

NAVIGATING UNCERTAINTY



Mid-Market & Small-Cap PE Trends,
Challenges, and Strategies for 2025



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Executive Summary



Private Equity Trends

- The Private Equity (PE) industry is facing challenges due to macroeconomic uncertainties, market volatility, and shifting political landscapes (e.g., U.S. elections).
- PE firms are navigating these challenges by embracing digital solutions and adapting fundraising methods to optimize capital raising.
- Technology, ESG, and emerging markets are being prioritized as key focus areas, reflecting a forward-looking approach to sustainable value creation and growth.



Fundraising and Dry Powder

- PE firms are facing a tougher fundraising environment, relying on traditional investor networks and strong investment performance for capital commitments.
- Digital platforms and fintech collaborations, along with virtual roadshows & conferences, are emerging as critical fundraising tools.
- Technology plays a significant role in facilitating the evolution of fundraising techniques and helping PE firms manage capital effectively amidst a volatile market.





Investment Strategies and Alternative Exit Strategies

- PE firms are prioritizing ESG, technology, and emerging markets as the 'new investment trinity' for long-term value creation.
- Direct sourcing remains the dominant investment strategy, supported by buy-side investment banks, and industry conferences.
- The exit landscape is becoming increasingly complex, with PE firms uncertain about the market's direction. Secondary buyouts and management/leveraged buyouts are the most favored exit strategies.



Impact of AI and ML

- AI/ML adoption in PE is rising, with early applications expanding from routine tasks to advanced functions such as deal sourcing, due diligence, and portfolio management.
- AI technologies, such as predictive analytics, natural language processing, and advanced automation, are driving significant improvements in investment processes.
- AI/ML tools benefit PE firms in areas including deal sourcing, due diligence, and portfolio optimization, enhancing decision-making and operational efficiency.
- PE firms are optimistic about overcoming AI integration challenges through targeted training, expert consulting, and enhanced software solutions.



02 Survey Background and Methodology

About the Survey

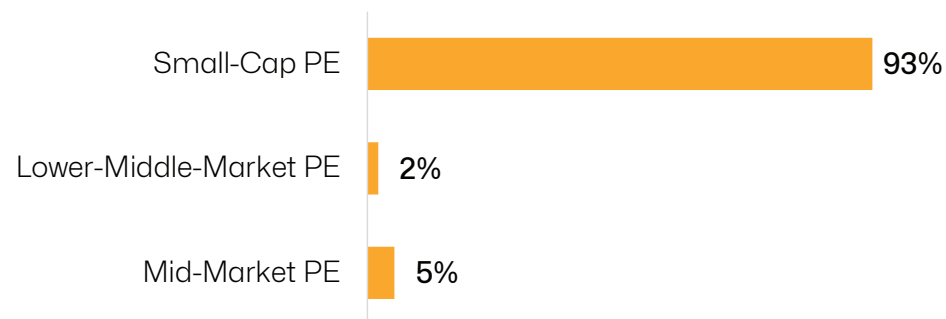
This survey covers the insights of **senior executives from U.S.-based PE firms**, including Managing Partners, General Partners, Vice Presidents, and Senior Vice Presidents, all of whom bring significant expertise and experience.

The objective is to evaluate the impact of current economic trends—such as interest rates, inflation, and broader macroeconomic factors, including the U.S. elections—on PE firms. Additionally, the survey explores several key areas, such as:

- Levels & Impact of Dry Powder
- Investment Strategies & Alternative Approaches
- Sourcing Deals in a Competitive Market
- Exit Strategies Being Explored
- Integration of AI/ML into Workflows
- AI/ML Adoption in the Investment Lifecycle

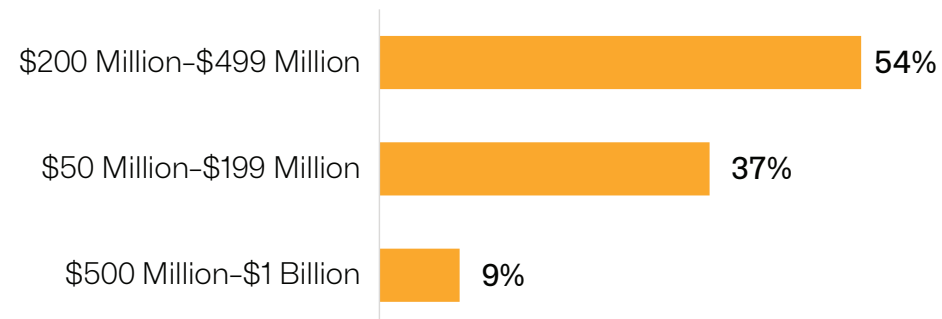


Private Equity Firm Respondents: Primary Areas of Focus



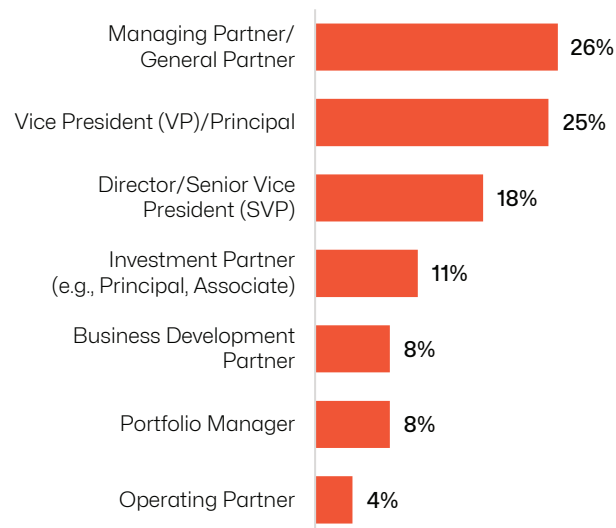
93% of respondents indicated that their primary focus is on Small-Cap Private Equity.

Assets Under Management (AUM) Distribution Among Respondents



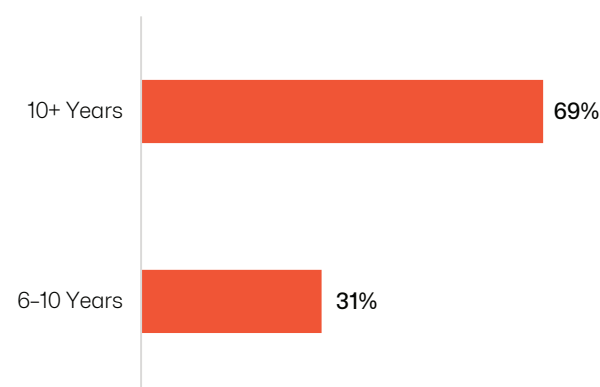
The majority of respondents, or **54%** reported AUM in the range of \$200 million to \$499 million.

Job Titles of Survey Respondents



The respondents in this survey are senior, experienced private equity professionals, each with a minimum of six years of industry experience.

Overall Experience of Respondents



The respondents are experienced professionals within the surveyed firms, bringing valuable expertise and strategic insight to portfolio management and deal structuring.

03 Strategic Trends in PE Based on the Current Economic and Market Landscape

Fundraising Scenario

The PE industry has encountered a challenging fundraising environment in recent years, driven by macroeconomic uncertainty and market volatility. These factors have led to heightened caution among investors, affecting deal sourcing and investment strategies. For instance, according to the Pitchbook report, American PE fundraising fell off in 2024, **with a year-over-year drop of over \$100 billion in the amount of capital raised, from \$394.8 billion in 2023 to \$287.3 billion in 2024.**

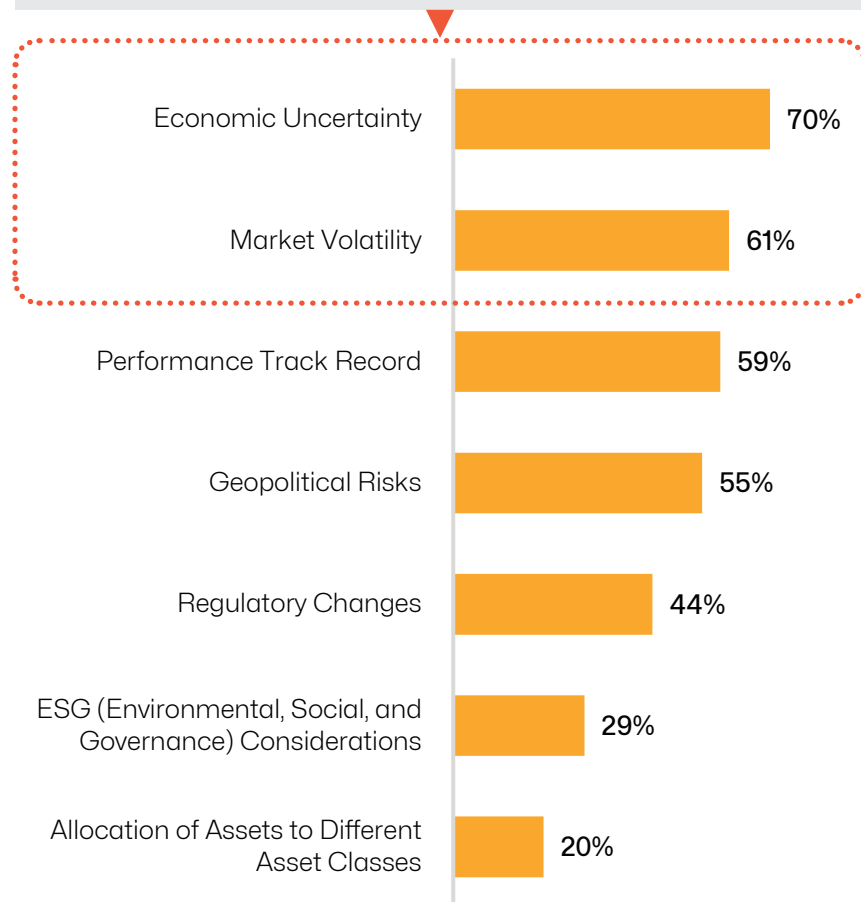


Our survey also shows that over **50%** of respondents find fundraising challenging or uncertain.

Additionally, over **50%** of respondents feel that fundraising has been impacted negatively by the current economic climate.

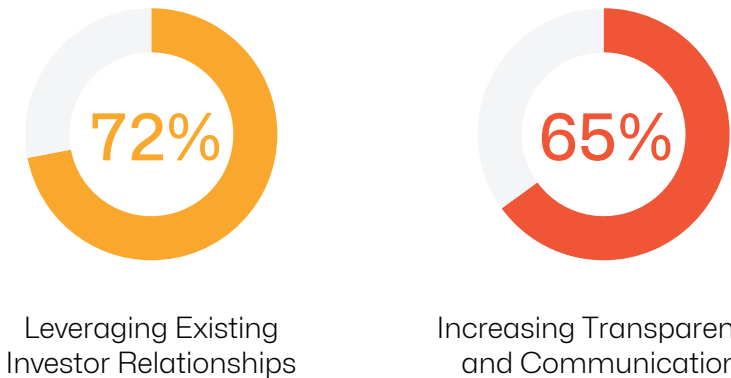
Primary Concerns of Investors Committing Capital to PE Funds in 2024

Economic uncertainty and market volatility are the top two concerns of investors when committing capital to PE.



To overcome the tougher fundraising climate, PE firms are combining traditional, yet proven strategies with new technologies. PE firms are embracing digital solutions to overcome traditional fundraising hurdles.

Proven Strategies

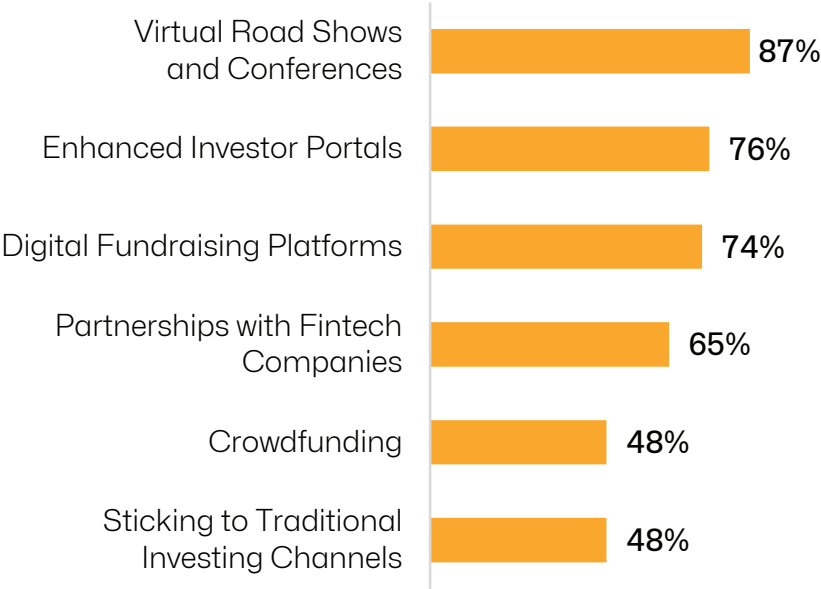


PE firms are embracing innovative fundraising strategies, recognizing the value of diverse opportunities beyond traditional channels. Digital platforms and strategic fintech collaborations are enhancing virtual roadshows and conferences, creating more dynamic and engaging ways to attract LPs.

Amid macroeconomic uncertainties and market volatility, PE firms are leaning on their proven strategies to secure capital. By leveraging established investor networks and maintaining strong investment performance, they continue to build trust and attract additional funding.

However, firms are open to exploring other strategies for fundraising...

The Future of Fundraising: Emerging Channels and Strategies



Moreover, technology has played a significant role with PE funds' evolving need for fundraising.



99%

of the respondents agree that the role of technology in PE has increased significantly, highlighting its growing importance in enhancing fundraising and operational strategies.

Dry Powder

PE firms are currently sitting on massive dry powder. This unprecedented war chest has been accumulating since the M&A boom of 2021, fueled by strong fundraising and the demand for private capital. The accumulation of dry powder presents both opportunities and challenges for private equity firms as they seek to put this capital to work effectively.

Firms Cautiously Awaiting Better Investment Opportunities with High Dry-Powder Levels

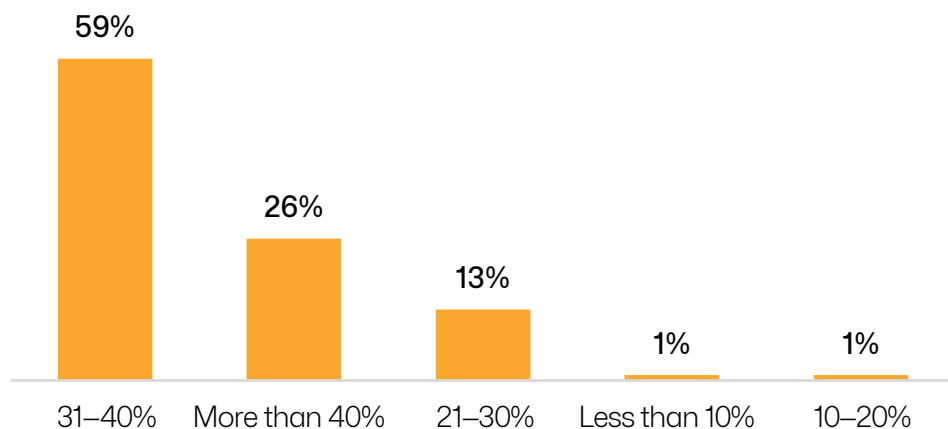
80%

The survey highlights a significant proportion of respondents (**80%**) having **allocated more than 30% of their total fund capital to dry powder, holding funds of \$100 million-\$499 million as dry powder.**

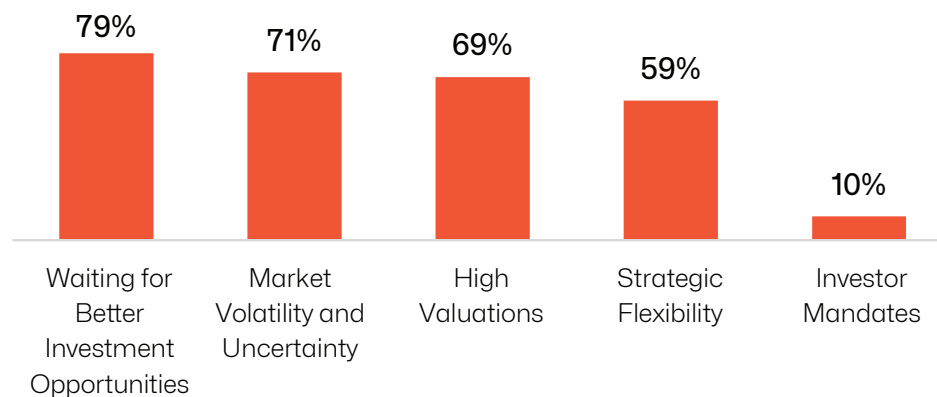
100%

100% of the respondent PE firms observed a 5% or higher increase in dry powder compared to the previous year.

Elevated Dry Powder & Strategic Allocation



The Primary Drivers for This Cautious Approach Are:



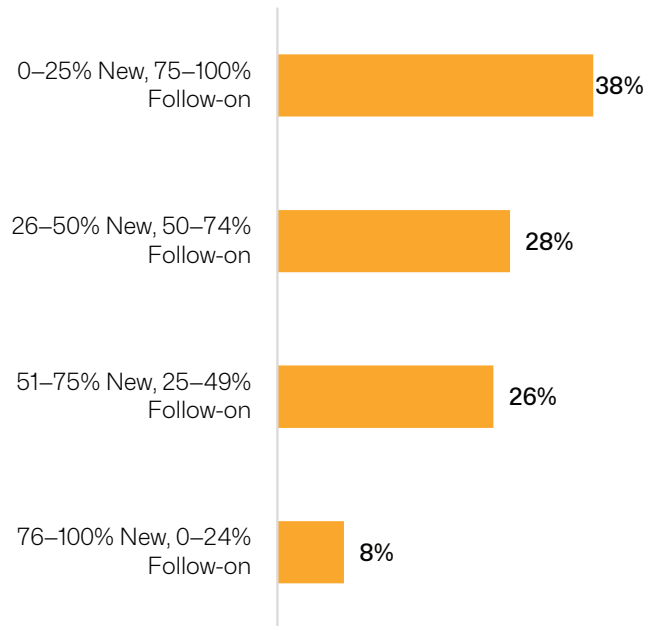
A recent Preqin report suggests that the global PE industry holds a record

\$2.1 trillion in dry powder as of early 2025.

90%

of the firms confirmed a noticeable change in the deployment of dry powder compared to last year due to becoming more cautious.

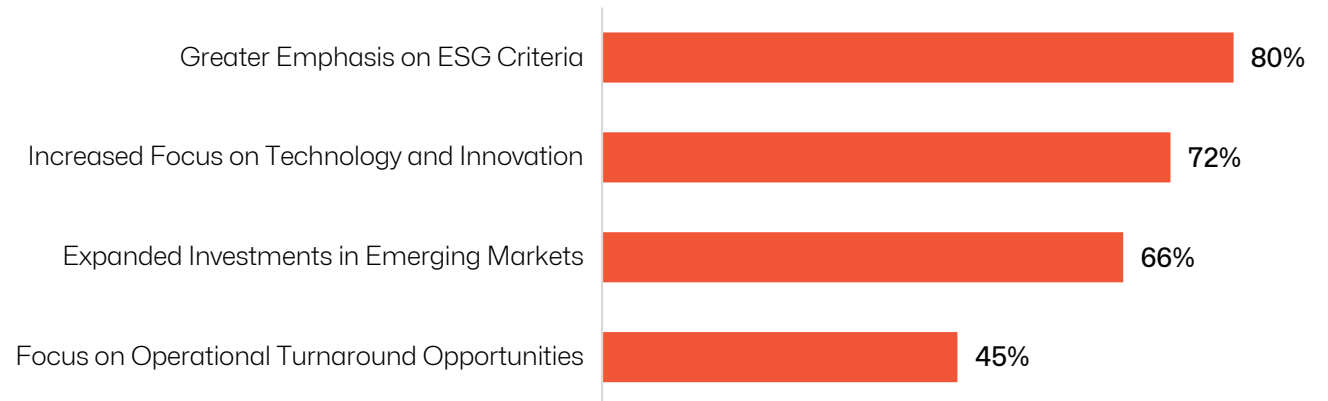
Moreover, PE firms are keener on using dry powder to strengthen their platforms through bolt-on acquisitions, instead of adding new platform companies.



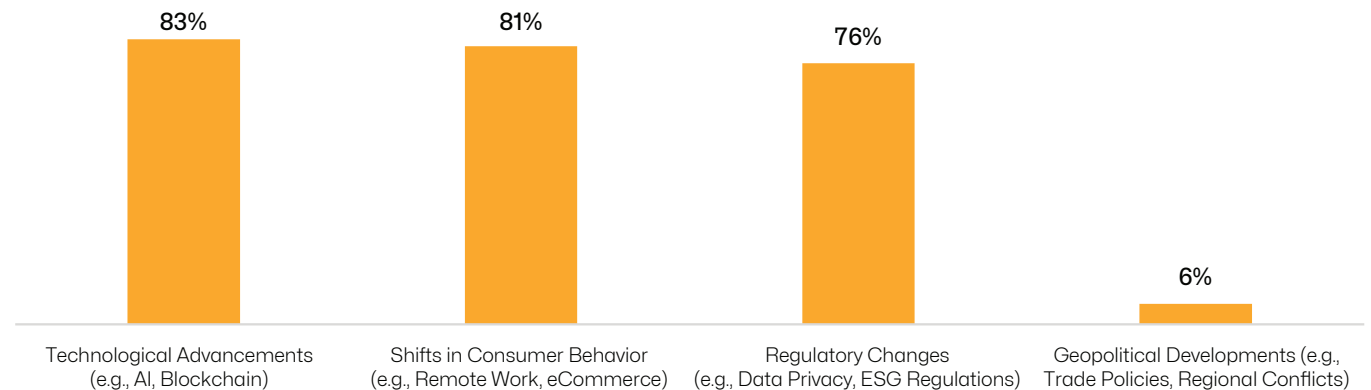
Creative Strategies for Dealmaking: Leveraging Record Dry Powder for Value Creation, Risk Management, and Strategic Flexibility

Dealmaking rebounds, but challenges persist. As PE firms and portfolio companies plan for the future, they navigate a changing exit landscape, ongoing challenges in meeting investment objectives, and persistent talent shortages.

Technology, ESG, and Emerging Markets: The New Investment Trinity

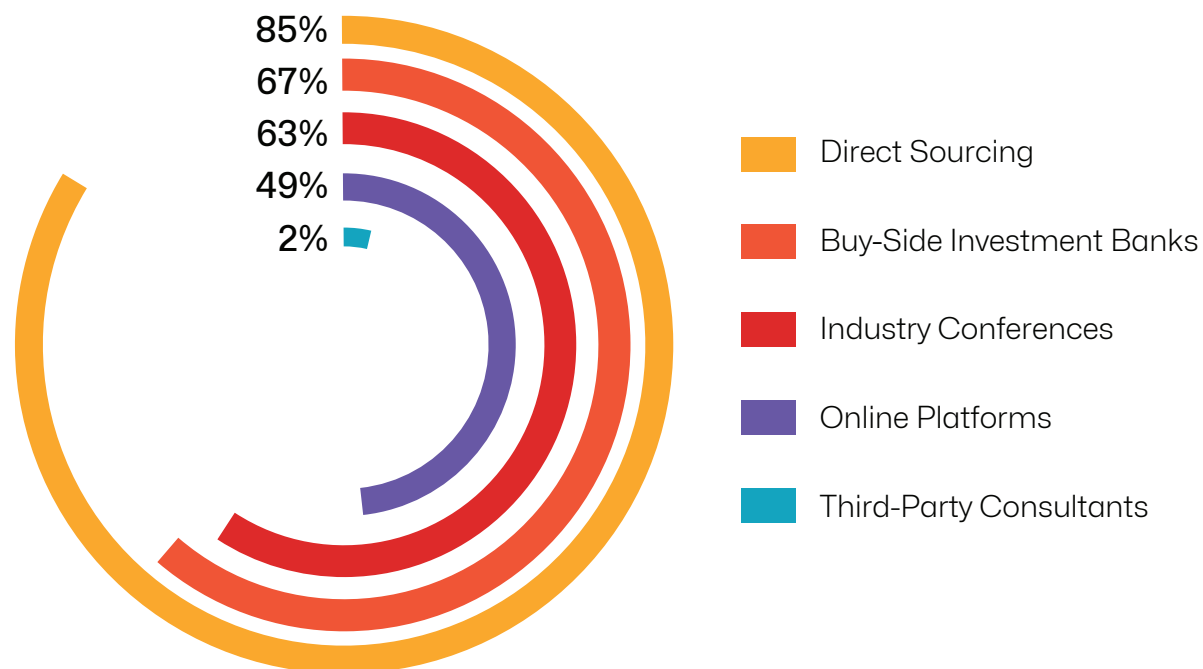


With Tech, Consumers, and Regulations Reshaping Investments



A clear majority of PE firms are prioritizing ESG, technology, and emerging markets. Firms are focusing on sustainable value creation while seizing high-growth opportunities in sectors aligned with global trends in sustainability and technological innovation. This reflects a forward-looking approach.

Deal-Sourcing Channels: Direct Sourcing as Core Foundation, Leveraging Diverse Channels to Maximize Reach



Direct sourcing stands out as the most prevalent method, with **85%** of firms leveraging this strategy. Buy-side investment banks and industry conferences also remain important, indicating the continued value of established networks and relationships.

However, the art of deal sourcing is evolving and is more prominent as firms are looking to deploy dry powder for more value creation. While traditional channels remain relevant, a significant shift is underway, driven by the increasing power of technology.

69%

of firms are now more
reliant on technology
for deal sourcing.

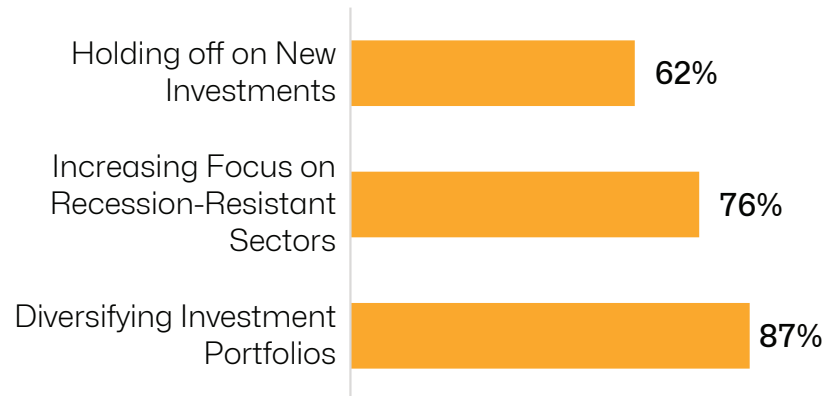
The outcome of the U.S. elections always has significant implications for the PE industry, influencing regulatory policies, tax structures, capital markets, and investor sentiment. As we move into a new political era, PE firms must navigate an evolving landscape shaped by shifting economic priorities, legislative changes, and macroeconomic factors such as inflation and interest rates.

THE MAJORITY OF FIRMS (59%)

anticipate at least some positive impact from the changes in the political landscape after the U.S. elections.

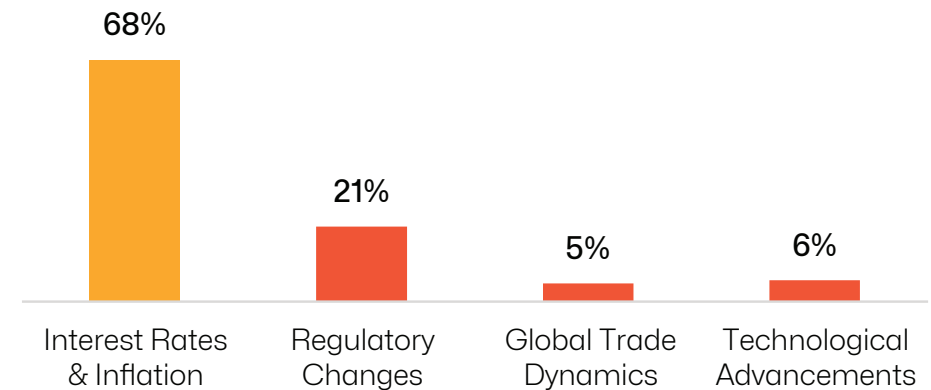


Most Preferred Contingency Plans



PE firms aren't at a standstill due to a broadly positive outlook. They're proactively adjusting strategies to optimize investments in a shifting landscape. PE firms are also actively exploring contingency plans.

Macroeconomic Factors Affecting the PE Landscape



While the election results have introduced a new dimension, PE firms understand that macroeconomic factors like inflation and interest rates remain critical drivers for market performance.

“

While the overall availability of LP capital is likely to improve, we expect fundraises to continue taking longer, given meaningful pent-up demand from General Partners (GPs) who have either delayed fundraises or raised smaller funds, as well as a backlog of GPs currently in the market who are waiting for allocations to re-set in 2025.

”

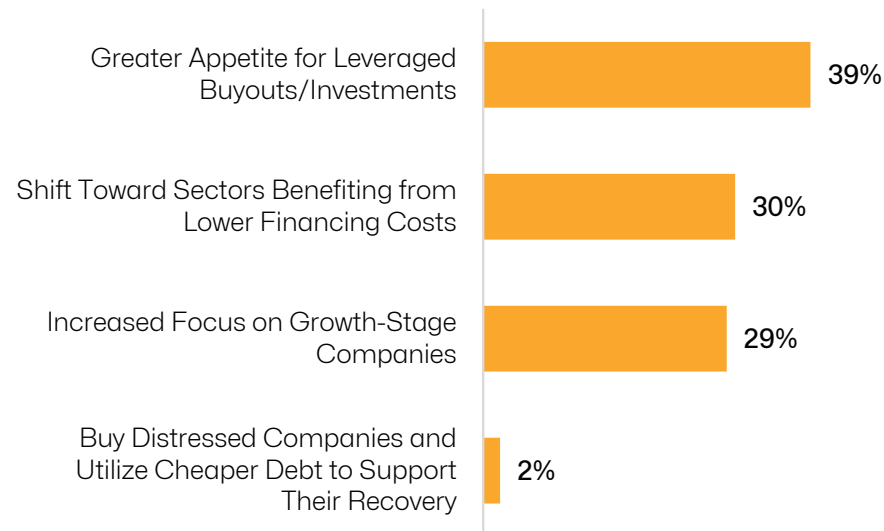
MICHAEL FLOOD,
Managing Director & Head of Private Equity, Northleaf Capital Partners (Toronto, Canada)

70% REMAIN OPTIMISTIC

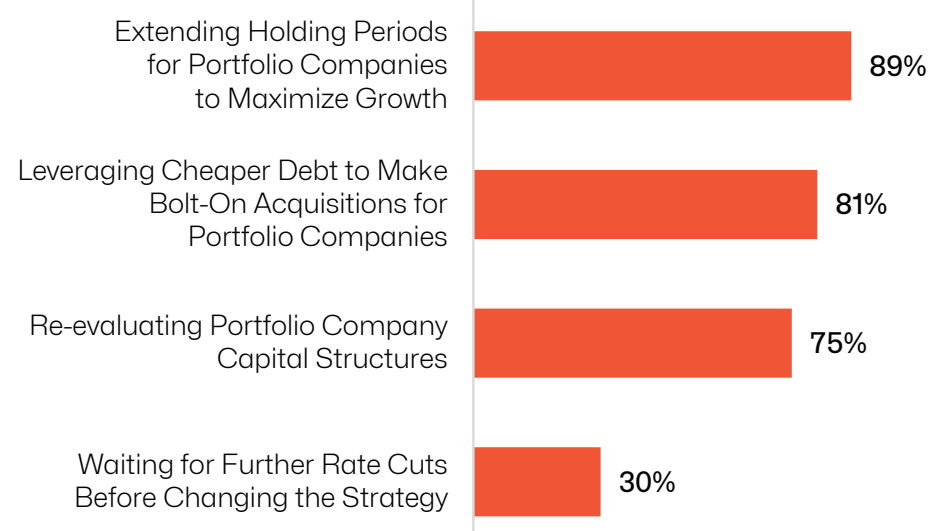
Despite the results of recent elections and high inflation, the PE market remains resilient and adaptable enough to withstand the pressures. It's clear that the PE sector believes that it has learned how to manage uncertainties and still grow. PE firms maintain a cautiously optimistic market outlook for the next 12-18 months.

With the Federal Reserve signaling a potential shift toward lower interest rates, PE firms are strategically repositioning themselves to capitalize on the anticipated changes in the financial landscape. Reduced borrowing costs, improved cash flows for portfolio companies, and potentially higher valuations are the key drivers behind this shift. We have further assessed the impact of interest rate cuts on PE firms' strategies with respect to investment and their existing portfolio companies.

Recent Interest Rate Cuts' Impact on Investment Strategies



Strategies for Adapting to Recent Interest Rate Cuts



1.

The majority of the respondents are either encouraged to adopt more aggressive acquisition/buyout strategies, leveraging debt financing to enhance returns on equity, or channelize their investments into sectors that are likely to benefit from lower financing costs. **Sectors such as technology, real estate, and renewable energy may be particularly appealing**, as they typically require substantial capital and can thrive under favorable financing conditions.

2.

The dynamic interest rate environment also calls for strategic planning. Dealmakers must assess the long-term implications of lower interest rates, including their potential to drive up competition and valuations. **PE firms can maximize opportunities in 2025 by carefully balancing these factors.**

Investor Perspectives: Concerns About Inflation and Portfolio Strategy

For the past several years, PE firms have been operating in an environment of elevated inflation. Recent shifts show that although interest rates have decreased slightly, inflation remains stubbornly high, continuing to pressure margins and deal valuations.

44%

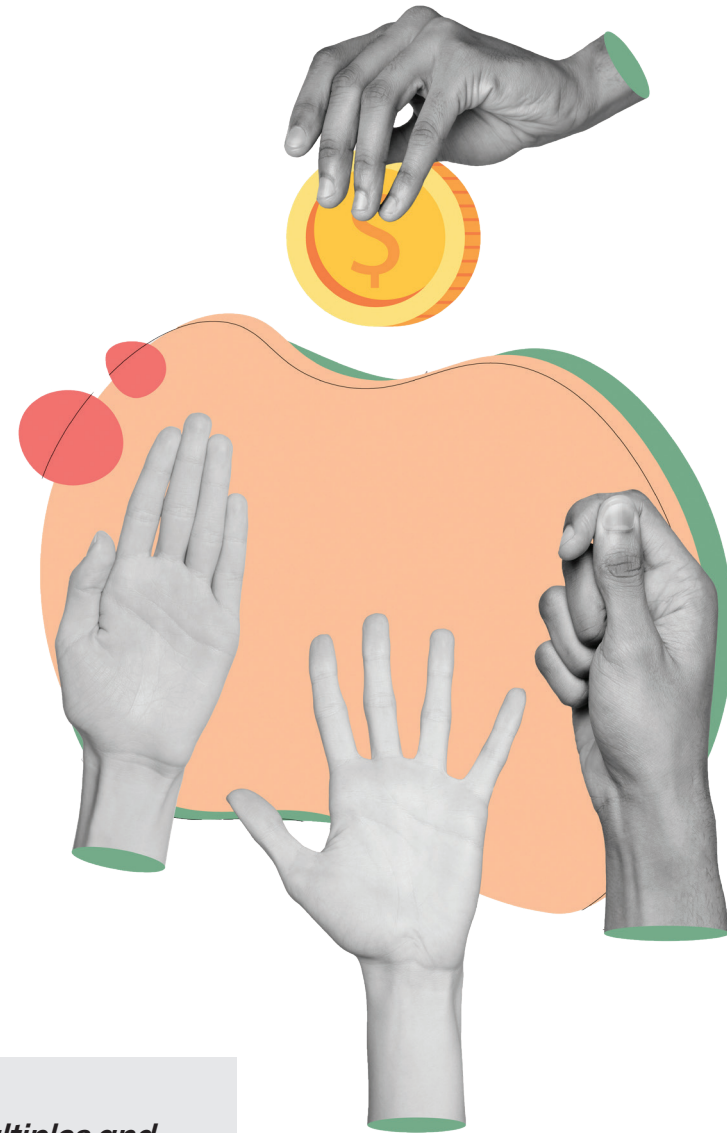
Reported Pressure
on Margins and
Profitability

38%

Reported Increased
Operational Costs for
Portfolio Companies

18%

Reported Decreased
Consumer Spending
Affecting Revenue



PE firms are also exploring strategic adjustments to their valuation multiples and exit strategies to better manage these inflationary challenges.

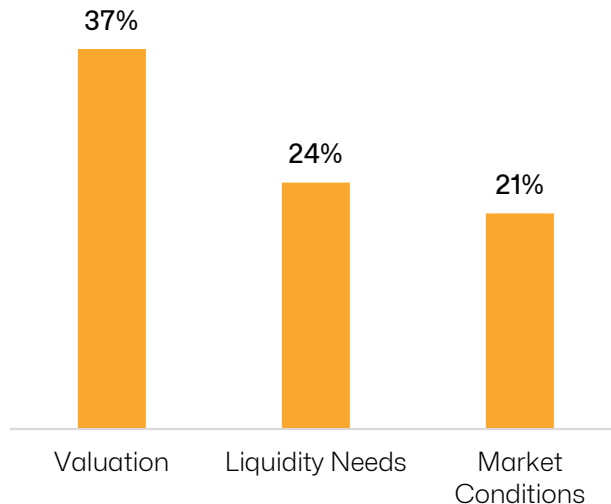
Alternative Exit Strategies for PE in Today's Market/PE's New Exit Playbook: Thriving in a Volatile Market



A successful exit strategy considers factors such as business maturity, market conditions, investor timelines, and return expectations. Timing is critical, as exiting too early or too late can impact returns. **Beyond financial gains, the choice of exit strategy affects the company's legacy, leadership, and future growth.**

In today's dynamic economic landscape, PE firms are more focused than ever on optimizing their exit strategies to deliver strong returns to investors. **Making a successful exit requires careful consideration of multiple factors and a keen understanding of market conditions.**

Weighing the Priorities: Key Factors Guiding Exit Strategy Selection



When selecting an exit strategy, PE firms prioritize a range of factors, with a strong emphasis on maximizing value and managing liquidity and risk.

Secondary buyouts have evidently become a more prominent exit strategy for PE firms to expedite the sale of portfolio companies and address liquidity challenges.

Most Favored Exit Strategies



The secondary market achieved record levels in 2024, with a 45% increase from 2023, reaching to a total value of

\$162 BILLION

making up around 15-25% of the overall PE market by deal volume.

Industry reports estimate that the secondary market could reach

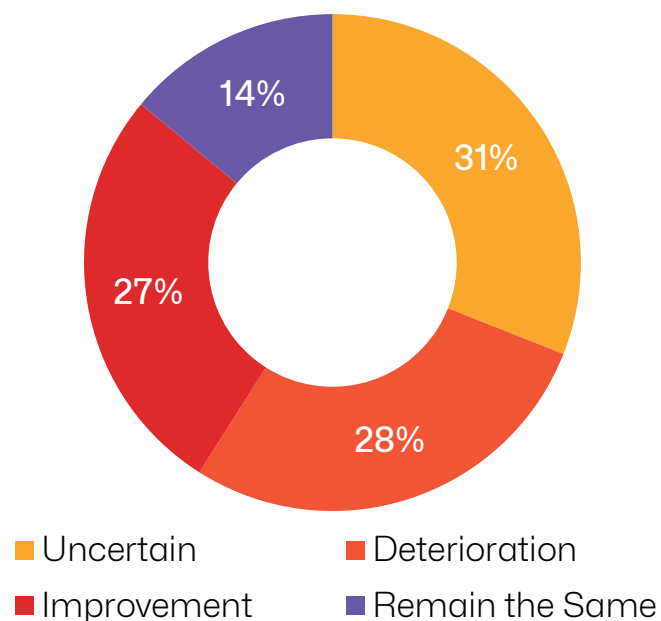
\$500 BILLION

in transaction volume over the next few years, underscoring the sector's potential for continued expansion.

The exit landscape is rarely crystal clear; however, the current environment presents a particularly cloudy picture.

Market Outlook: Anticipating Conditions for the Next 12–24 Months

Nearly a third of the respondents are simply unsure about which direction the market will take. This clearly highlights the increasing complexities in exit strategies and how important it is to have multiple tools.

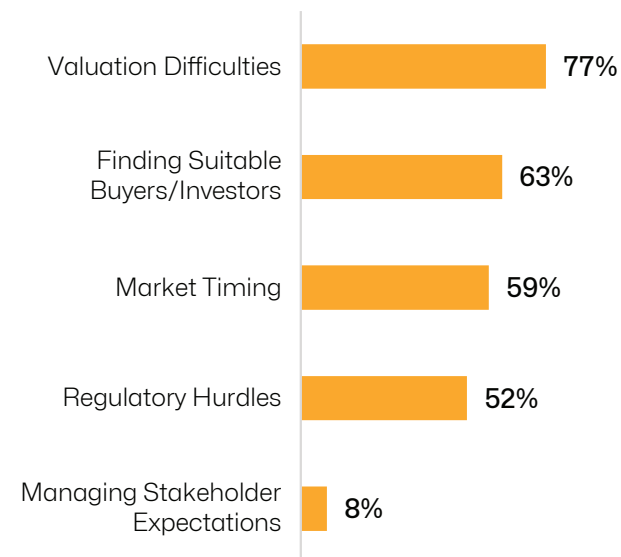


Reflecting a proactive approach to this uncertain environment, many PE firms are looking to become strategic and diversified to have higher optionality. While a wide range of options and strategies are carefully considered, their effectiveness depends on unique cases.

Our survey reflects that most PE investors are exploring one or more alternative exit strategies.

Continuation Funds (79%), Tender Offers (70%), and Preferred Equity Options (63%) are among the most considered strategies.

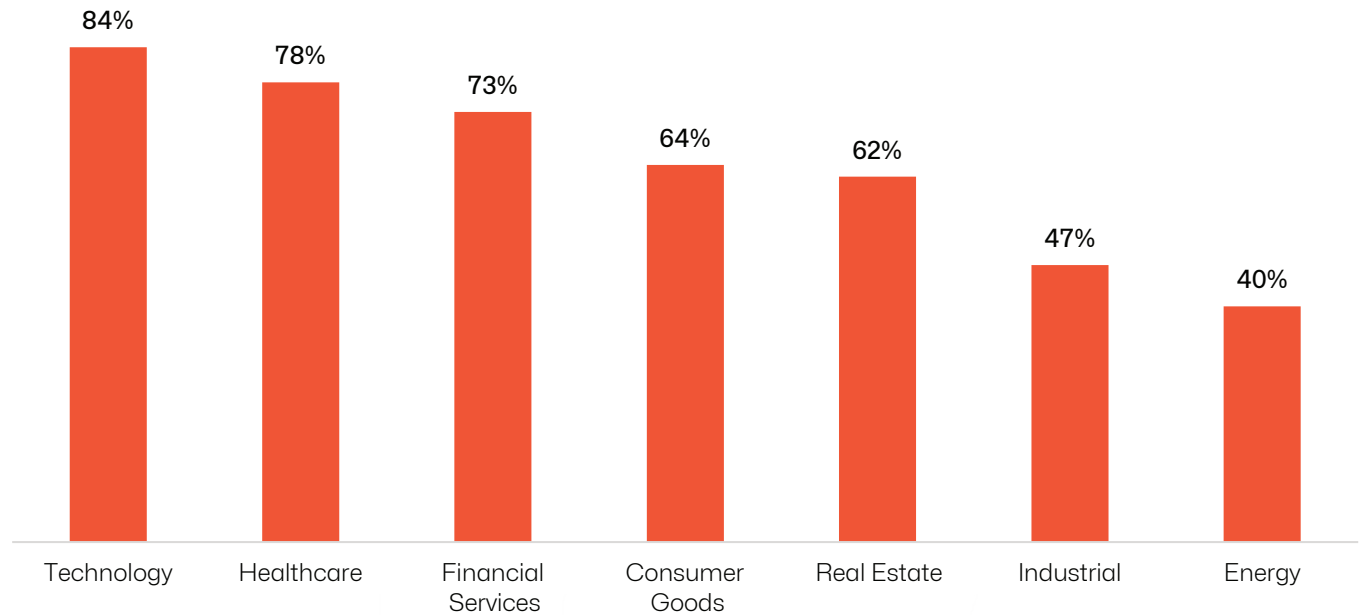
Understanding the Key Challenges in Alternative Exit Strategy Execution



While alternative exit strategies offer a valuable toolkit for navigating uncertainty, they are not without their challenges. PE firms must be prepared to address a range of potential hurdles to successfully execute these transactions. Successful execution requires careful planning and the ability to overcome obstacles such as regulatory hurdles, market conditions, and complex negotiations. Firms must be prepared to navigate these difficulties to fully capitalize on the benefits of alternative exits.

Despite these challenges, the need for innovative exit strategies is only likely to grow in the coming years. Most PE firms believe that certain sectors are poised to lead the way in developing new and creative exit approaches.

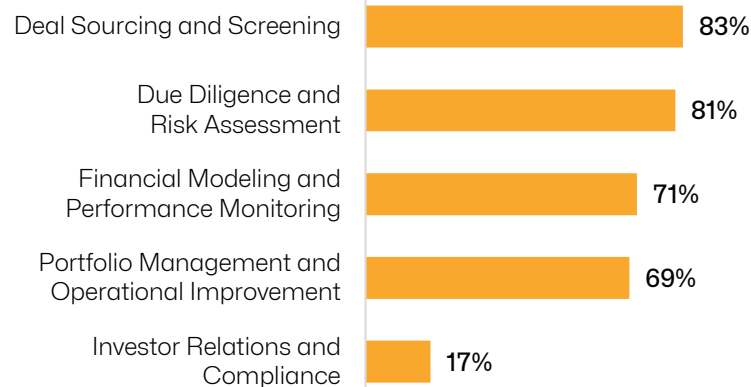
Innovation Ahead: The Future of Exit Strategies Across Industries



Implementations of AI/ML in PE Workflows

The adoption of AI in PE has surged in recent years. Early use cases were primarily limited to automating routine tasks such as data entry and financial spreading. Today, sophisticated AI algorithms are integral to sourcing deals, conducting due diligence, and optimizing portfolio management. **These tools leverage advancements in Machine Learning (ML), Natural Language Processing (NLP), and predictive analytics to uncover insights previously unobtainable.**

Unlocking Potential: Areas Where Gen AI & ML Tools Benefit PE Firms



AI/ML technologies are no longer a futuristic concept but have become a present-day reality, impacting various aspects of PE operations.

AI's transformative power is most prominently observed in the early stages of the investment process.

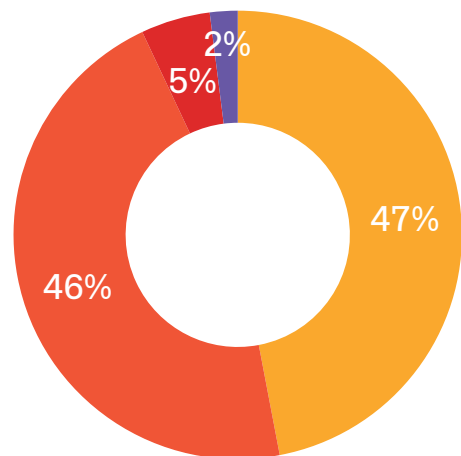
Evaluating the Accuracy Levels of AI/ML Tools in Firm Operations

How well these tools actually perform is an important question to consider.

>90% PE FIRMS

have reported that AI is not just a concept, as these tools have been proven

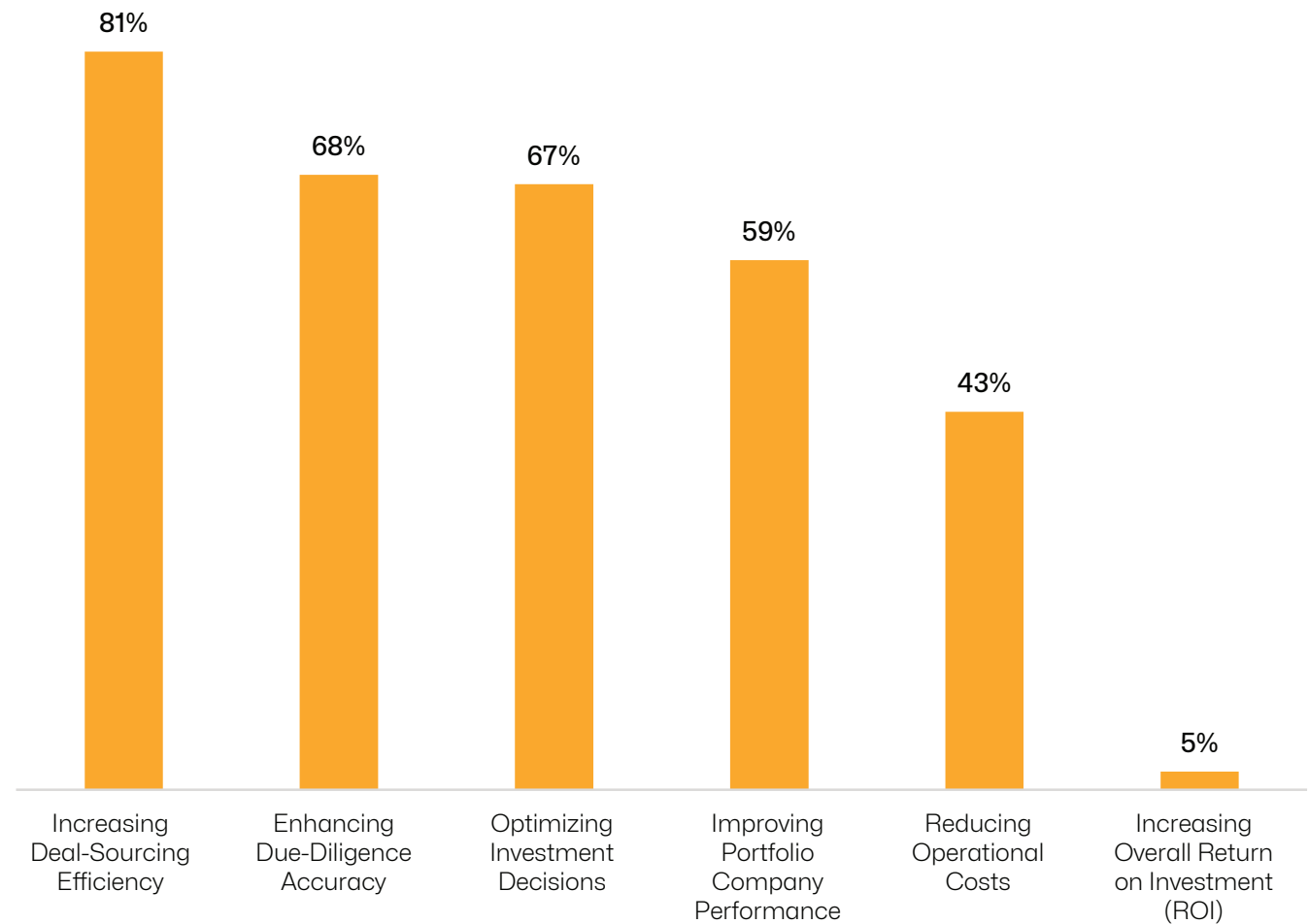
75% OR MORE effective



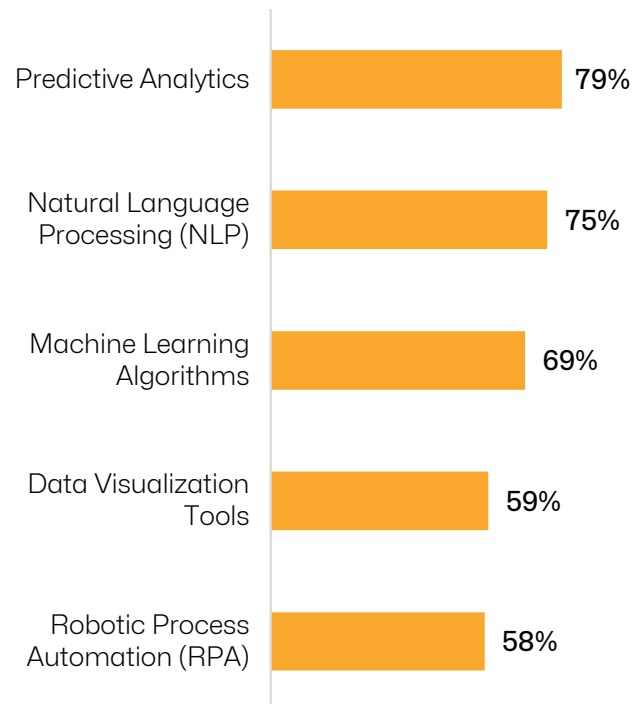
■ Over 90%
■ 75-90%
■ 51-74%
■ Below 50%

With AI proving both efficient and reliable, the focus shifts to its broader market influence. How is AI reshaping investment strategies and outcomes

Impacts of AI in the Investment Lifecycle



Current and Future AI/ML Technologies in the PE Landscape

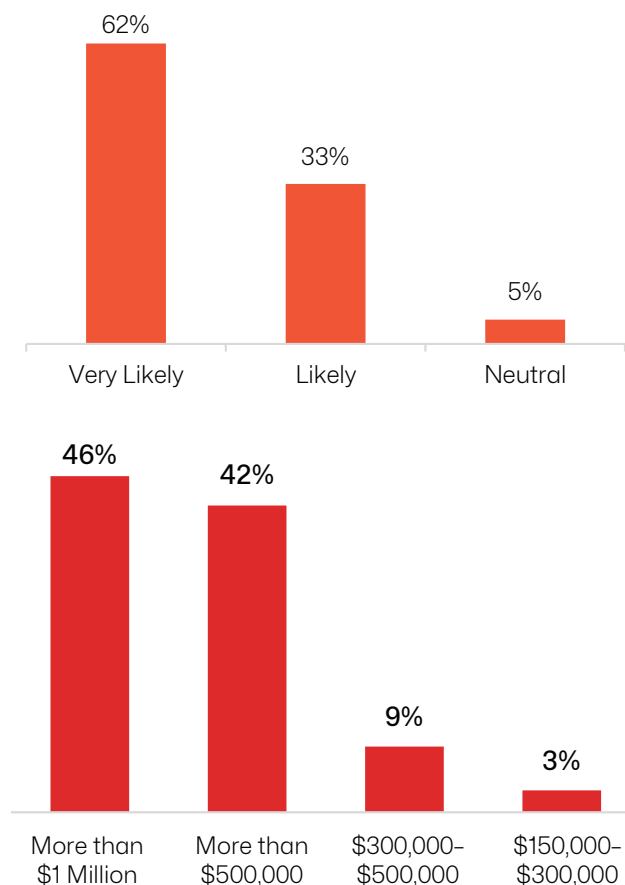


To understand AI's full potential, it's essential to examine the specific types of AI/ML technologies being deployed across PE firms.

These technologies range from predictive analytics and natural language processing to advanced automation tools.

To truly capitalize on AI's transformative potential, PE firms are also willing to invest significant capital in these technologies.

Assessing Investment Trends in AI/ML Technologies: Immediate and Long-Term Strategies



95%

of PE firms will increase investments in the next 12–18 months.

46%

of PE firms are willing to invest over \$1 million.

About the Author(s)

This report has been prepared by the highly experienced Private Equity and Private Debt team at SG Analytics. The report combines the collective intelligence and industry expertise of our leaders along with real-time insights from GPs and LPs we closely work with. The findings and insights presented in this report are based on our deep engagement with industry stakeholders and the clean, normalized, data we have collected through focused surveys. This report aims to provide a perspective on emerging trends with respect to target screening, tech-driven investment decisions, key considerations & risks, and factors driving exit decisions in the private equity and private debt markets.

For more information, please contact SG Analytics at supriya.dixit@sganalytics.com

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