
KEYNOTE INTERVIEW

Tech market ripe for more mega-deals



Large take-privates and carve-outs are on the menu as PE firms seek opportunities to unlock and drive value, says Baker McKenzie's [Eric Schwartzman](#)

Q What is driving the current appetite for large PE investments in the technology space?

The main driver behind the large private equity technology deals we are seeing is the fact that technology continues to be one of the most active and opportunistic sectors for PE. Technology is critical to the corporate transformation going on across every industry, whether we are talking about artificial intelligence, cloud migration or cybersecurity. Those are long-term shifts in how businesses operate, and that makes technology a good place for large amounts of capital to be deployed.

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Technology is also attractive to private equity because it combines strong underlying sector growth dynamics with opportunities for organic growth and operational improvement. Many larger listed technology companies are mature at this stage but may be trading at valuations that fail to reflect their potential. That creates an arbitrage opportunity for private equity to step in and remove some of the pressures of public ownership to reinvigorate or capitalise on the growth story.

In a take-private scenario, you may have a company where the stock price reflects that growth has slowed, but private equity nonetheless appreciates that there is still a lot of growth to be had.

In a carve-out, you might, for example, have a technology division tucked inside a larger company that is not at its core a technology business – perhaps the business has developed some software and the stock price is not reflecting or getting valued for the growth potential of that software or software business.

So many of the big carve-outs and take-private transactions that private



equity firms are doing right now are technology-driven, and often that opportunity is arising because stock markets are failing to recognise the future value that is there or that is achievable.

Q Carve-outs are becoming an increasingly popular tool for private equity funds. Why is that?

Carve-outs are effectively a sweet spot because so many corporates are under pressure to sharpen their focus and create shareholder value, which on the sell-side makes companies look for opportunities to unlock value from divisions they are maybe not getting credit for. That tends to involve large conglomerates, but increasingly we also see mid-market companies doing this and re-evaluating their non-core divisions.

Private equity players like carve-outs because they often come with operational complexity around reshaping management and building out the acquired business on a standalone basis. That complexity is something private equity firms are expert at dealing with and, crucially, that creates value. Private equity sponsors have the capital and patience to see these deals through, and they bring that operational expertise.

That is why we are seeing so many carve-outs and will continue to see

“Consortium or ‘club deals’ are increasingly appealing at the top of the market”

them – they offer a lot of upside from a financial perspective for both the buyer and the seller.

Q Do you expect take-privates to continue to be a theme? What challenges do those deals present for acquirors?

The reason we continue to see an increasing number of take-privates is because public market valuations in some parts of the technology sector are disconnected from the fundamentals of the businesses, meaning there is still more growth available than the market is giving the company credit for. Often that includes really solid companies that are getting punished by analysts because their rate of growth has slowed.

Take-privates are also complex, expensive and challenging to do. If you

do a carve-out, you can negotiate and effectuate that in private (depending on the materiality of the division or asset you are carving out), but a take-private is highly visible and requires the navigation of shareholder approvals or a tender offer, as well as other regulatory regimes. That adds complexity and puts the private equity firms out there in the open in a way in which not all of them are comfortable with.

Like carve-outs, take-privates require a lot of work upfront to create a game plan for once the company is private. What are you going to do differently to further growth, what is the management team going to look like, and so on.

These transactions take a lot of capital, a lot of knowhow and a lot of execution capability but in return there is a lot of upside value. Complexity doesn't scare private equity firms. In fact, it is attractive to them, and for that reason we are going to continue to see more and more of these deals.

Q As PE tech deals grow in size, we might expect to see more consortiums on the buy-side. What's behind that?

Consortium or ‘club deals’ are increasingly appealing at the top of the market because funds have diversification limits so might be prohibited from deploying over a certain amount or percentage of the fund into any one particular company or deal. Even where that is not an issue, some of these deals are so large that sponsors just would not want to put so much into one deal.

So, as a way of sharing the equity cheque, private equity firms seek out partners to spread the risk. That means they can also share expertise and bring in different skill sets to complement their own operational capabilities, and that can make a deal even more attractive.

Once you enter into this arena, there are a handful of key issues that everybody should consider – both the

members of the consortium and the seller who is going to be dealing with multiple buyers. It may be a consortium of different private equity buyers or a combination of private equity sponsors and strategic buyers, but the issues are largely similar.

Q Can you talk through the issues that need to be considered when executing consortium deals?

The main issues include control and governance; investment horizon and exit strategy; economics and capital structure; operational responsibility; regulation; and cultural alignment.

First, thought needs to be given to control and governance. When you agree to form a consortium, you need to think about who the lead sponsor is and who gets to make all the critical decisions. Minority protections then need to be put in place to make sure everyone else's views are adequately represented. If there is a strategic in the mix, you often have an additional element of them wanting some kind of operational input or specific commercial arrangements because they are investing into a company in their space. So, control and governance need to be paramount.

The second big issue is the investment horizon and the exit strategy. Private equity sponsors will all want to exit at some point so the question is aligning around that timing and agreeing that strategy, as well as mechanics such as puts and calls, sales processes, right of first refusal and the like, upfront. Strategies are often in these deals because they want to be part of the exit glide path, so that raises additional questions around the hold period and the level of integration that can take place along the way.

Next up is economics and capital structure. Making sure everybody is agreed on the approach that is being taken on economic contributions is critical, and that covers equity commitments and break-up fees as well as

financial considerations like advisory fees. For strategics, there may be a discussion about contributing non-cash assets such as intellectual property, but essentially this comes down to who is putting up what and getting what in return.

Then there is operational responsibility to consider – who is the lead sponsor or what are the decision-making ground rules for operational decisions once the deal closes and the company is acquired. You need alignment on that game plan for growing the business, and this is different from the control issue mentioned above that focuses on fundamental corporate decisions like future equity issuances, debt financings, acquisitions, timing for the exit, etc.

There are also regulatory considerations because you need to think about a handful of different buyers from an antitrust approval perspective. Do any of the consortium members own a business in the same market that might raise competition concerns, for example.

Finally, and sometimes overlooked or undervalued, you need to think about cultural alignment. People do deals, not merger agreements, so you need to make sure your consortium members have agreed on their goals and share similar values, while appreciating their differences and knowing how to use those to their advantage.

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Q Are there any other complexities that need to be taken into account?

Part of the complexity when you are doing large consortium deals is that you have two time periods to deal with. Some of the issues I've mentioned are confined to the period between the day the consortium is formed and the date the deal is closed. You also need to negotiate a stakeholder agreement that will kick in on closing and last for the lifetime of the investment.

It is complex, and from a seller's perspective it would certainly be easier to deal with one buyer. However, consortiums can benefit sellers by getting deals done that would not otherwise happen with only one buyer and/or yielding a higher purchase price, but sellers will still be looking for comfort that the consortium is speaking with one voice and it is clear who has what authority.

Q Where do you expect PE to find the most compelling opportunities in tech going into 2026?

Our expectation is that we will continue to see some very large carve-outs and take-privates happening in the technology market for the rest of this year and going into 2026. We will see take-privates particularly in the space where technology intersects with mission-critical business needs around things like AI, cloud computing and cybersecurity.

In addition to these very large transactions, though, I do not think we can underestimate the dealmaking potential in the mid-market and the huge backlog of exits that has not happened there. LPs are looking for capital distributions and sellers are looking to exit, so there is a lot of appetite to do deals and we can expect a good level of tech M&A in that part of the market too. ■

Eric Schwartzman is a partner and head of the private equity group in California at Baker McKenzie