William Blair

In This Report

Secondary Activity Rose in 2023 While M&A and IPO Activity Dipped

Meaningful Rebound Expected in 2024, According to Survey Respondents

Highlights and Analysis from William Blair's Private Capital Advisory Team

2024 Secondary Market Report

William Blair Private Capital Advisory
2024 Secondary Market Report

The secondary market showed resilience in 2023, with overall volume increasing by 5% year-over-year despite macroeconomic challenges, and market insiders are bullish about prospects for 2024.

Secondaries Outpace Broader Market

Global M&A and IPO activity declined 16% and 34%, respectively, in 2023, while secondary market volumes remained resilient, up 5% year-over-year. Secondary market volume across both LP- and GP-led transactions was buoyed by strong fundraising, LP liquidity needs, and further penetration of secondary solutions within the GP market. Based on our survey results, global LP- and GP-led secondary market volume reached $110 billion in aggregate in 2023.

Secondary market volumes also proved resilient over a two-year period from 2021 to 2023, when compared to alternative exit options. From 2021 to 2023, M&A and IPO activity declined 36% and 81%, respectively, while secondaries volume declined just 18%. Looking back further, data shows strong growth potential for secondary volumes in periods of stronger exit activity as well. Between 2019 and 2021, secondaries grew approximately 68%, more rapidly than M&A transactions (38%) and lower than IPOs (approximately 153%), driven by continued growth in LP-led secondaries, as well as in-fill of GP-led secondaries within the sponsor community, with many sponsors tapping into secondary market liquidity solutions for the first time.[1]

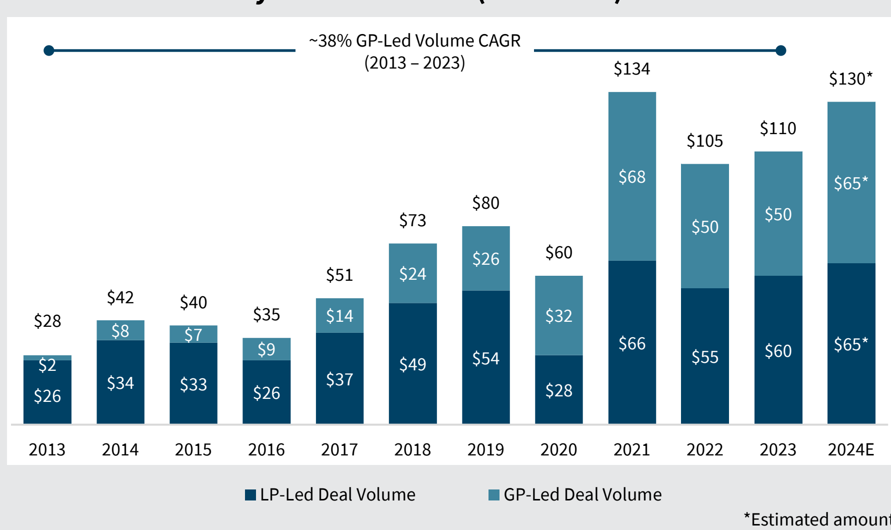
Providing further support for secondary market volume in 2023 was the macroeconomic backdrop of high interest rates, shifting geopolitical risks, and inflation, among other factors. These dynamics forced GPs to get creative to keep the liquidity carousel in motion (fundraising, deployment, and exits, followed by fundraising). In particular, a more restrictive credit environment favored continuation funds as a liquidity tool for sponsors, given the ability for continuation funds to generally keep existing debt facilities in place, which in many cases throughout 2023 were more attractive than market terms for new debt facilities.

A Tale of Two Halves

The first six months of 2023 largely fit the pattern of the modern secondary market—increased activity and, ultimately, competition for LP-led portfolio sales, followed by a surge of GP-led transactions. The first six months of 2023 also saw the LP-led market initially offer buyers attractive discounts. As the market thawed and LP-led pricing crept up, however, increased volume on both LP- and GP-led deals became driven largely by conviction around valuation plausibility.

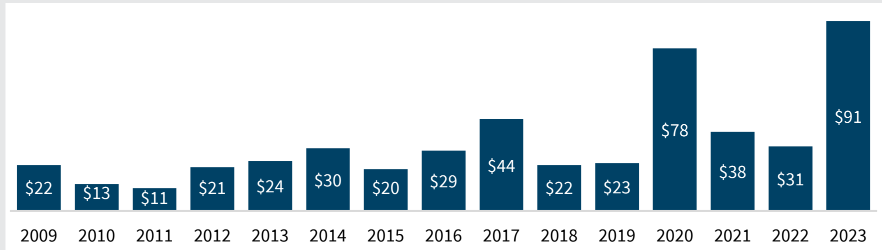
What happened next was predicted in our report last year: The year finished with a wave of GP-led deals closing, including an increasing number of multi-asset continuation funds, from midsize to large.

Historical Secondary Market Volume (in Billions)[2]



1. Source: M&A data from PitchBook Data Inc., 2023 Annual Global M&A Report, and IPO data from S&P Global CapitalIQ.
2. Sources: William Blair Estimates; 2024 William Blair Secondary Market Survey.

Annual Secondaries Fundraising Volume (in Billions)[3]



Survey respondents expect secondary market activity in 2024 to approach 2021 levels.

A Promising Outlook for 2024

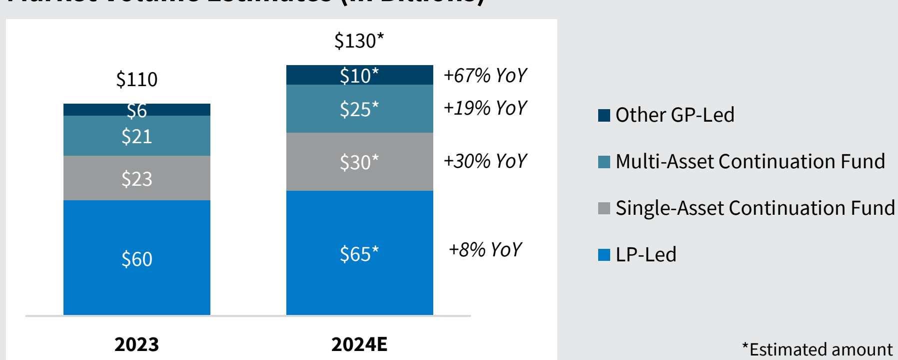
Other factors look quite good for secondaries this year: Dry powder is at an all-time high at roughly $169 billion,[4] and fundraising remains strong, exceeding levels reached in 2020, before 2021's surge (see chart above). Simultaneously, the U.S. economy seems to have bucked the recession fears of the past two years, with continued GDP growth and a resilient consumer supporting a stock market that continues to reach new highs. That aligns well for significant volume across both the LP- and GP-led markets—a belief held by this year's survey respondents, who expect activity that could approach the halcyon days of 2021.

Meanwhile, M&A and IPO markets appear to be thawing, as indicated by a significant uptick in year-to-date activity compared with the same period in 2023. While M&A and IPO alternatives will compete with the secondary market for volume, we believe the reemergence of "traditional" exits can be a boon for GP-led secondaries, as a healthy exit environment and valuation comps support constructive underwriting and strong pricing for high-quality companies. Improving exit activity may take some pressure off LPs to complete liquidity-driven portfolio sales; however, we believe liquidity will remain top-of-mind for LPs and the trend of active portfolio management is likely to continue driving strong LP-led volume.

As GPs continue to seek to provide liquidity to LPs amid a competitive fundraising environment, we expect both supply and demand for GP-led solutions to remain robust in 2024. We also predict an improving deal-closing success rate across the GP-led market in 2024, as a recovery in M&A and IPO markets is likely to support an increase in GP-led transaction quality, and dry powder available for secondaries continues to increase. Based on our survey, we believe secondary market activity in 2024 could approach the record levels seen in 2021, with a near even split between LP- and GP-led volume.

The following report details trends from 2023 and looks ahead to the balance of 2024 with a focus on the GP-led market.

Market Volume Estimates (in Billions)[5]



3. Source: Preqin.
4. Source: Survey Results and William Blair Estimates.
5. Source: 2024 William Blair Secondary Market Survey. Deals in the "Other GP-Led" category include tender offers, strip sales, fund restructurings, and recapitalizations, spin-outs, and spin-ins.

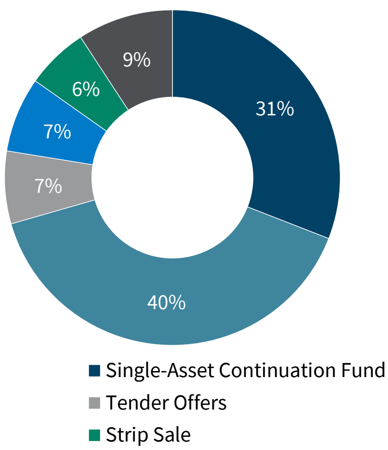
Highlights and Analysis From William Blair's 2024 Secondary Market Survey

Single-Asset Continuation Funds Lead in Deal Count; Multi-Asset Continuation Funds Lead in Volume

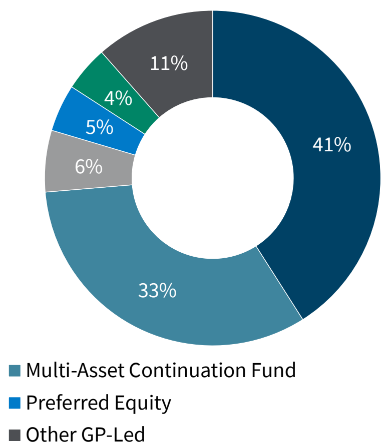
GP-led transaction volume in 2023 was driven in part by the increasing popularity of single-asset continuation funds, further cementing themselves as a permanent feature in sponsors' portfolio management toolkit. Single-asset continuation funds represented nearly one-third of secondary capital invested in 2023, and they were the most common structure by number of deals closed. Multi-asset continuation funds represented a greater share of capital invested, coming in at 40%, but a lower percentage of deal count. This can be explained by the larger average deal size of multi-asset transactions.

A deeper dive into single-asset continuation fund transaction activity reveals investor appetite across a diversity of sectors. Cyclicality concerns depressed activity in the consumer sector, but nondiscretionary consumer products and services still drew attention.

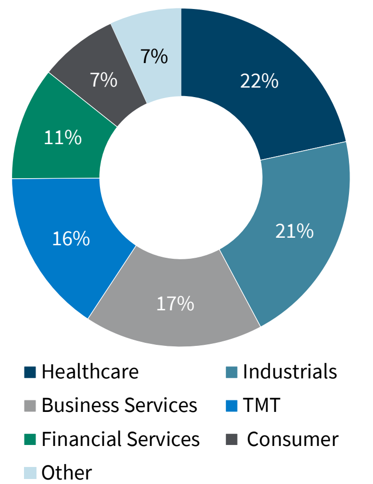
GP-Led Secondaries Percentage of Capital Invested (by Structure)



GP-Led Secondaries Percentage of Total Deals Closed (by Structure)



Single-Asset Continuation Fund Percentage of Capital Invested (by Sector)

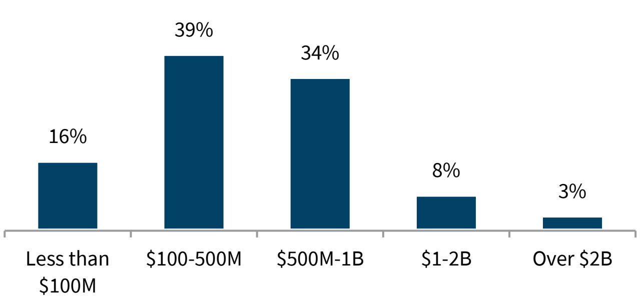


Middle Market Still Leads

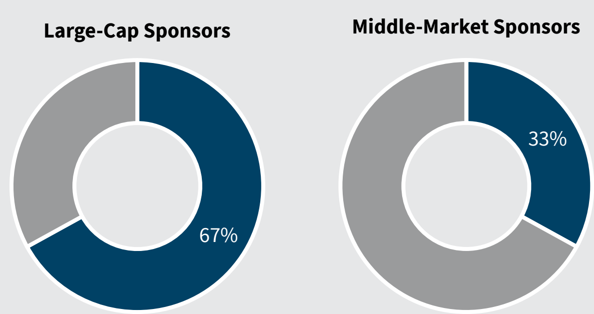
The middle market continued to dominate GP-led secondaries in 2023, with deals below $1 billion representing 89% of invested capital, up slightly from 2022.

Despite robust activity and growing interest among secondary investors who have raised funds to target the segment, the middle market remains underpenetrated. William Blair research from late 2023 finds that while two-thirds of large-cap sponsors have completed or marketed a GP-led secondary transaction, only approximately one-third of middle-market sponsors have done so.[6]

Total Invested Capital by Deal Size



Percentage of Sponsors That Have Completed or Marketed a GP-Led Secondary Transaction



6. Source: William Blair Research.

GP-Led Secondary Investor Target Returns

On average, secondary investors underwrote single-asset continuation funds to slightly higher returns relative to multi-asset continuation funds due to increased risk and concentration. Approximately 65% of survey respondents underwrote single-asset continuation funds to premium returns relative to multi-asset continuation funds, while the balance underwrote both single- and multi-asset continuation funds to equal return targets.

Investor Target Returns for GP-Led Transactions

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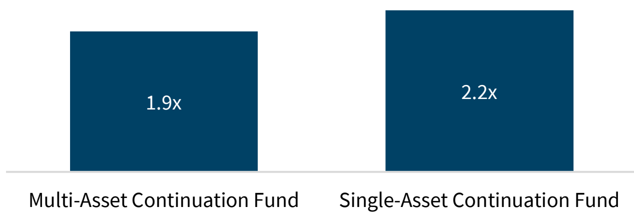
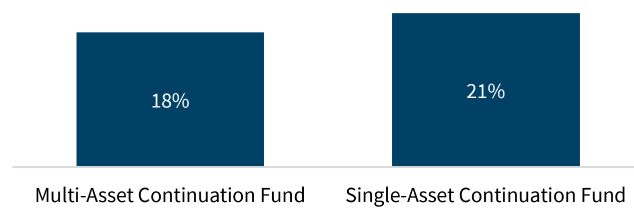


Net IRR



What Attracts Buyers in GP-Led Transactions

Not surprisingly, alignment with GPs topped the list, highlighting the importance of identifying the right situation in which the GP holds strong conviction in a company's potential. Strong organic growth and resilience were other leading criteria frequently cited by investors.

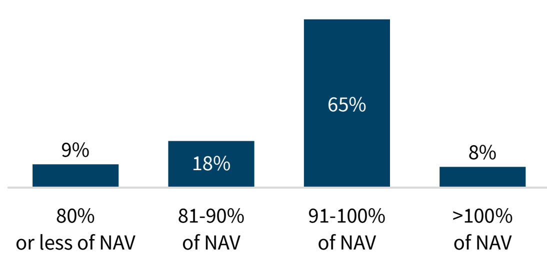
Most Important Transaction Criteria

1. GP Alignment
2. Strong Organic Growth
3. GP Relationship / Angle
4. Limited Downside Risk
5. Resilience Through Cycles

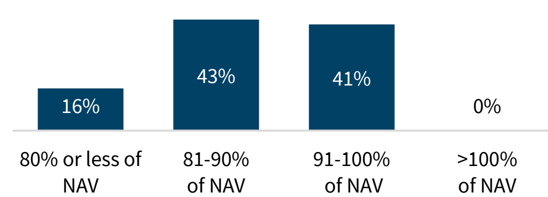
Consistency in Pricing

Pricing for GP-led deals was fairly consistent year-over-year, with most single-asset deals pricing between 91% and par. Notably, all of William Blair's single-asset continuation fund transactions closed in 2023 were completed at par or a premium.

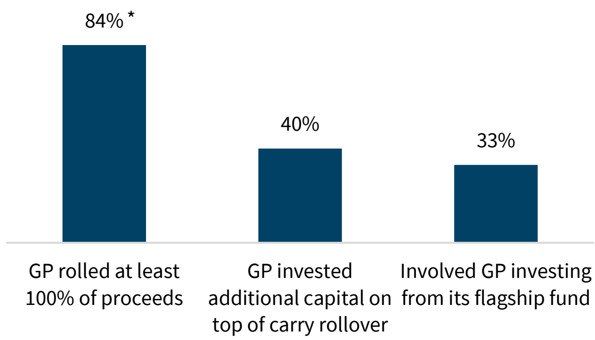
Single-Asset Continuation Fund Pricing



Multi-Asset Continuation Fund Pricing



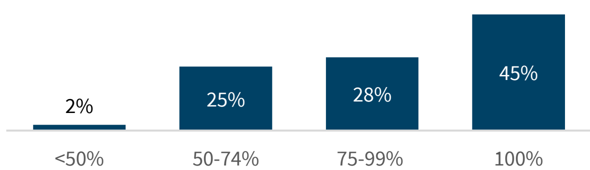
Continuation Fund Terms



Full GP Rollover Remains the Norm

GPs rolled at least 100% of proceeds (excludes inactive partners) in 84% of continuation fund transactions last year. Investors also reported that approximately 40% of continuation fund transactions involved a GP investing additional capital on top of carryover rollover, while one-third involved a GP investing from its flagship fund alongside the continuation fund.

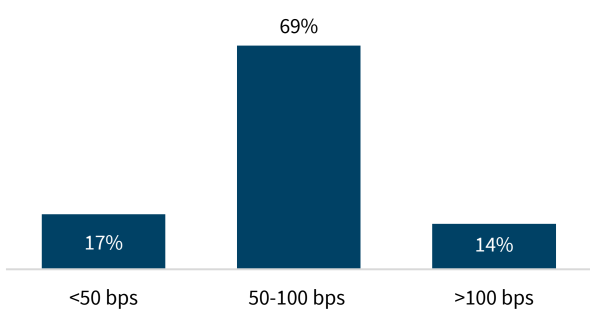
Management Rollover



Trends in Management Rollover

Management realized less than 25% of its total proceeds in nearly 75% of continuation fund transactions completed. Management rollover tends to be determined on a case-by-case basis. We have observed an increase in management liquidity in recent years, although majority rollover remains the norm.

Continuation Fund Management Fees



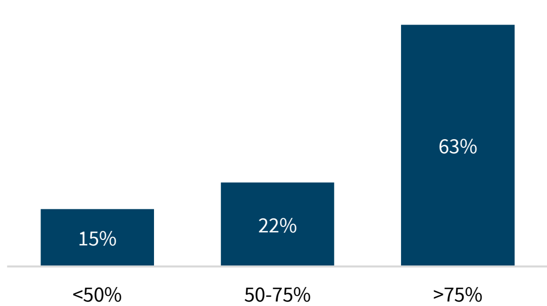
Steadiness in Management Fees

Management fees for GP-led transactions largely remained consistent with most fees, landing between 50 and 100 basis points. There were exceptions on either side, but we expect fees within this range to remain most common going forward.

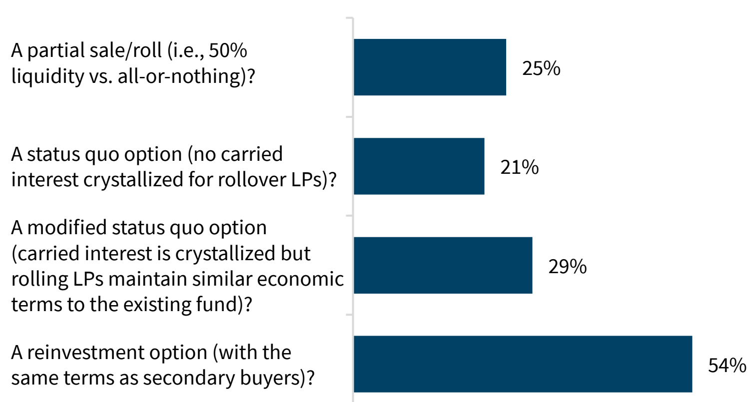
LP Selling Volume in Continuation Funds Remains Strong

As was the case in 2022, LP uptake remained strong in 2023 with nearly two-thirds of continuation fund transactions seeing more than 75% LP selling volume. Also consistent with 2022, "re-investment" remained the most common type of rollover option provided to existing LPs in continuation funds. However, nearly half of continuation fund deals offered some sort of status quo option to LPs, either a "true" status quo or "modified" status quo option.

Continuation Fund LP Selling Volumes



Percentage of Continuation Fund Deals That Offered LPs



*Excludes inactive partners.

LP-Led Sales Rolling to a Rebound

Optimism for a full recovery in both the LP-led and GP-led spaces has been common for a while now. But there are reasons to believe one is increasingly plausible in 2024, as fully detailed here in our latest Private Capital Advisory Newsletter.

For LPs, the second half of 2023 yielded a major uptick in portfolio sales, starting with a slew of deal launches in late July. Driving the renewed seller confidence in getting favorable outcomes were a number of factors, including:

- A rapidly recapitalizing set of buyers, with a current preference for diversified LP portfolios
- A restored confidence in GP marks being reality-based
- Indicators that the exit markets are beginning to thaw, increasing the prospects of near-term cash flows
- Backlogged portfolio-management initiatives by sellers who have patiently waited out the downturn and are now running out of runway

To be sure, "flight to quality" remains the mantra, with buyout, credit, and infrastructure funds pricing attractively, while venture, energy, emerging-markets, and office-focused real estate funds remain deeply discounted. But within that framework, some buyout funds traded in 2023's second half at par and premium levels not seen in nearly two years, with others in sweet-spot vintages trending solidly into the upper 90s.

Even tail-end cleanup trades, which dropped by 10 to 15 percentage points from a mid-70s pre-downturn average, are inching back to normalized levels now that IRR-focused buyers see more reason to bet on near-term distributions. If the volume of LP-deal launches in January 2024 is any sign, the rebound of the second half of 2023 was just the beginning.

Learn More About What's Driving the Secondary Market

William Blair's Private Capital Advisory team would welcome the opportunity to share our perspectives and discuss how these market themes affect you. Please do not hesitate to contact us if you are interested in learning more about our survey or continuing the conversation about key themes in the market.

William Blair has completed more than 1,420 advisory and financing transactions totaling over $745 billion in value for our clients.*

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* In the past five years as of December 31, 2023

Appendix: Survey Details

From December 2023 through January 2024, William Blair surveyed 66 secondaries investors. Nearly half (47%) were dedicated secondary investors, 44% were combined primary and secondary investors, and those remaining were opportunistic secondary investors.

Respondents included many of the largest secondary investors in the market, with approximately 50% of respondents having invested over $500 million in secondary transactions in 2023, and 30%-plus having invested over $1 billion.

Unless otherwise cited, all data in this report comes from the survey results.