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TECHNOLOGY

Enterprise software take-private deals benefit from stock market volatility, duration mismatch

Smartsheet, SolarWinds and Zuora have all gone private in 2025 with PE backers including Blackstone, GIC, Silver Lake, Turn/River Capital and Vista.

While overall dealmaking is in a slump, take-private transactions for enterprise software companies are holding their own.

Cases in point are the following take-private deals that closed in the first four months of the year:

In April, Turn/River Capital completed the $4.4 billion acquisition of SolarWinds from Thoma Bravo and Silver Lake. (The deal was announced in February.)
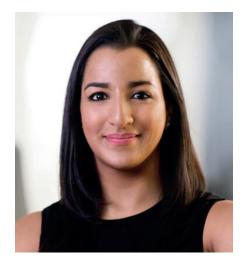
Also in February, Silver Lake and GIC closed on a deal to purchase of Zuora for $1.7 billion. (Announced in October.)

And in January, Blackstone and Vista Equity Partners completed the $8.4 billion acquisition of Smartsheet. (Announced in September.)

For insights on what's driving take-private enterprise software transactions in 2025, PE Hub reached out to several PE firms that invest in tech. Here are comments from Tara Gadgil, partner at Thoma Bravo; Monti Saroya, senior managing director and co-head of Vista Equity Partners' flagship fund; and Joe Porter, partner and managing director in the technology, media and telecom group and head of software merger and acquisitions at Goldman Sachs.

The Rule of 50

Thoma Bravo has conducted 54 take-privates since the firm was founded by Carl Thoma and Orlando Bravo in 2008.

Tara Gadgil, Thoma Bravo

From 2020 to 2024, the Miami-based firm completed 25 take-private transactions.

The firm has invested in eight companies out of Thoma Bravo Fund XV, which closed at $24.3 billion in 2022. All eight portfolio companies have originations in take-private deals. Among them are Darktrace, Anaplan and Ping Identity.

"There are some really high-quality revenue software companies in the public markets," Gadgil told PE Hub. "These companies grow more quickly than non-software companies and have higher gross margins but have lower EBITDA margins or profitability."

Public software companies aren't as focused on profitability as privately held ones, Gadgil argues. She referred to the "Rule of 40" popularized by venture capitalist Brad Feld a decade ago. It states that for a software company to be considered healthy, its annual revenue growth rate plus its profit margin should be at least 40 percent.

According to Gadgil, most software companies in the public markets fall well below the Rule of 40; in fact, she says they fall below what would be a "Rule of 30." In contrast, all of Thoma Bravo's companies in Fund XV are "Rule of 50" or higher.

"What we're able to do is find the very best companies in the public markets, take them private, and work with them over the course of our investment period to create very profitable, high-growth businesses," she said.

Defensive sectors

Over the past two and a half years, Vista has completed six take-private acquisitions – Avalara, KnowBe4, Duck Creek Technologies, EngageSmart, Model N and the aforementioned Smartsheet. The six deals represent a total enterprise value of approximately $30 billion.

Vista's Saroya said that all of these deals share a common thread. Each business provides mission-critical software services for "defensive" industries, or markets that

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Monti Saroya, Vista Equity Partners

Joe Porter, Goldman Sachs

tend to be more resilient during recessions or downturns, such as insurance, tax compliance, healthcare and cybersecurity.

"From a portfolio construction perspective, we like the combined breadth and reach of these businesses across multiple industries and customer segments," he added. "We also feel the post-covid market dislocation provided opportunities to selectively invest in assets serving these defensive sectors at attractive entry points."

Duration mismatch
For PE software investors, the strategy is to help drive growth and innovation, not just slash costs to drive higher margins, Goldman Sachs' Porter told PE Hub.

"Executing a value creation plan can be hard to do in the public markets, because the public markets can punish a company if they take down margins to try to drive growth," Porter added. "There's just more flexibility on the type of investments or changes to the cost structure that you can do outside of the public markets, and private equity has been able and willing to pay a premium to the public market value to go do that."
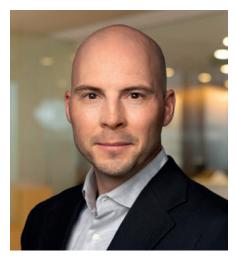
Saroya said the "duration mismatch" is a central reason why PE firms are attracted to take-privates in software. Expectations and requirements about the pace of change from public software investors are often misaligned with the time needed to implement a successful value creation strategy.

"This has been especially true for the software industry in recent years, where businesses are pivoting to urgently innovate and renewing capex deployment to capitalize on the enormous opportunity created by Generative and 'Agentic' AI," he said.

Volatility and valuations
What's the forecast for take-private software deals for the remainder of 2025?

"Last year, we began to see the number of take-privates moderate, and I anticipate that trend will continue into 2025," Vista's Saroya said. "While the persisting 'duration mismatch' and decreasing financing costs will likely result in more

take-private deals, we feel the M&A environment will present a more balanced opportunity between the public and private markets moving forward."

The current stock market rollercoaster may open up some buying opportunities.

"A lot of these companies in the face of a worsening macro environment have either reduced guidance or issued lower guidance than street expectations," Gadgil said. "Their stock prices have taken a relative hit. And that creates a valuation opportunity. Also, there's such intense volatility in the market. That has more to do with what's happening in the macroeconomic environment, but it's also impacting the valuations of almost all companies in the big indexes."