

Minority recaps: An attractive alternative to GP-led continuation vehicles

Such transactions can generate liquidity for LPs, validate a mark and allow a GP to retain control of a well-performing asset, says Todd Miller of W Capital Group.

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Almost 20 years ago as a partner of TH Lee Putnam, I pursued what is now commonly referred to as a GP-led continuation vehicle. Looking back, it was among the first of its kind. We worked with a young secondaries banker just starting off, who has now become a leading veteran banker and thought leader in the industry. Together, we navigated the untested mechanics and unknown viability of the contemplated transaction, the potential receptivity of LPs and the probability of getting it done. The transaction took a few twists and turns but ultimately closed under a very different construct.

Fast forward to today, the GP-led and continuation vehicle market segments are now well defined, the nomenclature is well understood and approximately \$50 billion of transaction volume was completed last year, according to figures from William Blair and Evercore. Understandably, the continuation vehicle market has been widely embraced by top-tier sponsors for their trophy assets, but there's another secondaries solution – minority recaps – that should also be at the top of sponsors' list of things to explore in 2023.

Minority recaps have existed for years with multiple buyout sponsors working together. Taking on a secondaries firm as a minority partner allows the controlling GP to work with a lighter-touch investor to generate liquidity, validate a mark and raise capital to support organic or inorganic growth, while retaining control over the duration and direction of the portfolio company. These transactions should share the spotlight with continuation vehicles, especially as market conditions have

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challenged the outlook for near- to mid-term liquidity and the pace of continuation vehicles has temporarily slowed.

Minority recaps may be a more effective tool for sponsors in today's market, where M&A exits are down, debt recaps are more expensive and there is a higher bar for continuation vehicles – and the ones that reach the finish line will require more time to complete. They are perfect for portfolio companies that are three to five years old and not pressing up against the term of the sponsor's fund.

These transactions entail selling a significant minority stake in a portfolio company but enabling the existing sponsor to maintain control over the asset. It's a terrific way to generate valuable interim liquidity for LPs and validate a mark but still retain control over a well-performing asset that the GP believes should continue compounding. Like continuation vehicles, minority recaps work effectively in high-quality situations, with sponsors who have conviction in the growth of the asset over the next two to four years.

Last year, for example, [W Capital](#) led a \$240 million minority recap with one of the largest and most sophisticated sponsors in the world in an asset they had owned for four years. They were seeking partial liquidity for management to re-energise them for the next phase of growth (versus near-term liquidity in a change of control); DPI and a third-party mark for their fund; and acquisition capital to support an add-on acquisition since their fund was low on reserves.

A minority recap was an easy and straightforward solution that provided all the tangible benefits outlined above and, as importantly, was completed expeditiously without a fairness opinion or involving the LPs in a lengthy discussion or LP tender process.

We also quickly worked through a structure that provided strong alignment where there was no issue on our part with them maintaining full control over the ultimate exit of the portfolio company. A four-way win for us, the sponsor, their LPs and the underlying portfolio company.



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The secondaries industry has several attractive liquidity solutions for GPs who appreciate the benefits of both portfolio and balance sheet management, especially in today's illiquid environment. It's clearly a difficult market to generate liquidity through traditional M&A and IPOs, so the secondaries market is a great place for GPs to explore. Yes, there's the GP-led continuation vehicle product, which will continue to grow and evolve, perhaps after some near-term choppiness, but minority recaps are equally a great GP solution that I would expect to be a big catalyst for the industry's growth going forward.

Todd Miller is a partner of W Capital Group and has been an active investor in the GP-led secondaries, minority recap and secondaries direct sector. He has worked at various private equity and secondaries firms over the last 20 years, including TH Lee Putnam and Alpine Capital. W Capital has invested more than \$3 billion since inception