



THE EXIT QUESTION: HOW INDEPENDENT SPONSORS SHOULD THINK ABOUT LIQUIDITY FROM DAY ONE

EXIT PLANNING, HOLD DISCIPLINE,
AND MULTIPLE PATHS TO
REALIZATION

EXECUTIVE SUMMARY

The exit market is improving, but liquidity has not fully normalized across the market. McKinsey reports that private equity exit value rose 41% in 2025, but that rebound was driven in large part by fewer, larger deals rather than a full return to broad-based liquidity. McKinsey also says liquidity pressures are reshaping the industry, with DPI as a share of total PE AUM at 6% for the 12-month period ended June 2025 versus a 16% average across 2015 to 2019.

That gap between better headlines and slower liquidity matters a great deal for Independent Sponsors. PwC says there remains a backlog of long-hold portfolio companies and that the rebound in exits will be uneven as buyers, lenders, and LPs continue to recalibrate expectations. It also notes that continuation vehicles, secondaries, and similar mechanisms will likely remain a pressure relief valve.

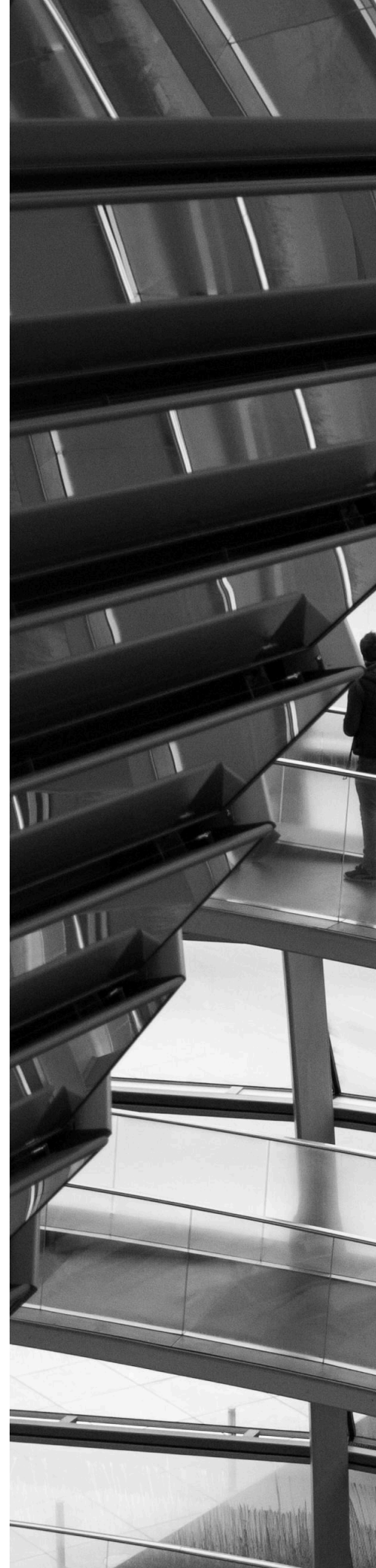
For Independent Sponsors, the implication is simple. Exit planning can no longer be treated as something that begins late in the hold. Liquidity assumptions now shape underwriting, value creation, capital partner discussions, and even which deals are worth pursuing in the first place. McKinsey's March 2026 article on exits explicitly says leading firms start thinking about exits at the time of acquisition.



A BETTER EXIT MARKET DOES NOT MEAN AN EASY ONE

There is real improvement in the market. Bain says deal and exit value surged in 2025, and McKinsey describes 2025 as a sunnier year after several challenging ones. But Bain is clear that the recovery was narrow and that persistent liquidity issues continue to weigh on the industry.

That is the right lens for Independent Sponsors. The question is not whether exits are happening again. They are. The question is whether every good company will have a clean, timely, high-multiple exit when the sponsor wants one. Current evidence says no. Exit planning therefore has to be built around multiple plausible outcomes, not one idealized one. That is an inference supported by Bain, McKinsey, and PwC's description of the current liquidity environment.






EXIT THINKING NOW STARTS AT ACQUISITION

McKinsey is explicit on this point. It says leading firms start thinking about exits at the time of acquisition, linking the investment thesis and target holding period to the planned exit strategy and developing value creation and exit in parallel rather than as separate workstreams. It also says many firms now monitor exit readiness continuously and revisit the plan every six to twelve months.

For Independent Sponsors, that means underwriting should include a real answer to a basic question: who is the next logical buyer, under what conditions, and what would need to be true operationally for that buyer to pay up? In the past, sponsors could rely more heavily on multiple expansion or a friendlier market window. Today, McKinsey says operational value creation is continuous and active across the life cycle, and PwC says the ability to truly create value is increasingly critical.

LONGER HOLDS CHANGE THE UNDERWRITING MATH



When liquidity slows, everything changes. McKinsey says the market now requires managers equipped for longer holds and uneven exits, and Bain says persistent liquidity issues are still affecting fundraising and industry momentum. PwC also points directly to a backlog of long-hold portfolio companies.

For Independent Sponsors, a longer-hold reality means the base case has to work without a quick exit. Cash generation, margin resilience, management depth, and realistic debt service matter more because assets may need to carry value for longer than originally planned. It also means the operating plan cannot be back-loaded. If liquidity takes time, value creation has to begin early. That is a market-based inference supported by the longer-hold and liquidity commentary above.

LIQUIDITY PATHS ARE BROADER, BUT NOT ALL ARE EQUAL



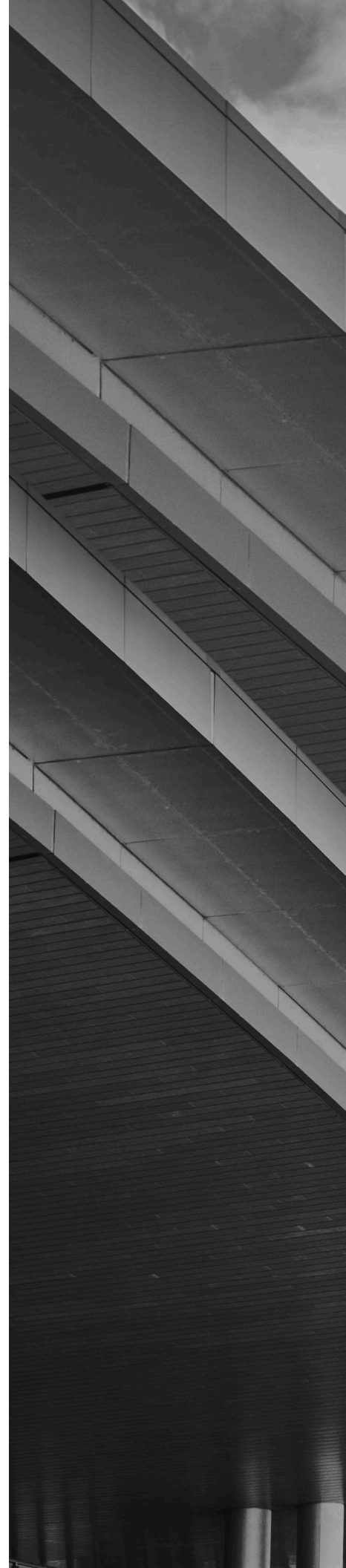
PwC says continuation vehicles, secondaries, and similar mechanisms are likely to remain part of the toolkit as the market works through its backlog. McKinsey's exit article says continuation funds have become a go-to option for some sponsors seeking liquidity without selling to a new owner, but it also warns that these transactions carry valuation scrutiny, alignment issues, and the need for a clear value-creation plan.

For Independent Sponsors, this means two things. First, exit optionality should be considered a design feature, not an emergency response. Second, the best defense against a delayed sale is still building a business that multiple buyer types can understand and underwrite. McKinsey says leading sponsors increasingly plan for multiple exit paths rather than relying on a single buyer universe.

GROWTH, PROFITABILITY, AND BUYER READINESS MATTER MORE THAN EVER

McKinsey says growth and profitability remain the strongest determinants of exit success. In its March 2026 exit article, it notes that across Europe over the past six years, assets growing at more than 25% CAGR sold at roughly a 50% premium relative to assets growing at less than 5%, and that higher EBITDA margins also correlate with stronger valuations.

For Independent Sponsors, that is a very practical reminder. Exit planning is not just about timing. It is about building a business that is easier to buy. That means improving the earnings profile, clarifying the equity story, reducing diligence friction, and making the next owner's underwriting easier, not harder. That conclusion follows directly from McKinsey's framing of exit success drivers.



WHAT ACTUALLY MATTERS NOW

01

Start exit planning at acquisition, not in year four. The likely buyer universe should shape the original underwriting.

02

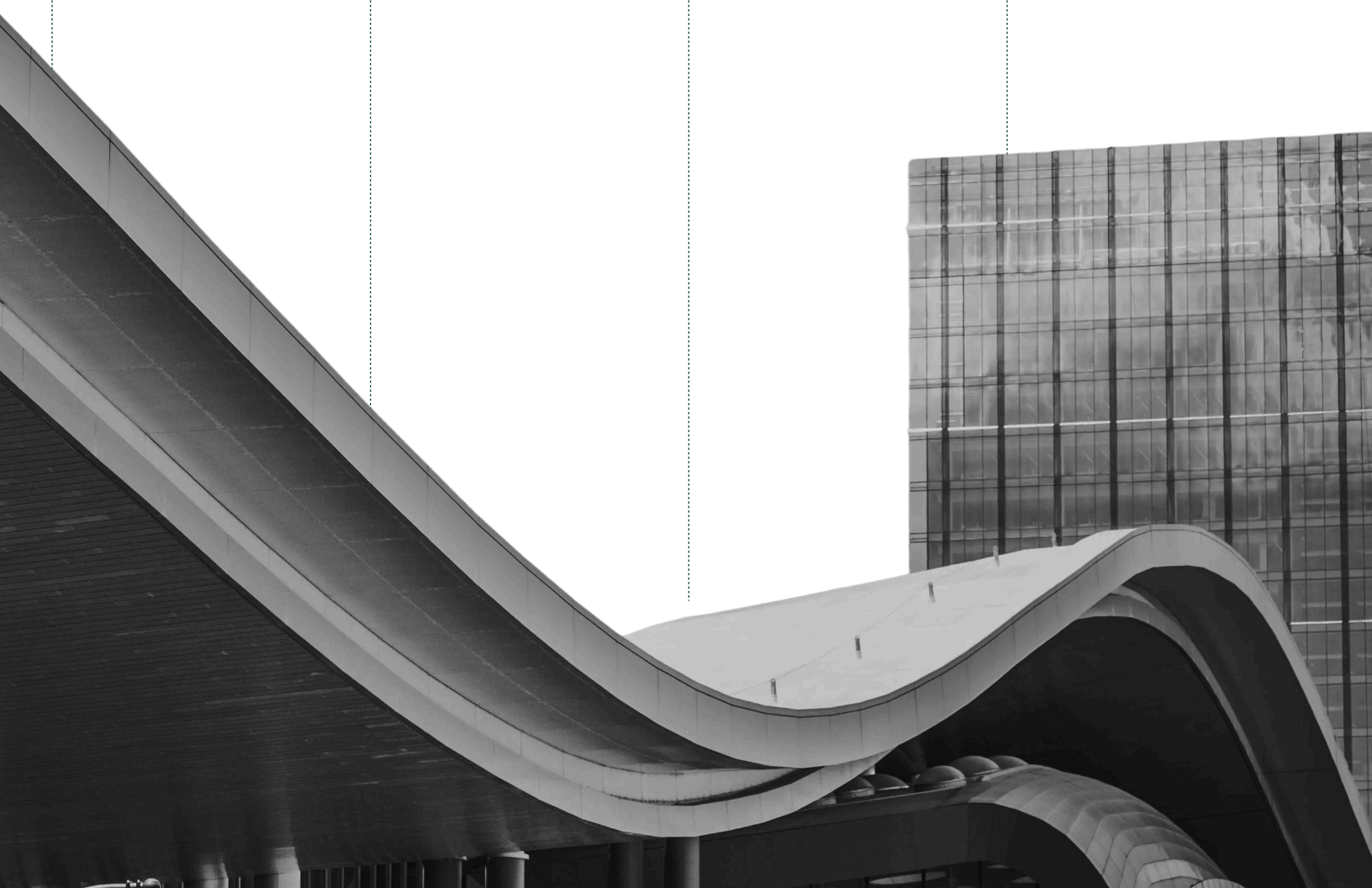
Underwrite to a longer-hold base case. Liquidity is improving, but it is still uneven, and backlog remains real.

03

Build value creation early enough to support multiple exit paths. Optionality matters more when market windows reopen unevenly.

04

Prioritize realistic liquidity routes over idealized ones. A credible alternative is now part of disciplined underwriting.



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