

2025 Year-to-Date Update for Private Equity Sponsors

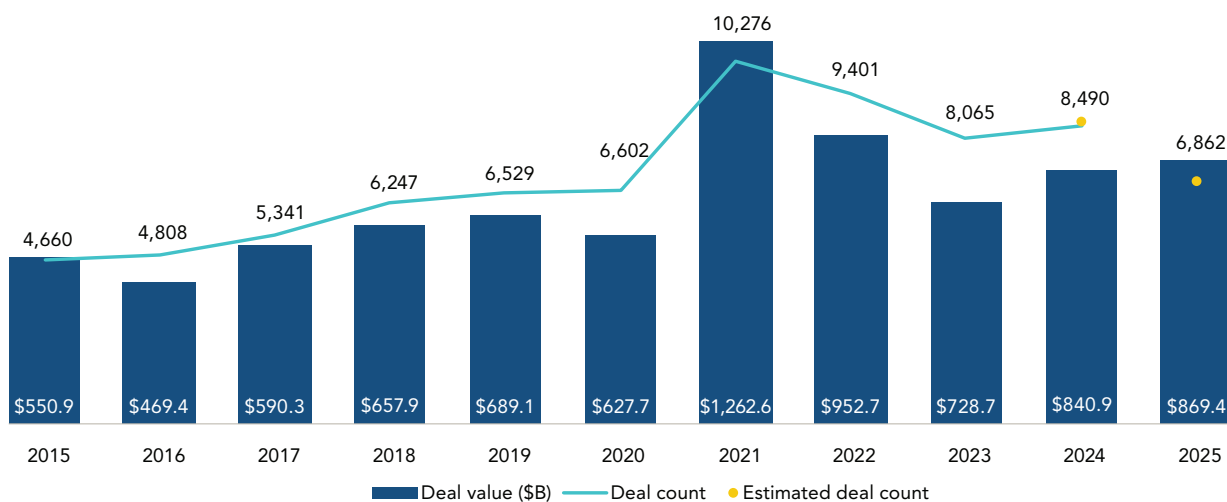
Spotlight on Take-Private Transactions

By: Mark K. Castiglia, John C. Godfrey, Matthew D. Stoker, John K. Neal, Jr., & Tommy N. Tsao

Private Equity M&A Market Overview: Year-to-Date 2025 Recap

What began as an optimistic year for deal activity, lower interest rates, and sustained economic growth, quickly became subdued by increasing political and macroeconomic uncertainty, tariff unpredictability, and persistent inflation pressures leading to the continued heightened cost of capital through the first three quarters of 2025. Despite these headwinds, sponsor led M&A activity has shown resilience after being propelled by a strong third quarter. Overall sponsor led deal count has increased by 9.7%¹ over the same period in 2024 and has seen the aggregate deal value through the first three quarters of 2025 already surpass recent cycle peaks, reaching \$869.4 billion so far in 2025 and posting a 36.6% increase year-over-year.² The surge in deal value has been anchored by a continued wave of “mega deals” (i.e., transactions with deal values exceeding \$1 billion) as private equity sponsors focused on fewer but larger transactions.

PE deal activity



Source: PitchBook • Geography: US • As of September 30, 2025

The third quarter of 2025 saw a reversal of the pullback observed in the second quarter of 2025 with private equity sponsor sentiment returning to the market, aided by lowered borrowing costs through the U.S. Federal Reserve’s recent rate cuts and greater market clarity, leading to overall M&A activity accelerating. The third quarter of 2025 concluded with 2,347 announced or closed deals, up 11.7% from the prior year, and aggregate deal value totaling approximately \$331.1 billion alone – a strong increase of 28% quarter-over-quarter and 36.6% year-over-year – which included the take-private of Electronic Arts (EA) by a consortium comprised of PIF, Silver Lake, and Affinity Partners for approximately \$55 billion (the largest announced leveraged buy-out of all time).³

¹ PitchBook, Q3 2025 US PE Breakdown 5 (Oct. 10, 2025).

² *Id.* at 5.

³ *Id.*

PE deal activity by quarter



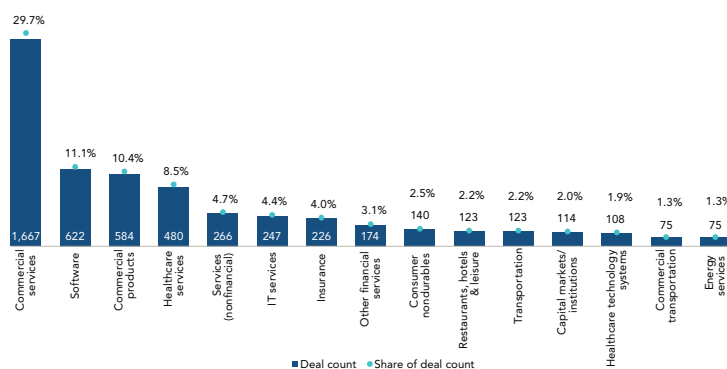
Source: PitchBook • Geography: US • As of September 30, 2025

The elevated activity posted in the third quarter in particular indicates that momentum is building and that we may be in store for a strong finish to 2025 as the uncertainty presented by the first half of the year continues to abate.

1. Sector Activity

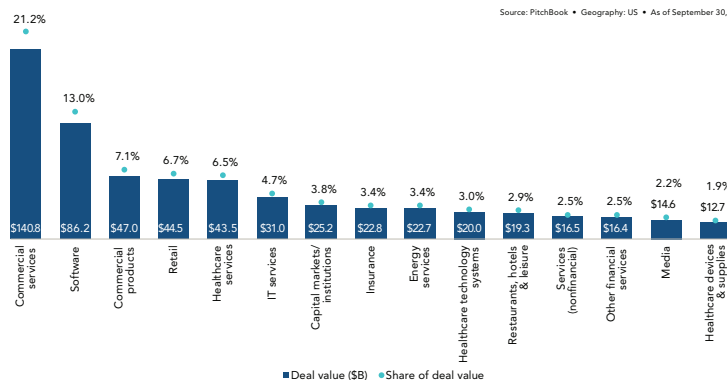
Deal activity in the first three quarters of 2025 continued many of the key trends that we observed in 2024. Technology sector transactions continue to lead U.S. sponsor-led deal flow, with sponsor-led M&A activity in the sector rising to 1,193 transactions year-to-date, implying an increase of 18.7% year-over-year when annualized, and deal value ballooning to \$221.3 billion, a significant increase over the \$188.5 billion observed in 2024, underscored by the recently announced \$55 billion take-private of EA.⁴ Moreover, sponsor-led deal activity in the business-to-business (B2B) sector has also remained robust with the sector recording 2,864 transactions year-to-date, implying an increase of approximately 10.1% year-over-year when annualized, and deal value reaching \$235.2 billion year-to-date in 2025, pacing for a 18.5% increase year-over-year when annualized.⁵ Investor demand has also remained strong in sectors such as artificial intelligence, cybersecurity, and enterprise cloud platforms.

Top 15 industry groups by PE deal count in 2025



Source: PitchBook • Geography: US • As of September 30, 2025

Top 15 industry groups by PE deal value in 2025



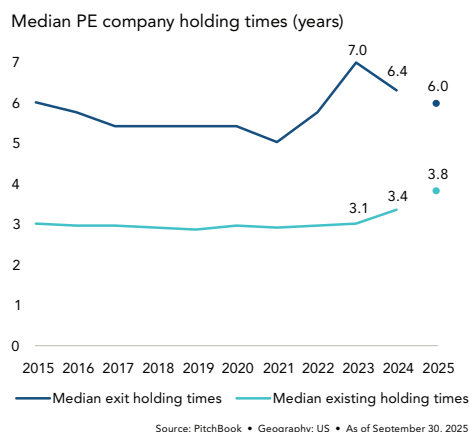
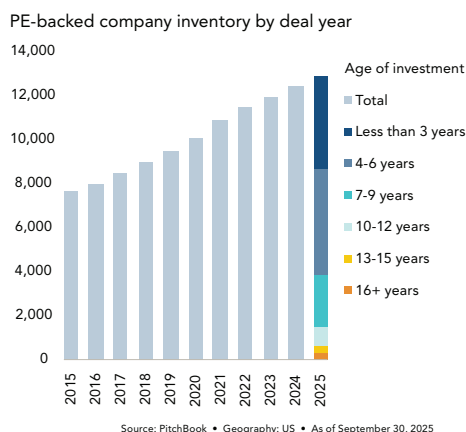
Source: PitchBook • Geography: US • As of September 30, 2025

⁴ PitchBook, supra note 1, at 6-7.

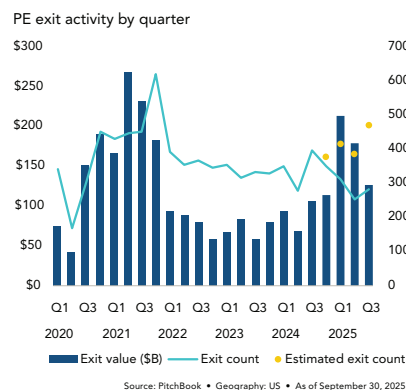
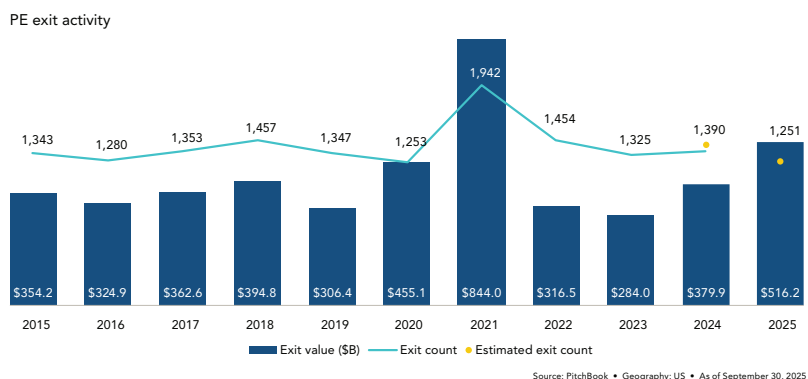
⁵ Id. at 6.

2. Sponsor Exit Activity

Despite the increase in overall sponsor led deal counts throughout the course of 2025, the investment inventory of private equity sponsors continues to increase year-over-year with median existing hold periods rising to a median of 3.8 years the longest duration observed in recent cycles.⁶



Nevertheless, the first half of 2025 experienced a long awaited rebound in sponsor exit activity with both sponsor exit deal counts and deal values surging to the highest per quarter peaks since 2021. However, as investor sentiment cooled off over the course of 2025 so did sponsor backed exit values, which decreased quarter-over-quarter as 2025 progressed. Even so, the exit values observed in 2025 year-to-date have already surpassed the values attributed to 2024 and have reached \$365.4 billion in deal value – a substantial increase from the \$210.2 billion observed during 2024.⁷



The rebound in sponsor exits narrowed the median exit holding times from its 2023 peak of approximately seven (7) years to roughly six (6) years. Despite the increased exit activity observed, median exit hold periods still remain elevated from the pre-pandemic median of 5.2 years.⁸

Sponsor-backed IPOs have continued to show strong performance through the third quarter of 2025 with 20 sponsor-backed IPOs observed, which already exceeds the 18 sponsor-backed IPOs observed for the full year 2024.⁹ Exits to corporates remain steady, but still down from pre-pandemic averages. Notably, exits to corporates by deal count increased 14.4% quarter-over-quarter in the third quarter of 2025, but suffered a dramatic decline in exit value dropping 58.1% quarter-over-quarter.¹⁰ Sponsor-to-sponsor exits observed a similar trend as corporate exits by posting a 8.3% increase in overall deal count quarter-over-quarter in the third quarter of 2025, while experiencing a decline of 23.4% in deal value quarter-over-quarter, and remained subdued from pre-pandemic averages.¹¹

⁶ PitchBook, supra note 1, at 20.

⁷ Id. at 19.

⁸ Id. at 20.

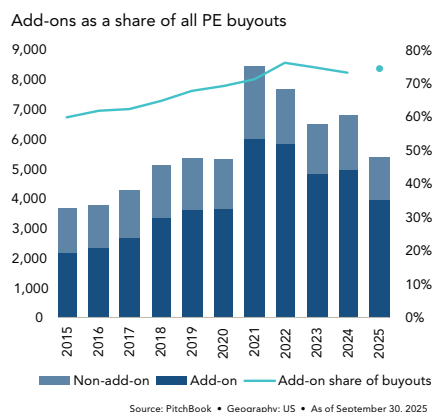
⁹ Id. at 21.

¹⁰ PitchBook, supra note 1, at 21.

¹¹ Id. at 22.

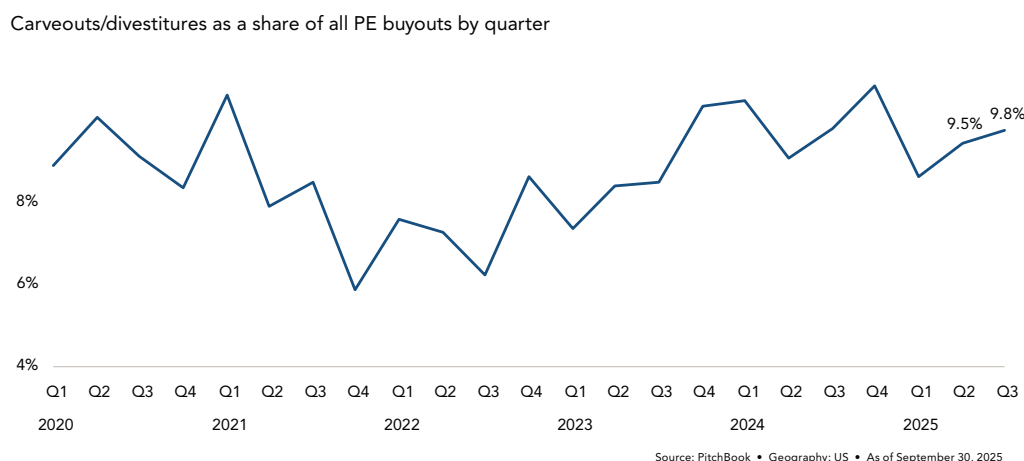
With fewer traditional exit opportunities available, sponsors are increasingly looking to secondary sales or continuation vehicle transactions to realize liquidity and pursuing add-on acquisitions to improve the quality of their inventory.

In particular, add-ons have remained a significant share of the overall private equity activity accounting for approximately 74% of all buyout transactions so far in 2025, comparable with the five (5)-year annual average of 72%.¹² We expect add-ons to remain a staple share of the overall private equity M&A market as we approach year end.



In addition, public-to-private transactions or “take-private” transactions and public company carve-out transactions involving private equity bidders remain a recurring feature of the U.S. deal landscape. After a quieter period in 2022 and 2023, activity began to rebound in 2024 with sponsors targeting public companies with the potential to realize incremental value from whole companies or individual divisions or business units under private ownership, often with a turnaround or carve-out thesis, and public companies becoming increasingly receptive to such transactions in part due to record levels of shareholder activism in 2024 and 2025 to date.¹³

Carveout activity as a share of all sponsor-led buyout activity remains elevated in 2025 from the 5-year average of 8.6% of all buyout activity.¹⁴ The third quarter saw carveout activity rise to 9.8% of all buyout activity, a modest increase from the second quarter’s 9.5% share.¹⁵



With the volatility and recession fears from the first half of the year waning, corporate boards have been opting to divest non-core or underperforming assets to focus strategy and redirect capital. These divestitures can offer sponsors opportunities as either new platform deals or add-on acquisitions. We expect carveouts to remain a healthy pipeline for private equity sponsors as approach year end and into 2026.

¹² PitchBook, supra note 1, at 8.

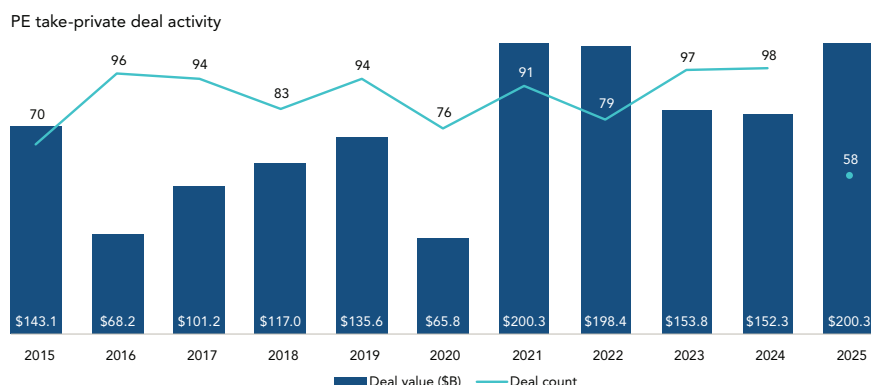
¹³ Lazard, Inc., Review of Shareholder Activism – H1 2025 (July 29, 2025), <https://www.lazard.com/research-insights/review-of-shareholder-activism-h1-2025/>.

¹⁴ PitchBook, supra note 1, at 9.

¹⁵ *Id.*

Spotlight: Take-Private Transactions Recap

Chief among the trends observed so far in 2025 has been the continued rise of sponsor-led take-private transactions, which are pacing for the second-highest year on record for take-private deal value and have remained a robust share of all sponsor-led deal activity.



On the heels of an already active year in 2024 during which global valuations of take-private transactions surged to almost \$250 billion,¹⁶ we have observed many notable U.S. sponsor-led take-private transactions announced in 2025:

| TARGET | ACQUIRER(S) | DATE ANNOUNCED | DEAL VALUE |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------|---------------------|------------|
| Electronic Arts Inc. | SA Public Investment Fund, Silver Lake and Affinity Partners | September 29, 2026* | ~\$56.6B |
| Air Lease Corp. | Apollo Asset Management, Brookfield Asset Management, Sumitomo Mitsui Financial Group, and Sumitomo Corp. | September 2, 2025* | ~\$28.2B |
| Walgreens Boots Alliance Inc. | Sycamore Partners | March 6, 2025 | ~\$23.7B |
| Hologic, Inc. | Blackstone, TPG, Government of Singapore Investment Corporation (GIC), Abu Dhabi Investment Authority Ltd. (ADIA) | October 21, 2025* | ~\$18.3B |
| Dayforce, Inc. | Thoma Bravo and ADIA | August 20, 2025* | ~\$12.3B |
| TXNM Energy Inc. | 3G Capital | May 5, 2025* | ~\$11.3B |
| Sketchers USA Inc. | 3G Capital | May 5, 2025 | ~\$9.4B |
| Dun & Bradstreet Holdings, Inc. | Clearlake Capital Group | March 24, 2025 | ~\$7.7B |
| SolarWinds Corp. | Turn/River Capital | February 7, 2025 | ~\$4.4B |
| Brighthouse Financial, Inc. | Aquarian Capital, RedBird Capital Partners, and Mubadala Capital | November 6, 2025 | ~\$4.1B |
| Hillenbrand, Inc. | Lone Star Funds | October 14, 2025* | ~\$3.8B |
| Triumph Group Inc. | Warburg Pincus and Berkshire Partners | February 3, 2025 | ~\$3.0B |
| TreeHouse Foods Inc. | Investindustrial | November 9, 2025* | ~\$2.9B |
| Soho House & Co. Inc. | MCR Hotels, Yucaipa Companies, Goldman Sachs Asset Management, and various individuals | August 18, 2025* | ~\$2.7B |
| Premier Inc. | Patient Square Capital | September 22, 2025* | ~\$2.6B |
| Jamf Holding Corp. | Francisco Partners | October 29, 2025* | ~\$2.2B |
| AvidXchange Holdings Inc. | TPG | May 6, 2025 | ~\$2.2B |
| Altus Power Inc. | TPG | February 6, 2025 | ~\$2.2B |
| Plymouth Industrial REIT Inc. | Makarora Management and Ares Management | October 24, 2025* | ~\$2.1B |
| MeridianLink Inc. | Centerbridge Partners | August 11, 2025 | ~\$2.0B |

¹⁶ Hugh MacArthur et al., *Private Equity Outlook 2025: Is a Recovery Starting to Take Shape?* (Bain & Co. Mar. 3, 2025).

| TARGET | ACQUIRER(S) | DATE ANNOUNCED | DEAL VALUE |
|----------------------------------------------------------|---------------------------------------------------|---------------------|------------|
| Verint Systems Inc. | Thoma Bravo | August 25, 2025* | ~\$2.0B |
| Integral Ad Science Holding Corp. | Novacap Investments | September 24, 2025* | ~\$1.9B |
| Bridge Investment Group Holdings Inc. | Apollo Global Management | February 24, 2025 | ~\$1.5B |
| Couchbase Inc. | Haveli Investment Management | June 20, 2025 | ~\$1.5B |
| WideOpenWest Inc. | Crestview Partners & DigitalBridge Group | August 11, 2025* | ~\$1.5B |
| PROS Holdings Inc. | Thoma Bravo | September 22, 2025* | ~\$1.4B |
| Guild Holdings Co. | Bayview Asset Management | June 18, 2025* | ~\$1.3B |
| Guess? Inc. | Authentic Brands Group and Management | August 20, 2025* | ~\$1.4B |
| Landsea Homes Corp. | The New Home Company, an Apollo portfolio company | May 12, 2025 | ~\$1.2B |
| ODP Corp. (parent company to Office Depot and OfficeMax) | Atlas Holdings | September 22, 2025* | ~\$1.0B |

* Transaction has been announced but has not yet been consummated.

Blue represents a transaction that Sidley advised on.

The continued surge in sponsor-led take-private deal activity has been related, in part, to the record high levels of private equity dry powder in existing funds, the rise of numerous new private equity “mega funds,” and public company share prices trading at discounts to intrinsic value during 2025 amid macroeconomic uncertainties. These conditions have enabled private equity firms to opportunistically capitalize on public-market disconnects and acquire blue-chip assets at compelling entry multiples.

Key Take-Private Transaction Features

We expect take-private transactions to remain a key area of sponsor activity through the remainder of 2025 and into 2026. These transactions carry unique complexities for sponsor acquirers, particularly in contrast with private company transactions in which sponsors may be more familiar in transacting. In particular, sponsors and deal professionals should take note of the following features:

- **“Fixed” Purchase Price and Mechanics:** Unlike most private deals, the consideration in acquisitions of public company targets is agreed to and paid on a per-share basis, rather than an aggregate enterprise value basis, is fixed at signing, and rarely contains any of the purchase price or merger consideration adjustments that are common in private transactions (such as adjustments for cash, net working capital, indebtedness, transaction expenses, etc.). Therefore, it is paramount for sponsors to fully understand and diligence the target’s capitalization structure, including the number of issued and outstanding shares, classes of shares, and other equity awards that may need to be paid out as a part of the transaction and seek to include covenants aimed at limiting the ability to change aspects of a target’s capitalization that would functionally increase purchase price between signing and closing and to include in consideration of the fixed purchase price the economic assumption by the acquiror of all of the debt and transaction expense obligations of the target.
- **Limited Closing Conditionality:** Given the vulnerability to erosion in equity value that can occur at a publicly traded company when a publicly announced transaction fails to be consummated, public company targets will typically insist on very limited deal closing conditionality. These conditions are usually limited to: (1) the approval of the transaction by the target stockholders (or acquisition of a majority stake via a public tender offer process), (2) a bring-down of representations and warranties to a “material adverse effect” standard, (3) compliance in all material respects of the covenants in the sign-to-close period, (4) the absence of the occurrence of any “material adverse effect,” and (5) the achievement of specified necessary regulatory conditions (e.g., expiration of anticompetition law waiting periods and absence of government action restraining the transaction). Sponsors should be aware that it is very difficult to terminate a take-private transaction once signed, even if there are significant detrimental developments in the business that fall short of a “material adverse effect,” so the fixed share price offered for the target company needs to take into account the practical risk of absorbing adverse business changes prior to closing.

- **Limited Recourse:** Indemnification from public company stockholders is not available as a potential avenue of recourse in take-private transactions and the use of escrows or deferred or contingent payments are rare given the complexity related to extending these rights to a public stockholder base and the emphasis public company boards place on full price certainty in connection with satisfying their fiduciary duties to their public stockholders. In the negotiated acquisition agreement, a target company will generally make representations and warranties in a manner similar to a target company in a private company transaction, but sponsors should be mindful that scope of individual representations and warranties and the threshold for materiality and material adverse effect qualifications may be significantly higher than in most private deals give the imperative of mitigating closing risk that drives most public company targets. Representation and warranty insurance is generally available for take-private transactions, but underwriters will emphasize the need to understand the extent of the diligence that was conducted and whether disclosure schedules were prepared with the rigor of a private company transaction in order to provide coverage and policies will generally exclude risks unique to public company targets (e.g., litigation from public stockholders).
- **Acquisition Financing/Reverse Termination Fees:** Sponsors frequently utilize acquisition financing in take-private transactions in a manner similar to the approach used in private company leveraged transactions. In turn, public target companies typically require delivery at signing of debt commitment letters (with a “SunGard clause” level of certainty) and equity commitment letters with limited conditionality that, together, are sufficient to cover the anticipated transaction consideration. In addition, sponsors are also typically required to sign limited guarantees sufficient to cover a customary “reverse termination fee” (RTF) payable if the transaction fails to close. RTFs are usually tied specifically to the failure of a transaction to close when closing conditions are otherwise satisfied (e.g., from a failure to obtain sufficient financing to close the deal or failure to receive necessary regulatory approval). It is often a negotiated point as to whether the payment of a RTF will also be triggered due to an acquirer’s material breach of the transaction agreement or due to the transaction being terminated due to the “outside date” being reached at a time when the acquirer is in material breach of the transaction agreement. Thus far in 2025, the mean RTF payable in financial buyer take-privates generally was 6.3% of the target’s equity value, which is generally consistent than the mean of 6.7% observed in 2024 but is the lowest that we have observed since 2020.¹⁷ In addition, thus far in 2025, the mean RTF payable in financial buyer take-privates for a financing failure was 6.0% of the target’s equity value, which is a significant discount to the observed mean of 7.8% observed in 2024 and the lowest that we have observed since 2022.¹⁸ “Specific performance lite” continues to be the preferred equitable remedy of sponsors to address financing failure risk in take-private transactions that rely on acquisition financing. This construct permits the target to force the sponsor to fund its equity financing only if the debt financing is also available.
- **Stockholder Litigation:** The vast majority of public-company M&A transactions, including take-private transactions, involve stockholder litigation brought after the announcement of the pending transaction. Litigation is typically brought by law firms specializing in merger litigation on behalf of target company stockholders and typically takes the form of: (i) claims alleging flaws in the target company’s public disclosures regarding the transaction and/or the transaction process or (ii) claims alleging breaches of fiduciary duties by the board of directors of the target company. These claims are seldom litigated and often (but not always) resolved prior to the stockholder vote (or tender offer expiration, if applicable) by the target company issuing supplemental public disclosures and agreeing to pay a “mootness fee” to the plaintiffs’ law firm. Transaction litigation can also take the form of appraisal actions which are brought under the applicable state law of the target company and demand a judicial determination of the “fair value” of shares following state law procedures. Appraisal actions typically require a plaintiff to follow detailed and complex procedural criteria and, if not withdrawn or settled, often proceed to trial. Potential acquirors should be mindful of the likelihood of litigation and the settlement costs arising from stockholder litigation as they consider the overall transaction related costs and expenses involved in a take-private transaction.
- **Management Considerations:** The timing and approach to discussions around employment, compensation, and benefits for the existing management team in a public company transaction present unique complexities in a take-private transaction, which are further detailed in the following “Modifications to Employment Agreements in Take-Private Transactions” section of this issue.

¹⁷ DealPoint Data, *General, Financing, and Antitrust RTFs*, <https://www.dealpointdata.com> (last visited Nov. 17, 2025).

¹⁸ *Id.*

Modifications to Employment Agreements in Take-Private Transactions

By: Eric Kauffman, Stacy Crosnicker, Lauren Gallagher, Amy M. Rubin & Eric Wolf

In considering a take-private transaction, both sponsor acquirers and potential public company targets should be prepared to address material employment and compensation issues that commonly surface in negotiating such transactions.

This article focuses on modifications to the compensation and employment agreements of a target's executive team. This issue does not typically arise until the final stages of a take-private deal's negotiation — before definitive transaction documentation is signed but after the material deal terms (including price) have been agreed.

Background

During take-private negotiations and in anticipation of new ownership, a target's executive team and legal counsel review existing compensation and employment agreements to assess whether they contain provisions that protect or benefit executives in the event of termination. If the target's team and legal counsel believe the existing executive employment agreements are insufficient, they may propose (and the target's board of directors may approve) modifications to enhance protections or benefits.

From an acquirer's perspective, the protections or benefits provided to executives in such agreements or proposed modifications pose potential future liabilities (including potentially significant cash obligations) that should be carefully evaluated.

The latter-stage timing of these proposals and their latent liabilities can create challenges for the parties in the days and hours leading up to signing a deal.

Four Actions to Prepare for Proposed Modifications

The parties can minimize disruption or last-minute delays in the transaction process by ensuring a target's executive team has thoughtfully evaluated its employment arrangements for possible modifications and acquirers are aware that an executive team may propose such modifications and are prepared to address them.

1. Review Current Executive Employment Agreements

Both acquirers and targets should involve executive compensation practitioners early in a transaction. It is critical for parties to understand the key terms implicated in a take-private and have the benefit of counsel's review of current executive employment arrangements. Acquirers need to understand the costs under such arrangements that result, or may result, from the closing of the transaction or their post-closing strategic planning. At the same time, target executive teams and their counsel will be keen to assess whether they believe the executive team has adequate protection in the event of a take-private transaction.

Employment and equity agreements often include provisions that can be triggered by a take-private transaction. Such terms are critical for acquirers and executive teams to understand prior to the signing of a transaction and are ripe for potential pre-signing modification proposals. Generally, these types of provisions fall into two categories: "single trigger" and "double trigger." Single-trigger provisions automatically go into effect when a "change in control" transaction (i.e., a merger, acquisition, or other significant change in a company's ownership or management structure) occurs. For example, an agreement may stipulate that an executive's equity award will vest upon a change in control. Single-trigger provisions provide more robust protection for an executive but cause retention issues for an acquirer because an executive can quit upon a change of control with vested equity, severance, or both.

Double-trigger provisions combine a change in control transaction and a subsequent event. For example, an agreement may call for an executive to receive severance payments upon termination by the company without cause or by the executive for “good reason” (which can include a material change in the executive’s employment relationship akin to constructive termination) within one year following a change in control. Double-trigger provisions, the more common form of change-of-control protections, are better suited for executive retention but provide executives with less flexibility post-closing.

Acquirers and their counsel should review in detail the key compensation and benefits terms of all existing compensation and employment arrangements, including calculating the value of any single- or double-trigger severance and the equity terms of the target’s management team. Reviewing the existing terms will enable the acquirer to preemptively estimate the impact that payments under existing arrangements and any potential modifications (for example, the inclusion of new single- or double-trigger severance terms where they did not previously exist) could have on company cash flow — and in turn deal value and pricing. For instance, an acquirer can determine whether there would be a significant up-front cost to retain members of the existing management team and include that assumption when determining the initial price per share it offers in the transaction.

2. Calculate the Cost of Retaining Members of the Management Team

In any transaction, the acquirer should know which executives are critical to the business. The transition from public to private company has specific implications for the applicability and efficacy of existing management roles. An acquirer will likely be more focused on the retention of certain executives, such as the CEO and other key management team members. Given that private and public companies have significantly different compensation structures, the acquirer should determine the cost to retain such key executives. Alternatively, considering that any take-private transaction risks future executive attrition, the acquirer may consider the cost of replacements for certain executives.

3. Account for Potential Changes to Severance Packages

A management team may request enhanced severance packages in the event they are terminated without cause or resign for good reason within a defined period of time following a change-of-control transaction. Proposed modifications may include an increase in severance upon such a termination or a broader definition of good reason to capture changes that may occur in a private company structure.

As this is part of a well-worn playbook, an acquirer should anticipate the aforementioned modifications and similar proposals. They should also determine what they would be willing to accommodate as well as the ultimate economic costs and implications of any such modifications.

4. Avoid Proposing Changes to the Deal Price

Given that late-stage modifications to employment arrangements could have a significant economic impact on an acquirer, an acquirer might be tempted to propose adjustments to the deal price in exchange for accommodating such modifications. However, any changes to the deal price will be disclosed in public filings relating to the transaction, will raise fiduciary duty concerns, and could result in stockholder litigation claiming that the executives negotiating the take-private placed their personal interests before those of the target and its stockholders. Therefore, modifying the deal price in response to changing employment-based economics during a transaction’s later stages carries risk. Acquirers are better served by understanding and accounting for all relevant employment-based economic components, whether existing or likely to be amended, when initially considering deal price.

Preparation is crucial for successfully navigating executive compensation and employment issues in a take-private. Parties that are well prepared and that engage counsel early in a deal will be best positioned to appropriately address such issues, reduce deal friction, and avoid delay in getting to a signed transaction.

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