



**PRIVATE EQUITY
PERFORMANCE IMPROVEMENT**

EXTENDED EXITS AND VALUE CREATION IN 2025: TRANSFORMING PORTFOLIO COMPANIES IN UNCERTAIN TIMES

JUNE 2025

CONTENTS



01/
FOREWORD P.3

02/
INTRODUCTION P.4

03/
**EXECUTIVE
SUMMARY** P.6

04/
KEY FINDINGS P.7

05/
CONCLUSION P.17

06/
CONTACTS P.19

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01/

FOREWORD

The first half of 2024 may have looked promising for deal activity, but market and geopolitical uncertainty continued to evolve, and new headwinds emerged. Additionally, the threat of trade wars from proposed tariffs and retaliatory reactions have significantly dampened the appetite for risk to the degree that Private Equity (PE) fund leaders have begun to call for urgency as Limited Partners become more vocal about returns and exits are much more difficult than in the past.

In simple terms, it's probably the most challenging environment PE has ever faced in its existence.

Our second annual value creation survey shows that investors are meeting these PE market challenges by finding new ways to create value. Faced with extended investment hold times, it is critical for PE funds to figure out how to maintain an attractive internal rate of return (IRR) and achieve multiple on investment capital (MOIC) metrics. Properly executed value creation plans can help increase portfolio company profitability to battle against challenging market dynamics. As such, funds have been expanding value creation scopes to include more organic growth initiatives and larger, more complex operational transformations. This year's survey also demonstrates that funds are becoming bolder with how they use technology as well as how quickly they are deploying value creation plans and implementing large transformation initiatives.

We surveyed over 100 PE investors, operating partners and C-suite portfolio company managers across North America to get insights into their strategies for value creation in the wake of market and geopolitical uncertainty, continued high interest rates and now, the threat of tariffs. We discovered that industry leaders are keen to understand

how indispensable value creation planning has become. Value creation has served as a highly important pathway to boost returns in a high-interest rate environment very much different than 10 years ago and as the industry handles a valuation retreat after the high multiples in 2021 and 2022. As transaction activity slows, leaders are applying value creation levers earlier and executing improvement initiatives with a focus on successful exits. However, the survey also unveiled a lot of room for improvement in terms of successful execution of value creation plans. At a recent PE Operating Partner event, one of the speakers mentioned, "Almost all deals made right after COVID are under water today. Our sense of urgency to improve businesses cannot be high enough given the challenges we are facing."

The following report lays out the key findings from the survey, including the growing emphasis on large-scale operational transformation and the use of artificial intelligence (AI) in value creation.

Our hope is that these findings will help industry leaders to better meet the challenges ahead. We encourage thoughtful and consistent planning and execution in value creation for portfolio companies — without panic, even in the face of seemingly insurmountable challenges.



MARKUS LAHRKAMP

Managing Director
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02/

INTRODUCTION



U.S. Private Equity (PE) activity appeared to be on an upswing in 2024 compared to the previous year, but the industry is far from a recovery. While credit accessibility has generally improved, funds continue to sit on vast amounts of dry powder reserves. Growth in deals and deal volume were both up by double digits from 2023,¹ but unrealized returns from the lack of exit activity have continued fundraising challenges.

A year removed from A&M's last survey report on value creation, some geopolitical realities remain the same while new ones have emerged. Interest rates remain high enough to stifle exits across the industry, but the change in the political administration of the U.S. government has introduced tariff volatility into the equation. This environment has tempered the transaction sentiment in 2025, and deal volumes have failed to meet expectations.

As funds grapple with the new volatility, deal activity took a hit in the first quarter of 2025. Volume fell by 27.7 percent while aggregate deal volume dropped by 7.6 percent.

The only highlights from a deal perspective were deals in a few sectors: technology, media and telecommunications, medical and biotechnology and chemicals, primarily in the northeastern U.S.²

With the sluggish activity comes extended holding periods.

Pitchbook reports that 3,800 portfolio companies in the U.S. have been held by PE funds for between five to 12 years, and there's a fear that exit opportunities could fall further over the next year.

As such, our survey shows that only 31 percent of respondents have a positive outlook on exit activity over the next 12 months.

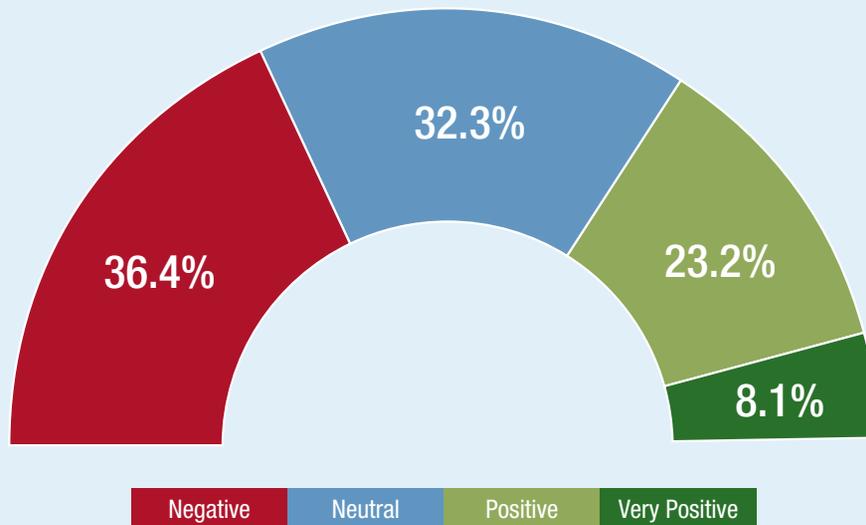
¹ Pitchbook's "US PE Breakdown, 2024" and "US PE Breakdown, Q1, 2025."

² [Deal Drivers: Americas Q1 2025 - ION Analytics](#)

With longer holding periods, PE funds are eager to create value to fight against market uncertainty, expand or preserve margins and improve the attractiveness of assets as they await opportune times to exit their investments. This year's survey shows the willingness of funds, especially large investors, to double down on organizational transformation to create value, choosing to focus on large transformative efforts and revenue generating initiatives over traditional cost-out actions.



When asked how positive or negative is your outlook for exit activity in the next 12 months, only 31% of respondents identified a positive or very positive outlook.



Overall, the survey found that:

- Macroeconomic uncertainty is dampening the deal outlook
- Value creation planning is increasingly a critical focus area for funds to achieve desired returns, particularly in uncertain times
- Funds are both planning earlier for value creation and extending execution roadmaps as plans become more complex and transformational
- The scope of value creation plans continues to expand into top-line topics, with pricing and product development as the top two levers
- Operational transformations are becoming more complex, particularly with the expansion of digital disruption and AI execution
- As value creation plans become more complex, portfolio companies are struggling to realize the full potential of their value creation plans.



03/

EXECUTIVE SUMMARY

Some of the key findings for our annual survey:

MARKET UNCERTAINTY

31% 

of respondents have a positive outlook on deal activity over the next 12 months.

85% 

of respondents are underprepared to manage the changing tariff environment.

38% 

of respondents primarily focus on revenue growth plans for value creation.

VALUE CREATION APPROACHES

46% 

of respondents, including 59% of ops partners, focus on value creation during due diligence, with 85% planning value creation in the first 100 days of initial investment.

55% 

of respondents are investing in value creation plan resources more than one year into the hold cycle.

87% 

of mega large caps are looking at price increases.

CHALLENGING EXECUTION

72% 

of respondents realized less than 75% of plan value.

45% 

of respondents already include AI opportunities in their value creation plans, compared to 18% in 2024.

25% 

of respondents are extending value creation execution timing expectations in the challenging execution bucket.

Sample Comments from Survey Respondents



“The deployment of AI to both drive revenue and cut down costs via increased productivity and decreased headcount is a new lever in the sense that it has moved beyond IT and into business value creation. Leveraging ESG and sustainability levers to create value is becoming more common.”

PE Investor

“Value creation execution has been impacted by recent macroeconomic and geopolitical events but has remained strong in the first quarter. However, shadows of uncertainty weigh heavily on upcoming quarters in 2025 into 2026.”

PE Investor

“There is more transformational organization redesign activities, such as offshoring, major workflow restructuring and consolidation of geographic footprint.”

PE Investor

KEY FINDINGS



TARIFF AMBIGUITY

Uncertainty surrounding tariffs — when they will be deployed and how deeply — has been compounded by retaliatory measures announced by other countries around the globe. What's clear is that companies are not prepared to navigate the escalating tariff environment.

Eighty-five percent of respondents said they were unprepared to manage the challenging tariff environment.

However, such disruptions in trade policy offer areas of opportunity.

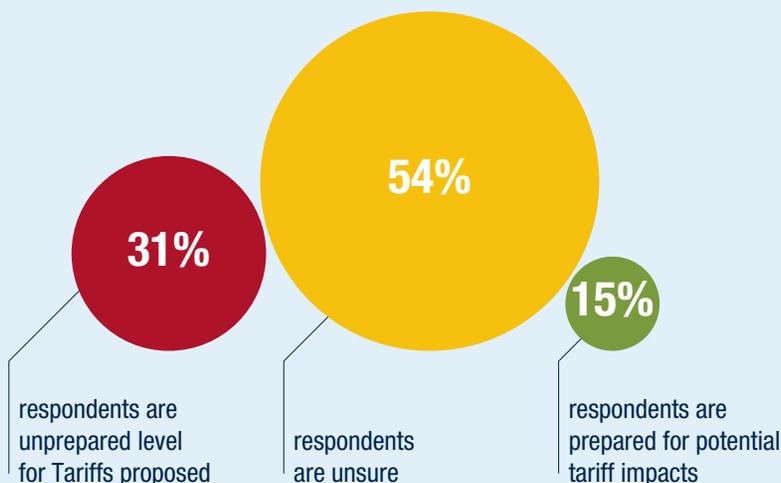
For example, one in five survey participants said they are ramping up supply chain and pricing value creation plans to respond against tariffs.

Internationally, some respondents said they intend to be very aggressive with pricing and strategic repositioning in various markets, seeking areas of opportunities in the trade policy disruption.

Ultimately, funds need to take a holistic response inclusive of finding operational efficiencies, evaluating supply chains and taking measured and reasonable pricing actions to cover the severity of proposed tariffs.

Firms are not prepared to navigate the fluctuating tariff environment and are ramping up VCPs to protect margin.

When surveyed, responses to “How prepared are you to handle the recent tariffs situation?” consisted of



When surveyed, responses to “What new levers are being deployed in value creation programs given the current macroeconomic environment and how do they differ from the ones used in the past?” consisted of

Firms are “... looking into commercial pricing strategies to pass through tariff cost”

Firms are assessing “... different sourcing including U.S. manufacturing to escape new tariffs”

Firms are looking to go on the offense “... with international businesses, including pricing and strategic competitive threat [repositioning]”



BEYOND COST CUTTING

Funds are continuing to pursue value creation plans beyond traditional cost-cutting measures by focusing on larger-scale operational transformations, AI efficiency opportunities and revenue generation initiatives. Only 4 percent of respondents said they were relying solely on cost cutting, while 57 percent said they planned an equal mix of revenue growth and cost reduction initiatives.

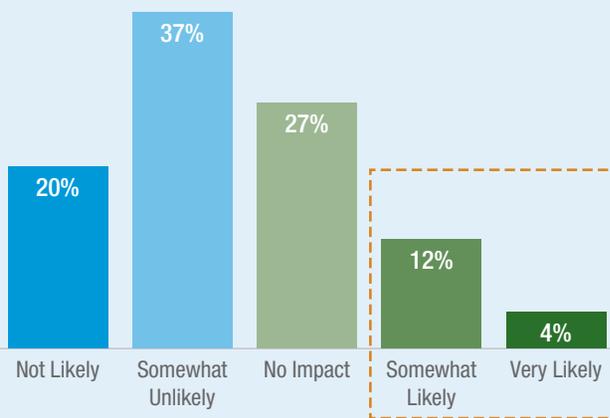
In fact, respondents reported that revenue generation initiatives are increasingly becoming a core focus of value creation. Nearly all funds, no matter their size, say they consider revenue initiatives in their value creation planning.

Moreover, the number of companies that say they primarily focus on revenue growth rose over the past year to 38 percent of respondents, up 16 percentage points from 22 percent in 2024, indicating the increasing importance of organic growth in light of higher interest rates and challenging exit valuations.

How are companies boosting revenue? Through new products and pricing. Those were the top two ways funds said they were driving revenue expansion, with mega large caps (87 percent) tending to home in on pricing strategies more so than large caps and mid-market funds.

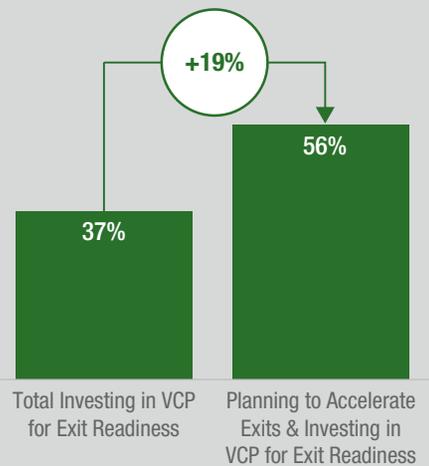
Economic uncertainty continues to extend hold periods ...

When surveyed, responses to “how likely your firm is to accelerate exits given current macroeconomic conditions?” consisted of



... However, the funds likely to accelerate exits are leveraging VCP for exit readiness.

Of the 16% of responders who are planning to accelerate exits, 56% are actively building value creation plans to support exit readiness.





WHAT ABOUT ESG?

U.S. funds are deprioritizing environmental, social and governance (ESG) initiatives in value creation planning with 58 percent of respondents finding no or negative financial impacts from ESG, up from 52 percent in 2024. Not unexpectedly, it's the opposite in Europe, where 68 percent of funds report a positive impact of ESG on the long-term financial performance of portfolio companies.

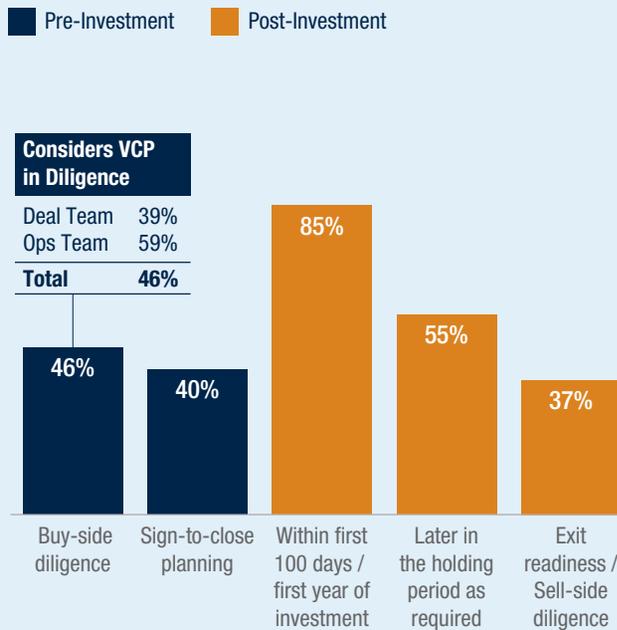


VALUE CREATION AND EXITS

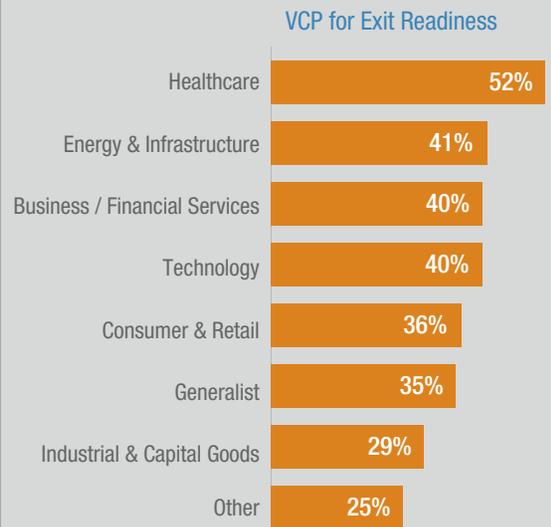
Funds have traditionally initiated value creation plans in the first 100 days of investment with execution expectations by year two or sooner. Now funds are expanding how and when they are deploying value creation, considering it in the diligence phase and as a way to accelerate exits at the end

of the investment horizon. Fully 85 percent of funds invest resources in value creation resources in the first 100 days or the initial year of investment and almost half of funds are integrating value creation strategies into their due diligence.

Majority of respondents still address value creation planning in the first 100 days of ownership ...



... while considering VCP in exit readiness varies across sector.



Responses to "At what point of the transaction cycle / investment horizon do you invest resources in value creation initiatives?"

As companies have been forced to extend holding periods because of market and geopolitical uncertainty, and now tariff threats, they're using that extended time to execute more aggressive value creation plans to improve profitability.

Most funds are continually looking for new opportunities to create value, and some are even being forced to extend execution timelines to fully achieve plan goals as holding times lengthen. Nearly 70 percent of mega large caps and 68 percent of large caps say they are on the hunt for new value creation options, and one in four companies overall say they are extending timelines rather than altering their plans to create change.

Yet only 16.5 percent of respondents said they are looking to accelerate exits, even as they encounter industry pressure to return money back to Limited Partners, creating a ripple effect since the lack of distributed-to-paid capital (DPI) continues to present a challenging fundraising environment.

To mitigate mismatched buyer valuations, funds will be more likely to engage in value creation planning initiatives in later lifecycle stages to support their exit strategies.

For example, implementing value creation later in the investment horizon, particularly for exit readiness, can be a tool for funds to increase the likelihood of reaching DPI targets in a volatile market.

Regardless of initiatives, investment in value creation plans remains strong, with preparation for eventual exit being a critical focus. Those investments are showing up later in the transaction lifecycle, with 55 percent of respondents saying they are deploying value creation planning resources more than one year into the hold cycle and one in three respondents creating value creation plans to support exit readiness.



BUY-AND BUILD

Although not an organic value creation initiative, buy-and-build strategies remain a primary value creation lever with 64 percent of respondents planning to pursue mergers and tuck-ins in 2025, up from 61 percent in 2024. All other strategies are either flat or down from 2024.



SURVEY INSIGHT: OPS TEAMS

While both deal and operations teams were generally aligned on implementation, sentiment and execution of value creation plans, they had different perspectives in several areas — Ops teams were generally more positive about value creation levers' effectiveness, pervasiveness and ability to address market challenges.

Where responses varied, ops teams were more likely to:

- Expand operational transformation initiatives in response to market uncertainty (83% vs. 63%)
- Be positive about the ability for funds to accelerate exits (22% vs. 13%)
- Consider value creation planning during pre-acquisition diligence (59% vs. 39%)
- Consider digital transformation as a critical part of their value creation plan (66% vs. 59%)
- Affirm AI initiatives are already implemented in portfolio companies (54% vs. 39%)
- Realize 75 percent or better value creation plan execution (39% vs. 20%)





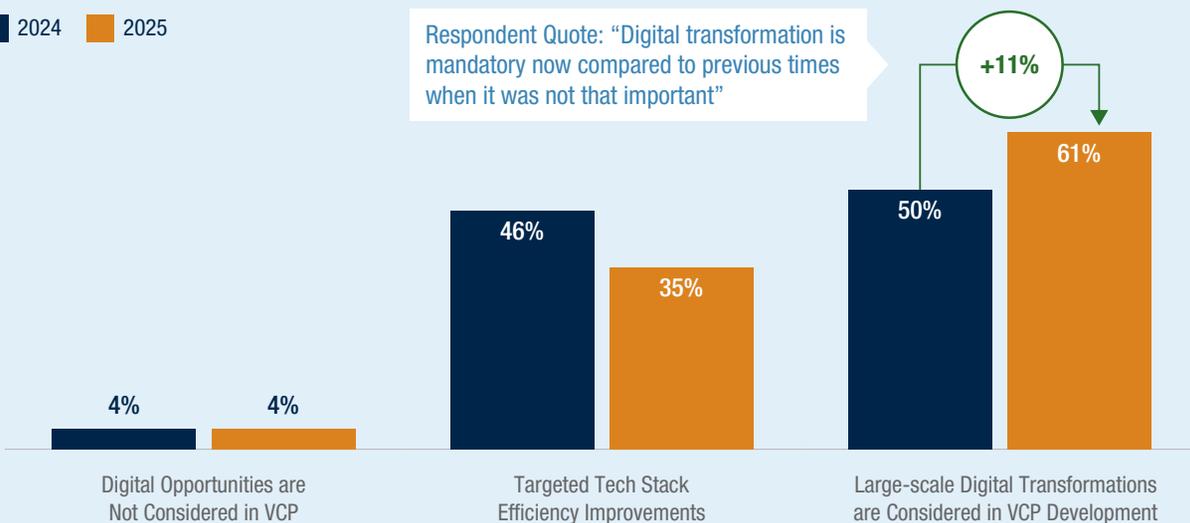
AI AND LARGE-SCALE DIGITAL TRANSFORMATIONS

When funds embark on new transactions, they have plans to go big. They're more likely to consider large-scale transformations than opt for marginal efficiency efforts. However, expanding the scope and scale of value creation plans also adds complexity to the execution.

Operational transformation continues to be a primary focus of funds' value creation plans, with 71 percent of respondents pursuing large-scale initiatives. Many are willing to expand value creation capabilities to a wider set of promising opportunities. Considering continued market uncertainty, 61 percent of investors said they are searching for newer ways to drive value creation.

Funds are increasingly addressing technology stacks as step-change efficiency opportunities critical for large-scale transformation success. At 61% of respondents, this is an 11-pt. increase YoY.

2024 2025



Responses to "How critical is digital infrastructure for successful transformation initiatives?"



“Digital transformation is mandatory now compared to previous times when it was not that important.”

PE Investor

Initiatives that continue to drive transformation often include digital investments and AI, which funds seek as key drivers of value creation opportunities, especially in targeting operational efficiency and customer experience strategies.

Technology stacks are increasingly shifting from an infrastructure optimization value creation initiative to a large-scale transformation plan, and this wider value creation lever is beginning early in the investment lifecycle. Sixty-one percent of respondents say they consider large-scale digital transformation in their value creation plans, an increase from 50 percent in 2024.

Chief among the transformations is AI adoption, which is accelerating at a rapid pace. Forty-five percent of respondents already include AI opportunities in their value creation plans — a significant jump compared to 2024’s 18 percent.

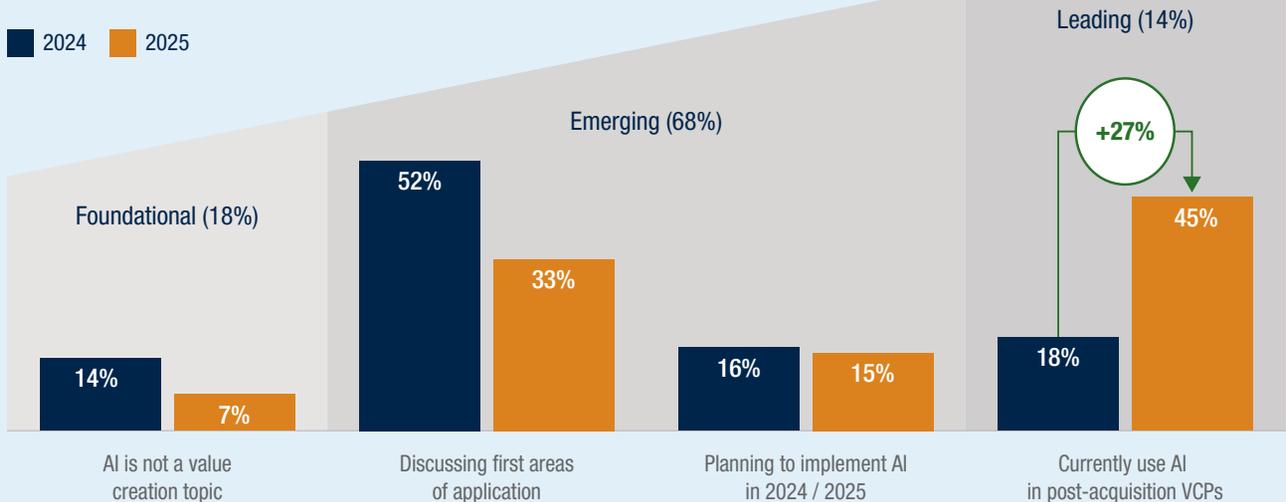
One respondent offered their fund’s perspective on AI and their intention to focus on specific operational efficiencies where AI can realize short- to medium-term value.

Funds are finding it slightly easier to deploy AI to improve data analytics and operational efficiency than to implement customer-facing experience enhancements.

While a majority of funds are pursuing AI to improve data analytics, operational efficiency and customer experience, mega large caps continue to advance AI capabilities to support more strategic decision making. Among the largest funds, 39 percent say they’re using AI to improve strategic decision making while 48 percent indicated AI is helping with human resource efficiencies.

Funds are quickly shifting up the AI maturity curve, with 45% of respondents already include AI opportunities in their VCPs, compared to 18% in 2024.

2024 2025



Responses to “How advanced is your level of planning for using AI in post-acquisition VCPs for portfolio companies?”

TALENT RUSH

Along with transformative value creation levers comes a need for top talent to shepherd change in the organization.

The continued economic uncertainty and challenging environment has created management fatigue. As the pace of change increases there is a shortage of management talent that offers the right capabilities to drive value creation implementation.

Funds are still more likely to inject talent into portfolio companies to execute value creation initiatives. These resources are deployed as either dedicated transformation hires or as specialized consulting resources.

But finding the right talent isn't cheap, and it takes considerable resources — especially people — to develop and implement value creation plans. Eighty-four percent of funds say ops partners are involved with value creation plan development and 91 percent said they deploy ops team resources to support implementation, with 64 percent applying third-party consulting services to help execute plans. Both management and operations teams, whether in-house or third-party, must coordinate on several fronts.

Below are some critical points industry players need to be aware of to effectively execute initiatives:

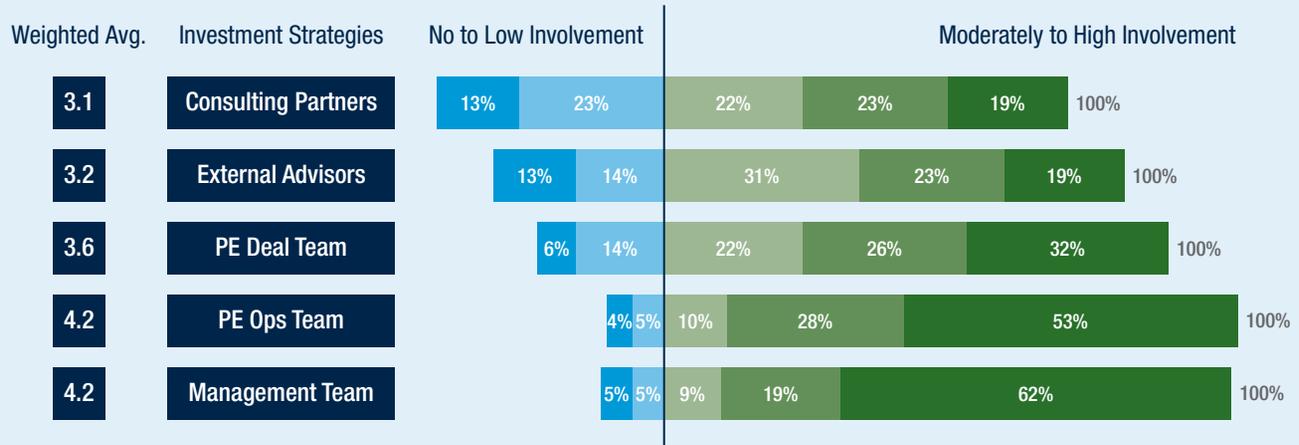
- Alignment with management teams is critical to successfully implement value creation plans
- Management teams are suffering from decision fatigue as they continue to navigate uncertain market conditions and implement multiple value creation initiatives
- There is a shortage of executive talent with the right experience and capabilities to drive transformational change at portfolio companies

Because of these factors, funds are supplementing talent capabilities and resources with internal operating teams and third-party consulting firms to identify and implement value creation opportunities.

These key employees must not be simply on the same page, but at the top of their game to take advantage of opportunities to execute value creation as needed.

When asked “How involved are the following groups with executing VCPs post-acquisition?” funds responded

Not Likely 1 2 3 4 5 Very Likely



There is no one-size-fits-all for VCP execution resourcing. Funds support management teams in VCP execution with internal and external resources.

EXECUTION DELAYS

A common refrain from both survey respondents and our clients indicates that many value creation plans developed over the past two years, during an environment of high interest rates, have not been fully implemented.

As market uncertainty challenges portfolio companies to pursue aggressive revenue growth targets, industry leaders say that a holistic approach that incorporates operational readiness is critical for companies to profitably capture revenue expansion initiatives. The preparation needed to fulfil new revenue growth goals profitably must be thought through and executed. In essence, operational capacity, process standardization, automation and talent capabilities all need to be aligned to growth plans in order to realize expected growth targets.

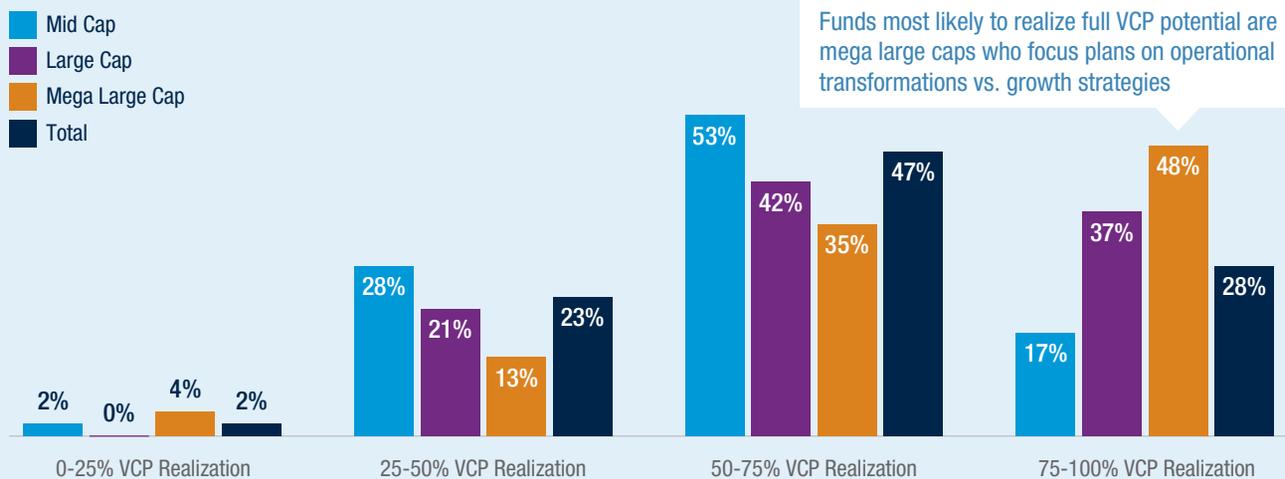
This added complication appears to have impacted execution.

Several large cap clients mentioned that less than 25 percent of their value creation plans have been implemented thus far.

That's consistent with the survey results. Seventy-two percent of respondents said that three quarters or less of their initiatives have been executed, while 25 percent had implemented less than 50 percent of their value creation plan.

The result: one in four funds say they are extending their value creation plan execution timelines.

VCP execution consistently does not realize full plan value with 72% of total respondents and 83% of mid cap respondents realizing less than 75% of plan.



Responses to “How successful have value creation execution been on realizing expected returns?
On a scale of 1-100%, what percent of value estimated in the value creation planning stage is realized in execution?”

That's a sign of how things have changed from the pre-COVID years, when cost take-out plans could boost the bottom line and exits happened every three to five years. Now, with holding times approaching seven, eight or even nine years, the mechanisms for preparing portfolio companies for exits have become much more complicated. All areas of the company must be considered in today's value creation plan to demonstrate real growth. Without growth, multiples, and ultimately returns, suffer.

Respondents' feedback on value creation plan realization



Market volatility: “Since the cause of market uncertainty was inflation and interest hikes, we assumed aggressive revenue growth.”

Participant with only 30 percent of value creation plans realized

Insufficient planning: “About half of value creation plans fail because they are too ambitious and vague. Plans that are successful are the ones that are done in phases and have discrete steps.”

Participant with 50 percent of value creation plans realized

Management team capability gaps: “Value creation plans are successful to an extent, but it all comes down to the execution capabilities of the management team.”

Participant with 60 percent of value creation plans realized



05/

CONCLUSION

With new and continued market and geopolitical uncertainty, extended hold periods will be fixtures for quite some time.

That's why we're seeing even broader adoption of value creation plans at all stops along the investment lifecycle. PE funds are using value creation to stave off risks from formidable market uncertainties and volatile geopolitical events.

The biggest challenge that seems to be facing funds, according to our survey, is executing value creation plans as projected or extending timelines for implementation. Transformative value creation plans need proper planning, resourcing and tools to accelerate implementation and deliver results. AI is starting to become an important tool to drive transparency, insights and actions. AI appears to be a better tool to deliver transformative efficiencies and growth. While AI was not a significant differentiator for driving value creation a year ago, about half of leading funds are now utilizing it in post-acquisition value creation plans.

Our study underlines the importance of confronting a challenging market with a renewed emphasis on pursuing more value creation opportunities with a structured, planned approach. Funds can often accomplish more than anticipated, especially by focusing on three key areas:

- **People:** Ensure alignment with management teams on value creation objectives, timelines and profitability expectations. Supplement skillsets and provide surge resourcing to support implementation.
- **Process:** Establish a structured, programmatic approach to execution. Create an efficient platform for growth and unlock revenue generating opportunities.
- **Systems and tools:** Optimizing and upgrading the technology stack early in the hold period is an increasingly critical enabler to accelerating operational and commercial efficiencies.

We don't see longer holding periods going away anytime soon given current market uncertainty. Regardless of whether you view your fund as a value creation leader or laggard, the imperative is the same: every fund must accelerate its efforts to drive value.



“I'd rather be the one chasing the bear than have the bear chasing me.”

**Chuck Lowrey,
Managing Director**



HOW A&M CAN HELP

With our operational and action-oriented approach, A&M has been assisting management teams to unlock value and kickstart performance for the last 40 years.

Our experts work with clients during due diligence, sign-to-close and subsequent value creation plan phases, focusing on topline, operational and service excellence as well as working capital and cash initiatives to accelerate performance and help clients deliver value.

A&M also has deep experience in running exit readiness programs and positioning businesses for sale based on a sound operating plan.



METHODOLOGY

In March 2025, Alvarez & Marsal partnered with research Opinium to survey more than 100 Private Equity fund investors, ops partners and C-level executives from portfolio companies in the United States spanning three fund sizes, including mega large caps of \$10 billion or more, large caps of between \$5 billion and \$10 billion and mid-market caps from \$500 million to \$5 billion. The survey contained both closed and open questions, and interviews were conducted over the telephone. Results were analyzed and collated by Statista Q and are presented here anonymized.

06/ CONTACTS

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