

Surge in Secondary Buyouts Set to Continue

291 secondary buyouts worth \$60.4bn announced in 2011 to date, surpassing 2010 figure in both volume and value; transaction type has doubled market share since 2008.

The surge in secondary buyouts is likely to continue apace, with 48% of GPs expecting the number of such transactions to increase going forward, the latest Preqin research reveals. The findings come as the number and volume of post-Lehman secondary buyouts almost reach levels seen during the buyout boom of 2006-2007. Q3 2011 was one of the strongest quarters for secondary buyouts since 2007, surpassed only by Q2 2011 and Q3 2010 in terms of aggregate deal value.

The market share of these transactions has also increased in the post-credit crunch landscape, increasing from 15% of all deals in 2007 to 30% of deals to have taken place in 2011 thus far.

Other Information:

- European secondary buyouts continue to dominate the market, although the region accounts for a smaller proportion of such transactions in 2011 to date than it did in 2008 – 59% compared to 78%.
- Secondary buyouts are the second most common exit type, and account for 31% of exits that have taken place this year. Trade sales account for 50% of exits made in 2011 to date.
- 23% of GPs questioned stated that returns were at least five percentage points below those generated by other transaction types.
- 12% claimed that they had received returns on their secondary buyouts in excess of five percentage points greater than on other transaction types.
- Just 9% believe that the number of secondary buyouts will decrease going forward, compared to 48% that expect an increase.

The full report can be found here:

http://www.preqin.com/docs/newsletters/PE/Preqin_Private_Equity_Spotlight_November_2011.pdf

Comment:

Although secondary buyouts polarize opinion, there has been a marked upward trend in the incidence of such deals in recent years, and this is likely to continue due to increasing pressures on GPs to deploy capital, as buyout fund managers sit on an estimated \$376bn of dry powder. Concurrently, many GPs are looking to exit their investments in order provide distributions back to their LPs, who are keen to see a return on their capital. With slow deal flow and a difficult exit market persisting due to economic volatility, secondary buyouts remain an attractive investment prospect to many fund managers, who continue to see plenty of value-added opportunities within this often contentious investment type.

Manuel Carvalho, Manager – Private Equity Deals

Note to editors:

- **Secondary Buyouts** – Leveraged transactions in which both the buyer and seller are private equity firms.

Preqin is spelled without the letter 'U' after the 'Q' – the current name is an abbreviation of its former incarnation Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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