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Sharp Rise Seen in Secondary Inventory

Posted on: January 28th, 2009

Despite a sharp increase in sales, the glut of inventory on the secondary market is likely to worsen dramatically next year, a new report says.

The forecast released this week by secondary market maker NYPPEX predicts that sales of limited partner stakes in private equity partnerships will soar by 68% to \$27 billion in 2009.

The Greenwich, Conn.-based firm forecasts an even sharper rise in sales of restricted securities in private companies – which it says will increase 75% to \$10 billion.

Thirst for cash is driving the trend. Increasingly, NYPPEX says, small-to-mid size venture and private equity funds are entering orders to sell portfolio company holdings into the secondary markets. The cash they raise is then spent funding future investment rounds of remaining portfolio companies or for operating purposes, given the uncertain climate for calling and raising capital.

But reaching agreements on price has been tricky in recent months, which has depressed sales. Secondary private transaction volume in 2008 was less than expected among endowment sellers, NYPPEX says, primarily due to disagreement over fair value estimates which resulted in buyers seeking significant price discounts.

The firm predicts secondary supply will approach \$100 billion in 2009, but less than 40% of that amount will actually trade due in part to sellers attempting to obtain unrealistic prices as fair values continue to decline.