



The widespread adoption of continuation funds has reshaped the private equity landscape, creating a new layer of competition for companies seeking to be acquired. Private equity General Partners (GPs) now weigh a critical strategic choice: deploying capital to acquire a new, external company or "selling" one of their own high-performing portfolio assets from an older fund into a new vehicle they also control. This internal option allows GPs to double down on a proven winner, an asset they know intimately, which directly competes for the same pool of investment capital that would otherwise be used for new acquisitions in the open market.



This dynamic has created a bifurcated or two-tiered impact on company valuations. For elite, "trophy" assets, the effect has been positive. Continuation fund transactions are necessarily executed at premium valuations to justify the deal to investors, which in turn sets high valuation benchmarks across the market. Consequently, other top-tier companies looking to sell can leverage these strong comparable deals to command higher prices, fueling a "flight to quality" where the best assets attract intense competition and premium offers.

Conversely, for the broader market of good-but-not-great companies, continuation funds have applied downward pressure on valuations. As a significant portion of PE capital is channeled into these internal reinvestments, the pool of active buyers and available funds for external deals shrinks. This reduction in overall demand creates a more challenging and buyer-friendly environment for the average company. The result is a divided M&A landscape, where a select few command exceptional prices while the majority face a more competitive and valuation-sensitive sales process.

The clear takeaway for any business owner is that meticulous preparation for a sale has never been more crucial. It's the essential step that separates a company from the pack, determining whether it will be viewed as a premium target or be left competing in the crowded, valuation-sensitive majority.

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