2025 mid-year outlook

Global M&A trends in private equity and principal investors

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Private equity: How the power players are navigating the new realities of M&A

By Eric Janson

Private equity remains an engine for dealmaking — but it must adapt to a new environment: costlier capital, tougher exits, and an AI revolution that brings both opportunity and change.

We see a continued strong appetite for dealmaking among private equity (PE) and principal investors despite the recent market volatility and policy uncertainty. Profitable businesses with solid fundamentals and compelling sector tailwinds continue to attract investor interest, but dealmakers are showing greater selectivity and, at times, are opting to pause.

Some of the largest PE funds are making use of the uncertain US environment to expand internationally, including in Europe, as well as to plug vulnerabilities and reduce pressure points in their own operations and those of their portfolio companies. That includes ensuring they are in a better position to deal with macroeconomic and geopolitical uncertainty, including supply chain risks and complications relating to potential tariffs. Sovereign wealth funds have also stepped up their activity in Europe and elsewhere.

Increasingly, we see large funds deploying AI to improve operational efficiency, including by constructing AI deployment blueprints for their portfolio companies. We expect AI to play an ever-larger role in M&A as the technology advances, more use cases are identified, and dealmakers become more comfortable using the available tools and trusting the outputs. This is a global phenomenon not limited to the US. Among principal investors, for example, sovereign wealth funds in the Middle East, Asia, and elsewhere are committing substantial funds to finance AI's huge energy infrastructure needs, often in conjunction with PE players—a trend we expect to continue.

‘While continuing to do deals where strong conviction exists, we are also seeing some of the largest private capital players using the current uncertain market to look inward, improve their efficiency and capabilities, and ensure they are in an even stronger position when the market picks up more robustly.’

Eric Janson, Global Private Equity and Principal Investors Leader, PwC US

Both the volumes and values of PE buyouts rose in the first quarter of 2025 from the same period a year ago. The deal volumes rose to an estimated 4,828, up from 4,462, and deal values rose to an estimated $495bn, compared with $354bn in the first quarter of 2024. Early data suggests that the upward trend seen in the first quarter of 2025 continued in the second quarter, although less robustly. PE was behind one of the largest M&A deals of the year so far, with the announcement in April 2025 by GTCR that it is selling the payment processing firm Worldpay, a company it has held in its portfolio for less than two years, to Global Payments in a $24.25bn transaction.

Index

Exits remain difficult in some cases—though, according to PitchBook data, the volume of PE exits in the first quarter of this year increased by 83 deals (to 903) up from 820 in the first quarter of 2024. The value of exits also rose, almost doubling to $302bn in the first quarter of 2025, up from $166bn in the first quarter of 2024. Some of this growth is driven by the rising use of secondary transactions and continuation funds, which provide liquidity for investors looking for the return of capital, while allowing others to roll over their investments and maintain participation in the portfolio companies’ future potential. Despite the increase in exit activity, the backlog of portfolio companies continues to grow. Fundraising for PE firms also remains challenging, with more capital flowing to top-performing general partners. However, if policy uncertainty subsides, we expect the pipeline of PE exits will begin to ease, leading to an upturn in dealmaking.

30,500

The global inventory of private equity portfolio companies as of March 2025, up 1% from the beginning of the year.

Source: PitchBook

The US market is marked by caution amid uncertainty about the direction of trade policy shifts, higher-than-anticipated interest rates and some continuing regulatory headwinds. It was widely anticipated that the US would see some deregulation in the markets which would be a net positive for M&A. However, much of the expected deregulation has not happened, and the US Federal Trade Commission (FTC) has continued to scrutinise larger deals. For example, in March 2025, the FTC requested further information in relation to Arthur J. Gallagher’s pending $13.45bn acquisition of insurance brokerage company AssuredPartners.

Outside the US, activity among PE firms and private investors—entities such as family offices and sovereign wealth funds that invest their own capital directly into assets or companies—has been stronger in several markets. This includes Japan, where low interest rates and rising shareholder activism are prompting major conglomerates and trading houses to reassess their portfolios and divest non-core assets. These actions are creating attractive opportunities for dealmaking and generating interest from PE and principal investors. Europe continues to draw investor interest, driven by relatively lower valuations compared with the US and new opportunities arising from increased government spending commitments in key countries, particularly in defence and infrastructure. Among other PE examples, Blackstone Group has said it is expecting to invest at least $500bn in Europe in the coming decade and is looking for opportunities to become a major lender to companies across the continent and strike large infrastructure deals and takeovers.

Another big theme for both PE and principal investors is the continued growth of private credit. Some of the largest PE players have been developing their capabilities over the past few years and making strategic acquisitions along the way. Examples include TPG's acquisition of Angelo Gordon in November 2023, Brookfield's strategic investment in Castlelake in September 2024 and BlackRock's proposed acquisition of HPS Investment Partners announced in December 2024. As we describe in more detail below, private credit is evolving and increasingly being used not only as an alternative to leveraged bank lending but also more widely as a structured debt instrument.

Index

Key M&A themes for private equity and principal investors

Creating AI blueprints for portfolio companies. The rapid spread of generative AI based on large language models has created new opportunities for owner-operator funds to improve the efficiency of their own operations and that of their portfolio companies. Some funds are creating AI blueprints for certain functions that can be replicated across their portfolios. This is particularly the case with call centres involved in customer care, for which AI can accelerate response times and improve accuracy. AI is also being used for knowledge management, where the technology can be deployed to organise customer data and then enable companies to interact with it faster and more efficiently. Another area where we see internal AI deployment is in software development, with funds looking to achieve economies of scale and standardisation.

While such activities are taking place in several of the larger funds, few have publicly commented on them. One exception is Brookfield, which has detailed how it is selectively deploying AI across its portfolio to improve revenue and profit margins. Two companies in its residential infrastructure portfolio, Enercare and HomeServe, which provide 10.5m residential customers with services such as home plumbing, heating and cooling, and electrical system products, are using AI to automate repair calls—which currently account for about 45% of the 3.6m calls received every year. AI bots are being deployed to perform routine tasks such as scheduling appointments, freeing up human call agents to focus on higher-value customer calls. According to Brookfield, its AI bots have cut call times by 15–20% and increased customer satisfaction. At the same time, the smarter deployment of human sales agents has increased sales, upgrades and customer retention rates by about 25%.

Large funds are also looking to deploy AI to sharpen their deal processes. Investment teams are adopting AI research agents with advanced reasoning engines to improve deal sourcing, simplify initial briefings and clarify investment theses. Some larger funds are creating virtual investment committee 'personas' and AI advisors to simulate committee interactions and conduct scenario analyses. These AI solutions analyse historical data from numerous prior deals—typically at least 50—to create focused investment models, identify key risks and prepare deal teams effectively for investment committee reviews.

Value in motion: PE crosses sector boundaries to create growth

Our 2025 M&A outlook published in January discussed ways in which private capital is playing a significant role in funding the convergence of sectors, including bringing together technology players, energy companies and infrastructure firms to build and power new data centres to meet growing AI demand.

Private capital is at the heart of this transformation because of its ability to bring together a wide range of sectors, marshal significant funds and devise flexible financing options. At a global level, sovereign wealth funds and other principal investors are playing an important role in this convergence trend, including in large-scale data centre projects. For example, xAI, Kuwait Investment Authority and Temasek recently announced plans to join the AI infrastructure partnership, formed in September 2024 by BlackRock, Microsoft and others to invest in data centres and supporting power infrastructure. Meanwhile, Saudi Arabia, through its sovereign Public Investment Fund, has launched a major AI initiative called HUMAIN to boost AI capabilities in the Middle East. In addition, Middle East and French investors have entered into a partnership to build a large AI campus in Paris—the largest of its kind in Europe.

We are also seeing partnerships in the energy space, such as NextEra Energy announcing a new framework agreement with GE Vernova to develop natural gas generation projects paired with renewable energy and storage.

Other forms of sector convergence include growing links between technology firms and healthcare, financial services and automotive companies, among others. These and similar cross-domain plays point to a structural shift in the global economy as new pools of value are being created from the clustering of industries around core human-centric activities such as **how we power, how we build, how we care**, and so on.

Examples of recent deals which illustrate this convergence theme among other sectors include Bain's announced acquisition of HealthEdge (a next-generation software-as-a-service platform that connects health plans, providers and patients with a suite of end-to-end digital solutions); the acquisition of Edifecs (a healthcare data interoperability company backed by TA Associates and Francisco Partners) by Cotiviti (a data-driven healthcare solutions company backed by KKR and Veritas Capital); TPG's acquisition, in partnership with corporate payments company Corpay, of AvidXchange (a provider of accounts payable automation software and payment solutions); and Main Capital Partners' announced investment in Dutch automotive software player UnameIT.

Private equity's new retail play: Retirement plans

In our 2024 mid-year M&A outlook, we highlighted efforts by leading private capital funds to woo retail investors. A new focus area is to attract retail investors in the US through individual 401(k) retirement funds.

Several large PE groups have recently launched funds and similar investment products that are tailored for 401(k)s. KKR has partnered with Capital Group to launch two interval funds focused on credit strategies, with work underway to extend access for individuals interested in private markets through vehicles such as model portfolios and target date funds. These types of funds are designed to overcome one of the complexities of offering PE products to a broad public—namely, how to cope with simultaneous mass redemptions by placing some restrictions on when investors can sell (hence the name 'interval' funds).

Apollo and asset manager State Street launched a fund in April 2025 that will let investors allocate 10% of their 401(k) portfolios to private markets. The following month, Empower, the nation's second-largest 401(k) provider which oversees $1.8tn in 401(k) plans for 19m people, announced a partnership with private investments fund managers and custodians to offer private credit, equity and real estate in some retirement plans.

Index

Regulatory winds appear to be shifting in favor of this trend: media reports indicate the Trump administration is contemplating an executive order that would instruct federal agencies, including the SEC, to explore allowing PE and other private capital investments within 401(k) retirement plans, potentially removing the liability risk that remains an important obstacle to their adoption.

Spotlight on:

The evolution of private credit

Index

Rapid rise in market size: The growth of private credit over the past 15 years has been rapid and transformative. With global assets under management of almost $2tn, private credit has been competing head-on with traditional leveraged bank lending—and making inroads. The appetite among investors is showing no signs of slowing: according to PitchBook data, in 2024, the five largest private credit funds each raised more than $10bn, for a combined total of $77bn.

Expanding beyond direct lending: As private credit grows globally, it is also changing. It started out as direct lending by non-banks, such as investment funds lending to corporate borrowers. Now it is broadening out and increasingly being tailored to different parts of the debt value chain—from deal funnel and origination to underwriting, structuring, placement and distribution. Some recent transactions more closely resemble structured finance than straight debt transactions. For example, in June 2025, Carlyle's Global Credit platform agreed to a $1.3bn strategic investment in insurance brokerage company Trucordia. The transaction is expected to reduce Trucordia's leverage and simplify its governance structure by repurchasing units from existing minority investors. Also in June 2025, KKR announced it is providing $600m of flexible structured capital to Indian conglomerate Manipal Group to support the group's expansion and growth objectives. This followed the acquisition by Singapore's Temasek of a 41% stake in Manipal Health Enterprises in November 2024 for about $2bn.

Greater structural flexibility for lenders: Private credit funds are subject to lighter regulation than banks and thus have greater flexibility in the types of collateral they accept, including from below-investment-grade borrowers. By focusing on riskier tranches of the capital structure, these lenders can often target higher returns. Some private credit lenders accept payment-in-kind or equity-linked instruments to enhance yield and optionality.

Tailored advantages for borrowers: For borrowers, too, there are significant advantages, such as borrowing that is more tailored to their needs, non-dilutive and can unlock access to capital with greater speed. With many companies needing capital for transactions or operations, new forms of private credit are emerging, including funds taking minority stakes and thus becoming more like convertible preferred instruments. These allow lenders to receive fixed returns as if the instrument is debt but with the option to convert into equity under certain conditions, blending debt-like downside protection with equity-like upside participation.

Emergence of hybrid credit funds: As this transformation continues, we are seeing the growth of new types of funds. For example, in September 2024, Warburg Pincus closed its first dedicated fund for a structured-investing strategy that provides capital to businesses using a combination of debt, preferred equity and asset-based finance. The new vehicle closed at $4bn, double its initial $2bn target. Carlyle Group closed its third fund, Carlyle Credit Opportunities Fund III, in December 2024, securing $7.1bn in investable capital.

Scrutiny grows as market matures: The rapid growth of private credit has created some unease, including from the IMF, which has warned of vulnerabilities. Many credit funds have yet to experience a full credit cycle or severe market downturn. As such, there is limited visibility into how these vehicles perform under significant stress or in managing distressed assets. With growing participation from institutional and retail investors, these funds are facing greater regulatory scrutiny to provide greater transparency and investor protection.

M&A outlook for private equity in the second half of 2025

Index

At a time when financial markets are in flux and gyrating, PE and principal investors are emerging as an engine for continued M&A, albeit at a still subdued level. Given the pressures on companies to transform and the uncertainties of both valuations and the trajectory of interest rates, PE and principal investors are likely to be at the centre of M&A activity in coming months as sectors converge and technology continues to reshape the global business landscape. With dry powder at or near record levels, PE and principal investors are well positioned to act decisively, making them a formidable force in driving deal flow in the months and years ahead.

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Private Equity insights

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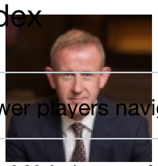

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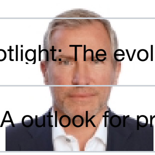

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Index

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Index