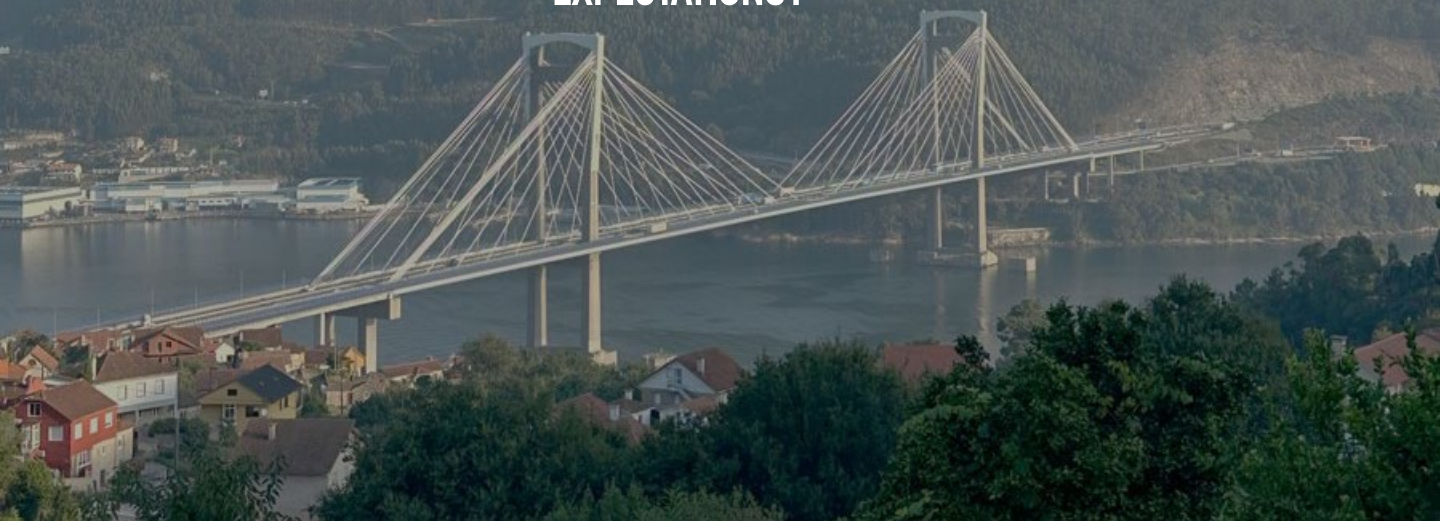


MULTIPLICITY PERSPECTIVES

Q2 / 2023

DEFERRED PAYMENTS: A SOLUTION TO BRIDGING THE GAP IN PRICING EXPECTATIONS?



THE REPRICING OF PUBLIC MARKETS LEFT INVESTORS QUESTIONING PRIVATE MARKET VALUATIONS

Hardly ever were pricing expectations between sellers and buyers as far apart as right now. There is a constant debate on the fair valuation of underlying investments. While one camp (generally the prospective secondary buyers) argues that private valuations should correct significantly to come in line with valuations in public markets, the other camp (generally the GPs and the prospective secondary sellers) argue that the modest correction in the valuations is proof of the superiority of private over public markets. The first camp has been waiting for quite some time for private market valuations to come down, but early indications of Q4 2022 valuations suggest that they might keep waiting some more.

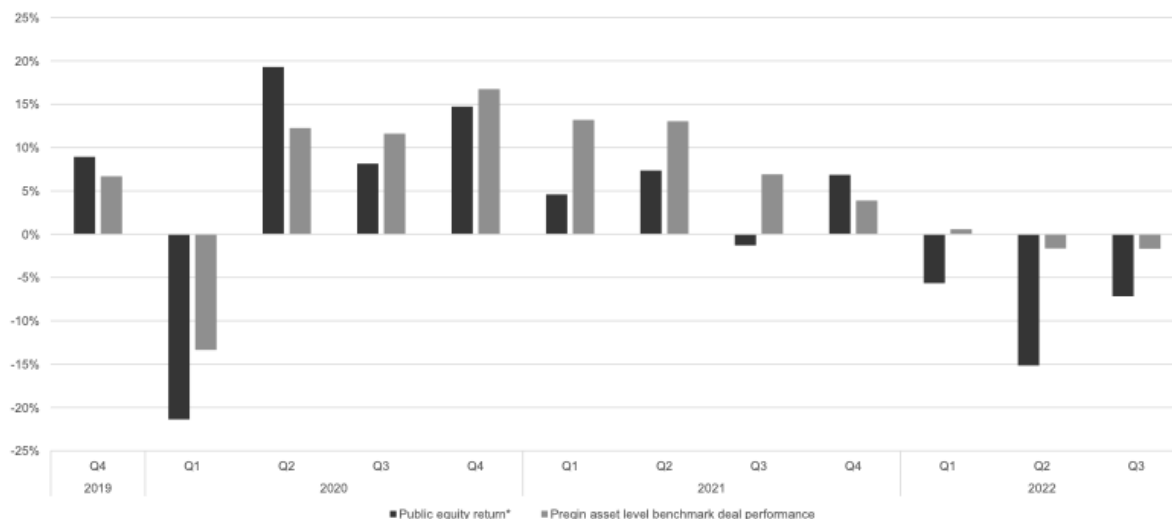


Figure 1: Quarterly changes in public and private market valuations
 (Source: Prequin SuperReturn Secondaries Conference; Prequin Asset level Benchmarks vs. ACWI ETF)

DISCOUNTS TO NAV ARE AT A 10-YEAR HIGH

While discounts to NAV have increased considerably during 2022, secondary deal volume also decreased markedly during the same year (but is still higher than the volume of any year earlier than 2021).

Anecdotally, many deals did not happen due to significantly different pricing expectations between sellers and buyers. According to Greenhill, the average transaction was priced at 81% of NAV, the lowest mark in the last 10 years, resulting in many potential sellers holding off – which in turn – as outlined above – results in subdued volumes.

So how can we facilitate transactions in a difficult environment with pricing expectations spread far around NAV?

BRIDGING THE PRICING GAP WITH DEFERRALS

Quite apparently, the pricing mismatch stands in the way of many transactions. One way to overcome the pricing discrepancy is to pay part of the purchase price with deferred payments, sometimes tied to the actual distributions of the transacted interest. This structure allows the seller to immediately dispose of the interest while still benefiting from the upside of the sold interest. This mechanism facilitates transactions where the buyer and the seller cannot agree on a specific purchase price as it finds a balance between the two opposing views. The deferral may also be tied to the buyer achieving a pre-agreed multiple on the initial investment.

According to Campbell Lutyens, deferred payments have become much more frequent and larger in 2022 with more than 40% of all deferred payments in excess of 60% of the total purchase price. The year earlier, only 13% of all deferrals were more than 60%!

Purchase price deferrals are viable for both GP-led and LP-led transactions.

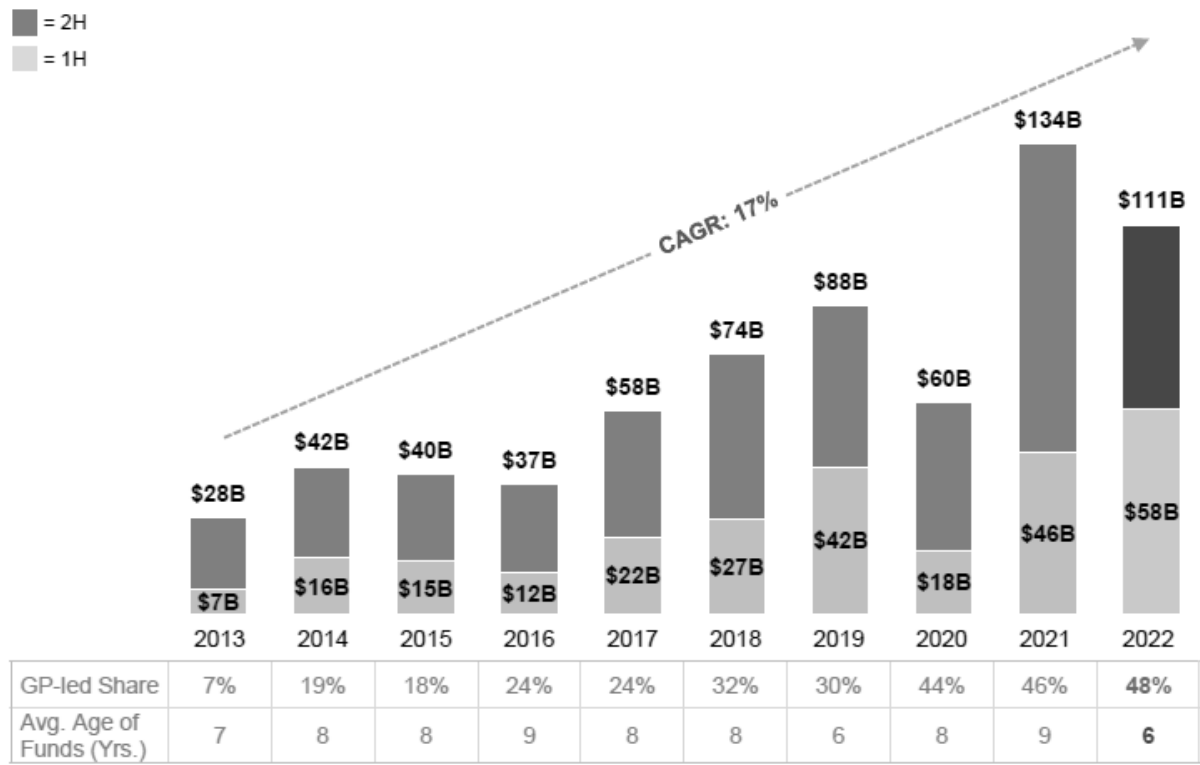


Figure 2: Secondary transactions volume
(Source: Greenhill Secondary Market Review)

MULTIPLICITY PARTNERS OFFERS DEFERRALS AND OTHER INNOVATIVE LIQUIDITY SOLUTIONS

At Multiplicity, we are in the buyers' camp but are eager to find fair and well-balanced solutions that consider both the seller's and the buyer's perspective. As such, we are fervent proponents of deferrals to offer attractive liquidity solutions to prospective sellers. In our view, offering an attractive upfront payment with a large deferral tied to future returns offers a well-balance solution to bridge the – nowadays considerable – gap in pricing expectations.

Deferrals are not an option when the seller is in liquidation and cannot accept future payments. The liquidity solutions that Multiplicity offers are often geared towards sellers in tail end positions that also happen to dissolve the seller after disposing the last remaining assets. Multiplicity offers alternative solutions to bridge the pricing gap with such sellers.



Do you have any questions or feedback for us? Please contact Christoph at cl@mpag.com, or call him on +41 44 500 4554.

Christoph is an investment manager with Multiplicity Partners and manages the firm's secondary investments in private credit funds and niche strategies. His further responsibilities are in deal origination. Upon joining Multiplicity in 2019, he expanded the company's sourcing and analytical capacity in private debt and niche strategies such as litigation funding and trade finance. Christoph has more than 20 years of experience in the financial industry and as a private investor.

ABOUT MULTIPLICITY PARTNERS

Multiplicity Partners is an investment firm specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010. The team has successfully completed more than a hundred transactions across a wide range of illiquid and complex financial assets. Each partner contributes more than 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets. Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

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Thanks to Janis Zv and Pexel for photo