PE Hub

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FINANCIAL SERVICES

Baird Capital's Gordon Pan: 'Risk-on' outlook for H2 of 2025

'The market is starting to unwind, with more opportunities coming to market,' Pan says.

The market and broader economy are stabilizing, setting the stage for a more "risk-on" outlook for the second half after 2025 began with challenges, Gordon Pan, president of Baird Capital, told PE Hub as part of our ongoing series of thought leader Q&As. "I am confident deal activity will pick up."

"There's still about $1 trillion of private equity dry powder that needs deploying. All the ingredients are starting to come back, but investors remain focused on economic data."

However, some caution lingers. Certain policy impacts have yet to fully ripple through to economic indicators, of which interest rates continue to be the most closely watched signal, Pan said.

"The risk-on appetite is improving and we're starting to see this in our overall dealflow today, with more opportunities coming to market." Baird's own recent transactions illustrate this momentum: the firm exited Collage in March and invested in Newmarket Strategy in January. These transactions follow Baird's exit from STR in December and eCube in September.

Based in Chicago, the firm invests in B2B technology and services companies across sectors. Baird's global private equity strategy targets opportunities ranging from growth equity to buyouts, typically committing $25 million-$80 million per investment. It focuses on businesses with revenues of $20 million-$100 million, primarily in the US and UK.

Gordon Pan, Baird Capital

What were the highlights and key challenges in H1 2025?

There's a little bit of a misconception about the current market environment. Good deals were bought and sold in H1. Companies that had good business models operating in good secular markets were still trading. The issue was that the supply of those opportunities was down because a lot of companies decided not to go to market in the first half given the uncertainty. This limited supply drove valuations for quality assets even higher. It was a bifurcated market: top-tier businesses sold at high multiples, while 'B' and 'C' quality companies struggled. The market is starting to unwind, with more opportunities coming to market.

How are you approaching exits right now and how do you see the environment shaping up in H2 2025?

Baird focuses on lower mid-market founder-run B2B tech and services businesses, typically exiting to strategic buyers or private equity firms. The good news is that there's ample capital in both realms. Over the past year, Baird sold three companies (STR, eCube and Collage) and returned meaningful DPI to investors, all strong businesses with clear advantages in good secular markets. Overall, there was a flight to quality in H1.

The rise of continuation vehicles is an important mega trend in the PE industry, and Baird is also starting to evaluate it. The whole notion of owning your top assets longer is a trend that will continue in the industry. As first institutional capital, we can own businesses longer if the model is strong. However, I do believe it's going to affect the PE industry. If more CVs happen, it means more of the high-quality assets are going to be retained by the existing GP and that will impact the overall industry.

Which sectors or niches look most compelling to you for the rest of 2025 and why?

We're focused on businesses with strong models, recurring revenue streams and operating in resilient markets. On top of that, we target good secular growth industries, which is why we have three franchises: IT services, pharma services and sustainability. Within each, we focus on specific secular trends. For example, cybersecurity in IT services is a key sector for Baird. In a highly digitized world, cybersecurity risk is rising, creating strong secular demand. On top of that, the business models are highly recurring, offering good growth dynamics and strong business models.

Process automation is another area where traditional paper-based industries have not fully digitized and hence, the opportunity to create greater efficiency. Then, productivity through software and technology is a focus and AI is also a mega trend. AI brings both risks and opportunities, depending on the business.

How is competition evolving in the lower mid-market?

Over my career, I've seen many competitors move upmarket as they raise larger funds, so they no longer compete directly with us. Most competition now comes from new entrants. I like that dynamic because we've long operated in this market with good credentials. Baird has a toolkit built to invest in founder-run small- to medium-sized companies and much of our dealflow comes through referrals by prior founders and CEOs, a big competitive advantage.

The lower mid-market keeps changing as competitors shift upmarket, but Baird remains committed to this because we're returns-driven as opposed to being focused on AUM and being fee-driven. There's real opportunity partnering with founder-owned companies, which often have significant potential for operational improvement. That's the key difference versus the broader mid-market.

What's your take on the growing involvement of non-traditional investors like family offices and wealth funds doing direct deals?

It reflects overall PE market dynamics where capital has become a commodity, making a clear competitive advantage even more important. The good news is most of this new capital flows to the mid-market and above. Sovereign wealth funds need to deploy large sums and they're not putting that into the lower mid-market. This benefits us, as our exit strategy is selling to mid-market players and above. So there is no doubt that that is a trend that will continue.

There's also a democratization of private equity with retail capital coming in. The money in PE will keep rising, which underscores the need for a strong competitive edge. You need a right to win – being a generalist makes it hard to achieve top-quartile returns.

How is globalization and the decoupling of economies influencing your investment outlook and risk assessments?

Traditional manufacturing or industrial companies reliant on global supply chains are feeling the impact of tariffs. Baird is mostly service-oriented, investing primarily in technology and services. About 80 percent of the US economy and 65 percent of the world's economy are services-oriented, so there is a massive industry that hasn't decoupled. That's where we continue to take advantage of. We monitor tariffs to ensure no direct impact, but being tech and services-focused, we haven't been significantly affected.

How is tech reshaping how you source, evaluate and exit investments?

There are investment tools and AI tools that help us scrub databases to find founder-run businesses. But it's not something that I ever expect will be fully automated because at the end of the day investing is all about using your experience and heuristics to form judgment. I don't believe AI will ever be able to replace my 35 years of experience evaluating companies and seeing what works and whatnot because it's not science, it's art. You can't fully automate the investment decision process.

We will embed AI into our processes to make us more efficient and create more productivity, but we'll never outsource the end decision of whether this is a good investment opportunity or not.

Editor's note: This story is part of PE Hub's ongoing series of Q&As with PE thought leaders. For more, see:

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