TORYS LLP

PE Pulse 2025

What's next for private equity? Read our annual industry outlook.

Contents

Thank you to our contributors

We would like to thank all those who shared their time and insight to create this report. From November to December, we interviewed 25 private market leaders. Several participating organizations requested anonymity; others are listed below.

Alphi Capital, AlpInvest Partners, Antin Infrastructure Partners, Birch Hill Equity Partners, BMO Capital Partners, CBRE Investment Management, Fengate Asset Management, DW Healthcare Partners, Imperial Capital, Maverix Private Equity, ONCAP, Ontario Teachers' Pension Plan, OPTrust, Overbay Capital Partners, Peloton Capital Management, PillarFour Capital, TorQuest Partners, Vertu Capital, and Wittington Investments.

Executive summary

We spoke with leaders from private equity, infrastructure, secondaries and venture capital funds, as well as institutional investors and other alternative asset managers, to survey the year ahead for private markets. One of the biggest themes that stood out was the consensus that macroeconomic factors like lowering interest rates were creating positive knock-on effects, making for a generally better deal environment overall. With much more in store for 2025, the industry participants in our report shared the following key insights:

- **Dealmaking outlook optimistic**: 72% of participants anticipate increased deal activity, and 20% suggested that we may see more buyer-friendly market dynamics. Many commented that competition for quality assets would increase as well.

- **Key sector opportunities**: Data centres and technology continue to be exciting areas for investors, with 40% of participants identifying this area as an attractive option for 2025. Energy, particularly oil and gas, is also expected to do well, according to 64% of respondents.

- **Closing the valuation gap**: A majority (80%) of those surveyed expect an increased convergence on valuation among buyers and sellers.

- **Secondaries and co-investments here to stay**: Many participants predicted that the secondaries and co-investments markets seem poised to outpace 2024 levels. These transactions have gained prominence in recent years and will likely continue to remain in the private market mainstream.

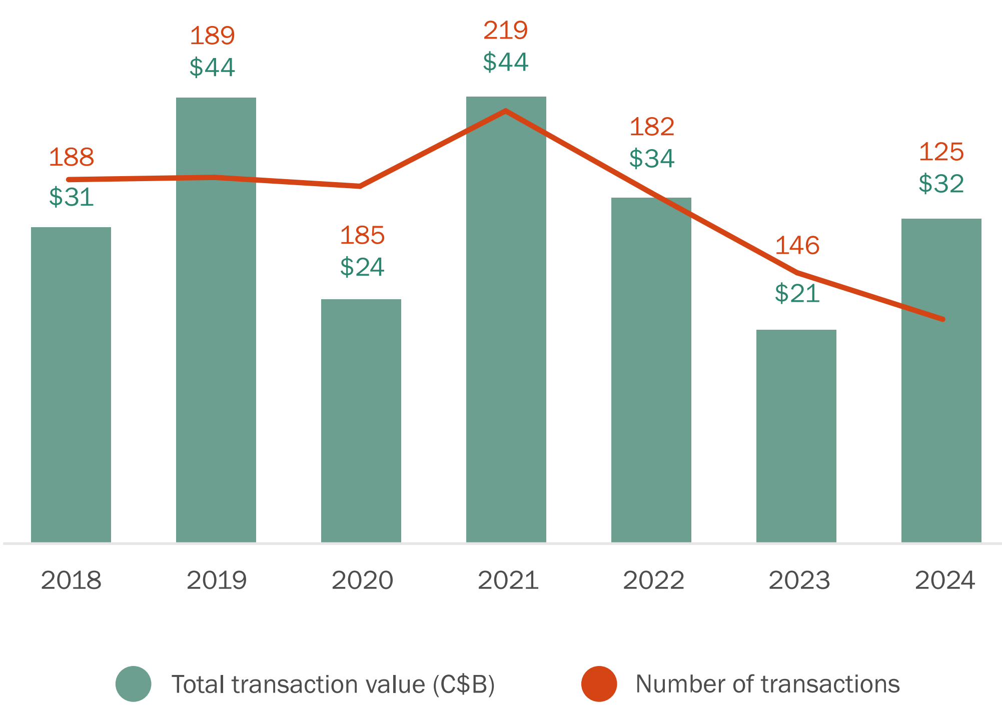
Despite the tailwinds, the incoming Trump Administration and the Canadian general election may alter the course of the year, as buyers and sellers brace for potential changes in merger controls, investment flows and other market responses. President Trump's proposed tariffs are at the forefront of concerns, which could potentially tip interest rates up, reduce consumer confidence and disrupt manufacturing and trade south of the border, among other possible impacts. However, anticipated changes to regulation in a second Trump term could benefit dealmaking, especially in heavily regulated sectors like energy and financial services.

In response to recent challenges affecting private equity over the last several years, the sector is recalibrating. As leaders hone their investment strategies, we expect to see continued creativity and resourcefulness to get deals over the finish line in an active year of dealmaking.

Deal activity outlook for 2025

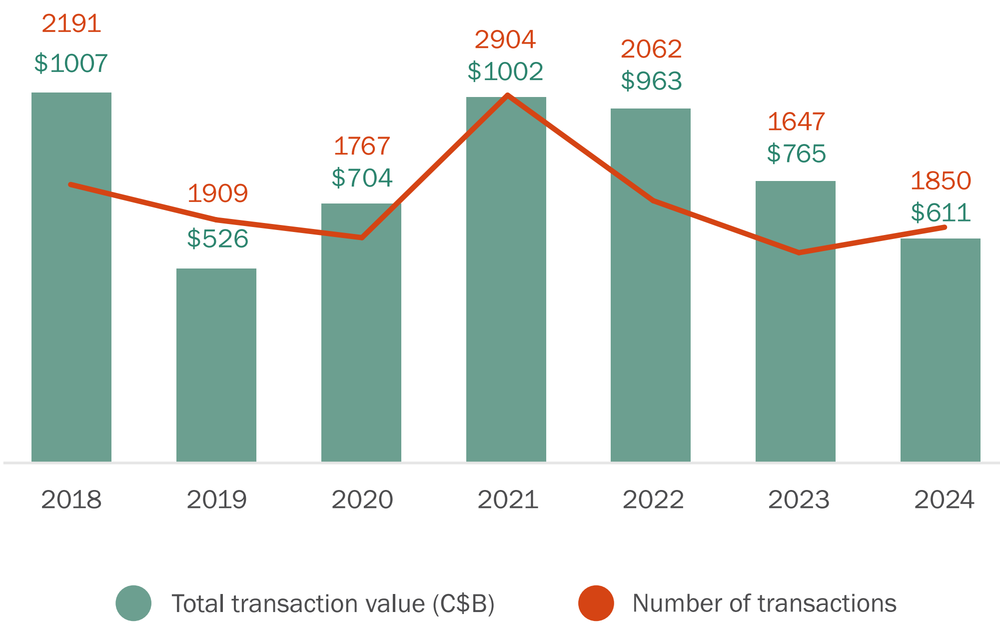
The cautious optimism that marked the start of 2024 gained momentum throughout the year, resulting in a generally positive outlook at the beginning of 2025. Compared to the previous two years, private transaction value in Canada (Figure 1a) increased in 2024, while deal counts showed an uptick from the previous year in the U.S. (Figure 1b). Even against the backdrop of today's significant economic uncertainty, a majority of the private equity leaders we polled reported that they think a better deal environment is on the horizon for 2025, with 72% anticipating increased deal activity and 20% suggesting that we may see more buyer-friendly market dynamics this year.

Figure 1a: Canadian deal activity by year (private targets, financial buyer or seller)



Source: CapitalIQ. Based on M&A transactions involving financial buyers or financial sellers and private companies or private investment firms as target announced from Jan. 1, 2017 - Dec. 31, 2023. Excludes canceled transactions.

Figure 1b: United States deal activity by year (private targets, financial buyer or seller)



Source: CapitalIQ. Based on M&A transactions involving financial buyers or financial sellers and private companies or private investment firms as targets. For deals announced from Jan. 1, 2017 - Dec. 31, 2024. Excludes canceled transactions.

> "For the past 2-3 years, companies focused on profitability. Venture and growth stage companies that are now profitable (or close to profitability) will revisit top-line growth strategies and will seek to raise outside capital. There's significant opportunity for funds that have dry powder for new platform investments."
>
> - Mohit Talwar, Maverix Private Equity

Find your nearest exit: dealmaking conditions improve

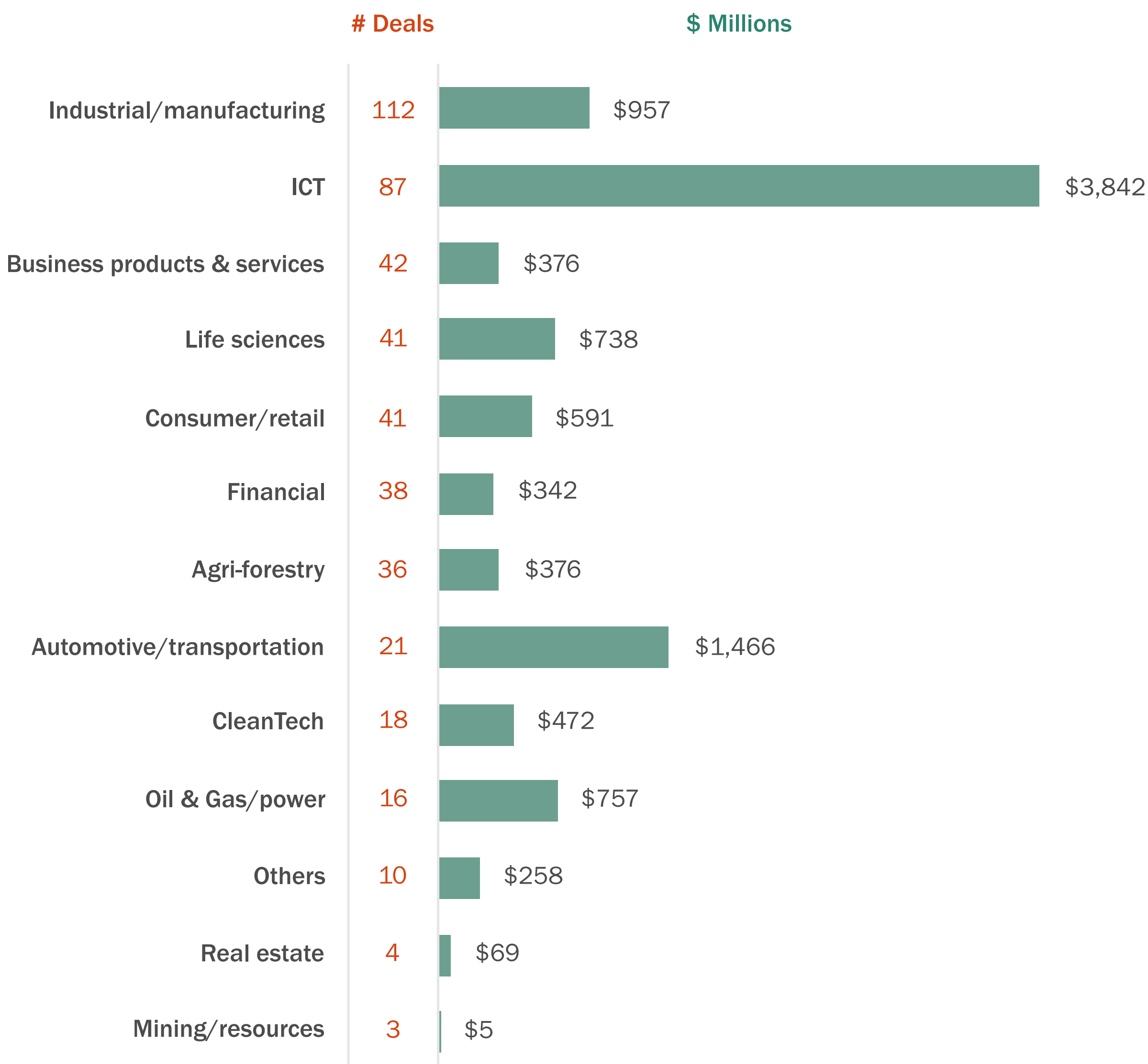
Macroeconomic forces were the most commonly referenced drivers of this optimistic view: lowering interest rates (a factor mentioned in 52% of responses), inflation and supply chain issues leveling off, and a glut of targets ready to sell after several years of more challenging conditions. Companies that focused on advancing profits and tightening balance sheets during years of higher interest rates are now feeling poised to sell—and for some, it may be that time has run out, as some sellers may have held onto assets for too long.

Some survey respondents suggested that increasing exit opportunities, including the re-emergence of IPO listings, are other reasons to expect a busier year of dealmaking in 2025. They also see parties finding an easier time closing valuation gaps (which we discuss in more detail in this report), leading to more deals getting completed.

The usual (and some less usual) suspects: sourcing opportunities

Last year, larger transactions in key sectors reflected investors' focus on growth opportunities (e.g., the information and communication technology sector). We expect PE investors to continue to concentrate on value creation in targeted areas in 2025.

Figure 2: Canadian private equity sector breakdown

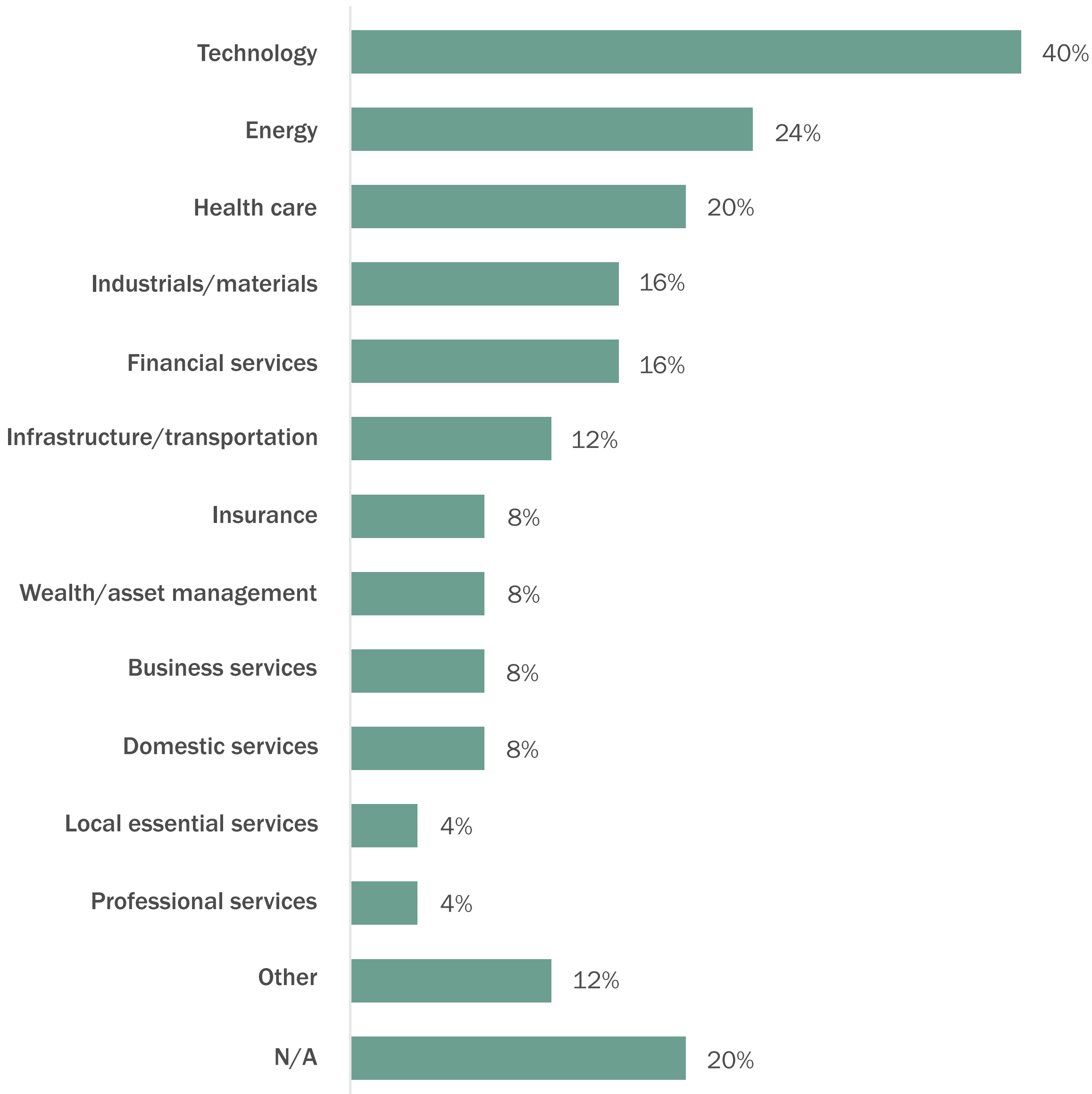


Source: CVCA, "YTD Q3 2024 Canadian Private Equity Market Overview" (2024).

We spoke with industry leaders about attractive sectors for 2025—some of the responses were expected while others we found more surprising. As anticipated, technology and supporting sectors (e.g., data centres and IT) were clear front runners—40% of respondents identified technology as an attractive sector for investment. Data centres continue to be an investment hotspot for 2025. The private market leaders we surveyed also indicated that the services inextricably linked to data centres (e.g., power, utilities and real estate) may see high volumes of activity this year.

Spotlight on sectors

Figure 3: Which sector(s) do you believe will be the most attractive to your group/fund in 2025?*



*Respondents were allowed to pick more than one sector. All respondents (n=25).

> “There has not been a lot of liquidity for PE in the last three years; I suspect there will be significantly more next year—separating the good deals from the okay deals will be very important.”
>
> - Aly Champsi, DW Healthcare Partners

Energy is also expected to enjoy tailwinds this year, likely bolstered by calls from the Trump Administration to deregulate traditional energy as well as continued interest in renewables to meet rising energy demands. Healthcare also remains an attractive target for 2025, with industrials/materials and financial services following closely behind. According to PitchBook’s 2025 Healthcare & Lifesciences Outlook, sustained PE deal activity in healthcare is predicted if interest rates fall, and macro trends such as technological advancements and an aging population continue to spur activity.

The asset and wealth management industries are also on respondents’ radars, reflecting the growing trend of private equity investments into this area. Other respondents indicated they are taking a “wait and see” approach when it comes to targeting specific sectors, given the uncertainties of a second Trump Administration. However, a highly competitive deal environment is expected for quality assets, and the ability to act quickly may be key to unlocking opportunities in 2025.

> “Competitors have adopted private AI systems. Technology is becoming table stakes. If you haven’t addressed it yet, you’ll be significantly behind in 2025.”
>
> - Darryl Sam, Fengate Asset Management

The private equity leaders we surveyed shared common sentiments across specific sectors in focus for 2025, including:

- **AI and other digital infrastructure**: AI was commonly cited by respondents as a key growing area of investment (and for integrating efficiencies into portcos).
- **Renewables**: While, in certain circles, an anti-ESG backlash coupled with Trump’s focus on traditional energy may hinder some activity, these trends may also have the effect of lowering prices for good assets in this sector.
- **Consumer discretionary**: Consumer confidence is expected to increase as interest rates and inflation are anticipated to level off.
- **Domestic manufacturing and industrials**: As supply chains continue to shift, we may see increasing focus on domestic production.

> “There is an active and competitive dealmaking environment in the middle market, with expectations that activity will increase in 2025. Against that backdrop, there is an opportunity and importance to differentiate from competition through an authentic approach to management partnership, proprietary sourcing, disciplined value creation, and creative approaches to deal structures.”
>
> - Adina Notto, Imperial Capital

The challenges ahead

While dealmakers appear to be poised for positive deal activity levels in the new year, challenges remain. Competition in the market was a looming concern among the private equity leaders with whom we spoke, cited by 24% of respondents. In the mid-market, high levels of competition for quality assets are likely to drive up prices. This may have the effect of encouraging buyers to focus more on value creation after paying top price for assets. Executing value creation for portfolio companies was often cited as a challenge—and factor critical to the success—for respondents.

Geopolitical uncertainty also ranks high on the list of challenges. Uncertainty surrounding the Trump Administration accounted for 48% of responses when asked what challenges may be in store for the year, and concerns regarding proposed tariffs were listed by 28% of respondents (which we cover in the next section). Several respondents also pointed out that some of Trump’s proposed policies may lead to a potential resurgence of higher interest rates and higher inflation, further complicating dealmaking prospects for 2025. Canada is not without its own significant political variables this year—the governing Liberal Party’s ongoing leadership race and the 2025 federal election may impact the overall investment regulatory climate, which will also influence deal flows for the year. Because Parliament is prorogued until March 24, there is also added uncertainty on whether or not the increased capital gains inclusion rate will become law in Canada (which would have sizeable return implications for PE investors).

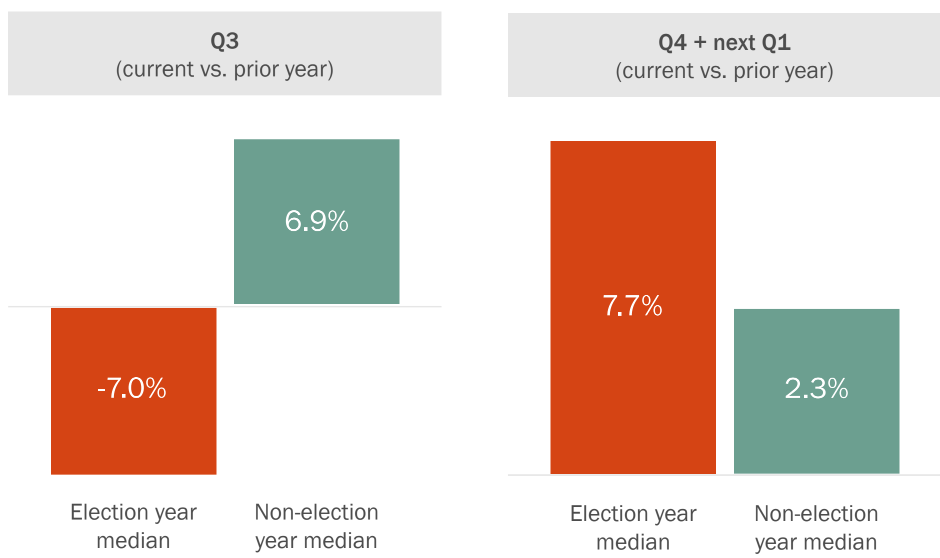
> “Geopolitical tensions around the world are just an uncontrollable risk that have the potential to cause serious issues despite the otherwise positive tailwinds.”
>
> - Craig Rankine, TorQuest Partners

Impact of the U.S. election

When we sat down with private equity leaders and asked them what impact the U.S. election will have on deal activity, many (80%) thought that it would have a positive effect overall. The general sentiment from respondents was that having the election in the rear-view mirror meant that market participants now know the direction of travel moving forward. Some respondents reported that fewer antitrust regulations and business-friendly tax policies under Trump would be likely to increase deal flows in 2025.

The generally optimistic outlook of dealmakers follows the post-election "dip and recovery" pattern (see Figure 4 below), which suggests that transactions are merely being delayed to allow parties to adjust for election outcomes but with deals ultimately going through.

Figure 4: Percent change in number of announced M&A transactions (by U.S. acquirors, 1992 – 2022, excluding 2008)



Source: The Deal "Election Uncertainty Leaves M&A, Activism in Limbo". Data source: CapIQ, Harris Williams. Data includes U.S. M&A transactions.

Despite generally business-friendly policies under a second Trump Administration, many sponsors and investors also had concerns. These centered on the general element of uncertainty under Trump 2.0. Respondents who are focused on the Canadian market flagged the potential impact of tariffs—at least on some verticals. Respondents who are focused on the U.S. also pointed to the potentially inflationary nature of tariffs and the knock-on effect of inflation on interest rates, and a resulting disruption to supply chains. They also noted that consumer confidence could dwindle if interest rates tip back up, and that Trump's proposed immigration policy may also drive up wages and erase margins.

Whether the proposed tariffs will turn out to be nothing more than "a lot of chest pounding" (as one respondent called it), the overriding sentiment of respondents was that, even with some uncertainty in the mix, the U.S. deal environment will be more business-friendly and deal volume will accelerate.

Sector outlook post-election

With the administration change in the United States, industry leaders expect some sectors to benefit. While the predictions were varied, a clear winner was traditional energy—64% of respondents indicated this sector will likely benefit under a Trump Administration. This win for traditional energy could come at the expense of energy transition sectors, which could see a slowdown and lowered asset valuations (although some respondents noted that this trend may be mitigated by the insatiable energy-hunger of AI-driven technologies). It remains an open question whether tariffs would impact export of Canadian energy (oil, gas and hydro power) into the U.S. in particular or if those sectors would quickly be exempted. Other sectors predicted to do well include financial services (36%) and technology (36%), with domestic manufacturing (28%) and defense (24%) following close behind.

In addition to a potentially slower pace in the renewable energy space, tariffs remained at the forefront of concerns (particularly for sectors such as retail, manufacturing and agriculture that are most vulnerable to new tariffs). Cuts to public sector and ESG spending were also cited as deleterious to sectors like renewables, education and health care. However, private equity leaders were mixed and even in disagreement about sectors of choice, demonstrating the diversity in investment strategy among sectors and complicating any predictions about sector outlook.

> "Spending on AI continues to show its strength, with early adopters highlighting various tangible benefits and productivity enhancements. In addition, data centres and adjacent (energy and business services supporting the centers) will likely do well."
>
> - Omar Akbar, AlpInvest Partners

Figure 5: Which sectors do you believe will benefit/suffer from the outcome of the U.S. election?*

Top three sectors predicted to benefit:

64%	36%	36%
Energy	Financial services	Technology

Top three sectors predicted to suffer:

44%	32%	20%
Renewable energy	Import-reliant industries	Health care

Source: *Respondents were allowed to pick more than one sector. All respondents (n=25).

Potential tariffs and private equity

Increased urgency among private equity sponsors to exit U.S. businesses that rely on imports (from Canada and other impacted companies) may be one outcome of tariffs. If tariffs prove longer-term or are expanded, we may see increased private equity interest in U.S. companies that manage their own supply chains. Tariffs would likely make U.S. domestic transport, logistics and manufacturing more attractive options for PE buyers. For private funds, offering memorandum risk disclosures may need to be updated, while increased fund-level innovation—including extending fund terms and the use of net asset value loans and continuation vehicles—may be part of the steps taken to help support portfolio assets particularly vulnerable to the effects of tariffs.

Changing expectations and deal structures

In response to years of challenging fundraising, high interest rates, regulatory costs and other pressure-inducing macro-factors, the nature of the private equity market has shifted, perhaps permanently. It remains to be seen whether PE funds that acquired assets in a low interest rate environment at high valuations only a few years ago will now be prepared to sell into a more difficult exit environment in 2025 for relatively modest returns on invested capital. We consider the ongoing buyer-seller valuation gap, the continued success of the secondaries market and the continued rise in co-investment vehicles as examples of how dealmakers have changed the PE playbook, and factors that may continue to influence the deal environment into 2025.

> "In the upper and upper middle market transaction in momentum industries—primarily tech, fintech and AI—there will be many all-cash transactions at historically high multiples as financial buyers compete with strategic buyers to secure key technologies and early adoption advantages."
>
> - Matt Colucci, PillarFour Capital

Bridging the gap

A majority of the private equity leaders we surveyed expect increasing convergence on valuation among buyers and sellers. As mentioned earlier, record levels of dry powder are one reason for this trend; our survey respondents also pointed to falling interest rates, stabilizing supply chains, investor demands for DPI and pressure on sellers who need to sell assets.

Figure 6: Do you anticipate a convergence of buyer-seller expectations in the market?

80%	20%
Yes	No

Source: All respondents (n=25).

Where there is expected to be a tighter bid-ask spread, fewer bridging mechanisms such as earn-outs are expected. However, those we surveyed believe that earn-outs may remain popular in sectors where a fair amount of uncertainty is still at play. Earn-outs will likely continue to be useful as a way to bridge buyer and seller value gaps and in instances where a company is using heavy adjustments or more contract business.

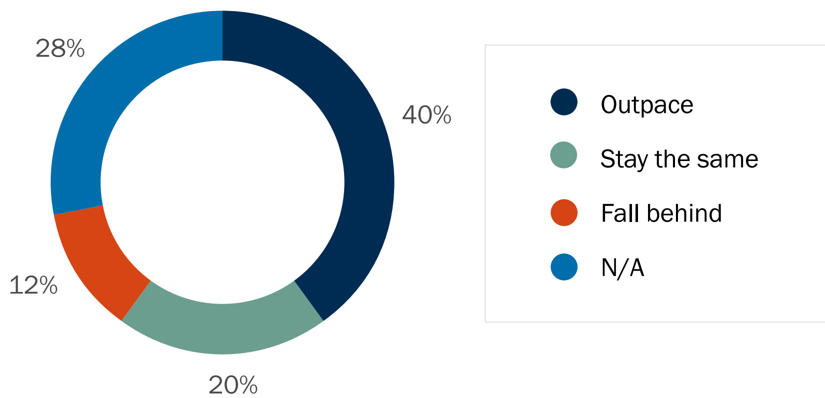
Secondaries are here to stay

The secondaries market has seen increased growth in recent years as market participants sought liquidity solutions during a challenging distributions and fundraising crunch. Evercore recently confirmed that secondaries transaction volume in 2024 hit a record $160 billion in total. And while the private M&A markets may be bouncing back, a strong secondaries market seems here to stay, according to sponsors and investors we spoke with, as part of a broader shift towards increased fund-level innovation in recent years.

> "It seems like the secondary market is poised for another record year, with both buyers keen to deploy and sellers motivated to transact."
>
> \- Neil Andrew, Overbay Capital Partners

Continuation funds represent a record 14% of total sponsor-backed exit volume. While many investors have been focused on taking distributions and "cashing out" as part of these processes to help generate liquidity for their portfolios, there has also been a rapid growth in buy-side participants looking to participate directly in GP-led deals. Evercore's H1 2024 Secondary Market Review showed that GP-led secondaries have provided more consistency in their returns than buyout funds. Accordingly, LPs that decline rolling to continuation funds on a consistent basis are "incurring a tangible opportunity cost of around eight percent per vintage year", with a cumulative opportunity cost of 15% of total cash-on-cash returns. Seeing this opportunity on the buy-side, more and more prominent institutional investors are dedicating resources to continuation fund investments. We expect this trend to continue, including among leading market participants in Canada.

Figure 7: Do you believe the secondaries market in 2025 will outpace the 2024 secondaries market, stay roughly the same, or fall behind 2024 activity levels?

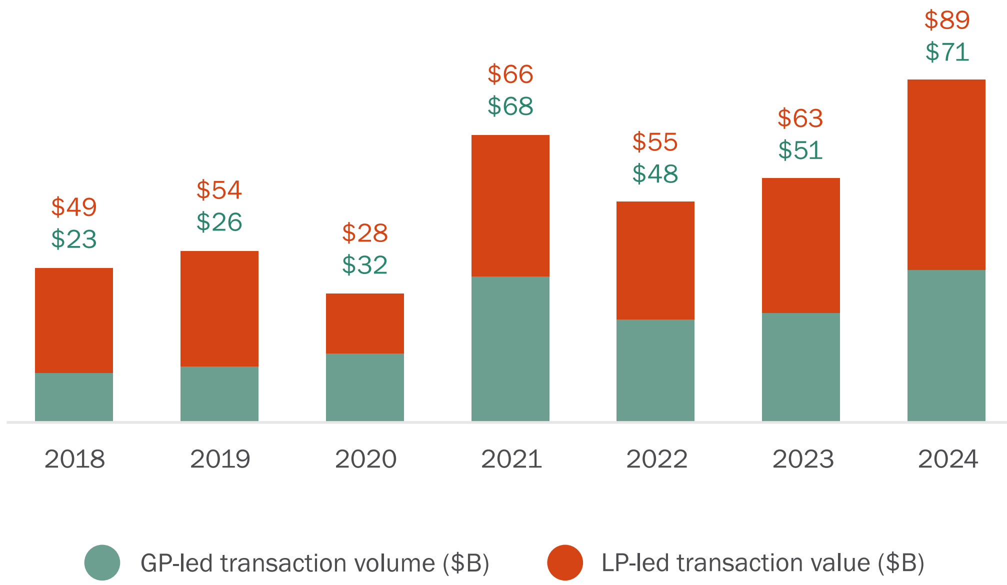


Source: All respondents (n=25).

Survey respondents pointed out that GP-led and LP-led secondaries will be busy this year. On the one hand, LP-led secondaries may see increased activity due to the need of LPs to actively manage their portfolios and may be bolstered by the increase in the number of active secondaries investors in the market and additional dry powder from new retail-focused secondaries funds. On the other hand, while noting that LP-led secondaries continued to comprise a majority of overall secondaries deal volume in 2022, 2023 and 2024 (according to Evercore's FY 2024 Secondary Market Review), more respondents thought that growth in GP-led transactions may be likely to outpace growth in LP-led secondaries in 2025. This could be in part due to the fact that many funds "are nearing the end of their investment horizons", creating incentive for sponsors to either return capital to their LPs through traditional exits or deploy an alternative strategy to generate liquidity, such as a GP-led continuation fund. However, sensitivity to overuse of continuation funds may temper growth in this market if LPs sense continuation funds are being primarily utilized to artificially generate DPI in a difficult exit environment without a compelling business case.

> "The secondaries market is expected to continue growing, potentially outpacing 2024 levels due to increased demand for liquidity and portfolio rebalancing. GP-led secondaries may see stronger growth compared to LP-led secondaries as GPs seek to hang-on to marquee assets while delivering DPI."
>
> \- Lee Anderson, CBRE Investment Management

Figure 8: Annual secondaries transaction volume

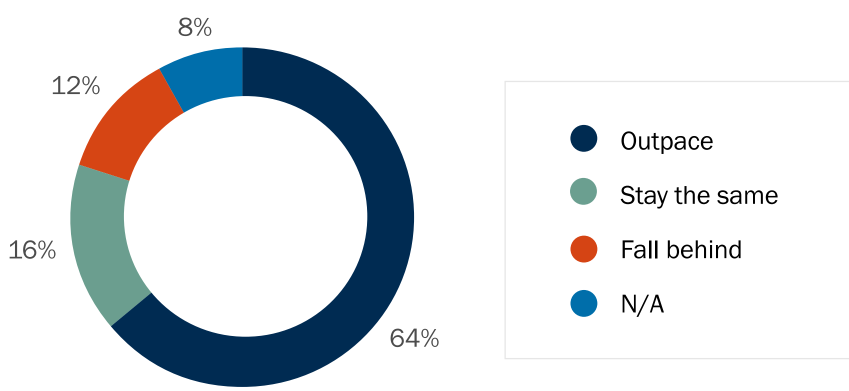


Source: Evercore FY 2024 Secondary Market Review - Highlights

LP co-investments on the rise

The private equity leaders we surveyed overwhelmingly responded that LP co-investment activity will likely exceed 2024 levels. As market activity increases against the backdrop of a still challenging fundraising environment, LPs may look for more co-investment opportunities, which are increasingly being tied to decisions to invest in primary fundraising processes as a way to reduce fee exposure and generate superior IRR for their portfolios. GPs still having difficulty fundraising amid an ongoing lack of exits driving reduced distributions from prior vintages of their funds are likely willing to offer co-investment options to support fundraising activities going forward.

Figure 9: Do you anticipate activity in LP co-investments to exceed 2024 levels, stay roughly the same or fall behind 2024 activity levels?



Source: All respondents (n=25).

Adapting in an evolving market

Sponsors and investors alike are anticipating an active year for the private equity market. Market participants, having learned from previous years of volatility, are staying primed for opportunity amid continued uncertainty. It will be important to be nimble, responding quickly to market conditions, regulatory changes and deal opportunities.

> "In 2024, I predicted that everyone needed to work well together in the ecosystem. At least from our perspective, that prediction didn't really come true. The fundraising environment was challenging. We also saw several deals get 'stuck' or break-down completely… My hope for 2025 is not that my prediction was wrong, but simply postponed by 12 months."
>
> - Aaron Toporowski, BMO Capital Partners

Key factors critical to your success in 2025

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Uniquely equipped to serve clients investing in Canada, the U.S. and globally, Torys provides sophisticated solutions for fund formation and alternative investments across asset classes. Canada's most active private equity funds and pension funds and leading international pension and sovereign wealth funds look to us for counsel. We are the only Canadian practice to be ranked in Band 1 by Chambers and Partners for both buyouts and fund formation, and we are recognized for transactional skill and international experience that spans industries.

Our team members in our Toronto, Calgary, Montréal and New York offices work seamlessly together, offering integrated transactional, regulatory, tax and structuring advice on our clients' work, drawing from our long history in the private equity industry and our understanding of changing market terms and industry practices.

About Torys LLP

Torys is a respected international business law firm with a reputation for quality, innovation and teamwork. Clients look to us for their largest and most complex transactions, as well as for ongoing matters in which strategic advice is key.

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