



KPMG PE Connect – Jersey Leadership Forum

6 November 2024



Introduction

With you today



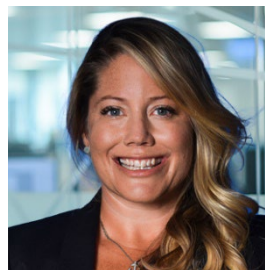
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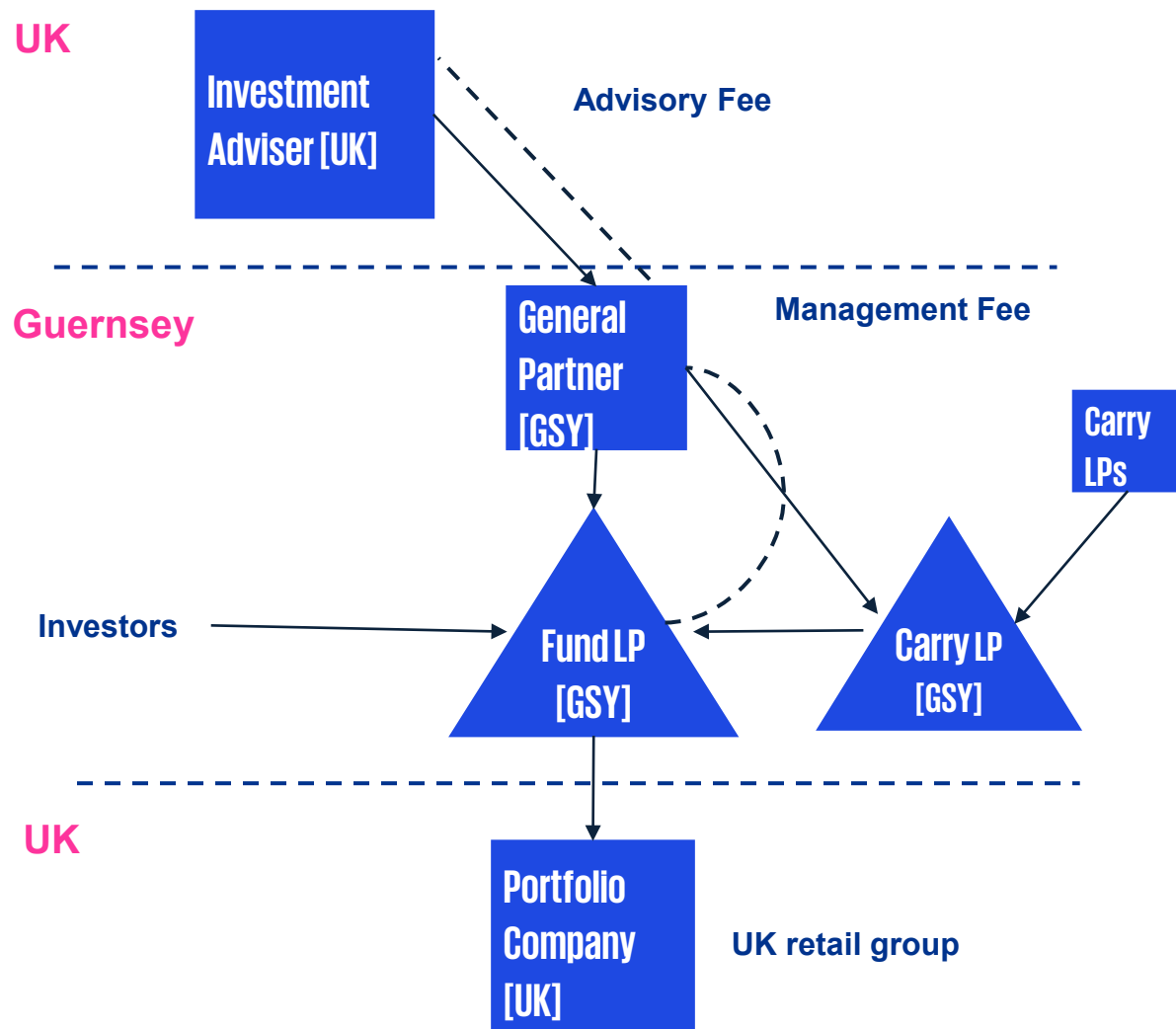
Agenda

- 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

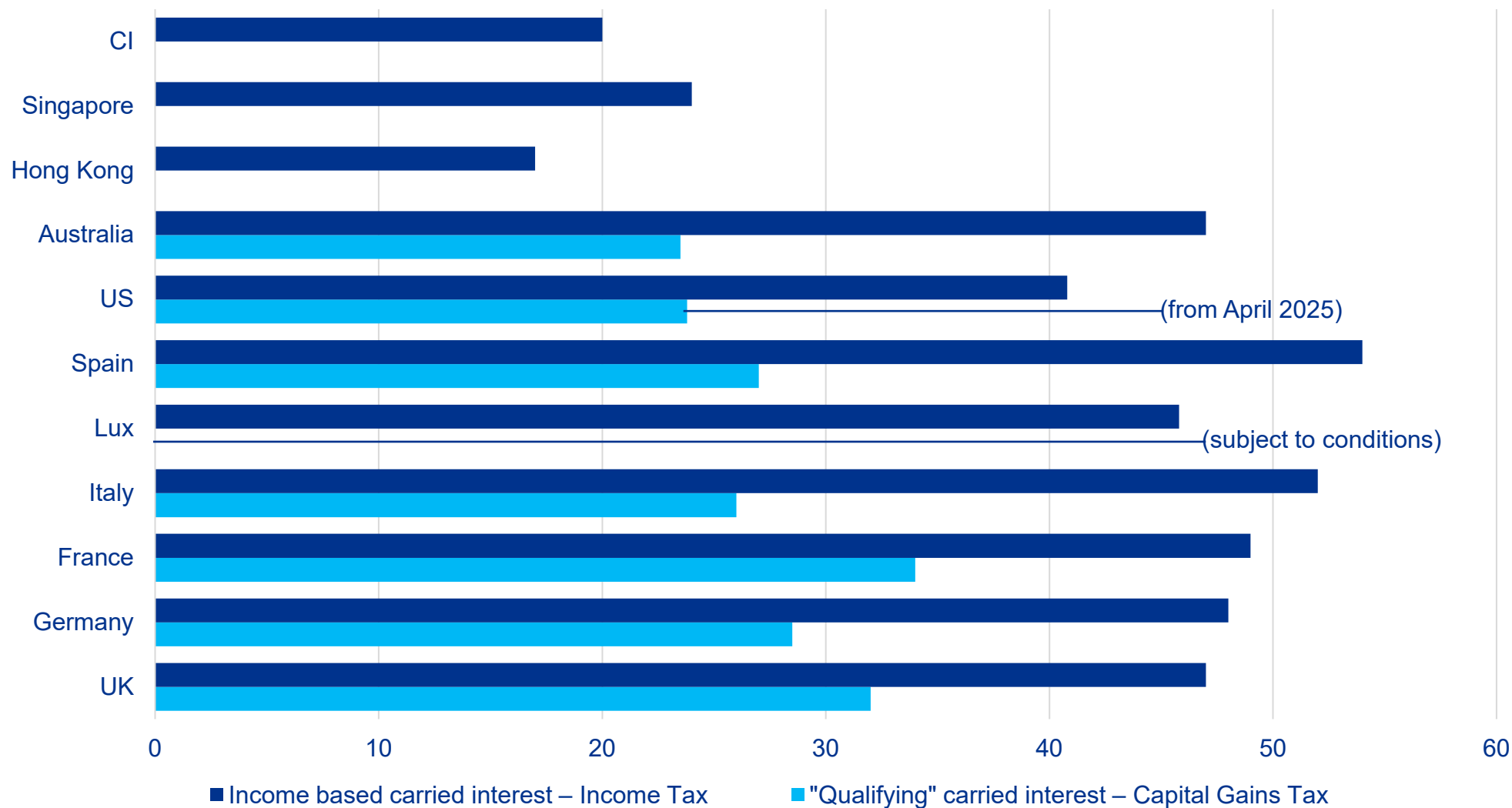
Capital Gains Tax

- 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) will determine the President and Congress for the upcoming term**
 - Who will control Senate? House of Representatives?
 - Tax policies of Harris/Waltz vs. Trump/Vance
- **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
- **Will 2025 be a major tax change year?**
 - A number of TCJA rules are set to sunset – will they be 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

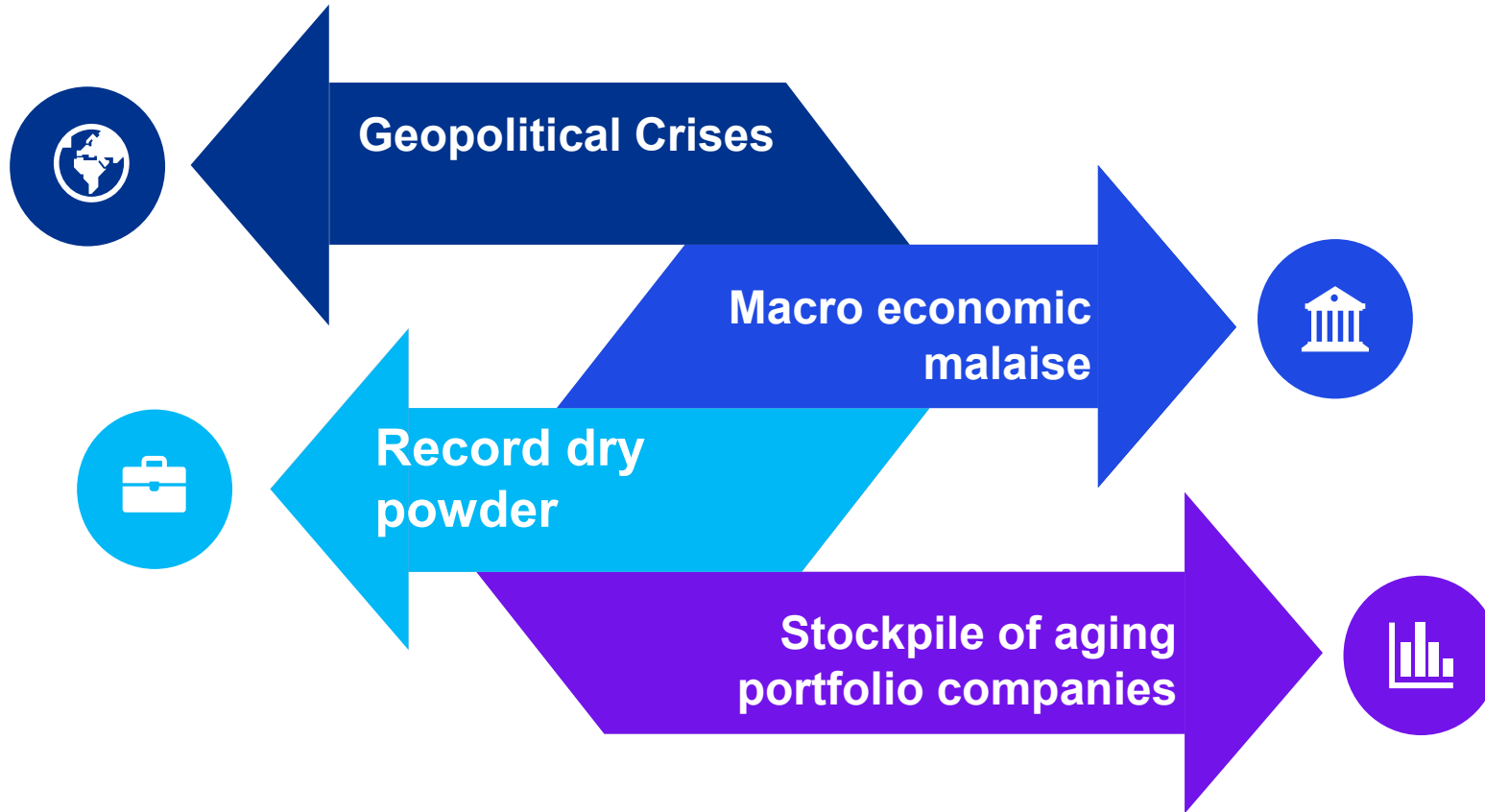
- **U.S. tax planning for new investments, restructurings or transactions**
 - Check the Box Elections, Entity Classification (Form 8832)
- **Being mindful of tax income with no distributions to U.S. taxable investors “dry tax”**
- **Have investments been made in the U.S. that would generate U.S. effectively 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

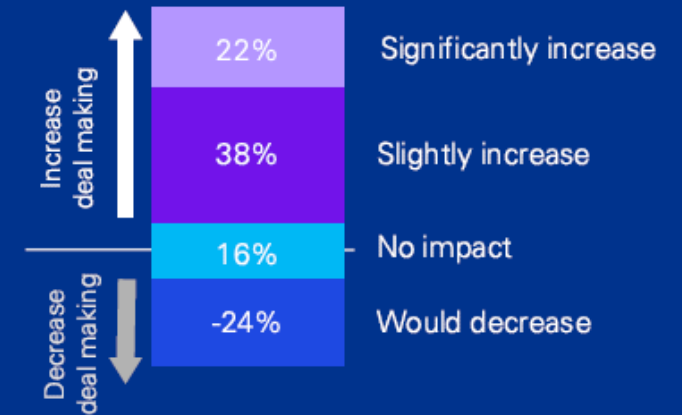


Many were **optimistic** for a return to deal making

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

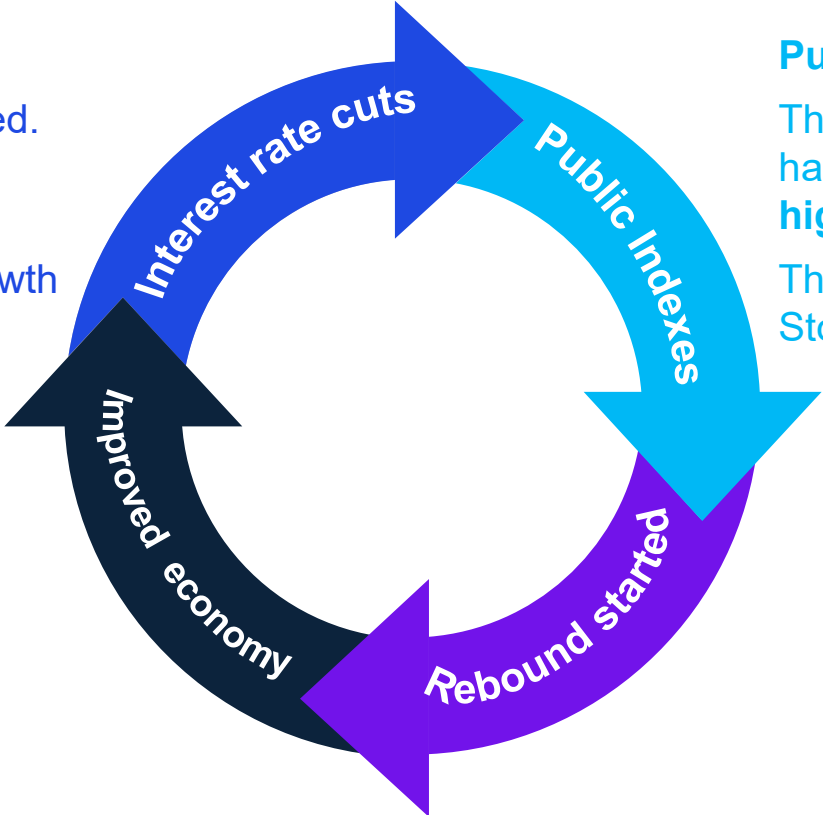
Rate cuts as inflation has stabilised.

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



Backlog of growing aging companies



Valuations are they on the mend?

Trend 2

Trend 4



Fund raising and some key trends



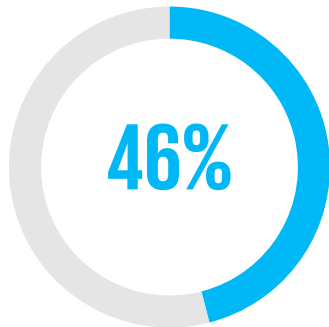
Niche areas offer key growth opportunities

Trend 3

Trend 1 - Growing backlog of aging portfolio companies

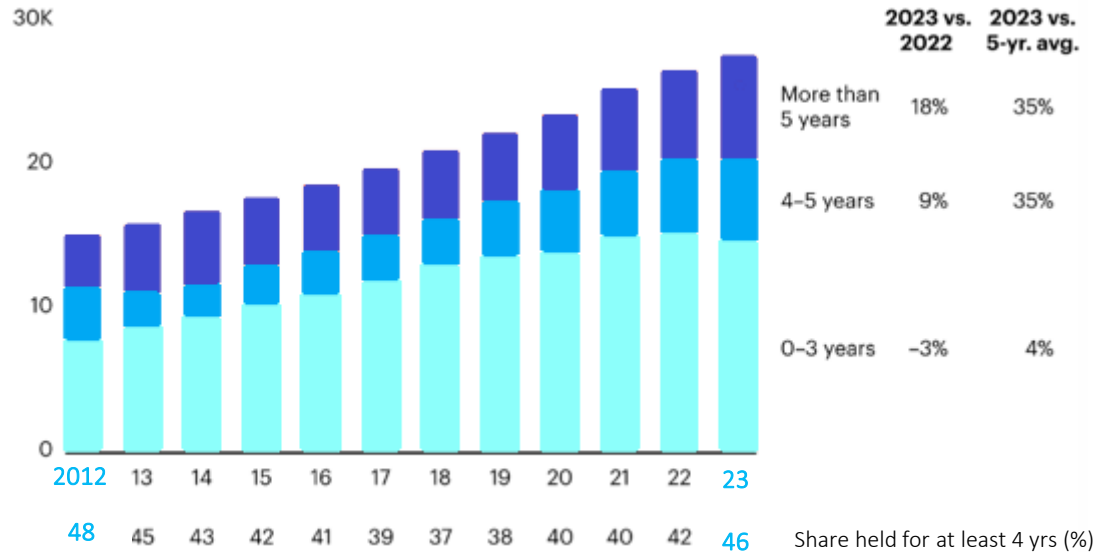
28,000

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



The backlog is large by historical standards



4 x larger

In value, than during the Global Financial crisis.

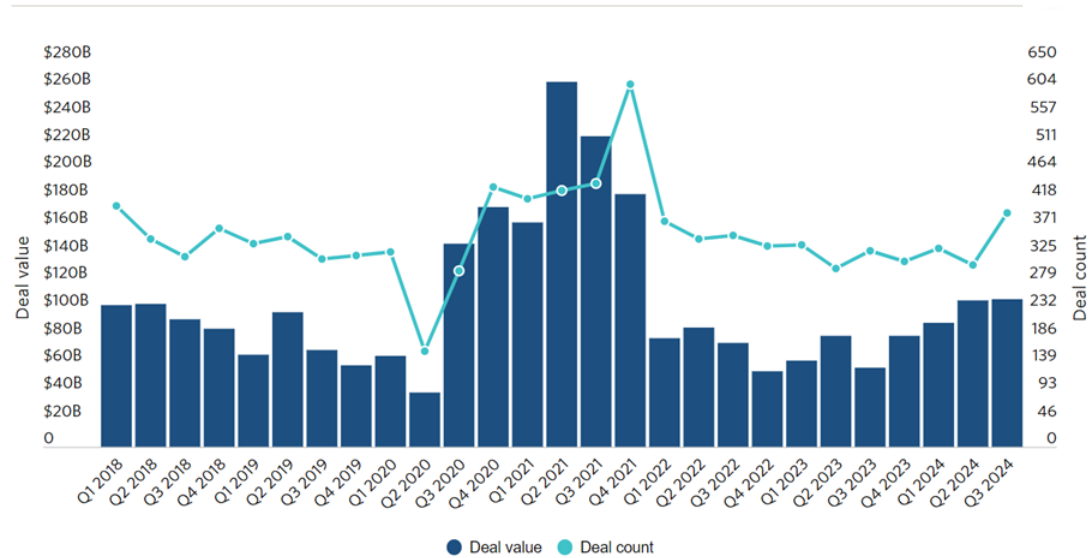


26% higher

Since 2028

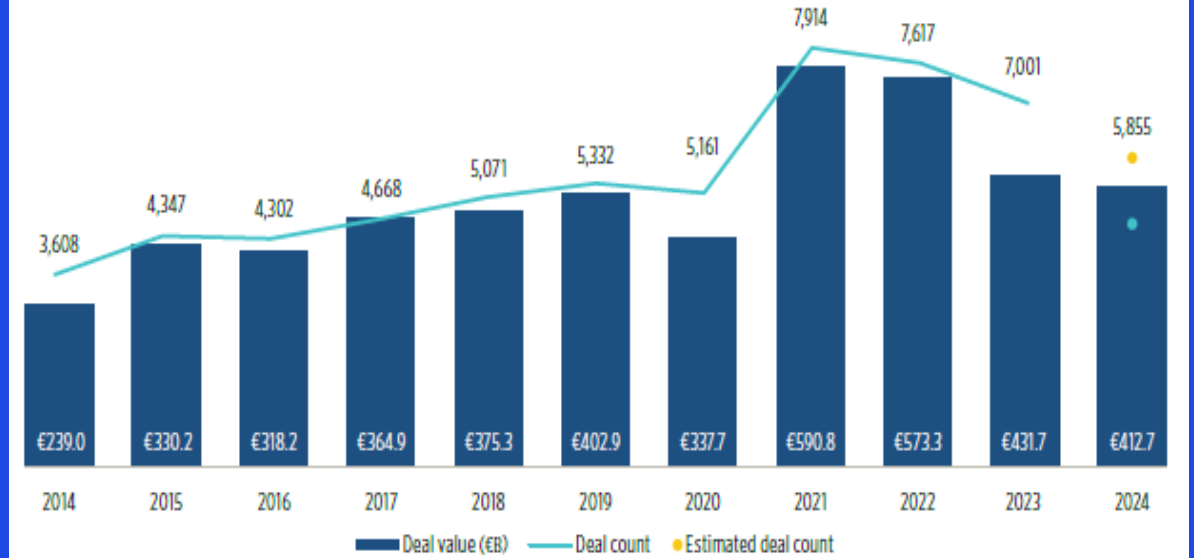
Trend 1 - Backlog of aging companies

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

Trend 2 - Valuation update

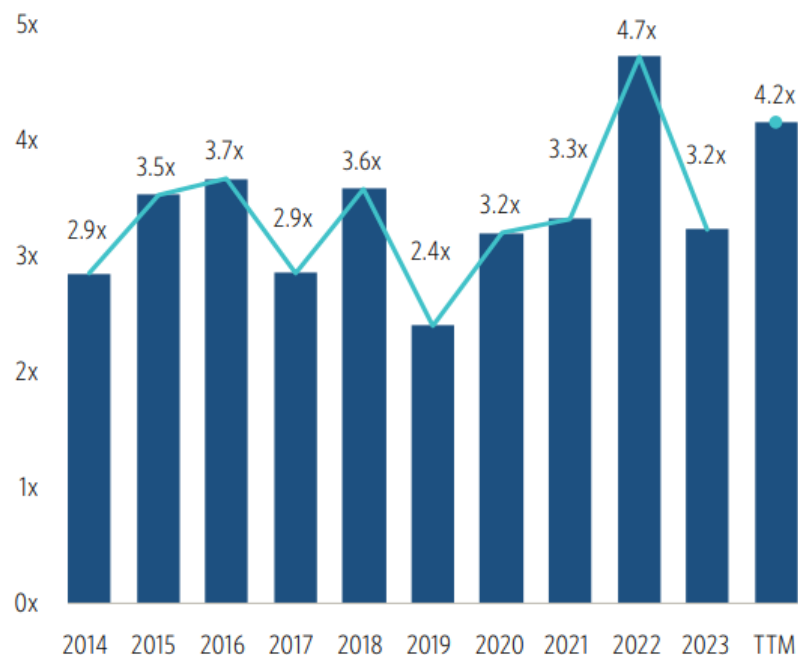
PE valuations reached their apex in 2021 and slumped by 25.0% to 40.6% in the two years that followed.

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

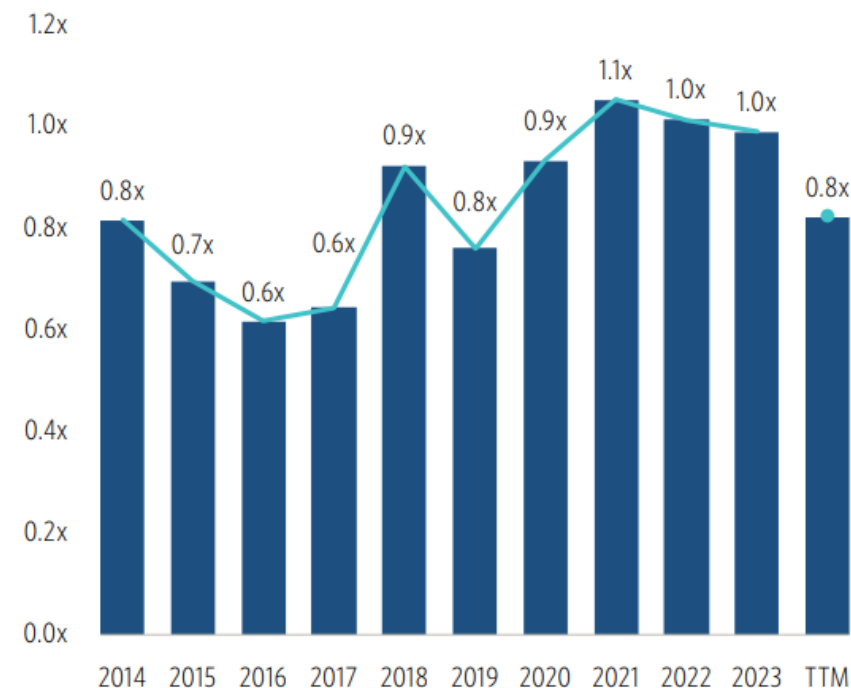
Large number of companies owned by PE firms, which have been held for five years or more. As deal activity broadens, it will inevitably include lesser-quality companies.

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

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

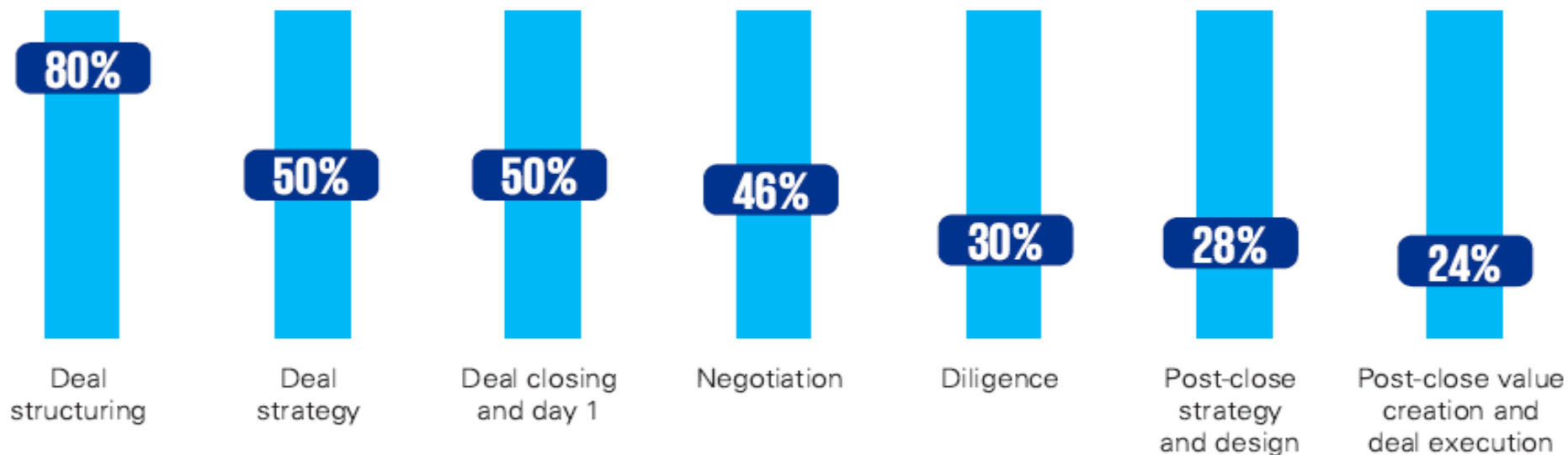
44%

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

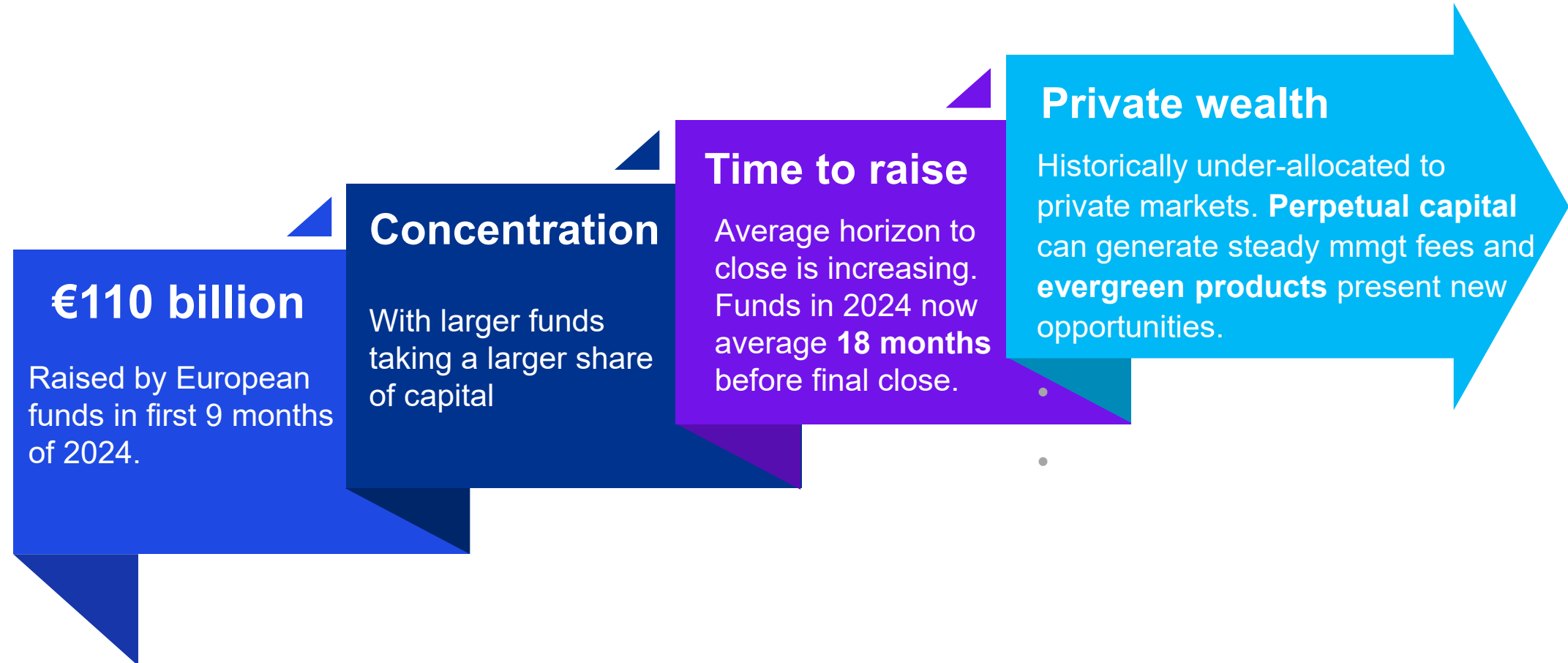
Key trends and challenges shaping the market in 2024 & beyond

Trend 4



Trend 4 - Fundraising

Total fundraising continues to be strong regardless of macroeconomic conditions



PE market and valuation wrap up

04

Q&A

Thank you for attending



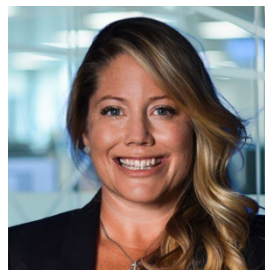
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