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In Their Own Words With W Capital Partners' David Wachter


David Wachter, W Capital Partners PHOTO: PHOTO: W CAPITAL PARTNERS

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Over the past decade, secondary deal volume has exploded as more investors embrace the market to actively manage their portfolios, both among limited partners and general partners. We asked some of the industry's leading professionals to share their insights into how they navigate the challenges and opportunities generated by the industry's rapid growth.

David Wachter is the managing director and co-founder of W Capital Partners, which focuses on secondary investments directly in underlying companies or portfolios of such companies.

What do you see as the biggest risks that secondary buyers face in the current environment?

The combination of leverage at the company, PE fund and secondary transaction levels is something to watch. Layers of debt and deferred payments may create unforeseen volatility, especially if we have a slight increase in rates and asset prices move inversely.

What have been the biggest changes that you've seen in the secondary market over your career?

The market acceptance of secondaries. When we started W Capital in 2001, everyone had the same question: why would anyone ever sell anything good? It was obvious to us then that with investors of all types entering the asset class and companies staying private much longer, there would be a need for an after market. Today, the buying and selling of private positions (in funds or companies) is viewed positively rather than as an indication of weakness. Given this level of market acceptance, the secondary market growth has exceeded the overall growth of the PE industry.

Where do you see the biggest untapped sources (or less trafficked) of potential deal flow going forward?

The direct secondaries market continues to be fragmented, where each deal requires a bespoke solution. In single asset deals, buyers are acquiring sizable equity stakes in businesses and need to evaluate underlying business models, competitive environments, management strengths/weaknesses and shareholder dynamics. In portfolios of directs, buyers must diligence, value and close on multiple companies at the same time. Getting these deals to be win/win for all participants (other ongoing shareholders, management teams and sellers) requires considerable resources so, as a result, they're less trafficked.

If there is one thing you could change about the current environment for secondary deals, what would it be?

This might be counterintuitive but the secondary market would benefit from a slightly healthier IPO market. The public market is shrinking with half as many public companies in the U.S. today as there were 20 years ago. The number of IPOs per year will never broadly satisfy the liquidity needs of the growing private equity industry, with only 200 or so IPOs per year. Companies are prepared to stay private longer as they scale, but eventually a healthier and more accessible public exit market would benefit secondary investors. Secondary investors would benefit from having additional market valuation benchmarks when valuing privates, a better sense of what unstructured common stock is worth in a liquid market and of course, another viable exit alternative.

—Compiled by Laura Kreutzer