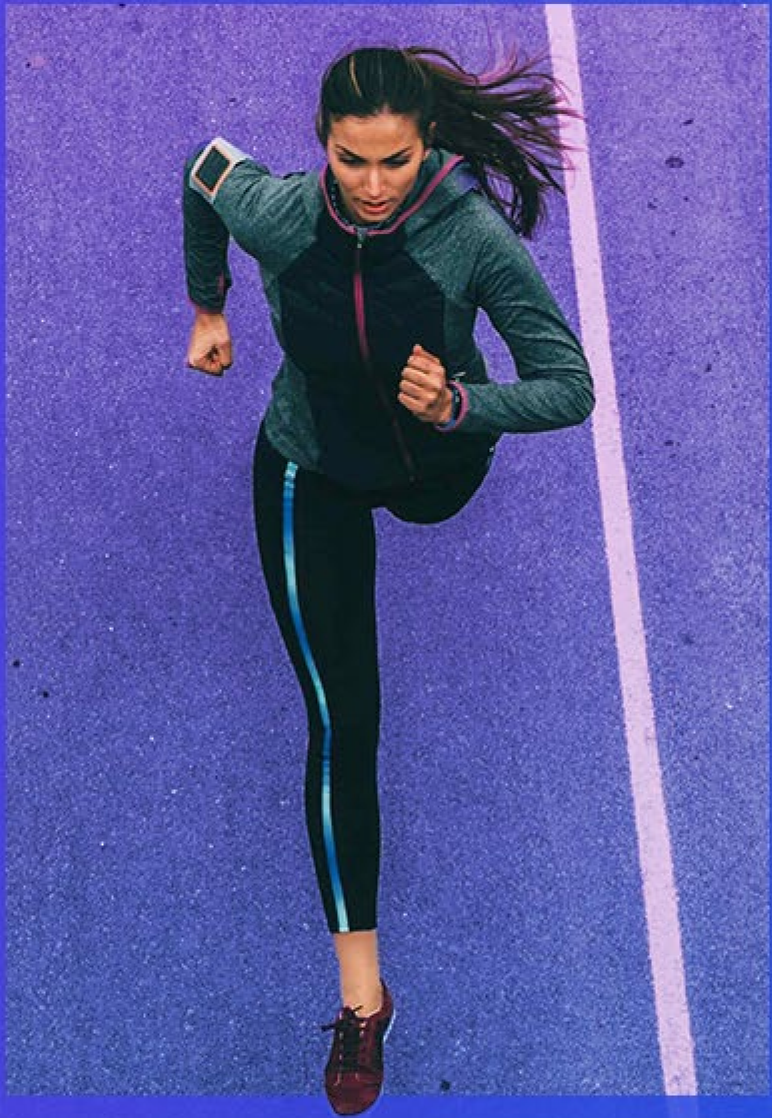
Asia Pacific Private Equity Barometer 2024

PE investment trends and opportunities

Thought leadership



December 2024

Contents

Data in this report comes from AVCJ and Mergermarket and was compiled on 12 September 2024. All figures are in USD unless otherwise stated. Markets in Asia Pacific for this analysis include: Australia, Bangladesh, Brunei, Cambodia, Mainland China, Hong Kong SAR, India, Indonesia, Japan, Laos, Macau SAR, Malaysia, Marshall Islands, Myanmar (Burma), Nepal, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.

Foreword

The private equity (PE) market in Asia Pacific (ASPAC) may be reaching a turning point. The industry continues to evolve and mature, and while overall investment levels have cooled, the forecast for the year ahead suggests that ASPAC's PE market is ready for a new wave of activity, innovation, and value creation.

What makes ASPAC particularly compelling right now is the diversity of opportunities. Emerging markets like India and Southeast Asia are an attractive option to pursue rapid growth, while more mature economies like Japan and Australia offer stability and predictability. Even China, despite recent pessimism from foreign investors, continues to be a source of deal flow and value.

From scaling mid-market companies to pursuing cross-border expansion, PE investors have the chance to make strategic plays that capitalize on regional strengths. That's not to say that the path ahead will be without challenges. Geopolitical tensions and regulatory shifts will need careful navigation.

A new administration in the United States presents both risks and opportunities for private capital. Regulatory obstacles to dealmaking may be reduced, leading to more M&A activity and the possibility of further improved exit markets for PE. Trade protectionism policies including tariffs, if implemented, may cause market disruption in Asia with many winners and losers depending upon sectors and geographies.

Looking to the future, the coming year is likely to see a more cautious, value-oriented approach to investing in ASPAC. Investors could continue to shift gears from biding time for better markets to an emphasis on operational excellence, digital advancements and long-term growth.

The question now isn't whether there are opportunities in ASPAC – there most certainly are. The question is: are PE investors ready to seize them?

This report seeks to act as a barometer of PE activity across the ASPAC region. By analyzing several key factors – such as investment flows, pricing and valuation shifts, value creation opportunities, regional markets and the exit environment – we aim to provide an overview of the emerging trends and developments that could shape the next 12-28 months. For investors, fund managers and other stakeholders, this report should provide key insights into where the market is heading – and how to make the most of it.

Andrew Thompson
Partner, Asia Pacific Head of Private Equity,
KPMG in Singapore

ASPAC private equity barometer: Outlook and expectations

Data trends and specialist insights show the state of the current climate and where temperatures for PE activity and regional opportunities are likely to rise, fall or remain stable in the near term.

Current climate Outlook FY2025

WARM

Investment activity and deal opportunities
Positive investment and fundraising trends, alongside an abundant and diverse deal market, are creating optimism that an uptick in PE activity may unfold in the year ahead.

HOT

Value creation opportunities
Hot and getting hotter, a variety of factors – digital transformation, operational transformation and generative AI – are opening new doors for PE to better create value through their investments.

WARM

Pricing and valuations
Deal values are normalizing at lower levels as froth (particularly around tech deals) leaves the market, signaling that a new, more rational valuation landscape is taking shape.

COOL

Exit environment
While the IPO window remains shut in key public markets across ASPAC, exit conditions are rapidly improving in alternative exit routes.

HOT

Japan
As one of the most advanced economies in ASPAC, Japan offers a steady stream of the very largest in scale PE opportunities, particularly in sectors like industrials, healthcare and tech.

WARM

Australia
While lacking the fast growth of emerging Asia, stability and market maturity have captured investor interest as Australia continues to deliver robust deal activity and reliable returns.

HOT

India and Southeast Asia
Demographic dividends, pro-business policy reforms and high-growth markets are creating fertile ground for investment as PE investors look for alternatives to China.

COOL

China
Conditions in China continue to cool, as geopolitical tensions and other uncertainties cause PE investors to take pause before entering or expanding investments in the market. Savvy investors are selectively hunting value opportunities.

01

Investment activity and deal opportunities: Ready to rebound?

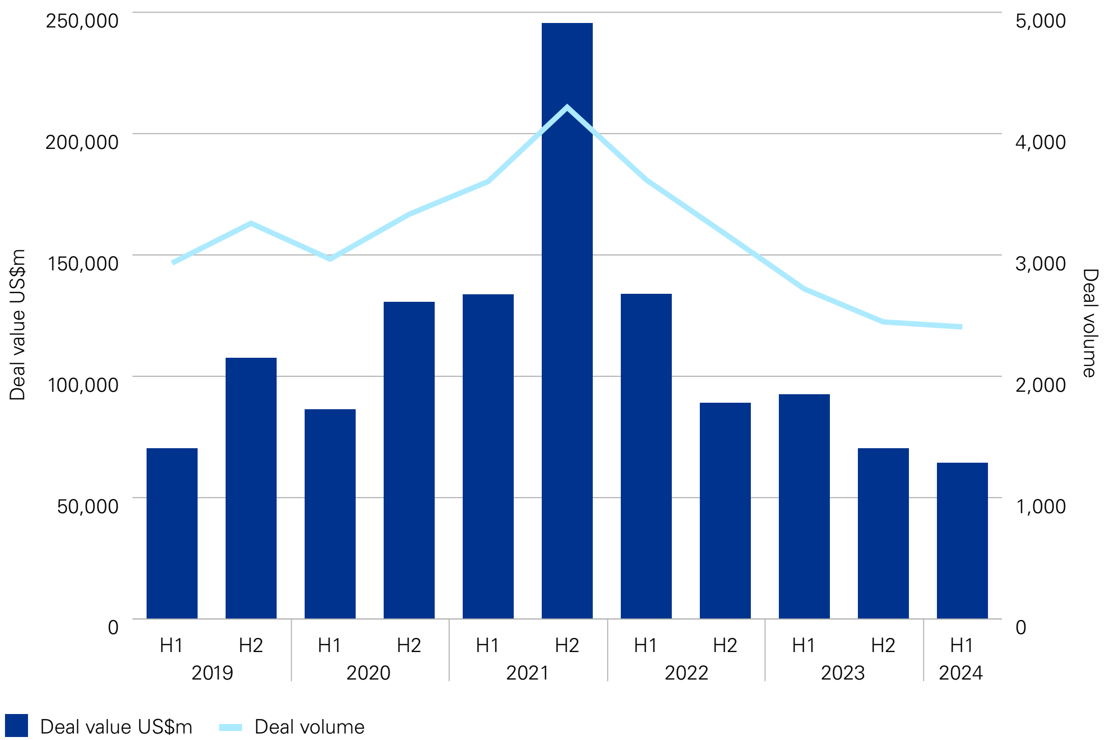
Section 01

Investment activity and deal opportunities: Ready to rebound?

For PE investors who have been slowing the pace of capital deployments, the current environment and outlook offers a compelling case to re-engage. Stabilizing deal volumes and surging fundraising are encouraging signs that the region's PE market is preparing for a possible rebound. Likewise, the increasingly competitive deal landscape – fueled by rising capital reserves and a more focused approach to regional opportunities – is setting the stage for a dynamic period of growth in ASPAC's PE sector.

After several years of volatility, PE investment activity in ASPAC has begun to stabilize, signaling the start of a return to pre-pandemic norms. Total investments in 1H24 saw deal volumes level off, offering some relief after the sharp declines of the past few years. However, the drop in deal values to some of the lowest levels seen since before the global health crisis suggests that investors remain highly cautious.

Figure 1:
ASPAC private equity investment trends



Source: AVCJ

Nevertheless, the road ahead for ASPAC's PE market appears increasingly promising – and while challenges persist, several trends suggest a cautiously optimistic outlook for the months ahead.

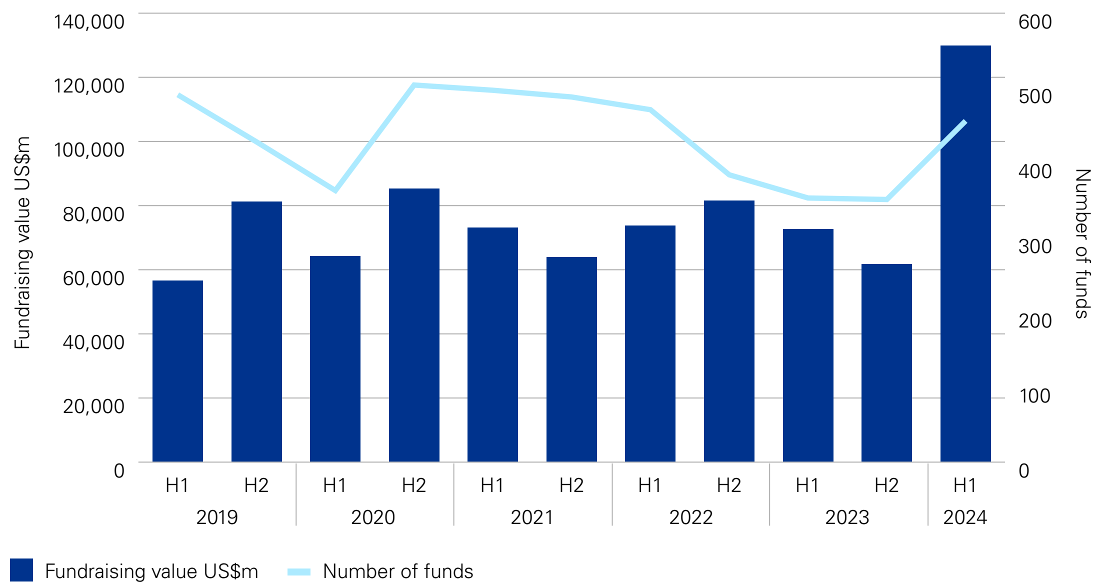
Deal volume: Foundation for future growth

Stabilizing PE deal activity is a key indicator of resilience and signals the potential for sustained growth going forward. This leveling off brings with it a return to pre-pandemic trends, where deal flow was steady and predictable, providing a clearer picture of the market for investors.

Indeed, stable deal volume is creating a foundation for future growth. For one, this consistency may allow PE firms to recalibrate their strategies, focus on improving operational efficiencies in their portfolios and prepare for more favorable market conditions. Furthermore, stable deal volume indicates that the region remains attractive to both regional and global PE firms, even amid economic and geopolitical headwinds.

Declining deal values – now at some of the lowest levels since before the pandemic – paint a more complex picture. Higher borrowing costs have significantly impacted the ability of PE firms to pursue larger deals. Rising interest rates are contributing to more conservative valuations and deal structures. It remains to be seen whether the market regains its confidence in this respect in the short term – but with the right conditions, a rebound in deal values is not out of reach.

Figure 2:
ASPAC private equity fundraising



Source: AVCJ

While deal volumes have leveled off, that's not necessarily a bad sign. Investors are being more selective, which often sets the stage for stronger, more sustainable growth. If macro conditions stabilize, we could see a rebound, but even if dealmaking remains flat, it's likely we'll see higher-quality transactions moving forward.

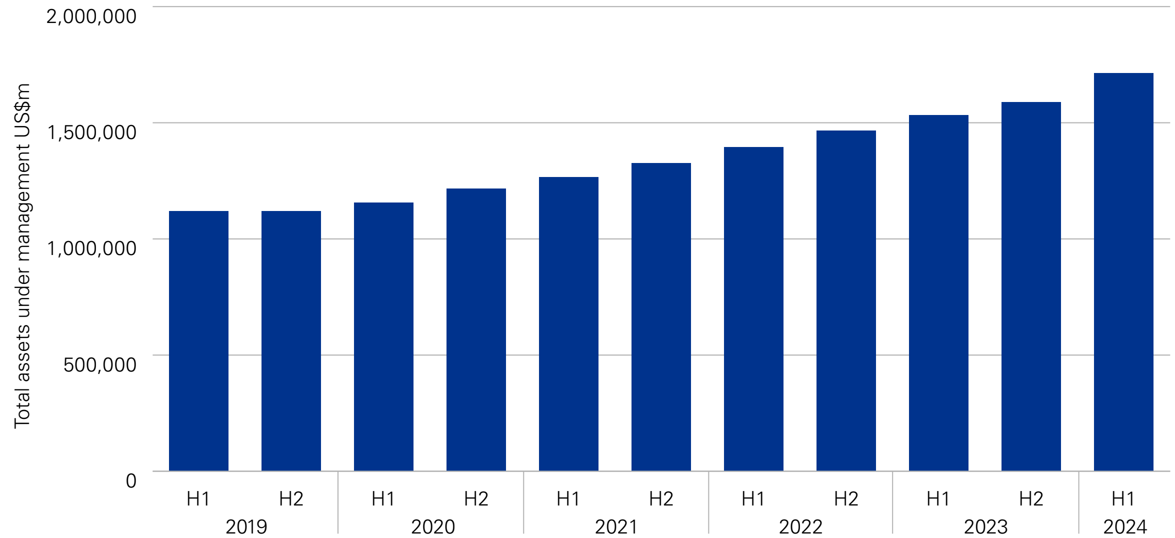
Andrew Thomson
Partner, Asia Pacific Head of Private Equity,
KPMG in Singapore

Fundraising and AUM: Reaching new heights

One of the most promising indicators of a brighter outlook is the sharp reversal in fundraising trends. After several years of tepid activity, fundraising has surged to its highest level in five years, demonstrating renewed investor confidence in the region's long-term growth prospects. This capital influx suggests that global and regional firms are positioning themselves to do more deals.

Likewise, rising PE assets under management (AUM) further reinforces this positive outlook. PE firms are not only attracting more capital but are also managing larger pools of funds, positioning themselves to capitalize on future opportunities. This increase gives PE firms the flexibility to pursue a wide range of deals, from mid-market transactions to larger, strategic investments.

Figure 3:
ASPAC total assets under management (US$m)



Source: AVCJ

Deal opportunities: A positive outlook

Private equity investors eyeing the region are finding a rare convergence of opportunities that few other global markets can offer. For instance, ASPAC is a unique landscape where emerging market dynamism meets the stability of mature economies, giving investors the best of both worlds. From the established economies of Japan and Australia to the fast-growing powerhouses of Southeast Asia and India, the deal opportunity heat chart shows abundant deal potential arising over the past year in each of these markets, catering to various strengths and strategies among PE investors.

Another standout is the sheer diversity of sectors ripe for investment across the region. Investors can tap into traditional industries like manufacturing and industrials – backbone sectors experiencing renewed interest due to regional supply chain shifts. Equally, ASPAC's cutting-edge technology space also has investors buzzing, with opportunities ranging from fintech and AI to health tech and advanced manufacturing.

The heat chart shows that the manufacturing/industrial and tech sectors are the top two industries with available potential deals. This dual-market dynamism – where traditional and future-facing sectors coexist – allows PE investors to hedge against market volatility while positioning themselves for long-term growth.

Going forward, this blend of emerging and developed economies, coupled with a diverse industry mix, will make ASPAC one of the most promising regions for PE. Deals are abundant – and for savvy investors, the region offers a unique opportunity to thrive amid global uncertainty.

Figure 4:
ASPAC heat chart: Companies for sale

	Greater China	Southeast Asia	South Korea	Japan	India	Australia & New Zealand	Grand Total
Industrials & Chemicals	428	43	74	20	52	49	**666**
TMT	218	82	53	33	79	58	**523**
Consumer	99	47	45	29	60	85	**365**
Pharma, Medical & Biotech	148	48	21	19	46	50	**332**
Business Services	121	42	20	7	33	51	**274**
Energy, Mining & Utilities	110	46	10	3	33	71	**273**
Financial Services	99	42	17	11	36	67	**272**
Leisure	35	21	20	10	19	40	**145**
Transportation	41	40	15	3	11	23	**133**
Construction	62	14	6	1	8	11	**102**
Real Estate	63	18	2	1	5	6	**95**
Agriculture	17	10	2	1		21	**51**
Defense						1	**1**
Grand Total	**1441**	**453**	**285**	**138**	**382**	**533**	**3,232**

DATA INSIGHT

While the heat chart shows China with the most deal opportunities, many of these may be smaller or unsuitable for international investors. There are also market uncertainties to consider.

In contrast, while Japan shows fewer deal opportunities overall, many of these are potentially larger and more mature assets – in addition to the Japanese market being more favorable from a legal and regulatory standpoint. The same is true regarding heat chart figures for India, Australia, South Korea and Southeast Asia.

Scale

0 200+

Source: Mergermarket

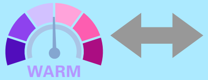
Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between 01/09/2023 and 18/08/2024. Opportunities are captured according to the dominant geography and sector of the potential target company.

02

Pricing and valuations: A more rational market ahead

Section 02

Pricing and valuations: A more rational market ahead



While the current market might seem tepid compared to the boom times of 2020 and 2021, there is a sense of optimism that the new valuation landscape is a sign of maturity rather than a decline in opportunity. Pricing will likely be more rational and balanced – a healthier environment for long-term investors who are focused on fundamentals and value creation. For PE, the year ahead is likely to bring continued stability, with deal values normalizing at lower levels – but in this more selective, value-driven market, opportunities will remain plentiful.

After the frenzied pace of dealmaking during the pandemic years, the valuation landscape in ASPAC is shifting gears. Investors in the region, once buoyed by abundant liquidity and optimism around the post-pandemic recovery, now face a more tempered and risk-averse environment. Over the last 12-18 months, the pace of dealmaking has decelerated, and with it, valuations have also started to cool. This is being driven by a variety of macro factors including rising interest rates, inflationary pressures and shifting investor sentiment.

Deal values: Returning to normal

The correction in valuations signals a broader market recalibration as investors continue to re-evaluate their risk profiles. One of the most telling trends in ASPAC PE is the return of average deal sizes to pre-pandemic levels. In 2020 and 2021, there was a notable uptick in the size of transactions, as PE firms deployed record levels of dry powder and capitalized on the many opportunities emerging in the wake of the pandemic. Much of this fervor centered on investing in the tech space, specifically AI. However, since the second half of 2022, average deal sizes have steadily declined. As of 1H2024, average deal size in ASPAC is among the lowest over the past five years.

Now, as the global economic situation tightens – with rising borrowing costs and persistent inflationary pressures – PE is likely to take a more disciplined approach going forward. The willingness to pay premium prices had diminished, replaced by a focus on value and cautious capital deployment. In turn, this has brought the region's valuation metrics back in line with historical norms.

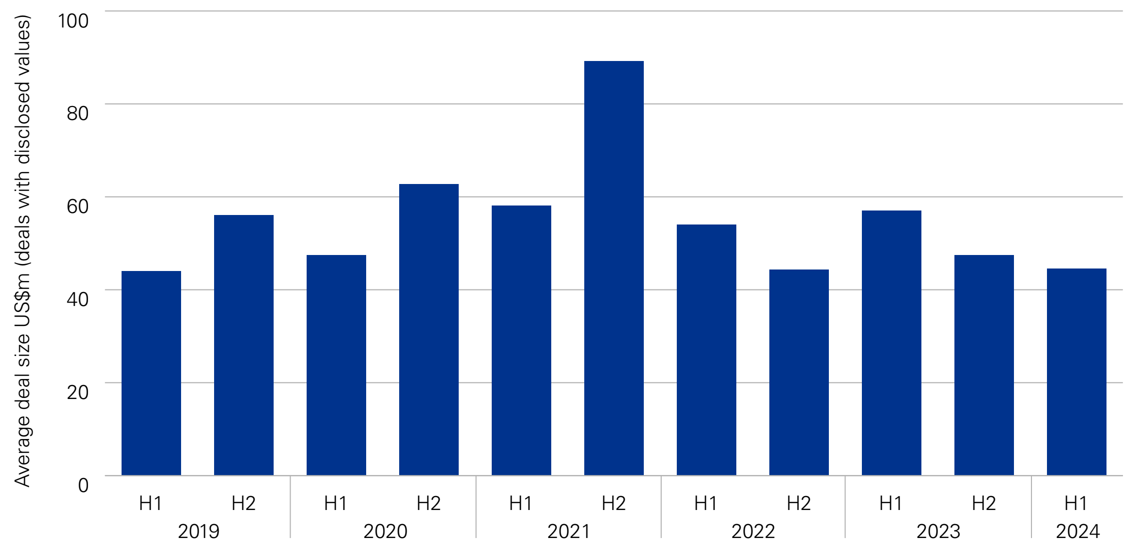
Resilient and dynamic: Mid-market and mega deals

While the ASPAC PE market is largely defined by smaller deals, the region's mid-market space (deals valued US$15 million to US$500 million) has remained a core focus for investors. These deals have consistently accounted for about 33% of investments and reached as high as 45% in the latter half of 2022. Likewise, mid-market deals have averaged close to half (46%) of PE investment values since 2019.

The concentration of deals in this range reflects the large number of mid-sized and emerging companies that populate the region. These businesses may offer significant growth potential but require smaller amounts of capital compared to counterparts in more developed markets. This is perhaps why most investments have historically been on the lower end of the mid-market range.

Likewise, mid-market deals appeal to PE investors because they offer a sweet spot between risk and reward. These transactions often involve well-established companies that require capital for growth or restructuring but are not as exposed to the scale or complexity of mega deals.

Figure 5:
ASPAC private equity investment trends: Average deal size



Source: AVCJ

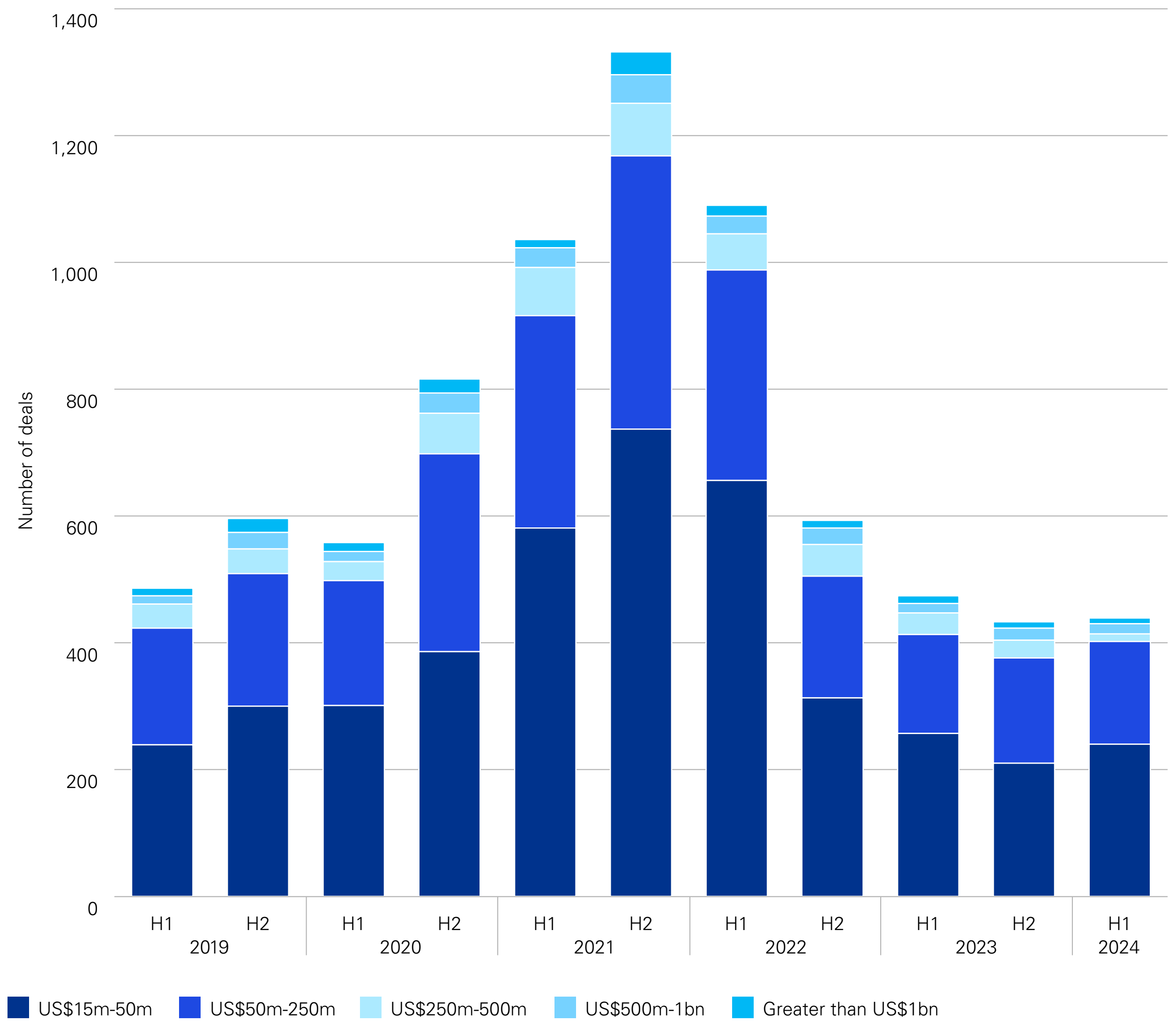
The recent dip in valuations across ASPAC is less about a market downturn and more about strategic recalibration. What we're seeing is a healthy stabilization. There's a real focus on realistic pricing, which will open the doors for long-term value creation, especially in sectors where innovation is driving profitability.

Steven Bates
Partner, Asia Pacific Head of Financial Services Deal Advisory, KPMG in Singapore

That being said, mega deals (valued above US$500 million) have still had a very large impact on investment trends in the region. For instance, while they have only accounted for about 2% of PE deals since 2019, almost half (48%) of investment values have gone toward these large-scale transactions. And while these deals have declined in recent years – after reaching a peak of 81 in 2H2022 and falling to just 25 in 1H2024 – mega deals still present opportunities, especially in sectors like tech, healthcare and infrastructure, where long-term growth prospects remain strong.

Japan, in particular, stands out as a market where mega deals are gaining momentum. Recent large-scale deals have been driven by Japanese corporations restructuring and divesting non-core assets. Likewise in Australia, recent years have seen a growing interest in high-valued deals, especially in sectors like infrastructure and renewable energy as global investors increasingly prioritize sustainability-focused investments.

Figure 6:
ASPAC private equity investment trends: Deals valued greater than US$15 million



Source: AVCJ

03

Value creation opportunities: The heat is on

Section 03

Value creation opportunities: The heat is on

Increased digital adoption is enhancing operational efficiency and creating new business models, and the growing acceptance of PE in mature markets like Japan has accelerated broader openness to making deep operational change post-deal. Additionally, mid-market companies across ASPAC present significant growth potential, particularly through operational improvements and expansion. Combined, these trends indicate that PE firms across the region are well-placed to capitalize on these opportunities for value creation and any others that arise in the year ahead.

HOT

During the pandemic, PE firms focused on preserving portfolio value and implementing sustainability measures like cost cutting and financial restructuring. Now, with the health crisis well behind them, these investors are pivoting back to a long-term growth mindset. Within this shift, key themes include digital transformation, operational improvements and ESG initiatives linked to value creation. These areas are providing fertile ground for value creation in ASPAC, particularly in the region's high-growth markets and especially within mid-market companies.

Digital transformation: Accelerating growth through innovation

As the ASPAC region embraces the digital and AI revolution, PE investors are viewing digital transformation as a critical lever for value creation. Indeed, investments in technology solutions, automation and data analytics are no longer optional – they're essential. As such, investments in tech have accounted for the lion's share of PE activity since 2019 – 36% of investment values and 54% of total deals – as investors apply these innovations across markets and industries.

From optimizing back-office functions to improving customer experiences, PE-backed companies are leveraging digital tools to drive efficiencies and improve outcomes in their portfolio companies. While it is still early days, many are exploring the application of generative AI and LLM models to enhance and eventually transform business models. PE firms are leveraging technology not just within the traditional tech space but across diverse industries, from healthcare and logistics to consumer goods and manufacturing.

The rapid pace of digital innovation is particularly appealing to mid-market companies across ASPAC, as they stand to gain the most from digitizing operations and processes. These companies, while often already established enterprises, often lack the resources of larger corporations to implement large-scale digital change. PE firms have an opportunity here to step in, provide the necessary capital and strategic guidance and unlock new growth pathways by implementing cutting-edge technology.

Figure 7:
ASPAC PE investment sector breakdown – value (2018 – 1H23)

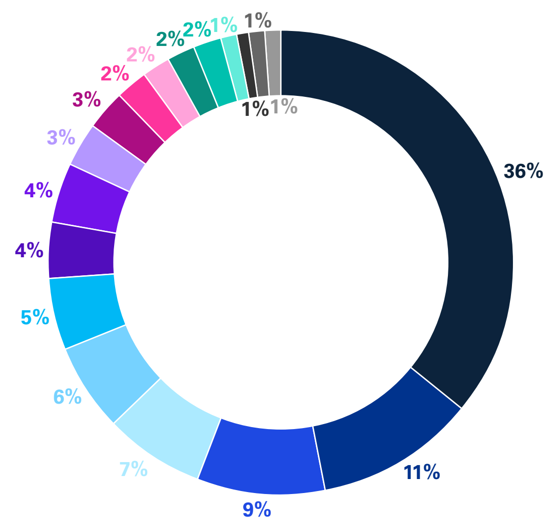
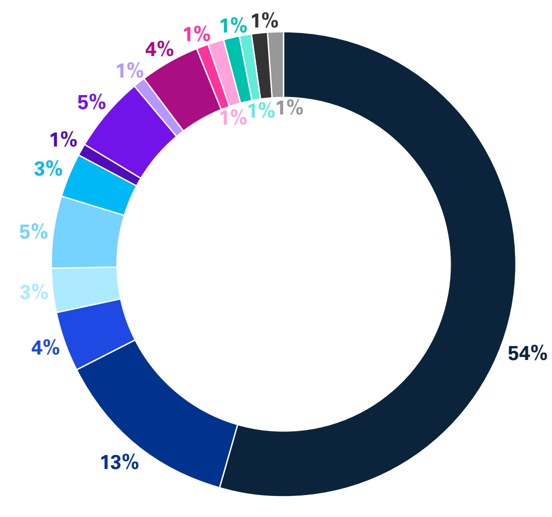


Figure 8:
ASPAC PE investment sector breakdown – volume (2018 – 1H23)



Tech | Medical | Transportation/Distribution | Financial services | Electronics | Manufacturing - Heavy | Utilities | Services - Non-Financial | Telecommunications | Consumer products/services | Retail/Wholesale | Travel/Hospitality | Infrastructure | Leisure/Entertainment | Manufacturing - Light | Agriculture/Fisheries | Construction | Ecology

Source: AVCJ

Operational improvements: Enhancing efficiency gains

Rising costs and tighter margins have made focusing on operational efficiency more crucial than ever before. As such, firms are focusing on enhancing the efficiency of portfolio companies by streamlining processes, reducing waste and improving productivity. Operational improvements provide a strong foundation for scaling businesses, particularly in high-growth markets like Southeast Asia and India, where demand is booming and competition is fierce.

Moreover, operational improvements can also pave the way to launch businesses across borders. With the economies of ASPAC becoming even more interconnected, PE firms are leveraging their expertise to help portfolio companies expand regionally. This cross-border growth is particularly lucrative, as it allows companies to tap into new customer bases, realize economies of scale and create synergies across markets.

ESG: Shifting focus

While social and governance considerations remain crucial to ESG efforts across ASPAC, environmental factors are quickly taking center stage. Specifically, sustainability, decarbonization and the energy transition are emerging as key investment themes – and with regulatory pressures mounting and global attention shifting toward combating climate change, PE firms are increasingly positioning investments ahead of this trend.

For instance, as sustainability and decarbonization become greater priorities, especially in industries with high carbon footprints, PE firms are overhauling portfolio company operations to be more attractive to investors. This shift is more than just a short-term trend – it's a strategic play to future-proof businesses against the inevitable transition to a low-carbon economy. Already, companies that are embracing renewable energy, resource efficiency and sustainable supply chains are emerging as leaders in their sectors, attracting higher valuations and greater interest from investors.

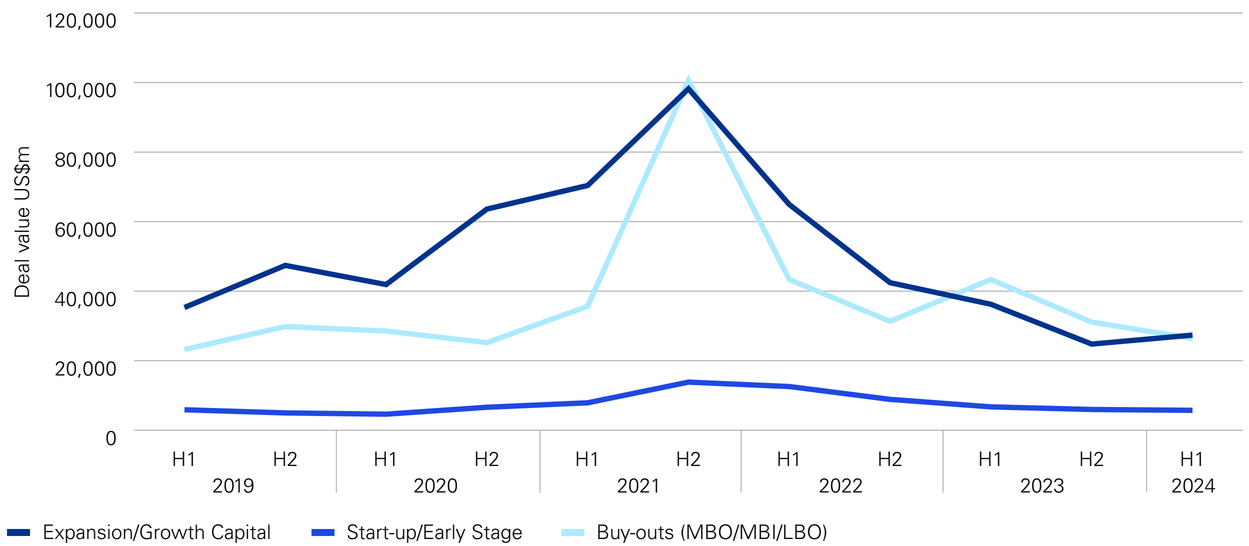
Mid-market companies: Unlocking growth potential

ASPAC has a strong mid-market opportunity set for PE buyers. These companies, many of which are family-owned or operating in niche markets, are ripe for growth, often large enough to scale but also small enough to benefit from operational improvements and strategic guidance. An injection of capital can quickly put these companies on the path to rapid transformation – and these types of growth/expansion investments have been a staple of PE activity in ASPAC over the past five years.

Mid-market companies also tend to be more nimble than their larger corporate counterparts, allowing them to adapt quickly to new technologies, business models and changing markets. This agility makes them ideal candidates for digital transformation and operational improvement efforts, two of the primary value creation levers for PE in ASPAC today.

Moreover, the rising tide of family-owned business succession planning is creating new openings for PE to acquire or invest in already established companies. As more founders look to retire, they are increasingly willing to hand over the reins to PE investors who can professionalize their operations and take their businesses to the next level.

Figure 9:
ASPAC private equity investment: Financing stage trends (value of investment)



Source: AVCJ

"High competition for deal flow, and persistent gaps between seller and buyer value expectations, have increased the need for substantive improvements in revenues and margins post-investment in order for GPs to achieve target returns. Private equity investors have responded by becoming increasingly sophisticated in value creation across all operating levers, and have been able to achieve outstanding results in key markets across ASPAC through true operational value-add rather than financial engineering.

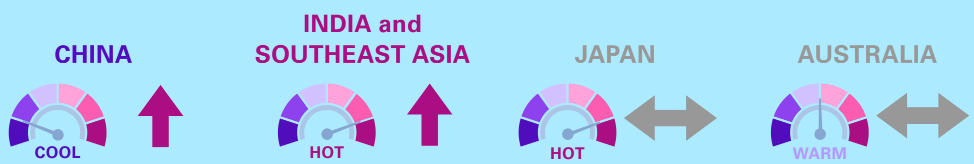
Paul Ford
Partner, Head of Private Equity,
KPMG in Japan

04

Regional overview: From cooling to booming markets

Section 04

Regional overview: From cooling to booming markets



Despite maintaining its place as the largest market for PE in ASPAC, China's allure may be fading as investors remain wary of market uncertainties. Conversely, India and Southeast Asia are seeing investor optimism skyrocket given positive demographics and high-growth prospects. Meanwhile, Japan and Australia provide stable and sophisticated markets for long-term investors while delivering ample opportunities, reliable returns and solid exit options.

An investment-fueled plot twist is unfolding across ASPAC. After years of looking to diversify away from China, investors are slowly tiptoeing back: data for 1H2024 shows that the gap between investment in China and alternative markets in the region has narrowed over the past 12 months, signaling a shift in sentiment.

But is this a long-term reversal or a short-term pivot? While it's too early to call, the closing gap suggests that China remains a cornerstone of any serious ASPAC investment strategy. Investors who had been hedging their bets are rediscovering China's undeniable scale and resilience, even in the midst of ongoing geopolitical tensions and regulatory uncertainty.

Still, PE's romance with other markets is far from over. Across ASPAC, markets like India and Southeast Asia continue to gain momentum, as do mature economies like Japan and Australia, creating a more balanced investment landscape across the region.

China: A cooling giant?

Once a beacon for international investors, geopolitical tensions have significantly tempered investor enthusiasm. Today, many foreign firms are thinking twice about the Chinese market.

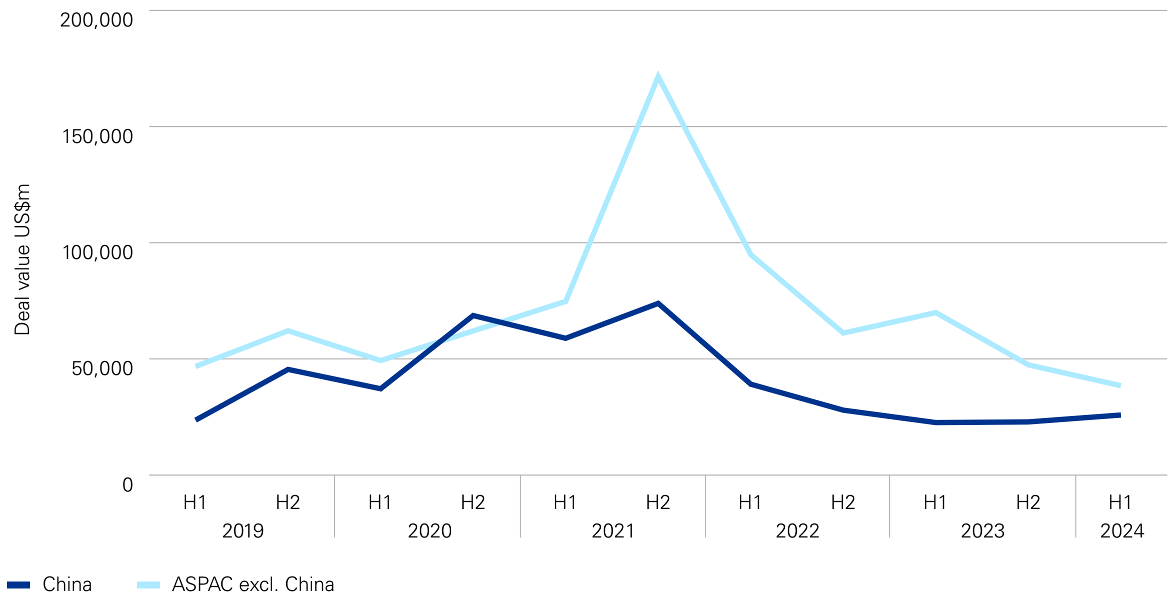
However, despite this cooling trend, China continues to be one of the hottest domestic markets for PE investment in ASPAC. Heat charts continue to show China offering an abundant and diverse range of opportunities, ranking far above other Asian geographies due to the scale of the China market. The country also still accounts for most PE investment in the region: 40% of values in 1H2024, up from 24% in 1H2023. China also saw the lion's share of total PE transactions in 1H2024 at 31%, down from 36% in 1H2023 but still the top spot in ASPAC.

Likewise, the deal opportunity heat chart (page 9) shows the Chinese market boasting the most companies for sale over the past year, even if many opportunities are difficult for foreign investors. Indeed, China continues to present a compelling offer for long term PE investors who are willing to navigate the complexities of the market.

India and Southeast Asia: Rising stars

If China is cooling, then interest in India is undoubtedly heating up. With a remarkable demographic dividend – a population of over a billion and a burgeoning middle class – and economic dynamism that continues to capture global attention, India's growth story is only just beginning. Adding to this, the government's pro-business reforms, coupled with an extensive digital transformation boom and infrastructure push, have created fertile ground for PE investment.

Figure 10:
ASPAC private equity investment: Investment value trends (US$m)



Source: AVCJ

Various uncertainties have certainly added a new layer of complexity to the Chinese market – but they've also opened doors for savvy investors. Navigating this market requires a deep understanding of local laws and practices, but those that can adapt will find that China still holds immense potential, particularly in industries like AI and renewable energy.

Priscilla Huang
Partner, Co-Head of Private Equity,
KPMG China

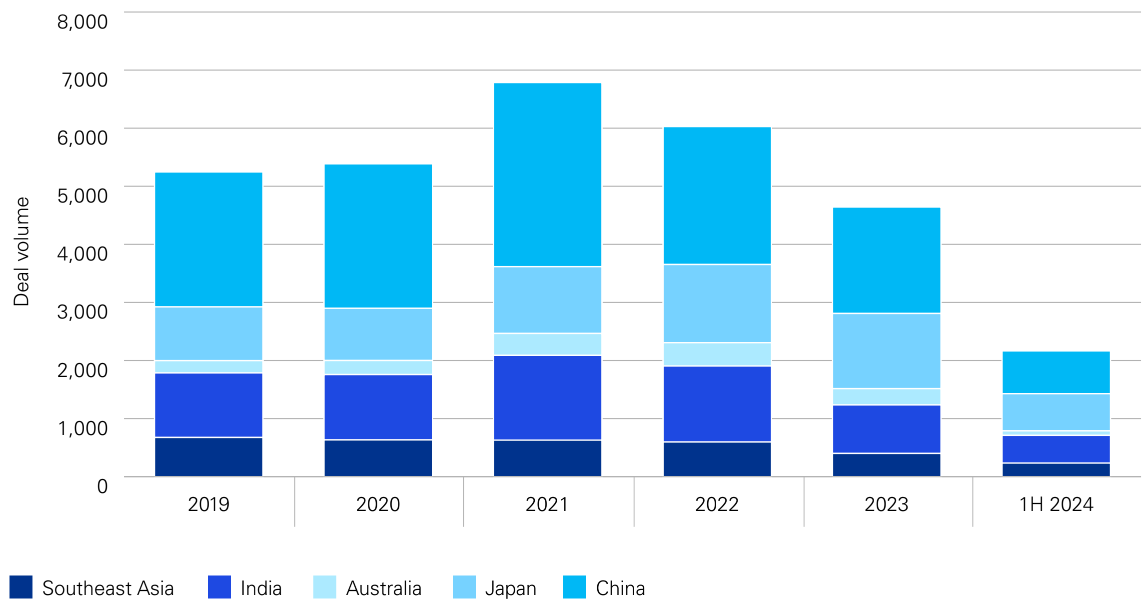
Interest in India has been consistent in recent years, with the country accounting for close to 20% of PE deals since 2019. In 1H2024, deals rose 20% from the previous half year, reversing a downtrend in total investments that had started in 2H2021.

Investment values were likewise positive, reaching US$12.4 billion in 1H2024, up 14% from the previous half-year but among the lowest over the past five years. Notably, value totals have progressively dropped since hitting a peak of US$43.5 billion in 2H2021, signaling that valuations overall may be entering more rational territory.

Meanwhile, Southeast Asia and its mosaic of dynamic economies and business-friendly regulation is giving PE investors more and more reasons to focus their attention there. Specifically, reforms aimed at reducing barriers to entry for international investors are a particular draw.

Equally, as Southeast Asia becomes increasingly interconnected through the ASEAN initiative, cross-border investments and collaborations are gaining traction, offering PE firms the chance to engage in regional expansion strategies. Indeed, the investment potential in Southeast Asia is vast, and as these markets mature, they're expected to play a bigger role in global PE portfolios. Recent trends have seen rebounding interest in Southeast Asia after sinking investments since late 2021.

Figure 11:
ASPAC private equity investment: Target geographies by volume



Source: AVCJ

India's private equity scene has graduated from the minor leagues to the big leagues. What used to be considered a frontier market is now becoming a sophisticated landscape, where bigger, smarter deals are being found every day. The opportunities here aren't just growing – they're multiplying.

Nitish Poddar
Partner, Head of Private Equity,
KPMG in India

Japan and Australia: Off to the races?

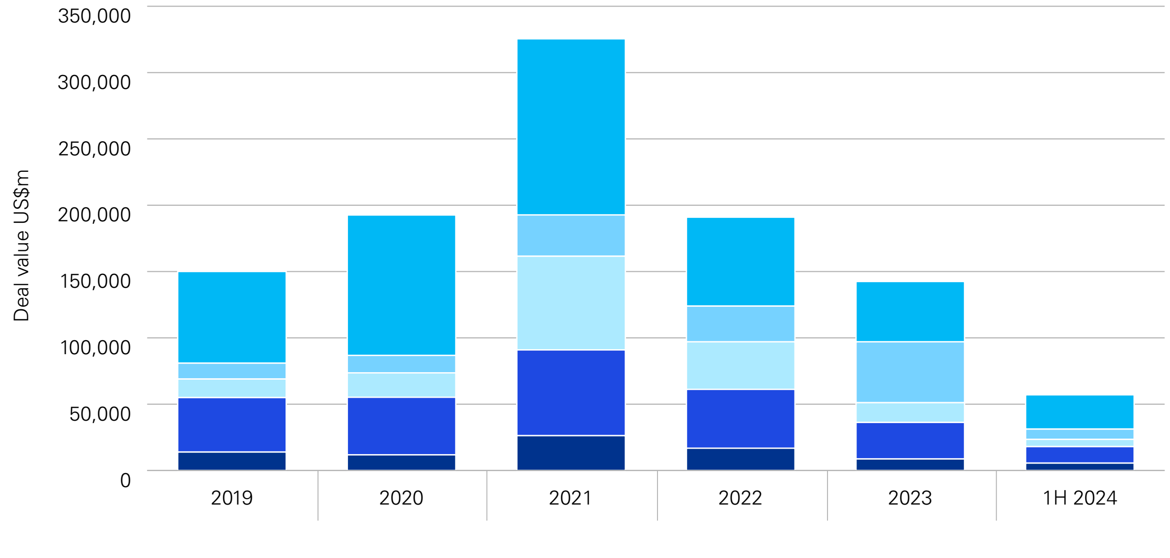
Japan and Australia may not be the fastest-growing markets in ASPAC, but what they lack in speed, they make up for in stability and sophistication. Australia, for instance, is viewed as a safe haven among more volatile markets and the country's robust legal and regulatory framework, coupled with its well-developed infrastructure, make it an attractive destination for investment.

Likewise, as one of the most mature economies in ASPAC, Japan offers a steady stream of the very largest in scale PE opportunities, particularly in sectors like industrials, healthcare and tech. What's more, Japan's aging population has created fertile ground for consolidation, particularly in the mid-market, where PE firms can capitalize on succession planning. Mega deals have also been a feature of the Japanese market in recent years, driven by large-scale corporate restructurings, attractive financing terms and a stable regulatory environment.

Private equity investors have taken note of these positives. Since 2020, PE deal volumes in Japan have steadily risen (up 47% through 1H2024), bucking the trend where most markets saw a sharp dropoff from 2022.

Investment values have likewise been impressive over the past 12-18 months. In the first half of 2023, Japan's US$32.5 billion in investments put it well ahead of China (US$22.6 billion). This was the first time the Chinese market did not take the top spot. Japan would go on to close 2023 with US$45.9 billion to China's US$45.5 billion.

Figure 12:
ASPAC private equity investment: Target geographies by deal value



Source: AVCJ

"Japan's private equity market continues to evolve, with former cultural roadblocks – like resistance to foreign ownership and reluctance to sell family businesses – starting to fade. As these attitudes shift and regulatory frameworks become more accommodating, we'll likely see fresh opportunities opening up for international investors looking to tap into Japan's rich market potential.

Hiraku Okada
Partner, Asia Pacific Head of Deal Advisory,
KPMG in Japan

In 1H2024, the value story has lost momentum. Totals posted a noticeable drop to US$7.7 billion, some of the lowest in Japan over the past five years. Rising interest rates may be to blame, however, a value correction following several half-years of fervent deal-making is also a likely culprit. With more reasonable valuations through the rest of 2024, PE firms may find compelling entry points, positioning Japan for even more mega deals in 2025.

“Australia presents a strong mid-market growth capital opportunity for private equity to partner with founders of high-quality established businesses and accelerate growth through capital investment and strategic value add.

James Hindle
Partner, Head of Private Equity,
KPMG Australia

05

Exits: Adapting to a changing and challenging environment

Section 05

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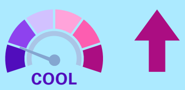
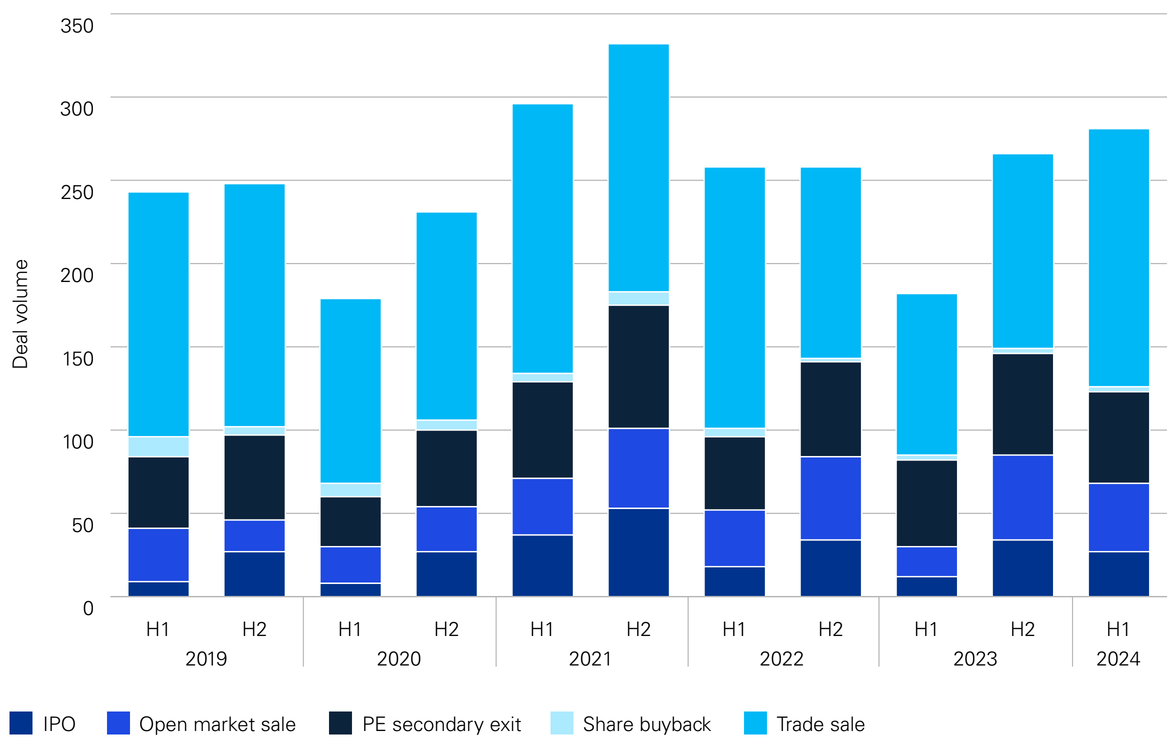


While the exit environment remains unpredictable, the tools available to PE firms are expanding. Trade sales offer certainty, continuation funds provide flexibility, secondary markets deliver liquidity, and an anticipated reopening of IPO markets gives PE firms another route to exit. Together, these strategies are reshaping the ASPAC exit landscape, enabling PE firms to navigate market volatility and regulatory hurdles while still delivering returns to investors.

The ASPAC exit market has been a tale of two totals over the past year. On one hand, the number of exits reversed a sharp downturn in 1H2023, rebounding from historical lows and fostering hopes of a strong close to 2024. On the other, the value of these exits have wavered: despite an upward finish to 2023 with approx. US$37 billion in exits, these totals dropped to US$21.7 billion in 1H2024, among the lowest over the past five years.

Figure 13:
ASPAC private equity exit trends (number of exits)



Source: AVCJ

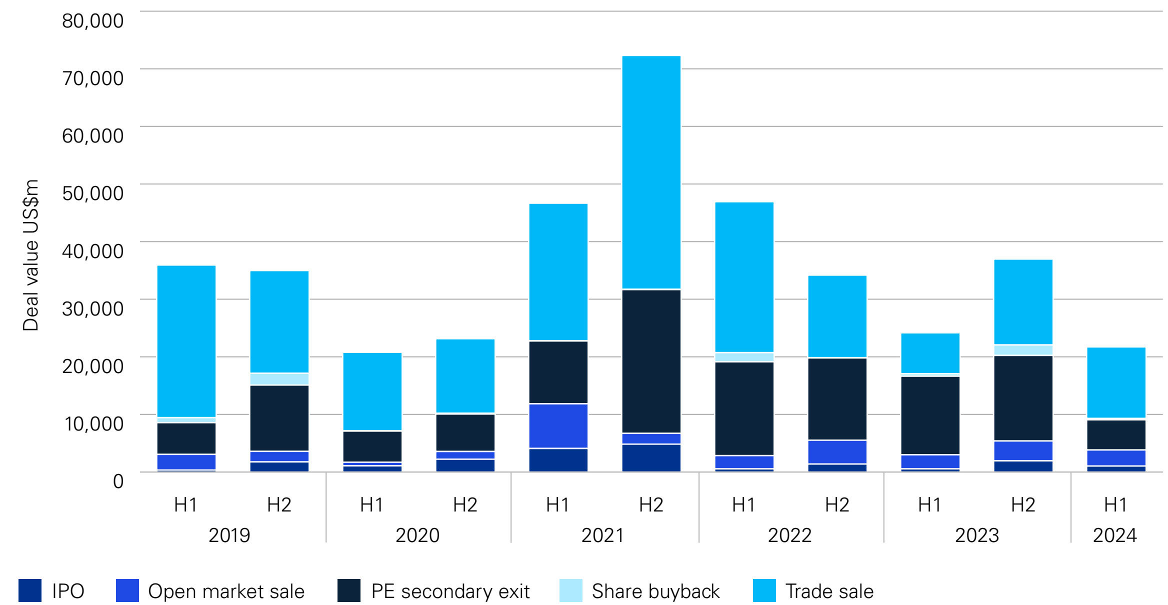
During this time, IPOs have taken a back seat due to market volatility and regulatory pressure in key markets, and facing greater hurdles than ever before, PE firms favored trade sales, continuation funds and secondary markets as viable exit alternatives that offered more stability and predictable returns. Nevertheless, with rates cuts on the horizon for central banks in 2025, a much-anticipated revival of the IPO markets in the new year could offer another option in the toolbox of PE firms looking to exit, and it is possible that there will be an increase in dual-tracks in the months ahead. Likewise, exits could potentially improve depending on the impact a second Trump presidency has on sentiments and conditions in the market, including regulations impacting US-linked M&A activity.

Trade sales: Certainty in uncertain times

Amid this backdrop, trade sales have emerged as a favored alternative, accounting for the majority of total exits (55%) and exit values (57%) in 1H2024. Likewise, they have consistently ranked as the top exit route over the past five years. By selling portfolio companies to strategic buyers or other financial sponsors, PE firms can realize returns with greater certainty and speed. Trade sales have also offered PE firms the advantage of locking in a sale price without the prolonged regulatory and market-related hurdles associated with IPOs.

Trade sales are likely to gain traction across the ASPAC region, particularly in key markets like Southeast Asia, India, Japan and Australia, where corporate buyers are actively seeking growth opportunities. These regions have seen increased M&A activity, driven by both domestic and international companies looking to bolster their presence in the region. For PE firms, this heightened demand from strategics presents a favorable exit environment, even amid broader market uncertainties.

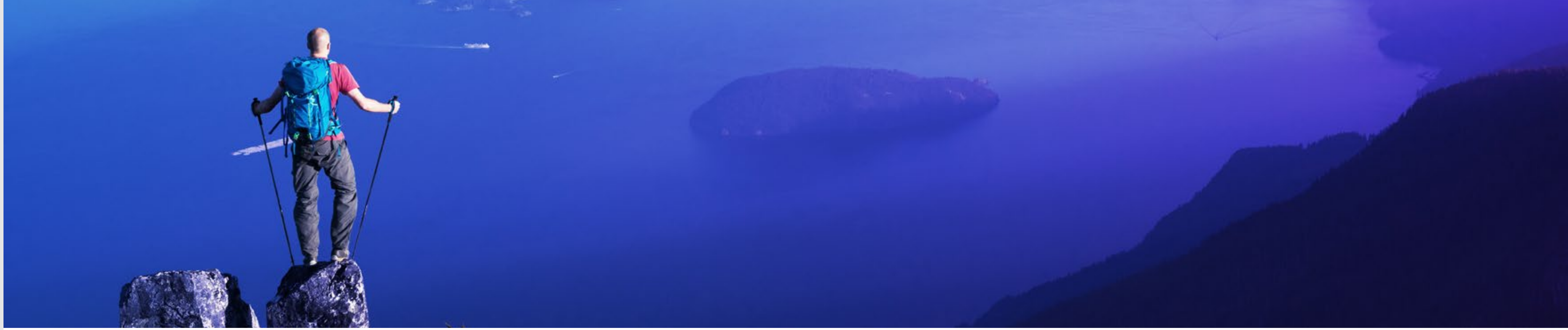
Figure 14:
ASPAC private equity exit trends (value of exits)



Source: AVCJ

"Flexibility in both timing and exit strategies is more important than ever, with trade sales, secondary exits and the expected return of dual-track processes in 2025. The outlook for the IPO window reopening in 2025 is increasingly optimistic, as anticipated interest rate cuts, easing inflation and improving economic data expected to provide a more favorable environment for new listings.

Cecily Conroy
Lead Partner, Equity Capital Markets,
KPMG Australia



Continuation funds: Extending investment horizons

Another avenue gaining traction is the use of continuation funds. With IPOs faltering and trade sales not always aligning with a firm's timing or objectives, these funds have become a tool for extending the hold on promising assets. In this way, PE firms are maintaining ownership of a portfolio company while securing additional capital to continue value creation and growth strategies or to delay an exit until market conditions improve.

The rising trend of continuation funds signals a broader trend toward longer holding periods. With exit windows becoming more unpredictable, PE firms are increasingly looking for ways to extend their investment horizons and unlock value over a longer timeframe.

For instance, in Southeast Asia, continuation funds are gaining popularity as PE firms increase their focus on mid-market companies with strong regional growth potential. These funds allow PE firms to give companies more time to scale across borders or strengthen their market position before pursuing an exit. Likewise, global PE firms operating in ASPAC are leveraging continuation funds to extend their hold on mature assets in developed markets like Japan and Australia.

Secondary market: As essential liquidity tool

The secondary market has also grown in importance as PE firms look for liquidity solutions given extended holding periods. Since 2019, secondary deals have consistently accounted for roughly 20% of total exits. In terms of exit values, secondary totals rose steadily through the pandemic years 2020-2021 to peak in early 2023 at 56%. For 1H2024, secondary deal values were much lower at 24%. Notably, however, average deal sizes for these transactions have trended higher than other exit avenues in recent years.

Investors are increasingly turning to secondary sales to rebalance their portfolios and manage risk. In particular, global investors are playing a key role: as these firms increase their focus on ASPAC, many are using secondaries to offload stakes in mature portfolio companies while still maintaining a presence in the region.

IPO: The return of dual-tracks?

It is no secret that IPO markets across the region have dried up in recent years – IPOs accounted for only 5% of PE exit values and 10% of total exits in 1H2024 – as public markets navigate central bank tightening, changing geopolitical landscapes and market volatility. However, the much-anticipated reopening of the IPO market in 2025 may deliver a fresh opportunity for PE firms looking to generate alpha, and after a number of years on the sideline, it could be time for PE firms to dust off the dual-track playbook and explore an IPO as an exit option.

While the process can be more complex and requires careful management, a return of dual-tracks could be an important feature in 2025 as they deliver optionality and an opportunity to secure a successful (partial) exit on more favorable terms.

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