

Navigating Private Equity Exit Challenges: How a Rapid Portfolio Exit Readiness Execution Plan Can Boost Valuations

Rapid Portfolio Exit Readiness: Navigate Exit Challenges with Value Creation

The private equity (PE) landscape in 2025 is fraught with challenges that have significantly slowed exit activities — holding periods for portfolio companies have reached a record high median of 5.8 years since tracking began in 2000.

High interest rates, valuation mismatches and a staggering \$3 trillion backlog of unsold assets have created a bottleneck, delaying exits and impacting fund performance. These issues are further compounded by market volatility, high interest rates, regulatory pressures and geopolitical tensions, which have further complicated traditional valuation processes and investor confidence.

The results? Extended holding periods, increased business complexity, additional regulatory scrutiny and increased investor pressure as liquidity becomes strained.

Deploying a Rapid Portfolio Exit Readiness plan that takes all these factors into account offers a holistic approach to improving valuations and surmounting the exit challenges funds are facing at this crucial time in the PE sector.



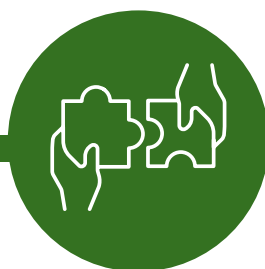
To navigate these hurdles, PE firms are adopting innovative mitigation strategies that shift focus from quick flips to longer-term value creation strategies:



Operational Improvements

Enhancing company performance and positioning through targeted initiatives such as:

- Cost optimization.
- Margin management.
- Working capital improvement.
- Commercial growth acceleration network optimization.



Add-On Acquisitions

Driving scale and strategic value by:

- Fully integrating existing add-ons and executing new bolt-ons.
- Executing new bolt-on acquisitions to expand product offerings, geographic reach, vertical integration or capabilities.
- Realizing synergies that enhance exit multiples.



AI Integration

Deploying artificial intelligence to accelerate:

- Design for producibility.
- Operational efficiencies, such as demand forecasting and process automation.
- Customer engagement, including personalization, enhanced customer support and predictive churn.
- Executive decision-making through data insight.
- Identification of potential targets for independent sourcing.



Continuation Funds

Using structured secondaries to:

- Extend hold periods for high-potential assets in a constrained exit environment.
- Reinvest with a clear operational roadmap and alignment from new shareholders.



Partial Realizations

Creating interim value and liquidity, if needed, through:

- Minority stake sales or structured equity solutions.
- Retaining upside while managing fund duration and returning capital to limited partners (LPs).



The Need for Focused Value Creation to Maximize Exit Valuations

In today's environment, funds are struggling to meet value creation execution expectations over the course of the holding period. In a recent A&M survey of 100 PE firms and portfolio management teams, 72 percent of firms surveyed have realized less than 75 percent of the expected value. Additionally, the investment of resources to create value is traditionally happening earlier in the investment cycle, as only 37 percent of those same firms surveyed stated they continue to invest those resources in value creation during the final stages prior to exit readiness.

Despite fluctuating market conditions and the Federal Reserve maintaining steady interest rates, 16 percent of funds are hastening their exit timelines, with many respondents citing macroeconomic concerns as the driver. Of those, 56 percent are increasing their focus on value creation. In a market where cost cutting alone is insufficient, value creation efforts have fallen short, exits have slowed — down 20 percent in Q1 2025 from the previous quarter — and exit timelines are decelerating. Why, then, are PEs reducing emphasis on value creation at the cycle's most critical point when maximizing value is paramount?

There is still significant potential for value creation before sell-side diligence begins and throughout the hold period:



Organic Growth: Extending reach into new markets with new products or service offerings to deliver increased scale.



Operational Improvements: Enhancing portfolio company performance through cost optimization and efficiency gains.



Add-On Acquisitions: Leveraging smaller acquisitions to build scalable platforms and improve valuations.



AI Integration: Utilizing artificial intelligence for operational efficiencies, customer engagement and strategic decision making.



Continuation Funds: Further investment and holding time to maximize value in a challenging market.



Partial Realizations: Selling minority stakes to generate liquidity while retaining control for future value creation.

This potential varies by portfolio company but can be captured through a customized approach that aligns with a fund's strategic goals and preferred exit pathway.





An Integrated Approach: A&M's Rapid Portfolio Exit Readiness

A&M has tailored its new “Rapid Portfolio Exit Readiness” offering to be a comprehensive, integrated approach that helps PE firms overcome exit challenges and maximize valuations. Our methodology focuses on high-impact levers and prioritizes opportunities that deliver immediate and long-term value. Our step-by-step approach is structured to understand the situation, then improve it.

1 Rapid Opportunity Identification, Quantification and Prioritization:

- Identify all value creation opportunities and financial impacts across commercial and operational levers.
- Prioritize levers based on impact versus time-to-value.
- Conduct scenario modeling to evaluate potential outcomes.
- Align leadership on strategic priorities to ensure cohesive execution.
- Kick off quick wins with paths to value realization within zero to nine months.
- Create project and initiative tracking mechanisms to keep value propositions as focal points.

2 Execute on Opportunities:

- Structure an implementation program for near-term improvements to realize immediate value — including governance, project plans and key performance indicators.
- Detail long-term opportunities that move other considerations into viable EBITDA improvements.
- Build robust business cases to fund CapEx-dependent initiatives.

3 Financial Transparency and Exit Readiness

Buyers pay for clarity — and penalize uncertainty. Strong financial transparency builds trust, speeds diligence and supports premium valuations.

- **Exit-Grade Reporting:** Clean, Generally Accepted Accounting Principles- (GAAP) aligned financials that clearly show where and how the company makes money by product, customer or region. No surprises, no noise.
- **KPI Dashboards:** Sharp, actionable metrics that highlight trends, track performance and reinforce the management story. Think: revenue growth, margin expansion, retention and cash conversion.
- **Working Capital & Cash Flow Clarity:** Normalize working capital and isolate one-time impacts to show a clear, consistent cash story that buyers can underwrite.

Our approach integrates commercial, operational, strategic and financial opportunities, ensuring a holistic value creation strategy that aligns with market demands and buyer expectations.



Prepare for Success

The PE environment faces unprecedented challenges, but with the right strategies, firms can navigate these complexities and achieve successful exits. One under-leveraged approach is to continue investing resources in value creation during exit readiness. This has the potential to maximize valuation and provide prospective buyers with concrete, near-term run rate opportunities for financial and operational improvement.

A&M's newest "Rapid Portfolio Exit Readiness" offering provides an integrated approach ensuring that every portfolio company is positioned for success, delivering superior returns and setting the stage for future growth.

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