



Equity market records to push up secondaries pricing by Nathan Williams  
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Secondaries pricing is forecast to rise throughout 2017 as deals begin to reflect funds priced in the third quarter of 2016, a period which saw equity markets surge to record highs, a report by secondaries market advisor Elm Capital has said. "Given that most transactions in the first half of 2017 will be priced on 30 September 2016 or 31 December 2016 valuations, the performance of the stock market in the second half of the year points to a potential increase in valuation that would support continued high pricing in the secondary market," says the firm's private equity secondaries newsletter. "What is more, the stock markets have continued to rise since the start of 2017.

This points to secondary prices remaining at their high levels for the remainder of the first half of 2017." Etienne Deshormes, managing partner at Elm told Secondaries Investor the firm is seeing "very high prices" being paid, including double-digit premiums. "There is a lot of money chasing not many deals so when a good portfolio comes to market everyone bids aggressively. We are running a number of processes and prices are very high. For European mid-market fund portfolios between 2007 and 2011 most funds are going out at a single-digit premium. We are seeing double digit premiums but usually this is related to exits that have been announced or are in the market and the price of the asset is higher than what is in the books."

The firm says rising prices will lead buyers to seek out opportunities in less competitive strategies – but these approaches will come with their own problems. "There is less competition for Asian funds, infrastructure, real estate. The challenge is that these are much less developed markets. There are not as many real estate or infrastructure funds and in Asia the quality of buyout funds is much more mixed." Market activity is also being driven by GPs using it to offload poorly performing assets and raise a new fund, with the firm expecting transactions in this area to grow in 2017. "The other theme we are seeing are GP restructurings where the secondary market is used to help a GP who is struggling to raise money based on its track record. These deals are usually structured as a combination of a secondary transaction on older vintages and an LP commitment to the GPs new fund," Deshormes said.

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