KEYNOTE INTERVIEW

The return of the tech IPO


The IPO market is now open for quality tech stocks, and increased M&A activity will likely soon follow, say Adams Street Partners' Brijesh Jeevarathnam and Robin Murray

Q Where are you seeing the most interesting opportunities today when it comes to private equity's ability to drive tech transformation in traditional industries?

Brijesh Jeevarathnam: Technology is transforming every aspect of GDP. In the past, tech companies primarily sold to other tech companies. Today, every sector, from financial services to media, entertainment and retail, has become a consumer of tech. Artificial intelligence is also disrupting the services sector, potentially expanding the addressable market into the tens of trillions of dollars globally.

Even traditionally tech-resistant sectors such as education, healthcare, industrials and government are embracing digital transformation, with a wave of new entrepreneurs focused on making these big spend industries more efficient. In short, the opportunity is everywhere.

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Q Which areas are proving most interesting when it comes to investment in pure-play technology businesses?

BJ: We are in the midst of a technology innovation super cycle and we believe that means the quantity and quality of new company formation is as strong as ever, as is the speed at which those companies are scaling from zero to tens or even hundreds of millions in revenues.

Not all those companies will ultimately prove to be successful, of course. That is the nature of the asset class. But venture is certainly seeing robust investment activity. Meanwhile, technology buyouts have become a mainstream component of the later-stage private equity world, driven by consolidation activity and the transformation of legacy tech businesses leveraging AI.

Robin Murray: It can be difficult today to distinguish between tech companies and tech-enabled companies given the extent of the digital conversion that has taken place in traditional industries. Fintech is a great example. Banks have been around forever but there is significant disruption from digital competitors now underway, as

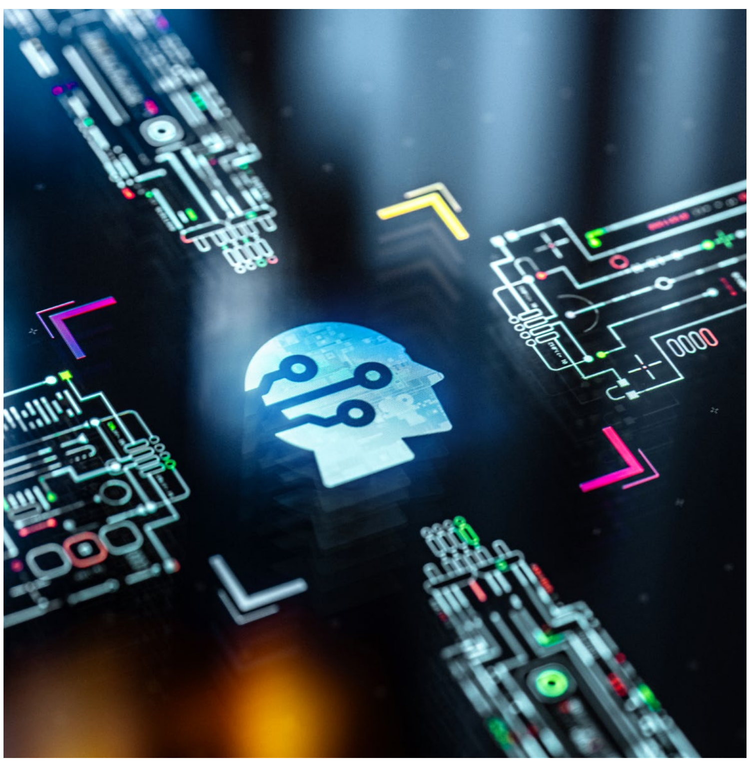
Q How are private equity firms adapting their value creation playbooks to leverage technology across all sectors?

RM: If you think about how private equity firms typically create value, much of the focus is on attempting to improve the top line, while also improving gross margins and ultimately profitability. Buyout firms have traditionally had a reputation for focusing on cost reductions, but today many firms are taking a far more balanced approach, trying to drive value through both the top and bottom line.

AI is only accentuating that trend. Private equity firms are encouraging portfolio companies to adopt AI wherever they can, whether that involves enhancing the top line through sales and marketing initiatives, or driving efficiency by using AI to write code to get more productivity out of an existing R&D budget, for example. Technology is being used to refocus the valuation playbook on both top line and margin improvement.

BJ: Private equity firms are also slowly adding AI to their own core business of sourcing potential investments and helping filter those investments from hundreds or even thousands at the top of the funnel, down to a few dozen that they can then conduct intensive due diligence on.

I would add that, while it has long been table stakes for buyout firms to have a value creation or operations team working directly with portfolio companies, more and more firms now have AI transformation teams helping portfolio companies as well. That shift has taken place within the past 12-18 months, and it is possible that in three years' time, every scaled buyout firm will have some version of that internal AI capability.



these disruptors leverage technology to challenge incumbents.

Then you have your pure-play technology businesses such as hardware and software infrastructure, data centres, semiconductors and AI-native businesses. These are huge opportunities, but they are also highly competitive, with a lot of players entering the space funded by venture capital firms, as well as the major technology incumbents. In many ways, pure-play technology businesses are a more challenging place to invest, but they also have the potential to offer the greatest upside.

Q How would you describe LP appetite for tech today and how are investors looking to gain exposure to this theme?

BJ: The largest component of most institutional investors' investment exposure tends to be to public equities. Furthermore, if those investors are deploying capital globally on a market-cap-weighted basis, they will end up with a significant chunk of their overall exposure in US equities. If you have a meaningful exposure to US equities you will, by default, have a meaningful exposure to tech. After all, around 35 percent of the S&P 500, by market capitalisation, is comprised of information technology companies.

However, when those investors look at their underlying exposures, it becomes clear they are heavily concentrated in a small number of businesses, because of the way those tech companies have increased so dramatically in market value. Investors therefore see buyouts, and even more so venture capital, as a way to diversify their tech exposure, hoping to get into tomorrow's public companies at a lower cost point today.

Investors are looking to invest early in the equity of the next wave of long-term compounders and venture capital is one way to potentially do that. Not every start-up will succeed, but some of those businesses could become the next Figma, the design software company that recently went public with a valuation of almost $20 billion, or the next Wiz, the cybersecurity company that Google's parent company is awaiting approval to buy for $32 billion.

Technology used to be a vertical, alongside financial services, healthcare and consumer, for example. Now it has flipped to become a horizontal that touches every other vertical, so investors are going to be exposed to technology by default. Venture capital and buyouts are a great way to diversify that tech exposure.

Q You mentioned some high profile 2025 tech exits there. How would you describe the exit environment for tech businesses more generally?

RM: There are two ways to exit a company. You sell it or you take it public. To get a premium M&A outcome, you need a healthy IPO market, because the buyer has to believe that an IPO exit is a real option for the company to pay a premium price. Following the November 2021 stock market peaks, the IPO markets have been challenging, particularly for tech companies, until recently.

The IPO window effectively closed for several years, but that window is now open again and we are starting to see some incredibly successful public offerings of technology companies. Hopefully, if we see strong aftermarket performance continuing, that should lead to a stream of technology companies going public, combined with a robust M&A market.

I would add, however, that the bar is currently very high. Only the best companies are going public. That is as it should be in the early days of the IPO window reopening. It also tends to be the very large, premium companies that are changing hands in the M&A markets.

It remains more challenging for other businesses that may not have grown quite as much or as fast, including the significant backlog of mature, venture-backed companies that were funded in the run up to 2021. The hope would be that those companies are able to find an exit by combining with other private companies or through sales to buyout sponsors.

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>
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Q How concerned are you that the tech sector will be impacted by the current geopolitical situation?

BJ: It is fair to say that the world of politics and the world of investment, and especially tech investment, have been converging over the past five to 10 years in the sense that what happens in Washington, DC increasingly impacts Silicon Valley. However, when it comes to tariff policy, I can't think of many venture capital-backed businesses that will be impacted, because the vast majority are not dealing in physical goods or services.

On the buyout side, there may be some impact relating to supply chains. We have seen most managers be proactive in addressing those issues. Furthermore, where there is threat, there is opportunity. For example, there are some areas where businesses are benefiting from the onshoring trend.

RM: In the past, technology companies have managed to stay out of geopolitical or regulatory crosshairs, at least until they become really big. However, now that technology is moving into other more heavily regulated industries, such as financial services and transport, these tech businesses and their investors are going to have to learn how to navigate the political environment.

Meanwhile, some aspects of deep tech are being caught up in geopolitical tensions as well. The control of semiconductor supply and the control of AI, for example, are increasingly becoming a priority for governments. There can be no doubt that the technology sector will be more impacted by geopolitics than it was a generation ago, simply by virtue of its growing economic and strategic importance.

Q What do you believe the next 12 months will bring for the tech sector and private equity's role within it?

BJ: We will see increased AI adoption, along with a clearer delineation between AI winners and the rest of the field. I also believe we will see more exit activity. There is no dearth of quality companies waiting in the wings that have filed for an IPO or are getting ready to file, and a robust IPO market goes hand in hand with a robust M&A market. Finally, we expect to see consolidation of mid-sized incumbent technology companies over the next 12 months, in some cases driven by private equity. ■

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