

LAZARD'S PRIVATE CAPITAL SECONDARY ADVISORY GROUP

## 2017 Financial Sponsor Secondary Market Observations

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## The Financial Sponsor Secondary Market Came of Age in 2017

2017 can be viewed as a watershed year for this portion of the secondary market, as the market developed from one dominated by “restructurings” to one dominated by “liquidity events” executed on behalf of financial sponsors, many with significant global brands

### **Invest**industrial

March 2017

As reported in the Wall Street Journal, our client Investindustrial executed a Build Up Fund transaction in which the assets from Fund IV (the significant majority of which were represented by an investment in one company, PortAventura in Spain) were transferred into a new fund.

Limited partners in the existing fund were given the option to sell their interests to secondary buyers (underwritten by AlInvest Partners) or roll their interests into the new fund. The new and rolling investors committed capital to fund a growth strategy at PortAventura.

### **BC Partners**

August 2017

As reported in the Wall Street Journal, BC Partners executed a tender offer transaction in which each limited partner in BC Partners Fund VI was offered the right to sell its LP interest to Lexington Partners, who won an auction to determine the price offered. In conjunction with the tender offer, Lexington Partners made a “stapled” primary capital commitment to BC Partners Fund X.

### **WARBURG PINCUS**

October 2017

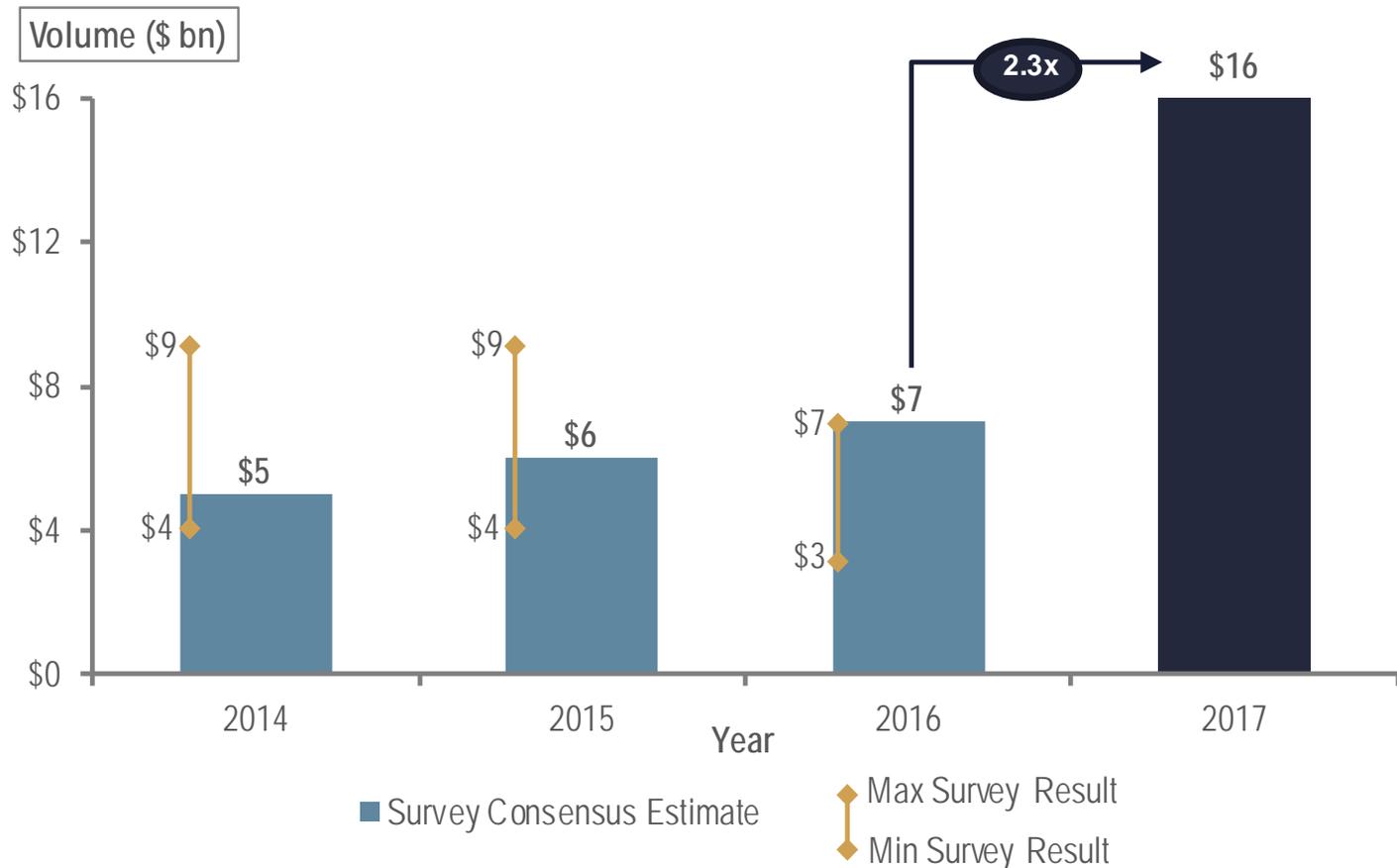
As reported in the Wall Street Journal, our client Warburg Pincus executed an innovative transaction involving the sale of a \$1.2 billion “strip” of interests in a portfolio of Asian companies. The investment was led by Lexington Partners and the Vintage Funds managed by Goldman Sachs Asset Management.

Financial sponsor secondary transactions (or “sponsored secondaries”) are transactions that are initiated by or substantially involve a financial sponsor who is seeking a liquidity or capital-raising solution through what would traditionally be thought of as the private secondaries market.

## Market Doubles in Size to Approximately \$16 Billion

Lazard estimates that sponsored secondary transaction volume increased from approximately \$7 billion in 2016 to approximately \$16 billion in 2017. Approximately 50 transactions initiated by financial sponsors were closed in the secondary market, which is also a record by a substantial margin

Sponsored Secondary Market Volume Estimates (2014 – 2017)

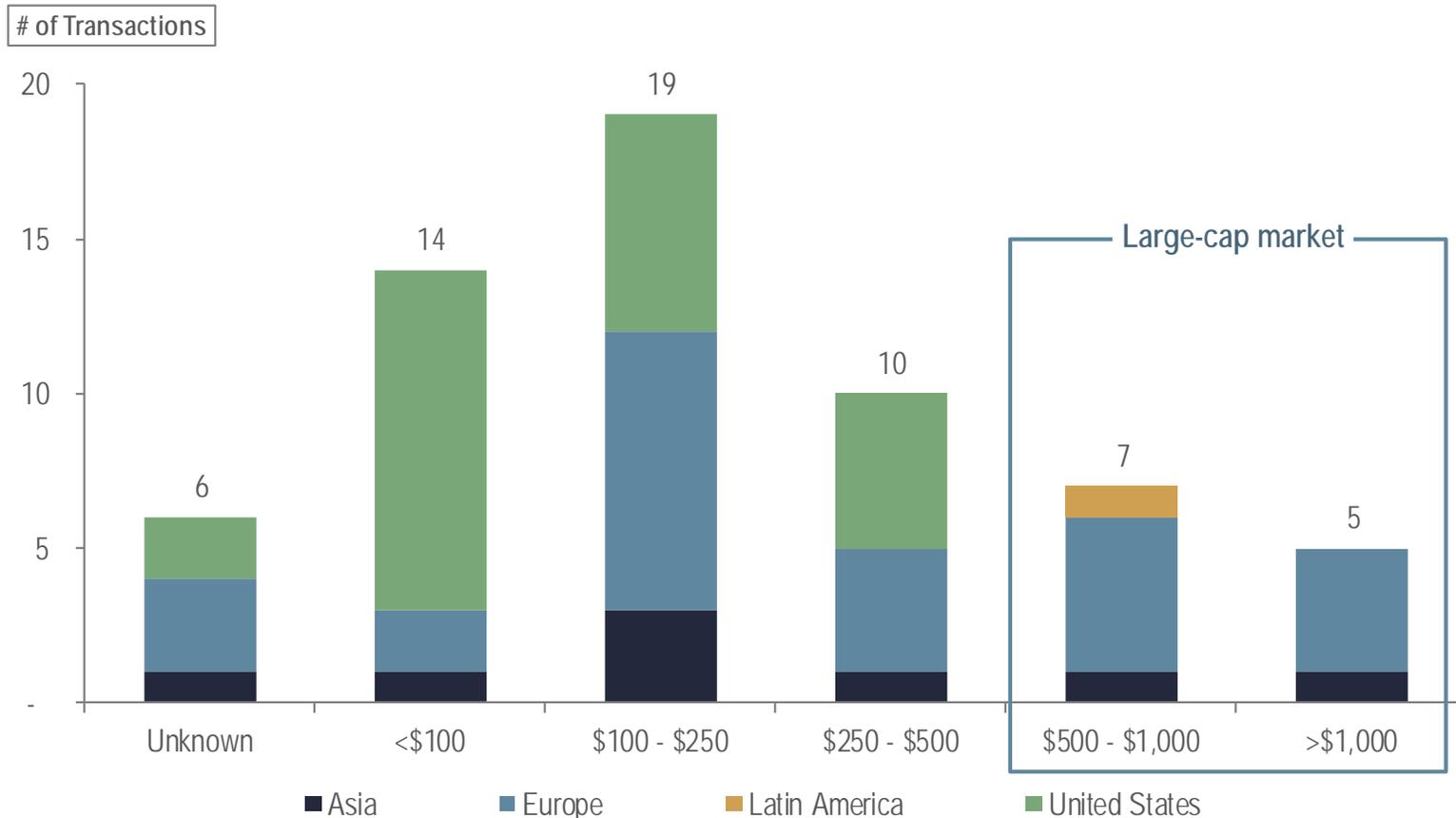


# The Year of the Big Sponsor Secondary

(\$ in millions, unless otherwise indicated)

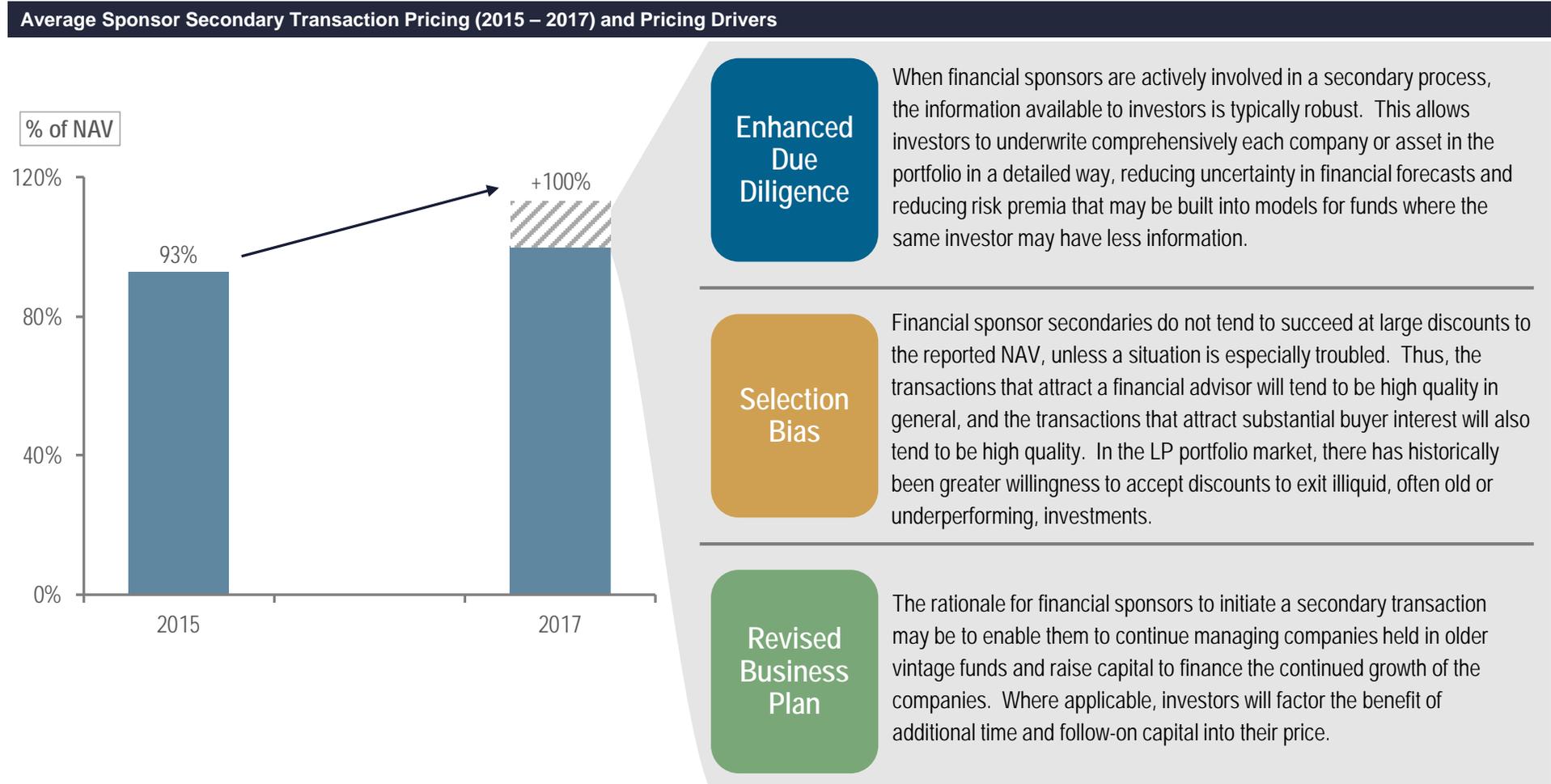
Investors and advisors have long waited for successful, large market financial sponsors to make use of the capital and transaction structures available through the secondary markets. We estimate that over 60 financial sponsor transactions came to market in 2017

## Sponsor Secondary Transactions – In The Market 2017<sup>1</sup> (Segmented by Geography and Size)



## Sponsored Secondary Market Pricing Continues to Be Strong

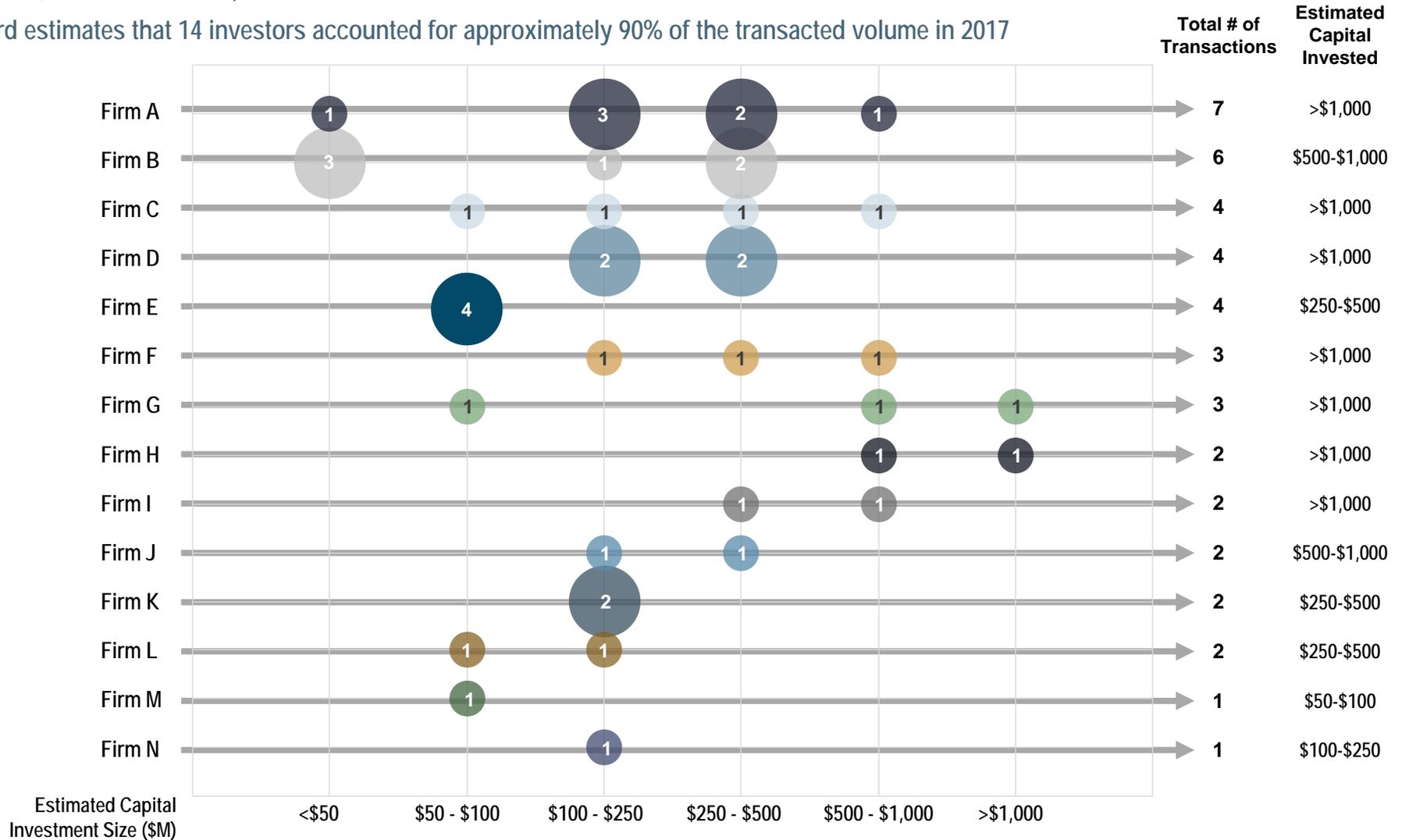
Sponsored secondaries tend to price close to the reported net asset value (“NAV”) of the fund/interest. Over the past two years, observed pricing<sup>1</sup> has increased from approximately 93% of NAV to over 100% of NAV. This year was the first year in which a premium to NAV was broadly observed across the market, reflecting the quality of financial sponsors executing transactions and the strength of secondary markets



# A Diversified Group of Secondary Investors Participated in 2017 Transactions

(\$ in millions, unless otherwise indicated)

Lazard estimates that 14 investors accounted for approximately 90% of the transacted volume in 2017



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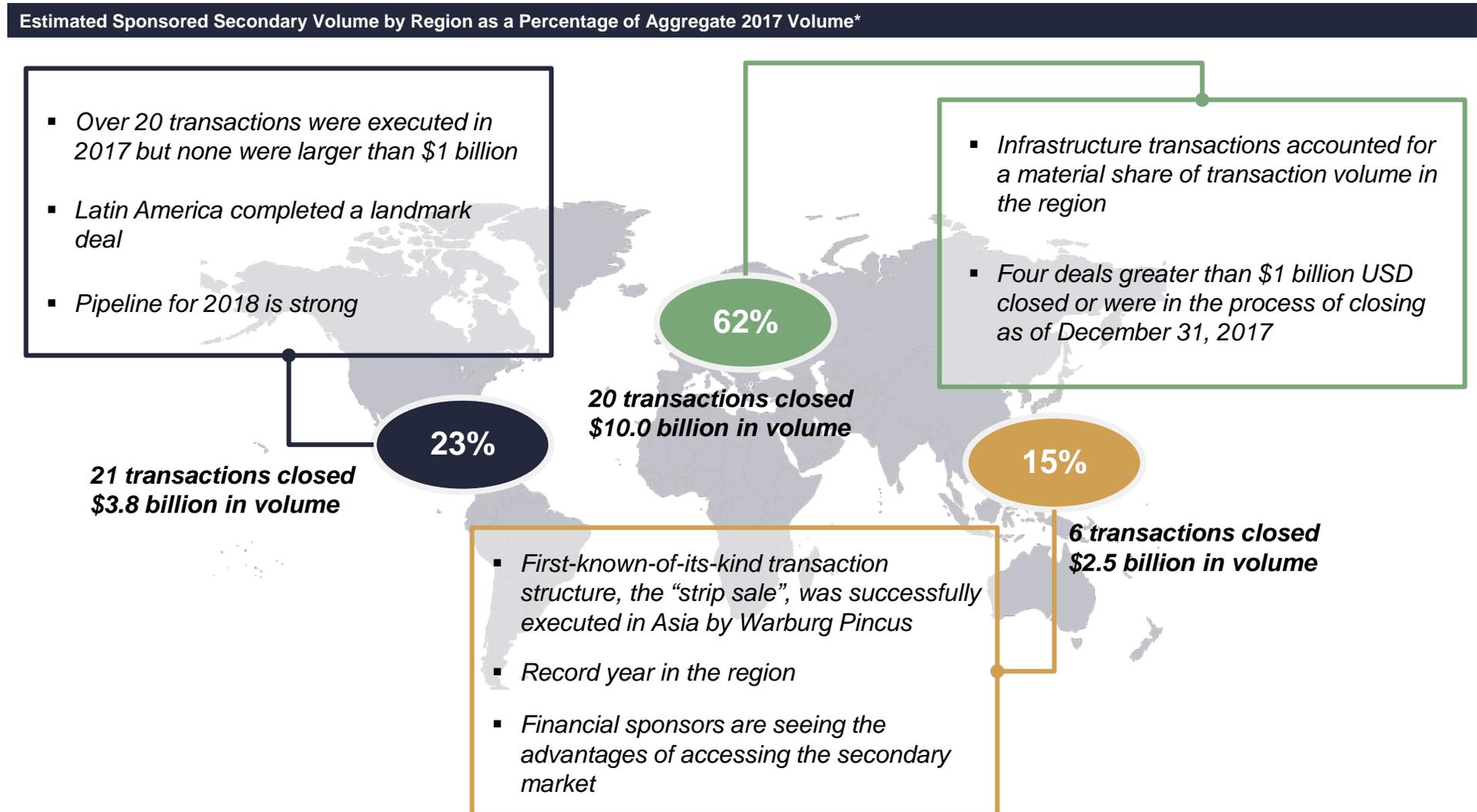


Source: Publicly Available Information, Private Equity International, Lazard Internal Estimates  
 Note: Includes transactions that closed or were in the process of closing as of December 31, 2017.

## Highlights by Region

(Number of transactions closed and dollar values by region are Lazard Internal Estimates)

Based on the transactions we tracked in 2017, Lazard estimates that Europe accounted for the majority of transaction volume in 2017



## Looking Ahead

- 1** **Sponsor secondaries market** could approach, if not exceed, **\$20 billion** in transacted volume in 2018
- 2** An **unprecedented number of large financial sponsors** could access the secondary market for liquidity and capital raising solutions, transactions that **involve over \$1 billion in NAV** may increase significantly
- 3** **Multiple large** transactions that involve **direct liquidity solutions for portfolio company** interests should be completed in 2018
- 4** **Sponsor secondaries in Asia** could substantially increase and the **US will likely overtake Europe** as the largest region in the market
- 5** More **limited partners will likely enter the market as potential “lead” investors** creating increased competition for secondary investment firms. The success of investors like APG, CPP and GIC in 2017 could **entice peers to add capabilities** in order to **participate more fully in the sponsor secondary market**

## Lazard Private Capital Advisory

is a trusted advisor committed to long-term relationships with clients by providing thoughtful and innovative private capital solutions through a globally integrated platform.

We are a global leader in raising capital, executing secondary transactions and providing capital solutions for private investment funds. Our group has built one of the broadest institutional investor coverage networks in the industry and has cultivated relationships with over 1,500 investing institutions globally.

### FOR OPPORTUNITIES OR FURTHER INFORMATION PLEASE CONTACT

#### Holcombe Green III

Managing Director and Global Head of Secondary Advisory  
[holcombe.green@lazard.com](mailto:holcombe.green@lazard.com)

#### EUROPE

##### Johanna Lottmann

[johanna.lottmann@lazard.com](mailto:johanna.lottmann@lazard.com)

##### Nicolas Vagner

[nicolas.vagner@lazard.com](mailto:nicolas.vagner@lazard.com)

#### AMERICAS

##### Ryan Binette

[ryan.binette@lazard.com](mailto:ryan.binette@lazard.com)

##### Alexander Mejia

[alexander.mejia@lazard.com](mailto:alexander.mejia@lazard.com)

##### Abhijit Mitra

[abhijit.mitra@lazard.com](mailto:abhijit.mitra@lazard.com)

#### ASIA

##### Nicholas Miles

[nicholas.miles@lazard.com](mailto:nicholas.miles@lazard.com)

##### Dominik Woessner

[dominik.woessner@lazard.com](mailto:dominik.woessner@lazard.com)

#### CHICAGO

300 North LaSalle St  
 Chicago, IL 60654  
 United States  
 +1 312 407 6600

#### LONDON

50 Stratton St  
 London W1J 8LL  
 United Kingdom  
 +44 20 7187 2000

#### LOS ANGELES

1999 Avenue of the Stars  
 Suite 1800  
 Los Angeles, CA 90067  
 United States  
 +1 310 601 3400

#### NEW YORK

30 Rockefeller Plaza  
 New York, NY 10112  
 United States  
 +1 212 632 6000

#### PARIS

121, Boulevard Haussmann  
 Paris Cedex 08  
 Paris 75382  
 + 33 1 44 13 01 11

#### SINGAPORE

1 Raffles Place  
 #25-01 Tower 1  
 One Raffles Place  
 Singapore 048616  
 +65 6534 2011