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RPM Ep. 54 | Private equity discipline in uncertain conditions with Lisa Larsson and Akash Chitrey

AM: Hello and welcome to RPM, the Stepstone Group podcast that delivers quick takes and sharp insights into the themes and trends shaping the private markets. I'm your host, Anna Marcus. Today I'm joined by Lisa Larsson, a partner on our portfolio management team based in New York, and Akash Chitrey, a senior associate based in La Jolla, on the same team. In this episode, we'll discuss private equity, liquidity and valuations, using data to show how private equity really creates and sustains value, even amid uncertain macro conditions. This conversation builds on our recent Stepstone white paper called waiting with Conviction Private Equity, Discipline and Uncertain Conditions. Lisa and Akash, welcome. Thank you for being here. Let's get started.

LL: Thanks, Anna. Great to be here.

AC: Thanks, Anna. Happy to be here.

AM: Thank you both. So diving right in now I'll start with Lisa. So, Lisa, what prompted you to write this paper? Now, what's happening in 2025 that made questions about liquidity and valuations Evaluations especially relevant.

LL: So that is a great question. I would say over the past few years, private equity has experienced, you know, slower exits and heightened scrutiny around valuations. And in 2025 in particular, we've seen geopolitical and macro uncertainty. So together, those dynamics created the right moment to step back and think about the industry using Stepstones proprietary data.

AM: Yeah. So can you give us some specifics? In other words, what's actually happening in the market. What are you seeing.

LL: So, in 2021 we had this environment of low rates, supportive policy and strong earnings. And that drove exceptional exits and performance. But in 2022, inflation spiked and central banks tightened policy pretty rapidly. So from the peak in late 2021 to the trough in 2022 the S&P 500 fell 24%, and that's compared to a 6% decline in private equity. Since then, public markets have rebounded nearly 80% through mid 2025, whereas private equity has risen about 26% over the same period. So private equity captured around 30% of the public markets performance during both the downturn and also the recovery. As deal activities slowed, distributions also weakened, and they're weakening to levels that really haven't been seen since the global financial crisis. So this further shaped investor sentiment.

AM: Okay. Really interesting. So then would you say the whole story is just about slower exits or is it something else?

LL: Well, I think what investors want is a clearer sense of how portfolios are valued and how liquid they really are. So exits have been slow. The macro environment has been choppy and that naturally raises questions about the durability of returns. So rather than relying on headlines, this is definitely the moment to see what the data is saying. So this paper really pulls together the facts on exits, valuation, and value creation so that we can, you know, empower investors to really understand what's driving the current environment and what it means going forward.

AM: Yeah, I think that's a good take. So maybe just to sum up, um, like the thesis of the paper, are you sort of saying that this is a moment where real conviction leads to better decisions?

LL: That's right. Yeah. We wanted to kind of just cut through the noise and just see what's happening in today's environment.

AM: Thanks for that. Yeah. So, Akash, moving on. Distributions have been low for the past three years. But what's actually happening with exits? How are you seeing companies getting sold?

AC: Yeah. So as Lisa pointed out, distributions have fallen to 10 to 15% of NAV annually. And to just contextualize that a little bit more typically, a mature private equity buyouts portfolio distributes 20 to 25% annually. So that's about a 50 to 60% haircut that we've seen in the last 2 or 3 years. Having said that, exit activity hasn't come to a complete halt when companies do continue to transact. And in recent years, we've seen liquidity pathways begin to evolve as well.

AM: Let's dig in more on that evolution. What liquidity pathways have you been seeing?

AC: So, traditionally, to just like contextualize this question, private equity exits have been taking three main routes. You can think of trade sales. So basically selling to a corporation or like a strategic buyer. Sponsor to sponsor, which basically means I sell to another GP or another sponsor, and then IPOs, which basically means this the company public generate liquidity for the primary investor in recent years, especially in the last five years. A fourth path has great traction, which are known as secondaries or continuation vehicles. And what they basically are are the PE firm basically taking a few crown jewels, like companies have a lot of conviction in into a new fund backed by new secondary investors. And what that does is it gives the primary investor the liquidity that they need. But at the same time lets GPs stay invested in companies that they have a lot of conviction with. And to just, like, quantify it a little bit more. Over the last few years, Jupiter and volumes have jumped to 35 billion back in 2020 to 75 billion in 2024. And if you were to believe the numbers just in the first half of 2025, they've already hit 47 billion.

AM: Yeah, that's really amazing. Can you tell me about anything else, any other sort of themes you've seen in the market?

AC: Yeah. So our data shows that sales to corporates are still like the most common exit path but sponsor to sponsor. So, basically I sell to another GP that has really picked up significantly from 2024. And that traction continues in 2025 as well. And that's a good sign. So that basically shows that there's tighter pricing alignment and healthier exit market. The flip side, IPOs are stalled since 2022 and remains sluggish.

AM: Yeah, okay, so you're saying that exits are happening. They are. But just not maybe in the super traditional way that we all know them to be happening. So what kind of companies are GPs lining up to sell in the near future?

AC: To answer that question, we I'm going to quote the buzzword AI these days, and we use AI to analyze forward exit indicators across more than 100 buyout funds that we track in our database. What we found was that about 80% of those companies that are being prepped for exits, are strong earners. Uh, not really relying on too much of multiple expansion. So these are, like, top performers, like, well-positioned for near-term exits.

AM: Okay. Yeah, interesting. But obviously 80% is not 100. So what are you seeing in the other 20%?

AC: The other 20% are companies that have basically run out of steam. So these are companies that have been held for five years. The earnings are still positive, but their growth lags expectations and peer benchmarks. And they need more strategic planning.

AM: All right. So sounds like the bottom line is that exits are still happening, but maybe just a bit more selectively and maybe with some more strategy behind them.

AC: Exactly. That's the right upshot. So quality assets are still trading and GPs are focusing on companies with solid fundamentals. It's a disciplined approach, especially in a very volatile market.

AM: Right. Yeah. No that makes sense. Thank you. Um all right so shifting gears back to Lisa. Now, Lisa, investors um, are worried that some companies may be priced too high to sell. And this and that this will keep exit activity low. What did your analysis show about private equity valuations in today's market.

LL: So that concern is definitely understandable. But I think the data really tells a more nuanced story. So we looked at a few cuts to just have a holistic view on the topic. And we started by looking at over 1800 fund investment pairs that exited between 2022 and mid 2025.

So these assets really shed light on any potential biases in valuations in the quarters leading up to exit. And what we found is that valuations weren't inflated. On average, assets were exiting at a premium to the reported values from prior quarters.

AM: Okay. Interesting. So absolutely no signs of overvaluation then.

LL: That's right. In fact, if you look at the three quarters prior to exit, you'll see an average appreciation of around 6% above reported marks. And if you look five quarters prior to exit, the average appreciation is 16% over that period. That suggests that GPs were making assets, um, you know, marking assets conservatively ahead of realization.

AM: Okay. Okay. Interesting. Yeah. So now maybe zooming out for a moment, what about the broader picture? So beyond those realized transactions, how did valuations compare between what GPs were holding and then what was actually sold?

LL: So when we looked at EBITDA multiples across both active and exited investments, uh, we initially saw a noticeable gap in 2022 and 2023. So realize companies were selling at slightly lower multiples than unrealized companies were being held, and at first glance that could look like assets on the books were marked too high. But as we moved into 2024 and 2025, that gap steadily narrowed and then closed. And what that tells us is that the early divergence was more about market volatility, low transaction activity, and just the mix of companies that happened to exit. It wasn't really a sign of systematic overvaluation.

AM: Flipping to the other side of it, what can we learn rather from the public markets? How do private valuations compare to those seen in the public markets?

LL: So private valuations sit lower relative to their public peers as they should. Private companies are smaller, less liquid and typically more levered. So a discount to public markets is what you would expect. But what's noticeable today is that spread in EBITDA multiples has become more conservative. So as of mid 2025, the public private spread is just under about around four times, and that's well above the long-term average of around 2 to 2 and a half times. So that means that private valuations are more conservative right now than historical norms.

AM: Okay, yeah, so what you're saying is private equity valuations are more conservative. That's interesting. What is the bottom line though.

LL: Yeah I mean I would say that there's just no systematic evidence of overvaluation. So GPs are selling assets at prices that actually validate the prior marks. And the slowdown index isn't because of, you know, high valuations. It's more about market uncertainty and timing.

AM: All right. So Akash we've talked about both exits and valuations. But doing so has naturally led us to a more fundamental question Akash how does private equity really create value.

AC: That's a great question. And it really comes back to the core mechanics of the asset class that we looked at, an analysis that goes over 13,000 buyout deals from 2000 to mid 2025, during which time period private equity has seen a variety of market cycles. And the results were very clear. Operational improvements, especially top line growth, are the main drivers of performance.

AM: Wow, that is sort of a new take. So what you're saying is it's not just about buying low and selling high. Maybe it's more nuanced.

AC: Exactly. So to be clear, while multiple expansion does contribute, it's actually the smallest piece of the puzzle. The data shows that earnings growth and margin expansion are account for about 3.3 times more unlevered value creation than just multiple expansion. That means private equity businesses are actually built to sustain value and build the business itself and not just writing the market sentiment.

AM: All right. Yeah. And so what about the public markets? Don't they benefit from multiple expansion as well?

AC: They do. So the data shows that GP multiple expansion has been negative relative to public markets recently, which simply means that private equity multiples have increased less than their public market peers. And public markets have just benefited from the capital market exuberance, especially recently.

AM: So then is the takeaway that private equity is fundamentally a value creation story?

AC: Exactly. That's spot on. At its core, it's about strategic execution. So driving revenue, improving margins and building stronger companies. That's the whole song and dance. And our long-term data really backs that up. So over the past 20 years, private equity companies have grown revenue roughly 7% per year than comparable public peers. Consistent outperformance is why growth remains the dominant driver of returns, even through volatile cycles, as we see now.

AM: Thanks for walking me through that and zooming out now, the title of your paper, Waiting with conviction, suggests patience, Obviously. But what does conviction really mean for investors today?

AC: It means staying disciplined. Honestly, the GPs aren't forcing exits. They're holding on strong assets until pricing aligns with fundamentals, as they should. And for investors, the goal should be the same long-term performance. Both research and experience show that a steady, disciplined approach is what drives long term success.

AM: So is it just about resisting pressure then?

AC: Exactly. Exits happen at a premium to prior marks, as Lisa mentioned, and valuations are being more conservative than the historical norms tell the same story. The industry is maintaining pricing discipline.

AM: All right. So the industry is maintaining some pricing discipline. Lisa, what would you say is the source of value in private equity growth.

LL: Growth. So this paper shows that revenue growth and operational improvements not really market timing drive returns. So that is the essence of conviction.

AM: All right. Interesting. So market sentiment is not as important as just trusting the fundamentals and staying steady. Is that right?

LL: Yeah. Even in a noisy market, conviction means just holding firm pricing responsibly and focusing on long term value creation.

AM: All right. Thank you. Akash. Any final thoughts to add?

AC: No, I think Lisa ended up with a strong note.

AM: All right then. Well thank you both so much. That is it for today's episode, Lisa and Akash, it was a pleasure to have you both with me today, so thank you.

LL: Thank you. Anna.

AC: Thanks, Anna.

AM: Yeah. And then thanks to our audience for listening and for watching. For more information on these topics, please check out our related white paper called waiting with Conviction Private Equity, Discipline and Uncertain Conditions, or contact our Portfolio Management team today. And as always, listen to and watch our RPM wherever you usually get your podcasts. Thank you.