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Private Equity 2026

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Portugal: Trends and Developments

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PLMJ



Trends and Developments

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Overview of the Portuguese Economy

Portugal entered the second half of the 2020s from a position of relative macroeconomic strength, having recorded a budget surplus in 2025 for the first time in decades, despite an increasingly challenging external environment. Nevertheless, economic prospects for 2026-2028 have been affected by escalating geopolitical tensions in the Middle East since early 2026, the resulting increase in energy prices, and the severe storms that struck Portugal's Centro region in February 2026.

According to the Bank of Portugal, GDP growth is projected at 1.8% in 2026, moderating to 1.6% in 2027 before recovering to 1.8% in 2028.

In 2025, Portugal recorded a budget surplus of 0.7% of GDP. Although modest budget deficits of 0.2% of GDP in 2026 and 0.5% of GDP in both 2027 and 2028 are projected, public debt is expected to continue its downward trajectory, declining from 89.7% of GDP in 2025 to approximately 79.5% by 2028.

Inflation is expected to rise temporarily to 3.1% in 2026, reflecting higher energy prices associated with the conflict involving Iran and broader geopolitical uncertainty. However, inflation is projected to return to levels close to 2% from 2027 onwards, with the inflation differential vis-à-vis the euro area remaining negligible.

Export growth is forecast to strengthen to 2% in 2026 and 2.6% in 2027, supported by a gradual recovery in external demand and continued gains in competitiveness by Portuguese exporters.

Public investment and access to European funding remain important drivers of economic activity. In particular, the InvestEU partnership announced in July 2025 between Portugal, the European Commission and the European Investment Fund is expected to mobilise more than EUR6.5 billion in financing for SMEs and small mid-caps, supporting innovation, digitalisation, sustainability and competitiveness. The initiative represents the largest InvestEU Member State compartment established to date and is expected to contribute positively to investment and economic growth over the coming years.

Despite the less favourable international environment, Portugal continues to benefit from a diversified economy, a stable institutional framework and its position as an increasingly attractive destination for foreign investment within the European Union.

Overview of the Portuguese Private Equity Industry

The Portuguese private equity market has continued to mature, supported by an increasingly sophisticated regulatory framework, strong public-sector initiatives, and growing interest from domestic and international investors. While deal activity remains sensitive to global economic conditions, Portugal continues to offer attractive opportunities across sectors such as technology, healthcare, tourism, energy and real estate.

Portuguese equity transactions totalled approximately EUR8.5 billion in 2025, across more than 100 deals, representing a 33% increase compared to 2024. However, this growth was driven largely by a limited number of high-value transactions rather than a broad-based increase in market activity.

Deal making slowed considerably in the first half of 2026, with transaction volumes declining by approximately 32% as of April 2026 compared to the same period in 2025, also reflecting the already mentioned heightened geopolitical and macroeconomic uncertainty. Nevertheless, the medium-term outlook remains positive.

Renewed geopolitical tensions and increased defence spending commitments across Europe have contributed to growing private equity interest in defence, particularly with respect to dual-use assets and technologies. Portugal has followed this broader European trend, particularly in areas involving advanced technologies, cybersecurity and strategic infrastructure. More specifically, 17 Portuguese companies are expected to participate in projects financed under the European Defence Fund, including the unicorn Tekever, EID, CEiiA, Beyond Vision and UAVision.

Besides defence, real estate remained one of the most active sectors in 2025, accounting for approximately 75 transactions, while the internet, software and IT sector recorded around 50 deals. Artificial intelligence has also emerged as a rapidly expanding area of activity, presenting attractive opportunities for private equity investment across a broad range of industries. The travel, hospitality and leisure sector likewise experienced notable growth, benefitting from Portugal's continued attractiveness as a tourism destination.

Strong investor appetite was also evident in renewable energy, energy transition projects, infrastructure and data centres, reflecting wider European investment trends. Beyond these leading sectors, sponsors increasingly targeted consumer-related businesses, life sciences and business services, thereby expanding the investable universe available in Portugal.

In terms of transaction structures, the main features of Portuguese private equity deals remain broadly aligned with wider European practice. Locked-box mechanisms continue to be widely used, providing pricing certainty between signing and completion. Earn-out arrangements remain an important tool for bridging valuation gaps, especially in founder-led businesses and growth transactions. Warranty and indemnity insurance has likewise become increasingly common, helping to reduce post-closing exposure, preserve relationships with founders over time and minimise the risk of disputes and litigation.

A noteworthy recent development concerns the Portuguese Tax Incentive System for Research and Business Development (SIFIDE), one of Portugal's most significant tax incentives for investment in R&D activities. Law No 13/2026, approved by Parliament, authorises the government to extend the regime until 2026, while excluding indirect investment structures from its scope. As a result, companies investing through investment funds dedicated to financing R&D projects will no longer be eligible to claim the corresponding corporate income tax (CIT) credit in respect of qualifying R&D expenditure. This change is expected to reduce the attractiveness of fund-based structures previously used to access SIFIDE benefits and may have implications for private equity and venture capital investors with exposure to innovation-driven businesses. Also, this could well impact fund management entities that depend heavily on SIFIDE-oriented funds.

Although activity slowed in early 2026, the medium-term outlook for Portuguese private equity remains favourable. Continued public support for investment, the availability of European funding, increased sector diversification and growing institutional participation are expected to sustain market activity. At the same time, investors will need to navigate challenges arising from the relatively small size of the domestic market, greater competition for quality assets, changes to tax incentive regimes and a more uncertain geopolitical environment.

Key Trends

Succession in family-owned businesses

One of the defining characteristics of the Portuguese economy is the significant presence of family-owned businesses.

This characteristic is visible across a wide range of sectors, including industry, retail, agribusiness, consumer goods and healthcare. In fact, many of Portugal's leading business groups – including Amorim, Sonae, José de Mello, Delta Cafés, Mota-Engil, Sogrape, Impresa and Jerónimo Martins – remain closely associated with their founding families. The

same is true for a substantial number of mid-sized businesses that continue to operate under founder-led ownership. As a result, business succession has become an increasingly relevant issue for the Portuguese corporate landscape, particularly as many founders approach retirement without a clear succession plan. This of course presents a significant opportunity for private equity players to position themselves as a credible succession solution, rather than merely a source of capital. This is expected to attract interest from both domestic and foreign private equity funds.

Financial sponsors are showing growing interest in profitable family-owned businesses with strong market positions, experienced management teams and international growth potential. Rather than replacing founders entirely, transactions are increasingly structured to include rollover investments, tailored governance arrangements and phased transitions designed to preserve continuity, allowing founders or their successors to retain an active role while providing the expertise and strategic support required to accelerate the next stage of the development of the business. Increasingly, private equity is being viewed not only as a source of capital, but also as a means of facilitating an orderly ownership transition while preserving the legacy of the business and supporting its long-term growth.

The implementation of AIFMD II

Portugal has yet to complete the transposition of Directive (EU) 2024/927 (AIFMD II), notwithstanding the expiry of the implementation deadline on 16 April 2026. Portugal is not alone in this respect, as several other member states, including Belgium, France, Italy and Spain, had similarly not completed transposition by the deadline. Until the new regime is enacted, Portuguese alternative investment fund managers continue to operate under the existing legal framework, principally set out in Law No 18/2015 of 4 March 2015, as subsequently amended.

Once implemented, AIFMD II will introduce several amendments to the regulatory framework governing alternative investment funds, including a harmonised regime for loan-originating funds, enhanced liquidity management tools, revised delegation rules and additional reporting requirements. It should be noted that implementation is itself designed as a phased process: certain requirements, such as the enhanced supervisory reporting obligations and full compliance with the regulatory technical standards on liquidity management tools, are not expected to become mandatory until April 2027.

Whilst the new framework will inevitably increase compliance obligations for fund managers, it is not expected to alter the fundamental dynamics of the Portuguese private equity market. Rather, AIFMD II represents a further step in the continued alignment of the Portuguese regulatory framework with European standards, reinforcing legal certainty and facilitating cross-border fundraising and fund distribution and harmonisation of loan funds rules. As the domestic funds industry continues to mature, the implementation of AIFMD II is expected to support the long-term institutionalisation of the Portuguese alternative investment sector, while preserving the flexibility that has characterised the market to date.

The rise of search funds

Search funds have gradually established themselves within the Portuguese investment ecosystem, reflecting a broader trend already firmly rooted in other European markets, including in neighbouring Spain. While the Portuguese search fund market remains relatively small, an increasing number of entrepreneurs and investors are adopting the Entrepreneurship Through Acquisition (ETA) model, supported by experienced investors and entrepreneurs. Dedicated search fund initiatives, together with independent searchers, have become increasingly visible in recent years.

The growth of search funds is being led by many of the same structural factors that have driven the private equity activity in Portugal. Search funds are well positioned to acquire profitable businesses that may fall below the investment thresholds of traditional private equity funds, thereby broadening the range of potential buyers available to Portuguese business owners. In this context, search funds may provide an effective succession solution for many small and medium-sized businesses facing generational transition challenges, particularly where a traditional private equity investment may not be commercially viable. Their continued development is therefore likely to complement, rather

than replace, traditional private equity investment in the lower mid-market.

Increasing deal size

The Portuguese private equity market has traditionally been characterised by lower mid-market transactions. More recently, however, Portugal has begun to generate a growing number of transactions of a scale capable of attracting the world's largest financial sponsors and institutional investors. This reflects the increasing maturity of Portuguese businesses, greater internationalisation and the emergence of assets with sufficient scale to support highly competitive auction processes.

This evolution is illustrated by several high-profile sale processes launched in recent years. Henko Partners and the founders have agreed on the sale of their stake (with an expected rollover) in Quadrante, a Portuguese engineering and environmental consultancy, in a transaction reportedly valuing the business at more than EUR300 million. Likewise, Ontario Teachers' Pension Plan is pursuing the sale of Logoplaste, a transaction expected to exceed EUR1.7 billion and reported to have attracted interest from several leading global financial sponsors. Similar levels of international interest have also been seen in the sale process involving Indaqua, Portugal's largest private water and wastewater concessionaire, where shortlisted bidders have predominantly comprised international infrastructure investors, reflecting the growing ability of the Portuguese market to generate assets of significant scale across different investment strategies.

While transactions of this size remain the exception rather than the rule, their increasing frequency suggests that Portugal is no longer viewed solely as a lower mid-market jurisdiction, but increasingly as a market capable of generating assets of sufficient scale and quality to attract the world's leading financial sponsors and infrastructure investors.

The increasing number of fund management companies and expected consolidation

The Portuguese fund management industry has expanded considerably over the past decade, with a growing number of management companies focusing on private equity, venture capital, infrastructure, private debt and sector-specific investment strategies. This evolution reflects both the increasing sophistication of the domestic investment ecosystem and the support provided by institutional investors, such as Banco Português de Fomento and the European Investment Fund, which have played an important role in the development of new investment platforms.

As the market continues to mature, competitive pressures are likely to increase among domestic fund managers. Increasing regulatory requirements, the need to achieve operational scale and growing competition for institutional capital are expected to favour larger and more diversified management platforms. Against this backdrop, consolidation through mergers, strategic partnerships or acquisitions may become an increasingly relevant feature of the Portuguese asset management industry.

Should this trend materialise, it is likely to contribute to the further professionalisation of the sector and enhance the ability of Portuguese fund managers to compete for both domestic and international capital.

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