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Private Equity Dealmaking in a More Demanding Market

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Despite recent headwinds, private equity remains highly active. Capital is available, processes are competitive and high-quality assets continue to command attention. But the market is less forgiving. Transactions that once cleared on momentum, liquidity or multiple expansion now must withstand sustained pressure on price, structure, regulatory risk, financing certainty and exit credibility.

For sponsors, that shift matters because performance depends on repeatability. Entry discipline, financing, governance, operational execution and exit are not discrete steps. They are a single system. In a tighter market, stress at any point is exposed earlier and at greater cost. Underwriting must extend beyond the asset to the full set of legal, regulatory and financial constraints that will shape the investment from signing through realization.

The firms with an advantage are those that identify early where a deal can fail, structure for flexibility under changing conditions and integrate legal, regulatory, financing and exit considerations into investment judgment from the outset.

Competition authorities now shape transactions at inception

Antitrust analysis can no longer be deferred until economics are agreed and documents are in form. Competition authorities increasingly influence deal feasibility, structuring, remedy risk and whether the timetable can support financing, management stability and commercial continuity.

This reflects a wider shift in enforcement: more deal types can be reviewed, more theories of harm are in play, and more information is demanded up front. Authorities are assessing vertical relationships, data concentration, platform dynamics, innovation pipelines and strategic positioning with broader and less predictable scope. For sponsors, the question is not whether a position is technically defensible, but whether it is robust enough to withstand a regulator prepared to test assumptions.

As a result, competition analysis has to move into deal selection. Sponsors need a realistic view of authority posture, recent enforcement patterns, remedy viability and timing risk before they price and before they commit. This preparation directly strengthens credibility with sellers.

Sponsors that can distinguish between manageable complexity and unfinanceable risk will see value where others hesitate. This requires the antitrust analysis to be done early and with sufficient depth.

Regulatory authorities are now central to execution risk

Competition review sits within a wider and increasingly consequential approval landscape. Foreign investment and national security regimes, sectoral regulators, prudential authorities, sanctions frameworks and data regulation now play a decisive role in whether a transaction proceeds, on what timetable and on what terms.

These regimes do not operate solely by reference to legal permissibility. They assess transactions through a broader lens that may include ownership profile, governance rights, access to sensitive assets or data, resilience of critical services, employment effects and political context. A deal that is legally executable may still encounter resistance because the authority is asking a different question: whether the transaction should proceed in the proposed form.

This changes how sponsors need to manage process. Approval mapping must occur earlier and with greater precision. Governance rights, information access and consortium structures need to be calibrated with regulatory expectations in mind. Engagement strategy should be part of deal design, not a reactive step.

Regulatory risk is **now** a core driver of timing, certainty, financing and, in some cases, ultimate value.

Valuation is where discipline is either preserved or lost

Most transactions do not fail for lack of assets. They fail because buyer and seller cannot align on value. Price has remained the principal cause of failed deals, ahead of diligence and macro factors. Sponsors broadly expect valuation multiples to remain stable, limiting the scope for multiple expansion to correct an aggressive entry price.

This places greater weight on underwriting precision. Sponsors need a clear separation between value that is present, value that can be created and value that is contingent. Bridging valuation gaps with optimism is less defensible where financing, regulatory approvals and exit each require their own margin for error.

Price becomes the anchor for the entire execution model. It determines financing resilience, tolerance for regulatory friction, management alignment, downside protection and exit flexibility.

Exit planning now begins at entry

Liquidity has improved, but unevenly. Distributions remain under pressure and a substantial inventory of unsold assets persists.

Sponsors cannot rely on timing alone. Exit readiness has to be built during the hold period. Assets must be capable of withstanding scrutiny from strategic buyers, other sponsors, lenders and public markets. That requires more than financial performance. It requires depth of management, credible forecasting, consistent KPIs, operational resilience, tax and structural preparedness and a governance model that supports a demanding process.

Future buyers are also diligencing more critically. They are testing the durability of growth, the sustainability of margins, the depth of management, the integrity of reporting and the absence of residual legal or regulatory issues that could narrow the exit universe.

Advantage comes from preparing assets for multiple exit routes, not predicting windows.

Stakeholder pressure extends beyond public markets

Activism is not confined to listed companies. Investor pressure now affects take-privates, carve-outs, minority investments and exit processes. It can accelerate, disrupt or reframe transactions.

More fundamentally, activism is often an expression of a gap between strategy and stakeholder confidence. For sponsors, that translates into a requirement for narrative discipline. Where the investment case is unclear, governance appears reactive or capital allocation lacks coherence, transaction risk increases regardless of the source of pressure.

Execution therefore requires the ability to articulate, consistently and credibly, where value will be created, why the proposed ownership structure is appropriate and how the business will perform through change.

Post-closing risk is set at signing

Post-closing disputes rarely arise from drafting alone. They reflect risks embedded in the transaction at entry. Purchase price adjustments, earn-outs, interim covenant claims and disclosure disputes typically originate in assumptions that were not tested with sufficient rigor.

The discipline is not to eliminate all risk, but to identify the real failure points and allocate them deliberately while leverage exists. That may affect insurance, indemnity structure, escrow, earn-out design, disclosure mechanics and interim governance.

Sponsors do not need certainty on every point. They do need clarity on which risks they retain, which they transfer and which could impair the investment thesis.

Governance is part of execution capability

Governance is no longer process hygiene. It is an execution tool. The quality of decision-making at sponsor, board and management level now directly affects whether a transaction can be negotiated, sustained and, if necessary, adapted under pressure.

Effective governance requires clarity on decision rights, escalation pathways when assumptions change, disciplined articulation of strategic rationale and structures that allow management to move quickly without appearing reactive. It also requires the willingness to reshape or exit transactions before sunk costs distort judgment.

This is particularly important in cross-border transactions involving multiple regulatory regimes and stakeholder groups. Strong governance has become part of sponsor reputation and a source of advantage with sellers, lenders, regulators and future buyers.

Three observations for sponsors

First, the recovery has been uneven. Activity has returned, but gains have been concentrated among larger funds and transactions.

Second, liquidity pressure persists. LPs continue to focus on distributions and realized returns, increasing pressure on sponsors to deliver DPI and maintain credible exit pathways.

Third, operational performance is now the primary driver of returns. With limited expectation of multiple expansion, value creation depends more heavily on execution, management capability and the credibility of the underlying business plan.

Private equity is not being asked to be less ambitious. It is being required to be more exact. Investment judgment is formed earlier and tested more rigorously throughout.

In this market, advantage does not come from assuming that a strong asset will carry a transaction. It comes from controlling the variables that determine whether the transaction can be executed, sustained and exited under pressure.

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