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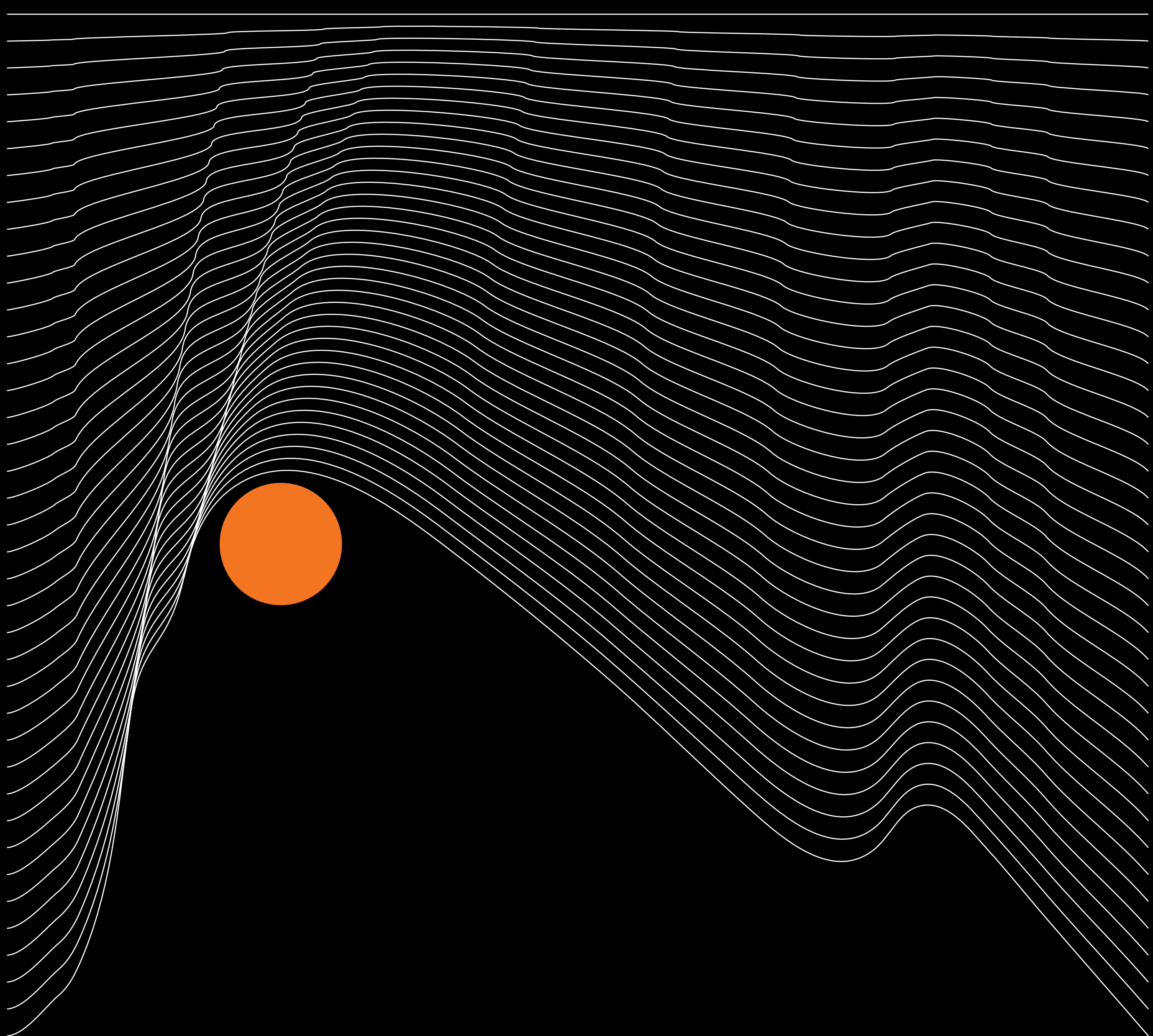
CAPITAL CURRENTS

Can the dry powder sitting with European Corporates help unblock PE exits?



TRENDS IN FOCUS

Chris McMillan

Capital Currents is a cross-industry series focused on distilling the key trends in M&A and identifying how management teams can capture value.

Across Europe, corporations are sitting on about €2.6 trillion in bank deposits.

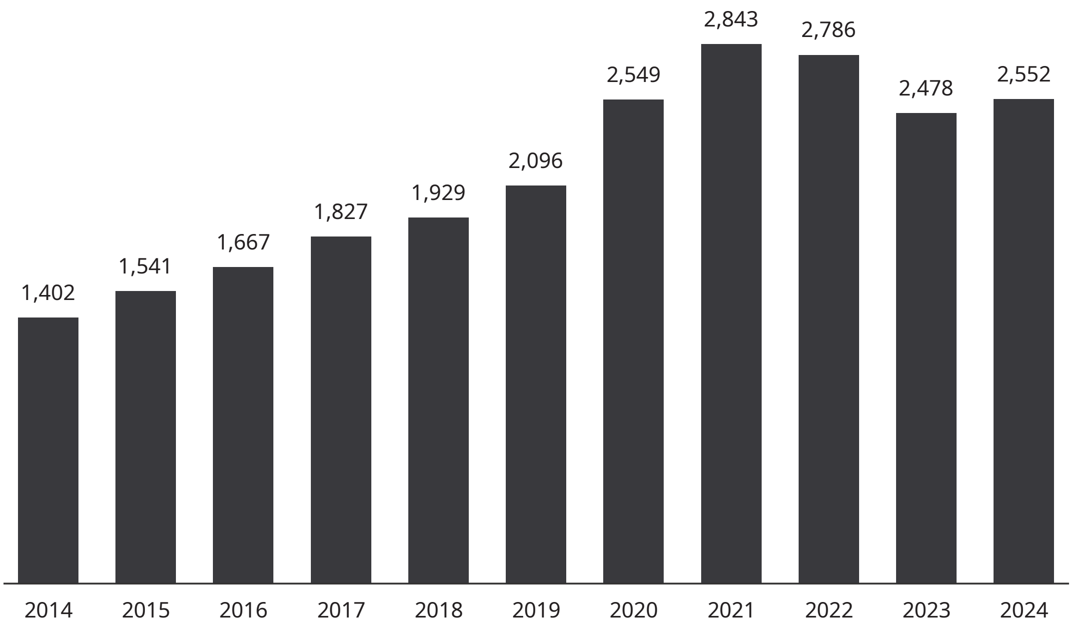
That is nearly double the amount seen just a decade ago. However, instead of putting that capital to work, many corporates are standing still.

Private equity (PE) firms, meanwhile, are itching to sell. After a buying spree between 2019 and 2022, many are now stuck holding companies they're struggling to exit.

On paper, it should be a match made in M&A heaven, but the deals aren't happening, at least not at the pace this market needs.

Exhibit 1: Euro Area corporate cash deposits

2014-2024, EUR billion



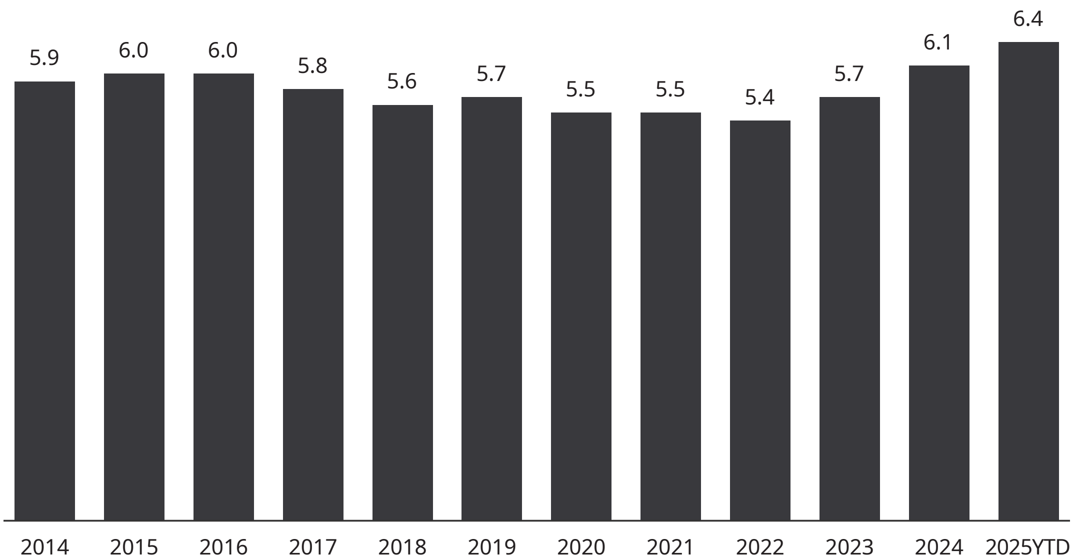
Source: European Central Bank

Corporations' dry powder is mostly idle. While share buy backs are becoming more generous, its timely for Corporates to think about whether the best ROI on excess capital might actually be in M&A not just returning cash to shareholders. There is persistent economic uncertainty, of course, mainly from supply chain shocks and tariff threats, but corporates are arguably overdefensive. For many European businesses there is a compelling logic to M&A, whether to build relevant European scale, acquire new capabilities, or roll-out a successful formula from one country to another.

On the other side of the table, PE firms are also facing challenges. General partners (GPs) are being pressured to return capital to limited partners so that they can raise new funds.

But exits are hard to come by. The average hold period for PE funds has increased to more than six years, up from five years in 2020, according to data from Preqin. That's because the IPO market remains nearly frozen, while secondary deals among GPs still represent only a small slice of exits.

Exhibit 2: Private equity average holding periods
2014-2025YTD, in years



Source: Preqin Pro

Corporate buyers that are cash-rich, strategic, and look for growth or consolidation efficiencies are the natural exit route. In sectors like IT and business services, strategic buyers have long been the dominant exit route for PE, accounting in some years for up to 70% of deal value. But deals between corporates and PE sellers aren't happening at the scale they should be in most sectors.

What's behind this disconnect? And more importantly, what can be done to fix it?

THE FIVE BLOCKERS TO PE-CORPORATES DEALS

At a high level, the answer is strategic misalignment. But if one digs deeper, it's easy to identify a set of tactical and behavioral frictions that can be addressed if both sides act with clear intent.

Here are five primary blockers that we have seen in our client work and in dozens of postmortem deal analyses, and how we recommend overcoming them:

Awareness and access

Many corporate acquirers lack structured visibility into the PE portfolio universe. PE funds don't always advertise what's for sale, while corporates often don't want to telegraph their acquisition priorities to bankers or brokers, preferring to fly under the radar. Additionally, corporate M&A teams may have the outdated view that PE sellers are short term or transactional, which makes them reluctant to engage.

Corporates should treat PE firms not just as sellers, but key pipeline partners. This means building networks with deal teams, attending PE-focused events and conferences, and investing in tools and services that map PE ownership across relevant sectors.

Fit issues

Often, a corporate buyer wants one part of a PE-owned business, such as a specific product line, but not the whole entity. Unlike PE firms, corporates aren't set up to manage complex carveouts or sell non-core assets they don't want. This all-or-nothing problem causes many potential buyers to walk away from valuable deals.

PE sellers should be open to asset breakups or partial sales, particularly when they unlock strong strategic interest. Corporates, for their part, should work with advisers to identify exit options for unwanted portions of a target, as it is often possible to find secondary buyers.

Speed and governance

PE sellers are used to fast, competitive auctions with tight timelines. Corporates, especially those in regulated industries or with conversative governance, often cannot move at that pace. As a result, they either drop out early or never engage at all.

Both sides need to be pragmatic. Bilateral, preemptive discussions are often more fruitful than open auctions. PE firms should identify strategic buyers early and quietly test interest before launching a formal process. Corporates should invest in deal readiness — such as getting internal alignment, budget approvals, and financing in place — early on.

Workload

Management teams at corporations are often stretched and inertia can be powerful. PE-owned businesses often require significant due diligence, regulatory filings, integration planning, and stakeholder education. Without a compelling reason, many corporate teams won't take on the challenge.

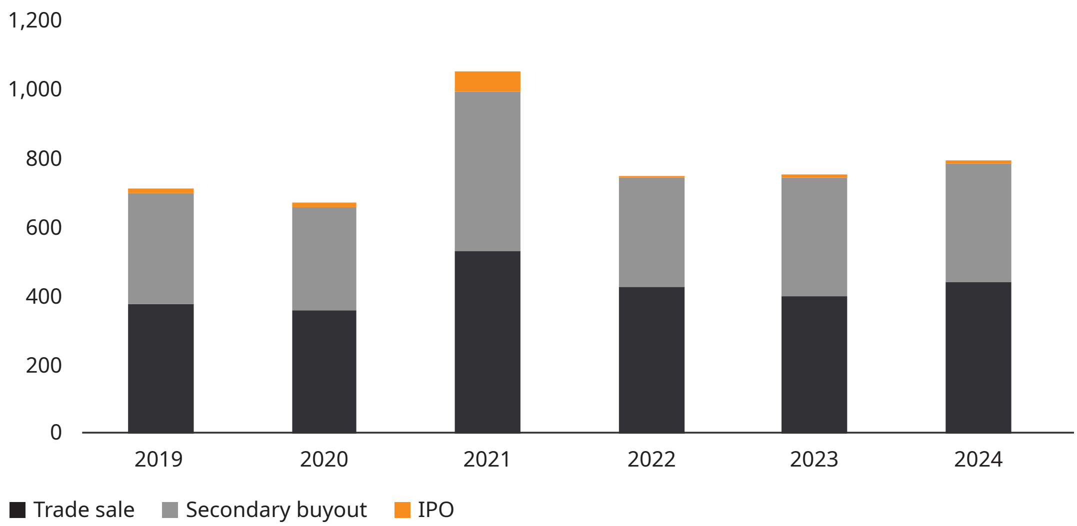
PE firms should do the heavy lifting, including preparing detailed synergy models, mapping integration pathways, identifying regulatory hurdles, and proposing remedies. The easier they make it for the buyer to agree to a deal, the more likely they will.

Valuation gaps

Many PE sellers remain anchored to 2021 deal multiples, especially in sectors including software, education, and healthcare. Corporates, on the other hand, evaluate targets based on multiples in their listed sector and often cannot justify PE-style valuations.

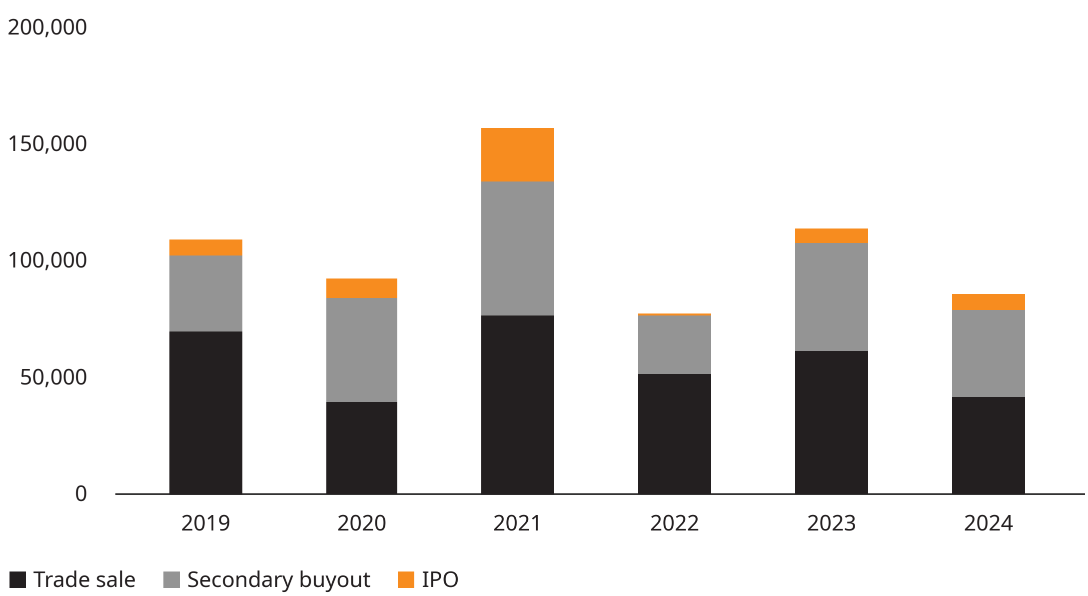
To bridge this gap, GPs should quantify the synergy value in revenue, cost, and capital terms and lay out a strategic runway that defines how the acquisition will enable future expansion, new capabilities, or market entry.

Exhibit 3: Global private equity buyout exit analysis
By deal volume



Source: Preqin Pro

Exhibit 4: Europe private equity buyout exit analysis
In EUR million



Source: Preqin Pro

WHAT CORPORATES SHOULD DO NOW

To capitalize on the PE backlog, corporates need to take a more proactive and strategic stance. In particular, they can take the following five actions:

1. **Prepare ahead of the process.** Build internal M&A muscle. Know your financing capacity, approval processes, and synergy thresholds.
2. **Map the PE landscape.** Use databases, advisory networks, and banker intelligence to track who owns what across verticals of interest.
3. **Engage directly and early.** Set up off-cycle discussions with PE firms and target management teams, even if no deal is formally underway.
4. **Get creative on structure.** Explore minority stakes, joint ventures, earn-outs, and post-deal collaboration models. Flexibility can unlock value.
5. **Expand your adviser ecosystem.** Legal, financial, regulatory, and communications advisers may each have a unique view on what's coming to market and where obstacles can be overcome.

WHAT PES NEED TO RETHINK

For PE sellers seeking a strategic exit, here's how to make a business more buyable to a corporate:

- **Map trade exit options from day one.** Even at the point of acquisition, identify likely future strategic buyers and what they may need to get comfortable.
- **Get ahead of regulatory concerns.** Antitrust, sector-specific licenses, and foreign ownership restrictions can derail a deal. Have a mitigation strategy ready.
- **Engage beyond the banker.** Your advisers may not know all the strategic players. Reach out directly to corporate strategy teams and other advisers.
- **Tell the strategic story.** Help the buyer articulate how your business fits into theirs, financially, operationally, and culturally. Go beyond spreadsheets.
- **Support carveout options.** If a buyer wants only a piece of an asset, be ready to offer just that, perhaps with transitional service agreements or a co-investor to take on the rest.
- **Be flexible on deal structure.** Consider holding a residual stake or board seat to align incentives and share in long-term upside.
- **Promote the management team.** Many corporates are as interested in talents as in assets. Highlight leadership credentials, succession plans, and retention incentives.

The opportunity is too big to ignore. With corporate dry powder near record highs and PE exits increasingly constrained, now is the time for both sides to rethink how they engage.

Oliver Wyman, a business of Marsh McLennan (NYSE: MMC), is a management consulting firm combining deep industry knowledge with specialized expertise to help clients optimize their business, improve operations and accelerate performance. Marsh McLennan is a global leader in risk, strategy and people, advising clients in 130 countries across four businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. With annual revenue of $23 billion and more than 85,000 colleagues, Marsh McLennan helps build the confidence to thrive through the power of perspective.

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Americas	Europe	Asia Pacific	India, Middle East & Africa
+1 212 541 8100	+44 20 7333 8333	+65 6510 9700	+971 (0) 4 425 7000

CONTACT US

Ronan O'Kelly

Head of M&A, Europe
ronan.okelly@oliverwyman.com

Chris McMillan

Head of Private Capital, Europe
chris.mcmillan@oliverwyman.com