







Navigating the complexity of private market valuations

Private markets have emerged as a cornerstone of the global financial ecosystem, with investors increasingly seeking opportunities in private equity, credit, real estate, and infrastructure. These markets offer diversification and potentially higher returns but are accompanied by complex valuation challenges. Unlike public markets, private markets lack liquidity, transparency, and standardized valuation practices. This makes understanding private market valuations not only essential but also a specialized skill for investors, regulators, and valuation experts.

We explore the complexities and uniqueness of private market valuations, focusing on the difficulties in valuing private assets, the importance of tailored models, and the growing convergence between public and private market valuation standards.

Challenges in valuing diverse private assets

Valuing private assets requires a deeper understanding of the inherent complexities of these markets. Several factors make these valuations particularly challenging:

 <p>Private markets defy a one-size-fits-all approach</p>	<p>Each private market asset class exhibits unique characteristics that cannot be captured by generic models. For example, private equity needs growth projections, while real estate relies on location and cash flow. Data limitations lead to opacity, making valuations reliant on subjective inputs and assumptions, which introduces variability and unreliability. Customization is crucial for accurate valuations.</p>	<p>In private markets, financial statements are often incomplete, delayed, or non-standardized. This lack of reliable data creates room for discrepancies, forcing valuers to rely on internal or subjective sources. In contrast, public markets provide timely, audited information, highlighting the stark gap between the two.</p>	 <p>Limited financial disclosure</p>
 <p>Illiquidity and lack of exit opportunities</p>	<p>The absence of active secondary markets significantly affects private asset valuations. Without clear exit paths, valuations must account for longer holding periods, regulatory barriers, and market-specific conditions, often leading to a discount on asset values.</p>	<p>Private market valuations often hinge on assumptions—such as revenue growth rates or discount factors—that are prone to bias. For example, an optimistic forecast for private equity growth can inflate asset values, while conservative estimates can undervalue them.</p>	 <p>Subjectivity in valuation assumptions resulting in analyst bias</p>
 <p>Reliance on independent valuation and relative costs</p>	<p>Hiring specialized valuation professionals is often costly but critical for objective and accurate valuations. Ironically, these costs can deter stakeholders from obtaining independent appraisals, increasing the reliance on internal teams.</p>	<p>Comparability is a core principle of valuation, yet identifying truly similar transactions in private markets is an uphill battle. Mismatches in industries, geographies, or business models can lead to distorted conclusions.</p>	 <p>Identifying the right peer / transaction comparable</p>

Importance of bespoke valuation models

Given the diverse nature of private assets, bespoke valuation models are indispensable. They allow for tailored approaches that align with the unique characteristics of different asset classes:

Private equity	Private debt	Real estate	Infrastructure
<p>Valuation methods include discounted cash flow (DCF), comparable company analysis, and precedent transactions. These approaches balance the speculative nature of growth projections with market data.</p>	<p>Debt assets are typically valued using net recovery approaches, yield analysis, and DCF. These methods account for the illiquid nature of private debt and lender-friendly terms, ensuring precision.</p>	<p>Real estate valuations rely heavily on income capitalization and sales comparison methods. However, these approaches can be unstable during market turbulence, requiring frequent updates.</p>	<p>Valuing infrastructure assets often involves risk-adjusted return models and comparable company analysis. These models incorporate long-term cash flows, regulatory risks, and market dynamics.</p>

Intrinsic valuation is predominant in the private markets because of illiquidity and limited market data. However, having models that integrate both intrinsic and relative valuation methods can provide a more comprehensive understanding of an asset's worth and enable asset managers and investors to adjust their expectations as market conditions evolve.



Private equity valuations can be based on a combination of market, income, and milestone-driven approaches. While discounted cash flow is common approach, public comps and transaction comps allow investors to eliminate bias. It is essential to apply the right approach to suit the situation



Private debt is typically valued using discounted cash flow analysis, which incorporates future cash flow projections and adjusts them for risk factors markets. Relative to public markets, private debt is less affected by market volatility due to their illiquid nature and more lender-friendly terms.



Capitalization rate is a common approach for real estate. Cap rates based on appraisals can be stable but slow to reflect market changes, while transaction-based rates can be distorted during market stress, making valuations more complex and challenging



Using multiples like EV/EBITDA or use of risk adjusted market return enable comparison of infrastructure valuations to equities. While direct comparison between real estate and infrastructure valuations, use of bespoke cap rate will be essential to for valuation

The Growing Need for Standardization in Valuations

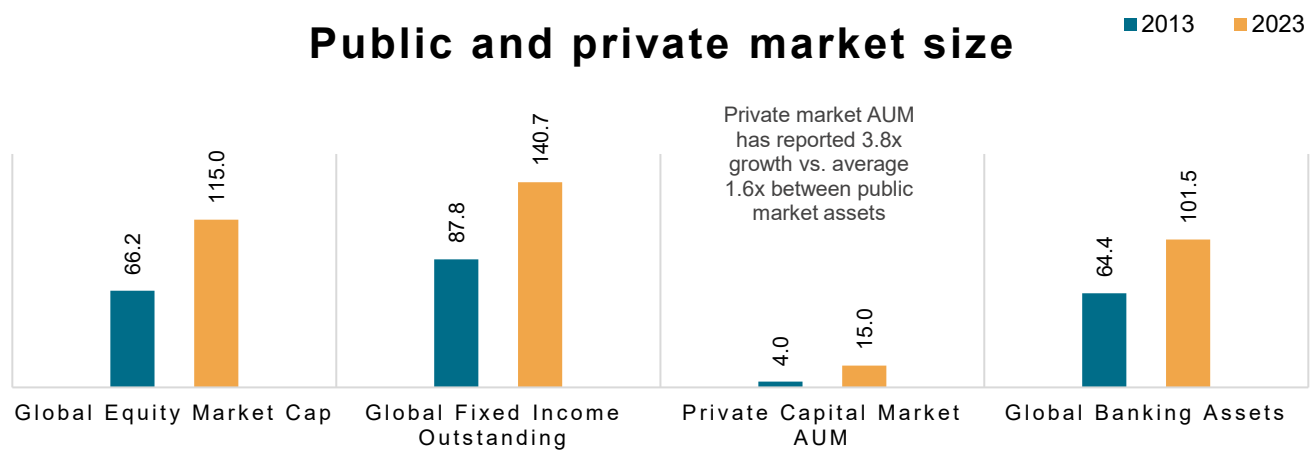
While bespoke models are crucial, there is a growing need for standardization in private market valuations. Standardization ensures consistency and transparency, bridging gaps between different stakeholders and asset classes. The benefits include:

- **Timely valuation:** Standardized frameworks allow for regular updates, aligning valuations with changing market conditions and ensuring that decisions are based on current data.
- **Improved efficiency:** By leveraging standardized processes, asset managers can respond quickly to market dynamics, reallocate resources effectively, and optimize portfolios.
- **Continuity and comparability:** Standardization promotes the use of consistent methodologies over time, enabling investors to track performance accurately and benchmark against peers. For example, the adoption of standardized NAV (Net Asset Value) reporting in private funds is a step toward creating more transparency in valuations.

Convergence between public and private market valuation standards

A noticeable shift is underway as private markets increasingly adopt practices from public markets. Between 2013 and 2023, private market AUM (Assets Under Management) grew 3.8 times faster than public markets, driven by increased investor demand and regulatory interventions. This convergence is critical for private markets to integrate further into the global financial system.

Exhibit 1:



Source: CRISIL Research, SIFMA, BIS, Blackrock

Key trends driving convergence include:

- **Frequency of valuations:** Public markets provide near real-time updates, while private markets typically value assets at fixed intervals. A shift toward more frequent valuations is becoming essential.
- **Improved accuracy:** Regulators and investors are demanding more transparent methodologies, addressing the risk of overstated or understated asset values.
- **Retail participation:** The rise in retail investors' involvement in private markets is compelling asset managers to adopt higher transparency standards.

Leveraging technology for Enhanced Valuations

Technology is reshaping valuation practices, offering tools to bridge the gap between private and public markets. Key technological advancements include:

1. **AI-Driven Analytics:** Machine learning and AI can analyze large datasets, identify patterns, and provide accurate projections, reducing reliance on manual processes
2. **Real-Time Data Integration:** Tools that aggregate macroeconomic indicators, industry-specific metrics, and financial data enable dynamic valuations that respond to market changes.
3. **Streamlined Reporting:** Technology-driven platforms are enabling investors to access standardized valuation reports, improving transparency and reliability. For example, AI platforms use algorithms to digitize valuations, enhancing speed and consistency in private asset appraisals.

The Road Ahead: balancing customization and standardization

Private market valuations will remain complex, but a balanced approach combining bespoke models with standardized practices can deliver the best outcomes. Regulators, investors, and asset managers must work together to create frameworks that incorporate the benefits of both approaches.

- **Adoption of best practices:** Leveraging insights from public markets can help private markets evolve.
- **Emphasis on transparency:** Consistent and reliable reporting will build trust among stakeholders.
- **Role of technology:** Continued investment in valuation technologies will be a game-changer, enabling more precise and timely appraisals.

As private markets continue to grow, robust valuation frameworks will be essential to navigate their complexity, ensuring informed investment decisions and financial stability.

References:

[Macquarie Asset Management, CFA Institute Org](#)

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