
Liquidity Outlook – Are We Poised For a Rebound?



Mattias de Beau
Partner,
Primary Investments

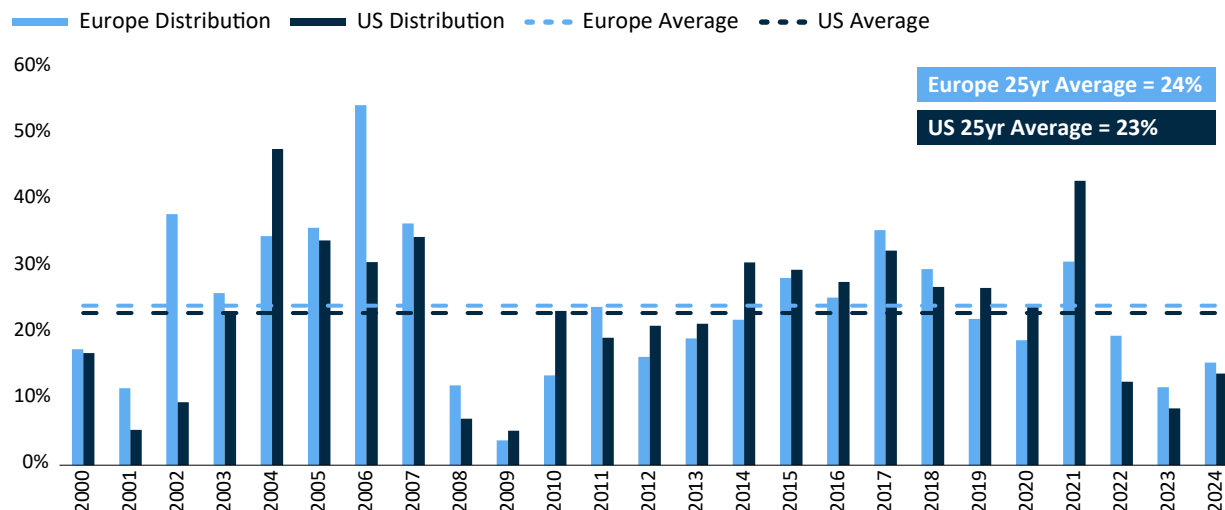
Sergey Sheshuryak
Partner,
Primary Investments

KEY TAKEAWAYS

- Private equity exit activity increased in each quarter of 2024 and into the first three months of 2025, providing an encouraging sign that the outlook is steadily improving after a three-year trough
- High-quality, small- and mid-sized companies in sectors benefiting from secular tailwinds, such as technology and healthcare, continue to command premium valuations due to their strong fundamentals, predictable, recurring revenues, and asset-light business models
- Amid muted IPO and M&A activity, trade sales and secondary market continuation vehicles are important buyout exit options
- Small- and mid-market managers are outperforming larger peers in returning capital, partly because of a lower reliance on public equity markets for exits

Liquidity levels in private equity buyouts have declined significantly since 2021, and in 2023 reached less than half the 25-year average in Adams Street’s US and European portfolios (Figure 1). While buyout portfolios have shown resilience to macroeconomic volatility, they also face liquidity challenges, as illustrated in Figure 1.

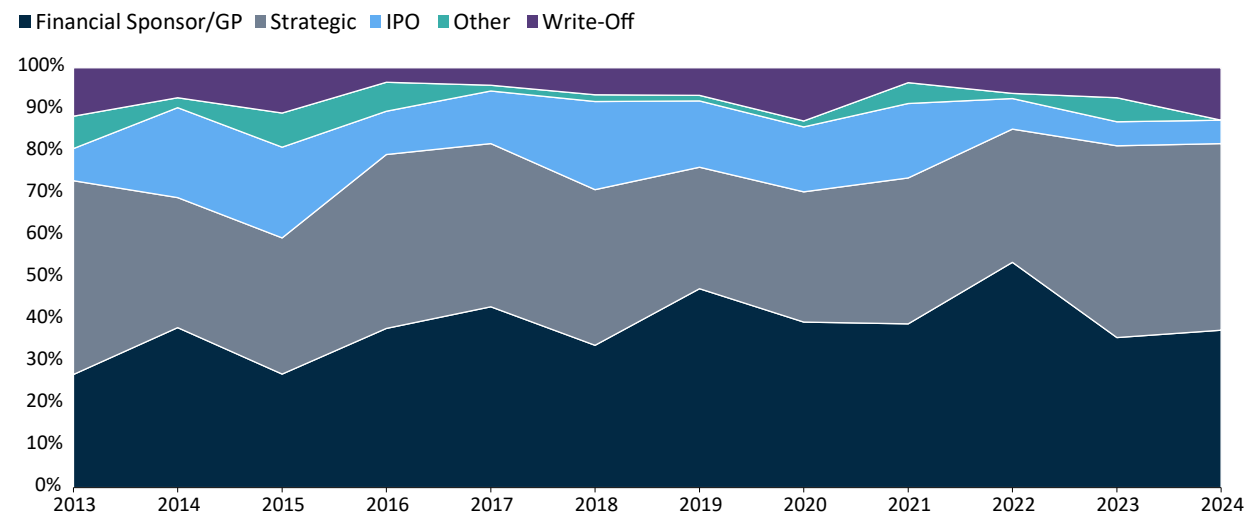
Figure 1: Buyout Distributions Received as % of Beginning NAV¹



The chart shows that, since 2000, buyout distributions for Adams Street’s US and European portfolio have respectively averaged 23% and 24% of opening net asset value (NAV). However, after reaching a post-global financial crisis peak in 2021, distributions fell significantly below the long-term average, although the five-year average is still a respectable 20%. While one could argue that some exits were brought forward and executed in 2021, other factors are also at play.

Geopolitical tensions, inflationary pressures, and shifting interest rate expectations are among the reasons for the uptick in volatility in the broad economy. Increased uncertainty and a higher-for-longer interest rate environment mean buyers are unable or unwilling to pay prices seen in 2020-21. However, high-quality assets continue to transact, and the two main exit routes – trade sales and financial sponsor – remain available, providing a steady, if somewhat constrained, source of liquidity, as Figure 2 shows for Adams Street exit volume in Europe.

Figure 2: European Exit Volume by Type – Number of Deals (n=809); By Exit Year¹

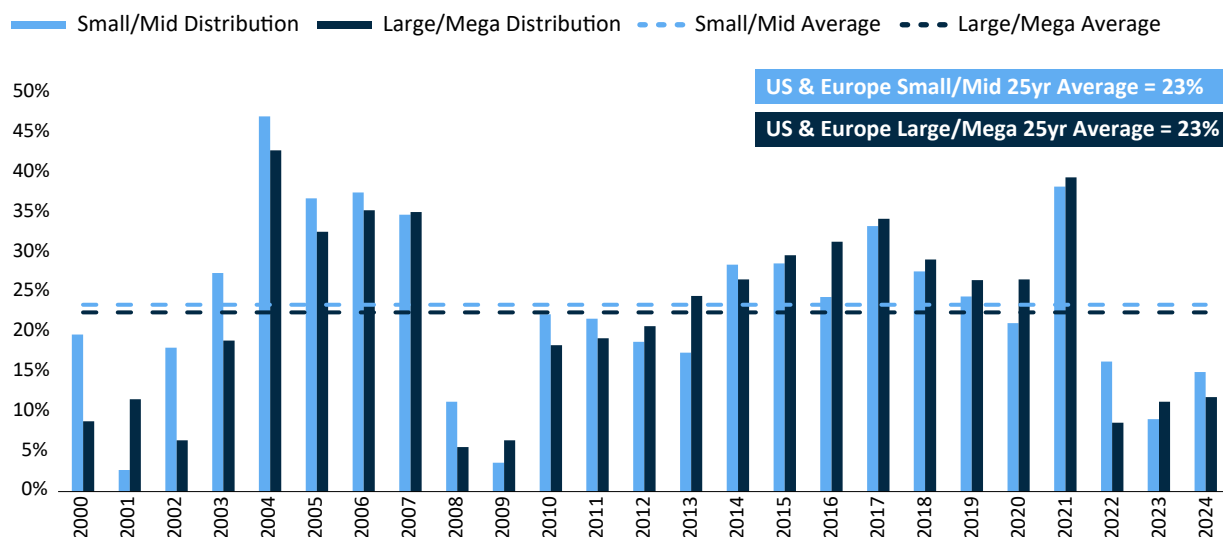




A key development in recent years is the increasing use of continuation vehicles (CV) as an exit route. This trend has been supported by the significant capital raised by secondary funds, which has provided buyout managers with another way to generate liquidity. According to Jefferies, global secondary market transaction volume rose to a record \$162 billion in 2024, a 45% increase from 2023.² However, CVs have yet to reach a scale that significantly shifts overall market dynamics. Jefferies reports that CVs accounted for 84% of the \$75 billion in GP-led secondary transactions in 2024.³ In the Adams Street primary portfolio, CVs account for a relatively small portion of buyout exits, with only about 2% of European exits since 2013 to CVs by number of transactions. Despite the very large market share enjoyed by CVs in secondary transactions in recent years, we nevertheless expect the market’s use of CVs to continue growing.

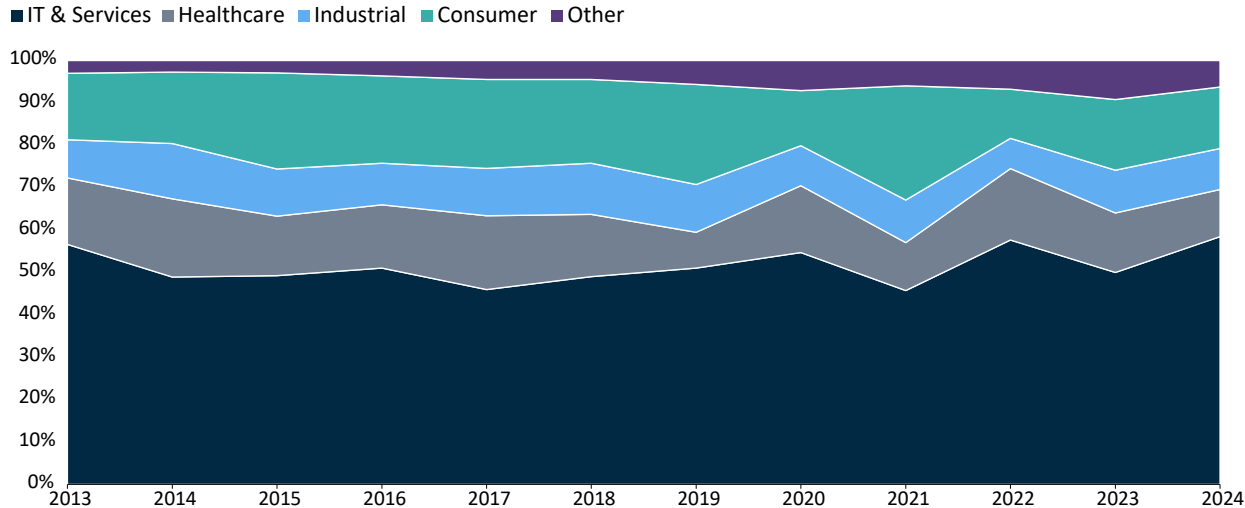
Since 2000, average US and European buyout distributions for Adams Street portfolio companies have been relatively consistent across small/mid and large/mega buyout deals, with both sectors running at about 23%, as shown in Figure 3. However, in the slower exit environment since 2022, the data show that small- and mid-sized managers have returned a greater percentage of their NAV than their larger peers. The trend in the two years post-GFC was similar, as Figure 3 shows. One factor that could explain this in part is a lesser dependence on favourable capital markets to drive exits. Smaller companies tend to use less leverage and typically don’t rely on the IPO exit route, but rather sell up the value chain to another financial sponsor or to a trade buyer.

Figure 3: US & European Buyout Distributions Received as % of Beginning NAV⁴



A defining characteristic of liquidity patterns over the past three years has been the strong performance of high-quality assets. Even as overall exit volume declined, companies that were sold achieved premium valuations, leading to higher-than-average return multiples. As shown in Figure 4, the majority of exits have been concentrated in technology and tech-enabled businesses, as well as services sectors that continue to perform well despite macroeconomic volatility. Many of these companies share several characteristics that boost their attractiveness to buyers, resulting in higher-than-average exit multiples: they are asset-light businesses that require relatively low capital expenditure, and have high margins and recurring revenue streams that provide more stable and predictable cash flows.

Figure 4: US & European Exit Volume by Sector – Number of Deals (n=3307); By Exit Year¹



As mentioned earlier, trade sales and secondary buyouts to financial sponsors are the dominant liquidity routes, collectively accounting for over 75% of our buyout portfolio’s exits since 2013 by number of transactions.

While the first quarter of 2025 showed some positive signs, with distributions in our US and European buyout portfolio marginally higher versus the same period in the prior year, the picture looks less certain for the remainder of 2025. A murky macro picture, due in part to uncertainty over tariffs, makes it more difficult to see a clear liquidity picture for the remainder of the year. The financial resilience of buyout portfolios and multiple exit routes make us cautiously optimistic about the ability to generate liquidity despite the macro environment, but strong exits will likely remain available only to high-quality assets, particularly in sectors that exhibit strong fundamentals and structural tailwinds. ■

1. Source: ASP data
2. Jefferies, Global Secondary Market Review, Page 2, January 2025
3. Jefferies, Global Secondary Market Review, Page 9, January 2025
4. Source: ASP data. Small/mid buyout defined as \$5 billion or less, large/mega buyout more than \$5 billion.

LEADING WITH FORESIGHT™

Adams Street Partners is a global private markets investment manager with investments in more than 30 countries across five continents. The firm is 100% employee-owned and has \$61 billion in assets under management across primary, secondary, growth equity, credit, and co-investment strategies. Adams Street strives to generate actionable investment insights across market cycles by drawing on over 50 years of private markets experience, proprietary intelligence, and trusted relationships. Adams Street has offices in Austin, Beijing, Boston, Chicago, London, Menlo Park, Munich, New York, Seoul, Singapore, Sydney, Tokyo, and Toronto. adamsstreetpartners.com

Important Considerations: This information (the “Paper”) is provided for educational purposes only and is not investment advice or an offer or sale of any security or investment product or investment advice. Offerings are made only pursuant to a private offering memorandum containing important information. Statements in this Paper are made as of the date of this Paper unless stated otherwise, and there is no implication that the information contained herein is correct as of any time subsequent to such date. All information has been obtained from sources believed to be reliable and current, but accuracy cannot be guaranteed. References herein to specific sectors, general partners, companies, or investments are not to be considered a recommendation or solicitation for any such sector, general partner, company, or investment. This Paper is not intended to be relied upon as investment advice as the investment situation of individuals is highly dependent on circumstances, which necessarily differ and are subject to change. The contents herein are not to be construed as legal, business, or tax advice, and individuals should consult their own attorney, business advisor, and tax advisor as to legal, business, and tax advice. Past performance is not a guarantee of future results and there can be no guarantee against a loss, including a complete loss, of capital. Certain information contained herein constitutes “forward-looking statements” that may be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “intend,” “continue,” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Any forward-looking statements included herein are based on Adams Street’s current opinions, assumptions, expectations, beliefs, intentions, estimates or strategies regarding future events, are subject to risks and uncertainties, and are provided for informational purposes only. Actual and future results and trends could differ materially, positively or negatively, from those described or contemplated in such forward-looking statements. Moreover, actual events are difficult to project and often depend upon factors that are beyond the control of Adams Street. No forward-looking statements contained herein constitute a guarantee, promise, projection, forecast or prediction of, or representation as to, the future and actual events may differ materially. Adams Street neither (i) assumes responsibility for the accuracy or completeness of any forward-looking statements, nor (ii) undertakes any obligation to update or revise any forward-looking statements for any reason after the date hereof. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections or forward-looking statements. Adams Street Partners, LLC is a US investment adviser governed by applicable US laws, which differ from laws in other jurisdictions.