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European Private Equity Mid-Market Monitor: Q1 2026 & Outlook

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Contents

DC Advisory presents the latest European Private Equity Mid-Market Monitor, discussing the trends and themes impacting the private equity markets across Europe.

- 4 A note from the European Executive Chair
- 6 European overview
- 8 UK market commentary
- 10 Benelux market commentary
- 12 CEE market commentary
- 14 DACH market commentary
- 16 Italy market commentary
- 18 Spain market commentary
- 20 A note from Asia Access
- 22 References, Disclaimers & Appendix

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A note from the European Executive Chair

Richard Madden



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Introduction

Deal volumes in the last year have held up surprisingly well. But the market remains risk-averse, and so the deals have been different.

- Different buyers – fewer trade and PE platforms, more bolt-ons for PE-owned businesses
- Different structures – PE sellers have embraced the idea of selling a business they know to a buyer they know – themselves, the rise of the continuation vehicle
- Different sectors – AI impacted businesses, especially software, have become almost impossible to value and blue-collar is in high demand

The market has now lost any real momentum, and the current uncertainty will push deal-making to the back end of 2026 at the earliest.

Deals... but different

Market activity

- Momentum is everything in deal-making, and over the last 12 months, developing momentum has been brutally checked by tariffs, by AI, and by the war in Iran.
- It is therefore remarkable that the volume of European deals in the 12 months to March 2026 was only down by 3% compared to the 12 months to March 2025 (see fig. 1).
- It is important to note that the last quarter to March was down 12% (see fig. 2), largely driven by AI anxiety, and a sharp – but late – change in sentiment as a consequence of the war.

Different buyer profile

- It is clear, and unsurprising, that buyers of businesses remain risk-averse, and this has had a profound impact on the type of deals that have completed.
- Since Covid, in the region of 65%¹ of businesses sold have been bought by trade buyers. In the last quarter, that has fallen to 56% (see fig. 3).
- Trade buyers have prevailed because they were able to price synergies and strategic fit; but there is a new competitor – PE-Backed Trade (PEBT – rhymes with debt).

- PEBTs completed 66% of all private equity funded deals this quarter². This is well ahead of historical levels of 40%–50%³.
- This means private equity have been busy, but they have not been busy with new platform deals, as they represent only 14% of total deals⁴.

Trade

- Trade buyers do not need to buy businesses. In times of uncertainty, the focus shifts to shoring up the core business and higher-risk M&A are deprioritized, this was particularly noticeable after Covid, and it is apparent again.
- In addition, Trade bidders' competitive advantage in process has been diminished by the presence of similarly advantaged PEBTs.

PEBTs

- The risk profile of a bolt-on for private equity is dramatically lower than for new platform deals. They know the market, understand the business model, and have a trusted management team to deliver an integrated, synergized business plan. The financial model is also compelling as there is the potential for multiple arbitrages and much of the purchase price can be funded by debt... and even if it doesn't go perfectly to plan, it is of such a size that it should not destroy the returns of the platform.

Platform deals

- Only 2,291⁵ platform deals were completed in the last 12 months – fewer than in any 12-month period since Covid.
- It might appear that this reflects a lack of PE appetite to take the risk of investing in an unknown business. Whilst this is true, it also reflects a lack of opportunity as PE are reluctant sellers.

PE as sellers

- Given that PE own over 24,000⁶ European businesses and many of these are of scale, they represent many of the platform deals of the future. The market remains strong for “The Best” businesses. But, as we have said before, the market for “The Rest” is uncertain. The shocks that have swept through the market make it difficult to value businesses and launching a process for a prized business into a risk-averse market feels risky. Better to wait.

- But different deals can get done, and so PE has waited, limiting the supply of platform businesses for other PE firms to invest in.

But different deals can get done

Different PE buyers

- In a world of uncertainty, with pressure to divest, and wariness of investment in the unfamiliar, it is no surprise that selling to oneself has significant appeal – the continuation vehicle. A different type of buyer. One PE firm selling to another was once seen as a fruitless game of pass the parcel, but it has been shown to bear valuable fruit. The continuation vehicle is a game of passing the parcel to oneself. Time will tell if these structures will yield similar fruit.

Different deals in different sectors

- But different deals can get done. When we talked about “The Best” businesses that could be quickly sold for great prices, they were frequently software companies – growing market, pricing power, resilient recurring revenue, great margins and cash generation.
- That all changed in January. The bubble burst on the thorns of AI – and specifically the launch of Claude. There can be no doubt that many software companies will thrive in this new world and harness the power of AI to improve their businesses and deliver extraordinary outcomes for their customers. But it takes a brave investor to make that call now, or to attempt to value it. Consequently, the hottest sector has turned cold. The new hot sectors have one thing in common – low AI impact.
- Infrastructure, critical business services, compliance and human interaction services enjoy much of the resilience of ‘old-tech’.
- Moreover, they have always been valued in relatively tight bands which provides reassurance to risk-averse investors anxious about extreme volatility elsewhere.

Outlook

- We will repeat, for the third year in a row, private equity must start selling businesses. But given the market shocks and the potential medium-term impact of the war in Iran, it is understandable that they won't be starting yet. And, for the time being, we anticipate that LP's will be understanding and patient.
- There is no shortage of businesses ‘waiting to sell’. Investment banks have been appointed, and preparation is underway. But few processes will launch in the current market.
- Our hope is that the wars in Iran and Ukraine will end, sentiment will stabilize, and processes will launch after the summer. Should that wave be well received, we anticipate a second, stronger wave to launch at the end of the year

and into 2027. This will only make a small dent in the ever-building backlog of private equity disposals. It is in our view it will take a longer period of economic stability, a realistic view of valuation, and pragmatic deal-making to build the momentum that has been lacking in the market since the bizarre post-COVID bubble of 2021.

Figure 1: European deals YoY to March 2025 vs March 2026

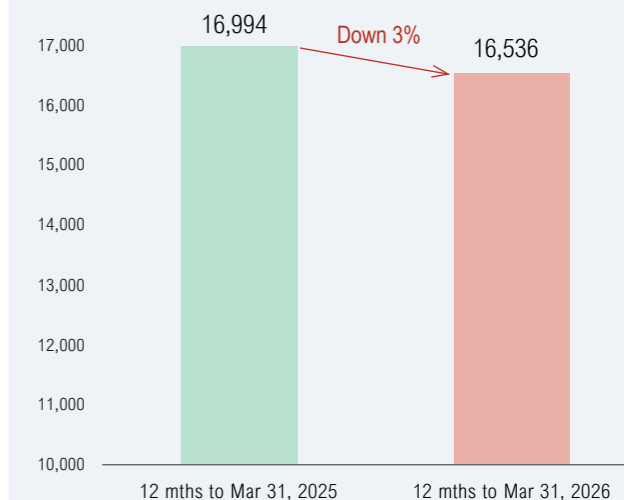


Figure 2: European deals Q1 2025 vs Q1 2026

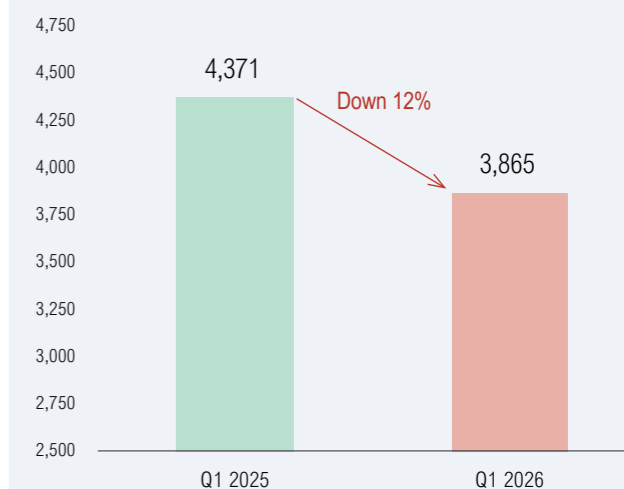
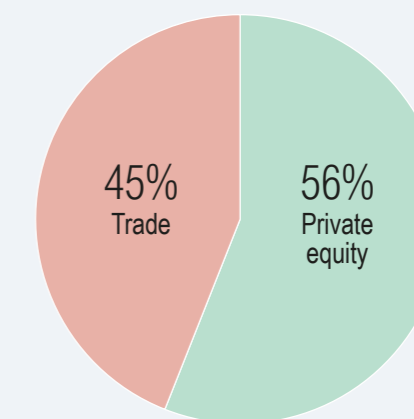


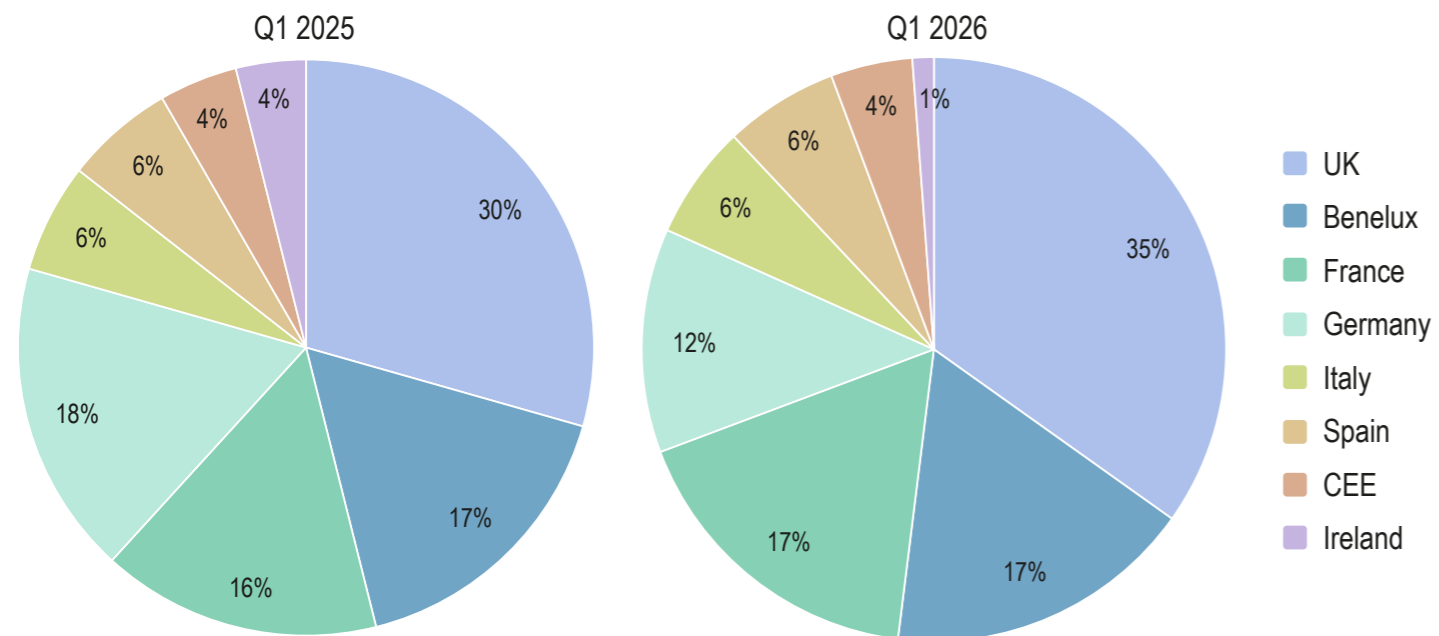
Figure 3: European private equity vs trade deal volumes Q1 2026



Source for figures: 1, 2 & 3: Mergermarket database. Copyright © 2026, ION. All rights reserved. Mergermarket search criteria in the Appendix*.

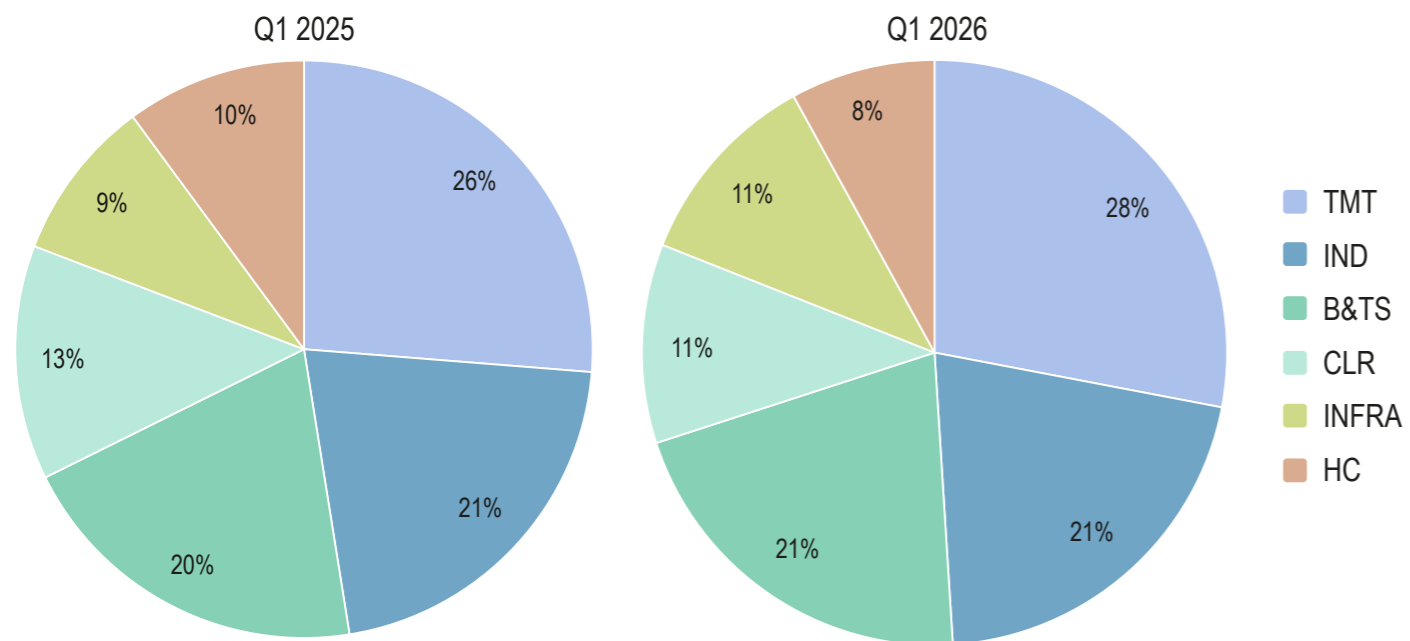
European overview

Figure 4: Private equity buyout volumes in Europe, split by region



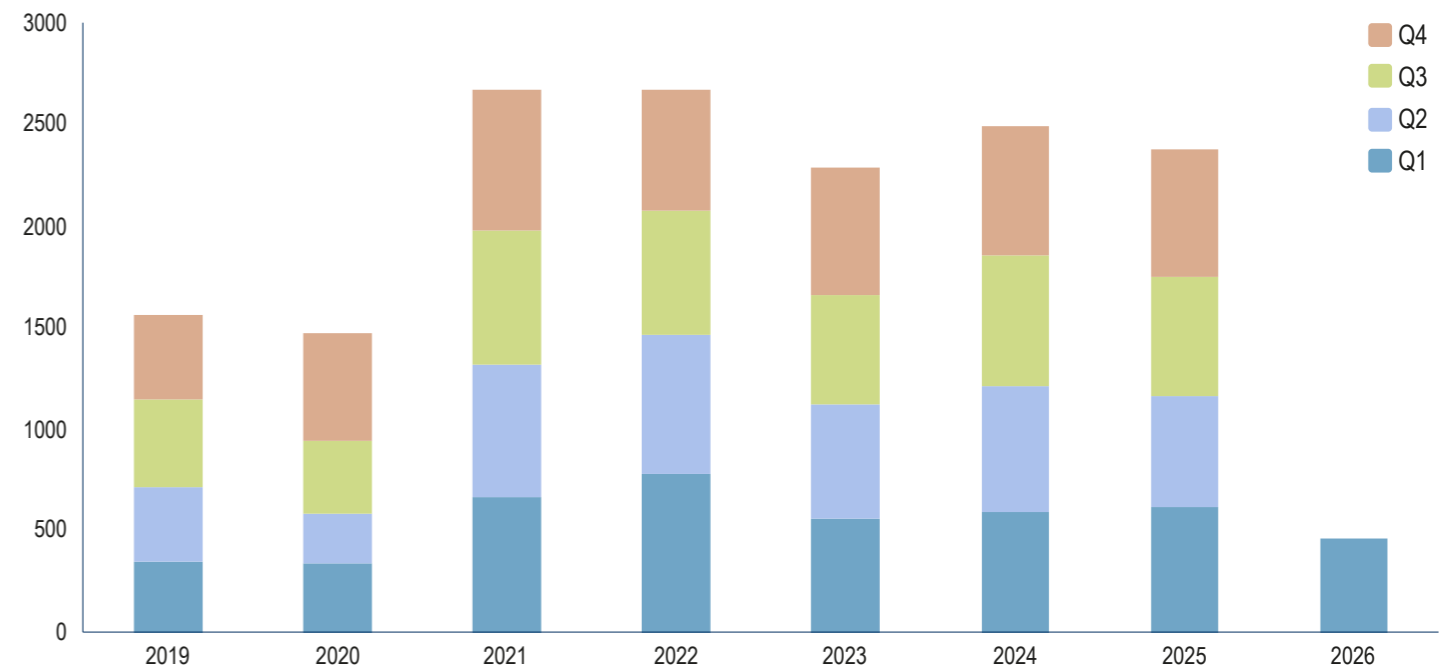
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Figure 5: Private equity buyout volumes in Europe, split by sector



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Figure 6: Buyout volumes in Europe (>75m GBP) – Q1 2019 to Q1 2026



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Tim Morris
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Andrew Strudwick
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Director

Market pressures and our initial outlook for 2026

In the UK, private equity is facing a significant backlog of unrealized capital, as extended hold periods and sustained exit scarcity have driven distributions to their lowest levels since the Global Financial Crisis⁷. This has created a pronounced liquidity squeeze for LPs, forcing GPs to rely increasingly on continuation funds as a stopgap. At the same time, many funds remain materially behind their deployment schedules.

At the start of 2026, we were optimistic that deal activity would improve in the near term, driven by mounting investor pressure for private equity to transact against a stabilizing macro backdrop. Interest rate cuts through 2025⁸ helped normalize financing markets, improving visibility on the cost of capital, and supporting buyer confidence. We also expected a continued narrowing of valuation gaps and a broader re-engagement from strategic buyers, together underpinning a recovery in activity through 2026.

Renewed geopolitical uncertainty and a revised outlook

However, a renewed layer of geopolitical uncertainty driven by the conflict in Iran has shifted this outlook⁹. The combination of rising inflationary pressures and the threat of interest rate increases¹⁰, alongside historically low consumer confidence¹¹, has reintroduced yet another round of volatility into UK markets. Supply chain disruption linked to the region is particularly impacting energy-intensive sectors¹², increasing input costs and complicating deal economics.

While UK M&A activity has not stopped outright, it is clearly being impacted. We are seeing volumes being suppressed, timelines extending, and valuation gaps widening for businesses with exposure (direct or indirect) to affected regions. PE buyer behavior has become more cautious, with many adopting a “wait and see” approach, once again delaying decisions or pausing processes entirely.

For those funds that are not under significant pressure, we believe they will use this time to see what autumn brings. Similarly, for those more risk-averse funds, the priority again will be to protect the value in the portfolio and mitigate risk. At times like this when new deals can feel difficult, the alternative is to invest in existing assets through buy-and-build strategies and deploy capital to proven winners rather than pursuing new deals. When you can't price risk, a lot of funds won't take the risk.

For sellers navigating this environment, there will be heightened focus on transparency and preparation. Processes are

becoming again more protracted, with deeper diligence and increased scrutiny. Demonstrating resilience is critical, particularly through diversification of revenue, supply chains, and customer exposure. Clear articulation of how geopolitical disruption impacts the business across logistics, cost base, demand and financing is now essential.

Pricing barriers and buyer dynamics

Price remains the biggest roadblock to deal completion. While the buyer-seller expectation gap has been narrowing since the interest rate shock of 2022¹³, it still stands out over other roadblocks. We have seen sellers anchored to premium pricing while buyers demand more evidence of value through proven resilience and downside protection.

We are also seeing high competition from private equity funds for a limited supply of high-quality assets, which is driving up pricing and seller expectations for those “best in class”. For many assets below “A”-grade, buyer diligence is stricter, and they face more headwinds to close.

We would advise sellers to enter the market prepared, armed with reliable financials, clear forecasts, and realistic expectations to have the best chance of securing a successful exit.

In our view, private equity funds can help to narrow the gap by tempering their valuation expectations for all but “The Best” businesses. Accepting lower returns still equates to returned capital and can facilitate exits.

Shifting asset preferences

In this uncertain geopolitical environment, capital is increasingly being directed towards domestic UK sectors that are non-discretionary in nature, including Infrastructure-linked services and mission-critical B2B businesses. Investors are prioritizing assets that offer insulation from macro uncertainty, with resilience, earnings visibility, and stability becoming central to investment cases and downside protection outweighing higher growth but more volatile opportunities.

- This shift is further reinforced by the growing structural threat posed by AI which has intensified significantly this year¹⁴. Whilst specialist technology funds remain active in software and data, more generalist private equity funds are adopting a more cautious stance and are rotating away from these sectors.
- We are also seeing a clear rotation away from “white-collar” towards “blue-collar” business models with buyer appetite increasingly focused on businesses with tangible, physical

outputs and with lower exposure to technological disruption or obsolescence. Consequently, Industrial and Infrastructure assets are firmly back in focus, including those with defense and aerospace exposure.

Buyer selectivity requiring more pragmatic seller expectations

On the buy side, competition for high-quality assets remains intense, continuing to support elevated pricing for “best-in-class” businesses. For assets below this top tier, however, buyers are applying significantly greater scrutiny, resulting in longer processes, increased execution risk, and a higher incidence of failed or withdrawn transactions. This is reinforcing an increasingly bifurcated market, where a small number of premium assets continue to transact successfully at strong valuations, while the majority face more challenging execution dynamics. At the same time, defining what constitutes “best-in-class” is becoming increasingly complex and harder to identify, as diligence expands to incorporate a broader range of considerations, including tariff exposure, AI-related disruption, and evolving geopolitical risks.

On the sell side, private equity funds have an important role to play in narrowing this gap by adopting a more pragmatic and flexible approach to valuation expectations on exit. Many sellers are still anchored to historic valuation benchmarks, slowing

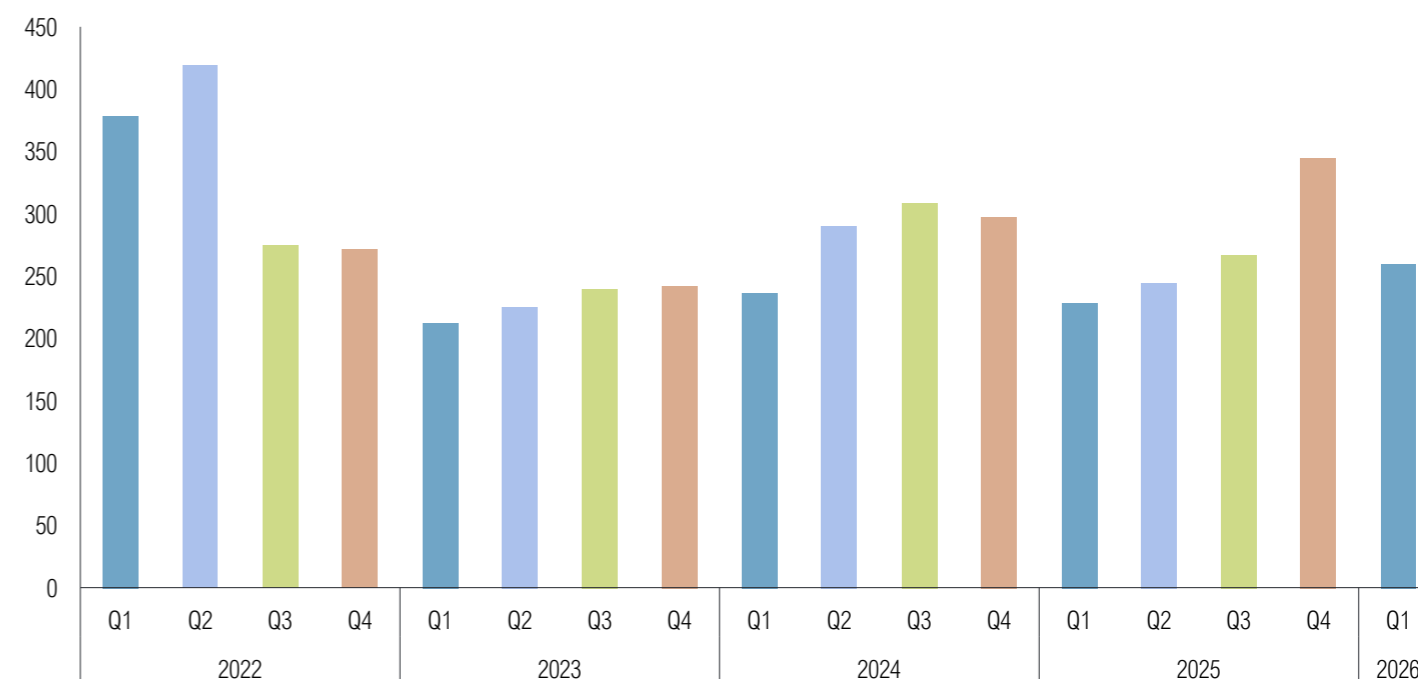
price discovery and contributing to continued friction between buyers and sellers. In certain cases, accepting lower returns may be necessary to facilitate liquidity, return capital to LPs and ultimately unlock broader deal flow across the market. Without this adjustment, we believe execution risk will remain elevated, and deal flow constrained across much of the market.

Structural imbalance underpins medium-term recovery

Despite near-term uncertainty, we remain constructive on the medium-term outlook. While timing remains contingent on geopolitical developments, the structural drivers underpinning deal activity are firmly in place. A significant backlog of unsold private equity assets, alongside elevated levels of undeployed private equity capital, continues to support a sustained supply-demand imbalance, creating a strong foundation for a recovery in deal volumes.

However, in the context of ongoing market dislocation, we are optimistic for a measured restart to sell-side activity as a number of assets prepare for exit, but relatively few processes expected to launch in the near term. Assuming conditions stabilize, we would expect a reopening of processes post-summer, re-establishing momentum and driving a progressive build in activity through late 2026 and into 2027.

Figure 7: Buyout volumes in the UK (>75m GBP) – Q1 2022 to Q1 2026



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Paul de Hek
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Activity remains steady

Deal activity in the Benelux region has remained steady over the past year, with Q1 numbers closely matching the previous three quarters (see fig. 8). The economic environment continues to be impacted by geopolitical events, including a volatile Euronext stock market¹⁵, rising inflation¹⁶, and ongoing tariffs impacting export activity¹⁷.

Navigating pricing dynamics and buyer behavior

The current uncertainty is difficult for buyers to price-in, leaving them hesitant to commit to processes. We are seeing more time allocated to due diligence processes and internal decision-making as well as increased reliance on wider team 'buy in'. As a result, buyers are less likely to commit time and money to a process unless they believe they have a realistic chance of 'winning' the deal.

On the other hand, there is a lot of equity available and awaiting deployment. When buyers identify rare situations where resilience is evident and clear opportunities for growth or synergies exist, they act decisively. In such cases, pricing becomes very competitive as parties move swiftly to secure value.

Examples where such a dynamic was at play include the acquisition of Zwart by Seven2 last November¹⁸, and the more recent acquisition of BUKO by GBL in April¹⁹. Both Zwart and BUKO are blue-collar, northwestern Europe focused companies where both AI and geopolitical events are of limited impact. Such blue-collar business models that were once perceived as 'boring' are now attracting more investor interest and attractive pricing.

In other sectors where resilience and growth avenues are less obvious, M&A processes continue to be extended. For instance, tech-enabled business models face considerable uncertainty today due to factors like the possible influence of AI on profit sustainability. CEOs in these sectors can have a highly focused perspective on how AI impacts their industry and company, often viewing it primarily as an opportunity rather than a risk. However, conducting thorough due diligence on this topic from the outset presents challenges, resulting in limited deal flow within this sector.

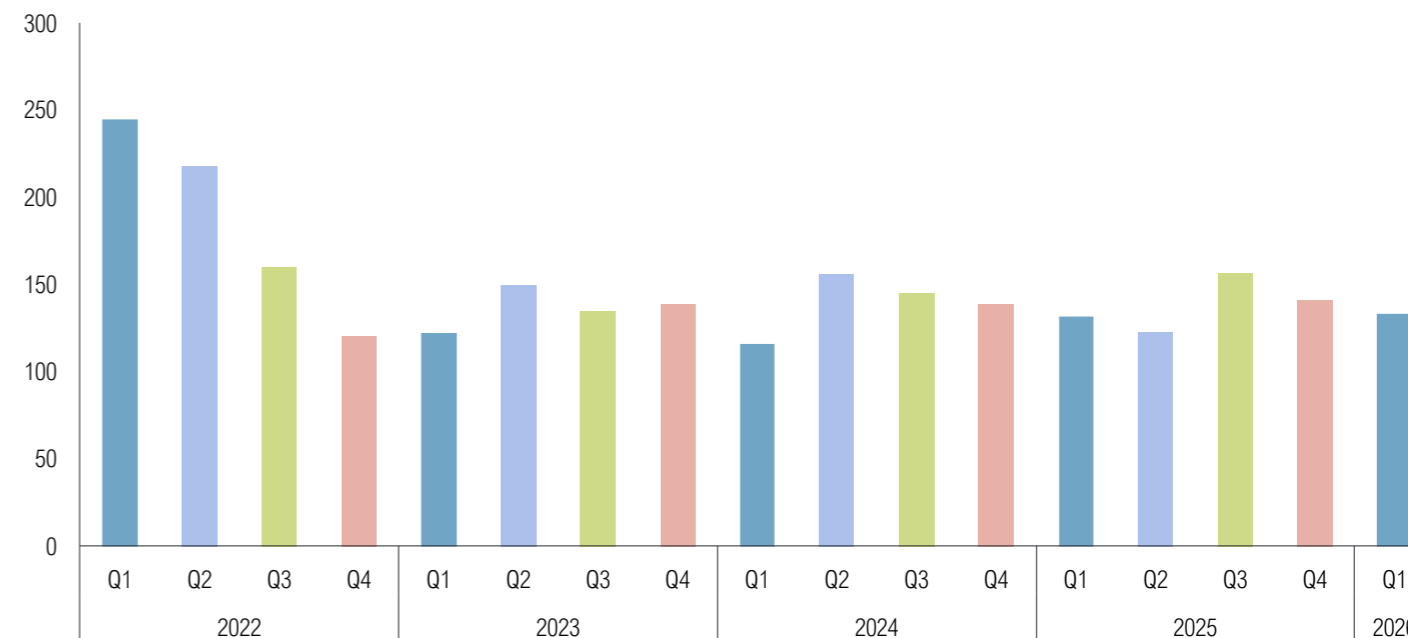
Targeted transactions

As a result of slow buyer commitment and long processes, we are seeing an increase in 1-on-1 deals and controlled auctions (where only a handful of trade bidders are invited). Given that many investors need to demonstrate DPI to their LPs while managing longer average holding periods and expanding portfolio sizes, there is a strong preference to mitigate the risks associated with broadly initiated but unsuccessful exit processes. Another driver of deal flow resulting from widening private equity portfolios is a willingness to clean up and exit some longer held assets, with deal certainty being arguably a more important driver than price itself.

AI shaping future activity

We anticipate that AI's influence, opportunities, and risks for various business models will become clearer over the next 12 months. After this period, we believe its impact will keep evolving, but it should become easier to evaluate. If this coincides with a more stable geopolitical landscape – in which western countries avoid conflict, embrace open trade, and cooperate – it could spark strong deal flow next year. At that point, private equity investors may both streamline their portfolios and deploy unused capital.

Figure 8: Buyout volumes in Benelux – Q1 2022 to Q1 2026



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Central & Eastern Europe (CEE)

EUROPEAN COVERAGE



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Western Europe leads, CEE follows

CEE has typically followed M&A trends in Western Europe with a slight delay. That lag time is not just in sentiment drifting eastwards; it reflects how investors behave in practice. When there is a ‘boom’ or recovery in the West, sponsors and corporates naturally prioritize exits of larger assets based in that locale. By contrast, CEE assets are smaller and carry an additional geographic and currency discount. As a result, they tend to move up the priority list only once the primary Western markets have reopened meaningfully, and competition for opportunities there is strong.

In a soft, buyers’ market as we are currently seeing, this is exacerbated by the lack of competition. The valuation gap is largest for smaller assets outside of Poland, especially for domestically-focused businesses in smaller CEE markets.

Looking ahead to 2026, that creates a cautiously supportive backdrop. With major investment banks reporting very strong starts to the year across both advisory and trading, and deal activity in Western Europe beginning to firm, the conditions for a gradual pickup in CEE transactions are improving. The open question is not whether the recovery reaches the region, but how quickly and how far it travels.

Poland and the rest of CEE: a two speed market

The most important structural divide within CEE remains the gap between Poland and the rest of the region. Poland has achieved a scale that puts it in a different category altogether. GDP is now comfortably above \$1 trillion²⁰, and the effective population is nearly 40 million²¹. Poland is the CEE market where international investors from Western Europe and North America feel the greatest level of comfort. It is large enough to sustain fully competitive sale processes with credible domestic buyers alongside international interest. Historically, the Warsaw Stock Exchange has also provided a viable IPO route²², which helps to underpin valuations. With GDP growth running at around 3.6%–3.7% a year²³, confidence in underlying business fundamentals has largely held up.

Outside Poland, conditions are far more uneven. The Czech and Romanian markets are the next most sizeable after Poland. The Czech market is mature and undergoing expansion²⁴; while Romania’s larger population²⁵ and wider catchup potential to Western markets continues to attract significant attention as a growth market. Despite elevated sovereign risk in Romania and a high debt to GDP ratio²⁶, we continue to see significant investor interest in Romania.

Other CEE markets are smaller, and accordingly, domestic buyer pools are narrower, and competitive tension in M&A processes is harder to create.

Market observers continue to watch for triggers in certain CEE geographies where cross-border M&A has been depressed in recent years.

- Political changes in Hungary may prompt cautious re-engagement from some investors who had effectively avoided the country for years, deterred by policies seen as hostile to foreign capital²⁷. The question now is how quickly the new government moves to unwind those policies and whether investors are willing to return before a track record is reestablished.
- Bulgaria’s accession to the Eurozone from 1 January 2026²⁸ has been a significant step to improving macro risk in the country
- A sustainable peace in Ukraine would represent a powerful trigger for investment into the country, as well as the entire Eastern flank of Europe from the Baltics to South-Eastern Europe

Exit backlog: sponsors start to act

One of the more notable developments in 2025 was a shift in sponsor behavior. After years of delay, private equity firms began bringing assets to market that had been held well beyond their original investment horizon. In most cases, this was not driven by optimism about market timing, but necessity.

We saw several processes launched, paused, and relaunched over the course of two or even three years, before eventually completing at prices that reflected current market conditions rather than original return expectations.

The consumer sector provided some of the clearest examples. A number of transactions completed last year involved assets held by sponsors longer than planned, and they recognized that waiting longer was unlikely to materially improve the outcome. Examples include Enterprise Investors’ exit from Intersport ISI to the Austrian Intersport group²⁹, MidEuropa Partner’s sale of Imlek³⁰, and Valeo Foods Group’s acquisition of Prestige-96³¹.

It is also important to note the nature of the LP base in CEE. Unlike many Western European funds backed heavily by pension funds and endowments with defined distribution expectations, a significant proportion of CEE capital comes from development finance institutions such as the EBRD³² and IFC³³. These investors are potentially more tolerant of extended holding periods. Nevertheless, regional PEs report pressure to selectively monetize inter alia to support their ongoing fundraising efforts.

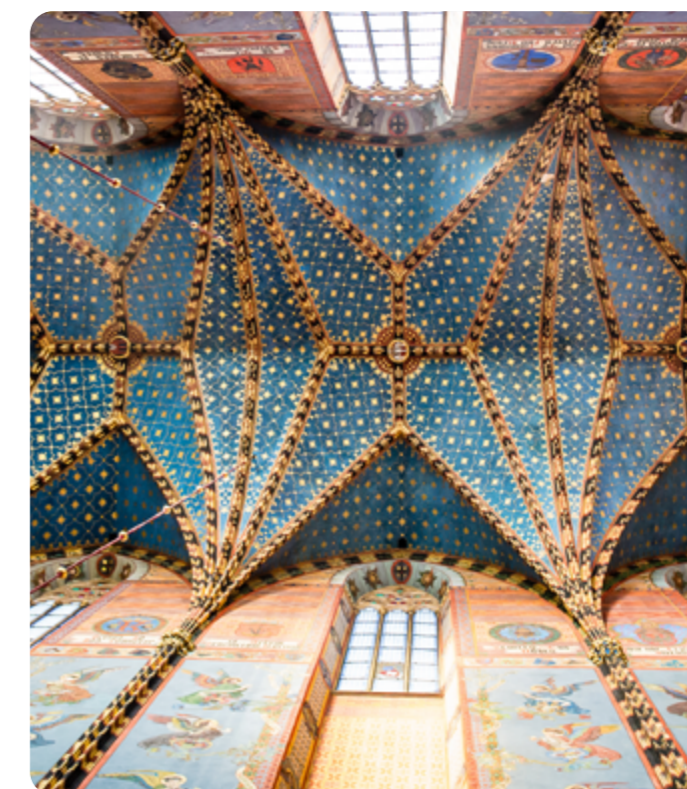
Macro risks complicate pricing

The macro environment heading into 2026 is more challenging than many sponsors and management teams had hoped for a year ago. Expectations of falling inflation, easing rates and more predictable trading conditions have given way to a mix of geopolitical uncertainty, energy price volatility and cost pressure in key inputs. All of this is making pricing deals harder.

The Middle East remains a live risk factor. Any escalation could push energy prices higher, putting pressure on consumer-facing businesses and increasing EBITDA volatility. A de-escalation that stabilizes oil and gas markets would clearly improve conditions, but for now that remains uncertain.

Agricultural input costs are another risk, particularly for CEE economies with large exposure to grain production. Fertilizer costs remain high, and the next planting cycle will absorb those elevated prices. For food producers and agri-linked supply chains, this introduces another layer of margin pressure.

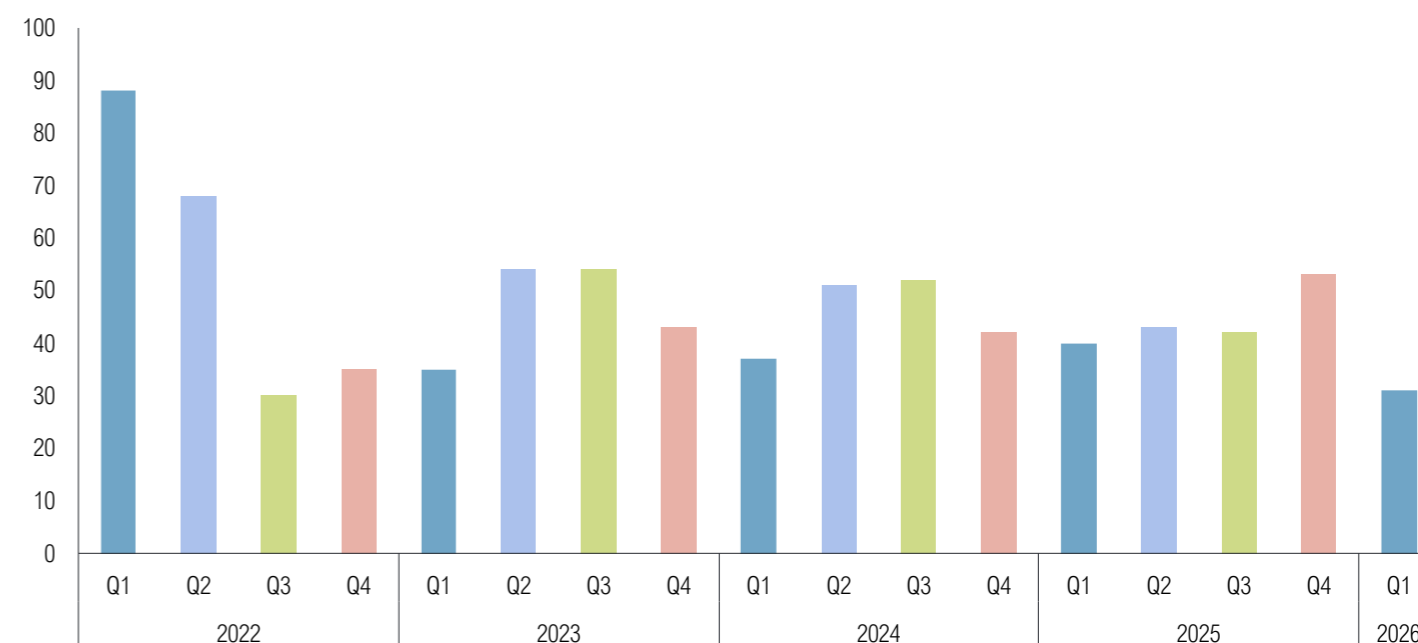
current market rewards flexibility, deep investor relationships, and a willingness to stay engaged throughout. These qualities increasingly define the most effective mid-market advisors in CEE, and in 2026 they matter more than they have in years.



Why execution matters more than ever

Perhaps the clearest takeaway from the current environment is the premium on execution. In a buyers’ market as we see today, where competition is limited and deal processes are prolonged; a broad standardized auction process is not as effective. The

Figure 9: Buyout volumes in CEE – Q1 2022 to Q1 2026



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Stefan Jaecker
CEO

A slow but steady start

While current Q1 2026 figures demonstrate a slow start to the year, our market observations and the team's activity suggest a different picture. We anticipate these numbers will increase once all business transactions are logged given the steady stream of activity in the DACH region.

Shifting valuations for Technology

In the DACH mid-market, the biggest gaps between buyer and seller expectations continue to sit in the middle ground: assets that are not distressed and are performing reasonably well, but do not stand out as clear top-tier businesses. For genuinely high-quality assets, however, the picture is very different. Where a business performs strongly and clearly ticks the right boxes, competition has returned and we observe valuation multiples are, in some cases, close to what we saw in 2021.

The valuation disconnect is most visible in Technology & Software. Across the region, many private equity-owned software businesses are trading at a discount as buyers reassess business models considering AI. Where AI is perceived as a threat to the durability of revenues or the relevance of a product, valuations have come under pressure. At the same time, software businesses that can be positioned as AI-enabled, or that benefit directly from AI, are still able to attract premium pricing. As a result, success increasingly depends on clearly explaining the long-term viability and competitiveness of a business model.

Renewed focus on tangible sectors

Buyer interest has shifted noticeably towards businesses with tangible outputs and more traditional operating models. Industrial assets are firmly back in focus, particularly those where AI disruption is limited or less immediate. Businesses involved in production, refineries, engineering and manufacturing – things you can physically see and touch – are attracting more attention. We anticipate this shift will drive increased deal activity in related sectors, including Business Services, Infrastructure and Healthcare.

A number of Industrials manufacturers or suppliers with historic exposure to automotive or other industrial end markets are assessing whether their existing technical capabilities can be applied to Defense or related uses. In many cases, this is less about pivoting into something entirely new and more about repurposing established engineering expertise. This kind of diversification reflects both demand dynamics and a wider reassessment of long-term positioning.

For sectors where the impact of current geopolitical tension is more indirect, this uncertainty has sharpened focus on operational efficiency, supply chain resilience, working capital management, and flexibility. Proven activity during Covid is highly valuable, with buyers assigning credibility to companies that were able to perform through periods of recent disruption.

Pressure and pricing trends

On exits, pressure remains across the fund landscape. LPs have not seen meaningful distributions for some time and are increasingly focused on returns and capital allocation. Fundraising is open again, but only for the strongest managers. Well positioned platforms are raising sizeable funds, while weaker players are struggling. This dynamic is driving more pitching activity and a more active market beneath the surface, even if a full release of pent up exit volume has yet to materialize.

Pricing behavior has also shifted. Buyers and sellers are both becoming more flexible, but also more selective. Some deals are completing today that, in our view, would not have progressed six months ago, often through bilateral discussions where pricing compromises are reached privately rather than through public processes. At the same time, the market has moved away from chasing obvious trends. Investors are far less inclined to follow the next sector “wave” and are instead focusing on asset specific fundamentals, resilience and risk.

A solid but subdued outlook for DACH

Geopolitical tension continues to shape DACH market activity and investor sentiment, particularly around energy-intensive production and supply chains. Tensions involving the Middle East and the ongoing war in Ukraine have reinforced caution in certain sectors, such as Chemicals and steel manufacturing.

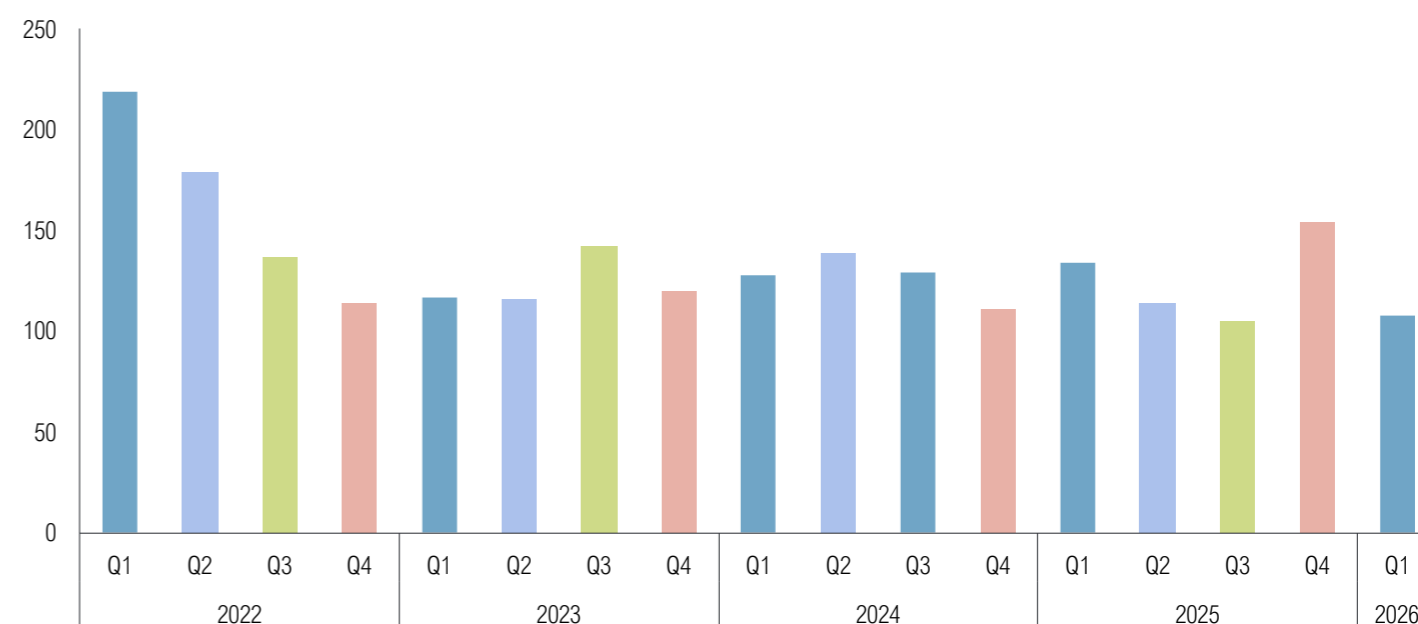
At the same time, there are reasons for cautious optimism. Recent trade agreements with South America³⁴ and India³⁵ represent an important positive development for Europe after years of negotiation. These deals will open new opportunities for exporters and could help rebalance trade at a time when other geopolitical factors are creating friction. For DACH businesses, this should create scope to diversify export markets and reposition growth strategies and support M&A activity over time.

Looking ahead, we believe the outlook for private equity in the DACH region remains solid, if subdued. Optimism is constrained by ongoing conflict and uncertainty, but underlying

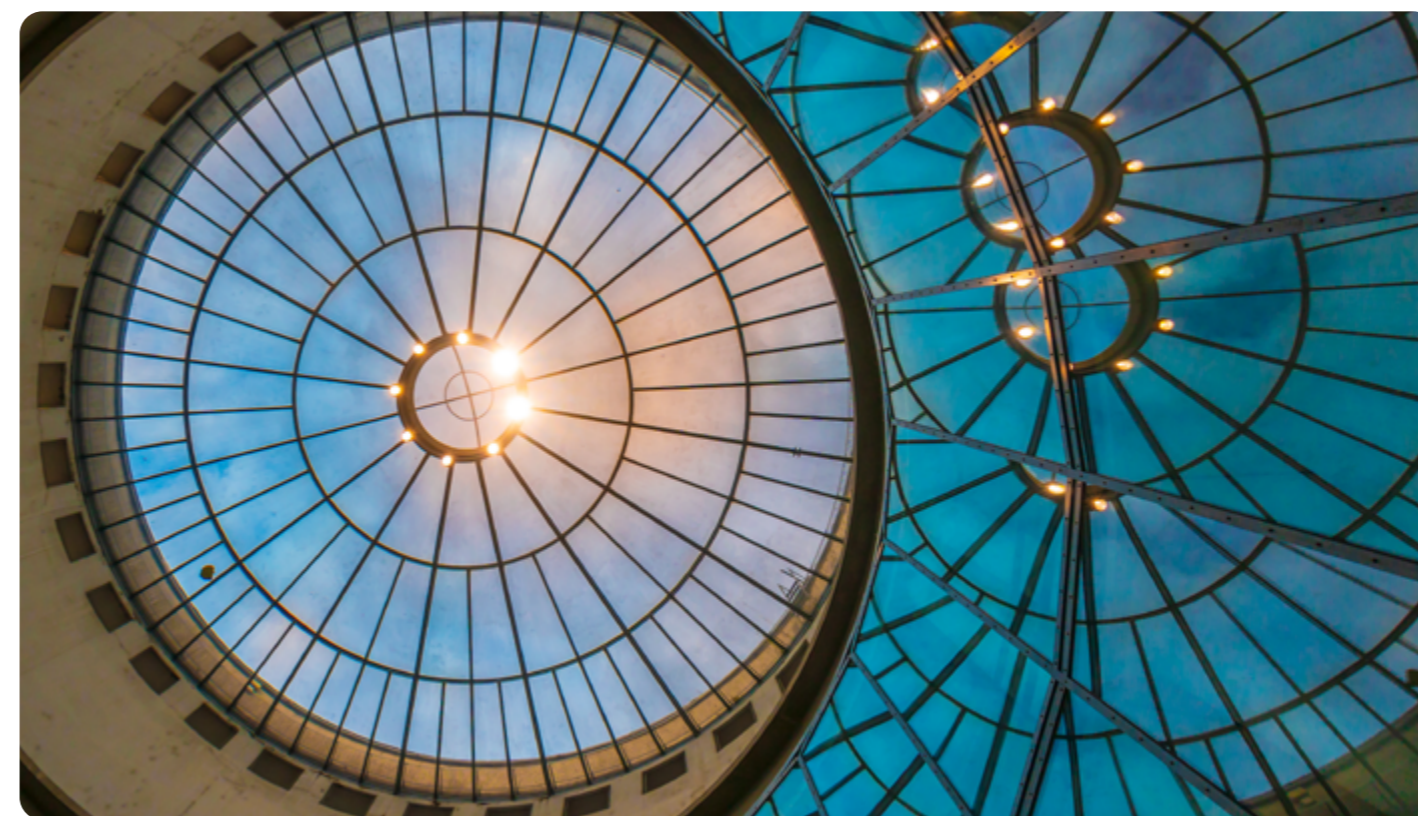
demand for resilient, well-run businesses is firmly in place. As conditions evolve, we believe value will increasingly be unlocked by companies that have used recent years to strengthen their

business models, improve efficiency and demonstrate they can withstand external shocks, rather than by reliance on favorable market cycles alone.

Figure 10: Buyout volumes in DACH – Q1 2022 to Q1 2026



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A cautious quarter

This past quarter, private equity in Italy has turned more cautious – deal value and deal count has decreased QoQ (see fig. 11) and we see add-ons and club deals on the up.

In Italy, in particular, we see that the euro amount of divestitures decreased 20% from 2024³⁶, putting further pressure on 2026 as liquidity backlog increases.

In this scenario, many GPs are prioritizing realizable liquidity, which is pushing a barbell approach on routes: trade sales as a way of divestiture decreased to 36% from 44% in 2024 (in terms of amounts) and exits to ‘financial institutions / private individuals / family offices’ decreased to 3% from 17% in 2024³⁷. At the same time, exits to other private equity firms (including continuation vehicles) increased to 44% of total divestitures from 35% in 2024³⁸.

A ‘two-speed market’ for valuations

We see the widest valuation gap for assets tied to peak-cycle assumptions – particularly 2019-22 vintage entries. Buyers are underwriting in a structurally different return environment that rewards delivery over multiples expansion, and Q1’s geopolitical shocks have reinforced the risk premium. The gap is narrower for those resilient, well-prepared assets with clean reporting, credible cash conversion, and a clearly executable value creation plan.

This ‘two-speed market’ has been reinforced this past quarter as value remains concentrated in a smaller set of high-conviction deals alongside more syndication (club deals) and a rising share of add-ons – signs of selective risk-taking. By contrast, more complex stories face slower processes, heavier diligence, and wider pricing dispersion.

Where valuation flexibility is emerging, it’s typically targeted on more cyclical assets, and often achieved via structured solutions rather than pure headline repricing, reflecting the ongoing need to reconcile buyer caution with sellers’ anchoring.

We expect convergence to come from improved financing confidence, near-term earnings proof points, and more frequent use of structured mechanisms (earn-outs / deferred consideration) to bridge uncertainty.

A shift to the ‘old school’

In Italy, Q1 2026 saw a shift in private capital deployment away from tech-related business services and towards more “old school” sectors. Investors are increasingly mindful that rapid AI adoption is compressing value in parts of the tech stack, both through direct substitution and indirect pricing pressure. We see investors actively managing portfolios by limiting incremental exposure to AI disruption and leaning into sectors like Industrials, Infrastructure, and Consumer; where growth is structural, and earning profiles are more visible and regulated.

Geopolitics is translating less into a blanket risk-off mood and more into clear sector dispersion. The key transmission channels – energy prices, supply-chain and logistics disruption,



and tighter financial conditions – are disproportionately hitting energy and transport-intensive businesses, while favoring those tied to Defense, security, energy resilience and selective infrastructure or digitalization.

Against this backdrop, sellers are increasingly replacing generic “resilience” narratives with evidence-based diligence packs: sanctions and export-control mapping (including indirect exposure), detailed supply-chain contingency plans, and profit-and-loss stress tests to demonstrate pricing power under energy volatility.

Separating noise from true risk

Buyers are increasingly separating headline geopolitical “noise” from true operational risk by running a fact-based exposure map:

- (i) Sanctions and counterparties (including indirect links that could trigger secondary sanctions)
- (ii) Supply-chain and logistics dependencies
- (iii) Profit-and-loss sensitivity to energy, FX and freight shocks, including pass-through pricing

In the current environment, energy disruption risk is recognized as measurable, so investment committees are focusing less on where a company is located and more on whether it has real pricing power and dependence on bottleneck routes. Deal teams are also translating these findings directly into

transaction terms (earn-outs, MAC clauses, sanctions warranties, covenants), which helps bridge the gap between perceived exposure and bankable, underwritten exposure.

Futureproofing is about turning “geopolitical risk” into underwritable, contractable items. In practical terms for dealmakers: run a fact-based exposure map then hard-wire risk allocation into terms to keep deals executable and reduce re-trade risk.

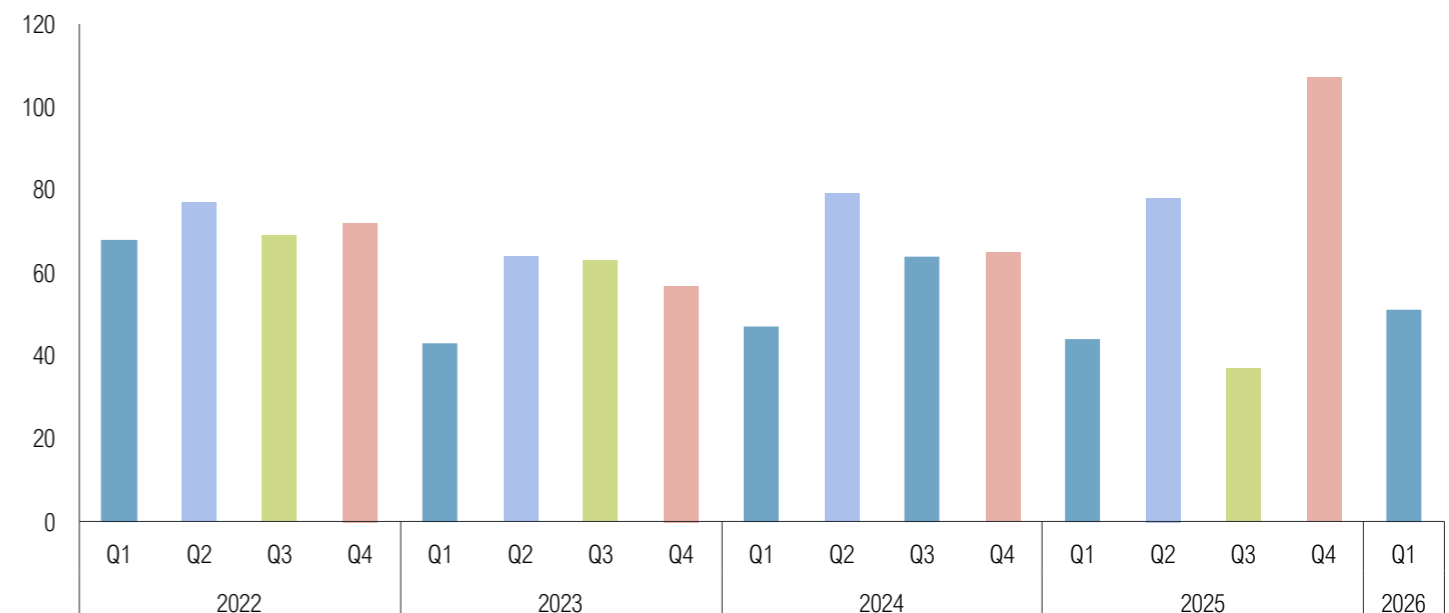
Greater strategic confidence to drive Italy activity

We expect activity in the Italy mid-market to improve but investors to remain selective. We anticipate the ‘two-speed’ dynamic will remain, where top-tier, resilient assets clear at strong valuations, and cyclical/complex assets face slower processes and wider pricing dispersion.

Underpinning this outlook is the fact that dry powder remains structurally elevated and the need for realizations is acute, which should keep deal pipelines active and support a gradual pickup in exits – especially as strategic buyers re-engage and financing confidence improves.

A strong re-engagement of strategic buyers would act as a genuine “release valve” for exits and liquidity across the ecosystem. We have already seen meaningful recovery in global activity in 2025, and more strategic demand would translate into more competitive tension and smoother exits in 2026.

Figure 11: Buyout volumes in Italy – Q1 2022 to Q1 2026



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César Garcia
Managing Director



Cautious investors focused on non-cyclical businesses

Valuations in the market are highly dependent on sector, with the biggest gaps between sellers and buyers appearing for Technology assets. While founders are improving gross margins and growing in revenue, investors are under pressure and concerned about how business models will evolve and sell considering the question marks around AI disruption in software.

Investor sentiment is cautious, if not overly cautious. Businesses operating in sectors with international exposure, be it through supply chains or reliance on energy supply, carry more risk, whereas domestic-oriented assets are perceived as safer investments.

Against current geopolitical uncertainty, focus has narrowed to mission critical, B2B, non-cyclical businesses. Those businesses that can demonstrate revenue generation, sticky cash flow, and good pricing power are favored.

Top-tier assets are still achieving high multiples and attracting attention from private equity and strategic investors. Investors are still willing to pay premium for top-tier assets.

Pre-marketing is essential for buyer buy-in

We have observed reluctance from buyers to join competitive processes with lots of funds in play, preferring to engage selectively. There is a strong desire to avoid spending time on

opportunities where transaction likelihood is low. As a result, effective pre-marketing and creating a positive environment between sellers and buyers have become critical.

In this way, we are seeing an increase in interest for refinancing and extending investment periods, with requests for secondary transactions and financing solutions becoming commonplace.

Similarly, while banks and debt funds remain active, they are displaying even greater caution than private equity investors. The availability of debt for leveraged buyouts is increasingly restrictive, making pre-sale refinancing more common than it was a year ago. This approach mitigates risk for sellers and is now a typical step we observe before pursuing an exit.

Strengthening portfolio assets

Many funds raised in Spain in the pre-Covid years are approaching the end of typical holding periods, with the 'edge of the cliff' expected around 2028 / 2029. Investments made in 2021 and 2022 are now reaching their fifth or sixth year, contributing to the growing backlog of portfolios. While fundraising is more challenging than in previous years, successful exits remain essential for raising new funds. However, LPs are generally reluctant to push for exits in the current market, recognizing that premature exits could harm asset value. There is pressure to strengthen existing portfolio assets gradually – exploring add-on acquisitions, demonstrating cash generation, building incremental value – rather than attempting multiple exits and new investments in a single year.

Unlocking a more favorable exit environment depends on the ability of private equity to generate value and cash flow within their portfolio. If businesses have been refinanced and have realized recapitalizations, valuations may become less critical during exits, especially when the need for liquidity can drive sales.

Generating value throughout the investment period, i.e. through M&A activity, can allow for strategic sales at reasonable multiples, rather than holding out for the highest possible valuation.

Energy independence crucial for investment

Against the geopolitical tensions on energy supply, countries are looking to become more 'energy independent'. Businesses providing services related to energy – from engineering to optimization or maintenance – are receiving increased government investment to strengthen infrastructure and revenue generation capabilities.

Spain is the top fifth generator of electricity in Europe⁴¹, with three consecutive years of GWh exports exceeding its imports⁴². Renewable energy makes up two-thirds of Spain's energy production, roughly 10% more than the European Union average⁴³. As such, despite the spike in energy prices⁴⁴ and inflation⁴⁵, Spain's economy has maintained its growth

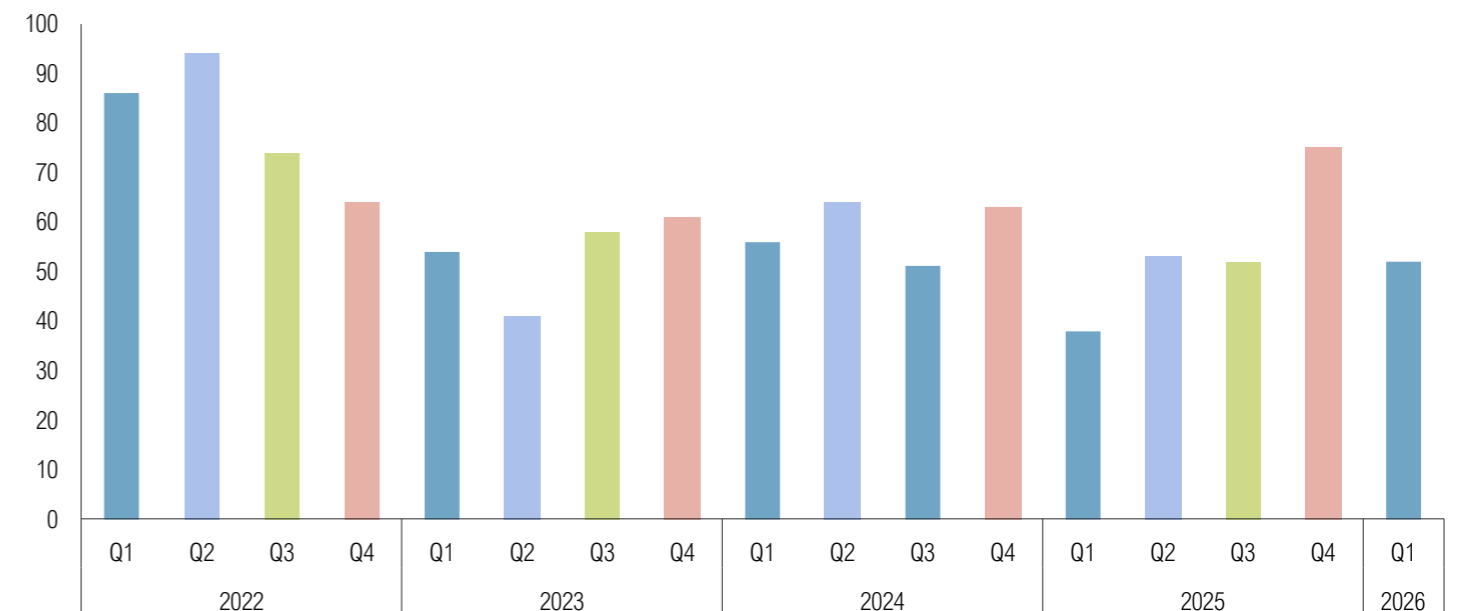
rate⁴⁶ this past quarter. This positive outlook is reflected in the increased interest from pan-European investors and the opening of new offices by major investment groups, such as IK Partners⁴⁷ and Bluegem Capital Partners⁴⁸.

Economic growth in Spain fuels positive outlook

Our outlook for Spain remains positive as the economy grows⁴⁹ despite global disruption; thereby attracting foreign investment and bolstering domestic activity, as well as supporting the growth of critical sectors such as engineering and energy production. For private equity, we believe this year is vital to begin realizing portfolio investments, especially those reaching five- or six-year holding periods. We anticipate the strategy of targeted pre-marketing and exploring bilateral transactions to avoid overcrowded processes will continue to dominate exits this year.

With substantial dry powder available and investors increasingly focused on specific targets, the environment is set for constructive dealmaking. However, deal momentum could still be affected by changes in the geopolitical situation: while a ceasefire would improve sentiment and accelerate activity, the opposite will be true if Europe becomes more directly involved in conflict.

Figure 12: Buyout volumes in Spain – Q1 2022 to Q1 2026



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For the first time, DC Advisory and Daiwa Securities Group brought their global DC FEST programme to Tokyo late last year, bringing together DC Advisory bankers across Europe, the US, and Japan, with leaders from over 100 Japanese corporations. The forum was designed for the exchange of first-hand perspectives on strategies and approaches to navigating Western-led M&A deal processes.

Drawing on the insights from Japanese corporate players and leveraging three decades of Japanese cross-border M&A expertise, DC Advisory's Asia Access team discusses the drivers shaping inbound and outbound activity in the latest Asia Market Access report.



Tosh Kojima
Managing Director



Endong Zhai
Managing Director

Japan

For decades, the story of Japanese business was one of unrealized potential; large companies sat on mountains of cash, protected by complex webs of cross-shareholding (*keiretsu*) that valued social harmony over shareholder returns⁵⁰. Even after Japan began to emerge from its economic slump, the so-called lost decade, M&A remained slow to take hold. Foreign interest in particular struggled to gain traction; shoots of activity took years to surface. We call this *the quiet decade*. And we believe *the quiet decade* is truly over.

While the likes of Softbank, NTT group, and *Sogo Shosha* (the giant general trading houses such as Mitsubishi and Itochu) remain highly active in Japanese M&A activity league table, we are seeing much of the most transformative M&A being driven by a new generation of mid-sized, highly specialized B2B companies – Japan's 'hidden champions'. These firms tend to have leaner governance, faster decision-making and globally minded leadership teams. Many operate at a pace comparable to Western peers, particularly where their sector expertise is deep.

In our view, the coming year will be marked by the maturation of the Japanese M&A landscape. A critical pillar of this phase is the deepening synergy between Japanese corporates and western private equity. We are currently tracking more than 50 European funds working in close coordination with Japanese firms on outbound transactions, most notably in complex carve-outs where Japanese operational stability complements private equity financial agility. Success is reliant on a deep understanding of local intricacies.

China

In the recent past, China's cross-border M&A landscape has been defined by a paradox of trade strength and highly targeted strategic dealmaking. Despite external pressures, China achieved a historic trade surplus of \$1.2 trillion in 2025, surpassing the \$1 trillion mark by November 2025, and ending the year with a 6.6% export surge in December⁵¹.

Inbound investment and collaboration have become increasingly concentrated in the biotechnology and life sciences sectors⁵². In a reversal of historical trends, Chinese biotechs are transitioning from importers to major exporters of innovation. The total value of outbound licensing deals from Chinese pharmaceutical firms surged 161% to a record \$136 billion in 2025, with aggregate upfront payments reaching \$7 billion⁵³. High-profile collaborations with multinational giants like Pfizer, AstraZeneca, and Merck⁵⁴ – particularly in oncology and antibody-drug conjugates (ADCs)⁵⁵ – have driven this surge, as global players seek to tap into China's lower-cost, high-efficiency drug discovery pipeline.

Looking ahead to 2026, we believe the outlook for cross-border transactions remains positive. Pragmatic industrial engagement continues, particularly in sectors where Chinese technology is world-leading, such as green energy and advanced manufacturing, as well as traditional industrial sectors like automotive⁵⁶.



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