

Secondary Bids Fall, But VC Tops Buyouts

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Pricing for secondary deals continues to decline and for the first time in five years, venture funds are commanding better prices than their buyout counterparts, according to a recent report on secondary pricing trends issued by Greenwich, Conn.-based intermediary NYPPEX Private Markets.

Anticipation among secondary buyers of further write-downs on buyout funds in 2009 and 2010 has dampened asking prices, according to the Fourth Quarter 2008 Secondary Private Markets Price Data And Trends published by NYPPEX. The report was based on bids received by NYPPEX for more than \$1.09 billion in secondary offerings made between July 1 and Oct. 20.

Average reported bids for top quartile buyout funds declined by 13.5% to 86.95% of net asset value between Dec. 31, 2007, and Oct. 20, while average reported bids for fourth quartile buyout funds fell even further by 30.6% over the same period to 41.36% of NAV.

Although average bids for top quartile venture funds declined since the end of last year by 9.1%, they held up better than the top quartile buyout funds with average reported bids at 90.96% of NAV.

In another change, the pricing report found that during the third quarter of 2008, bids for diversified fund portfolios didn't command better premiums than bids for individual fund stakes or direct stakes in those portfolios, as they had since the first quarter of 2006.

Sellers of funds or direct interests on the secondary market are also taking home less cash than before, as more buyers ask for seller financing, according to the report. For example, a buyer may pay the seller a certain percentage of the agreed price at the closing of the deal and pay the rest over successive time periods or after the portfolio hits specific distribution milestones.

However, even as the balance of power tilts toward secondary buyers and the tremendous volume of interests for sale, not much is actually closing, due partly to uncertainty surrounding portfolio valuations, according to Laurence G. Allen, managing member of NYPPEX Private Markets. At the same time, some seller expectations have yet to adjust to the new reality of what is now a buyer's market.

"Some sellers are still trying to get 2006 prices," Allen said. He quickly added that he believes the pace of consummated deals will start to pick up during the final quarter of this year, as sellers digest the impact of the market turmoil of recent weeks.

However, for some sellers, that epiphany may come at a price.

"Once the seller says, 'Okay, I'll take that bid you made a month ago', the buyer may say, 'I'm no longer willing to pay that much'," Allen said.

<http://www.nypex.com>

Despite a drop, venture funds still are seeing average bids of more than 90% of net asset value.

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