

An aerial photograph of a winding asphalt road through a dense green forest. A small red car is visible on the road, positioned in the lower right quadrant. The road curves from the top right towards the bottom left, then loops back towards the top right.

Thirdpath

The State of Private Equity:

Concentration Driving a Narrow Recovery



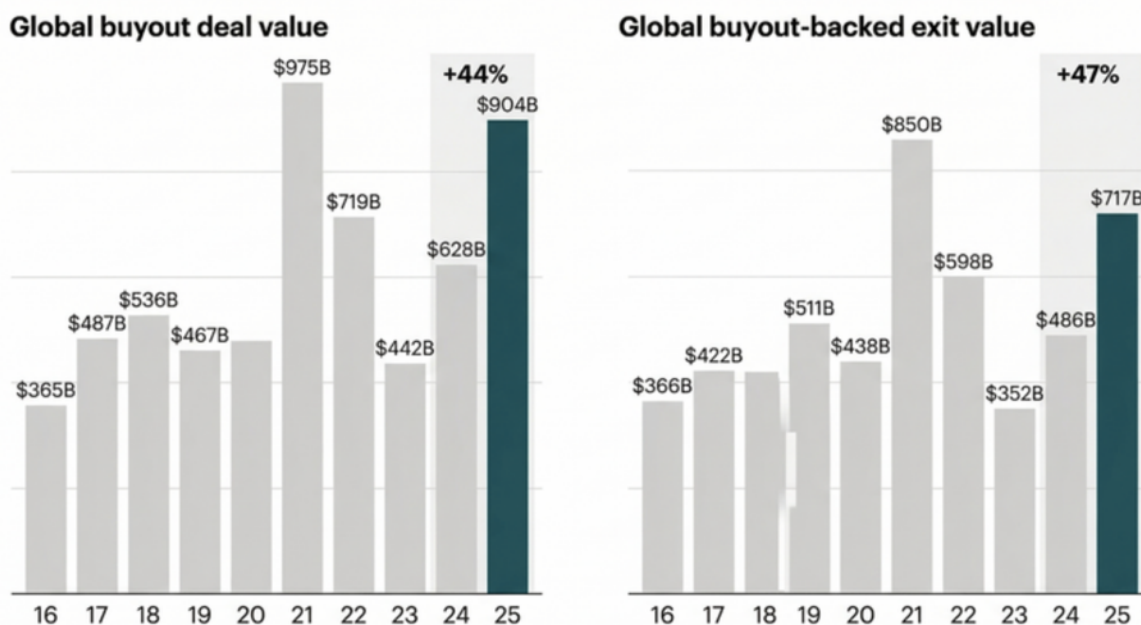
Key Takeaways

- 1 Activity has rebounded, but remains concentrated**
Deal and exit activity recovered meaningfully in 2025, though growth was driven disproportionately by North America and a narrow set of large transactions.
- 2 Liquidity remains the core constraint**
Despite improved exit volumes, distributions remain historically low and holding periods continue to extend, limiting capital recycling.
- 3 Capital is abundant, but increasingly concentrated**
Elevated dry powder and fundraising concentration among top managers are creating a more competitive environment.
- 4 Value creation is shifting toward operations**
Returns are increasingly dependent on operational improvement rather than leverage or multiple expansion.

Deal Environment: Recovery in Deal Making

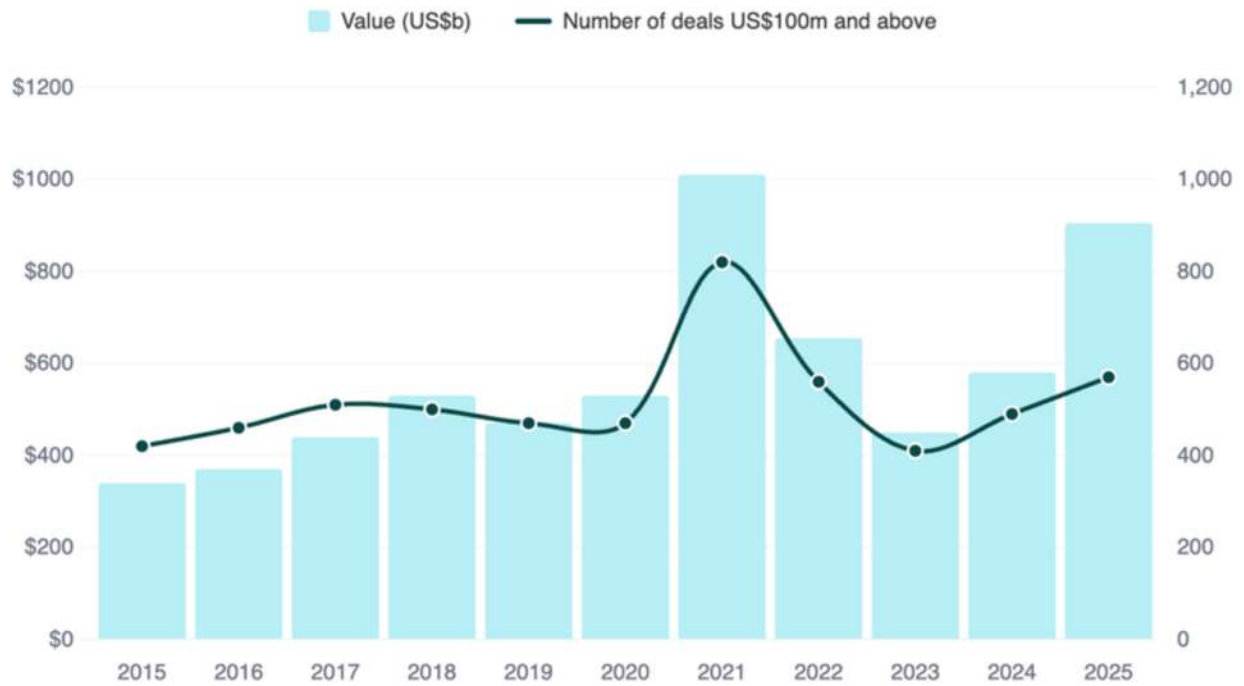
Private equity concluded 2025 with a decisive rebound after three years of subdued activity, posting its second-strongest year on record for both deal value and exits. Global buyout deal value reached \$904 billion, up 44% YoY, while exit value climbed to \$717 billion, +47% YoY (Figure 1).

Figure 1



We believe the recovery was powered by interest-rate easing, with Fed funds cuts lowering middle-market term loan costs by approximately three percentage points from peak levels, a corporate M&A boom, and a narrow wave of megadeals. Notably, 13 large transactions (\$10+ billion) accounted for a significant portion of total deal value growth (**Figure 2**).

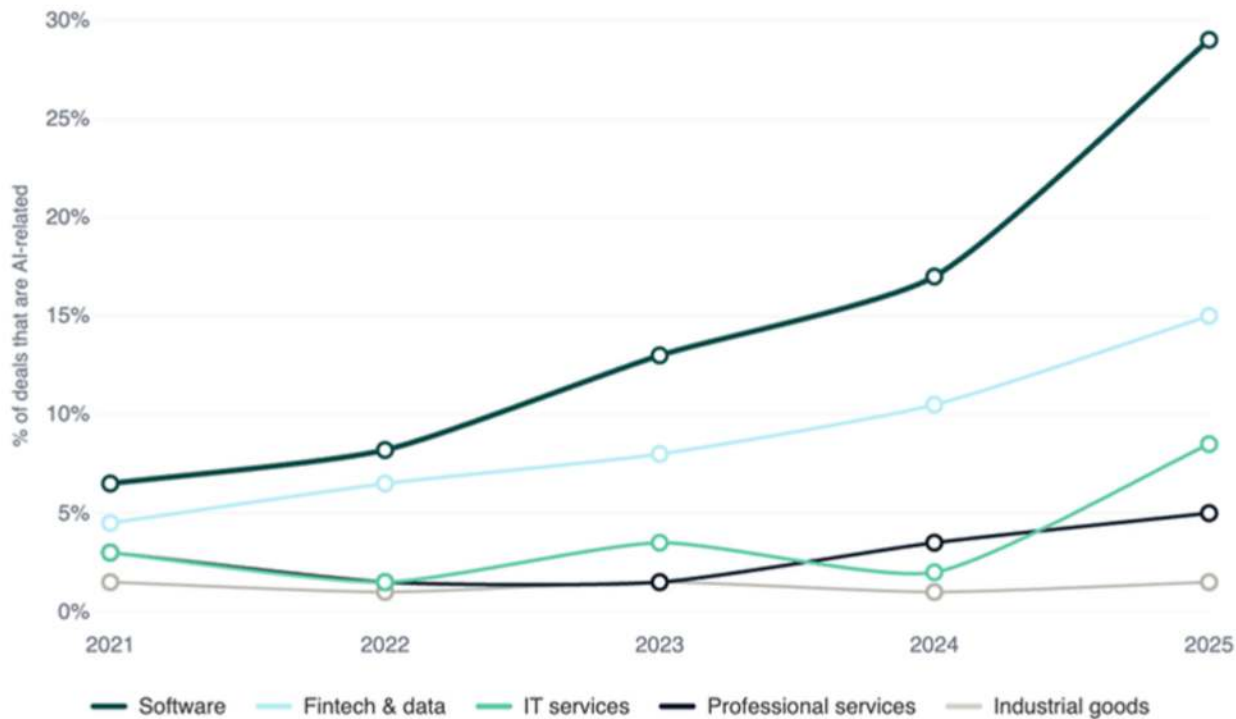
Figure 2



This momentum was distinctly K-shaped and regionally concentrated. North America drove 80% of global deal value growth, with the U.S. alone seeing PE-related activity totaling \$536 billion (+54%) across 1,484 transactions. Within that, medtech reached a decade-high of \$92.8 billion in deal value, while AI-linked transactions represented over 20% of U.S. megadeals and nearly one in three software deals (29%) (Figure 3).

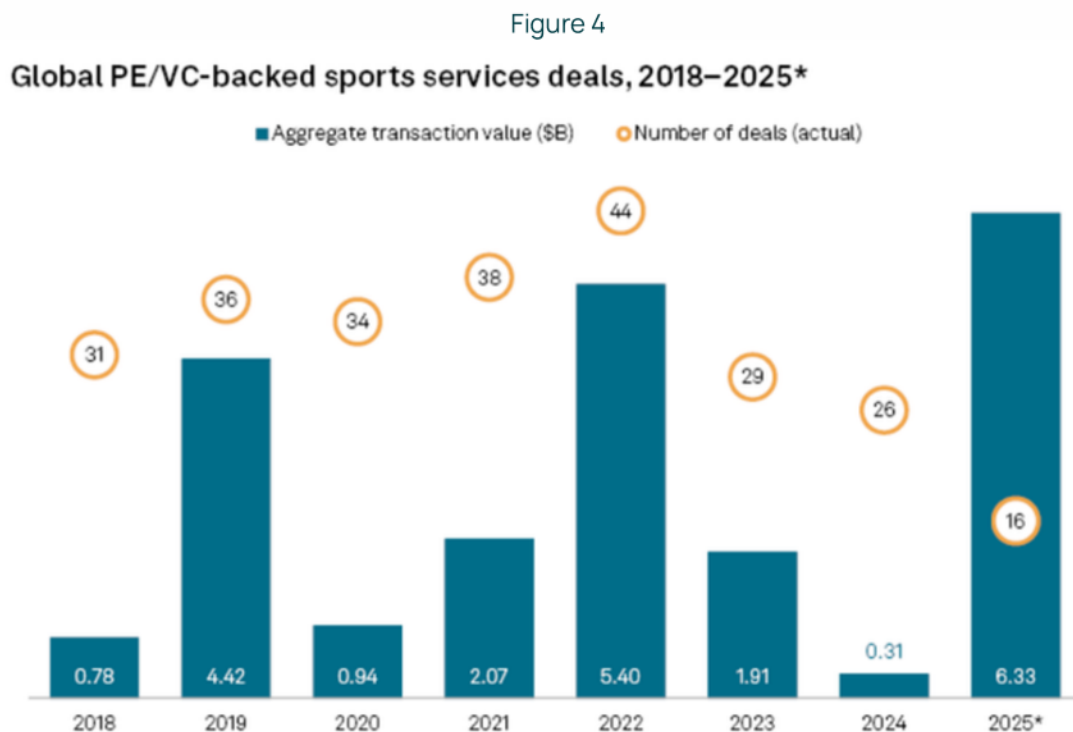
Figure 3

AI's growing share of volumes: by sub-industry



Source: With Intelligence/S&P

From a sector perspective, strong deal volumes were seen in both technology and consumer, supported by asset-light business models, recurring revenues, and relative resilience to macro pressures. We also saw a notable trend within private equity: sports emerged as a new segment, with transaction value reaching an eight-year high. (Figure 4).



Public-to-private activity surged 43% globally and 72% in North America, reflecting discounted public market valuations relative to private markets. Large transactions such as Electronic Arts and Walgreens Boots Alliance further exemplify this trend. More broadly, this could signal a shift in capital markets, with private equity playing a larger role in take-private activity and companies remaining private for longer.

Industry Dynamics: Substantial Dry Powder & Rising Valuation

Industry dynamics continue to be defined by elevated levels of dry powder and rising entry valuations.

- Over 50% of global dry powder is over two years old, increasing deployment pressure
- U.S. dry powder exceeds \$1 trillion
- The “Big Six” managers hold approximately \$211 billion of that capital

In 2025, median purchase multiples climbed to 11.8x EV/EBITDA, up from 11.3x, signaling a more expensive entry environment where managers need to drive value through operations rather than leverage or multiple expansion .

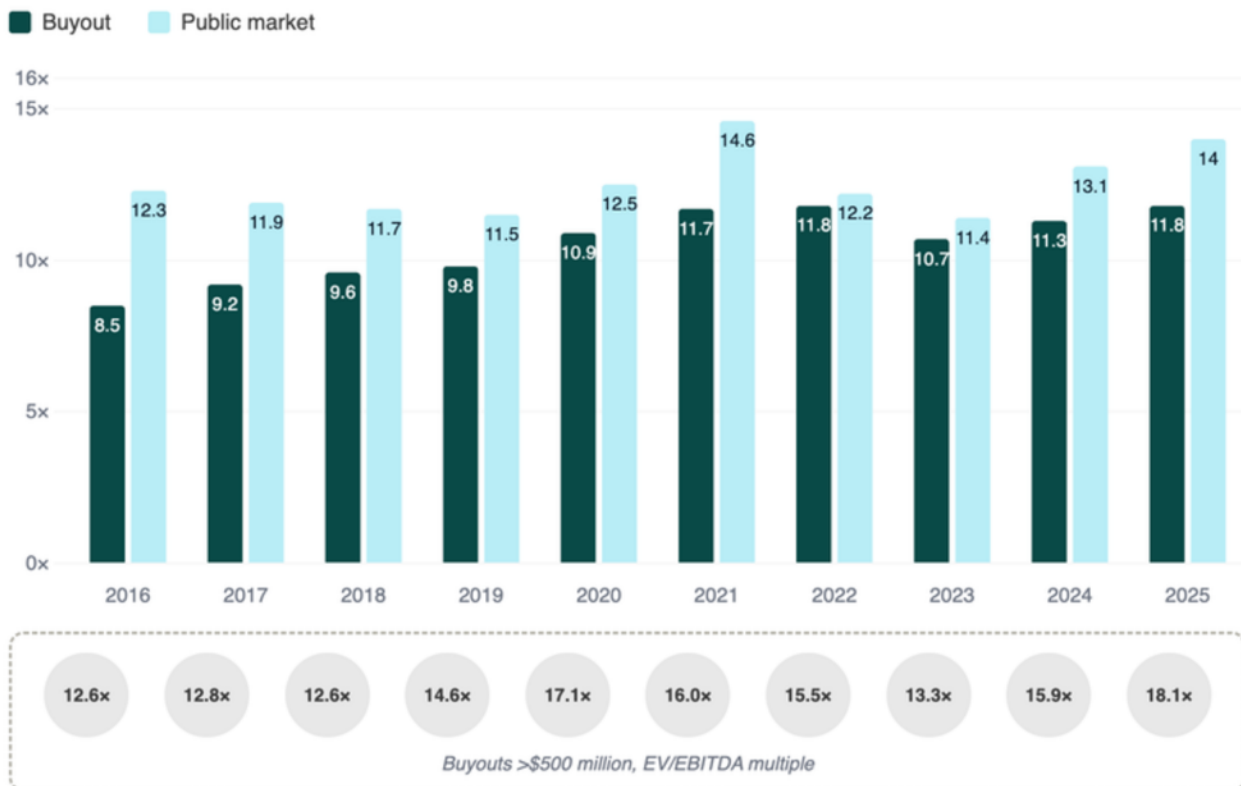
This increasingly shifts value creation toward:

- Operational improvement
- EBITDA growth
- Manager execution (**Figure 5**)

Figure 5

Buyout valuation multiples reached a record high.

Buyout and public-market valuation multiples, 2016–25,
EV/EBITDA multiple



Source: McKinsey

Exit Activity: Total Exits Increased, but Distribution Still Limited

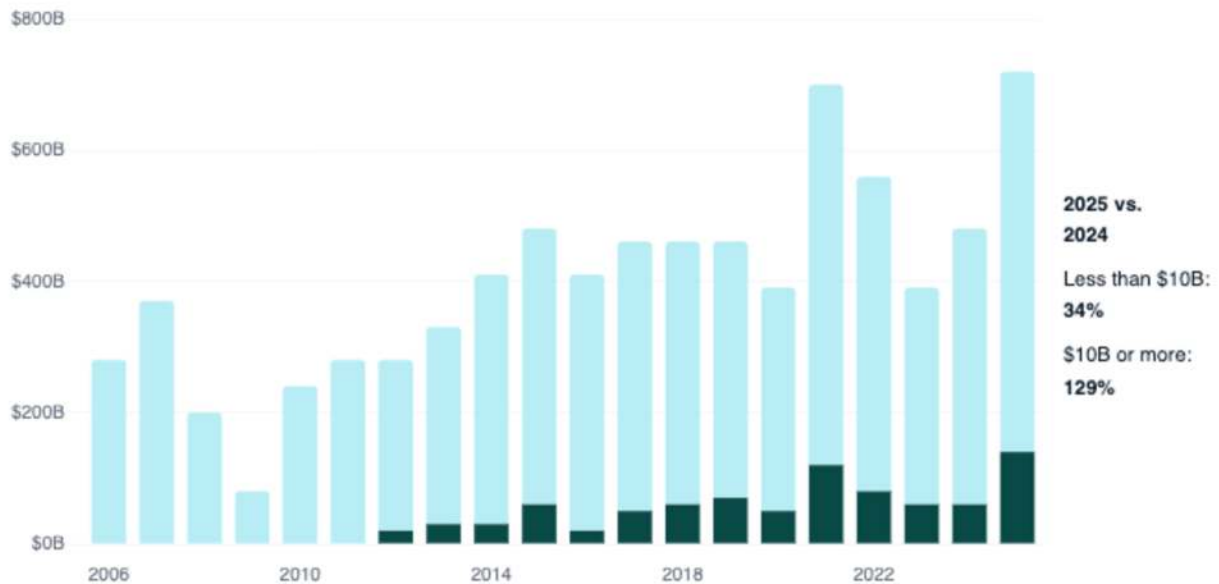
Exits mirrored the rebound in deal volume, with global exit value reaching \$717 billion (+47%) and U.S. exits totaling \$358 billion. Trade sales remained the primary exit channel at \$481 billion, followed by secondaries at \$217 billion, a notable increase from prior years (**Figure 6**).

Figure 6

Global buyout-backed exit value, by size

\$800B

Deals of \$10B or more Less than \$10B

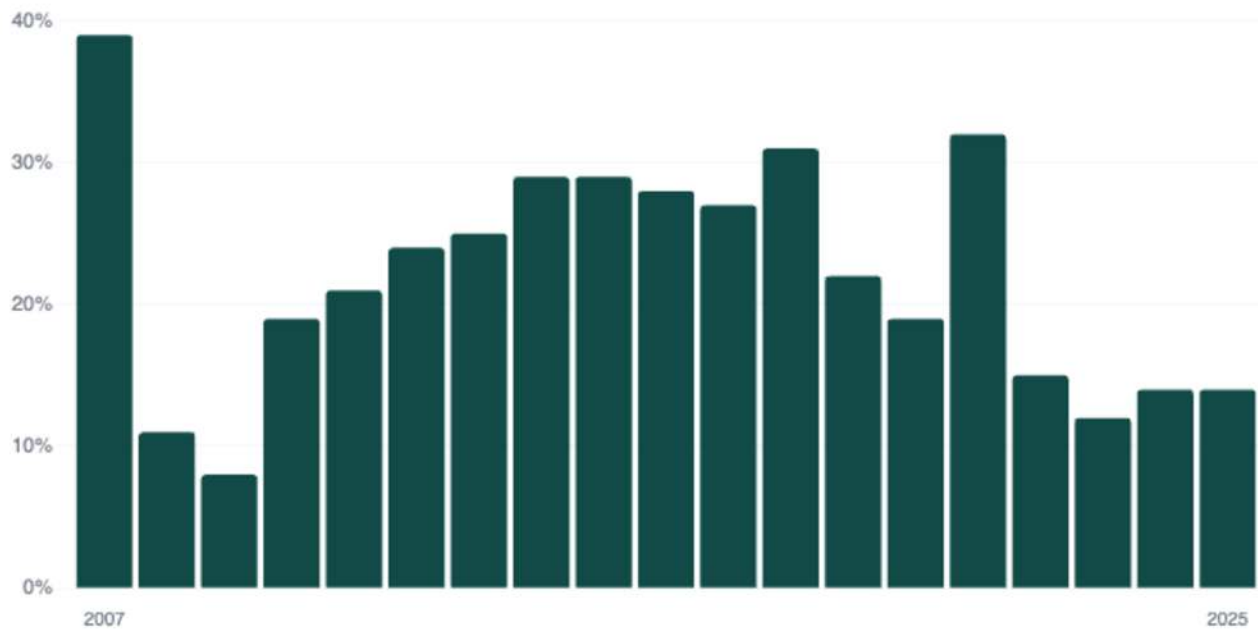


Yet liquidity remains constrained:

- Distributions have remained below 15% of NAV for the fourth consecutive year
- Over 50% of global buyout inventory has been held for 4+ years
- Continuation vehicles and NAV lending have helped support DPI, but do not fully offset the slowdown in exits (**Figure 7**)

Figure 7

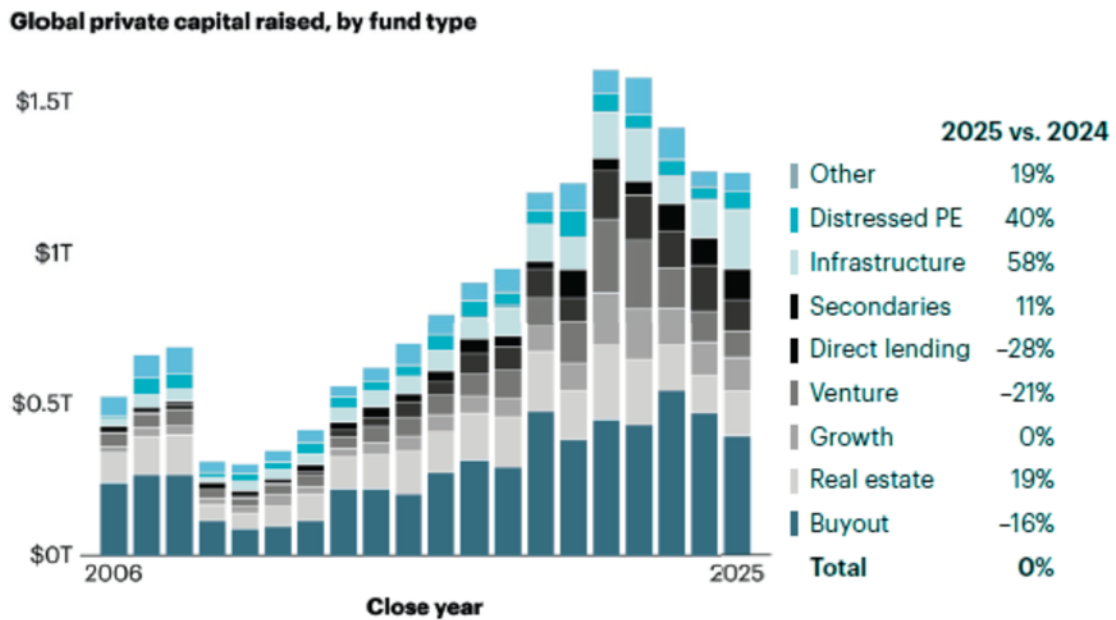
Global buyout distributions as a percentage of net asset value



Fundraising: Flat at \$1.3tn, with Growth in Infrastructure and Secondaries

Fundraising leveled off at approximately \$1.3 trillion for private capital overall, remaining flat YoY. Growth in infrastructure (+58%) and secondaries (+11%) offset a decline in buyout fundraising (-16% to \$395 billion). On a regional basis, North America fundraising rose 8% to \$432 billion, while Europe declined 41% to \$118 billion (**Figure 8**).

Figure 8

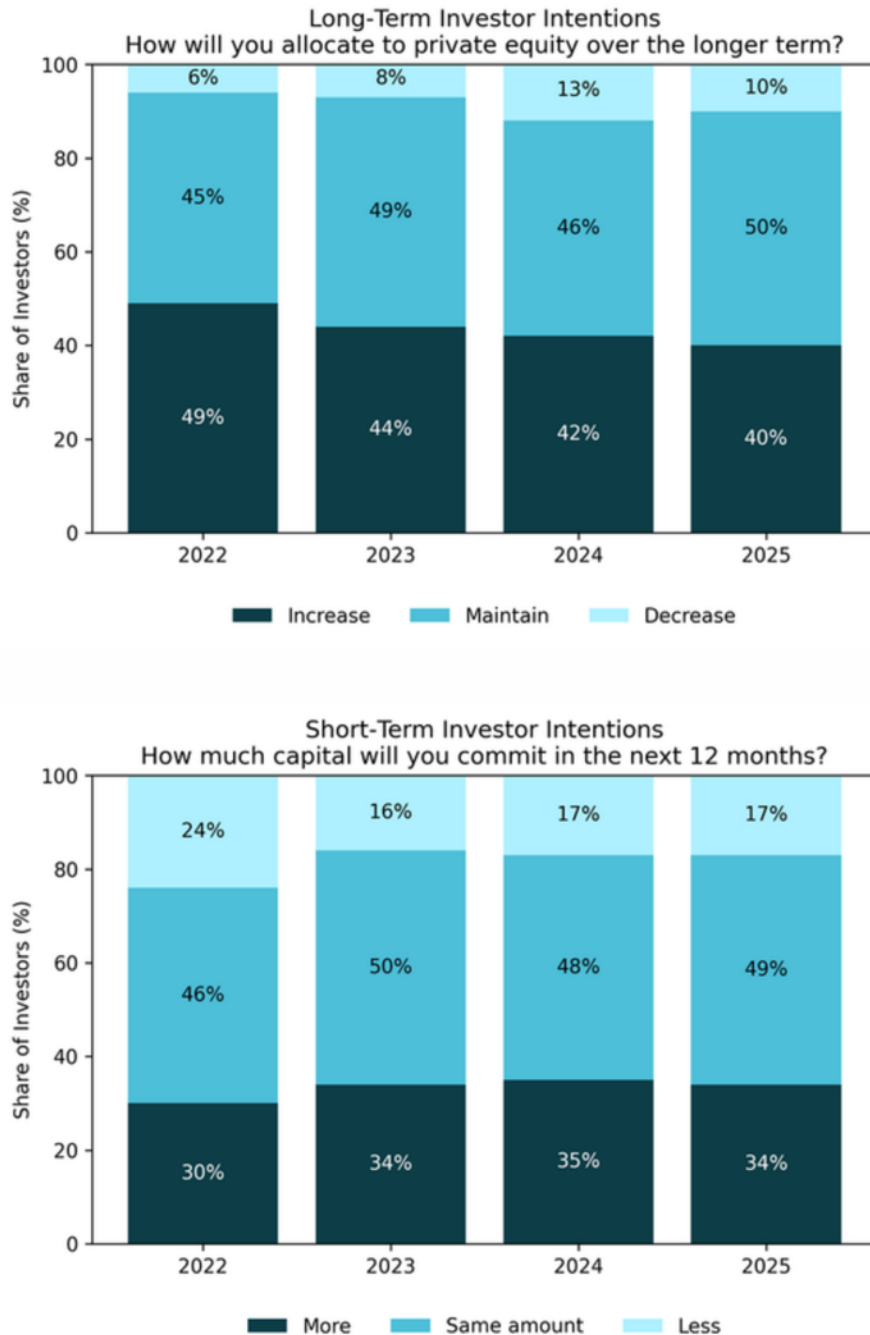


Source: Prequin

Similar to hedge funds, private equity commitments remain highly concentrated, with approximately 46% of total capital raised going to the top 10 managers. Fundraising overall remains below 2022–2023 peaks and continues to be challenging for first-time funds and mid-sized managers without strong track records, likely contributing to further industry consolidation.

LPs, however, remain committed, with most intending to maintain or increase allocations to private equity (Figure 9).

Figure 9



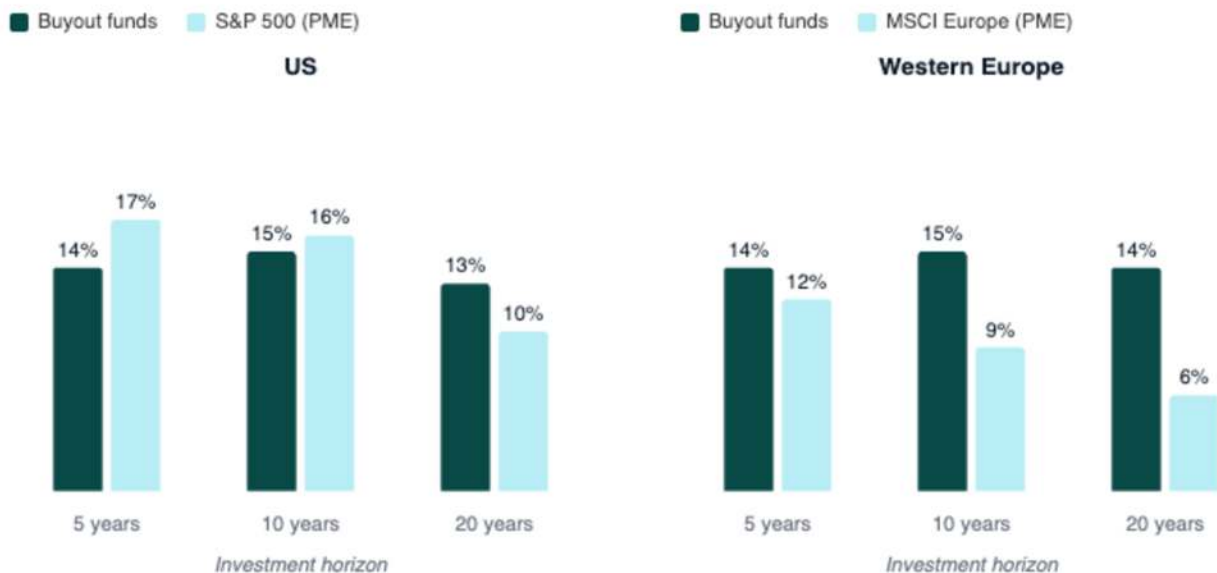
Source: Preqin Investor Outlook Survey 2022-25

Returns: Divergence of Performance

Performance continues to tell a more nuanced story. Strong public market returns have narrowed the historical 10-year outperformance of private equity relative to the S&P, though top-quartile funds still deliver 20%+ IRRs (Figure 10).

Figure 10

End-to-end pooled net IRR, as of Q3 2025



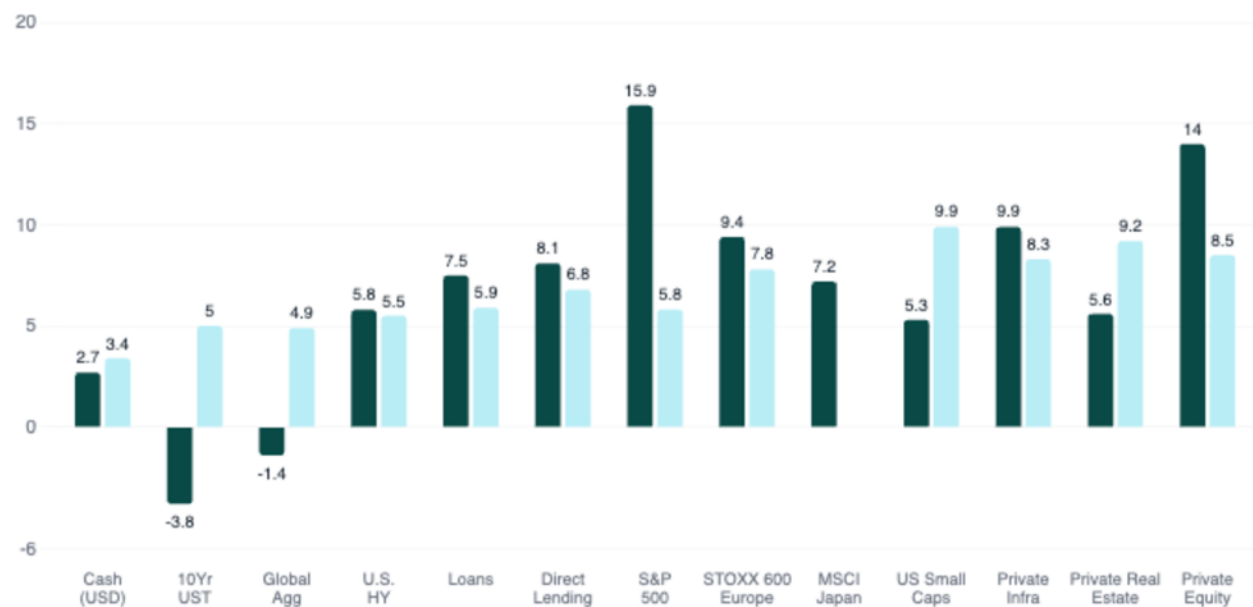
Historically, multiple expansion and cheap debt accounted for a significant portion of returns. Without those tailwinds, managers must increasingly rely on EBITDA growth and operational improvement to drive performance.

Forward-looking estimates suggest median private equity returns of approximately 14% net of fees, supported by dispersion, control positions, and operational value creation. (Figure 11).

Figure 11

KKR GMAA Expected Returns, %

■ Last 5 Years ■ Next Five Years

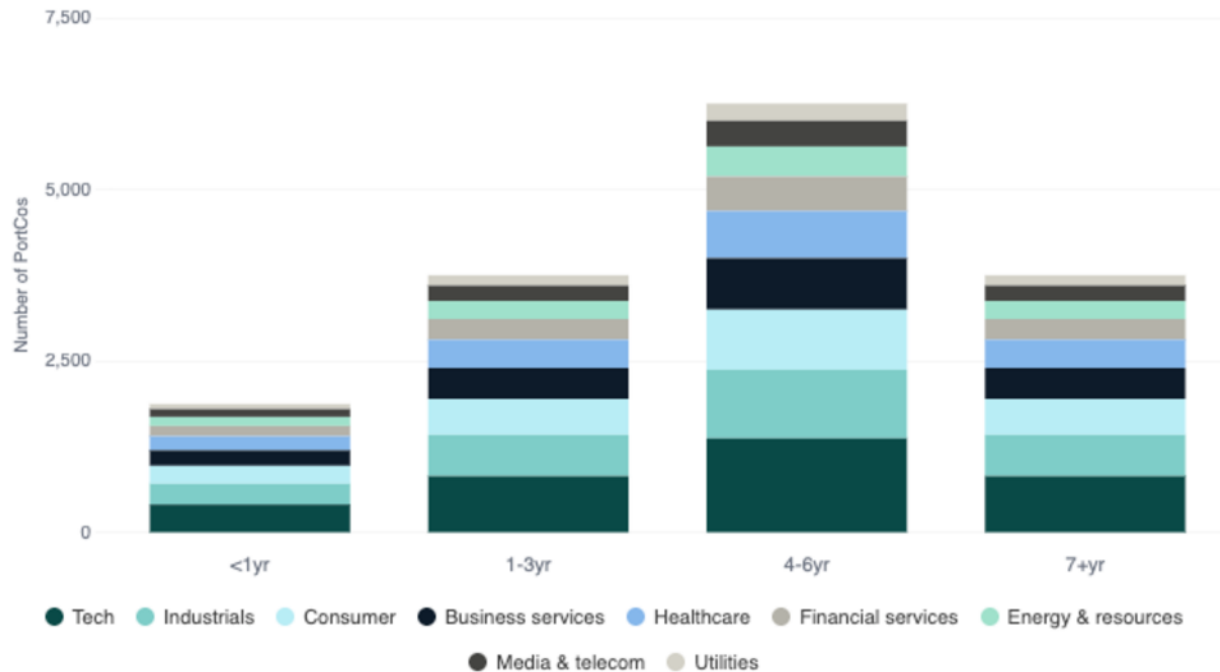


Summary & Outlook

Overall, 2025 private equity activity showed strong headline momentum, supported by increased deal and exit activity. However, this was offset by extended holding periods, concentration in megadeals and top managers, and continued liquidity constraints (**Figure 12**).

Figure 12

Active PortCos by holding period and industry group



As private equity portfolios become more mature, sellers will have to generate liquidity through exits albeit likely at lower than expected exit multiple/valuations. With potentially lower exit valuations, we are optimistic that 2025 vintages will outperform 2021–2024 in gross IRR, thanks to potentially favorable entry pricing (as buyers) and declining rates.

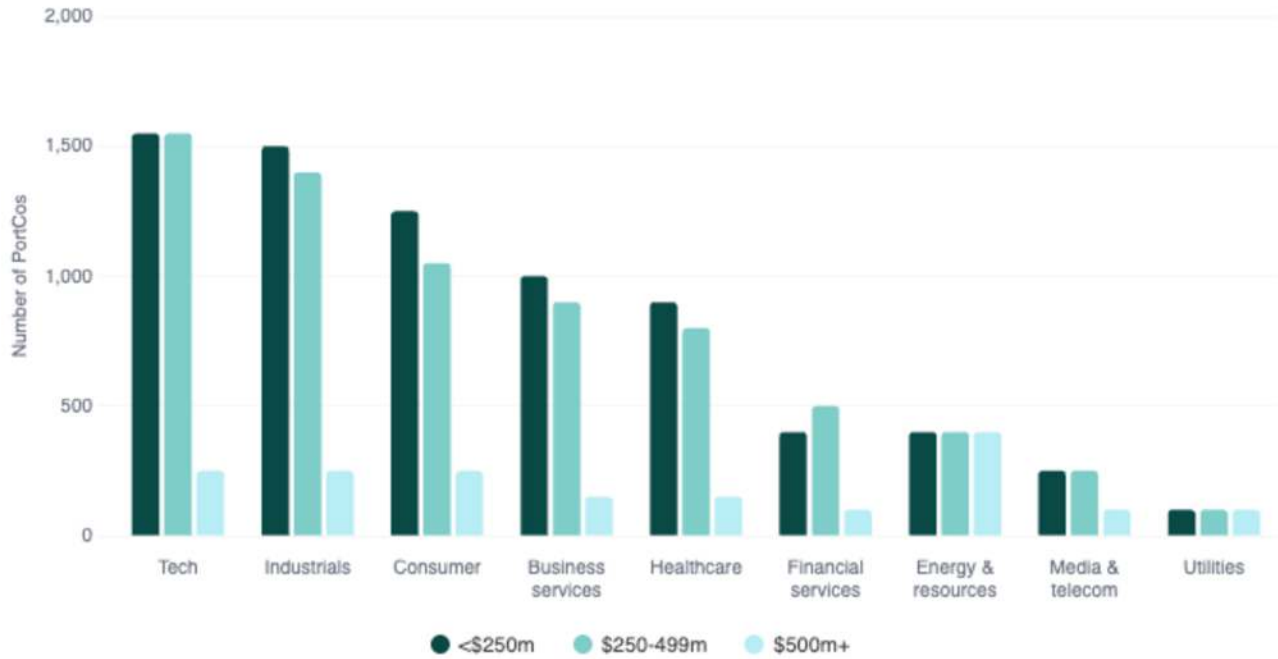
We believe 2026 may be “the beginning of a more durable recovery,” as GPs entered the year with optimism, which may have been tempered by exit backlog, AI fears, and geopolitical uncertainty. On the positive side, lower rates and booming corporate M&A, as evidenced by the recent Netflix/Paramount bidding war for Warner, should facilitate deal making and exits.

Overall, we believe private equity managers with differentiated and patient investment strategies, experience and knowledge across macroeconomic cycles, and the ability to drive operational improvement would have an edge in this maturing industry

Appendix

Figure 13

Active PortCos by entry EV and sector



Thirdpath

We provide investors with access to differentiated private markets opportunities across primaries, secondaries, direct investments, co-investments, independent sponsors, and GP seeding & stakes, underpinned by alignment, disciplined execution, and data-driven insight.

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Sources

1. Bain & Company / Dealogic
2. Dealogic
3. PwC
4. With Intelligence / S&P Global
5. EY (Private Equity Pulse Survey)
6. PitchBook
7. S&P Global
8. McKinsey & Company
9. Bain & Company / MSCI
10. Preqin
11. Preqin Investor Outlook Survey (2022–2025)
12. MSCI
13. Apollo
14. KKR

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