Group) snapped up Freescale Semiconductor for $17.6 billion. As Microsoft's bid underscores, hostile deals, while not terribly common, are now accepted options, even for the giants.

Given such heightened activity and global technological expansion, some of Wall Street's savviest players are dedicating significant resources toward jockeying for position in the tech sector. Carlyle, for instance, hired four new managing directors in January to sniff out deals in Silicon Valley, while Blackstone has been steadily adding staff to boost its own tech-buyout efforts.

"One of the biggest changes in the business has been not just volume but in the mix of business you see now," says Bob Grady, head of Carlyle's U.S. Venture and Growth Capital Fund and a former partner at tech boutique Robertson Stephens. "It used to be almost all IPOs. It was pretty straightforward. For the last eight years running, over 90 percent of all venture-backed exits have been through M&A, and less than 10 percent through the IPO market."

Back to the Future

Sand Hill Road's parking lots are packed with European luxury cars, indicating that tech is definitely hot again — but it's difficult to pinpoint exactly the one thing that's "back." That's because, unlike the one-dimensional focus on IPOs during the dot-com boom, tech dealmaking today is a much more multifaceted business, requiring bankers to draw on the full suite of corporate-finance products and services on just about every continent. It involves offering shrewd strategic advice in all hardware, software, commerce, Internet and service sectors, a canny knowledge of markets and valuations, a fundamental understanding of new technologies and innovation and old-fashioned relationship banking (not to mention the requisite frequent-flyer miles to stay on top of all those relationships).

These days, the most successful dealmakers need to know international players in technology as well as in private equity; they need to know about markets and LBOs. Indeed, deals nowadays often have many more moving parts than before, requiring connections in foreign financial centers ranging from Mumbai to London to Tel Aviv, and debt is as likely a component as equity. Those trends, bankers note, will only grow stronger in the years ahead.

"Today's technology-banking model tends to be characterized by the concept of 'more is more,' in terms of different services and competencies banks need to offer to clients — as opposed to the 'less is more' model of a more narrow service offering," says Michael Grimes, the head of Morgan Stanley's technology-banking group. Morgan is representing Microsoft alongside Blackstone in its pursuit of Yahoo, which is being advised by Lehman, Goldman and Ken Moelis's new boutique firm, Moelis & Company (see "The Networker," page 70). "In many ways, this has always been the case in tech banking, but I do think it's even more important now than in the past."

"We're in early days still" of this more sophisticated and complex surge, says Chip Schorr, who heads tech dealmaking at Blackstone. Today, Schorr's venerable employer has five dedicated tech professionals (two others devote about 50 percent of their time to the sector) and is considering expanding its tech staff in Asia. "Not all tech firms are appropriate for financial engineering. But this is a

Candace and Charles Nelson traded in spreadsheets for Sprinkles, their successful L.A. cupcake bakery.

SWEET SUCCESS

HOW TWO TECH HOTSHOTS SWITCHED FROM BANKING TO BAKING

In the late '90s, technology investment bankers Candace and Charles Nelson found themselves in the sector's sweet spot: working for San Francisco–based Alex.Brown & Sons. "When the market was great, everyone was making so much money that they weren't really thinking, 'What else am I going to do with my life?', because it would have been crazy to leave," Candace, now 33, points out. "Then, when it wasn't such an obvious choice, we thought, 'What else is out there? What are my options? And what am I going to be happy doing 20 years from now versus in two years?' "

For Candace, whose great-grandmother was a restaurateur, the answer lay in her family's passion for food and, in particular, sweets — so she enrolled in pastry school at Tante Marie in San Francisco. For her husband, Charles, now 38, who had always wanted to be an entrepreneur, the dot-com bust served as a timely exit strategy as well. "Working with startups in Silicon Valley was a great way to see small companies grow," he says.

Having traveled to New York extensively for road shows and meetings, the Nelsons had noticed an unusual phenomenon: cupcake bakeries cropping up everywhere in the city. Inspired, the couple decided to open their own bakeshop in Beverly Hills.

They spent a year and a half perfecting their recipes from scratch, commissioned Martha Stewart veteran Page Marchese-Norman to help with the design and packaging, and hired Los Angeles architect Andrea Lenardin to design a sleekly modernist space in which to display the treats. Three years ago, the Nelsons opened Sprinkles Cupcakes, the country's first cupcake-only storefront, to an eager line of patrons that extended down the block. Charging $3.25 a pop, they sold 200 cupcakes within two hours. That was before Paris Hilton, Jessica Alba and Jake Gyllenhaal started lining up at the door; before Katie Holmes had a box shipped to a New Orleans film set to share with the crew; and before Oprah Winfrey touted them to millions of viewers.

Now Sprinkles has three additional locations (Newport Beach, Dallas and Phoenix) and four more planned this year, as well as cake-mix distribution via Williams-Sonoma. They hope to open in New York next year.

To be sure, Sprinkles has received numerous buyout offers and IPO inquiries. Says Charles: "If I wanted to make a quick buck, I could've been out a long time ago. But what would I do then? I love what I do."

Cristina Velocci

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