



KPMG Private Equity Forum

12 December 2023



01

Introduction

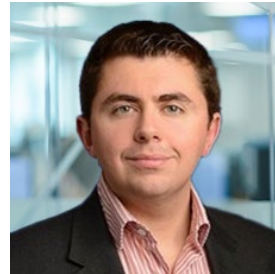


Ben Honeywood
Partner
Audit
Crown Dependencies

With you today



Ben Honeywood
Partner
Audit
Crown Dependencies



Jonathan Read
Partner
DA CF M&A Lon Sector
KPMG UK



Kimberly Coote
Senior Manager
Audit
Crown Dependencies



Paul Eastwood
Partner
Tax
Crown Dependencies



David Postlethwaite
Associate Director
Advisory - ESG
Crown Dependencies



Jeffrey Parongan
Director
Audit
Crown Dependencies

Agenda

- 02** UK deal and fund-raising market
- 03** Private Equity Valuation trends and changes to IPEV guidelines
- 04** Local and international regulatory developments
- 05** ESG Trends and Regulation
- 06** Tax matters
- 07** Q&A

02

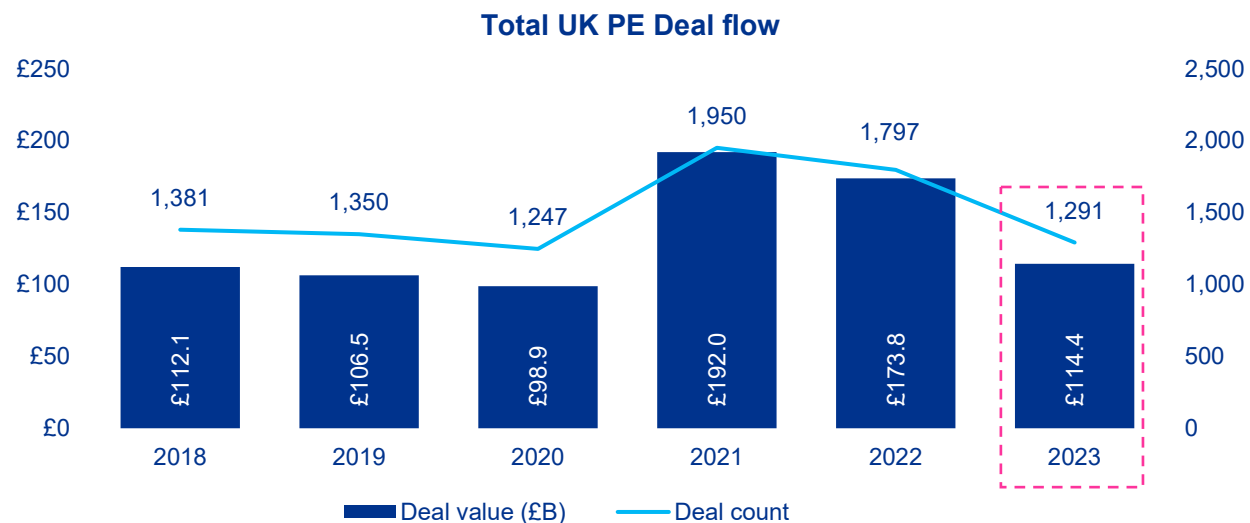
UK deal and fund-raising market



Jonathan Read
Partner
DA CF M&A Lon Sector
KPMG UK



Total PE Flow – Annual

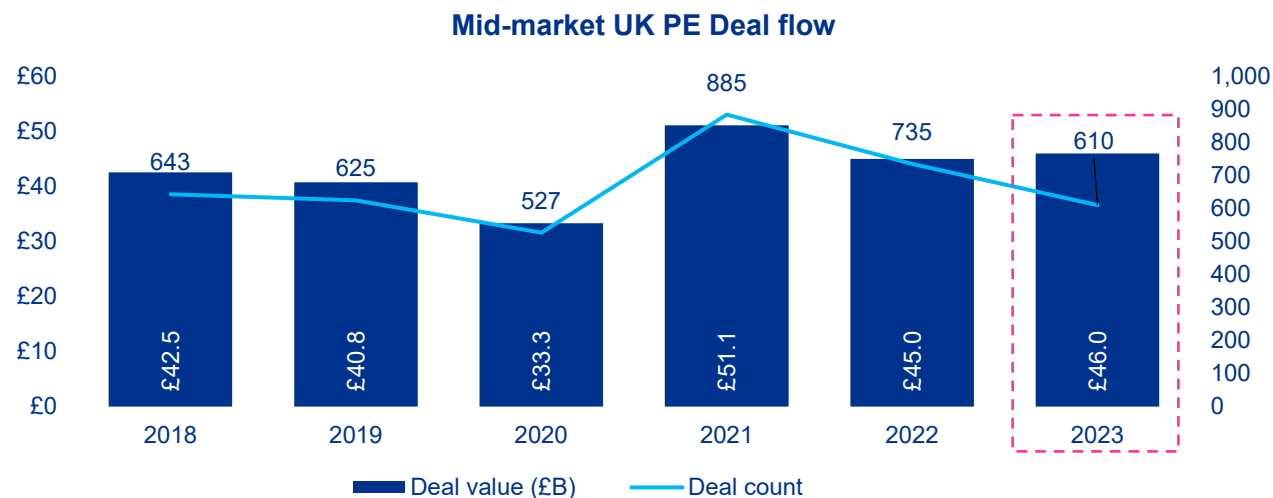


	2018	2019	2020	2021	2022	2023	% Change 2023 vs 2022	% Change 2023 vs 2021	% Change 2023 vs 2019
Deal value (£B)	£112.1	£106.5	£98.9	£192.0	£173.8	£114.4	-34.2%	-40.4%	7.4%
Deal count	1,381	1,350	1,247	1,950	1,797	1,291	-28.2%	-33.8%	-4.4%

- After a record breaking 2021 and a strong 2022, the year 2023 saw significant decline in PE deal activity.
- Deal volumes in 2023 were down 28.2% and 33.8% versus 2022 and 2021, respectively. However, compared with pre-covid years, the volume was down 4.4% vs 2019 and 6.5% vs 2018.
- Total annual deal values were down 34.2% versus 2022 and 40.4% versus 2021. However, 2023 total deal values were up 7.4% versus 2019.

Mid-market UK PE Deals

Mid-market PE Flow – Annual

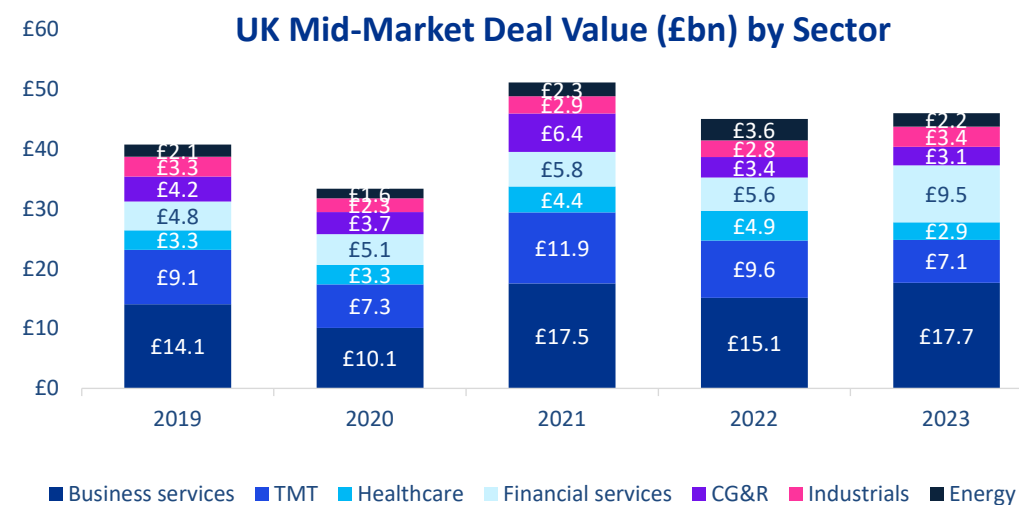
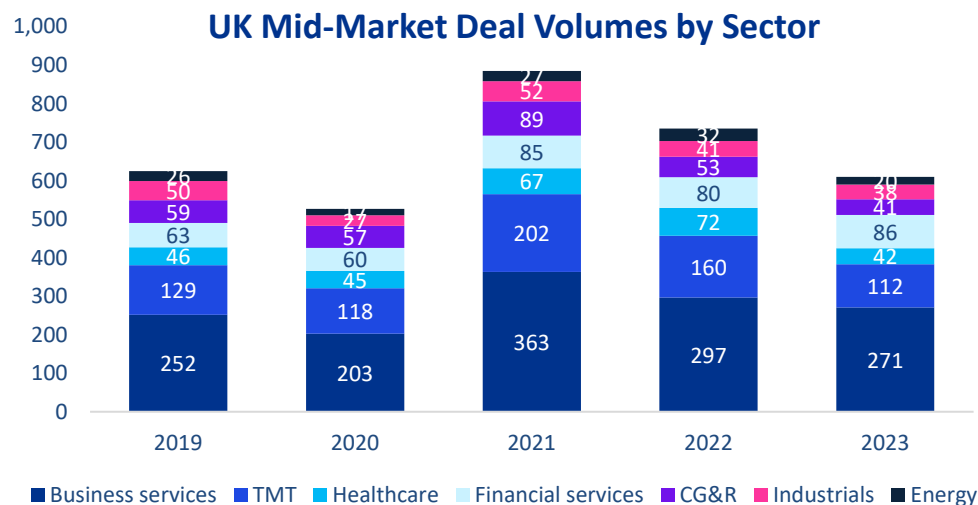


	2018	2019	2020	2021	2022	2023	% Change 2023 v 2022	% Change 2023 vs 2021	% Change 2023 vs 2019
Deal value (£B)	£42.5	£40.8	£33.3	£51.1	£45.0	£46.0	2.2%	-10.0%	12.9%
Deal count	643	625	527	885	735	610	-17.0%	-31.1%	-2.4%

- Deal volumes in the mid-market were down 17% versus FY 2022 at 610 deals. Against 2021 and 2019, full year mid-market deal volumes were down 31.3% and 2.4% respectively.
- Total annual deal values in the mid-market increased by 2.2% and 12.9% vs 2022 and 2019 respectively.

Mid-market UK PE Deals By Sector

Mid-market PE Deal Volume by Sector



	2021	2022	2023	% Change 2023 V 2022	% Change 2023 V 2019
Business services	363	297	271	-8.8%	7.5%
TMT	202	160	112	-30.0%	-13.2%
Healthcare	67	72	42	-41.7%	-8.7%
Financial services	85	80	86	7.5%	36.5%
CG&R	89	53	41	-22.6%	-30.5%
Industrials	52	41	38	-7.3%	-24.0%
Energy	27	32	20	-37.5%	-23.1%

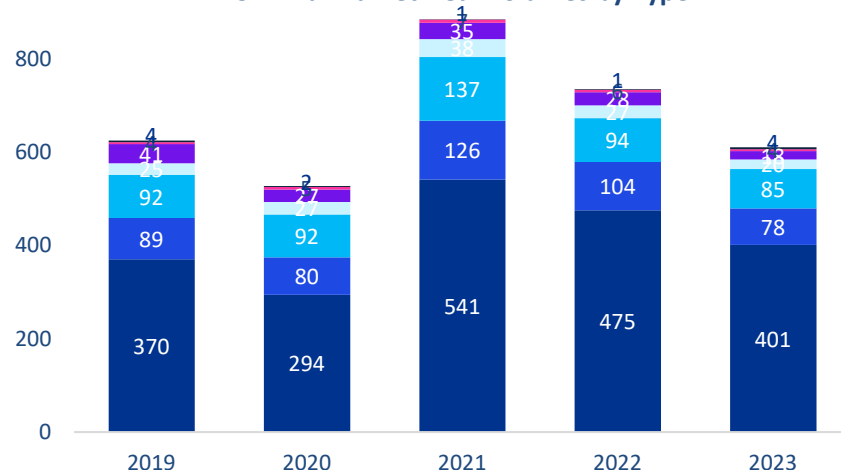
	2021	2022	2023	% Change 2023 V 2022	% Change 2023 V 2019
Business services	17.5	15.1	17.7	16.8%	25.5%
TMT	11.9	9.6	7.1	-25.6%	-21.4%
Healthcare	4.4	4.9	2.9	-40.4%	-9.7%
Financial services	5.8	5.6	9.5	71.6%	99.2%
CG&R	6.4	3.4	3.1	-9.4%	-25.5%
Industrials	2.9	2.8	3.4	20.4%	1.8%
Energy	2.3	3.6	2.2	-37.2%	9.0%

- While all sectors experienced slowdown in 2023, Financial Services is the only sector that saw 7.5% increase in volume (86 deals in 2023) vs FY 2022. In terms of deal value, Financial Services witnessed 71.6% and 99.2% increase vs 2022 and 2019 respectively.

Mid-market UK PE Deals By Deal Type

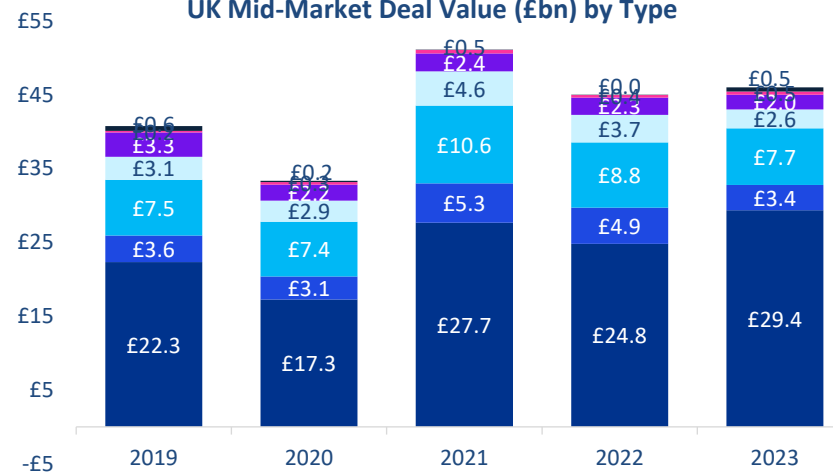
Mid-market PE Deal Volume by Deal Type

UK Mid-Market Deal Volumes by Type



■ Bolt-on ■ Minority ■ Buyout/LBO
 ■ Secondary buyout ■ Management buyout ■ Management buy-in

UK Mid-Market Deal Value (£bn) by Type



■ Bolt-on ■ Minority ■ Buyout/LBO
 ■ Secondary buyout ■ Management buyout ■ Management buy-in

	2021	2022	2023	% Change 2023 V 2022	% Change 2023 V 2019
Bolt-on	541	475	401	-15.6%	8.4%
Minority	126	104	78	-25.0%	-12.4%
Buyout/LBO	137	94	85	-9.6%	-7.6%
Secondary buyout	38	27	20	-25.9%	-20.0%
Management buyout	35	28	18	-35.7%	-56.1%
Management buy-in	7	6	4	-33.3%	0.0%
Public to private	1	1	4	300.0%	0.0%

	2021	2022	2023	% Change 2023 V 2022	% Change 2023 V 2019
Bolt-on	27.7	24.8	29.4	18.4%	31.5%
Minority	5.3	4.9	3.4	-30.4%	-5.5%
Buyout/LBO	10.6	8.8	7.7	-13.2%	1.7%
Secondary buyout	4.6	3.7	2.6	-31.1%	-17.8%
Management buyout	2.4	2.3	2.0	-15.6%	-40.2%
Management buy-in	0.5	0.4	0.5	26.9%	112.6%
Public to private	0.0	0.0	0.5	1245.3%	-14.1%

- Bolt-ons have remained the largest component of mid-market activity for quite some time and are holding steady.
- In 2023, bolt-ons continue to make up majority of investments in mid-market PE, accounting for 66% of the total PE mid market volume share. In terms of deal value, Bolt-ons witnessed the highest levels of growth with 18.4% increase over 2022 and 31.5% increase over 2019.

Trends:

Fund-Raising Pitching
activity Multiples

03

Private Equity Valuation trends and changes to IPEV guidelines



Kimberly Coote
Senior Manager
Audit
Crown Dependencies

Impact on PE Valuations

Multiples Valuation Inputs



Current PE Valuation Trends & Challenges



Valuation Shelf Life

- While PE has been historically less susceptible to volatility, current economic volatility reduces the shelf life of valuations and may increase the demands for more frequent views;
- Increasing need for portfolio valuations to be considered through full quarterly cycles (including recent acquisitions); and
- Investor needs for timely valuations to reflect current economic conditions.



Access and availability of debt

- Portfolio companies refinancing in the short and medium term, may face challenges accessing debt;
- Increase costs of financing and interest levels may impact valuation; and
- Potentials for GPs to look at secondary solutions to generate liquidity.



Volatile inputs

- Contraction and flattening of discount rates;
- Trends for Venture Capital markets indicate "down rounds";
- Potential for further slow down of exits and holdings periods increasing, as interest rates rise and length of time to reach target returns increases;
- Maintainable EBITDA and revenue run rates may be more judgemental; and
- Risk of non compliance with debt covenants and need to be mindful on potential impact on valuation.



Independence and valuation governance

- Unobservable inputs increasingly become focal points for outside scrutiny. Market volatility likely to bring greater challenges;
- Increased estimation uncertainty and likely to drive a more complex valuation process;
- Importance of documenting views as part of valuation process including points of difference" and "calibration" analysis;
- Best practice valuation governance regimes use independent internal valuation committees and/or external advisers to review methodologies, significant inputs and fair value estimates for reasonableness; and
- Valuation guidelines and terms of reference.

Overview of the 2022 IPEV guidelines

Effective for periods ending 31 December 2022

IPEV Guidelines – 2022 key changes

Effective for periods commencing 1 January 2023 onwards



04

Local and international regulatory developments



Jeffrey Parongan
Director
Audit
Crown Dependencies

FCA's review of private market valuations

UK regulator to launch review of private market valuations

FCA would look at the “disciplines and governance” over valuations.

This includes looking at who within a firm is accountable for valuations, how information about those valuations is passed upwards to the relevant management committee and board, and what other governance procedures are in place.

Fund managers who invest in private markets typically have a greater discretion over the valuation of their own assets because their holdings are not subject to the daily swings of public market sentiment.

Private assets are often valued using models that are typically slower to respond to deteriorating market conditions than listed assets.

If the governance processes are not robust, the FCA can call out failures.

Opaque practices await UK regulators in private asset valuations probe

Critical moment of scrutiny for a sprawling asset class that pension funds and other investors piled into as they hunted for returns during the long era of low interest rates.

Judgement carries risks, especially when managers are incentivised to present a rosy picture for as long as they can, particularly if they are seeking to raise money from investors. It often also suits investors to cling on to upbeat, but stale, valuations.

FCA review reflects growing concern from global regulators about the potential for shocks in private assets.

Rising interest rates and slowing economic growth represent a danger to some private equity models, which recently warned about difficulties in refinancing assets and potential fire sales.

SEC Private Fund Adviser Reforms: Final Rules at a glance

Disclosures

- Quarterly Statement Rules



Checks

- Private Fund Audit Rule
- Adviser – Led Secondaries Rule

Restrictions

- Restricted Activities Rule
- Preferential Treatment Rule

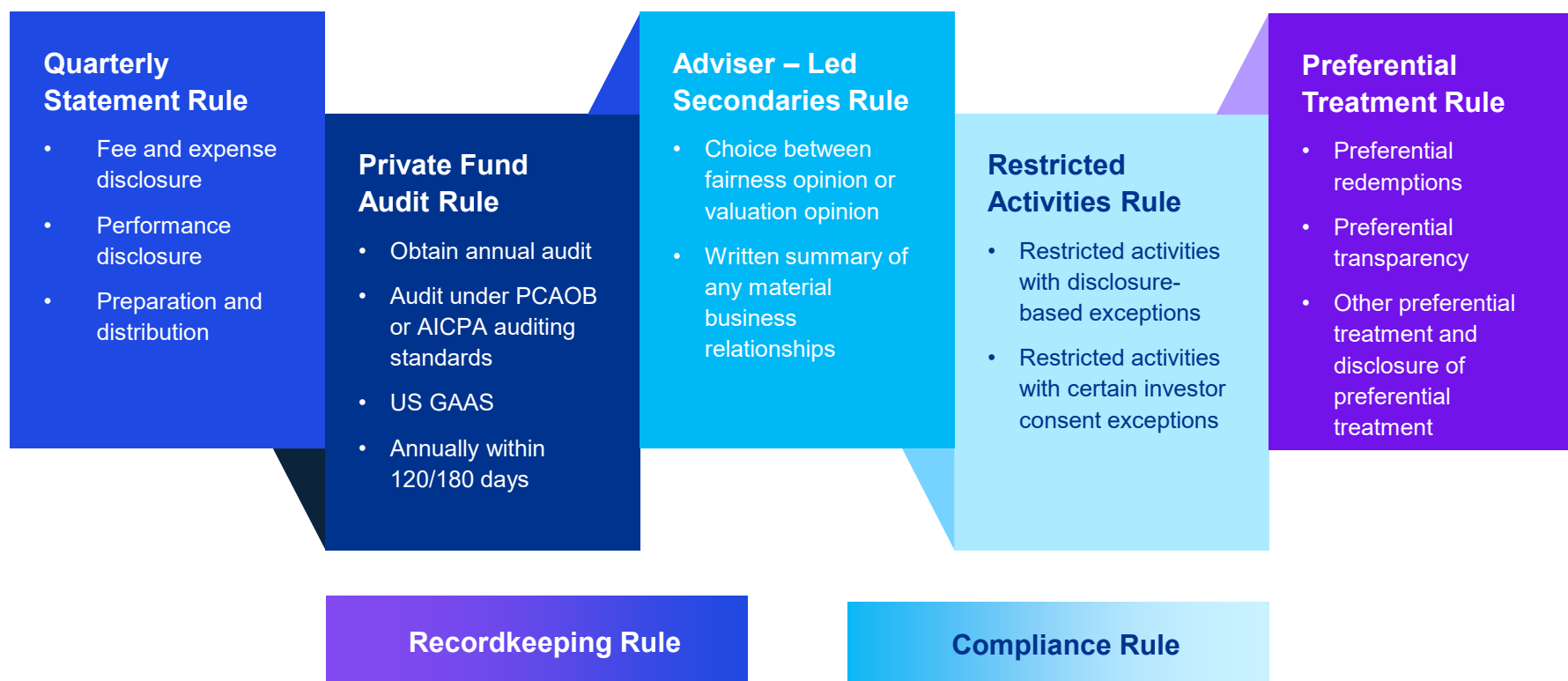
Purpose

The SEC states that the rules are designed to address the three factors for risks and harms in an adviser's relationship with Private Funds and their investors:

- Lack of transparency
- Conflicts of interest
- Lack of effective governance mechanisms for client disclosure, consent, and oversight.

SEC Private Fund Adviser Reforms: Final Rules at a glance

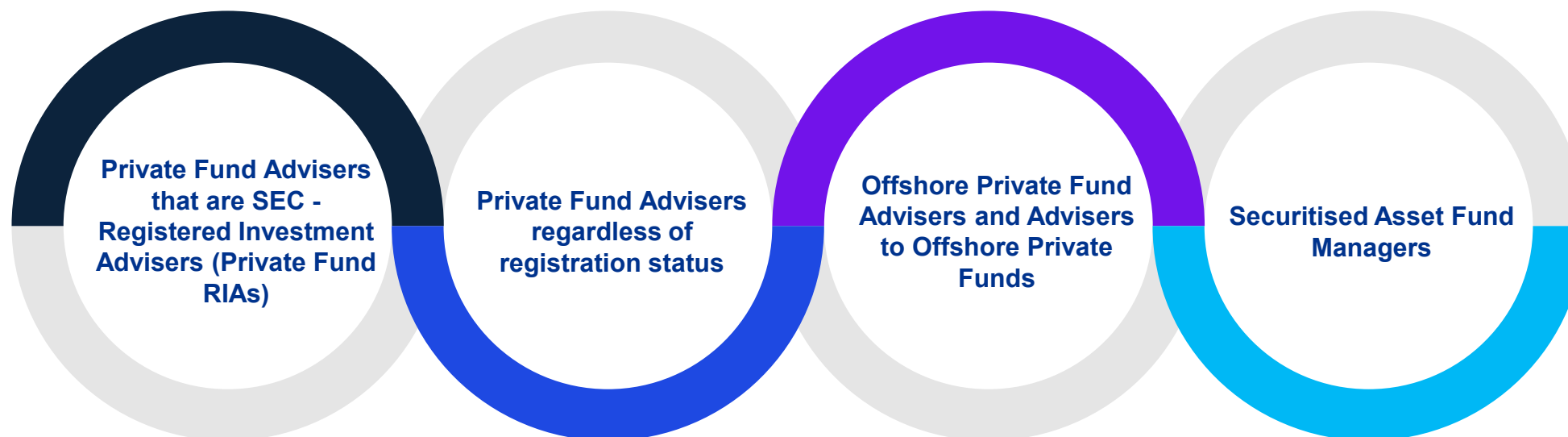
The new rules and amendments are designed to protect Private Fund investors by increasing transparency, competition, and efficiency in the private funds market.



SEC Private Fund Adviser Reforms: Final Rules at a glance

Scope of Advisers Subject to the Final Rules

The Final Rules apply only to “Private Funds,” as defined under the Investment Advisers Act. As defined for purposes of the Advisers Act. Private Funds include only funds that would be investment companies except for Section 3(c)(1) or 3(c)(7) of the Investment Company Act.



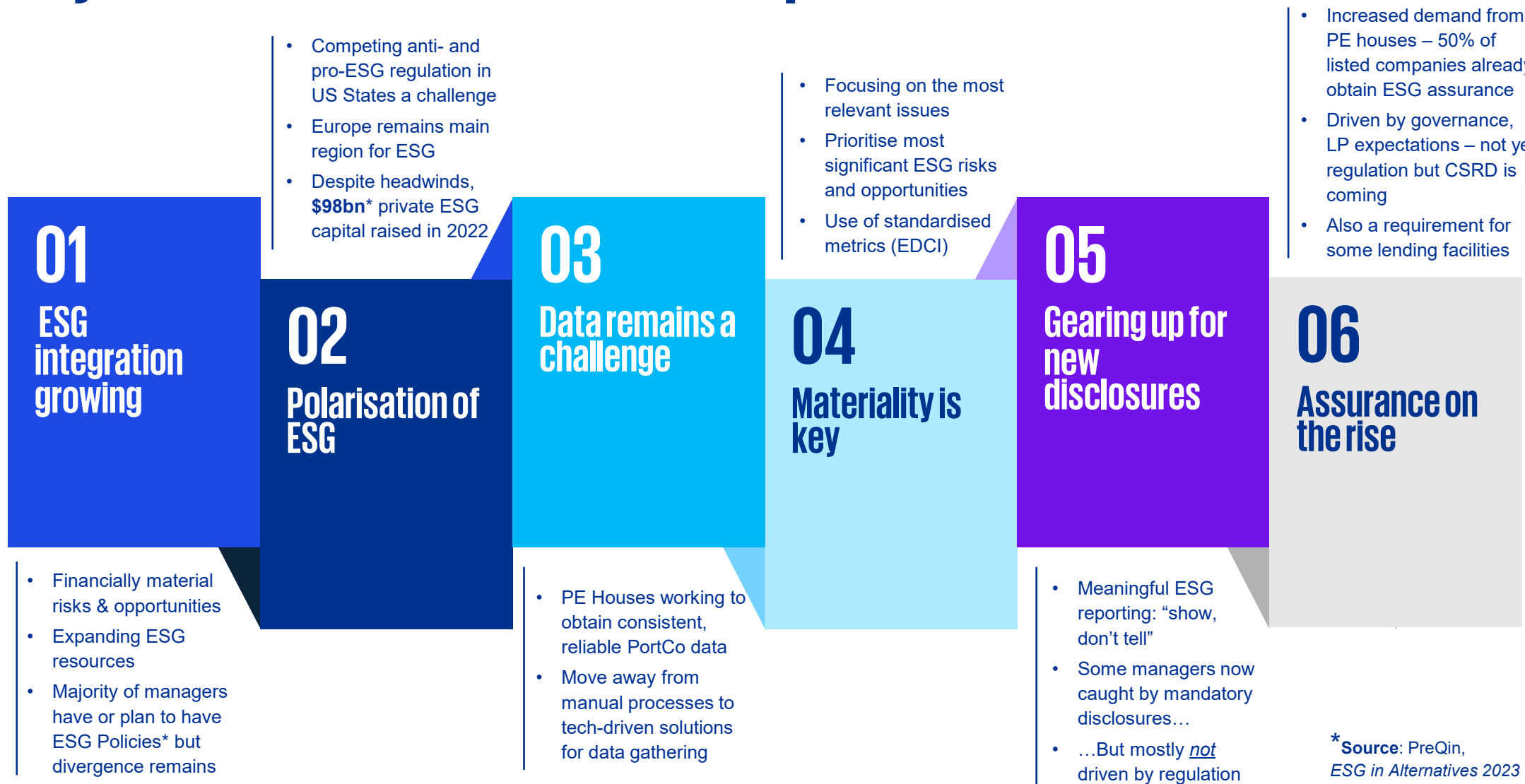
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ESG Trends and Regulation



David Postlethwaite
Associate Director
Advisory - ESG
Crown Dependencies

Key Trends for ESG in the funds space



*Source: PreQin, ESG in Alternatives 2023

ESG in the PE Fund Lifecycle: Overview



01

HOUSE-LEVEL

- Clearly defined ESG policies & governance structure
- Building out internal ESG capacity
- Cementing a “show, don’t tell” approach
- Setting firm-level KPIs in line with investor expectations and standards
- Entity-level disclosures (SFDR/TCFD)

02

FUNDRAISING

- Leverage ESG to access broader pool of LPs/capital
- PPM commitments and LP obligations
- Meeting LPs’ ESG demands under e.g. ILPA DDQs
- Ensuring compliance with mandatory ESG disclosures

03

ORIGINATION AND INVESTMENT

- ESG DD alongside finance financial DD
- ESG value perspectives – use of ESG/Climate factors to identify risks and opportunities in businesses
- Linking ESG to financing through sustainability linked lending
- ESG as a differentiator and to improve entry multiples

04

ONBOARDING AND 100 DAY PLAN

- Integrate & act on ESG/Climate DD findings
- Streamlining portfolio-wide onboarding, ESG data gathering, policy development implementation
- Secure PortCo commitment to help deliver fund/house objectives

05

OWNERSHIP PERIOD

- ESG value creation, improving PortCo performance against defined KPIs, develop consistent value narrative
- Clear decarbonisation pathways/targets (SBTs) & supporting PortCo autonomy on ESG issues, initiatives etc
- Data gathering to monitor progress, meet disclosure needs

06

EXIT

- Ensure PortCo’s exit-readiness on ESG topics, address any material gaps
- Integration of ESG into valuations (e.g. climate scenarios) and vendor DD assessments
- Prepare PortCo for ESG aspects of IPO journey (e.g. mandatory climate reporting)

Regulatory update: Focus on the UK SDRs

The UK's FCA has issued final rules on UK Sustainability Disclosure Requirements (SDR) and investment labels.

What?

Policy statement by FCA (PS23/16)

- General anti-greenwashing rule
- Four new fund labels:



- Naming, marketing, disclosure and information rules

Who?

Firms who make sustainability-related claims

- All FCA-authorized firms are caught by anti-greenwashing rule
- Labels, disclosure, naming and marketing rules apply to UK asset managers in respect of authorised AIFs, UCITs etc.
- FCA has clarified that non-UK AIFS (e.g. a Jersey-domiciled fund) are **out of scope** but...
 - Entity-level disclosures may still apply
 - FCA and HMT will consult on overseas funds

When?

Coming in 2024, subject to further consultation

- To end Jan 24: Consultation on anti-greenwashing guidance
- 31 May 24 – anti-greenwashing rule in force
- 31 July 24: fund labels for use
- 2 December 24: naming and marketing rules with accompanying disclosures
- 2 December 25 – product/entity level disclosure for firms with AUM over £50bn (followed by £5n from Dec 2026)

Next Steps for Managers:

- Review anti-greenwash rules
- Scoping and product classification exercise
- Impact and Gap Analysis
- Labelling Operating Model
- Disclosure Production

Other things to watch out for:

- Overseas funds rules (UK)
- Review of EU's SFDR and possible labelling regime introduction
- SEC final climate rules and further ESG disclosures (e.g. Private Fund Advisor rule)
- UK Green Taxonomy

ISSB: Overview and Structure

The International Sustainability Standards Board (ISSB) published **IFRS S1** and **IFRS S2** in June 2023. In July, IOSCO endorsed these and called on all 130 member jurisdictions to look at adoption into their national regulatory frameworks for corporate reporting.



What's the Issue?

- The standards mark the next step toward **equal prominence for sustainability and financial reporting**
- **Based on existing frameworks** and standards, including TCFD and SASB
- The aim is to create a **global baseline for investor-focused sustainability reporting** for local jurisdictions to build on
- **“Materiality”** of sustainability issues: focus on investors and bottom line



What's the Impact?

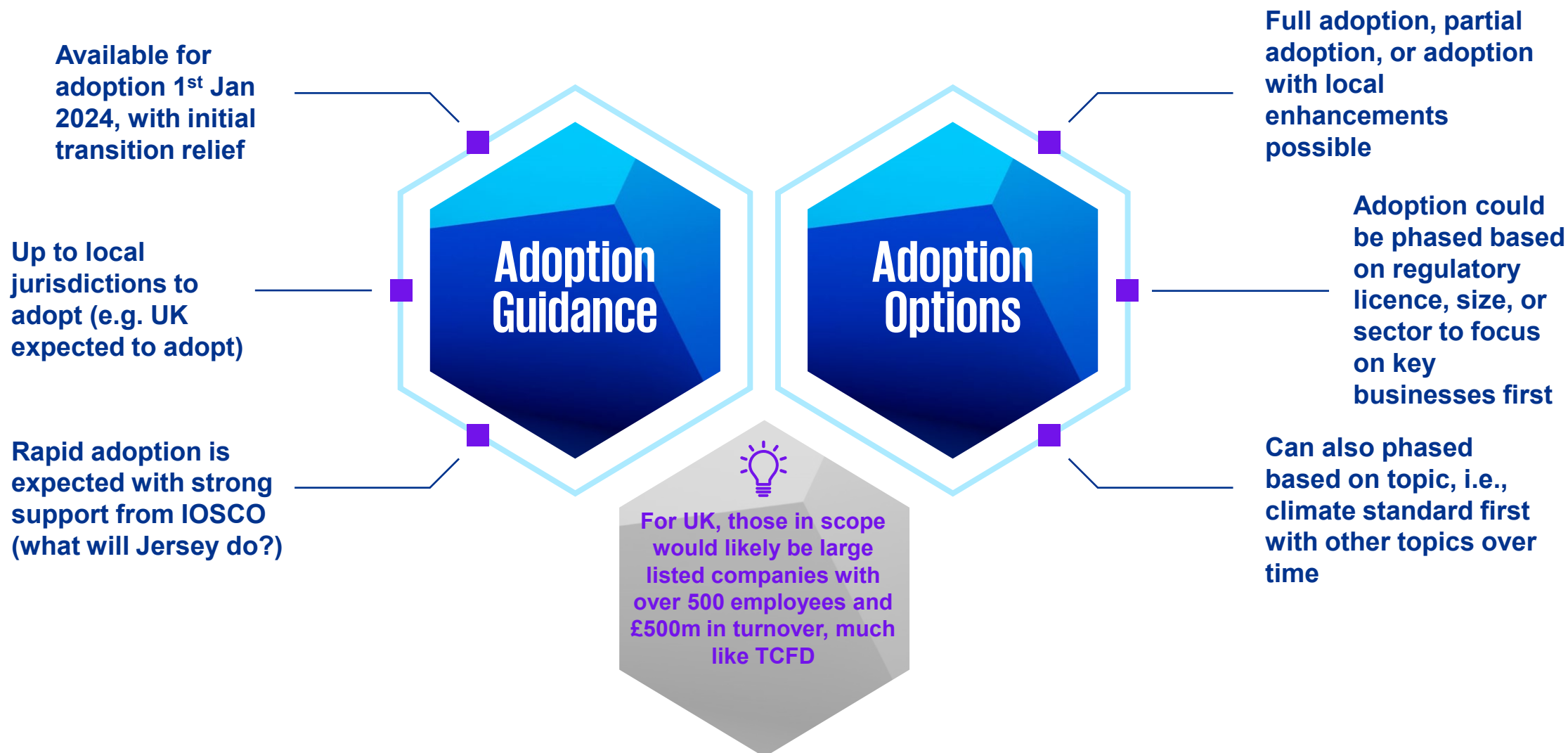
- Provides a framework for companies to report on **all material sustainability topics** (not just climate)
- Requires **national implementation** but could create a **consistent global framework**.
- Would be connected to financial statements and so would be reported **at the same time as financial information**



What structure does it follow?



ISSB: Path to Adoption



KPMG's ESG Team in the Crown Dependencies

We are an award-winning Pan-Crown Dependencies team of 7 ESG professionals, growing to meet client needs.

We work closely with colleagues across KPMG's global network of expertise with over 1,100 ESG professionals in IFCs, UK, EU, US and beyond.

1

Strategy & Transformation

Advice on ESG strategy and specialist areas like decarbonisation, ESG risk & governance, due diligence, regulatory and sustainable finance.

2

Reporting

Helping clients to assess their ESG readiness and prepare for ESG reporting in line with key frameworks.

3

Assurance

Providing external assurance on the ESG reporting by a business or fund.



Simon Nicholas

Partner, Clients and Markets

snicholas@kpmg.co.im

+44 (0)1624 681002



David Postlethwaite

Associate Director, ESG Advisory

dpostlethwaite@kpmg.com

+44 (0)1534 888891



Natalie Finlayson

Director, ESG Advisory

nataliefinlayson@kpmg.com

+44 (0)1481 741897



Benjamin Tovell

Associate Director, ESG Advisory

btovell@kpmg.co.im

+44 (0)1624 681000

06

Tax matters



Paul Eastwood
Partner
Tax
Crown Dependencies

Lessons from 2023

Domestic developments

- Partnership reporting – local participants
- Economic Substance audits / AEOI audits
- 2024 Budget Amendments – short term business visitors/double tax relief for foreign work days
- Carried interest statement

International developments

- BEPS Pillar 1 and 2
- Non-cooperative jurisdictions list - “Annex I – Black list/Annex II – Grey list”
- ATAD III – Un-shell directive
- UK Autumn Statement
- Harrington Review of Foreign Direct Investment
 - “The government should commit to a consistent, long-term approach to tax that is clearly signalled to business, within a system that seeks to reduce complexity for business”.

Horizon for 2024?

International outlook

- Crown Dependencies decisions on Pillar 1 and Pillar 2
- ATAD III – will the EU make progress?
- Non-cooperative jurisdictions list - “Annex I – Black list/Annex II – Grey list”
- UK general election
- Challenges of cross border working – PE and payroll reporting risk
- Tax risk policy review – ESG?
- Tax reporting – digital transformation

07 Q&A



**Merry Christmas
& Happy New Year**





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