Private Equity International

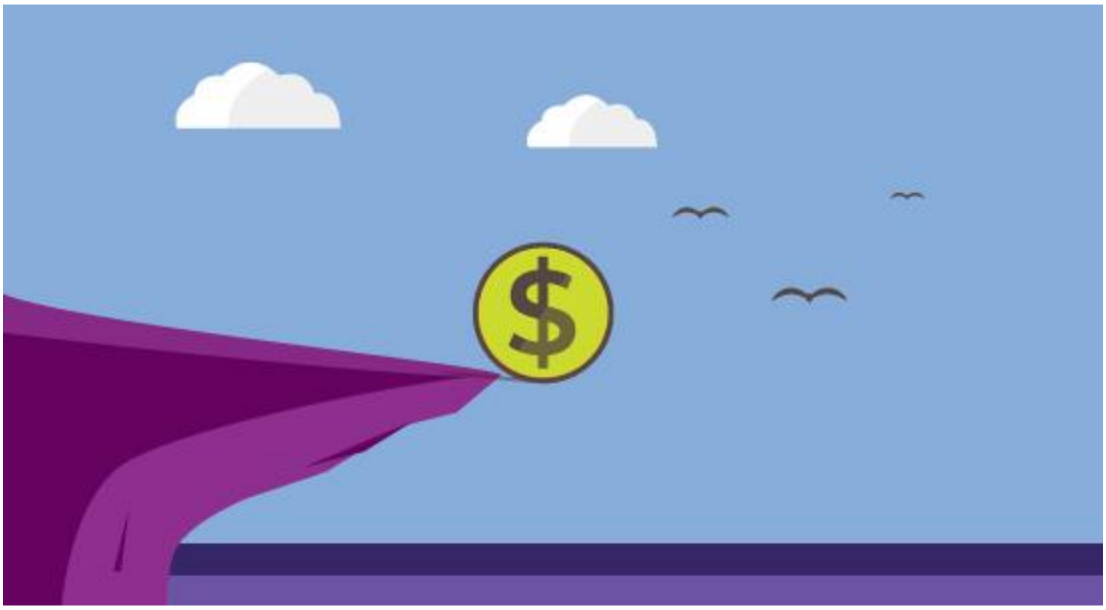
Private Equity News & Analysis

Side Letter: PE's exit overhang

How far can secondaries go in addressing private equity's 20-year exit overhang?

PEI Staff – July 8, 2025

Fresh insights



Exits: facing a 20-year overhang? Source: Getty

Exit overhang

A report from **AXA IM**'s direct secondaries subsidiary has put the potential severity of the PE exit problem into perspective. Research from **W Capital Partners**, shared with our colleagues at ***Secondaries Investor***, estimates that the PE industry held 29,000 buyout-backed companies globally last year (registration required). Since 2011, there have consistently been around 1,500 exits a year (2021 being the only anomaly, with 2,200), equating to a 20-year overhang of exits. With the number of companies growing by roughly 1,000 a year, exits can't keep up with the PE market's scale.

On top of this, W Capital argues, PE has a dry powder problem. Namely, that the average six-year-old North American buyout fund has just 1.3 percent in dry powder. An equivalent fund would have had 10.5 percent a decade ago, the report found. What's more, these funds have a 1.09x remaining value to paid-in capital ratio, versus 0.85x 10 years ago. As these companies grow and require more capital, a lack of dry powder can become an issue.

"The way we're describing it is all the kids are living at home longer," W Capital managing partner and founder David Wachter told *Secondaries Investor*. "They're growing up and the fridge is now empty."

Continuation funds, which represent one obvious solution to this dynamic, have so far barely made a dent. ***Secondaries Investor*'s CV Deal Log 2024** tracked 105 CVs that were reported on or disclosed, with 70 closing. The Q1 2025 edition tracked 11 closed funds. In other words, far short of the total needed.

W Capital, itself a secondaries buyer, has been banging the drum for direct secondaries. The opportunity lies in "replenishing the fridge" with a direct secondaries deal, Wachter said, "allowing the kids to grow up a little bit more before they leave home". That's because in some structures, direct secondaries – which is typically the transfer of an existing minority equity stake in a company or companies from one owner to another buyer – can involve capital for the underlying asset to strengthen their balance sheets, pursue growth opportunities or make acquisitions.

Of course, direct secondaries can also only go so far in their present state. While the trajectory of the GP-led secondaries market seems to indicate that private markets will, in future, become substantially more liquid, many LPs and portfolio companies likely have a pressing need for liquidity or fresh capital today. At the present rate of exits, PE's distribution drought and fundraising bottleneck seem unlikely to face relief any time soon.

Today's letter was prepared by ***Alex Lynn*** *with* ***Silas Sloan***.