

Q3 '23

# Growth Investor Survey

## Green Shoots

SEPTEMBER 2023



**Houlihan Lokey**

# Q3 '23 Growth Investor Survey: Green Shoots

**We surveyed 26 of the world's leading private market growth investors with over \$700B in assets under management (AUM)**—including Tier 1 growth equity, private/public “crossover,” PE growth, sovereign wealth, and family office institutions—for unique insight into current private capital market dynamics and what's to come.

**Following a sustained downturn, private market activity appears to have bottomed and engagement is expected to increase.** While conditions remain challenging, with reduced transaction volumes and normalised valuations, investors perceive “green shoots” pointing to a more constructive environment. Recovery will be tentative and uneven—a “new normal” without a return to 2020/2021 excess.

**Investors remain pessimistic regarding the macroeconomic environment,** with two-thirds expecting continued macroeconomic deterioration through the remainder of 2023. Investors expect elevated interest rates and the war in Ukraine to persist for at least nine months, posing sustained headwinds.

**Eight in 10 investors, however, expect the IPO window to reopen meaningfully by the end of 1H '24** following nascent activity in the US and Europe. A sustainable recovery in listings will depend on the performance of first movers. IPOs remain a critical enabler for the growth capital ecosystem, listing the preferred exit for six in 10 investors.

**From a reduced base, private market activity levels are increasing.** Two-thirds of investors expect to increase their volume of dealmaking in the remainder of the year, compared with 1H '23, and the same proportion anticipates more companies coming to market. More holistically, after a sustained downturn, two-thirds of investors expect a return to firmer private market conditions in 1H '24. Investor appetite remains bifurcated, necessitating careful targeting by founders. Investors' selectivity remains heightened, while fundraises remain longer and include more thorough diligence.

**In investors' minds, valuations have reset and largely stabilised.** In the months ahead, most expect to offer valuations consistent with the recent past. Discount rates on convertible loan notes (CLNs) have returned to historic norms (20%–25%). While some valuation misalignment with founders persists, just one in 10 investors perceives a gulf. A majority of transactions include enhanced structure—with >1x non-participating liquidation preferences, PIK coupons, and penny warrants frequently employed. Bid/ask spreads on secondaries have narrowed, increasing the scope for secondary transactability going forward.

**Investors expect a focus on efficiency to persist into 2025 or beyond.** None expect a rapid reversion to a “growth at any cost” environment. Profitable, earlier-stage opportunities are attracting a greater share of engagement, while, thematically, SaaS, energy transition, and AI are attractive to many. While ChatGPT and generative AI refocused attention on machine learning, a majority of investors caution that excitement regarding AI may be excessive in the short term and the power of Big Tech in AI is being underestimated by many scale-ups.

[→ Next. Summary](#)

# Q3 '23 Growth Investor Survey: Green Shoots

## Summary (1/2)



Macroeconomic pessimism persists

- Macro pessimism remains considerable. Two-thirds of investors expect macroeconomic conditions to weaken further through the remainder of 2023.
- Eight in 10 investors expect interest rates in the US to remain elevated (above 4%) for nine or more months.
- Two-thirds of investors believe the war in Ukraine will continue to impact global financial markets for nine or more months. A quarter expect the impact of the conflict to persist into 2025.
- 1H '23 banking distress (Silicon Valley Bank, First Republic, Credit Suisse) tightened access to liquidity/lending and extended a “risk-off” mentality in the short term—but had limited long-term impact on the growth equity market.
- Investors’ outlook for IPOs is more positive. Eight in 10 investors expect the IPO window to reopen substantially by the end of Q2 '24 or before.



Private market activity is increasing

- Conditions remain challenging and activity levels reduced. But following a bottoming in activity, investors report an uptick in engagement.
- Two-thirds of investors expect to increase their volume of dealmaking in new opportunities in the remainder of the year, compared with 1H '23.
- Three-quarters of investors expect more companies to come to market in the rest of the year than in 1H '23.
- After a sustained downturn, two-thirds of investors anticipate firmer private market conditions in 1H '24. Just a quarter of investors expect weaker conditions to persist into 2H '24.
- Investor engagement is bifurcated, with six in 10 leaning into perceived opportunity and a quarter remaining cautious, necessitating careful targeting.
- Fundraises remain longer and include more thorough diligence.
- Six in 10 investors now frequently or almost always suggest their portfolio companies hire a financial advisor to help them fundraise.



Valuations have reset and largely stabilised

- In investors’ minds, valuations have largely reset and stabilised.
- Six in 10 investors expect to offer valuations in the remainder of 2023 broadly consistent with, or higher than, those offered in 1H '23. Almost no investors expect to offer materially lower valuations.
- Discount rates on CLNs have returned to historic norms, with two-thirds of investors expecting 20%–25% discount rates in CLNs.
- Some valuation misalignment with founders persists, with two-thirds of investors believing founders’ expectations remain misaligned with their own, but just one in 10 investors perceives a gulf.
- Use of structure remains widespread, with a majority of transactions incorporating elements beyond 1x non-participating liquidation preference.
- Enhanced (e.g. 1.5x) non-participating liquidation preferences, PIK coupons, penny warrants, and minimum return thresholds are the most popular mechanisms for investors to limit downside or enhance returns.

# Q3 '23 Growth Investor Survey: Green Shoots Summary (2/2)



“Post-reset” strategies prevail; SaaS and efficiency are priorities

- No investors expect a rapid reversion to a “growth at any cost” environment. A majority expect the refocus on efficiency to persist into 2025 or beyond.
- Investors continue to lean into “post-reset” strategies, with a focus on profitable, earlier-stage companies with recurring revenue models and increased use of transaction structuring.
- Many investors are prioritising “Rule of 40” or greater SaaS companies with durable business models and resilient end markets. Energy transition and AI are also attractive.
- Unproven business models, high burn, lending, crypto, and emerging market propositions are more challenging for many. Consumer-focused funds are leaning into resilient, brand-led propositions with robust end markets.



In AI, “Big Tech” is underestimated

- ChatGPT and generative AI refocused attention on machine learning and have driven high demand for infrastructure AI and AI applications.
- While AI’s potential is significant, a majority of investors believe excitement in the short term is excessive.
- Investors believe we are early in the AI cycle and caution that the power of Big Tech in AI is being underestimated.
- The lack of proprietary data sources and reliance on API connectivity to OpenAI will be challenges for many AI scale-ups.



Bid/ask spreads on secondaries have narrowed

- In a market in which valuations have reduced, secondary buyers outnumber sellers. But appetite to buy and sell varies widely across the investor base.
- Buying blocks is a priority for a quarter of investors.
- Selling blocks is a low priority for eight in 10 investors, but a high priority for one in five.
- Bid/ask spreads on secondaries have narrowed, with a quarter of buyers and sellers aligned on a typical discount of 20% to transact.
- A majority of buyers are seeking 20%–30% discounts, while a majority of sellers are offering 10%–20% accommodations.
- The market remains thin at the extremes, with a quarter of buyers seeking 40%–50% discounts and a fifth of sellers offering no discount, finding few (one in 20) counterparties.



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# 1

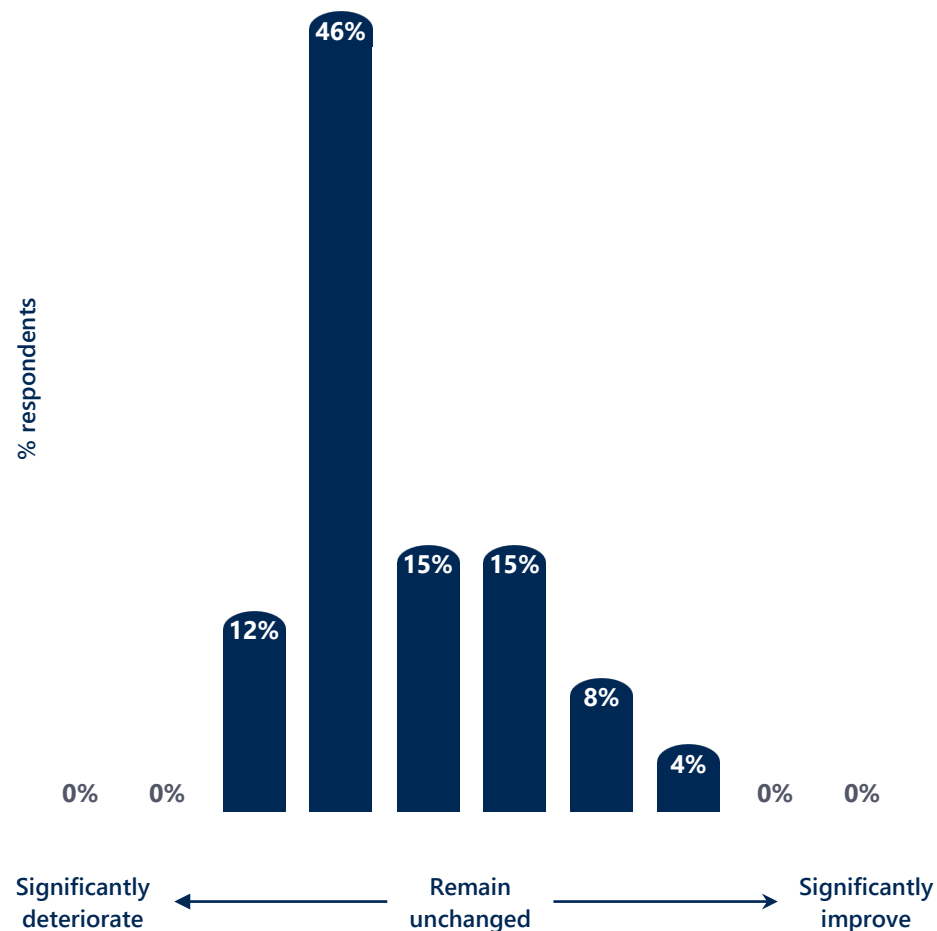
## Macroeconomic Pessimism Persists

- Macro pessimism remains considerable, with two-thirds of investors expecting macroeconomic conditions to weaken further through the remainder of 2H '23.
- Eight in 10 investors expect interest rates in the US to remain elevated (above 4%) for nine or more months.
- Two-thirds of investors believe the war in Ukraine will continue to impact global financial markets for nine or more months. A quarter expect the impact of the conflict to persist into 2025.
- Investors' outlook for IPOs is more positive. Amidst green shoots, eight in 10 investors expect the IPO window to reopen substantially by the end of Q2 '24 or before.
- 1H '23 banking distress (Silicon Valley Bank, First Republic, Credit Suisse) tightened access to liquidity and lending while contributing to a "risk-off" mentality in the short term—but had limited long-term impact on the growth equity market.

# Few Expect Macro Conditions to Improve in 2H '23

- Macro pessimism remains considerable, with two-thirds of investors expecting macroeconomic conditions to weaken further through the remainder of 2H '23. Just one in 10 investors expect meaningful macro improvement in the remainder of the year.
- The outlook is consistent across investor categories, with growth equity, PE growth, and crossover investors' expectations aligned.
- While inflation in the US and Europe is falling, investors expect elevated interest rates and the ongoing war in Ukraine to continue to weigh on activity. Amidst macroeconomic headwinds, in the US, there is nonetheless increasing hope of a "soft landing," supported by somewhat resilient consumer spend and corporate earnings.

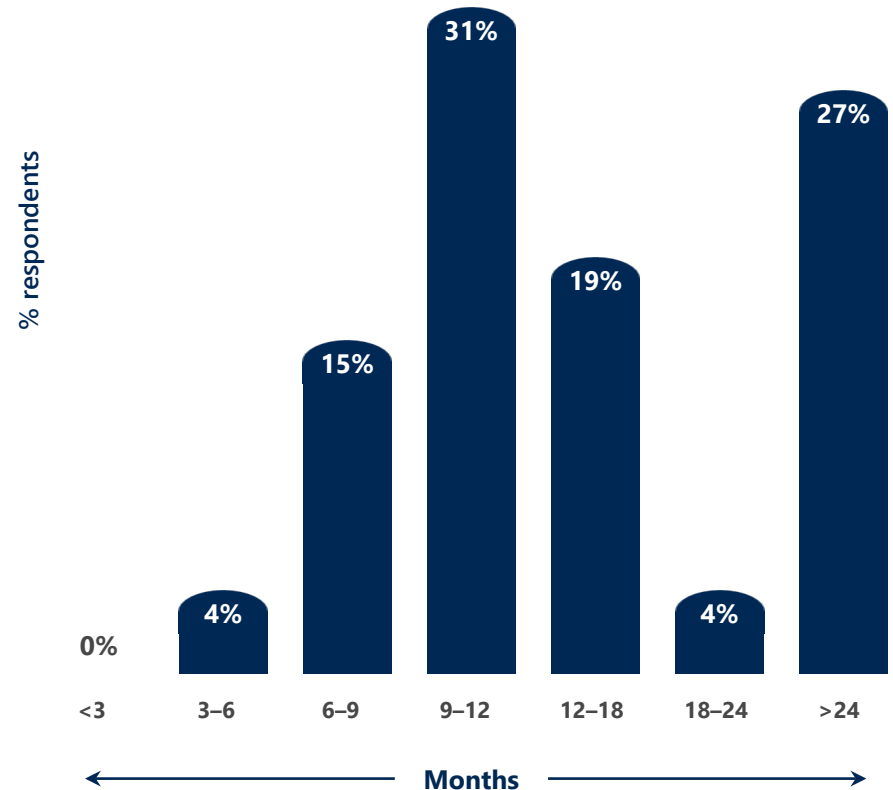
"I expect macroeconomic conditions in 2H 2023 to..."



# US Interest Rates Are Expected to Remain Elevated

- With inflation readings falling in the US and now UK, most analysts believe the Federal Reserve is at the tail end of its tightening cycle.
- Eight in 10 investors nonetheless expect interest rates in the US to remain elevated—above 4%—for nine or more months. Half anticipate rates of over 4% for 12 or more months. And over a quarter of investors expect rates over 4% to persist for 24 months or longer.
- With the cost of capital expected to remain elevated, investors continue to prioritise efficient growth, profitability or a rapid path to it, and capital-efficient business models.

“I expect US interest rates to remain over 4% for...”

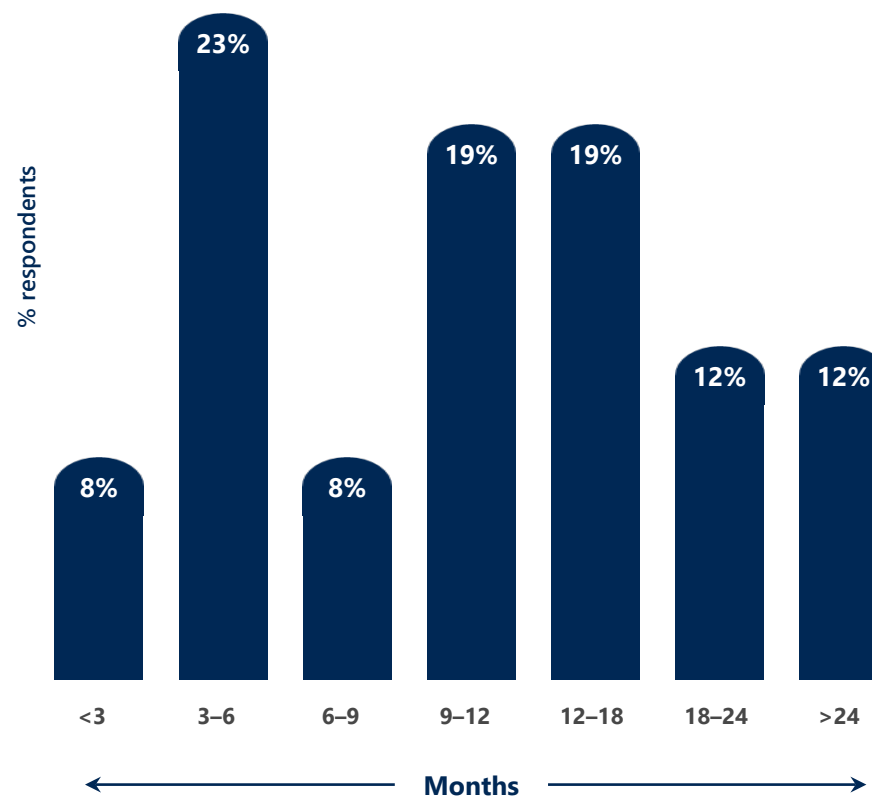




# War in Ukraine Will Continue to Weigh on Financial Markets

- Nearly two-thirds of investors believe the war in Ukraine will continue to impact global financial markets for nine or more months. A quarter expect the impact of the conflict to persist beyond next year, into 2025.
- Conversely, a third of investors now expect rapid (<6 month) resolution—or at least for the impact of the conflict on financial markets to moderate within that time.
- Yevgeny Prigozhin’s actions highlighted weaknesses in the Russian war effort and, to some, raised hopes of rapid resolution. But multiple factors—including Russia’s incentive to maintain the conflict through the US presidential election in November 2024, the challenges of the Ukrainian counteroffensive, and unclear scenarios for resolution—imply the impact of the war will likely persist for a considerable time.

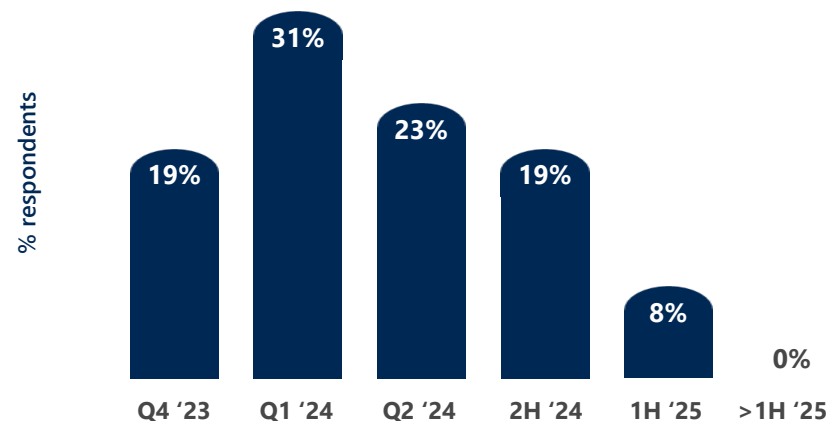
“War in Ukraine will continue to impact global financial markets for...”



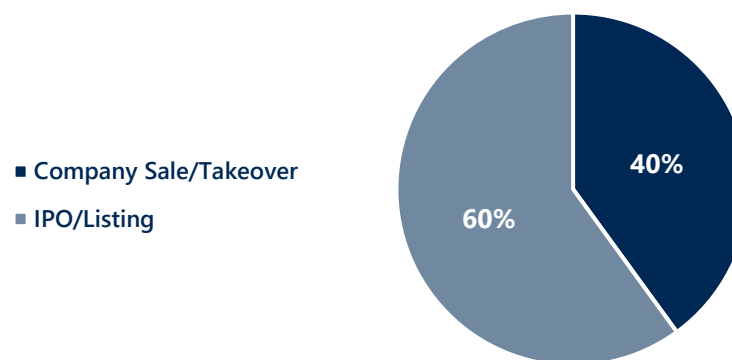
# Scope for IPO Window to Reopen in 1H '24

- Post-summer, US and European IPO markets have shown modest but increasing signs of activity, including the recent listings of ARM, Instacart and Klaviyo.
- Many investors seek assurance that (i) companies' 2023 trading had been stronger and more consistent than in 2022 and (ii) post-IPO performance of first movers is positive. Accordingly, just a fifth of investors anticipate a wide reopening of the IPO window in the remainder of the year.
- However, with companies' 2023 financial results pending and several post-summer listings completed or underway, investors' outlook for 2024 is optimistic.
- A third of investors expect a wider IPO window in Q1 '24, while a quarter look to Q2 '24. A fifth expect broader activity in 2H '24. Just one in 10 investors expect IPO activity to remain muted into 2025.
- Performance of "bellwether" first movers will be a significant catalyst or headwind to the pace of IPO recovery.
- IPOs remain critical to the growth equity ecosystem. A listing remains the preferred exit route for six in 10 investors' companies. Four in 10 investors favour a company sale or takeover. No investors highlighted secondary sales as a preferred route for exit.

## "I expect the IPO window to remain limited until..."



## "What is your preferred exit route for portfolio companies?"



# Banking Distress Had a Limited Long-Term Impact on the Growth Equity Market

- Most investors believe 1H '23 distress in the banking market (Silicon Valley Bank, First Republic, Credit Suisse, Signature Bank and more) tightened access to liquidity and lending, particularly given the *“crucial role that Silicon Valley Bank and others played in financing and supporting growth stage companies”*<sup>(1)</sup> in both growth and buyout processes. Furthermore, concerns regarding contagion were top of mind.
- The greater impact, however, was *“largely to sentiment.”* *“Higher uncertainty”* and fear regarding the strength of the US economy all extended *“risk-off”* posture in the short term—but had limited impact on the growth equity market in the long term.<sup>(1)</sup>



# 2

## Private Market Activity Is Increasing

- Investors report activity levels that have bottomed and a modest uptick in activity from a reduced base.
- Two-thirds of investors expect to increase their volume of dealmaking in new opportunities in the remainder of the year, compared with 1H '23.
- Three-quarters of investors expect more companies to come to market in the rest of the year than in 1H '23.
- After a sustained downturn, two-thirds of investors anticipate firmer private market conditions in 1H '24. Just a quarter of investors expect weaker conditions to persist into 2H '24.
- Investor engagement is bifurcated, with six in 10 leaning into perceived opportunity and a quarter of investors remaining cautious, necessitating careful investor targeting.
- Fundraises remain longer and require more thorough diligence.
- Chat GPT and generative AI refocused attention on machine learning and have driven high demand for infrastructure AI and AI applications.
- Six in 10 investors now frequently or almost always suggest their portfolio companies hire a financial advisor to help them fundraise.



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# Conditions Remain Challenging, but Engagement Is Increasing

- Private market conditions remain challenging, with “post-reset” volumes significantly reduced and lower conversion of investor engagement to deployment.
- Fundraises are longer, with less scope for timeline compression and more thorough diligence.
- However, investors report activity levels that have bottomed and a modest uptick in activity.
- Chat GPT and generative AI refocused attention on machine learning and drove demand for infrastructure AI and AI applications.
- Now, unevenly, broader market dynamics are showing “green shoots” of increased activity.

## Private market conditions remain challenging...

“Picked up a bit but still slow”

“Lethargic”

## ...but activity is thawing

“We’re finally seeing signals of activity bottoming”

“We’re more active, albeit careful”

## Chat GPT and generative AI refocused attention on AI

“It’s a tale of two cities—AI companies vs. others”

“Activity in AI is blistering”

## Fundraises remain longer and require more diligence

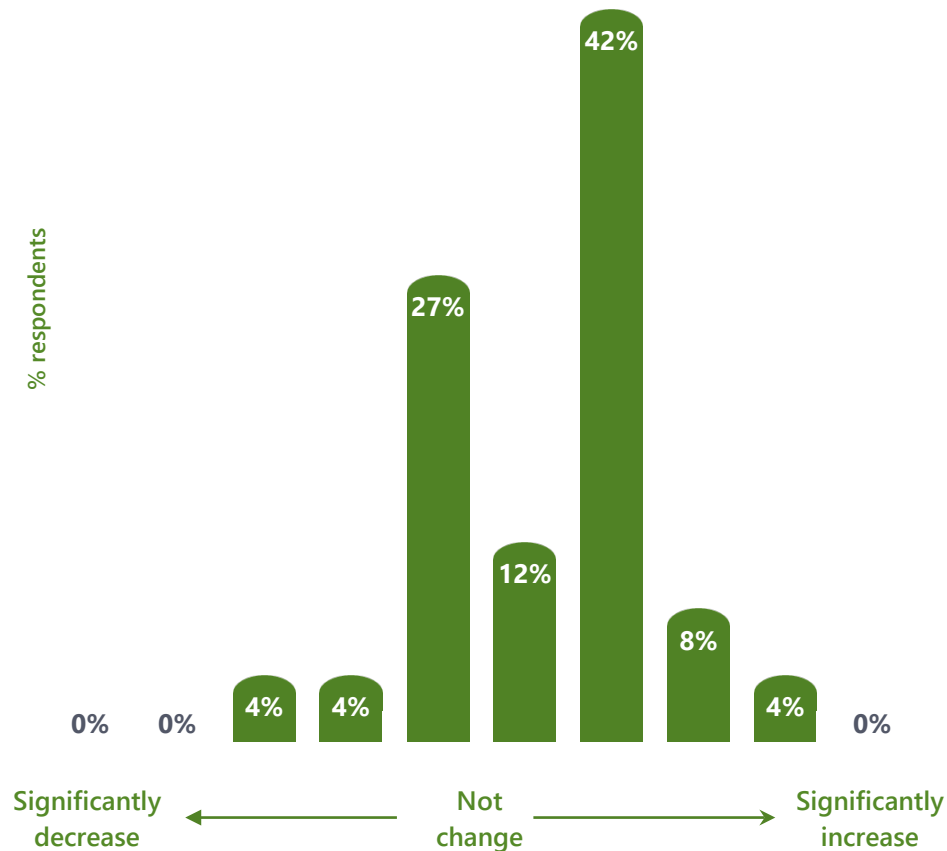
“Investors are being more thoughtful on diligence”

“Longer processes and harder negotiations for founders”

# Investors Expect to Increase Activity in the Remainder of 2023

- Two-thirds of investors expect to increase their volume of dealmaking in new opportunities in the remainder of 2023, compared with the first half of the year. Just one in 10 expect to moderate their activity, and none expect a significant reduction.
- Investors plan to selectively increase deployment following an extended period of reduced activity, an increasing volume of high-quality companies coming to market, more accessible valuations, companies with improved efficiency, and attractive thematic opportunities in SaaS, AI, and energy transition.

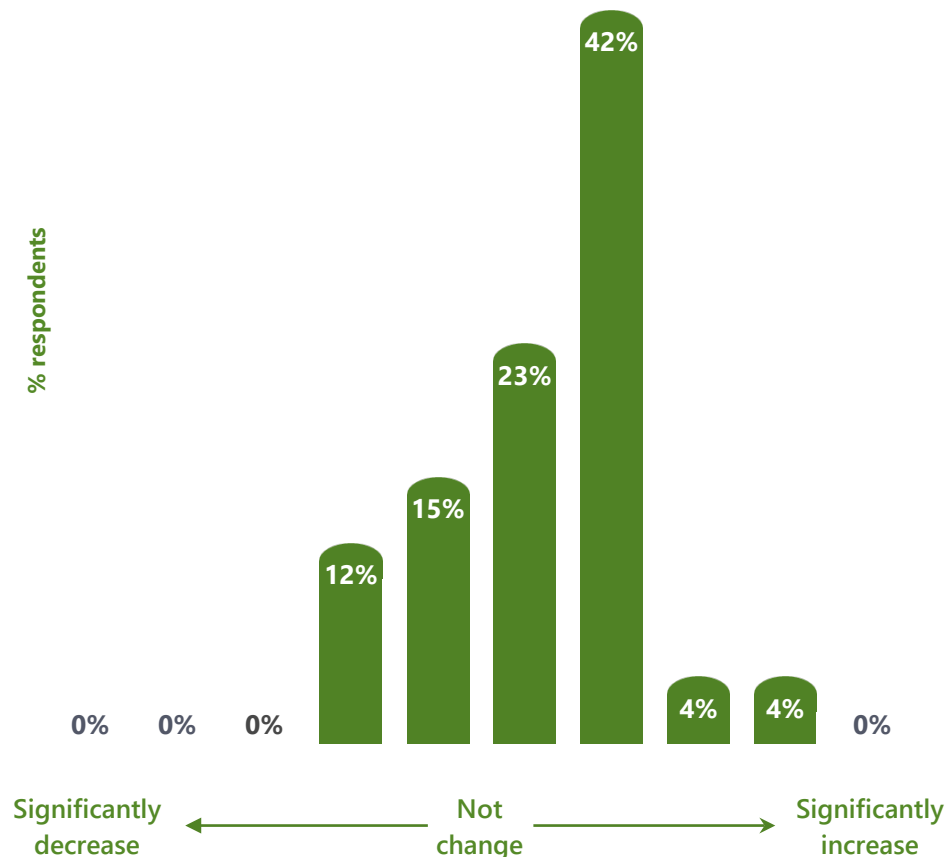
“Compared with 1H 2023, in the remainder of 2023, the volume of investments I will make in new opportunities will...”



# More Companies Are Expected to Come to Market

- Three-quarters of investors believe a greater number of companies will come to market in the remainder of 2023, compared with the first half of the year, with a majority expecting a meaningful increase in flow. No investors expect a reduction in supply.
- Investors expect activity to increase as a growing proportion of unprofitable companies that raised capital 18–24+ months ago seek runway extension and as attractively positioned companies seek firepower for continued growth and M&A in a valuation environment that is stabilising.

“Compared with 1H 2023, in the remainder of 2023, I expect the volume of companies coming to market to...”

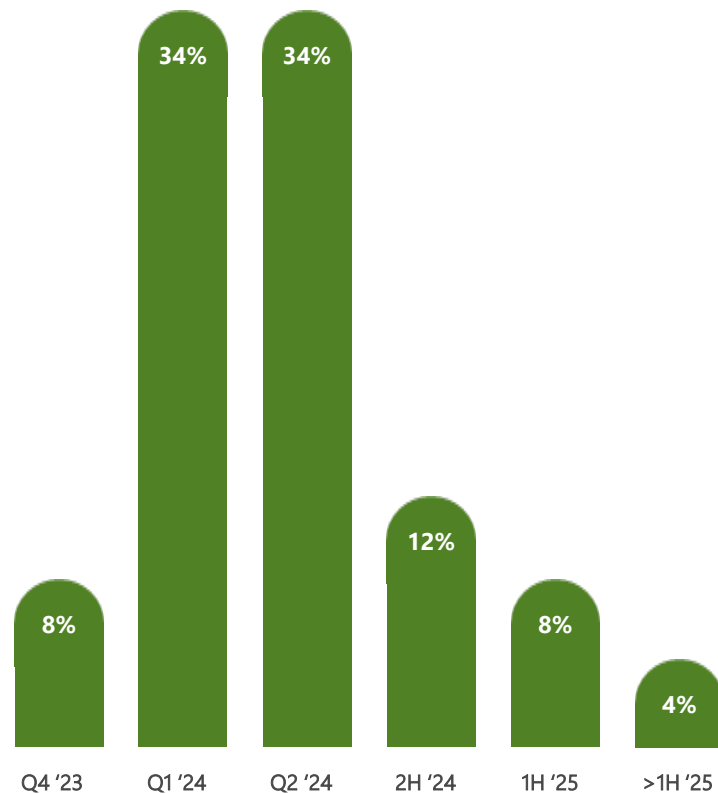




# Private Market Activity Levels Should Improve in 1H '24

- Nine in 10 investors believe softer private market conditions will persist into 2024.
- Two-thirds of investors, however, anticipate a pickup in 1H '24. Just a quarter of investors expect weaker conditions to persist into 2H '24 or beyond.
- Private capital markets typically lag public market dynamics by approximately six months and have been in a sustained downturn since Q2 '22. Conditions remain challenging; however, given falling inflation, (albeit uneven) green shoots in Nasdaq performance, and expectations that the IPO window will reopen substantively in 1H '24, most investors are cautiously optimistic that more benign private capital market conditions will emerge in 1H '24.

**"I expect current, softer private market activity levels to persist until..."**



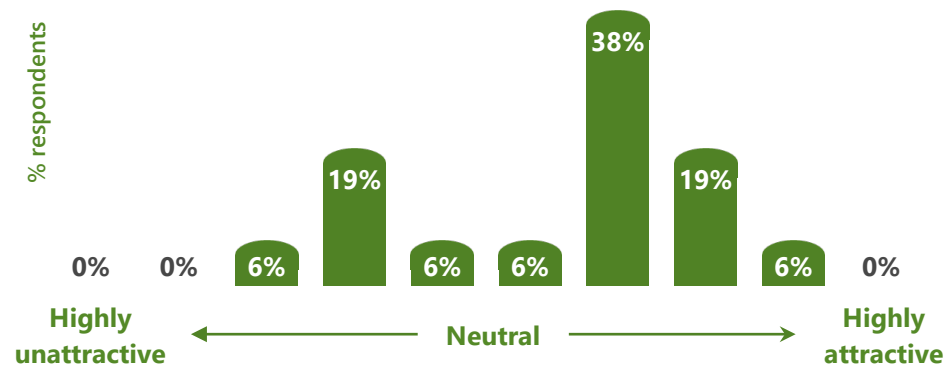


# Investor Appetite Is Bifurcated

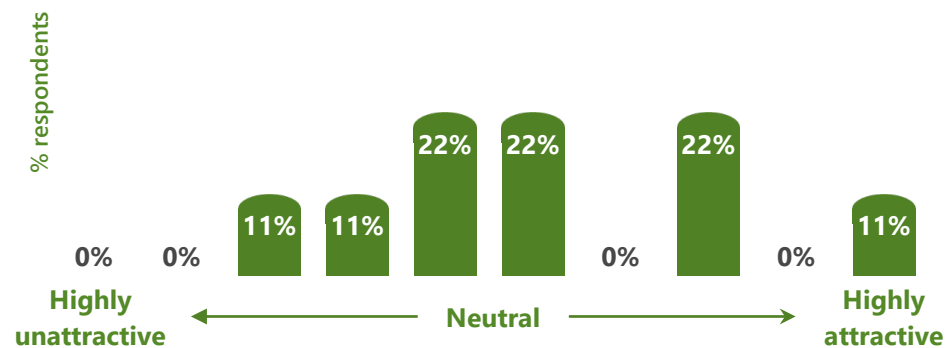
- Current private market conditions present a somewhat, or very, attractive investment opportunity for six in 10 investors. A quarter of investors, by contrast, are cautious.
- Dedicated growth equity firms (with a private market focus) and sovereign wealth funds (with deep pockets) are more likely to perceive opportunity in current conditions. PE growth investors are mixed in their views, while public/private crossovers and family offices remain more cautious. Divergence is also pronounced within categories, with selected institutions leaning in while others step back.
- Varying appetite, between and within investor categories, highlights the importance of careful investor targeting for founders—with detailed knowledge of institutions and individuals a prerequisite for success.

“Current private market conditions represent an... investment opportunity.”

## Growth Equity Institutions



## PE Growth Institutions

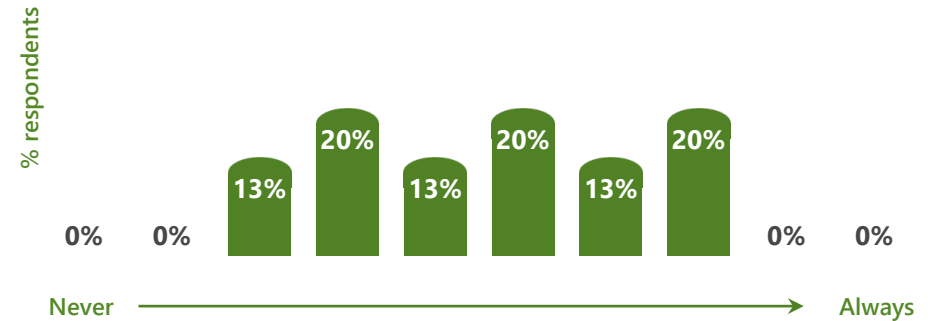


# Six in 10 Investors Suggest Portfolio Companies Hire a Financial Advisor

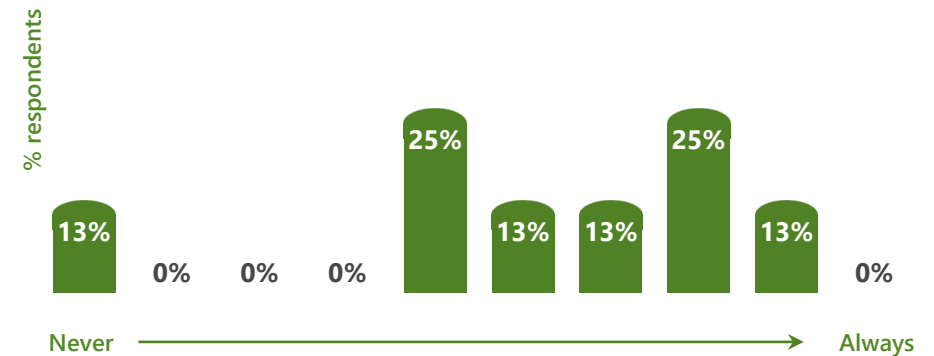
- Six in 10 investors now frequently or almost always suggest their portfolio companies hire a financial advisor to help undertake a fundraising.
- While PE growth investors, familiar with advisors given their ubiquity in M&A processes, more frequently suggest advisors for fundraising, a majority of growth equity investors now sometimes or often recommend working with an advisor.

I would suggest that a portfolio company hires a financial advisor to help them with a fundraising.

## Growth Equity Institutions



## PE Growth Institutions



# 3

## Valuations Have Reset, Structure Remains Widespread

- In investors' minds, valuations have largely reset and stabilised.
- Six in 10 investors expect to offer valuations in the remainder of 2023 broadly consistent with, or higher than, those offered in 1H '23. Almost no investors expect to offer materially lower valuations.
- Discount rates on CLNs have returned to historic norms, with two-thirds of investors expecting 20%–25% discount rates in CLNs.
- Some valuation misalignment with founders persists, with two-thirds of investors believing founders' expectations remain misaligned with their own, but just one in 10 investors perceives a gulf.
- Use of structure remains widespread, with a majority of transactions incorporating elements beyond 1x non-participating liquidation preference.
- Enhanced (e.g. 1.5x) non-participating liquidation preferences, PIK coupons, penny warrants, and minimum return thresholds are the most popular mechanisms for investors to limit downside or enhance returns.

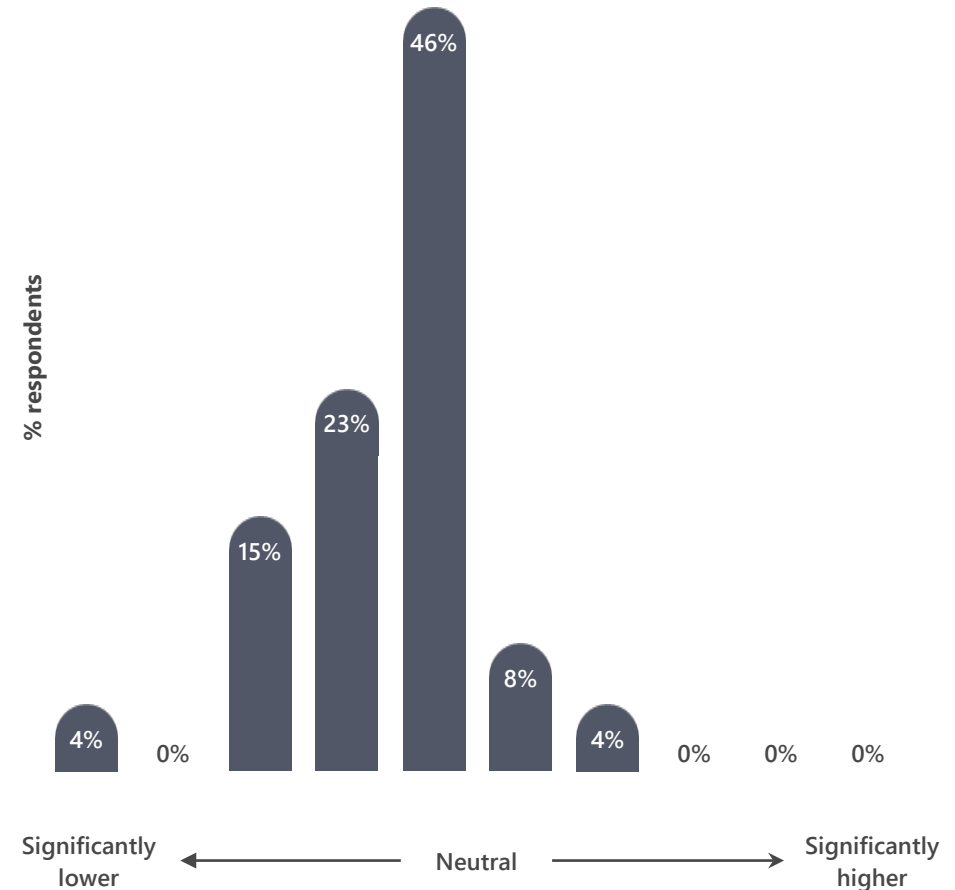


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# Valuations Have Largely Reset

- In the months ahead, six in 10 investors expect to offer valuations broadly consistent with, or slightly higher than, in the recent past (1H '23).
- Four in 10 investors will offer valuations somewhat, but not considerably, lower. Almost no investors plan on offering valuations in the remainder of 2023 that are significantly lower than those offered in recent months.

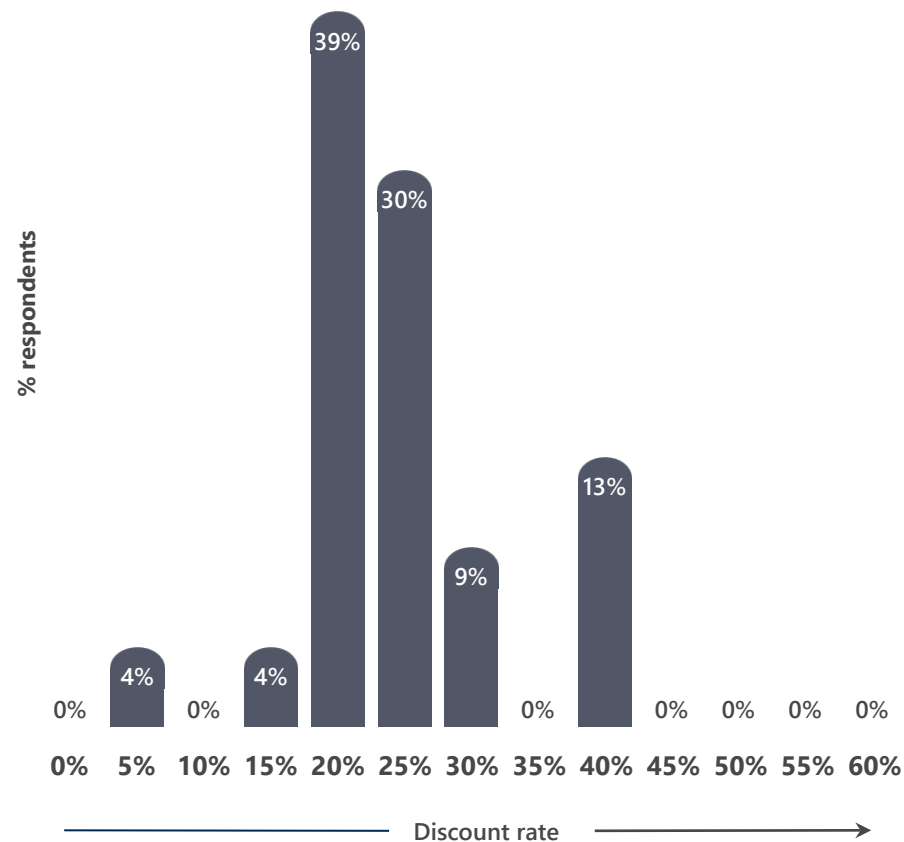
“Compared with 1H '23, in the remainder of 2H '23, valuations I offer will be...”



# Discount Rates on CLNs Have Normalised to 20%–25%

- As markets reset in 1H '22, the range of discount rates attached to CLNs widened considerably.
- Discount rates have now mostly returned to historic norms, with two-thirds of investors expecting a 20%–25% discount on a CLN.
- Three-quarters of investors anticipate a 15%–30% discount. Just one in 10 investors expects a materially higher (40%) accommodation.

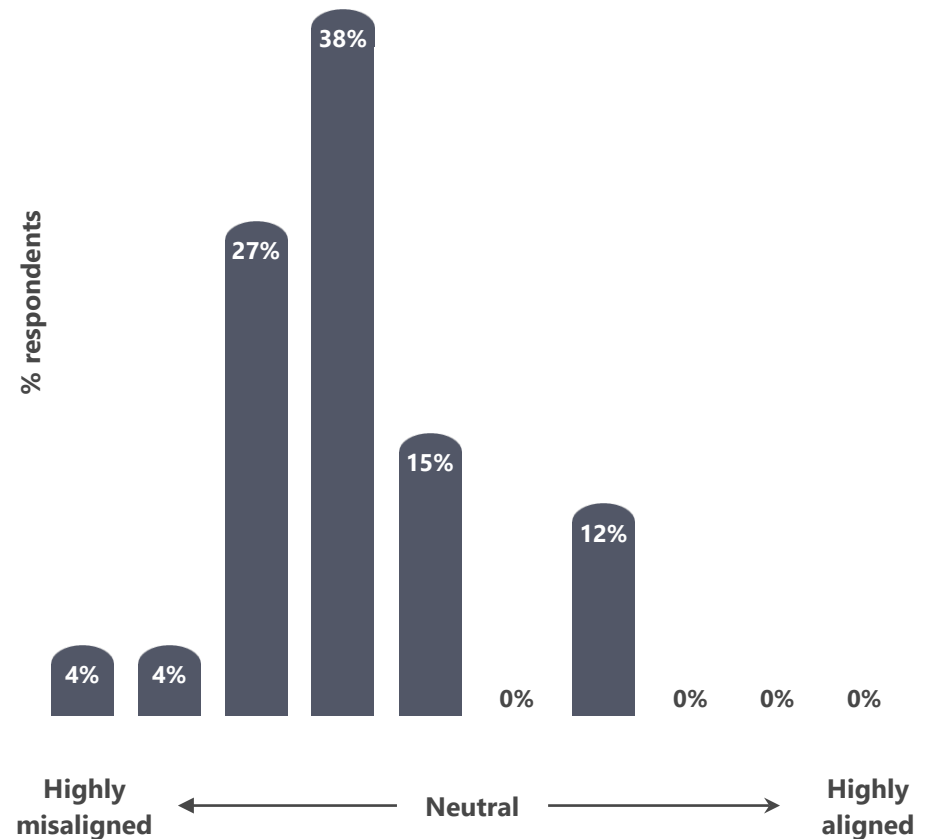
“The typical discount I would expect on a convertible loan note is...”



# Valuation Misalignment Persists but Has Reduced

- Two-thirds of investors believe that founders' valuation expectations are still somewhat misaligned with their own. However, just one in 10 investors perceives a significant gulf.
- Investor perceptions are consistent across investor categories (growth equity, PE growth, and crossovers).
- Leading companies continue to command a premium valuation. Rapidly expanding companies may grow into valuations established during the market peak over time, while structure can support an enhanced headline valuation. However, many companies recognise that a return to 2020/2021 valuations is unlikely in the short to medium term.

“Founders’ valuation expectations are currently... with investors.”



# Enhanced Structuring Remains Widespread

- Investors report that a majority of transactions in which they participate contain additional structuring beyond a 1x non-participating liquidation preference.
- Enhanced (e.g. 1.5x) non-participating liquidation preferences, PIK coupons, penny warrants, and minimum return thresholds are the most popular mechanisms for investors to limit downside or enhance returns.
- While structuring is widespread, for many investors, *"price remains the best downside protection."*<sup>(1)</sup> Given scope for misalignment in the future, few investors seek to engage in highly aggressive structuring that would enable a deal that is fundamentally mispriced.

"My preferred tools for enhanced structuring are..."



# Debt Must Be Appropriate and Carefully Managed

Investors believe that when appropriate and carefully managed, debt can be a *“highly effective tool.”*<sup>(1)</sup>

But the use of debt is *“inappropriate unless a company is profitable and has genuine, associated debt capacity”* and can be *“catastrophic”* if not appropriately managed.<sup>(1)</sup>





# 4

## 'Post Reset' Strategies Prevail, Efficiency and SaaS Are Priorities

- No investors expect a rapid reversion to a "growth at any cost" environment, with a majority expecting the refocus on efficiency to persist into 2025 or beyond.
- Investors continue to lean into "post-reset" strategies, with a focus on profitable, earlier-stage companies with recurring revenue models and increased use of transaction structuring.
- Many investors are prioritising "Rule of 40" or greater SaaS companies with durable business models and resilient end markets. Energy transition and AI are also attractive.
- Unproven business models, high burn, lending, crypto, and emerging market propositions are more challenging for many. Consumer-focused funds are leaning into resilient, brand-led propositions with robust end markets.
- While AI's potential is significant, a majority of investors believe the current excitement is excessive. Investors caution that the power of Big Tech in AI is underestimated. The lack of proprietary data and reliance on OpenAI APIs will challenge many scale-ups.

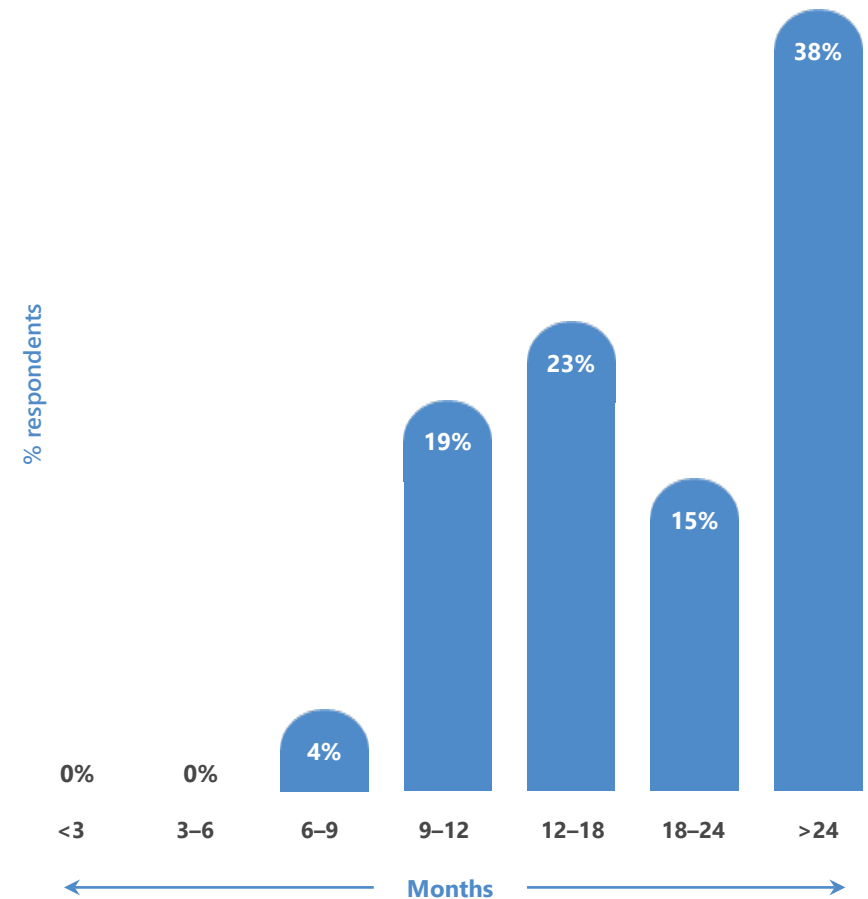


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# Focus on Efficiency Is Here to Stay

- No investors expect a rapid reversion to a “growth at any cost” environment, with a majority expecting the refocus on efficiency to persist into 2025 or beyond.
- With most investors expecting interest rates to remain elevated into the medium term, investors continue to differentiate and reward companies delivering efficient growth.

**“I expect the refocus on efficiency, versus growth at any cost, to persist for...”**



# Investors Continue to Lean Into 'Post-Reset' Strategies

- Funds that adjusted their strategy during the downturn are maintaining their course, while others are:
  - "increasing focus on **recurring revenue** opportunities"
  - "focusing more on companies' paths to **profitability**"
  - "spending more time on **earlier-stage** vs. later-stage growth opportunities"
  - "being more creative around terms" and "**pitching more structure** to bridge valuation gaps"



# Mission-Critical SaaS Remains a Priority for Many

- Many investors continue to prioritise “Rule of 40” or greater SaaS companies with durable business models, resilient end markets, and recurring revenue streams.
- AI, energy transition, and sustainability propositions are also attracting engagement.
- Financial profile, business model dynamics, and end-market characteristics are more important to many investors than thematic considerations when initially screening opportunities.
- Unproven business models, high-burn plans, lending models, crypto, and emerging market propositions remain more challenging propositions for many investors.
- While reduced overall, appetite for consumer propositions is bifurcated. Consumer-focused funds are leaning in to resilient, brand-led propositions with robust end markets, while generalist investors favour B2B.

## Which investment profiles (sectors, models, financials) are most attractive to you currently?

“Rule of 40 companies”	“Durable business models”
“Recurring revenue/long-term commitments”	“Resilience in the face of AI”
“Mission-critical B2B”	“Vertical software”
“Cyber, supply chain, cloud management”	“AI”

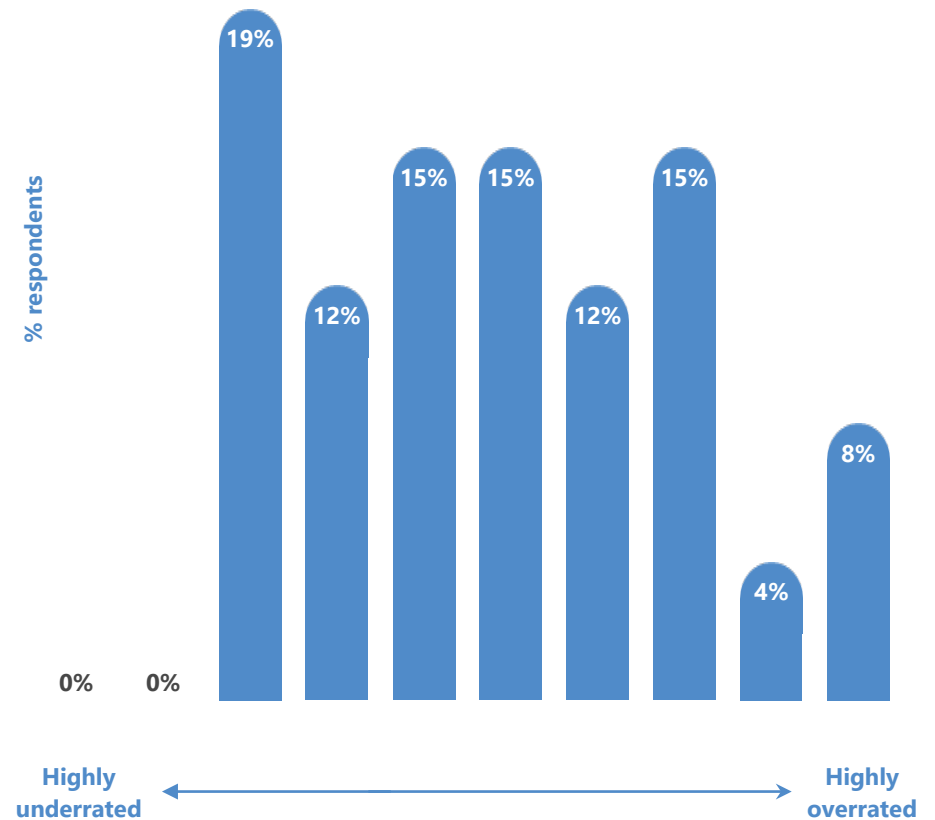
## Which investment profiles (sectors, models, financials) are least attractive to you currently?

“Unproven or project-based business models”	“Lending models”
“Consumer propositions”	“Crypto”
“High burn/not approaching profitability in next 6–9 months”	“Capital-intensive or high-leverage business models”

# For AI Scale-Ups, the Power of 'Big Tech' May Be Underestimated

- When asked what is poorly understood about the current wave of disruptive AI, investors highlight AI's nascency and the challenges posed to AI scale-ups by Big Tech.
- Investors underscore *"how early"* we are in the AI cycle, the difficulty determining *"what part of the value chain is best poised to capture the largest pool of value,"* and *"data, legal, and privacy"* risks.
- The *"power of large tech companies,"* meanwhile, is being underestimated. *"Few AI companies have proprietary data sources"* and *"much of the API connectivity is coming from OpenAI,"* leaving companies vulnerable to price increases and commoditisation. *"Many of the current wave of AI startups may struggle."*
- While AI's potential is significant, more than half of investors believe current excitement is overrated—a quarter believe highly so. Later respondents to our survey were more likely to be cautious, as the power of Big Tech in AI, and some AI fatigue, came into focus.

## "Excitement regarding AI is..."



# 5

## Bid/Ask Spreads on Secondaries Have Narrowed

- In a market in which valuations have weakened, secondary buyers outnumber sellers. But appetite to buy and sell varies widely across the investor base.
- Buying blocks is a priority for a quarter of investors.
- Selling blocks is a low priority for eight in 10 investors, but a high priority for one in five.
- Bid/ask spreads on secondaries have narrowed, with a quarter of buyers and sellers aligned on a typical discount of 20% to transact.
- A majority of buyers are seeking 20%–30% discounts, while a majority of sellers are offering 10%–20% accommodations.
- The market remains thin at the extremes, with a quarter of buyers seeking 40%–50% discounts and a fifth of sellers offering no discount finding few (one in 20) counterparties.

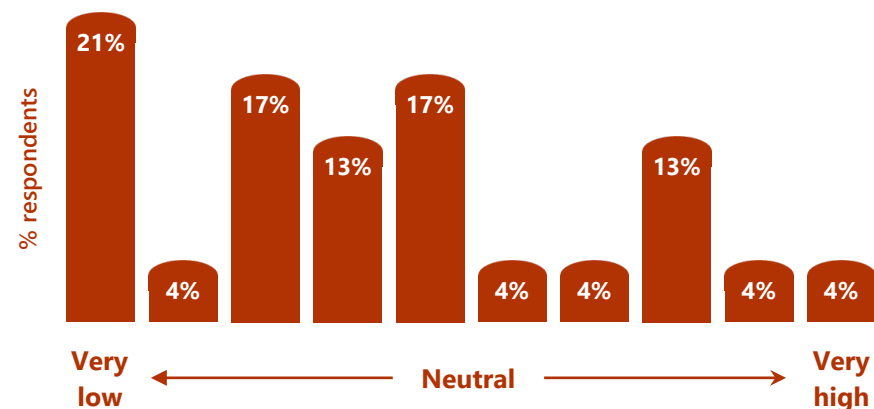


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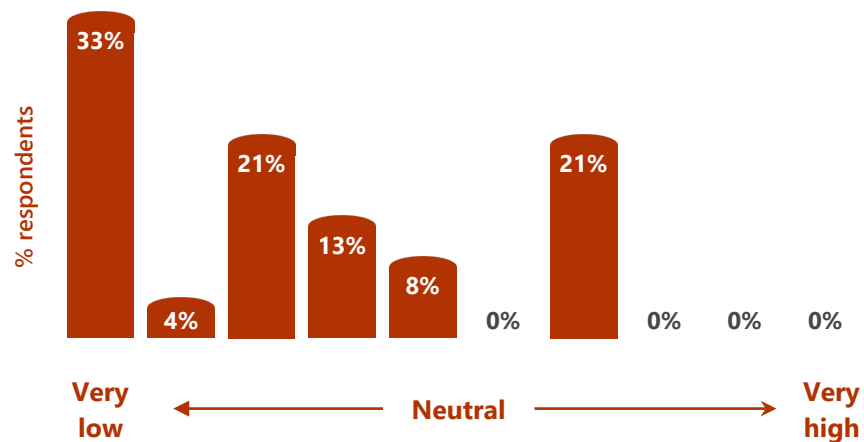
# Buyers Outnumber Sellers, but Appetite Varies Widely

- In a market in which valuations have reduced, buyers of secondary blocks outnumber sellers.
- But appetite to buy and sell varies widely across the investor base, rewarding careful targeting for secondary execution.
- Buying blocks is a high, or very high, priority for a quarter of investors. For half of investors, buying blocks is a low or very low priority.
- Selling blocks is a high priority for just two in 10 investors—and a low or very low priority for all others.

“Buying secondary blocks is a...priority for me”



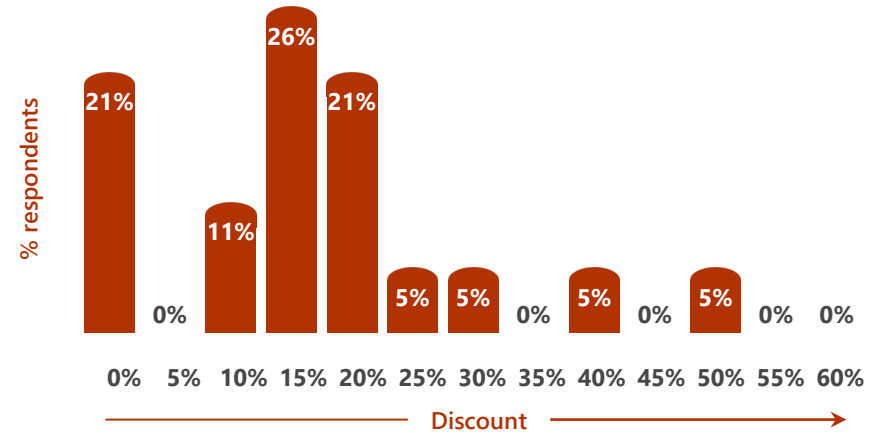
“Selling secondary blocks is a...priority for me”



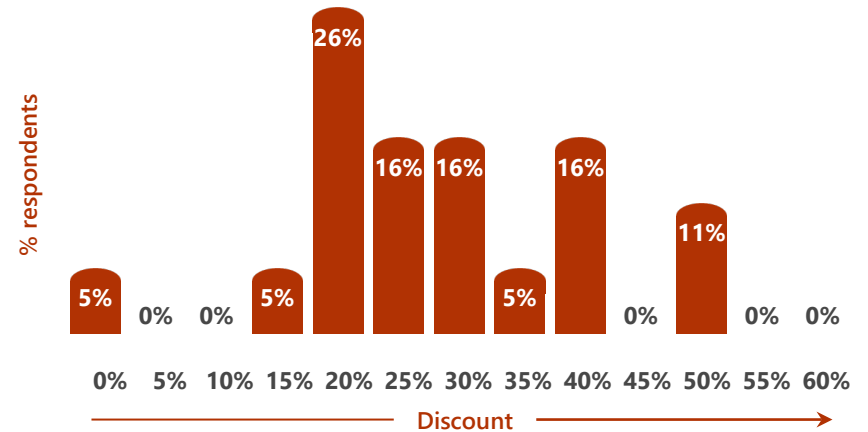
# Bid/Ask Spreads Have Narrowed, but Liquidity Is Limited at the Extremes

- The bid/ask spread on secondaries has narrowed, supporting transactability in the months ahead.
- A quarter of buyers, and a fifth of sellers, are aligned on seeking a typical discount of 20% to transact.
- A majority of buyers (six in 10) seek a discount of between 20% and 30%, while six in 10 sellers will offer a 10%–20% discount—a difference but not a gulf.
- The market remains thin at the extremes. A quarter of buyers are seeking 40%–50% discounts—levels at which just one in 20 sellers will transact. Conversely, a fifth of sellers are unwilling to offer a discount—a proposal that will motivate just one in 20 buyers.

“The typical discount I’d offer when selling a secondary block is...”



“The typical discount I’d seek when buying a secondary block is...”





6

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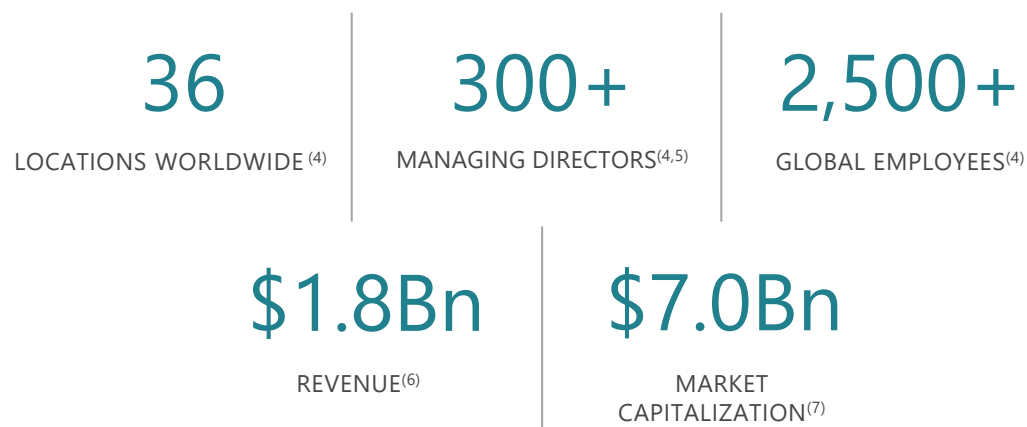
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**No. 1 in Global Middle-Market Equity Private Placements** in 2022<sup>(1)</sup>

**No. 1 in Global M&A Transactions** Under \$1B in 2022<sup>(2)</sup>

**No. 1 U.S. M&A Advisor** Eight Years in a Row<sup>(3)</sup>

**Top 10 Global M&A Advisor** 12 Years in a Row<sup>(2)</sup>



<sup>(1)</sup> Source: Data available from public information sources and investment bank websites/press releases as of January 2023. Excludes PIPES.

<sup>(2)</sup> Source: Refinitiv. Excludes accounting firms and brokers.

<sup>(3)</sup> Source: Refinitiv.

<sup>(4)</sup> As of June 30, 2023.

<sup>(5)</sup> Excludes corporate MDs.

<sup>(6)</sup> LTM ended June 30, 2023.

<sup>(7)</sup> As of August 2023.

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Business  
Services

Consumer

Real Estate

(1) Source: Data available from public information sources and investment bank websites/press releases as of January 2023. Excludes PIPEs.

# Methodology & Disclaimer

**Methodology:** Online survey and quantitative and qualitative questions, completed by 26 institutions with >\$700B AUM in Q3 '23. 46% of respondents in USA, 42% in Europe, 12% in Rest of World.

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