

KEYNOTE INTERVIEW

Rising dealflow reshapes buyer strategies



Surging demand for GP-led secondaries is altering how investors analyse dealflow and accelerating buyer specialisation, according to Baird GP Solutions'

Jeremy Duksin, Alex Mejia and Chad Bounds

Q Is increasing dealflow changing how buyers go about assessing GP-led opportunities?

Alex Mejia: The short answer is yes. The acceleration of dealflow over the past 12-18 months has allowed buyers to be more selective about which deals they allocate time and resources to pursue.

While the types of opportunities that buyers target has evolved, and the level of due diligence and buyer sophistication has increased, there still remain several key tenets that are core to ensuring a successful outcome for all parties involved: a GP pursuing a

transaction for the right rationale, with the right valuation expectations and underwrite, the right alignment, and the right structure for existing LPs. Absent these, execution risk increases materially.

While we've seen a material increase in new capital formation, driven by new entrants and ever-larger funds being raised by incumbent buyers, the demand has not yet outstripped the supply side of the equation – although it's certainly catching up.

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Jeremy Duksin: The GP-led market has been around since 2010, and for the first half of that 15-year period, transactions were far less common than they are today, and typically involved funds facing expiration, with assets requiring extended duration.

The market has since evolved and scaled dramatically, in part due to buyers' migration towards high-performing assets, and transactions motivated more by commercial than structural factors. Over time, that shift has crowded out the complex situations that had previously characterised this market.

More recently, we're seeing specialists emerge with renewed appetite for

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ALEX MEJIA

“There is room for M&A, IPOs and continuation vehicles not just to co-exist, but to flourish together”

CHAD BOUNDS

complexity, offering some of the structural solutions we saw in the GP-led transactions of the 2010s. We’re also seeing an emergence of sector and genre specialists, particularly in categories where the traditional secondary firms have struggled to engage. These categories include energy, credit, real assets and high-growth technology. The

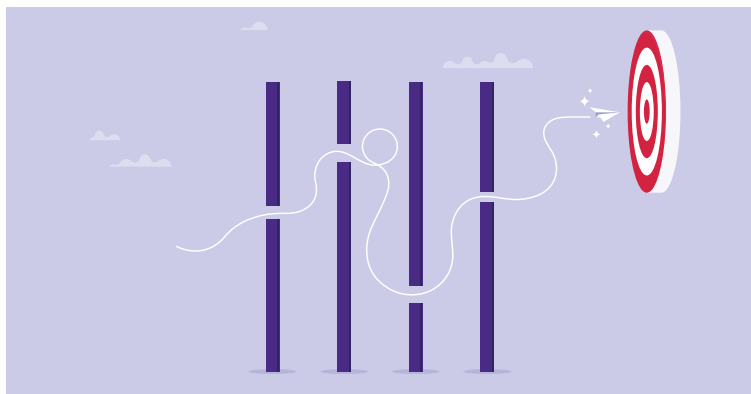
Q What are the biggest challenges to getting GP-led transactions done in the current environment, and how can these issues be addressed?

AM: The biggest consideration GPs should think through when pursuing these transactions is ensuring good alignment across the various constituencies involved. That means alignment with new investors in the continuation vehicle, as well as with existing LPs who need to feel like a sponsor is structuring the liquidity option in a way that doesn’t feel punitive or overly burdensome.

GPs have a lot to gain from these deals, so the alignment narrative is critical to button up well before engaging in conversations with existing LPs or potential new investors.

Alignment has always been important, but the past few years of market volatility have put this under a microscope as buyers seek to understand a sponsor’s core motivation for pursuing a CV transaction. With fewer exit channels available, the first question coming from buyers is ‘Does the GP want to do this because they believe the asset is going to continue to compound, or are they trying to derisk their fund performance and create DPI?’ Demonstrating alignment is one way that GPs can address those concerns.

JD: The term alignment gets thrown around a lot, but it has a different meaning for secondary investors and existing fund LPs. In practice, the new investors are often wary of the GP’s information advantage, having already owned the asset for several years. On the other hand, existing LPs appreciate receiving an exit option at a fair valuation. The balancing of these sometimes-opposing considerations is nuanced, and often requires an experienced advisor to navigate effectively.



emergence of this specialisation mirrors the evolution that occurred 10-20 years ago in the buyout market, which has been a healthy trend for growth and overall activity.

Chad Bounds: Growth in dealflow is raising the bar for existing buyers and also fanning the flames of specialisation

in the investor universe. Specialisation in our market can be defined in several different ways: sector specialisation, multi-asset versus single-asset specialisation, lower mid-market specialisation, value-oriented specialisation and so on. Buyers are developing these custom strategies in part to address the widening supply of deal types across

the secondary market, but also as a way to differentiate themselves in a competitive fundraising environment.

We've also seen this competitive tension around differentiation come through in transactions, where lead investors try to either box out their peers from participating, negotiate unique deal terms that only apply to their capital, or structure upside earn-outs as part of their proposal. We expect all of these trends to continue going forwards, and we see this as a healthy development in our market.

Q How will the M&A and IPO markets affect sponsor use of continuation vehicles in the coming months?

JD: While we believe the market will experience choppiness resulting from several of the new US administration's initiatives, overall, we expect a healthy M&A deal environment with increased volumes over the coming year.

We believe that the M&A and CV markets are more correlated than most might think. Case-in-point, in 2021 we saw both markets peak concurrently. The CV market has rebounded at a faster pace than the M&A market for a number of reasons. First, CVs are still benefiting from broadening first-time adoption.

Familiarity and fluency with the product were far from pervasive in 2021, and while the adoption curve for CVs has materially accelerated since then, education and new adoption by GPs is still underway.

Second, investor demand for continuation vehicles is catching up to supply, with traditional secondary firms raising massive funds and thereby increasing cheque size. At the same time, there have been scores of new entrants, with the number of groups able to lead large CVs multiplying rapidly. And then there is the semi-liquid fund phenomenon, whereby most well-established secondaries funds have now raised scaled '40 Act funds, adding further capacity to the market.

"We're seeing specialists emerge with renewed appetite for complexity"

JEREMY DUKSIN

The continuation vehicle market saw a record year in 2024, and that growth trend is not going away, despite some trophy assets going down the M&A route instead of CV. We fully expect another record year in 2025.

CB: An uptick in M&A typically results from a more positive macroeconomic environment, and the fact that we are seeing that now bodes well for continuation vehicle transactions as well. Continued positive market sentiment should result in more efficient deal processes, better pricing and higher execution rates on transactions, all of which are constructive to our thesis that 2025 will be another record year for the GP-led secondary market. There is room for M&A, IPOs and continuation vehicles not just to co-exist, but to flourish together.

Q What is currently driving increased dealflow in mid-market continuation vehicles, and is that likely to continue?

JD: The dynamics for CVs in the mid-market mirror those for larger fund managers, but with greater deal count and, arguably, lower execution risk due to more actionable deal sizing.

We see a few themes around GP motivations to pursue CVs. First is the commercial motivation, meaning a sponsor inclined to take a high-performing asset for a second lap of value

creation. A CV provides an off-ramp mechanism for LPs while the sponsor doubles down and extends their hold.

Then there is capital motivation, where an existing fund has already surpassed its investment period, or M&A targets have grown larger than the existing fund can address.

We also still see structural motivations, where assets sit in older funds and there is not sufficient time remaining to take them to a natural position for an M&A or IPO exit process.

And finally, in the last two or three years, we have seen sponsors motivated by fund management reasons, where driving DPI for the fund is something that underlying LPs are expressing a desire for, and a continuation vehicle can deliver that optionality.

CB: Mega-cap sponsors were the primary adopters of continuation vehicles up until about 2021. As the market has matured, education around the product's use cases has broadened across the entire PE sponsor spectrum, with an overwhelming majority of GPs now having completed or seriously considered pursuing a continuation vehicle.

Last year, half of all continuation vehicles were done in the mid-market, whereas two years ago that proportion was around 30 percent. So, we've had more adoption of the product across the sponsor community, many of whom fall in the mid-market category, and then on the demand side buyers have been aggressively targeting mid-market deals due to the perception that medium-sized businesses have greater alpha potential and more optionality on exit relative to stable, mega-cap enterprises.

We expect these dynamics to persist for the foreseeable future, with the growth in GP-led volume to be driven in large part by accelerated mid-market dealflow. ■

Jeremy Duxsin and Alex Mejia are managing directors and co-head of Baird's global GP Solutions Group, and Chad Bounds is a group director.