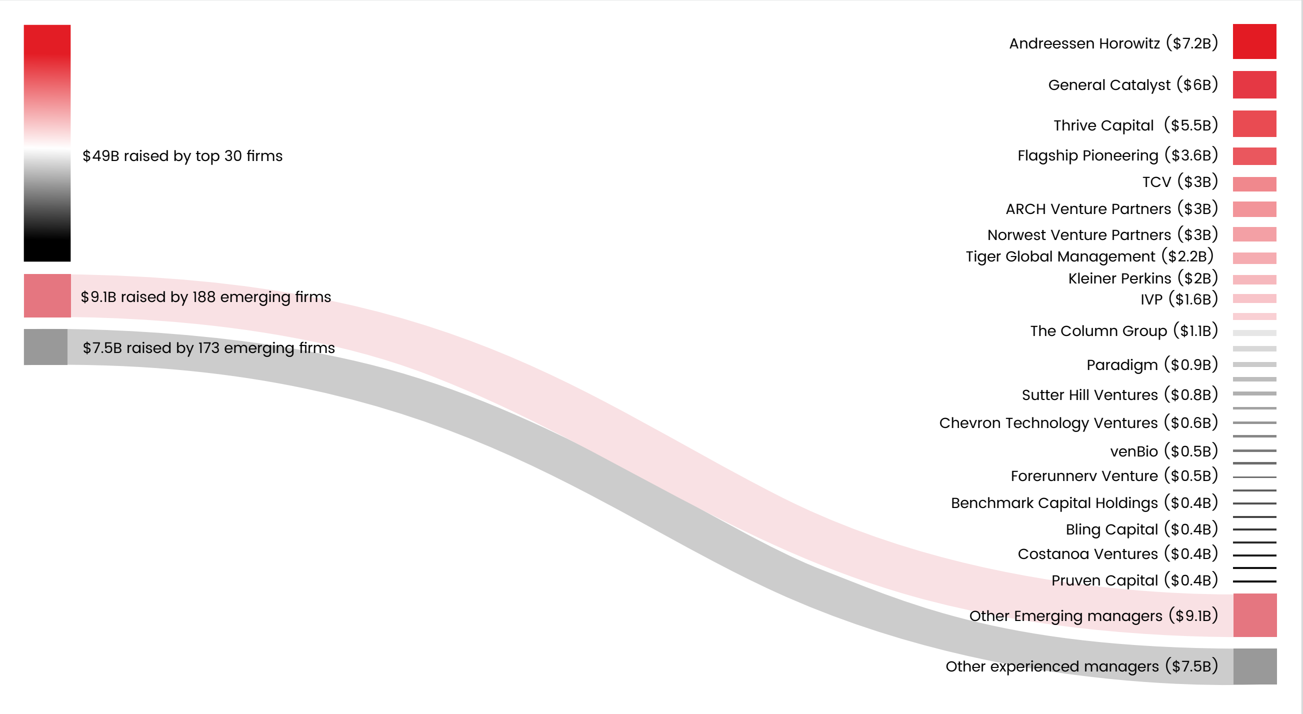
In 2025, PE is poised to navigate a complex landscape marked by both challenges and opportunities. While fundraising faces a notable downturn due to prolonged fund-closing timelines and reduced mega-fund activity, the rise in PE-backed IPOs signals promising exit avenues, driven by favorable market conditions and investor confidence. Additionally, PE's strategic focus on infrastructure investments and the operational adoption of AI highlights the industry's adaptability and forward-looking approach. As PE firms tackle these evolving dynamics, their ability to innovate and capitalize on emerging trends will define their resilience and success in 2025.

Monthly News and Analysis

Top 30 VC Firms Dominate Fundraising as Emerging Managers Struggle

As of December 4, 2024, 30 US VC firms raised 75% of all capital raised by VC funds, indicating a concentration of influence among technology giants, as per PitchBook. However, only nine firms raised $35 billion, accounting for half of the total, with Andreessen Horowitz contributing over 11% of all capital raised.

Figure 4: The Top 30 VC Funds Raised 75% of all VC in the US in 2024



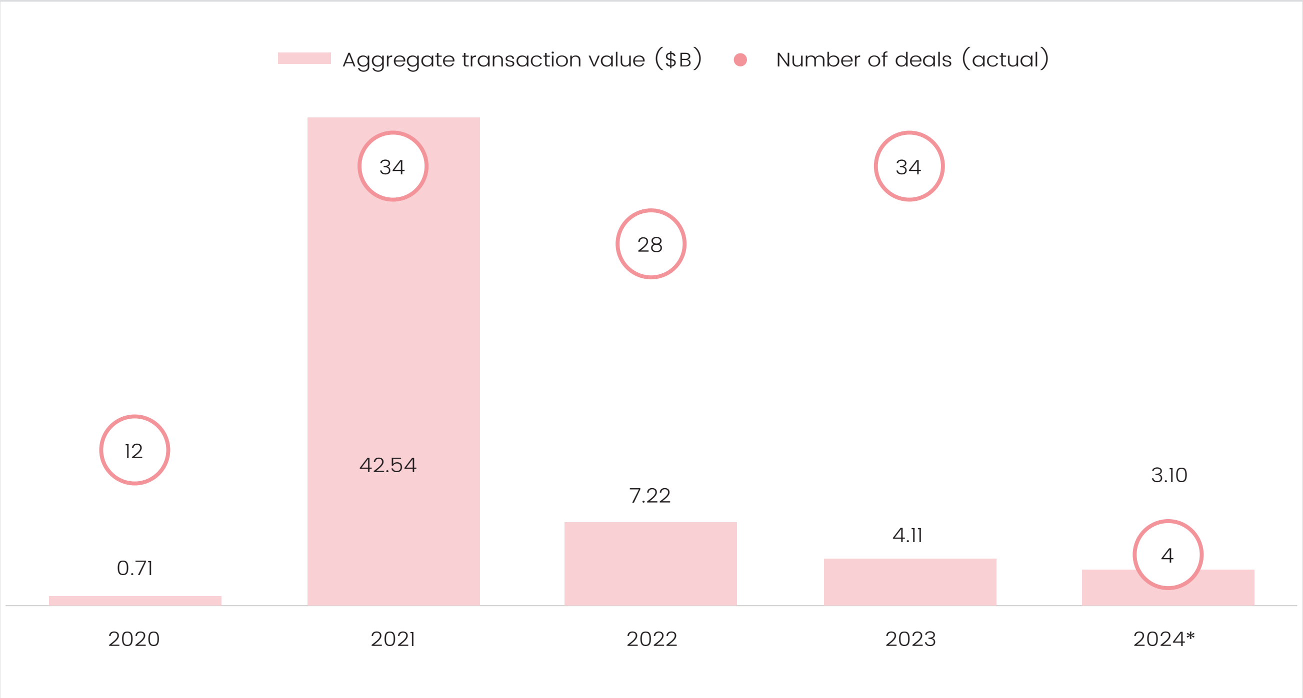
Source: PitchBook, as of December 4, 2024

The VC landscape has evolved, with an elite group of GPs, like General Catalyst, dominating valuations and attracting institutional capital, even as LPs pull back from the asset class. Established VCs have expanded their role by offering startups in-house services and raising larger funds to meet the growing demands of AI and other capital-intensive technologies. In 2024, mega-funds secured significant capital, while emerging managers struggled in the challenging fundraising cycle. These managers, particularly those operating outside the top-tier firms, raised $9.1 billion, accounting for 14% of total US VC commitments in 2024, as per PitchBook. This marks a relatively small share, reflecting a sharp decline in their ability to attract institutional funding compared to the top 30 VC firms. The lack of liquidity from traditional exit pathways, such as IPOs, has exacerbated these challenges, forcing emerging GPs to sell secondary stakes. However, the retreat of institutional LPs is opening opportunities for high-net-worth individuals and wealth managers to expand their roles. Attracting these non-traditional investors will be crucial for the success of emerging managers in the evolving VC ecosystem.

PE Investment in US Solar Falls as Global Activity Surges

While worldwide private inflows into the solar business have risen, PE and VC activity in the US was low in 2024. By November 26, 2024, PE inflows into the US residential and utility-scale solar totaled $3.1 billion – 24.6% lower than in 2023 and just 7.35% of the $42.5 billion raised in 2021, as per S&P Global.

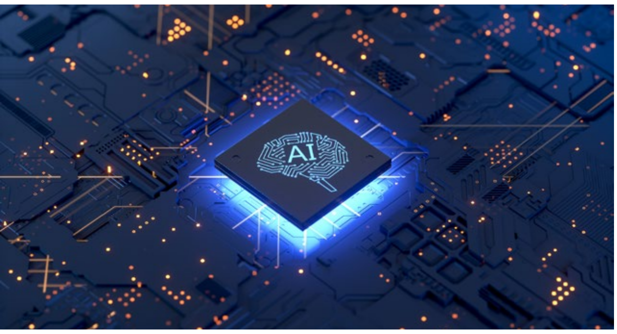
Figure 5: Global PE-/VC-backed Investments in US Solar



Source: S&P Global, November 26, 2024

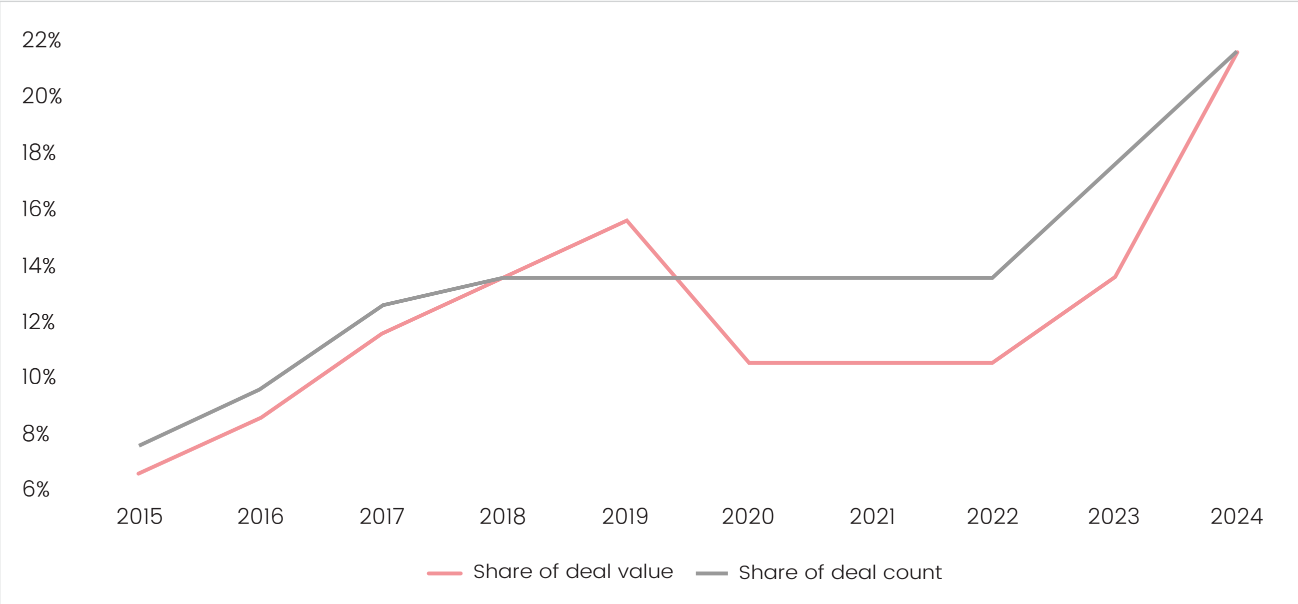
According to S&P Global, the global solar deal value reached $25.04 billion, up roughly 52% from $16.46 billion in the full year of 2023. This surge is driven by Europe's megadeals and China's dominance in solar panel manufacturing, which is expected to continue through 2026. Europe's largest deals in the solar energy sector included Energy Capital Partners' $7.87 billion acquisition of UK-based Atlantica Sustainable Infrastructure and Brookfield Asset Management and Temasek Holdings' $7.57 billion acquisition of Neoen. PE investments in the US and Canada fell, with 2024 deal values totaling $3.25 billion across seven deals, compared to Europe's $20 billion across 23 deals, as per S&P Global. Subsequently, the Asia-Pacific region, including China, concluded 20 transactions valued at over $795 million. Despite this decline in US investments, PE remains crucial for advancing next-generation solar technologies, such as bifacial modules, perovskite cells, solar panel recycling, and localized supply chains in underserved regions. With solar's shorter development timelines and lower costs compared to alternatives, PE firms should focus on driving innovation and addressing supply chain challenges.

AI Startups Battling Oversaturation



In December 2024, Perplexity, an AI-driven search engine, completed its fourth funding round, raising $500 million and tripling its valuation to $9 billion. The round was led by Institutional Venture Partners and is aimed at competing with Google and OpenAI's offerings.

Figure 6: Global AI & ML Deal Share of First-time VC Financing

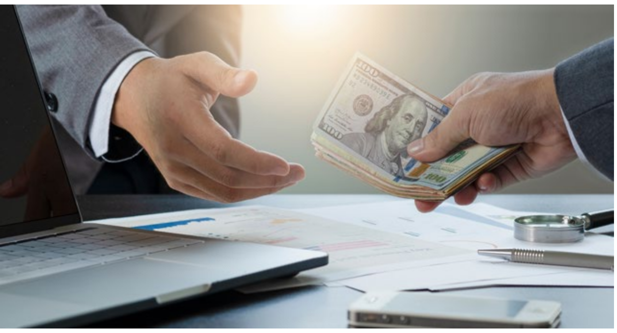


Source: PitchBook, as of September 30, 2024

The explosion of AI startups reflects a dual reality: massive opportunities for genuine innovation and challenges posed by oversaturation. According to PitchBook, AI and machine learning (ML) startups received $7 billion in first-time funding through Q3 2024, accounting for 22% of all such investments. At the same time, mega-deals led by prominent investors have driven a more than 100% increase in funding for foundational AI model companies in 2024, prompting smaller VC firms to seek alternative AI opportunities. Over $40 billion was invested in these models and core AI startups during the year, with funding concentrated among leading players like OpenAI, Anthropic, and XAI, as per PitchBook. This marks another historic high, as investors navigating the challenge of distinguishing genuine startups that address unique issues outside the capabilities of major foundation model suppliers from AI-washed businesses.

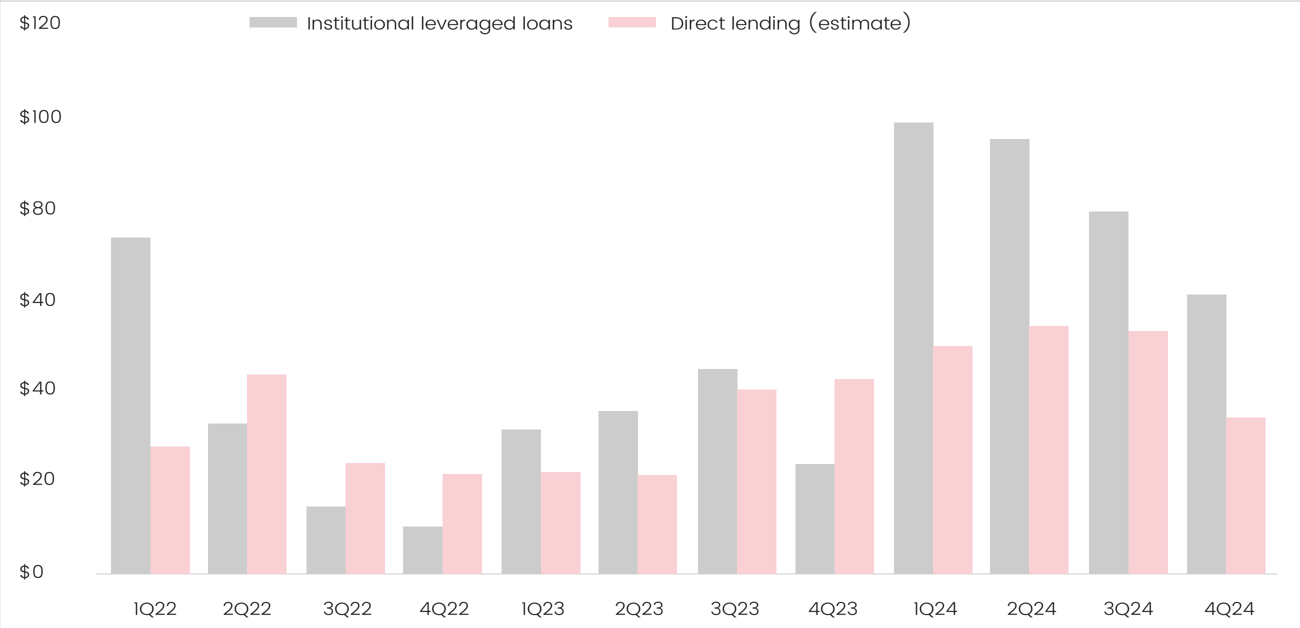
However, in today's challenging fundraising climate, integrating AI has become critical for startups. With decreasing development costs and intense competition for limited funding, many companies are adopting generative AI, while those without it often struggle to secure investment. Investors are focused on identifying unique solutions beyond repurposing existing foundation models, while others advocate for continued, uninhibited growth in the vertical.

Private Credit Faces Challenges Amid Tepid Q4, but Optimism Grows



Private credit lenders navigated a challenging fourth quarter, financing $34.3 billion in new sponsor-backed loans, down from $52.6 billion in Q324 and $42.4 billion in Q423, as of December 12, 2024, as per PitchBook. Amid falling spreads and reduced refinancing activity, the market anticipates a rebound in 2025, fueled by expected M&A growth following the US presidential election.

Figure 7: New-issue Volume for PE-backed Borrowers (in $Billions)



Source: PitchBook, data as of December 12, 2024

The private credit market grappled with a subdued 2024, with refinancing activity dominating the landscape. As of December 12, 2024, refinancing accounted for 20% of all deals, the highest in over a decade, as per PitchBook. Spreads narrowed significantly in unitranche loans for borrowers with $50 million in EBITDA. Lenders prioritized stabilizing portfolios through add-on acquisitions and dividend recapitalizations, reflecting limited opportunities for new leveraged buyouts (LBOs). However, Q4 showed promising signs of recovery, with 90% of lender activity attributed to new LBOs, compared to 65% in Q324. Donald Trump's presidential victory has fueled optimism for increased M&A activity in 2025, which is expected to drive PE lending and absorb the liquidity that private credit providers have struggled to deploy. Borrowers in the $5–50 million EBITDA range, largely excluded from the syndicated loan market due to a rising median loan size of $860 million, have become a critical segment for private credit lenders. With a growing LBO pipeline and easing pressure on spreads, the sector appears positioned for a strong rebound. Still, private credit's success in 2025 will depend on balancing compressed yields, competitive dynamics, and the ability to capture emerging opportunities in a recovering market.

Growing Prominence of Solo Venture GPs

Solo GPs are reshaping VC, moving from a niche role to a competitive force against legacy firms. In December 2024, two prominent figures from established firms, Matt Miller of Sequoia and Villi Iltchev of Two Sigma, announced their intention to operate independently.

Operating independently and accountable only to themselves and their LPs, solo GPs have built a reputation for speed and founder-centric strategies. High-profile figures like Elad Gil, who raised a billion-dollar fund, underscore their growing influence. FirstLook Partners' $30 million debut fund, which exclusively backed solo GPs, emphasizing LPs' preference for their founder-focused strategies.

Notable soloists like Nat Friedman and Daniel Gross secured stakes in AI startups such as Scale AI and Perplexity, competing directly with large funds. Harry Stebbings raised $400 million in October 2024, leveraging his media platform's 50 million monthly views to attract founders. Meanwhile, Kevin Novak relied on a network built from his tenure at Uber to raise funds for Rackhouse VC. Despite these successes, solo GPs operate in a challenging environment; fundraising for emerging managers hit a 25-year low, with LPs pulling back from the asset class. Nevertheless, Q4 saw solo GPs thrive by prioritizing agility, branding, and founder alignment, ensuring their relevance in a cautious market.

Deals Flash

GTCR Acquires Concord

GTCR, a Chicago-based PE firm, has acquired Concord Servicing, an Arizona-based provider of software and administration services for specialized loan servicing. Founded in 1988, Concord offers specialty credit originators and investors loan administration, payment processing, default management, data, analytics, and reporting solutions. This acquisition will allow Concord to expand its product and service offerings, enhance its technology, and accelerate growth in the specialty lending market. Additionally, GTCR will support Concord's leadership team through strategic M&A and investments to address the evolving needs of loan originators and investors.

Clarion Acquires Marketplace Events

Clarion Capital Partners, a New York-based PE firm, has acquired Marketplace Events, an organizer of consumer home shows. Founded in 2008, Marketplace Events specializes in operating consumer exhibits for the home improvement industry, including gardening, home décor, and renovation. This acquisition will allow Marketplace Events to accelerate growth, expand opportunities for stakeholders, and enhance expertise across markets. Additionally, this deal will enable Clarion to strengthen its position in North America's business-to-consumer (B2C) events industry and partner with a values-aligned organization.

Blackford Exits Mopec to Waud

Blackford Capital, a Michigan-based PE firm, has sold Mopec Group, a Michigan-based manufacturer of medical equipment and laboratory products, to Waud Capital Partners, a Chicago-based PE firm. Founded in 1992, Mopec designs and provides anatomic pathology and other laboratory equipment, consumables, and services aimed at improving diagnostic accuracy, safety, research, education, and disease treatment. This deal will enable Mopec to accelerate innovation, expand growth opportunities, and deliver greater value to stakeholders. The company will leverage Waud's investment to build on Blackford's transformative foundation and sustain its leadership in the medical equipment industry.

One Equity Takes Majority Stake in Comau

One Equity Partners, a New York-based PE firm, has made a majority investment in Comau, an Italy-based provider of industrial automation and advanced robotics. Founded in 1973, Comau offers industrial automation systems and serves industries such as aerospace, automotive, railways, and other more. This investment will allow Comau to expand globally, enhance innovation, and meet automation demand while preserving its Italian roots. Additionally, it will enable One Equity to support Comau's growth as an independent company, leverage its industry expertise, and unlock value through its proven operational strategies for carve-out transactions.

One Equity Acquires EthosEnergy

One Equity Partners, a New York-based PE firm, has acquired EthosEnergy, a Texas-based provider of rotating equipment services. Founded in 2014, EthosEnergy offers services including maintenance, optimization, and upgrades related to fuel nozzles, aero-derivatives, centrifugal compressors, turbines, generators, and transformers. It serves customers in power generation, energy, industrial, and aerospace & defense markets. This acquisition will enable EthosEnergy to expand its services and address the growing demand for turbine maintenance. Additionally, it will allow One Equity to support EthosEnergy's growth and capitalize on opportunities in the energy sector.

Highlander Acquires ErgoBaby from Compass

Highlander Partners, a Dallas-based PE firm, has acquired The Ergo Baby Carrier, a California-based premium baby carrier manufacturer, from Compass Diversified, a Connecticut-based PE firm. Founded in 2003, Ergobaby offers a wide range of ergonomically designed baby carriers, wraps, strollers, and sleep and nursing accessories. This acquisition will allow Ergobaby to accelerate growth through product innovation, expand into new markets, and enhance consumer awareness. Additionally, it will enable Highlander to strengthen its portfolio of branded consumer products companies and leverage M&A opportunities to expand Ergobaby's presence in the broader juvenile product market.

Blackford Acquires Security Fire Systems

Blackford Capital, a Michigan-based PE firm, has acquired Security Fire Systems (SFS), a Texas-based provider of fire protection systems. This acquisition marks the launch of Blackford's Fire Safety Consolidation Platform. Founded in 1993, SFS offers sprinkler design, engineering, and installation services. The acquisition will allow SFS to diversify its services and broaden its market reach through organic growth and strategic initiatives. Additionally, it will enable Blackford to establish a strong presence in the fragmented fire safety industry, pursue strategic acquisitions, and leverage synergies to drive growth and profitability.

Guardian Acquires LINX

Guardian Capital Partners, a Pennsylvania-based PE firm, has acquired Team LINX, a Colorado-based technology infrastructure services provider, in partnership with the LINX executive management team. Founded in 2003, LINX offers network, multimedia, wireless, and security system solutions and serves various clients and end markets, including healthcare, financial services, and education. This acquisition will allow LINX to scale operations and capitalize on the growth of digital infrastructure. Additionally, it will enable Guardian to strengthen its position in the sector and leverage its expertise to support LINX's growth plan amid rising demand for data and AI-driven applications.

Amulet Announces Platform Investment in Theoria

Amulet Capital Partners, a Connecticut-based PE firm, has announced its investment in Theoria Management, a Michigan-based technology-enabled management service organization. Founded in 2019 and operating under the brand name Theoria Medical, the company provides a range of services for senior living communities and US facilities to enhance care quality, streamline processes, and strengthen clinical relationships. This investment will allow Theoria to expand its technology-enabled care model and reach more patients. Additionally, it will enable Amulet to leverage its healthcare expertise to support growth and innovation in post-acute care services.

AE Industrial Exits Kellstrom Aerospace to VSE

AE Industrial Partners, a Florida-based PE firm, has sold Kellstrom Aerospace Group, a Florida-based aerospace aftermarket solutions provider, to VSE, a Florida-based aftermarket distribution and repair services provider. Founded in 1971, Kellstrom Aerospace offers a vast inventory of aircraft parts and comprehensive supply chain solutions, including original equipment manufacturers (OEM) and pre-owned parts distribution, repair management, and fleet provisioning programs. This deal will allow Kellstrom to leverage VSE's resources to enhance its capabilities, expand its aerospace aftermarket services, and drive sustainable growth in the commercial aviation sector.

TRENDS AND STATS

December Middle Market Deal Summary

51.3%
of the deals were made in the Business Products and Services (B2B) sector

71.1%
of B2B deals were in Commercial Services

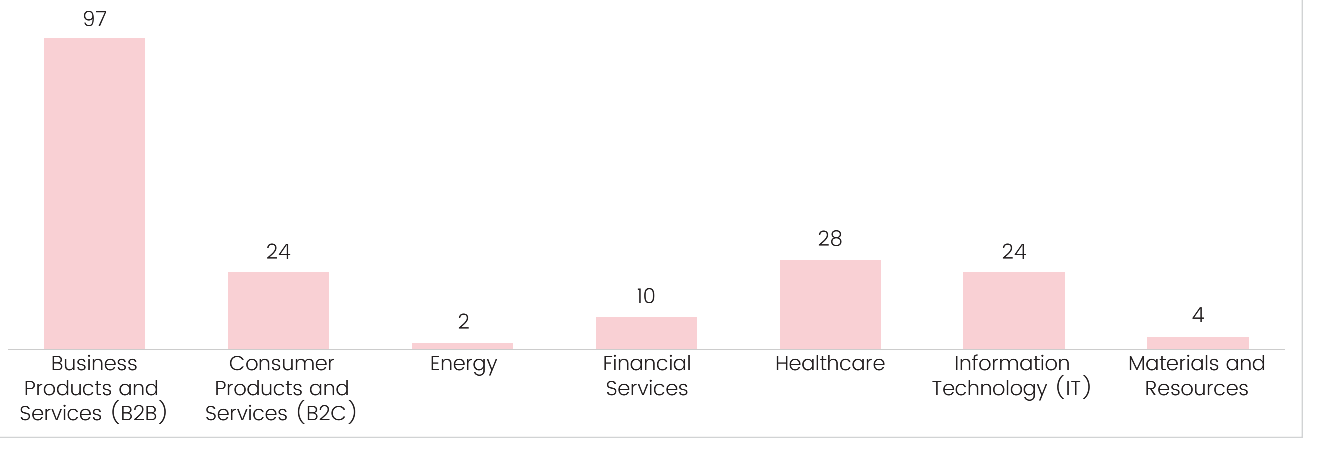
14.8%
of the deals were in the Healthcare sector

75.0%
of healthcare deals were in Healthcare Services

California
experienced the highest dealmaking activity, followed by Texas

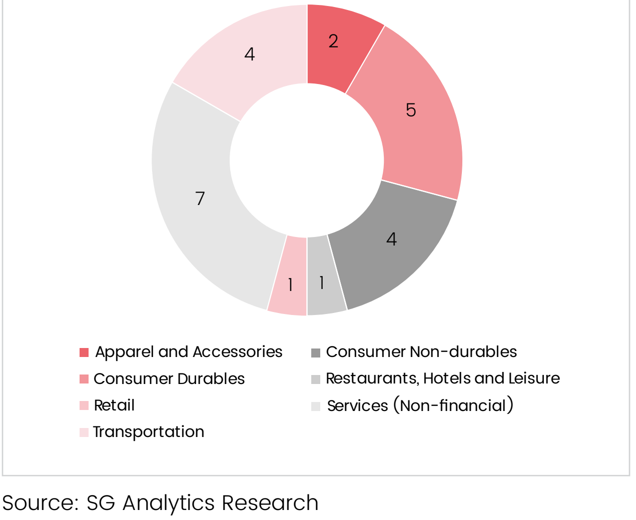
72.4%
of the deals were buyout deals

Figure 8: December Middle Market Deal Summary



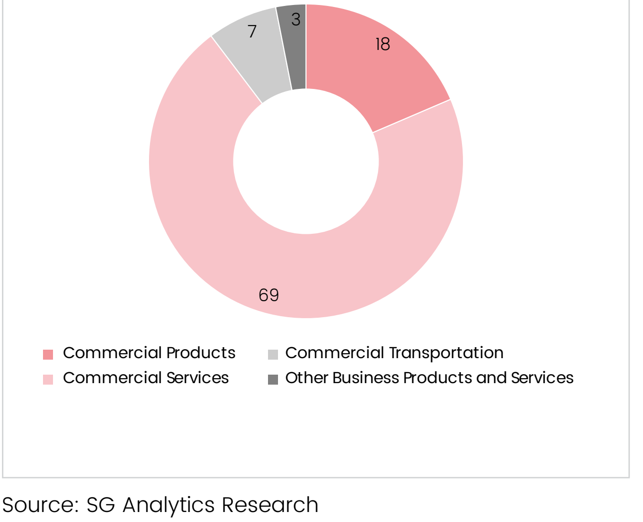
Source: SG Analytics Research

Figure 9: Consumer Products and Services



Source: SG Analytics Research

Figure 10: Business Products and Services



Source: SG Analytics Research

Note: This dataset specifically targets investor fund preferences within the $2–8 million EBITDA range. It is important to note that the summary focuses solely on these investor preferences and does not include details related to deal sizes.

S&P Listed Private Equity Index

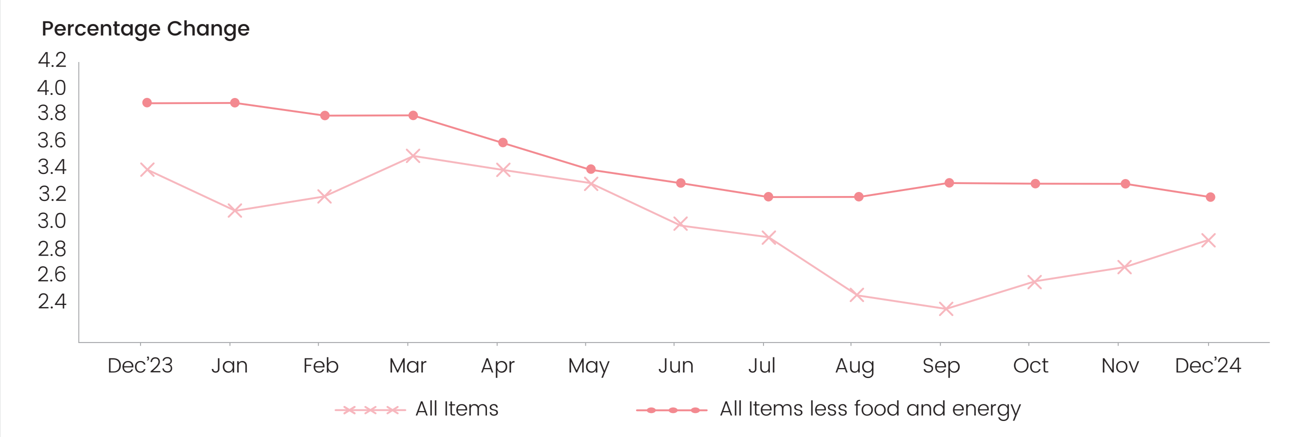
Figure 11: S&P Listed Private Equity Index

S&P Listed Private Equity Index	255.70	+47.44	22.78%
S&P 500	5,918.25	+1,134.80	23.72%
Nasdaq Composite	19,478.88	+4,509.23	30.12%
Dow Jones Industrial Average	42,635.20	+4,939.47	13.10%

Data as of January 10, 2025

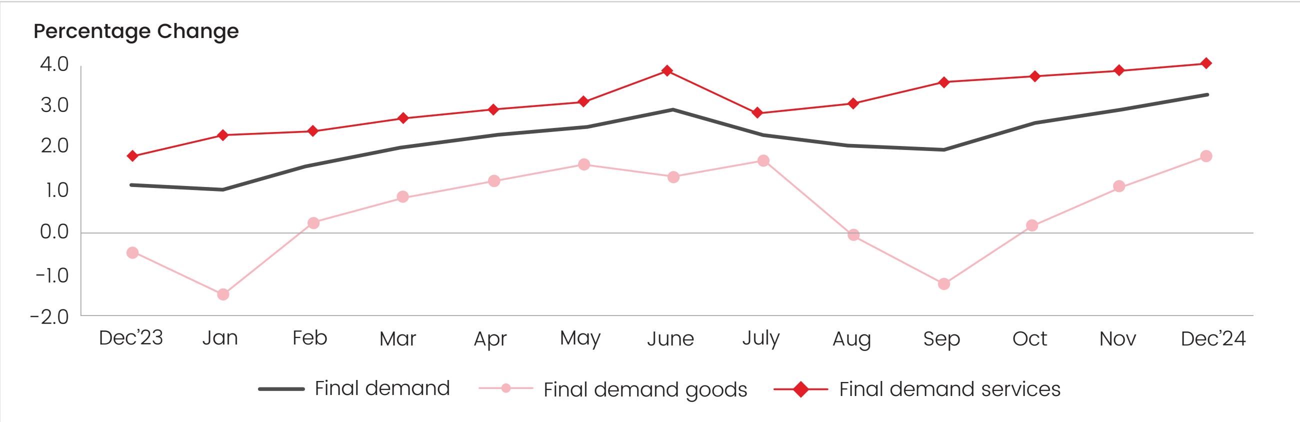
Index	Month-over-Month	YTD
Consumer Price Index	0.4%	2.9%
Producer Price Index	0.2%	3.3%

Figure 12: 12-month Percent Change in CPI for All Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Figure 13: 12-month Percent Change in Selected PPI Final Demand Price Indexes, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Upcoming Events

31st Annual Venture Capital & Private Equity Conference	February 01, 2025	Harvard Business School, Boston
Southern Private Equity Conference	February 13–14, 2025	JW Marriott, Nashville
24th Annual Chicago Booth Private Equity Conference	February 28, 2025	Marriot Magnificent Mile, Chicago

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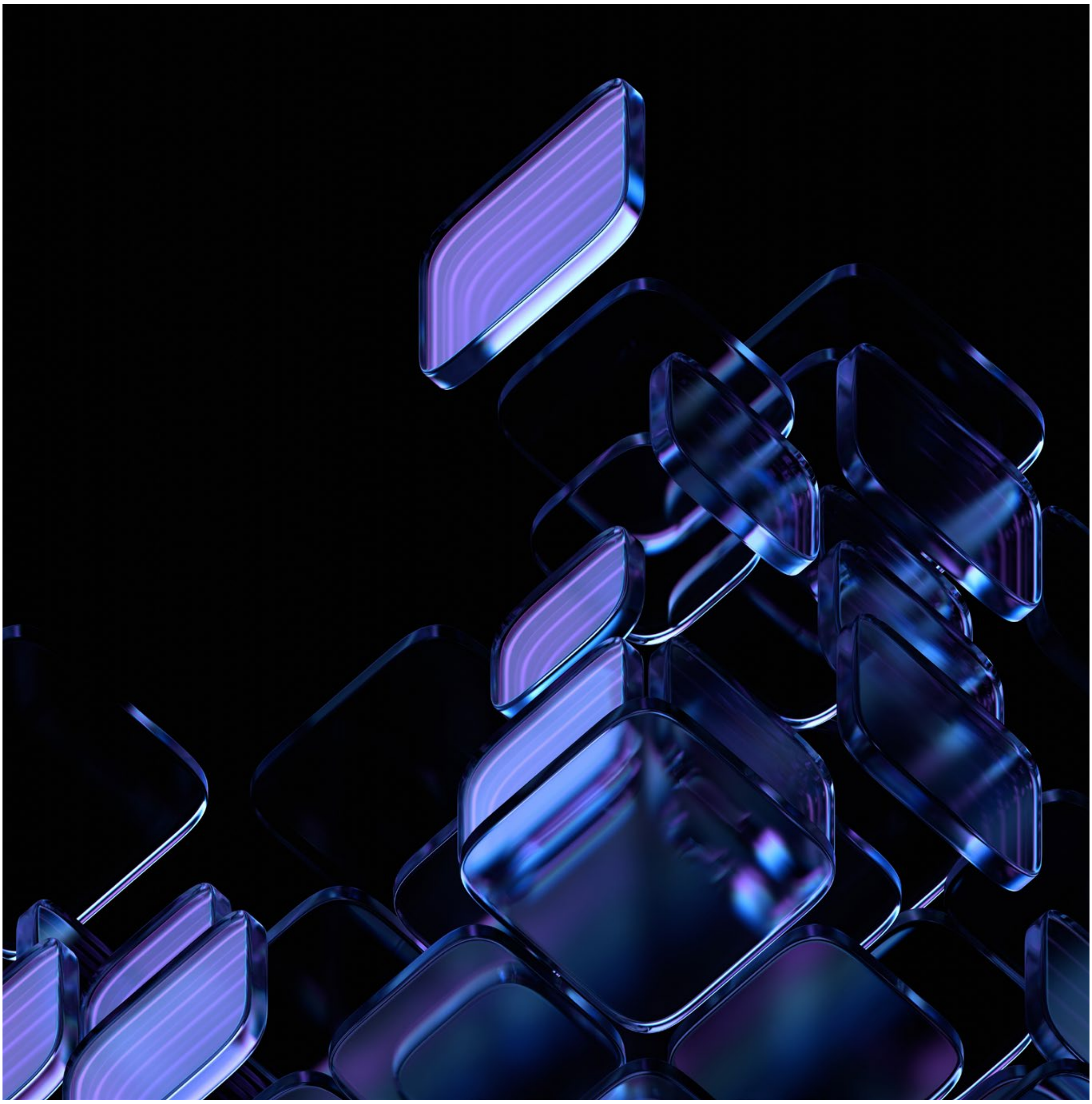

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