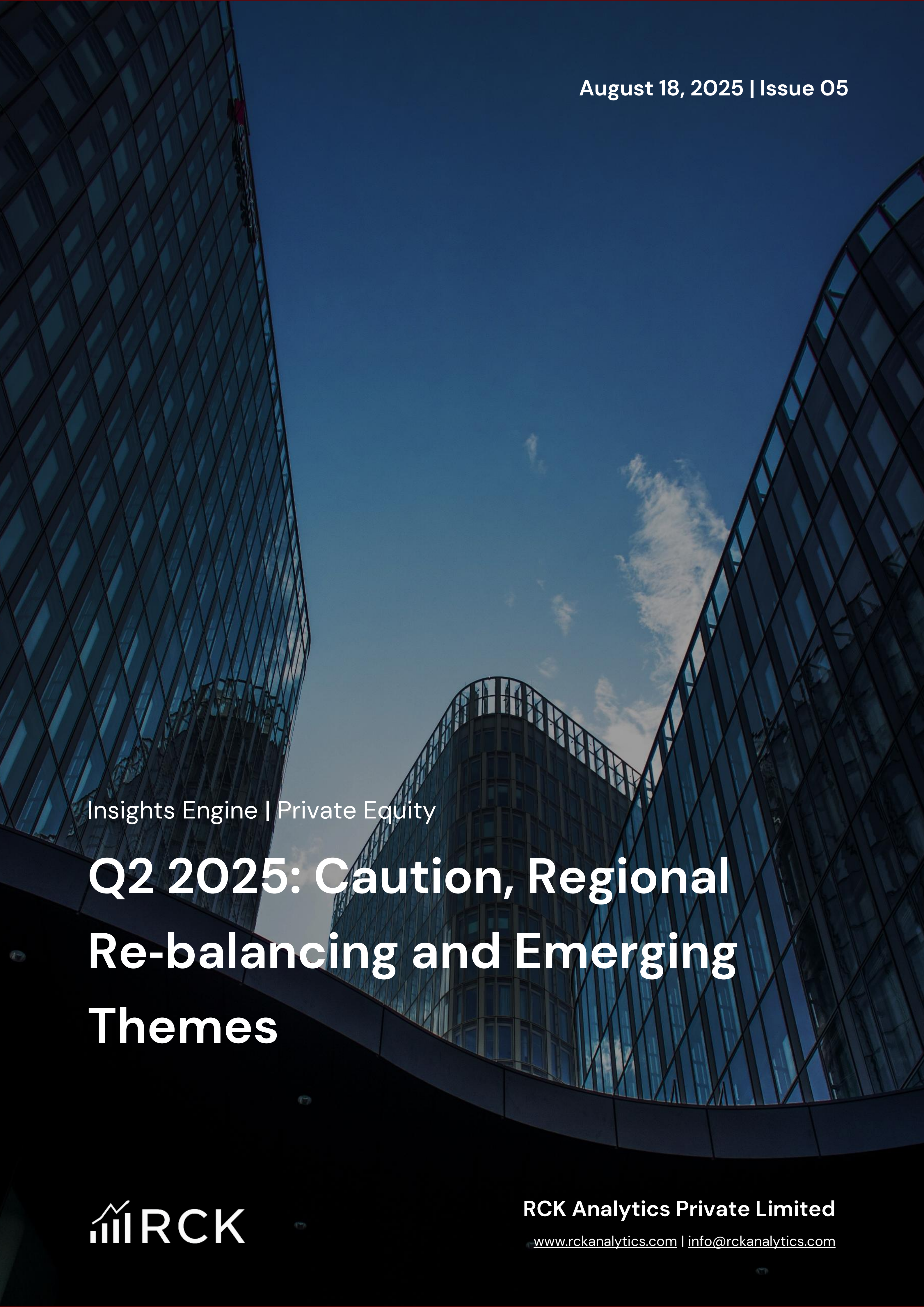

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Q2 2025: Caution, Regional Re-balancing and Emerging Themes

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Executive Summary

Global private-equity (PE) activity saw its **steepest contraction since Q3 2020** in Q2 2025, with deal count down 17% Q/Q to 3,769 and capital deployed falling 28% to $363.7M. Average ticket size dropped 22% to $285M as **sponsors shifted from large buyouts to smaller, more disciplined transactions**. Even so, volumes remain above pre-pandemic norms, marking a fifth consecutive quarter above 3,500 deals. **The Americas remained dominant**, delivering 59% of global PE capital ($214B) and 47% of deals (1,771), led by the U.S. at $202B. However, U.S. investment fell sharply from Q1's $264.5B amid high borrowing costs, geopolitical risk, and tariff uncertainty. **Mega-deals persisted in energy, infrastructure, and AI-linked assets**—such as Blackstone's $11.5B TXNM Energy buyout and Brookfield's $9.9B AI data-center project—while automotive activity collapsed on supply-chain and tariff headwinds. Europe generated $117.4B from 1,669 deals, with the UK a bright spot as capital rose to $36.8B on middle-market resilience. Still, exits weakened sharply; UK H1 exit value dropped to $16.1B from $51.8B in 2024, with IPO activity near zero, prompting reliance on continuation vehicles. Asia-Pacific performance diverged—**China hit a decade-low $700M**, Japan fell to $3.6B, but Australia doubled to $11.2B on large-cap deals.

Tight financing conditions pushed sponsors toward higher-equity, lower-leverage deals, compressing IRRs and widening valuation gaps. Secondary buyouts rose 12.5% Q/Q, while fundraising fell 34% to $224.9B as LPs pressed for liquidity and scrutinized governance. Evergreen funds and continuation vehicles gained traction, especially in long-duration sectors like defense-tech and infrastructure. **Q3 2025 outlook hinges on U.S.–China tariff resolution, U.S. fiscal reforms, and IPO market recovery**. Investors should target high-quality, domestic-oriented assets in AI infrastructure, healthcare, and renewables, with disciplined valuations and robust exit strategies in an elevated-risk environment.

Total capital deployed in Q2 '25, -28% Q/Q, steepest since Q3 2020

$364B

3,769

Global Q2 Deal Volume – 17% Q/Q, Fifth Straight Above the 3,500 Baseline

U.S. PE Investments in Q2 '25, 55% of Global Total

$202B

-34%

Global PE Fundraising Fell Q/Q in Q2 '25, Reflecting Tighter Conditions

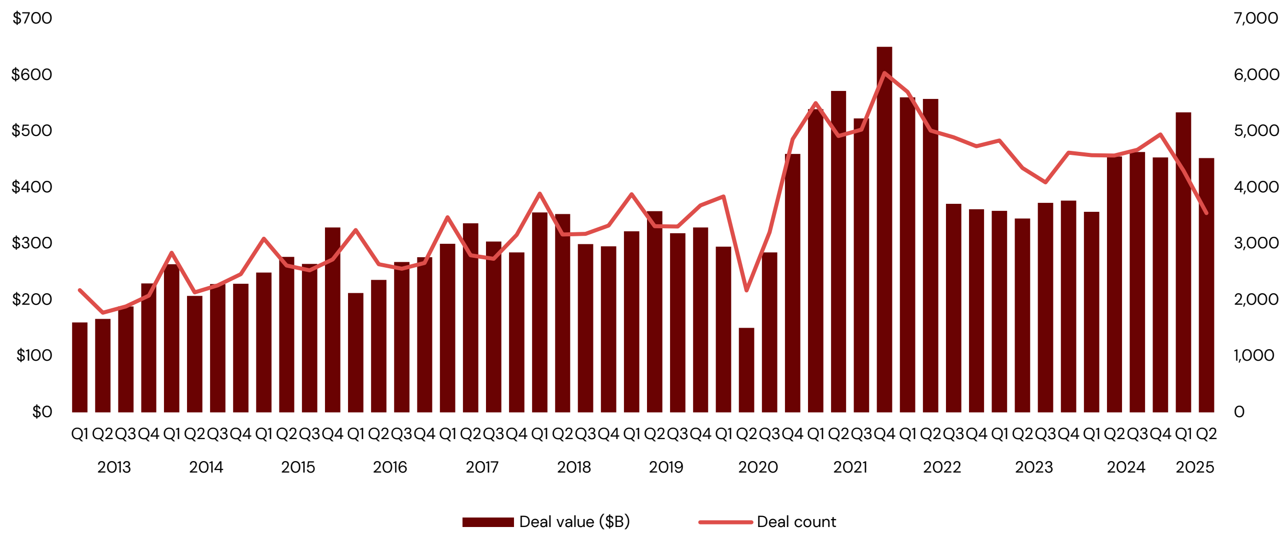
Global and Regional Dynamics – The Americas, Europe, and Asia-Pacific

1

Q2 2025 witnessed the lowest absolute number of deals since Q3 2020, with 4,527 deals in Q1 falling to 3,769 in Q2. **The total capital deployed contracted from $505.3B to $363.7B, underscoring a sharp contraction in both deal count and dollar value**. Average ticket size fell 22% to $285M, reflecting a shift away from large-ticket buyouts toward smaller, more disciplined investments. The decline was not uniform across deal types: buyout transactions were down 23% and growth/expansion deals fell 32%, while secondary buyouts rose 12.5% Q/Q, indicating a growing preference for sponsor-to-sponsor transactions that require less leverage. The average IRR thresholds have tightened as sponsors grapple with elevated funding costs and an uncertain macro-environment. **Valuation gaps widened across the board; public-to-private and growth deals fell 58% and 50% respectively, while secondary buyouts increased, reflecting a "wait-and-see" posture that favors lower-leverage, higher-equity structures.**

The Americas remain the engine of global PE, delivering $214B (59% of global PE) and 1,771 deals (47% of total) in Q2 2025. **The U.S. alone contributed $202B across 1,608 deals, representing roughly 55% of global capital.** However, the Americas saw a $106B contraction in investment (from $319.8B to $213.9B) and a 21% drop in deal count. Europe, anchored by the United Kingdom's mature middle-market ecosystem, posted $117.4B in capital across 1,669 deals, a 10% decline in volume and $19.2B contraction in capital. The UK demonstrated resilience with $36.8B of Q2 capital—up from $24.8B in Q1—driven by domestic-focused deals and a robust middle-market pipeline.

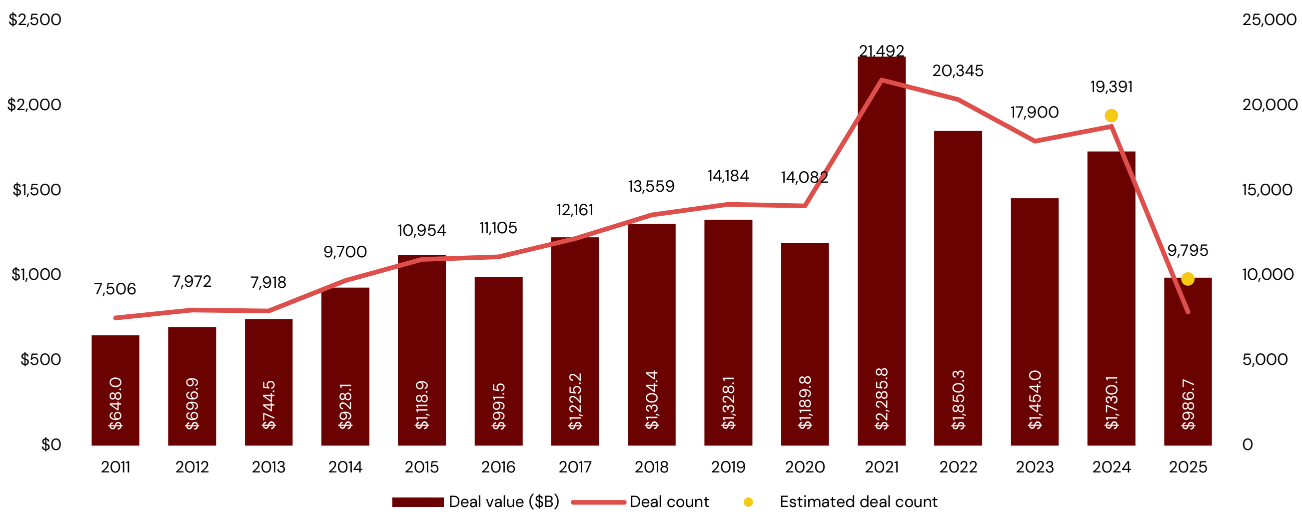
Figure 1: Global Quarterly PE Deal Activity



Source: Q2 2025 Global PE First Look, PitchBook. Data as of 06/30.

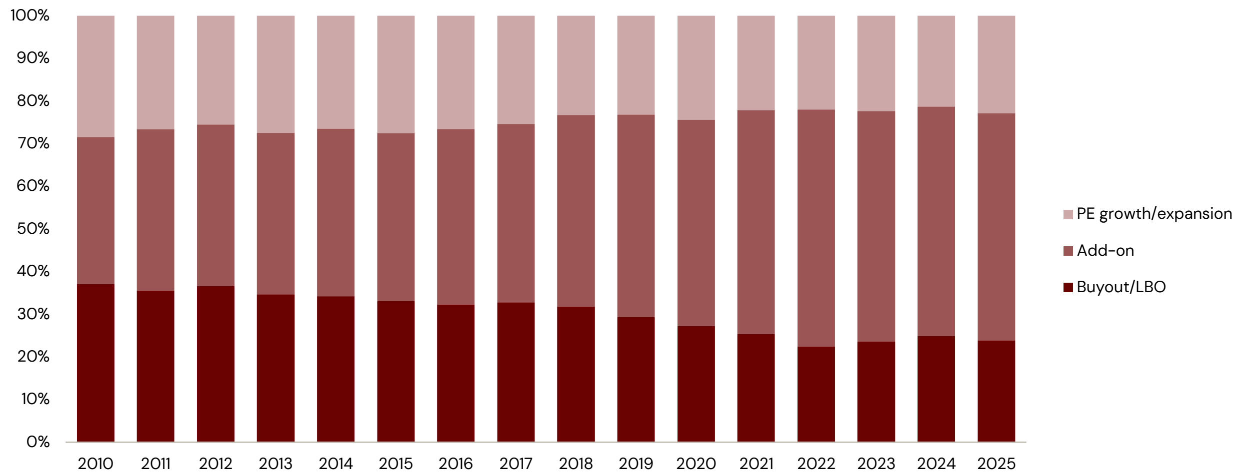
Nonetheless, the UK exit market weakened dramatically, with exit value dropping to $16.1B in H1 2025 from $51.8B in 2024 and IPO activity nearing zero, prompting a reliance on continuation vehicles for high-quality assets. In the Asia-Pacific region, capital fell 42% to $20.85B and deals fell 22% to 220 transactions. **China's activity plummeted to $700M across 20 deals—the lowest in a decade, reflecting tightening capital, regulatory scrutiny, and slower domestic growth**. Conversely, Australia displayed a remarkable rebound, doubling PE investment to $11.2B across 71 deals, highlighted by large transactions such as Aveo's $2.5B and Macquarie's $1.8B deals. Japan's activity fell sharply to $3.6B in Q2 versus $16.8B in Q1, with only a handful of large deals, such as Koken Boring's $447M acquisition, underscoring a retreat from high-value, cross-border activity in the region.

Figure 2: Global Annual PE Deal Activity



Source: Q2 2025 Global PE First Look, PitchBook. Data as of 06/30.

Figure 3: Global PE Deal Activity by Type



Source: Q2 2025 Global PE First Look, PitchBook. Data as of 06/30.

United States: Concentrated Mega-Deals and Sectoral Shifts

The U.S. remains the global epicenter of PE activity, but the quarter's data reveal a nuanced picture. **While the U.S. contributed $202B in Q2—down from $264.5B in Q1—the concentration of mega-deals remains pronounced.** Blackstone's $11.5B acquisition of TXNM Energy, Thoma Bravo's $10.5B purchase of Boeing Digital Aviation Solutions, 3G Capital's $9.4B acquisition of Skechers, and Brookfield's $9B acquisition of Colonial Pipeline illustrate that the largest capital allocations continue to be directed toward energy, infrastructure, and technology-related assets. AI-related infrastructure—data centers, power generation, and connectivity—has become a primary driver of U.S. investment, as evidenced by Brookfield's $9.9B AI data-center project in Sweden and the $25B US-Abu-Dhabi energy partnership.

The automotive sector, however, suffered a steep decline, with H1 2025 capital of $12.3B versus $39.8B in 2024, reflecting tariff-related supply-chain disruptions and consumer demand volatility. The healthcare and life-science segments, while still sizable, saw mixed performance: life-sciences capital rose to $6.9B (up from $4.2B in 2024) but overall healthcare capital fell to $79.3B from $141.6B in 2024, reflecting a reallocation toward biotech, health-tech, and digital-health solutions. **The technology, media and telecom (TMT) sector remains the largest sector by capital at $247.2B in H1 2025, though it lags behind its 2024 pace**. In contrast, the IT sub-segment (software, communications, and semiconductors) accounted for $69B of capital, with 40.8% in software, 34% communications, and 8.7% semiconductors, showing a 15% Q/Q increase in deal value despite a 27% drop in deal count. This shift underscores a move from high-frequency, low-ticket deals to larger, platform-based software acquisitions.

Figure 4: Top 10 Americas Deals Announced in Q2 2025

1. **TXNM Energy:** $11.5B, Albuquerque, US - Buyout, Energy holding
2. **Boeing Digital Aviation Solutions/Jeppesen Sanderson:** $10.55B, Arlington, US Corporate divestiture, Aerospace
3. **Skechers USA:** $9.4B, Manhattan Beach, US Public-private, Footwear
4. **Colonial Pipeline:** $9B, Alpharetta, US Buyout, Energy
5. **Altera:** $4.5B, San Jose, US Buyout, Semiconductors
6. **Wells Fargo Rail Leasing:** $4.4B, San Francisco, US Corporate divestiture, Rail
7. **HealthEdge:** $2.6B, Burlington, US Corporate divestiture, Communications & networking
8. **AvidXchange:** $2.2B, Charlotte, US Public-private, Financial software
9. **Playa Hotels & Resorts:** $2.1B, Fort Lauderdale, US - Add-on, Hotels
10. **Acumatica:** $2B, Bellevue, US Corporate divestiture, Business software

Source: Pulse of Private Equity Q2'25 KPMG analysis of global PE activity as of 06/30. Data provided by PitchBook.

European Market – UK Resilience and Exit Constraints

The United Kingdom, the largest market in the European-Middle-East-Africa (EMA) region, attracted $36.8B in Q2, up from $24.8B in Q1, and hosted **two of the largest EMA deals: the $5.1B take-private of Spectris and the $3.1B buy-out of OSTTRA**. The UK's mature PE ecosystem, characterized by a strong middle-market and a domestic financing environment, has insulated it from the broader European slowdown. However, the exit environment remains strained: H1 exit value fell to $16.1B from $51.8B in 2024, with IPO activity near zero, compelling sponsors to rely on continuation vehicles for high-quality assets. LP pressure to return capital has accelerated the use of continuation vehicles, which, while providing liquidity, raise concerns over transparency, valuation fairness, and risk-adjusted returns. **The UK's impact-driven deals—spanning cleantech, health-tech, and renewable energy—underscore an ESG-driven shift that is likely to continue as institutional investors integrate impact mandates into allocation decisions**. The contrast between robust deal flow and weak exit pathways highlights a potential bottleneck in liquidity provision, which may pressure valuations and spur forced sales.

Asia-Pacific: Divergent Trajectories

Asia-Pacific's overall investment fell to $20.8B across 220 deals, with China's capital plunging to $700M across 20 deals—its lowest in a decade—reflecting tighter domestic financing, heightened regulatory scrutiny, and a slowdown in cross-border capital flows. In contrast, Australia's PE investment doubled to $11.2B across 71 deals, with marquee transactions such as the $2.5B Aveo acquisition and Macquarie's $1.8B deal. Japan's activity fell sharply from $16.8B in Q1 to $3.6B in Q2, with only a few large deals such as Koken Boring's $447M acquisition, highlighting a retreat from high-value, cross-border activity in the region. **Sectorally, industrial manufacturing remained stable at ~$12B, while healthcare saw multiple >$2B deals, indicating that high-growth, high-margin sectors remain attractive despite broader slowdown**. Consumer, retail, and TMT sectors lagged sharply due to tariff and supply-chain concerns. The divergent performance underscores the importance of granular, country-level analysis when allocating capital in Asia-Pacific.

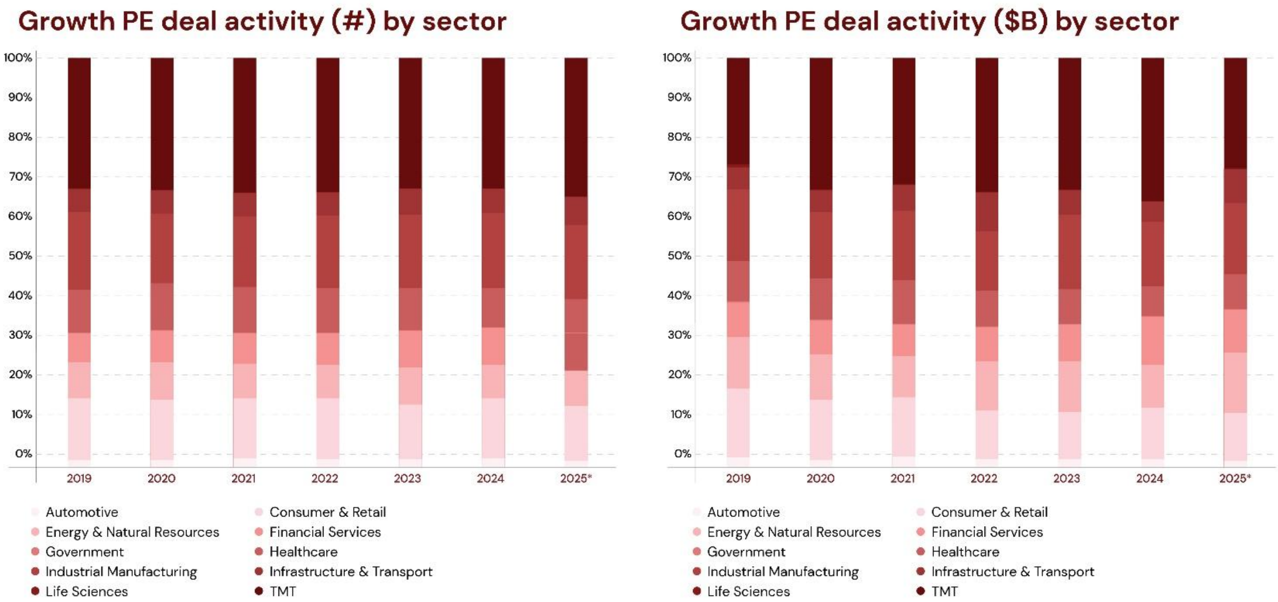
Sectoral Landscape – Healthcare, Energy, CleanTech, and Automotive

As noted earlier, in H1 2025, **technology, media, and telecom (TMT)** retained its position as the top sector for global private-equity investment, attracting **$247.2B**. While still dominant, TMT's deployment pace is lagging behind 2024 levels. **Industrial manufacturing** ranked second with **$132.4B**, followed by **energy and natural resources** at **$107B**. **Infrastructure and transport** drew **$74.4B** in just six months—already exceeding **75%** of the **$95.4B** invested in the sector across all of 2024.

Healthcare and life-science sectors also continue to dominate both deal count and capital deployment, with 62 pharmaceutical and biotech deals (~£4.2B) and 28 healthcare-tech deals (~£2.48B) in Q2, reflecting sustained investor confidence in resilient, high-margin subsectors. **Digital health companies such as VaxCare and OrganOx illustrate a growing appetite for technology-enabled health solutions.** Energy-related subsections (equipment, services, exploration & refining) each logged 15 deals, aggregating £4.2B, indicating continued capital allocation to renewable and transition assets.

The energy sector overall attracted $110.8B globally, while infrastructure capital stood at $74.4B, already exceeding 75% of the 2024 total. Cleantech remains robust, with Europe's UK market delivering $36.8B in Q2, and impact-driven deals such as Renewi and AMP Solar UK highlighting a strong ESG pipeline. **The automotive sector experienced a sharp contraction: H1 2025 capital fell to $12.3B from $39.8B in 2024, reflecting supply-chain volatility, tariff uncertainty, and a shift away from capital-intensive manufacturing toward more domestic, less tariff-exposed sectors such as healthcare and infrastructure.** The decline in the automotive sector underscores the importance of sector-specific risk assessments for PE investors, especially in regions where tariff disputes remain unresolved.

Figure 5: The TMT Sector Has Been a Historical Overweight Globally



Source: Pulse of Private Equity Q2'25 KPMG analysis of global PE activity as of 06/30. Data provided by PitchBook.

Financing Conditions, Deal Structure, and Valuation Dynamics

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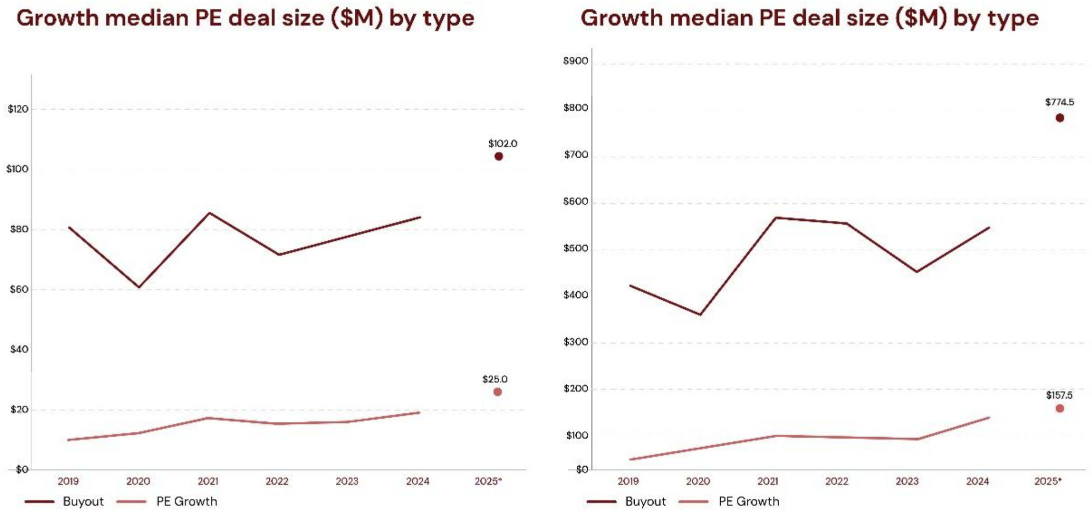
Elevated interest rates have forced sponsors to rely more heavily on equity, tightening IRR thresholds and curbing leverage-driven transactions. The average ticket size fell 22% to $285M, and valuation gaps widened, with public-to-private and growth deals falling 58% and 50% respectively. Secondary buyouts rose 12.5% Q/Q, indicating a pivot toward sponsor-to-sponsor transactions that require less debt financing. The heightened reliance on equity capital has compressed IRR expectations and amplified the importance of operational value-creation. **Valuation gaps have widened across the board, with public-to-private and growth deals falling 58% and 50% respectively, while secondary buyouts rose 12.5% Q/Q. This shift reflects a "wait-and-see" posture that favors lower-leverage, higher-equity structures.**

Figure 6: Global PE Deal Sizes Remain on the High End



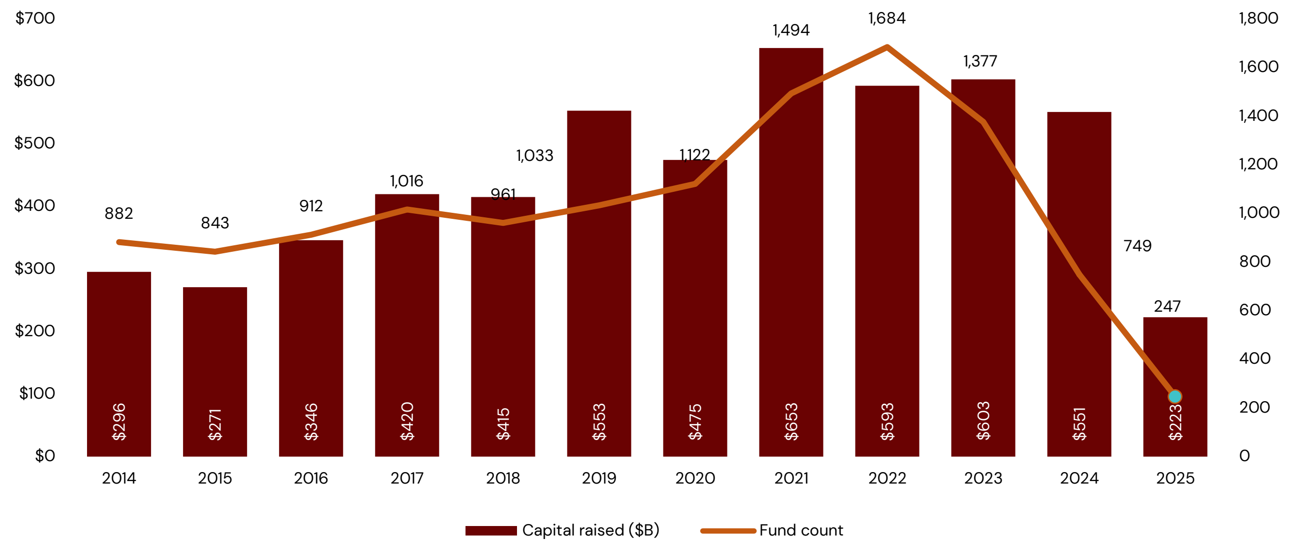
Source: Pulse of Private Equity Q2'25 KPMG analysis of global PE activity as of 06/30. Data provided by PitchBook.

The funding environment remains tight: fundraising fell 34% in Q2, with LPs more cautious toward first-time and emerging managers. **Global dry-powder fell ~23% to $177B, yet large-cap funds still hold >$100B each (Blackstone, KKR), providing a cushion for future deployment.** LP pressure for capital return is intensifying, prompting the increased use of continuation vehicles and evergreen (open-ended) funds, especially in capital-intensive, long-term assets such as defense-tech and infrastructure. While evergreen funds provide flexibility and longer investment horizons, they also raise questions about liquidity, valuation transparency, and alignment of interests.

Fundraising, LP Pressure, and Continuation Vehicles

Fundraising in Q2 2025 fell 34% compared with the prior quarter, with a total of $224.9B raised across 248 vehicles, the slowest year since 2020. Despite the slowdown, dry-powder remains substantial, especially in large-cap funds. **LPs are increasingly demanding capital returns, prompting sponsors to adopt continuation vehicles as an exit-avoidance tool**. Continuation vehicles have become a common mechanism for retaining high-quality assets while providing LPs with interim liquidity. However, this practice raises transparency and risk concerns, as valuation methodology and pricing may be opaque. **The growing adoption of evergreen, open-ended funds—particularly in the U.S.—reflects a strategic shift toward long-term, capital-intensive assets such as defense-tech and infrastructure.** These funds offer flexibility in holding periods, allowing sponsors to align investment horizons with asset life cycles, but they also impose new governance challenges. LPs are increasingly scrutinizing fund structures, emphasizing the need for clear governance, transparent reporting, and robust alignment of interests.

Figure 7: Global PE Fundraising Activity



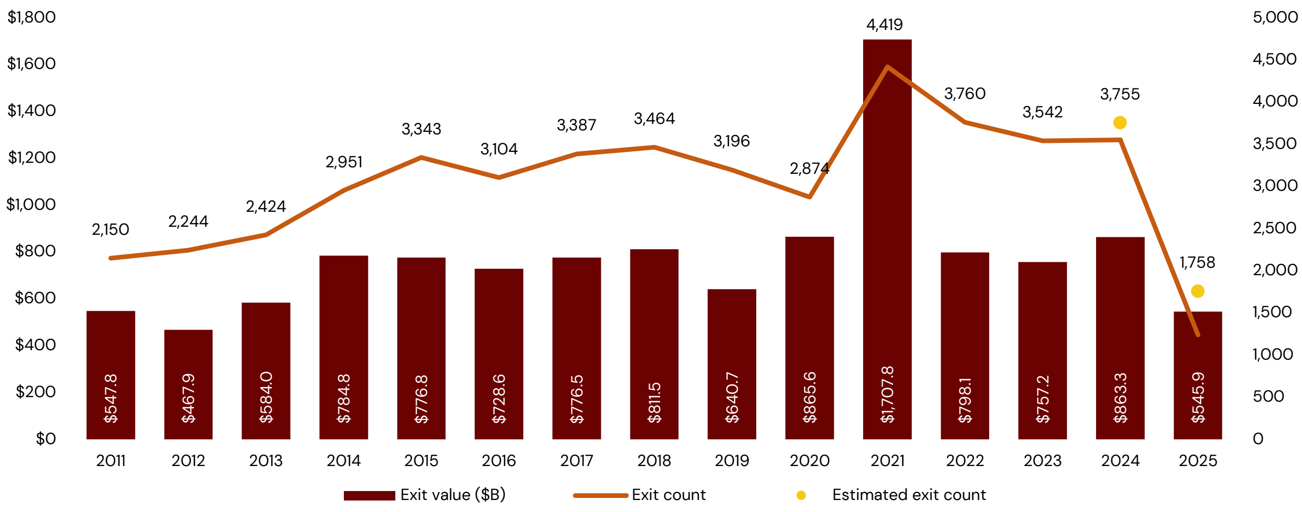
Source: Q2 2025 Global PE First Look, PitchBook. Data as of 06/30.

Exit Activity – IPOs, Secondary Buyouts, and Forced Sales

Exit activity in Q2 2025 remained modest, with 97 exits (+5% QoQ), of which secondary buyouts accounted for 35% of exits. **IPO activity remains limited, but US IPO exit value rose to $91.6B in H1 2025, nearly double 2024's $47.9B, indicating a gradual recovery of the public market. US PE exits rebounded to $318.9B in H1 2025, up from 2022/2023 levels, driven by a combination of forced sales, sponsor-to-sponsor transactions, and a nascent IPO pipeline**. The improved IPO environment could provide an alternative exit route to private sales, encouraging dual-track strategies. The exit market in Europe, however, remains weak; UK exit value fell to $16.1B in H1 2025, with IPO activity near zero. This divergence highlights the importance of regional exit dynamics in portfolio construction and exit timing.

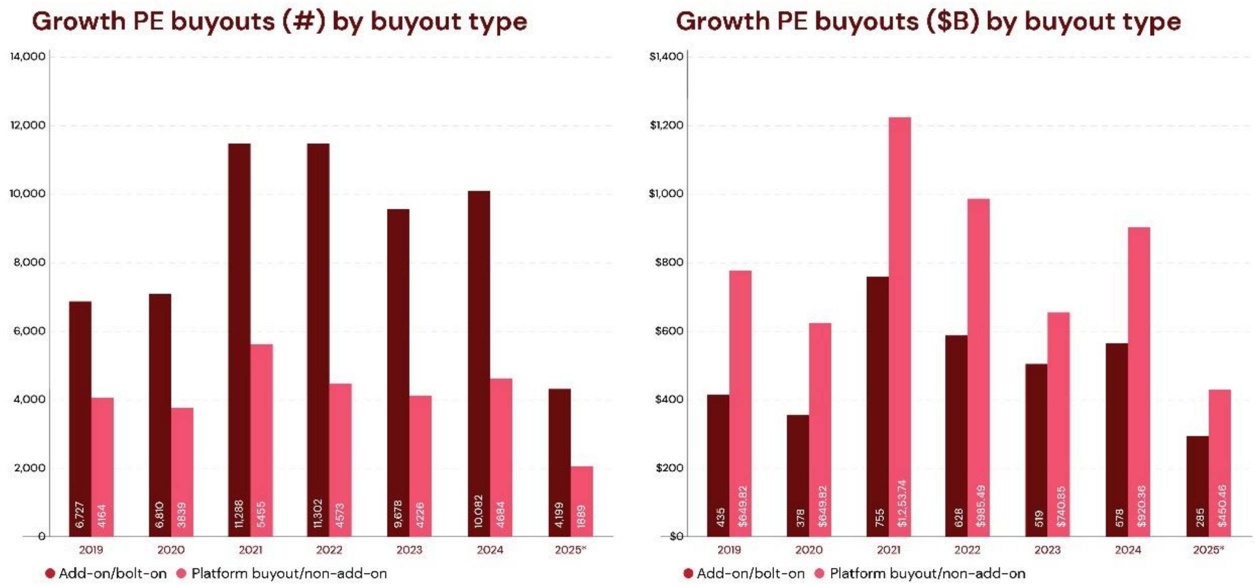
The growing prevalence of secondary buyouts and continuation vehicles suggests an evolving exit landscape that places greater emphasis on internal liquidity and sponsor-to-sponsor transactions, especially where public market liquidity remains constrained.

Figure 8: Global Annual PE Exit Activity



Source: Q2 2025 Global PE First Look, PitchBook. Data as of 06/30.

Figure 9: Historic Add-On Buyout Surge Eases in 2025



Source: Pulse of Private Equity Q2'25 KPMG analysis of global PE activity as of 06/30. Data provided by PitchBook.

Emerging Themes and Outlook for Q3 2025

3

AI Infrastructure, Defense-Tech, ESG, and Impact

AI-enabled infrastructure remains a focal point for capital allocation, with global PE investment in AI-related data centers and power generation exceeding $30B in Q2. Brookfield's $9.9B AI data-center in Sweden and the $25B US-Abu-Dhabi energy partnership illustrate the scale of AI-driven infrastructure investment. Defense-tech is gaining traction, particularly in the EMA, exemplified by Tikehau's $175M Defense & Security fund and UK-focused investments in suppliers to prime contractors. ESG and impact-driven strategies are increasingly differentiators in a crowded market, especially in healthcare, renewable energy, and health-tech.

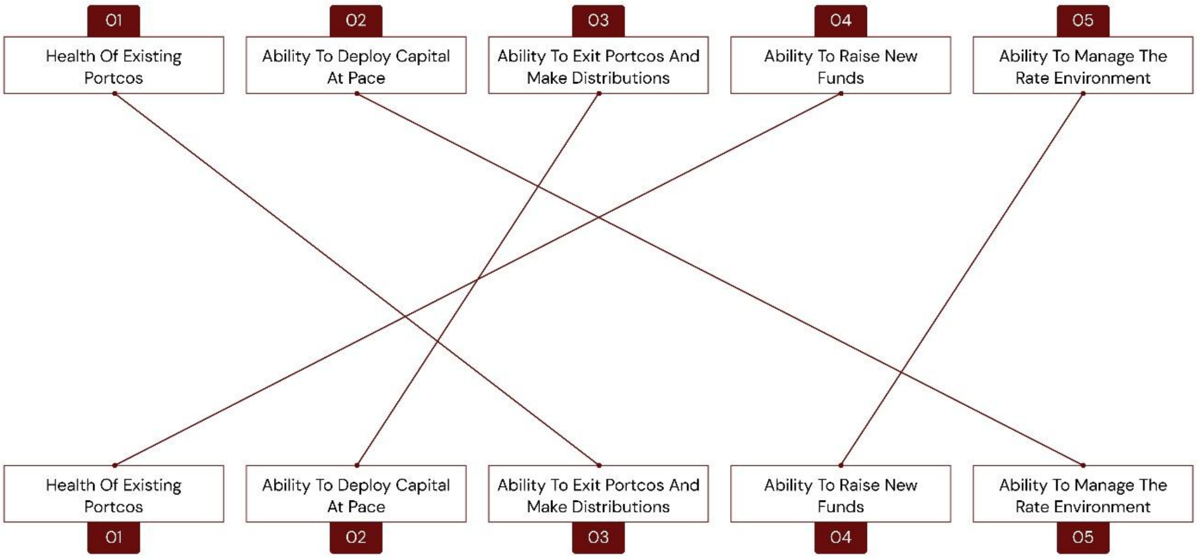
Impact-focused deals such as Altus Power, Geronimo Power, and VaxCare illustrate the growing integration of ESG mandates into PE allocation. Larger firms (Goldman Sachs, Blackstone, Brookfield) lead high-value strategic acquisitions, while mid-size funds focus on niche, high-margin sectors with ESG credentials. AI is also being leveraged internally by PE firms as an enablement tool—screening, due diligence, and portfolio monitoring—potentially improving performance and risk assessment. **The convergence of AI, defense-tech, and ESG is shaping a new "strategic" PE landscape, where high-quality, resilient assets with clear ESG narratives command premium valuations**.

Risks, Growth Drivers, and Outlook for Q3 2025

The macro-environment remains fraught with risk: **persistent inflation, tight credit, high-interest-rate policy, and a 50/50 probability of recession create a volatile backdrop**. Tariff disputes—particularly U.S.–China—and supply-chain disruptions continue to deter cross-border deals, especially in automotive and manufacturing. Valuation mismatches and heightened borrowing costs increase the likelihood of forced sales. Yet, growth drivers remain robust: **technology (software platforms), financial services (commercial banks, insurance), and healthcare (pharma/biotech) continue to attract LP capital**.

The US market, with its large-cap funds holding >$100B in dry-powder, is poised to deploy capital into **high-ticket, AI-related infrastructure and defense-tech assets**. Continuation-fund activity and sponsor-to-sponsor deals are expected to sustain exit activity, while an improving IPO market in the United States may provide additional liquidity. **The key catalysts for Q3 2025 include resolution of U.S.–China tariff disputes, the passage of the U.S. "Big Beautiful Bill" (which leaves carried interest unchanged and simplifies regulatory frameworks), and a rebound in IPO activity**. High-quality, regional assets—particularly those with strong domestic market positions and low exposure to tariff risk—are likely to attract rapid, high-price deals, whereas lower-quality assets may face longer sale cycles and higher failure risk.

Figure 10: Top Concerns Among PE General Partners — 9M Ago vs. Today



Source: EY PE Pulse survey conducted by AlphaSights, 30 June 2025.

Investment Implications and Conclusion

The Q2 2025 data illustrate a private-equity market in transition: a contraction in overall capital and deal volume, yet an underlying resilience that keeps activity above pre-pandemic levels. **Investors should calibrate exposure toward high-quality, regionally focused assets in sectors such as AI-enabled infrastructure, defense-tech, healthcare, and renewable energy, where capital allocation remains robust despite macro-headwinds**. In the United States, mega-deals continue to dominate, but the market is increasingly dominated by secondary buyouts and continuation vehicles, which will shape exit dynamics and valuations.

In Europe, the UK's middle-market resilience offers opportunities, but exit constraints necessitate careful liquidity planning. In Asia-Pacific, divergent performance between China, Japan, and Australia underscores the need for granular, country-specific analysis. **Investors should monitor the trajectory of the U.S. IPO market, policy developments around tariffs and fiscal reforms, and the evolution of evergreen fund structures, all of which will shape capital allocation and exit opportunities**. A disciplined focus on high-margin, domestic-oriented assets with clear ESG and impact narratives, coupled with rigorous valuation discipline and an eye on the evolving exit landscape, will position investors to capture upside while mitigating the heightened risk environment that defines the current private-equity landscape.

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