TRAVERS SMITH

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Private equity-backed M&A

FW discusses private equity-backed M&A with Patrick Donoghue at BDO USA, Jonathan See at McCarthy Tétrault LLP, George Gray at Skadden, Arps, Slate, Meagher & Flom (UK) LLP, Tom Hartwright at Travers Smith LLP and David A. Katz at Wachtell Lipton.

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Q&A:

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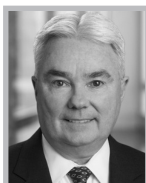
THE PANELLISTS



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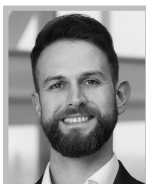

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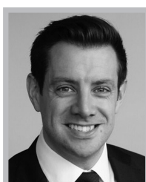

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FW: Reflecting on the last 12-18 months in the M&A market, how would you characterise private equity (PE) activity and general developments? What are the key factors driving PE-backed deals, in terms of both acquisitions and exits?

Donoghue: Private equity's (PE's) share of M&A deal value decreased from a peak of 44 percent in 2022 to a low of 33 percent in Q1 2024. PE firms were not active buyers of new platform companies or sellers of portfolio companies and instead focused on refinancing portfolio company debt and performing small tuck-in acquisitions to improve cash flows and valuations. During this time corporations with strong balance sheets increased their M&A participation. With limited partners (LPs) clamouring for distributions and funds holding significant dry powder, we expect PE activity will continue to improve throughout the remainder of 2024. Activity recovered slightly to 36 percent in Q2 2024, and we are seeing increased PE activity in Q3 on both the buy side and the sell side. As economic and geopolitical uncertainty wane, PE activity will continue to improve. It is not a matter of if it will return, it is a matter of when.

Gray: We saw a quieter year in 2023 for new money investments compared to a period of high activity at the tail end of the pandemic. Despite a continued accumulation of dry powder, PE investors were exercising caution when deploying capital in more uncertain market conditions. In Q1 2024, we saw a challenging exit market with high interest rates contributing to some subdued valuations – this valuation gap made bringing assets to market trickier in some cases. We have, however, continued to see strong activity in the secondaries market – including continuation vehicles, which allow investors to maintain a stake in their best investments for longer and continue to release gains while economic conditions improve – and have seen general buyout activity starting to heat up in Q2 of this year. Pricing differentials have narrowed, the availability of syndicated loans has increased and attractive assets are coming to market again in greater numbers.

Katz: PE deal activity has remained sluggish in the first half of 2024, although US PE deal activity appears to be on the upswing. Dealmakers appear to be optimistic about the second half of 2024, especially in light of lower interest rates, which are clearly on the horizon. By one measure, three quarters of the PE deals in the second quarter of 2024 were add-on transactions, reflecting a focus on platform growth as opposed to platform creation in the PE deal space. Dry powder remains over $1 trillion but fundraising appears to be on the decline and funds continue to flow to the largest and most established managers. The bottom line is that it remains a very challenging market. The initial public offering (IPO) market remains weak and many funds are looking at alternative methods to distribute capital back to investors, such as net asset value loans and continuation funds.

Hartwright: PE activity over the last 12-18 months has continued to battle the headwinds impacting the industry since the boom years of 2021-22. The transaction model has been strained by the increased cost of leverage and difficulties forecasting business performance in a higher interest rate environment with significant economic and political uncertainty all leading to a notable valuation gap. In particular, the number of exits of PE-backed companies has dropped significantly, leading to a backlog of assets sponsors have held for longer than they intended and pressure on general partners (GPs) to generate distributions to LPs. However, with headline inflation rates seemingly under control, the bid-ask spread on transactions has narrowed and we have seen increased deal activity in Q2 and Q3 2024, indicating increasing confidence among market participants. While we have seen competition over the past 12-18 months for certain assets, particularly in the most resilient software, healthcare and financial services sectors, the past few months has seen an increased number of GPs confident enough to both deploy capital and bring good assets to market.

See: PE activity in the global M&A market has been marked by cautious optimism amid challenging conditions. The higher cost of debt, inflationary pressures and geopolitical uncertainties have slowed dealmaking compared to previous years. Investors are more conservative on balance, but there are pockets of activity across regions and industries. Deal volumes in technology, mining, energy and energy transition, for example, have increased over the past 12 to 18 months. For financial sponsors, exit strategies and opportunities have been impacted by sustained macro disruption and persistent seller-buyer valuation gaps, although these gaps appear to be narrowing with deal activity in Q2 2024 experiencing its strongest quarter in two years. Market conditions are starting to ease, particularly as inflation declines more broadly and

"DEALMAKERS APPEAR TO BE OPTIMISTIC ABOUT THE SECOND HALF OF 2024, ESPECIALLY IN LIGHT OF LOWER INTEREST RATES, WHICH ARE CLEARLY ON THE HORIZON."

DAVID A. KATZ
Wachtell, Lipton, Rosen & Katz

with recent rate cuts in Canada, the UK and European Union and the anticipated rate reductions in the US this autumn. PE's long-term view and record-high levels of dry powder suggest that the sector is ready to capitalise on M&A opportunities. We expect financial sponsors to remain disciplined and focused on resilient sectors as market conditions evolve.

FW: What types of opportunities are being targeted? Have any PE-backed deals in particular caught your eye?

Gray: When the economic climate is less favourable for risk-taking, PE investors can prefer deploying capital into stable, predictable assets. We have seen a number of bolt-ons, which allow investors to buy up smaller companies to build upon existing portfolio platforms and work with familiar management teams. We have also continued to see activity in co-investment and fund-to-fund transactions, which have been popular ways of diversifying risk, generating liquidity for LPs and allowing GPs to continue generating returns from attractive assets. We have also seen significant investment into insurance, a red-hot sector at the moment – this is both at the 'standard' end, with customary leveraged buyouts, and much 'techier' transactions, such as reinsurance sidecars. We have also continued to see activity in tech and tech-enabled services, with FinTech in particular having a good 12-month period, although the tech sector is generally starting to experience more activity.

Katz: A 2024 KPMG survey predicted that healthcare, infrastructure and life science deals were going to be the most prevalent PE transactions in 2024. So far this year, healthcare PE deals have been popular, although some of the largest PE deals have been in the real estate, leisure and recreation, finance and insurance industries, so it has been a real mix. The acquisition of Endeavor, a global sports and entertainment company, led by Silver Lake was one of the more interesting PE transactions in the first half of 2024. Silver Lake had a long history with Endeavor

and took the company private a mere three years after its IPO.

Hartwright: We have seen GPs forced to be inventive in the types of transactions they have looked at. This has led to a renewed focus on public to private transactions and complex corporate carve outs, in particular where the PE industry can look to discover value in unloved assets or divisions. We have also seen an increased focus on minority or partnership capital deals where GPs take a minority stake in an asset alongside a corporate or founder, gaining access to assets that are not ready for a traditional buyout, often without the need to raise leverage in the current market. A great example is Inflexion Private Equity Partners' partnership with AIM-listed GlobalData Plc in which they carved-out GlobalData's healthcare data division into a new entity valued at £1.1bn. This innovative transaction allowed GlobalData to retain a majority stake while benefitting from Inflexion's experience to accelerate growth.

See: Demand is high for technology and digital infrastructure, with a number of sizable deals in the data centre space in particular over the last year or so. Mining and energy continue to demonstrate robust M&A activity, at least in North America, driven largely by strategics but with some activity from financial sponsors. The energy transition space is relatively new, combining a number of industries and new technologies. This segment is primarily occupied by venture capital and growth equity players, but large financial sponsors are stepping up to the plate in a meaningful way, especially in renewable energy, fuels and electric vehicle infrastructure. Private credit and insurance continue to be an area of focus as several platforms continue to grow through M&A. Market conditions are also at play in the industry consolidation among financial sponsors themselves, especially in the middle market as PE firms and asset managers seek to complement and diversify their strengths, product mix and access to capital to achieve scale.

Donoghue: As we expected, we are seeing sell-side activity leading the way and buy-side activity starting to gain momentum. With a clearer rate environment and an increased chance for an economic soft landing, the conditions are ripe for both the sell side and buy side to accelerate. The exit market is emerging as PE portfolio company holding periods are extending beyond six years and LPs are calling for distributions. Buy-side activity is picking

up as cost of capital is declining and dry powder gets put to work.

FW: To what extent is today's challenging, competitive deal landscape influencing the levers that drive value creation for PE-backed transactions? Could you outline some of the key benefits for businesses that are acquired by a PE firm?

Katz: In the first half of 2024, some PE transactions were driven by a concern that in a post-election world, potential tax changes would have been unfavourable. Moreover, the regulatory framework has continued to make deals in the US and Europe significantly more challenging. The growth of the private credit market has been an important driver of PE deals as it has significantly influenced the way many of these transactions have been structured. As far as the benefits of going private, not a lot has changed. It is much easier for a management team to 'fix' an underperforming set of assets as a private company without the scrutiny that the public markets bring. PE firms have the expertise that can be utilised by these underperforming firms and allow side by side investments by the management team in most instances. These investment opportunities tend to be much more lucrative than would be available in public markets.

Hartwright: The traditional PE buyout model had, for several years, benefitted from historically low interest rates and increasing valuation multiples to help drive returns. As interest rates have risen this has led to PE executives revisiting their models and a renewed focus on value generation over financial engineering. The success of PE investors in driving growth is clear to see. PE investors provide businesses with essential experience in operating at a scale or in geographies they may not be used to, industry connections and importantly capital to fund investments in marketing, technology and bolt-on acquisitions. PE also provides founders with a full or partial liquidity event allowing for succession planning to help drive the growth of the business in the future. Aligning incentives between the investor and the management teams ensures both are focused on longer-term growth of the business rather than the next quarters' earnings report. This longer-term focus allows for a period of investment in businesses to drive sustainable and longer-term growth.

Donoghue: There is more competition for PE in the M&A market. Corporates have been the most active M&A participants since November 2023, buoyed by rising share prices, strong balance sheets and their ability to generate cost synergies. However, many private businesses are not interested in selling out to the highest bidder and becoming a synergy. Many of these private business owners have significant growth aspirations and are looking for a partner to provide capital and operational and management support, both of which PE can provide in spades. PE firms generally prefer these proprietary deals where they cement a partnership with management on the strategic direction for the company's future.

See: The high-interest rate environment of prior years and flood of liquidity into private markets over the past 25 years fuelled an era of momentum investing where many sponsors benefitted from, and relied on, rising multiples. Today's environment is completely different. Financial sponsors now need to be strategic in actively driving performance and 'sweating the assets', which means renewing or doubling down on operational improvements, investing in people and technology, and growing through expansion projects and add-on acquisitions at lower multiples to build scale and value. We are also seeing more conservatism in the use of leverage as well as innovative capital structures. A broad, multifaceted value creation approach is essential to navigating today's competitive and high-stakes environment. Many businesses can benefit from PE sponsorship, including access to capital and expertise to support growth, guidance on strategy and business planning, and experience in driving operational enhancements and accessing new markets. These advantages can significantly enhance a company's growth trajectory, operational efficiency and long-term value, making financial sponsor ownership an attractive proposition for many businesses.

Gray: The financial sponsor ecosystem continues to provide creative options for debt financing as financial sponsors open their own private lending arms – in some cases providing credit at lower cost from traditional lenders or providing lending opportunities to assets in which traditional lenders are not keen to deploy credit. In a deal landscape where sought-after assets are increasingly contested when coming to market, PE investors are differentiating themselves through sector specialism; management teams are given the support of value-creation specialists, sometimes without the pressure of a short-term exit.

"ALIGNING INCENTIVES BETWEEN THE INVESTOR AND THE MANAGEMENT TEAMS ENSURES BOTH ARE FOCUSED ON LONGER-TERM GROWTH OF THE BUSINESS RATHER THAN THE NEXT QUARTERS' EARNINGS REPORT."

TOM HARTWRIGHT
Travers Smith LLP

Many PE owners now offer access to a suite of portfolio services and the ability to undergo operational refinement projects that a midsize target might not otherwise have the scale to action. Certain sponsors are looking to enhance this offering through strategic investments in artificial intelligence (AI) and machine learning, which are becoming major potential value drivers in various sectors.

> WHEN THE ECONOMIC CLIMATE IS LESS FAVOURABLE FOR RISK-TAKING, PE INVESTORS CAN PREFER DEPLOYING CAPITAL INTO STABLE, PREDICTABLE ASSETS.
>
> GEORGE GRAY
> Skadden, Arps, Slate, Meagher & Flom (UK) LLP

FW: In your experience, has there been a shift in the way PE firms structure and negotiate their deals, with a view to reducing risk and maximising future returns?

See: Generally speaking, transactions are taking longer to close. We are seeing more targeted due diligence and a heightened focus on downside protection from the buy side. On the sell side, market testing is more thorough, which can result in sale process strategies being revisited, and in some more limited circumstances, deferred or suspended. The rise of structured capital solutions is a sign of an increasingly sophisticated and resilient investment landscape that aligns with more conservative risk profiles.

Gray: The PE model has for a long time been about more than just buyouts and exits. One good example of this is how the ecosystem has blossomed to incorporate more complex co-investment structures, even on relatively small-cap transactions. These structures can be attractive despite the additional equity term negotiations to enable diversification of portfolios and the splitting of risk. For the co-investor, this can be a great option to deploy capital into new sectors and sub sectors without committing to a full buyout, therefore getting a taste of the asset type before deploying a more meaningful amount of capital. From a management team's perspective, a co-investor is often welcomed as another collaborator and source of expertise and portfolio services.

Donoghue: PE firms are always creative in structuring and negotiating deals and consider the interests of both the buyer and the seller. However, in the higher cost of capital of the current environment, the margin of error is tighter and requires more emphasis on diligence to reduce risk. PE firms are carefully evaluating management's vision and the strategic direction of the company, as well its ability to execute the plan to ensure full alignment.

Hartwright: In a less vibrant market where the increased cost of debt and lower leverage have made the economics of buyouts more marginal, PE buyers have had more time to undertake diligence and there has been less competitive tension, allowing buyers to seek to manage risks through protections in the transaction documents. While we still see the £1 cap and use of warranty and indemnity insurance as standard, we have seen more requests for specific indemnities over the past 12 months as buyers have been less willing to price in or accept business risks in targets. As the cost of leverage has increased and valuations have come under pressure, GPs have had to rely on their deal craft and come up with flexible solutions to bridge gaps on funding or valuations. This has led to an increase in minority investments which can avoid the need for leverage and reduces the risk for the GP, in earn-outs which help bridge a valuation gap and pay out if the performance the sellers believe is possible is actually achieved while protecting the investor if it is not, and in vendor loans or similar financing provided by the sellers to help meet the financing needs of the investor, potentially until they seek to refinance the asset in the future when interest rates may have decreased. Investing in instruments with a priority return has also allowed sponsors to mitigate downside risk on investments.

Katz: PE firms have always sought to maximise their returns and minimise their risks. As returns have gone down, many PE firms have sharpened their pencils and decided to pass on deals where there was either too much competition or the likelihood of a sufficient return was too low. The other way some PE firms have dealt with this concern is by collaborating with other PE firms in an effort to reduce their risk exposure, but at the same time limiting their upside. While larger firms often have greater risk tolerances, they also tend to both look at more deals and pass on more deals. Established PE firms are focusing on operational excellence and due diligence in an effort to buy undervalued businesses, including poorly performing business units hiding in large companies, and improve their operating performance.

FW: What trends are you seeing in terms of leveraging and debt financing for PE deals?

Gray: Obtaining credit has been more challenging over the last 18 months in an environment of higher interest rates and undiscounted valuations. The cost of debt brought a downturn in syndicated debt financing but equally provided

opportunities for private lenders to step in. Private creditors can in some cases provide more flexibility, faster deal execution and lower syndication risk. At the same time, the expectations of continued stability in interest rates this year should bolster demand for traditional loans, and the traditional syndicated leverage market has already started to increase its activity. Aside from acquisition financing, PE firms need to finance their existing portfolio investments and return liquidity to investors before exit. We have observed much more activity in fund-level financing secured on the net asset value of portfolio companies, as well as a pivot to using debt-like equity instruments such as preference shares to fund certain types of transactions, often with 'equity kickers'. Dividend recaps have also continued to be a useful method of returning capital to investors where they are not ready to bring an asset to market for exit.

Donoghue: Credit markets have been open for business all year and will continue for the remainder of the year. The growth of private credit has created significant competition for traditional lenders. With the long expectation for interest rate cuts, which are now imminent, borrowing costs declined by 100 basis points from last year. Since the beginning of the year, we have seen more repricing and refinancing activity in anticipation of rate cuts. Lenders are aggressively pricing credit to keep the asset productive. We expect competitive pricing to continue in the second half of 2024.

Hartwright: While some private credit funds have been more circumspect, liquidity in debt markets has not been an issue – rather, the increased cost of leverage has contributed to the decrease in M&A transactions. The last 18 months has seen lenders take a more detailed approach to due diligence, with a longer credit approval process than we have seen in the past although the underlying financial covenants they require remain borrower friendly. Where investors have sought to refinance rather than sell an asset at a depressed valuation, we have seen an increase in requests for portable debt packages that can be maintained by a new investor following a sale, rather than requiring the new investor to go back to the debt market to finance an acquisition.

Katz: PE firms are sitting on over an estimated $1 trillion in dry powder, which is close to a record. In structuring deals, PE firms are trying to be creative, writing bigger equity cheques, using preferred equity, and sometimes providing some private credit initially instead of purchasing all of the target at the beginning. These structures are much more complex and take significantly longer to put together, which in turn often creates greater deal uncertainty. With over $60bn raised in the first half of 2024, private credit is on pace to raise more than $100bn for the eighth consecutive year and remains one of the largest sources of debt capital for PE firms. We have also seen a resurgence in high-yield bond issuances in 2024 that have also helped provide additional sources of debt financing to the PE market.

See: It is hard to generalise what trends we are seeing emerge, but interest costs are putting pressure on the extent and availability of debt and debt-like capital. Structured capital solutions are increasingly facilitating transactions, particularly from financial sponsor-backed capital providers, as opposed to traditional financial institutions, taking advantage of a disrupted market. Investment-grade loans and other low-risk lending vehicles are an increasingly popular growth strategy, particularly for larger financial sponsors. Other notable trends this year include an upswing in high-yield loan refinancing and repricing, which has fuelled the recovery in debt capital market fees. The top five US investment banks reported a year-over-year increase of 50 percent in debt underwriting fees. Much of this growth has been in leveraged finance as lenders and borrowers look to increase activity levels. And market indicators suggest a rise in convertible bond issuance, which can be a precursor to a surge in IPOs and M&A activity.

FW: What steps can PE practitioners take from the outset to prepare a portfolio company for exit and generate expected returns?

See: Preparing for exit starts at the time of investment: getting the governance right, investing in people and enabling the capabilities of a business, creating the right systems and processes, and deploying a proven value-creation playbook that aligns the interests of the PE firm and management team. To prepare for sale, a key focus should be on selecting good bankers and advisers once a determination has been made that there is appetite in the market for the deal. Outside the technology sector, dual-track processes – pursuing a sale and an IPO simultaneously – are becoming more challenging due to capital market conditions and vary from industry to industry. A positive outcome really

"TO PREPARE FOR SALE, A KEY FOCUS SHOULD BE ON SELECTING GOOD BANKERS AND ADVISERS ONCE A DETERMINATION HAS BEEN MADE THAT THERE IS APPETITE IN THE MARKET FOR THE DEAL."

JONATHAN SEE
McCarthy Tétrault LLP

depends on the conviction and momentum in seizing opportunities, and how you create and balance the right competitive tension.

Hartwright: PE investors are increasingly recognised for their ability to improve the underlying businesses they invest in rather than rely on financial engineering and often have dedicated teams to support their investee companies throughout the investment lifecycle. PE investors can bring a longer-term strategic focus and financial rigour to both privately held businesses and public companies and are also adept in understanding key risk areas on a future exit so that these can be managed through the lifecycle of the investment. PE investors dedicate significant capital, expertise and operational resource to help businesses through various methods, including strategic advice and guidance, operational improvements, industry connections and geographic expansion. They are also, given their nature, experts at originating and closing bolt-on transactions that can enable businesses to grow revenue or create synergies that they would not be able to do organically. These bolt-on transactions have held up better than PE buyouts in the last 18 months. While the IPO market is currently quiet, generating scale in particular geographies can prepare a business for a potential future listing, while strong growth in Asia and the US can broaden the potential bidder universe for the next exit.

IT IS IMPORTANT TO BE READY TO SELL WHEN VALUATIONS FALL INTO LINE WITH THE EXPECTED RETURN. WHEN OPPORTUNITY KNOCKS, YOU WANT TO OPEN THE DOOR TO A SALE WITHOUT DELAY.

PATRICK DONOGHUE
BDO USA

Katz: While every situation will be different, there are certain steps that PE professionals tend to focus on time and time again to prepare a portfolio company being acquired for a successful exit strategy. The first, and probably the most important, is making sure that the sponsor has the right leadership team in place with the right set of incentives. Management teams respond to incentives, and if you have a great management team but incentivise them poorly, you are likely to get suboptimal results. The second strategy to consider is to think about how technology can enhance the productivity of the company and reduce costs. This will not always be the case and it is important to identify those situations where technology spending will greatly enhance the bottom line and those where it may be additive but ultimately complicate the story and slow things down. Third, understand what the most serious risks are that the company may face over the next three to five years and have a plan in place to mitigate those risks should they arise. This risk management goes hand in hand with the first objective regarding having the right, properly incentivised leadership team in place. Last, but not least, the sponsor needs to have a good monitoring structure in place so that it can understand what is going well in the portfolio company and what needs to improve. If these structures are put in place at the outset, it is much more likely that a successful exit will result.

Donoghue: It is advisable for PE practitioners to prepare the portfolio company for sale early. Have discussions with the finance team, the quality of earnings provider and investment bankers to collect the financial performance data, build the story and value proposition, make improvements to cash flows, review comparable valuation metrics and test the market's appetite for the asset. It is important to be ready to sell when valuations fall into line with the expected return. When opportunity knocks, you want to open the door to a sale without delay.

Gray: Poorly maintained capital and equity structures can really cause trouble for exit processes and in some cases lead to meaningful value leakage for security holders. It has always been the case that sponsors should ensure their capital structures are well maintained and that incentive programmes are implemented carefully to ensure no legal, regulatory or tax issues – tax authorities and regulators are becoming more sophisticated in their understanding of structures implemented by financial sponsors, so this becomes increasingly important as time goes on.

FW: What are your predictions for PE-backed deal activity in the coming months? What essential advice would you offer to PE firms on executing successful transactions in today's M&A market?

Hartwright: We expect the recent uptick in activity levels through the end of Q2 into Q3 to continue through to the end of 2024. While there have been a number of false dawns over the last two years, there is a general consensus that, if interest rates continue to trend downward and there are no new macroeconomic or geopolitical shocks, 2025 could see the number of transactions reach levels not seen since 2021. A lot of this relies on PE investors' ability to transact in a world with increased cost of leverage and more uncertainty as to future business performance, especially when you include disruptive factors such as AI. As such, PE investors will need to be flexible in their transaction models and look to unlock value through originating

off-market deals and using deal craft to win competitive auctions for performing assets.

Katz: The number of PE companies continues to outpace the number of public companies and retail investors are continuing to look for opportunities to invest in private companies, as they stay private longer. This presents a significant opportunity for PE firms to target new sources of capital but it may also signal that the bigger returns are going to be harder to achieve. The significant growth of continuation funds are also a signal that many PE firms expect the IPO market to remain challenged and are looking at a variety of ways to return capital to their investors so that they can fundraise for future deals. In today's market, PE firms have to be prepared to move quickly when they have opportunities but also be agile to undertake comprehensive due diligence in short time frames to gain competitive advantages. The firms that have capital and can move quickly are the most likely to be able to capture the target – the question will be whether or not it is a good investment and only time will tell.

Donoghue: It is increasingly looking like the US economy is headed for a soft landing. With the risk of recession receding, I remain cautiously optimistic for improved private M&A market dealmaking in H2 2024. As the valuation gap begins to close, we expect deal activity to accelerate. We are even seeing an uptick in deal activity and an improving pipeline of work ahead. In advance of this resurgence of the deal pipeline, I would counsel firms to start planning for exit transactions now to iron out any issues that could be unearthed in a sale process.

Gray: The mood music is that more high-quality assets will continue coming to market in the months to come as conditions for exit improve. We are starting to hear more rumblings around IPOs than in recent years and are seeing big sales to trade coming back to the table. Where PE houses prefer to keep assets on their balance sheets for the time being, we anticipate financing solutions continuing to help generate growth, and in some cases interim liquidity, where needed. We also expect the secondaries market to continue being active. As sponsors start ramping up more sell-side transactions, they should remember the importance of a slick sale process on the legal side. The aim should be to enable bidders to pick up a pack of bid documents, diligence materials and process guidance so they can hit the ground running and meet accelerated timelines. A watertight process allows sellers to keep the pressure on a pack of bidders and to ensure their focus remains on price rather than getting bogged down in other items.

See: Over the past year, the focus has often been on downside risk and waiting for markets to show clearer direction, which has led to a backlog of mature portfolio companies ready to go public or be sold. Anticipated US rate cuts signal a shift toward a more accommodative monetary policy in late 2024, potentially stimulating IPOs and M&A and other exit opportunities to return capital to investors. Strategically navigating these challenges is essential to achieving investment outcomes in this uncertain landscape. PE firms are uniquely differentiated and equipped to do that. ■