5 Private Equity Predictions for 2024

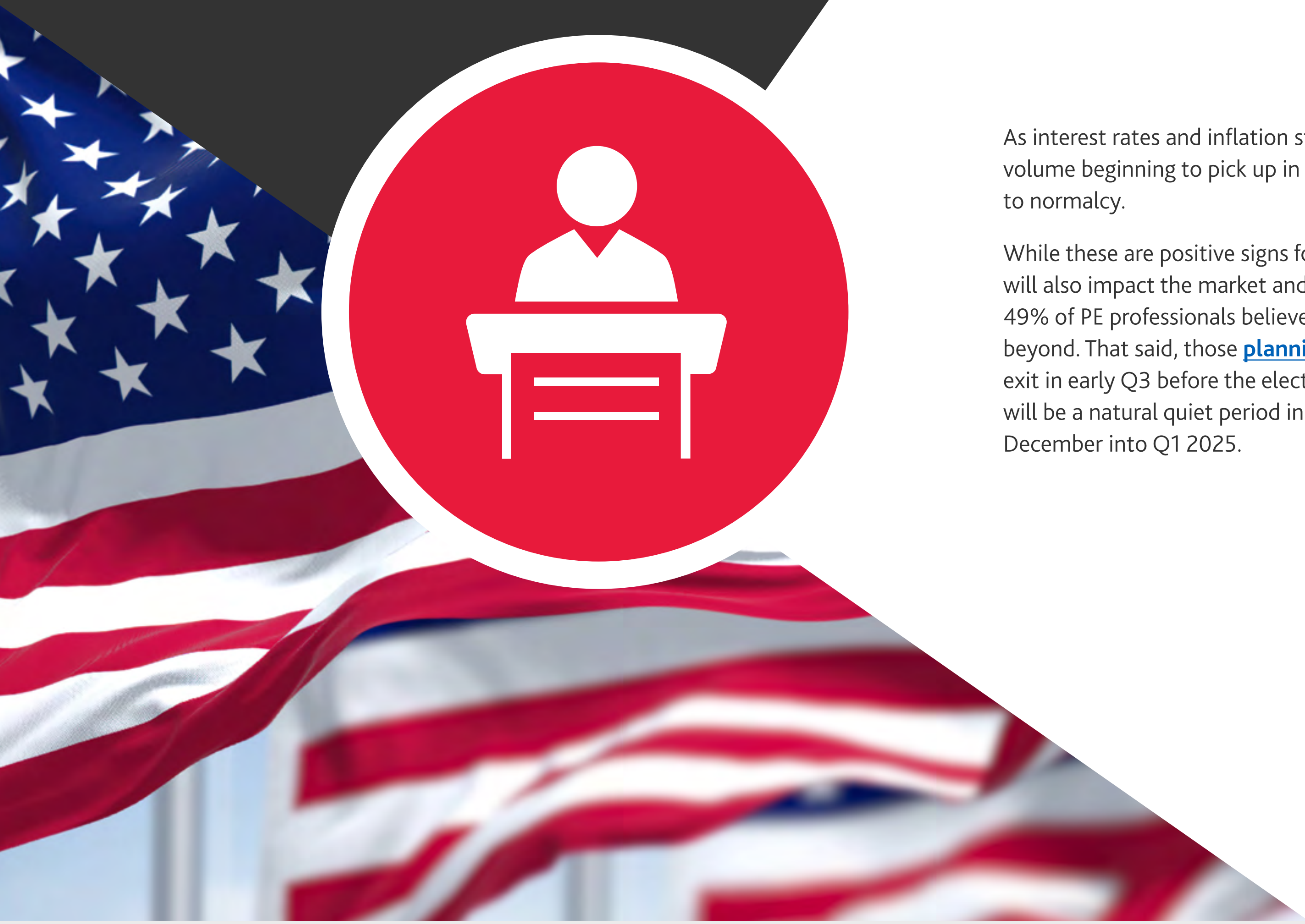
At the close of 2023, it's clear that this year did not bring the dealmaking rebound many private equity (PE) fund managers and portfolio company leaders had hoped for.

The exit markets were challenging, and inflation and interest rates remained high. Many portfolio company CFOs and their board members struggled to meet their investment objectives.

As fund managers and their portfolio companies look ahead to 2024, they anticipate a changing exit landscape, continued hurdles in meeting their investment theses, and ongoing talent challenges.

HERE IS A LOOK AT 5 PE TRENDS WE EXPECT TO SEE OVER THE NEXT 12 MONTHS ▶

1. The 2024 presidential election will have ramifications for transactions, IPO planning, and exit timing.



As interest rates and inflation stabilize, we expect the deal market will return, with volume beginning to pick up in H1 2024. By Q3, PE may feel the beginnings of a return to normalcy.

While these are positive signs for private equity, the fate of the 2024 presidential election will also impact the market and the overall PE mindset. According to our latest **poll**, 49% of PE professionals believe the optimal IPO market won't return until Q3 2024 and beyond. That said, those **planning to pursue an IPO** in the coming year should plan to exit in early Q3 before the election. Given the timing of the election, we anticipate there will be a natural quiet period in November, likely followed by a scramble for exits in December into Q1 2025.

2. Dry powder will be channeled towards tech.

Technology investments, especially in software and cloud computing, have seen historic growth and record multiples over the past few years. In 2024, we predict tech will continue to be an attractive sector for PE with robust performance and capitalization opportunities. From enterprise software solutions to digital tools for minimizing employee management, and technologies to streamline supply chain operations — tech investments are outperforming other market segments.

Much as they did at the beginning of the pandemic, companies across all industries are seeking technology solutions to help them weather continued economic uncertainty. After another year of headwinds, companies see the value in upgrading their digital processes and infrastructure. Those factors, coupled with evolving trends like AI and advanced cloud solutions, make the tech industry especially resilient.

For firms with dry powder to expend, technology investments may prove relatively straightforward to scale and grow. We anticipate PE firms will continue to buy tech platform companies and acquire numerous products to increase value through add-ons. During these acquisitions, firms can eliminate duplicative back-office costs for efficient management, increased margins, and accelerated growth.

3. PE will find new opportunities for its healthcare investments.

2023 has been a **difficult year for healthcare** businesses. Inflation and interest rates have increased the cost of both care and capital, and labor expenses have remained high.

Healthcare experienced accelerated growth during the pandemic, which has since thrown off valuations. We anticipate more PE firms will buy distressed healthcare businesses in 2024, helping them address healthcare performance problems and recover valuations. PE can provide value by helping healthcare organizations optimize costs — ultimately aiding an industry-wide shift to consumer-oriented healthcare.

We will also see PE firms continue to instill operational and financial discipline into their healthcare portfolio companies. This support helps enable the healthcare industry to focus on addressing its systemic challenges more efficiently and effectively to meet the needs of the aging U.S. population and the industry's historically slow adoption of technology. It is through these close partnerships that value creation can be realized for both patients and shareholders.

4. Artificial Intelligence (AI) will help PE achieve labor cost reductions and operating efficiency.

PE is both cautious and curious about the potential impacts AI will have in the marketplace. We predict PE firms will employ AI tools to help them identify and implement cost optimization strategies and achieve operating efficiencies within their portfolio companies. Specifically, they may use generative AI tools to help minimize operational overhead, augment work to reduce labor costs, and improve overall back-office efficiency.

Firms may also engage AI in predictive analyses to aid workforce planning, as talent challenges continue to be an obstacle. Ninety-four percent of professionals surveyed in our **recent poll** say that finding the right people with the right skills has become more challenging in the past year.

AI can help firms anticipate staffing needs based on market trends and company performance. It may also aid firms in making strategic hiring decisions, avoiding unnecessary labor costs, and optimizing resource allocations for efficiency.

Ultimately, PE is likely to find that leveraging AI can help increase valuations and improve revenue. We anticipate more exploration of its potential in 2024.

5. Increases in incremental transactions, such as carve-outs and tuck-ins, and a drop off in platform deals will continue into H1 2024.

Whenever the markets enter a downturn, cash flow becomes increasingly important. Firms want to know how they can derive more value from their existing investments that they've been holding onto longer than anticipated.

Due to current market dynamics, we expect a continued drop-off in platform deals in H1 2024. According to our **latest poll**, less than a fourth of those surveyed see M&A activity currently happening within new platform deals. Carve-outs, however, are an increasingly attractive option to allow firms to free up capital without divesting their investments.

While carve-outs are a strong option, they require experienced leadership. Because PE has faced significant talent challenges in the past year, firms must find creative ways to invest in talent and ensure they have seasoned leadership to effectively execute carve-outs.

Firms should revisit their staffing strategies in 2024 and consider sourcing talent from outside of traditional avenues. Consider **outsourcing functions or departments** like finance or accounting, or hiring **interim C-suite leaders** to help navigate complex transactions.

What Comes Next

Private equity has record levels of dry powder available, and firms need to be creative with how they use it in 2024. To successfully navigate continued economic uncertainty in the next year, firms need to make sure they have experienced leadership in place, engage in diligent planning, increase levels of collaboration, and keep a willingness to pivot.

Firms that meet the inevitable dealmaking challenges of 2024 will have strong value creation plans, a comprehensive understanding of risk, and a suite of strategies at their disposal.

Learn how BDO can help fund managers position their portfolio companies for success in 2024.