

2025 Private Equity Outlook

As we approach 2025, the private equity landscape presents both challenges and opportunities for investors. In this outlook, we explore three critical themes shaping the market and how they align with our strategy to deliver value for our clients.

Lower mid-market

The lower mid-market continues to stand out as one of the most compelling segments for private equity investment in 2025. Often overlooked by larger industry participants due to its size and complexity, this segment offers a unique combination of growth potential, valuation discipline, and the opportunity for hands-on operational improvement. In addition, many sectors within this space, such as healthcare services, specialty manufacturing, and IT-enabled services, remain fragmented, offering opportunities for buy-and-build strategies through M&A.

In the lower mid-market segment, both the US and Europe offer attractive opportunities and should be on the map of allocators in 2025. We believe Europe to be particularly interesting as its less competitive due to lower number of funds for an equivalent number of SMEs, offering a valuation advantage. This creates a more favourable environment for outsized returns, particularly when coupled with strategic value creation initiatives.

However, the European lower mid-market has consistently demonstrated greater resilience compared to the more volatile large-cap segment. This distinction became particularly evident in 2022 and 2023, a period marked by record-low distribution levels across the private equity market. In Europe, the slowdown was entirely driven by the large-cap segment, where exit activity nearly halved compared to 2021. In contrast, the lower mid-market maintained stable exit activity, further underscoring its enduring strength even amidst broader market challenges.

In a competitive private equity landscape, the lower mid-market provides an attractive risk-reward balance for disciplined investors. It is a segment where focused strategies and value creation can generate meaningful returns for our clients while supporting the growth of dynamic businesses.

Platform plays and the rise of independent sponsors

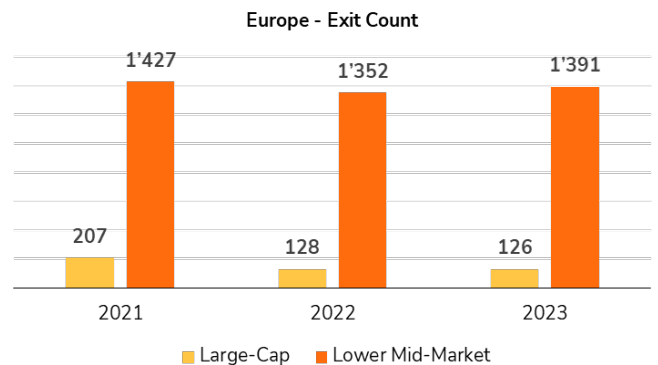
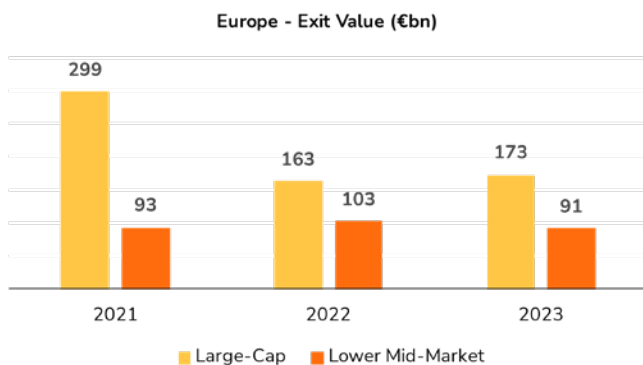
As eluded above, the private equity ecosystem continues to gravitate toward platform investments, particularly in highly fragmented sectors. Platform plays, which involve consolidating a core business and expanding it through additional acquisitions (known as “add-ons” or “bolt-ons”), remain a preferred strategy for driving operational synergies and scaling value creation.

Independent sponsors (i.e. deal-by-deal managers) are playing a transformative role in this shift, bringing tailored expertise and flexibility to complex deals. At Syz Capital, we take pride in contributing to this ecosystem, whether as a lead General Partner (GP) or as a capital partner, collaborating with top-tier operating teams on highly value-enhancing transactions. This model allows us to harness our deep industry insights while maintaining the ability to secure high-potential opportunities for our investors.

The critical role of IT infrastructure

The increasing reliance on digital transformation and technology complexity underscore the importance of IT infrastructure as a core focus for private equity. Demand for Managed IT Service Providers, data centres, and related infrastructure remains robust, fuelled by the exponential growth in data usage and the shift to cloud-native solutions.

Beyond infrastructure, the software and services sector continue to be a fertile ground for investment. Mission-critical software providers, particularly those offering subscription-based models with high customer retention, are likely to remain attractive targets. We are actively monitoring and investing in these sectors to capitalise on their long-term growth trajectory.



Source: "2023 Annual European PE Breakdown" - PitchBook

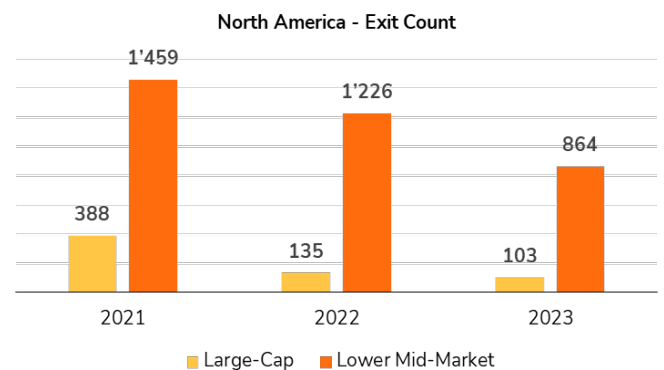
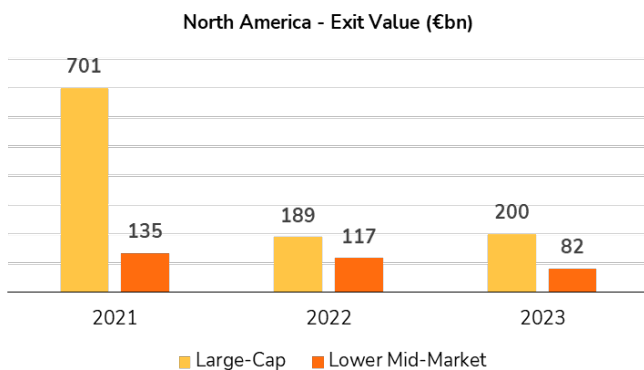
Opportunities in the secondaries market

In an environment where Distribution to Paid-In Capital (DPI) remains constrained, the secondaries market remains a compelling avenue for liquidity and innovation. We anticipate growth in niche areas such as distressed secondaries and GP-led transactions, where sophisticated structuring can unlock significant value.

For investors seeking returns amid challenging exit environments, these strategies offer a way to access high-quality assets at potentially favourable valuations.

Looking ahead

As we move into 2025, private equity remains an essential component of a diversified investment strategy, and a significant driver of returns. We favour “high alpha” segments where returns are derived from complexity and operational improvement with little financial leverage and therefore more downside protection. We favour small cap buyouts where significant returns can be generated under the right stewardship, which means being very focused on partnering with only the very best teams, where access is often restricted. By focusing on platform plays, embracing the digital transformation of IT infrastructure, and exploring opportunities in the secondaries market, we aim to deliver resilient and attractive returns for our clients in a shifting global landscape.



Source: "2023 Annual US PE Breakdown" - PitchBook