A Comparative Analysis of the US vs EU Private Equity Markets

by

Colton Wallace

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College of Business Administration

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Professor Marcia Hornung

Abstract

This project offers a comparative analysis of the private equity markets in the United States and the European Union, concentrating on the environments for fundraising, investing, and divesting, as well as broader economic factors. Notably, the EU private equity market experienced a 15% increase in capital raised during the first half of 2024, fueled by decreasing interest rates and a stabilizing macroeconomic landscape (Invest Europe, 2024). In contrast, the US market contends with higher tariff regulations and slower divestment activity, though it maintains resilience in sectors such as healthcare and consumer goods (PitchBook, 2024). Investment activity in Europe is gaining momentum, especially within the AI and defense sectors, with a favorable outlook for mergers and acquisitions anticipated in 2025 (PitchBook, 2024). While the US market remains strong, it is marked by conservative leverage ratios and a trend toward growth equity deals instead of leveraged buyouts (PitchBook, 2024). European divestment activity, although initially sluggish, is beginning to accelerate, potentially unlocking further fundraising and investment opportunities (Invest Europe, 2024). The US market is still recovering from the prolonged effects of inflation and unfavorable valuation trends, with exit activity falling below pre-COVID levels in 2023 (PitchBook, 2024). The quantitative analysis reveals differences in performance metrics such as IRR, TVPI, and DPI, with the EU market demonstrating a more stable recovery (Burgess, 2024). Strategic recommendations highlight the importance of targeting high-growth sectors, leveraging regional strengths, and diversifying investment strategies. This project emphasizes the dynamic nature of private equity markets and provides valuable insights for investors navigating the complexities of the investment landscapes in the US and EU.

Keywords: private equity, investment strategies, fundraising, divestment, economic factors, EU, US.

Spring 2025

University Honors Program Project

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Colton Wallace
Founding President

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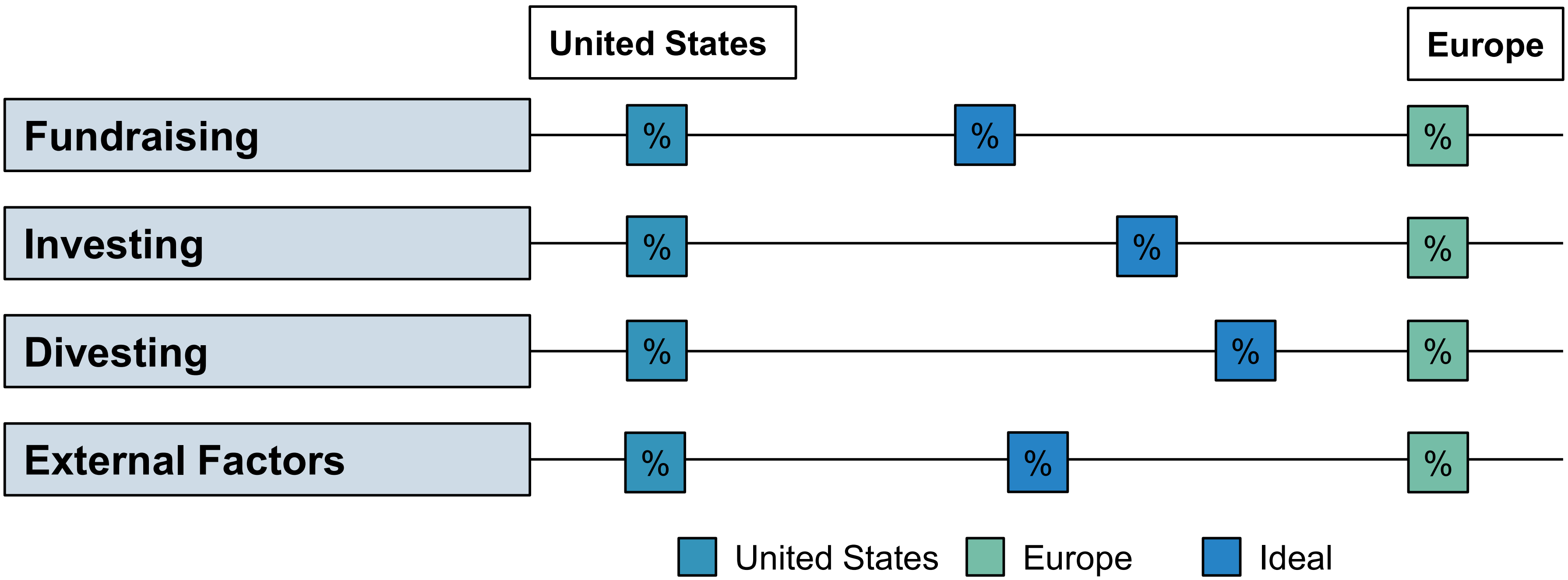

Executive Summary

Why the EU Private Equity Market is more favorable

The EU private equity market has demonstrated a stronger rebound across key areas compared to the US:

- Fundraising: The EU saw a 15% increase in capital raised in the first half of 2024, with expectations for further improvement as interest rates fall and the macroeconomic climate stabilizes.
- Investing: Investment activity in Europe is gaining momentum, particularly in AI and defense sectors, with a brighter outlook for M&A activity in 2025.
- Exits: European divestment activity, though initially slow, is showing signs of picking up, potentially unlocking further fundraising and investment.
- External Factors: The EU faces fewer tariff regulations compared to the US, providing a more stable economic environment. Additionally, the ECB's gradual reduction of interest rates supports market recovery.

Overall, the EU private equity market offers a more favorable investment landscape due to its stronger rebound, stable outlook, and fewer tariff-related uncertainties.

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Introduction

Introduction

What is Private Equity?

Definition: Private equity refers to investment funds that acquire ownership stakes in companies, typically private enterprises or public companies that are delisted from stock exchanges. These investments are made by institutional investors, such as pension funds, endowments, and high-net-worth individuals, through private equity firms.

Key Characteristics:

- Private Ownership: Investments are made in companies that are not publicly traded, allowing for greater control and flexibility in managing the company without the pressures of public market scrutiny.
- Active Management: Private equity firms often take significant control over the companies they invest in, implementing strategic changes to improve operations, increase profitability, and ultimately enhance the company's value.
- Long-Term Horizon: Investments are typically held for several years, allowing time for value creation before exiting. This long-term approach contrasts with the short-term focus often seen in public markets.

What is Private Equity?

Investment Strategies:

- Venture Capital: This strategy involves funding early-stage companies with high growth potential. Venture capital investments are typically high-risk but can offer substantial returns if the company succeeds. These investments often focus on innovative sectors such as technology, healthcare, and biotechnology.
- Buyout: Buyout strategies involve acquiring companies, often using borrowed money (leveraged buyouts). The goal is to take control of the company, improve its operations, and eventually sell it at a profit. Buyouts can range from small businesses to large corporations and often involve significant restructuring.
- Growth Capital: Growth capital is provided to mature companies looking to expand or restructure operations. These investments are less risky than venture capital and buyouts, as they target established companies with proven business models. Growth capital can be used for various purposes, including market expansion, product development, and acquisitions.
- Mezzanine Financing: Mezzanine financing offers subordinated debt or preferred equity that sits between senior debt and common equity in the capital structure. This type of financing is used to support growth, acquisitions, or recapitalizations. Mezzanine financing is typically less risky than equity investments but offers higher returns than senior debt.

Introduction

What is Private Equity?

Time Horizon: Private equity funds typically range from 7 to 12 years in duration, encompassing three main stages:

- Investment Stage (3-5 years): During this initial phase, private equity firms deploy capital into portfolio companies. This involves identifying investment opportunities, conducting due diligence, negotiating terms, and acquiring companies. The focus is on building a diversified portfolio of investments that align with the fund's strategy.
- Maturity Stage (2-4 years): In this middle phase, private equity firms focus on growing and optimizing their investments. This includes implementing strategic changes, improving operational efficiencies, and driving revenue growth. The goal is to enhance the value of the portfolio companies through active management and strategic initiatives.
- Divesting Stage (2-3 years): The final phase involves selling or exiting the investments to return capital to investors. Common exit strategies include initial public offerings (IPOs), trade sales, secondary sales, and recapitalizations. The focus is on maximizing returns for investors by timing the exits to capitalize on favorable market conditions.

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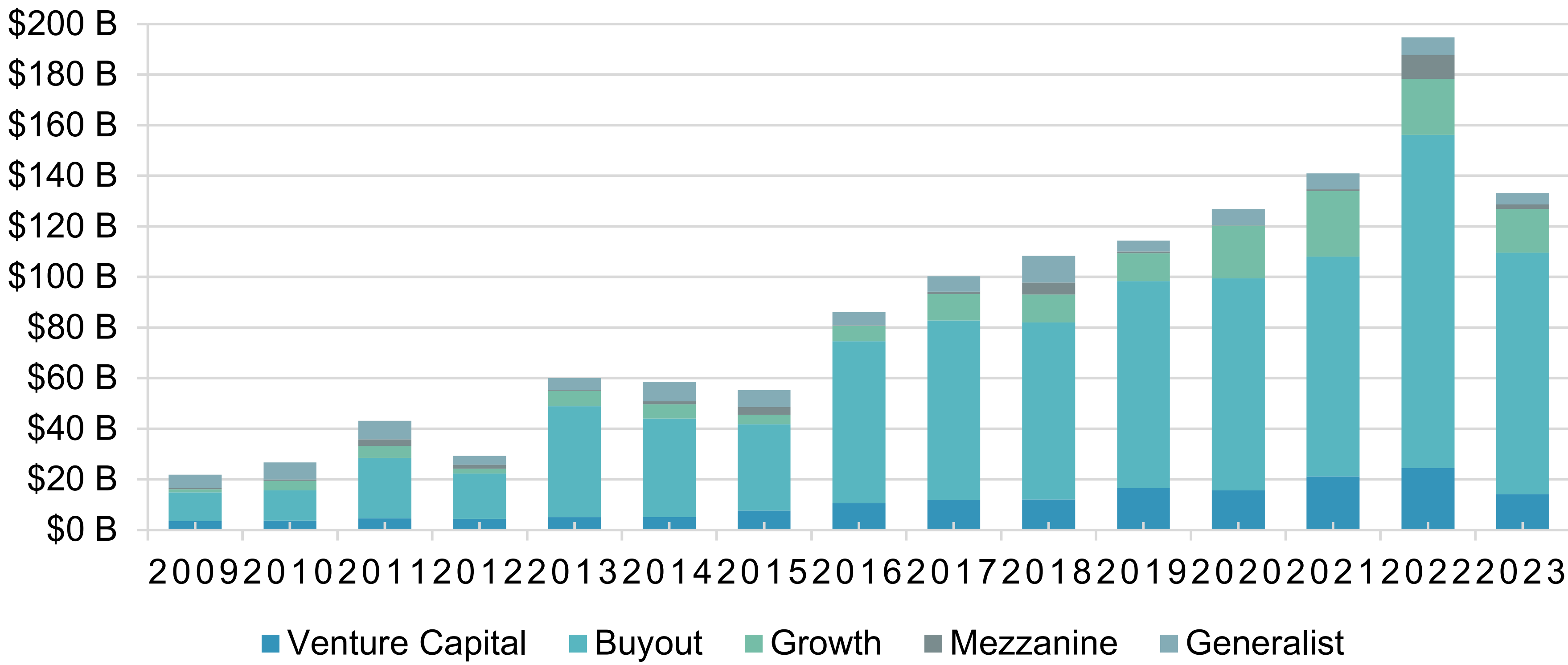
Fundraising Environment

Fundraising Environment - Europe

Fundraising at a glance

EU – Incremental amount raised during the year

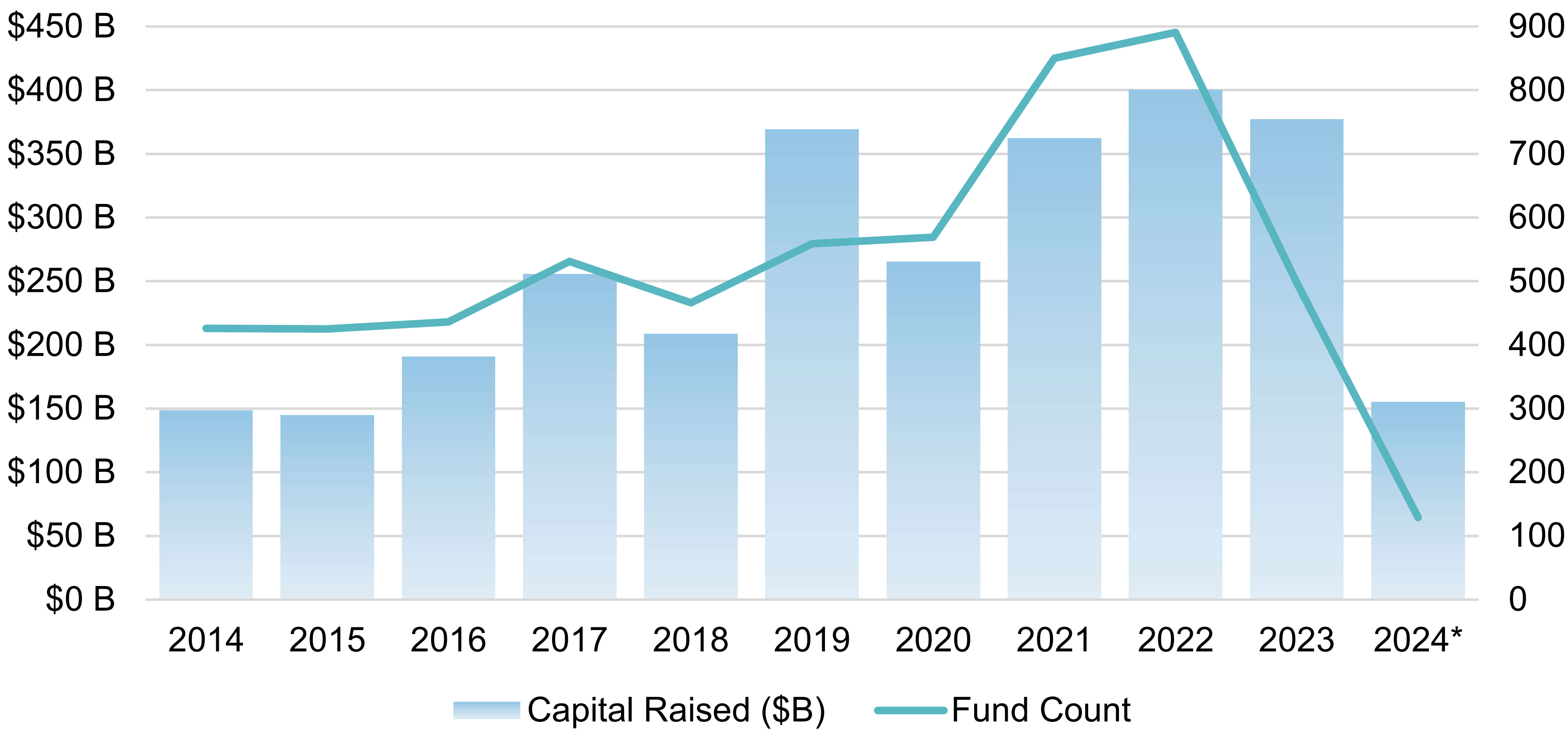


Source: Invest Europe / EDC. NB: Buyout includes turnaround/rescue and replacement capital funds

Fundraising Environment - US

Fundraising at a glance

US – Incremental amount raised during the year



Source: PitchBook | As of June 30, 2024

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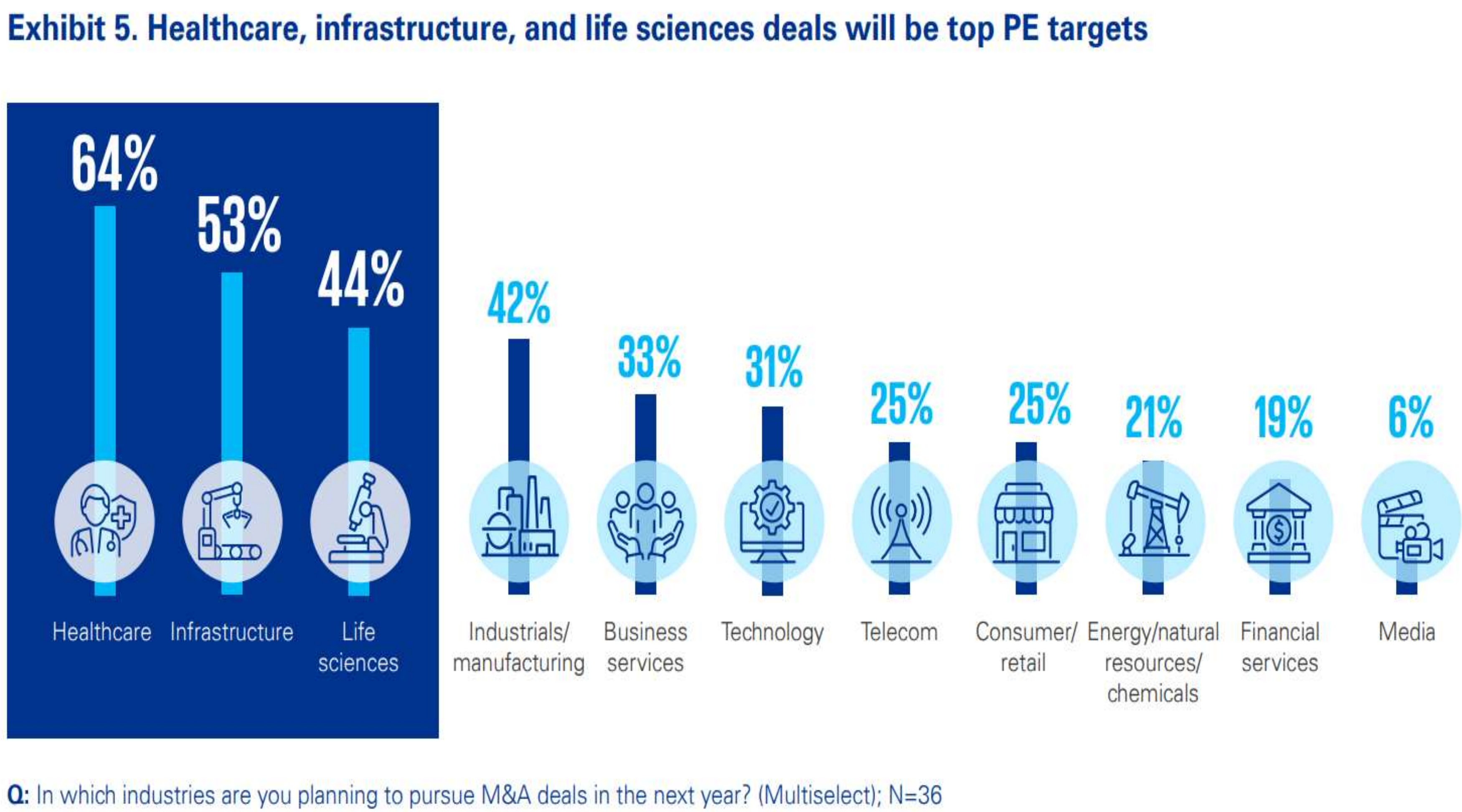
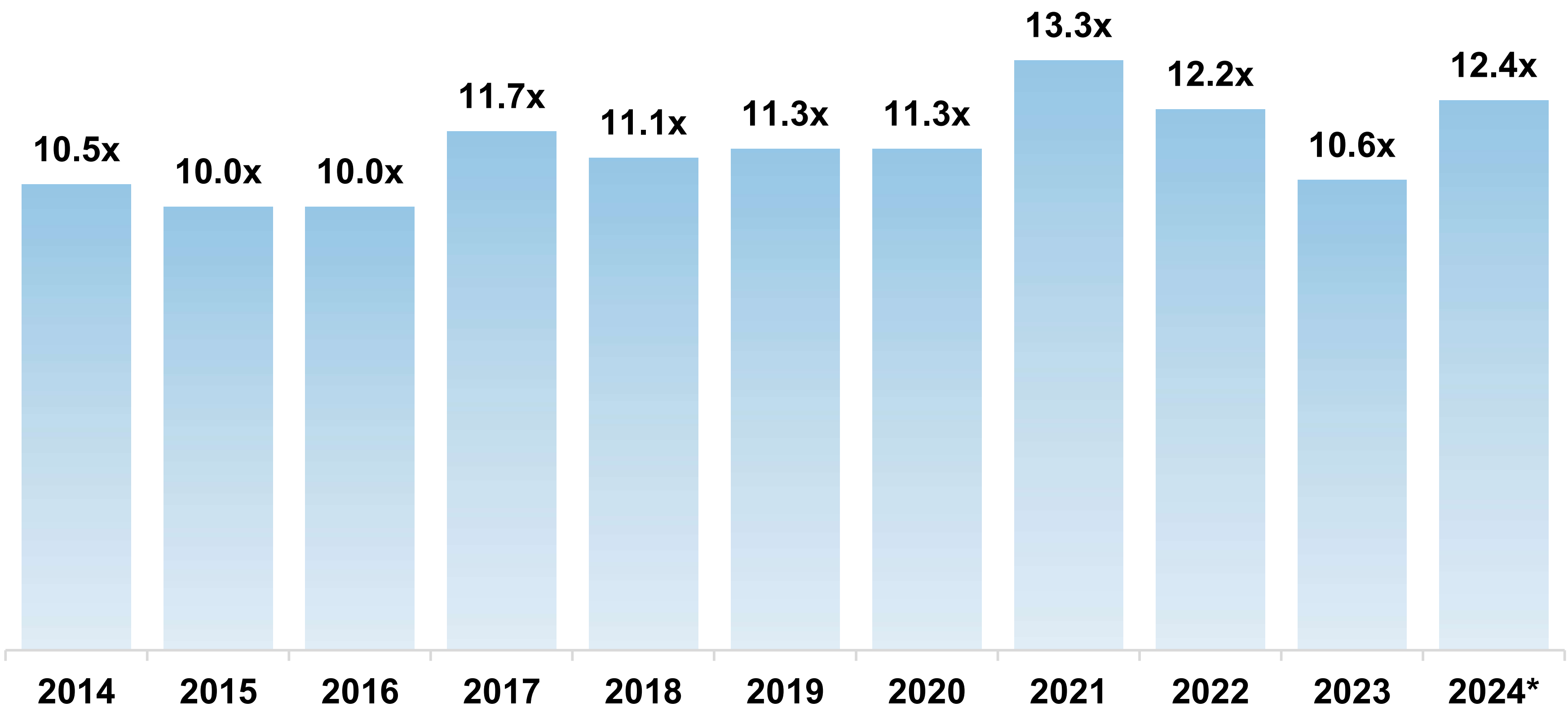
Investing Environment

Investing Environment - Global



Investing Environment – Global

Global PE EV/EBITDA multiples



1. Global PE EV/EBITDA multiples are now at the 2nd highest all-time

Source: PitchBook | Geography: North America and Europe | *As of June 30, 2024

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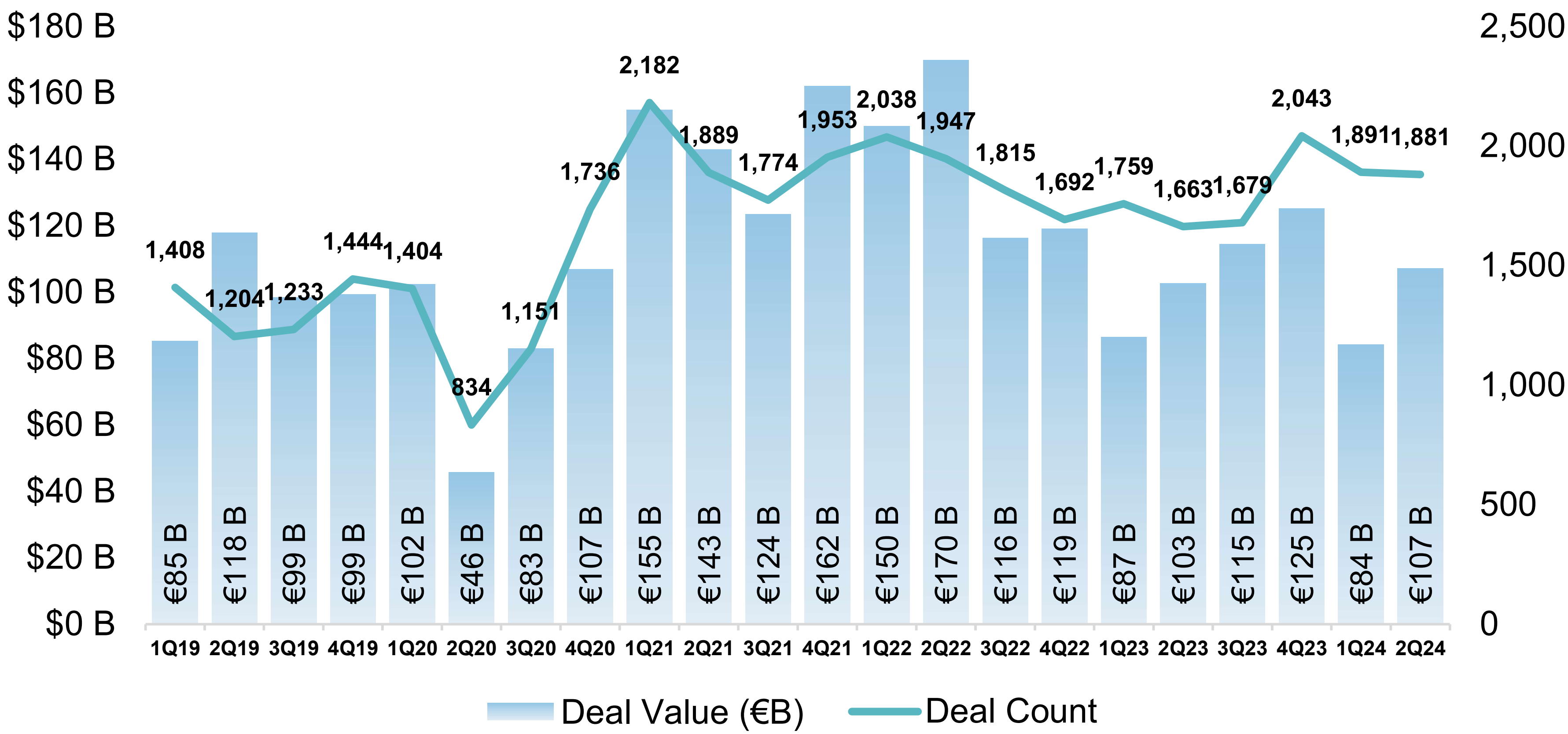
Investing Environment - Europe

PE deal activity by quarter



Source: PitchBook | As of June 30, 2024

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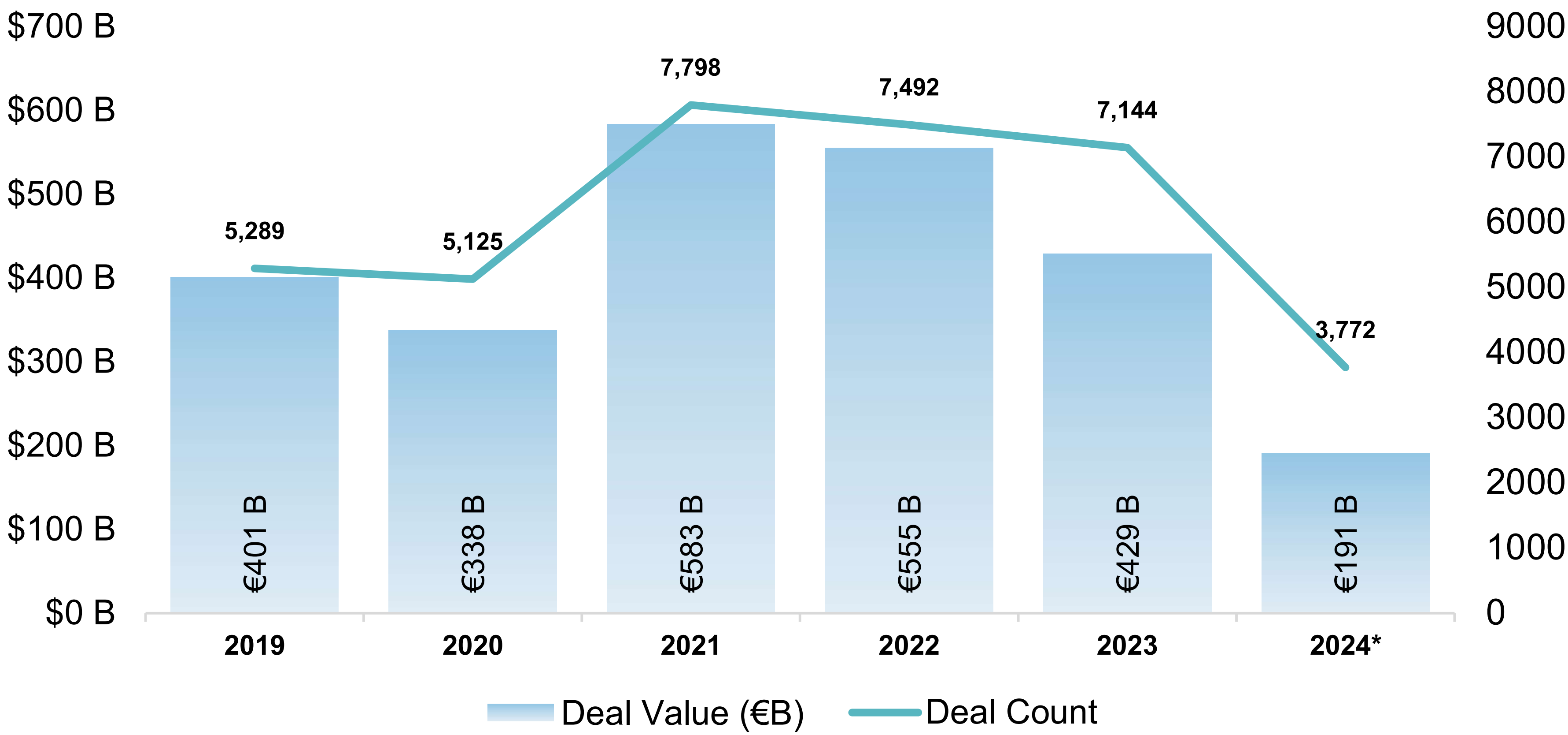
Investing Environment - Europe

PE deal activity by year



Source: PitchBook | *As of June 30, 2024

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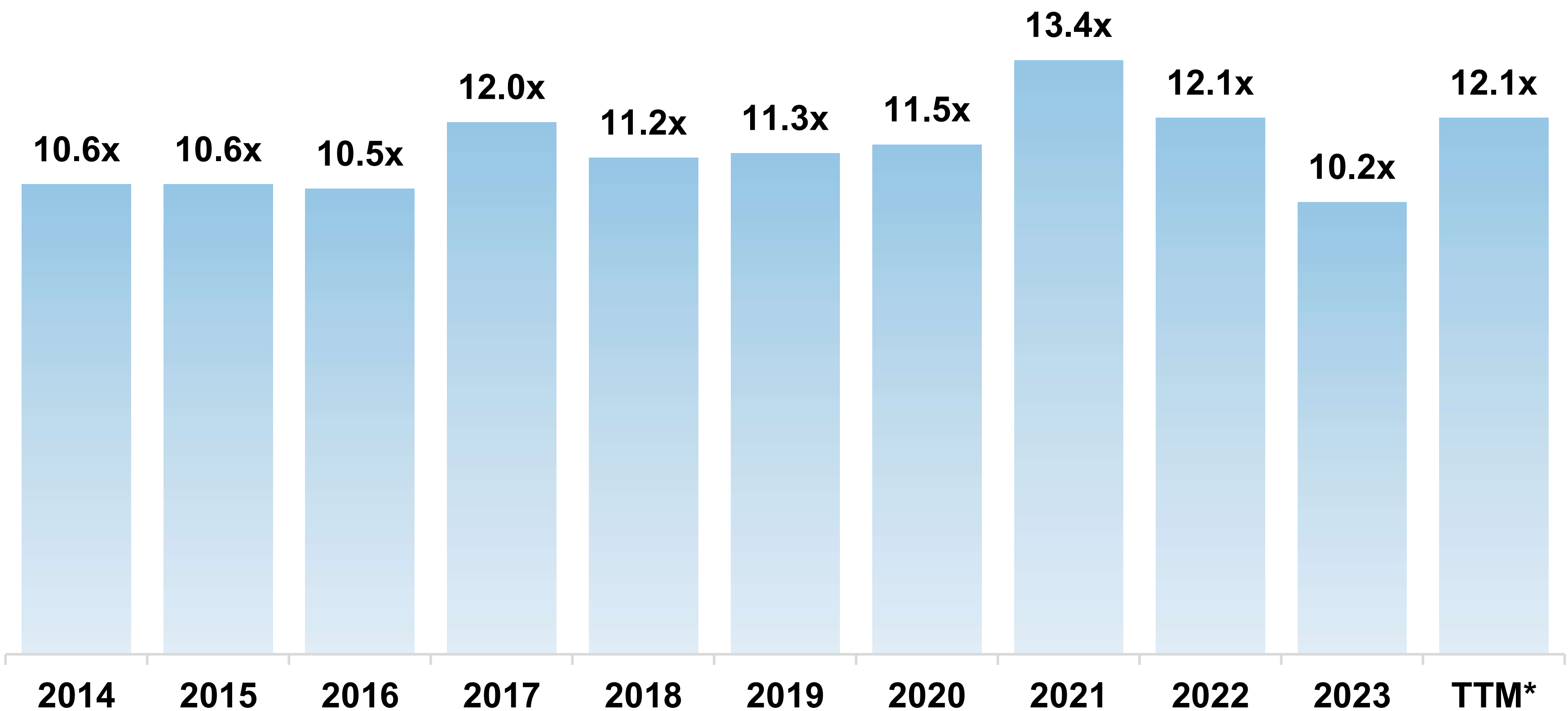
Investing Environment – Europe

Median PE buyout EV/EBITDA multiples



1. Global PE EV/EBITDA multiples are now at the 2nd highest all-time

Source: PitchBook | Geography: Europe | *As of June 30, 2024

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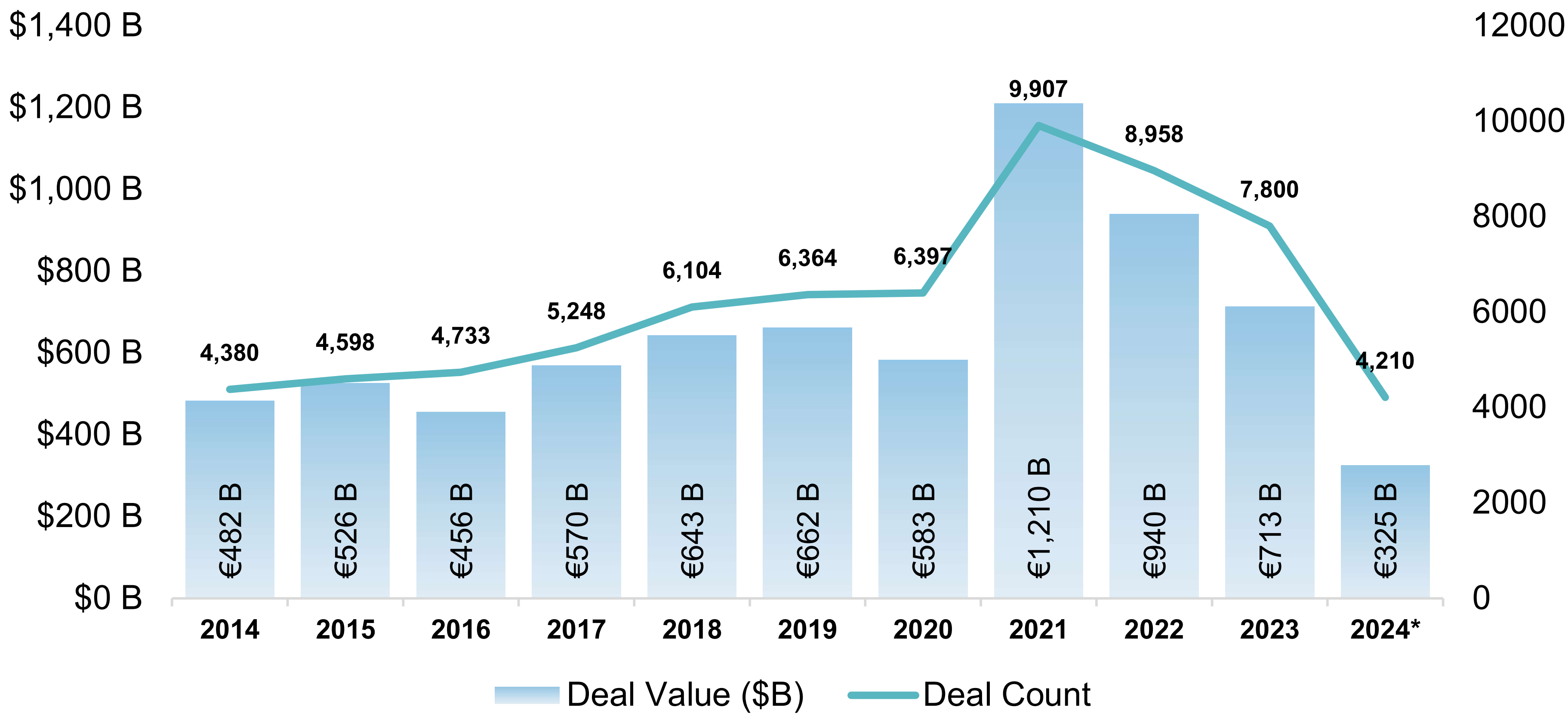
Investing Environment – US

PE deal activity by year



1. Private Equity deal values have fallen 46.2% from their peak but remain above pre-COVID levels. Leverage ratios have contracted significantly since early 2023, reflecting a more conservative posture.
2. GE deals now dominate the PE market over platform LBO deals, with markets stabilizing and Take Privates rebounding in 2Q24

Source: PitchBook | Geography: United States | *As of June 30, 2024

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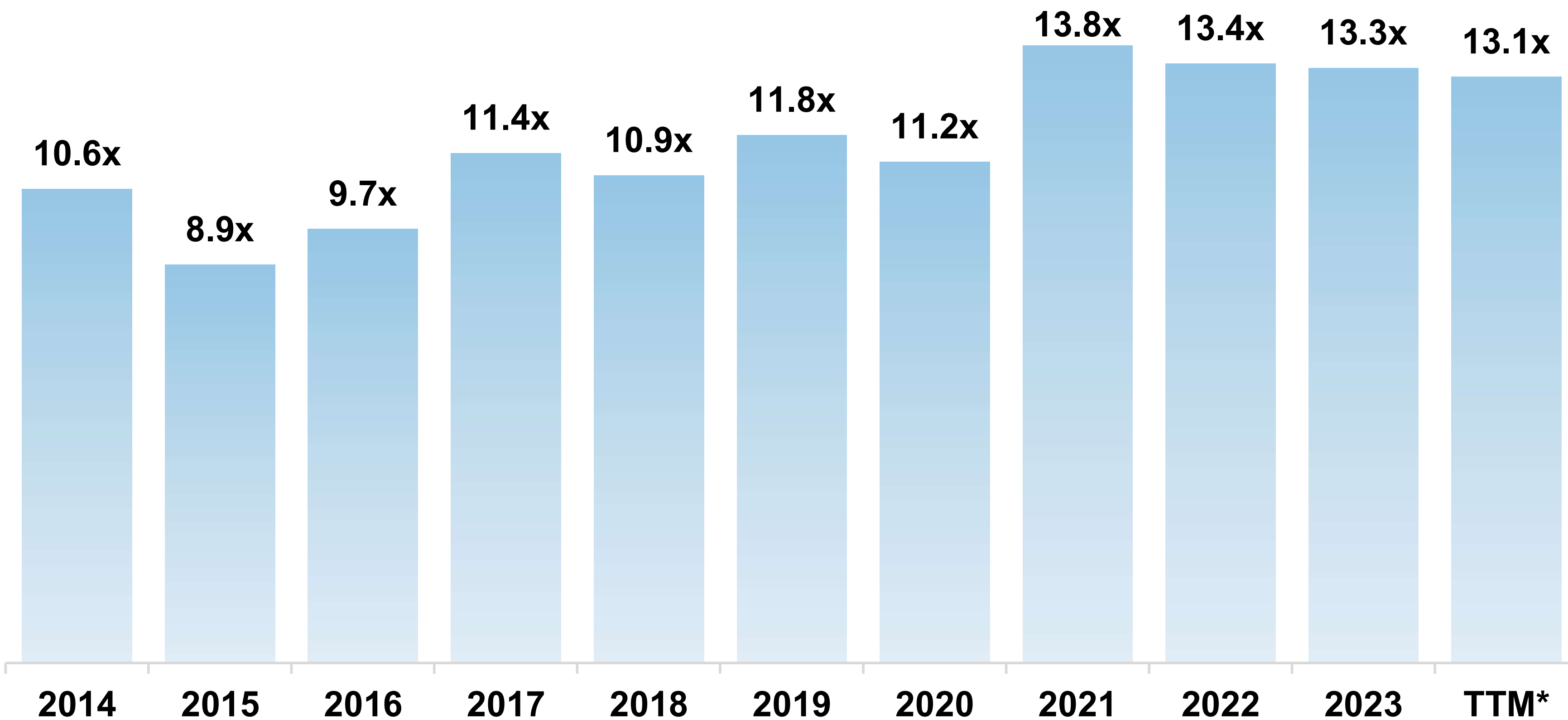
Investing Environment – US

US PE EV/EBITDA multiples



1. Public valuations have rapidly rebounded, exceeding 2021 peaks, while private valuations continue to face challenges

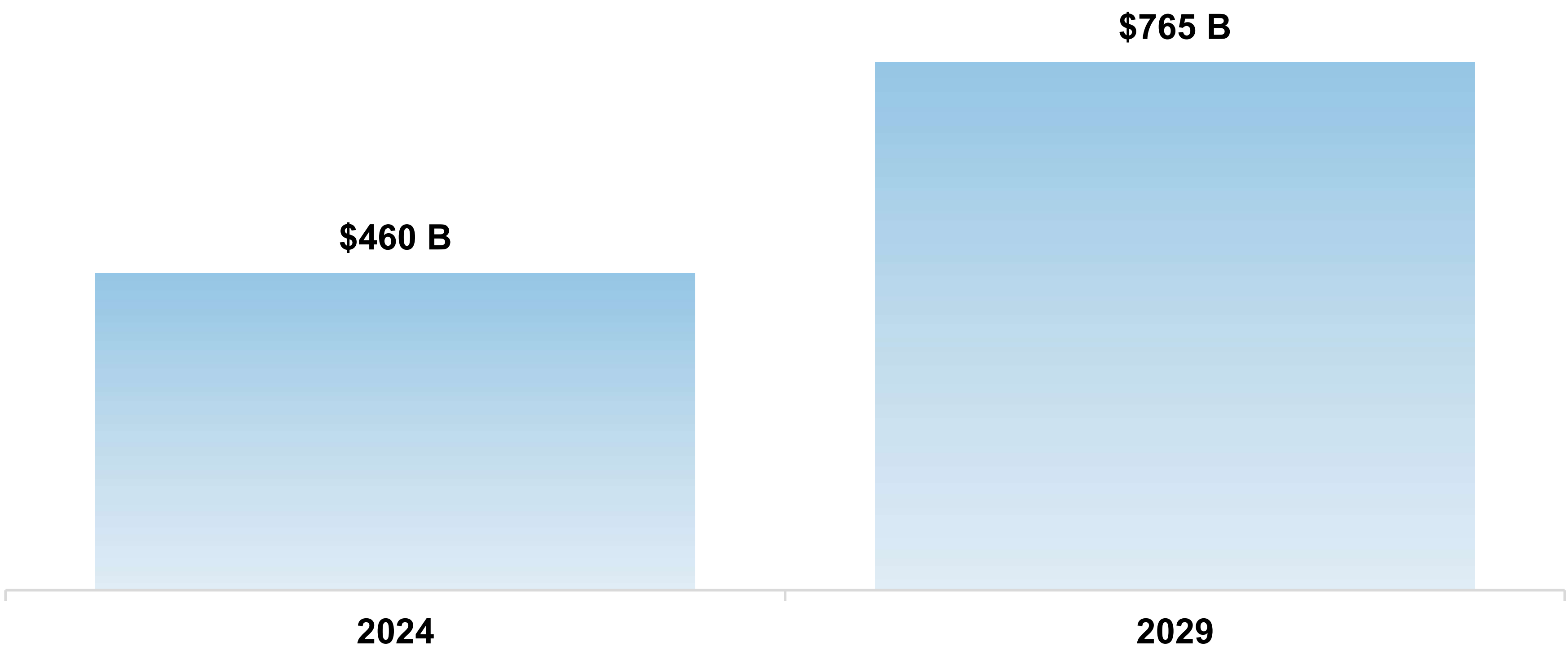
Source: PitchBook | Geography: United States | *As of June 30, 2024

Investing Environment – US

United States Private Equity Market

Market Size in USD Billion

CAGR >11%



1.The US Private Equity market is projected to maintain an 11% CAGR through 2029.

Source: Mordor Intelligence | Geography: United States | *As of June 30, 2024

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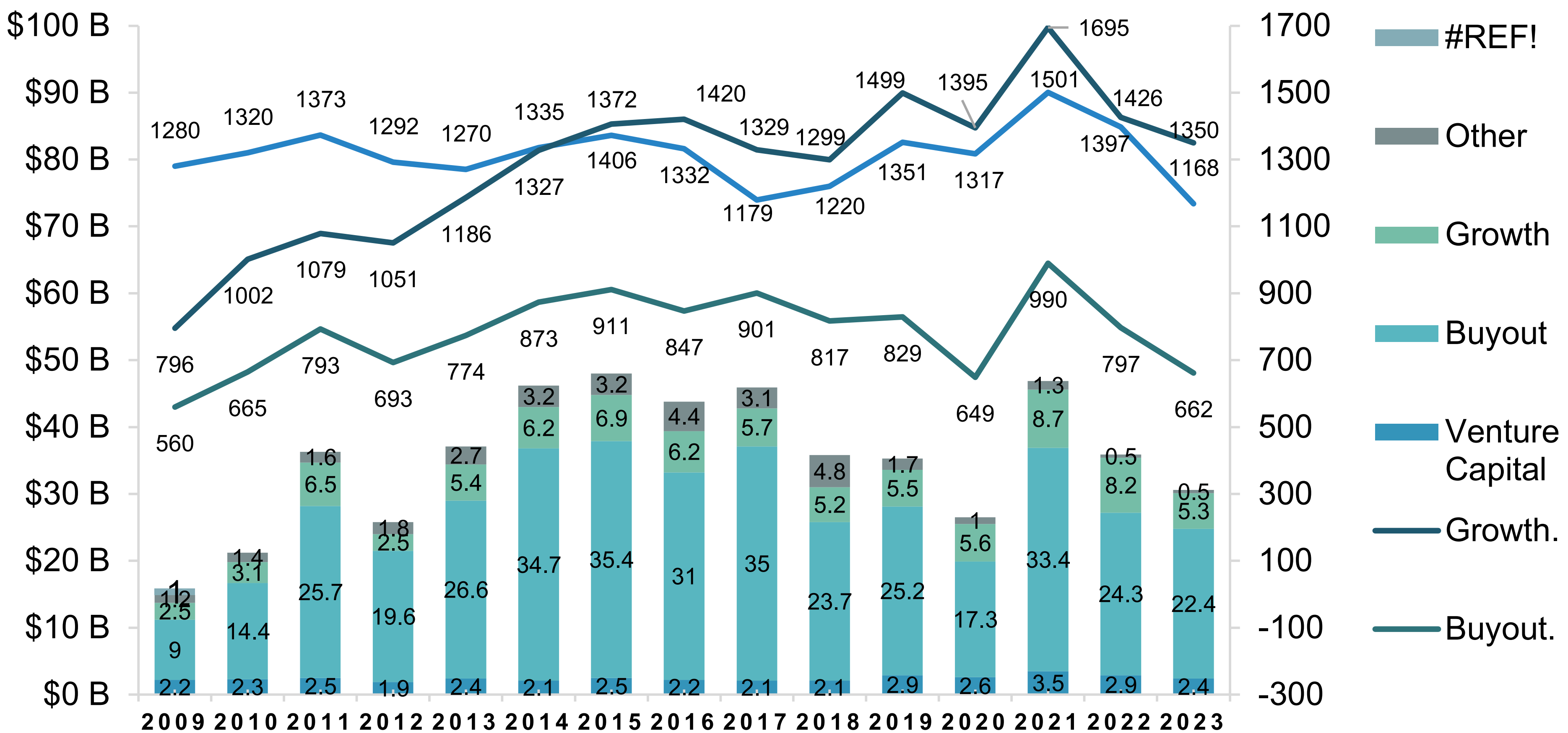
Divesting Environment

Divesting Environment - Europe

Divestments at cost at a glance

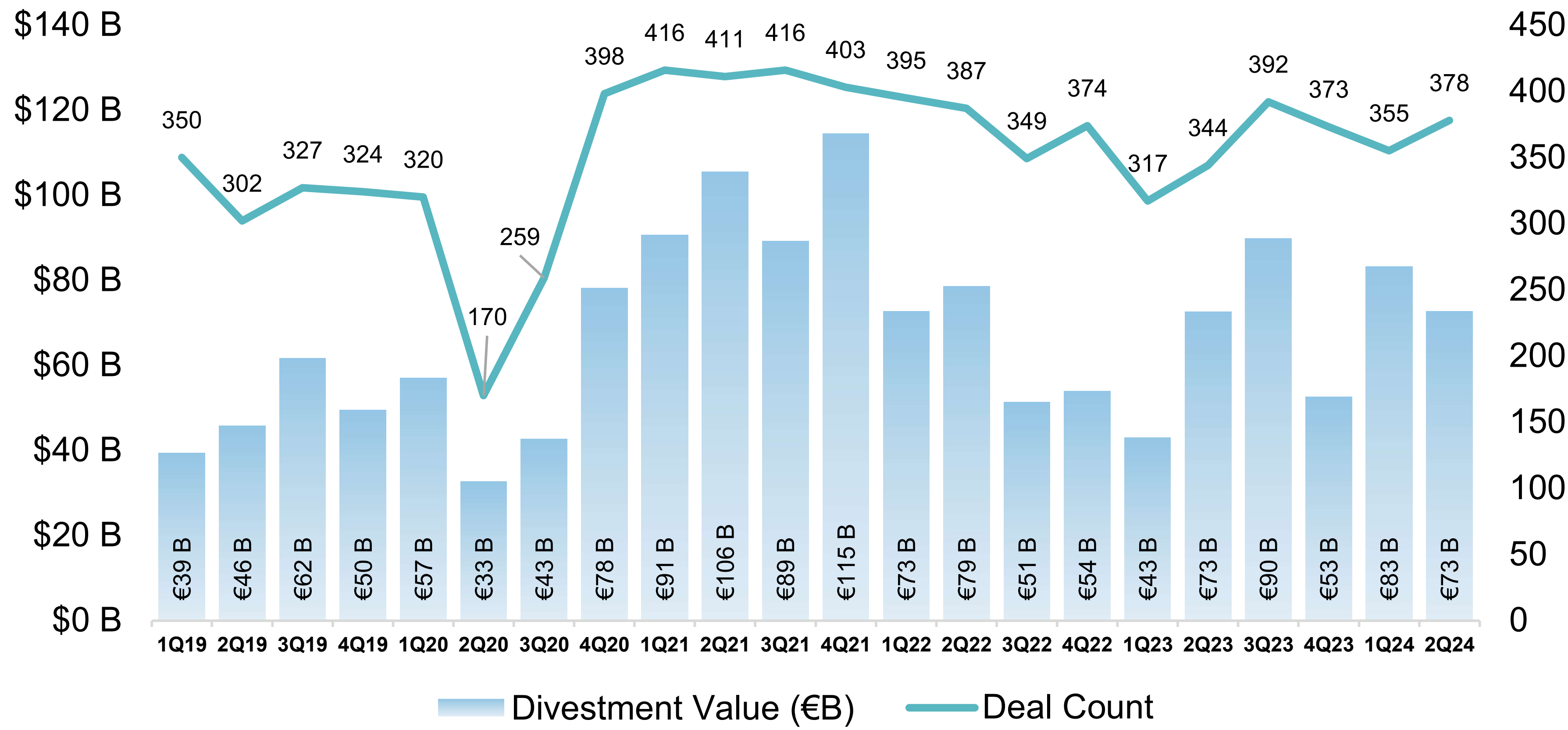
Market Statistics – Amount & Number of Companies



Source: Invest Europe / EDC. NB: Other includes Turnaround/Rescue and Replacement Capital

Divesting Environment – EU

PE divestment activity by quarter



1. European Private Equity exit values surged in 2Q24, increasing by 90.3% QoQ
2. In the first half of 2024, there were 23 "mega-exits," which comprised over half of the total divestment value

Source: PitchBook | Geography: Europe | As of June 30, 2024

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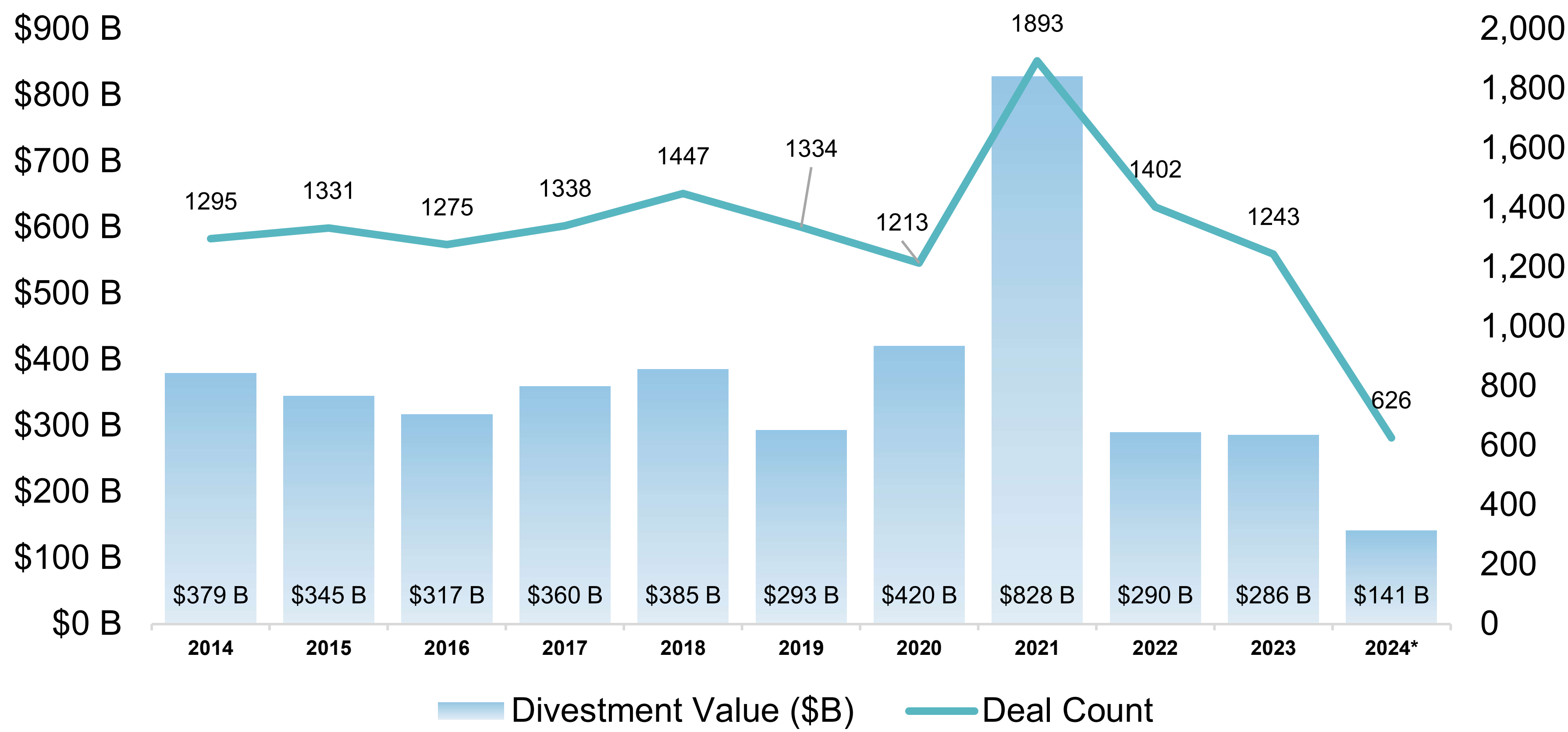
Divesting Environment – US

PE divestment activity by year



1. Encouraging signs in 1H24, but further recovery is needed. US PE exit activity fell below pre-COVID levels in 2023 due to prolonged inflation and unfavorable valuation trends

2. The PE industry faces an impending "maturity wall," with efforts to address it through GP-/LP-led secondaries and continuation funds

Source: PitchBook | Geography: United States | *As of June 30, 2024

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Quantitative Analysis

Quantitative Analysis

Burgiss Analysis – Since 2000

IRR and TVPI

IRR	Market Cap (B)	# of Funds	Pooled	5th	25th	50th	75th	95th
USA	3,378	4,077	12.95	38.55	20.24	11.58	1.87	-16.33
Europe	1,130	1,017	13.33	38.98	20.18	11.91	3.04	-19.94

TVPI	Market Cap (B)	# of Funds	Pooled	5th	25th	50th	75th	95th
USA	3,378	4,077	1.74	3.7	2.8	1.49	1.06	0.61
Europe	1,130	1,017	1.57	2.83	1.91	1.50	1.08	0.61

1. The international exposure in the Burgiss Global Private Equity Funds Index decreased from ~24% in 2000 to ~22% in 2020

Source: Burgiss Private i | As of January 1, 2000

Quantitative Analysis

Burgiss Analysis – Since 2016

DPI

DPI	Market Cap (B)	# of Funds	Pooled	5th	25th	50th	75th	95th
USA	1,956	2,024	0.38	1.36	0.41	0.04	0.00	0.00
Europe	584	486	0.37	1.59	0.44	0.04	0.00	0.00

1. The international exposure in the Burgiss Global Private Equity Funds Index decreased from ~24% in 2000 to ~22% in 2020

Source: Burgiss Private i | As of January 1, 2016

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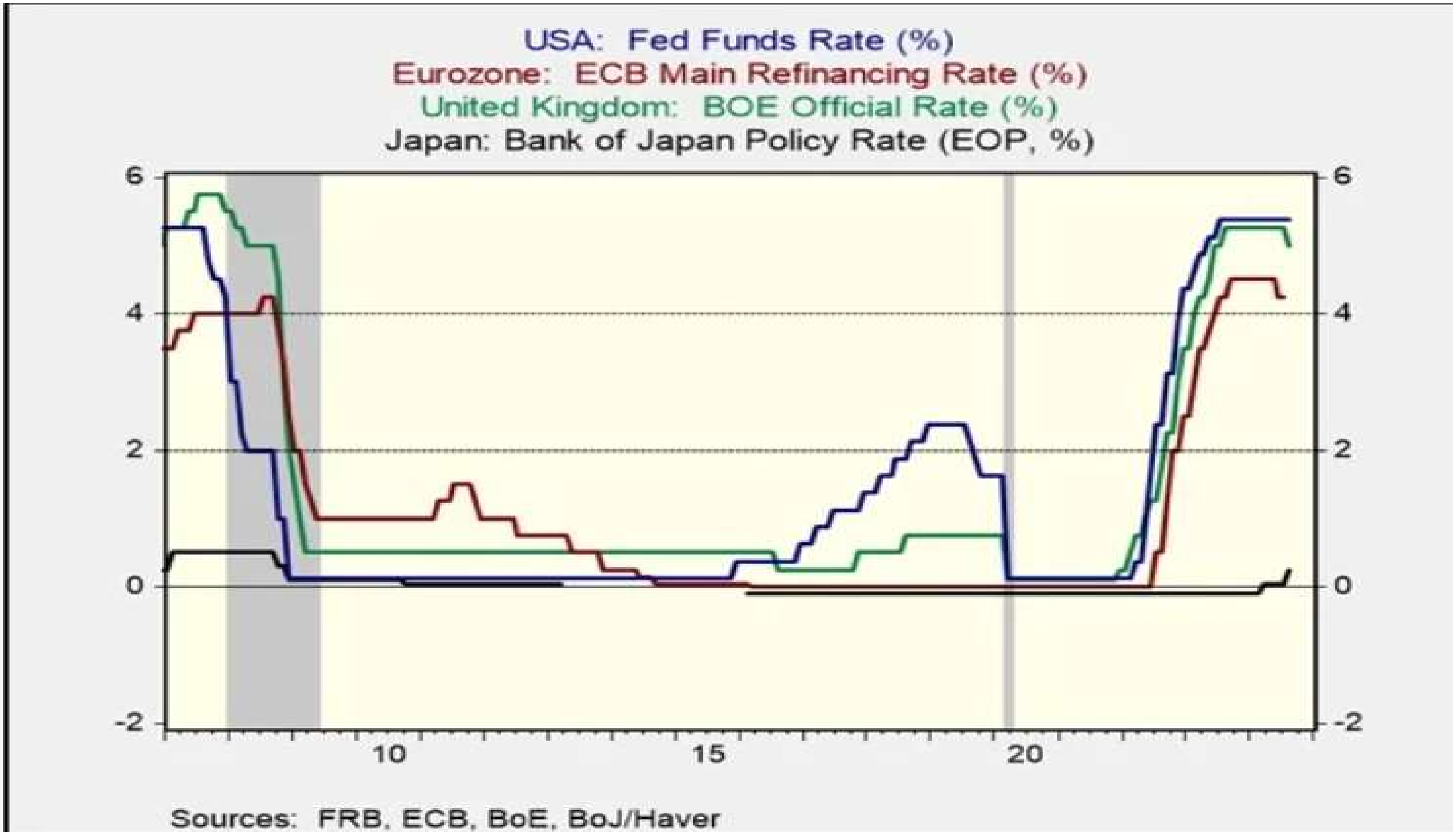
Economic Environment

Economic Environment - Global



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Economic Environment - Global

Interest Rates	Surge in interest rates have significantly raised borrowing costs, causing private markets to plummet in 2022 and 2023
Rate Cuts	ECB and BOE cut in 2024, with the Fed expected to follow in September, slightly thawing private markets
Public vs. Private	Public markets have continued to grow, outperforming in 2023 and 2024, despite privates historically outperfoming since 2000
Recent Tariffs	US implemented and retaliatory tariffs have exacterbated the global economy

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Conclusion

Conclusion

Strategic recommendation

Focus on High-Growth Sectors:

- AI and Defense in Europe: Prioritize these sectors due to their momentum and favorable conditions.
- Innovative Sectors: Invest in cutting-edge technologies for a competitive edge.

Leverage Regional Strengths:

- European Market: Utilize the EU's stable outlook and fewer regulatory hurdles.
- US Market: Focus on resilient sectors like healthcare and consumer goods.

Diversify Investment Strategies:

- Venture Capital: Invest in early-stage companies with high growth potential.
- Buyouts: Target mature companies for leveraged buyouts.
- Growth Capital: Support established companies looking to expand.

Adapt to Market Conditions:

- Economic Policies and Geopolitical Shifts: Develop strategies to mitigate risks and seize opportunities.
- Interest Rate Trends: Adjust strategies based on interest rate movements in the US and EU.

Conclusion

Future outlook and questions

Technological Influence:

- How will AI and other emerging technologies continue to influence the private equity landscape in both regions and globally?

Economic Policies:

- What impact will future economic policies and geopolitical changes have on the investment climate?
- How will global tariffs continue to impact foreign and domestic producers exporting goods abroad?

Regulatory Environment:

- How can investors best navigate the evolving regulatory environments in the US and EU to maximize their returns?

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Appendix

Notes

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Comparison to Public Market Equivalent Indices. Performance of broad public market indices, such as the S&P 500, are for informational purposes only and do not provide a basis of comparison for private equity fund investments as the market volatility, liquidity and other characteristics of private equity fund investments are materially different from those of broad public market indices.

Notes on Data:

- Information was collected from PE firms, third party data providers (e.g., Burgiss, etc.), and public data sources for inclusion in the dataset.
- Manager strategies include Buyout, Growth, Venture Capital, and Distressed. Debt, secondary sales/purchases, BDC, evergreen and other unrelated strategies are completely excluded.
- Because analysis is often disaggregated by manager maturity, manager diversification, manager strategy, company sector, etc., certain analyses may be performed on smaller sample sizes and may be biased by one or several data points.
- Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time.

Biases within this Honors Project for consideration include:

- Selection Bias
- Survivorship Bias
- Availability Bias

Sources

PitchBook Data, Inc: PitchBook is an independent and impartial research firm dedicated to providing premium data, news, and analysis. As a specialty-focused information resource, PitchBook has the ability to meticulously collect, organize and analyze hard-to-find private equity deal data. pitchbook has over 220,000 web crawlers to capture relevant information from numerous sources-including filings, press releases, websites, and more.

Burgiss Private i: Burgiss Private i, part of Morgan Stanley Capital International (MSCI), provides detailed insights into private capital investments. The platform unifies and enriches vast datasets, covering over 20,000 funds and $15 trillion in private investments. It ensures data transparency and operational efficiency for private capital investors.

S&P Capital IQ Pro: S&P Capital IQ Pro, a subsidiary of S&P Global, is a comprehensive market intelligence platform offering extensive data on public company financials and industry insights across sectors including Financial Institutions, Insurance, Energy, Real Estate, and more. Capital IQ Pro provides information on over 54 million private companies, smart search capabilities, sustainability insights, supply chain intelligence, industry news, credit ratings, and real-time market prices.

Description

CAGR: The Compound Annual Growth Rate is the mean annual growth rate of an investment over a specified period of time longer than one year. To calculate compound annual growth rate, divide the value of an investment at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result.

EBITDA: EBITDA is an indicator of a company's financial performance which is calculated in the following manner: EBITDA = Revenue – Expenses (excluding tax, interest, depreciation, and amortization). EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

ROIC: Represents the return on invested capital. ROIC is calculated by dividing the sum of distributions plus total partners' capital by capital contributed. Total partners' capital balance is the book assets (fair value of unrealized investments plus cash on hand and miscellaneous assets) less the liabilities at the measurement date.

Median Purchase Price Multiple at acquisition: Observations at 0.0x are excluded (signal that company was not bought based on EBITDA multiple – i.e., revenue multiple, book value multiple OR negative EBITDA); observations above 35x are excluded.

IRR: The Internal Rate of Return is the annual rate of growth that an investment is expected to generate. To calculate IRR, set the net present value (NPV) of all cash flows equal to zero and solve for the discount rate. IRR is used to estimate the profitability of potential investments and is ideal for analyzing capital budgeting projects.

TVPI: Total Value to Paid-In Capital, also known as the Investment Multiple, measures the performance of a private equity fund. TVPI is calculated by dividing the sum of realized distributions and the residual value of investments by the total paid-in capital. It provides a snapshot of the fund's performance relative to the initial investment.

DPI: Distribution to Paid-In Capital is a metric used to measure the amount of capital that has been returned to investors relative to the amount of capital they have contributed. DPI is calculated by dividing the cumulative distributions by the paid-in capital. It reflects the liquidity provided to investors by the fund.