

Quarterly Insights Review

Q2-2025 | Focus on investors & value creation

In this edition

Quarterly Insights Review: Q2-2025

Page numbers refer to the page of the PDF

European midmarket Q2-2015

Half a year into what was supposed to be the year M&A recovers, we look at recent midmarket activity and find that it has been faring better than feared and identify clear PE investment themes in Q2.

NUGGET

Page 4

Mutual value creation and synergy between Private Equity funds and portfolio companies

Private equity has evolved significantly, growing from a niche sector in 1989 to accounting for 2–5% of GDP in recent years. PE firms create value through productivity gains, managerial improvements, and market expansion, driving sales growth and innovation. They target both turnaround and high-profit firms, leveraging capital and expertise. Despite significant challenges like stagnant exits, volatile IPO markets, and higher interest rates, the sector adapts by emphasizing longer-term strategies. These include operational turnarounds, corporate carve-outs, and collaborations with experts.

PULSE

Page 7

Boeing's carve-outs: A sign of the times

In late April, Boeing sold Jeppesen to Thomas Bravo for USD 10.6bn. We looked at the deal and high PE interest shortly before.

NUGGET

Page 13

Targeting Value, Anticipating Threat From Activist Investors

The untapped value within companies is frequently targeted by activist investors seeking profit opportunities. Even firms with robust operating cash flows and positive return on assets (ROA) become the focus of hostile takeover bids, if they underperform relative to their competitors. A comprehensive review of corporate strategy is a key driver of value creation, enabling companies to position themselves effectively against their

peers while mitigating external threats from opportunistic investors.

PULSE

[Page 15](#)

Activist Update: BP between strategic focus and the green transition

Elliott's campaign at BP provides an interesting live case study about the tactics of activist, the best owner principle, and how this may affect public goods like sustainability.

NUGGET

[Page 20](#)

Private equity challenges and the surge of private credit: Capital opportunities for non-traditional risk profiles

Private equity is facing challenges in exits and fundraising amidst economic uncertainty, while private credit has seen significant growth. Firms like Ares and Goldman Sachs have raised billions, driven by strong investor demand. Private credit offers diverse strategies, such as junior capital, growth financing, and rescue financing, making it a dominant asset class with capital opportunities for mid-sized and large companies with higher risk profiles.

PULSE

[Page 22](#)

Private equity's new IPO playbook: Only the best will survive

Private equity firms are facing a tougher IPO market, where only top-tier businesses with discounted valuations can secure exits.

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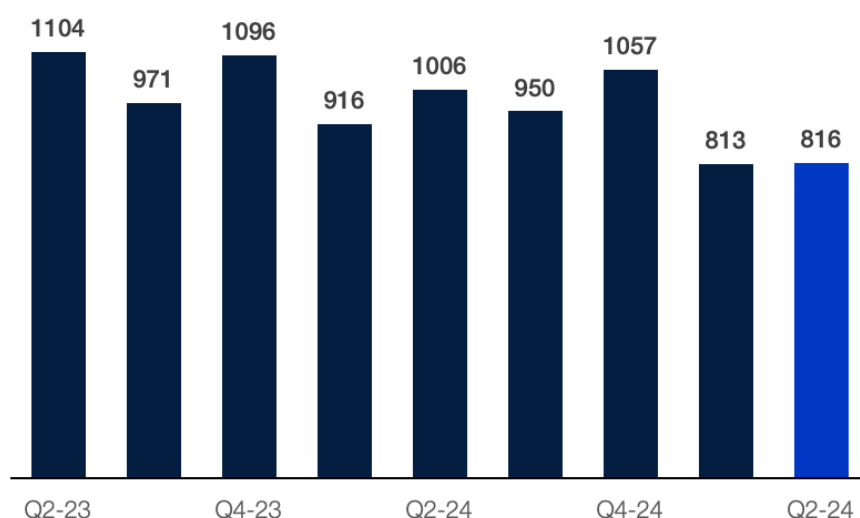
[Page 28](#)

European midmarket Q2-2015

With all that is going on, in particular the havoc brought on by the new US administration in terms of trade and geopolitics, European midmarket PE transactions fared remarkably well. Still, volumes in the two first quarters are $\pm 20\%$ below 2023/24 levels and the deal surge many expected last year for 2025 could not materialize.

European mid market deals with PE involvement

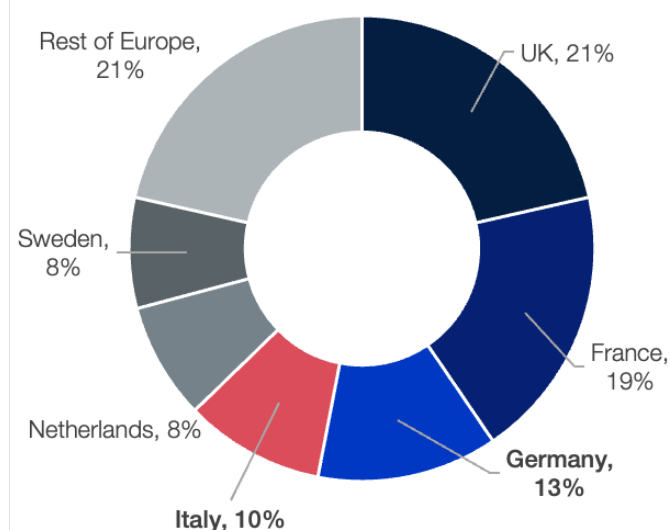
Number per quarter



As to be expected, France and UK, the markets with the most established and international private equity landscapes, dominate. A clear positive is the strong weight Germany and Italy achieve despite their respective economic struggles and the doom-narrative, which is so wide spread in both countries.

European mid market deals with PE involvement, Q2-2025

Distribution by target country



So much for descriptive statistics: Things are not as bad as feared. A more interesting question is what type of assets were bought.

An old favorite, **B2B services** emerges as the clear winning theme in Q2-2025, capturing over 25% of European mid-market deal flow, with particularly strong activity in the UK and France. The appeal is straightforward: these businesses typically enjoy defensible market positions within specialized niches, benefit from established client relationships, and often generate recurring revenue streams while delivering mission-critical services. Recent examples illustrate the margin profile that attracts investors – Italian gas station services provider Fortech (Perwyn's acquisition) and Italian mid-market accounting firm Bishop Fleming (Synova's target) both demonstrate EBITDA margins in the 30-40% range.

Manufacturing holds the second position in deal volume, though this category encompasses markedly different investment approaches. Some transactions clearly capitalize on secular tailwinds – defense contractors like Iveco Defense benefit from increased European defense spending, while electrification plays such as Elektromontaż Lublin align with the green transition. Other deals appear more opportunistic, targeting undervalued manufacturing excellence like Mathevon, alongside a notable cohort of distressed situations and turnaround candidates.

Although it sometimes seems, all investors want low asset intensity 100% recurring revenue growth stories, **software and tech** only come third in Europe – although that masks a highly uneven distribution: >80% of TMT deals were in UK, France, Germany, and Benelux. The intense investor activities over the last years has pushed consolidation and left few attractive midcap targets. In addition, AI is tilting scales in favor of larger players. It still is an interesting segment if one looks in the right niches, though, and the lack of activity outside core Western Europe potentially indicated untapped potential in other parts of Europe.

While **healthcare, pharma, and medtech** represent smaller portions of overall European mid-market activity, they dominate in Italy and Germany, albeit with differing investment rationales: Germany's medtech deals capitalize on innovation-driven growth within a robust regulatory environment that's actively encouraging digital transformation, while Italy's healthcare and pharma targets represent defensive plays addressing systemic capacity shortfalls. Strategic acquisitions and private equity investments are expected to continue driving consolidation and innovation in the sector in Italy, but the underlying drivers are market necessity rather than technological opportunity, explaining why German deals skew toward advanced medtech while Italian activity concentrates on essential healthcare services and pharmaceutical distribution.

Heartening though almost surprising given the current political climate, is the continued strong push of smart money into **green energy and electrification**. This often veers towards large cap, e.g. Ares paying €2bn for 20% in ENI Plenitude, or Ardian acquiring both French Akuo and 117 solar plants in Italy. But also in the mid market, there are interesting deals along the 'green' theme, e.g. UK maker of electrical power generation and distribution equipment BRUSH, or UK provider of Capex-free EV charging infrastructure Believ.

Consumer verticals generally are not a focus at the moment (neither have they historically been for most PEs given the risk profile, with the exception of a few specialist funds). Highly resilient **F&B** represents the primary exception, particularly in Italy, France, and Germany. Two distinct F&B themes emerge: highly targeted offerings addressing specific consumer segments (health, wellness, sustainability, fair trade) and strong heritage brands like Dallmayr and Cinzano. The latter may benefit from defensive consumption patterns during economic uncertainty – the "lipstick effect" where consumers maintain small indulgences while cutting larger expenditures.

Overall France and Italy make up almost half of European **consumer** target deals, a testament to the importance of heritage, local supplier ecosystems, and the importance of tacit knowledge.

While we focus on midcap, for LargeCap, it's an entirely different market. Here, interesting but capital intensive businesses like MedTech, Insurance, and Energy dominate. Beyond individual deals, cross-reading recent press coverage, major trends continue to be private credit, PE foraying into infra and specialty real estate, as well as continuation funds.

Mutual value creation and synergy between Private Equity funds and portfolio companies

Research Pulse

Private equity has evolved significantly, growing from a niche sector in 1989 to accounting for 2–5% of GDP in recent years. PE firms create value through productivity gains, managerial improvements, and market expansion, driving sales growth and innovation. They target both turnaround and high-profit firms, leveraging capital and expertise. Despite significant challenges like stagnant exits, volatile IPO markets, and higher interest rates, the sector adapts by emphasizing longer-term strategies. These include operational turnarounds, corporate carve-outs, and collaborations with experts.

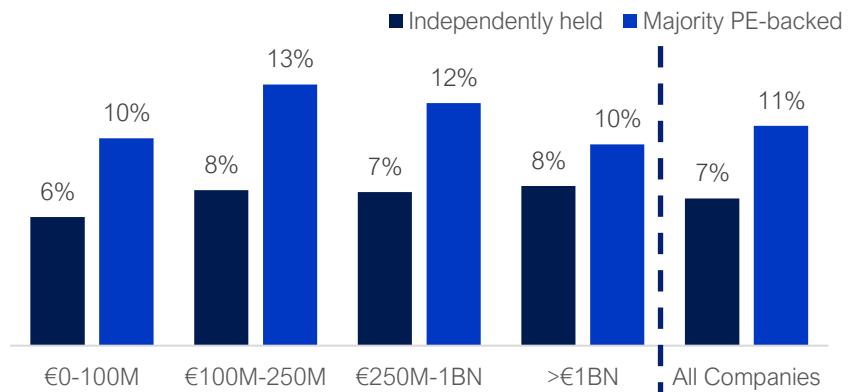
Why PE-backed firms outperform: Financing, expertise, and connections

Private equity has undergone significant transformation over the past three decades. In 1989, the industry was largely a niche sector, with aggregate annual deal volumes close to 1% of GDP according to OECD data. In contrast, over the past four years, this figure has consistently ranged between 2% and 5%.

Private equity firms operate with a straightforward objective: acquire businesses and exit with substantial gains. However, the mechanisms by which they achieve these gains remain a subject of debate. Do PE firms simply redistribute wealth from stakeholders, or do they generate value through operational improvements?

Research suggests that PE firms enhance total factor productivity, refine managerial practices, focus patenting activity and mitigate agency problems. Following a buyout, target companies experience a 50% greater increase in sales compared to comparable control firms (Cesare Fracassi, 2020). This trend holds true across businesses of all sizes. However, as companies grow larger (exceeding €1bn in revenue), the growth differential tends to diminish (Jani, 2024). This growth is primarily driven by an increase in sales volume rather than by price adjustments.

Median revenue growth rate last 5 years (CAGR 2019-22)



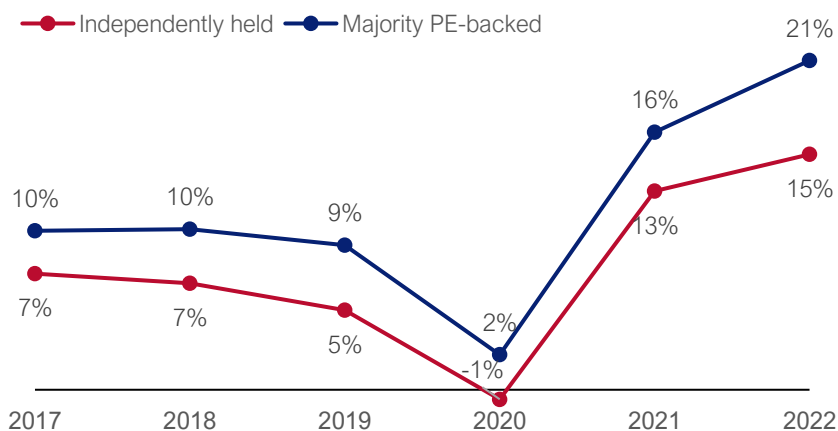
Source: Gain.Pro

AQUISIS 

How do firms achieve this increase in units sold? First, PE-backed firms introduce more new products, significantly increasing the number of items ordered. Second, they innovate by entering new consumer categories. Finally, their products reach a broader audience by expanding into new stores, retail chains, and geographic regions. Private equity plays a key role in this process by providing access to financing, managerial expertise, and valuable business connections. These resources enable younger, private companies to expand their product lines and achieve more effective growth.

PE-backed assets demonstrates resilience throughout the cycle

Median revenue growth rate by year



Source: Gain.Pro

AQUISIS 

The private equity focus: Targeting high and low profitability firms for strategic growth and exits

In addition, regardless of the macroeconomic environment, private equity-backed companies consistently outperform independently held firms in terms of growth. These companies typically pursue more aggressive growth strategies and maintain their investment activities throughout the economic cycle (Jani, 2024). While some of that growth differential will be inorganic, a similar trend is observed in margin (EBITDA margin on average $\frac{1}{3}$ higher).

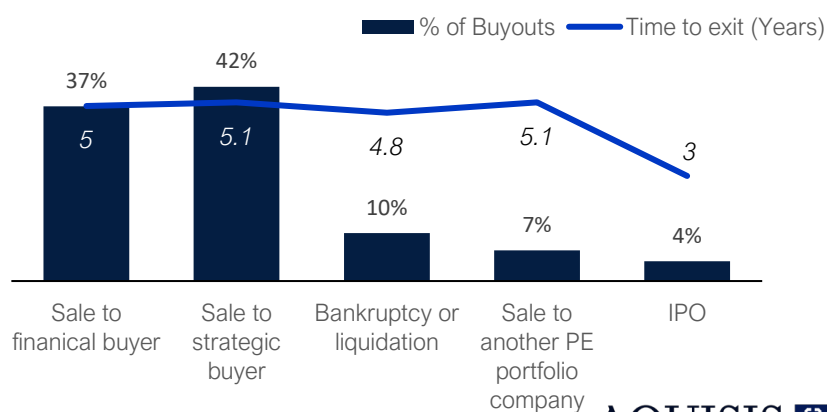
Private equity acquirers exhibit a pronounced focus on firms situated in the highest and lowest quintiles of profitability within a broader sample of private companies. Firms in the lowest profitability quintile are likely targeted as turnaround opportunities, while those in the highest quintile may serve as growth platforms, given that high average profitability often signals strong potential marginal returns on investment. Among highly profitable private firms, PE acquirers are particularly inclined to target those with significant leverage operating in industries reliant on external capital. These firms often possess lucrative growth opportunities but lack the financial resources to capitalize on them effectively. Simply adding cash is still not enough to capitalize on these opportunities, PE funds need to understand how they can contribute to the success of potential targets and what they can add to the equation in terms of expertise and connection.

Addressing this gap goes beyond simply injecting capital. Private equity funds must understand how they can actively contribute to the success of these potential targets, bringing not only financial resources but also a comprehensive value-creation strategy. This often includes providing strategic guidance, access to networks, operational expertise, and industry connections. By integrating these elements, PE firms ensure that their involvement adds meaningful value to the target company, enabling it to realize its growth potential in a sustainable and impactful manner. A notable trend in recent years is the growing involvement of multiple investors in private equity deals. Collaboration among PE firms has long been a feature of the industry, especially through so-called club deals, where resources and knowledge are pooled to target larger privatization opportunities. However, every investor eventually seeks an exit (Jenkins, 2024).

Data shows that 86% of firms exit through a sale, whether to a strategic buyer, another PE firm, or a portfolio company. Bankruptcy accounts for 10% of exits, while only 4% of firms exit via IPO. Exiting is increasingly challenging, particularly as public markets are less receptive to listings of

highly leveraged companies with inflated private valuations. Even in the booming technology sector, recent IPOs by private equity-owned companies have been cautionary tales. Notably, bankruptcies do not typically occur in the early post-buyout years; for firms that do file for bankruptcy, the median time to bankruptcy is 5.5 years. This pattern reflects the proactive efforts of PE firms to mitigate risks and avoid failures during the critically years of ownership (Jonathan B. Cohn, 2022).

Exits from a sample of 240 buyout transaction by PE firms



Source: (Jonathan B. Cohn, 2022)

The future of Private Equity: Balancing long-term growth and cash distributions

The private equity industry is facing significant challenges, with a noticeable shift from the traditionally favored IRR (Internal Rate of Return) to DPI (Distributions to Paid-In Capital) as the key performance metric. According to Goldman Sachs' analysis, funds from the 2019-2022 vintage have returned only about 15 cents on the dollar, well below the more than 50% return typically seen at this stage in earlier vintages. While DPIs may improve over time for well-managed portfolios, the days of achieving 20%-plus IRRs appear to be behind the industry.

This shift in performance metrics is largely due to the stagnation in private equity exits. Volatile IPO markets and cautious corporate buyers have made it difficult to sell portfolio companies, limiting the funds available for distributions. Stagnant company valuations dilute IRRs, and the lack of cash returns further hampers fundraising, particularly for smaller, less diversified funds. While exits may eventually recover, IRRs are heavily impacted by timing and investment nature, especially with the industry's transition from quick-turnaround "fix-and-flip" strategies to longer-term roll-ups and industrial turnarounds (SeongJoon, 2024). However, with higher interest rates affecting company valuations and complicating exits, private equity firms are under greater pressure to focus on returning capital to

investors. As reported by Bain & Company, private equity firms globally are holding a record 28,000 unsold companies valued at over \$3trn, further underscoring the industry's current exit challenges (Memento, 2024).

The prolonged period of low interest rates following the 2008–2009 financial crisis catalyzed significant growth in private equity. During this time, firms capitalized on readily available, low-cost debt to drive acquisition sprees. Declining interest rates elevated asset valuations and lowered the cost of capital, creating optimal conditions for strong returns. However, replicating this formula will prove increasingly difficult in the current economic climate.

Looking ahead, private equity is expected to refocus on its foundational strategies: identifying high-quality deal opportunities and executing transformative operational improvements to unlock value. These efforts often target underperforming divisions of large corporations or private companies with unrealized potential. Reflecting this shift, bankers and industry leaders anticipate a rise in corporate carve-outs, where private equity firms acquire business units from large corporations, and an increase in collaborations with industry experts to drive performance enhancements (Agnew, 2024).

This evolving landscape underscores the imperative for private equity funds to redefine their value proposition beyond merely injecting capital. While access to financial resources remains critical, future success will hinge on the ability of PE firms to deliver actionable value-add strategies tailored to the unique challenges of each investment. As returns face increasing pressure, funds will need to delve deeper into identifying and capitalizing on opportunities at the extremes of quartile performance: targeting struggling companies for turnaround potential or high-performing firms with opportunities for scaling further. This redefinition of private equity's role will not only enhance returns but also solidify its position as a catalyst for innovation and value in the broader economic ecosystem.

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

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Boeing's carve-outs: A sign of the times

The broad based interest in Boeing's two carve-outs Jeppesen and ForeFlight is making waves with reports indicating an \$8bn valuation for Jeppesen alone. These potential deals are interesting both from a seller and buyers perspective.

Background

Jeppesen is provider of navigational information, operations planning tools, and flight planning products. Founded in 1934 it is established to the point that pilots are said to refer to navigational charts as "Jepp charts". Rumoured suitors include both strategics (RTX, Honeywell, GE, Transdigm), as well as PEs (including Vista, Warburg Pincus, Advent, Permira, TPG, Apollo, Blackstone).

ForeFlight is a flight planning app for pilots including aviation weather monitoring, maps, charts, and more. It also integrates with Jeppesen's global library. While Jeppesen carve-out is confirmed to be in the final stages of bidding, at the time of writing, it is unclear whether ForeFlight will be part of this transaction, a separate transaction, or remain with Boeing. ForeFlight was only acquired in 2019.

Capital recycling

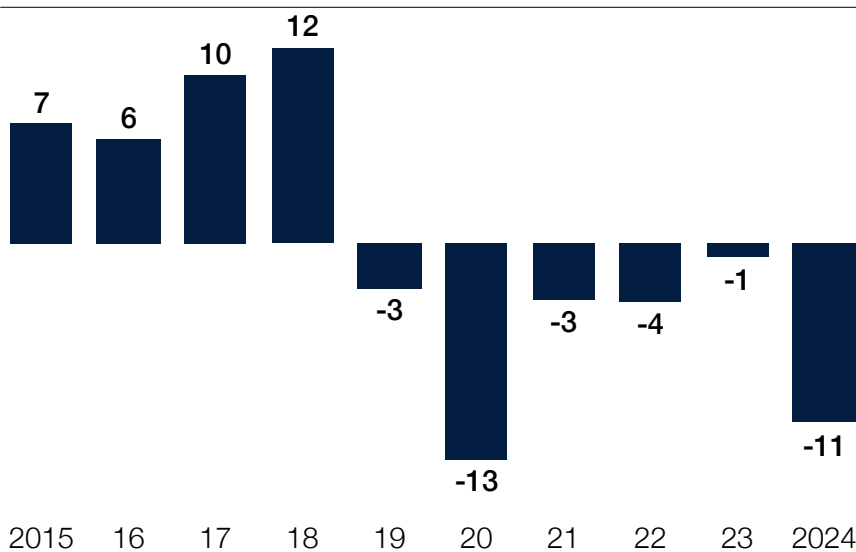
Businesses run for value generation follow the 'best-owner' principle to portfolio management: As long as you are the best owner of an asset, keep it, if someones else was able to generate more value, sell it. This approach can underpin a strong capital recycling programme whereby the funds obtained from asset sale get reinvested in more promising business opportunities. This would be the friendly way of seeing it.

Another positive way of looking at it would be to see a far-flung corporation trying to refocus on its core activities: Better do one thing well than many things so-so.

In light of the quality of businesses being carve out (high margin digital business models, data infrastructure, recurring revenue MRO business, growth options like drones and space), one could, however, also see a troubled company: Both its space and commercial aircraft lines have had quality issues with severe bottom-line impact; in fact Boeing has not turned a positive EBITA since 2018, and the cumulative EBITA losses over the last 6 years have wiped out the positive EBITA of the prior 3 years. All the while, the company has amassed \$63bn in debt and pension commitments. One might ask: Is it shrewd capital portfolio management and strategy-adjustments, or just a company trying to break out of its financial troubles?

Boeing's annual EBITA over the last 10 years

USD bn



Old and new PE favourites

Let's start with the obvious: Already starting with the Russian attack on Ukraine, there has been a renewed interest in aerospace & defence themes. This has been supercharged in Europe in Q1 where *strategic autonomy* is set to become a real policy, underpinned by unprecedented investment - think e.g. of the €150bn ReArm Europe program, the €500bn German special budget. Both Jeppesen and ForeFlight are not primarily defence companies, they fit the dual-use bill. Beyond the defence gold-rush, Jeppesen also fits an old PE favourite, which we like to call *digital infrastructure*: Business models built on providing the basic infrastructure on which more advanced, digital services are built. Navigation data -like positioning- is a prime example here.

While not a new feature *per se*, the Jeppesen suitors also stand out for being mostly consortia - either of two or more private equity funds, or a private equity plus a strategic.

Targeting Value, Anticipating Threat From Activist Investors

Research Pulse

The untapped value within companies is frequently targeted by activist investors seeking profit opportunities. Even firms with robust operating cash flows and positive return on assets (ROA) become the focus of activist campaigns, if they underperform relative to their competitors. A comprehensive review of corporate strategy is a key driver of value creation, enabling companies to position themselves effectively against their peers while mitigating external threats from opportunistic investors.

Insights from Activists: Evaluating Threats and Opportunities Through Benchmarking

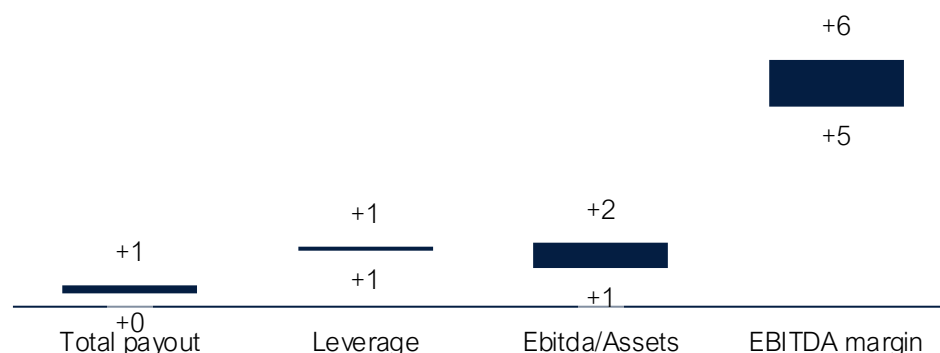
Active investors often target "value" companies, those with low market valuations relative to their book values yet demonstrating strong operational performance, as evidenced.

Even if these companies are operationally sound, they are not favorably perceived by the public when compared to their peers. This underscores the importance of benchmarking performance and current strategy against those competitors to determine whether value-generating opportunities are being overlooked.

Evidence from activist intervention indicates that targeted firms generally experience a swift improvement in performance. After one year total payout and leverage increase, while improvements on Return on Assets and operating margins are registered on the second year from activists engagement (Alon Brav, 2008):

Profitability increase after Activist campaign

Average range of KPI change in %-points



Source: Hedge fund activism, corporate governance and firm performance (2008)

Strategy: The Main Driver of Value

Activism that focuses on alterations in business strategy, such as refocusing and divesting non-core assets, yields the most substantial positive effects. External investors can effectively enhance value when they detect significant allocative inefficiencies. In contrast, while the market does respond positively to capital structure-related activism—including debt restructuring, recapitalization, dividends, and share buybacks—the impact is not statistically significant.

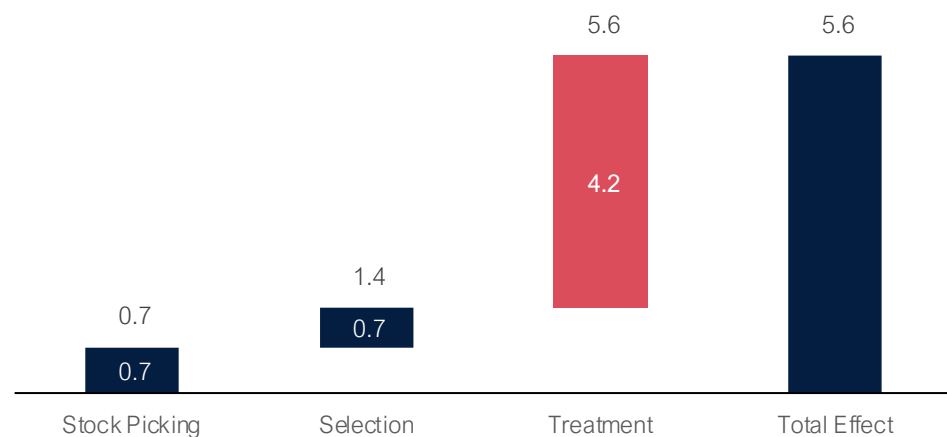
Given value is created through strategic measures, the ex-ante due diligence is where the foundation is laid. Due diligence is a critical process for identifying value-generating opportunities. At times, this is aided by existing passive shareholders' recognition that the company could benefit from activist investor involvement to realize untapped value potential. Disclosure of private information is estimated to double the number of companies targeted by active shareholders, as a clear understanding of the business's financials and operational data allows investors to identify potential value-generating opportunities, with expected returns estimated to increase by 0.7 percentage points (Rui Albuquerque, 2022).

However, activism comes at a cost, and actions targeting specific companies are undertaken only when expected returns outweigh these costs. Research indicates that 62% of passive investment positions would generate better returns if an activist approach were employed. The mean excess return attributed to activism is estimated at 5.6% consisting of 75% expected value creation ("treatment"), 13% attributable to stock picking, and 12% resulting from sample selection bias effects (Rui Albuquerque, 2022). From a shareholder perspective, this compelling evidence of

untapped value underscores the potential for companies to enhance their performance through a consistent investment in understanding their strategic focus.

Activist generate excess returns through operational improvements

Decomposition of excess return following activist investment, in %

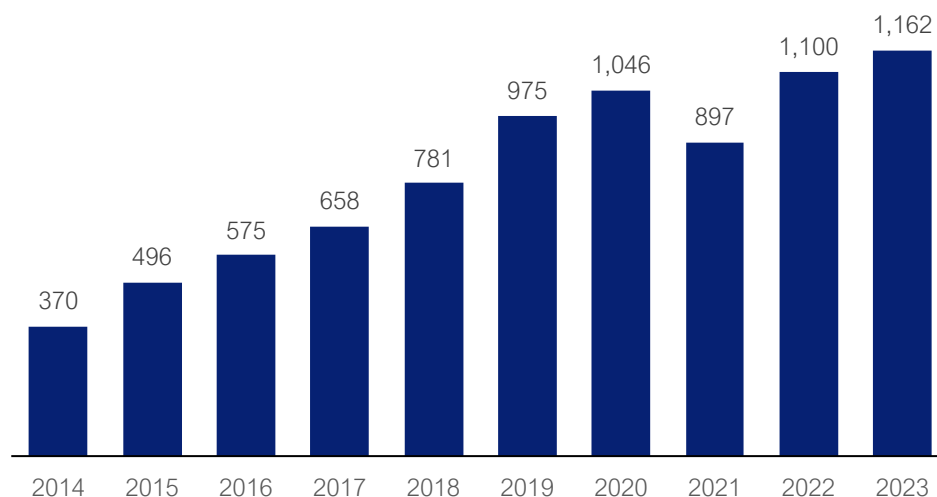


Source: Value creation in shareholder activism (2022)

Record Investor Activism Drives Corporate Responses Lawsuit

Investor activism reached a record high in 2023, with 1,162 campaigns reported, a rise from the previous record of 1,100 in 2022, and significantly up from 370 in 2014. These campaigns, which include shareholder proposals and proxy fights, are driven by demands for changes in executive pay, climate initiatives, and racial justice. Companies are pushing back through lawsuits to block proposals and limit regulatory oversight. Despite this resistance, many activist proposals are expected to be adopted, and activism is projected to continue increasing as shareholders seek more influence. With a strong record of success and potential economic changes, activism is unlikely to slow down in the coming years.

Investor Activist Campaigns More Than Tripled



Source: S&P Global Market Intelligence, February 28, 2024

In response to rising activism, corporations are increasingly challenging these campaigns legally (Scheid, 2024).

How To Navigate Past Activist Threats

While they generate value for shareholders, it is essential to note that 30% of activist interventions are hostile to management and can result in proxy contests, takeover lawsuits, or public campaigns that are openly confrontational. Therefore, it is prudent for companies to take precautionary measures to mitigate external threats (Rui Albuquerque, 2022).

Companies can proactively anticipate potential external threats from active shareholders by regularly assessing whether their strategy requires updating, ensuring alignment with operational activities, and evaluating performance against both new and existing peers. These proactive measures have been shown to generate value at minimal costs compared to the benefits realized.

Flipping the logic around, both private and public companies can -and should- take activist investors' approach as cue that there is value to be generated by conducted a rigorous strategy review followed by targeted execution. Moreover, the costs associated with identifying and managing value-generating activities decrease when experienced professionals are involved. Estimates indicate that these costs decline from 4.6% of the ex-post value of the filer's stake to 2.4%, with investor experience serving as the primary driver. Intuitively, experienced professionals are better

equipped to identify inefficiencies and implement effective value-generating solutions (Rui Albuquerque, 2022).

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

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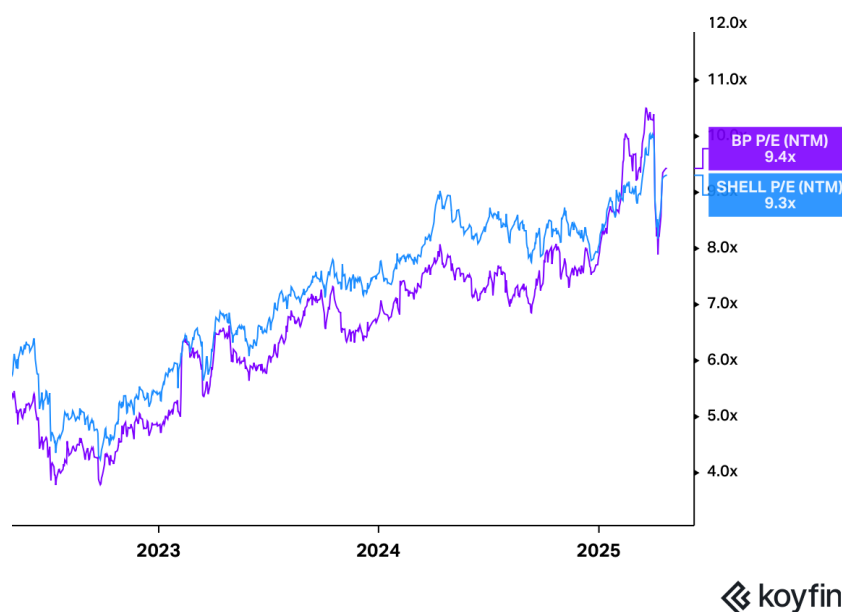
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INSIGHT NUGGET, APRIL 24TH 2025

On April 22nd, one of the most well-known (or notorious?) activist investors, Elliott Management, made its 5% stake in British O&G giant BP public. There were rumors in that direction already in March. While there are multiple companies per day facing an activist investor, BP vs. Elliott is a poster child: The British company has been delivering among the worst TRS in the industry; was trading at the lower end of the valuation range of European oil majors for most of 2023 and 2024 (though it sprinted to the top with Trump's win), has consistently been having the lowest FCF margin, and has an inefficient capital structure. The cherry on top is that its business model includes activities that arguably may be better run independently: O&G exploration, O&G midstream, (petrol) retail, and various renewable energy projects (including wind parks, biogas, and EV charging). BP is not alone in being targeted by Elliott who are also in a very public and confrontational campaign with Phillips 66. Among others, Elliott wants Phillips 66 to sell off everything but its refining business and replace most of its Board of Directors.

Forward P/E of BP vs. Shell

Daily NTM forward

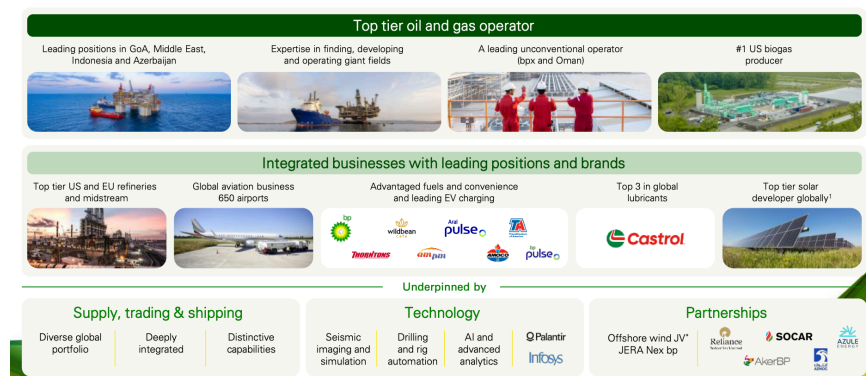


While most would agree that from a societal welfare perspective, it is a positive when O&G profits get invested into renewable energy, the same is not necessarily true from an investment perspective – particularly given the turning ESG tide. Spinning off non-core assets to a better owner and returning the cash to shareholders has been a long-time favorite of activists. Think e.g.: Cevian wanting to break up

Smith & Nephew, Elliott forcing GSK to spin-off Haleon, Nelson Peltz pushing Unilever to exit its tea business to CVC, or indeed, Third Point pushing Shell to divest mid- and downstream assets.

BP's portfolio

As shown in BP's Capital Market Update in Feb 2025



A case could be made for the possibility of know-how transfer from offshore O&G to offshore wind, as well as from petrol retail to EV charging stations. Whether this is enough to warrant keeping quite distinct business under one roof would require a deeper investigations – Elliott evidently apparently have come to a clear conclusion here. Leaving the activist investor angle aside, this leads to a deeper question about corporate strategy: If it were always optimal to divest non-core assets (as we would agree it often is), how can a firm evolve? Earlier this month, we published a piece on [adapting to changing economic and industry life cycles](#), which included the example of Nokia reinventing itself when the age of the feature phone ended. There will be a million nuances in every case, but as a guiding star we resort to the best owner principle:

If there is a high overlap in terms of assets, capabilities, market access between the business or venture in question and your core business, there is a good chance that the additional value it generates from being inside the group outweighs organizational complexity costs.

A final consideration is that of patient capital. Nokia managed its many transitions while being publicly traded, but that is likely to be the exception. When fulfilling the full value generation capacity requires major and drastic shifts in business model over a prolonged period (as is the case with an O&G like BP becoming 'green'), patient capital in the form of long-term oriented PE or family office investors may be better.

Private equity challenges and the surge of private credit: Capital opportunities for non-traditional risk profiles

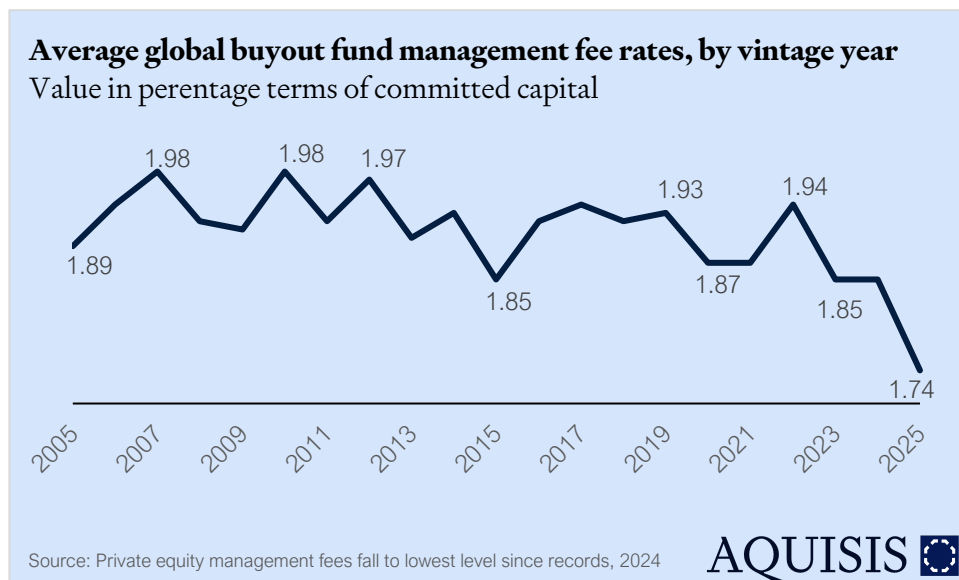
Research Pulse

Private equity is facing challenges in exits and fundraising amidst economic uncertainty, while private credit has seen significant growth. Firms like Ares and Goldman Sachs have raised billions, driven by strong investor demand. Private credit offers diverse strategies, such as junior capital, growth financing, and rescue financing, making it a dominant asset class with capital opportunities for mid-sized and large companies with higher risk profiles.

Stall in private equity transaction are limiting fundraising and impacting management fees

Over the past two years, private equity firms have faced significant challenges in exiting their investments. Traditional exit strategies, such as initial public offerings (IPOs) and industry transactions, have been constrained by elevated interest rates, valuation disputes, and broader economic uncertainty. Consequently, many buyout groups have struggled to meet their fundraising goals for core private equity funds, while holding unsold assets valued at a record \$3.2tn (Heal, 2024).

Management fees have dropped to their lowest levels since 2005, as fund managers contend with a challenging fundraising environment and strive to attract investors. According to industry data from Preqin, the average management fee for buyout funds either closed this year or actively fundraising as of June stood at 1.74% of investors' committed capital, down from the previous low of 1.85% recorded in 2023 (Heal, 2024).

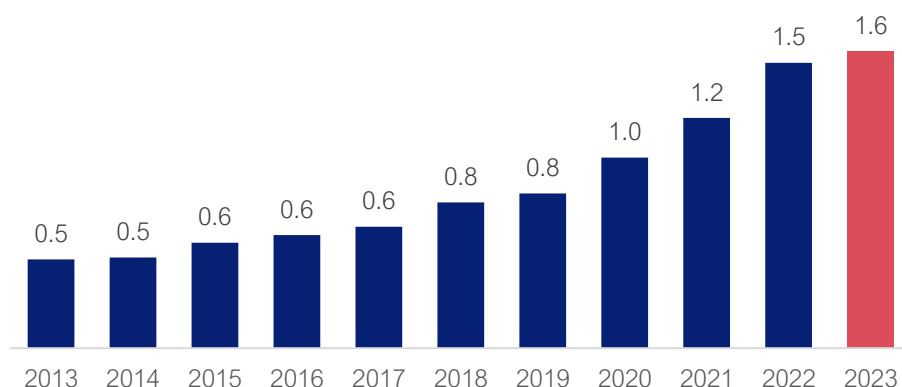


The private credit market has tripled in size since 2013, offering an alternative to bank lending for riskier businesses

In contrast, investor interest in private debt investment has surged significantly. In July, Ares Management achieved a record-breaking milestone, closing a \$34bn private credit fund. The firm announced it had secured \$15bn in commitments for its third senior direct lending fund, far exceeding its \$10bn target. This success is part of a broader trend of strong capital raising within the private credit sector in recent months, driven by growing investor demand for exposure to the asset class and reaching record-breaking \$1.6tn in asset under management in 2023, from just \$0.5tn compared to 2013. In October, rival HPS Investment Partners raised \$14bn for a new loan fund, with the total reaching \$21 billion when factoring in bank leverage. Similarly, Goldman Sachs announced in May that it had surpassed \$20 billion for its latest private credit fund (Platt, 2024).

10-year evolution of private credit AUM

Data in \$tn



Source : Preqin

AQUISIS 

The series of successful capital raises highlights the growing allocation of capital by pensions, endowments, and sovereign wealth funds to new funds. Private credit firms have emerged as dominant players on Wall Street, progressively assuming roles traditionally held by banks since the global financial crisis over a decade ago. In response to higher capital requirements and post-crisis regulatory changes, banks have scaled back from certain business lines and curtailed riskier lending activities. Private investment firms have stepped in to fill this void, becoming key purchasers of bank loan portfolios and playing an expanding role in direct lending to companies.

Distressed capital is attracting the most resources, with performances in line with equity returns

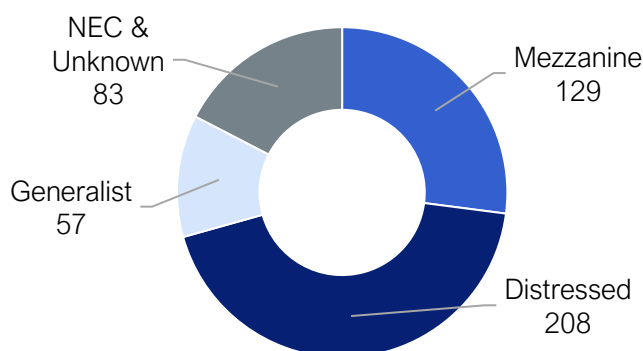
Private credit investments are debt-like instruments that have no readily tradeable market or publicly quoted price. Typically, private debt is provided by non-bank entities to fund middle-market companies, but can include funding for larger companies as well. Private credit has many features similar to traditional credit instruments including variations in seniority, tenor, amortization, collateral provisions and floating or fixed interest rate coupons, among others.

Since there is often limited active trading in the primary or secondary markets for many private credit instruments, lenders tend to structure or purchase the loans with a view towards holding the exposure until maturity or a refinancing event. As a result, the instruments can include features uncommon to traditional loans, such as a structured equity component, high prepayment penalties, customized amortization schedule or a role in oversight or management of the company.

Private credit encompasses a range of investments, including performing loans as well as debt in stressed or distressed companies. When assessed by committed capital, distressed debt funds represent the largest sub-strategy, accounting for 43% of total commitments. Mezzanine funds follow, comprising 27% of committed capital, while generalist strategies and NEC & Unknown collectively make up the remaining 30% (Shawn Munday, 2018).

Committed Capital by global private credit funds listed in Burgiss

Vintage Year between 2004 - 2016, data in €tn

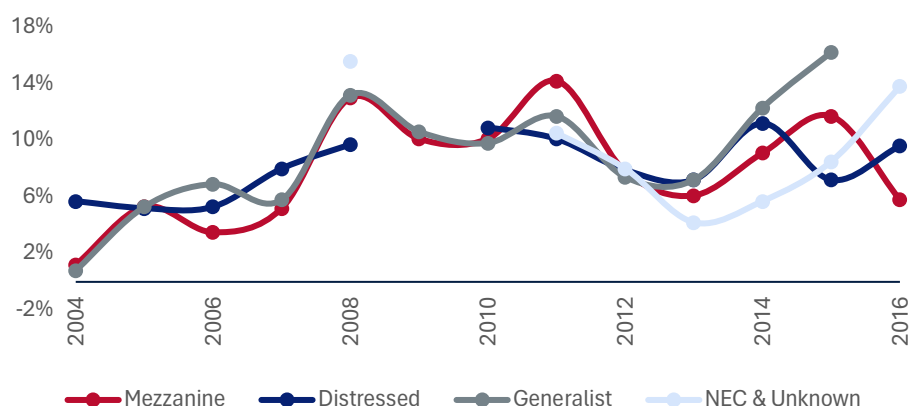


Source: Source: Performance of Private Credit Funds: A First Look, 2018

Across all funds, the pooled IRR is positive for every year from 2004 through 2016, varying from 1.2% for 2004 vintage funds to a high of 14.2% for 2011 vintage funds. The pooled IRR for all vintages and strategies is 8.1% which is roughly on par with return expectations for equity. This underscores the strength of the private debt market, which is capable of delivering returns through non-bank loans.

Pooled IRR of private credit funds by vintage year, 2004 - 2016

Data in percentage (%)



Source : Performance of Private Credit Funds: A First Look, 2018

Private credit is an opportunity for mid-sized firms with higher risk profiles, but debt servicing may lead to financial distress

Morgan Stanley's investment management team provides insight into the types of companies private credit funds are targeting and the capital solutions being explored (Stanley, 2024):

- Junior and Hybrid Capital Solutions**
 For fundamentally sound businesses that faces high cash debt service obligations and reduced senior debt capacity. Private credit funds can offer junior capital solutions to alleviate these fixed obligations, enabling companies to pursue accretive organic and inorganic growth opportunities
- Growth Financing for High-Quality Companies:**
 Rising benchmark rates have shifted equity investor focus from “growth at any cost” to stable, profitable enterprises, limiting the availability of growth capital for high-quality, scalable businesses sound KPIs. Private credit funds can address this gap by providing capital that enables these companies to reinvest earnings at attractive incremental returns, with minimal equity dilution, while delivering strong returns to investors.
- Rescue Financing:**
 If the economy enters a recession or a period of elevated defaults, private credit funds are well-positioned to provide rescue-financing capital to stabilize distressed companies.

The IMF delivered a sobering evaluation of the private credit market in its latest report, highlighting growing pressures on midsized firms borrowing at elevated interest rates. Many of these companies are resorting to payment-in-kind (PIK) loans, which defer interest payments while compounding their debt burdens.

Although PIK loans can be a practical tool for fast-growing businesses prioritizing reinvestment in their core operations, a shift from cash-based interest payments to PIK loans often signals underlying financial difficulties. This concerning trend appears to be gaining traction within the private credit landscape (Wigglesworth, 2024).

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

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Private equity's new IPO playbook: Only the best will survive



Private equity firms are facing a tougher IPO market, where only top-tier businesses with discounted valuations can secure exits.

In today's cautious investment climate, gold-plated companies, steep discounts, and smaller initial floats have become the key ingredients for IPO success

Private equity firms once followed a clear strategy: buy an asset, leverage it with debt, improve operations, and exit at a profit. But weak M&A markets and shut IPO windows have left trillions in unsold assets weighing down portfolios. Now, sponsors hope improving conditions will provide long-awaited exits. Several European companies, including Stada, Asker Healthcare, and Odido Holding, are considering listings in 2025. The Stoxx index has risen 12% over the past year and trades at 15.5 times forward earnings, above its 10-year average. However, IPO activity remains sluggish, just €64bn was raised last year, half the previous decade's annual average.



The issue is that public investors and IPO buyers are not the same. For a successful offering, bankers need active fund managers to place orders, yet these funds suffered €60bn in outflows last year. This environment forces companies to meet stricter criteria: only top-tier businesses with attractive pricing are gaining traction.

Recent listings reveal the new IPO playbook: high-quality assets, steep discounts, and small initial floats. CVC priced its IPO 25% below rival EQT and has since gained 38%, while Swiss injectable-maker Galderma has doubled in value. Smaller initial offerings allow for follow-on sales at higher prices, as seen with Galderma's backers EQT and Adia. While the US offers higher valuations, poorly

prepared listings still struggle, as Venture LNG's flop demonstrated. For private equity, the message is clear: only strong businesses with realistic valuations will succeed in this new IPO landscape.

