



# KPMG PE Connect – Guernsey Leadership Forum

7 November 2024



**01**

# **Introduction**

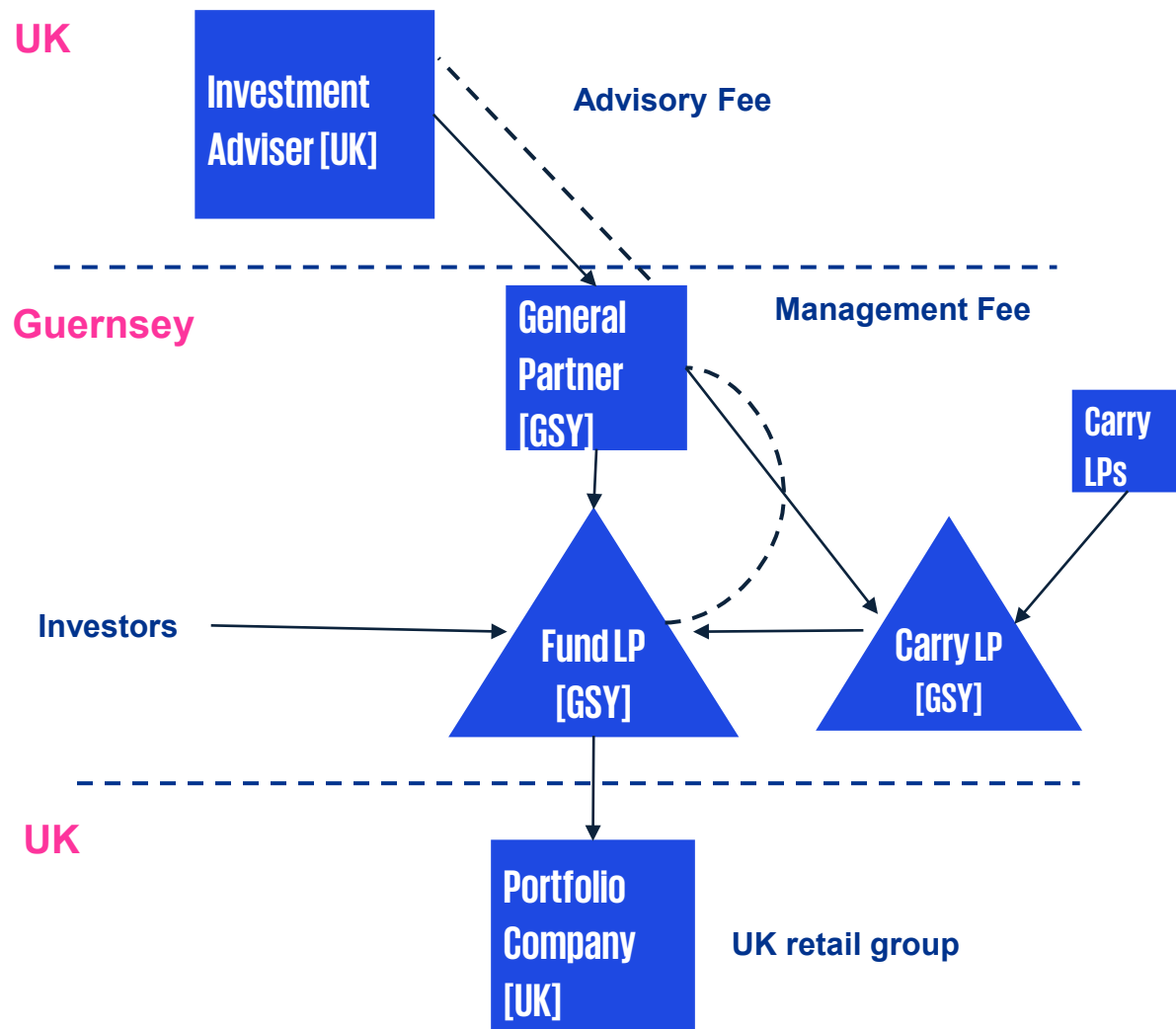
# Agenda

- 01** Overview of the UK budget and impact on the PE sector
- 02** Update on US tax
- 03** Update on PE market and valuation overview
- 04** Q&A

**01**

# **Overview of the UK budget and impact on the PE sector**

# UK Budget – impact on PE sector



## Carried Interest

- April 2025 - 32%
- April 2026 - "carried interest will be taxed fully within the Income Tax framework, with bespoke rules to reflect unique characteristics".
- 72.5% multiplier applied to "qualifying" carried interest so ETR more like 34%
- Consultation period running up to 31 January 2025

## Non-dom regime reform

- End of remittance basis and concept of domicile
- Move to Foreign Income and Gains (FIGR) regime
- Temporary Repatriation Facility

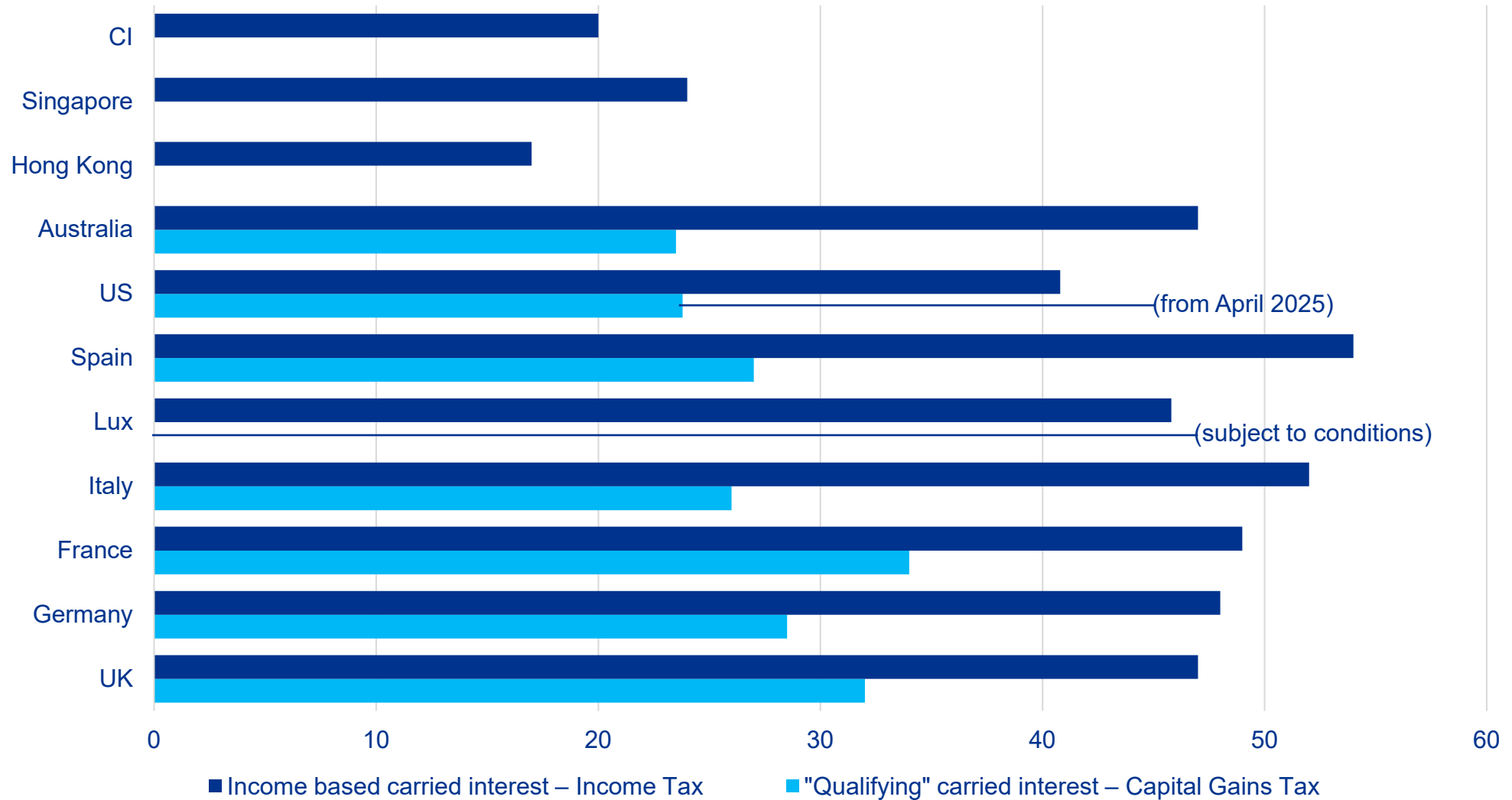
## Capital Gains Tax

- Rate increase to 18%/24% on disposal made after 30 October 2024
- BADR/IR tax rate to increase to 14% from April 2025 then 18% from April 2026

## Corporate/employment taxes

- CIT rate fixed at 25%
- Extension of relief for R&D, Capital Expenditure and Business Rates.
- Employers NIC up to 15% from 13.8%

# Carried interest – global rates



**02**

# **Update on US tax**

# 2024 Election & Potential U.S. Tax Changes

- **U.S. Election (Nov. 5) determined the President and Congress for the upcoming term**
  - Update – Republican Majority: Senate, House of Representatives, White House
  - Tax Policy of Trump – No formal tax policy communicated
- **The last notable change in tax legislation was in 2017 with the Tax Cuts and Jobs Act “TCJA”**
  - Republicans had control of the White House, Senate and House
  - Approved under the budget reconciliation process (Republicans will not have a super majority)
- **2025 expected to be a major tax change year?**
  - A number of TCJA rules are set to sunset – Trump extended
  - Carried Interest & Corporate Tax Rate were permanent changes – will those change?
  - Pillar 2 “Global Minimum Tax” of 15% - U.S. has not adopted, however fund entities will generally not be in scope



# Hot Topics – U.S. Tax for Private Equity

## Carried Interest Rules (IRC Sec. 1061)

- Applicable partnership interests “API” will require the holding period of the investment to be greater than 3 years (versus 1 year) for the capital gain to receive long term capital gain treatment

## IRS Campaign: U.S. Trade or Business Activities of Offshore Funds

- Loan origination activities in the U.S. / private credit

## IRS focus on partnership reporting

- Many PE funds have U.S. partnership filing requirements with the IRS
- The complexity and reporting has expanded
- IRS is actively training/developing agents in partnership reviews and increasing notices

# Friendly Reminders for the 2024 Tax Year

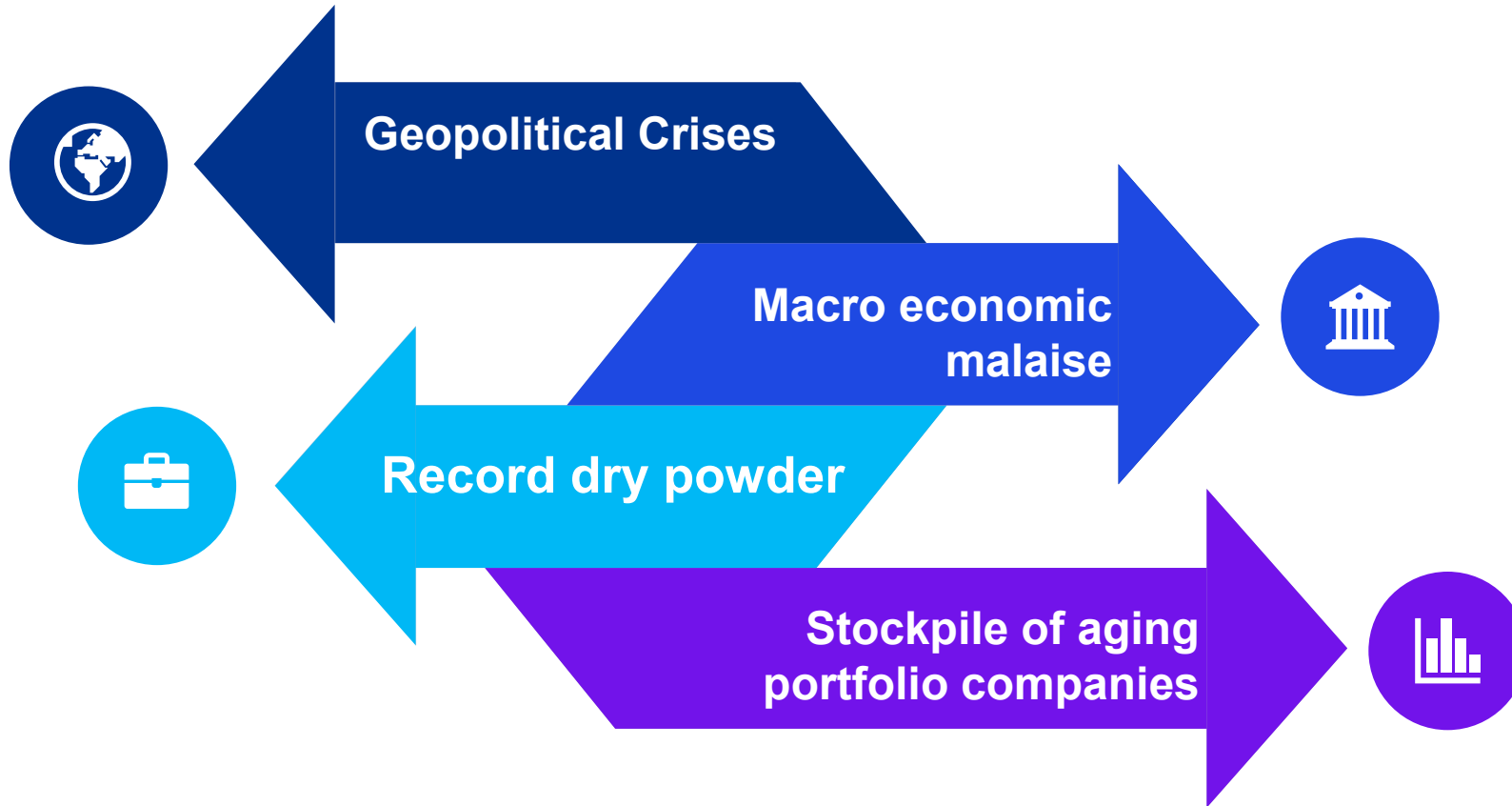
- **U.S. tax planning for new investments, restructurings or transactions**
  - **Check the Box Elections**, Entity Classification (Form 8832) – generally due 3/15 for 2024 tax year (under Rev Proc 2009-41).
- **Being mindful of tax income with no distributions to U.S. taxable investors “dry tax”**
- **Have investments been made in the U.S.** that would generate U.S. effectively connected income “ECI”
- **Consider if any investor (partner) transfers** has changed the tax demographic to include U.S. tax reporting
- **Update your tax calendar** with due dates and required filings

**03**

**Update on PE  
market and  
valuation overview**

# 2023 Private Equity landscape

An annus horribillis

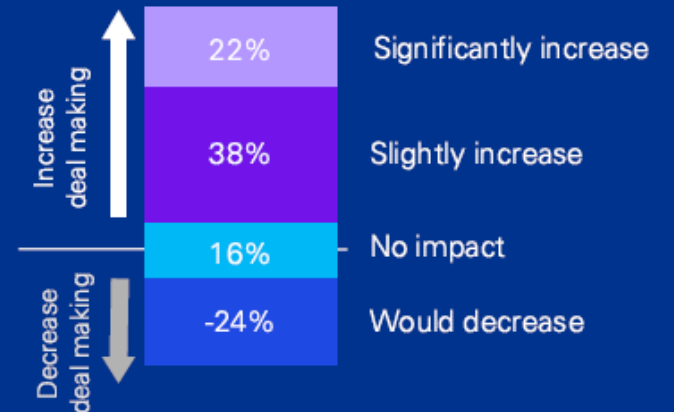


But many were **optimistic** for a return to deal making in 2024

## 66% of respondents

Said they needed to see a rate cut before deal making would return to previous levels.

**60%** would increase deal making significantly or slightly



Q: How would a hypothetical 0.5 percentage point decrease in rates affect your deal making? N=50



# 2024 Private Equity landscape

Market sentiment is bolstered. There are signs that the headwinds have receded.



### Monetary easing

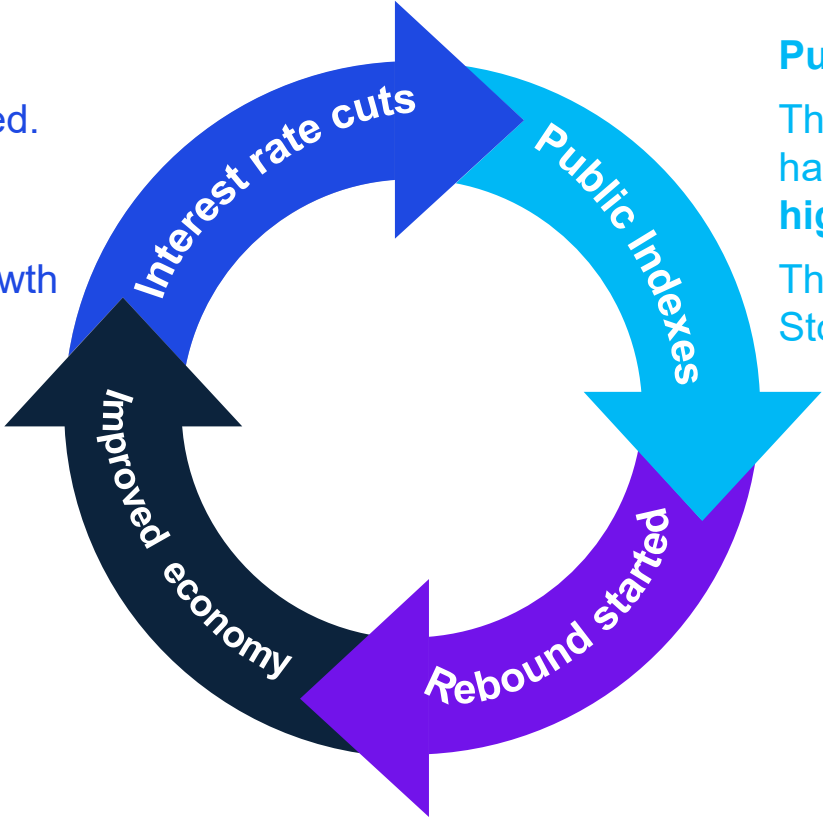
**Rate cuts** as inflation has stabilised.

This supports borrowing, reduces interest expense and allows investment of those savings in growth



### Recession risk?

The long-predicted recession has not materialised



### Public indexes

The listed public equities market has made a full recovery to an **all-time high** bolstering market sentiment.

The S&P 500, the FTSE 100 and the Stoxx 600 have all achieved record highs.



### Dealmaking

**slowly picking up**

Estimated that in 2024 we will see growth in both **deal count** and **deal value**.



# Key trends and challenges shaping the market in 2024 & beyond

Trend 1

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Backlog of growing aging companies



Valuations are they on the mend?

Trend 2

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Trend 4

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Fund raising and some key trends



Niche areas offer key growth opportunities

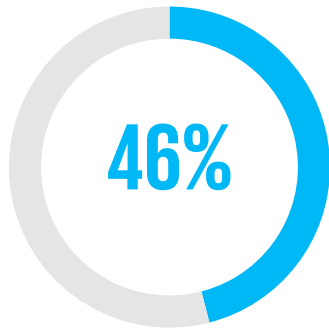
Trend 3

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# Trend 1 - Growing backlog of aging portfolio companies

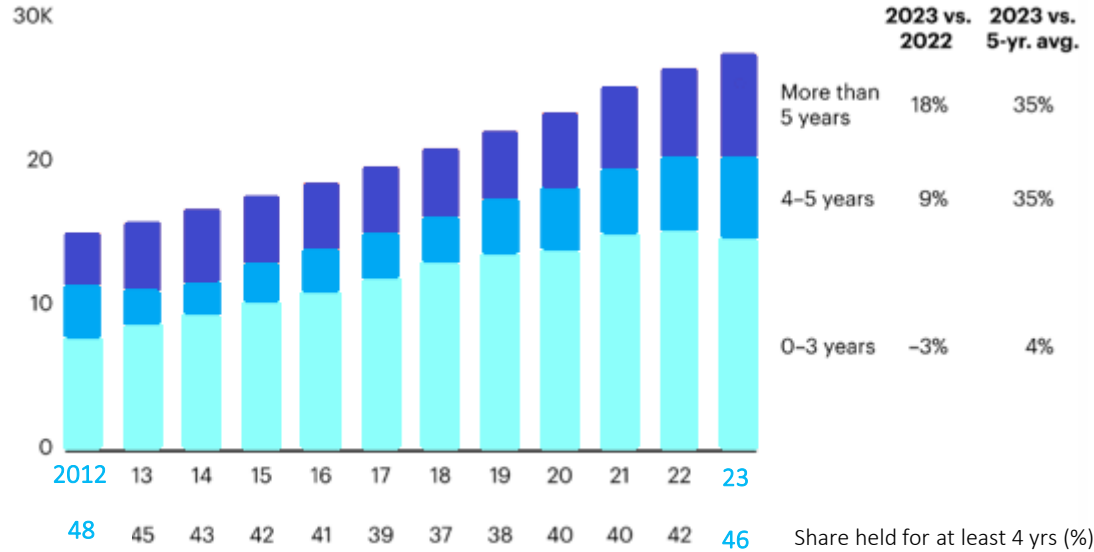
**28,000**

Portfolio companies estimated to be held by PE firms globally



46% of these companies have been held by buyout firms for 4 yrs or more.

## Global PE backed portfolio companies by time in portfolio



The proportion of long-held companies in PE portfolios is growing and has not been this big since 2012

**8 yrs**  
Estimated time to sell backlog, if exits continue at current pace.

The backlog is large by historical standards



**4 x larger**

In value, than during the Global Financial crisis.

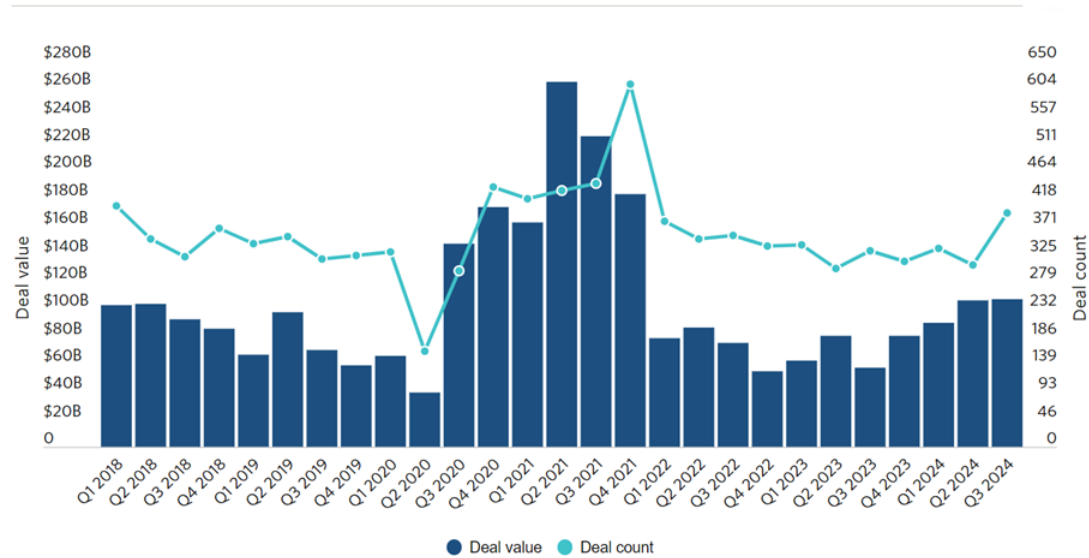


**26% higher**

Since 2028

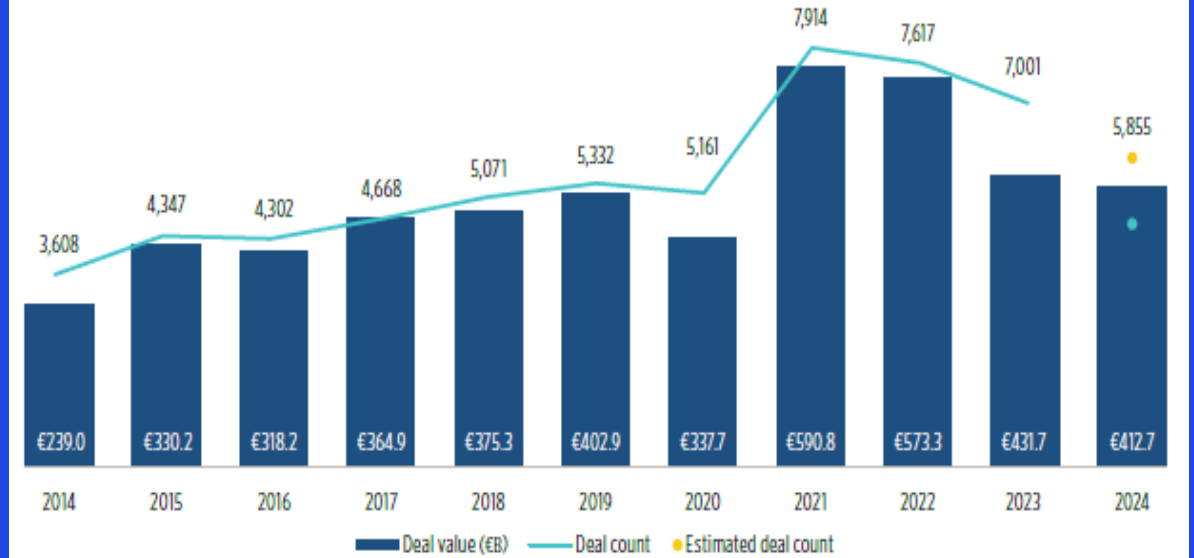
# Trend 1 - Backlog of aging companies

## US PE exit activity shows signs of rebound



Source: PitchBook's Q3 2024 US PE Breakdown  
\*As of Sept. 30, 2024

## PE deal activity in Europe is showing signs of recovery



Source: PitchBook • Geography: Europe • As of 30 September 2024



# What do you feel have been top barriers to deal making in 2024 – Pick your top 3



Interest rates

Market uncertainty

Holding off on deal activity until rates cuts are announced

Difficultly securing finance

Disconnect on valuation between buyers & sellers (bid – ask spread)

Macroeconomic uncertainty

Lack of interested buyers

Other options to fill liquidity gap, continuation vehicles, NAV loans

# What do you feel have been top barriers to deal making ?

## Survey respondents

Top barriers to deal making.

- High interest rates
- Market uncertainty
- Half of respondents noted difficulty securing finance
- Bid – Ask spread



# Key trends and challenges shaping the market in 2024 & beyond



## Trend 2

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# Trend 2 - Valuation update

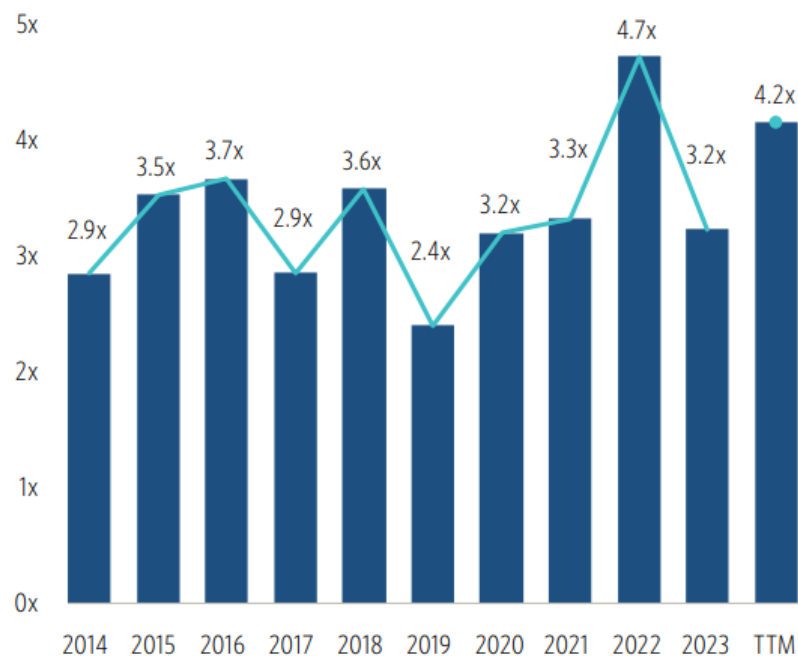
PE valuations reached their apex in 2021 and slumped by 25.0% to 40.6% in the two years that followed.

PE deal multiples have struggled to find a bottom until recently.

Despite this mixed picture, the evidence is clear: Valuations are slowly on the mend, which stands to reason given the recovery of public equities to their all-time high

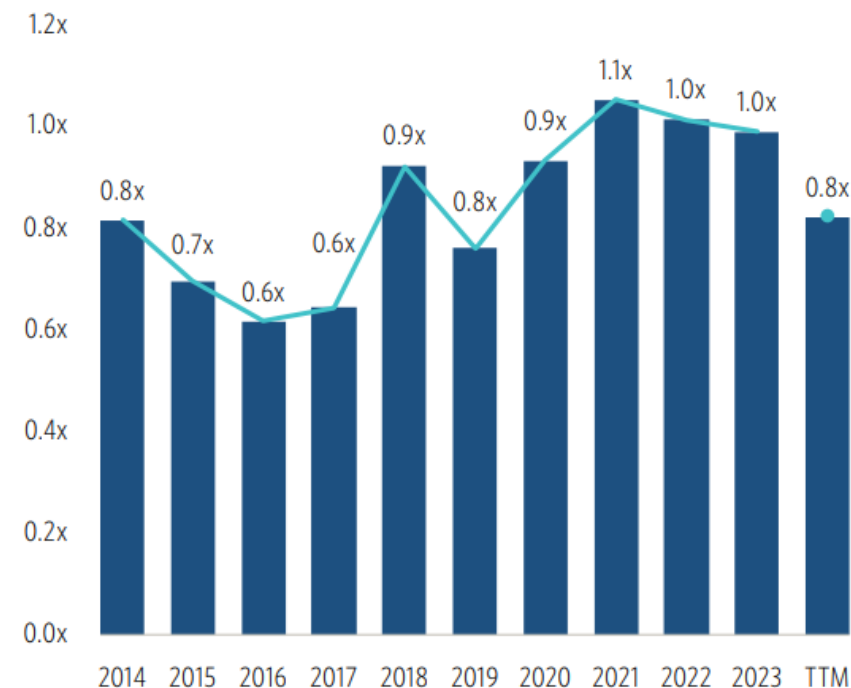
Large number of companies owned by PE firms, which have been held for five years or more. As deal activity broadens, it will inevitably include lesser-quality companies.

**Median enterprise value (EV)/revenue multiples on PE deals of \$2.5 billion or more**



Source: PitchBook • Geography: North America and Europe  
As of September 30, 2024

**Median EV/revenue multiples on PE deals below \$25 million**



Source: PitchBook • Geography: North America and Europe  
As of September 30, 2024

# Key trends and challenges shaping the market in 2024 & beyond



## Trend 3

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# What are the **top 3** primary investment theses you are considering in the current market?

Find distressed assets for turnaround opportunity

Assets that allow expansion into new markets or customer segments

Identifying recession-resistant industries and businesses

Accelerate broad business transformation

Focus on value-accretive deals that offer immediate synergies

Focus on long term strategies and growth



# Survey respondents – Primary investment theses in this market

## Exhibit 4. PE firms are looking for distressed assets and expansion opportunities



Opportunistically reviewing distressed assets for turnaround

66%



Accelerate broad business transformation

48%



Expanding into new markets or customer segments

64%



Focusing on value-accretive deals that offer immediate synergies

46%



Identifying recession-resistant industries and businesses

50%



Focusing on long-term strategic value and growth

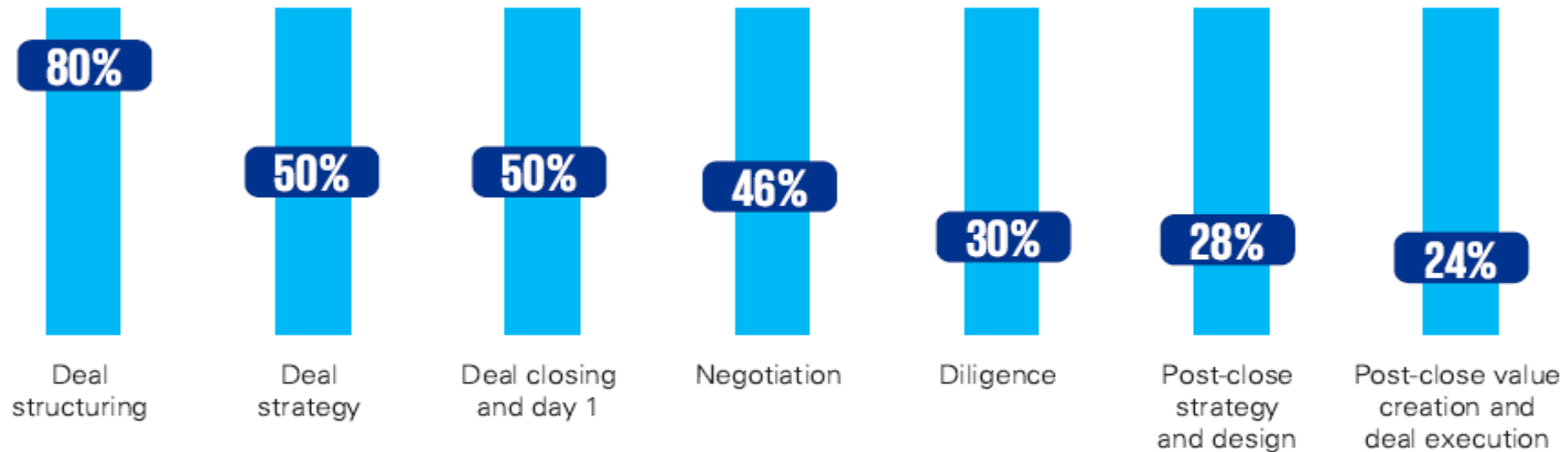
44%

Q: What are the primary investment theses being used when considering deals in this market? N=50



# Survey respondents – Generative AI in deal processes

Where PE players are using generative AI in deal processes



**Q:** What stages in the deal process do you plan to prioritize the use of Gen AI? (Asked of those using or planning to use generative AI in the M&A process.) N=46



# Key trends and challenges shaping the market in 2024 & beyond

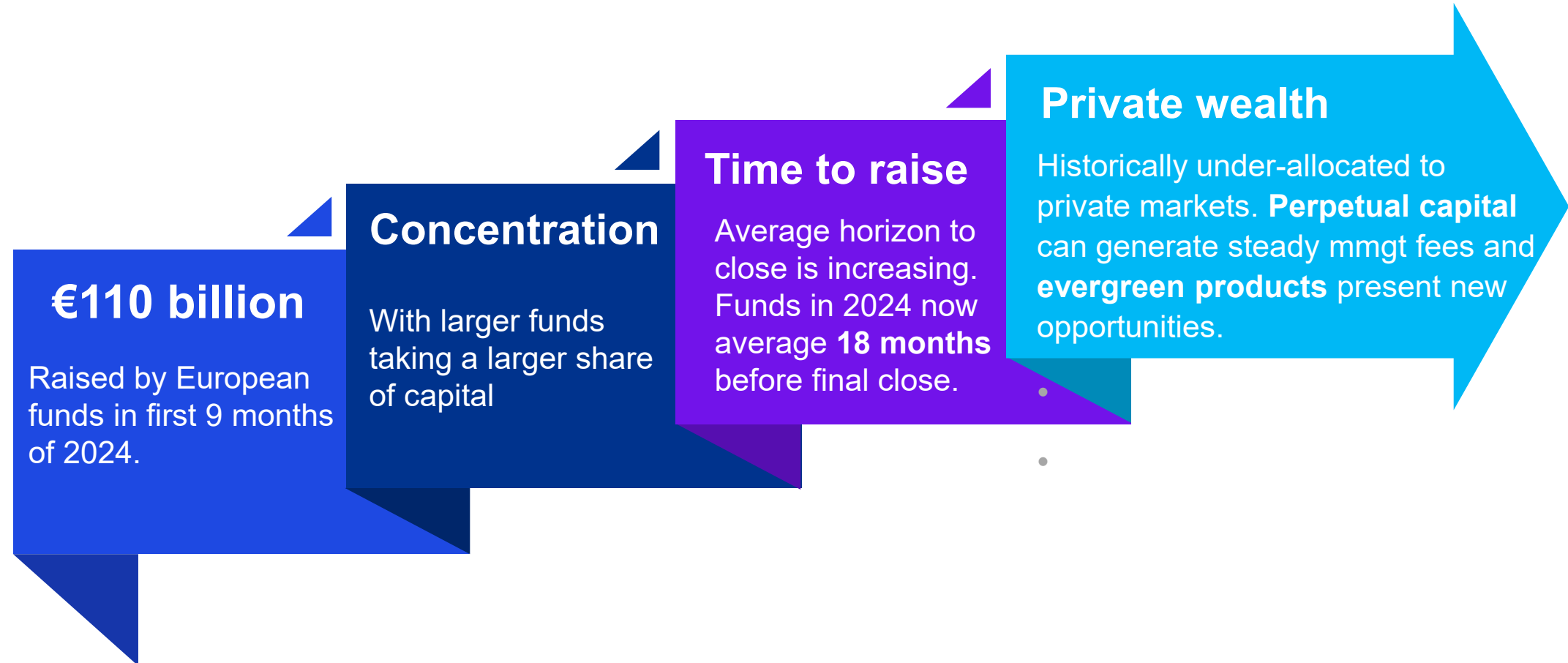
## Trend 4

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# Trend 4 - Fundraising

Total fundraising continues to be strong regardless of macroeconomic conditions



# PE market and valuation wrap up

**04**

**Q&A**



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