

# OPERATIONAL ALPHA:

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## HOW PRIVATE EQUITY IS BUILDING VALUE IN A NEW CYCLE

MAY 2026

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# FOREWORD

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For the past five years, this survey has tracked one of private equity's most turbulent periods: the inflation and rate shock of the post-Covid years, the dramatic slowdown in deals and exits, and the overhang of aging assets that need to be improved and exited.

Our 2026 research reveals an industry that has reorganised around these pressures. The PE funds adapting most successfully have accepted that returns today can only be earned from growing topline and genuinely improving the operations of their portfolio companies, through structural cost and cash management, and hands-on, disciplined execution. They have built capabilities – in AI, pricing, supply chain, finance – to deliver operational improvement in an environment where volatility and macroeconomic headwinds have become the norm.

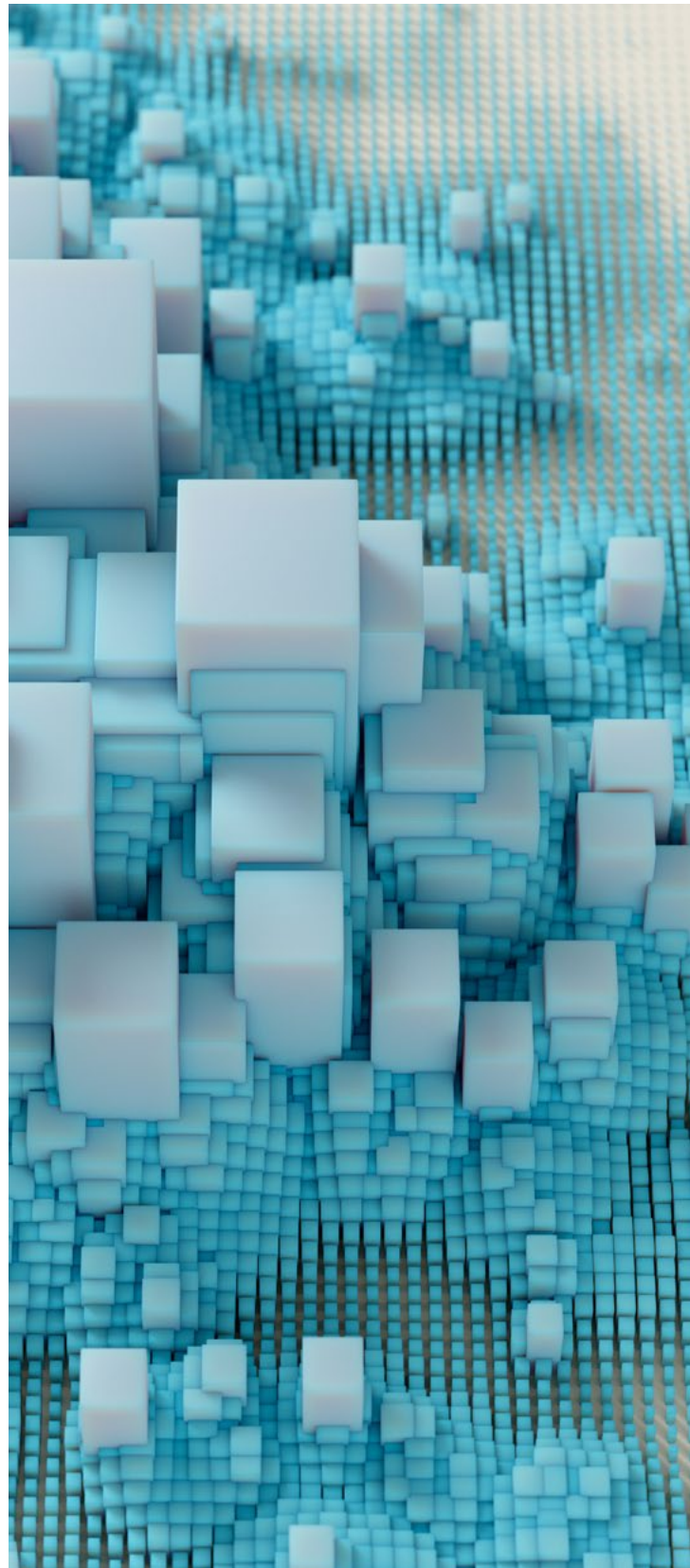
Continuation funds are also part of this evolution. This year, for the first time, we look into their rise, how they are changing the liquidity environment, and the implications for portfolio companies being given an extended runway.

The insights in this report reflect an industry that is using a difficult cycle to sharpen its model and grow on stronger foundations. We hope you enjoy the read, and welcome the opportunity to discuss what it means for your business.



**STEFFEN KRONER**

Managing Director, Germany  
Private Equity Performance Improvement





# EXECUTIVE SUMMARY

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# EXECUTIVE SUMMARY



Some of the key findings of our annual survey:

## VALUE CREATION PRIORITIES

**43%**

drive value through an equal mix of revenue and cost initiatives

**68%**

cite pricing as their most prioritised revenue growth lever

**83%**

expect working capital initiatives to become more important in next 12 months

**62%**

see geopolitics as the top challenge impacting value creation and returns

## EXECUTION AND AI

**58%**

deploy value creation resources in the first 100 days, up from 29% last year

**65%**

say that less than 50% of VC plans developed in past two years have been fully realised

**39%**

report AI is used across multiple functions within portfolio companies

## CONTINUATION FUNDS

**43%**

of PE firms turning to the secondary market, nearly double from 24% a year ago

**45%**

describe assets in continuation funds as performing but needing more time to reach potential

**64%**

say GP-LP alignment on pricing is key challenge in continuation fund transactions

“

“We’re focusing on buying companies that fit well and create real cost or revenue benefits, instead of just buying bigger businesses to increase valuation.”

PE investor, Germany

“In the past we emphasised rapid revenue growth supported by low-cost borrowed capital, but now we are concentrating on disciplined, profitability-driven expansion.”

Portfolio company management, Sweden

“Earlier, value creation focused on quick growth-led exits. Now, firms prioritise long-term business transformation and sustainable cash flow generation.”

PE investor, Denmark

“Current value creation focuses on efficiency, automation, and revenue growth, replacing earlier dependence on favourable capital markets and aggressive leverage structures.”

Portfolio company management, UK



# THE PE MARKET IN 2026

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# THE PE MARKET IN 2026



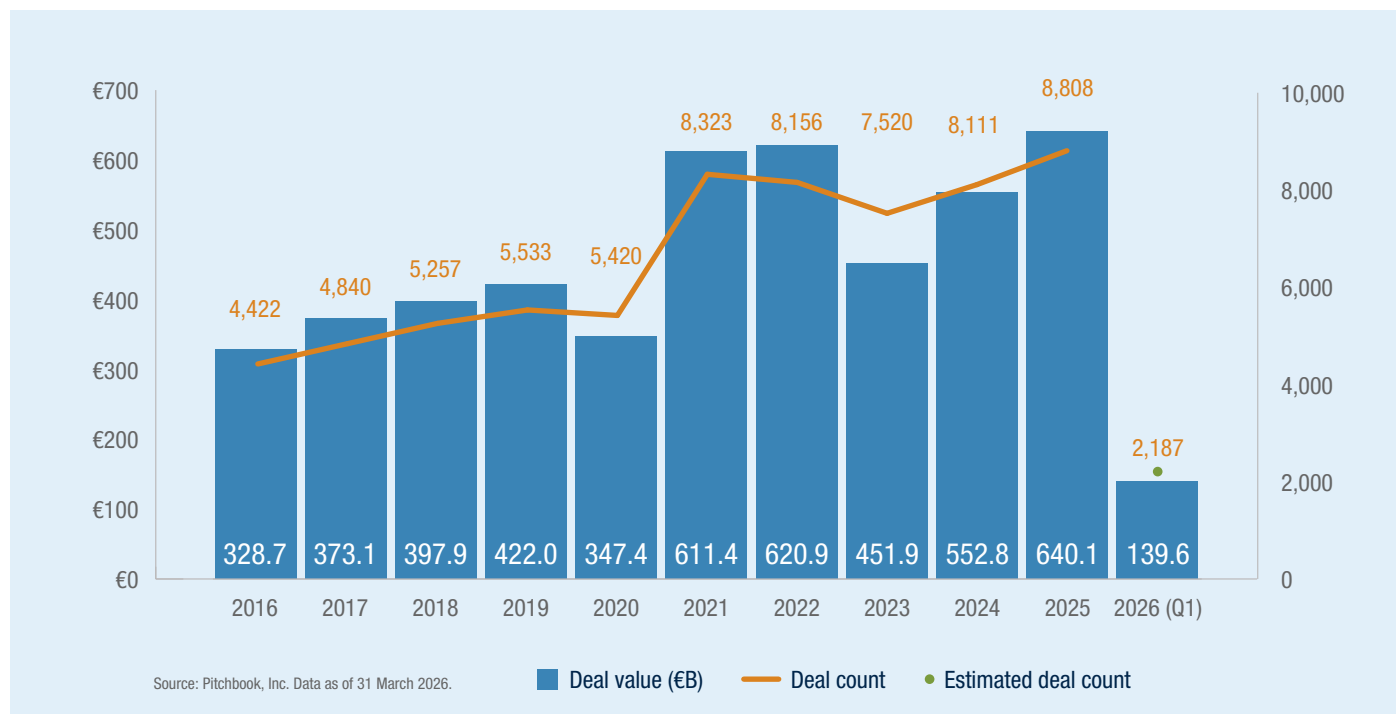
## ANOTHER TENTATIVE RECOVERY

This time last year, we reported that US tariffs had interrupted what appeared to be the early stages of a private equity recovery. The story is similar in 2026, with the war in Iran disrupting a rebound in deal and exit activity that had been gaining momentum.

2025 marked a healthy recovery in European PE investment activity – welcome news after a multi-year slowdown from post-pandemic peaks. Deal value surged as improving macroeconomic conditions in the second half of the year gave investors, under mounting pressure to deploy capital, the confidence to move ahead with transactions, particularly large ones (megadeals accounted for nearly a third of total deal value).



FIGURE 1  
EUROPEAN PE DEAL ACTIVITY



# THE PE MARKET IN 2026



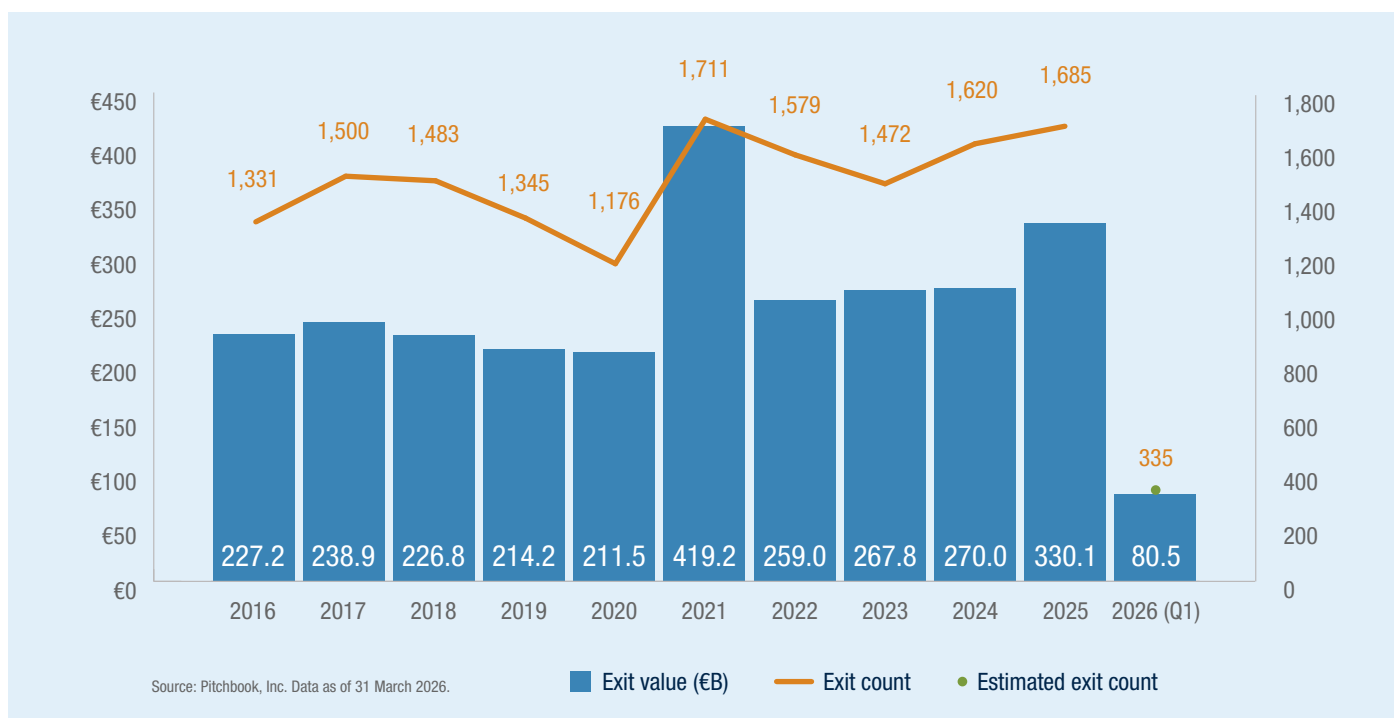
That impetus is once again being tempered by fresh geopolitical headwinds in the first months of 2026. The ongoing conflict in the Middle East and the closure of the Strait of Hormuz have sent oil prices higher and disrupted supply chains, with knock-on effects reaching well beyond energy-intensive sectors into industries as varied as food, automotive and consumer electronics. This growing macroeconomic uncertainty is weighing on pricing, financing conditions and deal execution.

Accelerating disruption from Artificial Intelligence (AI) – which caused a material reset in public software valuations in early 2026 – is also changing dealmaking as sponsors reassess investment priorities. Leading firms are reorienting their underwriting focus from capital-light businesses into so-called “heavy assets”: manufacturers, industrial suppliers and other tangible-goods businesses that are less vulnerable to technological obsolescence.

Some are also positioning for significant change in European industrial policy as the region seeks to reduce critical dependencies and build European champions that can compete on a global scale in strategic sectors like infrastructure, technology and defence.<sup>1</sup>

According to Pitchbook, both deal value and count declined in Q1 on a quarter-on-quarter and year-on-year comparison. Club deals rose as a share of activity, suggesting sponsors are syndicating risk across multiple partners to avoid full exposure in the current environment. The increase in add-ons as a percentage of buyouts in Q1 points in the same direction.

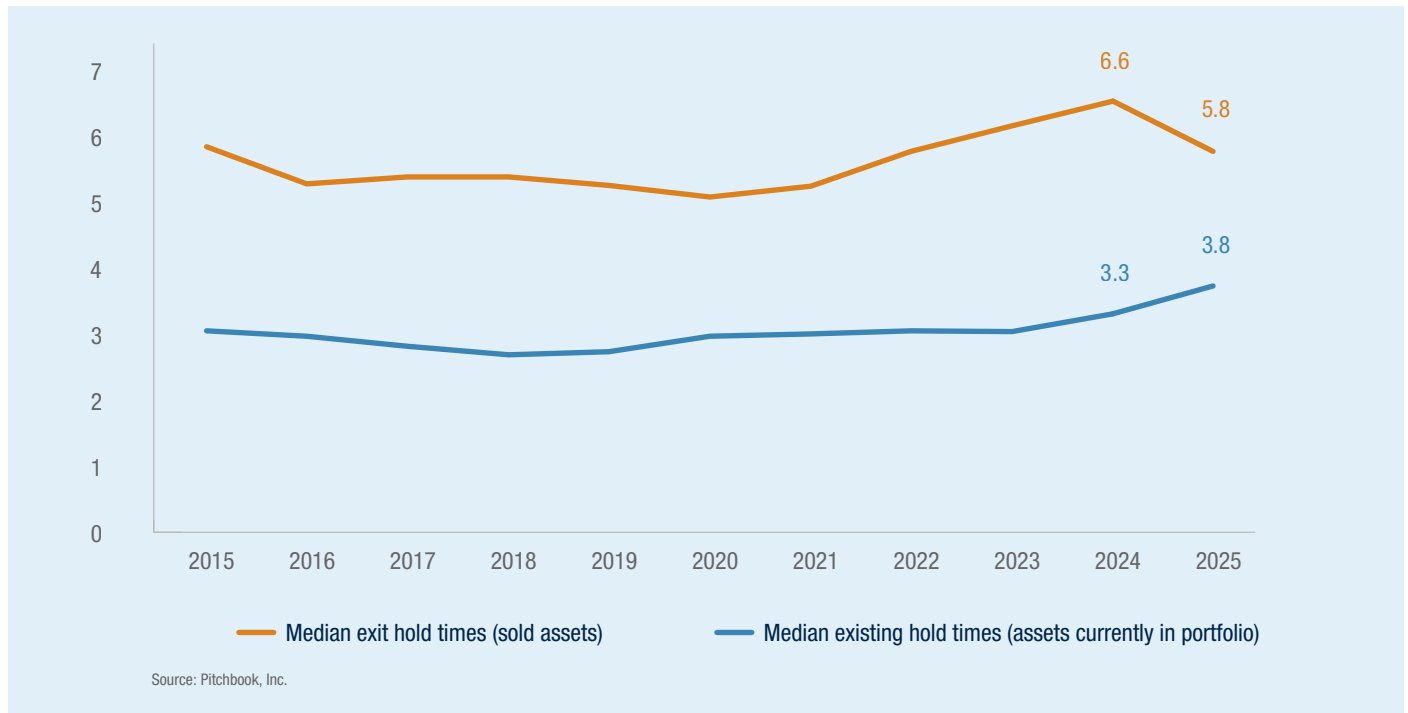
FIGURE 2  
EUROPE PE EXIT ACTIVITY



<sup>1</sup> <https://www.reuters.com/world/eu-overhauls-merger-rules-amid-calls-european-champions-2026-04-30/>

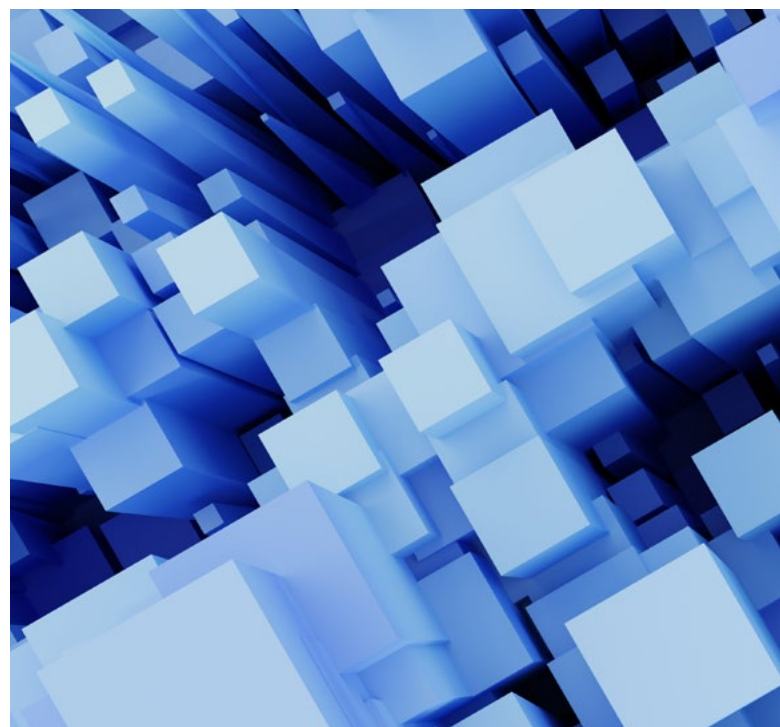


FIGURE 3  
**MEDIAN EUROPE PE BUYOUT HOLD TIME (YEARS)**



The uptick in exits that began in H2 2025 has also lost traction in Q1. Exit count fell on both a sequential and annual basis, though exit value held up relative to the same period last year, supported by a few landmark, large-cap deals such as Bain Capital and Cinven’s sale of Stada or EQT’s sale of a remaining stake in Galderma Group.

Amid this faltering recovery, the stock of aging, unsold assets sitting on PE portfolios continues to grow. Pitchbook data indicates that European PE funds currently hold an inventory of over 14,000 companies - nearly 4,000 of which have been held for six or more years. Median exit holding periods remain near historic highs, despite a moderation from the record 6.6 years reached in 2024, intensifying the pressure on returns for both GPs and LPs.





## A MARKET REDRAWN

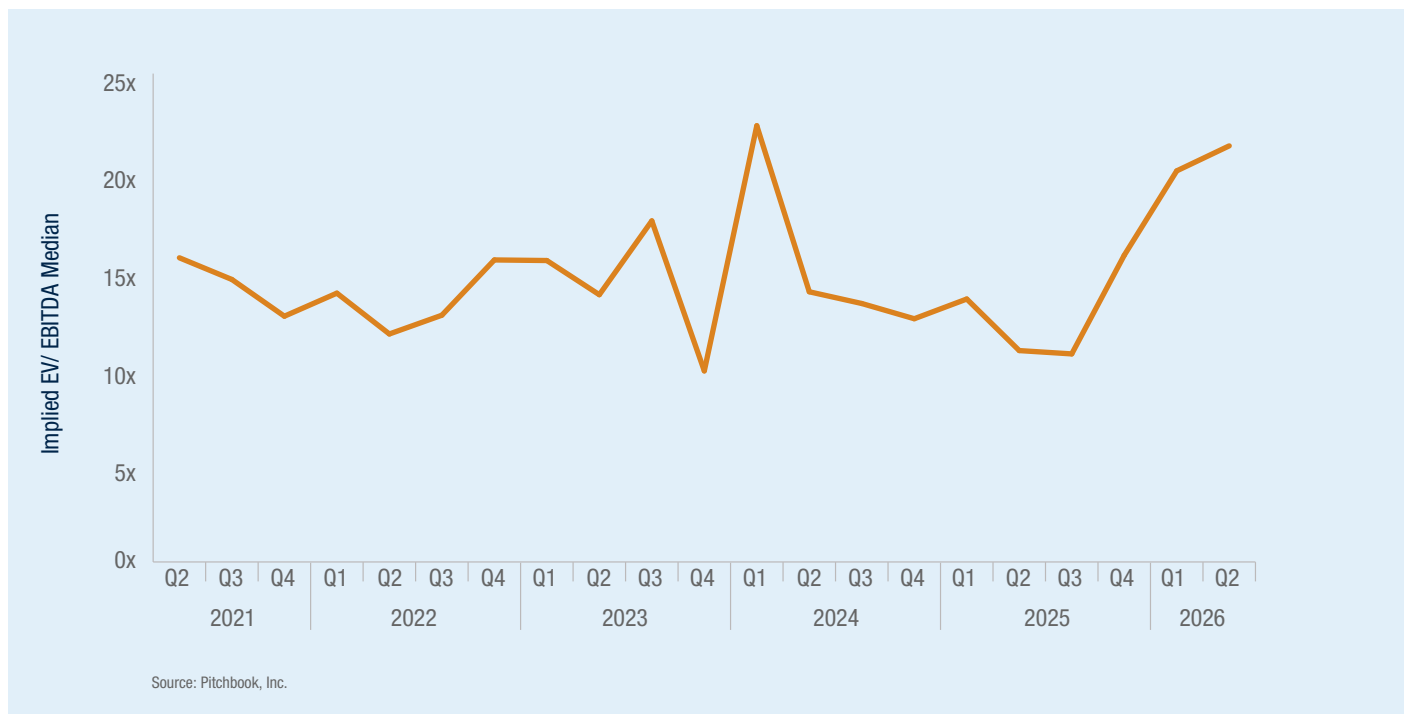
Even if the Iran conflict proves temporary and only delays a broader recovery in M&A, any return to the frothy conditions of the early 2020s appears unlikely. In this new cycle of PE dealmaking, buyers have grown more discerning, focusing almost exclusively on high-conviction assets with strong fundamentals and a clear growth narrative. Meanwhile, many sellers remain anchored to peak valuations. The result is a persistently wide bid-ask gap and entry multiples that continue to sit near historic highs.

Exits also look structurally different now. IPOs are no longer the premium exit route, as trade sales such as Kone's purchase of German lift maker TK Elevators and sponsor-to-sponsor deals now become the dominant channel.

Meanwhile, secondary transactions, including sales of LP fund stakes and GP-led continuation vehicles, have become a mainstream liquidity solution. In 2025, secondary transaction volumes reached a record \$240 billion globally, a 48% increase from the previous year.<sup>2</sup> Estimates suggest that around a fifth of all PE exits last year involved the sale of assets into continuation vehicles (read more on continuation funds on p. 24).<sup>3</sup>

Distributions have improved as a result, with distribution yields as a percentage of Net Asset Value (NAV) recovering last year after touching a decade low in 2024.

FIGURE 4  
EUROPEAN BUYOUT ENTRY MULTIPLES (IMPLIED EV/EBITDA, MEDIAN)

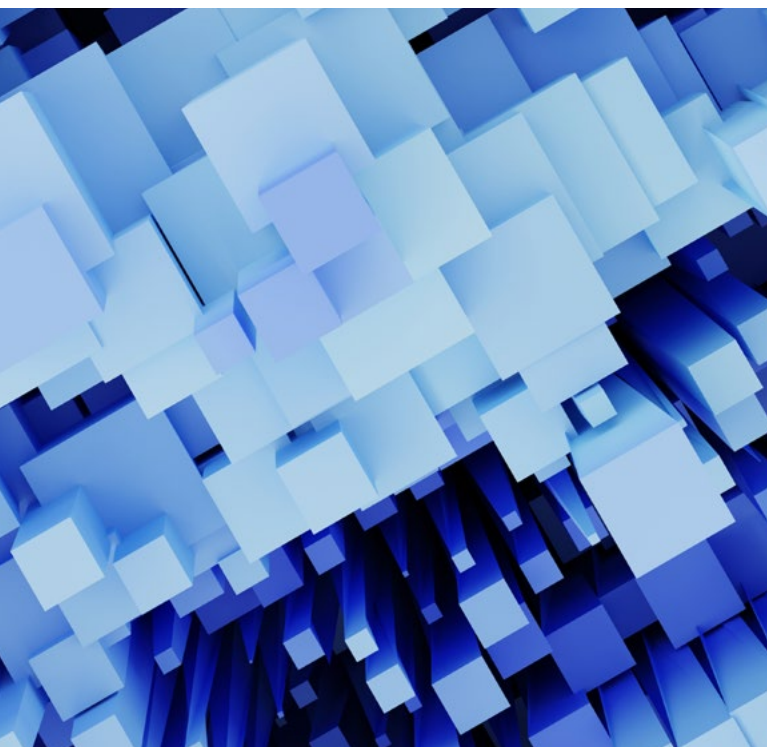
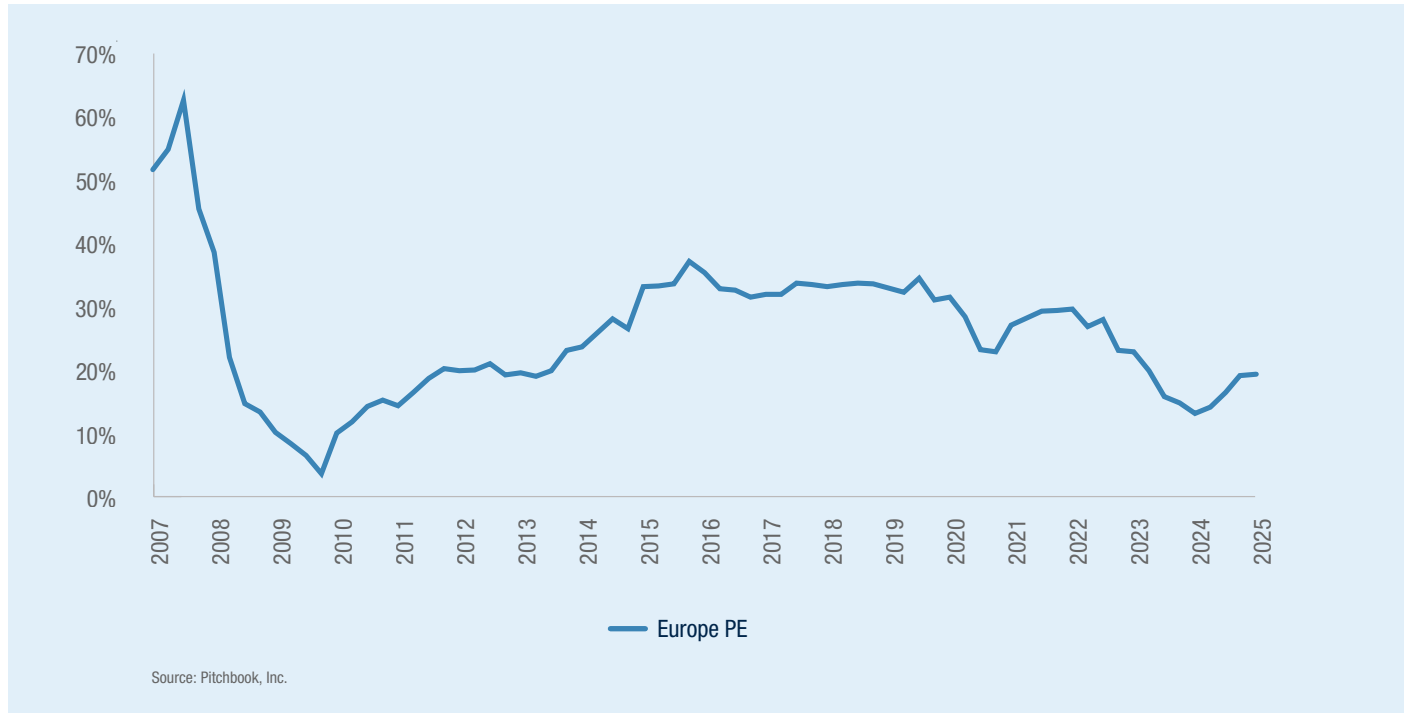


<sup>2</sup> <https://www.jefferies.com/insights/the-big-picture/2025-global-secondary-market-review-another-record-breaking-year/>

<sup>3</sup> <https://www.cityam.com/private-equity-firms-sell-assets-to-themselves-at-a-record-rate-in-2025/>



FIGURE 5  
12-MONTH DISTRIBUTION YIELD AS PERCENTAGE OF NAV



Yet, a broader liquidity recovery in the PE ecosystem seems still some way off. Despite improvements, the backlog of unrealised assets in fund portfolios remains substantial. That pressure feeds directly into fundraising: capital raised for buyout funds in Europe declined markedly last year and carried into Q1, with fund count falling in tandem. Established managers captured 85.6% of total capital, according to Pitchbook, highlighting LPs' convergence to managers with proven track records and scale.



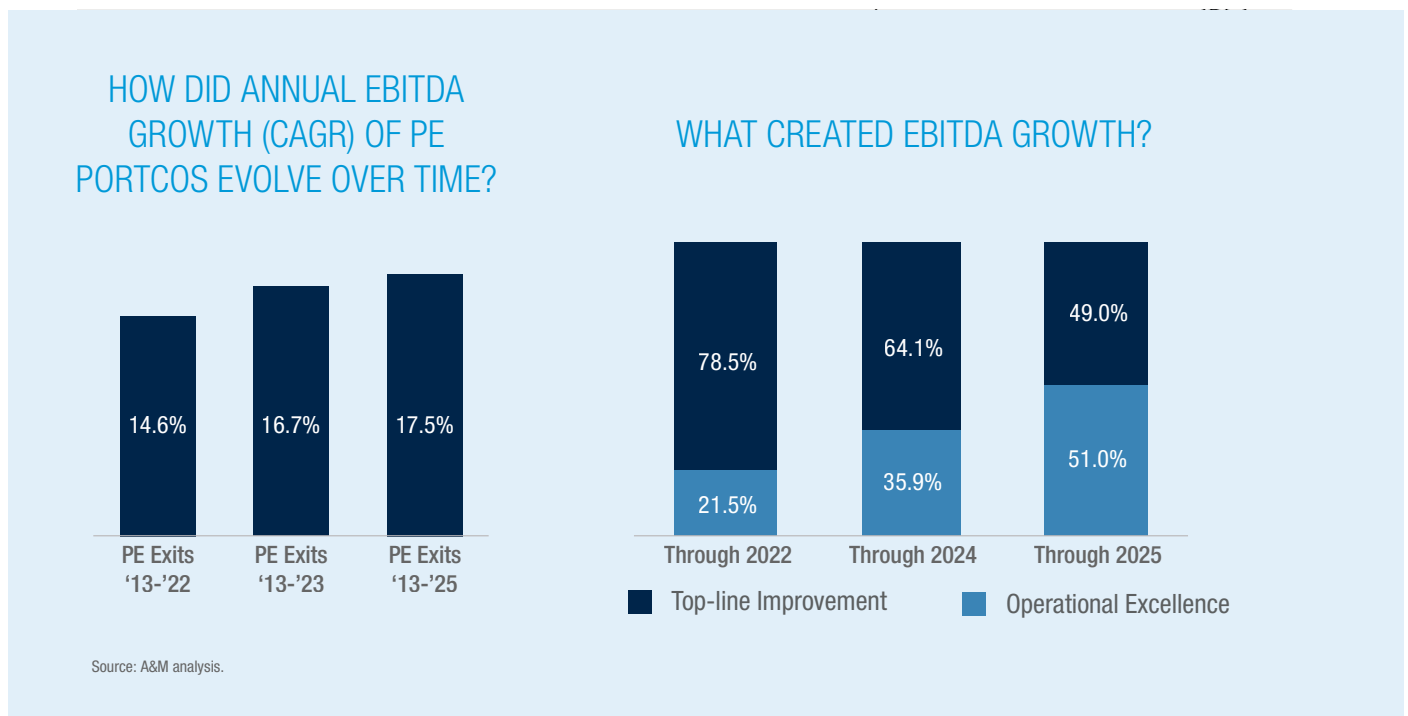
## OPERATIONAL ALPHA

The dynamics of the past 12 months confirm that the favourable effects of cheap debt and rising multiples are firmly behind us, replaced by a more demanding environment of higher entry valuations, a selective exit market and longer hold periods.

Generating the same returns of the past now requires GPs to improve portfolio companies in ways that are measurable, durable and less dependent on market conditions. It calls for a fundamentally different approach to value creation underwriting and execution – one where operational transformation, through both revenue and EBITDA growth acceleration, becomes the main driver.

An A&M analysis of exited European deals<sup>4</sup> shows how this evolution is already underway. Prior to 2023, portfolio companies generated most of their EBITDA growth through top-line expansion – keeping margins largely stable while add-on acquisitions, supported by cheap debt, drove revenues higher. That is changing. EBITDA margin improvement accounted for 51% of EBITDA growth for portfolio companies exited in 2025, more than double the proportion seen in exits prior to 2023. The contribution of top-line expansion fell to 49% from 78.5% over the same period.

FIGURE 6



<sup>4</sup> Analysis of 239 PE exits in the period 2013-2025 in Western Europe. Companies with revenue of over €100 million. EBITDA growth is decomposed using a logarithmic framework to convert multiplicative effects into additive driver contributions (calculated at deal level by scaling each logarithmic change relative to total EBITDA growth). Data sources used include Capital IQ, Orbis and Unternehmensregister.



Across the deals analysed, the outperformance of PE versus publicly traded companies became once more apparent with PE-backed businesses growing revenues and EBITDA performance 2.6x and 3x faster than public peers.<sup>5</sup>



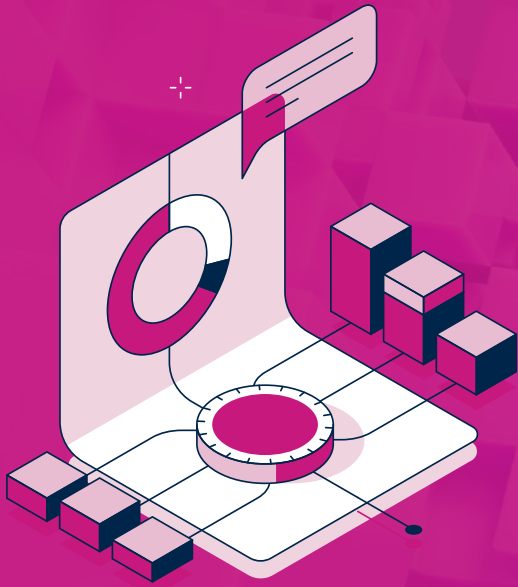
## Operational excellence is the chief driver of EBITDA expansion at European portfolio companies in 2025.

To deliver this, GPs are building deep operational capabilities and sharpening execution. Detailed value creation plans are designed upfront, launched earlier in the hold period and adjusted as conditions evolve. “Low-hanging fruit” measures and quick-wins are giving way to comprehensive transformations across the P&L and balance sheet, with AI and data increasingly acting as a catalyst. Footprint strategy (whether through consolidation or expansion) is back on the value creation agenda, with sponsors increasingly willing to commit to these initiatives, which demand elevated capex and can typically span several years, when returns are attractive.

The following pages will detail how these changes are playing out in practice.

<sup>5</sup> Assessment of revenue and EBITDA outperformance on individual deal level (i.e. performance since PE entry measured as compounded annual growth rate (CAGR) against the Euronext 100 benchmark). Analysis of 239 PE exits in the period 2013-2025 in Western Europe. Data sources used include Capital IQ, Orbis and Unternehmensregister.

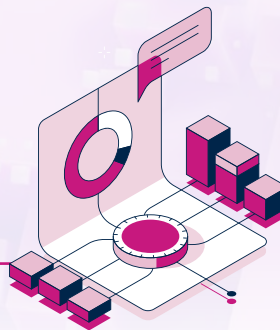




# SURVEY FINDINGS

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# SURVEY FINDINGS



## MULTI-LEVER VALUE CREATION IS NOW THE BASELINE

This year's survey illustrates how PE operators are moving away from the legacy playbook of rapid M&A scaling and cost reduction, toward an approach that combines organic, profitable growth with structural cost optimisation and cash management – increasingly supported by AI applications that are moving from experimentation into day-to-day execution.

When asked about their current value creation focus, 43% of respondents said they are prioritising an equal mix of revenue and cost levers, suggesting a more balanced approach than in previous years, when firms more commonly relied on a single lever. Only 19% cited cost reduction alone and 18% revenue growth alone as their primary focus. A further 23% highlighted working capital as a key priority.

Within PE funds, the views of deal versus operating teams vary in relation to this. According to the survey, 80% of operating professionals report prioritising an equal mix of revenue and cost levers, compared with only 37% of deal teams – suggesting that those closest to portfolio company execution have converged more firmly on the symbiotic approach. Deal teams, by contrast, remain more bullish of cost reduction and working capital optimisation as primary drivers of value creation.

One reason is that operating partners tend to work across the full hold period, where the limits of single-lever strategies become apparent over time, while deal teams are more attuned to the entry thesis and the near-term levers most visible at acquisition, cost reduction foremost among them. The gap may also reflect a broader tension within PE firms between the disciplines of deal execution and portfolio management, which the industry is still working to reconcile.

Within this balanced framework, working capital management and organic revenue growth are expected to be a rising priority relative to other levers in the next 12 months, cited by 83% and 81% of respondents, compared to 71% who expect cost reduction to be a more dominant driver. Buy-and-build is notably of lower priority, with 65% of responses.

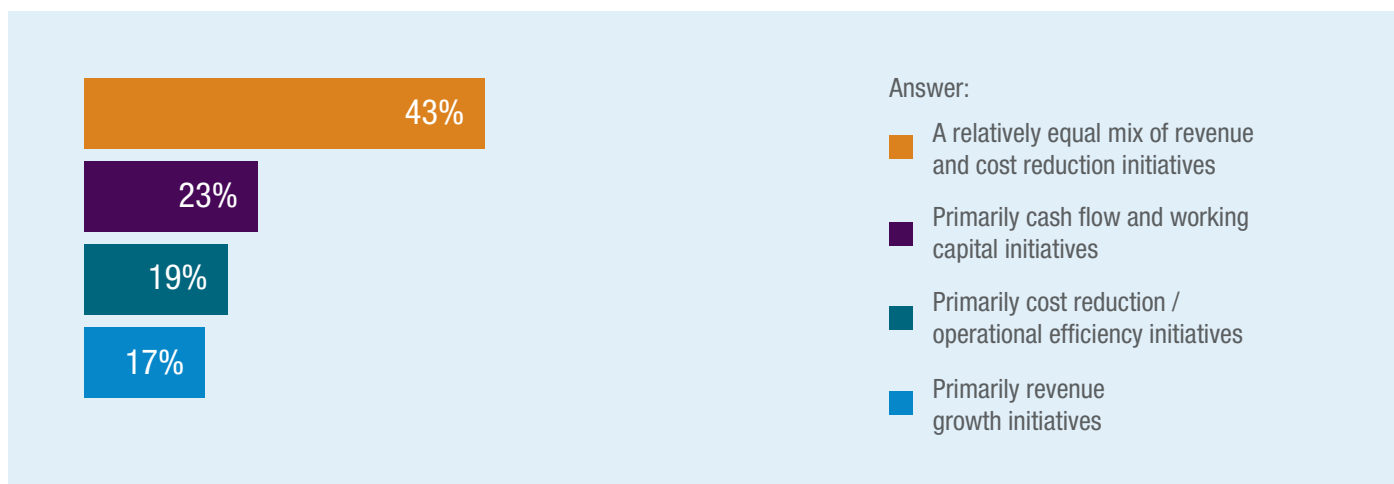


**Our value creation now hinges on strengthening company resilience and margins, contrasting with earlier focus on rapid scale expansion financed by inexpensive capital.”**

**Portfolio company management, Italy**

FIGURE 7

### OVER THE LAST 12 MONTHS, WHAT INITIATIVES HAVE BEEN THE KEY DRIVERS OF VALUE CREATION ACROSS YOUR PORTFOLIO?



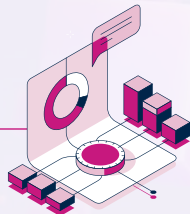
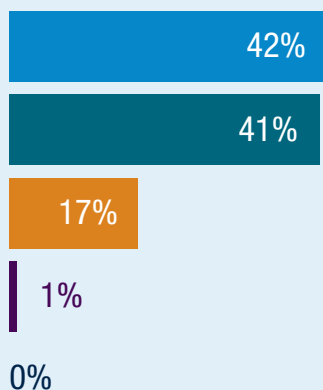


FIGURE 8

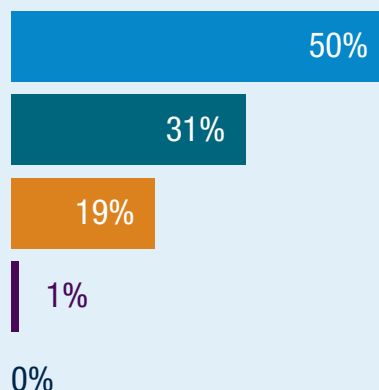
HOW DO YOU EXPECT THE RELATIVE IMPORTANCE OF THE FOLLOWING VALUE CREATION DRIVERS TO CHANGE OVER THE NEXT 12 MONTHS?

### Cash and working capital



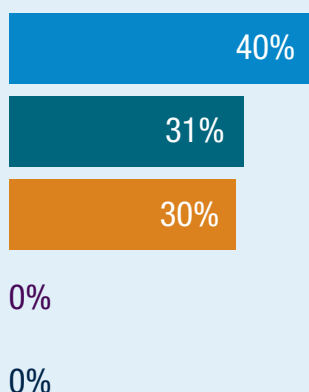
Top-2: Strongly / Somewhat increase **83%**  
Bottom-2: Somewhat / Strongly decrease **1%**

### Organic revenue growth



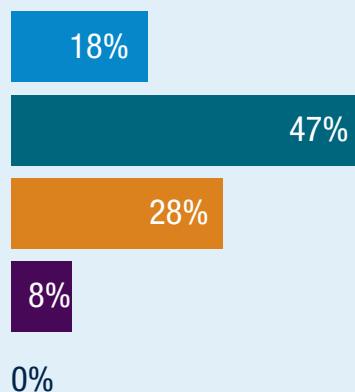
Top-2: Strongly / Somewhat increase **81%**  
Bottom-2: Somewhat / Strongly decrease **1%**

### Cost reduction



Top-2: Strongly / Somewhat increase **71%**  
Bottom-2: Somewhat / Strongly decrease **0%**

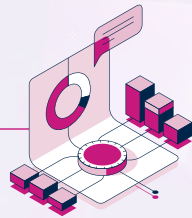
### Buy-and-build



Top-2: Strongly / Somewhat increase **65%**  
Bottom-2: Somewhat / Strongly decrease **8%**

Answer:

- Strongly increase
- Stay the same / Neutral
- Strongly decrease
- Somewhat increase
- Somewhat decrease



## AI MOVES ON FROM EXPERIMENTATION

AI adoption in value creation has accelerated sharply – and the nature of that deployment is maturing. Sixty-three percent of respondents now use AI as part of their value creation programmes, up from 41% last year. This year, 39% report AI being used across multiple functions and delivering measurable value, while 38% have deployed it in specific functional areas; only 23% are in the pilot or proof-of-concept stage.

Data analysis and insight generation is the most common use case at 69%, followed by operational efficiency at 60% and finance function optimisation at 55%. Increasingly, AI is enabling firms to use data beyond reporting and tracking, instead guiding and accelerating decisions on pricing, procurement and demand forecast that were previously driven by experience and intuition, to drive measurable EBITDA impact.

High cost and uncertain return on investment are the most cited barriers to effective AI deployment, identified by 60% of respondents. Data quality and availability is another important constraint, cited by 45%, a reminder that the foundations of good data architecture must be in place before AI can deliver full results.



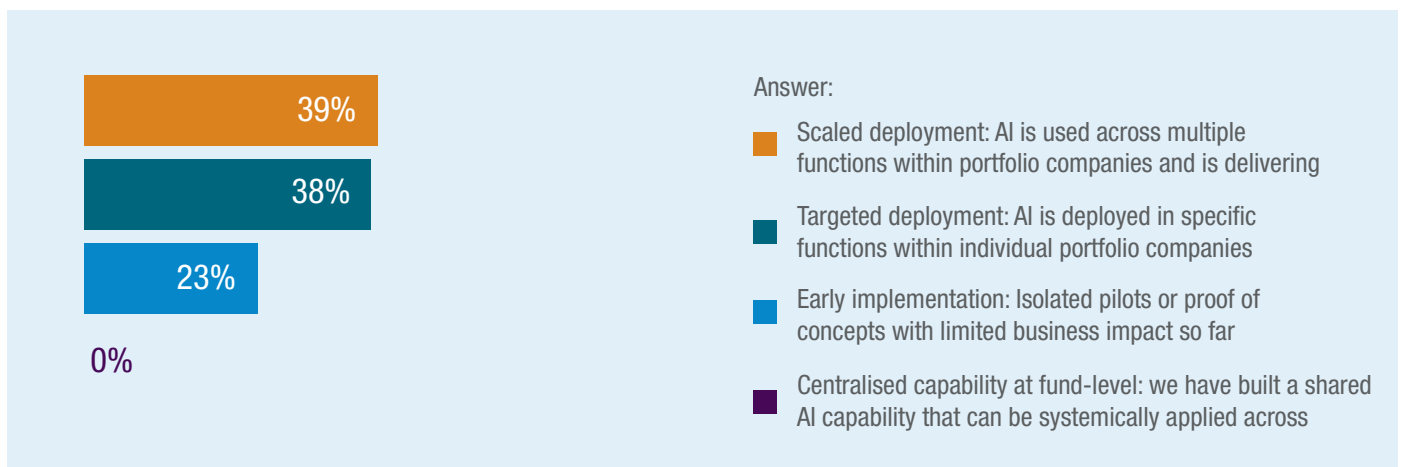
**We aim to turn our proprietary data into a strategic asset using analytics and monetisation to create value, rather than limiting it to reporting and operational tracking.”**

**Portfolio company management, UK**



FIGURE 9

### HOW WOULD YOU BEST DESCRIBE THE CURRENT MATURITY OF AI-DRIVEN INITIATIVES IN VALUE CREATION?



Answer:

- Scaled deployment: AI is used across multiple functions within portfolio companies and is delivering
- Targeted deployment: AI is deployed in specific functions within individual portfolio companies
- Early implementation: Isolated pilots or proof of concepts with limited business impact so far
- Centralised capability at fund-level: we have built a shared AI capability that can be systemically applied across

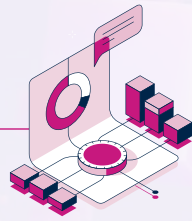
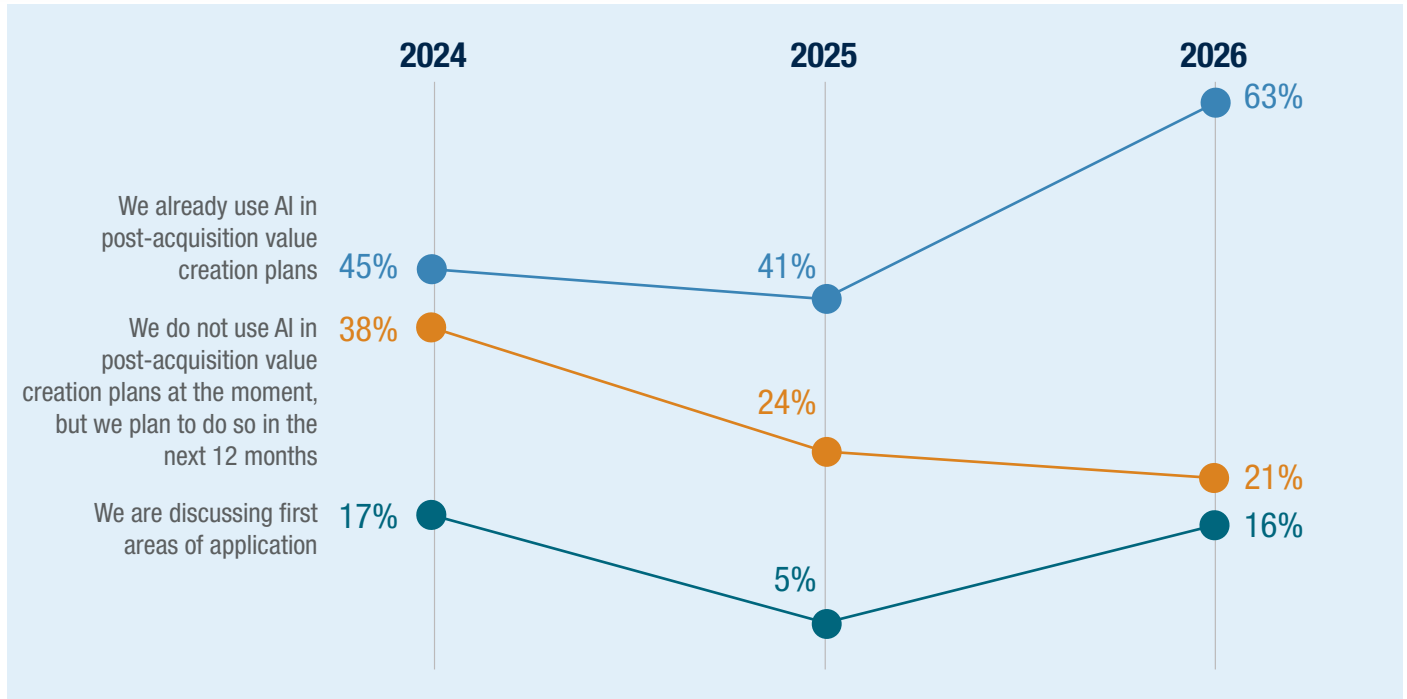


FIGURE 10

## HOW ADVANCED IS YOUR USE OF AI IN POST-ACQUISITION VALUE CREATION?



The survey's qualitative responses point to a set of emerging AI use cases:

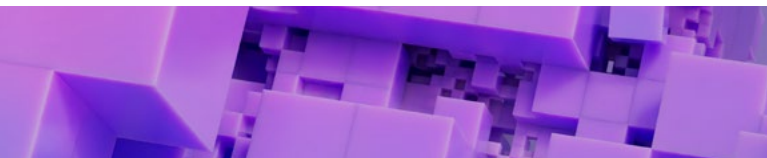
**Pricing and sales:** AI is allowing firms to replace static pricing with dynamic models that adjust based on demand signals, smart customer segmentation and competitive positioning. Respondents describe how a more precise, data-based pricing model can protect and expand profitability. AI is also being applied to reduce churn, improve segmentation and optimise sales processes with measurable revenue impacts.

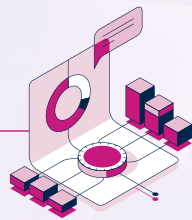
**Procurement and operational efficiency:** AI is used to identify procurement savings and automate operational processes that were previously manual and reactive. One respondent described adopting AI-driven fault detection systems to replace traditional diagnostic methods, reducing unplanned downtime, cutting operating costs and improving machine availability.

**Demand forecasting:** Several respondents pointed to AI-enhanced forecasting as a priority. Models that continuously ingest operational and market data are enabling more accurate inventory positioning, reducing working capital drag and allowing faster response to demand shifts.

**Finance function:** AI is delivering impact across financial reporting, planning and forecasting as well as working capital management. In reporting and planning cycles, it is replacing static, period reviews with more dynamic, real-time models. CFOs using AI tools are able to forecast more accurately and rapidly, enabling faster capital allocation decisions and earlier identification of risks and growth opportunities. AI is also deployed to optimise processes such as contract review and financial compliance.

**Data monetisation:** A number of respondents described ambitions to turn proprietary data into a strategic asset that can open new revenue streams. As one put it, the goal is to use "analytics and monetisation to create value rather than limiting it to reporting and operational tracking."





## FROM VOLUME TO VALUE: RETHINKING GROWTH

With inorganic expansion more costly to execute in a higher interest-rate environment, funds are using more sophisticated tools including pricing, customer monetisation and revenue mix optimisation to drive growth organically.

Across both GPs and portfolio companies, 68% of respondents cite pricing as their priority topline value creation initiative, followed by customer activation and acquisition at 55% and cross- and up-sell initiatives at 49%. Fewer respondents are tapping into aftermarket services, which offer high-margin, recurring revenue streams, particularly for hard-asset businesses.

Priorities vary somewhat between sponsors and portfolio company management. Geographic expansion ranks as the fourth most prioritised lever among GPs (48%), reflecting an appetite for new market entry that is less apparent at portfolio companies, where only 30% share this focus. The reverse is true for digital channels and data-driven initiatives – a priority for 48% of portfolio companies but only for 27% of PE firms.

The qualitative responses to the survey also shed light on the nature of growth being pursued. The focus is moving from pure volume-based to more durable and higher-margin revenue streams. In part, this reflects an environment of slower end-market demand caused by ongoing geopolitical volatility and macroeconomic uncertainty.

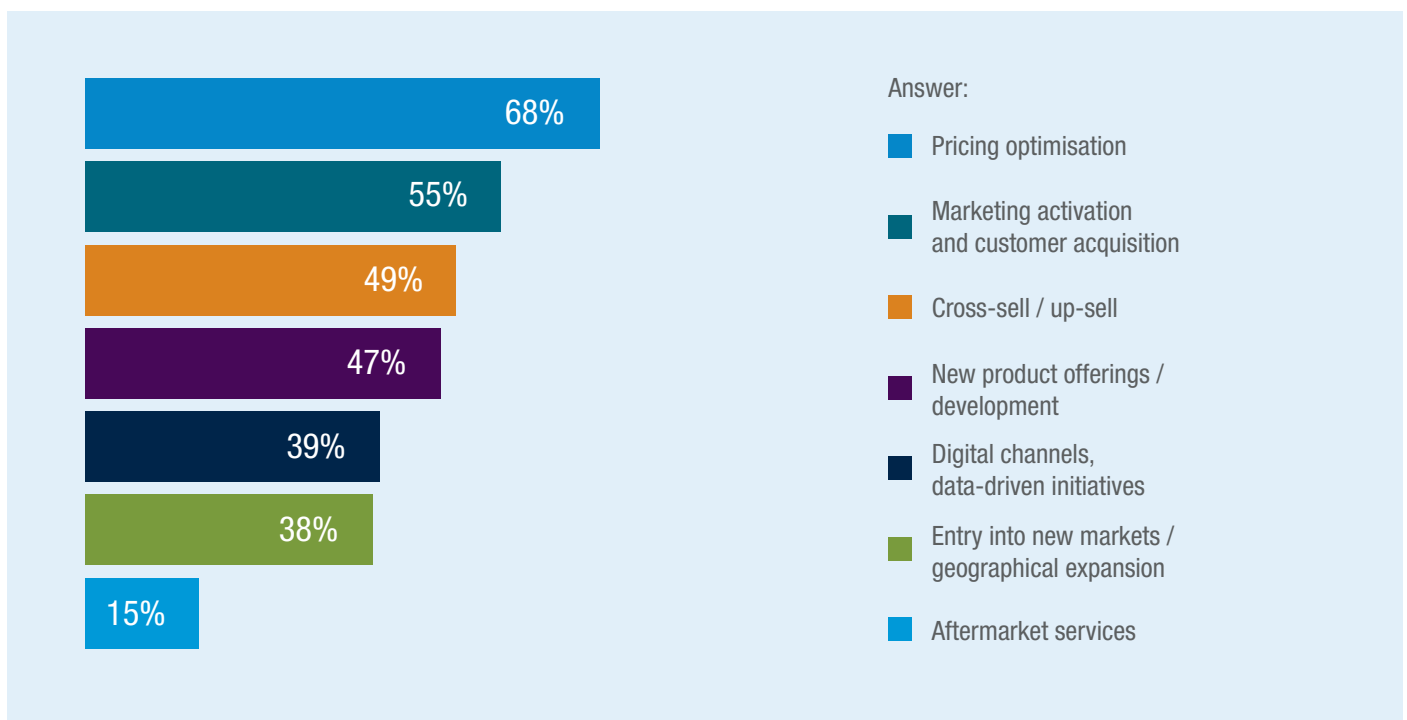


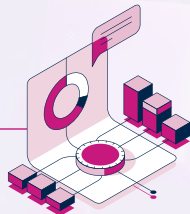
**We are prioritising customer retention and lifetime value optimisation instead of aggressive acquisition led growth strategies common in expansionary cycles.”**

**PE investor, Germany**

FIGURE 11

### WHICH REVENUE GROWTH INITIATIVES ARE CURRENTLY BEING PRIORITISED IN VALUE CREATION?





Two themes dominate:

**Dynamic pricing:** In our survey, respondents point to a clear move away from broad price increments toward analytics-driven pricing models, using data smartly to identify customer segments with price elasticity and tailor pricing accordingly. As one respondent put it, there is a move from “static” to “dynamic” pricing methods, with margin expansion underpinned by real-time, data-driven models that allow for quicker adjustments.

**Customer monetisation:** Several respondents noted a fundamental reorientation of commercial strategy, increasingly supported by AI tools that help identify where monetisation potential is being left on the table. “Existing customer monetisation matters more now than aggressive new customer acquisition,” one observed. Respondents described exploring subscription services to generate recurring revenues, replacing what one called “the traditional one-time sales model.” Lifecycle management – adjusting prices through each stage of the product lifecycle to maximise profitability – is also gaining traction.

## THE CASE FOR WORKING CAPITAL MANAGEMENT

Working capital management is set to become a more important value creation driver over the next 12 months, according to 83% of overall respondents, a figure that rises to 94% among mega-funds.

PE and portfolio companies are more proactively looking at inefficiencies in areas such as collections, payments and inventory to find opportunities to release cash tied up in daily operations, with higher rates making the cost of carrying excess capital more expensive and the case for action more urgent. As well as increasing financial flexibility and resilience, often that freed-up capital is used to self-fund growth and transformation initiatives that would otherwise require external funding.

Over the hold period, the cumulative effect of disciplined working capital practices – leaner inventory, tighter vendor terms and more efficient collections – contributes to a stronger earnings profile and balance sheet that future buyers can underwrite with greater confidence.

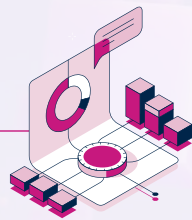
AI and digital technologies are also making working capital improvements more achievable. In inventory management, intelligent systems can continuously ingest operational data and external market signals, recalculating optimal stock positions in real time as conditions evolve. This improves forecast accuracy, reducing buffer stock and cutting the working capital drag from slow-moving or obsolete inventory.



**We intend to place greater emphasis on optimising working capital to strengthen liquidity and boost cash flow in a higher interest-rate environment.”**

**Portfolio company management, UK**





## GEOPOLITICS PUTS RESILIENCE AT THE CENTRE

Geopolitical volatility has become a defining feature of the PE environment this decade, with trade restrictions, conflict and supply chain disruption affecting dealmaking, investment theses and value creation in equal measure. In this year’s survey, it ranks as the single biggest challenge to value creation, cited by 62% of respondents, ahead of tariff volatility and inflation, both at 58%.

If last year the source of disruption was President Donald Trump’s “Liberation day” and the lasting uncertainty around tariffs, in 2026 it is the ongoing conflict in Iran. The closure of the Strait of Hormuz and attacks on key infrastructure are constraining the flow of energy, materials, and goods across critical trade routes, putting immediate pressure on raw material availability and pricing, particularly in Europe and Asia. The energy shock is only beginning to filter through the broader economy – with inflation, demand, and operating costs pressures expected to build over the months and quarters ahead.

As operational improvement takes a more central role in value creation, the ability to anticipate and manage exposure to these forces has become more important – identifying how input costs, routes to market and supply chains will be affected, and embedding that analysis into plans from the outset.

The qualitative responses point to how PE teams and portfolio companies are doing this on the ground. Supply chain strategies are being further refined, building on adjustments already underway since Covid and the war in Ukraine, through nearshoring, dual sourcing, vendor diversification and greater logistics flexibility and regional production. The goal is no longer to optimise supply chains for cost alone, but to build systems that can absorb constant disruption without derailing the value creation plan.

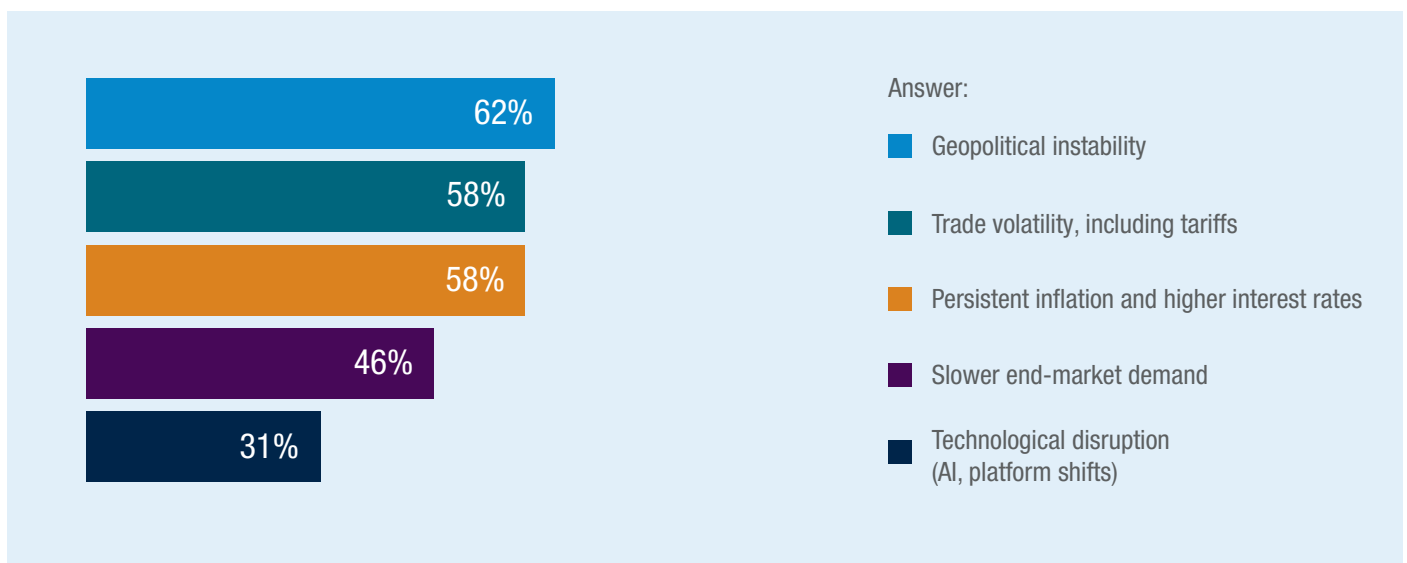


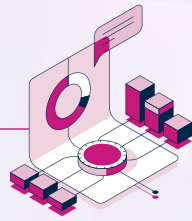
**Previously we prioritised low-cost global sourcing and lean inventories, whereas now the emphasis is on regional supply networks and dual sourcing of key components.”**

**Portfolio company management, Germany**

FIGURE 12

### WHAT ARE THE TOP CHALLENGES IMPACTING VALUE CREATION AND RETURNS IN THE CURRENT ENVIRONMENT?





## EARLIER AND DEEPER EXECUTION

Value creation plans are becoming more sophisticated in substance, and the way they are executed is changing too. PE firms are increasingly hands-on in driving operational improvements at portfolio companies, with a clear shift toward earlier and more sustained engagement across the hold period.

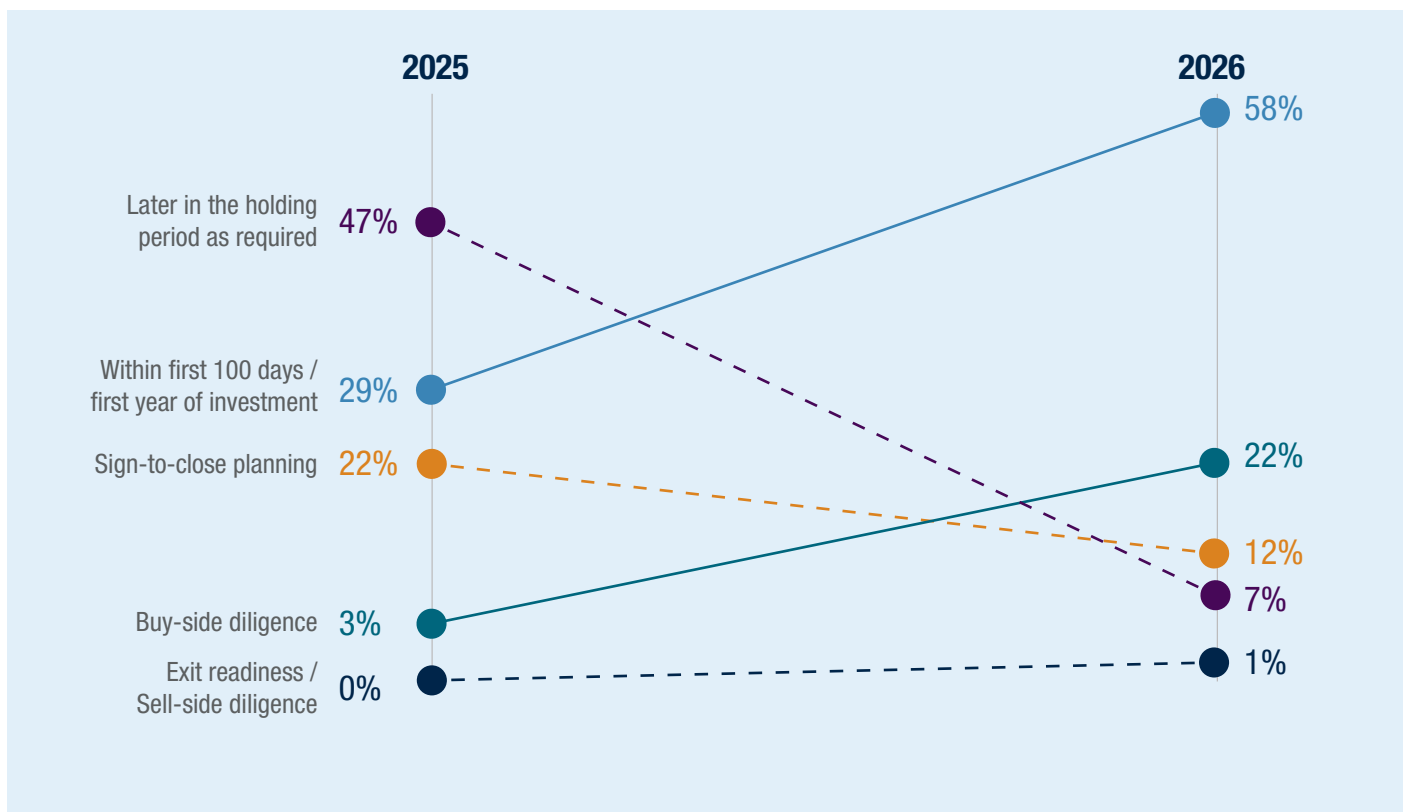
The data reflects this directly. This year, 58% of respondents said value creation resources are deployed predominantly within the first 100 days, up from 29% last year. In 2025, 47% said value creation efforts were concentrated later in the hold period – this has now dropped to only 7%. Front-loading execution matters because the operational improvement programmes now being pursued are more complex, more cross-functional and take longer to mature than the quick wins that characterised earlier approaches.

Yet most programmes remain far from fully realised, and there has been little progress since last year. Sixty-five percent of respondents have achieved less than 50% of the value of plans developed over the last two years, broadly in line with the prior survey.

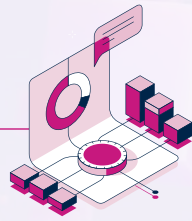


FIGURE 13

### AT WHAT POINT OF THE TRANSACTION CYCLE DO YOU INVEST RESOURCES IN VALUE CREATION INITIATIVES?



## SURVEY FINDINGS



This reflects two problems. First, capacity constraints in execution remain: capacity gaps were cited by 41% of survey respondents as the primary barrier to value creation, closely followed by specialist expertise gaps (37%). For example, we observe a shortage of transformation leaders that can take on programme management offices and coordinate multiple operational improvement workstreams happening simultaneously. Specialist expertise gaps, in our experience, tend to be more situational, usually arising from major operational reconfigurations such as plant closures or shared services set-ups.

Second, value creation assumptions set in the pre-deal phase – which underpin increasingly stretched entry valuations – are increasingly ambitious, placing the weight of returns on operational improvement plans that demand both precision and flawless execution. This is where senior operational expertise, engaged early in due diligence, becomes an advantage.

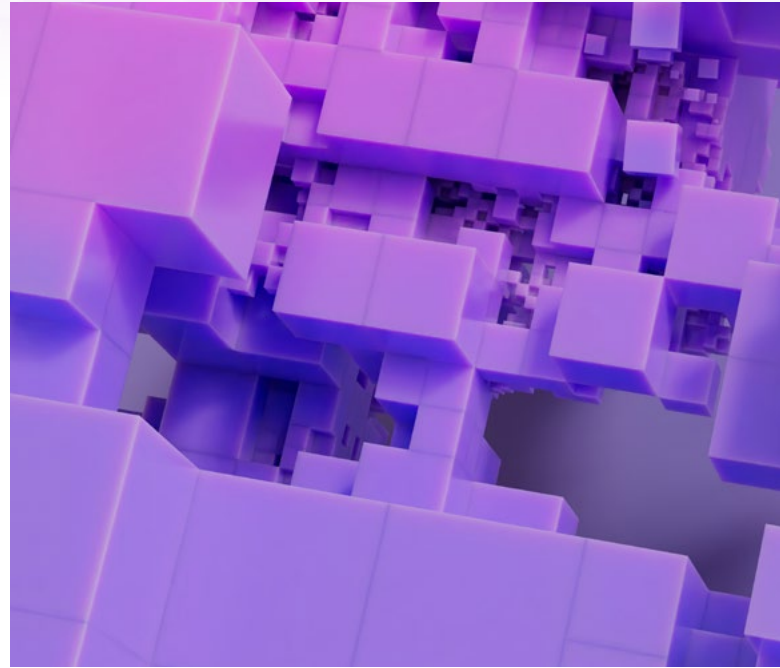
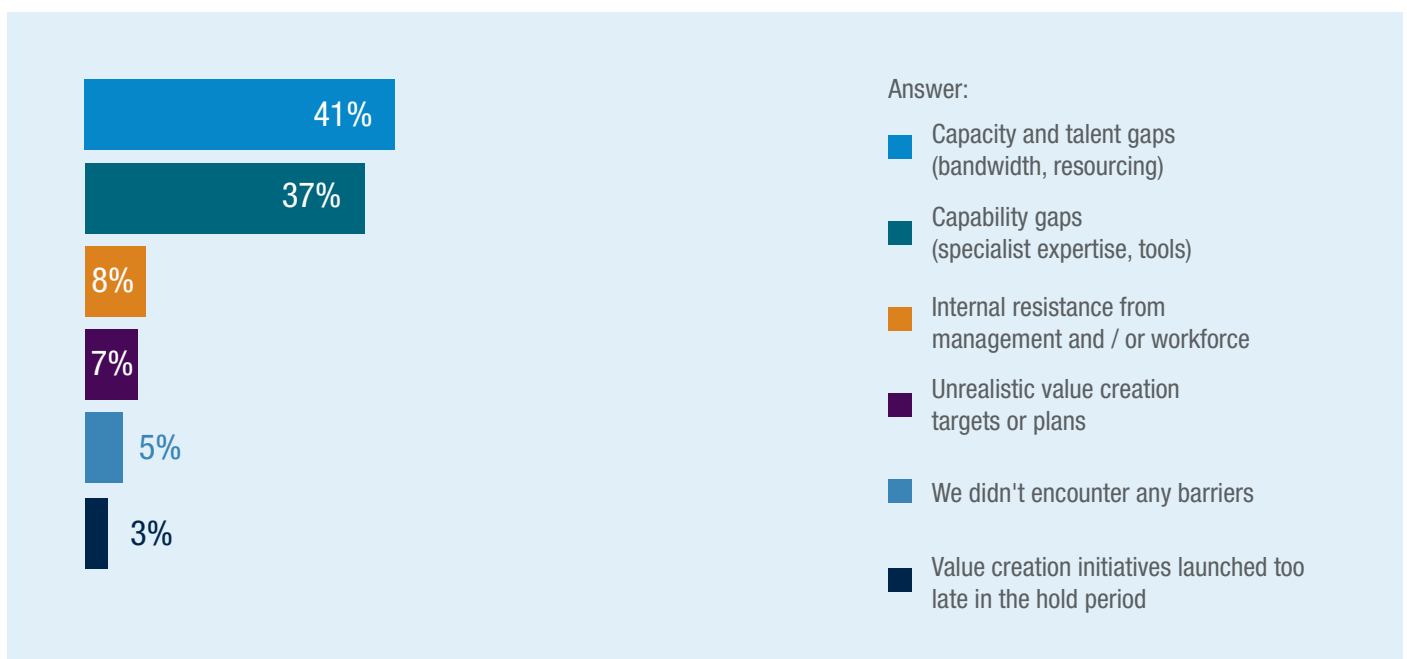
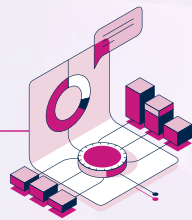


FIGURE 14

### SELECT THE KEY BARRIER YOU ENCOUNTERED TO EXECUTING VALUE CREATION OVER THE PAST 12-24 MONTHS.





## THE RISE OF CONTINUATION FUNDS

While 61% of sponsors are optimistic about the exit outlook for 2026, the way they think about assets' hold periods is changing. Extended ownership is seen less of an anomaly and increasingly as a way to preserve optionality in a more challenging market.

Half of the sponsors are opting to extend value creation plans and refinance debt of their portfolio companies in response to exit pressures. The secondaries market has rapidly emerged as an equally important solution: 43% of PE firms are now turning to it, nearly double the 24% recorded a year ago. They are doing so, primarily, to return capital to investors. Only 7% are accepting forced exits by selling at lower valuations in the current market, down from 29% in 2025.

Asked about the types of assets that are entering continuation funds, 45% of respondents describe them as businesses performing in line with expectations but needing more time to reach their full potential, while 42% characterise them as prized assets held back by unfavourable market timing.

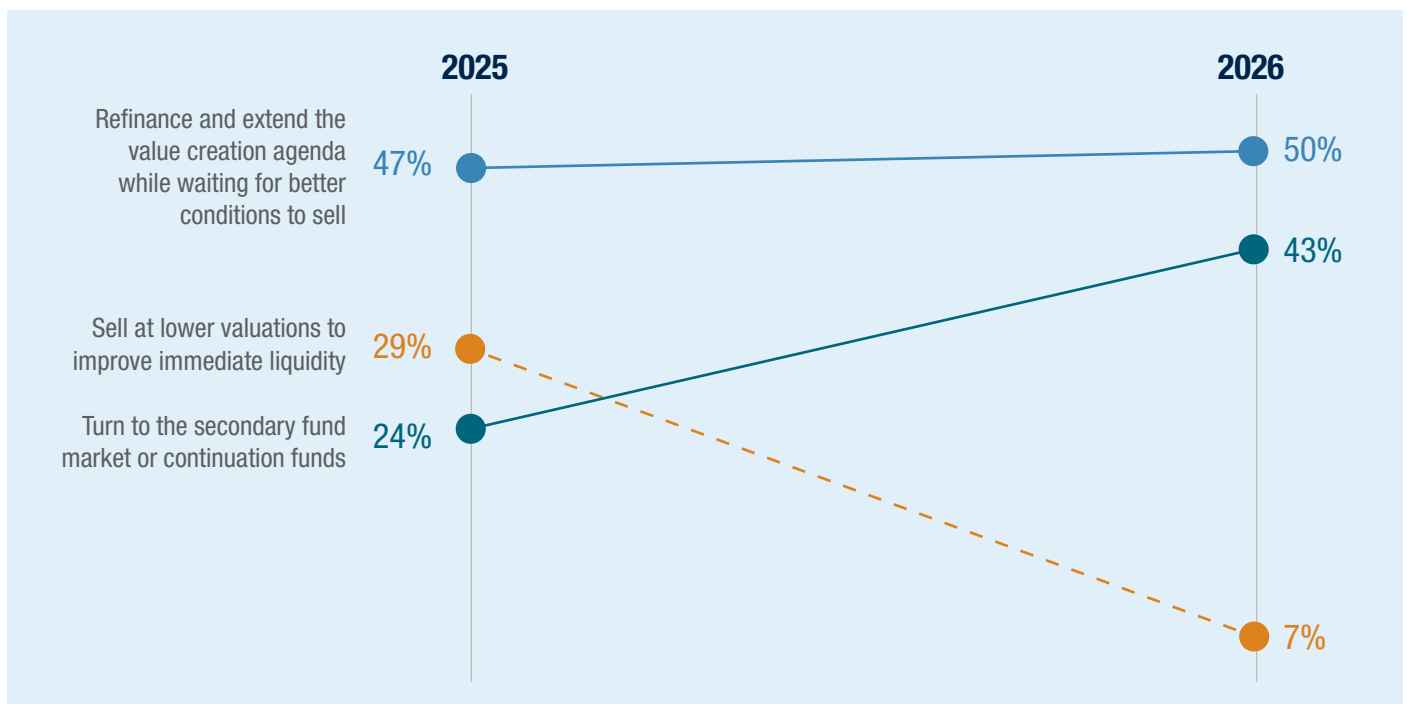


**Extended ownership is less of an anomaly and increasingly a way to preserve optionality in a difficult exit market.**

Continuation vehicles are a growing phenomenon in the PE market, having moved well beyond its niche origins a decade ago. According to Schroders Capital, at a CAGR of 27% since 2012, continuation investment volumes reached \$70 billion in 2024, and are projected to exceed \$300 billion by 2034. The firm expects continuation funds' share of total PE exit value to nearly double to 11.5% over the same period.<sup>6</sup>

These structures allow sponsors to retain ownership of an asset beyond the life of the original fund. Rather than selling into an unfavourable market, the company is transferred into a new vehicle, giving existing LPs the option to cash in or roll their participating forward. New investors are often brought in, providing fresh capital for the next phase of value creation.

FIGURE 15  
**IN THE CURRENT MARKET, WHAT HAS BEEN YOUR APPROACH IN RELATION TO AGING ASSETS IN THE PORTFOLIO?**



<sup>6</sup> <https://www.schroders.com/en-us/us/institutional/insights/guide-to-continuation-funds-a-market-that-has-come-of-age/>

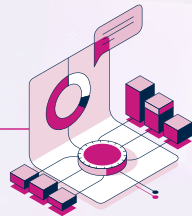
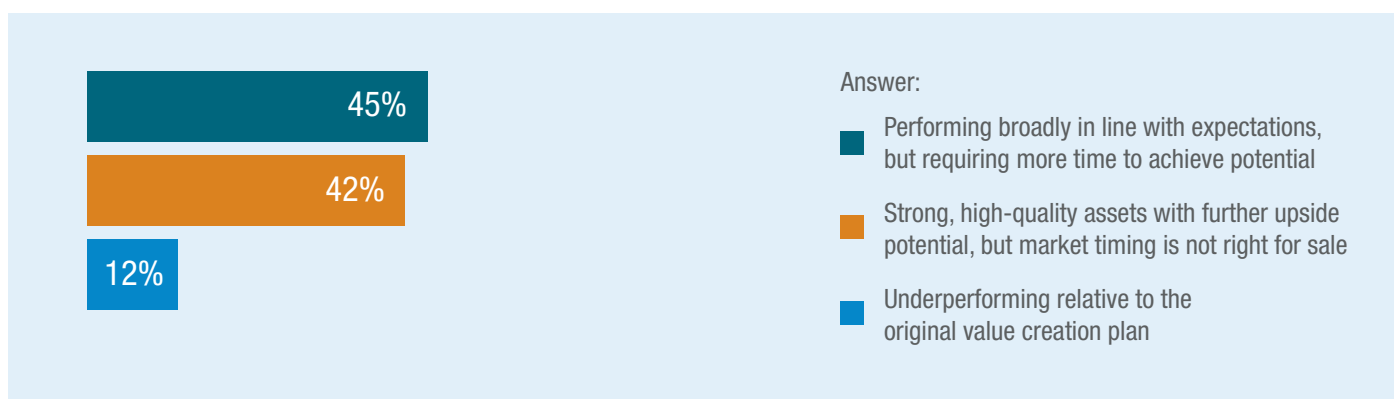


FIGURE 16

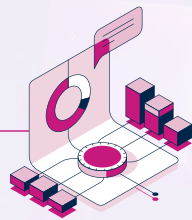
## HOW WOULD YOU DESCRIBE THE ASSETS TRANSFERRED VIA THE SECONDARY MARKET OR INTO CONTINUATION FUNDS?



Indeed, 85% of sponsors report a balanced mix of existing and new investors participating in their continuation funds, while 15% say most investors in the vehicles are new.

Getting alignment on asset pricing is the key challenge in executing these transactions, cited by 64% of respondents. To address the competing interests of exiting and incoming LPs, funds are increasingly turning to safeguards mechanisms: rolling carried interests to align GP incentives (the most common practice highlighted in the survey, by 70%), competitive bidding process to establish fair value (36%) and independent third-party valuations (27%).

Importantly, assets entering continuation vehicles often face heightened expectations around execution. When an asset is given “more time,” that time must be used effectively, increasing pressure on management teams to deliver tangible operational improvements and raising the bar on execution.



## THE BUSINESS CASE FOR ESG

Ninety-one percent of all respondents consider ESG when building value creation plans, a further increase from 79% in 2025. The figure sits slightly lower among portfolio company respondents at 86%.

Notably, 97% of PE investors now report that improved ESG credentials have a positive impact on the financial performance of portfolio companies, up from 68% last year and 62% in 2024, suggesting that the business case for ESG is becoming stronger.

There is however a subtle change in how ESG aspects are being incorporated, with more funds in 2026 considering it in terms of regulatory compliance requirement (54% of respondents) and fewer citing business-linked ESG commitments in value creation (38%). Views were more evenly split last year at 47% and 43%, respectively.

In our experience, the conversation about ESG is shifting from its early framing as a compliance tick-box.

Leading PE firms are no longer asking how a target meets ESG compliance requirements at diligence stage, but how ESG initiatives can make the company more profitable, contribute towards modernisation and effective resource deployment, and add value at exit.

For companies to demonstrate this, ESG and EBITDA value levers must be aligned at a core level, baked into operational improvement, commercial strategy, capital discipline and risk management, and not treated as a parallel workstream.

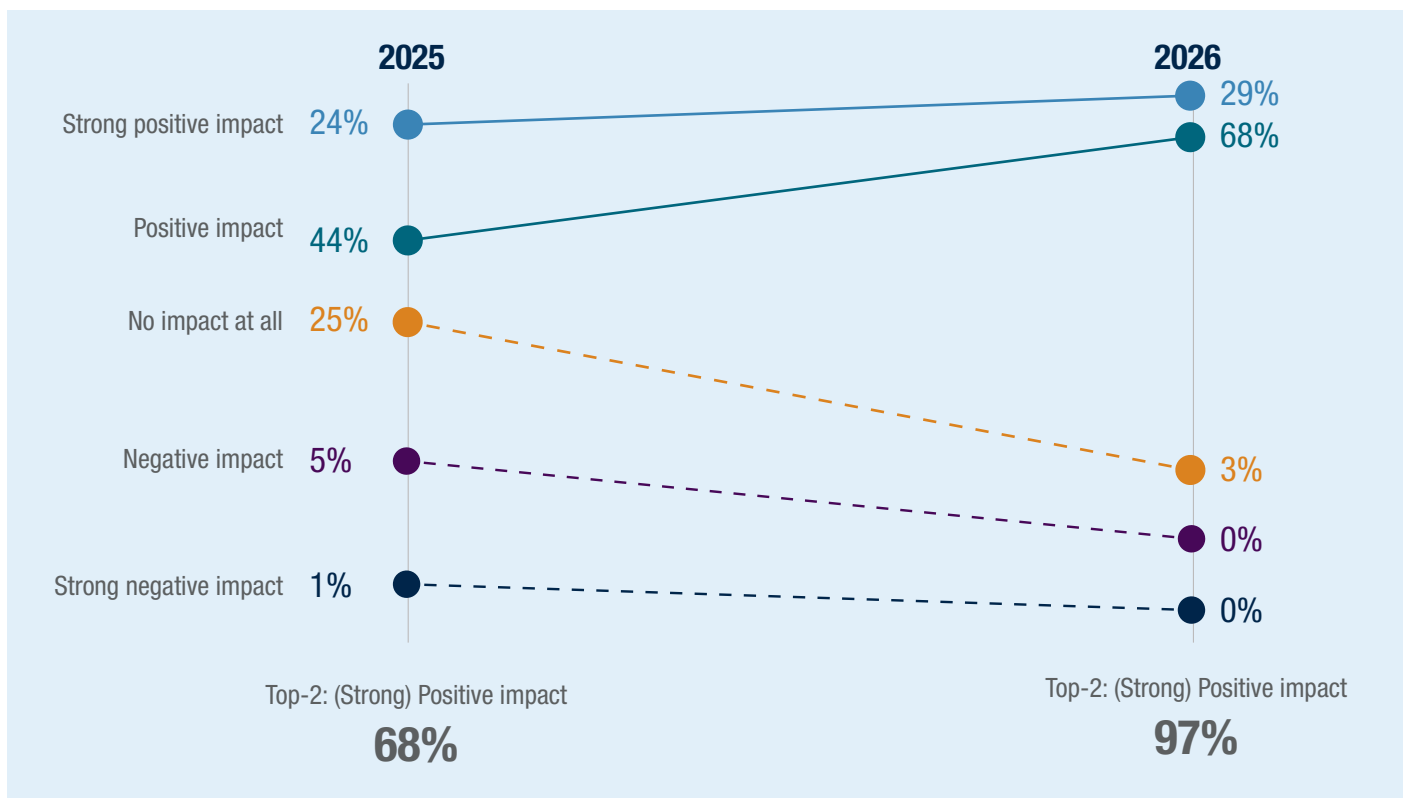


**We expect to integrate sustainability more deeply into our investment thesis, as these factors increasingly drive value for stakeholders.”**

PE investor, Germany

FIGURE 17

### WHAT IMPACT DO IMPROVED ESG CREDENTIALS HAVE ON THE LONG-TERM FINANCIAL PERFORMANCE OF PORTFOLIO COMPANIES?





# KEY RECOMMENDATIONS

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# KEY RECOMMENDATIONS



Higher interest rates, high entry valuations and longer hold periods have changed what it takes to generate top-tier PE returns. In a clear break from the heavy reliance on financial engineering and multiples expansion of the 2010s, value must now be built through tangible improvements in operations and disciplined, hands-on execution.

The following actions reflect what the best-performing funds are doing:

- **Front-load execution:** Start value creation planning in pre-deal diligence phase and deploy operating teams and resources within the first 100 days. Operational improvement programmes are increasingly complex and cross-functional, and need the full hold period to deliver their potential.
- **Pursue revenue, cost and cash discipline in parallel:** Working capital deserves particular attention as it can self-fund broader transformation while improving financial resilience to help businesses withstand macro shocks and support exits.
- **Pricing as a core competency:** Pricing is one of the highest-impact levers available. Move from broad and static price increments to dynamic, analytics-driven models that segment clients and support margin expansion.
- **Unlock aftermarket services revenue:** In hard-asset businesses, capture the high-margin, recurring revenue streams available in aftermarket services.
- **Deploy AI without losing sight of ROI:** Concentrate deployment on use cases with clear returns: pricing analytics, demand forecasting, procurement optimisation and finance function automation, and build the data foundations first.
- **Continuation fund execution:** Continuation vehicles intensify the pressure to deliver. Rigorous operational diligence on the asset being moved is essential, and the value creation plan for the next ownership phase must be credible, specific and stress-tested, particularly given the valuation tension between sponsors and LPs.

## HOW A&M CAN HELP

With our focus on implementation and our operational and action-oriented approach, A&M has been assisting management teams to unlock value and kickstart performance for more than 40 years.

Our experts work with clients during due diligence, sign-to-close and subsequent value creation program phases, focusing on topline, operational and service excellence as well as working capital/cash initiatives to accelerate performance and help clients to deliver value. A&M also has deep experience in running exit readiness programmes and positioning businesses for sale based on a sound operating plan.

A&M helps PE funds and portfolio management translate AI from a technology theme into measurable business impact. Our work focuses on identifying where AI can drive cost efficiency, improve throughput, and enhance decision-making across functions, while also assessing AI readiness, execution risk, and value creation potential. We support clients through AI diligence, AI diagnostics, opportunity sizing, AI roadmap development, and practical implementation focused



# METHODOLOGY

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On behalf of Alvarez & Marsal, research firm Statista Q surveyed 200 private equity professionals and portfolio company executives across ten European markets in the first quarter of 2026. Respondents were drawn from PE funds across Denmark, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the UK, as well as C-level executives of PE-backed portfolio companies in those markets.

The sample was analysed to identify indicative differences across three groups: deal teams versus operating teams within funds; PE investors versus portfolio company executives; and mid-cap and large-cap fund cohorts.

The survey contained both closed and open questions, and interviews were conducted over the telephone. Results were analysed and collated by Statista Q, and are presented here anonymised.

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