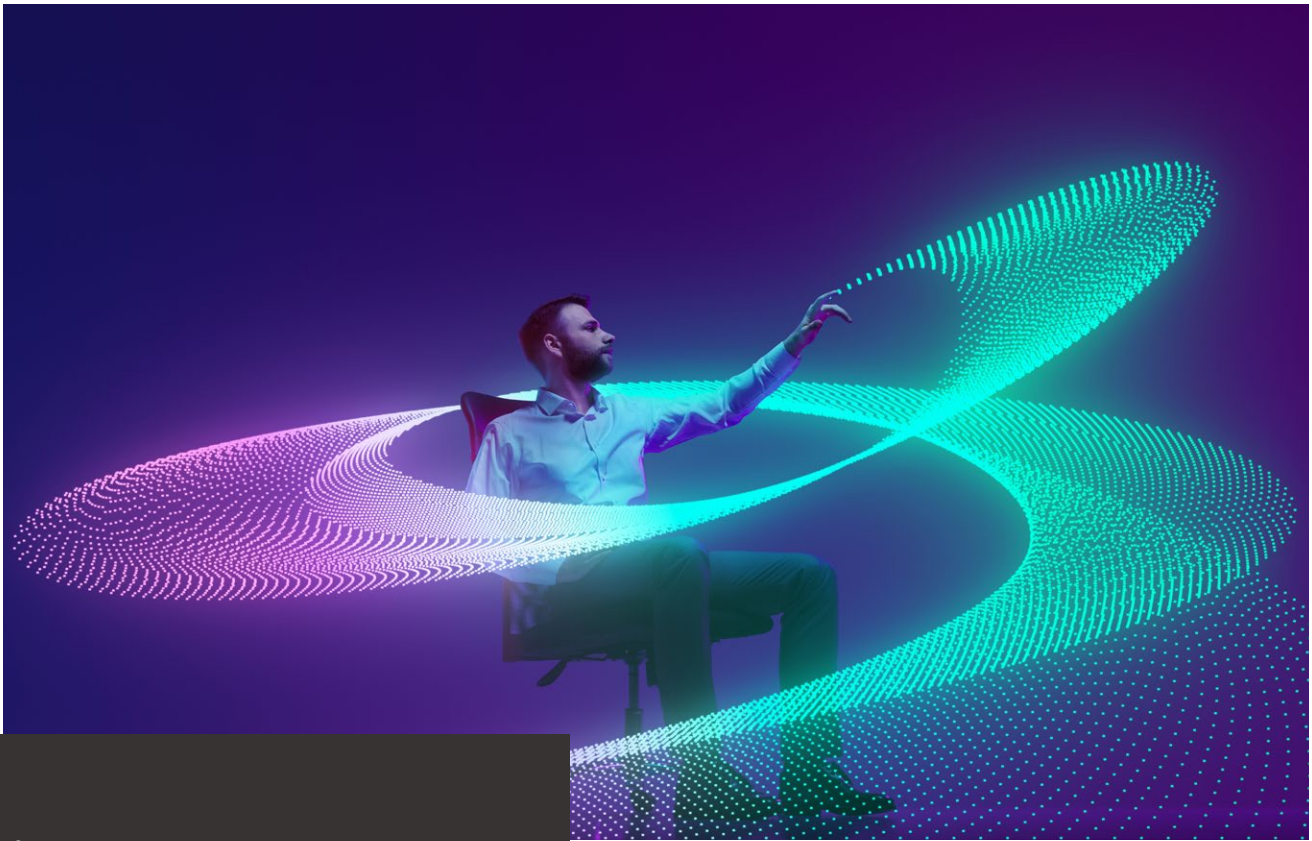
AXIA

Private Equity Newsletter

SG Analytics
Life's Possible

Issue 13 / February 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.

- **Fundraising Challenges**
- **Expected Dealmaking Revival**
- **IPO Exit Opportunities**

How Private Equity is Navigating Trump's Tariff Policies

As Trump brings new tariffs, private equity (PE) firms are rethinking their investment and exit strategies to navigate rising costs and shifting trade dynamics. Investors are adapting to mitigate risks and capitalize on emerging opportunities in a changing economic landscape.

Trump's new tariffs are reshaping PE strategies, impacting manufacturing costs, supply chains, and M&A. Investors are pivoting to domestic-focused assets, delaying exits, and hedging risks to navigate economic uncertainty and capitalize on emerging opportunities.

Investor's Optimism Persists Amid New Tariff Policy

On February 1, 2025, President Trump announced new tariffs on imports from Canada, Mexico, and China. Goods from Canada and Mexico will be subject to a 25% tariff, while Chinese imports will face a 10% tariff. But on February 3, 2025, the tariffs on Mexico and Canada were paused for 30 days. These measures, if applied, will impact approximately 42% of all US imports, raising the effective tariff rate by 7.7%. The move reflects the administration's focus on trade policy adjustments which have broad economic implications for businesses and consumers.

The new administration appears to boost US businesses, with 47% of CEOs expressing optimism about the economic environment in a survey by Fortune. Confidence in the market is high, and corporate leaders view the policy landscape as favorable for growth. This optimism is particularly significant for PE firms, as the administration's early phase offers a strategic window for capital deployment, with investors seizing opportunities in sectors benefiting from domestic-focused policies and heightened business confidence.

Shifts in PE's Investment Strategies

The impact of the tariff policy will vary by industry. Several PE-backed portfolio companies, particularly in manufacturing, consumer electronics, and automotive sectors, rely on imported components and raw materials. Higher tariffs mean increased input costs, forcing businesses to either absorb the additional expense or pass it on to consumers. This, in turn, will reduce profitability and operational efficiency. While industrials, consumer goods, and technology firms are expected to face increased costs, sectors like domestic logistics, defense, and energy will benefit as companies shift to onshore production.

Therefore, PE sponsors will re-evaluate target companies based on their tariff exposure, favoring firms with localized supply chains. This strategic pivot will influence deal flow, with sponsors prioritizing assets that offer long-term stability in an uncertain trade environment. Further, the investment focus will shift toward companies with resilient, tariff-agnostic business models. By targeting businesses that are less exposed to international trade uncertainties, PE sponsors will build more robust portfolios capable of withstanding geopolitical shifts.

Furthermore, strategic mergers and acquisitions (M&A) activity is rising, with firms acquiring distressed assets at lower prices. Some investors are banking on a potential reversal in trade policies, positioning themselves to benefit from future valuation recoveries once market conditions stabilize. These proactive measures ensure that PE firms remain agile and well-prepared for evolving trade dynamics.

Strategic Adjustments in Portfolio Companies

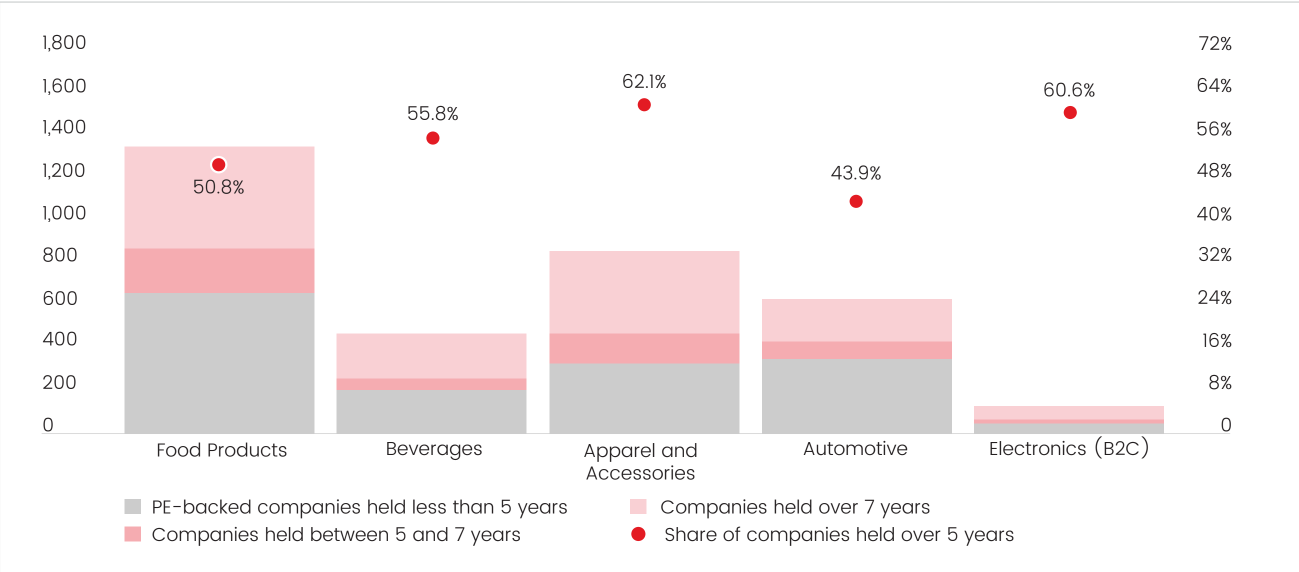
According to Bartley P. O'Dwyer, Head of PE Business Development, the tariffs policy under the Trump administration has also prompted deal professionals and operating partners to consider necessary contingency plans and seek external advice on cross-border trade issues. Companies have already become more strategic in planning for these scenarios, reflecting a need to adapt to potential geopolitical shifts.

PE firms have already been taking proactive steps to navigate potential tariff risks, particularly in industries reliant on Chinese imports. Some portfolio companies in food, apparel, and electronics have been stockpiling raw materials and components to offset rising import costs. Others, especially in industrial manufacturing, are using hedging contracts to stabilize prices for critical inputs like steel and rare earth minerals.

Beyond immediate cost controls, PE firms are re-evaluating long-term strategies to safeguard returns. Many are streamlining operations by cutting costs, selling non-core assets, and increasing cash reserves to maintain financial flexibility. Some are actively mapping supply chains to assess whether reshoring or diversifying production locations would be more cost-effective. In one case, a middle-market PE firm is considering relocation options for an auto parts distributor in Vietnam but is waiting for concrete policy announcements before making a move.

Delayed PE Exits in Vulnerable Sectors

Figure 1: PE Grapples with Maturing Assets in Tariff-hit Sectors



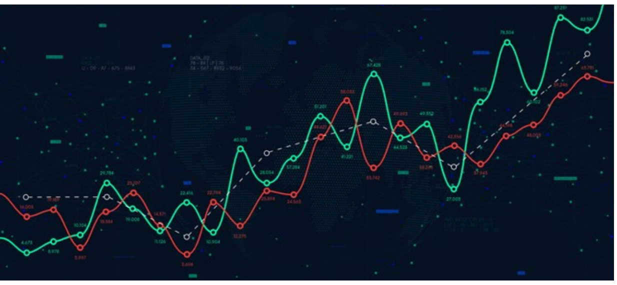
Source: Pitchbook, as of February 3, 2024

Trump's tariff policies are expected to delay PE exits in key sectors such as electronics, apparel, manufacturing, and auto, where many PE-backed companies have already exceeded the typical five-year holding period. Uncertainty around additional tariffs will likely lower valuations, forcing sellers to hold onto assets longer. Rising trade barriers could also slow M&A, as buyers scrutinize supply chain risks and demand protective deal provisions. If tariffs drive inflation higher, thereby delaying interest rate cuts, PE exits and fundraising will further stall, thus prolonging the industry's recovery.

As PE firms navigate the uncertainty surrounding Trump's tariff policies, delayed exits and prolonged holding periods in key sectors may become inevitable. With valuations under pressure and M&A activity slowing, investors must balance short-term risk management with long-term resilience. While some firms are hedging against trade uncertainties, the broader impact on fundraising and dealmaking underscores the need for adaptive strategies in an evolving policy landscape.

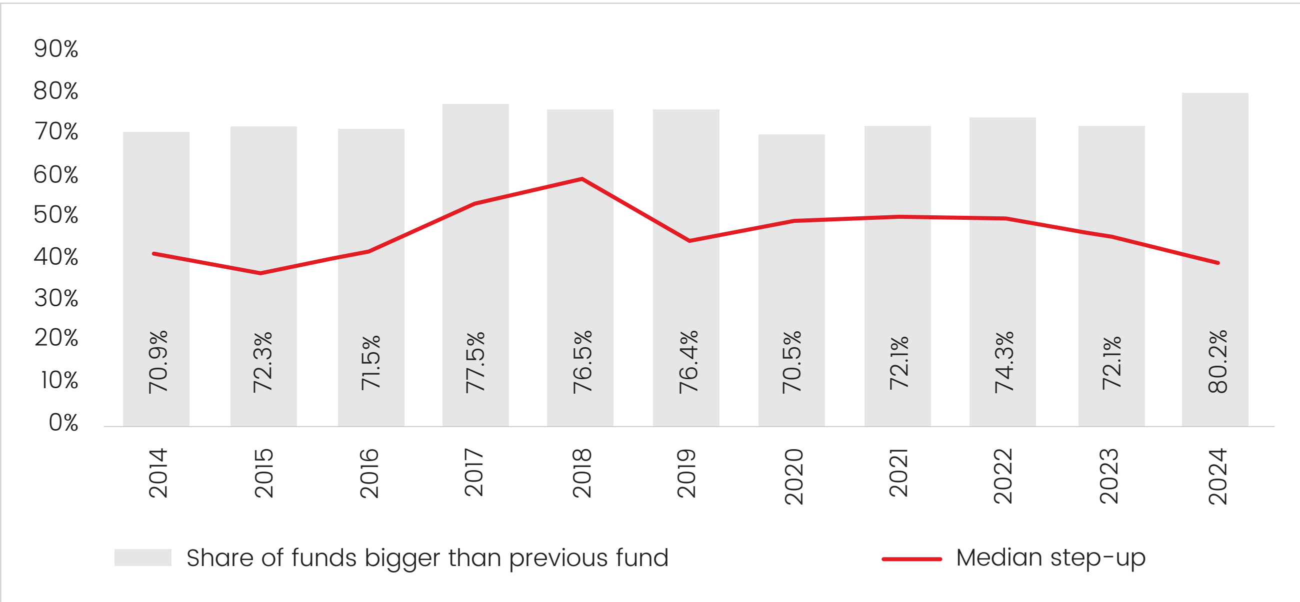
Monthly News and Analysis

PE Funds Take Longer to Close but Grow Larger



PE funds now take over a year to close, yet most are larger than before. In 2024, 80.2% of closed funds exceeded their predecessors, the highest rate in a decade, as per PitchBook. Slower dealmaking and fewer exits reduced distributions to Limited Partners (LPs), making it harder for buyout managers to raise capital.

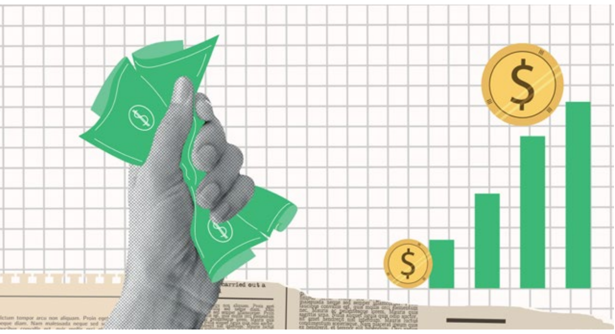
Figure 2: PE Fund Step-ups were the Highest in Over a Decade



Source: Pitchbook, data as of December 31, 2024

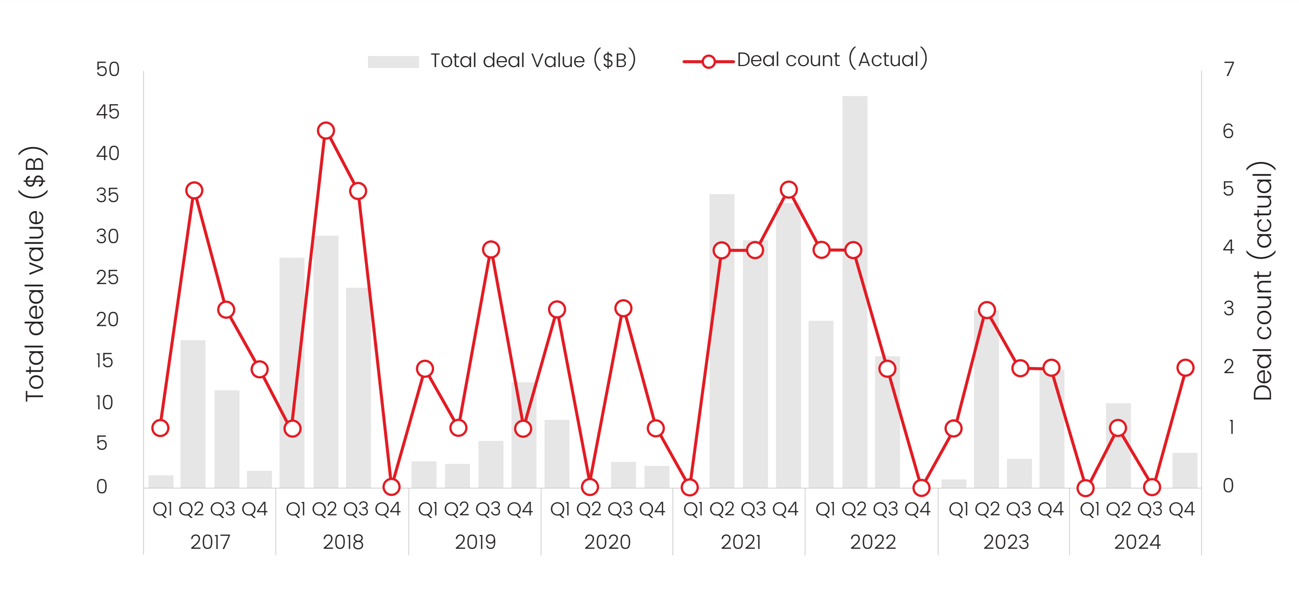
PE fundraising slowed in 2024 as LPs, constrained by a lack of returns from older fund vintages, reduced commitments. Total PE fundraising for the year is estimated to have surpassed 300 billion, falling short of the 395 billion raised in 2023, as per PitchBook. Capital primarily flowed to well-established firms managing mega-funds over five billion, but these funds took longer to close. The median time for a buyout fund to close rose to 16.2 months, compared to 13.8 months in 2023 and 11 months in 2022, as per PitchBook. Moreover, mega-funds accounted for 43.7% of the total capital raised, continuing the trend of a fundraising market dominated by large firms. Vista Equity Partners closed its eighth flagship buyout fund at 20 billion, a four billion increase from its 2019 predecessor, but it took over two years to raise. New Mountain Capital Partners raised 15.4 billion for its seventh flagship fund, up from 9.6 billion in the predecessor fund in 2020. While some firms secured massive fund closes, not all saw significant increases. Silver Lake Partners closed its seventh buyout fund at 20.5 billion, just 500 million above its 2021 predecessor. The market favors larger firms, while smaller managers struggle to attract LP commitments due to limited performance history and liquidity constraints. Despite extended fundraising periods, PE firms continue bringing new funds to market, with the median time between fund launches falling to three years in 2024 from 3.5 years in 2023.

Higher Interest Rates Stall REIT M&A Activity in 2024



M&A activity involving publicly traded equity REITs slowed significantly in 2024, with only three announced deals compared to eight in 2023, as per S&P Global. Elevated interest rates and higher debt costs discouraged transactions, limiting acquisitions despite REITs trading at discounts to net asset value (NAV). As of January 15, 2025, the Dow Jones Equity All REIT Index traded at a 1.6% market-cap-weighted discount.

Figure 3: Quarterly Real Estate M&A Deals involving Public Equity REITs



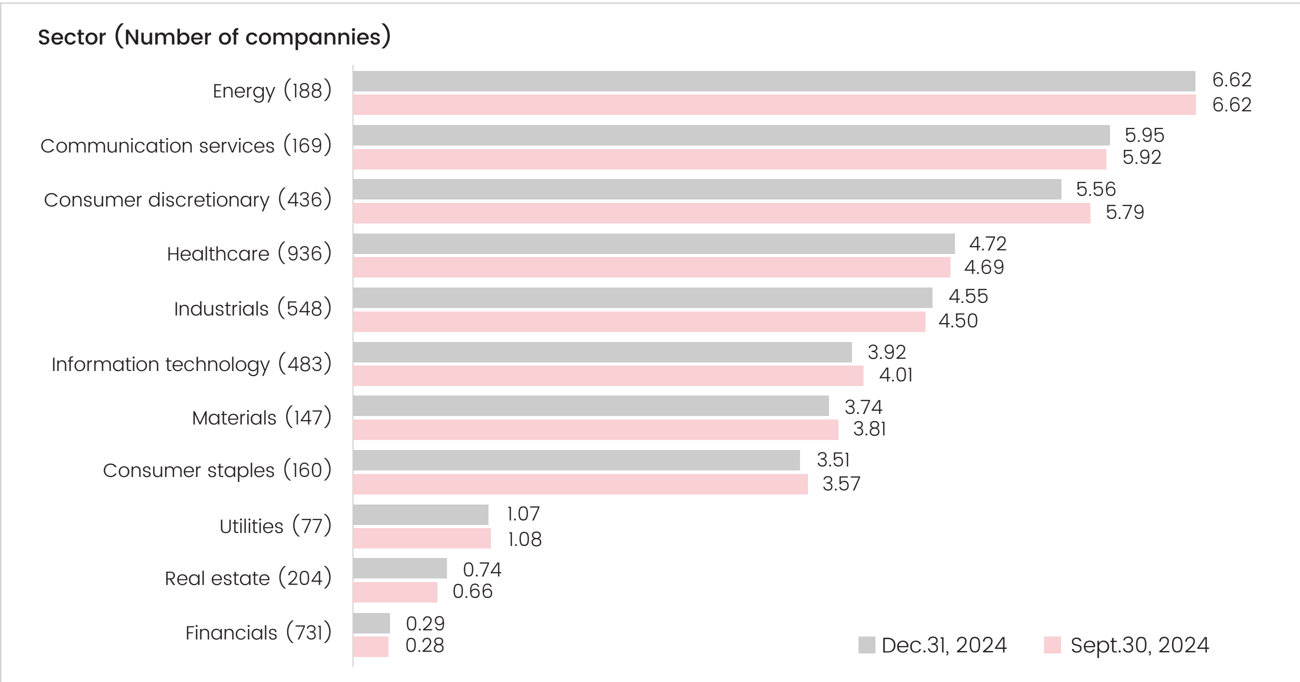
Source: S&P Global, Data as of January 16, 2025

PE firms maintained a strong presence in the real-estate market despite broader investor caution, with Blackstone leading the way through two major privatizations in 2024. The most significant was its $10 billion all-cash acquisition of Apartment Income REIT Corp., demonstrating confidence in the rental housing sector at a time when overall REIT dealmaking had slowed. This was followed by its $4 billion purchase of Retail Opportunity Investments Corp., offering a substantial 34% premium over its pre-announcement share price. These moves highlighted PE's continued interest in select real estate assets, even as total REIT M&A activity saw a sharp decline from 2023's $39.81 billion. Since 2017, PE firms have acquired public REITs worth $151.22 billion, accounting for 39% of total public REIT M&A transaction value, while public REIT-to-REIT mergers comprised 54%, as per S&P Global. Other key transaction categories included public REITs acquiring nontraded REITs, which totaled $16.65 billion, and real estate firms, which contributed $7.59 billion. However, REIT valuations took a hit in December 2024 following the Fed's rate cut, as investors reassessed expectations for future monetary easing. With borrowing costs remaining elevated and economic uncertainty persisting, REIT M&A activity is likely to stay subdued, with public REITs cautious about large-scale acquisitions, while PE firms continue to be highly selective in their investments. The combination of tighter financial conditions and shifting investor sentiment suggests a more restrained deal environment heading into 2025.

Energy Sector Leads the US Industries in Default Risk at 2024 Year-end

The US energy sector recorded the highest median probability of default among publicly traded companies at 6.62% as of December 31, 2024, based on S&P Global Market Intelligence's RiskGauge Model. This figure remained unchanged from Q3 2024, while default risk varied across other industries, with five sectors experiencing declines and five seeing increases.

Figure 4: Median US Sector RiskGuage Scores (%)



Source: S&P Global, data as of January 7, 2025

The energy sector's elevated default risk continues to be driven by oil price volatility, capital-intensive operations, and regulatory uncertainties, making refinancing difficult for highly leveraged firms. While some energy companies have benefited from rising commodity prices, others, particularly those with significant debt, remain financially strained. The real estate sector showed mixed trends, with some segments seeing higher default risk while others improved.

According to S&P Global, homebuilders saw an increase in default probability, rising to 6.85% in Q4 2024, reflecting the impact of higher borrowing costs and a slowdown in housing demand. Beyond real estate, the healthcare sector saw a decline in default probability, benefiting from stable demand and improved financial conditions despite ongoing labor cost pressures. In contrast, industries reliant on discretionary consumer spending faced rising challenges as inflation and economic uncertainty weakened demand. Corporate defaults remained significant, with 88 recorded by November 2024, just below the 89 seen in the same period in 2023, as per S&P Global Ratings. With tighter lending standards and high interest rates, leveraged firms struggle to refinance debt, raising the risk of further defaults in 2025. As banks and private lenders take a cautious stance, credit access will likely remain limited, forcing distressed companies to restructure or seek alternative financing solutions.

US Pension Funds Struggle to Meet Private Debt Allocation Targets

Despite increasing exposure to private debt, the US pension funds remain under allocated, with a median actual allocation of $147.5 million versus a target of $175.5 million — leaving a shortfall of $28 million as of January 2025, according to S&P Global. Structural barriers, including resource constraints, due diligence challenges, and rebalancing needs after public market gains, have slowed deployment.

Figure 5: US Pension Funds Below Target Allocation for Global Private Debt ($ in Billions)

Pension fund name	Target allocation in private debt	Actual allocation in private debt	Net allocation
California Public Employees' Retirement System	42.07	16.36	-25.72
Western Conference of Teamsters Pension Trust	5.13	2.05	-3.08
New Jersey Division of Investment	8.01	5.08	-2.93
Connecticut State Retirement and Trust Funds	5.42	2.89	-2.53
Arizona Public Safety Personnel Retirement System	4.36	3.11	-1.25
San Diego City Employees' Retirement System	1.47	0.24	-1.23
City and County of San Francisco Employees Retirement System	3.45	2.62	-0.83
Teachers' Retirement System of Oklahoma (TRS)	1.04	0.25	-0.79
Public Employees' Retirement System of Mississippi	0.71	0.08	-0.62
Public School Retirement System of Missouri	3.48	2.92	-0.57

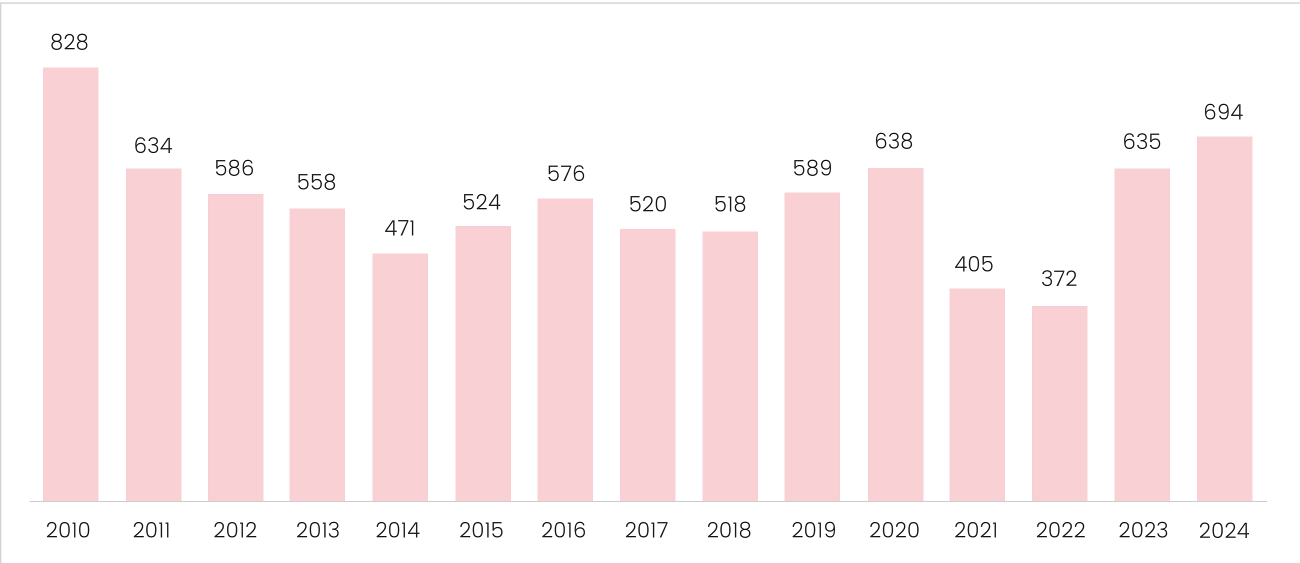
Source: S&P Global, data as of January 3, 2025

While pension funds have expanded their private debt investments, many still lag behind their targets. According to S&P Global, as of January 3, 2025, the median shortfall of $28 million, though an improvement from the $76 million gap in August 2024, highlights ongoing hurdles in capital deployment. The growing number of private credit managers has complicated the due diligence process, delaying commitments. Zia Uddin, President of Monroe Capital, notes that pension funds must now evaluate more lenders, extending investment timelines. Additionally, rebalancing after strong public market gains has diverted attention away from private debt. CalPERS, the largest public pension fund in the US, reported a $25.72 billion under allocation to private debt as of January 2024, despite a 17% one-year return on its private credit investments in November 2024. This shortfall underscores broader industry challenges in scaling allocations efficiently. To address these issues, some pension funds are considering co-investment strategies and direct lending approaches, aiming to enhance yield while maintaining risk controls. Additionally, macroeconomic uncertainty, including the Fed's rate policy and shifts in credit markets, will further influence allocation decisions in 2025. Despite these setbacks, interest in the asset class remains high due to its stable returns and lower volatility. Private credit also benefits from rising PE M&A activity, which is expected to stay strong in 2025. However, infrastructure limitations, regulatory constraints, and evolving macroeconomic conditions will continue to challenge pension funds, keeping actual allocations below targets in the near term.

US Corporate Bankruptcies Hit Highest Level Since 2010 Amid Rising Debt and Economic Pressures

US corporate bankruptcy filings surged to a 14-year high in 2024, with 61 companies filing in December, bringing the total to 694, as per S&P Global. This surpassed 635 bankruptcies in 2023 and 638 in 2020, marking the highest annual total since 2010, when businesses were still recovering from the Great Recession.

Figure 6: US Bankruptcy Filing by Year



Source: S&P Global, data as of January 01, 2025

The increase in bankruptcies was fueled by elevated interest rates, declining liquidity, and record corporate debt, with liabilities among credit-rated nonfinancial US firms reaching $8.45 trillion in Q3 2024, as per S&P Global. While the Fed initiated rate cuts in September, borrowing costs remained historically high, limiting access to capital. Market uncertainty and tight credit conditions forced many distressed firms to explore asset sales, debt restructuring, or liquidation. Two of the largest December filings came from Party City Holdco and China Construction America, both seeking Chapter 11 protection with liabilities exceeding $1 billion. Party City struggled with macroeconomic pressures despite a prior $1 billion debt reduction in 2023 and is now closing its 700 US stores. China Construction America, a US subsidiary of China State Construction Engineering, filed bankruptcy to protect itself amid an ongoing legal dispute with BML Properties. The consumer discretionary and industrial sectors suffered the most, with 199 bankruptcies in 2024, reflecting 28% of all filings, as per S&P Global. Despite strong US retail sales, inflationary pressures and shifting consumer behavior weighed on discretionary spending. Moreover, the healthcare sector recorded 65 bankruptcies, struggling with rising labor costs and reimbursement challenges. With private capital remaining cautious along with weak IPO markets, 2025 is expected to bring further financial distress unless funding access improves or economic conditions stabilize.

Deals Flash

Brightstar Acquires WW Williams from One Equity

Brightstar Capital Partners, a New York-based PE firm, has acquired WW Williams, an Ohio-based mechanical repair service provider, from One Equity Partners, a New York-based PE firm. Founded in 1912, Williams provides equipment, aftermarket parts, and services for commercial vehicles, dry and refrigerated trailers, diesel engines, and power-generating systems. This acquisition will enable Williams to expand its offerings, strengthen OEM (original equipment manufacturers) partnerships, and enhance efficiency. Further, this will allow Brightstar to leverage William's expertise to scale operations, optimize systems, and drive growth in the industrial services sector.

Greenhall to Acquire Johnson Communications

Greenhall Capital Partners, a Washington-based PE firm, has agreed to acquire Johnson Communications, a Texas-based digital infrastructure wireless service provider. Founded in 2000, Johnson provides telecom infrastructure solutions designed for network deployment and maintenance. This acquisition will allow Johnson to expand its market reach, enhance service capabilities, and accelerate growth while maintaining its customer-focused approach. Further, it will enable Greenhall to leverage Johnson's industry position, drive operational improvements, and capitalize on long-term telecommunications sector growth through strategic investment and support.

Stellex to Acquire Roskstad

Stellex Capital Management, a New York-based PE firm, has agreed to acquire Rokstad Holdings, a Canada-based power infrastructure solutions provider. Founded in 2008, Rokstad provides power line transmission and distribution services for critical power infrastructure across the US and Canada. Stellex made this investment in partnership with Catalyst Utility Partners, a Texas-based management and energy solutions provider. The acquisition will allow Rokshad to expand its capabilities, enhance power infrastructure resilience, drive innovation, and support its workforce. Further, this will enable Stellex to strengthen its presence, invest in infrastructure, and drive long-term growth.

Fusion Acquires Tavoron

Fusion Capital Partners, a Los Angeles-based PE firm, has acquired Tavoron, a Minnesota-based industrial automation systems and services company. Founded in 1938, Tavoron specializes in innovative electrical and air automation components, robotic systems, and compressed air technologies. This acquisition will allow Tavoron to expand its automation solutions, streamline production for customers, and accelerate growth through innovation and strategic M&A. Further, this will allow Fusion to strengthen its portfolio, leverage Taveren's expertise, and drive long-term value creation in automation.

Monomoy Exits Astro Shapes to Wynnchurch

Monomoy Capital Partners, a New York-based PE firm, has sold Astro Shapes, an Ohio-based aluminum extrusion manufacturer, to Wynnchurch Capital, an Illinois-based PE firm. Founded in 1971, Astro produces custom-finished extrusions in many unique shapes and sizes and offers various tempers and finishes, including painted thermal, anodized, and other finishes. This deal will allow Astro Shapes to build on its strong foundation under Wynnchurch's ownership, driving market expansion, operational improvements, and product growth. Further, it enables Monomoy to realize its value created through strategic initiatives, investments, and leadership development.

Gainline Capital Acquires M&M

Gainline Capital, a Connecticut-based PE firm, has acquired M&M International, a New Jersey-based tubing products manufacturer. Founded in 1993, M&M offers small-diameter stainless steel tubing for medical devices and other high-precision applications. This acquisition will allow M&M to accelerate organic growth, expand its offerings, and strengthen its market position through strategic add-on acquisitions. Further, this will enable Gainline to enhance M&M's capabilities, leverage leadership expertise, and drive long-term value creation in the medical device manufacturing sector.

LLCP to Acquire SYNERGY HomeCare from NexPhase

Levine Leichtman Capital Partners (LLCP), a Los Angeles-based PE firm, has partnered with the management to acquire SYNERGY HomeCare franchising, an Arizona-based provider of in-home care services from NexPhase Capital, a New York-based PE firm. Founded in 1999 SYNERGY provides a broad range of non-medical in-home services including personal care, companion care, memory care, and specialized care for patients. This acquisition will allow SYNERGY to accelerate growth, expand service offerings, and enhance franchisee support. Further, it will enable LLCP to leverage its franchising expertise to drive strategic initiatives and capitalize on industry tailwinds for long-term success.

Verde Equity Acquires Chula Vista Landscaping

Verde Equity Partners, a San Diego-based PE firm, has acquired Chula Vista Commercial Landscaping, an Arizona-based commercial landscaping company. Founded in 1990, Chula Vista provides commercial landscaping services intended to serve corporate campuses, retail centers, and property management firms. This acquisition will allow Chula Vista to expand its operations, enhance service offerings, and access growth capital while maintaining its brand and leadership. Further, this will enable Verde Equity to strengthen its market presence, drive strategic expansion, and accelerate its path toward its $100 million revenue goal.

Ascend Acquires Unison Therapy

Ascent Capital Partners, a New York-based PE firm, has acquired Unison Therapy Services, a California-based outsourced therapy provider. Founded in 1989, Unison Therapy provides multidisciplinary therapy for children with speech delays, autism, social and emotional needs, and behavioral issues. This acquisition will allow Unison to enhance its therapy solutions, expand its access to care for students and families, and improve service delivery through Ascend's operational and clinical expertise. Further, this will enable Ascend to strengthen its mission of providing high-quality care to underserved communities.

Stellex Acquires ICS

Stellex Capital Management, a New York-based PE firm, has acquired Industrial Construction Services Holding (ICS), a Texas-based provider of electrical services. Founded in 2018, ICS provides key electrical and instrumentation contracting and maintenance services to industrial and commercial end markets. This acquisition will allow ICS to accelerate its growth, expand its offerings, and pursue strategic acquisitions to enhance its capabilities in mission-critical electrical solutions. Further, it will enable Stellex to leverage its resources and expertise to support ICS in scaling its operations and geographic reach.

TRENDS AND STATS

January Middle Market Deal Summary

47.9%
of the deals were made in the Business Products and Services (B2B) sector

63.3%
of B2B deals were in Commercial Services

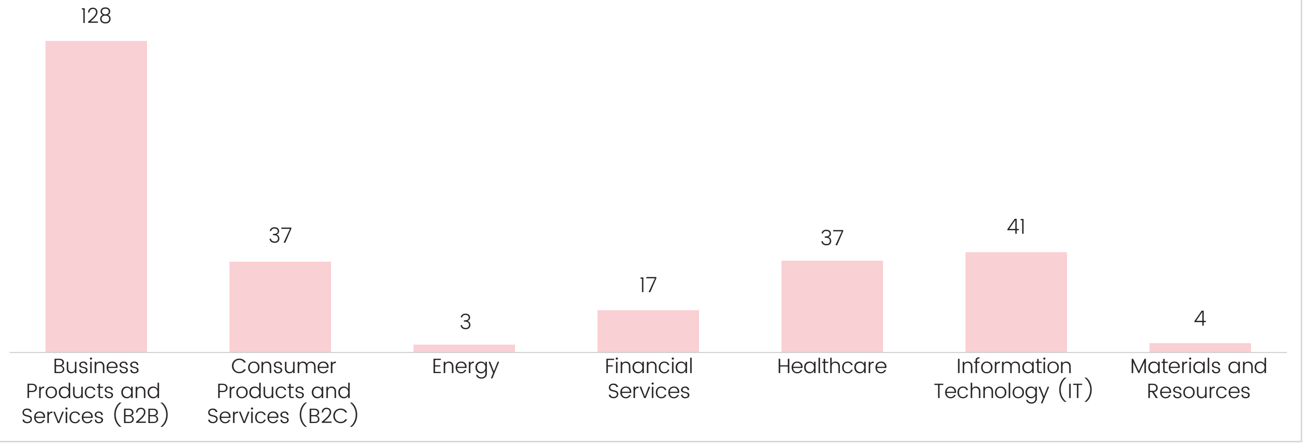
15.4%
of the deals were in the Information Technology (IT)

68.3%
of IT deals were in software

California
experienced the highest dealmaking activity, followed by Texas and Florida

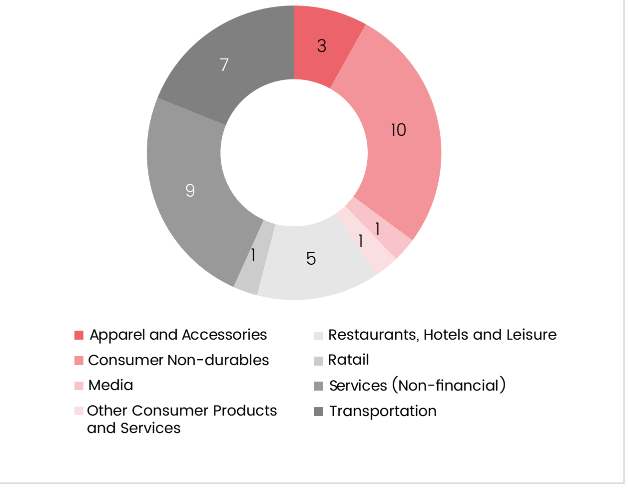
76.4%
of the deals were buyout deals

Figure 7: January Middle Market Deal Summary



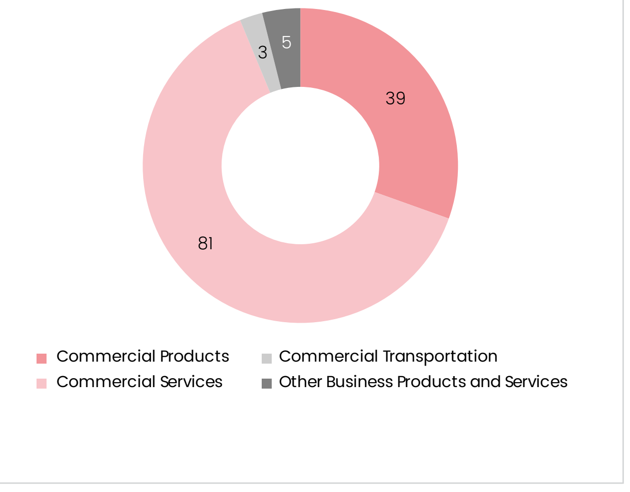
Source: SG Analytics Research

Figure 8: Consumer Products and Services



Source: SG Analytics Research

Figure 9: 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

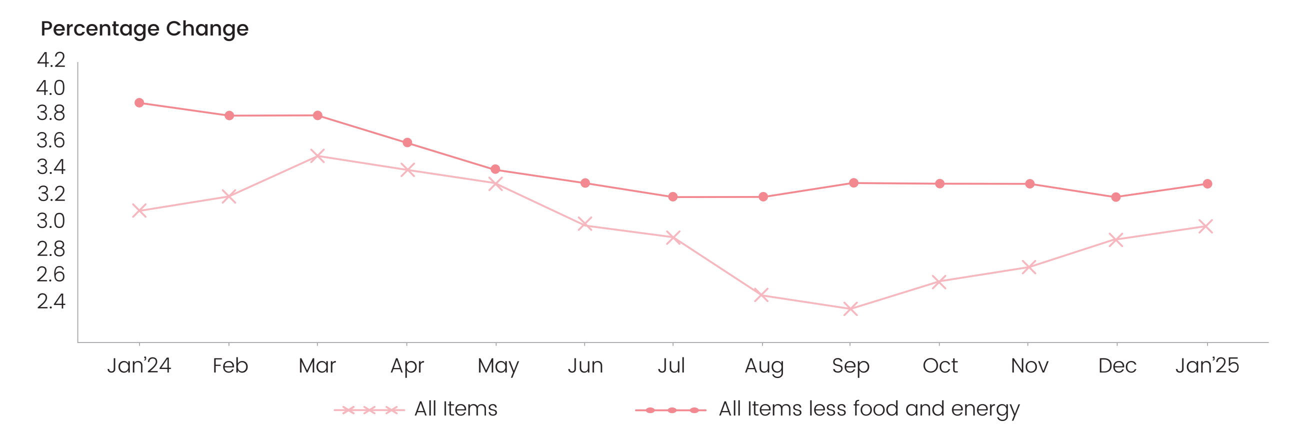
Figure 10: S&P Listed Private Equity Index

S&P Listed Private Equity Index	265.68	+48.44	↑ 22.30%
S&P 500	6,066.44	+1,044.60	↑ 20.80%
Nasdaq Composite	19,714.27	+3,771.72	↑ 23.66%
Dow Jones Industrial Average	44,470.41	+5,673.03	↑ 14.62%

Data as of February 11, 2025

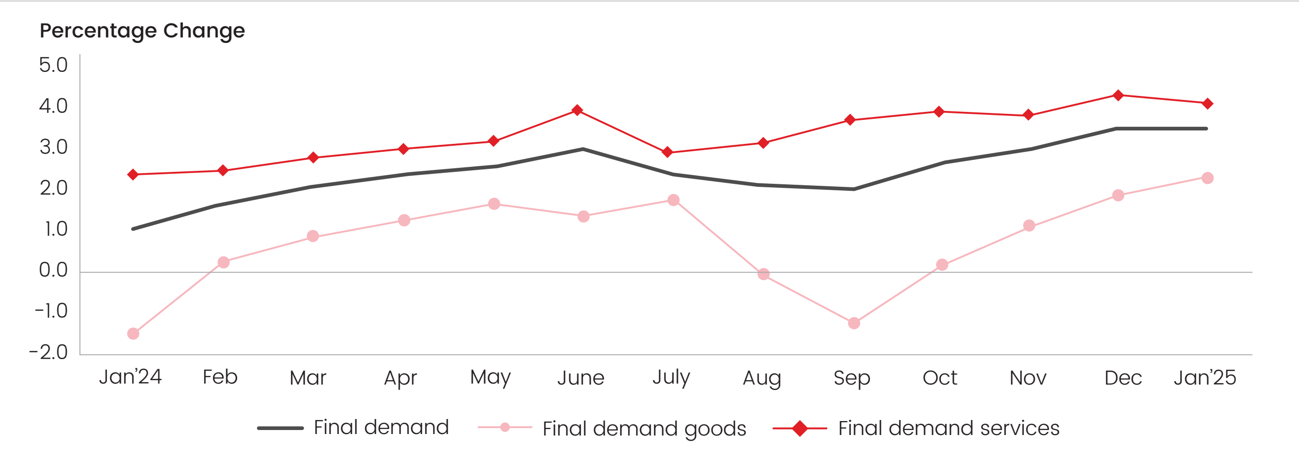
Index	Month-over-Month	YTD
Consumer Price Index	0.5%	3.0%
Producer Price Index	0.4%	3.5%

Figure 11: 12-month Percent Change in CPI for All Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

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



Source: US Bureau of Labor Statistics

Upcoming Events

Women's Private Equity Summit 2025	March 2–5, 2025	2400 East Missouri Avenue, Phoenix, Arizona
Private Equity International NEXUS 2025	March 10–12, 2025	4012 Central Florida Parkway, Orlando, Florida
PEI Investor Relations Network New York Forum	March 26–27, 2025	360 Madison Avenue, New York

SGA Newsletter Team

Steve Salvius

Kunal Doctor

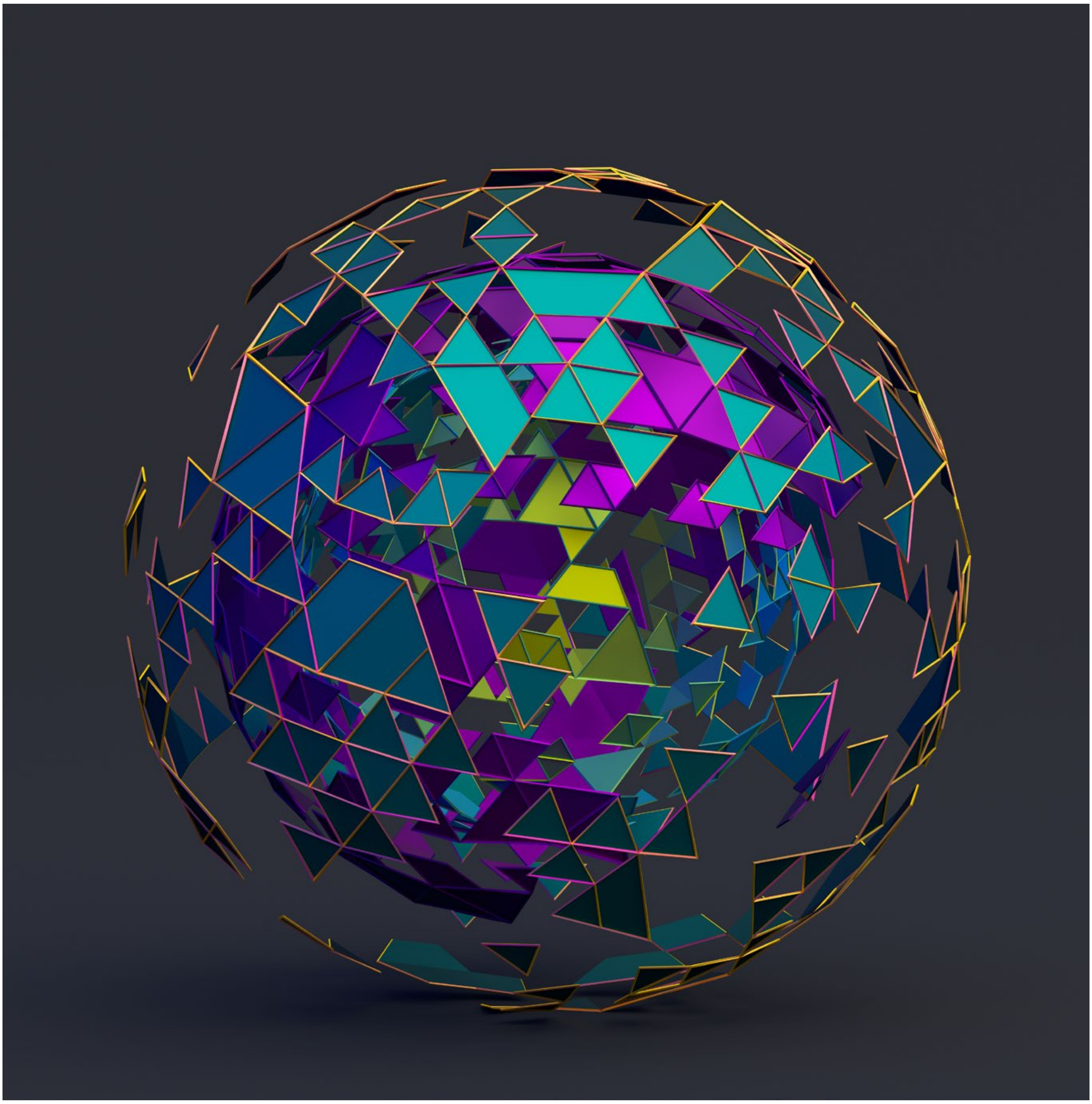
Sandeep Jindal

Anwar Jakhal

Shreyanka Pal

Isha

Gulshan Talreja



Disclaimer

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by SG Analytics (SGA) and is not intended to represent or get commercially benefited from it or imply the existence of an association between SGA and the lawful owners of such trademarks. Information regarding third-party products, services, and organizations was obtained from publicly available sources, and SGA cannot confirm the accuracy or reliability of such sources or information. Its inclusion does not imply an endorsement by or of any third party.