



KPMG PE Connect – CFO Breakfast

5 November 2024



Introduction

With you today



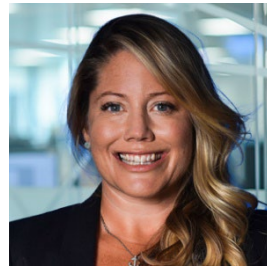
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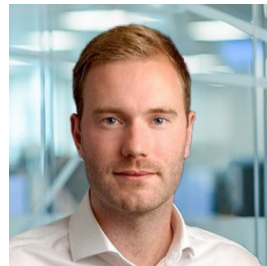
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Agenda

01 UK budget and impact on PE sector

02 US tax

03 PE market and valuation overview

04 Q&A

01

UK budget and impact on PE sector

Key Portfolio Tax Considerations

- **Corporation tax rate, full expensing relief, R&D and investment reliefs are largely unchanged.**
- **Closing the “tax gap” – notable changes for HMRC in administration and collection:**
 - A 1.5% increase to late payment interest is impactful as a cash flow item especially for new-to-PE portfolios entering QIPs regime
 - Increased powers and systems, focused on collecting tax, clamping down on tax avoidance and expected increase in focus on compliance and good governance of businesses
 - This is in line with what we are seeing at portfolio level with increases in Business Risk Reviews and enquiries
- **Ones to watch with possible:**
 - Modernisation and simplification of TP, Permanent Establishment and Diverted Profits Tax
 - Reduction of the SME thresholds for TP

Employment tax measures



Headline measures

National Insurance increase

- Employers – Class 1, 1A and 1B NIC increases to 15.0% from 6 April 2025
- Employer's Earnings Threshold reduced from £9,100 to £5,000 per annum

Overseas Workday Relief

- Revisions linked to the new Foreign Income and Gains (FIG) regime
- Extended to four years
- Relief available even if earnings are brought to the UK
- Annual limit of lower of £300k or 30% of net qualifying employment income
- Applies from 6 April 2025 - eligibility tied to FIG but transitional rules apply for current claimants

Personal tax measures



Taxation of non-doms

Abolition of non-UK domiciled tax regime.

Transitional arrangements to new FIG regime (below):

- 1) Rebasing to April 2017 and
- 2) Temporary Repatriation Facility (12% initially) to remit FIG from prior years.



New FIG regime from April 2025

No UK tax on FIG for individuals in first four years of UK residence (assuming non-UK resident for at least 10 consecutive prior years).

Must claim on tax return and disclose income and gains.



Non-UK trust protections

To be removed from 6 April 2025. Non-UK assets potentially subject to UK IHT depending on long term residence position of settlor on certain dates.

Trust protections will not apply to ToAA legislation such that income taxable as it arises (unless FIG regime applies).

Personal tax measures



Capital Gains Tax

Main CGT rate increased to 24% from 30 October 2024. Residential property regime unchanged. Carried interest capital gains taxed at 32% in 2025/26. BADR rate increasing to 18% by 6 April 2026. Lifetime limit for Investors Relief reduced to £1m.



Inheritance Tax changes

Worldwide assets subject to IHT if UK resident for at least 10 out of the 20 prior tax years. IHT tail between 3 and 10 years for those leaving the UK. Inherited pensions to be brought into death estate from April 2027. IHT bands freeze extended to 2030.



Business/ Agricultural Property Relief

From 6 April 2026, 100% relief capped at £1m of combined value and 50% relief (effective IHT of 20%) on value exceeding £1m. Relief on AIM shares reduced from 100% to 50%. Consultation in early 2025 on application of rules.

Reforming taxation of carried interest

- The Government consulted with the industry this summer on reforming carried interest taxation.
- 28% special tax rate remains in place for tax year 24/25, rising to 32% for tax year 25/26.
- New income tax based regime (deemed trading income) to take effect from 6 April 2026:
 - 34.08% for “qualifying” carried interest
 - 47% if not qualifying
- When carried interest qualifies:
 - It is not income-based carried interest (“IBCI”) including ERS; and
 - Conditions to be determined - following another consultation – expected to be based on:
 - a minimum aggregate co-investment, and
 - a minimum time period between carried interest award and receipt
- Consultation closes on 31 January 2025 with publishing of stakeholder views and draft legislation during 2025.
- Expected retention of key existing concepts e.g. carry definition, anti-avoidance provisions, accruals election, deferred carry

Reforming taxation of carried interest

Special considerations for reformed carried interest taxation:

- IBCI:
 - The ERS exception is to be removed from the rules
 - However, the Government recognises this may have a disproportionate effect on private credit funds
 - The Government has committed to “*work with expert stakeholders to consider appropriate amendments while ensuring the IBCI rules continue to limit qualifying carried interest treatment to funds engaged in long-term investment*”
- Territorial scope will mirror DIMF
- Qualifying carried interest will benefit from FIG rules
- Non-qualifying carried interest will not benefit from FIG this regime unless relating to “pre-arrival services”

KPMG intends to have an active role in discussions and consultations. Input from the industry and clients – especially on the questions within the latest consultation – will be appreciated.

02

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

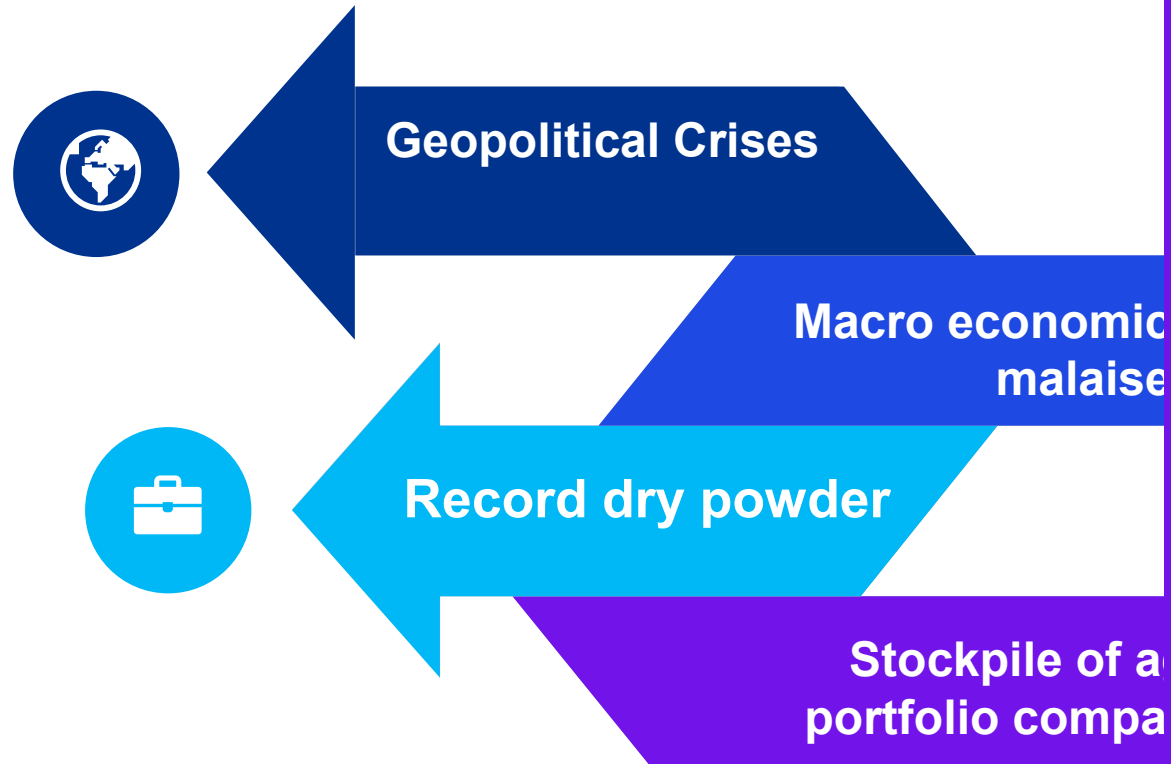
- **U.S. tax planning for new investments, restructurings or transactions**
 - Check the Box Elections, Entity Classification (Form 8832)
- **Being mindful of tax income with no distributions to U.S. taxable investors “dry tax”**
- **Have investments been made in the U.S. that would generate U.S. effectively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

PE market and valuation overview

2023 Private Equity landscape

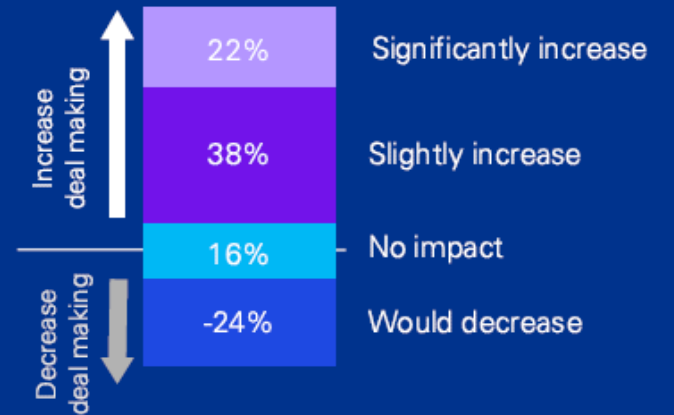
An annus horribillis



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

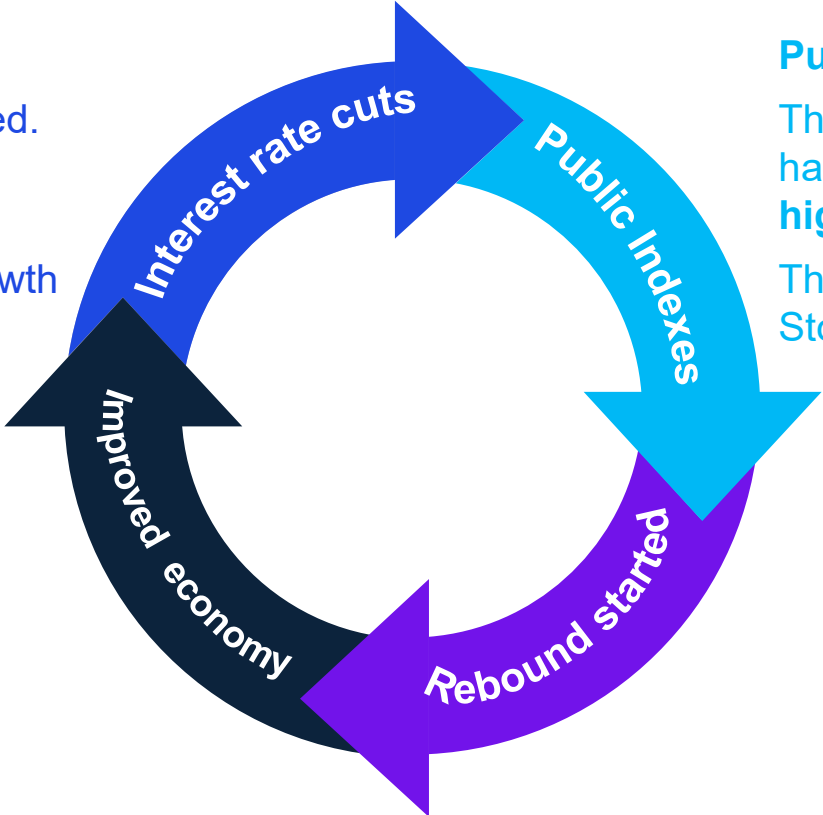
Rate cuts as inflation has stabilised.

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



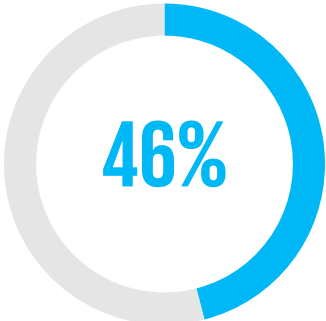
Niche areas offer key growth opportunities

Trend 3

Trend 1 Growing backlog of aging portfolio companies

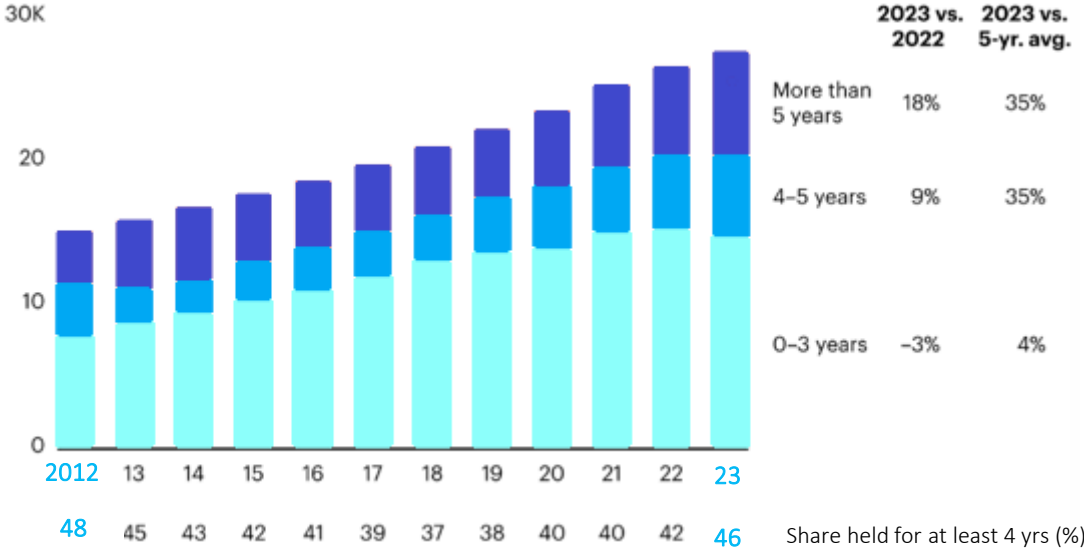
28,000

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.

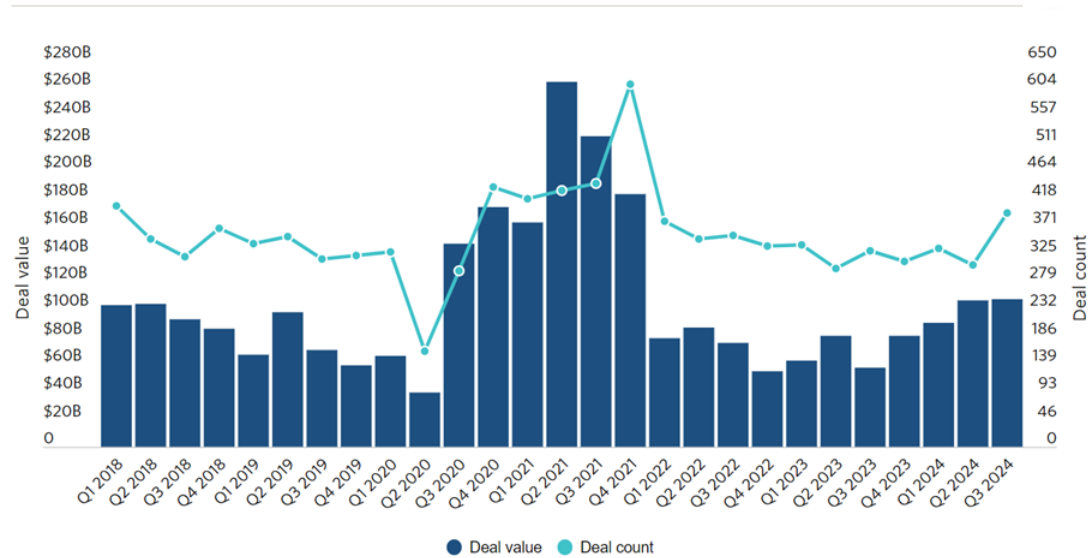


26% higher

Since 2028

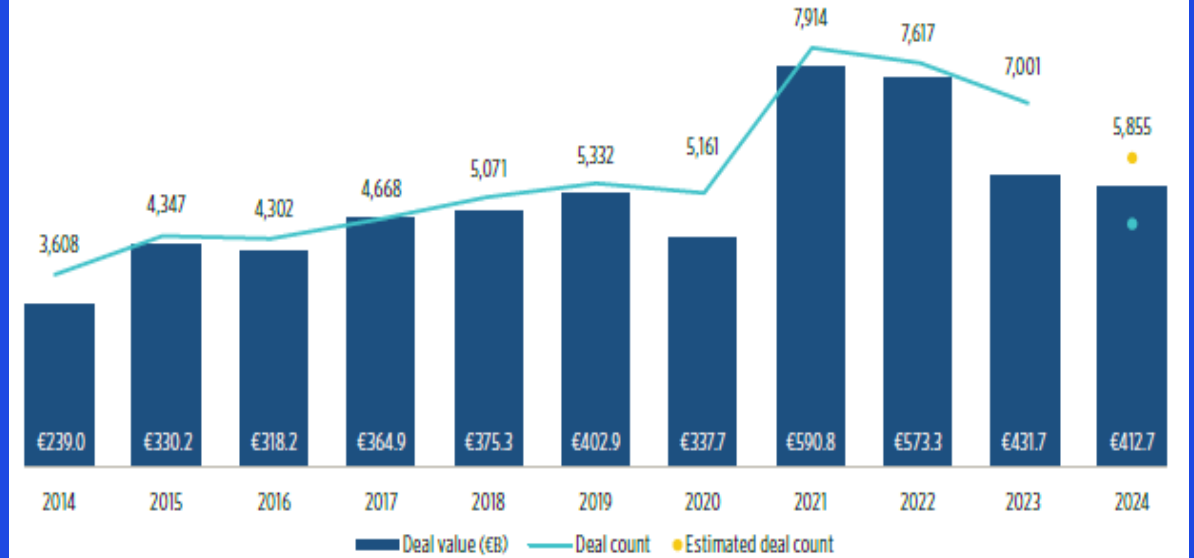
Trend 1 - Backlog of aging companies

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 ?

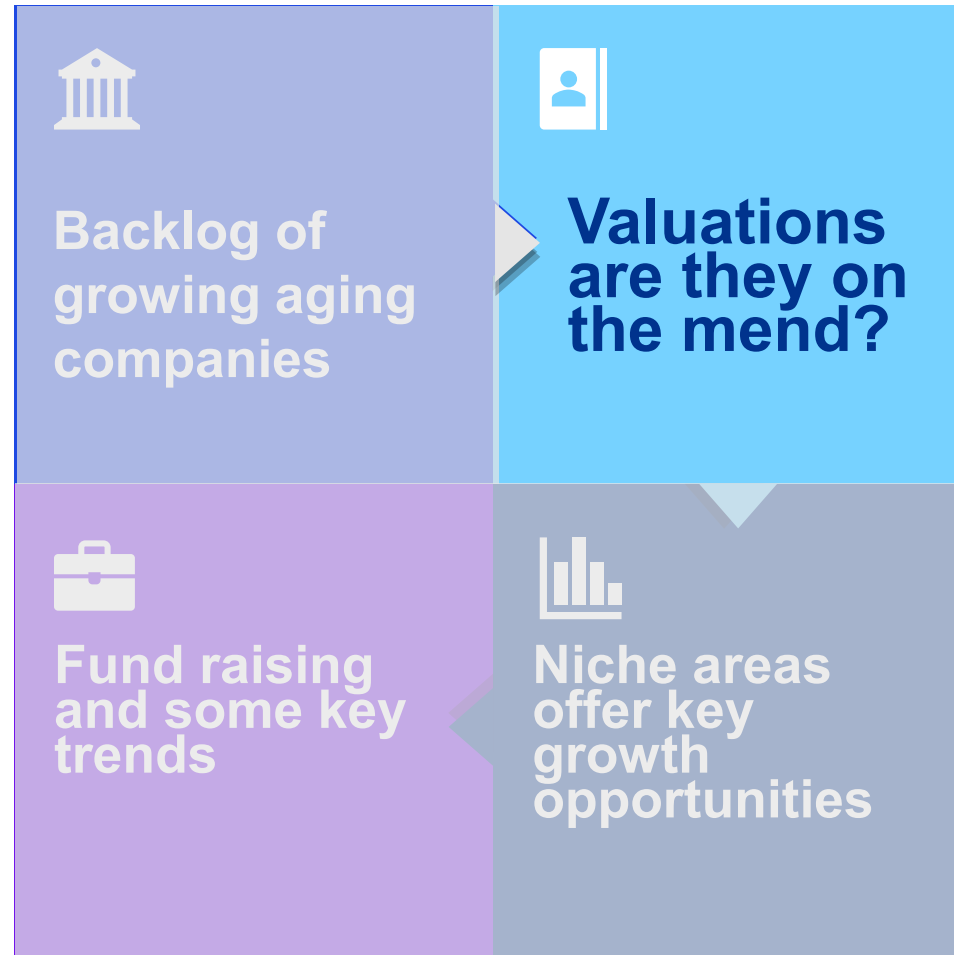
Survey respondents

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

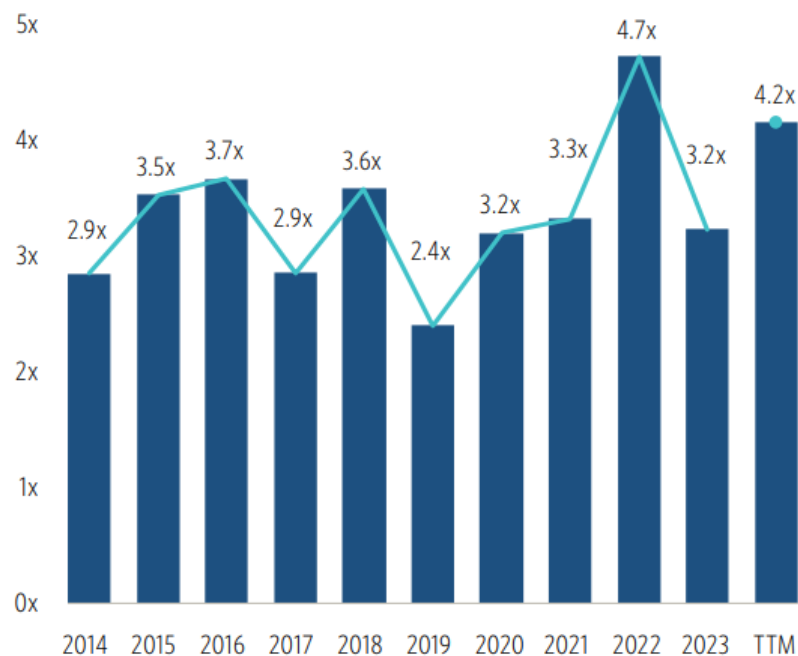
PE valuations reached their apex in 2021 and slumped by 25.0% to 40.6% in the two years that followed.

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

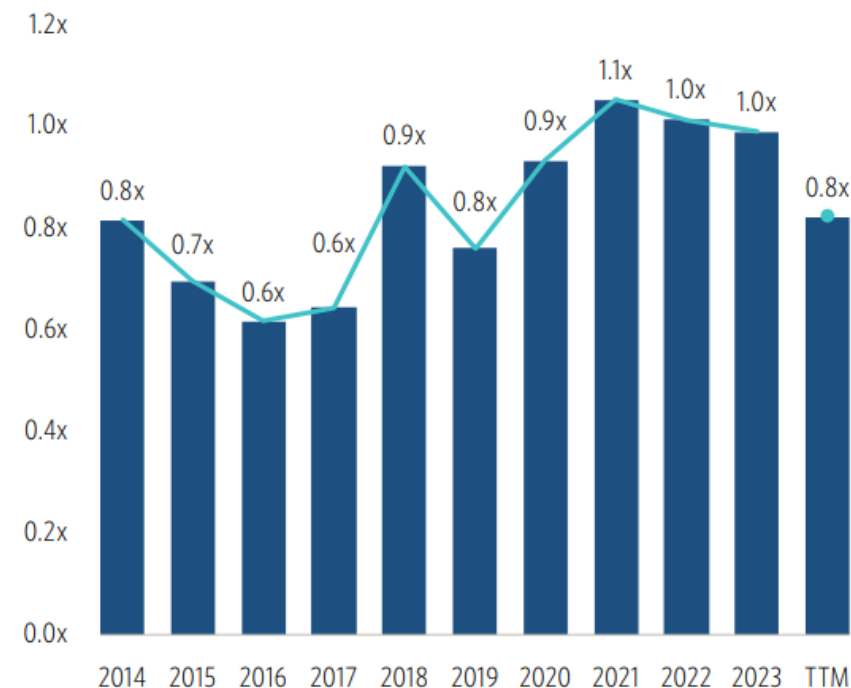
Large number of companies owned by PE firms, which have been held for five years or more. As deal activity broadens, it will inevitably include lesser-quality companies.

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

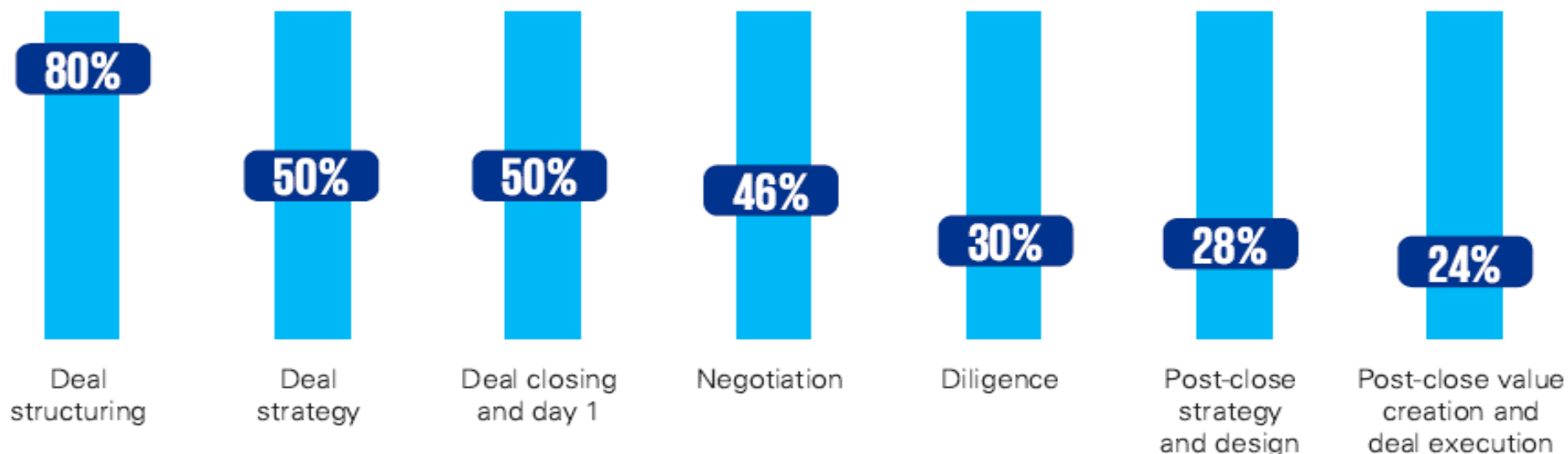
44%

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

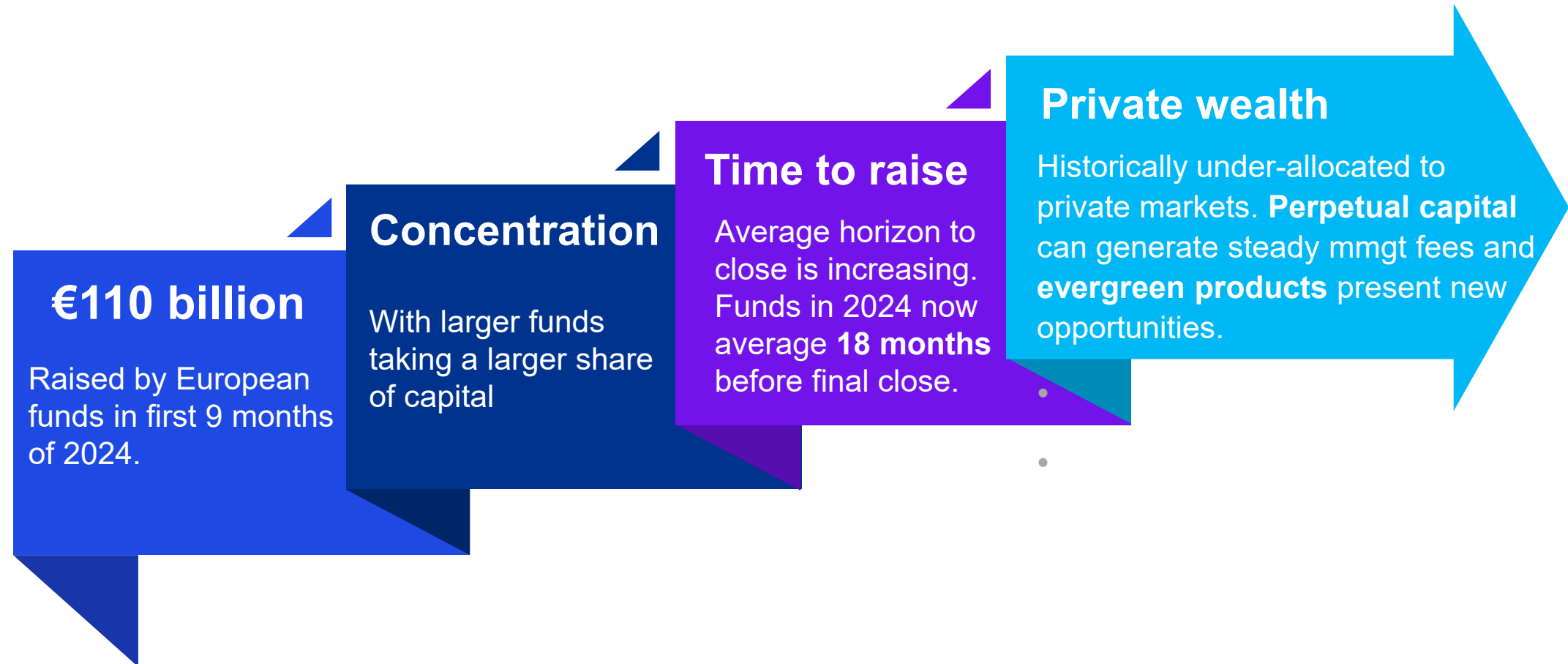
Key trends and challenges shaping the market in 2024 & beyond

Trend 4



Trend 4 - Fundraising

Total fundraising continues to be strong regardless of macroeconomic conditions



PE market and valuation wrap up

04

Q&A

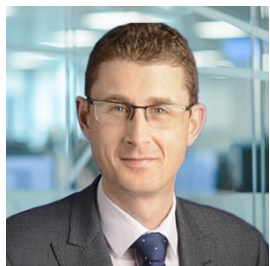
Thank you for attending



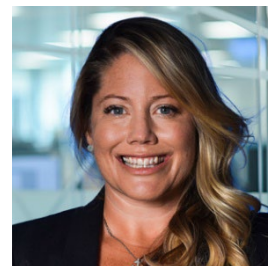
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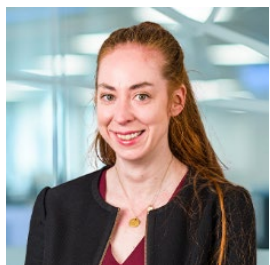
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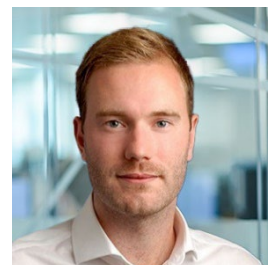
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