KEYNOTE INTERVIEW

Momentum shifts as PE embraces progress

Expect strong dealmaking and narrower valuations, says Erika López, corporate partner in Baker McKenzie's Chicago office and a member of the Global Private Equity Practice

SPONSOR
BAKER MCKENZIE

Q What do you expect to be the dominant themes for private equity this year?

While we are facing an evolving market, we can form a view on what is to come this year by looking back at recent years and recent trends. We had relatively low activity in the M&A markets in 2023 but 2024 showed a moderate uptick in deal activity for us. Global deal volume last year stood at $3.2 trillion and that was an almost 10 percent increase compared with 2023 levels.

Last year was the strongest annual period for dealmaking since 2022 and one of the most active years we have seen for a while in terms of private equity. We are nowhere near the record-breaking numbers that we saw in 2021, but the numbers do tell us that momentum is shifting. That is relevant as we think about 2025.

We believe we are seeing an upswing in deal activity more broadly across M&A and that in turn will mean more deals in private equity. That is certainly what our clients are telling us and we expect that new momentum to continue through this year.

So, in terms of the dominant themes for private equity, there are really two primary themes we expect to play out in the next 12 months and those are increasing exits and narrowing valuation gaps between buyers and sellers.

Turning to exits first, in 2024 we did see an increase in exits but the levels were still lower than in prior years. We are yet to see any meaningful recovery to ease that liquidity pressure from LPs, with the average hold period at this point reaching a 10-year high.

I expect private equity-backed companies to come to market and for that to be a strong theme in 2025 with our private equity clients continuing to focus on creative ways to exit investments.

That may be via M&A, continuation vehicles, partial sales or minority deals, but certainly we expect that to be a busier market. We also expect corporates to continue to evaluate noncore businesses and find ways to create value, which often leads to divestitures or carve outs of those businesses, further adding to the availability of assets in the market.

The other theme is the narrowing of valuation gaps. Several factors in the global economy are playing a role in normalizing that gap between buyers and sellers – a gap that has been a feature of the market for some time. Interest rates, inflation and the uncertainty associated with the US and other elections around the world drove that gap last year, but with some of these matters stabilizing and with more assets coming to the market, the valuation gap is now starting to narrow, which will start to unlock activity. That will allow companies to hit the market for exit and allow private equity funds to start utilizing their elevated volumes of dry powder, which remain high and ready for deployment.

I am therefore cautiously optimistic for 2025, with the difference versus 12 months ago really being that shift in momentum that we saw take hold in the latter part of 2024.

Q What will be the key drivers of change in the industry?
The biggest driver of change for private equity will inevitably be technology, which is at the forefront of everything today, and especially artificial intelligence. That is going to continue to be a key priority for our clients as they look at their own operations and at investment opportunities, and it will remain a key driver of private equity deal activity.

Q With the new administration in the White House, where will the biggest challenges be for PE investors in the US?
This is a hot topic for dealmakers. Generally, people are still very much digesting the outcomes of the many elections that took place globally last year, including the return of Donald Trump to the White House.

With a Republican-controlled Congress, the expectation is that there will be a more business-friendly environment under the new administration, but overall I think it is challenging to predict the ultimate impact on private equity. Based on what clients are saying, there is a belief that the new administration's policies may have significant impact on the market but sometimes contradictory indications for deal activity.

"It is actually beneficial to businesses to promote gender equity in the workplace, and workplace culture has a big role to play"

Will there be opportunities? Absolutely. On the regulatory front, there is an expectation that there will be a reset as many of the regulatory challenges that have beset private equity deals for decades are addressed. A recent Baker McKenzie report, Looking Ahead: Business Impacts of the Trump Administration, very much detailed expectations around regulatory frameworks. President Trump campaigned on plans to alleviate burdens on business, so the enforcement environment is expected to be more favorable to M&A activity overall , with a less heavy-handed approach than that seen under the previous administration.

But there will also be challenges. For example, the regulatory environment may be very sector-centric as "big tech" may continue to face regulatory challenges. Or if you think about some of the protectionist measures that the new administration favors, including the imposition of tariffs and perhaps retaliatory measures coming from other countries, those could spark another wave of supply chain issues and market disruption.

Labor shortages could also be an issue due to recent immigration policies and geopolitical uncertainty – including the wars in Russia-Ukraine and the Middle East – will clearly continue to play a role in dealmaking, as it has in recent years. But private equity dealmakers remain nimble, and with generally improving market conditions, they are proactively preparing for what is to come and looking forward to operating in a more deal-friendly environment.

Q What should be done to support gender parity in the private funds world?

Investment in diversity initiatives in the private equity space has actually ticked up and there has been some progress in recent years, but there is still so much work to be done. External pressures from clients or institutional investors calling for reporting on gender metrics, contribute favorably and make diversity efforts more real, but there remains a very large gap particularly at the senior levels.

There have been reports showing that, as an industry, at the current pace it will take us several decades to achieve gender parity at senior principal levels and above. So, while in certain places we have made good progress at the entry level, we need to move beyond that and not just see diversity initiatives as a recruitment tool.

"I expect private equity-backed companies to come to market and for that to be a strong theme in 2025"

When you get more senior, you do see that people start to drop out. As an industry, we really need to focus on the retention and promotion of women if we are going to close the gap. From my perspective, this requires that leaders within our institutions be both intentional and surgical with their strategies to close that gap.

With this, practice is more powerful than any policy. We need leaders who are active sponsors of women, because sponsorship is about leveraging your networks and thinking about the women you are sponsoring for business creation, referrals and leads. The mentorship piece is now well-established, but actually drawing on connections to create business together is the aspect of sponsorship that I think needs more work.

There has been some research showing that when women network in a professional setting they tend to do that around non work-related topics, which can be great because that may lead to deeper connections with those in our networks, but making that jump to drive work from networks can be challenging. With this in mind, I really do think leaders need to be intentional about supporting women's professional endeavors to cement that business creation together.

We also need to continue driving the message that there is no trade-off between promoting gender parity and profits. It is actually beneficial to businesses to promote gender equity in the workplace, and workplace culture has a big role to play. As women we face enough challenges and our workplaces should not feel like daily battles to fit in.

We have to find places that celebrate us and welcome our authentic selves. For me, moving to Baker McKenzie has been pretty powerful from that perspective. If I didn't have the support system that I now have around me, it would be difficult to focus on my business plan.

Q How have you sought to encourage and support female colleagues?

As women, we are constantly doing this, even if it goes unnoticed. I am a big believer in community and I try to create and foster that wherever I go. If I can be a safe space for my female colleagues or young women as they navigate a career in a male-dominated market, I offer my time without hesitation.

I have always enjoyed teaching and mentoring, so I try to be that intentional leader who is strategic about the way I staff my deals. I aim to create a safe space for young women to be visible leaders within a deal, because I do not need to monopolize the conversations with the client. I find value in having my best people take ownership of workstreams and I try to look out for opportunities for my team members.

With other female colleagues, I try to serve as an encouraging voice, giving that small push that might be needed for them to act or do something. We often have a tendency to be deferential, and particularly Latina women, we tend to put our heads down and work hard because we believe hard work is rewarded. The reality is that sometimes we do need to speak up and promote our work, and sometimes we need others to encourage us to do that. That has certainly helped me in the past so I try to offer that encouragement wherever I can.

Creating a supportive community among women really does require us to be more empathetic and mindful of what is going on around us. Those skills also allow us to be more in tune with others, and that is ultimately beneficial from a business perspective. Being empathetic is what helps me to connect with clients and understand their commercial goals, which is what leads to becoming a trusted adviser. So this is not just powerful when it comes to supporting and developing our colleagues, but also to building our businesses. ■