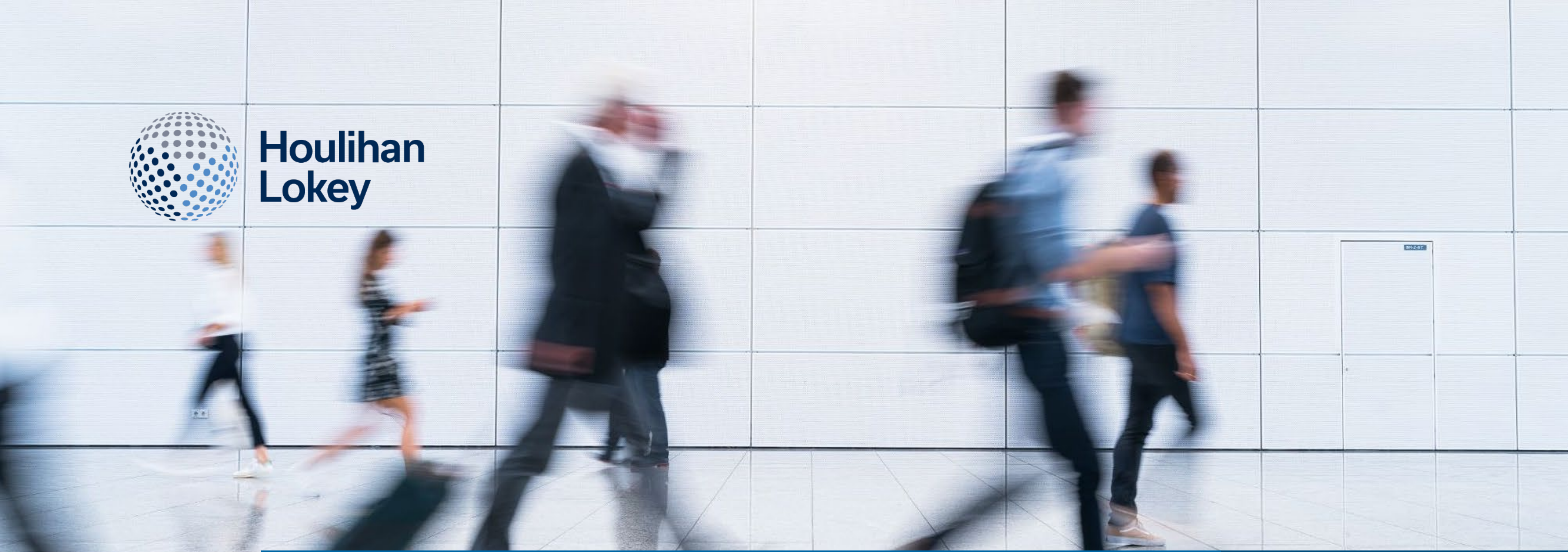
Houlihan Lokey



Growth Investor Survey

"Crosswinds"

Q2 2025

GROWTH INVESTOR SURVEY

Summary

“Crosswinds”

At this time of turbulence, we surveyed 90 of the world’s leading growth investors, with $3 trillion of assets under management, for a unique insight into private capital market dynamics and what’s to come.

Tariffs have reversed investors’ macroeconomic expectations and are increasing deployment scrutiny. Investors continue to focus on sustainable growth and profitability while pricing in uncertainty.

01

Macroeconomy: Tariffs have reversed expectations of economic improvement

The U.S. administration’s announcement of tariffs and related uncertainty have reversed macroeconomic sentiment, which had been improving.

Prior to tariffs, eight in 10 investors expected macroeconomic conditions to remain stable or improve through 2025. Post-tariffs, seven in 10 investors expect macroeconomic conditions to weaken.

Pre-tariffs, two-thirds of investors expected the IPO window to reopen in 2025. Public market volatility will delay the broad reopening of the IPO window.

The weak listing environment since 2022 has reset investors’ exit assumptions. Fewer than one in 10 investors view IPO as their preferred exit route. Almost all investors favour a sale, with a preference for strategic buyers.

Geopolitical conflicts will continue to weigh on financial markets. A majority of investors believe dynamics in Ukraine, for example, will continue to affect financial markets into 2026.

02

Private markets: Heightened deployment scrutiny and a focus on sustainable growth

Pre-tariffs, nine in 10 investors reported solid private market conditions, planned to maintain or increase their volume of dealmaking, and expected more companies to come to market.

Following the announcement of tariffs, investors expect increased volatility to persist, and near-term deployment may be subject to additional scrutiny.

Investors are increasing scrutiny of companies’ U.S. import/exports, supply chains, exposure to end markets in which demand could weaken, and the impact of tariffs on companies’ profitability.

There remains a gulf between demand for the most desirable assets in the market and other strong companies. Competition for attractive assets remains fierce.

Seven in 10 investors expect a focus on sustainable growth to persist into 2027 or beyond. Two-thirds of growth equity investors seek a path to profitability in under 24 months. PE growth investors typically require profitability in <18 months.

Above c. 50% annual revenue growth, most investors seek and reward companies demonstrating incremental profitability over incremental growth.

03

Valuation: Investors anticipate pricing in policy-related uncertainty

Tariffs and volatility in public market indices are likely to impact private market valuations that had stabilised.

Pre-tariffs, almost all investors expected to offer valuations in 2025 that were in line with the past 12 months. Post-tariffs, investors anticipate pricing in the risks and uncertainties of policy volatility.

Growth equity investors are inclined to price private companies at parity or with a small premium to their listed peers. Crossover investors typically price private companies at a discount.

Discounts on convertible loan notes (CLNs) remain consistent with historic norms, with a 20%–25% discount on the next round valuation typical.

The bid-ask spread on secondaries remains substantial. Buyers outnumber sellers, despite increased appetite for realised returns.

While valuation expectations between founders and investors are narrowing, two-thirds of investors perceive some misalignment. Few, however, perceive a gulf.

Summary (cont.)

Creative transaction structuring is widespread, while boundaries between historically diverse capital providers are blurring.

Thematically, "Rule of 40+" B2B SaaS companies and AI remain investors' top priorities, while appetite for healthcare and defence propositions is increasing.

04

Structure: Creative structuring is widespread; capital structuring is becoming more fluid

Use of structure, beyond a 1.0x non-participating liquidation preference, has become commonplace. Most investors report that most, or all, of their recent transactions included elevated structure.

Structure is aligning stakeholders' bespoke considerations regarding protection, governance, pricing, and returns.

While most growth equity investors favour a 1.0x liquidation preference, some seek higher. PE growth investors seek 1.0x–1.5x. Structured capital providers skew to 1.5x+.

Elevated (>1.0x) liquidation preferences, PIKs, warrants, and minimum MOICs are favoured tools for structure.

Investors' comfort with leverage varies. A small majority of growth equity investors are comfortable with 2.0x–3.0x turns. PE growth investors are typically comfortable with 3.0x–4.0x turns, and structured capital providers with 4.0x or more.

The boundaries between historically diverse groups of capital providers are blurring. Most investors describe their investments as increasingly fluid from a capital structure perspective, reflecting the growing prevalence of hybrid financing models and terms that blend equity and debt-like features.

05

Thematics: B2B SaaS and AI remain top priorities, while defence tech is on the rise

Investor demand is greatest for "Rule of 40" or greater B2B SaaS companies, AI-led propositions, vertical SaaS, industrial automation, cybersecurity, FinTech, and healthcare.

Defence technology is now a priority for more investors, reflecting tailwinds in spending, opportunity for "disruptors" delivering autonomy, and new procurement dynamics.

Investors' focus on healthcare is increasing, as capital allocators seek exposure to the industry's high-quality contracting arrangements and enterprise sales of mission-critical solutions to the pharma industry.

Appetite for emerging market companies and ESG propositions is generally weaker, reflecting concerns regarding end-market dynamics, volatility, and regulatory/policy risk.

Nine in 10 investors will maintain/increase their volume of AI investments. However, investors are shifting from FOMO behaviour to a fundamentals-led approach, focused on companies' impact on customer KPIs, monetisation, and defensibility.

Investors note that we are early in the era of AI. The pace of innovation makes it difficult to pick winners. Most value will accrue at the application layer. Success factors include high-value use cases, embedding into enterprise workflows, proprietary data and data network effects, and distribution.

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01

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Tariffs have reversed investors' expectations regarding the macroeconomy.

The U.S. administration's announcement of tariffs and related uncertainty have disrupted macroeconomic sentiment, which had been improving.

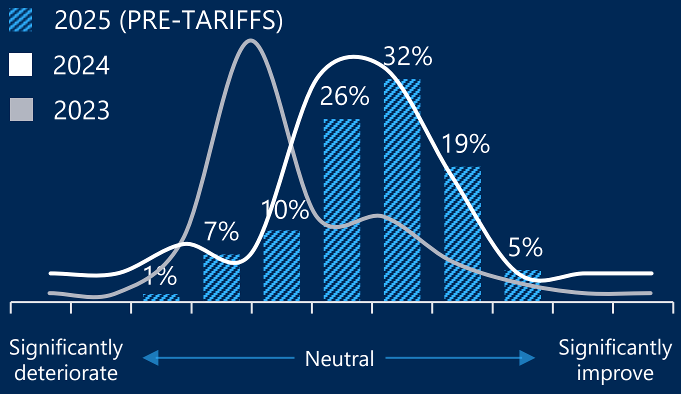
Prior to tariffs, eight in 10 investors expected macroeconomic conditions to remain stable or improve through 2025. Post-tariffs, seven in 10 investors expect macroeconomic conditions to weaken through 2025.

The shock from tariffs is elevated due to investors' expectations. Pre-tariffs, most investors expected the Trump administration to have a broadly neutral impact on investment appetite, while a third expected a positive catalyst. Pre-tariffs, seven out of 10 investors expect the Nasdaq to remain broadly stable through 2025.

Prior to the announcements of tariffs, nine in 10 investors anticipated interest rate declines in the next 12 months, with a third anticipating a 25bps reduction and a third expecting a 25bps–50bps cut. Following the announcement of tariffs, policymakers will face a more acute dilemma between supporting growth and catalysing inflation.

Over the next 12 months, I expect macroeconomic conditions to ____.

Percent of Respondents



PRE-TARIFFS

8/10

Investors expected macroeconomic conditions to remain stable or improve

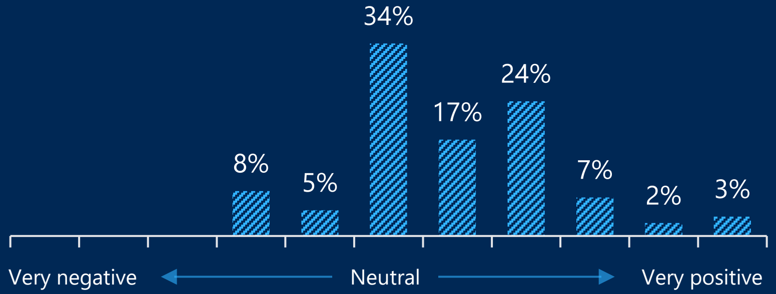
POST-TARIFFS

7/10

Investors expect macroeconomic conditions to deteriorate

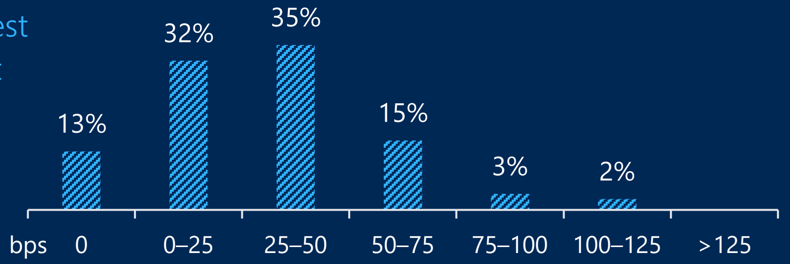
The Trump administration will have a _____ impact on my investment appetite.*

Percent of Respondents



In my country, I think interest rates will decline by at least ____ in the next 12 months.

Percent of Respondents



*Question answered pre-tariffs.

The IPO window is no longer poised to reopen broadly. Investors' exit assumptions have reset.

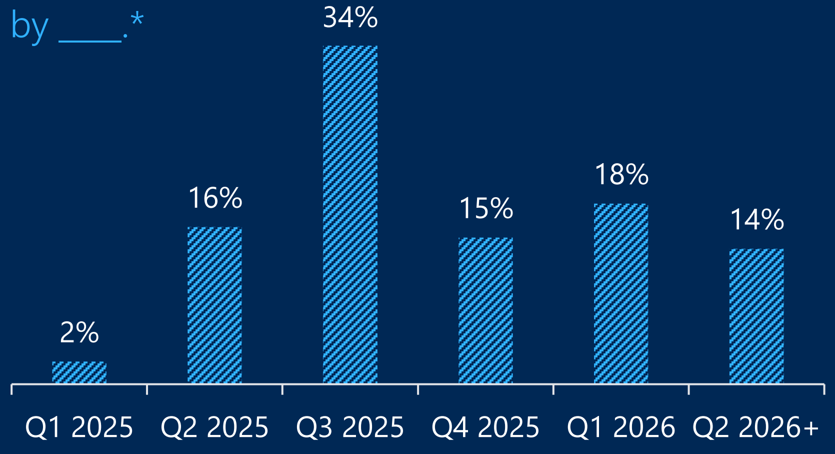
Pre-tariffs, two-thirds of investors expected the IPO window to reopen meaningfully before the end of 2025. Public market volatility has resulted in several IPOs being pulled in the past month and will further delay the broad reopening of the IPO window.

We believe private secondaries will continue to be an important source of liquidity in the market through 2025.

The persistently weak environment for listings since 2022 has reset investors' exit assumptions. Fewer than one in 10 investors now view IPO as their preferred exit route, down from one in three last year. Almost all investors now favour a company sale, with a significant preference for strategic buyers.

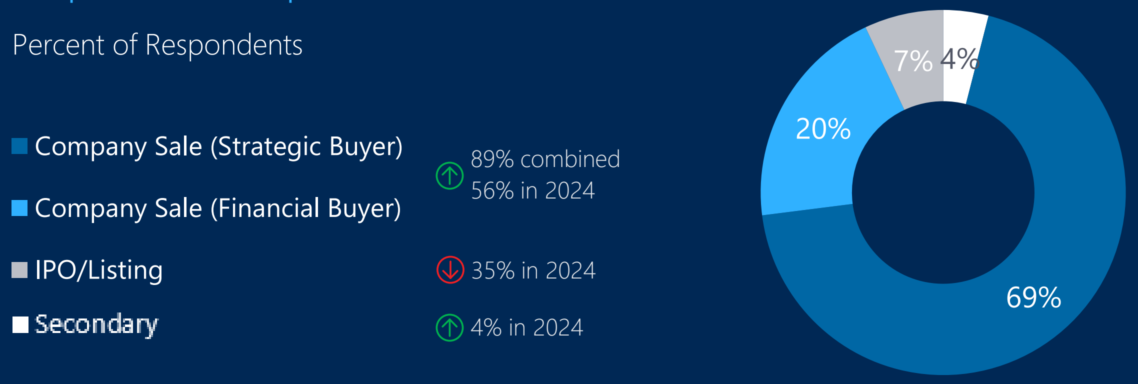
I expect the IPO window to reopen meaningfully by ____.*

Percent of Respondents



What is your preferred exit route for portfolio companies?

Percent of Respondents



*Question answered pre-tariffs.

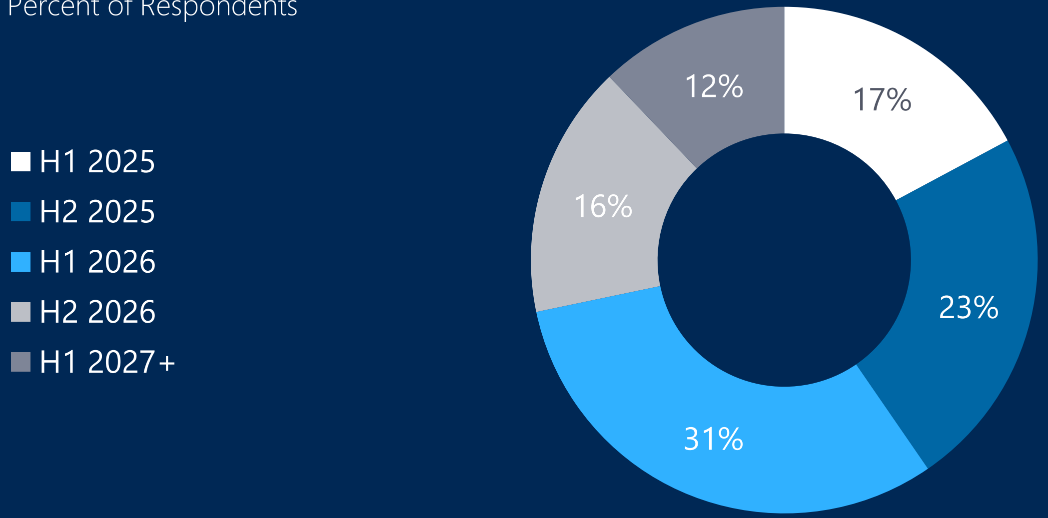
Conflicts will continue to weigh on financial markets.

Investors now regard geopolitical risk as a persistent long-term consideration, with implications in sectors including defence and energy.

While negotiations regarding Ukraine's future may result in a settlement of some kind in the short to medium term, a majority of investors believe that developments in Ukraine, for example, will continue to impact financial markets in 2026 or beyond.

Developments in Ukraine will continue to impact global financial markets until ____.

Percent of Respondents



02

Private markets: Heightened deployment scrutiny and a focus on sustainable growth.

In Q1 2025, pre-tariffs, nine in 10 investors reported solid private market conditions, expected to maintain or increase their volume of new investments, and expected more companies to come to market.

Following the announcement of tariffs, investors expect increased volatility to persist, and near-term deployment may be subject to additional scrutiny.

Investors are increasing scrutiny of companies' U.S. import/export dynamics, supply chains, and exposure to end markets in which demand could weaken. Investors perceive potential budget volatility, which could strain companies' growth rates, and will assess the impact of tariffs on companies' profitability.

There remains a gulf between demand for the most desirable assets in the market and other strong companies. Competition for desirable assets remains fierce.

Seven in 10 investors expect a focus on sustainable growth to persist into 2027 or beyond. Two-thirds of growth equity investors seek a path to profitability in under 24 months. PE growth investors typically require profitability in <18 months.

Above c. 50% annual revenue growth, almost all investors seek and reward companies demonstrating incremental profitability over incremental growth.

Pre-tariffs, investors reported increasingly robust private market conditions.

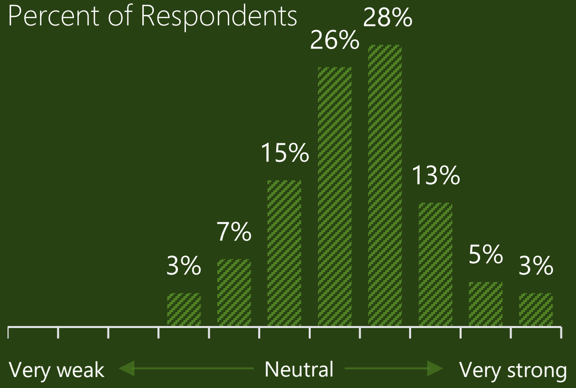
In Q1 2025, prior to the announcement of tariffs, nine in 10 investors:

- Reported solid or strong private market conditions—our strongest reading of the past two years.
- Expected to maintain or increase their pace of new investments through 2025.
- Expected more companies to come to market than in 2024, with a majority anticipating a significant increase in volume.

A sizeable majority of investors viewed private capital market conditions as somewhat or highly attractive, with seven in 10 expressing a bullish outlook. Growth capital funds were most optimistic, closely followed by structured capital funds. PE growth investors, while positive, skewed more neutral.

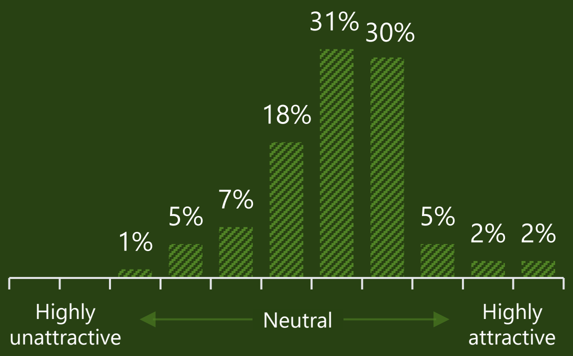
I believe private capital market conditions are _____.

Percent of Respondents



Current private market conditions represent a ___ investment opportunity.

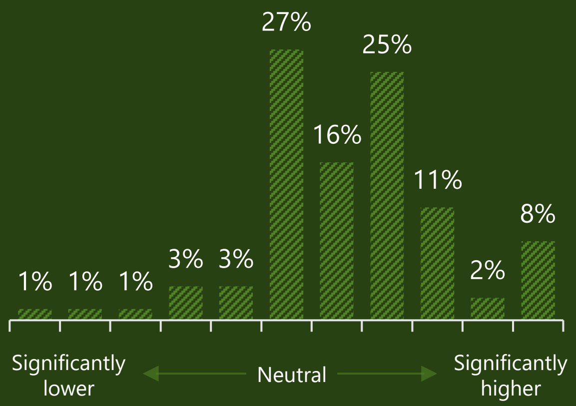
Percent of Respondents



Compared with the past 12 months…

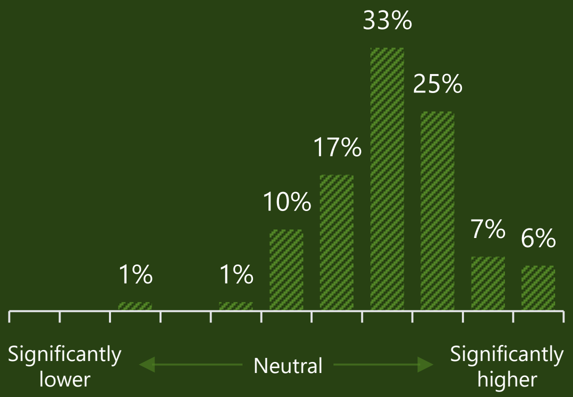
…the volume of investments I will make in new opportunities in the next 12 months will be ___.

Percent of Respondents



…I expect the volume of companies coming to market to raise capital in the next 12 months to ___.

Percent of Respondents



Tariffs risk disrupting activity...

Following the announcement of tariffs, investors expect increased volatility to persist, with unpredictable policy changes and second-order effects that will emerge in the months ahead.

Investors' near-term deployment may be subject to additional scrutiny. While many investors (whose portfolios have less exposure to hardware and goods-related companies) see limited direct impact from tariffs, multiple considerations may impact investors' decision-making, including macroeconomic uncertainty, public market volatility, a more challenging exit environment, and secondary impacts from tariffs. Most investors "continue to do deals...but have taken the foot off the pedal a bit" (Tier 1 growth equity investor) and are "in no rush—clarity is more valuable than speed, currently" (Tier 1 PE growth investor).

> We've less direct exposure to tariffs in the portfolio, as there's less hardware there—the biggest question mark is macroeconomic shock, and the impact on growth in the U.S. and globally." (Tier 1 growth equity investor)

Volatility is expected to persist.

"Tariffs and market volatility have made it difficult to get clear macro signals."

"Volatility will persist."

"We won't have a clear picture."

"It's a moving target."

Some investors' near-term deployment will slow.

"We expect our investment pace to moderate."

"The market may slow a bit in the short term."

"We continue to do deals. But we've taken the foot off the pedal a bit."

"For earlier stage growth, we don't expect a significant impact."

"We're in no rush—clarity is more valuable than speed, currently."

"We're seeing slower decision cycles and heightened scrutiny."

"Lack of IPOs and liquidity... results in more cautious deployment by funds."

…and have introduced new areas of scrutiny

Following the announcement of tariffs, investors:

- Expect greater scrutiny of companies with significant U.S. imports, supply chain exposure to the U.S., or exposure to discretionary consumer spending in the U.S.
- Perceive potential budget volatility and longer sales cycles among selected end markets, which could strain companies' growth rates.
- Expect to assess the impact of tariffs on companies' profitability.
- Anticipate deeper diligence to validate companies' resilience.
- Plan to undertake further analysis of companies' exit options, as exit forecasting becomes more challenging.

European investors and companies without U.S. exposure may enjoy a relative advantage, presenting an opportunity for the Continent. "We'll increase focus on European companies aiming for European expansion versus scaling in the U.S." (Tier 1 PE growth investor). "As a European fund, while there will be second-order effects, overall, we'll be less impacted" (Tier 1 growth equity investor).

Scrutiny of companies' U.S. exposure will increase.

"More scrutiny and struggle with material import/export exposure to or from the U.S."

"More scrutiny on U.S. investments."

"We'll be cautious on companies that rely on U.S. trade."

U.S. consumers are expected to come under pressure.

"The U.S. consumer may be challenged for the foreseeable future."

"We're a bit more 'risk off' on discretionary consumer"

Investors will evaluate changes in companies' profitability.

"Expect attention on tariffs' impact on companies' profitability."

"Expect further questions to be asked on supply chain."

"We'll use pro forma EBITDA with 'worst outcome' on tariffs for downside assessment on valuation and exits."

Investors have "doubled down" on fundamentals and resilience.

Volatility deepens the themes described in this survey, as investors anticipate an even greater focus on company quality and are doubling down on end market dynamics, efficiency, resilience, and exit path.

There remains a gulf between demand for the most desirable assets in the market and other strong companies.

Six in 10 investors report that the quality of companies seeking financing is continuing to increase, indicative of a market in which increasing activity has been underpinned by stronger companies.

Competition for the most desirable assets remains significant. Two-thirds of investors report high levels of competition for deals in which they participate—up materially compared with 2024. Particularly among growth equity investors, bidding dynamics can be "highly competitive" (Tier 1 growth equity investor).

"Resilience" remains top of mind for investors.

"Expect an even greater focus on quality. A tougher market environment requires resilience."

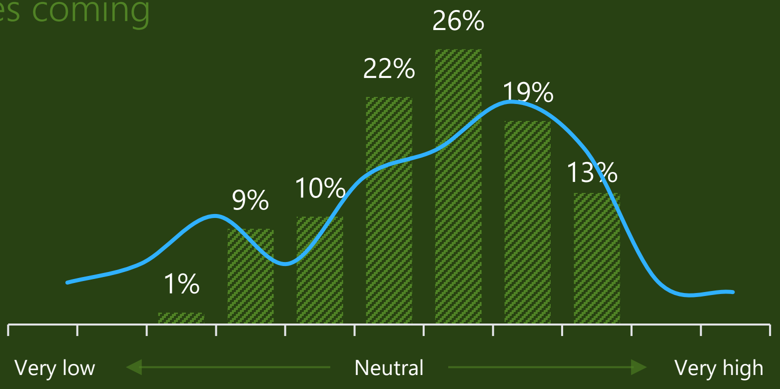
"We're taking a disciplined approach: fundamentals, companies with strong unit economics and operational resilience."

"Exit forecasting is more difficult, so understanding scope for strategic sales becomes key."

The quality of companies coming to market is ____.

Percent of Respondents

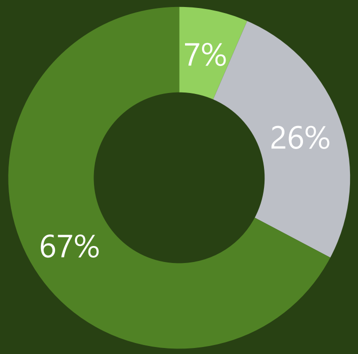
- 2024
- 2025



The level of competition in deals for which I bid is currently ____.

Percent of Respondents

- Low
- Medium
- High



Investors remain focused on efficient growth and timeline to profitability.

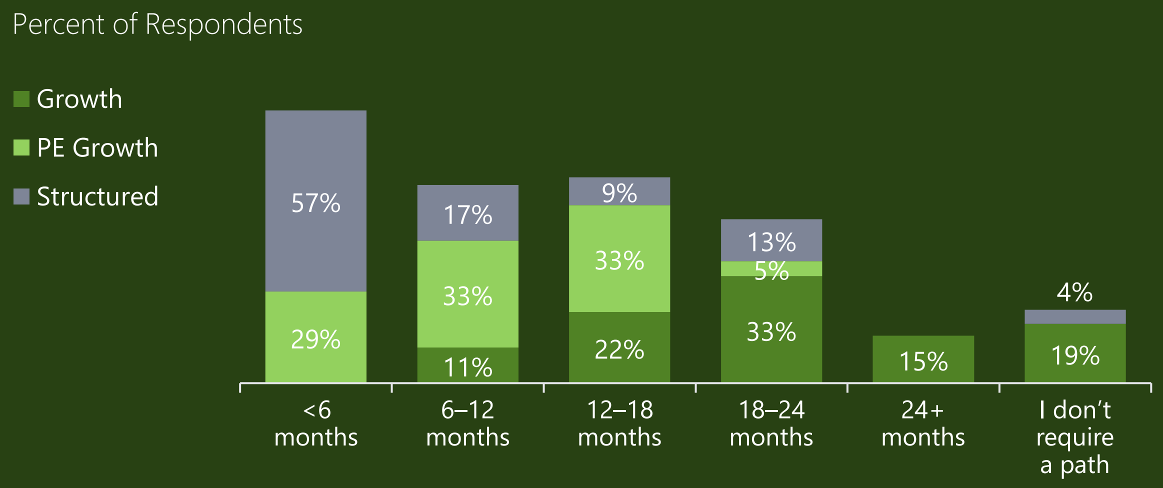
Investors' focus on sustainable growth, versus "growth at any cost," remains pronounced. Seven in 10 investors expect a focus on sustainable growth to persist into 2027 or beyond. Half of investors expect no return to a "growth at any cost" era.

Regarding the timeline to profitability:

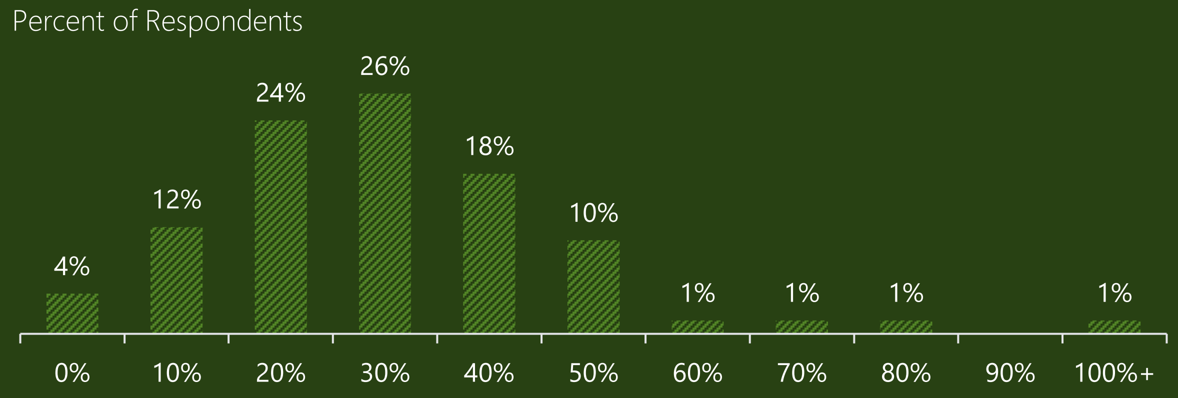
- Two-thirds of growth equity investors seek a path to profitability in under 24 months. A third are comfortable with longer periods of burn.
- Almost all PE growth investors require profitability in less than 18 months.
- Eight in 10 structured capital investors seek profitability in less than 12 months.

Significantly, above 50% annual revenue growth, almost all investors report that they seek and reward companies demonstrating incremental profitability over incremental growth.

When investing in unprofitable companies, I typically seek a path to profitability in _____.



Above what level of annual revenue growth do you seek and reward incremental profitability above incremental growth?



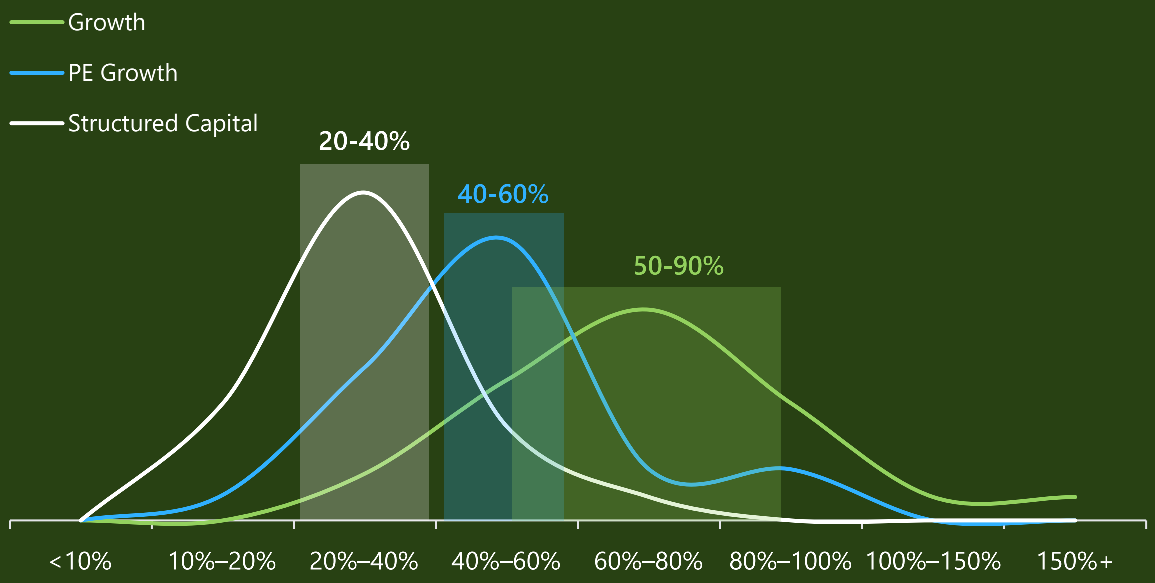
"High growth" remains a relative concept.

For growth equity investors, companies typically need to deliver 50%–90% annual revenue growth to be considered "high growth." For PE growth investors, 40%–60% is a benchmark for many. For structured capital providers, 20%–40% is significant.

Differences reflect investors' strategic focus, with growth equity seeking rapid expansion while structured capital providers emphasise cash flow and downside protection.

To me, "high growth" implies a revenue growth of _____.

Percent of Respondents



Tariffs may disrupt the performance of companies that had been on budget.

Investors report a “bell curve” regarding portfolio companies’ revenue and margin performance, relative to budgets, for 2025 so far.

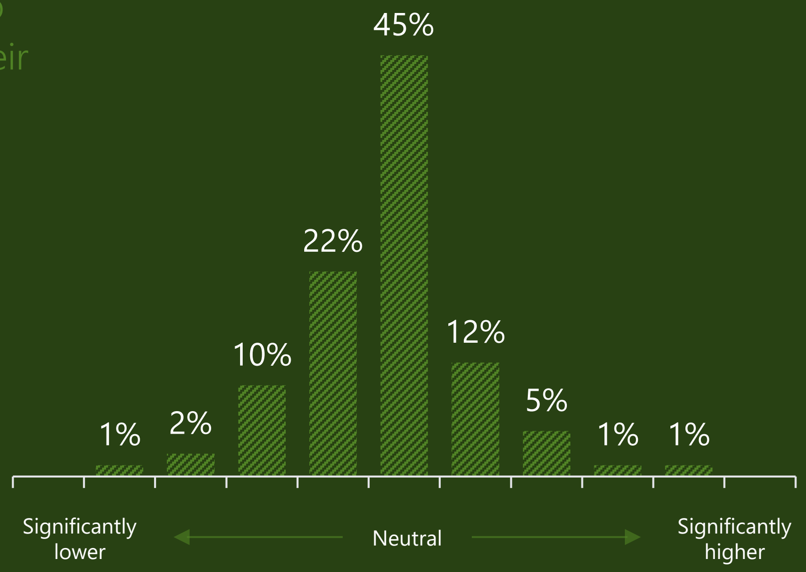
Approximately eight in 10 investors report that, generally, their portfolio companies are broadly in line with their revenue and margin forecasts for 2025E. One in five report significant negative or positive variations.

Pre-tariffs, performance relative to plan reflects the high quality of investors’ portfolios, relatively stable macroeconomic and end-market dynamics, and improved forecasting discipline in the era of efficient growth.

Post-tariffs, companies’ performance relative to budget may be impacted—directly or indirectly—by weakening demand in selected end markets, elongated sales cycles, supply chain disruption, tariff-related cost pressures, and reduced visibility when forecasting.

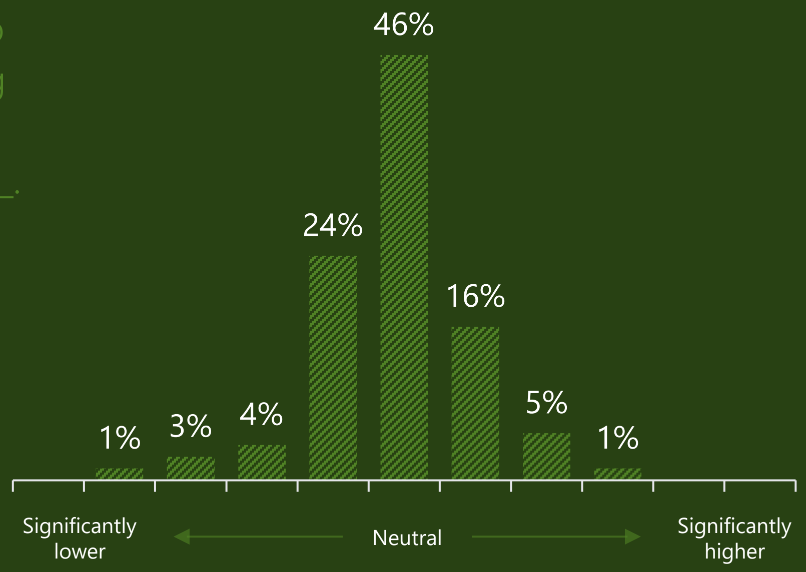
Generally, my portfolio companies revising their FY 2025 revenue budgets are revising them ______.

Percent of Respondents



Generally, my portfolio companies are revising their annual margin (percent) budget ______.

Percent of Respondents



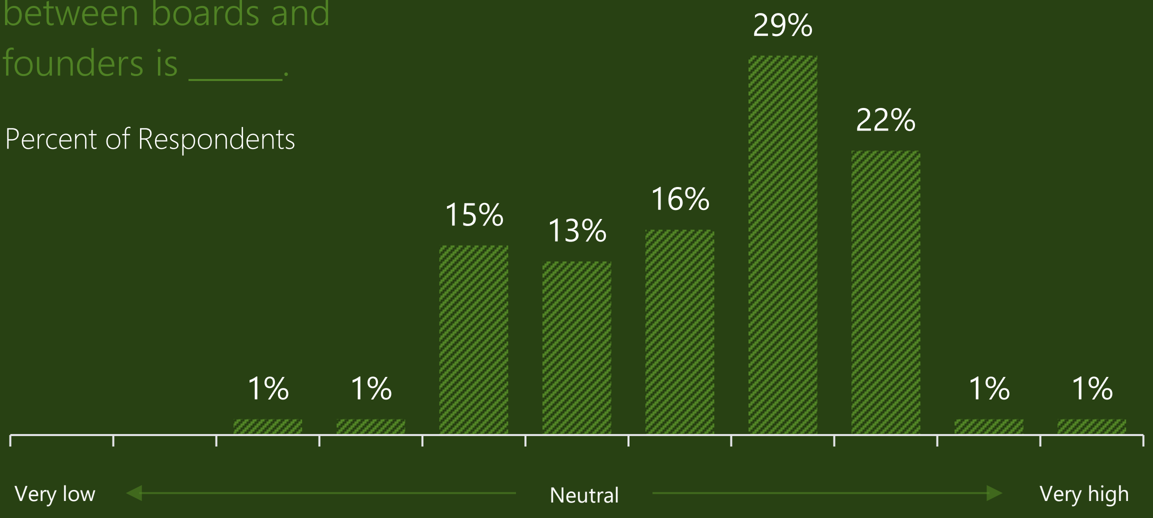
Investors report solid alignment with founders, but some gaps persist.

Seven in 10 investors report solid or strong alignment with founders they've backed, suggesting productive relationships and aligned priorities across many portfolios.

However, investors report some misalignment regarding capital dynamics, including the cost of capital and valuations, the value of potential future revenue streams, and the importance of profitability.

Generally, alignment between boards and founders is ______.

Percent of Respondents



I believe the following is poorly understood by founders...

"Discounting revenue streams that have yet to be proven."

"Understanding the true cost of capital."

"Reality regarding valuation."

"The gap in valuation for the most desirable assets vs. other high-quality companies."

"Importance of profitability and free cash flow."

"Structured deals can help founders accelerate growth and expand their ownership."

03

Valuation: Investors anticipate pricing in policy-related uncertainty.

Tariffs and volatility in public market indices are likely to impact private market valuations that had stabilised.

Pre-tariffs, almost all investors expected to offer valuations in 2025 that were in line with the past 12 months. Post-tariffs, investors anticipate pricing in the risks and uncertainties of policy volatility.

Growth equity investors are inclined to price private companies at parity or with a small premium to their listed peers. Crossover investors typically price private companies at a discount.

Discounts on CLNs remain consistent with historic norms, with a 20%–25% discount on the next round valuation typical.

The bid-ask spread on secondaries remains substantial. Buyers outnumber sellers, despite increased appetite for realised returns.

While valuation expectations between founders and investors are narrowing, two-thirds of investors perceive some misalignment. Few, however, perceive a gulf.

03 | GROWTH INVESTOR SURVEY

Investors anticipate pricing in the risks associated with policy volatility.

Tariffs and related volatility in public market pricing are likely to impact private market valuations that had stabilised.

Prior to the announcement of tariffs, through 2025 almost all investors expected to offer valuations broadly in line with the valuations of the past 12 months.

Following the announcement of tariffs, and related public market volatility, investors anticipate pricing in the risks and uncertainties of policy volatility.

While high-quality companies with strong market demand will be partially insulated from valuation adjustments, changes in public market valuations and the potential for macroeconomic deterioration may pressure broader market valuations in the medium term.

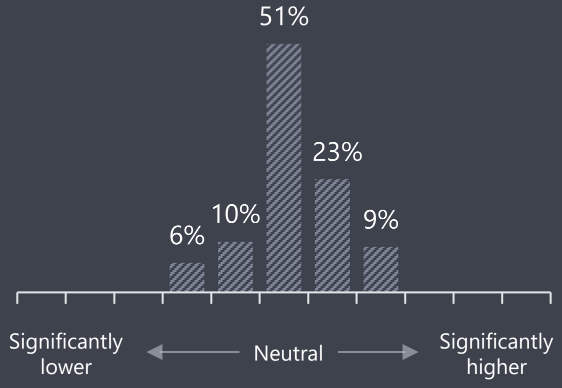
Discounts on convertible loan notes (CLNs) remain consistent with historic norms. A 20%–25% discount to next round valuation is most common, with seven in 10 investors expecting a 15%–25% discount.

While valuation expectations between founders and investors are narrowing, two-thirds of investors still perceive some misalignment. Few, however, perceive a major gulf.

PRE-TARIFFS

Compared with the past 12 months, valuations I offer will be ______ in the next 12 months.

Percent of Respondents



POST-TARIFFS

"We'll price in the risk of policy volatility."

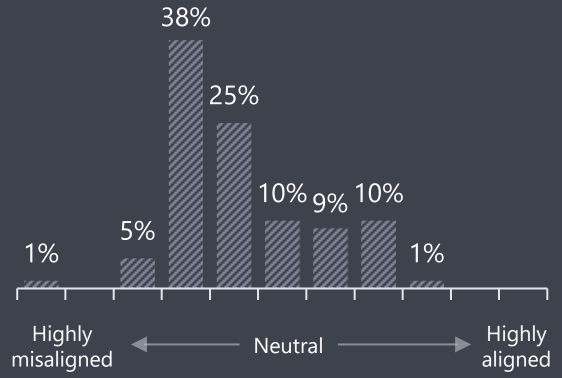
"Changes in public valuations, and greater uncertainty, will impact our view on valuation."

"Comps haven't massively re-rated, but the situation is volatile—and if the economy slows, following earnings announcements people may be more cautious."

"Well-protected companies with good fundamentals shouldn't be too heavily impacted."

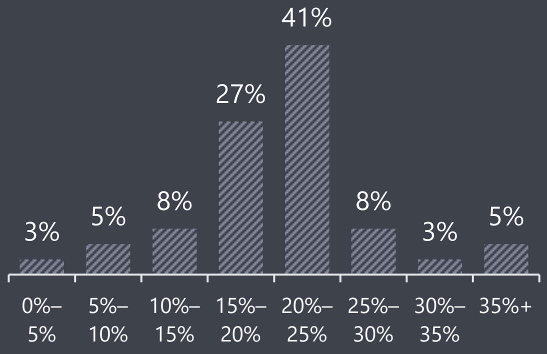
Founders' valuation expectations are currently ______ with investors.

Percent of Respondents



The average discount I would expect to see for a convertible loan note (vs. next round value) would be ______.

Percent of Respondents



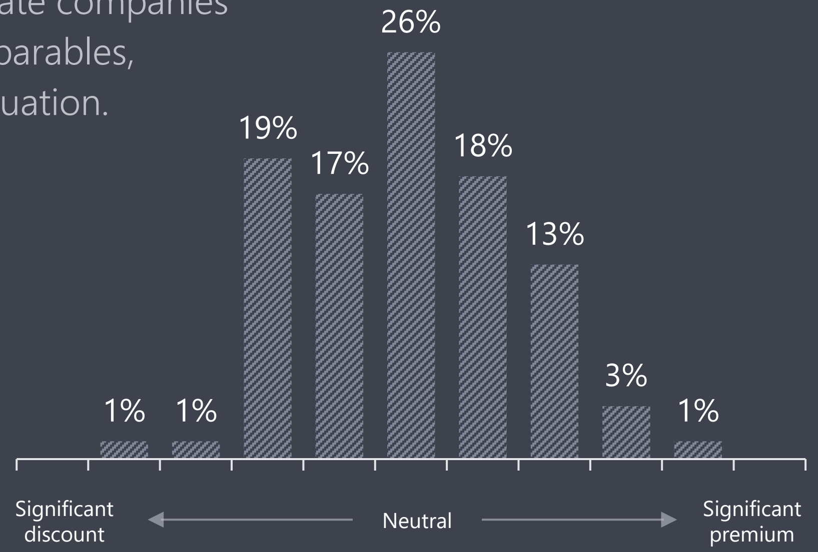
Whether companies are priced at a premium or discount to listed peers depends on the investor.

Whether an investor prices a private company at a premium or discount to public market peers depends on the investor's profile. While crossover investors typically price private companies at a discount to listed peers, growth equity investors are inclined to price at parity or with a small premium.

The bid-ask spread on secondaries remains substantial, consistent with the past 12 months. In a more challenging valuation environment, buyers continue to outnumber sellers, despite elevated appetite among equity holders for realised returns.

When comparing private companies to public market comparables, I expect a ______ in valuation.

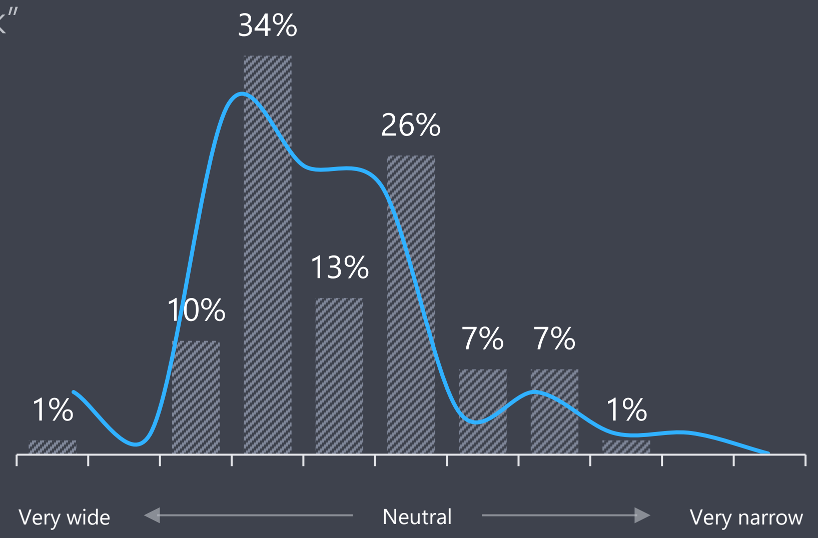
Percent of Respondents

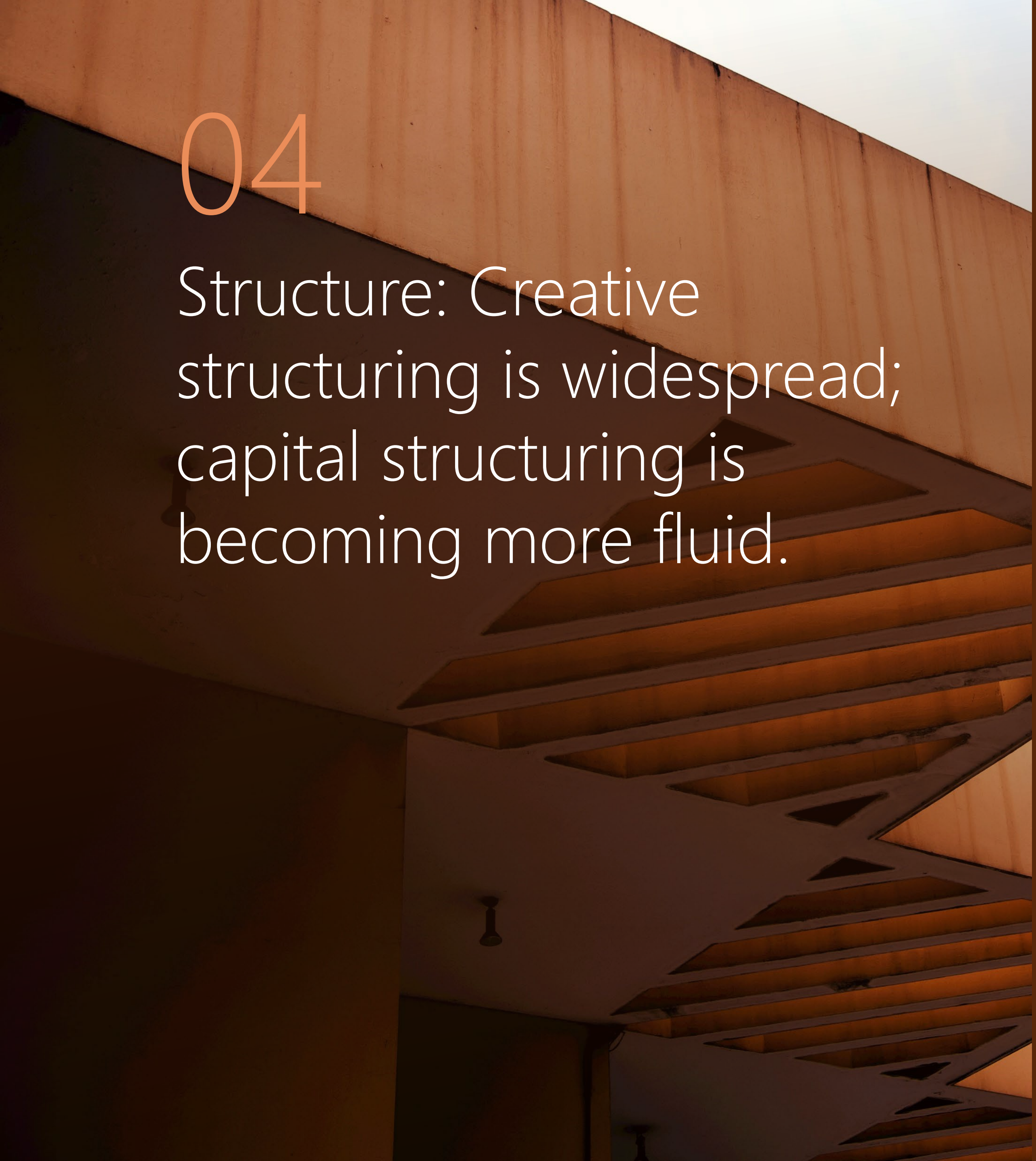


Currently, the "bid-ask" spread for secondary transactions is ____.

Percent of Respondents

2024
2025





04

Structure: Creative structuring is widespread; capital structuring is becoming more fluid.

Use of structure, beyond a 1.0x non-participating liquidation preference, has become commonplace. Most investors report that most, or all, of their recent transactions included elevated structure.

Structure, no longer a tool simply to bridge valuation expectations, is aligning stakeholders' bespoke considerations regarding protection, governance, pricing, and returns.

While most growth equity investors favour a 1.0x liquidation preference, some seek higher. PE growth investors typically seek 1.0x–1.5x. Structured capital providers skew to 1.5x+.

Elevated (>1.0x) liquidation preferences, PIKs, warrants, and minimum MOICs are among favoured tools for structure.

Investors' comfort with leverage varies. A small majority of growth equity investors are comfortable with 2.0–3.0 turns. PE growth investors are typically comfortable with 3.0–4.0 turns, and structured capital providers with 4.0x or more.

The boundaries between historically diverse groups of capital providers are blurring. Most investors describe their investments as increasingly fluid from a capital structure perspective, reflecting the growing prevalence of hybrid financing models and terms that blend equity and debt-like features.

Use of additional structure in transactions has become widespread.

The use of structure, beyond a simple 1.0x non-participating liquidation preference, has become commonplace.

Most investors report that most, or all, of their recent transactions included elevated structure, beyond a 1.0x non-participating liquidation preference. Just one in 10 investors see only deals with a 1.0x liquidation preference.

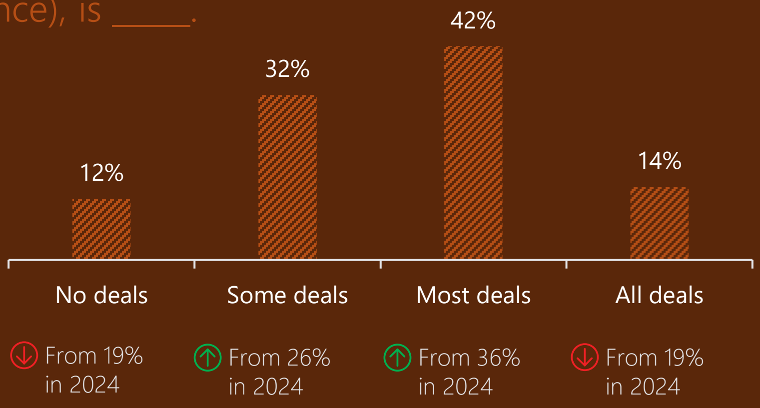
This trend is consistent across growth and PE growth investors, although structured capital providers are, as expected, the most active users of structure.

While most growth equity investors continue to favour a 1.0x liquidation preference, some seek higher. PE growth investors, balancing price and protection, typically seek 1.0x–1.5x, while structured capital providers skew to 1.5x+.

Structure is no longer simply a tool to bridge valuation expectations. Instead, structure is becoming widespread as a means to align stakeholders' bespoke considerations regarding protection, governance, pricing, and returns.

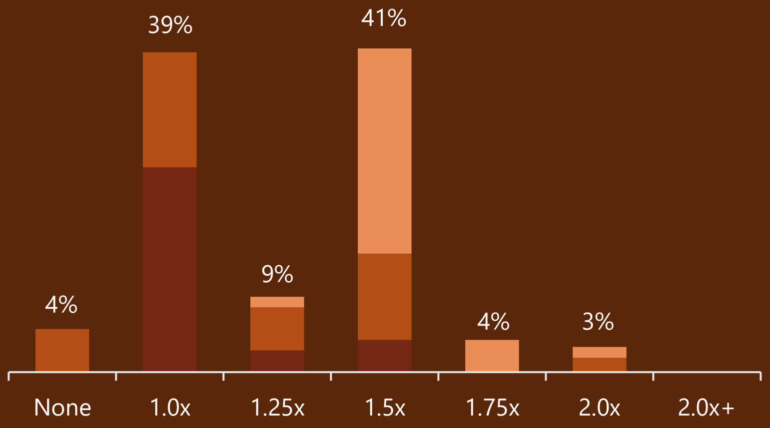
The proportion of transactions in which I am participating, which include additional structure (beyond a 1.0x liquidation preference), is ____.

Percent of Respondents



The average liquidation preference I look to include is _____.

Percent of Respondents



Elevated liquidation preferences, PIKs, warrants and minimum MOICs are favoured tools for structure.

While liquidation preferences (1.0x or elevated) remain the most common means of structure, additional features including PIK interest and warrants are common means of tailoring risk and return.

Minimum MOICs, IRR hurdles and forced exit dynamics can provide alignment regarding minimum return thresholds and timing. Hybrid debt-equity solutions can also navigate valuation gaps.

Despite a plethora of structuring options, investors remain disciplined regarding price. Few are willing to risk long-term misalignment to support substantial mis-pricing. “Structure helps bridge the gap—but it can’t make a bad deal good.” (Tier 1 PE Growth Investor).

My preferred tools for enhanced structuring are _____.

- PIK
- Coupon
- Elevated liquidation preference
- Minimum MOICs or IRR
- Warrants
- Combination of debt and equity
- Redeemable Securities
- Forced Exits
- Put rights

Investors' tolerance for leverage varies according to investor category.

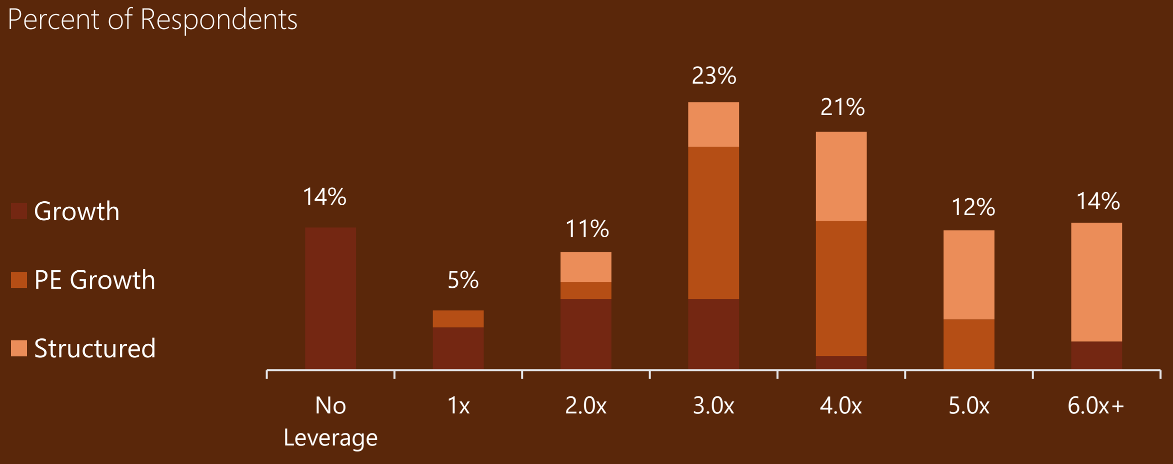
Investors' comfort with leverage varies across investor categories. A small majority of Growth Equity investors are comfortable with 2.0-3.0 turns of leverage. Four in 10 Growth Equity investors prefer no leverage.

Most PE Growth investors, shaped by LBO experience, are comfortable with 3.0-4.0 turns of leverage at their point of investment.

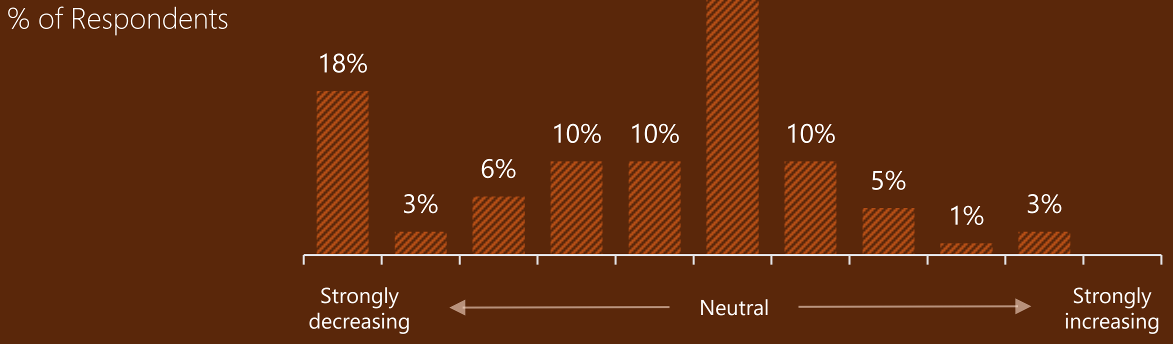
Structured Capital providers, deeper in the capital stack and accustomed to financial engineering, are most comfortable with leverage. Eight in 10 are comfortable with 4.0x or more turns.

Use of venture debt is generally stable across investors' portfolios, with a majority of investors seeing deployment of venture debt neither materially increasing nor decreasing. While one in five investors report decreasing use of venture debt, growth-orientated lending remains an attractive option for many companies that combine growth with limited burn and impending profitability.

I am comfortable with _____ x turns (EBITDA) of leverage on a business at entry.



The use of venture debt across my portfolio / potential investment opportunities is _____.



The boundaries between traditional groups of capital providers are blurring.

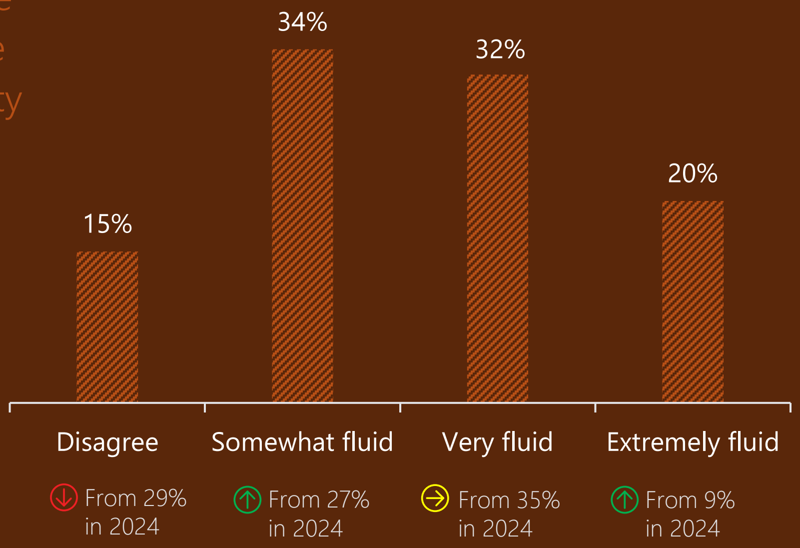
Growth Equity investors typically seek a 3.0-4.0x MOIC. PE Growth investors are targeting 2.0x-3.0x, while Structured Capital providers frequently seek 1.5x-2.0x.

However, the boundaries between historically diverse groups of capital providers are blurring. A majority of investors describe their investments as becoming "very" or "extremely" fluid from a capital structure perspective—reflecting the growing prevalence of hybrid financing models and custom terms that blend equity and debt-like features.

Historically 'hard lines' between different investors' return expectations are also softening somewhat. As investors seek increased downside protection and faster recycling of capital, more are willing to forego some upside. Three quarters of investors now target a MOIC of between 1.5x and 4.0x—with few seeking more.

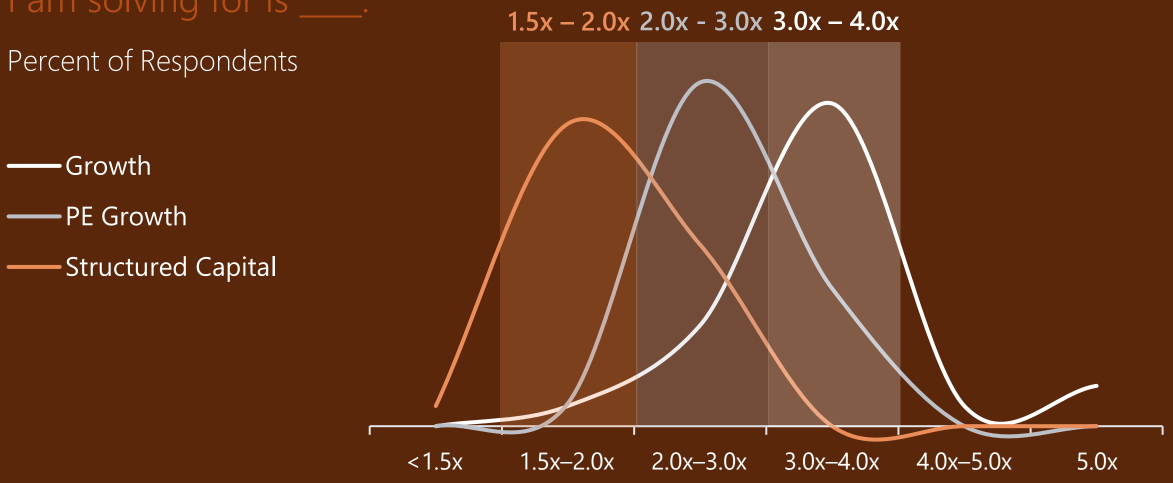
My investments are becoming more flexible from a capital structure perspective (e.g., fluidity between equity, debt, and hybrid structures).

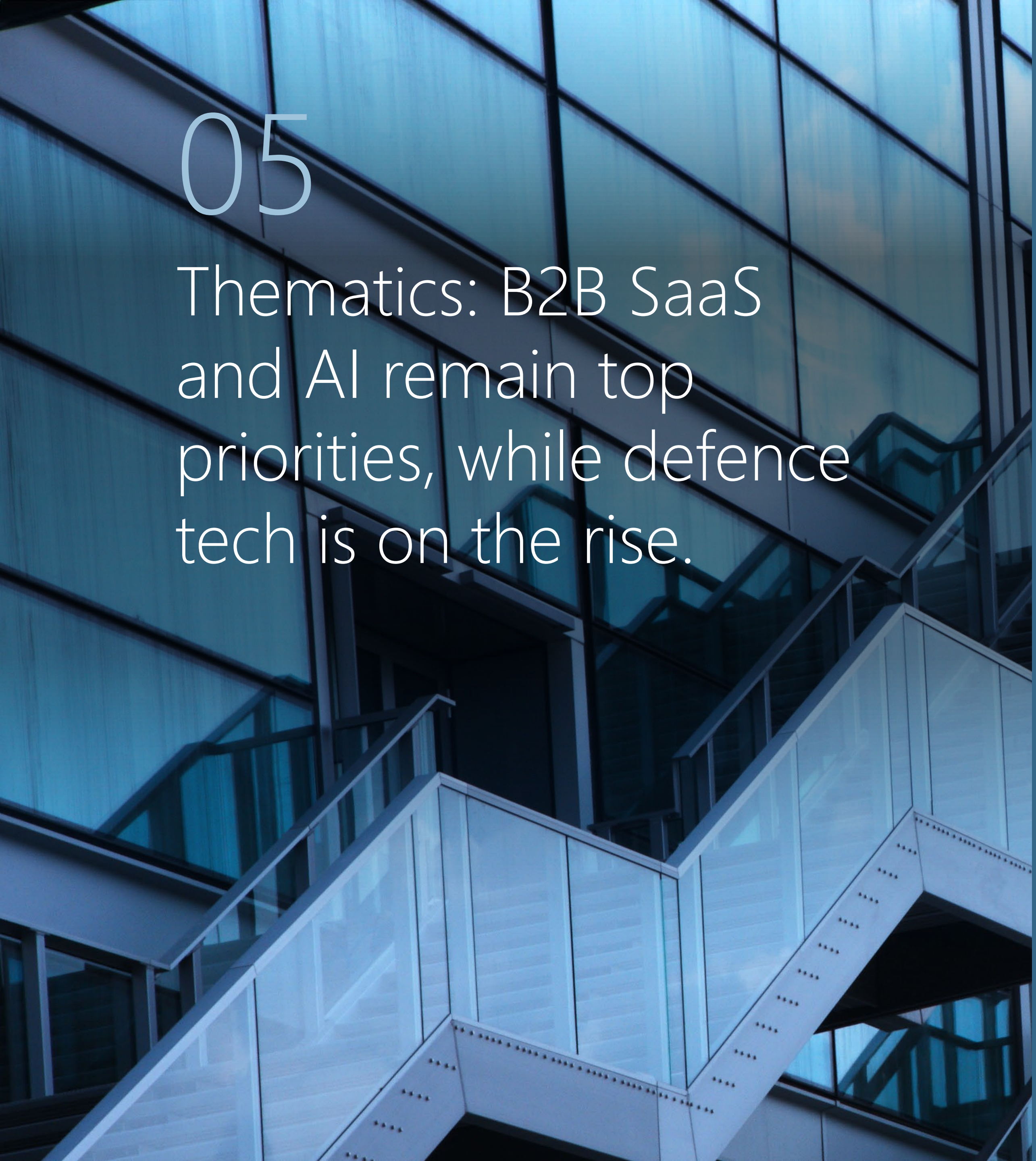
Percent of Respondents



The minimum return (MOIC) I am solving for is ___.

Percent of Respondents





05

Thematics: B2B SaaS and AI remain top priorities, while defence tech is on the rise.

Investor demand is greatest for “Rule of 40” or greater B2B SaaS companies, AI-led propositions, vertical SaaS, industrial automation, cybersecurity, FinTech, and healthcare.

Investors struggle with unproven business models or business lines, capital-intensive plans, low-retention markets, and excess leverage.

Defence technology is now a priority for more investors, reflecting tailwinds in spending, opportunity for “disruptors” delivering autonomy, and new procurement dynamics.

Investors’ focus on healthcare is increasing, as capital allocators seek exposure to the industry’s high-quality contracting arrangements and enterprise sales of mission-critical solutions to the pharma industry.

Appetite for emerging market companies, ESG propositions, and blockchain companies is generally weaker, reflecting concerns regarding end-market dynamics, volatility, and regulatory/policy risk.

Nine in 10 investors will maintain or increase their pace of AI investment. But investors are shifting from FOMO-driven behaviour to a fundamentals-led approach. Investors are focused on companies' impact on customer KPIs, monetisation, and defensibility.

Investors note that we are early in the era of AI; pace of innovation makes it difficult to pick winners; and most value will accrue at the application layer. Success factors include differentiated propositions, high-value use cases, embedding into enterprise workflows, proprietary data and data network effects, and distribution.

Investors are prioritising B2B SaaS models and AI…

Investor demand is greatest for "Rule of 40" or greater B2B SaaS companies, as investors continue to prioritise resilient end markets offering established value propositions, high retention, and proven unit economics.

AI-led propositions, vertical SaaS, industrial automation, cybersecurity, FinTech, and healthcare are attractive to many.

Investors struggle with unproven business models or business lines, capital-intensive plans, low-retention businesses, and excess leverage.

What investment profiles (sectors, models, financials) are *most* attractive to you currently?

- B2B SaaS
- AI and Automation
- B2B FinTech
- Infrastructure and Industrial Technology
- Healthcare and Life Sciences Technology
- Cybersecurity and Defence

What investment profiles (sectors, models, financials) are *least* attractive to you currently?

- Unproven Business Models
- Capital Intensive
- Consumer/D2C
- Undifferentiated AI
- Highly Levered
- Emerging Markets

…while defence technology and healthcare are attracting increasing demand.

Strong demand for B2B SaaS reflects investors' appetite for proven business models, high retention dynamics, and resilient end markets. The impact of AI on demand- and supply-side behaviours is a focus.

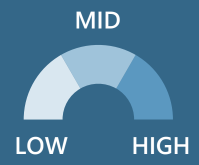
Defence technology is now a priority for a broader base of investors, reflecting tailwinds in European and U.S. spending, a generational opportunity for defence tech "disruptors" as software unlocks autonomy, and an unprecedented evolution to shorter and more accessible procurement processes as buyers optimise for agility.

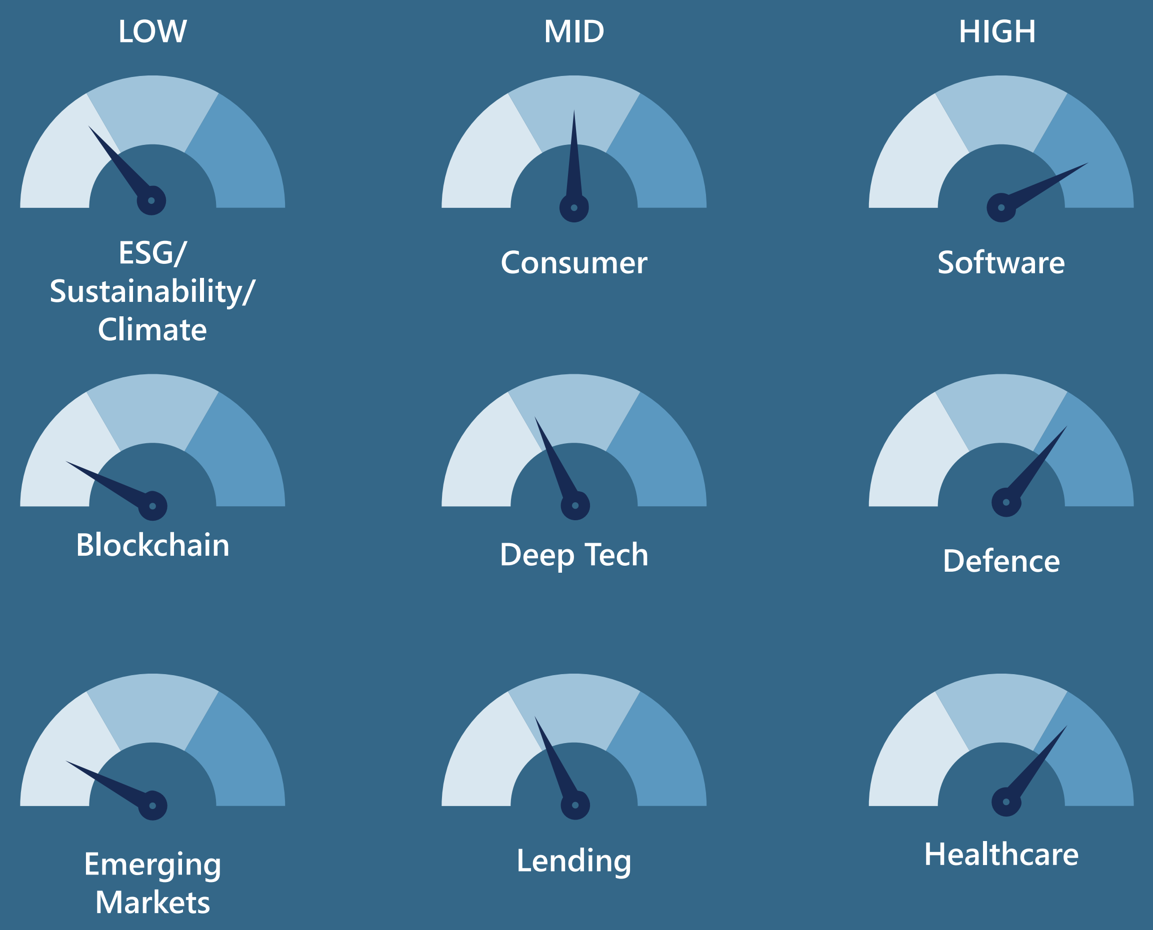
Investors' focus on healthcare is increasing, as capital allocators seek exposure to the industry's high-quality contracting arrangements, including government- or insurance-backed reimbursement for products and services, and enterprise sales of mission-critical solutions to the pharmaceutical industry. Healthcare companies frequently develop proprietary, global solutions with patents and regulatory moats, offering attractive returns for emerging leaders.

Demand for consumer propositions is bifurcated. A majority of investors favour B2B propositions, but consumer investors are evaluating considerations of end-market resilience, unit economics, and exit potential.

Appetite for emerging market opportunities, ESG-led propositions, and blockchain companies is generally weaker, reflecting considerations of end-market dynamics, volatility, and regulatory or policy risk.

My appetite to invest in ____ over the next 12 months is…





Enthusiasm for AI persists, but investors are refocusing on fundamentals.

Investors remain excited about AI propositions. Nine in 10 report that their appetite to invest in AI-related companies through 2025 is broadly consistent with, or higher, than the past 12 months—which saw record AI investment. Just one in 10 investors expect to decrease deployment in AI-related companies through 2025.

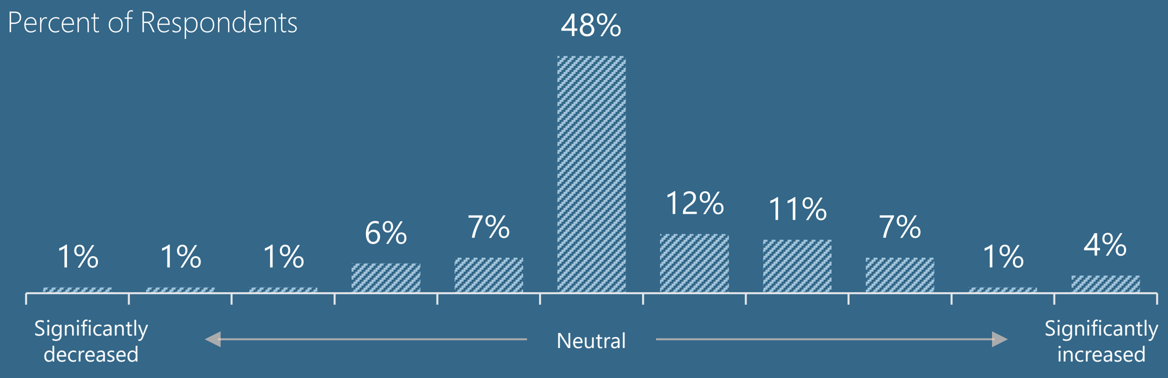
While capital flows into AI are extensive, investors describe a shift from early, FOMO-driven behaviour to a sober, fundamentals-led approach.

Investors note that we are early in the era of AI and that pace of innovation makes it challenging to 'pick a winner'. Novelty doesn't yield defensibility and value capture can be a challenge relative to value creation. Investors are increasingly focused on AI companies' KPI impact, monetisation path and defensibility.

Investors believe that, for most companies, value will accrue at the application layer. Success factors and moats in the era of AI include differentiated propositions, high-value use cases, embedding into enterprise workflows, proprietary data and data network effects, and distribution.

Investors remain cautious regarding solutions looking for problems, commoditised technology/data, and unproven monetisation models.

Compared with the past 12 months, in the next 12 months my appetite to invest in AI-related companies is _____.



What do you believe is poorly understood, or misunderstood, about the current wave of AI?

"We're early in the age of AI."

"The pace of innovation makes it challenging to 'pick a winner.'"

"More value will accrue at the application layer."

"Enterprises face long adoption cycles given regulation, security, and integration challenges."

"Real value lies in domain-specific data, workflow integration, and distribution."

"The winners outside big tech are unclear."

06

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Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

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Source: LSEG (formerly Refinitiv).
(1) Data available from public information sources and investment bank websites/press releases as of Feb. 2025. Information reflects advisory-focused investment banks (excludes balance sheet banks). Excludes PIPEs.
(2) Excludes accounting firms and brokers.
(3) Announced or completed transactions.
(4) As of March 31, 2025.
(5) LTM ended March 31, 2025.
(6) As of April 30, 2025.

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- Real Estate
- Technology

(1) As of March 31, 2025
(2) Data available from public information sources and investment bank websites / press releases as of February 2025. Information reflects advisory-focused investment banks (excludes balance sheet banks). Excludes PIPEs.
(3) The Deal.

Methodology and Disclaimer

Methodology:

Online survey with both quantitative and qualitative questions, completed by 90 institutions managing more than $3.0 trillion AUM in Q1/Q2 2025. 52% of respondents in North America, 45% in Europe, 3% in Rest of World.

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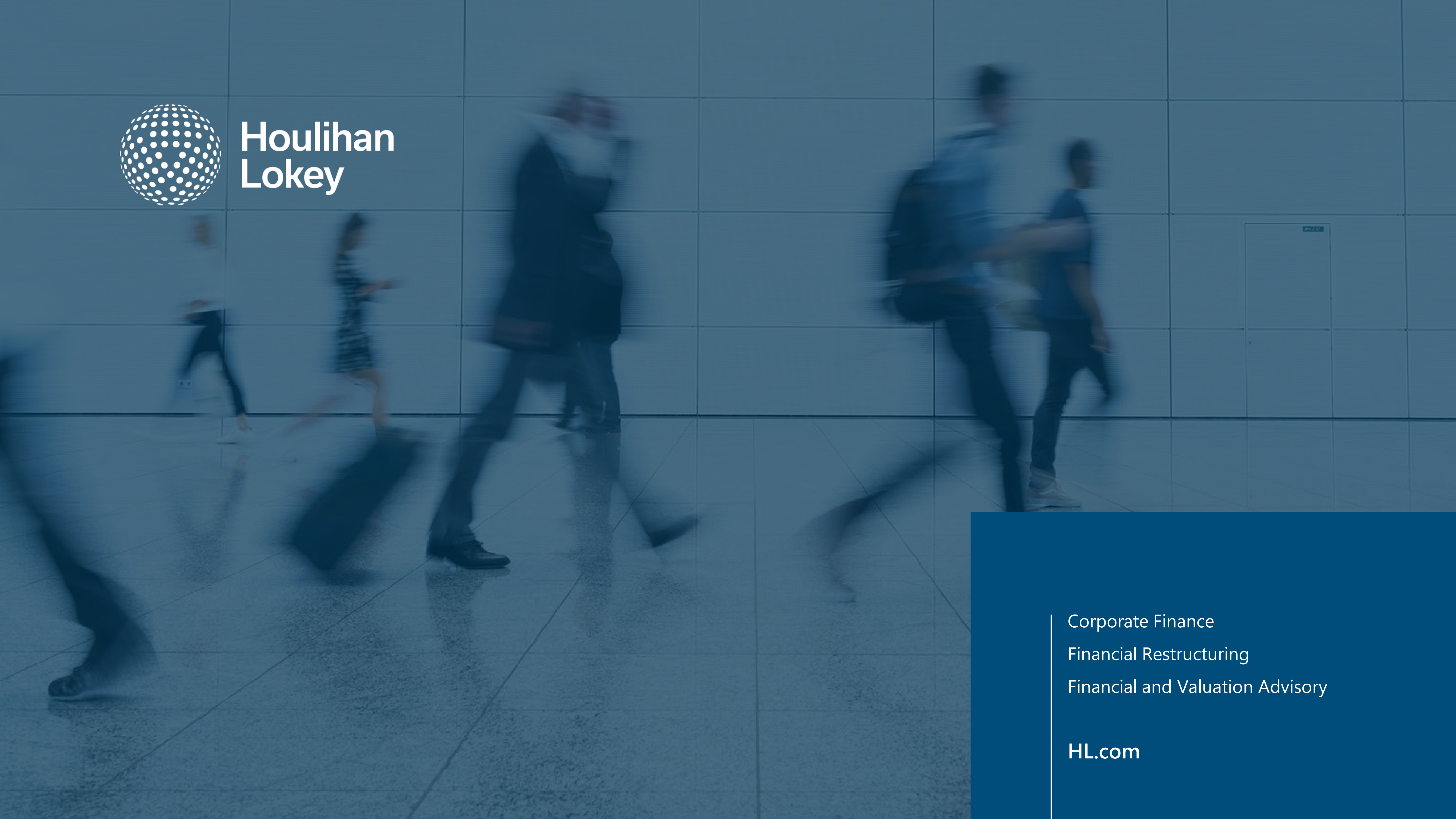

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