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PE's new exit reality — why 'wait and see' no longer works

Financing flexibility, operational transformation, and robust exit planning are key to navigating today's challenging exit landscape, write **Sean O'Flynn** and **Jan Kantowsky**

Private equity's traditional exit routes — secondary buyouts, trade sales and IPOs — have slowed dramatically, leaving sponsors with ageing portfolios and mounting pressure from LPs to distribute capital. With the average global hold period rising from 5.2 years in 2020 to 6.6 years by mid-2025 (S&P), the five-year cycle now often stretches to almost seven years or more.

This slowdown results from a perfect storm: persistent valuation gaps, higher borrowing costs, political uncertainty, and inconsistent portfolio performance. Lenders and potential buyers are more selective, asking tougher questions and demanding solid proof of resilient cash flow and a convincing growth story.

The market now demands a broader set of exit options, a more credible EBITDA improvement story, and disciplined, unbiased exit governance — evolving the private equity playbook.

Breaking through the exit bottleneck

Several factors drive today's logjam. Valuation mismatches weigh heavily: sellers remain tied to 2021's lofty multiples, while buyers discount for higher capital costs and sector risks, creating a stubborn bid-ask spread that stalls deals. Post-pandemic volatility continues to shake buyer confidence, as inflation, supply

chain disruptions, inconsistent metrics, and "noisy" KPIs make forecasting challenging.

Finally, market uncertainty looms large. Geopolitical shocks, fluctuating rate expectations, and sector-specific cycles in industries such as consumer goods, industrials, and software all contribute to unpredictable timing.

The upshot: exits are slower and more complex, with the number of aborted deals rising steadily since 2022 (Mergermarket). Mega-round auctions are becoming the norm, and investment committees are imposing higher hurdles, dragging timelines far beyond historical averages.

Refinancing and stretched holding periods

As holding periods extend, refinancing strategy plays a key role in evaluating decisions to hold or push for an exit. Debt packages designed for four or five years no longer match the seven-year reality. With the demand for new financing strategies, private credit players have been on the rise, with many large multi-strategy funds now dominating this space.

However, this market comes with a variety of lender strategies. With private credit funds reaching \$500bn in dry powder globally in 2025 (JPMorgan), competition to deploy capital is fierce — and so is lender scrutiny. Lenders with private equity backgrounds, in particular, demand robust cash flow forecasts, thorough scenario modelling, clear operational value creation plans, and proof that management and GPs are aligned.

Given the rapid expansion of private credit, this level of scrutiny is not surprising. The risk of non-performing loans rises as lenders back more ambitious — and in some cases, riskier — business plans in a volatile environment. When loans turn sour and sponsors are unwilling to inject further support, private credit funds are increasingly forced to take control of the assets themselves, as seen

in several recent cases. This shift puts private credit providers in an unfamiliar position — becoming equity holders — often without the resources or readiness needed to manage and operate these businesses effectively.

Continuation vehicles go mainstream

Once a niche solution for troubled assets, continuation vehicles (CVs) have rapidly become a mainstream tool for high-quality businesses unable to secure a traditional buyer — at least at valuations demanded by the investment strategy. The



As traditional exit routes have slowed, successful PE firms are having to navigate more complex ways out

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growth in these vehicles highlights their rising importance. Many GPs are utilising CVs as a strategic solution to extend value creation and return capital to LPs. New LPs are increasingly comfortable committing follow-on capital, offering flexible time horizons and an opportunity to reset the value creation plan.

For GPs, CVs provide breathing room to complete operational programmes or wait for market sentiment to recover. They also unlock fresh capital to fuel stalled initiatives such as expansion, M&A, or digital transformations. Perhaps

most importantly, CVs can align interests, offering new investors long-term growth opportunities while providing existing LPs with liquidity.

To fully realise their potential, however, CVs must drive deeper and wider value creation, extracting any remaining potential from the original vehicle. This makes advisers indispensable, helping to identify these opportunities and ensure CVs deliver on their promise of enhanced returns.

The rise of operational ‘Value Creation 2.0’

Faced with a tougher exit environment, making an asset saleable demands more than the traditional first-100-days value creation focus.

To navigate this landscape, many firms are embracing what we call ‘Value Creation 2.0’ — revisiting the core value creation thesis that underpinned the investment case and re-evaluating it in this new stage of the asset’s life-cycle to drive deeper, more transformative later-stage EBITDA improvement and growth initiatives.

Value Creation 2.0, focused on bolstering EBITDA and enhancing the quality and resilience of cash flows, can play a critical role in crafting and evidencing a more credible equity story for the next buyer. In particular, assets that may not yet have reached their full potential require stronger proof points that the upside case is deliverable. This often involves initiating the early phases of this new value creation stage prior to the sale process to build confidence with prospective buyers.

When the time comes to exit, the focus shifts to demonstrating future earnings potential for the next stage of the ownership cycle, not just past headline growth.

Finally, carve-outs remain a well-utilised strategy where the sum-of-the-parts presents greater scope for wider, competitive auctions. This dynamic approach can accelerate exits in a crowded

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market where the whole asset is a difficult and more complex buy. For assets that may not attract buyers in their current form, we’re seeing these strategies increasingly used to unlock liquidity and value in more receptive segments of the buyer landscape.

Transforming exit governance and readiness

Exit governance also needs a rethink. Longer holds can allow biases to creep in, like confirmation bias, sunk cost fallacies, anchoring to past valuations, and over-optimism about timing. These can lead to suboptimal decisions, jeopardising exits at maximum value within the optimal timeframe.

To counter this, some GPs are introducing independent exit committees to take a hard, honest look at asset readiness, benchmark valuations and pressure-test every aspect of the exit plan. They evaluate timing in the context of sector cycles and identify gaps in the equity story, financials, or management narrative, ensuring a sharper, more credible exit strategy.

This connects to a renewed focus on exit readiness, now viewed through a buy-side lens. With increased scrutiny on exits and refinancing, active vendor assistance programmes are becoming critical. These programmes identify gaps or weaknesses in the equity story early, ensuring a smoother path to market. Traditional vendor due diligence, while necessary, can be disruptive, exposing flaws in the business plan at the worst time.

Leading firms are launching these initiatives much earlier in the preparation cycle. They challenge the business plan’s readiness,

provide evidence for in-flight improvements, and test for red flags like tech debt or cybersecurity vulnerabilities. They also assess management’s readiness to support the deal process and credibly deliver the business plan.

These programmes drive quick wins to build confidence in improvement assumptions, create robust management materials, and conduct independent ‘equity story challenge’ sessions. By helping management teams protect against value leakage during due diligence, these efforts safeguard and accelerate the asset’s future potential.

A new playbook for an era of trapped capital

With the shorter exit cycles of the late 2010s firmly behind us, the market will remain unpredictable for the foreseeable future. Macroeconomic uncertainty, cautious lenders, and discerning buyers are the new normal.

The new private equity exit playbook rests on three pillars. First is financing flexibility, using tailored refinancing and consideration of continuation vehicles to control timing without compromising asset performance. Second is operational depth, pushing genuine transformation to build a solid, compelling equity story and weather market shocks. Finally, earlier, robust exit planning is vital — deploying independent committees and advisers to provide objectivity, ensure readiness, and help GPs avoid common pitfalls like anchoring to past valuations or misreading market signals.

Private equity firms that embrace these shifts will recycle capital faster, protect fund performance, and stand out in a crowded fundraising landscape. Those that fail to adapt risk accumulating ageing portfolios, growing GP frustration, and mounting LP pressure for liquidity. The era of ‘wait and see’ is over; it’s time for a proactive, strategic approach to exits.



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