Secondaries Investor

Research & Data

Dry powder concerns provide opportunity for direct secondaries – W Capital

With the number of buyout-backed companies growing and exits not keeping up, funds are finding themselves with almost no dry powder.

Silas Sloan – July 7, 2025

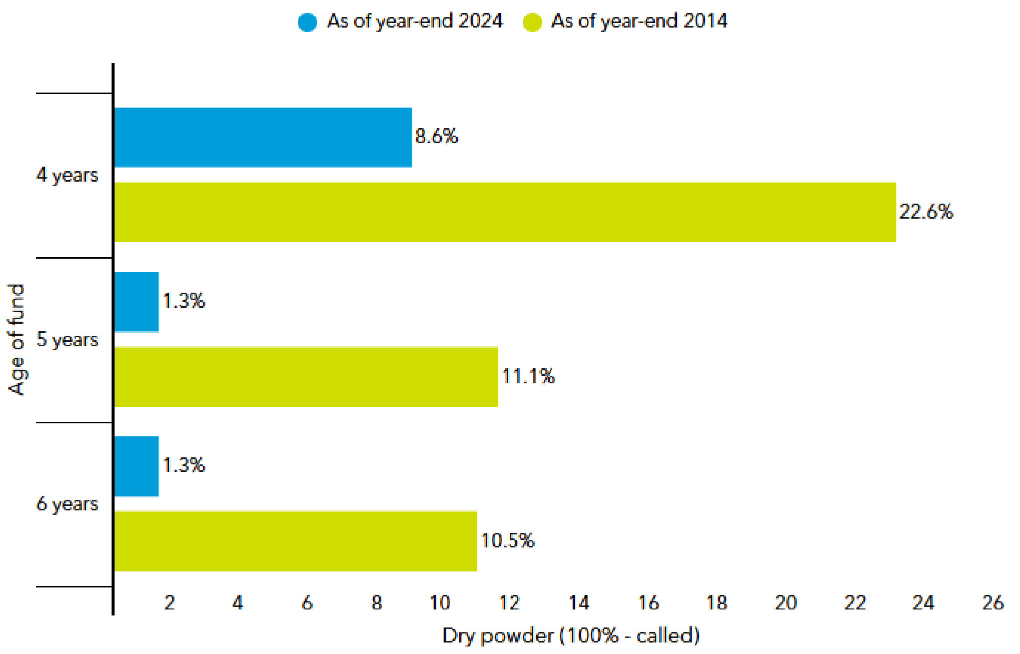
As the universe of buyout-backed companies grows, exits have remained stagnant and private equity portfolio companies are being held longer. Now, North American funds are running out of dry powder, creating a potentially significant opportunity for secondaries, according to a paper from [W Capital Partners].

The report, shared with *Secondaries Investor*, found that the average six-year-old North American buyout fund has just 1.3 percent in dry powder compared with 10.5 percent a decade ago. Meanwhile, the same funds have a 1.09x remaining value to paid-in capital ratio compared with 0.85x 10 years ago, equating to a 28 percent increase in unrealised net asset value. 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 said. "They're growing up and the fridge is now empty."

RUNNING DRY

Dry powder remaining across North American PE funds



Source: W Capital Partners, *Running on Empty*

To keep with the "kids at home" analogy, GPs can either look to move the kids out of the house and run a continuation fund or restock the fridge through direct secondaries transactions. Wachter said he sees the most opportunity from the latter, which the report estimates has a $116 billion market size.

W Capital defined direct secondaries as a secondaries buyer purchasing shares in a private company from another company or existing shareholder. These structures could be minority recapitalisations or direct shares purchases.

Wachter said the market for liquidity to GPs is "way bigger" when providing direct secondary liquidity. Their range of capital structures is more flexible, they can keep the best assets in their flagships and there's no conflict of interest for the GP.

However, this trend isn't exclusive to older funds and is prevalent in younger vintages, according to the white paper. Four-year-old vintages are finding themselves with just over 8 percent in dry powder, a steep drop from 25 percent 10 years ago.

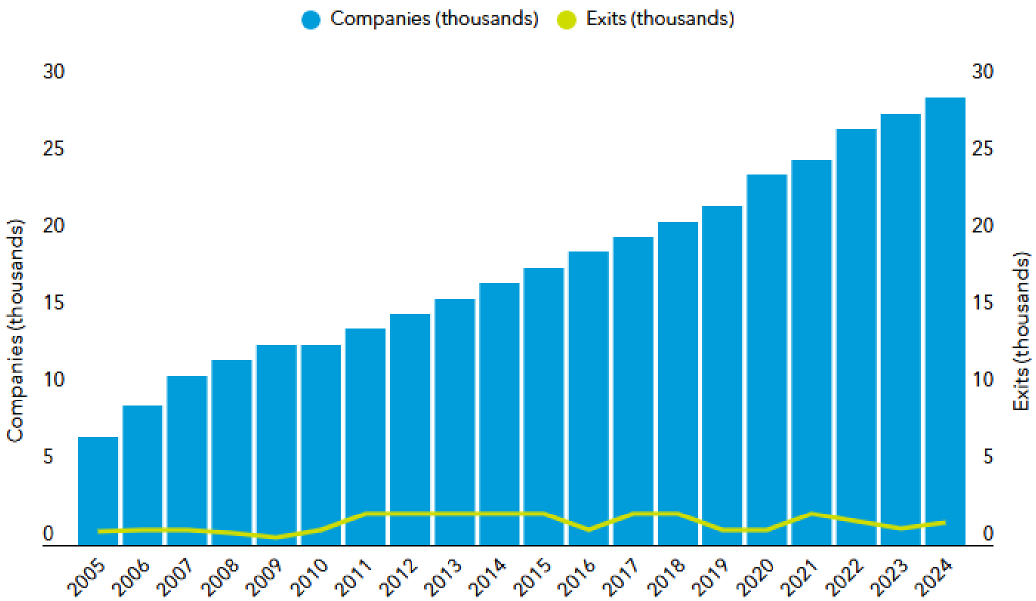
The 29,000-asset challenge

While the kids are staying at home longer, the white paper argues there are simply more kids in the house.

The white paper estimates there were 29,000 buyout-backed companies last year with 1,470 exits, equating to a 20-year overhang of assets to exits. Since 2011, there's consistently been around 1,500 exits a year, with 2021 being the only anomaly, seeing 2,200 exits. Meanwhile, the number of companies has been steadily growing by roughly 1,000 a year and exits can't keep up with the PE market's scale.

EXITS REMAIN STEADY

Global buyout-backed companies vs global buyout exits



Source: W Capital Partners

Wachter noted that while market participants have been “freaking out about a lack of liquidity” for the last decade, exit volume is not the issue. Rather, the ratio of exits to NAV is three times as high.

With the universe of companies expanding, continuation vehicles may not be able to bridge the gap. ***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.

Wachter said 70 CVs won’t be able to solve the 29,000-asset challenge, meaning the opportunity lies in “replenishing the fridge” with a direct secondaries deal, “allowing the kids to grow up a little bit more before they leave home”.

“You expected your kids to have left the house, but they haven’t. You used up all of the budget for those kids. What do you need? You need others to come in and support the continued growth of those companies or add food to the fridge for the children that are staying at home,” Wachter said. “That’s why direct secondaries is booming and even bigger than continuation funds.”