

## Secondary Private Markets Overview 2007

June 12, 2008

- **Unregistered Securities Secondary Volume Up 140%.** In 2007, secondary transaction volume for unregistered securities in private companies increased approximately 140% to \$3 billion as compared to \$1.25 billion in 2006 (Please see Table 1). This significant increase was primarily due to (a) supply from venture funds and co-investment programs liquidating legacy portfolios and (b) secondary sales from newly listed private companies in private market venues such as Goldman Sachs TrUE, NASDAQ Portal and NYPPEX.
- **LP Interests Secondary Volume Increases 36%.** In 2007, secondary transaction volume for interests in private partnerships increased approximately 36% to \$15 billion as compared to \$11 billion in 2006 (Please see Table 2). This increase was primarily due to portfolio rebalancings by limited partners and funds of funds seeking to sell underperforming funds, reduce the number of funds managed or reduce private equity allocations to targeted percentages as public equities declined.
- **LBO Asset Write-Down Concerns.** Due to contracting Enterprise Value / EBITDA multiples and the lack of LBO debt financing, secondary buyers are increasingly concerned about potential LBO fund asset write-downs of 40% to 67% in 2008 and 2009. Buyout funds that invested in sectors affected by slower economic growth (such as retail) and utilized significant leverage for acquisitions in 2005, 2006 and 2007 are the most vulnerable to asset write-downs.
- **Concerns About Venture GPs.** In 2007, an increasing number of general partners with fully-called venture funds sought liquidity to invest in upcoming capital rounds of portfolio companies or simply to finance their business while attempting to raise a new fund. Participation structures and credit facilities were increasingly viewed as compelling alternatives to secondary sales of portfolios.
- **Publicly-Traded Buyers Make Impact.** In 2007, certain publicly-traded entities won portfolio auctions, and partially financed acquisitions with their publicly-traded stock. We believe, publicly-traded entities are an up-and-coming force that will increasingly win portfolios due to their ability to issue low cost publicly-traded (or restricted) shares to sellers. In many cases, sellers are seeking to reduce concentrated risk exposures to certain GPs or sectors, and are willing to receive shares in diversified publicly-traded funds. Benefits include tax advantages to sellers if transactions are structured as swaps and sellers may re-allocate the publicly-traded shares to the public equities portion of their portfolios.

To request a copy of the full report, please contact us at [inquiries@nyppe.com](mailto:inquiries@nyppe.com).

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