THE WALL STREET JOURNAL.

In Their Own Words With W Capital Partners' David Wachter

2:23 pm ET
Dec 29, 2015

-- Photo courtesy of W Capital Partners

Each year around this time, Private Equity Beat asks members of the industry to share their reflections on the past year and their predictions for the 12 months ahead. As we continue this series today, we hear from David Wachter, managing director at direct secondary investor W Capital Partners.

What surprised you the most about 2015?

The expectation that high valuation private rounds are a precursor to near-term exits and IPOs. Private market valuations have been bid up to multiples significantly higher than those in the public markets due to the search for growth investment opportunities. This spread has effectively caused a narrowing of the IPO window and M&A market as companies need several years to grow into their private valuations. As a result, investors who signed up for a quick flip will need to settle in for the long haul.

What do you think will be the biggest challenge the industry will face in 2016?

Managing expectations among shareholders, management and employees in an environment where capital becomes more costly and exits become more uncertain. Many growth companies have business plans that rely on additional financings or an IPO within one to two years. Companies that need money may have to modify their business plan, raise more expensive capital, or both, and all stakeholders will have to adjust their expectations of the timing and valuation of an exit.

How do you think secondary deal volume in 2016 will compare to 2015?

Secondary deal volume is highly dependent upon the perception of market conditions and volatility. If rates rise and the overall markets experience significant volatility, co-investors and other recent entrants to the private markets will need to reevaluate their objectives for their private investment portfolios. Investors that are less comfortable with a long-term hold period or supporting their investments with additional capital will drive increased interest in secondary directs.

–Compiled by Laura Kreutzer