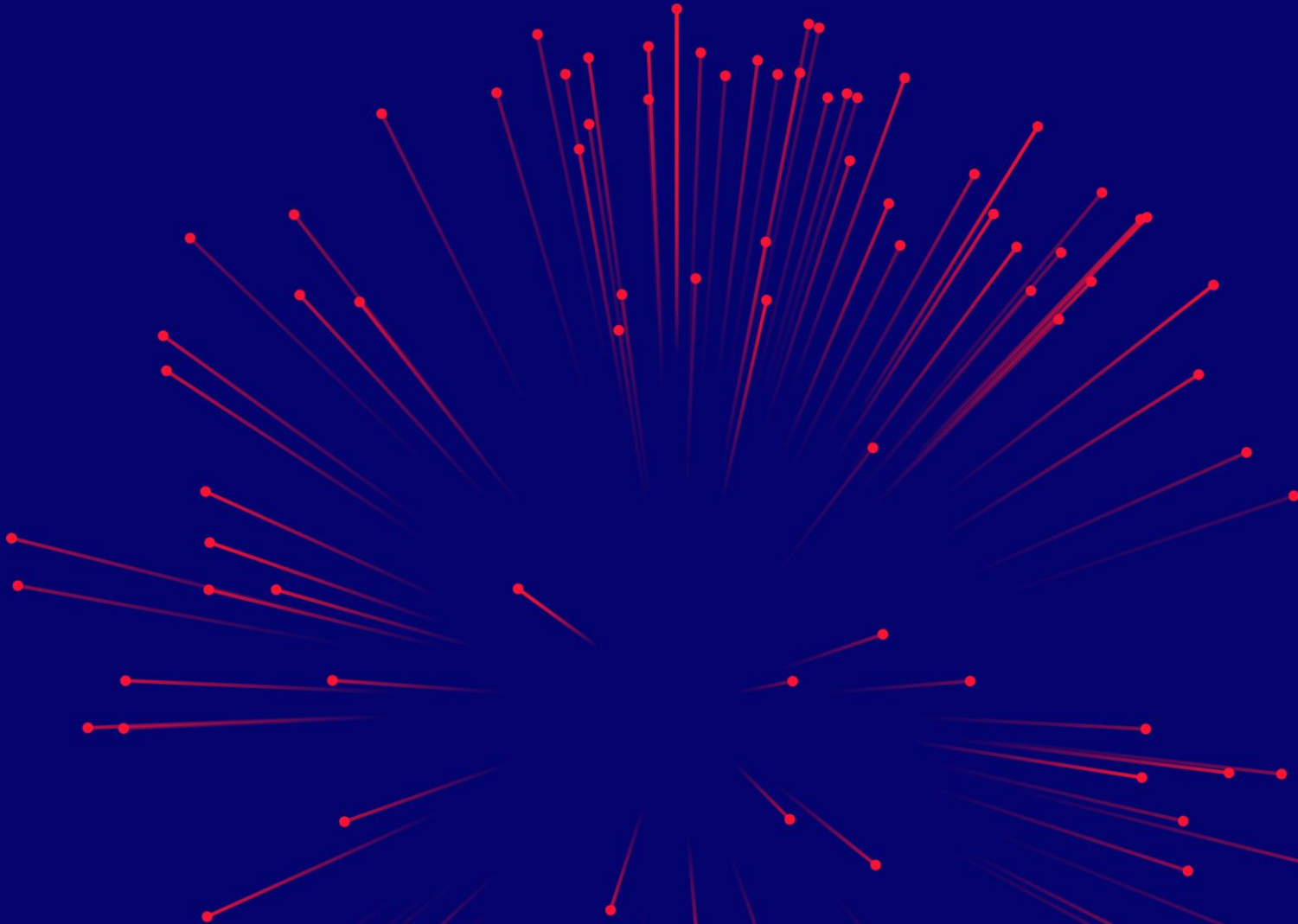


Private Equity Perspectives

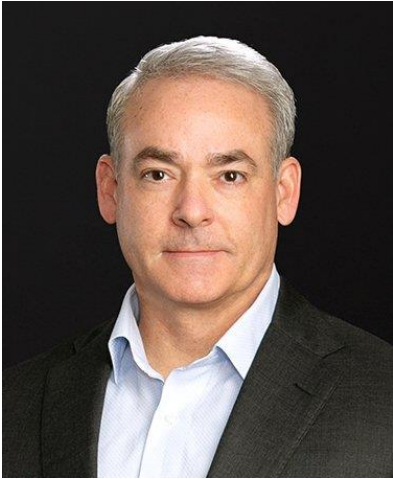
2025 – 2026 Legal Insights: A CLE Webinar Series



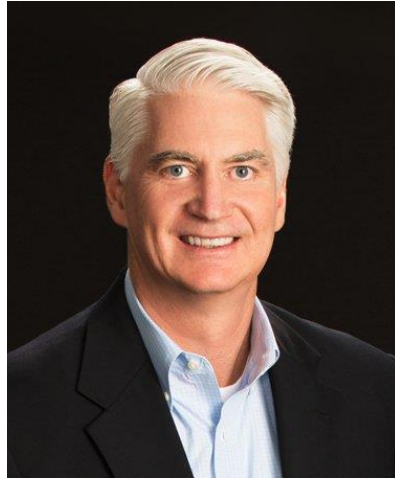
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Private Equity Perspectives

Today's speakers



Sonny Allison
Partner, PE Co-Head
Denver



Al Browne
Partner, PE Co-Head
Boston



Dallas Cruz
Partner, Finance
Boston



Adam Longenbach
Partner, Finance
New York

PE Wrapped

A year marked by evolving market and regulatory conditions and sustained optimism

- PE entered 2025 with strong momentum, propelled by a late 2024 rebound in investment activity and improving, yet still uneven, exit conditions.
- Sponsors continued to sit on substantial dry powder.
- Activity accelerated early in the first quarter, but momentum quickly softened as policy uncertainty, particularly around tariffs, and still elevated, albeit easing, interest rates weighed on underwriting and financing decisions.
- By midyear, PE markets were on firmer footing and deal value surged in the second half of the year, particularly in large-cap buyouts and take private transactions, consistent with a broader industry shift toward fewer but larger, higher conviction deals.

PE Wrapped

A year marked by evolving market and regulatory conditions and sustained optimism

- Global PE deal value rose approximately 17% year-over-year, supported by this rebound in megadeals and a revival of sponsor-to-sponsor activity, even as overall deal volume remained muted, signaling a narrow- rather than broad-based resurgence.
- Strength in sectors such as technology, healthcare and infrastructure – each benefiting from secular growth drivers including AI enabled productivity gains, digital infrastructure build outs and record healthcare deal values – further buoyed performance.
- Fundraising remained challenged, with capital flows concentrated among established managers, underscoring the continued bifurcation of the market heading into 2026.

Key Deals and Sectors

What drove activity

- Megadeals set the tone for PE in 2025, following a significant increase in large-scale LBOs.
- Deals over \$10 billion more than doubled compared with 2024, as sponsors concentrated capital on high-quality, defensible assets with strong cash flows.
- The year's marquee example was the take private of Electronic Arts – a \$55 billion, consortium-led take private by Silver Lake, Saudi Arabia's Public Investment Fund and Affinity Partners – the largest LBO on record, underpinned by AI-related growth drivers across content and infrastructure.

Key Deals and Sectors

What drove activity

- Add-on acquisitions remained the dominant lever for value creation (roughly three-quarters of activity).
- Carve-outs took an outsized share as PE firms reshaped their portfolios and selectively divested non-core assets.
- In contrast, growth equity's share dipped in 2025 as blockbuster buyouts and large add-ons took center stage.

Key Deals and Sectors

What drove activity

- Technology continued to be the most popular PE investment, with particular gains for SaaS companies that have effectively leveraged AI through add-ons.
- 2025 also saw sponsors prioritize platforms with embedded or defensible AI capabilities.

Key Deals and Sectors

What drove activity

- The healthcare sector had a particularly strong year both in deal value and volume, despite facing regulatory scrutiny.
- It is estimated that healthcare deal values in 2025 exceeded \$191 billion across an estimated 445 buyouts, surpassing the prior record for deal value set in 2021 and making 2025 the second busiest year ever in the sector by deal count, exceeded only by the record high in 2021.

Key Deals and Sectors

What drove activity

- Investments in energy and infrastructure were robust, including energy transition platforms (renewables, grid modernization, distributed energy), midstream/logistics, and digital infrastructure (data centers, hardware and fiber).
- These investments are particularly attractive in a higher-rate environment, as cash flows are often underpinned by regulated frameworks or long term, inflation indexed contracts.
- Energy and infrastructure also benefited from secular trends tied to AI-driven power demand, grid and data-center buildouts.

Liquidity Pathways Expand Even as Traditional Exits Lag

- Buoyed by narrowing valuation gaps, PE exit activity increased 40% last year, signaling progress in deploying dry powder and returning capital to limited partners (LPs).
- The exit backlog has remained elevated with aging post-pandemic assets and extended holding periods.
- To bridge the gap, firms increasingly relied on creative liquidity solutions such as secondaries, dividend recapitalizations and net asset value loans.
- These tools provided interim liquidity and optionality even as traditional exit opportunities reopened unevenly.

Liquidity Pathways Expand Even as Traditional Exits Lag

- Despite the general exit backlog, high profile sponsor-backed initial public offerings (IPOs) saw a clear resurgence in the second half of 2025, following two years of stagnant activity, resulting in \$18 billion in aggregate proceeds in Q3.
- While these figures are a long way off from 2021 levels, it is clear that public markets are reopening to PE backed issuers, particularly in sectors with durable earnings and growth.

Borrowing in Uncertain Times

- The industry-spanning tariffs imposed by the Trump administration in 2025 created significant macroeconomic uncertainty in an already high-rate environment, leading to a subdued lending market in H1.
- The second half of the year was generally marked by stabilizing rates and a growing consensus that the Federal Reserve's tightening cycle was over, injecting renewed confidence into the market as financing conditions improved.
- Despite fewer sponsor-backed buyouts overall, deal work kept pace in the services and technology sectors, which tend to be largely immune from fluctuations in tariff policy.
- For those using leverage in vulnerable industries, the cost of borrowing was impacted: certain sponsors reported that their portfolio companies experienced a liquidity crunch while rates increased.
- Private credit investors capitalized on the opportunity to provide loans at a larger spread, charging a higher margin for the same business in April versus in February.

Private Credit's Role in LBO Financing

- Private credit continued its ascent as a dominant force in LBO financing throughout the year, capturing a significant share of the market from traditional banks.
- Direct lenders offered speed, certainty of execution and structural flexibility, highly valued by sponsors navigating the still-unpredictable market.
- This competition began to drive lender-friendly terms seen in early 2025 back toward a more balanced equilibrium.
- Sustained momentum is anticipated for 2026, as sponsors are expected to accelerate monetizing mature assets, fueling both LBO and refinancing activity.
- We expect lenders will remain disciplined but competitive, continuing to favor sectors that are less sensitive to fluctuations in trade policy, such as software, healthcare and communications, as seen in recent years.

Retail Redemptions Test Semi-Liquid Private Credit

- As investor behavior in late 2025 turned decisively toward liquidity, individual investors requested redemptions from semi-liquid private-credit vehicles at the fastest pace since the wealth-channel boom began.
- Several of the largest nontraded business development companies (BDCs) received cash-out requests from roughly 5% of shareholders at year-end, while a technology-focused Blue Owl vehicle saw redemptions near 15%, driven largely by Asian wealth platforms.
- Managers and analysts cited headline credit events and falling benchmark rates pressuring dividends, with average total returns across five large wealth-oriented private-credit funds slipping to about 6.22% in the first nine months of 2025, versus 8.76% in 2024 and 11.39% in 2023.
- The pattern revived comparisons to semi-liquid real estate's 2022 to 2023 gating cycle as some funds trimmed dividends and investors sold into weakness.

Retail Redemptions Test Semi-Liquid Private Credit

- Against this backdrop, outflows concentrated in marquee products even as the private-credit category scaled.
- Sponsors also tested tactics to compress queues
 - Blue Owl temporarily raised the amount investors may withdraw each quarter – from 5% to 17% – and even borrowed money so it could redeem investors faster and clear the backlog in one go.
- This underscores a core challenge in “democratizing” private markets, such as proposals to make these products available through 401(k) plans: these semi liquid funds promise periodic access to cash, but they can still restrict withdrawals when markets are stressed.
- We expect managers to double down on investor education, liquidity budgeting and asset-liability matching for semi-liquid products in 2026, even as private credit remains a central financing pillar for PE dealmaking.

AI Infrastructure Takes Center Stage in Credit Markets

- The ongoing AI boom has led to AI-focused companies raising significant amounts of debt financing to support capex requirements for sustaining AI infrastructure, and it is speculated that investment will reach trillions of dollars by 2030.
- PE investors are getting creative in financing these needs.
- Many worry about the riskiness of leveraging such high investment, and collateral securing such loans (often, graphics processing units) may become obsolete by virtue of the technology life cycle.
- Further, capital intensive businesses must continue borrowing to maintain a competitive infrastructure, making it difficult for companies to keep leverage and coverage ratios in check and making pricing more expensive for borrowers.

Looking Ahead in 2026

- Anticipated reduced costs of financing and normalized volatility in global markets suggest that PE deal flow is likely to increase in 2026, despite headwinds from high valuations persisting in the market.
- We also expect a moderate increase to average deal size, continuing this year-over-year trend.
- Key economic factors that will impact 2026 include the pace of interest rate cuts, evolving trade policies, valuation pressure and regulatory scrutiny.

Looking Ahead

Areas of interest

- Software company valuations to face headwinds as companies continue to adopt AI solutions that compete with traditional SaaS offerings.
- We expect this to spur activity in the near term as PE firms rely on dealmaking to improve competitive positioning.
- We also expect cross-border activity to see an uptick as firms adjust to volatility associated with tariffs and geopolitical volatility.

Looking Ahead

Strategic liquidity planning

- Although the median holding period for PE-backed companies is currently six years and in the recent economy this duration has been extended (with or without the use of CVs), we are beginning to see an increased willingness of firms to sell operating companies after three to five years in an effort to satisfy investors' thirst for distributions.
- This demonstrates that PE firms will pursue sales of their strongest assets to deliver liquidity to LPs, in lieu of selling older assets that have not yet generated their targeted returns, even if it means forgoing potential future returns.

Looking Ahead

Creative deal structuring

- Carve-outs, take privates and sponsor-to-sponsor sales will continue to provide creative avenues for PE firms to deploy large amounts of capital as they seek to invest the \$2.184 trillion of “dry powder” that remains in the global PE market.
- IPOs and CVs will continue to provide opportunities for PE funds to provide liquidity to their LPs.

Looking Ahead

Leveraging AI to fuel growth

- PE firms will continue to seek opportunities to create value by embedding AI into the day-to-day operations of their portfolio companies.
- This may accelerate growth, operational efficiency and integration initiatives, fundamentally altering the investment theses across many industries.

Looking Ahead

Heightened reliance on private credit

- As PE firms seek speed, certainty and structuring flexibility, they may increasingly rely on private credit to fund acquisitions.
 - This is especially likely for mid-market PE transactions in 2026, as PE firms pursue bespoke carve-out and financing solutions.
- The wealth-channel side of the market is experiencing liquidity pressure and elevated redemption activity – a reminder that not all pockets of private credit are moving in the same direction.
- Overall, we expect a more advantageous credit market will help fuel transaction volume in 2026.

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Thank you.

