

Special Situations: Financing DPI



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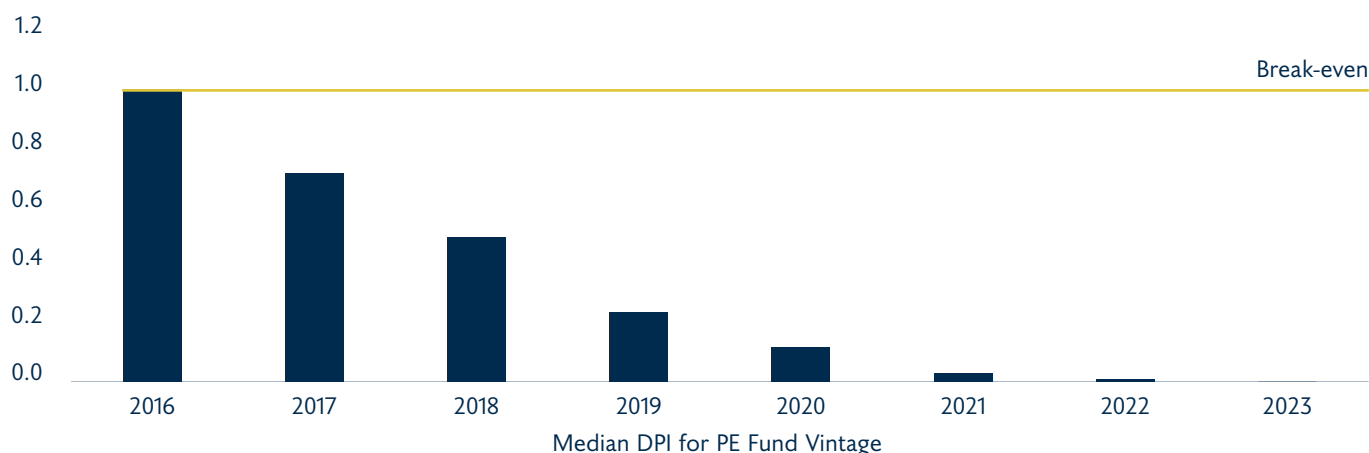
It's well documented that the paucity of M&A activity over the last few years has resulted in extremely low levels of distributions to paid-in capital (DPI) for traditional private equity (PE) funds. In fact, you have to look all the way back to 2016 for the most recent PE fund vintage with a median DPI above one, i.e., when LPs have received all their capital back (**Figure 1**).

The fundamental problem is there continues to be a significant valuation gap between PE sellers and prospective buyers. The primary culprit for this impasse? The increase in interest rates from the ultra-low (perhaps unnaturally low) period of 2009-21. Prospective buyers face financing their purchase with a cost of capital around double that the now-seller would have faced to buy the same business. A higher financing cost effectively means less leverage is available, reducing the EBITDA multiple that a buyer could pay and still feasibly achieve their target return.

This dynamic puts the PE owner in a difficult position—it can either (a) sell the portfolio company and distribute the proceeds to its LPs while likely crystallizing a sizable write-down or (b) continue to hold the investment, avoiding the write-down but limiting distributions. Option b is becoming increasingly tricky, as DPI is firmly on the mind of LPs, with a 2025 McKinsey survey indicating that the number of LPs ranking DPI as the “most critical” performance metric has more than doubled over the last three years.¹

We see an emerging opportunity for sophisticated investors to provide structured equity capital solutions to these healthy PE-owned businesses. This allows the sponsor to achieve partial monetization—which is better than no return of capital—and a confirmation of its mark, while buying more time for interest rates to (hopefully) come down and purchase multiples to increase. Given the need for PE sponsors to increase their DPI, we think this could be a massive opportunity in the near-to-medium term.

Figure 1: Median DPI by Private Equity Fund Vintage



Source: PitchBook, as of June 27, 2025.

ENDNOTE

¹ McKinsey proprietary survey, as of January 2025.

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