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INDUSTRY NEWS

Coronavirus Pandemic Ends Growth of Secondaries Market

Prices for assets in secondary sales fell 8 percentage points overall in this year’s first half, a Greenhill survey shows

A view of the New York Stock Exchange on June 15, 2020. Pricing for private-market secondaries deals declined in the first half of 2020 amid uncertainty caused by the coronavirus pandemic.

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By

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The coronavirus pandemic halted many secondary transactions involving private-equity investments and drove down prices for deals executed during this year's first half, reversing a trend of three straight years with record secondary volume, a survey from investment bank Greenhill & Co. shows.

When the pandemic hit the U.S. in March, many secondary transactions were put on hold or even pulled from the market, and there was uncertainty over whether deals subject to a definitive agreement already in place would be completed. Even as some investments were put up for sale amid the shutdown, only the resilient and high-conviction assets managed to get potential buyers' attention, according to Greenhill's Global Secondary Market Trends & Outlook report for the first six months of 2020.

"The secondary market was generally frozen," the report said.

Secondary transaction volume dropped 57% to $18 billion in the first half compared with $42 billion in the first six months of last year, tumbling to the lowest level since 2016, the survey showed. Just three transactions accounted for 29% of this year's volume, with each involving the sale of a limited-partner stake valued at $1 billion or more.

In one example of how differences over valuation can impede a sale, the Alaska Permanent Fund Corp. recently sold its infrastructure assets to Blackstone Group Inc. but pulled some private-equity assets off the market because the buyer wanted to adjust the price following the plunge in publicly traded securities in March.

Volume may not pick up quickly, even if the pandemic eases, one well-placed executive indicated.

General partners won't be in a rush to sell assets at prices that are seen as a material discount to their net asset values as of Dec. 31 or March 31, according to David Wachter, founder of New York-based direct secondaries firm W Capital Partners.

"GPs are going to wait until they're comfortable that they're offering their [limited partners] a fair exit option and the buyers an attractive deal," Mr. Wachter said. "There will be pent up opportunity, but I'm not sure that it's going to come, like, right away."

The drop in transaction volume during the just-ended half was accompanied by a price decline of 8 percentage points overall from the end of last year, with prices for buyout investments sinking to 85% of net asset value from 93%. But in deals involving funds with high exposure to sectors heavily affected by the pandemic, such as retail and travel, the erosion in pricing was more severe, falling by as much as 30 percentage points, the Greenhill report said. Lesser declines were seen in more resilient sectors, such as information technology.

The sharpest drop out of the three strategies examined came in real estate, where the average price fell 11 percentage points to 72% of net asset value from 83% at the end of last year. The decline was more muted for venture-capital funds, sliding 7 percentage points to 70% of NAV, according to the survey.

Still, price declines were significantly smaller than seen in the wake of the financial crisis. In the first half of 2009, prices overall dropped 16 percentage points to 45% of NAV from 61% in 2008, Greenhill said in the report.

Price drops in this year's first half also differed depending on when the original investment was made. Funds invested after 2015 overall garnered 85% of net asset value compared with 80% for those invested in 2013 to 2015 and 74% for those with investments made in 2010 to 2012, Greenhill said.

Interest in younger investments surged this year, with 81% of deal volume involving funds invested in 2013 or later, up from 51% last year.

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