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PRIVATE CAPITAL ADVISORY

# Interim Secondary Market Report 2023

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As used herein, "Lazard Estimates" refers to a global survey that Lazard launched to take inventory on the secondary market in H1'23 and an internal database at Lazard that tracks financial sponsor secondary transactions. The database aggregates information gathered from publicly available sources, discussions with secondary investors and transactions Lazard has executed in the applicable calendar year. The database does not capture all financial sponsor secondary transactions, and certain values in the database are estimates.

# Introductory Remarks – *Holcombe Green III*



## RESILIENCE AMIDST A CHALLENGING MACROECONOMIC BACKDROP

The secondary market in 2023 has been confronted with two distinct market dynamics namely on the one hand, (i) in the LP-led market, buyers and sellers continued to have difficulties with bid/ask spreads persisting and (ii) in the GP-led market, secondary buyers have expressed the need for higher returns and margins of safety. On the other hand, buyer appetite remains resilient as investors continue to deploy capital into diversified LP-portfolios and best-in-class assets.

Fundraising dynamics played acutely into buy-side behavior in H1'23. Almost 70% of respondents indicated that they were raising capital for their flagship secondaries vehicles. As such, the market was somewhat capital constrained in the first half, which contributed in large part to a reduction in overall volume to \$43B in H1'23, ~28% fall from H1'22. With recent deals needing to be showcased to prospective LPs, there was an intense focus on valuation. While the LP market saw meaningful discounts, pricing in the single-asset segment was remarkably strong – with ~58% of these transactions pricing at par or above. Proven, trophy assets where the go-forward plans were largely continuations of past successful strategies still garnered substantial buy-side interest.

H1'23 saw LP-led transactions reach ~\$25B, dominating the global secondary market (~60% of total market volume). The resurgence of LP-led transactions demonstrates ongoing secondary buyer interest in diversified portfolios. However, a significant portion of LP-led transactions closed at wider discounts, with ~45% falling below the 80% mark largely driven by more limited available leverage and hence more conservative underwriting. That said, we observed a marked improvement in pricing for LP-led portfolios towards the end of H1'23 as overall macro conditions stabilized and higher quality portfolios were brought to market.

Moving forward, we anticipate that the growing pressure on sponsors to provide their LPs with exits and lock in DPI will create strong momentum in the GP-led segment globally. As further closings occur over the remainder of the year, secondary capital will replenish to support more favorable market conditions in H2'23 and early 2024. Moreover, bid/ask spreads in LP-led portfolio sales will likely continue to narrow as buy-side appetite for deployment continues to build.

Thank you for taking time to read our report, and we welcome the opportunity to discuss its findings in greater detail.

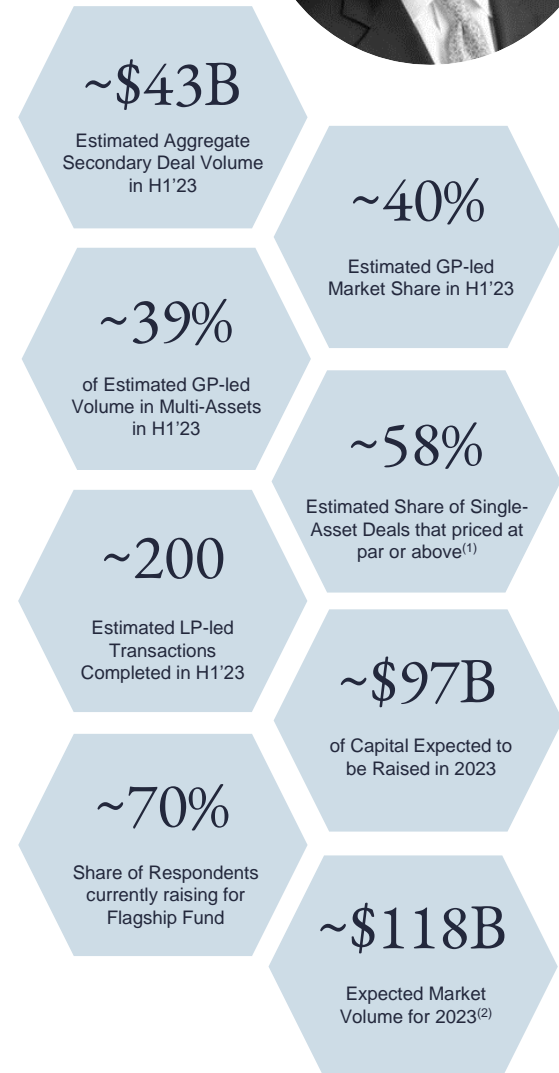
Holcombe Green III

Global Head of Private Capital Advisory

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Source: *Bain & Company, Lazard Estimates.*

- 1) Based on invested capital (capital deployed by an individual investor into a transaction).
- 2) Based upon majority feedback from respondents.



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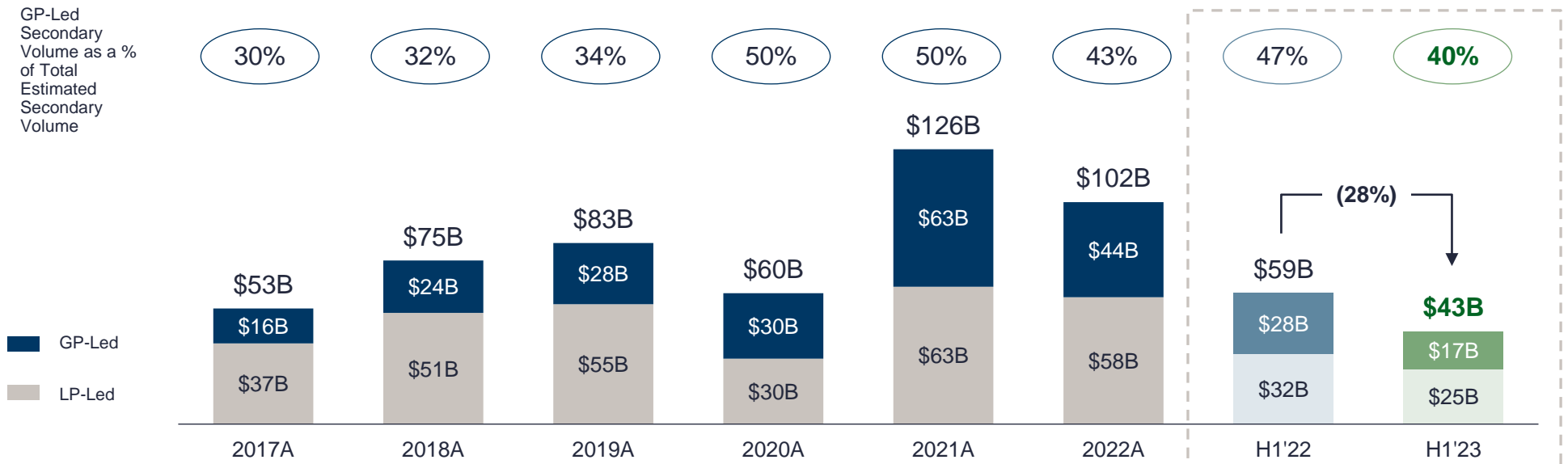
# Interim Secondary Market Overview 2023

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# H1'23 Secondary Volume Down YoY by ~28% but Recovery Expected in H2'23

Navigating a complex macroeconomic landscape, the secondary market witnessed a ~28% decrease in volume during H1'23 vs. H1'22. Nevertheless, high-quality concentrated GP-led transactions and diversified LP portfolios continue to generate strong buyer demand heading into H2'23

## H1'23 Secondary Volumes Lag Behind H1'22 Amid Ongoing Macro Headwinds



## Key Market Themes/Drivers for H1'23

### Sellside Themes (GPs & LPs)

Limited Traditional Exits Fueling Sellside Activity in Both GP-Led and LP-Led Markets

Bid-Ask Spreads Contributing to More Limited Closed Deal Volume

Challenging Financing Markets Dampening Available Leverage and Pricing

### Buyside Themes (Secondary Investors)

Heightened Valuation Scrutiny Amidst Ongoing Macro Volatility

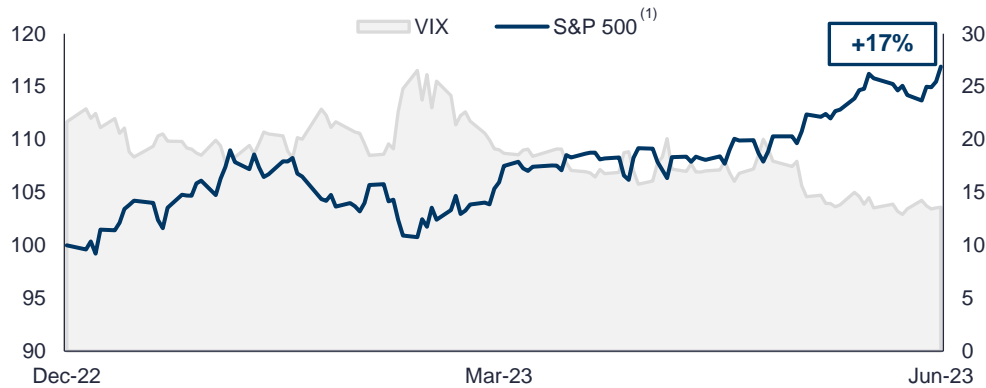
Fundraising Pressure Driving Flight to Quality as Recent Deals are Showcased in "Shop-Window"

Aggressive Buyside Triage of Opportunities given some Oversupply

# Pricing Update – *Single-Asset GP-Led Transactions Price Strongly in H1'23*

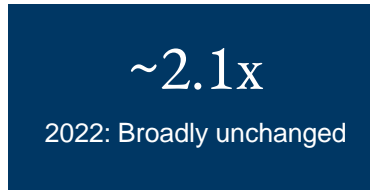
Recovery of public markets contributed to a more favorable valuation environment. This shift was prominently observed in the single-asset GP-led market, where 58% of transactions priced at or above NAV. The LP-led market maintained a conservative stance, with 45% of transactions pricing below 80%, although pricing has shown signs of improvement in H2'23

## S&P 500 Climbs 17% in H1'23 Signaling Confidence in Public Markets

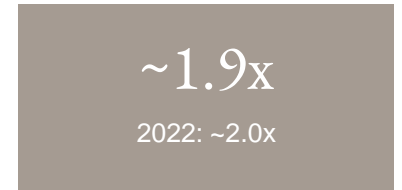


## Average Return Targets Maintain Comparable Levels to 2022<sup>(2)</sup>

### Single-asset (GP-led)



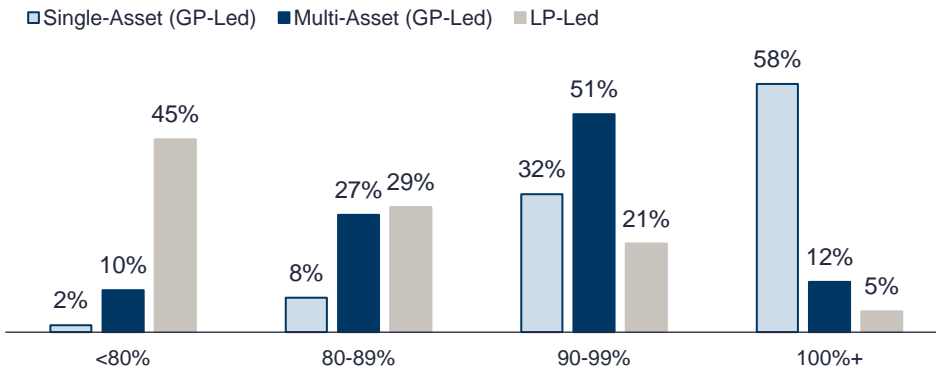
### Multi-asset (GP-led)



## Public Market Rebound Eases Liquidity Pressure and Boosts Pricing, with Single-Asset GP-Led Transactions Benefiting from Robust Marks

### Average transaction pricing in H1'23 (as a % of reference date NAV)

% of respondents in the survey



- An estimated 58% of single-asset transactions priced at par or above, illustrating continued strong appetite for trophy assets
- Multi-asset GP-led transactions also demonstrate solid pricing (albeit lower than single assets), with ~51% falling within the 90-99% range
- Many LP-led transactions saw meaningful discounts, with 45% falling below 80%, as liquidity pressures persist (though to a lesser extent)



II

## GP-Led Deep Dive

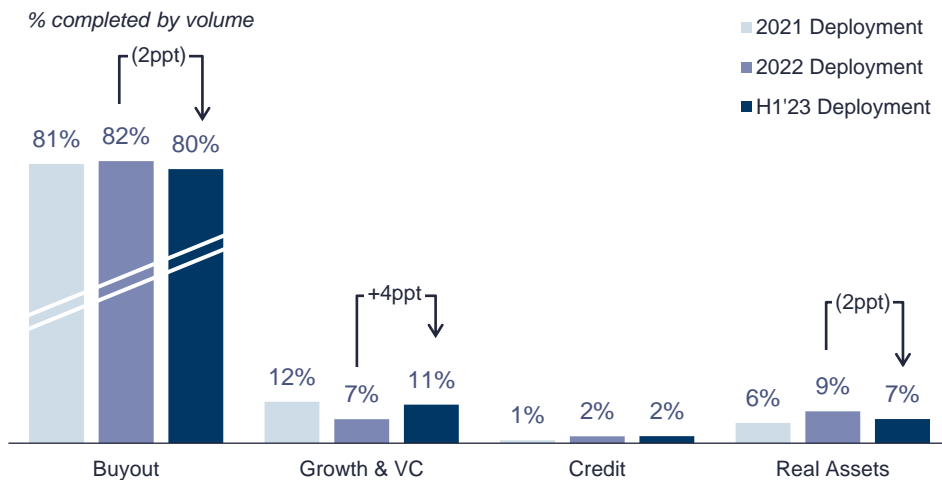
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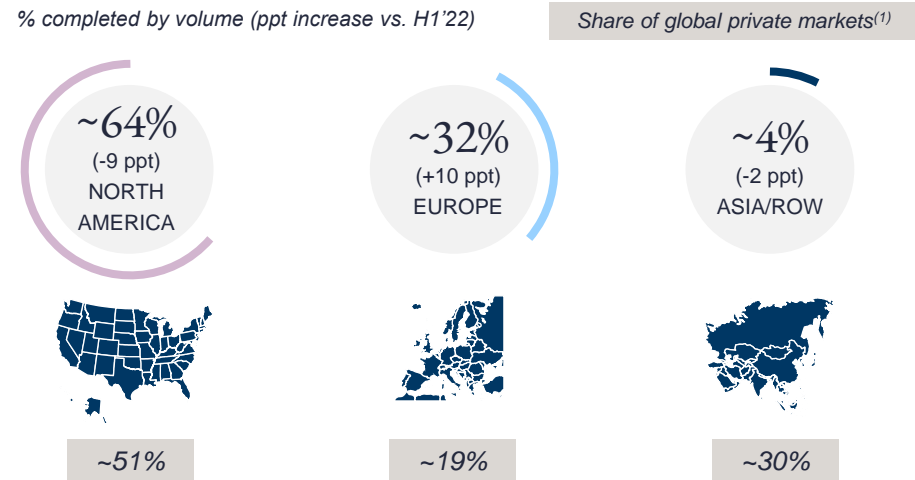
# H1'23 GP-Led Market at a Glance

Buyout maintained a leading position in deal volume (~80%). While Growth and Venture Capital transactions showed some signs of recovery in H1 on a relative basis, overall volumes in this segment remain well below their peak in 2021. Geographically, the U.S. continued to dominate the market by volume of deals, although Europe saw its share grow by over 10ppt vs. the same period last year

## GP-Led Transactions Completed by Strategy



## GP-Led Transactions Completed by Geography



### LAZARD Observation

- **Buyout continued as the largest GP-led asset class in H1'23**, comprising ~80% of the market
- The only asset class to **gain share was Growth & VC**. While this is partially a reflection of some recovery in buyer appetite, the percentage increase in volume is **skewed by Insight's continuation fund deal** which forms a material portion of Growth & VC volumes in H1'23
- Within the segment, there was a **marked differential between early-stage venture and more growth-like, profitable assets** where valuations had been marked down in-line with public comparables

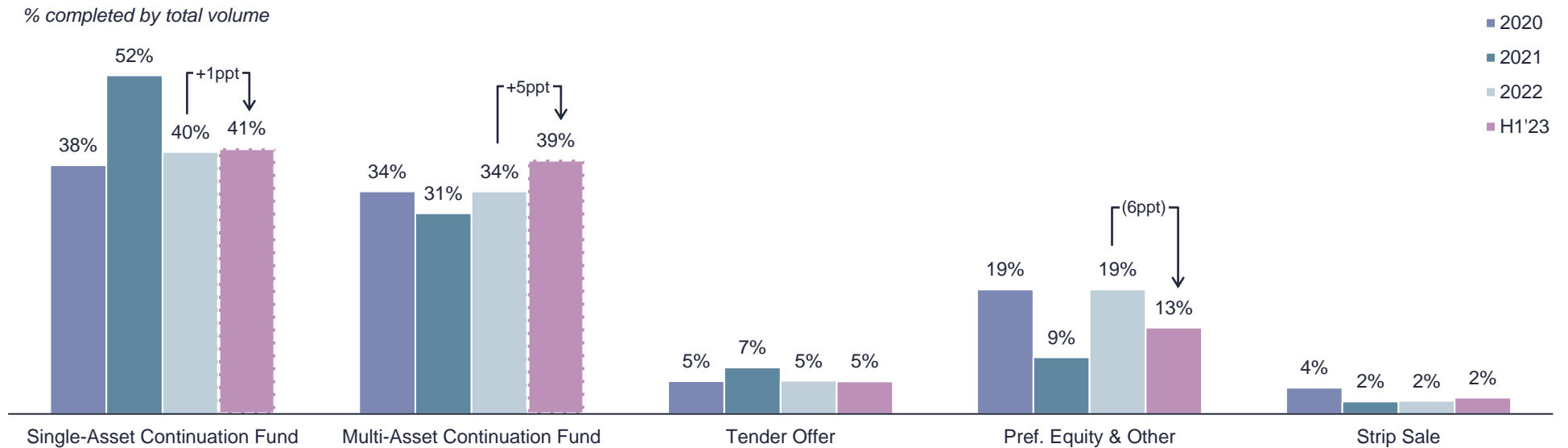
### LAZARD Observation

- **The U.S. remains the largest market for GP-leds**, with a share of **64%** vs. its 51% share of global private markets<sup>(1)</sup> in 2022
- **European secondaries recovered well from H1'22** as buyers became more comfortable with the continent again following the depressed volumes triggered by the **Russia / Ukraine conflict in 2022**
- **Asia/ROW saw the largest decrease in underlying volumes (62%)** as it continues to remain a smaller presence in the secondaries market, **driven by political and macroeconomic uncertainty in China**

# Deployment by Transaction Type – *Continuation Funds Continue to Dominate*

Continuation fund transactions dominated GP-led market volumes at ~79%, further gaining traction as the GP-led solution of choice. While single-asset continuation funds maintain a majority share in the GP-led market, multi-asset continuation funds are progressively gaining favor. Structured solutions, such as preferred equity, remain valuable options for sellers in an uncertain market

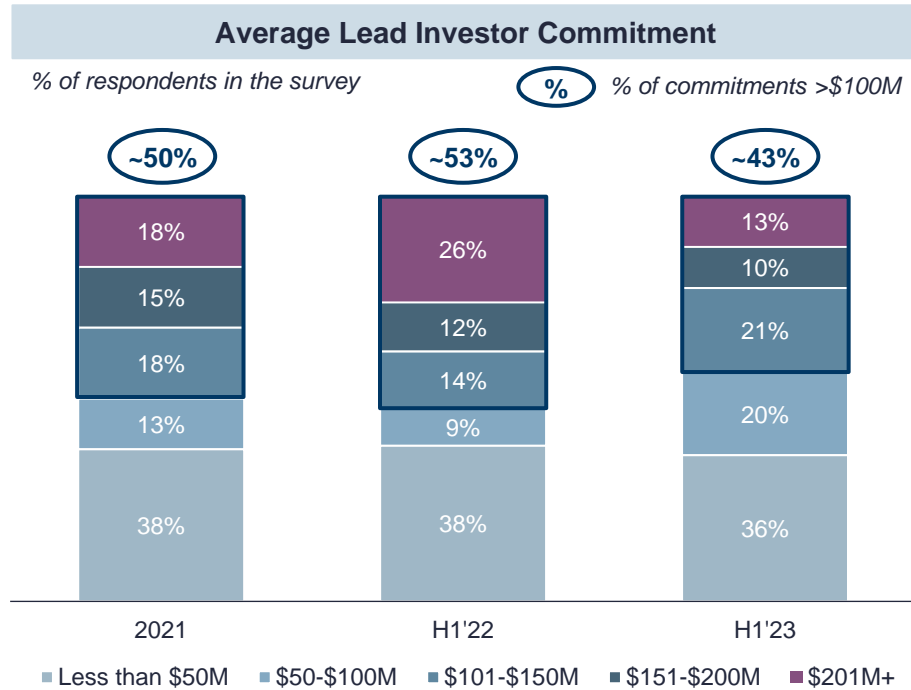
Capital Deployment by Transaction Type



- Although single-asset continuation funds continue to be a popular choice for GPs, **portfolio concentration limits have necessitated an increasing focus on multi-asset continuation funds for diversification. Multi-asset continuation funds now stand at ~39% of estimated total deal volume**, a 5ppt increase compared to 2022 and an 8ppt increase compared to 2021
- **Having soared to 19% of deal volume in 2022**, due to turbulent market conditions and a skew from larger individual investments, preferred equity & other structured solutions appear to have shrunk in volume. However, **our survey indicates that secular trends are still demonstrating a demand for more structured solutions to introduce liquidity**
- **Volume of tender offers remained stable in a slower fundraising environment and continues to be a smaller niche in the market in 2023**

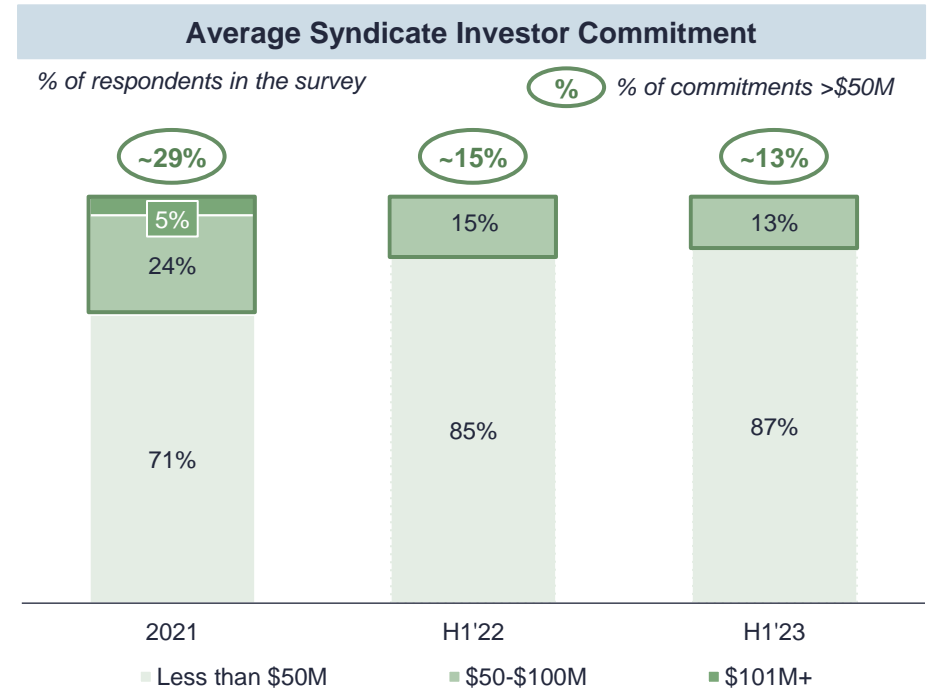
# Deployment Trends – *Lead and Syndicate Ticket Sizes Decrease in H1'23*

The trend of decreasing ticket sizes continued into 2023 from 2022 as commitments decreased further for both lead and syndicate investors. This was particularly notable at the higher end of the range, with no lead tickets observed above \$300M or syndicate tickets above \$100M



~(7ppt)      **decrease** in lead ticket sizes over **\$100M** in H1'23 from 2021

~(14ppt)      **decrease** in lead ticket sizes over **\$201M** between H1'23 and H1'22

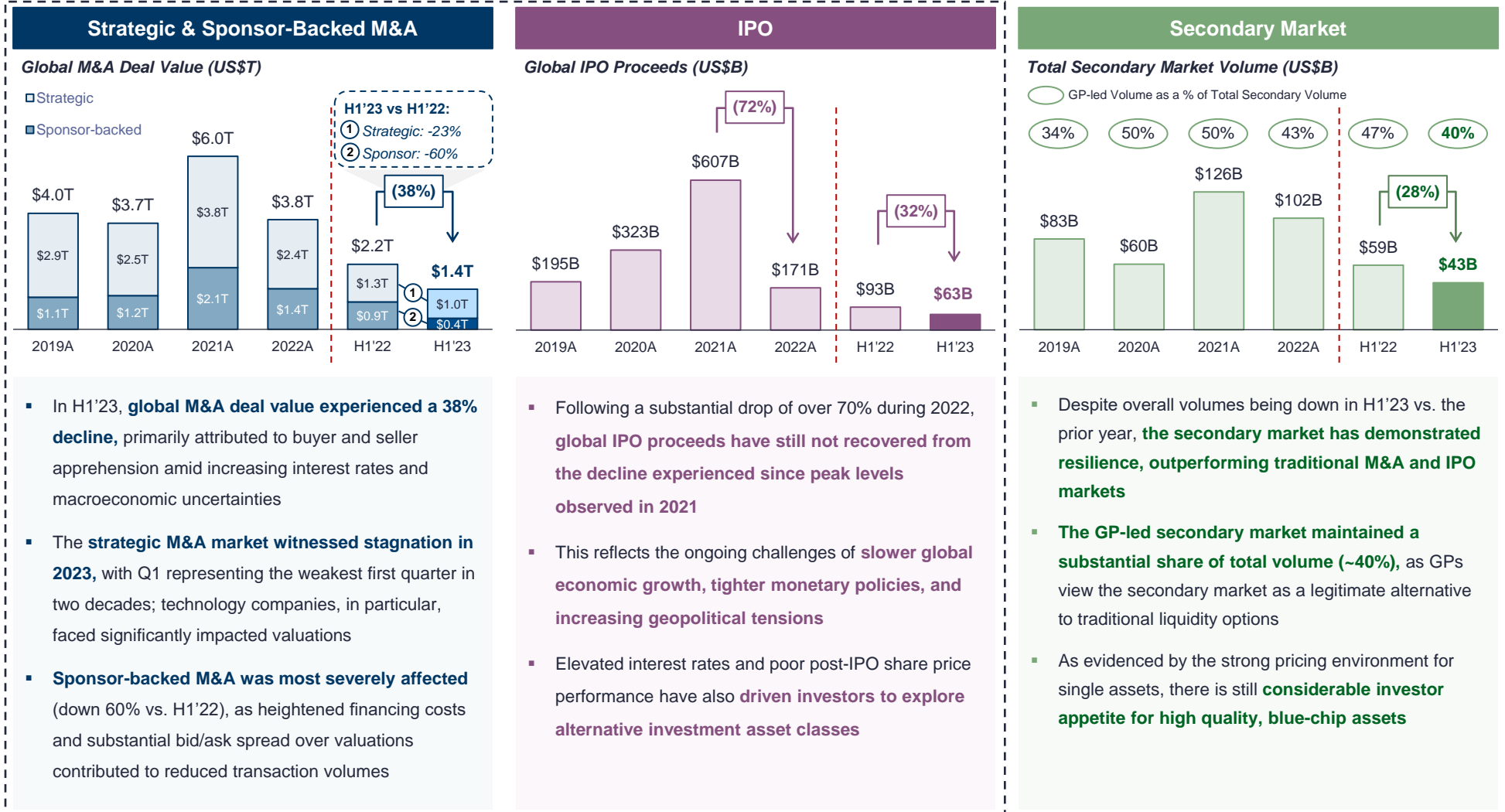


~(16ppt)      **decrease** in the relative proportion of **>\$50M** commitments from syndicate investors in H1'23 vs. 2021

~87%      **of syndicate ticket sizes** were less than \$50M in H1'23

# The Secondary Market Persists as a Proven Liquidity Solution for GPs

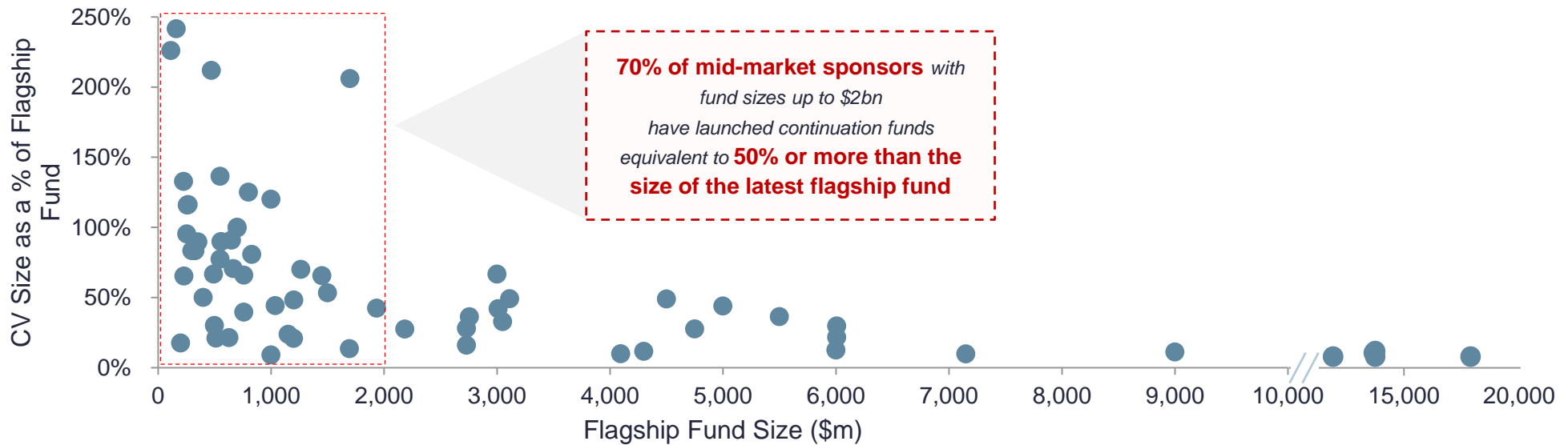
In a depressed M&A and public exit environment, sponsors continue to utilize the GP-led secondary market to explore innovative liquidity solutions



# Mid-market GPs are Using CVs to Raise Large Capital Pools for Best-in-Class Assets

Mid-market sponsors are increasingly turning to the secondary market as a portfolio management tool to help efficiently manage large NAV exposures, whilst also rapidly growing their AUM

H1'23 Launched Continuation Funds: Size as a % of the Sponsor's Latest Flagship Fund



- The Continuation Fund product has been particularly powerful in disrupting traditional exit routes for mid-market sponsors → 70% of mid-market sponsors who launched continuation funds in H1'23 looked to raise a Continuation Fund amounting to at least 50% the latest flagship fund. Moreover, **~28% of these sponsors have raised or are seeking at least 100% of their latest flagship fund** size through their continuation fund
- Historically, mid-market sponsors would have in many cases looked to exit trophy assets to larger sponsors. Continuation Funds however have permitted mid-market sponsors to create liquidity for their LPs and efficiently manage large NAV exposures in existing funds, whilst maintaining ownership / governance and rapidly ramping up their total AUM



# Other Notable GP-Led Market Trends in H1'23

Our H1'23 survey also covered a number of current market themes, including: (i) increasing frequency of a GP's flagship fund investing into deals alongside continuation funds, (ii) emerging single-asset exits and (iii) meaningful proportion of failed deals in the market



### Flagship Fund Investment Alongside the CF

% of Respondents who Experienced Flagship Fund Investment in >50% of Completed GP-Led Transactions

Year	% of Respondents
2022	25%
H1'23	30%

- In H1'23, we found that **~30% of respondents reported that the flagship fund had reinvested alongside the continuation fund in >50% of transactions**, up from ~25% in 2022
- Viewed as an **additional alignment source** by secondary firms and can help in **managing continuation fund size requirements**
- Buyers view positively**

### Emerging Single-Asset Exits

Gross MoIC for Single-Asset Continuation Fund Exits (by % identified exits)

MoIC Range	% of Exits
<1.5x	17%
1.5-1.9x	17%
2-2.5x	22%
2.6-3x	17%
>3x	28%

- The secondary market is starting to see **exits from the first generation of single-asset continuation funds**
- While the data here is still limited, **~67% of exits identified were at least 2x gross MoIC, while ~44% were above 2.5x**
- This emerging data underscores the notion that **single-asset returns are likely to overperform the market** given the intrinsic focus on proven, trophy businesses

### Proportion of Failed Deals in the Market

% of Failed Secondary Transactions (by % respondents)

Failed Deal %	% of Respondents
0-20%	43%
21-40%	26%
41-60%	9%
61-80%	13%
81-100%	9%

- There have been **multiple failed secondary transactions in H1'23**
- Common reasons included **valuation expectations, financing hurdles, and observed market volatility earlier in the year**
- Diligence obstacles and competing opportunities** contributed to failures



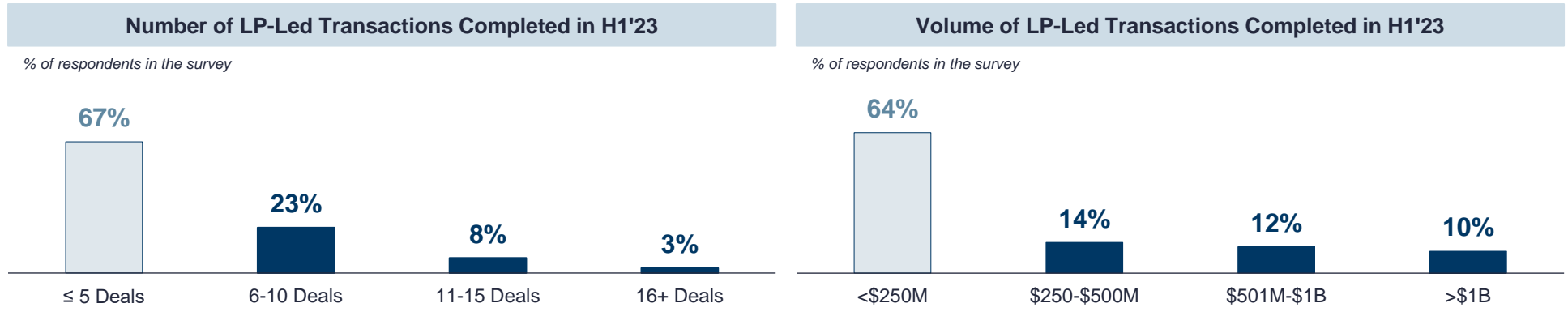
# III

## LP-Led Deep Dive

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# H1'23 LP-Led Market at a Glance

H1'23 saw LP-led transactions dominate global secondary market volume to date (57% in 2022 to 60% in H1'23). Increased LP-led volume reflects continued secondary buyer appetite for diversified LP-led portfolios



Increasing number of buyers (64% of LP-led volume in H1'23 vs. 52% in 2022) focusing their attention on smaller, targeted LP-led portfolios **where they have existing GP relationships or carved out funds as part of a broader mosaic solution**

**~200**  
LP-led transactions closed in H1'23

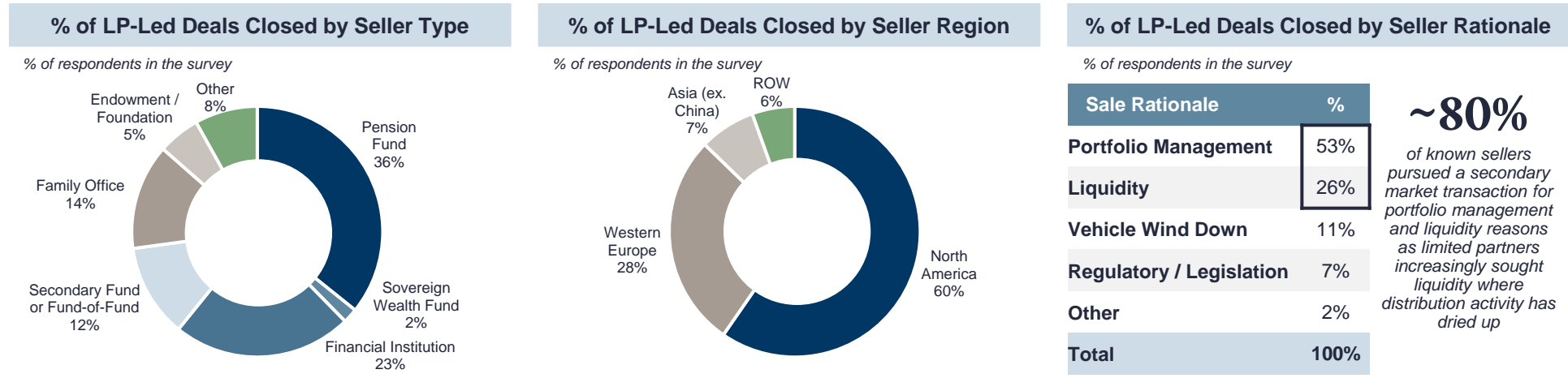
**\$2.5B**  
Average \$1B+ portfolio, similar size vs. H1'22  
was the **average diversified private market portfolio** above the **\$1B+ threshold** in H1'23, **mainly driven by North America pension funds** seeking liquidity / overallocated to private equity

**5**  
~10 in H1'22  
buyers accounted for **~50% of LP-led market volume in H1'23, highlighting how competitive a small number of buyers have been on executing, winning and transacting on LP-led deal flow**

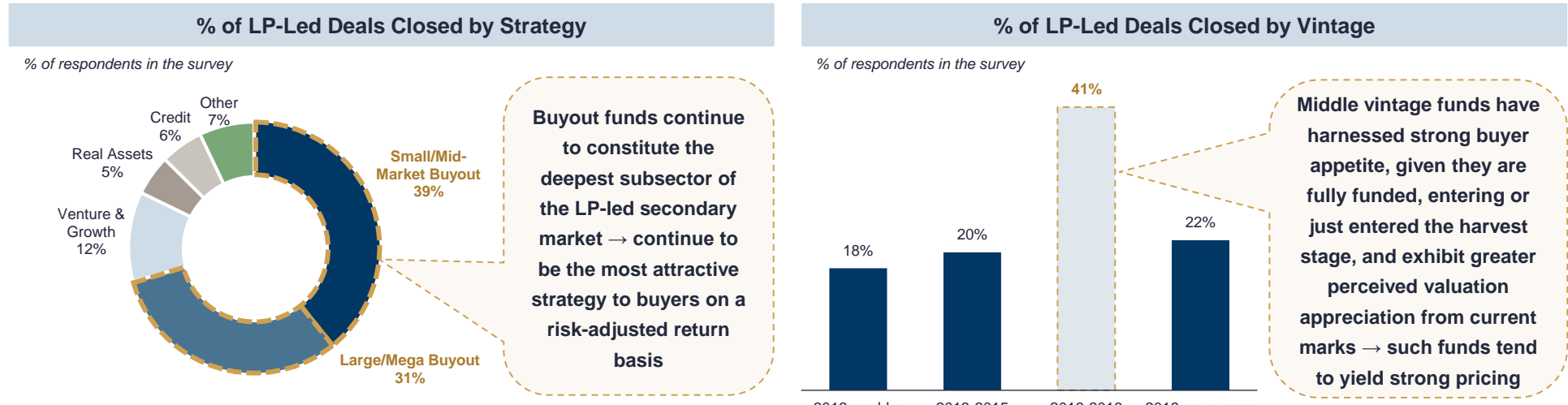
**~55%**  
of dry powder **expected to be deployed in LP-led transactions in H2'23** (strong desire by investors to allocate a greater portion of dry powder towards LP-led portfolios as appetite for diversified portfolios remains high)

# Most Sellers of all Types Sought Liquidity From Buyout and Middle Vintage Funds

The majority of LP-led portfolios were sold in North America, where pricing remains strongest. Buyout continues to be an attractive strategy to secondary buyers and visible source of liquidity for sellers relative to other private markets strategies

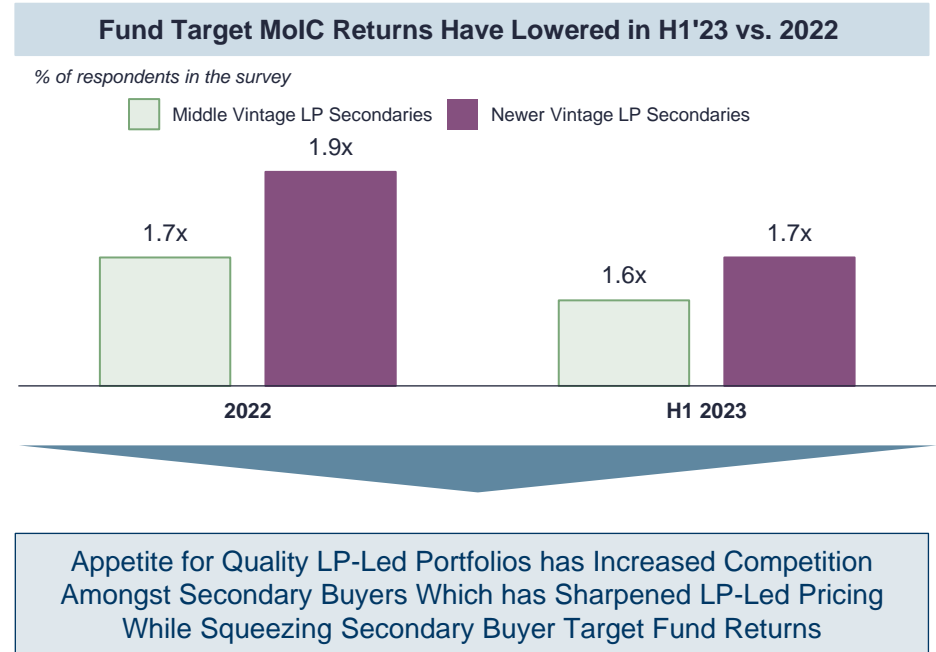
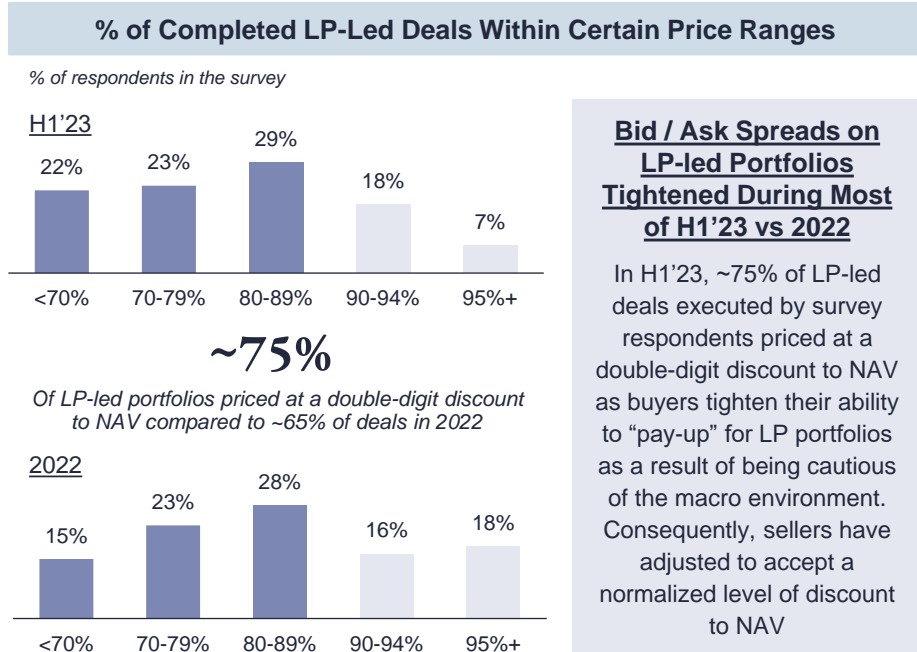


While pension funds continue to be the most active sellers in the secondary market to rebalance their investment portfolio allocations, an increasing number of family offices explored secondary market sales to meet their liquidity needs. Secondary funds / fund of funds have also explored sales to generate DPI for their LPs



# LP-Led Pricing Improved by end of H1'23, Buyer Target Returns Have Squeezed

While LP-led portfolio pricing remained in double digit discount to NAV territory for most of H1'23 amongst survey participants, pricing improved towards end of H1'23, driven by increased use of deferred pricing structures and slightly reduced fund target returns



- **Sellers are increasingly looking for liquidity** with funds distribution activity slowing down, given M&A and IPO market routes to liquidity are not optimal in a high interest rate and inflationary environment in H1'23
- **Pricing for LP-led portfolios began to markedly improve toward the end of H1'23** due to (i) public market appreciation and comparable company write ups, (ii) continued use of creative deferred structures, (iii) buyers seeking diversification away from single-asset continuation fund deals, (iv) improving macroeconomic indicators and projected trendlines, and (v) increased competition amongst secondary buyers for high quality assets
- **As pricing across the LP-led market improves**, we expect such improvements to unlock **further LP-led deal volume from sellers who may have been more price sensitive/opportunistic in the last 12-18 months**





# IV

## Outlook & Predictions

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# Dry Powder Update and Fundraising Outlook

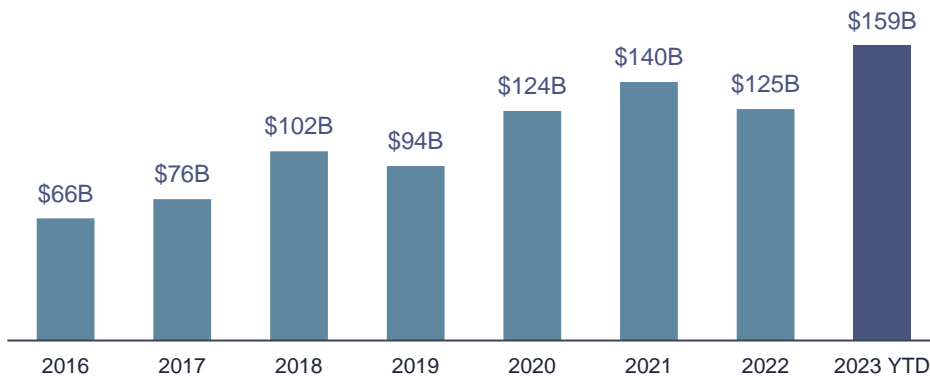
While allocations for large-cap single-asset transactions have deployed the majority of their capital, record dry powder remains ready to be deployed into other secondary transactions and fundraising overall looking promising, despite some fears of a slowdown

## Smaller Pools of Capital Remaining for Single Assets Contributed to Selective Buyside Deployment and Smaller Ticket Sizes

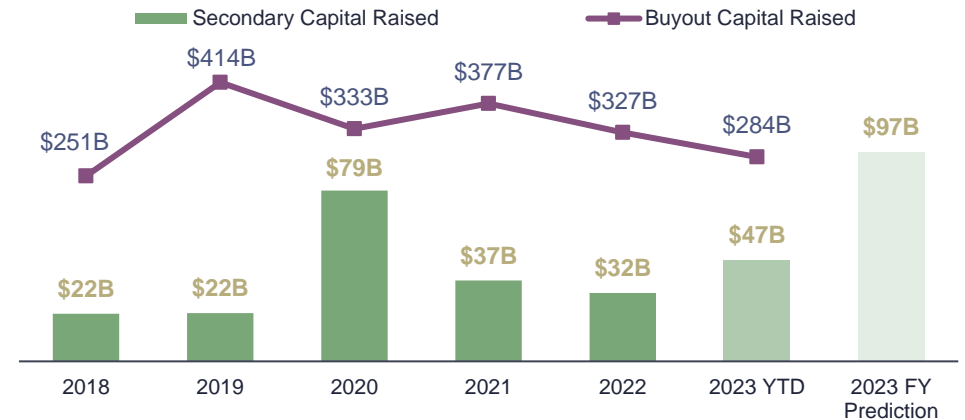


- A key theme identified in this year’s survey was the over-deployment of capital in single-asset GP-leds
  - Survey responses indicated that allocated capital to single assets has largely been spoken for the remainder of the year, leading to **increased selectivity and smaller ticket sizes**
  - In contrast, sufficient total secondary dry powder has remained available for other deals like multi-assets, which now occupy 39% of GP-led volumes
- Based on our survey, **~68% of respondents are currently fundraising for new flagship funds**, with roughly **\$97B of capital set to be raised in 2023**. **The outlook for secondaries fundraising clearly remains strong compared to the slump seen in buyout fundraising**
- Despite apparent room for optimism, **mixed feelings** were reflected in our survey; **11% of respondents named new sources of secondary capital as an opportunity, while 17% stated a difficult fundraising environment as a potential challenge**, showcased by extended fundraising periods (often lasting up to 24 months)

Dedicated Secondary Dry Powder Levels<sup>(1)</sup>



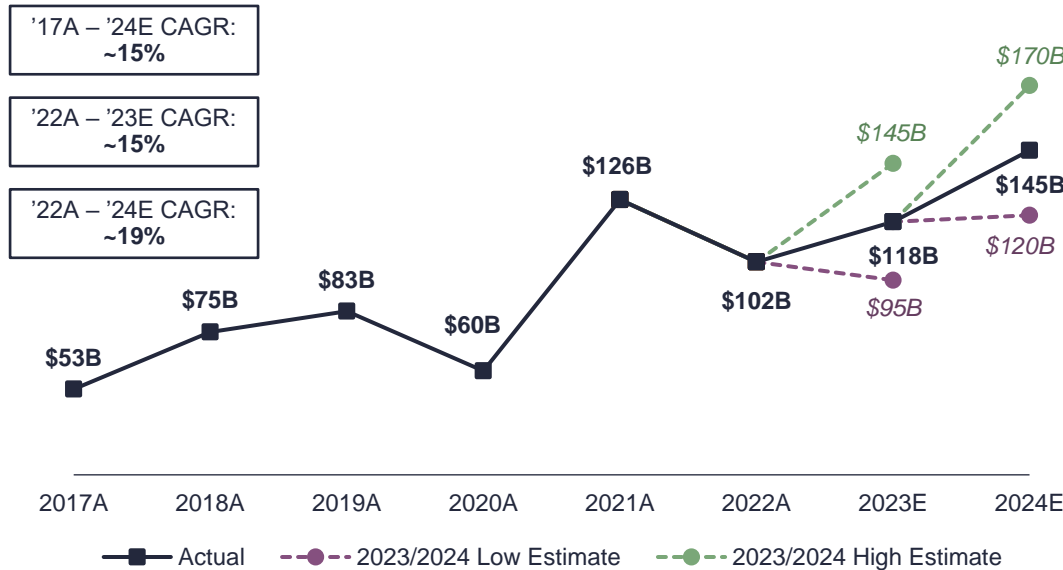
Aggregate Secondary Capital Raised<sup>(2)</sup>



# Outlook for the Secondary Market in 2023 and 2024

Despite volumes being down 28% year on year in H1'23, the market remains optimistic that volumes will recover in the second half of the year and produce a record year in 2024 once new capital comes online

## 2023/2024 Outlook for Secondary Market Volumes



- Tighter bid/ask spreads in LP-led portfolios are expected to drive the second highest secondaries volume on record in 2023, despite a drop off in GP-led volume
- However, GP-led volumes are expected to recover as sponsors look to create DPI events in an environment where traditional exits are still depressed and as new sources of capital come online
- Despite predictions of a potentially record breaking 2024, persistent inflation, higher interest rates and geopolitical tensions are still viewed as challenges by the market

## Key Opportunities and Challenges for the Next 12 Months

### Top 3 Opportunities

- 1 **More LPs looking to the secondary market for liquidity as distributions slow**  
(~39% of respondents)
- 2 **Recovery of GP-leds as more capital comes online for deployment**  
(~25% of respondents)
- 3 **Improving macroeconomic conditions and sentiment bringing more deals to market**  
(~25% of respondents)

### Top 3 Challenges

- 1 **Bid/ask spread between buyers and sellers**  
(~52% of respondents)
- 2 **Continued macroeconomic uncertainty and volatility**  
(~36% of respondents)
- 3 **Increased cost of debt on new and existing leverage**  
(~26% of respondents)

## Six Predictions for the Secondary Market in H2'23

1

Single-asset volume in H2'23 will slowdown as a fair amount of dedicated capital for the strategy has already been spoken for (pick-up of volume expected into 2024 as new allocations come online)

2

Strip sales of select quality assets in a single fund or multiple funds will increase as a way for GPs to drive partial liquidity for their funds and create DPI events to support IRR

3

Fundraisings completed in 2023 will provide additional capital, which should be supportive of stronger market conditions after the summer / in early 2024

4

Bid/ask spreads in LP-led portfolio sales will continue to narrow as buy-side appetite to deploy remains high and pricing expectations adapt to today's market

5

Increased appetite for all-cash pricing on LP-led portfolios vs. deferred pricing as sellers evaluate the opportunity cost of such offers in the context of the current macro environment

6

Investors will increasingly seek exposure to impact orientated strategies, such as renewable energy, given the rising importance of socially responsible investments in the secondary market

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