

It's Official: The Secondary Market Slumped in 2009

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2009 was supposed to be a banner year for private equity secondaries. Buyers had raised record amounts of fund capital (i.e., purchasing power), while the recession had generated a profusion of liquidity-challenged sellers. Supply and demand and all that jazz.

But it just didn't happen.

[NYPPEX Private Markets](#) later today will release data on the 2009 secondaries market, showing a 39% decrease in indirect secondary transaction volume between 2008 and 2009. We're not allowed to publish the report itself, but can share some of the highlights:

*** There was \$12.3 billion of Indirect secondaries activity in 2009 (i.e., selling of LP interests), compared to \$20.31 billion in 2008. The primary driver here was a lingering bid-ask gap, in which both buyers and sellers assumed the other would budge. NYPPEX suggests that some late-year movement did come from the buy-side, as median bids increased by around 20 points between the end of Q1 and the end of Q4 (although that latter number still represented a deep discount).

One explanation for the bid increase is that public equity portfolios rebounded, thus raising portfolio valuations and lowering LP denominator distress. This is supported by the fact that there was approximately \$13.9 billion of secondary interests that were offered in 2009, but then withdrawn.

*** The increase in bid prices resulted in an increase in deal activity, with many secondary firms transacting more than 50% of their entire 2009 business in Q4.

*** There was a 57% decline in direct secondaries activity (selling portfolio company interests), from \$5.7 billion to \$2.4 billion.

*** NYPPEX believes that 2010 will become what 2009 was supposed to be, as both buyers and sellers get more motivated (buyers have dry powder, sellers still need to rebalance portfolios). The company predicts \$33.6 billion of indirect secondary activity this year, and \$9.6 billion of direct secondary activity.

My own guess is that we'll see an increase in dollars, if only because valuations will continue to rise. That said, I'm not convinced all of that dry powder will necessarily be put to use. LPs over-allocated to the secondary space, and don't be surprised if some of them begin agitating for secondary fund cuts in Q3 or Q4...