SOLVING FOR 2021

NEUBERGER BERMAN

CONFERENCE SUMMARY

PRIVATE MARKETS: ADAPTING AFTER CORONAVIRUS

ANTHONY TUTRONE
GLOBAL HEAD OF PRIVATE EQUITY

SUSAN KASSER
CO-HEAD OF PRIVATE CREDIT BUSINESS

PHILIPP PATSCHKOWSKI
PRIVATE INVESTMENT PORTFOLIOS

MODERATED BY – JAMIE WONG
HEAD OF CONSULTANT RELATIONS, EMEA

KEY POINTS

- Private equity valuations look high, but only because it is high-quality companies being transacted
- Some of the best opportunities are appearing in the private equity secondary market, as general partners enter as sellers in a big way
- In private debt, quality was the watchword during 2020, even though defaults were surprisingly low, and it will continue to be important over the coming years

Anthony Tutrone

Tony noted that private equity valuations appear to be high, currently, but he argued that this is a misleading picture. Virtually the only businesses that investors are transacting in today are those that have been unaffected by, or even benefitted from, the coronavirus crisis—healthcare, software and technology businesses. These sectors have historically demanded very high multiples, and that is why the multiples for the entire industry now look high today: because sectors that normally demand lower valuations are simply not being transacted by private equity firms. Moreover, while valuations are up, the cost of leverage has fallen and there is a lot that private equity can do to improve strategic and operational performance to meet elevated multiples, he argued.

Tony also compared the amount of private equity industry dry powder in 2007, at less than $600 billion, with today's figure of more than $1 trillion. Given this dry powder and the high-quality companies trading, Tony expects a strong period for the private equity market. He also drew attention to potential opportunistic investments in capital solutions: investing in preferred and structured credit and other instruments that meet companies' needs, especially in volatile markets.

Philipp Patschkowski

Philipp spoke about opportunities in the private equity secondaries market. From 2016 to 2019, the secondary market grew at an average annual rate of 33%. Philip described three secular trends underpinned this growth.

The first was growth in private markets. The second was limited partners using secondary markets as a portfolio-management tool. The third has been the growth in general-partner-led (GP-led) transactions. As transactions in privately-held companies sharply declined during 2020, and private equity managers found that some of the best opportunities are to be found improving the high-quality companies they already own, many more have had to find ways to create liquidity for their limited partners, who are expecting to get cash back from exits.

GP-led secondary transactions have been one way to do this, and this led to a record level of secondaries transactions in the fourth quarter of 2020, translating into growth in 2021 and beyond.

For the buyers, Philipp said that the mixed performance of the underlying companies means that large, diversified portfolios will have bright spots and shadows, and that buyers need to understand where those shadows are, benefiting secondaries specialists with genuine stock-picking strategies.

Susan Kasser

Susan acknowledged that investors have grown worried about the resilience of private debt, which has grown significantly since the global financial crisis. The coronavirus crisis had the potential to be a catalyst for challenges to the market.

Default rates for US senior secured loans peaked in the second quarter of 2020 at 8.1%, lower than expected. It then fell quickly, to 4.2%, by the third quarter. This experience has enabled us to see which businesses are well prepared for tougher conditions. Overall, investors are relieved that private debt has weathered the crisis better than expected and have been grateful for the returns generated by contractual cash yields, both variable and fixed rate, with a LIBOR floor, at a time when other fixed income yields have collapsed.

To maintain that performance, Susan argued for a focus on the general quality of portfolio companies and how each industry is affected by the coronavirus crisis. She described how Neuberger Berman's private debt portfolios had little exposure to industries dramatically affected by the pandemic and only modest exposure to partly affected, including aerospace and events. She expects these industries to rebound.

NEUBERGER | BERMAN

Neuberger Berman
Lansdowne House
57 Berkeley Square
London W1J 6ER
United Kingdom

www.nb.com