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Asia Pacific Growth Equity The Road Ahead in 2025

In this report, Baker McKenzie's leading global private equity coverage team breaks down key growth equity trends across regional markets in the road ahead in 2025.

- **Market Overview**
- **Five Key Emerging Global Growth Equity Themes in 2025**
- **Five Key Asia Pacific Growth Equity Deal Trends to Watch in 2025**

Market Overview

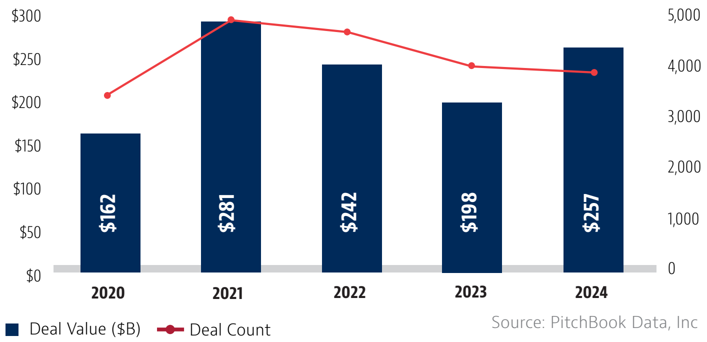
In 2024, the appetite for growth equity remained constrained amid global market challenges including rising geopolitical tensions, regional conflicts, a higher interest rate environment and increased regulatory scrutiny.

Steep declines in deal activity in 2022 - 2023 were moderately reversed in the last 12 months, with global deal volumes and valuations generally all above 2020 levels in 2024.[1]

Bright spots have emerged in certain growth sectors, with strong tailwinds for certain AI-enabled technologies, renewable energy and EV technologies, in particular, alongside an uptick in emerging markets such as Southeast Asia, India and the Middle East.

Globally, we expect investor-friendly terms to continue to feature in 2025, with investors also maintaining a highly selective approach to growth equity opportunities despite significant dry powder to deploy. We anticipate investors will continue to require portfolio companies to focus on capital efficiency and profitability in the year ahead with a cautious approach to expansion plans, particularly outside of key growth markets.

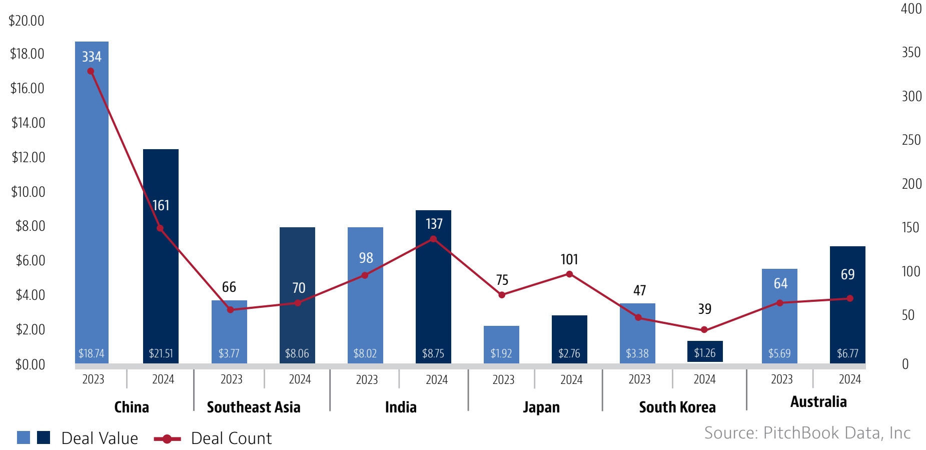
Global growth equity deal activity



Source: PitchBook Data, Inc

Despite deal volume generally remaining steady in 2024, deal value increased, approaching 2021 levels.[2]

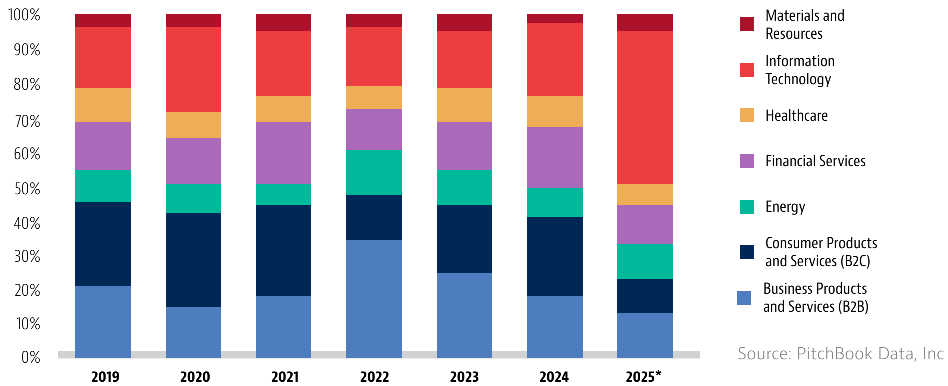
Asia Pacific growth equity - regional perspective[3]



Source: PitchBook Data, Inc

A reallocation of capital flows in the Asia Pacific region demonstrates growth trends towards emerging markets including Southeast Asia, India, Japan and Australia.

Global sector comparison – growth equity investor sentiment leading into 2025[4]



Source: PitchBook Data, Inc

Information technology remains a sector to watch in 2025 supported by continued demand across key sub-sectors, including AI, Big Data, Semiconductors and Electric Vehicles. Healthcare / Healthtech, Renewable Energy and B2B supply chain product / service providers are other areas expected to drive positive investment trends in 2025.

1 PitchBook Research (APAC Growth/Expansion deals 2019 - 2024).
2 Figures have been rounded up or down to the nearest whole number.
3 In this graph: China includes Hong Kong SAR; Southeast Asia includes: Singapore, Vietnam, Indonesia, Thailand Malaysia, Laos, Cambodia, Myanmar and Philippines.
4 2025 data reflects the period up to 19 March 2025.

Five Key Emerging Global Growth Equity Themes in 2025

1 Rebalancing

Volatile markets in Q1 2025 are expected to continue in the year ahead with further anticipated revaluations, down rounds and potential shutdowns reshaping the growth equity landscape. In fact, recent data indicates that 19% of all new investments in Q4 2024 were down rounds.[5] We expect a period of rebalancing to continue in 2025 as valuations stabilise, and, consistent with recent trends, this may lead to a more sustainable environment for future growth, particularly in hot sectors such as AI, software and EV technologies.

2 Exit activity to improve as financing conditions ease

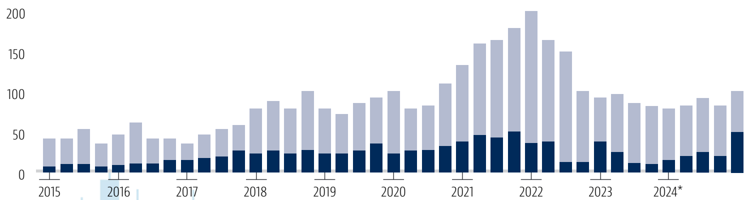
While investors continue to navigate longer hold periods and extended cash runways with ageing portfolios, exit activity is expected to improve as financing conditions ease. Exit valuations for private equity-backed portfolio companies globally increased by 7.6% to $813 billion in 2024 after two years of decline (reaching the third highest on record).[6] As the global IPO pipeline gradually picks up steam, coupled with an anticipated decline in interest rates, investors' views on pricing risk is anticipated to improve. Private credit (including venture debt) also continues to gain traction globally, providing alternative sources of capital to borrowers and greater flexibility for investors to fund opportunities.

3 Artificial intelligence

AI continues to be a key driver for investment and attracts a premium, particularly across the technology and digital infrastructure spaces. AI captured around a third of all new growth equity funding in 2024. Q4 2024 saw a series of fundraises from Databricks ($10 billion), OpenAI ($6.6 billion), xAI ($6 billion), Anthropic ($4 billion), Perplexity ($500 million), Physical Intelligence ($400 million), Vultr ($333 million), Sandbox AQ ($300 million), Liquid AI ($250 million), Writer ($200 million) and Tessl ($125 million) (amongst others).[7] However, AI technology faces geopolitical and regulatory headwinds requiring careful consideration. Balancing the potential for high returns with the complexities of these global challenges will be essential for making sound investment decisions in this rapidly evolving sector.

AI companies attract a growing share of global growth equity investment

Quarterly venture capital funding worldwide for AI and other types of start-ups



Source: PitchBook Data Inc

*2024 data is preliminary as of 31/12/24

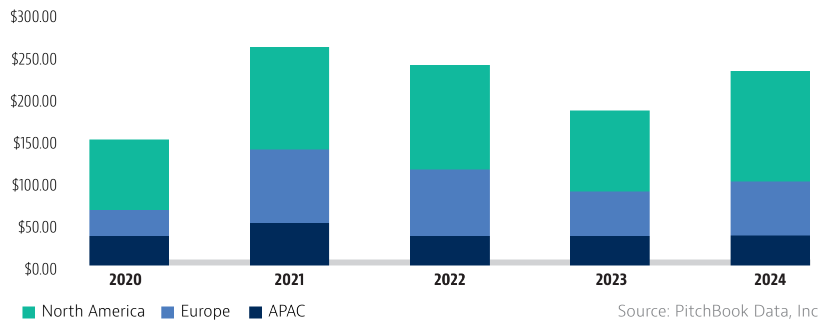
4 Investor-friendly terms prevail broadly across regions

Investor-friendly preferred equity terms are expected to remain a feature of the market in 2025. US markets continue to present a narrower range of preferred equity terms within the growth equity market that generally remain favourable to companies – this includes a consistent application, in the majority of deals, of terms involving liquidation preferences (typically in the order of 1x) and non-participating preferred, non-cumulative dividend rights and no redemption rights. Nevertheless, we expect in 2025 a slight increase in the number of deals featuring higher liquidation multiples (ranging from 1.5x to 3x), cumulative dividends and redemption or forced exit rights. In comparison, EMEA and Asia Pacific markets provide a more varied approach to these terms.

5 North America retains top position notwithstanding some capital reallocation to other growth markets

As investors continue to navigate various geopolitical, regulatory and economic headwinds, the ongoing reallocation of capital to certain emerging markets (such as Southeast Asia, India and the Middle East) presents alternative investment opportunities that offer investors interesting diversification benefits. Nevertheless, we expect investors will continue to gravitate to North America as the dominant destination for capital.

Global - Regional comparison (Deal Value $B)



Source: PitchBook Data, Inc

> *The key reason why the USA has so much entrepreneurial success is that the country has the best risk capital where founders can raise $50 million even if their business has only a 10% chance of succeeding.*
>
> **Jeff Bezos**

5 Carta, State of Private Markets: Q4 and 2024 in review, 13 February 2025.
6 McKinsey & Co, Global Private Markets Report 2025: Private equity emerging from the fog, 13 February 2025.
7 Rothschild & Co, Growth Equity Update (Edition 34), 14 January 2025.

Five Key Asia Pacific Growth Equity Deal Trends to Watch in 2025

1 Enhanced due diligence

Enhanced due diligence practices continue to evolve, largely driven by recent high-profile cases that have underscored the critical importance of thorough vetting processes. Investors are increasingly prioritising comprehensive evaluations of potential investments, focusing on financial health, regulatory compliance and operational integrity. A trend towards a more rigorous due diligence process aims to identify red flags early and mitigate potential risks.

2 Investor-friendly protective rights persist

While deal terms may differ across regional markets due to unique local market conditions / regulatory requirements, generally, later-stage growth equity transactions in the Asia Pacific region are increasingly trending to follow US-style deal terms and forms. In particular, we expect the following investor-friendly growth equity protective rights to feature in the year ahead:

- **Liquidation preferences**. Investors are increasingly seeking multiples of up to 1.5x to 2x, with certain participation rights.
- **Dividend rights**. Subject to legal and accounting considerations, investors are likely to continue to look towards enhanced dividend preferences and cumulative dividends.
- **Governance**. Relative to the EMEA and North America markets, investors in Asia Pacific deals tend to require greater oversight and control (including via consent rights over reserved matters / protective provisions), with a focus on safeguarding investor interests. This may lead to negotiation of more granular consent rights over day-to-day / operational matters (in contrast to US-style terms, where typically protective provisions tend to offer founders more autonomy to grow value).

3 Developing investor-friendly exit-related provisions

Exit provisions in later-stage growth equity deals in the Asia Pacific region are also trending towards US-style deal terms, including in respect of the following investor-friendly provisions:

- **Qualified IPO**. The triggering threshold for a qualified IPO typically starts from 2x to 3x capital invested for early-stage financings, but investors are starting to view the lower bound (i.e., 2x) as providing insufficient protection and therefore negotiating higher thresholds before a qualified IPO can be triggered. This is another reflection of the investors' stronger leverage and focus on exit multiples.
- **Redemption rights**. Although not yet common across all Asia Pacific markets, there is a growing acceptance of redemption rights to complement more common exit rights such as drag-along rights and tag-along / co-sale rights.

4 Pay-to-play and cram-down provisions

As a counterbalance to the increasing prevalence of investor-friendly terms, pay-to-play and/or cram-down provisions are starting to emerge, or at least be discussed, in Asia Pacific transactions. Such provisions may require existing investors to participate in subsequent financing rounds or risk losing their rights and/or suffer a significant dilution of their existing ownership stake, incentivising investors to continue to provide funding to support the company's growth. The actual take up of these terms remained limited in 2024, however, we expect investors and companies alike to closely monitor this area, as companies seek to align growth plans with investor commitments.

5 Convertible instruments

The use of convertible notes continue to feature as an efficient way to attract capital while leaving valuation discussions to a later financing round. Convertible note terms and attached economics look set to be trending in favour of investors. Key deal terms to watch include the following:

- **Liquidation multiples**. Higher liquidation multiples of up to 2x in the event of an exit or liquidation.
- **Conversion discounts**. Investors may seek discounts of up to 30% of the issue price at the relevant financing round (up from 15-20% in recent years).
- **Covenants**. Investors may require tighter minimum cash requirements and additional undertakings, requiring investors' consent for corporate actions.
- **Compounding interest and valuation caps**. It is increasingly common to see higher compounding interest rates and lower valuation caps, reflecting the shift towards more investor-friendly terms.

A Cautious Outlook in the Year Ahead

Minority growth deals continue to outnumber buyout deals across the Asia Pacific private equity market in recent years.[8] While the Asia Pacific region offers significant potential for growth equity investments, we expect institutional investors to continue to proceed with caution in 2025, primarily driven by ongoing challenging fundraising, liquidity concerns, market volatility and uncertain geopolitical conditions.

Growth equity markets in the Asia Pacific region have seen a reorientation over recent years towards investment in emerging regional economies with positive growth prospects in addition to competitive labour costs, improving infrastructure and favourable trade policies. In particular, private capital activity in Southeast Asia, India, Korea and Japan looks set to continue to drive demand in 2025 across a number of growth sectors.

Looking forward, while we expect a bumpy ride to persist in 2025, if geopolitical conditions and valuations stabilise, the Asia Pacific region is well placed to continue to offer significant potential for growth equity investments, bolstered by supportive government policies and high-potential growth businesses in a dynamic and rapidly evolving market.

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8 PitchBook, Growth equity deals surpass LBOs, defying historical trend, 11 September 2024.

*FenXun established a joint operation office with Baker McKenzie in China as Baker McKenzie FenXun, which was approved by the Shanghai Justice Bureau in 2015.
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