

## The State of the M&A Market and the Rise of Continuation Vehicles

### Macro Environment Flash Note

Stefano Bregliano | Co-Head of Equity Research | stefano.bregliano@mail.utoronto.ca  
 Madden Powers | Co-Head of Equity Research | madden.powers@mail.utoronto.ca

### Market Overview

The long-anticipated resurgence in mergers and acquisitions (M&A) activity has yet to materialize in the first quarter of 2025. After a sluggish 2024, many market participants expected the newly reinstated Trump administration to boost dealmaking through a blend of pro-business policies such as tax cuts, deregulation, and incentives for domestic investment. Instead, the administration's actions have contributed to heightened uncertainty. Inflation concerns have resurfaced, regulatory scrutiny has intensified, and trade-related disruptions, particularly tariffs have unsettled global equity markets. As a result, both corporate and private equity buyers have largely adopted a wait-and-see approach.

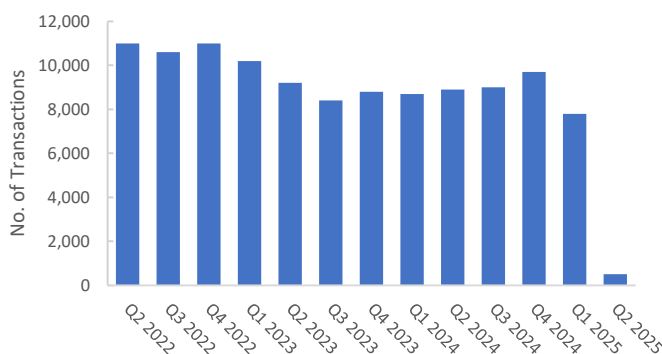
The numbers tell the story: roughly \$590 billion in M&A has been announced through March 25, 2025. This is up slightly from the same period last year, but largely buoyed by a handful of high-profile deals, such as Google's acquisition of Wiz (valued at \$32 billion), Sycamore Partners' take-private of Walgreens (valued over \$20 billion), Johnson & Johnson's purchase of Intra-Cellular Therapies, and Constellation's deal for Calpine. The stock market has entered correction territory, and this prolonged volatility has led many buyers and sellers to hit pause as they reassess valuation frameworks and policy impacts.

Several pending or potential deals have been delayed or scrapped altogether. Court Square Capital shelved the sale of Golden State Medical Supply due to trade policy uncertainty. Rosebank Industries pulled out of a \$2 billion acquisition, citing market instability, while the IPO of German drugmaker Stada Arzneimittel AG has also been postponed. In the consumer space, potential buyers for homecare brands being sold by Reckitt Benckiser are still trying to assess the long-term impact of tariffs on profitability. These examples reflect a broader theme: uncertainty both macroeconomic and political is having a chilling effect on M&A activity.

This shift in sentiment is also reflected in the structure of continuation fund transactions. According to Preqin, record 65 continuation funds closed in 2024, surpassing the previous high of 57 set in 2023. The total capital raised reached \$36 billion, just shy of the \$38 billion peak from 2021. For the first time, over 50 managers launched their first-ever continuation vehicle in 2024, signaling widespread industry adoption. The balance between single-asset and multi-asset continuation funds has also shifted: in 2024, single-asset funds slightly outnumbered multi-asset vehicles, an inversion of the 2021 trend where 71% were multi-asset. This shift reflects a move away from so-called "zombie portfolios" and toward more targeted, value-maximizing strategies. Zombie portfolios are bundles of under-exited or underperforming assets left behind at a fund's maturity. CVs were originally designed to keep zombies alive—so the shift in CV structuring tells us something about GP confidence and sector focus.

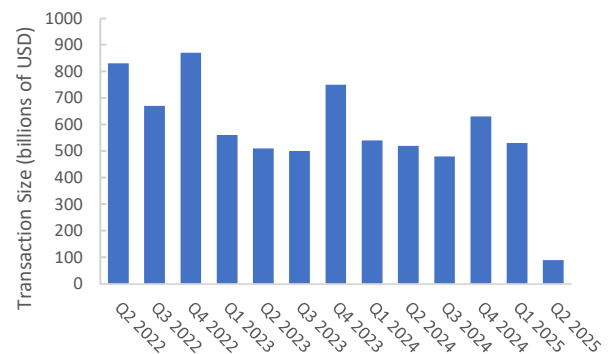
*Q1 2025 M&A volume reached \$590B, up slightly YoY, but was driven by a few mega-deals like Google's \$32B acquisition of Wiz and Sycamore's \$20B take-private of Walgreens.*

**Exhibit 1: Decrease in Number of M&A Transactions...**



Source(s): CapIQ, VIG Research

**Exhibit 2: ...With Even Larger Decrease in Transaction Sizes**



Source(s): CapIQ, VIG Research

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## Regulatory and Political Headwinds

Beyond market volatility, regulatory pressure has also become a significant constraint. The Department of Justice and Federal Trade Commission (FTC), under Trump's leadership, have doubled down on tougher antitrust review standards. Notably, the FTC has signaled its intent to block mergers involving companies that promote diversity, equity, and inclusion (DEI) initiatives, adding a new layer of political scrutiny to deal approvals. Moreover, the administration appears to be playing an increasingly direct role in shaping deal outcomes. BlackRock's acquisition of strategic ports from CK Hutchison Holdings, for instance, reportedly benefited from behind-the-scenes engagement with the White House, highlighting how geopolitical concerns and economic nationalism are intersecting with capital markets. That transaction still awaits final clearance—reports suggest Chinese regulators may yet block or condition the Panama Canal assets deal, underlining ongoing geopolitical risks.

Meanwhile, efforts to spur domestic production, particularly in artificial intelligence and energy, have led to announcements like TSMC's \$100 billion investment in U.S.-based chip manufacturing, and new financial backing from Abu Dhabi to support Trump's AI infrastructure plans. These initiatives could stimulate sector-specific M&A in the medium term, but they've yet to offset the broader dealmaking slowdown. The company's involvement reflects its unique position as a trusted partner to governments worldwide, providing sophisticated AI-enabled solutions to address complex security challenges effectively.

## IPO and Exit Environment

The IPO market has shown modest signs of recovery, with proceeds reaching \$28.6 billion through March 25<sup>th</sup> up nearly 10% year-over-year but it remains well below the \$54.2 billion average of the past decade, yet still a 20% increase by proceeds YoY. However, we see that volatile equity markets, driven by inflation concerns and unpredictable policy moves from the Trump administration, will result in limited IPO windows and timing challenges. Many private equity-backed companies that were IPO-ready are holding off, reevaluating valuation expectations and investor appetite amid shifting market dynamics. Notable postponed listings include fintech leaders Klarna and eToro, whose debuts were shelved as prospective issuers and investors worried that new trade barriers could dampen cross-border revenue growth.

The slowdown in M&A and IPO activity reflects a deeper recalibration of risk across capital markets, driven less by any single policy and more by a confluence of structural pressures. Elevated interest rates and persistently tight credit conditions have raised the hurdle rate for acquisitions, while volatility in equity markets has made it harder for companies to justify going public. Many firms are grappling with cost inflation, margin compression, and shifting demand patterns—all of which complicate long-term strategic planning. This has created a freeze in dealmaking, particularly for businesses without clear pricing power or defensible competitive advantages. At the same time, private equity sponsors are under pressure to return capital, but the traditional playbook of exits through IPOs or strategic sales is less viable. In this environment, continuation vehicles are not just fallback options—they're becoming essential tools for portfolio management, allowing GPs to preserve value in high-conviction assets while navigating a murky exit landscape. Ultimately, the current "depression" in activity is less about one specific headwind and more about the cumulative impact of uncertainty, higher financing costs, and a flight to quality—factors that are fundamentally reshaping how capital is deployed and recycled.

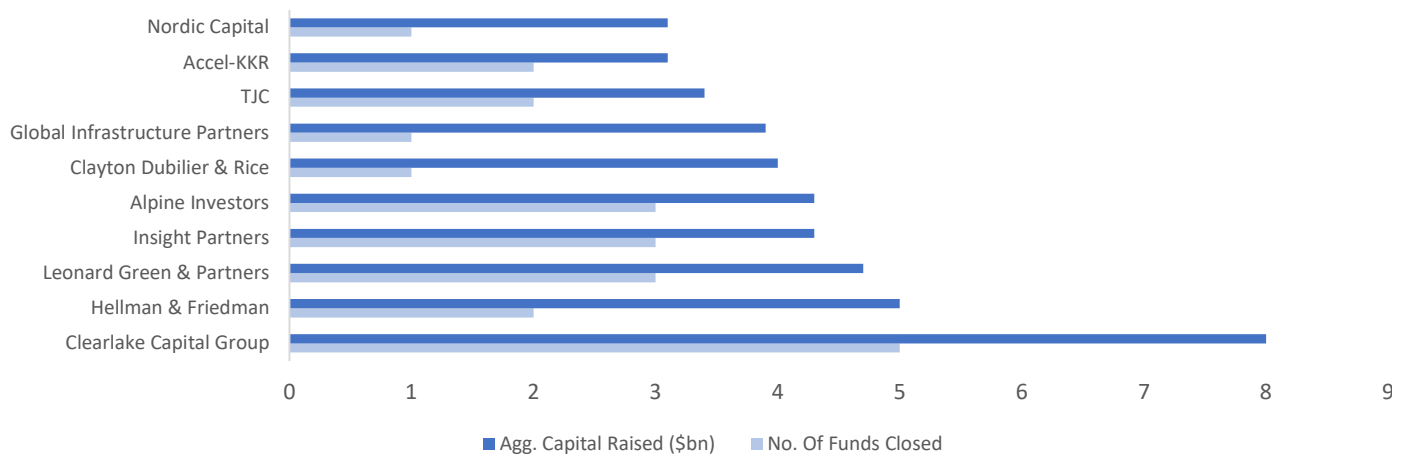
## The Rise of Continuation Vehicles

Faced with a lack of traditional exit opportunities, private equity firms are increasingly turning to continuation vehicles (CVs) as a solution to liquidity constraints. Once considered a niche tool, continuation vehicles have become a core component of the private equity playbook. A continuation vehicle is a fund created to house one or more assets, often mature or difficult-to-sell portfolio companies outside of the original investment fund's structure. Existing LPs can either cash out at that valuation or roll over their holdings into the CV alongside new investors. This lets GPs extend the holding period on high conviction assets without forcing distressed debt.

**A record 65 continuation funds closed in 2024 as tighter antitrust enforcement and geopolitical tensions complicate traditional exit paths.**

**Despite a 10% YoY increase in IPO proceeds (\$28.6B), volumes remain nearly 50% below the decade average as volatility and tariffs delay high-profile listings like Klarna and eToro.**

**Exhibit 3: Top GP's by Agg. Capital Raised for Continuation Funds**



Source(s): FactSet, VIG Research

Continuation vehicles have gained traction as a response to the liquidity challenges brought on by the rate hike cycle that began in March 2022, which disrupted capital flows and narrowed exit windows. With traditional exit routes becoming more difficult to execute, GPs are turning to these vehicles to preserve distribution metrics like DPI, which are critical for fundraising and investor confidence. These structures allow GPs to extend the holding period of top-performing assets, offering existing LPs the choice to cash out at a market-based valuation or roll their interests into the new vehicle. Typically used when market timing is poor or when assets still have growth potential, continuation funds help sponsors unlock partial liquidity without a full exit. Critics, however, argue they may obscure underperformance and raise concerns over the circular nature of selling assets between affiliated vehicles. Despite the controversy, LPs remain interested, drawn by the appeal of de-risked, shorter-term investments and the ability to recycle capital efficiently in a challenging market.

### Looking Ahead

As we move into 2Q25, our outlook for M&A remains cautious. We believe that political unpredictability, continued inflationary pressures, and tight credit conditions are all likely to keep dealmakers on edge. However, pockets of activity particularly in AI, energy, and national security-adjacent sectors could see an uptick depending on how policy evolves. Escalating tariff uncertainty has only deepened equity market volatility, shaking corporate confidence and stalling strategic planning. In our view, these dynamics will be a significant drag on both IPO and M&A volumes in the near term, as businesses struggle to price risk and forecast earnings. Additionally, the most recent news of a 90-day pause is just that, a pause, not a removal, and businesses will have to continue to expect some form of trade barriers now moving forward. We believe that private equity will have to continue to rely on creative solutions like continuation vehicles to generate liquidity and demonstrate performance in a constrained environment.

Continuation funds are no longer just a backdoor exit, they're an integral part of the GP toolkit. Used strategically, they can enhance value, unlock capital, and preserve relationships with LPs. But overuse or misuse could invite greater skepticism and regulatory scrutiny. For now, the balance still favors their continued growth, especially as traditional M&A channels remain clogged.

**With a 90-day tariff pause offering little relief, PE firms are expected to lean further on continuation vehicles to return capital and manage portfolio liquidity in Q2 2025.**

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