

Selling Private-Equity Investments? Beware: Falling Prices

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Pricing in the market for those seeking to sell private-equity investments continues to decline and, for the first time in five years, venture-capital funds are commanding better prices than their buyout counterparts, according to a recent report on the secondaries market from Greenwich, Conn., intermediary NYPPEX Private Markets.

Anticipation among secondary buyers of further write-downs on buyout funds in 2009 and 2010 has damped 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 from July 1 through Oct. 20.

Average reported bids for top quartile buyout funds declined by 13.5% to 86.95% of net asset value from Dec. 31, 2007, through Oct. 20, while average reported bids for fourth quartile buyout funds fell even further, 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 latest third quarter, 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.

But despite the tremendous volume of interests for sale, not much is actually closing, partly because of 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.

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