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2025 APAC Private Capital Outlook

Our analysts’ outlook on the venture market in 2025

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

2025 outlooks

Introduction

The Asia-Pacific (APAC) region is currently experiencing one of the most dynamic eras ever seen in the history of private markets. Across the region, both the PE and VC industries are young and rapidly developing. We believe that the regional markets hold large opportunities to capture returns moving forward. Wealth generation across the region, growing populations, and distinct—in some cases, underdeveloped—economies create unique prospects for investors.

Private equity in Japan has drawn strong interest from nondomestic investors because of changing financial regimes, an aging population looking to turn over long-standing businesses, and a push for Japanese companies to streamline operations and return to growth. India's large young population is seeing wealth growth quickly as the country's annual GDP growth surpasses 8%, with projections putting India as the third-largest global economy in the next decade. On the other hand, challenges in China, from its sputtering economy to changing government regulations, are projected to push capital that had been allocated to the country's private markets into other countries and regions.

Broadly speaking, the outlook for APAC private markets is great, both in terms of prospective development and current market dynamics. However, challenges remain. How do markets entice nondomestic investors back to investing if returns out of those ecosystems have not been incredibly strong in the past? Across Southeast Asia, exit value generated by VC investments has been less than $40 billion over the past decade when excluding Grab. Startups based in Australia and New Zealand face challenges for growth, with the countries not supporting a large-enough market for many to grow to the size needed to generate adequate cash returns. Beyond those factors, interest rates are influenced heavily by policy in the US, where rates are projected to stay higher for longer despite the US Federal Reserve's recently issued rates cuts.

Compared with its US counterpart, the private market in APAC remains small despite having a total GDP around 40% higher. China's VC market is the second largest in the world by country, yet its activity is less than half of that occurring in the US. Through the first three quarters of 2024, PE fundraising across all of Asia was $200 billion lower than the total raised in the US. Though, looking at APAC as a single private capital market does a disservice to the intricate mechanics and financial systems of the countries that comprise the region.

Our team's 2025 APAC outlooks are more specific than the title of this report may suggest. As we take a data-driven approach to market outlooks for 2025, we pull on both research we have done in the past and new findings that aid in the forward-looking insights. These APAC outlooks cover both PE and VC, highlight challenges and opportunities supported by PitchBook data, and detail the potential changes in the market that could derail the outlook.

For analysis of specific countries and segments across the APAC region, including longer-term outlooks, see our full slate of 2024 APAC coverage:

2024 Private Capital Breakdowns

Southeast Asia
Australia & New Zealand
Greater China
Japan

Thematic analyst notes

Q3 2024 PitchBook Analyst Note: Checking in on India's Unicorns
Q3 2024 Australia Market Snapshot

Q4 2024 report series: Exploring APAC's Fintech Pathways

Part I: Japan
Part II: Southeast Asia
Part III: India
Part IV: Greater China
Part V: Australia & New Zealand

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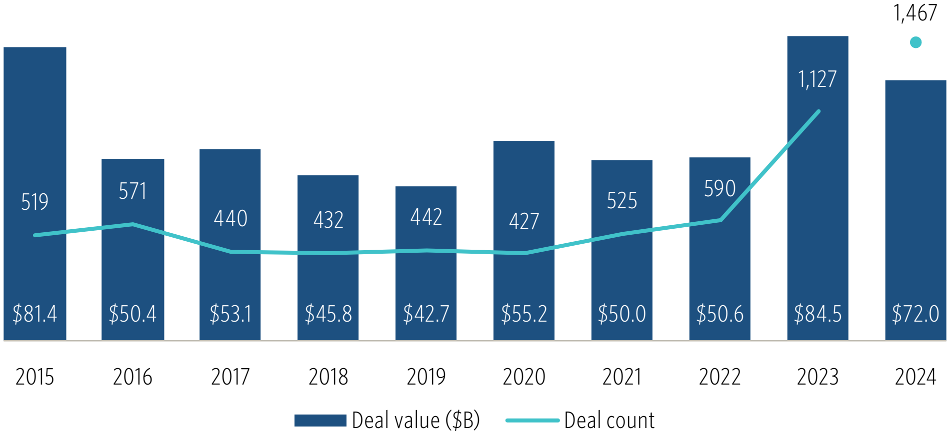
Outlook: The M&A spree in Japan will continue.

Japan M&A activity



Source: PitchBook • Geography: Japan • As of November 26, 2024

Rationale

M&A has been surging in Japan over the past couple years. Through the end of November, roughly 1,500 transactions were completed in the market YTD—triple the average number of deals annually from 2015 to 2022. This surge has coincided with monetary policy shifts in the country, which emerged from its era of negative interest rates that failed to induce significant growth in the economy. The rate hikes were relatively small, as the central bank rate in Japan has sat at 0.25% and will continue to do so until the Bank of Japan's next decision meeting on December 19. The low rates and weak yen have made the market a unique opportunity for both domestic and nondomestic buyers. A governance push by the Japanese government and the Japan Exchange Group has also induced M&A action as bloated corporates move back toward growth.

We see the outlook for M&A in the country continuing its growth and strength into 2025. For one, even though Japan's trade deficit has lowered over the past year, it remains a deficit and one of the reasons for the weakening yen. This is despite the weakness seen in the yen, which should create a climate that generates a rise in exports because of lower costs, subsequently counterbalancing with an increase in domestic economic growth and currency appreciation. Looking ahead, Japan's path to a rise in exports is not clear, which should keep the value of the yen low. Couple this with potential further increases in interest rates, and the recipe for an attractive M&A market for nondomestic buyers is generated.

Changing regulations and guidelines for corporates in Japan have also generated new opportunities for M&A. 291 of the M&A transactions in 2024 through November were divestitures or carveouts, which is nearly a 35% jump over the 2023 full-year figure that was the previous annual high. Before 2023, these transactions averaged fewer than 100 on an annual basis over the prior decade, highlighting the significance of the push for governance reforms that began in 2022. In that year, the Japan Exchange Group launched guidelines that included board responsibilities to promote sustainable growth. Further guidelines came from Japan's Ministry of Economy, Trade and Industry with the aim of increasing market consolidation and investment in growth.

One market shift freeing up capital for that investment in growth is the unwinding of cross-shareholdings, whereby some corporates hold significant stakes in other corporates, providing strong shareholder bases and historically protecting the interests of corporations by defending against activist entities. As these positions unwind, the opportunity for shareholders to pressure corporates into streamlining costs and inducing growth will be more abundant.

This all comes at a time when large global institutions have increasingly looked to invest into Japan. Carlyle, KKR, and Blackstone have all raised funds recently, either credit or buyout, bolstering nondomestic capital activity in the market. Japan has been a beneficiary of the global monetary shifts at a time when its private markets are looking to grow.

Risks

Risks to this outlook may be a bit more abstract than simple trend changes. In general, one of largest risks to nondomestic investment into Japan is the deeply rooted systems in place. Corporate growth, and even career growth, has a process and culture that is different from nearly all other markets around the globe. There is a rooted aversion to nondomestic capital that is not so much a dislike but a mistrust or competing ideology. This risk is not suggesting that nondomestic capital is the only way for M&A to continue its growth, but to this point, a large portion of that growth has come alongside the increase of nondomestic investment.

When the private markets shifted in 2022, the first thing to pull back was investment that had been made outside of traditional strategies. Emerging markets saw nondomestic investors retreat quickly, and that left these markets with a murkier path forward. Japan is not necessarily an emerging market in terms of M&A, but it has gone through a significant shift over the past two years, which were materially different in many ways than the market had become accustomed to.

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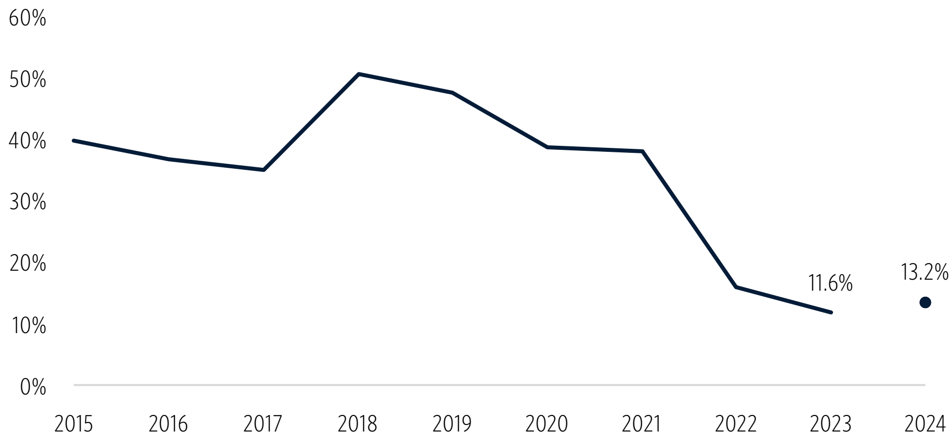
Data in this section includes mainland China and Hong Kong. As mentioned in our prior Greater China-focused research, we see the markets in mainland China and Hong Kong being closely linked. Historically, international investors tended to set up shop in Hong Kong to invest in China with more flexibility.

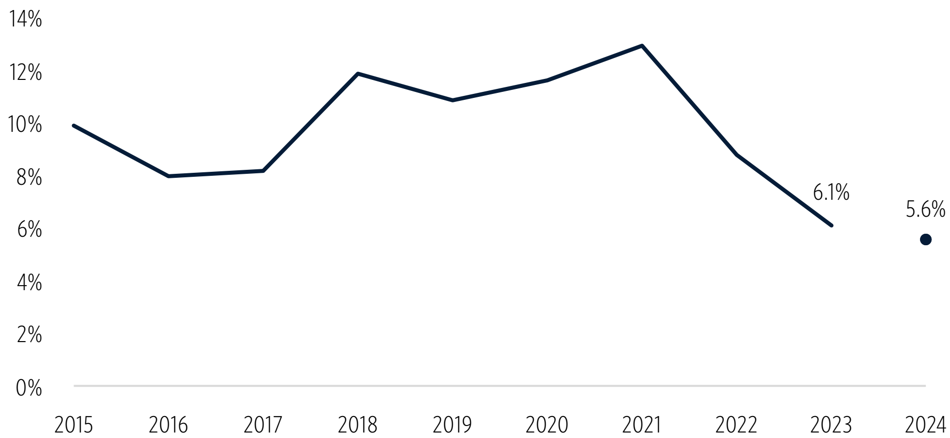
Outlook: Despite a challenging macroeconomic picture in China, nondomestic investor participation in regional deals has likely bottomed.

Share of China VC deal value with nondomestic investor participation



Source: PitchBook • Geography: Mainland China and Hong Kong • As of November 26, 2024

Share of China VC deal count with nondomestic investor participation



Source: PitchBook • Geography: Mainland China and Hong Kong • As of November 26, 2024

Rationale

In the 2024 Greater China Private Capital Breakdown, we list a series of macroeconomic and geopolitical headwinds that have plagued China's economy. The regional private market was also affected, with a sluggish exit environment, a pullback on consumer spending—partially resulting from the ongoing housing-sector crisis—and elevated tensions between Beijing and the Western bloc weighing on capital availability and deployment pace. As a result, annualized 2024 private capital deal value and count are on track to land at the lowest levels in our dataset. It is no secret that nondomestic investor confidence in China has been tested. From our conversations with investors that historically have invested or contemplated investing in China, the prospects of abrupt policy shifts and capital repatriation were commonly cited as core concerns. However, we believe that nondomestic investor involvement as a proportion of all deals in China has largely bottomed out and may hold steady or even experience mild upticks in the upcoming quarters.

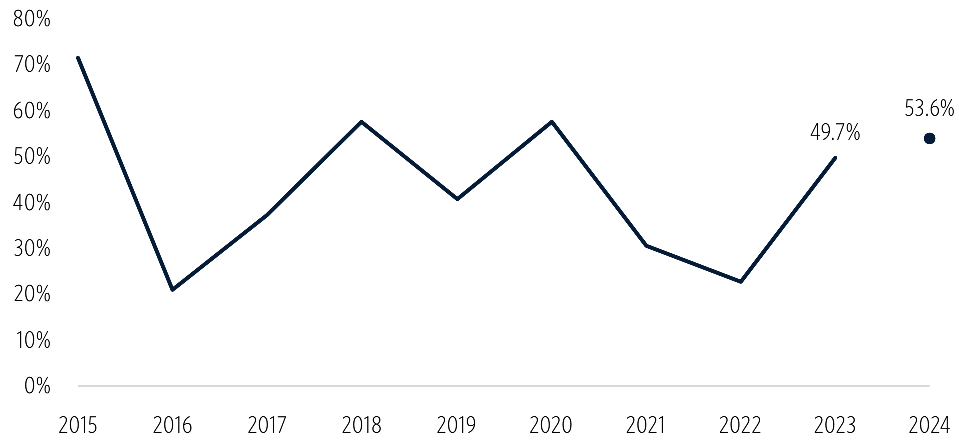
To start with, nondomestic investors may want to start or continue investing in China due to more attractive company valuations. During the past two years, valuation levels for venture-backed companies in the region have dropped across the board. This downward shift does not necessarily indicate declining company health overall. Rather, lower valuations reflect changes in projected growth potential and exit opportunities. Investors with a bullish long-term outlook on the market in China may be incentivized to scoop up high-quality deals with lower valuations compared with a couple of years ago, thereby unlocking the potential to generate outsized returns. Those with a contrarian view may also be interested in taking a closer look at deals in China, now that dealmaking activity is lower than in the pre-pandemic era. Similar trends could also play out on the public side. The Morningstar 2025 Outlook report takes an optimistic view on the medium-term prospects for Chinese equities—select major technology companies in particular—where investors may find attractive risk-adjusted returns, despite the country's structural issues.[1]

Valuations aside, nondomestic investors that still hold belief in the China-growth story may want to tap in to opportunities provided by the country's talent pool, especially in high-tech segments such as AI and healthcare. In 2024 YTD, the three largest VC deals with nondomestic investor involvement, Moonshot AI, Baichuan AI, and Zhipu AI, were all AI horizontal platforms.[2] Investments in those pure-play AI companies by nondomestic investors, including venture capitalists, corporate venture capital firms, and corporations, reflect nondomestic investor enthusiasm in tapping in to cutting-edge technology from the global front-runner in AI advancement and deployment. In addition, six out of the largest 15 deals with nondomestic investor participation come from the life sciences space. In the 2024 Greater China Private Capital Breakdown, we mention that Chinese founders in the healthcare space have been increasingly open to taking a flat or down round, and that overhead and research & development expenses in China tend to be much lower compared with the US, pointing to tailwinds for life sciences companies.

In 2024 YTD, the number of VC deals in China with nondomestic investor participation as a percentage of total deal count notched 5.6%, a slight dip from 2023 and the lowest level since 2015. Meanwhile, the share by deal value ascended by 1.6% YoY, settling at the second-lowest record in our dataset. The inverse trend can be attributed to nondomestic investors' participation in outsized deals. YTD, 10 out of 238 deals in China with nondomestic investor participation were at or above $100 million, and together those deals amounted to nearly $3 billion, suggesting that nondomestic investors still hold an appetite for cutting-edge tech breakthroughs in the region.

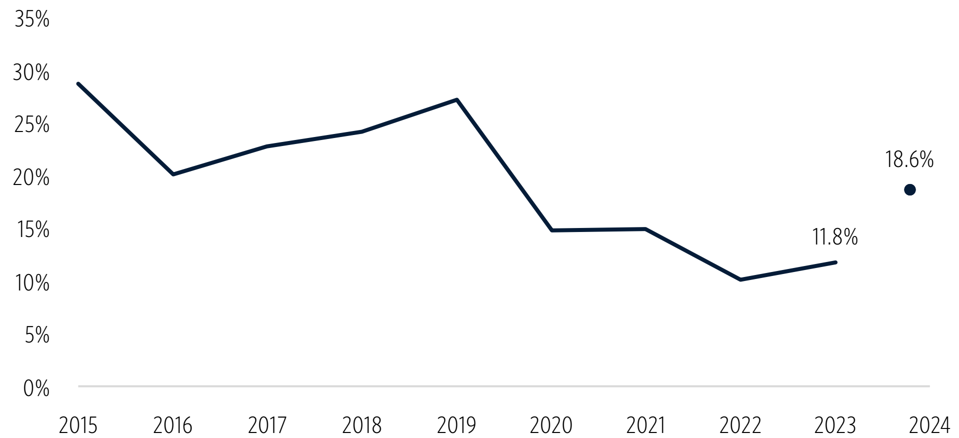
1: "Morningstar's 2025 Outlook: Future Market Investment Strategies," Morningstar, Dan Kemp, et al., November 2024.
2: For more information on how we define horizontal platforms, check out our 2021 Annual Artificial Intelligence & Machine Learning Report.

Share of China PE deal value with nondomestic investor participation



Source: PitchBook • Geography: Mainland China and Hong Kong • As of November 26, 2024

Share of China PE deal count with nondomestic investor participation



Source: PitchBook • Geography: Mainland China and Hong Kong • As of November 26, 2024

With a few weeks until the end of 2024, the value of PE deals featuring nondomestic investor participation as a share of total deal value landed at 53.6%, the third-highest level in our dataset and a YoY increase. By deal count, PE deals with nondomestic investor involvement ascended to 18.6% in 2024 YTD, pointing to a pronounced YoY uptick. It is worth noting that ByteDance's $9.5 billion PE growth round constituted a significant portion of total deal value with nondomestic investor participation. In addition, the PE asset class has historically been overshadowed by the size of its VC counterpart. A small number of PE deals getting done each year means that the dataset is prone to inflated YoY changes.

Risks:

If the macroeconomic environment in China continues to worsen, and the much-anticipated government stimulus fails to inject confidence into the economy, the regional private market will not be immune to those headwinds. Capped company growth potential, blocks in exit routes, and concerns about capital repatriation will all weigh on nondomestic investor sentiment.

We expect US investor involvement—from both GPs and LPs—in the private market in China to remain diminished, at least for the foreseeable future. US investors face an additional layer of challenges compared with their global counterparts against the backdrop of the elevated US-China tensions.

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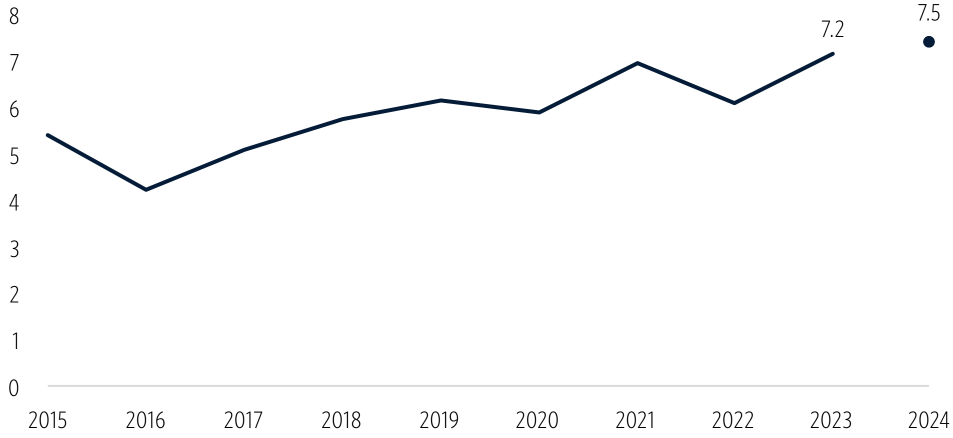
Outlook: The highest-valued VC-backed companies in Southeast Asia will search for liquidity.

Median age (years) at exit for Southeast Asia startups



Source: PitchBook • Geography: Southeast Asia • As of November 26, 2024

Rationale

Global investors often refer to Southeast Asia as if it is a single, unified ecosystem. Contrary to this blanket view, the region is highly dynamic, and each market faces a unique set of opportunities and challenges. Pronounced intraregional variances point to the need for Southeast Asia-based companies to expand cross-border to generate outsized returns, as well as the challenges in doing so. As we point out in the 2024 Southeast Asia Private Capital Breakdown, cash returns from VC exits in the region have remained diminished and lumpy, with slightly over $70 billion generated between 2015 and 2023. A shortage of regional champions, or the likes of Grab, Gojek, and Tokopedia—the latter two merged and formed GoTo Group in 2021—speaks to the region's pressing need to see more cross-border success stories and larger exits to help attract nondomestic capital inflow going forward.

We expect the highest-valued cohort of VC-backed companies in the region will take a lead in expanding cross-border business and generating liquidity. In 2024 YTD, the median age at exit for Southeast Asia-headquartered, VC-backed startups ascended to 7.5 years, the highest level in our dataset. This trend suggests that regional startups are staying private for longer. Nonetheless, those businesses need to exit eventually so that capital can be released and recycled into new funds. Looking at the top 30 highest-valued VC-backed startups in Southeast Asia, 24 of the startups, or 80%, have already exceeded the 7.5-year mark. Vietnam-headquartered fintech startups MoMo and VNLIFE were both founded 17 years ago, making them the oldest pair of this group. The second-oldest pair are 14-year-old Singapore-based Eruditus Executive Education and Trax Retail. The overall maturity of this cohort indicates that most of them should strategize and exit within the next few years.

Top 30 highest-valued VC-backed companies in Southeast Asia

Company	Most recent valuation date	Most recent post-money valuation ($M)	Company age (years)	Country
SHEIN	May 17, 2023	$66,000.0	12	Singapore
Mynt	August 2, 2024	$4,927.5	9	Philippines
HyalRoute	May 26, 2020	$3,457.4	9	Singapore
Amber Group	February 21, 2022	$3,000.0	7	Singapore
Eruditus Executive Education	October 17, 2024	$3,000.0	14	Singapore
Traveloka	December 23, 2020	$2,750.0	12	Indonesia
Moglix	January 26, 2022	$2,600.0	9	Singapore
Coda	April 14, 2022	$2,500.0	13	Singapore
Trax Retail	October 1, 2021	$2,250.0	14	Singapore
Ninja Van	October 7, 2021	$2,189.1	10	Singapore
ADVANCE.AI	September 22, 2021	$2,000.0	9	Singapore
Flash Express	December 1, 2022	$2,000.0	7	Thailand
MoMo	December 21, 2021	$2,000.0	17	Vietnam
Glance	February 14, 2022	$2,000.0	5	Singapore
Sky Mavis	July 17, 2023	$1,950.0	6	Singapore
Kredivo	March 22, 2023	$1,789.5	9	Singapore
CARSOME	January 10, 2022	$1,699.9	9	Malaysia
bolttech	September 21, 2023	$1,650.0	4	Singapore
Matrixport	February 1, 2023	$1,540.0	5	Singapore
Ascend	September 27, 2021	$1,500.0	11	Thailand
eFishery	July 7, 2023	$1,422.7	11	Indonesia
Group One Holdings	October 15, 2024	$1,350.0	13	Singapore
Nium	June 5, 2024	$1,334.2	10	Singapore
Carro	June 16, 2023	$1,260.4	9	Singapore
Line Man	September 26, 2022	$1,092.5	8	Thailand
Carousell	August 28, 2023	$1,079.8	12	Singapore
Kopi Kenangan	December 27, 2021	$1,002.4	7	Indonesia
Ajaib	October 4, 2021	$1,000.0	6	Indonesia
Akulaku	January 19, 2022	$1,000.0	10	Indonesia
Polyhedra Network	March 14, 2024	$1,000.0	2	Singapore
OPN	May 10, 2022	$1,000.0	11	Thailand
VNLIFE	July 30, 2021	$1,000.0	17	Vietnam
Xendit	September 14, 2021	$1,000.0	10	Indonesia

Source: PitchBook • Geography: Southeast Asia • As of November 26, 2024

The expected exits from this group of the highest-valued companies carry important implications for regional markets. The most recent valuations put all 30 companies in the unicorn category, although some were valued in 2021, which raises the question of whether those companies have maintained their high-water marks. SHEIN is the highest-valued regional startup at $66 billion—though the company originated in China. Highly valued companies tend to seek an IPO, which historically has generated the bulk of returns to investors. The problem is that exchanges in Southeast Asia tend to be too small and scattered to deliver outsized, venture-style returns. The exit routes these startups pursue and their performance afterward will be closely monitored by the rest of the market, as they could be potential role models. Getting listed overseas is one potential option, with Grab setting the precedent of listing on the Nasdaq via a reverse merger with a SPAC.

Risks

Exits—large listings in particular—are closely tied to the overall macroeconomic picture and may be subject to regulatory scrutiny. Unfavorable conditions such as a lack of retail investor confidence and heightened economic and geopolitical uncertainties could weigh on the prospect of exits. Sector-specific challenges may also result in companies delaying an exit while prioritizing growth and profitability. In our Q4 2024 Exploring APAC's Fintech Pathways: Part II: Southeast Asia, we highlight the challenges for regional fintech startups to expand cross-border and the need for credit-focused fintech companies to crack the code of lending profitably to the historically underserved lower-income segments. Failure to unlock growth from expanding beyond the home market or the inability to combat sectoral headwinds could be a roadblock to a large exit.

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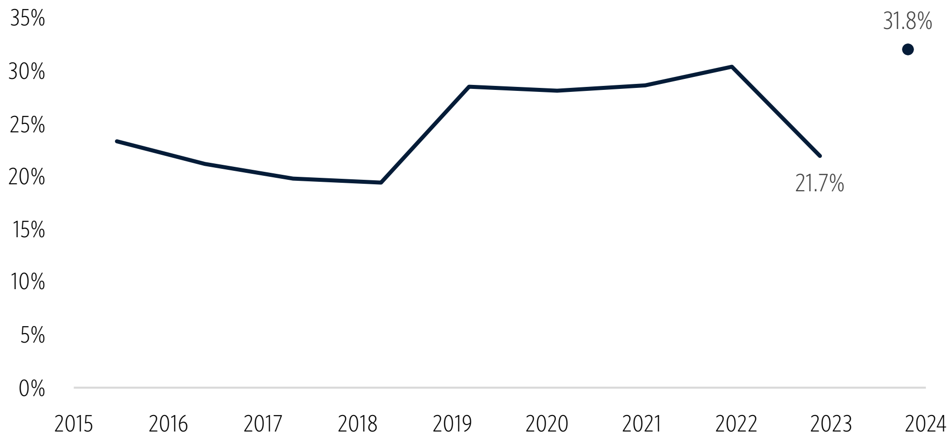
Outlook: India will see increased VC deal activity, further closing the gap between it and China.

India VC deal count as a share of China VC deal count



Source: PitchBook • Geography: India and China • As of November 26, 2024

Rationale

India's venture market exploded in 2021 and 2022 when nearly 2,500 deals were completed each year. Despite this increase of roughly 43% from the prior annual high, the number of deals being completed in India was a fraction of the total being completed in China. India's deal count barely surpassed 30% of China's total deal count in 2022. Each country has seen activity decline deeply over the past couple years, though the narrative surrounding each country has diverged.

India continues its prosperity of growth. Its economy is thriving, though it has recently hit a slowdown with just 6.7% GDP growth YoY as of June 30. That is slower than the above-8% growth for full-year 2023, yet remains as the fastest-growing large economy in the world. Though VC activity has waned recently, the full-year 2024 figure should come out ahead of that of 2023, a positive sign that the large decline in activity can become a quickly resurging figure. This strong economy should help to entice nondomestic investors back into the market after their pullback during the global slowdown.

On the other hand, China's economy has stumbled. The government's stimulus measures likely have not had long enough to take effect, but the incoming President-elect Donald Trump administration in the US adds even more pressure to manufacturers in the country. VC activity in China will likely end the year down roughly 40% from the highs of 2021 and down around 30% YoY. This decline has been the largest of any large venture market in the world. Not only has the economy struggled, but tensions with the US, protectionist policies toward tech, and regulations that have created a more difficult exit market for startups have pressured activity. Though we believe the quick pullback from nondomestic investment may have already troughed, the likelihood of China's venture market springing back amid the headwinds seems unlikely.

Back to India's market, venture fundraising has kicked into gear over the second half of 2024. Through November, there have been 36 new VC funds closed within India for a total of $2.5 billion in capital. Regardless of a return of nondomestic investment, the new funds will provide a new round of investment for young startups. If the ability for startups to access exit markets returns in 2025—which we believe it will, at least incrementally—the returns generated by those exits will provide further fuel to investors. India is headquarters to the third-highest number of unicorns behind the US and China. Those unicorns hold a large amount of value that will help propel the market into its next phase of growth.

2025 will not be the year India overtakes China in terms of VC deal activity, but it is an opportunity for the gap between the two to close. Reallocation of capital away from China will be a major theme for APAC as investors look for exposure to the region. India is in a prime position to grab a large portion of that capital because of its current stance on development and its future economic outlook.

Risks

India's venture market is still developing, and with that development comes challenges. Access to liquidity has not been easy for the country's startups despite the IPO markets remaining robust during the past couple years. Alongside that lack of liquidity, it has dealt with several high-profile failures of unicorns, either outright or through deep cuts to valuations, such as with OYO. The continued inability to generate liquidity for investors will have a chilling effect on nondomestic investment, much as we have seen in other emerging VC markets such as Southeast Asia and Latin America. Though, again, nondomestic investment is not necessarily the key to a return of dealmaking, nondomestic investors supply a large portion of the later-stage capital for the market. India's economic development is not relegated solely to tech or startups, either. Investors, both within and outside of the country, have many opportunities to put money to work in India.

Another wild-card risk to this outlook is the potential for China to re-establish itself as a dominant market for startups and returns in Asia. This seems less likely than other potential risks, but China's government has been known to shift policies quickly when it feels the need. Nondomestic direct investment into the country has fallen significantly over the past year, declining around 30% YoY.[3] If China looks to keep its tech dominance in the region, a shift in policy to bring back activity could spur new VC investment, regardless of if US investors participate due to US restrictions.

3: "China Foreign Direct Investment YoY," Trading Economics, December 14, 2024.