DIVERSIFYING YOUR ASIA EXPOSURE:

Australia private equity

DECEMBER 2025

Introduction

As private equity investors reassess Asia exposures amid geopolitical and regulatory uncertainty, Australia presents a differentiated proposition.[1] It combines the resilience of a stable, developed economy with transparent market mechanisms and regional integration. It also offers indirect exposure to Asia's growth through expanding trade flows.

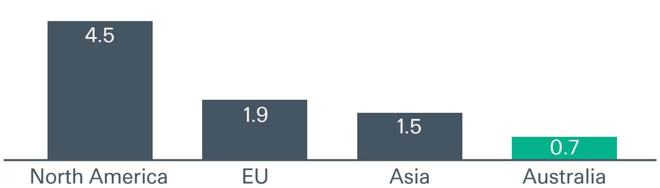
Several themes stand out:

- The lower middle market (LMM) remains significantly underpenetrated, creating opportunities for outsized value creation.
- Returns have been consistently strong, supported by secular tailwinds across healthcare, technology and business services.
- Together, these dynamics offer investors developed-market safety with emerging-market adjacency—a rare blend that can enable stable compounding returns in an increasingly volatile world.

Steady macroeconomic backdrop, yet low PE penetration

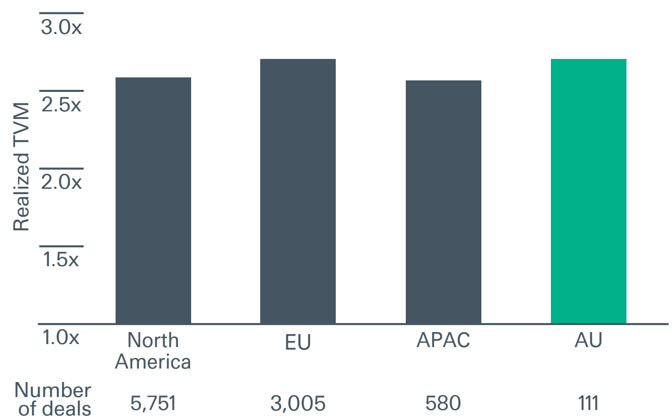
Australia's private equity AUM has more than doubled in the last ten years, reaching A$45 billion in 2024. Yet penetration remains relatively low (**Figure 1**). The market is also underserved, with fewer than 100 buyouts a year compared with thousands in the US and UK, and only a limited number of scaled institutional funds despite a wide breadth of investable companies (**Figure 2**). This disconnect suggests headroom for growth.

FIGURE 1: PE DRY POWDER AS % OF GDP



Source: Preqin Pro, IMF, as of August 2025.
Note: Dry powder is defined as committed but unallocated capital that is available for investment (committed less called capital), nominal GDP figures reported by the IMF are GDP figures valued at current market prices, as of December 2024.

FIGURE 2: PERFORMANCE OF REALIZED LMM BUYOUT INVESTMENTS BY REGION (2005–2025)



Source: SPI by StepStone, as of November 2025.
Notes: Performance is presented based on the fund's reported currency, which is generally reported on a constant currency basis.
LMM buyouts are defined as deals transacted by funds under US$1 billion in commitments in Asia and Australia; in North America and Europe, LMM buyouts are deals done by funds under US$2 billion in commitments. These thresholds reflect regional differences in market maturity and deal scales.

Against this backdrop of low penetration, the broader economy remains robust. After nearly three uninterrupted decades of expansion prior to Covid, Australia's GDP is projected to grow 2% annually over the next two years. Immigration-led population gains, a highly skilled workforce, fiscal strength and a stable political environment—factors that drive both domestic consumption and investment in key sectors—underpin this growth.

Complementing these macro fundamentals, Australia's regulatory and pension framework is channeling more capital into private equity. Its A$4.2 trillion superannuation system provides a powerful structural tailwind: Private assets in so-called supers have risen from A$300 billion in 2022 to A$400 billion in 2024, and allocations to domestic private equity and co-investments are steadily increasing.

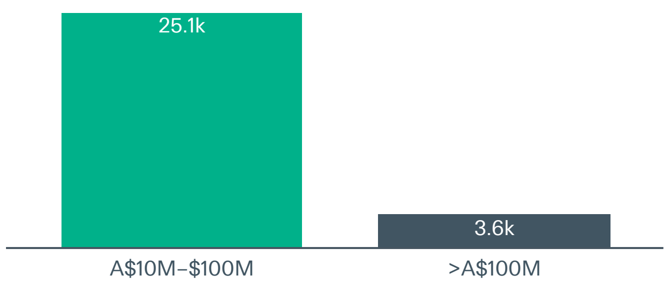
Meanwhile, government initiatives—such as the Early-Stage Venture Capital Limited Partnership (ESVCLP), and the National Reconstruction Fund—further reinforce capital flows by offering tax incentives and co-investment opportunities.

[1] In this whitepaper, we focus primarily on Australia, owing to its larger market scale and deeper pool of investable assets. However, we acknowledge that many sponsors do invest in New Zealand or cross-border ANZ assets given the similarities in demographic tailwinds and business environments.

Unlocking value in the LMM

Often overshadowed by large-cap headlines, Australia's LMM is underpenetrated but structurally aligned with PE value-creation playbooks (**Figure 3**). These companies typically generate annual revenues of ~A$100 million or less and are pursued by GPs investing from sub-A$1 billion funds. While larger sponsors also engage in this space, they typically view these companies as bolt-ons for their existing platforms.

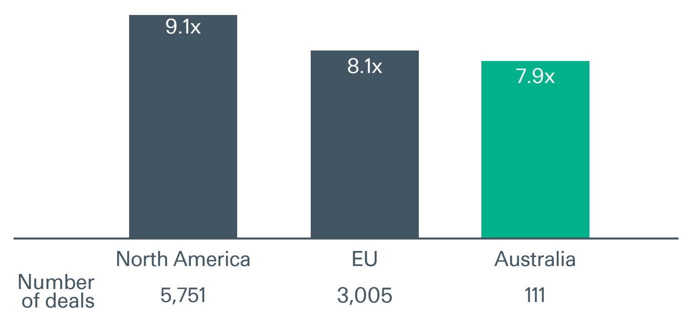
FIGURE 3: LMM OPPORTUNITY SET (BY ANNUAL REVENUE)



Source: Australian Tax Office, as of July 2024.
Note: Opportunity set is defined as the number of Australian companies by annual revenue.

At the upper end of the market, ANZ deal flow is limited to a handful of sponsor-backed platform deals, corporate carve-outs or take-privates. By contrast, the LMM offers thousands of profitable founder- or family-owned businesses across sectors like healthcare, technology or business services. Many of these companies are capital-efficient but face growth or succession challenges. This imbalance creates compelling opportunities: fewer intermediated processes, more attractive entry valuations and potential for significant upside through operational improvements and bolt-ons (**Figure 4**). These are mature, cash-generating businesses with proven models—offering investors both resilience and growth potential.

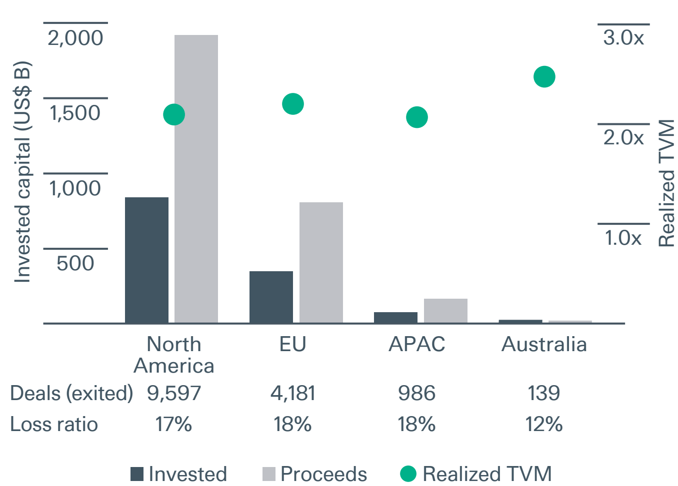
FIGURE 4: LMM 20-YEAR AVERAGE ENTRY TEV/EBITDA (2005–2025)



Source: SPI by StepStone, as of November 2025.
Note: LMM buyouts are defined as deals transacted by funds under US$1 billion in commitments in Asia and Australia; in North America and Europe, LMM buyouts are deals done by funds under US$2 billion in commitments. These thresholds reflect regional differences in market maturity and deal scales.

Tenured ANZ-focused managers are increasingly formalizing dedicated LMM strategies, recognizing the market's depth and limited competition for quality opportunities. Alongside them, a coterie of family offices and deal-by-deal firms are pursuing niche verticals. This thesis is rooted in stability: Australia-focused funds have historically generated more consistent return profiles, lower loss ratios and better realizations than peers of the same vintage in North America, Europe, China and broader Asia-Pacific (**Figure 5**).

FIGURE 5: PERFORMANCE OF REALIZED INVESTMENTS (2005–2025)



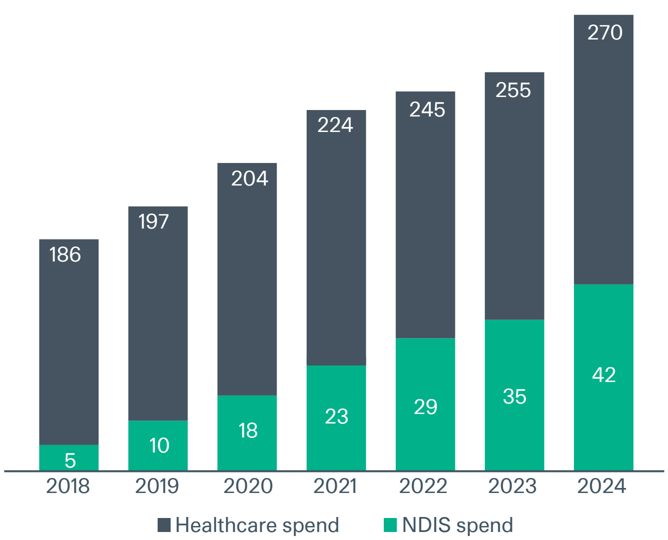
Source: SPI by StepStone, as of November 2025.

Attractive sector themes

HEALTHCARE

Australia's healthcare market is large, growing and fragmented, with care still delivered largely by independent clinics and sub-scale providers. Demographic tailwinds are strong: around half the population lives with at least one chronic condition, and the country's elderly population—20% today—is projected to double in 30 years. Government support for its aging population remains strong. National Disability Insurance Scheme (NDIS) spending is projected to reach A$50 billion in FY25–26, making it one of Australia's largest single federal programs (**Figure 6**). With funding priorities shifting toward disability services dominated by private operators, the sector offers investors scalable platforms, resilient demand and clear opportunities for consolidation.

FIGURE 6: OVERALL GROWTH OF AUSTRALIA HEALTHCARE EXPENDITURE (A$B)

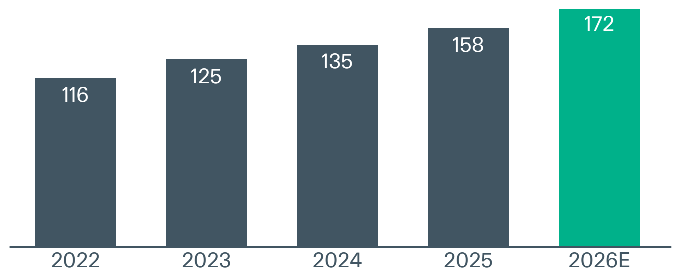


Source: OECD and Australian Parliamentary Library, as of November 2025.

TECHNOLOGY

IT spending is projected to reach A$158 billion in 2025, with software alone growing at 14% annually (**Figure 7**). Despite limited VC funding, Australia ranks among the most capital-efficient ecosystems globally, producing unicorns and decacorns at outsized rates.[2]

FIGURE 7: AUSTRALIAN IT SPENDING FORECAST (A$B)



Source: Gartner, as of September 2025.

Vertical software, which is deeply embedded in regulated industries like education, construction and mining, offers sticky, defensible platforms that are prime targets for consolidation and scale.[3]

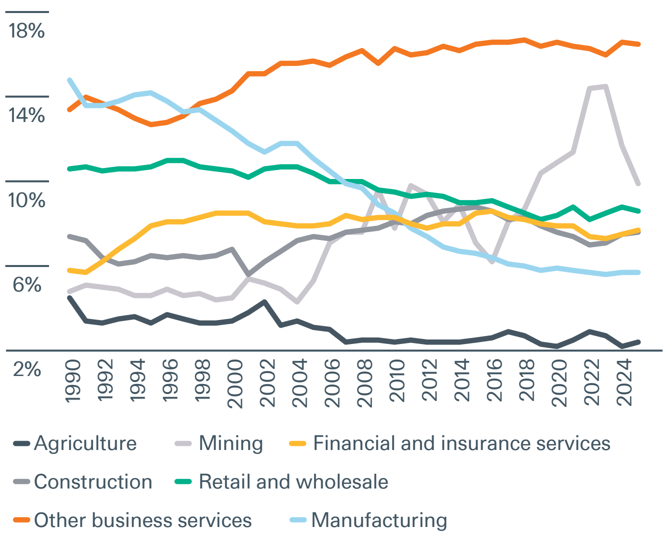
Secular trends in healthcare, software and business services create fertile ground for consolidation and platform-building, given their inherent fragmentation, scalability and resilient demand.

[2] Comparison of VC Investments in Major Markets & No. of Decacorns by Founding Country from Dealroom.co.
[3] The number of regulatory restrictions embedded in federal primary and delegated legislations reached 371,514 as of 2022, the highest level on record.

BUSINESS SERVICES

As a services-driven economy—where services make up 66% of GDP—Australia offers a large and growing business services market (**Figure 8**).[4] SMEs, which contribute more than half of output, increasingly rely on specialized providers to manage regulatory, tax and legal complexity. Service trade is also expanding consistently into high-growth Asian markets, reinforcing Australia's role as a regional hub.[5] The sector's fragmentation creates attractive opportunities for private equity to back recurring-revenue businesses and scale them through buy-and-build strategies, supported by standardization, digitization and professionalization.

FIGURE 8: CONTRIBUTION TO AUSTRALIA'S GDP



Source: Australian Bureau of Statistics, as of June 2025.

Takeaways

Against the backdrop of developing Asia (China, India, Southeast Asia) and developed Asia (Korea, Japan), Australia offers a third path for investors. It combines institutional depth, geopolitical neutrality and integration into regional trade flows with the stability of a developed market.

Its private equity landscape—particularly, the lower mid-market—offers access to thousands of profitable founder- or family-led companies at attractive entry multiples, ripe for value creation. At the same time, secular trends in healthcare, software and business services create fertile ground for consolidation and platform-building, given their inherent fragmentation, scalability and resilient demand. Together, these dynamics position Australia as a differentiated, high-potential anchor for diversified Asia exposure. Partnering with GPs that pair global best practices with local expertise best positions investors to capitalize on these opportunities. Generalist platforms with flexible sector mandates can dynamically allocate capital across the most compelling sectors—healthcare, technology and business services.

[4] World Bank, National Accounts Data.
[5] Australian Bureau of Statistics, International Trade in Services.

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